Macro Roundup Article

Headline: No, It's Not Like 15 Years Ago. What Matters Is 25

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Tweet: .@johnauthers notes declines in the KBW Bank index are historically associated with broader market declines and argues that "the combination of deeply troubled banks and strong performance for the rest of the stock market cannot persist much longer."

Summary: The following chart, from the terminal, shows banks' performance on one axis, and the S&P 500 on the other, both on a log scale. When banks fall badly relative to everyone else, the broader market tends to decline, as I've tried to mark with the colored rectangles. That's because banks matter to the economy. When they're in trouble, it's much harder for anyone else to make a profit. So how to justify the continued strength of the market while bank investors are so obviously worried? Maybe there's hope for a bailout in some form that will hurt banks' shareholders but rescue everyone else. That's not outlandish. Or possibly, everyone else thinks that the investors are unnecessarily panicking — in which case we should expect a banking rebound pretty quickly.

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