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Here's what to expect from US banking's Q3 earnings season

Article

The lowdown: Wall Street lenders will kick off Q3 bank earnings season this week after a period marked by economic uncertainty, surging inflation, and rising interest rates.

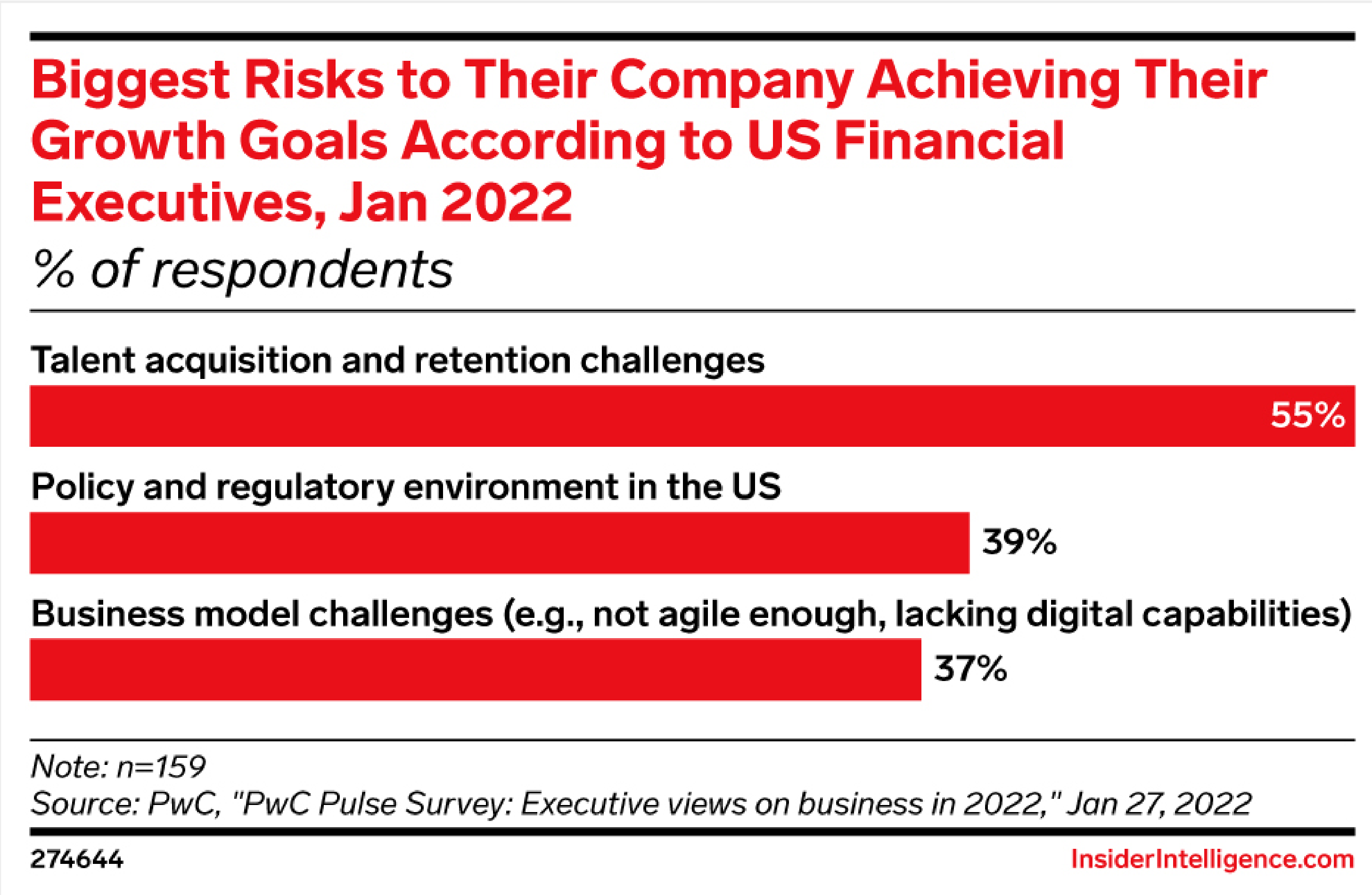
Here are three things to look out for as the biggest US banks reveal their Q3 earnings.

1. Planning for a downturn: They're bracing to set aside about $4.5 billion to cover possible losses from bad loans, per analyst estimates compiled by Bloomberg. The six biggest US banks—**Bank of America**, **Citigroup**, **Goldman Sachs**, **JPMorgan Chase**, **Morgan Stanley**, and **Wells Fargo**—also made bad debt provisions in the previous quarter.

The large provisions we expect lenders to set aside highlight the fragile state of the economy and shows that banks are planning for the worst: a recession that will be a longer-term problem, rather than just a flash in the pan. Banks fear that rising interest rates, record borrowing, and looming recessions will cause a wave of loan defaults, which could have a massive impact on their revenues and balance sheets.

2. Dealmaking declines: Mergers and acquisition volume in the US has dropped nearly 63% in Q3, per Dealogic, squeezing the fees earned through investment banking. US lenders with the biggest investment arms, such as Goldman Sachs and JPMorgan, will be the hardest hit. The gloomy outlook will sharpen banks' focus on keeping a lid on costs and could impact growth plans and headcount.

