

Neuberger Berman Small Cap Team

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While we have no direct exposure in our client accounts to SVB Financial Group (“SVB”), the entire sector remains under pressure as investors try to understand the potential collateral impact.

In addition to SVB, two crypto-related banks, Silvergate Capital and Signature Bank, which we do not hold in our client accounts, were also shuttered by regulators. In our view, these banks’ funding bases are rather idiosyncratic, but the liquidity issues created by large unrealized losses in securities portfolios are impacting all banks to varying degrees. While the joint announcement by the U.S. Treasury, Federal Reserve and FDIC of the Bank Term Funding Program (BTFP) appears to take liquidity issues off the table, bank earnings could see significant impacts should large balance deposits flee en masse into the too-big-to-fail banks.

As for the banks in our client portfolios, we believe they continue to be well positioned from deposit, credit and liquidity standpoints, but a shadow has fallen across the sector and the increase in short-selling is not helping equity valuations either. We continue to believe that the banks in our client portfolios will outperform the KBW Nasdaq Regional Banking Index KRX over the long term (especially with the updated composition), but our holdings may continue to trade down in the near term, driven by fears of a broader financial crisis (Commercial Real Estate, liquidity or otherwise) or a deeper-than-expected recession.

In the short term, the actions taken by the Treasury, Fed and FDIC should help stem the significant movement of deposits out of those banks deemed to be “in trouble.”

In the medium and longer term, we believe smaller regional banks will likely be subject to increased regulation, stricter stress tests, tighter liquidity rules and ultimately higher funding costs. In total, the potential returns available in the sector will likely be lower, in our view.

As such, we continue to closely monitor our holdings in this fluid situation.

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