

APOLLO

Outlook for US regional banks

Torsten Slok, Jyoti Agarwal, and Rajvi Shah
tslok@apollo.com

Apollo Global Management

March 2023

Unless otherwise noted, information as of March 2023.

Confidential and Proprietary - Not for distribution, in whole or in part, without the express written consent of Apollo Global Management, Inc.

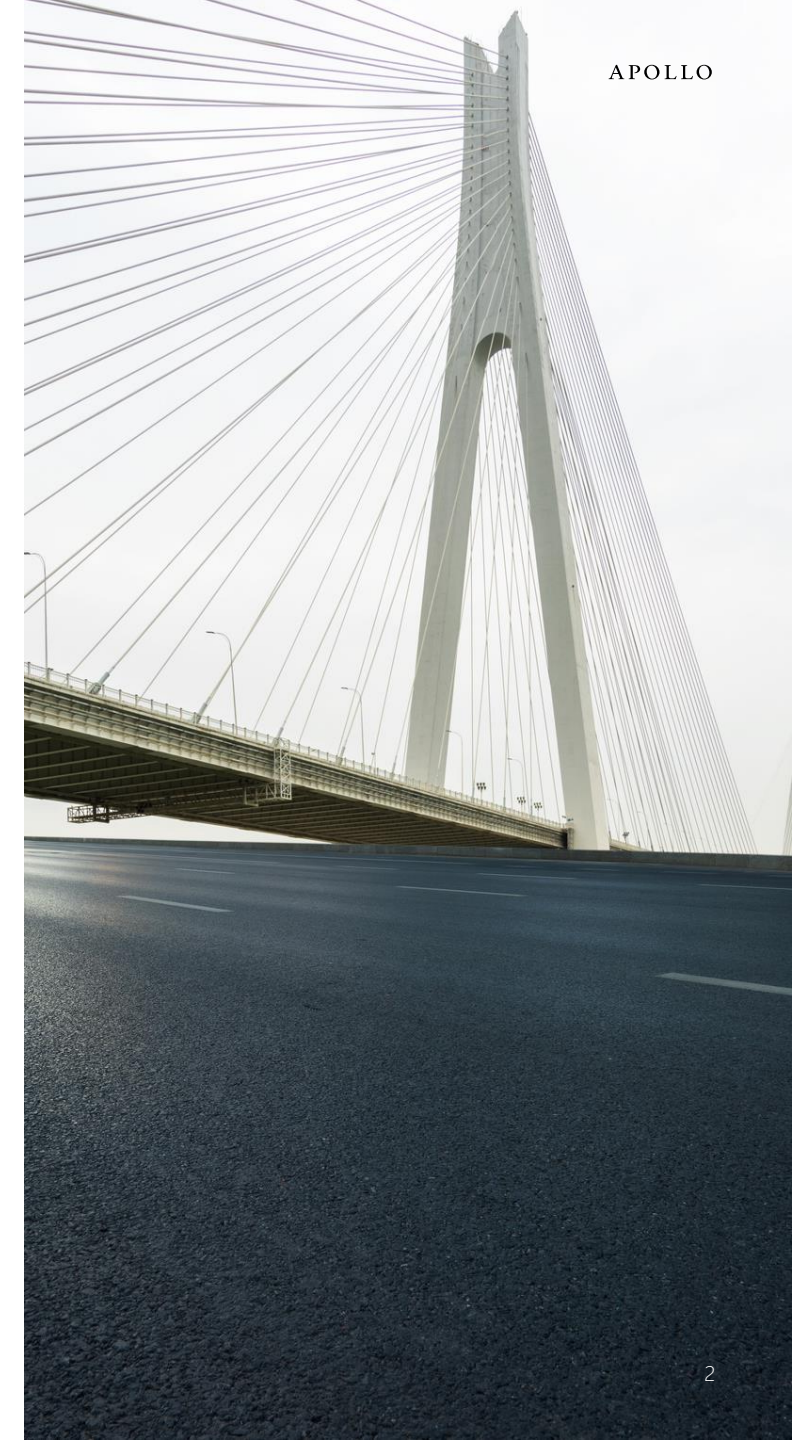
It should not be assumed that investments made in the future will be profitable or will equal the performance of the investments shown in this document.

Legal Disclaimer

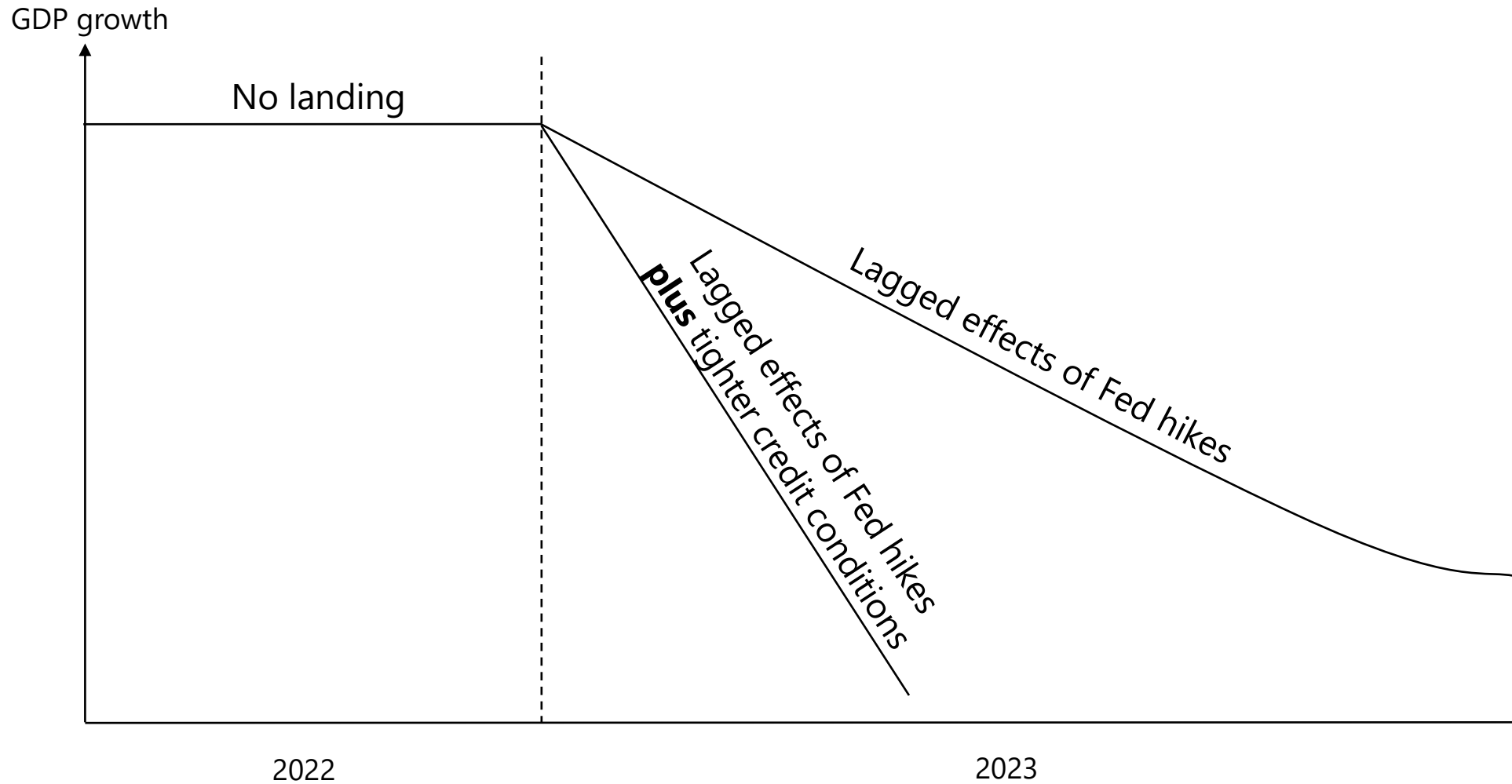
Unless otherwise noted, information included herein is presented as of the dates indicated. Apollo Global Management, Inc. (together with its subsidiaries, "Apollo") makes no representation or warranty, expressed or implied, with respect to the accuracy, reasonableness, or completeness of any of the information contained herein, including, but not limited to, information obtained from third parties. Opinions, estimates and projections constitute the current judgment of the author as of the date indicated. They do not necessarily reflect the views and opinions of Apollo and are subject to change at any time without notice. Apollo does not have any responsibility to update the information to account for such changes. Hyperlinks to third-party websites in these materials are provided for reader convenience only. There can be no assurance that any trends discussed herein will continue.

The information contained herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice and does not constitute an investment recommendation or investment advice. Investors should make an independent investigation of the information contained herein, including consulting their tax, legal, accounting or other advisors about such information. Apollo does not act for you and is not responsible for providing you with the protections afforded to its clients.

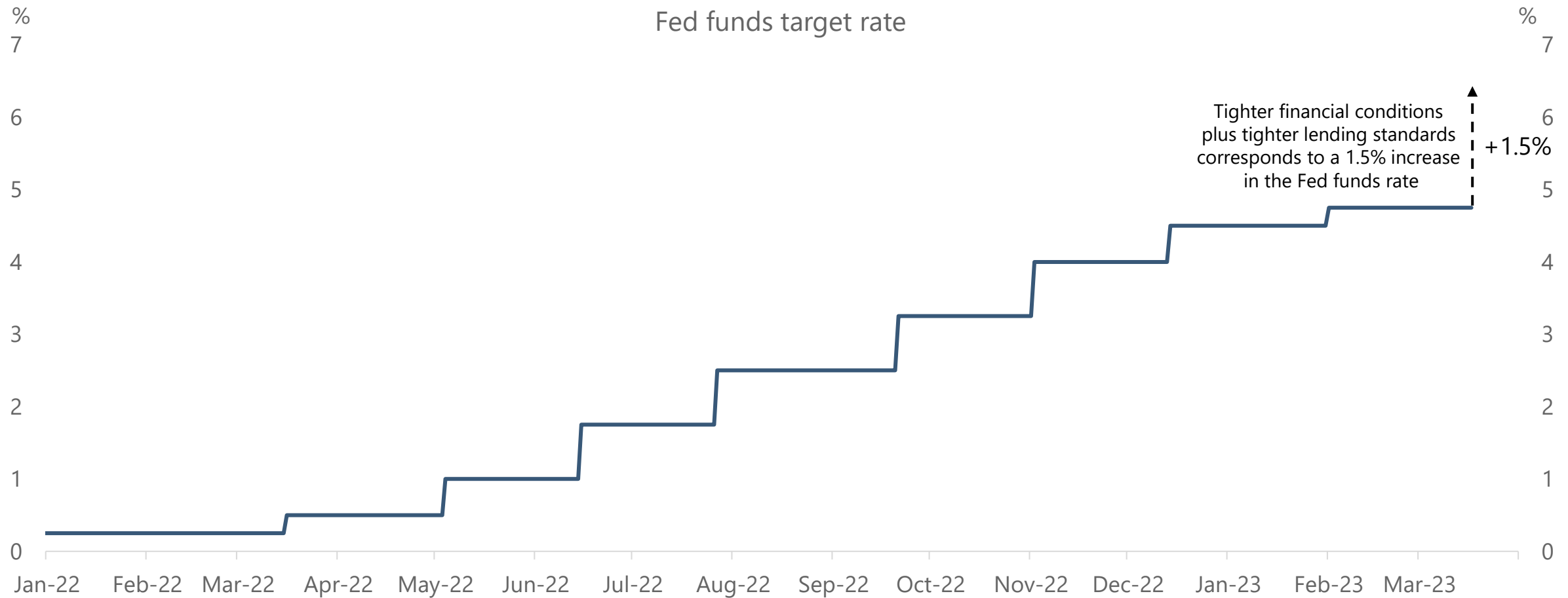
Certain information contained herein may be "forward-looking" in nature. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking information. As such, undue reliance should not be placed on such information. Forward-looking statements may be identified by the use of terminology including, but not limited to, "may", "will", "should", "expect", "anticipate", "target", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology.



Lagged effects of Fed hikes combined with tighter credit conditions will create a sharper slowdown in the economy



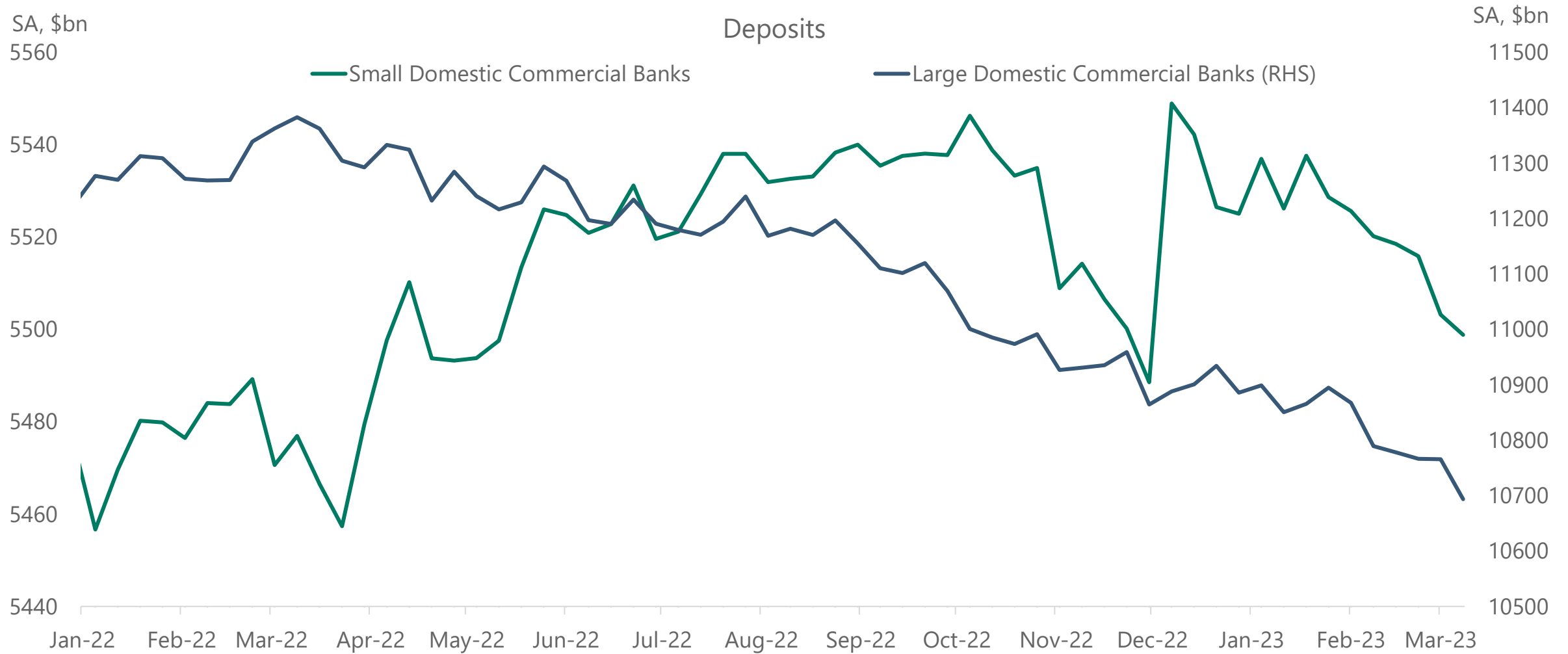
The Fed funds rate was effectively pushed 1.5%-points higher this week because of tighter financial conditions combined with tighter lending standards



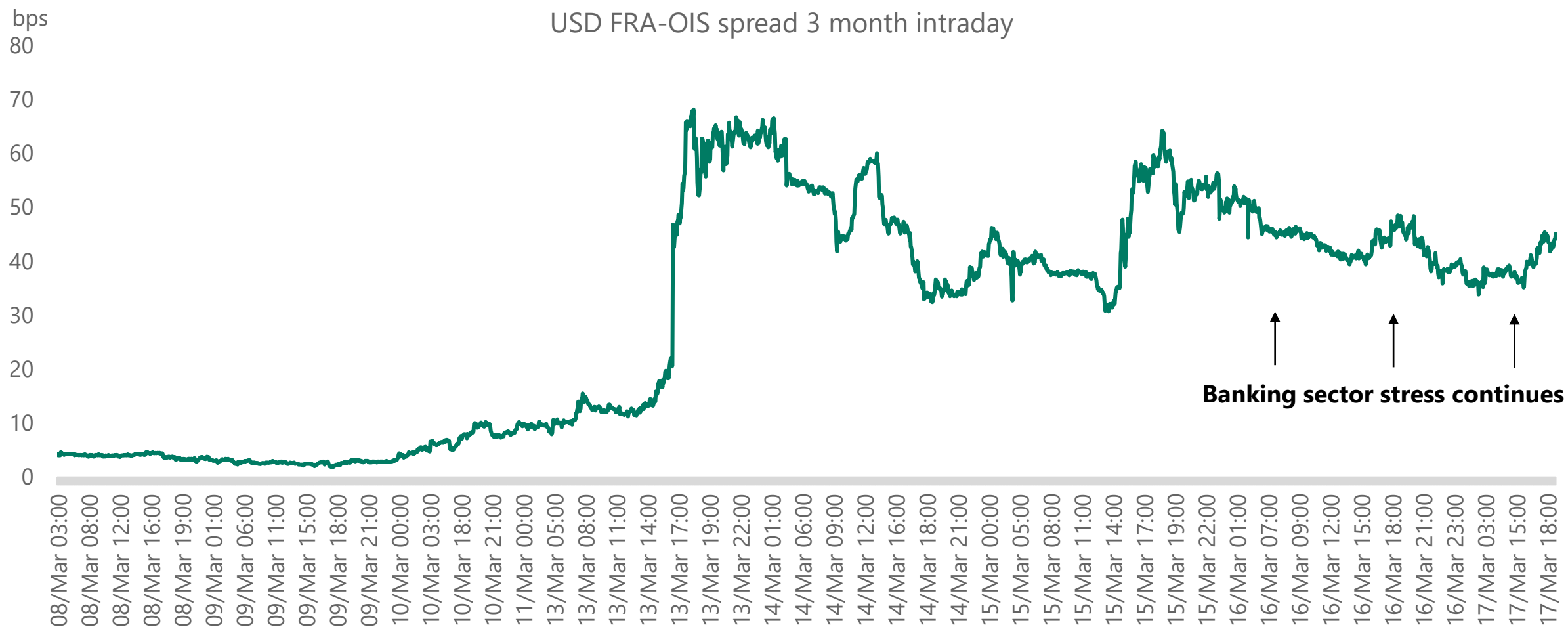
Source: Bloomberg, Apollo Chief Economist. Note: Two regression models with the Fed funds rate on the left-hand side were run to quantify the effect from tighter financial conditions and tighter lending standards, and the estimated coefficients show 0.5% higher Fed funds rate from tighter financial conditions and 1% higher Fed funds rate from tighter lending standards.

