



# IS A BANKING CRISIS UNDERWAY?

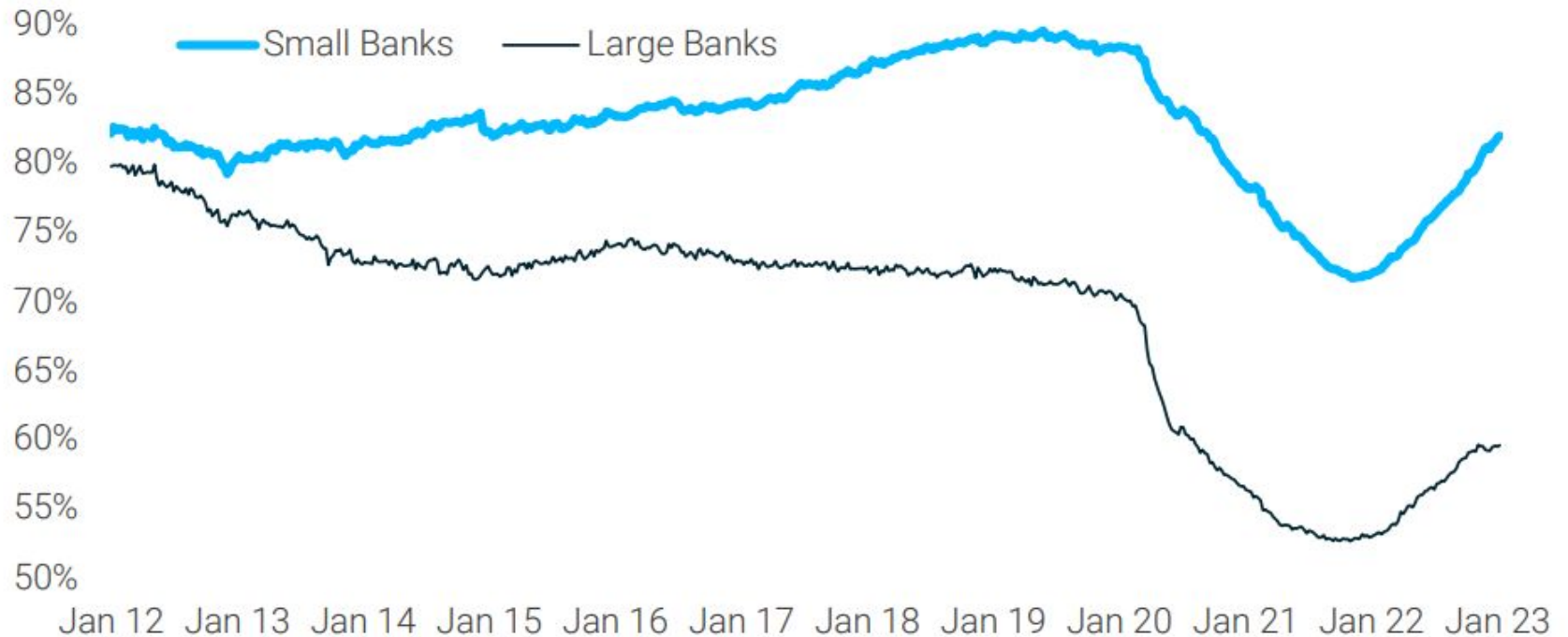
# Agenda

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- Background
- Commercial Property
- Banking standards tightening
- Insolvencies are back
- Delayed effect of interest rate rises
- Valuation
- Investment implications

