

# U.S. Policy Risk vs. Reward

May 8, 2023

Despite taking great pains to steady the banking sector by writing in the statement that “[t]he U.S. banking system is sound and resilient”<sup>1</sup> and Chairman Powell beginning his press conference by noting that “Conditions in that sector have broadly improved since early March and the U.S. banking system is sound and resilient”, the Federal Reserve raised the policy rate again. The FOMC met consensus expectations for a 25-basis point rate hike and took the policy rate above 5% as they noted in the statement that they remain “strongly committed to returning inflation to its 2 percent objective.”<sup>2</sup>

In response to a question regarding the tightening of bank lending standards, Chairman Powell noted that “I would just say that the SLOOS is broadly consistent...with how we and others have been thinking about the situation and what we’re seeing from other sources. You will have seen the Beige Book and listen to the various earnings calls that indicate that mid-size banks have, some of them, have been tightening their lending standards. Banking data will show that lending has continued to grow but the pace has been slowing since the second half of last year.”<sup>1</sup> However, we believe what Chairman Powell failed to note was that the data in the survey was likely collected between late March and early April so it would not reflect any additional tightening as a result of stress since early April.

Since the first week of April through the day before the Fed meeting, the KBW regional bank index fell by 9.4% even as 10-year Treasury yields were close to unchanged and mortgage rates were 20 basis points (bps) higher.<sup>3</sup>

Deposits at commercial banks had shrunk by \$55 billion and were down \$600 billion since year-end.<sup>4</sup> Bank borrowing at the Discount Window and other emergency facilities had remained constant since early April, at more than \$300 billion.<sup>4</sup> In short, even before the additional 25bp rate hike, signs of continued stress were obvious.

Immediately after the Fed move, the KBW regional bank index began to fall, ending the day 4% lower than the level seen immediately prior to the announcement.<sup>3</sup> These market movements may impede capital raising and are raising the risk of more bank closures, a development which would exacerbate stresses in the economy.

We believe ongoing stress in the banking system that results in a further tightening of bank lending standards and negative impacts on consumer wealth via lower equity markets raise the risk that the coming recession includes a financial sector component to it, potentially creating a downturn that is more significant in scale and duration.

## Endnotes

- <sup>1</sup> FOMC Statement, Federal Reserve Board of Governors
- <sup>2</sup> Federal Reserve Board of Governors, <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20230503.pdf>
- <sup>3</sup> Bloomberg
- <sup>4</sup> Federal Reserve

## Author



**DREW T. MATUS**  
Chief Market Strategist

# About MetLife Investment Management

MetLife Investment Management (MIM)<sup>1</sup> serves institutional investors around the world by combining a client-centric approach with deep and long-established asset class expertise. Focused on managing Public Fixed Income, Private Credit, and Real Estate assets, we aim to deliver strong, risk-adjusted returns by building sustainable, tailored portfolio solutions. We listen first, strategize second, and collaborate constantly to meet clients' long-term investment objectives. Leveraging the broader resources and 150-year history of MetLife provides us with deep expertise in skillfully navigating markets. We are institutional, but far from typical.

For more information, visit: [investments.metlife.com](https://investments.metlife.com)

## Disclaimer

This material is intended solely for Institutional Investors, Qualified Investors and Professional Investors. This analysis is not intended for distribution with Retail Investors.

This document has been prepared by MetLife Investment Management ("MIM") solely for informational purposes and does not constitute a recommendation regarding any investments or the provision of any investment advice, or constitute or form part of any advertisement of, offer for sale or subscription of, solicitation or invitation of any offer or recommendation to purchase or subscribe for any securities or investment advisory services. The views expressed herein are solely those of MIM and do not necessarily reflect, nor are they necessarily consistent with, the views held by, or the forecasts utilized by, the entities within the MetLife enterprise that provide insurance products, annuities and employee benefit programs. The information and opinions presented or contained in this document are provided as of the date it was written. It should be understood that subsequent developments may materially affect the information contained in this document, which none of MIM, its affiliates, advisors or representatives are under an obligation to update, revise or affirm. It is not MIM's intention to provide, and you may not rely on this document as providing, a recommendation with respect to any particular investment strategy or investment. Affiliates of MIM may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned herein. This document may contain forward-looking statements, as well as predictions, projections and forecasts of the economy or economic trends of the markets, which are not necessarily indicative of the future. Any or all forward-looking statements, as well as those included in any other material discussed at the presentation, may turn out to be wrong.

