

APOLLO

# Outlook for US banks

Torsten Slok, Rajvi Shah, and Shruti Galwankar  
tslok@apollo.com

**Apollo Global Management**

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Unless otherwise noted, information as of January 2025.

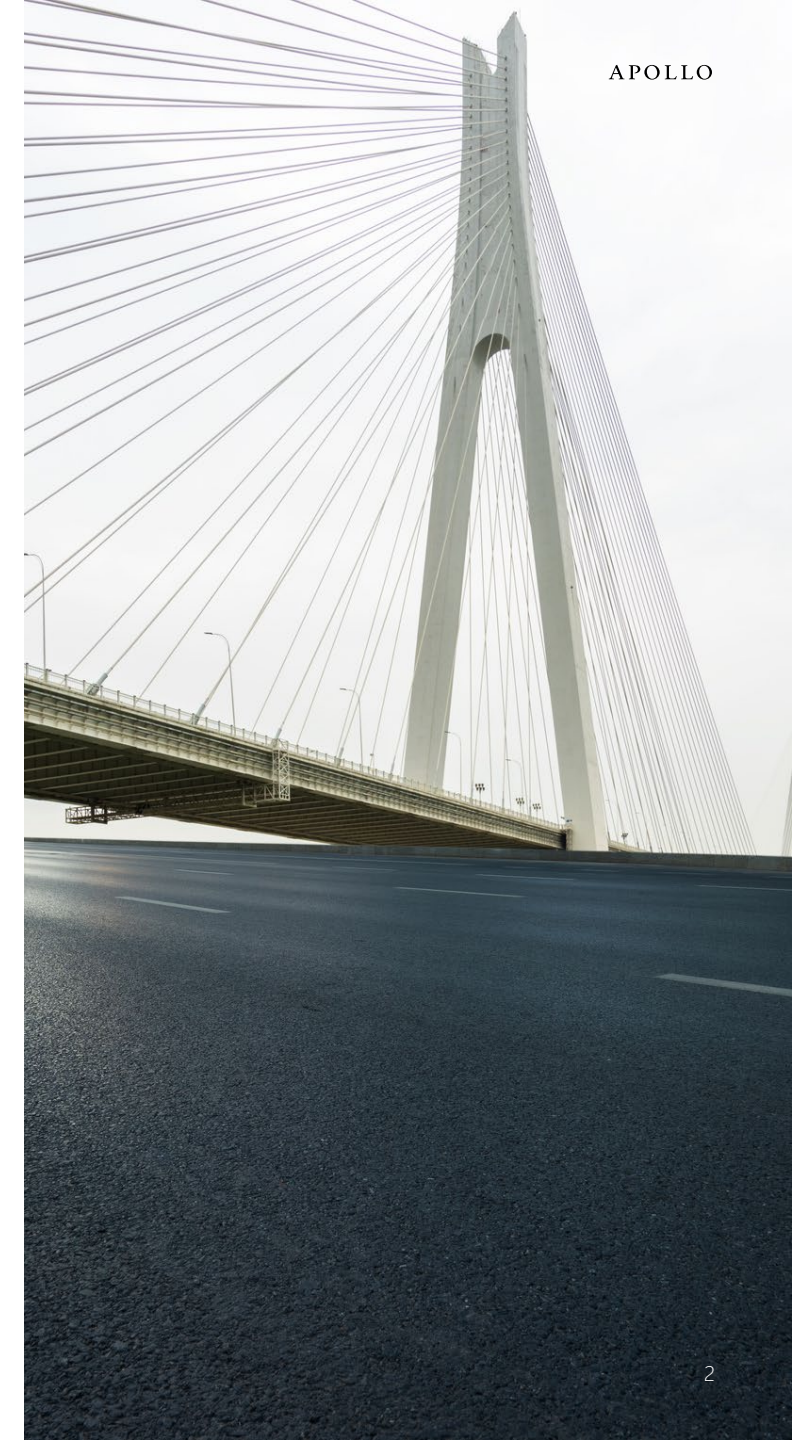
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## Ten facts about the US banking sector

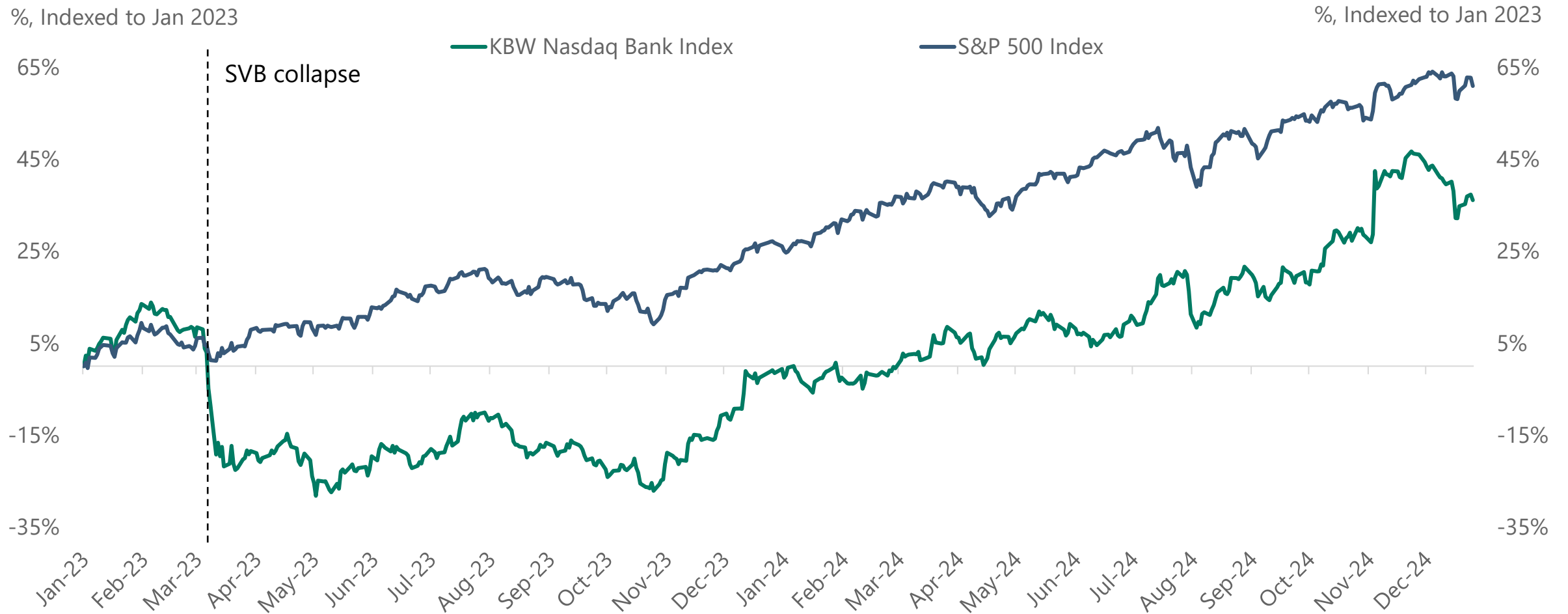
1. Bank stocks continue to underperform the S&P 500 (page 6)
2. Loan growth is accelerating for large banks and decelerating for small banks (page 9)
3. Unrealized losses on investment securities for banks currently stand at \$364bn (page 10)
4. Small banks account for 70% of all bank CRE loans outstanding (page 15)
5. The nationwide price per square foot for US office is down 26% from the peak (page 12)
6. Banks are more willing to lend to consumers (page 37)
7. It is easier for households to obtain credit (page 39)
8. Delinquency rates on credit cards and auto loans are peaking (page 40 and 42)
9. Large banks are accumulating Treasuries (page 87)
10. CMBS spreads continue to trade 300bps wider than HY (page 93)

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11. Other banking sector indicators

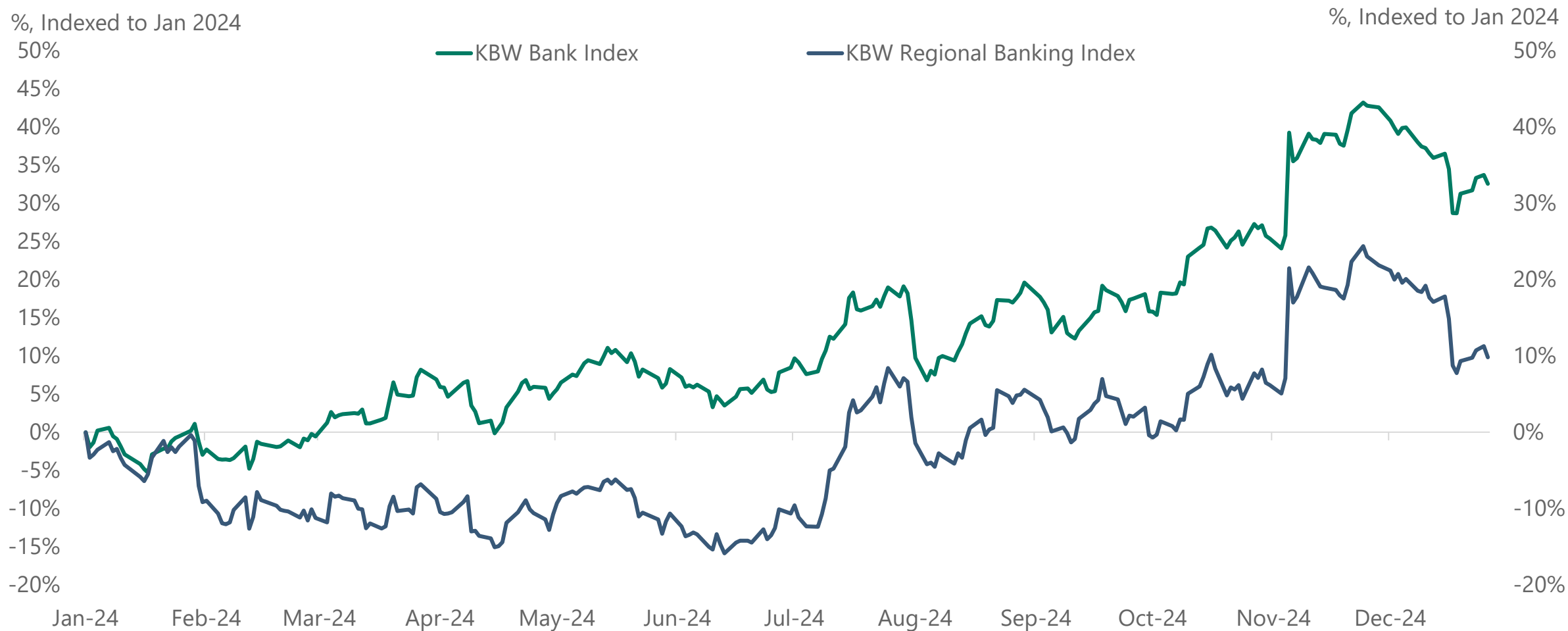
# Overview

# Bank stocks continue to underperform the S&P500

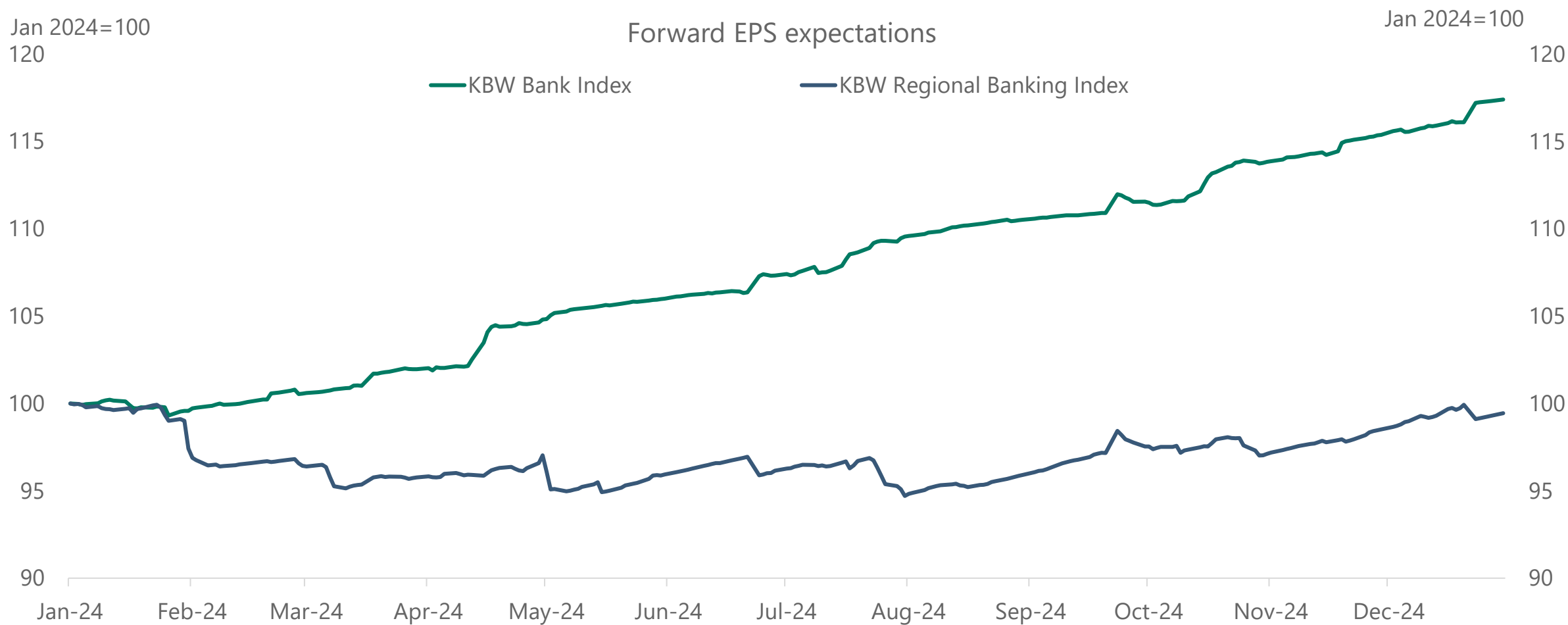


Note: The KBW Bank Index consists of: Bank of NY Mellon, Bank of America, Capital One Financial, Citigroup, Citizens Financial Group, Comerica, Fifth Third Bank, First Horizon, Huntington, JP Morgan Chase, Keycorp, M&T Bank, Northern Trust, PNC, People's United Financial, Regions, State Street, Truist, US Bancorp, Wells Fargo, and Zions. Source: Bloomberg, Apollo Chief Economist

# Regional bank stocks underperforming

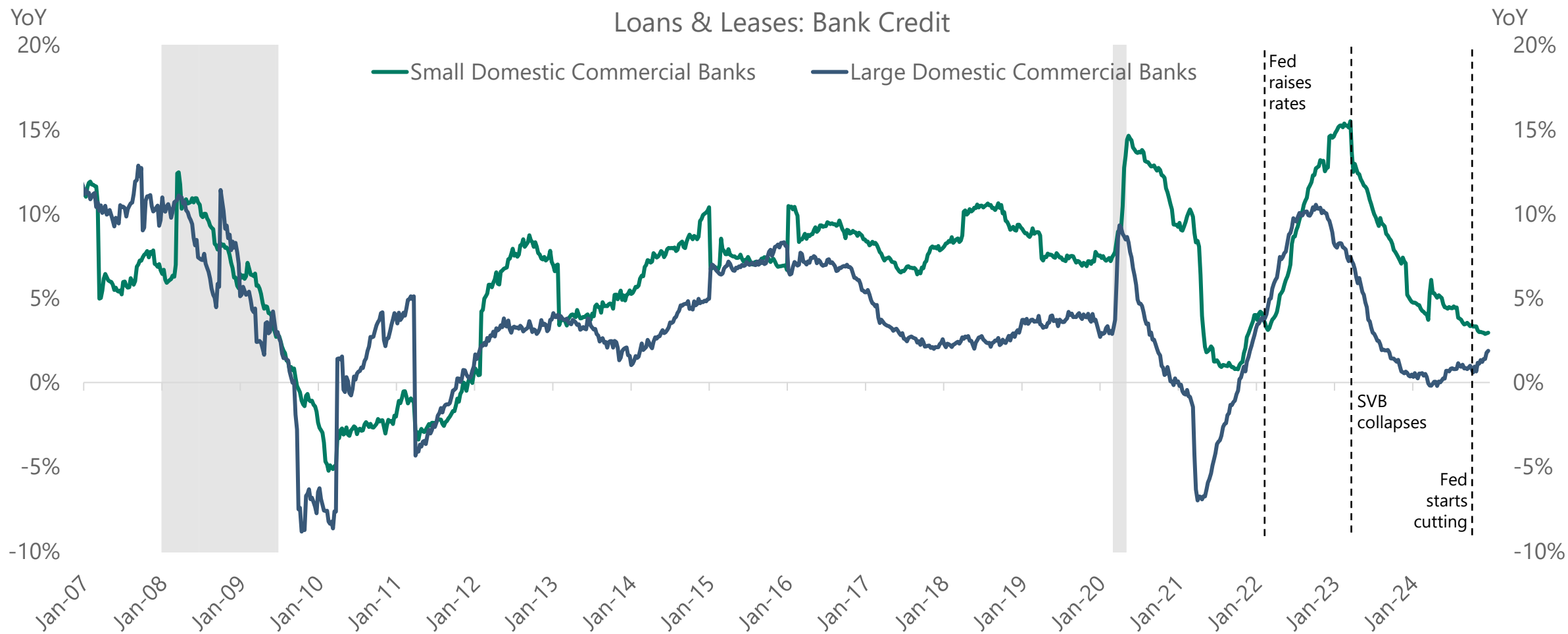


# Earnings expectations weak for regional banks



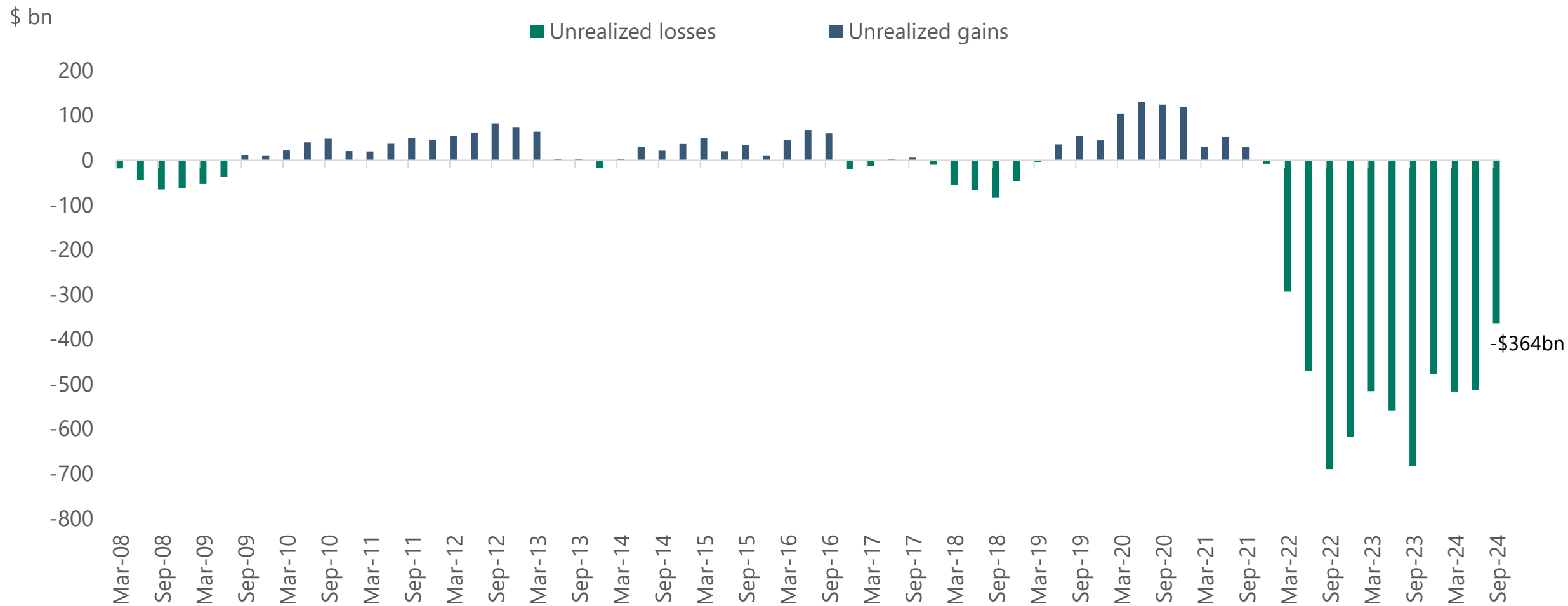


# Loan growth: Banking sector response to Fed moves and SVB collapse

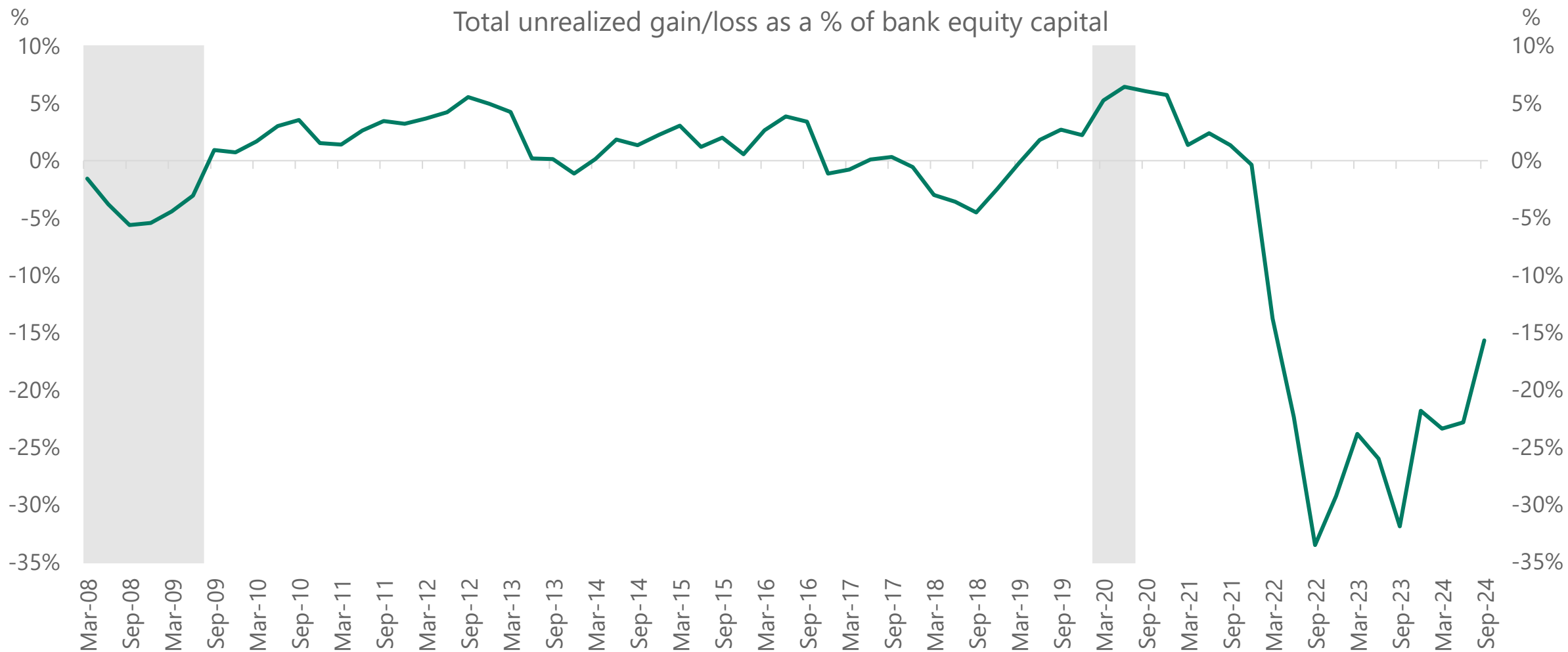


Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Unrealized losses on investment securities for banks

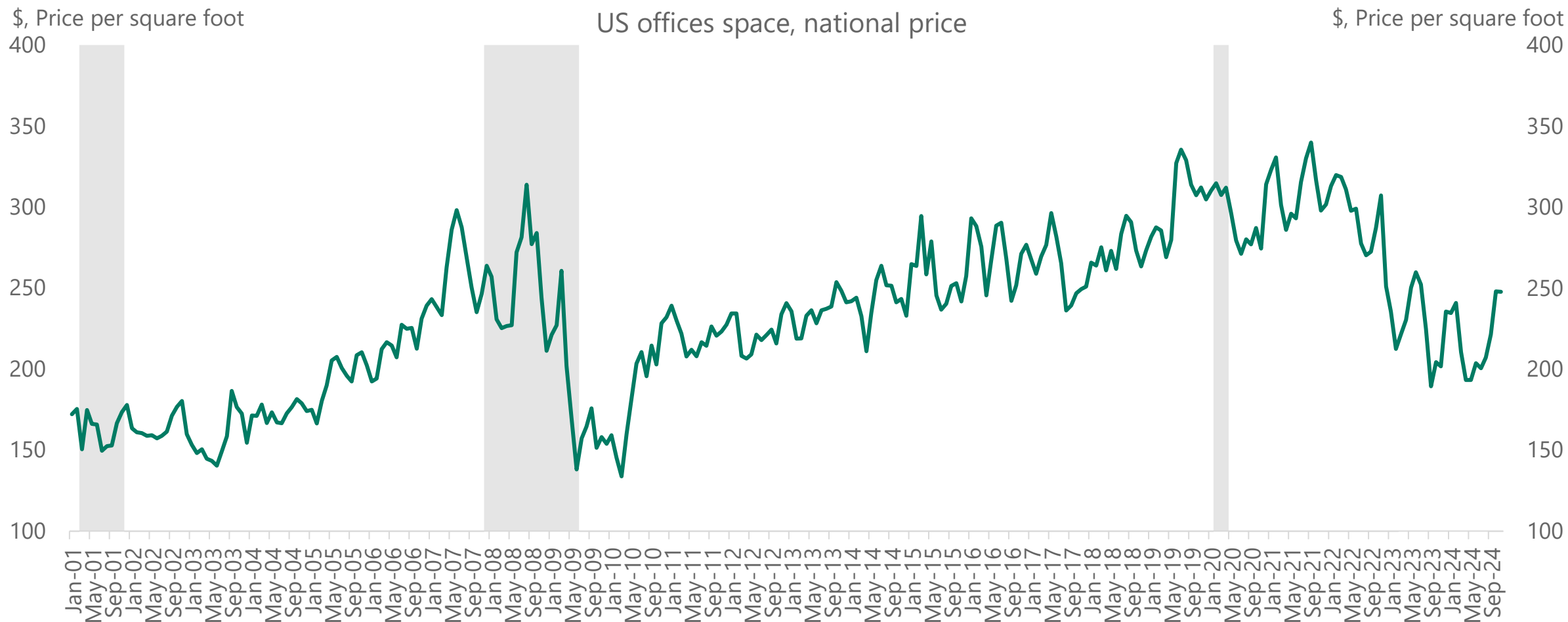


# Unrealized losses making up 15% of bank equity capital

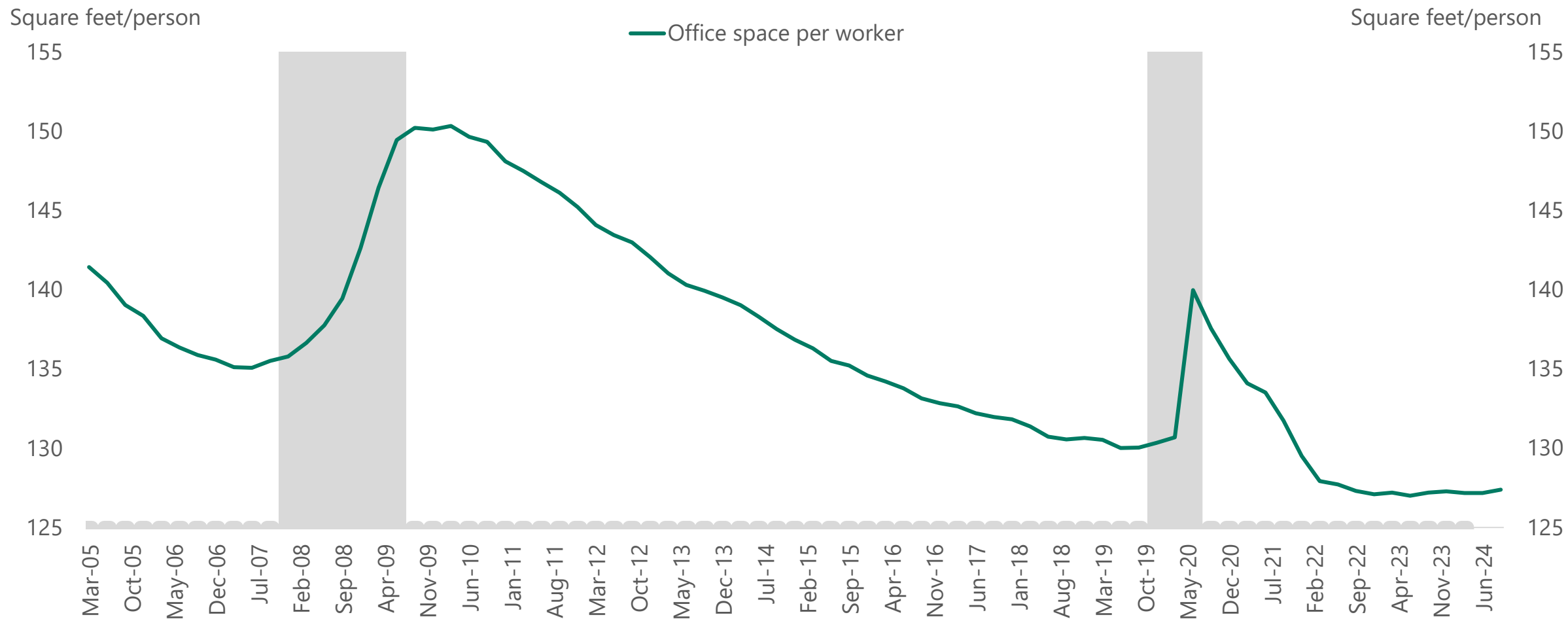


Source: FDIC, Haver Analytics, Apollo Chief Economist

# The nationwide price per square foot for US office is down 26% from the peak

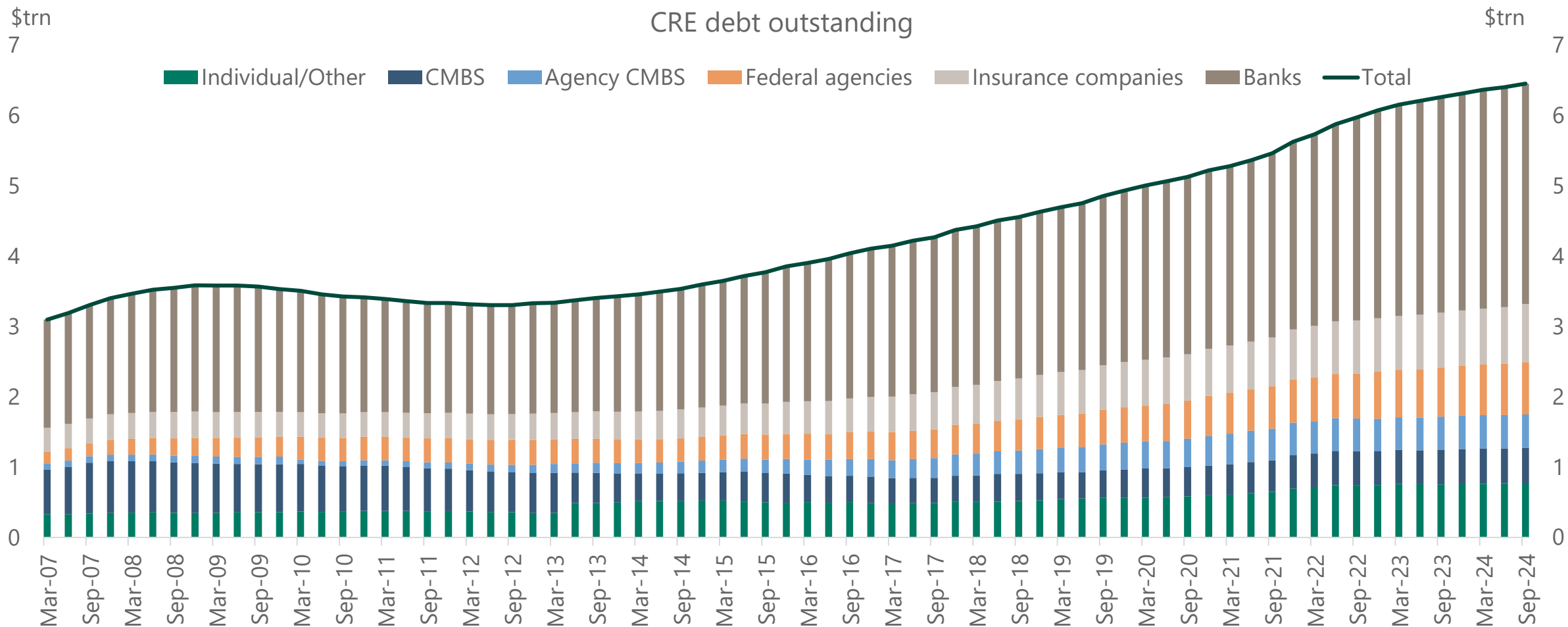


# The amount of office space per worker has been declining



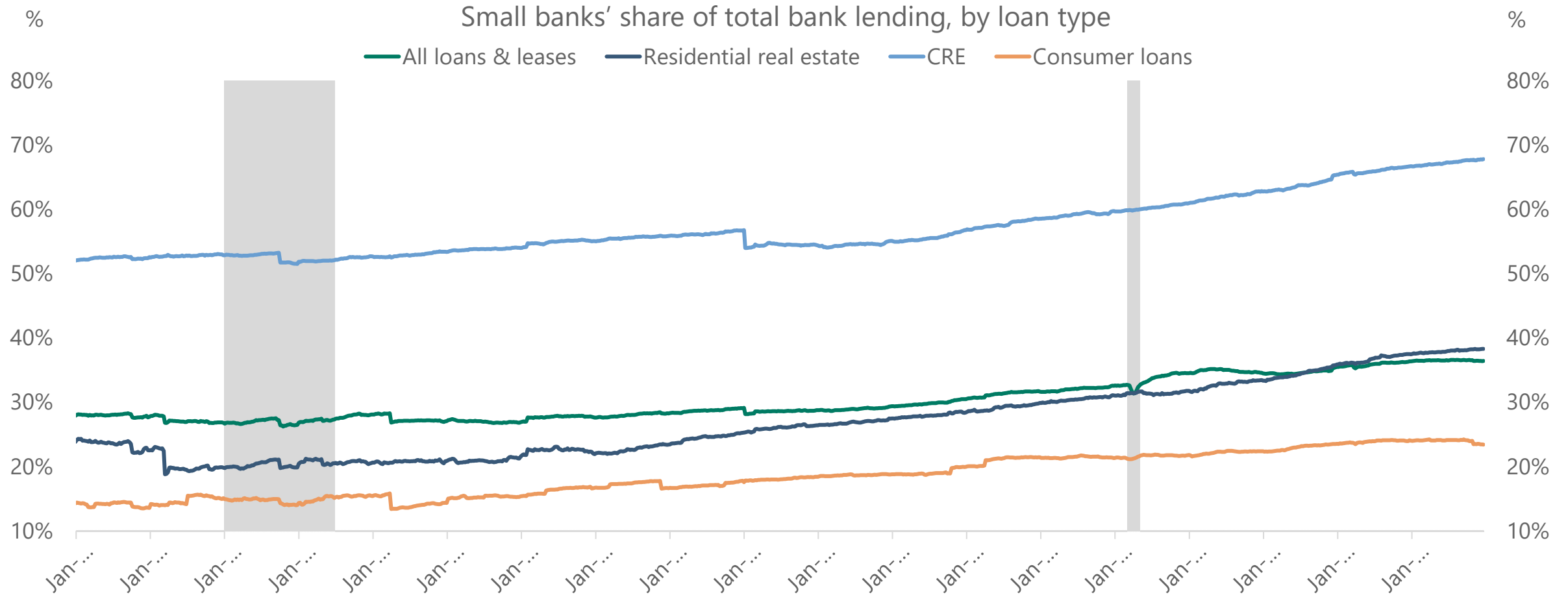
Source: REITS, BLS, Bloomberg, Apollo Chief Economist (Note: Office using employment includes professional and business services, Information and Financial activities)