# US Banks

## Small banks more dependent on loans for income (loans % deposits)

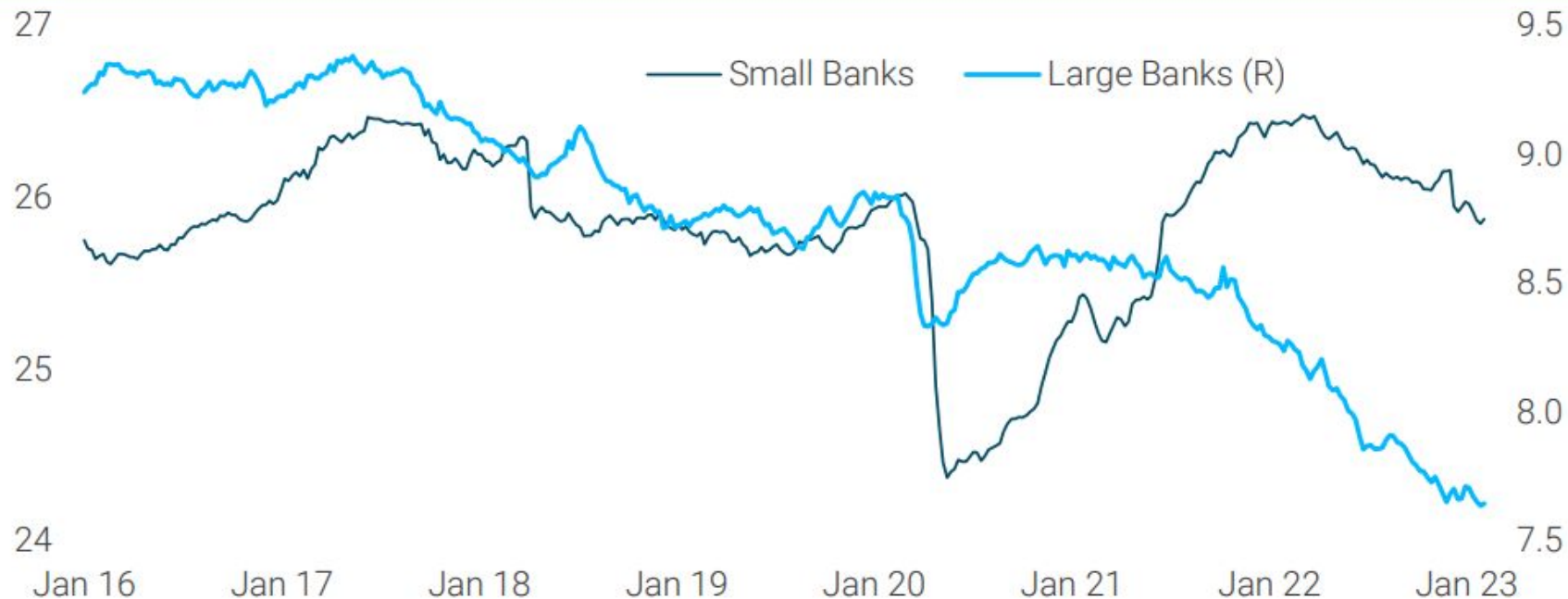


Source: Federal Reserve, TS Lombard

# US Banks

## Small banks have the greater concentration of loans in commercial