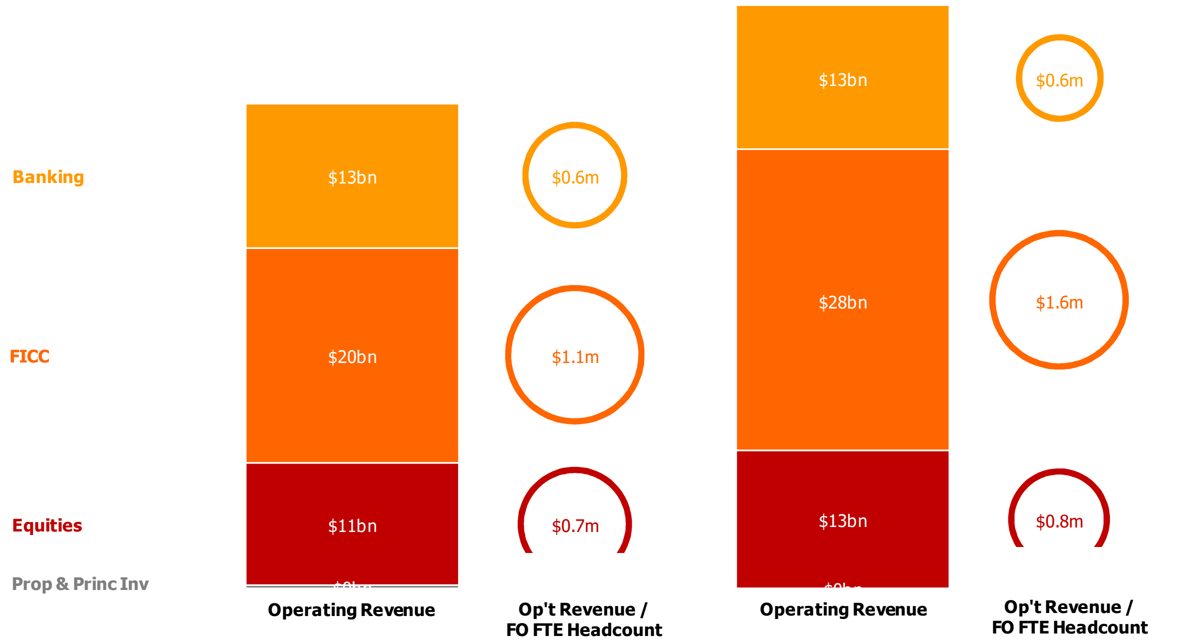
Results Review 1Q20

Capital Markets: Overview

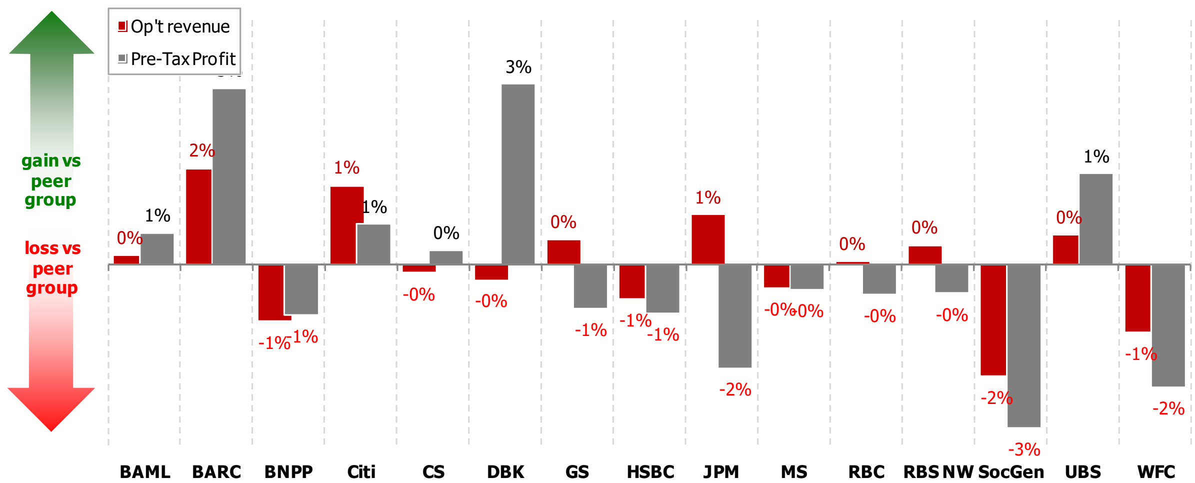
- In an extraordinary quarter, the 15 banks' capital markets revenue surged 20% y/y, to $54bn. Operating costs grew at just 4%, however, reflecting an uncertain outlook. In the meantime, the aggregate pre-tax profit from FICC more than doubled, led by EMEA banks; in Equities, US banks led the way, as European leaders sustained severe hits in structured equities.
- Front Office staff levels declined c.5% y/y, with Equities being (slightly) harder hit than FICC, and Banking essentially unchanged. Headline numbers, however, do not tell the full story, as there are important differences between banks' internal definitions of front/mid/back office roles.

  Several banks paused redundancy programs during Covid-19 crisis, but this won't last: trading trends seen in April and May suggest 2Q20 will not be as lucrative as 1Q20 - especially in M&A and ECM – and there isn't enough data yet to forecast 2H20 with confidence. Banks will therefore likely take a cautious attitude to new hiring – and bonuses.
- Private equity firms are expanding their reach, with big players lining up significant funds for new investment: a unit of GSAM is raising $5-10bn for a new fund for corporate financing; PIMCO is seeking 'at least $3bn', respectively, for new distressed funds; Apollo recently announced $1bn+ investment in just ten companies; the list goes on.

