



BTFP The Latest Bank Bailout

On Sunday afternoon, the Fed and Treasury rode the rescue with the Bank Term Funding program, BTFP, the latest bank bailout. The government staring at potential bank runs shored up banks and helped comfort depositors that their money is safe. The facility will save some banks from selling underwater bonds and taking losses in order to free up cash for depositors. Consequently, participating banks can pledge eligible bonds to the BTFP facility and receive a one-year loan for the bond's par value. The facility only applies to U.S. banks and bonds owned before the announcement. Some banks may be unable to take advantage of the program as they do not hold a measurable amount of Treasuries or MBS. The BTFP program will last for one year.

Now, our two cents and what this means from a macroeconomic perspective. For starters, the Fed may have more leeway to raise rates as most banks are protected against being forced to take losses and raise capital. Counter to the argument, lending standards will increase significantly, which will drag on economic activity and do the Fed's heavy lifting. Further, tightening standards will put those companies most heavily reliant on bank funding at risk. Some believe BTFP opens the door for a Fed pivot. With the battle against high inflation still in progress we are not sold the Fed will give up the fight so early. We will learn a lot more about the program at next week's FOMC meeting.

5 min ago ★

Meet the BTFP, the Fed's 2023 Crisis Facility

By [Ben Eisen](#)

Among measures to counter fallout from the failure of Silicon Valley Bank, the Federal Reserve said it would create a new lending program for banks: the Bank Term Funding Program, or BTFP.

The facility will allow banks to take advances from the Fed for up to a year by pledging Treasuries, mortgage-backed bonds and other debt as collateral. By allowing banks to pledge their bonds, they can meet customer withdrawals without having to sell their bonds at a loss, which is what Silicon Valley Bank did last week, sparking a run on the bank.

The biggest draw of this facility is that banks can borrow funds equal to the par value of the collateral they pledge, [according to the Fed's announcement](#). This means that the Fed won't look to the market value of the collateral, which in many cases reflect big unrealized losses due to the jump in interest rates.

That is a boon for banks, who were sitting on some \$620 billion in unrealized losses on securities at the end of last year, according to the Federal Deposit Insurance Corp.

The Fed also won't demand that banks pledge collateral in excess of the advances they are taking, which is typically the case when banks borrow from, say, the Federal Home Loan Bank system.

And if banks can't repay all the advances in a year's time? The Treasury Department is providing \$25 billion of credit protection to the Fed just in case. "The Federal Reserve does not anticipate that it will be necessary to draw on these backstop funds," the Fed said in its announcement Sunday night.

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What To Watch Today

Economy

Time	Event	Impact	Actual	Dev		Consensus	Previous	
TUESDAY, MARCH 14								
11:00	 USD NFIB Business Optimism Index(Feb)		-	-	-	-	90.3	
12:30	 USD Consumer Price Index (MoM)(Feb)		-	-	0.4%	0.5%		
12:30	 USD Consumer Price Index (YoY)(Feb)		-	-	6%	6.4%		
12:30	 USD Consumer Price Index Core s.a(Feb)		-	-	-	302.7		
12:30	 USD Consumer Price Index ex Food & Energy (MoM)(Feb)		-	-	0.4%	0.4%		
12:30	 USD Consumer Price Index ex Food & Energy (YoY)(Feb)		-	-	5.5%	5.6%		
12:30	 USD Consumer Price Index n.s.a (MoM)(Feb)		-	-	301.446	299.17		
12:55	 USD Redbook Index (YoY)(Mar 10)		-	-	-	3%		
20:30	 USD API Weekly Crude Oil Stock(Mar 10)		-	-	-	-3.835M		
21:20	 USD Fed's Bowman speech				SPEECH			