real estate

% Of loans and leases

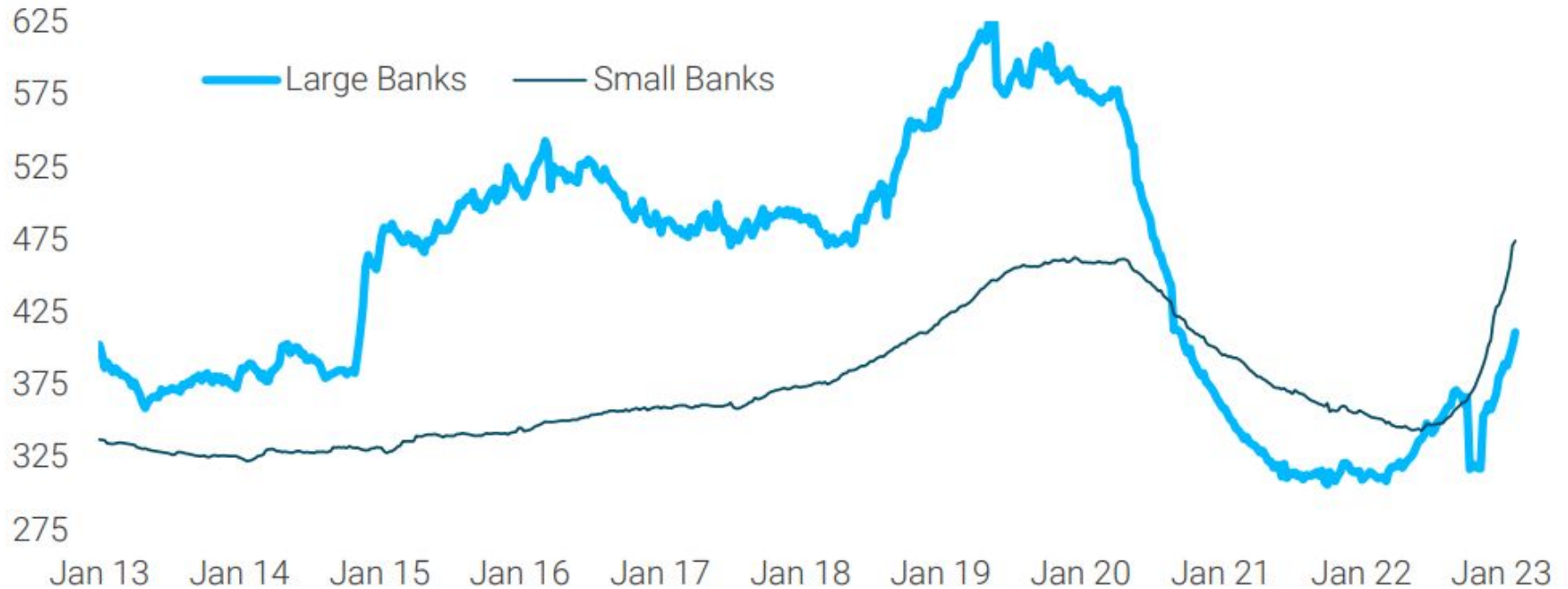


Source: Federal Reserve, TS Lombard

# US Banks

## Large deposits at small banks exceed volume at large banks, and are growing faster

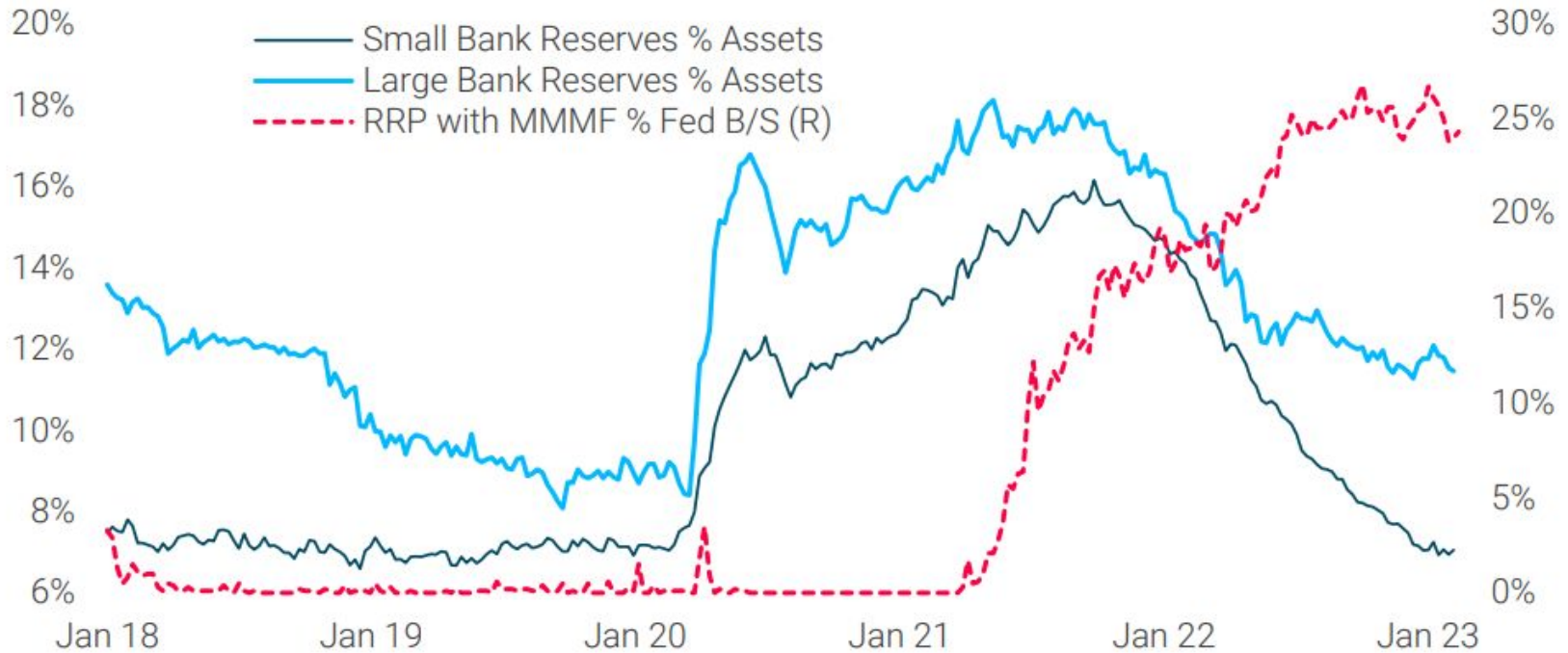
