BANKING SECTOR REPORT – September 2021

EXECUTIVE SUMMARY

US banks outperformed the broad market significantly in September 2021, for the second month in a row. Thus, BKX index increased by 1.6% MoM vs -4.8% MoM of SPX index, the second consecutive month of growth in absolute terms either. Absolute September performance was +0.1 std from the mean monthly performance and it is in the top 49% since the index inception. Relative September performance was +6.7% MoM. It is +1.4 std from the mean monthly performance and it is in the top 6% of relative performance vs SPX index since the index inception. Despite clearly weak performance in June and July of 2021, banks outperformed SPX in all other months of the current year. So, the performance of the first 9 months of the year is the strongest one over last 24 years, while relative performance is the strongest one over last 21 years.

US banks dynamics were mixed in September. Thus, the most asset sensitive banks were among outperformers due to hawkish FOMC meeting. So, SIVB increased by 15.6% MoM. On the other hand, trust banks were laggards in September as well as investment banks with a decline of 6% MoM or more.

The earnings season of US banks will start on October 13, 2021, when 3Q21 results will be provided by JP Morgan. After that date, all members of BKX index will provide their quarterly results within two weeks. US banks reported much better both revenue and EPS figures in recent quarters despite revenue environment remained challenging. But the situation is gradually beginning to change for the better and the revenue outlook has improved significantly in recent months due to acceleration of the economy and more hawkish Fed. We expect that rates will soon become a tailwind instead of being a headwind as it was in two previous years. So, positive EPS momentum which began in 3Q20 remains and the estimates will continue to be revised up. Thus, according to Bloomberg consensus, the median growth of 3Q21 EPS of BKX index members was +35.3% ytd, but still -0.8% vs the end of 2019 (as of the end of September). 3Q21 EPS estimates dynamics was positive on ytd basis for all members of BKX index, except for BK. Full-year estimates for both current and next year were also revised up meaningfully on both ytd and qtd basis. The median growth of EPS 2021/2022 of BKX index members was +54.7%/+14.2% ytd, respectively, but projections were +10.8%/-5.4% vs their pre-pandemic levels. 3Q21 revenue estimates increased by 3.9% ytd, still remaining markedly below the pre-pandemic levels, -2.9% since then.

After relatively weak dynamics in 2Q21 and the majority of 3Q21, rates resumed their growth after the most recent FOMC meeting, where it was given a clear signal regarding tapering, which is expected to be announced at the November meeting and could be completed around mid-2022. Despite the Fed Chair didn't give any hints about raising rates during the press conference, the dot plot did it instead. Thus, the dot plot implies that we will see one rate hike till the end of 2022 and three more in both 2023 and 2024. The market is less optimistic on this issue, but we think that rate expectations will be revised up in the nearest future, especially if inflation continues to accelerate. Moreover, NII/NIM estimates have already stopped deteriorating recently. In accordance with the optimistic commentaries of the banks during 2Q21 earnings season, the loan portfolios resumed their growth in 3Q21 after five consecutive quarters of weak dynamics. All major segments, except for C&I, demonstrated a noticeable growth qtd even despite uncertainty related to Delta variant spreading, still elevated liquidity and ongoing restrictions/disruptions related to the pandemic. Notwithstanding, operating leverage is expected to remain negative again in 3Q21, for the 9th consecutive quarter, but the momentum has already begun to improve given better revenue projections and relatively good cost control. So, we

expect that it will be positive again in 2022. Capital ratios remain strong, and it seems that capital return estimates will continue to go up. Median dividend yield FY21E of our group of banks is currently 2.5% and dividend yield FY22E is 2.8%. But total returns could reach 8-9% of the market cap for a number of banks in the nearest years.

Operating environment for US banks is still challenging but it continues improving very fast. Moreover, banks are considered as a relatively good hedge against inflation while more hawkish Fed increased the probability of a blue sky scenario for US banks. Vaccination campaign has already shown success in the fight against the pandemic even despite the spread of more contagious strains such as Delta variant. So, relatively fast economic recovery remains intact with an ongoing positive impact on banking fundamentals. Three previous earnings seasons were quite encouraging for banks and we expect that nothing will change in this regard for 3Q21. We think that improved rates and loan growth outlook aren't in the price yet. So, we expect that estimates will continue to go up, positively impacting banks' multipliers which were relatively rich vs historical averages in recent months. However, banks are still undervalued significantly vs the broad market. Thus, banks are trading with -0.8/-0.7 std on P/E CY (as of October 1, 2021) but +0.7/+0.9 std on P/E NY (on the basis of samples from 2000 and 2010 years to the current moment) relative to their historical averages. As for relative to S&P 500 performance, US banks are currently trading at -1.6 std and -0.9 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively. On P/B, banks are trading with +0.8 std from the sample mean (2010-current moment) vs +2.6 std for SPX index. **So, we expect that US banks will outperform vs the broad market in coming months, given banks are still cheap vs the broad market while EPS / revenue outlook has improved significantly.**

EU banks increased markedly on an absolute basis in September 2021, the second month of growth in a row after two consecutive months of negative dynamics. It outperformed the broad market significantly and it was the best month on a relative basis over the last seven. Thus, on an absolute basis, SX7P increased by 3.7% MoM in September, or +0.5 std from the mean, and it is in the top 28% of absolute monthly performance of SX7P index. On the other hand, relative monthly performance was impressive +7.4% MoM, or +2.0 std, and it is in the top 3% of relative monthly performance in SX7P index history. So, it was very strong price performance in the first 9 months of the year, +30% ytd, after clearly weak dynamics in three previous years. However, SX7P index underperformed in each of 3 previous years and it is still 23.4% lower than it was at the end of 2017, underperforming STOXX 600 index by 26% over this period.

The key EU outperformers increased by 10% MoM or more. In turn, the key EU underperformers, which ended September in the red zone, were banks with a noticeable Asian exposure because of Evergrande case.

We anticipate that the growth of EU banks could continue in the near future as a result of better earnings season and better earnings visibility due to the ongoing vaccination campaign and GDP growth acceleration. But we no more expect their substantial outperformance vs the broad market given relatively rich valuations and more challenging revenue environment in coming years, especially vs US banks, as the ECB continues to preserve favourable financing conditions and being as flexible as it can. So, key rates will remain negative in the foreseeable future. Moreover, EU banks are no longer traded with a deep discount to their historical averages, while the discount to US peers is insignificantly wider than its historical averages. Thus, the premium to historical averages is 1% (+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 28% as of October 1, 2021 vs the average from 2010 of 21%, -0.8 std. On the other hand, due to meaningful and ongoing EPS upgrades, EU banks still don't look very expensive either even after their significant quote growth ytd. We believe that the

worst in terms of operational results is behind us but it is a bumpy road ahead with a still challenging revenue environment and relatively low ROE/ROA in the near term.

MARKET PERFORMANCE

US

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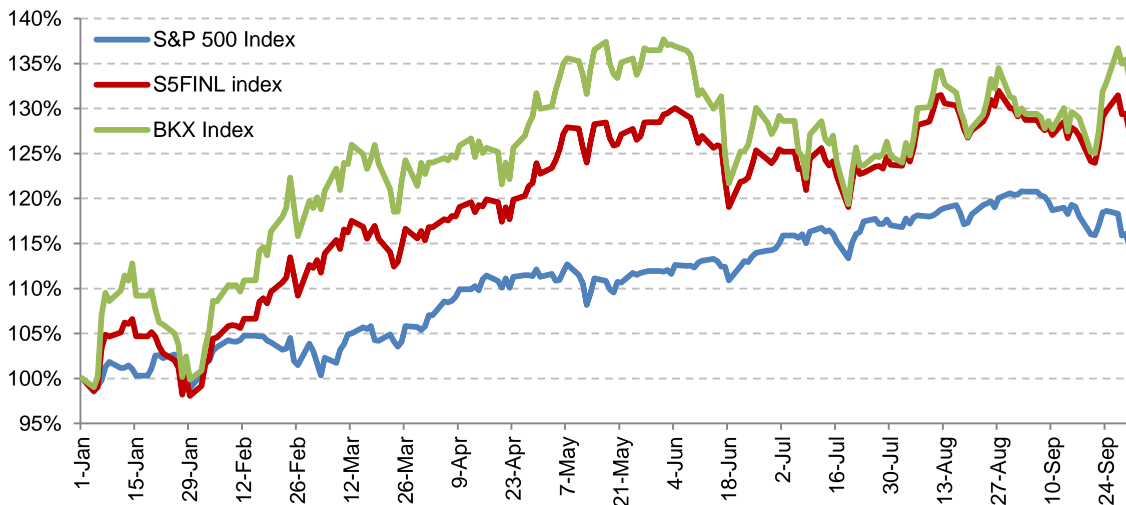
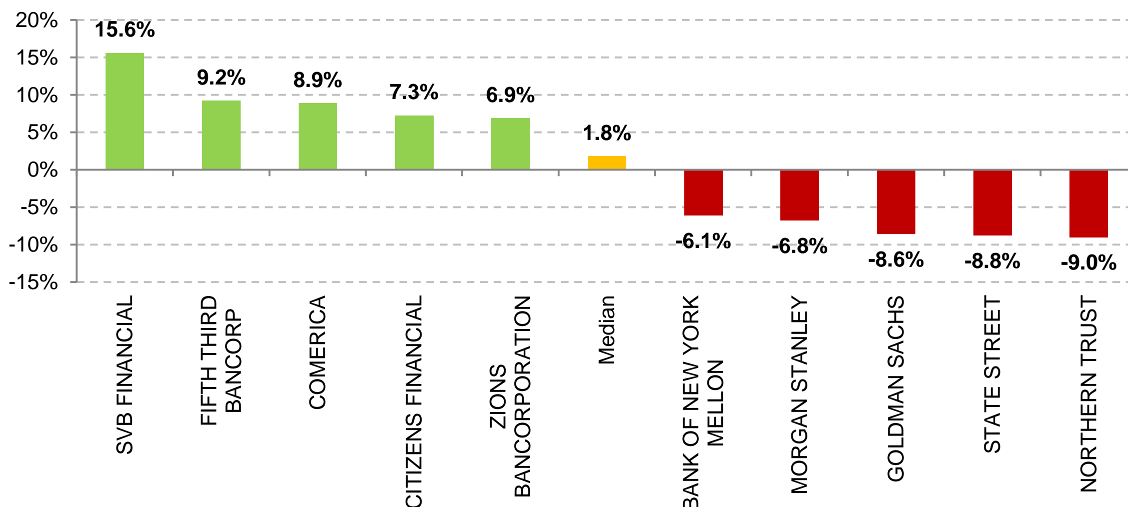
Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

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



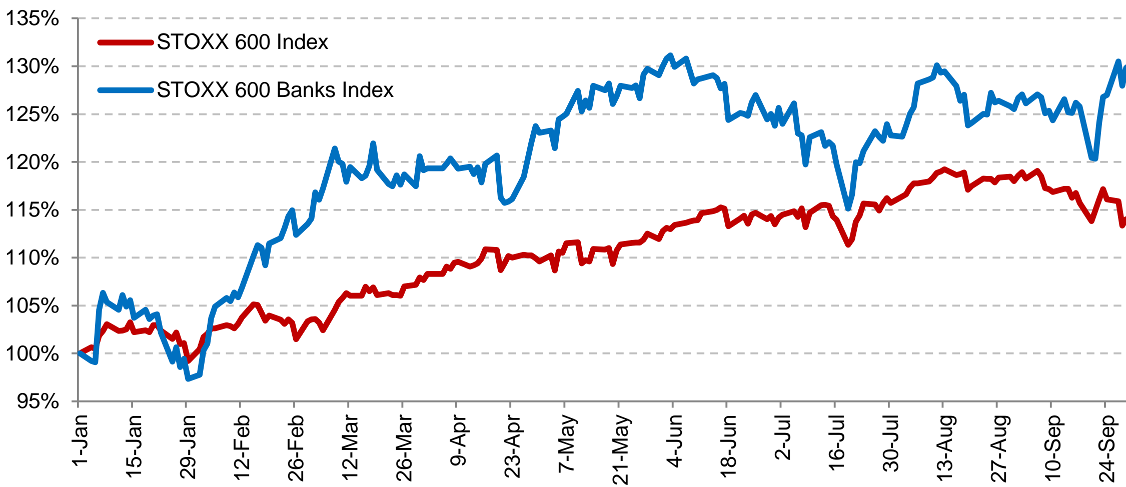
Source: Bloomberg

Europe

EU banks increased markedly on an absolute basis in September, the second month of growth in a row after two consecutive months of negative dynamics. It outperformed the broad market significantly and it was the best month on a relative basis over the last seven. Thus, on an absolute basis, SX7P increased by 3.7% MoM in September, or +0.5 std from the mean, and it is in the top 28% of absolute monthly performance of SX7P index. On the other hand, relative monthly performance was impressive +7.4% MoM, or +2.0 std, and it is in the top 3% of relative monthly performance in SX7P index history. So, it was very strong price performance in the first 9 months of the year, +30% ytd, after its clearly weak dynamics in three previous years. However, SX7P index underperformed in each of recent 3 last years and it is still 23.4% lower than it was at the end of 2017, underperforming STOXX 600 index by 26% over this period.

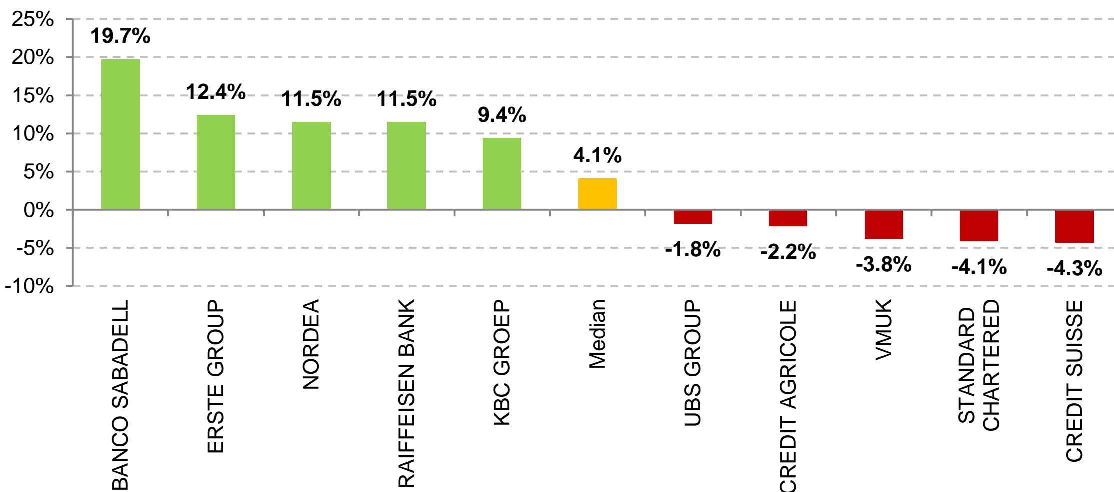
The key EU outperformers increased by 10% MoM or more. In turn, the key EU underperformers, which ended September in the red zone, were banks with a noticeable Asian exposure because of Evergrande case.

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



Source: Bloomberg

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



Source: Bloomberg

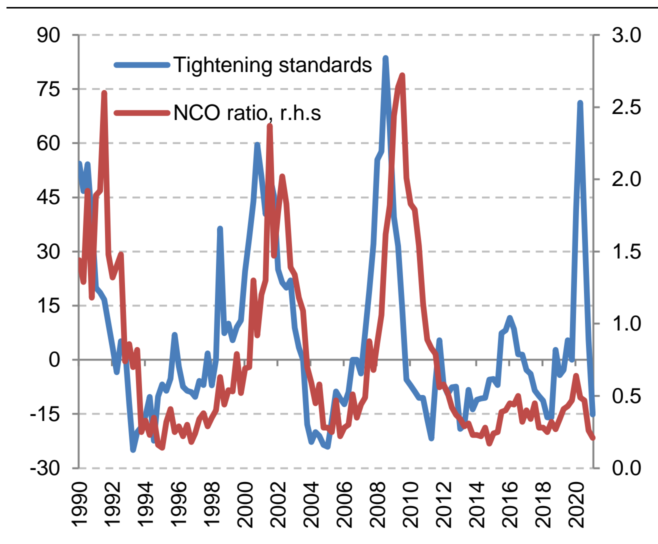
MACROECONOMIC NEWS

US

C&I loans

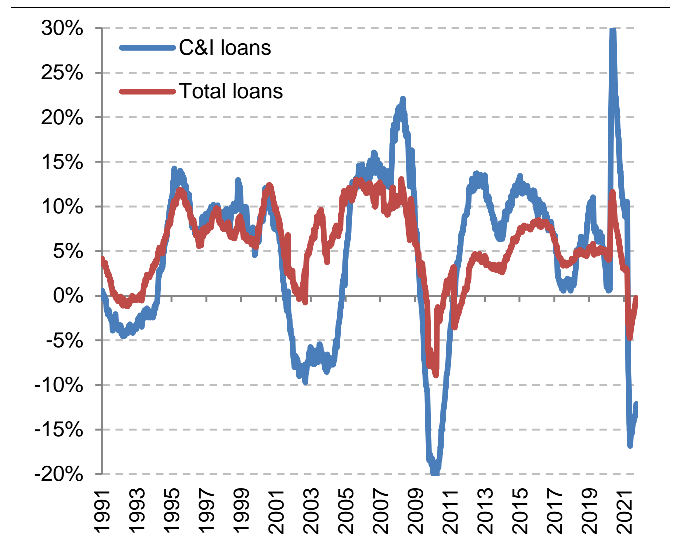
C&I loan growth remains clearly weak despite to the significant acceleration of the US economy. And if the substantial decline on yoy basis is quite understandable due to the high base of 2Q20 and subsequent PPP paydowns, then the weak ytd loan growth raises some questions given the pace of the economic recovery in recent months and commentaries from US banks that pipelines are strong as well as new loans production. Indeed, from mid-May 2020, when C&I loans reached their local high, they decreased by $652 Bn, or -21.2% in relative terms, explaining approximately 165% of the total loan portfolio decline over this period. So, it will be negative on yoy basis in some coming quarters even despite to ongoing vaccination campaigns and the acceleration of the US recovery. But the situation is beginning to improve gradually. At least, banks started to ease lending standards in the corporate segment. According to the Fed H.8 survey, C&I loans decreased by 12.1% yoy (as of September 15, 2021) vs +16.5% yoy one year ago. On ytd basis, corporate loans declined by 6.6% vs +1.2% ytd of total loans.

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



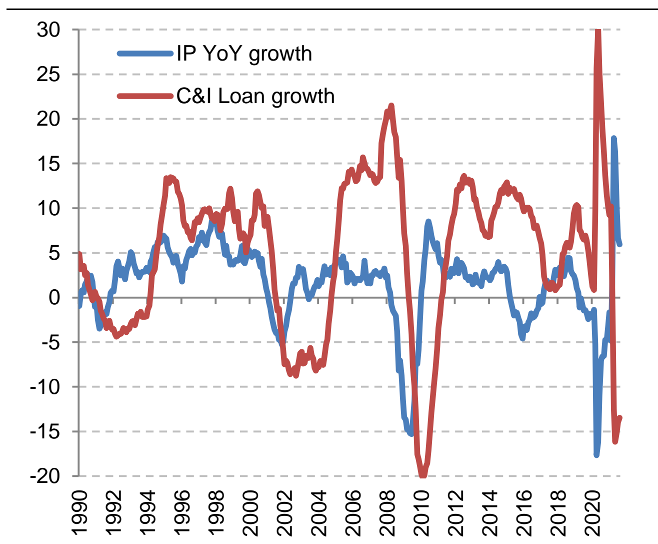
Source: Bloomberg

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



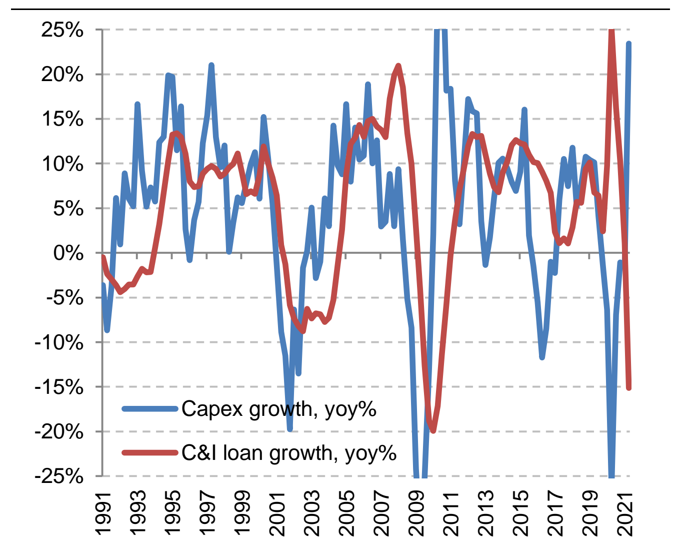
Source: Bloomberg

Chart 7. C&I. Loan Growth vs CAPEX



Source: Bloomberg

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



Source: Bloomberg

Support measures have certainly had a positive impact on the financial health of the US corporate sector during the pandemic. So, credit indicators look pretty resilient at the moment and they will continue to improve in the near future given the path of the economic recovery. Thus, we don't expect any more that the quality indicators may get worse before they get better. The US economy will exceed its pre-pandemic level in the current year (a much faster recovery than it was anticipated 2-3 quarters ago). Unsurprisingly, banks have already begun releasing corporate reserves and easing credit standards. Moreover, corporate bond spreads decreased below their historical averages after their explosive growth in 1H20. Notwithstanding, the spreads in the most affected sectors are still elevated.