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Earnings

	Company	Time	Estimate		 Growth Show only confirmed?	Surprise		
✓	LEN Lennar Corp.	5:00 PM ET	\$1.56	\$5.93 B	-4.4%	+	=	-
✓	GES Guess?, Inc.	4:15 PM ET	\$1.30	\$772.00 M	-3.5%	+	=	-
✓	CAL Caleres Inc.	6:35 AM ET	\$0.64	\$670.72 M	-1.3%	+	=	-
✓	IHS IHS Inc	6:55 AM ET	\$0.15	\$486.84 M	17.1%	+	=	-
✓	CTOS Custom Truck One S...	4:05 PM ET	\$0.11	\$431.67 M	21.1%	+	=	-
✓	STNE StoneCo Ltd.	4:05 PM ET	\$0.12	\$521.30 M	55.3%	+	=	-
✓	SNPO Snap One Holdings C...	4:05 PM ET	\$0.10	\$258.19 M	-5.6%	+	=	-
✓	BODY Beachbody Company...	4:00 PM ET	(\$0.09)	\$146.38 M	-32.3%	+	=	-
✓	VCSA Vacasa	4:05 PM ET	(\$0.41)	\$206.23 M	7.4%	+	=	-
✓	ORN Orion Group Holdings...	4:35 PM ET	\$0.02	\$167.72 M	3.4%	+	=	-
✓	SMAR Smartsheet Inc.	4:05 PM ET	(\$0.01)	\$206.30 M	31.1%	+	=	-
✓	HGTY Hagerty, Inc.	7:00 AM ET	(\$0.08)	\$198.58 M	28.6%	+	=	-
✓	APEI American Public Edu...	4:00 PM ET	(\$0.18)	\$152.63 M	-0.9%	+	=	-
✓	JILL J.Jill, Inc.	6:45 AM ET	(\$0.10)	\$143.00 M	-1.5%	+	=	-
✓	CASA Casa Systems, Inc.	4:05 PM ET	(\$0.12)	\$78.32 M	-25.5%	+	=	-
✓	LVLU Lulus Fashion Loung...	4:10 PM ET	(\$0.12)	\$81.99 M	-15.3%	+	=	-
✓	AAWH Ascend Wellness Hol...	4:05 PM ET	\$0.00	\$112.50 M	27.1%	+	=	-
✓	S SentinelOne, Inc.	4:10 PM ET	(\$0.16)	\$124.66 M	89.9%	+	=	-

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Market Trading Update

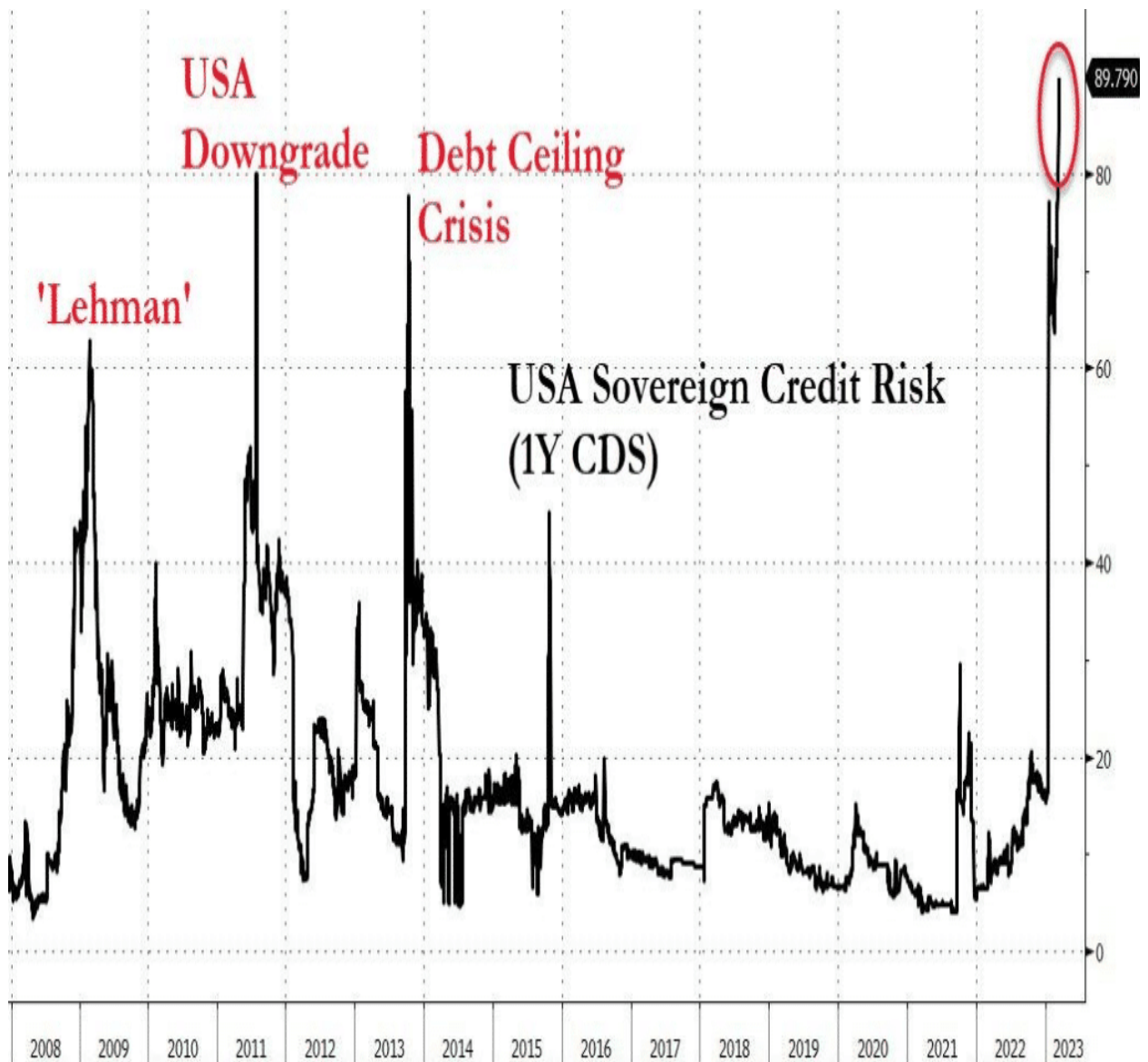
The market rebounded from the opening lows as the Fed launched a program allowing banks to provide discounted collateral for loans at full face value. This facility will allow banks the capital they need to meet depositors' redemption requests. However, as discussed next, with more

