BANKING SECTOR REPORT – March 2021

EXECUTIVE SUMMARY

US banks outperformed the broad market in March, the sixth month in a row of outperformance after five consecutive months of weaker dynamics. BKX index increased by 5.9% MoM vs +4.2% MoM of SPX index. Absolute March performance was +0.8 std from the mean monthly performance and it is in the top 19% since index inception. In February, it was shown the 9th-best monthly performance in history. Relative March performance was +1.6% MoM. It is +0.4 std from the mean monthly performance and it is in the top 33% of relative performance vs SPX index since index inception. Despite to significant outperformance in recent months, when BKX index outperformed SPX by 39.1% over the last 6 months, it still underperformed the broad market by 13.8% since the end of 2019.

All members of BKX index except for PBCT, KEY and SIVB ended the month in the green. Thus, the key outperformers were trust banks which were the key laggards in February. The key March laggard was SIVB which was one of the best performers during the last 12 months, almost tripling over the period.

The earnings season of US banks will start on the 14th of April, when 1Q21 results are provided by JP Morgan and Wells Fargo. After that, all members of BKX index will provide quarterly results within two weeks. US banks reported much better both revenue and EPS figures in two recent quarters though revenue environment was quite challenging. Operating environment got slightly better since then while the long-term outlook improved significantly. Unsurprisingly, positive EPS momentum, which began in 3Q20, remains, and estimates were revised significantly up ytd as a result of new fiscal stimulus, an ongoing vaccination campaign and an acceleration of the economic recovery. Thus, according to Bloomberg consensus, a median growth of 1Q21 EPS of BKX index members was 19.1% ytd but still -6.3% vs the end of 2019 (as of the end of March). 1Q21 EPS estimates dynamics was negative ytd only for BK and STT while COF's consensus increased by more than 45% ytd. Full-year estimates for both current and next year were also revised up meaningfully on ytd basis. A median growth of EPS 2021/2022 of BKX index members was +17.2%/+6.7% ytd, respectively, but projections were still -10.3%/-10.5% vs pre-pandemic levels. 1Q21 revenue estimates increased by 1.8% ytd, still remaining markedly below pre-pandemic levels, -3.9% since then.

From our point of view, the drivers of mid-term EPS growth which could move banking quotes higher include a faster loan growth, higher short-term rates and a growth of capital returns. We believe that EPS growth on reserve releases as a result of strong credit quality of US banks loan portfolios and a much better economic outlook is already fully priced. So, as a result of optimism about a faster economic recovery and ongoing vaccination campaign, key benchmark rates increased significantly ytd. On the other hand, a growth of the loan yields remained restrained so far, especially for C&I loans which yields are linked to the short end of the curve. Notwithstanding, rate expectations moved also meaningfully up recently. Thus, according to FF futures, the first rate hike is expected till the end of 2022 while the Fed's dot plot pointed to the first rate hike only in 2024. It seems that the market is too optimistic about dynamics of the short end in coming years but the fact is that the rate environment is no more a headwind for NIM. A loan growth remains relatively weak, but it should accelerate markedly in 2H21. Thus, a solid growth of other consumer loans in 1Q21 was leveled by a decline of mortgage loans. Due to lifting temporary restrictions on dividends and buybacks after June 30, 2021 we expect a significant growth of capital returns in 2H21 which among other things will lead to the noticeable growth of EPS.

As a result of a number of positive news in recent months, **banking quotes increased meaningfully in last six months, even despite operating environment still remains challenging. Notwithstanding, the situation is beginning to change for the better. On the other hand, much of the expectations are already in the price, from our point of view.** So, if the upcoming earnings season doesn't meet the expectations, especially in terms of a further loans growth, expected NIM dynamics and future capital returns, we will see a correction in US banking stocks given the recent rally and the fact that US banks aren't already cheap vs historical averages. But they are still undervalued vs the broad market. Thus, banks are trading with 0.0/0.0 std on P/E CY (as of March 26, 2021) and +0.4/+0.6 std on P/E NY (on the basis of samples from 2000 and 2010 years to current moment) relative to historical averages (as of the end of February). As for relative to S&P 500, banks are currently trading at -1.6 std and -1.2 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively. On P/B, banks are trading with +0.6 std from the sample mean (2010-current moment) vs +2.8 std for SPX index. **Notwithstanding, we still see ongoing momentum in US banks and recommend buying on dips but being selective as valuations of a number of banks look rich, from our point of view.**

EU banks increased significantly on an absolute basis in March 2021 after it was shown the third-best monthly performance in the index history both on an absolute and relative basis in February. Notwithstanding, it underperformed the broad market again, the third month of weaker dynamics over the last 4. Thus, on an absolute basis, SX7P increased by 6% MoM in March or +0.8 std from the mean and it is in the top 14% of absolute monthly performance of SX7P index. On the other hand, relative monthly performance was -0.1% MoM, but +0.1 std, and it was the median relative monthly performance for SX7P index since inception. It was the very strong first quarter of the year after 3 clearly weak previous years. Thus, SX7P index underperformed in each of three last years and it is still 30% lower than it was at the end of 2017, underperforming STOXX 600 index by 32% over this period.

The key outperformer in March was Sydbank due to much better 4Q20 results. It increased by more than 20% MoM. **The key underperformer in March was Credit Suisse which was at the center of the scandal with Archegos.** CS's losses could be up to $4 Bn. Also, regulator's sanctions are quite possible. Unsurprisingly, CS lost almost 25% MoM.

Despite to a better economic outlook, a markedly higher long end of the curve and stronger 4Q20 earnings season, NI projections of EU banks were almost unchanged in March with a median growth of just +0.3% MoM for both 2021E and 2022E. As a result of a slower than expected EU's vaccine rollout campaign, risks are still tilted to downside but risks became more balanced, according to the ECB. The ECB acknowledged at March meeting that incoming economic data, surveys and high-frequency indicators pointed to continued economic weakness in 1Q21 and it is quite possible that 1Q21 GDP growth would be negative on qoq basis again, implying the second technical recession over the last 5 quarters. Notwithstanding, the ECB remains optimistic, but GDP growth projections for three nearest years were almost unchanged in March 2021 vs December 2020. Moreover, despite to markedly higher inflation forecast for 2021, it was announced that purchases under PEPP over 2Q21 to be conducted at a significantly higher pace than it was in 1Q21 to improve financial conditions in the EU given a recent growth of the long end. In any case, the key near-term profit driver for EU banks will remain reserve releases while revenue environment will remain challenging. So, we don't expect that EPS estimates will return to 2019 levels not earlier than in 2H22, but it seems that the market is currently looking much further in time. On the other hand, EU banks don't already look clearly cheap. Thus, premium to historical averages is just 2% (+0.1 std at the moment from mean P/E NY of SX7P index members, sample from 2010 to the present) but discount to US peers (on

median P/E NY of BKX index vs SX7P index) is 25% as of March 26, 2021 vs an average since 2010 of 20%, or -0.5 std. **Notwithstanding, we remain tactically bullish on EU banks and we recommend buying on dips, but we continue to prefer US banks to EU ones in the longer run.**

MARKET PERFORMANCE

US

US banks outperformed the broad market in March 2021, the sixth month in a row of outperformance after five consecutive months of weaker dynamics. BKX index increased by 5.9% MoM vs +4.2% MoM of SPX index. Absolute March performance was +0.8 std from the mean monthly performance and it is in the top 19% since index inception. In February, it was shown the 9th-best monthly performance in history. Relative March performance was +1.6% MoM. It is +0.4 std from the mean monthly performance and it is in the top 33% of relative performance vs SPX index since index inception. Despite to significant outperformance in recent months, when BKX index outperformed SPX by 39.1% over the last 6 months, it still underperformed the broad market by 13.8% since the end of 2019.

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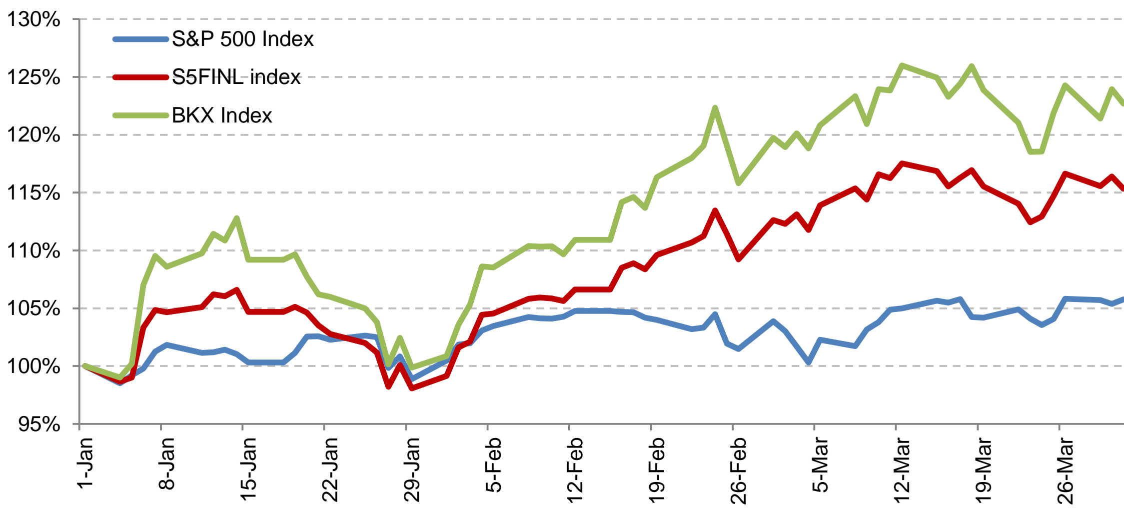
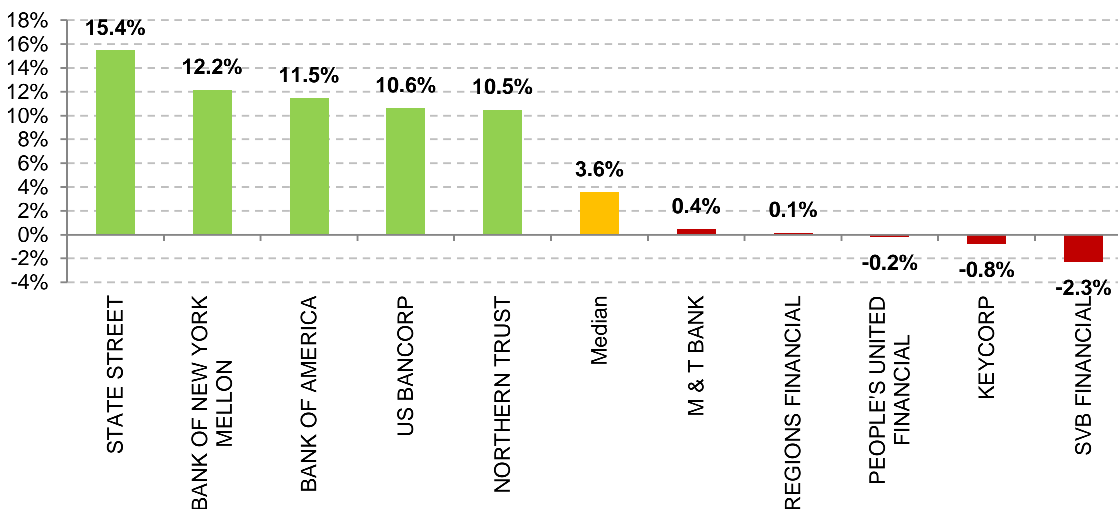
Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

Chart 2. March US Banks Performance. Leaders and Laggards, MoM Price Change,%



Source: Bloomberg

Europe

EU banks increased significantly on an absolute basis in March after it was shown the third-best monthly performance in the index history both on an absolute and relative basis in February. Notwithstanding, it underperformed the broad market again, the third month of weaker dynamics over the last 4. Thus, on an absolute basis, SX7P increased by 6% MoM in March, or +0.8 std from the mean, and it is the top 14% of absolute monthly performance of SX7P index. On the other hand, relative monthly performance was -0.1% MoM, but +0.1 std, and it is the median relative monthly performance for SX7P index since inception. It was the very strong first quarter of the year after 3 clearly weak previous years. Thus, SX7P index underperformed in each of the 3 last years and it is still 30% lower than it was at the end of 2017, underperforming STOXX 600 index by 32% over this period.

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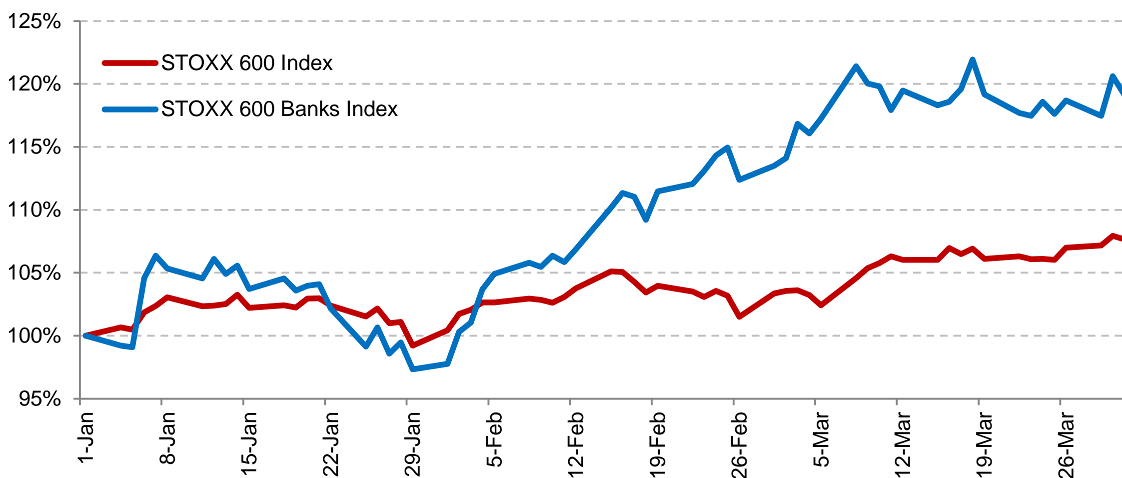
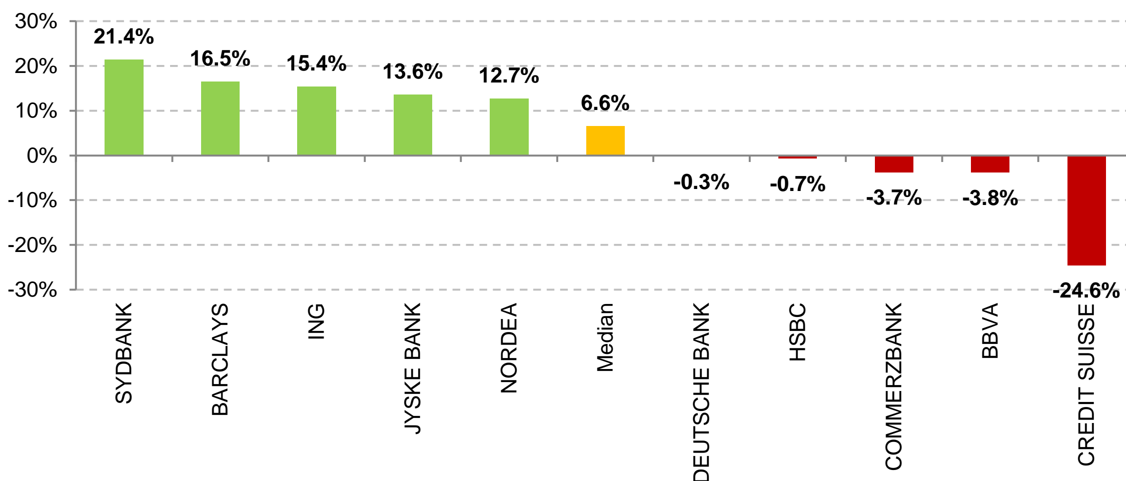
Chart 3. EU Banks Performance. SX7P Index vs STOXX 600 Index



Source: Bloomberg

Chart 4. March EU banks performance. Leaders and Laggards, MoM Price Change,%



Source: Bloomberg

COMPANY NEWS

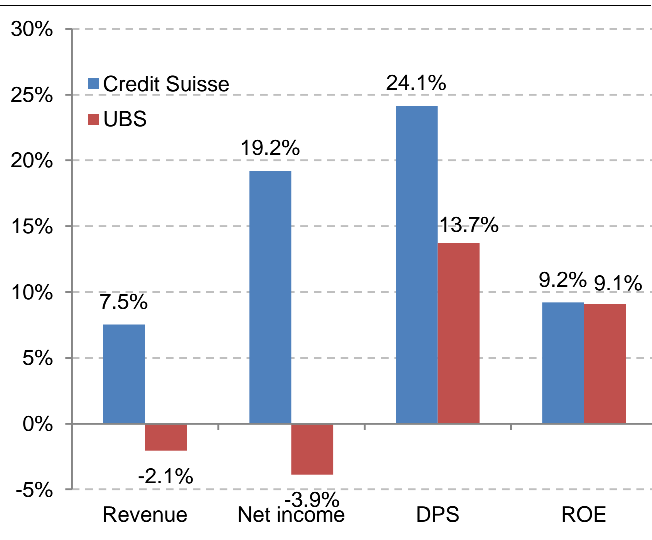
EU

Credit Suisse. Archegos-linked Losses

On March 29, 2021 Credit Suisse (CS) issued a press release in which the bank said that it could suffer a loss in 1Q21 as a result of a significant US-based hedge fund defaulted on margin calls. The loss wasn't specified but it was noted – "at this time it is premature to quantify the exact size of the loss resulting from this exit, it could be highly significant and material to our first quarter results". CS assured that further details would be provided later. According to media reports, the loss could be up to $4-5 Bn, more than the bank's last year profit. As a result of the news, CS's shares decreased by 13.8% on the day of the announcement and it ended the month with a 20.6% lower closing price on March 26. CS's debt prices also tumbled.

Recall that earlier in March CS announced that it had to liquidate the supply chain finance funds managed by Credit Suisse Asset Management (CSAM) with assets originated and structured by Greensill Capital, which went to insolvency. Closed assets were around $10 Bn and it is quite possible that CS would also suffer losses because of the closure. The bank also didn't specify possible losses size but according to various estimates it could exceed $1 Bn. Unsurprisingly, rating agencies have already changed their outlooks on CS's ratings, to negative from stable. According to S&P, "the incident raises questions about the quality of risk management, the group's risk appetite, and adequacy of the risk return profile". We don't think that it will damage financial stability of the bank but it will clearly impact on CS's buyback plans of 1-1.5 Bn CHF. Moreover, it is quite possible that there will be issues with regulators. And it is more risky for the nearest future of CS's shares than the size of loss, from our point of view. First of all, it is a prolonged period of uncertainty. Second of all, the resulting fine may well be comparable to the losses already incurred. Moreover, the bank is likely to be forced to invest heavily in improving its risk management process.

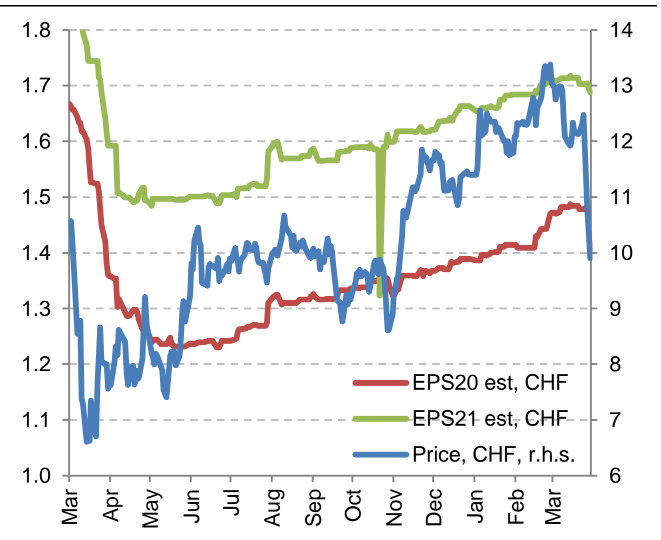
Chart 5. CS vs UBS. Key Forecasts*



* Growth rates FY 2023E vs 2020A, as the end of March; ROE – absolute 23E figures

Source: Bloomberg

Chart 6. CS. Price and EPS dynamics



Source: Bloomberg

As of the end of 2020, CS's CET1 ratio was 12.9%, implying a marked buffer above the minimum requirement (but noticeably lower than UBS's one). On the other hand, CS's CET1 target is 12.5% and it means that it will be below the target at the end of 1Q21. But internal capital generations will help the bank to meet the CET1 target till the end of 2021

even in case of executions of its buyback plans. However, it will not in the case of any regulator's actions against the bank.

