



**IS THE CREDIT CRUNCH
TSUNAMI ABOUT TO STRIKE?**

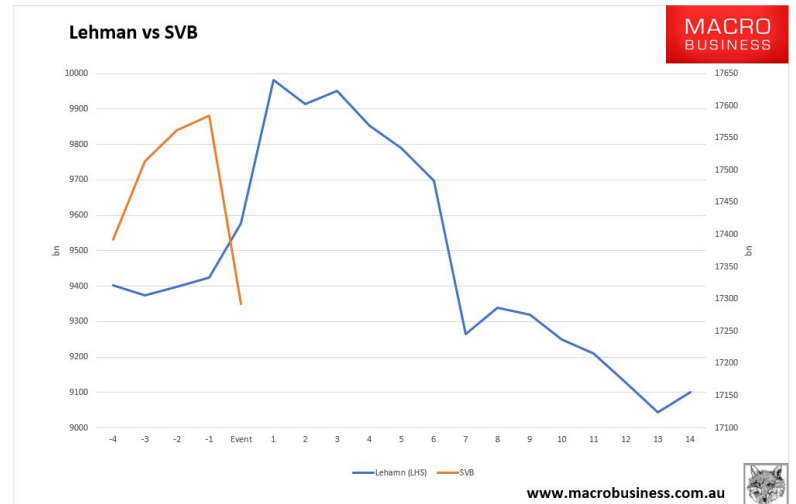
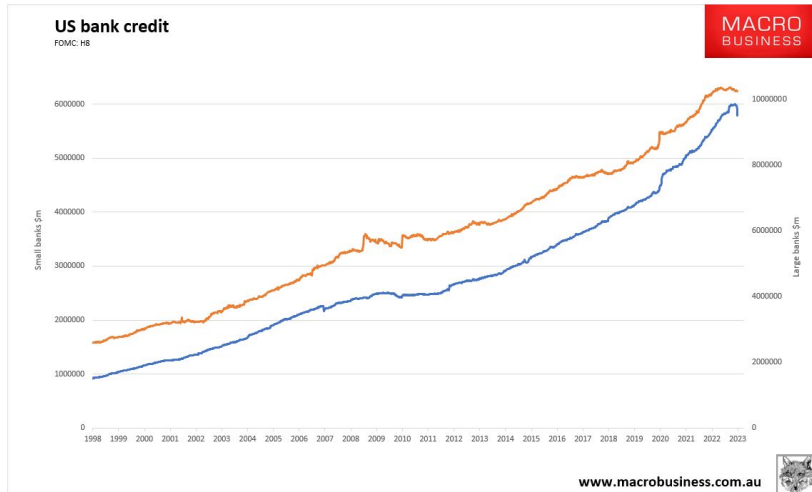


Agenda: US credit crunch

- US credit crunch so far
- What are the drivers?
- Is it global?
- Three scenarios
- Implications for assets

The credit crunch so far

- SVB and regional bank bust
- Bank run
- Credit issuance dump, mostly Commercial & Industrial

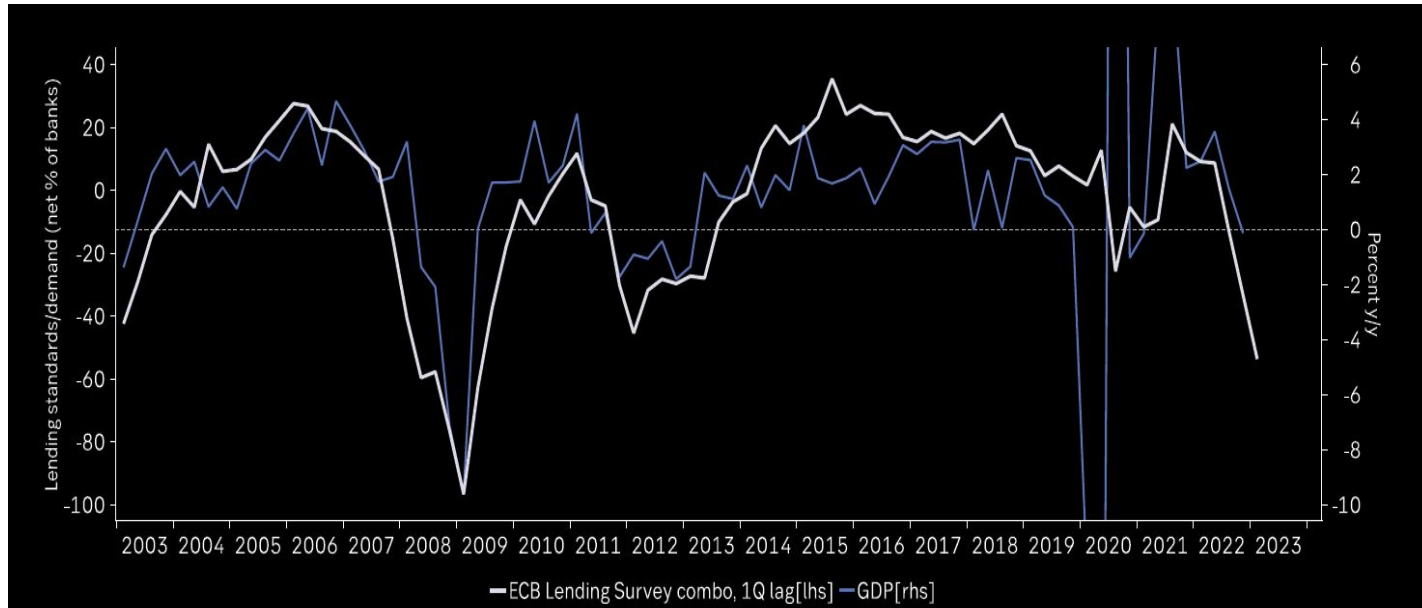


Drivers and solutions

- Deposit outflow > balance sheet reduction > falling lending > falling profits > deposit outflow...
- Fed lending to stop deposit outflow working OK
- Recession to trigger bad loans
- Capital raises possible

Is it global?

- Yes. Europe already breaking down
- Asia better
- Australian funding costs to rise but not onerous as housing stabilises



Base case: Moderate recession

- Regional bank credit crunch continues as banks fight deposit outflow via falling NIM
- Moderate recession leads to rising defaults and further bank consolidation
- S&P earnings fall 15-20%, US 10 year falls to 2%
- Fed hikes in May and goes away as inflation all but resolved

Bull case: Mild recession

- Fed resolves small bank run
- Immaculate disinflation
- One quarter negative GDP
- Fed hikes in May and June
- S&P falls done, US 10 year bottoms at 2.5%

Bear case: Severe recession

- Regional bank credit crunch continues as banks fight deposit outflow via falling NIM
- Moderate recession leads to rising defaults, especially commercial property, which intensifies bank run a la S&L crisis
- S&P earnings fall 25% and US 10 year bottoms at 1%
- Fed hikes in May and emergency cuts all of H2

Bear case: Severe recession

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Viewer question of the week:

Has the credit crunch started?

Drop your answers in the comments

Investment Outlook

- Bonds more upside than stocks in all scenarios
- AUD up in bull case, down in base and bear cases

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