



**Pzena's
Perspective**

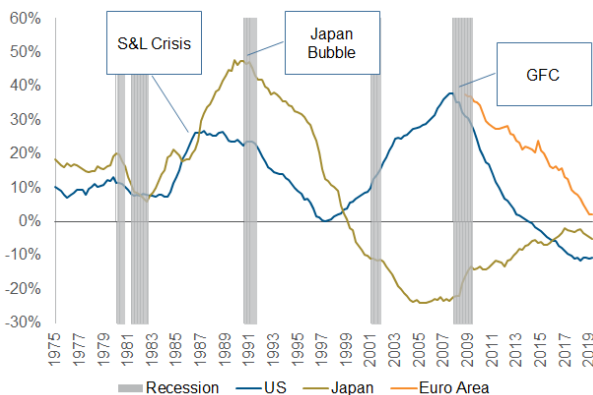
Global Banks: Resilience in the Face of Crisis

While valuations suggest the need for industry-wide dilutive capital raises, banks are broadly on solid footing relative to earlier crises.

Today's Environment *Is* Quite Different

Each of the historical crises we studied¹ was preceded by a run-up in private debt as a percentage of GDP. This is not the case today.

A Run-Up in Debt-to-GDP Portends Trouble (10-year increase)



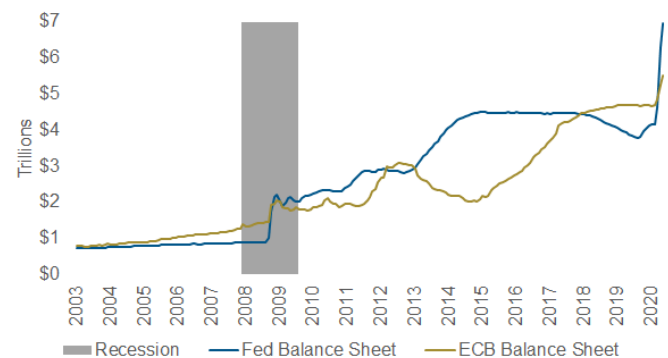
Source: Federal Reserve Bank of St. Louis.

Banks have been in a decade of deleveraging post the GFC². Capital cushions are far more robust, leaving banks more equipped to absorb losses than they were in the past.

Governments' Revved Up, Ready-to-Go Playbook

The magnitude of the governmental response around the world is very different from what we saw a decade ago. The Fed, for example, bought more assets in two months of this crisis than in the first five years of the GFC².

Central Banks' Unprecedented Balance Sheet Expansion



Source: Federal Reserve Bank of St. Louis, European Central Bank.

Fiscal measures in the US have had a staggering impact. Personal savings rates have been at 8% (Feb), 13% (Mar), 32% (Apr), and 23% (May), versus a normal range of 5-10% and a 60-year high of 17% (May 1975). Similarly, credit card balances were *down* 7% y/y in June, versus a more normal +5%. (Source: Federal Reserve Bank of St. Louis.)

Bank
Stocks
Stand Out

Many banks are leaner and have balance sheets fortified to withstand a protracted downturn. In addition, the absence of excess investment in the run-up to the COVID environment and unprecedented government support are salient differences between this crisis and earlier ones.

[Article](#)

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FURTHER INFORMATION

¹We examined 10 periods of extreme banking system stress around the world, including the US Great Depression (starting in 1929), the US S&L Crisis (1987), Japan's Bubble (1989), the Scandinavian Crisis (1991), several EM Debt Crises (1994/1997/1998/2001), the GFC (2008), and the Peripheral European Crisis (2008–2012). ²Global Financial Crisis.

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