Despite CS delivered relatively strong results so far with 9 quarter of positive EPS surprises in a row, we recommend being on the sidelines, even taking into account a significant decline in the recent days. Net income estimates have just started to go down. So, current multipliers still look pretty attractive. Thus, current CS's P/B is 0.6x with consensus 2021E ROE of 6.9% vs 0.6x of EU banks and 6.2% ROE estimates. P/E 21E & 22E are 7.2x and 5.9x, respectively, vs 11.9x and 9.1x for EU banks. But we expect that NI/EPS estimates will be lowered significantly in the near term. Moreover, we expect significant regulatory issues for CS and long period of uncertainty. **Given recent examples of banks with regulatory issues dynamics, we expect that CS will continue underperforming the industry in the coming quarters.**

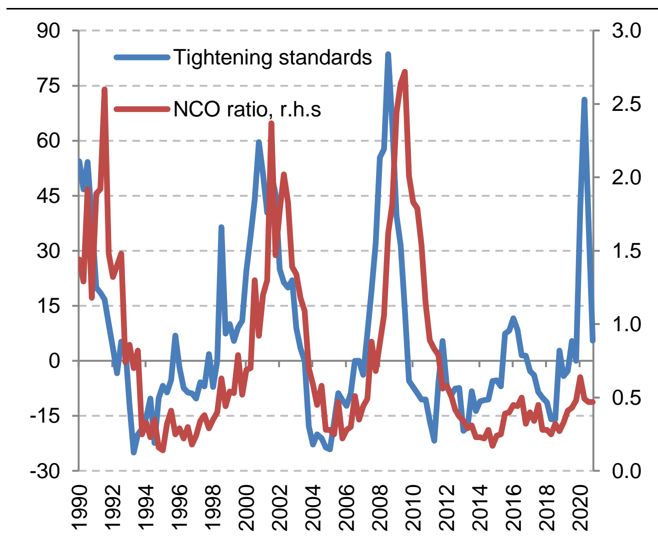
MACROECONOMIC NEWS

US

C&I loans

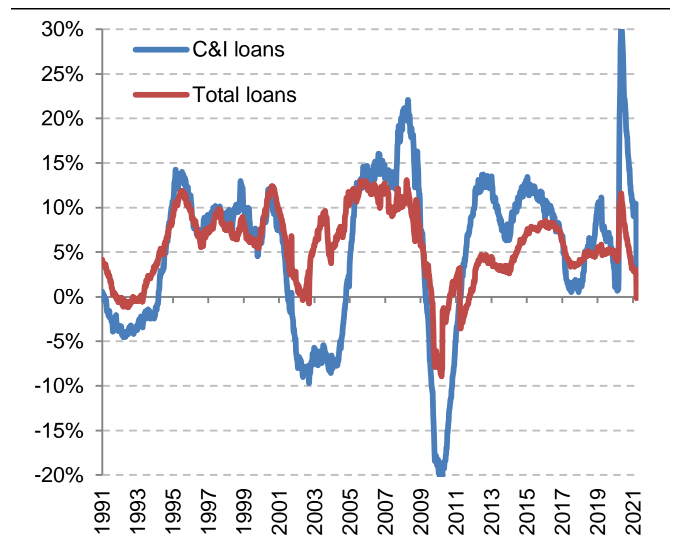
C&I loan growth was relatively weak in 2H20 and the beginning of 2021 wasn't also strong but it was positive ytd. After skyrocketing growth in 1H20 as a result of liquidity needs, it declined on qoq basis in both quarters of 2H20 due to a normalization of liquidity situation, a boom on debt markets and lower CapEx needs. Since May 13 2021, when it reached the local high, it decreased by $456 Bn, or -14.9%, explaining more than 90% of a total loan portfolio decline over this period. It is again weak on yoy basis as a result of skyrocketing growth of C&I loans in spring months of 2020. So, it will be negative in the nearest quarters even despite to an ongoing vaccination campaign, new fiscal stimulus and an acceleration of the US recovery. Moreover, banks continue to tighten lending standards while CapEx and inventory financing needs remain weak, and demand for liquidity is still going down. According to the Fed H.8 survey, C&I loans increased by 2.6% yoy (as of the 17th of March) vs +8.6% yoy 1 year ago. On ytd basis, C&I loans increased by 0.2% vs flat total loans ytd.

Chart 7. C&I. Loan Standards vs NCOs, %



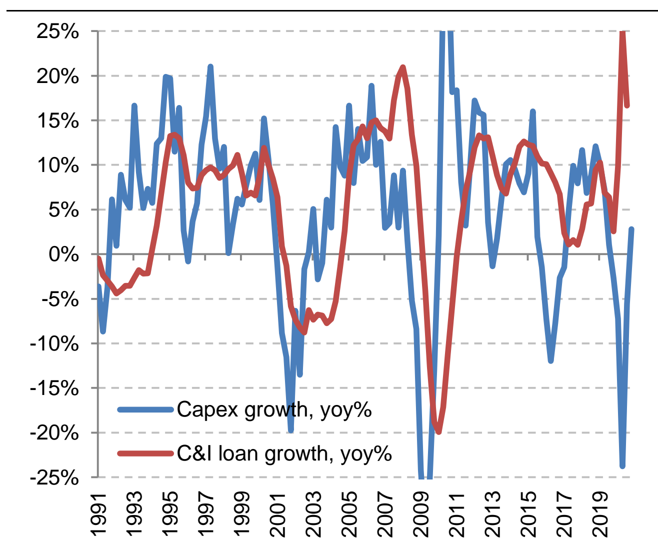
Source: Bloomberg

Chart 8. Loan Growth. C&I vs Total loans, YoY%



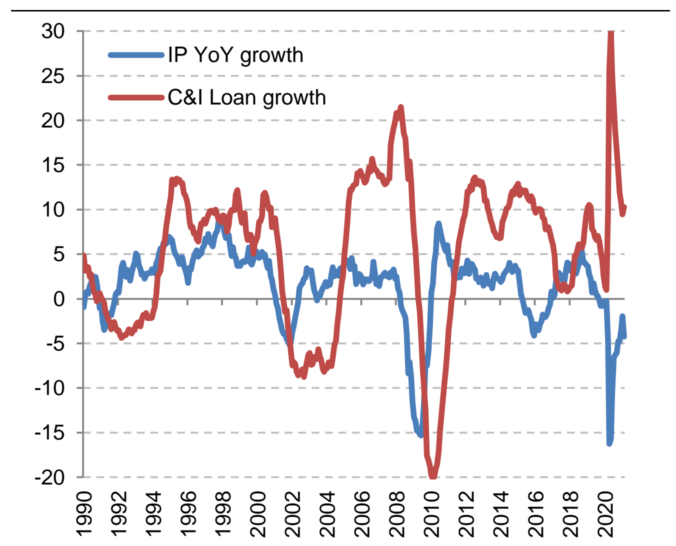
Source: Bloomberg

Chart 9. C&I. Loan Growth vs CAPEX



Source: Bloomberg

Chart 10. C&I. Ind. Production vs Loan Growth YoY%



Source: Bloomberg

Support measures have certainly had a positive impact on the financial health of the US corporate sector, and credit indicators still look pretty resilient at the moment, especially taking into account the degree of the turmoil and a relatively high leverage of the US corporate sector before the pandemic. Notwithstanding, risks are still relatively high as a result of the next waves of the pandemic. From the other hand, the long term prospects look encouraging as a result of the start of the vaccination campaign and an adoption of new fiscal stimulus. The quality indicators may get worse before they get better, but banks have already begun releasing corporate reserves, implying that the current situation is much better than feared few quarters ago. Moreover, corporate bond spreads decreased below their historical averages after an explosive growth in 1H20. However, it doesn't mean that the situation has completely returned to normal. At least, spreads in the most affected sectors are still elevated. Notwithstanding, it definitely means for us that the worst is over.

Despite to concerns about a deterioration of C&I credit quality over the recent quarters (and a total loan portfolio in general as well), it remains benign so far and there wasn't any significant deterioration of credit quality in 2H20 after a noticeable deterioration in 2Q20. As of industry average figures (latest available data), according to the FDIC data, 30-89 delinquency rate even decreased by 5 bps yoy, or -1 bps qoq, to 0.26% in 4Q20. Being a leading indicator of asset quality, it confirms that it remains in a good shape so far despite to a recent recession in the US economy. FDIC's NCO ratio decreased by 1 bps qoq, but +5 bps yoy, to 0.48%, still lower than average figures of the last two cycles. Noncurrent rate increased by 20 bps yoy, but -4 bps yoy, to 0.99%. According to the Fed data, delinquency ratio increased by 17 bps yoy, but flat qoq, at 1.3% in 4Q20, the highest figure over last 13 quarters. In turn, NCO ratio decreased by 10 bps qoq, but +6 bps yoy, to 0.42% in 4Q20, still just 2 bps higher than an average over last 10 years.

Till the start of the pandemic, financial health of the US corporate sector was solid even despite to a relatively high leverage. Thus, ROA was high, quick ratios were sound while interest expense coverage was strong but deteriorated as a total profit of the sector was flat in recent quarters. The situation changed considerably in March 2020 and it continued to deteriorate in 2Q20-3Q20 even despite to a relatively fast economic recovery. Given the high leverage of the US corporate sector and an inevitable decline of revenues because of a deep recession in the USA in 1H20, accompanied by a skyrocketing growth of corporate spreads, especially for non-investment grade companies (but spreads have already declined markedly from the recent highs), we saw a significant drop of interest coverage ratios in 1H20 even despite to the fed funds rate was cut to zero. From the other hand, the situation has improved considerably in recent quarters. Thus, median EBIT to interest expense ratio of S&P 500 index (excluding financials) increased from 5.2x as of the end of 2Q20 to 8.5x as of the end of 2020 (a preliminary figure), being even higher than it was in 2019. Notwithstanding, the percent of companies with the ratio below 1 remains relatively high, 13.6% in 4Q20 vs just 6.3% in 4Q19, implying that the stress in the sector is still high. The Fed actions just slowed down somewhat a growth of NPLs and NCOs but don't prevent it. However, we don't expect that it could be a problem for US banks given the size of reserves they built in 2020.

January 2021 Senior Loan Officer Opinion Survey indicated that C&I lending standards and terms were tightened again in 4Q20. Tightening was broad based across all major loan terms but not across bank sizes. Unsurprisingly, the key reasons for tightening were a less favourable and more uncertain economic outlook, a worsening of industry-specific problems, and a reduced tolerance for risk. It is a bit surprising given markedly better growth projections for 2021 and 2022 years. Banks also reported a weaker demand again in 4Q20. From the other hand, banks noted that inquiries from potential borrowers were relatively unchanged in 4Q20. The key drivers of weaker demand were lower needs for inventory and receivables financing as well as lower investment needs in plant or

equipment. As for 2021 expectations, “banks reported expecting tighter standards for most business loans”, “except C&I loans to large and middle-market firms, for which banks expect to leave standards unchanged over 2021”. “Meanwhile, significant net shares of banks expect stronger demand across all business loan categories. Additionally, banks expect loan performance to deteriorate for all types of business loans, with the notable exception of C&I loans to large and middle-market firms, for which credit quality is expected to improve over 2021”.

Macro data published in March 2021 were markedly better than expected given weather restrictions in February. Although industrial production was significantly lower than expected, an employment report was quite strong while soft manufacturing figures still remain solid. Taking into account new fiscal stimulus, we expect a further acceleration of the US recovery. Thus, ISM manufacturing index increased by 2.1 pts MoM to 60.8 pts in February, markedly beating consensus of 58.9 pts after weaker figures in January. The employment report was significantly better than expected in February, after several months of clearly weak figures. Thus, manufacturing payrolls increased by 21K in February vs consensus of +15K, after it went down by 14K in January (revised down from initial estimate of -10K). In turn, total payrolls increased by 379K in February vs consensus of +200K, after it increased by 166K in January (revised up from initial estimate of +49K) following a significant decline in December. And the beat was widespread, confirming a broad-based acceleration of the economy. Notwithstanding, employment is still almost 10 mln lower than it was just before the pandemic. Unemployment rate decreased by 10 bps on a MoM basis to 6.2% after it tumbled by 40 bps in January as a result of labour force exits. Notwithstanding, unemployment remains elevated but markedly lower than the high of the GFC and it is quite resilient given the next waves of the pandemic. Given new fiscal stimulus, street estimates continue improving. Thus, according to Bloomberg survey conducted in March, GDP growth rates were estimated at 5.5%/4.0%/2.4% yoy for 2021/2022/2023, respectively vs 4.9%/3.7%/2.5% in February. Industrial production decreased by 2.2% MoM in February vs consensus of +0.3% MoM after growing by 1.1% in January and by 1.3% MoM in December. So, it is still -4.3% yoy as a result of the meltdown in 2Q20, when IP decreased to levels last seen during the GFC. Capacity utilization decreased by 1.7 p.p. MoM in absolute terms to 73.8% in February, from revised down by 10 bps January estimate. Unsurprisingly, it is still markedly below relative to pre-COVID levels. In turn, Empire manufacturing index increased by 5.3 pts MoM to 17.4 pts in March, the second consecutive month of a substantial growth. So, it is again markedly higher than an average level of 2019. Preliminary Markit manufacturing PMI increased by 0.4 pts MoM to 59 pts in March vs consensus of 59.5 pts after it decreased slightly in February. Notwithstanding, it is still remaining more than 20 pts higher than 2020 low and even 9 bps higher than pre-COVID levels, despite to the next waves of the pandemic and weaker employment figures in recent months. So, consensus IP growth forecasts improved meaningfully in the recent months, to 6.3%/3.7%/2.6% yoy in 2021/2022/2023 in March, respectively, from 5.9%/3.4%/2.4% in February.

CRE

Growth rate of commercial real estate loans still remains pretty resilient despite to a significant negative effect of the pandemic on some CRE subsegments and geographies, such as retail/hotels and NY/CA. However, loan growth rate has decelerated markedly in recent months and it was flat ytd even despite CRE fundamentals in a number of segments have already begun to recover from the summer trough. Thus, according to the last Fed H8 weekly report, CRE loan growth was +2.0% yoy (as of March 17, 2021) vs +6.6% yoy one year ago. Despite to a significant deterioration of CRE fundamentals in 2Q20 and 3Q20, there were clear signs of improvements in the recent months. The start of the vaccination campaign isn’t a panacea right now, at least for a number of CRE subsegments, and it

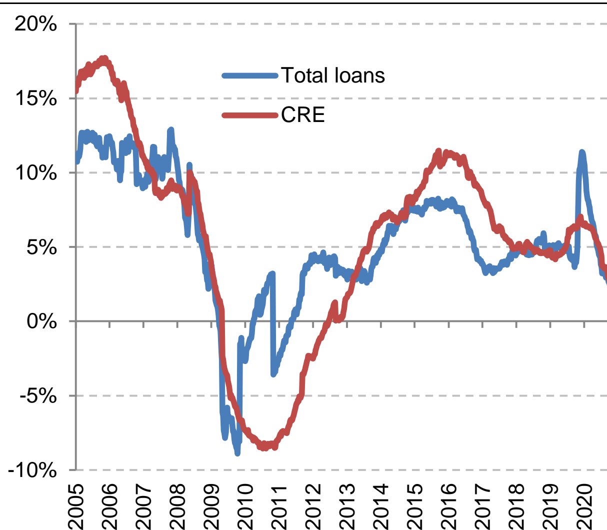
seems that the process may be longer than it was initially expected but it quite probable that the worst is behind us. Recently approved fiscal stimulus will only accelerate CRE recovery even despite to some structural issues will be a kind of challenge for some CRE sub-sectors. At least, transaction volumes have stabilized on qoq basis while prices began to accelerate again, skyrocketing by more than 7% in 2H20. Effective rent, especially in the most affected segments, remains relatively weak but even here a light at the end of the tunnel could be seen. Moreover, 2H20 rent collections were better than expected (and it continues to improve), especially for the retail segment, where the majority of properties were closed or were operating in a limited functionality mode while volumes increased on MoM basis in a number of CRE segments. Although ST forecasts could continue to be revised down (at least in the most affected segments) with lower rent, higher vacancy rates, negative absorption and declining prices, LT prospects are markedly brighter than they were just few quarters ago. As a consequence, a loan growth may get worse before it gets better and it is quite possible that quality characteristics will slightly deteriorate in 2021. The worst is behind us but a bumpy road is ahead. Unsurprisingly, REITs increased by 7.4% ytd vs SPX index growth of +5.8% ytd. On the other hand, BBREIT index remained 8.8% lower comparing to its pre-pandemic high while SPX index is 17.9% higher relative to its pre-pandemic levels.

Credit quality remains strong so far but early signs of deterioration have already been seen in recent months. Obviously, CRE's credit quality will continue to worsen in the coming quarters. According to the Fed data, CRE NCO ratio increased by 4 bps qoq, or +12 bps on a yoy basis, to 0.15% in 4Q20, while delinquency ratio increased by 15 bps qoq, or +48 bps yoy, to 1.16%. According to the FDIC data, NCO ratio for all CRE subsegments except for commercial mortgage was stable, near 0% during all last year. Commercial mortgage NCO increased by 4 bps qoq, or +16 bps yoy, to 0.22% in 4Q20 but it still remains markedly below than an average level of last two cycles. In turn, non-current rates increased markedly in all major segments in recent quarters – commercial mortgage noncurrent ratio is 1.0%, +49 bps yoy; construction one is 0.65%, +22 bps yoy; multifamily noncurrent ratio is 0.26%, +15 bps yoy. As for leading indicator of future credit quality, 30-89 days delinquency ratio improved slightly in 2Q20 vs 1Q20 but it increased slightly in 2H20 but it still remains not far from multi-year lows. The figure of commercial mortgage increased by 3 bps qoq to 0.34%; in construction it was +8 bps qoq at 0.45%; in multifamily it was 8 bps qoq at 0.24%. In any case, NCO ratio highs booked in domestic offices were very different during three last recessions in the USA. According to the Federal Reserve data, GFC's high was 2.82%, comparable to a recession of early 1990s figure of 2.44%, but significantly higher that just 0.15% of a recession of early 2000s. And we don't expect that NCO ratio high of the current cycle will reach the high of the GFC even despite to significant problems in retail and hotel segments (according to REIS forecasts, deterioration in retail in 2020 was much worse than it was in 2009) due to a shorter period of current downturn and much tighter lending standards during the last credit cycle. Moreover, the percent of rent collections still remains very high in the majority of segments and still growing. A price growth has remained positive on yoy basis so far and it even accelerated in recent months. It could be distorted by lower transaction volumes but the fact is that CRE remains strong at least so far, especially taking into account that it was one of the most suffered industries because of the health crisis.

Transaction volumes tumbled on yoy basis in 4Q20 as it was in 2Q20 and 3Q20 but it was up on qoq basis and there were clear signs of improvements in traded volumes in the recent months. According to RCA, "total U.S. transaction volume dropped 59% in February compared to a year earlier. Sales in the office sector fared the worst of the major property types, falling 71% year-over-year, while apartment sector deal volume declined 33%. In the industrial sector, sales of individual assets dropped just 6% from a year ago though the sector in total dropped 69%". Volumes are still markedly above the lows of the GFC and it

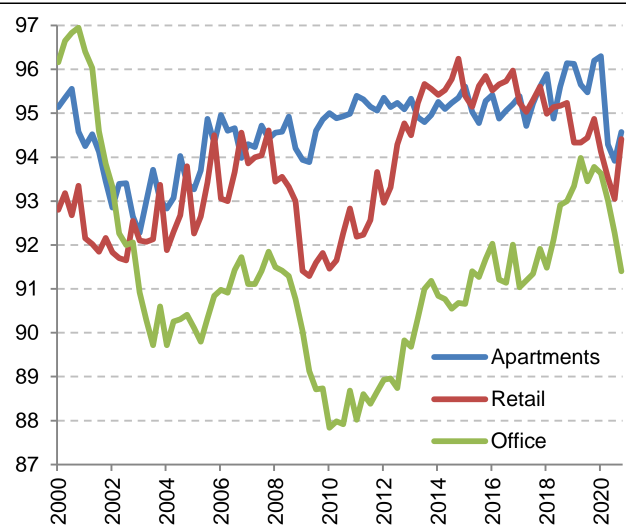
will remain so. Notwithstanding, the difference between bid and ask prices is still high, especially in some segments such as NY apartments. From the other hand, almost all distressed CRE concentrated in only two segments, namely hotels and retail. Illiquidity continues negatively impacting on commercial real estate and even extremely low interest rates can't change the situation, at least so far. Notwithstanding, prices remained resilient, still showing a positive yoy growth and it even accelerated markedly in 2H20. Thus, an apartment price index added +7.2% yoy as of the end of February 2021 vs +6.6% yoy as of the end of 2019. In turn, a price index of retail CRE turned negative in May 2020 and it is currently -1.4% yoy vs +0.8% yoy one year ago. A growth of prices of industrial CRE decelerated to +8.1% yoy from +11.9% yoy in July 2019. A growth rate of office prices slightly decelerated to +2% yoy from 4.1% yoy as of January 2020. CRE all-property index was relatively strong, demonstrating even a faster growth rate vs pre-pandemic level.

