

Silicon Valley Bank Collapse: US regional banking shock.

On Friday 10th March Silicon Valley Bank went into administration and concerns were immediately raised about the bank's client base – how many firms would be affected by the bank's collapse?

Two days later U.S. regulators took over New York-based Signature Bank to protect depositors and the stability of the US financial system. On Monday Silvergate Capital announced that it was going into liquidation.

Monday saw developed markets losing ground, driven by falls in banks and other financial firms. The FTSE 100 fell by 2.58% over the day. Lloyds and Barclays fell 5.12% and 6.31% respectively. HSBC, whose takeover of the UK-based assets of Silicon Valley Bank made headlines, fell a more modest 1.79%.

When the US market opened, US financial stocks fell sharply. Larger banks, such as Citigroup and JPMorgan Chase lost ground but nowhere near as much as smaller regional banks. Table 1 below shows a selection of US regional banks' price movements at close of play on Monday 13th.

Table 1:
Price movements for a sample of US regional banks on Monday 12 March

Ticker	Name	Price Movement
FRC	First Republic Bank	-61.83%
WAL	Western Alliance Bancorp	-47.06%
CMA	Comerica Incorporated	-27.67%
KEY	KeyCorp	-27.33%
ZION	Zions Bancorp	-25.72%
PACW	PacWest Bancorp	-21.05%
EWBC	East West Bancorp	-17.37%
HBAN	Huntington Bancshares Inc	-16.83%
CVBF	CVB Financial Corp	-16.29%
FITB	Fifth Third Bancorp	-13.57%
CFG	Citizens Financial Group	-11.00%
SYF	Synchrony Financial	-8.96%
RF	Regions Financial Corp	-7.05%
SI	Silvergate Capital Corp	-5.56%

Source: Yahoo Finance

Note: Silvergate Capital Corp subsequently announced its liquidation



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What does this mean for equity investors?

The collapse of two significant financial institutions caused a sudden shock, which was reflected in the price falls of financial firms in the US and elsewhere. Over the course of the next few days, possibly longer, we will see how this continues to unfold in the markets.

The purpose of equity market investment is to gain equity risk exposure. The expectation is that, over the long-term, this risk is rewarded by positive returns. In the short-term, however, equity returns can be negative, sometimes very negative. Research shows that trying to time markets is futile and costly. Therefore, for equity investors, it is better to take a disciplined, long-term view and employ well-diversified, low-turnover investments.

What does this mean for investors in GSI's funds?

GSI's funds are designed with two features that, in the longer term, we expect to generate higher returns compared to market-weighted broad global equity indices: (i) they have greater exposure to value stocks (based on a blend of value metrics), and (ii) they have greater exposure to small companies (based on market capitalisation).

Currently GSI categorised many financial firms as value stocks and, consequently, our funds are overweight financials relative to a broad market index. Looking at the list of regional banks above, our funds' holdings are detailed in Table 2 below. The Global Sustainable Focused Value Fund (GSFV), which has a stronger bias towards value, has greater exposure to the banks than the Global Sustainable Value Fund (GSV), which is more of a core investment.

Table 2: GSI funds' holdings in the sample of US regional banks

Ticker	Name	Price Movement	GSV%	GSFV%
FRC	First Republic Bank	-61.83%	0.00%	0.00%
WAL	Western Alliance Bancorp	-47.06%	0.01%	0.03%
CMA	Comerica Incorporated	-27.67%	0.04%	0.06%
KEY	KeyCorp	-27.33%	0.05%	0.12%
ZION	Zions Bancorp	-25.72%	0.03%	0.05%
PACW	PacWest Bancorp	-21.05%	0.00%	0.00%
EWBC	East West Bancorp	-17.37%	0.04%	0.07%
HBAN	Huntington Bancshares Inc	-16.83%	0.06%	0.00%
CVBF	CVB Financial Corp	-16.29%	0.00%	0.00%
FITB	Fifth Third Bancorp	-13.57%	0.11%	0.20%
CFG	Citizens Financial Group	-11.00%	0.03%	0.04%
SYF	Synchrony Financial	-8.96%	0.12%	0.17%
RF	Regions Financial Corp	-7.05%	0.16%	0.24%
SI	Silvergate Capital Corp	-5.56%	0.00%	0.00%
Total			0.65%	0.98%

Source: Yahoo Finance; Global Systematic Investors.

Holdings calculated as at close Friday 10 March, prior to the price movements shown above.

Overall, the funds' exposure to financials is shown in Table 3 below;

Table 3: GSI funds' holdings in financials compared to a broad market index

	GSV	GSFV	Large/Mid Index
Financials	22.10%	28.30%	16.30%
vs Index	5.80%	12.00%	-
Banks	6.00%	10.30%	6.10%
vs Index	-0.10%	4.20%	-
Diversified Banks	4.90%	8.50%	5.50%
Regional Banks	1.20%	1.80%	0.60%

Source: Solactive; Global Systematic Investors

The index is Solactive GBS Developed Markets Large & Mid Cap Index

The GSI Funds had no holdings in Silicon Valley Bank. The GSI Sustainable Focused Value Fund (GSFV) has a tiny holding in Signature Bank (less than half of a basis point) but as noted above, this issue has affected the whole financial sector. We will continue to monitor how this develops but we are confident that our investors will be well served by the broad diversification of both our funds.

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