Bank funding pressures:
Deposits and market-based measures

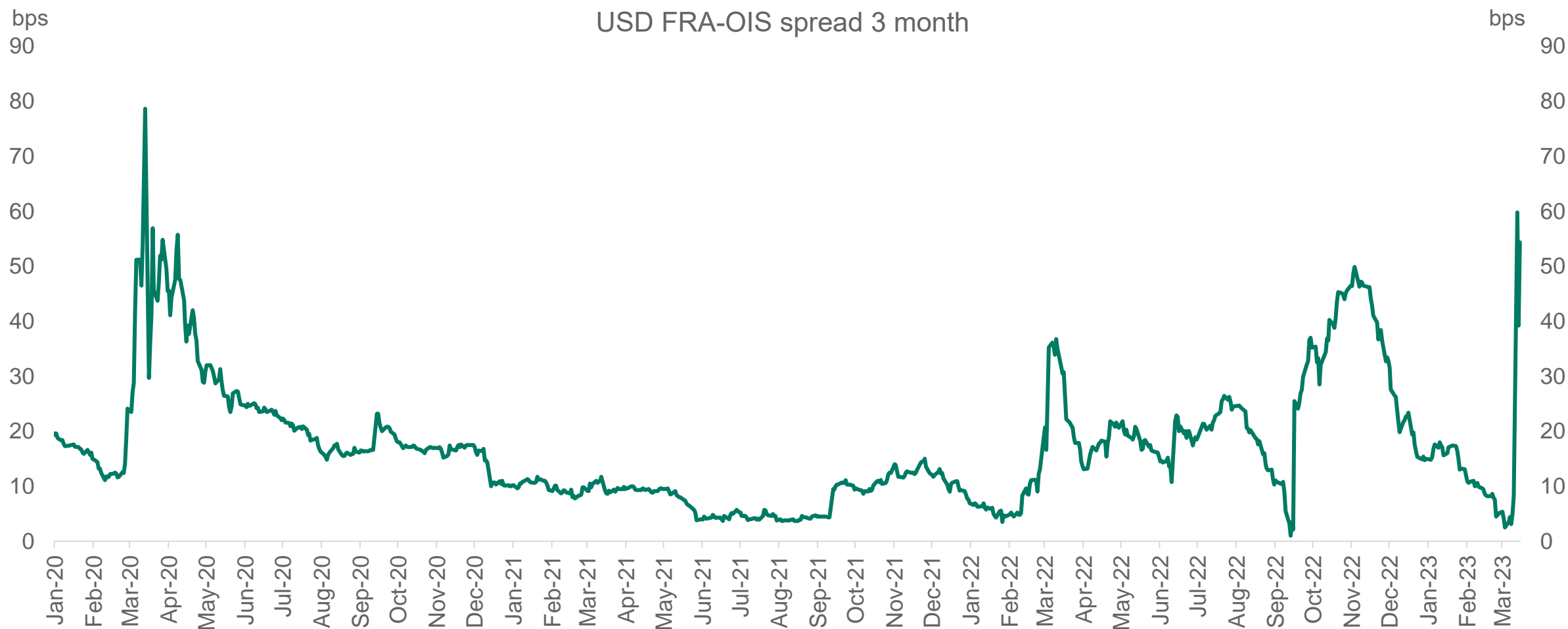
Weekly data shows that bank deposits are declining for both small and large banks



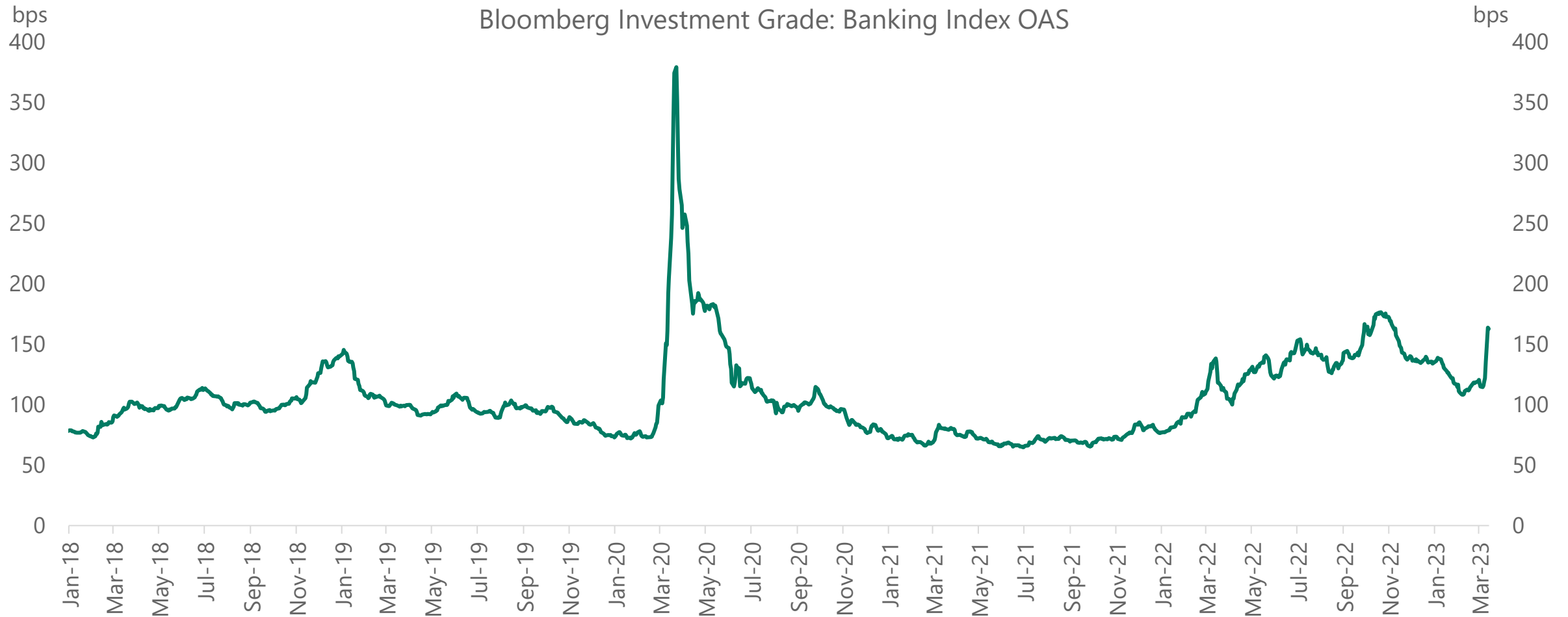
FRA-OIS spread remains elevated



FRA-OIS spread at levels seen in March 2020

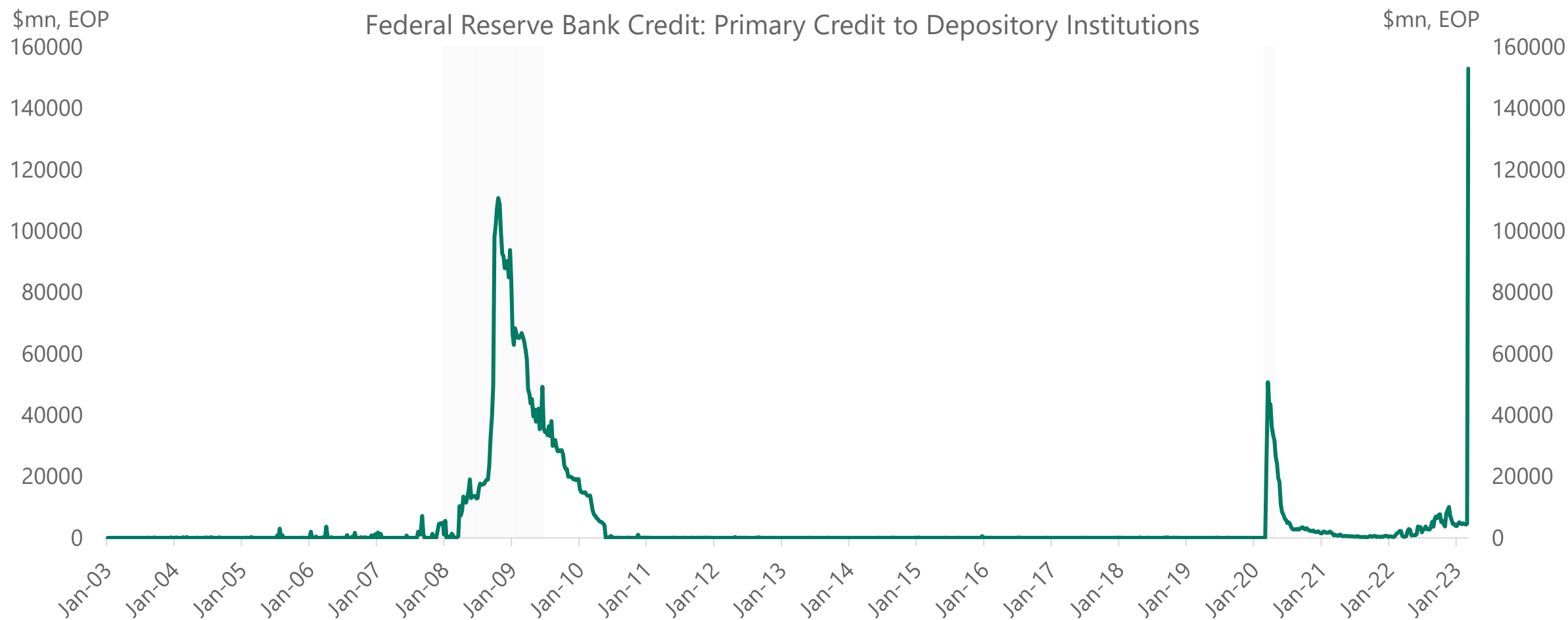


Banking index IG OAS spreads widening

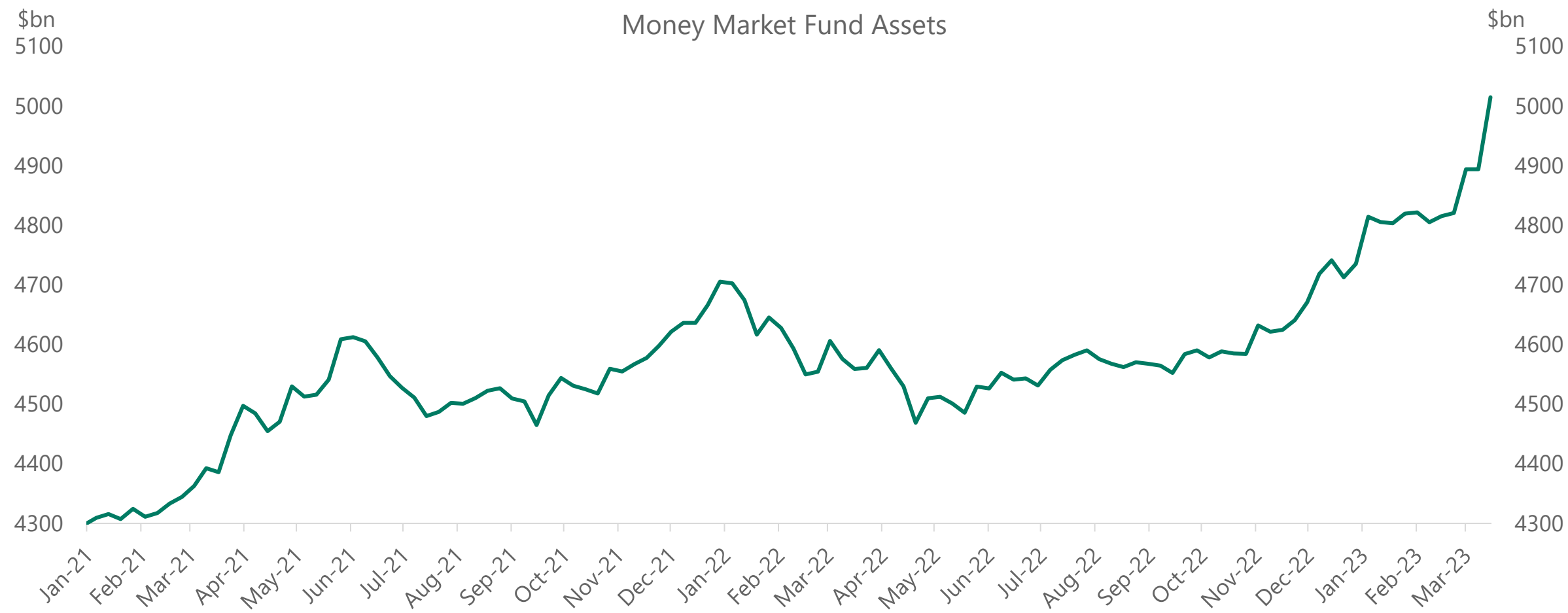


Source: Bloomberg, Apollo Chief Economist. Note: Ticker used I00408US Index. As of March 13, 2023.

