

# INFOCUS

MACRO COMMENT

MAY 2023



## Bank lending standards and recessions

**DISCIPLINED BY NATURE. FLEXIBLE BY DESIGN.**

The icons alongside represent our investment process. Through a disciplined provision of investment policy and security selection at the global level, regional portfolio management teams have the flexibility to construct portfolios to meet the specific requirements of our clients.

**HIGHLIGHTED IN THIS PUBLICATION:**

-  GLOBAL STRATEGIC ASSET ALLOCATION
-  GLOBAL SECURITY SELECTION
-  REGIONAL ASSET ALLOCATION
-  REGIONAL PORTFOLIO CONSTRUCTION

# BANK LENDING STANDARDS AND RECESSIONS

The exceptional monetary policy tightening of the past year has restricted access to, and the demand for, bank financing. In this edition of *Infocus*, GianLuigi Mandruzzato looks at the outlook for bank lending in the US and the eurozone considering the recent banking sector turmoil and concludes that the risk of recession has increased.

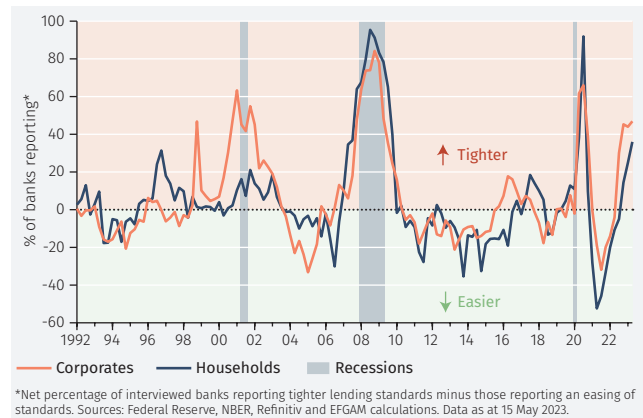
The growth in bank loans is a reliable barometer of the economic cycle. The results of the latest bank lending surveys in the US and the eurozone are therefore worrisome. Between late March and early April, banks surveyed in the Federal Reserve’s Senior Loan Officer Opinion Survey (SLOOS) and the ECB’s Bank Lending Survey (BLS) reported a further, significant tightening in lending standards to businesses and households compared to three months earlier.

The survey results show that the banking sector turmoil that broke out in early March has made banks more cautious. Despite a downward shift in the expected path of interest rates in the coming quarters, financing conditions have become more restrictive. This increases the likelihood of a slowdown in credit flows and the risk of recession in the second half of 2023 (see Figures 1 & 2).

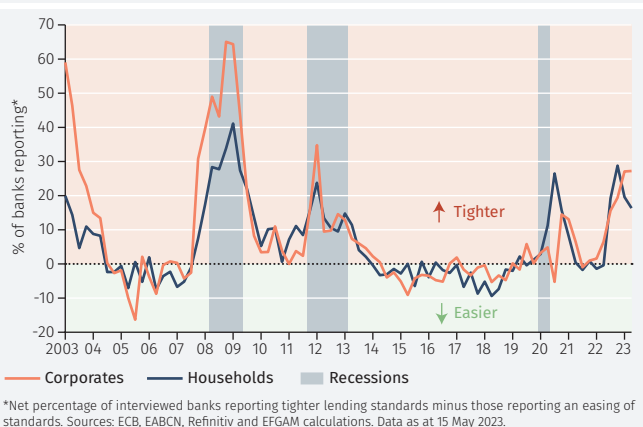
The recent tightening of bank lending standards is similar to that seen prior to recessions in the US and eurozone over the past 30 years.

The surveys show that a growing share of commercial banks in the US and eurozone have raised interest rate spreads on loans relative to their cost of funding (see Figure 3). Furthermore, the latter has increased both because of central bank rate hikes and also as a consequence of the recent increase in banking sector uncertainty. The result is that for non-financial firms and households the cost of credit has increased more than indicated purely by central banks’ policy tightening. This matters when assessing the need for further monetary policy tightening.

