

KISS vs Too Clever by Half

KISS vs Too Clever by Half

KISS (Keep It Simple Stupid) seems perfectly American, while Too Clever by Half is quintessentially British!

Powell needs to deliver one simple message:

- **There is zero chance that you will regret keeping your deposits at your existing bank.**

I don't really care how he does it, but this is the message that I'm looking for. He needs to reassure (or assure) everyone that the triumvirate of the Fed, FDIC, and the Treasury have the tools, the power, and the willingness to do this. Maybe he talks about various lending programs or hints that implicit deposit guarantees are pretty much explicit once the FDIC gets control (as opposed to needing Congressional approval). Maybe he comes up with things that I haven't even thought of. But for me, the most important aspect of today's press conference will be how good of a job he does in convincing the American public (not just the wonks on Wall Street) that they can (and even should) keep their deposits where they are.

The fact that there is minimal cost to moving deposits from one bank to the next is what nags at me (and why it is so important for Powell to focus on this).

Don't Overthink It

My base case is that Powell will do the following:

- **Raise 25 bps to show that he's tough on inflation.**
 - Inflation was dropping steadily for 6 months, picked up, but then some of the latest data showed that it was already slowing again (ADP, NFP, and JOLTS all pointed to wage pressure alleviating). So why are we being tough on something where the fears may well be overblown? It was just in January that disinflation was the word of the day.
 - We have no idea what the impact to the economy, spending, and inflation will be from two failed banks and this shift from deposits (across the board) to money market funds. We also don't know what the impact will be from the shift in deposits from smaller institutions to the "too big to fail" banks.
 - **I disagree with hiking 25 bps and focusing on inflation, but it is not a "game killer" for risk.**
- **Data dependent and follow the ECB's lead on no forward guidance.**
 - Whether he hikes 25 bps or pauses, this is what the market is really looking to hear on the rate front and it should be positive for risk.
- **Outline how and why banks are safe for depositors.**
 - **I really think that little else matters. How well he delivers on this will determine where stocks are by the end of the week.**

If he gets caught up in talking about mandates and addressing the Fed wonks on Wall Street, this ends badly for risk. **If he looks America, the mainstream media, and even Twitter straight in the eye and delivers a clear and strong message on banks, then off to the races on risk!**

Without a doubt **ODTE options** will play a role in creating noise during the press conference, but they will also amplify whatever direction the market decides to take when all is said and done.

Basically, choose KISS over being Too Clever by Half!

KISS vs Too Clever by Half

Disclaimer

This document and its contents are confidential to the person(s) to whom it is delivered and should not be copied or distributed, in whole or in part, or its contents disclosed by such person(s) to any other person. Any party receiving and/or reviewing this material, in consideration therefore, agrees not to circumvent the business proposals explicitly or implicitly contained herein in any manner, directly or indirectly. Further, any recipient hereof agrees to maintain all information received in the strictest confidence and shall not disclose to any third parties any information material to the opportunity contained herein and, upon review hereof, agrees that any unauthorized disclosure by any party will result in irreparable damage for which monetary damages would be difficult or impossible to accurately determine. Recipients recognize, and hereby agree, that the proprietary information disclosed herein represents confidential and valuable proprietary information and, therefore, will not, without express prior written consent, disclose such information to any person, company, entity or other third party, unless so doing would contravene governing law or regulations.

This document is an outline of matters for discussion only. This document does not constitute and should not be interpreted as advice, including legal, tax or accounting advice. This presentation includes statements that represent opinions, estimates and forecasts, which may not be realized. We believe the information provided herein is reliable, as of the date hereof, but do not warrant accuracy or completeness. In preparing these materials, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.

Nothing in this document contains a commitment from Academy to underwrite, subscribe or agent any securities or transaction; to invest in any way in any transaction or to advise related thereto or as described herein. Nothing herein imposes any obligation on Academy.

Academy is a member of FINRA, SIPC and MSRB. Academy is a Certified Disabled Veteran Business Enterprise and Minority Business Enterprise and is a Service Disabled Veteran Owned Small Business as per the US SBA. Investment Banking transactions may be executed through affiliates or other broker dealers, either under industry standard agreements or by the registration of certain principals.