Fed Discount Window borrowing higher than in 2008

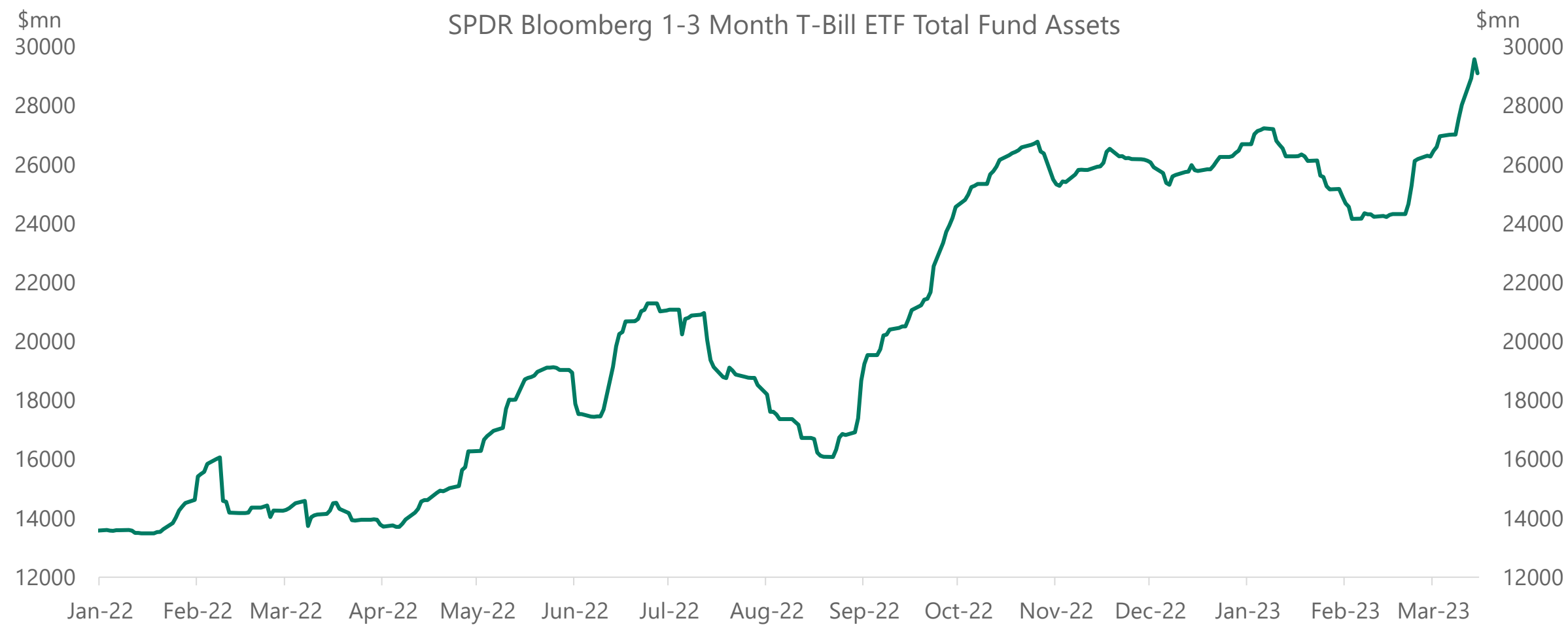


More than \$100bn went into money market funds last week

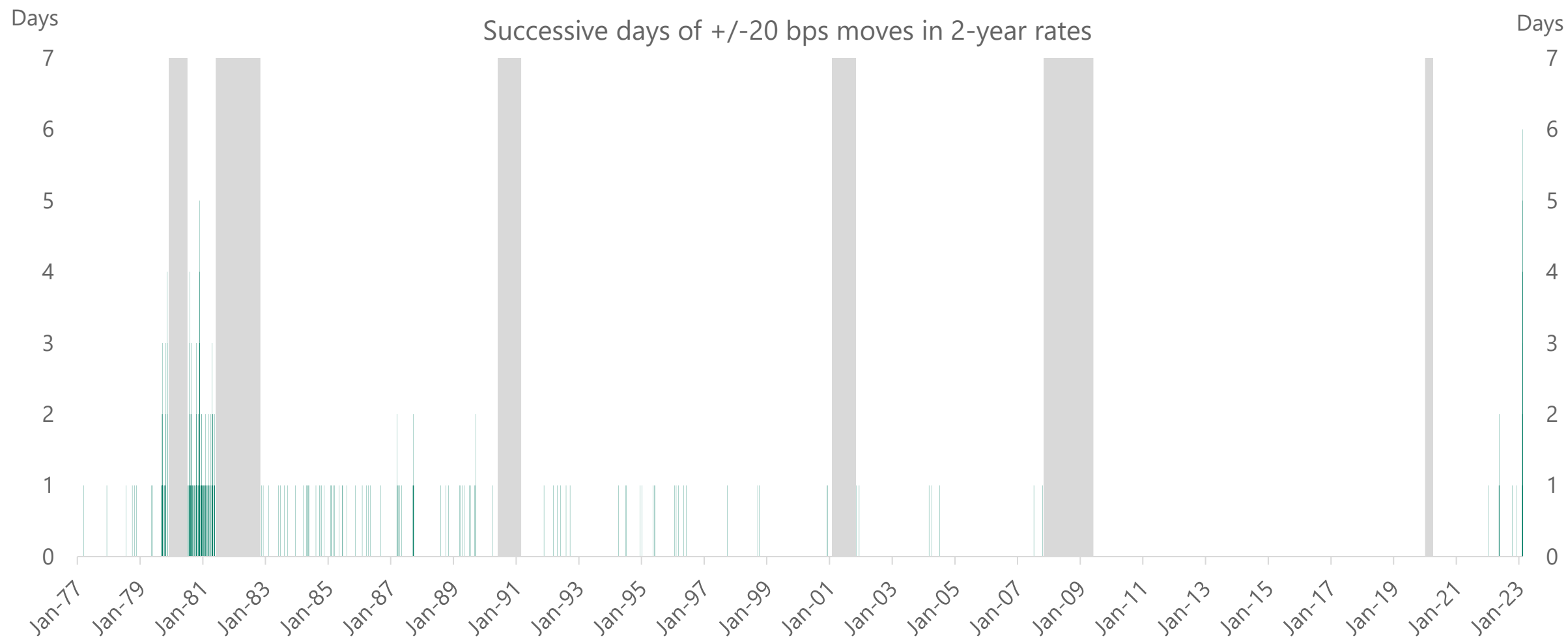


Source: Bloomberg

Daily money market ETF flows

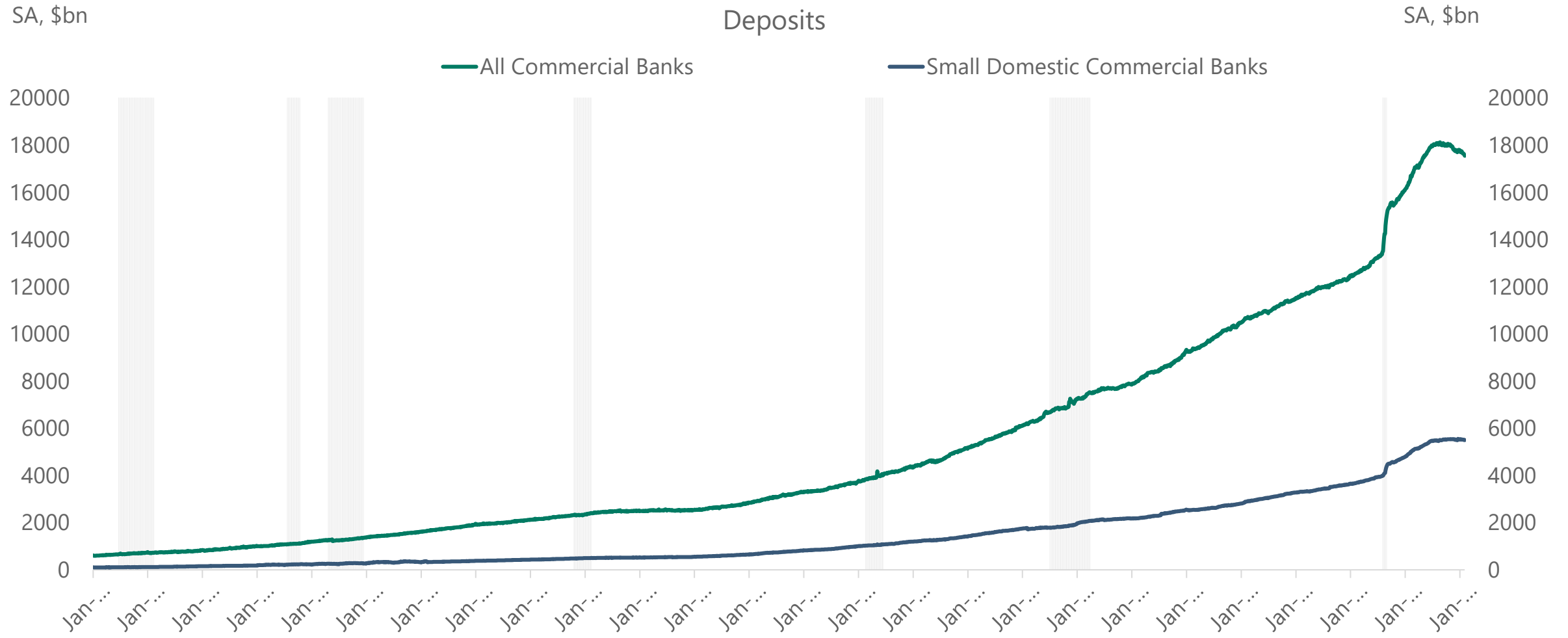


Record-high volatility in fixed income markets

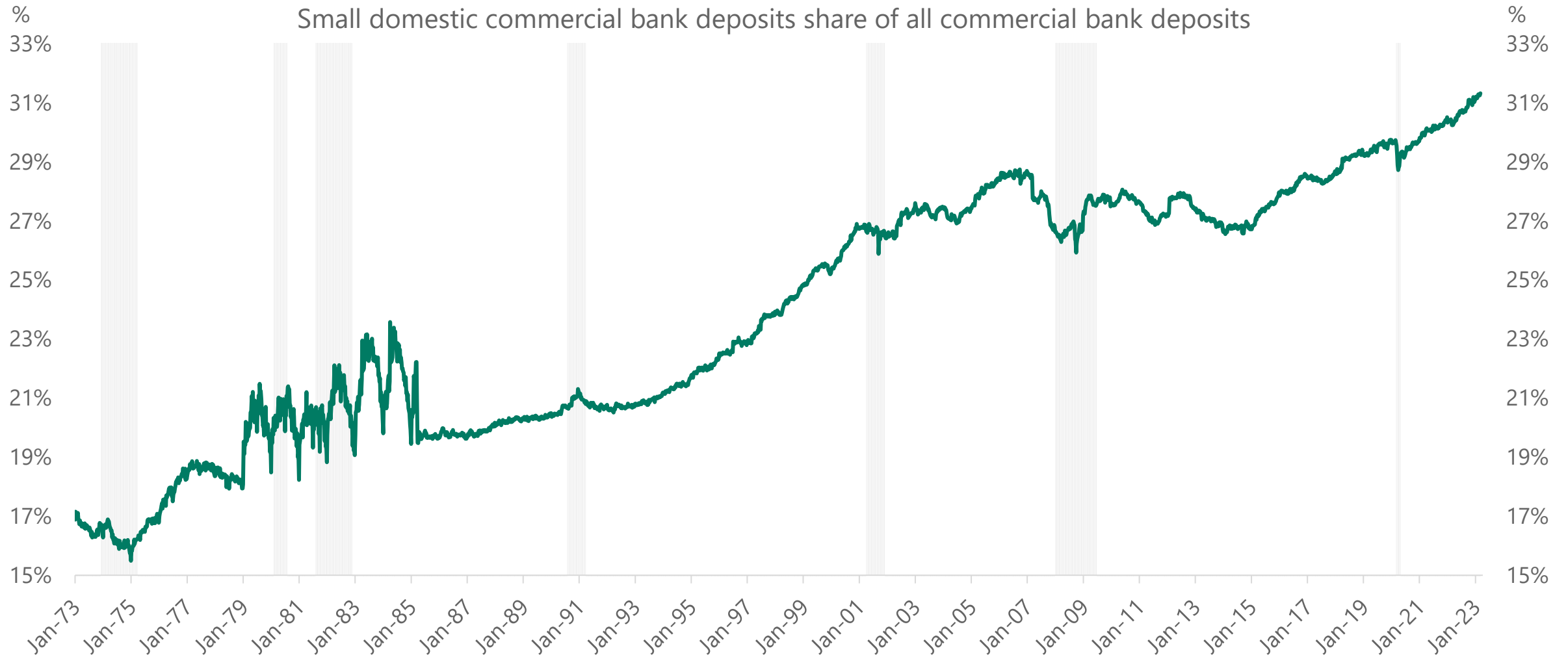


What is happening with deposits in regional banks?

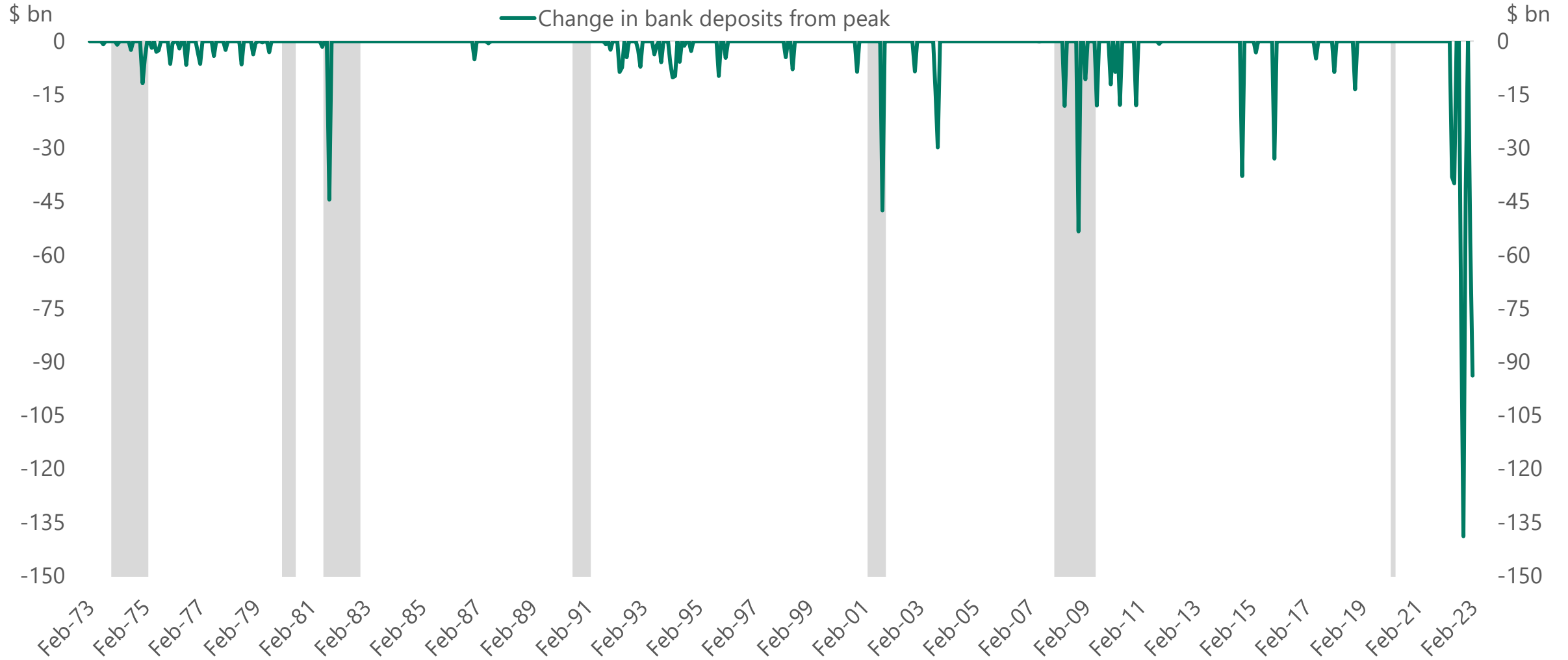
There is about \$6trn in deposits in small banks



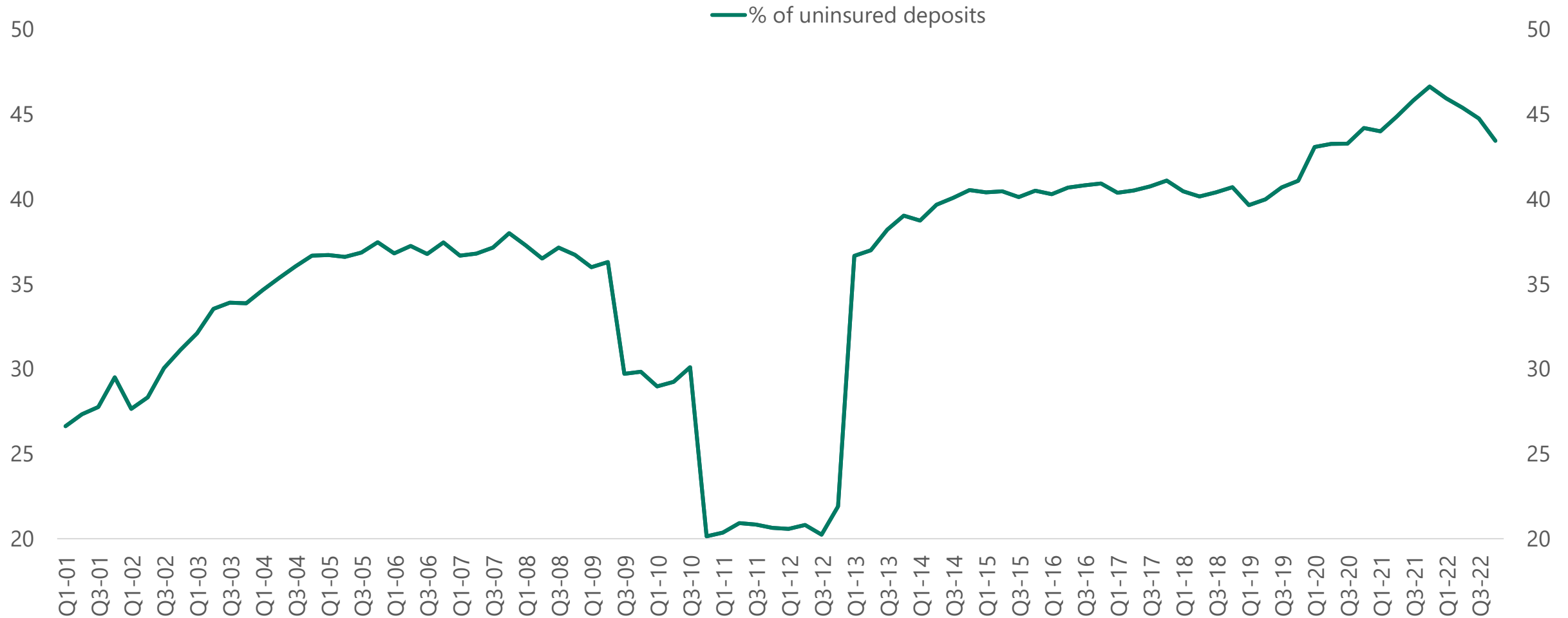
Small banks account for 31% of total deposits in the banking sector



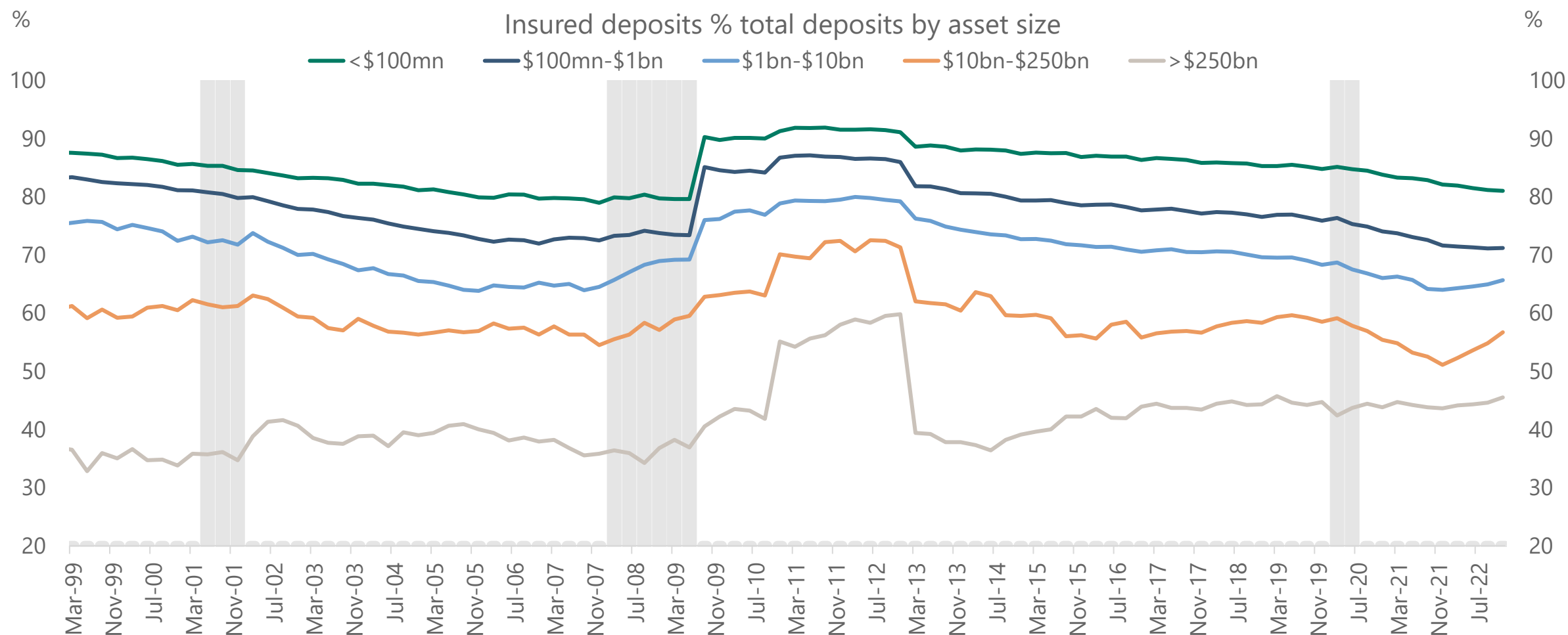
Drawdown in total deposits of domestic commercial banks



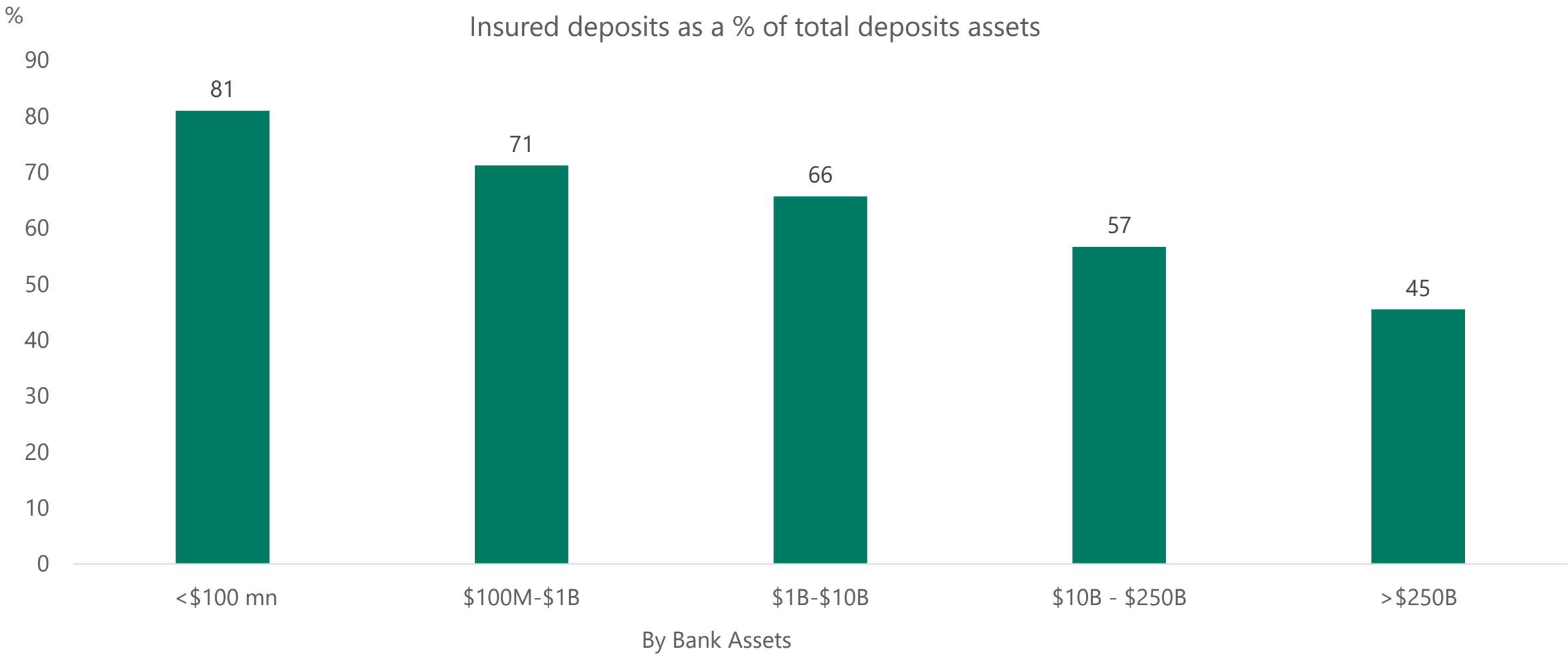
Share of total bank deposits that are uninsured: 43%