Despite to concerns about deterioration of C&I credit quality during the first wave of the pandemic (and total loan portfolio at all), it remains benign so far and there wasn't any significant deterioration of credit quality since 1H20. As of industry figures (the latest available data), according to the FDIC data, 30-89 delinquency was relatively flat during 5 recent quarters but it declined by 2 bps yoy, or -3 bps qoq, to 0.24% in 2Q21. It is still not far from the last cycle low, confirming strong quality of the C&I loan portfolio at the moment. FDIC's NCO ratio tumbled by 42 bps yoy, or -5 bps qoq, to 0.21% in 2Q21, the lowest figure over more than 6 years. Noncurrent rate decreased by 8 bps qoq, or -18 bps yoy, to 0.82%. According to the Fed data, delinquency ratio decreased by 21 bps yoy, or -11 qoq, to 1.05% in 2Q21, it is the lowest figure over last 2 years. In turn, NCO ratio decreased by 8 bps qoq, or -21 bps yoy, to just 0.21% in 2Q21, remaining markedly below its historical averages. Moreover, total NPLs of BKX index member (for those banks that provide this data) decreased by 30% qoq in 2Q21.

Before the start of the pandemic, the financial health of the US corporate sector was solid even despite to its relatively high leverage. Thus, ROA was high, quick ratios were sound while interest expense coverage ratio was strong but deteriorating as total profit of the sector was flat in prior 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 the deep recession in the US in 1H20, accompanied by an overwhelming growth of corporate spreads, especially for non-investment grade companies, we saw a significant drop of interest coverage ratios in 1H20 even though the fed funds rate was cut to zero very quickly. On the other hand, the situation has already improved considerably in subsequent quarters. Thus, median EBIT to interest expense ratio of companies from S&P 500 index (ex. Financials) increased from 5.2x as of the end of 2Q20 to 9.6x as of the end of 2Q21, being even higher than it was in 2019 (the highest figure over last 6 years). Notwithstanding, the percent of companies with the ratio below 1.0 remains relatively high, 8.4% in 2Q21 vs just 6.3% in 4Q19, implying that the stress in the economy is still elevated. But it continues to decrease gradually from the 2Q20 high of 21.3%, the 5th quarter of decline in a row. So, it seems that the situation has almost returned to normal, and we do not expect a significant deterioration of the financial stability of the US corporate sector in the foreseeable future even after the end of the supporting fiscal programs. We believe that credit quality of C&I portfolio will remain strong while corporate loans will return to sequential growth in 4Q21. At least, some of regional banks demonstrated strong qoq growth even in 2Q21 despite to ongoing repayment of PPP loans which decreased approximately by 1/3 in 2Q21.

July 2021 Senior Loan Officer Opinion Survey indicated that C&I lending standards and terms were eased in 2Q21, the second consecutive quarter of easier standards after 6 quarters in a row of tighter of flat standards. Easing was broad based, pointing to more positive bank's views on the future economic growth. Thus, the key reasons for easing are "a more-favorable or less uncertain economic outlook, more-aggressive competition from other banks or nonbank lenders, and improvements in industry-specific problems as

important reasons for doing so". Also, banks reported stronger demand in 2Q21 and it was stronger both for small and for large firms. So, banks noted again that inquiries from potential borrowers increased in the last quarter. The key drivers of stronger demand were "customers' needs to finance inventory, accounts receivable, investment in plant or equipment, and mergers and acquisitions". It was in-line with expectations. Moreover, banks noted that "their lending standards on C&I loans are currently at the easier end of the range of standards between 2005 and the present" but "ending standards were basically unchanged, on net, relative to the July 2019 survey".

Macro data published in September 2021 were mixed again, for the second month in a row. Thus, ISM manufacturing index increased by 0.4 pts MoM to 59.9 pts in August, slightly beating the consensus estimate of 59.5 pts. It is 5.5 pts lower than the high of 2021 but it remains higher than the average level of 2017-2019 years. In turn, August employment report was markedly worse than expected after two consecutive months of better figures. Thus, manufacturing payrolls increased by 37K in August vs the consensus of +25K, after it went up by 52K in July (revised up from the initial estimate of +27K). However, total payrolls increased only by 235K in August vs the consensus of +733K, after they increased by 1053K in July (slightly revised up from the initial estimate of +943K). However, employment is still around 5 mln lower than it was before the pandemic. In turn, unemployment rate decreased by 20 bps on MoM basis to 5.2%, in-line with the consensus estimate. Unemployment remains elevated but it is already significantly lower than the high of the GFC and it is much lower now than it was feared one year ago (just 1.7 p.p. higher than it was in February 2020). Despite to the acceleration of the recovery, street estimates weren't improved significantly in recent months given weaker employment figures and some deceleration of forecasted GDP growth rates. Thus, according to Bloomberg survey conducted in September, GDP growth rates were estimated at +5.9%/4.2%/2.4% yoy for 2021/2022/2023 years, respectively, vs +6.6%/4.2%/2.3% in July survey. Industrial production increased by 0.4% MoM in August vs the consensus of +0.5% MoM after the growth of 0.8% MoM in July (it was revised down from the initial estimate of +0.9%). Moreover, it exceeded February 2020 level for the first time since the beginning of the pandemic. Capacity utilization increased by 0.2% MoM in absolute terms to 76.4% in August, in-line with the consensus estimate. So, it was 10 bps higher than its pre-pandemic level and it was the highest one over last 20 months. Also, Empire manufacturing index skyrocketed by 16.4 pts MoM to 34.3 pts in September, after it tumbled in August from the highest mark in the index history. Markit manufacturing PMI decreased by 0.6 pts MoM to 60.5 pts in September vs the consensus of 61 pts. However, it is still more than 16 pts higher than its 2020 low and even more than 8 bps higher than pre-pandemic levels. Consensus IP growth forecasts increased slightly in September to +5.8%/+4.1%/+2.6% yoy in 2021/2022/2023 years, respectively, vs +5.6%/+4.1%/+2.6% yoy in August.

CRE

Growth rates of commercial real estate loans weren't strong ytd despite to the ongoing rebound of the sector and the significant acceleration of the economy. On the other hand, it remains positive on yoy basis, even taking into account a substantial negative effect of the pandemic on some CRE subsegments and geographies, such as retail/hotels and NY/CA. Thus, according to the last Fed H8 weekly report, CRE loan growth was +3.0% yoy (as of September 15, 2021) vs +5.7% yoy one year ago. In spite of a significant deterioration of CRE fundamentals in 2Q20 and 3Q20, there were clear signs of improvements in recent months. However, despite to the acceleration of the price growth and higher volumes, CRE fundamentals still remain under pressure. At least, same-store NOI and effective rent are still markedly lower comparing to their pre-pandemic levels, especially in the most suffered subsegments and geographies, but they are positive on yoy basis due to the effect of the low base of 2Q20. The sector is clearly out of the woods now, but it is a bumpy road ahead,

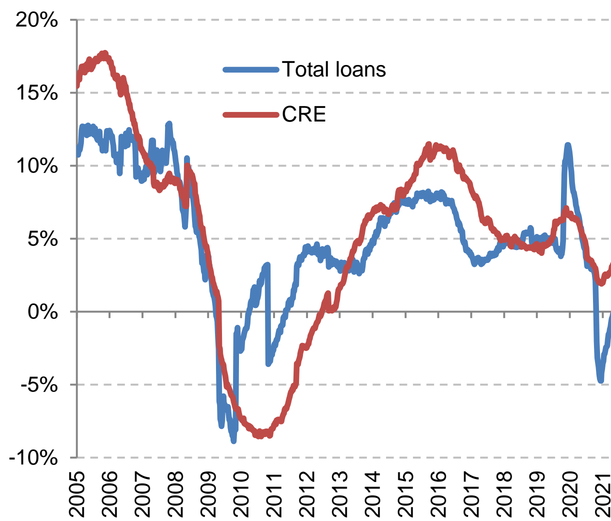
even despite to the gradual reopening of the economy. In any case, we remain bullish on the sector but we believe that fundamentals will remain under pressure for some time with elevated vacancy rates and a negative rent growth (at least in some segments). As a consequence, the loan growth may remain restrained for some time before it gets better, but we no more expect any significant deterioration of quality characteristics of CRE. So, REITs increased by 18.9% ytd vs SPX index growth of +14.7% ytd. On the other hand, BBREIT index was just 0.8% higher than its pre-pandemic high while SPX index is 26.9% higher as compared to its pre-pandemic levels.

Credit quality remains strong so far although early signs of deterioration were already seen in 2H20. Notwithstanding, it improved in 1H21 and the majority of the indicators are not far from their pre-pandemic levels. According to the Fed data, CRE NCO ratio decreased by 1 bps both qoq and yoy basis to 0.07% in 2Q21 while delinquency ratio increased by 2 bps qoq, but -6 bps yoy, to 0.95%. According to the FDIC data, NCO ratio for commercial mortgage decreased by 1 bps qoq, or -4 bps yoy, to 0.01% in 2Q21. NCO ratio of construction and development loans decreased by 0.5 bps qoq, but +0.2 bps yoy, to 0.02% while NCO ratio of multifamily loans went up by 1.1 bps qoq, or +2.1 bps yoy, to just 0.02% in 2Q21. So, NCO ratios of all CRE subsegments remain markedly below than the average levels of last two cycles. In turn, non-current rates increased noticeably in all major segments on yoy basis but were negative on qoq basis – commercial mortgage noncurrent ratio is 0.89%, +11 bps yoy; construction one is 0.6%, +5 bps yoy; multifamily noncurrent ratio is 0.28%, +10 bps yoy. As for the leading indicator of future credit quality, then 30-89 days delinquency ratio improved markedly in three recent quarters and it is even lower vs its pre-pandemic levels for 2 out of 3 segments. The figure of commercial mortgage decreased by 7 bps qoq, or -9.9 bps yoy, to 0.2%; in construction it was -10.6 bps qoq, or -12.2 bps yoy, at 0.28%; in multifamily it was -0.2 bps qoq, but +1 bps yoy, at 0.17%. Given current growth rates of prices among all key CRE segments and an elevated deal activity, we don't expect any significant deterioration of CRE credit quality, even taking into account the ongoing pressure on fundamentals in some segments and geographies. Percent of rent collections remain very high in almost all segments while lending standards were quite tight during the last credit cycle. Banks remain relatively conservative about CRE loan growth in the near term but lending standards were slightly eased in 2Q21 for the first time over years.

Transaction volumes skyrocketed in yearly terms both in 2Q21 and 3Q21 as a result of the low base of 2020 due to lockdowns during the first wave of the pandemic. So, the volumes have already returned to their pre-pandemic levels and it seems that the activity will remain elevated at least in the nearest months given the current pace of the recovery. According to the RCA, "compared with the average deal volume trend for second quarters in 2015 to 2019, activity in the second quarter of 2021 was 14% greater. Compared with the slump seen in Q2 2020, investment activity grew at a triple-digit rate. In a sign of market strength, it was the sale of individual assets rather than portfolio and entity-level deals which spurred the growth. The dollar level of single property transactions in Q2 2021 was 17% above the trend seen before Covid-19 hit U.S. shores. Both the industrial and apartment sectors registered the strongest second quarter on record for sales across all deal structures. The hotel sector was boosted by one supersized entity-level deal". Also, "U.S. commercial real estate sales climbed in July and the rate of price growth accelerated as most but not all property sectors advanced past the pandemic recovery phase. Deal volume for the month rose 74% from a year ago and was above the average pace set across each July since 2005". Although fundamentals of the most suffered segments such as NY apartments are far from their pre-pandemic levels, the majority of other segments continue their fast rebound while prices in all major segments have already reached their new all-time highs and show double-digit growth on yoy basis. Thus, the apartment price index added +14.7% yoy as of the end of August vs +7.2% yoy one year ago. Even the price index of retail CRE

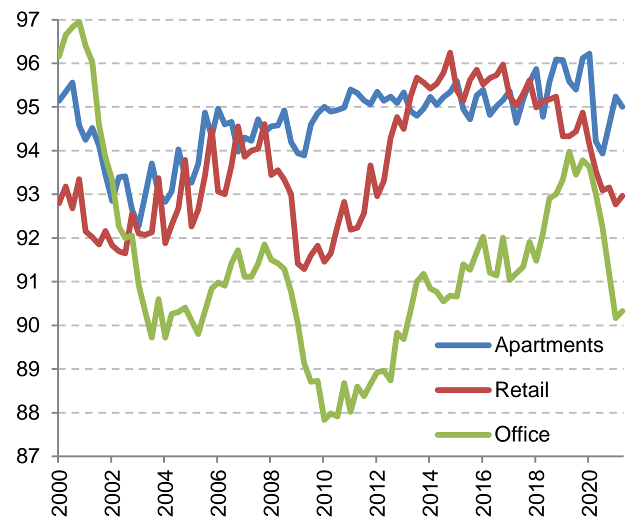
turned positive again in March 2021 after being negative for 11 months in a row and it is currently +12.1% yoy vs -3.6% yoy one year ago. The growth of industrial CRE prices accelerated to +13.6% yoy in August 2021 vs +9.1% yoy in August 2020. The growth rate of office prices accelerated to +11.2% yoy from -0.1% yoy one year ago. So, the all-property CRE index increased by 13.5% yoy in August, the fastest growth rate since January 2006 and the third consecutive month of double-digit growth.

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



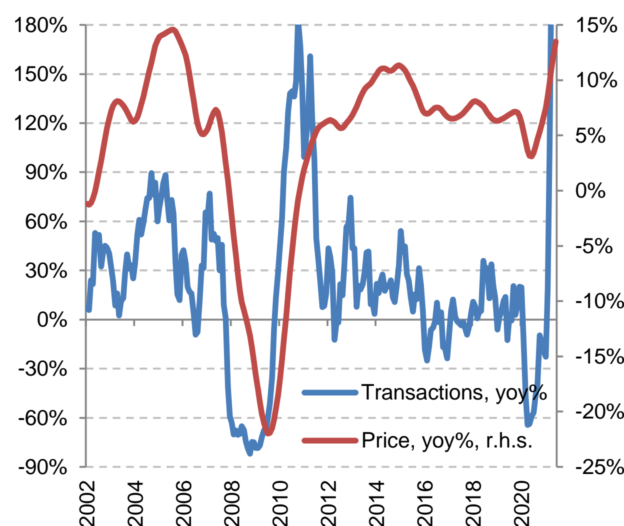
Source: Bloomberg

Chart 10. CRE. Occupancy rates, %



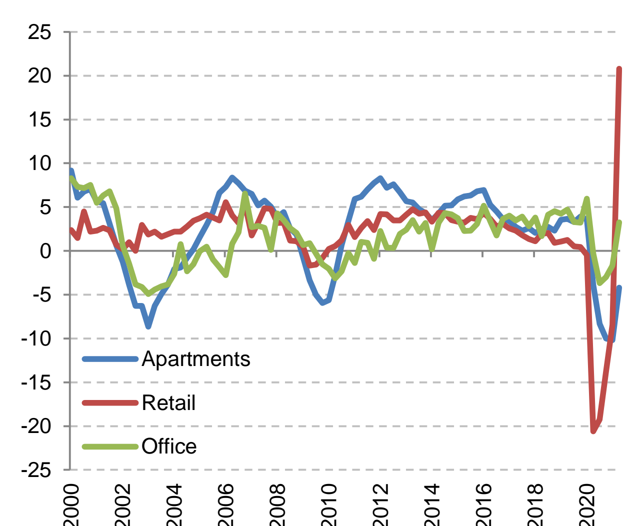
Source: Bloomberg

Chart 11. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

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



Source: Bloomberg

Despite the fast recovery of CRE, fundamentals remained under pressure in 2H21 but improving. 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, -7.9% yoy in 1Q21 and +20.8% yoy in 2Q21, the fastest growth rate in the index history. The lowest figure of the GFC was just -1.7% yoy, shown in 2Q09. Office NOI increased by 3.3% yoy in 2Q21 vs -1.9% yoy in 1Q21, -3.7% yoy in 3Q20 and +0.3% yoy in 2Q20 or the lowest growth during the GFC of -3.2% yoy, shown in 2Q10. Apartments NOI decreased by 4.2% in 2Q21 vs -10.4% yoy in 1Q21, -8.3% yoy in 3Q20 and -3.7% yoy in 2Q20, still near the trough growth rate of the GFC, -6.0% yoy in 4Q09. But the situation will continue to improve in the near future and the majority of segments will return to their pre-pandemic levels in 2H21. Occupancy rates also decline substantially across all major segments, except for industrial CRE, in

2Q20/3Q20 but it increased for all major segments on qoq basis in 2Q21.

In 2Q21, banks stopped tightening standards for CRE loans for all major CRE segments for the first time in years. Thus, standards for construction and multifamily loans were eased while standards on commercial real estate loans secured by nonfarm nonresidential properties remained basically unchanged. It was the first quarter of eased standards for construction loans after 24 consecutive quarters of tightening while multifamily standards were eased for the second quarter in a row after 23 consecutive quarters of tightening. Also, banks noted stronger demand for all CRE categories. Notwithstanding, “for CRE loans, banks reported standards that are tighter than the midpoints of their historical ranges for nonfarm nonresidential loans and construction and land development loans, and standards that are near the midpoint of the range for multifamily loans”, but “the net shares of banks reporting standards on the tight end of their ranges fell since 2019 for all CRE categories”.

Mortgage

The growth rate of mortgage loans decelerated markedly in recent quarters as against the end of 2019 and it turned negative on yoy basis in early December 2020, even despite the significant growth of housing sales and still relatively high origination activity. Mortgage loans increased only by 1% ytd as a consequence of ongoing high prepayments and active resale of mortgage loans due to still very high primary-secondary spread. Thus, mortgage loans decreased by 0.2% yoy (as of September 15, 2021) vs +5.3% yoy as of the end of 2019. On the other hand, overall mortgage activity remains very high with a decline of average MBA’s application index of just 3.7% in 2021 vs very strong 2020 level, still driven by refinancing activity, despite to a noticeable growth of rates from their all-time lows shown in 2020. Recall that the average level of the index in 2020 increased by more than 60% vs 2019 year. Given higher GDP growth estimates ytd, fiscal stimulus and ongoing vaccination campaigns, we expect that mortgage activity will remain high and it will eventually be accompanied by a growth of mortgage loans as banks has already started to ease lending standards even despite lower housing affordability, still higher rates ytd and elevated unemployment. The mortgage credit availability index increased by 4.6 pts MoM, or +2.8 pts yoy, to 123.7 pts in August 2021 after it was relatively flat for two consecutive months. So, it is still near its lowest level since mid-2014 and around 60 pts below than the average level of 2018-2019 years, implying that lending standards remain very tight. Moreover, affordability ratios have already declined meaningfully from the cycle highs and they remain not very far from their lowest levels over more than 2 years. Thus, the affordability ratio increased by 3.9 pts MoM, but still -20 pts yoy, to 150.4 pts in July. Although the current level of affordability ratios isn’t low from the historical averages point of view, as well as household debt burden isn’t either, we expect that the affordability will continue to deteriorate given the skyrocketing growth of housing prices accompanied by the gradual growth of mortgage rates. Unsurprisingly, banks prefer to remain on the sidelines (at least for new mortgage borrowers) given still elevated unemployment ratio even despite the significant decline of the ratio in recent quarters. However, we don’t expect that there will be any problems with credit quality of mortgage portfolio given the growth rate of the economy, weak inventories and very high price growth in recent months. Moreover, lending standards during the last credit cycle were quite tight while housing market looks quite healthy with no obvious imbalances (except for the explosive growth of home prices in recent months) as it was just before the prior recession when it was a key engine of the economic contraction. We expect that NCO ratio dynamics during the current cycle will be more like the one during the recession of early 2000s with the highest figure of 0.3% (with a large margin in the most pessimistic scenario). The base case is that it will be hovering around 0% in coming quarters/years if the economy continues to grow in accordance with current forecasts. However, the percent of rent payments markedly deteriorated in September.

