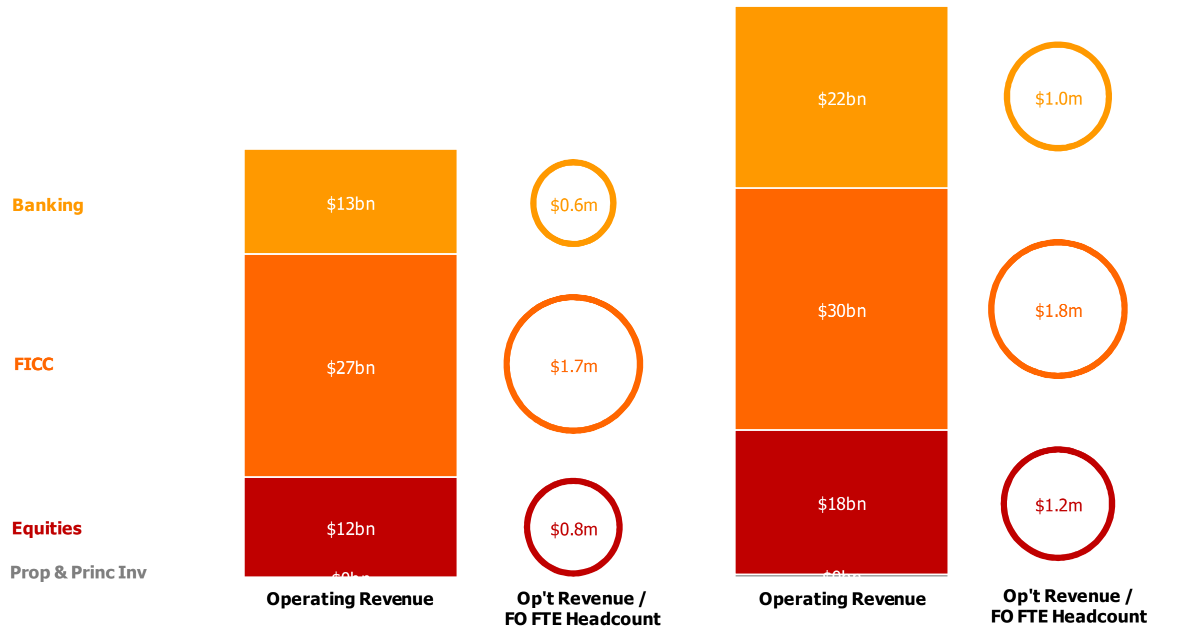
Results Review 1Q21

Capital Markets: Overview

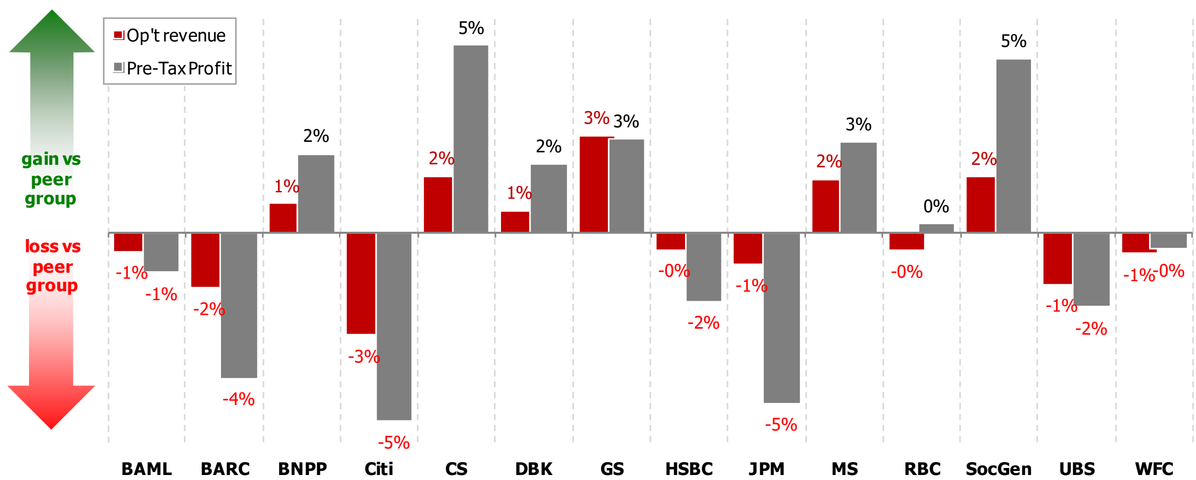
- For most banks in this report, 1Q21 was a quarter of multi-year records. The combined capital markets revenue exceeded $70bn, 34% ahead of 1Q20 driven, in particular, by ECM, DCM loans and equity derivatives. Costs also jumped, but by comparatively modest 22%, and with wide difference between US and European banks: in a repeat of 2H20, US banks maintained investment and increased bonus pools, while European banks took a much more cautious approach. As a result, European banks doubled their aggregate pre-tax profits - but also provoked staff discontent.