Chart 11. Loan Growth. CRE vs Total Loans, YoY, %



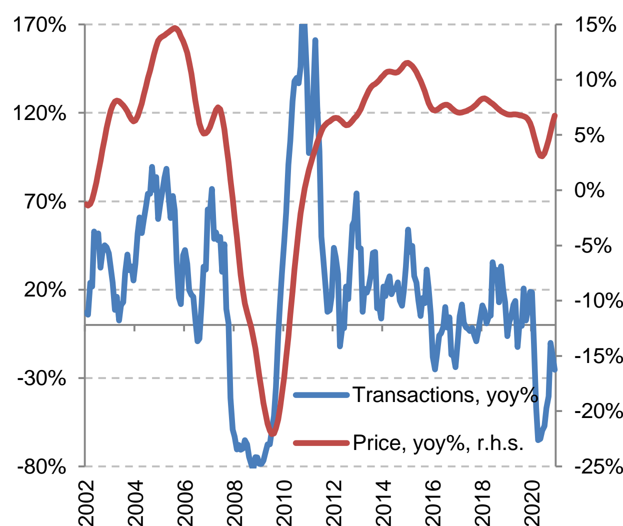
Source: Bloomberg

Chart 12. CRE. Occupancy rates, %



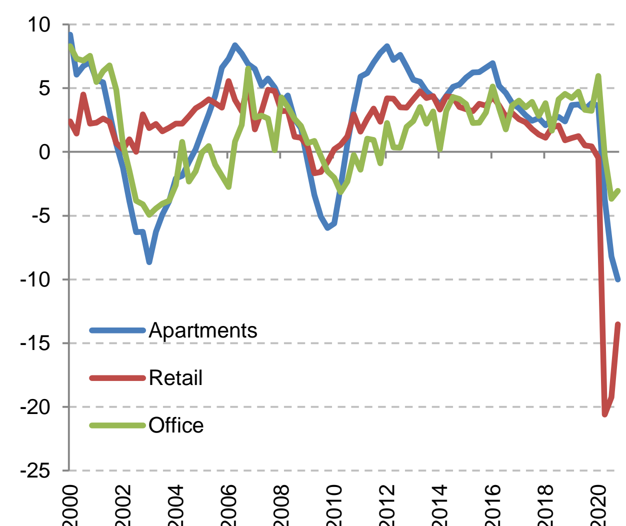
Source: Bloomberg

Chart 13. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

Chart 14. CRE. Same-Store NOI Growth, %



Source: Bloomberg

Despite to early signs of a recovery in CRE, difficult times for the sector remains in the near future, accompanied by lower occupancy rates, lower rents and so on. A faster than anticipated economic recovery improved prospects of the sector, however, CRE fundamentals deteriorated meaningfully in 2Q20 and 3Q20 in all major segments but it was slightly better on qoq basis in 4Q20. Thus, retail same-store NOI tumbled by more than

20% yoy in 2Q20 and by 19% yoy in 3Q20, but it was -13.5% yoy in 4Q20. The lowest figure of the GFC was just -1.7% yoy in 2Q09. Office NOI declined by 3.0% yoy in 4Q20 vs -3.7% yoy in 3Q20 and by 0.3% yoy in 2Q20 Vs the maximal decline during the GFC of 3.2% yoy in 2Q10. Apartments NOI decreased by 10% in 4Q20 vs -8.3% yoy in 3Q20 and -3.7% yoy in 2Q20, even lower than a trough growth rate during the GFC equal to -6.0% in 4Q09. Occupancy rates also declined substantially across all major segments except for industrials in 2Q20/3Q20 but they increased in apartments and retail in 4Q20. The majority of REITs decreased or suspended dividends as a result of a negative effect of the health crisis in 1H20 but the situation began improving in 2H20. On an absolute basis, it still markedly lower than it was one year ago, but dividend yield remains relatively stable due to quotes decline. The situation is still challenging as restrictions remains but we expect a significant improvement in 2H21 due to a reopening of the economy as a result of a positive effect of the vaccination.

In 4Q20, banks continue to tighten standards for CRE loans. Standards were tightened for all three major CRE loan categories. For construction loans it was the 23th quarter of tightening in a row while for multifamily loans standards were tightened by a significant net fraction of banks for the fourth consecutive quarter after flat standards in 4Q19 following 17 consecutive quarters of tighter standards. Also banks noted weaker demand for nonfarm nonresidential properties but it was unchanged in the multifamily segment. In 3Q20 SLOOS, “major net fractions of domestic and foreign banks reported that the current levels of their standards for all major categories of these loans are at the relatively tighter ends of the ranges that have prevailed since 2005 on balance”. As for expectations, banks expect to ease standards for multifamily loans in 2021 but unchanged standards for other CRE segments. From the other hand, demand should be stronger but loan performance will probably deteriorate (in-line with current market expectations).

Mortgage

The growth rate of mortgage loans decelerated markedly in recent months Vs the end of 2019 and it turned negative on yoy basis in early December 2020, even despite to a significant growth of housing sales and very high refinancing activity. Mortgage loans declined by 0.6% ytd as a consequence of tighter lending standards for mortgage loans because of significant deterioration of financial health of the US consumer, at least for a number of them (the overall financial health of the US consumer remains solid due to plentiful government support). Thus, mortgage loans decreased by 1.8% yoy (as of March 17, 2021) vs +5.3% yoy as of the end of 2019. From the other hand, mortgage activity remains very high with growth of MBA’s application index of almost 18% yoy (an average of the first 12 weeks of the year), even taking into account very strong March 2020 figures. An average level of the index in 2020 increased by more than 60% vs 2019 year. Given higher GDP growth estimates, new fiscal stimulus and the start of the vaccination campaign, we expect that mortgage activity will remain high and it will eventually be accompanied by a growth of mortgage loans as banks will start to ease lending standards even despite to lower affordability of homes and still elevated unemployment. Mortgage credit availability index remained unchanged in February 2021 at 124.6 pts but it was just slightly up, +6 pts, from September 2020 low. So, the index is still near the lowest level over more than 6 years, implying that lending standards remain relatively tight. On the other hand, affordability ratios have already declined meaningfully from the cycle high but it should increase in the near future because of a substantial decline of key benchmark rates. However, even current level of affordability ratios isn’t low from the historical averages point of view, as well as household debt burden isn’t either. But banks prefer to remain on the sidelines (at least for new mortgage borrowers) given still elevated unemployment ratio even despite to a significant decline in recent months. So, we don’t expect that NPL and NCO ratios will even approach the values that we saw in the last crisis (2.72% for NCO

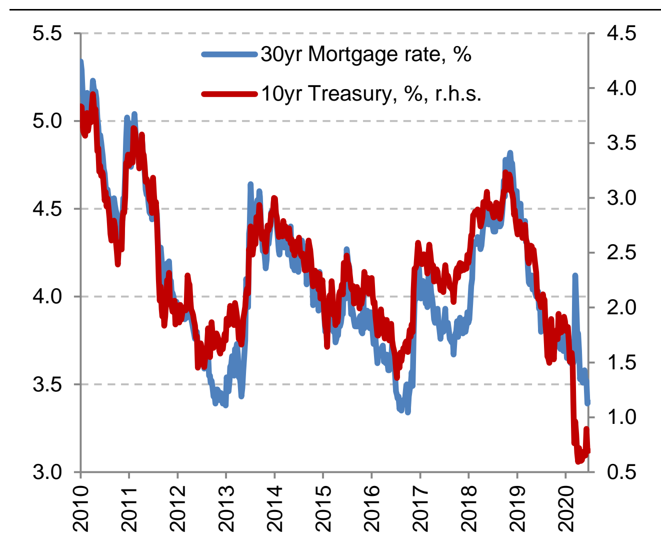
ratio and 10.5% for delinquency ratio) due to more cautious approach of US banks to the mortgage lending during all cycle, stronger financial health of the US Consumer now Vs 2007-2008 years, a very strong recovery of housing after the pandemic and a lack of housing supply. Housing market also looks significantly healthier with no obvious imbalances as it was just before the last recession when it was the key engine of the economic contraction. We expect that NCO ratio dynamics will be more like the one was observed during the recession of early 2000s with the highest figure of 0.3%. Moreover, percent of rent payments markedly improved in March and February after slight deterioration in January. According to the National Multifamily Housing Council Rent Payment Tracker, 80.4% of apartment households made a full or partial rent payment by March 6, 2021 vs 79.2% in February 2021 and 84.5% in March 2020. Given upcoming stimulus and an acceleration of GDP growth, it seems that situation will continue improving.

The US economy lost 227K payrolls in December 2020 (revised down from an initial estimate of -140K) but it added 166K in January 2021 (revised up from an initial estimate of 49K) and 379K in February 2021 vs expectations of +200K. Private payrolls were also much stronger, adding 465K in February vs expectations of +200K, after it was just +6K in January and -204K payrolls in December 2020. Although employment still remains below pre-COVID levels, it is in a much better shape now than it was expected 1-2 quarter before and the situation will begin to improve relatively soon. Jobless claims decreased substantially from March 2020 highs but it still remained meaningfully higher than it was in the beginning of 2020. Moreover, it even increased on MoM basis in December and January, remaining elevated. However, an average figure of 806K in February was 4% lower than an average level of January, but approximately 80% lower than it was in April 2020, however, still 4x higher than January-February 2020 levels. So, overall median forecasts of average monthly payrolls for 2021-2023 years improved meaningfully in March 2020 to +379K/+296K/+175K vs +360K/+259K/+188K in February. Unemployment rate declined by 10 bps MoM to 6.2% vs consensus of 6.3% and it is markedly lower than a peak level of the GFC. On the other hand, underemployment rate was flat at 11.1% in February, after it declined substantially in January, -11.7 p.p. from April 2020 high. And unemployment projections also improved in March vs February to 5.7%/4.5%/4.1% for 2021/2022/2023 years, respectively (vs 5.8%/4.6%/4.2%). Despite to a significant growth of unemployment in April 2020, it seems that a negative impact of this factor on quality of mortgage portfolio was restricted due to forbearance programs and a positive impact of fiscal stimuli. But further dynamics of quality characteristics will depend on how quickly the economy will continue to recover. Thus, according to the MBA, “the total number of loans now in forbearance decreased by 9 basis points from 5.14% of servicers' portfolio volume in the prior week to 5.05% as of March 14, 2021”. Around 2.5 million homeowners are still in forbearance plans, 0.1 mln lower on MoM basis. The key driver of loans in forbearance decline was return of homeowners to work but the situation with employment stopped to improve in the recent months. As for Fannie Mae and Freddie Mac data, a share of loans in forbearance declined for the 9th month in a row to 2.83%, -5 bps during the week ended March 14, 2021.

Mortgage credit quality was very strong so far. According to the Fed data, NCO ratio in the segment decreased by 3 bps yoy to -0.03% in 4Q20 while delinquency ratio decreased by 5 bps qoq, but +39 bps yoy, to 2.74%, still not far from the lowest figure over 12 years. According to the FDIC, the quality of mortgage portfolio remains also very strong with NCO ratio at -0.02% in 4Q20, -3 bps yoy. 30-89 days delinquency ratio decreased by 1 bps yoy to 0.87%. In turn, noncurrent ratio increased markedly, +72 bps yoy to 2.49% in 4Q20, +3 bps qoq. MBA’s mortgage delinquencies ratio decreased by 92 bps qoq to 6.73% in 4Q20, the second consecutive quarter of a decline, after 9-years high of 8.22% was shown in 2Q20. Notwithstanding, it is still 296 bps higher than its all-time low, which was shown in 4Q19. In turn, foreclosures declined again, -3 bps qoq, or -22 bps yoy, to 0.56%, the 35th

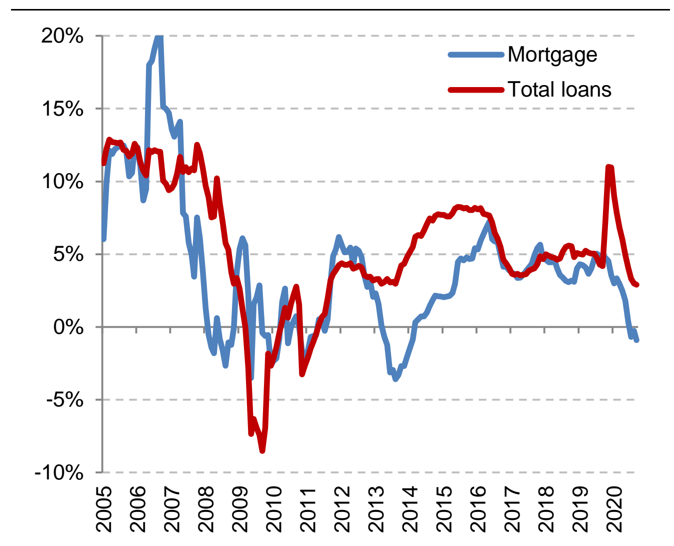
quarter of decline in a row and the lowest figure since 1982. According to NY Fed, "with federally-backed mortgages also eligible for forbearances, the share of mortgages that transitioned into delinquency fell to 2% (annualized) in the fourth quarter, down one and a half percentage points since the fourth quarter of 2019". One of the key reasons that credit quality still remains very strong is that a rapid growth of unemployment in 2Q20 mainly affected renters not owners. Also, government support programs were very helpful for consumers. So, we expect that quality of mortgage loans will remain much better than GFC's average figures of NCO and delinquency ratios as underwriting standards were much stronger during the last credit cycle.

Chart 15. Mortgage. 30yr Fixed Mrtg vs 10yr Tr yield, %



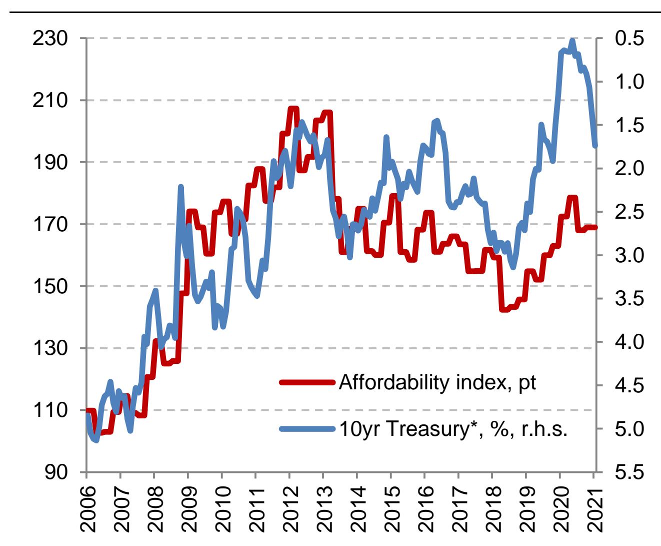
Source: Bloomberg

Chart 16. Loan Growth. Mrtg vs Total Loans, YoY, %



Source: Bloomberg

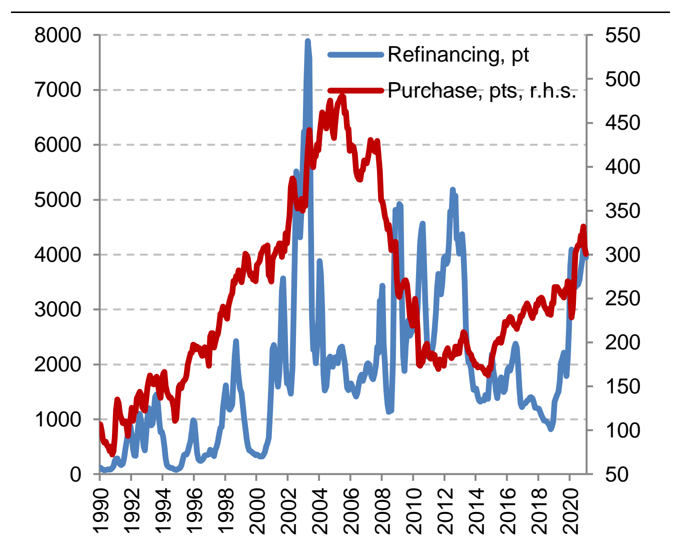
Chart 17. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 18. Mortgage. MBA Applications Indexes



Source: Bloomberg

Lending standards for most mortgage segments were unchanged in 4Q20, after tightening during three consecutive quarters. As for expectations, moderate share of banks expect that standards will be eased in 2021. It was unsurprising given much a better labor market, an acceleration of the economic growth and a very strong housing market. According to NY Fed 4Q20 report on HH debt and credit, "mortgage originations, measured as appearances of new mortgage balances on consumer credit reports and which include refinances, were at $1.2 trillion, surpassing in nominal terms the volumes seen during the historic refinance

boom in 2003Q3". "Median mortgage origination credit scores remained roughly stable at a high level, with the median credit score of newly originated mortgages at 786, reflecting a high share of refinances".

Mortgage demand slightly strengthened again, the 7th consecutive month of strengthening. But banking answers were mixed. Large banks noted that it was unchanged while small banks reported strengthening demand across most RRE loan categories. Loan demand expectations on 2021 year also were mixed. Banks expect weaker demand for GSE-eligible mortgage loans but unchanged demand for nonconforming jumbo residential mortgage loans. As well as for other loan categories, it is expected by moderate share of banks that loan performance will deteriorate in RRE and HELOCs segments.

Mortgage rates dynamics is still weak but improving in recent months. Monthly average rate of 30yr fixed mortgage increased markedly in February and March after 9 months in a row of decline due to narrowing spreads because of normalizing economic situation. In turn, 10yr treasury skyrocketed by 34 bps MoM to 1.74% as of the end of March 2021 (renewing 1 year high, +83 bps ytd). 30yr fixed rate mortgage (national average, Bankrate.com) increased by 2 bps MoM to 3.27% as of the end of March (still not very far from all-time low). In turn, 30-yr mortgage rate (effective rate, MBA) increased by 7 bps MoM to 3.4% (as of March 26, 2021), +45 bps ytd and just -21 bps vs pre-pandemic levels.

Housing market indicators published in March were strong again but slightly below expectations (mainly because of weather conditions) after several consecutive months of the strong beats. Due to a significant drop in interest rates in 1H20 and faster than expected economic recovery, the majority of housing indicators still look pretty resilient even despite to the recovery of the long end in recent months. NAHB index decreased by 2 pts MoM to 82 pts in March, slightly missing consensus of 84 pts. Construction spending increased by 1.7% MoM in January, markedly beating consensus of +0.8% MoM, and December initial estimate was revised up from 1.0% MoM to 1.1% MoM. So, mortgage origination forecasts remain very strong with a growth of MBA's projections for the coming three years on MoM basis. Moreover, mortgage applications of 2020 were also revised up. In turn, Fannie Mae's forecasts decreased for both 2021 and 2022 years. Thus, according to Fannie Mae's March housing forecast, total mortgage originations decreased by 3.0% MoM for 2021 year and by 7.2% MoM for 2022 year. Currently, it is expected that total originations will decrease by 12.5% yoy in 2021 and by 25.2% yoy in 2022. The key drivers of total originations decline will be refinancing originations which were the key driver of their skyrocketing growth in 2020. According to MBA's forecast published in March, total mortgage originations will decrease by 16.8% yoy in 2021 (+7.6% vs February 2021 forecast) driven by refinancing which are estimated to decrease by 37% yoy in 2021. Total originations are also expected to decrease by 27.4% yoy in 2022 (+5.1% vs February forecast). The key driver of refinancing originations was a significant decline of mortgage rates. However, the latter have started to soar recently, following a significant growth of 10yr treasuries yield. Total mortgage debt outstanding is expected to go up by 5.6% yoy in 2021 and by 5.7% yoy in 2022.

Housing starts were 1421K in February vs expectations of 1560K, -163K MoM vs January figure, still remaining not far from its pre-COVID levels and markedly higher than an average level of 2015-2019 years even despite to a negative impact of weather on February figures. Building permits also missed estimates significantly, 1682K vs consensus of 1750K, -204K MoM. Existing home sales decreased markedly in February to 6.22 mln but from revised down initial January estimate (from 6.69 mln to 6.66 mln). And it was even markedly lower than a consensus of 6.49 mln but it is still meaningfully higher relative to pre-COVID levels. In turn, new home sales tumbled by 173K MoM to 775K in February, markedly missing consensus of 870K, after a small growth in January and December. However, January initial estimate was revised up noticeably. New home sales have already

surpassed pre-pandemic levels by 155K. So, housing prices skyrocketed in recent months as a result of demand growth. Thus, FHFA house price index increased by 1.0% MoM in January vs consensus of +1.2% MoM and December figure of 1.2% MoM. S&P CoreLogic home price index for 20 cities also increased meaningfully, adding 1.2% MoM in January, in-line with consensus but slightly lower than December growth of +1.3% MoM. On yoy basis, it was +11.2% vs consensus of 10.5%, the highest loan growth since early 2014.