According to the National Multifamily Housing Council Rent Payment Tracker, just 72% of apartment households made a full or partial rent payment by September 6, 2021 vs 80.2% in August 2021, 76.4% in September 2020 and 81.2% in September 2019. According to the NHMC, such a low figure may be related to reporting issues because of recent natural disasters. Otherwise, it could be a red flag for future credit quality of the segment, and we will monitor the situation closely.

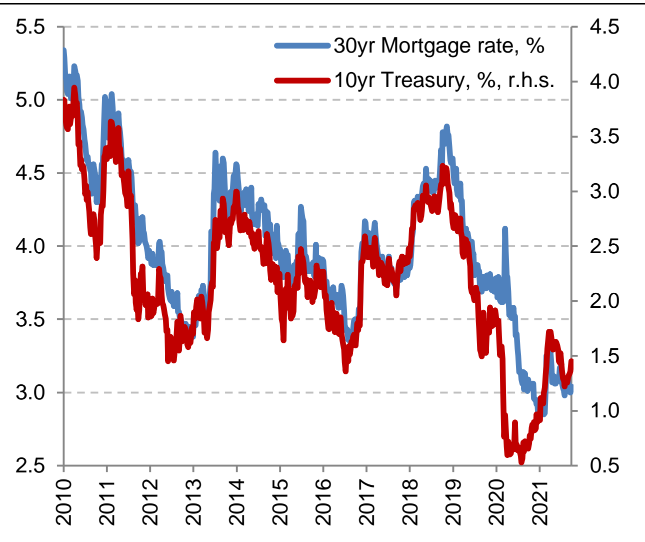
Despite relatively weak August employment report driven by Delta variant spreading, the overall employment situation remains quite optimistic and improving. At least, average payrolls growth rate was quite strong so far in 2021. However, it was added just 235K jobs in August vs the consensus of 733K, while July figure was revised up from its initial estimate of 943K to 1053K. Also, private payrolls missed significantly, adding 243K in August vs the expectations of +610K, after it added 798K in July. Although the employment still remains markedly below its pre-COVID level, it is significantly better than it was feared even 1-2 quarters before and the situation still continues improving even despite to weak figures in April, May and August of 2021. Jobless claims decreased substantially in seven recent months after being relatively flat from September 2020 till February 2021. They are still markedly higher comparing to pre-pandemic levels but August figures were the lowest claims since mid-March 2020. Average August claims decreased by 6.6% MoM and it seems that they will continue to go down in coming months even despite to ongoing restrictions in a number of industries with high contact. However, overall median forecasts of average monthly payrolls for 2021-2023 years deteriorated slightly in September 2021 to +540K/+311K/+192K vs +585K/+300K/+180K in August. Unemployment rate decreased by 20 bps MoM to 5.2%, in-line with the consensus. So, it is -9.6 p.p. from the April 2020 peak, but +1.7 p.p. relative to its pre-pandemic level. Also, underemployment rate continued going down, -40 bps MoM, to 8.8% in August 2021, -14.1 p.p. from the April 2020 high. But unemployment projections were revised up slightly MoM in September 2021 to 5.5%/4.3%/3.8% for 2021/2022/2023 years, respectively, vs 5.5%/4.2%/3.7% in August. Despite to the significant growth of unemployment in April 2020, it seems that a negative impact of this factor on the quality of mortgage portfolio was restricted due to forbearance programs and a positive impact of various fiscal stimuli. Moreover, the situation continues improving due to the significant acceleration of the economy. Thus, according to the MBA, "the total number of loans now in forbearance decreased by 4 basis points from 3.00% of servicers' portfolio volume in the prior week to 2.96% as of September 19, 2021". Around 1.5 million homeowners are still in forbearance plans, 0.1 mln lower on MoM basis. As for Fannie Mae and Freddie Mac data, the share of loans in forbearance declined for the 15th month in a row to 1.44%.

Mortgage credit quality was very strong so far. According to the Fed data, NCO ratio in the segment decreased by 4 bps yoy, but flat qoq, to -0.04% in 2Q21, while delinquency ratio decreased by 21 bps qoq, or -6 bps yoy, to 2.49%, 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 -0.04% in 2Q21, -4 bps yoy. 30-89 days delinquency ratio decreased by 11 bps yoy, or -8 bps qoq, to 0.64%. In turn, noncurrent ratio increased markedly, +14 bps yoy, but -25 bps qoq, to 2.21% in 2Q21. MBA's mortgage delinquencies ratio tumbled by 91 bps qoq to 5.47% in 2Q21, the 4th consecutive quarter of decline, after its 9-year high of 8.22% was shown in 2Q20. Notwithstanding, it is still 170 bps higher than its all-time low, which was shown in 4Q19. In turn, foreclosures declined again, -3 bps qoq or -17 bps yoy, to just 0.51%, the 37th quarter of decline in a row and the lowest figure since 1982. According to the NY Fed, "the share of mortgage balances 90+ days past due fell to 0.5%, a historic low as forbearance remains an option and foreclosures are mostly on hold. About 8,100 individuals had a new foreclosure notation added to their credit reports between April 1 and June 30, by far the lowest number of foreclosures we have seen since the beginning of our series in 1999, with foreclosures effectively on legal hold due to CARES Act and

other restrictions".

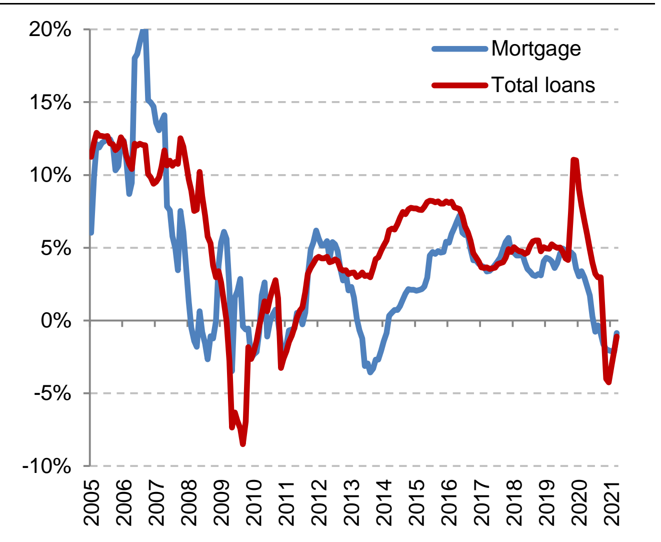
Lending standards for the most mortgage segments were eased again in 2Q21, the second consecutive quarter of easing, after it was unchanged in 4Q20, following three consecutive quarters of tightening. It is quite consistent with the banks' expectations, sounded at the end of last year, that the standards will be eased in 2021. It was unsurprising given the much better labor market, the acceleration of the economic growth and the very strong housing market. According to the NY Fed 2Q21 report on HH debt and credit, "there was $1.22 trillion in newly originated mortgage debt in 2021Q2, with 71% of it originated to borrowers with credit scores over 760". "New extensions of installment credit hit series highs in 2021Q2 for both mortgages and auto loans. Mortgage originations, measured as appearances of new mortgage balances on consumer credit reports and which include refinances, were at $1.2 trillion, surpassing the volumes seen in the preceding 3 quarters. In the 4 quarters ending in 2021Q2, mortgage originations reached a historic high, with nearly $4.6 trillion in mortgages originated. With the robust pace of originations in the past 4 quarters, 44% of the outstanding mortgage balance is originated in the past year".

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



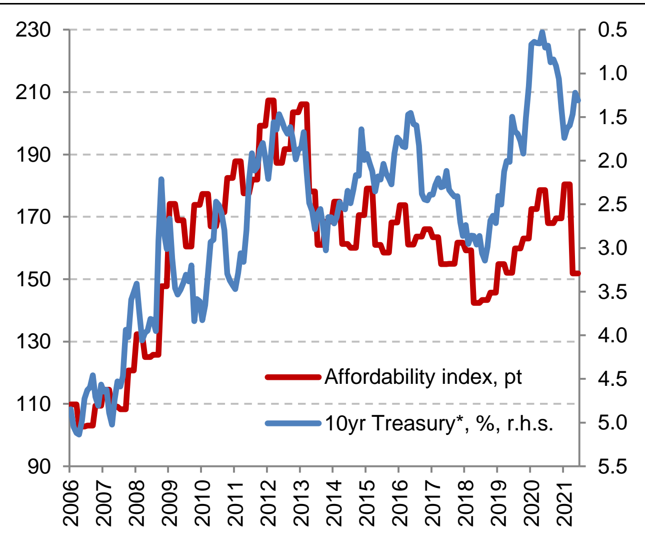
Source: Bloomberg

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



Source: Bloomberg

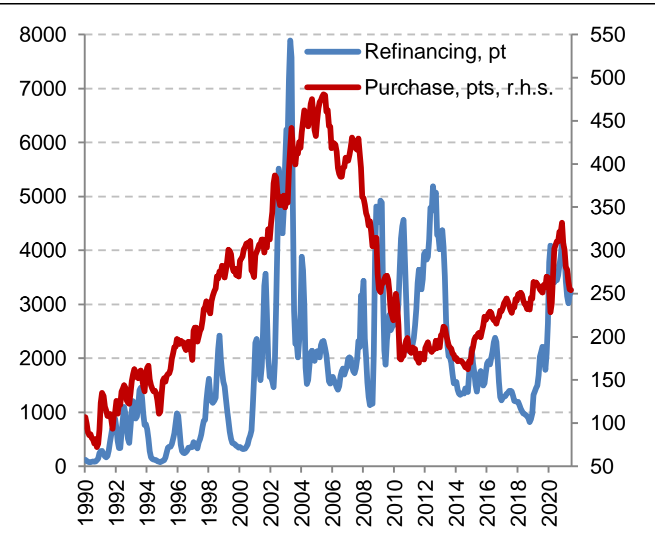
Chart 15. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 16. Mortgage. MBA Applications Indexes



Source: Bloomberg

Mortgage demand slightly strengthened again, the 9th consecutive quarter of strengthening. Thus, “the strengthening in demand was most pronounced for jumbo loans, with significant net shares of banks reporting stronger demand for QM and non-QM jumbo mortgages”. Despite easing of the lending standards in two recent quarters, “moderate net shares of banks reported that lending standards for residential mortgages – GSE-eligible, government, and jumbo mortgages – were on the tight ends of their ranges, while a significant net share of banks reported standards for HELOCs were on the tight end of their range. Though the net shares of banks reporting relatively tight standards have declined since the 2020 survey, they are still higher than in the 2019 survey for most RRE categories”.

Mortgage rates dynamics was weak in 2Q20 and 3Q20 but the growth has resumed recently and rates still remain higher ytd. Thus, monthly average rate of 30yr fixed mortgage increased by 2 bps MoM to 3.05% in September 2021, after its decline of 5 bps during summer months. Notwithstanding, it remained much below than its local high, shown in March 2021. The key driver of the decline was weak dynamics of the long end, which, however, increased noticeably in September. Thus, average 10yr treasury added 8.7 bps MoM to 1.36% in September (still +44 bps ytd). In turn, average 15yr fixed rate mortgage (national average, Bankrate.com) increased only by 1 bps MoM to 2.33% in September (remaining near the new all-time low). In turn, 30-yr mortgage rate (effective rate, MBA) increased by 7 bps month-to-date to 3.20% (as of September 24, 2021), +24 bps ytd, but -28 bps from its 2021 high.

Housing market indicators published in September 2021 were better than expected after four consecutive months of weaker or mixed figures. The key reasons for worse housing figures in the summer of 2021, from our point of view, were the lack of supply and the explosive growth of housing prices (and at the moment the problems have not disappeared anywhere). Notwithstanding, due to a significant drop in interest rates in 1H20 (they still remains relatively low even after their noticeable growth ytd) and the faster than expected economic recovery, the majority of housing indicators still look pretty resilient. NAHB index increased by 1 pts MoM to 76 pts in September vs the consensus of 74 pts and it is still +2 pts vs the pre-pandemic levels. Construction spending increased by 0.3% MoM in July, slightly beating the consensus of +0.2% MoM, while the June initial estimate was revised down from +0.1% MoM to 0.0% MoM. However, mortgage origination forecasts remain very strong and they were markedly higher on ytd basis but negative on MoM basis. Thus, according to the Fannie Mae’s September housing forecast, total mortgage originations decreased by 0.6% MoM for 2021 year (+10.8% against its January estimates) and -1.7% MoM for 2022 year (+1.2% against its January estimates). Currently, it is expected that total originations will decrease by 4.6% yoy in 2021 and by 24.9% yoy in 2022. The key drivers of the total originations decline will be refinancing originations which were the key driver of the skyrocketing growth in 2020. According to the MBA’s forecast published in September 2021, total mortgage originations will decrease by 9% yoy in 2021 (+3.5% MoM vs August 2021 forecast) driven by refinancing activity which are estimated to decrease by 18.7% yoy in 2021. Total originations are also expected to decrease by 36.4% yoy in 2022 (+0.7% vs August forecast). The key driver of refinancing originations was the significant decline of mortgage rates. However, the latter increased markedly ytd, following the significant growth of 10yr treasuries yield. Despite weak dynamics in six recent months, it has already resumed growth due to more hawkish Fed in September. Total mortgage debt outstanding is expected to go up by 5.2% yoy in 2021 and by 5.9% yoy in 2022.

Housing starts were 1615K in August vs the expectations of 1550K, +61K MoM vs slightly revised up July figure, still relatively in-line with pre-COVID levels. In turn, building permits beat estimates either. Thus, August building permits were 1728K vs the estimate of 1600K, +98K MoM vs slightly revised down July estimate. Existing home sales decreased slightly in

August, after two consecutive months of growth. Thus, it was 5.88 mln in August vs the consensus of 5.89 mln, -0.12 mln MoM, or -0.85 mln from the local high of October 2020, but it remains almost in-line with pre-COVID levels. New home sales beat expectations slightly, +11K MoM, and rose to 740K in August vs the consensus of 715K. July estimate was revised up slightly, from the initial estimate of 708K. It was the second month of growth after 5 consecutive months of decline. However, the figure remained in-line with pre-pandemic levels despite to supply constraints and the significant growth of housing prices. Thus, FHFA house price index increased by 1.4% MoM in July vs the consensus of +1.5% MoM, the 14th month in a row of growth above 0.9% MoM. It added 19.2% yoy – the highest price growth rate in the index history (at least since 1992). S&P CoreLogic home price index for 20 cities also increased meaningfully, adding 1.55% MoM in July vs the consensus of 1.7% MoM, and it is marked acceleration vs the beginning of the year. On yoy basis, it was +19.95% vs the consensus of 20.0%, the highest growth rate in the index history. Currently, the median existing home price is more than 50% higher than the pre-GFC peak. Unsurprisingly, as existing home inventory is near its multi-year low.

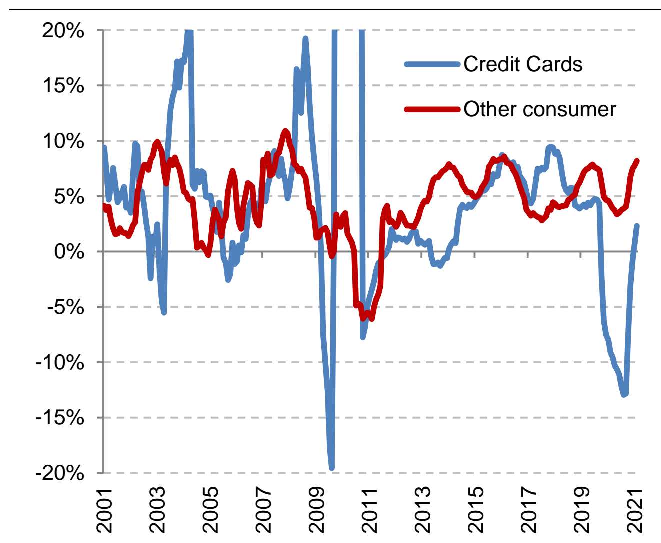
Consumer

Consumer loans are the key driver of the total loan portfolio growth in 2021 after this segment demonstrated relatively weak dynamics in 2020. Notwithstanding, it returned to a positive yoy growth only few months ago, driven by other consumer loans such as auto, personal loans, etc., while credit cards (CC) growth became positive on yoy basis again only at the end of June 2021. Given the much better labour market than it was anticipated one year ago, the accelerating of the US recovery and the quite strong financial health of an average US consumer, it is not surprising. According to the Fed H8 data, the growth rate of consumer loans is +5.5% yoy (as of September 15, 2021) vs -3.2% yoy one year ago and
-4.4% yoy at the end of 2020. On ytd basis, it increased by 5.0%, mainly driven by other consumer loans. However, the CC growth rate accelerated meaningfully in recent months and it was +2.8% yoy (as of September 15, 2021) vs +4.9% yoy at the end of 2019 and -11.7% yoy at the end of 2020. On ytd basis, CC loans increased by 3.5% as consumer spending has already increased above the level of 2019 year. The net change of consumer credit in July 2021 was +$17 Bn, markedly missing the consensus of +$25 Bn, -$20 Bn MoM from the highest absolute monthly change in history, recorded in June. Other segments of consumer credit also accelerated markedly in recent weeks, adding 8.1% yoy (as of September 15, 2021) vs 5.0% yoy at the end of 2019, +6.4% ytd vs total loans growth of +1.2% ytd. According to 2Q21 HH debt and credit survey by NY Fed, "aggregate household debt balances increased by $313 billion in the second quarter of 2021, a 2.1% rise from 2021Q1, and now stand at $14.96 trillion. Balances are $812 billion higher than at the end of 2019 and $691 billion higher than 2020Q2. The 2.1% increase in aggregate balances was the largest seen since 2013Q4 and marked the largest nominal increase in debt balances since 2007Q2. Balances on home equity lines of credit (HELOC) saw a $13 billion decline, the 18th consecutive decrease since 2016Q4, bringing the outstanding balance to $322 billion. Credit card balances grew in the second quarter, by $17 billion, after a $49 billion decline in the first quarter. Still, credit cards balances remain $140 billion lower than they had been at the end of 2019. Auto loan balances increased by $33 billion in the second quarter. Student loan balances declined by $14 billion. In total, non-housing balances grew by $44 billion, with increases in auto loans and credit card balances offsetting the decline in student loan balances".

Despite to the unprecedented US GDP drop in 2Q20 and the overwhelming growth of unemployment, the state of US consumers remained pretty resilient even then due to massive government support programs. Since that time, it improved significantly due to the much faster economic recovery than expected, which was accompanied by the fast decline

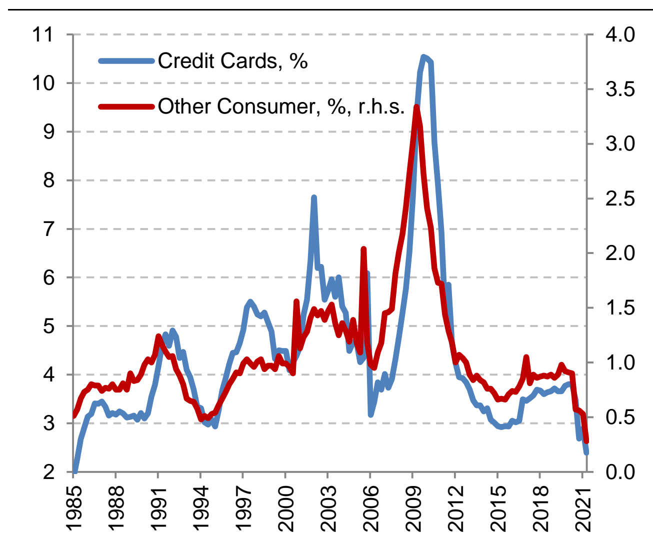
of unemployment rate. It remains quite strong from a historical point of view even taking into account markedly lower employment level vs pre-pandemic time. And it will continue improving given the ongoing fast recovery of the US economy due to successful vaccination campaigns and the ongoing positive effect of stimulus. According to Bloomberg estimates compiled in September 2021, it is expected that US GDP will increase by 5.9% yoy in 2021, by 4.3% yoy in 2022 and by 3.8% yoy in 2023 (vs April estimates of +6.6%/+4.1%/+2.3% yoy, respectively). As of unemployment, it is estimated to be 5.5% at the end of 2021 while it was as high as 13% at the end of 2Q20. But it is possible that we could see some deterioration of asset quality in the consumer segment after the fiscal cliff and the end of forbearance programs. However, it is obvious for us that the worst is over and that the potential size of problem 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 household still remain markedly lower than their historical averages. So, we continue to expect that credit quality of consumer loans will remain very strong vs historical averages. Given the fact that banks continue to release reserves, they expect a further decline of NCO/NPL ratios in coming quarters.