Share of insured deposits, by bank size

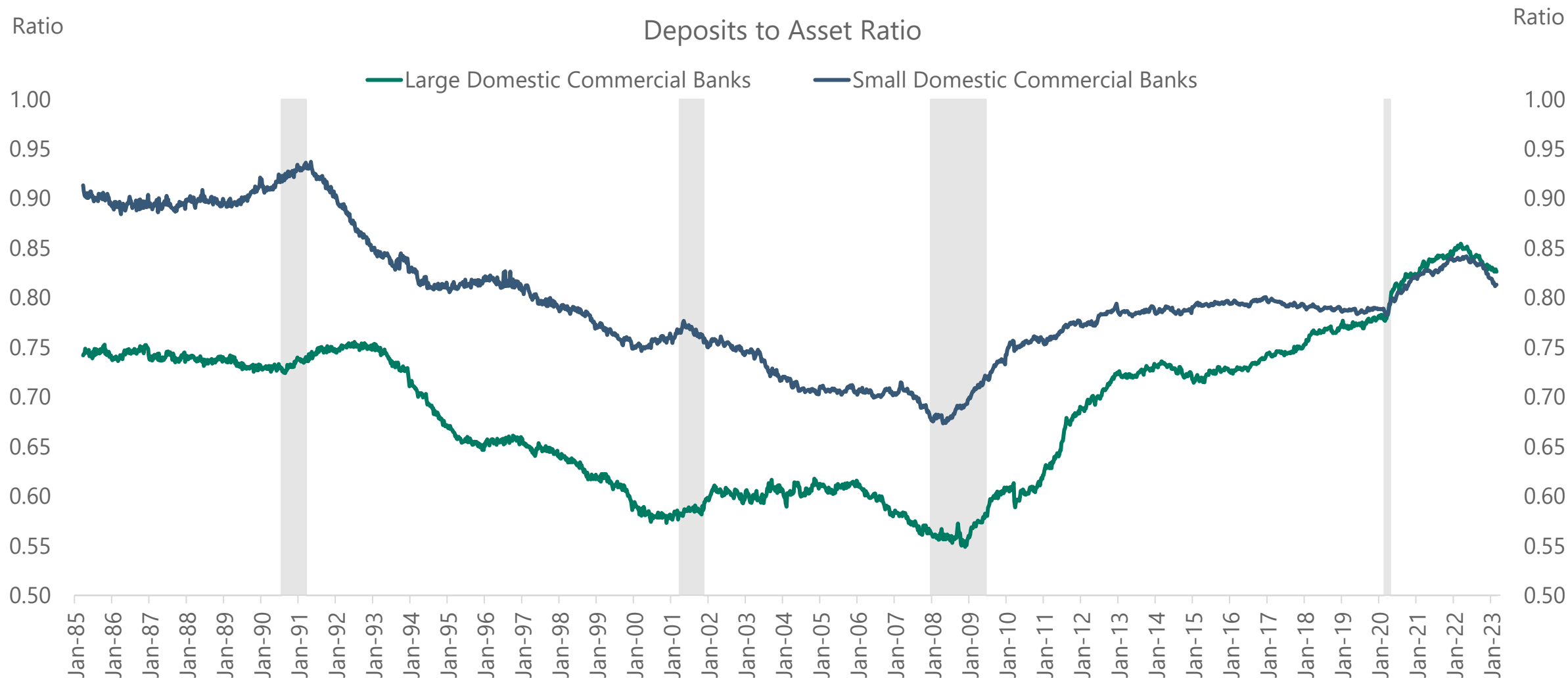


Share of insured deposits, by bank size



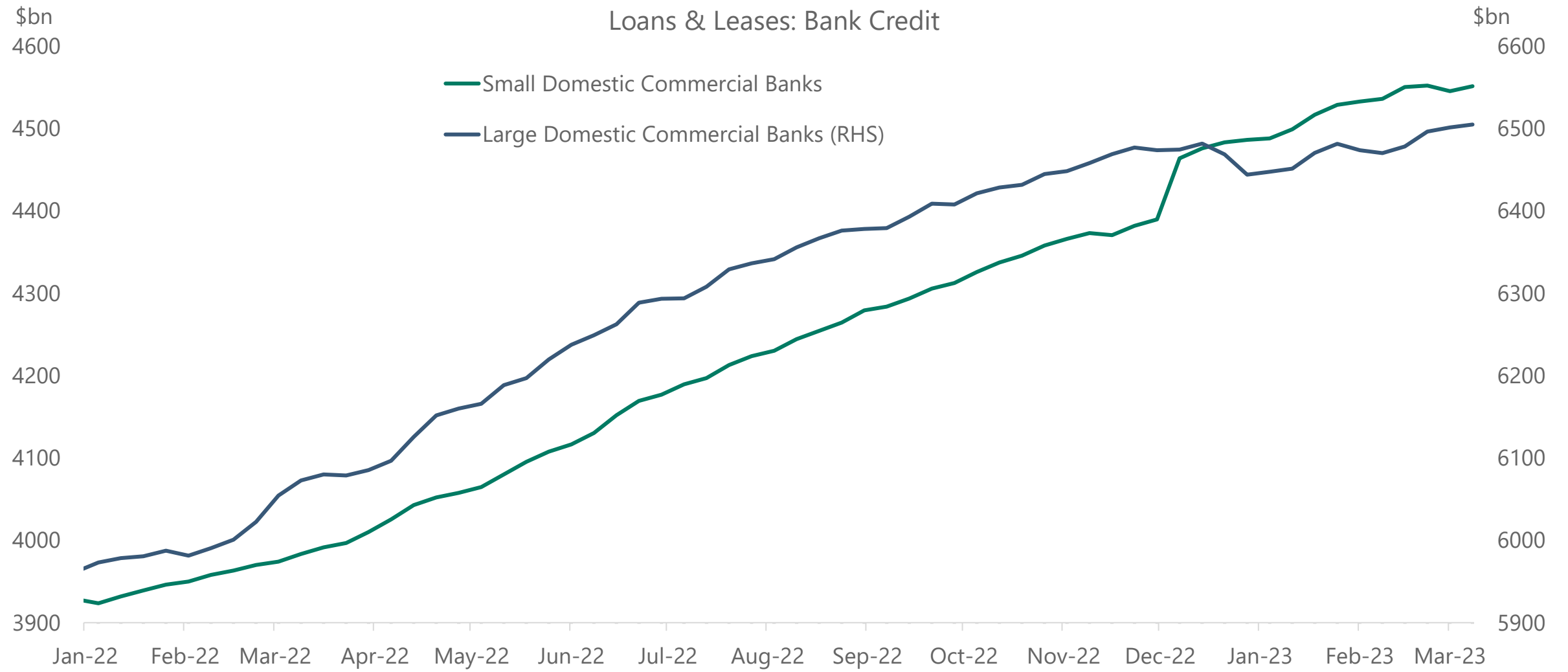
Source: FDIC, Haver Analytics, Apollo Chief Economist. As of Q4 2022

Deposit to asset ratio for large and small banks



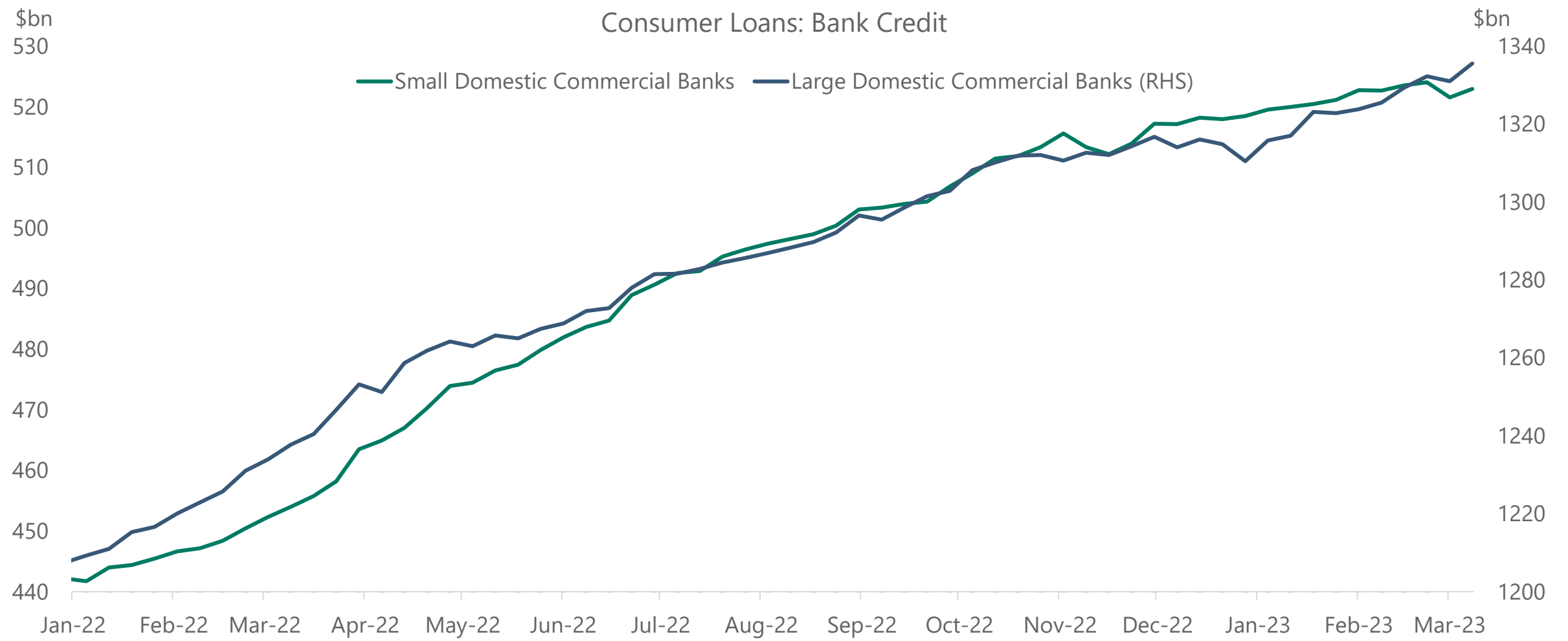
Weekly data for bank lending by small and large banks

Weekly data for bank lending still steady



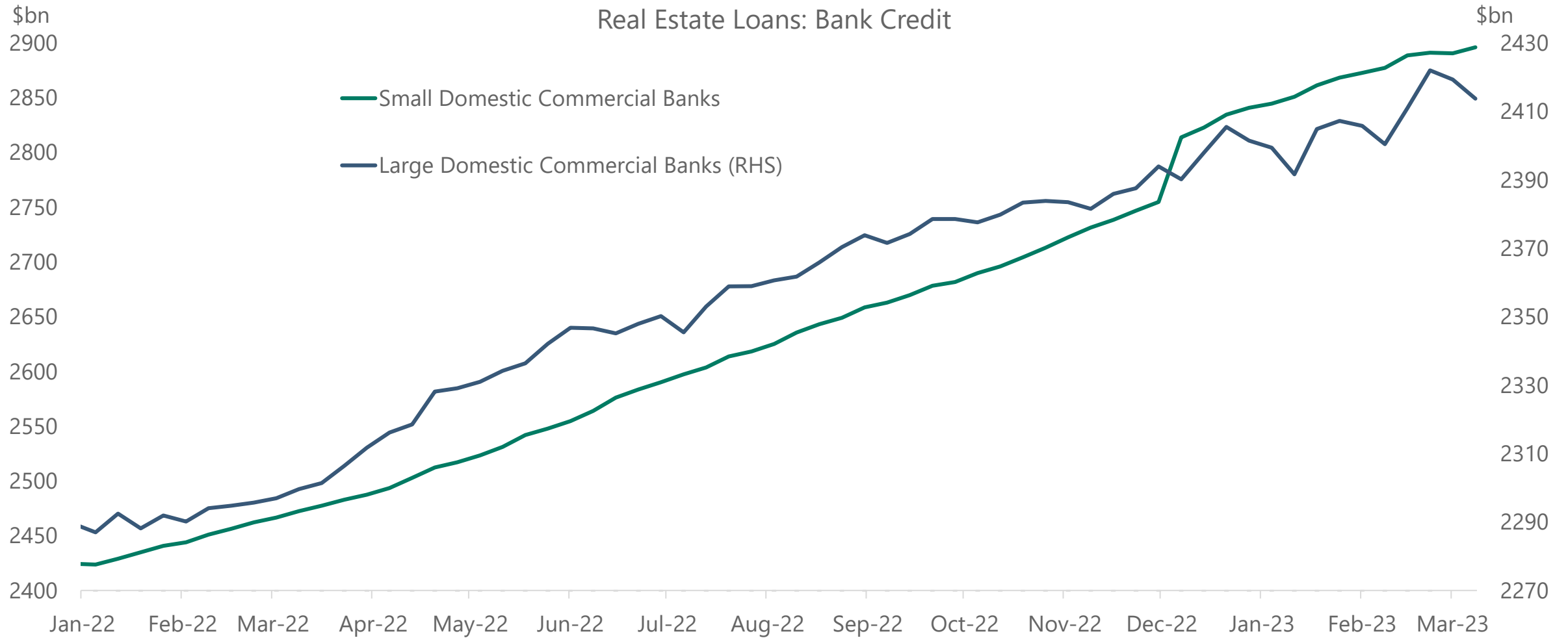
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

Consumer loans still stable

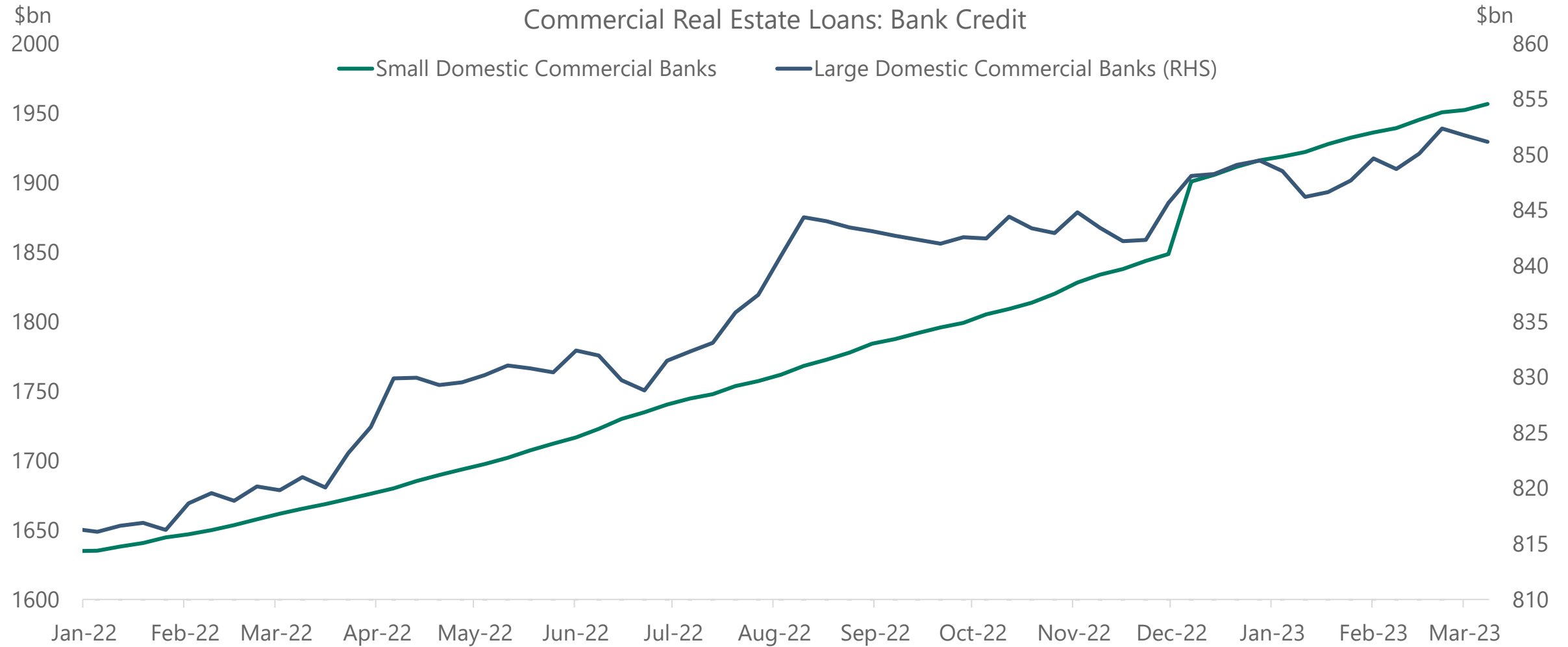


Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

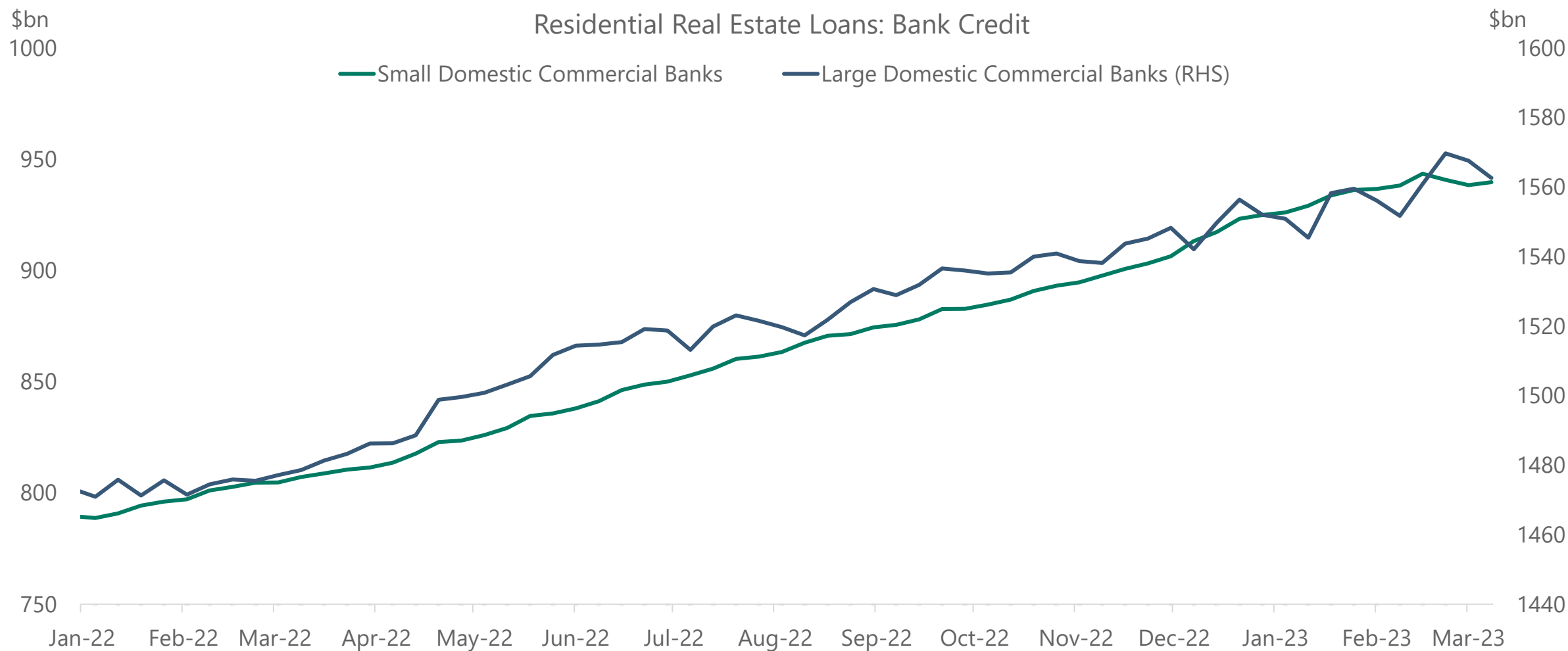
Real estate loans declined for large banks