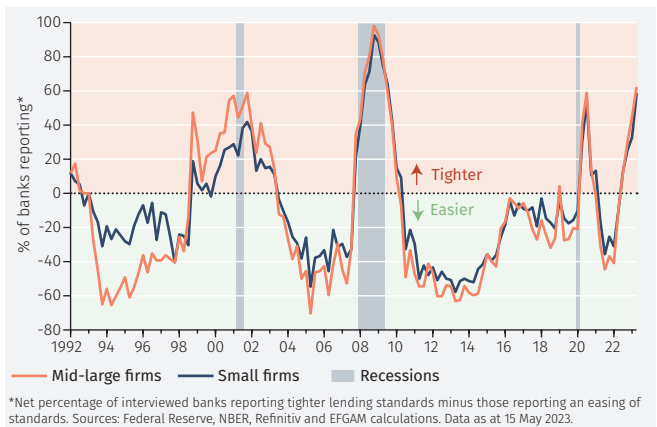
## 1. US banks’ lending standards and recessions



## 2. Eurozone banks’ lending standards and recessions



## 3. US banks raising spreads on loans

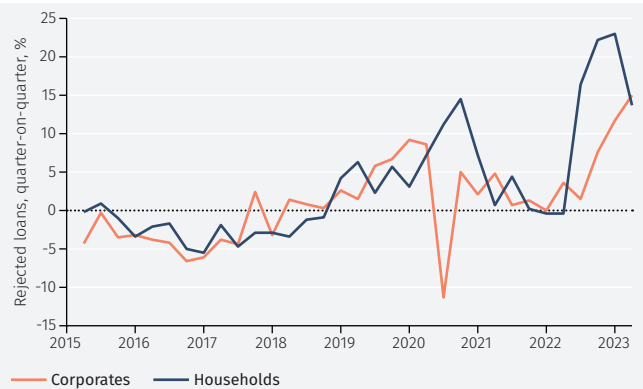


The granularity of bank lending surveys shows that US banks have reduced the size and duration of loans granted relative to requests from firms and households. In contrast, in the eurozone, commercial banks increased the share of rejected credit applications. In the case of corporate loans, this occurred at the fastest pace since this question was added to the survey in 2015 (see Figure 4).

Finally, the surveys show a sharp decline in credit demand in the US and the eurozone (see Figures 5 & 6). It is evident that declines in demand for bank loans are correlated with recessions and that the collapse in demand reported by commercial banks is equal to or greater than that recorded during the recessions of the last 30 years.

# BANK LENDING STANDARDS AND RECESSIONS

## 4. Eurozone banks, change in loans rejection rate



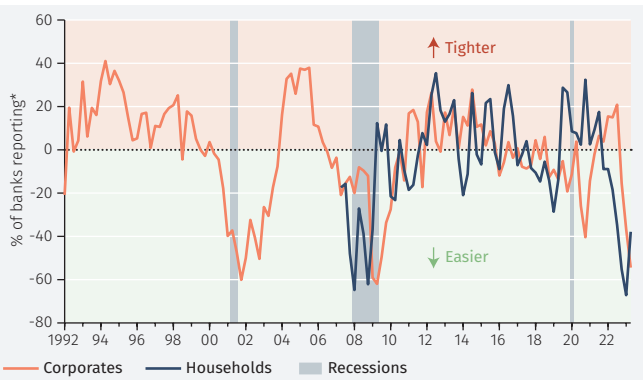
Sources: ECB, Refinitiv and EFGAM calculations. Data as at 15 May 2023.

According to the ECB survey, in early 2023 loan demand from firms and households fell mainly due to increased interest rates.<sup>1</sup> President Lagarde said this showed that the measures taken by the ECB since July 2022 made eurozone monetary policy restrictive even before interest rates were increased again on 4 May.

In conclusion, the evidence from the last 30 years shows that tight lending standards have preceded recessions in the US and eurozone. The tightening reported in the latest bank lending surveys therefore increases the risk of recession in the second half of 2023.

