

I. Today's Thematic Investment Idea

A deep dive into a market driver with alpha generating potential.

Credit Suisse Leads European Banking Breakdown, Complicating Imminent ECB Meeting Outlook

Summary: Following a week of tumult in the US banking space, shares of European financials are breaking down as the probability of a Credit Suisse default surges. With \$760 billion in assets, the Swiss bank is vastly larger and carries wider international exposure than the recently defunct Silicon Valley Bank and Signature Bank. Credit Suisse experienced significant outflows of client money in Q4 and had previously been forced to dip into liquidity buffers.

Risks to the EU's banking system are on the rise just one day before the European Central Bank's Governing Council is scheduled to make a decision on whether or not they will hike rates again. Core inflation in the Eurozone has yet to reverse course, touching another all-time high in February, and ECB policymakers had previously targeted a 50bps raise this month. While that hike remains likely, the central bank's policy outlook may now be impacted by emerging uncertainty.

Related ETFs: iShares MSCI Europe Financials ETF (EUFN), iShares MSCI Eurozone ETF (EZU)

The US financial sector has been slammed throughout the past week, largely due to fallout emanating from the collapse of Silicon Valley Bank (SVB) and subsequent shattering of Signature Bank. MRP discussed some of the issues behind SVB's sudden insolvency in Monday's Intelligence Briefing, and it appears that aftershocks from the bank's meltdown are now cropping up across the Atlantic in Europe.

Shares of European banks had already been languishing this week, but several key banks, including Credit Suisse, BNP Paribas, Societe Generale, and others slid even more precipitously during Wednesday's European trading session. The STOXX Europe 600 Banks Index was down by just about -7.0% this morning, compounding a -14.4% drop in value since the start of the month. This rout has wiped out nearly all of the index's gains for the year to date.

Credit Suisse, which has faced several bouts of turbulence over the past few years, was down more than -28.5% at the US open, pushing the Swiss bank's shares toward new all-time lows. Panic kicked off this morning as the bank's largest shareholder, the Saudi National Bank (SNB), ruled out new assistance to the bank. SNB noted that its 9.8% ownership position in the bank is the maximum stake they are willing to take on, citing new regulatory rules taking effect when a shareholder owns more than a tenth of a firm. In an interview with Reuters, SNB Chairman Ammar Al Khudairy tried to calm investors by noting that Credit Suisse was "a very strong bank", but that reassurance appears to have fallen on deaf ears.

Per the Financial Times, spreads on the bank's five-year credit default swaps — which indicate investor assessment of the likelihood of a debt default — widened to 565bps on Wednesday, from 350bps at the start of the month. Bloomberg notes that outflows of CS's client money have yet to reverse as of this morning, according to the bank's annual report released Tuesday. The bank confirmed it had dipped into liquidity buffers as a result of the withdrawals. New net money deposited in the bank fell by -110.5 billion francs (-\$119.8 billion) in the fourth quarter, indicating massive withdrawals throughout the end of last year.

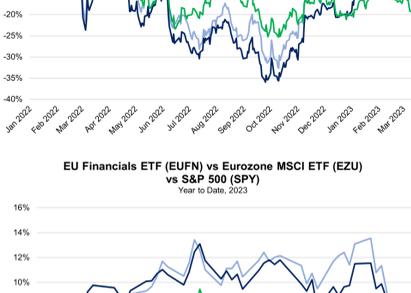
Though US banking industry turmoil has effectively eliminated expectations of a 50bps rate hike by the Federal Reserve in March, and thrown the prospect of any rate hike at all into serious question, reports indicate that the ECB is likely to continue upon their projected policy path and raise their benchmark short-term rate by another 50bps when its Governing Council meets tomorrow. ECB policymakers have committed themselves to such a hike for some time and, while it's unlikely that they make a last-minute adjustment, emerging volatility in the banking sector could make the bank revise its path forward. Expecting a particularly dovish shift in Europe would likely require a serious crisis, given how entrenched inflation remains in many sections of the EU. The annual change in the Euro Area's headline CPI has come down from a peak of 10.6% in October of 2022 to 8.5% in February, but that is largely due to a subsiding of volatile energy and food prices. The Euro Area's core CPI, which excludes food and energy, is still rising — hitting an all-time high of 5.6% in its most recent print.

