Sunwest Bank

BUILT FOR ENTREPRENEURS BY ENTREPRENEURS

SUNWEST BANK NEWSLETTER | MAY 2023

Bank Rates

Bank Rates	Current	Month Ago	Year Ago
WSJ Prime	8.00%	8.00%	3.50%
1 Month Term SOFR	5.02%	4.81%	0.74%
Fed Funds Rate	4.83%	4.83%	0.33%
30 Year Mortgage Fixed	6.43%	6.32%	5.10%
Treasury Rates (As Of 5/1)			
10 Year	3.54%	3.48%	2.90%
7 Year	3.58%	3.55%	2.95%
5 Year	3.60%	3.59%	2.93%
3 Year	3.84%	3.80%	2.88%
1 Year	4.85%	4.61%	2.06%
1 Month	4.37%	4.54%	0.05%
1-Month SOFR Term SOFR Swap Rates (As Of 5/1)			
10 Year	3.24%	3.08%	2.75%
7 Year	3.27%	3.13%	2.76%
5 Year	3.37%	3.24%	2.78%
3 Year	3.68%	3.57%	2.81%

Inflation Data

	Current	Month Ago	Year Ago
CPI Headline YoY	5.0%	6.0%	8.5%
CPI Core YoY	5.6%	5.5%	6.5%
PPI Headline	2.7%	4.9%	11.7%
PPI Core	3.6%	4.5%	7.1%

Economic Data

	Current	Month Ago	Year Ago
PMI Manufacturing	50.2	49.2	59.2
PMI Services	53.7	52.6	58.0
Unemployment Rate	3.50%	3.60%	3.60%
Non-Farm Payrolls	156k	155k	151k

Market Data (As Of 5/1)

	Current	Month Ago	Year Ago
DIJA	$34,142	1.61%	3.27%
S&P 500	$4,178	1.31%	0.55%
NASDAQ	$12,237	0.39%	-2.40%

LETTER FROM THE CEO

Bank Liquidity and the Coming Credit Squeeze

How Recent Bank Failures Will Exacerbate the Looming Recession

Interesting economic times are upon us. First Republic Bank's and Silicon Valley Bank's recent failures have placed the banking industry under a microscope. Liquidity has taken center stage. After several years of strong deposit inflows, banks are now grappling with deposit outflows as the Federal Reserve takes liquidity out of the economy. Banks that are well capitalized, have strong liquidity, and did not take duration risk while interest rates were low will weather the storm. Banks like Silicon Valley Bank and First Republic Bank that are unprepared will not.

The financial markets are now debating whether the liquidity crisis will contribute to the economic slowdown that is already occurring, and whether it will push the U.S. economy into a recession. In my opinion, the answer to that question is yes. Banks play an essential role in the economy by providing liquidity through their lending operations to consumers and businesses.

Banks are to the economy like gas stations are to cars on the road. If the price of gas is cheap and there are plenty of gas stations open, then you will see more cars on the road. Conversely, if gas prices rise, stations have shortages, or shut down, the number of cars on the road will fall significantly. Banks provide "gas" to the economy in the form of money.

With the Federal Reserve having increased interest rates by 4.75% over the last year, and with liquidity pressures hitting the banking industry, most banks have sharply reduced lending. The cost of borrowing has risen dramatically, which will materially impact businesses' ability to grow and consumers' ability to spend until this trend reverses.

I was already in the camp that the effects of increasing interest rates will dramatically slow the economy in the second half of this year. Now the banking liquidity crisis will ensure that the economy enters a recession. This will only compound the credit creation problem for the banking industry as banks will have to deal with absorbing credit losses from past lending. Just as credit expansion is a self-reinforcing cycle upwards, credit contraction is a self-reinforcing cycle downwards.

Fortunately, at Sunwest we have built a Fortress Balance Sheet. Our capital ratios are almost double those of the biggest banks and our reserves and liquidity are among the highest in the industry. We are built this way to protect our customers' money and continue to lend in the worst of economic cycles.

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