

# Regional bank distress

Investor Sentiment Research Note | April 2023

Ron Akke, Dan Golosovker, Amar Patel

## Introduction

This Addepar Investor Sentiment Index (ISI) research note is designed to provide transparency into the investment behavior of the wealthiest tier of investors. Leveraging Addepar's network of RIAs and family offices, we analyze anonymized investment data on our platform to gain insight into how ultra-high-net-worth (U/HNW) investors are making portfolio adjustments, effectively capturing their views on the economy and markets. Additionally, where relevant, we conduct client interviews to supplement the data analysis presented. To ensure privacy, we never disclose identities.

## Takeaways

- After bullish sentiment early in the quarter, investor sentiment turned sharply negative to the financial services sector due to selling of regional and international bank equities in March.
- There was also significant dispersion in bank investor sentiment. Investors bought First Republic Bank (FRB) and PNC Bank and sold Credit Suisse.
- Investors also sold technology stocks at the same time, as the technology trade got crowded.

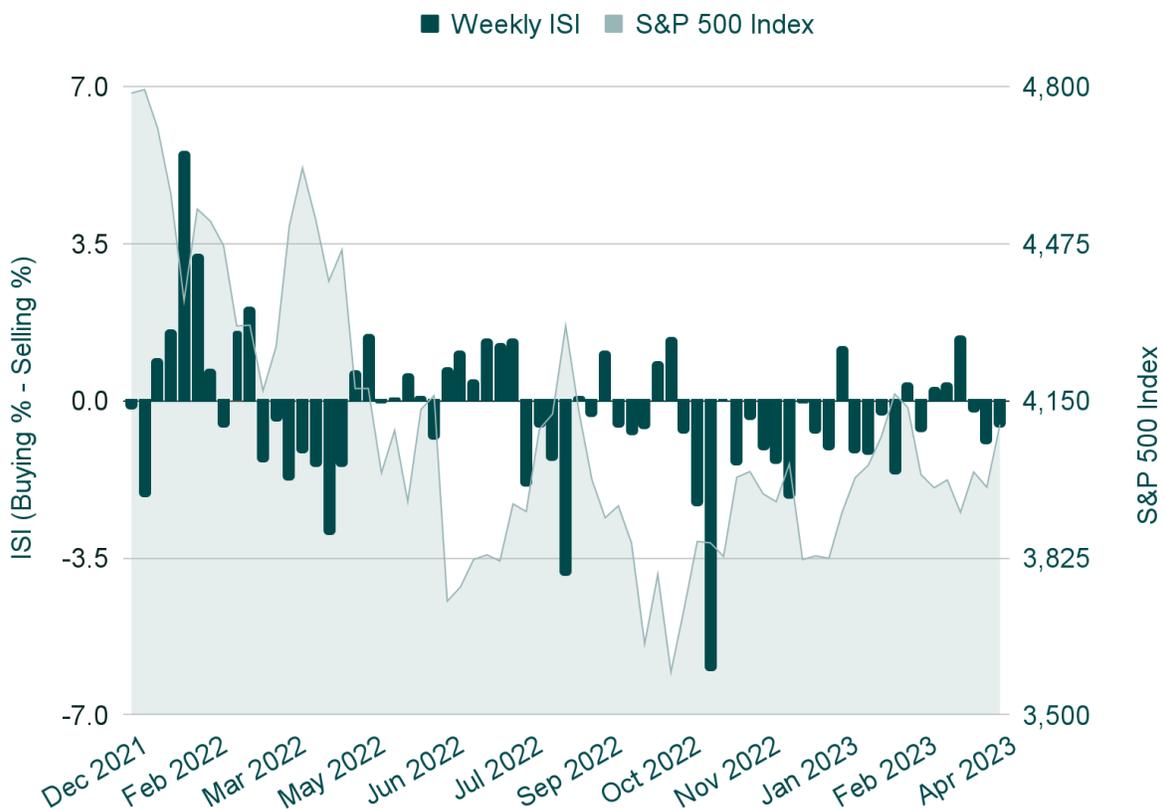
Q1 2023 was marked by high volatility. Equities began the year bullishly before sputtering in February and bottoming in mid-March with the failures of Silicon Valley Bank (SVB) and Signature Bank. Markets then recovered and ended the quarter modestly in the black. Alongside markets, investor sentiment broadly continued with a multi-quarter bearish tilt. Investors were bearish 18 weeks out of 26 in the past two quarters.

