

Banking Sector Brief - Q4 2024

Date: October 2024

Sector: Financials - Banking

Economic Environment

Rising interest rates have supported net interest margins (NIM) for banks, though recent Federal Reserve signals suggest rate cuts may begin in early 2025. Credit quality remains stable with low delinquency rates.

Major Bank Performance

JPMorgan Chase (JPM)

The largest U.S. bank by assets continues to demonstrate resilience across all business lines.

Q3 Highlights:

- Revenue: \$39.9B (+7% YoY)
- Net Income: \$13.2B (+35% YoY)
- Net Interest Income: \$22.9B (+30% YoY)
- Return on Equity: 17%

Strong trading revenue and investment banking fees. Credit card spending robust.

Rating: BUY | Target: \$165

Bank of America (BAC)

Second-largest bank showing steady performance with strong deposit base.

Q3 Highlights:

- Revenue: \$25.2B (+3% YoY)
- Net Income: \$7.8B (+10% YoY)
- Net Interest Income: \$14.4B (+4% YoY)

Consumer banking and wealth management performing well.

Rating: HOLD | Target: \$32

Wells Fargo (WFC)

Recovering from past scandals, showing improved operational efficiency.

Q3 Highlights:

- Revenue: \$20.9B (+1% YoY)
- Net Income: \$5.8B (+12% YoY)
- Efficiency Ratio: 65% (improving)

Asset cap still limiting growth but regulatory progress visible.

Rating: HOLD | Target: \$48

Citigroup (C)

Undergoing transformation under new CEO, simplifying operations.

Q3 Highlights:

- Revenue: \$19.3B (-2% YoY)
- Net Income: \$3.5B (-9% YoY)
- International exposure: 40% of revenue

Restructuring costs impacting near-term profitability.

Rating: HOLD | Target: \$52

Regional Banks

Regional banks (BAC, WFC, USB, PNC) showing resilience after 2023 stress. Deposit flight has stabilized, though commercial real estate exposure remains a concern.

Industry Trends

1. **Digital Transformation:** Mobile banking adoption at all-time highs
2. **Fintech Competition:** Traditional banks partnering vs. competing
3. **Credit Quality:** Delinquencies ticking up slightly but from low base
4. **Capital Returns:** Strong buybacks and dividend increases
5. **M&A Activity:** Consolidation among smaller regionals expected

Investment Outlook

Positive Factors:

- Solid credit fundamentals
- Strong capital positions
- Attractive dividend yields
- Potential for M&A activity

Risk Factors:

- Rate cut cycle could compress NIMs
- Commercial real estate stress
- Recession risk in 2025
- Regulatory burden increasing

Recommendations

Overweight: JPM (best-in-class execution)

Market Weight: BAC, WFC, C (stabilizing but challenges remain)

Preferred Play: JPM remains the quality leader with diversified revenue streams and fortress balance sheet.