BANKING SECTOR REPORT – June 2022

EXECUTIVE SUMMARY

US banks underperformed the broad market significantly in June 2022, for the third time over the last four months. BKX index ended just two months in the green in the first half of 2022. Thus, BKX index tumbled by 13.3% MoM vs -8.4% MoM of SPX index. Absolute June 2022 performance was -2.0 std from the mean monthly performance, and it was the 9th worst absolute monthly performance in the index history. Relative June 2022 performance was -5.4% MoM. It is -1.1 std from the mean monthly performance, and it is in the bottom 9% of relative performance vs SPX index since its inception. Despite a skyrocketing growth of rates, US banks underperformed the broad market significantly since mid-February 2022 as a result of much higher uncertainty and a growth of the recession risks.

US banks' dynamics were roughly uniform with negative dynamics for all our group of banks in June 2022. The worst performers were consumer finance companies, the operating results of which the recession will have the most negative impact. Thus, SYF lost more than 25% MoM in June. In turn, the best performer of the month, FHN, lost “just” 4.2% MoM.

The earnings season of US banks will start on July 14th, 2022, when 2Q22 results will be provided by JP Morgan (in fairness, the FRC, which reports on July 13th, starts the first). After that, all members of BKX index will provide quarterly results within roughly 2 weeks. Despite mixed 1Q22 results, growing recession risks and very fast monetary tightening, we expect that 2Q22 and 2H22 operating figures will be quite strong as a result of a substantial growth of NIM/NII due to solid loan dynamics across all key segments and a skyrocketing growth of the rates, both ST and LT. On the other hand, fee income is expected to be relatively weak across the majority of key lines. Nonetheless, revenue dynamics will remain quite strong as NII growth will overshadow poor dynamics of fee income. So, operating leverage will continue improving in the coming quarters due to roughly flat OpEx dynamics, and it will be positive again in 2Q22 for the first time over the last 8 quarters. Despite the process of releasing reserves has already ended, asset quality will remain quite strong (NCO ratios are still much lower vs historical averages) in the nearest quarters, without having any significant negative impact on the bottom line. In other words, the positive EPS momentum, which began in 3Q20, remains, and estimates could continue to be revised up in the near future even taking into account an almost inevitable recession in the next 1.5 years. Nonetheless, despite median 2Q22 EPS growth of BKX index members is positive both ytd and qtd, estimates of a number of banks still demonstrated negative dynamics. Thus, according to Bloomberg consensus, a median growth of 2Q22 EPS of our group of banks was +2.4% ytd, or +1.9% qtd. 2Q22 EPS estimates dynamics were negative on ytd basis for 8 out of 24 banks from our group of banks. In turn, full-year estimates for both current and next year were revised up on ytd, and they were much higher vs the end of 2020. A median growth of EPS 2022/2023 of US banks was +4.5%/+5.8% ytd, respectively, or +24.3%/+6.1% vs the end of 2020. 2Q22 revenue estimates increased by 3.1% ytd or +1.3% qtd.

Rate expectations continue going up but the growth slowed down in 2Q22, even despite the much more hawkish Fed and the first 75 bps hike since 1994, which occurred in June 2022. Moreover, current dot plot implies that the fed funds rate will be 3.4% at the end of 2022 (vs just 1.9% implied in March 2022), much higher than a longer run rate. Unsurprisingly, NIM/NII estimates continue going up. According to Bloomberg, median NIM of our group of banks in 2Q22 is expected to be +11 bps qoq and even +3.5 bps yoy at 2.51% in 2Q22, the first yoy growth over the last 14 quarters. Also, it is expected

that NIM 2022E will increase by 16 bps yoy. Median NIM growth was +16.7 bps, or +25.7 bps ytd, for 2022 and 2023 years, respectively. A median growth of 2Q22 NII was +8.4% ytd, or +4.3% qtd, as of the end of June 2022. The loans growth remains a tailwind. According to the Fed data, total loans portfolio increased by 3.1% qtd, or +9.7% yoy, (as of June 15, 2022). Assets quality is still quite strong. According to the forecasts compiled by Bloomberg, total provisions of our group of banks will be just $5.4 Bn in 2Q22 or approximately ¾ of total reserves in pre-pandemic quarters. According to 2022 DFAST stress test results, all banks (34 of the largest US banks) passed the exam, which suggests that the banks have sufficient capital to absorb losses even under the severely adverse scenario.

Revenue environment for US banks improved meaningfully in 2022. Nonetheless, banks won't manage to avoid a decline of EPS on a yoy basis in 2022 driven by normalization of the credit costs and necessity of tech investments as well as relatively weak dynamics of some fee categories such as mortgage and trading. Risks of recession have increased substantially in recent months, which inevitably affected the dynamics of bank quotes. So, banks look quite cheap again both vs historical averages and vs SPX. Thus, banks are trading at -2.4/-2.2 std on P/E CY (as of June 30, 2022), or at -2.7/-2.4 std on P/E NY (on the basis of samples from 2000 and 2010 years to current moment) relative to historical averages. As for relative to S&P 500, banks are currently trading at -1.4 std and -1.7 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively. On P/B, banks are trading at +0.1 std from the sample mean (2010-current moment) vs +1.1 std for SPX index.

EU banks decreased on both an absolute basis and a relative basis in June 2022, the fourth month of underperformance over the last five. Thus, on an absolute basis, SX7P decreased by 9.8% MoM in June, or -1.2 std from the mean, and it is in the bottom 7% of absolute monthly performance of SX7P index. In turn, relative monthly performance was -1.8% MoM, or -0.4 std, and it was in the bottom 29% of relative monthly performance in SX7P index history. Nonetheless, EU banks continue outperforming the broad market slightly in 2022, despite a substantial growth of recession risks, after clearly strong 2021 year, when they added 34% (+9.6% on a relative basis). On the other hand, SX7P index underperformed in each of 2018-2020 years. So, the index is still 32.1% lower than it was at the end of 2017, underperforming STOXX 600 index by 35.1% over this period.

Dynamics of EU banks were relatively uniform with a substantial decline of the majority of EU banks in June 2022 as it was driven by market sell-off. Among the key underperformers were CS and DBK, which lost around 20% MoM. BKT and HSBC were the best performers in June, but they also added only 0.6% MoM and 0.5% MoM, respectively.

In spite of strong and improving fundamentals, at least so far, European banks' dynamics remain roughly flat after their substantial decline at the end of February and in early March. The drop was driven by much higher risks for the EU economy, because of the Russia's invasion of Ukraine, which would undoubtedly have a material impact on economic activity in the euro area through higher energy and other commodity prices, disruption of international commerce and noticeably higher inflation. Nonetheless, a median growth of FY22 NI of EU banks was +1.8% ytd (+10.8% vs the end of 2Q21), implying a median decline of 5.1% yoy. As of FY23 NI estimates, a median growth was +2.2% ytd (or +7.2% vs the end of 2Q21), implying a growth of +8.2% yoy. On the other hand, revenue estimates added 2.4% ytd for FY22 revenue, or +5.2% since the end of 2Q21. However, we still remain cautious about EU banks' prospects as we can't answer no to the key question about a possible recession in the EU in the near future with certainty. Moreover, EU banks don't look obviously cheap at the moment, even taking into account higher revenue/EPS projections ytd. Thus, a discount to historical averages is 28%, or -1.6 std, at the moment from mean P/E NY of SX7P index members (a sample from 2010 to the

present), but a discount to US peers (on median P/E NY of BKX index vs SX7P index) is 18% as of June 30, 2022 vs an average since 2010 of 21%, or even +0.4 std. A discount to the broad EU market is more than 42% vs an average of 30%, or -1.4 std. **So we still prefer US banks over EU financial institutions, but even with regard to US banks, we remain only cautiously optimistic because of recession risks growth.**

MARKET PERFORMANCE

US

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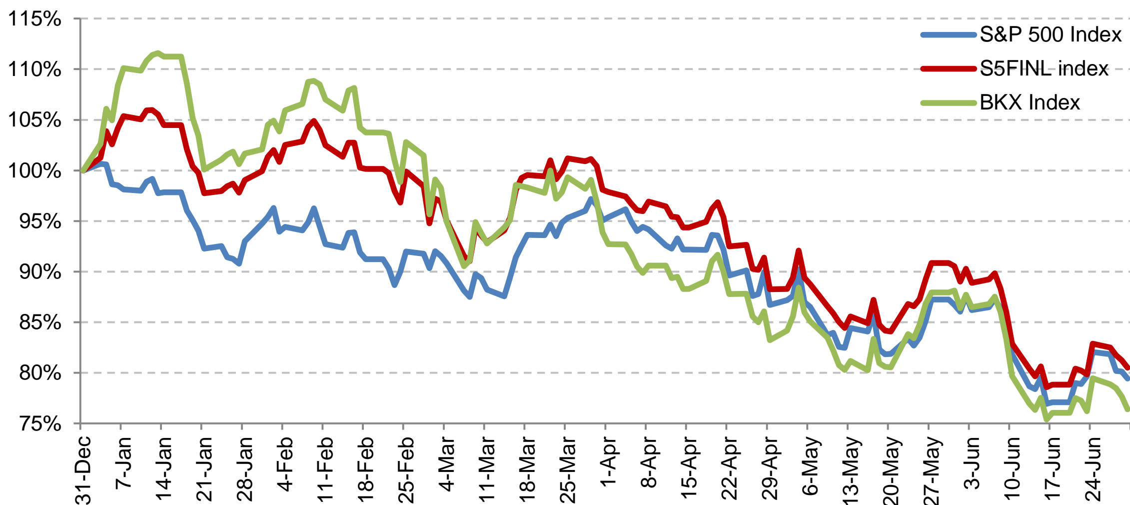
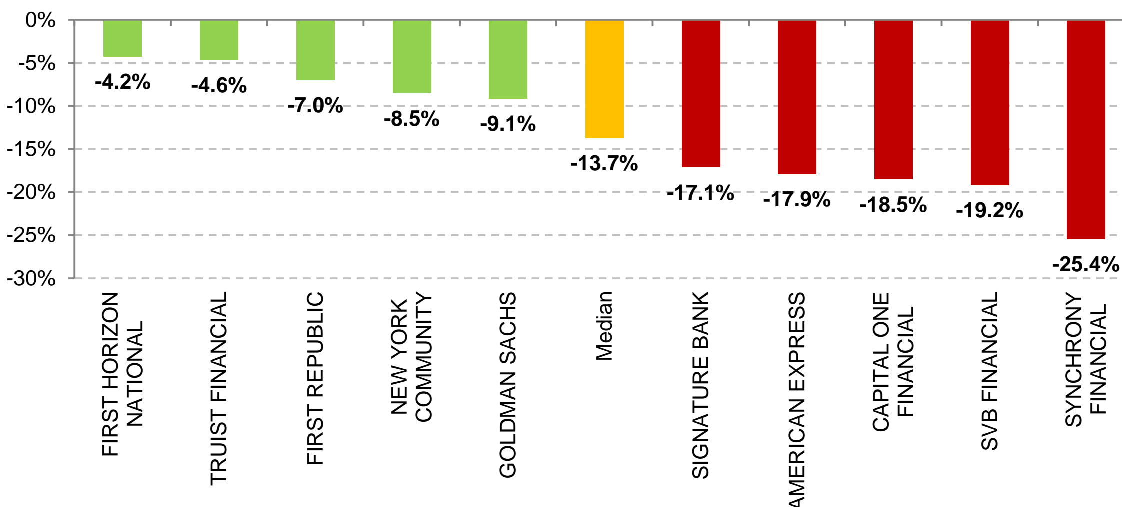
Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

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



Source: Bloomberg

Europe

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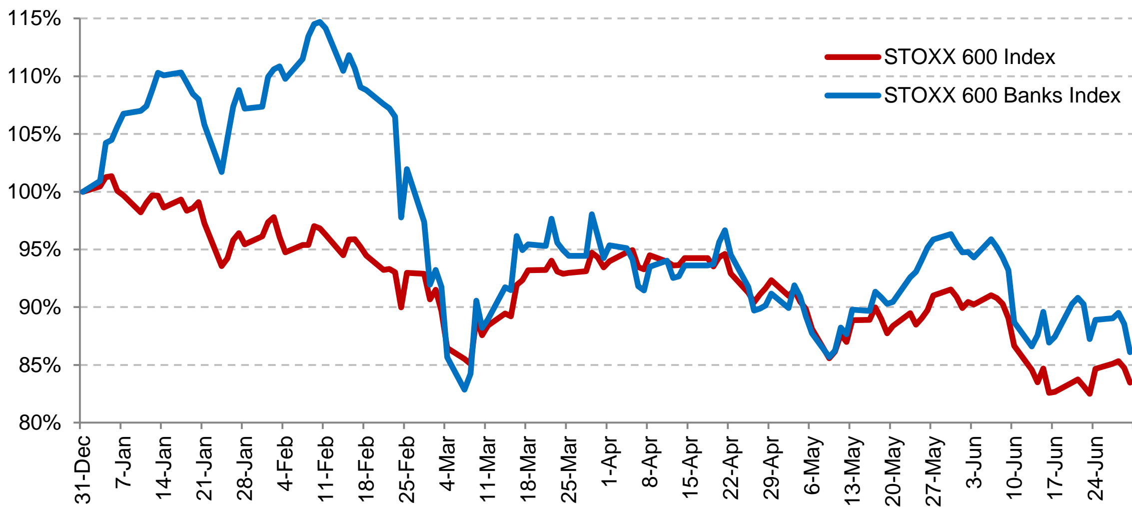
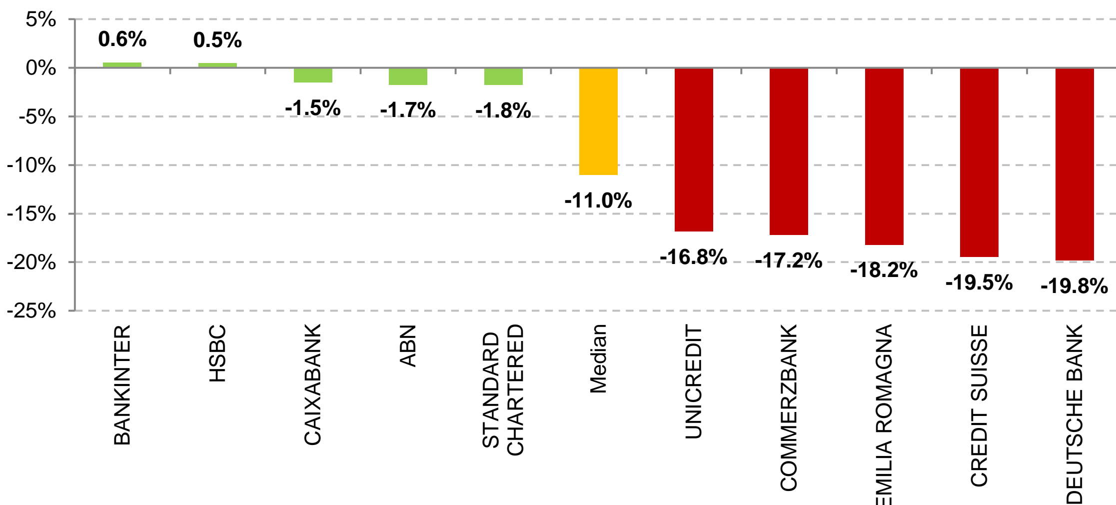
Chart 3. EU Banks Performance. SX7P Index vs STOXX 600 Index



Source: Bloomberg

Chart 4. June EU banks performance. Leaders and Laggards, 1Month Price Change,%



Source: Bloomberg

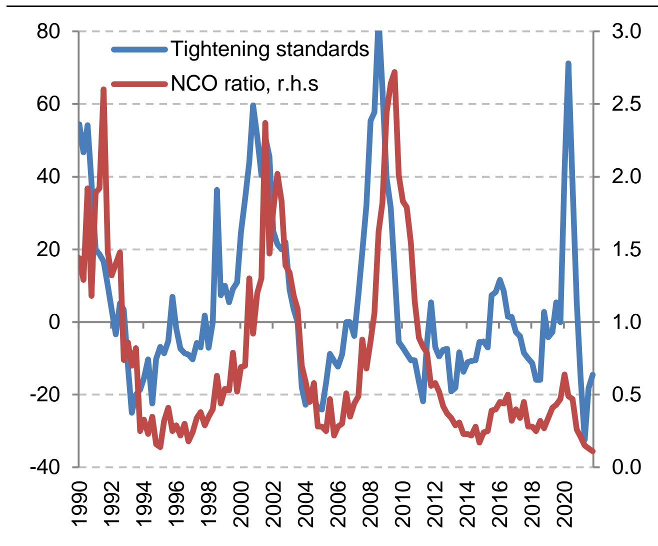
MACROECONOMIC NEWS

US

C&I loans

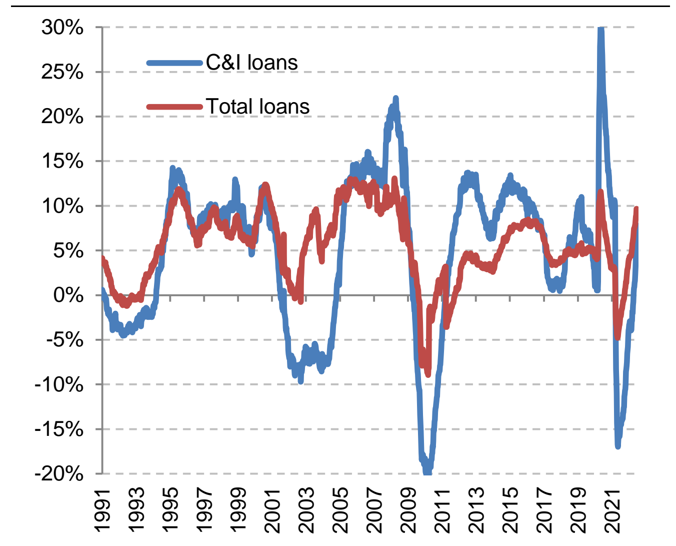
As we expected, the C&I loans growth on a yoy basis turned positive in May 2022 for the first time over more than a year, despite relatively weak dynamics in the first two months of the current year. It continues accelerating and it even demonstrated a double-digit annualized growth in 4Q21 and a mid-single-digit growth in 1Q22 after being negative on a qoq basis for 5 consecutive quarters. Banks expect that the C&I loan growth will continue speeding up in the near term, and the growth will be again double-digit in 2Q22 even despite ongoing supply-chain shortages, a negative impact of high commodity prices, decelerating of the global growth and a substantial growth of the key rates ytd. According to the Fed H.8 survey, C&I loans increased by 7.5% yoy (as of June 15, 2022) vs -15.8% yoy a year ago. On ytd basis, corporate loans increased by 6.8% vs +5.2% ytd of total loans. Nonetheless, it is still 13% lower vs the pandemic high.

Chart 5. C&I. Loan Standards vs NCOs, %



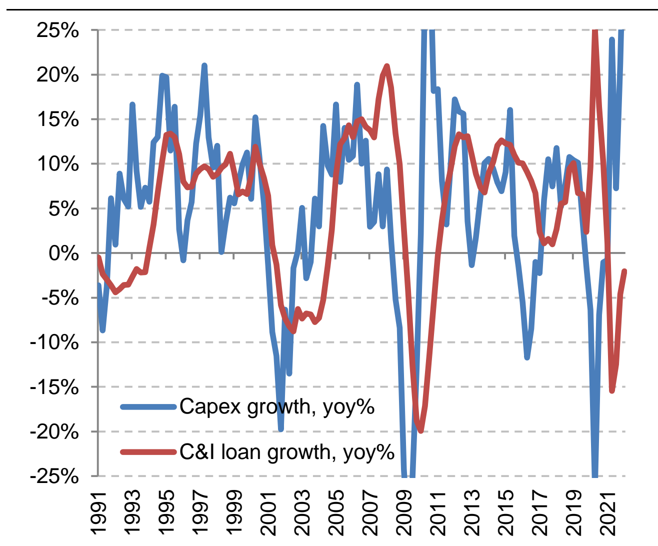
Source: Bloomberg

Chart 6. Loan Growth. C&I vs Total loans, YoY%



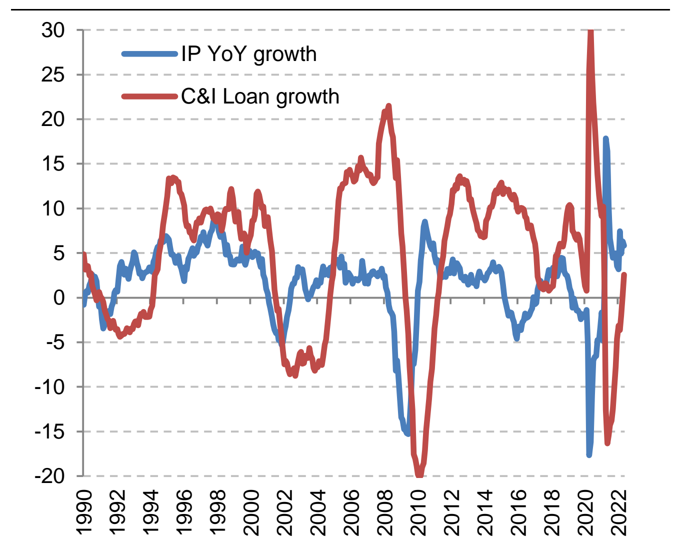
Source: Bloomberg

Chart 7. C&I. Loan Growth vs CAPEX



Source: Bloomberg

Chart 8. C&I. Ind. Production vs Loan Growth YoY%



Source: Bloomberg

The financial health of the US corporate sector was strong even during the first wave of the pandemic, which was accompanied by very tough lockdowns. The key drivers of the strong health of the US corporate sector were various government support measures. So, credit indicators looked pretty resilient in 2020 and 2021, despite a significant decline of GDP in 1H20. At the moment, C&I credit quality remains quite strong, but some indicators deteriorated recently, despite an ongoing relatively strong GDP growth. It does not carry significant risks for banks, at least at the moment, but we expect further normalization of the NCO/NPL ratios in coming years even if the GDP growth remains healthy. At least, banks have already stopped easing lending standards (for the first time over the last 5 quarters) and releasing corporate reserves. A skyrocketing growth of rates will inevitably have a negative impact on a corporate credit quality, but we don't expect that the deterioration will be significant, unless the recession occurs. Although the corporate debt is at an all-time high, the majority of the debt is long-term and at low rates, so an impact of rates growth on the interest coverage ratios will be manageable and gradual. So, we expect that the ratio will remain above historical averages in coming years even in case of a faster growth of yields than it is expected at the moment.