\$ Billions, weekly data



Source: Federal Reserve, TS Lombard

# US Banks

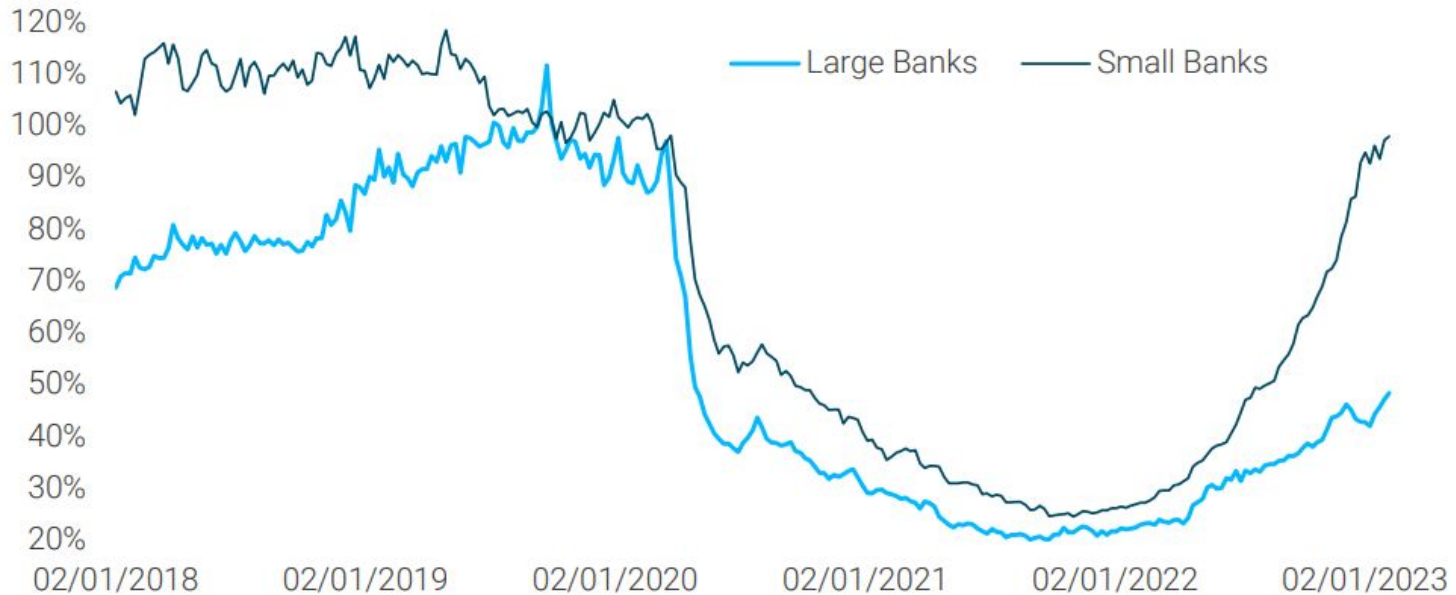
**Small bank reserves are as low as they are going to go, drying up a source of funding for loans**