Operating Revenue (1Q19) (1Q20)



% change share of peer group operating revenue and pre-tax profit (1Q20 / 1Q19)



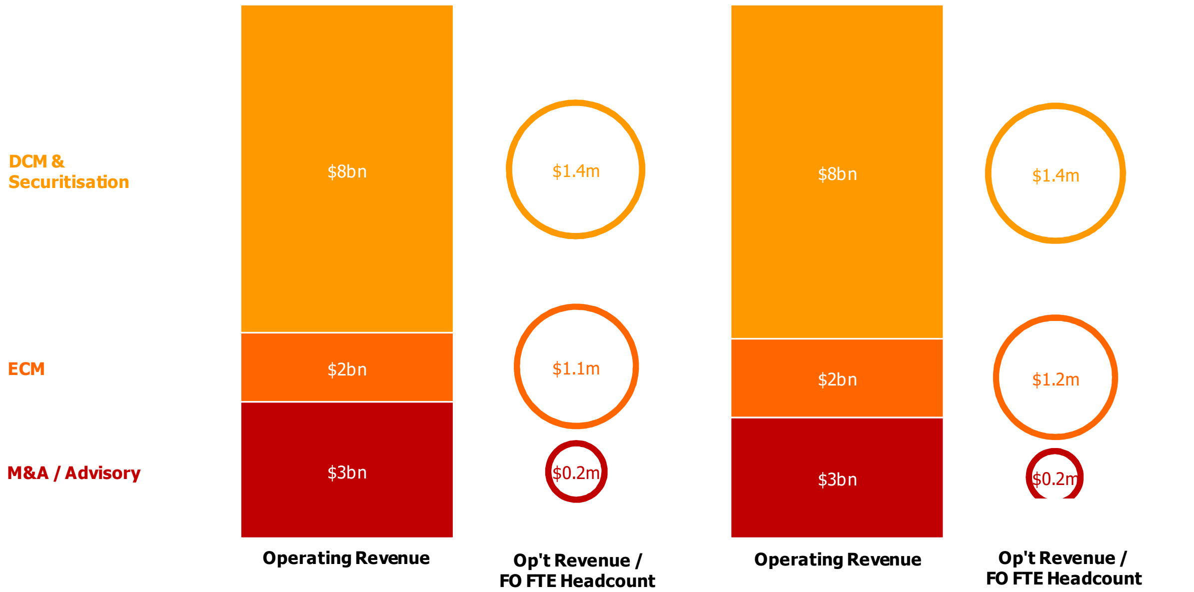
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments..

Capital Markets (cont.): Banking

- As central banks' 'anti-Covid' programmes started, DCM markets (re)opened. High grade bond volumes in developed markets broke all previous records; and high yield volumes reached a three-year high, despite a near shutdown in March. Emerging markets bond flows jumped 20% y/y.

  Syndicated loan activity, however, weakened in EMEA and APAC, and managed only moderate gains in the US. Securitisation revenues declined.
- Aggregate ECM fees advanced 13% y/y in 1Q20 on strong US banks' gains. The arrival of Covid-19 crisis and the resultant volatility in equity markets, however, severely impacted activity: March volumes dropped 20-40% versus January/February in all major regions. Converts issuance surged in April and May but persistent volatility does not bode well for other market segments.
- M&A/Advisory fees declined 11%, mostly due to depressed US and APAC ex-Japan volumes; EMEA and Japan did *much* better. The outlook is far from positive; but at least, with global recession (or worse) practically guaranteed, restructuring advisory should do well – several banks have already formed dedicated teams.

Operating Revenue (1Q19) (1Q20)



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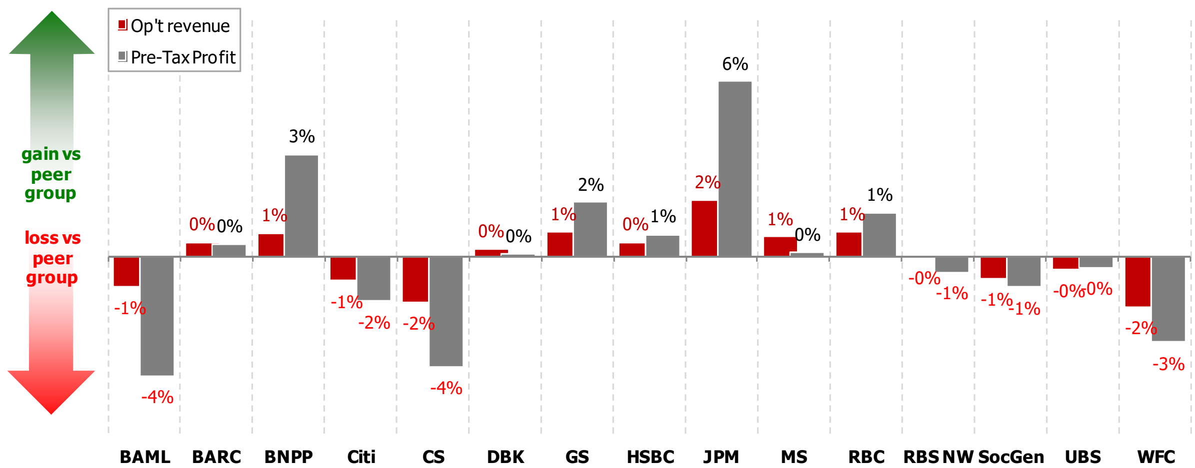

