MORNING BRIEFING
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Banking Crises, Then & Now

Check out the accompanying chart collection.

Executive Summary: The S&L crisis of 1990 caused a mild, short-lived recession impacting earnings but not triggering a bear market in stocks. Conversely, we had a bear market last year but no recession (yet?). Similarly, though, the commercial real estate market was hit hard during 1990's banking crisis and stands now in the eye of the SVB storm, since small banks—the most vulnerable—make most CRE loans. … Also: Do you wonder why consumer spending has been so resilient lately? That huge demographic cohort that disrupts the status quo at every life stage is at it again. … And: For stock traders, Joe Feshbach's take on the market. ... Finally: Dr. Ed reviews "Godfather of Harlem" (+ + +).

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Banks I: 1990 & 2023. There was a banking crisis in 1990. It was centered in the Savings & Loan (S&L) industry. It caused a mild recession that lasted only eight months (*Table 1*). Real GDP fell only 1.3%, and the Index of Coincident Economic Indicators declined 2.6% from peak to trough (*Fig. 1* and *Fig. 2*). It was a relatively soft landing compared to other recessions.

Back then, S&P 500 forward earnings per share fell 8.9%, and actual operating earnings fell 21.8%, measured from peak to trough (*Fig. 3*). Yet there was no bear market in the S&P 500. Instead, there were two corrections, from January 2, 1990 to January 30, 1990 (-10.8% over 28 days) and from July 16, 1990 to October 11, 1990 (-19.9% over 87 days) (*Fig. 4* and *Table 2*).

The S&L crisis put a lid on home mortgage lending and depressed commercial mortgage lending (*Fig. 5* and *Fig. 6*). That depressed housing starts and commercial real estate construction. As a result, the drop in real GDP was led by private residential investment in single-family and multi-family structures and private nonresidential fixed investment on commercial and health care structures (*Fig. 7*, *Fig. 8*, and *Fig. 9*).

This time has been different: There has been a bear market but no recession, so far. The

S&P 500 fell 25.4% over 282 days from January 3, 2022 through October 12, 2022 (*Fig. 10*). It was a relatively short and shallow bear market, assuming as we do that it is over.

On the other hand, this time is similar in that the economic weakness since early last year, when the Fed started tightening, has been led by single-family housing construction. However, multi-family housing construction remains strong. The next shoe to drop may very well be commercial real estate (CRE) as a result of the banking crisis. Small banks account for 67.5% of all outstanding CRE loans (*Fig. 11* and *Fig. 12*).

Banks II: The S&L Crisis. In my 2018 book *Predicting the Markets*, I reviewed what happened during the S&L crisis:

"The next recession was short, lasting just the eight months from July 1990 through March 1991. The first Gulf War during the second half of 1990 triggered another spike in oil prices. Once again, consumers retrenched, causing the inventory-to-sales ratio to spike. So production and employment dropped, but not for long. This time, the unemployment rate peaked at 7.8% during June 1992, or 15 months after the official end of the recession. No doubt there were plenty of unemployed workers at the time who thought the NBER had called the recession's trough too soon.

"In addition, this recession included a financial contagion in the thrift industry, which was the consequence of the industry's haphazard deregulation following previous bouts of disintermediation, as I show in Chapter 8. The industry's lobbyists successfully convinced Congress to deregulate thrifts so that they could pay market rates on their deposits. Unscrupulous thrifts gained market share and fees by paying premium deposit rates and making lots of dodgy loans. It ended badly, with a few thrift executives going to jail.

"Once again, there was a credit crunch as depositors lost their confidence in thrifts even though they were mostly insured. This time, the rolling recession hit both residential and commercial real estate hard, while the overall national downturn was relatively short and shallow. That was my forecast after I thoroughly examined the nature of the thrift crisis and concluded that it would be relatively contained. Housing starts dropped to only 798,000 units during January 1991; at the time, this was the lowest on record for the series, which started at the beginning of 1959."

