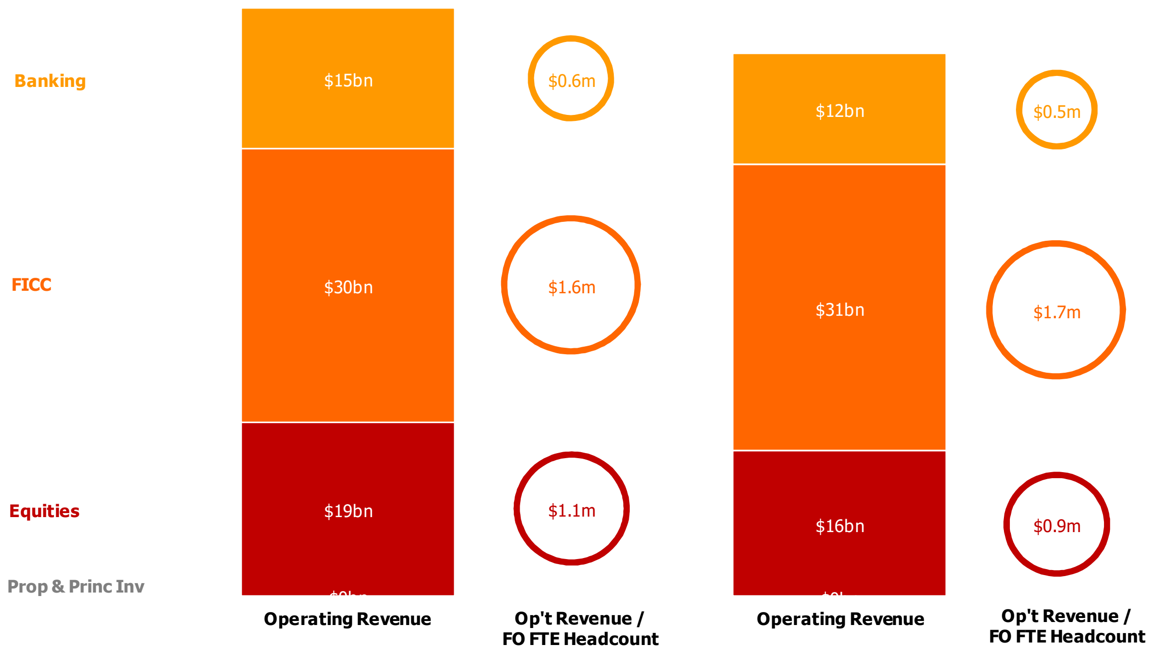
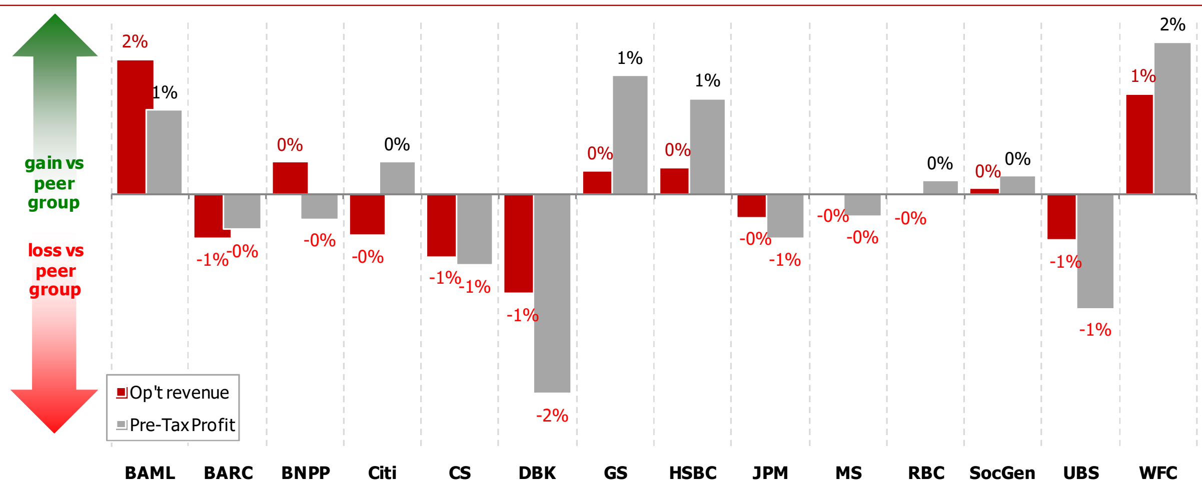
CIB Results Review 1Q23
Capital Markets: Overview

- The combined revenue of banks in this report reached $59bn in 1Q23, 8% below the prior-year period. There has been no recovery in Banking markets but several banks expressed optimism that volumes will perk up in late 2023: first in M&A/Advisory – which should benefit from institutional 'dry powder' – then, sometime in 2024, in IPOs and LBOs. In the meantime, several big players are trimming teams. Aggregate FICC revenue advanced slightly, driven by 'good volatility' in Rates and Credit; FX and Equities dropped, however. Partly due to timing of comp accruals, costs declined by a comparably modest 5% y/y, leading to 12% y/y decline in pre-tax profits.
- Despite regulators' assurances that the sector is financially sound and FDIC's swift reaction to SVB's crisis, US regional banks remain under pressure: SPDR S&P Regional Banking ETF hit lows last seen in Mar-20, down 40% since the start of 2023. Without an even stronger intervention from regulators, further failures are likely: after more than a decade of 'easy money' – which, predictably, created bubbles – central banks then lurched in the opposite direction, shocking economies. Perception matters: central banks should have started years ago, with gradual increases. In any case, new entrants see opportunities: e.g. Blackstone is offering Regionals to reduce the lending risk by channelling their loans to its insurance clients.

