

A chaotic Q1 suggests US banks' earnings will be muted and outlook uncertain

Article

The news: After a turbulent Q1, banks are preparing to release their earnings starting this week. While major US banks were generally shielded from the runs that regional banks faced,

many other economic factors are influencing earnings. Here's what we expect to see.

Net interest income will be a bright spot, but will experience some pressure.

- High interest rates on loans means banks will continue to rake in interest income. And even though many larger US banks experienced an inflow of deposits during the March banking crisis, their reluctance to boost rates on savings accounts means they didn't pay much on the deposits. Interest earned will easily outweigh interest paid.
- But the questions around bank liquidity that are haunting the sector means many banks will likely implement some additional liquidity measures that will put pressure on their net interest income.

Delinquent credit will creep in.

- Despite a solid start to the year, the outlook for the US economy has turned dour, fueled by last month's bank runs and residual jitters, geopolitical tensions, and the Fed's continued quantitative tightening.
- The muted outlook means US consumers may turn to credit to make ends meet. But that may also bring about a spate of loans that go unpaid as consumers struggle. Banks will likely continue to add to their loan loss provisions, cutting into their profits.

The Fed can't kick inflation.

- The Fed's plan to bring inflation down to 2% has been slow-moving, though recent months show small decreases in the inflation rate. This week, the Fed will provide an updated Consumer Price Index (CPI), which will give insight into what the next Federal Open Market Committee (FOMC) meeting might bring.
- Current market sentiment suggests that the Fed will likely raise rates by a quarter of a percentage point in May. The persistent interest rate increases are both a blessing and a curse for banks—they benefit from interest income, but face liquidity challenges on their balance sheets.

The spring forecast will be on the bitter side.

- Bank heads' near-term forecasts will likely sound a bit chilled. Though major US banks are well-capitalized, consumers are still questioning the strength of the banking sector. All banks

will be keeping an eye on their deposit levels.

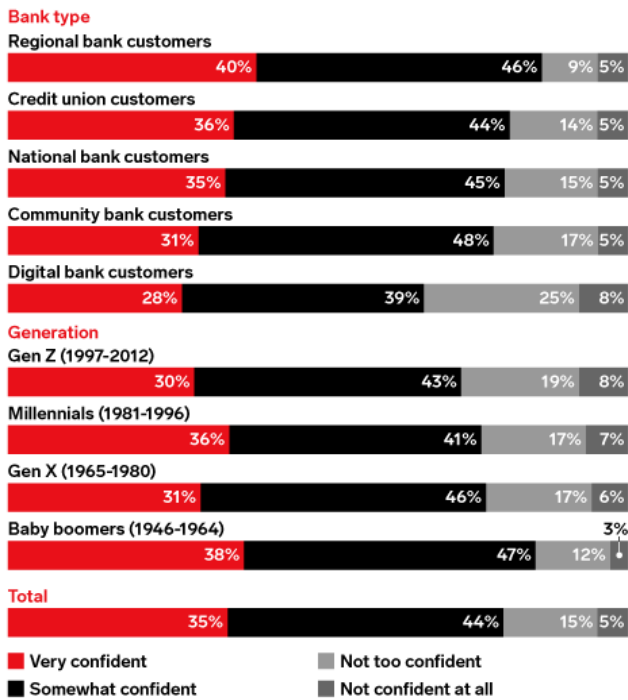
- Investment banking divisions will likely continue to suffer from minimal dealmaking and a trading slowdown.

Dates to watch: Keep an eye out for our earnings [coverage](#) of these US banks:

- April 14: **JP Morgan, Wells Fargo, and Citi**
- April 18: **Goldman Sachs and Bank of America**
- April 19: **Morgan Stanley**

Level of Confidence in Their Primary Banks* According to US Adults, by Bank Type and Generation, March 2023

% of respondents in each group



Note: numbers may not add up to 100% due to rounding; *in their banks' ability to provide them with all of the money in their accounts if they requested it
Source: Morning Consult as cited in company blog, March 15, 2023

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