Despite to concerns about deterioration of C&I credit quality during the first wave of the pandemic (and a total loan portfolio at all), it remains benign so far with much lower than historical averages both NCO's and NPL's ratios. Thus, according to the FDIC data, 30-89 delinquency ratios were relatively flat in 2Q20-3Q21. On the other hand, it increased by 12 bps yoy, but -6 bps qoq, to 0.39% in 1Q22. FDIC's NCO ratio decreased by 15 bps yoy, or -2 bps qoq, to just 0.11% in 1Q22, the lowest figure over decades. Noncurrent rate decreased by 0.5 bps qoq, or -22 bps yoy, to 0.68% in 1Q22, few bps lower than an average level of the pre-pandemic year. According to the Fed data, delinquency ratio decreased by 10 bps yoy, or -6 qoq, to 1.06% in 1Q22. In turn, NCO ratio decreased by 2 bps qoq, or -15 bps yoy, to just 0.11% in 1Q22, the lowest figure in the dataset.

Before the start of the pandemic, the financial health of the US corporate sector was solid even despite its relatively high leverage. Thus, ROA was high, quick ratios were sound while interest expense coverage ratios were strong, but deteriorating, as total profit of the sector was relatively flat in 2019. The situation changed considerably in March 2020 and it continued deteriorating in 2Q-3Q of 2020, even despite a relatively fast economic recovery after a significant drop of the economy during the first wave of the pandemic. Given the high leverage of the US corporate sector and an inevitable decline of revenues because of the deep recession in US in 1H20, accompanied by a skyrocketing growth of corporate spreads, especially for non-investment grade companies, there was a significant drop of interest coverage ratios in 1H20 even despite the fed funds rate was cut to zero. On the other hand, the situation has already improved significantly since then. Thus, median EBIT to interest expense ratio of companies from S&P 500 index (ex. Financials) increased from 5.4x at the end of 2Q20 to 11.1x at the end of 1Q22, being much higher than it was in 2019. The percent of companies with a ratio below 1 decreased below the pre-pandemic level in 3Q21, but it increased noticeably in the next two quarters, adding 0.3% qoq in absolute terms to 8.0% in 1Q22 vs 6.3% in 4Q19. It was the second consecutive quarter of growth after 6 quarters of decline in a row. On the other hand, Bloomberg Corporate Bankruptcy index continues going down. It declined to the lowest level in the index history (since 2000 year), to just 2.7 pts as of June 21, 2022, -68 pts yoy.

April 2022 Senior Loan Officer Opinion Survey indicated that C&I lending standards and terms were unchanged in 1Q22, after four consecutive quarters of easing. Nonetheless, "banks reportedly continued to ease some of the queried terms on C&I loans to firms of all sizes". The key reason for easing standards is still high competition from other banks or nonbank lenders. Also, banks are still ready to ease standards as a result of "improvement in industry-specific problems, a more favorable or less uncertain economic outlook, and

improvement in their current or expected liquidity position as important reasons for easing lending standards and terms”. But it seems that these arguments have already lost their relevance given much higher uncertainty in recent months as a result of higher inflation, new lockdowns in China and a slowdown of the global growth. However, banks continue reporting a stronger demand for firms of the all sizes in 1Q22. So, banks noted again that inquiries from potential borrowers increased in the last quarter. The key drivers of stronger demand were “increased customer needs to finance inventory and accounts receivable, as well as higher customer investment in plant or equipment”. Recall, banks noted in 3Q21 SLOOS that current demand is weaker vs pre-pandemic levels. Despite banks expected few quarter ago that demand would continue improving in 2022, we are not so optimistic at the moment, especially with regard to demand in the second half of the year.

Macro data published in June 2022 were mixed as a result of quite high inflation, the hawkish Fed and growing risks of recession. Nonetheless, the majority of indicators remain quite strong but deteriorating slightly. Thus, ISM manufacturing index increased by 0.7 pts MoM to 56.1 pts in May 2022, markedly beating the consensus estimate of 54.5 pts. So, it is still on the expansion territory and remains higher than the average level of 2017-2019 years. Also, the employment report was again better than expected in May 2022. However, manufacturing payrolls increased just by 18K in May vs the consensus of +39K, after it went up by 61K in April (revised up from the initial estimate of +55K). In turn, total payrolls increased by 390K in May vs the consensus of +318K, after it increased by 436K in April (slightly up from the initial estimate of +428K). However, the employment is still lower than it was before the pandemic (as a number of people prefer to stay out of the labour force despite to a significant number of job openings). In any case, the labor market remains quite tight even despite the very fast monetary tightening. Unemployment rate was flat on MoM basis at 3.6% in May 2022 vs the consensus estimate of 3.5%. The current unemployment rate is just 10 bps higher than the trough of the last cycle, a more than 10 p.p. decline from the pandemic high. As a result of a significant growth of uncertainty in recent months, street GDP estimates continue going down. Thus, according to Bloomberg survey conducted in June 2022, GDP growth rates were estimated at +2.6%/+2.0%/+1.9% yoy for 2022/2023/2024, respectively, vs +3.6%/+2.3%/+2.1% in March 2022. Industrial production increased just by 0.2% MoM in May 2022 vs the consensus of +0.4% MoM, after it increased by 1.4% in April (revised up from the initial estimate of +1.1% MoM). So, it is already 4.3% higher than the February 2020 level. Capacity utilization increased by 0.1% MoM in absolute terms to 79% in May 2022 vs the consensus of 79.2%, remaining slightly above its pre-pandemic level. Empire manufacturing index increased by 10.4 pts to -1.2 pts in June 2022 vs the consensus of +2.3 pts, after a significant decline in May. Markit manufacturing PMI tumbled by 4.6 pts MoM to 52.4 pts in June 2022 vs the consensus of 56.0 pts. However, it was just the second decline over the last four months despite a much higher uncertainty and a growth of the interest rates. So, it is already 11 pts lower than 2020 high, but still 1.7 bps higher than the pre-pandemic levels. As a result of markedly better IP figures in the recent months, consensus IP growth forecast increased for 2022 year again, but the projection for 2023 deteriorated in June 2022, to +5.3%/+2.2%/+1.8% yoy for 2022/2023/2024, respectively, vs +5.1%/+2.5%/+1.8% yoy in May 2022.

CRE

A growth rate of commercial real estate loans wasn’t strong in the first half of 2021, despite an ongoing rebound of the sector and a significant acceleration of the economy, but it picked up the speed significantly in the recent months. Thus, according to the last Fed H8 weekly report, the CRE loan growth was +8.2% yoy (as of June 15, 2022) vs just +2.7% yoy one year ago. It added +2.0% qtd in 2Q22 vs +1.8% qoq in 1Q22 and +1.1% qoq in 2Q21. In spite of the significant deterioration of CRE fundamentals in 2Q20 and 3Q20, they improved significantly since then with an ongoing growth of absorption, lower vacancies,

and higher rent in the majority of the segments. Despite fundamentals in some segments don't look significantly better vs pre-pandemic figures, the overall state of the sector looks much better, which is also reflected in a very high price growth and significant sales volumes, even despite a skyrocketing growth in rates ytd. So, even taking into account some deceleration of the prices growth, credit quality will remain strong in the coming quarters. On the other hand, the loan growth will inevitably decelerate in the near term, taking into account the speed of monetary tightening and the skyrocketing prices growth. Nonetheless, CRE demand remains quite strong (at least at the moment), given the very tight labor market and an ongoing but decelerating GDP growth. Moreover, CRE is a good inflation hedge, which should also have a positive impact on demand in the segment. So, we expect that price dynamics will remain relatively strong but decelerating from very high growth rates in the beginning of the year.

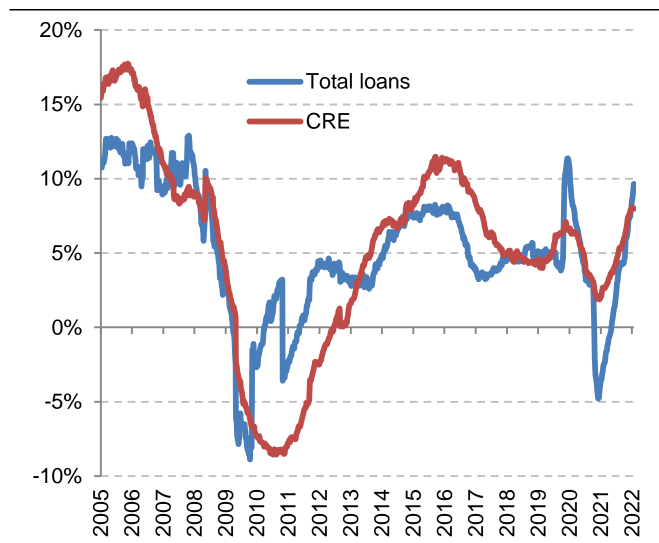
The majority of the REIT segments outperformed SPX index considerably in 2021. Thus, REITs index outperformed SPX index by 10% in 2021, but it was roughly in-line in 2022: -20.7% ytd vs -20.6% ytd of SPX index. However, BBREIT index is 7.8% lower than its pre-pandemic high, while SPX index is 11.6% higher as compared to its pre-pandemic levels.

The credit quality remains strong in the CRE segment so far despite early signs of deterioration were seen in 2H20. Notwithstanding, it improved in 1H21 and the majority of the indicators are near their pre-pandemic levels, being near 0% at the moment. According to the Fed data, CRE NCO ratio decreased by 1 bps qoq, or -5 bps yoy, to just 0.01% in 1Q22, while delinquency ratio went down by 26 bps qoq, but +21 bps yoy, to 0.78%, near the lowest figure over two years. According to the FDIC data, NCO ratio for commercial mortgage decreased by 5.7 bps qoq, or -3.6 bps yoy, to 0.01% in 1Q22. NCO ratio of construction and development loans decreased by 0.8 bps qoq, or -4.6 bps yoy, to -0.02%, while NCO ratio of multifamily loans went down by 1.7 bps both qoq and yoy to just 0.0% in 1Q22. So, NCO ratios of all CRE subsegments remain markedly below comparing to the average level of the two last cycles. Also, non-current rates decreased in all major segments both on yoy and qoq bases. Thus, commercial mortgage noncurrent ratio was 0.66% in 1Q22, -31 bps yoy; construction one was 0.42%, -30 bps yoy; multifamily noncurrent ratio was 0.22%, -2.6 bps yoy. As for leading indicator of future credit quality, 30-89 days delinquency ratio improved markedly in four recent quarters, but it deteriorated slightly in 4Q21 and 1Q22. However, it remained lower vs pre-pandemic levels for all segments, except for multifamily loans, which was in-line. The figure of commercial mortgage decreased by 2.4 bps yoy, but +5.5 bps qoq, to 0.24%; in construction it was +1.6 bps qoq, but -3.3 bps yoy, at 0.36%; in multifamily it was +0.1 bps qoq, but -2.9 bps yoy, at 0.14%. Given the current growth rate of prices among all key CRE segments and elevated deal activity, we don't expect any significant deterioration of CRE credit quality, even taking into account an ongoing pressure on fundamentals in some segments and geographies as well as the expected substantial rates growth. The percent of rent collections remains very high in almost all segments, while lending standards were quite tight during the last credit cycle. Banks remain conservative about the CRE loan growth in the near term, but lending standards were slightly eased again in 1Q22, for the fourth consecutive quarter.

Transaction volumes were quite strong in 2H21 and in the first two months of the current year, but recent data indicated that volumes have already begun to react to negative external conditions, however remaining higher vs pre-pandemic levels. The skyrocketing rates growth ytd and a much higher macro uncertainty because of very high inflation and consequences of Russia's invasion of Ukraine could not but affect the deal activity in CRE. Nonetheless, volumes still remain elevated and exceeded their pre-pandemic levels. According to Urban Land Institute's survey, the volume of US CRE deals could reach $800 Bn in 2022 vs $846 Bn in 2021 (the record year in history). As for the MBA data, "the level of commercial/multifamily mortgage debt outstanding increased by $74.2 billion (1.8

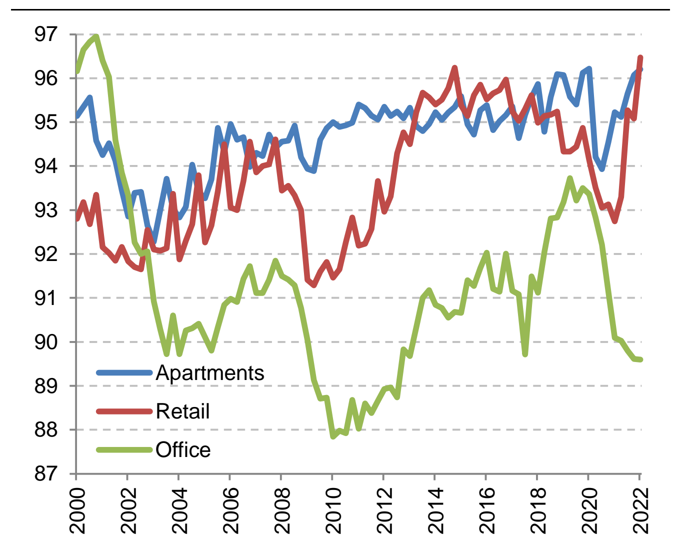
percent) in the first quarter of 2022. Total commercial/multifamily mortgage debt outstanding rose to $4.25 trillion at the end of the first quarter. Multifamily mortgage debt alone increased $37.4 billion (2.1 percent) to $1.8 trillion from the fourth quarter of 2021" vs $287 Bn and $42.1 Bn for CRE and multifamily in 4Q21. Despite fundamentals of the most suffered segments such as NY apartments still remain below pre-pandemic levels (but improving fast), the majority of other segments continue their rapid rebound while prices of all major segments demonstrated all-time highs in January-February of 2022, but the composite CRE price index decreased on a MoM basis in March 2022 for the first time over the last 21 months. Moreover, May 2022 was the fifth consecutive month of decelerating price growth. Nevertheless, the index itself still continues to grow. Thus, retail CRE price index increased by 18.8% yoy in May 2022 vs just +5% yoy one year ago. The growth of industrial CRE prices accelerated to +28.6% yoy in May 2022 vs +13.7% yoy in May 2021, the 19th month in a row of a double-digit yoy price growth. The growth rate of office prices accelerated to +12.2% yoy from +7.3% yoy one year ago. The apartments price index added +23.3% yoy in May 2022 vs +11.4% yoy a year ago. So, the all-property CRE index increased by 18.6% yoy in May 2022 (+10.7% yoy one year ago), vs +19.3% in January 2022, which was the fastest growth rate since the index inception (for more than 20 years).

Chart 9. Loan Growth. CRE vs Total Loans, YoY, %



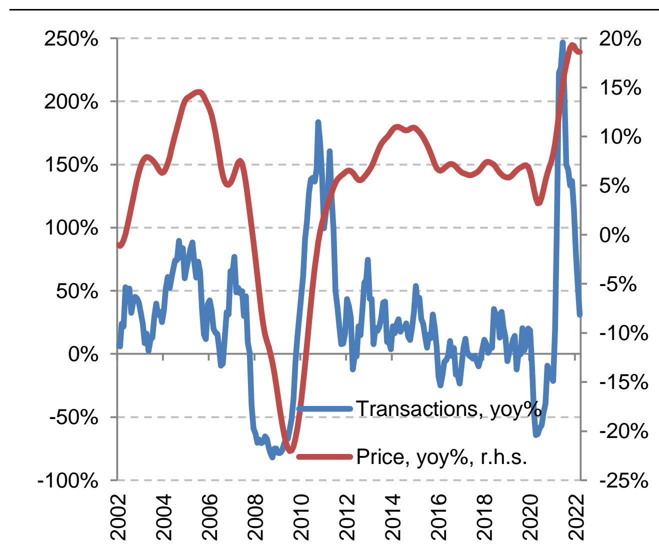
Source: Bloomberg

Chart 10. CRE. Occupancy rates, %



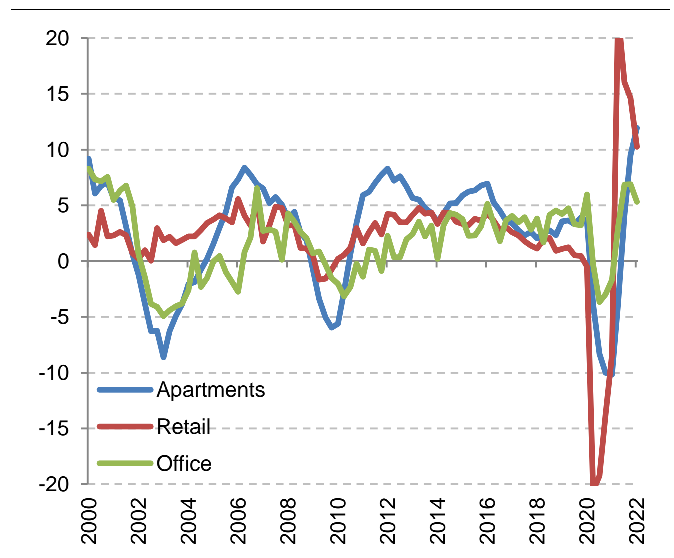
Source: Bloomberg

Chart 11. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

Chart 12. CRE. Same-Store NOI Growth, %



Source: Bloomberg

Despite the fast recovery of CRE prices, the fundamentals are noticeably lagging behind this growth, but also improving very fast in recent quarters. Thus, retail same-store NOI tumbled by more than 20% yoy in 2Q20 and by 19% yoy in 3Q20, but it was +16% yoy in 3Q21, +15% yoy in 4Q21 and +10% yoy in 1Q22, the fourth consecutive quarter of a double-digit growth after five quarters of decline in a row. Office NOI increased by 5.3% yoy in 1Q22 vs +6.9% yoy both in 4Q21 in 3Q21, the fourth consecutive quarter of growth after a decline during the same long period. Office NOI growth in 3Q21 and 4Q21 was the fastest one over more than 20 years. Apartments NOI increased by 11.9% yoy in 1Q22 vs +4.1% yoy in 3Q21 and +9.5% yoy in 4Q21, the third quarter of growth over the last 7 and the fastest growth rate over more than 20 years. Occupancy rates also declined substantially across all major segments, except for industrial CRE, in 2Q20/3Q20, but they increased for all major segments on a qoq basis in recent quarters, and they were already above their pre-pandemic levels for all segments, except for offices, in 1Q22. Also, net absorptions increased meaningfully in recent quarters, but the figures of 1Q22 remained much below their pre-pandemic levels for all major CRE segments. In turn, despite the rent growth continued in 1Q22, effective rent is still lower than it was in 2H19 for offices and retail but much higher for apartments and industrial CRE.

In 2Q21, banks stopped tightening standards for CRE loans in all major CRE segments for the first time in years, and banks continue easing standards in 1Q22, though not in all segments. Thus, standards for multifamily loans were eased again while standards for construction and commercial real estate loans secured by nonfarm nonresidential properties were roughly unchanged. It is quite consistent with the demand picture. Thus, banks noted higher demand for multifamily loans while demand for other CRE categories was roughly unchanged. In turn, foreign banks noted tighter standards but stronger demand. The growth of competition is the key reason for easing standards. Also, banks noted that “more favorable or less uncertain outlooks for CRE property prices, market rates, and vacancy rates” are important reasons for easing standards.

Mortgage

The growth rate of mortgage loans decelerated markedly in 2H20-1H21, and it turned negative on a yoy basis in early December 2020, even despite to a significant growth of housing sales and high origination/refinancing activity. The weak growth of mortgage loans on banks’ balances was driven by the active resale of mortgage loans due to a very high primary-secondary spread and elevated prepayments. But the situation changed significantly in the recent quarters. Thus, the mortgage loan growth accelerated substantially in 2H21, and the loan growth continues going up. According to H8 data, mortgage loans increased by 8.6% yoy (as of June 15, 2022) vs +5.3% yoy at the end of 2019 and -0.7% yoy at the end of 2020. Nonetheless, overall mortgage activity decreased meaningfully ytd, and it continues going down, having already declined below the pre-pandemic levels, especially in refinancing activity. And we expect that mortgage activity will continue declining in coming quarters, driven by a substantial growth of the housing prices and noticeably higher mortgage rates, which have already exceeded 5% for 30yr fixed mortgage loans.

Mortgage credit availability index was roughly flat in the last 23 months, fluctuating in the range of 119-130 pts. Thus, it decreased by 0.9 pts MoM, or -9.9 pts yoy, to 120 pts in May 2022, remaining approximately 60 pts below the average level of 2018-2019 years, implying that lending standards remain very tight. Moreover, affordability ratios have already declined meaningfully from the cycle high and it continues declining very fast, having already reached a 16-year low. Thus, NAR affordability ratio tumbled by 15 pts MoM, or -55.2 pts yoy, to 109.2 pts in April 2022. Despite the current level of affordability ratios isn’t still low from the historical averages point of view (already roughly in-line with the

average level of 1990-2008), as well as household debt burden isn't either, payment as a percent of income increased meaningfully in 2021 and 2022 ytd and continue going up, from 13.3% in January 2021 to 22.9% in April 2022. According to the MBA, "the national median mortgage payment applied for by applicants was $1,889 in April", +8.8% MoM or +43.1% yoy. Given current housing prices and mortgage rates dynamics, affordability will continue deteriorating in the rest of 2022.

