BANKING SECTOR REPORT – December 2019

EXECUTIVE SUMMARY

US banks outperformed the broad market in December (as of December 24), the fourth consecutive month of outperformance after very weak dynamics in August. Thus, BKX index increased by 3.2% MoM vs +2.6% of SPX index. Absolute December performance on MoM basis was +0.4 std from the mean and it is in the top 36% of the absolute MoM performance of BKX index. Relative December performance was +0.6% MoM, it is +0.1 std from the mean and it is in the top 46% of relative MoM performance vs SPX index since 1992. BKX index is currently +32% ytd, and it is the second strongest yearly growth in absolute terms since 1997. On relative basis, it is +2.6% ytd after two years in a row of underperformance.

Dynamics within the sector wasn't uniform in December after positive absolute performance of all BKX index members in November. But the key drivers of the sector still remained rebound of interest rates and stabilization of macro data. Also, growth of some regional banks (e.g. SBNY, SIVB and FRC) quotes was driven by positive perception of their outlook on 2020 at Goldman Sachs US Financial Services Conference.

The earnings season of US banks will start on January 14th, when 4Q19 results will be provided by JP Morgan, Citigroup and Wells Fargo. After that, within two weeks, all members of BKX index will provide quarterly results. So far, US banks have reported reasonable headline numbers but estimates continue to decline. Thus, 19 out of 24 of our group of banks demonstrated positive EPS surprises in 3Q19 despite challenging revenue environment, slightly higher than median number of positive quarterly EPS surprises over the last 51 quarters. Median EPS surprise for our group of banks was +3.2% vs median quarterly figure over the last 12.5 years of 4.1%. According to Bloomberg consensus, median decline of 4Q19 EPS of BKX index members is equal to -0.8% qtd (as of December 23) or -7.1% ytd. Full-year estimates for the current and next years were also revised down ytd by -3.7% and -7.6%, respectively. Given recent stabilization of macro environment, better than feared rates dynamics, and still strong credit, we don't expect that FY2020/21 EPS estimates will continue to go down significantly further but the key EPS driver remains high buybacks which is not a strong catalyst for growth of banking quotes taking into account that valuations moved back to historical averages. We expect that 4Q19 numbers will be relatively weak with median EPS growth of BKX index members of just 0.3% yoy but -0.8% qoq, the weakest growth on yoy basis over the last 3.5 years.

Overall, operating trends of US banks were strong so far but gradually deteriorating because of challenging revenue environment while still high credit quality, good cost control and small but positive operating leverage. We see almost no EPS drivers in the near future with rising political uncertainty given election year and ongoing trade tensions while valuations have become less attractive in recent months. Thus, banks continue to trade with significant discount to S&P 500 index, reflecting late cycle concerns but it hasn't already been cheap vs historical averages. Thus, banks are trading with -0.8/-0.8 std on P/E CY and -0.2/+0.1 std on P/E NY (on the basis of samples from 2000 and 2010 yrs to current moment) relative to historical averages (as of December 20). As for relative to S&P 500, banks are currently trading at -2.0 and -1.5 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively.

Despite stocks are still trading at a significant discount to S&P 500 index but in-line with historical averages, we maintain our cautious view on US banks given higher risks and marked outperformance of US banks in 2019. NIM prospects are not as weak as it was feared 1 quarter ago but it will not resume its growth in current rate environment. In turn, there is no more room for credit costs and opex reduction, so positive operating leverage in

future is under question. Capital return will remain high near term but it is too little to change the mood of investors given late cycle concerns.

EU banks markedly outperformed the broad market in December after slight underperformance in November. On absolute basis, SX7P index increased by 4.9% MoM (as of December 24) or +0.7 std from the mean and this result is in the top 21% of absolute monthly performance of SX7P since the index inception. Relative monthly performance was +2% MoM or +0.6 std and it is in the bottom 20% of relative monthly performance of SX7P index. Notwithstanding, despite significant growth in recent months, SX7P index is still just +8.9% ytd even on absolute basis while on relative basis it is -12.2% ytd with negative MoM relative performance in 6 out of 12 months of this year.

Contrary to US banks, dynamics of EU peers was relatively uniform in December with positive performance of all SX7P index members except for MB IM and CSGN SW. The key outperformers were Scandinavian banks due to rate hike in Sweden, more optimistic next year outlook and less fears on possible size AML fines.

ECB's December policy meeting brought us no surprises even despite it was the first one for the new president Christine Lagarde. The policy statement was unchanged as well as the rates guidance. The meeting confirmed that new president will not make any drastic steps regarding the current accommodative monetary policy stance and that the comprehensive package of policy measures in September was a right thing given some stabilization of macro environment since then. Notwithstanding, the risks are still tilted to the downside but "have become somewhat less pronounced". So, the challenging rate environment will remain a drag (but less than feared few months ago) for European banks for longer. European macro data published in December were slightly positive after better figures in November and October. However, composite PMI missed expectations again, 50.6 pts vs expectations of 50.7 pts in December, still pointing to positive but weak GDP growth of Euro Area in coming quarters. According to new staff projections, GDP growth is expected at 1.2%/1.1%/1.4% yoy in 2019/2020/2021, respectively. Despite slowdown of economy and high political uncertainty in 2019, loan growth remained solid. Thus, total corporate loans increased by +2.2% yoy, +0.4% MoM. EU loans to households increased by 3.1% yoy or +0.3% MoM in October (slight acceleration from 2.6% yoy as the end of 2018). So, operating figures of European banks remains relatively resilient. Thus, 15 out of 31 banks from SX7P index for which estimates were available reported positive surprises on EPS in 3Q19 but after significant decline of estimates ytd while management outlook was more cautious during the last earnings season. However, earnings momentum also improved in 3Q19 after two consecutive quarters of negative yoy dynamics of operating profit.

Despite significant growth in recent months, European banks continue to trade at marked discount on both historical averages and vs US peers. Thus, EU banks trading at 9.6x P/E CY vs median for the sample from 2010 to the present of 10.9x, -0.7 std. For P/E NY it is -0.2 std for the same sample. Current discount to US peers (on median P/E CY of BKX index vs SX7P index) is 18% vs average of 15% since 2010, just -0.4 std. But operating environment of EU banks remains very challenging so far with still high but decreased risks while upside, implied by Bloomberg consensus price targets, is around 6% at the moment vs the mean of 14% of the sample since 2010 or -0.7 std. In spite of significant underperformance in two previous years and decline of political uncertainty we still see few catalysts for European banks in the near future while valuations don't look extremely cheap anymore.

MARKET PERFORMANCE

US

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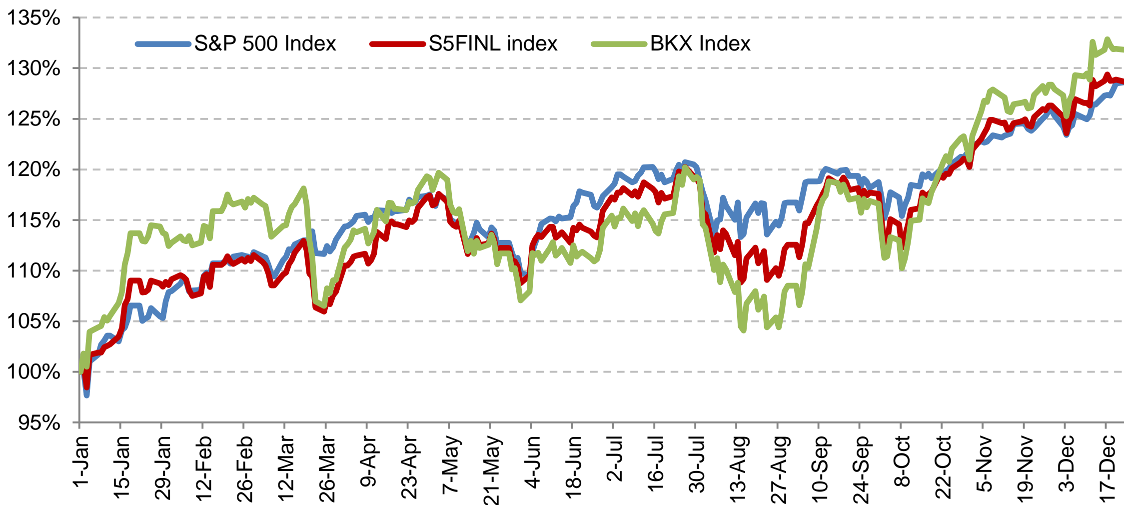
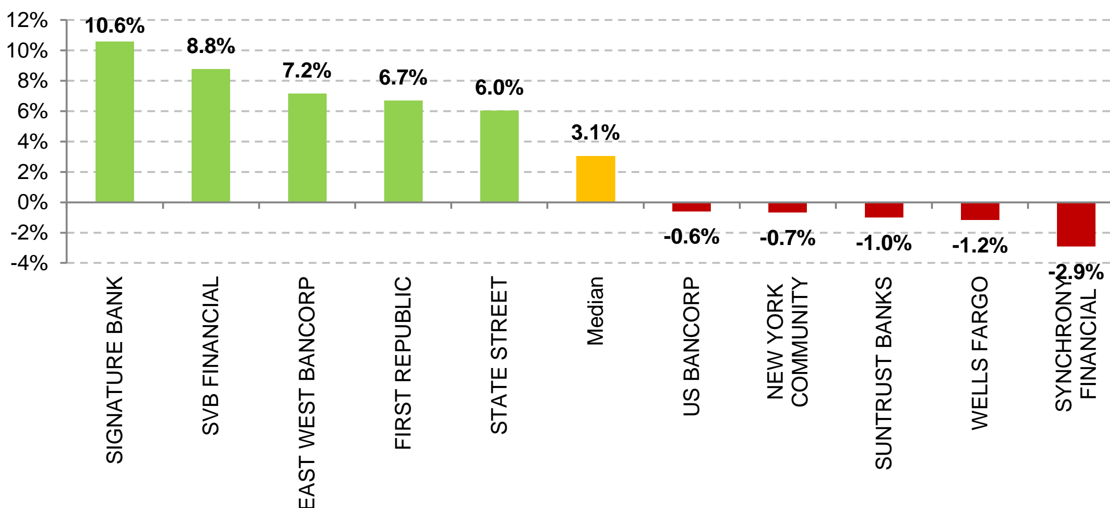
Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

Chart 2. December US Banks Performance*. Leaders and Laggards, 1Month Price Change,%



* Close prices of December 24

Source: Bloomberg

Europe

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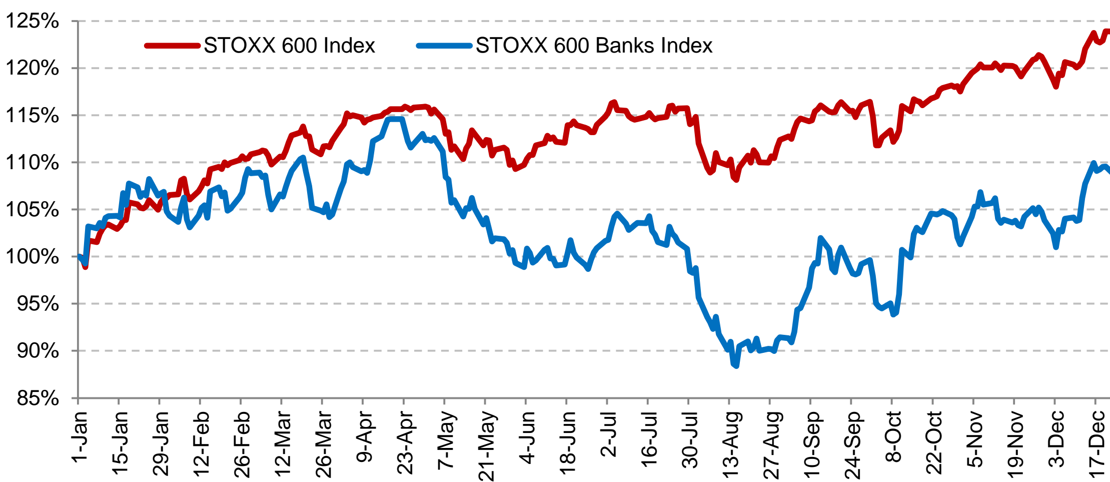
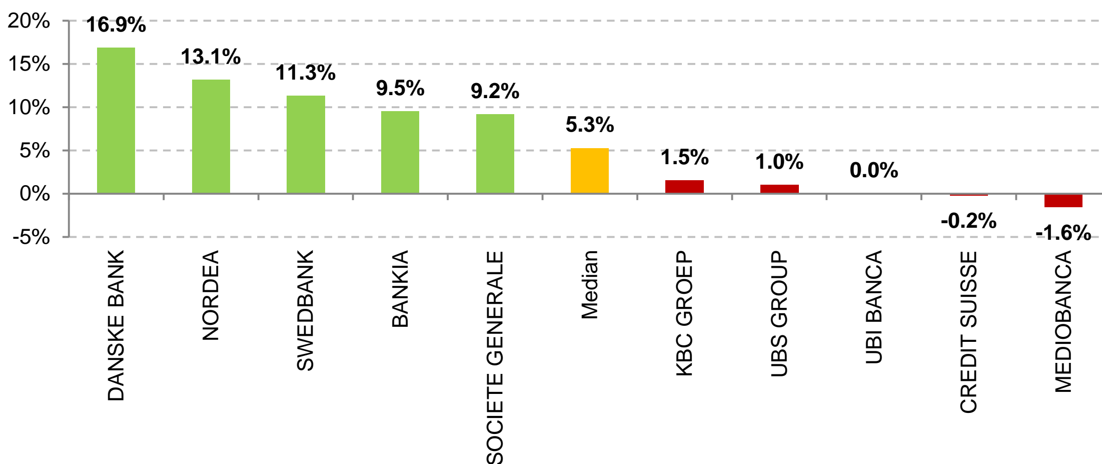
Chart 3. EU Banks Performance. SX7P Index vs STOXX 600 Index



Source: Bloomberg

Chart 4. December EU Banks Performance*. Leaders and Laggards, 1Month Price Change,%



* Close price of December 24

Source: Bloomberg

COMPANY NEWS

Europe

UniCredit. Capital Markets Day

UCG held its much anticipated “Capital Markets Day” on 3 December 2019 where it unveiled its new targets until 2023. The targets look credible but in-line with expectations to a greater extent. The bank will continue to focus on simplification of the business and cost-cutting but it is also going to markedly increase its capital distribution. Also, UCG presented an update of regulatory headwinds outlook. Thus, UCG expects that RoTE 2023 will be >8%, net profit 2023 of €5 Bn, revenue of €18.9 Bn and capital distribution of 50%, i. a. 40% of cash dividend and 10% share buyback. Total capital distribution for 2020-23 years is €8 Bn. So, the market perception of CMD was slightly positive even despite marked outperformance of UCG shares since mid-August. Thus, UCG decreased by 0.45% on the day of report vs SX7P index of -1.4% and STOXX 600 index of -0.6%.

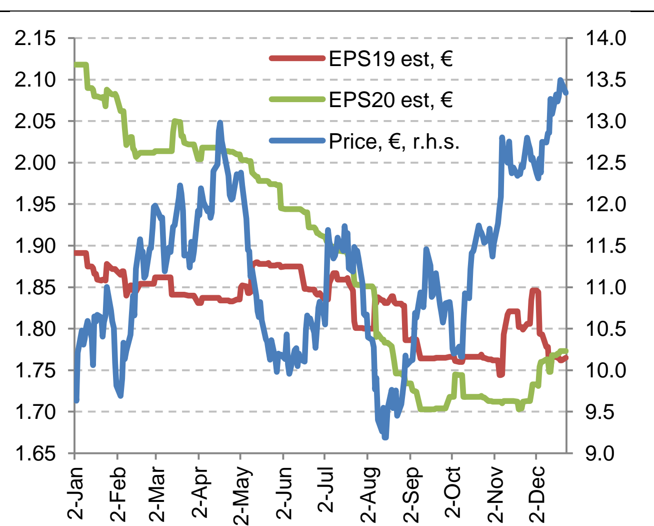
The bullet point of new strategy is capital and its distribution. According to the company, total tangible equity will increase by €8 Bn to €60 Bn in 2023 (4% CAGR). CET1 MDA buffer is implied at 200-250 bps. Total regulatory headwind of 1.9% in 2020-2023 (EBA guidelines, calendar provisioning, Basel 4 etc.) should be offset by organic capital generation and ongoing disposals. Total regulatory headwind in 2024-27 is estimated at 1.2%. The key disposal is sale of Yapi Kredi deconsolidation which could add up to 0.7% in CET1 ratio. Earlier in December, it was already announced that UCG would sell first part of its stake in the Turkish subsidiary (9% out of 41%). Thus, CET1 ratio will remain at 12.5-13% (12.6% in 3Q19) and UCG are going to distribute 40/50% of profit in 2020-22/2023 years through cash dividends and buybacks, implying average total yield of approximately 7% vs industry average of 6%.

Table 1. UCG. Key 2023 targets

	2018	2020	2023
Revenues, € Bn	18.5	18.2	19.3
Expenses, € Bn	10.3	10.2	10.2
CoR, bps	58	46	40
Underlying Net Profit, € Bn	3.0	4.3	5
Gross NPE, € Bn	38.2	<25	<20
Gross NPE ratio, %	7.7	5.0	<3.8
Tangible Equity, € Bn	47.7	53	60
RoTE	8%	8%	>8%
CET1 MDA Buffer, bps		200-250	
Capital distribution, %	20%	40%	50%

Source: Company data

Chart 5. UCG IM. Price vs EPS Estimates



Source: Bloomberg

Revenue target is €18.2 Bn in 2020 (vs consensus of €18.6 Bn) and €19.3 Bn in 2023 (vs consensus of 19.8, just 3 estimates), implying that relatively flat NII in 2020-23 (assuming that Euribor 3M will be -0.5% in 2020 and increase to just -0.4% in 2023) and rising fees. Revenue CAGR 2020-23 is implied at 2% in CEE and at 0.5% in Western Europe. Cost target is €10.2 Bn in 2023, flat in 2020-23, but it is implied 8000 FTE reduction and closure of 500 branches till the end of the target period. So, operating leverage in 2018-2023 would be 5.2%. Cost of risk target is 40 bps in 2023 and 46 bps in 2020 vs 58 bps in 2018 given

full non-core rundown by the end of 2021 and below €5 Bn till the end of 2020.

