US BANKS

Will 2022 outlooks support continued outperformance? Thoughts into 4Q21 results

Cambio Consulting LLC
Saul Martinez
917-757-0124

- **Fourth quarter 2021/full year 2021 results season kicks off.** US money center banks report between Friday, January 14 and Wednesday, January 19 (see Figure 1; Monday, January 17 is a US holiday). We think results will suggest that outlooks for accelerating top line and core pre-provision profit growth have materially improved. This research note provides a graphical illustration of key operating trends to focus on, namely net interest income (NII), pre-provision profits, loan growth, and sales and trading outlooks. We focus on JPMorgan, Bank of America, Citigroup, and Wells Fargo to illustrate banking system trends, though Morgan Stanley and Goldman Sachs are noted in the context of capital markets businesses

- **Sector rotation on steroids; will results and guidance validate material outperformance?** As shown in Figure 2, the KBW Bank Index has already outperformed the S&P 500 by 12 percentage points (pps) year-to-date (YTD), after outperforming the index by 11 pps over the past year. Higher interest rates, improved loan and revenue growth, and still ample valuation discounts to the broader market are driving the outperformance, in our view. Nonetheless, some banks no longer trade at material valuation discounts versus historical norms (though Citigroup does continue to trade at a depressed valuation). In particular, JPMorgan, Bank of America, and Wells Fargo trade at ~14-16x 2022E earnings, while JPMorgan, Bank of America, and Morgan Stanley each trade well above 2x trailing tangible book value.

- **2022 guidance in focus; NII and loan growth momentum should improve.** Each bank provides guidance in different forms. Based on past disclosures, we expect JPMorgan to give NII, expense outlooks, and possible net charge offs. For Citigroup, total revenue, NII, credit costs, and expense outlooks could be provided. The expense trajectory will be important, in our view, given cost pressures in 2021 partly related to remediating issues detailed in regulatory consent orders. At Wells Fargo, we believe the company could indicate that higher rates will benefit NII (even though the asset cap remains in place). In addition, the company's view on whether total expenses decline from the expected $53.5 bn in 2021 (excluding restructuring expenses and costs of exits) will be in focus. Bank of America appears to us to be well positioned to deliver on NII that is well above 2021. 3Q21 NII was already above the quarterly run-rate NII in 2020 (let alone 2021).

- **Industry data is encouraging.** Federal Reserve H8 data indicates that total loans grew 3.2% quarter to date through December 22, 2021 for US commercial banks. Credit card and other revolving plan loans rose 7.0% QTD at US commercial banks (though seasonality impacts this figure). Faster loan growth, a rising Fed Funds rate, and higher medium to longer end rates (which provide greater opportunities to deploy excess cash into securities) all bode well for accelerating NII. We also think banks continue to indicate that credit losses will remain low, albeit no longer declining. Uncertainty about sales and trading outlooks may also be expressed, with fixed income, currency, and commodities (FICC) revenue continuing to normalize from elevated levels.

Figure 1: 4Q21 and full year 2021 earnings release dates and conference call details

Company	Date	Conf call time (eastern US)	4Q21 EPS (consensus)	Full year 2022 estimate
JPMorgan	1/14/2022	8:30 AM	3.00	12.01
Wells Fargo	1/14/2022	10:00 AM	1.11	3.77
Citigroup	1/14/2022	11:00 AM	1.40	7.84
Goldman Sachs	1/18/2021	9:30 AM	11.74	40.58
Morgan Stanley	1/19/2021	8:30 AM	1.91	7.57
Bank of America	1/19/2021	11:00 AM	0.77	3.18

Note: All earnings reports will be released before market. Source: Company reports; Refinitiv.