Exhibit 1 below shows weekly aggregate investor sentiment against the value of the S&P 500. Investor sentiment has largely been bearish since summer 2022 even as markets recovered from cyclical lows. Sentiment briefly turned positive in February and early March, but the onset of the banking crisis and subsequent bailout of regional banks turned investors bearish once more to end the quarter.

**Exhibit 1**

Investors continued their bearish tilt throughout most of the first quarter

**Weekly ISI vs. S&P 500, December 31, 2021–April 4, 2023**



Source: Addepar

The modest, positive performance of broader equity markets was highly concentrated in growth sectors while sectors such as healthcare, energy and financial services sold off. Exhibit 2 shows monthly sector-level investment sentiment (demeaned and volatility-adjusted) against Q1 performance. Of note, investment sentiment was particularly bearish in March.

Investor sentiment was sector-dependent in Q1. After bullish January and February readings and tech stocks rallying in Q1, tech sentiment turned sharply negative in March. Financial service investors, on the other hand, broke the counter-cyclical trend and sold into a falling market. Notably, there was little confirmation of sentiment trends in consumer cyclicals and communication services despite their outsized performance year-to-date.

**Exhibit 2**

Despite equity gains, Q1 investor sentiment was volatile and went from bullish to ending bearish  
**Investor sentiment index z-scores against sector performance in 2023**

Sector	Jan	Feb	Mar	Perf.
Healthcare	-0.3	-0.7	-0.8	-4.3%
Technology	0.5	0.7	-1.6	21.8%
Industrials	0.4	-1.3	-1	3.5%
Consumer defensive	0.2	-1.9	0.5	0.8%
Energy	0.0	0.2	-0.6	-4.7%
Materials	0.6	0.5	-0.8	4.3%
Consumer cyclical	0.6	0.6	0.1	16.1%
Real estate	1.2	-0.8	-1	2.1%
Utilities	0.7	-1.7	1.3	-3.2%
Communication services	1.2	-0.6	0.6	20.5%
Financial services	1.1	0.9	-1.6	-5.6%

