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Outlook for US regional banks

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Apollo Global Management

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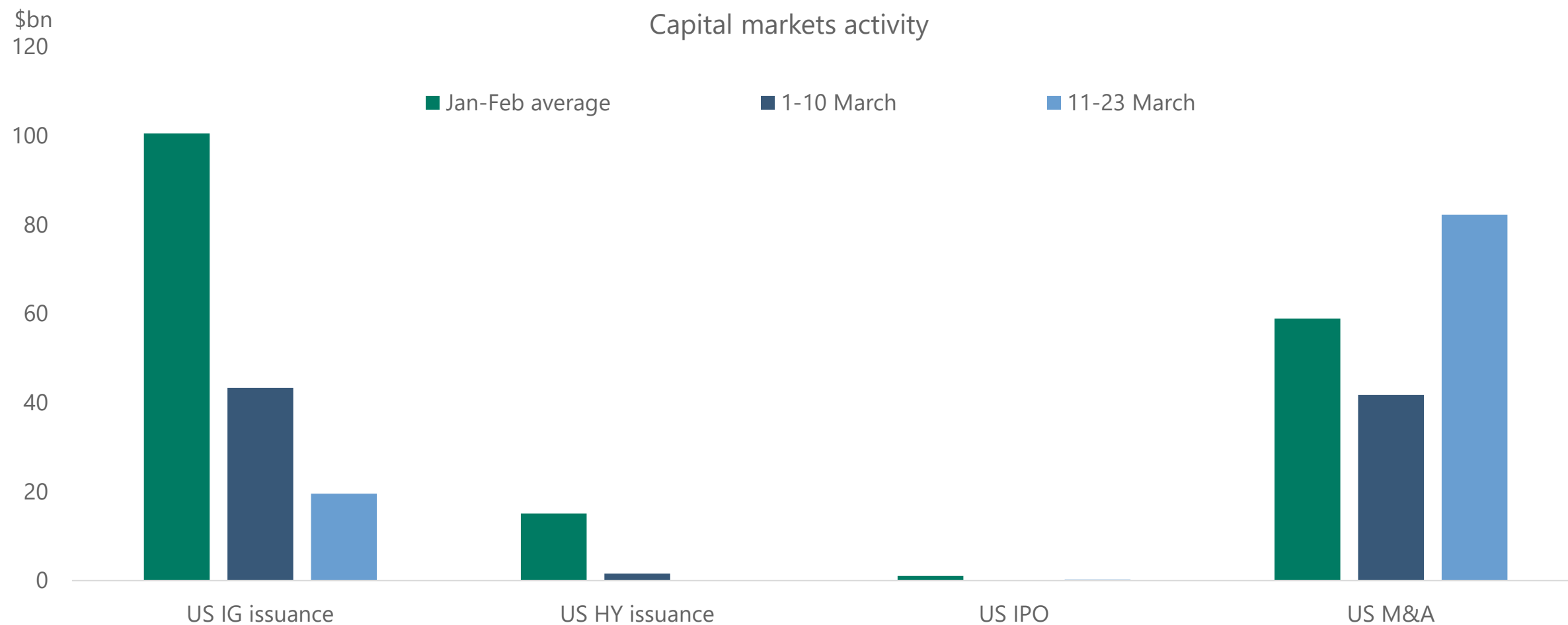
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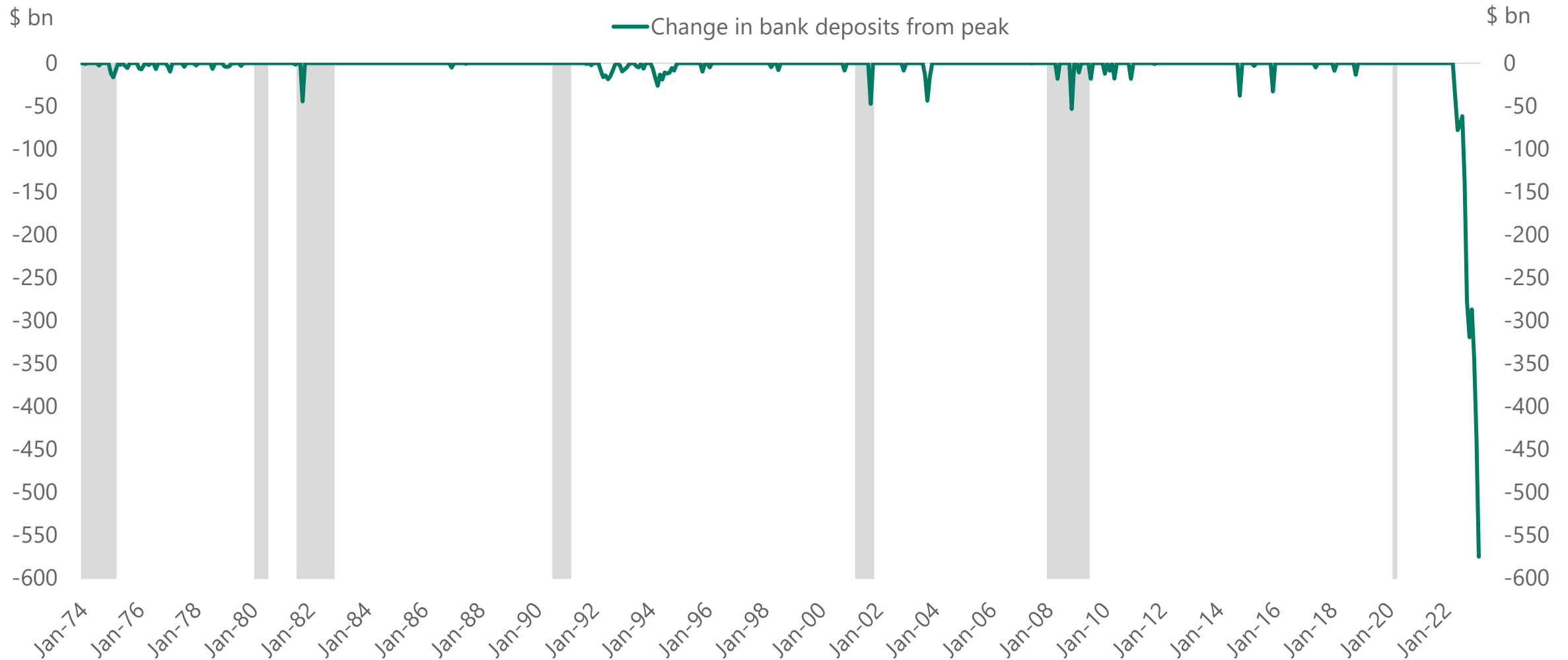
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US capital markets have been essentially frozen since SVB went under

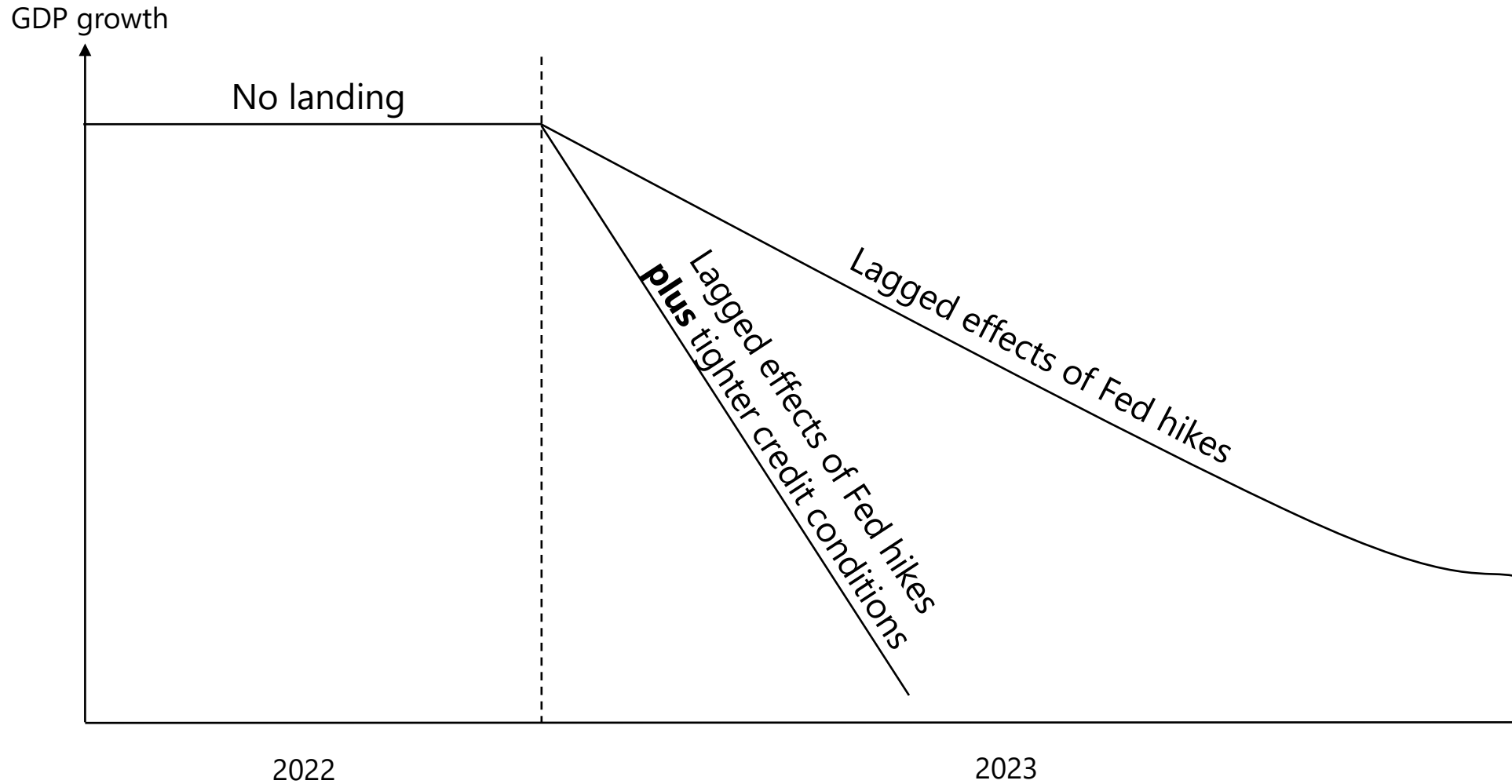


Almost \$600bn in deposits have left the banks since the Fed began to raise interest rates, the biggest outflow on record

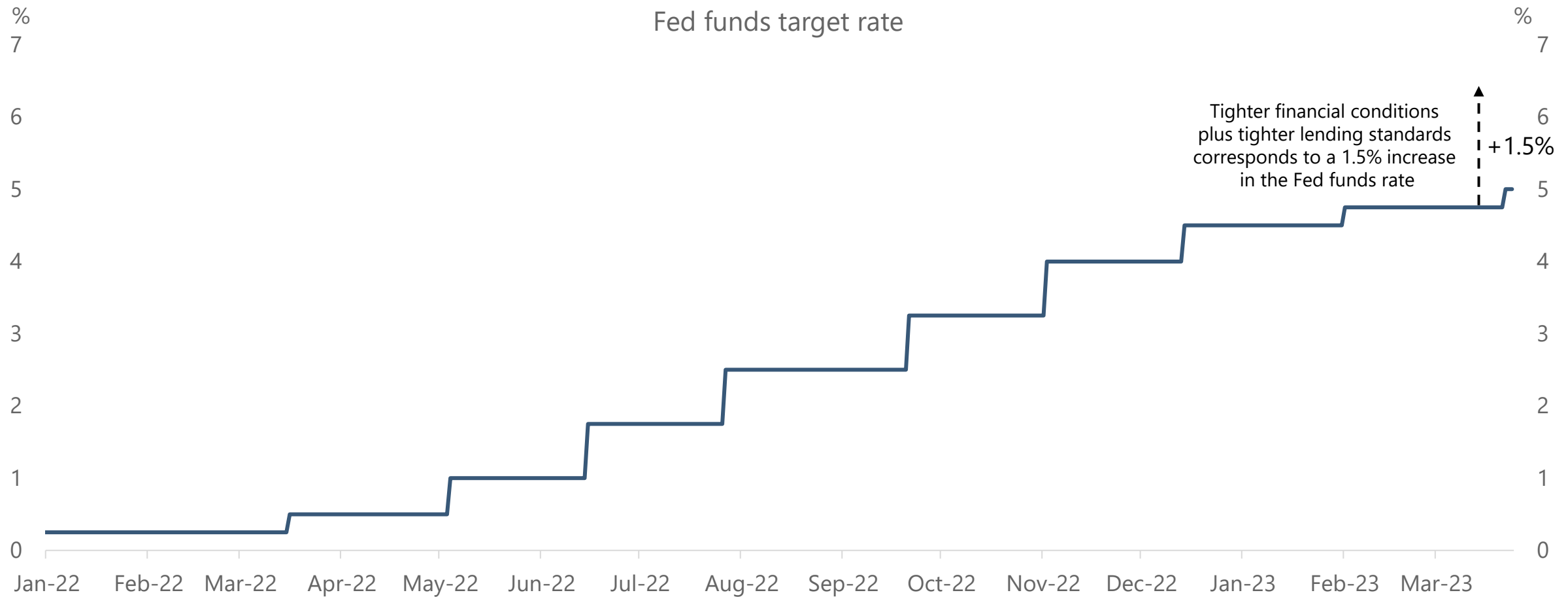


Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist. Note: March data as of 15th March 2023. Peak is defined as the month before monthly outflows turn negative

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



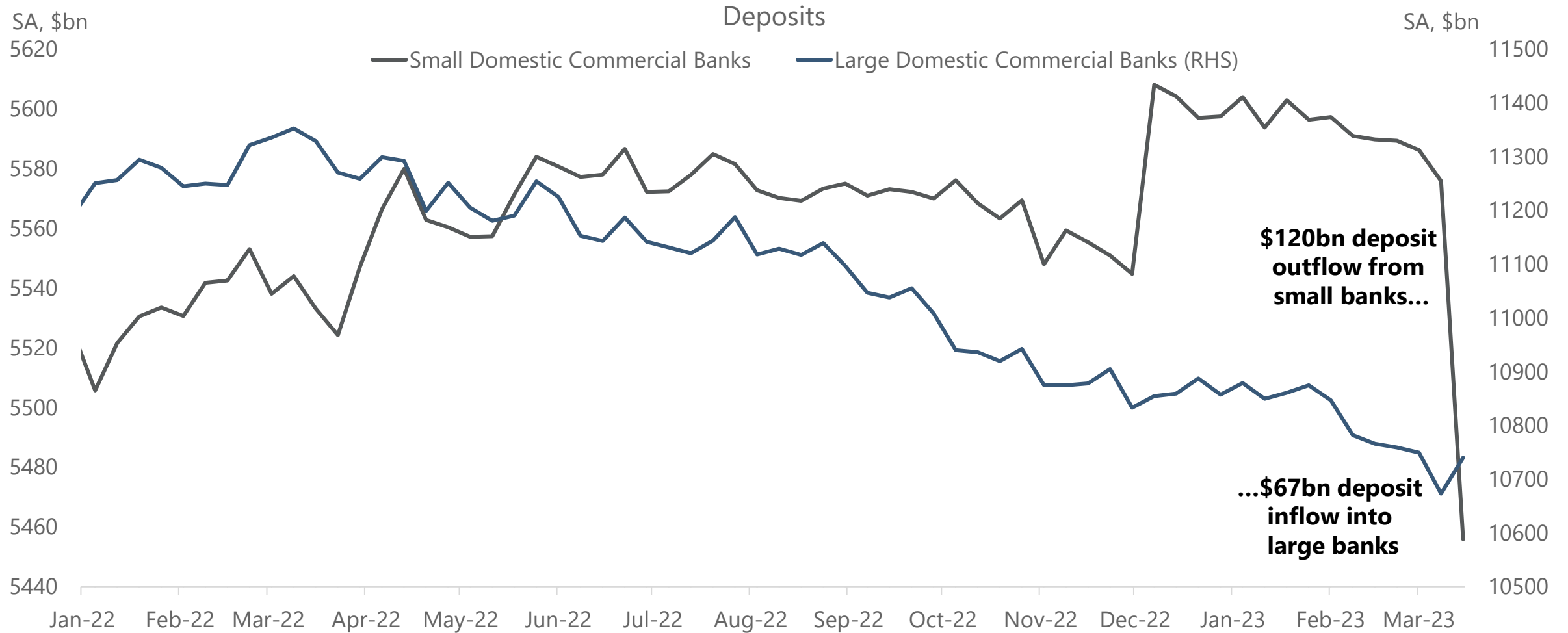
The Fed funds rate effectively pushed 1.5%-points higher after SVB because of tighter financial conditions combined with tighter lending standards



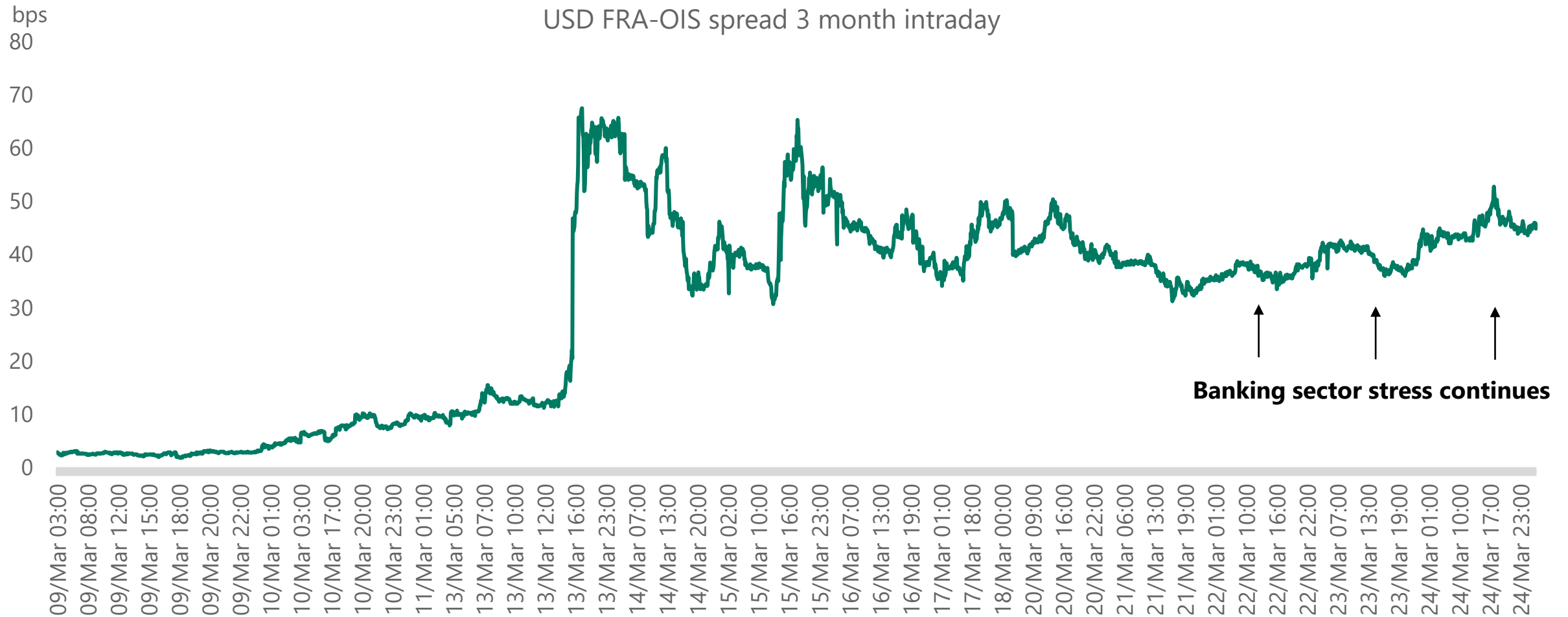
Source: Bloomberg, Apollo Chief Economist. Note: Two regression models with the Fed funds rate on the left-hand side were run to quantify the effect from tighter financial conditions and tighter lending standards, and the estimated coefficients show 0.5% higher Fed funds rate from tighter financial conditions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

Bank funding pressures:
Deposits and market-based measures

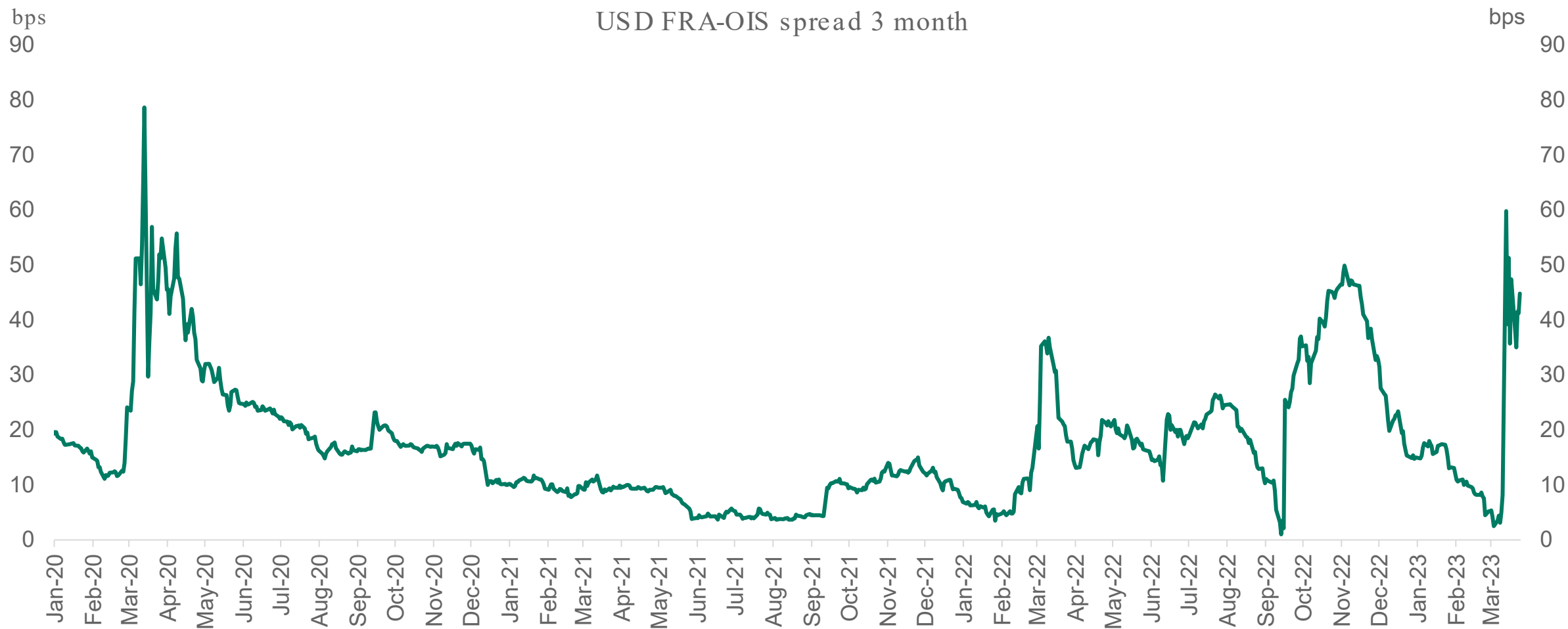
When SVB went under, roughly half of deposits that left small banks went into large banks