De-risking is still on the table with the target to decrease gross NPE ratio from current 5.7% to <5.5% as the end of 2019, 5% as the end of 2020 and <3.8% till the end of 2023. Target Gross Group NPE is below €20 Bn till the end of 2023.

Despite Net Profit target of €4.3 Bn in 2020 and €5 Bn in 2023 is markedly higher than consensus estimate compiled by Bloomberg, overall business plan wasn't a game changer for the market as majority of targets had already discussed earlier. Unlike to most European peers, UCG delivered relatively good quarterly results recently and in 3Q19 in particular. Notwithstanding, it continues trading with marked discount to European peers because of weaker ROE prospects. Thus, UCG is trading at 7.6x consensus FY19 EPS forecast and 7.5x 2020 EPS vs industry median of 9.6x and 9.0x, respectively. Currently, UCG is at 0.5x P/B with ROE 2019E forecast of 7.0% and ROE 20E of 6.4% vs median P/B of industry of 0.7x with ROE 2019E and 2020E at 7.9% for both years. UCG remains the most perspective bank among European banks due to ongoing self-help story but a slowdown of economic growth in Eurozone and rising risk of recession, significant decline of benchmark yields ytd as well as substantial outperformance of UCG in 2019 continues to be restrictive factors.

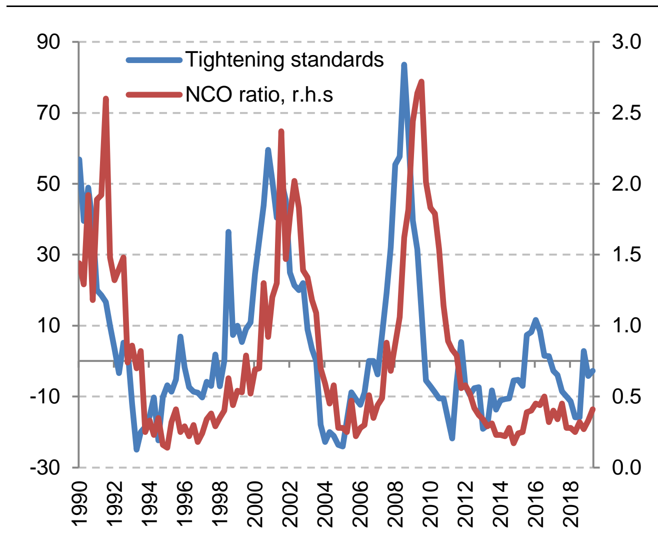
MACROECONOMIC NEWS

US

C&I loans

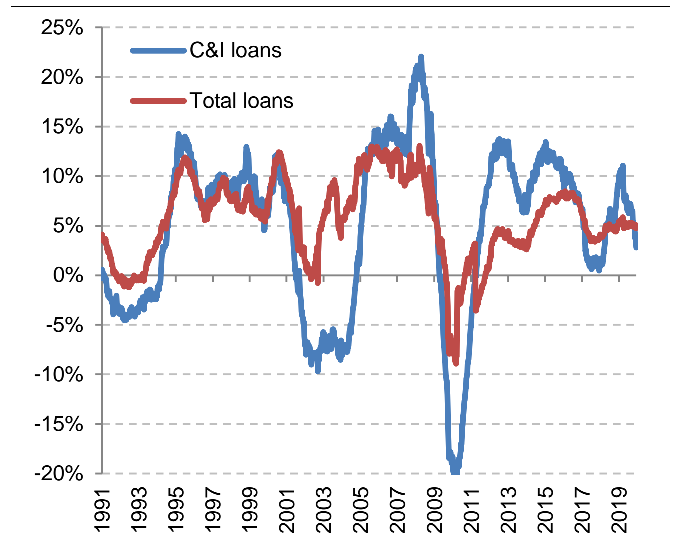
C&I loans decreased by 0.4% qtd as the mid-December and it significantly decelerated on yoy basis. Thus, C&I loans growth rate on yoy basis declined below growth rate of total loans (the second month in a row) after faster growth over previous 15 months. The key reasons of poor C&I loans dynamics are weaker GDP prospects, decelerating global growth, tightening of lending standards and solid bond issuance. It seems that we will see negative yoy growth of C&I loans in the near future given stagnation of corporate profits, further growth of labour costs and no CapEx rebound because of still high uncertainty related to trade tensions, growth of the economy and incoming elections. According to the Fed H.8 survey, C&I loans increased by 2.8% yoy (as of December 11) vs 5.1% yoy 1 year ago and +9.7% yoy as the end of 2018. On ytd basis, C&I loans added just 2.0% vs +4.4% ytd of total loans.

Chart 6. C&I. Loan Standards vs NCOs, %



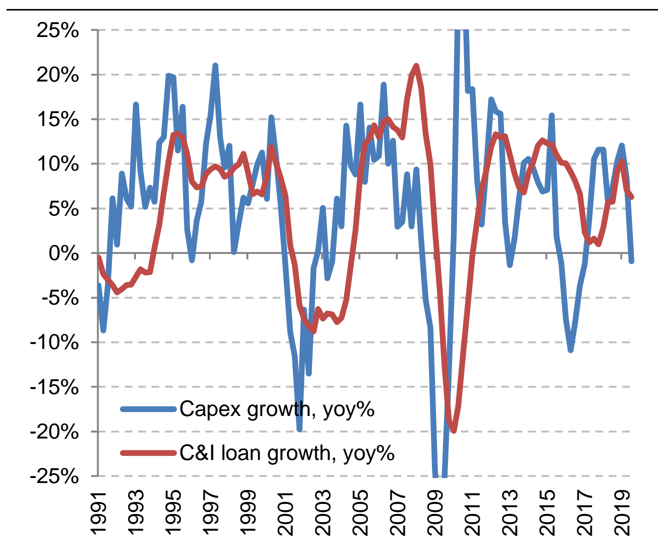
Source: Bloomberg

Chart 7. Loan Growth. C&I vs Total loans, YoY%



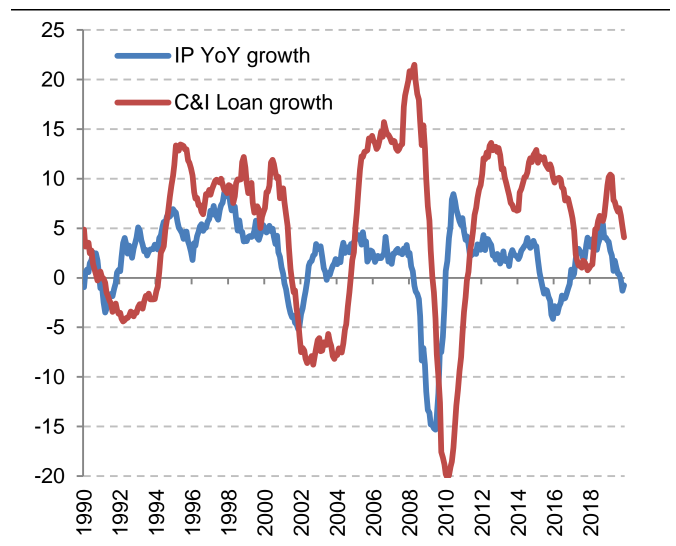
Source: Bloomberg

Chart 8. C&I. Loan Growth vs CAPEX



Source: Bloomberg

Chart 9. C&I. Ind. Production vs Loan Growth YoY%



Source: Bloomberg

Despite trade war uncertainty has diminished recently, we don't expect any acceleration of C&I loans growth because of weaker prospects of US economy, especially in manufacturing sector. So, it is more probable that we will see contraction of corporate loans in the near future than acceleration of growth, which is just 2.7% yoy at the moment. At least, earnings recession, which is our base case for 2020, is very dangerous for C&I segment even despite very low rate environment given high leverage of corporate sector. So, debt service ratios are very sensitive to revenue/EBITDA dynamics and negative dynamics of the ratio could set the wheels of credit deterioration in motion. Moreover, banks have already demonstrated more cautious approach to lenders because of the late cycle while credit quality of C&I loans has slightly worsened recently.

Despite recent market concerns about deterioration of C&I credit quality (and total loan portfolio at all), it still remains benign. According to FDIC data, 30-89 delinquency rate increased by 5 bps both qoq and yoy in 3Q19 to 0.33%. Being a leading indicator of asset quality, it confirms that it remains in a good shape so far despite recent slowdown of US economy. Noncurrent rate also increased by 2 bps qoq to 0.81%, +8 bps yoy. In-line with figures of the Fed, which delinquency ratio decreased by 7 bps qoq or +13 bps yoy to 1.13% in 3Q19. FDIC's NCO ratio increased by 8 bps qoq or +16 bps yoy to 0.41%. According to the Fed data, NCO ratio increased by 10 bps qoq or +18 bps yoy to 0.43% in 3Q19 while delinquency ratio increased by 7 bps qoq or +13 bps yoy to 1.13%. It is not a reason to panic given good financial health of US corporations at the moment with strong ROA, solid quick ratios and relatively low net debt to EBIT ratio. However, it should be noted that corporate debt to GDP ratio has already reached multi-year high while interest coverage ratio continues to decline on yoy basis for the eighth consecutive quarter. But at least it is a reason to focus more on the segment, taking into account noticeable deceleration of C&I loan growth and weaker manufacturing figures in the recent months. Moreover, total US corporate profit declined on yoy terms in each of the first three quarters of 2019. So, we still don't expect significant deterioration of quality of C&I loans in 4Q19 because of relatively low risk of recession in coming months. But this risk continues to go up, given recent inversion of the yield curve and trade tensions. Consequently, we expect that C&I NCO ratio will gradually move to the normalized levels in coming quarters even despite the start of the easing cycle. However, rapid deterioration of credit quality in the segment is unlikely till recession starts. The key risk for corporate credit quality during recession comes from leveraged loans and its spillover effects as it continues to grow rapidly. Currently, corporate debt as a percent of GDP is higher than it was before the Great Recession while the share of covenant-lite leveraged loans issuance remains very high. But, recent rate cuts will positively impact on servicing of corporate debt in the near future as spreads remain tight either.

The October 2019 Senior Loan Officer Opinion Survey indicated that C&I lending standards remained basically unchanged on C&I loans but banks eased some C&I terms. At least, banks narrowed spreads of loan rates over the cost of funds but also banks increased the use of interest rate floors. The key reason of tightening standards was a less favorable or more uncertain outlook as well as reduced tolerance for risk. From the other hand, increased competition from other banks and nonbank lenders continues to be the main reason of easing standards. Banks noted weaker demand for C&I loans from firms of all sizes. Also, the number of inquiries from potential borrowers decreased in 3Q19. The key reasons were more using of internally generated funds for financing needs, lower M&A activity and reduced investments.

Manufacturing macro data published in December was negative, from our point of view, after neutral figures in November. Thus, positive surprises were shown by industrial production, employment report was better than expected as well. From the other hand, ISM manufacturing, construction spending and PMI manufacturing showed negative surprises,

pointing to further weakness in the sector. Thus, ISM manufacturing index decreased by 0.2 pts to 48.1 pts vs expectations of 49.2 pts, the fourth consecutive month below 50 pts and near the lowest figure since mid-2009. And there are no indications of turnaround on the horizon, at least now. If anything, there are more and more signs that it could negatively impact on the services sectors and consumer. At least, Citi economic surprise index continued to decrease in December after significant decline in October and relatively flat dynamics in November and Bloomberg surprise index decreased from 0.138 to 0.01 pts in December. So, risks remain to be tilted to the downside, from our point of view. Consensus GDP growth rates for the nearest 3 years were almost unchanged in December vs November at 2.3% (flat MoM), 1.8% (flat MoM), 1.8% (-10 bps MoM) for 2019/2020/2021, respectively. Manufacturing payrolls increased by 54K in November vs expectations of +40K, after it decreased by 43K in October (lowered down from initial estimate of -36K). Industrial production increased by 1.1% MoM in November vs expectation of growth of 0.9% MoM but September decline was slightly revised down by 10 bps to -0.9% MoM. IP index is already 0.8% lower than it was 1 year ago, as well as manufacturing index. Empire manufacturing index was almost in line with expectations at 3.5 pts vs expectations of 4 pts, +0.6 pts MoM. Markit manufacturing PMI decreased by 0.1 pts to 52.5 pts vs expectations of 52.6 pts. Unsurprisingly, consensus IP growth forecast slightly decreased in December vs November to 0.9%/0.8%/1.4% for 2019/2020/2021, respectively, from 0.9%/0.8%/1.5%.

CRE

Growth rate of commercial real estate loans on yoy basis remains relatively flat in 2018-2019 hovering around 4.5-5.0%. But it slightly accelerated in the recent weeks. Thus, according to the last Fed H8 weekly report, CRE loan growth was +5.4% yoy (as of December 11) vs +4.8% yoy 1 year ago. Despite still relatively healthy CRE loan growth, we have seen more and more signs of deceleration of growth of main fundamentals of the segment. For example, both same-store NOI growth and prices growth continue to decelerate in majority of CRE segments while transaction volumes declined. Also, banks continue to note that competition from non-bank lenders in CRE market is growing. Significant decline of rates in recent months and ongoing Fed easing could reduce the pressure on the segment but rates decline also partly reflects worsening economic conditions in US. Also, the late cycle and fears of the recession could negatively impact on the demand, implying growth of CRE risk given high growth rate of CRE prices during the current cycle. So, it is questionable whether we will see a marked acceleration of CRE loan growth under such conditions taking into account high competition from non-bank lenders in the segment.

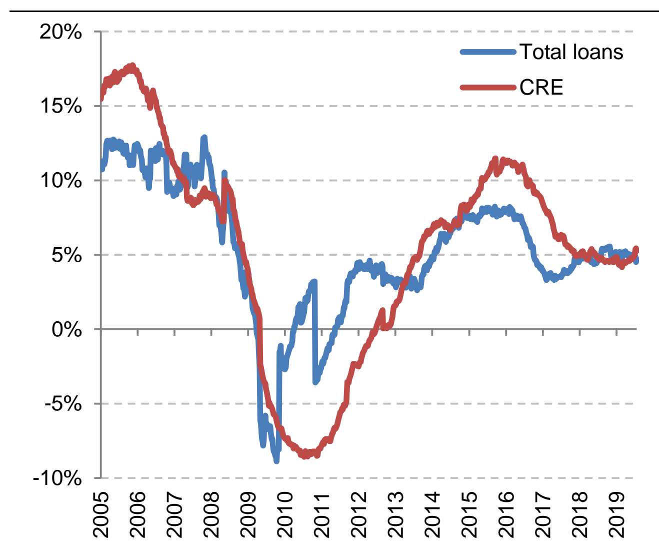
Despite ongoing tightening credit standards in CRE, deceleration of NOI growth and higher probability of recession, credit quality of the segment remains solid. Thus, according to the Fed data, CRE NCO ratio was flat on yoy basis at just 0.02% in 3Q19 while delinquency ratio decreased by 1 bps yoy to 0.69%, just 1 bps higher than the lowest figure on the record. According to FDIC data, NCO ratio for all CRE subsegments (construction, multifamily, commercial mortgage) remains stable, almost 0% during the last year. Non-current ratio is also almost flat on yoy basis in 3Q19 – commercial mortgage noncurrent ratio is 0.55%, -3 bps yoy; construction one is 0.44%, +2 bps yoy; multifamily noncurrent ratio is 0.12%, -2 bps yoy. Leading indicator of future credit quality, 30-89 days delinquency ratio, is also stable in 3Q19, near multi-year lows. The figure in commercial mortgage was +2 bps yoy to 0.26%; in construction it was -4 bps yoy to 0.33%; in multifamily it was 2 bps yoy lower at 0.12%.

Price growth remains solid and it accelerated in the recent months in terms of yoy growth rate and it is already higher than it was 1 year ago. The key driver of acceleration was industrial CRE while apartment prices growth continues to decelerate. Thus, CRE price

index has renewed its all-time high again (more than 30% higher than a peak of the previous cycle), adding +7.5% yoy as the end of October 2019 vs +7.0% 1 year ago but not far from the lowest growth rate since the end of 2011.

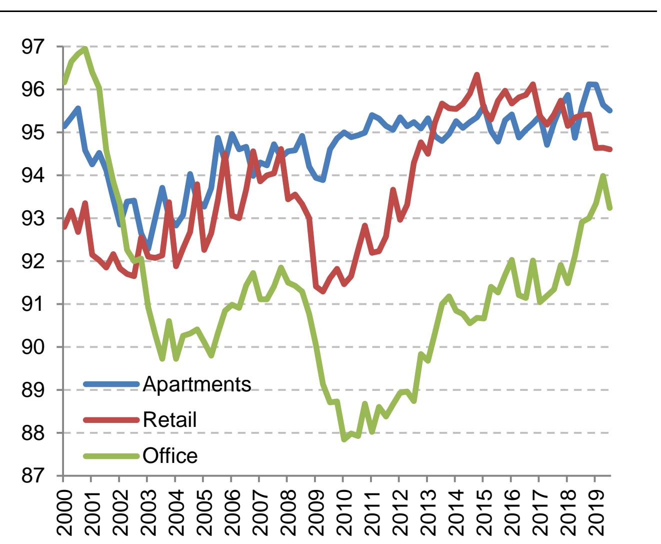
Transaction volumes remained relatively weak recently across majority CRE segments but we expect that its growth rate will be slightly improved in the near term due to ongoing monetary easing and searching for yields. According to RCA, "transaction activity across the property types dropped 30% compared with October 2018. Still, for the year-to-date, overall activity is only down 4% and sales of single assets are slightly ahead of the level a year ago". Apartment price index added +8.7% yoy as of end-October, slight acceleration from growth rate in the middle of 2019 but markedly down from +11% yoy as the end of October 2018. In turn, price index of retail CRE increased only by +2.1% yoy vs +2.6% 1 year ago. Growth of prices of industrial CRE accelerated to +12.4% yoy from +8.2% yoy 1 year ago. Growth rate of office prices decelerated to 4.9% yoy from 6.8% yoy in October 2018.

