

*And some things that should not have been forgotten were lost. **

Executive Summary

- Bank-run continue to be a crucial economic thread, which we may have forgotten.
- Despite a rapid recovery, financials names remain under pressure, in the US but also, surprisingly, in Europe.
- Different seasonal technicals make April an historical good month.
- Bond Basis touched a low level, showing cheapening of Bonds against Synthetic credit index.

"Every season is one of becoming, but not always one of blooming." B Oakman

*Lord of the Ring

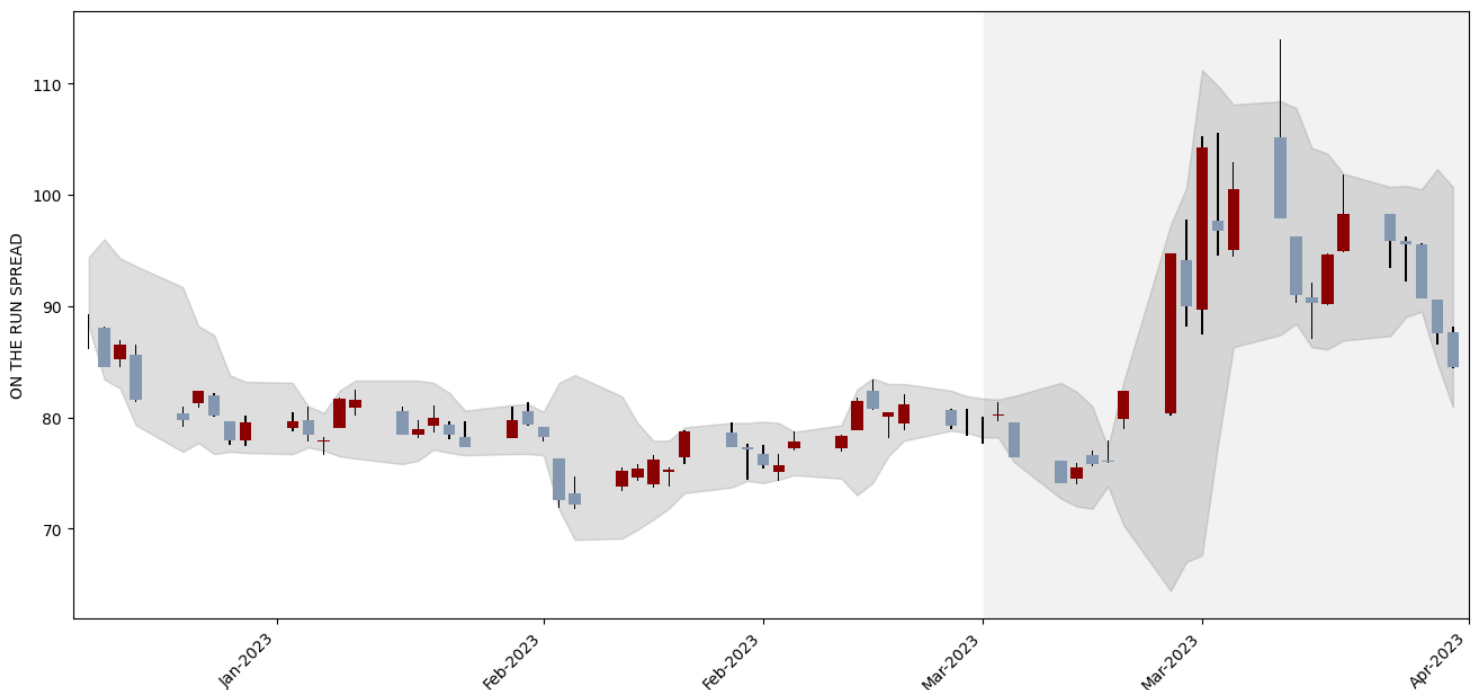
March in the credit markets

Spring is coming in Paris!

The beginning of March is the time when trees show their first blossom, making it a month of expectation. It was a pleasure seeing the first blooms, coming out faster than inflation, and daylight extends as has the retirement age. The streets were quickly over-flowing with garbage together with the stigma of weekly riots as the markets were momentarily overwhelmed by the sudden flux of bankruptcies in the banking sector; with what seemed like nostalgia from the GFC.

Let's have a look at what happened in IG credit markets.

Fig. 1: iTraxx main 5Y spread (High-Close-Low)



The 5Y benchmark IG credit index (iTraxx Main) started the month around ~80bps ; where it was to eventually close. In between we reached highs of ~108bps (and 110+bps intraday). The main driver of volatility was of course the banking sector. We have witnessed something which could be either the first warning of a deeper financial crisis, or on the contrary another illustration that regulators can save us from anything. Indeed, since the GFC they have been the markets'saviour, relying

heavily on trust. But “trust is like the air we breathe. When it's present, nobody really notices. [...] When it's absent, everybody notices...” (Warren Buffet)