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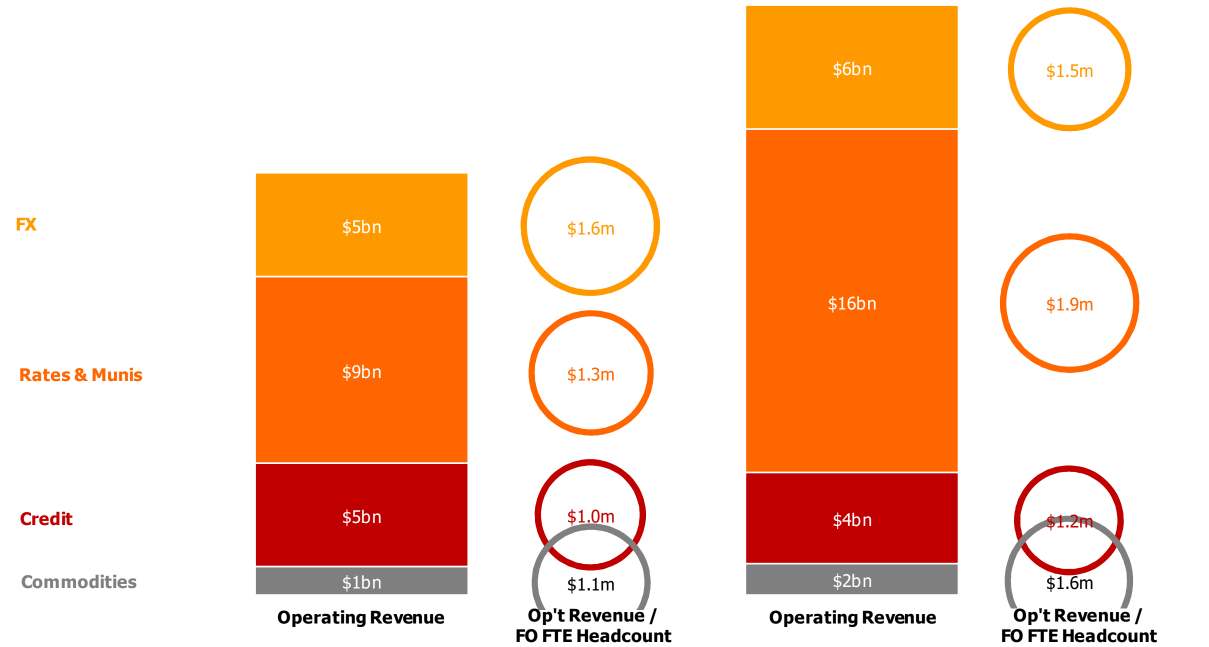
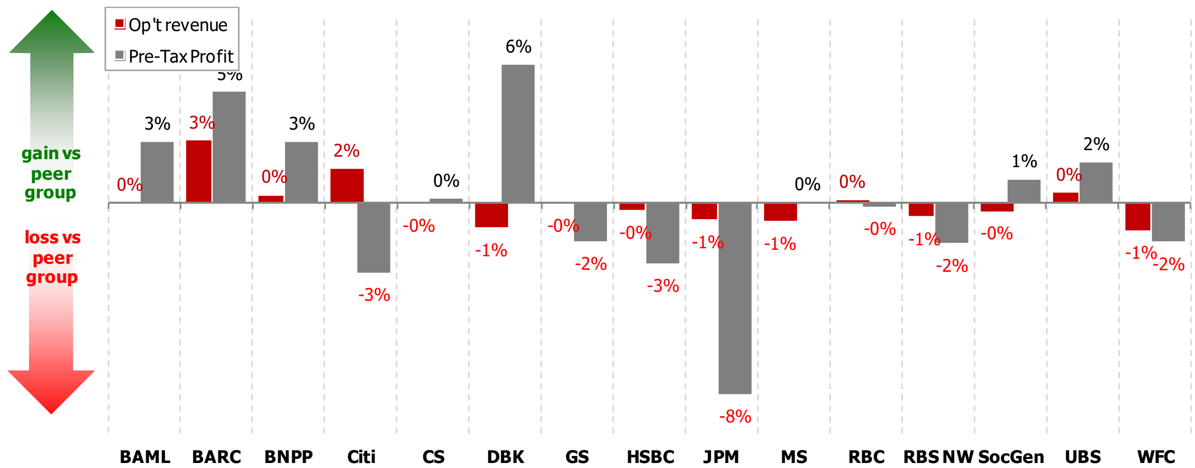
Capital Markets (cont.): FICC

- The 1Q20 surge in revenue was driven by macro – rates, in particular. Trading patterns suggest that 2Q20 will decline from the extraordinary 1Q20, but still be 15% ahead y/y.
- In a very strong quarter for FX – revenue +25% y/y, to $6bn - algos proved their value: despite elevated volatility, algo trading surged in 1Q20, well beyond the rate of growth seen in wider FX markets. Institutional clients seem happy with the service (even for smaller/fragmented orders) so it's easy to imagine that algos' gains will last – at the expense of humans, of course.
- Rates volumes surged, with several banks handling multiples of their 'usual' quarterly flows. In March, after a strong start to 2020, munis fell victim to wider market forces: the 10-year AAA MMD yield surged an unprecedented 200bps to 2.78% in just 9 days to 20-Mar, before falling to 1.33% a few days later. Muni funds suffered 30% outflows in March and issuance ground to a halt.
- With few exceptions, banks reported a drop in credit revenue as widening spreads impacted asset prices. Structured credit was particularly hard-hit, and several banks suffered marks in leveraged finance. High grade in developed markets did better, as did portfolio trades and liquid index CDS. Central banks' actions improved the market sentiment in late 1Q20, but the outlook is negative.
- Banks' commodity trading teams benefitted from exceptionally volatile markets. We expect strong 2Q20: oil markets volatility surged in mid-April due to Russia/Saudi Arabia dispute; and in precious metals, volatility is declining but remains at historically high levels.

Operating Revenue (1Q19) (1Q20)



% change share of peer group operating revenue and pre-tax profit: (1Q20 / 1Q19)



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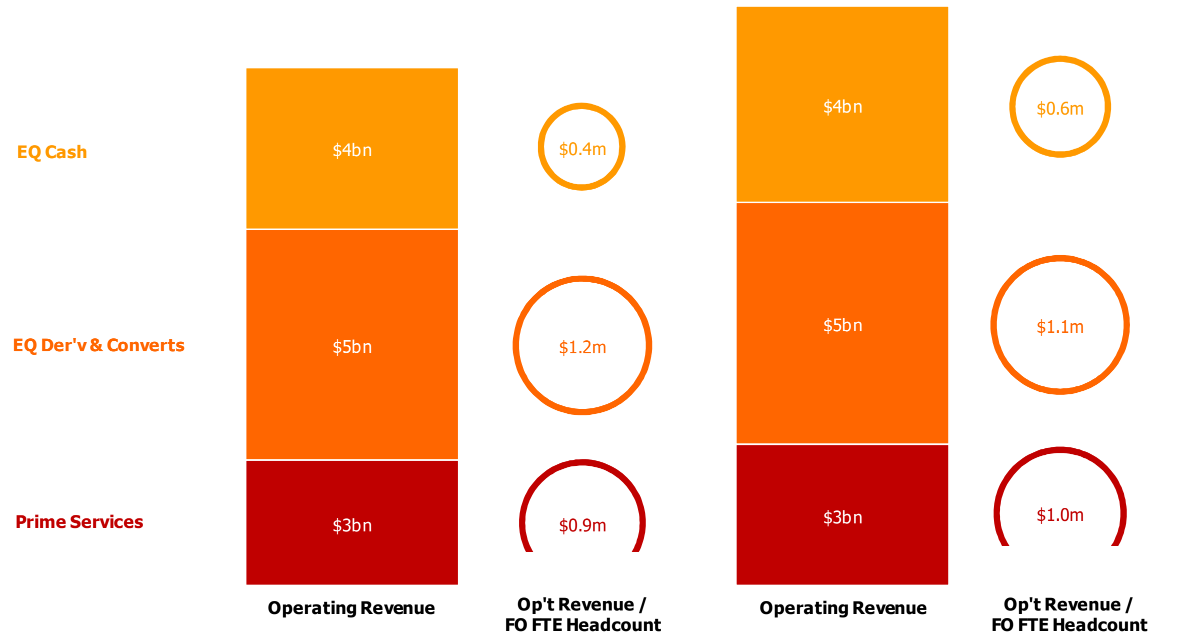
Capital Markets (cont.): Equities

