Think Strategically

Banks Thriving the Birling Capital US Bank Index Delivers Consecutive Years of Double-Digit Growth, Leading 2024 with a Stellar 43.75% Return

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Banking's New Crossroads: Can the Industry Sustain Its Stellar Comeback?

Both 2023 and 2024 have marked a resurgence for the banking sector, its best performance since the prelude to the 2007–09 global financial crisis. With robust profitability, fortified capital positions, and ample liquidity, the industry has reasserted itself as the world's largest profit-generating sector. Despite recent gains, banks remain at the bottom of the barrel in price-to-book multiples across sectors, raising questions about long-term value creation.

The Birling Capital US Bank Index: A 2024 Analysis of Resilience and Performance

The Birling Capital US Bank Index is a market value-weighted benchmark comprising the top six bank holding companies headquartered or primarily operating in the United States, all listed on the NYSE. The Index includes Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo. Despite numerous challenges, the US economic narrative in 2024 highlights resilience and adaptability. As noted by Sir John Templeton who said: **"The four most dangerous words in investing are: This time it's different".**

The returns of our five leading indices for 2024 ranked by returns were:

1. **Birling Capital US Bank Index** with **43.75%**.
2. **Nasdaq Composite** with **28.64%.**
3. **S&P 500** with **23.31%**.
4. **Dow Jones Industrial Average** with **12.88%**.
5. **Birling Puerto Rico Stock Index** with **8.83%.**

The **Birling US Bank Index** returns in the last five years, have been:

- Return in **2024** was **43.75%**
- Return in **2023** was **18.22%**
- Return in **2022** was **-14.30%**
- Return in **2021** was **38.39%**
- Return in **2020** was **-6.20%.**

Dow Jones, S&P 500, Nasdaq Composite, Birling PR Stock Index & Birling US Bank Index YTD Returns 12.31.24

The Birling Capital US Bank Index returned a whopping 43.75% for 2024, beating all indexes. Let's examine how each bank performed:

1. **JPMorgan Chase & Co (JPM):** Reached a 2024 Return of **40.92%,** Reported 4Q24 revenues of $43,738 billion, up 10%, net income of $14,005 billion, up 50%, and earnings per share of $4.81, surpassing estimates. JPM reached Full 2024 revenues of $177,556 billion, up 12%, and net income of $58,471, up 18%. JPM has a Tier 1 Capital Ratio of 15.70% and a stock price objective of $264.01 and closed on 1/17/25 at $259.16.
2. **Citigroup, Inc. (C):** Reached a 2024 Return of **36.84%,** Reported 4Q24 revenues of $19,581 billion, up 12%, net income of $2,856 billion, up from a loss, and earnings per share of $1.34, beating estimates. Citi reported Full 2024 revenues of $81,139 billion, up 3%, and net income of $12,833, up 37%. Citi has a Tier 1 Capital Ratio of 15.20% and a stock price objective of $88.44 and closed on 1/17/25 at $79.99.
3. **Goldman Sachs Group, Inc. (GS):** Reached a 2024 Return of **48.44%,** Reported 4Q24 revenues of $13,869 billion, up 23%, net income of $4,111 billion, up 105%, and earnings per share of $11.95, beating estimates. GS reported Full 2024 revenues of $53.51 billion and net income of $14.28 billion. GS has a Tier 1 Capital Ratio of 15% and a stock price objective of $614.55 and closed on 1/17/25 at $625.94.
4. **Wells Fargo & Co (WFC):** Reached a 2024 Return of **42.71**%, Reported 4Q24 revenues of $20,378 billion, down 0.48%, net income of $5,079 billion, up 47%, and earnings per share of $1.43, beating estimates. WFC reported Full 2024 revenues of $82,296 billion and net income of $19.722 billion. WFC has a Tier 1 Capital Ratio of 12.60% and a stock price objective of $80.36, and the stock closed on 1/17/25 at $77.08.
5. **Bank of America Corp. (BAC):** Reached a 2024 Return of **30.53%,** Reported 4Q24 revenues of $25,347 billion, up 15%, net income of $6,665 billion, up 112%, and earnings per share of $0.82, surpassing estimates. BAC reported Full 2024 revenues of $101,887 billion and net income of $27,132 billion. BAC has a Tier 1 Capital Ratio of 11.90% and a stock price objective of $51.12. It closed on 1/17/25 at $46.53.
6. **Morgan Stanley (MS)**: Reached a 2024 Return of **34.82%,** Reported 4Q24 revenues of $16,223 billion, up 26%, net income of $3,714 billion, up 144.82%, and earnings per share of $2.22, beating estimates. MS reported Full 2024 revenues of $61,761 billion and net income of $13,390 billion. MS has a Tier 1 Capital Ratio of 15.90% and a stock price objective of $130.78. It closed on 1/17/25 at $137.87.

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On a consolidated basis, the Top 6 US Banks reached 2024 combined revenues of **$558,155 Billion**, a Net Income of **$145,128 Billion**, and a Market Capitalization of a whopping **$1,900,840 Trillion**.

