

Big US banks to contend with recession fears in Q1'22 earnings reports

Monday, April 11, 2022 9:19 AM ET

By Harry Terris and Rucha Khole

Market Intelligence

A rapid shift in the risk environment has eroded the bull case for big U.S. banks as the industry gears up to start reporting first-quarter earnings April 13.

Recession signals are raising concerns about the employment outlook and the prospect for an end to a long stretch of exceptional credit performance. Minefields in trading markets and a sharp slowdown in deal activity have amplified expectations for a retreat from robust capital markets revenue in recent periods.

Some analysts also believe that the anticipated revenue boost from higher interest rates could be short-lived if the Federal Reserve has to retreat after an overshoot. Banks typically outperform over the first four or five hikes, Wolfe Research analyst Steven Chubak said in a March 31 note. But "given the aggressive pace of Fed tightening that's anticipated, that window should close rather quickly."

Analysts at Raymond James continue to believe that the industry is fundamentally well-positioned going into first-quarter reports, however, despite the cloudier outlook. Tailwinds like sustained loan growth and increases in Libor that feed into loan yields should drive "more beats than misses" across the industry in the first quarter, Raymond James analyst Michael Rose said.

"There are certainly more risks today than there were a couple of months ago," said Christopher McGratty, head of U.S. bank research for Keefe Bruyette & Woods. "But as it stands today, we still think the setup is pretty good that there's going to be double-digit, year-over-year net interest income growth on a core basis. We think operating leverage will be here. We think credit quality will be very strong. You're juggling some positives and some negatives."

Nevertheless, longer-term earnings forecasts reflect market expectations for higher rates and continued strength in credit performance and could be more fragile, according to Rose. "We also have to be realistic that we're dealing with a different macro environment than we were three or six months ago," he said. "There's a lot more in forward numbers, in 2023 numbers, that can go wrong versus go right, we think, after this quarter."

Consensus analyst forecasts anticipate that four of the 16 publicly traded U.S. banks with more than \$100 billion of assets will post sequential increases in EPS for the 2022 first quarter and that two will post year-over-year increases.

GAAP EPS estimates for largest US public banks, Q1'22

Companies sorted by earnings release date and then total assets

Company (ticker)	Dec. 31, 2021, total assets (\$B)	Earnings release date	Q1'22 mean GAAP EPS estimate			
			Vs. actual (\$) Q4'21 EPS	Vs. actual Q1'21 EPS	Vs. actual Q1'20 EPS	
JPMorgan Chase & Co. (JPM)	3,743.57	04/13/22	2.71	▼	▼	▲
First Republic Bank (FRC)	181.09	04/13/22	1.89	▼	▲	▲
Citigroup Inc. (C)	2,291.41	04/14/22	1.63	▲	▼	▲
Wells Fargo & Co. (WFC)	1,948.07	04/14/22	0.82	▼	▼	▲
U.S. Bancorp (USB) ¹	573.28	04/14/22	0.96	▼	▼	▲
PNC Financial Services Group Inc. (PNC) ²	557.19	04/14/22	3.02	▲	▼	▲
Signature Bank (SBNY)	118.45	04/14/22	4.30	▼	▲	▲
Bank of America Corp. (BAC)	3,169.50	04/18/22	0.76	▼	▼	▲
Truist Financial Corp. (TFC)	541.24	04/19/22	0.91	▼	▼	▲
Fifth Third Bancorp (FITB)	211.12	04/19/22	0.70	▼	▼	▲
Citizens Financial Group Inc. (CFG) ³	188.41	04/19/22	0.92	▼	▼	▲
M&T Bank Corp. (MTB) ⁴	155.11	04/20/22	1.71	▼	▼	▼
SVB Financial Group (SIVB)	211.48	04/21/22	5.87	▼	▼	▲
KeyCorp (KEY)	186.35	04/21/22	0.50	▼	▼	▲
Huntington Bancshares Inc. (HBAN)	174.06	04/21/22	0.29	▲	▼	▲
Regions Financial Corp. (RF)	162.94	04/22/22	0.48	▲	▼	▲

Data compiled April 6, 2022.