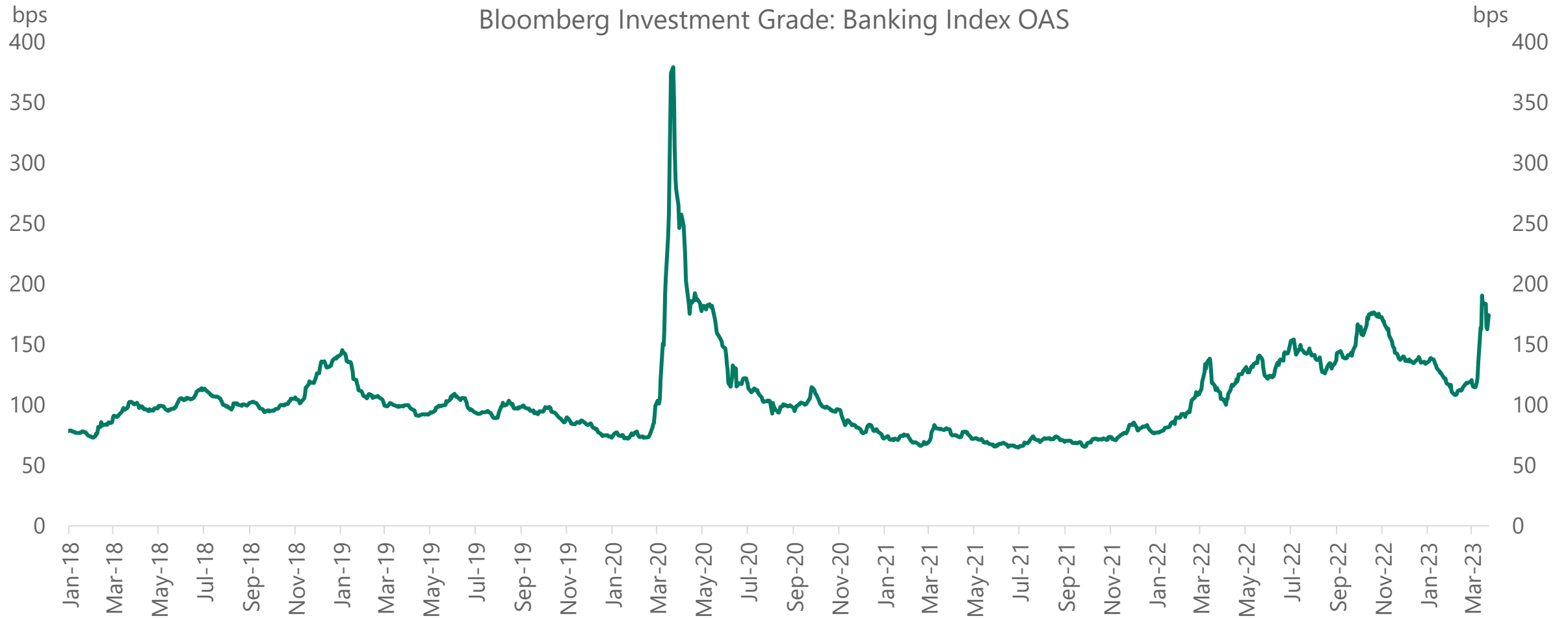
Bank funding costs remain high: FRA-OIS spread not coming down



FRA-OIS spread at levels seen in March 2020

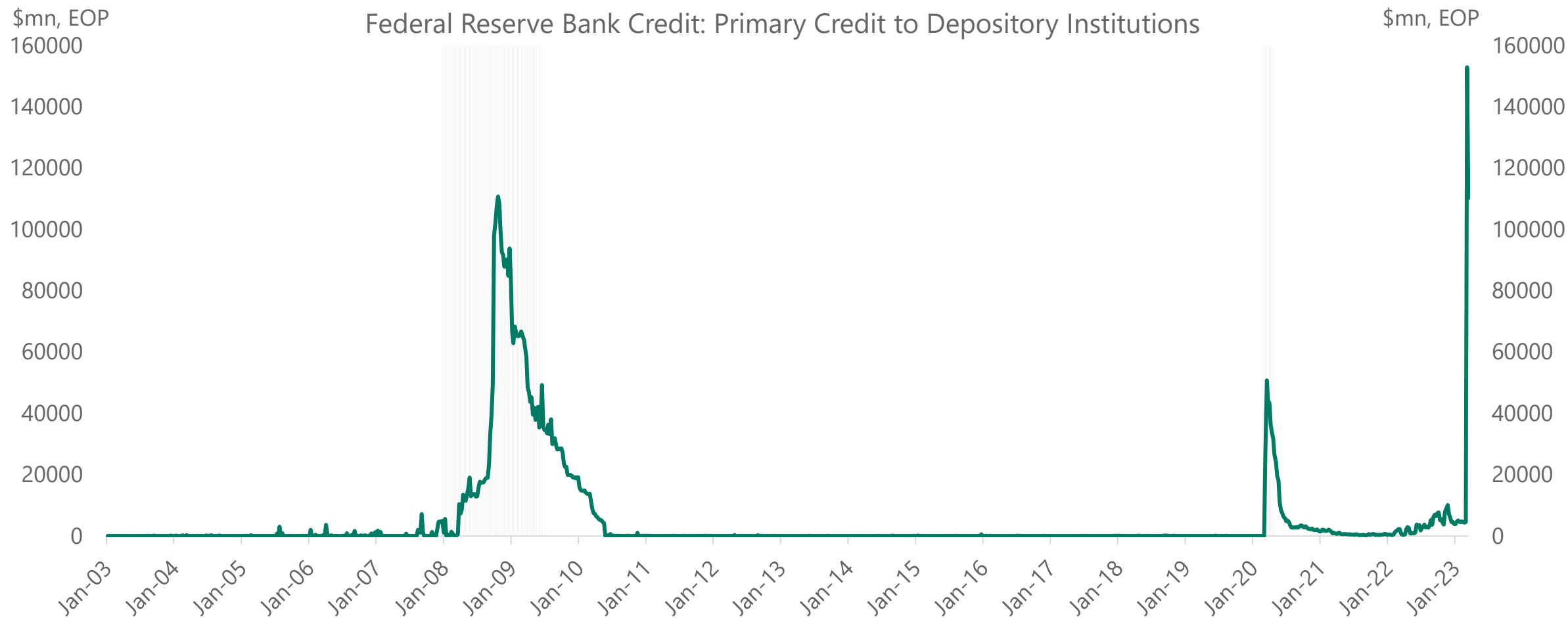


IG OAS spreads for banks remain elevated

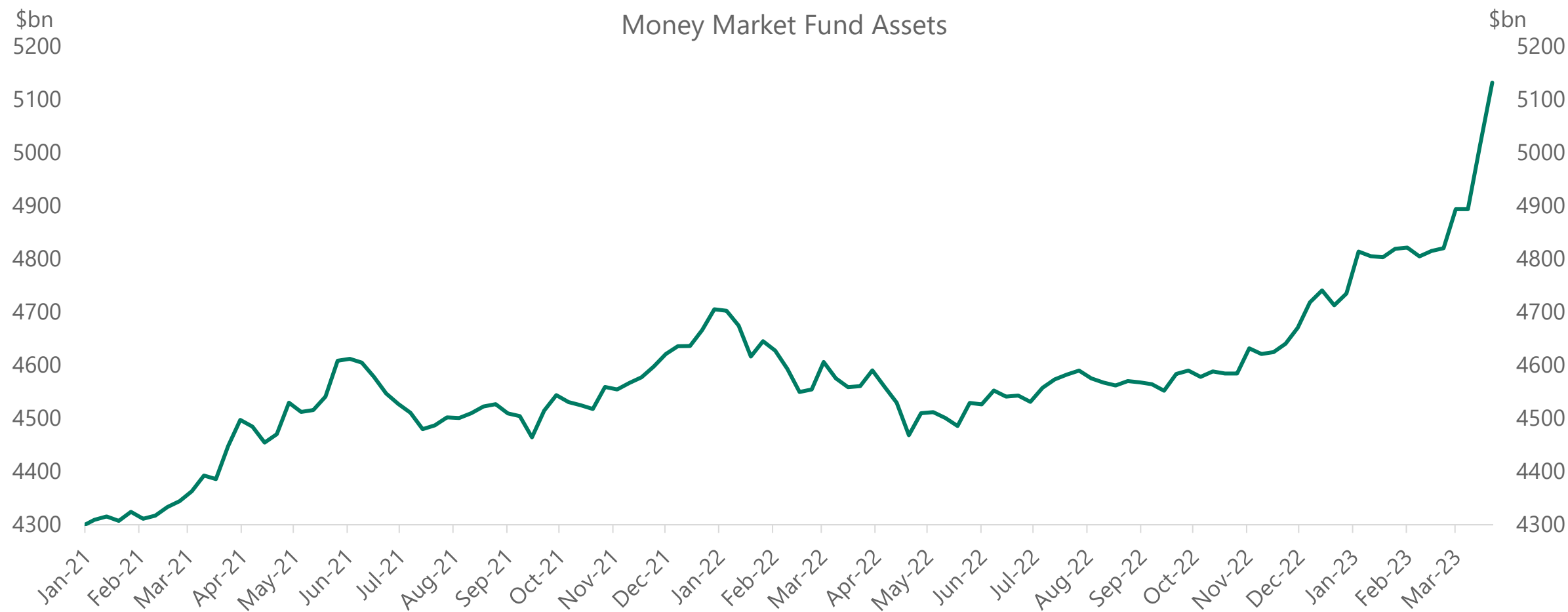


Source: Bloomberg, Apollo Chief Economist. Note: Ticker used I00408US Index. As of March 24, 2023.

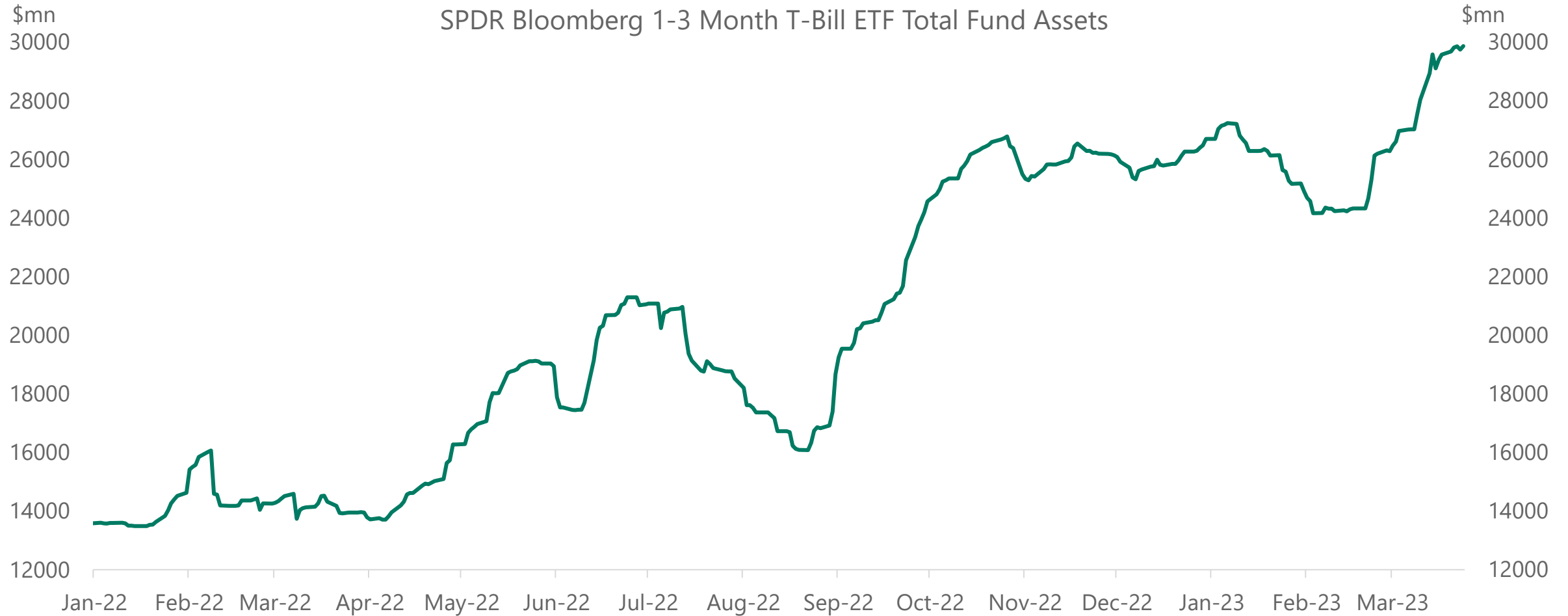
Fed Discount Window borrowing higher than in 2008



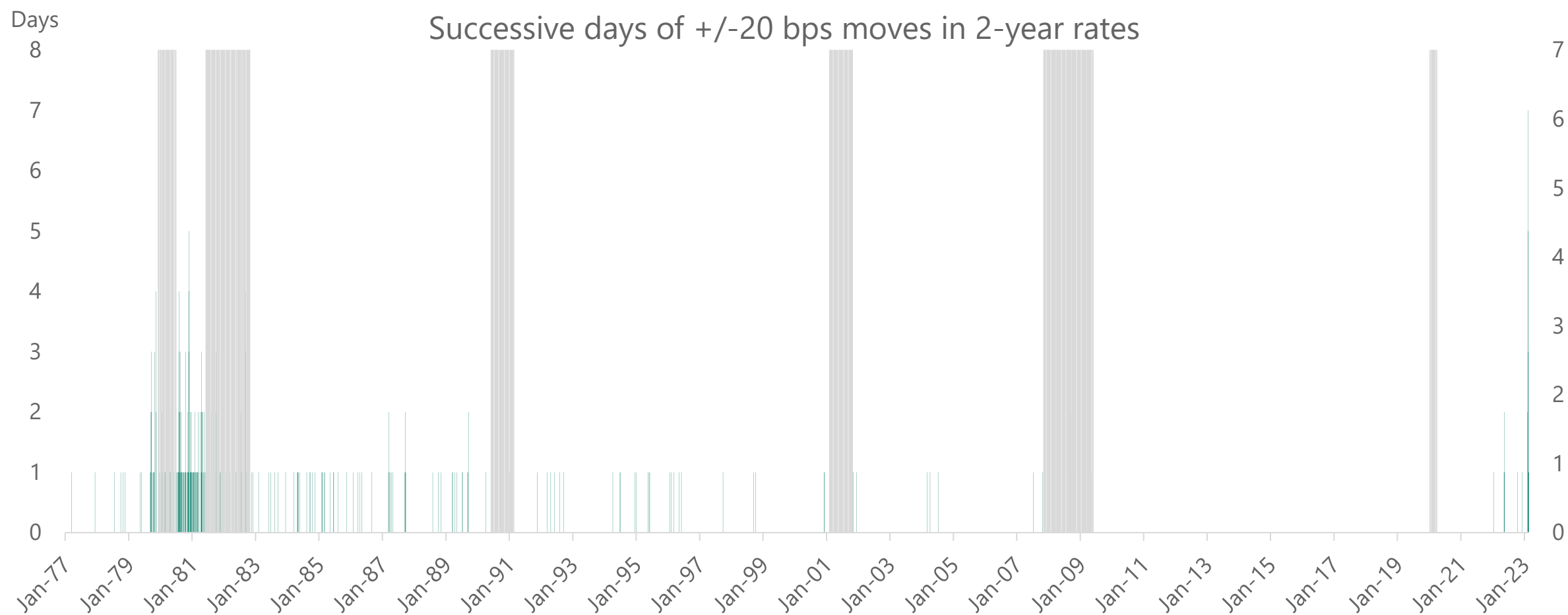
More than \$200bn have been moved into money market funds since SVB went under



Daily flows into the biggest money market ETF

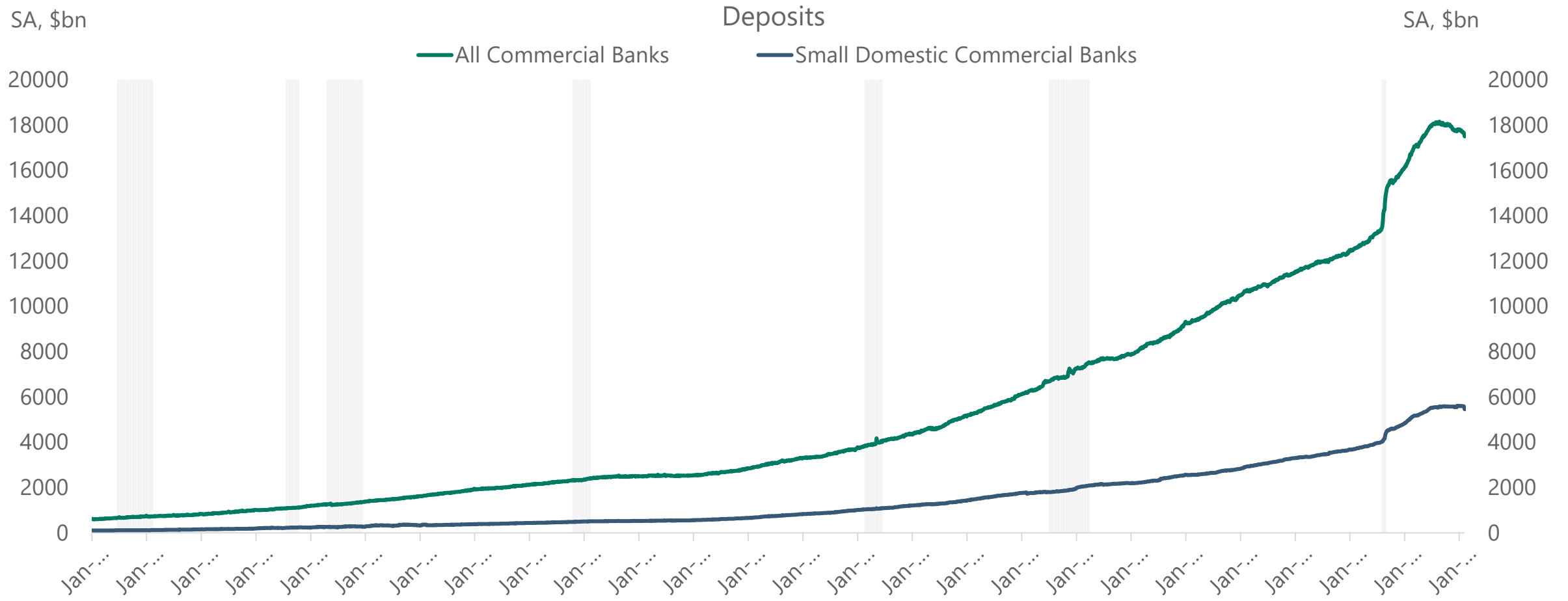


Record-high volatility in fixed income markets

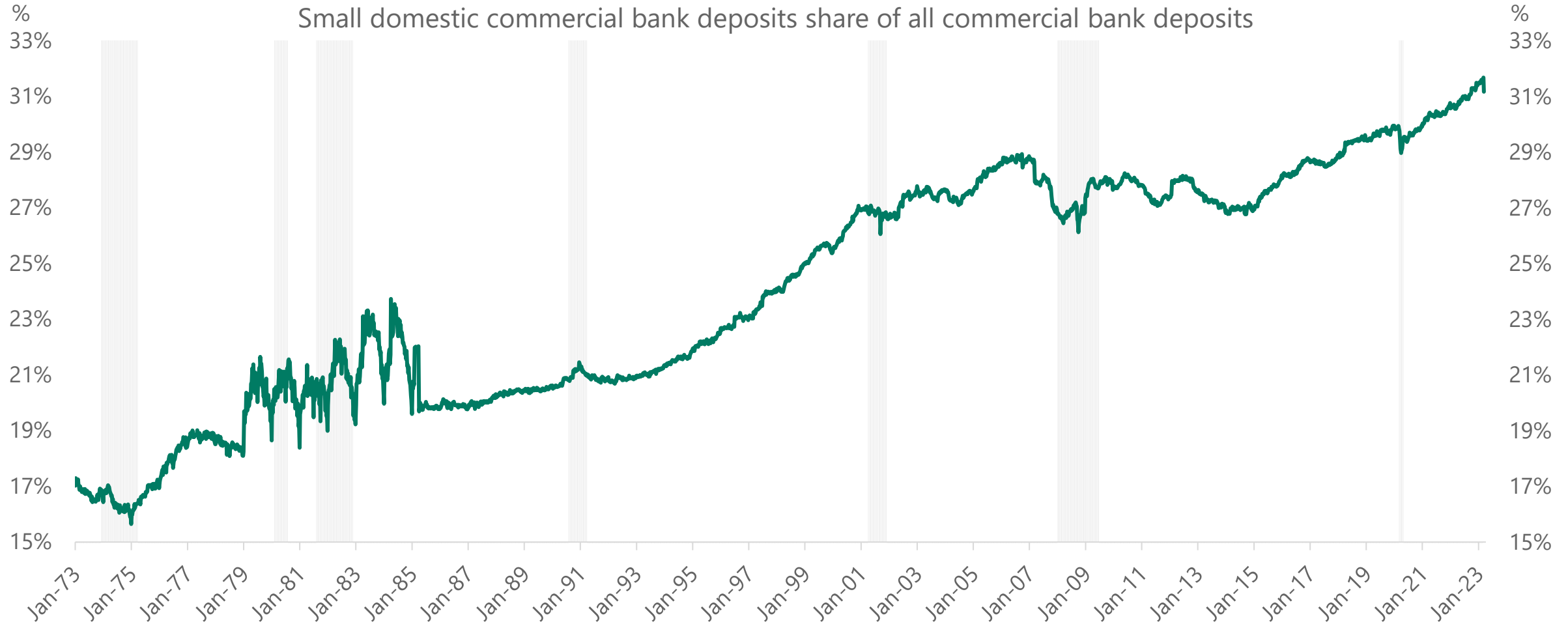


What is happening with deposits in regional banks?