US Consumers: Baby Boom Buying Binge. The Atlanta Fed's *GDPNow* tracking model is showing (as of March 31) that real GDP rose 2.5% (saar) during Q1. That's a downward revision from the previous estimate of 3.2% on March 24. The model's estimate for the pace

of real consumer spending is down from 5.0% to 4.6% over those few days, which is still remarkably strong.

How can we account for the resilience of consumer spending? Consider the impact of the Baby Boomers on consumption:

(1) *Retiring and expiring.* The Baby Boomers were born between 1946 and 1964. They are 59-77 years old currently. They are retiring after having accumulated more wealth per household than any other previous generation. Many of them have the means to live very comfortably in retirement. Many of them have the option to decide how much of their wealth to spend on themselves versus leaving it for their descendants, who may be rightly expecting a windfall when their parents expire.

(2) *Labor market remains strong.* There are currently 57.6 million people who are 65 years old and over, with 46.6 million not in the labor force (*Fig. 13*). Both are record highs. The latter group has increased by 13.6 million since the oldest Baby Boomers turned 65 years old in 2011.

As they started to retire, they exacerbated the shortage of labor, especially since the pandemic. Now the retired seniors are boosting the demand for labor in the most labor-intensive industries, namely food services and health care. With more jobs like these at higher pay than ever before, consumers' purchasing power has gotten quite a boost. Real disposable income is up 3.3% y/y through February (*Fig. 14*). Real consumer spending is up 2.5% over this same period (*Fig. 15*).

(3) *Lots of homeowners' equity.* Notwithstanding the recession in the single-family housing market, home prices have held up remarkably well (*Fig. 16*). That's because there is a shortage of homes for sale. Many homeowners, including lots of Baby Boomers, who locked in record-low mortgage rates in recent years aren't in a rush to sell their home and buy a new one at much higher mortgage rates.

As a result, at the end of last year, the value of household real estate was a record $43.5 trillion, with owners' equity at a record $31.0 trillion (*Fig. 17*). Owners' equity as a ratio to disposable personal income was 1.62 during Q4-2022, edging down from the record high of 1.69 during Q2-2022 (*Fig. 18*).

Strategy: For Traders. Here are Joe Feshbach's latest thoughts on the S&P 500: "The S&P 500 is now up 4% from the level at which the buy signal occurred on the incredibly

reliable stochastic I use. It's certainly tough to ignore this technical indicator. I concluded last week by saying that if the market does continue Friday's rally, the sentiment indicators are just not good enough to support a real good rally and I'd rather wait for more improvement before getting too optimistic short term.

"I guess if the S&P 500 takes out its early February high, which the Nasdaq has already done, that would classify as a decent rally off the stochastic buy signal. However, with the sentiment indicators just not in great shape (albeit but one), that's really all I can see as upside for this rally. If you played it, I'd suggest cutting back on price strength, and if not I'd say wait for a better opportunity in the future."

Movie. "Godfather of Harlem" (+ + +) (*link*) is a very entertaining and informative television series about the turmoil in Harlem during the 1960s. It is based on the true story of infamous crime boss Bumpy Johnson, played by Forest Whitaker. He had a very bumpy relationship with the Italian crime bosses as they vied to control the drug trade in Harlem. The docudrama also covers the civil rights movement during that turbulent period. It is as much about the struggles of Malcolm X and Adam Clayton Powell Jr. against discrimination as about Bumpy.