# Banks hold half of all CRE debt outstanding



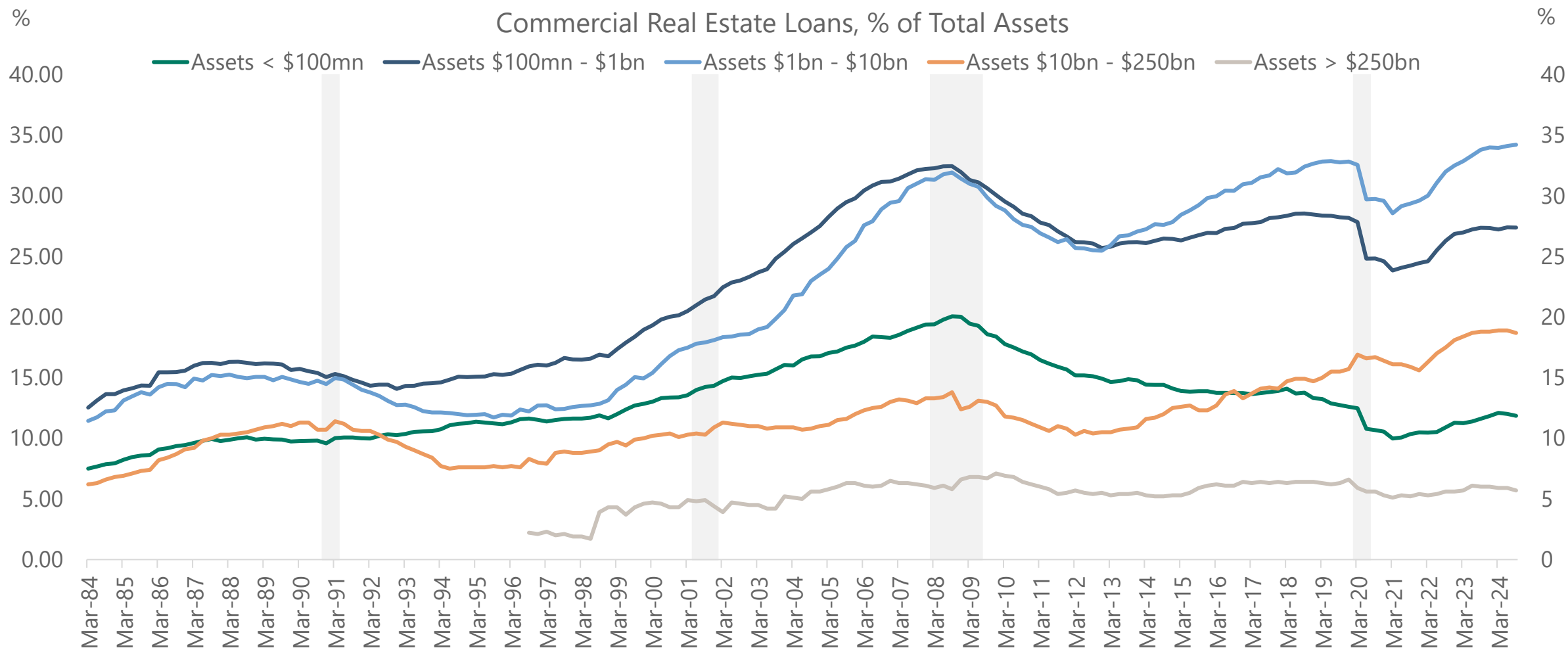
Source: FRB, Apollo Chief Economist

# Small banks account for almost 70% of all bank commercial real estate loans outstanding



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

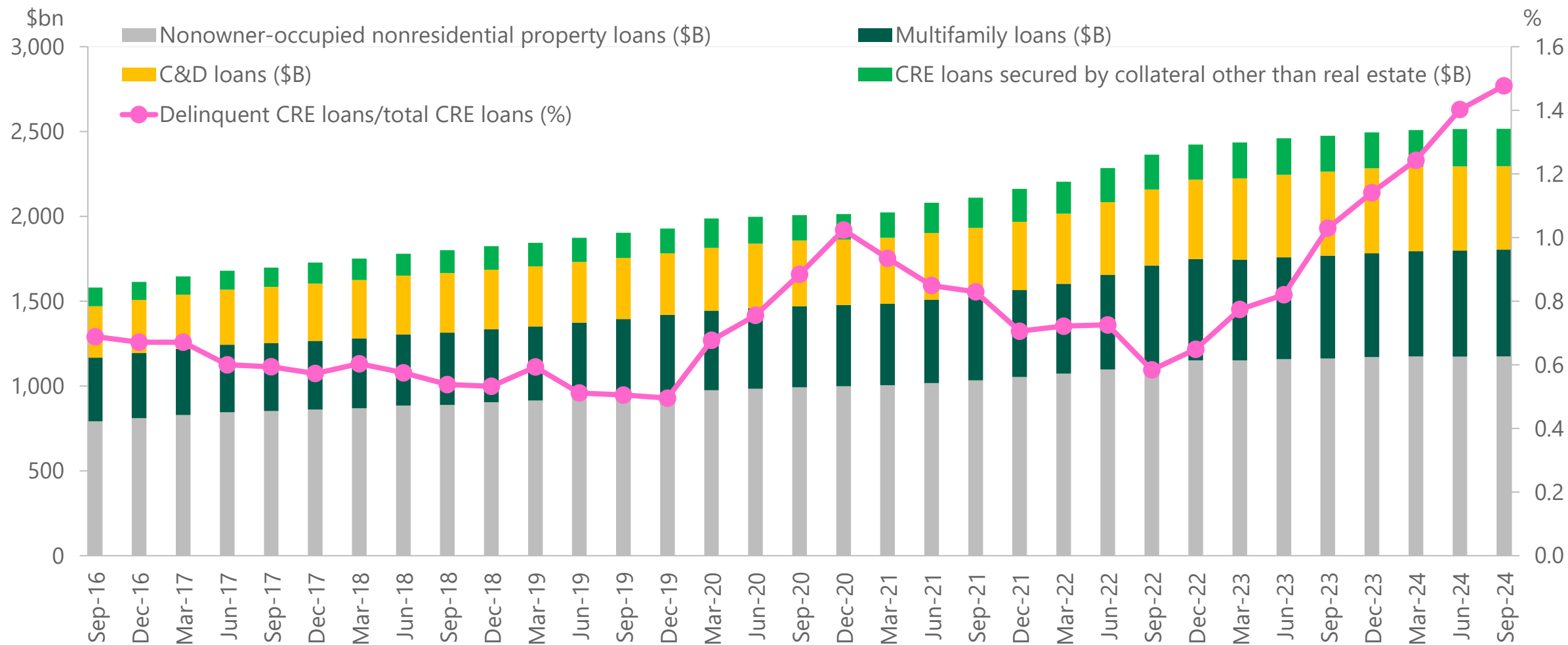
# Banks with total assets between \$100mn and \$10bn are more exposed to CRE loans



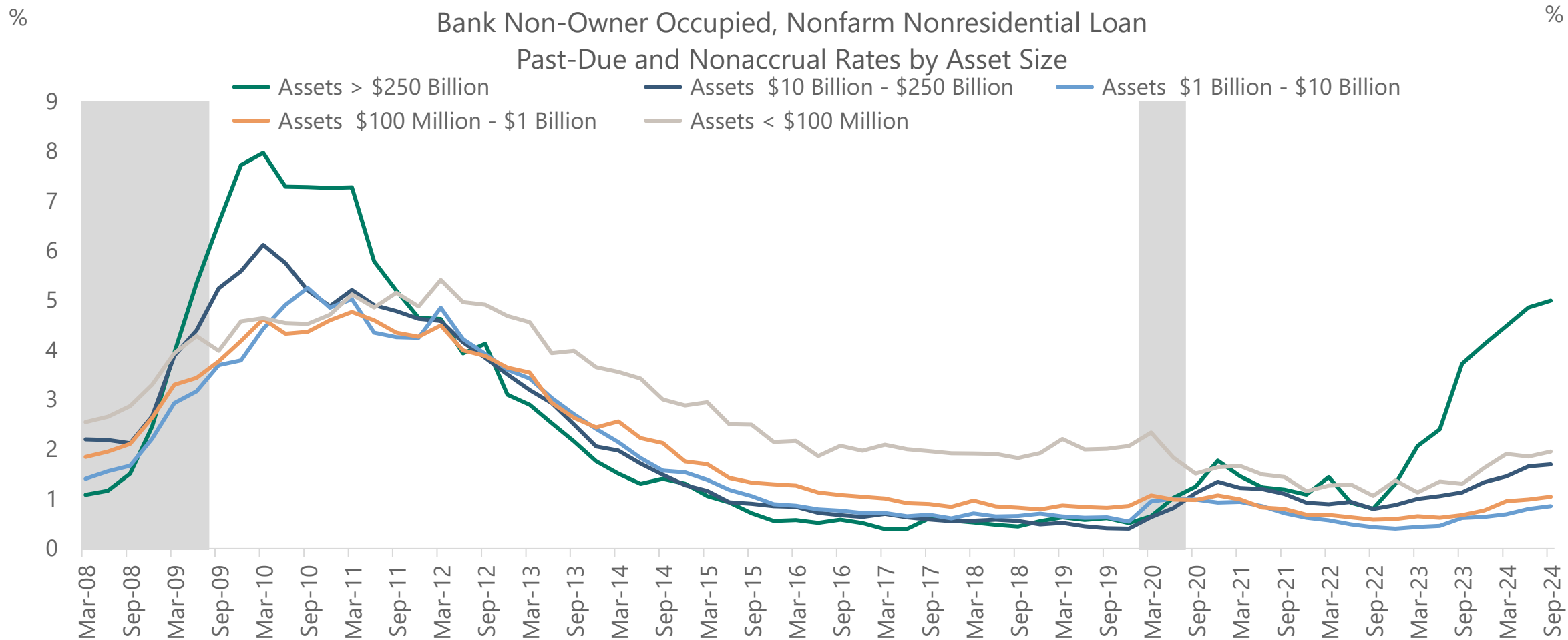
Source: FDIC, Apollo Chief Economist.



# CRE composition and delinquency at US banks



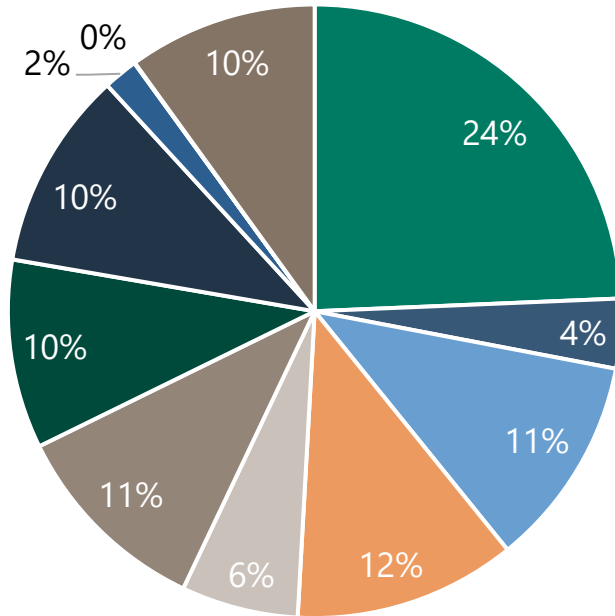
# Non-owner-occupied CRE past-due



Source: FDIC, Apollo Chief Economist (PDNA stands for Past due and non-accrual rate defined as loans that are past due and are in non-accrual status)

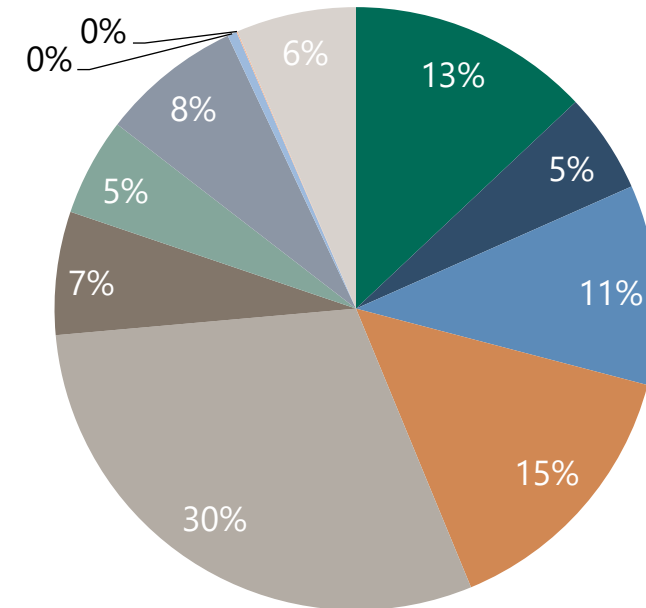
# Important differences between the balance sheet of regional banks and money center banks

Composition of **large** domestically chartered commercial bank assets



- Treasury and agency securities
- C & I Loans
- Commercial Real Estate Loans
- All Other Loans
- Fed Funds & RRP
- Other Assets including trading assets
- Other Securities
- Residential Real Estate Loans
- Consumer Loans
- Cash Assets
- Interbank Loans

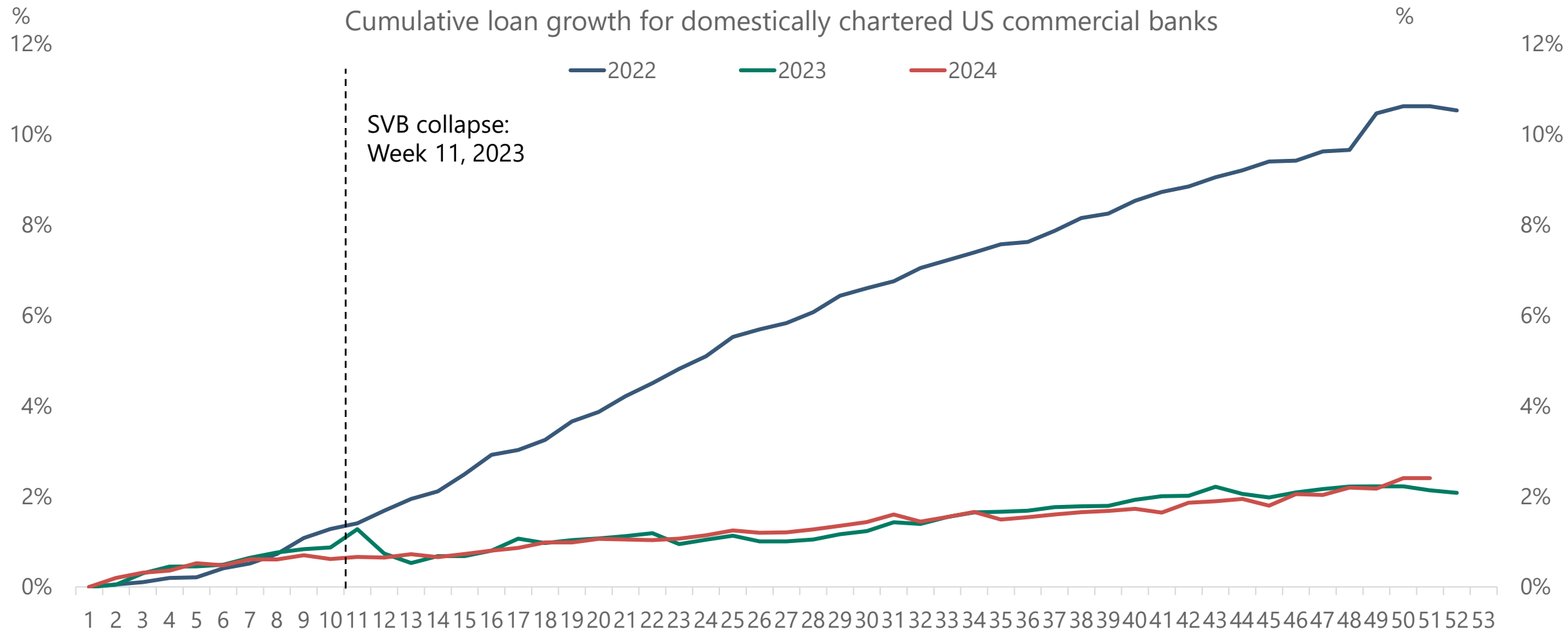
Composition of **small** domestically chartered commercial bank assets



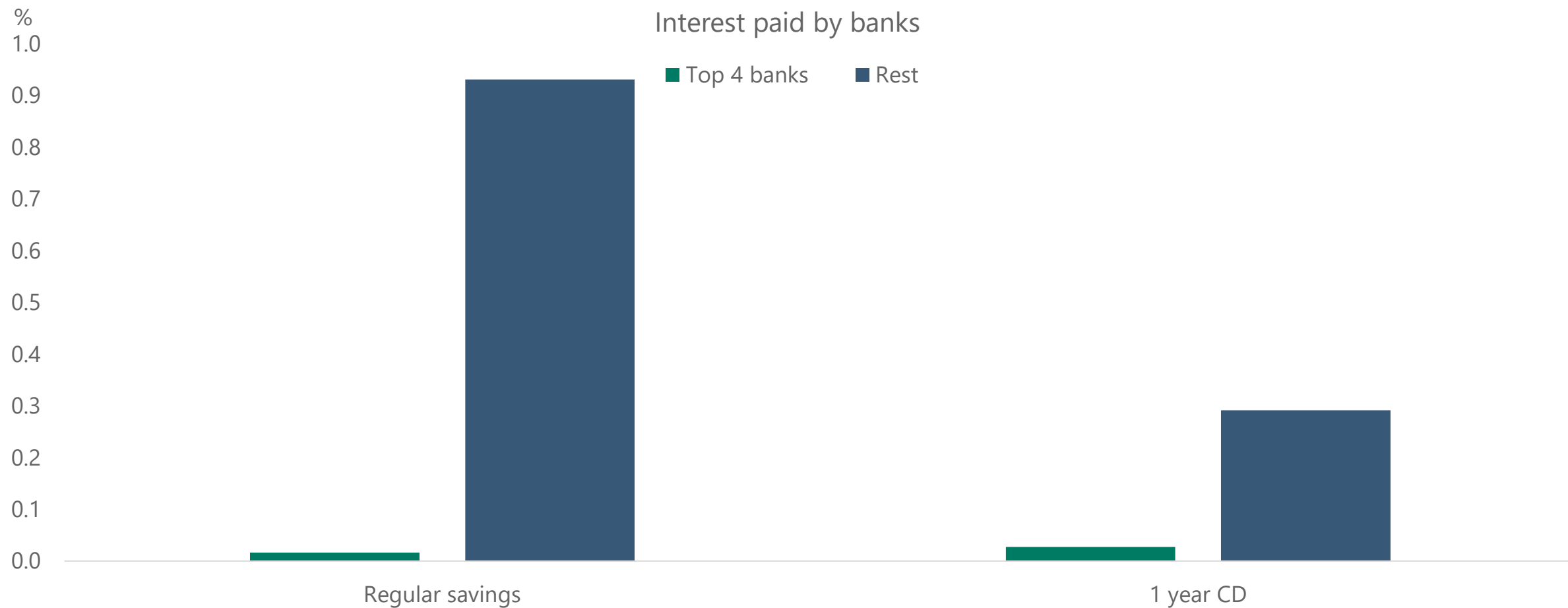
- Treasury and agency securities
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- Consumer Loans
- Cash Assets
- Interbank Loans

Before and after SVB

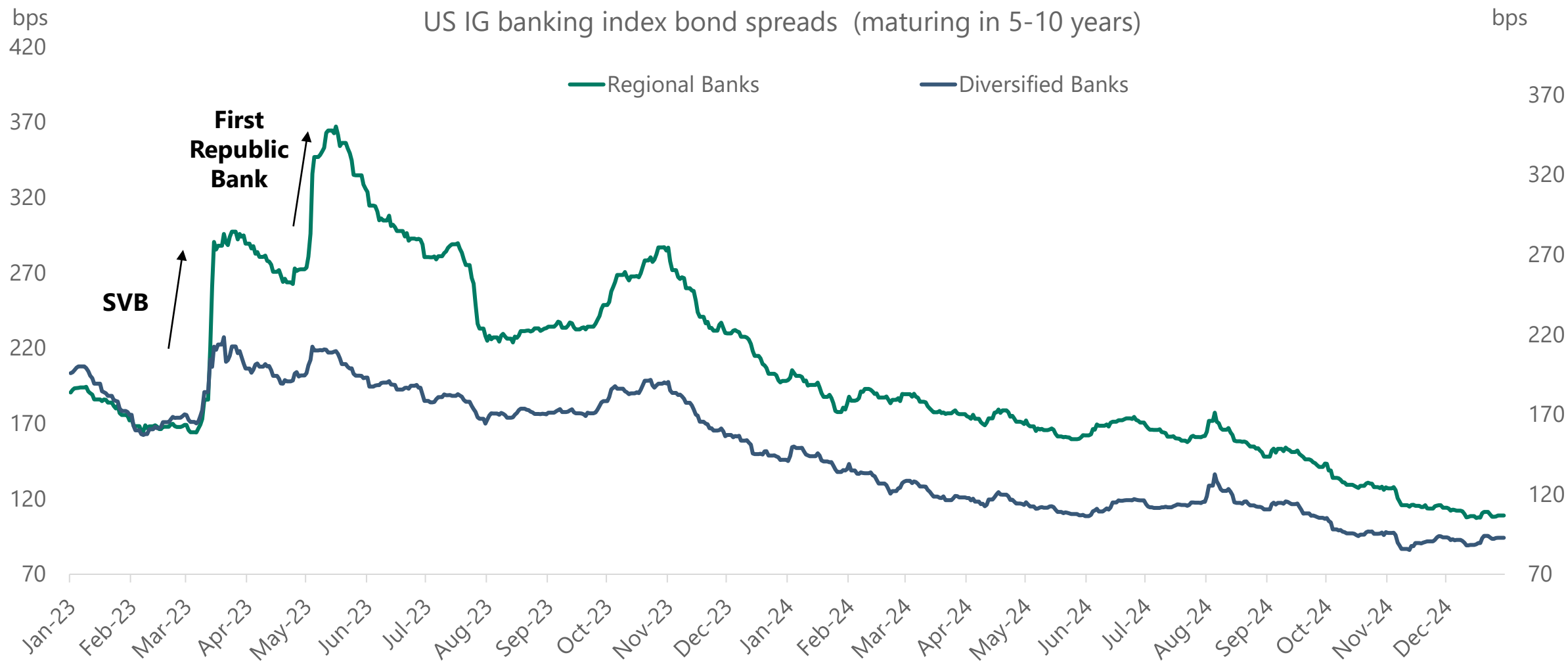
# SVB having a permanent effect on the banking sector



# Top 4 banks pay lower interest rates to households

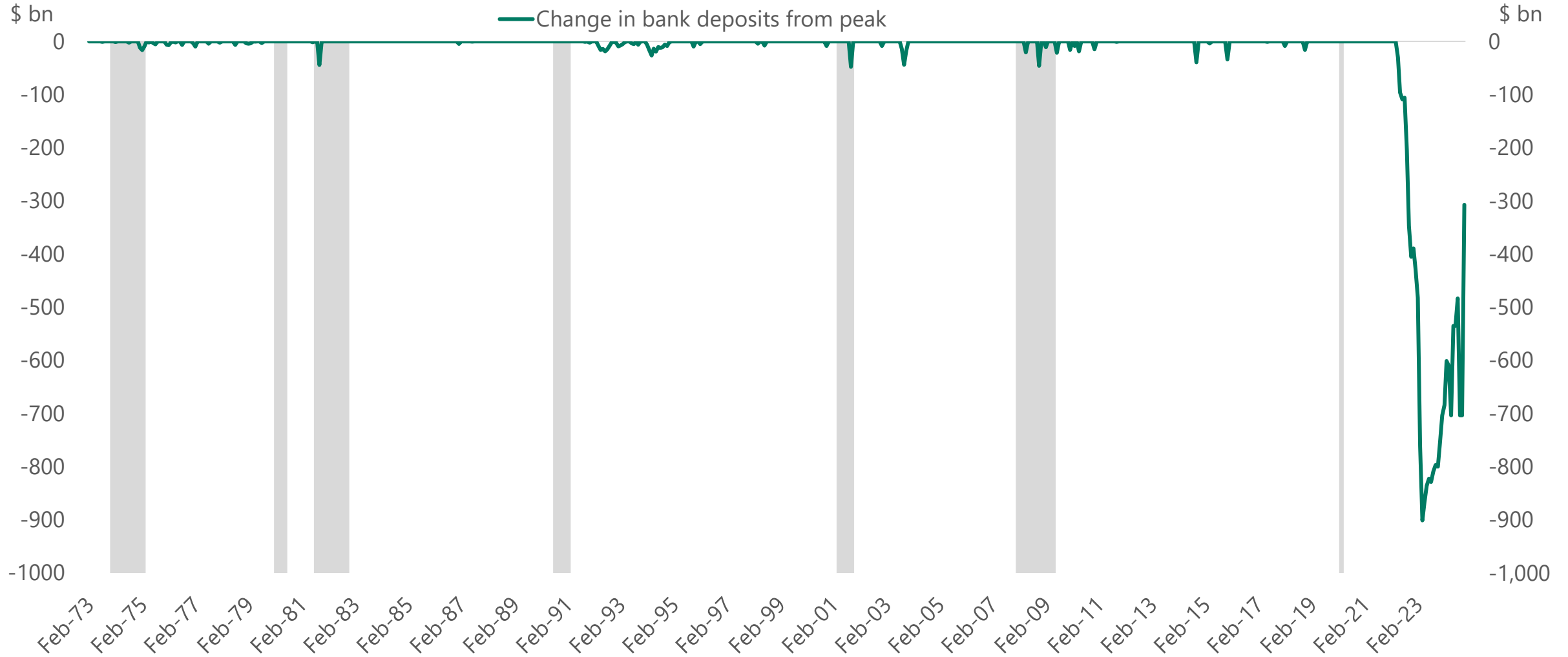


# Funding costs higher for regional banks since SVB and FRB



Source: ICE BofA, Bloomberg, Apollo Chief Economist. Note: Unweighted average spreads of bonds from ICE 5-10 Year US Banking Index, C6PX Index for bonds issued before 1st Jan 2023. There are 8 banks in the Regional index and 41 banks in the Diversified index, and Regional banks include BankUnited, Citizens Financial, Huntington, and Zions, and Diversified banks includes JP Morgan, Citibank, and Bank of America.

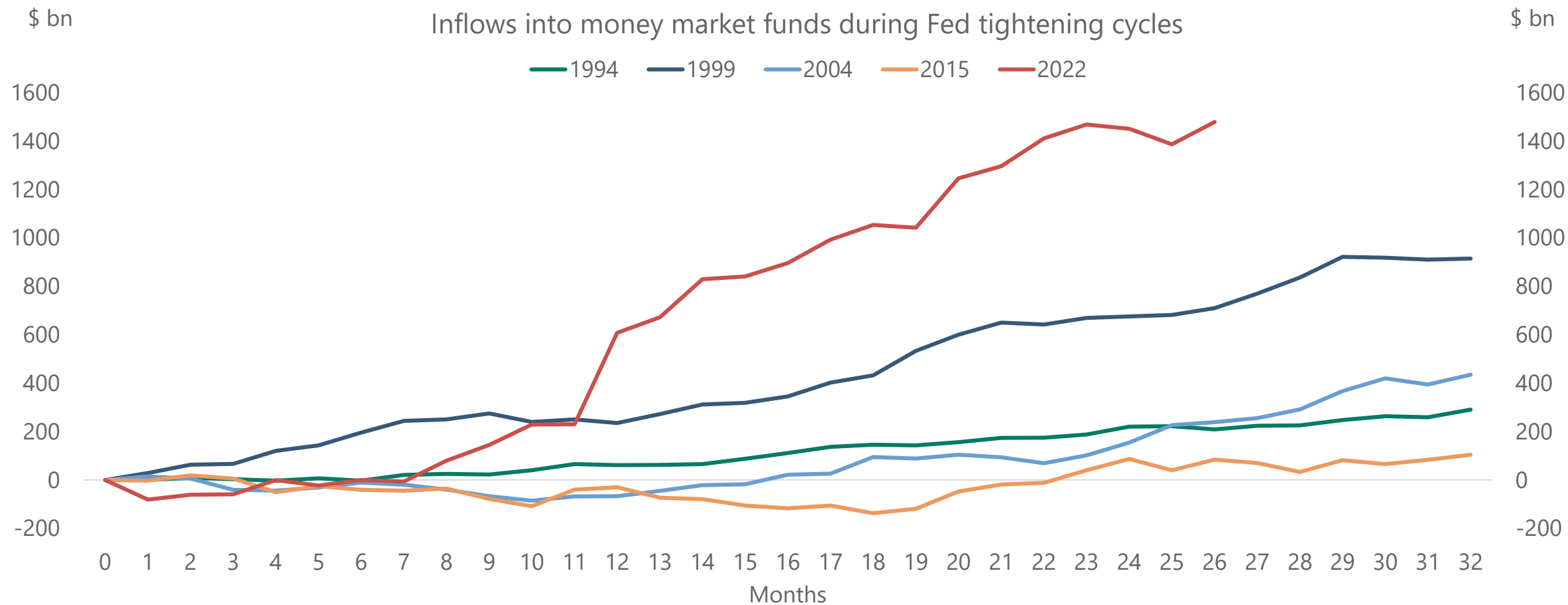
# \$300bn in deposits have left the banking sector since the Fed began to raise interest rates



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist. Note: Peak is defined as the month before monthly outflows turn negative

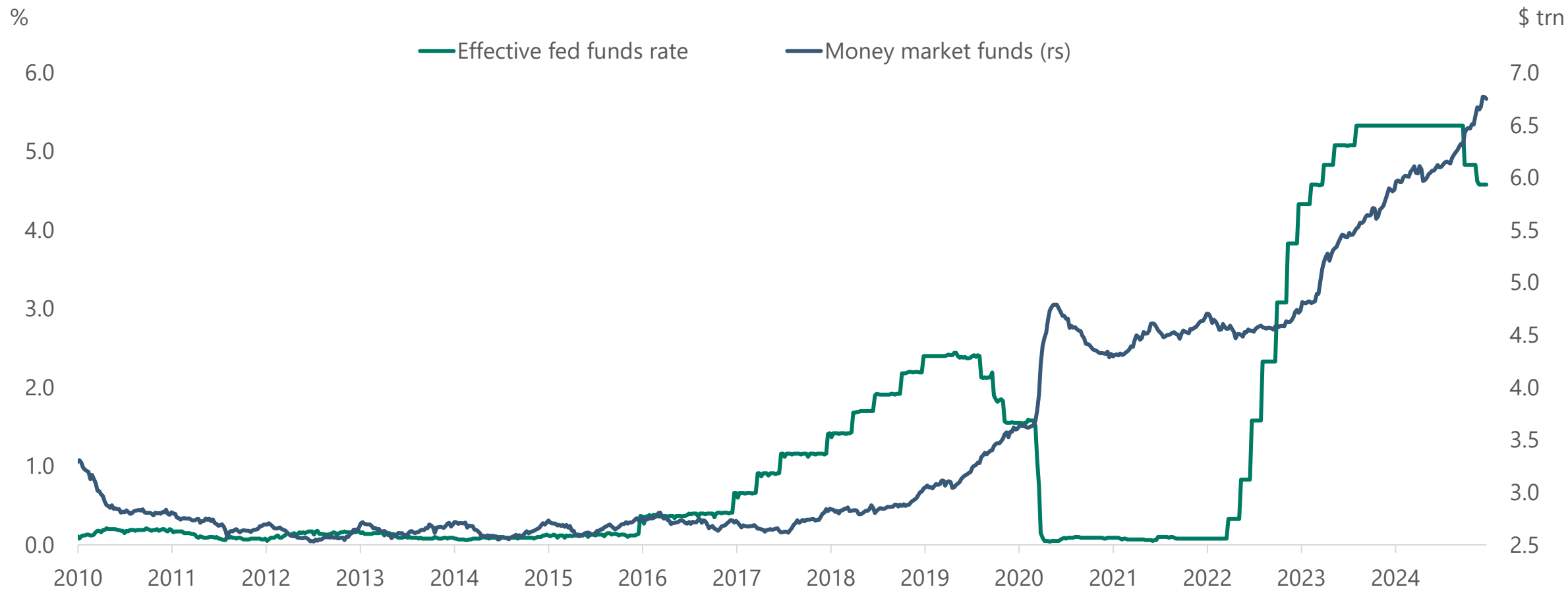


# \$1.5trn has flowed into money market funds during this Fed hiking cycle

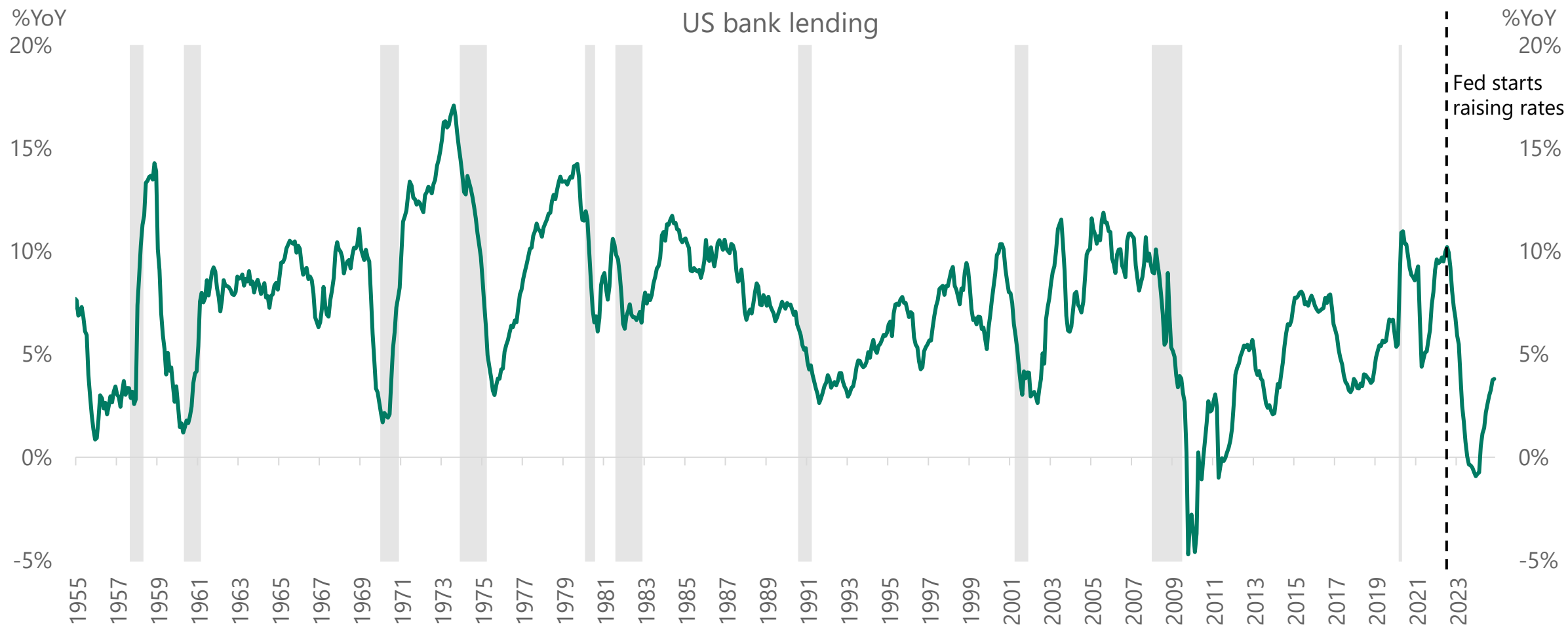


Source: FRB, ICI, Bloomberg, Apollo Chief Economist.