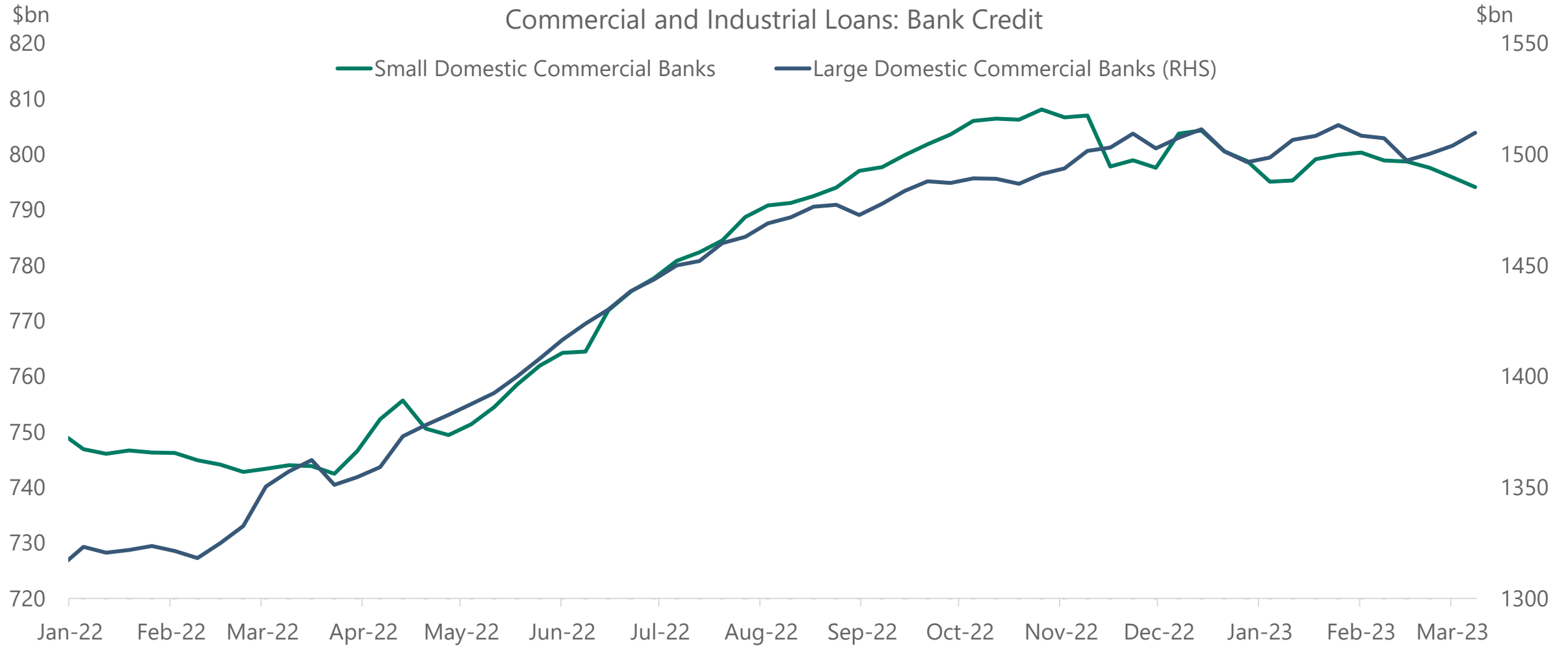
Commercial Real Estate loans



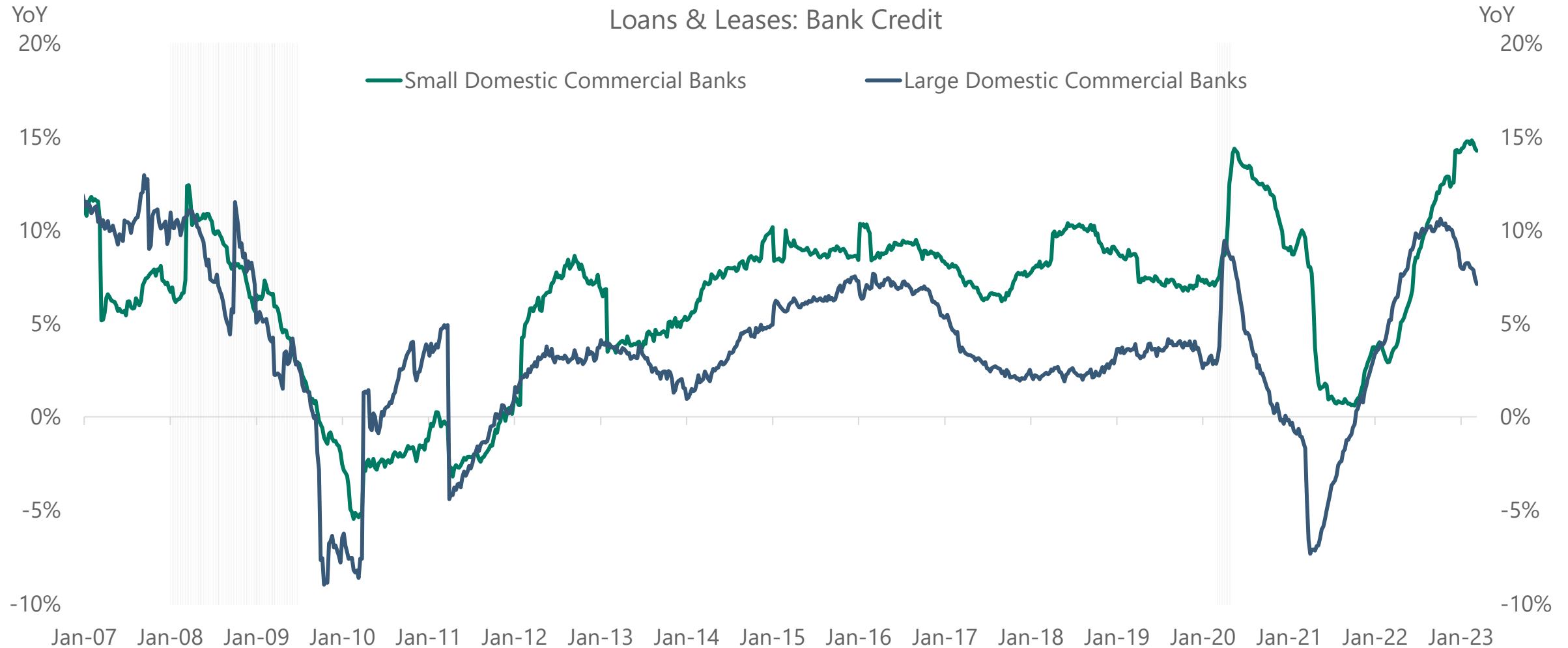
Residential Real Estate loans



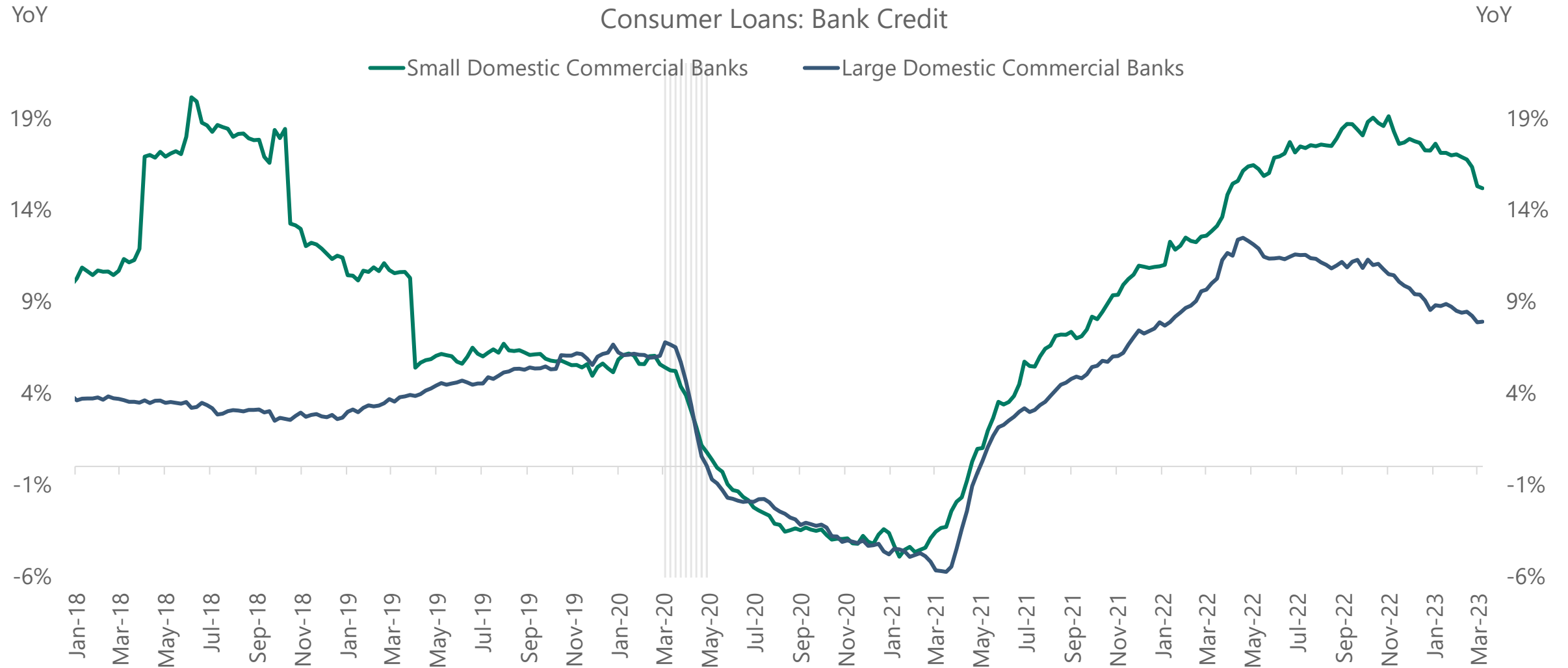
Commercial and Industrial loans starting to come down for small banks



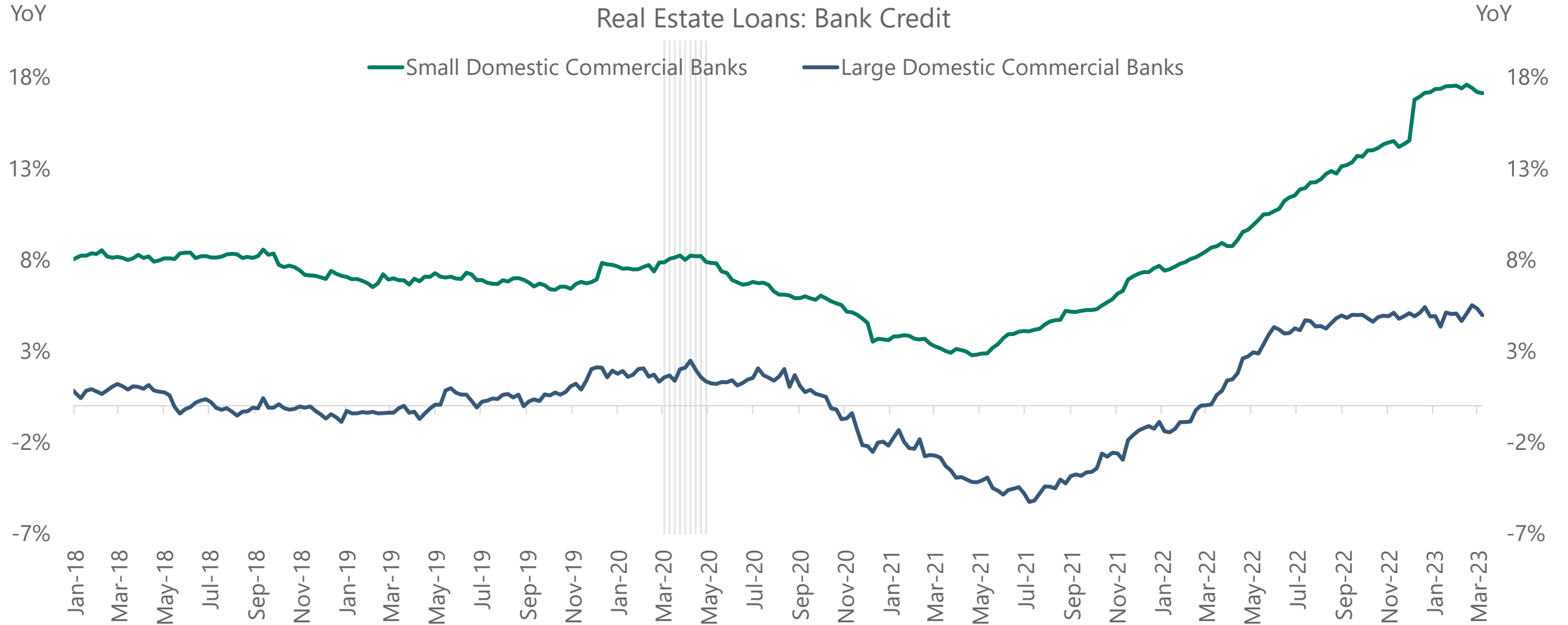
Divergence recently between small bank and large bank lending growth



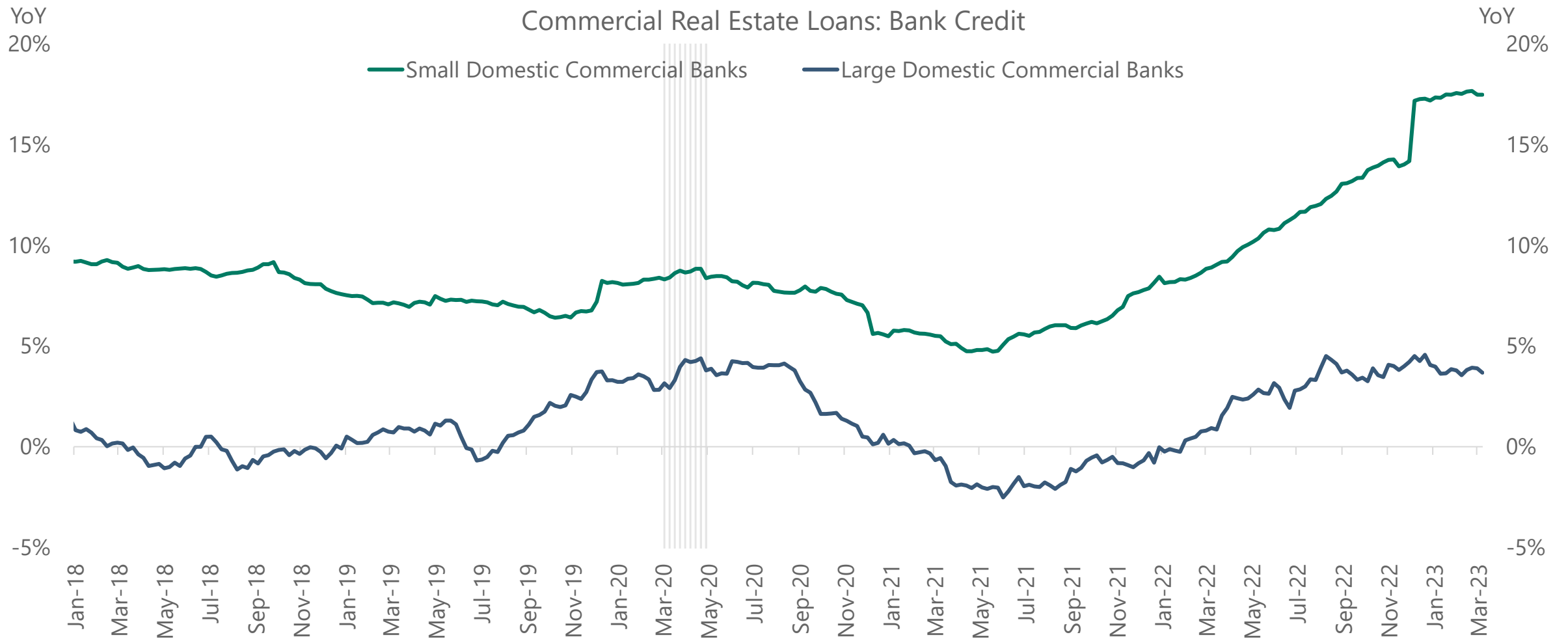
Lending to consumers growing faster for smaller banks



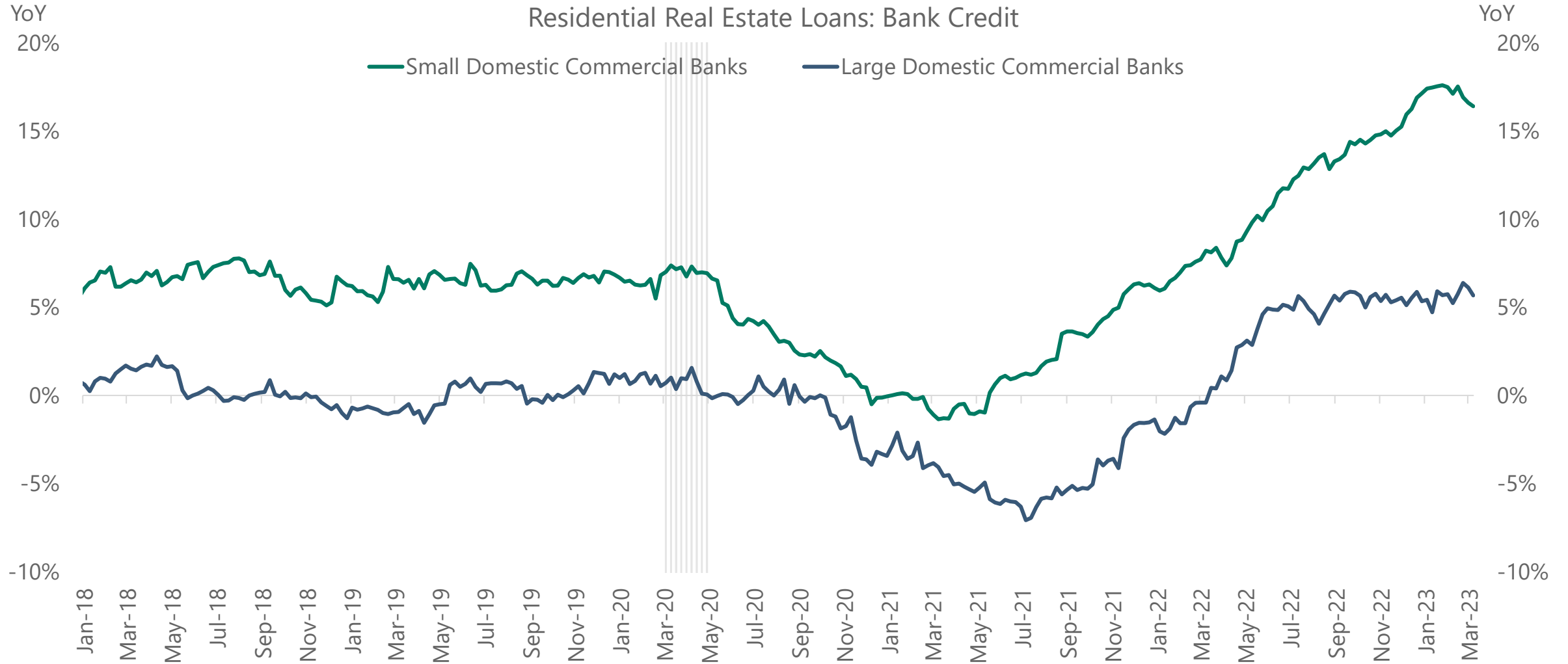
Real estate lending growing faster for smaller banks



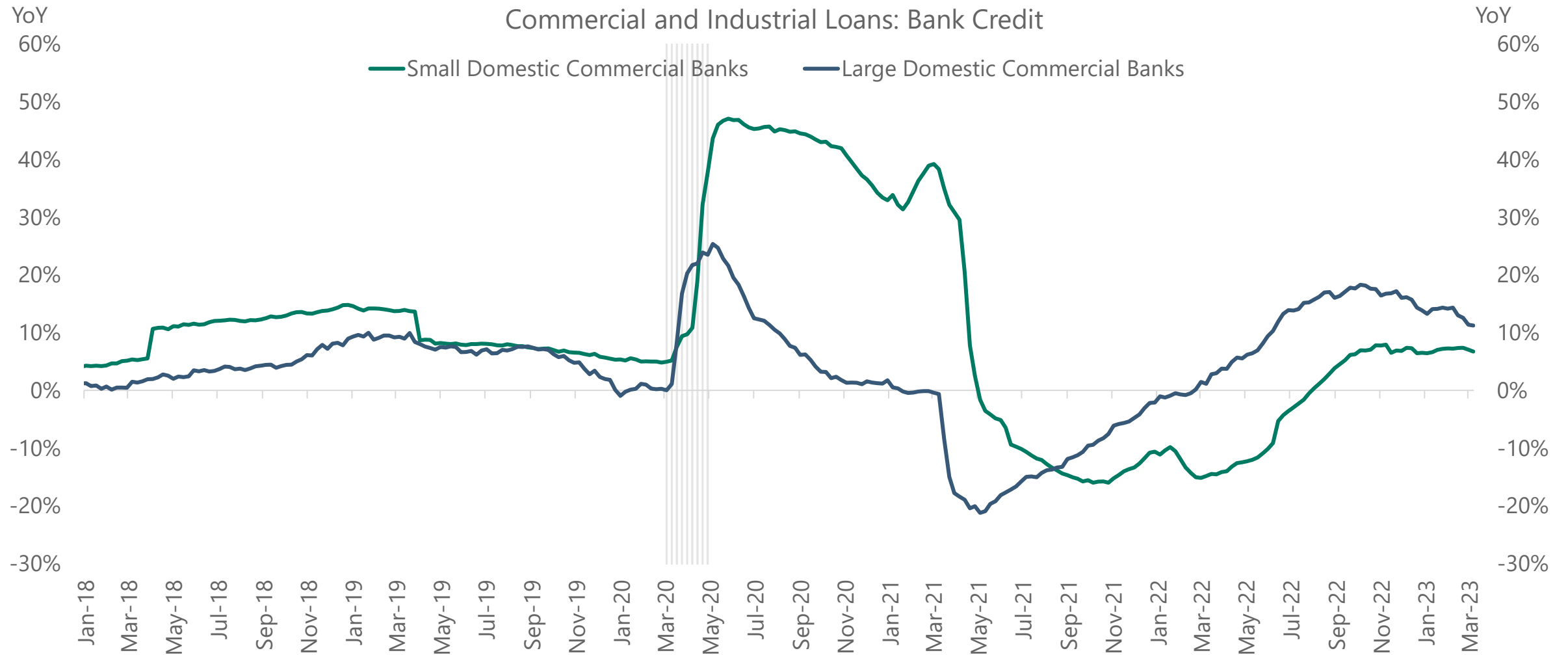
Commercial real estate lending growing faster for smaller banks



