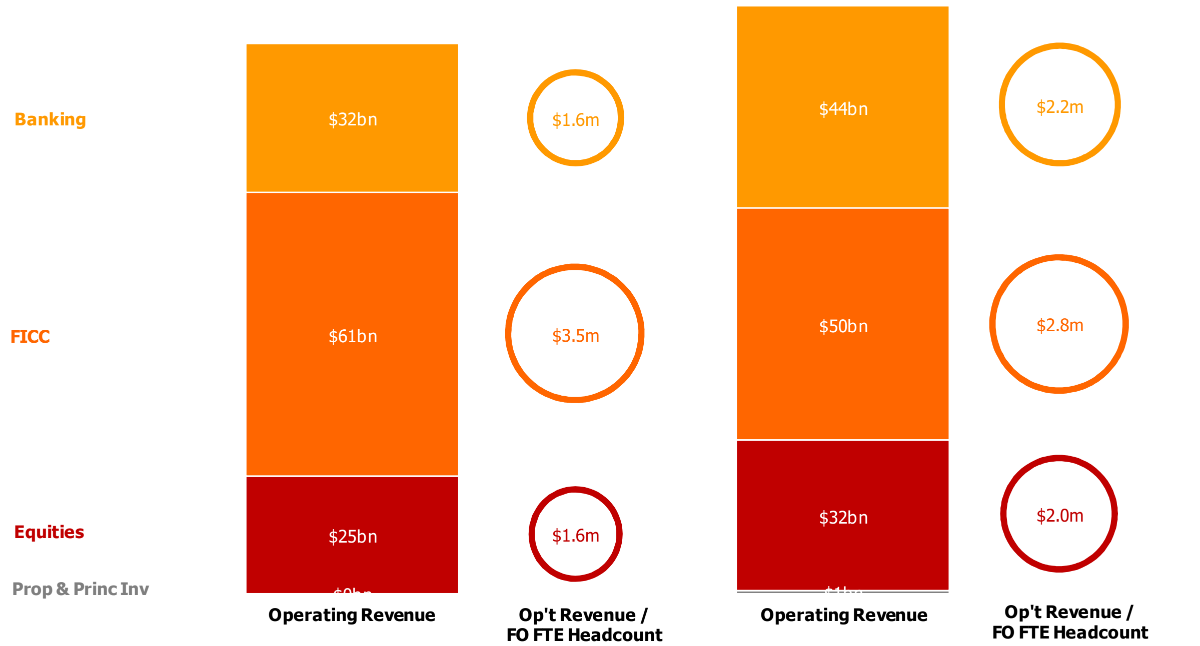
Results Review 2Q21 / 6m21

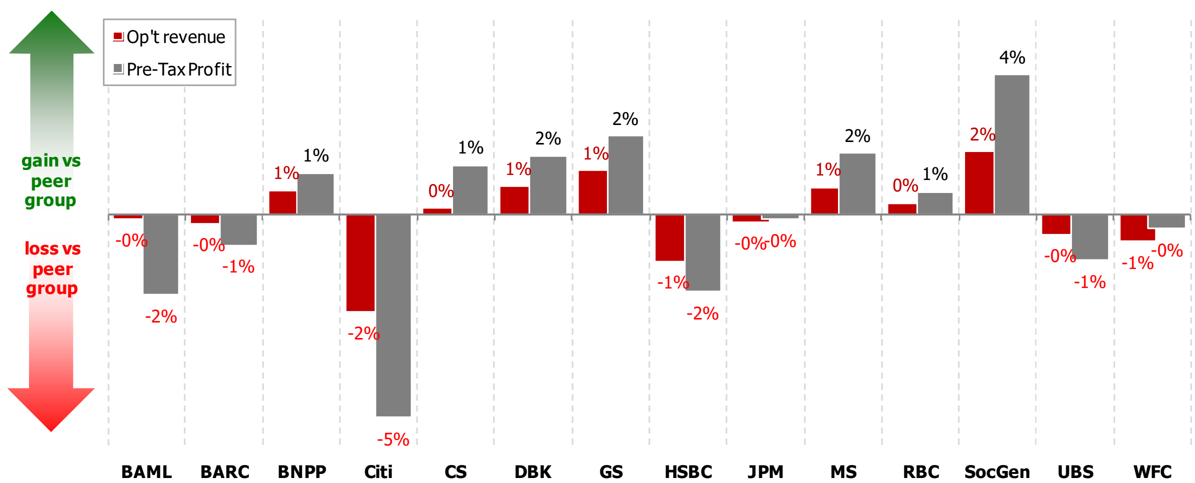
Capital Markets: Overview

- Investment banks in this report generated revenue of $127bn in 1H21, 6% ahead of 1H20. Operating costs grew 12% y/y: US banks' continued spend/investment – including performance-related comp accruals - contributed to a 4% dip in pre-tax profits. European banks, by contrast, increased profits, but that was partly due to the non-recurrence of losses in structured equity derivatives in 1H20. In aggregate, pre-tax profits in Banking and Equities jumped 50% and 43% vs 1H20; but slumped 37% in FICC.
- The 2H21 revenue could exceed consensus expectations – especially in businesses related to stock markets. Our base scenario is 20% decline in 2H21 vs 1H21.

