JUL 19
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Rumors of layoffs complement banks' declining profit reports

Article

The news: Rumors of hiring freezes and layoffs are swirling as numerous US banks report sinking profits.

Turning tides: Following a year of rampant hiring amid peaking equity valuations and abundant public offerings and mergers, some of the biggest banks have pivoted toward cutting costs and slimming down staffing.

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- Interest rates and inflation continue to rise and a recession looms, suppressing businesses' appetite for mergers, IPOs, and other business deals.
- Some bank executives hinted that a decrease of as much as 10% in industry workforce could unfold by the end of the year.
- Large banks like **JPMorgan** and **Wells Fargo** have already begun letting go of workers in their mortgage divisions as rising interest rates cool down the housing market. After a hot year for SPAC deals, some believe that banks' beefed up SPAC divisions will see cuts next.

Falling profits: As banks release their second quarter results, almost all have reported falling profits.

- **Bank of America** reported quarterly earnings of $0.73 per share, missing its estimate of $0.77, as well as a **32% decline in profits.**
- JPMorgan Chase reported a **28% decline in profits**, citing the need to build up reserves for bad loans and share buybacks.
- Wells Fargo's **profit fell 48%**, with the bank earning only $0.74 per share versus the estimated $0.80.
- **Goldman Sachs** reported a **47% decrease in profit**, but blew away earnings estimates, reporting $7.73 earnings per share against the estimated $6.56.

The reports further confirm that banks' investment deals are trailing off as the pandemic fades and the economy remains on edge.

Holding onto hope: Banks are remaining optimistic on loan growth as a source of revenue, but they are concerned the worsening economy might cause a dropoff in borrowing.

- Lending fell off during the pandemic due to government stimulus, but it picked up again in the first half of 2022, despite rising interest rates.
- JPMorgan Chase saw its **loan book grow 7%** in the second quarter compared to the same time last year.
- Wells Fargo said its **loan book increased 8.4%** over the same time, and saw a **10% quarter-over-quarter rise in net interest income.**

But executives at these banks and others in the US have said they expect credit quality to deteriorate in the coming months and consumer loans are likely to decrease in the current

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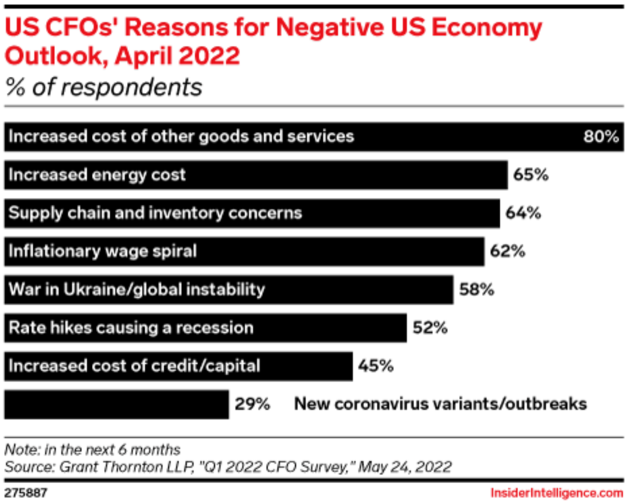
economic uncertainty.



The big takeaway: Banks are teetering on a fine line between needing to trim down workforces due to the deal slowdown and holding onto the talent they've recently attracted. Unlike the fintech sector, which is laying off workers nearly every day, the banking industry has the funds and the time to hang on to employees at least through the summer. This leaves banks better positioned to react in H2 2022, which may see the economy finally fall into a recession or shake itself out into a recovery. Letting go of workers too soon would be a bad move—as banks that have tightened up their budgets might not be able to rehire or replace them.

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