Analysis limited to U.S. public banks with total assets greater than \$100 billion as of Dec. 31, 2021.

The mean GAAP EPS estimates are as of April 6, 2022, and are collected on a consensus basis from analyst research reports by S&P Global Market Intelligence. The comparisons between estimates and prior-quarter data are calculated out to two decimal places.

¹ U.S. Bancorp announced the acquisition of MUFG Union Bank NA's core regional banking franchise on Sept. 21, 2021.

² PNC Financial Services Group Inc. completed the acquisition of BBVA USA Bancshares Inc. on June 1, 2021.

³ Citizens Financial Group Inc. announced the acquisition of Investors Bancorp Inc. on July 28, 2021.

⁴ M&T Bank Corp. completed the acquisition of People's United Financial Inc. on April 2, 2022.

Source: S&P Global Market Intelligence

Revenue crosscurrents

The picture is similar for revenue forecasts, with the consensus penciling in sequential increases at four of the banks and year-over-year increases at 11. Net interest income is getting a lift from a return to loan growth that was particularly strong in the 2021 fourth quarter, although the consensus does not expect that the turn in the interest rate environment has broadly pushed up net interest margins yet.

Estimates show sequential increases in NIMs at six of the banks, no change at three and declines at seven. Core NIMs should be at or near an inflection point in the first quarter, Raymond James said.

A sharp slowdown in capital markets revenue is widely anticipated to be a major headwind. In March 31 guidance, PNC Financial Services Group Inc. slashed its projection for fee income in the first quarter because of sagging activity in the business, a pattern analysts said they expect to see at other banks.

KBW projected a 37% sequential and 36% year-over-year decline in investment banking revenue across JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc., Goldman Sachs Group Inc. and Morgan Stanley "as market volatility, wider credit spreads and lower equity prices have hampered issuance." KBW also projected an 18% year-over-year decline in trading revenue for the group, though it said the recent sell-off in the banks' shares "provides a good set up for a relief bounce."

Revenue, NIM estimates at largest US public banks, Q1'22

Companies sorted by total assets at Dec. 31, 2021

Company (ticker)	Q1'22 mean revenue estimate			Q1'22 mean NIM estimate		
	(\$B)	Vs. actual Q4'21	Vs. actual Q1'21	(%)	Vs. actual Q4'21	Vs. actual Q1'21
JPMorgan Chase & Co. (JPM)	30.62	▲	▼	1.65	▲	▼
Bank of America Corp. (BAC)	23.11	▲	▲	1.69	▲	▲
Citigroup Inc. (C)	18.25	▲	▼	2.00	NC	▲
Wells Fargo & Co. (WFC)	17.83	▼	▼	2.12	NC	▲
U.S. Bancorp (USB)*	5.59	▼	▲	2.44	▲	▼
PNC Financial Services Group Inc. (PNC)	4.74	▼	▲	2.29	▼	▲
Truist Financial Corp. (TFC)	5.52	▼	▲	2.75	▼	▼
SVB Financial Group (SIVB)	1.48	▼	▲	1.95	▲	▼
Fifth Third Bancorp (FITB)	1.95	▼	▲	2.57	▲	▼
Citizens Financial Group Inc. (CFG)	1.65	▼	▼	2.66	▼	▼
KeyCorp (KEY)	1.76	▼	▲	2.43	▼	▼
First Republic Bank (FRC)	1.40	▼	▲	2.68	▼	▲
Huntington Bancshares Inc. (HBAN)	1.63	▼	▲	2.86	NC	▼
Regions Financial Corp. (RF)	1.62	▼	▲	2.80	▼	▼
M&T Bank Corp. (MTB)	1.44	▼	▼	2.58	▼	▼
Signature Bank (SBNY)	0.61	▲	▲	1.94	▲	▼

Data compiled April 6, 2022.

NC = no change

Analysis limited to U.S. public banks with total assets greater than \$100 billion as of Dec. 31, 2021.

