Results Review 3Q20 / 9m20

Capital Markets: Overview

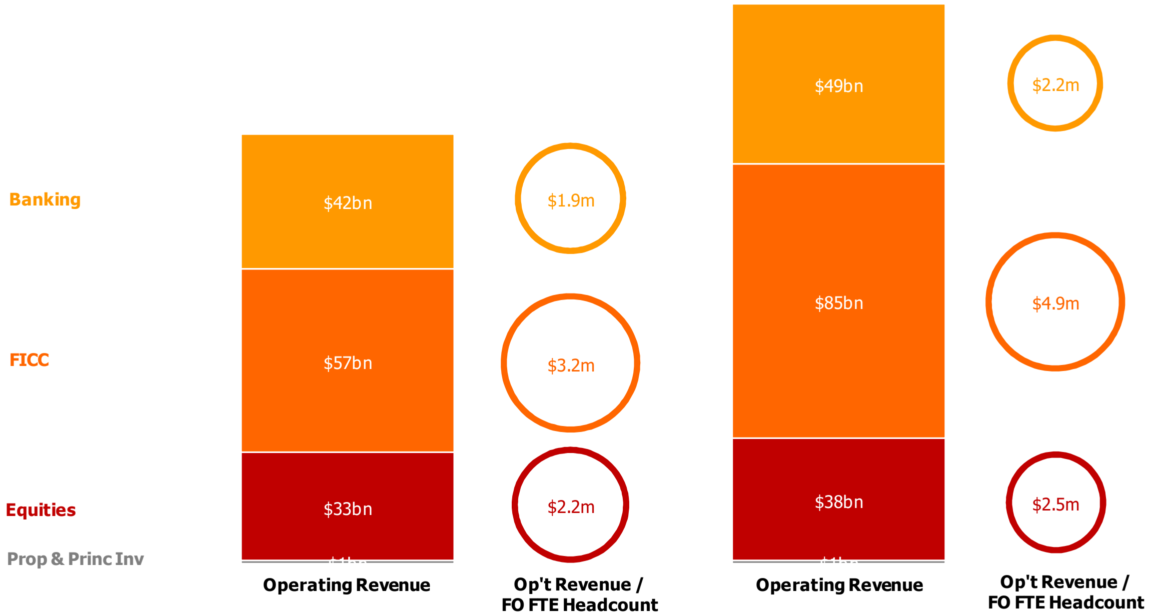
- Extending extraordinary gains from 1H20, the combined capital markets revenue of 15 banks in this note reached $51bn in 3Q20, lifting the 9m20 total to $172bn, 30% ahead of 9m19 – and easily beating conservative expectations outlined by some banks at the end of 2Q20. Revenue/FTE surged 55% y/y. FICC remains the star performer: up 50% and 29% y/y for 9m20 and 3Q20, accounting for half of 9m20 capital markets revenue and 57% of profit.

  The US banks grew their 9m20 revenue by 35% y/y – vs EMEA banks' 19% - but also continued investing in staff and tech, while EMEA banks kept their costs flat. As a result, EMEA banks doubled their profit vs 9m19, well ahead of the US banks' comparably modest 69% gain.

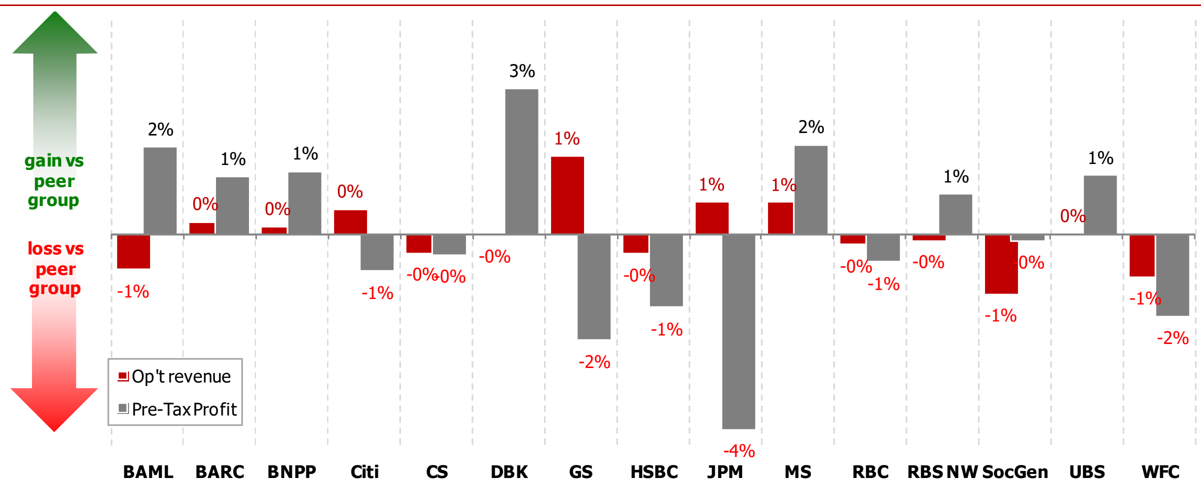
  We do not expect lavish year-end bonuses: the single most important driver of a surge in earnings was central banks' actions, rather than traders' outperformance; banks that can't pay dividends are unlikely to pay big bonuses; and universal banks are wearily eyeing their loan portfolios.

- In a recent presentation to SIFMA, Morgan Stanley's CEO made an important point: despite the surge in trading volumes *and* 90%+ of staff working remotely during the crisis, there were no significant outages or breakdowns – a testament to the effectiveness of banks' tech investment. This matters, as Gorman does not expect more than 25% of MS' staff to return to the office by the end of 2020 - and neither do his peers.

