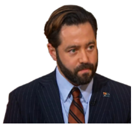
Australian Standfirst

The Market Power Of The Private Banks:
Who Decides When Markets Recover & What's The Next Narrative



Portfolio Attribution

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In a world that continually surprises, the rapid repricing in financial markets this year has all but forced sophisticated investors into an unavoidable *Sophie's Choice*; do they take future guidance from central banks whom counsel caution (albeit belatedly) or heed the schismatic advice of their asset managers and advisors whom ricochet between prescient bullishness and financial nihilism?

Over the past decade following the *Great Recession*, private banks mainly focused on the same activities: rebuilding regulatory capital, mending regulatory fences, investing in digitization and achieving economies of scale garnished through mergers forced upon them during the TARP overhauls of the post *Global Financial Crisis* response.

Cite:- Investors Be Warned Mifid II & Mifir Could Be The Work Of The Devil Himself, 29 November 2017

Cite:- Caymans Offer High Standards For The World, Not Just Tall Poppies, 16 October 2015

Cite:- Franking Rule Change Will Have Big Impact On Wealthy Investors, 27 September 2014

Because of this, these banks became nimbler but also more ardent in their focus to market institutional and private client ***narratives***, back-ended by asset management strategies that reallocated client capital internally (on-platform or custody) across asset buckets, sectors, geographies and up and down the capital stack, taking advantage of market swings in the name of improved long-term client portfolio performance.

Jim O'Neill's seminal piece introducing the concept of *BRICs* epitomises this fad.

So emerged a new trend of styling private bank client portfolio advice around research-driven thematics, ironically reaching its apex with the 2018 roll-back of many parts of the US's Dodd-Frank restrictions under President Trump (ironic as such deregulations formed the catalyst behind the bullish ***Trumponics*** market narrative circulating between 2016 and 2019).

Cite:- Will The Instosdriven Donald Trump Rally Last Long, 6 December 2016

Cite:- Trumponics Gaining Attention But Its China That Matters, 4 February 2017

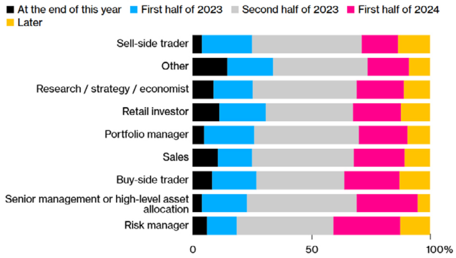
Cite:- Trump's Bull Rally, 22nd Amendment & How The First American Republic Ends, 19 December 2019

Cite:- Bill Gates Vs. Donald Trump, 21 May 2020

The rapid repricing in financial markets began when the US's Central Bank pulled back its pandemic-era stimuli, causing the bellwether US ten-year treasury's yield to roughly double from March 2022 through mid-June – this not only spooked equity markets and *Risk-Assets*, it led to the longest continuous drawdown (downswing) on the US Dow Jones index since October 1929 (year one of the *Great Depression*).

Rate Cuts Expected by the End of 2023

Even though most respondents expect the Fed to cause a recession



Source: MLIV Pulse Survey running July 18-22. Respondents were asked 'When will the Fed announce its next rate cut?'

Cite:- Understanding The Financial Markets Tumult of 2022: Maintaining Portfolio Quality In The Era Of Quantitative Cheating, 19 June 2022

This repricing pushed a broad gauge of global Treasuries to a loss of nearly twelve percent by 14 June, more than triple the record decline seen in 2009, according to data going back to 1973.

Cite:- US Banks Supreme In Global Turmoil, 20 February 2016

The uncertainty surrounding all Central Bank policy paths has fuelled historic price swings in Treasury markets this year as sophisticated investors raced to price in the latest economic developments.