- In cash, strong client volumes seen in 1Q20 continued in April and May.
- In equity derivatives, the structured products leaders – French multinationals – suffered significant losses on their retail structured products: autocallables were impacted by widespread cancellation of dividends. By contrast, US banks benefitted from a surge in demand for flow products, especially in the US – and enjoyed a 40% y/y surge in revenue.
- Hedge fund balances fell to just below $3tn in 1Q20, 10% down q/q; however, the overwhelming majority was due to performance losses, rather than outflows. In this context, 'our' banks' prime services revenue held up reasonably well, supported by healthy client financing revenues.

  Unsurprisingly, quant funds were the first to slash exposure to equities; but more interestingly – and rather unusually - numerous hedge funds specialising in relatively illiquid structured credit and mortgage backed securities did not report their net asset values for 1Q20 in the usual timeframe, which suggests difficulties with portfolio valuation.

Operating Revenue (1Q19) (1Q20)



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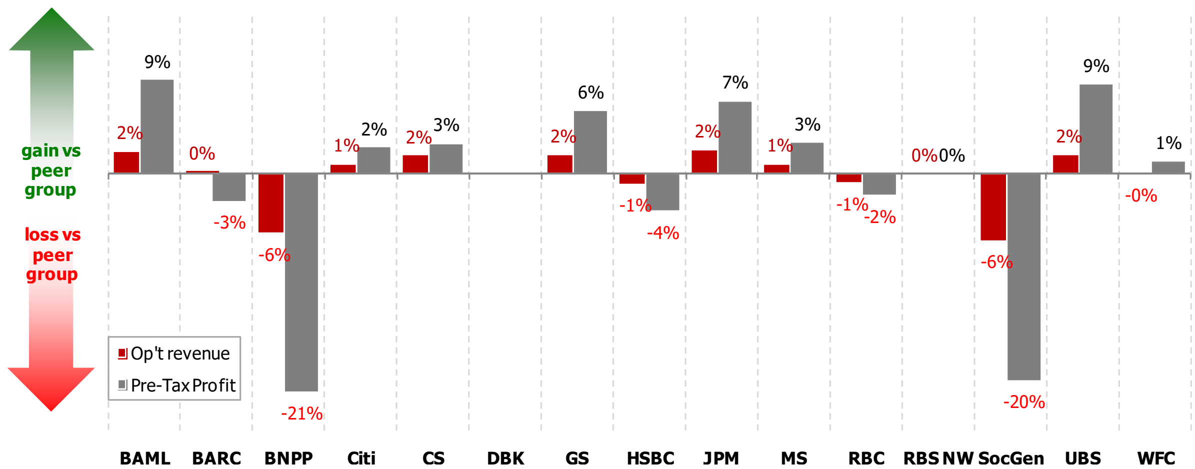

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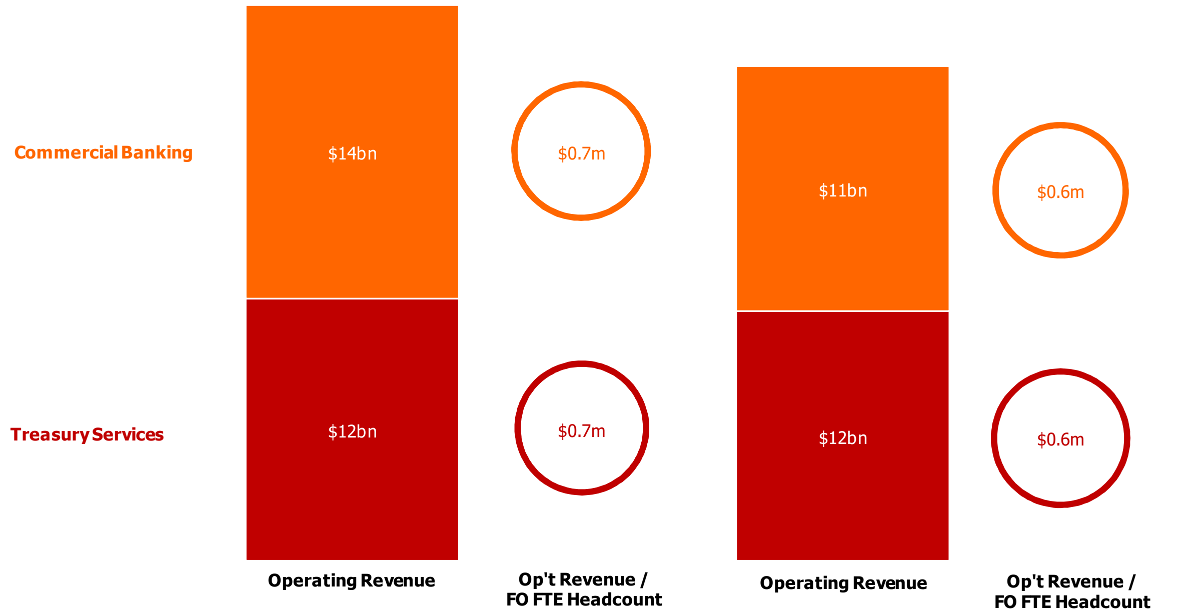
Commercial Banking & Treasury Services

- In corporate/commercial banking, a rapid fall in LIBOR in March hit loan yields. Most banks reported a surge in loans in the same month – partly due to clients' drawdowns - and credit costs rose, with significant reserve build-up being especially evident in commercial loans. Also, 1Q20 results highlighted a huge divergence in the level of provisioning taken by different banks: this is reminiscent of the initial stages of 2008 Crisis.

