

MARCH 2022

Bank Watch

ARTICLE

First Quarter 2022 Review: Volatility Resurfaces

In This Issue

First Quarter 2022 Review: Volatility Resurfaces	1
Public Market Indicators	6
M&A Market Indicators	7
Regional Public Bank Peer Reports	8
About Mercer Capital	9

First Quarter 2022 Review: Volatility Resurfaces

The first quarter of 2022 marked the most volatile period since the first quarter of 2020. The quarter began with significant deterioration in the market's outlook for growth stocks, particularly those lacking demonstrable earning power. Then, a geopolitical crisis, building for some time, intensified with the invasion of a European country, roiling markets ranging from commodities to equities. Last, the Federal Reserve announced, as expected, a 25 basis point change in its benchmark rate and telegraphed six more rate increases in 2022, taking the Federal Funds rate to nearly 2.00% by year-end 2022. In a speech on March 21, 2022, though, Chairman

Powell suggested a greater likelihood that future Fed moves may occur in 50 basis point increments, rather than 25, to combat inflation, which mirrors the position taken by Governor Bullard in dissenting to the Fed's 25 basis point rate change at the mid-March meeting.

The following tables summarize key metrics we track regarding equities, fixed income, and commodity markets leading up to the invasion of Ukraine on February 23, 2022 and thereafter.

Equity Indices	12/31/21	1/31/22	2/23/22	2/28/22	3/4/22	3/11/22	3/18/22	3/25/22	12/31/21 - 2/23/22	2/23/22 - 3/25/22	12/31/21 - 3/25/22
S&P Small Cap Bank	269	270	271	278	265	265	270	270	0.6%	-0.2%	0.4%
S&P Mid-Cap Bank	922	902	909	934	873	854	899	905	-1.5%	-0.4%	-1.9%
S&P Large Cap Bank	461	470	463	451	424	412	440	446	0.4%	-3.5%	-3.1%
KBW Nasdaq Regional	126	129	129	132	124	125	127	127	2.1%	-1.0%	1.1%
S&P 500	4,766	4,516	4,226	4,374	4,329	4,204	4,463	4,543	-11.3%	7.5%	-4.7%
Nasdaq Composite	15,645	14,240	13,037	13,751	13,313	12,844	13,894	14,169	-16.7%	8.7%	-9.4%
Russell 2000	2,245	2,028	1,944	2,048	2,001	1,980	2,086	2,078	-13.4%	6.9%	-7.5%

Index data per S&P Capital IQ Pro

- » Broad market indices contracted through February 23, 2022, driven by valuation concerns for growth stocks
- » Bank stocks remained stable through February 23, 2022, as valuations remained reasonable relative to historical norms
- » Since February 23, 2022 bank stocks have experienced modest pressure, primarily among larger banks that may have some exposure to Russia
- » While markets were volatile after the Ukraine invasion, broad market averages reported a robust recovery in the week of March 18, 2022 and continued gaining into last week

Treasury Rates	12/31/21	1/31/22	2/23/22	2/28/22	3/4/22	3/11/22	3/18/22	3/24/22	12/31/21 - 2/23/22	2/23/22 - 3/24/22	12/31/21 - 3/24/22
3 months	0.06%	0.22%	0.34%	0.35%	0.34%	0.40%	0.42%	0.52%	28 bps	18 bps	46 bps
1 Year	0.39%	0.78%	1.16%	1.01%	1.05%	1.22%	1.29%	1.55%	77 bps	39 bps	116 bps
3 years	0.97%	1.39%	1.78%	1.62%	1.62%	1.91%	2.15%	2.35%	81 bps	57 bps	138 bps
5 years	1.26%	1.62%	1.89%	1.71%	1.65%	1.96%	2.14%	2.37%	63 bps	48 bps	111 bps
7 years	1.44%	1.75%	1.98%	1.81%	1.70%	2.01%	2.17%	2.39%	54 bps	41 bps	95 bps
10 years	1.52%	1.79%	1.99%	1.83%	1.74%	2.00%	2.14%	2.34%	47 bps	35 bps	82 bps
20 years	1.94%	2.17%	2.36%	2.25%	2.23%	2.45%	2.53%	2.63%	42 bps	27 bps	69 bps
30 years	1.90%	2.11%	2.29%	2.17%	2.16%	2.36%	2.42%	2.51%	39 bps	22 bps	61 bps

Treasury yields per FRED, Federal Reserve Bank of St. Louis

- » Treasury rates increased during 1Q22, with a greater share of the expansion occurring prior to February 23, 2022
- » The yield curve flattened in 1Q22
- » Yields on 3- and 10-year Treasuries were virtually identical as of March 24, 2022, relative to a 55 bps spread as of year-end 2021

WHAT WE'RE READING

Federal Reserve officials voted to **raise** the target range for the federal funds rate by a quarter percentage point at the FOMC meeting earlier this month, marking the first increase since 2018. In a speech the following week, Chair Jerome Powell **noted** the Fed was prepared to raise rates more aggressively if necessary to bring down inflation.