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



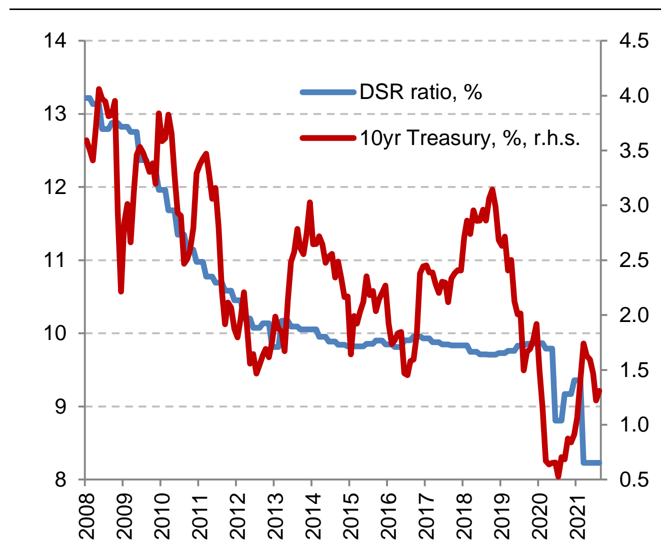
Source: Bloomberg

Chart 18. Consumer. NCOs Ratios, %



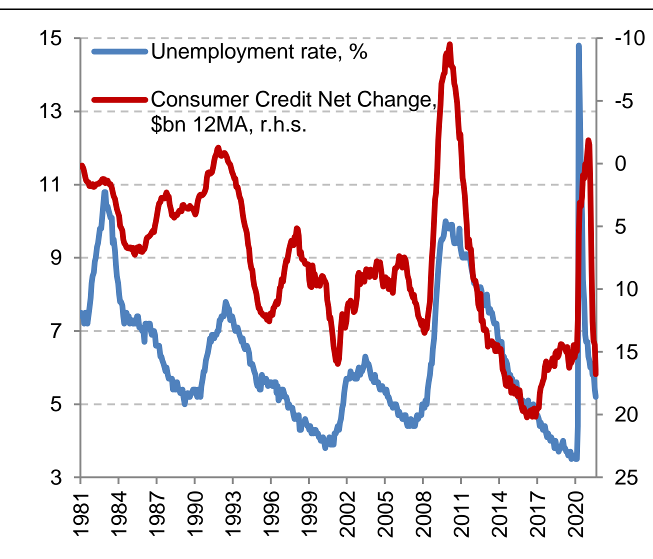
Source: Bloomberg

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



Source: Bloomberg

Chart 20. Unemployment vs Net Change of Cons Credit



Source: Bloomberg

According to the Fed data, total consumer NCO ratio tumbled by 32 bps qoq, or -102 bps yoy, to 1.22% in 2Q21. NCO ratio in the CC segment decreased by 50 bps qoq, or -42 bps yoy, to 2.39%, while NCO ratio of other consumer loans decreased by 25 bps qoq, or -62 bps yoy, to 0.28%, the lowest figure in the history. In turn, delinquency ratio decreased by 14 bps qoq, or -37 bps yoy, to 1.56%. CC delinquency ratio decreased by 26 bps qoq, or -86 bps yoy, to 1.58% in 2Q21, while other consumer loans ratio went down by 7 bps qoq, or -14 bps yoy, to 1.52%. According to the FDIC, credit cards NCO ratio tumbled by 139 bps yoy, but +33 bps qoq, to 2.59% in 2Q21; in other consumer loans NCO ratio decreased by 31 bps qoq, or -58 bps yoy, to 0.24%; Auto NCO ratio also went down by 37 bps qoq, or -71 bps yoy, to 0.01%. 30-89 delinquency ratios (the leading indicator of credit quality deterioration) decreased by 4 bps qoq, or -27 bps yoy, to 1.17% in 2Q21: 0.73% (-28 bps yoy) in credit cards, 0.91% (-12 bps yoy) in other consumer loans and 1.16% (-16 bps yoy) in Auto. The number of bankruptcy filings slightly increased in 2Q21, 119K vs 114K in 1Q21 but it is much lower than 189K in 1Q20, remaining near its historical low. According to the NY Fed, "of the $405 billion of debt that is delinquent, $316 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)".

July 2021 SLOOS survey indicated that "a significant net share of banks eased standards for credit card loans, and moderate net shares of banks eased standards for auto loans and for other consumer loans. Consistent with easier lending standards, a significant net share of banks reduced the minimum required credit score on credit card loans, and moderate net shares of banks did so on auto and other consumer loans. Additionally, a significant net share of banks increased credit limits on credit card accounts. Other surveyed terms on consumer loans either remained basically unchanged, on net, or had a modest net share of banks report easing". It is in-line with expectations of banks at the end of the last year. According to the NY Fed, "the median credit score on newly originated auto loans declined, by 10 points at both the median and the 10th percentile". Also, it was noted that "the number of credit inquiries within the past six months – an indicator of consumer credit demand – increased to 121 million, a 3.7% increase from the previous quarter, after having declined since the second quarter of 2020".

Consumer activity data published in September 2021 were mixed. In particular, employment figures were markedly worse than expected as well as sentiment indicators, but retail sales were noticeably better. Few months ago, we expected gradual improvement of consumer sentiment in 2H21 as a result of a faster economic growth, better employment and an inevitable lifting of all restrictions. But the reality, as usual, turned out to be much more complicated. Thus, conference board index decreased by 4.5 pts MoM to 109.3 pts in September (from the revised up August figure), driven by both the present situation index and the expectations index. It is still not very far from the pre-pandemic high but it was the third consecutive month of decline and it is at the seven-month low at the moment. Moreover, consumer sentiment indicator published by Michigan University increased only by 0.7 pts MoM to 71 pts in September vs the consensus of 72 pts, remaining near the lowest level since 2011 and it is still lower than the pandemic trough level of 2020. The growth was driven by the expectations index. Given relatively high inflation and a new surge of Covid-19 cases because of the Delta variant spreading, the consumer confidence decline in recent months doesn't look surprising. But it also means that the recovery will moderate in coming quarters. It would have happened anyway, but it will happen a little earlier than expected. So, GDP forecasts have already decreased slightly as well as consumer spending projections. According to August 2021 Bloomberg survey, consumer spending is expected to increase by 7.9% yoy in 2021, by 3.7% yoy in 2022 and by 2.3% yoy in 2023 vs January 2021 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 expected. But the figures of 1H21 were mixed with the weak start of the year, very strong March but lower than expected payrolls in April and May, despite to the acceleration of the recovery and a gradual reopening of the economy. August 2021 figures were weak, but we think that it was a temporary phenomenon and the employment situation will continue to improve in the coming months. At least, jobless claims decreased by more than half ytd and it continues going down. In turn, nonfarm payrolls increased only by 235K vs the expectations of +733K, while July initial estimate of 943K was revised up to +1053K. Unemployment ratio decreased by 20 bps MoM to 5.2% in August, in-line with the consensus. Average hourly earnings increased by 0.6% MoM vs the consensus of +0.3% MoM and July figure of +0.4% MoM. Also, underemployment ratio decreased by 40 bps MoM to 8.8%, the 6th consecutive month of decline after its flat dynamics in February. It is already significantly lower than the high of the Great Recession of 17.2% but still markedly higher than 6.7% at the end of 2019. In any case, almost 3 mln people are still filling continuing jobless claims which is not far from the peak level of the GFC. Moreover, the employment population ratio is still near levels last seen 50 years ago. On a year-over-year basis, hourly earnings were +4.3% vs the consensus of 3.9% yoy and markedly higher than May 2021 figure of +1.6% yoy. Average weekly hours were flat MoM at 34.7 hours per week vs the consensus of 34.8 hours per week. So, initial jobless claims decreased just by 6.6% MoM in August, but it was the 7th consecutive month of decline. However, initial jobless claims over the recent 4 weeks still exceeded their pre-COVID levels by more than 60%. Notwithstanding, the financial health of an average US consumer remains quite strong, but a further pace of employment growth will inevitably decelerate in coming quarters. Moreover, lower income households continue to suffer more than average income households.

Interest Rate

The September FOMC meeting was relatively hawkish with earlier and stronger tapering signals than expected. Thus, “if progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted”. During the press conference, the Fed Chair Jerome Powell noted that the formal announcement may occur as early as at the next meeting, which is scheduled for early November. Also, it was said that tapering could be completed around mid-2022. So, it implies the announcement of approximately a $15-20 Bn decline in purchases at every meeting since December 2021 given current purchases of $120 Bn per month ($80 Bn of Treasury and $40 Bn of MBS). Notwithstanding, there wasn’t made any hints about the pace of tapering at the meeting. The key reason for more hawkish Fed’s view is inflation which remains relatively high at the moment, however, it is still perceived by the Fed as a temporary phenomenon. Notwithstanding, it was noted that supply “bottleneck effects have been larger and longer-lasting than anticipated, leading to upward revisions to participants inflation projections for this year”. Unsurprisingly, the dot plot move up again, implying the first rate hike as early as in 2022. But there is no consensus on this issue among the FOMC participants yet. Also, the Fed Chair did not give clear signals about raising rates, noting that tapering is now on the agenda. Notwithstanding, it is implied by the dot plot that the rate will be hiked three times per year for both 2023 and 2024, which is consistent with the growth of the rate in 2017-2018 years. So, it could reach 1.0% at the end of 2023 (vs June projection of just 0.6%) and 1.75% at the end of 2024, according to current dot plot projections. Longer-run rate projection was unchanged at 2.5%. Despite to the banal statement about the remaining risks to the economic outlook, it seems that elevated inflation comes to the fore as the main Fed’s problem. At least, Powell didn't attach much importance to relatively weak September employment report. Even Evergrande’s case is not treated as something potentially dangerous for the US economy. So, we think that the probability of a more hawkish Fed in coming quarters continues growing. But we don’t

expect that the Fed will rush to raise the rate even in case of the deteriorating situation with price stability. Rather, they will accelerate the pace of tapering at first. Despite quite hawkish FOMC meeting, market reaction was muted with relatively flat dynamics of the key yields and the dollar exchange rate. On the other hand, banking quotes skyrocketed, which is quite logical given the implied pace of future rate hikes. So, we expect that rally in banks will continue in the near future while EPS/revenue forecasts for 2023/2024 years will be revised up noticeably in coming months driven by markedly higher NII projections.

Despite to more hawkish Fed and ongoing optimism about the current pace of the recovery, GDP growth projection for 2021 year was revised substantially down as well as unemployment projection for 2021 deteriorated. In turn, projections for 2022 and 2023 years were revised up. Unsurprisingly, inflation forecasts went up meaningfully for 2021 but projections were remained relatively flat for other periods. According to the introductory statement, "progress on vaccinations and unprecedented fiscal policy actions are also providing strong support to the recovery. Indicators of economic activity and employment have continued to strengthen. Real GDP rose at a robust 6.4 percent pace in the first half of the year, and growth is widely expected to continue at a strong pace in the second half. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery". It was also noted that the recovery continued but risks to the economic outlook remained. Thus, according to September FOMC projections, GDP will increase by 5.9% in 2021, by 3.8% yoy in 2022 and by 2.5% yoy in 2023 (vs +7.0%/+3.3%/+2.4% in June). However, longer run GDP growth was unchanged at 1.8%. As of unemployment ratios, it is implied that it will be 4.8% at the end of 2021, 3.8% at the end of 2022 and 3.5% at the end of 2023 (vs June projections of 4.5%/3.8%/3.5%, respectively). Longer run unemployment ratio was unchanged at 4.0%. Notwithstanding, it was emphasized that unemployment still remains elevated. As of PCE inflation, it is implied that inflation will be 4.2% in 2021 and it will decline to 2.2% in both 2022 and 2023, respectively, vs 3.4%/2.1%/2.2% in June and 2.4%/2.0%/2.1% in March. Longer-run inflation projection was unchanged at 2.0%. Overall, current FOMC projections are more consistent with consensus forecasts than it was in June. According to Bloomberg September survey, GDP growth will be +5.9%/+4.2%/+2.4% yoy in 2021/2022/2023 years, respectively, vs +6.6%/+4.1%/+2.4% yoy in June. In turn, unemployment forecasts were raised slightly to 5.5%/4.3%/3.8% for 2021/2022/2023 years, respectively.

Due to more hawkish Fed in recent months, we revised our expectations meaningfully up. Although the rate environment still remains challenging, the situation will improve significantly in coming years (and much earlier than it was expected just few quarters ago). We expect that the long end will resume its growth in the nearest months while the first rate hike will occur in 2H22. The economic recovery remains intact while uncertainty and risks continue going down very fast. So, the loan growth will continue accelerating in the nearest months, cash-to-assets ratio remains being much higher vs its pre-pandemic levels, while deposit growth is still elevated, implying relatively low deposits beta during the upcoming hiking cycle as it was in 2017-2018 years (loan-to-deposits ratio is still near the lowest level over decades). Unsurprisingly, NII/NIM prospects of US banks have improved substantially. We have already seen some signs of NII stabilization so far, even despite the majority of earning assets are priced based on the short end and the pullback of the long end after its strong growth in the first months of the year. So, NII/NIM forecasts for 2023/2024 year will improve meaningfully in the near term. However, NIM/NII forecasts for 2021/2022 years have already begun to improve either. Median NIM 2021 of BKX index members increased by 0.1 bps MoM, but -4.4 bps ytd, to 2.51%. Median NIM 2022 decreased by 0.4 bps MoM, but +1.7 bps ytd, to 2.59%.

Median NII decline of our group of banks was -1.5% yoy, but +0.2% qoq, in 2Q21 vs -10.8% yoy, or -2.1% qoq, in 1Q21, the 5th consecutive quarter of NII decline on yoy basis

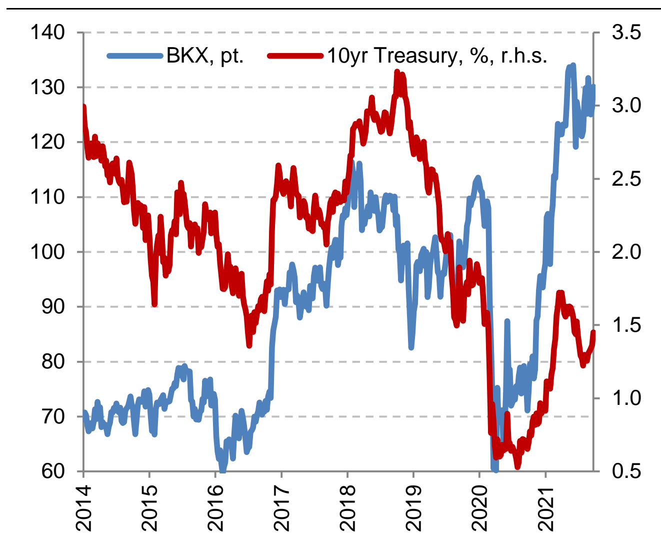
in a row. The key driver of weak NII dynamics was the decline of NIM again which was driven by a higher decline of EA yield in a comparison of IBL cost fall even despite to the growth of the long end on yoy basis and a deployment of the liquidity in higher yielding assets. Given recent hawkish signals from the Fed and signs of near-term acceleration of the loan growth, it seems that NIM has already reached the trough while NII will eventually start to grow as early as in 3Q21. Notwithstanding, a median NII surprise of BKX index members was negative again, -1.0% (vs estimates for July 12, 2021), after -1.0% in 1Q21 and +1.4% in 4Q20. 15 out of 24 our group of banks showed negative surprises on NII in 2Q21 vs 14 in 1Q21 and 9 in 4Q20. Total NII of our group of banks also missed estimates by 1.0%. 16 out of 24 our banks showed negative surprises on NIM in 2Q21 with a median negative surprise of 3.5 bps vs 20 banks in 1Q21 with a median surprise of -3 bps and 13 in 4Q20 with a median surprise of -0.3 bps. Median NIM of BKX index members decreased by 15 bps yoy, but +2 bps yoy, to 2.51% in 2Q21 (the first quarterly growth over last 5 quarters, but -34 bps vs the lowest figure of the last cycle, shown in 3Q16) vs -3 bps qoq, or -54 bps yoy, in 1Q21. On yoy basis, it was the 9th consecutive quarter of median NIM decline after the same period of growth.

Median growth of NII income of our group of banks was positive on qoq basis for the first time over last 5 quarters. Notwithstanding, total NII of our group of banks was 4.8% below than it was one year ago. However, we believe that the worst for NII is behind us even though NIM will remain relatively weak in 2021 and the loan growth is still tepid (but improving). At least, NII/NIM prospects improved markedly in the recent months due to the growth of the long end and the expected acceleration of the US economy as a result of new fiscal stimulus as well as more hawkish Fed (than it was even a quarter ago) because of inflation acceleration. Although there is no room to improve NIM by lowering deposit costs which are near zero at the moment, NIM could begin to grow in the near future due to deployment of the excess liquidity into higher yield assets as a result of the long end growth ytd and acceleration of the loan growth, especially taking into account that loan-to-deposit ratio was already below 60%, the record low, and there is no need to compete for deposits even in a case of growth of ST rates.

The short end of the curve was almost flat in September (as it was in all months of 2021) while the long end increased significantly due to more hawkish Fed. Notwithstanding, it remains higher ytd due to its strong growth in 1Q21. Thus, 1M yield increased by 1.8 bps MoM to +0.043%, while 3M yield went down by 0.3 bps MoM to 0.033%. 2yr yield increased by 6.6 bps MoM to 0.28%, while 5yr yield went up by 18.8 bps MoM to 0.96%. 10yr yield rose by 17.9 bps MoM to 1.49% (it is still -43 bps relative to the end of 2019 but +95 bps as against the April 2020 low). Generic 30yr yield increased by 11.3 bps MoM to 2.04%. We still don't expect any growth of the FF rate in the nearest year (but one hike in next 1.5 year) but it seems that the most part of the yield curve could be meaningfully higher even without it. At least, the short end of 2yr forward yield curve skyrocketed in the last 6 months as a result of more hawkish Fed. According to current forwards, the yield curve in 2 years will be higher than the current one by 39-113 bps. It is expected that only 30yr yield will be 13 bps lower in 2 years.

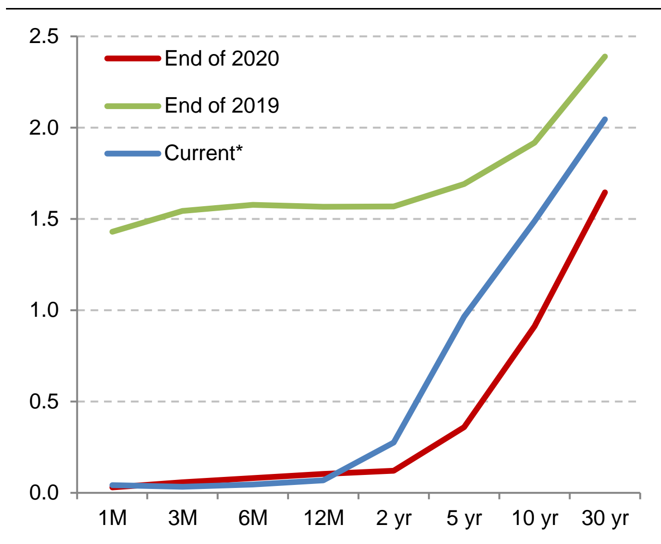
So, spreads moved markedly up in September, the second consecutive month of growth after four months in a row of negative dynamics. Due to the very strong growth in 1Q21 and resumed growth in recent months, spreads still remains meaningfully higher ytd. Also, spreads remained noticeably higher vs the end of 2019, but 5yr/3M is still lower than its average level of 2017 year, while 10yr/2yr is markedly higher. Thus, 5yr/3M spread increased by 19 bps MoM to +0.93% and it is still 3.9 bps lower than the average level of 2017 year, while 10yr-2yr spread is 27.7 bps higher (as of the end of September 2021). Spread (10yr-2yr) increased by 11.2 bps MoM to +1.21%.