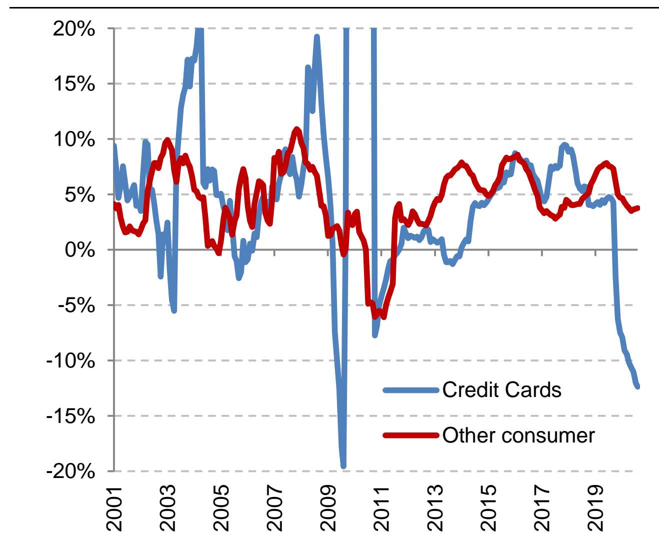
Consumer

Consumer loans growth decelerated significantly in April and May 2020 but stabilized later in summer months and it was relatively flat in 4Q20. Since then, it began to accelerate. Notwithstanding, according to Fed H8 data, a growth rate of consumer loans even turned negative in early May 2020 and it is still -4.7% yoy (through March 17, 2021) vs +6.1% one year ago, close to the slowest growth rate since the end of 2011. On ytd basis, it increased by 0.9%, driven by other consumer loans. In turn, CC growth rate was -12.6% yoy (as of March 17) vs +4.9% yoy as of the end of 2019. On ytd basis, CC loans increased by 0.2% as credit cards limits remained cut but it seems that the situation begins to improve. Net change of consumer credit in January 2021 was -$1.3 Bn, markedly missing consensus of +$12 Bn, after a growth by $8.8 Bn in December 2020 (slightly revised down from an initial estimate). Other segments of consumer credit accelerated slightly in recent weeks, adding 4.3% yoy (as of March 17) vs 7.6% yoy as of the end of 2019, +1.5% ytd. According to 4Q20 HH debt and credit survey by NY Fed, "aggregate household debt balances increased by $206 billion in the fourth quarter of 2020, a 1.4% rise from 2020Q3, and now stand at $14.56 trillion. Balances are $414 billion higher than at the end of 2019. Balances on home equity lines of credit (HELOC) saw a $13 billion decline, the 16th consecutive decrease since 2016Q4, bringing the outstanding balance to $349 billion. Credit card balances increased in the fourth quarter, by $12 billion, a modest seasonal increase following the sharp $76 billion contraction in the second quarter and $10 billion decrease in the third. Credit card balances are $108 billion lower than they had been at the end of 2019, the largest yearly decline seen since the series begins in 1999, consistent with continued weakness in consumer spending as well as paydowns by card holders. Auto loan balances increased by $14 billion in the fourth quarter. Student loan balances increased by $9 billion. In total, non-housing balances increased by $37 billion, but remain $31 billion below the 2019Q4 levels".

Despite to an unprecedented drop of the US GDP in 2Q20 and a rapid growth of unemployment, the state of the US consumer was pretty resilient so far due to massive government support programs. And it will remain strong in the near future due to an adoption of new fiscal stimulus and a faster economic recovery. Unsurprisingly, GDP growth estimates continue to go up as a result of the start of the vaccination campaign and a positive effect of stimulus. According to Bloomberg estimates compiled in March, it is expected that the US GDP will increase by 5.5% yoy in 2021, by 4.0% yoy in 2022 and by 2.4% yoy in 2023 (vs January estimates of +4.9%/+3.7%/+2.5% yoy, respectively). As of unemployment, it is estimated to be as high as 5.7% at the end of 2021 while it was as high as 13% at the end of 2Q20. But, it is quite possible that we will see deterioration of asset quality in consumer segment after the fiscal cliff and the end of forbearance programs. But it is obvious for us that the worst is over and that a potential size of problems loans will be much smaller than feared in the middle of 2020. Banks have already begun to release reserves in the consumer segment. Of course, low income/wage consumers will suffer the most, but DSR and FOR of a median HH still remain markedly lower than historical averages. So, we still don't expect that the highs of NCO ratios of the current cycle will come any closer to the highs of the GFC (the highs of the previous crisis when NCO ratio for credit cards reached 10.5% and for other consumer loans rose to 3.3%).

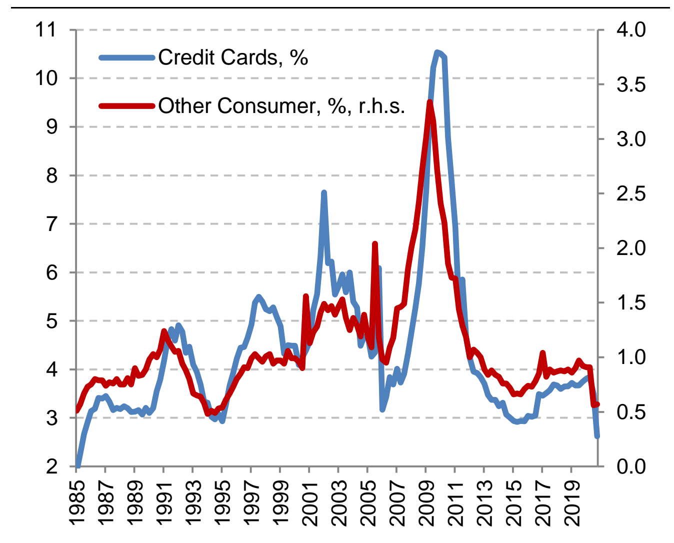
According to the Fed data, total consumer NCO ratio tumbled by 33 bps qoq, or -82 bps yoy, to 1.49% in 4Q20. NCO ratio in CC segment decreased by 87 bps qoq, or -113 bps yoy, to 2.62% while NCO ratio of other consumer loans increased by 1 bps qoq, but -35 bps yoy, to 0.57%. In turn, delinquency ratio increased by 12 bps yoy to 1.96% (but it is still -40 bps yoy). Both credit cards delinquency ratio and other consumer one increased by 10 bps qoq to 2.12% and 1.76%, respectively. According to the FDIC, credit cards NCO ratio tumbled by 85 bps qoq to 2.56% in 4Q20 (-119 bps yoy); in other consumer loans NCO ratio increased by 6 bps qoq, but -50 bps yoy, to 0.61%; Auto NCO ratio also went up by 16 bps qoq, but -56 bps yoy, to 0.48%. 30-89 delinquency ratios (a leading indicator of credit quality deterioration) increased by 20 bps qoq to 1.71% in 4Q20 but remains much lower on yoy basis (-44 bps): 1.1% (-28 bps yoy) in credit cards, 1.33% (-35 bps yoy) in other consumer loans and 1.74% (-62 bps yoy) in Auto. A number of bankruptcy filings decreased meaningfully again in 4Q20, 121K vs 132K in 3Q20 and 189K in 1Q20, a new historical low. According to NY Fed, “of the $462 billion of debt that is delinquent, $349 billion is seriously delinquent (at least 90 days late or “severely derogatory”, which includes some debts that have been removed from lenders’ books but upon which they continue to attempt collection)”.

Chart 19. Consumer. Loan Growth Rates, YoY, %



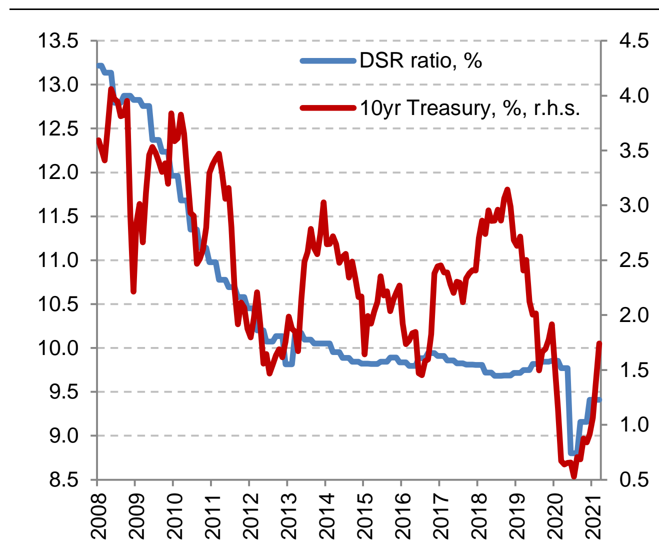
Source: Bloomberg

Chart 20. Consumer. NCOs Ratios, %



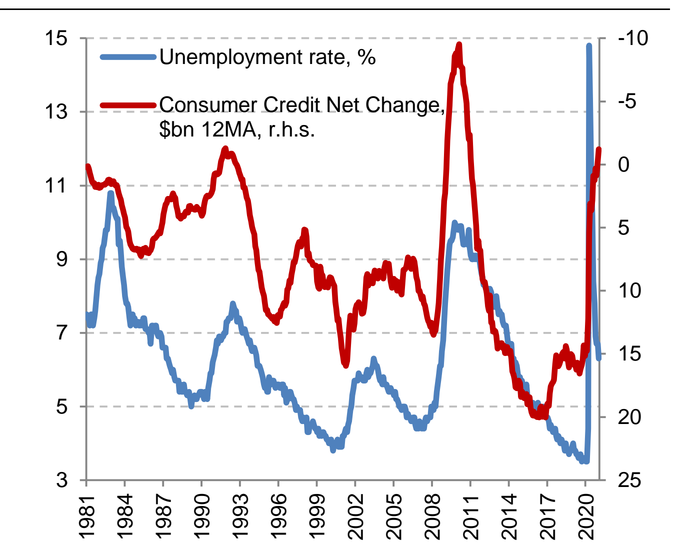
Source: Bloomberg

Chart 21. Debt Service Ratio vs 10yr Treasury Yield, %



Source: Bloomberg

Chart 22. Unemployment vs Net Change of Cons Credit



Source: Bloomberg

January 2020 SLOOS survey indicated that “a moderate net share of banks reported easing standards for credit card loans, and modest net shares of banks eased standards for auto loans and for other consumer loans. Consistent with easier lending standards, modest net shares of banks increased credit limits for credit card accounts, and moderate and modest net shares of banks narrowed the rate spreads charged on outstanding balances over their cost of funds for auto loans and for other consumer loans, respectively”. As for demand, banks reported stronger demand for credit card and other consumer loans but weaker demand for auto loans. Banks expect that demand for consumer loans will strengthen in 2021. Also, a significant net share of banks expect to ease standards for credit card in 2021 and a moderate net share of banks expect to ease standards for other types of consumer loans. According to NY Fed, “the median credit score on newly originated auto loans increased, from 712 to 717”.

Consumer activity data published in March 2021 were quite strong due to an adoption of new fiscal stimulus, the ongoing vaccination campaign and a renewed recovery of the labour market. So, we expect that consumer confidence will continue improving steadily in coming months as a result of an acceleration of the economic recovery and gradual lifting of restrictions. Thus, conference board index skyrocketed by 19.3 pts MoM to 109.7 pts. So, it is already 24 pts higher than a local low it reached in April 2020 but it is still 22.9 pts lower relative to pre-pandemic levels. It was much better than a consensus of 96.9 pts. As a result of overall optimism, it was driven by both present situation index and expectations index. Thus, present situation index increased by 20.4 pts to 110 pts in March from slightly revised down February estimate. Expectations index rallied by 18.7 pts to 109.6. On the other hand, consumer sentiment indicator published by Michigan University increased by 6.2 pts MoM to 83.0 pts vs expectations of 78.5 pts. It is already 13.1 pts higher than April 2020 low but it is also 16.1 bps lower than pre-COVID level. Notwithstanding, although 2Q20 consumer spending decline was the biggest on record, consumption forecasts continue improving. According to March Bloomberg survey, consumer spending will increase by 6.0% yoy in 2021, by 4.2% yoy in 2022 and by 2.5% in 2023 vs January estimates of +5.2%/+4.1%/+2.5% yoy, respectively.

All data which are related to employment published in summer and autumn of 2020 were clearly optimistic and much better than anticipated. But the figures of the first two months of the recent winter demonstrated signs of slowdown. At least, jobless claims even increased slightly while payrolls were weaker during three consecutive months. However, February employment report showed that it was just a temporary phenomenon. So, nonfarm payrolls increased by 379K vs expectations of +200K while January 2021 initial estimate of +49K was revised up to +166K. Also, private payrolls increased by 465K Vs estimate of +200K, after it increased only by 6K in January. Given a broad-based growth of payrolls, we expect that employment situation will improve materially in the coming months. Unemployment ratio decreased by 10 bps MoM in January to 6.2%, slightly lower than a consensus of 6.3%. Average hourly earnings increased by 0.2% MoM in February, in-line with expectations but January estimate was revised down from +0.2% MoM to +0.1% MoM. Also, underemployment ratio was flat at 11.1% in February, after a significant decline in January. It is already significantly lower the high of the Great Recession of 17.2% but still much higher than 6.7% at the end of 2019. In any case, more than 3.8 mln of workers are still filling continuing jobless claims which is not far from the peak level of the GFC. Continuing claims remain very important indicator to track employment situation. Moreover, employment population ratio is still near levels last seen 50 years ago. On a year-over-year basis, hourly earnings were +5.3%, in-line with consensus. Average weekly hours were down by 0.3 hour MoM to 34.6, slightly lower than expected but it was the second consecutive month of decline. Notwithstanding, initial jobless claims decreased by 11% MoM in March 2021, the second consecutive month of a decline, but initial jobless claims over the recent 4 weeks still exceeded pre-COVID levels by more than 3 times. Financial

health of the average US consumer remains strong, but a further rate of employment growth will inevitably decelerate in coming quarters. Moreover, lower income households continue to suffer more than even an average income household.

Interest Rates

Monetary policy left unchanged at the March FOMC meeting but economic projections were upgraded, as it was widely expected. The Fed slightly changed the wording of its FOMC statement but these changes were insignificant. Notwithstanding, dot plot were slightly more hawkish in March vs December one. Thus, 7 participants out of 18 expect the first rate hike in 2023 vs 5 participants out of 17 in December. Moreover, 4 participants (vs 1 in December) expect the first rate hike as early as 2022. On the other hand, the dot plot isn't the best guide for the future monetary policy path. Also, Powell's press conference was relatively dovish with a clear signal of no preemptive hikes even in case of higher inflation, which growth ahead of 2% target in 2021 is perceived as a temporary phenomenon. At least, targeting inflation on an average basis adds flexibility to the Fed to hike rate rather later. Even taking into account a significant acceleration of the US economy due to new fiscal stimulus, the economy is still far from the Fed employment targets. Thus, "following a moderation in the pace of the recovery, indicators of economic activity and employment have turned up recently, although the sectors most adversely affected by the pandemic remain weak". It was emphasized by Powell that in order to tighten monetary policy it is needed not only to have higher forecasts but also to see better macro data. Moreover, it was also noted that the recent explosive growth of the long end wasn't a concern for the Fed, at least at the current moment. So, "the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals". So, the meeting was perceived slightly dovish with a decline of the long end and a recovery of the stock indices. But it seems that the future tightening begins to appear on the agenda, at least for some participants of the FOMC, even taking into account ongoing risks of the pandemic. We don't expect that monetary policy will change significantly in the nearest 2-3 quarters but it is quite possible that there will be some hints of upcoming tapering in 4Q21. So, we expect that the growth of the long end will continue and that 10yr yield could exceed 2% in 2021. On the other hand, FF rate will remain at the current level for longer but the first rate hike is closer for us than it was several months ago.

Although high-frequency data showed some weakness in the first months of the year, hard and soft data remained markedly better than it was expected a few quarters ago. Moreover, recently approved fiscal stimulus improved the near term prospects of the US economy markedly. Unsurprisingly, the Fed revised projections meaningfully up. Also, the language of the FOMC statement was more optimistic than it was just few months ago. Notwithstanding, the Fed continues to emphasize that the outlook for the economy remains uncertain and it will depend in large part on the success in keeping the virus in check and the success of the vaccination campaign. However, according to March FOMC projections, GDP will increase by 6.5% in 2021, by 3.3% yoy in 2022 and by 2.2% yoy in 2023 (vs +4.2%/+3.2%/+2.4% in December). However, longer run GDP growth was unchanged at 1.8%. As of unemployment ratios, it is implied that it will be 4.5% at the end of 2021, 3.9% at the end of 2022 and 3.5% at the end of 2023 (vs December projections of 5.0%/4.2%/3.7%, respectively). Longer run unemployment ratio was also lowered by 10 bps to 4.0%. Notwithstanding, it was emphasized that unemployment still remains elevated

with overall employment 9.5 mln below pre-pandemic level. PCE inflation forecasts revised significantly up for 2021 but it was also higher for 2022/2023 years. So, it is implied that inflation will be 2.4% in 2021 and it will decline to 2.0%, 2.1% in 2022 and 2023, respectively (vs 1.8%/1.9%/2.0% in December). Longer-run inflation projection was unchanged. Overall, FOMC projections are relatively close to consensus forecasts which were markedly improved MoM in March as a result of fiscal stimulus adoption. According to Bloomberg March survey, GDP growth will be +5.5%/+4.0%/+2.4% yoy in 2021/2022/2023 years, respectively, vs +4.9%/+3.7%/+2.5% yoy in February. Unemployment forecasts decreased from 5.8%/4.6%/4.2% in 2021/2022/2023 years, respectively, in February to 5.7%/4.5%/4.1% in March.

For us, there is still no doubt that challenging rate environment for US banks will persist for relatively long period of time but the outlook has improved significantly in recent months. So, we believe that the worst is behind us. Notwithstanding, uncertainty is still relatively high but declining gradually due to the start of vaccination campaign. Also, new fiscal measures were already announced and it will help US economy to accelerate substantially in 2H21. Unsurprisingly, the prospects of US banks have improved recently due to faster than feared economic recovery and the growth of the long end. Despite majority of earning assets are priced based on the short end, NIM/NII forecast has already begun to improve. Thus, median NIM 2021 of BKX index members decreased by 0.2 bps MoM and -2.7 bps ytd to 2.53%. Median NIM 2022 increased by 1.7 bps MoM or +1 bps to 2.57%.

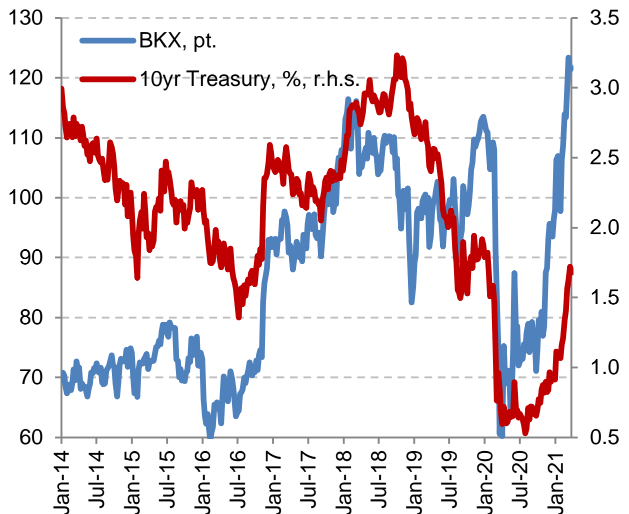
A median NII decline of BKX index members was -1.8% yoy, but +1.5% qoq, in 4Q20 in compare with +1.9% both qoq and yoy in 3Q20, the 5th consecutive quarter of yoy decline of NII in a row. The key driver of weak NII dynamics was a decline of NIM again, which was driven by both a meaningful decline of key average benchmark rates and investing of strong deposit inflows into highly liquid assets. Given the recent growth of the long end and the fact that banks began investing high liquid assets into higher yield assets, it seems that NIM has already reached the trough while NII will gradually grow in coming quarters. At least, a median NII surprise of BKX index members was +1.4% (vs estimates for January 14, 2021), after -0.6% in 3Q20 and -0.4% in 2Q20. 15 out of 24 BKX members showed a positive surprise on NII in 4Q20 vs 9 in 3Q20 and 11 in 2Q20. On the other hand, 11 out of 24 BKX members showed a positive surprise on NIM in 4Q20 with a median negative surprise of -0.3 bps vs 3 banks in 3Q20 with a median surprise of -4.2 bps and 5 in 2Q20 with a median surprise of -9 bps. Median NIM of BKX index members decreased by 8 bps qoq, or -47 bps yoy, to just 2.52% in 4Q20 (the lowest figure over decades, -33 bps vs the lowest figure of the last cycle, shown in 3Q16) vs -6 bps qoq, or -44 bps yoy, in 3Q20. On yoy basis, it was the 7th consecutive quarter of a median NIM decline after 9 quarters of growth in a row.

A median growth of NII income of BKX index members was positive on qoq basis for the first time after two quarters in a row of decline. Moreover, it was negative for 6 quarters over the last 8. Total NII of BKX index members is 7% below than it was one year ago. Notwithstanding, we believe that the worst for NII is behind us even despite to NIM will remain relatively weak in 2021. On the other hand, NII/NIM prospects improved markedly in the recent months due to the growth of the long end and an expected acceleration of the US economy as a result of new fiscal stimulus. There is no room to improve NIM by lowering deposit costs which are near zero at the moment. In turn, loan-to-deposit ratio was already below 60%, the record low and it could be a good driver of NIM in case of loan growth acceleration, which however is still weak. Also, banks could invest excess liquidity into higher yield assets. It will negatively impact on NIM, but NII will increase.

The short end of the curve remained relatively flat in March 2021 as it was during five previous months while the long end skyrocketed again, the third consecutive month of a meaningful growth. Thus, 1M yield decreased by 1.8 bps to -0.03% while 3M yield went

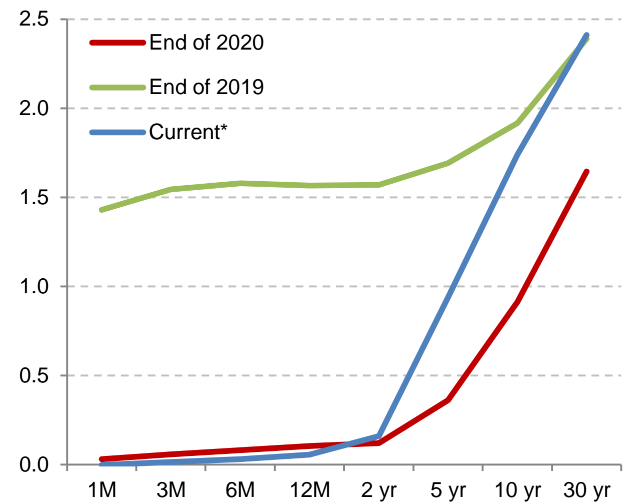
down by 1.8 bps MoM to 0.015%. 2yr yield increased by 3.3 bps MoM to 0.16% while 5yr yield increased by 20.8 bps MoM to 0.94%, new one year high. 10yr yield skyrocketed by 33.4 bps MoM to 1.74% (it is still -29 bps relative to the end of 2019, but +114 bps from April 2020 low). Generic 30yr yield went up by 25.6 bps MoM to 2.41%. We didn't expect a significant growth of the yield curve until recently, at least any growth of the short end. But the situation has changed rapidly in the recent months. We still don't expect any growth of the FF rate in the nearest years but it seems that the most part of the yield curve could be meaningfully higher. According to current forwards, the yield curve in 2 years will be higher than the current one by 50-130 bps even despite to a substantial growth of the long end. It is expected that only 30yr yield will be 8 bps lower in 2 years.