Operating Revenue (9m19) (9m20)



% change share of peer group operating revenue and pre-tax profit (9m20 / 9m19)



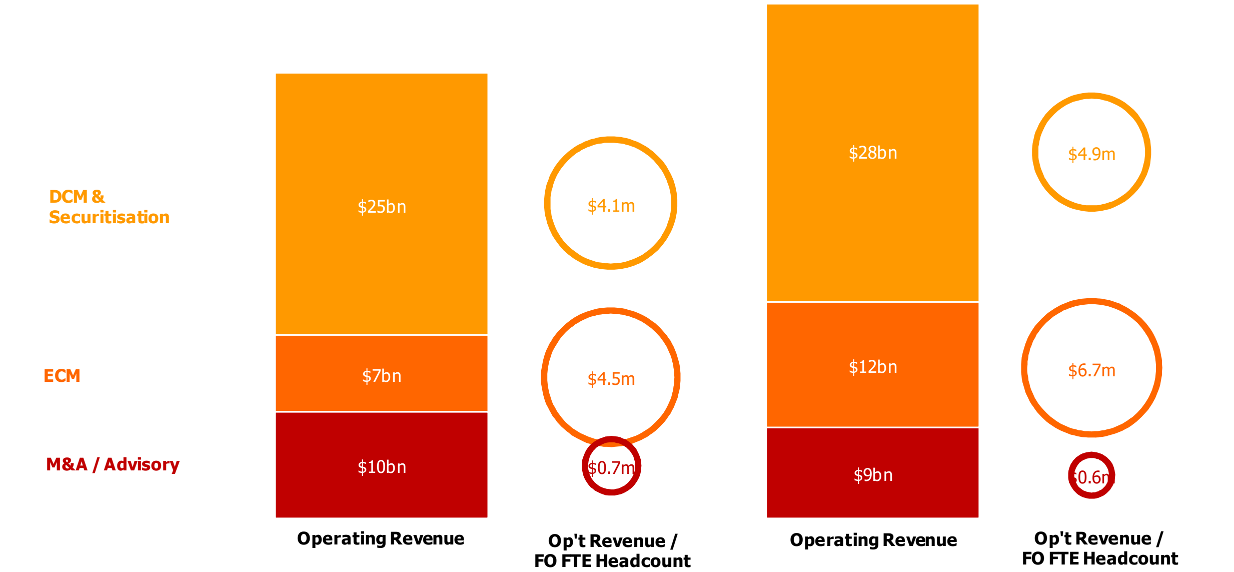
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

Capital Markets (cont.): **Banking**

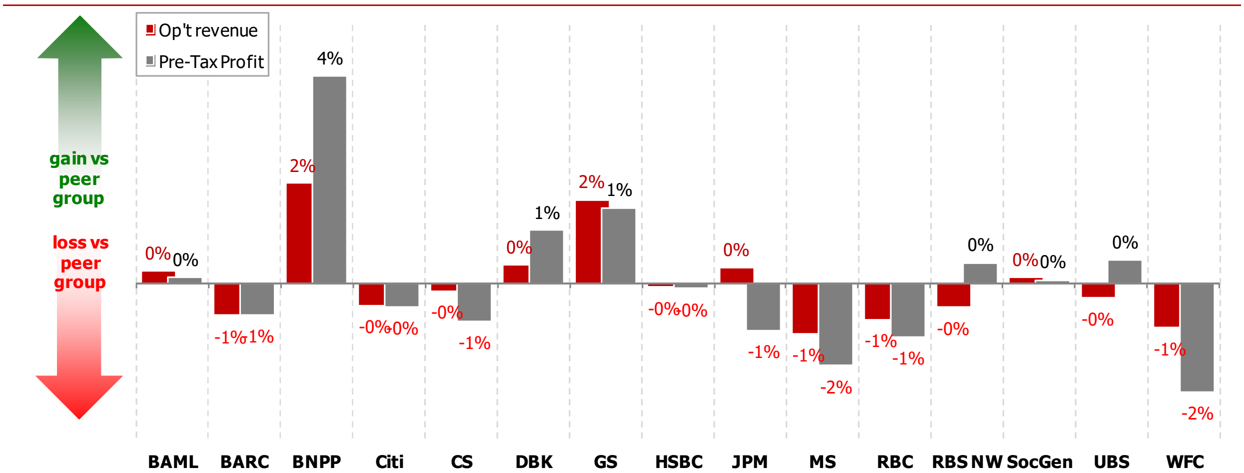
- Advisory and issuance fees reached an all-time record in 9m20: $90bn, up 15% y/y. The USA (and APAC) grew even faster, accounting for just over half of total fees. EMEA stagnated.
- High grade bond issuance, while still benefiting from low interest rates, returned to a more normalised levels from the extraordinary 2Q20; however, high yield is recovering. Added to extraordinary 3Q20, issuance volumes exceeded $8tn, a global record, driven particularly by the USA (9m20 +70% y/y). CLO issuance surged 20% q/q in October. Loans, though, fell 40% q/q, mostly due to the weak USA. Securitisation: healthy 3Q20 was not enough to offset the weak 1H20; but agency and non-agency mortgage securities and ABS had a strong start in 4Q20.

  BondCliQ, a centralised pricing system that aggregates pre-trade institutional quote data, now issues 'score cards' with information on dealers' support of bonds they underwrite. This is a logical step to modernisation of bond markets, but it remains to be seen whether it will gain traction.
- ECM 9m20 fees for 'our' banks jumped 65% y/y, driven by IPOs (2-year high), APOs (record), converts (likewise), SPACs (though recent scaling down of high-profile deals suggests saturation). APAC and EMEA volumes +70% and 60%; China doubled y/y. Fears of tax rises under the Biden administration surged interest for corporate sales; banks are generally optimistic re 4Q20.
- M&A/Advisory markets were understandably jittery, but mega-deals broke records, and the outlook is good: banks reported strong pipelines, and announced M&A volumes are returning to pre-Covid levels. The pipeline of mega-deals is at an all-time record - in the US, at 3x the 2Q20 level. In EMEA, the banking industry looks ripe for consolidation, despite cyclical and structural headwinds.

