

What Are Banks Saying?

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If money represents the lifeblood of the economic world, then commercial banks are the beating heart that pump it around the system. This is why several Gavekal indicators—notably our velocity indicator—are built around the absolute and relative performance of bank stocks. One rule of thumb states that a country or region in which bank stocks fall year after year will be a hard place to make money. In such a situation, bank managements will usually reduce their risks, leading to weaker loan growth, reduced economic activity, and less liquidity available to push asset prices higher. In this context, consider the upper chart overleaf and the following observations:

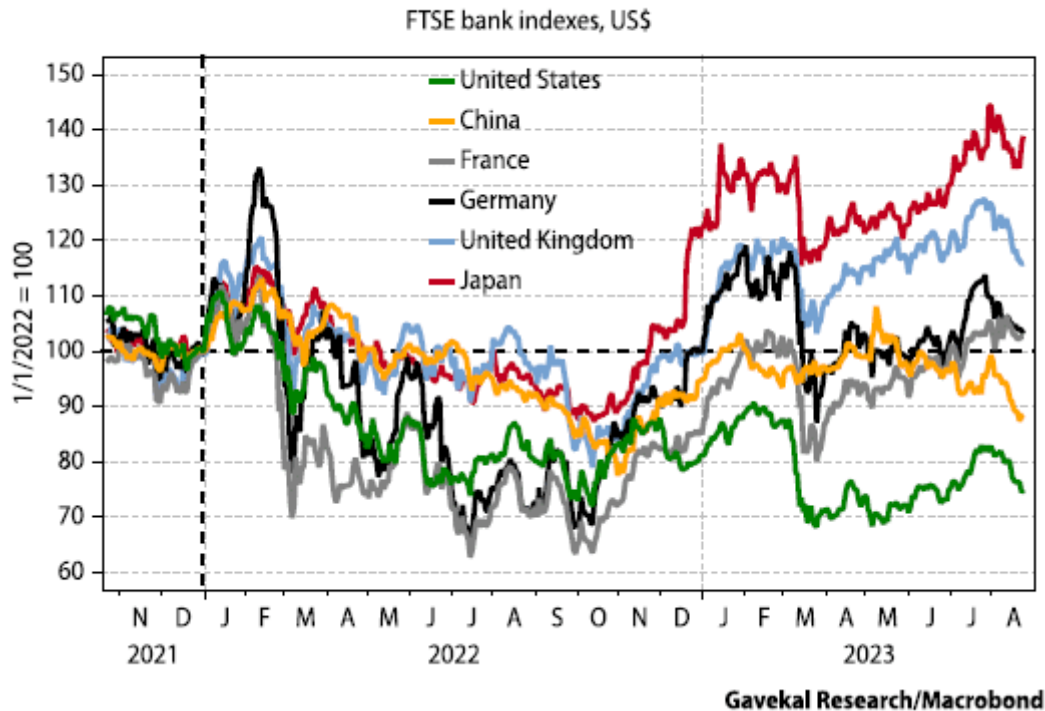
- Since the global equity highs of January 2022, bank stocks in most major economies have trended flat to lower. This is not very encouraging.
- US bank stocks have performed worst, which could be explained by the steep yield curve inversion that has prevailed in the US. It may also be down to the structure of US borrowing that sees corporates and individuals able to lock in low interest rates for long periods. This has left many banks looking at years of red ink on outstanding loans.
- Chinese banks are the second-worst performers, which given headlines on bursting real estate bubbles and bankrupt local authorities, is probably a good outcome. This is especially so considering that Chinese banks will probably have to do “national service” and slowly write off mountains of bad debt out of the profits they earn in the coming years.
- French and German banks have gone nowhere. This looks optimistic given Germany’s recession and the challenges carmakers face switching to electric vehicles and from Chinese competition (see [Europe’s Electric- Vehicle Challenge](#)). The scandal at telecoms group Altice cannot help.
- For all the negativity surrounding Britain, UK banks have delivered a decently positive performance since January 2022.
- Japanese banks’ performance points to Japan entering a bull market.

