

# The week in seven charts



## Chart #1

The occurrence of a systemic credit event is now seen as the biggest tail risk by fund managers

[Read more on p2](#)

## The occurrence of a systemic credit event is now seen as the biggest tail risk by fund managers

Merged UBS and Credit Suisse to become world's third biggest asset manager, the Fed's balance sheet swells, while a systemic credit event is perceived as a very real risk by fund managers. Each week, the Syz investment team takes you through the last seven days in seven charts.

**Charles-Henry Monchau**

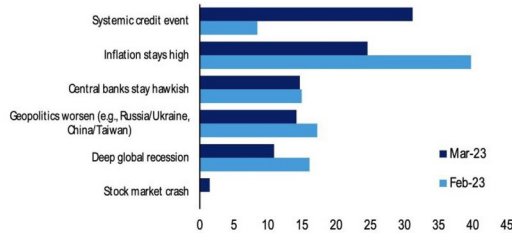
*Chief Investment Officer*

### Chart #1 —

## The occurrence of a systemic credit event is now seen as the biggest tail risk by fund managers

According to the latest Bank of America (BoFA) survey of investment fund managers, a credit crisis linked to a systemic borrower is now seen as the main "black swan" in place of an inflation rate that would remain too high over time.

**Chart 13: "Systemic credit event" overtakes "inflation stays high" as biggest tail risk**  
What do you consider the biggest 'tail risk'?

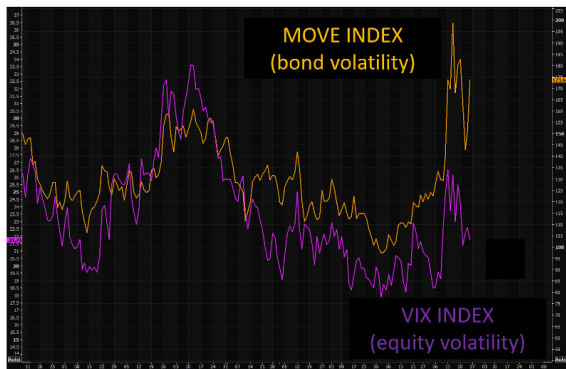


Source: BofA

### Chart #2 —

## A significant dichotomy between equity and bond market volatility

Despite the stress on banks and another rate hike by the Fed, the S&P 500 index gained more than 1% on the week. The implied volatility index on the S&P 500 VIX (purple below) remains near complacent levels (20) while the volatility index on Treasuries MOVE (yellow below) is trading at very high levels. It seems illusory to think that the VIX can remain at such low levels while bond volatility is near record levels.



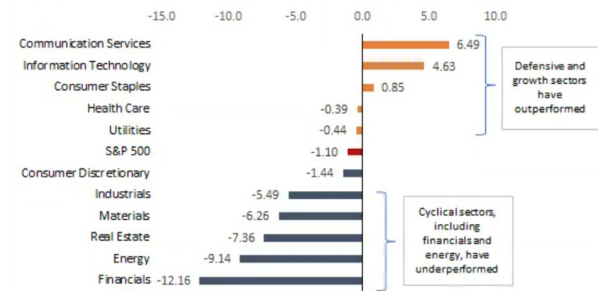
Source: TME, Refinitiv

### Chart #3 —

## Defensive sectors and growth style outperformed in the last two weeks

Since the beginning of the banking crisis, defensive stocks (non-cyclical consumption, health care) and technology sectors have been the best performers, while cyclical stocks (industry, basic materials, energy) and financial stocks have strongly underperformed.

S&P 500 Sector Performance During Recent Banking Turmoil (March 7th – 24th):