It's difficult to know whether or not multiple European banks are under the same level of stress that the US regional banking space appears to be at this point, but we do know that the pressure of rapidly-rising short-term rates played a significant role in the collapse of SVB. Though SVB and Signature Bank were mid-sized institutions, Credit Suisse is a much larger bank, carrying almost \$760 billion in assets, compared to \$215 billion in SVB and \$113 billion at Signature.

The ECB has little choice but to continue raising their own rates to some degree if they want to contain and reduce inflation anytime soon, but if they continue lifting interest rates at the pace they had planned, the central bank could run into problems similar to those which the Fed has inadvertently created. Speaking to Reuters, Marcel Fratzscher, the president of German economic research group DIW, cautioned that European banks are not totally out of the woods when it comes to the contagion risks of the banking downturn in the US, adding that German banks have yet to fully recover from the last financial crisis in 2008. Investors can gain exposure to European banks via the iShares MSCI Europe Financials ETF.

CHARTS

EU Financials ETF (EUFN) vs Eurozone MSCI ETF (EZU) vs S&P 500 (SPY)
January 2022 - March 2023



EU Financials ETF (EUFN) vs Eurozone MSCI ETF (EZU) vs S&P 500 (SPY)
Year to Date, 2023



EUFN Top 10 Holdings	Weighting
HSBC Holdings Plc	8.48%
Allianz SE	5.62%
Zurich Insurance Group Ltd	4.20%
BNP Paribas S.A. Class A	4.19%
UBS Group AG	4.10%
Banco Santander, S.A.	3.80%
AXA SA	3.50%
ING Groep NV	2.91%
Munich Reinsurance Company	2.90%
Banco Bilbao Vizcaya Argentaria, S.A.	2.67%

Supplemental material for today's market insight...

Banks Credit Suisse Stock Price Drops 30% to New Low as Jitters Mount

Prices on Credit Suisse bail-in bonds, which get wiped out in case the bank runs into serious trouble, also fell. Bid prices on the 2027 bonds on Tradeweb slid to 45 cents on the dollar from 72 cents the day before. They traded close to 90 cents at the start of the month. Chairman Axel Lehmann said the prospect of government assistance is "not a topic whatsoever."

[Read the full article from The Wall Street Journal ->](#)

Banks Credit Suisse Default Swaps Are 18 Times UBS, 9 Times Deutsche Bank

The cost of insuring the bonds of Credit Suisse Group AG against default in the near-term is approaching a rarely-seen level that typically signals serious investor concerns.

The last recorded quote on pricing source CMAQ stood at 835.9 basis points on Tuesday. Traders were seeing prices of as high as 1,200 basis points on one-year senior credit-default swaps Wednesday morning.

[Read the full article from Yahoo Finance ->](#)

[You'll find all of our recent Market Insight reports on the MRP website ->](#)

VIEWPOINT ARCHIVE

- Joe Mac's Viewpoint**
Founder Joe McAlinden's big-picture analyses of macro issues. More about him [here](#).
- March 3, 2023: [A Tough and Tighter Year Ahead ->](#)
 - January 11, 2023: [A Look Back at 2022: Reviewing Our List of Themes ->](#)
 - November 22, 2022: [Less Rich, But Not Cheap ->](#)
 - October 4, 2022: [The "Real" Rate Story ->](#)
 - August 8, 2022: [The FX Timebomb ->](#)

ACTIVE THEMATIC IDEAS

Select a theme to see when and why we added it. Also included is a link to all recent Market Insight reports we've written about that theme, allowing you to track its progress.

[Click here to review the performance history of closed themes ->](#)

LONG Travel & Leisure	LONG Aerospace & Defense	LONG Gene Editing
LONG Cybersecurity	LONG Gold	LONG Pharmaceuticals
LONG Saudi Arabia		LONG Solar

ONLINE RESEARCH PORTAL

MRP's Research Portal includes an archive of current and past Market Insights, Active Thematic Ideas, and Joe Mac's Viewpoints. You can also search for all of our insights on any sector or industry either by selecting Research Sectors or by entering a keyword such as "oil", "housing" or "inflation" into the search bar at the top right of the page.