Operating Revenue (6m20) (6m21)



% change share of peer group operating revenue and pre-tax profit (6m21 / 6m20)



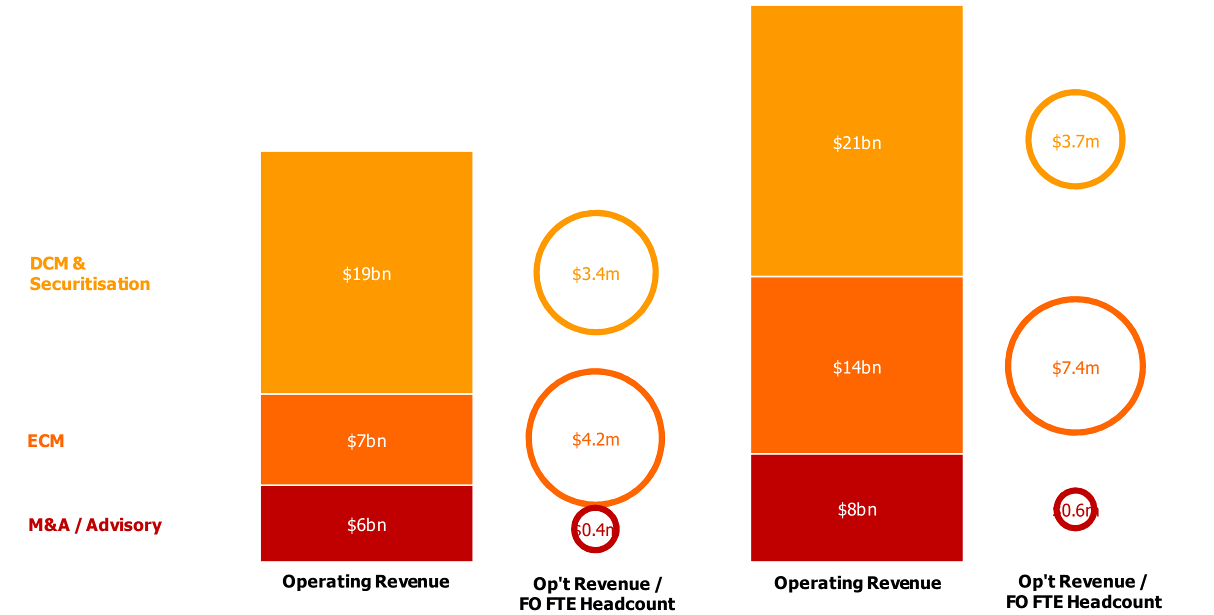
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments..

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

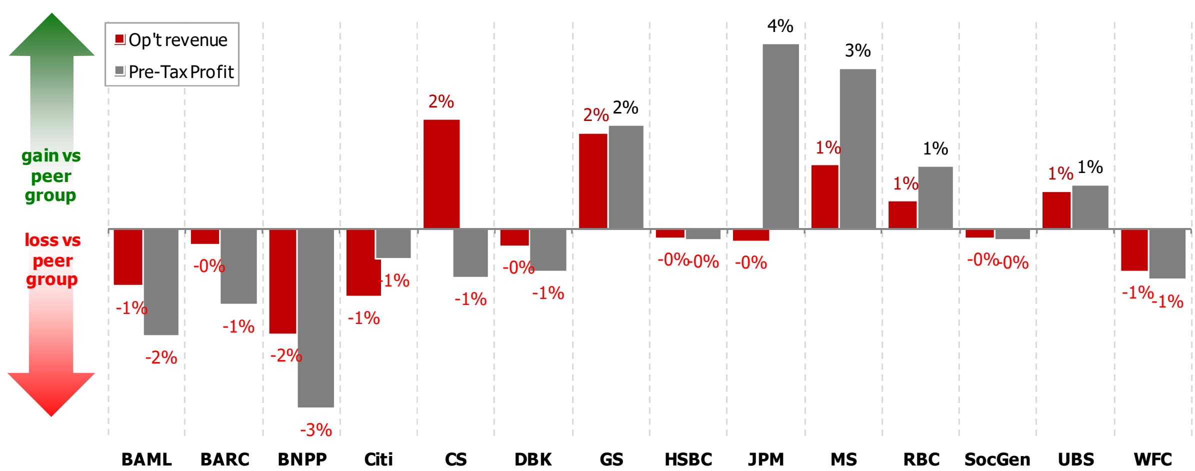
- High grade bond issuance dropped 20% from 1H20, and more than 30% in the US. All the growth was in high-yield: fees surged 50% y/y, driven by the US, the UK and China. Emerging markets and APAC local currency issues also made a strong contribution. Investors are (over?)confident: in recent months, European investors have been jettisoning credit-default insurance, despite record volumes ($550bn at end-1H21, from zero in late 1990s) and a worrying inflation/rates outlook.

