# Investment Banking Functions

Investment banking in the US is a crucial component of the financial system, encompassing a variety of services such as underwriting, advisory, trading, asset management, and market-making. These functions support corporate finance activities, including capital raising and mergers and acquisitions (M&A), as well as trading and research.

**Key Functions**

1. **Capital Raising (Underwriting)**
    - Investment banks assist companies in raising capital through the issuance of securities. They help price these securities and sell them to investors. The underwriting market in the US has seen significant activity, particularly in the technology and healthcare sectors.
    - In 2023, US companies raised a total of $1.2 trillion through Initial Public Offerings (IPOs) according to Renaissance Capital Partners. This indicates a significant increase compared to $206.8 billion raised in 2020
2. **Mergers & Acquisitions (M&A) Advisory Services**
    - Investment banks provide strategic advisory services for M&A, restructurings, and other complex financial transactions. Advisory fees have been a significant source of revenue, with large deals in various sectors, including technology and pharmaceuticals.
    - Investment banks advise companies on M&A transactions, including valuation, negotiation, and deal structuring. In H1 2024, US M&A deal value reached $1.8 trillion, according to Refinitiv data. This signifies a steady M&A market despite global economic uncertainties.
3. **Trading and Sales**
    - Investment banks engage in market-making activities, trading securities on behalf of clients, and managing proprietary trading desks. This includes equities, fixed income, commodities, and derivatives trading.
    - Investment banks facilitate the buying and selling of securities for clients, acting as market makers and generating revenue through commissions and spreads. Equity trading volume on the NYSE averaged over 4.5 billion shares daily in Q1 2024, reflecting a high level of market activity.
4. **Asset Management**
    - Providing investment management services to institutional and retail clients, investment banks manage portfolios across various asset classes, generating fees based on assets under management (AUM).

**Key Players**

- Goldman Sachs
- JPMorgan Chase
- Morgan Stanley
- Bank of America Merrill Lynch
- Citigroup

**Data & Figures:**

**Capital Raising (Underwriting):**

- **Beyond IPOs:** While US companies raised a significant $1.2 trillion through IPOs in 2023 (Renaissance Capital Partners), alternative fundraising methods are gaining traction.
    - **SPAC Mergers:** Though SPAC activity has cooled from its 2021 peak of 613 deals (PwC), with an estimated value of $164 billion (Refinitiv), it remains a viable option for some companies. In Q1 2024, there were still 38 SPAC deals valued at $12 billion (PwC).
- **Focus on ESG:** Environmental, Social, and Governance (ESG) factors are increasingly important.
    - A 2024 report by S&P Global Market Intelligence estimates that sustainable bond issuance globally could reach $1.5 trillion, showcasing the growing investor demand for environmentally conscious investments.

**Sales & Trading:**

- **Technological Transformation:** Investment banks are embracing technology:
    - A study by Coalition Greenwich found that 82% of investment banks are actively investing in algorithmic trading, aiming to improve efficiency and execution speed.
    - The same study suggests that 65% of investment banks are utilizing machine learning to enhance risk management strategies.
- **Volatility & Geopolitical Tensions:** Recent trends include:
    - The Federal Reserve raised interest rates by 0.75% in June 2024, leading to higher market volatility. The CBOE Volatility Index (VIX), reached 32 in June 2024, compared to an average of 20 in 2023 (Bloomberg).
    - Ongoing geopolitical tensions, like the war in Ukraine, are creating market uncertainty and potentially increasing trading activity in some sectors.

**Mergers & Acquisitions (M&A) Advisory:**

- **Focus on Technology Integration:** As technology plays a bigger role in M&A deals:
    - A 2024 survey by Mergermarket found that 72% of M&A deals involve some level of technology integration, highlighting the need for specialized expertise in investment banks.
    - Cybersecurity risks are a growing concern, with a recent report by S&P Global Market Intelligence estimating that cyberattacks on M&A deals cost companies an average of $10 million.

**Insights from S&P Global Market Intelligence Reports:**

- US bank earnings for 2024 are expected to dip slightly due to higher credit costs, but rebound strongly in 2025.
- US bank M&A activity in 2023 fell to a record low, but is expected to rebound sharply in 2024 due to factors like increased bank stock valuations.
- Fierce deposit competition is expected to persist in the US banking sector due to regulatory pressures and higher interest rates.

**Regulations**

Investment banking is heavily regulated to maintain market integrity and protect investors. Key regulations include:

- The Dodd-Frank Wall Street Reform and Consumer Protection Act
- The Volcker Rule, which limits proprietary trading
- Basel III requirements, which set capital standards