The Mortgage Bankers Association reported that applications for purchase mortgages **decreased** 3.9% year-over-year in February as higher rates, elevated prices, and limited building material availability weighed on activity.

The FDIC recently issued a **request** for comments on the effectiveness of the current regulatory framework for evaluating **bank M&A**.

Debt Spreads	12/31/21	1/31/22	2/23/22	2/28/22	3/4/22	3/11/22	3/18/22	3/25/22	12/31/21 - 2/23/22	2/23/22 - 3/25/22	12/31/21 - 3/25/22
	Corporate Bonds										
AA	0.62%	0.72%	0.79%	0.82%	0.86%	0.95%	0.83%	0.77%	17 bps	-2 bps	15 bps
A	0.78%	0.89%	1.02%	1.05%	1.11%	1.23%	1.10%	1.03%	24 bps	1 bps	25 bps
BBB	1.21%	1.34%	1.50%	1.60%	1.69%	1.82%	1.69%	1.61%	29 bps	11 bps	40 bps
BB	2.11%	2.66%	2.75%	2.75%	2.87%	2.99%	2.70%	2.45%	64 bps	-30 bps	34 bps
B	3.51%	3.96%	4.03%	4.11%	4.24%	4.41%	4.25%	3.91%	52 bps	-12 bps	40 bps
CCC & Lower	6.78%	7.34%	7.45%	7.71%	7.86%	8.08%	7.82%	7.48%	67 bps	3 bps	70 bps
Commercial MBS											
AAA	0.71%	0.70%	0.86%	0.94%	0.97%	0.97%	0.97%	0.90%	15 bps	4 bps	19 bps
AA	1.38%	1.33%	1.64%	1.71%	1.77%	1.77%	1.75%	1.65%	26 bps	1 bps	27 bps
A	2.22%	2.16%	2.52%	2.58%	2.64%	2.65%	2.65%	2.56%	30 bps	4 bps	34 bps
BBB	3.14%	3.14%	3.57%	3.70%	3.73%	3.77%	3.78%	3.76%	43 bps	19 bps	62 bps

Corporate Credit Spreads per FRED, Federal Reserve Bank of St. Louis
CMBS spreads per ICE Index Platform

- » Corporate debt and commercial MBS option-adjusted spreads widened in 1Q22
- » Prior to the Ukraine invasion, high yield bond spreads widened to a similar degree, regardless of rating. However, since the invasion, BB-rated issuers have outperformed B- and CCC-rated issuers
- » 1Q22 spread widening in BBB-rated corporate bonds (40 bps) is the largest since 1Q20
- » Although commercial real estate may appear somewhat more insulated from geopolitical considerations than the corporate bond market, CMBS spreads widened to a greater degree than corporate bond spreads in 1Q22

Commodities	12/31/21	1/31/22	2/23/22	2/28/22	3/4/22	3/11/22	3/18/22	3/25/22	12/31/21 - 2/23/22	2/23/22 - 3/25/22	12/31/21 - 3/25/22
Oil (per barrel)	\$75.33	\$89.16	\$92.14	\$96.13	\$115.77	\$109.31	\$104.69	\$112.14	22.3%	21.7%	48.9%
Corn (cents/bushel)	593	626	684	698	757	765	742	754	15.3%	10.3%	27.1%
Wheat (cents/bushel)	771	761	876	928	1,348	1,090	1,064	1,102	13.7%	25.8%	43.0%

*Oil price represents West Texas Intermediate; WTI prices per FRED, Federal Reserve Bank of St. Louis
Corn & wheat prices per Bloomberg*