Revenue & productivity (1Q22) (1Q23)



% change share of peer group operating revenue and pre-tax profit (1Q23 / 1Q22)



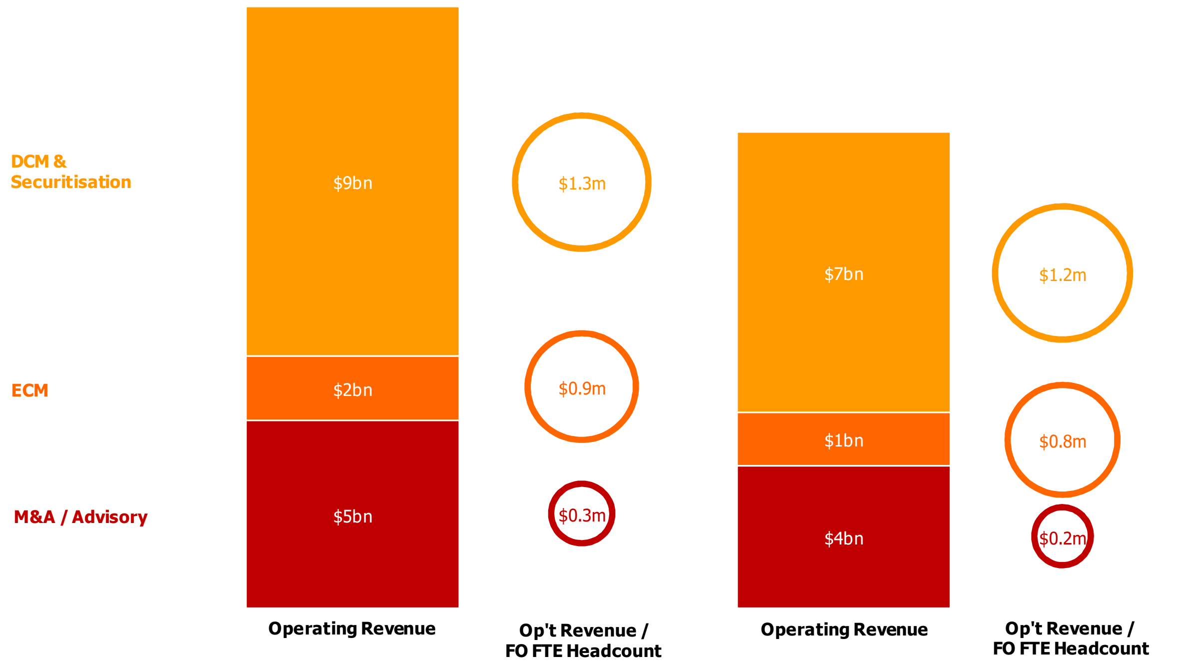
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

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

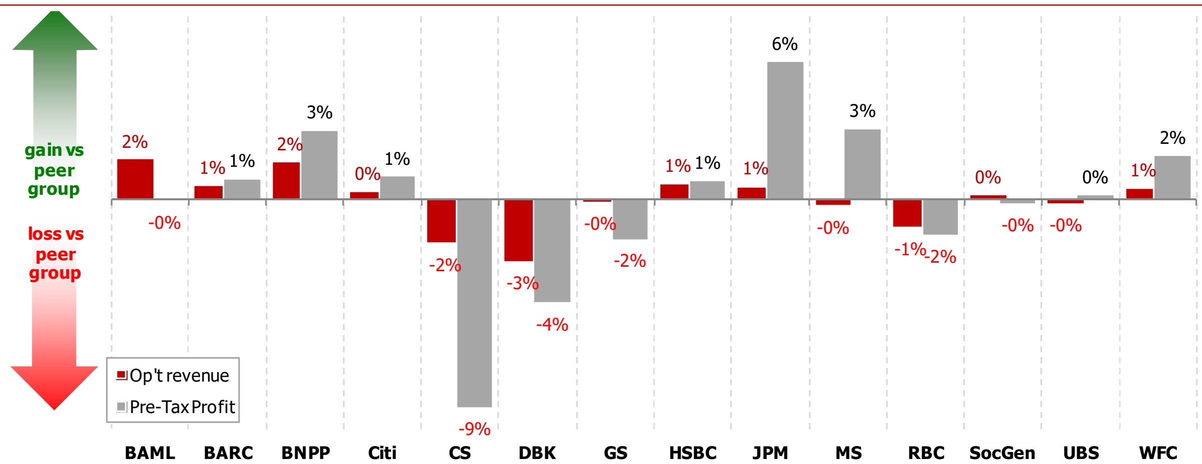
- DCM bond issuance hit multi-year lows for 1Q, depressed by weak high grade volumes. However, high yield, while below 1Q22, tripled vs 4Q22, driven by North America. Also, green bonds set a new quarterly record and MBS volumes grew q/q. After a promising start to 2023, leveraged loans stumbled in March, especially in EMEA and APAC. The outlook is uncertain: banks are capturing more leveraged finance deals but investors favour high(er)-quality securities.