Figure 2: Sector rotation on steroids: banks have materially outperformed thus far in 2022

	Share performance, %		PE		Price	
	1 year	YTD	2022	2023	BV	TBV
KBW Bank Index	35.7%	10.1%				
S&P 500	25.3%	-1.9%				
Wells Fargo	63.9%	14.2%	14.5x	12.0x	1.29x	1.54x
Bank of America	49.7%	10.5%	15.5x	13.4x	1.62x	2.27x
Goldman Sachs	36.3%	3.9%	9.8x	9.3x	1.43x	1.51x
Morgan Stanley	38.8%	6.0%	13.7x	12.3x	1.91x	2.57x
JPMorgan	23.0%	5.6%	13.9x	12.6x	1.94x	2.39x
Citigroup	-0.4%	8.9%	8.4x	7.7x	0.71x	0.83x
Average	**35.2%**	**8.2%**	**12.6x**	**11.2x**	**1.48x**	**1.85x**

Note: Share price data through January 7, 2022. PE multiples are calculated using consensus EPS estimates. Source: Company reports; Refinitiv.

Figure 3: NII and pre-provision profits have inflected; Bank of America has already reached a quarterly NII equal to the average quarterly run rate of 2020, leaving it well positioned for healthy growth in 2022

						Quarterly average		9 mos cumulative	
$ mn, unless otherwise noted	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**FY 2020**	**9 mos 2021**	**2020**	**2021**
JPMorgan									
Net interest income	13,013	13,258	12,889	12,741	**13,080**	**13,641**	**12,903**	**41,305**	**38,710**
% growth, Y-Y			*-10.7%*	*-8.0%*	***0.5%***		***-5.4%***		***-6.3%***
Pre-provision profits	12,380	13,287	13,541	12,812	**12,584**	**13,324**	**12,979**	**40,008**	**38,937**
% growth, Y-Y			*17.8%*	*-20.6%*	***1.6%***		***-2.6%***		***-2.7%***
Bank of America									
Net interest income	10,129	10,253	10,197	10,233	**11,094**	**10,840**	**10,508**	**33,107**	**31,524**
% growth, Y-Y			*-15.9%*	*-5.7%*	***9.5%***		***-3.1%***		***-4.8%***
Pre-provision profits	5,935	6,172	7,306	6,421	**8,326**	**7,579**	**7,351**	**24,143**	**22,053**
% growth, Y-Y			*-21.4%*	*-28.0%*	***40.3%***		***-3.0%***		***-8.7%***
Citigroup									
Net interest income	10,493	10,483	10,166	10,199	**10,398**	**10,887**	**10,254**	**33,065**	**30,763**
% growth, Y-Y			*-11.5%*	*-8.0%*	***-0.9%***		***-5.8%***		***-7.0%***
Pre-provision profits	6,338	5,395	8,254	6,282	**5,670**	**7,782**	**6,735**	**25,732**	**20,206**
% growth, Y-Y			*-18.2%*	*-32.5%*	***-10.5%***		***-13.4%***		***-21.5%***
Wells Fargo									
Net interest income	9,379	9,355	8,808	8,800	**8,909**	**9,989**	**8,839**	**30,601**	**26,517**
% growth, Y-Y			*-22.3%*	*-11.0%*	***-5.0%***		***-11.5%***		***-13.3%***
Pre-provision profits	4,087	3,687	4,543	6,929	**5,531**	**4,159**	**5,668**	**12,947**	**17,003**
% growth, Y-Y			*-11.4%*	*85.5%*	***35.3%***		***36.3%***		***31.3%***