Chart 10. Loan Growth. CRE vs Total Loans, YoY, %



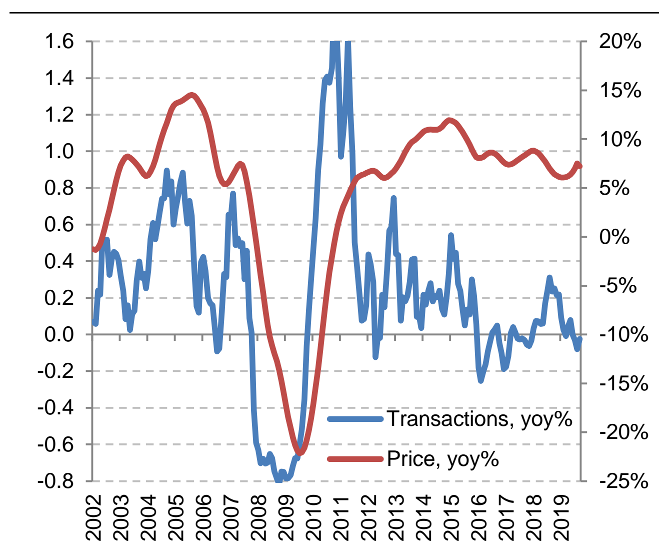
Source: Bloomberg

Chart 11. CRE. Occupancy Rates, %



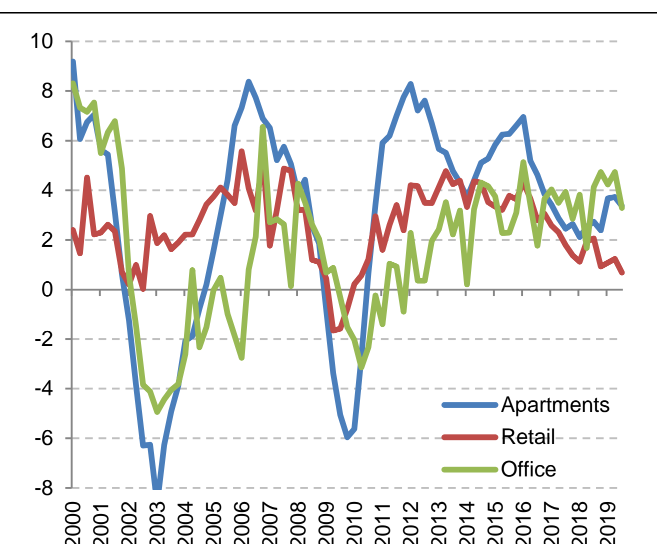
Source: Bloomberg

Chart 12. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

Chart 13. CRE. Same-Store NOI Growth, %



Source: Bloomberg

Solid but decelerating growth of US economy and rising employment continue to support CRE fundamentals, especially in office segment where we have seen growth of both same-

store NOI and occupancy rates recently. But, from our point of view, it is enough only to keep the quality of the loan portfolio at the high level but it isn't enough for acceleration of CRE loan growth even despite dovish Fed and significant decline of yields in recent months as the latter is associated with weaker economy prospects.

In 3Q19, banks continue to tighten standards for CRE loans, for multifamily (the 17th quarter in a row) and construction loans (the 18th quarter in a row). On net, it was slight deterioration on the absolute level of tightening vs 2Q19 for all loan categories. Credit standards for nonfarm nonresidential loans were also tightened. Banks also mentioned weaker demand for construction and land development loans while demand for multifamily and nonfarm nonresidential properties remained unchanged. Answering on the special set of questions in July SLOOS, "banks reported that the current levels of their standards for all major categories of these loans are at the relatively tighter ends of the ranges that have prevailed since 2005 on balance". The same picture as we saw 1 year ago.

Mortgage

The growth rate of mortgage loans accelerated recently as a result of significant rates decline ytd and substantial growth of mortgage activity. Thus, mortgage loans increased by 5.4% yoy (as of December 11) vs +4.8% yoy 1 year ago and +4.5% yoy as the end of July 2019. Despite affordability ratios have already declined meaningfully from the cycle highs, they are not low from the historical averages point of view and household debt burden isn't either. But we don't expect substantial acceleration of mortgage loan growth from current levels given late cycle and banks' cautious approach to the mortgage lending. Also, there are some limitations on the demand side even despite very strong labour market. Thus, according to Michigan University, the index of consumers who thinks that it is good time to buy a home increased by 2 pts MoM or +4 pts yoy to 136 pts, just 9 pts higher than the cycle low. The index of consumers who thinks that it is good time to sell a home decreased by 11 pts MoM or -2 pts yoy to 146 pts, just 12 pts lower than the all-time high.

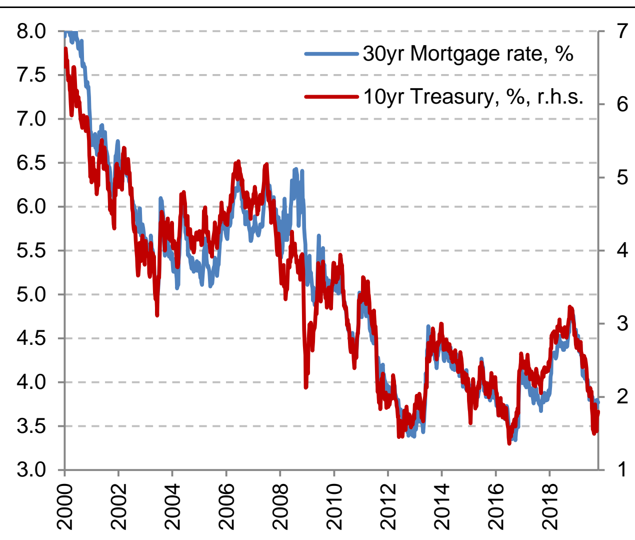
US economy created 266K jobs in November, markedly beating consensus estimate of 178K. Moreover, initial October estimate of 131K was revised up to 164K. Notwithstanding, average monthly payrolls in 2019 are 180K. It is significantly lower than FY2019 payrolls of 223K and in line with FY2018 average payrolls of 179K. But median forecast of average monthly payrolls for 2019-2021 years were slightly revised up in December after downward revision in November, to 175K/132K/114K for 2019/2020/2021 years, respectively (from 164K/126K/106K). Unemployment rate decreased by 10 bps MoM to 3.5%, slightly better than consensus estimate of 3.6%.

According to the Fed data, NCO ratio in the segment decreased by 2 bps yoy to -0.03% in 3Q19 while delinquency ratio tumbled by 55 bps to 2.45%, the lowest figure over 13 years. According to FDIC, the quality of mortgage portfolio remains very strong with NCO ratio at -0.03% in 3Q19, -1 bps qoq and flat yoy. 30-89 days delinquency ratio decreased by 1 bps qoq and -13 bps yoy to 0.85%. Noncurrent ratio declined significantly again, -5 bps qoq or -40 bps yoy to 1.79% in 2Q19. MBA's mortgage delinquencies decreased by 56 bps qoq or -50 bps yoy to 3.97% in 3Q19. Foreclosures declined by 6 bps qoq or -15 bps yoy to 0.84%, the lowest figure over more than 30 years. The key drivers of very good quality of mortgage portfolio are strong job market, rising home prices and tight underwriting standards which remain markedly tighter than historical averages even despite some easing in recent quarters. In coming quarters, asset quality will continue to be positively impacted by significant decline of the long end.

We expect that quality will remain very strong until US economy falls into recession and unemployment starts to grow but it is not a foreseeable event, from our point of view (not earlier than mid-2020). Affordability is still at an acceptable level and financial health of US consumer is very solid. However, it should be noted that affordability ratios aren't uniform

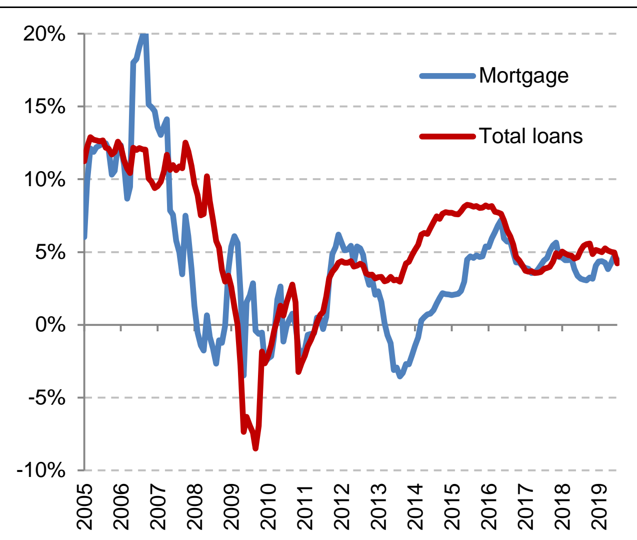
across all the US states. In some areas it is too low because of skyrocketing house price growth. At the moment, it should not be a threat to the quality of the portfolio or cause of negative growth rate of loans due to still strong growth of the economy, tight underwriting standards and possible deregulation of the mortgage market.

Chart 14. Mortgage. 30yr Fixed Mrtg vs 10yr Tr yield, %



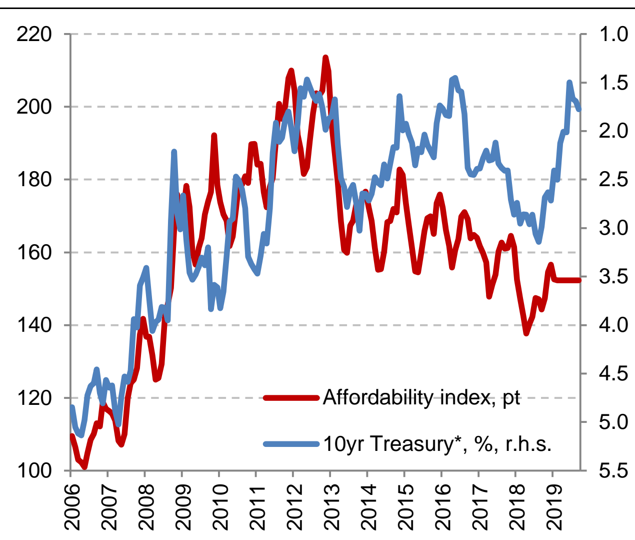
Source: Bloomberg

Chart 15. Loan Growth. Mrtg vs Total Loans, YoY, %



Source: Bloomberg

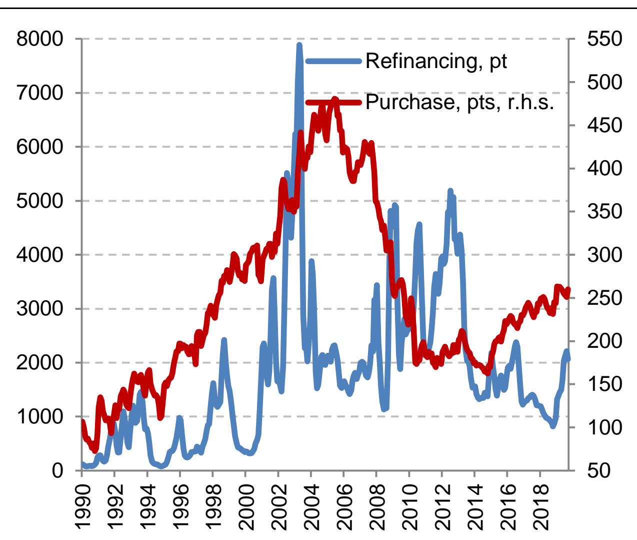
Chart 16. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 17. Mortgage. MBA Applications Indexes



Source: Bloomberg

Lending standards for majority mortgage segments were basically unchanged in 3Q19 (except for subprime loans where standards were slightly tightened) as it was in three previous quarters following a slight easing in 3Q18. Answering on special set of questions in 2Q19, "banks reported that lending standards for all RRE loan categories remained at the relatively tighter ends of the ranges of those standards since 2005 on balance" implying relative resilience of credit quality of mortgage portfolio in case of recession in the US. Due to significant decline of the long end over the recent months, demand for all categories of RRE loans except for subprime loans strengthened in 3Q19. According to NY Fed 3Q19 report on HH debt and credit, "credit standards tightened slightly in the third quarter. The median credit score of newly originating borrowers increased in the third quarter for mortgages, to 765, a 6 point increase from the first half of the year".

Demand for mortgage loans strengthened in two recent quarters after several consecutive

quarters of weaker demand. But, from our point of view, demand remains relatively weak even despite still solid financial health of US Consumer and ample affordability of US homes which increased recently because of significant decline of mortgage rates. Also, it should be mentioned that more and more consumers noted in various surveys that it wasn't the best time for buying home currently. Previously, banks indicated that they would tighten lending standards if the yield curve will be inverted.

Mortgage rates slightly increased in December after decline in November and October but it still remains substantially lower than they were at the end of 2018. Thus, 30yr fixed rate mortgage (national average, Bankrate.com) went up by 4 bps MoM to 3.77% (as of December 24), 105 bps lower than the high of November 2018. 30-yr mortgage rate (effective rate, MBA) ticked up by 2 bps MoM to 4.08% (as of December 13), -119 bps lower than the high of November 2018.

Housing market indicators published in December were slightly better than expected after neutral figures in November and October. Thus, NAHB index increased by 5 pts MoM to 76 pts from revised up November estimate, markedly beating consensus. In turn, construction spending decreased by 0.8% MoM in October after decline of 0.3% MoM in September (significant downward revision from initial estimate of +0.5% MoM). Forecasts for 2020 year slightly increased in December on MoM basis (10th month of growth in a row), driven mainly by higher refinancing volumes reflecting significant decline of the long end. According to MBA's December 2019 forecasts, total mortgage originations will increase by 23.3% in 2019 (up from February forecast of -0.9% yoy) driven by growth of refinancing originations of 70% yoy while purchase volumes will increase by 5% yoy. In 2020, total applications will decline by 7.4%, also driven by pullback of refinancing originations. Fannie Mae's December forecast is however more pessimistic for 2019 while more optimistic for 2020 year, implying growth of total mortgage originations of 21.6% yoy in 2019 (vs +0.2% in February forecast). In 2020, FNMA expects that total originations will decline by 4.8% yoy.

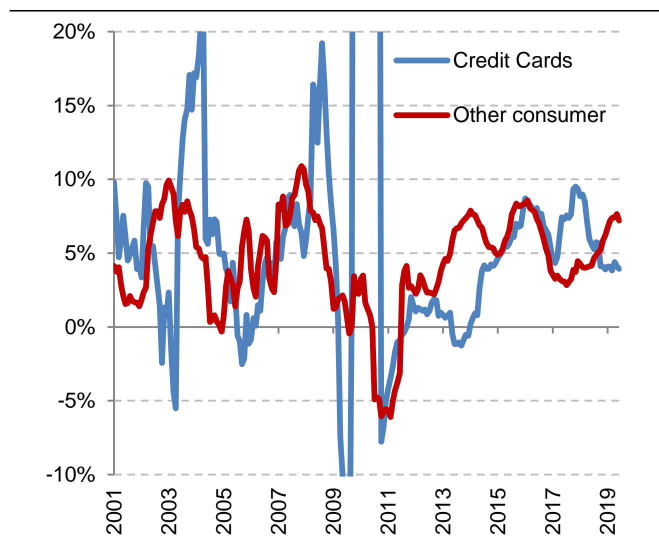
Housing starts were 1365K in November, slightly better than expectations of 1345K. October figure was revised up from 1314K to 1323K. Also, building permits beat estimates markedly again in November, 1482K vs consensus of 1410K. However, existing home sales slightly missed expectations in November – 5.35 mln vs estimate of 5.44 mln, -0.1 mln MoM. New home sales also missed expectations, at 719K in November vs consensus of 732K, +9K MoM from revised up October estimate (from 733K initially to 710K). Housing prices continue to grow while the growth rate remained relatively weak but it slightly accelerated in September after deceleration in August. Thus, FHFA house price index added +0.6% MoM in September vs consensus of +0.3% MoM. In turn, S&P CoreLogic home price index for 20 cities went up by 0.36% MoM vs consensus of +0.3% after growth of +0.15% MoM in August (revised up from initial estimate of decline of -0.16% MoM). On yoy basis, it was just +2.1% and it is near the lowest level since the end of 2012, significant deceleration from price growth of early 2018 of 6.7% yoy.

Consumer

According to Fed H8 data, growth rate of consumer loans is currently +5.9% yoy (through December 11th) vs +5% 1 year ago. Credit cards segment still negatively impact on overall growth. Thus, growth rate of the segment is just 4.3% yoy at the moment vs +5.9% yoy 1 year ago. Net change of consumer credit in October was $18.9 Bn vs expectations of $16 Bn after significant miss in September, initial estimate of $9.5 Bn was revised up to $9.6 Bn. Other consumer credits continued to accelerate, adding 7.9% yoy (as of December 11) vs 4% yoy 1 year ago. According to 3Q19 HH debt and credit survey by NY Fed, "aggregate household debt balances increased by $92 billion in the third quarter of 2019, a 0.7% increase, and now stand at 13.95 trillion. Balances have been steadily rising for five years and in aggregate are now $1.3 trillion higher, in nominal terms, than the previous

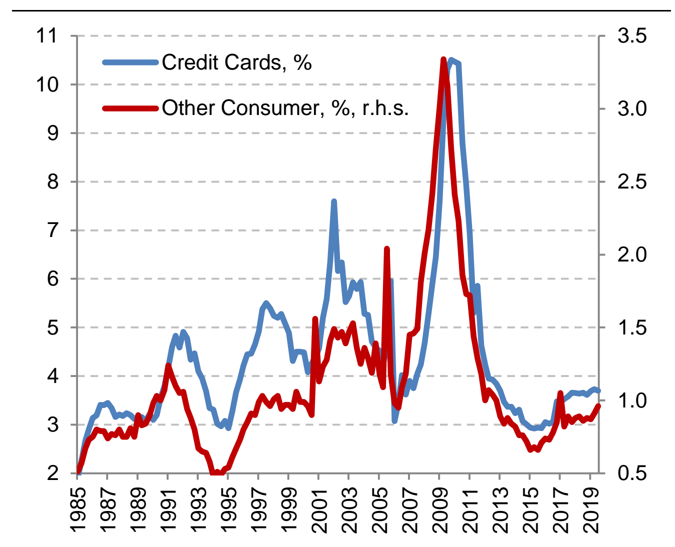
peak (2008Q3) peak of $12.68 trillion. Overall household debt is now 25.1% above the 2013Q2 trough".