  Versana, a new digital data and tech platform launched only in Dec-22, signed up seven major US banks and investors and contributors. Founding members Bank of America, Citi, and J.P.Morgan (Credit Suisse disappeared from the firm's press releases) were, in March, joined by Deutsche Bank, Morgan Stanley, U.S.Bankcorp and Well Fargo. Versana is the market's first: a cloud-based SaaS data platform designed to centralise corporate loan data directly from administrative agents.
- ECM fees down 20% y/y and 5% q/q. Excluding SPACs, IPO fees dropped 40% y/y; the US held up better than others. APO fees were strong; and, in the US, convertible volumes were boosted by HG corporates – not regular participants in this market – looking to capitalise on new rules, which make issuance cheaper. London had only five IPOs in 1Q23, totalling £81m: 80% down y/y.
- M&A/Advisory 1Q23 volumes touched a decade-low, with particular weakness in EMEA and the US. Cross-border, PE-backed and jumbo volumes all halved y/y. As the world settles into the new environment of high – i.e. normal - interest rates, it's reasonable to expect that restructuring bankers will be very busy indeed, especially in sectors such as commercial real estate and tech.

Revenue & productivity (1Q22) (1Q23)



% change share of peer group operating revenue and pre-tax profit (1Q23 / 1Q22)



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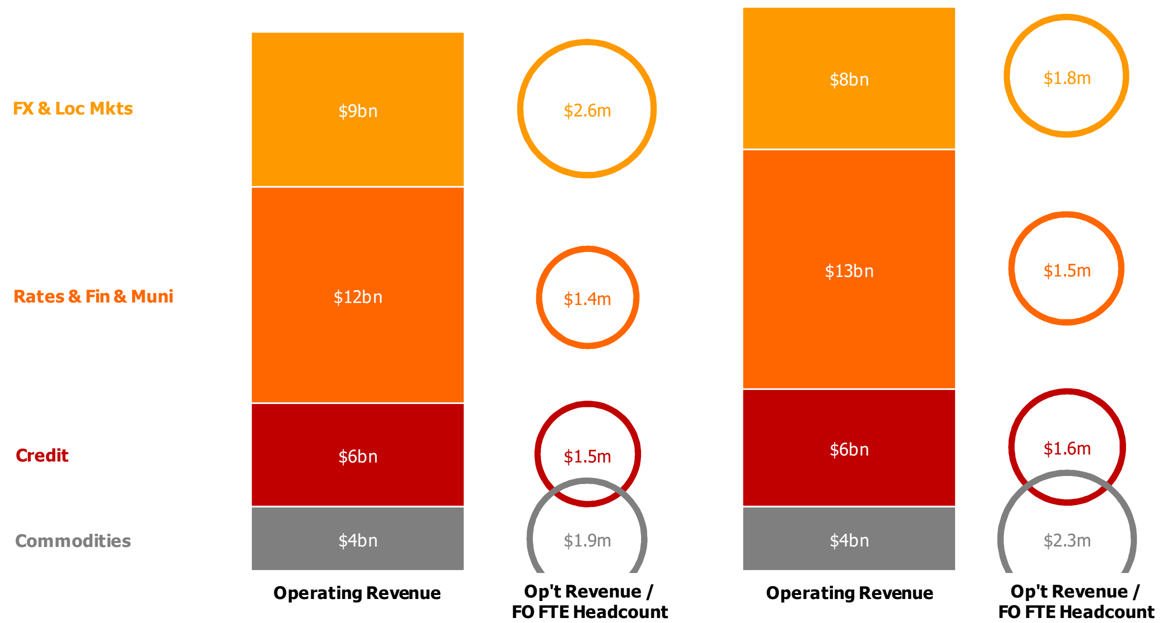
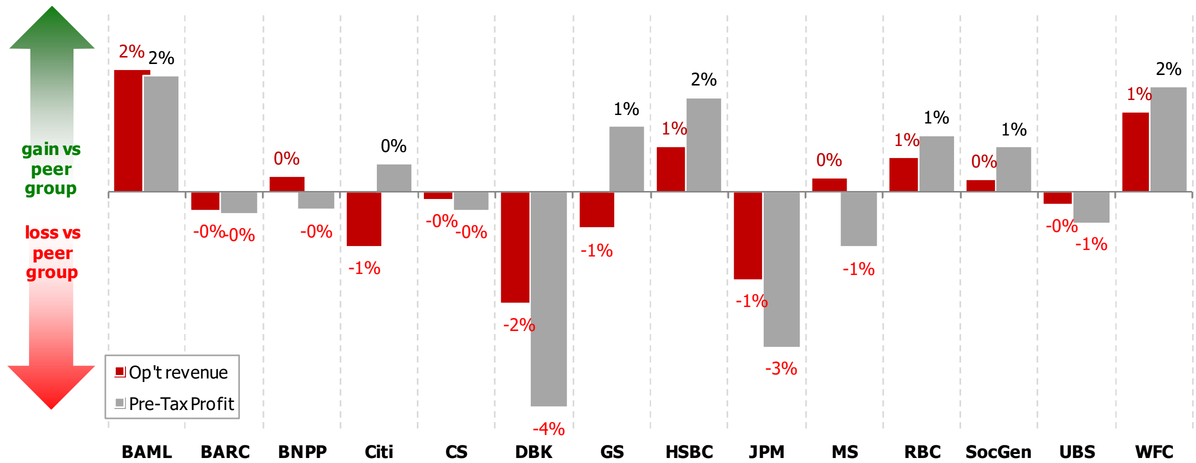
Capital Markets (cont.): FICC