Chart 21. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

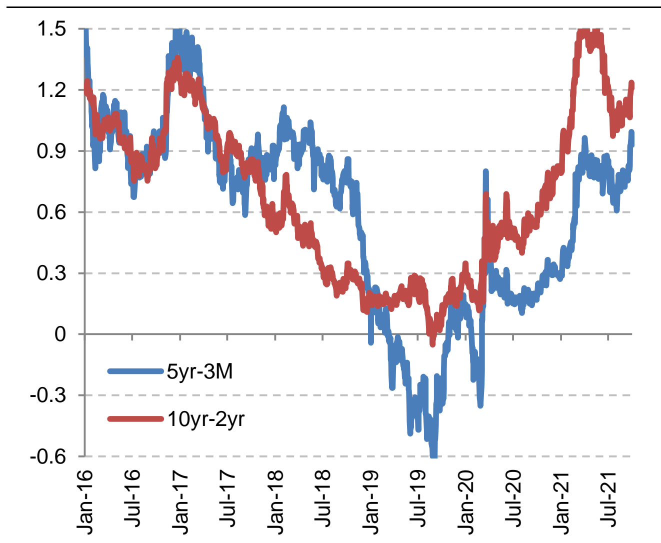
Chart 22. US Yield Curves, %



*As of the end of September 2021

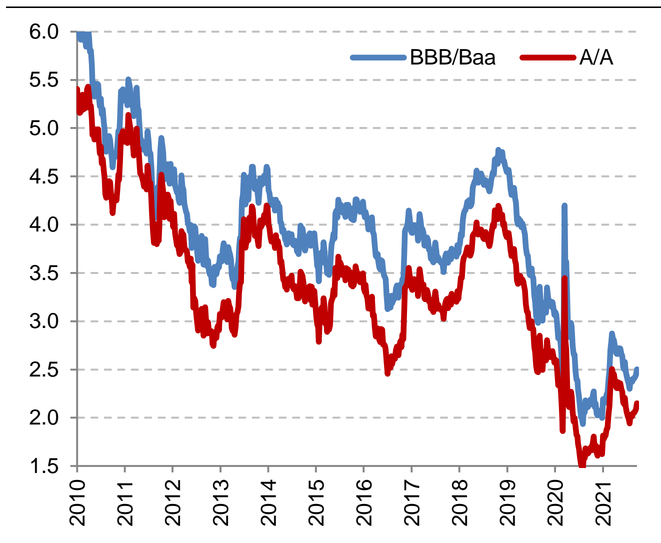
Source: Bloomberg

Chart 23. Treasury Spreads, %



Source: Bloomberg

Chart 24. Corporate spreads, %



Source: Bloomberg

According to Bankrate.com data, loan yields dynamics were mixed in September 2021 as well as ytd dynamics. Thus, average 30yr mortgage rate increased by 2 bps MoM to 3.05% in September, but it is still +16 bps ytd. In turn, fixed 15yr mortgage rate increased by 1 bps MoM, but -6 bps ytd, to 2.33%, still near the lowest figure in history. On the other hand, auto rates tumbled MoM in September with a decline of 18-27 bps depending on the loan term (-23-29 ytd). In turn, personal loans yield decreased by 7 bps MoM or -45 bps ytd to 9.33%.

Despite to the growth of the long end ytd, deposit rates continued to decline in 1H21 on an average basis but the rate of decline decelerated significantly in 2021 vs 2020 and it almost stopped going down during summer months of 2021 on MoM basis (even despite to the substantial decline of the long end in April-July of 2021). Thus, deposit rates were roughly flat in recent 5 months after 18 consecutive months of decline. So, we think that deposit costs will be no more any significant mitigation factor for NIM until FF rate is cut again (rather growth in next 1-1.5 years). Thus, national average cost of 6 month deposits was flat MoM at 0.15% (-12 bps ytd); average 3yr CDs cost was flat MoM at 0.36% (-14 bps ytd); average 5yr CDs cost decreased by 1 bps MoM to 0.44%, while cost of interest

checking accounts increased by 6 MoM to 0.59%, the 6th consecutive month of growth and it is +39 bps from its all-time low, shown 13 months ago (+10 bps ytd). In turn, average cost of money market accounts was also flat MoM at 0.08%, staying at its all-time low (-12 bps ytd).

Europe

Corporate

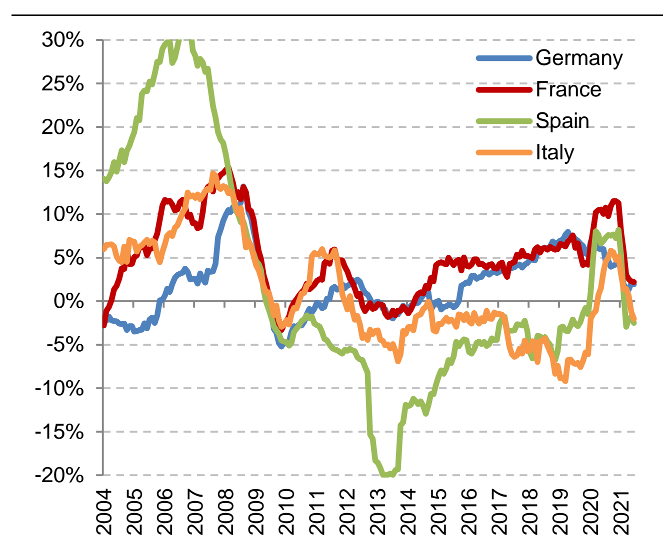
Corporate loans growth markedly accelerated in the EU in the spring of 2020, driven by emergency liquidity needs. But so high growth was unsustainable given the deep recession in 1H20, another technical recession in 4Q20-1Q21 and relatively severe restrictions because of the pandemic. Unsurprisingly, the loan growth decelerated noticeably in the recent months even despite to the ongoing vaccination campaign and the acceleration of the recovery. The EU economy has already returned to the growth again and it will grow relatively fast in coming quarters, but economic activity will not return to its pre-pandemic levels until 1Q22. Moreover, the acceleration of the economy is not immediately transformed into the loan growth, especially taking into account that some sectors such as leisure and hospitality are still under pressure. So, the growth of corporate loans in the EU continues to decelerate and slowed by 0.3% MoM in August 2021, after it increased by 0.2% MoM in July and it was negative on QoQ basis in 2Q21. On yoy basis, the growth rate moved down to around 0.0% during last half-year from approximately 5.4% yoy growth, observed earlier during 11 consecutive months. Thus, loans up to 1 year decreased in August by 1.2% MoM, or -11.9% yoy, (vs -7.0% yoy at the end of 2020). In turn, loans 1-5 yrs decreased by 4.6% yoy vs +15.2% yoy at the end of 2020. They also decreased by 0.2% MoM in August, the fourth month of decline over last five months with a total decline of 4.1% over the period. Loans over 5 yrs were +5.9% yoy in August vs +6.0% yoy one year ago, -0.3% MoM. Total corporate loans increased by just 0.1% yoy vs +5.6% yoy one year ago. The credit growth in the EU still varies markedly across countries.

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 May 2021 ECB’s Financial Stability Review it was noted that the third wave of the pandemic had weighed on the near-term economic outlook. But the negative impact was increasingly concentrated in some sectors and countries, where vulnerabilities had been observed before. In any case, “while the availability of vaccines has improved the medium-term economic outlook, uncertainties remain in the near term. In addition, the slow start to the vaccine roll-out in the euro area makes it unclear when the euro area will reach herd immunity and return to normal economic activity. Moreover, the virus continuing to evolve poses considerable tail risks as vaccine-resistant mutations may yet emerge, necessitating a prolonged period of constrained social and economic activity”. Meanwhile, even taking into account the acceleration of the economic recovery, it doesn’t mean that the sky is cloudless on the horizon. Yes, the worst is behind us. But, for example, “debt-to-equity ratios have increased considerably among the most leveraged firms, with the 90th percentile increasing from 220% at end-2019 to over 270% in the final quarter of 2020”, while corporate earnings remain weak and markedly below their pre-pandemic levels. So, any tightening of funding conditions will inevitably lead to lower corporate profits and higher default rates given the fact that the financial health of the EU corporate sector has not yet fully recovered from the spring 2020 lockdowns. Notwithstanding, asset quality of the corporate 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”. Notwithstanding, recent macro data were encouraging while economic projections continues being revised up. Risks to the euro area growth outlook remain on the downside but the outlook itself has improved noticeably during recent months due to the acceleration of the world economic growth and a gradual reopening of the EU economy.

According to July 2021 Euro Area bank lending survey, demand for corporate loans

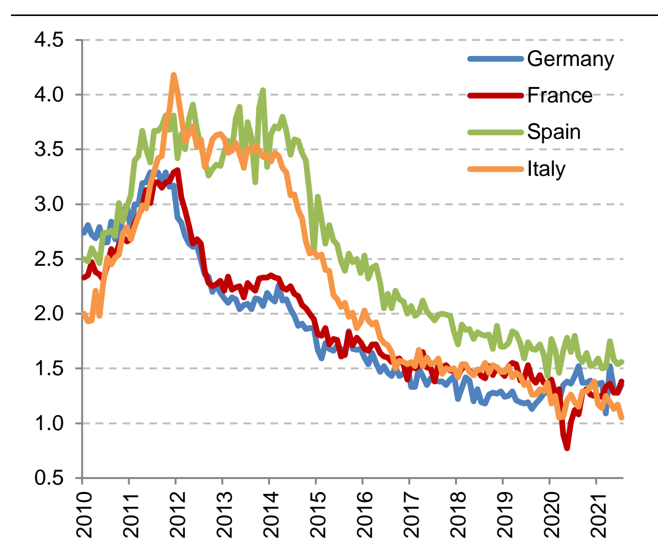
increased moderately in 2Q21 (as it was expected in 1Q21 BLS) after three consecutive quarters of decline following significant growth in 1H20 as a result of emergency liquidity needs. In 2Q20, demand reached the highest net balance since the survey was launched in 2003. Demand increased for both SMEs and large firms. It was noted that demand increased for LT loans but it decreased for ST loans. Banks also noted that firms' financing needs for fixed investment contributed positively to loan demand for the first time since 3Q19. "In addition, banks reported a considerable positive impact on loan demand from debt refinancing and restructuring, as well as M&A activity". Also banks expect a stronger net increase in firms' demand for loans in 3Q21, especially for SMEs. Notwithstanding, credit standards for corporate loans were broadly unchanged in 2Q21 after significant net tightening of credit standards for loans to firms in the second half of 2020 and the moderate net tightening in the first quarter of 2021. "The broadly unchanged credit standards reflect the overall improvement in the euro area economy, as also suggested by recent business sentiment indicators such as the PMI, and come in spite of more modest and volatile industrial production developments in the second quarter which are probably related to supply chain bottlenecks". Loan standards were broadly unchanged for SMEs and slightly eased for large firms. Also, it was eased for ST loans but unchanged for LT loans. "On balance, banks reported unchanged risk perceptions in the second quarter of 2021, suggesting a stable assessment of credit risks, while banks' risk tolerance continued to have a small net tightening impact". Banks expect a slight tightening in 3Q21 but it is not expected a considerable deterioration of the credit supply and a sharp reduction in lending in the coming months.

Chart 25. EU Corporate Loan Growth, YoY



Source: Bloomberg

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



Source: Bloomberg

Unadjusted EoP corporate loans increased by 0.1% yoy at the end of August 2021, the 48th consecutive month of positive growth on yoy basis. In turn, adjusted for sales and securitizations loans increased by 1.0% yoy, the 73th consecutive month of positive yoy growth. On the other hand, it was the lowest growth rate over more than last 5 years. We expect that it will continue weakening but it should remain positive on yoy basis in the coming months even despite to the high base of 2020 and a gradual closing of the government guarantee programs. But we don't exclude that it turns negative for a while even in spite of the acceleration of the economic recovery as a scope for new investments are limited while debt burdens (which were mainly used to build liquidity) markedly increased, especially SME's debt.

German outstanding corporate loans (unadjusted figures) increased by 1.9% yoy as of the end of August 2021, or +0.4% MoM, vs +6.4% yoy at the end of 2019. French corporate

loans outstanding (unadjusted figures) added 2.2% yoy, but -0.3% MoM, after two consecutive months of noticeable growth. Due to a significant MoM growth in the spring of 2020, Spanish loan growth was positive for 14 consecutive months (March 2020 – April 2021), but it turned negative again in May 2021. Thus, it remains negative on yoy basis in August for the fourth consecutive month, -2.5% yoy or -1.5% MoM, vs +8.0% yoy in May 2020. Italian loan growth turned positive in June 2020 after being negative on yoy basis for more than 8 years. But it decelerated meaningfully in recent months and it is again negative. Thus, it lost 2.0% yoy, or -0.7% MoM, vs +3.4% yoy one year ago, the third consecutive month of decline on MoM basis.

European corporate rates remained quite volatile in 2021, following the long end. Notwithstanding, rates are relatively flat, at least at the moment and vs January 2021. Thus, average EU corporate loan rate (all maturities, new business lending, adjusted for loan sales) increased by 3 bps MoM, but -1 bps yoy, to 1.38% in July 2021 after it was flat in May and June. 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 but it moved back in following quarters. So, it was demonstrated the weakest yoy decline over last 2 years in July 2021. Thus, it decreased by 2 bps MoM, or -10 bps yoy, to 1.64%.

Dynamics of rates within major European countries was relatively uniform in July with yields growth in all major EU economic, except for Italy. Thus, Spanish yield went up by 2 bps MoM to 1.52%, after two consecutive months of decline. So, it declined by 24 bps on yoy basis. In turn, Italian one decreased by 12 bps MoM to 1.05%. Thus, it is 14 bps lower on yoy basis. German corporate rate on new loans increased by 7 bps MoM, but still -8 bps yoy, to 1.35% in July, +26 bps from the lowest figure in history, shown in March 2021. French yield on new corporate loans increased by 10 bps MoM to 1.38%, +26 bps yoy, the only one among major EU economies with significant positive yoy dynamics. In turn, Dutch yield increased by 1 bps both MoM and yoy to 1.31%.

EU back book yield decreased by 2 bps MoM and still -10 bps yoy to 1.64%. Yields dynamics in major EU economies was relatively uniform with MoM decline in all of them, except for Spain. Thus, German yield decreased by 3 bps MoM to 1.68% in July, still remaining -12 bps lower than it was one year ago. French yield went down by 4 bps MoM to 1.38%, -7 bps yoy. Italian yield declined by 2 bps MoM, or -15 bps yoy, to 1.69%. Spanish yield increased by 1 bps MoM to 1.7% and it is just 4 bps lower on yoy basis. Dutch yield decreased by 7 bps MoM to 1.75%, -17 bps yoy. So, the spread between new and outstanding rates narrowed by 5 bps to 0.26% in July 2021, after two consecutive month of growth. So, it is 9 bps lower than it was one year ago. Moreover, it moved to 0% in France in July, for the first time over more than 12 years.

Despite to negative rates on new corporate deposits, their growth rate remains significant and it has even accelerated in 1Q21, but in 2Q21 the growth rates decelerated substantially. Thus, EU corporate deposits increased by 5.8% yoy as of the end of August 2021 (a significant deceleration vs mid-2020 growth rate), still driven by overnight deposits, while deposits with agreed maturity and redeemable deposits were negative on yoy basis. Notwithstanding, growth rates are very different among major EU countries, varying from just +1.6% yoy in Netherlands to +11.1% yoy in Spain.

Consumer

The EU consumer has become the main driver of the total EU loan growth again. Consumer loans decreased slightly on MoM basis in March and April of 2020, but the growth resumed latter as a result of employment supporting programs and the economic recovery. The growth continues and it even accelerated in 2021. But, frankly speaking, it remained relatively flat in yearly terms until early 2021 and accelerated only during last 6 months. Notwithstanding, it continues accelerating and it seems that it could accelerate

further, given the faster economic recovery, growing sentiment, excess savings and record high net worth as a result of a sustained growth of property and financial markets. The financial health of the EU consumers is very strong at the moment, but it should be noted that there are sizable differences across countries and income groups. So, the end of government support programs as a result of a gradual return to normal life could negatively impact on the financial health of some income groups, given that “there are still 3.3 million fewer people employed than before the pandemic, especially among the younger and lower skilled”. Notwithstanding, the unemployment rate still remains relatively stable while consumer confidence increased markedly in recent months and savings rate is very high. Moreover, indebtedness of euro area households remains relatively low, stabilized near 58% of GDP. Given the 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 coming 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 the overall quality of consumer credit portfolios of European banks should remain markedly better in the current crisis vs GFC levels and it should even improve in the coming quarters.

EU loans to households increased by 4.3% yoy, or +0.2% MoM, in August 2021, the 7th consecutive month of positive monthly growth after it was flat MoM in January. Consumer loan growth remained quite strong so far, demonstrating the fastest yoy growth in a decade, and we no more expect any significant deceleration of consumer loan growth even despite tighter lending standards and a possible growth of unemployment in 2H21-1H22. But loan growth rates continue to differ widely across countries (as well as for corporate loans). Thus, German household loans increased by 5.6% yoy in August, or +0.5% MoM, French retail lending added 6.5% yoy and +0.2% MoM (a marked acceleration vs the summer of 2020 levels), while household loans in Spain were flat on yoy basis August. However, it was the third non-negative month of growth on yoy basis after 24 consecutive months of decline. Italian consumer loans added just 3.3% yoy in August, but -0.3% MoM.

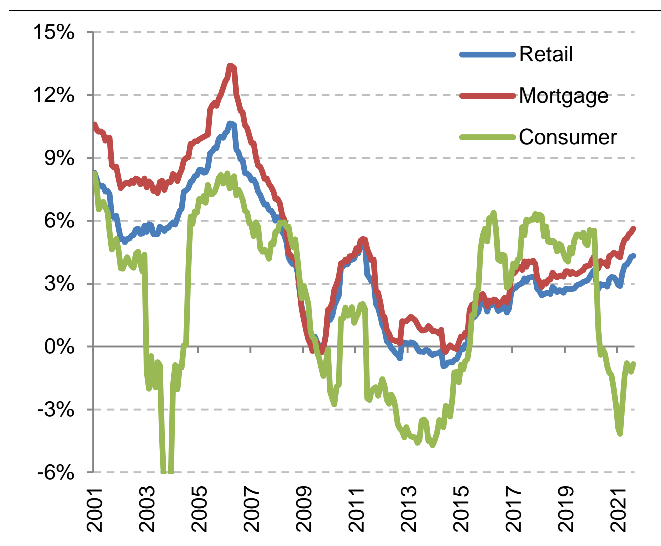
Consumer lending (ex. mortgage) was the key driver of EU household loan growth in pre-COVID time, but it was negative on yoy basis for the last 16 months, while growth of mortgage loans continues to accelerate. On MoM basis, total consumer credit in the EU decreased in August by 0.2% MoM, or -0.8% yoy. It was the first monthly decline over last 4 months. In turn, EU mortgage loans increased by 5.6% yoy as of the end of August, or +0.3% on MoM basis (the fastest mortgage growth rate on yoy basis over more than 13 years). According to the July 2021 bank lending survey from the ECB, loan demand for housing loans demonstrated a strong increase in 2Q21 after a moderate decline in 1Q21. “Improving consumer confidence, favourable housing market prospects and the low general level of interest rates all contributed positively to strong housing loan demand”. Also, demand for consumer credit increased in 2Q21 after two consecutive quarters of decline and it was also above historical averages. “Higher consumer confidence, increased spending on durable goods and the low general level of interest rates were the most important factors explaining the net increase in these countries”. Also, banks expect that demand for both consumer credit and mortgage loans will increase in 3Q21 even though lending standards remain relatively tight. However, banking lending standards were relatively unchanged for both consumer and mortgage loans in 2Q21 after several consecutive quarters of tightening.

Consumer loans remained quite volatile but their decline during the pandemic and recessions looks quite logic given their risky nature. Consumer credit grew by more than 5% in mid-2019, but it is -0.8% yoy at the moment. The most significant decline of growth rates was demonstrated by Netherlands, where consumer loans tumbled by 20.3% yoy, or -0.1% MoM. It also remains negative on ytd basis, -14.6% as of the end of August.

Notwithstanding, consumer loan growth should accelerate in the near future given the accelerating of the recovery and the relatively strong health of the EU consumer.

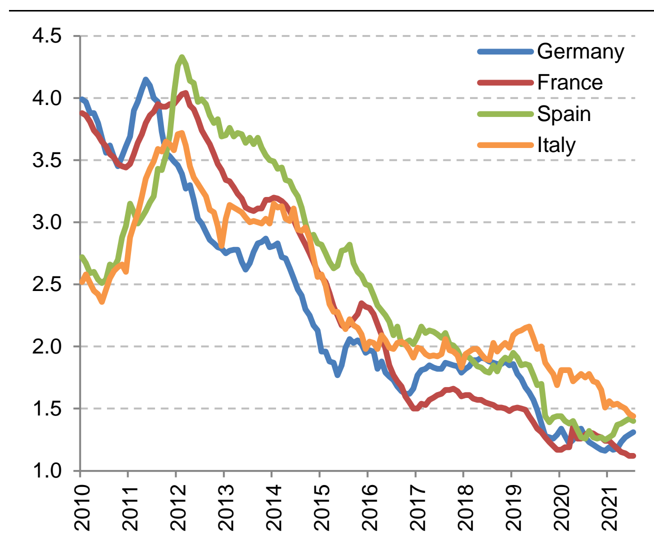
As of mortgage lending standards, they were unchanged in 2Q21 and eased slightly in 1Q21 after tightening for the four quarters in a row. “Risk perceptions related to the improved economic outlook and competitive pressures from other banks had an easing impact on credit standards. By contrast, banks’ funding costs and balance sheet situations had a slight net tightening impact”. “This suggests that euro area banks consider, on balance, that their loan approval criteria for housing loans are broadly appropriate given the economic situation and borrowers’ credit risks, following a stronger net tightening in 2020”. Lending standards were eased in Germany, but tightened in France, while standards remained unchanged in Spain and Italy. Banks expect that standards will remain broadly unchanged in 3Q21.