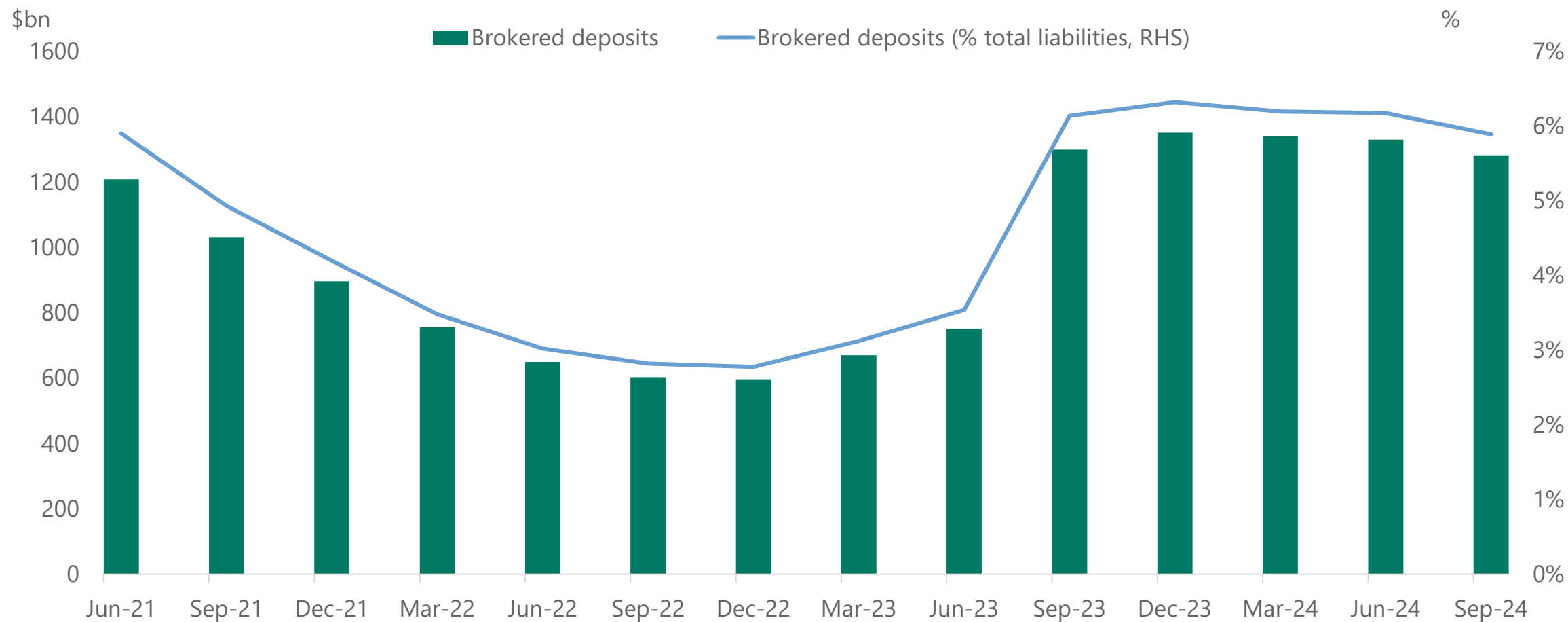
# Money market funds and the Fed funds rate



# US bank lending

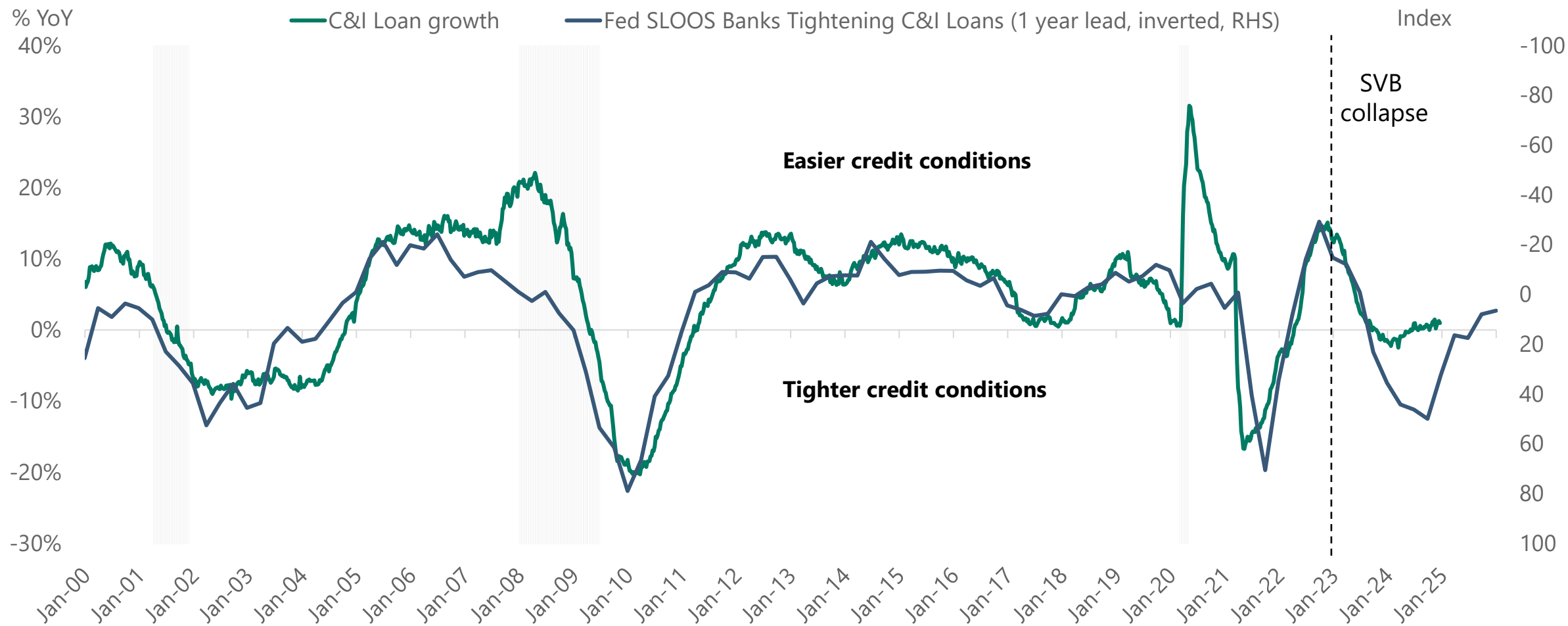


# Brokered deposits rising in US banks



Source: S&P CapitalIQ Pro, Apollo Chief Economist. Note: Brokered deposits represent funds which the reporting bank obtains, directly or indirectly, by or through any deposit broker for deposit into one or more deposit accounts. Thus, brokered deposits include both those in which the entire beneficial interest in a given bank deposit account or instrument is held by a single depositor and those in which the deposit broker sells participations in a given bank deposit account or instrument to one or more investors.

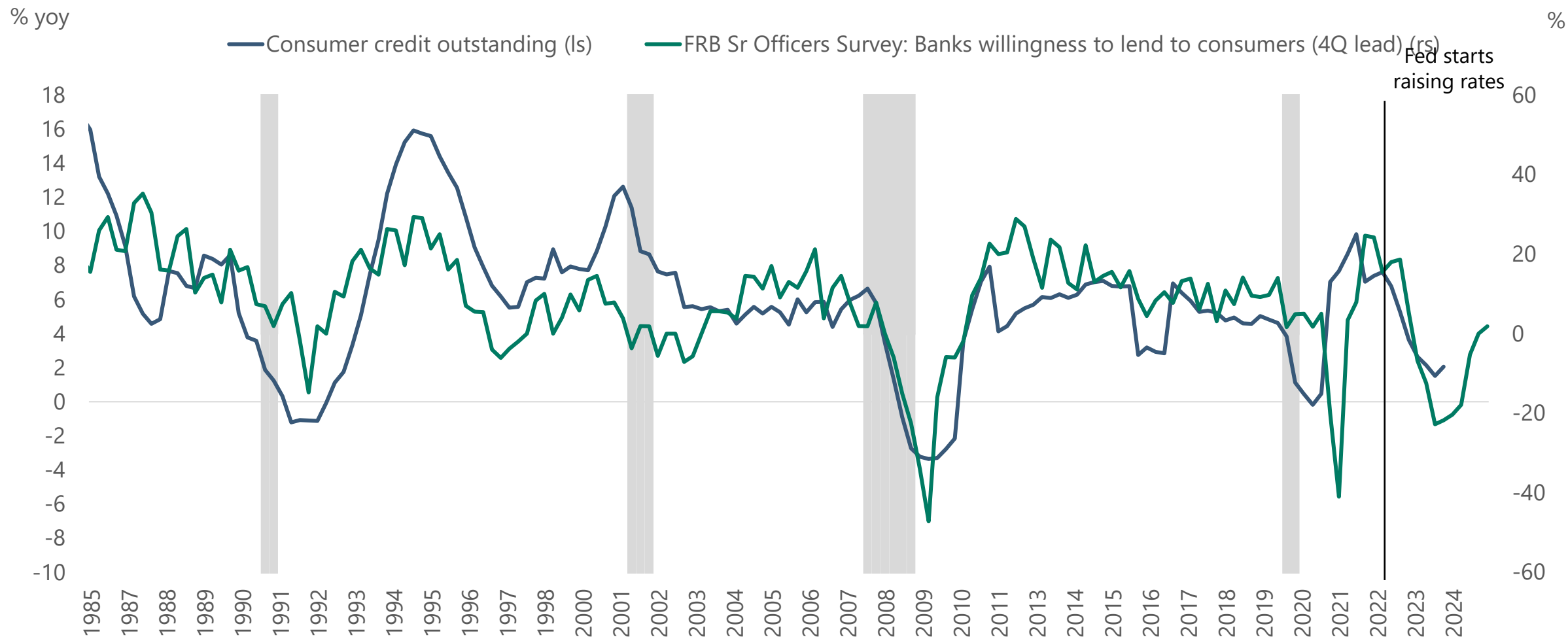
# Bank lending gradually improving



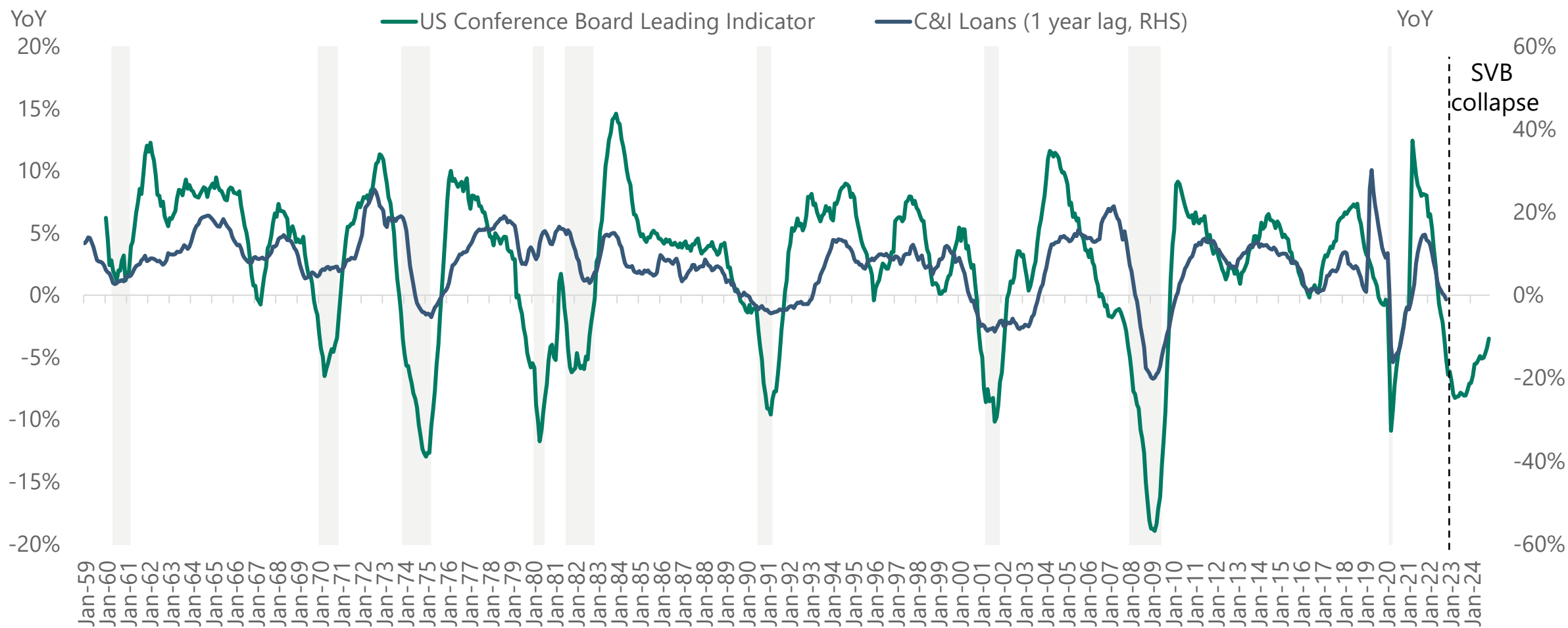
# Easing credit conditions is an upside risk to payrolls



# Improving credit conditions is an upside risk to consumer credit

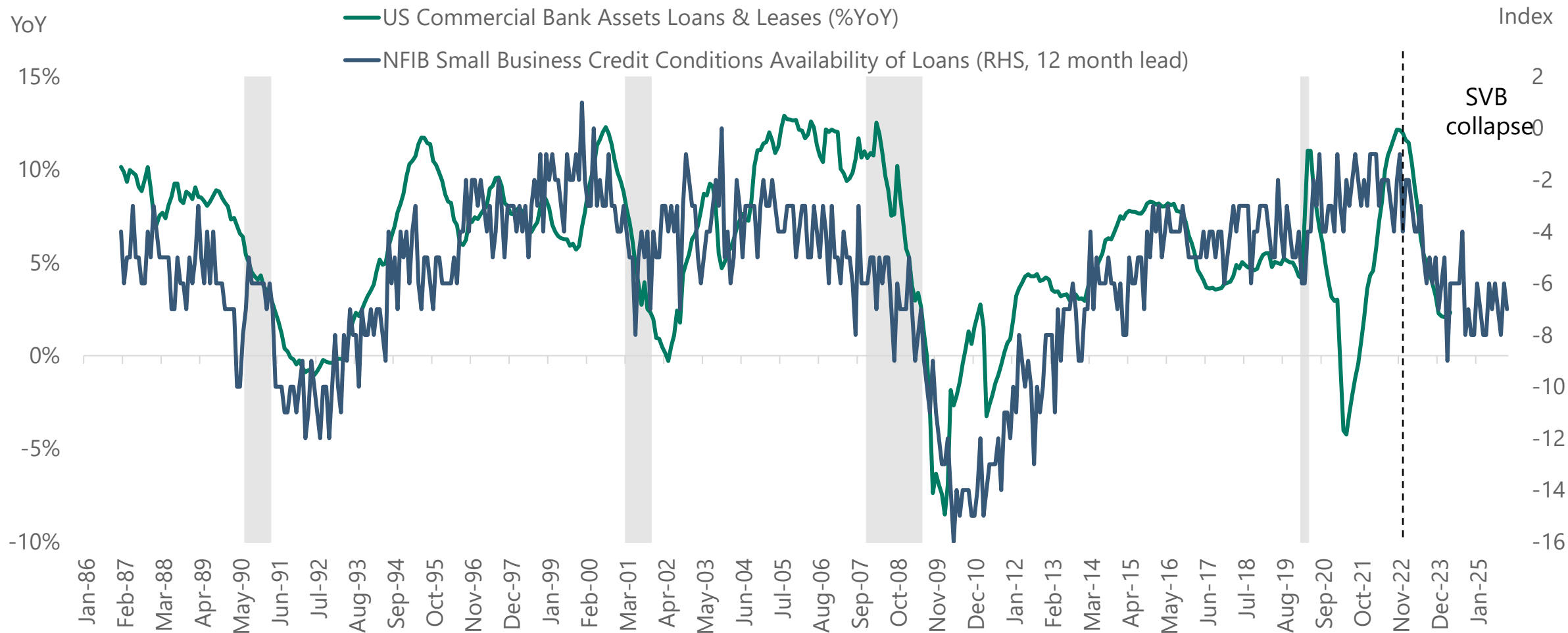


# Improving credit conditions should be positive for credit growth

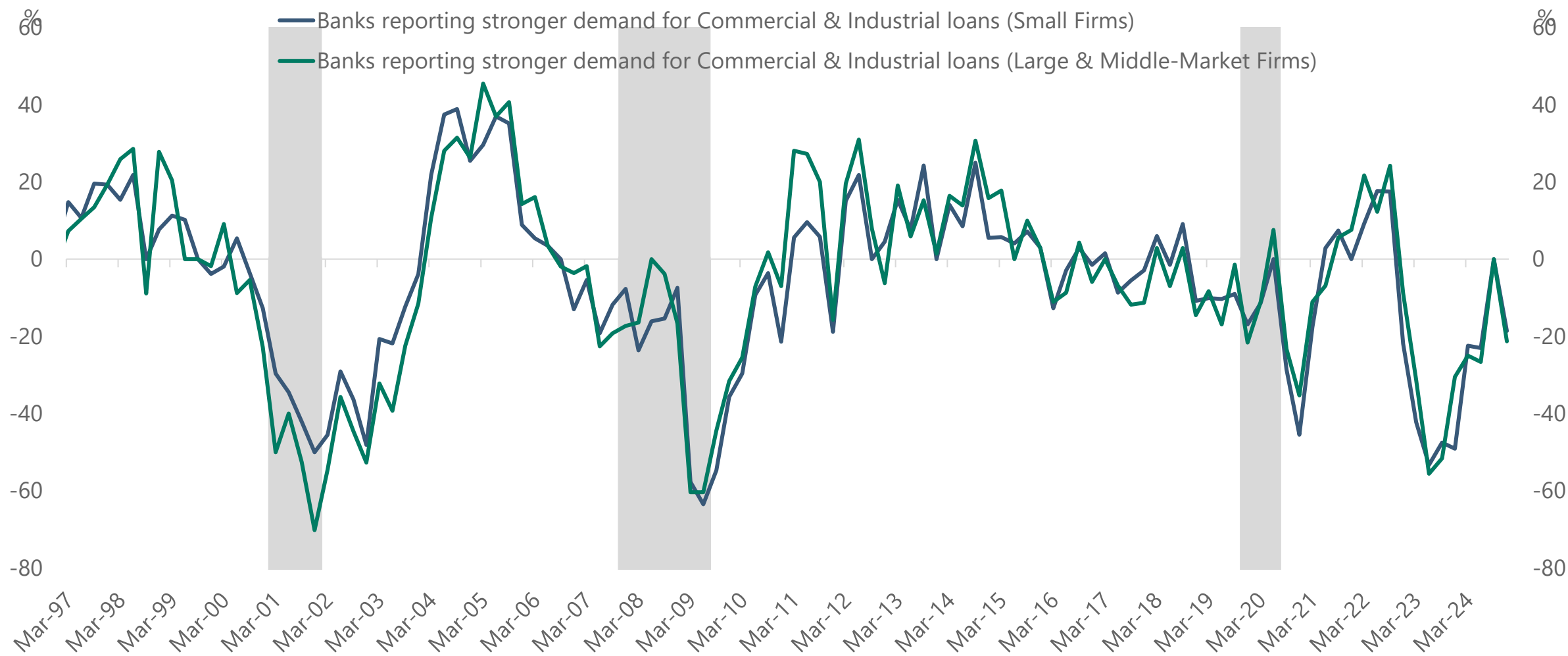




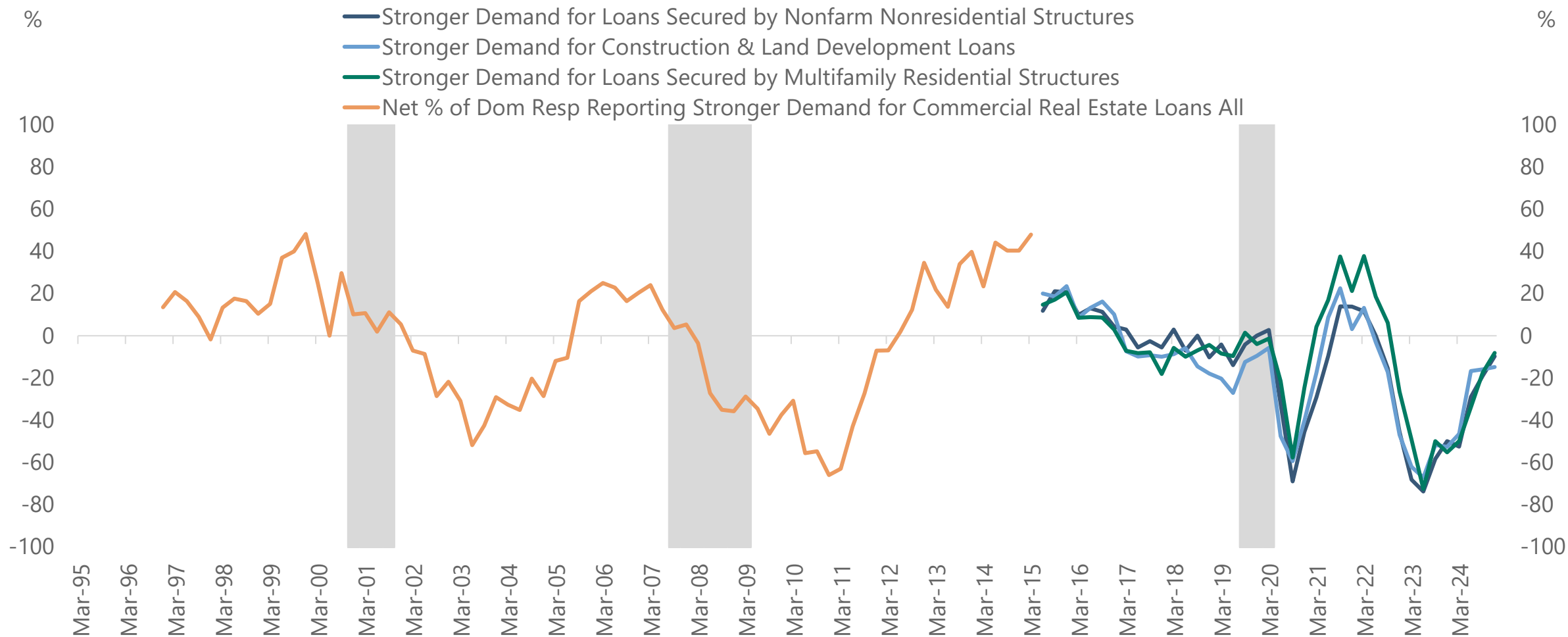
# Signs of bottom in credit conditions



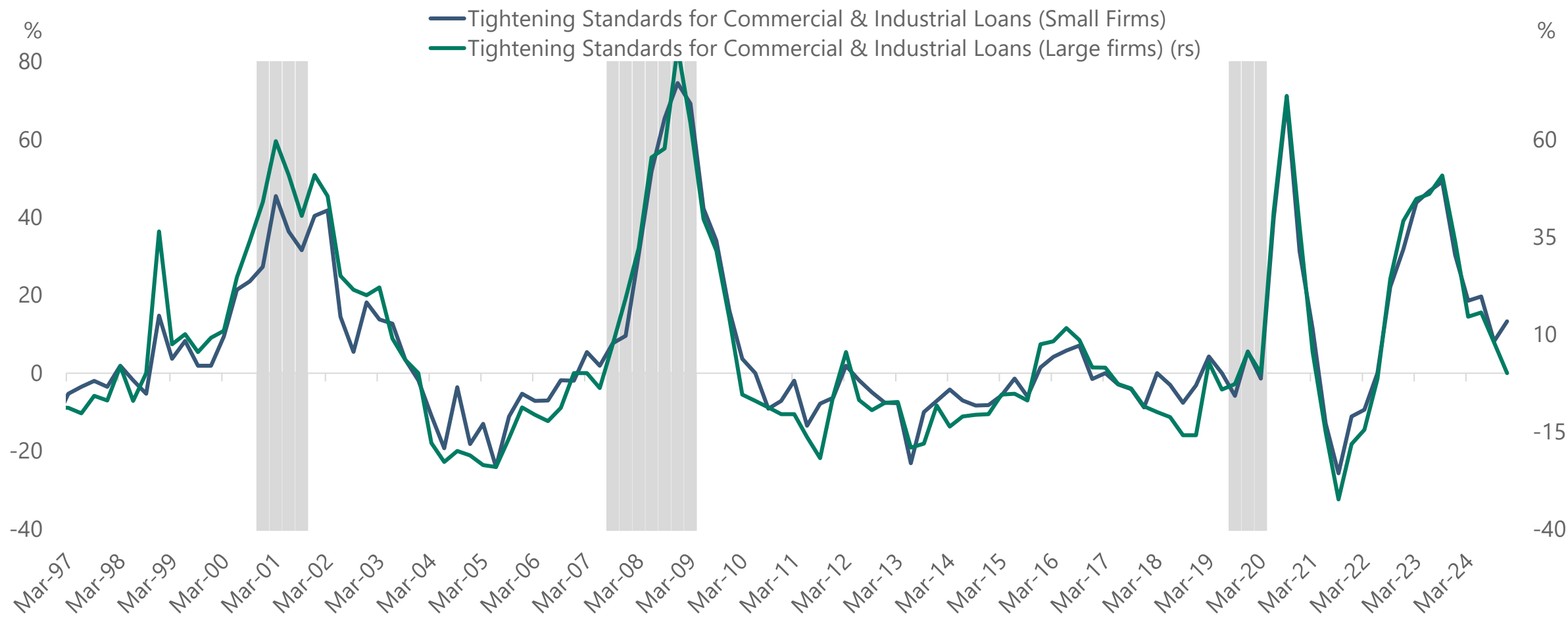
# Demand for corporate loans



# Demand for commercial real estate loans improving

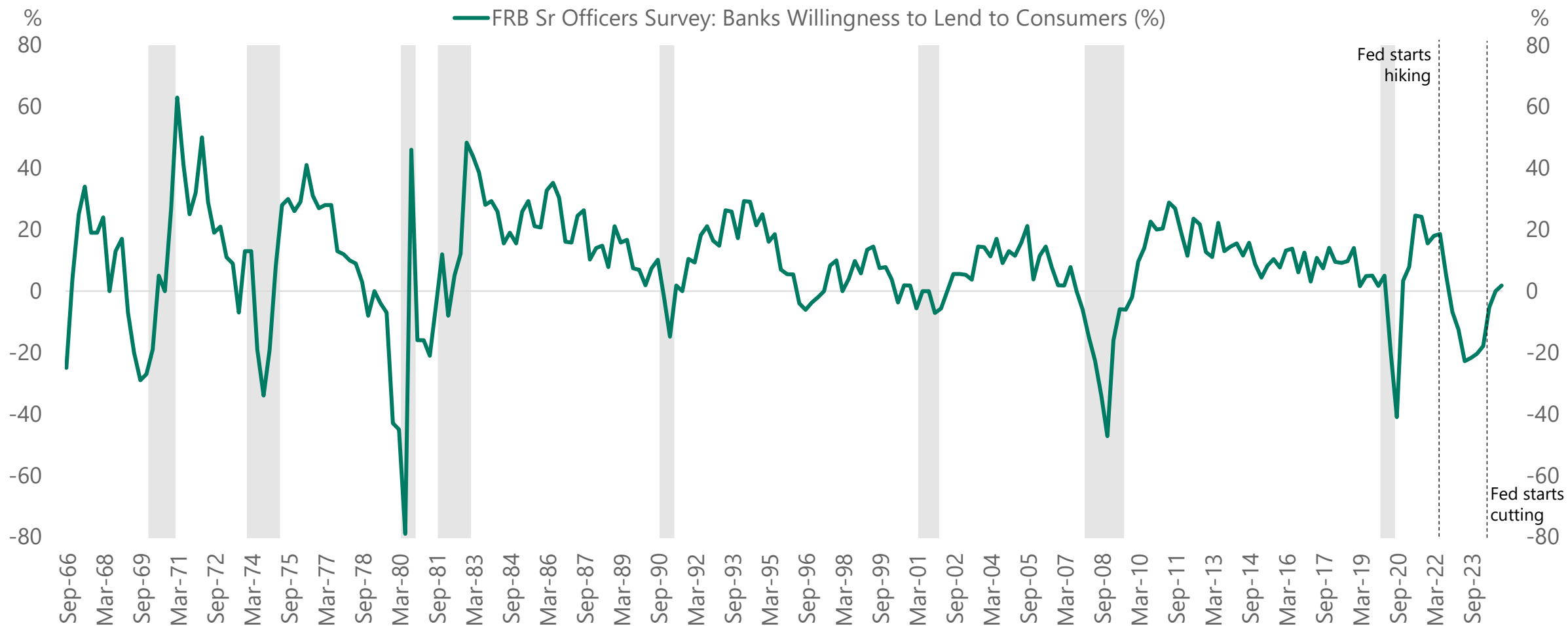


# Lending standards improving



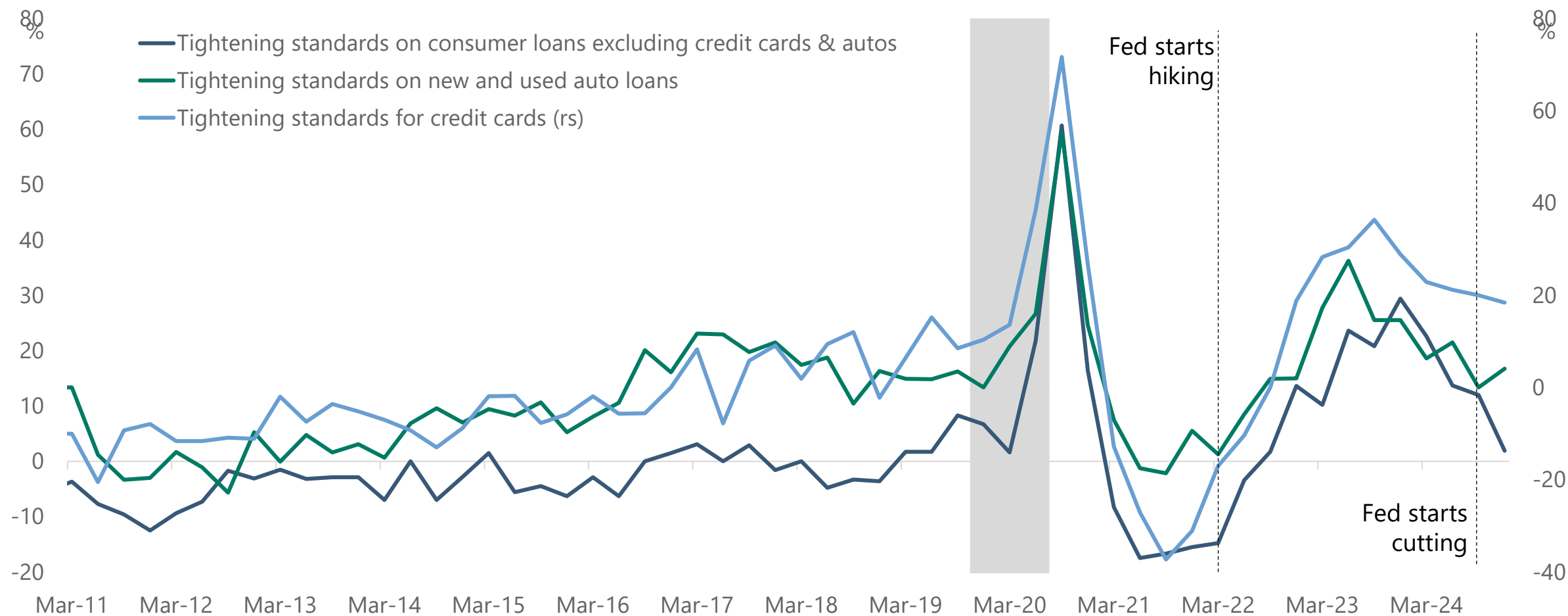
Source: FRB, Bloomberg, Apollo Chief Economist.

# Banks more willing to lend to consumers



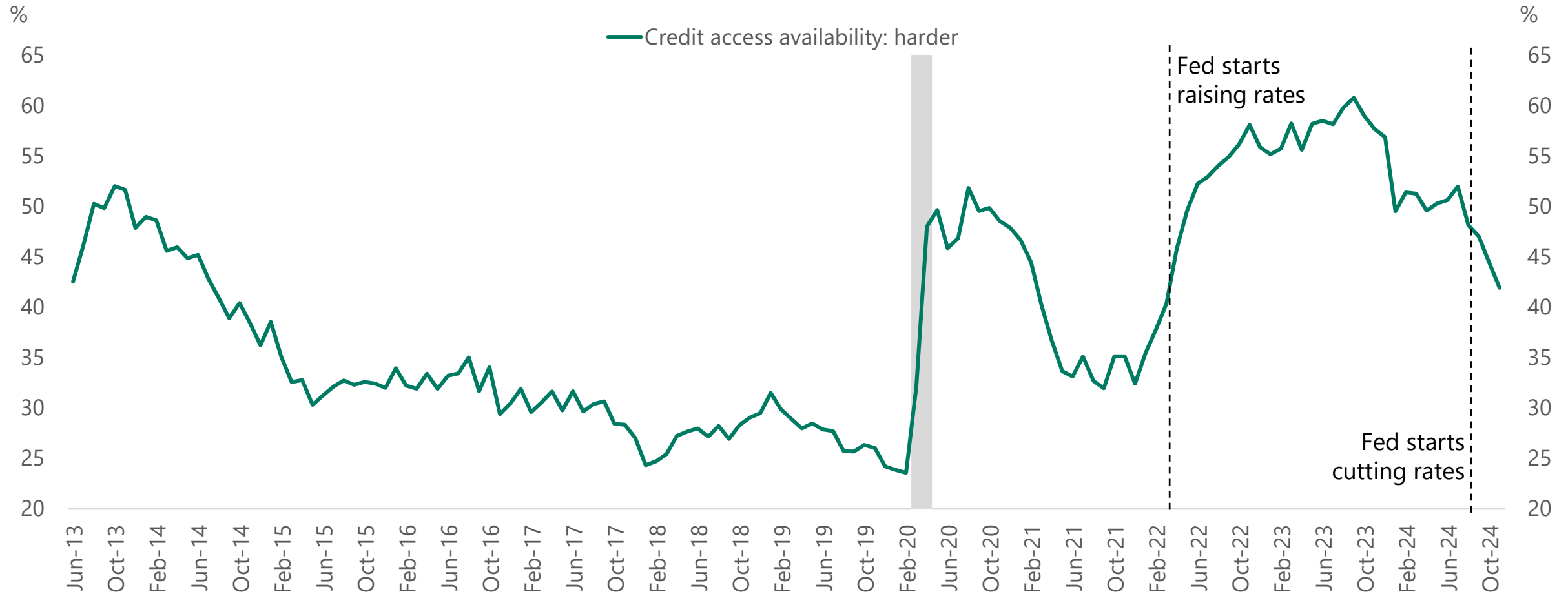
Source: FRB, Bloomberg, Apollo Chief Economist.

