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Trust the Cornerstone of U.S. Banks' : Resilience Amid Economic Turbulence

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

2023 has been a perilous year for banks.

My 30-plus years as a banker have taught me that the foundation to successful banking is Trust doing the right thing, even when it's hard; should you lose your client's Trust, you lose everything. As we evaluate the performance of the U.S. top six banks, all constituents of the Birling Capital U.S. Bank Index, we should remind ourselves of the current market conditions that have made 2023 a challenging year.

We began the year with out-of-control inflation at 6.45%; the Fed had increased rates by January seven times to a range of 4.25%-4.50% and the prime rate at 7.50%, the highest in 16 years. Then, for good measure, a crisis of confidence erupted, attempting to create systemic risk in the banking and financial services. As it developed, a run on the Bank caused the closure of Silicon Valley Bank, a \$212 billion institution, and the 16th largest Bank in the U.S., in what **Federal Reserve Banks Vice Chair for Supervision Michael S. Barr called SVB's failure "a textbook case of mismanagement"**.

SVB waited too long to address its problems, and ironically, the overdue actions it finally took to strengthen its balance sheet sparked the uninsured depositor run that led to the Bank's failure. It may be the first bank failure in history due to a lack of proper management of its deposits, a vulnerability from having 97% uninsured deposits, and a large proportion of deposits invested in hold-to-maturity securities, and it was bought from the FDIC by First Citizens Bank.

Other failures followed, notably Signature Bank, a \$110.9 billion bank bought by New York Community Bancorp, First Republic had total assets of **\$232.9 billion** and was the fourteenth largest Bank in the country, which JP Morgan Chase bought from the FDIC.

The contagion impacted Europe, and regulators forced the once mighty Credit Swiss, with \$531.36 billion in assets, to merge with longtime rival UBS. In total, these four banks had collective Assets of \$1,087.16 trillion, and while it was quite worrisome to see them fail, the bank system proved it was fundamentally sound and able to recuperate from a contagion crisis.

Since then, the Fed has made four more rate increases for 11 rate hikes, taking rates to the range of 5.25%-5.50% with the prime rate of 8.50%, and the Inflation rate had fallen to 3.70%. During a speech this week, Federal Reserve Bank Chair Jerome Powell stated some positive points, including that declining inflation is not coming down at the expense of higher unemployment, which Chair Powell said was **"a highly welcome development but a historically unusual one"**.

He also mentioned that the return to normal of most supply chains with the rebalancing of demand and supply in the labor market has allowed disinflation without weaker economic activity; actually, economic growth has been on the upside. Evidence of this is the latest GDPNow for the 3Q23, which is 5.40% GDP.

The Fed's restrictive monetary policy stance pressures economic activity and inflation downward. Even with 11 interest rate increases, more increases are coming. To this end, the Fed Chair stated, **"My colleagues and I remain resolute in our commitment to returning inflation to 2 percent over time"**.

As the inflation rate is at 3.70%, we are 85% above the Fed's 2% inflation target rate, and we believe that the Fed will take rates to the range of 6%-6.25%, which will take the prime to 9.25% and if inflation proves to be stubborn, we may well see a 10% prime rate.

The Third Quarter of 2023 Review of the Top Six U.S. Banks.

We examine the Top 6 U.S. banks by evaluating how they performed in the third quarter of 2023 and the whole year and how they position their business for 2024 and beyond. With the mantra from **Charlie Munger**, Berkshire Hathaway Vice-Chairman, who says, **"I think you'll make more money in the end with good investing than by playing the market... banking in particular. Banking's a good place to look if you want to make money over the long term"**.

The Birling Capital US Bank Index with a -6.80% Return.

The Birling U.S. Bank Index is a market value-weighted index composed of the top (6) Bank holding companies headquartered and/or with their principal place of business in the United States. All companies trade on the NYSE, AMEX, or NASDAQ national stock markets, and we rank them according to their year-to-date stock returns.

The Birling Capital U.S. Bank index began 2023 at 3,686.84 and closed on 10/20/23 at 3,436.27 with a total return of -6.80% and 250.57 points down.

We now examine the six individual stock earnings, EPS, Price Objective, and YTD Performance.

1. **JP Morgan Chase (JPM):** is one of the world's largest and complex financial institutions, with \$3.898 trillion in assets. It is organized into four major segments--consumer and community banking, corporate and investment banking, commercial banking, and asset and wealth management. JPMorgan reported 3Q23 revenues of \$39.9 billion, up 22%, and Net Income of \$13.151 billion, up 35%. JP Morgan reached earnings per share of \$4.33, surpassing the \$3.97 estimate with a stock price objective of \$168.50. The stock closed on 10/20 at \$142.95, up \$8.85 YTD with a total return of 6.60%, and the only stock with a positive return. The Tier 1 Capital Ratio is at 14.50%.
2. **Wells Fargo (WFC):** Wells Fargo is one of the largest banks in the United States, with \$1.909 trillion in total assets. With a U.S. focus, the company operates in four primary segments: consumer banking, commercial banking, corporate and investment banking, and wealth and investment management. Wells Fargo reported 3Q23 revenues of \$20.857 billion, up 7%, and Net Income of \$5.767 billion, up 165%, beating estimates. Wells Fargo reached earnings per share of \$1.48, beating the \$1.236 estimate with a stock price objective of \$49.69. The stock closed on 10/20 at \$40.27, down -\$1.02 YTD, with a total return of -2.47%. The Tier 1 Capital Ratio is at 11.0%.
3. **Citigroup (C):** is a global financial services company doing business in over 100 countries with total assets of \$2.424 trillion. Citi's operations are organized into two primary segments: the institutional client's group (ICG) and the personal banking and wealth management group (PBWM). The Bank's