  In the US, rumours emerged that major US banks are setting up subsidiaries to manage assets seized from bankrupt energy operators. Banks have not confirmed such plans, but the rumour makes sense: the alternative is fire-sale of assets into a weak (or falling) market.
- The Covid-19 crisis exposed a key risk for trade finance: market participants reported a severe in private credit insurance (PCI), and that could herald problems: WTO estimates that 80-90% of world trade is reliant on trade finance, and EMEA banks are particularly heavy users of PCI.
- Contour, the blockchain trade finance platform, has completed the trials in Hong Kong and is ready to launch in 2H20. The platform is backed by eight banks, including HSBC, Standard Chartered, Citi, CTBC, and BNP Paribas. This follows CIMB and iTrust's launch of blockchain trade financing platform in Singapore, in Oct-19 (Also, according to People's Bank of China, 170 banks have joined the blockchain platform spearheaded by China's State Administration of Foreign Exchange).

Operating Revenue (1Q19) (1Q20)



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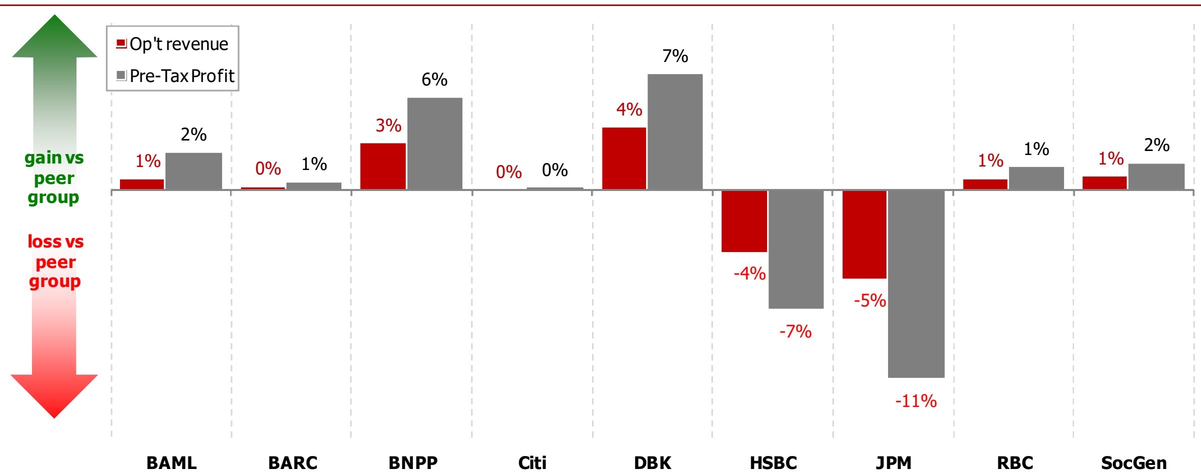

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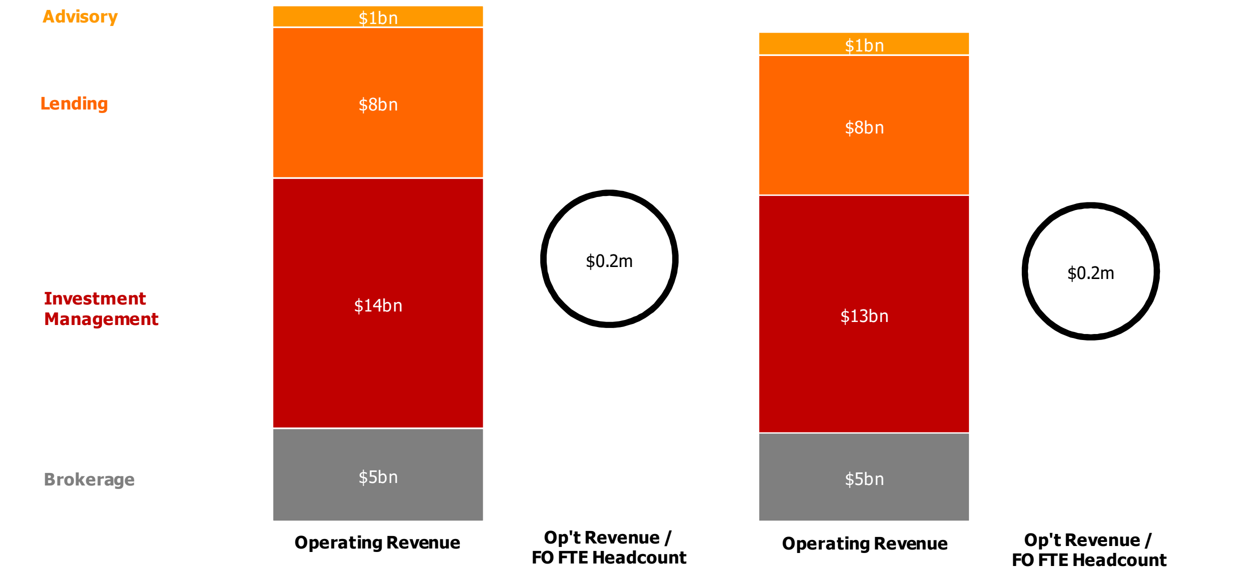
Wealth Management