Operating Revenue (9m19) (9m20)



% change share of peer group operating revenue and pre-tax profit (9m20 / 9m19)



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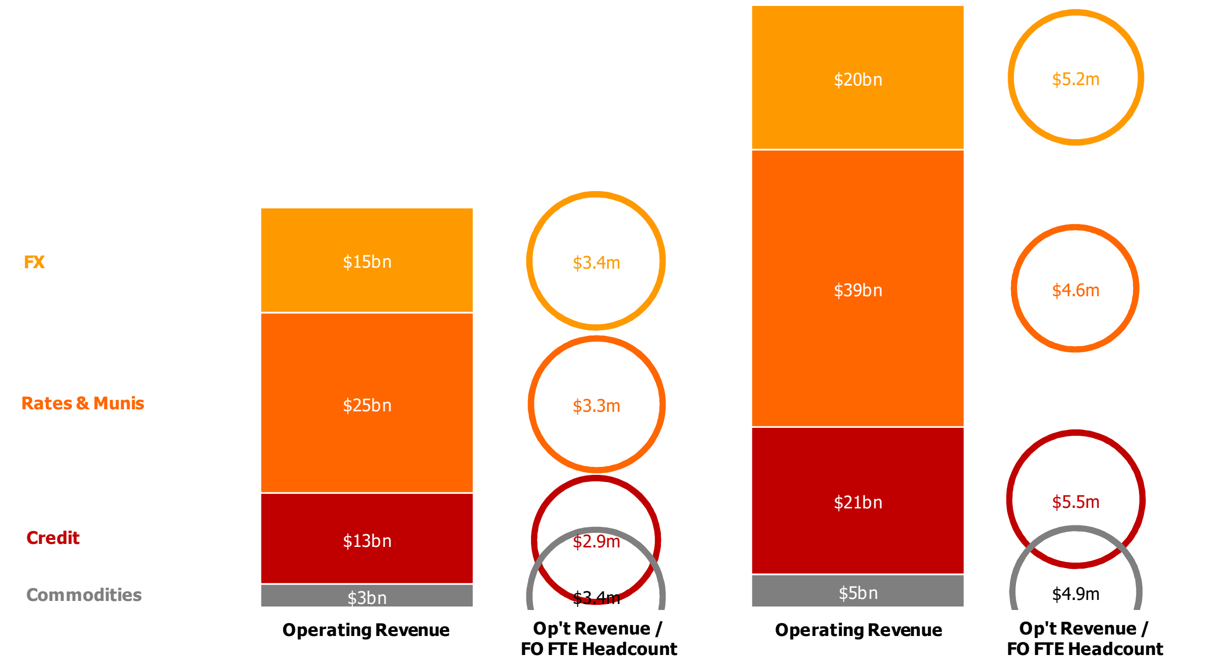
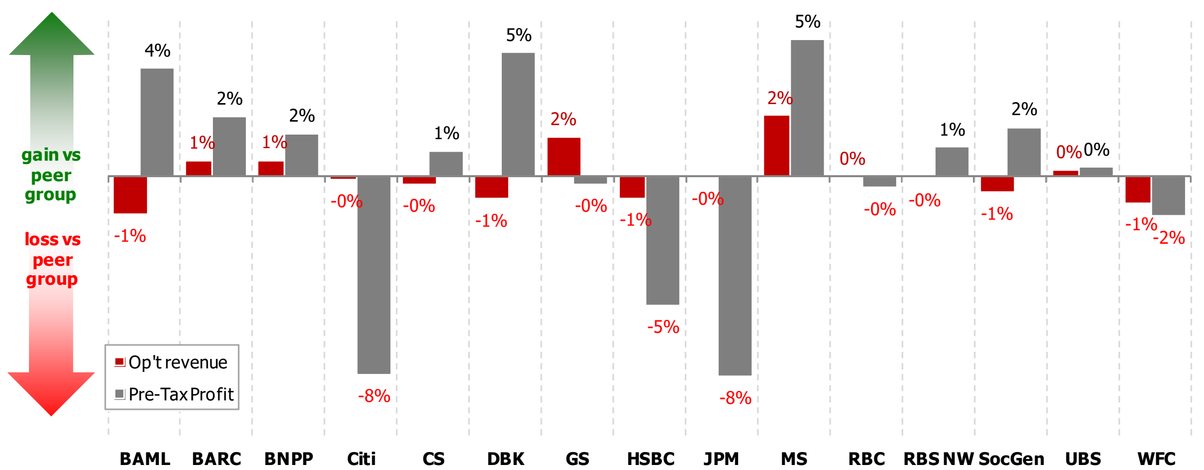
Capital Markets (cont.): FICC

- Macro products were, in aggregate, the main driver of banks' revenues: +47% y/y in 9m20, with largest banks extending their lead. Quarterly FX revenues were even stronger than in 2Q20, as banks played to their particular strengths: volatility – elevated throughout 3Q20 – derivatives, hedging. FX algos received a qualified praise: BIS said they aid the proper functioning of FX markets, but also shift execution risk to end-users and contribute to 'changing liquidity dynamics'.
- Rates trading benefitted from client demand amid the world's central banks actions; (selective) hiring is under way. Govies are exposed: six months into the Covid crisis, investors seem to be giving little attention to a surge in fiscal deficits and governments' unwillingness to confront those, in the near term at least. Munis did well, with 3Q20 issuance surging 30% q/q.
- In credit, the US leaders (except BAML; including BARC) doubled their aggregate revenue in 3Q20 on high client flows and tighter IG and HY spreads. US banks are hiring in Europe. One of the most interesting developments seen during this crisis – especially in late 1Q20/early 2Q20 - is the increasing use of liquid fixed income ETFs as 'early price discovery' tools: tracking the exodus from high yield market via ETFs is a good example of this.
- Commodities extended strong gains seen in 1H20. With a single exception, in a relatively volatile quarter, banks reported revenue growth, especially in metals and oil.