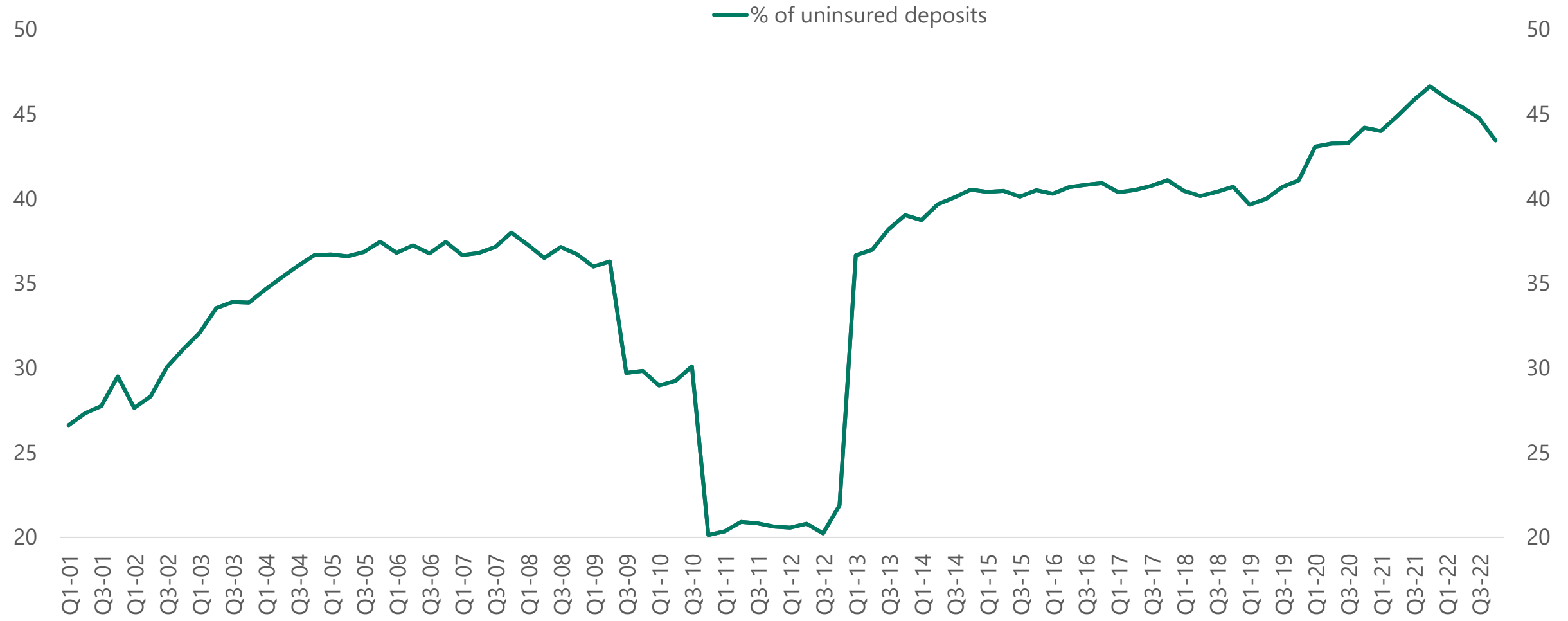
Small banks account for roughly a third of all deposits in the banking sector



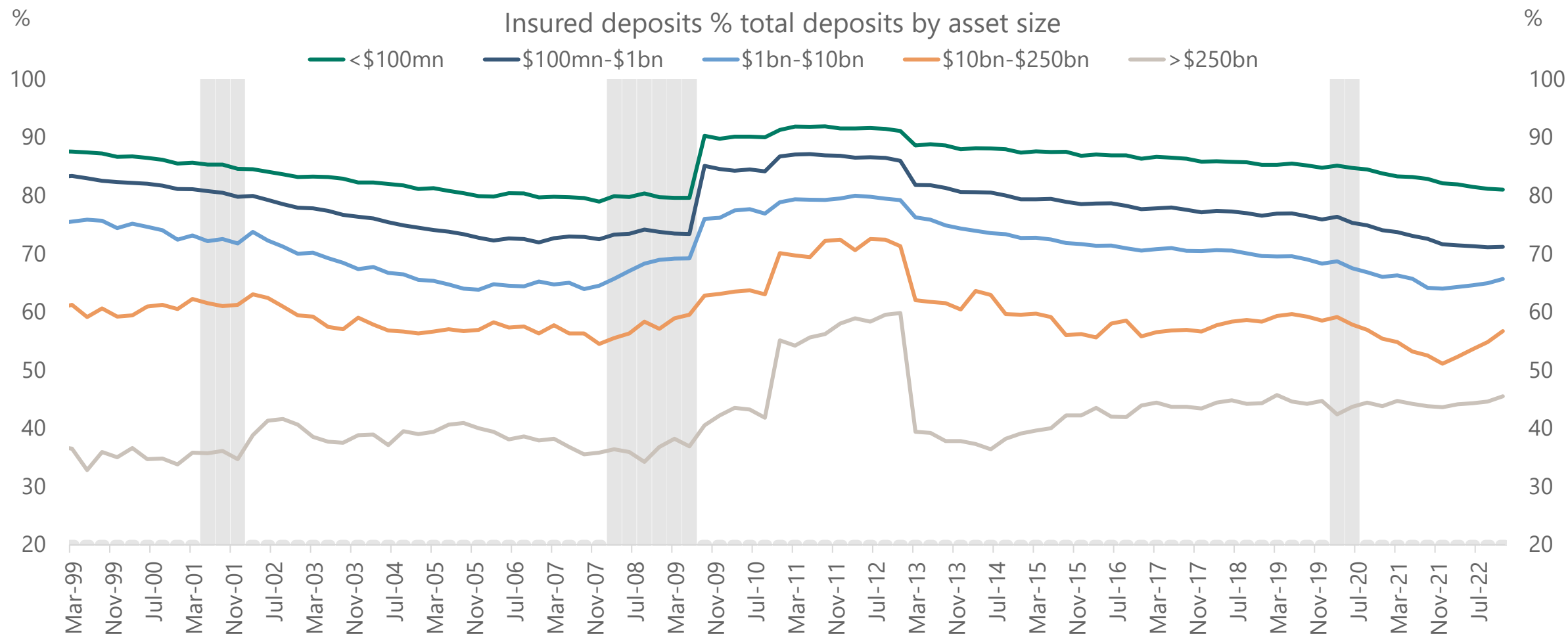
Small banks account for about 1/3 of total deposits in the banking sector and the share has been rising since the 2008 financial crisis



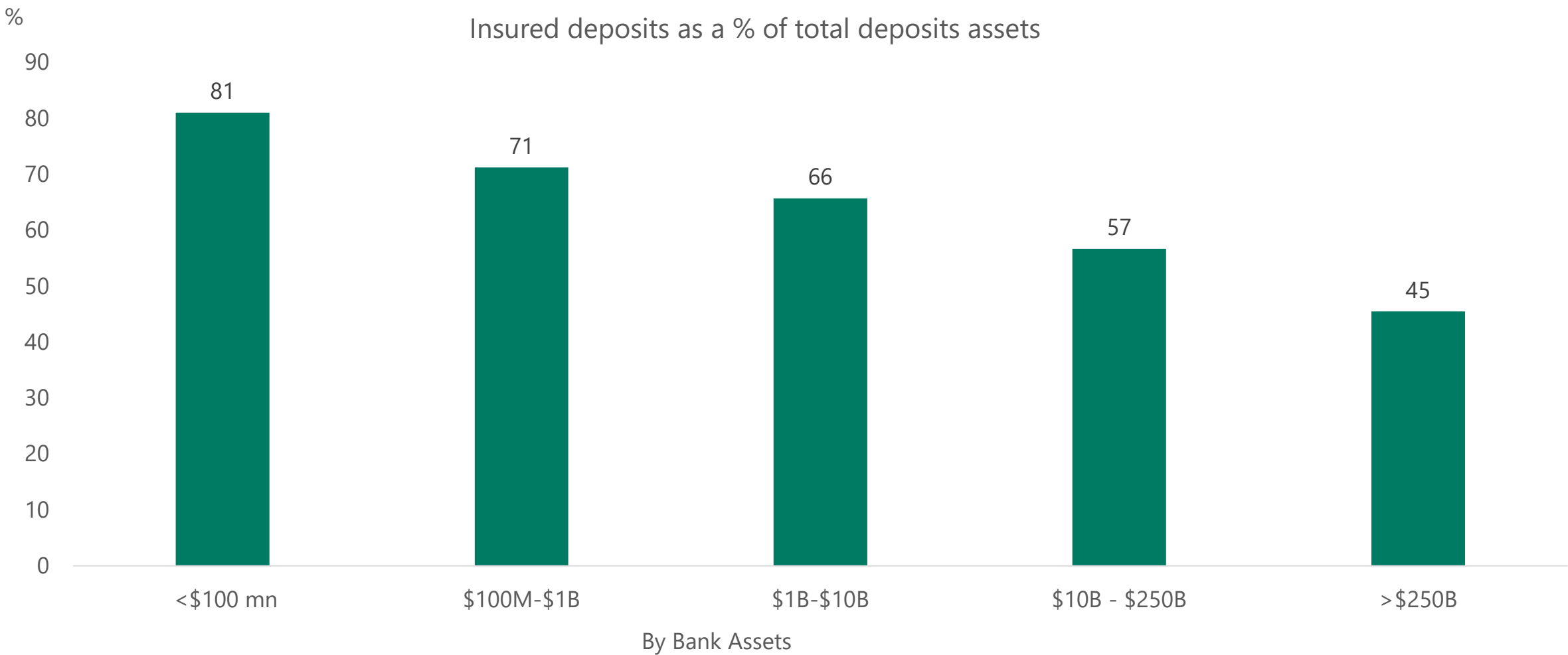
Share of total bank deposits that are uninsured: 43%



