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https://blog.en.erste-am.com/us-banks-report-good-and-bad-developments-in-the-financial-sector/

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On Wall Street, reporting season traditionally kicked off with the reports of the largest US banks. Their results for the final quarter of 2019 give a good impression of how the previous year went on the financial markets. They also reveal interesting trends for investors, which is a good reason to get an overview of the start of the reporting season. All in all, the quarterly results paint a differentiated picture of the US financial sector, with some financial institutions posting record profits and others feeling the challenges facing the sector more strongly.

Low interest rates and legal disputes put a damper on results

After the US Federal Reserve cut key interest rates three times in the previous year, the low interest rates caused problems for the banks. This affected finance corporation Wells Fargo, among others. Its revenues fell by 5 per cent to USD 9.9bn in Q4, while profits decreased to USD 2.9bn, a reduction of more than half year-on-year. Wells Fargo added USD 1.5bn in provisions to prepare for the consequences of ongoing legal disputes. The results of erstwhile industry leader Goldman Sachs, which posted profits of USD 8.5bn for the full year 2019 (after USD 10.5bn in 2018), were also affected by expenditures for legal disputes, while the Bank of America saw its profits in retail banking decline by almost 10 per cent in Q4 alone. BoA explicitly cited the decline in net interest income as the reason for this.

Bond business booming

Strong bond business provided a ray of hope. Morgan Stanley, for example, reported a record profit for the quarter. According to Morgan Stanley, income from bond trading fees actually doubled compared with the same quarter of the previous year. For the full year, net income from shareholders rose by 4 per cent to USD 8.5bn, exceeding average analyst expectations. After opening its books last Thursday, Morgan Stanley's shares closed up a whopping 6 per cent, helping to propel the S&P 500 benchmark index to a new record high.

In addition to high income from bond trading, the successful banks reported good business with private customers despite lower interest rates, as the robust US economy purportedly kept American consumer spending buoyant. Citigroup attributes a good part of its 8 per cent increase in profits for the full year to USD 19.4bn to the spending propensity of credit card customers.

Fed sees continued moderate growth

The general conditions for banking businesses in the US are unlikely to change much this year. On the one hand, the Fed assumes that interest rates will remain low due to low inflation. On the other hand, the US's central bank expects the economy to continue to grow moderately and consumer spending to increase slightly. This is evident from the current economic report, which the Fed published in the course of the previous week#s banking results.

Legal note:

Prognoses are no reliable indicator for future performance.

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A blog post by APA Finance together with Erste AM Communications.