regional banks having trouble, the market rebound had trouble hanging on for the day.

The market is oversold but has broken all major supports of the previous bullish trend. Such puts us into *?risk off?* mode and suggests we use short-term rallies to reduce risk and rebalance portfolios. We have warned several times over the last year, that the aggressive rate hiking campaign would break something either in the economy or the credit market.

It appears the first cracks are in the credit market. Such is seen in the **US sovereign credit risk based on 1Y CDS spreads, which have soared to a record high. This move eclipses what was seen during the Lehman event or the debt ceiling crisis.**

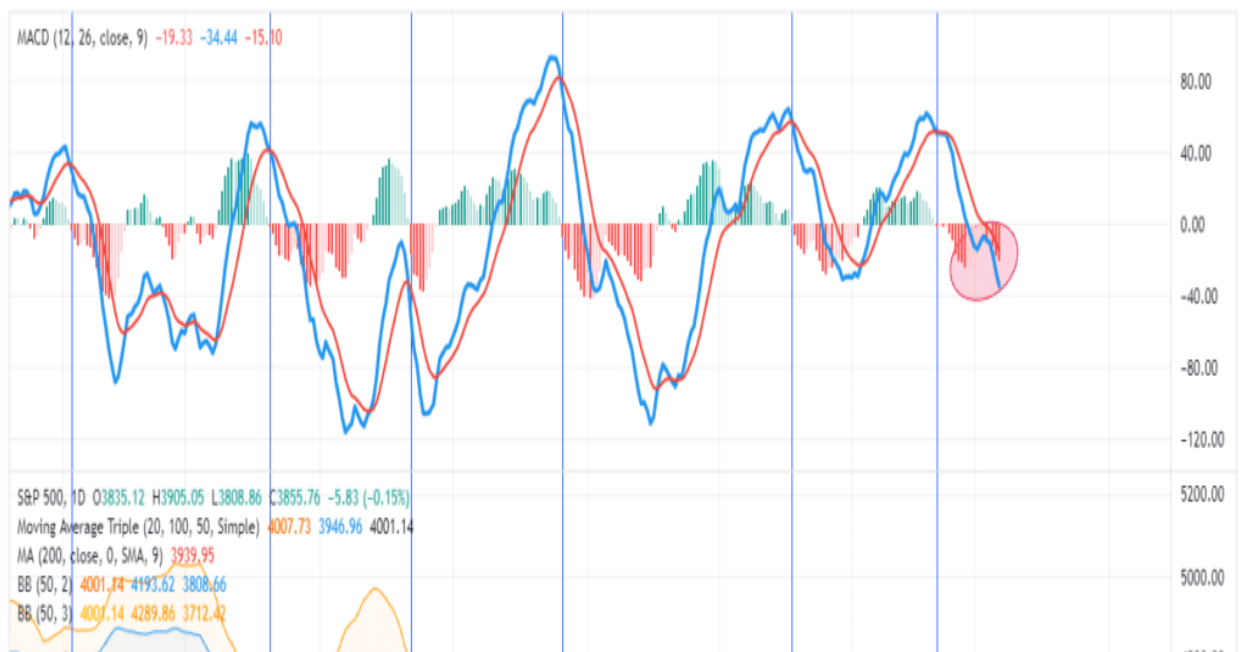




Hold positions now as the market bounced off support from the December lows. However, use any reflexive rally that does NOT clear the 200-DMA as an opportunity to raise cash and reduce risk.



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More Regional Banks on the Ropes

Despite the BTFP program, many regional bank stocks are still struggling. For instance, First Republic Bank (FRC) is down about 75% in just the last week. Joseph Wang, an ex-Fed employee, shows why the stock is sharply lower in Monday's trading below. Most of FRC's holdings are in municipal bonds. As of year-end, they held no Treasury securities and only a small amount of MBS or agency assets. As it is currently structured, BTFP will not help them avoid losses. We suspect investors are combing through bank balance sheets to figure out which banks can take advantage of the bailout. Some of those that can't may join Silicon Valley Bank in receivership unless the Fed devises a new structure.

Schedule RC-B - Securities(Form Type - 031)

Exclude assets held for trading.