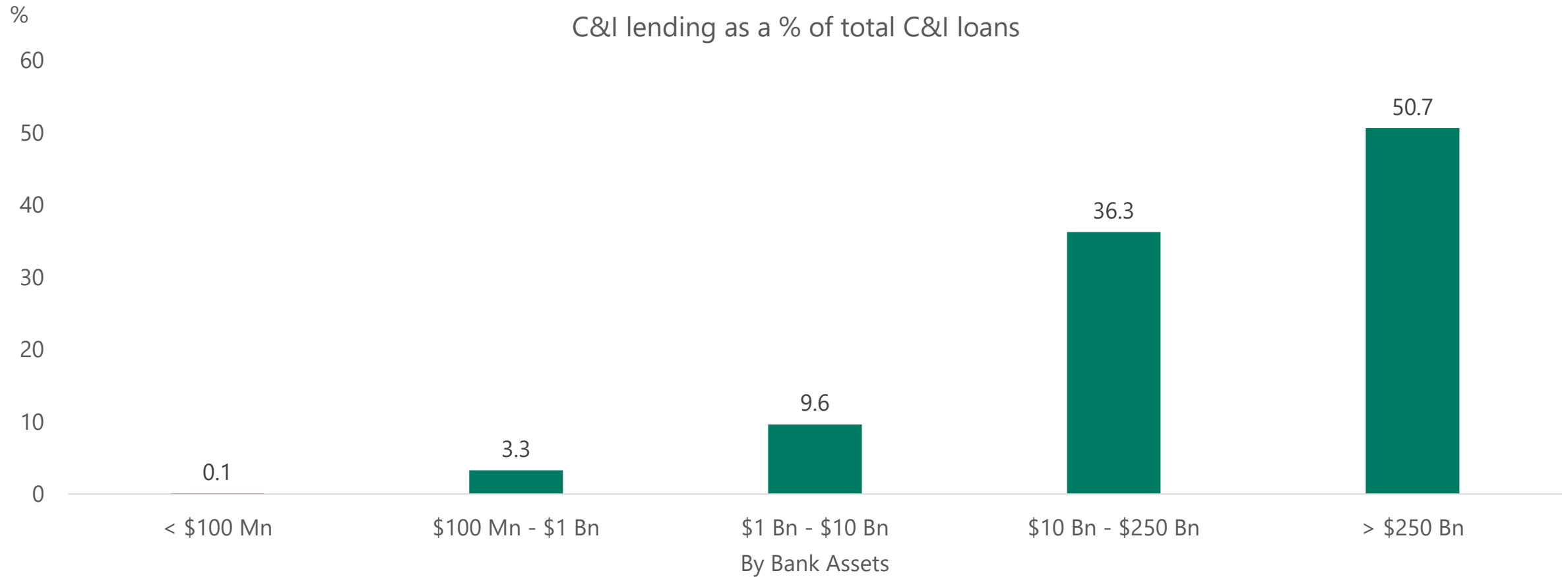
Residential real estate lending growing faster for smaller banks



Lending to corporates among small and large banks

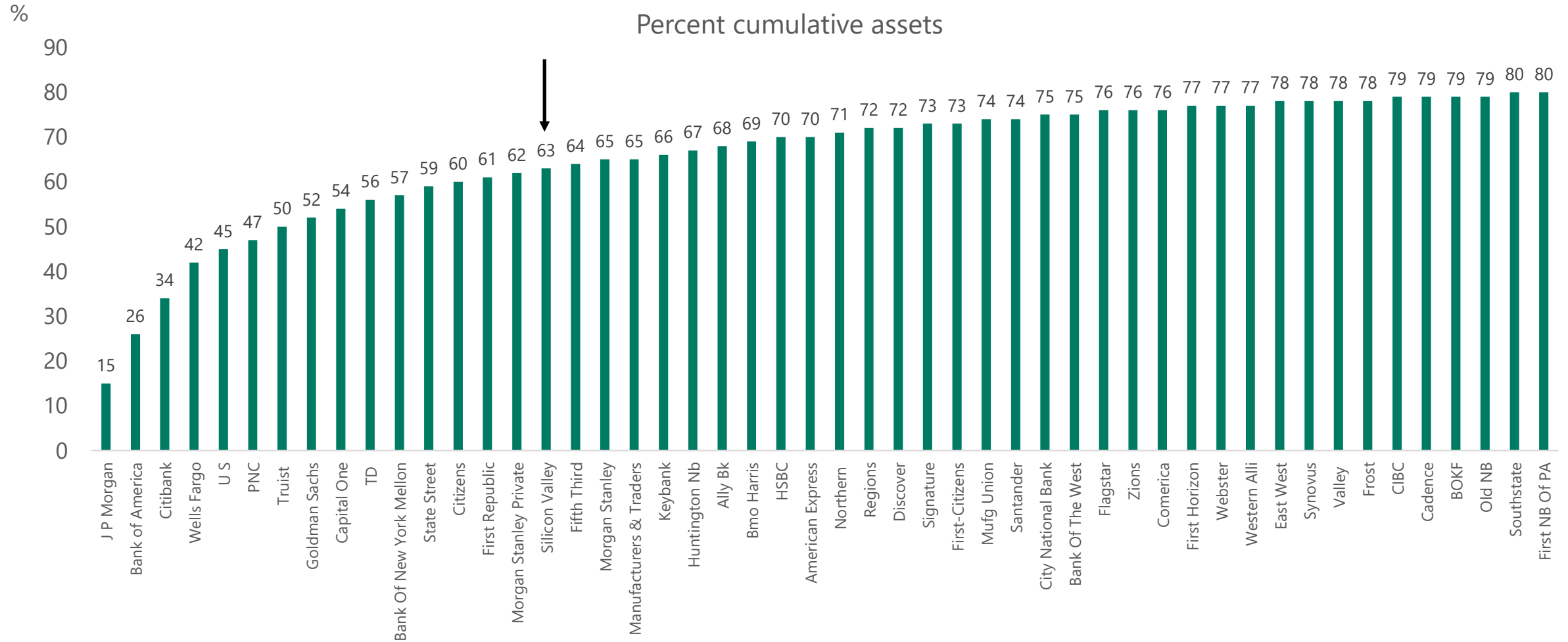


Small banks are important for small businesses: Banks with less than \$250bn in total assets account for about 50% of total commercial and industrial (C&I) lending

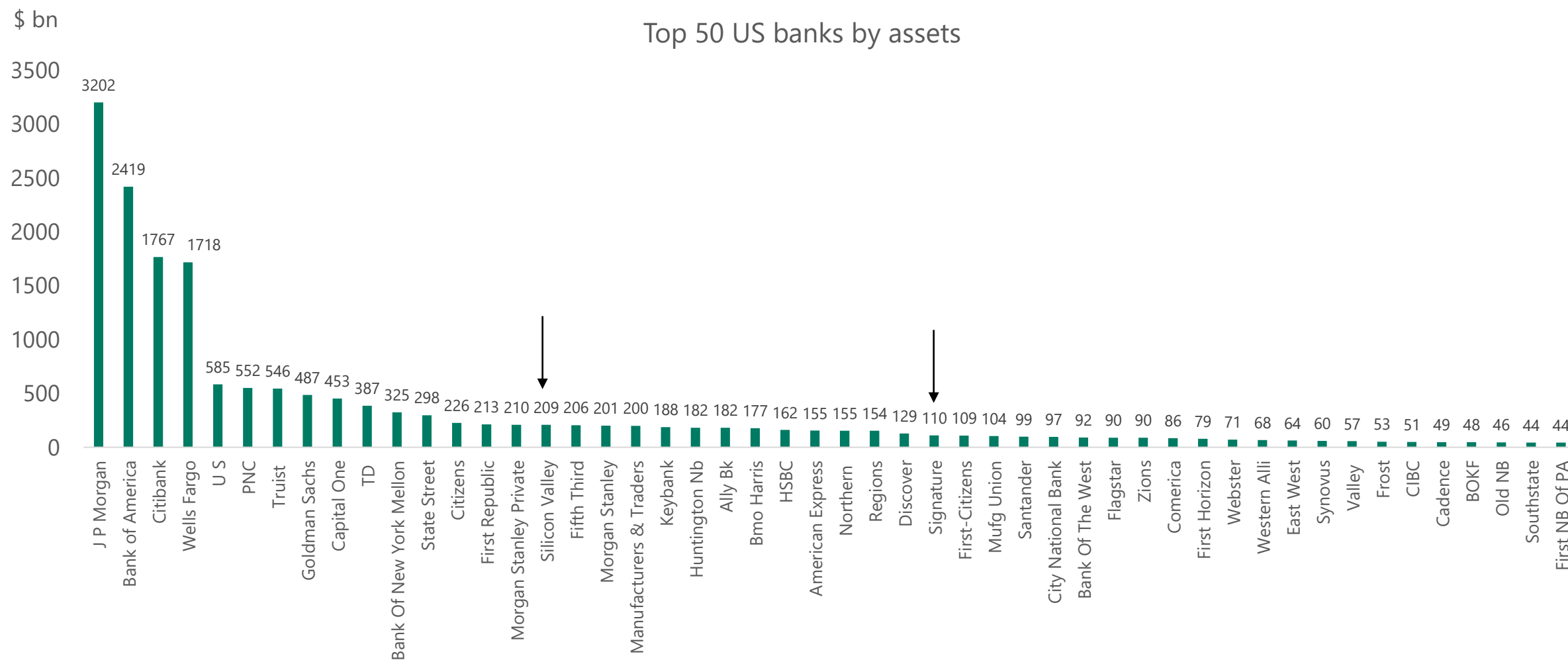


US banks by asset size:
The importance of regional banks for the US economy

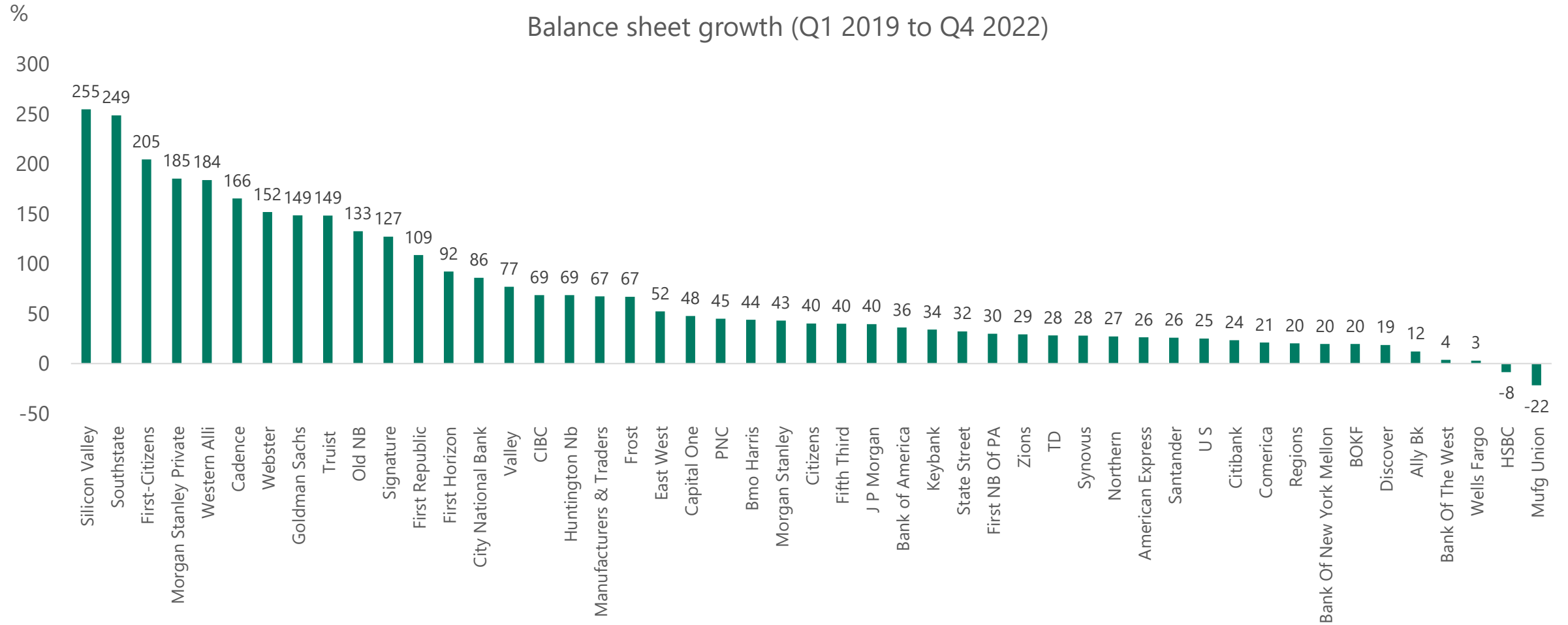
Tighter credit conditions are coming: Banks “to the right” of SVB are likely to start reorganizing their balance sheets



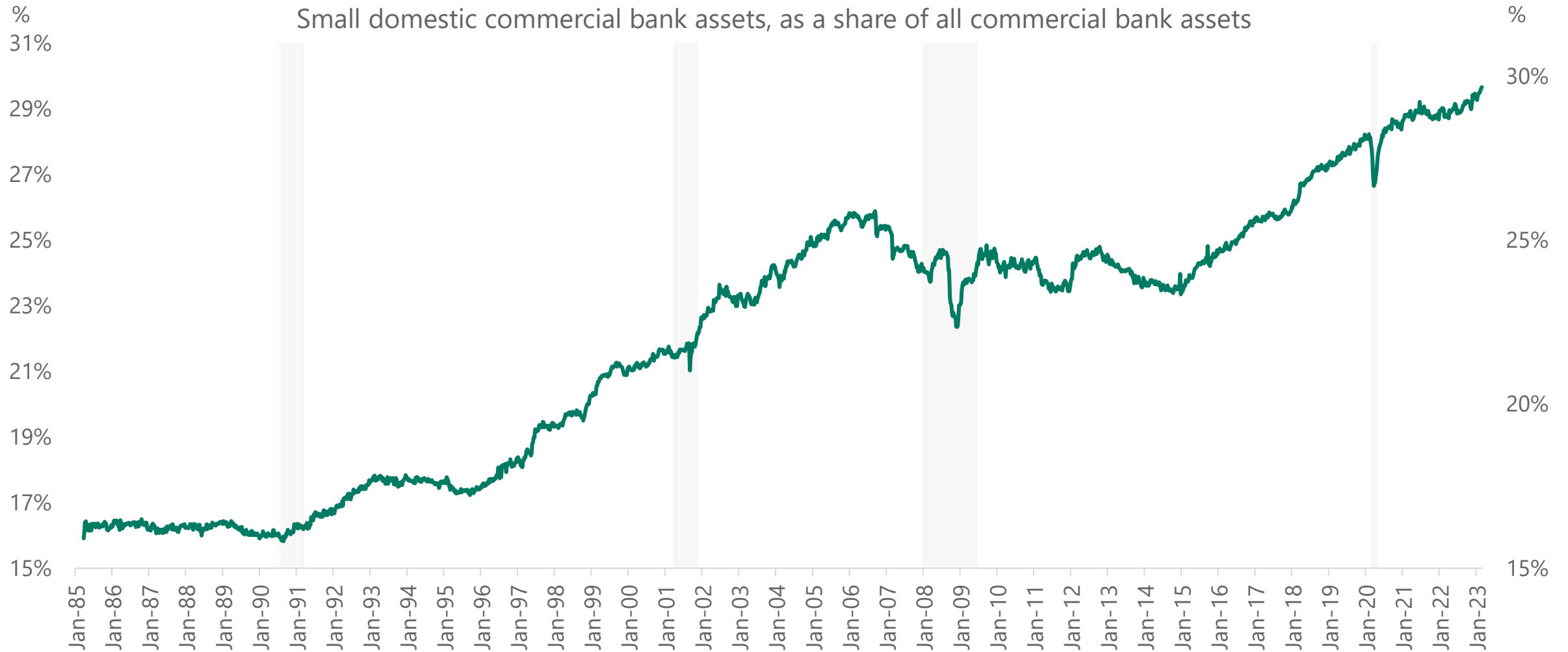
Top 50 US banks by assets



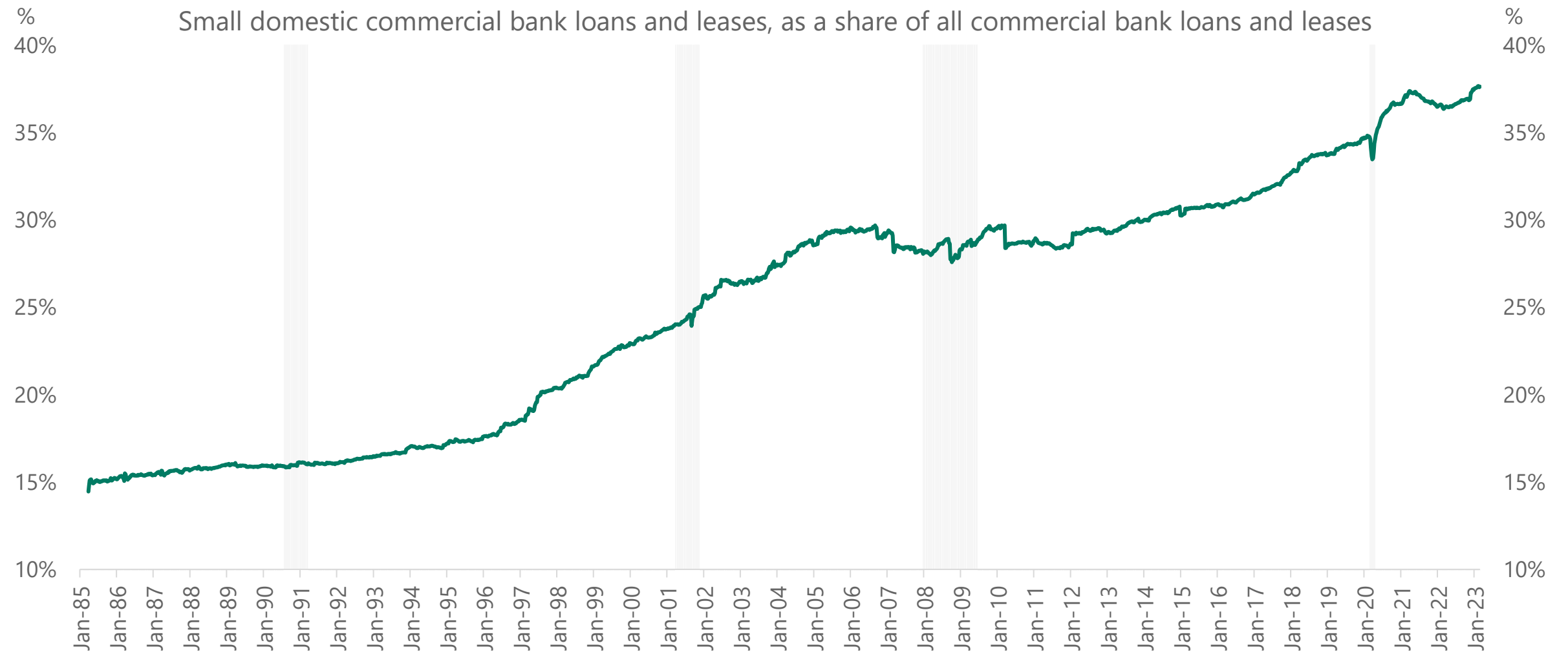
Balance sheet growth of US banks, ranked by fastest growth