- FX revenue was hit by extreme rates volatility, inflation outlook and market dislocation in March. The collapse of Silvergate and Signature may impact the crypto industry: these were go-to banks for the sector and regulators' coordinated assault (The Fed, FDIC and OCC stated that crypto represents a 'significant risk' and DoJ is examining Silvergate's dealings with Alameda and FTX) may make banks even more reluctant to get involved. In Europe, Bank of England and ECB are exploring options. BoE's Deputy Governor testified that the digital pound has a better than 50-50 chance of coming to fruition; and BoE is recruiting <30 staff to oversee the BritCoin development.
- In rates, the collapse of SVB in mid-March triggered extreme volatility in US Treasuries – well beyond Covid-era high and into the GFC territory. Fear of further rate hikes cooled the demand for munis; February was the worst month on record since 2008 and 1Q23 issuance fell to a 5-year low. Still, in March, Vanguard launched Short-Term Tax-Exempt Bond ETF (VTES) - its first ETF in two years - in response to high demand from investors looking for yield and minimised tax.
- Fears of a major bank-related credit event and the geopolitical and economic outlook drove investors into bonds - allocations beat post-GFC records and leverage FI ETF assets surged, possibly driven by retail investors – and the US debt ceiling debate lifted interest in European corporate bonds.
- Despite a severe drop in commodities volatility, the peer group's aggregate revenue was flat y/y as two outperformers offset their peers' weakness. OPEC's unexpected announcement of oil output cuts of 1.16mbpd in early April – which lifted the total cuts to c.3.7mpbs, equal to just under 4% of global demand – barely registered on OVX.

Revenue & productivity (1Q22) (1Q23)



% change share of peer group operating revenue and pre-tax profit: (1Q23 / 1Q22)