Dollar amounts in thousands	(Column A) Held-to-maturity Amortized Cost	(Column B) Held-to-maturity Fair Value	(Column C) Available-for-sale Amortized Cost	(Column D) Available-for-sale Fair Value	
1. U.S. Treasury securities.....	RCFD0211 0	RCFD0213 0	RCFD1286 0	RCFD1287 0	1.
2. U.S. Government agency and sponsored agency obligations (exclude mortgage-backed securities) ¹	RCFDHT50 165,000	RCFDHT51 138,411	RCFDHT52 0	RCFDHT53 0	2.
3. Securities issued by states and political subdivisions in the U.S.	RCFD8496 19,439,615	RCFD8497 16,069,709	RCFD8498 47,114	RCFD8499 47,289	3.
4. Mortgage-backed securities (MBS):					4.
a. Residential mortgage pass-through securities:					4.a.
1. Guaranteed by GNMA.....	RCFDG300 269,078	RCFDG301 264,889	RCFDG302 233	RCFDG303 215	4a.1.
2. Issued by FNMA and FHLMC.....	RCFDG304 581,036	RCFDG305 500,822	RCFDG306 2,491,590	RCFDG307 2,082,353	4a.2.
3. Other pass-through securities.....	RCFDG308 0	RCFDG309 0	RCFDG310 8,440	RCFDG311 8,129	4a.3.
b. Other residential mortgage-backed securities (include CMOs, REMICs, and stripped MBS):					4.b.
1. Issued or guaranteed by U.S. Government agencies or sponsored agencies ¹	RCFDG312 1,152,945	RCFDG313 986,807	RCFDG314 92,441	RCFDG315 76,945	4b.1.
2. Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies ¹	RCFDG316 0	RCFDG317 0	RCFDG318 0	RCFDG319 0	4b.2.
3. All other residential MBS.....	RCFDG320 7,804	RCFDG321 6,895	RCFDG322 2,110	RCFDG323 1,982	4b.3.
c. Commercial MBS:					4.c.
1. Commercial mortgage pass-through securities:					4.c.1.
a. Issued or guaranteed by FNMA, FHLMC, or GNMA.....	RCFDK142 0	RCFDK143 0	RCFDK144 993,332	RCFDK145 966,494	4c.1a.
b. Other pass-through securities.....	RCFDK146 0	RCFDK147 0	RCFDK148 0	RCFDK149 0	4c.1b.
2. Other commercial MBS:					4.c.2.
a. Issued or guaranteed by U.S. Government agencies or sponsored agencies ¹	RCFDK150 5,330,621	RCFDK151 4,662,594	RCFDK152 181,435	RCFDK153 163,290	4c.2a.

