ABELIAN VIEW

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Highlight of the Week

Rising Deposit Costs Pressure Big Bank NIM Expectations

- The big four banks (BofA, Wells, Citi, and JP Morgan) have maintained relatively low deposit costs over the past two years, despite the historic rise in interest rates. A contributing factor to these low deposit costs has been the significant influx of deposits that occurred after the collapse of SVB in 2023. Specifically, this "flight to quality" occurred as clients prioritized perceived financial stability over yield, resulting in a significant shift of deposits from the regional banks into larger institutions. While this shift resulted in upward pricing pressure and NIM compression for regionals, larger banks benefitted from the opposite trend and were able to keep deposit costs low.

- With the 2023 banking crisis now in the rearview mirror, large banks are beginning to face higher costs to retain and attract deposits. Moreover, the "higher-for-longer" market sentiment is dominating all bank deposit pricing, as interest rates are now expected to stay elevated due to ongoing inflation concerns. As an example, over 730 banks offered rates of over 4% on a 1-year $10,000 CD in March of 2024.

- Q1 earnings disclosures for the big banks indicated the trend towards rising deposit rates and future NIM compression. Analysts that have been expecting NIM expansion in the back half of the year are tempering those expectations to now project further NIM compression and flat growth across the large bank landscape.

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