  Across 14 banks, operating revenue/Front Office FTE jumped 70% y/y in Banking (mostly due to ECM) and 20% in Markets.
- Driven by investors' – justifiable - inflation concerns, US stock and bond futures became, in May, the most positively correlated since 1999 – thus eroding Treasuries' role as a hedge against risk. Banks could be impacted in several ways, including: mark-to-market losses on govies as yields rise in response to inflationary risks; margin debt e.g. through lines of credit to asset allocators; and rising long-bond yields and borrowers defaults.

Operating Revenue (1Q20) (1Q21)



% change share of peer group operating revenue and pre-tax profit (1Q21 / 1Q20)

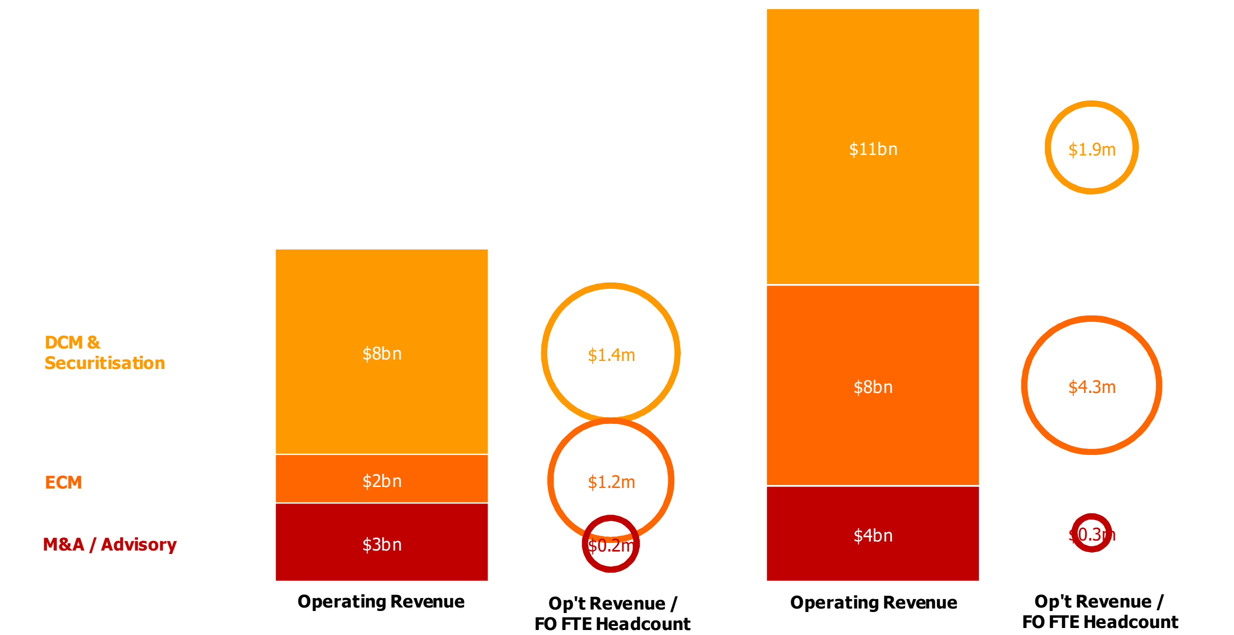


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments..