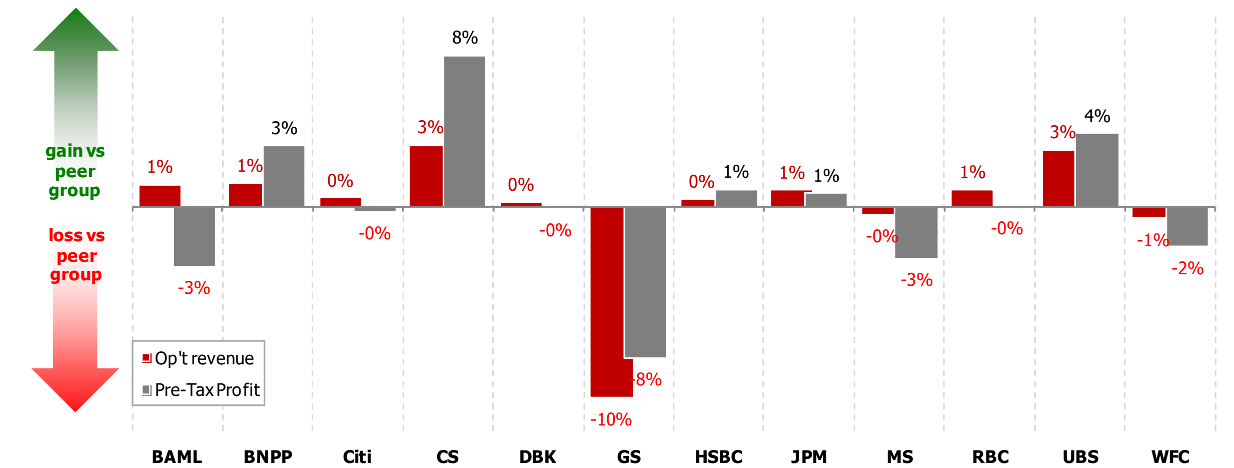
- Wealth management revenue declined 5% y/y but careful cost control lifted profits by 8%. Structured notes were in high demand.
- Banks have not suffered significant losses on their loan portfolios, but they may change. After years of boosting lending – both Lombard and 'hard-to-value'/tailored - to their wealthy clients, private banks are now asking for additional collateral. This is a prudent course of action: setting aside the upheaval in the markets, it's important to note that Lombards have floor RWA of just 12% (reflecting the usually liquid collateral, deposited with the bank), a fraction of other retail loans. Tailored loans, however, are often backed by illiquid – or, at the very least, unusual – collateral.

  So far, there is little indication of losses/writedowns in these books; but if the present state of markets persists – a real possibility – it is hard to see how the industry could escape losses. Even without losses/writedowns, the outlook for lending revenue – 30% of total revenue for the banks in this report – is not good. The remainder of 2020 looks … challenging.
- For robo-platforms, this is the first major downturn. It is too early to predict how these young firms/teams will fare, but it'll be interesting to see who emerges stronger - or at least bigger. Whatever the outcome, there is little doubt that recent months have demonstrated that much of the service can be delivered remotely, via digital channels. With revenue and margins under pressure, we expect banks will promote digital delivery to wider range of clients; outsource (and/or centralise) investment functions and back-end functions; and boost 'client acquisition' teams.

Operating Revenue (1Q19) (1Q20)



% change share of peer group operating revenue and pre-tax profit (1Q20 / 1Q19)



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Revenue dynamics

1Q20/1Q19 (Operating revenue, % change, US$, Global Level 1)

	BAML	BARC	BNPP	Citi	CS	DBK	GS	HSBC	JPM	MS	RBC	RBS NW	SocGen	UBS	WFC
Capital Markets	↗	⇧	↘	⇧	↗	↗	↗	↗	↗	↗	↗	⇧	⇩	⇧	↘
Banking	↘	↗	⇧	↘	⇩	↗	↗	⇧	⇧	↗	⇧	↗	⇩	↘	⇩
DCM Bonds	⇧	↘	↘	↘	↘	⇧	↗	↗	↗	↗	⇧	↘	⇩	⇩	⇧
DCM Loans	↘	↗	⇧	⇩		⇩	↘	↘	↘	⇩	⇩	⇩	⇩	⇩	⇩
Securitisation	⇩	↗	↗	↘	↘	↗	↗	↗	⇧	⇧	↗	↘	↘		⇩
ECM	⇧	↘	⇩	↗	↗	⇧	⇧	↗	⇧	↗	⇧		⇩	⇧	⇧
M&A / Advis	↘	↗	⇧	↘	↗	⇩	↘	↘	↘	↘	↗		↘	↘	⇩
Markets	↗	⇧	⇩	⇧	↗	↗	↗	↘	↗	↗	↗	⇧	⇩	⇧	↘
FICC	↘	⇧	↗	↗	↘	⇩	↘	↘	↘	↘	↘	⇩	↘	↗	⇩
FX	↗	⇧	↗	↗		↗	⇧	⇧	⇩	↗	↘	⇧	↗	⇧	↘
Rates & Munis	↗	↗	↘	↘	⇩	⇩	⇩	⇩	⇧	↗	⇩	⇩	⇩	⇧	⇩
Credit	⇩	⇧	↘	⇩	↘	↘	↗	⇩	↘	⇩	⇧		↘		⇩
Commodities	↗		↗	⇧			⇧	↘	⇧	↘	⇩		↘	↗	⇧
Equities	⇧	⇧	⇩	⇧	⇧	↗	⇧	↗	⇧	⇧	↗		⇩	⇧	⇧
EQ Cash	↗	↘	↘	↘	⇧		↘	⇩	↘	↘	⇩		↘	⇧	↘
EQ Der'v & Conv't	⇧	⇧	⇩	⇧	⇧	↗	⇧	↗	⇧	⇧	↗		⇩	⇧	↗
Prime Services	↗	↘	↘	↗	↗		↗	⇩	⇧	↘	↘		↘	↗	↘
Prop & PI			⇧		⇧				⇧	⇩					
Comm Bank / Treas Serv	⇩	↘	↘	⇩		⇧		⇩	⇩		↘		↘		
Comm Bank	⇧	↗	⇧	↗				⇧	⇩		⇧		⇧		
Treas Serv	↘	↗	⇧	↗		↗		⇩	⇧		↗		↗		
Wealth Management	↗		⇧	↗	⇧	↗	⇩	⇧	↗	↗	↗			⇧	↗
Advisory	↘		⇧	↗	⇧	↗	⇧	⇧	⇩	↘	⇧			⇧	↗
Lending	↗		⇧	⇧	⇧	⇧	⇩	⇧	⇧	↗	⇧			⇧	↗
Investment Management	↗		↗	↗	⇧	↗	⇩	↗	↗	↗	↗			↗	↘
Brokerage	↗		⇧	↗	⇧	↗	⇩	⇧	⇧	⇩	↗			⇧	↗

Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

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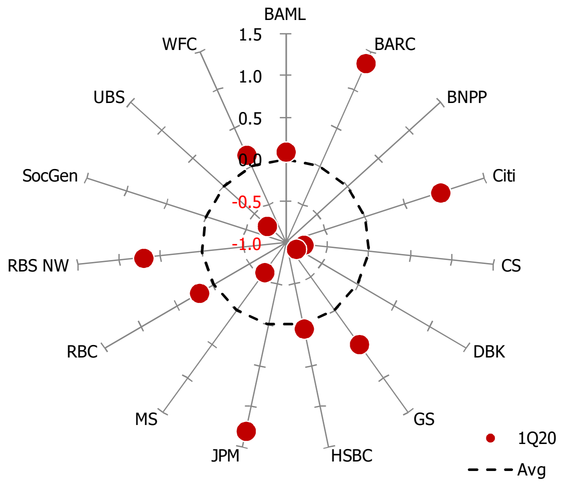
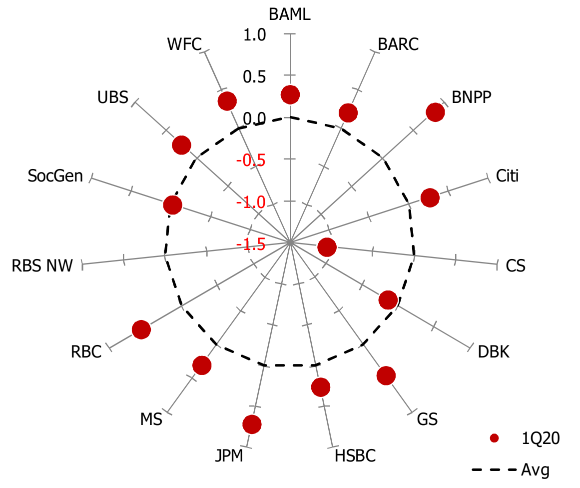
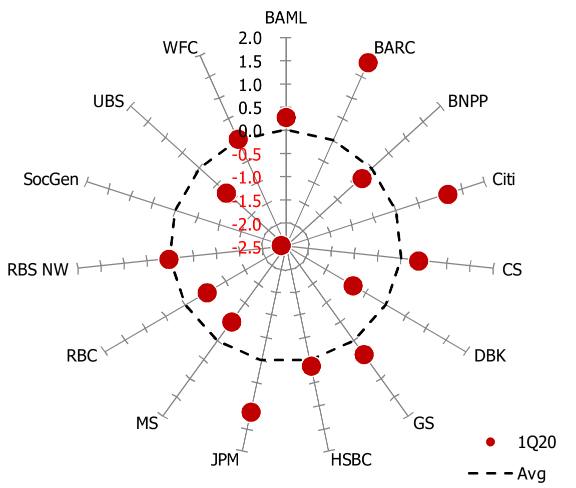
Operating cost / income (US$, Global Level 1)