Calendars

US: Mon: ISM M-PMI 47.5; S&P Global M-PMI 49.3; Construction Spending -0.1%; OPEC Meeting; Cook. **Tues:** Job Openings 10.4m; Factory Orders -0.5%; API Weekly Crude Oil Inventories Cook. (Bloomberg estimates)

Global: Mon: Eurozone, Germany, France, Italy, and Spain M-PMIs 47.1/44.4/47.7/51.0/50.1; UK M-PMIS 48.0; Canada BOC Business Outlook Survey. **Tues:** Germany Trade Balance €17.0b; Canada Building Permits 1.55; Australia NM-PMI 48.2; Japan NM-PMI 54.2; RBA Interest Rate Decision; Tenreyro; Pill; Lowe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 3.6% last week for its biggest gain in 20 weeks and moved further out of a bear market into a 15.5% correction

from its record high on December 27, 2021. The US MSCI ranked 29th of the 48 global stock markets that we follow in a week when 42 of the 48 countries rose in US dollar terms. The AC World ex-US index rose 3.3% for only its third gain in nine weeks, moved further out of a bear market to end the week at 17.0% below its June 15, 2021 record high. All regions rose for a second straight week, but EM Eastern Europe was the best regional performer with a 6.3% gain, ahead of EM Latin America (5.6%), EMU (5.4), and EAFE (3.7). EMEA was the worst performing region last week, albeit with a gain of 1.1%, followed by EM Asia (1.5) and BIC (2.7). Argentina was the best-performing country last week, with a gain of 9.7%, followed by Austria (8.2), Portugal (7.6), and the Czech Republic (7.3). Among the 18 countries that underperformed the AC World ex-US MSCI last week, the 4.7% decline for Turkey was the biggest, followed by Sri Lanka (-3.3), Pakistan (-2.6), and the Philippines (-2.1). In March, the US MSCI ranked 12/48 as it rose 3.4%, better than the 2.0% gain for the AC World ex-US index as 28 of the 48 countries moved higher. Denmark was the best performer, with a gain of 6.9%, followed by Portugal (6.7), Sri Lanka (5.5), Singapore (5.0), and the Netherlands (5.0). The worst-performing countries in March: Pakistan (-13.0), Austria (-9.6), Turkey (-8.4), and Argentina (-7.2). Most regions rose in March, but EM Asia was the best-performer with a gain of 3.4%, ahead of BIC (3.1), EMU (3.1), and the AC World ex-US (2.0). EM Eastern Europe (-2.2) was March's worst-performing region, followed by EMEA (-0.9), EM Latin America (0.4), and EAFE (1.9). Looking at 2023's performance so far, the US MSCI is up 7.3% as its ytd ranking rose three spots w/w to 15/48. The AC World ex-US's ytd gain of 6.2% is underperforming the US, with 34/48 countries in positive territory. EMU is the best performer ytd, with a gain of 14.0%, followed by EAFE (7.6). The regional laggards so far in 2023: EMEA (-2.5), BIC (0.7), EM Latin America (3.1), EM Eastern Europe (4.2), and EM Asia (4.6). This year's best ytd country performers: the Czech Republic (33.0), Ireland (20.8), Mexico (20.1), the Netherlands (16.5), and Spain (15.5). Here are the worst-performing countries of the year so far: Pakistan (-25.8), Colombia (-15.0), Turkey (-11.1), Norway (-8.0), and India (-6.6).

S&P 500/400/600 Performance (*link*): All three of these indexes moved higher last week. LargeCap rose 3.5% w/w, behind the 4.5% and 3.7% gains for MidCap and SmallCap. By Friday's close, LargeCap and MidCap pulled back further from a deep correction and SmallCap exited a bear market. LargeCap finished at 14.3% below its record high on January 3, 2022, MidCap at 13.7% below its record high on November 16, 2021, and SmallCap at 19.4% below its November 8, 2021 record high. All 33 LargeCap and SMidCap sectors moved higher for the week compared to 25 rising a week earlier. SmallCap Energy was the best performer with a gain of 6.6%, ahead of SmallCap Real Estate (6.3), LargeCap Energy (6.2), and MidCap Energy (6.0). Among the worst performers for the week were SmallCap Financials (0.9), LargeCap Communication Services (1.5), LargeCap