Small bank assets as a share of total banking sector assets

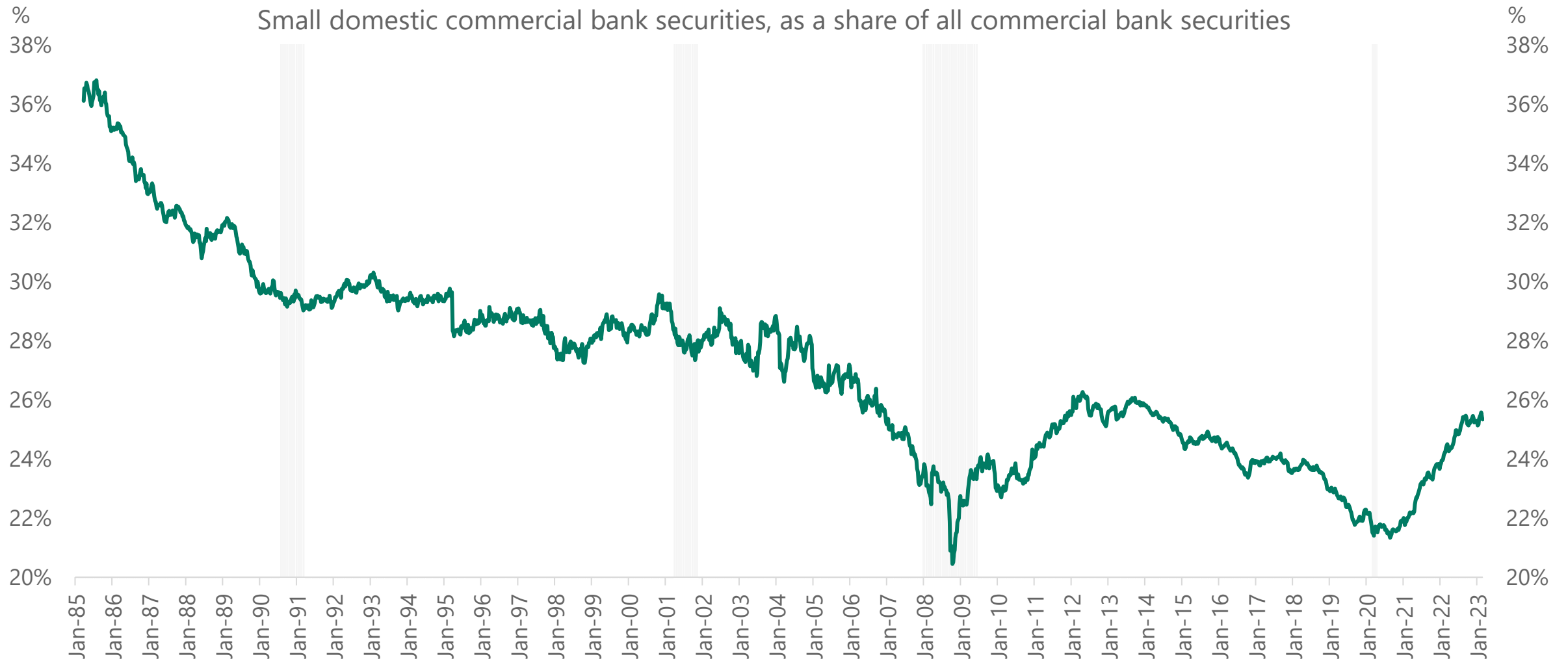


Share of lending by smaller banks

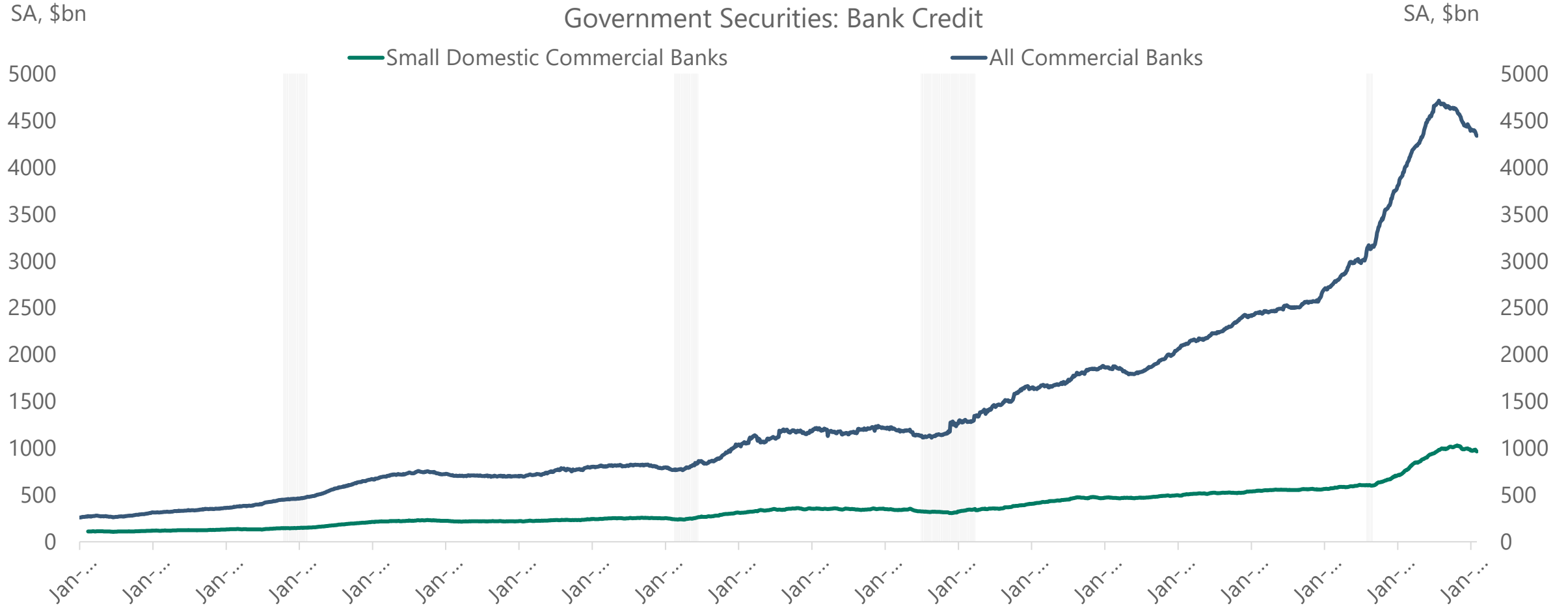


Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

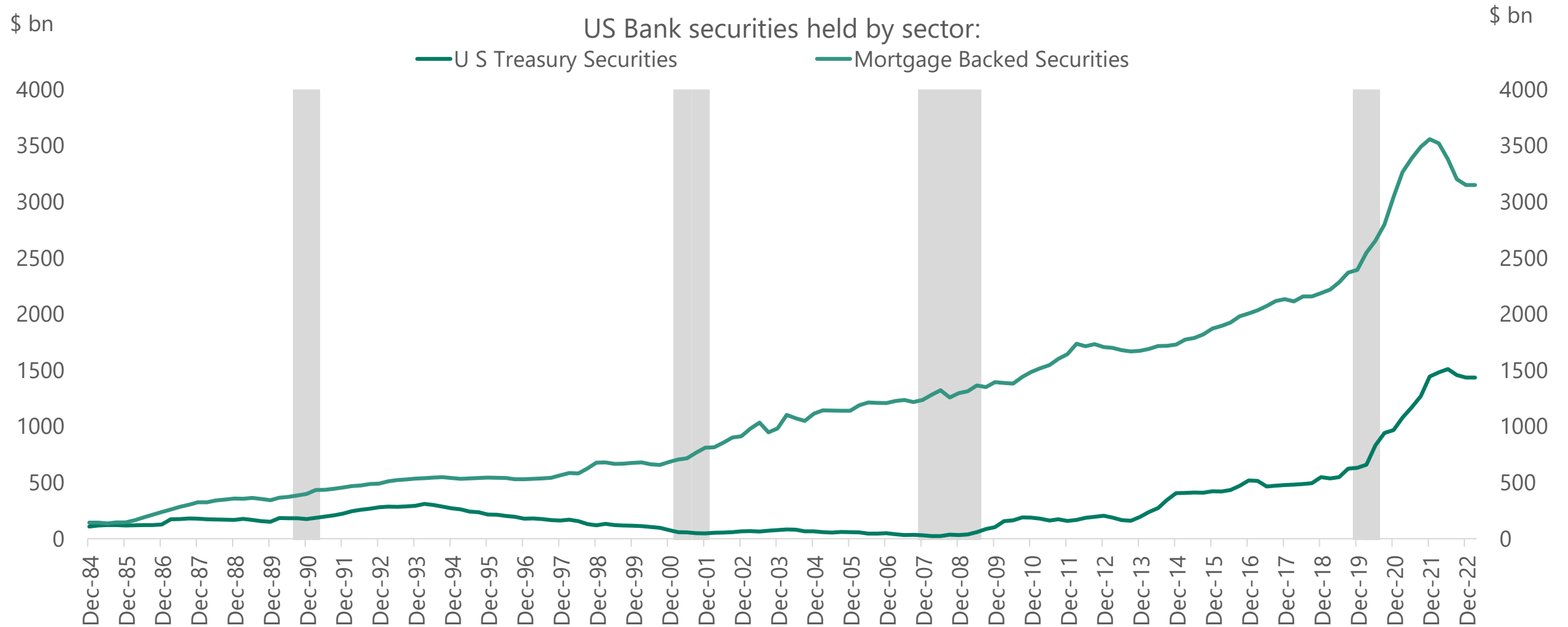
Share of securities in the banking sector held by small banks



Small banks hold \$1trn in Treasuries



Securities of FDIC-insured banks

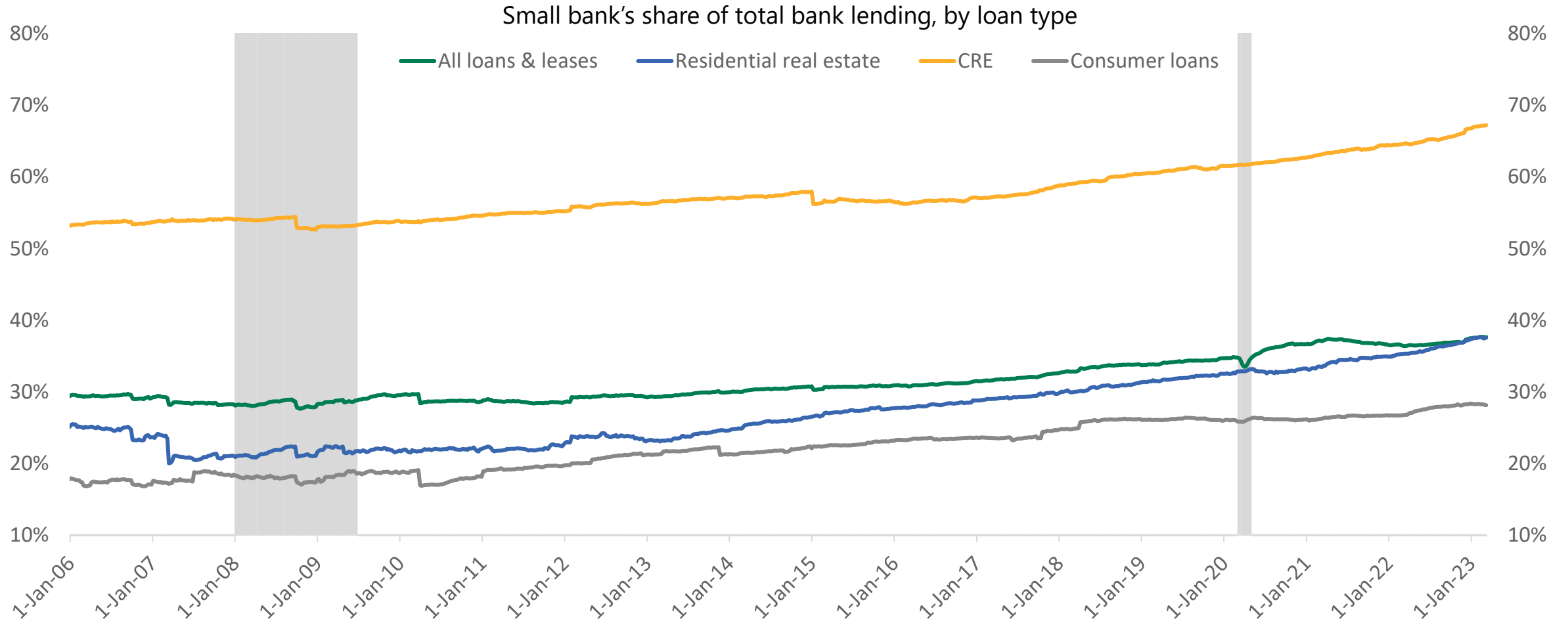


Regional banks' asset concentration in CRE

High concentration of commercial real estate in small banks

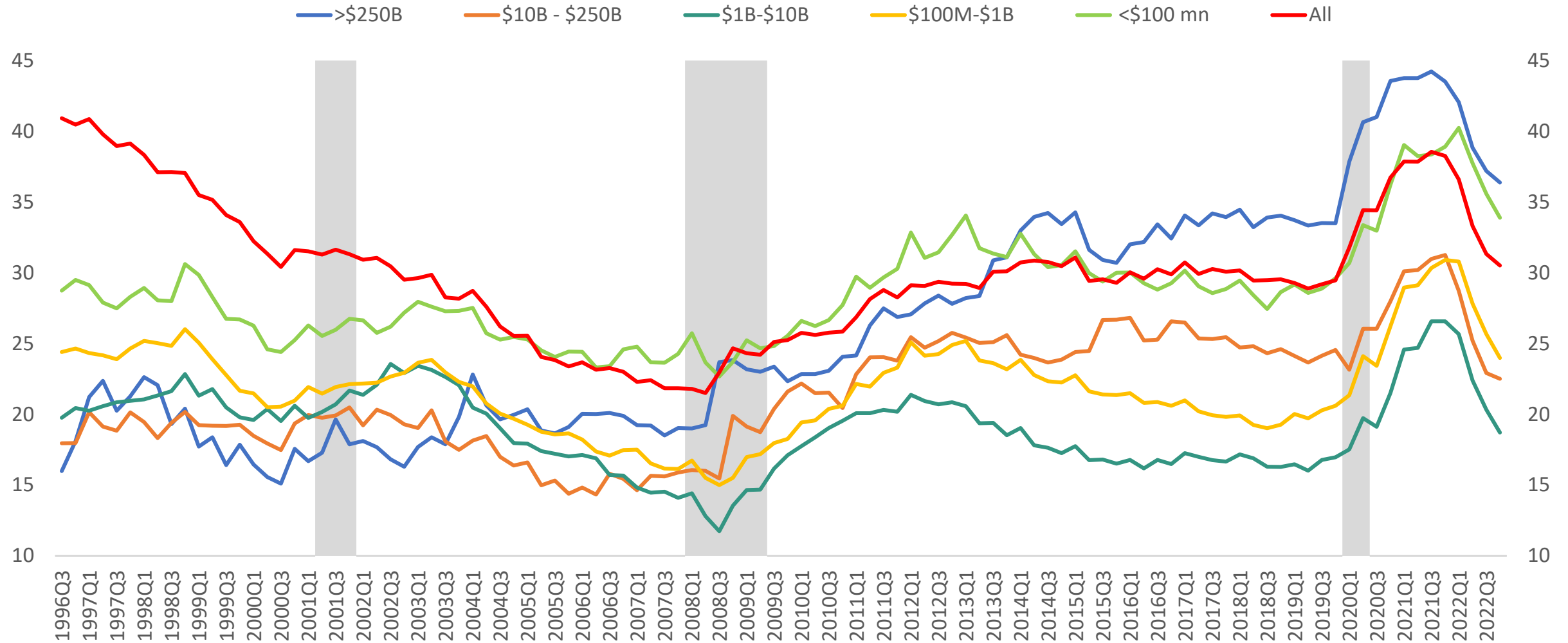


Small banks account for almost 70% of all commercial real estate loans outstanding