Chart 18. Consumer. Loan Growth Rates, YoY, %



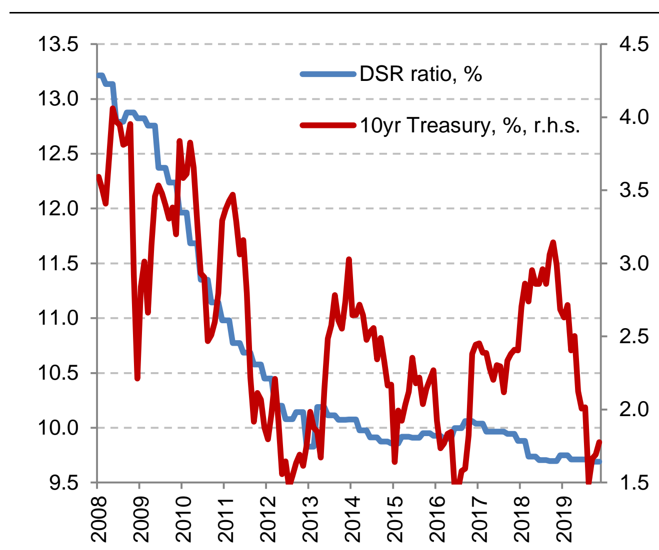
Source: Bloomberg

Chart 19. Consumer. NCOs Ratios, %



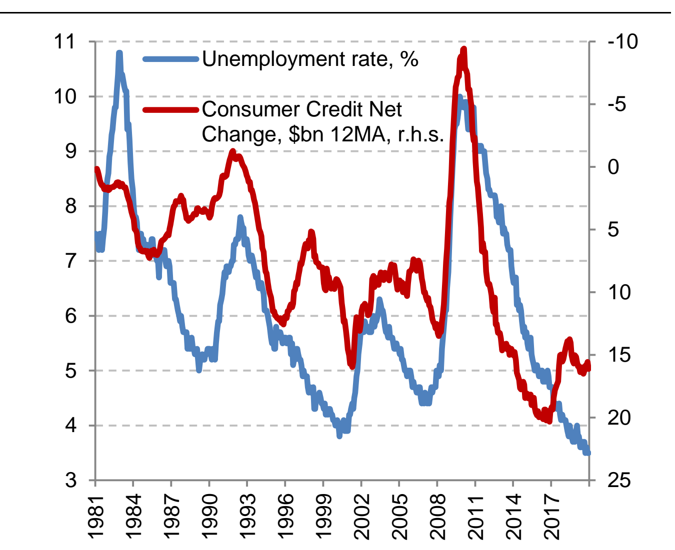
Source: Bloomberg

Chart 20. Debt Service Ratio vs 10yr Treasury Yield, %



Source: Bloomberg

Chart 21. Consumer. Loan Growth Rate, YoY, %



Source: Bloomberg

We don't expect marked deterioration of the quality of consumer loans (only return to historic averages) until we don't see substantial growth of unemployment rate. And it is not a near-term event, at least currently. Of course, debt burdens aren't uniform across different income brackets. Despite DSR and FOR of median HH is markedly lower than historical averages, the figures of low-income consumer are already at or higher than pre-financial crisis levels. It could be a trigger for reversion of key credit quality indicators to their historical averages. But they remain strong at the moment. According to the Fed data, total consumer NCO ratio increased by 2 bps qoq or +6 bps yoy to 2.32% in 3Q19, driven by other credit loans where NCO ratio increased by 5 bps qoq or +10 bps yoy to 0.96%. Delinquency ratio also increased, +3 bps yoy to 2.32%, driven by credit cards segment where delinquency ratio increased by 8 bps yoy to 2.58%. According to FDIC, credit cards NCO ratio increased by 7 bps yoy to 3.67% in 3Q19; in other consumer loans NCO ratio increased by 10 bps yoy to 0.96%; Auto NCO ratio increased by 4 bps to 0.86%. 30-89 delinquency ratios (leading indicator of credit quality deterioration) increased by 14 bps qoq in 3Q19 to 2.04% (+3 bps yoy): 1.4% (+1 bps yoy) in credit cards, 1.52% (flat yoy) in other

consumer loans and 2.14% (+9 bps yoy) in Auto. Number of bankruptcy filings decreased markedly in 3Q19, 186K vs 215K in 3Q18.

October 2019 SLOOS survey indicated that “moderate net shares of banks reportedly tightened their standards on credit cards, and modest net shares of banks reportedly tightened their standards on consumer loans other than credit cards and auto loans”. From the other hand, lending standards for auto loans and banks willingness to make consumer installment loans were about unchanged in 3Q19. As of demand, banks saw stronger demand in auto and credit cards. Answering special set of questions, banks mentioned less willingness to approve consumer credit application with low FICO scores vs the beginning of the year. The key reason is expected deterioration in the quality of their existing portfolio, reflecting more uncertain economic outlook and late cycle concerns. According to 3Q19 HH debt and credit survey by NY Fed, “auto loans also saw tightening in underwriting standards, with an 8 point increase in the median originating credit score”. Also, “the number of credit inquiries within the past six months – an indicator of consumer credit demand – was at 142 million, a small increase from the previous quarter” while “account closings declined but remained in line with the past year’s trend, with 211 million accounts closed within the past 12 months”.

Consumer activity data published in December was slightly better than expected. Thus, consumer sentiment indicator published by Michigan University increased by 2.4 pts MoM to 99.2 pts vs expectations of 97 pts, the fourth consecutive month of growth after showing two-year low in August. Growth was mainly driven by index of current conditions but index of future expectations also increased in December after negative dynamics in November. It is just slightly higher than 3-yr average, which is 96.9 pts at the moment. In turn, conference board consumer confidence index declined by 0.6 pts MoM to 125.5 pts in November from revised up October estimate, missing consensus estimate of 127 pts. And it was the 10th decline over last 13 months. But it was driven by index of present situation in November as opposed to previous months when it was driven by expectations.

November employment report was better than expected for the second month in a row after two consecutive reports with negative surprises. Thus, it was added 266K payrolls in November vs consensus of 180K and October figure was revised markedly up from 128K to 156K. Unemployment ratio decreased by 10 bps MoM to 3.5%, slightly better than consensus of 3.6%, still the lowest level since the end of 1960s. Underemployment rate also decreased by 10 bps MoM to 6.9%. In turn, average hourly earnings missed estimates again, +0.2% MoM vs expectations of +0.3% MoM, but October figure was markedly revised up from initial estimate of +0.2% MoM to 0.4% MoM. On a year-over-year basis, it was 3.1%, -10 bps MoM but +10 bps vs consensus. Average weekly hours were flat at 34.4, in-line with consensus. November ADP employment was just 67K vs expectations of 135K and September figure was slightly revised down – from 125K initially to 121K. Initial jobless claims (4-week moving average) slightly increased in December, +7.7K MoM to 225.5K (as of December 24), but it is still near more than 40-yr lows. However, it has already increased by 24K from the through.

Interest Rates

At December meeting, the Fed held its target range for the federal funds rate unchanged at 1.5%-2% after three consecutive cuts. It is fully consistent with the message of the last meeting that the rate would remain at the current level for at least some time. The decision was unanimous after a several meetings in a row of relatively high polarization of the committee. The dot plot indicates that the target range will remain unchanged in 2019 and 2020, before it will be hiked by 25 bps in both 2021 and 2022. There were also minority changes in the wording. Thus, it was added that “the current stance of monetary policy is appropriate to support sustained expansion of economic activity” while sentence of

"uncertainties about this outlook remain" was removed from the statement. New economic projections were unchanged vs September estimates except for lower unemployment expectations, including longer term estimate. So, the meeting gave us even more confidence that we will hardly see another rate cut until economic situation worsen materially, very likely not in the next six months. From the other hand, we aren't as optimistic as the Fed about the current stance of the US economy even despite better macro figures recently given slowdown in manufacturing. At the press conference, Jerome Powell confirmed it again that incoming information was in-line with expectations and that monetary policy wouldn't be changed until material changes in the economy which is in good place as well as monetary policy. Moreover, it is expected that positive impact of three rate cuts will be more visible in some time. Also, he noted that there were needed less rate hikes now than in the 1990s because of less inflation pressure. So, the meeting was perceived slightly dovish but market reaction was restrained, with relatively minor changes of rates, stock indices and currencies.

It was again accented that economic activity continues rising at a moderate rate while labor market remains strong with solid job gains on average and low unemployment, rising household spending at a strong pace but business fixed investment and exports still weakening. However, inflation is still running below target of 2% but it should accelerate near term as effect of a mid-cycle adjustment cuts. Staff estimates in December were unchanged vs September projections except for unemployment expectations. Thus, the median GDP growth forecast is 2.2% yoy for 2019, 2.0% yoy for 2020, 1.9% yoy for 2021, 1.8% for 2022 and 1.9% for longer run estimates. Unemployment forecast for 2019 declined by 10 bps to 3.6%, -20 bps to 3.5%/3.6%/3.7% for 2020/2021/2022 years respectively. Longer run projection also declined by 10 bps to 4.1%. As of inflation expectations, they were markedly revised down in June, but remained unchanged in September and December at 1.5%, 1.9%, 2.0%, 2.0% and 2.0% for 2019/2020/2021/2022/longer term, respectively.

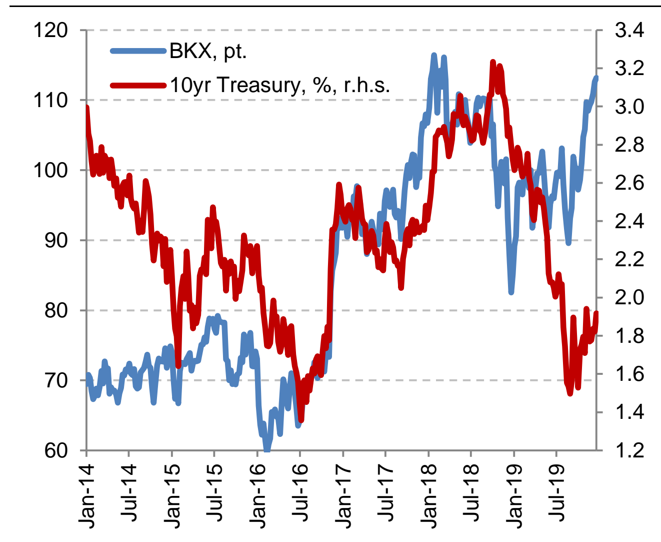
Dots decreased in December vs September when they markedly declined vs June projections which hadn't projected any rate cuts in 2019. At the moment it is implied that there will be no rate changes in 2019 and 2020, one hike in 2021 and another one in 2022. The longer term rate was unchanged at 2.5%. Moreover, polarization of the committee declined materially. Notwithstanding, it skewed to the upside as no one member of the committee expects rate cuts in the foreseeable future. But dots are no more a good guidance for future fed funds rate dynamics given its projections in 2019.

Despite significant growth of uncertainty in the middle of 2019, US economy continued to be in a good shape, supporting banking fundamentals which partially suffered from significant decline of rates and flat yield curve. Given substantial rates rebound in recent months, it seems that estimates of banking profits will improve markedly in the near term, including NIM projections. But we don't think that all problems are over even despite risks have diminished markedly. At least, it is still implied by the market that rate could be cut in 2020 but the probability of the event has been declining. Given still relatively high risk of recession in the next 12 months, we don't exclude that FF rate could be cut to zero. And if in the first case no problems are expected for banks, in the second they will be very serious, as they will be accompanied by a significant deterioration in the quality of the loan portfolio and a slowdown of its growth. Of course, the second one is not our base case. Currently, we expect that FF rate will be flat in 2020 that will help banks to stabilize NIM / maintain NII growth in the low single-digits.

Given current rate expectations, it seems that NIM estimates will stabilize near term as banks becoming more optimistic about NIM dynamics in 2020 given marked rate rebound from its September lows, significant improvement of rate expectations and more successful deposit repricing in the recent months. Thus, according to the Bloomberg forecasts, the

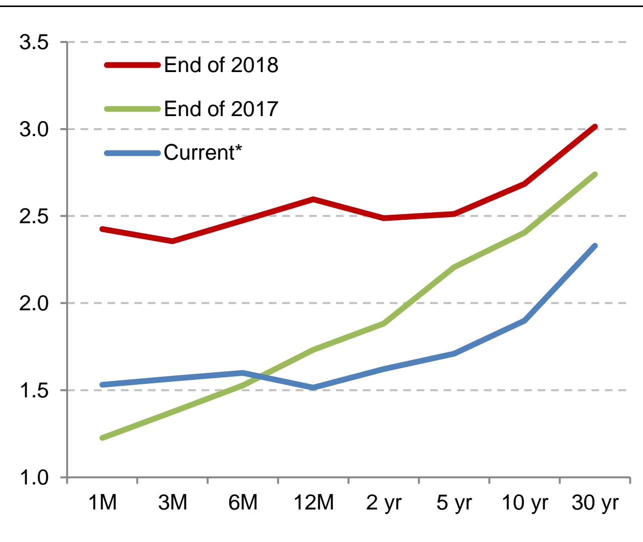
funds rate will remain relatively flat in the nearest year (the probability of another rate cut is around 50%). In turn, Fed futures (Dec 20/Dec 21) implied rates changed by +13/+15.5 bps MoM in December to 1.41%, respectively, also implying no more than 1 rate cut till the end of 2021. 3Q19 NIM was worse than expected. Thus, median NIM of BKX index members was -0.7 bps lower than expected with negative surprise for 14 out of 24 BKX members. Median NIM decreased by 11 bps qoq or -15 bps yoy to 3.02% vs -4 bps qoq or -3.5 bps yoy in 2Q19. But consensus NIM estimates for FY 2019/2020 continues to go down. Thus, median NIM of BKX index members for FY 2019 decreased by 0.2 bps MoM, and it is -8.8 bps ytd to 3.09% of December 24. FY 2020 NIM increased by 0.2 bps MoM but -24 bps ytd to 2.97%. Moreover, from our point of view, more accommodative monetary policy will not accelerate loan growth of US banks significantly in the near term.

Chart 22. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

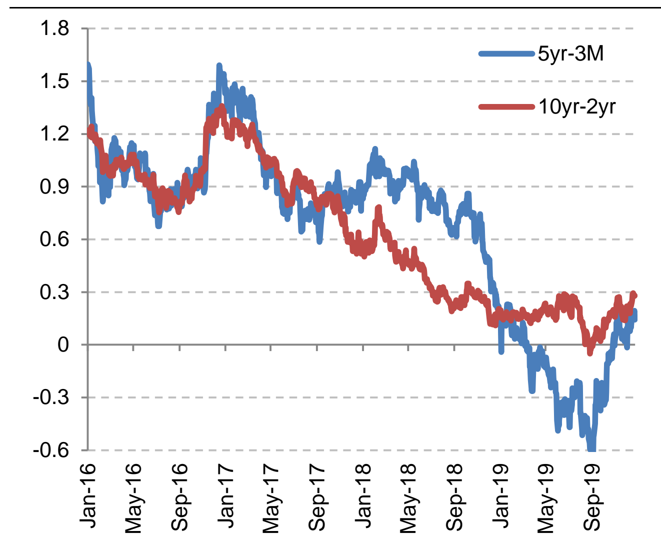
Chart 23. US Yield Curves, %



*As of December 24, 2019

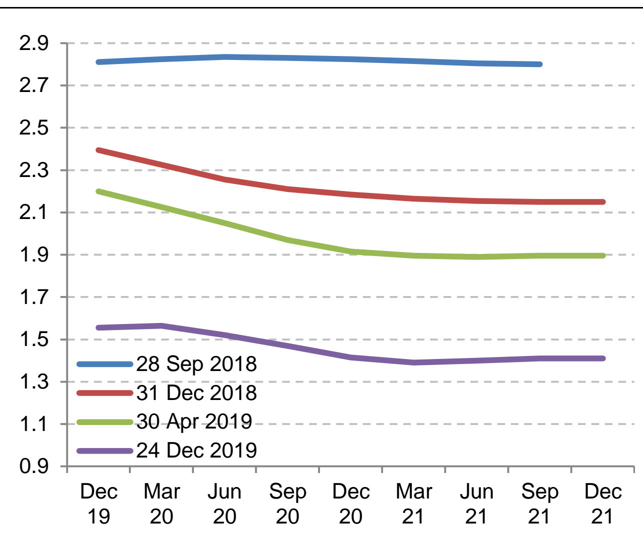
Source: Bloomberg

Chart 24. Treasury Spreads, %



Source: Bloomberg

Chart 25. Futures Implied FF Rate, %



Source: Bloomberg

The yield curve became markedly steeper in December, the fourth consecutive month of steeper yield curve, after it was inverted in August, having sent a clear signal of possible recession in coming year. The situation has improved recently but the curve still remains relatively flat and it still continues negatively impact on banking revenues.

Treasury yields moved in different directions in December. Thus, 1M yield decreased by 6.1

bps MoM to 1.53% (as of December 24) while 3M yield was almost flat at 1.57%, 2yr yield grew by 0.9 bps MoM to 1.62% and 5yr yield climbed by 8.3 bps MoM (currently at 1.71%). 10yr yield added 12.4 bps MoM to 1.79, while 30yr yield went up by 12.4 bps to 2.33%.

So, spreads increased markedly on MoM basis in December. 5yr/3M spread increased by 8.4 bps, the fourth consecutive month of growth. But it is still 83 bps lower than average level of 2017 yr while 10yr-2yr spread is 66 bps lower. Currently, treasury spread (5yr-3Mo) is just +0.14% (as December 24) vs 1.33% of 5yr-3Mo treasury spread in the end of February 2017. Spread (10yr-2yr) increased by 11.5 bps MoM to +0.28%.

According to Bankrate.com data, loan yields began to rise in December after negative dynamics in August-November, reacting on the growth of majority benchmark rates in recent months. Thus, 30yr mortgage rate went up by 4 bps MoM to 3.77% (as of December 24) while 15yr mortgage rate increased by 5 bps MoM to 3.23%. Auto loans rate (New loans, 60 mnth) went up by 7 bps MoM to 4.65% after decline of 11 bps MoM in November. In turn, deposit rates continued to decline in December as it did in two previous months. And it is very good news for banks all other things being equal given weak NIM dynamics. Thus, national average cost of 6 month deposits decreased by 2.4 bps MoM to 0.79% (as of December 24); average 3yr CDs cost declined by 1.8 bps to 1.25%; average 5yr CDs cost decreased by 1.8 bps MoM to 1.41% while cost of interest checking accounts tumbled by 14.3 bps MoM to 0.71%. Average cost of money market accounts fell by 3 bps MoM to 0.57%.