Chart 27. EU Consumer Loan Growth, YoY



Source: Bloomberg

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



Source: Bloomberg

The average EU rate on new mortgage loans increased by 1 bps MoM basis to 1.31% in July 2021, after two consecutive months of decline. Notwithstanding, it is still 9 bps lower than it was one year ago. It was hovering around 1.82-1.83% over 8 months from July 2018 till February 2019, but it declined by 50 bps since then because the key benchmark yields for mortgage rates declined markedly, except for the short end which is relatively flat vs the end of 2019. 10yr generic yield increased by 18.4 bps MoM to -0.20% as of the end of September 2021, after it increased slightly in August. So, it still remained 37 bps higher ytd, but just 1.4 bps lower than the end of 2019 level. In turn, 30yr yield increased by 18.4 bps MoM to 0.28% as of the end of September. So, the most of the yield curve still remains deeply below 0% at the moment (but not the entire curve as it was earlier). In July 2021, German rates on new mortgage loans increased by 2 bps MoM to 1.31%, and it is already +4 bps yoy. In turn, Italian mortgage rate went down by 2 bps MoM to 1.4%, but it is still 14 bps higher than it was one year ago, the first MoM decline after 6 consecutive months of growth. French yield was flat MoM at 1.12% in July 2021, after 5 months in a row of decline. So, it is still -17 bps yoy. Spanish mortgage rate decreased by 2 bps MoM to 1.44%, and it is 31 bps lower than it was one year ago, the most significant decline among major EU economies. Because of lower front book yields, we continue to see declining back book rates on a year-over-year basis, -18 bps yoy for all Eurozone mortgage loans. On a month-over-month basis, it decreased by 2 bps to 1.68%, the 5th consecutive month of decline after its unexpected growth by 1 bps MoM in February 2021 following 11 months in a row of decline. The rate of decline speeded up recently from 4.5 years low of -12 bps yoy, which was shown in May-July of 2019, because of the significant drop of benchmark rates,

which, however, were relatively flat in recent months. Back book yields went down on MoM basis in all major European economies in July 2021.

As for other consumer loans, EU new business rates increased by 9 bps MoM, or +5 bps yoy, to 5.25 % in July 2021. Dynamics wasn't uniform across major European economies. Thus, German yield increased by 7 bps MoM, but still -16 bps yoy, to 5.47%. In turn, French rate was flat MoM at 3.4%, and just -2 bps yoy. Spanish rate increased by 15 bps MoM to 6.76%. But it was -19 bps on yoy basis, remaining quite volatile. Italian consumer yield was decreased by 9 bps MoM, but +3 bps yoy, to 6.38% in July.

The average European new consumer deposits rate (with agreed maturity) increased by 2 bps MoM to 0.23% in July 2021, after its decline during two previous months. So, it is still lower on yoy basis, but just -4 bps yoy, a markedly slower rate of decline than the loan yields drop. In turn, cost of outstanding deposits (with agreed maturity) decreased by 1 bps MoM to 1.14% in July. But it remained relatively flat over last 12 months, being in the range of 1.14%-1.19%. Total cost of deposits was flat MoM at 0.18% after it decreased by 1 bps MoM in June. On yoy basis, it is just 4 bps lower than it was one year ago. So, the spread between total loans yield and cost of total deposits decreased by 2 bps MoM to 1.78% in July, -13 bps yoy, remaining at the all-time low.

Consumer deposits growth remains healthy, adding 6.5% yoy in August 2021, a slight acceleration vs +5.3% as of the end of January 2020, and still not very far from the fastest growth since 2H09, but it was flat in 4 last months. The growth rates of consumer deposits varies between 5.3%-8.5% 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 declined by 0.3% MoM, or -3.5% yoy, on an absolute basis to just 92.8% as of the end of September 2021, its new all-time low.

Overall Macro

The European economy is starting to accelerate after five quite difficult previous quarters, when there were two technical recessions. The acceleration of the vaccination campaign, accompanied by a gradual reopening of the economy, and new fiscal stimulus will be the key drivers of the recovery in the near term. Uncertainty continues declining but the ECB still remains relatively cautious. Thus, according to the ECB's September view, "the euro area economy is recovering swiftly despite continued uncertainty related to the coronavirus (COVID-19) pandemic and supply bottlenecks. It rebounded more strongly than expected in the second quarter of 2021 and should continue to grow rapidly during the second half of the year, with real GDP exceeding its pre-crisis level by the end of 2021. Growth is subsequently expected to remain strong but to gradually normalize. This outlook is based on several assumptions: a rapid relaxation of containment measures during the second half of 2021, a gradual dissipation of supply bottlenecks as of early 2022, substantial ongoing policy support (including favourable financing conditions) and a continued global recovery." Despite Delta variant spreading could yet delay the full reopening of the economy, the risks are still assessed as broadly balanced. Moreover, it was even noted that the recovery could be faster than expected if "consumers become more confident and save less than currently expected". The latter point is questionable, taking into account relatively weak dynamics of consumer confidence during recent months. Notwithstanding, it was the first mention of positive risks for a very long time. On the other hand, it should be noted that the impact of the pandemic on the economy is not uniform, both across the sectors and among the countries. Thus, manufacturing is recovering much faster due to foreign demand while some services sectors are still suffering both from social interaction and mobility restrictions. Unsurprisingly, the ECB continues to insist that "targeted and coordinated fiscal policy should continue to complement monetary policy. In particular, the Next Generation EU programme will help ensure a stronger and uniform recovery across euro area

countries. It will also accelerate the green and digital transitions, support structural reforms and lift long-term growth”.

European real GDP markedly increased in 2Q21 as a result of the gradual reopening of the EU economy after the second wave of the pandemic. Thus, EU GDP increased by 2.2% qoq, or 14.3% yoy, in 2Q21 vs the consensus of 1.5% qoq, or +13.2% yoy, and 1Q21 growth rate of -0.3% qoq, or -1.3% yoy. On yoy basis, EU GDP growth was negative in each of the previous 5 quarters. So, the EU economy has already emerged from the second technical recession and it is expected to grow by more than 1.0% qoq in each quarter of 2H21. German GDP increased by 1.6% qoq, or +9.4% yoy, in 2Q21 vs the consensus of +2.0% qoq, or +9.6% yoy, and 1Q21 growth rate of -2.0% qoq, or -3.3% yoy. French GDP increased by 1.1% qoq, or +18.7% yoy, in 2Q21 vs the consensus of +0.8% qoq, or +17.5% yoy, and 1Q21 growth rate of 0.0% qoq, or +1.5% yoy. Italian GDP went up by 2.7% qoq, or +17.3% yoy, in 2Q21 vs the consensus of +1.3% qoq, or +15.6% yoy, and 1Q21 growth rate of +0.2% qoq, but -0.7% yoy (up from the initial estimate of +0.1% qoq, or -0.8% yoy). Spanish GDP increased by 1.1% qoq (revised down significantly from its initial estimate of +2.8% qoq), or +17.5% yoy, vs the consensus of +2.1% qoq, or +18.9% yoy, and 1Q21 growth rate of -0.4% qoq, or -4.2% yoy. According to Bloomberg compiled estimates, 3Q21 GDP growth rate will remain strong and be in the range from +2.2% qoq in Italy and France to +2.6% qoq in Spain. GDP projections are slightly higher than they were at the beginning of the year, but the EU economy still remains more than 3% below comparing to its pre-pandemic level. Thus, according to Bloomberg consensus estimates compiled in September 2021, EU GDP will increase by 4.9% yoy in 2021 (vs +4.3% yoy in March), by 4.3% yoy in 2022 (vs 4.1% yoy in March) and by 2.3% yoy in 2023 (+1.9% yoy in March).

European macro data published in September 2021 were mixed after weaker figures in August. Thus, industrial production and consumer confidence were better than expected while retail sales and PMI figures missed. Despite mixed figures, surprise indices decreased meaningfully but street projections improved in September. Thus, Citi’s economic surprise index went down by 48 pts MoM to -59 pts as of the end of September, the lowest figure over more than a year. Bloomberg surprise index decreased by 0.33 pts MoM to -0.06.

Composite PMI (preliminary figure), which is usually well correlated with GDP growth (but the relationship was less tight than usually in 2020), missed expectations in September 2021, the second consecutive month of weaker data than expected. Notwithstanding, it is still well above 50 pts and it is markedly higher than the average level of 2018, continuing to point to a further strong recovery. Composite PMI decreased by 2.7 pts MoM to 58.7 pts, being markedly lower than the consensus of 60.3 pts. The miss was driven by both manufacturing and services components. Thus, manufacturing one decreased by 2.7 pts MoM to 56.3 pts in September vs the consensus of 58.5 pts. It was still +9.5 pts from its pre-COVID level. In turn, services PMI decreased by 2.9 pts MoM to 56.1 pts vs the consensus of 58.5 pts. So, it is still 3.7 pts higher than it was in February 2020. Despite the miss, manufacturing PMI is consistent with ECB’s view that activity in the manufacturing sector held up well. The key driver of EU manufacturing remains Germany but its manufacturing PMI missed estimates markedly again in September as it did in August. Thus, German manufacturing PMI decreased by 4.1 pts MoM to 58.5 pts in September vs the consensus of 61.4 pts. It is still significantly higher than it was in pre-COVID era but it is quite possible that it will continue going down from still extremely high level in the near future. Also, German services PMI decreased by 4.8 pts MoM to 56.0 pts vs the estimate of 60.3 pts, the lowest level over last 4 months and it is just 3.5 pts higher than February 2020. So, German composite PMI went down by 4.7 pts MoM to 55.3 pts vs the consensus of 59.2 pts, +4.6 pts vs its pre-pandemic level. French composite PMI decreased by 0.8 pts

MoM to 55.1 pts in September 2021 vs the consensus of 55.7 pts, the third consecutive month of decline after it grew for four months in a row. But it is 3.1 pts higher than it was in February 2020. Negative PMI dynamics was driven by both services and manufacturing components. Thus, French services PMI decreased by 0.3 pts MoM to 56.0 pts vs the consensus of 56.1 pts being +3.5 pts higher than February 2020 level, but it was just -1 pts from its local high shown in July 2020. In turn, French manufacturing PMI went down by 2.3 pts MoM to 55.2 pts in September vs the consensus of 57.0 pts, the fourth consecutive month of decline. Notwithstanding, EU industrial production increased by 1.5% MoM in July 2021, being markedly higher than the consensus forecast of -0.6% MoM. Also, June IP growth was revised up from its initial estimate of -0.3% MoM to -0.1% MoM. But it was the first month of IP growth over the last three. However, it is still +7.7% yoy as a result of the low base of the middle of 2020 and it was even +5.2% compared to its pre-pandemic level. Given recent PMI figures, it seems that IP will continue its growth in coming quarters but it will decelerate on yoy basis However, estimates slightly deteriorated in both August and September vs July projections. Thus, according to estimates compiled by Bloomberg, it is expected that IP will increase by 8.0% yoy in 2021, by 3.9% yoy in 2022 and by 2.2% yoy in 2023 vs +8.8% yoy/+4.1% yoy/+2.0% yoy, respectively, as it was estimated in July.

EU consumer sentiment started to improve in 1H21 and it will continue improving due to faster vaccination campaigns, more fiscal stimulus, a gradual reopening of the economy and the acceleration of the economic recovery. Uncertainty about employment remains but it is steadily going down. Moreover, household income was maintained by government support programs, savings are high, while wealth is near record levels. So, deferred consumption will inevitably impact positively on the recovery. It is expected that private consumption will exceed its pre-pandemic level in 1Q22, still remaining 6% below the level in 2Q21. According to September Bloomberg survey, private consumption will increase by 3.5% yoy in 2021, 5.7% yoy in 2022 and by 2.1% yoy in 2023 (vs +3.1%/+5.1%/+2.0% estimated growth rates in May). Unemployment will remain relatively flat in 4Q21 but it has already returned to pre-pandemic levels. Unemployment rate declined by 10 bps MoM to 7.5% in August 2021 vs the consensus of 7.5%, the lowest figure over last 15 months and it is just 10 bps higher as against pre-COVID levels. However, September consensus estimates of unemployment rates for 2021, 2022 and 2023 years, compiled by Bloomberg, were flat MoM, at 8.0%/7.8%/7.5% vs February estimates of 8.9%/8.5%/7.9%. However, ECB's June unemployment projections were more optimistic, being at 7.9%/7.7%/7.3% for 2021/2022/2023 years, respectively. Notwithstanding, it should be noted that employment is still 3 mln lower than it was in the pre-pandemic months. In turn, retail sales tumbled by 2.3% MoM in July 2021, after two consecutive months of substantial growth. It missed consensus of flat MoM dynamics substantially. However, September consumer confidence improved for the first time over last three months. Thus, it increased by 1.3 pts MoM to -4 pts vs the consensus of -5.9 pts, +17.9 pts from April 2020, or +2.4 pts from its pre-COVID levels.

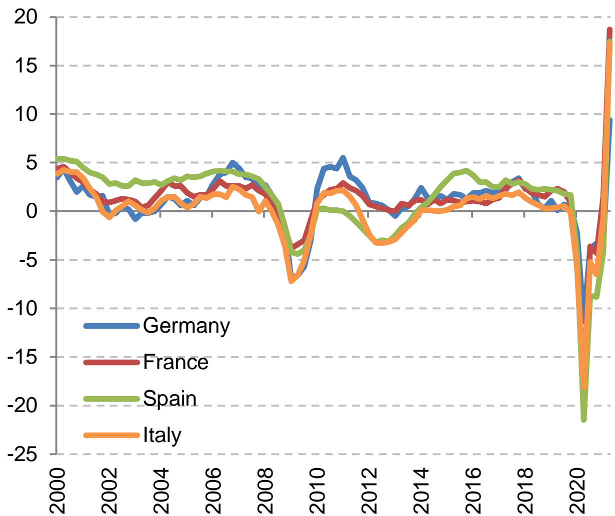
Rates

The September ECB meeting was quite mixed, from our point of view, even despite its unexpected decision to "maintain PEPP purchases at a moderately lower pace than in the previous two quarters". Given July meeting results, it could be perceived as a hawkish signal but new inflation projections and answers during the press conference didn't allow the market to do this. At least, key rates and EUR/USD were almost unchanged during the meeting day. It is not surprising, taking into account that the solving of main issues was postponed until December meeting. Other monetary tools were unchanged. Thus, "the Governing Council expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realized

progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilizing at two per cent over the medium term. This may also imply a transitory period in which inflation is moderately above target". Given current inflation projections, it seems that deposit rate will remain unchanged in next 3 years. It was admitted that supply bottlenecks could last longer than expected and could impact inflation projections but the risk is perceived as quite low. As already mentioned, PEPP purchases will decline in the next quarter, but the question remains open how much less. We expect that monthly purchases will be around €70 Bn or slightly less vs current €80 Bn. It was also emphasized that it is just recalibration, not tapering. As well, it should be noted that the decision was unanimous. Without going into linguistic games, the most important message about tapering is that it hasn't been discussed yet what "comes next". Notwithstanding, the base case is that it will be announced at December meeting that the PEPP will end in March 2022, but "a total envelope of €1,850 billion" will be used. In any case, the decision to reduce monthly purchases will add the ECB some flexibility without changing the envelope in case of something goes wrong in the nearest future. So, the key December discussion will unfold around the APP program which was also remained unchanged in September – "net purchases under the APP will continue at a monthly pace of €20 billion. The Governing Council continues to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates". Also, "the Governing Council will continue to provide ample liquidity through its refinancing operations. In particular, the third series of targeted longer-term refinancing operations (TLTRO III) remains an attractive source of funding for banks, supporting bank lending to firms and households". Despite moderating PEPP purchases, the ECB again confirmed that it will not rush to tighten monetary policy even taking into account notably higher mid-term inflation projections (LT projections remained roughly unchanged and much below ECB's target) and "more balanced" risks. So, further ECB's decision will depends on the pace of the economic recovery and inflation dynamics. In other words, there have been no significant changes from the point of view NII/NIM dynamics in the nearest 2-3 years.

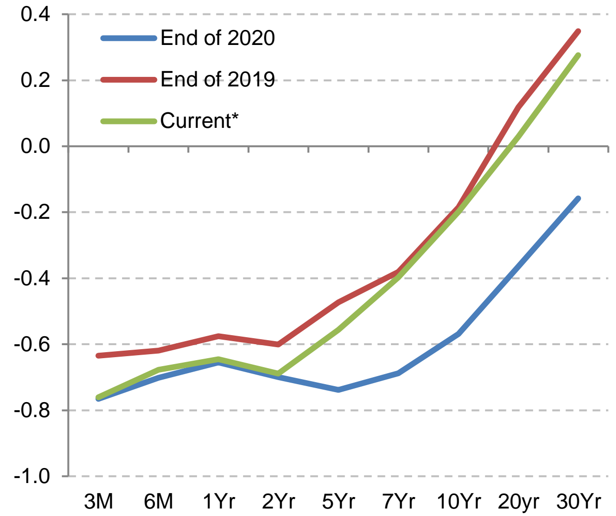
According to the September introductory statement, "the rebound phase in the recovery of the euro area economy is increasingly advanced. Output is expected to exceed its pre-pandemic level by the end of the year". Notwithstanding, it was also noted that Delta variant could yet delay the full reopening of the economy even despite relatively high share of fully vaccinated people in Europe. On the other hand, "the economy rebounded by 2.2 percent in the second quarter of the year, which was more than expected. It is on track for strong growth in the third quarter". Unsurprisingly, September GDP growth projection for 2021 was revised notably up vs the June figure, while projections for 2022/2023 years were roughly unchanged. Thus, it is implied that EU GDP will increase by 5.0% yoy in 2021 (vs +4.6% yoy in June), by 4.6% yoy in 2022 (vs +4.7% yoy 1 qtr ago) and by 2.1% yoy in 2023 (in-line with projections in three previous quarters). Also, unemployment projections were revised down to 7.9%/7.7%/7.3% for 2021/2022/2023 years, respectively, from 8.2%/7.9%/ 7.4% in June. Unsurprisingly, near-term inflation forecast increased meaningfully because of temporary factors, while projections for further years were little changed. Thus, HICP inflation projections increased from 2.2%/1.7%/1.5% for 2021/2022/2023 years in June to 1.9%/1.5%/1.4% in September. However, headline inflation is expected to remain notably below ECB's target over the projected horizon. Notwithstanding, the main thesis of the ECB remained unchanged – "the current increase in inflation is expected to be largely temporary and underlying price pressures are building up only slowly". Risks were assessed as broadly balanced. However, it was also noted that "economic activity could outperform our expectations if consumers become more confident and save less than currently expected" (more positive view vs previous projections announcement).

