ABELIAN VIEW

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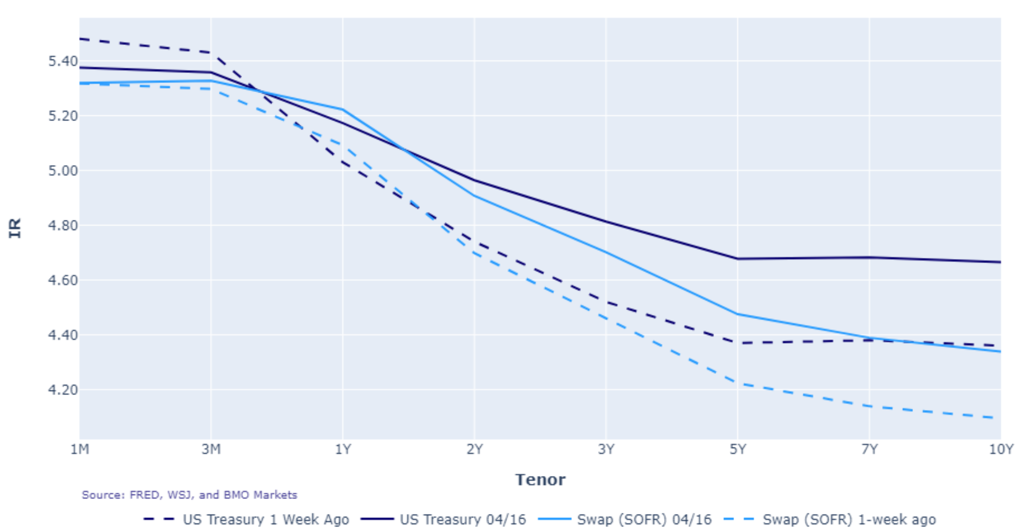
Highlight of the Week

Deposit Costs Central Theme As Banks Begin Releasing Q1 Earnings

- Earnings season began last Friday with the largest banks (JPMorgan, Citigroup, and Wells Fargo) releasing Q1 2024 earnings reports. News was mixed, with most warning of continued high deposit costs depressing profitability for the remainder of 2024.
- High deposit costs are not surprising now that the dust has settled on the 2023 banking crisis. Last year deposits flowed into larger banks as a "flight to quality" over concerns on regional bank solvency spooked customers. Now these larger banking institutions are feeling the "higher-for-longer" pain, with high interest rates required to retain those newly acquired deposits.
- Deposit costs, downward net-interest-margin pressure, and muted profitability were themes for the remaining year forecasts:
    - JPMorgan's earnings were up 6%, but net-interest-income decreased 4% reflecting the impact of thinning interest margins. Forecasts for the remainder of the year were flat.
    - Profit at Wells Fargo fell 7% this quarter on increased deposit costs, with forecasted net-interest-income falling 7%-9% this year due to continued deposit pressure.
    - Although Citigroup beat analyst revenue expectations, revenue decreased by 2% from last quarter and overall profit fell by 27% compared to Q1 of 2023.
- With inflation indicators still flashing, the FOMC is likely to delay rate cuts this quarter, continuing to strain bank profits with high deposit costs. As a result, banks will likely push to cut costs and maximize non-interest revenue in order to remain competitive.

Rate Curves



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