Cite:- Understanding Reflation & Central Bank Liquidity During A Taper Tantrum: 'Treasury Switches', FIMA Repo Facility & Other Market Microstructural Reforms Are Bullish For Eurozone, Japanese & US Blocs, 14 April 2022

That's been worsened by machinations beyond the Central Banks control, namely *trans-Pacific* and *trans-Atlantic* supply-chain bottlenecks, China's zero-covid policy and lastly, rising energy costs connected to the Russian belligerence in Ukraine.

What has dumbfounded global investors since these events has been the immoderate discord between private banks whom in previous cycles have generally remained in lockstep; several since June have called the bottom (floor) and see recovery narratives ahead, contrasting with others who still believe troubles await.

Cite:- How 'Algo'/DMA Traders Backstop Major American, Asian & European Markets: The Past, Present & Future Of Investing Without Surrendering Your Human Edge, 8 September 2021

During the challenges faced by ***hyperinflation***, several have advocated for TIPS (or proxies near-to) whilst their peers outright dismiss TIPS as redundant in 2022.

Such atypical discord coupled with global investors scepticism that the US Federal Reserve, Bank of England and especially the European Central Bank can tame the worst inflation in four decades without driving economies into recessions has been further complicated by the most recent MLIV Pulse survey, (a respected leading indicator) which showed that sixty percent of the 1,343 respondents surveyed believed that the US's FOMC will begin **cutting** interest rates beginning again in 2023 (four months away).

Cite:- German-American Interest Rate Differentials: The Bundesbank's, ESG & A Federalised Europe, 8 August 2020

Cite:- Cross Asset Inflation, 13 March 2019

Cite:- When The Prices Are Not Right: Is Inflation Really That Low?, 11 April 2015

This would be an unprecedented economic event if a reverse course was pursued adjunct yield curve inversions.

Cite:- How The Inverted Yield Curve Affects Australia, 20 June 2019

Cite:- Inversion, Reversion, Subversion, 1 June 2019

On social reforms and environmental cognition, private banks sit at the nexus of climate transition, social inclusion and poverty alleviation, with material ESG themes for the sector including sustainable lending, customer data privacy and cybersecurity.

One hundred and seventeen financial institutions have imposed restrictions on coal financing as of July 2020, of which forty-four percent are private banks; a major emerging factor driving sustainable lending is regulation, given a host of climate stress test proposals from regulators like the Bank of England.

Cite:- "D10" Megatrend – Investing Exclusively In True Democracies: A 2021 Socially-Conscious Standard Used To Screen Investments & Alternative to ESG Criterion, 26 January 2021

Cite:- Scrutinising ESG Rigour When The World Grinds To A Halt, 30 March 2020

Cite:- When ESG Execution Misses The Point, 21 May 2019

Pan-Europe, the EU Taxonomy is ramping up to become the *"common green standard"* used to *credentialise* companies' green revenue and Capex and investors' green investments, with the reporting obligations taking effect at the start of 2022, growing recognition of and appreciation for the influence of the Taxonomy among companies in annual reporting and in dialogue with investors on earnings calls has increased; this often gets compacted into sophisticated investor-friendly summations and research-rich synopses for private bank clients.

Commercial and Private Banks account for over a fifth of total sustainable debt issuance, notwithstanding green lending still significantly lags fossil fuel financing -- despite an acceleration in growth.

Visit:- Australian Standfirst's Responsible Investing Optimisation protocols (2019)

Cite:- Australian Standfirst First To Integrate ESG Into Its Benchmarking, 9 September 2019

Confounding all, private banking continues to face challenges on onshore Australia and this conflates with the end of thirty years of ***Financial Repression*** globally, which begs the question, what is the next global narrative or megatrend? For crystal clarity on that the US midterm election cycle and *Sino-Formosan (Taiwanese)* fracases require substantive resolutions and those are unlikely until the Twentieth Chinese Plenary in late October and US midterm elections conclude on Tuesday 8 November. But, of course, the world continually surprises and therefore, ***Credat Emptor***.

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