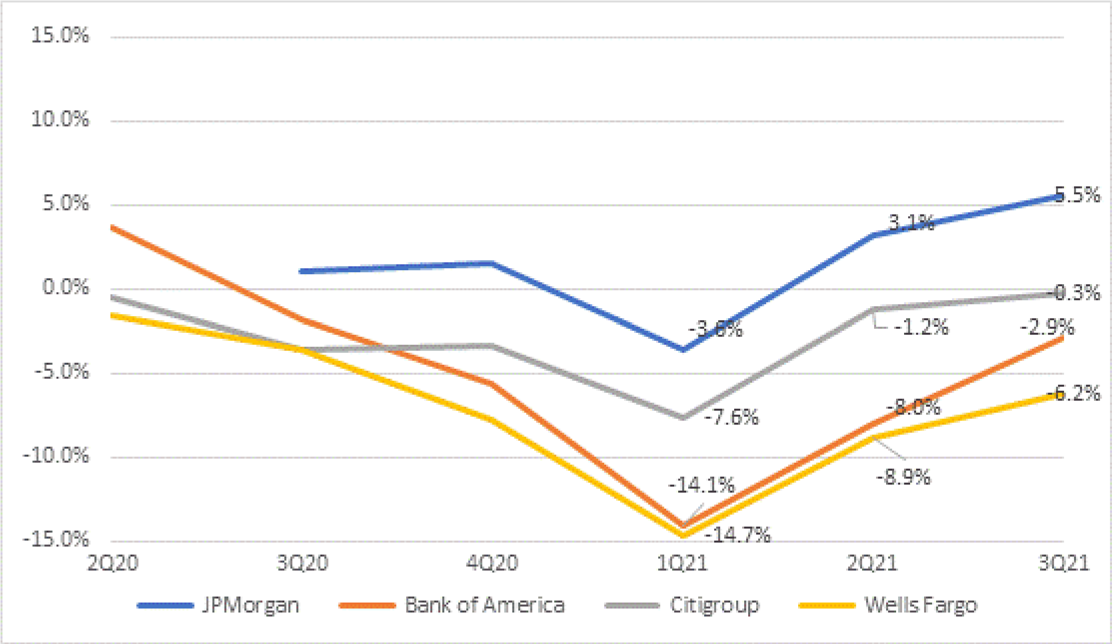
Source: Company reports

Figure 4: Deposits have grown by a staggering $1.8 tn since year end 2019 for JPMorgan, Bank of America, Citigroup, and Wells Fargo collectively while loans have declined . . .

	Deposits ($ mn)		Change		Loans ($ mn)		Change	
	4Q19	**3Q21**	**$ mn**	**%**	**4Q19**	**3Q21**	**$ mn**	**%**
JPMorgan	1,562,431	2,402,353	839,922	53.8%	997,620	1,044,615	46,995	4.7%
Bank of America	1,434,803	1,964,804	530,001	36.9%	983,426	927,736	(55,690)	-5.7%
Citigroup	1,070,590	1,347,528	276,938	25.9%	699,483	664,764	(34,719)	-5.0%
Wells Fargo	1,322,626	1,470,379	147,753	11.2%	962,265	862,827	(99,438)	-10.3%
Total	**5,390,450**	**7,185,064**	**1,794,614**	**33.3%**	**3,642,794**	**3,499,942**	**-142,852**	**-3.9%**

Source: Company reports.

Figure 5: . . . but Y-o-Y loan evolution has improved . . .