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



Source: Bloomberg

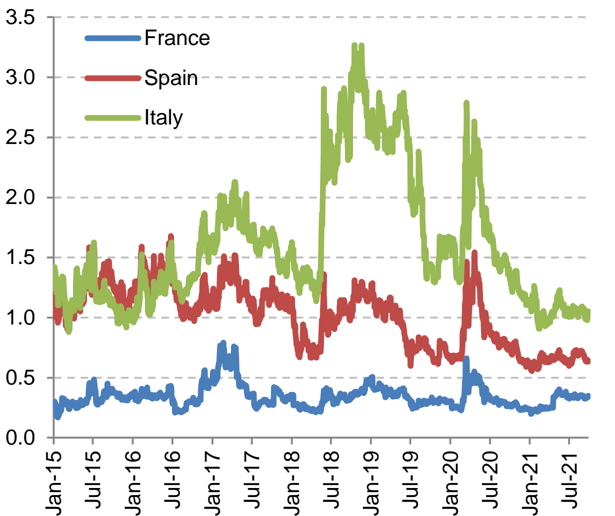
Chart 30. EU Yield Curves, %



*as of the end of September 2021

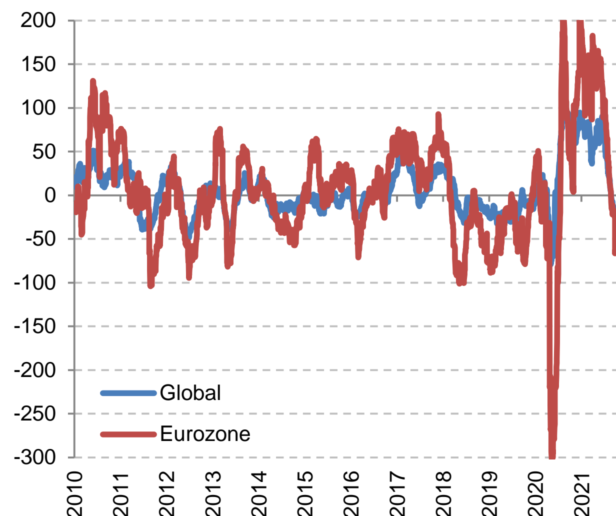
Source: Bloomberg

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



Source: Bloomberg

Chart 32. Citi Economic Surprise Indexes, pts



Source: Bloomberg

The ECB continues to preserve favourable financing conditions and being as flexible as it can, even taking into account slightly more hawkish PEPP guidance. Notwithstanding, it still has a negative impact on banks' revenues and profits, even despite to a positive effect of ECB's accommodative monetary policy on the economic recovery. So, NII outlook for EU banks remains grim, even taking into account the noticeable growth of the long end ytd and hopes for the acceleration of the loan growth in the near future (at least in the consumer segment). Loan yields continue going down while TLTRO incentive rates expire in mid-2022, implying that NIM dynamics will remain negative in the near future, especially taking into account that the key rates will not return to the positive territory in the foreseeable future (at least, in next 4-5 years). So, banks will continue to suffer from a negative rate environment, especially Spanish and Italian ones, which are more geared to the growth of the short end. The outlook for banking NII/NIM still remains relatively weak while market expectations of the first rate hike in 1-1.5 year looks too optimistic, from our point of view, given the current inflation outlook. Notwithstanding, we expect that NII/NIM forecasts will begin to improve in the very near future due to markedly steeper yield curve which has already returned to 2019 levels (but we don't see a significant room for further steepening) and the acceleration of the

loan growth. At least, NII outlook stopped worsening recently. Thus, median NII decline of EU banks was 5.0% yoy despite to the significant earning assets growth during the pandemic as NIM continues decreasing. Median NIM increased by 3.1 bps qoq, but -1 bps yoy, to 1.54% in 2Q21, still -16 bps vs 4Q19. On the other hand, median growth of NII FY21 was flat both MoM and ytd as of the end of September 2021, while NII FY22 was flat MoM, but +1.5% ytd. Median NIM FY21 estimate decreased by 5.7 bps ytd, but flat MoM, to 1.45% as of the end of September, while NIM FY22 declined by 5.9 bps ytd, but flat MoM, to 1.42%, still implying negative yoy dynamics in 2022 despite to the higher long end ytd.

Key forward rates increased markedly MoM in September 2021, after being relatively flat for more than a year. Thus, 3M Euribor (Dec 2021) decreased by 0.5 bps MoM to -0.54% (as of the end of September), or -27 bps vs the end of 2019, while 3M Euribor (Dec 2022) went down by 5 bps MoM to -0.43% and it is -30 bps vs the end of 2019. It is implied that the rate will turn positive only in 2025 (roughly 1 yr earlier vs August expectations).

The direction of dynamics of generic yields was mixed in September with almost flat/slightly negative short end, but a noticeable growth of the long end. Thus, 3M yield decreased by 12 bps MoM to -0.76%. 6M yield was flat MoM at -0.68%. 1yr generic yield was also flat MoM at -0.65%, while 2yr yield increased by 2.4 bps MoM to -0.69%. 5yr yield went up by 12.2 bps MoM to -0.56%, while 10yr yield skyrocketed by 18.4 bps MoM to -0.2%. Overall, the yield curve remains slightly inverted in the middle part. Spreads increased noticeably in September, the second consecutive month of growth. Thus, the spread between 10yr yield and 1yr yield went up by 18.4 bps MoM to 0.45%, while the spread between 5yr and 3M yields increased by 24.2 bps MoM to -0.21%. Both spreads are much higher comparing to the April trough, but they remain much lower vs the end of 2019. Almost entire yield curve is still below 0.

THEME OF THE MONTH

US Banks 3Q21 Preview

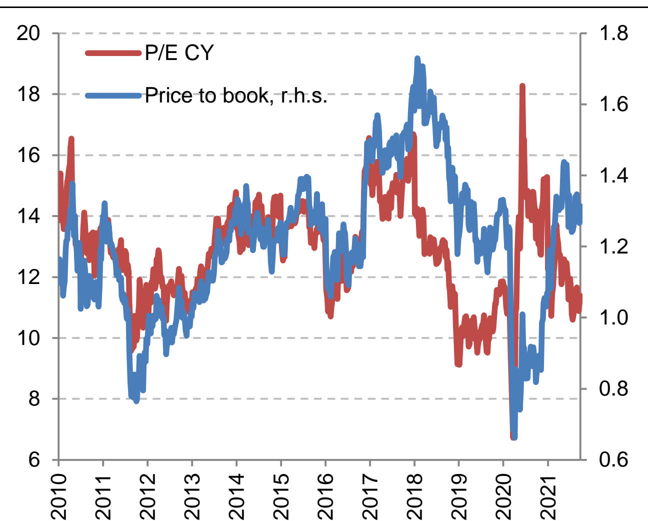
The earnings season of US banks will start on October 13, 2021, when 3Q21 results will be provided by JP Morgan. After that date all members of BKX index will provide their quarterly results within two weeks. US banks reported much better both revenue and EPS figures in last three quarters although revenue environment remained challenging. But the situation is gradually beginning to change for the better and the revenue outlook has improved significantly in recent months due to the acceleration of the economy and more hawkish Fed. We expect that rates will soon become a tailwind instead of being a headwind as it was in two previous years. So, positive EPS momentum, which began in 3Q20, remains, and the estimates will continue to be revised up. Thus, according to Bloomberg consensus, a median growth of 3Q21 EPS of BKX index members was +35.3% ytd, but still -0.8% vs the end of 2019 (as of the end of September). 3Q21 EPS estimates dynamics was positive on ytd basis for all members of BKX index, except for BK. Full-year estimates for both current and next year were also revised up meaningfully on both ytd and qtd basis. A median growth of EPS 2021/2022 of BKX index members was +54.7%/+14.2% ytd, respectively, but projections were +10.8%/-5.4% vs their pre-pandemic levels. 3Q21 revenue estimates increased by 3.9% ytd, still remaining markedly below the pre-pandemic levels, -2.9% since then.

After relatively weak dynamics in 2Q21 and the majority of 3Q21, rates resumed their growth after the last FOMC meeting, where it was given a clear signal regarding tapering, which is expected to be announced at November meeting and could be completed around mid-2022. Despite the Fed Chair didn't give any hints about raising rates during the press conference, the dot plot did it instead. Thus, the dot plot implies that we will see one rate hike till the end of 2022 and three more in both 2023 and 2024. The market is less optimistic on this issue but we think that rate expectations will be revised up in the nearest future, especially if inflation continues accelerating. NII/NIM estimates have already stopped deteriorating recently. Given improved rate expectations and accelerating of the loan growth, we expect that NII/NIM estimates will continue to be revised up. Notwithstanding, according to Bloomberg consensus estimates, a median decline of NIM of BKX index members in 3Q21 will be -0.5 bps qoq, or -11.2 bps yoy, the lowest sequential decline over the last 10 quarters. Median 3Q21 NIM estimate of BKX index members decreased by 3.8 bps ytd, or -2.3 bps qoq, to 2.5% as of the end of September 2021. In turn, median NIM 2021/2022 decreased by 0.5 bps qoq for both years to 2.51%/2.59%, respectively (-4.4 bps/+1.7 bps ytd). On the other hand, a median growth of 3Q21 NII (BKX index members) was +2.9% ytd as of the end of September. Moreover, it is expected that NII will increase by 1.6% qoq, or +1.1% yoy, (a median growth, the first positive yoy dynamics over last 8 quarters). Also, it should be noted that deposits growth remains elevated and it will continue to support NII growth both in ST (through investing very high levels of liquidity in securities, which yield will continue to go up) and LT (as loans-to-deposits ratio is still near its historical lows).

As of the end of September 2021, average 1M Libor decreased by 0.8 bps qoq in 3Q21 (-7.3 bps yoy) to 0.09% and average 3M Libor lost 3 bps qoq (-12.7 bps yoy) to 0.13%, while average prime rate was flat both qoq and yoy at 3.25%. Loan rates decreased in all segments in 3Q21 and they still remained negative on yoy basis. Thus, average auto loan rates declined by 9-11 bps qoq, or by 18-29 bps yoy. In turn, 30 yr fixed mortgage went down by 8 bps qoq, or -7 bps yoy, to 3.03%, after two consecutive quarters of growth. Also, 15yr fixed mortgage yield declined again by 7 bps qoq, or -30 bps yoy, to 2.33%, to its new all-time low and the 6th quarter of decline in a row. All benchmarks for securities yields went down in 3Q21 either, after three consecutive quarters of growth, following negative

dynamics of the long end. So, securities yields still remain noticeably below their pre-pandemic levels. Thus, according to BVAL, average 10yr AA/Aa, A/A and BBB/Baa yields decreased by 23.1 bps qoq, 26.6 bps qoq and 26.6 bps qoq to 1.87%/2.04%/2.4%, respectively. The long end of the yield curve decreased meaningfully after three quarters in a row of substantial growth. However, the curve remains quite steep with very wide spreads. Average 10yr-2yr spread decreased by 31.2 bps qoq to 1.1% in 3Q21, still remaining significantly higher than the average level of 2019 (+0.17%) and the average level of 2018 (+0.39%). Average 5yr-3Mo spread declined by 7.6 bps qoq to 0.76% in 3Q21, staying meaningfully higher than the average level of 2019 (-0.13%) and roughly in-line with the average level of 2018 (0.79%). Fed futures (Dec 2022/Dec 2023) yields decreased by 2.5/3.0 bps qoq to 0.3%/0.77% (+18/+63 bps ytd) as of the end of September, implying more than 2 rate hikes till the end of 2023.

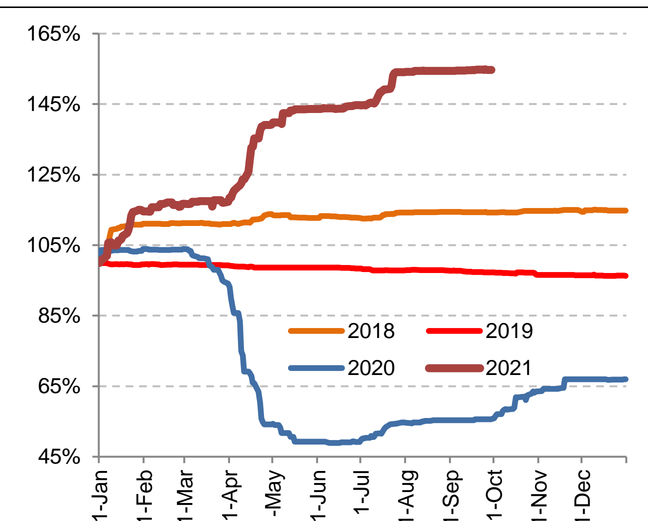
Chart 33. US Banks. Multipliers, Median*



*our sample of 34 banks

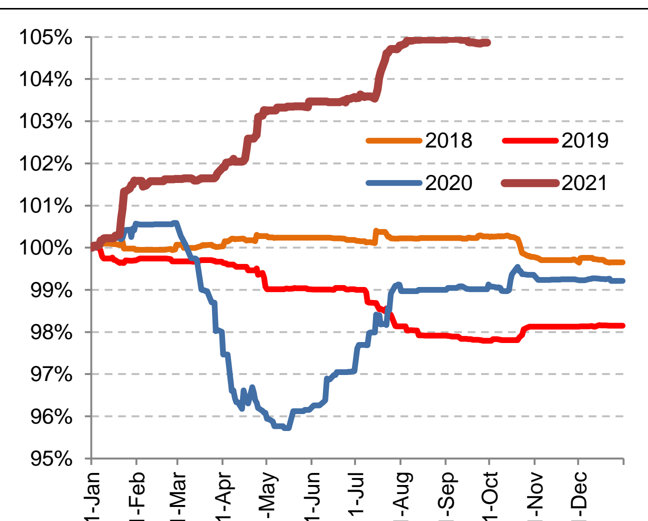
Source: Bloomberg

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



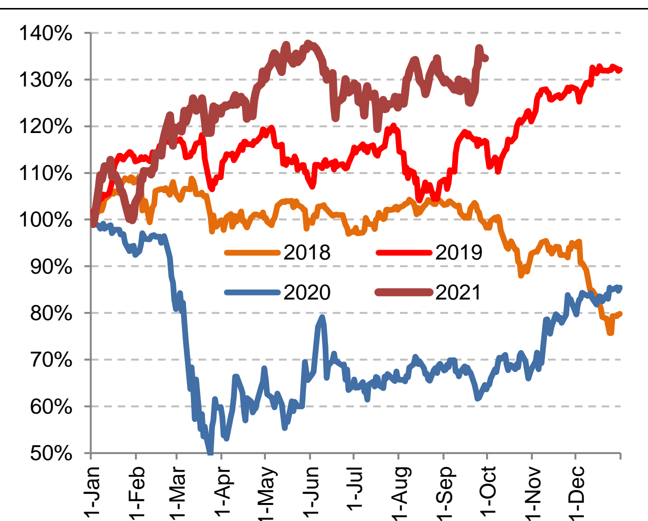
Source: Bloomberg

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



Source: Bloomberg

Chart 36. BKX Index. Price dynamics



Source: Bloomberg

Deposit costs decreased again in 3Q21 (except for checking and MMA), the 7th consecutive quarter of decline, but it is no more a diminishing factor for NIM from decreasing loan yields. On the other hand, deposits growth is still high while loan-to-deposit ratio remains near decades low, implying quite low deposit beta when the hike cycle starts. According to bankrate.com, average cost of 6Mo CDs decreased by 1 bps qoq to 0.15% in 3Q21 (vs -4

bps in 2Q21), average cost of 1yr CDs declined by 2 bps qoq to 0.16% (vs -4 bps in 2Q21), average cost of 5yr CDs went down by 2 bps qoq to 0.44% (vs -2 bps in 2Q21) while cost of interest checking accounts went up by 9 bps qoq to 0.54% (vs +4 bps in 2Q21). Cost of MMAs was flat qoq at 0.08% (vs -2 bps in 2Q21). Median cost of IBD decreased by 2 bps qoq, or -19.5 bps yoy, to just 0.075% in 2Q21 vs -2.3 bps qoq or -61 bps yoy in 1Q21. Currently, cost of IBD is 12 bps lower than the trough of the last cycle, shown in 3Q15. Median cost of interest-bearing liabilities of BKX index members decreased by 0.5 bps qoq, or -25 bps yoy, to 0.24% in 2Q21 vs -5.5 bps qoq, or -76.5 bps yoy, in 1Q21.

In accordance with the optimistic commentaries of the banks during 2Q21 earnings season, the loan portfolios resumed its growth in 3Q21 after five consecutive quarters of relatively weak dynamics. All major segments, except for C&I, demonstrated noticeable growth qtd even despite uncertainty related to Delta variant spreading, still elevated liquidity and ongoing restrictions/disruptions related to the pandemic. Contrary to expectations, C&I loan growth still remains weak as a result of PPP paydowns, supply chain disruptions, competition from the capital markets and restrained investment activity despite strong GDP growth. Notwithstanding, the situation is gradually improving and we see all the signs of an early resumption of loan growth in the corporate segment as well. So, we expect healthy loan growth rates in coming quarters. According to the Fed data, total loans portfolio increased by 1.1% qtd, or +1.2% ytd, (as of September 15, 2021) but it still remains -0.3% yoy. In turn, C&I loans decreased by 1.8% qtd, or -6.6% ytd. Despite to a significant impact of the pandemic on many CRE segments, CRE portfolio increased by 1.3% qtd, or +2.9% ytd. As a result of high prepayment rates and elevated activity on the secondary market, mortgage portfolio is still -0.2% on yoy basis, but it is +1.8% qtd, or +1.0% ytd. Consumer portfolio added 1.2% qtd, or +5.0% ytd.

Non-interest income of BKX index members is expected to decrease by 3.0% qoq, but +2.1% yoy in 3Q21, according to Bloomberg consensus. Notwithstanding, estimates increased meaningfully in recent months, adding +2.7% qtd, or +3.5% ytd, (median figure for BKX index members). Despite to quite strong investment banking activity and ongoing growth of payment related fees (deposit service charges/cards) due to the strong economic recovery, the decline in mortgage revenue (because of a slight decline of activity and lower margins) and normalization of trading activity will be key drivers of qoq decline of non-II. Notwithstanding, fees still remain quite strong vs pre-pandemic levels.

Despite to negative sequential dynamics in two recent quarters, expenses were slightly higher than it had been expected, driven by higher revenues and investments in technologies. So, 3Q21 OpEx projections increased by 1.7% qtd, or +3.8% qoq either. However, according to Bloomberg consensus, a median decline of OpEx of BKX index members is still expected to be 1.0% qoq, but +1.8% yoy, in 3Q21 vs -0.7% qoq, or +4.7% yoy in 2Q21. In result, median efficiency ratio is expected to decrease by 1.0% qoq in absolute terms to 60.7% in 3Q21, but it is expected to remain higher by 260 bps than it was 2 years ago. Notwithstanding, operating leverage is expected to remain negative again, for the 9th consecutive quarter after the same period in duration of positive operating leverage. But the momentum has already begun to improve given better revenue projections and relatively good cost control. So, we expect that it will be positive again in 2022.

The credit quality of US banks loan portfolios remains quite strong and we don't expect that the situation will change in the near future given the expected pace of the economic recovery in coming years. But we also don't expect that banks will continue actively releasing reserves even despite to commentaries of some banks that reserves could go even lower than CECL Day 1 level. At least, according to the forecasts compiled by Bloomberg, total provisions of BKX index members will exceed $2 Bn in 3Q21 after it was negative in 3 consecutive quarters. Current provisions are still expected as markedly below their pre-pandemic levels, but provisions should return to normal level in 1H22.

Notwithstanding, provision forecasts continue to go down. Thus, a median decline of 3Q21 for BKX index members is 69% qtd, or -91% ytd, as of the end of September. In 2Q21, 22 out of 24 banks from our group demonstrated provision expense lower than expected vs lower provisions of all of them in 1Q21 and for 22 out of 24 banks in 4Q20. Moreover, provisions for 20 of them (out of 24) were negative in 2Q21 (vs for 21 banks in 1Q21). In turn, median NCO ratio of BKX index members tumbled by 12 bps qoq, or -20 bps yoy, to just 0.19%, the second consecutive quarter of decline after being relatively unchanged for 5 quarters in a row. So, it was already 2 bps lower than the minimum figure for the last credit cycle. Median NPL ratio of BKX index members also decline by 3 bps qoq, or -1 bps yoy, to 0.59%. It is still higher than the average level of last 3 years but it is low vs historical averages on a longer time horizon. Median Texas ratio of US banks decreased by 26 bps qoq to 4.0% (still +29 bps yoy) at the end of 2Q21 vs 26.6% in 4Q09, the peak of the GFC. In turn, reserve to annualized NCO ratio increased again despite reserve releases, +115% qoq in absolute terms to 745% at the end of 2Q21 vs the high of the previous cycle of just 553% shown in 1Q15.

Capital ratios remain strong and median CET1 ratio of BKX index members and CET1 ratio increased both qoq and yoy, even despite to the substantial growth of capital deployment in 2Q21. Thus, median Basel III CET1 ratio of members of BKX index increased by 21 bps qoq, or +133 bps yoy, in absolute terms to 11.3%, the highest level over the last 16 quarters and the 5th consecutive quarter of the growth. Median TCE ratio also increased by 18 bps qoq, or -5 bps yoy, to 7.32%, not far from the lowest figure since 1H11, but meaningfully higher than the median figure of 5.7% at the end of 4Q07. Median dividend yield FY21 est. of our group of banks is currently 2.5% and dividend yield FY22 estimate is 2.8%. Also, banks have already announced massive buyback programs. And it seems that capital return estimates will continue to go up given expected acceleration of net income growth in the nearest years. Total returns could reach 8-9% of the market cap, from our point of view.

