

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.

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 Treasurys, 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 Ac	tual Dev	0 0	onsensus	Previous	
TUESDAY, MARCH 14						
11:00 SUSD NFIB Business Optimism Index(Feb)		-			90.3	ŷ
12:30 SUSD Consumer Price Index (MoM)(Feb)				0.4%	0.5%	ڼ
12:30 SD Consumer Price Index (YoY)(Feb)				6%	6.4%	ŷ
12:30 SUSD Consumer Price Index Core s.a(Feb)					302.7	ŷ
12:30 SUSD Consumer Price Index ex Food & Energy (MoM)(Feb)				0.4%	0.4%	Ç
12:30 SUSD Consumer Price Index ex Food & Energy (YoY)(Feb)				5.5%	5.6%	ڼ
12:30 SUSD Consumer Price Index n.s.a (MoM)(Feb)				301.446	299.17	ڼ
12:55 SUSD Redbook Index (YoY)(Mar 10)					3%	Ç
20:30 SUSD API Weekly Crude Oil Stock(Mar 10)					-3.835M	Ç
21:20 SD Fed's Bowman speech			SP	EECH		Ç
Time Event	Impact Ac	tual Dev	0 0	onsensus	Previous	
Time Event TUESDAY, MARCH 14	Impact Ac	tual Dev	0 C	onsensus	Previous	
	Impact Ac	tual Dev	1 Co	onsensus -	Previous 90.3	Ţ
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Earnings

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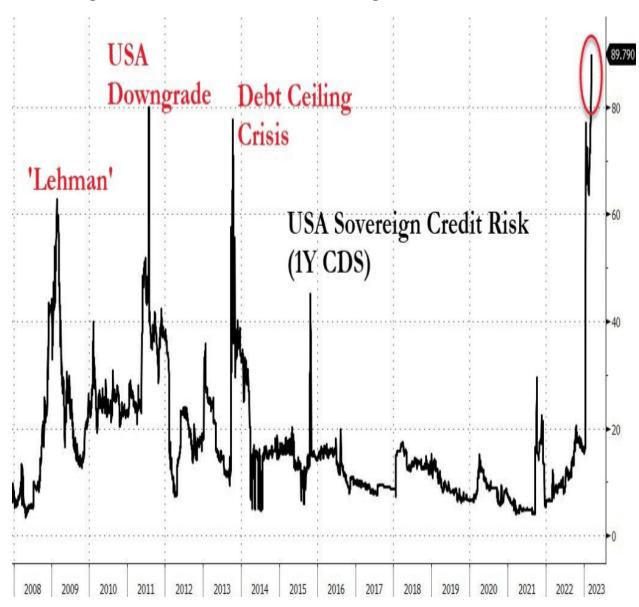
Market Trading Update

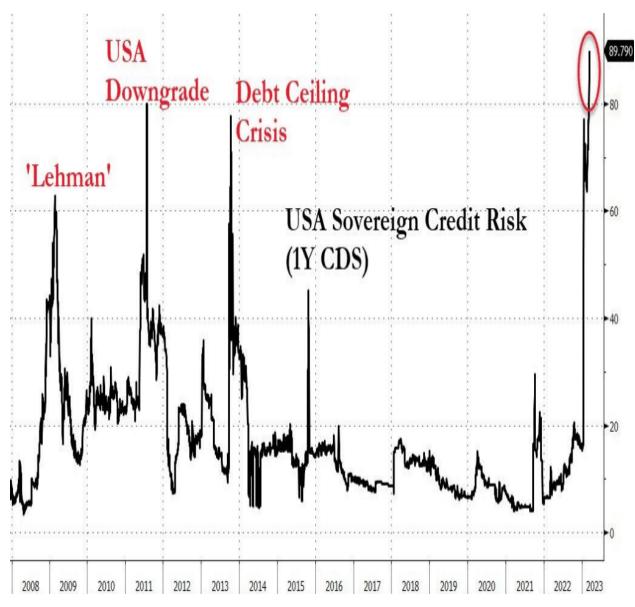
The market rebounded from the opening lows as the Fed launched a program allowing banks to provide discounted collateral for loans at full face value. This facility will allow banks the capital they need to meet depositors? redemption requests. However, as discussed next, with more

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.