# Lending standards for consumers starting to improve



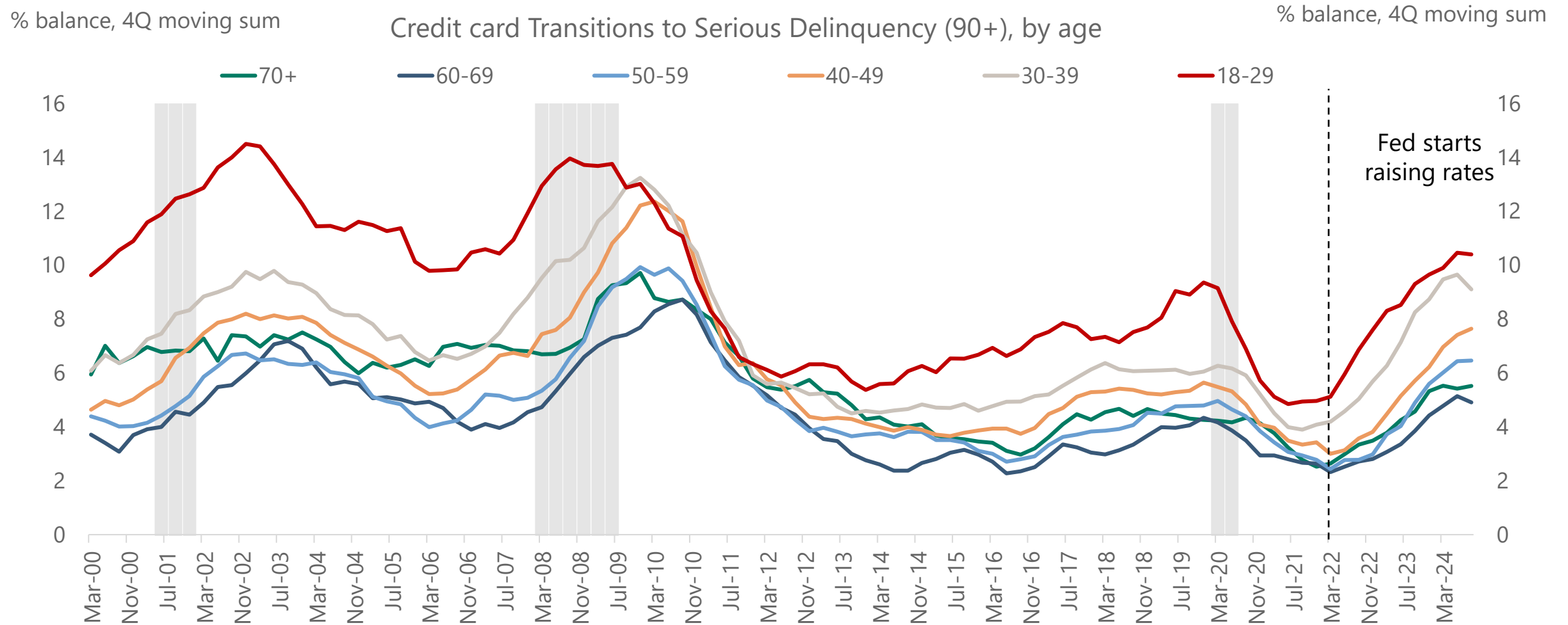
Source: FRB, Bloomberg, Apollo Chief Economist.

# The share of households reporting it is harder to obtain credit than one year ago



Source: FRBNY, Haver Analytics, Apollo Chief Economist (Harder = much harder + somewhat harder)

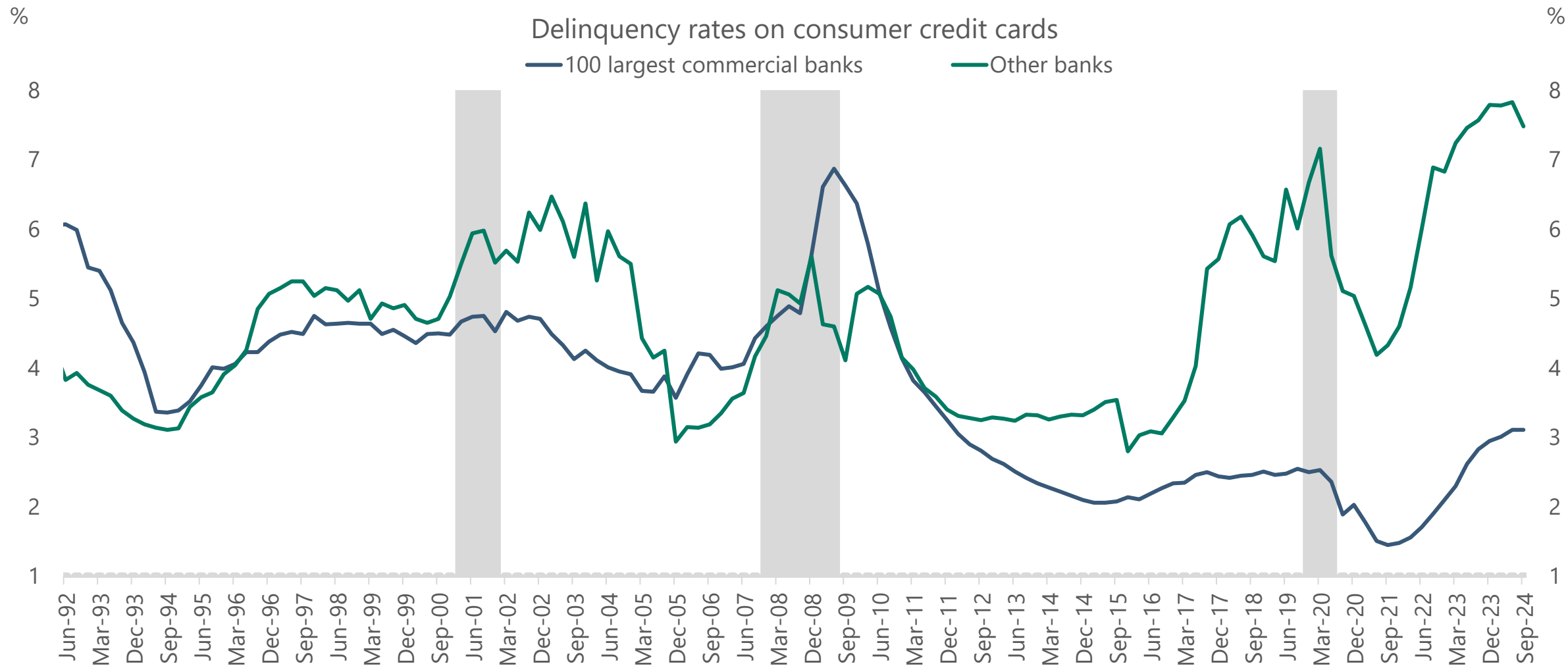
# Credit card delinquency rates rising



Source: New York Fed Consumer Credit Panel / Equifax, Apollo Chief Economist



# Credit card delinquency rates at small banks are much higher than at large banks

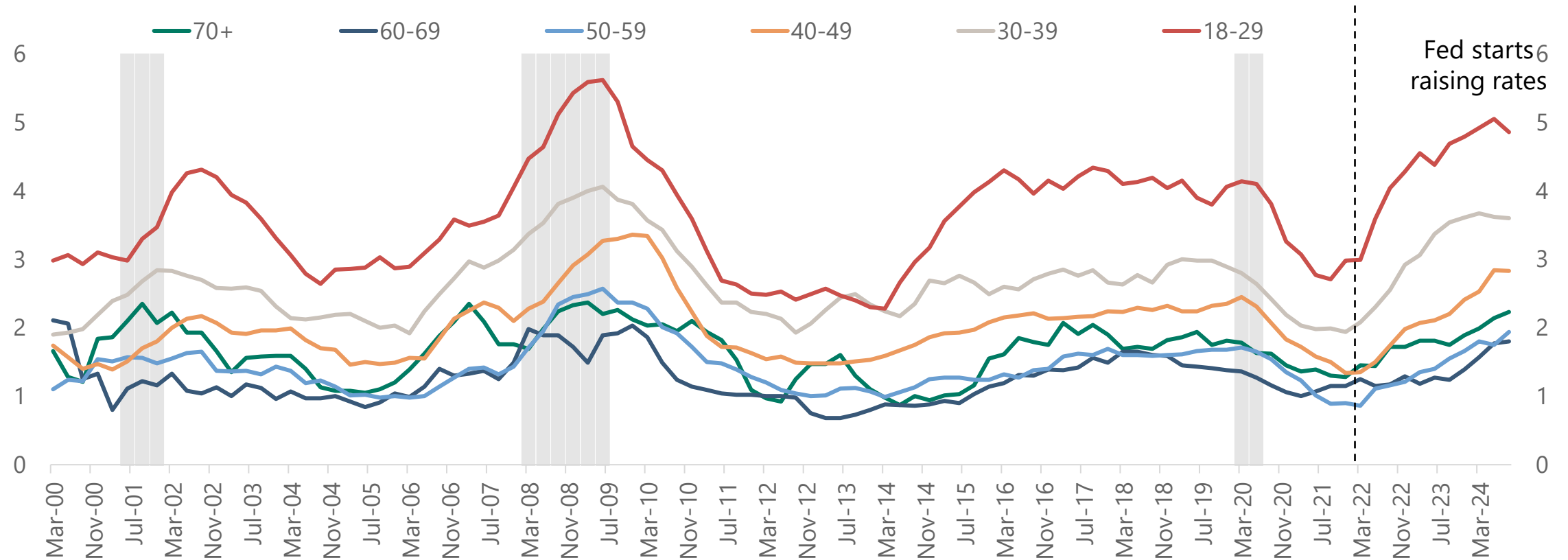


# Auto loan transitions to serious delinquency at 2008 levels

% balance, 4Q moving sum

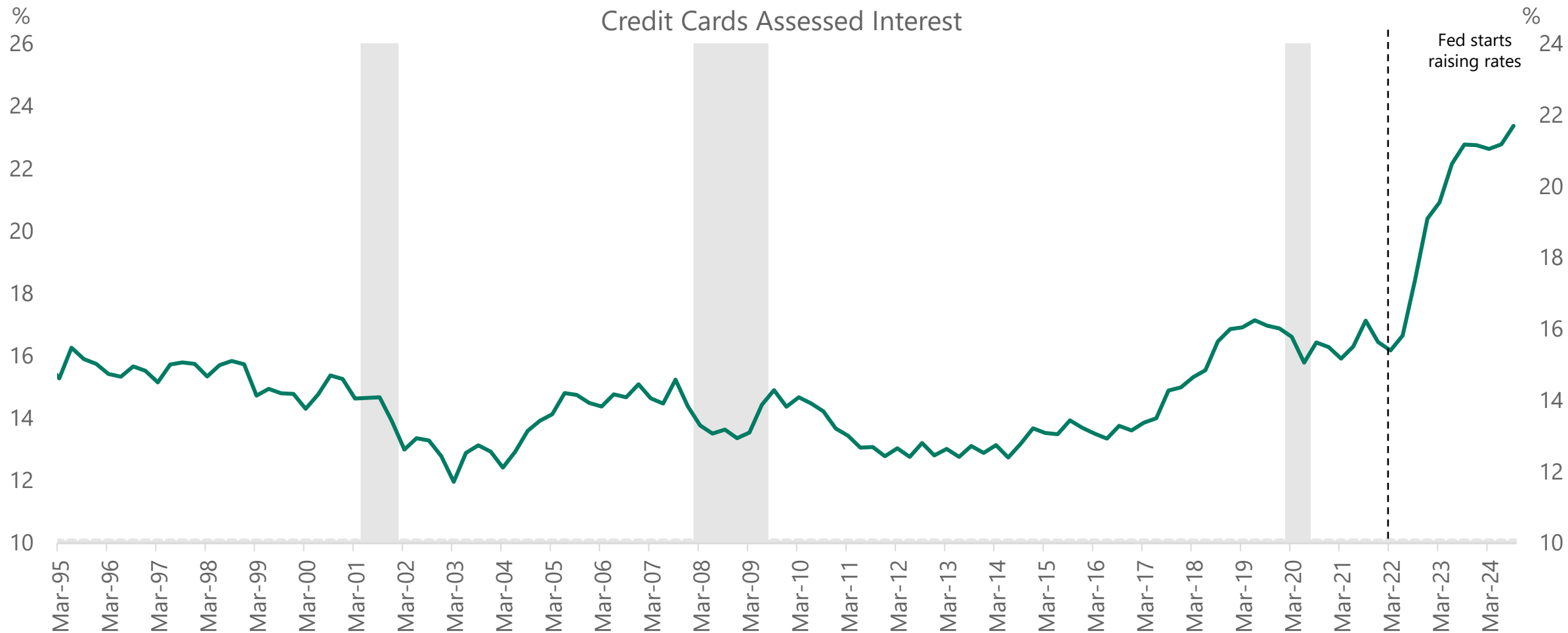
Auto Loan Transitions to Serious Delinquency (90+), by age

% balance, 4Q moving sum

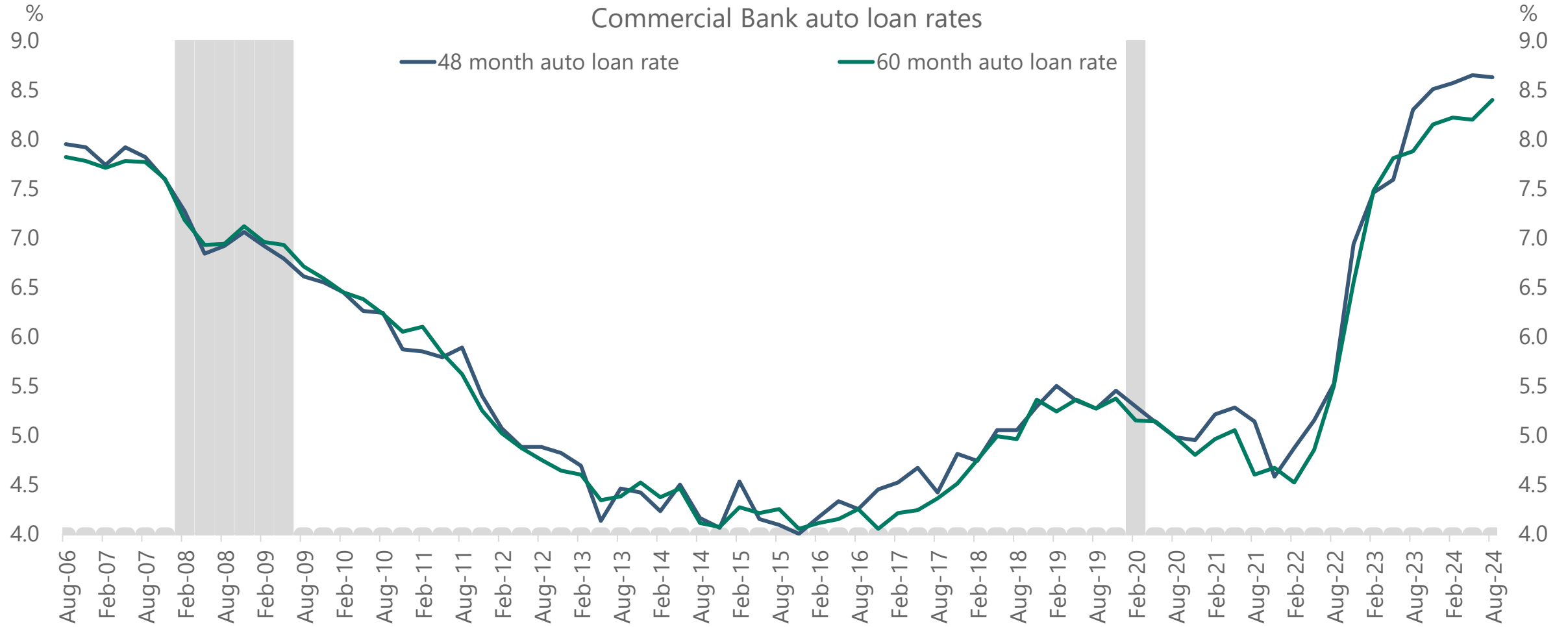


Source: FRBNY Consumer Credit Panel, Equifax, Haver Analytics, Apollo Chief Economist

# Interest rate on credit cards

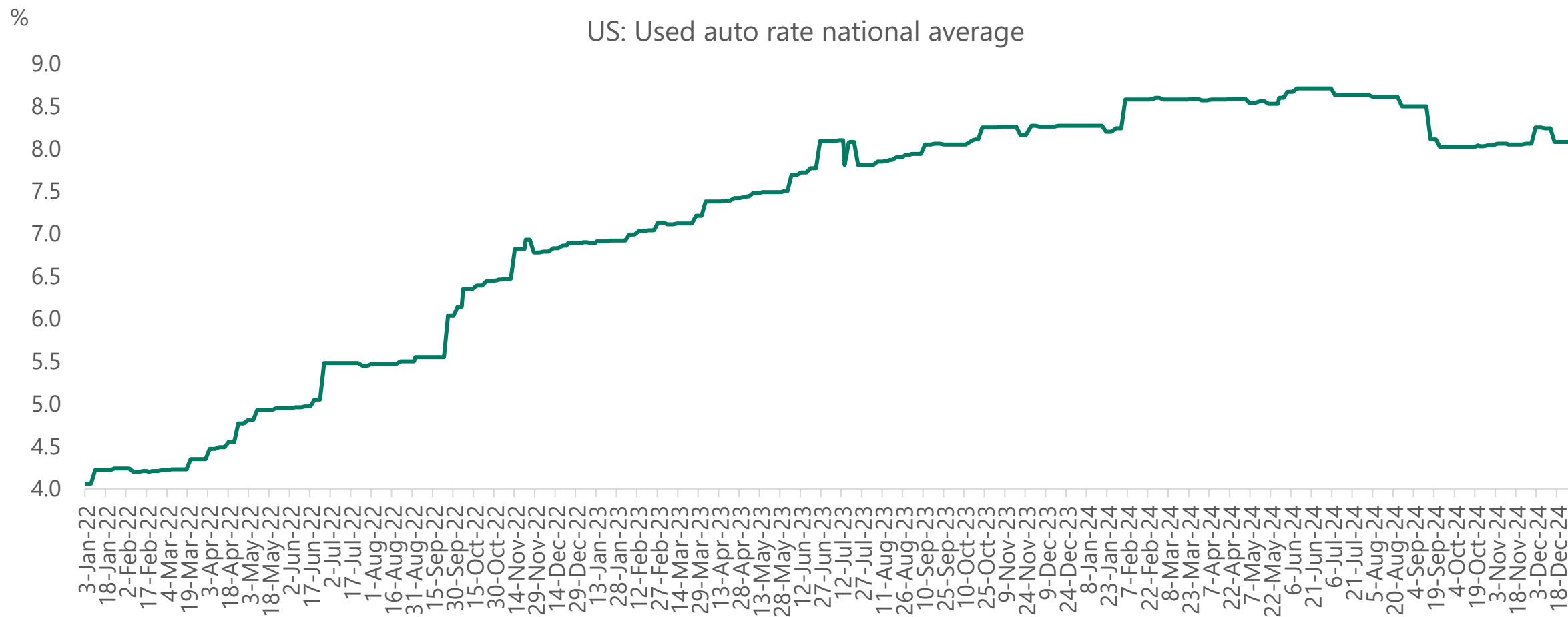


# Commercial bank auto loan interest rates highest since 2008

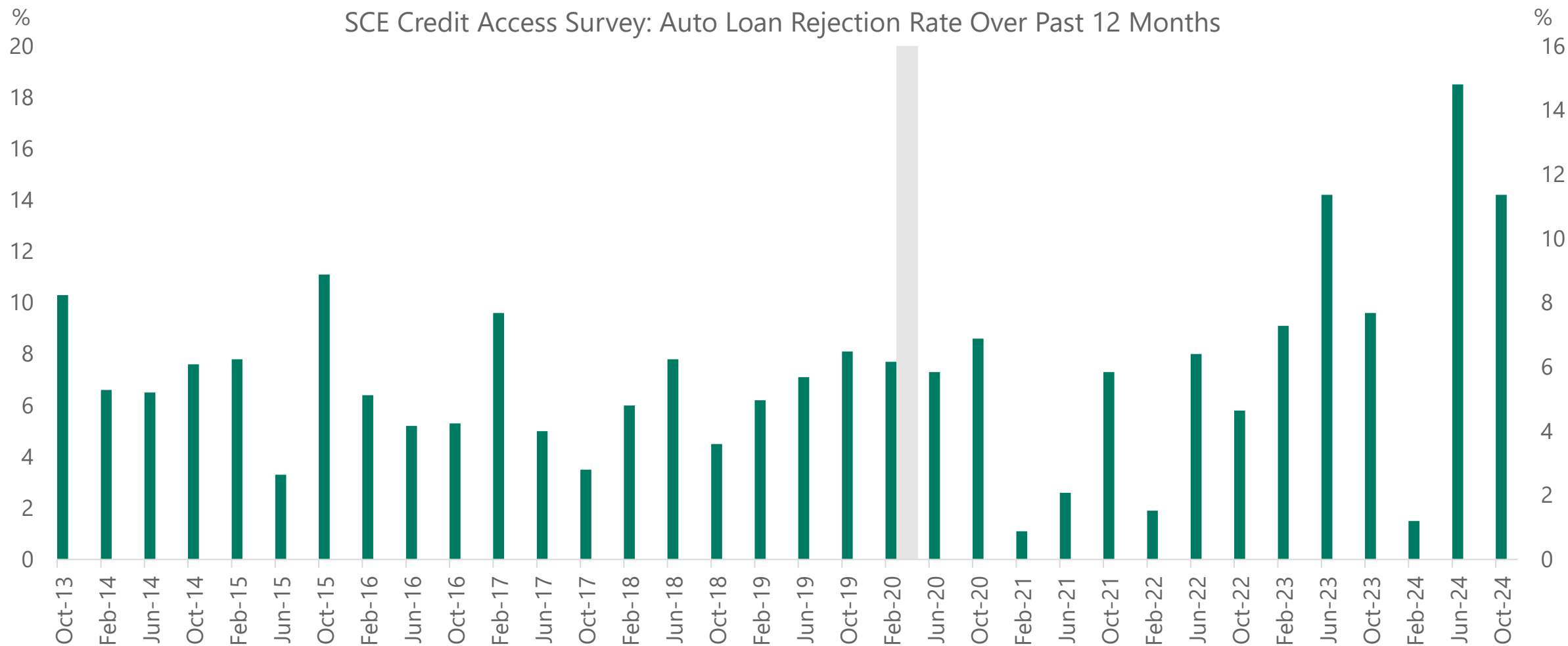


Source: FRB, Bloomberg, Apollo Chief Economist

# Interest rate on auto loans

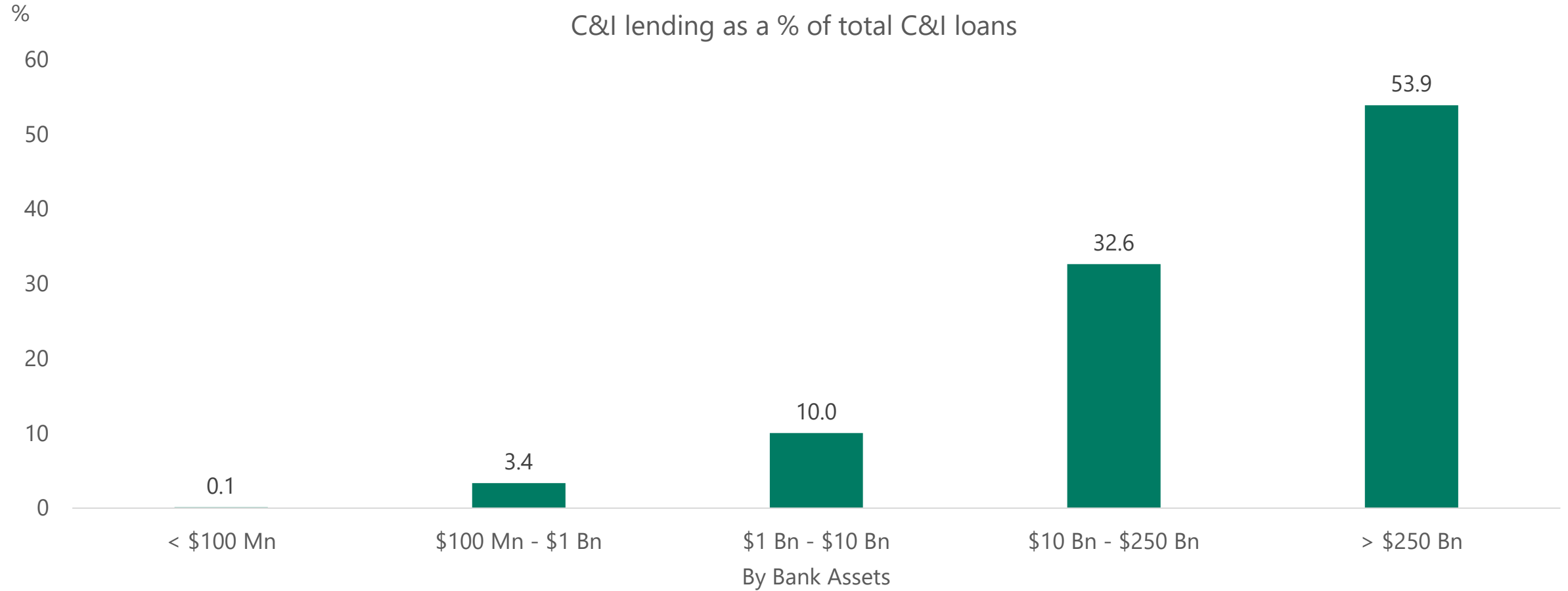


# Auto loan rejection rate over the past 12 months



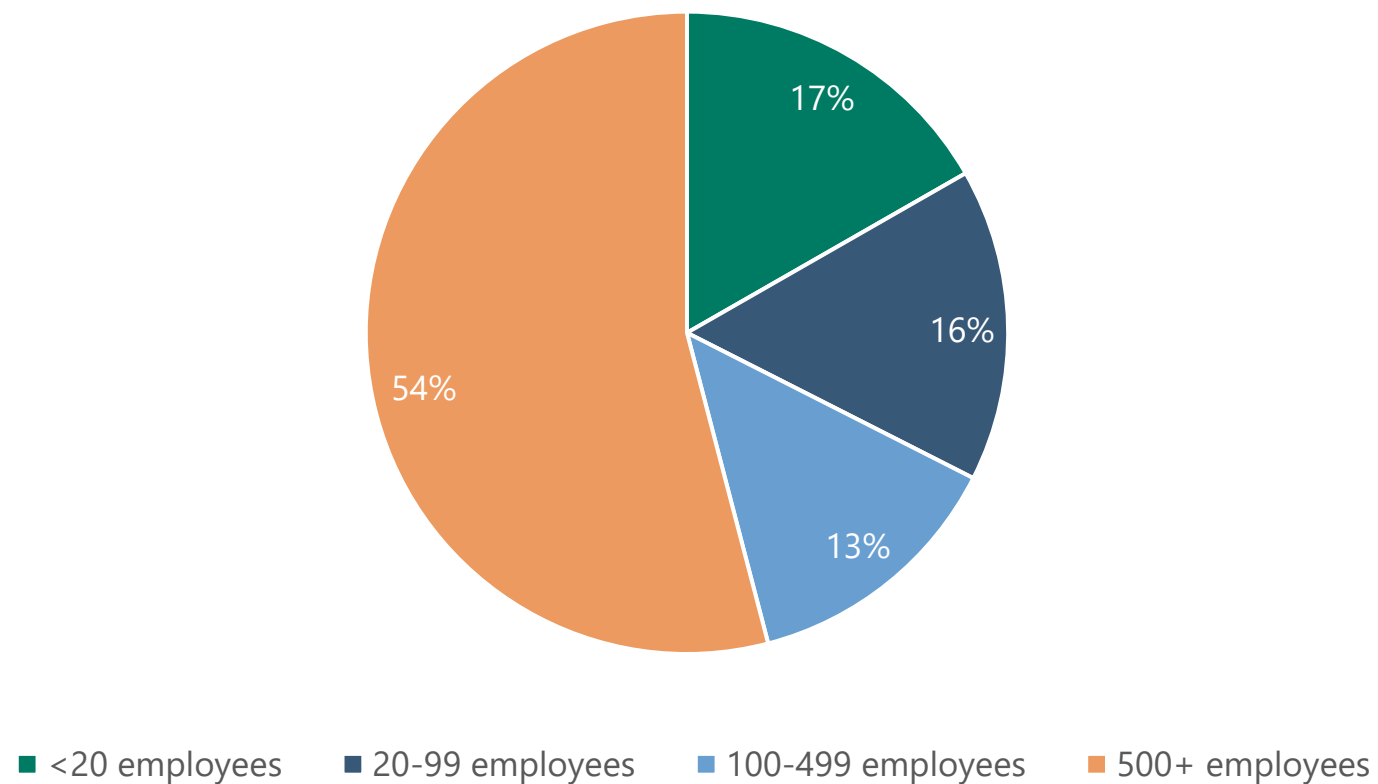
## Small banks lend to small businesses

Banks with less than \$250bn in assets account for 46% of commercial and industrial lending



# Half of US employment is in firms with fewer than 500 employees

Share of total employment by employment size of the firm, 2021



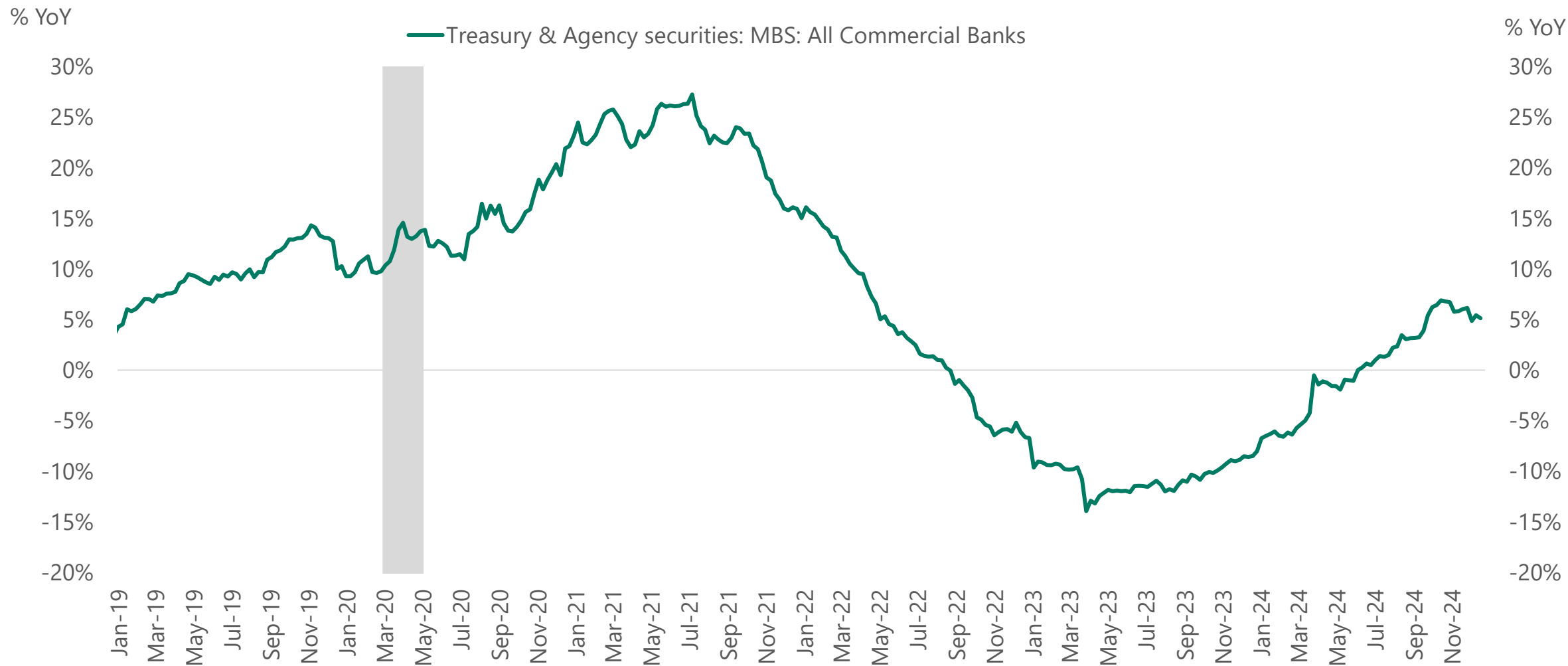


# Deposit growth positive



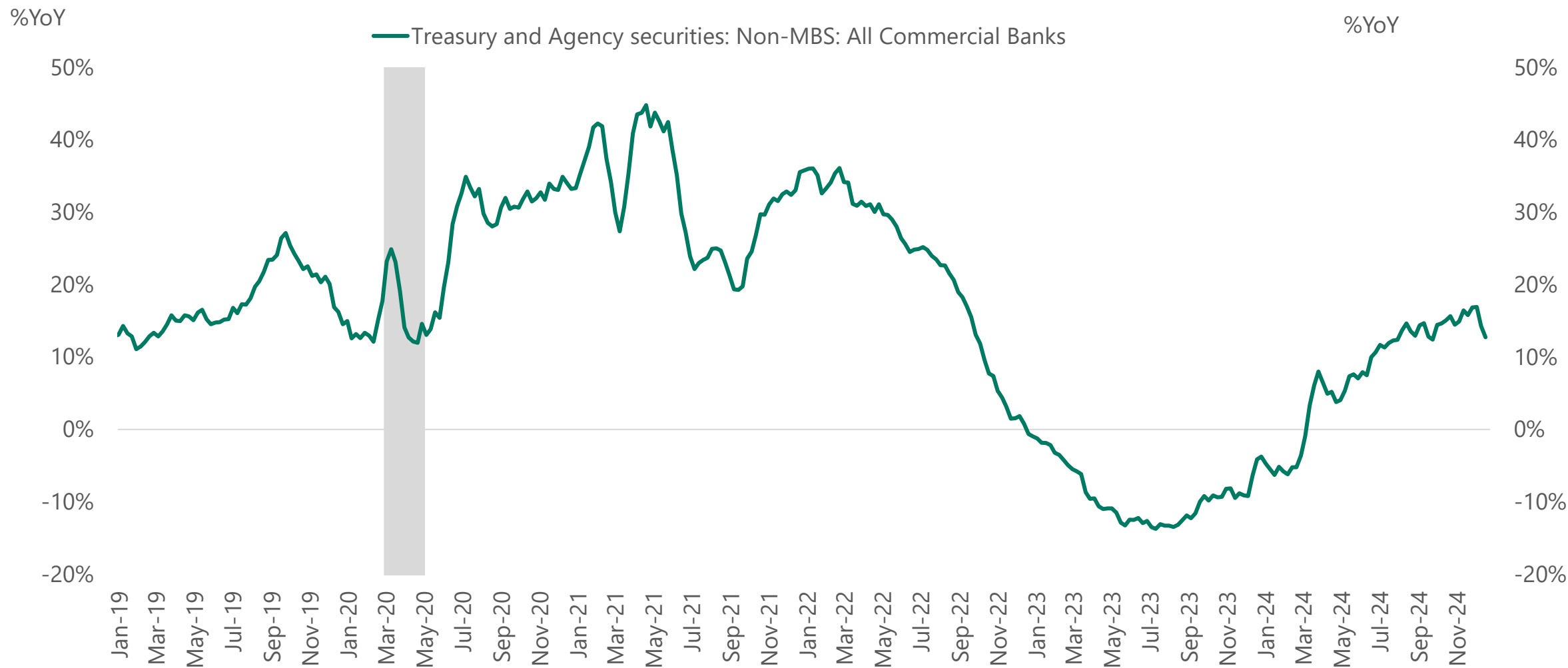
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Growth in bank holdings of mortgages