Operating Revenue (9m19) (9m20)



% change share of peer group operating revenue and pre-tax profit: (9m20 / 9m19)



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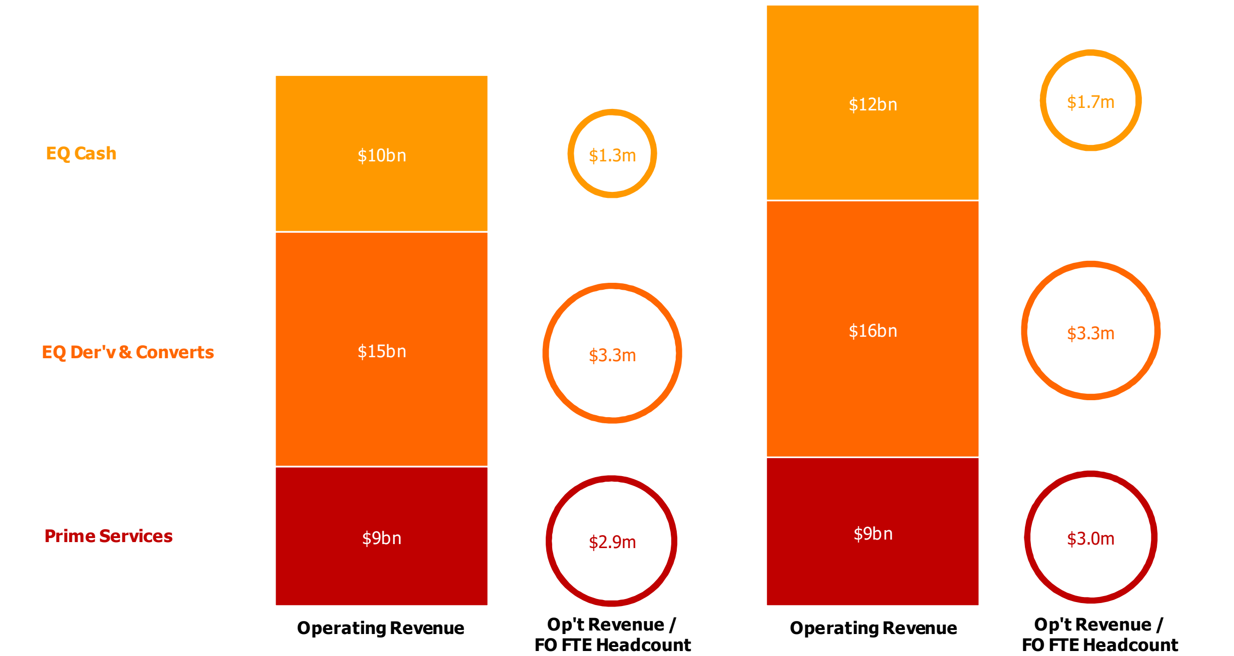
Capital Markets (cont.): Equities

- Most banks here saw healthy revenue gains in cash equities. In busy and volatile markets, there were opportunities for both low- and high-touch players. The former is a known factor; but the Covid crisis also spurred the demand for analysts capable of generating actionable research without the benefit of meeting the companies' management, and also for effective corporate access teams, and sales force capable of filtering what is important.

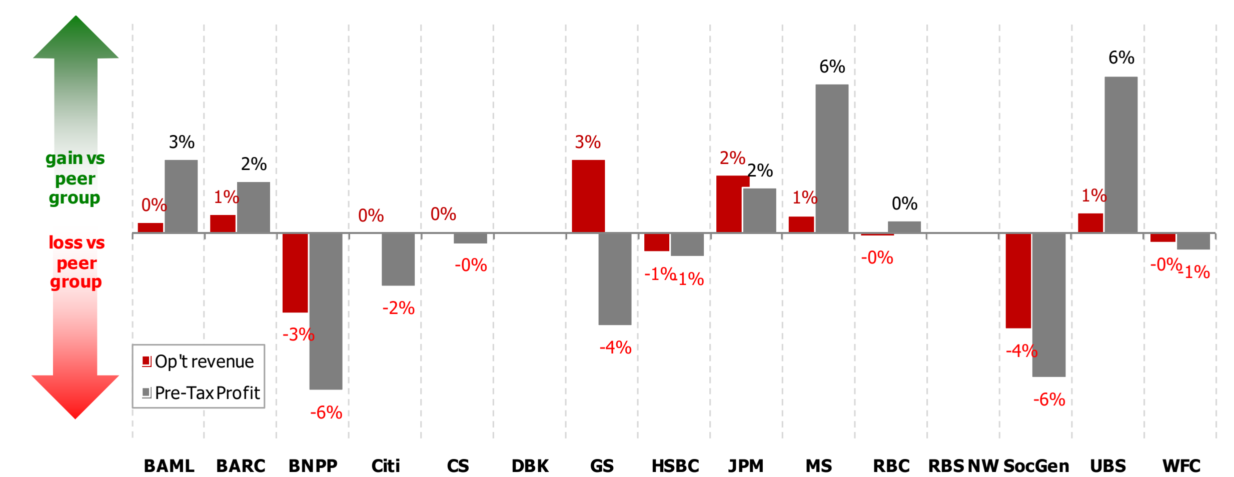
  The 4Q20 started strong: VIX hovered at 25-30 (vs pre-crisis 15), and spiked to 40 just ahead of the US elections.
- Most banks recorded a jump in equity derivatives revenue, driven by client flows and volatility; several banks also reported particularly strong revenues in corporate and structured derivatives, particularly in the US and Europe. BNPP and Societe Generale are recovering from 1H20 losses.
- The banks in this report grew their combined prime services revenue by 6% y/y in 9m20. Within this peer group, US banks jumped 12% y/y, while EMEA banks lost ground; generally, a rise in net funding costs and/or hit from low yield on liquidity pool moderated growth.