Health Care (1.8), and SmallCap Health Care (1.9). During March, LargeCap rose 3.5%, compared to the declines for MidCap (-3.4) and SmallCap (-5.4). Fourteen of the 33 sectors rose in March compared to six rising in February. March's best performers: LargeCap Tech (10.9), LargeCap Communication Services (10.4), LargeCap Utilities (4.6), and LargeCap Consumer Staples (3.8). March's biggest laggards: SmallCap Financials (-16.1), MidCap Financials (-14.5), LargeCap Financials (-9.7), SmallCap Energy (-9.2), and SmallCap Real Estate (-7.7). Looking at performances so far in 2023, LargeCap's 7.0% gain is moving ahead of MidCap (3.4) and SmallCap (2.1) as 20 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Tech (21.5), LargeCap Communication Services (20.2), LargeCap Consumer Discretionary (15.8), MidCap Tech (14.5), and SmallCap Consumer Discretionary (12.3). Here are 2023's biggest laggards: SmallCap Financials (-12.2), SmallCap Energy (-9.2), MidCap Energy (-9.0), MidCap Financials (-8.3), LargeCap Financials (-6.0).

S&P 500 Sectors and Industries Performance (*link*): All 11 sectors rose last week, and six outperformed the composite index's 3.5% gain. That compares to a 1.4% gain for the S&P 500 a week earlier, when nine sectors rose and six outperformed the index. Energy was the best performer with a gain of 6.2%, followed by Consumer Discretionary (5.6%), Real Estate (5.2), Materials (4.9), Industrials (4.4), and Financials (3.7). Communication Services was the worst performer with a 1.5% gain, followed by Health Care (1.8), Consumer Staples (2.5), Utilities (3.1), and Tech (3.4). The S&P 500 rose 3.5% in March as seven sectors moved higher and four outperformed the broader index. That compares to just one sector rising and five outperforming the S&P 500's performance 2.6% decline in February. The leading sectors in March: Tech (10.9), Communication Services (10.4), Utilities (4.6), and Consumer Staples (3.8). March's laggards: Financials (-8.7), Real Estate (-2.1), Materials (-1.3), Energy (-0.5), Industrials (0.6), Health Care (2.1), and Consumer Discretionary (3.0). Looking at 2023's performance so far, the S&P 500 is up 7.0% ytd with just three sectors outperforming the index and seven higher for the year. The best ytd performers: Tech (21.5), Communication Services (20.2), and Consumer Discretionary (15.8). These are 2023's worst performers: Financials (-6.0), Energy (-5.6), Health Care (-4.7), Utilities (-4.0), Consumer Staples (0.2), Real Estate (1.0), Industrials (-3.0), and Materials (3.8).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 3.5% last week and improved relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). The index was above its 200-dma for a second week. It had been above for eight weeks through early March in its longest positive 200-dma streak since it was above for 81 straight weeks through January 2021. The S&P 500's 50-dma improved to a six-week high of 2.2%

above its 50-dma from 1.1% below a week earlier and a 20-week low of 3.6% several weeks before that. That compares to a four-month low of 10.6% below at the end of September, a 23-month high of 8.7% above the index's rising 50-dma in early August, and a 27-month low of 11.1% below its falling 50-dma in mid-June. The index had been mostly trading above its 50-dma from late April 2020 to early April 2022; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index closed Friday at a six-week high of 4.3% above its rising 200-dma, up 0.9% a week earlier and a nine-week low of 0.3% below the week before that. That compares to a 13-month high of 5.1% above in early February. The 200-dma moved higher for a third week, but has risen in just seven of the past 46 weeks. The S&P 500 is well above its 26-month low of 17.1% below its falling 200-dma in mid-June and compares to 10.8% above its rising 200-dma in November 2021. That also compares to 17.0% above in December 2020, which was the highest since November 2009 and up from the 26.6% below registered during the Great Virus Crisis on March 23, 2020—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators (*link*): Seven of the 11 S&P 500 sectors are trading above their 50-dmas, up from three sectors above a week earlier. Energy, Financials, Materials, and Real Estate are the only sectors still trading below their 50-dmas. Five sectors have a rising 50-dma, up from three a week earlier as Consumer Staples and Industrials joined these other three sectors in the rising 50-dma club: Communication Services, Consumer Discretionary, and Tech. Looking at the more stable longer-term 200-dmas, the club grew to seven members from four a week earlier as these three sector joined in the latest week: Consumer Discretionary, Energy, and Materials. Still trading below their 200-dmas are Financials, Health Care, Real Estate, and Utilities. The rising 200-dma club dropped to seven members from 10 a week earlier. Real Estate was joined in the falling 200-dma club this week by Communication Services, Financials, and Utilities.