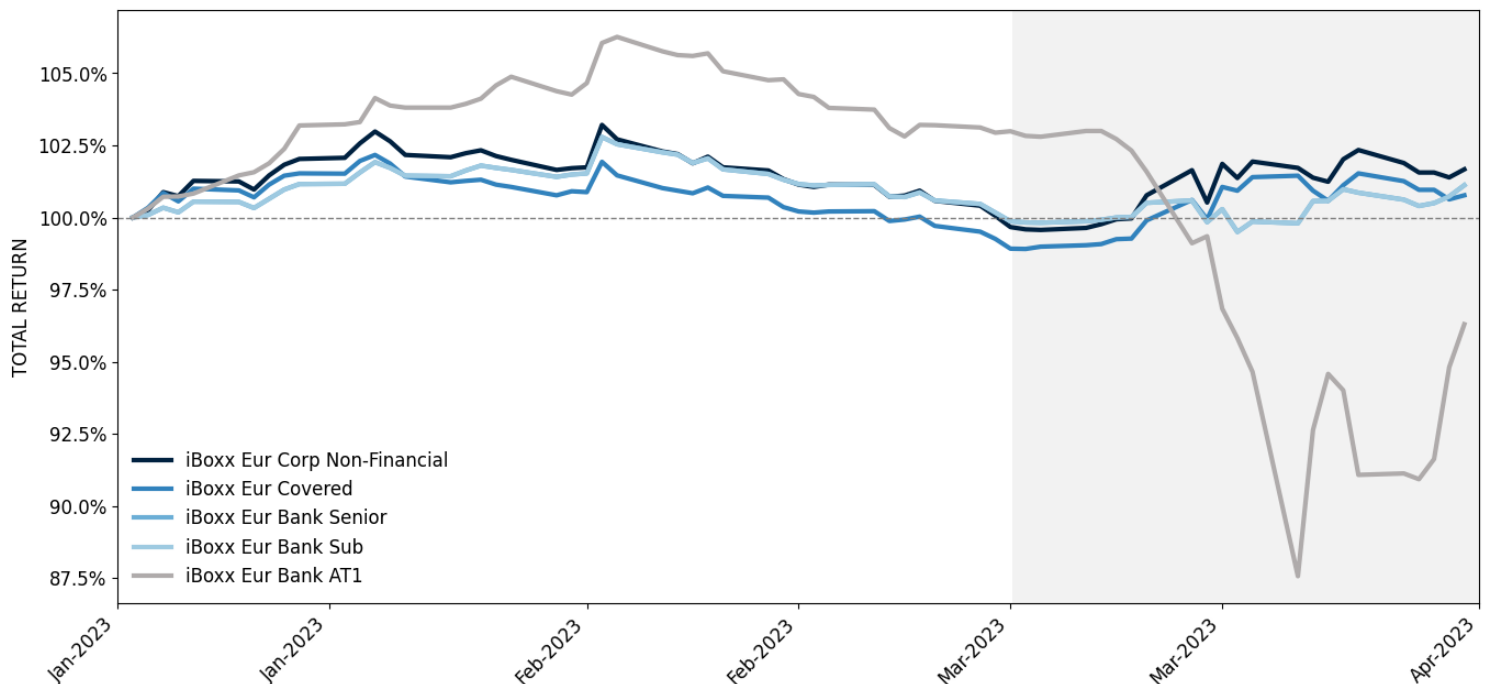
What happened:

Set under the Californian technology sun for more than four decades, Silicon Valley Bank (“SVB”) went from Investment Grade to bankrupt in hours. It all started with rumors of losses linked to long-term US treasuries positions; such positions weren’t formerly considered speculative in a zero rate environment. But with the rise in interest rates, 10Y duration can be quite harmful.

It is difficult to stop rumors and the truth evenmore. In hours, SVB was facing a bank-run. This event contaminated other regional US banks (Signature Bank and Silver Gate were bailed out by the FDIC). Now that everyone is familiar with the laws of medical and financial pandemic, it wasn’t a surprise to see contagion extending to Europe, ignoring swiss neutrality and bringing down a 170y-old financial institution in a couple of days. Credit Suisse was digested, over a week-end all you can eat feast by UBS - its rival since 1862 – with strong FINMA support.

Spreads of the whole financial sector have widened in sympathy but the rapid and strong responses from regulators managed to contain additional contagion. **It was so well contained that it shall be remembered as AT1 crisis only.**

Fig. 2: iBoxx capital structure comparison



Source: Selwood AM France, Bloomberg.

Take-away:

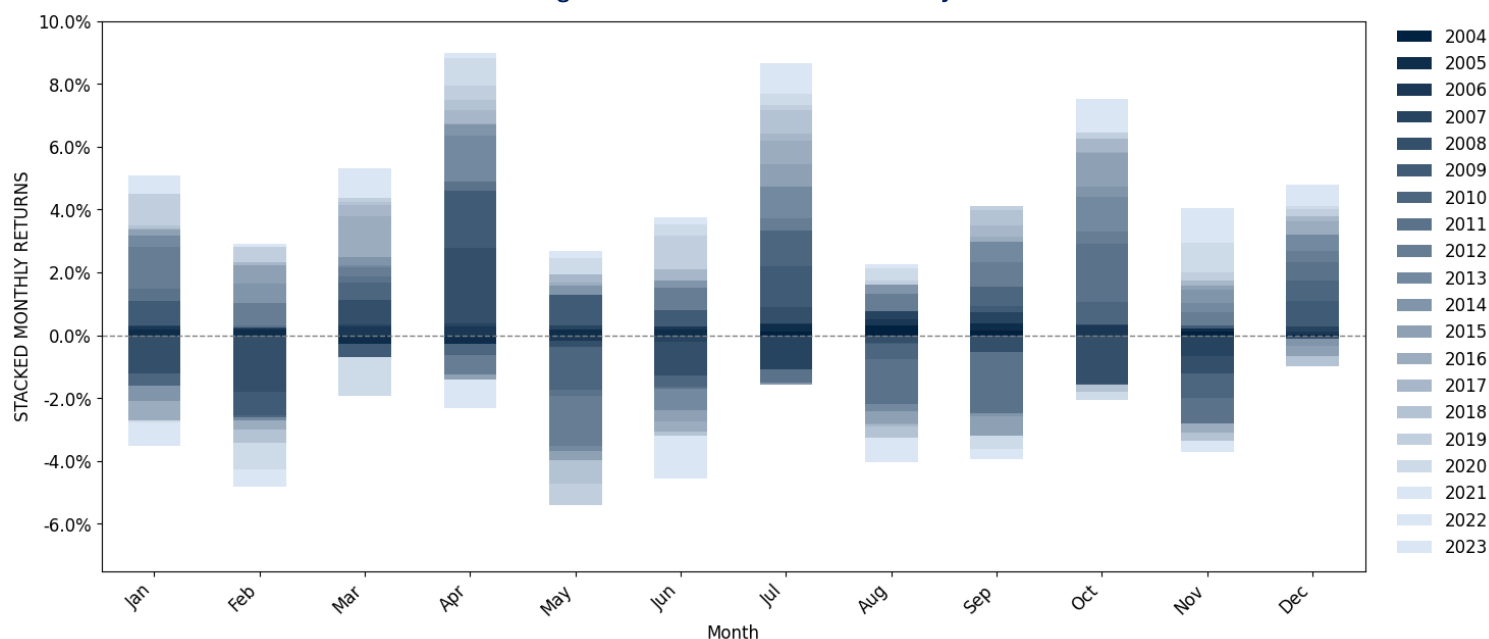
When SVB went down in the US a lot of research indicated that regional banks in the US benefited from lighter capital requirements and such events could not affect large financial institutions – especially in Europe. The Credit Suisse affair was a roaring demonstration of the opposite, while suffering from different factors. In our view, what this showed is that financial institutions, however large, are currently incapable of facing “bank-runs”. While a global financial crisis is not our main scenario, it is sensible **to be cautious on sectors with higher sensitivity to interest rates, like High Yield, Real Estate.**

Special Spring Focus : Is April the cruellest month?

One of the most famous poems of TS Eliot starts by the following affirmation : *April is the cruellest month*. We tried to crunch some numbers to see if such a prophetic voice could found some echo in financial markets.

A brief glance at the graph (Fig.3) below reveals a **solid trend in the months after the end of each quarter**, except January, with **December often exhibiting a significant end-of-year rally**.

Fig. 3: iTraxx Main 5Y return sesonality.



Source: Selwood AM France

We can identify five primary explanations for seasonality:

- i. **Economic cycles:** economic activity and financial market performance are often impacted by business cycles. This might result in a seasonal pattern of returns, with various sectors doing better at different times of the year.
- ii. **Weather patterns:** Some businesses, such as agriculture, tourism, and energy, are impacted by weather patterns. Seasonal changes in the profits of these businesses may impact the performance of their respective equities.
- iii. **Fiscal cycles:** Fiscal policies and tax laws may influence the behaviour of investors and the performance of certain assets. For instance, investors seeking to gain tax advantages may boost their purchasing activity towards the end of the fiscal year, leading to an increase in buying activity.
- iv. **Psychological elements:**, such as market sentiment, mood, Holidays coming and confidence, can impact investor behaviour. These variables may fluctuate throughout the year, causing seasonal variations in investment results.
- v. **Many corporations quarterly results, and financial year ends in March:** which may impact the performance of their stocks and debt. Seasonal changes in profits might potentially result in seasonal swings in values.

What about April 2023?

Now, looking at the end of 2022 and the beginning of 2023, **we have had five consecutive positive months** despite a well-publicized recession! **Credit ETFs and Funds also saw substantial inflows, which began to reverse around the end of March** (presumably owing to the financial crisis). Meanwhile, **the iTraxx reverted to a more neutral long positioning**. On Credit, the March financial crisis resulted in a **freeze in primary issuance, which is anticipated to resume in April**, and to also weigh on the secondary issuance market. Financials also remain at the center of attention, having not yet fully recovered from the March events.

Word Cloud from Selwood Asset Management France streaming of financial news during the month. A word cloud is a visual representation of text data, which is used to depict keyword metadata on websites, or to visualize free form text. Tags are usually single words, and the importance of each tag is shown with font size or colour

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