Source: Federal Reserve, TS Lombard

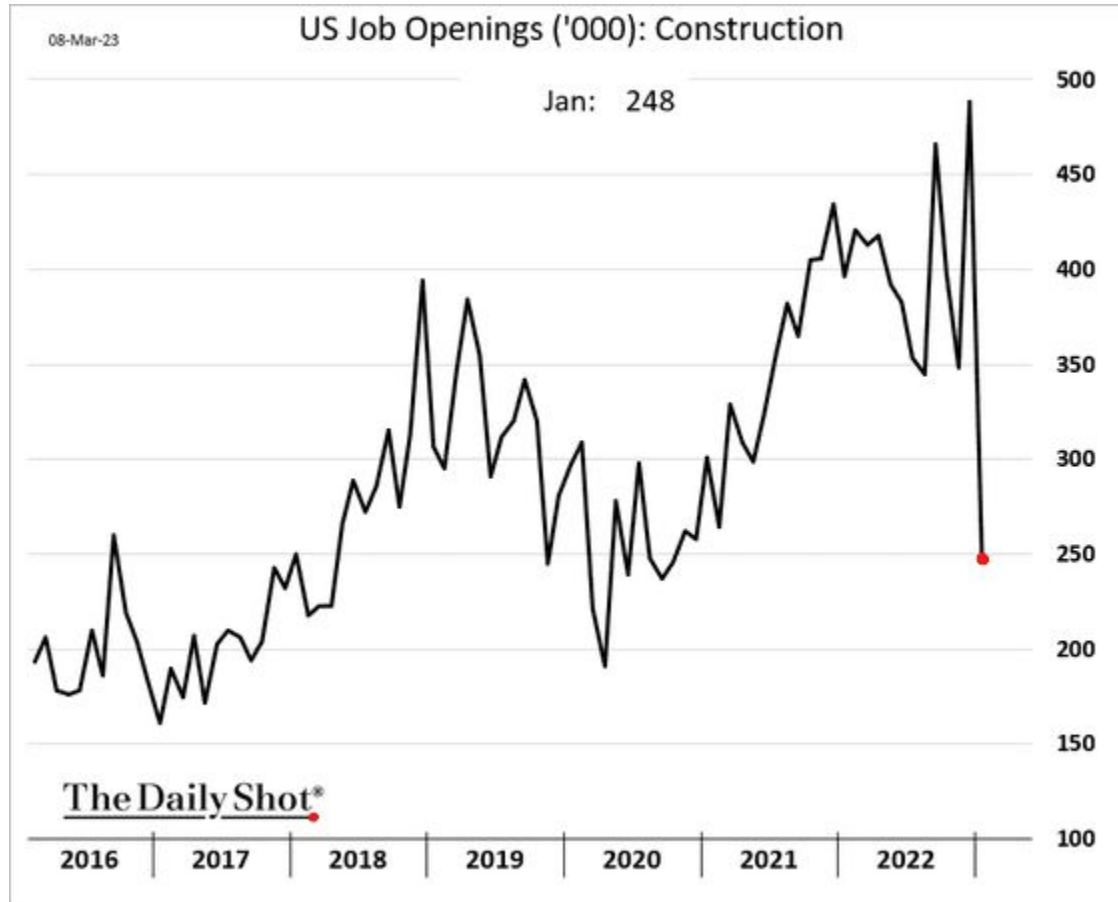
# US Banks

## Borrowings as a % of reserves rising because cash/assets are low, especially for small banks



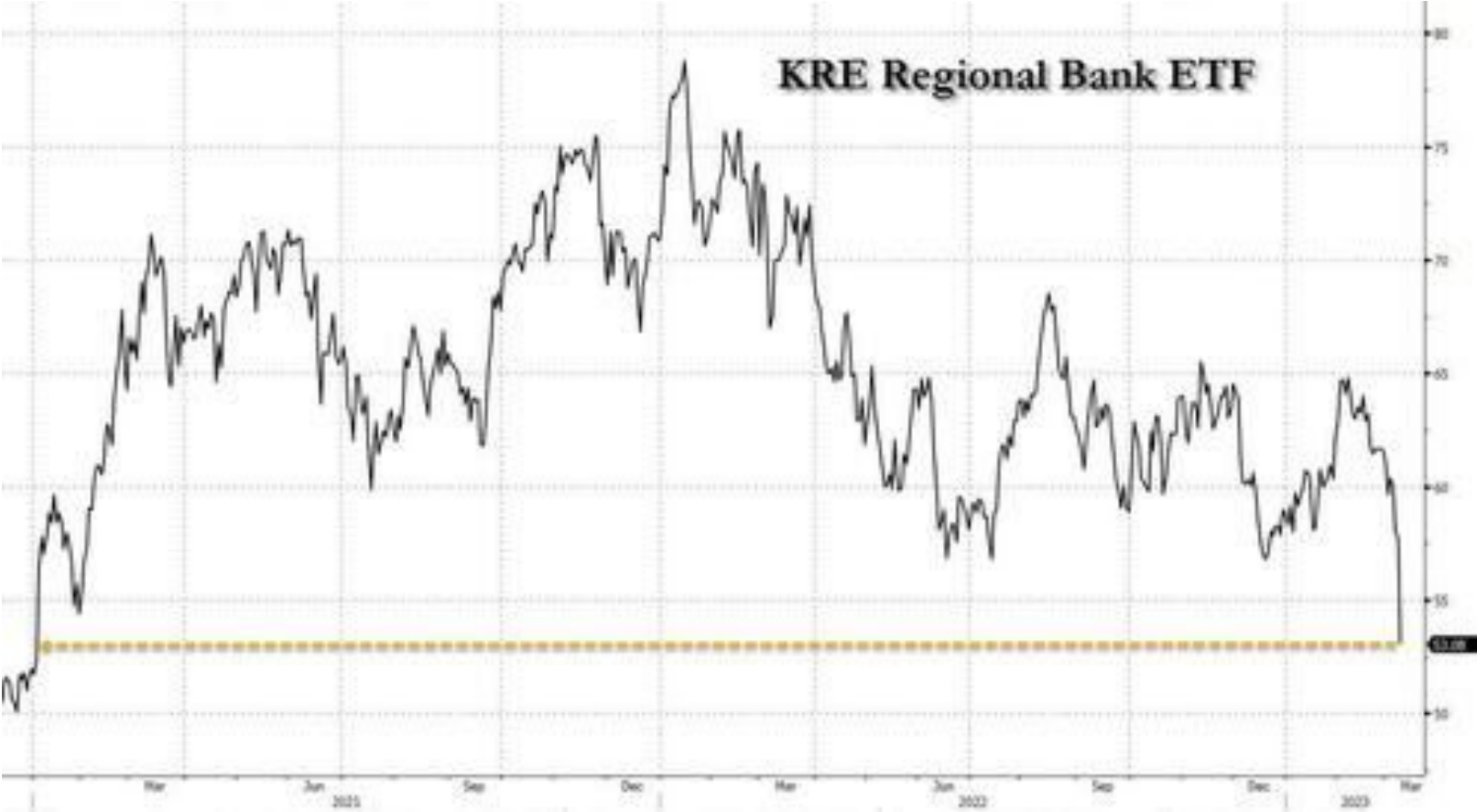
Source: Federal Reserve, TS Lombard

# US Banks: Construction downturn?





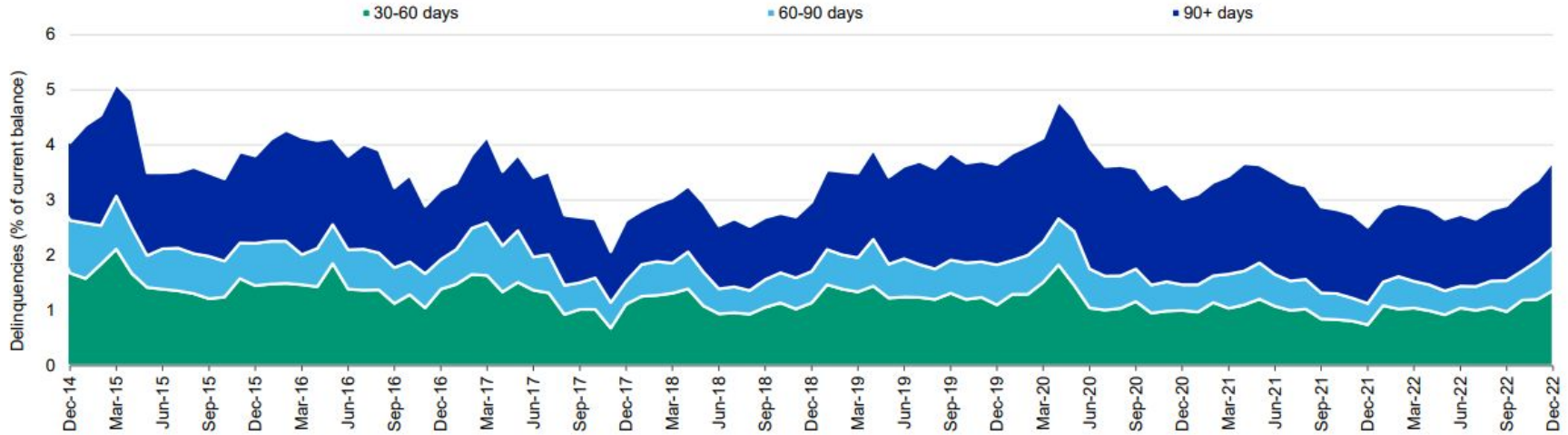