  Loan fees jumped 25% y/y, driven by 75% surge in acquisition-related financing, especially in financials, industrials and tech. The US outperformed, with 2/3 of global volume; APAC was flat and Europe fell 20%. Securitisation revenues were strong in 2Q21, on ABS and non-agency RMBS.
- ECM volumes broke all records: almost $700bn of deals, with IPOs contributing $200bn and SPACs $122bn. The growth in Europe and APAC (including Japan) comfortably outstripped the US, albeit from a lower base. The banks in this report doubled their fees and almost tripled pre-tax profits.
- M&A/Advisory volumes also demolished previous 1H – and 2Q - records. 1H21 highlights: cross-border M&A doubled; mega-deal ($5bn+) volumes tripled; private equity and SPACs accounted for 20% and 15% of total volume, respectively. Banks' 1H21 fees surged 40% y/y, and profits 80%.
- Going into 3Q21, banks commented on strong pipelines, especially in ECM and M&A, where $1tn+ of 'dry powder' - including the capital already raised for SPACs – should support healthy volumes for the rest of 2021. Our base range is 15-20% decline in 2H21 vs 1H21.

Operating Revenue (6m20) (6m21)



% change share of peer group operating revenue and pre-tax profit (6m21 /6m20)



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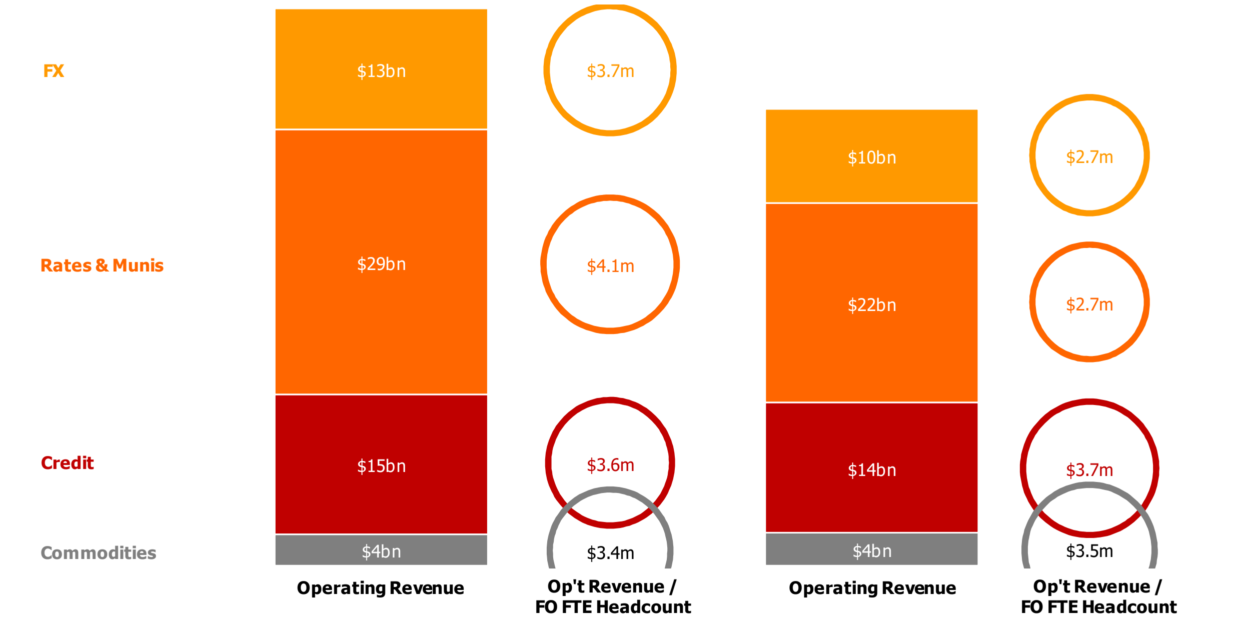
Capital Markets (cont.): FICC

