Singing the (Banking) Blues: Navigating the Current Volatility in the Banking Industry

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The collapse of Silicon Valley Bank (SIVB) led to a reassessment of liquidity and contagion risks across the banking industry. Regional banks have borne the brunt of the subsequent market sell-off. Month-to-date, regional bank stocks are down by 28%, versus 0% for the S&P 500.[1] This report introduces a screen to help both equity and fixed income investors navigate the current volatility in the banking industry. The screen identifies regional banks with unfavorable exposures to three fundamental and sentiment indicators:

- Liquidity: The ratio of the fair value of held-to-maturity (HTM) securities to the carrying value of the HTM portfolio. This metric is an indication of losses a bank may incur if forced to liquidate its HTM portfolio to cover customer deposit withdrawals.

- Management Sentiment: Earnings calls not only provide context for current financial results, but also contain forward-looking information. For example, SIVB's executives discussed the future direction of deposit outflows and the bank's strategy for its available-for-sale and HTM portfolio during its Q4 2022 earnings call.

- Investor Sentiment: The securities lending market provides an opportunity for investors to express how pessimistic they are about the future prospect of a company.

Figure 1: Stock Tickers of U.S. Regional Banks with the Worst Readings across Liquidity, Management Sentiment and Investor Sentiment Indicators
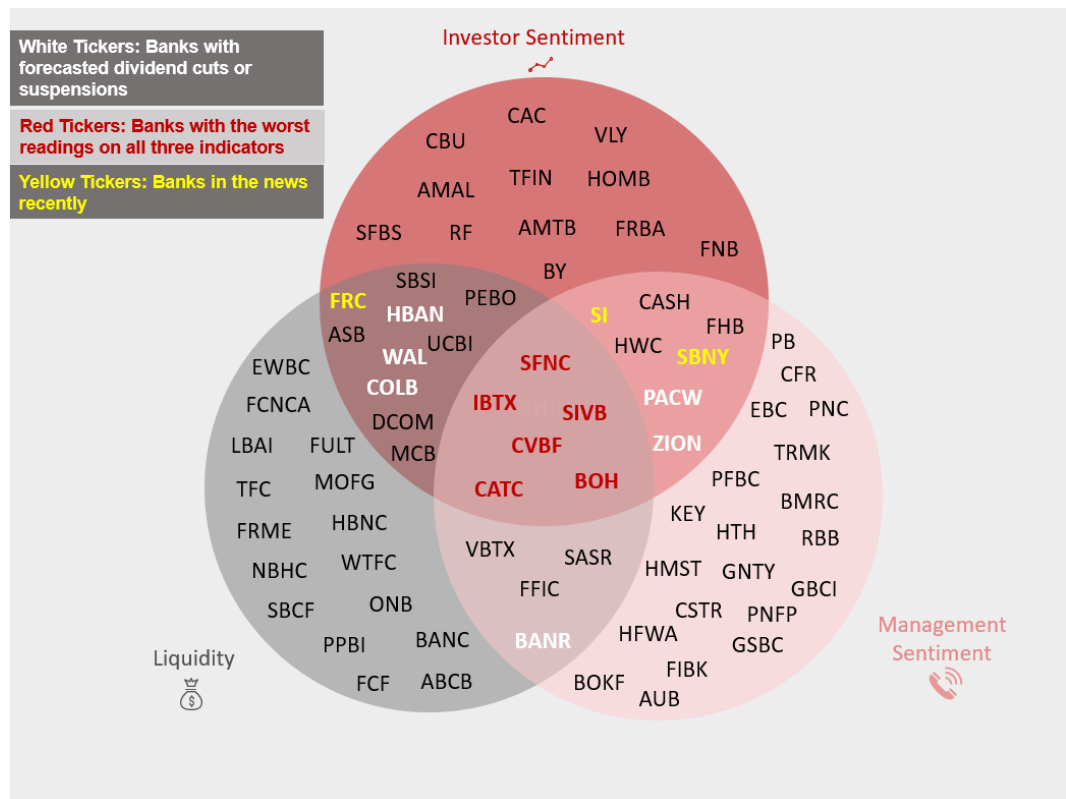
Source: S&P Global Market Intelligence Quantamental Research. Data as at 03/16/2023.
Liquidity data based on 2022 Q4 financials.