- » Commodities experienced higher price appreciation than other asset classes in 1Q22
- » Wheat prices, already rising prior to the invasion, leapt after it. This reflects potential production disruptions in Ukraine, sanctions on Russia, and transportation issues in the Black Sea
- » Oil prices dropped in the weeks after the Ukraine invasion but still notched a 49% increase in 1Q22
- » Our agriculturally-oriented banks still expect U.S. farmers to fare well in 2022, despite higher input prices and difficulty obtaining some supplies like fertilizer

**Residential
Mortgages**

	12/31/21	1/31/22	2/23/22	2/28/22	3/4/22	3/11/22	3/18/22	3/25/22	12/31/21 - 2/23/22	2/23/22 - 3/25/22	12/31/21 - 3/25/22
30-Year Mortgages	3.11%	3.55%	3.89%	3.89%	3.76%	3.85%	4.16%	4.42%	78 bps	53 bps	131 bps

Mortgage rates per FRED, Federal Reserve Bank of St. Louis

- » The 30-year mortgage rate, as reported by Freddie Mac, exceeded 4.00% in the week ended March 18, 2022. This is the first time the mortgage rate has exceeded 4% since May 2019. For the week ended March 25, 2022, the 30-year mortgage rate climbed higher to 4.42%
- » Mortgage rates widened to a greater extent than long-term Treasury rates in 1Q22
- » UWM Holdings, the largest wholesale mortgage lender, in its March 1, 2022 earnings release projected that 1Q22 originations would decline by 24% to 40% from 4Q21 originations. Mortgage rates have increased further after it provided this estimate

Recent Representative Transactions



Atlanta, Georgia

has agreed to acquire the majority of the assets and liabilities of



Smyrna, Georgia

Mercer Capital served as exclusive financial advisor to Georgia's Own Credit Union

– February 2022 –



Robins, Georgia

Has entered into a definitive agreement to acquire



Forsyth, Georgia

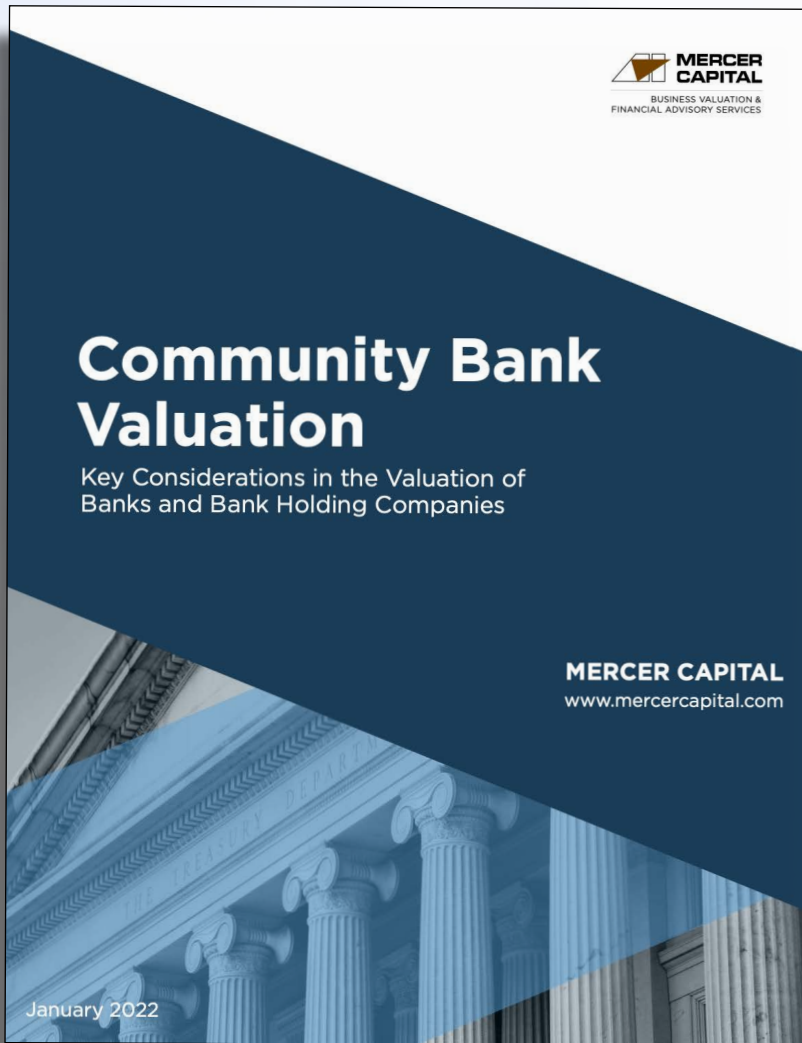
Mercer Capital served as exclusive financial advisor to Robins Financial Credit Union

– March 2022 –

WHITEPAPER

Community Bank Valuation

Key Considerations in the Valuation of Banks and Bank Holding Companies



This whitepaper focuses on the two issues most central to our work with depository institutions at Mercer Capital:

- What drives value for a depository institution?
- How are these drivers distilled into a value for a given depository institution?