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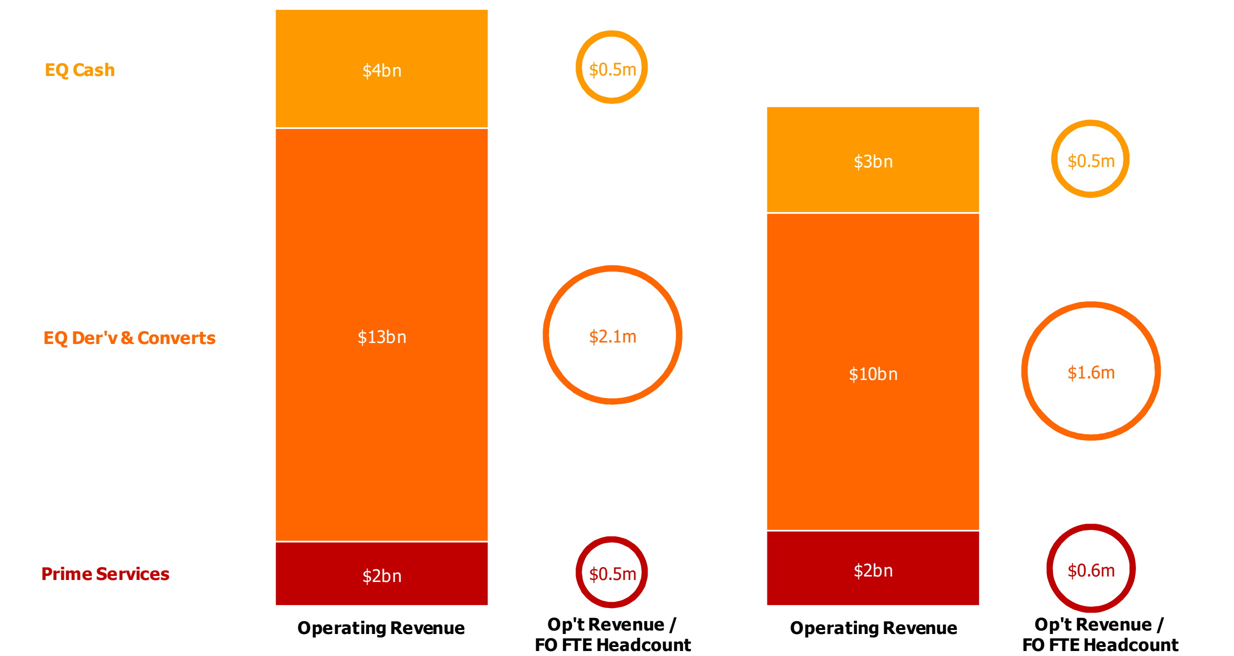
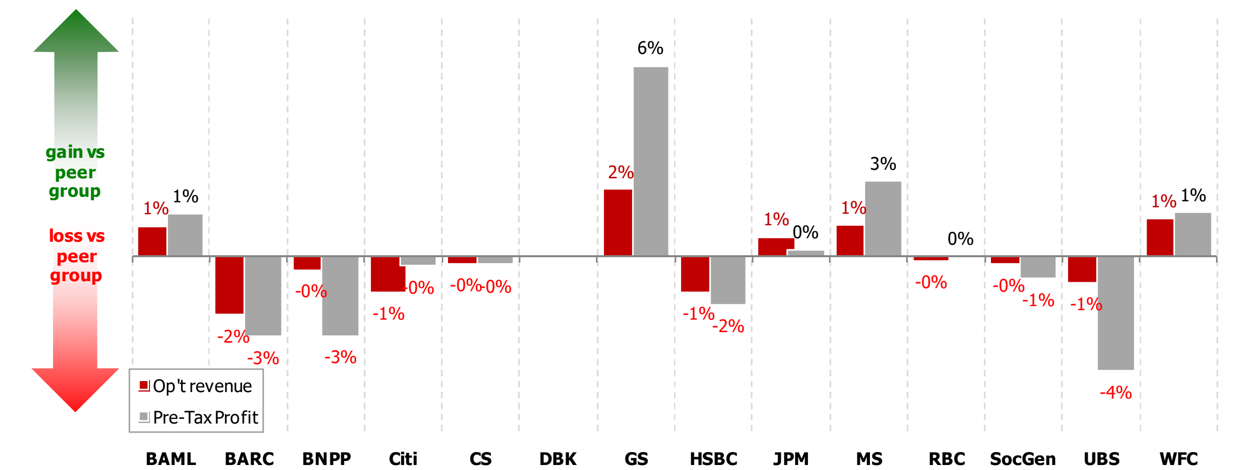
Capital Markets (cont.): Equities

- In cash equities, client flows weakened; and, despite a 25% increase vs 4Q22, block trades declined vs the prior-year period.
- A decline in equity derivatives revenue primarily reflects the reduced volatility compared to 1Q22.
- The peer group's aggregate prime services grew 17% vs 1Q22 and 34% vs 4Q22. Also, the sector has a good momentum: hedge funds AuM grew in 1Q23 – adding to gains seen in 4Q22 – *and* registered net asset inflows, for the first time since 1Q22.

Revenue & productivity (1Q22) (1Q23)



% change share of peer group operating revenue and pre-tax profit (1Q23 / 1Q22)



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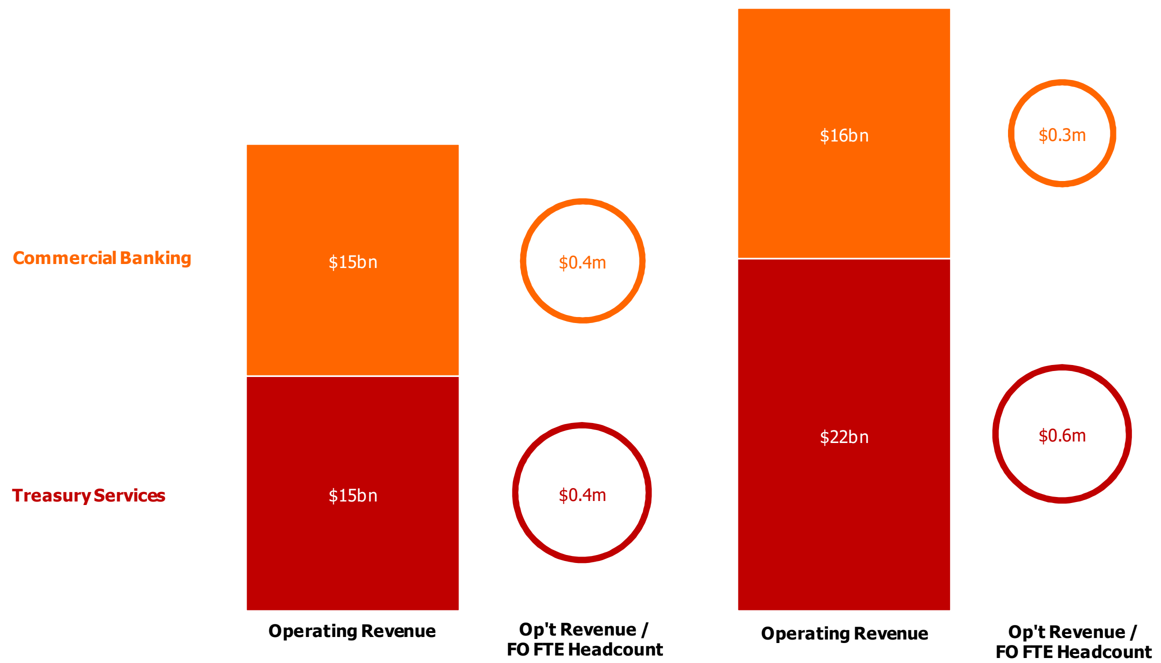
Commercial Banking & Treasury Services

