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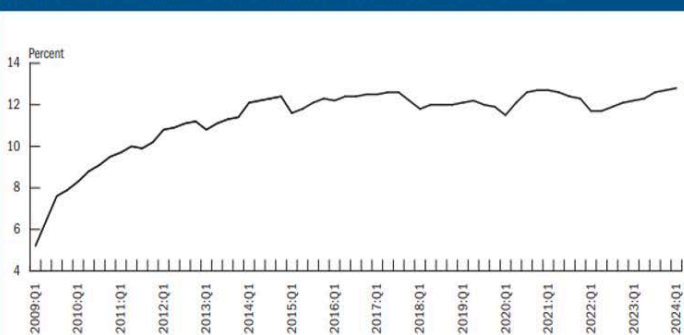
# Weekly Note

## Orion OCIO On What Wall Street Is Wondering About, Worrying Over, Or Wishing For This Week...

### Why Bad News Shouldn't Turn Into Worse News

- As we take pen to paper, the S&P 500 has just closed in correction territory, off 10.2% from its all-time high, which it hit just 23 days ago on February 19th (for many of us, that probably feels like a lifetime ago). Most of America is caught up on what most market prognosticators see as the reasons for the drop in U.S. equities, and that is ... uncertainty around U.S. trade policy has pushed consumer and corporate sentiment lower, and as sentiment weakens so could spending and investment, and were that to happen corporate revenue and earnings growth would likely prove disappointing, and that would, in turn, justify lower stock prices (which is what the market's move lower could be anticipating, or "pricing in," as they say on Wall Street, if that makes sense).
- When markets stumble, many investors worry — and understandably so — that something more sinister than a typical correction is brewing (think the bear markets of the early and late 2000s). It is worth remembering that meaningful bear markets have historically been accompanied by meaningful recessions, and we just don't see the type of systemic risk present in the economy today that could or would be the catalyst for a sharp contraction in GDP (which wasn't the case for the U.S. economy approximately 25 and 20 years ago, respectively, as we were confronting an expanding U.S. tech stock bubble and an expanding U.S. housing bubble).
- As it concerns the overall resiliency of the U.S. economy, we would point out that corporate cash balances and consumer net worth are at or near all-time highs and the banking system is, importantly, very well capitalized, with the 31 largest U.S. banks having all passed the Federal Reserve's 2024 stress test and holding enough capital to absorb \$685 billion in losses and still lend to companies and consumers. More specifically, the Fed's analysis showed that the aggregate common equity tier 1 capital ratio for the banks subject to the stress test was 12.7%, compared to 4.5% in 2009. (The common equity tier 1 capital ratio is a key metric for assessing a bank's financial strength and its ability to absorb losses; see chart.) These are difficult days, but we are not convinced that things must get worse from here.

Figure 2. Aggregate common equity capital ratio for 31 banks in the 2024 stress test



Note: The Federal Reserve's evaluation of a bank's common equity capital was initially measured using a tier 1 common capital ratio but now is evaluated using a common equity tier 1 capital ratio. Not all of the banks included in the 2024 stress test reported data for all periods since 2009.

Source: FR Y-9C.

Source: Board of Governors of the Federal Reserve System, 2024



### Federal Reserve says all 31 banks in annual stress test withstood a severe hypothetical downturn

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An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index.

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