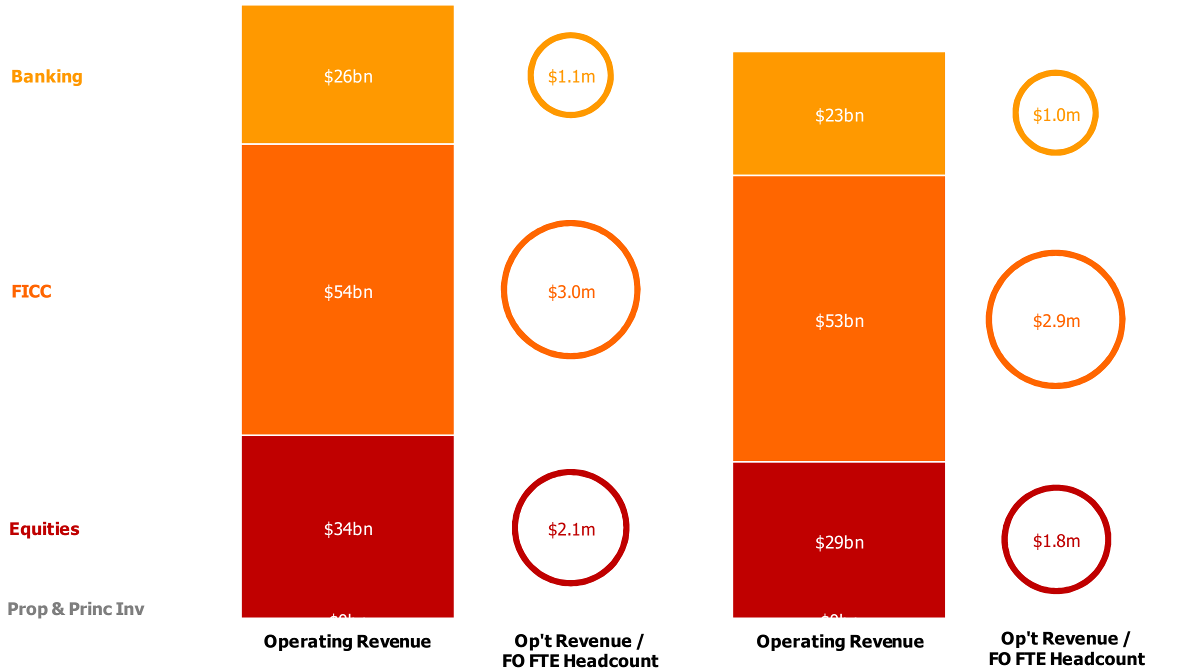
CIB Results Review 2Q23 / 6m23

Capital Markets: Overview

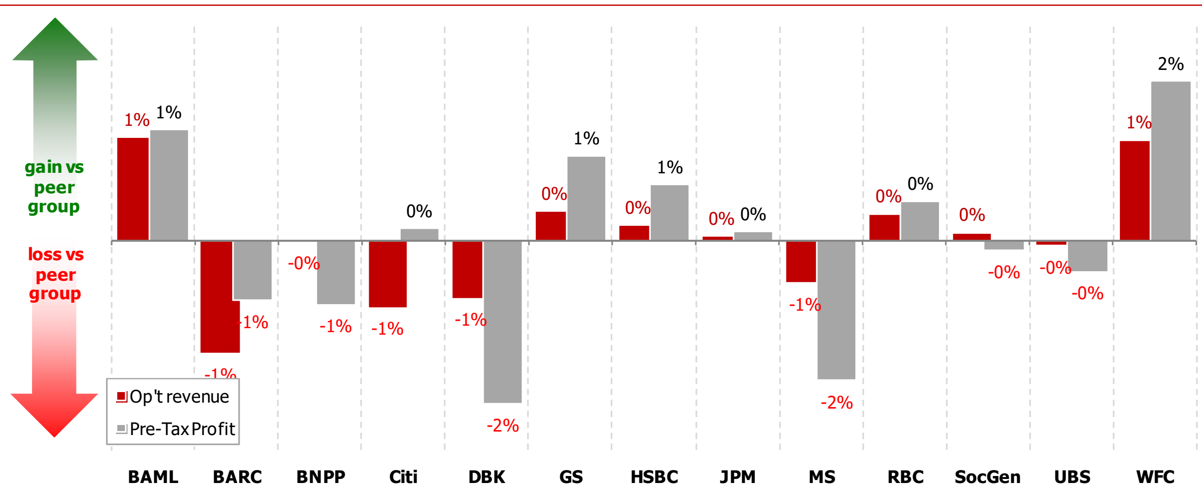
***UBS* postponed the release of its 2Q23 results to 31-Aug-23; the financials shown here are Tricumen estimates. *Credit Suisse* is excluded from all analysis.**