- Commercial and transaction banking revenue totalled $39bn, 22% ahead of 1Q22. Revenues were primarily driven by strong Treasury Services, which surged on higher margins in the high-interest environment; several banks in this note reported record 1Q revenue.

  Costs also grew, but at much slower rate; the resulting pre-tax profit was 38% up y/y.
- In the US, in expectation of further rise in rates, corporates are increasingly turning to derivatives market to lock rates on future borrowing.
- Project finance volumes jumped 20% y/y as strong US growth (especially in oil and gas) more than offset a sharp drop in Europe and APAC.
- ECB reported a surge in European banks' usage of Significant Risk Transfers: $190bn in 2022, confirmed by several large banks and specialists which facilitate such transactions. The growth in SRT volumes continued in 1Q23 and, with banks having few other options to boost and/or free up their capital, it is reasonable to expect continuation of this trend during the rest of the year.

Revenue & productivity (1Q22) (1Q23)



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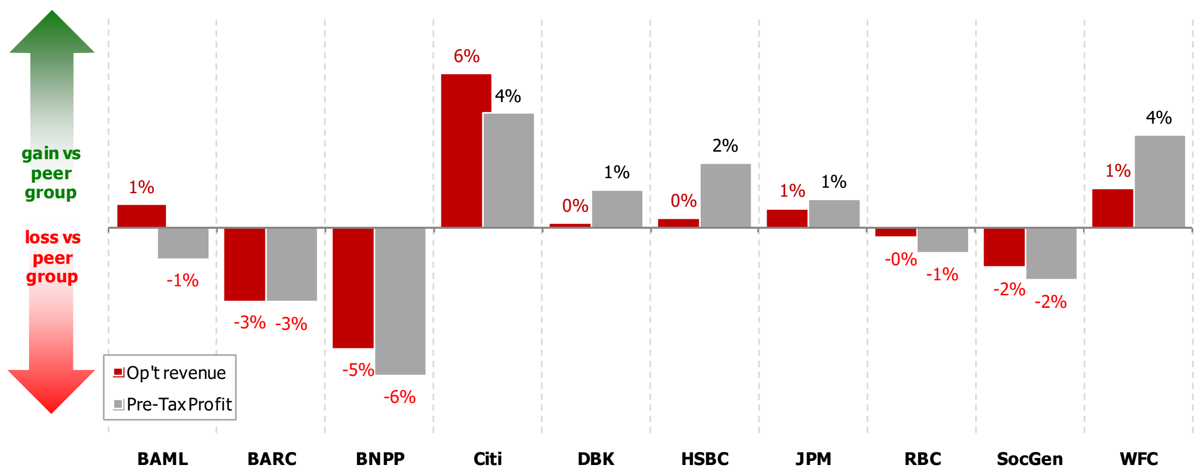


Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) In-scope: Large Cap/MNC and Mid-Cap/SMEs.

Revenue dynamics

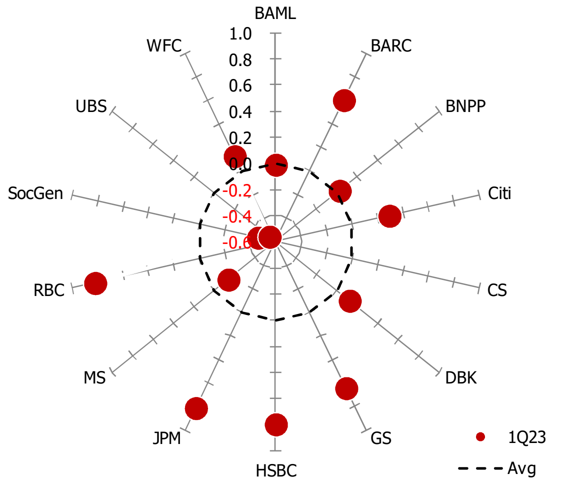
1Q23/1Q22 (Operating revenue, % change, US$)