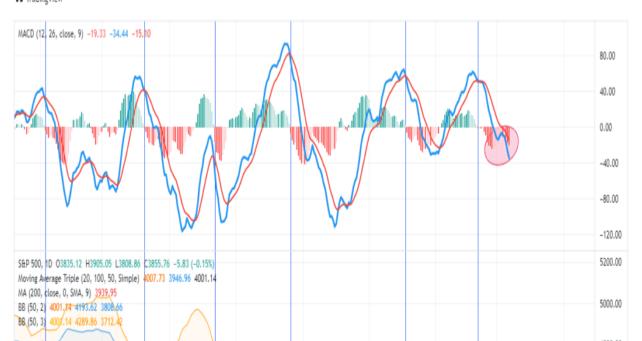




Hold positions now as the market bounced off support from the December lows. However, use any reflexive rally that does NOT clear the 200-DMA as an opportunity to raise cash and reduce risk.



TradingView





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	Held-to	umn A) -maturity zed Cost	Held-to-m	umn B) naturity Fair alue	Availabl	ımn C) e-for-sale zed Cost	(Column D) Available-for-sale Fai Value	
1. U.S. Treasury securities	RCFD0211	0	RCFD0213	0	RCFD1286	0	RCFD1287	0
U.S. Government agency and sponsored agency obligations (exclude mortgage-backed securities) ¹	RCFDHT50	165,000	RCFDHT51	138,411	RCFDHT52	0	RCFDHT53	0
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
4. Mortgage-backed securities (MBS):								
a. Residential mortgage pass-through securities:								
1. Guaranteed by GNMA	RCFDG300	269,078	RCFDG301	264,889	RCFDG302	233	RCFDG303	215
2. Issued by FNMA and FHLMC	RCFDG304	581,036	RCFDG305	500,822	RCFDG306	2,491,590	RCFDG307	2,082,353
3. Other pass-through securities	RCFDG308	0	RCFDG309	0	RCFDG310	8,440	RCFDG311	8,129
 b. Other residential mortgage-backed securities (include CMOs, REMICs, and stripped MBS): 								
Issued or guaranteed by U.S. Government agencies or sponsored agencies	RCFDG312	1,152,945	RCFDG313	986,807	RCFDG314	92,441	RCFDG315	76,945
Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies	RCFDG316	0	RCFDG317	0	RCFDG318	0	RCFDG319	0
3. All other residential MBS	RCFDG320	7,804	RCFDG321	6,895	RCFDG322	2,110	RCFDG323	1,982
c. Commercial MBS:		6		V4.35.04				
1. Commercial mortgage pass-through securities:								
a. Issued or guaranteed by FNMA, FHLMC, or GNMA	RCFDK142	0	RCFDK143	0	RCFDK144	993,332	RCFDK145	966,494
b. Other pass-through securities	RCFDK146	0	RCFDK147	0	RCFDK148	0	RCFDK149	0
2. Other commercial MBS:								
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