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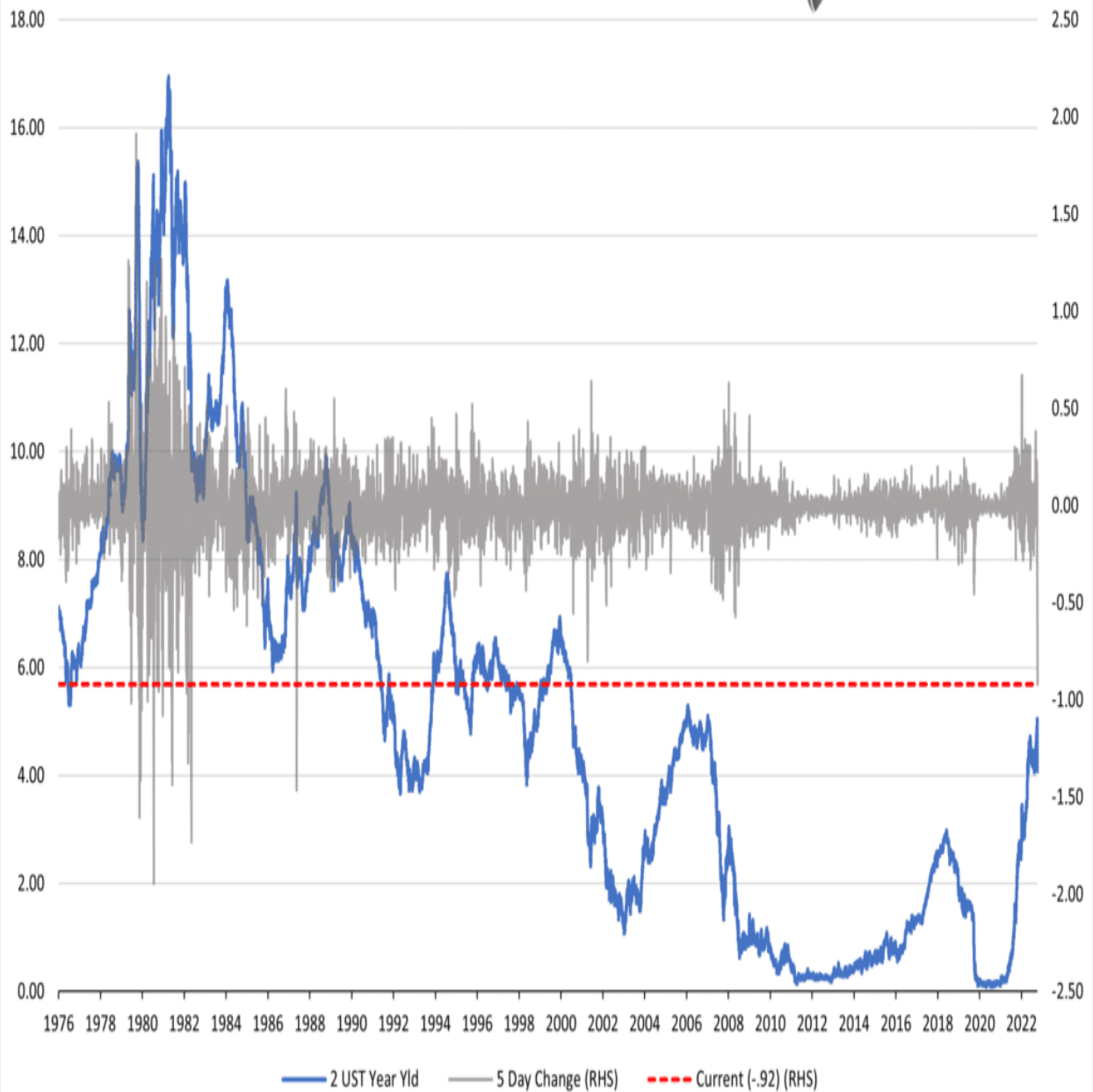
Two Year Yields Plummet