The mean revenue and NIM estimates are as of April 6, 2022, and are collected on a consensus basis from analyst research reports by S&P Global Market Intelligence. The comparisons between estimates and prior-quarter data are calculated out to two decimal places.

* U.S. Bancorp announced the acquisition of MUFG Union Bank NA's core regional banking franchise Sept. 21, 2021.

Source: S&P Global Market Intelligence

Credit worries

The potential for a turn in the credit cycle has rotated to the forefront of investor concerns, Rose said. "It's coming up in every conversation."

Rose noted that there is a plausible case for deterioration in a slowdown, as consumers run through financial cushions built up during the pandemic and inflation continues to take its toll.

For now, however, credit appears strong, and weekly data from the Fed implies that banks are continuing to bring allowance levels down, Rose said. According to data published April 8, the industry's allowance-to-loans ratio declined from 1.53% at Dec. 29 to 1.47% at March 30.

Consensus forecasts do expect net charge-off rates to tick up sequentially at 15 of the large banks in the first quarter, to a still benign median of 0.20%. They also anticipate sequential increases in credit expenses nearly across the board as the industry runs out of room for negative provisions.

"You may see some banks overlay a qualitative reserve because of the war" in Ukraine and other uncertainties, McGratty said, although consumers are in "great shape" and the outlook for credit performance is supported by factors like prudent underwriting.

"In general, credit quality is pretty good," McGratty said. "But the market is clearly a little uncertain about how it's going to look 12 months from now."

"Bank stocks tend to do best in the earlier part of the recovery. They're mixed in the middle part of the recovery, and they tend to underperform in the later innings of a cycle, before a recession," Rose said. "We're not there yet, but there are definitely crosscurrents."

Credit quality estimates at largest US public banks, Q1'22

Companies sorted by total assets at Dec. 31, 2021

Company (ticker)	Q1'22 mean loan loss provision estimate		Q1'22 mean NCOs/ average loans estimate	
	(\$M)	Vs. actual Q4'21	(%)	Vs. actual Q4'21
JPMorgan Chase & Co. (JPM)	754.9	▲	0.27	▲
Bank of America Corp. (BAC)	428.2	▲	0.21	▲
Citigroup Inc. (C)	1,000.3	▲	0.60	▲
Wells Fargo & Co. (WFC) ¹	14.3	▲	0.19	▲
U.S. Bancorp (USB) ²	136.9	▲	0.22	▲
PNC Financial Services Group Inc. (PNC)	4.5	▲	0.18	▲
Truist Financial Corp. (TFC)	164.0	▲	0.28	▲
SVB Financial Group (SIVB)	48.2	▲	0.20	▲
Fifth Third Bancorp (FITB)	36.8	▲	0.16	▲
Citizens Financial Group Inc. (CFG)	31.0	▲	0.16	▲
KeyCorp (KEY)	51.6	▲	0.17	▲
First Republic Bank (FRC)	26.9	▲	0.01	▲
Huntington Bancshares Inc. (HBAN)	11.9	▲	0.20	▲
Regions Financial Corp. (RF)	39.3	▼	0.24	▲
M&T Bank Corp. (MTB)	234.8	▲	0.18	▲
Signature Bank (SBNY)	23.5	▲	0.15	▼

Data compiled April 6, 2022.

NCOs = net charge-offs

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The mean provision and NCOs-to-average loans estimates are as of April 6, 2022, and are collected on a consensus basis from analyst research reports by S&P Global Market Intelligence. The comparisons between estimates and prior-quarter data are calculated out to two decimal places.

¹ Wells Fargo & Co did not explicitly report "loan loss provisions" in GAAP filings for the quarter ended Dec. 31, 2021, but did report a credit loss provision of negative \$452 million.

² U.S. Bancorp announced the acquisition of MUFG Union Bank NA's core regional banking franchise on Sept. 21, 2021. The company did not explicitly report "loan loss provisions" in GAAP filings for the quarter ended Dec. 31, 2021, but did report a credit loss provision of negative \$13 million.

Source: S&P Global Market Intelligence

Article amended at 10:26 a.m. ET on April 11, 2022, to correct how many companies are forecast to post year-over-year EPS increases.

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