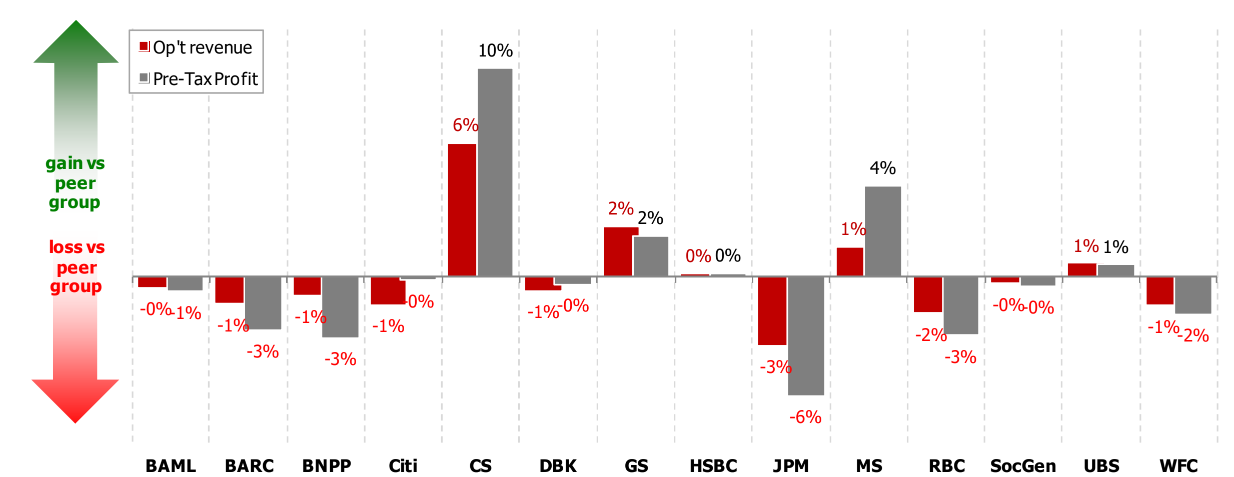
Capital Markets (cont.): **Banking**

- DCM bond issuance volumes were unchanged versus 1Q20; high yield boomed (helping lift the 14 banks' aggregate fees by 20% y/y), but high grade declined slightly. So far in 2Q21, the US bond markets remained strong, buoyed by jumbo deals. In Europe, however, there are signs that multinationals satisfied their near-term funding needs in 2020 and are now awash with cash. On the more positive note, high yield and emerging markets borrowers remain engaged and may break the previous record in 2Q21. Securitisation revenues were meaningfully ahead of 1Q20.
- Driven by IPOs, ECM (including converts) smashed previous records; the US tripled and EMEA and APAC more than doubled volumes compared to 1Q20. Banks in this report earned $7.8bn in fees, nearly 4x more than a year ago. However, 2Q21 looks less good: indices and funds which track post-deal IPOs and SPACS indicate that the red-hot IPO market in the US may be cooling; and persistent volatility isn't helping, either.
- M&A/Advisory volumes in 1Q21 comfortably exceeded the previous 1Q record. USA M&A more than doubled to reach half of the global volume; private equity buyouts and SPACs accounted for c.30% of deals. Fee margins dropped, however: the US and European banks grew their fees by 27% and 13% y/y, respectively. Favourable markets, SPACs and more than $1.5tn of private equity all point to a bright outlook for M&A; and, by extension, acquisition finance. Direct lenders also seem ready to play a big role in the post-Covid 19 recovery.

Operating Revenue (1Q20) (1Q21)



% change share of peer group operating revenue and pre-tax profit (1Q21 / 1Q20)



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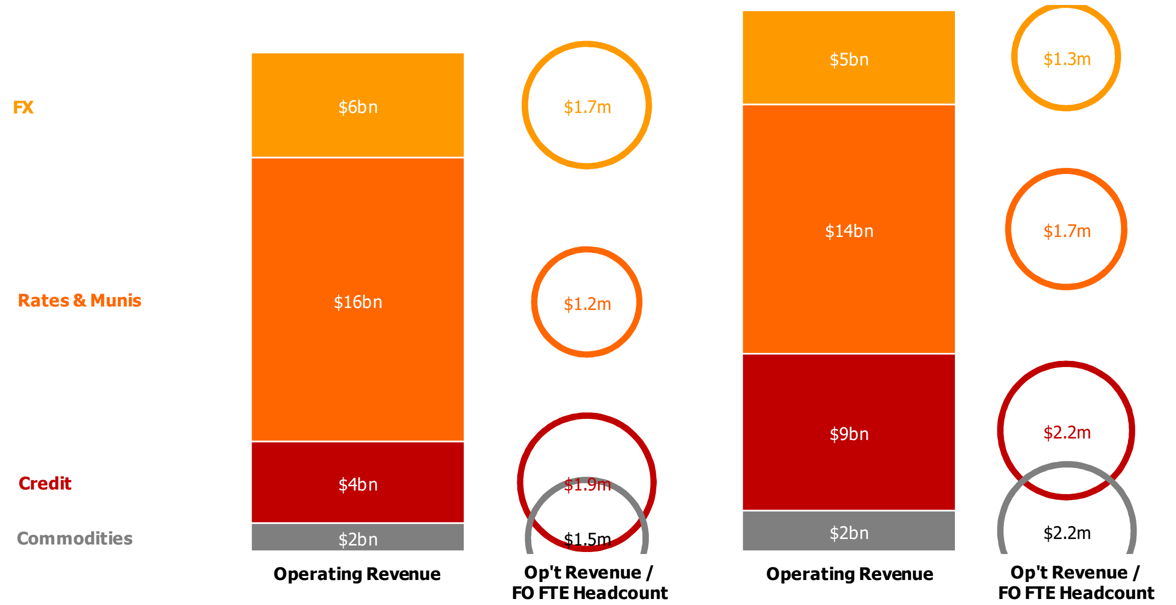
Capital Markets (cont.): FICC

- Macro revenues nosedived on tighter spreads and a sharp fall in client activity compared to a *very* strong 1Q20; only one bank made significant gains in Rates.