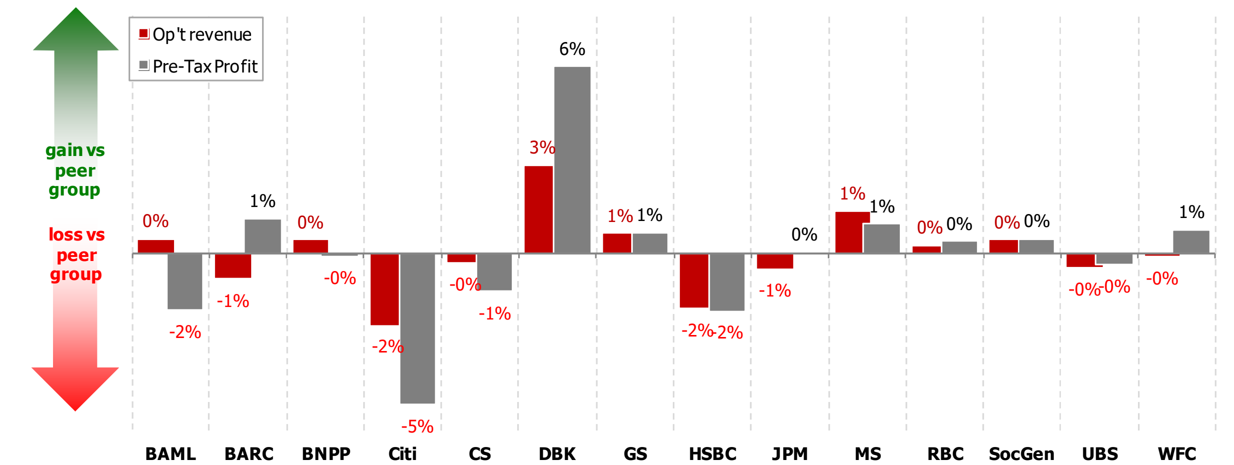
- FX and Rates were *the* key area of weakness in 2Q21, depressing the combined 1H21 revenues 20-25% y/y. G10 Rates dropped as much as 30% y/y in 2Q21, with sharpest drops in the US. A couple of banks benefited from strong positioning in swaptions; but those were exceptions. In FX local markets, spot revenue was hit by margin compression; the main participants are focused on building out NDFs capability. APAC did well, especially in Rates and repo.

  With only a couple of exceptions, most banks have established some crypto capability, in capital markets and/or private bank/wealth management divisions. The ultimate recognition came in June, from Basel Committee on Banking Supervision, which proposed that cryptos should get a 1,250% risk weight – harsh, but hardly unique, and it aligns crypto with 'traditional' asset classes.
- Credit held up well – a decline was in single digits, and not across the board: several banks in this report registered healthy y/y gains in 2Q21. Institutional investors are looking to reduce their exposure to bonds due to rising inflation and redirect investments to alternatives, especially commodities, real estate, hedge funds; and, to a smaller degree, equities.
- Commodities revenues fell vs 2Q20, on weak metals and oil trading revenue. However, the new supercycle may well be underway. For the first time, the world's leading economies – including the US and China – are simultaneously investing in mega infrastructure projects to drive the post-Covid economic recovery; also, the global drive for electrification is pushing up demand for metals.

Operating Revenue (6m20) (6m21)



% change share of peer group operating revenue and pre-tax profit: (6m21 / 6m20)