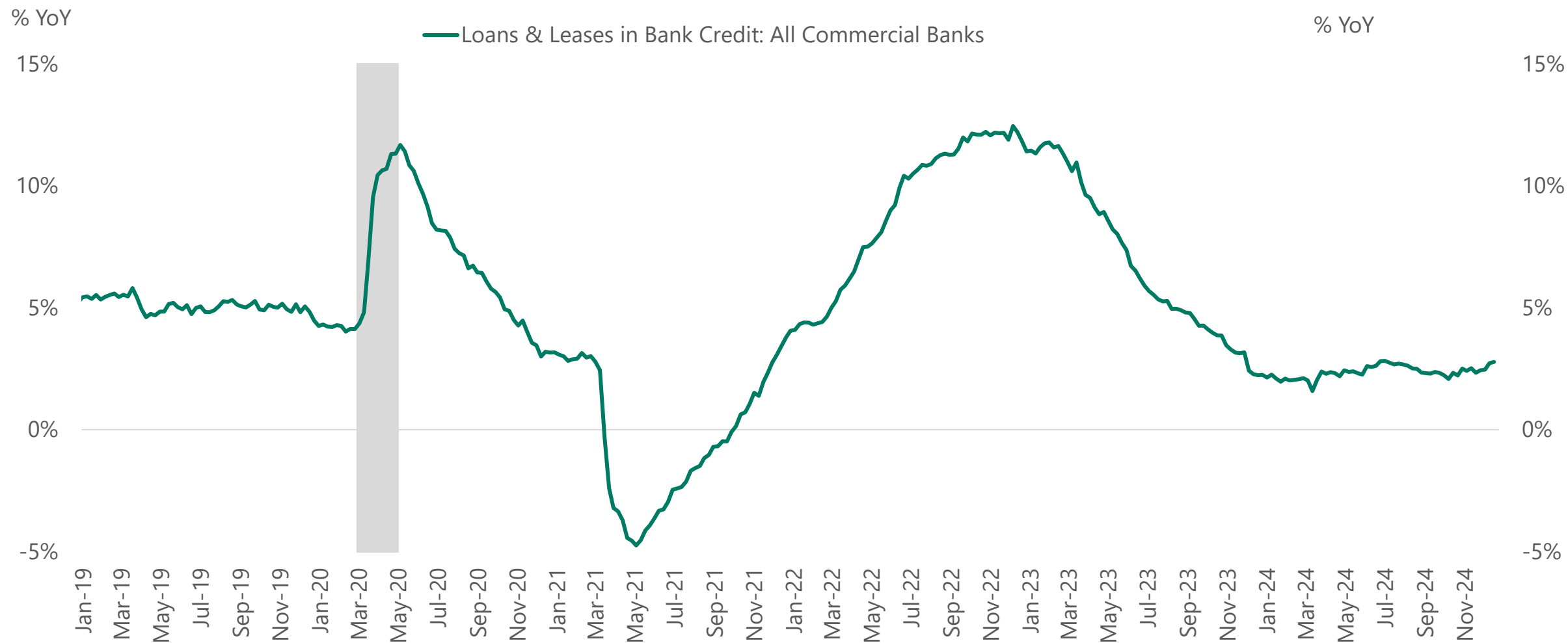
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Growth in bank holdings of Treasuries



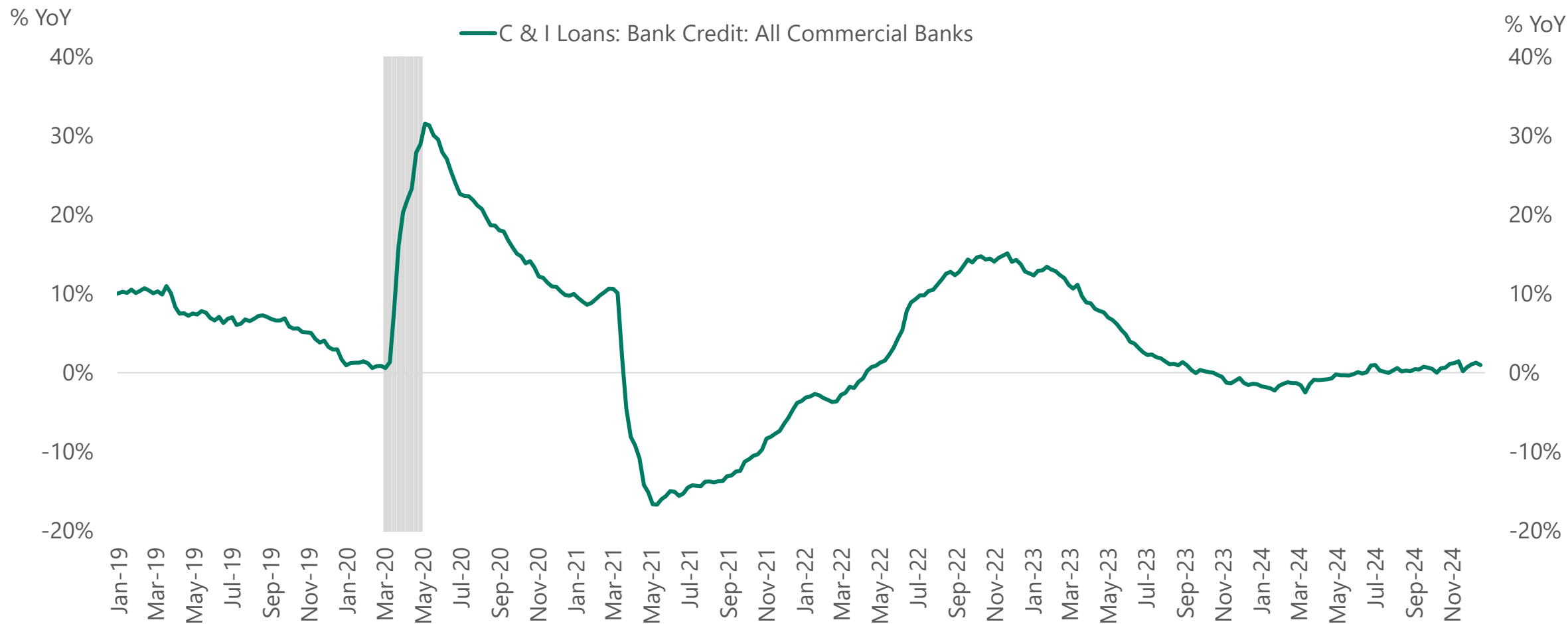
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Bank loan growth



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Growth in lending to corporates



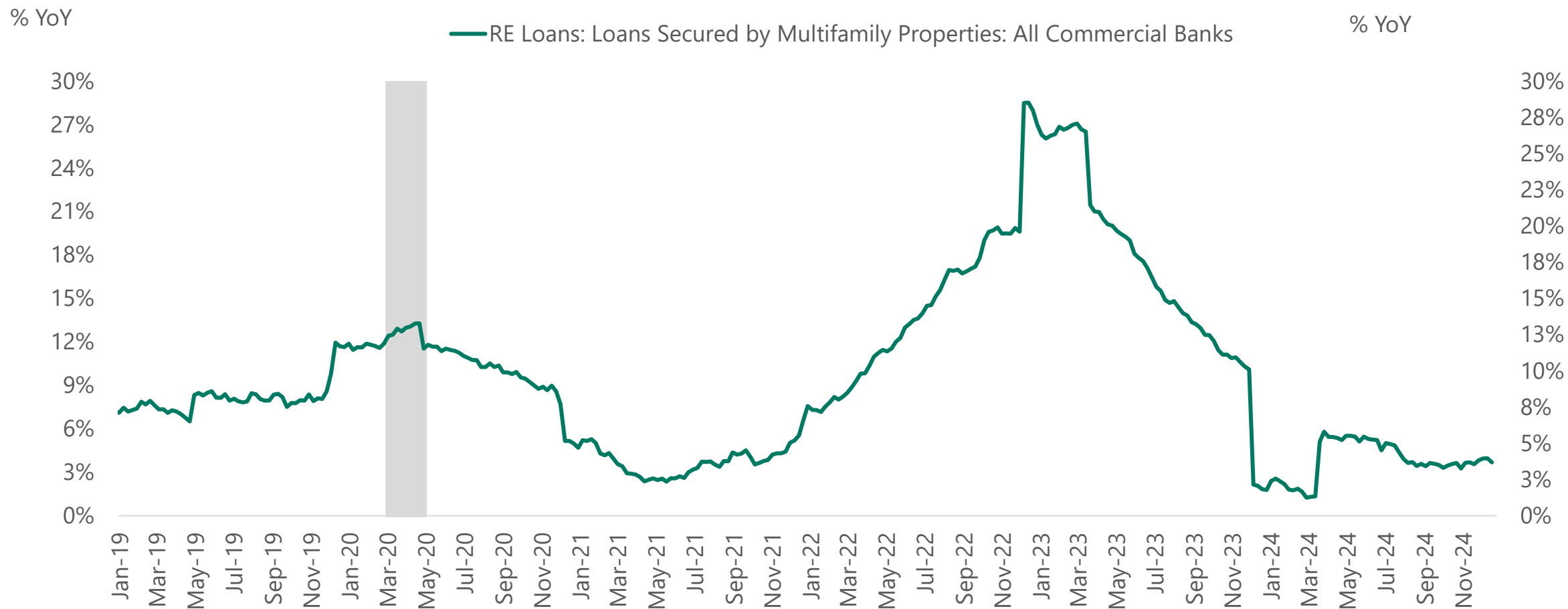
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Growth in real estate lending



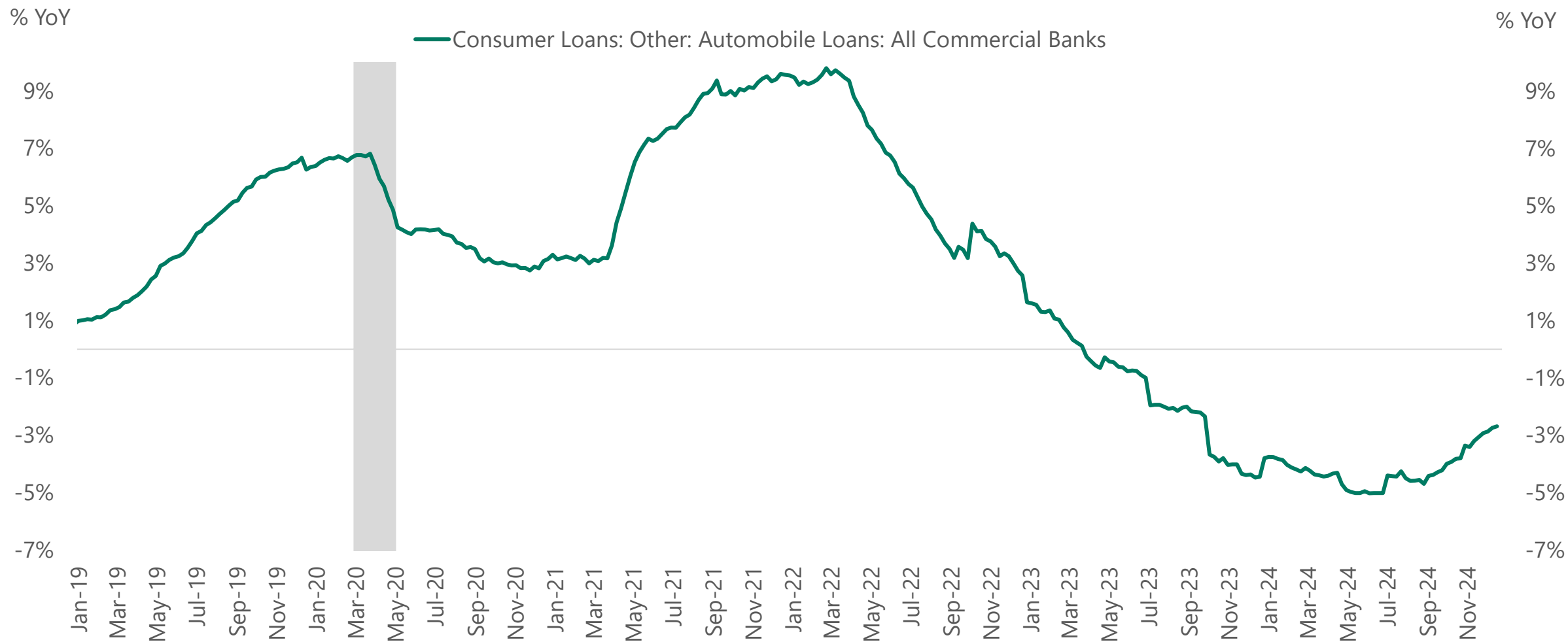
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Growth in lending to multifamily construction



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

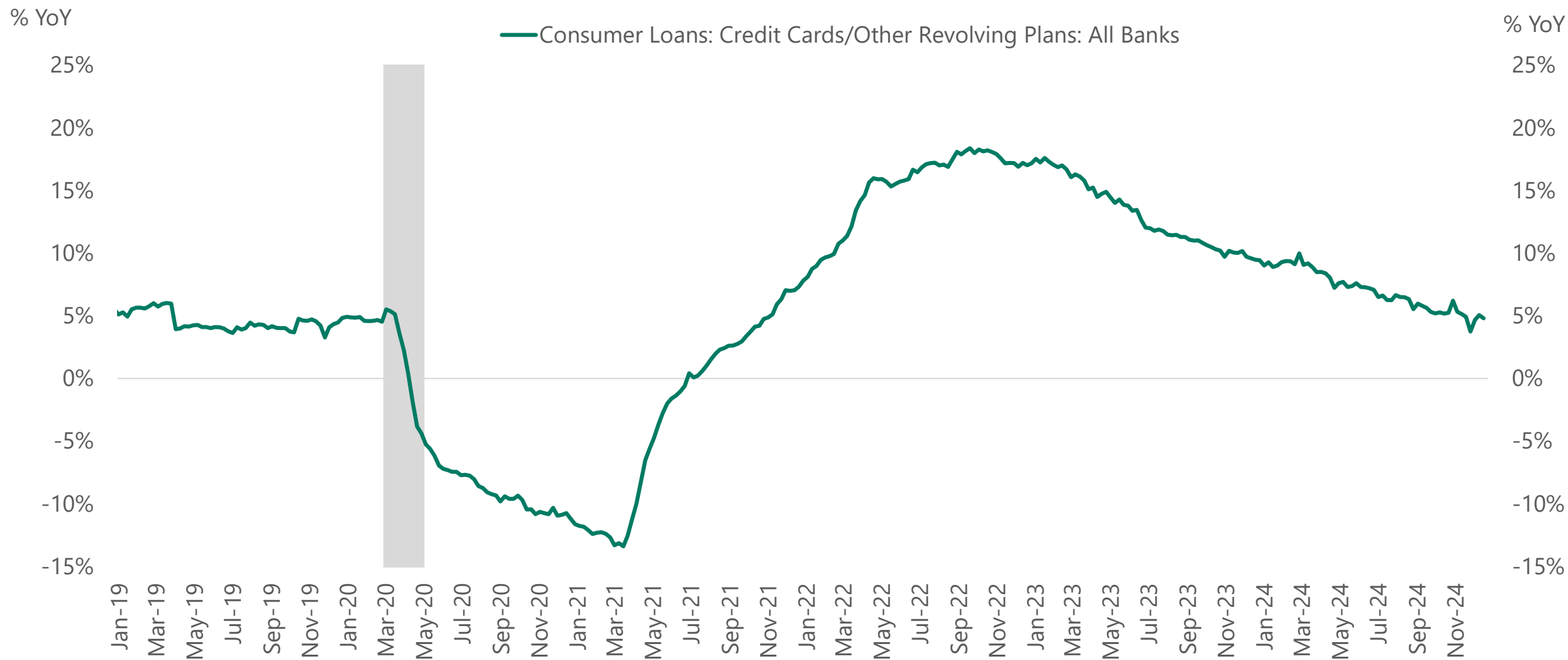
# Growth in auto lending improving



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

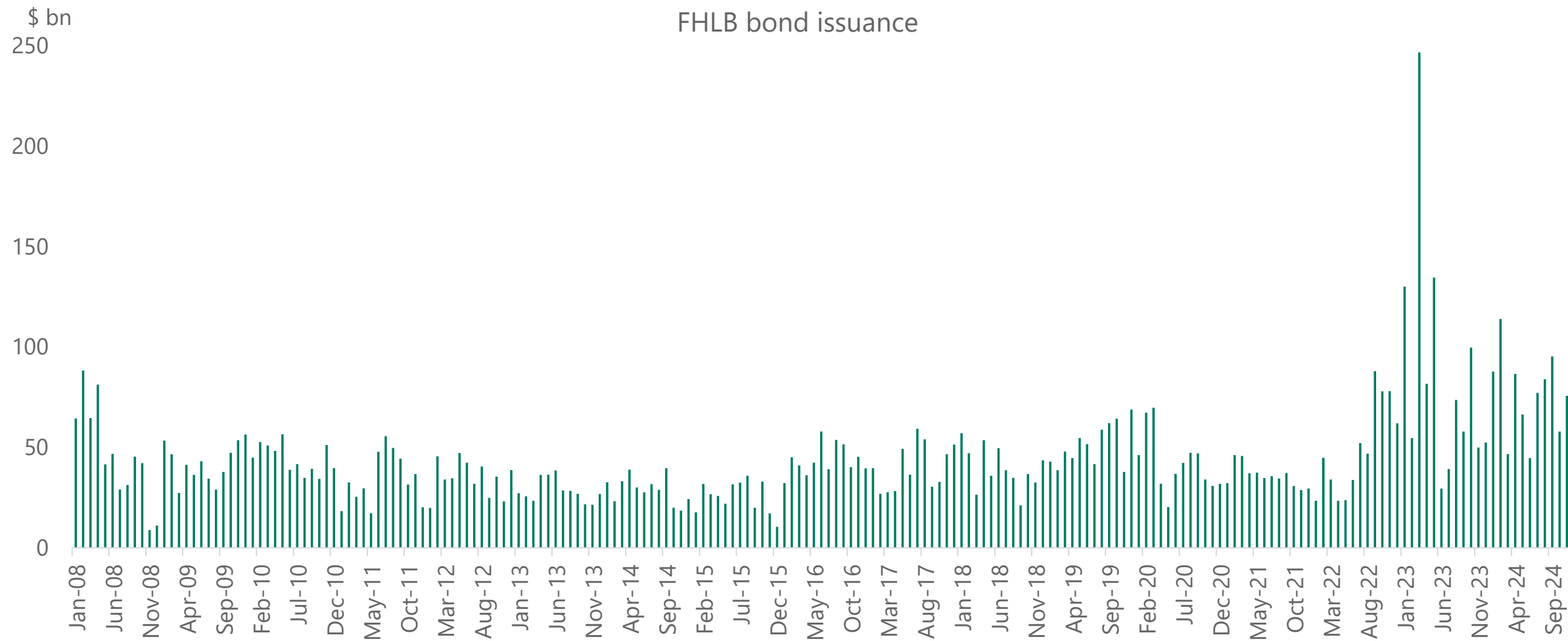


# Growth in banks' credit card lending



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

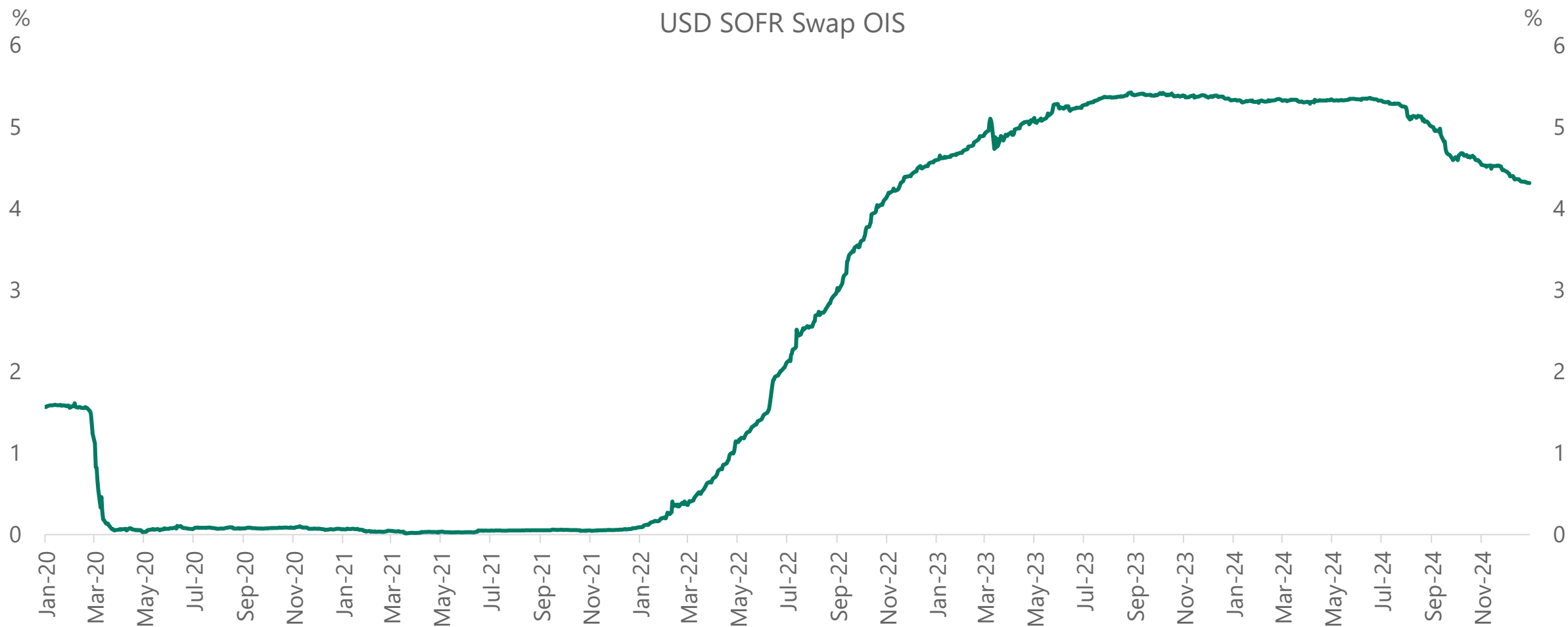
# FHLB bond issuance



Source: FHLB, Haver, Apollo Chief Economist.

Bank funding pressures:  
Deposits and market-based measures

# SOFR OIS Swap

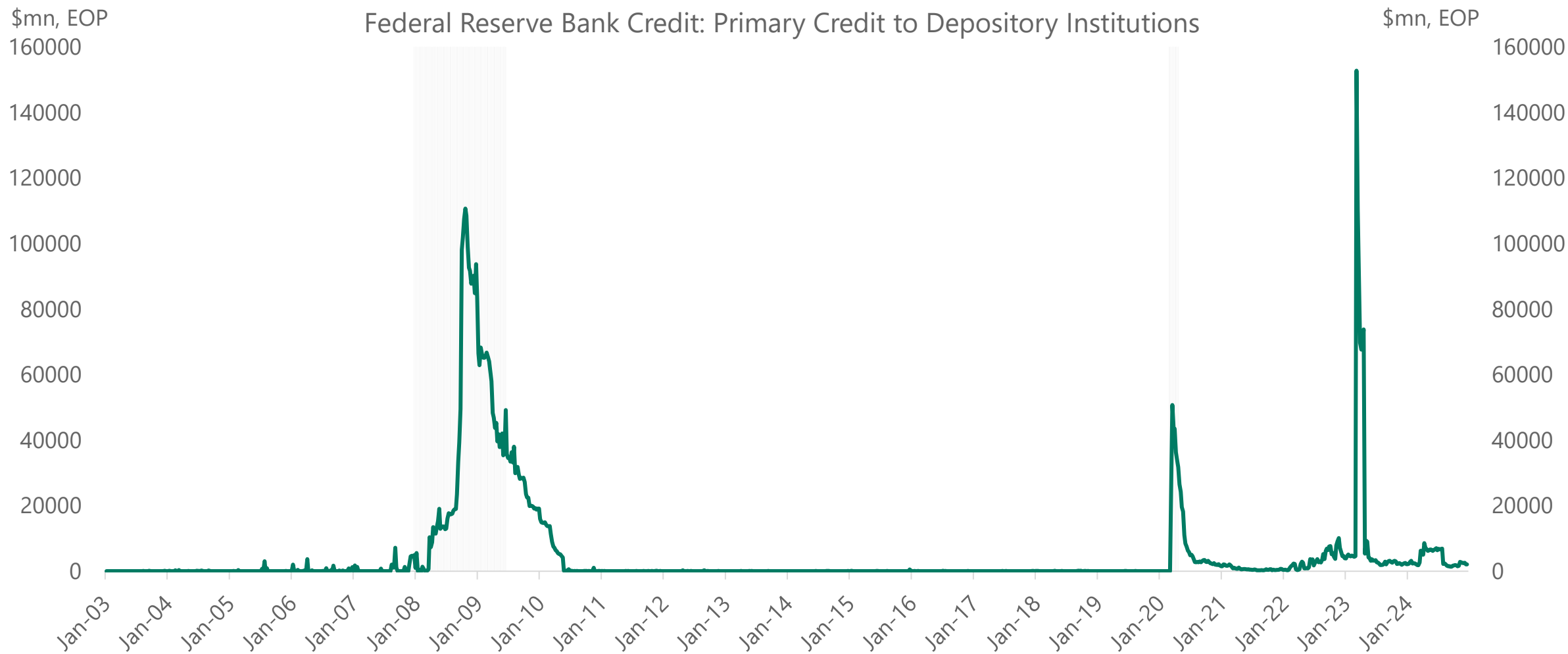


Source: Bloomberg. Note: Ticker used USFOSC1 BGN Currency. As of Nov 28, 2023.

# SOFR spreads

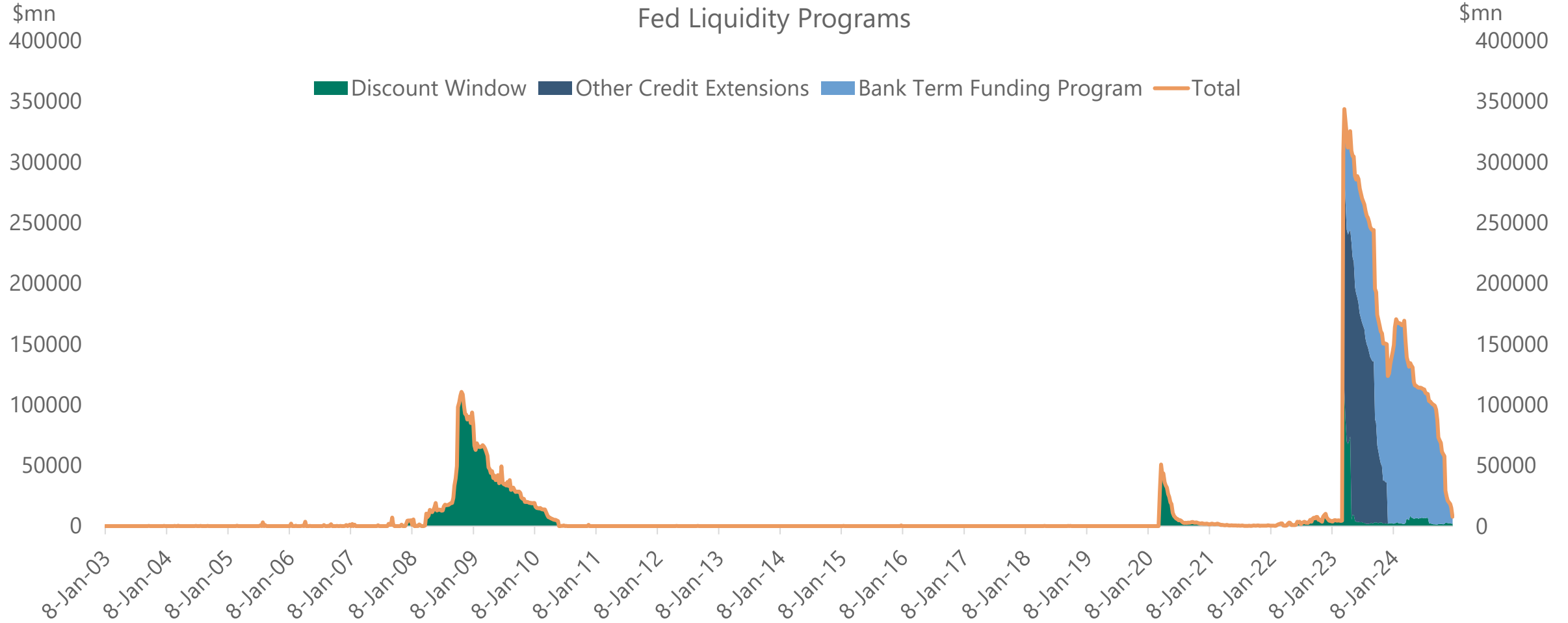


# Fed Discount Window borrowing was higher during the 2023 regional banking crisis than in 2008



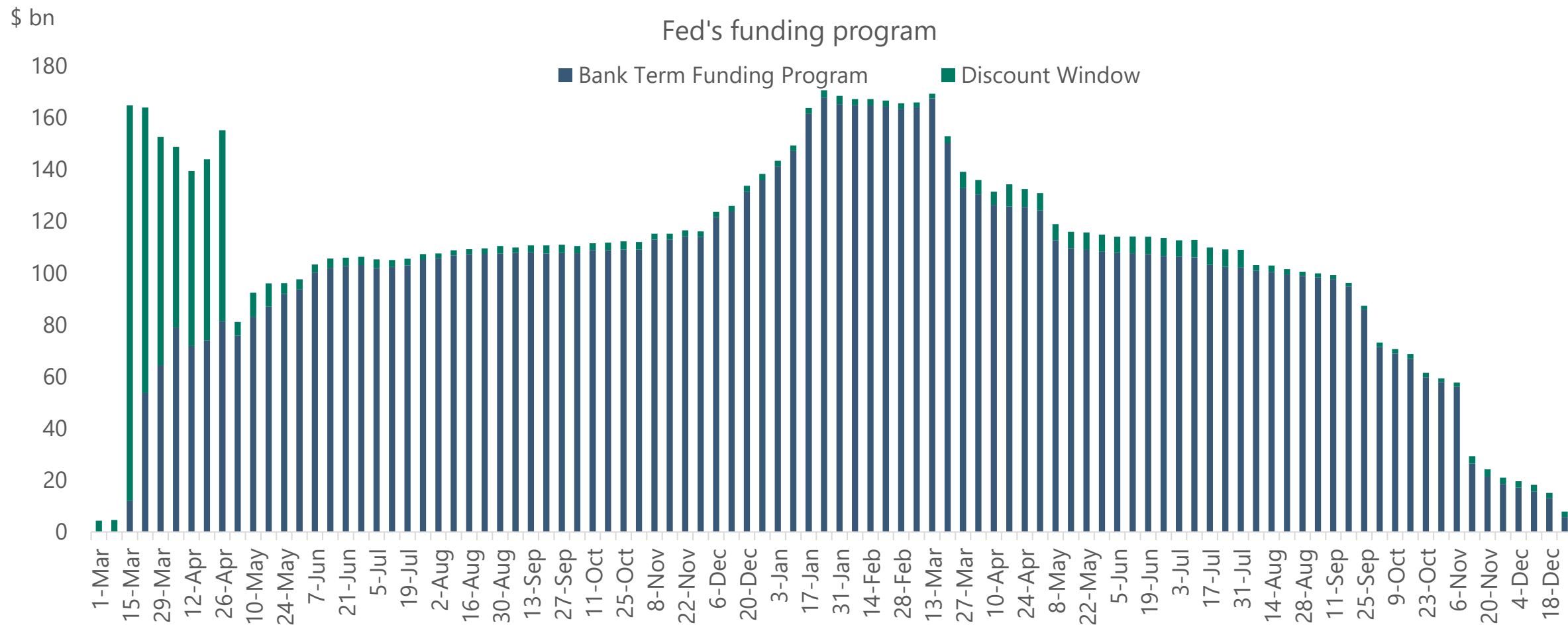
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Fed liquidity borrowing higher during the 2023 regional banking crisis than in 2008



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Borrowing through the Bank Term Funding Program and discount window

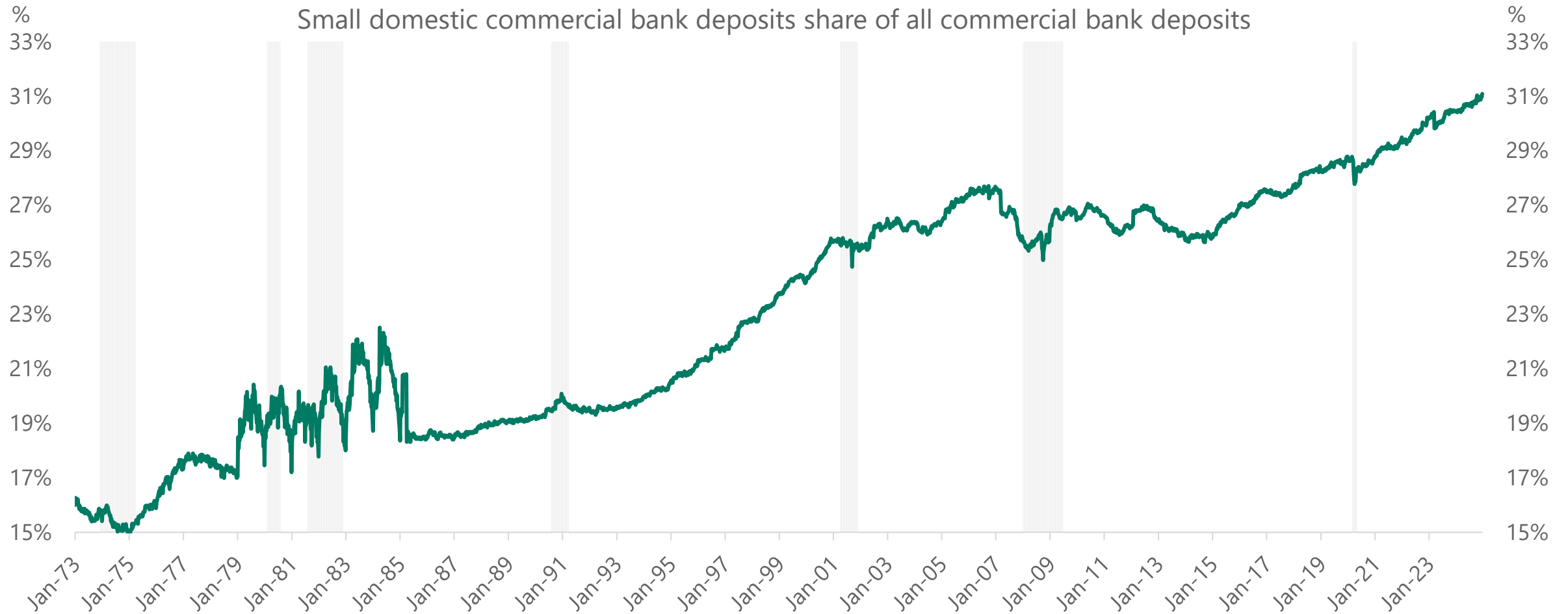


Source: Federal Reserve Board, Bloomberg, Apollo Chief Economist.