Share of insured deposits, by bank size

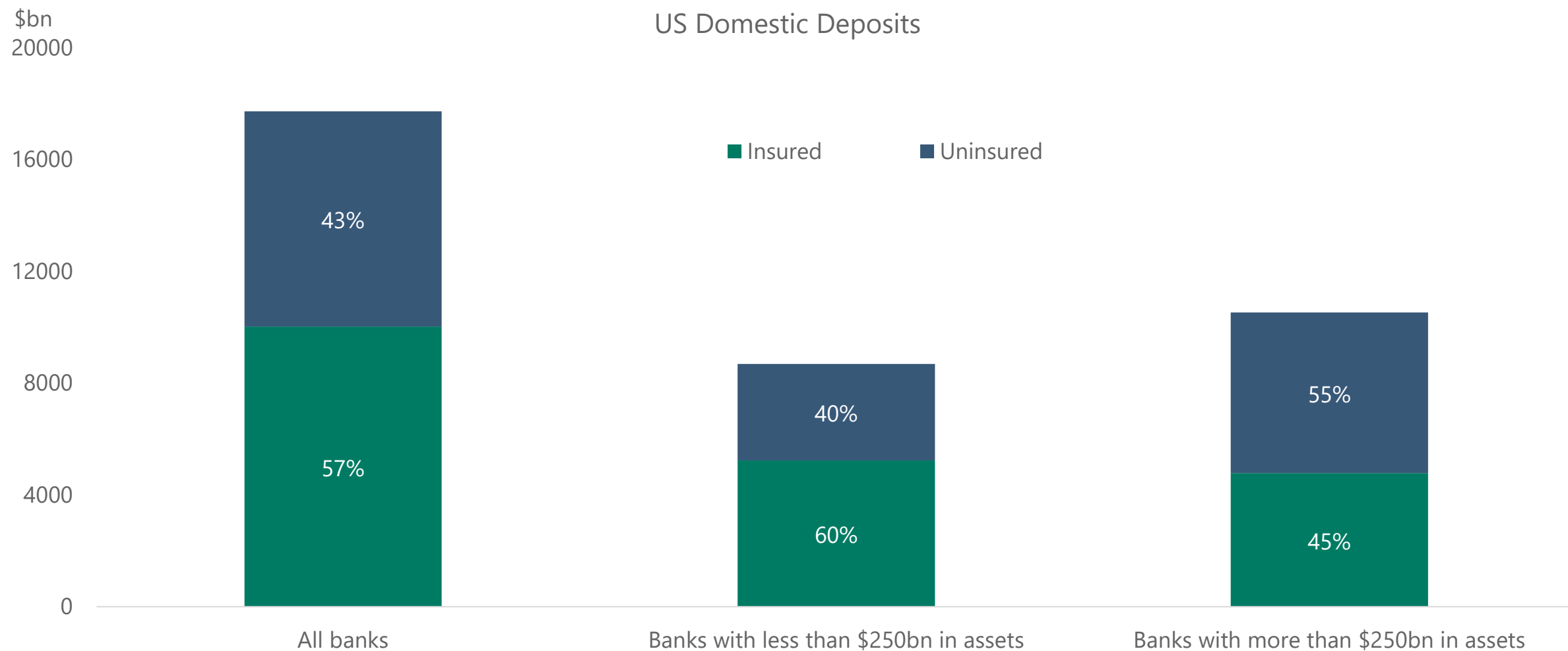


Share of insured deposits, by bank size

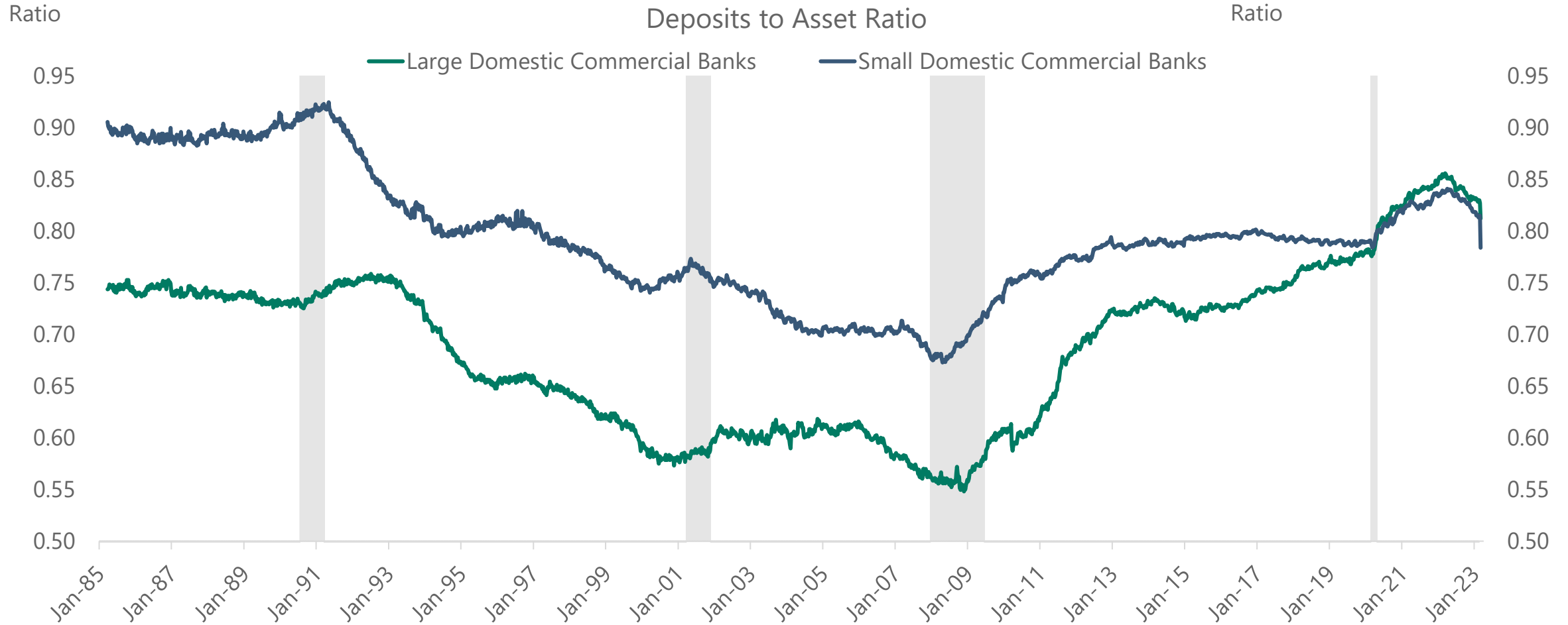


Source: FDIC, Haver Analytics, Apollo Chief Economist. As of Q4 2022

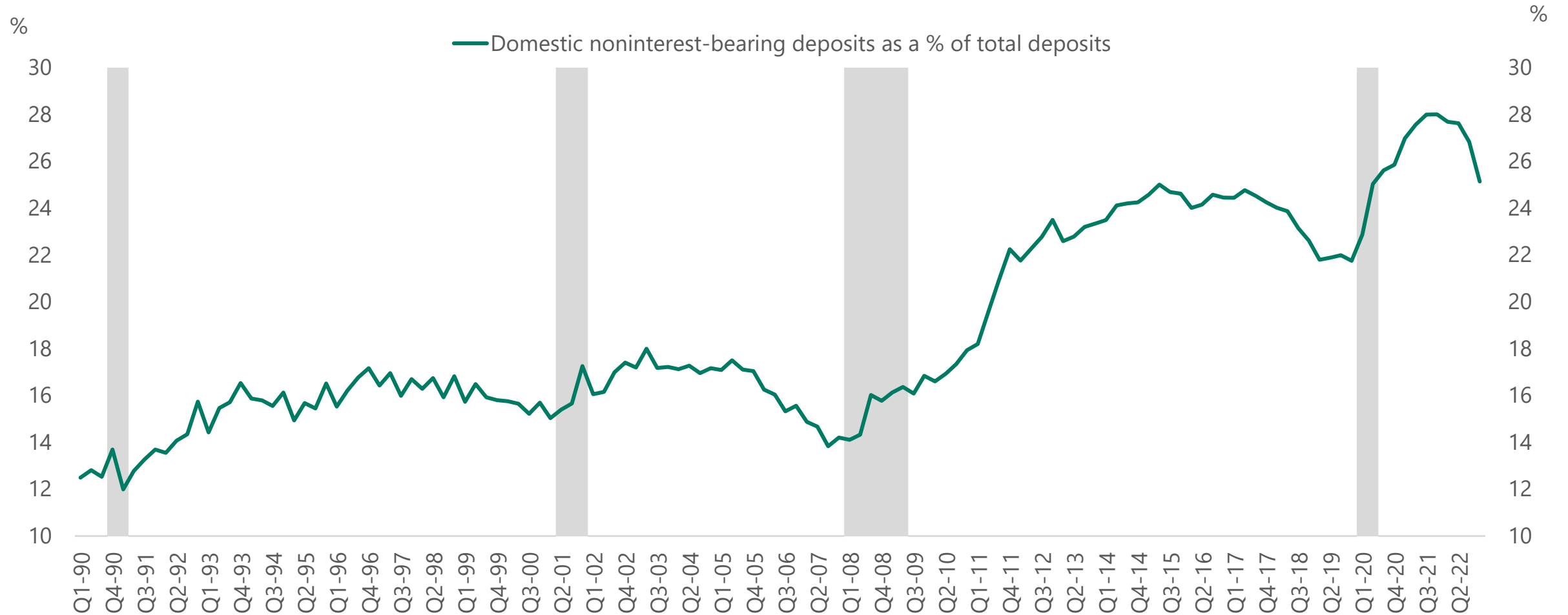
Share of insured deposits, by bank size



Deposit to asset ratio for large and small banks

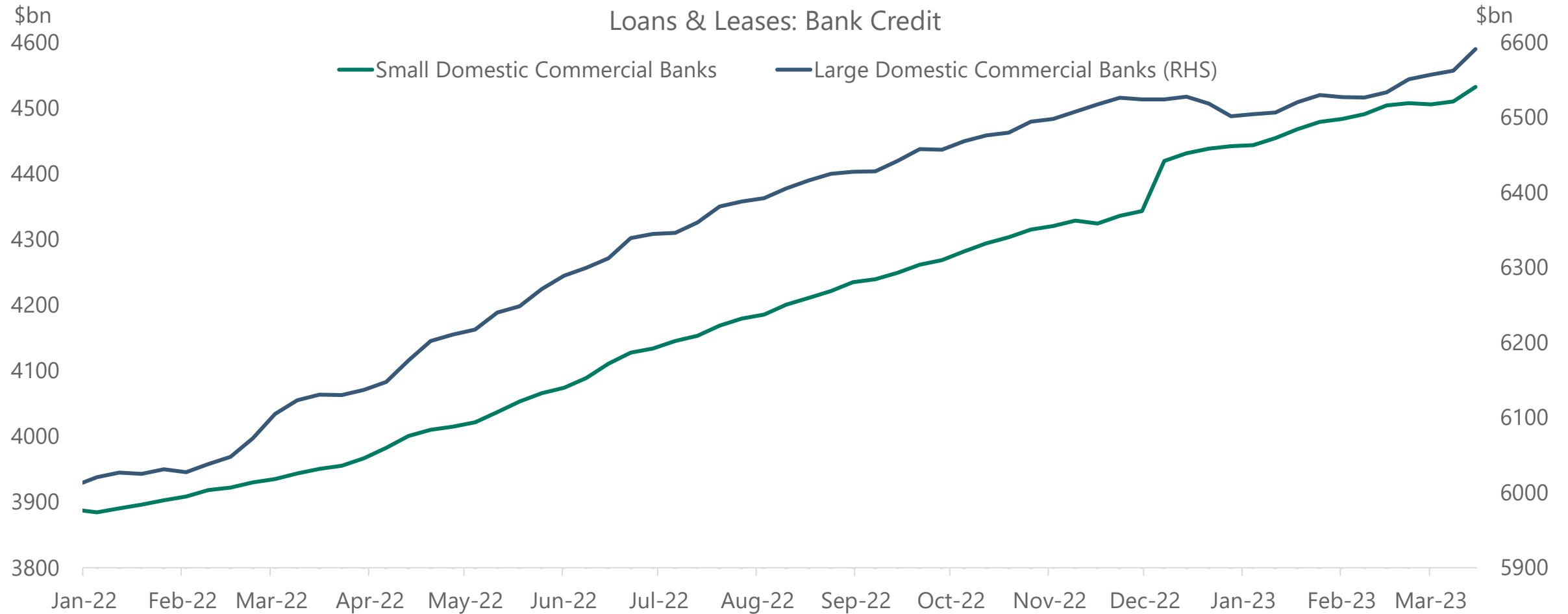


25% of all bank deposits pay zero interest rate

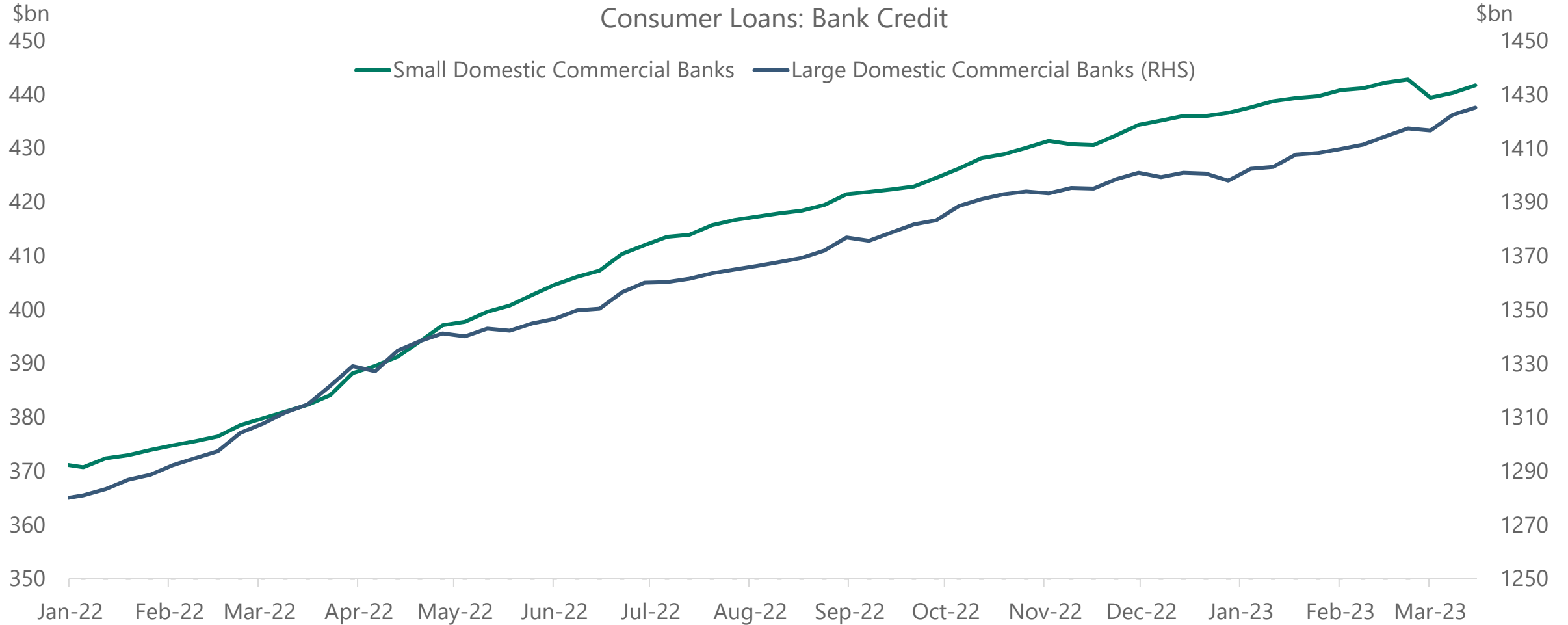


Weekly data for bank lending by small and large banks

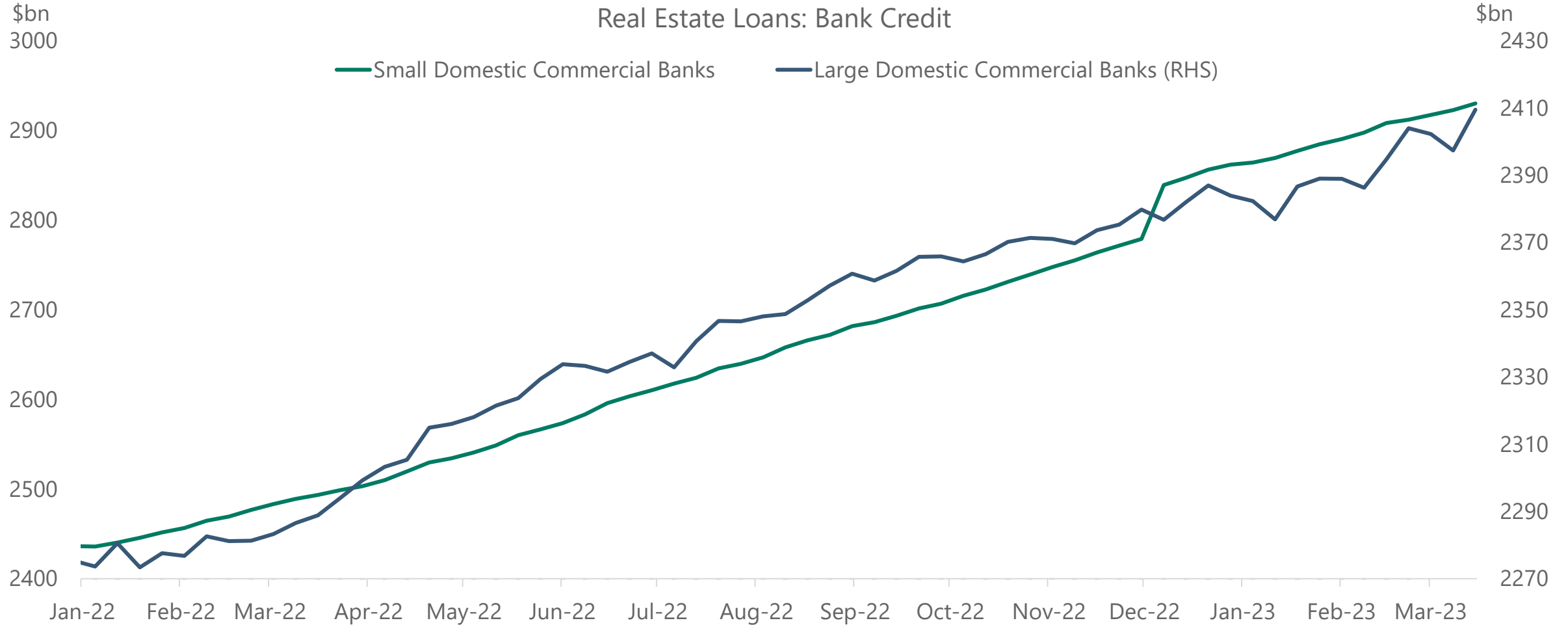
Weekly data for overall bank lending



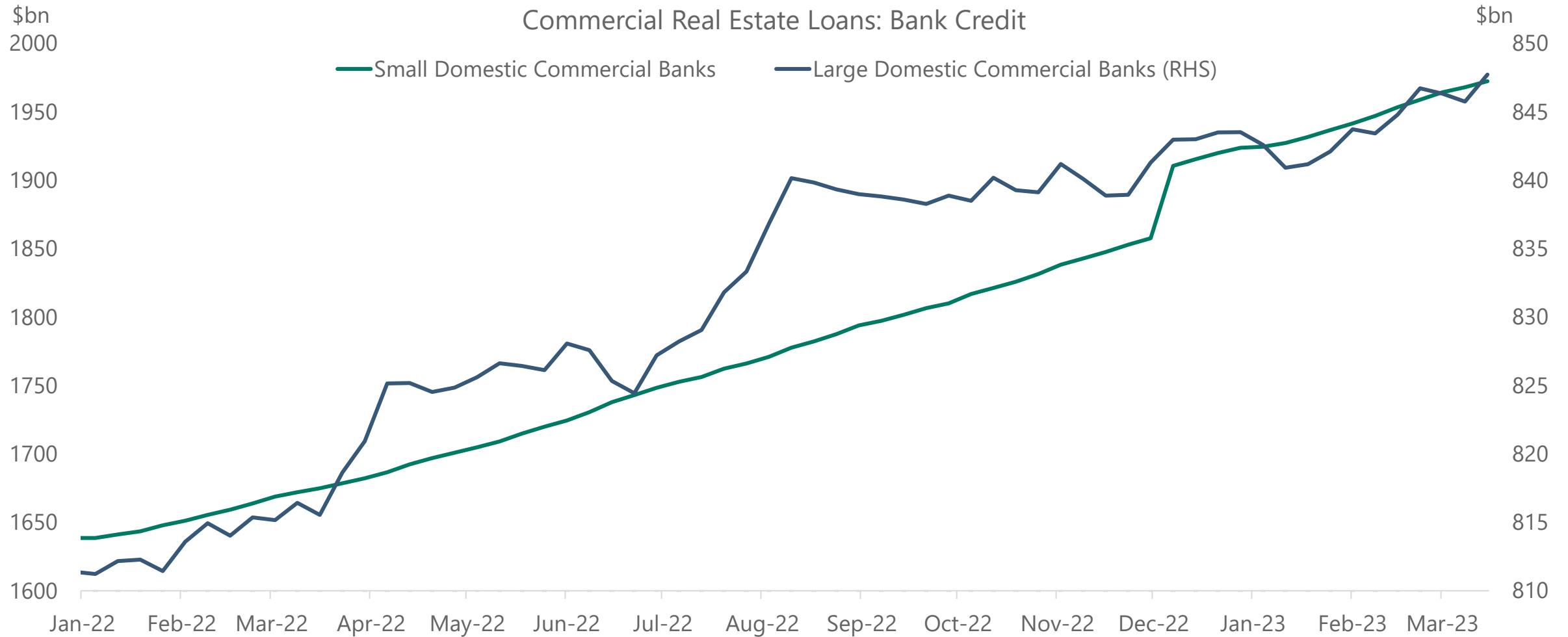
Weekly data for lending to consumers by small and large banks



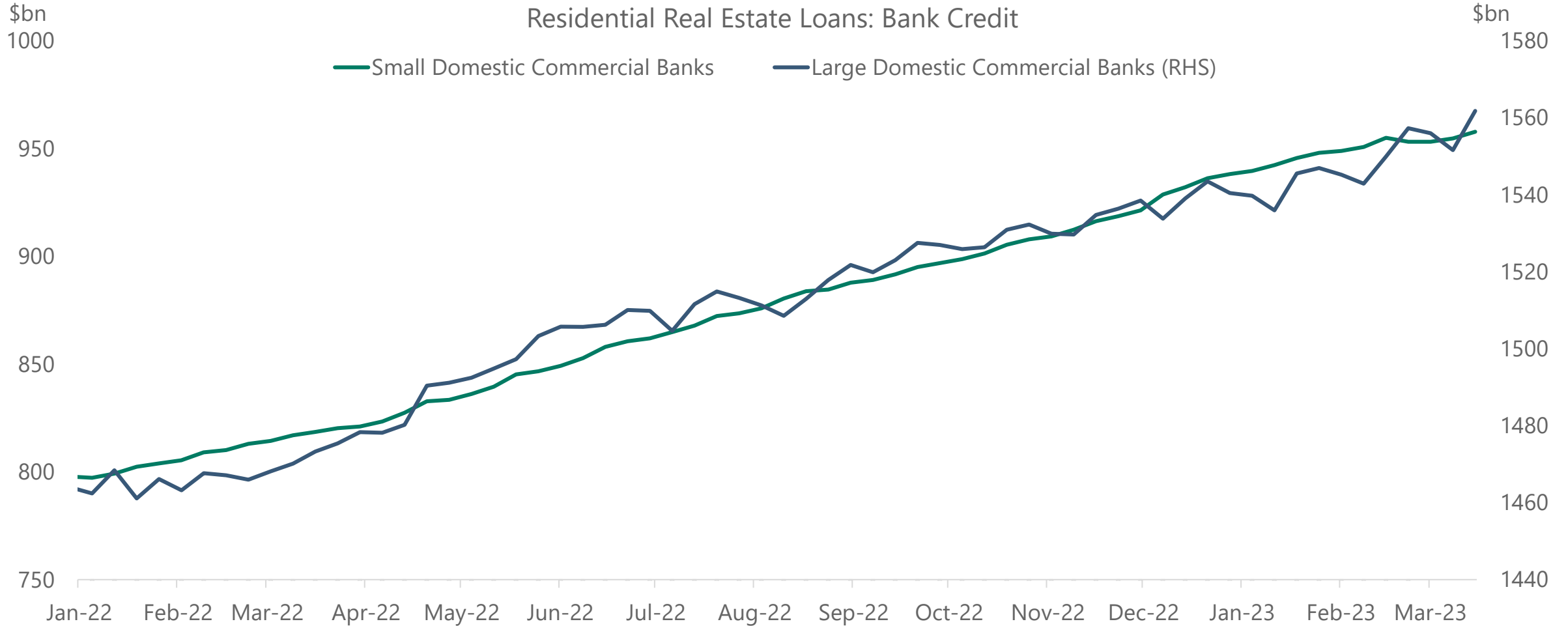
Weekly data for real estate lending by small and large banks



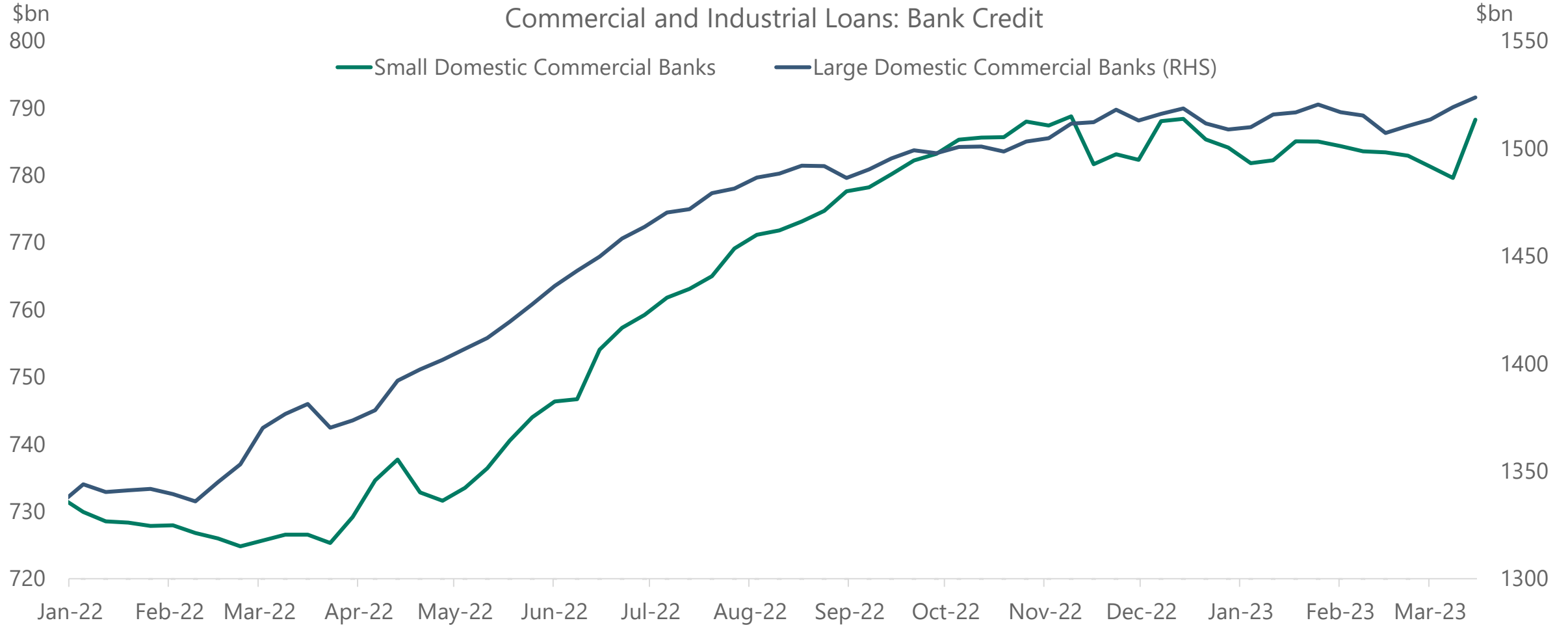
Weekly data for commercial real estate lending by small and large banks



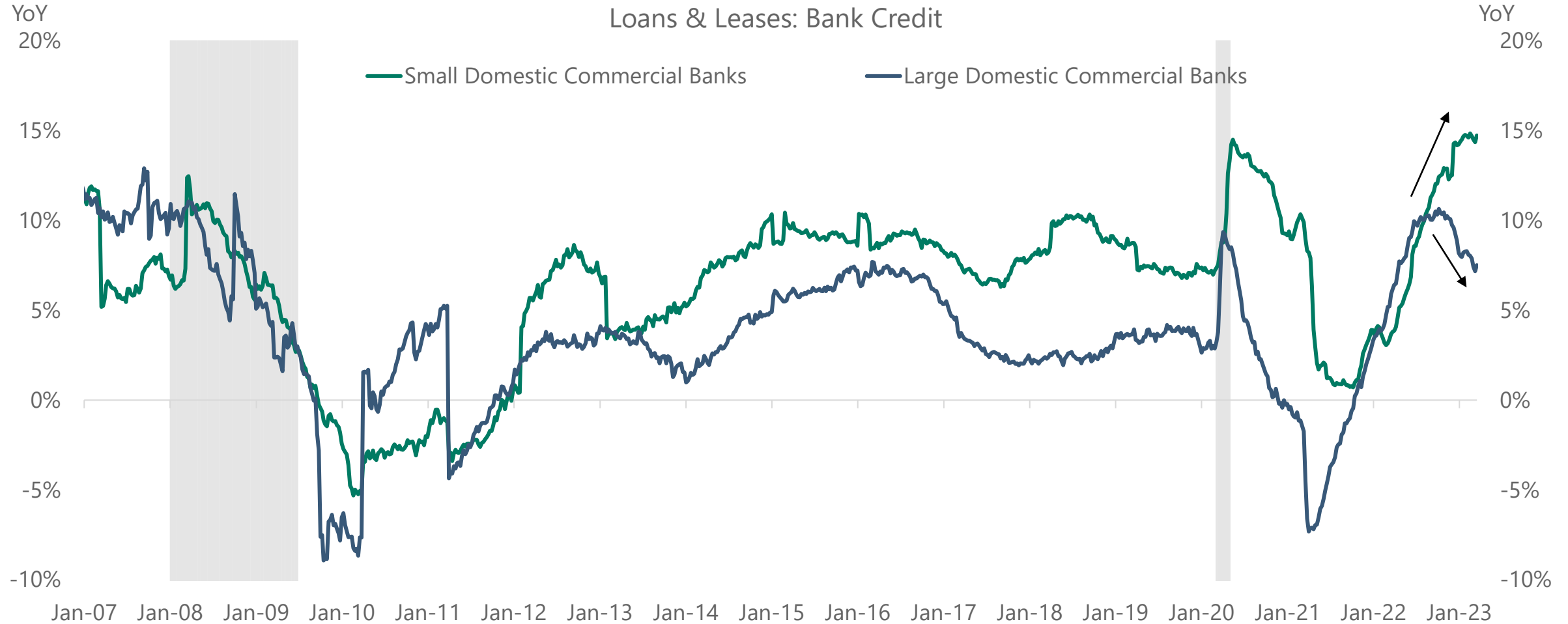
Weekly data for residential real estate lending by small and large banks



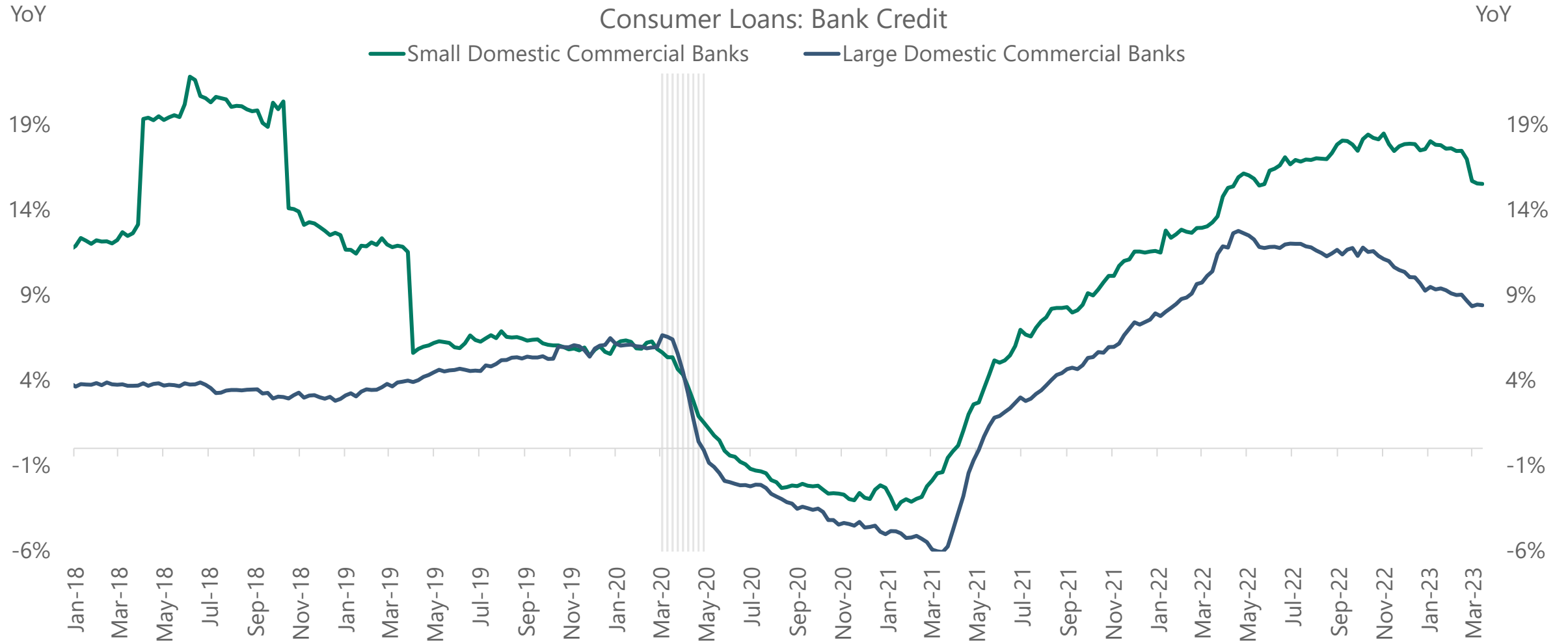
Weekly data for commercial and industrial lending by small and large banks



