

Despite uncertainty, Q2 bank earnings reveal common themes and a spark of hope

Article

Trends in bank earnings: Banks' Q2 2022 earnings offer insight into how they're preparing for the economic uncertainty they'll face during 2H. Here are the common themes we saw in

US, UK, and Canadian reports.

Trend 1: Profits decreased. (Mostly.)

Most major banks in the US reported steep declines in profits YoY from Q2 2021 to Q2 2022.

- **JPMorgan's** profit was down 28%.
- **Wells Fargo** saw its profit drop by 48%.
- **Bank of America's** profit decreased 32%.

The story was similar in the UK, where **Lloyds Bank** posted a 28% decrease in profits and **Barclays** reported a 48% decline. Notably, **HSBC** saw its profit increase 49% YoY from \$3.9 billion to \$5.8 billion.

While the banks reported strong lending numbers and income streams from interest income, the declines were powered by losses in noninterest income. Wells Fargo reported that higher interest rates and weaker financial markets caused noninterest income from avenues like venture capital, mortgage banking, and investment banking to decline.

Canadian banks bucked the trend, seeing modest YoY increases in profits due to less uncertainty regarding Covid-19.

- **Bank of Montreal** (BMO) reported a 15% increase in profits.
- **Royal Bank of Canada** (RBC) saw its profit rise 6%.
- **TD Bank's** profit rose 3%.

Trend 2: Increased lending and robust consumer spending boosted earnings.

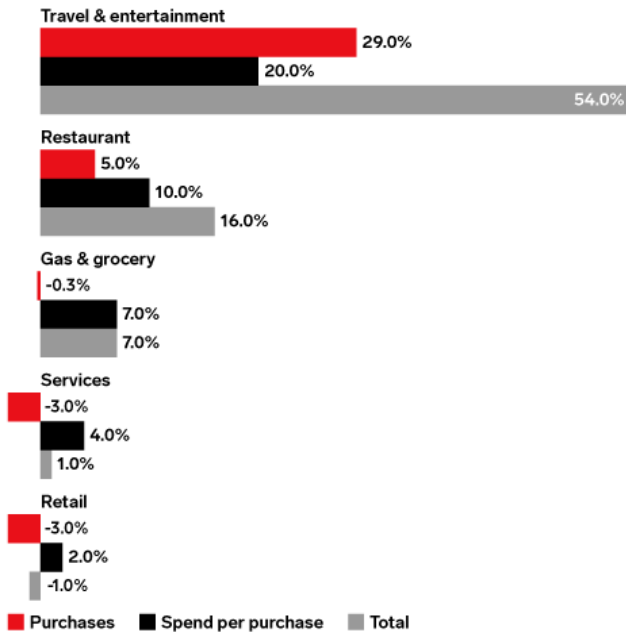
Despite inflationary pressure and rising interest rates in the US, consumers continued to spend during Q2. In their earnings commentary, multiple banks pointed to **strong credit card spending and healthy deposits**.

- JPMorgan cited a 15% increase in combined debit and credit card spending, with **travel and dining as the standout categories**.
- Wells Fargo said **loan balances increased** for both consumer and commercial loans, and that **credit quality is strong**.

- Bank of America also touted robust loan growth, high spending levels, and hearty deposit balances.

Change in US Consumer Total Spend, Purchases, and Spend per Purchase, by Category, Q1 2022

% change vs. Q1 2021



Source: Cardlytics, "Q1 2022 State of Spend," May 12, 2022

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The UK reported similar strengths, but banks there are wary of the rising cost of living many citizens face.

- Lloyds Bank reported higher credit card and retail unsecured loan balances, citing a £7.5 billion (\$10.3 billion) increase in loans and advances to customers quarter over quarter.
- HSBC said customer lending increased by \$14 billion in Q2 2022 versus Q2 2021.
- **NatWest** signaled a rather flat quarter from the retail sector due to changing customer habits.

Canada also reported vibrant consumer data for the quarter.

- BMO cited broad-based customer loan growth and strength from its North American arm.
- RBC touted strong net interest income resulting from 9% volume growth in average loans and 10% volume growth in average deposits.

Trend 3: Despite all their talk about uncertainty, banks' outlooks remain mostly upbeat.

Banks in the US, the UK, and Canada have all acknowledged the chill that has swept over the global economy, as well as rising geopolitical tension.

- NatWest said many UK businesses are still trying to recover from the effects of the pandemic.
- **Goldman Sachs** cited macroeconomic concerns and the war in Ukraine as contributors to the volatility in global equity prices and wider credit spreads.
- JPMorgan warned of likely negative consequences from rising rates, the reversal of quantitative easing, and the war in Ukraine.
- TD Bank stated that as the bank emerges from pandemic-related challenges, it now faces new economic uncertainties and geopolitical tensions.

How Do US Adults Feel About the US Economy?

% of respondents, March 2022-May 2022

	March 2022	April 2022	May 2022
Current economic conditions			
Excellent	2%	2%	1%
Good	20%	18%	13%
Only fair	35%	38%	39%
Poor	44%	42%	46%
Economic outlook			
Getting better	20%	20%	20%
Getting worse	75%	76%	77%

Source: Gallup as cited in company blog, May 31, 2022

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But for the most part, banks remain positive about their ability to weather the storm.

- Bank of America said it will be able to support growth, pay dividends, and buy back shares over the next 18 months.
- HSBC expects to return to paying a quarterly dividend starting in 2023, and improve its payout ratio to 50% in 2023 and 2024.
- BMO will make ongoing investments in talent and technology to stay well-positioned in helping customers navigate the changing economic environment.

The big takeaway: At face value, the Q2 2022 results look foreboding—profits plummeted and uncertainty prevailed—but **banks might be in a better position than the numbers indicate.**

- Many of the declining profits are partly due to **banks bulking up their cash reserves** and preparing to serve their customers during the squeeze.
- And despite the not-so-bright outlook, many **banks are committed to investing in technology and infrastructure** to make the financial lives of their customers easier during a rough time.