- The aggregated operating revenue of the banks in this note topped $105bn in 6m23, down 8% y/y. Despite some signs of recovery in DCM bonds and ECM, Banking weakened; as did FICC Macro and Equities. AMER banks held up better than their EMEA peers: -5% vs -13% y/y. Operating costs also declined, but at a slower rate, leading to the 12% y/y drop in pre-tax profits.
- Several banks made big announcements on regional staffing levels. Driven by post-Brexit considerations – largely unaffected by the UK/EU MoU signed in June – banks will (continue to) selectively hire in Eurozone. In APAC, most banks are reducing their exposures to Mainland China.
- In late July, the three big US regulators jointly proposed 'Basel 3 endgame' capital requirements for all banking institutions with more than $100bn of assets (down from $250bn), which will now need to apply supplementary leveraged ratio and countercyclical capital buffers; and also use standardised method to measure risk, rather than internal models. The new measures, FDIC estimates, would increase Common Equity Tier 1 by 16% for in-scope banks.

Revenue & productivity (6m22) (6m23)



% change share of peer group operating revenue and pre-tax profit (6m23 / 6m22)



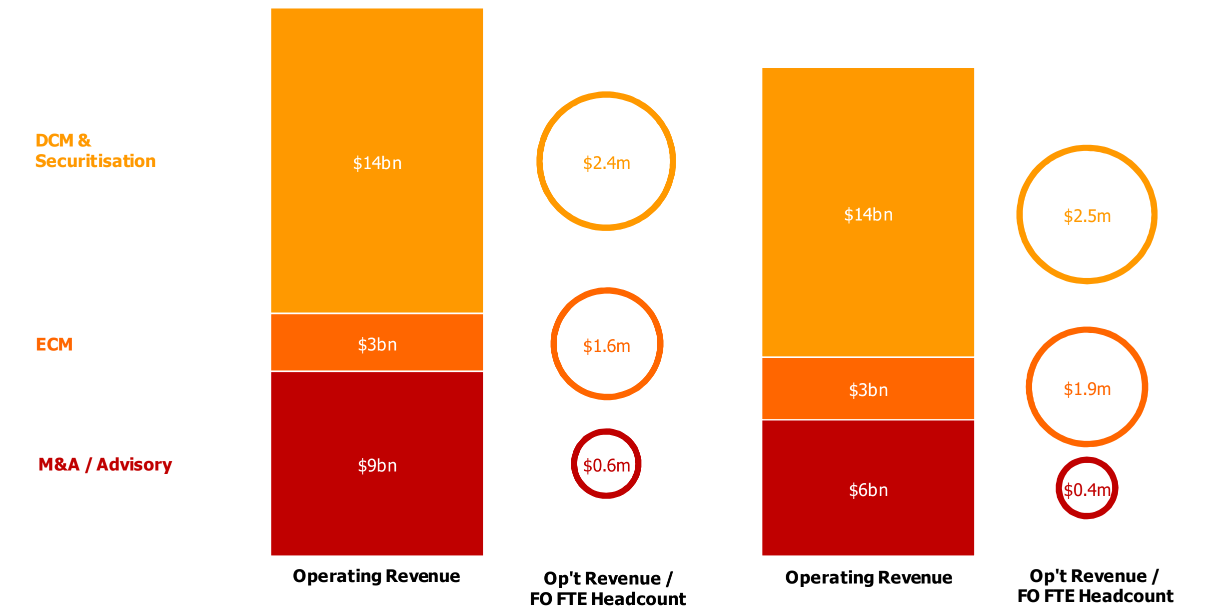
Notes: (1) Tricumen product definitions throughout. (2) Revenue is post-writedowns, excludes DVA/equivalent and one-offs. (3) Headcount: Front office full-time equivalent, adjusted for seniority. (4) Pre-tax profit excludes Prop & Principal Investments.

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

- In DCM, high grade volumes were largely unchanged vs 6m22, but high yield issuance surged 30% y/y, driven by North America- and Germany-domiciled issuers. US corporates rushed to issue bonds in case the debt ceiling uncertainty continued into the summer: in May alone, volumes were 50% up y/y. Financials' volumes also jumped following the 1Q/2Q23 banking crisis.
- The US leveraged loan markets may be under threat. The courts and the SEC are considering whether these loans should be considered securities; if so, banks may be legally required to disclose material risks of and that could, in turn, cause an upset in these markets and beyond.

  The arrival of alternative asset managers – BX, APO, Ares, KKR, others – offers an opportunity for banks familiar with their businesses: e.g. to offer financing solutions, including collaterised lending.
- ECM is on the mend: APOs advanced 15% vs 6m22 and converts volumes surged 50%. In IPOs, the US fees doubled to a two-year high and China IPOs held up well, barely below 6m22. Regionally, fees from US deals almost doubled vs 6m22; EMEA was flat-ish; and APAC dropped 20% (though Japan hit a five-year high).
- Relative to 6m22, M&A/Advisory volumes halved in EMEA and dropped 35-40% in the US and APAC amid weakness across the main industry sectors (except Healthcare, which surged), jumbo volumes, private equity-backed and cross-border volumes. Despite tentative signs of recovery - 2Q23 was 30% ahead of 1Q23 and most banks have reported healthy backlogs – few banks expect a sustained recovery until 4Q23/early 2024 and several trimmed staff, across seniorities.