US Economic Indicators

Personal Consumption Deflator (*link*): February's PCED rose 0.3%, half January's 0.6%, which was the largest monthly gain since mid-2022. Core prices also increased 0.3% in February, following gains of 0.5% and 0.4% the previous two months. The yearly headline rate eased to a 17-month low of 5.0% from last June's 7.0% peak—which was the highest

reading since the end of 1981. The yearly core rate eased back to 4.6% after picking up slightly from 4.6% to 4.7% in January. It peaked at 5.4% last February and March. On a *three-month annualized basis*, the core rate rose 4.8% (saar) in February, only a couple of ticks above its 4.6% yearly rate. The three-month rate for durable goods contracted 0.6% (saar) in February, slowing for the second month from December's 4.7% drop, while the three-month rate for core nondurable goods prices accelerated to a 10-month high of 5.4% (saar), after slowing from 4.9% in August to 1.0% in November. Meanwhile, services prices ex energy rose 5.8% (saar) during the three months through February, holding just below 6.0% for the fourth month. The three-month annual rate for consumer durable goods (-0.6%, saar & 0.7% y/y) was below its yearly rate, while the three-month rates for both core nondurable goods (5.4 & 2.9) and services ex energy (5.8 & 5.5) were above their yearly rates. *PCED components for which three-month rates lag yearly rates*: used motor vehicles (-26.5 & -12.2), gasoline & other energy products (-20.2% & -0.9%), motor vehicles & parts (-2.5 & 6.0), physician services (-1.4 & 0.7), personal care products (2.8 & 7.0), furniture & home furnishings (2.5 & 2.8), food & nonalcoholic beverages purchased for off-premise consumption (4.1 & 10.7), alcoholic beverages purchased for off-premise consumptions (4.0 & 4.4), new motor vehicles (4.0 & 7.4), tobacco (6.3 & 6.7), professional & other services (6.8 & 5.6), transportation services (14.1 & 15.1), and airfares (25.3 & 26.7). *PCED components for which three-month rates exceed yearly rates*: lodging away from home (21.5 & 7.6), tenant rent (9.2 & 8.8), sports & recreational vehicles (9.0 & 1.8), prescription drugs (8.9 & 2.4), owner-occupied rent (8.7 & 8.1), recreation services (8.6 & 5.9), clothing & footwear (6.1 & 2.2), hospitals (2.7 & 2.2), and video audio & information processing (-0.4 & -3.4). *PCED components for which three-month rates & yearly rates are comparable*: education services (2.7 & 2.6) and household appliances (-5.4 & -5.3).

Personal Income & Consumption (*link*): *Personal income* rose a larger-than-expected 0.3% in February—its 13th successive gain and up 6.8% over the period—as the wages & salaries component continues to set new record highs. *Wages & salaries* hasn't posted a decline since February 2021—soaring 19.5% over the two-year period. Adjusted for inflation, wages & salaries rose for the eighth consecutive month in February by a total of 3.4%—to a new record high. *Personal consumption expenditures* also continued to set new record highs, up 0.2% in February and 7.6% y/y, led by services consumption, which climbed 0.2% and 8.8% over the comparable periods. In real terms, consumer spending in February ticked down 0.1% from January's record high and was 2.5% above a year ago, with services and goods consumption up 3.0% and 1.6% the past 12 months—the former little changed at January's record high.

