

SPDR Spotlight

A Rotation Trade - KBE & KRE

The Lead

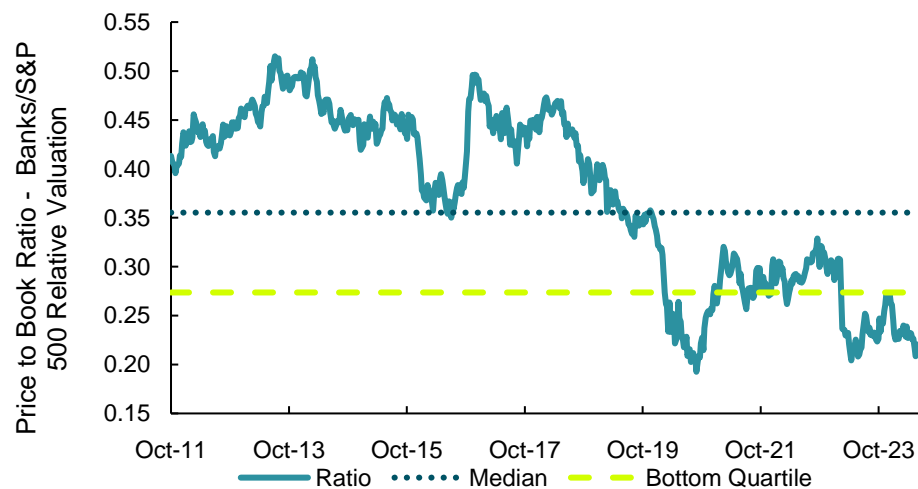
- Recently, US banks passed the Federal Reserve’s stress tests, demonstrating their resilience in hypothetical economic turbulence¹
- Banks have delivered stronger-than-expected Q2 earnings so far, with 74% of reported companies beating expectations², buoyed by improvements in net interest income of regional lenders, deposit growth, loan-repricing and better balance-sheet management³
- Banks’ price-to-book (P/B) relative valuations to the broad market are close to their lowest level since 2011 - the bottom 4th percentile (see chart below), indicating a potential attractive entry point

The Takeaway

Cooling inflation data over the past three months opened the doors for the Fed to start rate cuts in September, potentially boosting loan demand and easing valuation pressures on banks’ assets. Despite recent softer economic data, economic growth and labor markets remain solid – a constructive credit environment for loan growth. The potential Trump presidency and the Fed’s support for major modifications of proposed capital requirements under the Basel III endgame may lead to easing financial regulation. Together with stability of the US banking system, and the increasing probability of a soft-landing for the US economy, they could create strong tailwinds for bank stocks. To pursue the potential upside in the banking industry, investors may consider the [SPDR S&P Bank ETF \(KBE\)](#) and [SPDR® S&P® Regional Banking ETF \(KRE\)](#).

Chart of the Week

Relative valuations to the broad market close to their lowest level since 2011



Source: Bloomberg Finance L.P., period: 10/28/2011 - 6/30/2024. Banks = S&P Bank Select Industry TR Index

Standard Performance

Ticker	Name	YTD (%)	Annualized				Since Inception (%)	Inception Date	Gross Expense Ratio (%)
			1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)			
KBE (NAV)	SPDR® S&P Bank ETF	2.18	32.98	-0.44	4.25	5.76	1.99	11/8/2005	0.35
KBE (MKT)	SPDR® S&P Bank ETF	2.16	33.00	-0.44	4.26	5.76	1.99	-	-
KRE (NAV)	SPDR® S&P® Regional Banking ETF	-4.82	24.30	-6.51	1.19	4.42	2.58	6/19/2006	0.35
KRE (MKT)	SPDR® S&P® Regional Banking ETF	-4.84	24.36	-6.50	1.20	4.43	2.58	-	-

Source: ssga.com, as of 6/30/2024.

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Footnotes

¹ 2024 Federal Reserve Stress Test Results, June 2024

² FactSet, as of 7/19/2024. Banking companies represented by S&P Bank Select Industry index.

³ Bloomberg Finance L.P., as of 7/19/2024

⁴ Bloomberg Finance L.P., as of 7/19/2024. Based on PredictIt Index "Who will win the 2024 US Presidential Election".

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Expiration Date: 10/31/2024

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