Revenue & productivity (6m22) (6m23)



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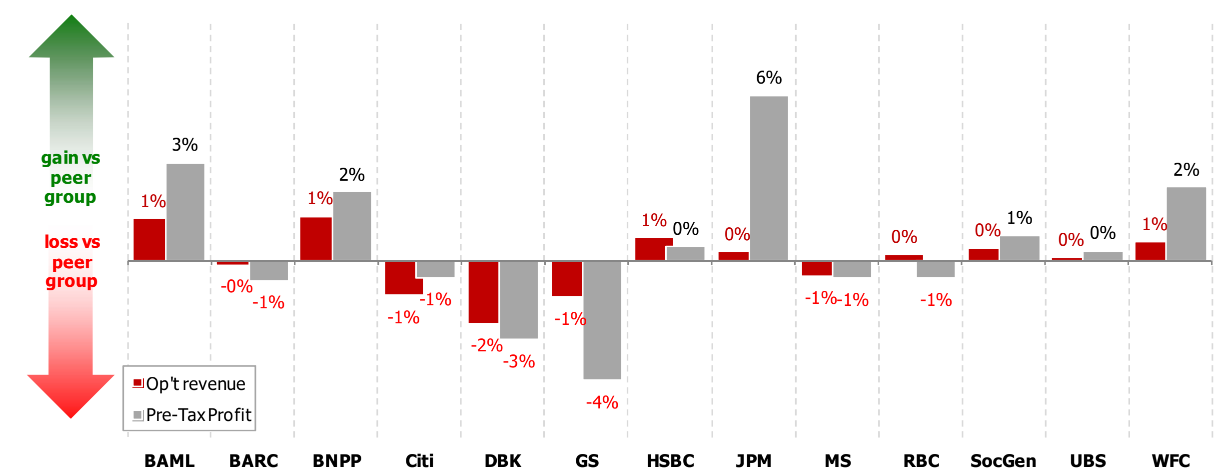

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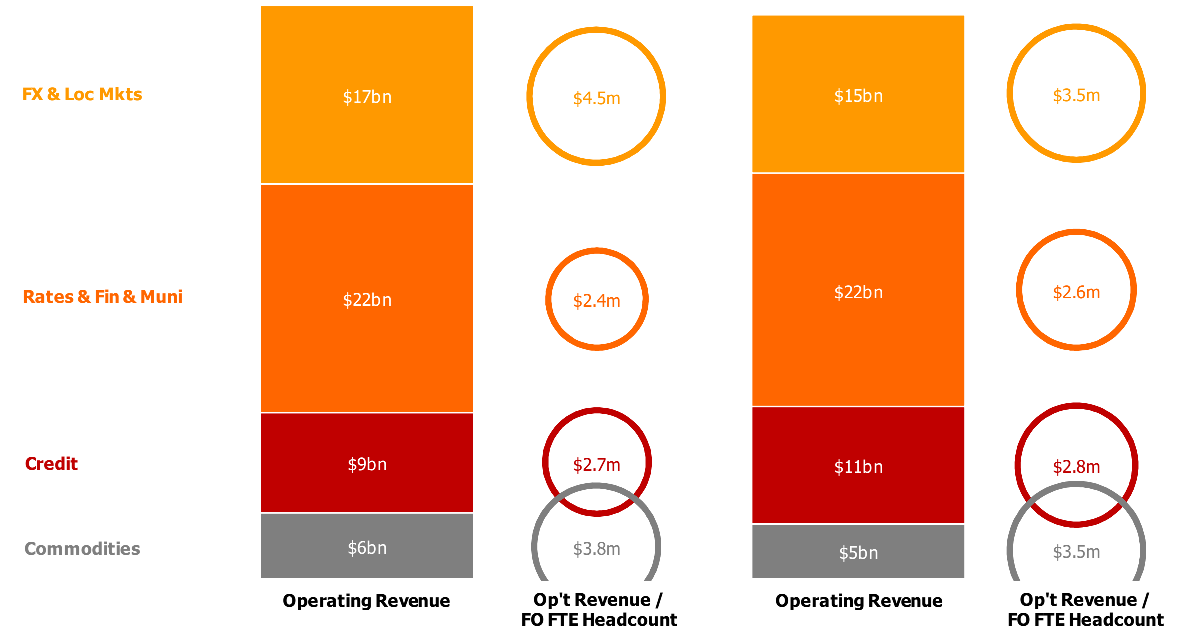
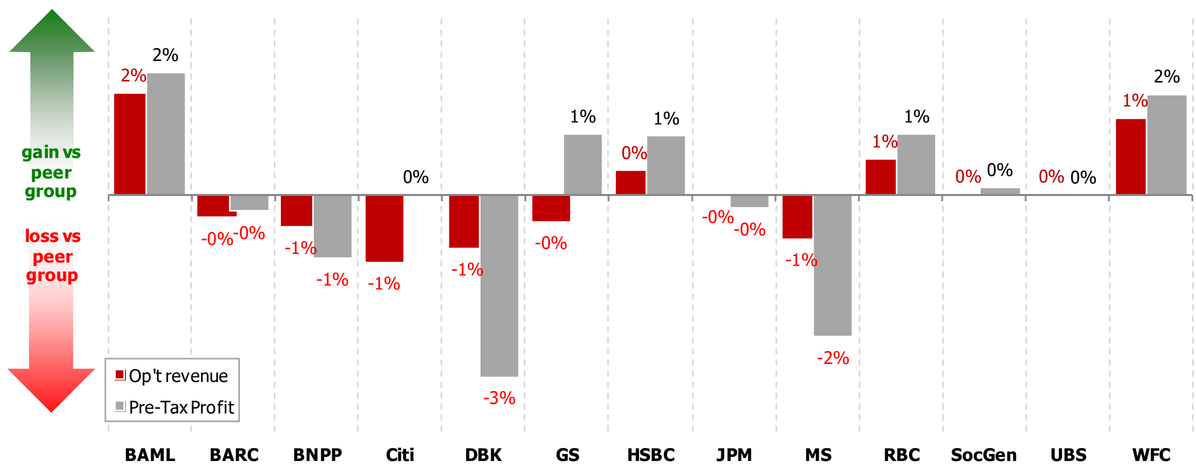
Capital Markets (cont.): FICC