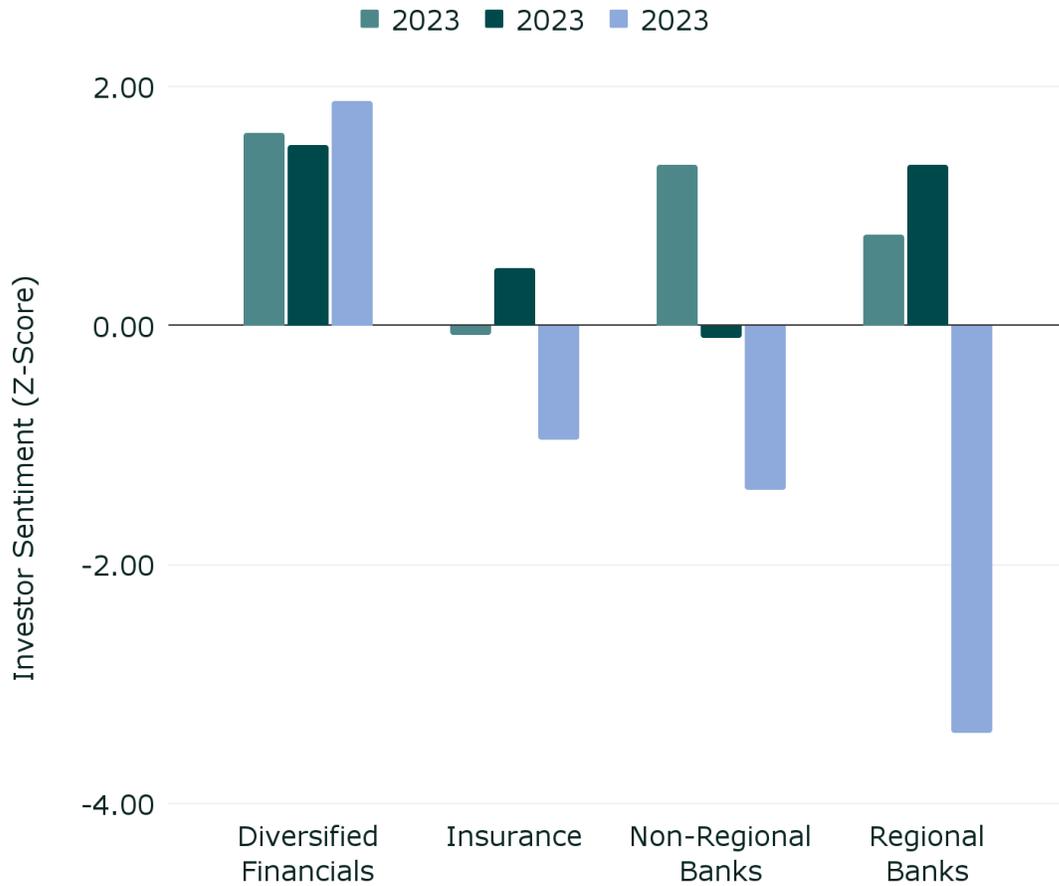
Source: Addepar

The following exhibit looks more deeply into financial services sentiment. Diversified financials have had strong positive sentiment throughout the month, and while insurance and non-regional banks showed mixed sentiment in March, they were net positive for the quarter. Perhaps unsurprisingly, the month's aggregate bearish financial services sentiment was largely driven by negative sentiment toward regional banks.

**Exhibit 3**

Investors turned historically bearish against regional banks in March

Investor sentiment of financial services by industry group, Z-scores, January 2023–March 2023



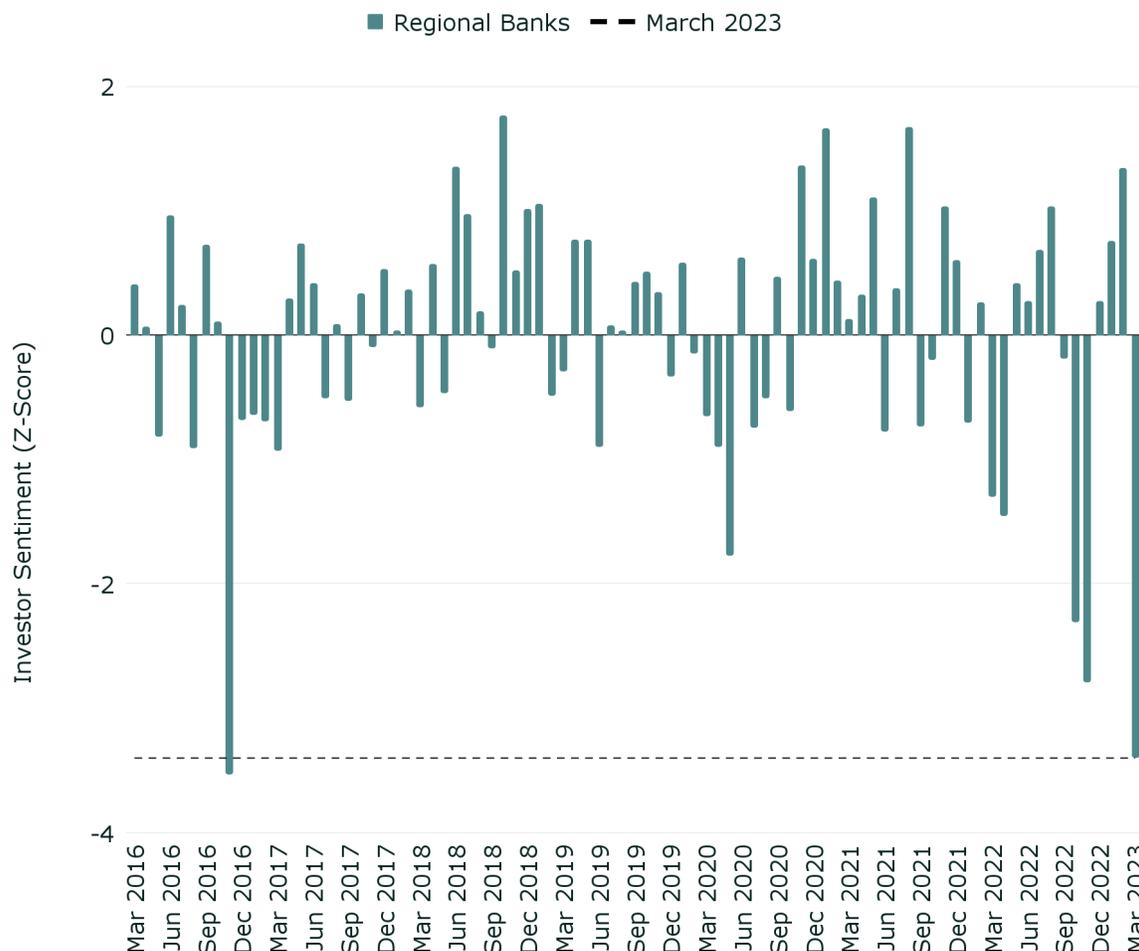
\* Z-scores are mean and volatility adjusted statistics, which allow for better between-group comparisons.  
Source: Addepar