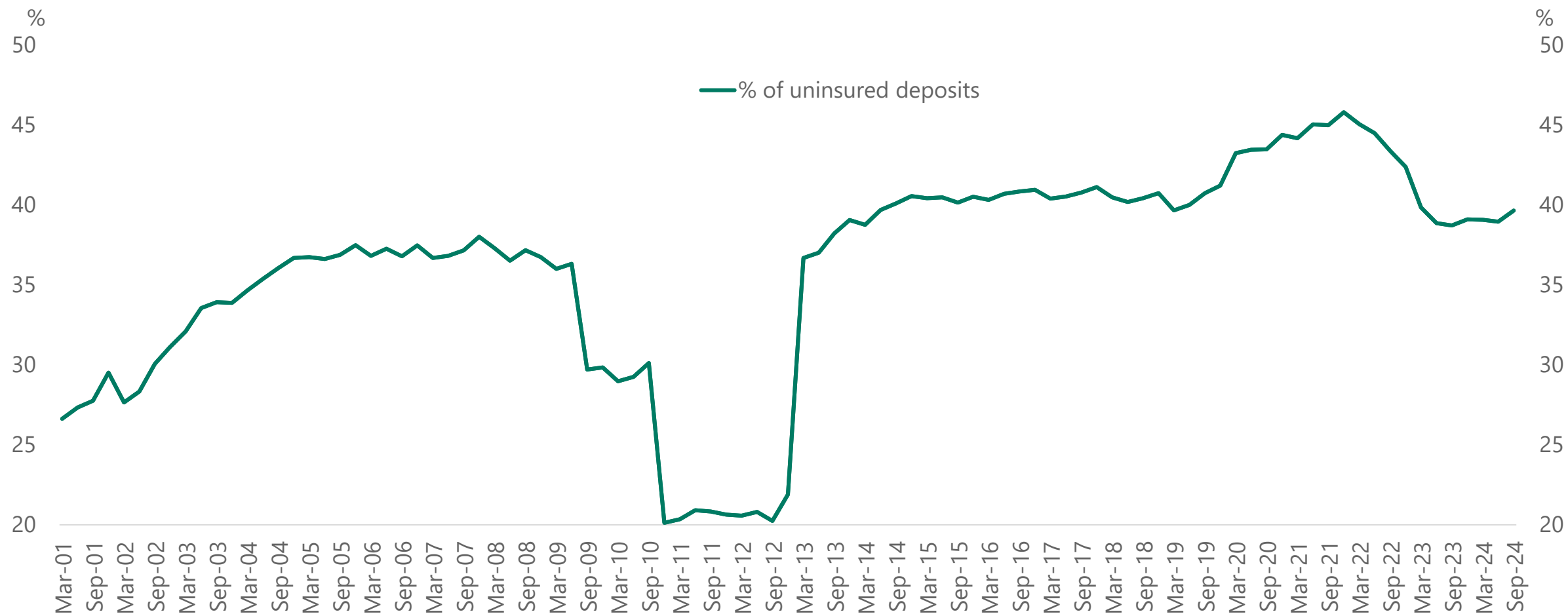
What is happening with deposits in regional banks?

Small banks account for about 30% of total deposits in the banking sector, and the share has been rising since the 2008 financial crisis



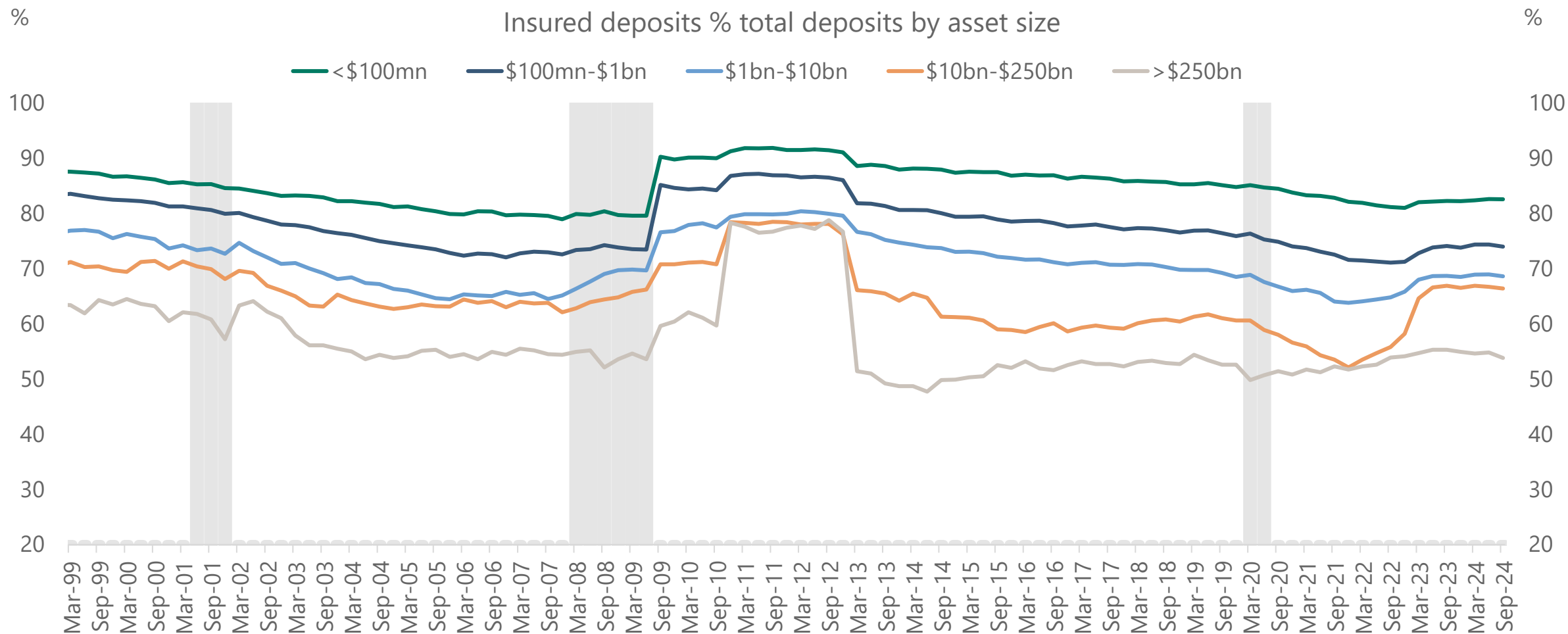
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Share of total bank deposits that are uninsured: 40%



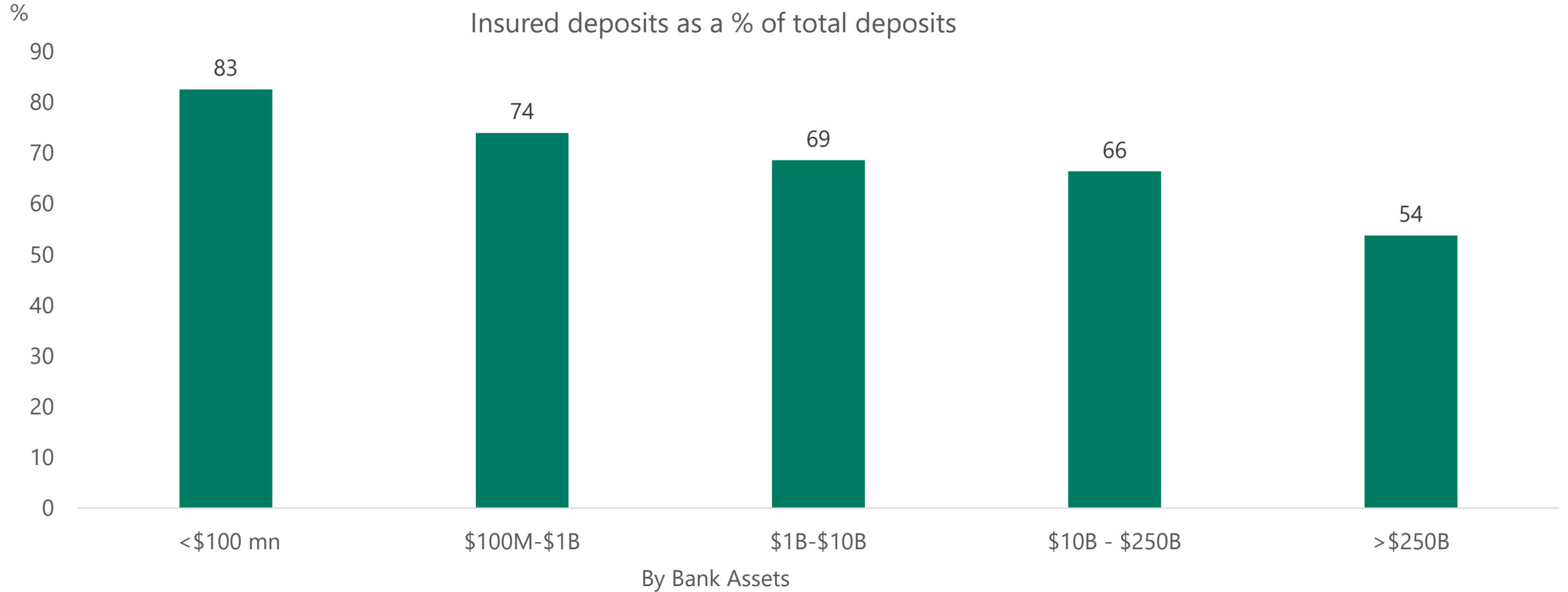
Source: FDIC, Haver Analytics, Apollo Chief Economist.

# Share of insured deposits, by bank size

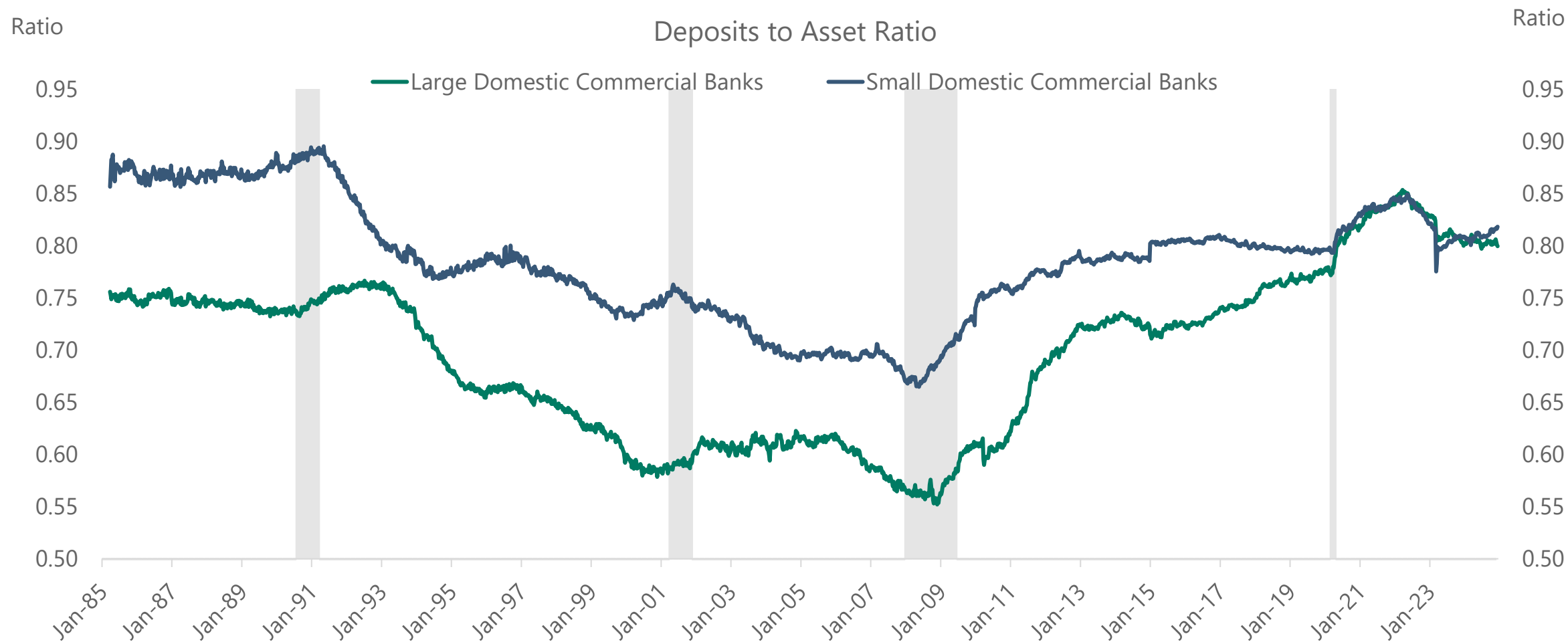


Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Share of insured deposits, by bank size

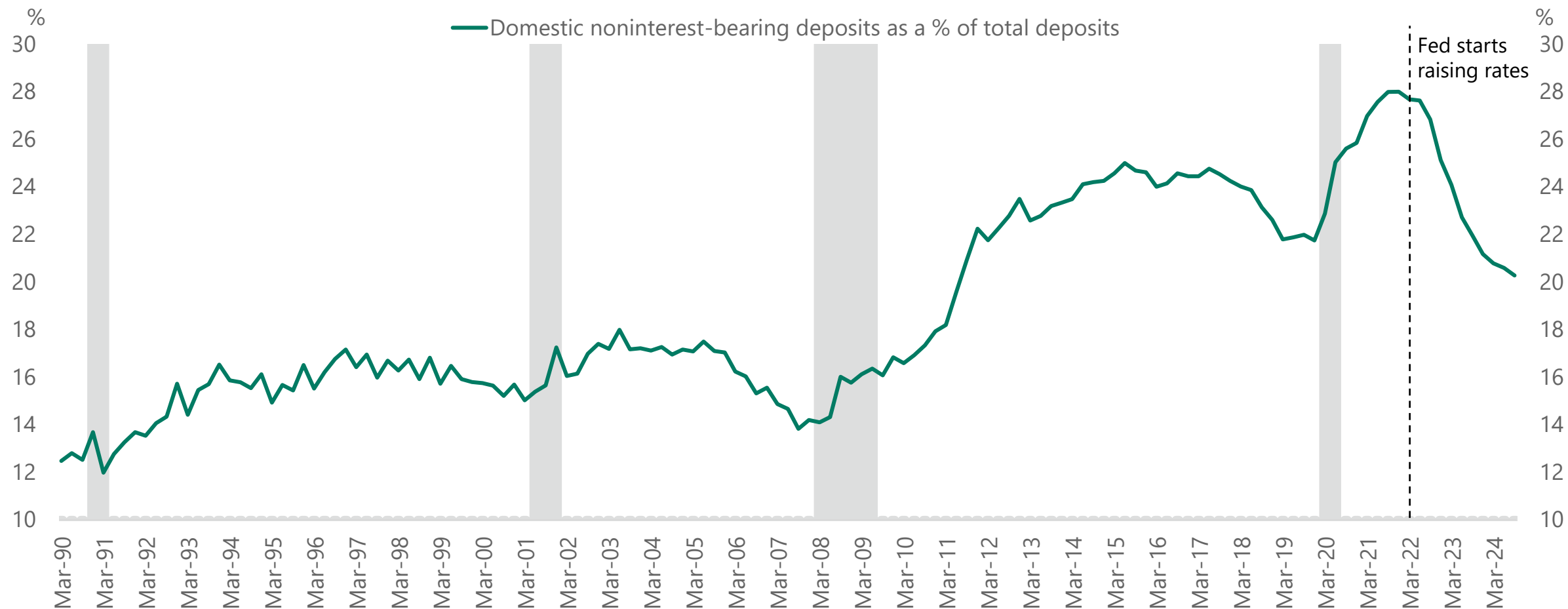


# Deposit to asset ratio for large and small banks



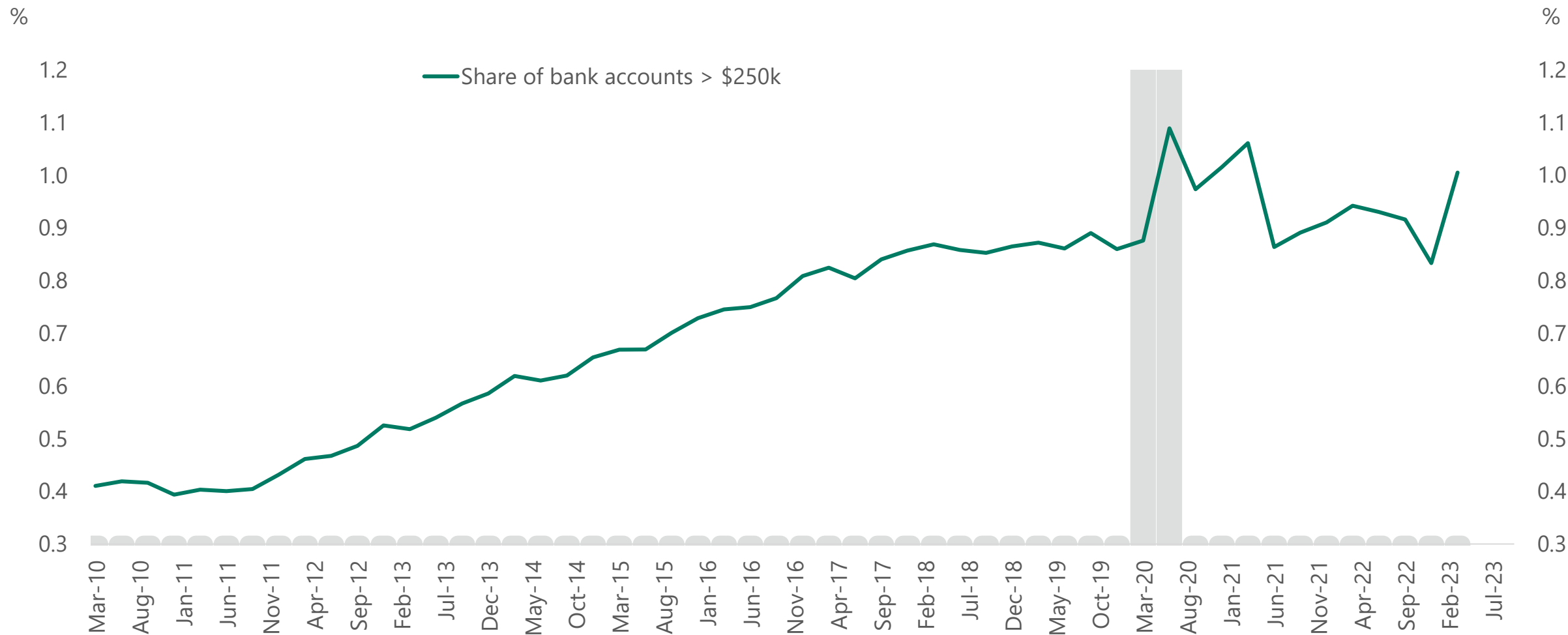
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# 20% of deposits pay no interest



Source: FDIC, Apollo Chief Economist.

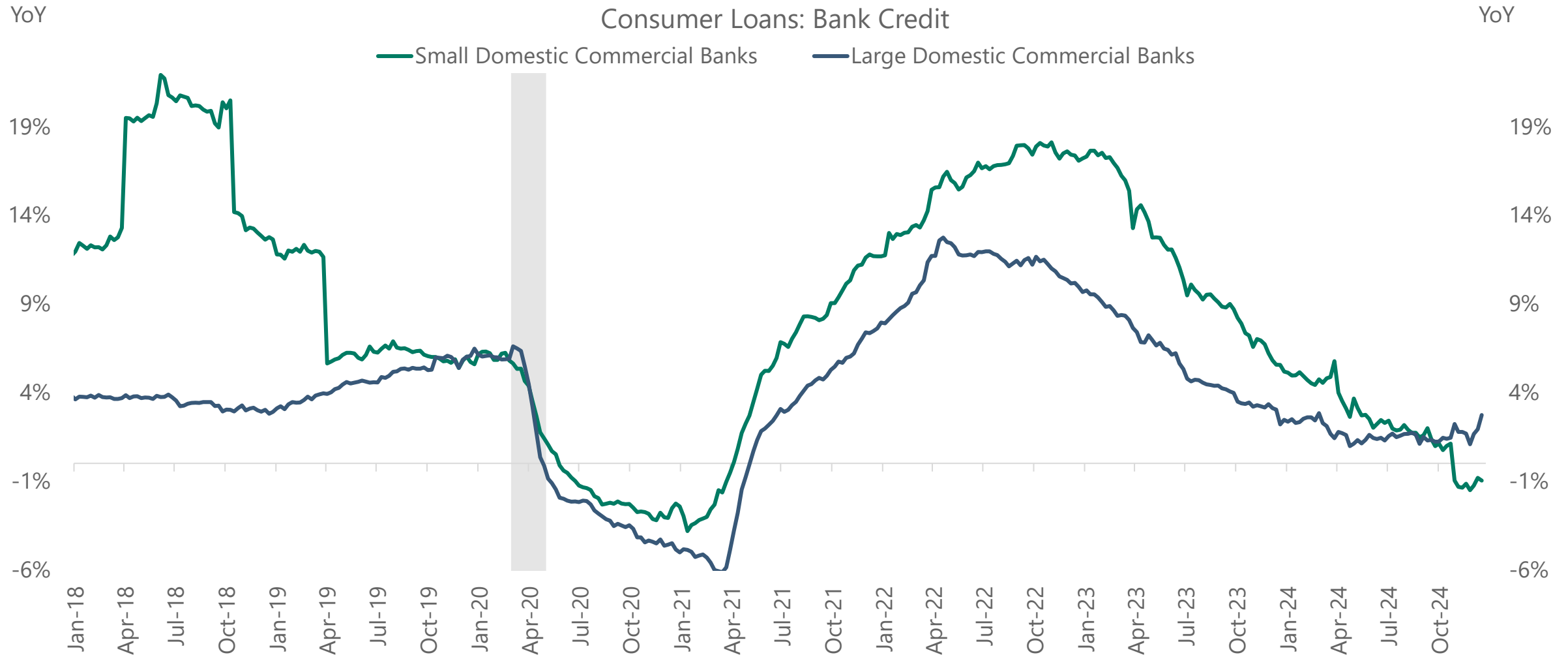
# 1% of bank accounts have a balance higher than \$250k





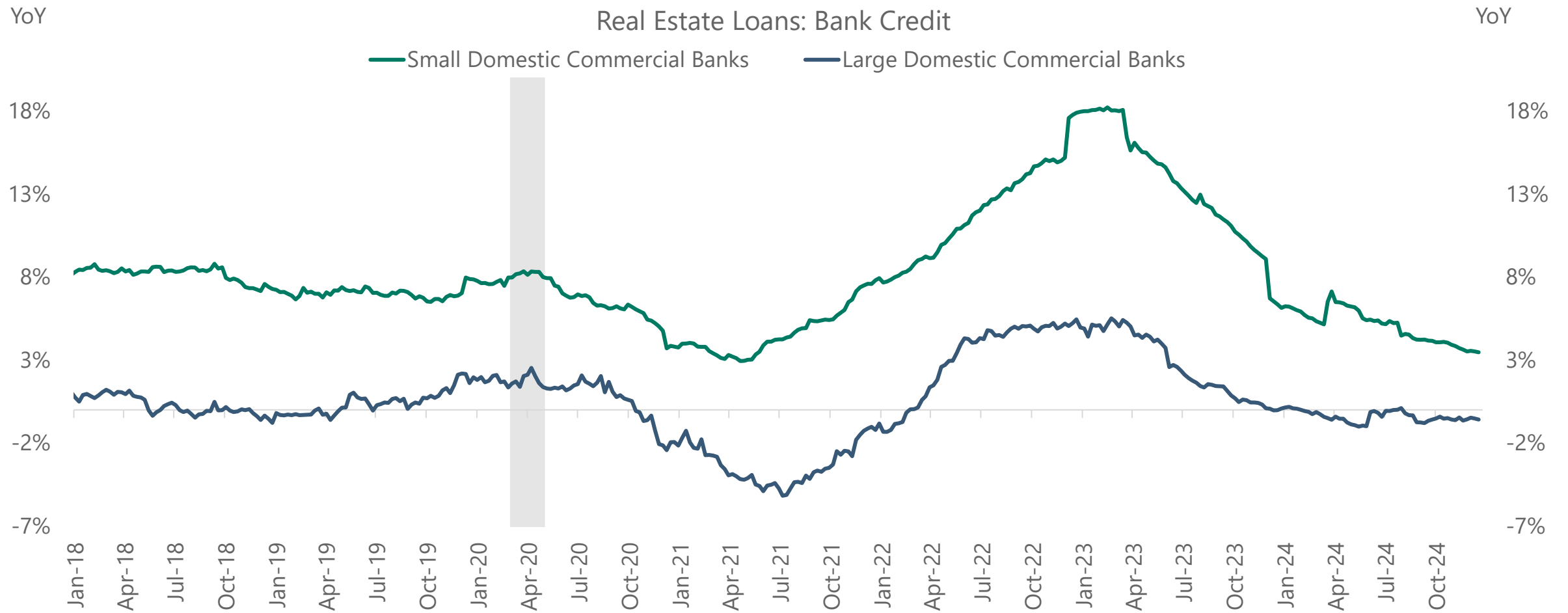
Weekly data for bank lending by small and large banks

# Lending to consumers is slowing for small banks, and growing for large banks



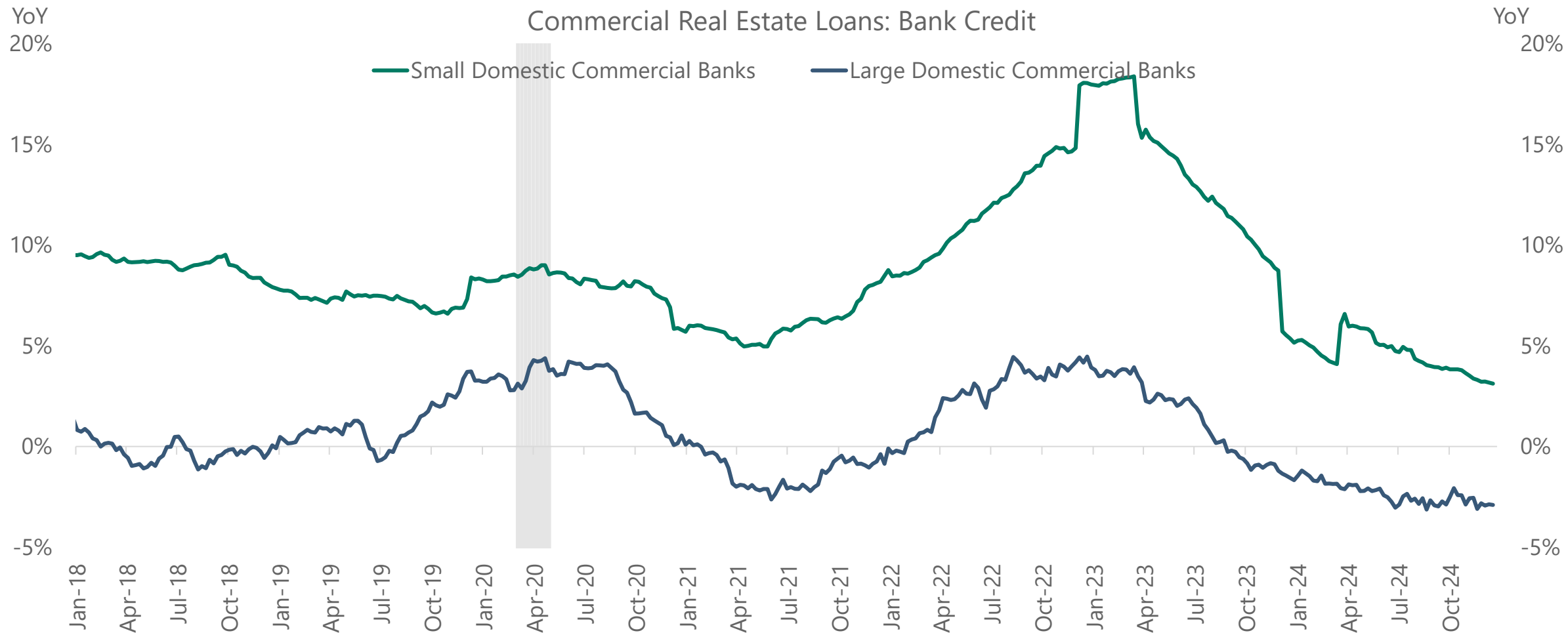
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Real estate lending is slowing for both small and large banks



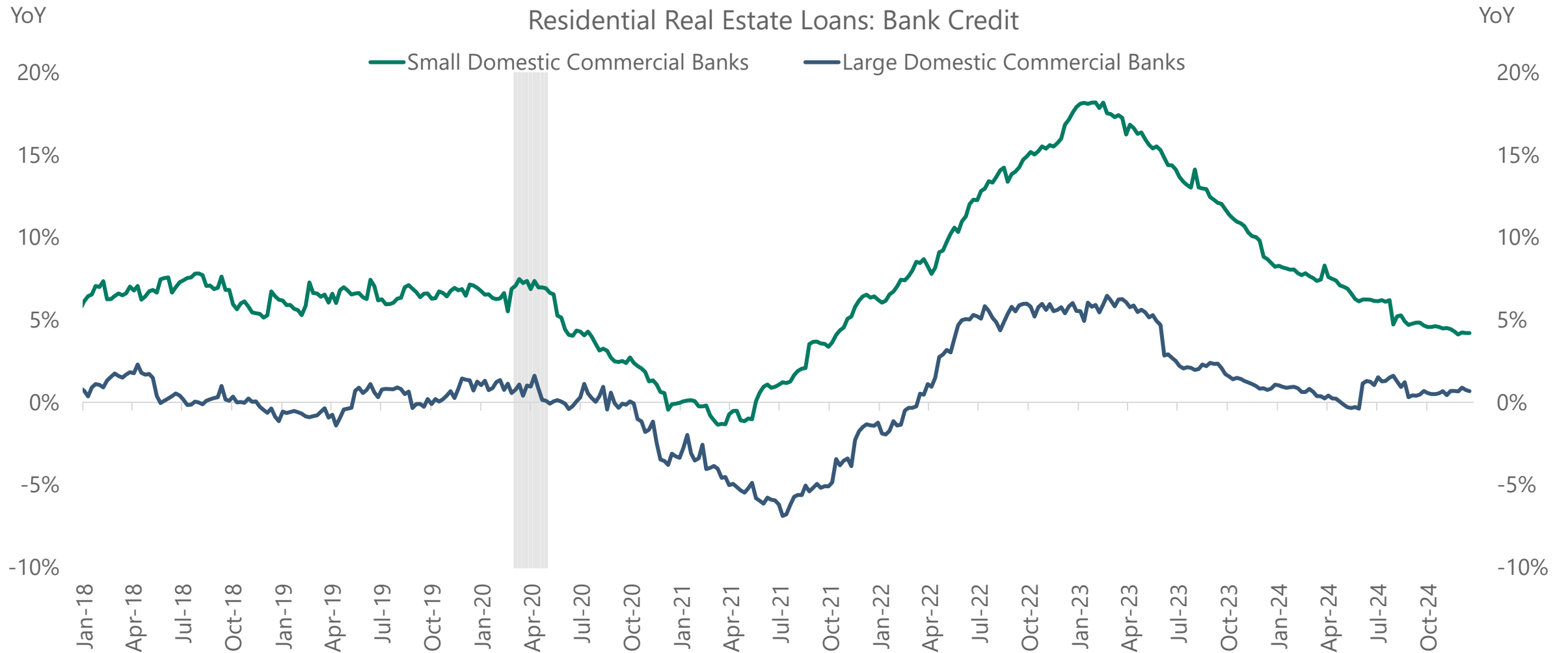
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Commercial real estate lending is slowing for both small and large banks



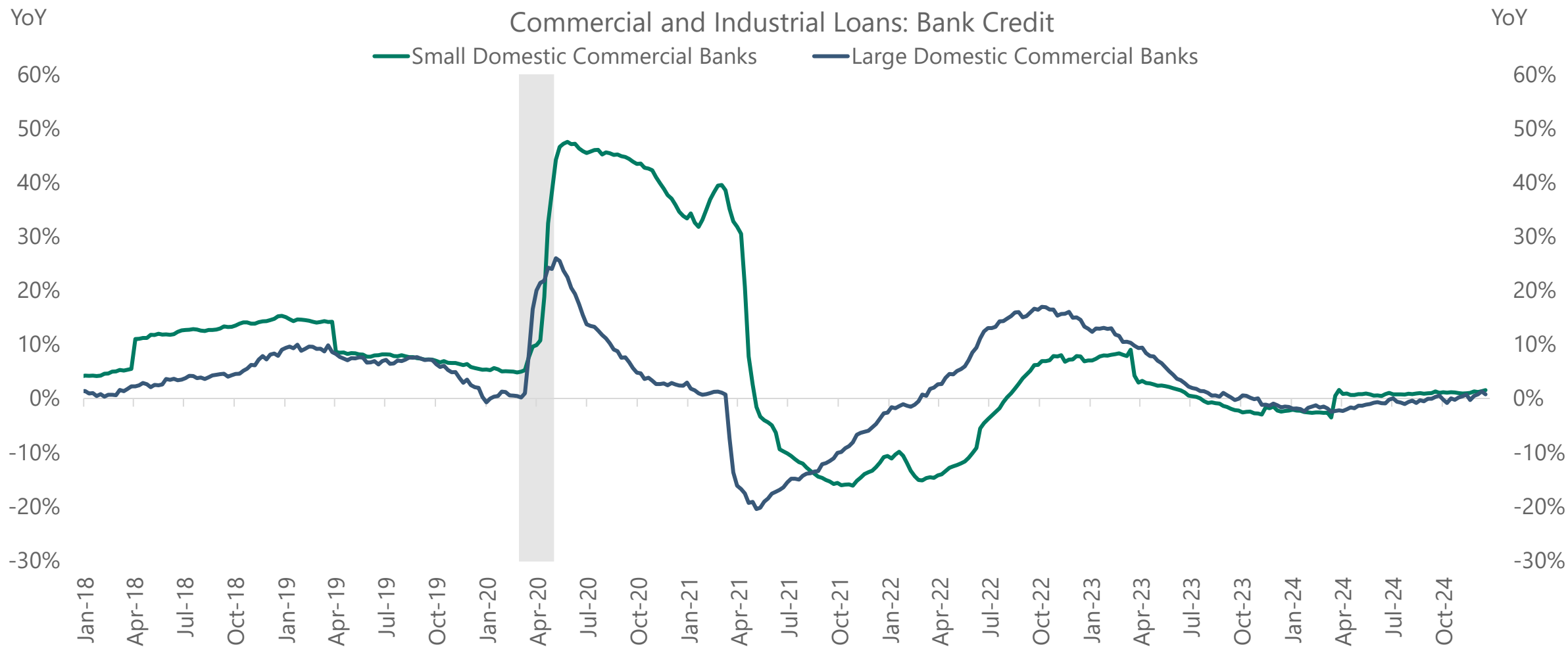
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Residential real estate lending is slowing for both small and large banks



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Lending to corporates is flat for both small and large banks

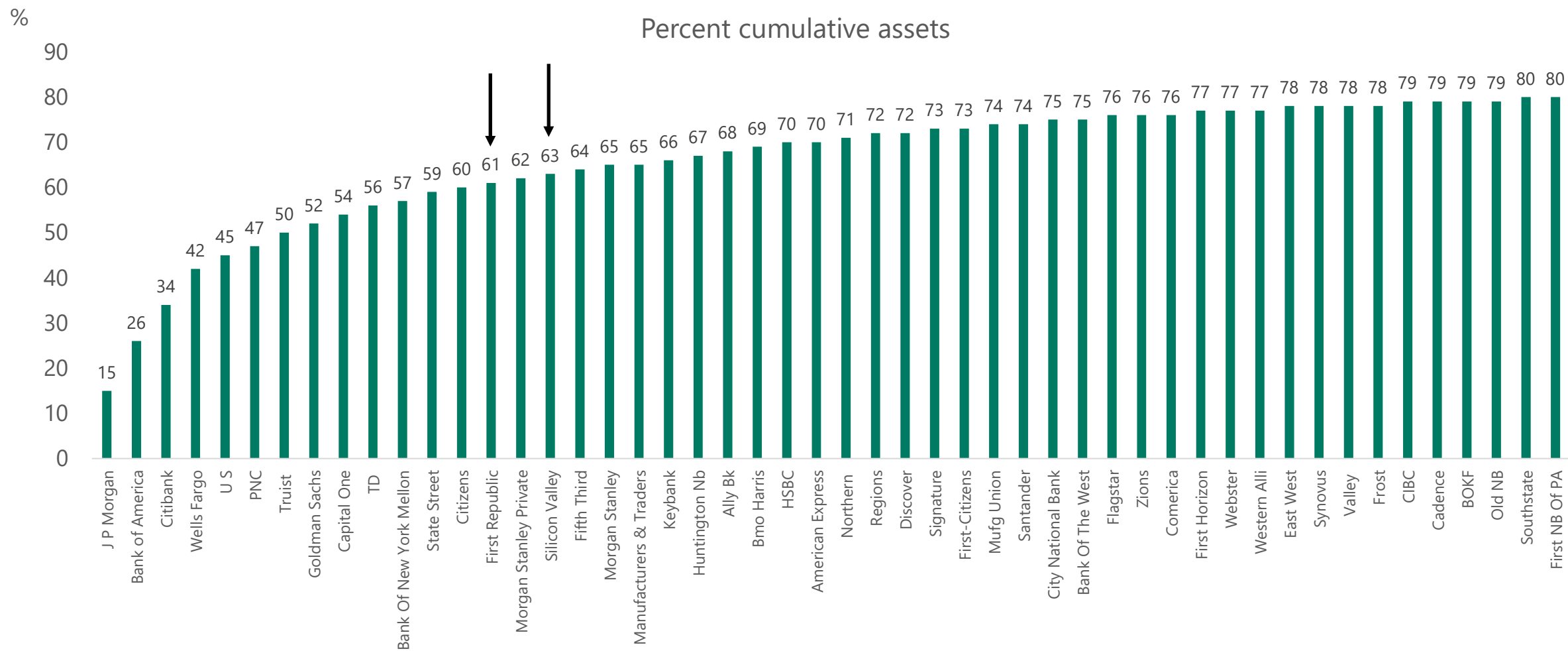


Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

US banks by asset size:

The importance of regional banks for the US economy

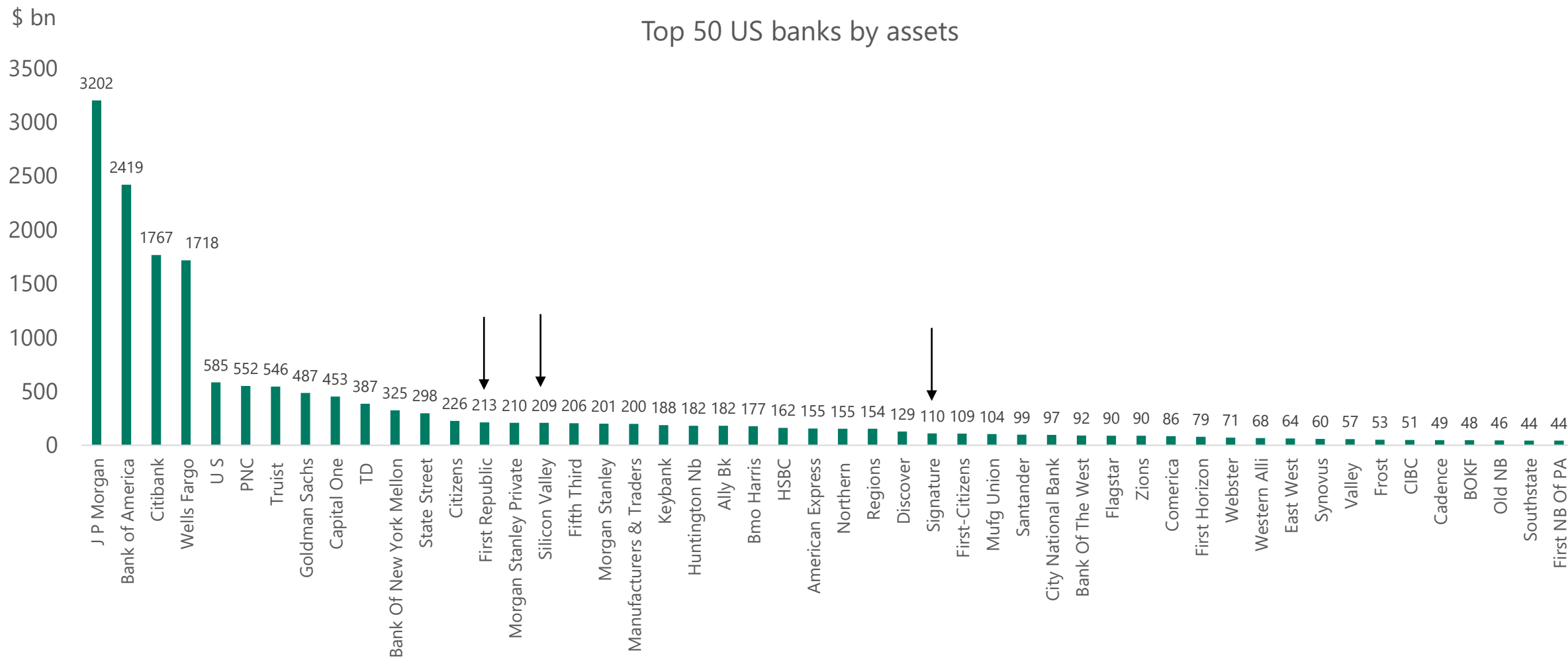
# Distribution of assets in the banking sector



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist. As of Q4 2022. Represents the views and opinions of Apollo's Chief Economist. Subject to change at any time without notice.