FIRST REPUBLIC BANK RSSD-ID 4114567 Last Updated on 2/27/2023 FFIEC 031

Report Date 12/31/2022

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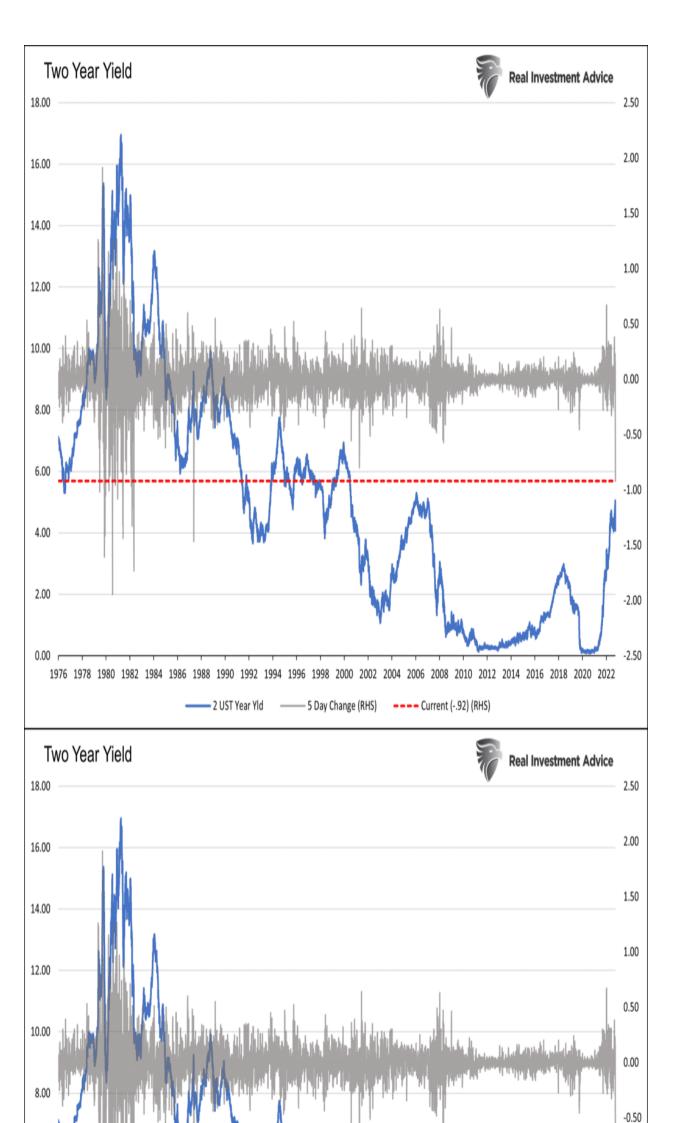
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Dollar amounts in thousands	Held-to	umn A) -maturity zed Cost	Held-to-m	umn B) naturity Fair alue	Availabl	ımn C) e-for-sale zed Cost	(Colui Available-fo Val	or-sale Fair
1. U.S. Treasury securities.	RCFD0211	0	RCFD0213	0	RCFD1286	0	RCFD1287	0
U.S. Government agency and sponsored agency obligations (exclude mortgage-backed securities)	RCFDHT50	165,000	RCFDHT51	138,411	RCFDHT52	0	RCFDHT53	0
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

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.



Places to Hide in the Financial Sector

Within <u>SimpleVisor</u> 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.

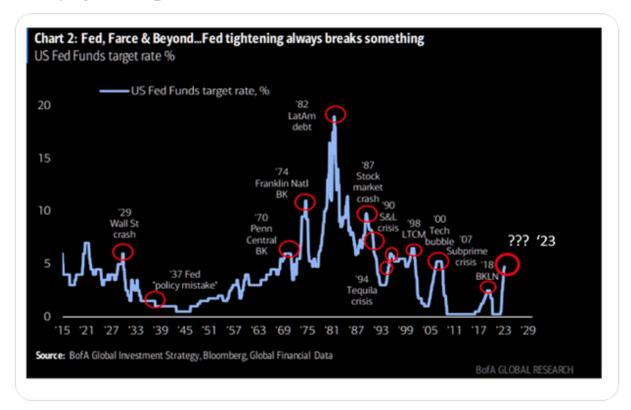
AXP/	BAC/	BLK/	BRK-B/	GS/	JPM/	MS/	SCHW/	SPGI/	WFC/	XLF/	
0.00	-0.79	-0.33	0.12	-0.37	0.23	0.00	-0.93	-0.13	-0.74	-0.49	AXP
0.79	0.00	0.54	0.84	0.69	0.89	0.80	-0.69	0.63	0.32	0.80	BAC
0.33	-0.54	0.00	0.75	-0.04	0.57	0.37	-0.84	0.37	-0.34	-0.18	BLK
-0.12	-0.84	-0.75	0.00	-0.54	-0.18	-0.42	-0.79	-0.74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



Tweet of the Day

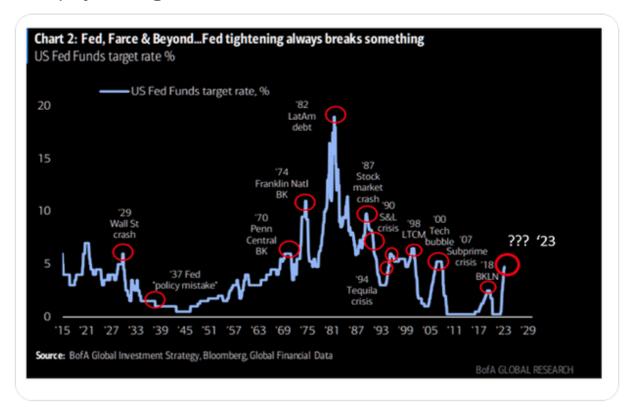


Let's play a little game of fill-in-the-blanks.





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



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