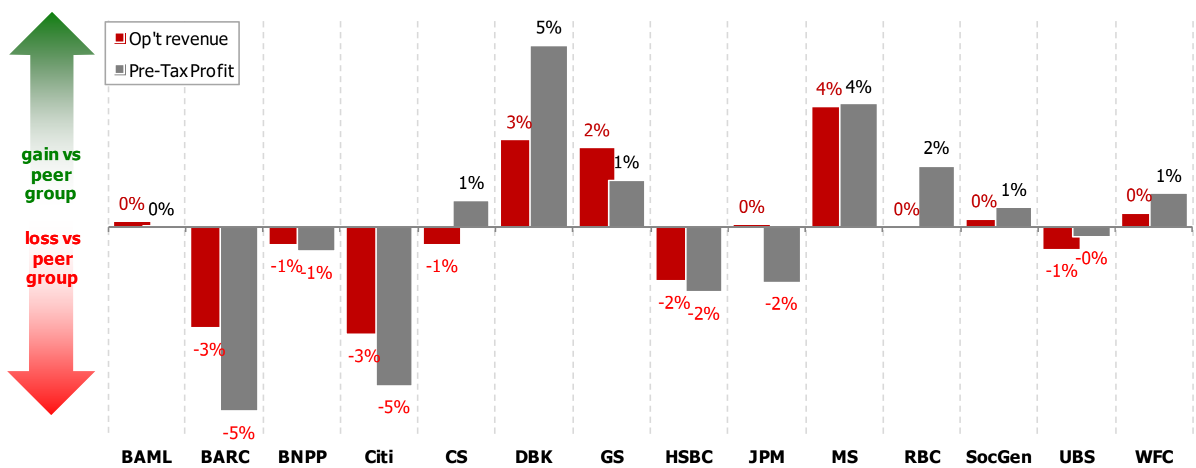
  In cryptoFX, reluctance and scepticism gave way to enthusiasm: several banks are setting up dedicated crypto desks or have already set up one, and only HSBC categorically stated that it will not set up such desk, nor will it promote crypto assets to its customers. In our view, the former approach makes more sense: the inherent volatility of cryptoFX is a serious challenge for investors, but we imagine crypto currencies will, in time, become a serious asset class, especially if massive money printing by central banks continues.

  In munis, market participants are hopeful that President Biden's recently announced stimulus package will lead to meaningful infrastructure legislation which will address muni priorities.
- Revenue from credit trading doubled vs 1Q20, led by US majors. Strong money flows into dedicated ETFs suggest that investors, fearing the monetary policy tightening, favour high-yield.
- The failure of Texas electric grid in Feb-21 was the main commodities event of 1Q21. Several banks' commodity trading desks scored huge gains (though a few were also hit by banking exposures to operators and market participants). With the economic recovery underway, investors are piling into industrial metals, while fears of inflation support gold. Record amounts are flowing commodity ETPs.

Operating Revenue (1Q20) (1Q21)



% change share of peer group operating revenue and pre-tax profit: (1Q21 / 1Q20)



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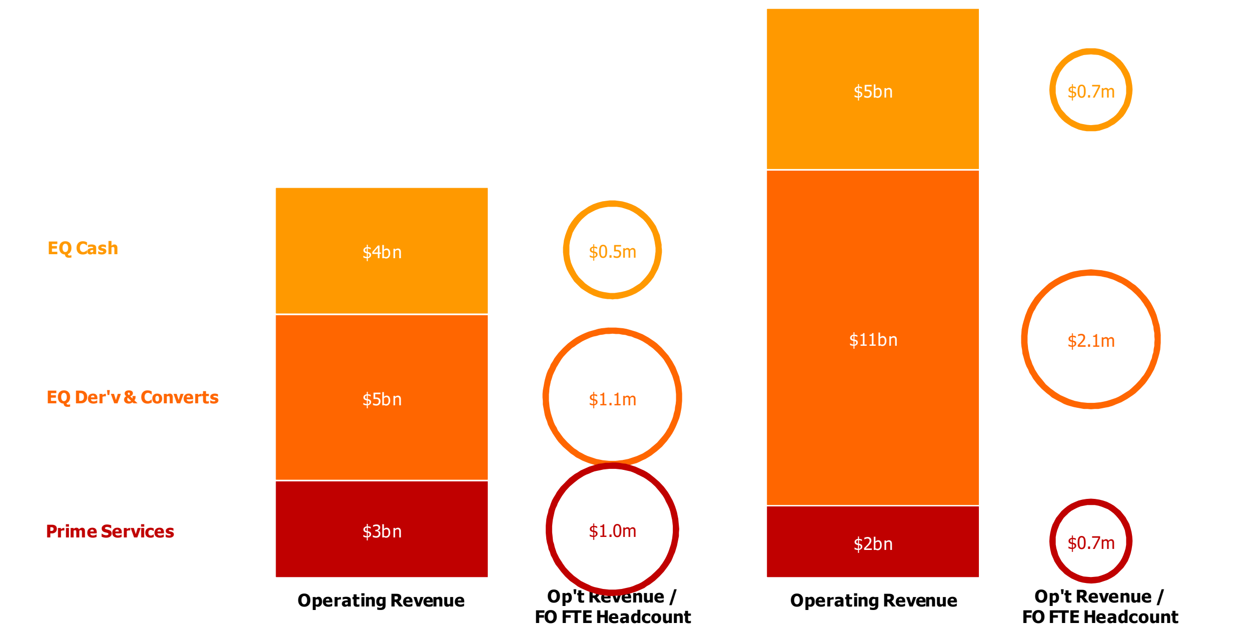
Capital Markets (cont.): **Equities**