direct services include cross-border banking needs for multinational corporates, investment banking and trading, and credit card services. Citi reported 3Q23 revenues of \$20.1 billion, up 9%, and Net Income of \$3.5 billion, up 35%, beating estimates. Citi reached earnings per share of \$1.63, beating the \$1.24 estimate with a stock price objective of \$50.86. The stock closed on 10/20 at \$39.68, down -\$5.55 YTD with a total return of -12.27%. The Tier 1 Capital Ratio is at 13.50%.

Birling Capital U.S. Bank Index companies, JP Morgan, Wells Fargo, Citigroup, Goldman Sachs, Morgan Stanley and Bank of America YTD Returns



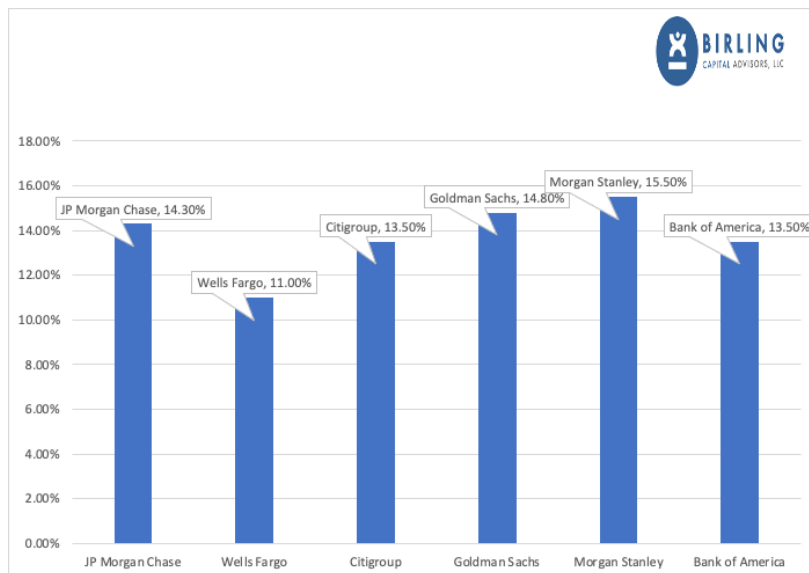
4. **Goldman Sachs (GS):** is a leading global investment banking and asset management firm with total assets of \$1.571 trillion. Approximately 20% of its revenue comes from investment banking, 45% from trading, 20% from asset management, and 15% from wealth management and retail financial services. Goldman reported 3Q23 revenues of \$11.82 billion, down 16%, and Net Income of \$2.06 billion, down 31%. Goldman reached earnings per share of \$5.47, missing estimates, with a stock price objective of \$379.13. The stock closed on 10/20 at \$300.05, down -\$43.33 YTD, with a total return of -12.62%. The Tier 1 Capital Ratio is at 14.80%.
5. **Morgan Stanley (MS):** is a \$ 1.165 trillion global investment bank whose history can be traced back to 1924. The company has institutional securities, wealth management, and investment management segments. Approximately 50% of the company's net revenue is from its institutional securities business, with the remainder from wealth and investment management. The company derives about 30% of its total revenue outside the Americas. Morgan Stanley reported 3Q23 revenues of \$13.273 billion, up 2.21%, and Net Income of \$2.408 billion, down -8.51%, and reached earnings per share of \$1.38, missing estimates, with a stock price objective of \$92.50. The stock closed on 10/20 at \$73.13, down -\$11.89 YTD with a total return of 13.98%. The Tier 1 Capital Ratio is at 15.50%.
6. **Bank of America (BAC):** is one of the largest financial institutions in the United States, with \$3.153 trillion in assets. It is organized into four major segments: consumer banking, global wealth and investment management, global banking, and global markets. The company's Merrill Lynch operations, as does its private Bank, provide brokerage and wealth-management services. Bank of America has operations in several countries but is primarily U.S.-focused. Bank of America reported 3Q23 revenues of \$25.2 billion, up 3%, and Net Income of \$7.8 billion, up 10%, and reached earnings per share of \$0.90, surpassing the estimates, with a stock price objective of \$33.64. The stock closed on 10/20 at \$25.31, down -\$6.81 YTD with a total return of -20.56%. The Tier 1 Capital Ratio is at 13.50%.

The Last Word: Staying the Course: U.S. Banks' Commitment to Stability and Growth.

In conclusion, the resilience of U. S. banks in the face of the challenging conditions of 2023 is a testament to their strength and adaptability, highlighting the importance of prudent risk management.

The path ahead may involve further rate hikes, but the industry remains committed to maintaining stability and achieving the Fed's inflation targets.

With a collective total of \$14.12 trillion in assets and a market capitalization of \$1.065 trillion, these top U.S. banks remain integral to the nation's financial landscape. The story of 2023 serves as a reminder that even in turbulent times, Trust, sound management, and a long-term perspective are essential to sustained success in the banking industry.



Francisco Rodríguez-Castro
President & CEO

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