Global Economic Update for 2025 & 2026

The International Monetary Fund updated the Global Growth Forecast on January 17, 2025, and anticipates that Global Growth will remain steady at 3.3% for 2025 and 2026, aligning closely with the projections for the October 2024 World Economic Outlook. The forecast provides an upgrade on the United States forecast to 2.7% GDP in 2025, up from 2.6%, and the Eurozone was upgraded as well for 2025 to 1.0% GDP, up from 0.90% GDP in October 2024. The downward adjustments in other regions have counterbalanced this. A resurgence in inflation could disrupt the anticipated shift in monetary policy, raising concerns about fiscal sustainability and financial stability. Using the latest GDPNow for the fourth quarter of 2024, it has a forecast of the US Economy of 3%; it seems the "Soft Landing" is within reach.

World Economic Outlook Growth Projections

(Real GDP, annual percent change)	ESTIMATE 2024	PROJECTIONS 2025	2026
World Output	3.2	3.3	3.3
Advanced Economies	1.7	1.9	1.8
United States	2.8	2.7	2.1
Euro Area	0.8	1.0	1.4
Germany	-0.2	0.3	1.1
France	1.1	0.8	1.1
Italy	0.6	0.7	0.9
Spain	3.1	2.3	1.8
Japan	-0.2	1.1	0.8
United Kingdom	0.9	1.6	1.5
Canada	1.3	2.0	2.0
Other Advanced Economies	2.0	2.1	2.3
Emerging Market and Developing Economies	4.2	4.2	4.3
Emerging and Developing Asia	5.2	5.1	5.1
China	4.8	4.6	4.5
India	6.5	6.5	6.5
Emerging and Developing Europe	3.2	2.2	2.4
Russia	3.8	1.4	1.2
Latin America and the Caribbean	2.4	2.5	2.7
Brazil	3.7	2.2	2.2
Mexico	1.8	1.4	2.0
Middle East and Central Asia	2.4	3.6	3.9
Saudi Arabia	1.4	3.3	4.1
Sub-Saharan Africa	3.8	4.2	4.2
Nigeria	3.1	3.2	3.0
South Africa	0.8	1.5	1.6
Memorandum			
Emerging Market and Middle-Income Economies	4.2	4.2	4.2
Low-Income Developing Countries	4.1	4.6	5.4

A Turning Point: Key Predictions for Banks in 2025

The critical question is will the industry's 2024 gains serve as a launchpad for Sustained Growth during 2025, or will it succumb to the gravitational pull of market developments?

1. **Interest Rate Environment:** The median projection anticipates the Fed Funds Rates for 2025 to reach 3.9% and for 2026 will reach 3.4%. That is a decrease of 8.25%-13.33%, using the current Fed Funds Rate range of 4.25%-4.50%. The considerable risk is that prolonged high rates could lead to higher loan defaults, particularly in riskier sectors.
2. **Digital Transformation**: the continued investment in technology and digital banking will drive revenue through fee-based services and efficiencies.
3. **Loan Growth**: Corporate Lending demand will increase, and Consumer Lending depends on interest rates, housing market and employment conditions.
4. **Economic Growth**: performance in key markets such as the US, Europe, and emerging Asia will boost credit demand.
5. **Mergers & Acquisitions**: consolidation in the banking industry continues, driven by regulatory pressures and the need for scale in a competitive market.
6. **Regulatory and ESG Trends**: Stricter regulatory environments could impact profitability but create opportunities for well-capitalized institutions.
7. **Non-Interest Revenue Growth**: Diversification into wealth management, insurance, and advisory services will boost non-interest income.
8. **Geopolitical Risks**: Escalating tensions or conflicts may affect global trade and investment flows.
9. **Credit Quality**: Rising defaults or a real estate market correction could lead to higher provisions.
10. **Technological Disruption**: Banks that lag in digital innovation may lose market share to fintech firms.

The Final Word: Unlocking Growth and Value in the Banking Sector

Understanding the path forward is essential for investors seeking to maximize returns in the banking sector. Banks must recapture historical valuation multiples and sustain long-term Growth by addressing structural and operational challenges with urgency and agility. This represents a challenge and a compelling investment opportunity for those who recognize the potential to unlock value and drive Growth.

The banking sector holds the key to creating real momentum by tackling four critical areas:

1. **Understanding the Starting Position**: Investors should assess how well banks understand their market value drivers. A clear understanding of what sets a bank apart—cost efficiency, customer relationships, or product differentiation—is critical for driving a competitive edge.
2. **Maximizing Asset Value**: the value gap between institutions presents both a challenge and an opportunity.
3. **Streamlining Execution**: Operational efficiency is a key driver of profitability.
4. **Adapting and Innovating**: The pace of change in the financial landscape requires banks to be highly responsive to emerging trends and competitive pressures.

Over the past two years, banks have reclaimed their position as a top-performing industry. Their best showing of this is the **43.75% return delivered by the Birling Capital US Bank Index in 2024** , highlighting the sector's ability to adapt and thrive despite challenging macroeconomic conditions. As with any investment, the key is how to profit from them.

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