In just the last five days, the yield on 2-year Treasury notes has fallen nearly 1%. As the graph below shows, the last time it fell by as much in such a short period was 1988. The two-year yield is clearly pricing in a Fed pivot. Bond investors now assume that the Fed will prioritize the banking sector over inflation. If that proves true, the cessation of rate hikes, possibly after the March meeting, and a pivot are probable. That said, if the Fed thinks they have properly protected banks from more losses due to higher interest rates, the two-year yield may reverse recent gains.

Two Year Yield



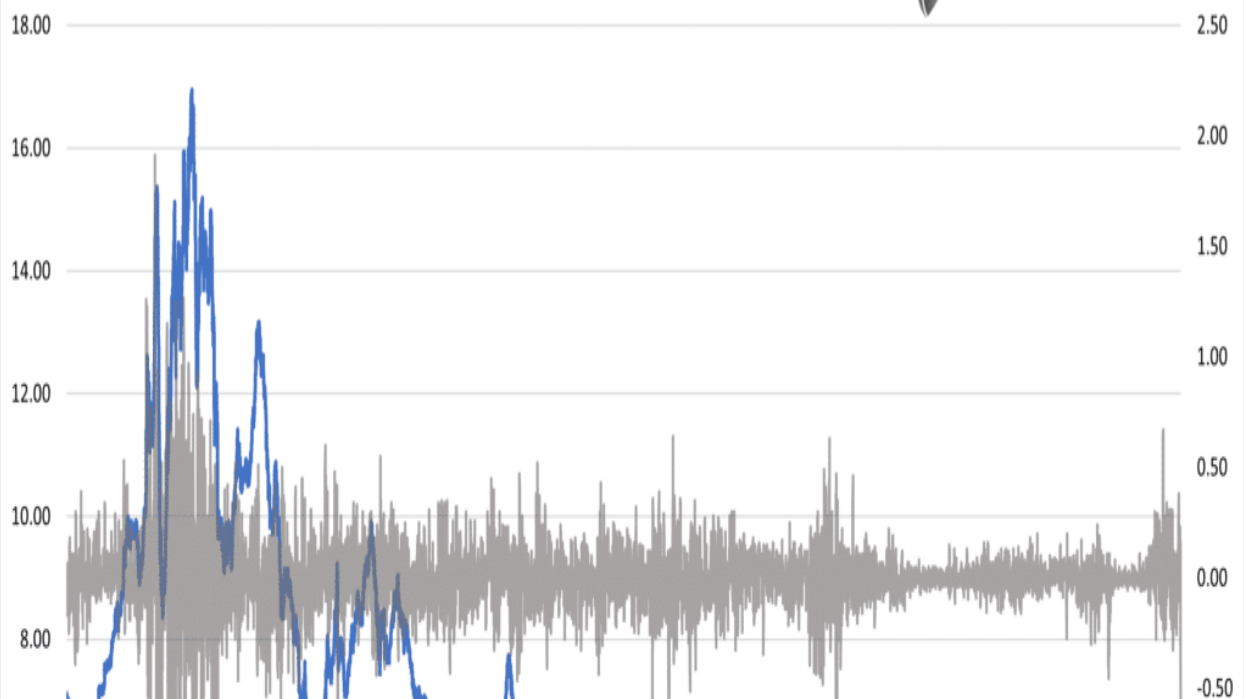
Real Investment Advice



Two Year Yield



Real Investment Advice



Places to Hide in the Financial Sector

Within [SimpleVisor](#) we share our proprietary relative and absolute analysis on markets, sectors, factors, and stocks. The analysis uses 13 technical studies to assess which stocks are over or underperforming versus the market, its sector, or on a stand-alone basis. Today we share our analysis and dive into the financial sector and see which stocks are holding up well despite the turmoil.