	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 & Loc Mkts	⇧	⬀	⇧	⬀	⇩	⇩	⇩	⇧	⬂	⇩	⇧	⬀	⬀	⇧
Rates & Fin & Muni	⬂	⇩	⬂	⇩	⬂	⬀	⬂	⬀	⇩	⬂	⬂	⬂	⇩	⇧
Credit	⇧	⬀	⬂	⬀	⬀	⇩	⬂	⇧	⬀	⬀	⬀	⬀	⬂	⬀
Commodities	⇧		⇧	⇧			⇧	⇧	⇧	⇧	⇧	⇧	⇧	⇩
Equities	⬂	⇩	⬂	⬂	⬂	⬂	⬂	⇩	⬂	⬂	⬂	⬂	⬂	⇧
EQ Cash	⬂	⬂	⬂	⬂	⬂		⬂	⇩	⬂	⬂	⬂	⬂	⬂	⇧
EQ Der'v & Conv't	⬂	⇩	⇩	⇩	⬂	⬂	⬂	⇩	⬂	⬂	⇩	⇩	⇩	⇧
Prime Services	⬂	⬂	⇩	⇩	⇩		⬂	⇧	⬂	⬂	⇩	⇩	⇩	⬂
Prop & PI			⬀					⇩	⇧					
Comm Bank / Treas Serv	⇧	⇧	⇩	⬂		⇧		⇧	⇧		⬂	⇩		⇧
Comm Bank	⇧	⇩	⬀	⬀		⇧		⬂	⬀		⇧	⬀		⇧
Treas Serv	⬂	⬀	⇩	⬂		⬂		⇧	⬀		⇩	⇩		⇧

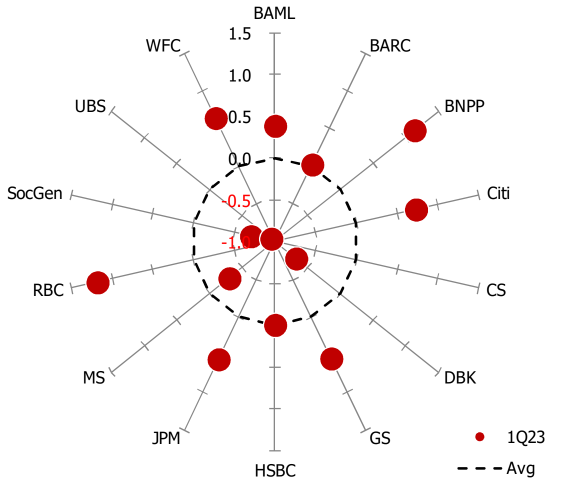
Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

Pre-tax profit margin (US$)

Capital Markets



Banking



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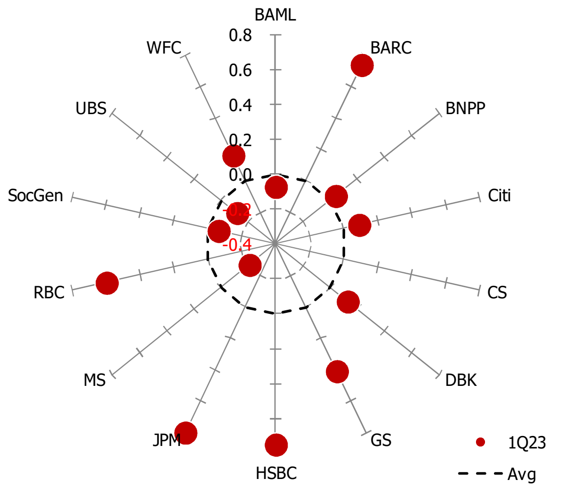
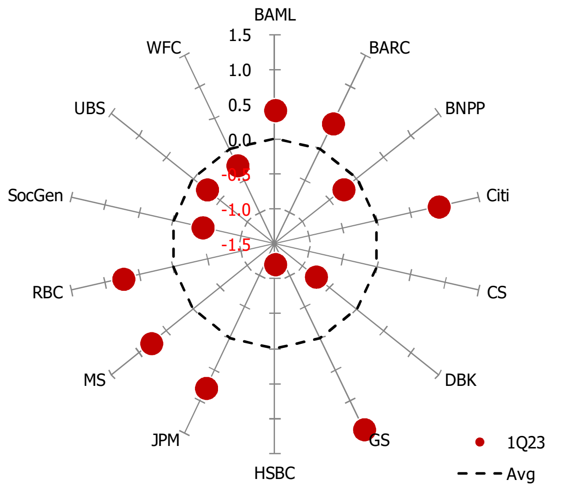
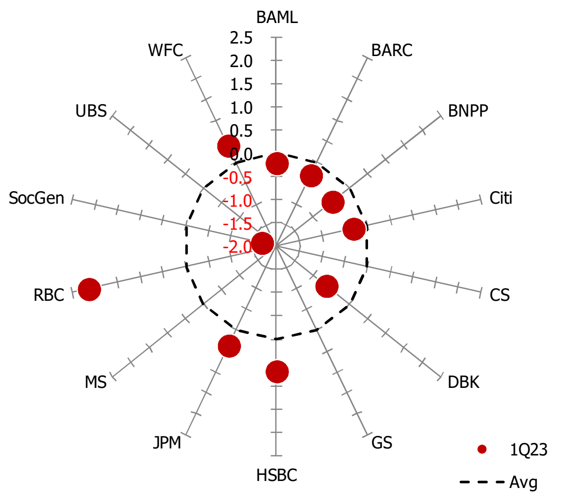


Equities



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.