- Archegos and French banks' structured equity derivatives losses in 1Q20 distort comparisons with the prior-year period. Still, all banks in this peer group reported significantly stronger underlying execution revenues in both cash (banks that invested in ECM desks now reap the benefits) and derivatives, especially in structured products, APAC and North America. Listed derivatives' revenues were soft. Favourable market conditions, strong client activity and higher Prime balances boosted financing revenues…
- … but this was more than offset by Archegos-related losses. Morgan Stanley, Credit Suisse and UBS took a $6.6bn hit in 1Q21; in addition, Credit Suisse and UBS already disclosed an additional $737m loss in 2Q21. The banks' reactions were very different: for Morgan Stanley, this was a single episode that will not affect the bank's commitment to its prime franchise or GFO clients; UBS views the debacle as a market risk issue, rather than credit or counterparty; and Credit Suisse is conducting a wide-ranging review of prime services (and more) and will probably refocus the prime services division on most important clients.

  In the meantime, regulators – led by the SEC and UK's FCA –are looking into investor protection (is a GFO a retail or institutional customer – and, if retail, how big a leverage should it have?) and systemic risk.

Operating Revenue (1Q20) (1Q21)



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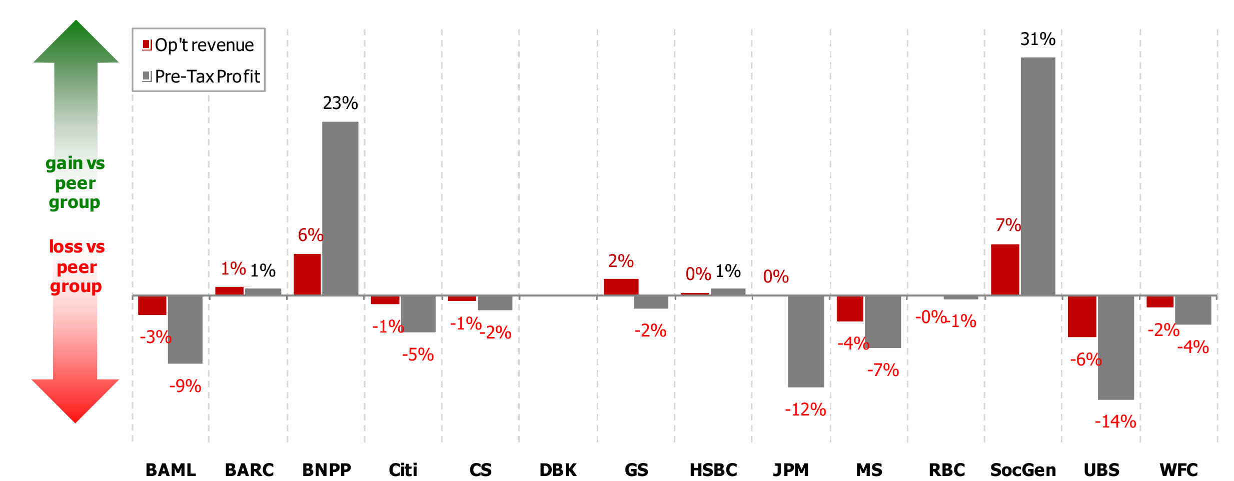