As can be seen below, negative regional bank sentiment reached a multi-year low in March, after investors expressed a high degree of bearishness in October and November 2022.

**Exhibit 4**

Regional banks registered highly negative sentiment in October '22, November '22 and March '23

**Investor sentiment for regional bank equities, monthly, March 2016–March 2023**



\* The extremely negative sentiment for regional banks in November 2016 can be attributed to a combination of profit-taking and risk reduction. During the month, the S&P Regional Banks index rose 22%, while Moody's downgraded the credit quality of several prominent regional banks.

Source: Addepar

Incidentally, there was a substantial amount of disagreement in sentiment in March. Nearly 60% of investors expressed a view on regional banks in the month, which is the highest amount ever recorded and almost doubles the typical 32% of investors who trade regional banks each month.

While many investors traded in regional banks, we show in Exhibit 5 that the amount of trading was relatively small given sizable changes in equity valuations. Below we line up private wealth investors' trading behavior alongside regional bank performance. Relative flows<sup>1</sup> show the direction

<sup>1</sup> Relative flows are defined as total buys minus sells divided by total regional bank holdings.

of trading and gross flows<sup>2</sup> the total size. Differences between these values represent the amount of dispersion in investor views. Notably, First Republic and PNC saw disagreement in views, which netted slightly positive. Investors in Credit Suisse and M&T Bank on the other hand were mostly in agreement and marginally sold out of those banks.

**Exhibit 5**

Private wealth investors responded conservatively to rapidly changing regional bank prices  
 March 2023 net flows as a percentage of total holdings in regional banks on 2/28/23, equity returns, percent

	Relative flows	Gross flows	March return
Credit Suisse	-0.97%	1.20%	-71%
M&T Bank Corporation	-0.73%	1.10%	-22%
First Horizon Corporation	-0.55%	0.63%	-28%
Truist Financial Corporation	-0.47%	2.32%	-27%
Citizens Financial Group Inc.	-0.34%	0.52%	-27%
Cullen/Frost Bankers Inc.	0.18%	0.28%	-20%
Columbia Banking System Inc.	0.18%	0.22%	-28%
Amerant Bancorp Inc. Class A	0.22%	0.22%	-23%
PNC Financial Services Group Inc.	0.67%	2.10%	-20%
First Republic Bank	1.25%	2.64%	-89%