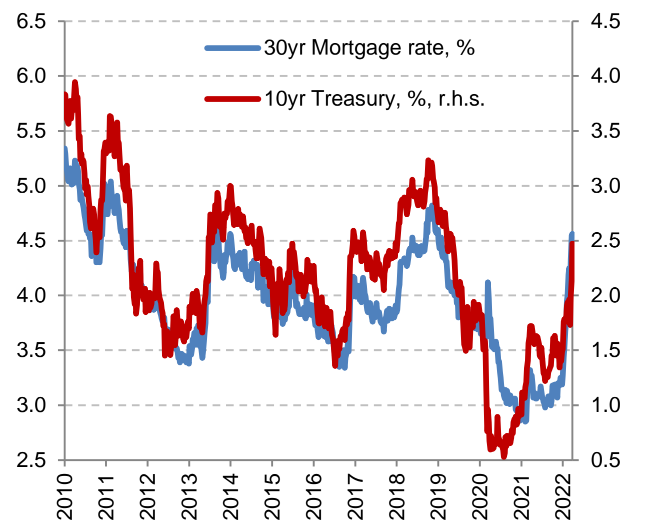
So, mortgage demand continues deteriorating very fast, despite banks still continue easing loan standards. Thus, mortgage application indices have already returned to mid-2019 levels. Nonetheless, we don't expect that it could lead to any problems with credit quality in the foreseeable future, given an ongoing growth of the economy, weak homes inventories, and a very high price growth in recent months. Lending standards during the last credit cycle were quite tight (the majority of borrowers have very high credit score while the share of subprime borrowers is just around 5%), while the housing market looks healthy with no obvious imbalances (except for a skyrocketing growth of home prices in recent months) as it was just before the GFC, when it was a key engine of economic contraction. Unsurprisingly, mortgage NCO remained around 0% during all period of the pandemic (vs the high of GFC of 2.47% in 4Q09). We expect that it will continue hovering around 0% in coming years, given the pace of the economic recovery and ongoing improvement of the labor market. At least, the rent payments improved noticeably in recent quarters. According to MBA's RIHA data, "five million households did not make their rent or mortgage payments in December, and 2.3 million renters and 1.2 million mortgagors said they feel they are at risk of eviction or foreclosure, or would be forced to move in the next 30 days, down from approximately 6 million households who missed payments in September 2021 (8.4% of renters and 7.0% of mortgagors)".

Despite a number of weak employment reports in 2H21, the overall employment situation remains quite strong and continues improving. So, the labor market is near the full employment at the moment. Thus, opening vacancies are more than 50% above the pre-pandemic level, while the unemployment ratio is already near a minimum of the last cycle. It was added 390K jobs in May 2022 vs the consensus of 318K, while the March figure was revised slightly up, from the initial estimate of 428K to 436K. Despite the overall employment still remains below its pre-pandemic level, it is significantly better than it was expected at the end of 2020. At least, jobless claims decreased to the lowest level since 1969 in February and March, falling below 200K. Nonetheless, overall median forecasts of average monthly payrolls for 2022-2024 years were roughly flat in June 2022, being at +355K/+139K/+112K vs +350K/+148K/+107K in May 2022. Unemployment rate was flat MoM at 3.6% in May 2022 vs the consensus of 3.5%. So, it is more than -11 p.p. from the April 2020 peak and just +0.1 p.p. from its pre-pandemic level. On the other hand, underemployment rate increased by 10 bps MoM to 7.1% in May 2022, the third growth over the last 4 months. However, unemployment projections were almost flat MoM in recent months, at 3.6%/3.6%/3.8% for 2022/2023/2024 years in June 2022. Despite to a significant growth of unemployment in April 2020, the negative impact of this factor on the quality of mortgage portfolio was restricted due to forbearance programs and a positive impact of various fiscal stimuli. Moreover, the situation continues improving due to still solid growth of the economy. Thus, according to the MBA, "the total number of loans now in forbearance decreased by 9 basis points from 0.94% of servicers' portfolio volume in the prior month to 0.85% as of May 31, 2022". Around 450K homeowners are still in forbearance plans, -20K lower on a MoM basis. As for Fannie Mae and Freddie Mac data, a share of loans in forbearance declined by 5 bps MoM to 0.38%.

The mortgage credit quality remained very strong so far. According to the Fed data, NCO ratio in the segment was flat qoq, but +1 bps yoy, at -0.02% in 1Q22, while delinquency ratio decreased by 53 bps qoq, or -20 bps yoy, to 2.13%, the lowest figure since 1Q07.

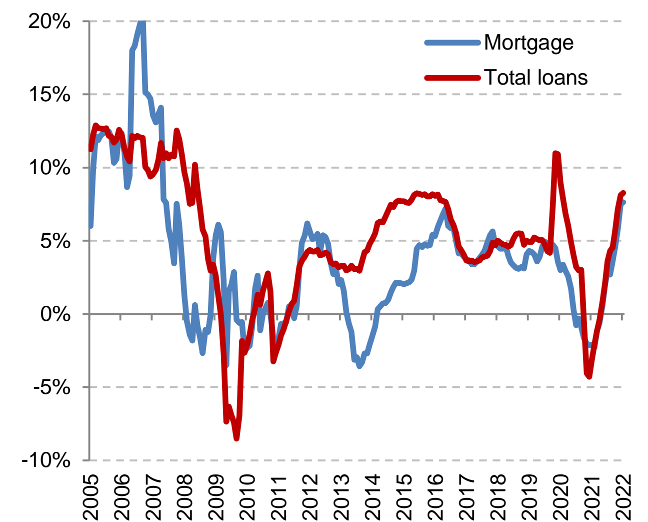
According to the FDIC, the quality of mortgage portfolio remains also very strong with NCO ratio at -0.02% in 1Q22, +0.7 bps yoy, but -0.5 bps qoq. 30-89 days delinquency ratio decreased by 15.9 bps yoy, or -8.8 bps qoq, to 0.57%. In turn, noncurrent ratio decreased by 62 bps yoy, or -20 bps qoq, to 1.84% in 1Q22, slightly higher vs the end of 2019. MBA's mortgage delinquencies ratio tumbled by 227 bps yoy to 4.11% in 1Q22, the 7th consecutive quarter of decline, after a 9-year high of 8.22% was shown in 2Q20. Nonetheless, it is still 34 bps higher than its all-time low, which was shown in 4Q19. In turn, foreclosures increased by 11 bps qoq, but -1 bps yoy, to 0.53%, the first time of growth over the last 40 months, but still near the lowest figure since 1981. According to NY Fed, "aggregate delinquency rates were unchanged in the first quarter of 2022 and remain very low, after declining sharply through the beginning of the pandemic. Delinquency rates have been low in part due to forbearances, which protect borrowers' credit records from the reporting of skipped or deferred payments. About 24,000 individuals had a new foreclosure notation added to their credit reports during the first quarter, compared to only 9,000 individuals in the fourth quarter of 2021, reflecting the partial resumption on new foreclosures. The share of mortgage balances 90+ days past due remained at 0.5%, a historic low".

Chart 13. Mortgage. 30yr Fixed Mrtg vs 10yr Tr yield, %



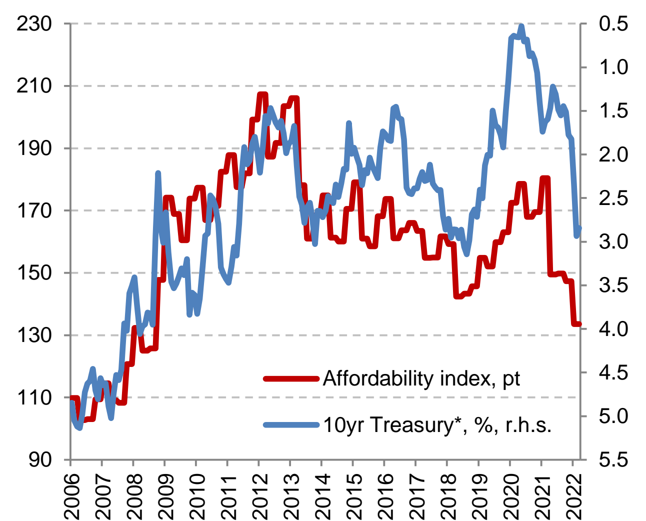
Source: Bloomberg

Chart 14. Loan Growth. Mrtg vs Total Loans, YoY, %



Source: Bloomberg

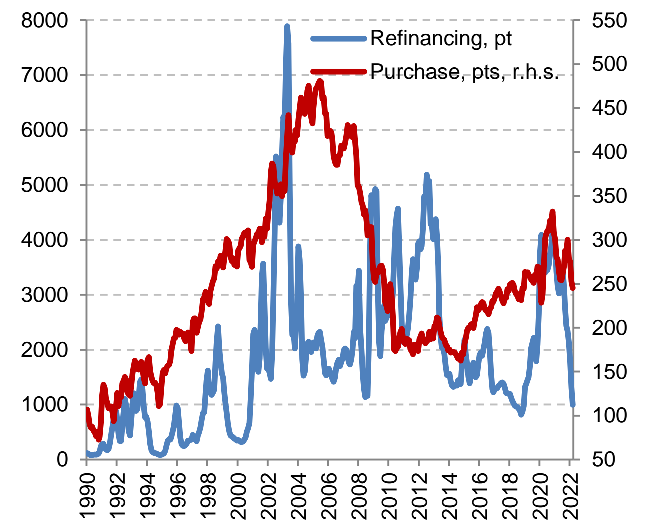
Chart 15. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 16. Mortgage. MBA Applications Indexes



Source: Bloomberg

Lending standards for the most mortgage segments were eased again in 1Q22, the fourth consecutive quarter of easing after it was unchanged in 4Q20, following three consecutive quarters of tightening. Despite the still quite strong labor market, an ongoing economic growth and banks' expectations in 1Q22 that the standards would continue easing, we don't expect things to happen that way. According to NY Fed 1Q22 report on HH debt and credit, "mortgage originations, measured as appearances of new mortgages on consumer credit reports and which include refinances, were at $859 billion in 2022Q1. This represented a decrease from the high volumes seen during 2021, but still was $197 billion higher than the volume seen in 2020Q1, just before the pandemic hit". "The median credit score of newly originated mortgages declined again, to 776, down from a series high in 2021Q1 of 788. Yet, credit scores on newly originated mortgages remain very high and reflect continuing high lending standards".

On the other hand, banks noted that mortgage demand was weaker again in 1Q22, the third consecutive quarter of weaker demand after 9 quarters of strengthening in a row. Thus, the only segment with higher demand was HELOCs. Moreover, it was noted in the previous SLOOS report that "a significant net share of banks expected demand for RRE loans – both GSE-eligible and nonconforming jumbo mortgages – to weaken". Given a skyrocketing rates growth in the last six months, we also don't expect a strong mortgage growth in the nearest quarters.

Mortgage rates dynamics were weak in 2Q/3Q of 2021, but the growth resumed in 4Q21 and it accelerated significantly in 2022. So, rates are currently much higher on a yoy basis, having already reached a 12-year high, exceeding 5% for 30-yr fixed mortgage again, for the third month in a row. Thus, a monthly average rate of 30yr fixed mortgage increased by 36 bps MoM to 5.77% in June 2022. It is +265 bps yoy and it is the highest figure over more than 12 years. The key driver of the growth was strong dynamics of the long end as a result of noticeably higher inflation and the very hawkish Fed. Thus, average 10yr treasury yield increased by 24 bps MoM to 3.13% in June 2022 (+162 bps yoy), the highest rate over more than 10 years. Average 15yr fixed rate mortgage (national average, Bankrate.com) increased by 28 bps MoM to 4.98% in June 2022, the 10th consecutive month of growth, +258 bps yoy. In turn, 30-yr mortgage rate (effective rate, MBA) went up by 72 bps MTD to 6.2% (as of June 24, 2022), +273 bps ytd. It is also the highest rate since 4Q08.

Housing market indicators published in June 2022 were slightly worse than expected after noticeably weaker figures in May 2022. As a result of a skyrocketing growth of rates, the vast majority of housing and mortgage indicators continue deteriorating, but many of them still look pretty resilient, at least at the moment. NAHB index decreased by 2 pts MoM to 67 pts in June 2022, in-line with the consensus, but it is already 7 pts below its pre-pandemic levels. Construction spending increased just by 0.2% MoM in April 2022, noticeably missing the consensus of +0.5% MoM. Unsurprisingly, mortgage origination forecasts were revised markedly down again in June as a result of much higher rate expectations and weaker mortgage applications dynamics ytd. Thus, according to Fannie Mae's June 2022 housing forecast, total mortgage originations decreased by 3.3% MoM for 2022 year (-22.1% from December 2021 estimates) and -2.2% MoM for 2023 year (-29.2% from December 2021 estimates). Currently, it is expected that total originations will decrease by 41.7% yoy in 2022 and go down by 15.4% yoy in 2023. The key drivers of the total originations decline will be refinancing originations which were the key driver of a skyrocketing growth of the mortgage segment in 2020. According to MBA's forecast published in June 2022, total mortgage originations will decrease by 40% yoy in 2022 (-7.3% vs January 2022 forecast) driven by refinancing activity which are estimated to decrease by 69% yoy in 2022 (-25% yoy in 2023). Total originations are also expected to decline by 6% yoy in 2023 (-10.3% vs January forecast). Nonetheless, total mortgage debt outstanding is expected to go up by 6.8% yoy in 2022 and by 6.0% yoy in 2023.

Housing starts were 1549K in May 2022 vs the expectations of 1693K, -261K MoM vs the revised markedly up April figure, -22K vs pre-pandemic levels. Also, building permits missed expectations noticeably. Thus, May 2022 building permits were 1695K vs the estimate of 1778K, -128K MoM vs the revised slightly up April estimate. Existing home sales decreased again in May 2022, the fourth consecutive month of decline. Thus, it was just 5.41 mln vs the consensus of 5.40 mln, -0.19 mln MoM and -1.24 mln from the local high of January 2021. So, it has already returned to their pre-COVID levels, after 22 consecutive months of noticeably higher sales. Moreover, the median existing-home sales price exceeded $400K for the first time ever in May 2022. New home sales beat expectations significantly, +77K MoM to 696K in May 2022 vs the consensus of 590K. Moreover, the April figure was revised up from the initial estimate of 591K to 629K. So, it returned again to pre-pandemic levels, but it will be difficult to stay at that level given a significant decline of the affordability in recent months. FHFA house price index increased by 1.6% MoM in April 2022 vs the consensus of +1.4% MoM, the twenty-third month in a row of a growth above +0.9% MoM. It added 18.8% yoy – nearly the highest price growth rate on a yoy basis in the index history (at least since 1992). S&P CoreLogic home price index for 20 cities also increased meaningfully, adding 1.77% MoM in April 2022 vs the consensus of 1.9% MoM, and it was marked acceleration vs beginning of 2021. On a yoy basis, it was +21.2% vs the consensus of 21.1%. Existing home inventory still remains near the multi-year low.

Consumer

Consumer loans were the key driver of the total loan portfolio growth in 2021 (and it remains so far) after it demonstrated relatively weak dynamics in 2020. Given the much better labour market than it was feared one year ago, a still solid US GDP growth and the quite strong financial health of an average US consumer, it will remain strong in the near term, but we don't expect significant acceleration of the growth rate (conversely, a slight deceleration is more probable) as a result of gradual normalization of consumer spending after their skyrocketing growth in the previous quarters. According to the Fed H8 data, a growth rate of consumer loans was +12.2% yoy (through June 15, 2022) vs -4.4% yoy at the end of 2020. The credit card (CC) loans growth rate also accelerated meaningfully in recent months and it was +15.5% yoy (as of June 15, 2022) vs +4.9% yoy at the end of 2019, but -11.7% yoy at the end of 2020. On ytd basis, the CC loans have increased already by 8% as nominal consumer spending still remains strong. Net change of consumer credit was +$38.1 Bn in April 2022, slightly beating the consensus of +$35 Bn, the third consecutive month of record prints, much higher than historical averages (+$15.4 Bn monthly average in 2019). Other segments of consumer credit also accelerated markedly in recent months, adding +9.1% yoy (as of June 15, 2022) vs +5.0% yoy at the end of 2019, +3.6% ytd vs the total loans growth of +5.2% ytd. According to 1Q22 HH debt and credit survey by NY Fed, "aggregate household debt balances increased by $266 billion in the first quarter of 2022, a 1.7% rise from 2021Q4. Balances now stand at $15.84 trillion, $1.7 trillion higher than at the end of 2019, just before the COVID pandemic. Balances on home equity lines of credit (HELOC) were relatively flat and have been for the past 3 quarters, bucking a declining trend in place since 2016Q4; the outstanding HELOC balance stands at $317 billion. Credit card balances declined by $15 billion, a typical seasonal change. Credit cards balances had declined significantly in the first year of the pandemic and remain $86 billion lower than at the end of 2019. Auto loan balances increased by $11 billion in the first quarter. Student loan balances now stand at $1.59 trillion, and increased by $14 billion in the first quarter of 2022. In total, non-housing balances grew by $17 billion, boosted additionally by a $7 billion increase in other balances, which include consumer finance loans, retail cards, and unclassified loans".

Despite an unprecedented US GDP drop in 2Q20 and a skyrocketing growth of

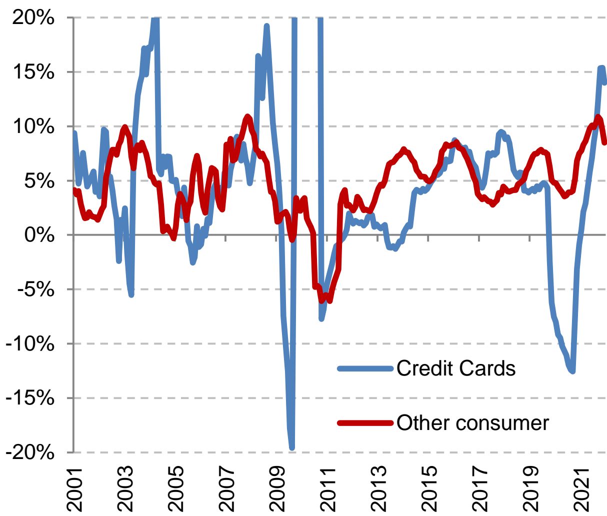
unemployment, the state of US consumers remained pretty resilient even in mid-2020 due to massive government support programs. Since that time, the financial health of the US Consumer improved significantly due to a much faster economic recovery than expected, which was accompanied by a fast decline of unemployment rate. And it will continue remaining quite strong in the nearest quarters even taking into account very high inflation and a skyrocketing growth of the rates. According to Bloomberg compiled estimates in June 2022, it is expected that US GDP will increase by 2.6% yoy in 2022, by 2.0% yoy in 2023 and by 1.9% yoy in 2024 (vs March 2022 estimates of +3.6%/+2.3%/2.1% yoy, respectively). As of unemployment, it was just 3.6% in of May 2022, though it was as high as 13% at the end of 2Q20. Nonetheless, it is possible that we could see some deterioration of the asset quality in the consumer segment after the fiscal cliff and the end of forbearance programs, especially taking into account a growing inflation pressure and higher recession risks. In any case, we expect some normalization of the NCO ratios in the consumer segment in coming years from the quite low current levels, but we don't expect that it will be higher than historical averages in any foreseeable future. Moreover, banks continued releasing reserves in the consumer segment in 1Q22, but we expect that it was the last quarter of the reserve releasing in the current credit cycle. Of course, low income/wage consumers still remains under pressure, especially taking into account a significant growth of inflation, but DSR and FOR of a median household (HH) is still markedly lower than historical averages.

According to the Fed data, total consumer NCO ratio went down by 50 bps yoy, but +1 bps qoq, to 0.95% in 1Q22. NCO ratio in the CC segment decreased by 113 bps yoy, but +25 bps qoq, to 1.82%, while NCO ratio of other consumer loans increased by 2 bps qoq, but +10 bps yoy, to 0.39%. In turn, consumer delinquency ratio decreased by 1 bps qoq, or -4 bps yoy, to 1.63%. CC delinquency ratio increased by 10 bps qoq, but -20 bps yoy, to 1.73% in 1Q22, while other consumer loans ratio went up by 5 bps qoq, or +3 bps yoy, to 1.57%. According to the FDIC, credit cards NCO ratio tumbled by 107 bps yoy, but +23 bps qoq, to 1.85% in 1Q22; in other consumer loans NCO ratio decreased by 10.8 bps yoy, but +4.1 bps qoq, to 0.44%; Auto NCO ratio also went down by 0.3 bps yoy, but +7.9 bps qoq, to 0.38%. NCO ratios of all segments are significantly below their pre-pandemic levels. Total consumer 30-89 delinquency ratios increased by 20.4 bps qoq, but -6.7 bps yoy, to 1.41% in 1Q22; 0.91% (+4.3 bps yoy) in credit cards; 1.06% (-16.6 bps yoy) in other consumer loans and 1.44% (+34.5 bps yoy) in Auto. Number of bankruptcy filings decreased slightly in 1Q22, 91K vs 94K in 4Q21, the lowest figure in history of the series (since 1999). According to May Master Trust data, average credit card NCO ratio continues to grow slowly on a MoM basis, but remain negative on a yoy basis, much lower than historical averages. Early-stage delinquency rate has stabilized in the recent quarters, remaining markedly lower on a yoy basis.

