

Modest dealmaking rise wasn't enough to turn around Morgan Stanley's profit slide

Article

The news: Morgan Stanley posted another quarter of falling profits on Tuesday, with **pre-tax** income sliding 13% annually to a three-year low of \$2.18 billion, per its earnings release.

- Revenues were up 2% year over year (YoY) to \$13.46 billion.
- Credit loss provisions increased by \$60 million.
- The bank's wealth management side was rosier: **revenues surged \$934 million YoY to \$6.66 billion**, thanks in no small part to a more than **23% increase in net interest income**.

Let's make a deal: A dramatic contraction in mergers and acquisitions (M&A) has hammered banks over the last year—but things may be looking up.

- **Global dealmaking activity plunged 40% YoY** to \$1.34 trillion, according to Dealogic.
- That led to a punishing 37% drop in investment banker revenues. Morgan Stanley's Q2 advisory revenues fell roughly 24% YoY.
- But global M&A volume rose 23% from the first quarter to reach \$739 billion in Q2. US volume also increased over the quarter, though it still languished **nearly \$100 billion short** of volume from the same quarter a year ago.
- Banks are also reporting more dealmaking conversations and expect Q2's increase to carry into the rest of the year, per The Information.

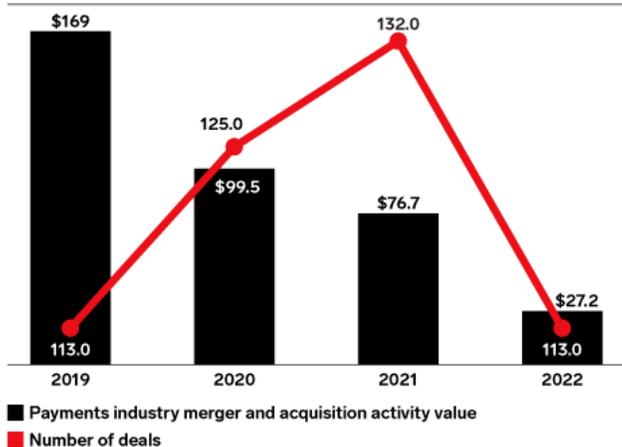
The big takeaway: While banks still have plenty to worry about, whispers of optimism are growing louder.

- Other banks have reported stronger consumer spending growth on the back of retreating inflation and a surge in positive consumer sentiment.
- **Goldman Sachs dropped** its forecast of a recession in the next year to 20%, and the dollar plunged—a positive sign for a host of international and domestic markets.

If these developments continue, it could be a welcome sign to banks to ease up on setting aside cash for loan losses and an opportunity to cinch more advisory fees from M&A activity. It could also encourage banks to unwind some of the credit tightening that seized lending volume after the banking fiasco earlier this year.

Payments Industry Merger and Acquisition Activity Worldwide, 2019-2022

billions and number of deals



Source: The Strawhecker Group (TSG) as cited in Payments Dive, Jan 4, 2023

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