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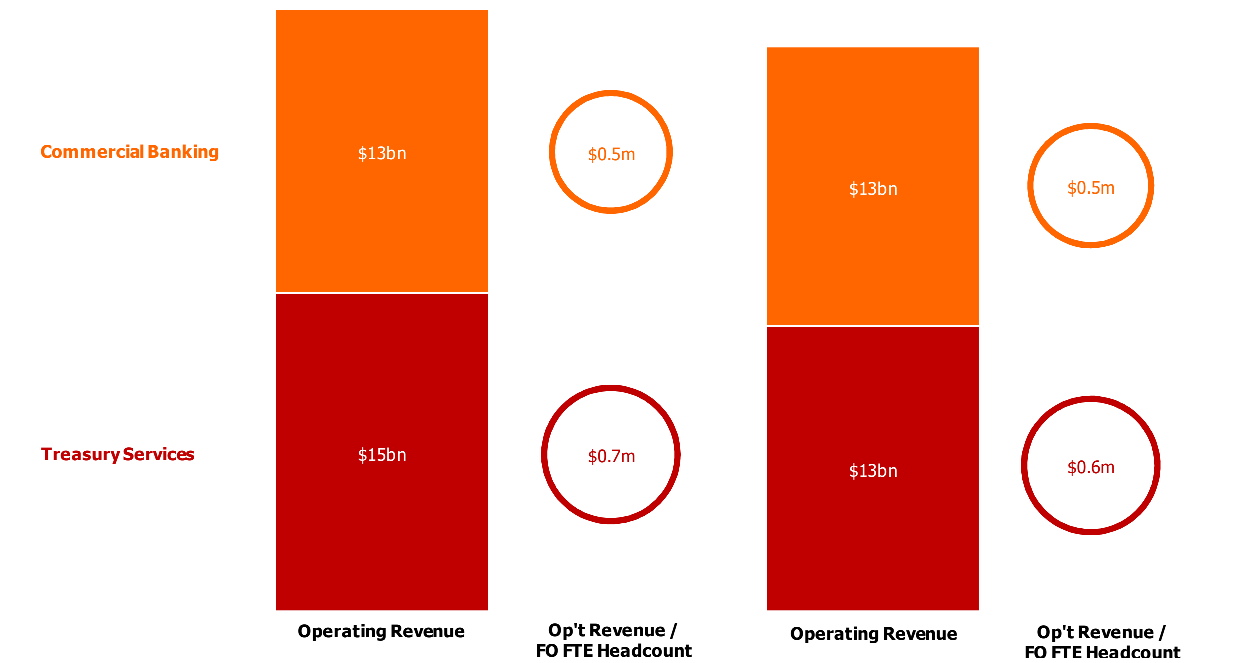
Commercial Banking & Treasury Services

- Commercial banking revenue dipped 2% y/y in 1Q21. The demand for corporate lending remained soft after the drawdown and repayment of revolvers in 2020. In current markets, corporates have plenty of liquidity and, with it, plenty of choice between capital markets and loans.
- The recovery in trade finance has not materialised yet: banks in this report saw their aggregate revenues declined 10% y/y, and pre-tax profits by 20%+. With economies (slowly) emerging from the Covid restrictions, a recovery is a fair bet, but that is contingent on successful vaccinations.
- As banks' release massive amounts previously tied up in reserves, CECL – first used by most banks in 1Q/2Q20 - is coming under scrutiny. Its critics point out that CECL stipulates that all future losses be recognised immediately – even though they may never become actual losses: for example, the US Government intervention protected banks from losses in 2020[1]. As a result, the main effect of CECL was to introduce huge volatility in banks' earnings.

Operating Revenue (1Q20) (1Q21)



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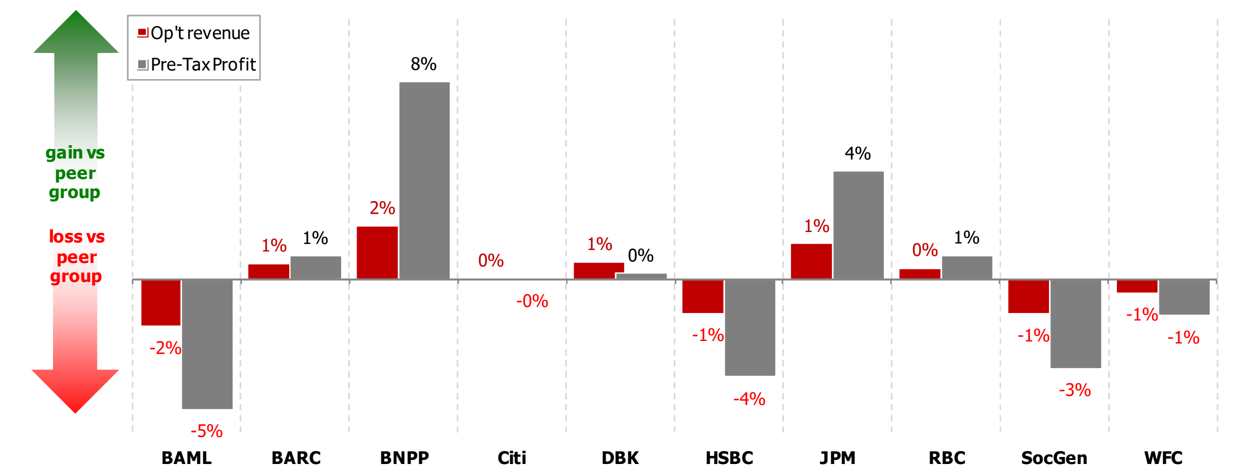

Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) In-scope: Large Cap/MNC and Mid-Cap/SMEs.