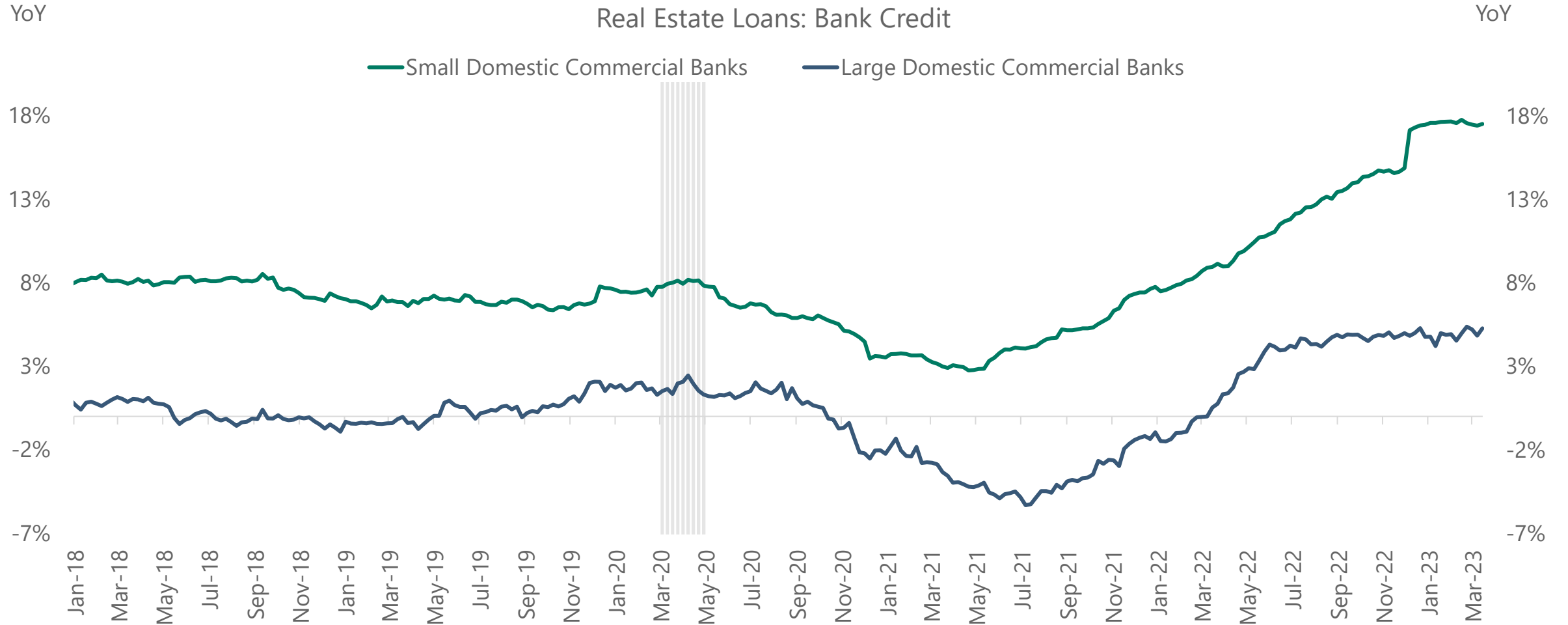
Divergence between small bank and large bank lending growth over the past year



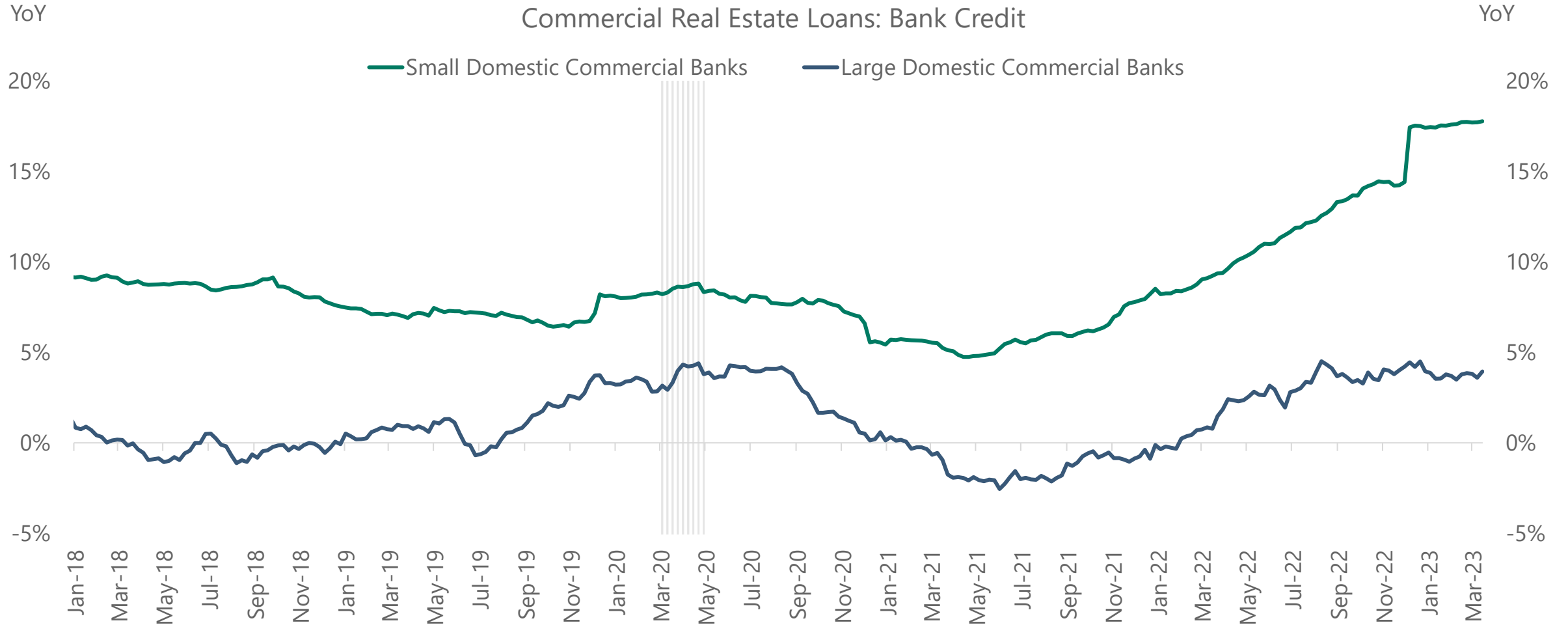
Lending to consumers has been growing faster for smaller banks



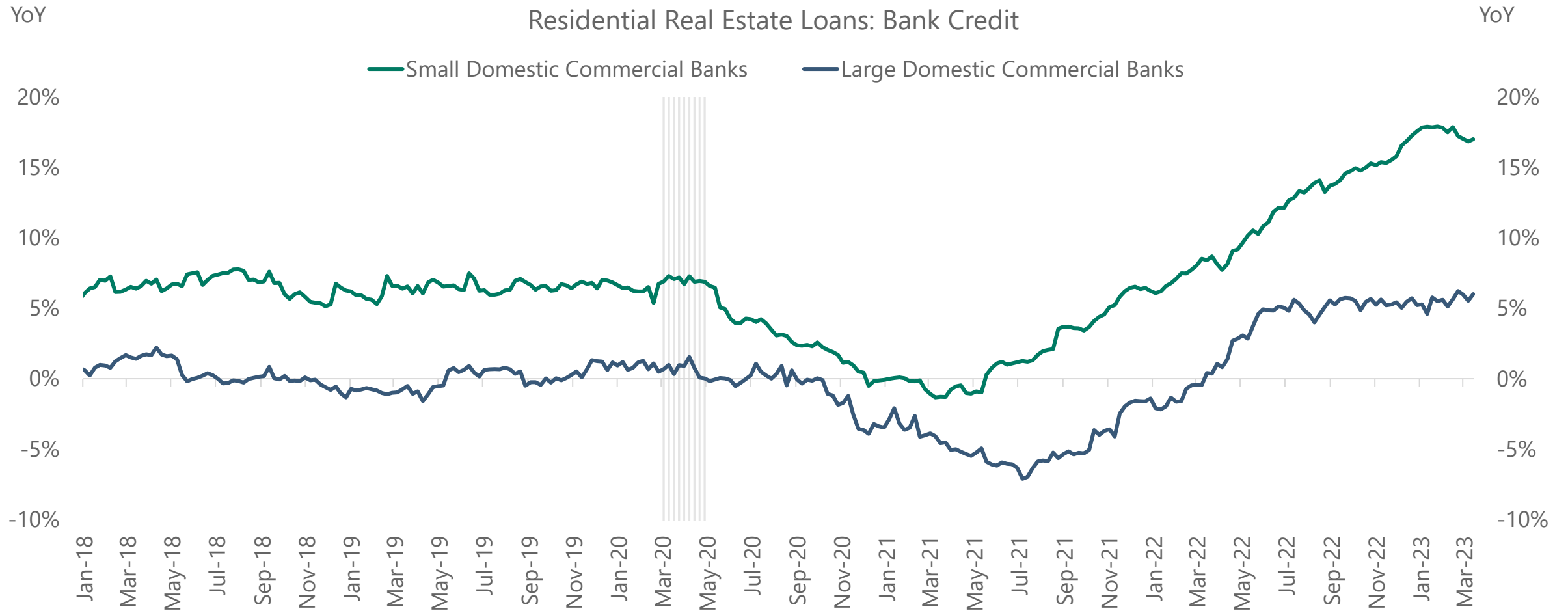
Real estate lending has been growing faster for smaller banks



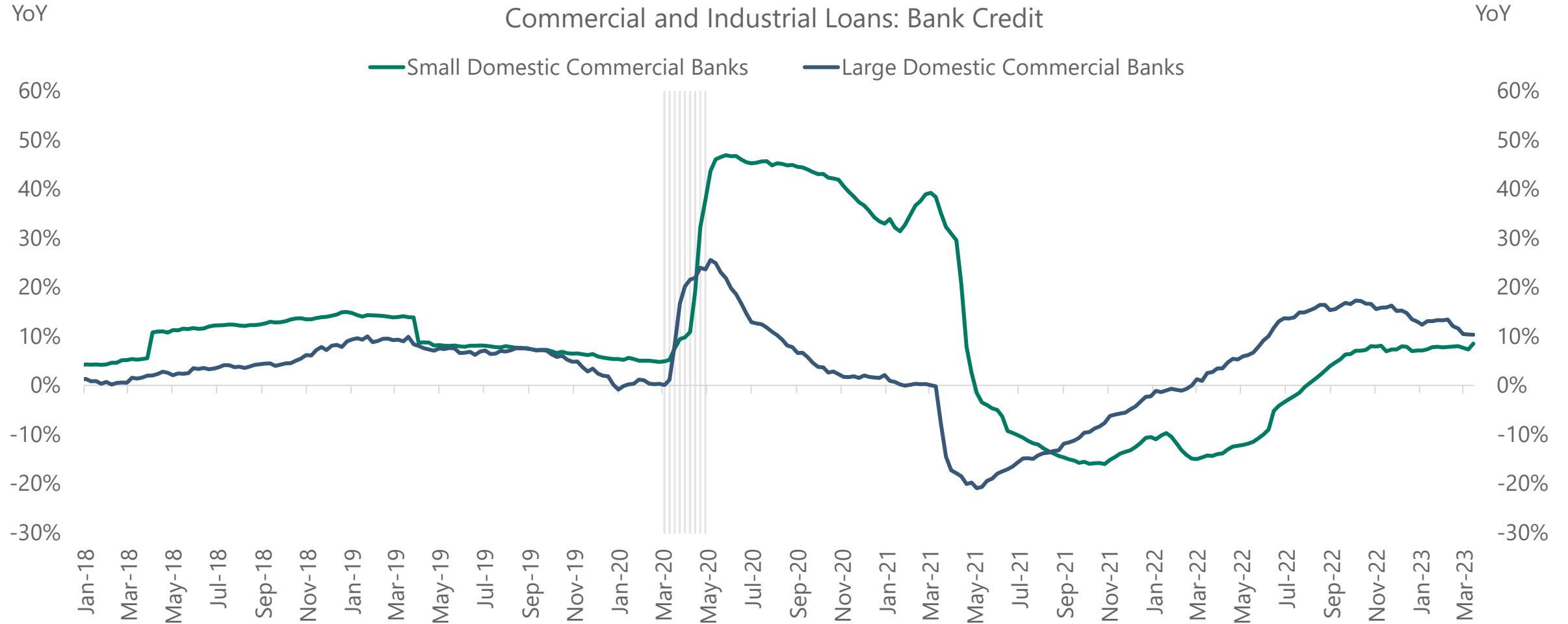
Commercial real estate lending has been growing faster for smaller banks



Residential real estate lending has been growing faster for smaller banks

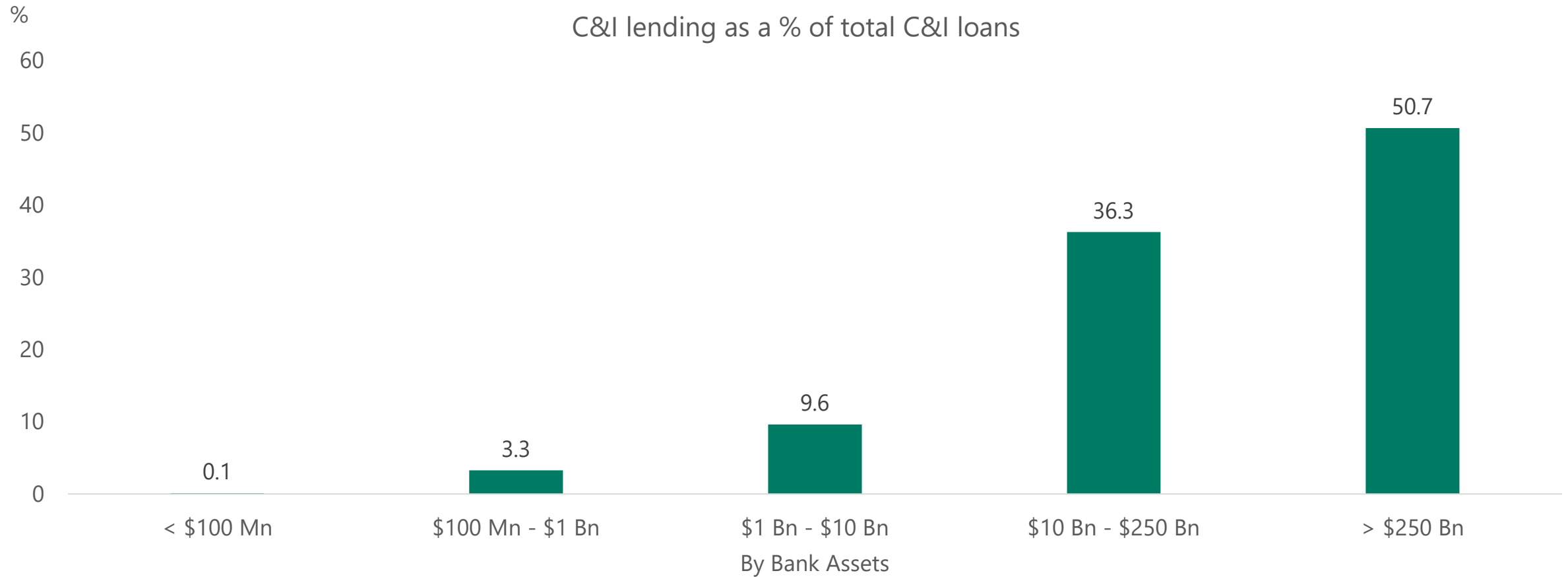


Lending to corporates among small and large banks



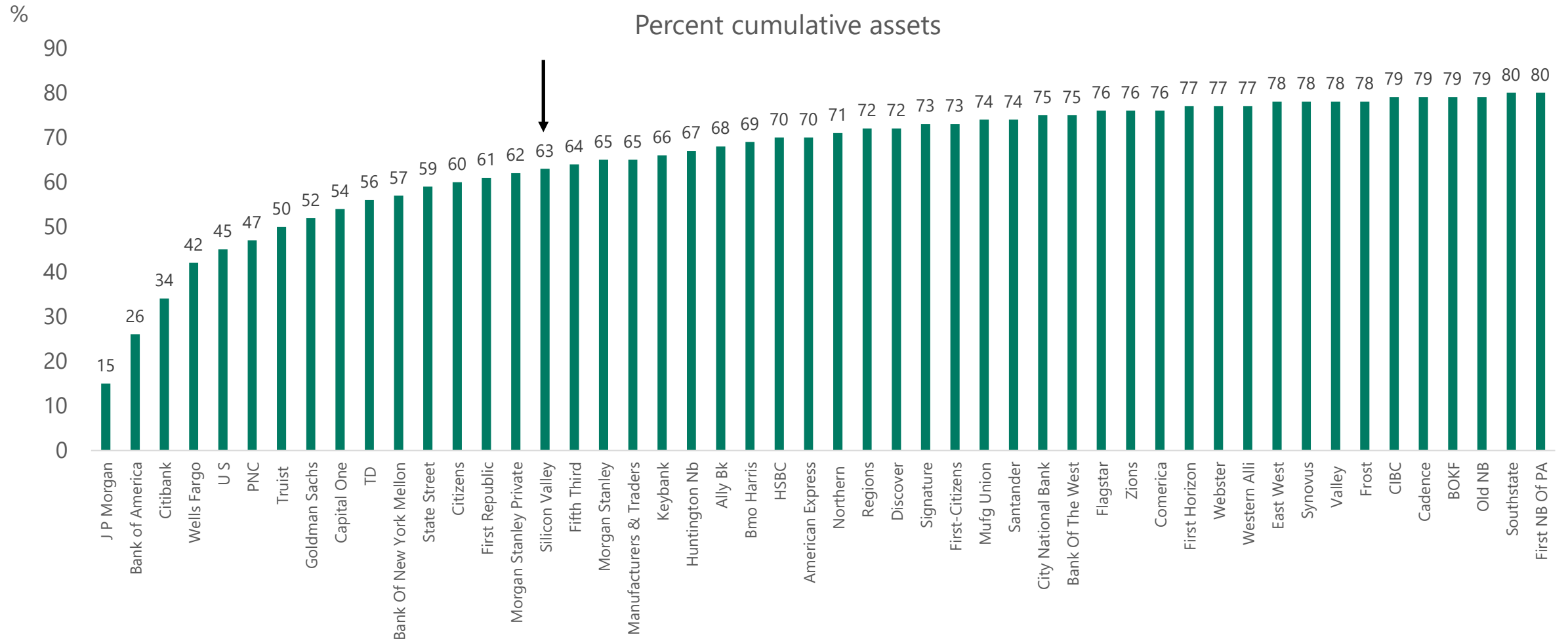
Small banks lend to small businesses

Banks with less than \$250bn in assets account for 50% of commercial and industrial lending