Checking The Boxes

Our short take on the latest news

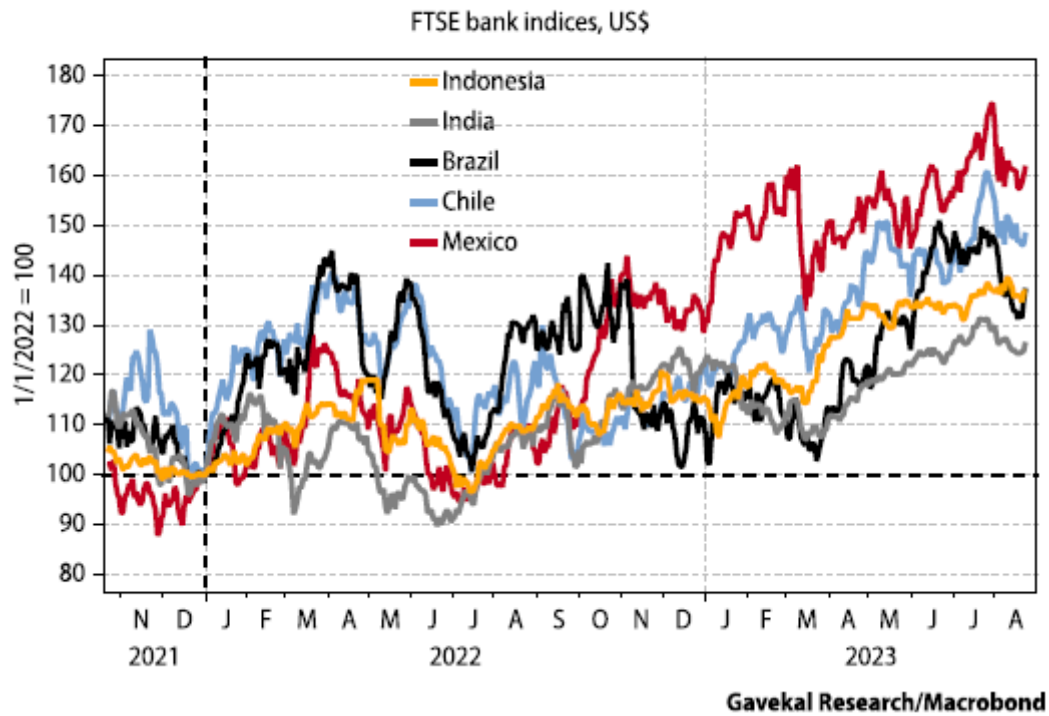
Fact	Consensus belief	Our reaction
US S&P Global flash composite PMI fell to 50.4 in Aug , from 52.0 in Jul	Below 51.5 expected; manufacturing fell to 47.0, from 49.0; services fell to 51.0, from 52.3	PMIs, especially manufacturing, point to soft growth ahead
US new home sales rose 4.4% MoM to 714k in Jul , versus -2.8% fall in Jun	Stronger than expected 0.9% growth	Mortgage applications are collapsing on higher rates; downside risks for construction
Eurozone S&P Global flash composite PMI fell to 47.0 in Aug , from 48.6 in Jul	Below 48.5 expected; manufacturing rose to 43.7, from 42.7; services fell to 48.3, from 50.9	Economy weakening as services follow manufacturing into contraction
Singapore’s CPI rose 4.1% YoY in Jul , versus 4.5% in Jun	Softer than 4.2% expected; core CPI rose 3.8% YoY, versus 4.2%	With inflation above target and upside risk to food prices, MAS to stick with strong SGD policy

Bank equity performance in most major economies has stagnated

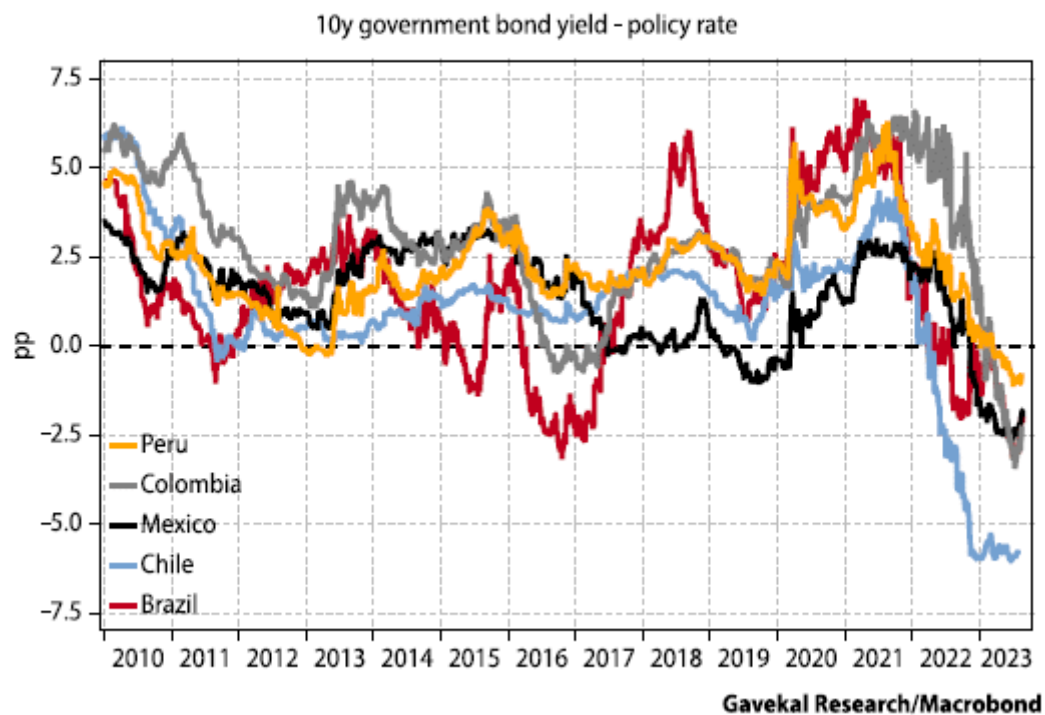


Now, speaking of confirming unfolding bull markets, consider the performance of banks in the major (ex-China) emerging markets. The signal from banks in Latin America, Southeast Asia, South Asia and the Middle East seems clear: a bull market has started in emerging markets. And it is a bull market which will likely be fed by local banks in a positive feedback loop. Impressively, this EM bank bull market is unfolding even though yield curves in many emerging economies are even more inverted than in Western economies (see chart overleaf). Needless to say, borrowing high to lend low is usually not the path to riches. Perhaps EM bank equities are pricing in the fact that EM central banks have started an easing cycle, while those in developed economies are still tightening policy.

Banks in emerging markets seem to be signaling a wider bull market



LatAm's inverted yield curves



This brings us back to the key question of whether the next big bull market will take place across non-China emerging markets (see [The EM-AI Crossroads](#) and [The Structural Underpinning Of The EM Bull Market](#)), or whether the coming years will see a continuation of the past decade's bull market in all things technology related (see [The End Of The Echo Boom?](#)). As things stand, it seems that banks have made their choice.

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