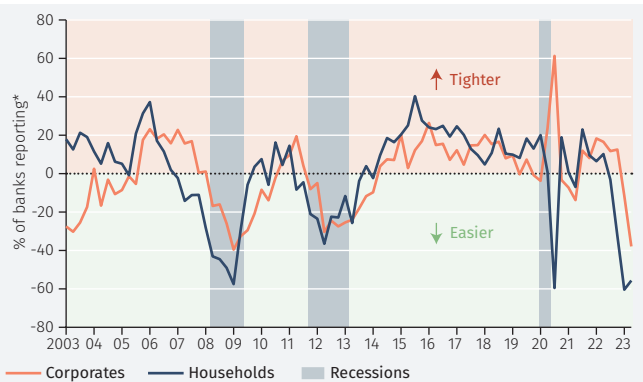
Even if a recession is avoided, moderate growth will tame inflation. The implications for monetary policy are that there is less need for further interest rate increases on both sides of the Atlantic.

## 5. US loan demand and recessions



\*Net percentage of interviewed banks reporting tighter lending standards minus those reporting an easing of standards. Sources: Federal Reserve, NBER, Refinitiv and EFGAM calculations. Data as at 15 May 2023.

## 6. Eurozone loan demand and recessions



\*Net percentage of interviewed banks reporting tighter lending standards minus those reporting an easing of standards. Sources: ECB, EABCN, Refinitiv and EFGAM calculations. Data as at 15 May 2023.

<sup>1</sup> There is no specific question in the US SLOOS about the impact of interest rates on credit demand.

## Important disclaimers

**The value of investments and the income derived from them can fall as well as rise, and past performance is no indicator of future performance. Investment products may be subject to investment risks involving, but not limited to, possible loss of all or part of the principal invested.**

This document does not constitute and shall not be construed as a prospectus, advertisement, public offering or placement of, nor a recommendation to buy, sell, hold or solicit, any investment, security, other financial instrument or other product or service. It is not intended to be a final representation of the terms and conditions of any investment, security, other financial instrument or other product or service. This document is for general information only and is not intended as investment advice or any other specific recommendation as to any particular course of action or inaction. The information in this document does not take into account the specific investment objectives, financial situation or particular needs of the recipient. You should seek your own professional advice suitable to your particular circumstances prior to making any investment or if you are in doubt as to the information in this document.

Although information in this document has been obtained from sources believed to be reliable, no member of the EFG group represents or warrants its accuracy, and such information may be incomplete or condensed. Any opinions in this document are subject to change without notice. This document may contain personal opinions which do not necessarily reflect the position of any member of the EFG group. To the fullest extent permissible by law, no member of the EFG group shall be responsible for the consequences of any errors or omissions herein, or reliance upon any opinion or statement contained herein, and each member of the EFG group expressly disclaims any liability, including (without limitation) liability for incidental or consequential damages, arising from the same or resulting from any action or inaction on the part of the recipient in reliance on this document. The availability of this document in any jurisdiction or country may be contrary to local law or regulation and persons who come into possession of this document should inform themselves of and observe any restrictions. This document may not be reproduced, disclosed or distributed (in whole or in part) to any other person without prior written permission from an authorised member of the EFG group.

This document has been produced by EFG Asset Management (UK) Limited for use by the EFG group and the worldwide subsidiaries and affiliates within the EFG group. EFG Asset Management (UK) Limited is authorised and regulated by the UK Financial Conduct Authority, registered no.7389746. Registered address: EFG Asset Management (UK) Limited,116 Park Street, London W1K6AP, United Kingdom, telephone +44 (0)2074919111.

Independent Asset Managers: in case this document is provided to Independent Asset Managers ("IAMs"), it is strictly forbidden to be reproduced, disclosed or distributed (in whole or in part) by IAMs and made available to their clients and/or third parties. By receiving this document IAMs confirm that they will need to make their own decisions/judgements about how to proceed and it is the responsibility of IAMs to ensure that the information provided is in line with their own clients' circumstances with regard to any investment, legal, regulatory, tax or other consequences. No liability is accepted by EFG for any damages, losses or costs (whether direct, indirect or consequential) that may arise from any use of this document by the IAMs, their clients or any third parties.