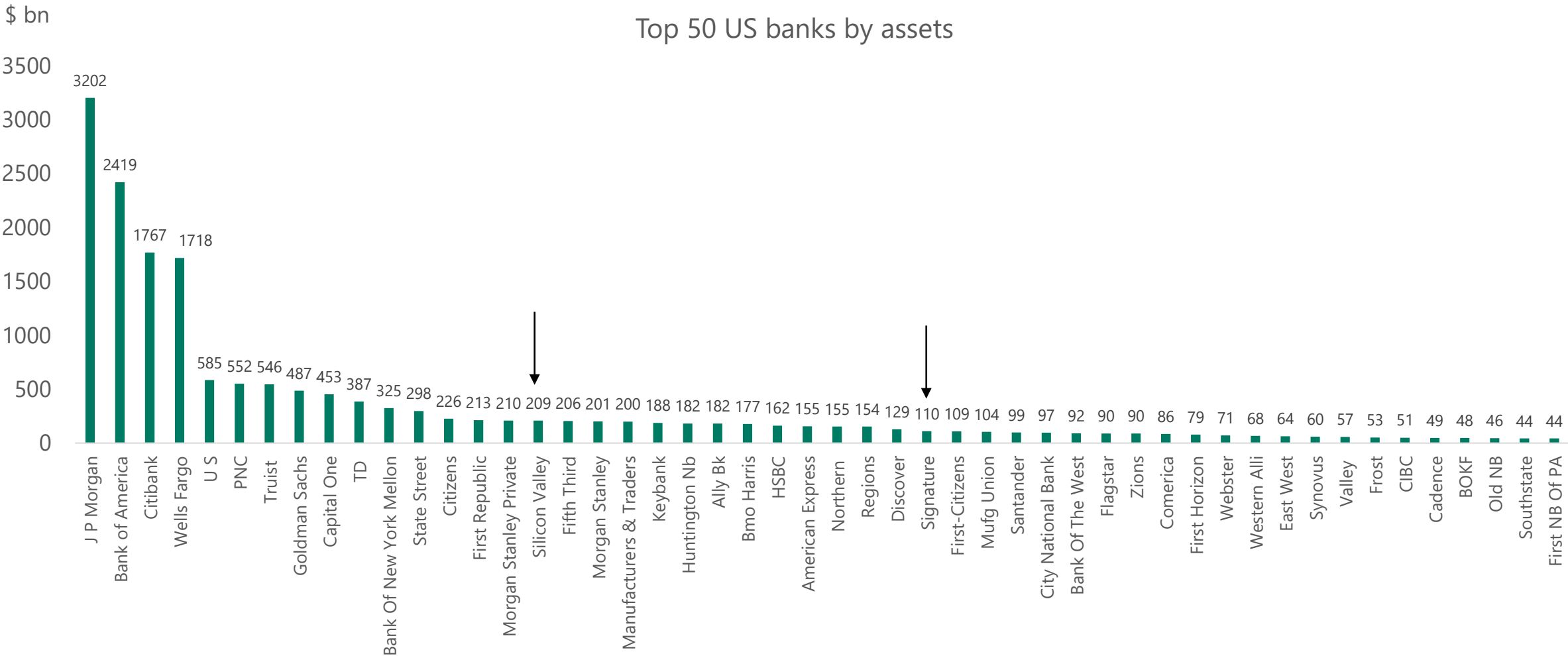


US banks by asset size:
The importance of regional banks for the US economy

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

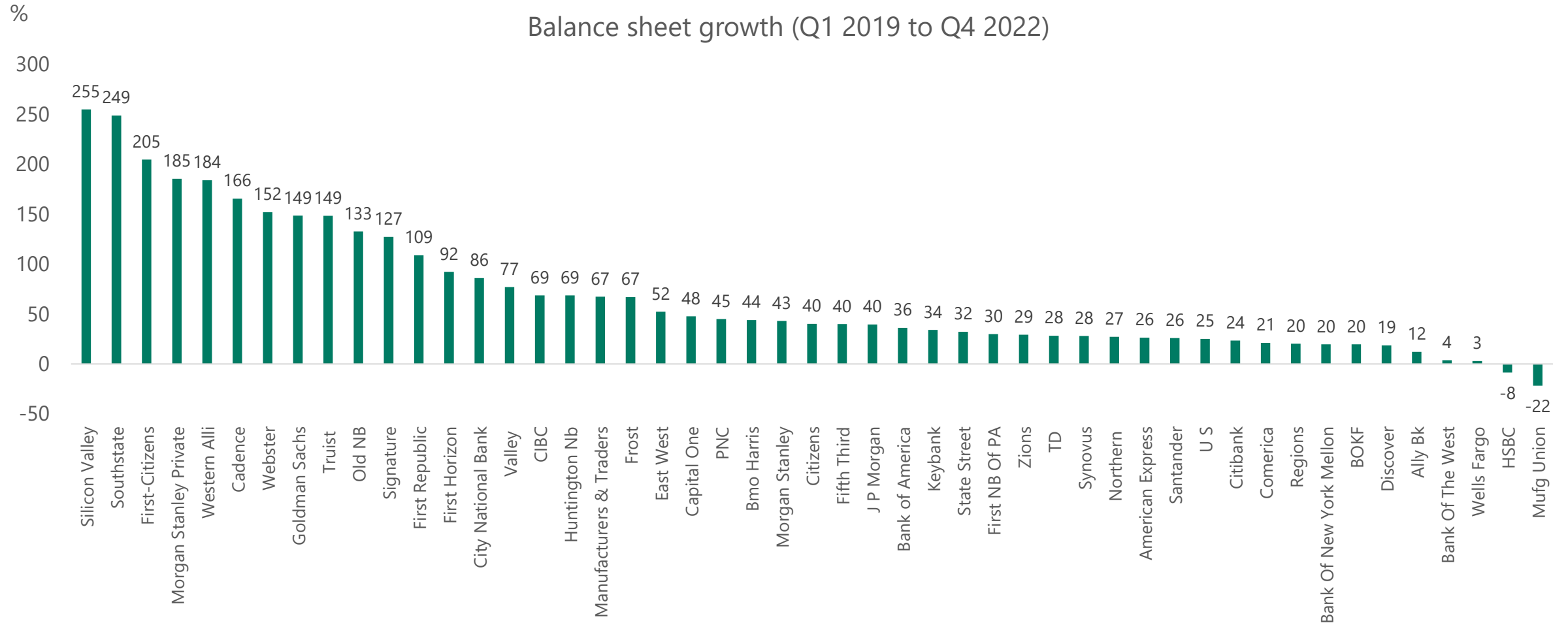


Top 50 US banks by assets

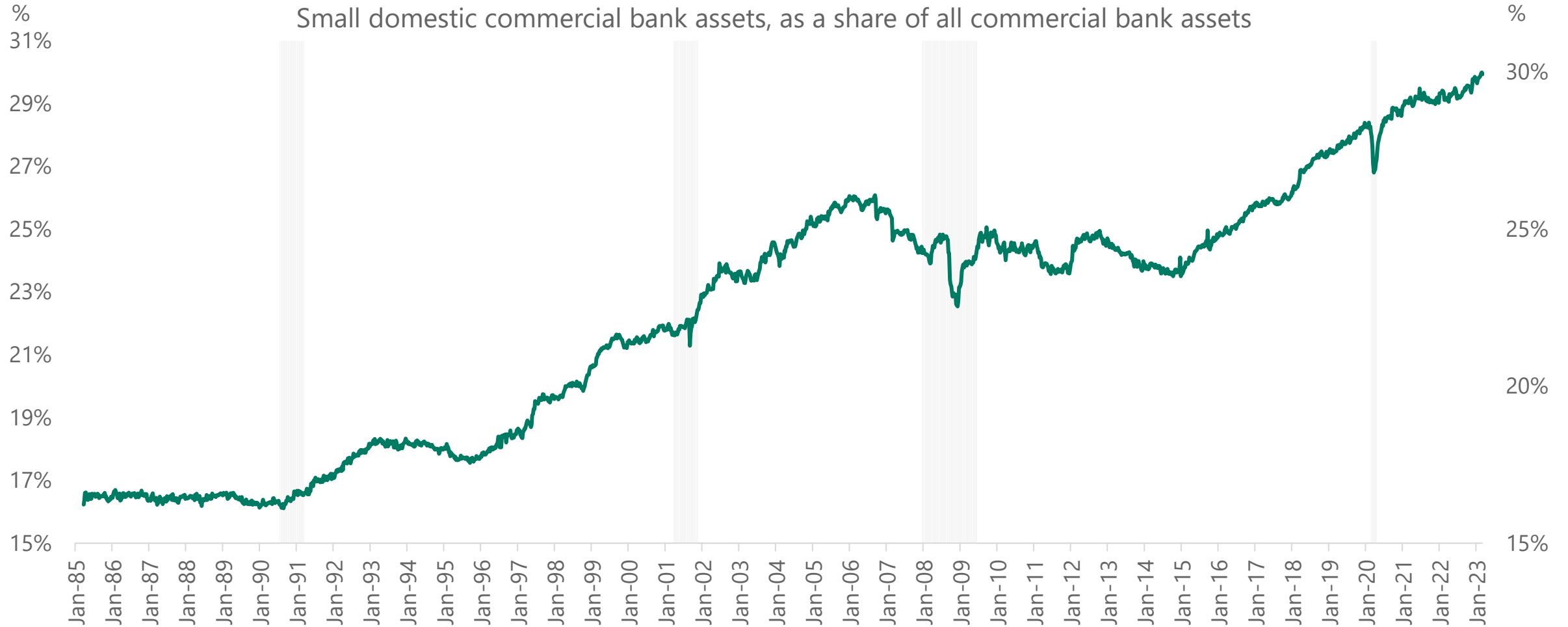


Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist. As of Q4 2022.

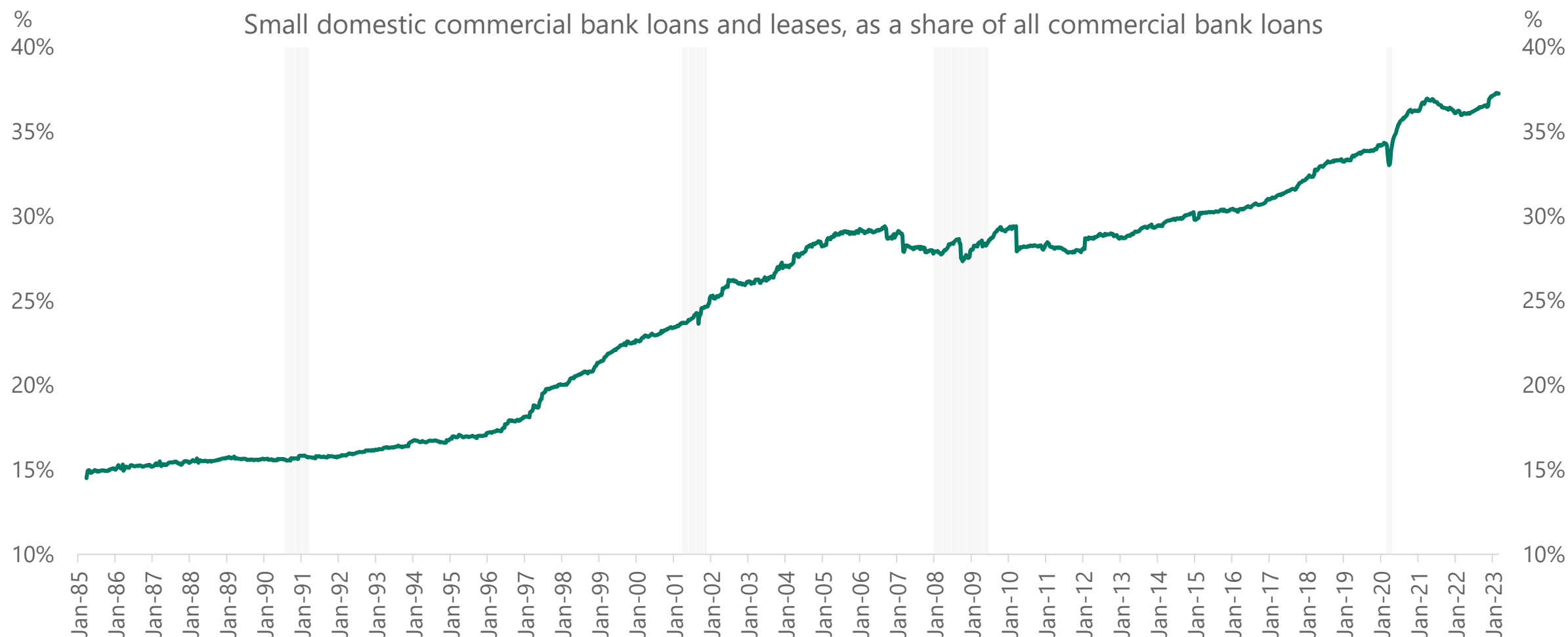
Balance sheet growth of US banks, ranked by fastest growth in percent



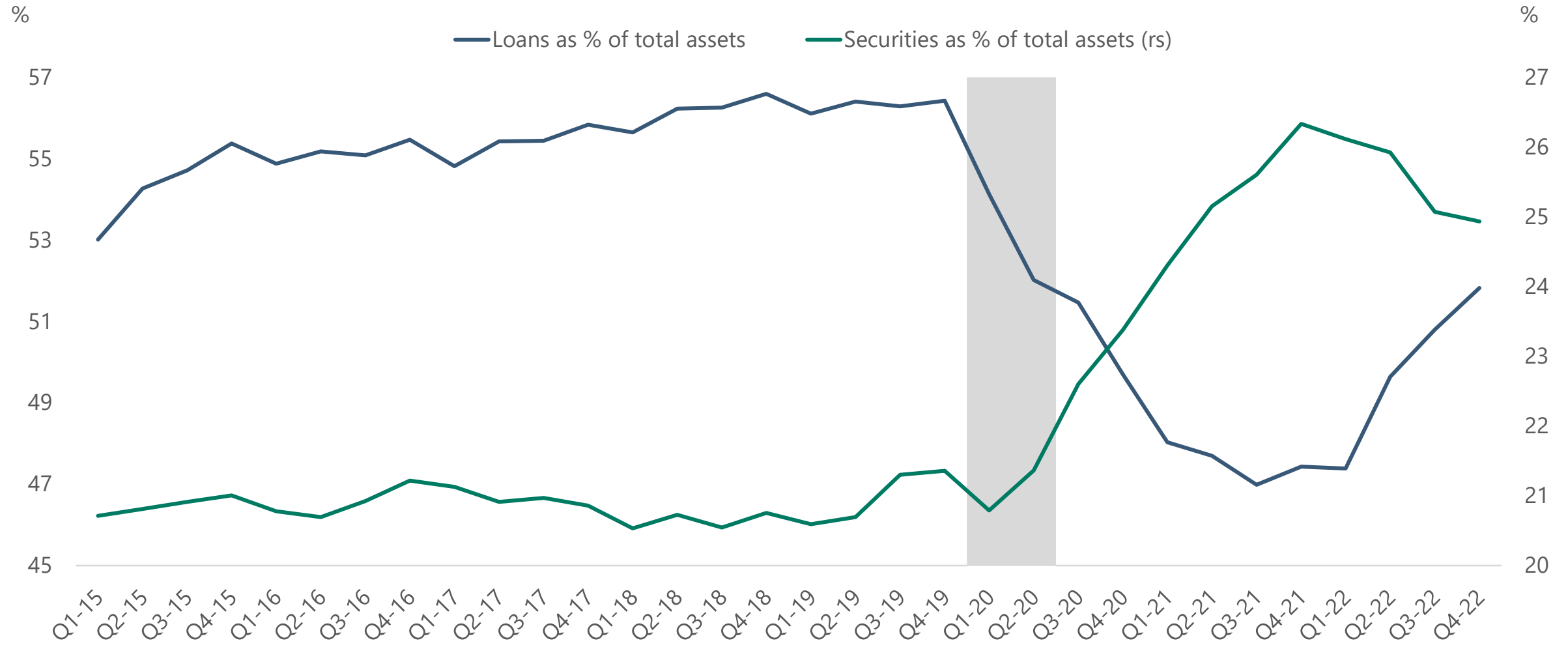
Small bank assets as a share of total banking sector assets



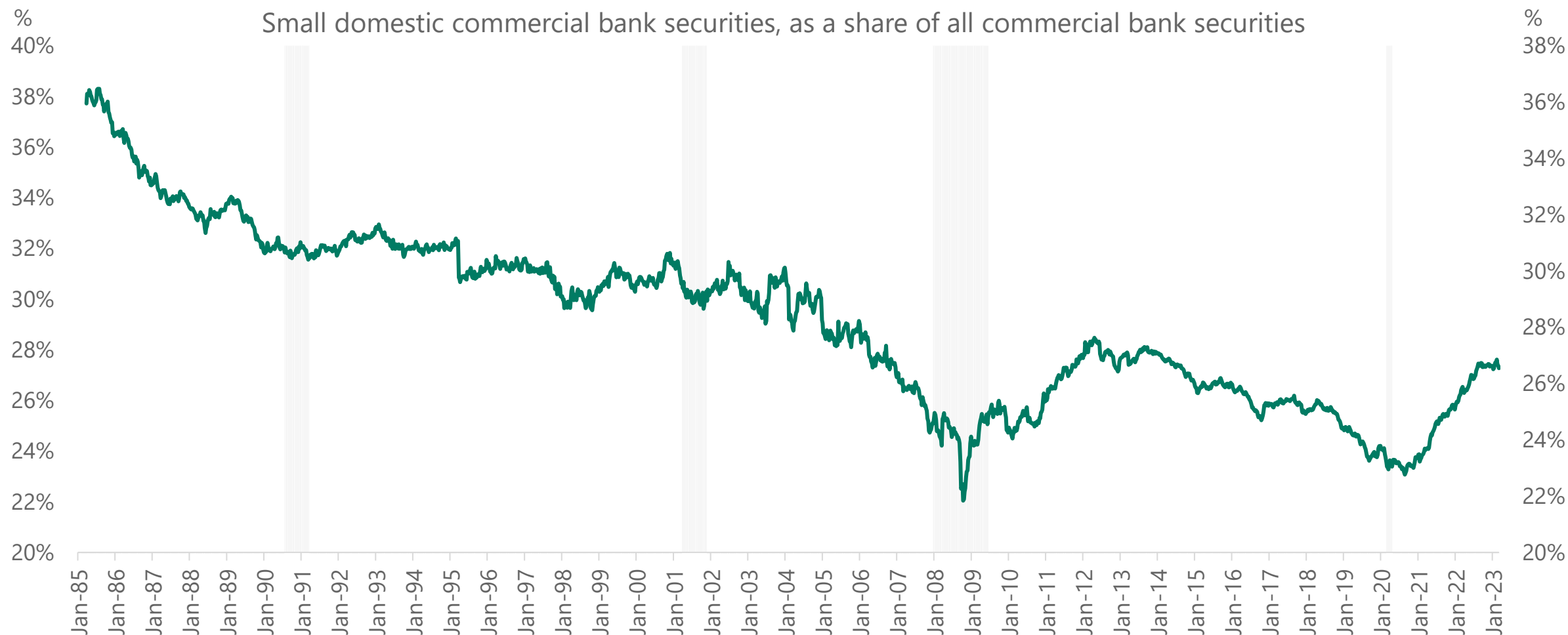
Share of lending by smaller banks



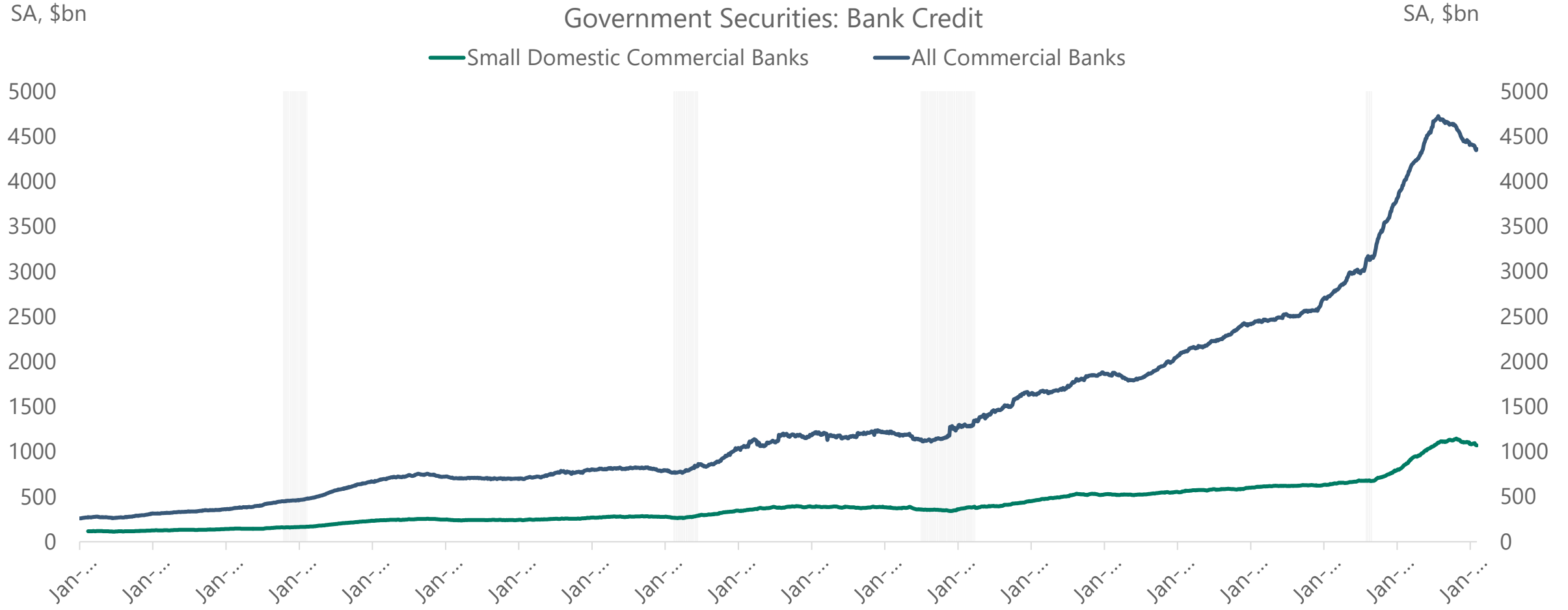
During the pandemic, banks shifted from lending to holding securities



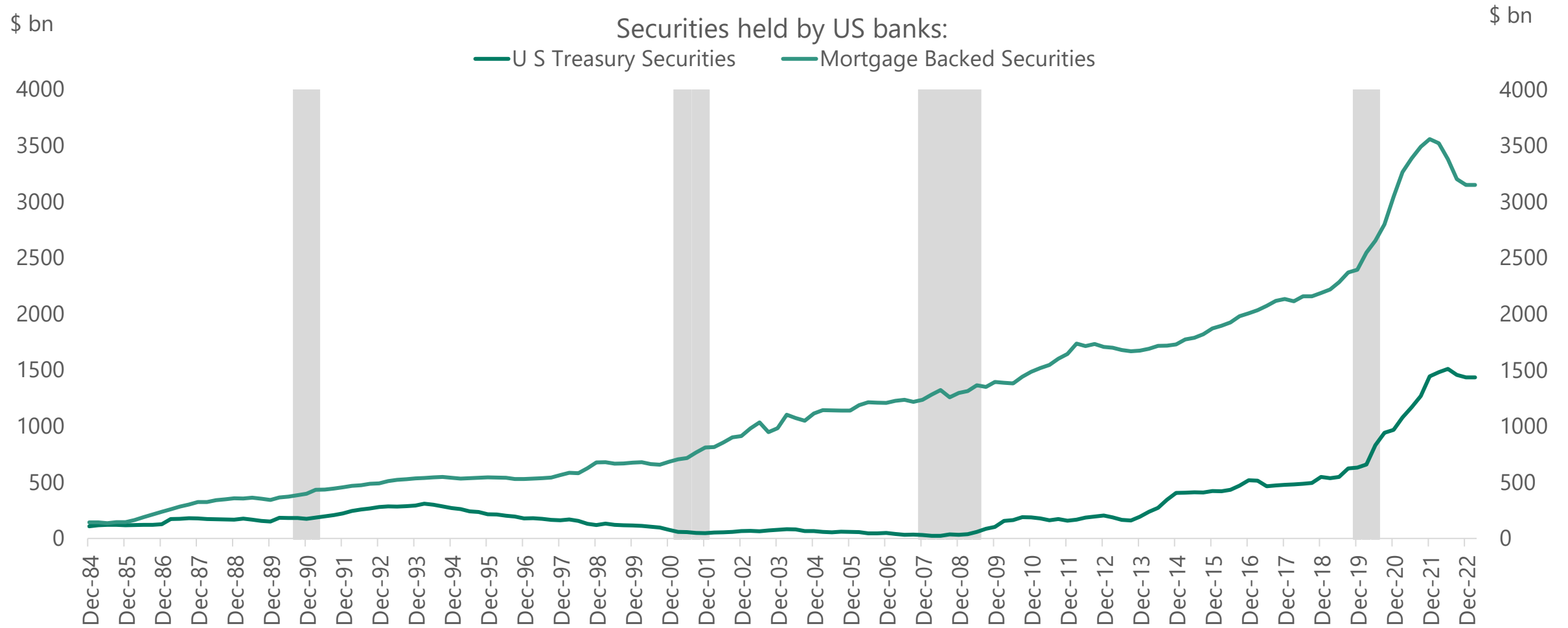
Share of securities in the banking sector held by small banks