All investments involve risks including the potential for loss of principle and past performance does not guarantee similar future results. Property is a specialist sector that may be less liquid and produce more volatile performance than an investment in other investment sectors. The value of capital and income will fluctuate as property values and rental income rise and fall. The valuation of property is generally a matter of the valuers' opinion rather than fact. The amount raised when a property is sold may be less than the valuation. Furthermore, certain investments in mortgages, real estate or non-publicly traded securities and private debt instruments have a limited number of potential purchasers and sellers. This factor may have the effect of limiting the availability of these investments for purchase and may also limit the ability to sell such investments at their fair market value in response to changes in the economy or the financial markets

In the U.S. this document is communicated by **MetLife Investment Management, LLC (MIM, LLC)**, a U.S. Securities Exchange Commission registered investment adviser. MIM, LLC is a subsidiary of MetLife, Inc. and part of MetLife Investment Management. Registration with the SEC does not imply a certain level of skill or that the SEC has endorsed the investment advisor.

This document is being distributed by **MetLife Investment Management Limited ("MIML")**, authorised and regulated by the UK Financial Conduct Authority (FCA reference number 623761), registered address 1 Angel Lane, 8th Floor, London, EC4R 3AB, United Kingdom. This document is approved by MIML as a financial promotion for distribution in the UK. This document is only intended for, and may only be distributed to, investors in the UK and EEA who qualify as a "professional client" as defined under the Markets in Financial Instruments Directive (2014/65/EU), as implemented in the relevant EEA jurisdiction, and the retained EU law version of the same in the UK.

**For investors in the Middle East:** This document is directed at and intended for institutional investors (as such term is defined in the various jurisdictions) only. The recipient of this document acknowledges that (1) no regulator or governmental authority in the Gulf Cooperation Council ("GCC") or the Middle East has reviewed or approved this document or the substance contained within it, (2) this document is not for general circulation in the GCC or the Middle East and is provided on a confidential basis to the addressee only, (3) MetLife Investment Management is not licensed or regulated by any regulatory or governmental authority in the Middle East or the GCC, and (4) this document does not constitute or form part of any investment advice or solicitation of investment products in the GCC or Middle East or in any jurisdiction in which the provision of investment advice or any solicitation would be unlawful under the securities laws of such jurisdiction (and this document is therefore not construed as such).

**For investors in Japan:** This document is being distributed by MetLife Asset Management Corp. (Japan) ("MAM"), 1-3 Kioicho, Chiyoda-ku, Tokyo 102-0094, Tokyo Garden Terrace KioiCho Kioi Tower 25F, a registered Financial Instruments Business Operator ("FIBO") under the registration entry Director General of the Kanto Local Finance Bureau (FIBO) No. 2414.

**For investors in Hong Kong S.A.R.:** This document is being issued by MetLife Investments Asia Limited ("MIAL"), a part of MIM, and it has not been reviewed by the Securities and Futures Commission of Hong Kong ("SFC"). MIAL is licensed by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

**For investors in Australia:** This information is distributed by MIM LLC and is intended for "wholesale clients" as defined in section 761G of the Corporations Act 2001 (Cth) (the Act). MIM LLC exempt from the requirement to hold an Australian financial services license under the Act in respect of the financial services it provides to Australian clients. MIM LLC is regulated by the SEC under US law, which is different from Australian law.

**MIMEL:** For investors in the EEA, this document is being distributed by MetLife Investment Management Europe Limited ("MIMEL"), authorised and regulated by the Central Bank of Ireland (registered number: C451684), registered address 20 on Hatch, Lower Hatch Street, Dublin 2, Ireland. This document is approved by MIMEL as marketing communications for the purposes of the EU Directive 2014/65/EU on markets in financial instruments ("MiFID II"). Where MIMEL does not have an applicable cross-border licence, this document is only intended for, and may only be distributed on request to, investors in the EEA who qualify as a "professional client" as defined under MiFID II, as implemented in the relevant EEA jurisdiction. The investment strategies described herein are directly managed by delegate investment manager affiliates of MIMEL. Unless otherwise stated, none of the authors of this article, interviewees or referenced individuals are directly contracted with MIMEL or are regulated in Ireland. Unless otherwise stated, any industry awards referenced herein relate to the awards of affiliates of MIMEL and not to awards of MIMEL.

<sup>1</sup> As of March 31, 2023, subsidiaries of MetLife, Inc. that provide investment management services to MetLife's general account, separate accounts and/or unaffiliated/third party investors include Metropolitan Life Insurance Company, MetLife Investment Management, LLC, MetLife Investment Management Limited, MetLife Investments Limited, MetLife Investments Asia Limited, MetLife Latin America Asesorias e Inversiones Limitada, MetLife Asset Management Corp. (Japan), MIM I LLC, MetLife Investment Management Europe Limited and Affirmative Investment Management Partners Limited.

L0523031699[exp0525][Global exc. MAM] L0523031733[exp0525][Global exc. MAM] L0523031746[exp0525][MAM only]