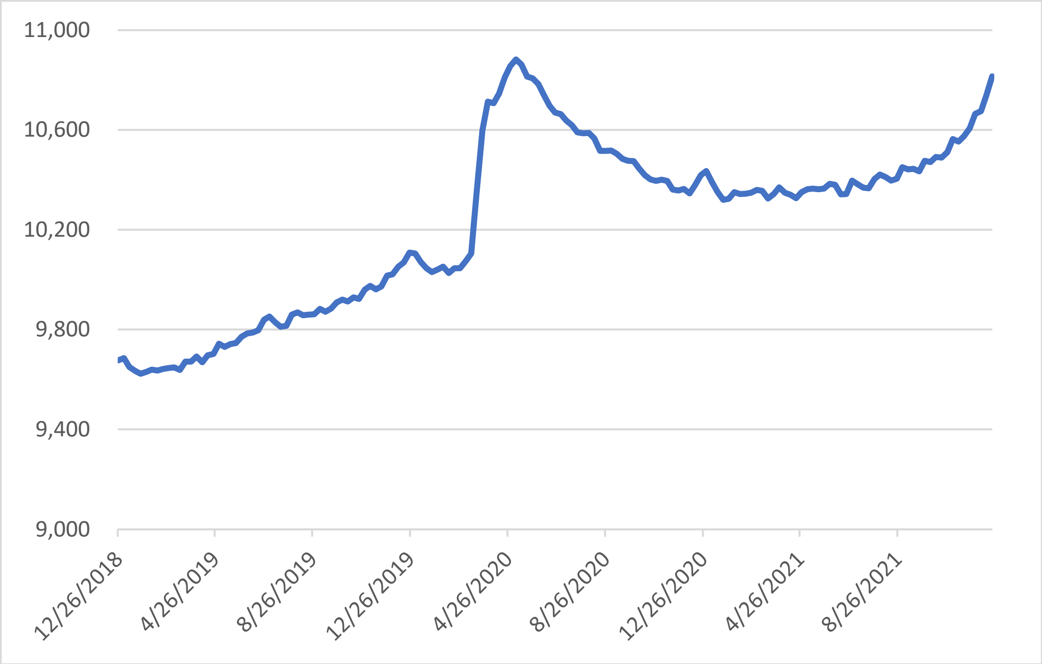
Note: We do not show JPMorgan's Y-Y loan growth in 1Q20 and 2Q20 in the exhibit above as restatements of historical loan balances in financial reporting could make Y-Y comparisons inaccurate in these time periods. Source: Company reports.

Figure 6: . . . and quarter-over-quarter (Q-Q) loan balance evolution has turned mostly positive in the past two quarters

% change, Q-Q	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
JPMorgan	-3.8%	-1.9%	2.3%	-0.2%	2.9%	0.4%
Bank of America	-4.9%	-4.4%	-2.9%	-2.7%	1.8%	1.0%
Citigroup	-5.0%	-2.7%	1.3%	-1.5%	1.6%	-1.8%
Wells Fargo	-7.4%	-1.6%	-3.5%	-2.9%	-1.1%	1.2%

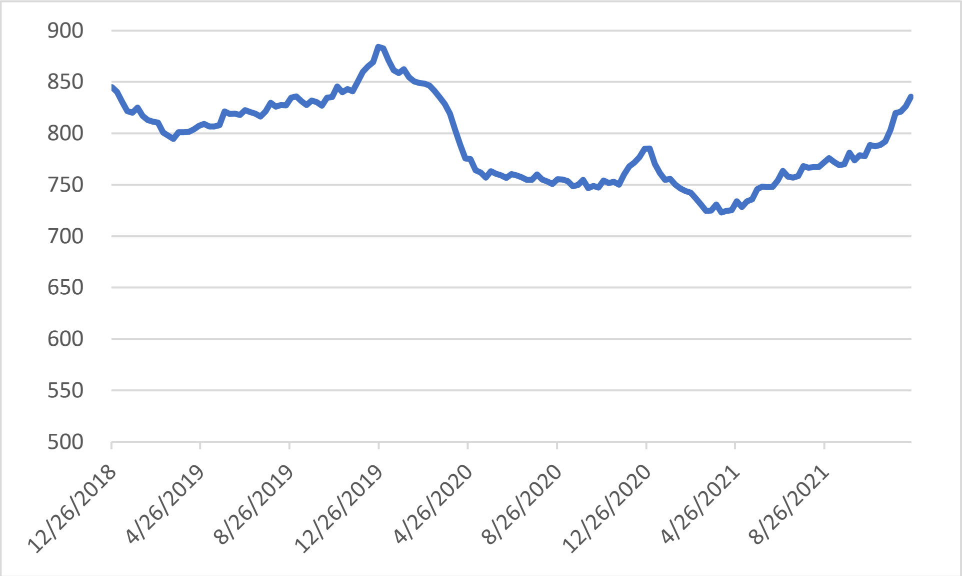
Source: Company reports

Figure 7: Equally important, total loans rebounded sharply in 4Q21 for US commercial banks (US$ billions)