- High interest rates – and expectations of 'higher for longer' – benefits fixed income managers, especially those with high proportion of floating rate assets in their credit portfolios. Investor surveys suggest the Fed will continue raising rates; the volatility may persist, possibly into 2024.
- Macro revenues dropped, though several banks offset a decline in FX with the growth in rates trading, spurred on by the resolution of the US debt ceiling debate. In crypto, there are big differences in regulators' approach. Bloomberg's Matt Levine summed the SEC's lawsuit best: 'Is the SEC suing Coinbase and Binance for being crypto exchanges, or for being *bad* crypto exchanges?' At any rate, Citadel, Charles Schwab, and Fidelity see the upheaval as an opportunity for EDX Markets. Also, Blackrock, Fidelity and Invesco plan to launch spot Bitcoin ETFs; the success is not guaranteed but Blackrock in particular is respected for its-house strategy and is not short of resources; Bitcoin surged from $25k to $31k after the announcement. EU's MiCA is clear and comprehensive but requires cryptos to set up as legal entities; this would preclude decentralisation, crypto's key feature. The UK is looking for a middle way but no firm framework has been agreed.
- HY credit benchmark funds saw biggest inflows in years, even as defaults in the US junk-loan markets surged in 1H23. However, some asset managers point out that the current premium to HG does not reflect the risk of an economic downturn and that in the US, $2.6tn of corporate debt will come due by 2025. Citadel Securities is aggressively moving into credit e-trading, starting with HG.
- Commodities revenue weakened, not least because of the downturn in commodities financing.

Revenue & productivity (6m22) (6m23)



% change share of peer group operating revenue and pre-tax profit: (6m23 / 6m22)



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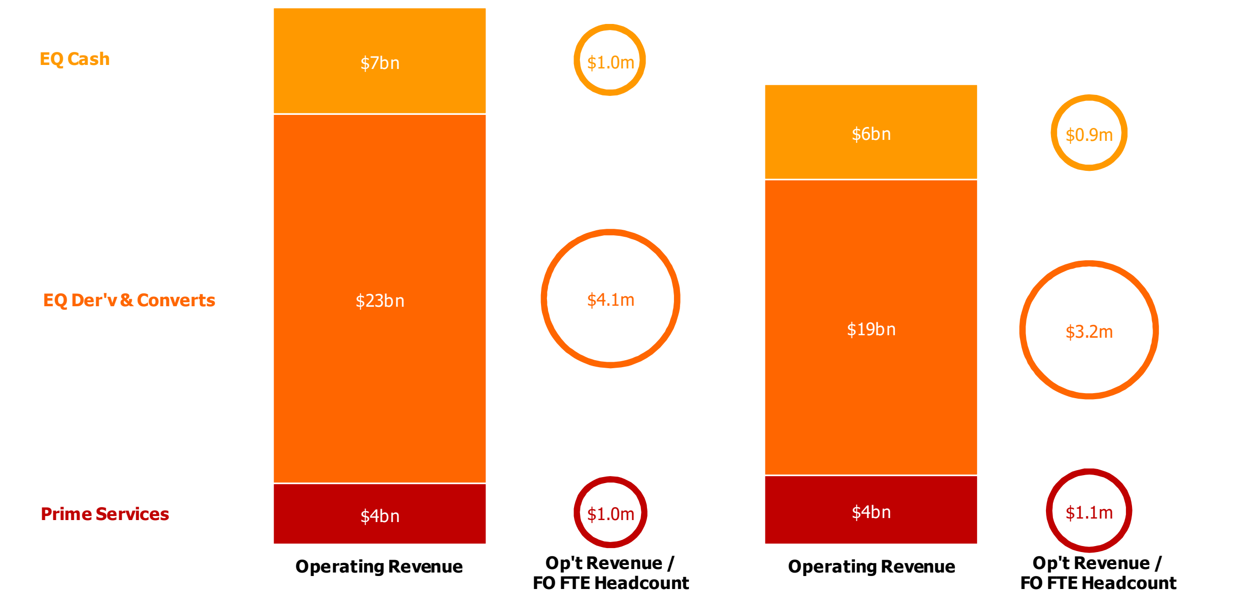
Capital Markets (cont.): Equities