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[1] The bank index used for this analysis is the Dow Jones U.S. Select Regional Banks Index. Data as at 3/21/2023

Figure 1 shows banks with unfavorable exposures to at least one of the three indicators. First Republic Bank (FRC), which received $30 billion in deposits from 11 banks as part of a rescue package, scored poorly on both the liquidity and investor sentiment metrics.

Investors should also consider whether regional banks can maintain current shareholder payouts (dividends and share buybacks) during this market environment. Banks may have to pause or cut these payouts to conserve cash. Figure 1 (white tickers) and Table 1 show six banks with unfavorable exposures to at least two indicators and have had their forecasted dividend payouts suspended or revised downwards.[2]

Table 1: U.S. Regional Banks with Unfavorable Exposures to Two or More Indicators and Forecasted Dividend Payouts Paused or Revised Downwards

Bank Name	Ticker	Forcasted Dividend Action	Stock Return (02/28/2023 - 03/21/2023)
Pacwest Bancorp	PACW	Pause	-56%
Western Alliance Bancorp	WAL	Pause	-55%
Zions Bancorporation	ZION	Pause	-36%
Banner Corp	BANR	Revised Downwards	-11%
Columbia Banking System Inc	COLB	Revised Downwards	-24%
Huntington Bancshares	HBAN	Revised Downwards	-27%

Source: S&P Global Market Intelligence Quantamental Research. Data as at 03/21/2023.

1. Screen Construction

The screen was constructed using the following process:

i) Liquidity: This ratio was calculated as the fair value of held-to-maturity securities divided by the carrying value of the held-to-maturity portfolio. This ratio is ranked in descending order (larger values are preferred).

ii) Management Sentiment: Calculated as the number of positive words minus number of negative words scaled by the total number of words in the earnings call.[3] The ratio is ranked in descending order.

iii) Investor Sentiment: The ratio of shares lent out to the number of shares available to be borrowed. This ratio is ranked in ascending order.

iv) Construct the screen using regional bank stocks in the worst tertile (rank equal to 3) of each indicator.

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[2] Dividend suspension/cuts data was provided by the Dividend Forecasting team at S&P Global Market Intelligence. There are 27 banks in Figure 1 with forecasted dividend suspensions or cuts. Readers interested in the full list should contact their sales representative.

[3] See Zhao, F. "Natural Language Processing - Part II Stock Selection". S&P Global Market Intelligence Quantamental Research, September 2018 for additional insights on using earnings call data for stock selection.

2. Data

S&P Global Market Intelligence Textual Data Analytics (TDA)

TDA is a suite of 800+ predictive and descriptive signals derived from earnings call transcripts. It includes sentiment scores on over 11,000+ active securities. Sentiment scores is provided for individual sections and speaker types in earnings calls.

S&P Global Market Intelligence Securities Finance Data

S&P Global Market Intelligence Securities Finance dataset provides market leading analytics on short seller demand, supply and borrow costs. It delivers comprehensive daily and intraday data on global equity and fixed income securities lending flows to support investment decisions, asset allocation and risk management. With more than $36 trillion of global securities in the lending programs, sourced from 20,000 underlying institutional funds, the Securities Finance dataset provides holistic transparency into short interest dynamics and institutional fund positioning. The daily dataset is sourced directly from industry participants with history from 2006.