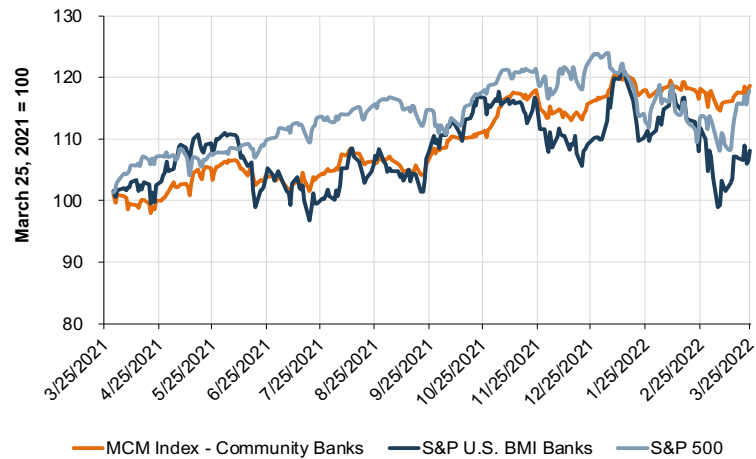
Written for bankers and advisors to banks, this paper includes six chapters:

- A Framework for Bank Valuation
- Bank Financial Analysis
- Parent Company Financial Analysis
- Minority Interest Valuations
- Controlling Interest Valuations
- Wrap Up

Mercer Capital has significant experience understanding the issues facing specific banks and correlating that entity-level analysis to the overarching market environment. Download your copy today.

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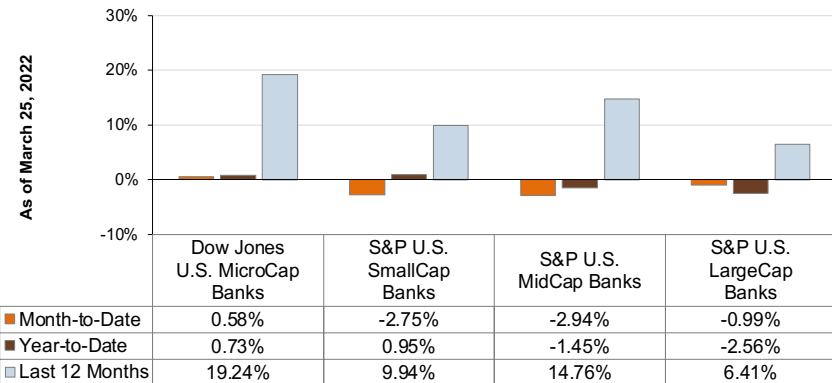
Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

Return Stratification of U.S. Banks

by Market Cap



	<i>Micro Cap: < \$250 Million</i>		<i>Mid Cap: \$1 - \$5 Billion</i>	
	<i>Small Cap: \$250 Million - \$1 Billion</i>		<i>Large Cap: > \$5 Billion</i>	

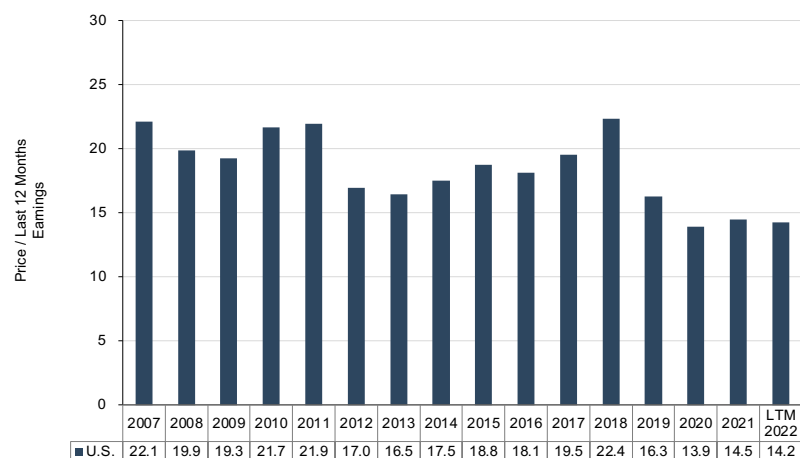
Source: S&P Capital IQ Pro.