If you have received this document from any affiliate or branch referred to below, please note the following:

**Australia:** This document has been prepared and issued by EFG Asset Management (UK) Limited, a private limited company with registered number 7389746 and with its registered office address at 116 Park Street, London W1K6AP (telephone number +44 (0)2074919111). EFG Asset Management (UK) Limited is regulated and authorized by the Financial Conduct Authority No.536771. EFG Asset Management (UK) Limited is exempt from the requirement to hold an Australian financial services licence in respect of the financial services it provides to wholesale clients in Australia and is authorised and regulated by the Financial Conduct Authority of the United Kingdom (FCA Registration No.536771) under the laws of the United Kingdom which differ from Australian laws.

### ASIC Class Order CO03/1099

EFG Asset Management (UK) Limited notifies you that it is relying on the Australian Securities & Investments Commission (ASIC) Class Order CO03/1099 (Class Order) exemption (as extended in operation by ASIC Corporations (Repeal and Transitional Instrument 2016/396) for UK Financial Conduct Authority (FCA) regulated firms which exempts it from the requirement to hold an Australian financial services licence (AFSL) under the Corporations Act 2001 (Cth) (Corporations Act) in respect of the financial services we provide to you

### UK Regulatory Requirements

The financial services that we provide to you are regulated by the FCA under the laws and regulatory requirements of the United Kingdom which are different to Australia. Consequently any offer or other documentation that you receive from us in the course of us providing financial services to you will be prepared in accordance with those laws and regulatory requirements. The UK regulatory requirements refer to legislation, rules enacted pursuant to the legislation and any other relevant policies or documents issued by the FCA.

### Your Status as a Wholesale Client

In order that we may provide financial services to you, and for us to comply with the Class Order, you must be a 'wholesale client' within the meaning given by section 761G of the Corporations Act. Accordingly, by accepting any documentation from us prior to the commencement of or in the course of us providing financial services to you, you:

- warrant to us that you are a 'wholesale client';
- agree to provide such information or evidence that we may request from time to time to confirm your status as a wholesale client;
- agree that we may cease providing financial services to you if you are no longer a wholesale client or do not provide us with information or evidence satisfactory to us to confirm your status as a wholesale client; and
- agree to notify us in writing within 5 business days if you cease to be a 'wholesale client' for the purposes of the financial services that we provide to you.

**Bahamas:** EFG Bank & Trust (Bahamas) Ltd. is licensed by the Securities Commission of the Bahamas pursuant to the Securities Industry Act, 2011 and Securities Industry Regulations, 2012 and is authorised to conduct securities business in and from the Bahamas including dealing in securities, arranging dealing in securities, managing securities and advising on securities. EFG Bank & Trust (Bahamas) Ltd. is also licensed by the Central Bank of the Bahamas pursuant to the Banks and Trust Companies Regulation Act, 2000 as a Bank and Trust company. Registered office: Goodman's Bay Corporate Centre West Bay Street and Sea View Drive, Nassau, The Bahamas.

**Bahrain:** EFG AG Bahrain is a branch of EFG Bank AG as licensed by the Central Bank of Bahrain (CBB) as Investment Business Firm Category 2 and is authorised to carry out the following activities: a) Dealing in financial instruments as agents; b) Arranging deals in financial instruments; c) Managing financial instruments; d) Advising on financial instruments; and e) Operating a Collective Investment Undertaking. Registered address: EFG AG Bahrain Branch, Manama / Front Sea / Block 346 / Road 4626 / Building 1459 / Office 1401 / P O Box 11321 Manama -- Kingdom of Bahrain.

**Cayman Islands:** EFG Wealth Management (Cayman) Ltd, is licensed and regulated by the Cayman Islands Monetary Authority ("CIAMA") to provide securities investment business in or from within the Cayman Islands pursuant to the Securities Investment Business Law (as revised) of the Cayman Islands. Registered Office: Suite 3208, 9 Forum Lane, Camana Bay, Grand Cayman KY1-1003, Cayman Islands. EFG Bank AG, Cayman Branch, is licensed as a Class B Bank and regulated by CIAMA. Registered Office: EFG Wealth Management (Cayman) Ltd., Suite 3208, 9 Forum Lane, Camana Bay, Grand Cayman KY1-1003, Cayman Islands.