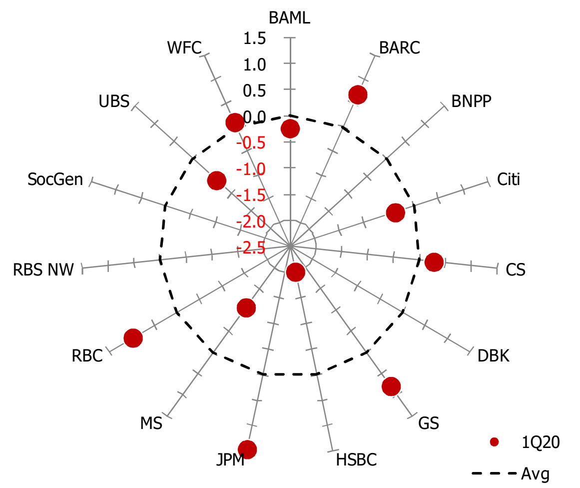
Capital Markets	Banking



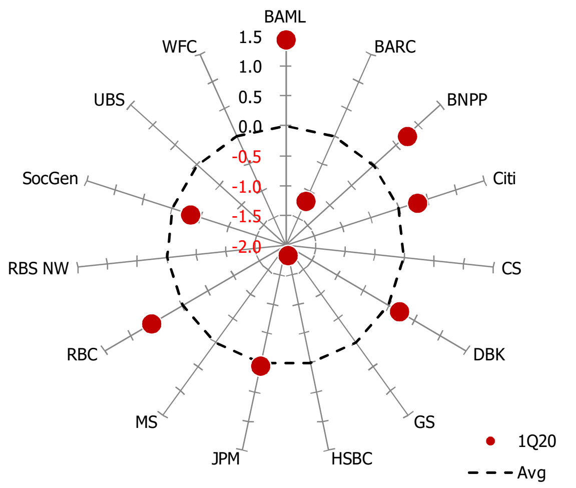


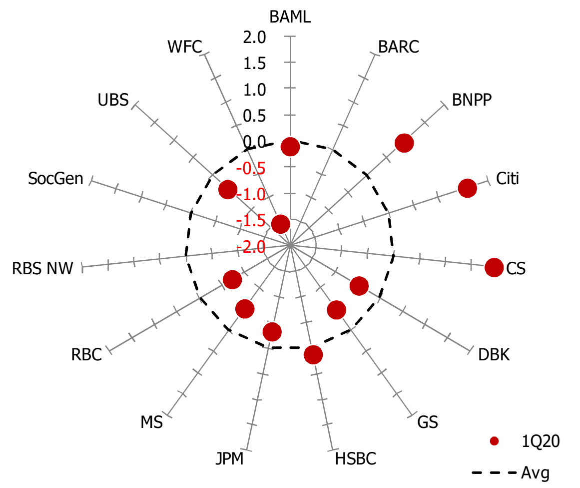
FICC	Equities





Commercial Banking / Treasury Services	Wealth Management

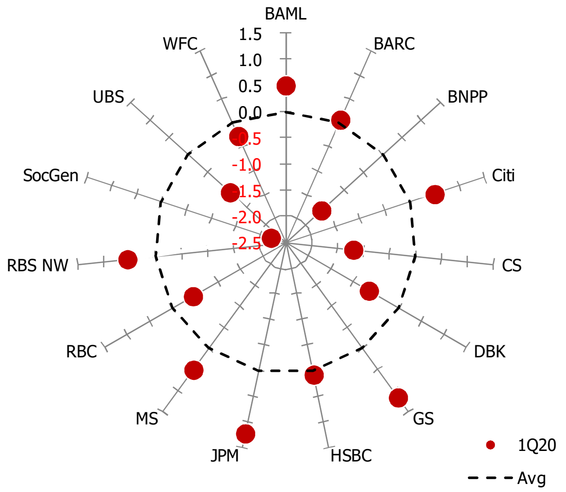




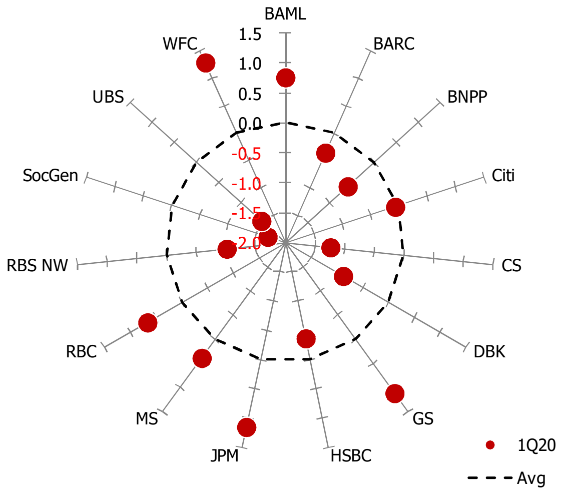
Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) Operating expenses exclude one-off non-operational items, insurance-related benefits & claims, and credit expense/recovery/NPL provisions. Capital expenditure is included as accrued. Litigation expense is allocated to front-line units. (3) positive values = outperformance; negative values = underperformance, relative to the peer group featured in this report; (4) missing values = not included in ongoing coverage or a bank is not a significant competitor in this market; (4) outliers are excluded.

Operating Revenue / Front Office FTE (US$, Global Level 1)

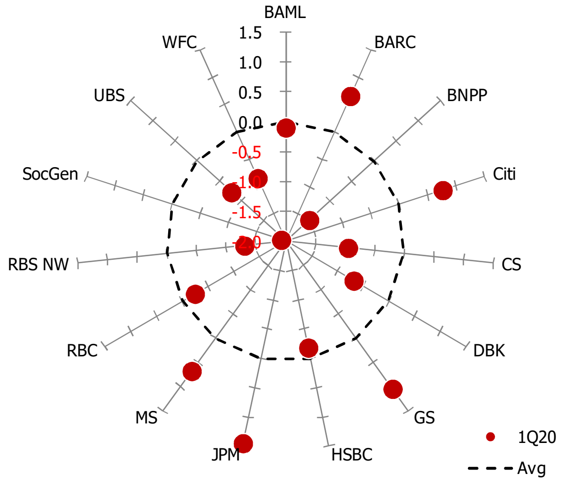
Capital Markets



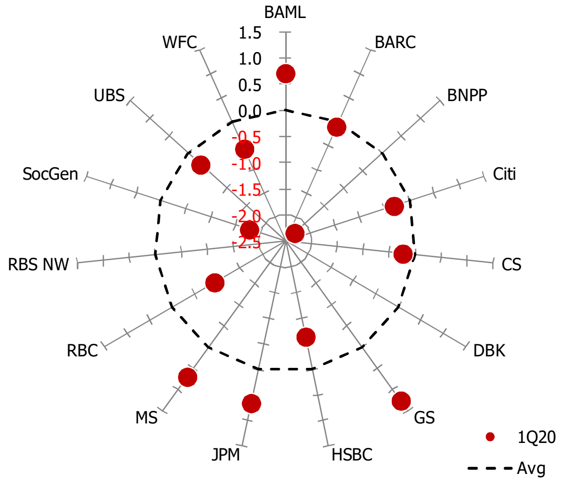
Banking



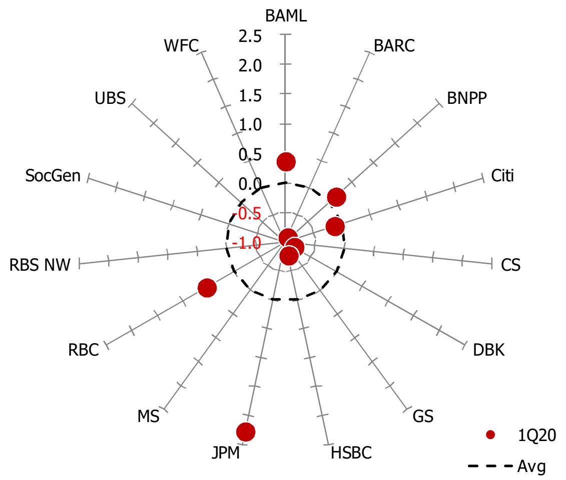
FICC



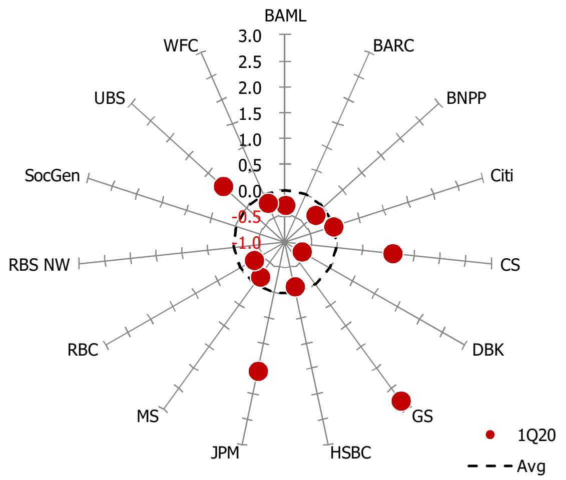
Equities



Commercial Banking / Treasury Services



Wealth Management



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Tricumen was founded in 2008. It quickly became a strong provider of diversified market intelligence across the capital markets and has since expanded into transaction and corporate banking as well as asset and wealth management. Tricumen's data has been used by many of the world's leading investment banks as well as strategy consulting firms, investment managers and 'blue chip' corporations.

Situated near Cambridge in the UK, Tricumen is almost exclusively staffed with senior individuals with an extensive track record of either working for or analysing banks; and boasts what we believe is the largest capital markets-focused research network of its peer group.

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