

RMB Mendon Financial Funds

Commentary: July 2019

The month began in earnest with a closely watched nonfarm payrolls print the day after the Fourth of July holiday, keeping traders from checking out for the long weekend as it followed a particularly weak June number and was given a heightened informational weight as it related to the future path of interest rates. The payrolls number came in much stronger than expectations, which, along with the G20 meeting resulting in the U.S. and China agreeing to continue trade dialogue, made it increasingly unlikely that the first rate cut in over a decade would be 50 bps. The Fed did cut rates at the end of the month by the expected 25 bps plus announced it was ending the roll down of its balance sheet early. In between these two events, most U.S. banks reported 2Q19 earnings, and there was a burst of M&A transactions in the last two weeks of the month, with the Funds participating in several.

For the month, most banks beat or met estimates. Our management teams are working hard to drive value with the levers under their immediate control. Loan growth, expense control, higher fee income from mortgage and robust stock repurchases, as well as mostly benign credit were all positives against softer net interest margins (NIMs). Even though margins were weaker, in most cases, net interest income (NII) was higher than expected, which should serve as a reminder that spread income is a rate x volume equation, where volume (loan growth) plays a role that we believe has been underappreciated by market participants singularly focused on absolute rates or structures—as if that were all there was to know about a bank's value. As we have witnessed in the recent past, rate expectations can fluctuate wildly, causing the disconnects we currently see in today's market. Short-term timing factors can also come in play. One of the reasons for the pressure on NIMs in Q2 was variable loans dependent on market-based rates resetting well ahead of the Fed's cut, resulting in temporary mismatches between loan yields and deposit costs that will sort out over time. We're not being Pollyanna about margins and know there will be pressure, but we argue that bank balance sheets are dynamic, not static, and management teams do have discretion and tools to adjust sensitivities to changing rate environments. During earnings season, many management teams issued earnings guidance, taking all of this into account by incorporating 2–3 rate cuts, and provided investors with a more quantifiable measure of future earnings-per-share (EPS) sensitivities. Stephens, Inc. noted that of the banks in their coverage universe, banks in the Southeast and Southwest had the lowest magnitude of negative earnings revisions, supported by the underlying growth in those regions.

Mid-month, we saw a reversal in the group after the Nasdaq Bank Index (CBNK) bottomed at 67% of the S&P 500 before bouncing to 71% and finishing the month at 69% (the historical average is 91%). Potential reasons for the move were vast investor underweight positioning combined with better-than-expected numbers, banks strongly executing on buybacks, late-cycle credit worries not coming to fruition, and the abovementioned fine-tuning of EPS guidance. All of this against the continued push/pull macro backdrop of fund flows, growth vs. value, defensives vs. cyclicals, etc.

Keeping with the myopia of rate expectations, the market closely followed every economic data release for some glimpse into Fed Chair Jerome Powell's crystal rate ball. Much commentary discussed the "insurance" nature of Fed cuts, as mentioned in our last letter: "As such, we believe the ensuing cut(s) that the market expects are more of an "insurance" nature, meant to cushion against potential economic headwinds tied to the China trade war and other global macro/political uncertainties, not as a result of a material domestic economic slowdown." Chair Powell echoed this sentiment in his press conference stating, "We're thinking of it essentially as a mid-cycle adjustment to policy ... What you've seen over the course of the year as we've moved to a more accommodative policy, the economy has performed about as expected with the gradually increasing support. Increasing policy support has kept the economy on track and kept the outlook favorable." Despite financials being down after the announcement, this is an extremely favorable backdrop for bank valuations as the Fed at this juncture does not want to commit to an undefined path of rate reductions, but rather, to its current policy intent on delivering a mild inflation overshoot, possibly resulting in easing at some point in the future, even as growth returns to trend or higher.

Passively managed money via sector ETFs did return to the group during the month with net inflows of \$374 million, bringing net outflows to \$4.3 billion. Active managers also seemingly re-engaged somewhat, with Barclays' large-cap bank analyst Jason Goldberg noting, "Yesterday we hosted our regular quarterly EPS preview conference call with the entire U.S./Canada Financial Services team. Of note, looking at the past 14 quarters, yesterday had the 2nd most participants. Interpret as you

RMB Mendon Financial Funds

wish." Additionally, 16 deals, with a total value of more than \$2.4 billion, have been announced since mid-July, marking the busiest two-week period in recent memory. We think that there were many deals whose announcements were delayed by stock volatility and there remain many more to come, with the caveat that the timing will be volatility dependent.

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

The opinions and analyses expressed in this letter are based on RMB Capital Management, LLC's ("RMB Capital") research and professional experience, and are expressed as of the date of our mailing of this letter. Certain information expressed represents an assessment at a specific point in time and is not intended to be a forecast or guarantee of future performance, nor is it intended to speak to any future time periods. RMB Capital makes no warranty or representation, express or implied, nor does RMB Capital accept any liability, with respect to the information and data set forth herein, and RMB Capital specifically disclaims any duty to update any of the information and data contained in this letter. The information and data in this letter does not constitute legal, tax, accounting, investment, or other professional advice. Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. This information is confidential and may not be reproduced or redistributed to any other party without the permission of RMB Capital.

Investors should consider the investment objectives, risks, charges, and expenses carefully before investing. For complete information about the funds, 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 read 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.

An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not bear fees, taxes, or transaction costs. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and types of securities held by your account.

The KBW Bank Index [BKX; PHLX/KBW Bank Index] is an unmanaged index comprised of 24 geographically diverse stocks representing national money center banks and leading regional institutions. One may not invest directly in an index. The KBW Bank Index performance data quoted above are total return numbers.

The NASDAQ Bank Index includes securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark (ICB) Banks. The NASDAQ Bank Index performance data quoted above are total return numbers.

Foreside Fund Services, LLC, Distributor