April 2022 SLOOS survey indicated that "moderate and modest net shares of banks eased standards for credit card and auto loans, respectively, while banks reported having left lending standards unchanged for other consumer loans. Consistent with an easing of standards for credit card loans, a moderate net share of banks also reported having eased credit limits and the extent to which loans are granted to some customers that do not meet credit scoring thresholds for these types of loans. Additionally, a modest net share of banks reported relaxing the minimum credit score requirements for credit card loans. Meanwhile, significant and modest net shares of banks reported having reduced spreads of interest rates and extended the maximum maturity for auto loans, respectively". According to NY Fed, "the median credit score on newly originated auto loans increased by 4 points but remains in line with the level seen since the pandemic began". Demand for all consumer categories was stronger in 1Q22, according to the SLOOS. On the other hand, according to NY Fed, "the number of credit inquiries within the past six months – an indicator of

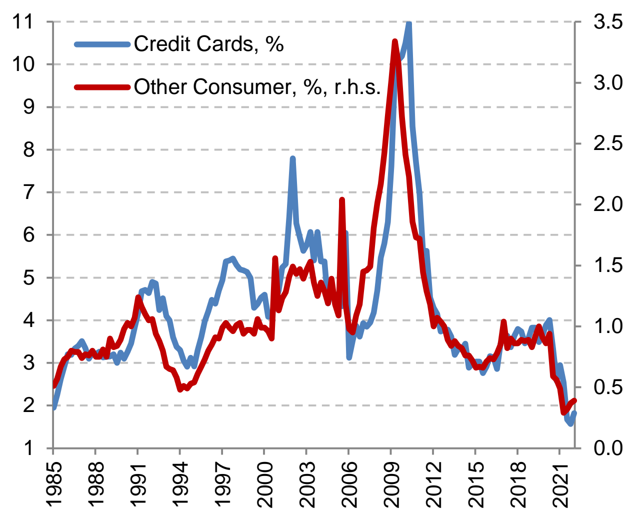
consumer credit demand – was at 109 million, a 5.1% decline from the previous quarter".

Chart 17. Consumer. Loan Growth Rates, YoY, %



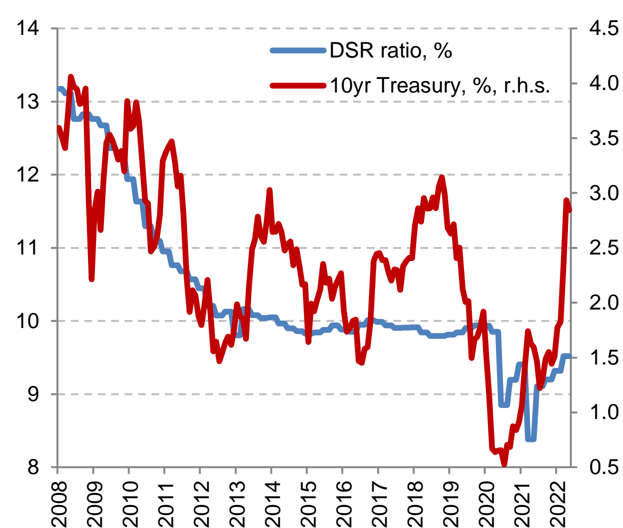
Source: Bloomberg

Chart 18. Consumer. NCOs Ratios, %



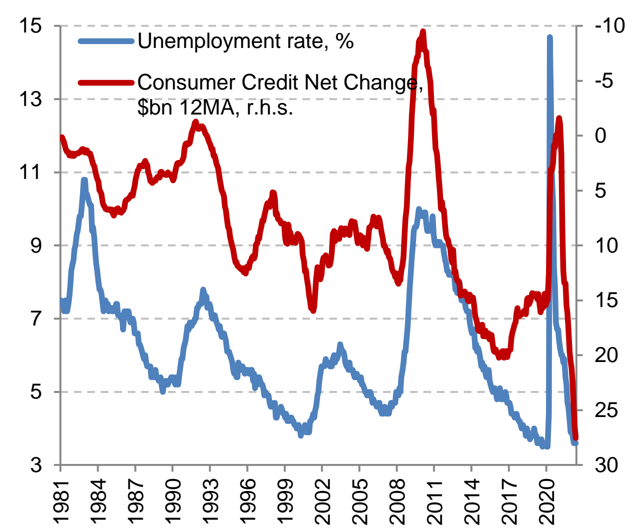
Source: Bloomberg

Chart 19. Debt Service Ratio vs 10yr Treasury Yield, %



Source: Bloomberg

Chart 20. Unemployment vs Net Change of Cons Credit



Source: Bloomberg

Consumer activity data published in June 2022 were noticeably weaker than expected after roughly in-line prints in May. Thus, sentiment indicators remain quite weak, and Michigan index decreased significantly again. Given still very high inflation, record gas prices and an ongoing growth of rates (30yr mortgage rate has already exceeded 6%), we don't expect that it will start to recover in the coming months. Conference board index has already decreased by 30 pts from its post-pandemic high. Thus, it decreased by 4.5 pts MoM to 98.7 pts in June 2022 (from the revised down May figure) vs the consensus of 100 pts, driven mainly by the expectations index, which tumbled by 7.3 pts MoM in June. On the other hand, the present situation index decreased just by 0.3 pts MoM to 147.1 pts in June. So, consumer confidence declined to the lowest level over more than a year, just 13 pts higher than the pandemic trough. Consumer sentiment indicator published by Michigan University tumbled by 8.4 pts MoM to 50 pts in June 2022, and it is still -35.5 pts yoy vs the consensus of 58.1 pts, -51 pts from the February 2020 level (the lowest figure for more than 40 years, even lower than the trough of the GFC). The decline was driven by both the expectations index and the present situation index. Consumer sentiment continues going down, driven by very high inflation, while consumer balance sheet (BS) is still remains

strong, but deteriorating. A little over three months ago, we believed that inflation had already shown its peak and that it would go down in coming months, especially after the Fed would start the hiking cycle. Russia's invasion of Ukraine changed our view substantially. Now we believe that inflation will remain elevated throughout 2022, even if the Fed hikes rate in-line with current quite hawkish expectations. Moreover, it seems that a recession is inevitable in the nearest 1.5 year. So, real consumer spending should be much weaker than it was expected even few months ago, while nominal figures will remain roughly intact. According to June 2022 Bloomberg survey, consumer spending is expected to increase by 3.3% yoy in 2022, by 2.1% yoy in 2023 and by 2.0% yoy in 2024 vs March estimates of +3.2%/+2.5%/+2.1% yoy, respectively.

Despite the December employment report missed expectations again, the fourth month of weaker figures over the previous 5 months, we expected that the employment recovery remained quite strong and the labor market was near the maximum employment. The data of the first five months of the year fully confirmed this view, being much better than expected. So, it is a much faster employment recovery than post-GFC's one, while a number of open vacancies is at its all-time high, more than +50% vs pre-pandemic level. We expect that a payrolls growth will remain strong in the near future, accompanied by a relatively fast wage growth driven by the very tight labour market and quite high inflation. Even a fast growth of rates shouldn't change the situation significantly in the near term. So, the consumer financial health will remain strong in the nearest quarters, even taking into account higher inflation and tighter monetary conditions. Nonfarm payrolls increased by 390K in May 2022 vs the expectations of +318K, and the April initial estimate of 428K was revised down to +436K. Unemployment ratio was flat MoM at 3.6% in May 2022 vs the consensus of 3.6%. As a result of ongoing supply and demand imbalances on the labor market, average hourly earnings continue going up, adding +0.3% MoM in May 2022 vs the consensus of +0.4% MoM. In turn, underemployment ratio increased by 10 bps MoM to 7.1%, the third month of growth over the last four. However, it is still just +40 bps vs the pre-pandemic level. On the other hand, total employment is still lower than it was in the pre-pandemic times while the employment-population ratio is still not far from levels last seen 50 years ago. On a year-over-year basis, hourly earnings were +5.2%, in-line with the consensus, and still significantly higher than the May 2021 figure of +1.6% yoy. It was the 12th consecutive month of growth above 4% yoy vs the average level of 3.3% in 2019 (and it could be one of the key reasons for the workers, which are out of the labor force at the moment, to return back). Average weekly hours were flat MoM at 34.6 hours per week, in-line with the consensus. Initial jobless claims still remain not far from the lowest level since 1968 year.

Interest Rate

Although a 75 bps hike was almost ruled out at the previous meeting, the Fed raised the fed funds target range exactly by 75 bps to 1.5-1.75% at its June meeting (the largest hike since 1994). Moreover, it wasn't a surprise for market participants taking into account the press reports regarding the size of the rate increase a few days before the meeting. Nonetheless, it wasn't unanimous decision (one FOMC member voted for a 50 bps hike). So, even despite the chair Jerome Powell said that the rate would be again raised either a 50 or 75 bps at the next meeting, while the dot plot moved up significantly again, the market perception of the meeting was quite dovish due to not so hawkish tone of the press conference. The Fed tries to be as closer as it possible to the curve. So, it "anticipates that ongoing increases in the target range will be appropriate". Thus, even when asked about the possibility of raising the rate by 100 basis points at a time, there was no unequivocal negative answer. On the other hand, it was noted that 75 bps hikes not to be common. Inflation is still very high and inflation expectations continue going up, which was the main reason for a more significant rate increase than it was announced at the previous meeting.

Given current inflation expectations, it cannot be excluded that the upper limit of the target range could reach even 4% by the end of 2022. In any case, FOMC participants rate projections increased significantly again in June. The current dot plot implies that the fed funds rate will be 3.4% at the end of 2022 (vs just 1.9% implied in March 2022), much higher than a longer run rate projection of 2.5% (up by 10 bps from March projection). It is also projected that the FF rate will continue going up in 2023 (to 3.8% vs 2.8% in March) and then the rate will start to decrease, to 3.4% at the end of 2024 (vs 2.8% in March). Despite the very fast monetary tightening, the US economy remains relatively strong at the moment while the labour market remained extremely tight with an average growth of 408K jobs per month in the last three months, which certainly allows the Fed to be quite hawkish at the moment. The Fed lowered its GDP growth expectations again but it doesn't expect a recession to start in the coming quarters. It is a rather controversial statement in our opinion, especially taking into account still quite challenging inflation environment and an inevitable significant growth of the fed funds rate in 2022. At least, the University of Michigan's consumer sentiment index has already declined below the lows of the GFC. In our opinion, a recession during the next year is inevitable, but the good news is that the US economy will be able to avoid stagflation, even taking into account the Fed's less optimistic statements on inflation in recent months – "the Committee is strongly committed to returning inflation to its 2 percent objective" in June 2022 vs "the Committee expects inflation to return to its 2 percent objective" in May 2022. As for balance sheet reduction, it will take place according to the schedule published in May. So, it started on June 1, 2022. The BS will be reduced by no more than $47.5 Bn per month ($30 Bn cap for treasuries and $17.5 Bn for MBSs) during the summer months. After that the caps will be doubled. So, the Balance Sheet could be reduced to the pre-pandemic size by the end of 2024. Despite the initial dovish reaction after the start of the press conference, rates and rate expectations moved up again in June 2022, skyrocketing on a MoM basis. So, if rates rise in line with current expectations and the Fed is able to restore price stability without US sliding into a deep recession (the baseline scenario), the rally in banks could be resumed in the near future, from our point of view

Despite the more hawkish Fed and ongoing optimism about the current pace of the recovery, GDP growth projection for 2022 year was revised noticeably down again in June 2022 (and, probably, the projections will continue going down further), the fourth consecutive decline of GDP projections. Unlike to March 2022 projections, this time lower GDP forecasts were accompanied by higher unemployment expectations. Given recent prices dynamics, both CPI and PPI, inflation forecasts went up substantially for nearest year again, but inflation forecasts for 2023 and 2024 years were almost unchanged. According to the June 2022 introductory statement, "overall economic activity appears to have picked up after edging down in the first quarter. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices and broader price pressures". Inflation remains the key risk for the Fed even despite a quite negative impact of external risks (such as Russia's invasion of Ukraine and COVID-related lockdowns in China) on the US economy. According to June FOMC projections, GDP will increase by 1.7% yoy in 2022, by 1.7% yoy in 2023 and by 1.9% yoy in 2024 (vs +2.8%/+2.2%/+2.0% in the March 2022 forecast). However, a longer run GDP growth was unchanged at 1.8% yoy. As of unemployment ratios, it is implied that it will be 3.7% in 2022, 3.9% in 2023 and 4.1% in 2024 (vs March projections of 3.5%/3.5%/3.6%, respectively). A longer run unemployment ratio was unchanged at 4.0%. As of PCE inflation, it is implied that inflation will be 5.2% in 2022 and it will decline to 2.6% 2023 and to 2.2% in 2024 (vs 4.3%/2.7%/2.3% in March). A longer-run inflation projection was unchanged at 2.0%. Overall, current FOMC projections are more pessimistic vs the market estimates. According to Bloomberg June 2022 survey, GDP growth is forecasted at

+2.6%/+2.0%/+1.9% yoy in 2022/2023/2024 years, respectively, vs +3.7%/+2.5%/+2.1% yoy in January 2022. In turn, unemployment forecasts were roughly flat MoM in June 2022 at 3.6%/3.6%/3.8% in 2022/2023/2024 years, respectively.

Due to the much more hawkish Fed and an ongoing growth of inflation in recent months, we revised our rate expectations meaningfully up either. As we expected at the end of 2021, the long end and almost the whole yield curve resumed its growth in January 2022. However, the rates growth ytd exceeded even the wildest expectations. The futures implied rate at the end of 2022 skyrocketed by more than 150 bps since mid-March, or more than 250 bps ytd. So, we now also expect 4 more hikes at each of the remaining meetings this year with a total growth of another 150 bps till the end of the year. So, the FF rate will be much higher than the neutral rate. Despite to a significant growth of risks and uncertainty in the recent months, the economic recovery remains intact, and we expect that the loan growth will continue accelerating, at least in the nearest months. Given a skyrocketing rates growth, banks will invest excess cash into higher yielding assets more actively, while possible deposits outflow and its impact on BS/PL should be manageable, taking into account current loans-to-deposits ratio. At least, we expect that deposits beta during the current cycle will be significantly lower than even the figure of the previous hiking cycle. So, short-term NII/NIM prospects of US banks have improved substantially ytd. But it doesn't mean that we will not see recession in one or two years, especially taking into account how fast rates are rising and the fact that the yield curve was already inverted in March 2022.

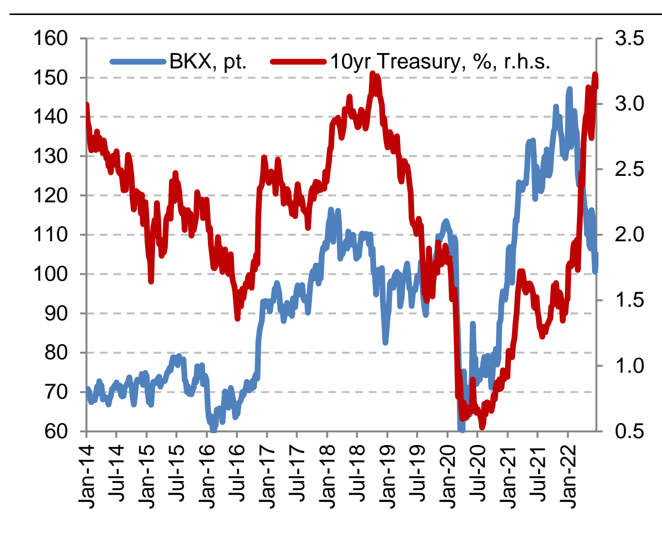
A median growth of NII income of BKX index members was positive again, it was the third consecutive quarter of positive yoy growth after 7 quarters of decline in a row. Notwithstanding, total NII of BKX index members in 1Q22 was 3.2% below than it was in 1Q20. But according to estimates, total NII of BKX index members will be much higher vs pre-pandemic levels as early as 2Q22, the record NII in history, and it will continue going up. So, NIM has already turned from a headwind for US banks into a tailwind. At least, the market implies a total of up to 15 rate hikes by 25 bps already in 2022 vs just 4 implied hikes till the end of 2024 as the end of June 2021.

A median NII growth of BKX index members was +5.8% yoy, or +0.9% qoq, (even despite lower day count) vs +0.9% yoy, or +1.5% qoq, in 4Q21, the fourth quarter of sequential growth in a row. The key drivers of positive NII dynamics were deployment of liquidity into higher yielding assets and better rates dynamics. In result, NIM was noticeably stronger than expected, but median NIM of BKX index members still remains negative on a yoy basis, for the 12th quarter in a row. But it will be positive again on both qoq and yoy bases as early as 2Q22, given current rate expectations. According to the current expectations compiled by Bloomberg, median 2Q22 NIM is already 11 bps higher than 1Q22 NIM. A median NII surprise of BKX index members was +0.8% in 1Q22 with better figures for 18 out of 24 banks in the index vs roughly in-line figures in 4Q21. As for NIM, 20 banks from BKX index beat estimates in 1Q22 with a median surprise of +3 bps, while the majority of the index members missed in 4Q22. On the other hand, median NIM of BKX index members was roughly flat qoq, but still -8.5 bps on a yoy basis, at 2.41%. Nonetheless, estimates continue going up ytd. Thus, median NIM 2022E of BKX index members increased by 16.7 bps ytd to 2.56% as of the end of June 2022, while NIM 2023E skyrocketed by 25.7 bps ytd to 2.78%.

Treasury yields moved noticeably up in June 2022, but the short end of the curve increased more than the long end. Thus, 1M yield increased by 24 bps MoM to +0.95% (as of the end of June), while 3M yield went up by 59 bps MoM to 1.63%. 2yr yield added 40 bps MoM to 2.95%, while 5yr yield increased by 22 bps MoM to 3.04%. 10yr yield moved up by 17 bps MoM to 3.01%. Generic 30yr yield increased by 14 bps MoM to 3.18%. Nonetheless, it should be noted that the yield curve was much higher in the middle of June (just before the FOMC meeting) than the current one. In turn, the forward curve also increased in June

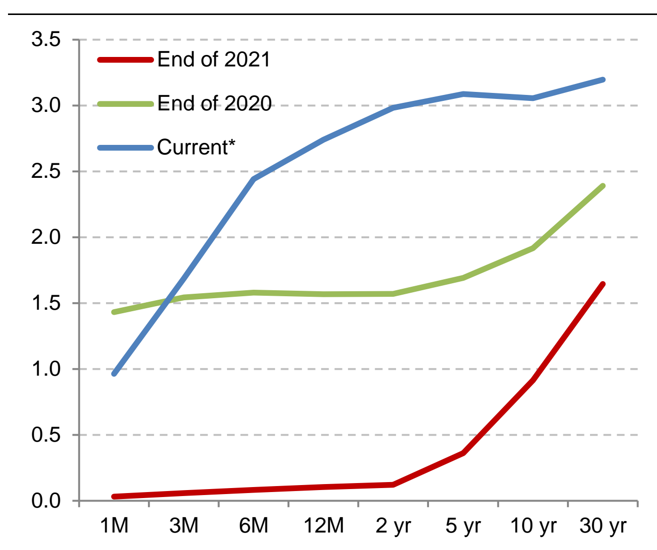
2022 after its decline in May. Nonetheless, it is still implied that the short end will be higher by more than 20 bps in two years, while 30yr yield decreased by 35 bps. So, it is also implied that the yield curve will be inverted in 2 years with the 10yr/2yr spread of around -15 bps.

Chart 21. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

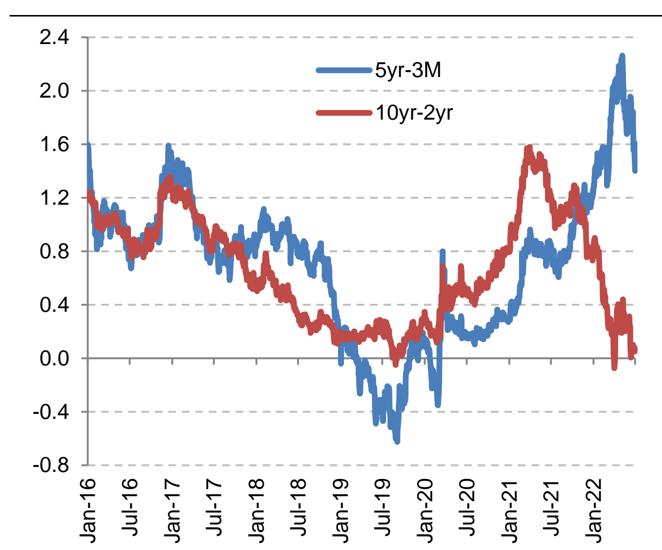
Chart 22. US Yield Curves, %



*as of the end of June 2022

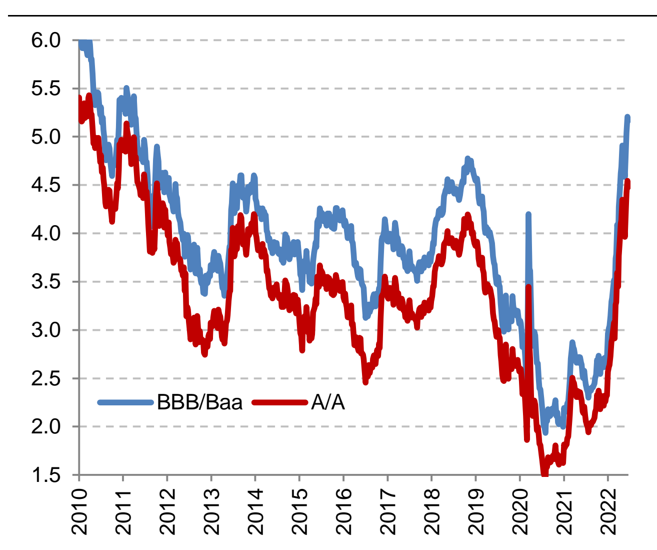
Source: Bloomberg

Chart 23. Treasury Spreads, %



Source: Bloomberg

Chart 24. Corporate spreads, %



Source: Bloomberg

In turn, spreads decreased significantly in June 2022 after their movement in different directions in May. So, the 10yr/2yr spread was down on a MoM basis in June, for the first time over the last 3 months, but it is again not far from 0%. On the other hand, the 5yr/3Mo spread decreased noticeably again in June 2022, the second consecutive decline after it exceeded 2% for a short time in April. Thus, the 5yr/3M spread decreased by 37 bps MoM to +1.41% at the end of June, but it is still 44 bps higher than the average level of 2017 year, while the 10yr-2yr spread was already 88 still bps lower (as of the end of June). The spread (10yr-2yr) decreased by 23 bps MoM to +0.06%.

