



Highlight of the Week

Banks Prepare to Release Q1 Earnings

- Bank earnings season will kick off on Friday with Q1 reports from JP Morgan, Wells Fargo, and Citibank.
- In Q4, banks largely shared expectations for multiple interest rate cuts throughout 2024 and heavily priced these rate cuts into forecasts.
- However, today's falling expectations for rate cuts are likely to pressure these earlier forecasts, with several potential implications:
 - Continued compression of bank liquidity positions
 - Further deterioration of the market value of securities positions in investment portfolios
 - Increased amount of non-performing loans, as borrowers struggle to afford increased interest payments.
- CRE lenders are likely to be the hardest hit by "higher-for-longer" interest rates. Elevated interest rates have already forced loan extensions and may now deliver actual loan losses, as historical values of commercial properties may no longer be financeable under higher rates. Richard Barkham, global chief economist at CBRE, warned that CRE losses stemming from elevated interest rates could lead to the consolidation of 300 to 400 banks over the next five years.
- Overall, an expected theme in earnings releases this month will be the adjustment of 2024 forecasts to contend with reduced expectations for rate cuts this year. Investors will be looking for insight into how banks plan to navigate this low-growth, high cost-of-capital market.

Rate Curves