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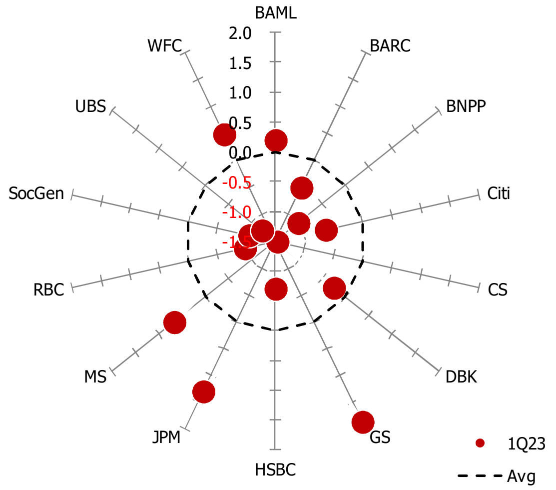
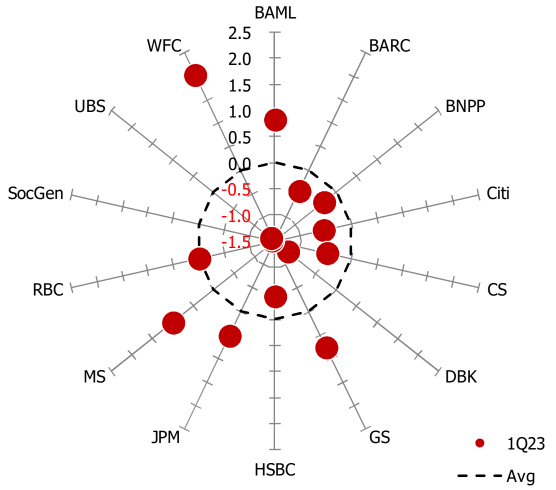
Operating Revenue / Front Office FTE (US$)

Capital Markets



Banking



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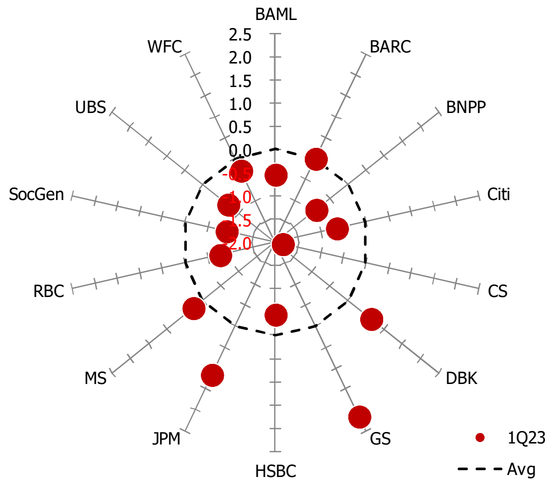

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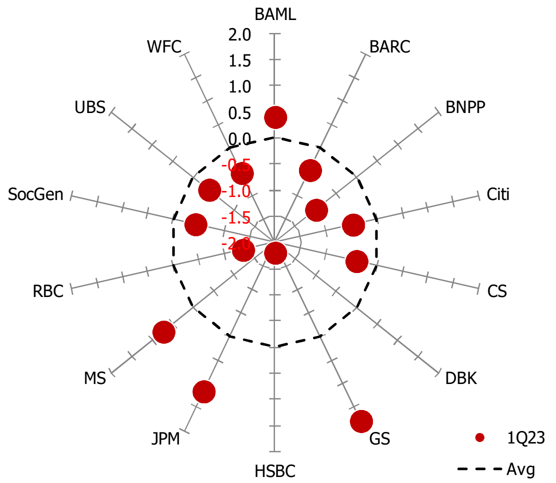

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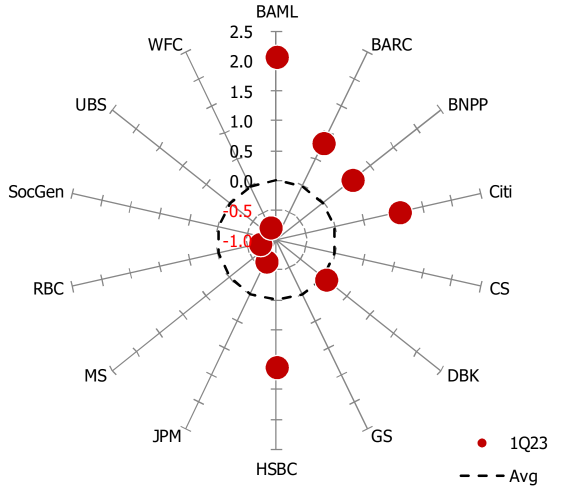

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Situated near Cambridge in the UK, Tricumen is almost exclusively staffed with senior individuals with an extensive track record of either working for or analysing banks; and boasts what we believe is the largest financial markets-focused research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

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