According to Bankrate.com data, loan yields increased noticeably again in June 2022, the 5th consecutive month of growth after quite mixed dynamics in 2021. Thus, average 30yr mortgage rate increased by 37 bps MoM to 5.78% in June, and it is +266 bps yoy. Also, fixed 15yr mortgage rate increased by 29 bps MoM, or +259 bps ytd, to 4.99%, +267 bps

from the lowest figure in the history. On the other hand, auto rates increased by 17-18 bps MoM in June 2022 and auto rates are already noticeably higher on a yoy basis. In turn, personal loans yield increased by 12 bps MoM, or just +14 bps yoy, at 9.45%.

Despite the rates growth ytd, the growth of the deposit costs remains muted but gradually accelerating, especially CDs costs. On the other hand, given the current level of excess liquidity and quite low loan-to-deposits ratio, deposit beta should remain quite low, from our point of view. In June 2022, national average cost of 6 month deposits increased by 3.4 bps MoM to 0.39% (+23 bps yoy yoy); average 3yr CDs cost went up by 16 bps MoM to 1.1% (+73 bps yoy); average 5yr CDs cost increased by 22 bps MoM to 1.28% (+83 bps yoy), while the cost of interest checking accounts was flat MoM at 0.72% (+22 bps yoy). In turn, average cost of money market accounts increased by just 1.1 bps MoM to 0.09% in June, staying near its all-time low (also +1.1 bps yoy).

Europe

Corporate

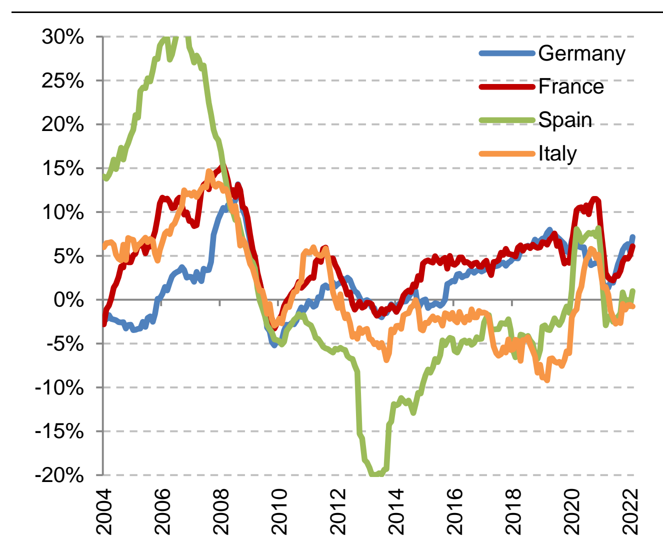
A EU corporate loans growth accelerated significantly in the first months of 2022 due to a substantial speed-up of the economic recovery in 2H21, after a meaningful loan growth deceleration in 2Q-3Q of 2021 as higher loans demand were more than offset by paydowns of emergency liquidity loans, issued during the first wave of the pandemic. Nonetheless, risks for EU corporations have increased considerably in the recent months because of a negative impact on the EU economy of Russia's invasion of Ukraine, a substantial growth of commodity prices, higher rates and ongoing supply-chain bottlenecks. However, we don't expect a significant deceleration of the loan growth in the coming months as a lower economic growth is not immediately transformed into a lower loan growth. Moreover, the EU economy still continues demonstrating positive GDP dynamics even despite to a substantial growth of the risks. Thus, the corporate loans increased by 0.6% MoM in May 2022, the 9th consecutive month of growth after it decreased by 0.3% MoM in August 2021. On a yoy basis, the growth rate was +5.1% vs just +0.1% yoy in August 2021. Loans up to 1 year increased by 7.1% yoy, or +0.8% MoM, in May 2022 vs -7% yoy at the end of 2020, the 5th consecutive month of positive yoy growth after 21 month in a row of negative dynamics. Loans 1-5 yrs increased by 4.5% yoy vs +15.2% yoy at the end of 2020. Also, it increased by 0.7 MoM in May 2022. Loans over 5 yrs were +4.7% yoy in May 2022 vs +4.9% yoy a year ago, +0.5% MoM. In turn, adjusted for sales and securitizations loans increased by 5% yoy, the 80th consecutive month of a positive yoy growth and the fastest growth rate over the last 15 months. It accelerated noticeably in recent 8 months after unadjusted loans increased just by 1% yoy in August 2021. Then it was the lowest growth rate on a yoy basis over more than 5.5 years. Nonetheless, the corporate credit growth in the EU still varies markedly across countries with a quite strong growth in Northern countries and relatively soft dynamics in Southern countries.

European corporations benefited from the low interest rate environment so far, but funding conditions have already started to tighten and the speed of the tightening will be much higher than it was expected even at the end of 2021. Moreover, ongoing supply chain bottlenecks, a significant growth of the energy prices, and consequences of Russia's invasion of Ukraine will inevitably impact negatively on the EU corporate sector. In June 2022 ECB's Economic Bulletin it was noted that the Russia-Ukraine war was severely affecting the euro area economy and the outlook was still surrounded by high uncertainty. However, "the conditions are in place for the economy to continue to grow and to recover further over the medium term". At least, recent macro data indicated that the EU economy continues growing even despite much higher risks. According to ECB's May 2022 financial stability review, "following the solid recovery seen in the second half of 2021, euro area corporates are now facing increasing headwinds from rising producer prices and supply chain pressures. Measures of aggregate corporate vulnerabilities improved with gross profits bouncing back to 7% above pre-pandemic levels. Moreover, the economic recovery and pandemic support measures have helped to keep financing conditions favourable, cushioning debt service needs and rollover risks. As a result, the composite indicator for euro area corporate vulnerabilities has remained well below its historical average. However, corporates now face new headwinds stemming from a slowing economy, higher interest rates, worsening supply chain bottlenecks and rising energy prices". And the pressure on EU corporate's P&L from the rising energy price will only increase in the coming quarters. Also, it should be noted that "on aggregate, corporate debt levels declined to 115% of GDP in the second quarter of 2021 from 119% of GDP in the first quarter of 2021. However, pockets of highly indebted companies have so far not succeeded in bringing their debt levels down". So, any tightening of funding conditions (which has already started because of very high inflation) will inevitably lead to lower corporate profits and higher default rates.

But the asset quality of the corporate portfolio remains very strong so far. Nonetheless, we expect some deterioration of the asset quality in coming quarters, especially among small and mid-sized companies, which "are more exposed than larger firms to tightening credit conditions once loan guarantees expire".

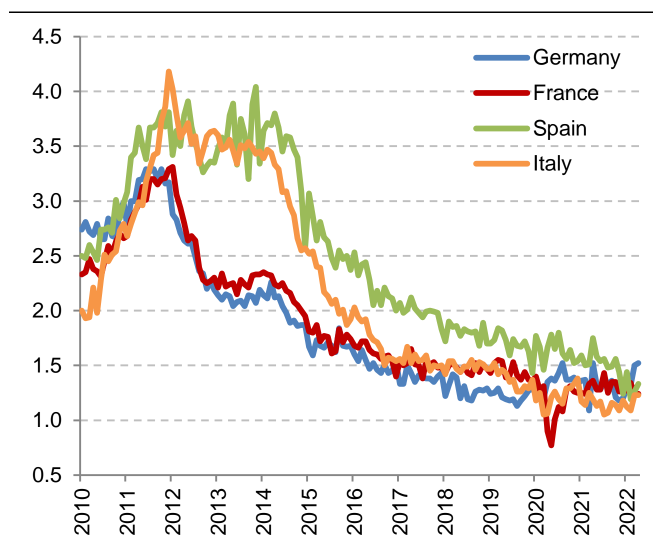
According to April 2022 Euro Area bank lending survey, demand for corporate loans increased considerably again in 1Q22, the fourth quarter of the growth after three consecutive quarters of decline, followed a significant growth in 1H20 as a result of emergency liquidity needs. The demand increased for both large firms and SMEs. It was also noted that the demand increased for both LT loans and ST loans, but for latter at smaller extent. Banks noted that the demand was mainly driven by higher financing needs for inventories and working capital while fixed investment needs were less important than it was in the previous quarter. Banks continue expecting a stronger demand for loans from firms in 2Q22, both for large firms and SMEs as well as a demand for ST loans. Nonetheless, credit standards for corporate loans were slightly tightened again in 1Q22, for the second consecutive quarter. "Banks indicated a net tightening impact of increased risk perceptions and decreased risk tolerance in the first quarter of 2022. They referred to a tightening impact from the general economic and firm-specific outlook as well as from the war in Ukraine and the related uncertainty". Loan standards were tightened both for SMEs and for large firms. Also, standards were tightened for both ST and LT loans. Banks indicated a net tightening impact of increased risk perceptions and decreased risk tolerance in 1Q22. Banks expect that standards will be tightened considerably in 2Q22 as a result of "high uncertainty regarding the impact of the war in Ukraine on the economic outlook and firms' credit risks".

Chart 25. EU Corporate Loan Growth, YoY



Source: Bloomberg

Chart 26. EU Corporate Loan Rates, New Loans, %



Source: Bloomberg

German outstanding corporate loans (unadjusted figures) increased by 7.6% yoy as of the end of May 2022, or +0.9% MoM, vs +6.4% yoy at the end of 2019, the 11th consecutive month of non-negative MoM dynamics. French corporate loans outstanding (unadjusted figures) added 6.6% yoy, or +0.2% MoM, after it decreased by 0.2% MoM in February 2022. The growth of corporate loans remained weak in the country during the last year, but it turned positive again in April 2022. Thus, it increased by 1.4% yoy, but -0.3% MoM, in May 2022 vs -2.9% yoy in May 2021. The Italian loan growth turned positive in June 2020 after being negative on a yoy basis for more than 8 years. But it decelerated meaningfully in recent months and it was negative again until recently. Thus, it went up just by 0.4% yoy, but +1.3% MoM, in May 2022 vs +1.4% yoy a year ago, the 7th positive MoM growth over the last 9 months.

European corporate rates remained quite volatile in 2021, following the long end, and the trend continued in the first half of 2022. Nonetheless, despite a growth of the long end and higher rate expectations, front book yields decreased noticeably in 4Q21, but the rates have already exceeded the average level at the end of 3Q21. Thus, average EU corporate loan rate (all maturities, new business lending, adjusted for loan sales) was flat MoM, but -7 bps yoy, to 1.4% in April 2022 (negative on a yoy basis as a result of a high base of April 2021). On the other hand, back book yields of EU banks continuously decreased on a yoy basis since April 2014, and the speed of decline went up in 2Q20, but it moved back in the following quarters. Nonetheless, it seems that the rate is near the trough and it was roughly flat in the last 6 months.

The direction of rates movement wasn't uniform among the largest EU economies in April 2022 despite a substantial growth of the key rates both MoM and ytd. Thus, Spanish yield increased by 7 bps MoM to 1.33% in April 2022, the second month of a noticeable growth, after it tumbled by 25 bps MoM in February. So, it is still -42 bps on a yoy basis. In turn, Italian one was flat MoM at 1.23%, +4 bps yoy. German corporate rate on new loans increased by 2 bps MoM, but flat yoy, to 1.52% in May 2022, the fifth consecutive monthly growth. French yield on new corporate loans went up by 1 bps MoM to 1.24%, and it is still 12 bps lower on a yoy basis. In turn, Dutch yield decreased by 1 bps MoM, but +3 bps yoy, at 1.42%.

EU back book yield increased by 1 bps MoM, but it is still -5 bps yoy, to 1.6%. Back book yields dynamics in major EU economies were roughly flat in April 2022. Thus, German yield remained at 1.62% in April, 10 bps lower than it was a year ago. French yield remained at 1.4%, but it is already +3 bps yoy. Italian yield increased by 2 bps MoM to 1.66%, but still -8 bps yoy. Spanish yield was also flat MoM at 1.65% and it is 7 bps lower on a yoy basis. Dutch yield decreased by 1 bps MoM to 1.63%, -14 bps yoy. So, the spread between new and outstanding rates increased by 1 bps MoM to 0.2% in April 2022, even +2 bps yoy, and just 2 bps higher than the lowest spread since 3Q08.

Despite negative rates on new corporate deposits, their growth rate remains significant and it has even accelerated in 1Q21, but in 2Q/3Q 2021 the growth decelerated substantially. Thus, EU corporate deposits increased by 6.9% yoy as of the end of May 2022 (a significant deceleration vs mid-2020 growth rate, but markedly faster than it grew in August 2021), still driven by overnight deposits, while deposits with agreed maturity and redeemable deposits were negative on a yoy basis. Notwithstanding, the growth rates are very different among major EU countries, varying from +4.6% yoy in Italy to +14.5% yoy in Netherlands.

Consumer

Consumer loans were the main driver of the overall loan growth in the EU in the recent 4-5 quarters. They decreased slightly on a MoM basis in March and April of 2020, but the growth resumed then as result of employment supporting programs and the economic recovery. The growth continues and it even accelerated in 2021 and the first half of 2022, despite higher uncertainty. So, it is still the main driver of the total loan growth, but we expect that its positive impact on the growth rate of the loan portfolio will gradually weaken. At least, risks for EU households increased meaningfully in recent months and consumer sentiment deteriorated noticeably.

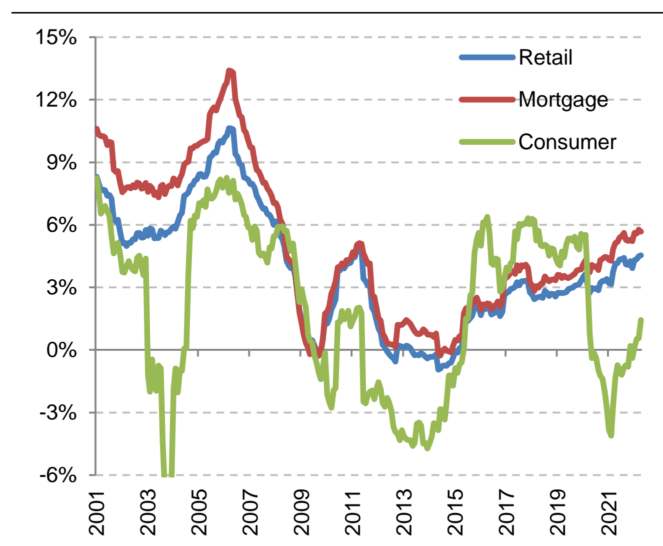
The financial health of the EU consumer is still very strong, but it should be noted that there are considerable differences across countries and income groups. So, the end of government support programs as a result of gradual return to normal life (as well as much higher inflation) will impact negatively on the financial health of EU consumers, especially low income groups. Nonetheless, the unemployment rate still remains relatively stable, but further dynamics of the indicator will depend on whether the European economy manages

to avoid a recession. But even in the case of a negative GDP growth the asset quality of consumer loans should remain resilient, taking into account that indebtedness of euro area households remains relatively low, stabilized near 58% of GDP. Given very low rate environment, household debt burdens are also near multi-year lows and they will remain at these levels or only slightly higher in the nearest quarters even despite the tightening of monetary conditions. Currently, households debt interest burden is 40-50% lower for majority of European countries than it was just before the US mortgage crisis.

EU loans to households increased by 4.7% yoy, or +0.5% MoM, in May 2022, the fifth consecutive month of positive monthly dynamics after being flat in December 2021. The consumer loan growth remained quite strong so far, demonstrating the fastest yoy growth in a decade, but it is quite possible that we will not see any meaningful acceleration of the consumer loan growth, at least in the nearest quarters, because of Russia's invasion of Ukraine, even despite it is expected that EU's GDP growth will remain solid in 2022 (but noticeably slower than it was expected at the beginning of the year).

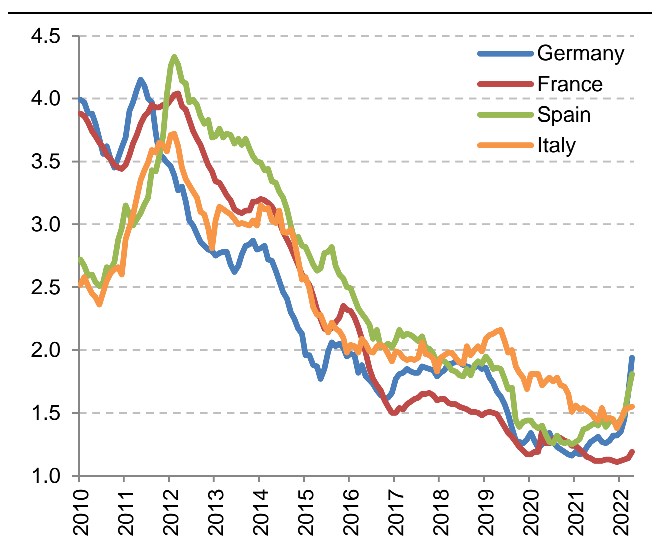
Consumer loan growth rates continue differing widely across countries (as well as for corporate loans). Thus, German household loans increased by 5.6% yoy in May 2022, or +0.5% MoM, French retail lending added 5.4%, or +0.6% MoM, (a marked acceleration vs summer 2020 levels), while household loans in Spain added just +0.9% yoy, or +0.1% MoM, in May 2022, the third positive monthly growth after the same period of decline. Italian loans increased by 3.9% yoy, or +0.5% MoM.

Chart 27. EU Consumer Loan Growth, YoY



Source: Bloomberg

Chart 28. EU Mortgage Loan Rates, New Loans, %



Source: Bloomberg

Consumer lending (ex. mortgage) was the key driver of the EU household loans growth in pre-pandemic times, but then it was negative on a yoy basis for consequent 18 months till November 2021, when it ticked up on a yoy basis, while the growth of mortgage loans continues accelerating. However, consumer credit increased by 1.9% yoy, or +0.6% MoM, in May 2022, while EU mortgage loans increased by 5.7% yoy as of the end of the month, or +0.5% on a MoM basis (the fastest mortgage loan growth on yoy basis since 1H08). According to April 2022 bank lending survey from the ECB, loan demand for housing loans continued increasing in 1Q22, for the fourth quarter in a row, after a moderate decline in 1Q21. "The low general level of interest rates and – to a lesser extent – housing market prospects contributed, in net terms, to an increase in housing loan demand. The positive net impact of the level of interest rates on loan demand, despite rates on housing loans starting to increase since the beginning of 2022, may reflect anticipation effects of further increases in interest rates as bank funding costs rise". Also, demand for consumer credit increased in 1Q22, the fourth quarter of growth in a row, and the demand improved

noticeably vs 4Q21. Nonetheless, banks expect that demand for mortgage loans will decrease in 2Q22 but remained broadly unchanged for other consumer loans.

Consumer loans remained quite volatile but their decline during the pandemic and recessions looks quite logic, given their risky nature. Consumer credit grew by more than 5% yoy in mid-2019, but it is just +1.9% yoy at the moment (with some signs of improvement in recent months). The most significant decline of growth rates was demonstrated in Netherlands, where consumer loans tumbled by 10% yoy, or -2.4% MoM, in May 2022. However, we expect that the consumer loan growth should accelerate in the near future, given the ongoing economic recovery and the strong financial health of an average EU consumer.

As of mortgage lending standards, it was a slight net tightening in 1Q22, after easing in 4Q21. "Perceptions of increased risk and – to a lesser extent – lower risk tolerance contributed to the net tightening of credit standards. Banks reported an increase in perceived risks for the first time since the fourth quarter of 2020, stemming from housing market prospects, the general economic outlook and borrower creditworthiness". Lending standards were tightened or remained unchanged in all the largest EU countries, except for Italy. Banks also reported broadly unchanged the rejection rate in 1Q22. Banks expect that standards will continue to tightening in 2Q22. On the other hand, banks eased credit standards for other consumer loans but expect that they will be tightened again in 2Q22.

An average EU rate on new mortgage loans increased by 13 bps MoM to 1.61% in April 2022, the fourth consecutive month of growth in a row. Moreover, it was already 23 bps higher than a year ago, positive performance on a yoy basis for the third consecutive month after negative dynamics during 46 months in a row. Mortgage rates continue to move following the key benchmarks. Thus, 10yr generic has already returned to a level significantly higher than 1%, and it is currently not far from the highest level over more than 7 years. Thus, 10yr generic yield increased by 21 bps MoM to +1.34% as of the end of June 2022, the 7th consecutive month of growth after weak dynamics in November 2021. So, it is 154 bps higher than it was one year ago and 152 bps higher than the level of the end of 2019 year. In turn, 30-yr yield increased by 24 bps MoM to +1.62% as of the end of June 2022. So, most of the yield curve is already again positive, being much higher than it was just a half year ago. In April 2022, German rates on new mortgage loans skyrocketed by 29 bps MoM to 1.94% (the highest rate over more than 6 years), and it is already +71 bps yoy. Also, Italian mortgage rate went up by 15 bps MoM to 1.81%, being 43 bps higher than it was a year ago. In turn, French yield increased just by 5 bps MoM to 1.19% in April 2022, or +5 bps yoy. But it was roughly flat in the last 14 months. Spanish mortgage rate increased by 1 bps MoM to 1.55%, the fourth consecutive month of growth, but it is just +3 bps yoy. Despite noticeably higher front book yields, we continue to see declining back book rates on a year-over-year basis, -12 bps yoy for EU mortgage loans. On a month-over-month basis, it decreased by 1 bps to 1.61%, the second monthly decline after it increased unexpectedly in February 2022. The rate of decline accelerated in early 2020 from 4.5 years low of -12 bps yoy, which was shown in May-July of 2019, because of a significant drop of benchmark rates, but it stabilized then and even started to go down in the recent months. Back book yields went down on a MoM basis in all largest EU economies, except for Spain and Italy. Nonetheless, new and outstanding rates were equal for the first time in more than 10 years in April 2022.