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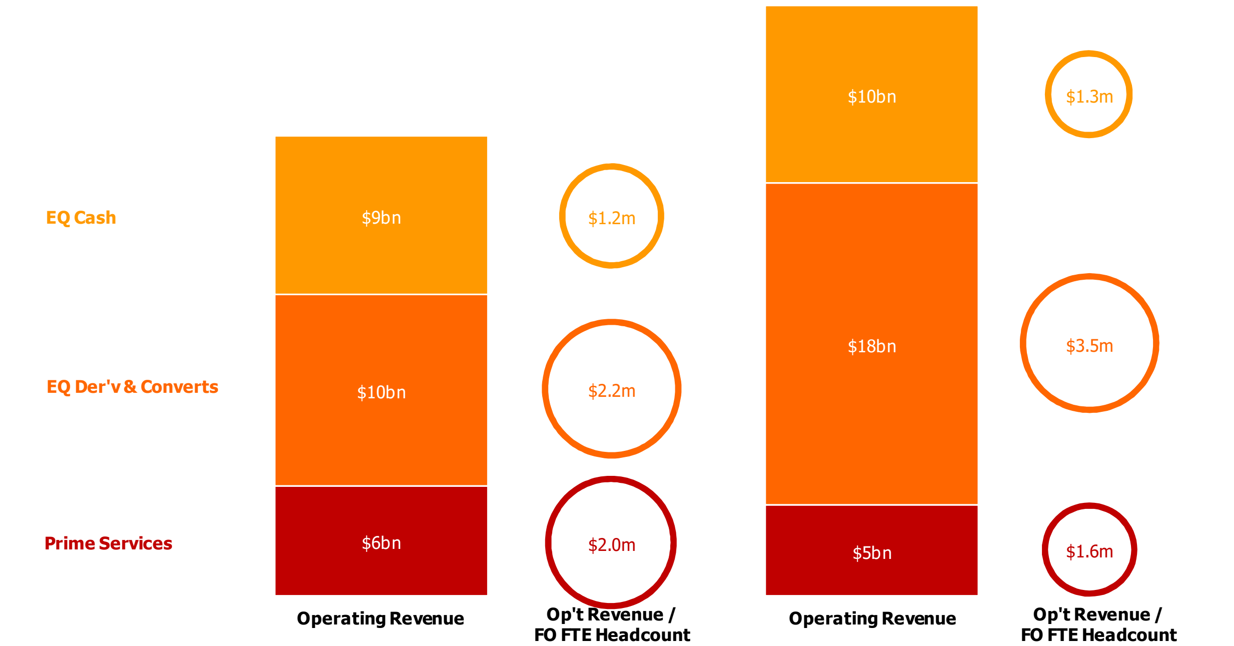
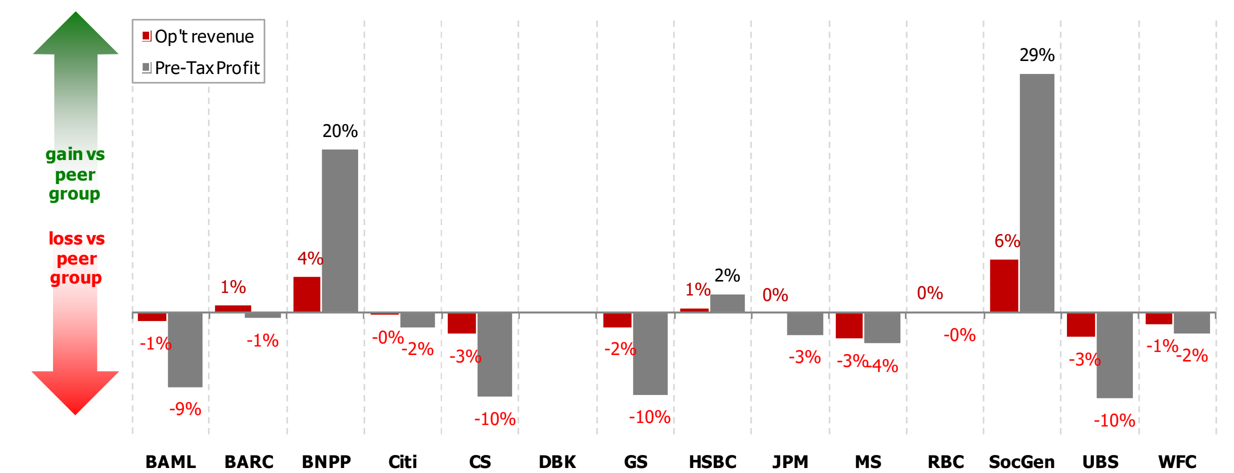
Capital Markets (cont.): **Equities**

- Cash equity revenue jumped in 2Q21; block trades were the standout. Top-tier incumbents extended their lead.
- Equity derivatives enjoyed a strong 2Q21: a sharp decline in flow index was more than offset by strength in structured derivatives (correlation, autocallables in APAC), converts and Delta One. The 3Q21 started with unusually high activity in options, focused on tech stocks.
- In prime services, the benefit of higher client balances was offset by depressed margins. Allocators' appetite for hedge fund investments waned somewhat in recent months, but not for global macro and multi-strategy funds: those remain in demand, mostly as a hedge to inflation.

Operating Revenue (6m20) (6m21)



% change share of peer group operating revenue and pre-tax profit (6m21 / 6m20)



