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Economies **at a glance**

March 2023

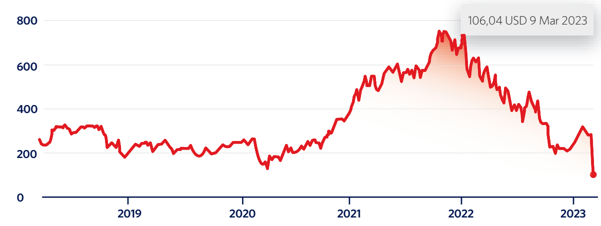
While US banking failures have commonly dotted history (562 between 2001 and 2023), sentiment often sours and markets question who is next

What is SVB?

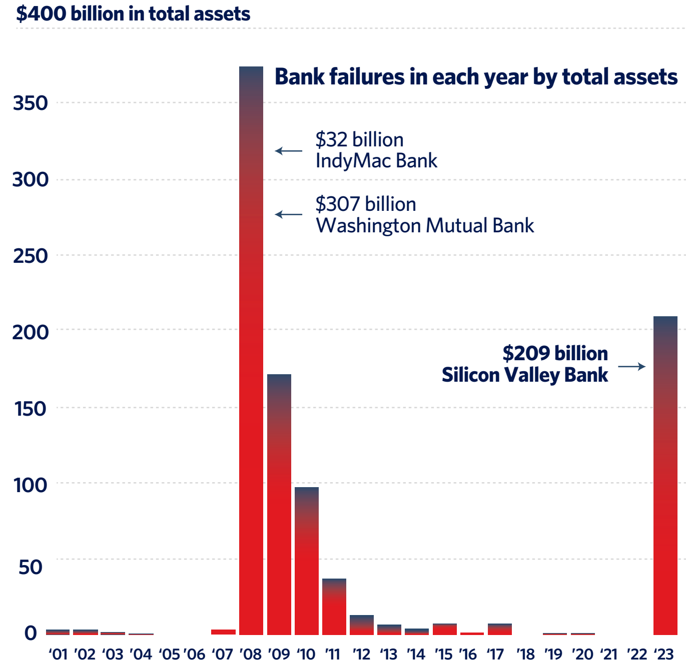
Founded in 1983, Silicon Valley Bank (SVB) specialised in banking for tech startups. It financed almost half of US venture-backed technology and health care companies. The bank's clients include household names like Shopify and Pinterest.

While relatively unknown outside of Silicon Valley, SVB was among the top 20 American commercial banks, with US$209 billion in total assets at the end of last year, according to the Federal Deposit Insurance Corporation (FDIC).

SVB Financial Group share price



How big is the SVB failure by assets?



What went wrong at SVB: A timeline

During the funding boom of 2021, SVB amassed large deposits - $189 billion in 2021, which later peaked to $198 billion

It later invested heavily in bonds, which were being issued in a low-interest rate scenario. SVB's balance sheet for 2022-end showed $91.3 billion in securities

In 2022, the US Federal Reserve (Fed) started raising interest rates, which drove down the value of bond holdings issued at lower rates

Rising interest rates also led to venture capital firms cutting fewer and smaller cheques to startups triggering a funding winter

As funding depleted, deposits made by startups in institutions such as SVB also started declining, forcing the bank to sell securities at a loss to cover up

On 8 March 2023, SVB announced it had sold $21 billion worth of bond assets at a loss of $1.8 billion. It also said it was raising $2.25 billion via a share sale

SVB fails after a run on deposits on 10 March

Regulators seize Signature Bank on 12 March

Banking woes spread to Europe with UBS agreeing to take over Credit Suisse on 19 March

What has been done to address the collapse of SVB?