If you're having trouble signing in, or have any questions, send an email to joe@mcandalinresearch.com.

ABOUT THE DIBS AND MCALINDEN RESEARCH PARTNERS

McAlinden Research Partners (MRP) publishes daily and other periodic reports on the economy and the markets.

MRP focuses on identifying change in the global economy and offering an investment thesis whenever an opportunity arises that has not yet been recognized by the market. The DIBs are MRP's compilation of articles and data from multiple sources on subjects reflecting change that have potential investment implications for an industry or group of securities. We share these with our clients who may already have or may be considering exposure in the industries affected. The subjects change daily and constitute an excellent update on featured topics.

The information provided in this Report is not to be reproduced or distributed to any other persons. This report has been prepared solely for informational purposes and is not an offer to buy/sell/endorse or a solicitation of an offer to buy/sell/endorse interests or any other security or instrument or to participate in any trading or investment strategy. No representation or warranty (express or implied) is made or can be given with respect to the sequence, accuracy, completeness, or timeliness of the information in this Report. Unless otherwise noted, all information is sourced from public data.

McAlinden Research Partners is a division of Catalpa Capital Advisors, LLC (CCA), a Registered Investment Advisor. References to specific securities, asset classes and financial markets discussed herein are for illustrative purposes only and should not be interpreted as recommendations to purchase or sell such securities. CCA, MRP, employees and direct affiliates of the firm may or may not own any of the securities mentioned in the report at the time of publication.

FOR MORE INFORMATION **FIND US AT**

Rob Davis mcandalinresearchpartners.com
Managing Director

(646) 964-6152
rob@mcandalinresearch.com

STERN BROTHERS DISCLOSURE & DISCLAIMER

Securities are offered through Stern Brothers & Co. ("Stern"), a FINRA registered broker-dealer and member of MSRB and SIPC. Stern has not contributed to the content or subject matter contained in the market letter. Any views or opinions presented in this market letter are solely those of the author and do not necessarily represent those of Stern's officers, directors or associated persons. Stern does not buy or sell securities for its account; however, its associated persons may buy or sell securities that are mentioned in this market letter. This market letter has been independently prepared by an unaffiliated third-party. The commentary expressed in this report may make assumptions about the economic outlook, market fluctuations and political issues. The content is valid only at the time and date of issuance. This market letter is not "research" under the definition in FINRA Rules 2241 and 2242. This market letter does not contain recommendations on specific securities or rankings. This market letter is intended solely for use by the receiving party and may not be forwarded or disseminated to another party. This market letter does not form a contract with the receiving party. No part of this market letter may be duplicated or copied and is protected by copyright law. This market letter contains time sensitive information which is subject to change due to market risks and other economic forces. The content provided is not an offer, solicitation or recommendation of any securities. This market letter is distributed via email. Computer viruses may be spread by email and the sender of this market letter will bear no responsibility for an infected email. This market letter may contain inadvertent errors or omissions. The content has been prepared from reasonably reliable sources but is not guaranteed to contain any misleading or untrue statements. Any commentary contained herein is no guarantee of future results. Past performance is not an indication of future results. This market letter may contain privileged or confidential information. Information contained herein does not constitute tax, legal or other professional advice. Content is for informational and educational purposes only. Stern accepts no liability for negligence, misstatements or for the consequences of any actions taken on the basis of information provided that information is subsequently confirmed in writing. To receive any additional information upon which this market letter is based please contact 314-727-5519, or write to Stern Brothers & Co., Compliance Department, 8000 Maryland Avenue, Suite 800, St. Louis, MO 63101 who will obtain this information, to the extent feasible, from the author of the market letter. United States law, 17 U.S.C. Sec.501 et seq. provides for civil and criminal penalties for copyright infringement. All rights reserved 2021.

FOR MORE INFORMATION **FIND US AT**

Obie McKenzie sternbrothers.com
(201) 981-4260
omckenzie@sternbrothers.com

Reginald Scantlebury
(646) 969-7882
rscantlebury@sternbrothers.com