Europe

Corporate

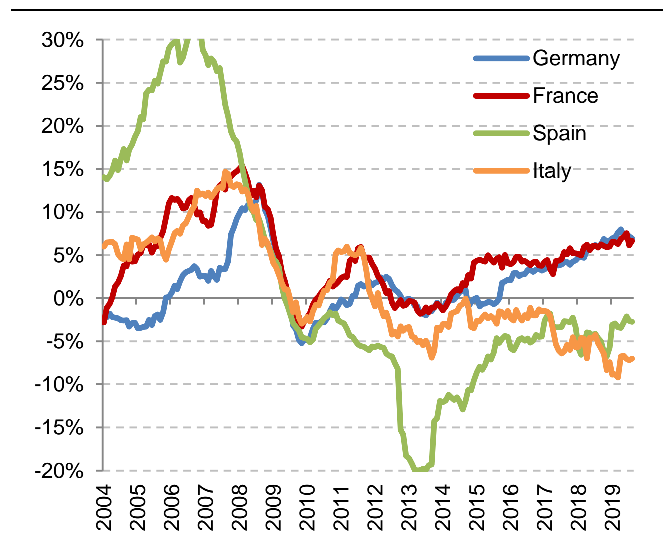
Corporate loan growth in EU on yoy basis decelerated in September-October after unexpected acceleration in August. But loan growth was positive on MoM basis after two consecutive months of decline. Moreover, it still remained markedly higher than it was in January despite still soft manufacturing related data, weak growth momentum and risks moved to the downside. Loans up to 1 year continue negatively impact on the total loans growth, -0.5% yoy in October. Also, loans 1-5 yrs decelerated to 4.2% yoy from +5.2% yoy in August vs +3.4% yoy 1 year ago. Loans over 5yrs were at +2.6% yoy in October, +0.3% MoM. Total corporate loans increased by +2.2% yoy, +0.4% MoM. Credit growth in the EU still varies significantly across countries. We see very healthy corporate loan growth in Germany and France (and other Northern countries) while Italian and Spanish corporate loan growth remains poor as it is in majority of other Southern countries. After significant decline on MoM basis in August Italian corporate loans decreased again in September, -0.3% MoM, and October, -0.5% MoM or -7% yoy.

European corporations continue to benefit from low interest rate environment but lost momentum and weak external demand could not but affect credit growth. In November 2019 ECB's Financial Stability Review it was noted that underlying vulnerabilities remain as "slower economic growth has led to a continued deceleration in corporate profits". But financial health of EU corporate sector remains strong as corporate debt burdens declined to new historical lows because of ongoing decline of both front book and back book yields. Due to significant decline of key benchmark rates and lowered rate expectations, higher than historical averages corporate debt-to-GDP ratios still aren't a problem for European companies. Thus, there was no deterioration of borrower creditworthiness despite slowdown in EU economy. Moreover, asset quality of EU banks continues to go down, especially in countries with high NPL ratios. Notwithstanding, the further slowdown in economic activity cannot but affect the dynamics of asset quality even despite ECB continues to insist that risk of recession is low but macro data is still worsening while composite PMI figures are almost on contraction territory in Eurozone in recent months.

Industrial production decreased again in October on MoM basis after unexpected growth in September. Moreover, it is 2.2% below than it was 1 year ago. Unsurprisingly, situation in manufacturing sector remains clearly weak with December PMI figure markedly below expansion territory and even lower than expected. Moreover, according to ECB research, "between July 2018 and June 2019 the global trade factor and all factors associated with developments in China, the United Kingdom and United States explained 37% of the fall in euro area industrial production growth, while domestic factors contributed 63%, although part of this effect may reflect temporary factors linked to the car industry in the second half of 2018". So, there is a risk that asset quality could worsen in the near term even despite negative rate environment, having a double negative effect on banking profits.

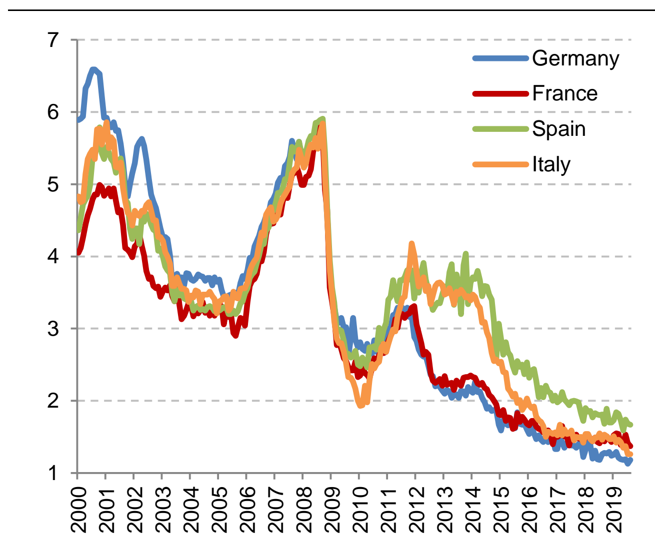
According to October 2019 euro area bank lending survey, "net demand for loans to enterprises remained broadly stable in the third quarter of 2019, in spite of an expected increase (net percentage of 1%, after 6% in the second quarter of 2019)". Banks expect that demand will remain broadly unchanged in 4Q19. The key drivers of demand remain low general level of interest rates and other financing needs while positive contribution of fixed investments and M&A activity declined. Moreover, "inventories and the recourse to working capital contributed negatively to loan demand, with the largest negative net percentage since 2013" because of weaker prospects of EU economy and significant deterioration of manufacturing sector. Credit standards for corporate loans eased slightly in 3Q19, -2% vs +5% in 2Q19, while banks had expected unchanged standards in 3Q19 in July 2019 BLS. For 4Q19, banks expect that standards will remain unchanged. The key driver of easing standards is still competitive pressure from other banks while risk perceptions influenced in the opposite direction. It was also noted that impact of risk tolerance, cost of funding and BS constraints on tightening standards eased. Rejection rate for corporate loan applications increased again in 3Q19 and it was driven by Germany and Netherlands.

Chart 26. EU Corporate Loan Growth, YoY



Source: Bloomberg

Chart 27. EU Corporate Loan Rates, New Loans, %



Source: Bloomberg

Unadjusted EoP corporate loans increased by 2.2% yoy at the end of October, the 25th consecutive month of positive growth on yoy basis. In turn, adjusted for sales and securitizations loans increased by 3.1% yoy, the 52th consecutive month of positive yearly growth (marked acceleration from 2017 figure of 1.9% yoy). Deceleration of corporate loan growth is negative for further NII dynamics of EU banks as it was one of main drivers which slightly mitigated negative impact of declining yields, especially taking into account more accommodative monetary policy in coming years which implies significant extension of period of negative rates environment.

German outstanding corporate loans (unadjusted figures) increased by 6.9% yoy as the end of October or +0.2% MoM vs +3.9% yoy as the end of 2017. French corporate loans outstanding (unadj) added +6.6% yoy or +1.6% MoM as the end of October vs +5.9% yoy one year ago. As for Spain and Italy, their outstanding corporate loans continued to decrease, -2.7% yoy and -7.0% yoy, respectively, and growth rates on MoM basis in both countries were relatively weak, -0.1% MoM and -0.5% MoM, respectively. Adjusted figures looks slightly better, but growth rates in both countries remained negative as well.

European corporate rates markedly increased in October 2019 following flat dynamics in September after decline in March-August. The rebound was caused by significant growth of key benchmark rates from September lows but current rate expectations still markedly lower that they were in the beginning of the year so we expect that both corporate and consumer loan yields of European banks will continue to go down in coming months. Average EU corporate loan rates (all maturities, new business lending, adjusted for loan sales) increased by 5 bps MoM in October to 1.4% but it is still -8 bps yoy. Back book yields of EU banks continuously decreased on yoy basis since April 2014 but rate of decline continued to decelerate. It declined by 2 bps MoM in October after being flat in September, still -11 bps yoy but near the lowest level since mid-2014.

Dynamics of rates within European countries was uniform in October with growth of front book yields in all major European countries except for Netherlands. Thus, German corporate yield on new loans grew by 4 bps MoM to 1.22% (the second consecutive month of growth with overall move of +9 bps), -6 bps yoy. Italian yield on new corporate loans increased by 5 bps MoM to 1.31% but it is 22 bps lower than it was 1 year ago. Spanish yield moved up by 5 bps MoM to 1.72% after two consecutive months of decline, it is even 4 bps higher currently than it was 1 year ago. French one came up by 7 bps MoM to 1.44% after drop by 16 bps MoM in August-September and it is flat on yoy basis. In turn, Dutch yield decreased by 5 bps MoM to 1.32% after unexpected growth of 13 bps MoM in September, -9 bps yoy. However, back book yields of major European countries declined in October except for Spain. Thus, German yield decreased by 1 bps MoM to 1.91% in October, -14 bps yoy. In turn, Spanish yield increased by 2 bps MoM to 1.82%, -4 bps yoy. In Italy it went down by 1 bps to 2.02%, -7 bps yoy. French rate declined by 4 bps to 1.66%, -9 bps yoy. Dutch yield tumbled by 5 bps MoM to 2%, -15 bps yoy. Thus, spread between new and outstanding rates became narrower in October, after widening in 2019 to the lowest level since 2012.

Consumer

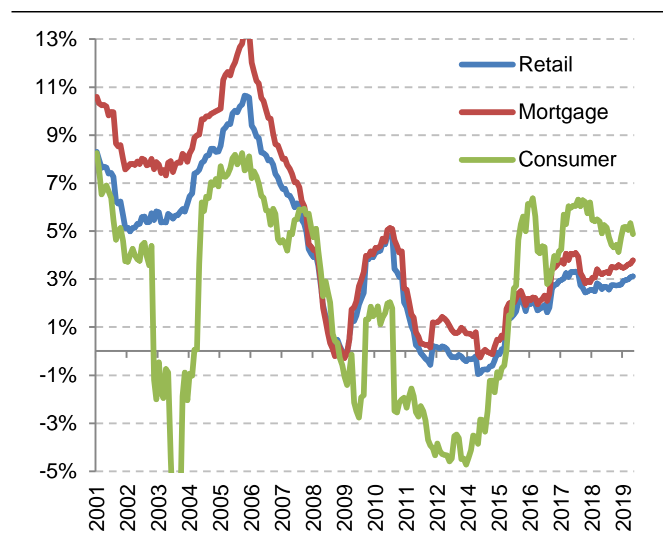
EU consumer still remains the key driver of total loan growth due to ongoing positive dynamics of disposable income (above historical averages) but contribution of consumer loans to total loans growth decreased recently. This growth is driven by solid wage growth because of relatively tight labour market and strong job creation even despite GDP growth slowdown. Ongoing growth of property markets also impact positively on wealth of households. Recent weakness in macro data hasn't largely influenced on financial health of EU consumer yet. Of course, it takes its toll on indicators of financial health of EU consumers but they still remain strong. Consumer loans growth remains high across major European countries. According to ECB, the indebtedness of euro area households remains relatively low, stabilized near 58% of GDP. Given very low rate environment, household debt burden is also near multi-year lows and it will remain at these levels or even lower in the nearest years because of upcoming rate cuts. Currently, households debt interest burden is 40-50% lower for majority of European countries than it was just before the mortgage crisis in US.

EU loans to households increased by 3.1% yoy or +0.3% MoM in October (slight acceleration from 2.6% yoy as the end of 2018). Consumer loans growth remains relatively

strong. However, the rate of growth of the loan portfolio continues to differ widely across countries (as well as for corporate loans). Thus, German household loans increased by 4.3% yoy in October or +0.4 % MoM, French retail lending added 5.6% yoy or +0.7% MoM (slight deceleration vs early 2019 figures), while household loans in Spain declined by 0.8% on yoy basis, the fourth month in a row, after non-negative loan growth rate for 13 months in a row following more than 7 years of negative yoy growth. Italian consumer loans added +0.6% yoy in October, the fifth consecutive month of positive yoy growth after 6 months in a row of negative yoy growth.

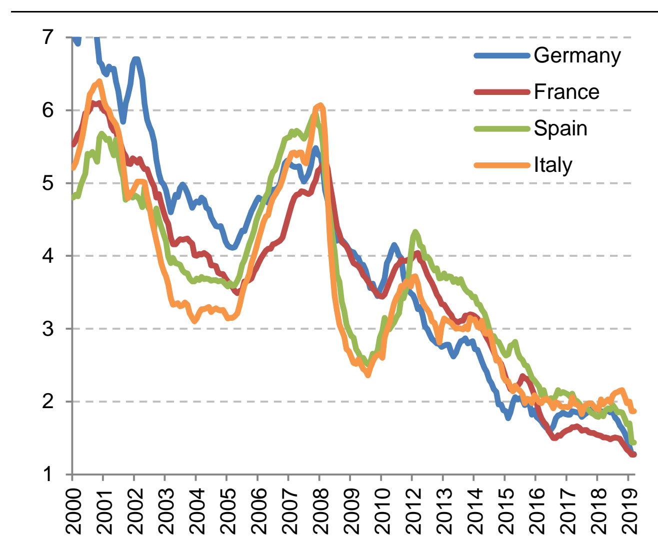
Consumer lending (exclude mortgage) still remains the key driver of EU household loan portfolio, adding 4.9% yoy in October, +0.4% MoM. EU mortgage loans increased by 3.8% yoy as the end of October or +0.4% MoM. According to September 2019 bank lending survey from ECB, "loan demand continued to increase for housing loans and consumer credit". The most impressive loan growth in consumer segment was in Spain over the last 3 years but it decelerated significantly in the last two months. Thus, Spanish consumer credit increased by 8.4% yoy in October vs 13.2% yoy 1 year ago. In turn, Spanish mortgage portfolio continues to stagnate, -1.6% yoy as the end of October vs -1.4% yoy 1 year ago.

Chart 28. EU Consumer Loan Growth, YoY



Source: Bloomberg

Chart 29. EU Mortgage Loan Rates, New Loans, %



Source: Bloomberg

As of lending standards, it slightly eased for mortgage loans in 3Q19 despite expectations of unchanged standards in 2Q19 BLS while standards continued to tighten for consumer loans despite broad-based expectations of easing in 2Q19. "The net percentage was slightly below the historical average since 2003". And it was mainly driven by Spanish banks. As of 4Q19, banks expect that standards will remain unchanged for both mortgage and consumer loans. Competition remains the key easing factor for the loans. Rejection rate for loan applications continued to increase for both loan categories in 3Q19. Banks also reported significant growth of demand for housing loans across all major European countries except Spain where it notably decreased. The key drivers of demand remained low level of interest rates and favourable housing market prospects. Demand for consumer loans increased in 3Q19 either but it was lower than expected in 2Q19 BLS. Banks also expect that demand will continue to go up for both loan categories in 4Q19.

Average EU rate on new mortgage loans decreased by 4 bps MoM to 1.43% in October after 5 bps MoM decline in September, the eighth consecutive month of MoM slump, -38 bps yoy. It was hovering around 1.82-1.83% over 8 months from July 2018 to February 2019 but it declined by 37 bps since then because the key benchmark yields for mortgage rates declined markedly ytd. It is not surprise that significant decline of the benchmark yields finally impacted on the front book mortgage rates but it is uncommon that it hasn't

still reacted on significant-bounce back of rates from September lows. In December 2019, 10yr generic yield increased again, the fourth consecutive month of growth after four months in a row of MoM decline, +11.8 bps to -0.24%, but still -48 bps ytd. 30yr yield finally returned to being positive in October and it continued its growth in November-December, +14.3 bps MoM to +0.2%, -58 bps ytd. But almost the entire current yield curve still remains to be below 0%. In October, German mortgage rates on new loans decreased by 1 bps MoM to 1.27%, -59 bps yoy. Italian mortgage rate went down by 4 bps MoM to 1.4% and it is 48 bps lower than it was 1 year ago. French yields declined by 4 bps MoM to 1.23%, -28 bps yoy. Spanish mortgage rate decreased by 5 bps to 1.82% and it is 18 bps lower than it was 1 year ago. Because of lower front book yields, we continue to see declining back book rates on year-over-year basis, -15 bps yoy. On month-over-month basis, it decreased by 3 bps to 1.98%, the eighth month in a row of MoM decline. The rate of decline increased from 4.5 years low of -12 bps yoy which was shown in May-July of 2019 as we expected due to significant decline of benchmark rates in the summer'19 months.

As for other consumer loans, EU new business rates decreased by 4 bps MoM to 5.58% in October after decline of 18 bps MoM in September. Consumer yields remain too volatile. On year-over-year basis it decreased by 6 bps. Consumer yields decreased in all major European countries except for France. German yield went down by 2 bps MoM to 5.85% in October, -14 bps yoy. French rate increased by 12 bps MoM to 3.66%, flat yoy. Spanish rate decreased by 9 bps MoM to 7.27% -31 bps yoy. Italian consumer yield went down by 14 bps MoM to 6.47% after decline of 20 bps MoM in September, -12 bps yoy.

Average European new consumer deposits rate (with agreed maturity) declined by 1 bps MoM to 0.31 bps in October, the third consecutive month of decline after 8 months in a row of almost flat rate. Cost of outstanding deposits (with agreed maturity) decreased by 2 bps MoM to 1.18% after unexpected growth of 1 bps MoM in September, remaining just 4 bps lower than it was 1 year ago. Total cost of deposits declined by 1 bps MoM to 0.26% in October after being flat 3 months in a row. On yoy basis, it is just 3 bps lower than it was 1 year ago. Thus, spread between total loans yield and cost of total deposits continues to go down on yoy basis (-2 bps MoM or -10 bps yoy), exceeding positive impact of loan growth on NII. Consumer deposits growth remains healthy, adding 5.7% yoy as the end of October, marked acceleration vs +4% as the end of 2018. The growth rates of deposits are around 5-6% yoy for all major European countries despite increasingly clear threats by banks to start shuffling off the burden of negative rates on to consumers.

Overall Macro

European economy begins to demonstrate early signs of stabilization but the growth rate will remain relatively weak in the nearest quarters even despite more accommodative monetary policy. Notwithstanding, incoming information still point to positive GDP growth rate of Euro Area at the level of two previous quarters. Germany managed to avoid technical recession in 3Q19 but it is just 0.4% on yoy basis and it should decline to 0.1% yoy in 4Q19 because of still depressed manufacturing sector. According to ECB, "the risks surrounding the euro area growth outlook, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets, remain tilted to the downside, but have become somewhat less pronounced". So, market participants continue to assess the probability of recession despite the ECB continues to stand on its ground that the probability of a recession is low. A survey of economists conducted by Bloomberg in December suggests that chance of a recession happening over the next 12 months is 20% (unchanged from the estimates of last three months).

