Truist Advisory Services, Inc.

Market Perspective from the Investment Advisory Group

Quick take – Depositor backstop a positive, but staying defensive

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What happened

After a sharp decline across capital markets on the back of the failure of Silicon Valley Bank (SVB) and contagion concerns, regulators stepped in to backstop the firm's uninsured depositors and took control of Signature Bank, one of the primary banks for cryptocurrency companies. The Federal Reserve (Fed) also announced a new lending facility to help safeguard deposits across the industry, offering loans up to one year to financial institutions that pledge government debt, such as U.S. Treasuries, agency debt, and mortgage-based securities as collateral at par (rather than marked to market).

Our take

The Fed's action is an important step as it greatly reduces systemic risk and aims to restore depositor confidence. Our bigger picture view is the events of the past week speak to stresses in the financial system that are a byproduct of significantly higher interest rates.

Indeed, a key reason behind our *stay defensive* theme coming into the year was our concern that the sharpest Fed policy tightening cycle in 40 years would result in market and economic challenges. Historically, sharp interest rate increases have led to market disruptions, especially in areas with excesses and leverage. Developments over the past week appears to be a sign that these sharp interest rate increases are starting to bite.

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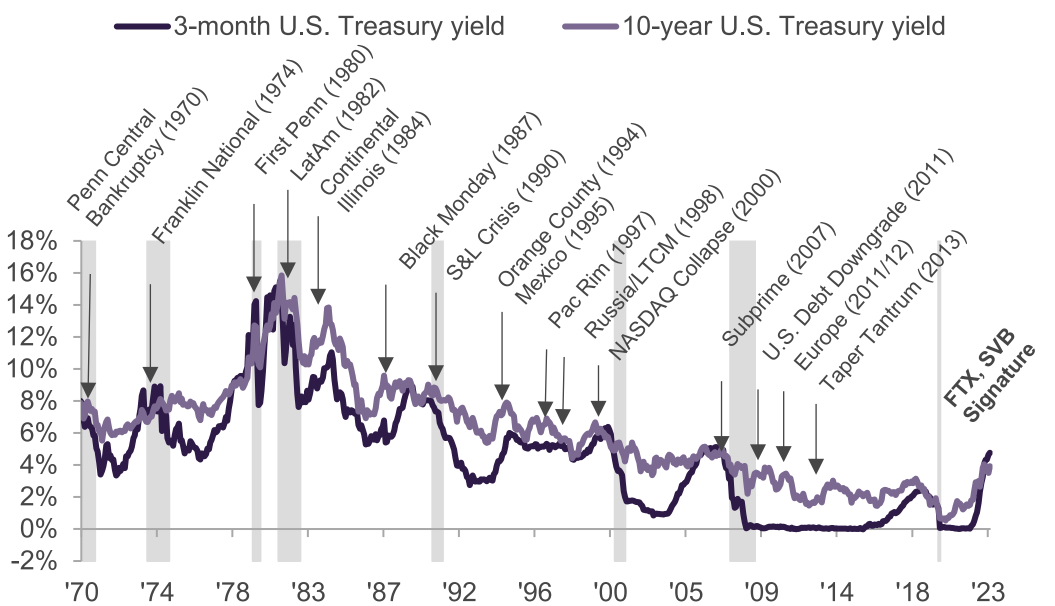
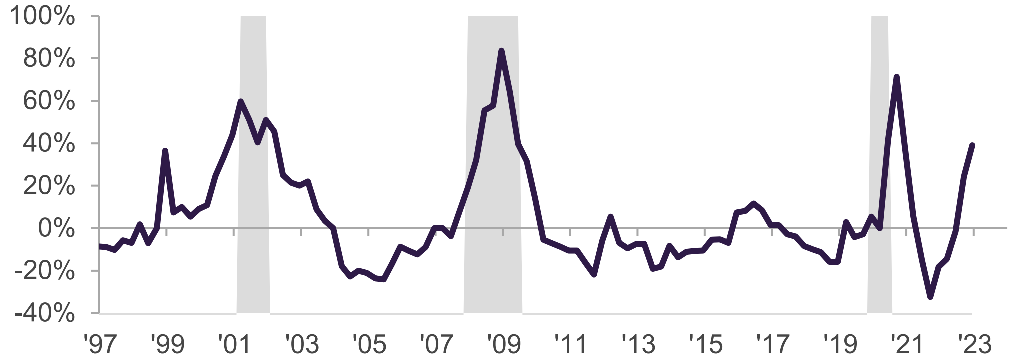


Data source: Truist IAG, Bloomberg. Piper Sandler, Past performance does not guarantee future results. Gray bars = recession

Bank lending standards, which were already tightening, are likely to become even tighter and weigh on the economy.

It's important to recognize that even before SVB's collapse and Signature Bank's takeover, lending standards by U.S. banks were already tightening at a rapid pace, according to the Fed Senior Loan Officer Survey. If anything, what has transpired over the past week is likely to lead to even tighter standards. This is important as credit is the lifeblood of the economy. Slower lending trends have tended to weigh on the economy and corporate profits, and we have yet to see the full impact of the rate hikes of the past year filter into the economy.

Senior Loan Officer Survey - Banks tightening commercial and industrial loans to large firms



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Market perspective and bottom line

We expect wide market swings to continue as investors digest the latest developments. At Friday's close of 3862, the S&P 500 was still trading at 17x forward earnings estimates, which is close to the 10-year average. Our view is an average valuation is too high in the face of above-average macro risks. We continue to see risks of further deterioration in the economy and earnings along with a Fed still focused on inflation and interest rates that are the most competitive relative to stocks than they have been in a decade.

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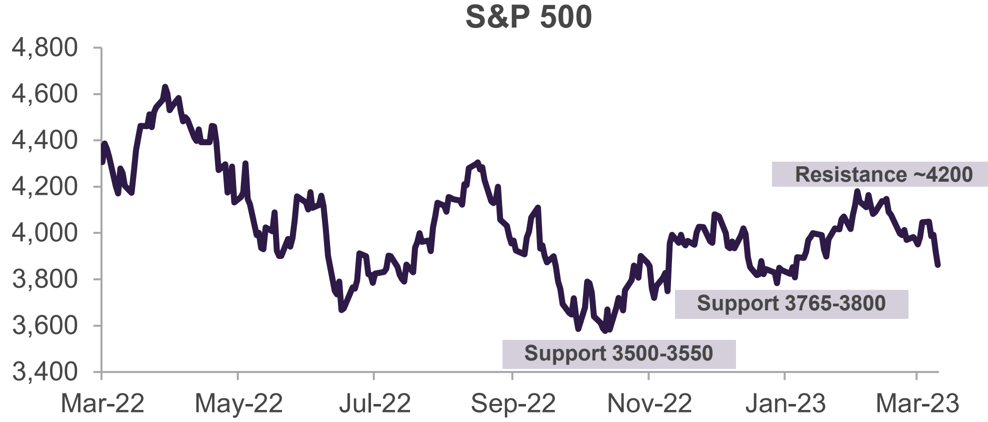
Therefore, we would stay defensive and look to fade any rallies toward the 4100-4200 range for investors who are overweight stocks. Our overall strategy remains with a tilt toward fixed income as well as a focus on high quality bonds and avoiding higher risk areas, such as high yield corporate bonds and leveraged loans. We remain slightly overweight cash. Within equities, we maintain a bias to the U.S. and large cap companies.

S&P 500



Data source: Truist IAG, Factset. Past performance does not guarantee future results.

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