S&P Global Market Intelligence SNL Data

The SNL bank database covers over 50,000 public and private companies (30,000 active), spanning all markets globally: the Americas, Asia Pacific, Europe, the Middle East, and Africa. The database includes 100-600+ data items (excluding ratios), depending on the bank's size and market. All items are hand-entered into a banking-specific template. Turnaround time averages 24 hours, and all data is updated within five days of publication. U.S. data generally begins in 1988, with international data beginning in 2005. Data types covered include:

- Balance sheet (gross and net loans, reserves, AFS, HTM and trading securities, derivative assets and liabilities, deposits, off-balance-sheet commitments etc.)
- Income statement, including comparable pre-impairment operating profit, impairment detail and yield/cost information
- Detailed credit quality metrics, including problem loans, impairments, and provisions
- Regulatory capital details, including core Tier 1, total capital, and risk-weighted assets, plus the associated capital ratios
- Consolidated as well as unconsolidated data available when relevant and applicable
- Standard ratios

S&P Global Market Intelligence Dividend Forecasting Data

S&P Global Market Intelligence Dividend Forecasting dataset contains independent dividend amount and date estimates for 28,000+ global companies, ADRs and ETFs up to five years in the future. A global team of 40 dividend analysts deliver precise forecasts of the size and timing of payments based on bottom-up fundamental research, advanced analytics and the latest company news. Derivatives traders, portfolio managers and quantitative analysts use these forecasts to make pricing and investment decisions, calculate portfolio dividend income and better understand dividend risk.

Appendix A: Tickers Linked to Bank Names

Bank Name	Ticker		Bank Name	Ticker
Ameris Bancorp	ABCB		Homestreet Inc	HMST
Amalgamated Financial Corp	AMAL		Home Bancshares Inc	HOMB
Merant Bancorp Inc	AMTB		Hilltop Holdings Inc	HTH
Associated Banc Corp	ASB		Hancock Whitney Corp	HWC
Atlantic Union Bankshrs Crp	AUB		Independent Bk Grp Inc	IBTX
Banc of California Inc	BANC		Keycorp	KEY
Banner Corp	BANR		Lakeland Bancorp Inc	LBAI
Bank of Marin Bancorp	BMRC		Metropolitan Bank Hldng	MCB
Bank of Hawaii Corp	BOH		Midwestone Financial Group	MOFG
Bok Financial Corp	BOKF		National Bank Hldgs Corp	NBHC
Byline Bancorp Inc	BY		Old National Bancorp	ONB
Camden National Corp	CAC		Pacwest Bancorp	PACW
Pathward Financial Inc	CASH		Prosperity Bancshares Inc	PB
Cambridge Bancorp	CATC		Peoples Bancorp Inc/OH	PEBO
Community Bank System Inc	CBU		Preferred Bank Los Angeles	PFBC
Cullen/Frost Bankers Inc	CFR		PNC Financial Svcs Group Inc	PNC
Columbia Banking System Inc	COLB		Pinnacle Finl Partners Inc	PNFP
Capstar Financial Hldgs Inc	CSTR		Pacific Premier Bancorp Inc	PPBI
CVB Financial Corp	CVBF		RBB Bancorp	RBB
Dime Community Bancshares	DCOM		Regions Financial Corp	RF
Eastern Bankshares Inc	EBC		Sandy Spring Bancorp Inc	SASR
East West Bancorp Inc	EWBC		Seacoast Banking Corp/FL	SBCF
First Commonwlth Finl CP/PA	FCF		Signature Bank/NY	SBNY
First Citizens Bancsh -CL A	FCNCA		Southside Bancshares Inc	SBSI
Flushing Financial Corp	FFIC		Servisfirst Bancshares Inc	SFBS
First Hawaiian Inc	FHB		Simmons First Natl Cp -CL A	SFNC
First Interstate Bancsystem	FIBK		Silvergate Capital Corp	SI
F N B Corp/FL	FNB		SVB Financial Group	SIVB
First Bank	FRBA		Truist Financial Corp	TFC
First Republic Bank	FRC		Triumph Bancorp Inc	TFIN
First Merchants Corp	FRME		Trustmark Corp	TRMK
Fulton Financial Corp	FULT		United Community Banks Inc	UCBI
Glacier Bancorp Inc	GBCI		Veritex Holdings Inc	VBTX
Guaranty Bancshares Inc	GNTY		Valley National Bancorp	VLY
Great Southern Bancorp	GSBC		Western Alliance Bancorp	WAL
Huntington Bancshares	HBAN		Wintrust Financial Corp	WTFC
Horizon Bancorp Inc	HBNC		Zions Bancorporation NA	ZION
Heritage Financial Corp	HFWA			