  For the first time since 2018, hedge fund industry recorded the first quarterly inflow. Macro and relative value arbitrage funds were the main beneficiaries. In terms of size, large funds attracted the bulk of new money, while smaller firms suffered outflows.

Operating Revenue (9m19) (9m20)



% change share of peer group operating revenue and pre-tax profit (9m20 / 9m19)



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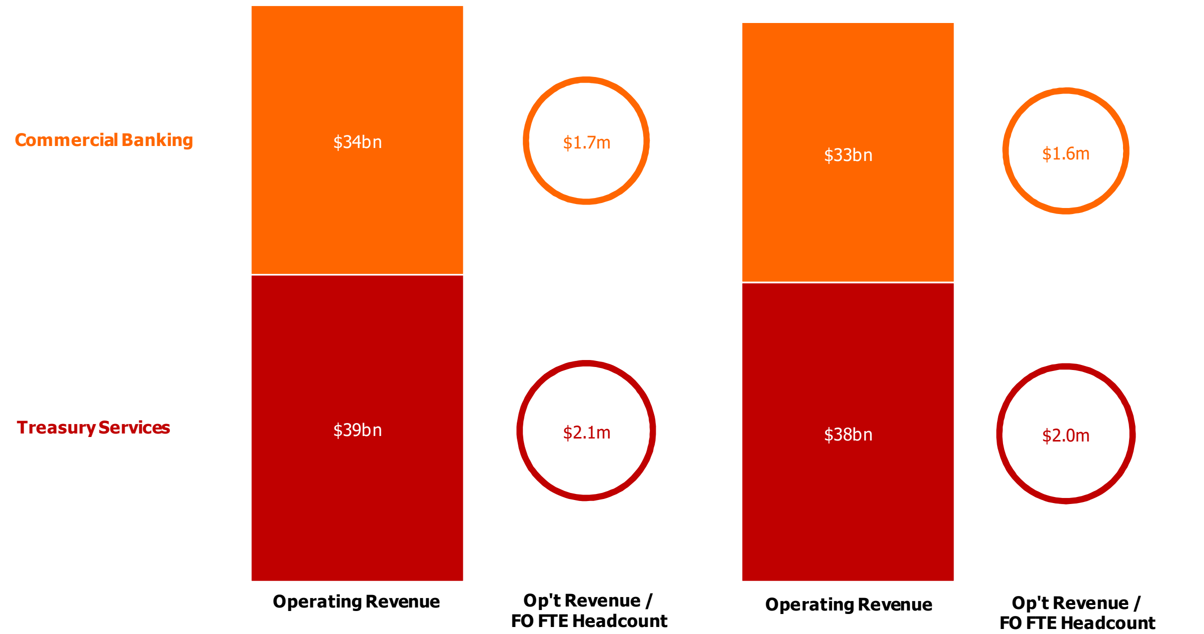
Commercial Banking & Treasury Services

- Corporate Banking revenue was hit by lower spreads and, in some cases, significant repayments as high-grade corporate clients switched to capital markets for their funding needs. In Treasury Services, margin compression more than offset the growth in balances.
- Deposits margin compression is still in evidence, but is offset by higher balances, fees and lending revenues. Universal banking leaders also extracted more revenue from cooperation with their investment banking arms. The outlook for lending volumes is highly dependent on clients' confidence, and that is by no means a given: as governments start to wind down support programmes, market participants expect non-performing loans to mount. In the meantime, there has been a surge in demand for (high-margin) loans from direct lenders – often divisions of private equity firms.
- Several major banks exited (sections of) commodity trade finance markets in recent months. Other banks are not rushing to fill this gap, but this is probably a temporary pause: less competition will drive margins higher, attracting, in turn, fresh banking entrants.

Operating Revenue (9m19) (9m20)