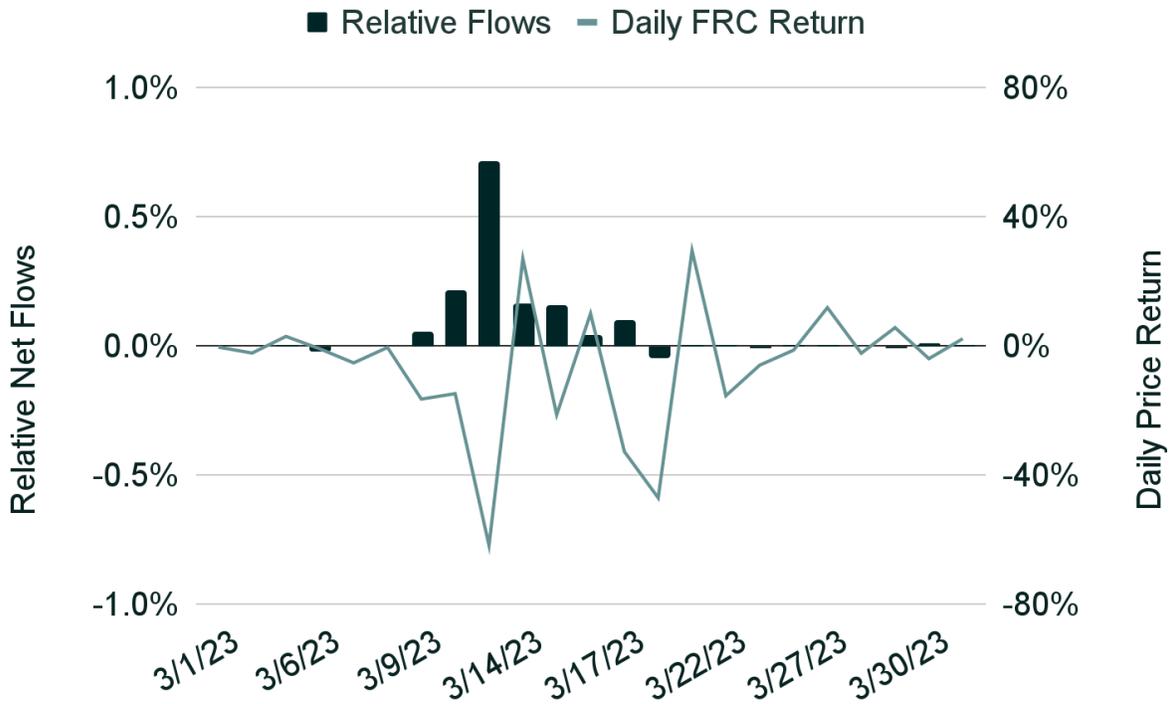
Source: Addepar

First Republic Bank offers an interesting case study into investor behavior regarding their regional bank investments. In the figure below, we plot relative flows in March against daily price movements in FRB's stock. In the beginning of the banking crisis, investors bought FRB in mass as its price tumbled. They continued to hold their investments through the end of the month.

<sup>2</sup> Gross flows are defined as total buys plus sells divided by total regional bank holdings.

**Exhibit 6**

Private wealth investors bought into First Republic as the stock price tumbled in March  
 First Republic net flows as percentage of total holdings in regional banks, equity returns, percent



Source: Addepar

**Conclusion**

In this research note, we’ve expanded our coverage of net sentiment and sectors to discuss historically low sentiment for regional banks and showed that even in the face of that bearishness, many investors bought these beaten-down shares. We’ll continue to develop macro lenses as well as analytics that provide additional value to our clients through the aggregated and anonymized investment data on our platform. We’ll also keep posting the monthly ISI index, our key observations and periodic research notes on our website.

## Notice and disclaimers

All information provided by Addepar, Inc. or its subsidiaries (collectively, “Addepar”), including without limitation, all text, data, graphs and charts (collectively, the “Information”) is the property of Addepar and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or re-disseminated in whole or in part without prior written permission from Addepar. All rights in the Information are reserved by Addepar.

The Information may not be used to create derivative works or to verify or correct other data or information without prior written permission from Addepar. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other Addepar data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.

Addepar makes no express or implied warranties or representations with respect to the information (or the results to be obtained, but rather the use thereof), and to the maximum extent permitted by applicable law, Addepar expressly disclaims all implied warranties (including, without limitation, any implied warranties of originality, accuracy, timeliness, non-infringement, completeness, merchantability and fitness for a particular purpose) with respect to any of the information.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

Addepar does not recommend, endorse, approve or otherwise express any opinion regarding any issuer, securities, financial products or instruments or trading strategies and Addepar’s research products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

Addepar, Investment Sentiment Index and other Addepar brands and product names are the trademarks, service marks or registered marks of Addepar or its subsidiaries in the United States and other jurisdictions.

© 2023 Addepar. All rights reserved.