The table below shows how the top ten holdings of XLF score relative to XLF. Our relative analysis uses technical analysis on the price ratio of each stock to XLF and assigns a score. The higher the score, the more overbought the stock is compared to XLF. Conversely, lower scores are those that are oversold. As shown, JPM is the most overbought bank in the financial sector. Bank of America (BAC) is the most oversold. Often highly overbought or oversold conditions normalize.

The second graphic is a relative comparison of JPM to BAC. Not surprisingly, the ratio is extremely overbought (in JPM's favor). If you think the banking crisis is ebbing, you may want to dip your toes in the most underperforming stocks, like BAC. That said, there are many unknowns, and we advise prudence and, as such, staying away from banking stocks until the smoke clears a bit.

AXP/	BAC/	BLK/	BRK-B/	GS/	JPM/	MS/	SCHW/	SPGI/	WFC/	XLF/	
0.00	-0.79	-0.33	0.12	-0.37	0.23	0.00	-0.93	-0.13	-0.74	-0.49	AXP
0.79	0.00	0.54	0.84	0.69	0.89	0.80	-0.69	0.63	0.32	0.80	BAC
0.33	-0.54	0.00	0.75	-0.04	0.57	0.37	-0.84	0.37	-0.34	-0.18	BLK
-0.12	-0.84	-0.75	0.00	-0.54	-0.18	-0.42	-0.79	-0.74	-0.67	-0.55	BRK-B
0.37	-0.69	0.04	0.54	0.00	0.72	0.36	-0.71	0.11	-0.42	-0.30	GS
-0.23	-0.89	-0.57	0.18	-0.72	0.00	-0.38	-0.84	-0.35	-0.69	-0.86	JPM
0.00	-0.80	-0.37	0.42	-0.36	0.38	0.00	-0.84	-0.14	-0.74	-0.74	MS
0.93	0.69	0.84	0.79	0.71	0.84	0.84	0.00	0.67	0.63	0.74	SCHW
0.13	-0.63	-0.37	0.74	-0.11	0.35	0.14	-0.67	0.00	-0.38	-0.18	SPGI
0.74	-0.32	0.34	0.67	0.42	0.69	0.74	-0.63	0.38	0.00	0.37	WFC
0.49	-0.80	0.18	0.55	0.30	0.86	0.74	-0.74	0.18	-0.37	0.00	XLF

AXP/	BAC/	BLK/	BRK-B/	GS/	JPM/	MS/	SCHW/	SPGI/	WFC/	XLF/	
0.00	-0.79	-0.33	0.12	-0.37	0.23	0.00	-0.93	-0.13	-0.74	-0.49	AXP
0.79	0.00	0.54	0.84	0.69	0.89	0.80	-0.69	0.63	0.32	0.80	BAC
0.33	-0.54	0.00	0.75	-0.04	0.57	0.37	-0.84	0.37	-0.34	-0.18	BLK
-0.12	-0.84	-0.75	0.00	-0.54	-0.18	-0.42	-0.79	-0.74	-0.67	-0.55	BRK-B
0.37	-0.69	0.04	0.54	0.00	0.72	0.36	-0.71	0.11	-0.42	-0.30	GS
-0.23	-0.89	-0.57	0.18	-0.72	0.00	-0.38	-0.84	-0.35	-0.69	-0.86	JPM
0.00	-0.80	-0.37	0.42	-0.36	0.38	0.00	-0.84	-0.14	-0.74	-0.74	MS
0.93	0.69	0.84	0.79	0.71	0.84	0.84	0.00	0.67	0.63	0.74	SCHW
0.13	-0.63	-0.37	0.74	-0.11	0.35	0.14	-0.67	0.00	-0.38	-0.18	SPGI
0.74	-0.32	0.34	0.67	0.42	0.69	0.74	-0.63	0.38	0.00	0.37	WFC
0.49	-0.80	0.18	0.55	0.30	0.86	0.74	-0.74	0.18	-0.37	0.00	XLF



