ASAS CAPITAL
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April 14th 2023

# Weekly Update

## Musings

The only investors that don't need to diversify are those that are right 100% of the time.

*Sir John Templeton*

## Last week in the markets

Last week's release of the March CPI report revealed that inflation remains on its downward path. Headline inflation has dropped materially, falling from 9% last summer to 5% in March, driven in large part by a drop in oil and food prices.

Core inflation, which excludes volatile energy and food costs and serves as the more structural measure of inflation upon which the Fed bases monetary policy, rose by an expected 0.4% from the previous month, putting inflation at 5.6% annual rate. This is down from the peak of 6.6% seen in September 2022, but still a long way from the Fed's 2% long-term target.

Also, out last week was the March read on the producer price index (PPI), which measures wholesale prices paid, effectively capturing inflation on input costs through the supply chain. The trend here is particularly encouraging, as producer prices are in outright decline, with PPI falling 2.5% in March versus the month prior. **This brings the annualized PPI inflation rate down to 3.4%, the lowest in two years.**

Commerce Department data released Friday morning showing retail and food services sales fell 1% in March from the month before cast a pall over the market. **The decline was twice as large as economists were expecting and adds to concerns about recession.**

Another important event was the unofficial start of quarterly earnings season on April 14th, kicked off by reports from banking giants JPMorgan Chase, Wells Fargo, and Citigroup. All reported surging revenue and profits in the first quarter even as regulators seized some regional lenders and panic spread across the financial system in March. It was, however, clear from the results that the industry faces several challenges. Chief among them is the effect that higher interest rates have on a key measure of profitability known as net interest income. The rise in interest rates over the past year boosted this for banks because it allowed them to charge more for their loans. Now deposit rates are expected to rise. Those pressures are even more acute for small banks that depend on loans for much of their profits and can't turn to investment banking or trading for additional revenue.

| | JPMorgan Chase & Co. | citi | WF |
|---|---|---|---|
| Beat or miss analyst estimates | Beat | Beat | Beat |
| Stock reaction (1 day) | 7.55% | 4.78% | -0.05% |
| Earnings per share (EPS): actual vs estimate | US$4.10 vs est. US$3.38 | US$1.86 vs est. US$1.65 | US$1.23 vs est. US$1.13 |
| Revenue: actual vs estimate | US$39.3 billion vs est. US$36.8 billion | US$21.5 billion vs est. US$19.9 billion | US$20.7 billion vs est. US$20 billion |
| Deposits: actual vs estimate | US$2.38 trillion vs est. US$2.33 trillion | US$1.33 trillion vs est. US$1.36 trillion | US$1.36 trillion vs est. US$1.38 trillion |
| What does this mean for deposits? | Sign that there has been an excess shift of deposits into select larger banks like JP Morgan Chase. | Suggests that Citigroup benefitted less than JPMorgan Chase from the banking turmoil. | Suggests Wells Fargo gained less deposits than bigger banks like JPMorgan during recent banking deposit turmoil. |

JPMorgan and Wells Fargo are both preparing for the possibility that credit conditions could worsen. JPMorgan increased its provision for credit losses by 56% compared to a year ago. Wells Fargo put aside $1.2 billion for credit losses.

Wells Fargo stock ended Friday roughly flat, compared with a 7.5% rise at JPMorgan and a 4.8% rise at Citigroup.

In a sign of the interconnectedness of global economies, Infosys Ltd reported that it expects revenue growth of 4%-7% on a constant currency basis for the fiscal year ending March 2024, well below analysts' expectations of 10.7% growth, as clients cancelled some projects and deferred spending. Shares were trading about 10% below the previous close at the time of writing.

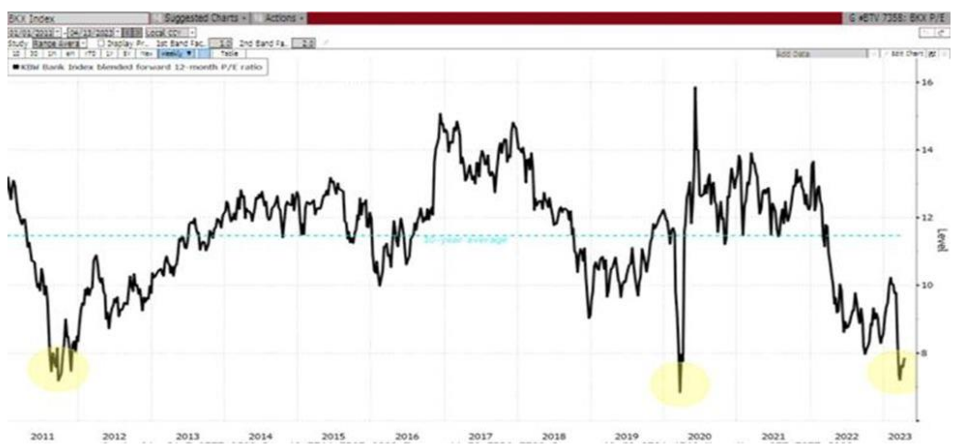
Infosys' outlook last week followed a disappointing quarterly report from larger rival Tata Consultancy Services , highlighting worries for the sector which earns more than 25% of its revenue from just the U.S. and European banking, financial, services and insurance sector.

Smaller rival HCLTech is due to report results later this week, while Wipro is expected next week.


## Chart of the week

The KBW Bank Index, which tracks the performance of the leading banks, is at its lows like during COVID & GFC term.

The Index includes 24 banking stocks representing the large U.S. national money centers, regional banks, and thrift institutions.

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