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MARKET VIEWS
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Stress in the banking system: Nuveen holdings and outlook

Nuveen has very modest holdings in Silicon Valley Bank and Signature Bank, both of which failed over the last couple of days. As events unfold quickly, we wanted to provide an update as to our own (very limited) exposure to these institutions, as well as our current views toward the banking sector and broader risks.

NUVEEN'S EXPOSURE TO SVB AND SIGNATURE BANK

Overall, Nuveen has very limited exposure to these two banks. In our **public equity and fixed income business,** we had direct holdings of approximately $112.8 million for SVB (equities and fixed income) and $21.1 million for Signature (equities) before last weekend, representing less than 0.01% of our firm's total AUM. **Winslow Capital** has no exposures.

Nuveen Real Estate has minimal credit line exposures. We do not anticipate this modest exposure to cause any disruptions to our business.

In **Nuveen Private Capital**, we have no direct exposure to either bank through our private credit or private equity strategies via our private capital specialist **Churchill**. And none of our clients or limited partners have banking or deposit relationships with either.

And in **Nuveen Natural Capital**, we have no direct exposure to either bank in our farmland investments. Both banks had been active in the viniculture business, which could cause some short-term disruptions in the wine industry, but we do not expect any direct effects on our farmland business.

WHAT IS OUR OUTLOOK FOR BANKS?

U.S. Treasury Secretary Janet Yellen instructed the FDIC to guarantee that SVB and Signature customers will have access to all of their deposits. We expect this action to curtail the risk of contagion in terms of additional bank runs. And, so far, this seems to be the case.

While bank customers should be protected, the equity and bondholders of banks could experience some additional volatility.

From a bond market perspective, rising interest rates have negatively impacted fixed income investments on bank balance sheets, but those same banks have benefited from a rise in net interest income since the Fed's tightening program began. Recently, there has been increasing pressure to raise deposit rates, which makes the incremental profitability of future higher rates less accretive to the bottom line. But in general, bank balance sheets remain incredibly well capitalized, and banks continue to perform well year-after-year on the Fed's annual stress tests. Overall, we remain constructive on banks from a credit perspective.

When it comes to bank equities, our outlook is less compelling. Net interest margins and profits are likely going to get hit hard as the deposit wars will intensify, forcing banks to offer higher yields on deposits and issue more longer-dated funding. Capital raises may be necessary to shore up liquidity and secure debt servicing. We also expect regulators will tighten standards further on capital and liquidity requirements, which could hurt profits. We expect smaller, less diversified and regional banks to be more negatively affected by these developments than larger, more diversified institutions.

WHAT OTHER ISSUES DOES THIS RAISE?

If the banking system endures more stress and/or if market volatility intensifies, it could put pressure on the U.S. Federal Reserve to pare back on rate hikes. And over the past couple of days, future rate hike expectations have come down a bit. Currently, we expect another 25-basis-point increase at the March meeting and likely some additional increases to come.

Investors are also focused on the possibility of a broader financial crisis, similar to what occurred during the Global Financial Crisis. So far, policymakers have made it clear that while they will protect deposits, the equity and bondholders of banks will not be backstopped. Nevertheless, the fears of moral hazard could again enter the picture if banks feel emboldened to take on more risk on the presumption of a rescue plan. We do not expect a return to GFC-levels of turmoil, but this certainly bears watching.

For more information, please visit us at nuveen.com.

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