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Cautiously optimistic US banks report mostly better-than-expected Q4 earnings

Article

The news: Four of the largest banks in the US reported Q4 2022 earnings on January 13th. As expected, the themes that defined much of last year also prevailed in the final quarter. But

some banks surprised Wall Street by beating analysts' expectations. Let's look at each bank's performance.

JPMorgan

- Its solid Q4 blew analysts' estimates out of the water. The bank **increased profits by 6%** and enjoyed revenues of $35.57 billion, compared to an estimate of $34.3 billion.
- **Loan loss provisions totaled $2.3 billion for the quarter**, reflecting a 49% increase from Q3 2022. Economists at the bank are predicting a mild recession to hit the US in Q4 2023.
- Net interest income boomed at $20.3 billion, an **increase of 48% YoY,** driven by higher interest rates.
- As was the case throughout much of 2022, **investment banking income slumped, down 52% YoY** as dealmaking remained slow. But JPMorgan's consumer arm provided some bright spots, with **average deposits up 3% and debit and credit card sales volume up 9%.**

Bank of America

- Bank of America (BofA) also showed stellar Q4 results, reporting a **2% profit increase and an increase in revenues of 11%** to $24.5 billion.
- The bank set aside **$1.1 billion in loan loss provisions** for the quarter.
- **Net interest income increased 29% YoY** to $ $14.7 billion, powered by higher interest rates and significant loan growth.
- BofA also suffered from a slow dealmaking environment and saw its **investment banking income fall 54%**. Regarding consumer banking, balances remained flat for the quarter and **credit and debit card spending jumped 5%. Credit card balances grew by 14%.**

Citigroup

- Citigroup reported a **21% decline in profits YoY,** but its $18 billion in revenues beat analysts' predictions of $17.9 billion.
- **Loan loss provisions came in at $1.85 billion**, an increase of 35% from last quarter and higher than analysts' estimates of $1.79 billion.
- The higher interest rates helped Citi beat **net interest income** estimates of $12.7 billion, coming in at $13.27 billion. This was an **increase of 61% YoY.**

- In line with other banks and the barren economic environment, **investment banking dropped 58% YoY.**
- Citi's consumer banking division posted some wins, with **credit card spending volumes up 9% and average loan volume up 13%.**

Wells Fargo

- **Wells Fargo posted the biggest profit drop of 50% YoY**, driven by a $2.8 billion operating loss to resolve regulatory issues from its past. **Revenues came in at $19.66 billion**, just under analyst estimates of $20 billion.
- **Credit loss provisions were a reported $957 million**, reflecting the bank's unfavorable economic outlook.
- The bank reported a **45% increase YoY in net interest income** at $13.4 billion, generated through higher interest rates and higher loan balances.
- Following the trend, **investment banking income dropped 32% YoY** due to decreased market activity.
- Consumer banking numbers remained strong, as Wells Fargo reported that deposits balances, consumer spending, and credit quality were still above pre-pandemic levels. **Credit card volumes were up 6% YoY.**

The wrap-up: Though banks are still preparing for a tough economic environment, they appear to be more confident about moving forward.

- Loan loss provisions weren't as high as Q3, and some banks were able to squeak out a profit.
- Investment banking was again a drag on performance, but consumer banking results show that consumers are still holding on amid high inflation.

All eyes will be on the Fed's interest rate hikes, which will play a huge role in banks' net interest income in Q1.

Continue reading: *Check today's* ***Payments Innovation Briefing*** *for a deep dive on how credit card volumes impacted US banks' earnings and more on consumer spending.*

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