[1] *Also, in Mar-20 the US Senate gave banks additional time to fully implement CECL. By that time, however, most banks have already implemented the measure.*

Revenue dynamics

1Q21/1Q20 (Operating revenue, % change, US$, Global Level 1)

	BAML	BARC	BNPP	Citi	CS	DBK	GS	HSBC	JPM	MS	RBC	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	↘	↗	↑	↘		↑		↓	↗		↑	↗		↓

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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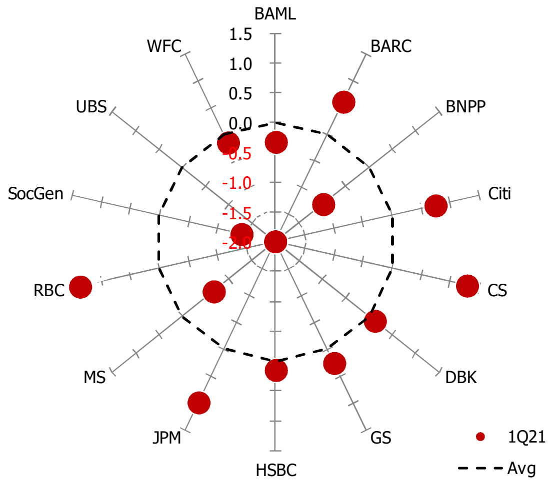
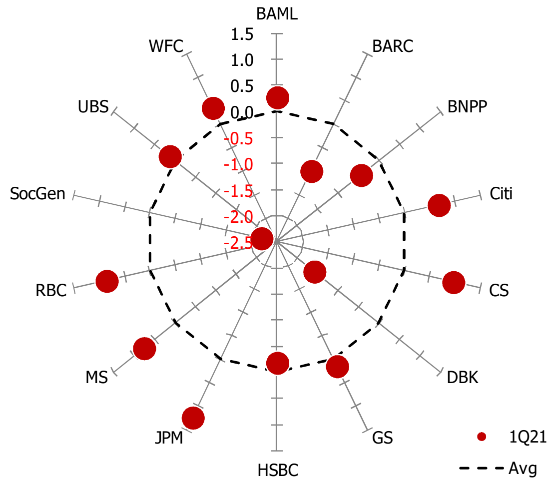
Pre-tax profit margin (US$)