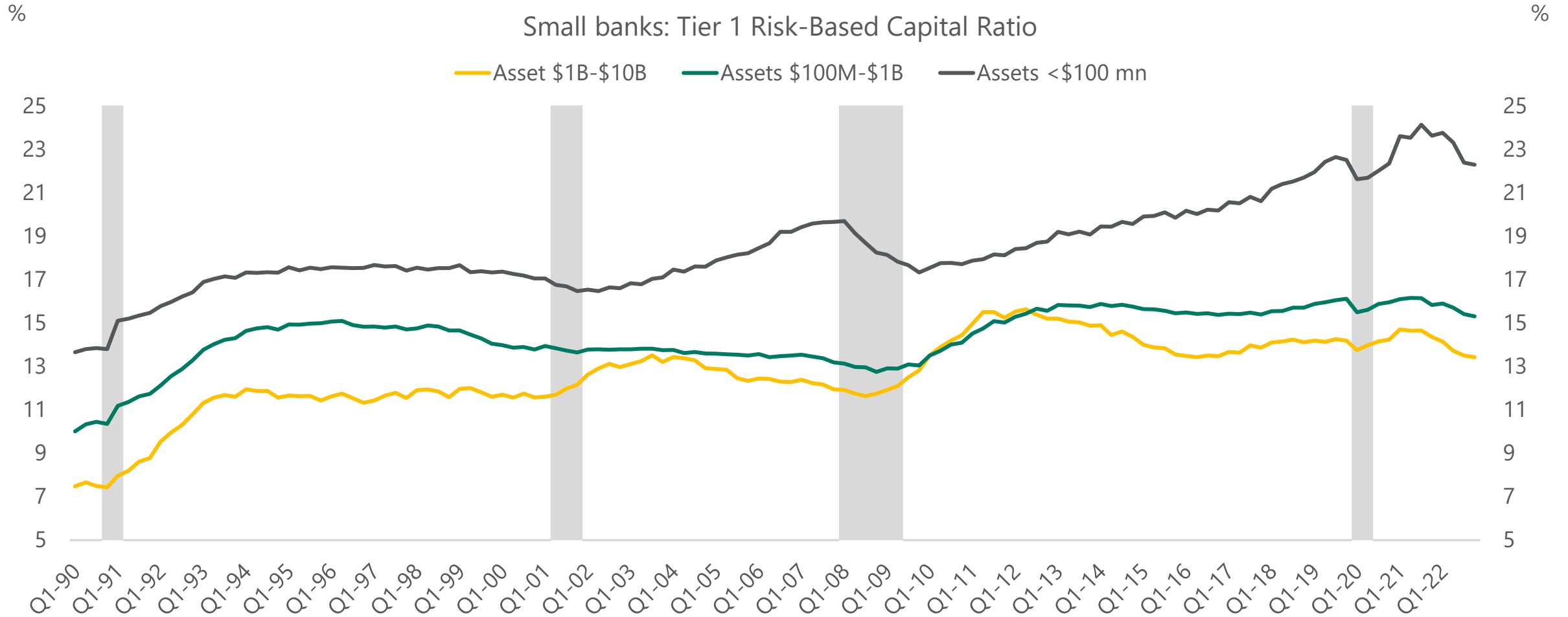


Measures of banking sector liquidity and capital ratios

Liquidity Ratio by Bank Assets

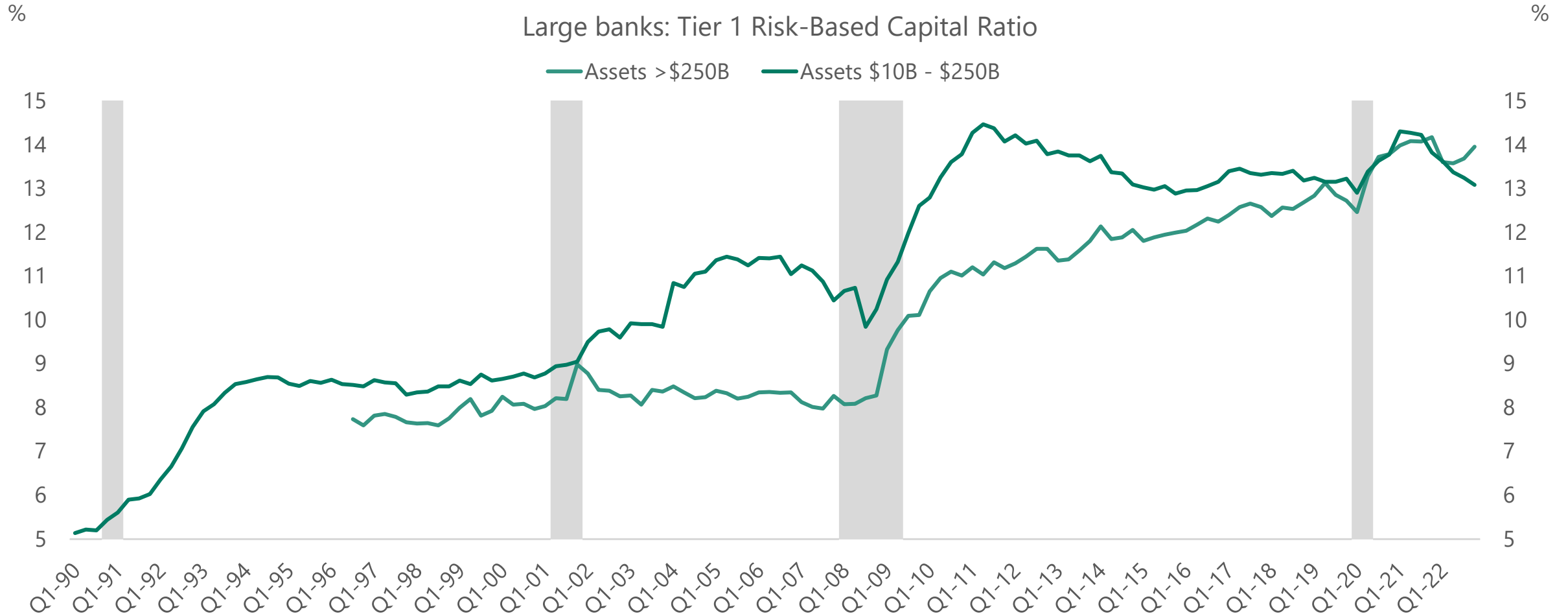


Tier-1 risk-based capital ratio for smaller banks



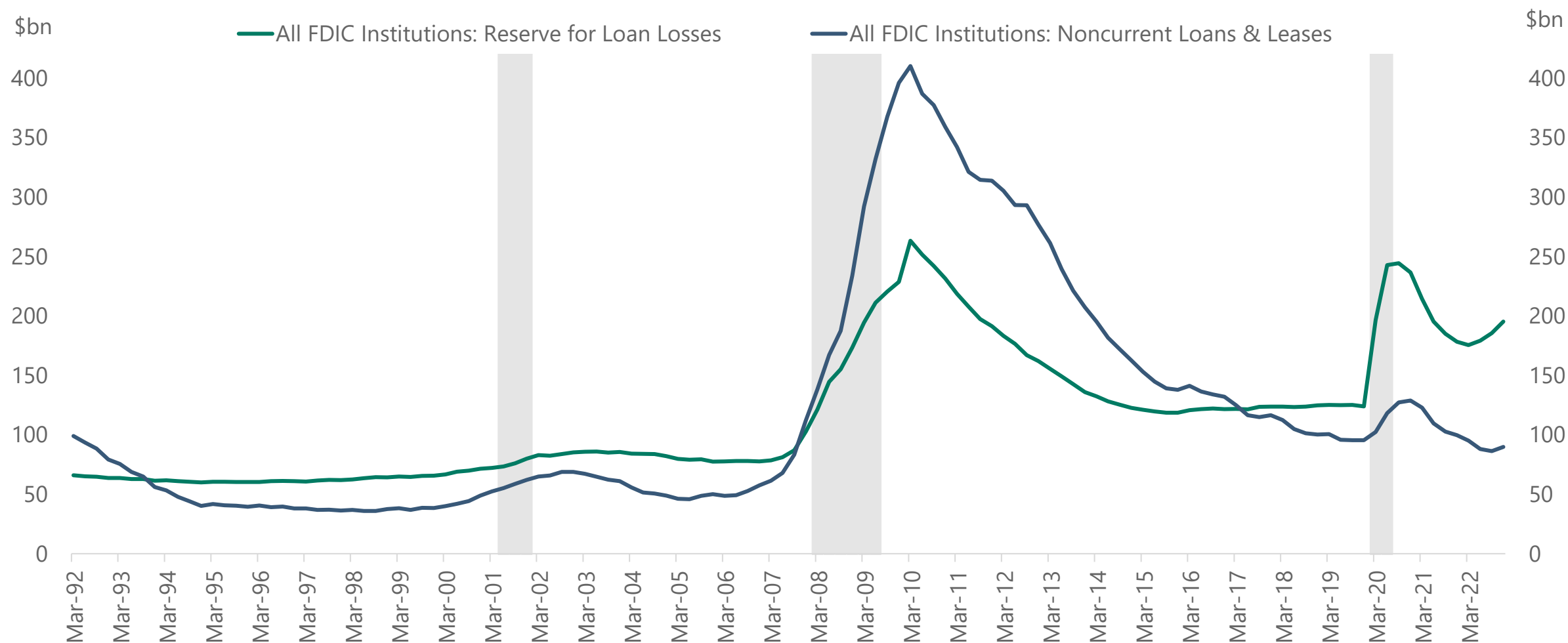
Source: FDIC, Apollo Chief Economist. Note: As per FDIC, large banks are defined as institutions with total assets of \$10 billion or more and small banks have total assets under \$10 billion.

Tier 1 risk-based capital ratio for larger banks

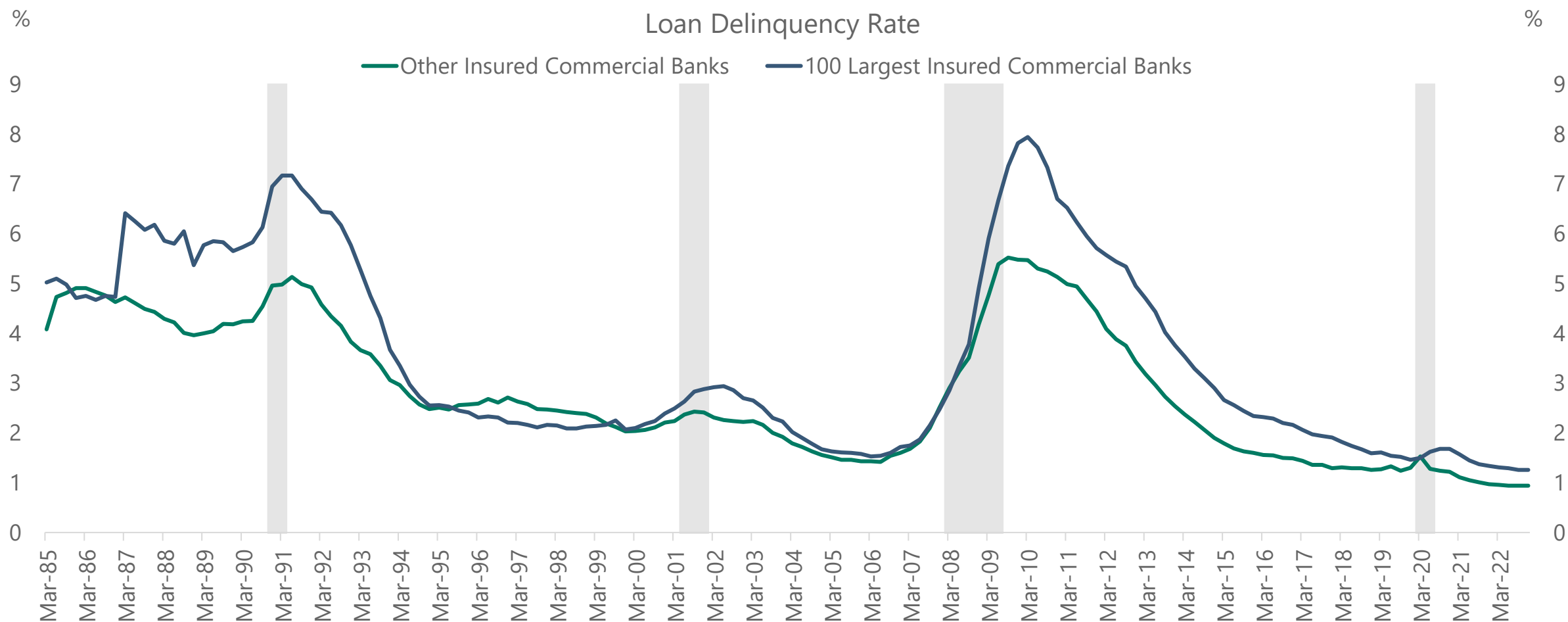


Source: FDIC, Apollo Chief Economist. Note: As per FDIC, large banks are defined as institutions with total assets of \$10 billion or more and small banks have total assets under \$10 billion..

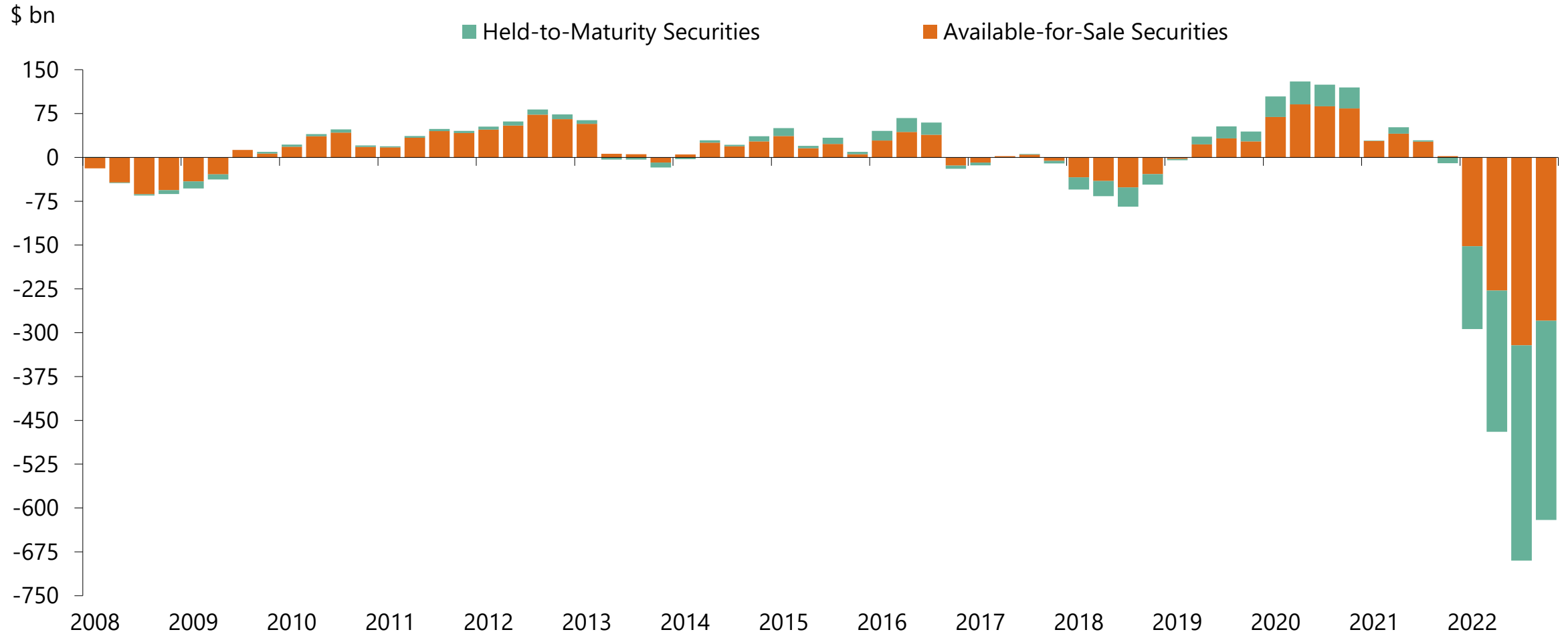
Reserves for loan losses



Loan delinquency rates for large and small banks

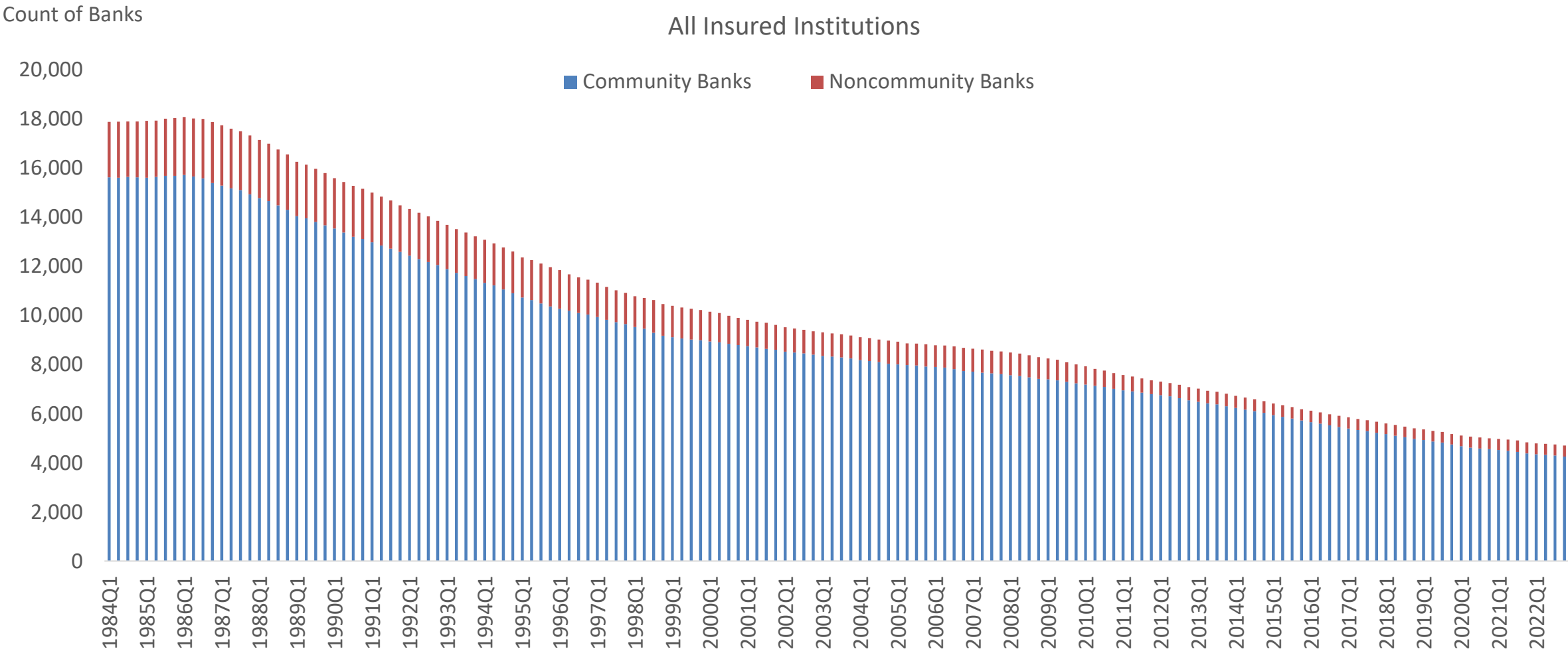


Unrealized Gains (Losses) on investment securities for banks



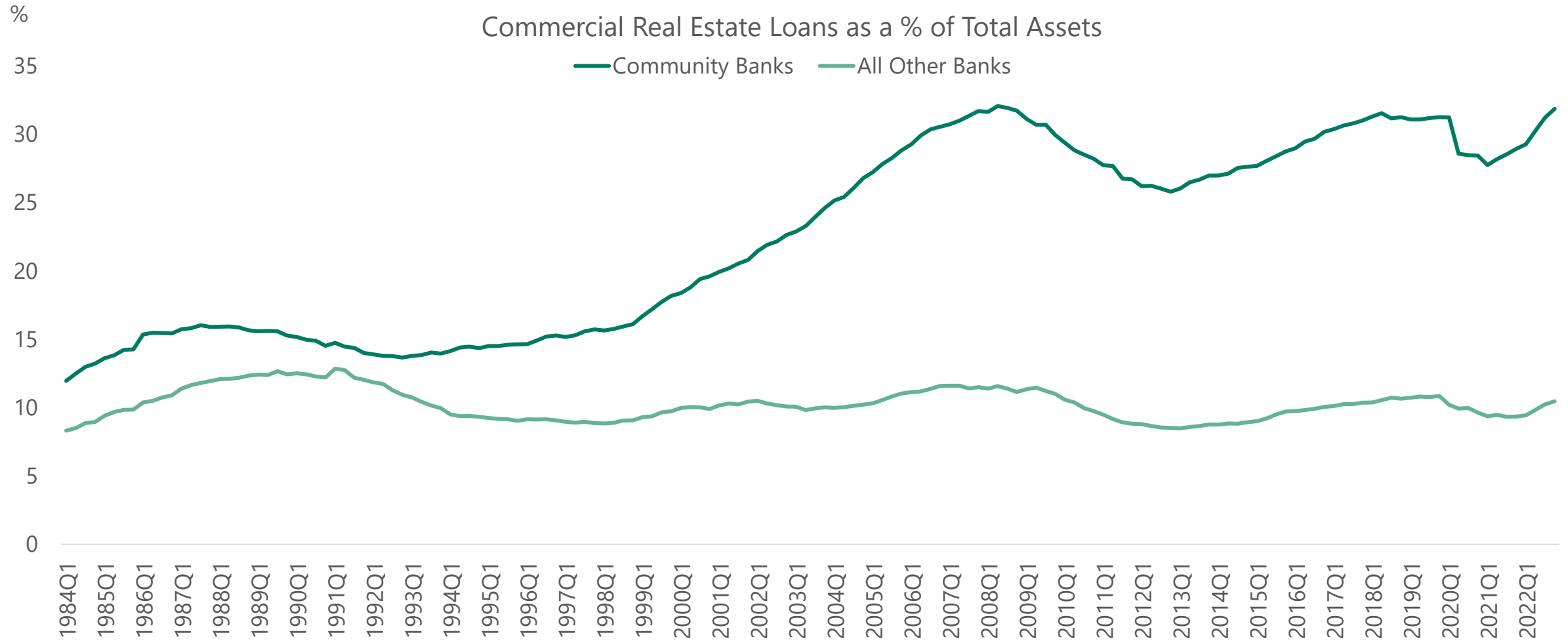
Community banks

90% of all banks in the US are community banks



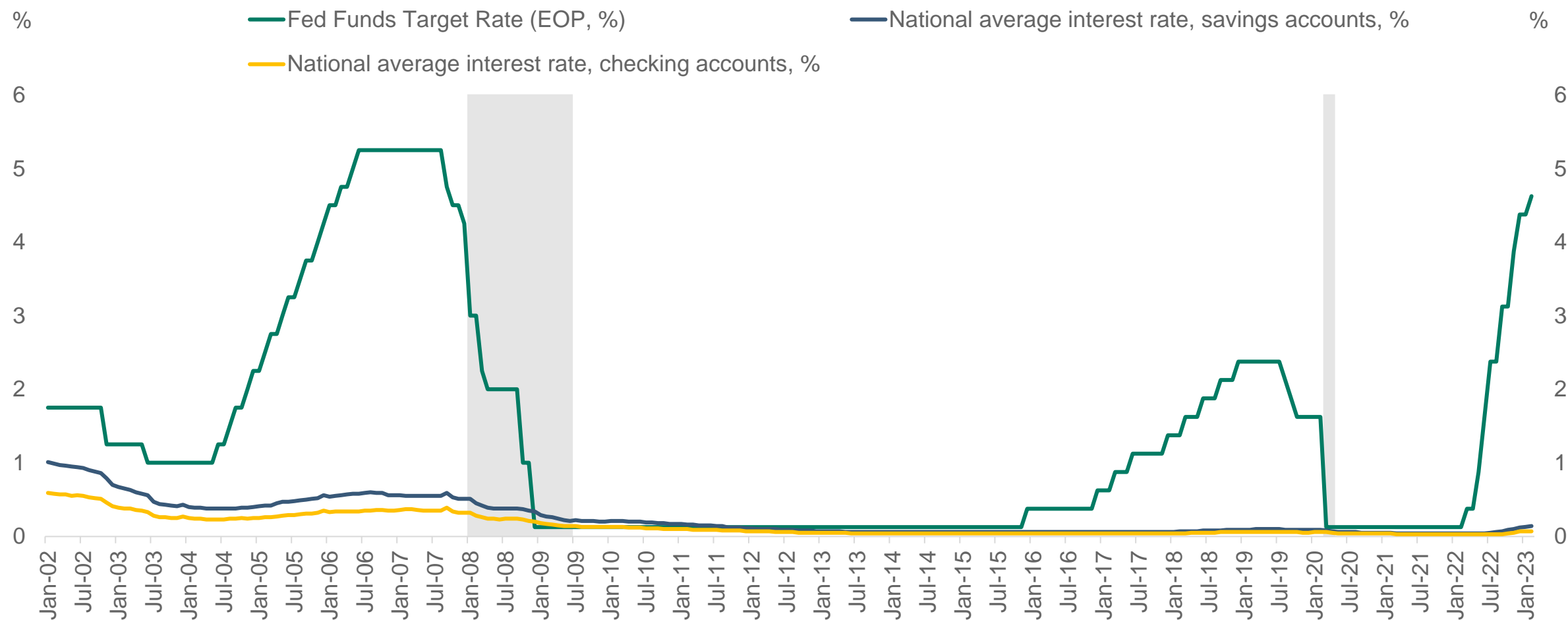
Source: FDIC, Apollo Chief Economist.

CRE loans make up a significant share of community banks' assets



Fed funds rate versus national average
interest rate on checking accounts

Interest rate on checking accounts versus the Fed funds rate





Torsten Slok, Ph.D.

Chief Economist

Apollo Global Management

tslok@apollo.com

Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.