**Cyprus:** EFG Cyprus Limited is an investment firm established in Cyprus with company No. HE408062, having its registered address at Kennedy 23, Globe House, 6th Floor, 1075, Nicosia, Cyprus. EFG Cyprus Limited is authorised and regulated by the Cyprus Securities and Exchange Commission (CySEC).

**Dubai:** EFG (Middle East) Limited is regulated by the DFSA. This material is intended "for professional clients only". Registered address: EFG (Middle East) Limited DIFC, Gate Precinct 5, 7th Floor PO Box 507245 - Dubai, UAE.

**Greece:** EFG Bank (Luxembourg) S.A., Athens Branch is a non-booking establishment of EFG Bank (Luxembourg) S.A. which is authorised to promote EFG Bank (Luxembourg) S.A.'s products and services based on the EU freedom of establishment pursuant to a license granted by the Luxembourg financial supervisory authority "CSSF". Registered address: 342 Kifisias Ave. & Ethnikis Antistaseos Str. -15451 N. Psychiko, General Commercial Registry no.143057760001.

**Hong Kong:** The Hong Kong branch of EFG Bank AG is authorised as a licensed bank by the Hong Kong Monetary Authority pursuant to the Banking Ordinance (Cap.155, Laws of Hong Kong) and is authorised to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activity in Hong Kong. Registered address: EFG Bank AG, Hong Kong Branch, 18th floor, International Commerce Centre 1 Austin Road West - Kowloon, Hong Kong.

**Liechtenstein:** EFG Bank von Ernst AG is regulated by the Financial Market Authority Liechtenstein. Registered address: EFG Bank von Ernst AG Egertastrasse 10 - 9490 Vaduz, Liechtenstein.

**Jersey:** EFG Wealth Solutions (Jersey) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business under the Financial Services (Jersey) Law 1998.

**Luxembourg:** EFG Bank (Luxembourg) S.A. is authorised by the Ministry of Finance Luxembourg and supervised by the Commission de Surveillance du Secteur Financier (CSSF). EFG Bank (Luxembourg) S.A. is Member of the Deposit Guarantee Fund Luxembourg (F.G.D.L. - Fonds de Garantie des Dépôts Luxembourg) and Member of the Luxembourg Investor Compensation Scheme (S.I.L.L. - Système d'Indemnisation des Investisseurs Luxembourg). R.C.S. Luxembourg no. B113375. Registered address: EFG Bank (Luxembourg) SA -56, Grand-Rue, L-1660 Luxembourg.

**Monaco:** EFG Bank (Monaco) SAM is a Monegasque Public Limited Company with a company registration no.90 S02647 (Registre du Commerce et de l'Industrie de la Principauté de Monaco). EFG Bank (Monaco) SAM is a bank with financial activities authorised and regulated by the French Prudential Supervision and Resolution Authority and by the Monegasque Commission for the Control of Financial Activities. Registered address: EFG Bank (Monaco) SAM, Villa les Aigles, 15, avenue d'Ostende - BP37 - 98001 Monaco (Principauté de Monaco), telephone: +37793151111. The recipient of this document is perfectly fluent in English and waives the possibility to obtain a French version of this publication.

**People's Republic of China ("PRC"):** EFG Bank AG Shanghai Representative Office is approved by China Banking Regulatory Commission and registered with the Shanghai Administration for Industry and Commerce in accordance with the Regulations of the People's Republic of China for the Administration of Foreign-invested Banks and the related implementing rules. Registration No.310000500424509. Registered address: Room 65T10, 65 F, Shanghai World Financial Center, No.100, Century Avenue, Pudong New Area, Shanghai. The business scope of EFG Bank AG Shanghai Representative Office is limited to non-profit making activities only including liaison, market research and consultancy.