# US Regional Banks hit hard on Office



# Australian RMBS

Exhibit 3

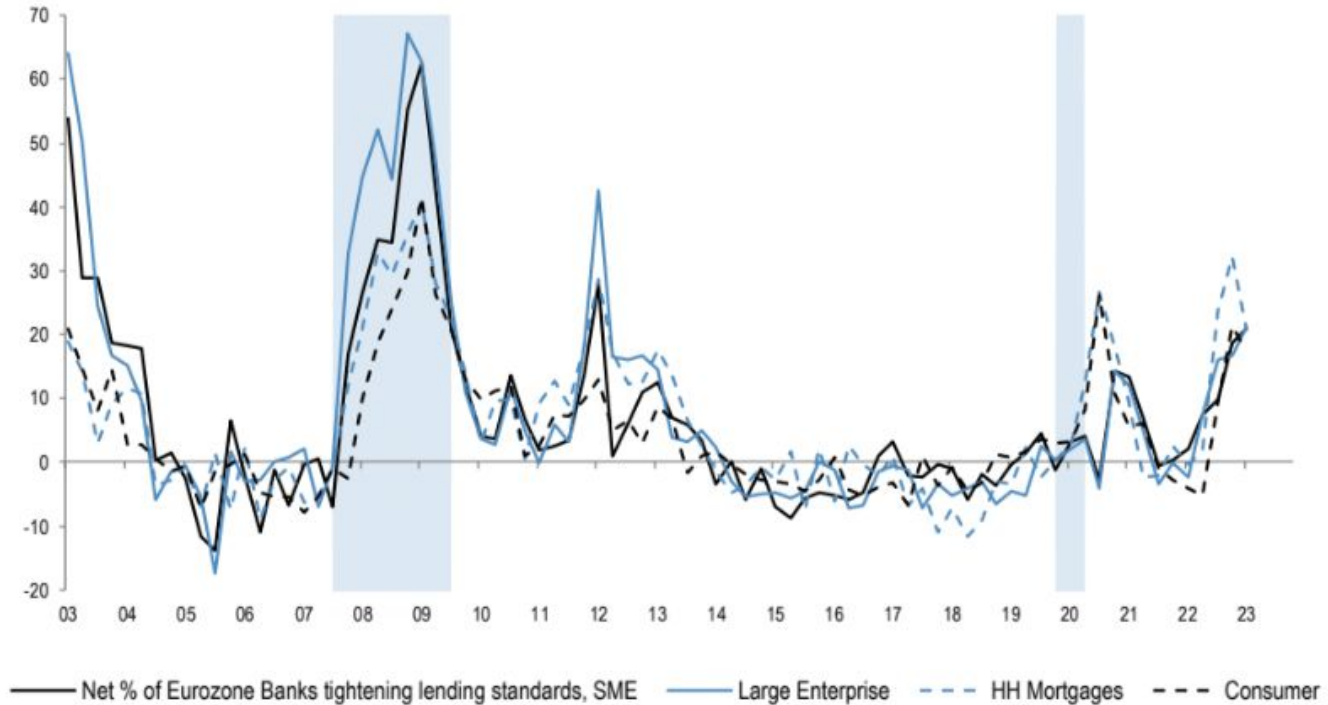
**Non-conforming and near prime RMBS delinquency rate increased in the December 2022 quarter**  
30+ days delinquency rate for non-conforming and near prime Australian RMBS



Sources: Moody's Investors Service and periodic servicer/issuer reports

# Pulling back on credit

Figure 16: Net % of Eurozone banks tightening lending standards



Source: J.P. Morgan

# Bankruptcies

## Registrations of businesses and declarations of bankruptcies in the EU

Q1 2015 - Q4 2022, seasonally adjusted (2015=100)