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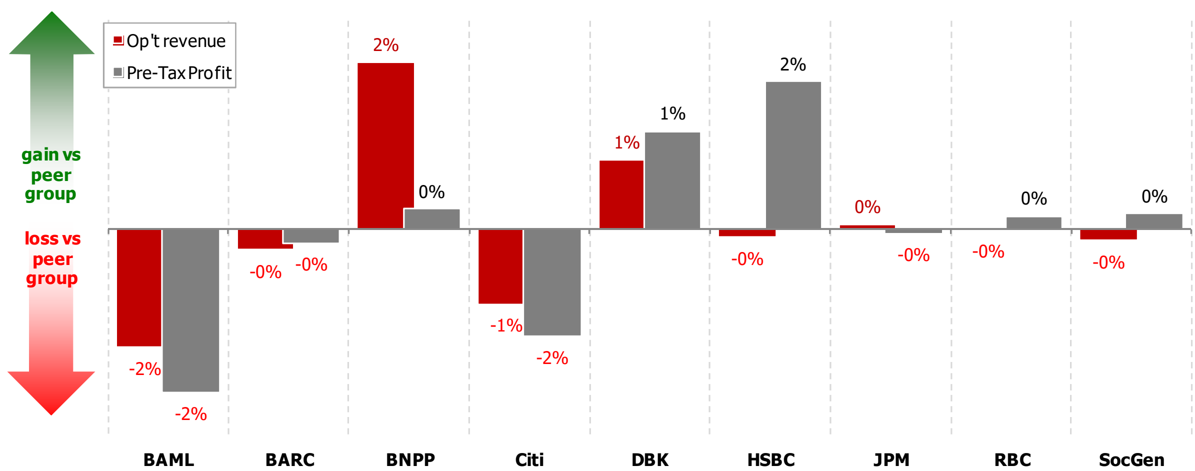
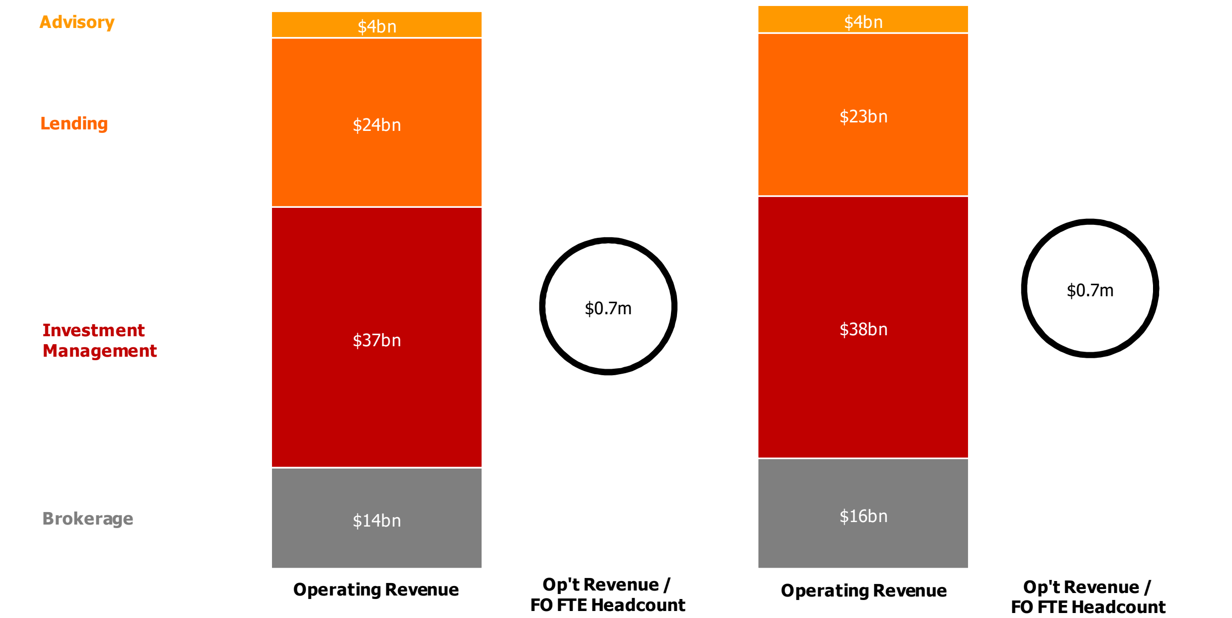


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) In-scope: Large Cap/MNC and Mid-Cap/SMEs.

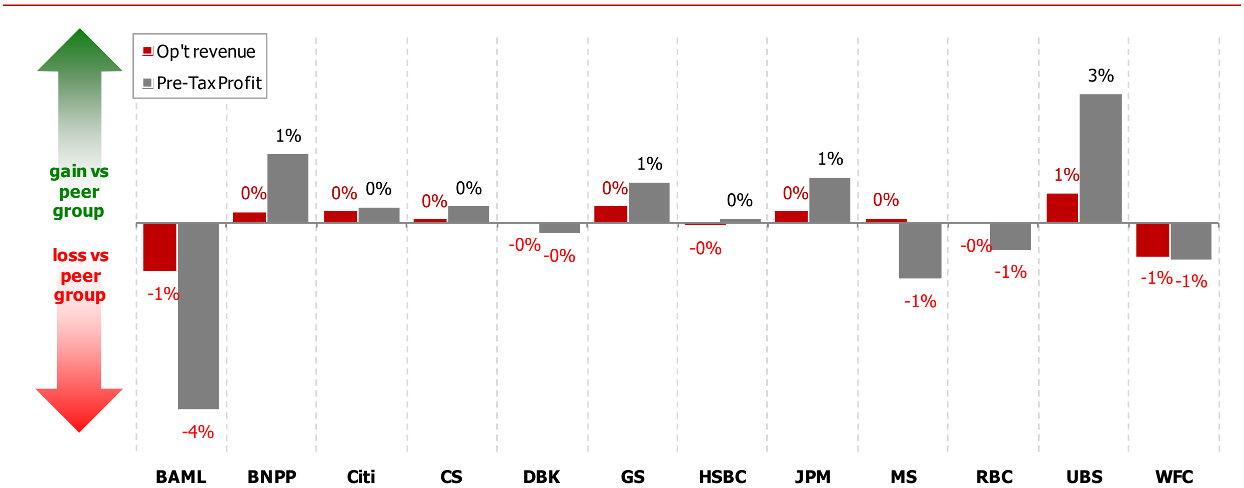
Wealth Management

- In 3Q20, deposit and loan balances grew, as did client flows and management fees, supported by significant capital markets activity - wealth managers with strong links with their investment banking arms pulled ahead of their peers. Deposit margin compression remains a significant headwind for net interest income, however. Credit loss allowances rose; not to crisis levels, but in our view, this remains a potential concern.
- Banks demonstrated strong cost control, especially in performance-related pay and discretionary spend. The resultant pre-tax profit for 9m20 was 6% ahead of the prior-year period.