- The Federal Reserve, FDIC and US Treasury moved to address concerns about deposit flight at regional banks.
- Banking regulators have signalled an intention to extend support to troubled institutions (SVB and Signature (a New York-based lender with $110bn in assets) depositors will all be made whole).
- According to the Economist, taxpayers will not have to foot the bill, but equity and bond holders in both banks will be wiped out and the FDIC will bear any residual costs.
- The Fed created a new facility. The Bank Term Funding Program (BTFP) will offer loans with maturities of up to a year to banks, savings associations, credit unions and other eligible depository institutions.
- The Fed changed its discount window (including extending the period for borrowing up to 90 days) to encourage more active use of the window by depository institutions to meet unexpected funding needs.
- Ongoing discussions to ensure no other banking failures (e.g. First Republic). Operations of Signature Bank sold to Flagstar, while First Citizens Bank will take on all the deposits and loans of SVB.

What does the SVB failure mean for the banking system?

- While there is a risk of contagion, it is likely limited to a few select specialised banks (that cater for high net worth individuals), which may be better diversified.
- Potential knock-on effects for tech companies where vendors may have banked with SVB.
- Banks are tightening lending standards in response to higher interest rates and lower levels of liquidity.
- Risk of a squeeze on lending alongside a slowdown in the economy.

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UNITED STATES

The United States (US) Federal Reserve (Fed) balanced tighter credit conditions, triggered by the collapse of Silicon Valley Bank (SVB), and still above-target inflation with an interest rate hike of 25 basis points, taking rates to between 4.75% and 5%. This move was aligned with the market's view of an 85% probability of a 25 basis-point hike in the run up to the interest rate-setting meeting. Authorities' recent moves to shore up confidence in the traditional banking sector, by pledging to fully protect depositor's money and offer loans to banks at easier terms, gave the Fed comfort to pursue their battle against inflation through tighter monetary policy as inflation outcomes remained a mixed bag. One-year ahead surveyed inflation expectations captured by the New York Fed improved in February. However, expectations stabilised on a three-year basis and ticked higher for the five-year forecast to 2.6%.

Forecast 2023:
GDP: 0.5%
Core PCE Inflation: 3.6%
Forecast 2024:
GDP: 1%
Core PCE Inflation: 2.3%

EUROZONE

Following turbulent trading in global banking stocks after the SVB collapse, the Chair of Saudi National Bank (a major Credit Suisse shareholder), ruled out providing any further funding for Credit Suisse as it struggles with its turnaround plan. Credit Suisse nevertheless announced it would be borrowing up to CHF50 billion from the Swiss National Bank under a covered loan facility and a short-term liquidity arrangement. Later, UBS agreed to buy debt-ridden Credit Suisse for £3.25 billion. In a show of prioritising inflation over other concerns, the European Central Bank (ECB) raised interest rates by 50 basis points in March. It noted it could offer new lending operations to banks to address financial stability risks. Despite the ECB lowering its near-term forecasts on inflation, it still expects underlying inflation to remain above target at 2.2%, on average, by 2025.

Forecast 2023:
GDP: 0.3%
HICP Inflation: 5.3%
Forecast 2024:
GDP: 1.1%
HICP Inflation: 2.2%

UNITED KINGDOM

Prime Minister Rishi Sunak's deal with the European Union to revise the Northern Ireland (NI) protocol got a majority backing of 515 votes to 29 in parliament. The agreement aims to address weaknesses of the NI protocol, including issues surrounding goods movement and the retail of agriculture/food products and medicines. By simplifying customs checks for goods entering NI, trading costs will likely be lower. Great Britain accounts for 65% of NI's goods imports, leaving NI vulnerable to trade shocks with the United Kingdom. An Ulster Bank survey points to a general improvement in NI business conditions on the back of the Windsor Framework. However, further improvement could be stymied given the backlash against the deal by the Democratic Unionist Party (DUP) who have not committed to the outcome. DUP leader, Sir Jeffrey Donaldson, remarked that he could not commit his party 'will restore the political institutions' in NI as a result of the deal.