Chart 23. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

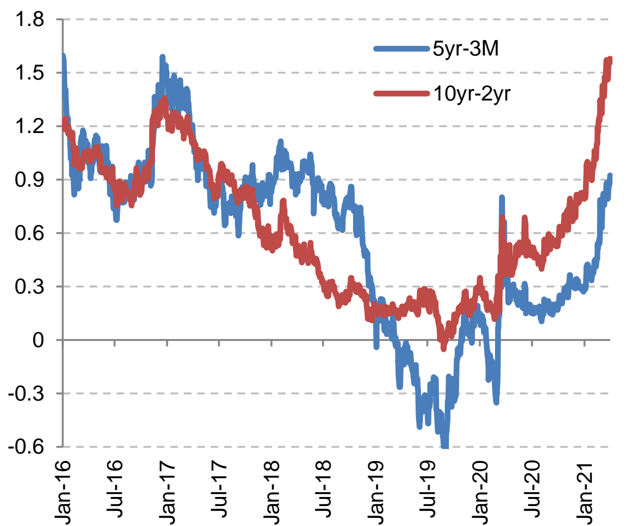
Chart 24. US Yield Curves, %



*As of the end of March 2021

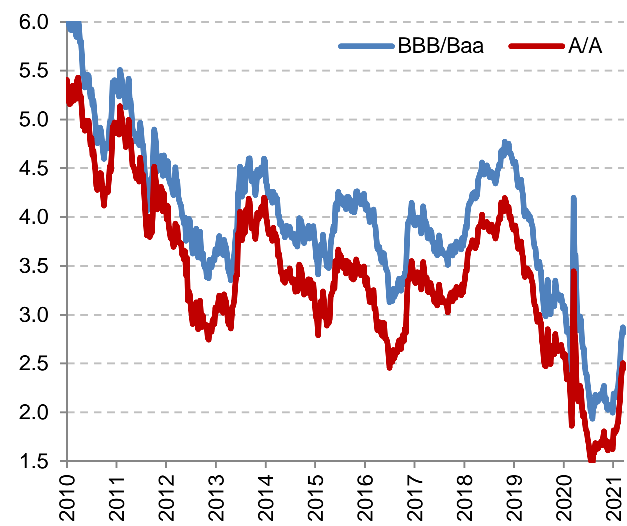
Source: Bloomberg

Chart 25. Treasury Spreads, %



Source: Bloomberg

Chart 26. Corporate Spreads, %



Source: Bloomberg

So, spreads moved up substantially in March again, the third consecutive month of growth. Spreads were markedly higher vs the end of 2019 but 5yr/3M spread is still slightly lower than an average level of 2017 year, while 10yr/2yr is already markedly higher. Thus, 5yr/3M spread increased by 22.6 bps to +0.92% and it is still 5 bps lower than an average level of 2017 year, while 10yr-2yr spread is 65 bps higher (at the end of March 2021). Spread (10yr-2yr) increased by 30.2 bps MoM to +1.58%.

According to Bankrate.com data, loan yields stopped going down in February. Notwithstanding, a growth of rates was minor in March despite the ongoing significant growth of the long end. Thus, average 30yr mortgage rate increased by 2 bps MoM to 3.27% at the end of March, after a growth by 37 bps in February, following 10 consecutive months of decline. Average rate increased by 29 bps MoM to 3.24% but it is just where it was 9 months ago. Notwithstanding, a decline of 30yr mortgage yield relative to the end of 2019 level is already bigger than a decline of 10yr treasury yield. But it seems that mortgage rates have already reached the bottom of the cycle. Average 15yr mortgage rate decreased by 2 bps MoM, to 2.51%. Auto loans rate (new loans, 60 mnth) went up by 2 bps MoM to 4.23%, after 7 consecutive months of decline.

Despite to the growth of the long end, deposit rates continued to decline in February on an average basis but the rate of decline decelerated. So, it was the 18th month in a row of average rates decline (or being flat). But checking accounts were flat while MMA cost even increased. Notwithstanding, we think that deposit costs will be no more any significant mitigation factor for NIM until FF rate cut again (near zero probability in coming quarters). Thus, national average cost of 6 month deposits decreased by 3 bps MoM to 0.18%; average 3yr CDs cost declined by 2 bps to 0.4%; average 5yr CDs cost was flat MoM at 0.46% while cost of interest checking accounts was also flat MoM at 0.4% (but still +20 bps over last six months). In turn, average cost of money market accounts increased by 1 bps MoM to 0.1%, remaining near all-time low.

Europe

Corporate

A corporate loan growth markedly accelerated during the spring of 202, driven by emergency liquidity needs. But it is evident now that so high growth was unsustainable given a deep recession in 1H20, a deceleration of the economic recovery in recent months (the second technical recession in 4Q20-1Q21), still relatively strict restrictions even in spite of the start of the vaccination campaign (which is still going slower than expected) and tightening of the lending standards. Notwithstanding, corporate loans increased by 0.2% MoM in February 2021, the second consecutive month of growth in monthly terms after a noticeable decline of 0.7% MoM in December 2020. On yoy basis, its growth rate remains relatively flat over last 11 months, hovering around 5.4%. But the growth rates remain very different for different loan terms. Thus, loans up to 1 year increased by 0.4% MoM, but -6.9% yoy, in February after it was shown the weakest growth rate on yoy basis since 2H10 in January. In turn, loans 1-5 yrs accelerated to 13.7% yoy from +3.4% yoy in February 2020, but -0.4% MoM, the fourth consecutive month of decline. Loans over 5 yrs were +7% yoy in February vs +2.3% yoy one year ago, +0.4% MoM. Total corporate loans increased by +5.4% yoy vs +1.5% yoy one year ago. Credit growth in the EU still varies markedly across countries. So, we still see very healthy growth rates in Germany and France on yoy basis while Italian corporate loans growth turned positive on yoy basis only in June 2020 after it was negative for 8 consecutive years. Notwithstanding, Spanish and Italian growth was relatively weak in three recent months.

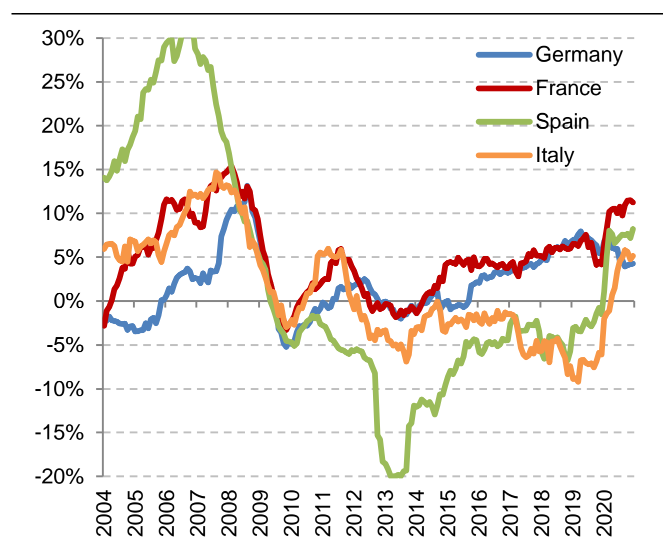
European corporations benefited from low interest rate environment so far but it was little consolation in a recession time given an imminent decline of revenues. Notwithstanding, various government guarantee programs help the majority of companies to remain solvent in a very tough period of time. In November 2020 ECB's Financial Stability Review it was noted that the coronavirus pandemic remained the predominant force shaping both the current economic and financial environment and the future prospects for euro area financial stability. So, the primary focus of policymakers is efforts to mitigate the economic damage to corporates and households from the pandemic. "While the signs of recovery in economic activity over the summer [of 2020] and recent progress on vaccines give cause for some optimism, governments continue their efforts to contain the spread of the virus. So there is a long road ahead, and authorities will have to make difficult decisions on whether and how to extend policy measures and, eventually, deal with the debt they create". The next waves of the pandemic will inevitably lead to lower corporate profits and higher default rates given the fact that financial health of the EU corporate sector has not yet recovered from the spring lockdowns. Notwithstanding, asset quality of corporate loan portfolio remains relatively strong so far. Banks are adequately reserved at the moment but we expect some deterioration of the asset quality, especially among small and mid-sized companies, which "are more exposed than larger firms to tightening credit conditions once loan guarantees expire". At least, recent data showed that the EU economy lost momentum and it is expected to decline again in 4Q20 (it was already negative on qoq basis) and 1Q21 on qoq basis, the second technical recession over 5 recent quarters. Despite to a slower than expected vaccination campaign, composite PMI index returned to above 50 pts level in February, driven by manufacturing component. From the other hand, services PMI remains relatively weak as a result of ongoing lockdowns which, however, aren't as strict as they were in the spring 2020. Unsurprisingly, risks to euro area growth outlook remain on the downside but outlook has improved recently due to an acceleration of the world economic growth.

According to January 2020 Euro Area bank lending survey, demand for corporate loans declined again in 4Q20, for the second consecutive month after it surged in 1H20 as a result of emergency liquidity needs. In 2Q20, demand reached the highest net balance

since the survey was launched in 2003. Banks also noted that a negative impact on total loan demand had lower demand for fixed investments while demand for inventories and working capital has positive contribution but it is lower than it was in 1H20. But banks expect a net increase in firms' loan demand in 1Q21. Credit standards for corporate loans tightened in 4Q20 and it was broad-based tightening across all major sectors in 2H20. The most suffered sectors are CRE, wholesale and retail trade. Notwithstanding, "while the tightening was above the historical average (8%), it remained below the peaks observed during the great financial crisis and the sovereign debt crisis (average tightening of 52% from the fourth quarter of 2007 to the first quarter of 2009; peak of 30% in the fourth quarter of 2011). The smaller net tightening over the course of the pandemic compared to previous crises is likely related to supportive monetary and fiscal policy actions". Risk perception remains the key driver of tighter standards. Banks expect further net tightening of standards in 1Q20 as a result of "the continued uncertainties around the further development of the pandemic and its effects on borrowers' credit risk".

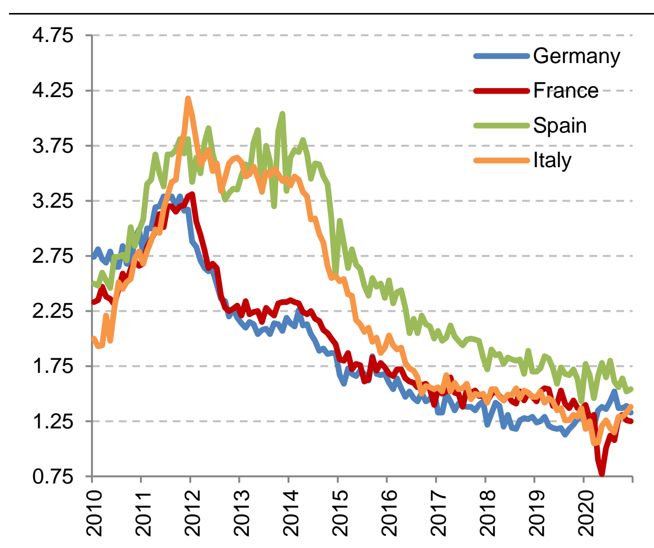
Unadjusted EoP corporate loans increased by 5.4% yoy at the end of February, the 41st consecutive month of positive growth on yoy basis. In turn, adjusted for sales and securitizations loans increased by 6.3% yoy, the 67th consecutive month of positive yoy growth. It remained near the highest rate of growth since the beginning of 2009. Notwithstanding, it should continue weakening in coming months given the second consecutive technical recession over the recent 5 quarters, a normalization of the situation with liquidity and gradual closing of the government guarantee programs. We don't exclude that it will be negative in several quarters given the high base of April-May of 2020. Accompanied by challenging rate environment for a long period of time, it will have double negative effect on NII and profit even taking into account ECB's mitigation actions.

Chart 27. EU Corporate Loan Growth, YoY



Source: Bloomberg

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



Source: Bloomberg

German outstanding corporate loans (unadjusted figures) increased by 4.3% yoy as of the end of February 2021 and +0.8% MoM vs +6.4% yoy as of the end of 2019. French corporate loans outstanding (unadjusted figures) added 11.3% yoy, but -0.1% MoM, at the end of February, the second consecutive month of non-positive monthly growth. Due to a significant MoM growth in the spring months, Spanish loan growth is much higher now than it was one year ago and it even accelerated during recent months on yoy basis even despite to a negative MoM growth in December and January. Thus, Spanish outstanding corporate loans added 8.2% yoy, or +0.1% MoM, vs -1.5% yoy one year ago. Italian loan growth turned positive in June 2020 after being negative on yoy basis for more than 8 years. Thus, it added +5.1% yoy, or +0.2% MoM, in February 2021 vs -6.1% yoy in

February 2020.

European corporate rates increased meaningfully from their spring 2020 lows due to spreads widening while benchmark rates dynamics remained weak. It moved back in November 2020 but it remains positive on yoy basis during six months in a row after 18 consecutive months of decline. Thus, average EU corporate loan rates (all maturities, new business lending, adjusted for loan sales) decreased by 4 bps MoM to 1.39% in January 2021 but it still remained +1 bps on yoy basis. From the other hand, back book yields of EU banks continuously decreased on yoy basis since April 2014 and a rate of decline went up in 2Q20 after being relatively flat over all the previous year. It declined by 17 bps yoy, or -1 bps MoM, to 1.69% in January 2021.

Dynamics of rates within European countries was divergent again in January with a significant decline in Italy and Netherlands but a marked growth in Germany and Spain. Thus, Spanish yield went up by 5 bps MoM to 1.55%, the second consecutive month of growth. Notwithstanding, it was -11 bps yoy in January vs just +1 bps in Eurozone. Italian yield tumbled by 20 bps MoM to 1.2%, after two consecutive months of growth. But it remained flat on yoy basis. German corporate rate on new loans increased by 3 bps MoM to 1.36% in January, after a decline of 6 bps MoM in December. But, it was still +12 bps yoy even despite to relatively weak dynamics in three recent months. French yield on new corporate loans was flat MoM at 1.25%, after two consecutive months of decline. And it was -15 bps yoy, one of the two countries with negative dynamics among major European countries. In turn, Dutch yield tumbled by 13 bps MoM to 1.65%, after a rapid growth in December. So, it was +29 bps yoy. But Dutch corporate yield remains very volatile.

EU back book yield declined by 1 bps MoM, or -17 bps yoy, to 1.69%. The yield declined in all major European countries except for Germany and Spain. Thus, German yield was flat MoM at 1.76% in January, still -12 bps yoy. French yield declined by 4 bps MoM to 1.37%, -27 bps yoy. Italian yield decreased by 1 bps MoM, or -23 bps yoy, to 1.78%. Spanish yield went up by 2 bps MoM to 1.72% and it is just 6 bps lower on yoy basis, the slowest rate of decline among major European countries along with Dutch one. Dutch yield decreased by 2 bps MoM to 1.91%, -6 bps yoy. So, the spread between new and outstanding rates increased by 3 bps to 0.3% in January after a decline by 2 bps in December. It is 18 bps lower than it was one year ago and it is not far from the lowest spread since the middle of 2008.

Despite to negative rates on new corporate deposits, its growth rate remains significant and it has even accelerated in recent months. Thus, EU corporate deposits increased by 18.4% yoy as of the end of February 2021 driven by overnight deposits and deposits with agreed maturity, where average rate was -0.01% and -0.13% in January, respectively vs +0.01% and -0.04% one year ago (new business). Notwithstanding, growth rates are very different among major EU countries and vary from +5.4% yoy in Netherlands to +26% yoy in France and Spain.

Consumer

The EU consumer was the main driver of a total loans growth before the beginning of the pandemic. Total consumer loans decreased slightly on MoM basis in March and April of 2020, but the growth resumed later as a result of employment supporting programs and an economic recovery. The growth continues but it remained relatively flat on yoy basis over last 51 quarters despite to all the changes in the economic situation and tightening of the loan standards. The latter was quite predictable action given a rapid deterioration of the EU economy, which should inevitably lead to a significant deterioration of financial health of the EU consumer (not yet due to various government support programs). It should also be noted that a sustained growth of property markets which positively impacted on household wealth during recent years could be replaced by a fall in coming quarters. On the other

hand, the unemployment rate still remains relatively stable while consumer confidence increased slightly in recent months as a result of the beginning of the vaccination campaign. But it still remains relatively low vs historical averages. Notwithstanding, a positive moment is that the 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 it will remain at these levels or only slightly higher in the nearest years because of prolonged negative rate environment. Currently, households' debt interest burden is 40-50% lower for the majority of European countries than it was just before the US mortgage crisis. So, we believe that overall quality of consumer credit portfolio of European banks should be markedly better in the current crisis vs GFC levels even despite to new restrictions because of the next waves of the pandemic and a relatively long road back to normalcy even in spite of the recent start of the vaccination campaign.

EU loans to households increased by 2.9% yoy, or +0.2% MoM, in February 2021 after it was flat MoM in January following 8 consecutive months of positive MoM growth. Consumer loan growth remained relatively strong so far and we no more expect any significant deceleration of consumer loan growth even despite to tighter lending standards and an imminent growth of unemployment in 2021. But loan growth rates continue to differ widely across countries (as well as corporate loan growth). Thus, German household loans increased by 4.5% yoy in February, or +0.3% MoM, French retail lending added 5.2% and +0.2% MoM (a marked deceleration vs mid-2020 levels), while household loans in Spain decreased by 1.4% on yoy basis, the 20th month in a row, after a non-negative loan growth rate for 13 months in a row following more than 7 years of a negative yoy growth, and -0.1% MoM, the third consecutive month of decline. Italian consumer loans added just 1.7% yoy in February, but +0.3% MoM, after flat dynamics in January and -0.2% MoM in December following three consecutive months of growth of +0.4% MoM.

Consumer lending (excluding mortgage) was the key driver of EU household loan growth in pre-COVID time but it was negative on yoy basis for the last 10 months while a growth of mortgage loans continues to accelerate. On MoM basis, consumer credit decreased by 0.3% MoM, or -4.2% yoy, in February, the fourth consecutive month of non-positive growth on MoM basis. In turn, EU mortgage loans increased by 4.3% yoy as of the end of February, +0.3% on MoM basis. According to January 2021 bank lending survey from the ECB, loan demand for housing loans increased again in 4Q20, for the second consecutive quarter after a considerable decline in 2Q20. In turn, demand for consumer credit declined in 4Q20 after a growth in 3Q20 but it remained in line with historical averages. The key driver of weaker demand was the reacceleration of the pandemic. Notwithstanding, banks expect that demand for consumer credit will increase in 1Q21 even despite to banks continued to tighten credit standards. Banks also expect that standards will be tightened in 1Q21. In turn, banks expect that demand for mortgage loans will slightly decline in 1Q21.

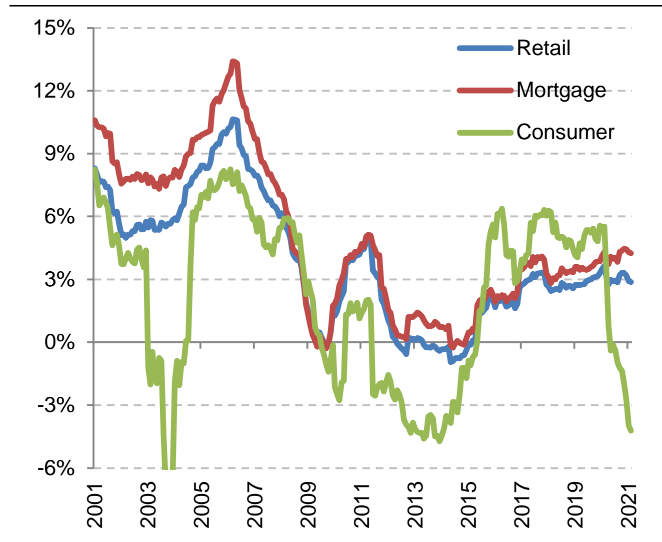
Consumer credit loans remained quite volatile but their decline during pandemic and recessions looks quite logic given its risky nature. Consumer credit grew by more than 5% in the middle of 2019 but it is already -4.2% yoy. The most significant decline of growth rates was demonstrated by Spain, where consumer loans increased by 13.8% yoy as of the end of April 2019, but it was -5.6% yoy, or -0.3% MoM, as of the end of February 2021 and it continues to decelerate.

As of mortgage lending standards, they were tightened in 4Q20 for the fourth quarter in a row. However, "the net tightening was smaller than in previous quarters of 2020 and close to the historical average since 2003". Risk tolerance and risk perceptions regarding the general economic outlook were among key driver of tighter standards. On the other hand, risk perceptions related to housing prospects positively impacted on the standards. Notwithstanding, banks expect that standards will be tightened again in 1Q21. "Across the largest euro area countries, credit standards tightened in France, while they remained

unchanged in Germany, Spain and Italy. Banks in Spain reported a notable net easing contribution from cost of funds and balance sheet constraints".

