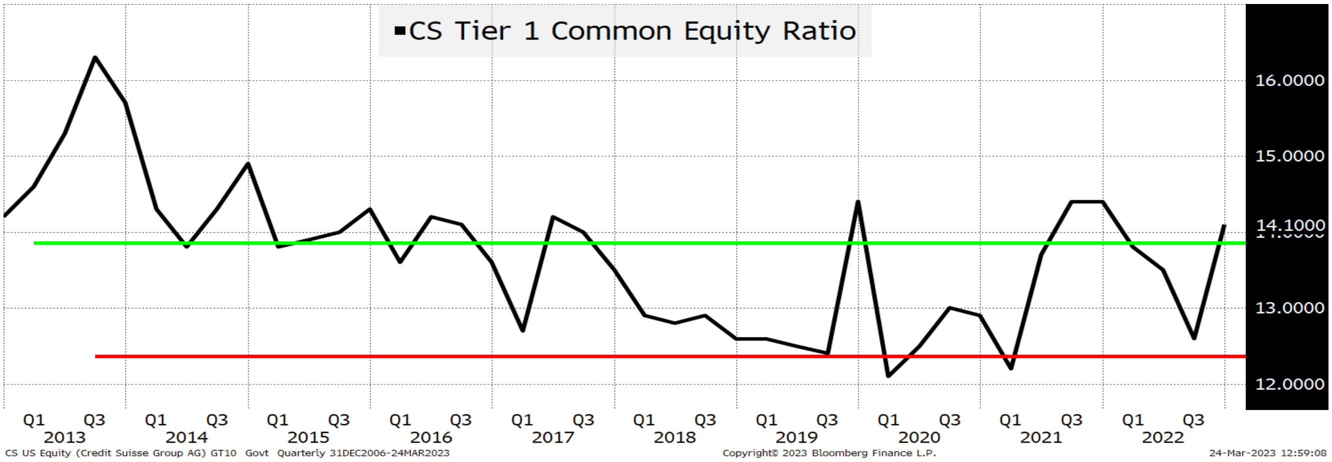
Caution is the Better Part of Valor - Again

What Good are the Numbers?

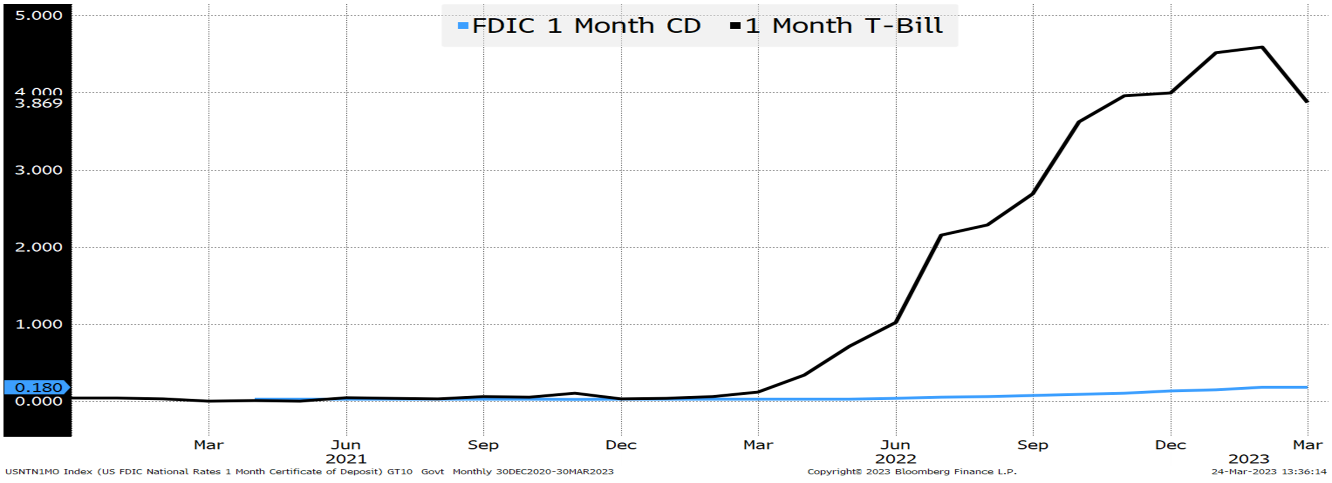
This is probably something that a lot of people are thinking about.



As of Dec. 31, CS had a common equity ratio well above many prior periods. It had been much lower in 2020 and 2021. It was also lower in September when bond yields in many countries peaked. Presumably, it had moved down again, but I am left scratching my head regarding how this chart leads to AT1 being wiped out and how a need for additional loss provisions from the SNB were required as well. I know that CS had a lot of issues, but how many were new or got materially worse in Q1? I don't know, but this chart concerns me, because **it speaks of susceptibility**.

It is About Yields

While deposit insurance and safety are issues (ones that I think were overstated), the reality is that we live in a world where it is easy to move money to higher yielding (but still safe) assets. Yes, you get a lot of benefits, features, and utility out of a bank account**. However, for some, yield matters and that really wasn't an issue throughout ZIRP!**



The "Unrealized" Mark to Market Losses

I remain dumbfounded by some of the duration risk that was obviously taken (at least by one bank).

The sense that I get from talking to people is that more time is being spent on what other issues could be out there.

On the bright side, housing as a whole seems strong enough, the job market is solid, and corporate credit is doing well. Maybe the market won't decide that some subset of banks is facing additional risks. However, CRE (in some regions) comes up as yet another issue where if assets needed to be sold, they wouldn't receive par bids.

The problem is that these risks get identified and drag a new set of banks into the limelight. I suspect that if we see that, it will just include small and relatively unknown banks, but does it end there?

Skewed Towards Risk-Off

The big bull case seems to depend on the Fed being done hiking. That may or may not be the case, and even if it is, I'm not sure what is left to be priced in.

So, for now, stay cautious on risk. So far, sadly, things are not playing out as well as I'd hoped for on the central bank/policy maker front, and I think that we've seen those in charge be Too Clever By Half.

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