



Sharp correction at Financials led by Bear market at Banks

Banks are down ~25% from their highs in mid 2015, about twice the 13% S&P 500 sell-off. While many investors are scarred by the financial crisis, it's not normal for banks to suffer nearly twice the S&P's decline in corrections. Unless Banks are at the epicenter of trouble (late 1980s, 1994, 1998, and since 2007), their beta is usually only slightly above 1 and not near 2 as recently seen. Inside, we present the performance of Banks around prior market corrections. We realize that Bank indices have more market exposure than history and banks revenue continue to be challenged by persistently low LT yields and less income earnings assets under stricter regulations, but we see S&P Banks at 9x our 2016E EPS as too cheap and still like their payout upside.

Figure 45: Banks performance around historic S&P 500 corrections since 1960

S&P 500 corrections				Sell-off of Banks				Relative sell-off of Banks vs. S&P			
S&P 500 Peak Date	S&P 500 Trough Date	Size of Corrections	Duration of Corrections (TDs)	Regional Banks	Diversified Banks	Capital Markets	Diversified Financial Services	Regional Banks	Diversified Banks	Capital Markets	Diversified Financial Services
24-Aug-60	25-Oct-60	-9.9%	43	-1.1%	-1.1%			0.1	0.1		
12-Dec-61	26-Jun-62	-28.0%	135	-30.3%	-26.0%			1.1	0.9		
09-Feb-66	07-Oct-66	-22.2%	167	-21.0%	-28.6%			0.9	1.3		
25-Sep-67	05-Mar-68	-10.1%	110	-5.0%	-7.5%			0.5	0.7		
29-Nov-68	26-May-70	-36.1%	369	-28.7%	-24.4%			0.8	0.7		
28-Apr-71	23-Nov-71	-13.9%	146	-10.2%	-12.4%			0.7	0.9		
11-Jan-73	22-Aug-73	-16.4%	154	-17.6%	-11.1%			1.1	0.7		
12-Oct-73	03-Oct-74	-44.1%	246	-47.9%	-42.8%			1.1	1.0		
15-Jul-75	16-Sep-75	-14.1%	44	-14.1%	-22.9%			1.0	1.6		
17-Mar-77	06-Mar-78	-14.9%	243	-16.9%	-27.7%			1.1	1.9		
12-Sep-78	14-Nov-78	-13.6%	45	-14.6%	-12.9%			1.1	1.0		
05-Oct-79	07-Nov-79	-10.2%	23	-13.5%	-14.7%			1.3	1.4		
13-Feb-80	27-Mar-80	-17.1%	30	-17.1%	-13.7%			1.0	0.8		
28-Nov-80	12-Aug-82	-27.1%	430	-36.5%	-22.1%			1.3	0.8		
10-Oct-83	24-Jul-84	-14.4%	199	-34.7%	-32.1%			2.4	2.2		
25-Aug-87	04-Dec-87	-33.5%	71	-32.4%	-40.7%			1.0	1.2		
09-Oct-89	30-Jan-90	-10.2%	78	-24.6%	-28.9%			2.4	2.8		
16-Jul-90	11-Oct-90	-19.9%	62	-47.2%	-46.8%	NA	-38.7%	2.4	2.4	NA	1.9
07-Oct-97	27-Oct-97	-10.8%	14	-11.1%	-11.2%	-16.8%	-10.7%	1.0	1.0	1.6	1.0
17-Jul-98	31-Aug-98	-19.3%	31	-27.8%	-35.7%	-55.5%	-32.5%	1.4	1.8	2.9	1.7
16-Jul-99	15-Oct-99	-12.1%	64	-21.9%	-24.9%	-48.9%	-15.8%	1.8	2.1	4.0	1.3
24-Mar-00	21-Sep-01	-36.8%	373	-22.7%	-21.0%	-58.2%	-33.1%	0.6	0.6	1.6	0.9
04-Jan-02	09-Oct-02	-33.8%	192	NA	-28.0%	NA	NA	NA	0.8	NA	NA
27-Nov-02	11-Mar-03	-14.7%	69	NA	-13.1%	NA	NA	NA	0.9	NA	NA
09-Oct-07	09-Mar-09	-56.8%	355	-86.3%	-85.0%	-77.3%	-88.0%	1.5	1.5	1.4	1.6
23-Apr-10	02-Jul-10	-16.0%	49	-28.1%	-29.7%	-27.4%	-28.7%	1.8	1.9	1.7	1.8
29-Apr-11	03-Oct-11	-19.4%	108	-37.2%	-32.0%	-44.1%	-48.5%	1.9	1.6	2.3	2.5
02-Apr-12	01-Jun-12	-9.9%	42	-15.1%	-12.1%	-24.0%	-30.5%	1.5	1.2	2.4	3.1
21-May-15	25-Aug-15	-12.4%	66	-15.3%	-15.5%	-19.2%	-12.2%	1.2	1.3	1.6	1.0
03-Nov-15	20-Jan-16	-31.9%	52	-20.8%	-20.9%	-23.7%	-20.2%	1.7	1.8	2.0	0.9
21-May-15	20-Jan-16	-12.7%	163	-23.8%	-24.2%	-28.8%	-14.9%	1.9	1.9	2.3	1.2
Avg		-20.6%		-25.5%	-25.3%	-42.3%	-34.2%	1.3	1.3	2.2	1.7
Avg ex. 1984-90, 1998, 2007-16		-20.3%		-19.4%	-19.3%	-41.3%	-19.9%	1.0	1.0	2.4	1.1
1984-1990, 1998, 2007-2016		-21.2%		-35.7%	-36.7%	-42.9%	-40.3%	1.8	1.9	2.1	2.0

Note: BAC, C, and JPM were classified as Diversified Financial Services before March 2014. Since then they have been classified as Banks (Diversified Banks).
Source: S&P, Deutsche Bank