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Goldman Sachs and Morgan Stanley round out US banks' Q4 earnings week with mixed results

Article

The news: **Goldman Sachs** and **Morgan Stanley** were the last major US banks to release Q4 2022 earnings. Goldman Sachs closed out a year that was both eventful and disappointing, but Morgan Stanley rallied in revenues.

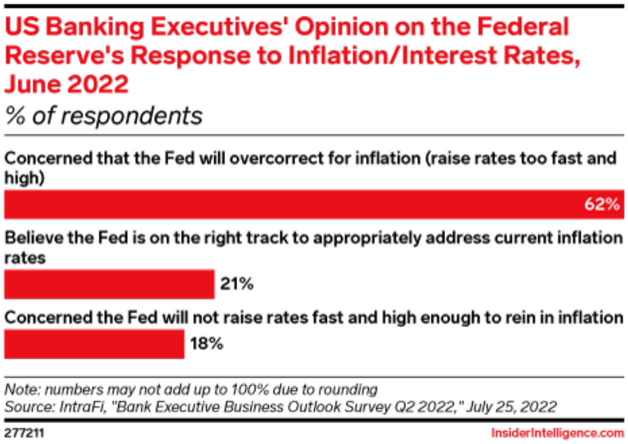
Goldman Sachs

- The bank ended its year full of changes with less-than-desirable results. Its **profit dropped 66% YoY** in the fourth quarter, and its **revenues were down 16% YoY** at $10.59 billion. Earnings per share (EPS) came in at $3.32, a huge miss from analysts' expectation of $5.48.
- The decline in revenues were largely driven by weak wealth management results and slower investment banking activity. **Investment banking income plummeted 48% YoY** to $1.87 billion.
- Though **net interest income saw a 19% boost YoY**, coming in at $7.8 billion, the bank reported a **11% increase in operating expenses** for the quarter. The increase was explained by higher compensation and benefit expenses, as well as higher transaction fees.
- Goldman Sachs also **set aside a whopping $972 million for loan loss provisions in Q4**, up 89% from just last quarter. The bank said the allocation was necessary for recent growth in the credit card portfolio.

Morgan Stanley

- Morgan Stanley also saw its **profit dip at 37% YoY**, though its **Q4 revenues of $12.7 billion beat analysts' expectations of $12.54 billion.**
- Revenues were powered mostly by the bank's **wealth management group, which reported more than $310 billion in net new assets** and record revenue for the quarter.
- Though Morgan Stanley reported an increase in net interest income, it suffered dramatically in investment banking and investment management. Similar to the other major US banks, its **investment banking division struggled from muted deal-making activity, suffering a 49% decrease in revenues YoY.** Investment management revenues were down 15% YoY.
- The bank also **set aside $85 million for credit loss provisions.**

The big takeaway: US banks were buoyed by high interest rates in Q4, but were plagued by a lack of investment deal-making and recession preparations. With large loan loss reserves, the banks are better positioned to weather a storm, but 2023 could still bring rough seas. If the Fed pauses or reverses interest rate hikes, the net interest income holding most banks afloat will cause them to sink. As we wait for the Fed to make its next move, we're eyeing Q4 2022 performance for UK banks.



Dates to remember: UK banks release their end-of-year results next month.

- **Barclays** kicks off the UK earnings season on February 15, followed by **NatWest** on February 17.
- **Lloyds** and **HSBC** close out the round on February 21.

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