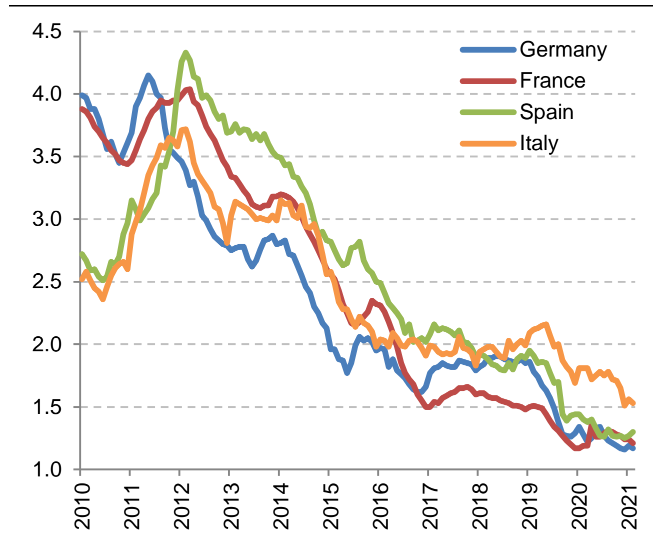
Average EU rate on new mortgage loans increased by 1 bps MoM basis to 1.35% in January, after its decline in monthly terms during four consecutive months. So, it is still 7 bps lower than it was one year ago. It was hovering around 1.82-1.83% over 8 months from July 2018 to February 2019 but it declined by more than 40 bps since then because the key benchmark yields for mortgage rates declined markedly ytd, except for the short end which is relatively flat vs the end of 2019. 10yr generic yield decreased by 3.2% MoM to -0.29% in March 2021 after it skyrocketed by 27 bps in February. So, it is still just -11 bps vs the end of 2019 and more than 50 bps from all-time low. In turn, 30yr yield continued its growth, adding 6.4 bps MoM to 0.26% as of the end of March. Notwithstanding the most of the yield curve still remains deeply below 0% at the moment (but not the entire curve as it was earlier). In January, German mortgage rates on new loans increased by 3 bps MoM to 1.19%, -15 bps yoy. In turn, Italian mortgage rate went up by 2 bps MoM to 1.27% and it is still 17 bps lower than it was one year ago. French yield was flat MoM at 1.24% in January, after four consecutive months of decline. Notwithstanding, it is still +7 bps yoy. Spanish mortgage rate increased by 5 bps MoM to 1.56% but it is 25 bps lower than it was one year ago (as a result of four consecutive month of decline with overall drop of 27 bps over the period). Because of lower front book yields, we continue to see declining back book rates on a year-over-year basis, -17 bps yoy for all Eurozone mortgage loans. On a month-over-month basis, it decreased by 3 bps to 1.76%, the 11th month of decline in a row after an unexpected growth in February. The rate of decline increased 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, which, however, started to grow again a few months ago. Back book yields went down on MoM basis in all major European economies.

Chart 29. EU Consumer Loan Growth, YoY



Source: Bloomberg

Chart 30. EU Mortgage Loan Rates, New Loans, %



Source: Bloomberg

As for other consumer loans, EU new business rates skyrocketing by 20 bps MoM but still -41 bps yoy to 5.26% in January. Dynamics wasn't uniform across major European economies with a rapid growth in Italy and Germany, but a moderate growth in France. Thus, German yield increased by 36 bps MoM in January after it tumbled by 24 bps MoM in December, still -19 bps yoy at 5.84%. French rate went up by 5 bps MoM to 3.51%, after decline by 11 bps MoM in December, -18 bps yoy. Spanish rate rose by 11 bps MoM to 6.43%, after a skyrocketing growth in December. But it is -86 bps on yoy basis, the deepest decline among major European countries and it remained the most volatile consumer yield among major European countries. Italian consumer yield increased by 35 bps MoM in

January to 6.32%, and it is -22 bps yoy.

Average European new consumer deposits rate (with agreed maturity) increased by 4 bps MoM to 0.26% in January after it decreased by 3 bps MoM in December. Notwithstanding, it is still lower on yoy basis, but it is just 6 bps lower, a much slower rate of decline than loan yields drop. In turn, cost of outstanding deposits (with agreed maturity) was flat MoM at 1.15% in January. But it remained relatively flat over last 10 months, being in range of 1.15%-1.19%. Total cost of deposits was flat MoM at 0.2% in January, the third consecutive month of flat dynamics. On yoy basis, it is just 5 bps lower than it was one year ago. So, the spread between total loans yield and cost of total deposits decreased by 15 bps yoy, or -2 bps MoM, to 1.84% in January (new all-time low), after it decreased by 2 bps MoM in December.

Consumer deposits growth remains healthy, adding 8.2% yoy in February, a slight acceleration vs +5.3% at the end of January 2020, and the fastest growth since 2H09. The growth rates of consumer deposits are between 7.2-10.8% yoy for all major European countries despite to increasingly clear threats by banks to start shuffling off the burden of negative rates on to consumers. Loans to deposits ratio was relatively flat MoM but it declined by 6.2% yoy on absolute basis to 94.4% as of the end of February.

Overall Macro

The European economy continues to suffer from the next waves of the pandemic and associated restrictions which last longer than it was initially expected. So, it is quite possible that the EU GDP will decline again on qoq basis in 1Q21, which suggests the second technical recession in Europe during last 5 quarters. According to ECB's March introductory statement, "incoming economic data, surveys and high-frequency indicators point to continued economic weakness". Notwithstanding, ECB's GDP growth projections were almost unchanged in March (vs December forecasts) as "the ongoing vaccination campaigns, together with the gradual relaxation of containment measures – barring any further adverse developments related to the pandemic – underpin the expectation of a firm rebound in economic activity in the course of 2021". Moreover, it was noted that risks become more balanced but downside risks remain in the near term. The key sources of the downside risks are the ongoing pandemic with the possible more pronounced negative impact of new virus strains (among other things because of weak effectiveness of vaccines against them) and a slower than expected vaccination campaign as a result of supply constraints. On the other hand, better prospects for global demand, bolstered by the sizeable fiscal stimulus, are encouraging. According to the ECB, "economic developments continue to be uneven across countries and sectors, with the services sector being more adversely affected by the restrictions on social interaction and mobility than the industrial sector, which is recovering more quickly". Notwithstanding, "weaker corporate balance sheets and elevated uncertainty about the economic outlook are still weighing on business investment". In any case, the worst is behind us but the bumpy road is ahead.

The European real GDP meaningfully increased in 3Q20 after its record decline in 2Q20. In turn, 3Q20 growth was markedly higher than it was initially expected and it even exceeded the highest estimates. From the other hand, 4Q20 activity was much weaker given restrictions because of the second wave of the pandemic. Thus, the EU GDP decreased by 0.7% qoq, or -4.9% yoy, in 4Q20 vs 3Q20 growth rate of +12.4% qoq and -4.3% yoy and 4Q19 growth rate of +0.1% qoq and +1.0% yoy. On yoy basis, EU GDP growth was negative in each quarter of 2020 and it is expected that it will be negative again in 1Q21. In turn, German GDP increased by 0.3% qoq, but -3.7% yoy, vs 3Q20 growth rate of +8.5% qoq, but -4% yoy, and 4Q19 growth rate of 0.0% qoq and +0.4% yoy. French GDP decreased by 1.4% qoq, or -4.9% yoy, in 4Q20 vs a growth of +18.5% qoq, but -3.7% yoy, in 3Q20 and 4Q19 growth rate of -0.2% qoq, but +0.8% yoy. Italian GDP went down by

2.0% qoq, or -6.6% yoy, vs a growth of +16% qoq, but -5.1% yoy, in 3Q20 and 4Q19 growth rate of -0.4% qoq, but +0.1% yoy. Spanish GDP increased by 0.4% qoq, but -9.1% yoy, vs +16.4% qoq, but -9% yoy, in 3Q20 and 4Q19 growth rate of +0.4% qoq, or +1.7% yoy. According to Bloomberg compiled estimates, 1Q21 GDP growth rate will be in the range of -0.3% qoq in Italy to -1.4% qoq in Germany while it will be more than +2% qoq across all major EU economies in 2Q21. GDP projections are slightly higher than it was 2 quarter ago but it is expected that the EU economy will return to 2019 level only in 2H22. Thus, according to Bloomberg consensus estimates compiled in March, the EU GDP will increase by 4.3% yoy in 2021 (vs +4.2% yoy in February), by 4.1% yoy in 2022 (vs 4.0% yoy) and by 1.9% yoy in 2023.

European macro data published in March 2021 was slightly better than expected with positive surprises on industrial production and PMI but much weaker retail sales. Given recent PMI figures and gradually removed restrictions, we expect that the economic recovery will resume as early as 2Q21, even taking into account that the vaccination is not going as fast as expected. So, Citi's economic surprise index markedly increased in March as it did in February after its weak dynamics in January. To be more precise, Citi's economic surprise index went up by 17.5 pts MoM to 182.8 pts as of the end of March. On the other hand, Bloomberg surprise index moved in opposite direction, decreasing from 0.511 pts to 0.366 pts in March.

Composite PMI (preliminary figure), which is usually well correlated with GDP growth (but relation was less tight than usually in 2020), markedly beat expectations in March 2021 after a slight beat in February. So, it has already exceeded 50 pts and it is even higher than an average level of 2018, pointing to positive GDP dynamics on qoq basis. Composite PMI increased by 3.7 pts MoM to 52.5 pts, being markedly higher than the consensus of 49.1 pts. The key driver of composite PMI growth was strong dynamics of manufacturing PMI. However, services indicator also increased but it still remained below 50 pts. Thus, manufacturing PMI increased by 4.5 pts MoM to 62.4 pts in March vs consensus of 57.6 pts. It was +13.2 pts comparing to its pre-COVID level. In turn, services PMI increased by 3.1 pts MoM to 48.8 pts vs consensus of 46 pts. So, it is 3.8 pts lower than it was in February 2020. Manufacturing PMI is consistent with ECB's view that activity in manufacturing sector held up well. The key driver of EU manufacturing remains Germany which manufacturing PMI increased by 5.9 pts MoM to 66.6 pts vs consensus of 60.5 pts after a marked growth in February. It is 18.6 pts higher now than its pre-COVID levels. Also, German services PMI increased by 5.1 pts MoM to 50.8 pts vs estimate of 46.5 pts, -1.7 pts from February 2020. Thus, composite PMI in Germany increased by 5.7 pts MoM to 56.8 pts vs consensus of 51.6 pts, +4.9 pts vs pre-pandemic level. In turn, French composite PMI went up by 2.5 pts MoM to 49.5 pts in March vs consensus of 47.2 pts, after two consecutive months of marked decline. So, it is already 0.9 pts higher than it was in February 2020. Positive PMI dynamics was driven by both components. So, services PMI increased from the lowest level since May 2020 by 2.2 pts MoM to 47.8 pts vs consensus of 45.5 pts. In turn, manufacturing PMI went up by 2.7 pts MoM to 58.8 pts in March vs consensus of 56.3 pts. Due to better soft manufacturing data in recent months, industrial production was markedly stronger than expected in January 2021 after weaker figures in the end of 2020. Thus, IP increased by 0.8% MoM vs consensus of +0.5% MoM. Moreover, December initial estimate was revised up from -1.6% MoM to just -0.1% MoM. In result, it even increased by 0.1% on yoy basis vs October figure of -3.5% yoy. It was the first month over last 27 with positive yoy growth of industrial production. Given recent PMI figures, it seems that IP will continue its recovery and it could even accelerate substantially in coming months, even despite to "weaker corporate balance sheets and uncertainty about the economic outlook are still weighing on business investment". So, estimates markedly improved in March vs February projections. Thus, according to estimates compiled by Bloomberg, it is expected that IP will increase by 8.1% yoy in 2021, by 3.8% yoy in 2022

and by 1.8% yoy in 2023 vs +6.4% /+3.8 /+1.9% yoy as it was estimated in January.

Financial health of the EU consumer stopped deteriorating in recent months after several consecutive months of weaker dynamics even in circumstances of massive support programs and the start of vaccination campaign, which, however, is somewhat slower, than it was expected few quarters earlier. So, the pandemic is far from over and risks are still tilted to downside with more prolonged period of various restrictions. But it seems that prospects have improved in recent months. According to March Bloomberg survey, private consumption will increase by 3.3% yoy in 2021, 4.7% yoy in 2022 and 1.9% yoy in 2023 (vs +3.9%/+4.3%/- estimated growth rates in January survey). Unemployment should increase slightly in 2021 even despite to massive support measures for employment. Notwithstanding, the growth rate of unemployment will be much lower than it was in the USA in 1H20. Moreover, consumer confidence has already started to go up again. Unemployment rate was flat MoM at 8.1% in January vs consensus of 8.3%. Moreover, initial December estimate of the ratio was revised down by 20 bps. So, March consensus estimates of unemployment rates for 2021, 2022 and 2023 years, compiled by Bloomberg, were revised down again, to 8.7%/8.3%/7.8% vs February estimates of 8.9%/8.5%/7.9%. ECB's March unemployment projections were less pessimistic, being at 8.6%/8.1%/7.6% for 2021/2022/2023 years, respectively. In turn, retail sales tumbled by 5.9% MoM in January vs consensus estimate of -1.4%. Also, initial December estimate of +2.0% MoM was revised down to +1.8% MoM. In result, it was negative on yoy basis again, -6.4% yoy vs +0.9% yoy at the end of 2020. Notwithstanding, March consumer confidence improved markedly but it remained somewhat depressed. Thus, it increased by 4 pts MoM to -10.8 pts in March vs consensus of -14.5 pts, +11.1 pts from April 2020, but -4.4 pts from pre-COVID levels. It was the highest consumer confidence over the last year.

Rates

At the March meeting, the ECB announced that purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than it was in 1Q21. The decision was made by the total consensus of the Governing Council. However, it wasn't specified what "significantly" means. Among the key reasons of such decision current financial conditions and the inflation outlook were named. Notwithstanding, it was noted that the total envelope and the duration of the program remained unchanged – "the Governing Council will continue to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,850 billion until at least the end of March 2022 and, in any case, until it judges that the coronavirus crisis phase is over". In any case, it was a pretty encouraging statement for the market, given the increased concern as a result of the unchanged amount of asset purchases in the week preceding the meeting. Other monetary policy instruments were left unchanged. So, APP "will continue at a monthly pace of €20 billion". Rates will remain unchanged at 0.00%, 0.25% and -0.50% for rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility, respectively. As for the most favourable instrument of monetary policy for EU banks at the moment, TLTRO, "the Governing Council will continue to provide ample liquidity through its refinancing operations". Recall that TLTRO III program was extended on more favourable terms by 12 months to June 2022 at ECB December meeting. Moreover, total borrowing amount was increased from 50% to 55% of stock of eligible loans. Answering the question about the yield curve control, Mrs. Lagarde emphasized again that there was no reference to any kind of yield curve control. As for EUR currency, it was noted that there were no any particular target for exchange rate for the EUR, but it monitored carefully as it could impact on economic activity and the outlook for price stability in the euro area. Also, new economic projections were released but they were almost unchanged vs December forecasts. Only inflation 2021 projection was revised significantly up but it is the result of a number of idiosyncratic factors. Also, it was noted that

risks surrounding the euro area growth outlook over the medium term had become more balanced. The key near-term aim of ECB is to prevent tightening of the financial conditions which deteriorated recently because of significant yields growth. So, both yields and EUR declined moderately after the meeting, but the long end remains meaningfully higher ytd. So, given the current recovery projections, it seems that rates environment will be much friendly for EU banks in the longer-run than it was expected. At least, we expect now that negative rate environment may be over in 2-3 year.

According to ECB's March introductory statement, "while the overall economic situation is expected to improve over 2021, there remains uncertainty surrounding the near-term economic outlook, relating in particular to the dynamics of the pandemic and the speed of vaccination campaigns". So, "incoming economic data, surveys and high-frequency indicators point to continued economic weakness in the first quarter of 2021 driven by the persistence of the pandemic and the associated containment measures. As a result, real GDP is likely to contract again in the first quarter of the year". Notwithstanding, March GDP growth projections were almost unchanged vs December figures (despite to containment measures last moderately longer than it was expected given the vaccination campaign started two months ago). Thus, it is implied that EU GDP will increase by 4.0% yoy in 2021 (vs +3.9% yoy in December), 4.1% yoy in 2022 (vs +4.2% yoy 1 quarter ago) and by 2.1% yoy in 2023 (in-line with December forecasts). Moreover, unemployment projections were even improved to 8.6%/8.1%/7.6% for 2021/2022/2023 years, respectively (from 9.3%/8.2%/7.5% in December). From the other hand, near-term inflation forecast increased meaningfully because of temporary factors, while projections for further years were little changed. Thus, HICP inflation projections increased from 1.0%/1.1%/1.4% for 2021/2022/2023 years in December to 1.5%/1.2%/1.4% now.

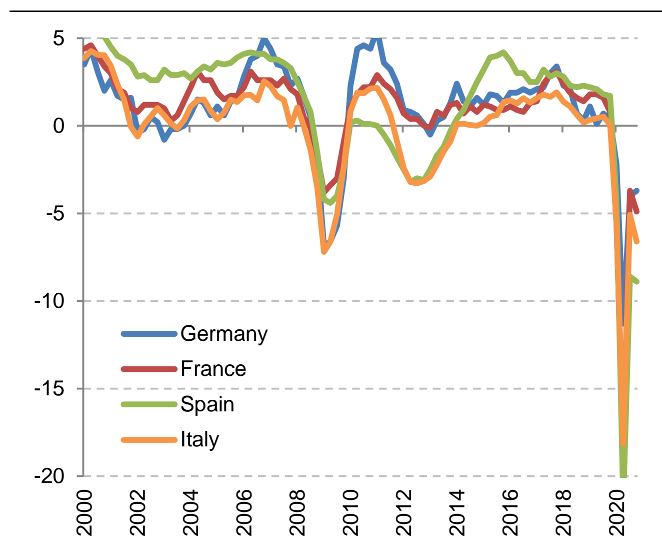
The ECB continues to preserve favourable financing conditions and being as flexible as it can, but it still has a negative impact on banks' revenues and profits, even taking into account a positive effect of TLTRO, favourable conditions of which could be extended even further although TLTRO conditions were improved a number of months ago, especially in case of a further deterioration of economic conditions. So, banks will continue to suffer from a negative rate environment and relatively muted economic growth, but it seems that the light at the end of the tunnel has finally appeared at this matter. However, the outlook for banking NII/NIM remains relatively weak even despite to banking shares outperformance in recent months as a result of more positive view on both LT rates and the economic recovery. We expect that NII/NIM forecasts will begin to improve in the very near future. At least, the long end has skyrocketed recently. On the other hand, the overall yield curve is still much lower than it was at the end of 2019. So, NII outlook stopped worsening recently even despite to key rates will remain negative for longer (but not as longer as it was expected few months ago). Thus, a median NII decline of EU banks was 6.3% yoy despite to significant earning assets growth yoy as NIM continues decreasing even despite to more favourable TLTRO terms. Median NIM decreased by 0.5 bps qoq, or -11 bps yoy, to 1.54% in 4Q20, the lowest figure since 1Q17. On the other hand, a median growth of NII FY21 estimates of EU banks was 0.1% ytd vs -0.3% as of the end of February (still -8% since the beginning of 2020) while FY22 estimates was flat ytd vs -0.2% one month ago. Median NIM FY21 estimate increased by 4 bps ytd to 1.55% while NIM FY22 decreased by 6 bps ytd to 1.45%, implying a further decline yoy in 2022 despite to a better economic outlook and a higher long end.

Key benchmark rates decreased in March 2021 after their noticeable growth in February. Thus, 3M Euribor (Dec 2021) decreased by 4 bps MoM to -0.55% (at the end of March), or -27 bps, vs the end of 2019 while 3M Euribor (Dec 2022) went down by 5 bps MoM to -0.51% and it is -38 bps vs the end of 2019.

The direction of dynamics of generic yields was uniform in March with a decline of all key

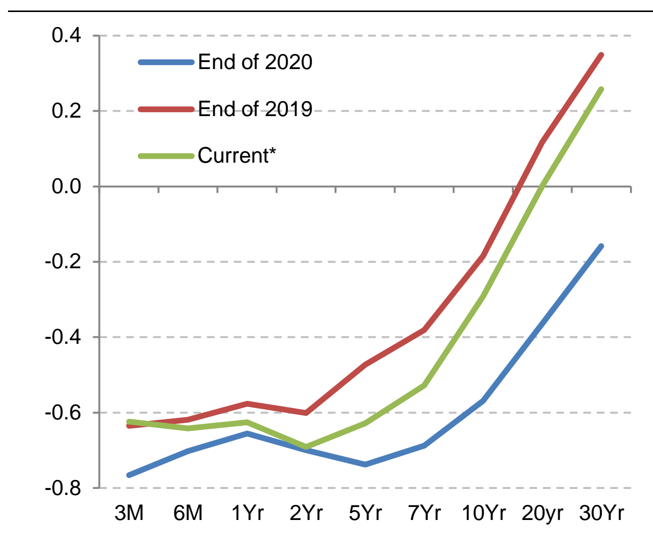
yields except for 20yr and 30yr figures. Notwithstanding, even the long end still remains meaningfully lower than it was at the end of 2019. 3M yield decreased by 2.6 bps MoM to -0.62%. 6M yield went down by 4.5 bps to -0.64%. 1yr generic yield decreased by 4 bps MoM to -0.63% while 2yr yield ticked down by 2.8 bps MoM to -0.69%. 5yr yield went down by 6 bps to -0.63% while 10yr yield decreased by 3.2 bps to -0.29%. Overall, the yield curve remains slightly inverted in the middle part. But spreads were relatively flat in March after their substantial growth in February. Thus, spread between 10yr yield and 1yr yield went up by just 0.1 bps MoM to 0.33% while spread between 5yr and 3M yields decreased by 3.4 bps MoM to -0.004%. Both spreads are higher than April 2020 trough but they remain much lower vs the end of 2019. Almost entire yield curve is still below 0.

