

## US Banks

# 3Q23 results: JPM, WFC EPS beats, NII guides raised, stocks should trade higher

Earnings Review

## JPM 3Q core EPS \$4.73 vs. \$3.95/\$3.84 cons./BofAe

Beats: Net interest income (NII) +10c, fees +7c, opex +28c; credit +40c after released \$113mn in reserves. Net interest margin (NIM) ex. markets +6bp QoQ. Strong capital build with common equity tier 1 (CET1) ratio +50bp QoQ at 14.3% vs. 13.5% 1Q24 target. Buybacks \$2bn. Slides lay out impact from Basel 3 end game (slides # 4/5). Expected increase to risk weighted assets (RWA) by 30% (\$500bn) and required capital by 25% (\$50bn). "JPM disagrees with the cost-benefit analysis and believes that increases of this magnitude are unwarranted."

2023 NII guide: \$89bn (ex. markets) vs. \$87bn prior: Raised FY23 NII to ~\$88.5bn (all-in) vs. ~\$87.2bn consensus; lowered FY23 expense outlook to ~\$84bn vs. ~\$84.5bn prior; lowered FY23 card NCO rate at ~2.5%.

## WFC 3Q EPS \$1.39 vs. \$1.24/\$1.20 cons./BofAe

Beat driven by: NII (+11c), fees (+10c), lower provisioning (+12c), somewhat mitigated by higher expenses (-13c).

FY23 NII guide changed to +16% vs. +14% previously, gives credibility to the theory that negative mix-shift is starting to slow. Partially offset by higher expense guide of \$51.5bn vs. \$51bn prior.

Buybacks lower \$1.5bn vs. our \$3bn forecast. CET1 capital ratio of 11% vs. 10.7% in 2Q23, buybacks outlook: "While proposed bank capital rules include higher capital requirements, we are starting from a strong capital position and returning excess capital to shareholders remains a priority"

## JPM bull thesis holds, WFC should trade higher

**JPMorgan** has been widely viewed as best suited to navigate a higher for longer rate backdrop. We don't see anything in today's results that should change this view, while core results continue to remain strong. We maintain our Buy rating as we continue to see JPM among the best positioned banks to navigate a higher for longer and changing regulatory backdrops.

**Wells Fargo** shares have been beaten down over the last couple of months, trading near TBV (TBV/share \$37.43 as of 09/30). We expect today's better than expected results (and a boost to NII outlook that should satisfy the bulls, cause shorts to cover) to drive a bounce. This, as the Street assesses 2024 outlook (unlikely mgmt. will quantify much on 2024 guide during today's earnings call). We maintain our Buy rating on WFC given near TBV valuation, continued expense leverage to mitigate revenue pressures and excess capital positioning to continue share buybacks while complying with higher regulatory capital requirements.

13 October 2023

Equity  
United States  
Banks

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**Stocks mentioned**

Prices and ratings for stocks mentioned in this report

<b>BofA Ticker</b>	<b>Bloomberg ticker</b>	<b>Company name</b>	<b>Price</b>	<b>Rating</b>
JPM	JPM US	JP Morgan Chase	US\$ 145.81	B-1-7
PNC	PNC US	The PNC Financial	US\$ 121.32	B-2-7
WFC	WFC US	Wells Fargo	US\$ 39.74	B-1-7

**Source:** BofA Global Research

**Price objective basis & risk****JPMorgan Chase & Co. (JPM)**

Our \$174 PO is based on apply a 50% weighting to our 2023e P/E, with the remaining 50% evenly split between 2024e P/E and 2023e P/TBV. We assign 11.5x/11.0x/2.1x multiples respectively, above large-cap peers (9.0x/9.0x/1.5x) due to the bank's best-in-class revenue generation.

Downside risks to our price objective are macro risks, such as slower-than-expected rate increases, additional regulatory requirements, and scrutiny of the financials industry. Upside risks are better-than-expected credit quality (i.e., lower loan losses) and better interest rate defensibility

**The PNC Financial Services Group, Inc. (PNC)**

Our \$121 PO is based on apply a 50% weighting to our 2023e P/E, with the remaining 50% evenly split between 2024e P/E and 2023e P/TBV. We assign 10.0x/8.5x/1.5x multiples respectively, broadly in-line with peer multiples (9.0x/9.0x/1.5x).

Downside risks to our PO are macro risks such as recession, the implementation of a strict liquidity coverage ratio, further regulation on overdraft income that restricts bank profitability and risks associated with the integration of BBVA USA.

**Wells Fargo & Company (WFC)**

Our \$50 PO is based on apply a 50% weighting to our 2023e P/E, with the remaining 50% evenly split between 2024e P/E and 2023e P/TBV. We assign 11.5x/11.0x/1.1x multiples respectively, compared with large-cap peers (9.0x/9.0x/1.5x).

Downside risks to our price objective are a worse-than-expected economic downturn that lead to significantly higher-than-expected credit losses, elevated expense trajectory, slower-than-expected resolution of its consent orders. Upside risks are better-than-expected credit quality (i.e., lower loan losses) and material expense management that improve visibility on future earnings.