- Cash equity and derivatives declined on low(er) volatility and muted client flows. Flow derivatives underperformed, but call options did well.

  The share of ETF trading as percentage of total market volumes grew to almost a third of total volumes in the US and Europe, significantly above the estimated 25% average of recent years.
- In the UK, regulators reportedly plan to end to the (in our view, damaging) MiFID 2 ban on free research for clients. Short-selling of equities is also under review.
- The aggregate prime services revenue advanced slightly vs 6m22. In the environment characterised by high interest rates, credit-focused hedge funds posted an excellent 6m23 by exploiting differences between issuers' financial health and hedging to limit exposures to the movements in the wider market. As high rates continue to separate corporate winners and losers, most of our sources expect even an stronger performance in 2H23.

  Hedge funds' borrowing reached a record in 2Q23.

Revenue & productivity (6m22) (6m23)



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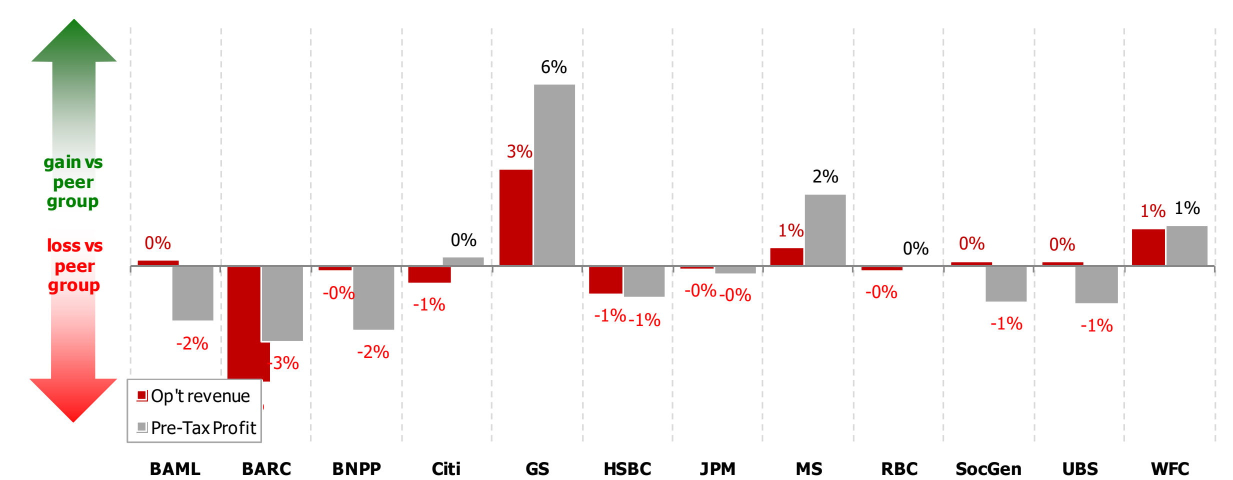