Chart 31. EU Countries Real GDP Growth, YoY, %



Source: Bloomberg

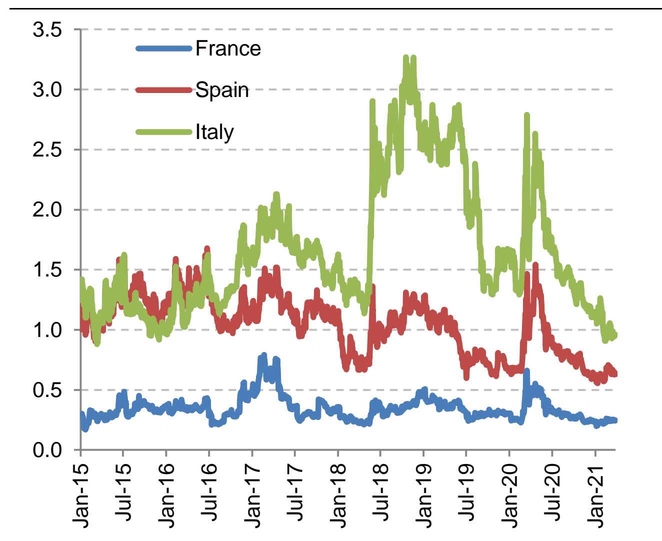
Chart 32. EU Yield Curves, %



*as of the end of March 2021

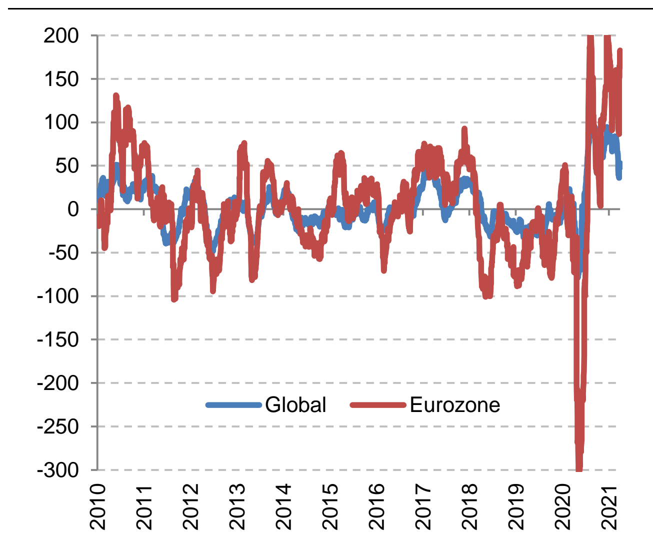
Source: Bloomberg

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



Source: Bloomberg

Chart 34. Citi Economic Surprise Indexes, pts



Source: Bloomberg

THEME OF THE MONTH

US Banks. 1Q21 Preview

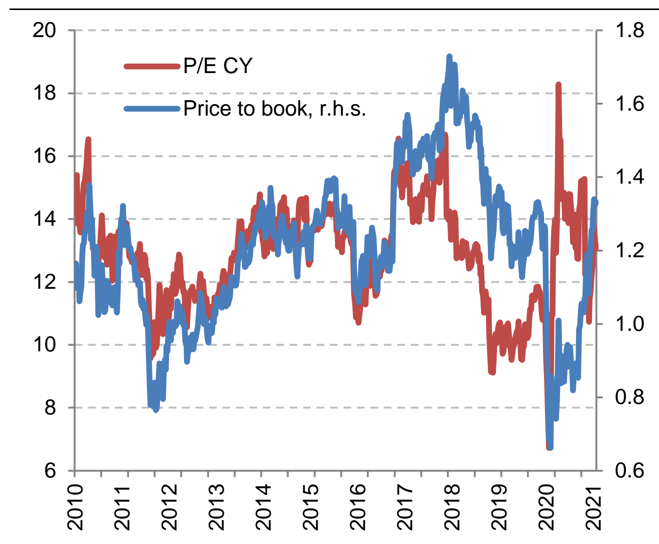
The earnings season of US banks will start on April 14, 2021 when 1Q21 results will be provided by JP Morgan and Wells Fargo. After that, all members of BKX index will provide quarterly results within two weeks. US banks reported much better both revenue and EPS figures in two recent quarters although revenue environment was quite challenging. Operating environment got slightly better since then while the long-term outlook improved significantly. Unsurprisingly, positive EPS momentum, which began in 3Q20, remains, and estimates were revised significantly up ytd as a result of new fiscal stimulus, the ongoing vaccination campaign and an acceleration of the economic recovery. Thus, according to Bloomberg consensus, a median growth of 1Q21 EPS of BKX index members was 19.1% ytd but still -6.3% vs the end of 2019 (as of the end of March). 1Q21 EPS estimates dynamics was negative ytd only for BK and STT, while COF's consensus increased by more than 45% ytd. Full-year estimates for both current and next year were also revised up meaningfully on ytd basis. A median growth of EPS 2021/2022 of BKX index members was +17.2%/+6.7% ytd, respectively, but projections were still -10.3%/-10.5% vs pre-pandemic levels. 1Q21 revenue estimates increased by 1.8% ytd, still remaining markedly below pre-pandemic levels, -3.9% since then.

As a result of optimism about the faster economic recovery and the beginning of the vaccination campaign, key benchmark rates increased significantly ytd. On the other hand, a growth of the loan yields remained restrained so far, especially for C&I loans which yields are linked to the short end of the curve. Notwithstanding, rate expectations moved also meaningfully up recently. Thus, according to FF futures, the first rate hike is expected as early as 2022 while the Fed's dot plot pointed to the first rate hike only in 2024. It seems that the market is too optimistic about dynamics of the short end in coming years but the fact is that the rate environment is no more a headwind for future NIM dynamics. Unsurprisingly, NII/NIM estimates stopped deteriorating in recent weeks. Notwithstanding, according to Bloomberg consensus estimates, a median decline of NIM of BKX index members in 1Q21 will be 1.4 bps qoq, or -49 bps yoy, roughly in-line with yoy decline in two previous quarters. Median 1Q21 NIM of BKX index members decreased by 6 bps ytd to 2.5% as of the end of March. In turn, median NIM 2021/2022 decreased by 2.5/0.1 bps ytd to 2.53%/2.57%, respectively. On the other hand, a median growth of 1Q21 NII (BKX index members) was +1.1% ytd as of the end of March. But it is expected that it would decline by 1.1% qoq (primarily because of lower day count), or -4.2% yoy. But deposits growth still remains very strong and it will support NII in the near future as a result of very high levels of liquidity investing in securities which yields increased markedly in recent months.

As of the end of March, average 1M Libor decreased by 3 bps qoq in 1Q21 (-128 bps yoy) to 0.12% and average 3M Libor lost 2.4 bps qoq (-132 bps yoy) to 0.2% while average prime rate was flat qoq at 3.25% (-116 bps yoy). Loan rates declined slightly in the majority of segments. Thus, average auto loan rates declined by 2-7 bps qoq, or -36-44 bps yoy. In turn, 30 yr fixed mortgage increased by 6 bps qoq, but -71 bps yoy, to 3.03% (the first quarterly growth over last 10 quarters), while 15yr fixed mortgage yield declined again by 7 bps qoq, or -77 bps yoy, to 2.42%, new all-time low. From the other hand, all benchmarks for securities yields went up again in 1Q21. Thus, according to BVAL, average 10yr AA/Aa, A/A and BBB/Baa yields increased by 37.8 bps qoq, 36.4 bps qoq and 29.7 bps qoq to 1.9%/2.05%/2.42%, respectively. The long end of the yield curve increased meaningfully again, for the second quarter in a row. So, it is the steepest curve over more than 5 years. Thus, average 10yr-2yr spread increased by 47.2 bps qoq to 1.18% in 1Q21, significantly higher than an average level of 2019 (+0.17%) and an average level of 2018 (+0.39%). Average 5yr-3Mo spread increased by 27.9 bps qoq to 0.56% in 1Q21, meaningfully higher

than an average level of 2019 (-0.13%) but still lower than an average level of 2018 (0.79%). Fed futures (Dec 22/Dec 23) yields increased by 6.5/10.5 bps MoM to 0.27%/0.4% (14/26 bps ytd), implying 1 rate hike till the end of 2022. But taking into account recent Fed meetings, it seems that the market is too optimistic at the moment.

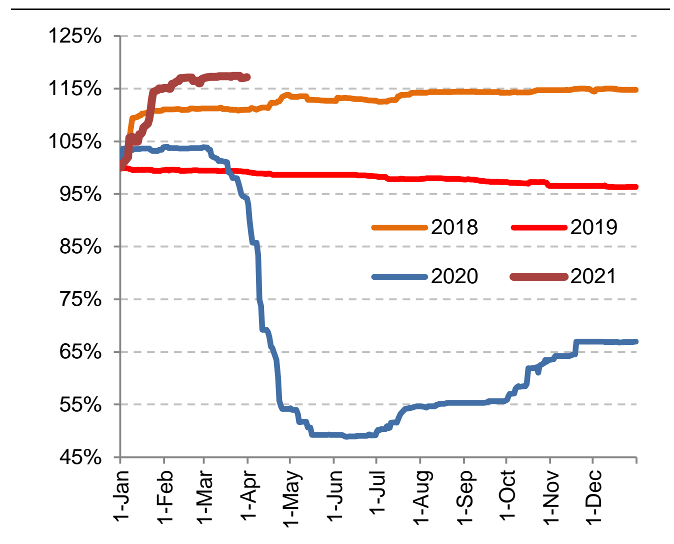
Chart 35. US Banks. Multipliers, Median*



*sample of 33 financial institutions

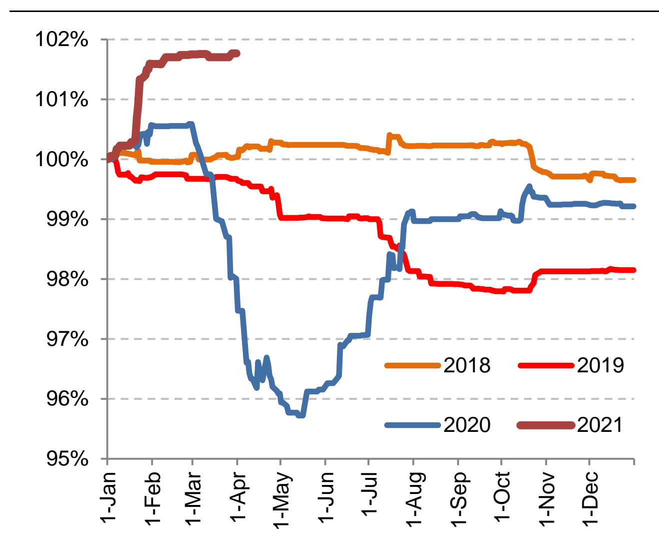
Source: Bloomberg

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



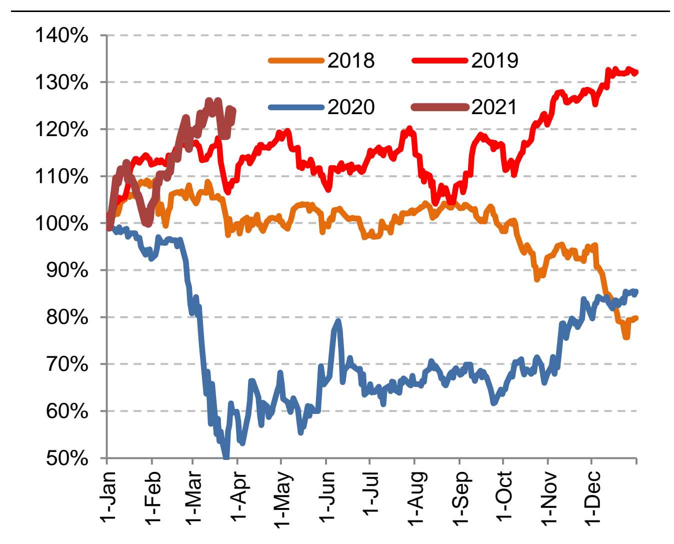
Source: Bloomberg

Chart 37. BKX Index. Median CY Rev Est. Dynamics



Source: Bloomberg

Chart 38. BKX Index. Price dynamics



Source: Bloomberg

A negative impact of decreasing yields could be only partly diminished by a decline of funding costs and balance sheet optimization. Usually, deposits are repriced more slowly than the majority of loans and a decline of deposit cost significantly decelerated in recent quarters. However, a decline of deposit costs even accelerated in 1Q21 despite to a significant growth of the majority of key benchmark rates in recent months. Thus, according to bankrate.com, average cost of 6Mo CDs decreased by 8 bps qoq to 0.2% in 1Q21 (vs -5 bps in 4Q20 and -8 bps qoq in 3Q20), average cost of 1yr CDs declined by 6 bps qoq to 0.35% (vs -5 bps in 4Q20 and -12 bps qoq in 3Q20), average cost of 5yr CDs went down by 11 bps qoq to 0.48% (vs -8 bps in 4Q20 and -15 bps qoq in 3Q20), while cost of interest checking accounts went down by 1 bps qoq to 0.41% (vs +21 bps in 4Q20 and -1 bps qoq in 3Q20). Cost of MMAs declined by 10 bps qoq to 0.1% (vs -4 bps in 4Q20 and -6 bps in 3Q20). Median cost of IBD decreased by 5.7 bps qoq, or -74 bps yoy, to 0.12% in 4Q20 vs -9.5 bps qoq, or -82 bps yoy, in 3Q20. Median cost of interest-bearing liabilities of BKX

index members decreased by 6.5 bps qoq, or -92 bps yoy, to 0.3% in 4Q20 vs -12.5 bps qoq, or -102 bps yoy, in 3Q20.

Loans were flat ytd despite to an acceleration of the recovery and new fiscal stimulus. A solid growth of other consumer loans was leveled by a decline of mortgage loans. On yoy basis, total loans growth was even negative, -0.2% yoy (as of March 17, 2021) as a result of relatively high base of March 2020 because of liquidity needs when the pandemic began. So, the key driver of decline on yoy basis was C&I segment which growth decelerated from 10.8% yoy at the end of 2020 to just +2.6% yoy as of March 17, 2021. And it is quite possible that C&I portfolio will be negative on yoy basis in coming quarters. Also, mortgage and credit card segments were weak. Thus, mortgage loans decreased by 0.6% ytd, or -1.8% yoy. Credit cards decreased by 12.6% yoy, but +0.2% ytd. CRE loans were flat ytd, but it was +2.4% yoy even despite to the main impact of the pandemic fell on this segment. Other consumer loans added +1.5% ytd, or +4.2% yoy. Total assets of US banks increased by 2.7% ytd, or +12.5% yoy, in 1Q21 (as of March 17, 2021) while total deposits increased by 2.9% ytd, or +21.4% yoy, in 1Q21.

Non-interest income of BKX index members is expected to decrease by 5.8% qoq, but +5.6% yoy, in 1Q21, according to Bloomberg consensus. Estimates went up ytd, a median growth of BKX index members is +2.2%. The key drivers of projections growth were capital market fees which remained quite strong. Rising yields will inevitably impact negatively on mortgage fees which also remained solid so far. But card fees and service charges continue recovering due to an acceleration of the economy and it will offset the negative impact of rising rates on other fee lines.

Expenses remained under control so far, but OpEx projections increased by 2.0% ytd as a result of higher revenue projections. According to Bloomberg consensus, a median decline of OpEx of BKX index members is expected to be -4.4% qoq, but +3.6% yoy, in 1Q21 (as of the end of March) vs +6.1% qoq, or +5.6% yoy, in 4Q20. In a result, median efficiency ratio is expected to decrease by 1% qoq in absolute terms to 60.9% in 1Q21 but it is expected to remain higher by 120 bps than it was one year ago. Notwithstanding, operating leverage is expected to remain negative again, for the 6th consecutive quarter after 9 quarters in a row of positive operating leverage. But momentum begins to improve given better revenue projections and relatively good cost control. So, we expect that it will be positive again as early as 2H21.

Credit quality of US banks loan portfolios stayed much stronger so far than it might be expected in the pandemic year and under severe restrictions caused by this. The key drivers of still good credit quality are forbearance actions of banks and unprecedented fiscal and monetary stimuli. Although banks still expect that asset quality will deteriorate in 2H21/1H22, loan reserves were already started to release in 4Q20 given much better economic projections as a result of the vaccination campaign start and new fiscal stimulus expectations. We expect that reserve release will be the key driver of EPS growth in 2021 as economic projections continue to improve. Thus, a median decline of 1Q21 for BKX index members is 53% ytd as of the end of March. According to forecasts compiled by Bloomberg, it is expected that total provisions of BKX index members will be just $5 Bn in 1Q21 vs -$0.9 Bn in 4Q20, $36.8 Bn in 1Q20 and $8.5 Bn in 4Q19. Total provisions of BKX index members were negative for the first time for more than 20 years in 4Q20. Just 2 out of 24 members of BKX index demonstrated provision expense higher than expected in 4Q20 vs 1 bank in 2Q20 and 15 in 2Q20. Moreover, deferrals have already declined substantially while early stage indicators of credit quality remain relatively stable and even negative on yoy basis. NCO and NPL ratios are still marked below historical averages. According to the FDIC data, 30-89 days past due ratio increased by 4 bps qoq, but it was -8 bps yoy at 0.58% in 4Q20, remaining near an average ratio of four previous recent years. NCO ratio decreased by 5 bps qoq, or -13 bps yoy, to 0.41%, remaining quite low from the

historical point of view. On the other hand, noncurrent ratio remains elevated, adding 1 bps qoq, or +27 bps yoy, at 1.18% in 4Q20. Median Texas ratio of BKX index members was flat at just 4.8% at the end of 4Q20 vs 26.9% in 4Q09, the peak of the GFC. In turn, reserve to annualized NCO ratio increased again despite to reserve releases, +77% qoq in absolute terms to 533% at the end of 4Q20, near the highest level over almost 6 years.

Capital ratios remain strong and median CET1 ratio of BKX index members increased on qoq basis for the third consecutive quarter in 4Q20 after 6 quarters of decline in a row. The key drivers of capital ratios growth were regulatory restrictions on buybacks and dividends which were partly removed in December. Also, still strong asset quality also impacts positively on capital ratios. Median Basel III CET1 ratio of members of BKX index increased by 24 bps qoq, or +30 bps yoy, in absolute terms to 10.5%, much higher than the minimum regulatory level. In turn, median TCE ratio decreased by 15 bps qoq, or -53 bps yoy, to 7.37%, still near the lowest figure since the middle of 2011 but meaningfully higher than a median figure of 5.7% at the end of 4Q07. Median dividend yield FY21 (est.) of BKX index members is currently 3.7% and dividend yield FY22 estimate is 4.9%. On March 19, 2021 the Fed announced that the temporary relief for SLR is expired on March 31, 2021 as it was scheduled initially. There had been hopes that it could be extended. So, initial reaction on the news was negative. Potentially, it could lead to lower buybacks but we don't think that it is the serious restrictions for US banks. Moreover, the Fed also announced later that all temporary restrictions on buybacks and dividends would end for most firms after June 30, 2021 after completion of the current round of the stress test. We expect that all banks will pass the stress test. So, it is quite possible that capital returns will increase substantially in 2H21.

