BIRLING CAPITAL ADVISORS, LLC Think Strategically

Capital, Clarity, and Competitiveness: Banks in the Birling U.S. Bank Index Are Outpacing the World in 2025

July 21, 2025

Francisco Rodríguez-Castro, President & CEO

Global Banks at a Crossroads with Regulatory Divergence and Strategic Repositioning

The second quarter of 2025 revealed a deepening divide between U.S. financial institutions and their global counterparts, a divide shaped not only by earnings but, more critically, by regulatory philosophy, strategic maneuverability, and systemic reform. While the top U.S. banks demonstrated resilience in the face of economic uncertainty, banks across Europe and Switzerland are encountering a dramatically shifting landscape that threatens to reshape their operating models for years to come, potentially leaving them further behind their U.S. counterparts.

In the European Union, banks are under increasing pressure from both regulators and fragmented national policies. The full implementation of Basel IV requires higher risk-weighted capital, expanded liquidity coverage, and tighter scrutiny of sovereign exposures. This comes as profitability remains challenged by low rates, high costs, and subdued loan growth in core economies. At the same time, the European Commission has escalated tensions with member states by cracking down on efforts to block necessary consolidation. Spain has been formally warned over its resistance to the BBVA–Sabadell merger, while Italy faces potential legal consequences for interfering in UniCredit's attempts to acquire Banco BPM. These episodes highlight the EU's long-standing challenge: a banking union that is neither truly unified nor institutionally equipped to compete globally.

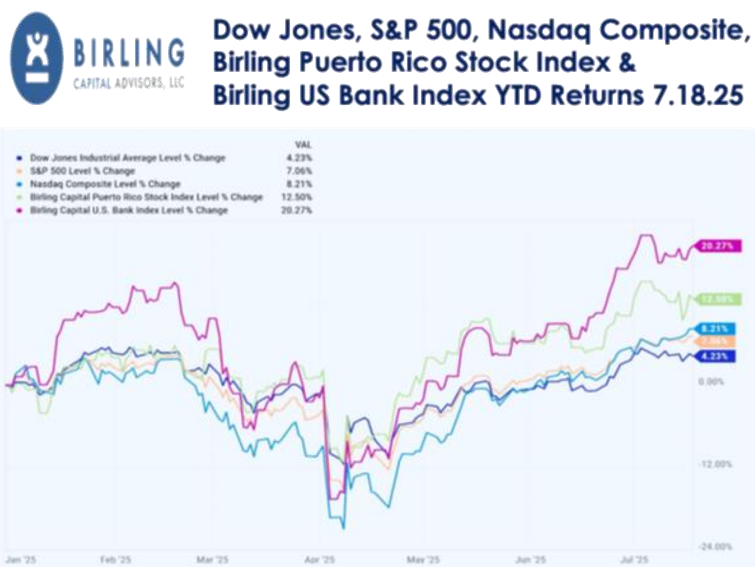
Switzerland, meanwhile, is embarking on a path of regulatory escalation that has sent shockwaves through its own financial sector. Following the extraordinary government-brokered acquisition of Credit Suisse, UBS now finds itself at the epicenter of a sweeping overhaul of Swiss capital rules. The proposed framework would require UBS to raise an additional $24 to $26 billion in Common Equity Tier 1 capital, thereby increasing its CET1 ratio to between 17% and 19%—levels that far exceed those required by its international peers. UBS has responded with pointed warnings: that these requirements could constrain shareholder returns, reduce global competitiveness, and possibly force the bank to reevaluate its Swiss domicile altogether. For UBS, this is not simply a regulatory tightening—it is a pivotal inflection point that could dictate its long-term strategy and geographic footprint.

In sharp contrast, the six largest U.S. banks delivered solid second-quarter results while benefiting from a more measured regulatory approach. The common denominator among these U.S. institutions is the regulatory environment that enables—not constrains—their strategic execution. While capital remains robust across the board, with Tier 1 ratios ranging from 12.4% to 16.9%, the Federal Reserve has adopted a more flexible stance in applying Basel III Endgame reforms. In response to sustained industry dialogue and macroprudential considerations, U.S. regulators are revisiting the calibration of capital surcharges, reconsidering liquidity coverage thresholds, and signaling that final rules may be delayed or revised.

This regulatory pragmatism has enabled American banks to maintain the flexibility to return capital to shareholders, invest in digital transformation, and navigate credit cycles with greater agility.
As we look to the second half of 2025, the global banking system faces a critical juncture. U.S. institutions are navigating economic headwinds—ranging from vulnerabilities in commercial real estate to softening loan growth—with strong capital cushions and the structural adaptability to withstand these challenges. In contrast, their European and Swiss counterparts are contending with rising capital burdens, political interference, and regulatory rigidity that could stifle innovation and limit their competitive reach.
The lesson emerging from this divergence is clear: regulatory structure matters. At the same time, prudential oversight is essential for financial stability, overly prescriptive frameworks and fragmented policymaking risk placing institutions at a global disadvantage.
In this context, the United States has emerged as the jurisdiction best positioned to strike the balance between safety and dynamism. For Europe and Switzerland, the challenge is not only one of compliance, but of vision.

