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Themes we expect to see as banks release Q4 earnings this week

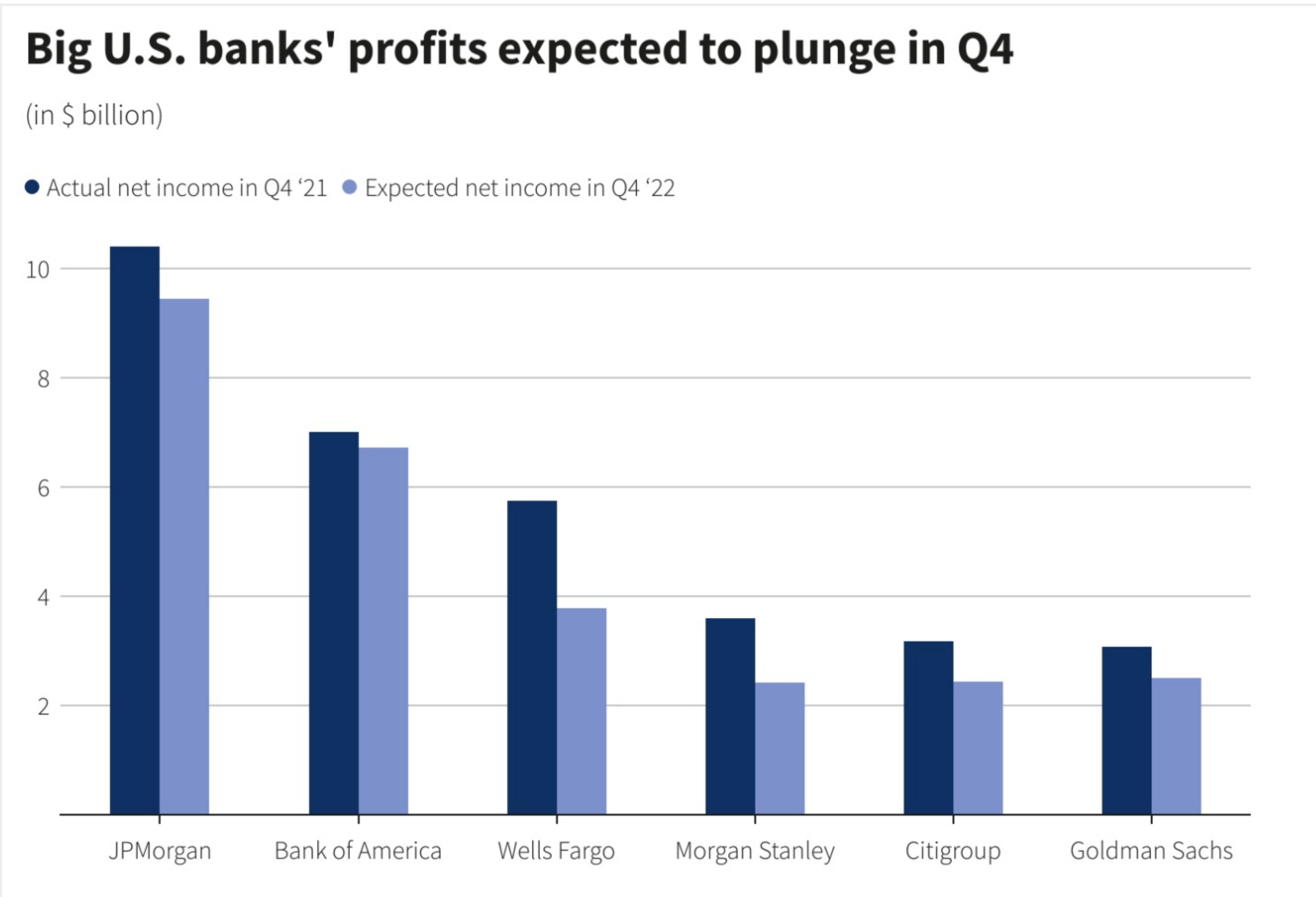
Article

What's coming: Major US banks are preparing to release their Q4 2022 earnings later this week and early next week. With the dour economic outlook persisting, we don't expect much to change from Q3. Here's a look at the themes we'll see in the forthcoming results.

Theme 1: Profit declines will prevail.

Most banks faced a double-digit profit decline in Q3, and Q4 isn't likely to be different. Banking heads are talking more loudly about a coming recession, and they're preparing to combat failing loans as consumers struggle to keep their heads above water.

- Loan loss provisions are expected to top $5.7 billion across the six major banks, taking a huge bite out of profits. According to estimates from Refinitiv, profits are expected to drop 17% YoY.



Big US banks' profits expected to plunge in Q4. Source: Infinitive and Reuters.

Theme 2: Inflation still lurks and interest rates are still rising.

The Fed remains keen on hiking up interest rates to keep inflation in check, though it's widely speculated that the magnitude of the hikes will slow. Still, the higher interest rates are bolstering banks' net interest income.

- Q4 results are expected to show an average increase of 30%, according to analysts at Wedbush Securities. Unfortunately, the increase will be overshadowed by the increase in loan loss reserves and resulting profit declines.

Theme 3: Investment banking is still the pits.

The investment banking units at US banks are expected to underperform again as deal-making and debt and equity underwriting remained weak in Q4.

- According to an EY report, last year saw a 45% decrease in the volume of global IPOs YoY, and proceeds from deals slumped 61%. Data from Dealogic suggests that investment banking revenues fell to $15.3 billion in Q4, down over 50% from the same period in 2021.

Theme 4: Consumer banking units see savings disappear and credit card balances rise.

Consumer banking units' Q4 results will draw much of the attention, as a strong job report and stock market rally in the first week of January suggested that consumers are still financially well-off. But larger trends hint that consumers may find their backs against the wall as 2023 advances.

- Pandemic assistance is trailing off, and an estimate from JPMorgan Asset Management shows that inflation is eating away at consumers' savings. Excess savings for US households have dropped to $900 billion, down from $1.9 trillion at the start of last year.
- Credit card balances increased 15% year over year (YoY) in Q3—a 20-year high, according to the Federal Reserve Bank of New York. Balances are expected to increase in Q4 as the holiday season increased pressure on consumers.

Banking heads are beginning to take threats of a coming recession more seriously, and their commentary around Q4 earnings releases will likely describe the steps they're taking to weather the storm, including references to recent and upcoming job cuts.

Dates to watch:

- **JPMorgan**, **Citigroup**, **Bank of America**, and **Wells Fargo** are set to release Q4 earnings on Friday, January 13 before the market opens.
- **Goldman Sachs** and **Morgan Stanley** will follow with earnings releases on Tuesday, January 17.

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