As a result of a number of positive news in recent months, banking quotes increased meaningfully in the last six months, even despite to operating environment still remains challenging. Notwithstanding, the situation is beginning to change for the better. On the other hand, much of the expectations are already reflected in the price, from our point of view. So, if the upcoming earnings season doesn't meet the expectations, especially in terms of further loans growth, expected NIM dynamics and future capital returns, we will see a correction in US banking stocks given the recent rally and the fact that US banks aren't cheap vs historical averages. But they are still undervalued vs the broad market. Thus, banks are trading with 0.0/0.0 std on P/E CY (as of March 26, 2021) and +0.4/+0.6 std on P/E NY (on the basis of samples from 2000 and 2010 years to current moment) relative to historical averages (as of the end of February). As for relative to S&P 500, banks are currently trading at -1.6 std and -1.2 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively. On P/B, banks are trading with +0.6 std from the sample mean (2010-current moment) vs +2.8 std for SPX index. **Notwithstanding, we still see ongoing momentum in US banks and recommend buying on dips but being selective as valuations of a number of banks look rich, from our point of view.**

APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price as of 31/03/21, $	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			2021E	2022E	2023E	2021E	2022E	2023E			2021E	2022E	2023E		
American Express	AXP	141.4	137.1	-3.0%	151.5	72.6	52.3	113.6	1.3%	1.3%	1.4%	21.5	15.8	13.7	5.0	6.0	22.7	30.4	31.8	10.1	13.5
JP Morgan Chase	JPM	152.2	155.3	2.0%	161.7	82.5	52.3	464.5	2.4%	2.5%	2.7%	14.0	13.2	12.2	1.9	2.3	12.8	13.5	14.9	6.0	13.1
PNC Financial	PNC	175.4	171.1	-2.5%	184.3	84.0	52.7	74.4	2.7%	2.8%	2.8%	17.5	14.5	12.9	1.4	1.7	8.3	9.6	10.2	9.6	12.2
Bank of America	BAC	38.7	37.4	-3.2%	40.0	19.5	62.1	333.8	2.0%	2.3%	2.7%	15.4	13.4	11.5	1.3	1.9	8.6	9.4	10.2	6.5	11.9
Citigroup	C	72.8	80.4	10.5%	76.1	36.7	57.0	151.8	2.9%	3.1%	3.4%	10.4	9.0	8.1	0.8	1.0	7.9	8.5	8.6	6.9	11.7
Truist Financial Corp	TFC	58.3	60.0	2.8%	61.2	26.4	53.0	78.4	3.1%	3.3%	3.6%	13.7	12.5	10.6	1.3	2.2	8.7	9.2	10.6	7.3	10.0
Goldman Sachs	GS	327.0	349.8	7.0%	356.8	141.8	48.4	116.9	1.6%	1.8%	1.8%	10.5	9.8	9.1	1.3	1.4	12.8	12.5	12.3	6.9	14.7
Bank of NY Mellon	BK	47.3	49.7	5.2%	48.1	31.2	61.1	41.5	2.7%	2.9%	3.4%	12.0	10.4	9.2	1.0	2.0	8.3	9.1	10.1	4.6	13.1
Comerica	CMA	71.7	68.6	-4.3%	73.6	25.8	57.7	10.0	3.8%	3.8%	3.9%	13.6	14.3	13.3	1.3	1.4	9.2	8.6	9.1	8.0	10.3
Citizens Financial	CFG	44.2	46.8	5.9%	47.6	16.6	52.2	18.8	3.6%	3.6%	3.8%	11.4	11.1	10.7	0.9	1.4	7.7	7.4	7.7	7.7	10.0
Regions Financial	RF	20.7	21.3	3.3%	22.6	7.9	50.6	19.8	3.1%	3.3%	3.3%	11.0	10.8	10.4	1.2	1.8	10.3	9.9	10.6	8.0	9.8
Discover Financial	DFS	95.0	108.9	14.6%	104.4	27.5	48.5	29.1	1.9%	2.0%	2.1%	10.2	9.0	8.3	3.0	3.1	25.9	25.4	25.6	8.4	13.1
M&T Bank	MTB	151.6	161.8	6.7%	164.7	85.1	50.1	19.5	2.9%	3.0%	3.1%	12.7	12.4	11.5	1.3	1.9	9.6	9.4	10.2	7.5	10.0
Fifth Third Bancorp	FITB	37.5	38.2	1.9%	40.5	13.2	53.9	26.6	2.9%	3.0%	3.1%	12.7	12.0	11.3	1.3	1.6	9.6	9.6	10.4	8.3	10.3
Huntington Bancorp	HBAN	15.7	16.3	3.8%	16.9	6.8	50.2	16.1	3.9%	4.1%	4.6%	12.5	11.5	10.2	1.5	1.9	11.4	12.1	13.7	7.1	10.0
Northern Trust	NTRS	105.1	105.6	0.4%	107.9	67.4	58.7	21.9	2.7%	2.8%	3.0%	16.3	14.7	13.0	1.9	2.0	12.3	13.2	14.4	6.4	13.4
People's United	PBCT	17.9	17.5	-2.1%	19.4	9.4	54.9	7.6	4.1%	4.1%	4.5%	14.0	13.8	13.0	1.0	1.7	7.0	6.8	6.9	7.5	10.5
Synchrony Financial	SYF	40.7	46.0	13.3%	43.6	13.0	52.0	23.7	2.3%	2.4%	2.6%	9.0	8.0	6.7	2.0	2.4	19.1	20.2	22.8	10.4	15.9
KeyCorp	KEY	20.0	20.9	4.8%	21.8	9.0	49.7	19.2	3.8%	4.0%	4.2%	10.7	10.8	9.6	1.2	1.5	10.6	10.1	11.0	7.9	9.7
State Street Corp	STT	84.0	87.7	4.4%	87.9	49.2	57.2	29.6	2.5%	2.7%	2.9%	12.3	10.7	9.1	1.3	2.1	10.0	10.8	11.9	4.7	12.3
US Bancorp	USB	55.3	55.6	0.5%	57.0	28.4	59.4	83.1	3.1%	3.2%	3.3%	14.4	13.3	12.0	1.8	2.3	11.5	12.2	13.5	6.7	9.7
Zions Bancorp	ZION	55.0	55.6	1.1%	60.2	24.4	51.2	9.0	2.5%	2.6%	2.8%	12.7	13.2	11.7	1.2	1.4	9.2	8.4	9.0	7.8	10.8
Morgan Stanley	MS	77.7	86.0	10.7%	86.6	31.2	43.1	146.2	1.9%	2.2%	2.4%	13.3	11.8	10.6	1.5	1.9	11.3	11.8	12.3	6.9	17.4
Capital One Financial	COF	127.2	135.7	6.6%	134.7	39.9	53.6	58.1	1.3%	1.4%	1.8%	9.9	9.1	8.3	1.1	1.4	9.3	9.5	10.7	10.0	13.7
Wells Fargo	WFC	39.1	40.1	2.6%	41.5	20.8	54.8	161.5	1.3%	2.1%	2.7%	15.1	12.1	9.9	1.0	1.2	6.7	7.5	8.9	7.1	11.6
First Republic Banks	FRC	166.8	170.9	2.5%	180.3	78.9	49.7	29.4	0.5%	0.5%	0.6%	25.8	23.0	20.2	2.8	2.9	10.5	10.5	10.8	7.0	9.7
NY Commercial Bancshares	NYCB	12.6	13.3	5.7%	13.2	7.7	59.8	5.9	5.4%	5.4%	5.4%	11.1	10.1	N. A.	0.9	1.5	8.1	8.5	N. A.	7.2	9.7
SVB Financial	SIVB	493.7	531.4	7.6%	576.8	136.9	45.3	26.6	0.0%	0.0%	0.0%	21.7	21.2	19.2	3.3	3.3	12.9	12.1	11.6	6.7	11.0
Signature Bank	SBNY	226.1	246.2	8.9%	249.5	69.1	54.2	13.0	1.0%	1.0%	1.0%	18.7	16.2	13.1	2.1	2.1	11.4	11.9	13.6	7.9	9.9
East West Bancorp	EWBC	73.8	81.5	10.4%	82.4	22.6	51.3	10.4	1.7%	1.8%	N. A.	14.8	14.2	13.0	2.0	2.2	12.8	12.7	12.7	9.3	12.7
Synovus Financial	SNV	45.8	47.4	3.5%	50.5	14.1	51.6	6.8	2.9%	3.0%	3.2%	12.5	11.9	10.1	1.5	1.6	11.2	11.0	N. A.	7.7	9.7
First Horizon National	FHN	16.9	18.4	8.9%	18.4	6.9	51.9	9.4	3.5%	3.7%	3.9%	11.3	11.0	10.2	1.2	1.7	10.5	10.2	10.7	6.9	9.7
BOK Financial	BOKF	89.3	89.6	0.3%	99.0	37.8	47.8	6.2	2.3%	2.4%	2.4%	12.6	13.5	12.4	1.3	1.7	9.0	8.2	8.5	9.0	12.0
Median				**3.8%**			**52.3**		**2.7%**	**2.8%**	**2.9%**	**12.7**	**12.1**	**11.0**	**1.3**	**1.9**	**10.3**	**10.1**	**10.7**	**7.5**	**11.0**

Source: Bloomberg

APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (31/03/21)	Target price*	Upside	52-week price* High	52-week price* Low	RSI	MCap, € bn.	Dividend yield 2021E	Dividend yield 2022E	Dividend yield 2023E	Price/Earnings 2021E	Price/Earnings 2022E	Price/Earnings 2023E	Price to book	Price to tang. book	ROE, % 2021E	ROE, % 2022E	ROE, % 2023E	TCE ratio, %	CET1 ratio, %
Erste Group	EBS AV	EUR	28.9	30.4	5.1%	29.8	15.2	62.1	12.4	4.3%	4.8%	5.5%	12.6	9.9	8.6	0.8	0.9	6.6	8.1	9.0	4.8	14.2
Raiffeisen Bank	RBI AV	EUR	18.7	21.6	15.4%	19.2	11.7	66.3	6.2	4.4%	4.9%	5.8%	8.4	6.8	5.9	0.5	0.6	6.5	7.4	11.0	6.7	13.6
KBC Groep	KBC BB	EUR	62.0	65.3	5.3%	65.7	39.5	59.5	25.8	6.0%	5.4%	5.7%	14.3	12.4	11.5	1.3	1.4	8.9	9.7	10.5	5.8	18.1
Komercni Banka	KOMB CK	CZK	687.0	723.2	5.3%	725.0	460.0	55.4	5.0	4.8%	5.9%	7.0%	14.5	12.0	10.9	1.1	1.3	7.7	9.1	9.3	8.9	21.7
Jyske Bank	JYSK DC	DKK	302.6	281.1	-7.1%	306.7	150.5	72.7	3.0	1.8%	0.0%	0.0%	10.2	9.1	8.1	0.7	0.7	6.4	6.2	6.1	5.0	17.9
SydBank	SYDB DC	DKK	170.9	180.6	5.7%	173.2	89.1	73.2	1.4	4.6%	5.4%	5.8%	10.1	8.8	8.4	0.9	0.9	8.1	8.9	9.0	6.8	18.8
Danske Bank	DANSKE DC	DKK	118.7	123.1	3.7%	125.0	69.4	55.4	13.8	4.9%	6.1%	6.8%	10.4	8.4	7.6	0.6	0.7	6.1	7.3	7.1	3.7	18.3
BNP Paribas	BNP FP	EUR	51.9	55.2	6.4%	53.7	24.5	59.8	64.8	6.0%	6.2%	6.7%	9.6	8.4	7.8	0.6	0.7	6.3	6.8	6.8	3.7	12.8
Natixis	KN FP	EUR	4.1	3.8	-8.1%	4.2	1.8	62.0	12.9	4.9%	6.7%	7.7%	14.8	10.7	9.1	0.7	0.9	4.7	6.7	7.2	2.8	11.6
Societe Generale	GLE FP	EUR	22.3	22.8	2.1%	23.0	10.8	63.1	19.0	3.6%	5.7%	7.2%	12.5	8.0	6.2	0.3	0.3	2.9	4.3	5.2	3.8	13.2
Credit Agricole	ACA FO	EUR	12.3	13.6	10.1%	12.7	6.0	63.1	36.0	5.2%	6.0%	6.2%	10.5	8.9	8.1	0.6	0.9	5.8	6.7	7.1	2.1	13.2
Virgin Money	VMUK LN	GBp	189.1	175.3	-7.3%	201.3	53.6	57.6	3.2	0.0%	0.0%	0.0%	16.7	9.0	8.0	0.6	0.6	3.4	6.7	7.5	4.9	13.4
HSBC	HSBA LN	GBp	423.2	436.3	3.1%	464.0	281.5	53.4	101.6	0.0%	0.1%	0.1%	10.0	7.4	6.3	0.7	0.8	4.3	6.2	7.3	5.2	15.9
Natwest Group	RBS LN	GBp	196.3	202.9	3.4%	199.4	90.5	62.7	26.7	0.0%	0.1%	0.1%	14.8	10.2	8.5	0.6	0.8	3.6	5.8	6.8	4.0	18.5
Barclays	BARC LN	GBp	185.9	190.7	2.6%	190.0	80.0	69.4	37.7	0.0%	0.0%	0.1%	11.5	8.4	7.7	0.6	0.7	5.4	6.5	6.9	3.5	15.1
Standard Charted	STAN LN	GBp	499.5	549.4	10.0%	519.4	334.3	61.5	18.3	0.0%	0.1%	0.1%	8.6	6.2	5.3	0.5	0.6	3.8	5.1	5.9	5.0	14.4
Lloyds	LLO LN	GBp	42.5	44.5	4.5%	43.4	23.6	68.8	35.5	0.0%	0.1%	0.1%	10.1	8.7	7.9	0.7	0.8	6.2	7.2	8.3	4.3	16.2
Commerzbank	CBK GY	EUR	5.2	5.8	10.8%	6.0	2.8	48.3	6.5	0.0%	1.1%	5.0%	116.2	11.4	7.0	0.3	0.3	-1.0	2.3	3.7	4.6	13.2
Deutsche Bank	DBK GY	EUR	10.2	8.9	-12.9%	11.3	5.4	50.2	21.1	0.7%	2.2%	3.4%	22.1	9.7	8.6	0.4	0.4	0.8	3.9	4.7	3.6	13.6
UniCredit	UCG IM	EUR	9.0	9.8	9.0%	9.7	6.0	55.6	20.2	4.0%	5.3%	6.7%	10.3	7.2	5.9	0.4	0.4	3.3	5.0	5.4	5.4	16.0
Mediobanka	MB IM	EUR	9.5	10.0	5.6%	9.9	4.8	67.3	8.4	5.9%	5.9%	6.2%	11.6	10.7	10.1	0.8	1.0	6.8	7.5	7.7	11.3	16.1
Intesa Sanpaolo	ISP IM	EUR	2.3	2.4	5.1%	2.4	1.3	68.2	44.9	6.4%	7.1%	7.8%	12.1	9.9	9.1	0.8	0.9	6.2	7.1	7.5	5.0	14.7
Emilia Romagna	BPE IM	EUR	1.9	2.2	19.5%	2.1	1.0	50.1	2.7	2.8%	3.9%	5.0%	15.5	8.4	7.1	0.4	0.5	7.1	3.8	3.8	5.8	17.7
ING Groep	INGA NA	EUR	10.4	11.1	6.8%	10.7	4.5	65.5	40.7	7.3%	5.8%	6.2%	10.9	9.5	8.9	0.7	0.8	6.7	7.5	8.0	5.7	15.5
ABN Amro	ABN NA	EUR	10.4	10.7	3.0%	11.1	5.7	58.8	9.7	4.3%	5.6%	7.9%	23.4	9.8	7.4	0.5	0.5	1.9	5.0	6.2	4.8	17.7
DNB	DNB NO	NOK	182.0	172.6	-5.2%	188.2	105.1	56.7	28.1	5.6%	5.5%	5.8%	13.9	12.3	11.2	1.2	1.3	8.8	9.7	10.4	7.7	18.7
BBVA	BBVA SQ	EUR	4.4	4.8	8.2%	4.9	2.1	49.3	29.5	3.7%	4.5%	5.3%	11.0	9.3	7.8	0.7	0.7	6.2	6.6	7.5	5.8	12.2
Santander	SAN SQ	EUR	2.9	3.2	9.9%	3.1	1.4	54.5	50.2	4.2%	5.6%	7.1%	9.9	7.8	6.9	0.6	0.8	6.0	7.5	8.2	4.4	12.3
Bankia	BKIA SQ	EUR	1.8	1.5	-16.8%	N. A.	N. A.	N. A.	5.5	1.2%	3.3%	4.2%	42.5	16.7	13.6	0.4	0.4	1.0	2.4	2.9	6.0	16.7
Bankinter	BKT SQ	EUR	5.9	5.3	-10.9%	6.1	3.0	67.2	5.3	2.6%	3.3%	4.0%	17.6	14.2	12.0	1.1	1.1	5.7	6.7	8.4	4.9	12.3
Sabadell	SAB SQ	EUR	0.5	0.4	-5.9%	0.5	0.3	59.7	2.6	1.8%	3.9%	5.9%	22.8	8.9	6.0	0.2	0.3	1.0	2.4	3.8	4.2	12.6
CaixaBank	CABK SQ	EUR	2.6	2.7	3.4%	2.7	1.5	64.6	21.3	3.2%	4.9%	5.8%	13.5	9.5	8.4	0.6	0.7	6.8	6.3	7.1	4.8	13.6
SEB	SEBA SS	SEK	106.5	105.1	-1.3%	111.6	63.3	76.7	22.8	6.2%	5.2%	5.2%	12.0	11.0	10.3	1.3	1.4	10.9	11.4	11.8	5.4	21.0
Handelsbanken	SHBA SS	SEK	94.9	99.1	4.4%	101.2	71.7	52.8	18.4	7.0%	6.5%	7.0%	11.5	10.6	10.2	1.1	1.2	9.4	9.7	10.1	5.1	20.3
Swedbank	SWEDA SS	SEK	153.9	177.8	15.5%	165.9	99.1	47.6	17.0	7.1%	5.7%	6.2%	9.8	9.1	8.9	1.1	1.3	11.3	11.5	11.8	5.3	17.5
Nordea	NDA SS	SEK	86.0	88.8	3.3%	87.3	52.4	78.2	34.0	0.8%	0.6%	0.7%	11.9	8.6	7.5	1.0	1.2	8.7	9.2	9.5	5.3	17.1
Julious Baer	BAER VX	CHF	60.4	60.5	0.0%	62.0	29.6	64.6	12.2	3.0%	3.2%	3.5%	13.5	12.4	10.2	2.0	3.4	13.7	14.6	14.7	3.6	14.9
Credit Suisse	CSGN VX	CHF	9.9	14.1	42.0%	13.5	7.1	24.8	21.9	3.1%	3.3%	3.5%	7.2	5.9	5.0	0.6	0.6	6.9	8.5	9.3	4.7	12.9
UBS	UBSG VX	CHF	14.6	15.7	7.2%	15.2	8.3	53.6	51.0	2.7%	2.8%	2.9%	9.8	8.8	7.9	0.9	1.0	8.3	9.0	9.3	4.7	13.8
Median					**4.5%**			**60.6**		**3.7%**	**4.9%**	**5.7%**	**11.9**	**9.1**	**8.1**	**0.7**	**0.8**	**6.2**	**6.8**	**7.5**	**4.9**	**15.1**

Source: Bloomberg

APPENDIX

Table 3. Calendar

Date	Region	Section	Event	Period
1-Apr	US	Macro	Construction Spending	Feb
1-Apr	US	Macro	ISM Manufacturing	Mar
2-Apr	**US**	**Macro**	**Employment Report**	**Mar**
5-Apr	US	Macro	Factory Orders	Feb
7-Apr	US	Macro	FOMC Meeting Minutes	Mar 17
7-Apr	US	Macro	Consumer Credit	Feb
8-Apr	EU	Macro	PPI	Feb
9-Apr	US	Macro	PPI	Mar
12-Apr	EU	Macro	Retail Sales	Feb
13-Apr	US	Macro	CPI	Mar
14-Apr	EU	Macro	Industrial Production	Feb
14-Apr	**US**	**Corporate**	**JPMorgan Chase. Earnings Announcement**	**Q1 21**
14-Apr	US	Corporate	Wells Fargo. Earnings Announcement	Q1 21
15-Apr	US	Corporate	Bank of America. Earnings Announcement	Q1 21
15-Apr	US	Corporate	Citigroup. Earnings Announcement	Q1 21
15-Apr	US	Macro	Retail Sales	Mar
15-Apr	US	Macro	Empire Manufacturing	Apr
15-Apr	US	Macro	Industrial Production and Capacity Utilization	Mar
16-Apr	US	Macro	Housing Starts and Building Permits	Mar
16-Apr	US	Macro	U. of Mich. Sentiment	Apr
22-Apr	**EU**	**Macro**	**ECB Main Refinancing Rate**	**Apr 22**
22-Apr	EU	Macro	Consumer Confidence	Apr
22-Apr	US	Macro	Leading Index	Mar
22-Apr	US	Macro	Existing Home Sales	Mar
23-Apr	EU	Macro	Markit Eurozone Manufacturing, Services and	Apr
23-Apr	US	Macro	Markit US Manufacturing, Services and Composite	Apr
23-Apr	US	Macro	New Home Sales	Mar
26-Apr	US	Macro	Durable Goods	Mar
26-Apr	US	Macro	Dallas Fed Manf. Activity	Apr
27-Apr	US	Macro	FHFA House Price Index	Feb
27-Apr	US	Macro	Conf. Board Consumer Confidence	Apr
27-Apr	US	Macro	Richmond Fed Manufact. Index	Apr
28-Apr	EU	Corporate	Banco Santander. Earnings Announcement	Q1 21
28-Apr	EU	Corporate	Deutsche Bank. Earnings Announcement	Q1 21
28-Apr	US	Macro	Wholesale Inventories	Mar
28-Apr	**US**	**Macro**	**FOMC Rate Decision**	**Apr 28**
29-Apr	EU	Corporate	Barclays. Earnings Announcement	Q1 21
29-Apr	EU	Corporate	BNP Paribas. Earnings Announcement	Q1 21
29-Apr	**US**	**Macro**	**GDP**	**1Q**
29-Apr	US	Macro	Pending Home Sales	Mar
30-Apr	EU	Macro	Unemployment Rate	Mar
30-Apr	EU	Macro	CPI	Apr
30-Apr	**EU**	**Macro**	**GDP**	**1Q**
30-Apr	US	Macro	Personal Income and Spending	Mar