2Q25 Review and Second Half 2025 Outlook

The Birling Capital U.S. Bank Index is a market value-weighted benchmark tracking the six largest U.S.-based bank holding companies listed on the NYSE: **Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley**, and **Wells Fargo**. These institutions anchor the global financial system and remain vital bellwethers of U.S. economic direction, credit conditions, and investor sentiment.
If you found 2024 a complex macroeconomic landscape marked by international trade disruptions, U.S. banks delivered one of their strongest years in more than a decade. Their performance was fueled by earnings resilience, robust loan growth, and widening net interest margins, allowing the sector to outperform every primary benchmark index. However, the year **2025 presents a more complex story,** with banks navigating a challenging landscape defined by five key pressures. Net interest margins are tightening as rate cuts loom and deposit costs remain elevated. Credit quality in commercial real estate is deteriorating, raising concerns about potential loan losses. Loan growth has slowed across consumer and corporate segments due to tighter underwriting standards. At the same time, uncertainty around future regulatory and capital requirements continues to cloud strategic planning. Finally, investment banking and M&A activity remain subdued, which limits fee income and hampers revenue diversification.
"You can't predict, but you can prepare". This quote by Howard Marks, Co-Chairman and Co-Founder of Oaktree Capital Management**,** serves as a cautionary tale of what to expect for the remainder of 2025.



Birling U.S. Bank Stock Index Performance vs. Broader Market Benchmarks YTD Returns as of 7/18/25:

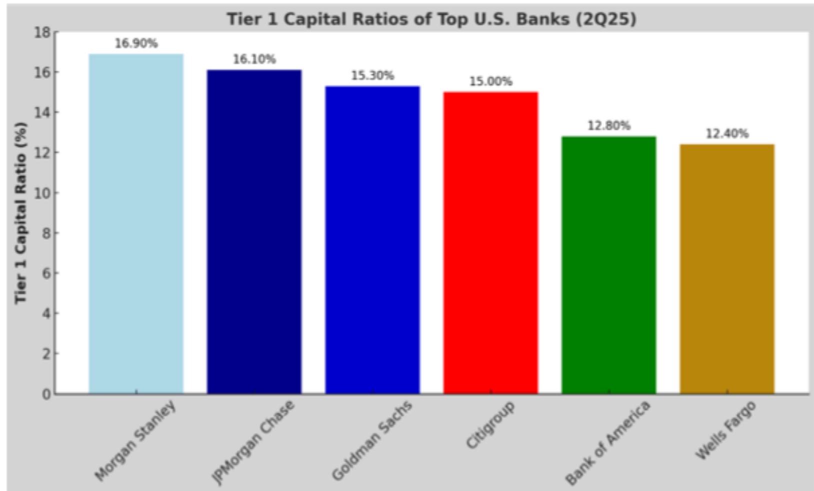
• Dow Jones Industrial Average: **4.23%**
• S&P 500: **7.06%**
• Nasdaq Composite: **8.21%**
• Birling Puerto Rico Stock Index: **12.50%**
• Birling Capital U.S. Bank Index: **20.27%**

The Birling Capital U.S. Bank Index is outpacing all major benchmarks in 2025, posting a year-to-date return of **20.27%** as of July 18, nearly triple that of the S&P 500 and more than double that of the Dow Jones Industrial Average. This outperformance reflects a combination of strong capital positions, disciplined cost management, and investor confidence in the regulatory flexibility afforded to U.S. financial institutions. As global peers contend with tightening capital requirements and political interference, U.S. banks are benefitting from robust earnings, improved credit quality, and growing fee-based revenue streams. In an environment defined by uncertainty, the market is rewarding clarity, strength, and strategic execution traits that the Birling U.S. Bank Index constituents continue to deliver.

Let's review each of the Individual Banks' 2025 Second Quarter results, ranked by reporting date:

1. **JPMorgan Chase & Co (JPM),** with total assets of $4.552 trillion**,** reported 2Q25 revenues of $45,680 billion, down 10%, net income of $14,987 billion, down 17%, and earnings per share of $5.24, topping estimates. JPM has a Tier 1 Capital Ratio of 16.10% and a stock price target of $289.93, last updated on July 18, 2025, and closing at $291.72. JPM has a YTD Return of **21.51%.**
2. **Citigroup, Inc. (C),**with total assets of $2.405 trillion**,** reported 2Q25 revenues of $21,668 billion, up 8%, net income of $4,019 billion, up 25%, and earnings per share of $1.96, topping estimates. Citi has a Tier 1 Capital Ratio of 15% and a stock price target of $94.40, last updated on July 18, 2025, and closing at $93.45. Citi has a YTD Return of **32.76%.**
3. **Wells Fargo & Co (WFC)**, with total assets of $1.981 trillion**,** reported 2Q25 revenues of $20,822 billion, up 1%, net income of $5,214 billion, up 12%, and earnings per share of $1.60, topping estimates. Wells has a Tier 1 Capital Ratio of 12.40% and a stock price target of $86.45, last updated on July 18, 2025, and closing at $80.64. Wells has a YTD Return of **14.81%.**
4. **Bank of America Corp. (BAC),** with total assets of $3.441 trillion**,** reported 2Q25 revenues of $26,463 billion, down 3.29%, net income of $7,116 billion, down 3.78%, and earnings per share of $0.89, meeting estimates. BAC has a Tier 1 Capital Ratio of 12.80% and a stock price target of $52.35, last updated on July 18, 2025, and closing at $67.32. BAC has a YTD Return of **7.67%.**
5. **Goldman Sachs Group, Inc. (GS),** with total assets of $1.785 trillion**,** reported 2Q25 revenues of $14,583 billion, up 15%, net income of $3,723 billion, up 22%, and earnings per share of $10.91, topping estimates. GS has a Tier 1 Capital Ratio of 15.30% and a stock price target of $668.55, last updated on July 18, 2025, and closing at $708.26. GS has a YTD Return of **23.69%.**
6. **Morgan Stanley (MS),** with total assets of $1.300 trillion, reported 2Q25 revenues of $16,792 billion, up 11.8%, net income of $3,539 billion, up 15%, and earnings per share of $2.13, topping estimates. MS has a Tier 1 Capital Ratio of 16.90% and a stock price target of $138.13, last updated on July 18, 2025, and closing at $140.83. Wells has a YTD Return of **12.02%.**

JPMorgan Chase, Citigroup, Goldman Sachs, Wells Fargo, Bank of America & Morgan Stanley Tier 1 Capital 2Q25



The consolidated results of the group for the second quarter of 2025 were as follows: **Total Assets of $15.464 trillion**, **Total Revenues of $146.0 billion**, **Net Income of $38.6 billion**, and **Total Loans of $4.712 trillion**.

These figures underscore the continued strength and scale of the U.S. banking sector. Despite a more challenging macroeconomic backdrop and growing regulatory scrutiny, the nation's six largest banks delivered robust top-line performance and healthy bottom-line profitability. The sheer magnitude of their balance sheets—holding over $15 trillion in assets and nearly $5 trillion in loans—reinforces their central role in capital formation, credit intermediation, and economic stability. Notably, the sustained earnings power across the group, with nearly $39 billion in collective net income, highlights their ability to adapt to a maturing credit cycle while maintaining strategic flexibility and capital discipline.

The Final Word: Investing in Financials — It's Worth a Good Look
If you had believed in the strength, resilience, and strategic discipline of the United States' six largest financial institutions at the start of 2025, your conviction would have been well rewarded. Each of the top U.S. banks has delivered solid gains year-to-date, and an evenly weighted investment of $5,000 in each would have grown to **$35,622** by mid-July, representing a **$5,622** gain, or an **18.74% return** in just over six months.

Let's take a closer look at the individual results:

1. **JPMorgan Chase**
   - Original investment: $5,000
   - Value as of 7/18/25: $6,075.50
   - Gain: $1,075.50
2. **Citigroup**
   - Original investment: $5,000
   - Value as of 7/18/25: $6,638.00
   - Gain: $1,638.00
3. **Wells Fargo**
   - Original investment: $5,000
   - Value as of 7/18/25: $5,740.50
   - Gain: $740.50
4. **Bank of America**
   - Original investment: $5,000
   - Value as of 7/18/25: $5,383.50
   - Gain: $383.50

5. **Goldman Sachs**
   - Original investment: $5,000
   - Value as of 7/18/25: $6,184.50
   - Gain: $1,184.50
6. **Morgan Stanley**
   - Original investment: $5,000
   - Value as of 7/18/25: $5,601.00
   - Gain: $601.00

   Total Portfolio Summary:
   Total investment: $30,000
   Total Value as of 7/18/25: $35,622.00
   Total Gain: $5,622.00

However, had you invested in the **Birling U.S. Bank Index's YTD, your return would be 20.27%, or $6,081, which is $459.00 or 1.53%** higher than the individual stocks' **18.74% return** from equal $5,000 investments in each of the six banks. In that case, it comes down to our index weighting methodology versus equal-weighted investment.

Allow me to explain.
Our Birling U.S. Bank Index is Market Value-Weighted, which means the index assigns greater weight to the banks with larger market capitalizations.

Because the index assigns higher weights to the best-performing large players (such as JPMorgan and Goldman Sachs), its overall return was boosted. In contrast, an equal-dollar investment gave less relative advantage to those same outperformers.

This performance is a testament to the sector's ability to weather tightening capital requirements, margin pressures, and a maturing credit cycle, while still delivering robust shareholder value. From Citigroup's remarkable rebound to Goldman Sachs' continued dominance in capital markets, the financial sector has once again proven that disciplined fundamentals, strong balance sheets, and long-term capital allocation remain key drivers of outperformance.

As Warren Buffett often says, "Banking is a very good business if you don't do anything dumb".

BIRLING CAPITAL ADVISORS, LLC

Francisco Rodríguez-Castro, President & CEO • frc@birlingcapital.com
PO Box 10817 San Juan, PR 00922 • 787.247.2500 • 787.645.8430