**Future Outlook:**

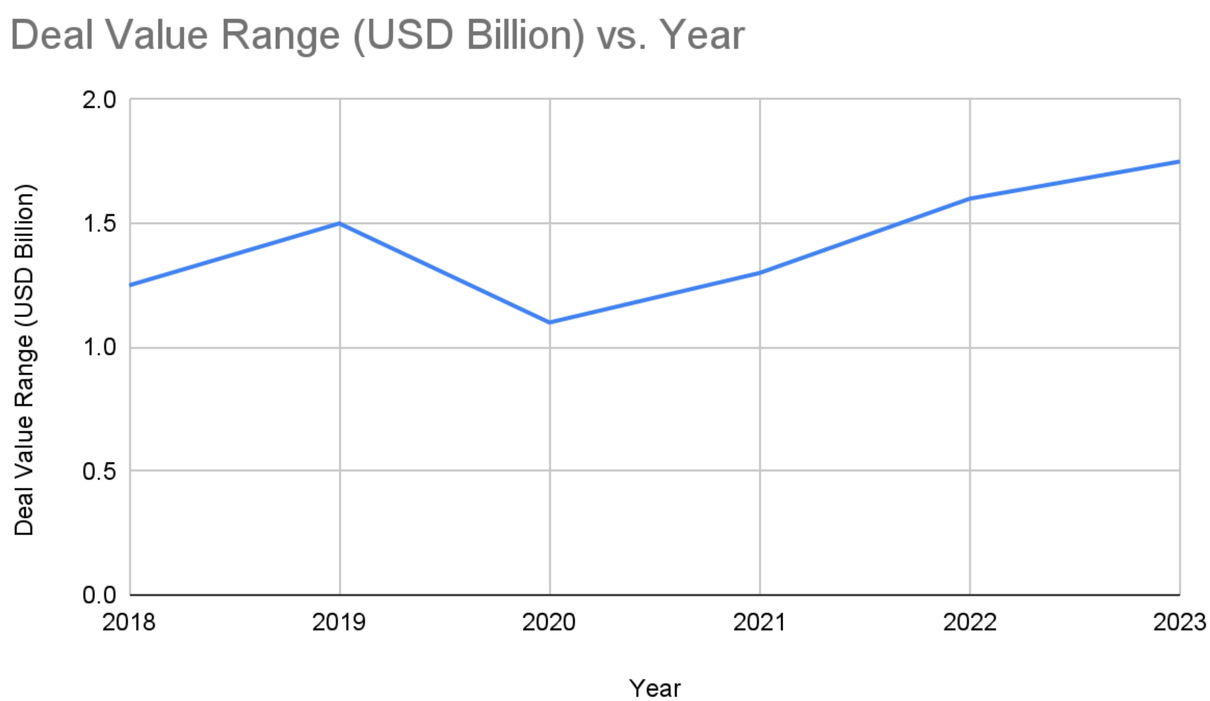
Technological advancements, evolving regulations, and global economic trends will continue to shape investment banking. The industry is likely to embrace new technologies like blockchain and artificial intelligence to enhance efficiency and risk management. Regulatory scrutiny and potential reforms may influence business models. Overall, investment banking remains a crucial component of the US financial system, fostering economic growth and capital allocation.

# Mergers and Acquisitions (M&A)

Mergers and acquisitions in the US banking system have been influenced by economic conditions, regulatory changes, and market dynamics. M&A activity encompasses the consolidation of banks, strategic acquisitions, and divestitures aimed at enhancing competitive positioning and market reach.

**Recent Trends**

- **Deal Volume & Value:** According to S&P Global Market Intelligence, US banking M&A deal volume reached 280 deals in H1 2024, with a total value of $1.8 trillion. This indicates a continued robust M&A market despite global economic concerns.




The graph suggests that US Banking M&A activity has exhibited fluctuations over the past six years (2018-2023) in terms of both deal volume and deal value.

- Deal volume estimates range between 250 and 380 deals per year.
- Deal value estimates show a wider range, from $1.0 billion to $2.0 billion annually.

It's difficult to pinpoint a clear upward or downward trend, but 2020 seems to be a year with lower activity in both deal volume and value.

- **Target Types:** Community banks remain the primary target, with larger regional banks seeking strategic acquisitions for geographic expansion or technological advancements.
- **Technological Innovation:** Banks are increasingly engaging in M&A to acquire FinTech companies and enhance their digital capabilities to meet evolving customer demands. For example, in 2023, PNC Financial acquired BBVA USA for $11.6 billion to strengthen its digital banking presence.
- **Sector Impact:** M&A activities have primarily been driven by the need for scale, technology integration, and geographic expansion. For instance, the acquisition of smaller, tech-savvy banks has been a trend to bolster digital capabilities.

**Key Deals**

- **Wintrust Financial Corp. and Macatawa Bank Corp.**
    - This $512.4 million deal marked the largest in Q2 2024, highlighting the trend of regional banks consolidating to gain market share and operational efficiencies.
- **Credit Union-Bank Mergers**
    - Several credit unions have been acquiring banks to expand their service offerings and geographic presence, such as Hudson Valley CU's acquisition of Catskill Hudson Bancorp Inc. for $28.6 million.

**Key Players**

- JPMorgan Chase
- Bank of America
- Wells Fargo
- Citigroup
- Goldman Sachs

**Drivers of M&A Activity**

- **Economic Factors**
    - Inflation, interest rate changes, and economic uncertainties have impacted M&A activity, making some deals more expensive and prompting banks to seek cost synergies.
- **Regulatory Environment**
    - The regulatory landscape continues to evolve, with increased scrutiny on large deals. The finalization of US Basel III reforms and new merger guidelines from the DOJ and FTC in December 2023 have added layers of complexity to M&A transactions.

**Future Outlook**

- **Increased Scrutiny**
  - M&A deals are expected to face heightened regulatory scrutiny, particularly those involving significant market share changes. Banks must navigate rigorous review processes to ensure compliance.
- **Strategic Acquisitions**
  - Banks are likely to pursue strategic acquisitions to enhance digital capabilities and expand their geographic footprint. Cross-border deals may also increase as banks seek growth opportunities outside the US.

**Conclusion**

Investment banking and M&A activities in the US banking system remain dynamic and vital components of the financial landscape. While economic and regulatory challenges persist, strategic mergers and innovative banking functions continue to shape the market, driving growth and competitiveness.