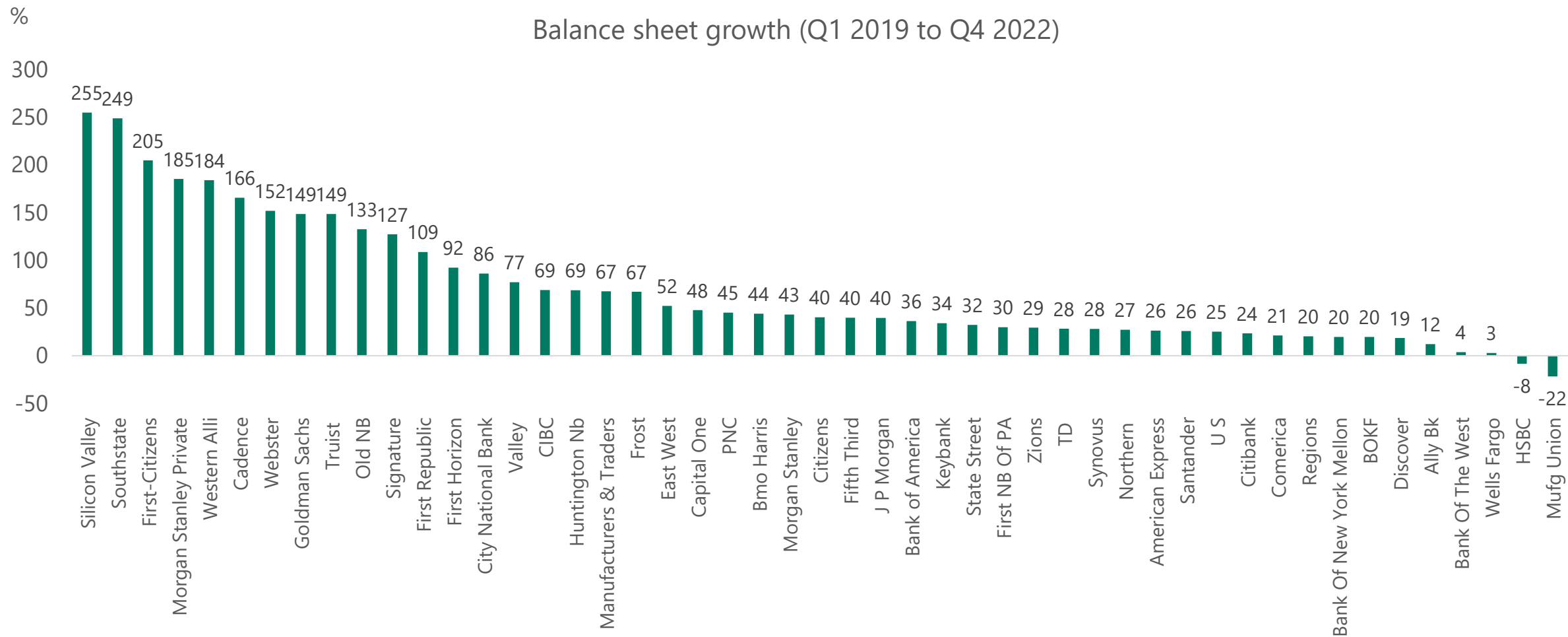


# Top 50 US banks by assets



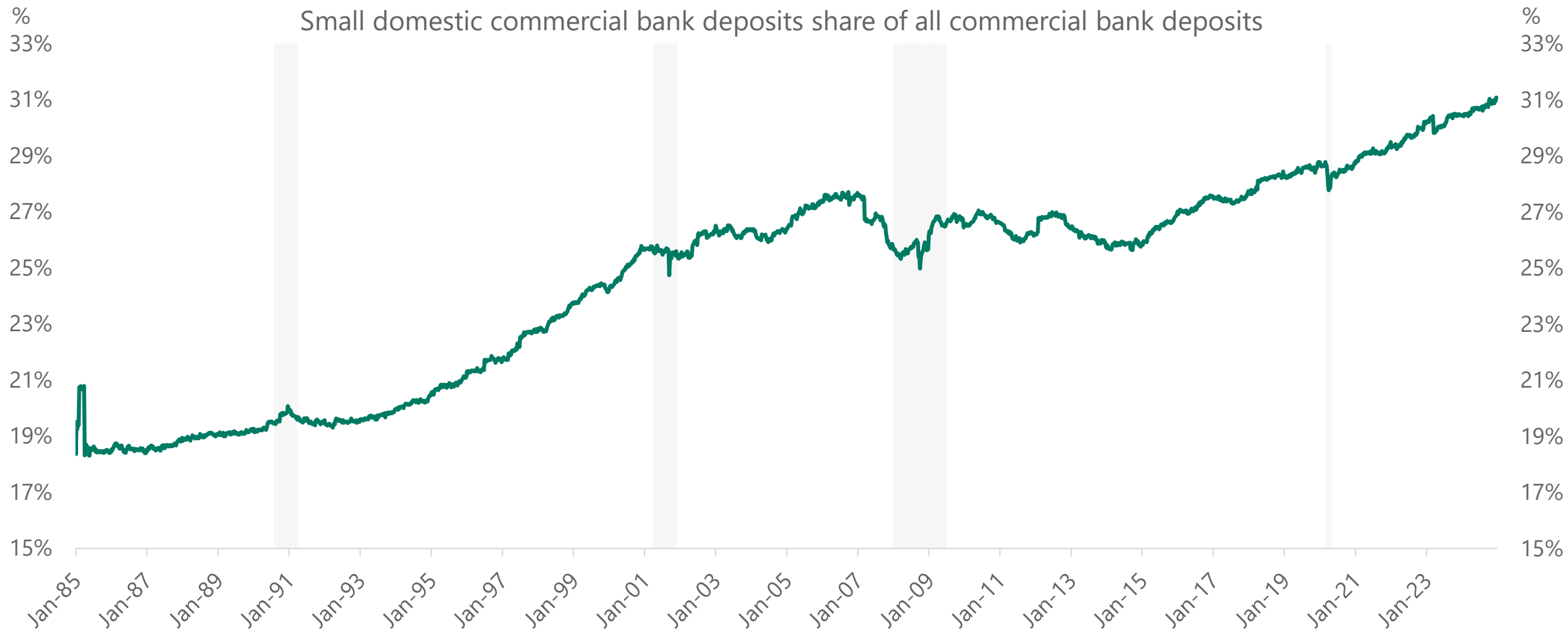
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist. As of Q4 2022.

# Balance sheet growth of US banks, ranked by fastest growth in percent



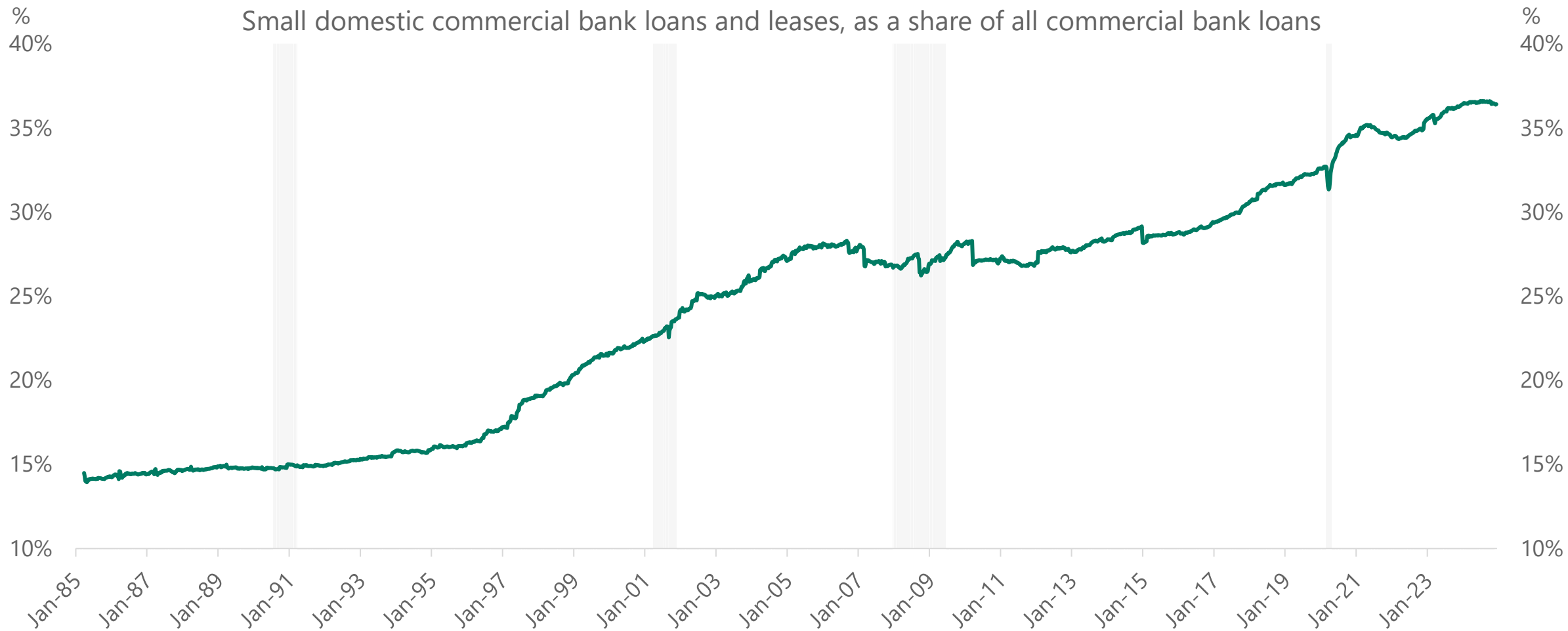
Source: FDIC, Apollo Chief Economist.

# Small bank assets as a share of total banking sector assets



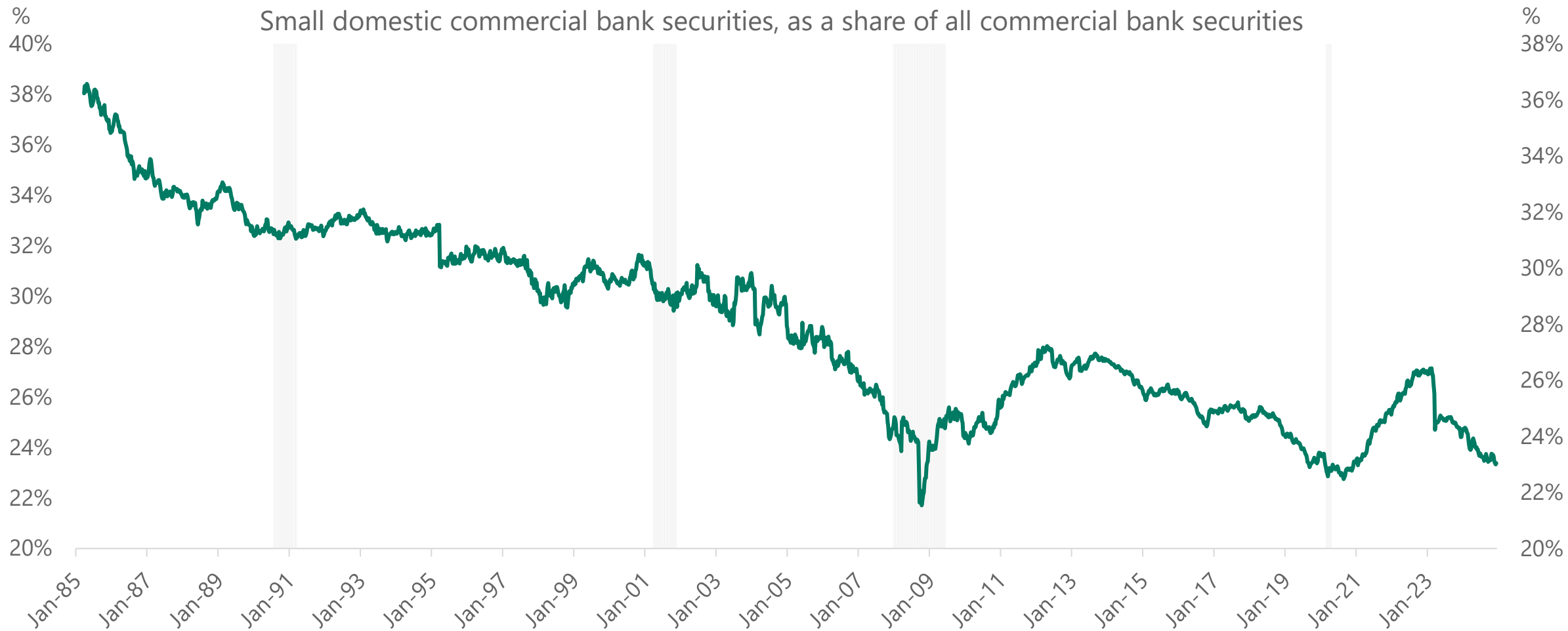
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Share of lending by smaller banks



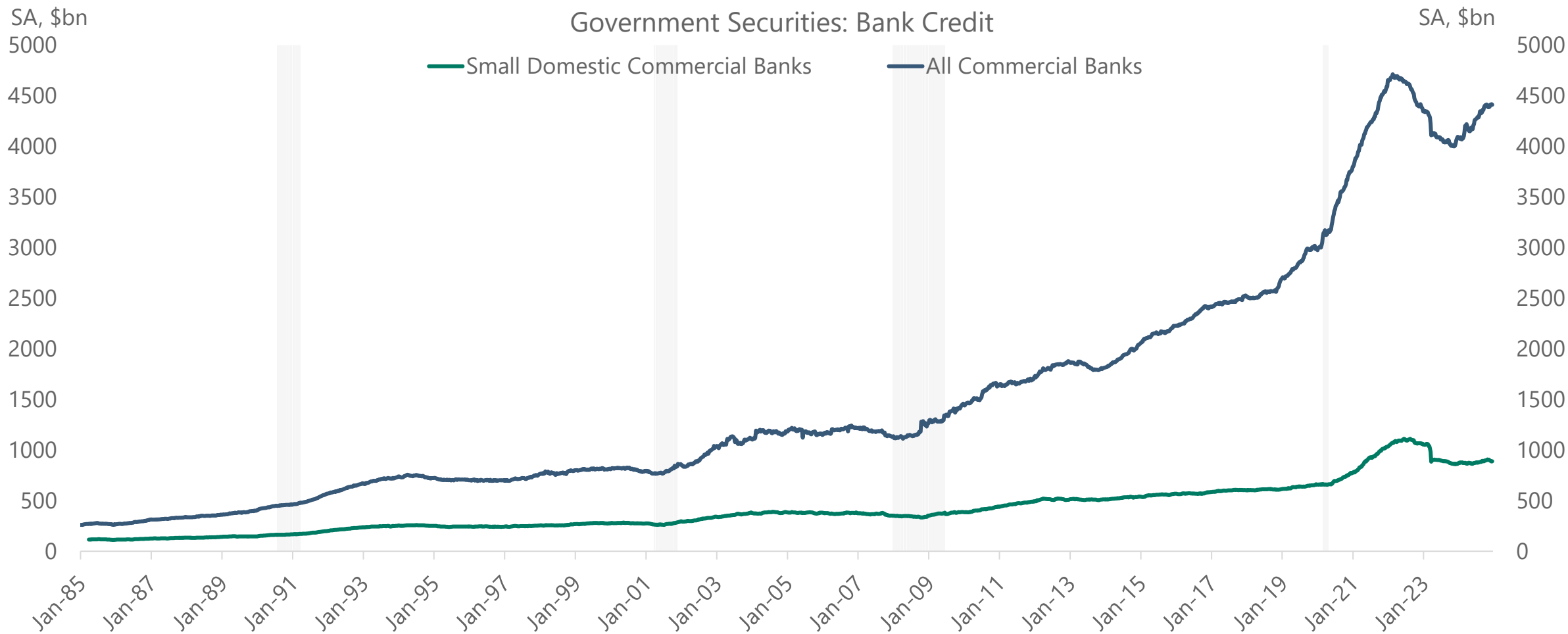
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Share of securities in the banking sector held by small banks



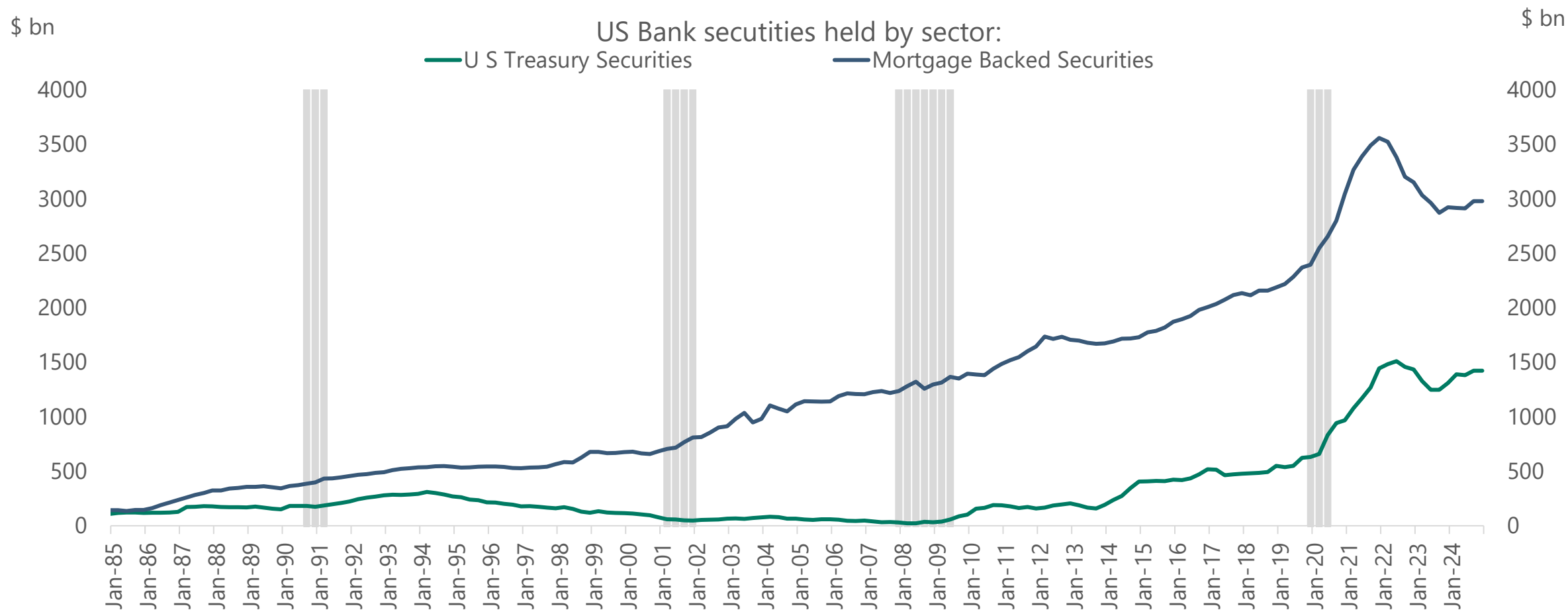
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Large banks accumulating Treasuries



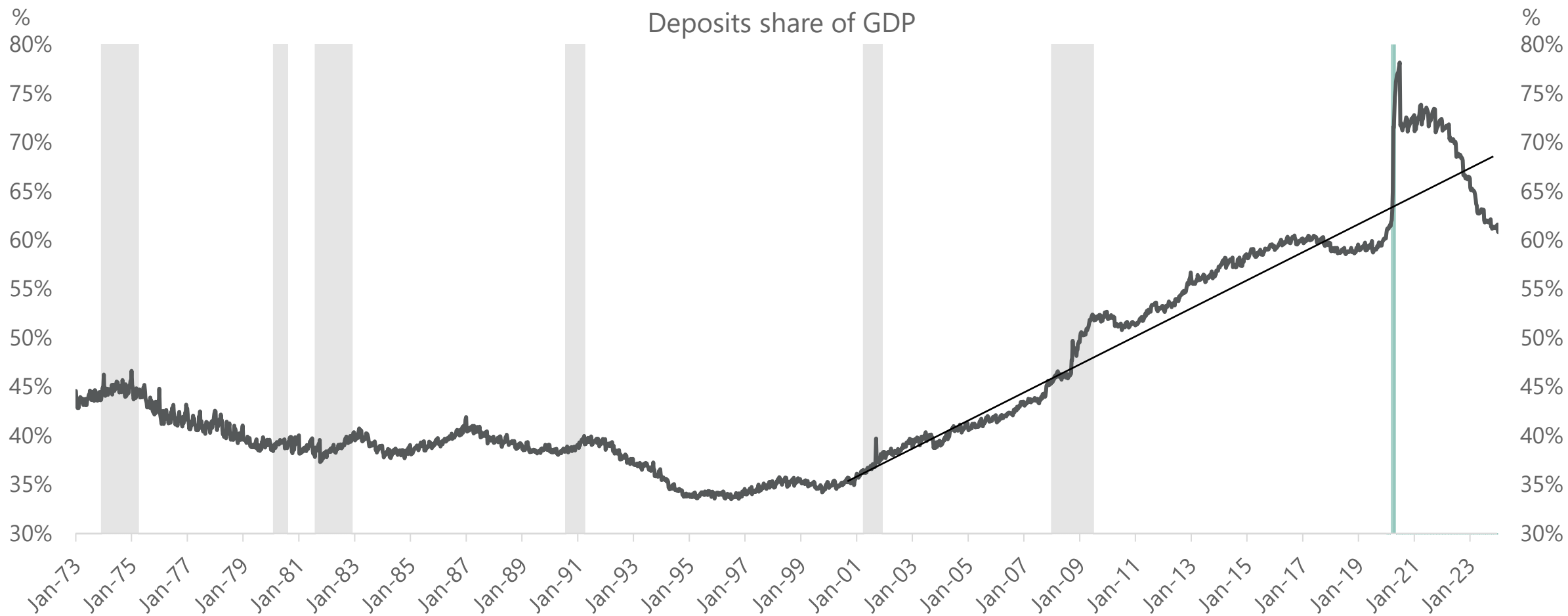
Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

# Securities held by FDIC-insured banks



Source: FDIC, Bloomberg, Apollo Chief Economist.

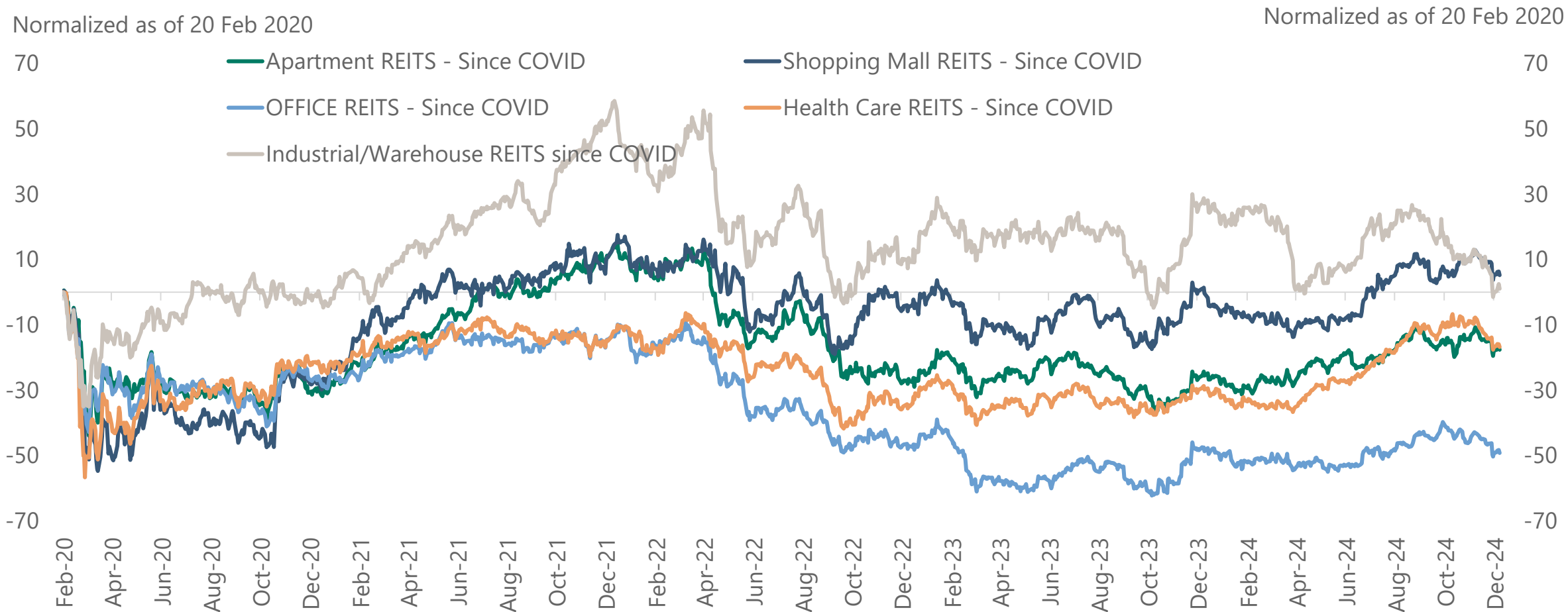
# Deposits as a share of GDP



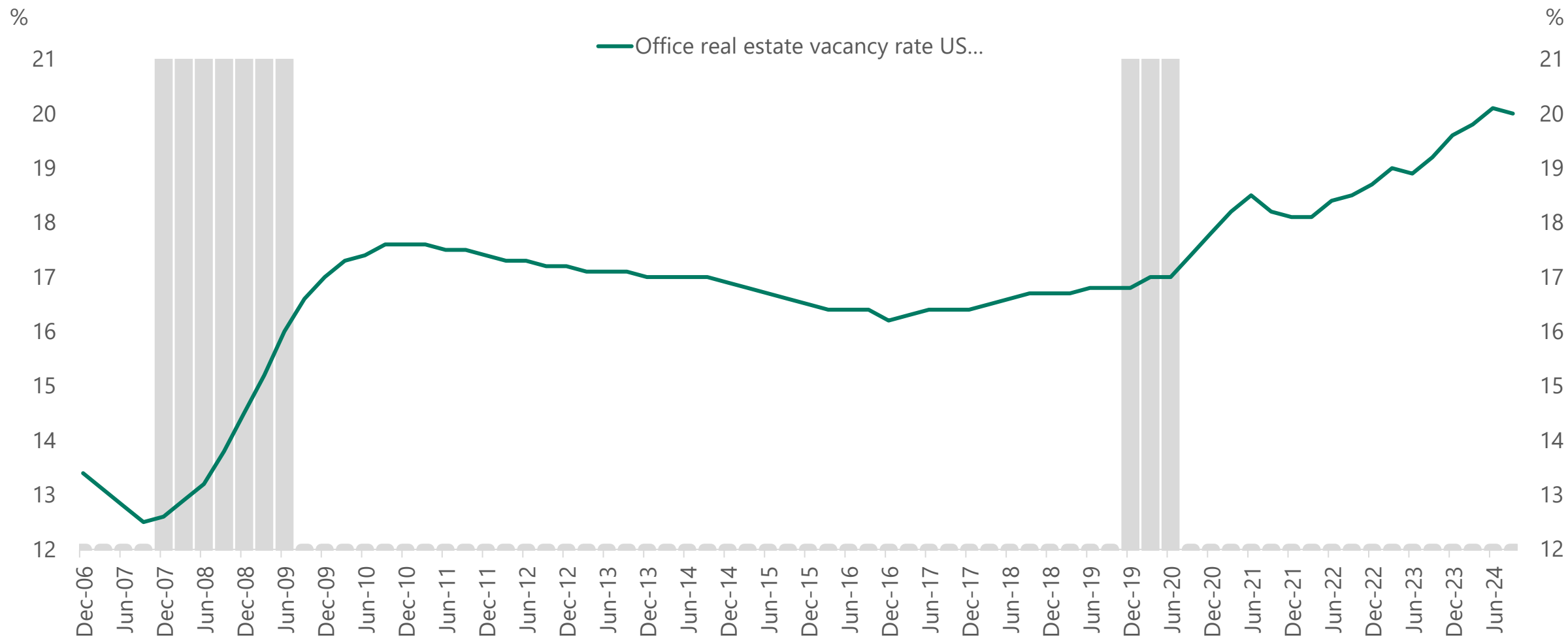


# Regional banks' asset concentration in CRE

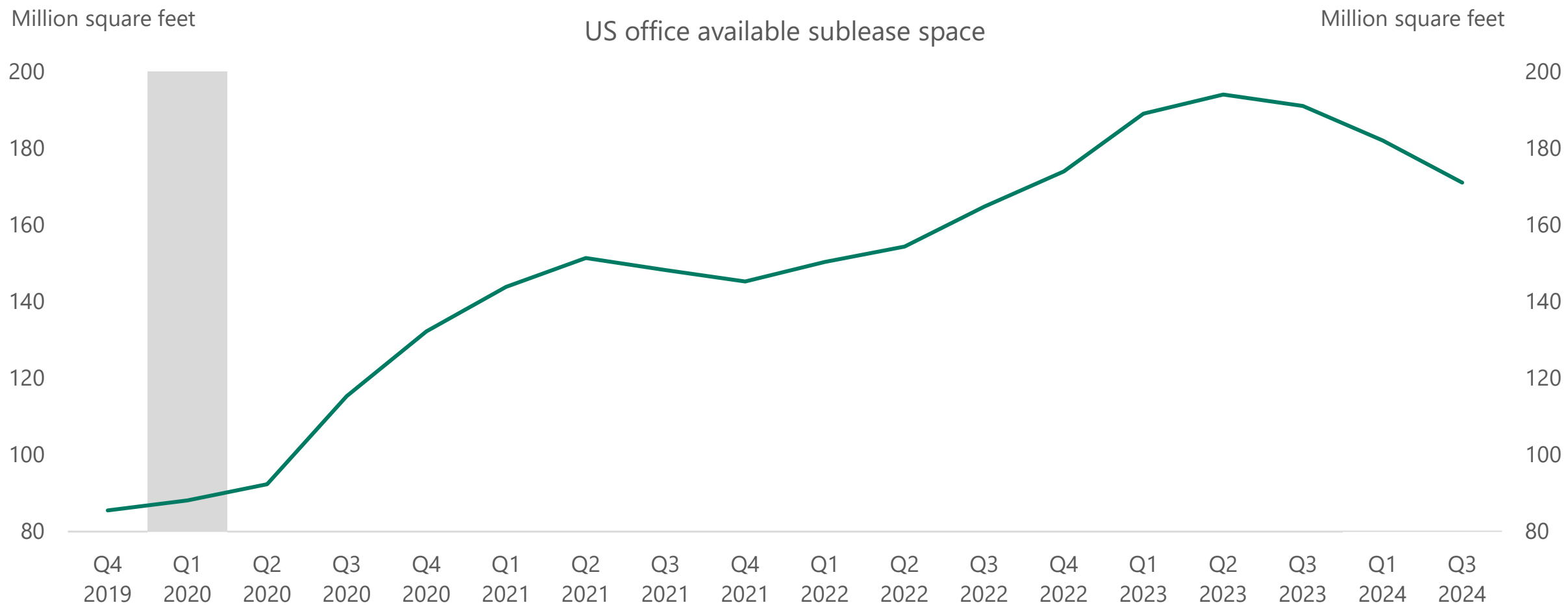
# Where are the problems in CRE?