As for other consumer loans, EU new business rates increased by 16 bps MoM, or +42 bps yoy, to 5.41% in April 2022, after they decreased for two months in a row. Consumer rates increased in all largest EU economies. Thus, German yield increased by 25 bps both MoM and yoy to 5.63%. French rate went up by 13 bps MoM to 3.62%, +14 bps yoy. Spanish rate increased by 10 bps MoM to 6.65%, the second month of growth after it tumbled by 33 bps in February 2022. However, it is still -3 bps on a yoy basis, but remaining quite volatile.

Italian consumer yield went up by 6 bps MoM, or +15 bps yoy, to 6.58% in April 2022.

Average European new consumer deposits rate (with agreed maturity) increased by 1 bps MoM to 0.24% in April 2022. Nonetheless, it was roughly relatively flat in 21 recent months, hovering around 0.25%-0.26%. So, it is 2 bps lower than it was a year ago. In turn, the cost of outstanding deposits (with agreed maturity) was flat MoM at 1.15% in April 2022. It also remained relatively flat over last 2 years, being in range of 1.13%-1.19%. Total cost of deposits was flat MoM at 0.19% in April 2022, the third consecutive month at 0.19%. On a yoy basis, it was also flat. Thus, the spread between total loans yield and cost of total deposits was flat in April either, but still -10 bps yoy, remaining at the all-time low. But we think that it will start to go up already in coming quarters given current rate expectations and loan yields dynamics.

Consumer deposits growth remains relatively healthy but decelerating fast. It is even lower than it was at the end of 2019. EU retail deposits increased by 3.8% yoy in May 2022 vs +6.8% yoy a year ago and +5.4% yoy at the end of 2019. Moreover, the growth rates among the largest EU economies remains quite different, varying from just +1.0% yoy in Germany to still solid +6.2% yoy in Spain. So, loans to deposits ratio was +0.5% MoM, but flat yoy, being on an absolute basis at 93.4% at the end of April 2022, the first monthly growth of the ratio over the last four.

Overall Macro

The European economy continues recovering (it returned to the pre-pandemic level at the end of 2021), but the growth rate will be subdued at least in 1H22. Nonetheless, Euro Area GDP increased by 0.6% qoq in 1Q22 despite much higher uncertainty, especially at the end of the quarter. It was noticeably higher than the March 2022 ECB staff projection of -0.2% qoq. So, even despite much higher energy costs and higher risks which negatively affect both on consumer spending and sentiment, the baseline scenario is still a positive GDP growth in the EU even in 1H22 (but an overall ECB's GDP growth in 2022 was revised again down in June 2022). In any case, dynamics of the EU economy in coming quarters will depend on how the Russia-Ukraine conflict will evolve. At least, current ECB's downside scenario implies a negative GDP growth in 2023, -1.7% yoy. Recall that ECB's severe scenario in March 2022 assumed a positive GDP growth rate in both 2022 and beyond. For us, even the baseline scenario looks optimistic as we think that it will be difficult for the European economy to avoid a recession under current conditions, even taking into account its quite strong resilience so far. The ECB's tone has also darkened noticeably in recent months - "in the near term, we expect activity to be dampened by high energy costs, the deterioration in the terms of trade, greater uncertainty and the adverse impact of high inflation on disposable income. The war in Ukraine and renewed pandemic restrictions in China have made supply bottlenecks worse again. As a result, firms face higher costs and disruptions in their supply chains, and their outlook for future output has deteriorated". Also, inflation wording continues getting worse – "the risks surrounding inflation are primarily on the upside. The risks to the medium-term inflation outlook include a durable worsening of the production capacity of our economy, persistently high energy and food prices, inflation expectations rising above our target and higher than anticipated wage rises". So, risks continue going up and the key near term task of the ECB is to avoid the slide of the European economy into stagflation, which will be quite difficult to resist in the low rate environment.

European real GDP markedly increased on both qoq and yoy bases in 3Q21, but it decelerated noticeably in 4Q21 and 1Q22. Thus, EU GDP increased by 0.6% qoq, or +5.4% yoy, in 1Q22 (up from the initial estimates of +0.2% qoq, or +5.0% yoy) vs 4Q21 growth rate of +0.3% qoq, or +4.7% yoy. On a yoy basis, EU GDP growth was positive for the fourth consecutive quarter after 5 quarters of negative dynamics in a row. So, despite to

a significant growth of risks in recent months, it is expected that EU GDP growth rate will remain positive in 2Q22, +0.2% qoq or +3.1% yoy. German GDP increased by 0.2% qoq, or +3.8% yoy, in 1Q22 vs the consensus of +0.2% qoq, or +3.6% yoy, and 4Q21 growth rate of 1.8% yoy, but -0.3% yoy. French GDP increased by 4.5% yoy, but -0.2% qoq, in 1Q22 vs the consensus of +0.3% qoq, or +5.5% yoy, and 4Q21 growth rate of +0.8% qoq, or +5.5% yoy. Italian GDP went up by 0.1% qoq, or +6.2% yoy, in 1Q22, roughly in-line with the consensus, but much lower vs 4Q21 growth rate of +0.7% qoq, or +6.2% yoy. Spanish GDP increased by 0.3% qoq, or +6.4% yoy, vs the consensus of +0.6% qoq, or +6.7% yoy and 4Q21 growth rate of 2.2% qoq, or +5.5% yoy. According to estimates compiled by Bloomberg, 2Q22 GDP growth rate will remain relatively weak but positive and in a fairly narrow range from +0.2% qoq in Germany and Italy to +0.3% qoq in Spain and France. But the growth was revised noticeably down in recent months. Thus, according to Bloomberg consensus estimates compiled in June 2022, EU GDP should increase by 2.6% yoy in 2022 (vs +4.1% yoy of January 2022 estimate), by 2.0% yoy in 2023 (vs 2.5% yoy in January) and by 1.9% yoy in 2024.

European macro data published in June 2022 were noticeably worse than expected after markedly weaker figures in May. Thus, the majority of key indicators (PMIs, consumer confidence, retail sales and IP) missed expectations. So, surprise indices moved down as well. Thus, Citi's economic surprise index tumbled by 45 pts MoM to -25 pts as of the end of June 2022. In turn, Bloomberg surprise index decreased by 0.084 pts MoM to -0.28 pts.

Composite PMI (preliminary figure), which is normally well correlated with GDP growth (but the relationship was less tight than usually in 2020), missed expectations again in June 2022, the second miss in a row after three consecutive months of better figures. It still remains above 50 pts but already not far from the contracting territory and roughly in-line with its pre-pandemic levels. Moreover, it is quite possible that the decline in the indicator will continue in the near future. Thus, composite PMI decreased by 2.9 pts MoM to 51.9 pts, being noticeably worse than the consensus of 54.0 pts. The miss was driven by both services and manufacturing components. Thus, manufacturing PMI decreased by 2.6 pts MoM to 52.0 pts in June 2022 vs the consensus of 53.8 pts. It was still +2.8 pts relative to its pre-COVID level. Services PMI decreased by 3.3 pts MoM to 52.8 pts vs the consensus of 55.5 pts. So, it is just 0.2 pts higher than it was in February 2020. Manufacturing PMI was the main driver of the composite index for months, but it is starting to suffer from skyrocketing energy prices and expectations of much higher rates while a negative impact of supply chain bottlenecks because of the pandemic have not completely disappeared yet. So, German manufacturing PMI decreased by 2.8 pts MoM to 52.0 pts in June 2022 vs the consensus of 54.0 pts. It is still noticeably higher than it was in pre-COVID era, but it has already decreased by 14.6 pts from its post-pandemic high. German services PMI also went down by 2.6 pts MoM to 52.4 pts vs the estimate of 54.5 pts. It is already 9.4 pts below its post-pandemic high and already 0.1 pts lower than it was in February 2020. So, German composite PMI went down by 2.4 pts MoM to 51.3 pts vs the consensus of 53.0 pts, just +0.6 pts vs the pre-pandemic level. French composite PMI decreased by 4.2 pts MoM to 52.8 pts in June 2022 vs the consensus of 55.9 pts, and it was 9th decline on a MoM basis over the last 12 months. However, it is still 0.8 pts higher than it was in February 2020. Negative PMI dynamics was driven by both services and manufacturing PMI indices. Thus, French services PMI decreased by 3.9 pts MoM to 54.4 pts vs the consensus of 57.5 pts, still remaining 1.9 pts higher than the February 2020 level. In turn, French manufacturing PMI went down by 3.6 pts MoM to 51.0 pts in June 2022 vs the consensus of 54.0 pts, the 10th month of decline over the last year. Industrial production increased in the EU by 0.4% MoM in April 2022 vs the consensus of +0.5% MoM. But the initial March 2022 estimate was revised markedly up, from -1.8% MoM to -1.4% MoM. However, IP remained negative on a yoy basis in April. Despite PMI figures remaining above 50 pts, it seems that the IP growth will be soft in the nearest months given persisting supply-chain

bottlenecks, quite high energy prices as well as a substantial growth of geopolitical risks and much higher rates. Unsurprisingly, estimates deteriorated again in June 2022. Thus, according to estimates compiled by Bloomberg, it is expected that IP will increase by 1.2% yoy in 2022, by 3.2% yoy in 2022 and by 2.4% yoy in 2024 vs +2.8%/+3.0%/+1.9% yoy as it was estimated in February 2022.

EU consumer sentiment started to improve in 1H21, but it deteriorated significantly in the recent months despite stronger than expected expansion in an employment growth in recent quarters. Moreover, according to ECB forecasts, “the labour market continues to improve, with unemployment remaining at its historical low of 6.8 per cent in April. Job vacancies across many sectors show that there is robust demand for labour. Wage growth, including in forward-looking indicators, has started to pick up”. On the other hand, household income will be under pressure in 1H22 as a result of gradual ending of government supporting programs. Also, real disposable income will be inevitably impacted negatively by very high inflation. Private consumption has already exceeded its pre-pandemic levels but, FY22 consumption projections continues going down. According to June 2022 Bloomberg survey, private consumption will increase by 3.3% yoy in 2022, by 2.1% yoy in 2023 and by 2.2% yoy in 2024 (vs +5.3%/+2.3%/+1.6% estimated growth rates in January 2022 survey). Unemployment continues going down despite an uncertainty growth. Thus, it decreased by 10 bps MoM to 6.6% in May 2022 vs the consensus of 6.8%, -1.5 p.p. yoy and -0.8 p.p. vs the pre-pandemic level, the lowest level in the history of the Eurozone. June consensus estimates of unemployment rates for 2022, 2023 and 2024 years, compiled by Bloomberg, were almost flat on a MoM basis, at 6.9%/6.9%/6.9% (vs February’s projections of 7.3%/7.0%/7.0%). ECB’s June unemployment projections were slightly less optimistic, being at 6.8%/6.8%/6.7% for 2022/2023/2024 years, respectively (vs 7.3%/7.2%/7.0% in March 2022 projections). Notwithstanding, it should be noted that employment is still noticeably lower than it was in the pre-pandemic months. Retail sales decreased by 1.3% MoM in April 2022 vs expectations of +0.1% MoM, after it increased by 0.3% MoM in March 2022 (revised up from the initial estimate of -0.4% MoM). On a yoy basis, it decelerated significantly, but it remained positive, adding 3.9% yoy in April vs the consensus of +3.9% yoy and March figure of +1.6% yoy. Nonetheless, consumer confidence remained quite weak and it continued deteriorating in June 2022. There were just three months of growth of the confidence over the last year. Thus, it decreased by 2.4 pts MoM to -23.6 pts vs the consensus of -20.5 pts, -20.3 pts yoy, -17 lower than the pre-pandemic level and already -0.7 pts vs the trough of the pandemic in April 2020.

Rates

Given pre-announcements in May 2022, monetary policy decisions at ECB’s June meeting weren’t surprising at all, even taking into account more hawkish Christine Lagarde’s tone during the press conference. Thus, it was announced that net purchases under the APP program will be ended by July 1, 2022. So, June is the last month of the APP with net purchases of €20 Bn (in-line with the schedule announced in March). Nonetheless, reinvesting of the principal payments from maturing securities will continue “for an extended period of time past the date when it starts raising the key ECB interest rates and, in any case, for as long as necessary to maintain ample liquidity conditions and an appropriate monetary policy stance”. According with previous announcement, “the special conditions applicable under TLTRO III will end on 23 June 2022”. Key rates were left unchanged but it was announced that rates would be raised by 25 bps at the July meeting, in-line with the May announcement in Christine Lagarde’s blog and in-line with April monetary policy statement that the first rate hike would occur “some time” after the end of the APP. Also, it was confirmed that the next rate hike would take place in September 2022. Moreover, given current inflation dynamics, it is quite possible that the rate will be raised by 50 bps – “the calibration of this rate increase will depend on the updated medium-term inflation outlook. If

the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting”. So, the era of negative rates will end before the end of 3Q22. As for further rate dynamics, ECB expects “a gradual but sustained path of further increases in interest rates”. And it could mean two additional rate hikes till the end of the year (in October and in December), rather than one (only in December), as it was previously expected. But even taking into account the more hawkish ECB as a result of the still resilient EU economy and broadened and intensified inflation pressure, it is not our baseline scenario at the moment. At least, risks of fragmentation are gradually going up while ECB’s GDP projections still look quite optimistic, from our point of view. Of course, inflation remains the key threat - “in May inflation again rose significantly” and it “will remain undesirably elevated for some time”. But if the EU economy slows down more substantially than it is expected while peripheral spreads continues growing to unacceptable levels, the ECB will be forced to react. Fragmentation could be partially fixed by the PEPP mechanism. At least, it was affirmed that “PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time”. But the ECB will be able to resist a possible recession only by slowing down the pace of monetary policy tightening, at cost of elevated inflation for longer. So, the ECB try to remain flexible in the medium term. At least, the question of a neutral rate during the press conference remained without an unambiguous answer.

According to the June 2022 introductory statement, “Russia’s unjustified aggression towards Ukraine continues to weigh on the economy in Europe and beyond. It is disrupting trade, is leading to shortages of materials, and is contributing to high energy and commodity prices. These factors will continue to weigh on confidence and dampen growth, especially in the near term. However, the conditions are in place for the economy to continue to grow on account of the ongoing reopening of the economy, a strong labour market, fiscal support and savings built up during the pandemic. Once current headwinds abate, economic activity is expected to pick up again”. Despite downside risks have increased considerably in recent months, the ECB remains quite optimistic about a future European GDP growth, unlike to some market participants. Thus, it was implied that EU GDP would increase by 2.8% yoy in 2022 (vs +3.7% yoy in March 2022 projections), by 2.1% yoy in 2023 (vs +2.8% yoy 1 qtr ago) and by 2.1% yoy in 2024 (vs +1.6% yoy in March). In turn, the downside scenario implies a negative GDP growth in 2023. However, unemployment projections were revised noticeably down to 6.8%/6.8%/6.7% for 2022/2023/2024 years, respectively (from 7.3%/7.2%/7.0% in March 2022). Inflation forecasts were revised noticeably up again. However, LT projection was unchanged in June. Thus, HICP inflation projections increased from 5.1%/2.1%/1.9% for 2021/2022/2023 years in March 2022 to 6.8%/3.5%/2.1% in June 2022. Given June projections, we expect that inflation projections could be revised again up in September but not as significantly as in June and March. At least, the ECB remains quite cautious about near term inflation as “price pressures will remain exceptionally high in the near term owing to elevated oil and gas prices, and increases in food commodity prices which have been strongly affected by the war in Ukraine, as well as the effects of the reopening of the economy and global supply shortages”. Despite the ECB is still quite optimistic about the near term GDP growth, we don’t exclude that escalation of Russia-Ukraine conflict and tough sanctions imposed on Russia could have a much more destructive effect on Europe than it was assumed, especially taking into account that with a high degree of probability, the war will last much longer than it was expected a few months ago as well as a quite fast monetary tightening in the coming quarters.

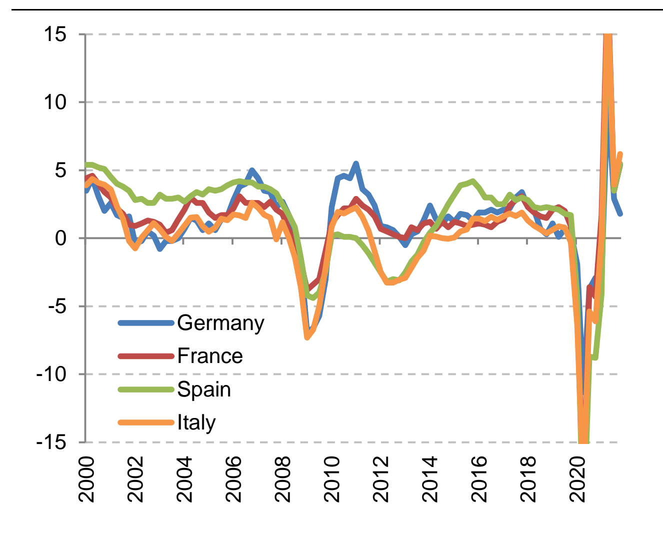
Until recently, the ECB was as flexible as it could be under current conditions with very high inflation, accompanied by a significant growth of risks to GDP growth. Nonetheless, it was more and more hawkish in recent months due to surprisingly high resilience of the EU economy to a negative impact of the Russia’s invasion of Ukraine. So, rate expectations

increased considerably ytd and a forward rate growth accelerated significantly since the early March 2022. Now, it is expected that key rates will increase by more than 150 bps till the end of 2022 and they will be positive again as early as the end of 3Q22 (3-4 quarters earlier than it was expected at the end of 2021) and it is expected that 3M Euribor reach almost 2% in 2H23. So, NII outlook for EU banks has improved substantially ytd and NII/NIM has already stopped worsening even despite still relatively challenging rate environment. Thus, a median NII growth of EU banks was +8.3% yoy in 1Q22, the third consecutive quarter of yoy growth after five consecutive quarters of negative dynamics. Also, it was positive on a qoq basis (despite lower day count) with a median growth of +3.2%, the fourth consecutive quarter of positive dynamics. It was driven by better earning assets (EA) growth, while NIM was weaker. Thus, median NIM decreased by 10.5 bps qoq, or -5.2 bps yoy, to 1.46% in 1Q22, and it is still -24 bps vs 4Q19. On the other hand, NII FY22 increased by 1% MoM, or -2.2% ytd, as of the end of May 2022, while a median growth of NII FY23 was +5.0% ytd, or +1.8% MoM. So, if rates rise in line with current expectations and there is no recession, the rally in EU banks may be resumed in the near future as rates growth isn't fully priced.

Key forward rates increased again in June 2022 after a small pause in May, following five consecutive months of growth after their substantial decline in November 2021. So, rates still remained significantly higher on a yoy basis. Thus, 3M Euribor (Dec 2022) increased by 30 bps MoM to +1.14% (as of the end of June 2022), +159 bps yoy. 3M Euribor (Dec 2023) went up by 22 bps MoM to +1.91%, +221 bps yoy. So, it is implied that we could see a positive key rate already at the end of 3Q22.

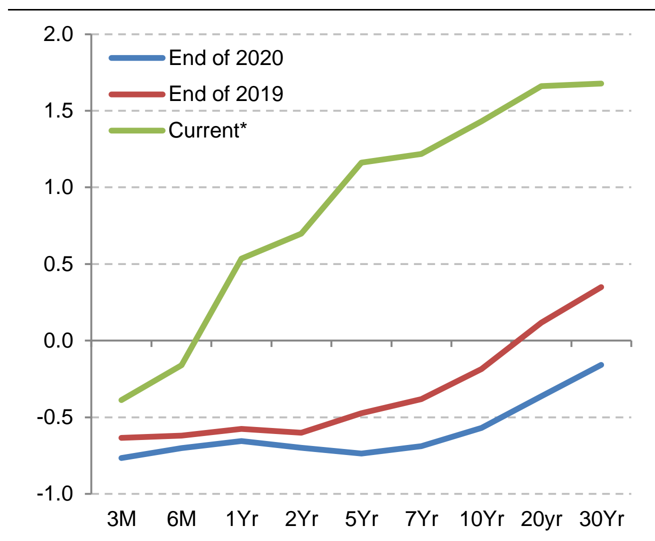
The direction of dynamics of generic yields was uniform again in June 2022. Even the rates of growth across the curve weren't much different. Thus, 3M yield increased by 13.6 bps MoM to -0.4%. 6M yield went up by 23.7 bps MoM to -0.18%. 1yr generic yield added 35.5 bps MoM to +0.49%, while 2yr yield increased by 14.6 bps MoM to 0.65%. 5yr yield went up by 23.3 bps MoM to +1.07%, while 10yr yield increased by 21.4 bps MoM to +1.34%. The yield curve is no more inverted in the middle part and it is quite steep vs historical averages. On the other hand, spreads moved in different directions again in June, for the second consecutive month after four months in a row of noticeable growth of both spreads. Thus, the spread between 10yr yield and 1yr yield went down by 14.1 bps MoM to 0.85% while the spread between 5yr and 3M yields increased by 9.7 bps MoM to +1.46%. Both spreads are much higher now than the trough of April 2020 and they are still substantially higher vs the end of 2019.