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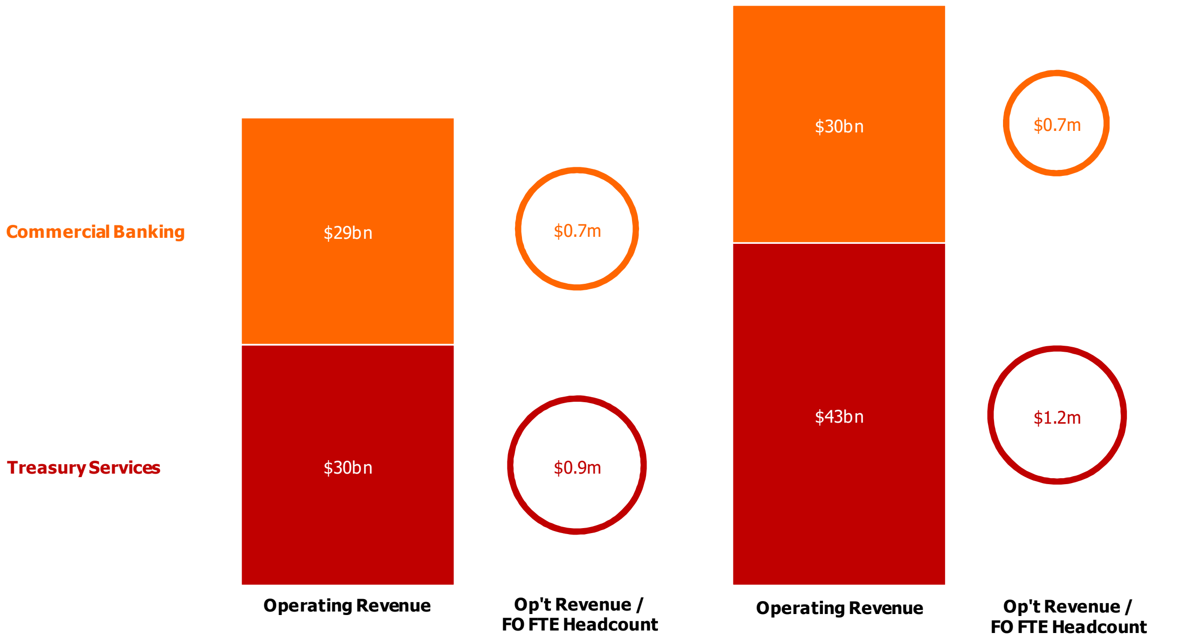
Commercial Banking & Treasury Services

- High interest rates and deposit margins were the key – and for many banks in this report, the sole – driver of revenue. Several banks have seen a record decline in loan volumes – attributable to interest rates hikes - and/or a surge in provisions. Trade finance weakened vs 2Q22.
- The (expected) credit crunch in corporate lending is attracting more non-bank actors: reportedly, SoftBank may join Apollo, Blackstone and others in extending loans to companies that are having difficulties in raising loans from 'traditional' banks. Such initiatives may not be overly welcome in Eurozone: ECB's latest study, released in June (an update of previous such studies), pointed out that traditional banks source a significant proportion of their liabilities from 'shadow banks' and that instability in one sector could therefore spill over to the other.

Revenue & productivity (6m22) (6m23)



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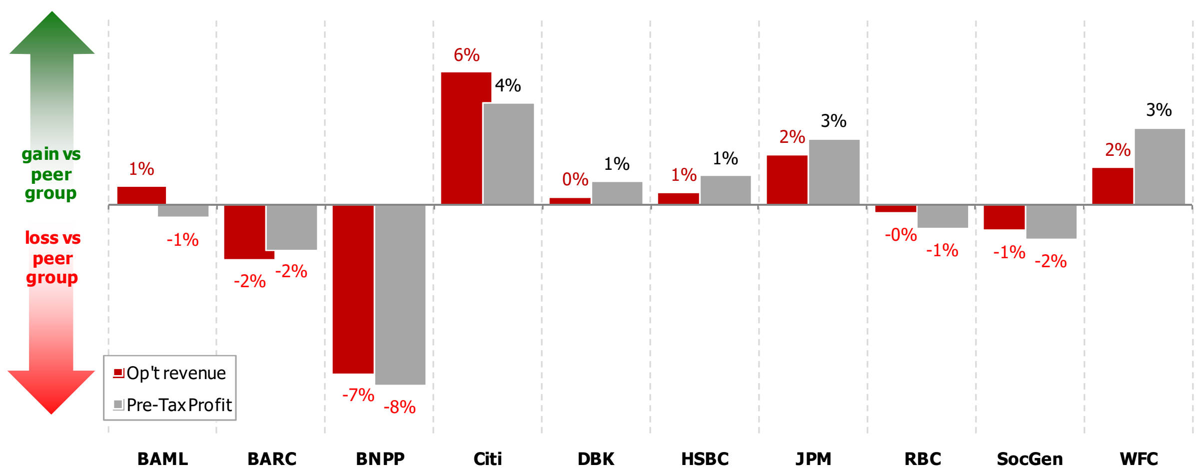

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Revenue dynamics

6m23/6m22 (Operating revenue, % change, US$)

	BAML	BARC	BNPP	Citi	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	⇗	⇗	⇩	⇘	⇗		⇧	⇗		⇘	⇘		⇧

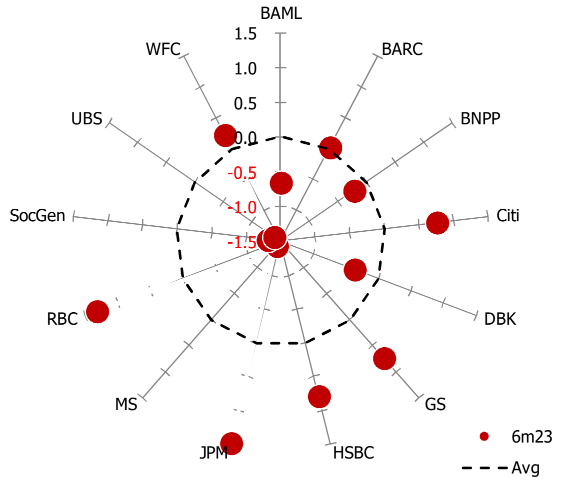
2Q23/2Q22 (Operating revenue, % change, US$)