Posted on

The Daily Shot

22-Feb-2023



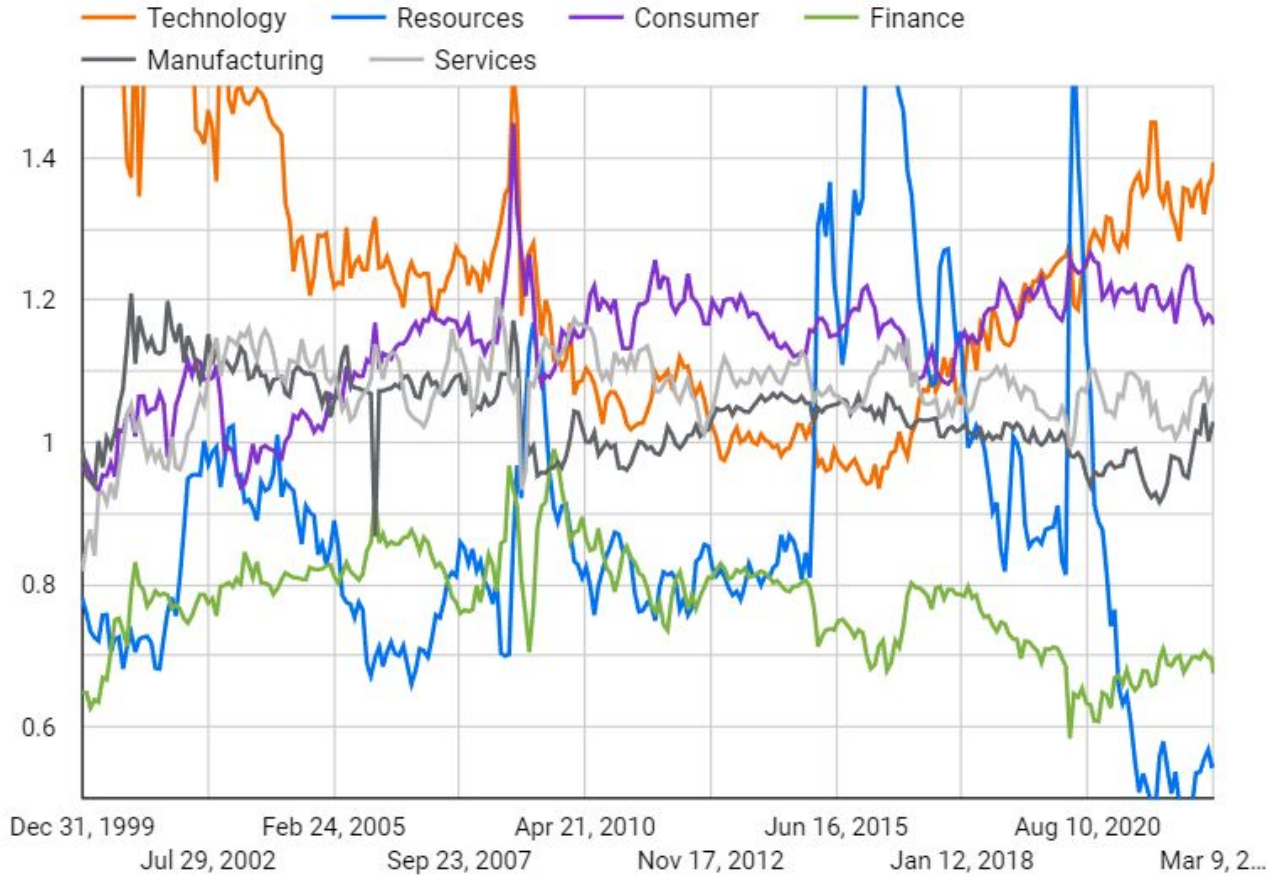
@SoberLook

## Market Reaction

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- Stocks down 2%
- Banks down 5% in US, 2-3% in Aust so far today.
- Bond yields down (bond prices up)
- Negative correlation
- Warm up or head fake?

# Valuation - Global Sectors



# Valuation



Source: Nucleus Wealth, S&P Capital IQ

## Viewer question of the week:

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**Are US regional banks the opening act in a banking crisis?**

**Drop your answers in the comments**



# Agenda: Implications for markets

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- Inverted yield curve signalling recession
- Stocks expensive given declining earnings prospects
- Inflation has lowered level of Fed “put” and needs a commodities bust
- DXY bull market to make it worse. AUD to continue falling
- Eventual capitulation of stocks

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