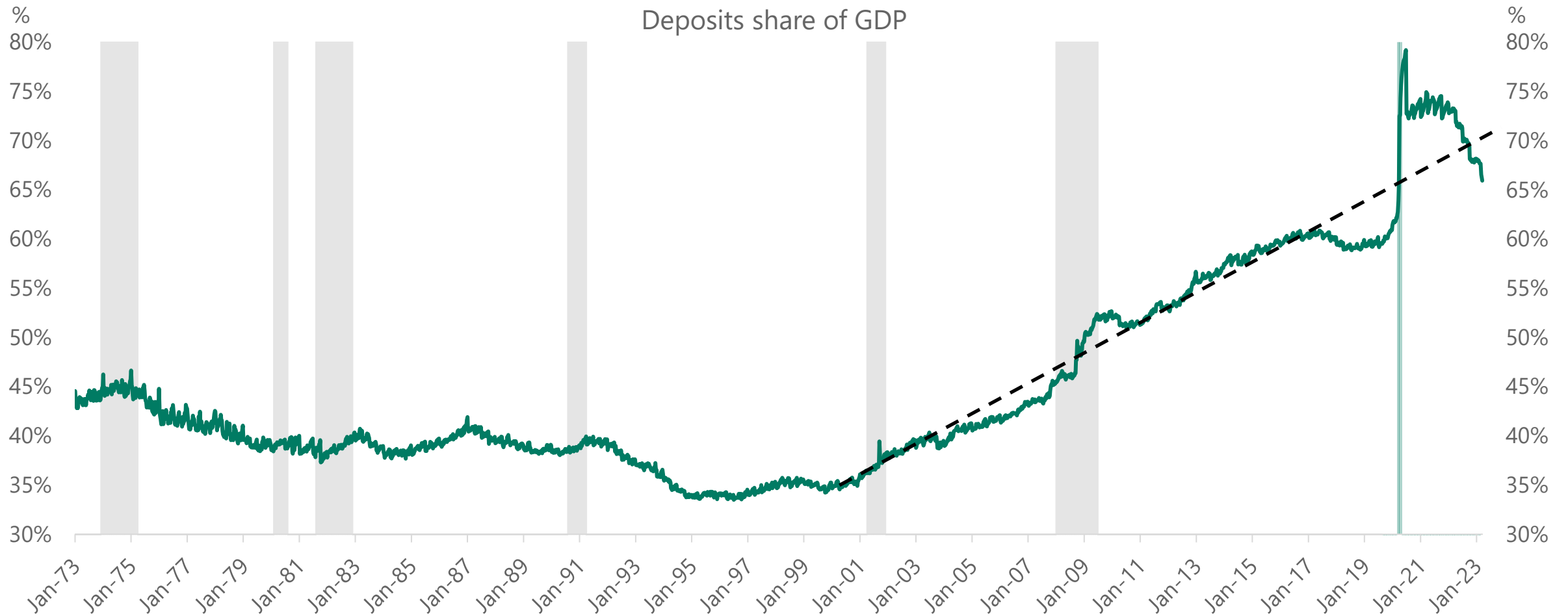
Small banks hold \$1trn in Treasuries



Securities held by FDIC-insured banks

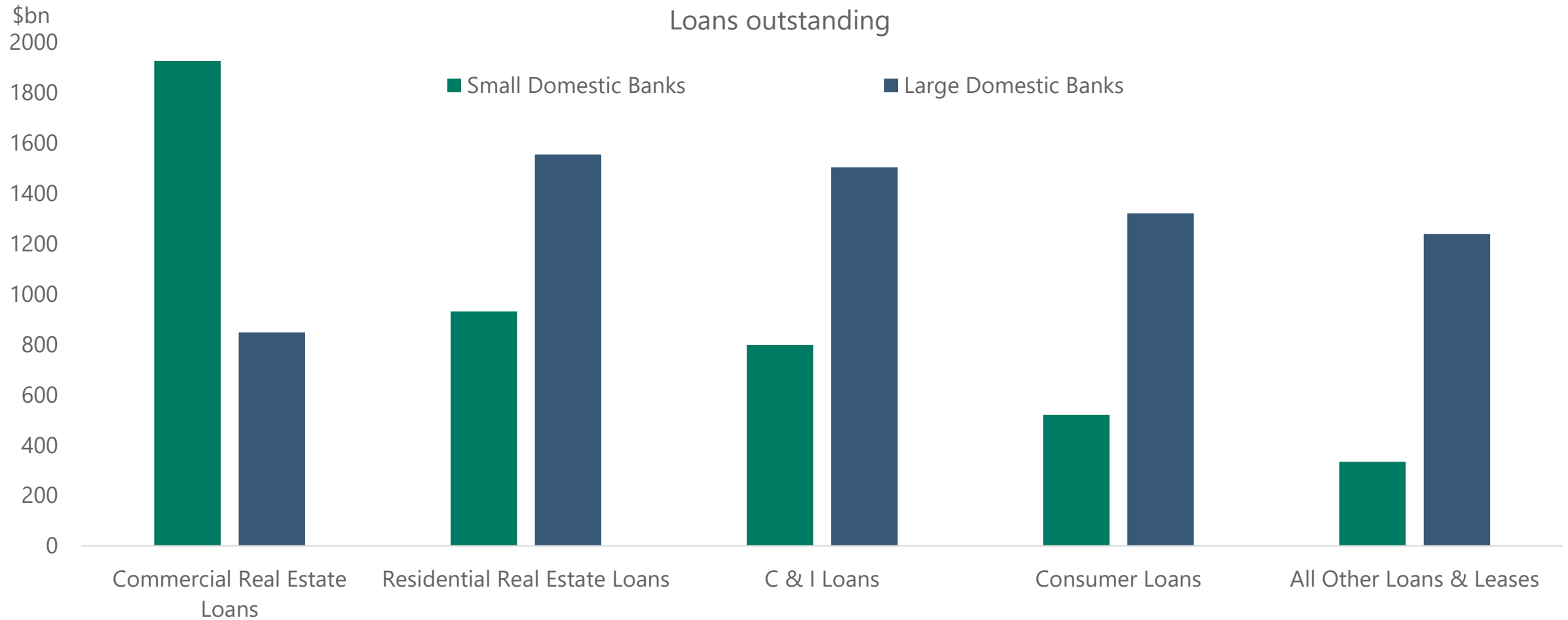


Deposits as a share of GDP now below trend

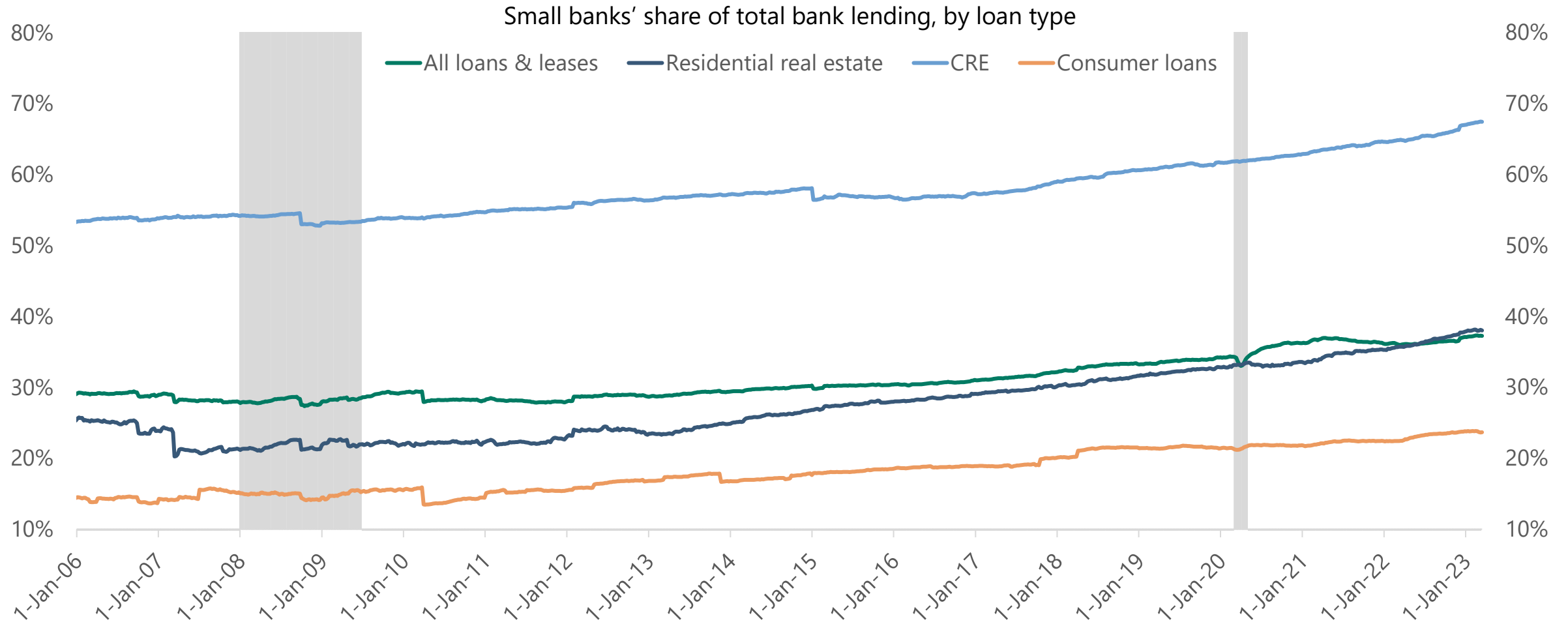


Regional banks' asset concentration in CRE

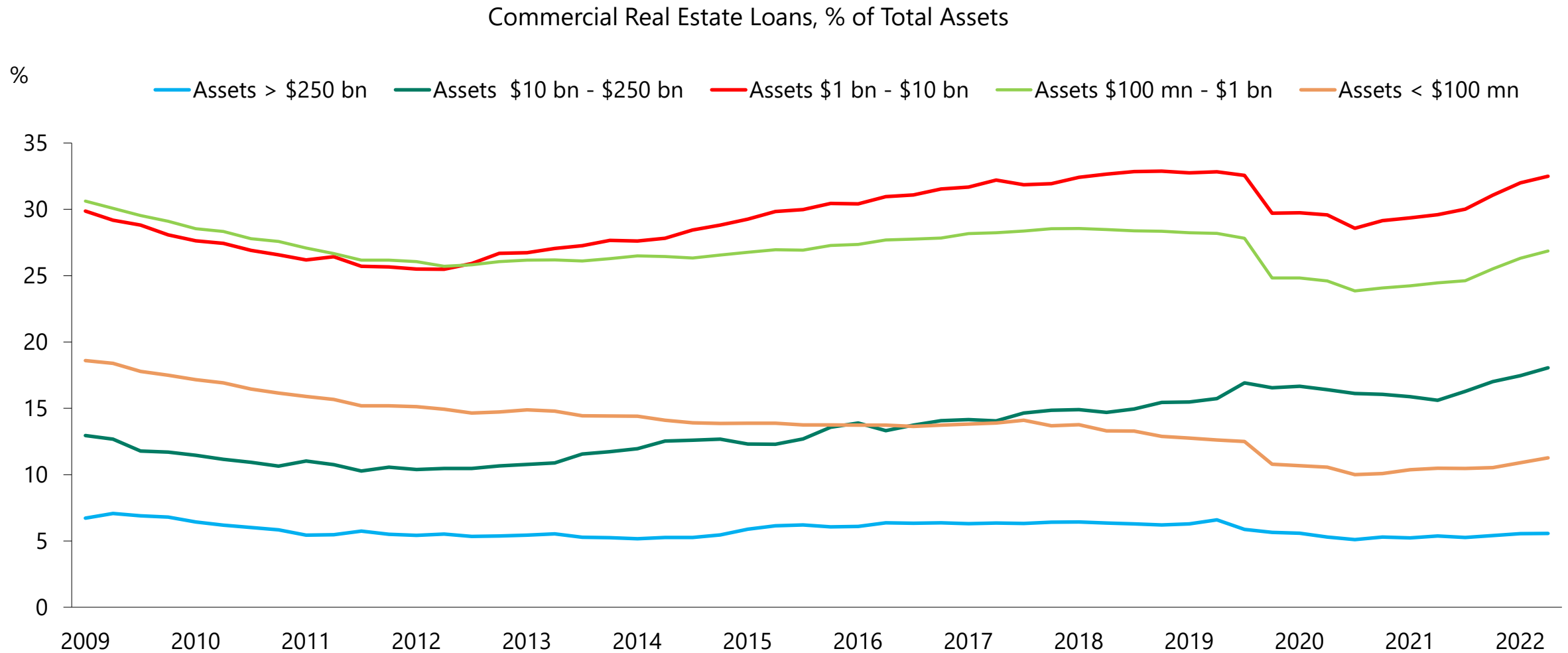
High concentration of commercial real estate in small banks



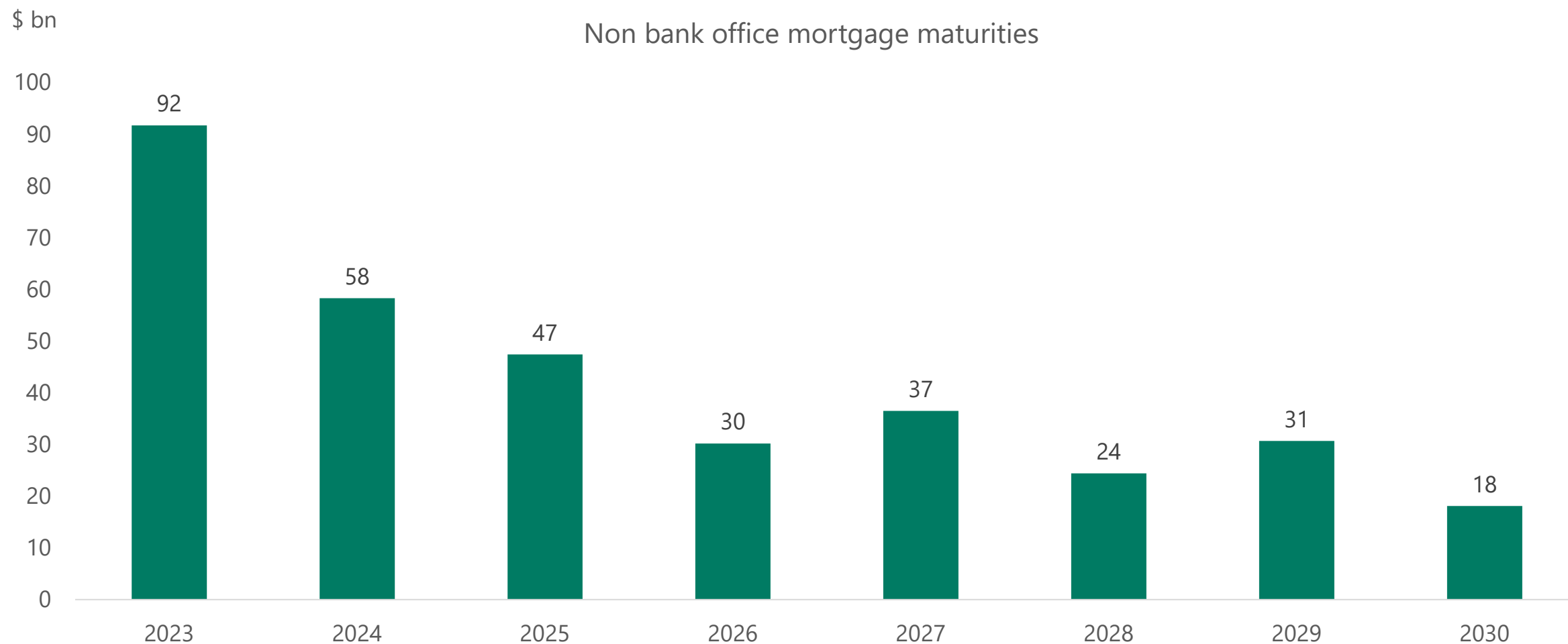
Small banks account for almost 70% of all commercial real estate loans outstanding