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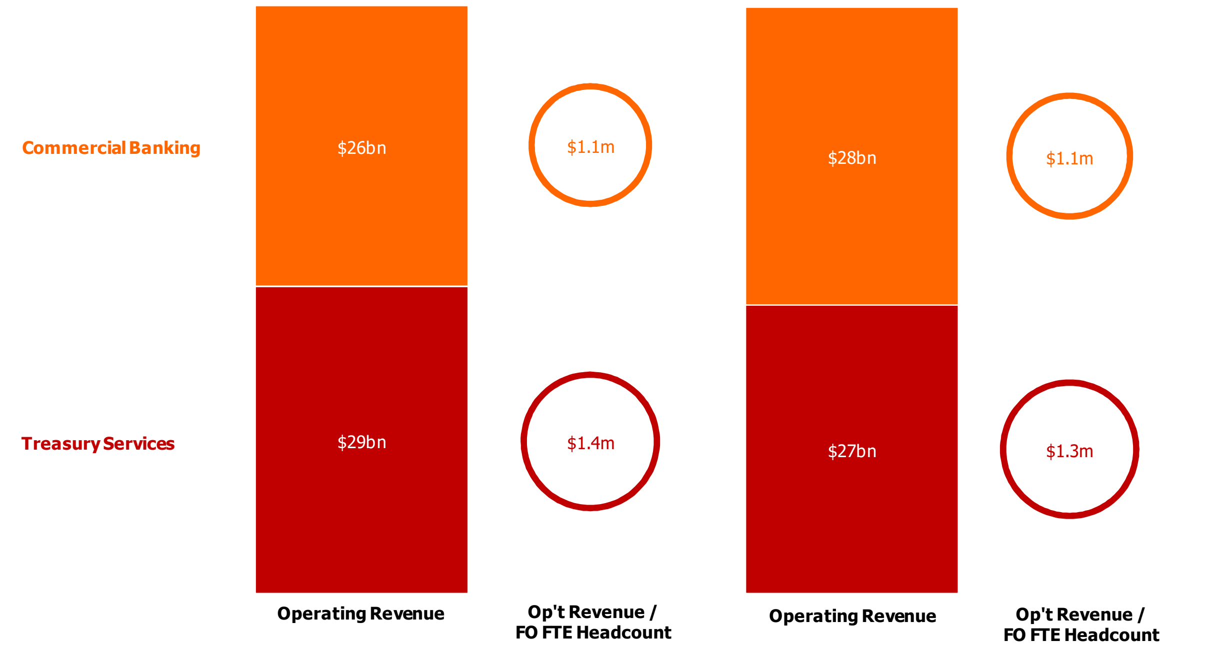
Commercial Banking & Treasury Services

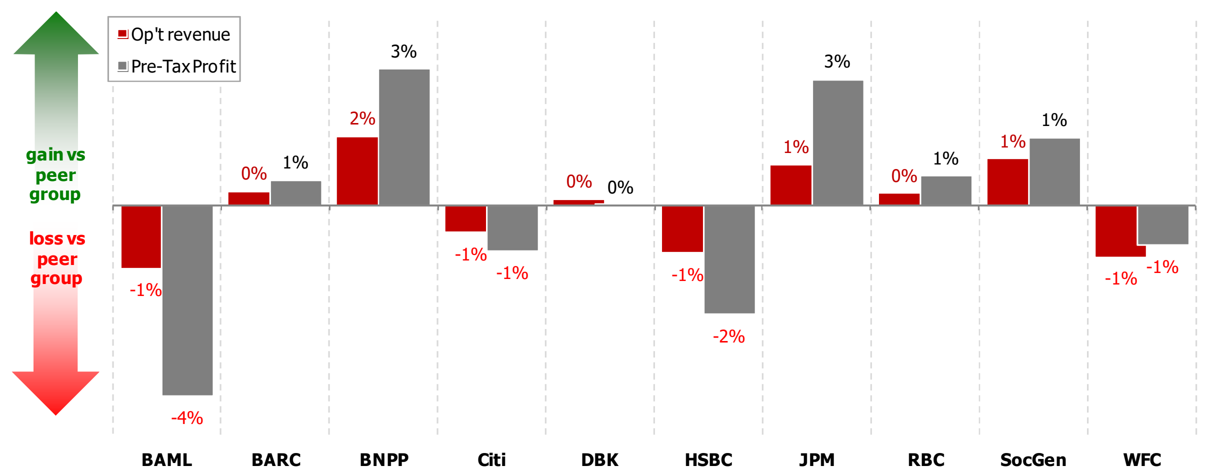
- Banks featured here grew commercial banking revenues and pre-tax profit by 6% y/y in 1H21. Low interest rates remain a drag, but most banks were able to offset the impact by higher fees across products and deposits. In the US (and, to a lesser extent, Europe), middle-market banking was the key driver, especially as CRE and corporate banking stagnated.

  A year and a half into the Covid crisis, it is worth noting that private debt played an important role as an alternative to commercial bank lending – and is, thus far, in a very good shape. Sceptics point out that this may change; market participants, though, stress that key risks associated with private loans may also be the source of strength. Private loans are typically illiquid and are, as such, predominantly supported by long-term investors; they also avoid cyclical industries – such as those hit the most in the crisis – and are cushioned by plentiful equity (often exceeding 50%), as a result of huge amounts of capital raised in recent years. It is early days; but, barring a major shock or widespread losses, private debt appears set to grow in importance.
- Treasury services revenue dipped, while costs grew 3% y/y: pre-tax profit dropped 15% y/y.

Operating Revenue (6m20) (6m21)



% change share of peer group operating revenue and pre-tax profit (6m21 / 6m20)



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.

