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Commentary: February 2018

February certainly proved that volatility wasn't quite as dead as the market previously believed. It began on February 2, Janet Yellen's last day as Chair of the Federal Reserve Board (FRB), with the release of the January jobs report by the Bureau of Labor Statistics and a 6 p.m. Friday night disclosure by Wells Fargo & Co. (WFC) that it had entered into a consent order with the FRB related to legacy sales practice issues. The consent order requires WFC to keep its asset level consistent with year-end 2017 levels until remedied and also caused the bank to remove four board members at the company's annual shareholder meeting in April .

On the following Monday (Jay Powell's first day as Chair of the FRB, notably), volatility roared back, as evidenced by the CBOE Volatility Index (VIX) having its biggest daily percentage, price, and volume move ever, resulting in declines of the S&P 500 Index (-4.10%), KBW Bank Index (-4.91%), and Nasdaq Bank Index (-3.97%). For the week, the market cap of global equities declined $6 trillion. This abrupt move caused Credit Suisse's VelocityShares Daily Inverse VIX Short-Term ETN (XIV), essentially a vehicle to make short bets on volatility, to implode, erasing $3 billion of market value after returning 1200% since its 2010 inception. While this couldn't be classified as a financial weapon of mass destruction, we never have understood the raisons d'être for financially engineered constructs such as this and find the potential for misuse concerning, amplifying risks to the overall market. Even Credit Suisse made the risks clear in its prospectus: "The long term expected value of your ETNs is zero. If you hold your ETNs as a long term investment, it is likely that you will lose all or a substantial portion of your investment."

So what caused the problem and why does it matter? Unfortunately, the example above is only a small part of a greater issue. We believe the selloff in early February was structural in nature, caused by sudden inflation fears impacting Treasury yields, magnifying the effect on leveraged carry strategies, one of the most popular being short volatility (as the VIX traded at all-time lows). The amount of liquidity in the financial system as a result of worldwide quantitative easing has engendered many of these strategies and as global liquidity changes, small alterations to the inputs of these vehicles' models can and will result in outsized, often unintended outcomes.

We are currently seeing demonstrable tailwinds in the financial services sector. Nowhere are the tailwinds more prevalent, in our opinion, than in the small- and mid-cap banking sector. A strengthening economy is pushing the credit cycle out, regulation is moving away from a one-size-fits-all mentality, interest rates are behaving in a manageable fashion, consolidation is ongoing, and the reduction in corporate tax rates is adding meaningful profitability to the group. With all of this going for the sector, Piper Jaffrey noted during the month that banks between $2 billion and $50 billion in assets and 3+ analysts' estimates were trading at 13x out-year estimates vs. 16x out-year estimates one year prior, permitting us to add one extremely important, final tailwind to the list above: valuation.

As always, we welcome your feedback, comments, and questions.

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An investment cannot be made directly in an index. The KBW Bank Index is an unmanaged index comprised of 24 geographically diverse stocks representing national money center banks and leading regional institutions. The index includes dividends reinvested. The NASDAQ Bank Index includes securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark (ICB) as Banks. The index includes dividends reinvested.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For complete information about the Fund, including a free prospectus, please contact RMB Investors Trust at 855-280-6423, or visit the website at www.rmbfunds.com. The prospectus contains important information about the funds, including investment objectives, risks, management fees, sales charges, and other expenses, which you should consider carefully before you invest or send money.

All investing involves risk including the possible loss of principal. The RMB Mendon Financial Services Fund and the RMB Mendon Financial Long/Short Fund are sector funds. These types of funds may be susceptible to factors affecting their industries, and the funds' net asset values may fluctuate more than a fund that invests in a wider range of industries. Because these funds concentrate their investments in one sector of the economy (financial services) and invest in derivative securities (currently RMB Mendon Financial Long/Short Fund engages in short sales of equities), investors should consider the risk that the funds may experience greater volatility than funds that invest across several sectors.

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