	Total Return			Regional Index Data as of March 25, 2022					
	Month-to-Date	Year-to-Date	Last 12 Months	Price/LTM EPS	Price / 2022 (E) EPS	Price / 2023 (E) EPS	Price / Book Value	Tangible Book Value	Dividend Yield
Atlantic Coast Index	-1.1%	-1.7%	17.4%	11.1x	11.2x	10.6x	116%	120%	2.4%
Midwest Index	2.1%	2.9%	16.0%	10.0x	11.3x	10.6x	112%	124%	2.4%
Northeast Index	0.9%	1.6%	17.7%	10.0x	9.8x	9.3x	114%	125%	3.0%
Southeast Index	1.8%	0.6%	23.2%	11.4x	11.0x	9.6x	120%	135%	2.1%
West Index	1.2%	4.5%	21.6%	10.3x	11.6x	9.3x	125%	130%	2.4%
Community Bank Index	1.0%	1.6%	18.6%	10.2x	11.0x	9.6x	116%	124%	2.5%
S&P U.S. BMI Banks	-1.6%	-1.6%	8.1%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

Median Price/Earnings Multiples

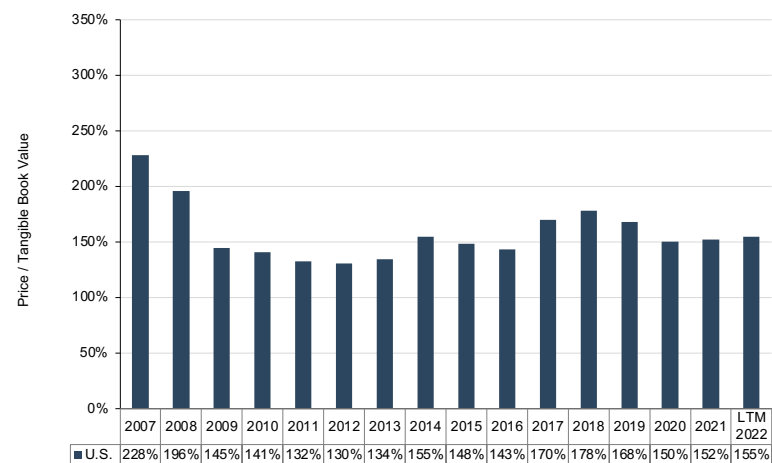
Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

Median Price/Tangible Book Value Multiples

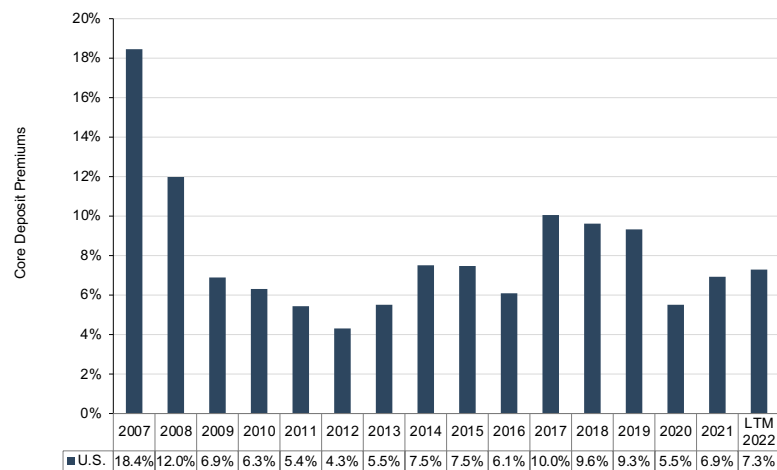
Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

Median Core Deposit Premiums

Target Banks' Assets <\$5B and LTM ROE >5%



Source: S&P Capital IQ Pro.