Chart 29. EU Countries Real GDP Growth, YoY, %



Source: Bloomberg

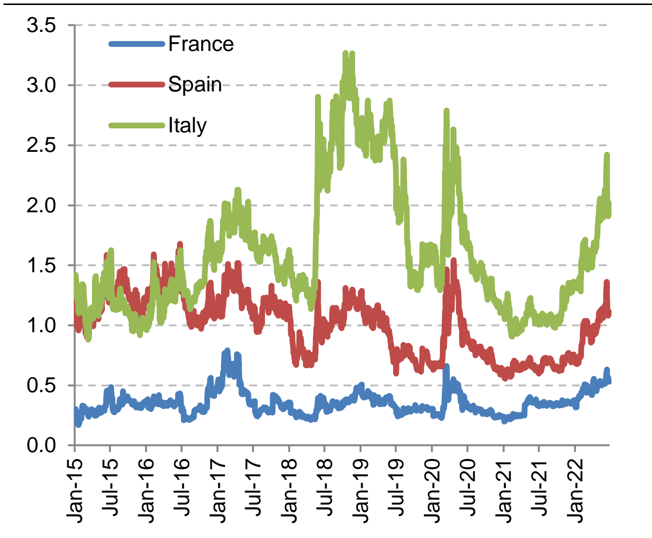
Chart 30. EU Yield Curves, %



*as of the end of June 2022

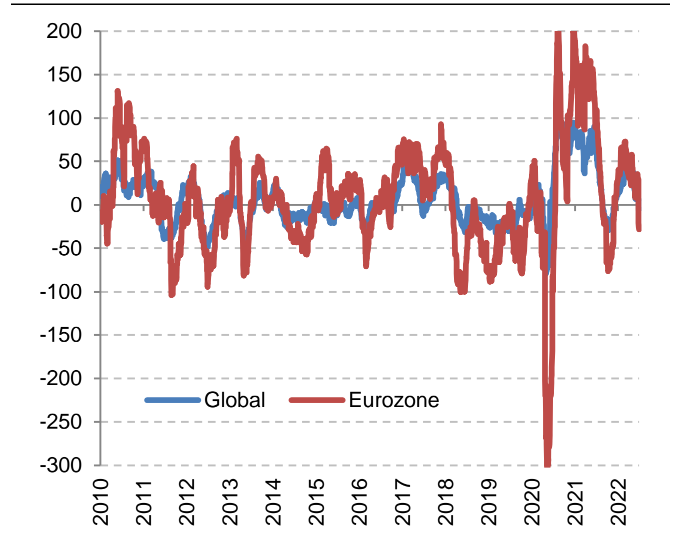
Source: Bloomberg

Chart 31. EU Countries Sov. Spreads vs Germany, 10Yr, %



Source: Bloomberg

Chart 32. Citi Economic Surprise Indexes, pts



Source: Bloomberg

THEME OF THE MONTH

US Banks 2Q22 Preview

The earnings season of US banks will start on July 14, 2022, when 2Q22 results will be provided by JP Morgan, though, in fairness, the FRC, which reports on July 13, 2022, starts the first. After that, all members of BKX index will provide quarterly results within roughly 2 weeks. Despite mixed 1Q22 results, growing recession risks and a very fast monetary tightening, we expect that 2Q22 and 2H22 operating figures will be quite strong as a result of a substantial growth of NIM/NII due to solid loan dynamics across all key segments and a skyrocketing growth of the rates both ST and LT. On the other hand, fee income is expected to be relatively weak across the majority of key lines. Nonetheless, revenue dynamics will remain quite strong as NII growth will overshadow poor fee income figures. So, operating leverage will continue improving in the coming quarters due to roughly flat OpEx dynamics, and it will be positive again in 2Q22 for the first time over the last 8 quarters. Despite the process of releasing reserves has already ended, the asset quality will remain quite strong (NCO ratios are still much lower vs historical averages) in the nearest quarters, without having any significant negative impact on the bottom line. In other words, a positive EPS momentum, which began in 3Q20, remains, and estimates could continue to be revised up in the near future even taking into account the almost inevitable recession in the next 1.5 years. Nonetheless, despite a median 2Q22 EPS growth of BKX index members is positive both ytd and qtd, estimates of a number of banks still demonstrated negative dynamics. Thus, according to Bloomberg consensus, a median growth of 2Q22 EPS of our group of banks was +2.4% ytd, or +1.9% qtd. 2Q22 EPS estimates dynamics were negative on ytd basis for 8 out of 24 banks from our group of banks. In turn, full-year estimates for both current and next year were revised up on ytd basis and they were much higher vs the end of 2020. A median growth of EPS 2022/2023 of US banks was +4.5%/+5.8% ytd, respectively, or +24.3%/+6.1% vs the end of 2020. 2Q22 revenue estimates increased by 3.1% ytd or +1.3% qtd.

Rate expectations continue going up, but the growth slowed down in 2Q22, even despite the much more hawkish Fed and the first 75 bps hike since 1994 which occurred in June 2022. Moreover, the Fed fully admits that the rate may be raised again by 75 bps at the next meeting in July as inflation remains at multi-decades highs. Unsurprisingly, the dot plot moved substantially up at the June meeting. The current dot plot implies that the fed funds rate will be 3.4% at the end of 2022 (vs just 1.9% implied in March 2022), much higher than the longer run rate projection of 2.5% (up by 10 bps from March projection). It is also projected that the FF rate will continue going up in 2023 (to 3.8% vs 2.8% in March) and then the rate will start to decrease, to 3.4% at the end of 2024 (vs 2.8% in March). The market is also as hawkish as the Fed, at least now, implying a growth of FF rate to 3.4% till the end of the year but roughly flat dynamics in 2023. In any case, both rates and rate expectations are much higher now than they were few quarters ago, implying an accelerating growth of both NIM and NII in the nearest quarters. So, if rates rise in line with current expectations and the Fed is able to restore price stability without the US sliding into a deep recession (the baseline scenario), the rally in banks could be resumed in the near future, from our point of view.

Given improved rate expectations and acceleration of the loan growth, we expect that NII/NIM estimates for two next years will continue to be revised up. However, projections for 2024 year are quite mixed at the moment given an almost imminent recession till the end of 2023. Nonetheless, NIM growth in the coming quarters will be record for years. According to Bloomberg consensus estimates, median NIM of our group of banks in 2Q22 is expected to be +11 bps qoq and even +3.5 bps yoy at 2.51% in 2Q22, the first yoy growth over the last 14 quarters. On the other hand, it is expected that NIM 2022E will

increase by 16 bps yoy. A median growth of estimates was +16.7 bps and +25.7 bps ytd for 2022 and 2023 years, respectively. A median growth of 2Q22 NII was +8.4% ytd, or +4.3% qtd, as of the end of June 2022. Also, it is expected that NII will increase by 8.1% qoq (as a result of higher day count and a rates growth), or +14.7% yoy, the fourth consecutive quarter of positive yoy dynamics and the fastest growth rate since the GFC. Despite a very fast monetary tightening, deposits still remain resilient, roughly flat ytd, while deposit beta is quite low vs historical averages (and we expect that it will remain low during all the current hiking cycle).

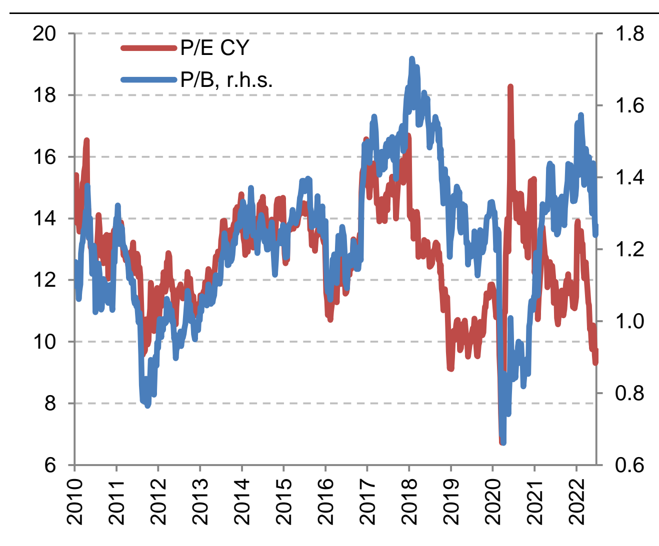
Rates increased significantly again in 2Q22. As of the end of June 2022, the average 1M Libor skyrocketed by 76 bps qoq, or +89 bps yoy, to 0.99% in 2Q22 and the average 3M Libor went up by 98 bps qoq, or +135 bps yoy, to 1.51%, while the average prime rate increased by 64 bps qoq, or +68 bps yoy, to 3.93%. So, loan rates also started to go up in 2Q22, while quarterly-average mortgage rates were the highest over more than 10 years. Thus, average auto loan rates were +60-80 bps qoq, or +20-30 bps yoy, the first positive yoy dynamics over the last 10 quarters. 30-yr fixed mortgage went up by 140 bps qoq, or +234 bps yoy, to 5.45%, and it is already +170 bps relative to its pre-pandemic level. Also, 15-yr fixed mortgage yield increased by 134 bps qoq, or +228 bps yoy, to 4.68%, +150 bps vs the 4Q19 level. In turn, personal loans rate decreased by 13 bps qoq and still -22 bps yoy to 9.4% in 2Q22 (-233 bps vs pre-pandemic). All benchmarks for securities yields increased significantly again in 2Q22, the third quarter of substantial growth in a row. So, securities rates are noticeably higher vs pre-pandemic levels, at the highest levels over more than 10 years. Thus, according to Bloomberg, average 10yr AA/Aa, A/A and BBB/Baa yields increased by 114 bps qoq, 120 bps qoq and 134 bps qoq to 3.88%/4.16%/4.74%, respectively. The long end of the yield curve increased again in 2Q22, the third consecutive quarter of growth after a meaningful drop in 3Q21. Nonetheless, the curve is becoming flatter and flatter. Thus, the average 10yr-2yr spread decreased by 28 bps qoq to just 0.22% in 2Q22, the fourth quarter of decline in a row but still higher than the average level of 2019 (+0.17%) and the average level of 2018 (+0.39%). In turn, the average 5yr-3Mo spread went up by 36 bps qoq to 1.91% in 2Q22, meaningfully higher than the average level of 2019 (-0.13%) and even higher than the average level of 2018 (0.79%). Fed futures (Dec 22/Dec 23) yields soared by 251/157 bps ytd to 3.27%/2.94% (+295/+214 bps vs the end of 2Q22) as of the end of June 2022, implying 4 more rate hikes in 2022 with a total growth of the FF rate of more than 150 bps.

Deposit costs will increase sequentially in 2Q22, for the second consecutive quarter after 10 quarters of decline in a row. However, deposit costs still remain roughly flat on a yoy basis. Moreover, we expect that deposit rates will lag significantly the fed funds rate during the hiking cycle as the deposits growth is still high, while loan-to-deposit ratio remains near decades low. So, deposit beta should be even lower than it was in the previous cycle when it was markedly lower relative to historical averages. At least, the growth of costs of core deposits still remain restrained even after a substantial growth of the FF rate ytd. On the other hand, CDs costs moved up more significantly. According to bankrate.com, average cost of 6Mo CDs increased by 16 bps qoq to 0.31% in 2Q22 (+15 bps yoy), average cost of 1yr CDs went up by 31 bps qoq to 0.61% (+30 bps yoy), average cost of 5yr CDs added 51 bps qoq to 0.97% (also +51 bps yoy), while cost of interest checking accounts increased just by 4 bps qoq to 0.72% (or +27 bps yoy). Cost of MMAs went up by 1 bps to 0.08% (flat yoy). Median cost of IBD decreased by 3 bps yoy, but +0.5 bps qoq, to 0.07% in 1Q22 vs -1.5 bps qoq, or -5.3 bps yoy, in 4Q21. Median cost of interest-bearing liabilities of BKX index members went down by 3.5 bps yoy, but +0.5 bps qoq, to 0.23% in 1Q22 vs -3 bps qoq, or -7.5 bps yoy, in 4Q21.

After quite weak dynamics in 3Q20-2Q21, the total loan portfolio resumed its growth in 3Q21 and it continues accelerating despite growing recession risks and higher uncertainty.

It returned to a positive growth on a yoy basis in October 2021 and it was already double-digit annualized in 2Q22. All major segments demonstrated a noticeable growth ytd even despite uncertainty related to Russia/Ukraine conflict, supply chain bottlenecks, elevated inflation and a skyrocketing rates growth. Even C&I segment, which was the main drag for growth of the total loan portfolio since 3Q20, has already returned to the positive yoy growth. We expect healthy loan growth rates in coming quarters but further dynamics will depends on how long and deep the recession in 2023 will be. According to the Fed data, the total loans portfolio increased by 3.1% qtd, or +9.7% yoy (as of June 15, 2022). In turn, C&I loans skyrocketed by 5.0% qtd, or +7.8% yoy. We expect that it will continue accelerate in the near term and will demonstrate a double-digit growth rate in 2H22. Despite the significant growth of rates, both CRE and RRE loan growth rates continue going up. Thus, CRE portfolio increased by 2.0% qtd, or +8.2% yoy. RRE added 2.8% qtd, or +8.6% yoy, in 1Q22 (as of June 15, 2022). Consumer portfolio added 1.8% qtd, or +12.2% yoy, driven by credit cards, which showed the fastest growth rate on a yoy basis since the end of 1Q11.

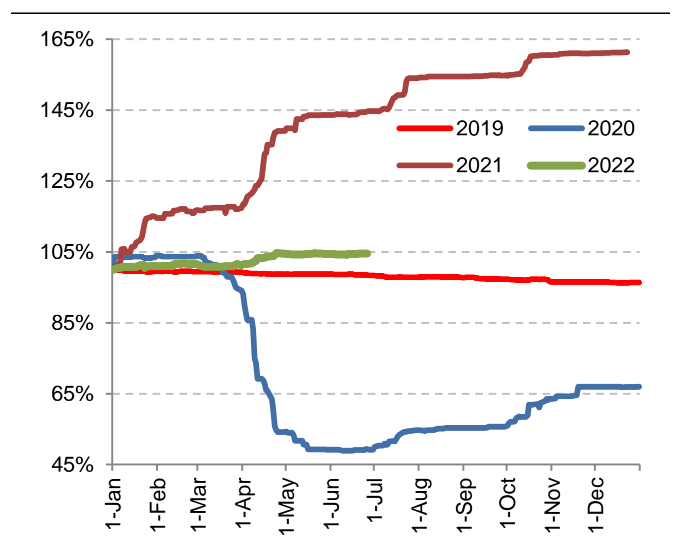
Chart 33. US Banks. Multipliers, Median*



*a sample of 34 banks which we are monitoring

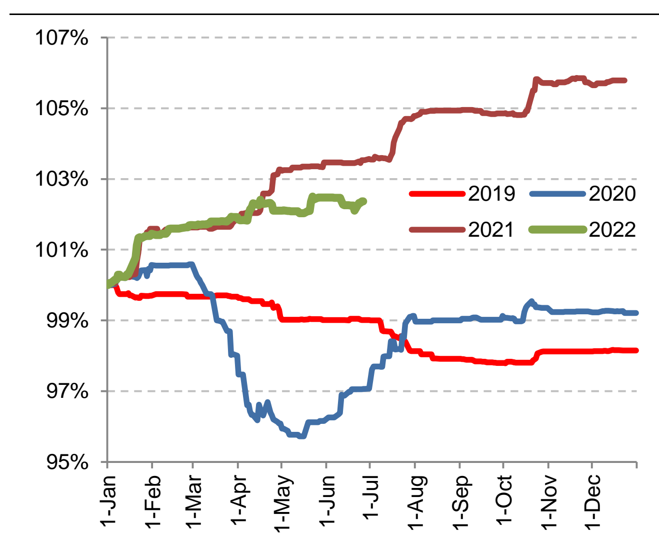
Source: Bloomberg

Chart 34. US Banks. Median CY EPS Est. Dynamics



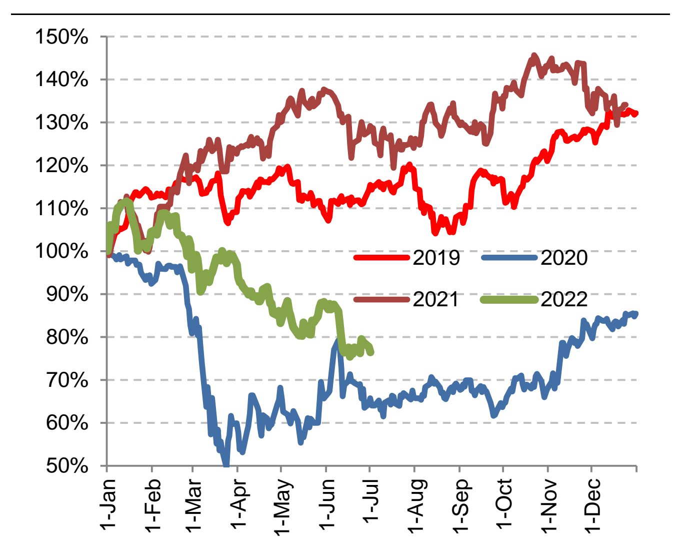
Source: Bloomberg

Chart 35. US Banks. Median CY Rev Est. Dynamics



Source: Bloomberg

Chart 36. BKX Index. Price dynamics



Source: Bloomberg

Non-interest income of our group of banks is expected to decrease by 3.0% yoy, but +3.4% qoq in 2Q22, according to Bloomberg consensus. Moreover, estimates decreased meaningfully in recent months, -4.1% ytd. Despite stronger trading income on a yoy basis

due to higher volatility (values and volumes decreased), other fee categories remain under pressure as a result of a skyrocketing rates growth and higher uncertainty. Thus, IB fees, asset and wealth mgmt. fees as well as mortgage revenues is expected to decline substantially on a yoy basis. Also, service charges will decrease again as banks continue decreasing the size and number of fees because of growing competition, including from FinTech. Even card fees don't look strong, despite a noticeable growth of payments. Nonetheless, fees still remain quite strong vs pre-pandemic levels (median growth vs 1Q20 is expected at 10% and +18% vs 4Q19). On the other hand, non-II growth will inevitably slow down significantly in 2022, to 1-2% yoy from strong 9% yoy in 2021.

Despite fears about OpEx dynamics after 4Q21 earnings season and concerns about wage spiral, costs remained under control, and operating expenses were roughly in-line in 1Q22. Thus, OpEx of 12 out of 24 members of BKX index members were lower than expected (vs just 2 out of 24 banks in 4Q21) with the median surprise of -0.03%. However, median operating leverage of BKX index members was -3.5% in 1Q22 vs -1.4% in 4Q21. A median growth of operating expenses was 4.9% yoy, but flat qoq, in 1Q22 vs +4.9% yoy, or +3.3% qoq, in 4Q21. So, 2Q22 OpEx projections increased by 2.4% ytd. According to Bloomberg consensus, a median decline of OpEx of our group of banks is projected at -0.9% qoq vs -0.1% qoq in 1Q22 and -0.7% qoq in 2Q21. However, a median efficiency ratio is expected to increase by 0.4% qoq, but -4.5% yoy, staying in absolute terms at 60.8%, +0.8% from the 4Q19 level. So, operating leverage is expected to be positive in 2Q22, the first positive figure over the last two years. Moreover, the momentum for operating leverage continues gradually improving due to markedly better revenue dynamics in coming quarters.

The credit quality of US banks loan portfolios remains quite strong and we don't expect that the situation will change in the near future even taking into account the skyrocketing rates growth and much higher recession risks. So, banks continued reserve releasing in 1Q22 (but the scale is much more modest than it was in 2021), but it seems that it was the last quarter of reserve releasing because of much higher economic uncertainty than it was expected even few quarters ago. However, according to forecasts compiled by Bloomberg, total provisions of our group of banks will be just $5.4 Bn in 2Q22 or approximately ¾ of total reserves in pre-pandemic quarters. It will be the second consecutive quarter of positive total provisions of BKX index members after five quarters in a row of negative numbers. Moreover, it is expected that none of the BKX index members will have negative provisions in 2Q2, for the first time over the last 6 quarters. However, 17 out of 24 banks from BKX index demonstrated provision expense lower than expected in 1Q22. Moreover, provisions for 8 of them remained negative in 1Q22, a much lower number than it was even a quarter ago. Total difference of actual provisions with estimates of BKX index members was $1.8 Bn in 1Q22. Total provisions of BKX index members were +$2 Bn in 1Q22 vs -$2.8 Bn in 4Q21 and -$5.4 Bn in 3Q21. Median NCO ratio of BKX index members decreased by 19 bps yoy, or -2 bps qoq, to just 0.12%, remaining noticeably lower than the trough of the last credit cycle. Moreover, NCOs were markedly lower again in 1Q22 with just 4 banks in BKX index with higher than expected NCOs. Median NPL ratio of BKX index members also declined by 20 bps yoy, or -3 bps qoq, to 0.42%. It is roughly in-line with the average level of 2019 year and quite low vs historical averages on a longer time horizon. Further dynamics of provision expenses will mostly depend on a growth rate of the US economy, but we expect gradual normalization of provision expense in coming quarters even if growth rates will be higher than it is currently expected. Median Texas ratio of US banks increased by 17 bps qoq to 3.3%, the first growth over the last 5 quarters, still +77 bps vs 4Q19 but much lower historical averages. Reserve to annualized NCO ratio decreased as a result of reserve releases, 84% qoq in absolute terms, to 832% at the end of 1Q22 vs the high of the previous credit cycle of just 553% shown in 1Q15. Nonetheless, a median growth of provision estimates of BKX index members was around 0% ytd, but within the group,

volatility of estimates was very high.

Capital ratios decreased again in 1Q22 as a result of a significant growth of AOCI losses because of the skyrocketing rates growth. Nonetheless, capital ratios remain solid but it is quite possible that capital deployment will decline in the nearest future as rates continue going up as well as RWA growth accelerated noticeably in the last quarters. Thus, median Basel III CET1 ratio of members of BKX index increased by 15 bps qoq, or -115 bps yoy, to 10.0% in 1Q22. It is the lowest level over the last two years. Moreover, CET 1 ratio was higher than expected just for 5 out of 24 members of BKX index in 1Q22. Median TCE ratio decreased by 31 bps qoq, or -62 bps yoy, to just 6.41%, the lowest figure since 2Q10 and already not so much higher than a median figure of 5.7% at the end of 4Q07. Median dividend yield FY22 est. of our group of banks is currently 3.3% and dividend yield FY23 est. is 3.6%. According to 2022 DFAST stress test results, all banks (34 of the largest US banks) passed the exam, which suggests that the banks have sufficient capital to absorb losses even under the severely adverse scenario. According to the Fed, “under the severely adverse scenario, the aggregate common equity tier 1 (CET1) capital ratio falls from an actual 12.4 percent in the fourth quarter of 2021 to its minimum of 9.7 percent, before rising to 10.3 percent at the end of the projection horizon”. Unsurprisingly, the majority of banks almost immediately announced an increase in dividends after the publication of the stress test results. We expect that capital return projections will continue being revised up in the nearest weeks even despite the growth of the recession risks.