	BAML	BARC	BNPP	Citi	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	⇩	⇘	⇩	⇩	⇘		⇧	⇧		⇩	⇩		⇧

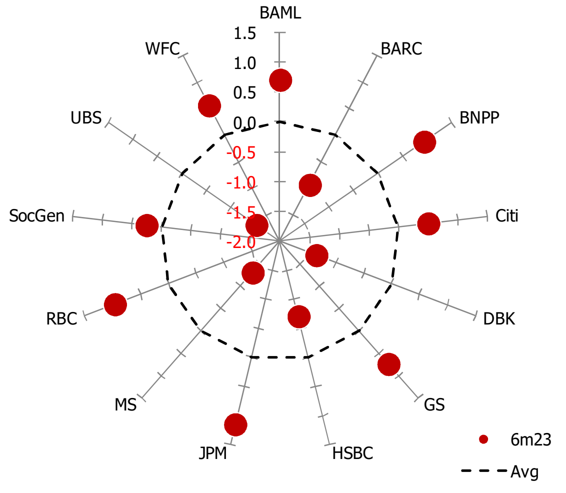
Source: Tricumen. Notes: (1) Tricumen product definitions throughout. (2) Arrows show % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. (3) Operating revenue is post-writedowns, excludes DVA/equivalent and one-offs. (4) Commercial/Transaction Banking includes Large Cap/MNC and Mid-Cap/SMEs.

Pre-tax profit margin (US$)