Banks with total assets between \$100mn and \$10bn are more exposed to CRE loans

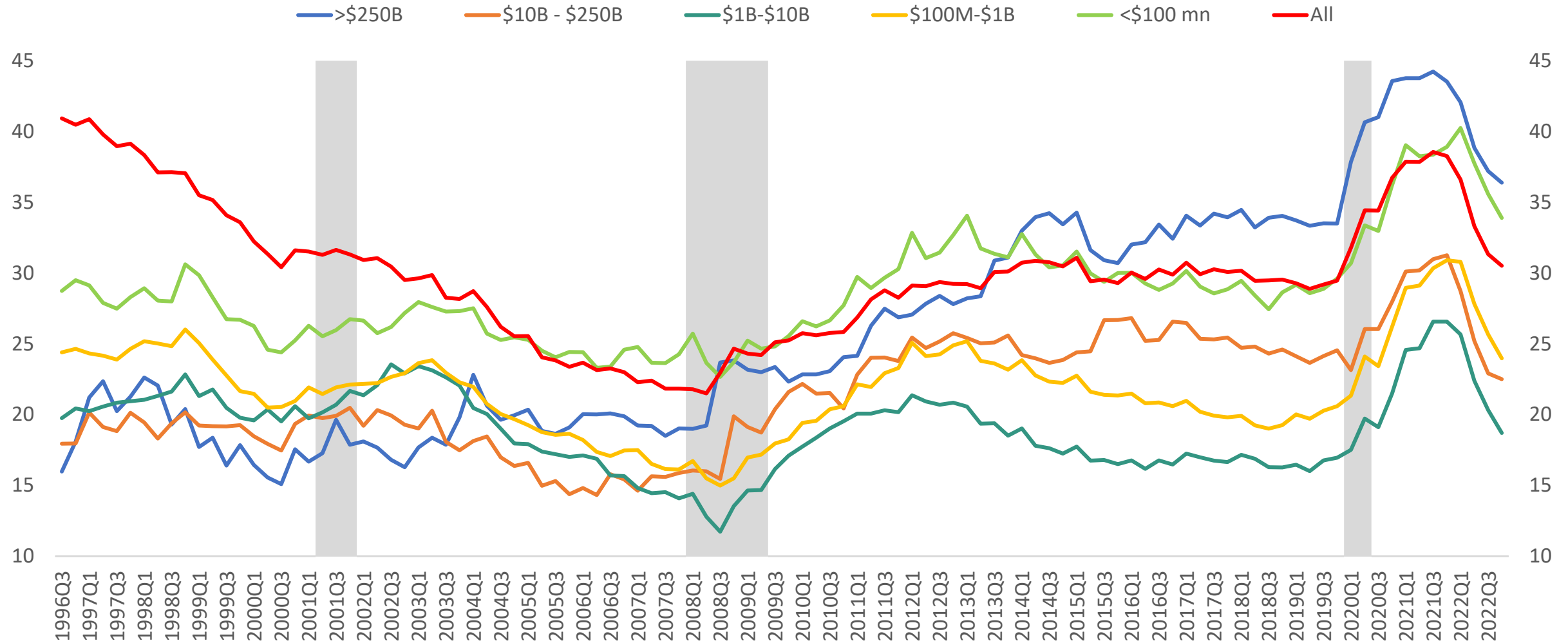


Nearly \$92 bn of nonbank office debt is set to mature this year

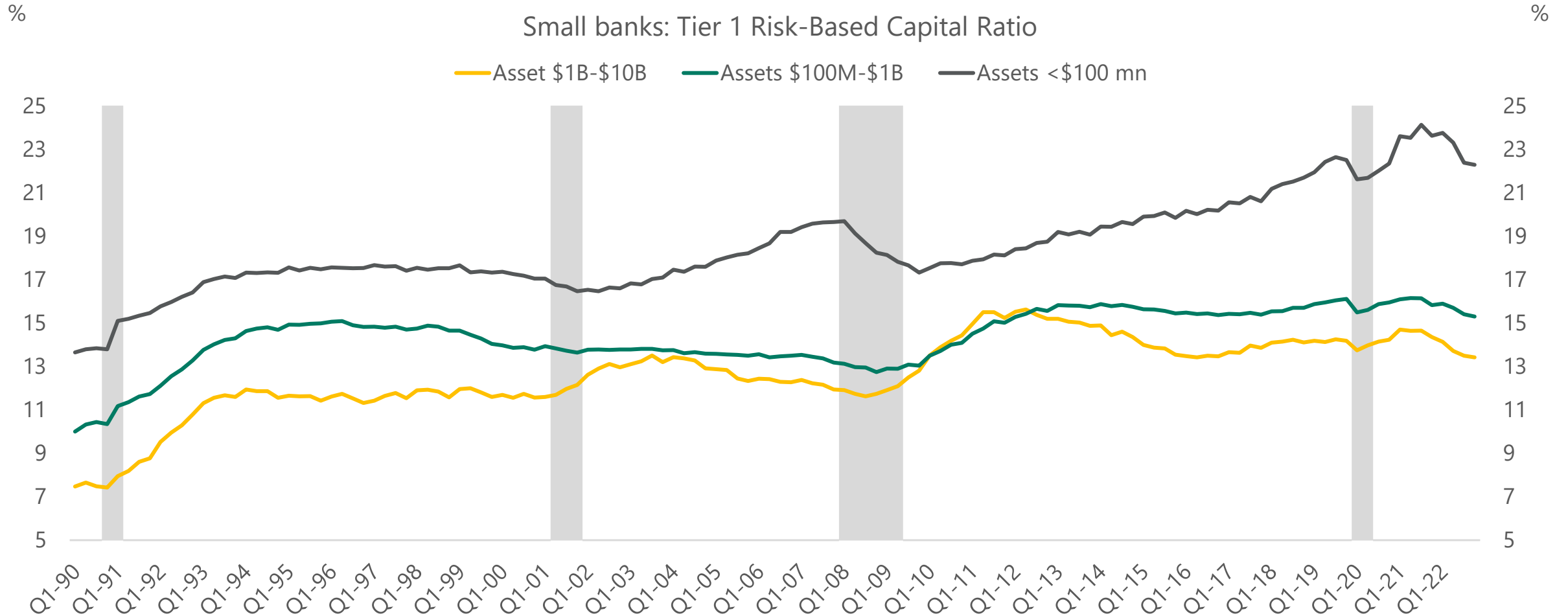


Measures of banking sector liquidity and capital ratios

Liquidity ratio, by bank assets: Largest banks have most liquidity

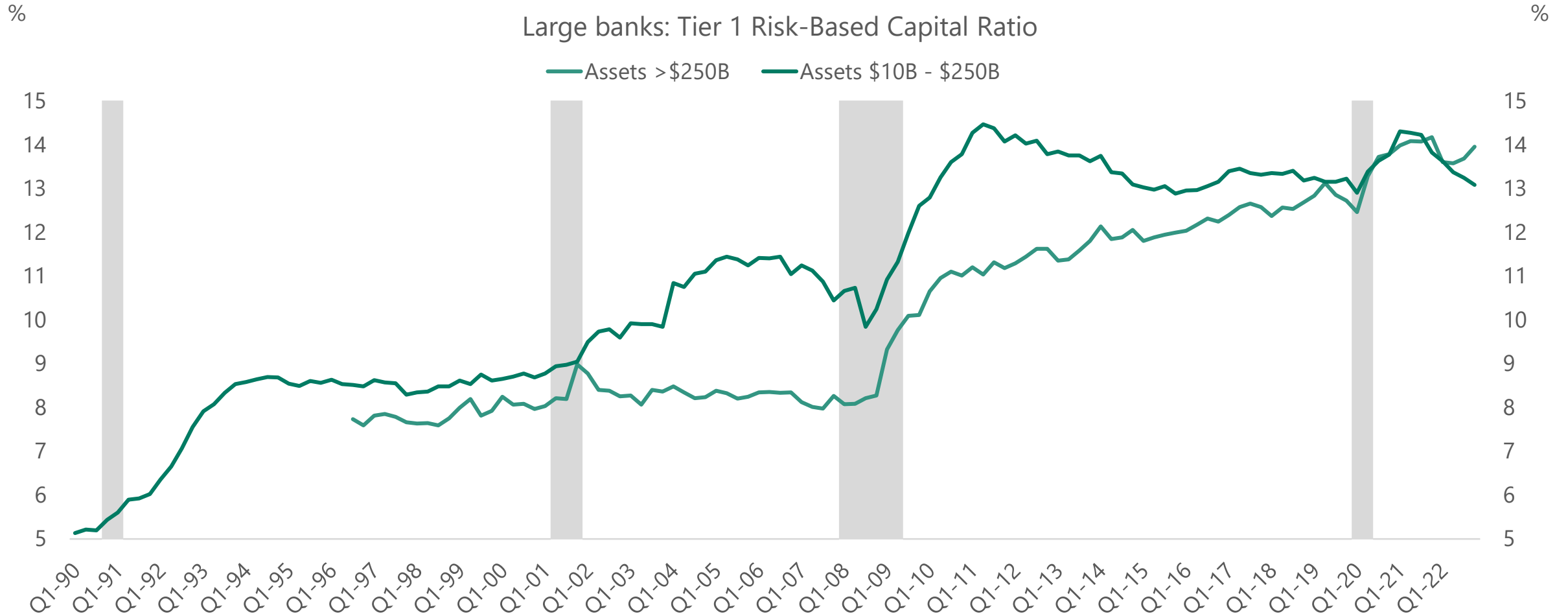


Tier-1 risk-based capital ratio for smaller banks



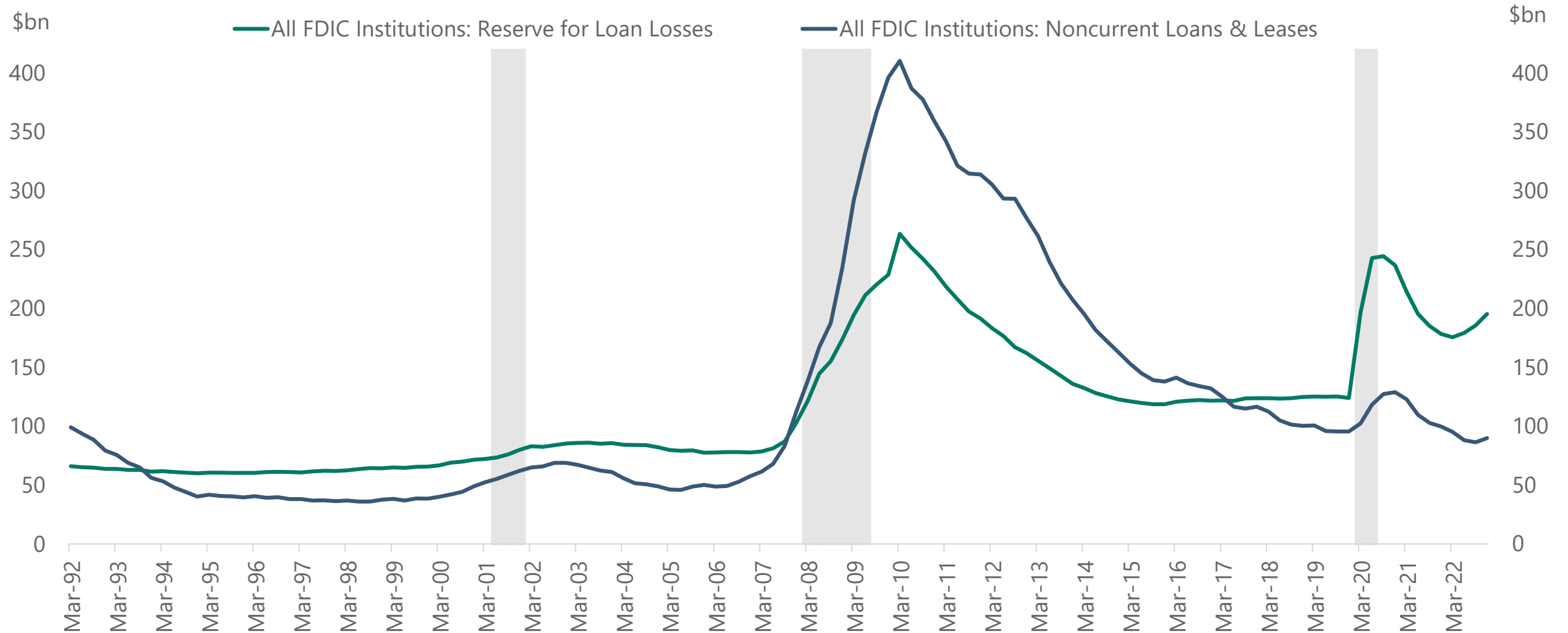
Source: FDIC, Apollo Chief Economist. Note: As per FDIC, large banks are defined as institutions with total assets of \$10 billion or more and small banks have total assets under \$10 billion.

Tier 1 risk-based capital ratio for larger banks

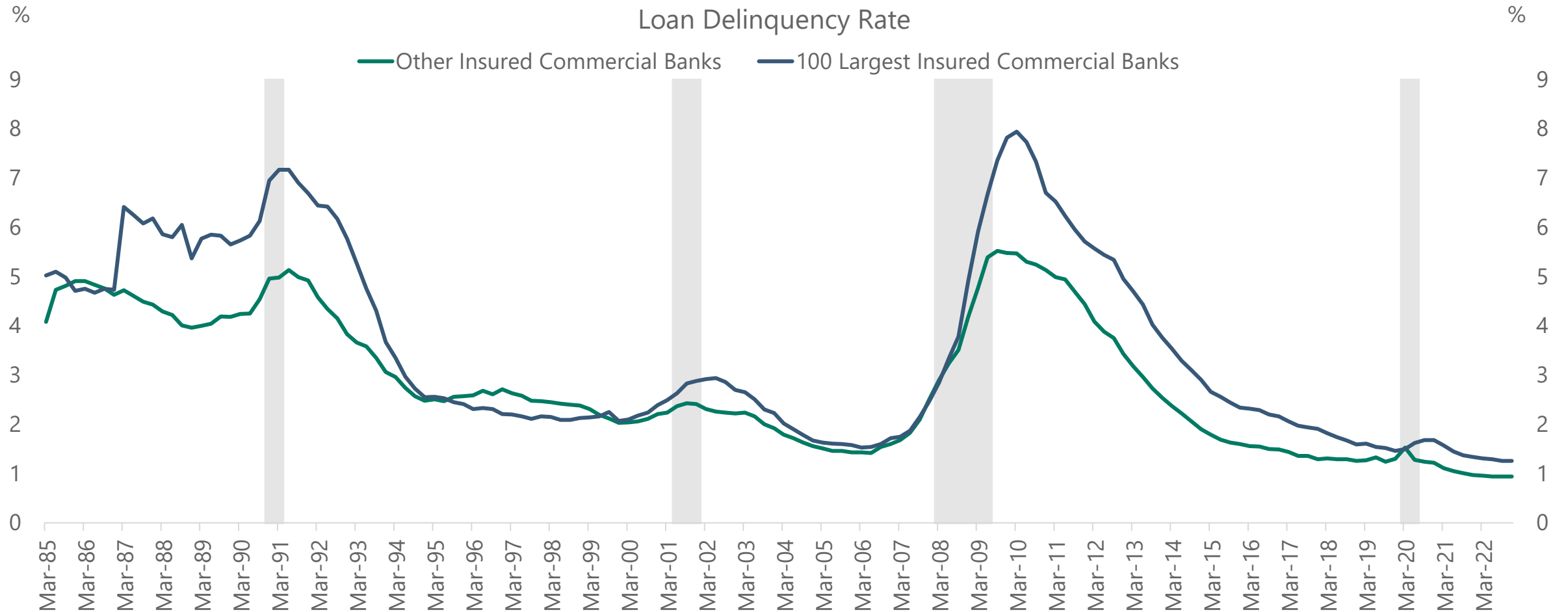


Source: FDIC, Apollo Chief Economist. Note: As per FDIC, large banks are defined as institutions with total assets of \$10 billion or more and small banks have total assets under \$10 billion..

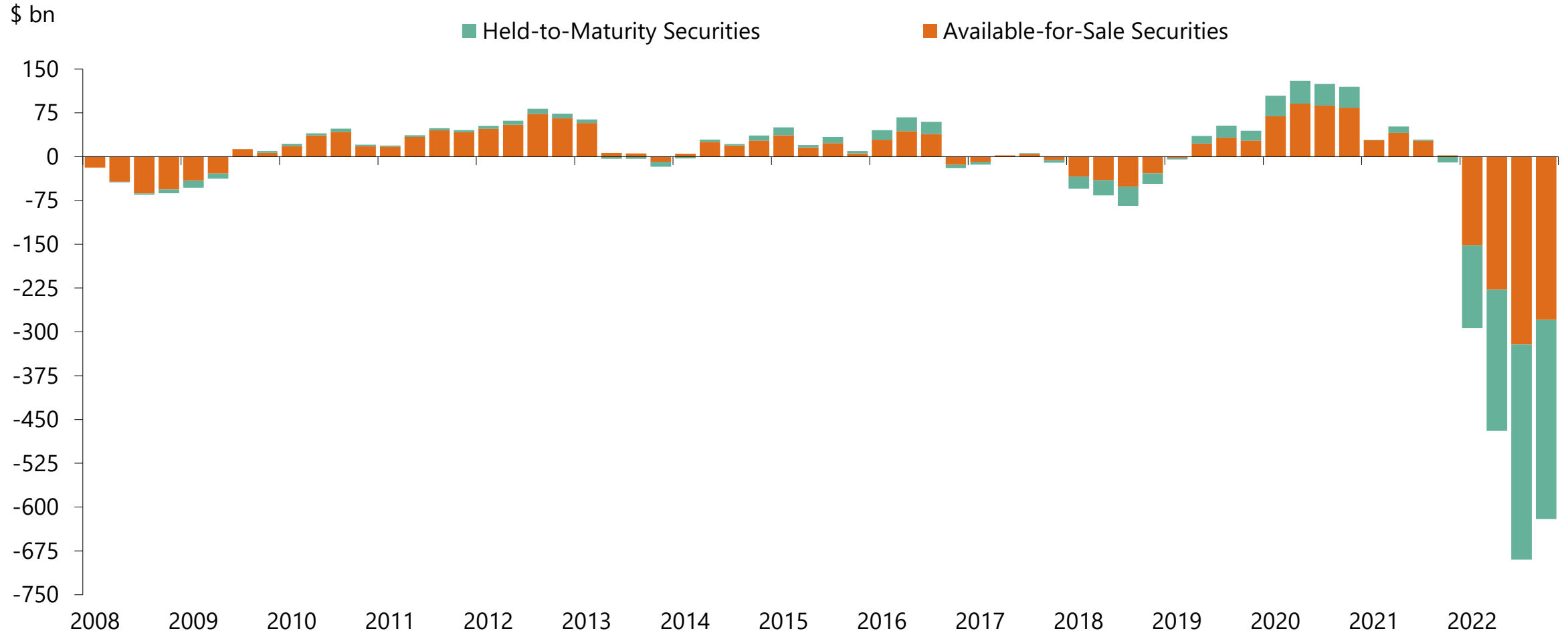
Reserves for loan losses



Loan delinquency rates for large and small banks



Unrealized Gains (Losses) on investment securities for banks, as of 2022Q4



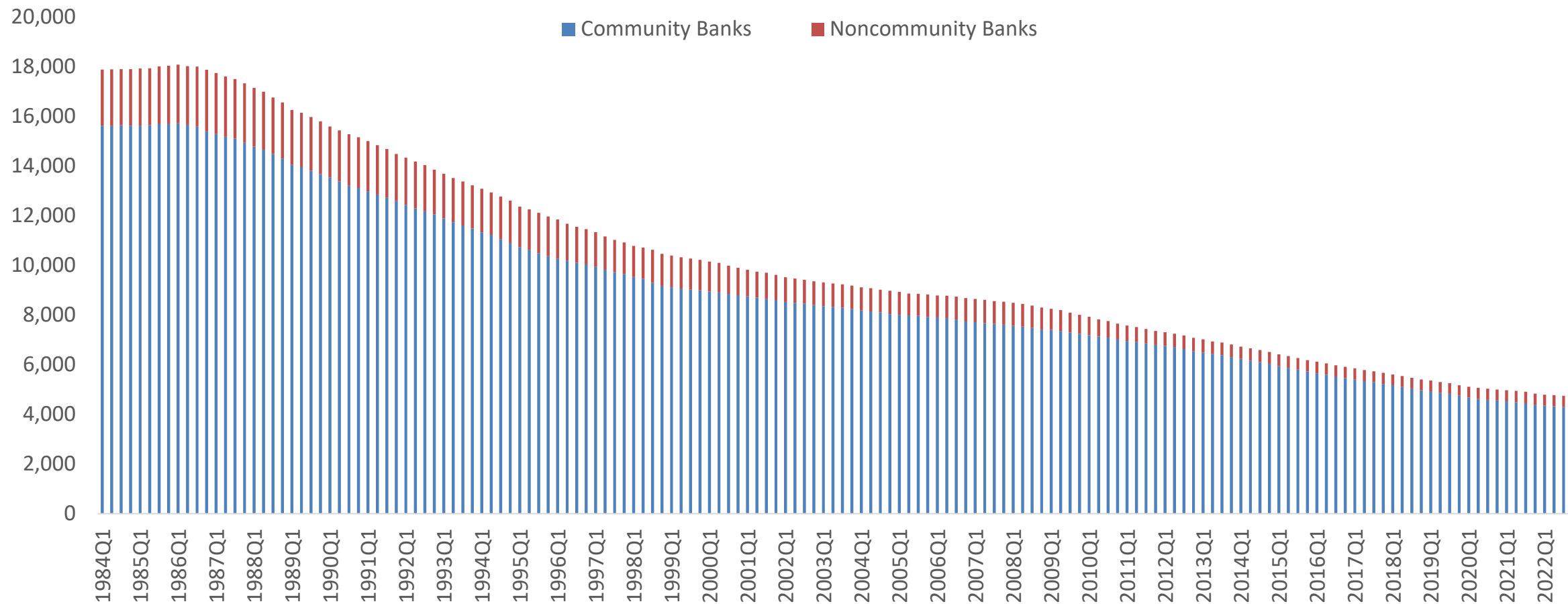
Community banks

90% of all banks in the US are community banks

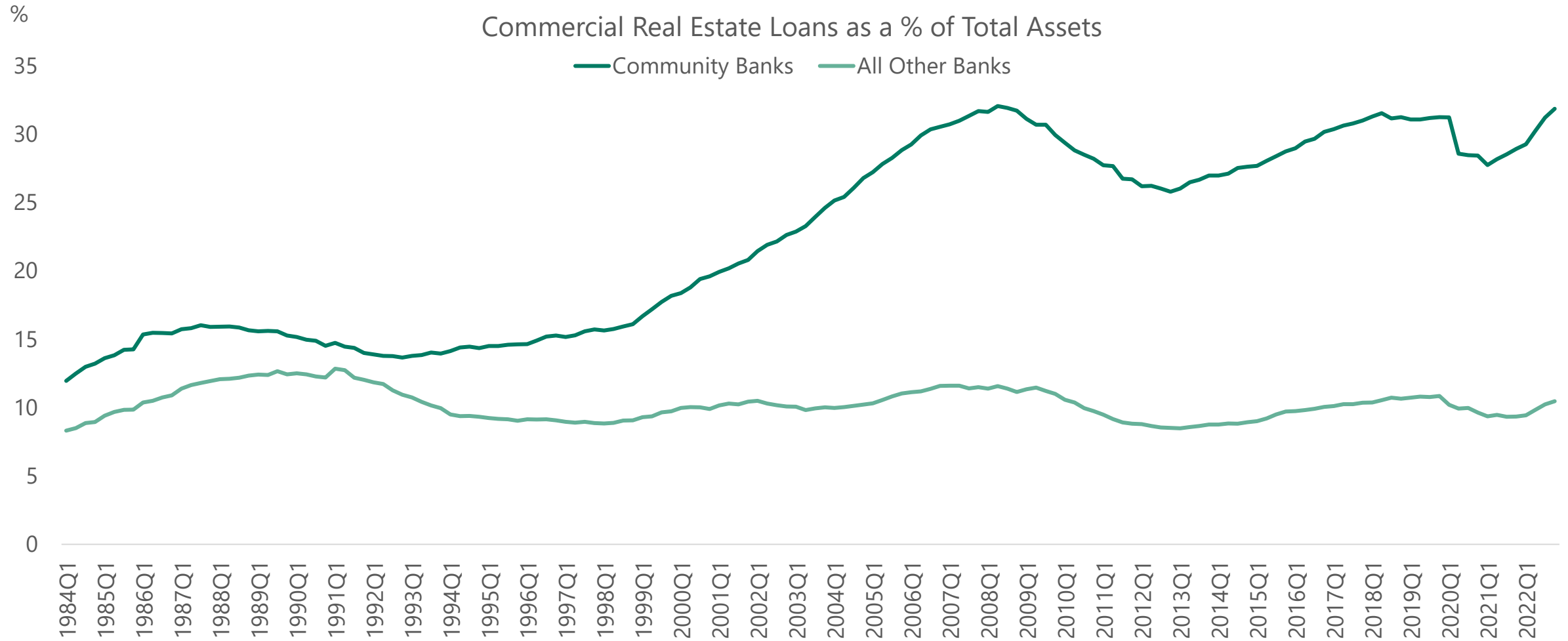
Count of Banks

All Insured Institutions

Community Banks Noncommunity Banks

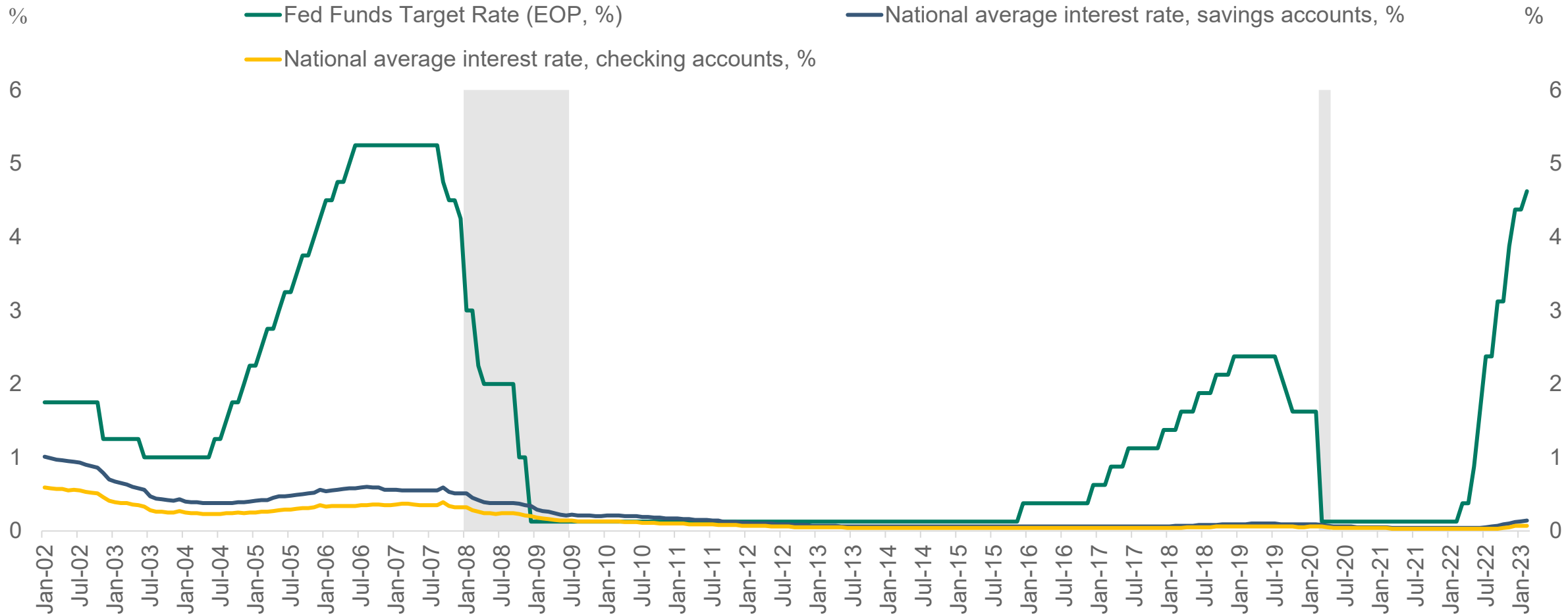


CRE loans make up a significant share of community banks' assets

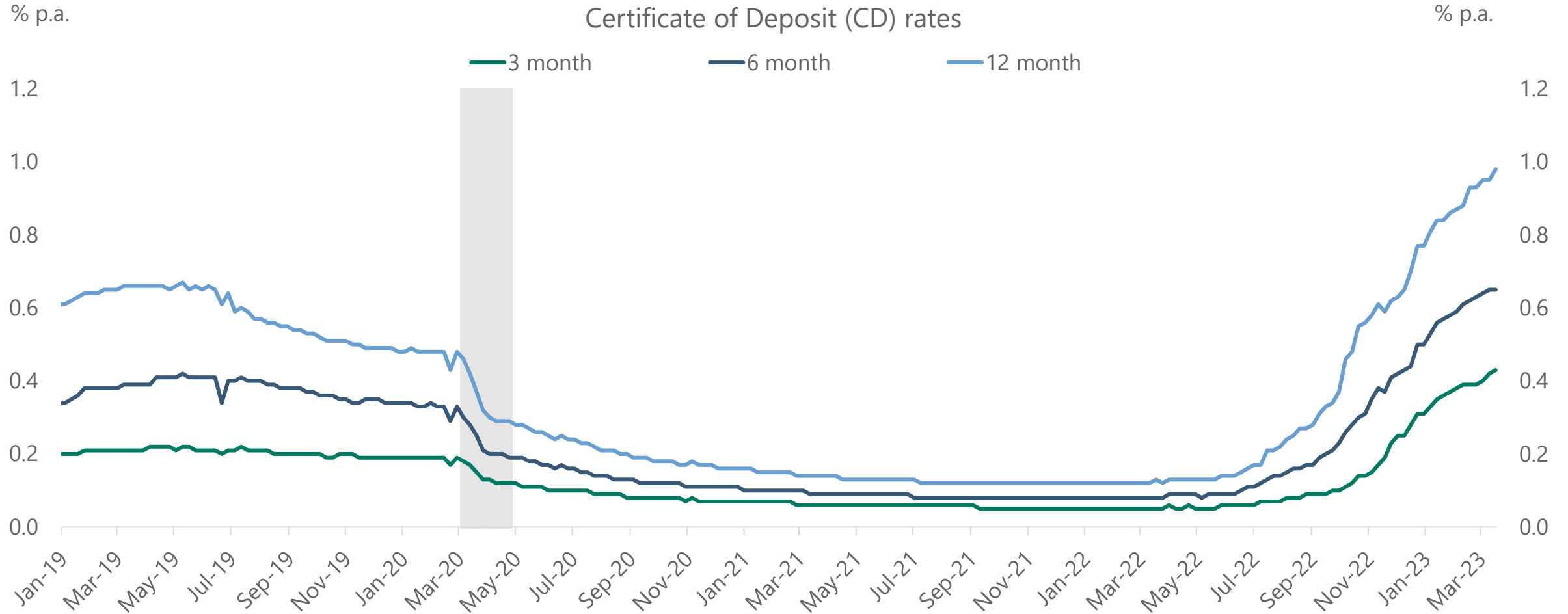


Fed funds rate versus national average
interest rate on checking accounts

Interest rate on checking accounts versus the Fed funds rate



CD rates have slowly increased as the Fed has raised interest rates







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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.