Consumer Sentiment Index (*link*): Consumer sentiment fell for the first time in four months

in March, though the report noted: "[T]urmoil in the banking sector had limited impact on consumer sentiment, which was already exhibiting downward momentum prior to the collapse of Silicon Valley banks." *Overall consumer sentiment* dipped 5.0 points to 62.0, after climbing 10.2 points the prior three months to 67.0, though remains 4.0% above a year ago. The March decline was concentrated among lower income, less educated, and younger consumers, as well as consumers with the upper third of stock holdings. The *present situation component* dropped 4.4 points to 66.3 last month, following a three-month gain of 11.9 points to 70.7, while the *expectations component* fell 5.5 points to 59.2, after a three-month increase of 9.1 points to 64.7. Turning to inflation, the *one-year expected inflation rate* slowed from 4.1% in February to 3.6% in March, the lowest since April 2021, though remained well above its 2.3%-3.0% range recorded during the two years prior to the pandemic. It peaked at 5.4% last March and April. The *five-year expected inflation rate* held at 2.9% for the fourth consecutive month—remaining within the narrow 2.9%-3.1% range for 19 of the last 20 months.

Global Economic Indicators

Eurozone Economic Sentiment Indicators (*link*): The recent move up in the Economic Sentiment Indexes (ESI) for both the EU and Eurozone stalled in February and March, with both showing slight downticks. The *EU's* measure edged down for the second month to 97.4 in March, after increasing 4.9 points the prior three months from October's 92.9 to 97.8 in January, while the *Eurozone's* edged down 0.4 point over the two months through March to 99.3, after climbing from 93.8 during October to 99.7 by January. ESIs among the *six largest EU economies* are a mixed bag. Sentiment in Italy (+9.0 points to 104.6) and the Netherlands (+7.2 to 98.3), remained on an upswing from their October lows, while sentiment in France (98.0), Spain (99.7), and Germany (97.9) have stalled after their recent moves up. Sentiment in Poland has hovered around 90.0 for six months. *By sector*, consumer confidence in the overall EU was little changed at -20.7 in March after a five-month surge of 9.2 points from September's record low of -29.8 to -20.6 in February. Retail trade confidence relapsed in March, slipping to -1.6, after a five-month jump of 6.0 points (to -1.0 from -7.0 in September). Industrial confidence also lost momentum, slipping to -1.3 in March after climbing from -2.0 in November to -0.1 by January, while construction confidence deteriorated to -2.0 in March from a recent high of 8.4 at the end of 2021. Meanwhile, services confidence in March was unchanged at 7.3, after climbing from 4.1 last October to six-month high of 8.2 by the start of this year.

Eurozone CPI Flash Estimates (*link*): The CPI rate for March is expected to slow for the

fifth month to 6.9% y/y, after accelerating to a record-high 10.6% last October. For perspective, the rate was as low as -0.3% at the end of 2020. Looking at the main components, *energy* is expected to decline 0.9% y/y for March, after posting double-digit yearly gains from April 2021 through February 2023—peaking at a record high of 44.3% last March. The rate for *food, alcohol & tobacc*o is expected to soar to yet another new record high of 15.4% in March—accelerating steadily from June 2021's 0.5%—while the rate for *non-energy* industrial goods is predicted to ease a bit to 6.6% y/y from February's record-high 6.8%. The *services* rate is forecast to climb to 5.0% y/y in March—which would be the highest since October 1993. Of the *top four Eurozone economies*, rates in both Italy (8.2% y/y) and Germany (7.8) are expected to be above the Eurozone's rate of 6.9%, while rates in France (6.6) and Spain (3.1) are expected to be below. Here are the record-high inflation rates and dates they were achieved for the four countries: Italy (12.6%, October & November 2022), Germany (11.6%, October 2022), France (7.3%, February 2023), and Spain (10.7%, July 2022).

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