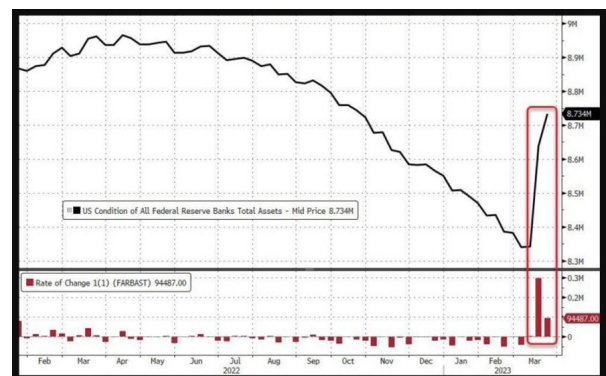
Source: Edward Jones

### Chart #4 —

## The size of Fed's Balance Sheet is surging again

The Fed's balance sheet increased by another \$100 billion last week amid a run on bank deposits. As of March 2022, the Fed's balance sheet increased by \$94.5 billion, from \$8.639 trillion to \$8.734 trillion, an increase of \$297 billion from the previous week, when the banking crisis began. In total, the Fed's balance sheet has grown by \$393 billion in the past two weeks and is rapidly approaching its all-time high of \$8.95 trillion reached a year ago when Quantitative Tightening (QT) was triggered. QT reduced the size of the Fed's balance sheet by \$600 billion.

This increase in the Fed's balance sheet is part of the reason for the resilience of the equity market. Indeed, many investors are interpreting this reversal as the equivalent of another "QE". We would caution against this interpretation; the increase in the balance sheet is liquidity that is being made available to currently troubled banks. This is not like previous QE phases, which involved bond buybacks with real liquidity consequences - a very different mechanism than the current one.



Source: [www.zerohedge.com](http://www.zerohedge.com), Bloomberg

### Chart #5 —

## Money market funds are the main destination of flows from bank deposits

Where is the cash withdrawn from bank deposits going? Here's part of the explanation: the increase in U.S. money market funds outstanding over the past two weeks is the largest since April 2020, with the total amount reaching a record \$5.13 trillion.

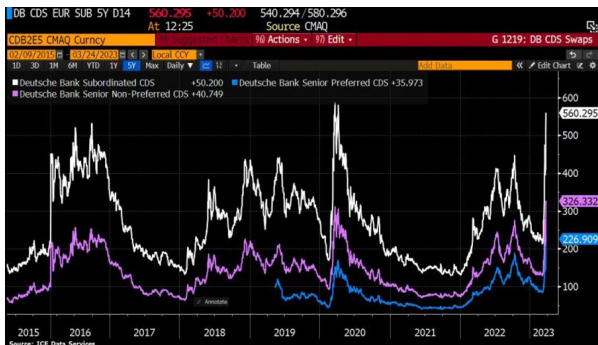


Source: Bloomberg, ICI data

#### Chart #6 —

### After Credit Suisse, Deutsche Bank?

CDS on Deutsche Bank's subordinated debt, which represent insurance for bondholders against a potential default, surged at the end of the week, all amid stress on the banking sector in Europe. The markets estimate the probability of default on these subordinated bonds at 31%. The probability of default is estimated at 16% for Deutsche Bank's senior bonds.

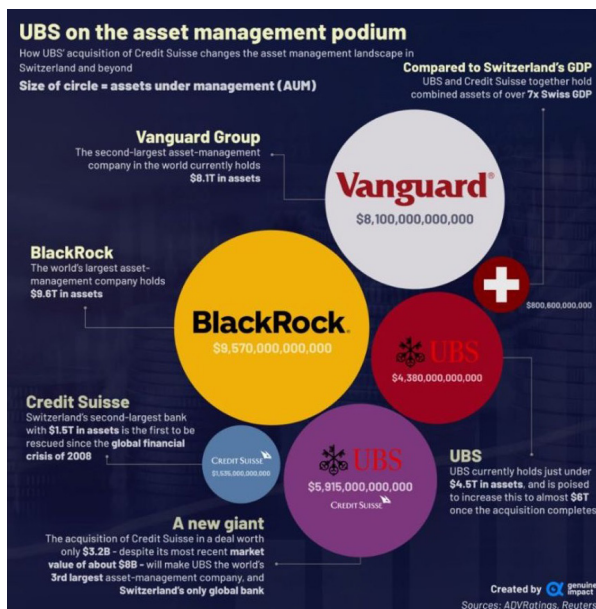


Source: Bloomberg, HolgerZ

#### Chart #7 —

### UBS to become the 3rd largest asset manager in the world

Following the announcement of the takeover of Credit Suisse by UBS, the new entity is set to become the world's 3rd largest asset manager (after Blackrock and Vanguard) with over 5 trillion in assets under management.



Source: Genuine Impact

#### For further information

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