Operating Revenue (9m19) (9m20)



% change share of peer group operating revenue and pre-tax profit (9m20 / 9m19)



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Revenue dynamics

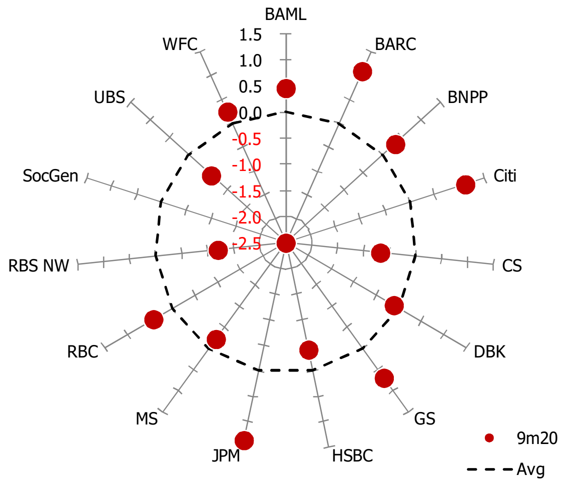
9m20/9m19 (Operating revenue, % change, US$, Global Level 1)

	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	↓		↘	↑	↘	↓	↘	↘	↑	↘	↓			↑	↓

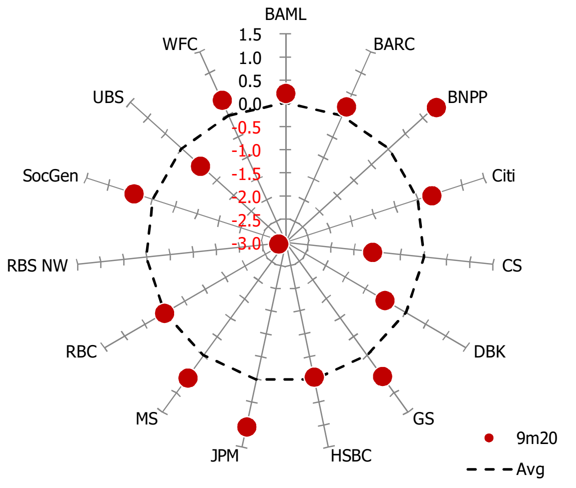
Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