Source: Federal Reserve weekly H8 data through September 22, 2021

Figure 8: Credit card and other revolving loan plan balances have rebounded off 1Q21 lows and are approaching pre-pandemic levels (US$ billions)



Source: Federal Reserve weekly H8 data through September 22, 2021

Figure 9: Sales and trading revenue has remained elevated; what will more "normalized" levels look like

Sales and trading	4Q19	4Q20	1Q21	2Q21	3Q21	9 months 2020	9 months 2021	Select company comments
$ mn, unless otherwise notes								
JPMorgan	4,954	5,939	9,050	6,787	6,269	23,544	22,106	Should be down around 10% versus 4Q20. Implies sales and trading revenue of about $5.3-$5.4 bn, or about 7-9% higher than in 4Q19
% Y-Y growth		*19.9%*	*25.2%*	*-30.2%*	*-5.0%*		*-6.1%*	
Bank of America	2,773	3,007	5,078	3,561	3,614	12,010	12,253	Revenue could be closer to 4Q20 levels (~$3 bn) and above the 4Q19 figure ($2.8 bn)
% Y-Y growth		*8.4%*	*9.6%*	*-14.2%*	*12.1%*		*2.0%*	
Citigroup	3,414	3,897	6,026	4,269	4,408	16,983	14,703	Flat to modestly down versus the $3.4 bn reported in 4Q19, implying at least a 12% reduction from the $3.9 bn reported in 4Q20
% Y-Y growth		*14.1%*	*1.2%*	*-32.9%*	*-5.5%*		*-13.4%*	
Goldman Sachs		4,265	7,581	4,900	5,611	16,892	18,092	
% Y-Y growth			*46.8%*	*-31.7%*	*23.2%*		*7.1%*	
Morgan Stanley		4,324	5,841	4,509	4,516	14,444	14,866	
% Y-Y growth			*29.5%*	*-20.4%*	*5.9%*		*2.9%*	
Wells Fargo		1,016	1,432	1,078	1,176	4,528	3,686	
% Y-Y growth			*19.1%*	*-44.6%*	*-14.7%*		*-18.6%*	

Note: Includes Fixed Income, Currencies, and Commodities (FICC) and Equities; Source: Company reports

Figure 10: Investment banking fees should remain very robust

Investment banking fees	4Q19	4Q20	1Q21	2Q21	3Q21	9 months 2020	9 months 2021	Select company comments
$ mn, unless otherwise notes								
JPMorgan	1,904	2,558	2,988	3,572	3,297	6,919	9,857	Should grow in the mid 30% range Y-Y in 4Q21, implying about $3.4-$3.5 bn in 4Q21
% Y-Y growth		*34.3%*	*56.7%*	*25.5%*	*52.3%*		*42.5%*	
Bank of America	1,474	1,864	2,246	2,122	2,168	5,316	6,536	Should remain in the $2 bn per quarter range
% Y-Y growth		*26.5%*	*61.8%*	*-1.7%*	*22.6%*		*22.9%*	
Citigroup	1,351	1,287	1,973	1,772	1,923	4,500	5,668	
% Y-Y growth		*-4.7%*	*45.7%*	*0.7%*	*38.6%*		*26.0%*	
Goldman Sachs		2,732	3,566	3,450	3,548	6,409	10,564	
% Y-Y growth			*104.7%*	*26.2%*	*83.5%*		*64.8%*	
Morgan Stanley		2,302	2,613	2,376	2,849	4,902	7,838	
% Y-Y growth			*128.4%*	*15.8%*	*66.9%*		*59.9%*	

Note: Includes equity and debt capital markets and M&A. Source: Company reports