GDP growth remains relatively weak. And will remain so for the next year at least. Thus, European real GDP increased by 0.2% qoq or +1.2% yoy in 3Q19 vs 0.2% qoq or +1.1% yoy in 2Q19, slightly better than expected. But it is still the lowest figure on yoy basis over

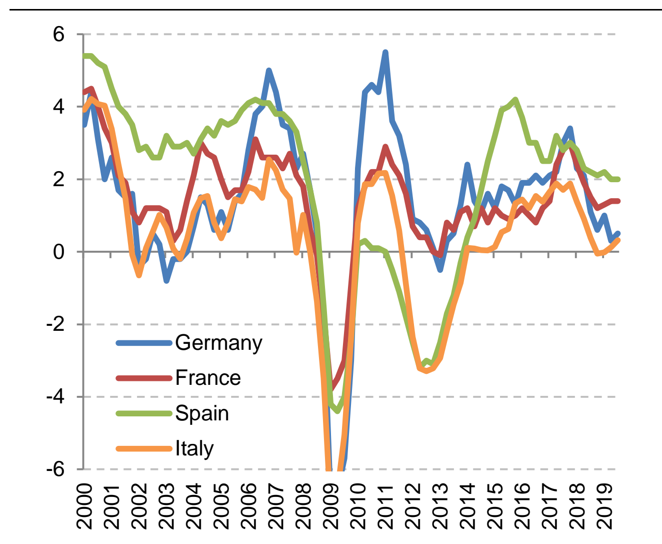
the last 5 years. The key drivers of positive qoq surprise were French and Italian GDP. Thus, French GDP increased by 0.3% qoq or +1.4% yoy vs +0.3% qoq/+1.4% in 2Q19 and consensus of +0.2% qoq/+1.3% yoy. Italian GDP increased by 0.3% qoq/+0.1% yoy vs consensus of +0.2% qoq/flat yoy. Moreover, 3Q19 estimates were increased to +0.1% qoq from -0.1% qoq. Spanish GDP increased by 0.4% QoQ or +2% yoy in 3Q19, in-line with expectations and 2Q19 growth. German GDP decreased by 0.1% QoQ or +0.5% yoy in 2Q19 vs consensus of -0.1% QoQ or +0.1% yoy. 1Q19 GDP growth was also revised up from initial estimate of +0.7% yoy to +0.9% yoy. Current staff projections are markedly higher than December Bloomberg consensus, which implies that EU GDP growth will be 1.2% yoy (+10 bps MoM), 1.0% yoy (flat MoM) and 1.2% yoy (-10 bps MoM) for 2019/2020/2021, respectively. In December, Bloomberg consensus estimates were relatively flat with 10 bps MoM upward revision for 2019 year, at 1.2%, flat 2020 GDP growth forecast at 1.0% and 10 bps MoM downward revision of 2021 GDP growth, at 1.2%.

European macro data published in December was slightly positive with growth of economic surprise indices after better figures in November and October. Thus, composite PMI index and retail sales were slightly lower than expected while industrial production was in line with negative revision of previous month figure. Despite some signs of stabilization, EU economy is very far from being strong with still high risk of negative spillover effect from manufacturing sector to services one even despite declining risks of trade war escalation and/or hard Brexit. There are signs of global GDP growth acceleration in 2020 but major developed economies look fragile, from our point of view. Indices of economic surprises continue to point to better macro data, although Bloomberg surprise index was relatively flat in December. In turn, Citi economic surprise index increased by 34 pts to 25.5 pts, finally moving into positive territory, +80 pts from mid-October lows. Bloomberg Euro Area surprise index increased from -0.398 pts to -0.378 pts. According to ECB December introductory statement, "the ongoing weakness of international trade in an environment of persistent global uncertainties continues to weigh on the euro area manufacturing sector and is dampening investment growth". Mario Draghi mentioned during his last press conference that announcement of more accommodative monetary policy at September meeting was a right decision. Yes, it helps to stabilize GDP growth but it is still questionable whether new monetary stimuli will accelerate European economy without of marked global growth acceleration or significant fiscal stimulus, pleas for which are increasingly heard from the monetary authorities recently. So, we expect that EU GDP growth will remain relatively weak, markedly below potential level but recession isn't a base case, at least in 2020. However, risks still remain tilted to the downside. And it means asset quality deterioration could be avoided under certain conditions but negative rate environment will persist markedly longer than it was expected in early 2019, implying further decline of NII of majority EU banks and no positive impact from provisions decline.

Composite PMI (preliminary figure), which is well correlated with GDP growth, slightly missed expectations in December after marked miss in November and in-line figures in October. It was flat MoM at 50.6 pts missing consensus of 50.7 pts, remaining near the lowest level over last 6 years. In accordance with previous months, except for November, it was driven by weak manufacturing sector while services sector was slightly better than expected. Thus, manufacturing PMI decreased by 1 pts MoM to 45.9 pts vs consensus of 47.3 pts. In turn, services PMI increased by 0.5 pts to 52.4 pts vs estimate of 52.0 pts. Germany remains the key negative driver of PMI figures in Europe. Manufacturing PMI figure again was lower than consensus estimate following small beat in November after several consecutive months of negative surprises, 43.4 pts vs estimate of 44.6 pts, -0.7 pts MoM. It is still near multi-year low and -8.1 pts yoy, significantly below expansion territory. French PMI was in line with expectations due to better services PMI while manufacturing one is just 0.3 pts above contraction territory, markedly missing consensus, -1.4 pts MoM. Ongoing but reduced weakness in international trade and uncertainty because of trade war

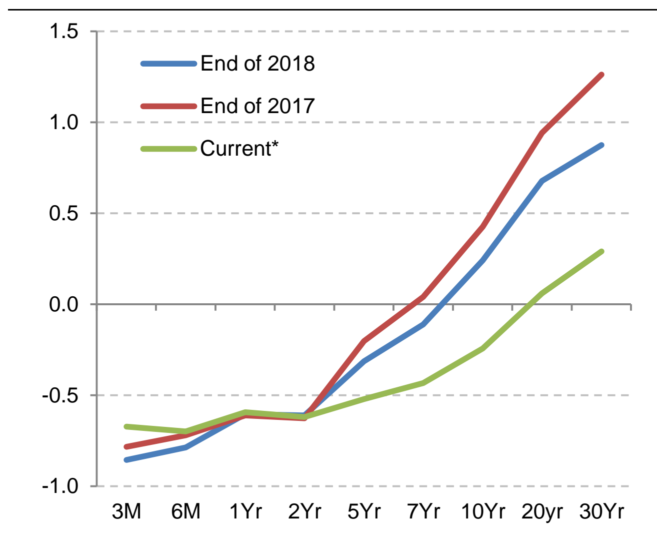
continues to negatively impact on European manufacturing and it remains the key risk for European economy as well as spreading of weakness of manufacturing sector to services sector, especially taking into account the fact that forward looking components of PMI hasn't demonstrated stabilization yet. Notwithstanding, October industrial production was in line with estimates after two consecutive quarters of positive surprises, -0.5% MoM but it is -2.2% on yoy basis while September initial estimate was revised down from +0.1% MoM to -0.1% MoM. Moreover, consensus estimate of IP was revised markedly down in December to -1.2% yoy in 2019 (-10 bps MoM), +0.1% yoy in 2020 (-60 bps MoM) and +1.3% in 2021 (from +1.4% in November).

Chart 30. EU Countries Real GDP Growth, YoY, %



Source: Bloomberg

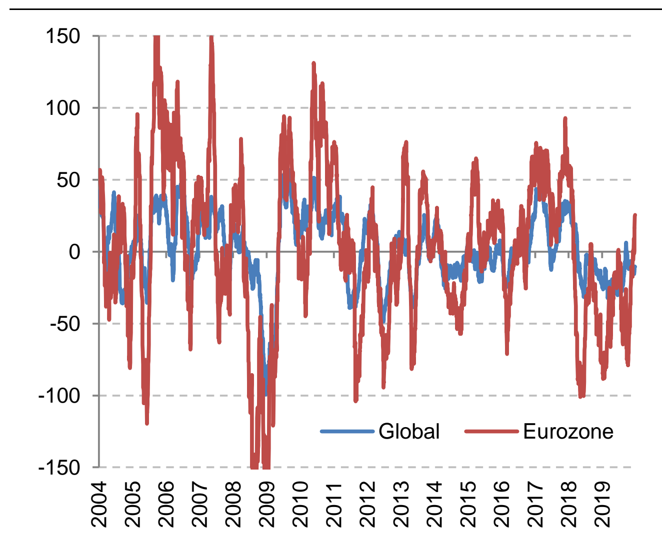
Chart 31. EU Yield Curves, %



*as of December 24, 2019

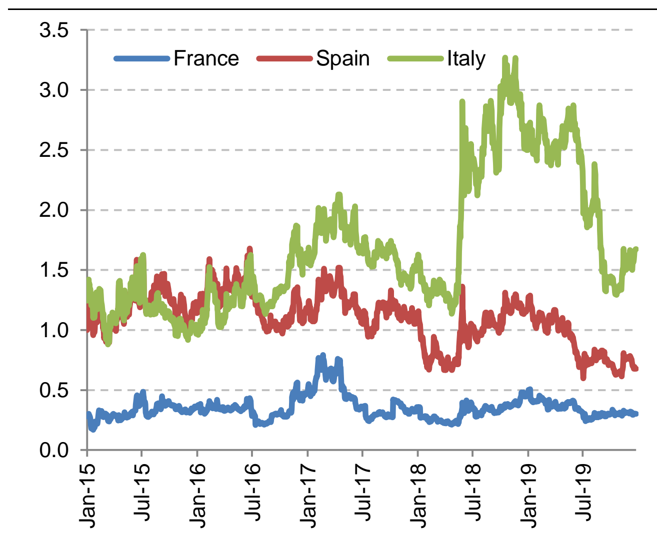
Source: Bloomberg

Chart 32. Citi Economic Surprise Indexes, pt



Source: Bloomberg

Chart 33. EU Countries Sov. Spreads vs Ger, 10Yr, %



Source: Bloomberg

EU consumer remains one of the key drivers of European economy, demonstrating strong growth of consumer spending due to ongoing and broad-based wage growth. But he also began to suffer from the lost momentum. So, household consumption increased by just +1.2% yoy in 3Q19, being almost flat during the last year, a noticeable decline from two-year ago levels. ECB expects that private consumption will be supported by labour market and wage growth but it should be noted that the outlook has worsened recently because of prolonged presence of uncertainty which continues to persist even despite Brexit/trade war

risks decreased significantly in recent months. Thus, unemployment rate was in line with expectations in October, at 7.5% vs -10 bps MoM from revised up September estimate of 7.6% but it is just 20 bps higher than low of the last cycle. So, Bloomberg consensus of unemployment rates for 2019, 2020 and 2021 years were almost unchanged MoM in December at 7.6% (flat) / 7.5% (flat) / 7.5% (+10 bps MoM). December consumer confidence was markedly worse than expected, -8.1 pts vs estimate of -7.0 pts, -0.9 pts MoM or -0.3 pts yoy, the lowest figure since March 2017.

Rates

ECB's December policy statement was unchanged vs October one. Key rates were kept at the same level after deposit rate was lowered by 10 bps at September meeting. Thus, the rate guidance remains the same - “the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics”. APP at monthly rate of €20 Bn per month which stated on 1 November will “run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates”. According to new staff projections with minority changes vs September estimates, inflation will remain markedly lower 2% at least for the next 3 years, implying that rates will also be not higher than current levels for the nearest three years. The risks are still tilted to the downside but “have become somewhat less pronounced”. All the more so, as Christine Lagarde noted at her first press conference as the president of ECB that there are no side effects of negative interest rates as they “work and work properly”. Also, it was mentioned that the strategic review of the monetary policy will start in January and it will be completed till the end of 2020. Mrs. Lagarde also accented that mandate will remain the same – price stability. As of TLTRO-III, banks took €97.7 Bn at December auction vs repayments of €146.8 Bn and slightly below Mrs. Lagarde’s preference. Overall, it was widely expected results with no significant changes to rate expectations. So, market reaction was also restrained.

As it was expected, staff macroeconomic projections were broadly unchanged in December vs September projections due to some stabilization macroeconomic situation in Euro Area. But it was again mentioned that “the ongoing weakness of international trade in an environment of persistent global uncertainties continues to weight on the euro area manufacturing sector and is dampening investment growth”. Thus, GDP growth forecast for 2019 was revised up by 10 bps to 1.2% yoy while 2020 growth was revised down by 10 bps to 1.1% yoy. GDP growth estimate for 2021 year was unchanged at 1.4% yoy, the same as new forecast for 2022 growth. Current staff projections are markedly higher than December Bloomberg consensus, which implies that EU GDP growth will be 1.2% yoy (+10 bps MoM), 1.0% yoy (flat MoM) and 1.2% yoy (-10 bps MoM) for 2019/2020/2021, respectively. Inflation forecasts were also broadly unchanged at 1.2% in 2019 (flat vs September), 1.1% in 2020 (+10 bps vs September) and 1.4% in 2021 (-10 bps vs September). The new inflation projection for 2022 is 1.6%, markedly below ECB’s target but for 4th quarter of 2022 the forecast is 1.7%. It was also noted that “indicators of inflation expectations stand at low levels”.

The meeting confirmed that new president will not make any drastic steps regarding the current accommodative monetary policy stance. From our point of view, it was confirmed that the comprehensive package of policy measures in September was a right thing. So, the challenging rate environment will remain a drag for European banks for longer. It is big negative for majority of EU banks even taking into account deposit tiering and relaxation of TLTRO terms at September meeting which have just small positive effect on average. At least, TLTRO funding volumes in September and December were markedly below

expectations, confirming the idea of plenty liquidity in the system. Overall, rate environment markedly improved since early September due to significant growth of yields and steeper curve but it still remains challenging. Moreover, we still think that the benefits of even more accommodative monetary policy for bank profits remain highly questionable even despite relatively stable loan growth in a context of economy slowdown. Unsurprisingly, Christine Lagarde paid attention to fiscal easing again, as her predecessor had done before. But the probability of significant fiscal easing in EU is relatively low, in our opinion. As well as in US, the future path of EU monetary policy will be primarily determined by the macro data with risks of more easing than tightening at the current moment. But the situation is gradually improving given significant progress in US-China trade tensions and the outcome of UK elections. So, the implied probability of another rate cut till the end of 2020 markedly decreased in recent months from 2/3 in the mid-October to 1/3 currently.

After several consecutive months of declining benchmark yields and rate expectations, there were relief rally in the last 4 months. Thus, 3M Euribor (Dec 2021) increased by 6 bps MoM to -0.31% (as of December 24) but it is still -56 bps ytd while 3M Euribor (Dec 2022) went up by 11 bps MoM to -0.19% but it is -77 bps ytd. But EPS/NIM/NII estimates were almost unchanged in December after negative dynamics in previous months even despite loans growth remains to be pretty resilient amid weaker economic growth. Thus, median NIM FY 2019/20 estimates of SX7P index were flat MoM in December but -12.2 bps/-18.4 bps ytd at 1.61% for both years. NII FY 2019/2020 estimates of SX7P index decreased by 1.5% and 3.9% ytd, respectively. So, banks are increasingly looking opportunities to shift negative rates on the retail clients despite it was taboo for them just few years ago.

The direction of dynamics of generic yields wasn't uniform in December with growth of the long end but negative dynamics of the short end. 3M yield decreased by 1.7 bps MoM to -0.67%. 6M yield declined by 7.8 bps to -0.7%. 1yr generic yield fell by 3.4 bps MoM, at -0.59% now, while 2yr yield went up by 0.7 bps MoM to -0.62%. 5yr yield increased by 6.2 bps to -0.52% while 10yr yield climbed by 11.8 bps to -0.24%. Overall, the yield curve became steeper in four recent months after four consecutive months of flattening. Thus, spread between 10yr yield and 1yr yield increased by 15.2 bps MoM to 0.35% while spread between 5yr and 3M yields went up by 7.9 bps MoM to +0.15%, after being negative in June-September 2019.

THEME OF THE MONTH

US Banks. 4Q19 Preview

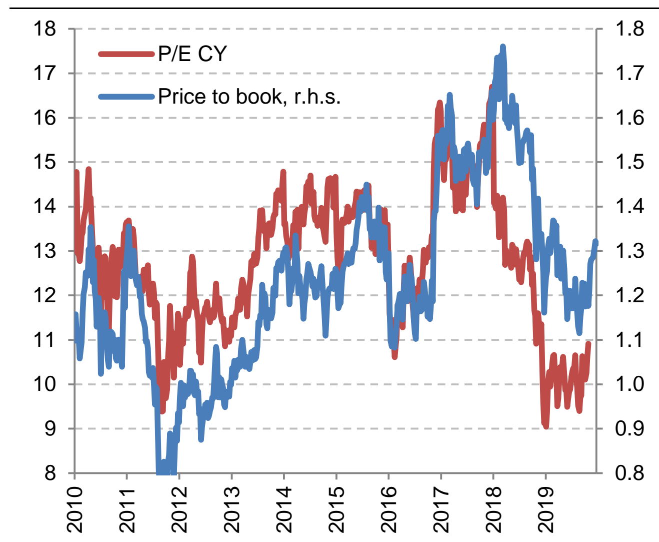
The earnings season of US banks will start on January 14th, when 4Q19 results will be presented by JP Morgan, Citigroup and Wells Fargo. After that, within two weeks, all members of BKX index will provide 4Q19 quarterly results. So far, US banks have reported reasonable headline numbers but estimates continue decline. Thus, 19 out of 24 of our group of banks demonstrated positive EPS surprises in 3Q19 despite challenging revenue environment, slightly higher than median number of positive quarterly EPS surprises over the last 51 quarters. Median EPS surprise for our group of banks was +3.2% vs median quarterly figure over the last 12.5 years of 4.1%. According to Bloomberg consensus, median decline of 4Q19 EPS of BKX index members is -0.8% qtd (as of December 23) or -7.1% ytd. Full-year estimates for the current and next years were also revised down ytd by -3.7% and -7.6%, respectively. Given recent stabilization of macro environment, better than feared rates dynamics, and still strong credit, we don't expect that FY2020/21 EPS estimates will continue to go down significantly further but the key EPS driver remains high buybacks which is not a strong catalyst for growth of banking quotes taking into account that valuations moved back to historical averages. We expect that 4Q19 numbers will be relatively weak with median EPS growth of BKX index members of just 0.3% yoy but -0.8% qoq, the weakest growth on yoy basis over the last 3.5 years.