Our Recent Research

February 2023: <u>Watch Your Language: Executives' Remarks on Earnings Calls Impact CDS Spreads</u>

Issues that impact the credit risk of companies are discussed on earnings calls. The findings in this report indicate there is a relationship between the level of earnings call sentiment and changes in CDS spreads. The mean percentage CDS spread change for companies with the worst sentiment is three times larger than that of companies with the best sentiment, 1-month post earnings call (3.11% vs 1.11%).

January 2023: <u>Machines Signal Q4'22 Guidance Not Falling Off a Cliff: An In-Depth Textual Review of Q3'22 Earnings Call Transcripts</u>

In Q3'22, the sentiment of S&P 500 firms has deteriorated to a level not seen since the IMF Greek Debt Default. Firms' focus has shifted away from pandemic-related concerns to interest rate-related ones. Financial growth is uneven. The breadth of firms citing profitability growth remains a bright spot yet the number of firms citing bottom-line growth has been mired in an "earnings recession" throughout 2022. Guidance for Q4'22 is far from falling off a cliff. This series demonstrates the richness and the intuitiveness of insights that could be surfaced algorithmically from textual data.

October 2022: <u>Hanging on Every Negative Word: Natural Language Processing Analysis of Credit Rating Action Reports</u>

Credit ratings are opinions about credit risk. When a credit rating changes, the analyst explains why, in a report. The 'why' is important. For an equity investor, a downgrade due to a rapid decline in a company's sales has a negative implication; whereas, a downgrade due to an increase in leverage arising from a share buyback program may be viewed as positive. This study finds that the relative size of the price impact following a downgrade is dependent on the magnitude of the tone and the topics of focus in the report (Figure 1). Downgrades with strong negative sentiment underperform downgrades with positive sentiment by 2.7% over the following month.

March 2022: <u>The Sounds of Silence: No Response Speaks Volumes</u>

No simple remedy for gender discrimination exists. But the first step in solving any problem is collecting the data to understand it. This research shows firms that share their data on diversity, equity, and inclusion (DEI) have taken further steps to address gender equity concerns. The S&P Global Corporate Sustainability Assessment (CSA) is a premier benchmarking survey and litmus test for inclusion in the S&P Dow Jones Sustainability Index. Firms that participated in the CSA survey in 2021 had better DEI outcomes.

October 2021: <u>Glass Floors and Ceilings: Why Closing the Median Wage Gap Isn't Fair</u>

The gender wage gap describes the disparity in compensation between women and men doing the same work. Progress on this issue is commonly measured by comparing the median

compensation for women to men. This research demonstrates that firms are catering to the focus on median compensation and are paying women in a tighter range around the median, compared to men in equivalent positions. Effectively, women have been given a glass floor as redress for the still-present glass ceiling. This 'Gender-Based Compensation Management' not only undermines the goal of equitable pay; but because the high end of the compensation range can be much farther from the median than the low end, this paradigm is a net disadvantage for women.

September 2021: <u>The Board Matrix: The (ESG) Value of Well-Connected Directors</u>
August 2021: <u>Technology Momentum: Peer Networks from Patents</u>
July 2021: <u>Branching Out: Graph Theory Fundamentals</u>
May 2021: <u>U.S Filings: No News is Good News</u>
March 2021: <u>Hiding in Plain Sight – Risks That Are Overlooked</u>
January 2021: <u>Leadership Change That Matters: A Value and Momentum Story</u>
December 2020: <u>Warranted Optimism: Sentiment vs. Supply Chain</u>
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