**Portugal:** EFG Bank (Luxembourg) S.A. - Sucursal em Portugal is authorised and supervised by Banco de Portugal (register 280) and the CMVM, the Portuguese securities market commission, (register 393) for the provision of financial advisory and reception and transmission of orders. EFG Bank (Luxembourg) S.A. - Sucursal em Portugal is a non-booking branch of EFG Bank (Luxembourg) S.A., a public limited liability company incorporated under the laws of the Grand Duchy of Luxembourg, authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier). Lisbon Head Office: Avenida da Liberdade n.º 131 - 6.º Dto., 1250 - 140 Lisboa. Porto agency: Avenida da Boavista, n.º 1837 - Escritório 6.2, 4100-133 Porto. Companies Registry Number: 980649439.

**Singapore:** Singapore (UEN No. T03FC6371) is licensed by the Monetary Authority of Singapore as a wholesale bank to conduct banking business and additionally carries on the regulated activities of dealing in capital markets products (securities, collective investment schemes, exchange-traded derivatives contracts, spot foreign exchange contracts for the purposes of leveraged foreign exchange trading and over-the-counter derivatives contracts), fund management, product financing and provision of custodial services as an Exempt Capital Markets Services Entity under the Securities and Futures Act 2001 and of providing financial advisory services as an Exempt Financial Adviser under the Financial Advisers Act 2001 by advising others, either directly or through publications or writings, and whether in electronic, print or other form, and advising others by issuing or promulgating research analyses or research reports, whether in electronic, print or other form, concerning the following investment products: securities, collective investment schemes, exchange traded derivatives contracts, over-the-counter derivatives contracts, spot foreign exchange contracts other than for the purposes of leveraged foreign exchange trading, spot foreign exchange contracts for the purposes of leveraged foreign exchange trading and structured deposits. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of the recipient, before the recipient makes a commitment to purchase the investment product. Please contact EFG Bank AG (Singapore Branch) in respect of any matters or queries arising from or in connection with this publication. Please note that EFG Bank AG (Singapore Branch), however, does not take legal responsibility for the contents of this publication. EFG Bank AG (Singapore Branch) and EFG Asset Management (UK) Limited have put in place appropriate mechanisms and segregation policies to ensure the independence of EFG Asset Management (UK) Limited's research activities, and procedures to manage undue influence of issuers, institutional investors or other external parties on EFG Asset Management (UK) Limited. Other arrangements may be established where necessary to prevent conflicts of interest from arising. For Singapore, this document and the products mentioned herein are only intended for "accredited investors" and "institutional investors" within the meaning of the Securities and Futures Act 2001 and any rules made thereafter. This advertisement has not been reviewed by the Monetary Authority of Singapore. Registered address: EFG Bank AG, Singapore Branch 79 Robinson Road #18-01 Singapore 068897.

**Switzerland:** EFG Bank AG, Zurich, including its Geneva and Lugano branches, is authorised and regulated by the FINMA. Registered Office: EFG Bank AG, Bleicherweg 8, 8001 Zurich, Switzerland. Registered Swiss Branches: EFG Bank SA, 24 quai du Seujet, 1211 Geneva 2, and EFG Bank SA, Via Magatti 2, 6900 Lugano.

**United Kingdom:** EFG Private Bank Limited. If you are receiving this document from EFG Private Bank Limited, this is because you have an advisory agreement with EFG Private Bank Limited, and they have assessed the product(s) referred to in this document as being suitable for you. This document has been approved by EFG Private Bank Limited and is issued to you by EFG Private Bank Limited. EFG Private Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. EFG Private Bank Limited is a member of the London Stock Exchange. Registered company no.2321802. Registered address: EFG Private Bank Limited, Park House, 116 Park Street, London W1K6AP, United Kingdom, telephone +44 (0)2074919111.

**USA:** EFG Capital International Corp ("EFG Capital") is a U.S. Securities and Exchange Commission ("SEC") registered broker-dealer and member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). None of the SEC, FINRA or SIPC, have endorsed this document or the services and products provided by EFG Capital and its U.S. based affiliate, EFG Asset Management (Americas) Corp ("EFGAM Americas"), a registered SEC investment adviser. Securities products and brokerage services are provided by EFG Capital, and asset management services are provided by EFGAM Americas. EFG Capital and EFGAM Americas are affiliated by common ownership under EFG International AG and maintain mutually associated personnel. Registered address: 701 Brickell Avenue, Ninth Floor - FL 33131 Miami.