Weekly Wrap 17 March 2023 – Why the banking sector came under pressure this week

Thank you for joining me this Friday the 17th March, I'm Grady Wulff, a Market Analyst with Bell Direct and this is the weekly market update.

The trifecta of banking failures is the storm brewing this week and is the central focus of investment commentary globally. What started earlier in the week as a one-off banking collapse and isolated issue extended beyond small banks and into a large European player with origins dating back to 1856, sparking investor confidence to plummet amid fears of cracks showing in the global banking sector.

US-based Silicon Valley Bank (SVB) kicked off the collapses late last week before the US Federal Reserve swooped into rescue the bank's deposit holders by providing an assurance that they will get their money back.

Is it a bail out? Technically, yes, the government is bailing out deposit holders, not the doomed SVB and Signature banks.

Interestingly, the leaders of SVB had been selling down their shareholdings in the bank over the years and months in the lead up to the banks' collapse, with CEO Greg Baker selling $30m of his stock holding over the last 2 years, including a $3.4m sale less than two-weeks before the bank announced its big loss and subsequent collapse.

Signature Bank was the second bank to have regulators called in when its customers withdrew more than US$10bn in deposits following the collapse of SVB, which subsequently led to the third-largest banking failure in US history. Signature Bank board member Barney Frank said to CNBC that they had no indication of 'problems until we got a deposit run late on Friday, which was purely contagion from SVB'. Signature Bank also had exposure to the crypto space, holding $16.5bn in deposits from digital-asset-related customers. Given the high volatility and recent turmoil in the crypto market, this adds further woes to Signature Bank's issues at hand.

Fast forward to Thursday and markets around the world were waking up to yet another bank facing 'material' challenges, but this time on a global scale and in the form of one of the world's biggest banks, Credit Suisse. The concerns with Credit Suisse suddenly take what was first thought of as an 'isolated' episode affecting smaller institutions, to now, cracks of instability appearing in the global banking system. Shares in Credit Suisse tanked 24% to a record low after its largest shareholder and lead lender, the Saudi National Bank, said it would not be able to offer Credit Suisse more financial help, if it were to call for additional funding. Credit Suisse's problems stem from risk management issues over several years coupled with collapsing revenue.

Switzerland's central bank and financial regulator stepped up and said Credit Suisse would receive access to liquidity should it be needed, in a bid to restore confidence in the troubled bank and to ease investor concerns, to which Credit Suisse responded by taking the offer to borrow up to 50 billion Swiss Francs (US$53.68bn) from the Swiss National Bank under a covered loan facility and a short-term liquidity facility.

At present, all eyes and fears are driven by the cracks appearing in the banking sector not only for small lenders, but for larger leaders too. As of the 15th March, 100% of the market is now expecting the RBA to pause interest rate hikes in Australia at the next monthly meeting, up from a 59% expectation of no change on March 8th. Next week though, markets are projecting the Fed to keep up its inflation-fighting efforts through announcing a 0.25% hike in the US cash rate at the conclusion of the FOMC meeting, despite the despite the financial sector issues.

While the central banks swoop in to restore faith in the global financial system, investors are weighing up whether these cracks are the first signs of a financial crisis flood gate opening, or whether these issues are merely isolated, individual events. Next week will be a big watch and wait on that front.

Locally from Monday to Thursday, unsurprisingly the ASX sharply fell 2.5% led by a 7.2% dive in energy stocks on the back of tumbling commodity prices, with oil down nearly 12% over the week driven by turmoil in the global banking sector. Healthcare stocks were the only winners this week, with the sector adding 0.74% from Monday to Thursday.

The winning stocks during this turbulent week were unsurprisingly led by gold miners as investors bought into the precious metal stocks due to their safe-haven nature. Capricorn Metals added over 21% from Monday to Thursday while Ramelius Resources jumped almost 20% and Silver Lake Resources lifted 12.18%.

And the stocks that weighed heaviest on the market were Computershare down 14.73%, Core Lithium shedding 12.7% and Brainchip ending the four days down 12.4%.

Taking a look at the All Ords, Neuren Pharmaceuticals rocketed 62% this week after the US FDA approved Neuren's US partner, Acadia Pharmaceuticals drug Trofinetide for the treatment of Rett syndrome in adult and children two years of age and older. While MoneyMe fell 31.43% this week as investors fled smaller lenders in the finance sector.

The most traded stocks by Bell Direct clients this week were Lynas Rare Earths, Telstra Group, ALS Ltd, ANZ, Computershare, Commonwealth Bank of Australia, and Medibank Private. Clients also bought into Macquarie Group, while taking profits from Resolute Mining and Mineral Resources.

On the diversification or ETF front, clients made the most trades on BetaShares Australian Strong Bear Hedge Fund, Vanguard Australian Property Securities Index ETF and BetaShares US Equity Strong Bear Hedge Fund.

Looking at the week ahead, investor sentiment will be riding on the Federal Reserve's rate decision out at the conclusion of the FOMC meeting on Thursday (Sydney Time) with the market expecting a 25-basis point increase to be announced.

Locally, the RBA's meeting minutes will be released on Tuesday. We might see the markets move accordingly with how investors respond to the insights gained from the minutes about future rate decisions out of the RBA.

And that's all we have time for today, have a wonderful Friday and weekend and as always – happy investing!

- Grady Wulff, Market Analyst