**Analyst Certification**

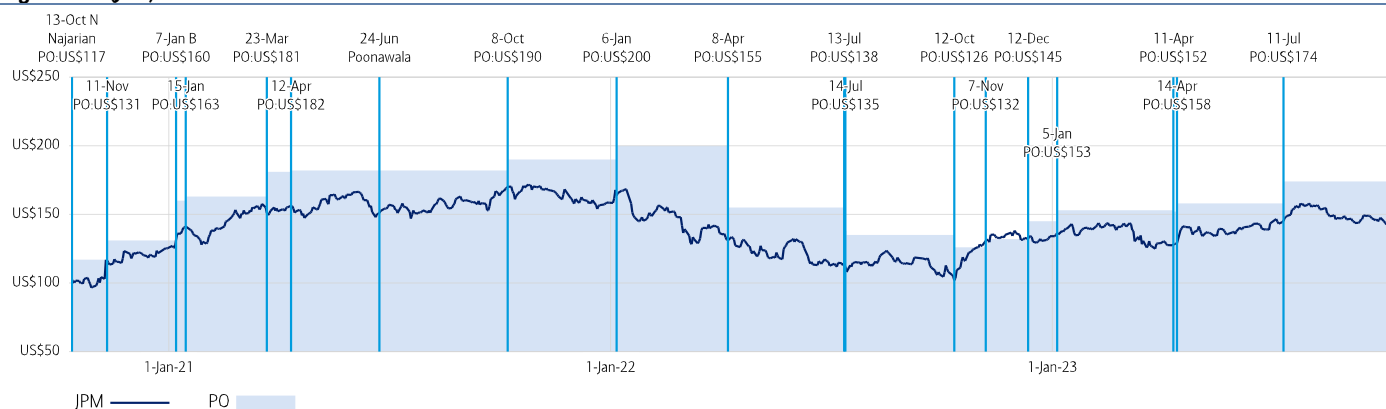
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## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
<b>NEUTRAL</b>				
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
<b>UNDERPERFORM</b>				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

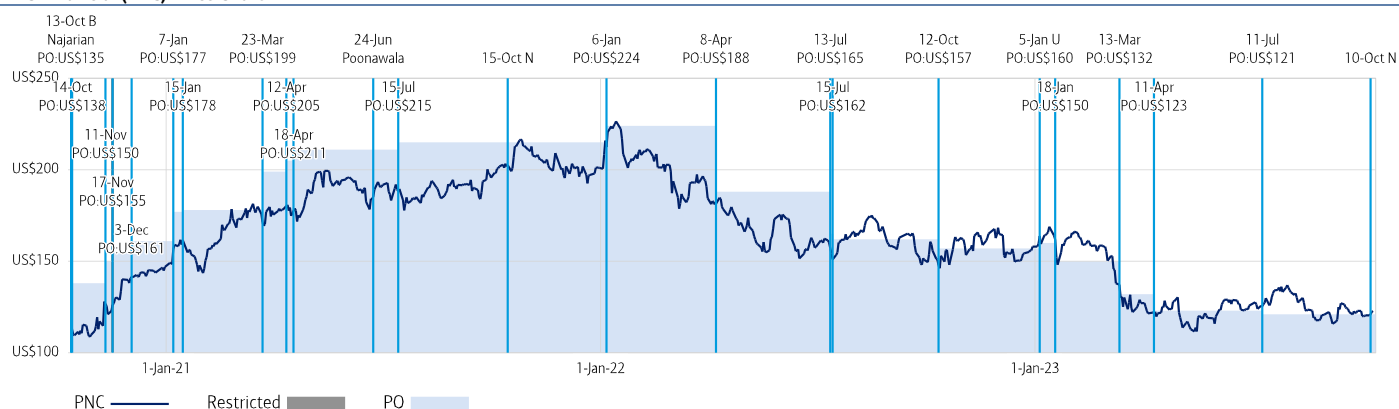
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**JP Morgan Chase (JPM) Price Chart**

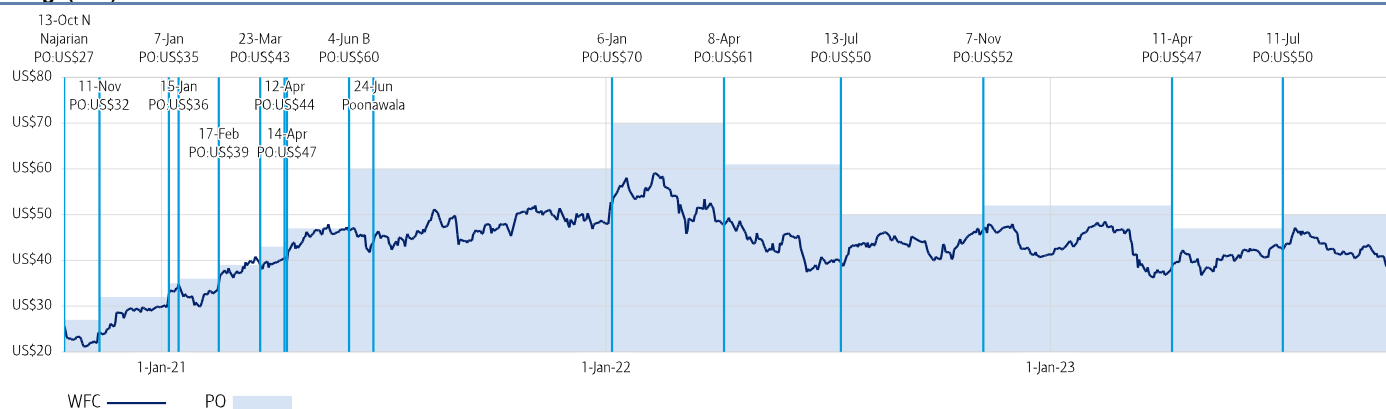
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**The PNC Financial (PNC) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Wells Fargo (WFC) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Equity Investment Rating Distribution: Banks Group (as of 30 Sep 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	98	50.78%	Buy	81	82.65%
Hold	47	24.35%	Hold	35	74.47%
Sell	48	24.87%	Sell	36	75.00%

**Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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