Median Valuation Multiples for M&A Deals

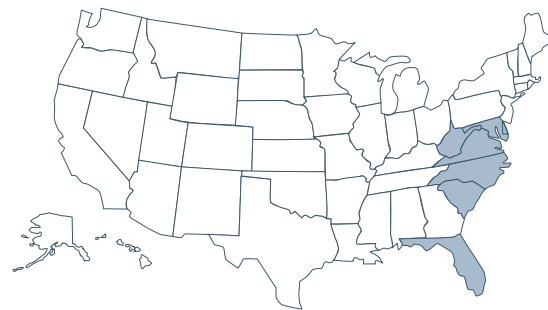
Target Banks' Assets <\$5B and LTM ROE >5%, 12 months ended March 24, 2022

Regions	Price / LTM Earnings	Price/ Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value (\$M)	Target's Median Assets (\$000)	Target's Median LTM ROAE
Atlantic Coast	14.2x	181%	9.4%	12	292.4	704,154	10.0%
Midwest	17.9x	154%	7.8%	58	116.6	213,025	9.2%
Northeast	13.2x	143%	3.9%	7	172.5	1,059,508	10.3%
Southeast	13.5x	155%	6.6%	31	108.1	429,456	10.5%
West	12.6x	157%	7.1%	22	91.4	540,658	12.5%
National Community Banks	14.2x	155%	7.3%	130	124.0	411,793	10.4%

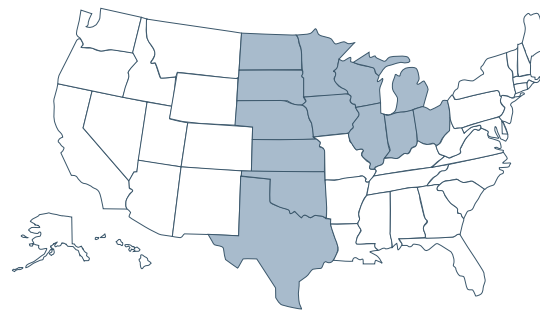
Source: S&P Capital IQ Pro.

Mercer Capital's Regional Public Bank Peer Reports

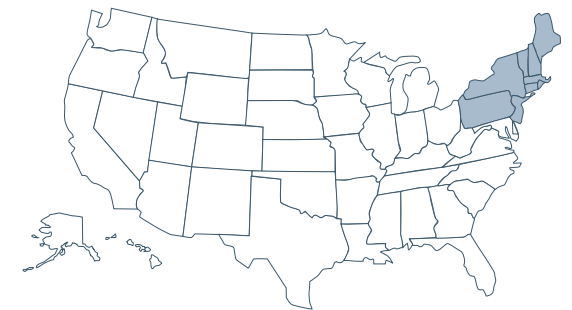
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



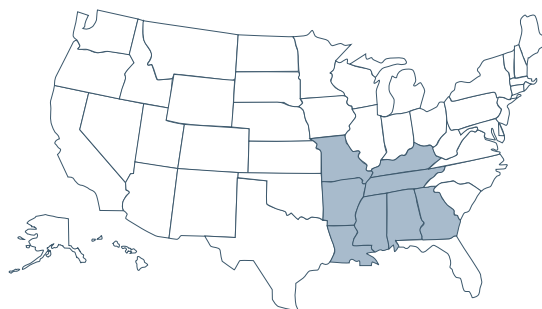
Atlantic Coast



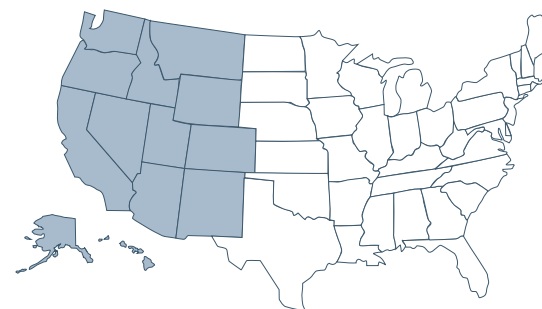
Midwest



Northeast



Southeast



West

MERCER CAPITAL

Depository Institutions Services

Mercer Capital assists banks, thrifts, and credit unions with significant corporate valuation requirements, transaction advisory services, and other strategic decisions.

Mercer Capital pairs analytical rigor with industry knowledge to deliver unique insight into issues facing banks. These insights underpin the valuation analyses that are at the heart of Mercer Capital's services to depository institutions.

- » Bank valuation
- » Financial reporting for banks
- » Goodwill impairment
- » Litigation support
- » Stress Testing
- » Loan portfolio valuation
- » Tax compliance
- » Transaction advisory
- » Strategic planning

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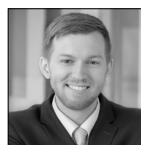
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