Revenue dynamics

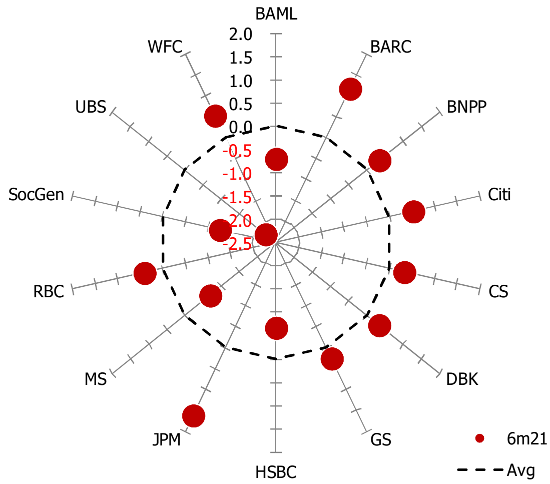
6m21/6m20 (Operating revenue, % change, US$, Global Level 1)

	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	↘	↑	↑	↘		↑		↓	↗		↑	↑		↓

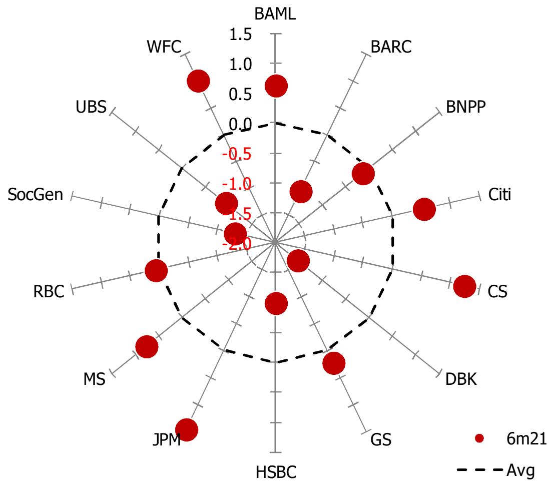
Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

Pre-tax profit margin (US$)