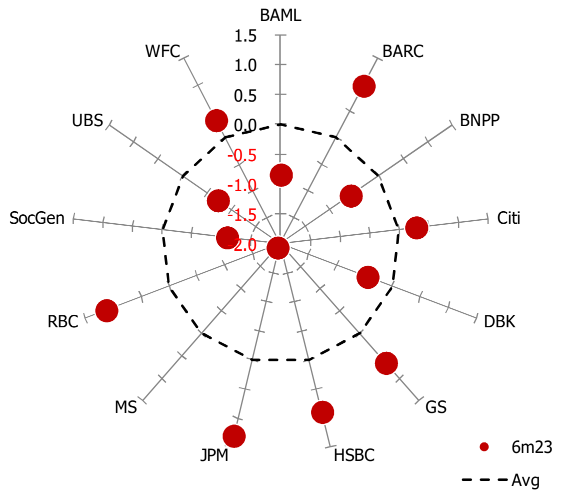
Capital Markets



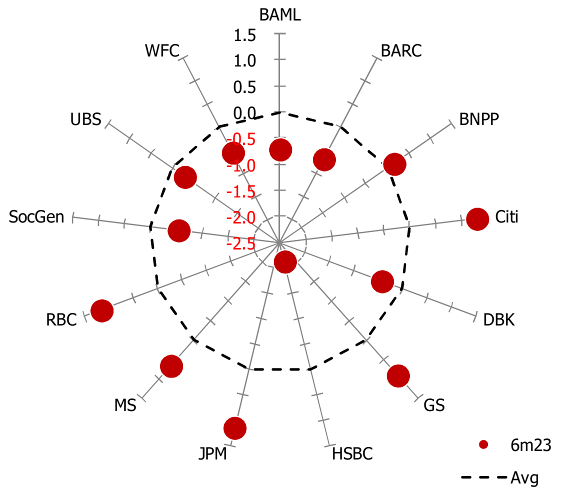
Banking



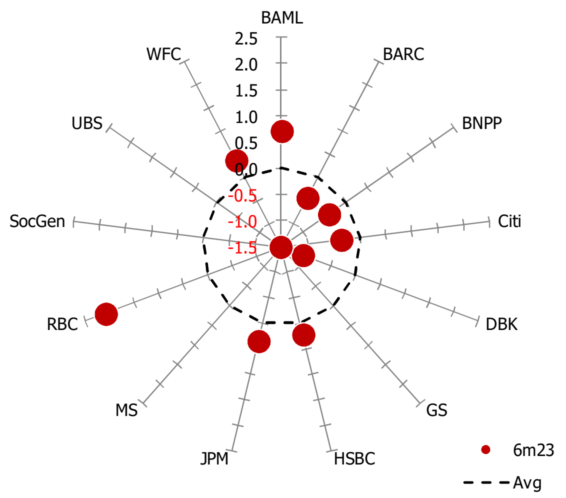
FICC



Equities



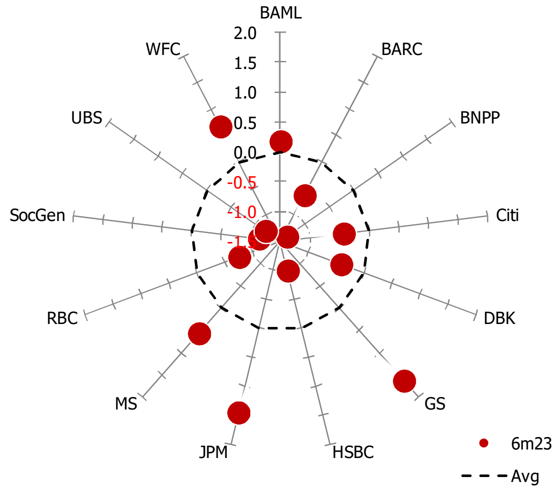
Commercial Banking / Treasury Services



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



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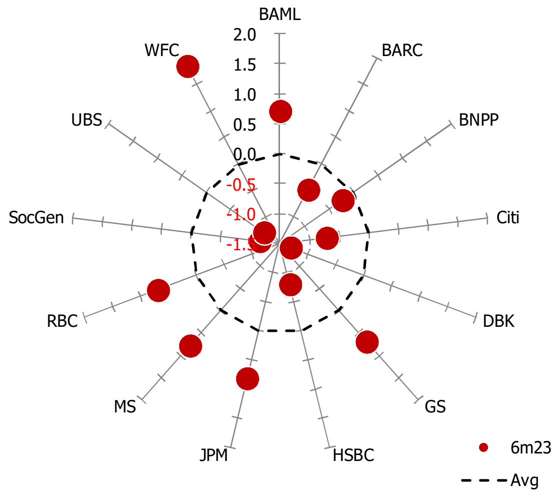

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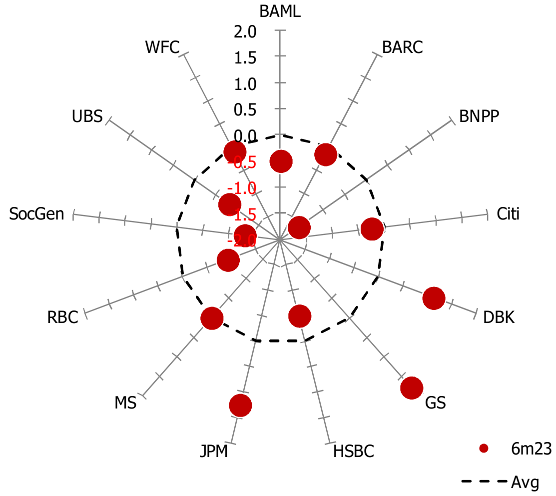

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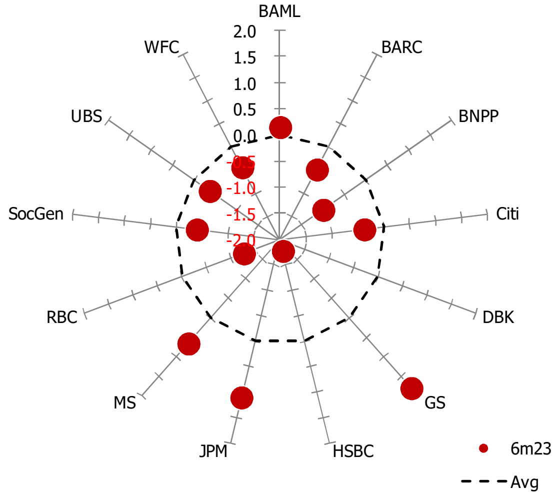

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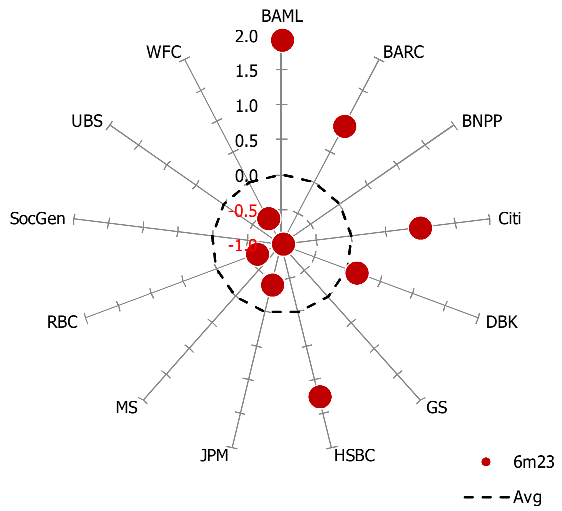

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Tricumen was founded in 2008. It quickly became a strong provider of diversified market intelligence across the capital markets and has since expanded into transaction and corporate banking, asset servicing, and asset and wealth management. Tricumen's 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 financial markets-focused research network of its peer group.

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