Tweet of the Day



Michael Lebowitz, CFA

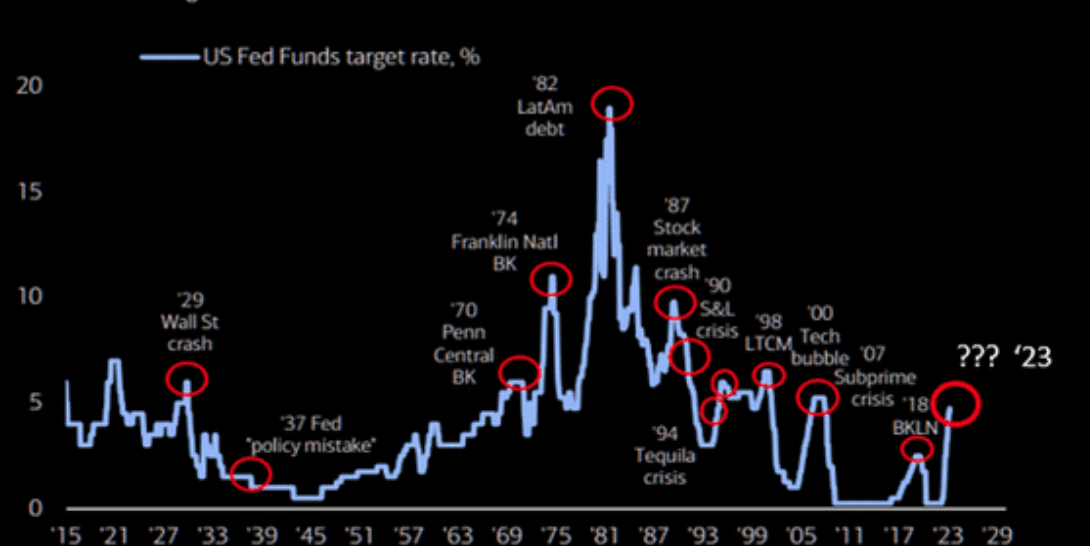
@michaellebowitz

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Let's play a little game of fill-in-the-blanks.

Chart 2: Fed, Farce & Beyond...Fed tightening always breaks something

US Fed Funds target rate %



Source: BofA Global Investment Strategy, Bloomberg, Global Financial Data

BofA GLOBAL RESEARCH



Michael Lebowitz, CFA

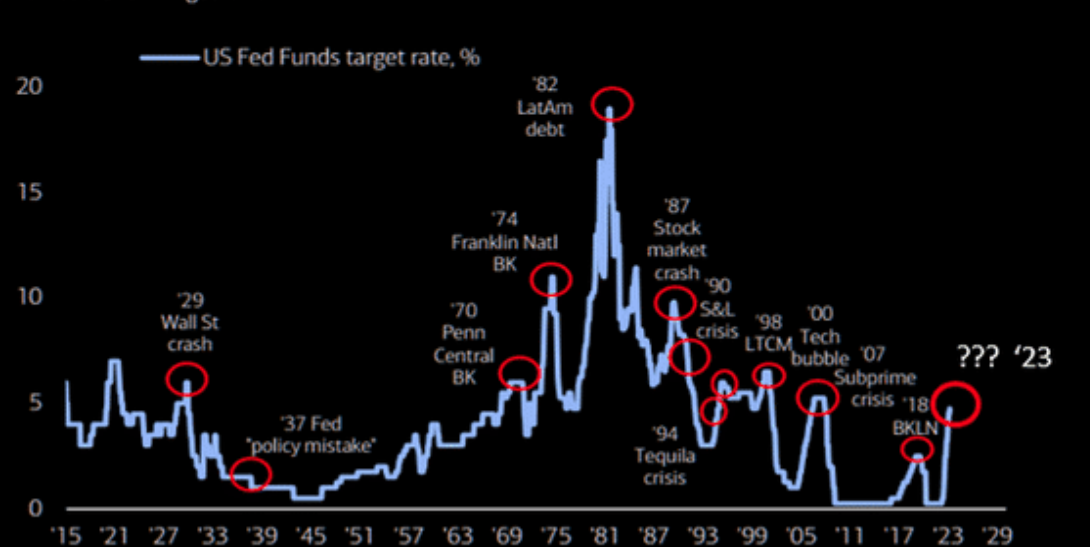
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BofA GLOBAL RESEARCH

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