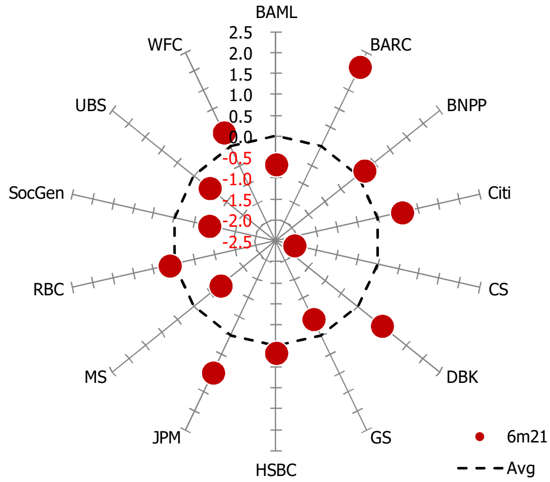
Capital Markets



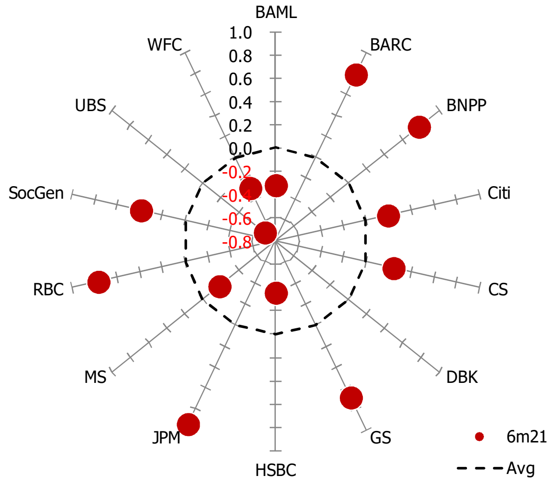
Banking



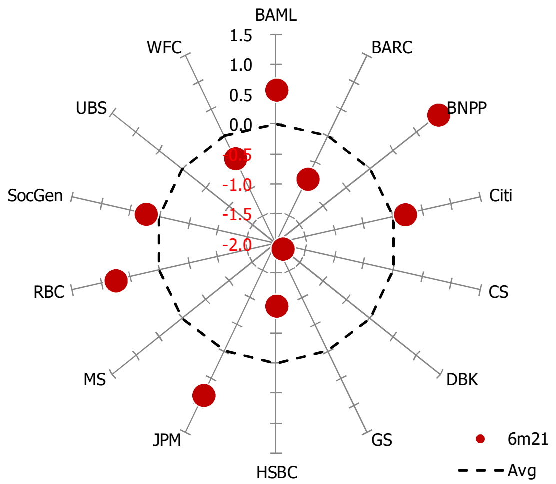
FICC



Equities



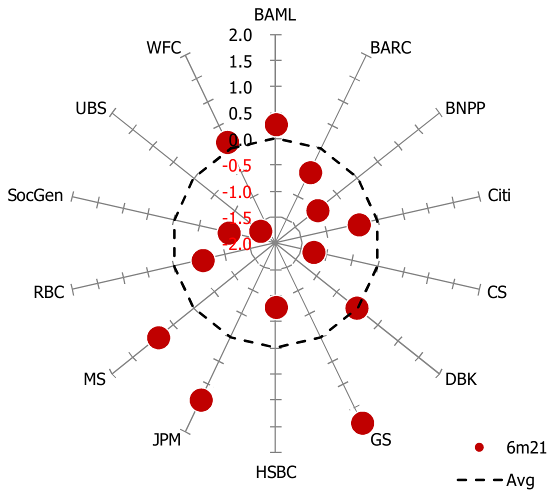
Commercial Banking / Treasury Services



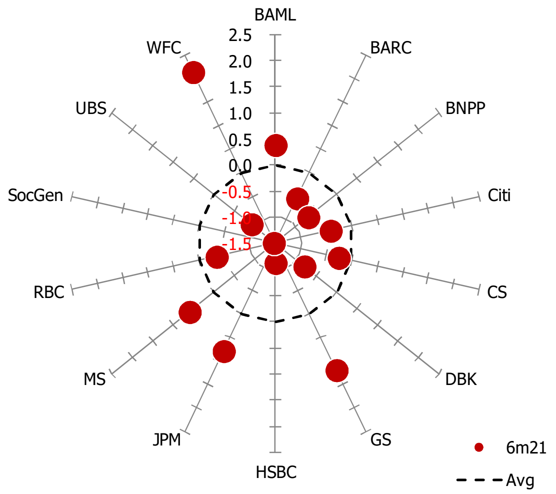
Source: Tricumen. Notes: (1) TRIC product definitions, standard deviation, product Level 1; (2) Operating expenses exclude one-off non-operational items, insurance-related benefits & claims, and credit expense/recovery/NPL provisions. Capital expenditure is included as accrued. Litigation expense is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

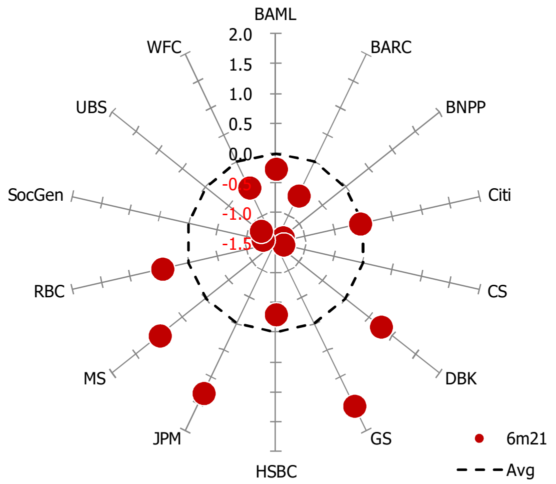
Capital Markets



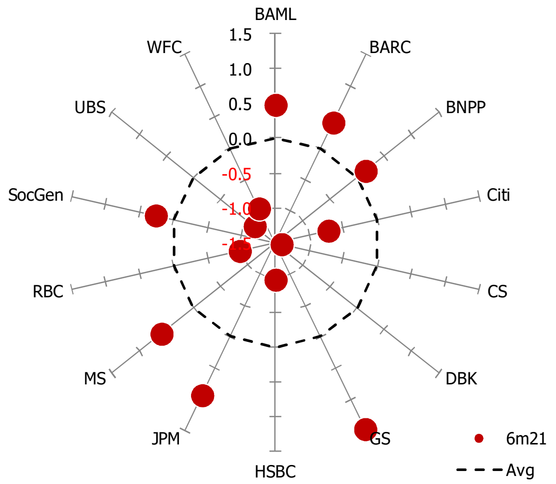
Banking



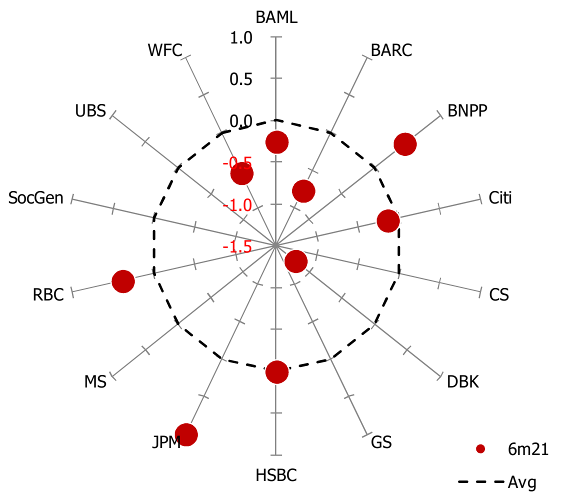
FICC



Equities



Commercial Banking / Treasury Services



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