Forecast 2023:
GDP: -0.6%
Inflation: 6.4%
Forecast 2024:
GDP: 0.7%
Inflation: 2.2%

JAPAN

Newly nominated central bank governor, Ueda Kazuo, faces the stress of convincing markets that the Bank of Japan (BoJ) can control inflation. Although core inflation (excluding food but including fuel costs) pressures slowed from a two-year high in February to 3.3%, from 4.3% in January, it was mostly due to government energy subsidies. Core inflation excluding energy prices rose 3.2% in February, up from 3% in January. Although markets expect yield curve control to be phased out, the BoJ remains steadfast in its opinion that ultra-loose monetary policy must be observed until inflation moves sustainably lower to the 2% target. *The Diplomat* reports that the BoJ owns a record 54% of outstanding government bonds (and 7% of Japanese stocks). As such, unwinding the BoJ's asset purchases and raising interest rates must be done orderly to prevent market imbalances.

Forecast 2023:
GDP: 1.1%
Inflation: 2.3%
Forecast 2024:
GDP: 1%
Inflation: 1.4%

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CHINA

China's annual parliamentary session culminated in President Xi Jinping securing an unprecedented third term. In this speech, the president focused on security against deteriorating relations with the US. This was nevertheless accompanied by a more disarming comment from the newly appointed premier, Li Qiang, who suggested that not many would benefit from a decoupling with the US and noted that 'China and the US can and must cooperate. Encirclement and suppression are in no one's interest'. Premier Li further reassured investors at a press conference of Beijing's pro-business stance, supported by the promotion of private entrepreneurship, a commitment to adhering to international business rules and preventing contractionary effects from regulatory changes.

Forecast 2023:
GDP: 5.2%
Inflation: 2.4%
Forecast 2024:
GDP: 5%
Inflation: 2.3%

EMERGING MARKETS

The global economic aftershocks of the collapse of SVB reverberated through global financial markets, with emerging market (EM) currencies experiencing a significant mid-month hit. The flight to safety in the US banking system shook EM assets, leaving equities in the Middle East, Africa and Latin America at their lowest levels since the start of the year. *Bloomberg* reported that the currencies of debt-distressed nations (including Sri Lanka and Pakistan) suffered the worst fallout. Not only do central banks in the EM composite have to consider domestic inflation trends, they also have to consider potential financial stability risks on the back of banking sector strains in the US. Headline inflation in India dropped back to 6.4% in February, while core inflation measured at a lower 6.1%. Brazilian inflation dipped to 5.6% but investors remain wary of an upward shift in the inflation target. Inflation in Russia, similarly, fell to 11% in February from 11.8% in January. Meanwhile, inflation in China remains comparatively subdued at 1%.

Forecast 2023:
GDP: 4.1%
Inflation: 5.9%
Forecast 2024:
GDP: 4.4%
Inflation: 4.4%

SOUTH AFRICA

The South African (SA) rand has been the second-worst performing currency against the US dollar on a year-to-date basis, following only the depreciation in the Argentine peso. The country has been hit with a spate of bad news since the start of the year, including the greylisting decision by the Financial Action Task Force, a bigger-than-expected contraction in growth in the fourth quarter of 2022 (with a larger-than-anticipated dip in financial services activity), a higher frequency and intensity of loadshedding, the resignation of the head of energy utility Eskom and a lowering of the outlook on SA's sovereign rating by Standard and Poor's Global Ratings (S&P) from stable to negative. S&P highlighted infrastructure constraints and slow progress on governance reforms as the key reasons behind its decision. S&P notes that growth risks remain firmly titled to the downside despite its pedestrian growth outlook of 1% this year (from a previous expectation of 1.5%) and an average of 1.7% between 2024 and 2026 (which compares unfavourably with the Bloomberg median consensus growth forecast for developed economies of 1.7% and 4.5% for EMs between 2024 and 2025). In line with these negative developments, alongside rising global risk, SA's credit default swap spread, a measure of a country's sovereign credit risk, widened 15 points since the start of the year.

Forecast 2023:
GDP: 0.3%
Inflation: 5.8%
Forecast 2024:
GDP: 1.3%
Inflation: 4.6%

The macro research desk

Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies.