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

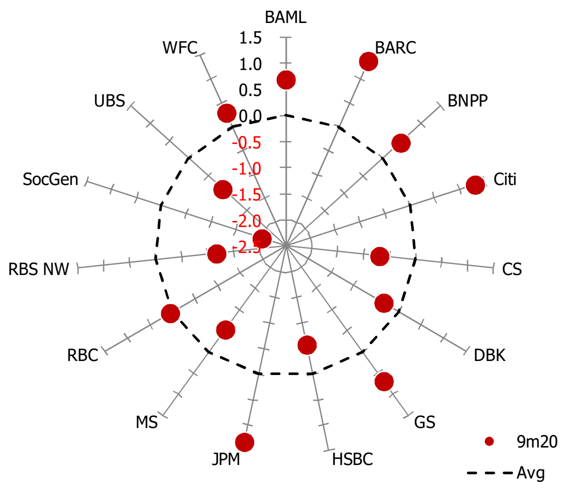
Capital Markets



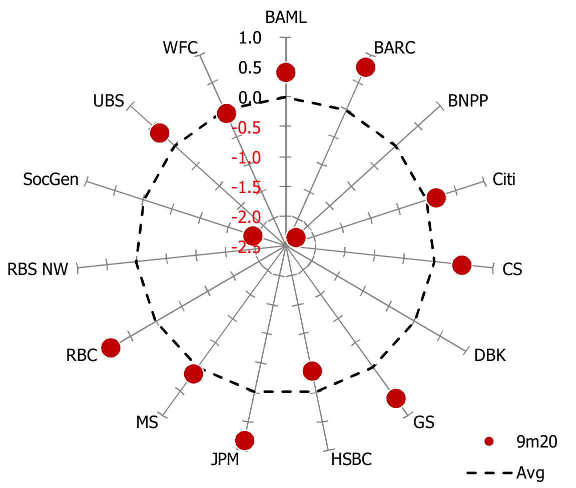
Banking



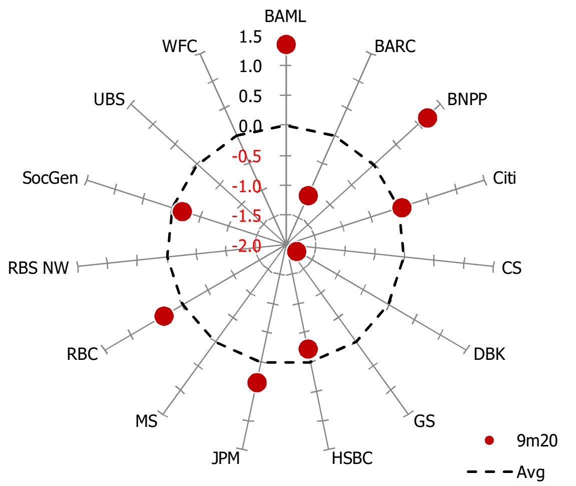
FICC



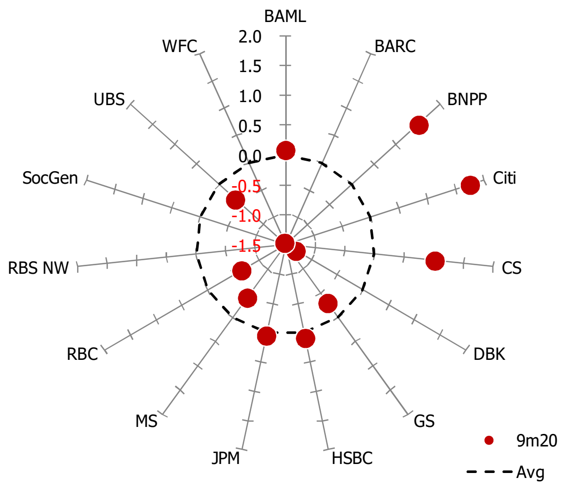
Equities



Commercial Banking / Treasury Services



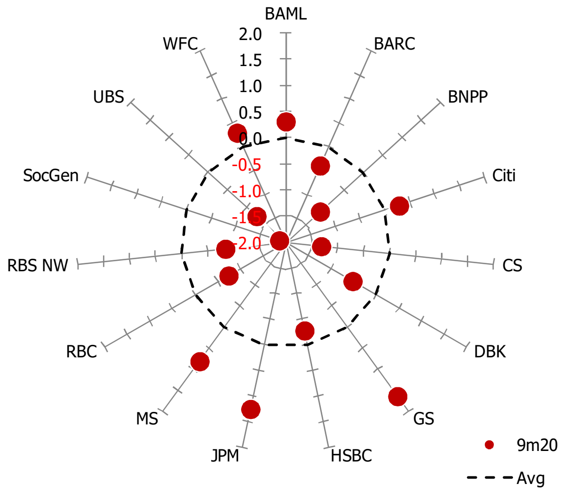
Wealth Management



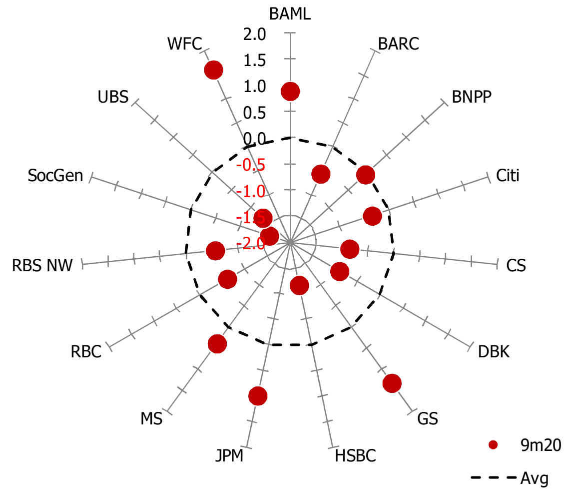
Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) Operating expenses exclude one-off non-operational items, insurance-related benefits & claims, and credit expense/recovery/NPL provisions. Capital expenditure is included as accrued. Litigation expense is allocated to front-line units. (3) positive values = outperformance; negative values = underperformance, relative to the peer group featured in this report; (4) missing values = N/M; no Tricumen coverage; or a bank is not a significant competitor.; (5) outliers are excluded.

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

Capital Markets



Banking



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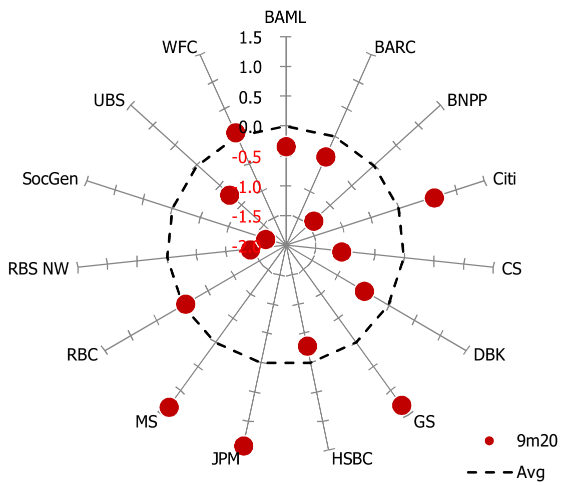
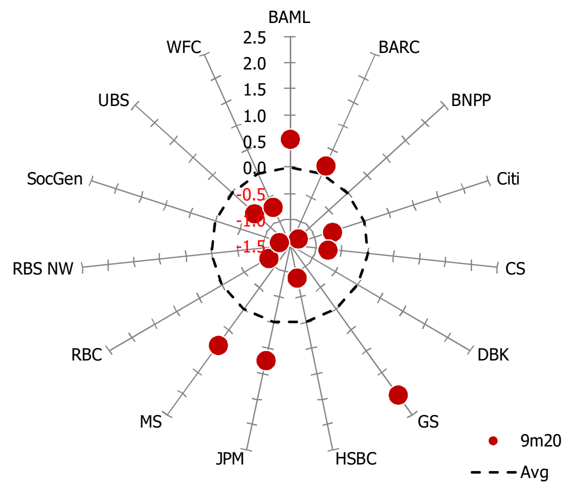
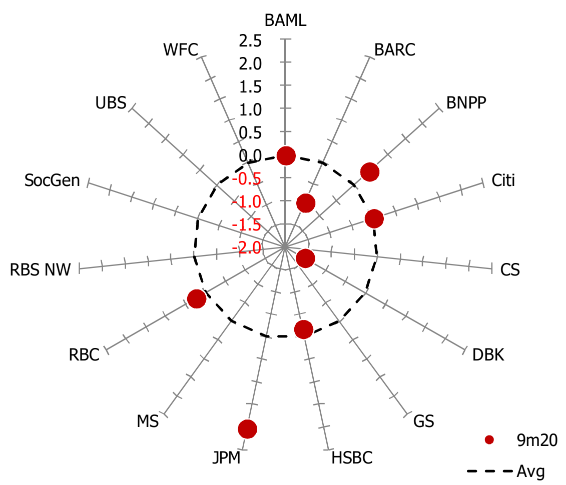


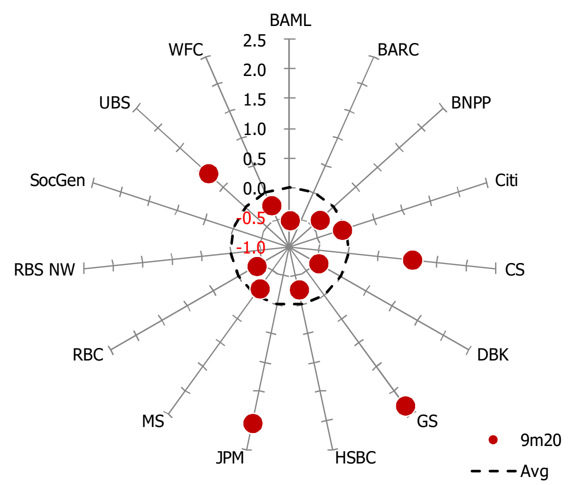
Equities



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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