The operating environment for US banks is still challenging but it continues improving very fast. Moreover, banks are considered as a relatively good hedge against inflation while more hawkish Fed increased the probability of a blue sky scenario for US banks. The vaccination campaign has already shown success in the fight against the pandemic even despite the spread of more contagious strains such as Delta variant. So, the relatively fast economic recovery remains intact with an ongoing positive impact on banking fundamentals. Three previous earnings seasons were quite encouraging for banks and we expect that nothing will change in this regard for 3Q21. We think that improved rates and loan growth outlook aren't in the price yet. So, we expect that estimates will continue to go up, positively impacting banks' multipliers which were relatively rich vs historical averages in recent months. However, banks are still undervalued significantly vs the broad market. Thus, banks are trading with -0.8/-0.7 std on P/E CY (as of October 1, 2021) and +0.7/+0.9 std on P/E NY (on the basis of samples from 2000 and 2010 years to current moment) relative to historical averages. As for relative to S&P 500, banks are currently trading at -1.6 std and -0.9 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively. On P/B, banks are trading with +0.8 std from the sample mean (2010-current moment) vs +2.6 std for SPX index. **So, we expect an outperformance of US banks vs the broad market in the nearest months, given banks are still cheap vs the broad market, while EPS/revenue outlook has improved significantly.**

APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price as of 30/09/21, $	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	167.5	184.2	10.0%	179.7	89.1	51.4	133.1	1.1%	1.1%	1.1%	18.9	17.8	15.2	5.2	N. A.	29.9	32.2	36.2	10.1	13.5
JP Morgan Chase	JPM	163.7	168.6	3.0%	169.3	95.1	58.2	489.1	2.3%	2.5%	2.7%	11.7	13.8	12.6	1.9	2.4	16.8	13.6	14.0	6.0	13.1
PNC Financial	PNC	195.6	203.1	3.8%	203.8	107.0	56.6	83.1	2.5%	2.7%	2.9%	13.6	13.8	12.7	1.6	2.1	11.9	11.3	11.7	9.6	12.2
Bank of America	BAC	42.5	43.4	2.2%	44.0	23.1	58.5	357.2	1.8%	2.1%	2.4%	13.2	13.9	12.2	1.4	2.0	11.1	9.8	10.6	6.5	11.9
Citigroup	C	70.2	82.4	17.4%	80.3	40.5	48.9	142.2	2.9%	3.1%	3.4%	7.0	9.0	8.0	0.8	0.9	11.1	8.1	8.4	6.9	12.1
Truist Financial Corp	TFC	58.7	62.8	7.0%	62.7	37.9	58.6	78.3	3.2%	3.4%	3.6%	12.2	12.2	10.8	1.3	2.3	10.3	9.7	10.2	7.3	10.0
Goldman Sachs	GS	378.0	420.9	11.3%	420.7	185.5	38.1	133.0	1.7%	2.2%	2.4%	7.1	10.1	9.5	1.4	1.5	20.7	13.3	12.9	6.9	14.7
Bank of NY Mellon	BK	51.8	55.9	7.9%	56.6	33.2	47.8	44.7	2.5%	2.8%	3.3%	12.6	11.5	9.5	1.1	2.2	8.7	9.1	10.3	4.6	13.4
Comerica	CMA	80.5	77.3	-3.9%	83.0	37.3	63.5	10.8	3.4%	3.4%	3.6%	10.3	14.8	13.5	1.4	1.6	14.0	9.3	10.0	8.0	10.3
Citizens Financial	CFG	47.0	51.9	10.5%	51.1	24.8	62.1	20.0	3.4%	3.5%	3.6%	9.1	10.9	9.9	0.9	1.4	10.1	8.0	8.6	7.7	10.0
Regions Financial	RF	21.3	22.7	6.3%	23.8	11.3	61.2	20.3	3.1%	3.3%	3.6%	8.8	10.6	10.4	1.2	1.7	13.6	10.6	10.7	8.0	9.8
Discover Financial	DFS	122.9	134.1	9.1%	135.6	57.0	45.1	36.8	1.5%	1.6%	1.7%	7.6	9.8	9.1	3.0	3.1	41.2	26.9	25.8	8.4	13.1
M&T Bank	MTB	149.3	160.0	7.1%	168.3	90.6	63.3	19.2	3.0%	3.1%	3.2%	11.6	12.3	11.0	1.2	1.8	10.4	9.2	9.7	7.5	10.0
Fifth Third Bancorp	FITB	42.4	43.8	3.2%	44.2	20.5	63.2	29.3	2.7%	2.9%	3.1%	11.6	12.9	11.8	1.4	1.8	12.1	10.4	11.2	8.3	10.3
Huntington Bancorp	HBAN	15.5	17.0	10.2%	16.9	8.9	55.6	22.8	3.9%	4.1%	4.3%	11.6	10.9	10.1	1.3	1.9	11.8	10.9	11.7	7.1	10.0
Northern Trust	NTRS	107.8	119.4	10.8%	123.0	75.8	40.9	22.5	2.6%	2.8%	3.1%	15.7	14.7	12.3	1.9	2.0	13.2	13.3	14.9	6.4	13.4
People's United	PBCT	17.5	18.4	5.1%	19.6	10.0	63.1	7.5	4.2%	4.2%	4.5%	12.3	13.3	12.5	1.0	1.6	7.7	7.0	7.0	7.5	10.5
Synchrony Financial	SYF	48.9	56.2	14.9%	52.2	24.5	49.2	27.8	1.8%	1.9%	2.1%	7.4	8.9	8.7	2.1	2.5	29.0	21.4	21.3	10.4	15.9
KeyCorp	KEY	21.6	22.4	3.7%	23.6	11.6	60.6	20.7	3.5%	3.8%	4.0%	9.0	11.1	10.4	1.3	1.6	13.9	10.5	11.0	7.9	9.7
State Street Corp	STT	84.7	97.9	15.5%	94.6	57.2	43.8	31.0	2.6%	2.8%	3.2%	11.5	10.1	8.4	1.3	2.1	10.9	11.8	12.8	4.7	12.3
US Bancorp	USB	59.4	64.3	8.2%	62.5	35.3	57.6	88.1	3.0%	3.2%	3.3%	11.9	13.3	12.0	1.9	2.6	15.6	12.9	14.3	6.7	9.7
Zions Bancorp	ZION	61.9	60.0	-3.1%	64.0	28.6	62.8	10.0	2.3%	2.4%	2.5%	9.7	13.7	12.8	1.3	1.5	14.1	9.1	9.4	7.8	10.8
Morgan Stanley	MS	97.3	103.7	6.6%	105.9	46.4	39.1	177.5	2.2%	3.0%	3.2%	13.3	13.4	11.9	1.8	2.4	14.1	13.0	14.0	6.9	17.4
Capital One Financial	COF	162.0	181.6	12.1%	177.9	70.5	48.6	72.3	1.6%	1.5%	1.5%	6.6	9.2	9.0	1.2	1.7	17.7	11.6	11.0	10.0	13.7
Wells Fargo	WFC	46.4	50.0	7.6%	51.4	20.8	49.3	190.6	1.3%	2.1%	2.9%	10.9	13.0	10.8	1.1	1.3	10.4	8.2	9.4	7.1	11.6
First Republic Banks	FRC	192.9	207.4	7.5%	204.6	108.4	43.7	34.5	0.4%	0.5%	0.6%	26.0	24.2	21.0	3.1	3.1	11.7	11.1	11.3	7.0	9.7
NY Commercial Bancshares	NYCB	12.9	15.4	19.4%	13.3	7.7	57.5	6.0	5.3%	5.3%	5.4%	10.1	9.0	N. A.	0.9	1.5	9.0	10.6	N. A.	7.2	9.7
SVB Financial	SIVB	646.9	679.3	5.0%	677.0	239.5	62.5	36.7	0.0%	0.0%	0.0%	20.6	23.4	20.5	3.7	3.8	17.3	13.0	13.3	6.7	11.0
Signature Bank	SBNY	272.3	316.8	16.3%	280.0	71.5	59.3	16.5	0.8%	0.8%	0.9%	19.0	16.5	13.4	2.3	2.3	13.1	13.1	14.2	7.9	9.9
East West Bancorp	EWBC	77.5	90.2	16.3%	82.4	32.0	59.6	11.0	1.7%	1.8%	N. A.	12.8	13.0	12.0	2.0	2.2	15.5	13.9	13.7	9.3	12.7
Synovus Financial	SNV	43.9	51.4	17.0%	50.5	20.9	58.7	6.4	3.0%	3.1%	3.2%	9.7	10.6	10.0	1.4	1.5	13.9	11.7	N. A.	7.7	9.7
First Horizon National	FHN	16.3	19.0	16.9%	19.5	9.4	55.8	8.9	3.7%	3.8%	4.0%	8.9	10.5	10.2	1.2	1.5	13.0	10.2	10.2	6.9	9.7
BOK Financial	BOKF	89.6	92.1	2.9%	99.0	50.5	56.8	6.2	2.3%	2.4%	2.5%	11.5	13.7	12.8	1.3	1.6	10.1	8.0	8.2	9.0	12.0
Median				**7.9%**			**57.5**		**2.5%**	**2.8%**	**3.1%**	**11.6**	**12.9**	**11.4**	**1.4**	**1.9**	**13.1**	**10.9**	**11.2**	**7.5**	**11.0**

Source: Bloomberg

APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (30/09/21)	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		
Erste Group	EBS AV	EUR	38.1	38.6	1.4%	38.6	16.7	64.4	16.4	4.9%	4.6%	5.0%	10.9	10.4	9.6	1.0	1.1	9.3	9.5	10.0	4.8	14.5
Raiffeisen Bank	RBI AV	EUR	22.7	24.2	6.7%	22.9	11.7	65.4	7.5	4.9%	4.4%	5.1%	8.2	7.4	6.6	0.6	0.6	7.3	7.7	8.5	6.7	13.6
KBC Groep	KBC BB	EUR	78.0	74.2	-4.9%	78.6	40.9	69.6	32.5	7.3%	5.0%	5.1%	13.0	14.0	13.5	1.5	1.6	11.9	10.7	11.4	5.8	18.1
Komercni Banka	KOMB CK	CZK	886.5	865.1	-2.4%	892.0	460.0	69.7	6.6	7.1%	5.6%	5.5%	15.3	13.8	12.4	1.4	1.5	8.9	10.2	11.3	8.9	21.7
Jyske Bank	JYSK DC	DKK	277.1	310.9	12.2%	331.8	173.9	52.4	2.7	2.0%	0.0%	0.0%	7.1	7.7	7.0	0.6	0.6	7.8	6.3	6.1	5.0	17.9
SydBank	SYDB DC	DKK	192.0	226.7	18.1%	213.6	96.8	57.2	1.5	7.4%	5.5%	5.7%	9.0	8.8	8.4	0.9	1.0	10.4	10.0	9.8	6.8	18.8
Danske Bank	DANSKE DC	DKK	108.5	133.6	23.2%	125.6	83.5	52.9	12.6	6.3%	7.1%	7.9%	7.7	7.4	6.8	0.6	0.6	7.2	7.4	7.9	3.7	18.3
BNP Paribas	BNP FP	EUR	55.4	63.0	13.6%	57.9	28.8	56.5	69.3	6.4%	6.3%	6.7%	8.5	8.4	7.8	0.6	0.7	7.2	7.0	7.4	3.7	12.8
Societe Generale	GLE FP	EUR	27.2	31.7	16.6%	27.7	10.8	57.3	23.2	6.3%	6.1%	6.9%	6.9	7.3	6.4	0.4	0.4	6.2	5.6	6.1	3.8	13.2
Credit Agricole	ACA FO	EUR	11.9	15.1	26.0%	13.5	6.5	52.8	36.9	7.7%	7.7%	7.4%	7.6	7.8	7.3	0.6	0.9	7.6	7.3	7.6	2.1	13.1
Virgin Money	VMUK LN	GBp	204.4	227.1	11.1%	218.7	71.8	63.2	3.4	0.0%	0.0%	0.0%	6.6	7.2	7.3	0.6	0.6	9.1	7.9	9.9	4.9	13.4
HSBC	HSBA LN	GBp	390.1	478.3	22.6%	462.0	292.8	58.1	92.7	0.1%	0.1%	0.1%	6.3	6.3	5.4	0.6	0.7	6.4	6.3	7.4	5.2	15.9
Natwest Group	NWS LN	GBp	224.9	244.8	8.9%	227.0	103.1	67.4	30.0	0.0%	0.1%	0.1%	9.0	10.2	8.8	0.7	0.8	7.7	6.5	7.4	4.0	18.5
Barclays	BARC LN	GBp	189.6	220.5	16.3%	191.4	95.9	59.3	37.2	0.0%	0.0%	0.0%	6.1	7.6	7.0	0.6	0.7	8.9	6.9	7.4	3.5	15.1
Standard Charted	STAN LN	GBp	436.0	567.8	30.2%	533.2	345.0	48.1	15.6	0.0%	0.1%	0.1%	5.2	5.1	4.4	0.4	0.5	5.5	5.4	5.8	5.0	14.4
Lloyds	LLO LN	GBp	46.6	52.9	13.6%	50.4	25.6	61.5	38.5	0.0%	0.1%	0.1%	6.5	8.3	7.8	0.7	0.8	10.5	7.6	7.9	4.3	16.2
Commerzbank	CBK GY	EUR	5.8	6.1	6.0%	6.9	3.9	61.8	7.2	0.0%	1.4%	4.4%	29.7	11.0	7.1	0.3	0.3	-0.3	2.3	3.9	4.6	13.2
Deutsche Bank	DBK GY	EUR	11.0	11.4	3.2%	12.6	6.9	55.5	22.8	2.1%	3.0%	4.0%	10.5	8.5	7.6	0.4	0.5	3.0	4.6	5.1	3.6	13.6
UniCredit	UCG IM	EUR	11.5	12.1	4.8%	11.7	6.1	62.5	25.7	3.8%	4.1%	5.1%	10.1	8.7	7.3	0.5	0.5	4.3	5.1	5.5	5.4	16.0
Mediobanka	MB IM	EUR	10.4	11.3	8.5%	10.5	6.0	63.2	9.3	6.7%	6.6%	6.8%	11.1	10.6	10.2	0.8	N. A.	7.5	7.7	7.9	11.3	16.3
Intesa Sanpaolo	ISP IM	EUR	2.5	2.7	10.4%	2.5	1.4	58.6	47.7	7.9%	7.1%	7.8%	11.6	10.2	9.3	0.8	0.9	7.1	7.5	8.2	5.0	14.7
Emilia Romagna	BPE IM	EUR	1.9	2.3	20.1%	2.2	1.0	66.3	2.7	3.0%	4.0%	5.1%	34.5	8.0	6.6	0.4	0.4	5.1	4.8	5.4	5.8	17.7
ING Groep	INGA NA	EUR	12.6	12.9	2.9%	12.8	5.6	70.3	49.1	7.4%	5.1%	5.5%	10.6	10.9	10.0	0.9	0.9	8.4	7.9	8.4	5.7	15.5
ABN Amro	ABN NA	EUR	12.5	12.9	3.5%	12.6	6.8	68.5	11.7	6.2%	5.3%	5.8%	12.7	10.4	9.1	0.6	N. A.	4.5	5.8	6.4	4.8	17.7
BBVA	BBVA SQ	EUR	5.7	6.0	5.2%	5.9	2.2	56.8	38.1	3.6%	4.1%	4.9%	10.2	9.5	8.4	0.9	0.9	7.5	8.0	8.7	5.8	12.2
Santander	SAN SQ	EUR	3.1	3.8	19.6%	3.5	1.5	54.3	54.4	5.0%	6.2%	6.6%	7.8	7.4	6.9	0.6	0.8	8.2	8.5	8.7	4.4	12.3
Bankinter	BKT SQ	EUR	5.1	5.0	-1.5%	5.3	2.2	55.9	4.6	3.7%	4.4%	5.1%	7.6	11.4	9.8	0.9	1.0	14.8	8.2	9.6	4.9	12.3
Sabadell	SAB SQ	EUR	0.7	0.6	-14.6%	0.7	0.3	73.7	4.1	1.7%	3.0%	4.7%	16.9	11.2	7.8	0.3	0.4	2.4	3.8	4.5	4.2	12.6
CaixaBank	CABK SQ	EUR	2.7	3.1	15.4%	2.9	1.5	56.9	21.6	4.4%	5.8%	7.2%	6.8	8.5	7.4	0.6	0.7	11.0	7.5	8.4	4.8	13.6
SEB	SEBA SS	SEK	123.9	120.5	-2.7%	126.4	75.6	58.4	26.8	6.2%	5.4%	4.9%	11.6	11.8	11.2	1.5	1.5	12.9	11.9	12.1	5.4	21.0
Handelsbanken	SHBA SS	SEK	98.3	107.8	9.7%	102.0	71.7	55.8	19.2	7.3%	6.6%	7.1%	10.8	10.5	9.8	1.1	1.2	10.2	10.0	10.4	5.1	20.3
Swedbank	SWEDA SS	SEK	177.3	188.0	6.0%	177.4	138.1	64.8	19.8	6.9%	5.2%	5.5%	10.1	10.0	9.6	1.2	1.4	12.4	11.9	11.8	5.3	17.5
Nordea	NDA SS	SEK	113.1	111.4	-1.5%	114.6	64.9	67.0	45.2	0.7%	0.6%	0.6%	12.5	8.6	7.9	1.3	1.5	10.7	10.6	11.0	5.3	17.1
Julious Baer	BAER VX	CHF	62.3	68.4	9.8%	64.1	37.0	52.7	12.8	3.3%	3.4%	3.7%	11.3	11.3	10.4	2.0	3.3	18.3	17.0	17.3	3.6	14.9
Credit Suisse	CSGN VX	CHF	9.3	11.0	18.7%	13.4	8.4	48.6	22.8	1.8%	2.6%	3.0%	11.8	6.8	6.1	0.5	0.6	2.3	7.5	7.9	4.7	12.9
UBS	UBSG VX	CHF	15.0	17.6	17.7%	15.8	9.8	51.3	51.5	2.6%	2.7%	2.8%	7.9	8.0	7.2	0.9	1.1	10.5	10.0	10.5	4.7	13.8
Median					**9.7%**			**58.5**		**4.1%**	**4.4%**	**5.1%**	**10.1**	**8.6**	**7.8**	**0.6**	**0.8**	**7.8**	**7.6**	**8.0**	**4.9**	**15.0**

Source: Bloomberg

APPENDIX

Table 3. Calendar

Date	Region	Section	Event	Period
1-Oct	EU	Macro	CPI	Sep
1-Oct	US	Macro	Personal Income and Spending	Aug
1-Oct	US	Macro	Construction Spending	Aug
1-Oct	US	Macro	ISM Manufacturing	Sep
4-Oct	US	Macro	Factory Orders	Aug
5-Oct	EU	Macro	PPI	Aug
5-Oct	US	Macro	Trade Balance	Aug
6-Oct	EU	Macro	Retail Sales MoM	Aug
6-Oct	US	Macro	ADP Employment Change	Sep
7-Oct	US	Macro	Consumer Credit	Aug
8-Oct	**US**	**Macro**	**Employment Report**	**Sep**
13-Oct	EU	Macro	Industrial Production	Aug
13-Oct	**US**	**Corporate**	**JPMorgan Chase. Earnings Announcement**	**3Q**
13-Oct	US	Macro	CPI	Sep
14-Oct	US	Corporate	Bank of America. Earnings Announcement	3Q
14-Oct	US	Corporate	Wells Fargo. Earnings Announcement	3Q
14-Oct	US	Corporate	Citigroup. Earnings Announcement	3Q
14-Oct	US	Macro	PPI	Sep
15-Oct	US	Macro	Empire Manufacturing	Oct
15-Oct	US	Macro	Retail Sales	Sep
15-Oct	US	Macro	U. of Mich. Sentiment	Oct
18-Oct	US	Macro	Industrial Production and Capacity Utilization	Sep
19-Oct	US	Macro	Housing Starts and Building Permits	Sep
21-Oct	EU	Corporate	Barclays. Earnings Announcement	3Q
21-Oct	EU	Macro	Consumer Confidence	Oct
21-Oct	US	Macro	Philadelphia Fed Business Outlook	Oct
21-Oct	US	Macro	Leading Index	Sep
21-Oct	US	Macro	Existing Home Sales	Sep
22-Oct	EU	Macro	Markit Eurozone Manufacturing, Services and Composite PMI	Oct
22-Oct	US	Macro	Markit US Manufacturing, Services and Composite PMI	Oct
25-Oct	US	Macro	Chicago Fed Nat Activity Index	Sep
26-Oct	US	Macro	FHFA House Price Index	Aug
26-Oct	US	Macro	New Home Sales	Sep
26-Oct	US	Macro	Conf. Board Consumer Confidence	Oct
26-Oct	US	Macro	Richmond Fed Manufact. Index	Oct
27-Oct	EU	Corporate	Deutsche Bank. Earnings Announcement	3Q
27-Oct	EU	Corporate	Banco Santander. Earnings Announcement	3Q
27-Oct	US	Macro	Durable Goods	Sep
28-Oct	**EU**	**Macro**	**ECB Main Refinancing Rate**	**Oct 28**
28-Oct	**US**	**Macro**	**GDP**	**3Q**
29-Oct	EU	Corporate	BNP Paribas. Earnings Announcement	3Q
29-Oct	EU	Macro	CPI	Oct
29-Oct	**EU**	**Macro**	**GDP**	**3Q**
29-Oct	US	Macro	Personal Income and Spending	Sep