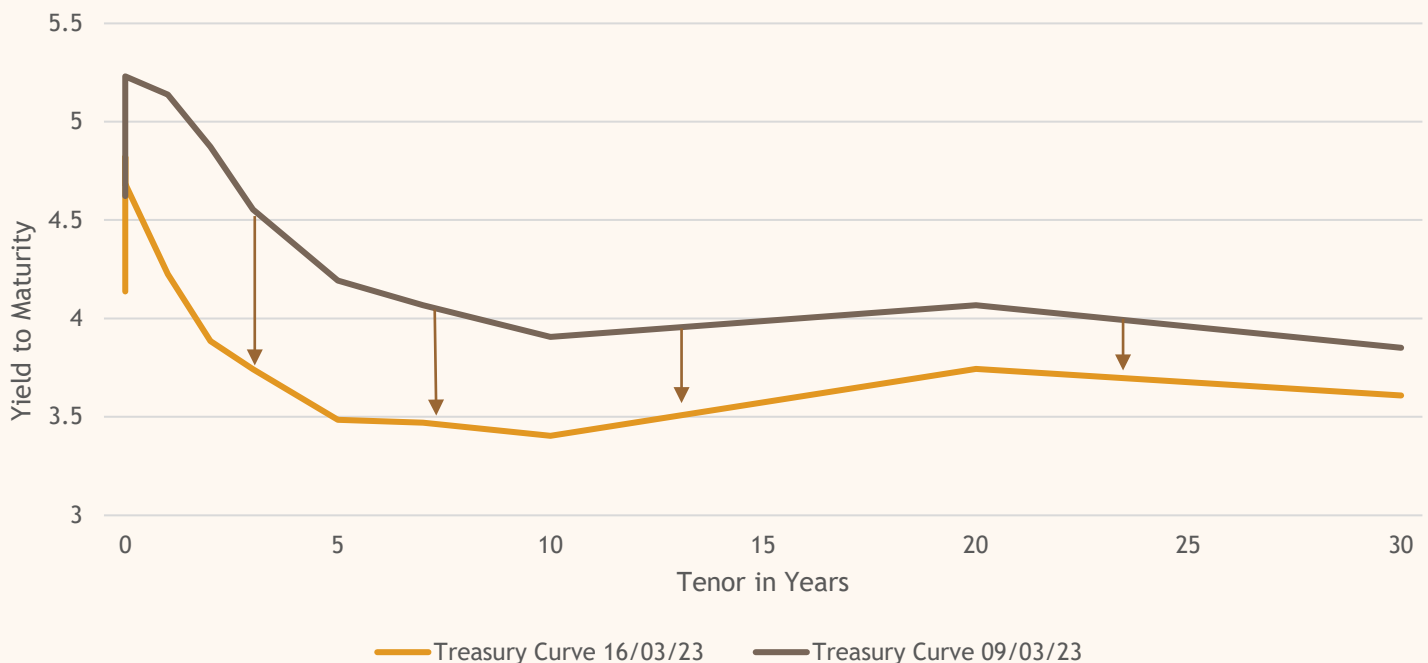


Key Economic Figures/Events of the Week

- This week saw the continuation of turbulent market events that started with the Silicon Valley Bank [SVB] failure and subsequent default on Friday last week (10/03/2023). The bank failure was triggered by a large-scale bank run with major depositors pulling out their deposits. The panic and ripple effects of SVB’s collapse spread to Signature Bank, which later failed on Sunday last week (13/03/2023), after a similar bank run. The banking crisis further spread to Credit Suisse, with the Swiss National Bank agreeing to provide Credit Suisse with a 54 Billion CHF credit line to support the bank’s liquidity. Treasury yields across the entire yield curve collapsed significantly as markets exhibited a “flight to safety”, while credit spreads grew, causing most corporate bonds to move sideways. US derivative markets are now pricing in a 4.9% terminal effective federal funds rate and an implied rate hike of 17 basis points in the next US Federal Reserve [FED] meeting.
- The data for US inflation this week came in mostly in line with analyst estimates. The growth in the US Consumer Price Index [CPI] for the period of February came in at 0.4% MoM and 6% YoY, both in line with analyst estimates. Growth in core CPI or CPI excluding food and energy, for the period of February came in at 0.5% MoM and 5.5% YoY, with the former coming in 10 basis points higher than expected, while the latter in line with expectations. The growth in the US Producer Price Index [PPI] for the same period of February came in at -0.1% MoM and 4.6% YoY, with both numbers coming in lower than expected by 40 basis points and 80 basis points, respectively. YoY growth in CPI and PPI continued the disinflationary trend. With still relatively high inflation and extreme macroeconomic uncertainty, market participants are looking to the FED’s next meeting and what their decision will be. The FED is set to meet on the 22nd of March.

US Treasury Yield Curve Shifts Down: 16/03/23 VS 09/03/23



Source: Bloomberg

- The initial weekly jobless claims came in at 192'000, significantly better than the expected 205'000. The US is yet to see whether the bankruptcy of two major banks and the overall banking crisis will have any material impact on the labour market and the US aggregate economy.

Weekly Investment Insights

- Western Alliance Bank (BBB, BBB) was yesterday (16/03) placed on rating watch negative as a result of the ongoing weakness in the banking sector. The bank bonds suffered in line with other US financial bonds. We hold Western Alliance Bank bonds due in 2030 in our Fund, which represent around 1.9% of our net-asset value. The bank has a well diversified depositors base and remains well capitalized with a common equity tier 1 ratio of 9.3%. As bondholders we firmly believe that Western Alliance Bank will survive this crisis and we continue holding our bonds.

Strategy

March has seriously increased volatility with risk appetite falling to zero and credit spreads widening. Next week will show whether the FED is still ready to further tighten the monetary policy. We have not made any changes to our portfolios.

We hope you will find this information useful and we will be glad to answer your questions.

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