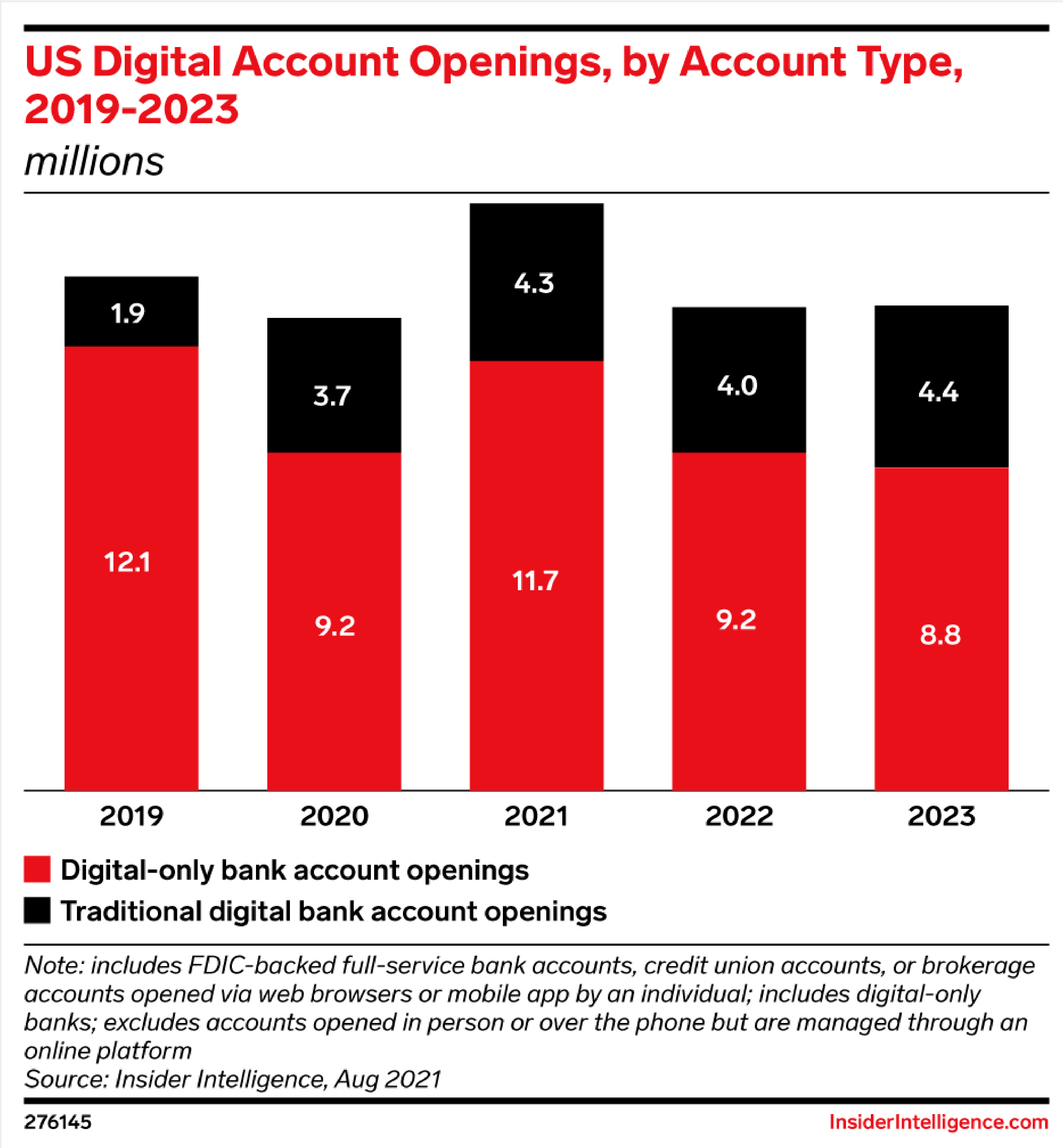
3. Profits narrow: We also expect major US banks to report a sharp drop in profits as the economic downturn puts the brakes on lenders' growth. Earnings at JPMorgan are estimated to have declined 24% YoY to $8.5 billion, according to figures compiled by Refinitiv and cited by the Times of London. Profits at Citi are forecast to shrink by 32% YoY to $3 billion, Morgan Stanley's are projected to fall 28% YoY to $2.6 billion, while Wells Fargo's are expected to decline 17% to $4.1 billion, per the Times.



What this means: Wall Street banks are bracing for the worst with their $4.5 billion provision against bad debt. This illustrates the caution and prudence that they lacked in the run up to 2008. They're far better prepared and are in a much stronger financial position. But it also shows the gloomy outlook and how they're bracing for a wider recession. We expect banks to take a more cautious approach in their growth plans for the remainder of 2022, with a greater focus on keeping costs down and shoring up their bottom lines.

Dates to watch for:

- JPMorgan, Morgan Stanley, Citi and Wells Fargo will report their earnings on **Friday, October 14.**
- Bank of America will post its Q3 results on **Monday, October 17.**
- Goldman Sachs will follow on **Tuesday, October 18.**



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