Revenue environment for US banks improved meaningfully in 2022. Moreover, banks are a relatively good hedge against inflation, while the very hawkish Fed increased the probability of a blue sky scenario for US banks, even taking into account higher recession risks. At least in the nearest quarters, banks will demonstrate quite strong operating figures due to a significant acceleration of NII/NIM as a result of a skyrocketing rates growth and a still accelerating loans growth, while the asset quality will remain strong and an OpEx growth will be under control despite very high inflation. Nonetheless, banks won’t manage to avoid a decline of EPS on a yoy basis in 2022 driven by normalization of the credit costs and necessity of tech investments as well as relatively weak dynamics of some fee categories such as mortgage and trading. Risks of recession have increased meaningfully in recent months, which inevitably affected the dynamics of bank quotes. So, banks look quite cheap both vs historical averages and vs SPX. Thus, banks are trading at -2.4/-2.2 std on P/E CY (as of June 30, 2022) or -2.7/-2.4 std on P/E NY (on the basis of samples from 2000 and 2010 years to current moment) relative to historical averages. As for relative to S&P 500, banks are currently trading at -1.4 std and -1.7 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively. On P/B, banks are trading at +0.1 std from the sample mean (2010-current moment) vs +1.1 std for SPX index.

APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price as of 30/06/22, $	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			2022E	2023E	2024E	2022E	2023E	2024E			2022E	2023E	2024E		
American Express	AXP	138.6	194.3	40.2%	199.5	134.3	34.5	104.4	1.5%	1.6%	1.8%	14.2	12.3	11.2	4.7	N. A.	33.4	36.0	34.3	9.8	10.5
JP Morgan Chase	JPM	112.6	153.6	36.4%	173.0	110.9	35.9	330.7	3.6%	3.8%	4.1%	9.8	8.7	8.1	1.3	1.6	12.9	13.5	13.6	5.6	13.1
PNC Financial	PNC	157.8	200.8	27.3%	228.1	150.0	43.8	65.3	3.6%	4.0%	4.3%	11.1	9.5	9.0	1.5	2.0	12.7	14.2	14.0	8.0	10.3
Bank of America	BAC	31.1	46.8	50.2%	50.1	30.6	30.8	250.8	2.8%	3.2%	3.6%	9.4	8.1	7.2	1.0	1.5	10.8	11.7	12.6	5.6	10.6
Citigroup	C	46.0	62.8	36.5%	74.6	45.3	38.7	89.3	4.5%	4.6%	4.9%	6.7	6.5	5.8	0.5	0.6	7.2	7.2	7.4	7.0	12.3
Truist Financial Corp	TFC	47.4	60.2	26.9%	69.0	44.8	47.3	63.1	4.2%	4.5%	4.7%	9.7	8.5	7.7	1.1	2.2	10.4	11.4	11.2	6.5	9.6
Goldman Sachs	GS	297.0	413.3	39.1%	426.1	278.2	47.0	106.3	2.9%	3.3%	3.6%	8.0	7.4	6.6	1.0	1.0	12.7	12.8	13.1	6.5	14.2
Bank of NY Mellon	BK	41.7	52.2	25.1%	64.6	40.3	41.5	33.7	3.4%	3.7%	4.2%	9.4	8.1	7.6	0.9	2.0	9.6	10.4	10.7	4.2	11.2
Comerica	CMA	73.4	95.8	30.5%	102.1	63.1	40.3	9.6	3.7%	4.0%	4.3%	9.7	7.7	7.7	1.4	1.6	14.4	17.1	15.2	7.3	10.1
Citizens Financial	CFG	35.7	49.8	39.7%	57.0	34.5	40.9	17.7	4.6%	4.9%	5.2%	7.9	6.9	6.8	0.8	1.2	9.5	10.2	9.8	7.8	9.9
Regions Financial	RF	18.8	24.7	31.7%	25.6	18.0	38.3	17.5	3.8%	4.3%	4.4%	8.4	7.7	7.6	1.1	1.9	12.9	13.5	12.7	6.7	9.5
Discover Financial	DFS	94.6	136.2	44.0%	135.6	88.1	40.7	26.6	2.4%	2.6%	2.7%	6.2	6.5	6.1	2.1	2.2	32.1	27.3	26.7	11.0	14.8
M&T Bank	MTB	159.4	202.6	27.1%	186.9	128.5	40.1	28.6	3.1%	3.4%	3.8%	11.3	8.6	8.4	1.3	1.8	12.4	14.3	14.8	7.7	11.4
Fifth Third Bancorp	FITB	33.6	46.6	38.6%	50.6	32.6	37.6	23.1	3.7%	4.0%	4.4%	9.2	8.0	7.6	1.3	1.7	13.0	14.0	14.2	7.5	9.5
Huntington Bancorp	HBAN	12.0	15.9	32.5%	17.8	11.7	38.6	17.3	5.2%	5.5%	6.2%	8.5	7.9	7.3	1.1	1.6	12.0	12.1	13.6	6.8	9.3
Northern Trust	NTRS	96.5	124.1	28.6%	135.2	89.8	41.3	20.1	3.0%	3.2%	3.5%	12.2	10.7	9.9	1.8	1.9	15.1	16.1	16.7	6.1	13.2
Synchrony Financial	SYF	27.6	47.7	72.8%	52.4	27.2	33.3	13.9	3.3%	3.4%	3.6%	4.7	4.8	4.3	1.1	1.3	23.5	20.6	20.2	11.4	15.6
KeyCorp	KEY	17.2	23.8	38.1%	27.2	16.7	38.2	16.1	4.7%	5.0%	5.1%	7.7	7.1	6.6	1.2	1.5	14.1	14.3	14.3	6.9	9.5
State Street Corp	STT	61.7	89.5	45.2%	104.9	60.6	38.4	22.6	3.8%	4.1%	4.5%	8.2	6.6	6.1	0.9	1.5	11.8	13.5	13.8	5.2	14.2
US Bancorp	USB	46.0	58.7	27.6%	63.6	44.8	38.1	68.4	4.1%	4.3%	4.7%	10.7	8.9	8.2	1.5	2.3	13.7	15.2	14.8	6.6	10.0
Zions Bancorp	ZION	50.9	67.0	31.6%	75.4	47.1	39.7	7.7	3.1%	3.2%	3.4%	9.0	8.0	8.1	1.3	1.6	13.8	14.9	12.1	6.5	10.2
Morgan Stanley	MS	76.1	102.0	34.1%	109.7	72.2	42.4	133.1	3.8%	4.1%	4.3%	10.5	9.3	8.2	1.4	1.9	13.2	14.2	15.3	6.2	16.0
Capital One Financial	COF	104.2	164.3	57.7%	177.9	98.6	37.7	41.0	2.3%	2.4%	2.7%	5.2	5.5	5.3	0.8	1.1	14.4	12.7	12.5	9.9	13.1
Wells Fargo	WFC	39.2	56.3	43.8%	60.3	36.5	41.1	148.5	2.7%	3.4%	4.1%	9.5	7.7	6.6	0.9	1.1	9.5	11.2	12.3	7.4	11.4
First Republic Banks	FRC	144.2	187.0	29.7%	222.9	133.4	48.2	25.9	0.7%	0.8%	1.0%	16.9	14.8	13.4	2.1	2.1	11.8	12.1	11.6	6.7	9.7
NY Commercial Bancshares	NYCB	9.1	11.8	29.2%	14.3	8.5	46.9	4.3	7.4%	7.4%	7.4%	6.9	6.6	6.0	0.7	1.1	9.3	10.7	10.4	7.2	9.7
SVB Financial	SIVB	395.0	656.4	66.2%	763.2	375.0	37.5	23.2	0.0%	0.0%	0.0%	10.9	8.5	8.0	1.9	2.0	16.5	18.2	17.1	5.7	12.1
Signature Bank	SBNY	179.2	330.7	84.5%	374.8	165.4	39.9	11.3	1.2%	1.3%	1.5%	8.2	6.7	6.3	1.3	1.3	17.8	18.6	17.5	6.6	9.6
East West Bancorp	EWBC	64.8	93.4	44.2%	93.5	61.7	41.2	9.2	2.4%	2.7%	N. A.	9.0	7.6	7.1	1.6	1.8	17.5	18.4	17.2	8.9	12.8
Synovus Financial	SNV	36.1	55.5	53.8%	54.4	34.2	38.2	5.2	3.8%	4.0%	4.3%	7.8	6.9	6.2	1.2	1.4	15.0	15.6	15.8	7.5	9.5
First Horizon National	FHN	21.9	24.9	13.8%	24.2	14.7	46.7	11.7	2.8%	2.9%	3.3%	14.2	12.1	10.7	1.6	2.1	9.8	10.9	N. A.	6.7	9.9
BOK Financial	BOKF	75.6	94.6	25.2%	118.3	74.1	34.6	5.1	2.8%	2.9%	N. A.	12.2	10.1	9.7	1.1	1.4	8.1	9.7	9.9	8.6	12.2
Median				**36.5%**			**39.8**		**3.3%**	**3.6%**	**4.2%**	**9.3**	**8.0**	**7.6**	**1.2**	**1.6**	**12.9**	**13.8**	**13.8**	**6.9**	**10.6**

Source: Bloomberg

APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (30/06/22)	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			2022E	2023E	2024E	2022E	2023E	2024E			2022E	2023E	2024E		
Erste Group	EBS AV	EUR	24.2	42.9	77.3%	45.6	23.9	29.8	10.4	7.2%	7.6%	8.3%	6.0	5.7	5.0	0.6	0.7	10.9	10.6	10.6	4.7	14.5
Raiffeisen Bank	RBI AV	EUR	10.3	15.2	47.3%	28.7	10.0	36.3	3.4	2.4%	3.7%	5.9%	3.9	4.0	3.9	0.3	0.3	7.5	6.3	5.7	6.2	13.1
KBC Groep	KBC BB	EUR	53.5	72.2	34.8%	78.4	45.9	38.0	22.3	8.0%	7.5%	7.9%	8.7	8.9	8.1	1.0	1.1	12.4	11.8	12.5	5.9	16.8
Komercni Banka	KOMB CK	CZK	662.5	1032.1	55.8%	1012.0	650.0	36.2	5.1	10.7%	8.7%	8.7%	7.6	7.7	7.8	1.0	1.1	13.1	12.9	12.3	9.1	20.9
Jyske Bank	JYSK DC	DKK	346.5	411.0	18.6%	421.7	254.3	42.2	3.2	0.0%	0.0%	0.0%	7.3	7.2	6.0	0.7	0.7	8.7	7.8	8.3	5.4	18.2
SydBank	SYDB DC	DKK	217.2	279.8	28.8%	269.0	169.7	36.6	1.7	6.3%	5.9%	6.3%	8.0	8.5	7.8	1.0	1.1	12.5	10.9	11.0	7.2	17.9
Danske Bank	DANSKE DC	DKK	100.3	132.9	32.5%	133.3	93.6	34.9	11.6	7.9%	8.5%	9.0%	6.9	6.4	6.0	0.5	0.5	7.0	7.5	7.6	4.1	17.7
BNP Paribas	BNP FP	EUR	45.4	66.6	46.8%	68.1	43.1	33.4	56.0	8.8%	8.4%	9.4%	5.5	6.0	5.3	0.5	0.6	8.7	7.4	8.0	3.8	12.9
Societe Generale	GLE FP	EUR	20.9	33.0	58.0%	37.7	18.3	32.1	17.5	8.2%	8.8%	9.5%	6.8	4.7	3.8	0.3	0.3	5.7	6.3	7.3	4.0	13.6
Credit Agricole	ACA FO	EUR	8.7	12.4	41.9%	14.3	8.6	35.2	26.4	9.2%	8.9%	10.2%	7.4	5.8	5.1	0.4	0.5	6.0	7.5	7.8	2.2	11.9
Virgin Money	VMUK LN	GBp	130.8	234.2	79.1%	218.7	122.7	40.7	2.2	0.1%	0.1%	0.1%	4.0	4.3	3.9	0.3	0.4	9.3	8.1	8.3	5.7	14.9
HSBC	HSBA LN	GBp	535.6	629.6	17.6%	567.2	358.5	54.0	124.7	0.1%	0.1%	0.1%	8.5	6.3	5.6	0.8	0.9	5.9	9.2	9.9	5.3	15.8
Natwest Group	NWS LN	GBp	218.3	297.1	36.1%	258.1	182.9	46.8	26.5	0.1%	0.1%	0.1%	8.5	6.5	5.7	0.7	0.8	7.2	9.1	10.0	4.0	18.2
Barclays	BARC LN	GBp	153.1	229.6	49.9%	219.6	140.1	42.7	29.4	0.0%	0.1%	0.1%	5.2	5.1	4.6	0.4	0.5	7.7	7.7	7.9	3.6	15.1
Standard Charted	STAN LN	GBp	618.6	761.6	23.1%	641.0	406.2	55.4	21.3	0.0%	0.0%	0.0%	6.6	5.1	4.2	0.5	0.6	6.0	7.3	8.2	4.9	14.1
Lloyds	LLOY LN	GBp	42.3	60.8	43.6%	56.0	38.1	41.4	33.9	0.1%	0.1%	0.1%	6.7	6.7	6.2	0.6	N. A.	9.5	9.4	10.2	4.6	17.3
Commerzbank	CBK GY	EUR	6.7	9.4	40.9%	9.5	5.0	34.5	8.4	3.8%	6.0%	9.5%	8.2	5.9	4.5	0.3	0.3	3.8	4.8	6.6	5.2	13.6
Deutsche Bank	DBK GY	EUR	8.3	13.2	58.2%	14.6	8.1	31.6	17.2	3.6%	5.0%	6.9%	5.2	4.8	4.1	0.3	0.3	5.2	6.0	6.5	3.9	13.2
UniCredit	UCG IM	EUR	9.1	14.5	59.5%	15.9	7.8	35.1	19.8	5.5%	7.5%	10.2%	7.1	4.9	3.7	0.4	0.4	4.4	6.3	7.3	5.8	15.8
Mediobanka	MB IM	EUR	8.3	11.4	37.8%	10.9	7.2	32.9	7.1	8.9%	8.6%	9.0%	7.8	8.0	7.7	0.6	N. A.	8.3	8.0	8.2	12.5	16.3
Intesa Sanpaolo	ISP IM	EUR	1.8	2.6	48.0%	2.9	1.7	37.7	34.6	8.5%	11.2%	12.6%	8.2	6.4	5.7	0.6	0.7	6.8	8.4	9.3	4.5	14.5
Emilia Romagna	BPE IM	EUR	1.6	2.6	63.0%	2.2	1.2	36.4	2.2	6.3%	8.5%	11.7%	6.7	5.1	4.1	0.3	0.4	4.6	5.1	6.0	4.5	14.5
ING Groep	INGA NA	EUR	9.4	13.5	42.9%	13.6	7.7	42.0	36.8	7.5%	7.7%	8.9%	8.9	7.0	5.8	0.7	0.7	7.2	8.9	10.0	5.6	15.9
ABN Amro	ABN NA	EUR	10.7	13.4	24.6%	15.4	9.1	45.1	10.1	5.2%	5.9%	8.3%	9.1	8.2	6.1	0.5	N. A.	5.2	5.7	7.1	5.0	16.3
BBVA	BBVA SQ	EUR	4.3	6.3	46.0%	6.3	4.1	41.4	27.7	8.2%	9.1%	9.5%	5.7	5.3	5.0	0.7	0.7	10.6	10.9	10.9	6.3	13.0
Santander	SAN SQ	EUR	2.7	4.0	49.1%	3.5	2.5	41.5	45.9	5.2%	6.5%	7.2%	5.3	5.1	4.7	0.5	0.6	9.3	9.1	9.2	4.5	12.5
Bankinter	BKT SQ	EUR	6.0	6.3	6.3%	6.3	4.0	55.0	5.4	4.3%	5.2%	5.8%	11.8	9.6	8.6	1.1	1.2	9.5	11.0	11.5	4.3	12.1
Sabadell	SAB SQ	EUR	0.8	1.1	39.2%	1.0	0.5	42.8	4.3	4.5%	6.3%	7.2%	8.5	6.4	5.6	0.3	0.4	4.3	5.4	6.6	4.2	12.2
CaixaBank	CABK SQ	EUR	3.3	3.9	17.9%	3.6	2.2	47.8	26.7	5.9%	6.9%	8.0%	10.5	8.7	7.5	0.7	0.9	7.1	8.2	9.2	4.5	13.2
SEB	SEBA SS	SEK	100.4	126.4	25.9%	141.9	91.6	35.3	20.4	5.7%	6.1%	6.4%	9.2	8.7	8.1	1.2	1.2	11.9	11.8	12.1	5.6	19.7
Handelsbanken	SHBA SS	SEK	87.4	111.7	27.8%	104.7	82.9	33.4	16.2	7.8%	8.0%	8.4%	9.1	8.7	8.2	1.0	1.0	10.5	10.3	10.4	5.2	19.4
Swedbank	SWEDA SS	SEK	129.3	182.9	41.4%	194.1	128.4	32.2	13.7	7.3%	7.9%	8.7%	7.4	7.0	6.6	0.9	1.1	11.8	12.0	12.0	5.2	18.3
Nordea	NDA SS	SEK	90.0	120.9	34.3%	117.2	85.3	33.0	31.5	0.7%	0.8%	0.9%	9.5	11.3	9.6	1.1	1.2	10.6	12.0	12.6	5.1	17.0
Julious Baer	BAER VX	CHF	44.0	62.7	42.3%	66.0	42.2	40.6	9.4	6.0%	6.4%	7.0%	8.6	7.8	7.1	1.4	2.3	15.5	16.3	16.3	3.6	16.4
Credit Suisse	CSGN VX	CHF	5.4	7.0	29.9%	10.1	5.3	32.9	14.4	2.2%	3.8%	4.7%	13.6	6.2	5.1	0.3	0.3	1.9	5.3	5.8	5.4	14.4
UBS	UBSG VX	CHF	15.4	21.7	41.1%	19.6	12.9	38.2	54.2	3.4%	3.6%	4.0%	6.9	6.5	5.6	0.9	1.0	12.5	12.6	13.2	4.9	15.0
Median					**41.3%**			**37.1**		**5.6%**	**6.4%**	**7.6%**	**7.5**	**6.4**	**5.7**	**0.6**	**0.7**	**8.0**	**8.3**	**9.2**	**5.0**	**15.1**

Source: Bloomberg

APPENDIX

Table 3. Calendar

Date	Region	Section	Event	Period
1-Jul	EU	Macro	CPI	Jun
1-Jul	US	Macro	Construction Spending	May
1-Jul	US	Macro	ISM Manufacturing	Jun
4-Jul	EU	Macro	PPI	May
5-Jul	US	Macro	Factory Orders	May
6-Jul	EU	Macro	Retail Sales	May
7-Jul	US	Macro	ADP Employment Change	Jun
7-Jul	US	Macro	Trade Balance	May
8-Jul	US	Macro	Employment Report	Jun
8-Jul	US	Macro	Consumer Credit	May
12-Jul	US	Macro	NFIB Small Business Optimism	Jun
13-Jul	EU	Macro	Industrial Production	May
13-Jul	US	Macro	CPI	Jun
13-Jul	US	Macro	Monthly Budget Statement	Jun
14-Jul	**US**	**Corporate**	**JPMorgan Chase. Earnings Announcement**	**2Q22**
14-Jul	US	Macro	PPI	Jun
15-Jul	US	Corporate	Wells Fargo. Earnings Announcement	2Q22
15-Jul	US	Corporate	Citigroup. Earnings Announcement	2Q22
15-Jul	US	Macro	Empire Manufacturing	Jul
15-Jul	US	Macro	Retail Sales	Jun
15-Jul	US	Macro	Industrial Production and Capacity Utilization	Jun
15-Jul	US	Macro	U. of Mich. Sentiment	Jul
18-Jul	US	Corporate	Bank of America. Earnings Announcement	2Q22
19-Jul	US	Macro	Housing Starts and Building Permits	Jun
20-Jul	EU	Macro	Consumer Confidence	Jul
20-Jul	US	Macro	Existing Home Sales	Jun
21-Jul	**EU**	**Macro**	**ECB Main Refinancing Rate**	**Jul 21**
21-Jul	US	Macro	Leading Index	Jun
22-Jul	EU	Macro	S&P Global Eurozone Manufacturing, Services and Composite PMI	Jul
22-Jul	US	Macro	S&P Global US Manufacturing, Services and Composite PMI	Jul
26-Jul	US	Macro	FHFA House Price Index	May
26-Jul	US	Macro	Conf. Board Consumer Confidence	Jul
26-Jul	US	Macro	New Home Sales	Jun
27-Jul	EU	Corporate	Deutsche Bank. Earnings Announcement	2Q22
27-Jul	US	Macro	Durable Goods Orders	Jun
27-Jul	US	Macro	Pending Home Sales	Jun
27-Jul	**US**	**Macro**	**FOMC Rate Decision**	**Jul 27**
28-Jul	EU	Corporate	Barclays. Earnings Announcement	S1 22
28-Jul	EU	Macro	Economic and Industrial Confidence	Jul
28-Jul	EU	Macro	Industrial Confidence	Jul
28-Jul	**US**	**Macro**	**GDP**	**2Q**
29-Jul	EU	Macro	CPI	Jul
29-Jul	**EU**	**Macro**	**GDP**	**2Q**
29-Jul	US	Macro	Personal Income and Spending	Jun