Indices summary for March 2023

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
Equity indices									
FTSE/JSE All-Share Index (Alsi)	-1.26%	5.17%	4.90%	24.20%	11.81%	10.42%	10.28%	9.14%	10.22%
FTSE/JSE Shareholder Weighted Index (Swix)	-1.89%	2.74%	0.71%	19.89%	8.06%	6.49%	6.97%	6.18%	8.64%
FTSE/JSE Capped Swix All Share index	-1.95%	2.44%	0.23%	23.02%	8.88%	6.49%	6.74%	5.90%	8.42%
FTSE/JSE All Share Top 40 Index	-0.81%	6.22%	6.81%	24.58%	12.82%	11.45%	11.37%	9.78%	10.64%
FTSE/JSE Mid Cap Index	-4.37%	-0.94%	-5.89%	19.91%	5.72%	3.76%	3.52%	4.14%	6.74%
FTSE/JSE Small Cap Index	-2.24%	0.80%	4.22%	36.61%	14.31%	7.37%	5.61%	6.70%	9.02%
FTSE/JSE Resources Index	2.49%	-4.71%	-13.04%	30.47%	15.99%	20.71%	18.94%	18.61%	8.49%
FTSE/JSE Financials Index	-6.23%	-0.27%	-8.59%	22.49%	2.97%	1.15%	3.72%	2.91%	6.81%
FTSE/JSE Industrials Index	-0.82%	13.61%	25.90%	19.17%	11.95%	8.62%	8.13%	6.94%	10.53%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	-2.35%	4.00%	2.73%	30.64%	12.66%	11.37%	11.71%	11.38%	10.40%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	-2.51%	3.01%	1.11%	29.69%	11.97%	10.64%	10.94%	10.90%	9.85%
FTSE/JSE SA Listed Property Index (Sapy)	-3.40%	-5.05%	-3.36%	18.19%	-3.70%	-4.10%	-4.61%	-3.76%	1.35%
FTSE/JSE All Property Index (ALPI)	-3.92%	-4.81%	-5.11%	17.14%	-4.81%	-5.24%	-5.57%	-5.28%	0.69%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	1.32%	3.39%	5.83%	11.63%	7.78%	6.90%	8.40%	8.77%	7.31%
FTSE/JSE All Bond Index 1-3 years (Albi)	1.09%	2.40%	6.91%	7.50%	7.33%	7.53%	7.88%	8.10%	7.37%
FTSE/JSE Inflation-linked Index (Ili)	1.48%	0.87%	4.93%	10.72%	6.54%	4.46%	4.96%	4.72%	4.85%
Short-term Fixed Interest Composite Index (Stefi)	0.61%	1.75%	5.96%	4.82%	5.41%	5.78%	6.06%	6.28%	6.19%
Commodities									
NewGold Exchange-Traded Fund	4.90%	13.47%	23.61%	6.60%	16.55%	17.03%	12.80%	9.42%	8.66%
Gold price (in rands)	5.13%	13.12%	24.54%	6.94%	16.96%	17.53%	13.63%	9.27%	9.08%
Platinum Exchange-Traded Fund	0.89%	-2.07%	22.36%	10.24%	9.07%	9.50%	5.27%	2.54%	2.62%
Platinum price (in rands)	2.73%	-1.56%	20.34%	10.44%	9.23%	9.66%	5.41%	2.86%	1.40%
Currency movements									
Rand/euro movements	-1.31%	6.46%	18.47%	-0.54%	4.44%	5.76%	5.03%	2.01%	5.04%
Rand/dollar movements	-3.30%	4.67%	21.31%	-0.21%	5.30%	8.41%	4.78%	2.74%	6.82%
Inflation index									
Consumer Price Index (CPI)			7.04%	5.15%	5.03%	4.83%	4.70%	4.93%	5.13%

Important notes

1. Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
2. Returns for periods exceeding one year are annualised.
3. The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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