MARCH 2023

Banking crisis: Talking points.

Despite recent moves by government authorities around the globe, we expect continued banking sector volatility in the short term as the market tests weaker companies in the space.

A broad-based drawdown in the U.S.

- The recent drawdown in financials is extremely broad in nature, affecting not just regional and supra-regional banks but also other financial sub-sectors, such as consumer finance and financial services.
- SEI and our sub-advisors continue to monitor this situation closely for both additional risks and opportunities and have made modest changes within our portfolios, including adding some financial exposure.
- We continue to believe that the issues facing U.S. banks are unique to today's environment of rapidly tightening monetary policy and high short-term interest rates on Treasurys relative to deposit rates, which has left some banks with concentrated client bases particularly vulnerable.
- We do not see similarities to 2008, which was a true credit crisis born in the excesses of the U.S. housing market and had broad detrimental effects on bank capital.
- That noted, this crisis of confidence in the banking sector is real, and we expect it to dampen credit expansion and negatively impact the broader economy.

A different scenario in Europe

- We believe that the situation outside of the U.S is quite different, as there is less difference between the interest rates paid on bank deposits and other options available to investors.
- Currently, the Credit Suisse arranged merger appears to be limited in its broader impact to systemically important European banks. However, the treatment of AT1 creditors was surprising and we expect it to have implications for the European AT1 market going forward.
- We continue to monitor the situation and have taken the opportunity to add modestly to senior debt holdings in the banking space.

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Our view*

Broadly our economic outlook and views and positioning remains the same:

- We see difficulties ahead for the global economy, particularly in the second half of the year, as the full impact of interest rate hikes materializes.
- We believe inflation will remain stubbornly high and, therefore, central banks will remain tighter for longer.
- Given this view, inflation sensitivity remains a key theme in our portfolios where it can be implemented.
- Value remains a key position in our equity portfolios although we are more diversified across Quality, Momentum and low volatility in 2023 versus 2022.
- The securitized sectors are a focus in our fixed-income portfolios given the attractive risk-adjusted-yield profile. Our interest rate position remains broadly neutral.

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