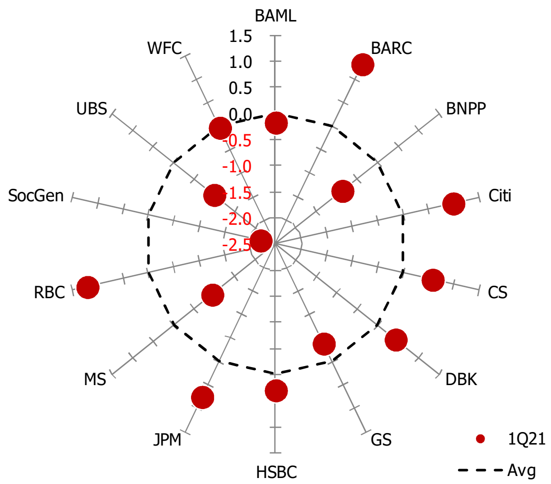
Capital Markets



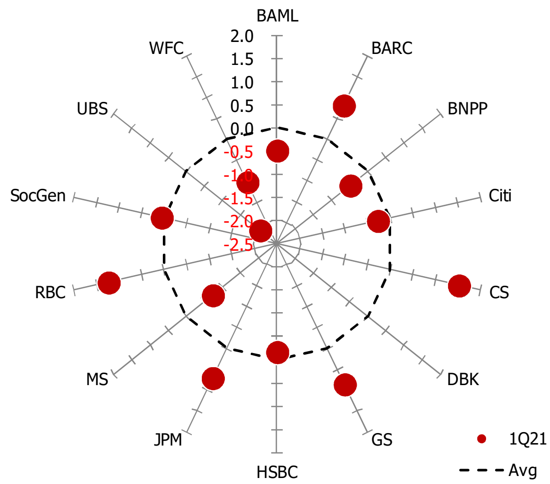
Banking



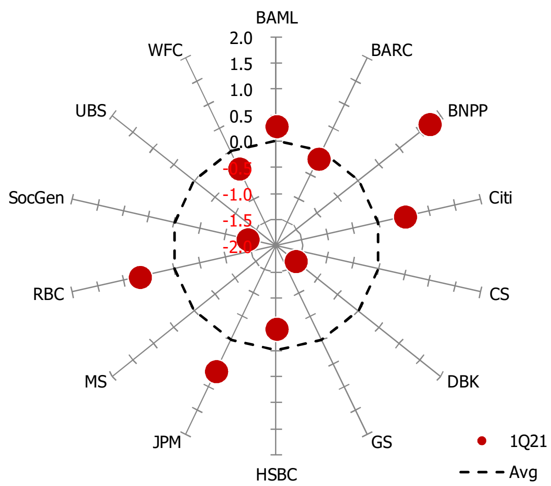
FICC



Equities



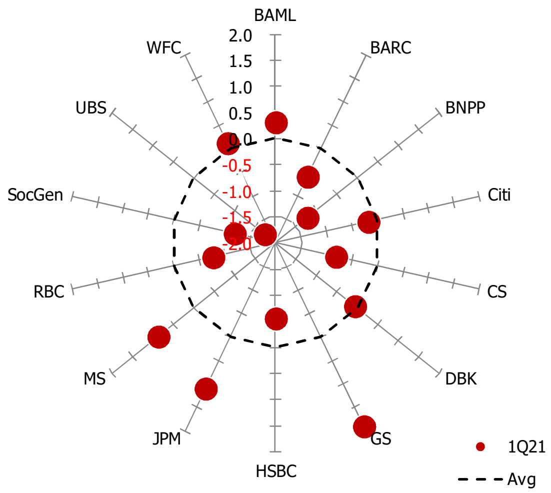
Commercial Banking / Treasury Services



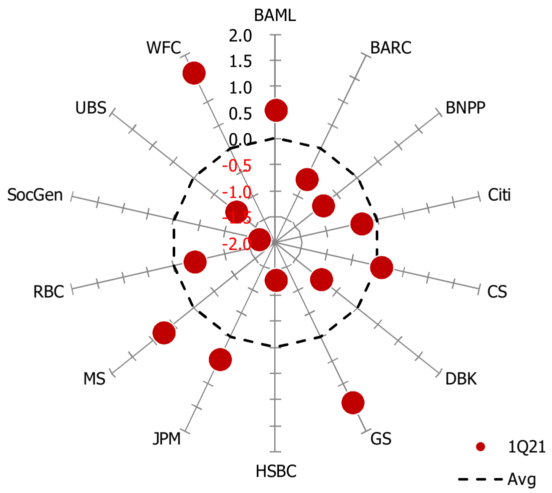
Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) Operating expenses exclude one-off non-operational items, insurance-related benefits & claims, and credit expense/recovery/NPL provisions. Capital expenditure is included as accrued. Litigation expense is 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$)

Capital Markets



Banking



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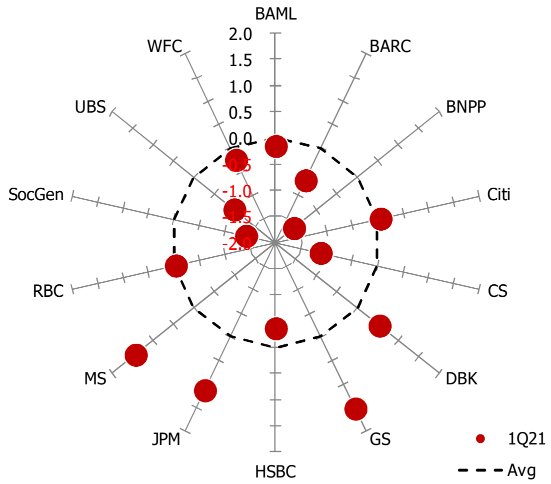

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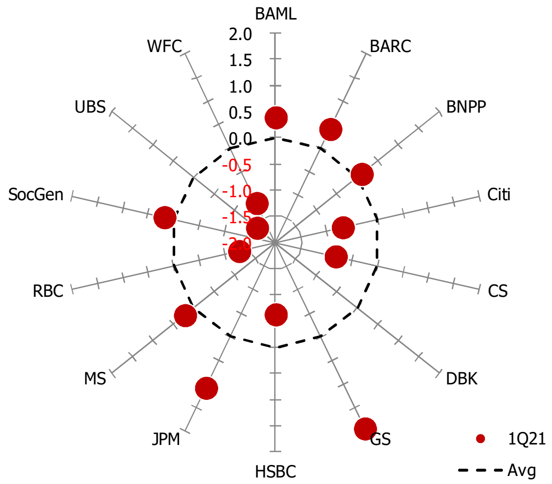
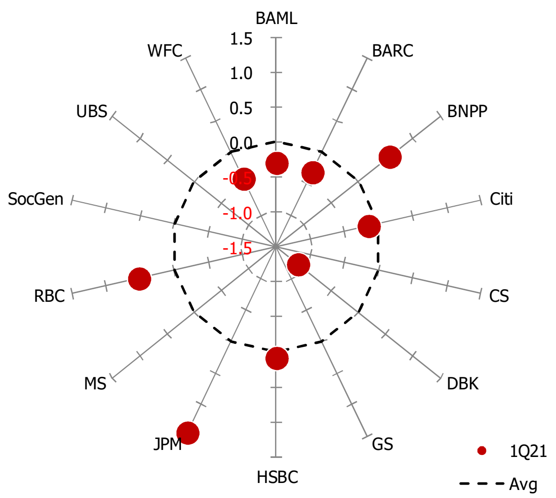


Commercial Banking / Treasury Services



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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, asset servicing, and 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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