Despite rebound of financial markets and improved rate expectations in recent months, majority of key benchmark rates remain significantly lower ytd, negatively impacting on NII and it is expected that NIM will decline sequentially again, for the second quarter in a row. According to Bloomberg consensus estimates, median decline of NIM of BKX index members in 4Q19 is 5.4 bps qoq and it is expected to decrease by 19.8 bps yoy, the most significant decline over more than 4 years. On the other hand, median decline of NII is -0.2% qoq or -1.7% yoy, the first yoy decline since 3Q13. NII should remain flat sequentially due strong growth of earning assets driven by securities while loans growth still remain weak, especially in C&I segment. So, estimates continue to go down. Thus, median decline of 4Q19 NII estimates of BKX index members is 2.7% qtd or -3.1% ytd. NIM estimates have already declined by 3.6 bps qtd and 21.7 bps ytd even despite significant rebound of key benchmark rates from September lows. During 3Q19 earnings season, median NII surprise of BKX index members was -0.3% while median NIM surprise was -0.7 bps. 14 out of 24 BKX members showed negative surprise on NII in 3Q19 as well as NIM of 14 out of 24 BKX members was lower than expected.

Majority of key benchmark yields decreased significantly in 4Q19, continuing negatively impact on NII/NIM. As of December 24, average 1M Libor decreased by 38.8 bps qoq in 4Q19 to 1.79% and average 3M Libor lost 26.6 bps qoq to 1.93% while average prime rate went down by 46.7 bps qoq to 4.84% (current prime rate is 4.75%). Despite decline of average key benchmark rates, loan rates remained resilient. Thus, average rates of auto loans increased by 1-2 bps qoq on new autos and +3 bps qoq on used auto loans. Mortgage rates increased by 0.2 bps to 3.74% for 30-yr mortgage but decreased by 1.5 bps qoq to 3.17% for 15-yr mortgage. Also, all benchmarks for securities yields went down in 4Q19 but not as significant as they fell in 3Q19. Thus, according to BVAL, average 10yr AA/Aa, A/A and BBB/Baa yields decreased by 6.8 bps qoq, 6.3 bps qoq and 6.7 bps qoq, respectively. Yield curve has returned to the normal shape recently after being inverted in the middle part of the curve for most of 2019 but it is still flat. So, average 10yr-2yr spread increased by 8.4 bps qoq to 0.19% in 4Q19 (as of December 24). Average 5yr-3Mo spread skyrocketed by 39.9 bps qoq in 4Q19 to +0.02% after significant decline in previous quarters. As of December 24, it was +0.18%, near 1-yr high. Fed futures (Dec 20/Dec 21) also markedly increased in 4Q19. Thus, implied rates added 20/26 bps MoM to 1.41%,

implying relatively flat key rate in the nearest 2 years. So, median NIM estimate of BKX index members for 2019 and 2020 years continued to go down. On ytd basis, they decreased by 11.2 bps and -24 bps for 2019 and 2020 years, respectively.

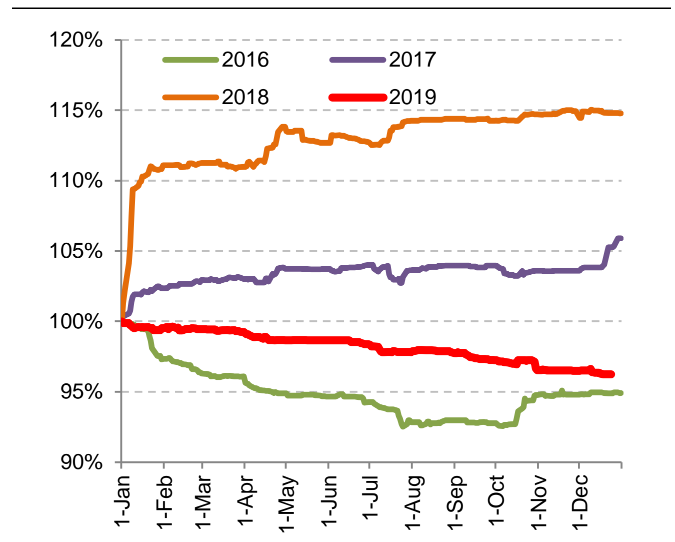
Chart 34. US Banks. Multipliers, Median*



*a sample of 34 banks which we are monitoring

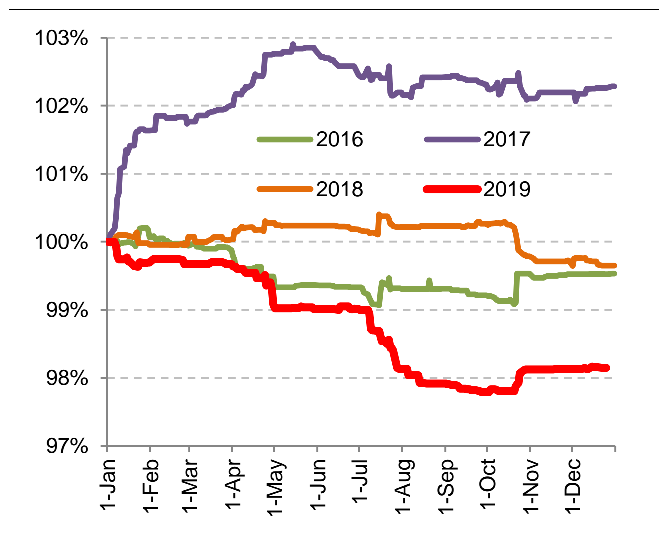
Source: Bloomberg

Chart 35. BKX Index. Median CY EPS Est. Dynamics



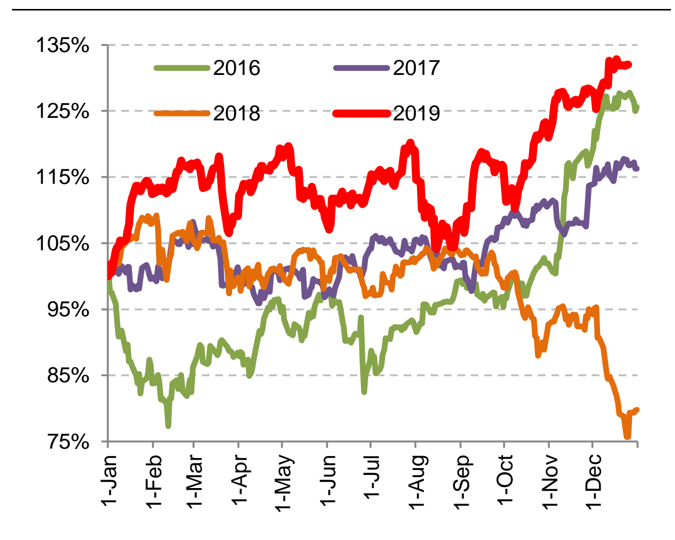
Source: Bloomberg

Chart 36. BKX Index. Median CY Rev Est. Dynamics



Source: Bloomberg

Chart 37. BKX Index. Price dynamics



Source: Bloomberg

Negative impact of decreasing yields will be partly diminished by decline of funding costs and balance sheet optimization. Usually, deposits re-price more slowly than majority of loans but decline of deposit cost significantly accelerated in 4Q19. Notwithstanding, banks continue to note rising deposit competition, complicating the process of deposits re-pricing downward. From the other hand, the impact of this factor will weaken along with the fall in the overall level of rates. Thus, according to bankrate.com, average cost of 6Mo CDs decreased by 6.5 bps qoq in 4Q19 (vs +4 bps in 3Q19 and +13 bps qoq in 2Q19), average cost of 1yr CDs declined by 22 bps qoq (vs -5 bps in 3Q19 and +9 bps qoq in 2Q19), average cost of 5yr CDs went down by 33 bps qoq (vs -19 bps in 3Q19 and -6 bps qoq in 2Q19) while cost of interest checking accounts lost 2 bps qoq (vs +11 bps in 3Q19 and +9 bps qoq in 2Q19) while cost of MMAs declined by 7 bps yoy (vs +4 bps in 3Q19 and +8 bps qoq in 2Q19). Recall that median cost of interest bearing deposits of BKX index members increased by 0.5 bps qoq in 3Q19 to 0.99%, still 34.5 bps higher than it was 1 year ago.

Loan growth was relatively flat on yoy basis in recent two years, hovering around 5%. Despite three rate cuts, we haven't seen any acceleration of total loans growth as acceleration of consumer loans growth was mitigated by significant deceleration of corporate loans growth because of weak manufacturing sector. Thus, median growth of EOP loans of BKX index members was +0.9% qoq or +1.1% yoy in 3Q19 vs 1.1% qoq and +2% yoy in 2Q19. As of average loans, median growth was +0.5% qoq and +1.6% yoy in 3Q19 vs +0.6% qoq and +1.8% yoy in 2Q19. The key driver of deceleration of loan growth in 3Q19 was C&I segment which was almost flat on qoq basis but it isn't surprising given significant decline of PMI figures and rising risks associated with trade wars and slowdown of global economy. According to the Fed H8 data, total loans increased by 4.8% yoy (as of December 11) vs 5.3% as end of September and +5.2% as the end of 2018. On qoq basis, they added +0.9% (as of December) vs +1.0% qoq in 3Q19 and +1.2% qoq in 2Q19. C&I added +2.8% yoy vs +5.1% yoy at the end of December 2019, -0.4% qtd. CRE added +5.4% vs +4.8% as the end of 4Q19. Due to significant decline of the long end ytd and improving housing data, mortgage loans growth accelerated to 5.0% yoy in 4Q19 vs 2.9% as the end of 2Q19. In turn, consumer loans increased by 5.9% yoy in 4Q19 vs 5% as the end of 2018, driven by other consumer loans which accelerated from 4% yoy as the end of 2018 to 7.9% as the end of 2019. As of lending standards, banks indicated that their standards remained basically unchanged for majority of loan categories. Lending standards for CRE loans were tightened again, 17th/18th quarter in a row, depending on the segment. Also, standards were tightened in credit cards again. Total assets of US banks increased by 1.3% qoq in 4Q19 (as of December 11) vs +0.7% qoq in 3Q19 and +1.4% qoq in 2Q19. Moreover, total assets of top 25 domestic banks went up by 2.4% qoq. Total liabilities increased by 2.8% qoq, driven by growth of total deposits, +3.2% qoq.

Non-interest income of BKX index members will decrease by 1.8% qoq but it will increase by 6.2% yoy, according to Bloomberg consensus. Estimates went up ytd, median figure of BKX index members is +0.4% or +0.8% qtd. Capital markets revenue should be significantly higher on yoy basis but markedly worse on qoq basis because of seasonality. Revenue is driven by FICC trading with growth of more than 20% yoy for the group because of challenging trading environment in 4Q18. Equity trading revenue growth should be also positive on yoy basis while IB fees will be flat yoy. In turn, mortgage fees should be strong again (and it should remain solid in 2020) given recent growth of mortgage activity due to significant decline of the long end ytd. According to MBA's December 2019 forecasts, total mortgage originations will increase by 23.3% in 2019 (up from February forecast of -0.9% yoy) driven by growth of refinancing originations of 70% yoy while purchase volumes will increase by 5% yoy. In 2020, total applications will decline by 7.4%, also driven by pullback of refinancing originations. Fannie Mae's December forecast is however more pessimistic for 2019 while more optimistic for 2020 year, implying growth of total mortgage originations of 21.6% yoy in 2019 (vs +0.2% in February forecast). In 2020, FNMA expects that total originations will decline by 4.8% yoy.

Expenses still remain under control. According to Bloomberg consensus, opex will increase by 0.4% qoq but median growth of BKX index members will be just +1% yoy vs growth of +3.8% yoy in 3Q19 but -0.2% yoy in 4Q18. In result, median efficiency ratio should increase by 55 bps qoq to 58.5% but it should still remain lower on yoy basis, -77 bps.

Credit quality of US banks stays solid across all major segments so far. But it will inevitably normalize from a quarter to quarter, especially taking into account decline of manufacturing activity and still relatively high risks of recession. Notwithstanding, just 10 out of 24 members of BKX index demonstrated provision expense better than estimates in 3Q19 vs 14 banks in 2Q19. Actual total provisions of BKX index were 5.3% lower than consensus estimates (vs -13% in 2Q19). Median NCO ratio of BKX index members increased by 8 bps yoy or +7 bps qoq to 0.34% still remaining near multi-year lows but it is the highest figure

over last 3 years. In turn, median NPL ratio of BKX index members declined by 2 bps qoq or -6.9 bps yoy to just 0.42% in 3Q19. According to FDIC, leading indicators of credit quality remains strong across the majority loan categories with 30-89 delinquency ratio of total portfolio being at 0.62% in 3Q19, +3 bps qoq but -2 bps yoy, driven by C&I segment (+5 bps yoy to 0.33%) and auto loans (+9 bps yoy to 2.14%). Banks are optimistic about credit quality but they admit that it should move to more normal levels. They don't expect significant growth of NCO ratios from these levels in 2019 as early delinquencies remains stable and there is no growth of criticized loans. According to Bloomberg consensus, total provision of BKX index members will increase by 13.2% yoy or +9.9% qoq. Notwithstanding, CECL adoption will lead to growth of loan loss reserves by 30-40% for majority of banks and variance of growth will be high among the group. Also, it is important to note that credit quality risks are tilted to significant deterioration given slowdown in manufacturing and high leverage with relatively weak covenants in corporate sector.

Capital ratios continue to go down but still remain solid. As expected by Bloomberg consensus, median Basel III CET1 ratio of members of BKX index will decrease by 26 bps qoq or -56 bps yoy in absolute terms to 10.14% in 4Q19. Despite decline of median CET1 ratio of BKX index members, it remains markedly higher than minimum required levels even in case of significant GDP decline despite high buybacks which have been the key driver of EPS growth recently and it will remain so in the near quarters. Thus, median decline of number of shares outstanding was 3.5% for BKX index members in 1Q-3Q 2019. According to CCAR 2019 results, buybacks will be even higher in 2020 as total buybacks of BKX index members increased by 25% to $117 Bn.

Overall, operating trends of US banks were strong so far but gradually deteriorating because of challenging revenue environment while still high credit quality, good cost control and small but positive operating leverage. We see almost no EPS drivers in the near future with rising political uncertainty given election year and ongoing trade tensions while valuations have become less attractive in recent months. Thus, banks continue to trade with significant discount to S&P 500 index, reflecting late cycle concerns but they haven't already been cheap vs historical averages. Thus, banks are trading with -0.8/-0.8 std on P/E CY and -0.2/+0.1 std on P/E NY (on the basis of samples from 2000 and 2010 yrs to current moment) relative to historical averages (as of December 20). As for relative to S&P 500, banks are currently trading at -2.0 and -1.5 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively.

Despite stocks are still trading at a significant discount to S&P 500 index but in-line with historical averages, we maintain our cautious view on US banks given higher risks and marked outperformance of US banks in 2019. NIM prospects are not as weak as it was feared 1 quarter ago but it will not resume its growth in current rate environment. In turn, there is no more room for credit costs and opex reduction, so positive operating leverage in future is under question. Capital return will remain high near term but it is too little to change the mood of investors given late cycle concerns.

APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price as of 24/12/19, $	Target price, $	Upside	52-week price, $		RSI	MCap, $ bn.	Dividend yield			Price/Earnings			Price to book	Price to tang. book	ROE, %			TCE ratio, %	CET1 ratio, %
					High	Low			2019E	2020E	2021E	2019E	2020E	2021E			2019E	2020E	2021E		
American Express	AXP	124.7	131.7	5.6%	129.3	89.1	61.6	102.1	1.3%	1.4%	1.5%	15.4	13.9	12.6	4.4	N. A.	30.4	30.9	31.0	10.2	11.0
JP Morgan Chase	JPM	137.6	127.7	-7.2%	139.0	91.1	68.4	431.5	2.5%	2.7%	3.0%	13.3	13.0	12.2	1.8	2.3	14.3	13.9	14.0	7.1	12.0
PNC Financial	PNC	160.4	154.0	-4.0%	161.0	108.5	71.2	70.3	2.6%	3.0%	3.3%	14.2	13.6	12.7	1.6	2.0	11.2	11.0	11.4	9.2	9.6
Bank of America	BAC	35.2	34.8	-1.2%	35.3	22.7	73.1	316.8	1.9%	2.2%	2.6%	12.2	11.7	10.9	1.3	1.8	10.6	10.7	10.6	7.5	11.6
Citigroup	C	78.6	85.2	8.4%	79.1	48.4	67.5	171.6	2.4%	2.8%	3.1%	10.3	9.2	8.5	1.0	1.1	9.6	9.6	9.5	8.0	11.9
Trust Financial Corp	TFC	56.2	54.7	-2.6%	56.9	40.7	58.8	75.3	3.1%	3.3%	3.7%	13.4	12.9	11.5	1.5	2.4	11.2	9.6	10.4	7.6	10.2
Goldman Sachs	GS	229.9	242.8	5.6%	232.2	151.7	63.2	84.8	1.8%	2.3%	2.5%	10.5	9.6	8.8	1.0	1.1	10.0	10.5	10.6	8.1	13.3
Bank of NY Mellon	BK	50.4	51.2	1.6%	54.3	40.5	57.9	46.4	2.3%	2.6%	2.8%	12.2	11.9	11.0	1.2	2.7	10.1	10.0	10.3	4.8	11.7
Comerica	CMA	71.8	70.2	-2.3%	88.9	58.6	56.9	10.3	3.7%	4.0%	4.2%	9.3	10.2	9.9	1.4	1.6	16.1	13.7	13.5	9.8	11.1
Citizens Financial	CFG	40.5	41.9	3.4%	40.9	27.6	67.4	17.6	3.4%	3.8%	4.1%	10.6	10.4	9.8	0.9	1.3	8.8	8.2	7.9	8.5	10.6
Regions Financial	RF	17.2	17.9	4.1%	17.5	12.4	57.2	16.6	3.5%	3.8%	4.1%	11.3	10.6	10.0	1.1	1.6	10.0	9.8	9.8	7.6	9.9
Discover Financial	DFS	85.3	92.1	8.0%	93.0	54.4	53.0	26.7	2.0%	2.1%	2.3%	9.4	8.9	8.3	2.4	2.5	25.5	25.3	25.2	9.3	11.1
M&T Bank	MTB	169.3	171.4	1.2%	176.1	133.8	59.1	22.3	2.4%	2.7%	2.8%	12.3	12.4	11.7	1.5	2.3	12.8	11.8	11.9	8.3	10.1
Fifth Third Bancorp	FITB	31.0	31.7	2.4%	31.6	22.1	58.6	22.0	3.1%	3.5%	3.8%	11.0	10.5	10.0	1.1	1.5	11.1	10.3	10.2	8.6	10.2
Huntington Bancorp	HBAN	15.2	15.4	1.4%	15.6	11.1	53.9	15.6	3.8%	4.1%	4.4%	11.7	11.4	10.9	1.5	1.8	13.0	12.4	12.3	7.6	9.7
Northern Trust	NTRS	106.7	108.4	1.6%	110.5	76.0	50.2	22.6	2.4%	2.7%	2.9%	16.0	15.1	14.3	2.1	2.3	14.9	15.0	14.9	6.7	13.7
People's United	PBCT	16.9	17.0	1.1%	18.0	13.7	56.1	7.5	4.2%	4.2%	4.2%	12.5	12.1	11.8	1.0	1.8	7.3	7.9	7.9	7.6	10.3
Synchrony Financial	SYF	36.3	39.9	9.8%	38.2	21.8	42.5	23.5	2.4%	2.5%	3.1%	8.5	8.1	7.4	1.6	1.8	23.5	19.3	20.4	12.0	14.0
KeyCorp	KEY	20.4	20.6	1.1%	20.5	13.7	64.6	20.0	3.5%	3.8%	4.3%	11.6	10.8	10.1	1.3	1.6	11.4	11.3	11.4	8.6	9.9
State Street Corp	STT	79.6	76.3	-4.2%	81.2	48.6	68.0	29.0	2.5%	2.7%	2.9%	13.7	12.2	11.2	1.3	2.4	10.0	10.4	10.3	4.8	11.5
US Bancorp	USB	59.7	59.2	-0.8%	61.0	43.1	51.8	93.2	2.6%	2.9%	3.2%	13.8	13.5	12.7	2.0	2.6	14.5	14.0	14.4	7.6	9.1
Zions Bancorp	ZION	51.5	52.3	1.4%	52.0	38.1	62.6	8.8	2.5%	2.8%	3.0%	12.0	11.7	10.8	1.3	1.5	11.4	11.1	11.2	8.9	11.7
Morgan Stanley	MS	50.7	54.5	7.5%	51.2	36.8	62.1	82.0	2.6%	3.0%	3.4%	10.3	9.7	8.8	1.1	1.3	11.0	10.8	11.3	7.4	16.9
Capital One Financial	COF	103.0	110.8	7.6%	105.7	69.9	61.2	47.9	1.6%	1.6%	1.7%	9.0	8.6	7.9	0.9	1.3	10.0	9.3	9.6	9.1	11.2
Wells Fargo	WFC	53.8	51.8	-3.8%	54.8	43.0	52.6	227.6	3.6%	3.9%	4.1%	12.1	12.5	11.3	1.3	1.6	11.4	10.5	11.2	7.6	11.7
First Republic Banks	FRC	117.3	109.9	-6.3%	118.1	80.1	71.6	19.8	0.6%	0.7%	0.7%	23.1	22.1	20.0	2.3	2.4	10.3	10.0	9.8	7.5	10.4
NY Commercial Bancshares	NYCB	11.8	12.5	5.6%	13.8	8.7	42.7	5.5	5.7%	5.7%	5.7%	15.5	13.8	12.2	0.9	1.5	5.8	6.4	7.0	7.5	10.6
SVB Financial	SIVB	252.1	255.1	1.2%	259.8	178.7	65.9	13.0	0.0%	0.0%	0.0%	11.8	13.0	12.1	2.2	2.3	19.7	15.5	14.7	9.0	13.4
Signature Bank	SBNY	136.4	143.1	4.9%	137.9	99.3	69.7	7.4	1.6%	1.7%	1.7%	12.6	12.1	11.1	1.6	1.6	12.5	12.1	12.1	9.3	12.1
East West Bancorp	EWBC	49.1	53.7	9.3%	56.1	37.7	66.1	7.2	2.1%	2.3%	2.4%	10.6	10.5	10.0	1.5	1.6	14.1	13.1	12.6	9.7	12.1
Synovus Financial	SNV	38.7	40.9	5.5%	40.4	29.9	55.4	5.7	3.1%	3.4%	3.6%	9.9	10.6	9.9	1.3	1.5	13.4	11.9	11.9	8.4	9.9
First Horizon National	FHN	16.6	18.6	12.2%	17.4	12.3	57.8	5.2	3.4%	3.7%	4.1%	10.5	10.2	9.3	1.1	1.7	11.0	10.6	11.1	7.1	9.8
BOK Financial	BOKF	87.2	87.2	0.0%	93.2	70.0	64.3	6.2	2.3%	2.5%	2.6%	11.6	12.1	11.8	1.3	1.7	11.4	10.0	9.6	8.8	10.9
Median				**1.6%**			**61.2**		**2.5%**	**2.8%**	**3.1%**	**11.8**	**11.7**	**10.9**	**1.3**	**1.7**	**11.4**	**10.8**	**11.2**	**8.1**	**11.1**

Source: Bloomberg

APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (24/12/19)	Target price*	Upside	52-week price*		RSI	MCap, € bn.	Dividend yield			Price/Earnings			Price to book	Price to tang. book	ROE, %			TCE ratio, %	CET1 ratio, %
						High	Low			2019E	2020E	2021E	2019E	2020E	2021E			2019E	2020E	2021E		
Erste Group	EBS AV	EUR	34.1	37.7	10.4%	35.7	26.9	65.5	14.7	4.4%	4.8%	5.1%	9.3	9.4	9.4	1.0	1.1	10.8	10.3	9.6	5.0	13.5
Raiffeisen Bank	RBI AV	EUR	22.7	26.5	16.5%	24.7	18.1	60.8	7.5	4.9%	5.7%	6.7%	6.6	6.4	6.3	0.7	0.7	9.9	9.7	9.0	7.1	13.4
KBC Groep	KBC BB	EUR	67.1	70.9	5.6%	68.7	48.7	56.0	27.9	5.8%	5.9%	5.9%	11.7	11.7	11.6	1.5	1.7	13.4	12.6	12.3	5.6	16.0
Komercni Banka	KOMB CK	CZK	821.5	920.4	12.0%	964.5	728.0	68.3	6.1	6.3%	6.1%	6.1%	10.3	10.9	10.8	1.5	1.7	14.4	13.0	12.5	8.7	17.9
Jyske Bank	JYSK DC	DKK	240.9	241.4	0.2%	279.6	185.6	65.4	2.5	2.7%	2.5%	3.4%	9.8	9.0	8.1	0.6	0.6	6.2	6.0	5.9	5.3	16.4
SydBank	SYDB DC	DKK	139.1	124.7	-10.4%	160.8	90.3	66.5	1.1	5.0%	4.9%	5.1%	9.9	9.9	9.6	0.8	0.8	7.6	7.2	7.0	7.6	17.3
Danske Bank	DANSKE DC	DKK	107.0	117.4	9.8%	135.7	85.9	74.4	12.3	6.8%	5.1%	6.3%	7.5	9.6	7.9	0.6	0.7	8.4	6.3	7.3	3.9	17.0
BNP Paribas	BNP FP	EUR	53.0	54.1	2.1%	53.8	38.1	64.5	66.2	5.8%	6.0%	6.1%	8.5	8.4	8.1	0.7	0.8	7.9	7.8	7.7	4.0	11.8
Natixis	KN FP	EUR	3.9	4.3	9.2%	4.8	3.3	54.4	12.4	8.6%	8.6%	8.6%	10.2	9.3	8.6	0.6	N. A.	9.0	7.3	7.8	2.7	10.9
Societe Generale	GLE FP	EUR	31.2	29.7	-4.6%	31.6	20.8	75.3	26.6	7.0%	7.0%	7.1%	8.6	8.1	7.7	0.4	0.5	5.6	6.0	6.1	4.2	11.2
Credit Agricole	ACA FO	EUR	13.0	13.8	5.7%	13.4	9.1	63.9	37.5	5.3%	5.4%	5.5%	9.7	9.5	9.1	0.6	0.9	7.3	6.5	7.1	2.2	11.5
Virgin Money	VMUK LN	GBp	194.5	196.7	1.1%	222.1	102.3	62.5	3.3	0.0%	0.0%	0.1%	8.6	7.7	6.6	0.6	0.6	6.6	7.6	8.4	5.0	13.3
HSBC	HSBA LN	GBp	599.4	619.5	3.4%	687.7	552.3	63.3	142.2	0.1%	0.1%	0.1%	8.6	8.6	8.2	0.8	N. A.	8.1	8.2	8.4	5.5	14.0
Royal Bank of Scotland	RBS LN	GBp	242.7	254.6	4.9%	265.0	176.6	57.5	34.3	0.1%	0.1%	0.1%	9.6	9.7	8.8	0.7	0.9	7.5	7.7	8.5	5.0	16.2
Barclays	BARC LN	GBp	180.0	201.7	12.1%	193.0	134.7	56.7	36.4	0.0%	0.1%	0.1%	8.9	7.6	7.0	0.6	0.7	6.3	7.2	7.5	4.0	13.2
Standard Charted	STAN LN	GBp	727.0	716.3	-1.5%	742.6	573.8	59.9	27.1	0.0%	0.0%	0.1%	9.6	8.1	7.1	0.7	0.8	5.6	6.3	6.9	5.9	14.2
Lloyds	LLOY LN	GBp	63.4	65.5	3.3%	70.0	48.2	56.0	51.9	0.1%	0.1%	0.1%	8.9	9.1	8.7	1.0	N. A.	11.4	11.7	11.4	4.8	14.6
Commerzbank	CBK GY	EUR	5.4	6.0	10.0%	8.3	4.7	52.2	6.8	3.6%	3.7%	4.3%	8.6	8.5	7.4	0.2	0.3	2.7	2.2	2.9	5.4	12.9
Deutsche Bank	DBK GY	EUR	6.9	6.3	-8.2%	8.3	5.8	55.6	14.3	0.2%	0.6%	1.4%	-181.8	28.8	11.8	0.2	0.3	-4.4	0.8	2.1	4.0	13.6
UniCredit	UCG IM	EUR	13.3	15.2	14.1%	13.7	9.1	64.2	29.8	4.7%	4.7%	5.0%	7.6	7.5	7.1	0.5	0.6	7.5	6.4	6.5	5.8	12.1
Mediobanka	MB IM	EUR	10.0	11.0	10.3%	11.0	7.1	43.4	8.9	5.1%	5.3%	5.6%	10.4	10.2	9.9	0.9	N. A.	8.7	8.5	8.6	11.5	14.1
Intesa Sanpaolo	ISP IM	EUR	2.4	2.4	-0.7%	2.4	1.8	65.8	42.0	7.9%	7.1%	6.9%	10.2	10.5	10.1	0.8	1.0	7.9	7.5	7.7	5.2	13.5
Emilia Romagna	BPE IM	EUR	4.5	4.6	1.7%	4.6	2.9	60.1	2.3	2.8%	3.6%	4.1%	11.8	8.2	7.1	0.4	0.5	5.4	6.0	6.7	5.6	14.3
UBI Banca	UBI IM	EUR	2.9	3.1	6.1%	3.1	2.0	52.0	3.4	4.1%	5.0%	5.6%	10.9	8.1	7.6	0.4	0.4	3.1	4.7	4.8	6.0	11.7
ING Groep	INGA NA	EUR	10.8	12.2	13.0%	12.1	8.2	59.5	42.1	6.4%	6.4%	6.5%	8.4	8.7	8.5	0.8	0.8	9.8	8.9	8.7	5.5	14.5
ABN Amro	ABN NA	EUR	16.3	18.9	15.8%	23.0	14.9	57.0	15.3	8.5%	8.2%	8.5%	7.3	8.4	8.0	0.7	N. A.	10.6	8.8	8.9	5.6	18.4
DNB	DNB NO	NOK	163.6	175.4	7.2%	172.0	135.5	58.1	26.2	5.5%	5.9%	6.0%	11.0	10.3	9.9	1.2	1.3	11.4	11.4	11.1	7.7	16.4
BBVA	BBVA SQ	EUR	5.1	5.5	7.9%	5.7	4.2	62.5	33.7	5.3%	5.3%	5.4%	7.7	7.8	7.8	0.7	0.8	9.1	8.5	8.1	5.8	11.6
Santander	SAN SQ	EUR	3.8	4.4	18.3%	4.7	3.4	56.9	62.4	5.5%	6.0%	6.2%	8.2	7.7	7.4	0.6	0.9	7.2	8.0	8.0	4.7	11.5
Bankia	BKIA SQ	EUR	1.9	1.9	-2.6%	2.7	1.5	64.7	5.9	6.6%	6.7%	5.7%	10.0	10.8	10.8	0.4	0.5	4.6	4.1	4.2	6.3	13.8
Bankinter	BKT SQ	EUR	6.6	6.7	1.5%	7.5	5.1	55.5	5.9	4.5%	4.5%	4.5%	11.2	11.4	11.2	1.2	1.3	11.7	11.0	10.5	5.5	11.8
Sabadell	SAB SQ	EUR	1.0	1.0	0.2%	1.1	0.7	54.9	5.9	5.2%	5.4%	6.0%	7.8	8.2	7.6	0.5	0.6	6.4	5.5	5.7	4.4	12.0
CaixaBank	CABK SQ	EUR	2.8	2.9	4.1%	3.4	2.0	60.5	16.9	4.9%	6.3%	6.3%	8.0	8.1	8.3	0.7	0.8	7.4	7.9	7.6	5.3	11.8
SEB	SEBA SS	SEK	88.4	98.5	11.4%	98.8	78.9	58.5	18.6	7.3%	7.6%	8.0%	10.0	9.8	9.5	1.3	1.4	12.8	12.9	12.8	5.5	17.6
Handelsbanken	SHBA SS	SEK	101.7	98.5	-3.1%	107.4	82.0	66.2	19.3	5.5%	5.8%	6.2%	12.2	11.9	11.4	1.3	1.4	11.1	10.7	10.6	4.4	16.8
Swedbank	SWEDA SS	SEK	138.8	160.3	15.5%	214.8	120.8	71.8	15.0	6.2%	5.8%	6.5%	8.0	8.3	8.0	1.2	1.3	14.1	13.6	13.1	5.4	16.3
Nordea	NDA SS	SEK	76.7	76.5	-0.3%	87.3	57.2	78.6	29.7	0.5%	0.6%	0.7%	131.0	112.2	106.6	1.0	1.1	6.4	8.8	9.1	5.1	15.5
Julious Baer	BAER SW	CHF	50.4	48.8	-3.1%	50.7	32.4	73.4	10.4	3.1%	3.3%	3.6%	14.2	12.2	11.3	1.9	3.6	11.6	13.6	15.1	3.1	12.8
Credit Suisse	CSGN SW	CHF	13.1	14.6	11.3%	13.9	10.2	50.6	30.7	2.2%	2.3%	2.4%	10.7	8.7	7.8	0.7	0.8	7.1	7.9	8.1	5.1	12.6
UBS	UBSG SW	CHF	12.2	13.4	9.6%	13.1	9.9	57.9	43.5	6.0%	6.4%	6.7%	10.2	9.6	8.8	0.8	0.9	8.0	8.3	8.9	4.9	12.9
Median					**5.7%**			**60.3**		**5.1%**	**5.3%**	**5.6%**	**9.6**	**9.0**	**8.4**	**0.7**	**0.8**	**7.9**	**7.9**	**8.1**	**5.3**	**13.6**

Source: Bloomberg

APPENDIX

Table 3. Calendar

Date	Region	Section	Event	Period
3-Jan	US	Macro	Construction Spending	Nov
3-Jan	US	Macro	ISM Manufacturing	Dec
3-Jan	US	Macro	FOMC Meeting Minutes	Dec 11
6-Jan	EU	Macro	PPI	Nov
7-Jan	EU	Macro	Retail Sales	Nov
7-Jan	EU	Macro	CPI	Dec
7-Jan	US	Macro	Factory Orders and Durable Goods	Nov
8-Jan	US	Macro	ADP Employment Change	Dec
8-Jan	US	Macro	Consumer Credit	Nov
9-Jan	EU	Macro	Unemployment Rate	Nov
10-Jan	US	Macro	Employment Report	Dec
14-Jan	**US**	**Corporate**	**Citigroup. Earnings Announcement**	**4Q19**
14-Jan	**US**	**Corporate**	**JPMorgan Chase. Earnings Announcement**	**4Q19**
14-Jan	**US**	**Corporate**	**Wells Fargo. Earnings Announcement**	**4Q19**
14-Jan	US	Macro	CPI	Dec
15-Jan	EU	Macro	Industrial Production	Nov
15-Jan	US	Corporate	Bank of America. Earnings Announcement	4Q19
15-Jan	US	Corporate	Goldman Sachs. Earnings Announcement	4Q19
15-Jan	US	Macro	PPI	Dec
15-Jan	US	Macro	Empire Manufacturing	Jan
16-Jan	US	Macro	Retail Sales	Dec
16-Jan	US	Macro	NAHB Housing Market Index	Jan
17-Jan	US	Macro	Housing Starts and Building Permits	Dec
17-Jan	US	Macro	Industrial Production and Capacity Utilization	Dec
17-Jan	US	Macro	U. of Mich. Sentiment	Jan
21-Jan	EU	Corporate	UBS Group. Earnings Announcement	FY19
22-Jan	US	Macro	FHFA House Price Index	Nov
22-Jan	US	Macro	Existing Home Sales	Dec
23-Jan	**EU**	**Macro**	**ECB Main Refinancing Rate**	**Jan 23**
23-Jan	EU	Macro	Consumer Confidence	Jan
23-Jan	US	Macro	Leading Index	Dec
24-Jan	EU	Macro	Markit Eurozone Manufacturing, Services and	Jan
24-Jan	US	Macro	Markit US Manufacturing, Services and Composite	Jan
27-Jan	US	Macro	New Home Sales	Dec
28-Jan	US	Macro	Conf. Board Consumer Confidence	Jan
29-Jan	US	Macro	Pending Home Sales	Dec
29-Jan	**US**	**Macro**	**FOMC Rate Decision**	**Jan 29**
30-Jan	EU	Corporate	Deutsche Bank. Earnings Announcement	FY19
30-Jan	EU	Macro	Economic and Business Confidence	Jan
30-Jan	EU	Macro	Unemployment Rate	Dec
30-Jan	**US**	**Macro**	**GDP**	**4Q**
31-Jan	**EU**	**Macro**	**GDP**	**4Q**
31-Jan	US	Macro	Personal Income and Spending	Dec