# US: Office vacancy rate at 20%

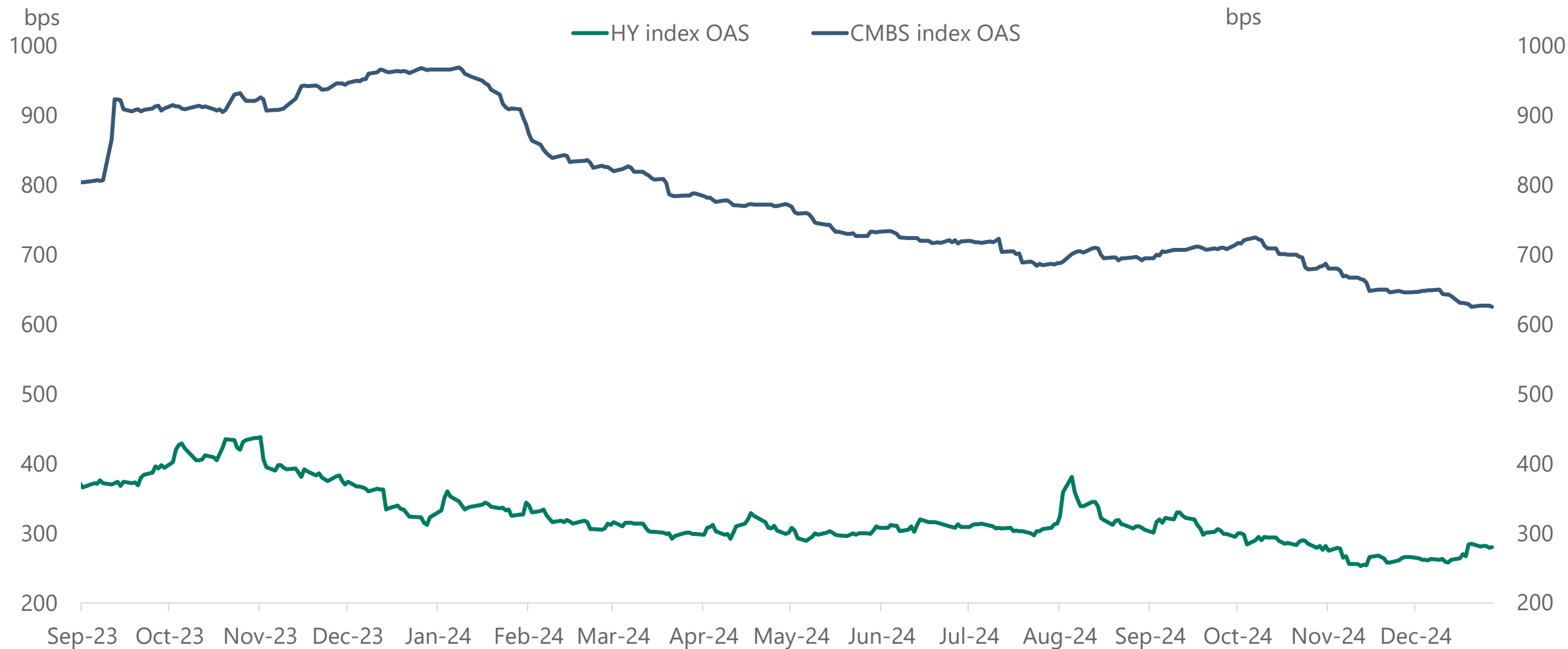


# Available US office space



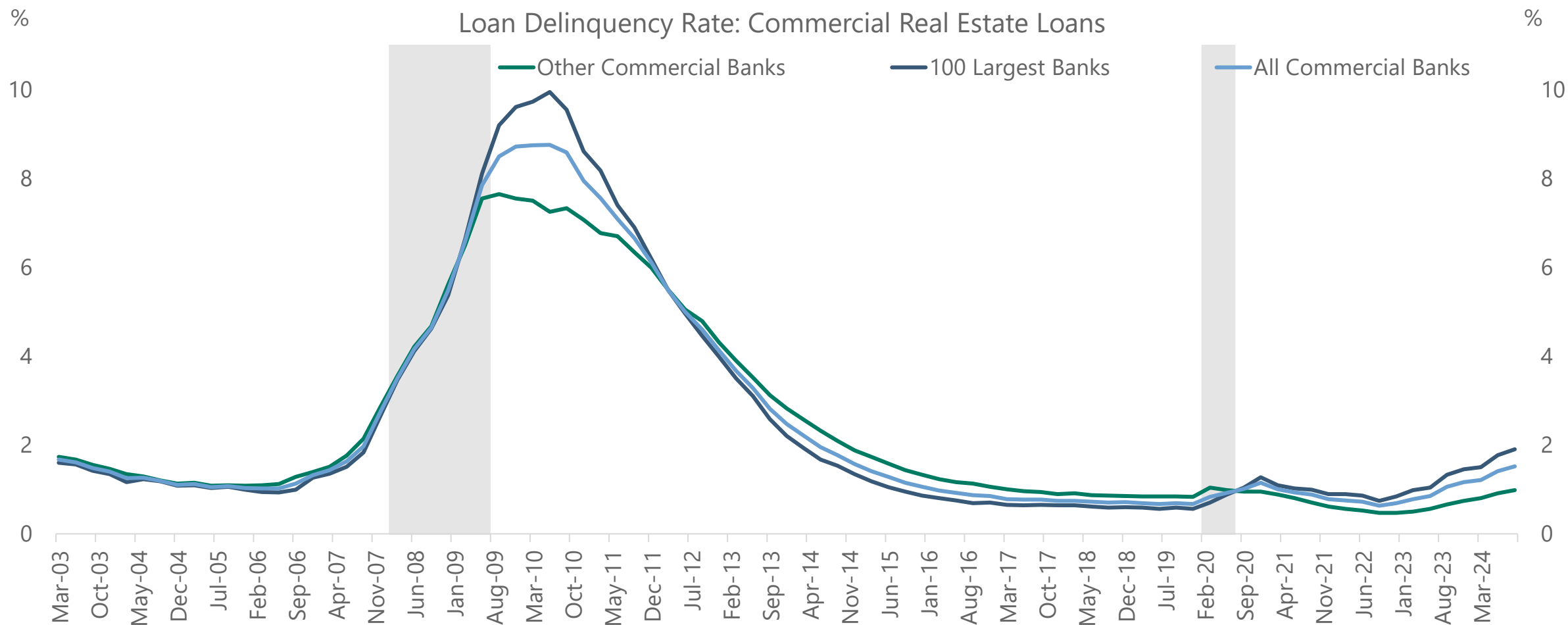
Source: CBRE, Bloomberg, Apollo Chief Economist.

# CMBS spreads compared with HY spreads

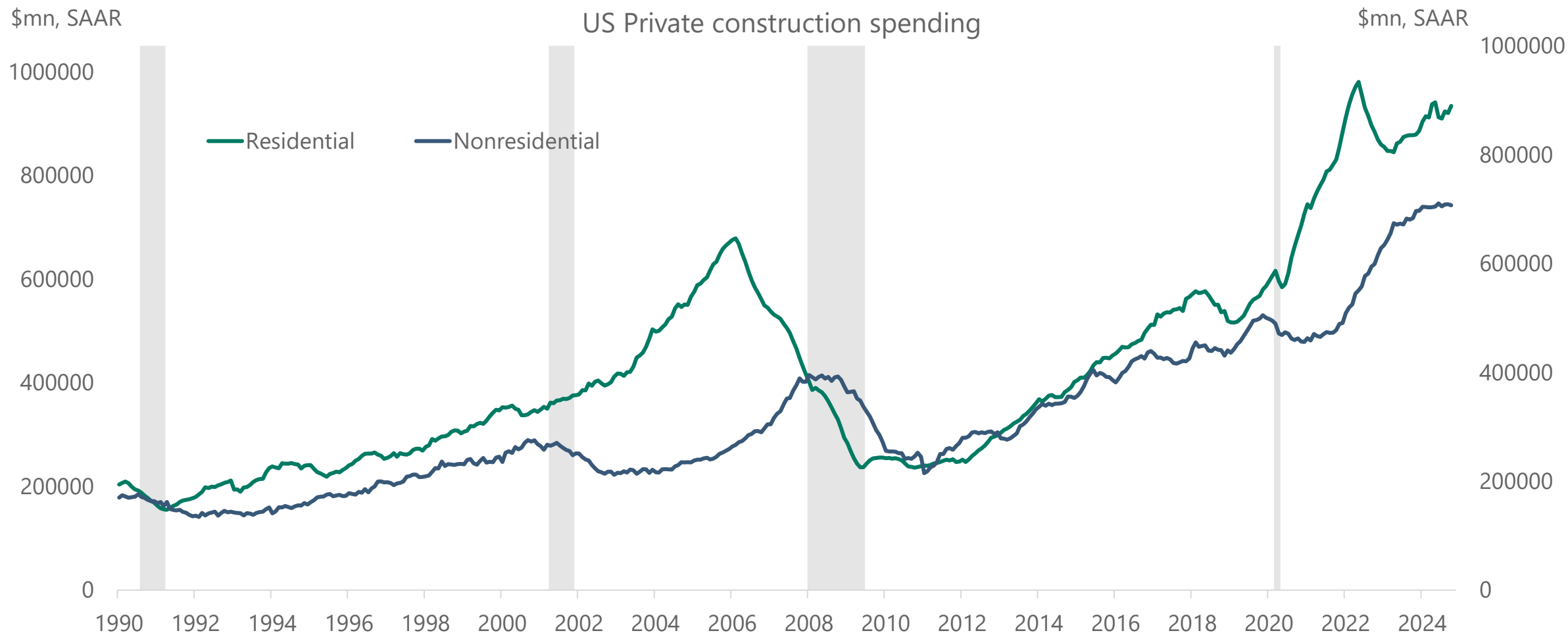


Source: Bloomberg, Apollo Chief Economist. (Note: BBG Ticker: LF98OAS Index, LC31OAS Index)

# CRE delinquency rate

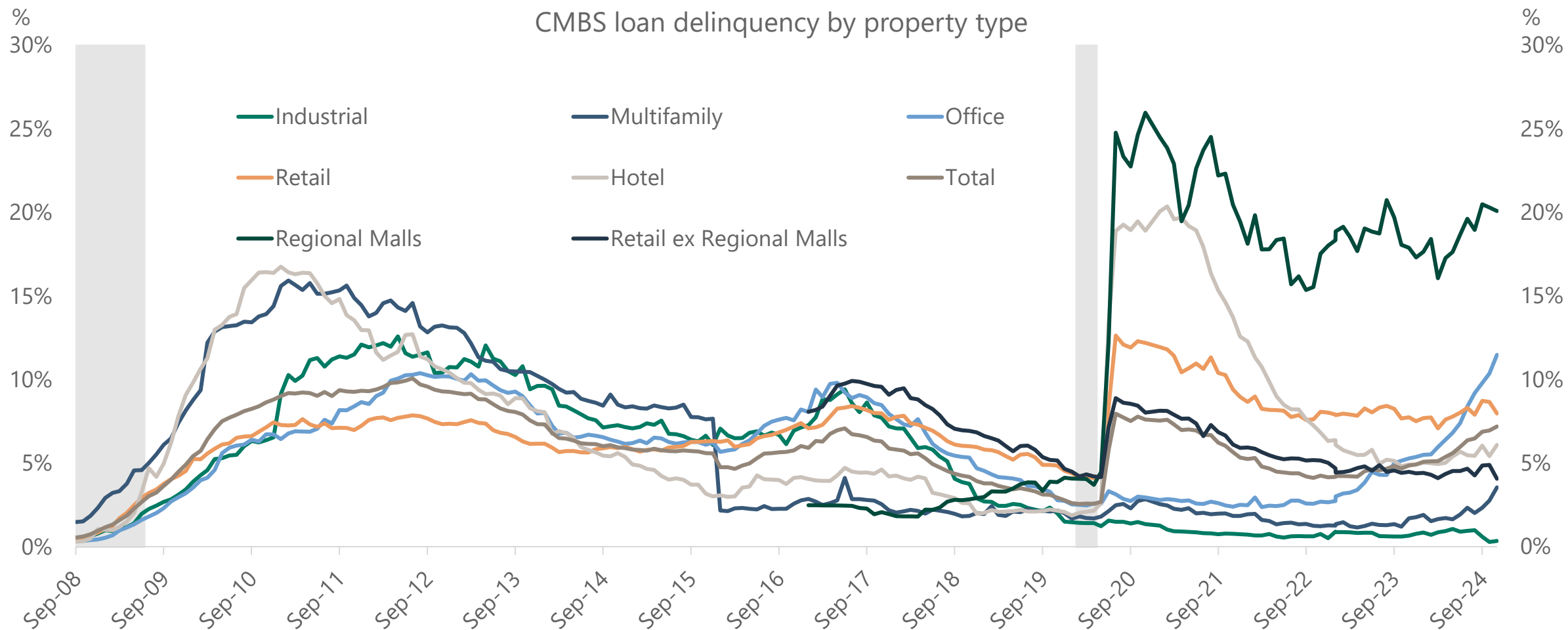


# Residential construction spending elevated



Source: Census Bureau, Haver Analytics, Apollo Chief Economist.

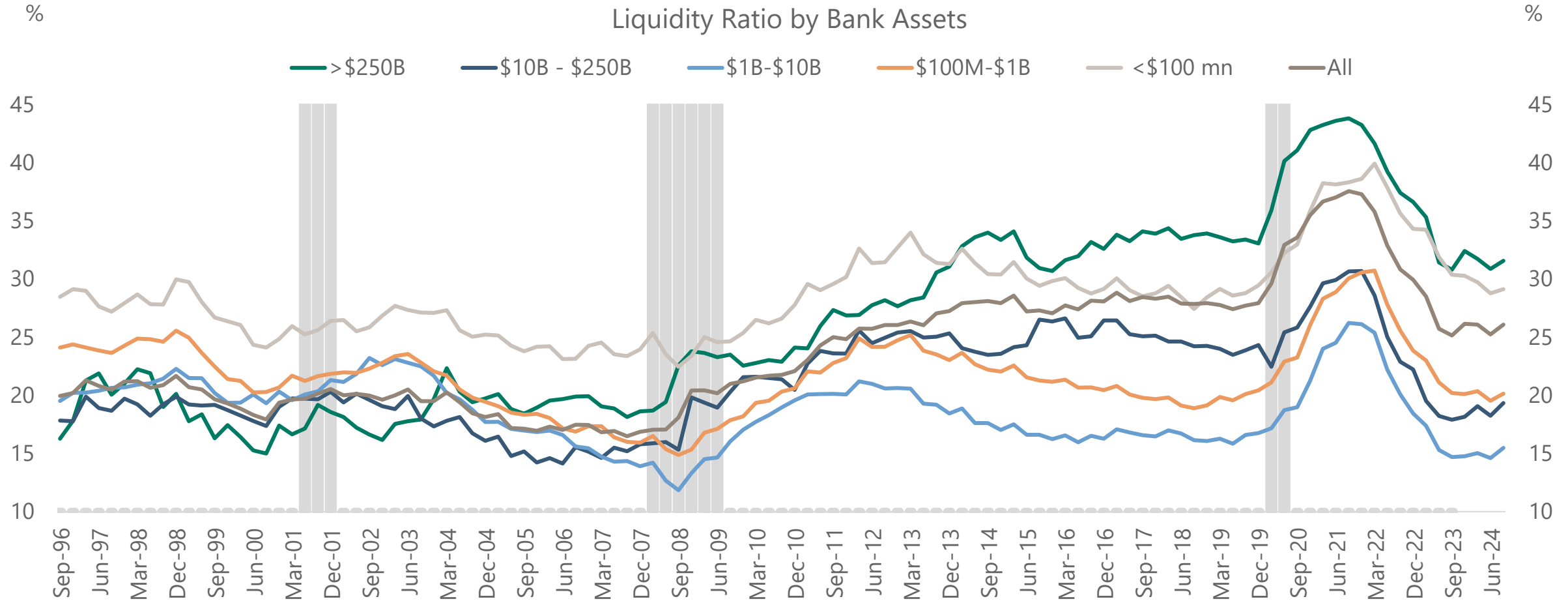
# Delinquency rates rising for multifamily





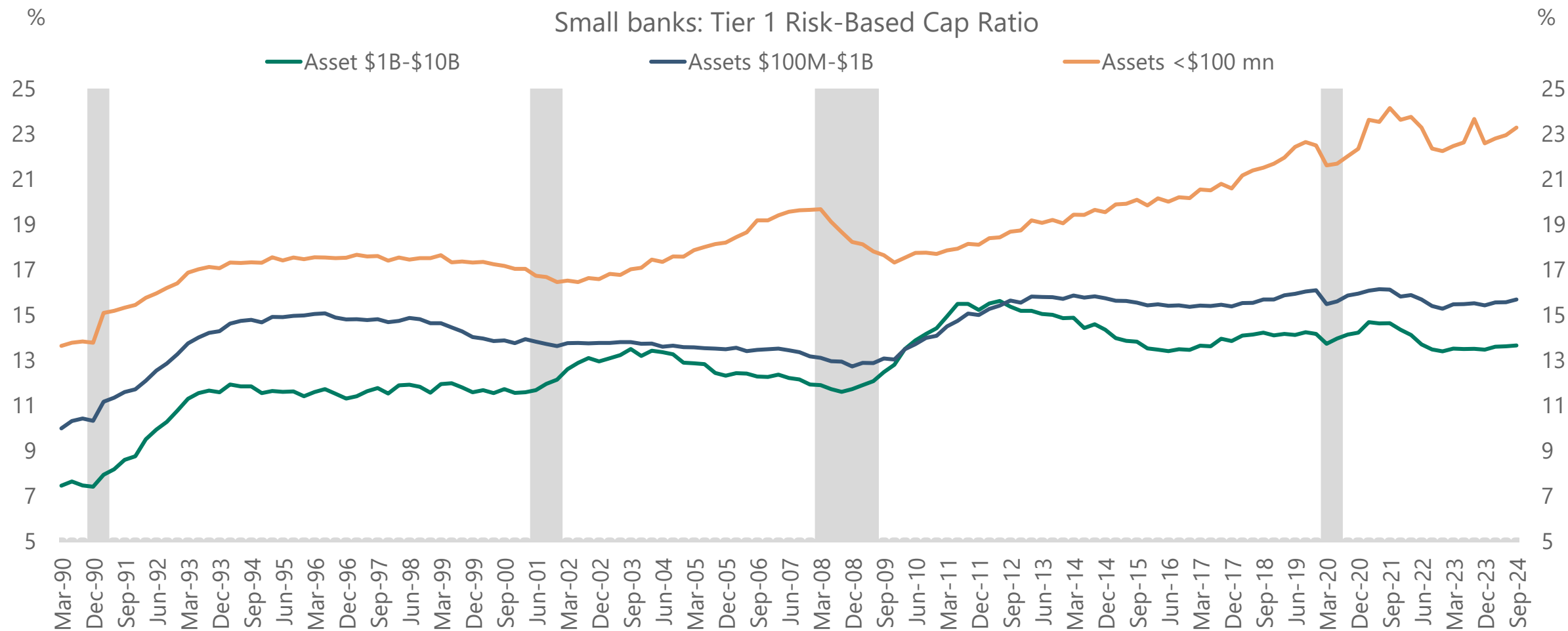
# Measures of banking sector liquidity and capital ratios

# Liquidity ratio, by bank assets: Banks with assets from \$1bn to \$10bn have lower liquidity ratios



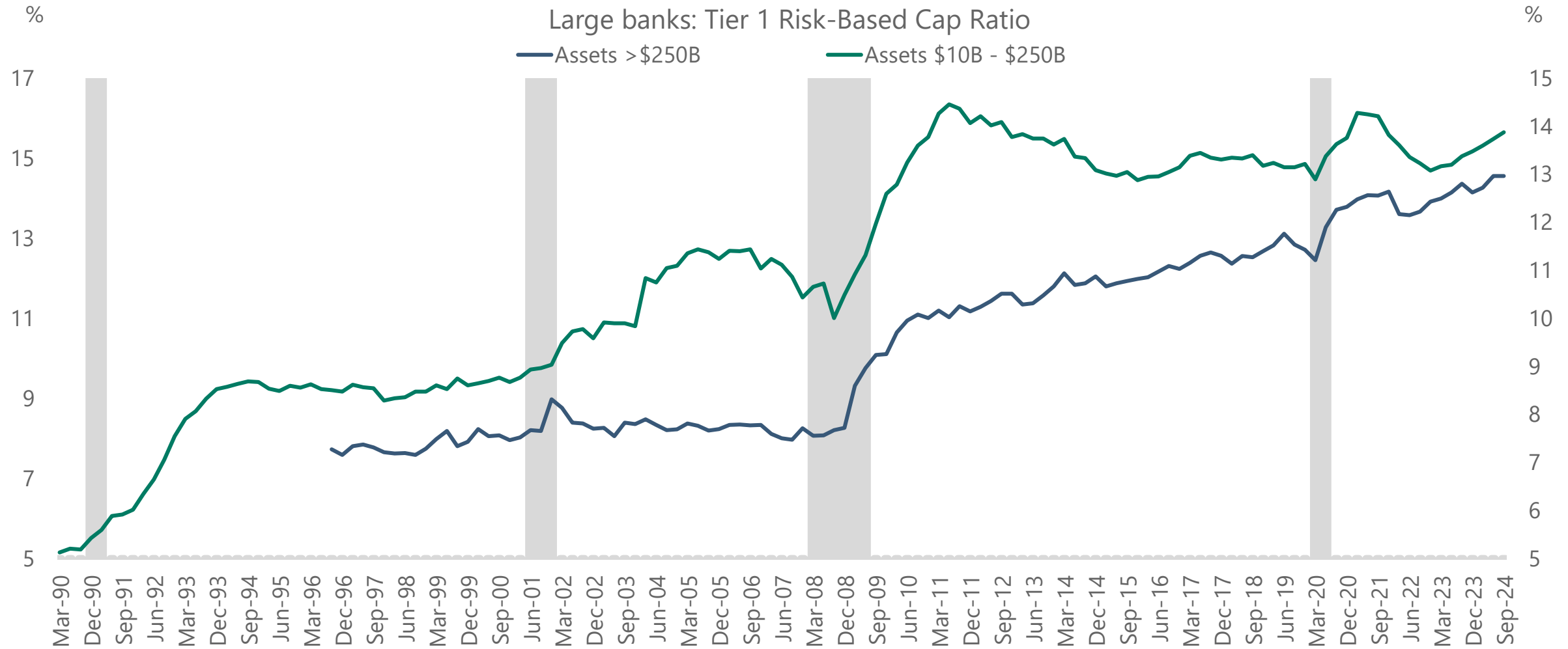
Source: FDIC, Bloomberg, Apollo Chief Economist.

# Tier-1 risk-based capital ratio for banks, by size



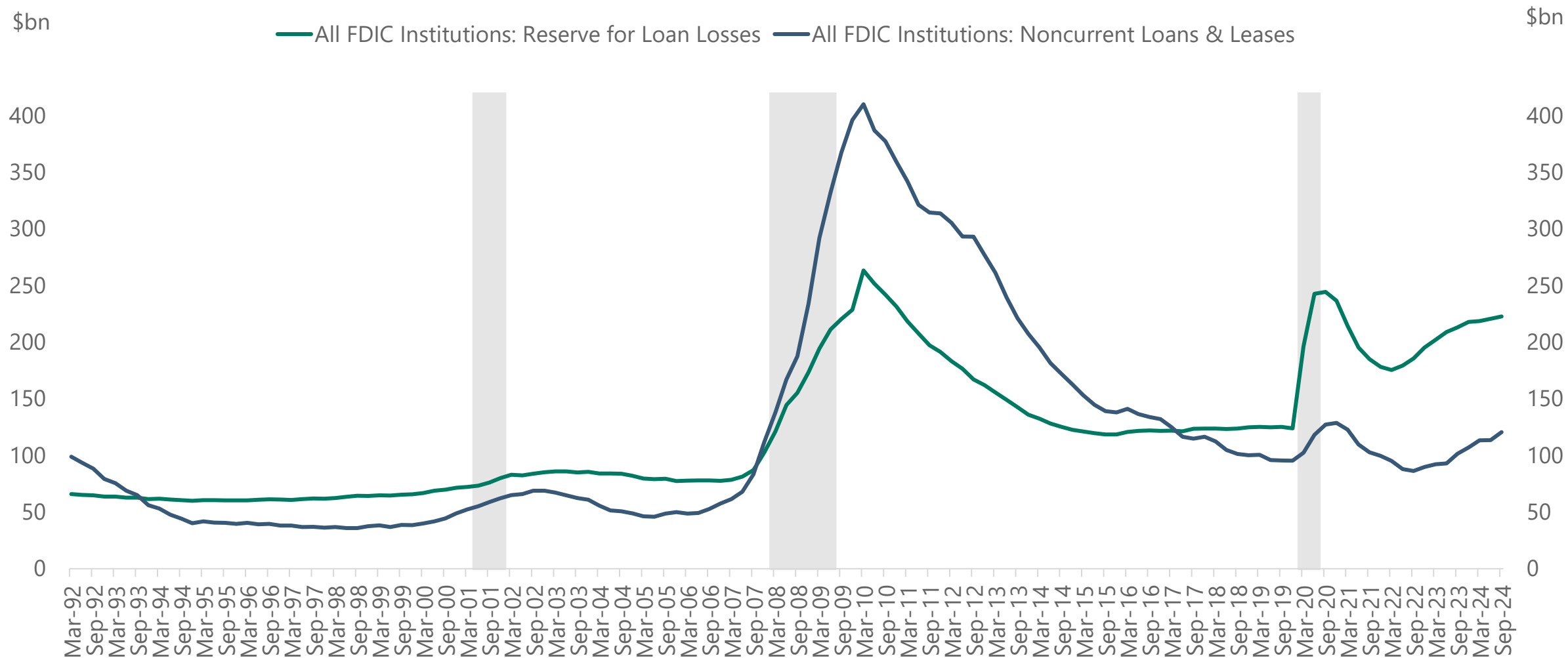
Source: FDIC, Apollo Chief Economist. Note: As per FDIC, large banks are defined as institutions with total assets of \$10 billion or more and small banks have total assets under \$10 billion.

# Tier 1 risk-based capital ratio for larger banks

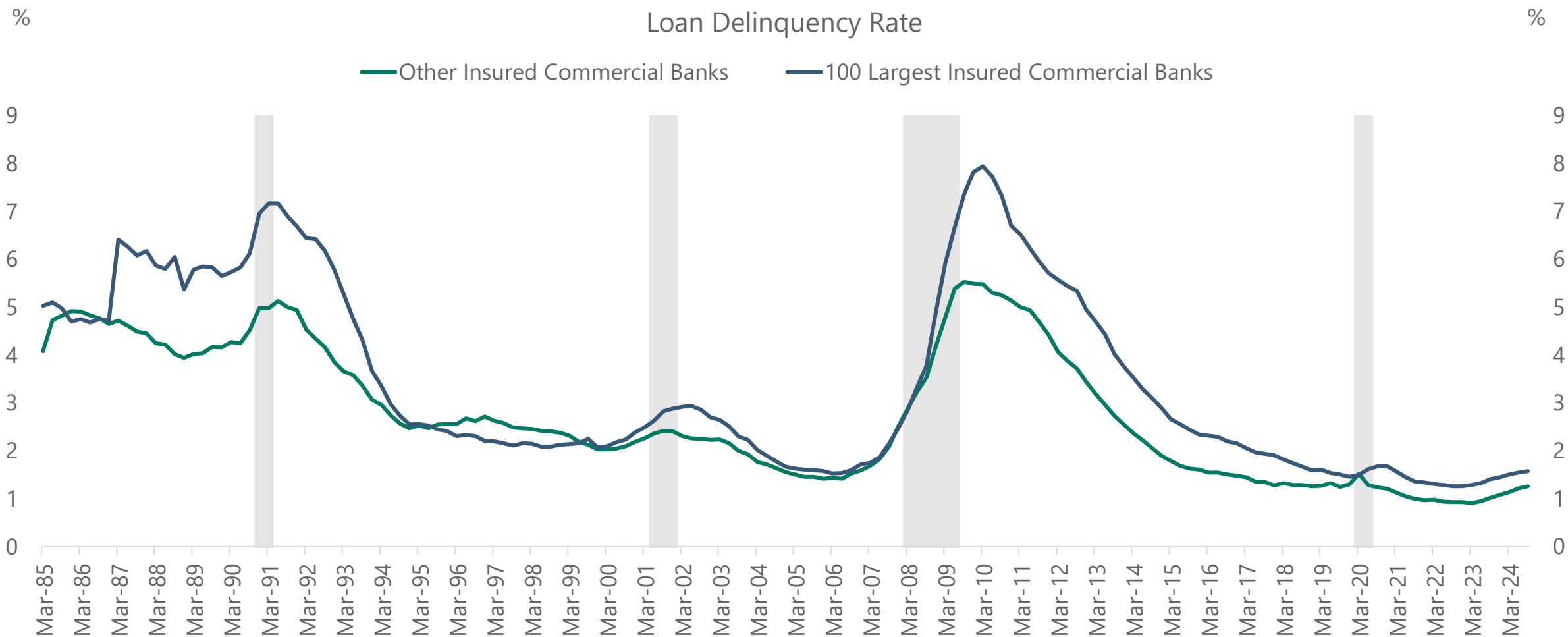


Source: FDIC, Apollo Chief Economist. Note: As per FDIC, large banks are defined as institutions with total assets of \$10 billion or more and small banks have total assets under \$10 billion..

# Reserves for loan losses



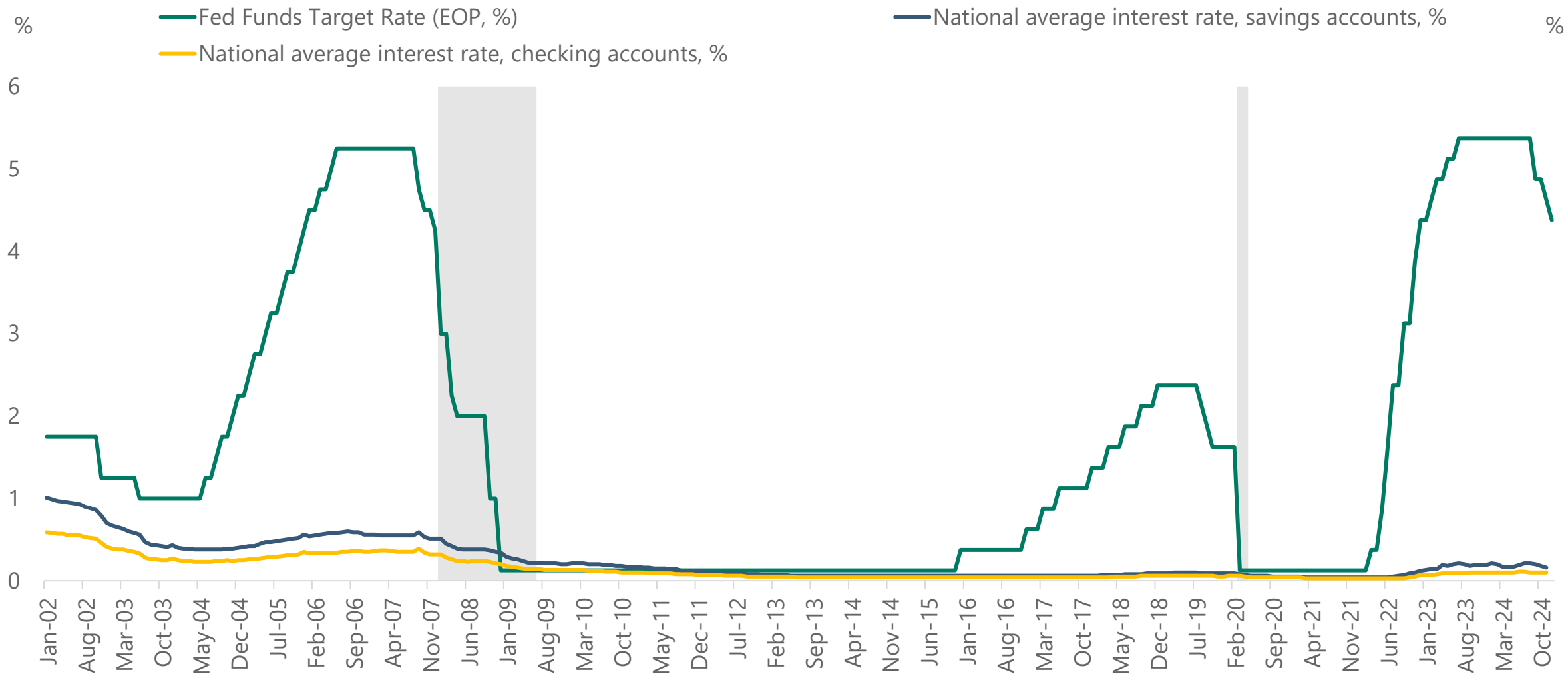
# Loan delinquency rates for large and small banks



Source: Federal Reserve Board, Haver Analytics, Apollo Chief Economist.

Fed funds rate versus national average  
interest rate on checking accounts and CDs

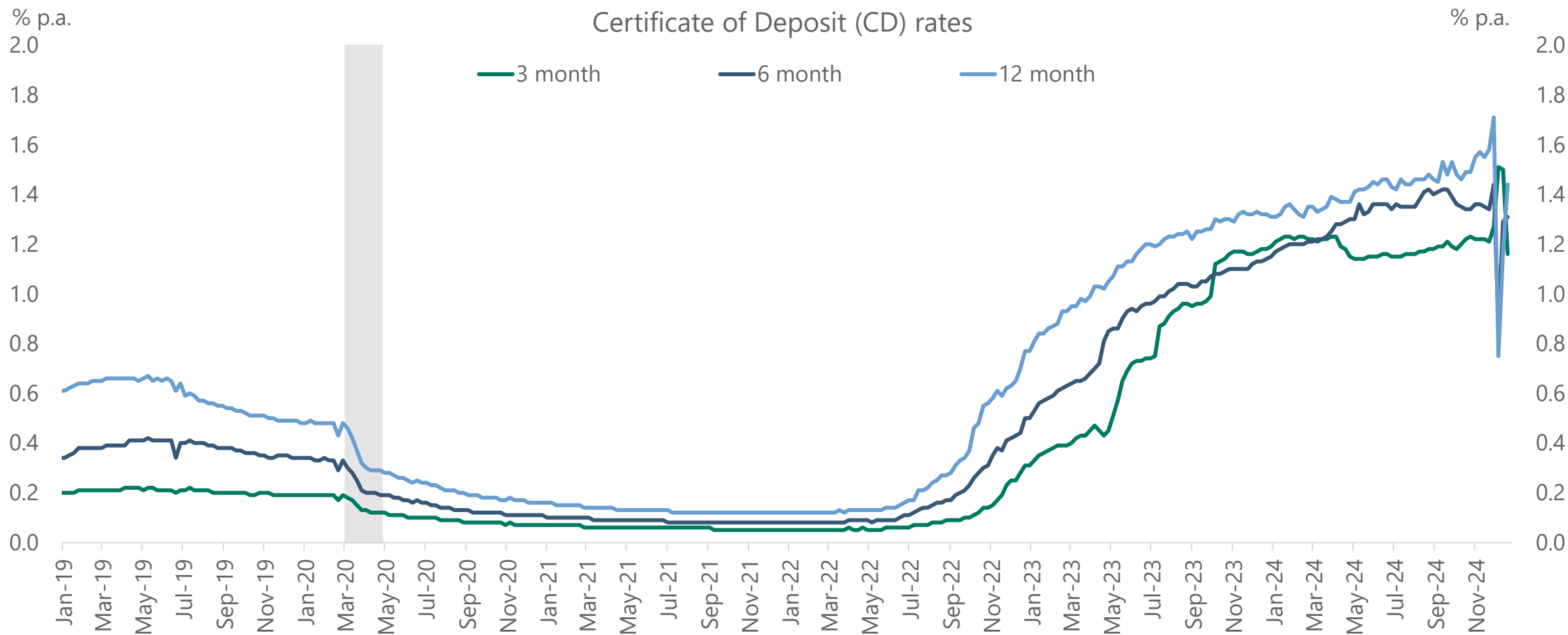
# Interest rate on checking accounts versus the Fed funds rate



Source: FRB, RateWatch, Haver Analytics, Apollo Chief Economist.



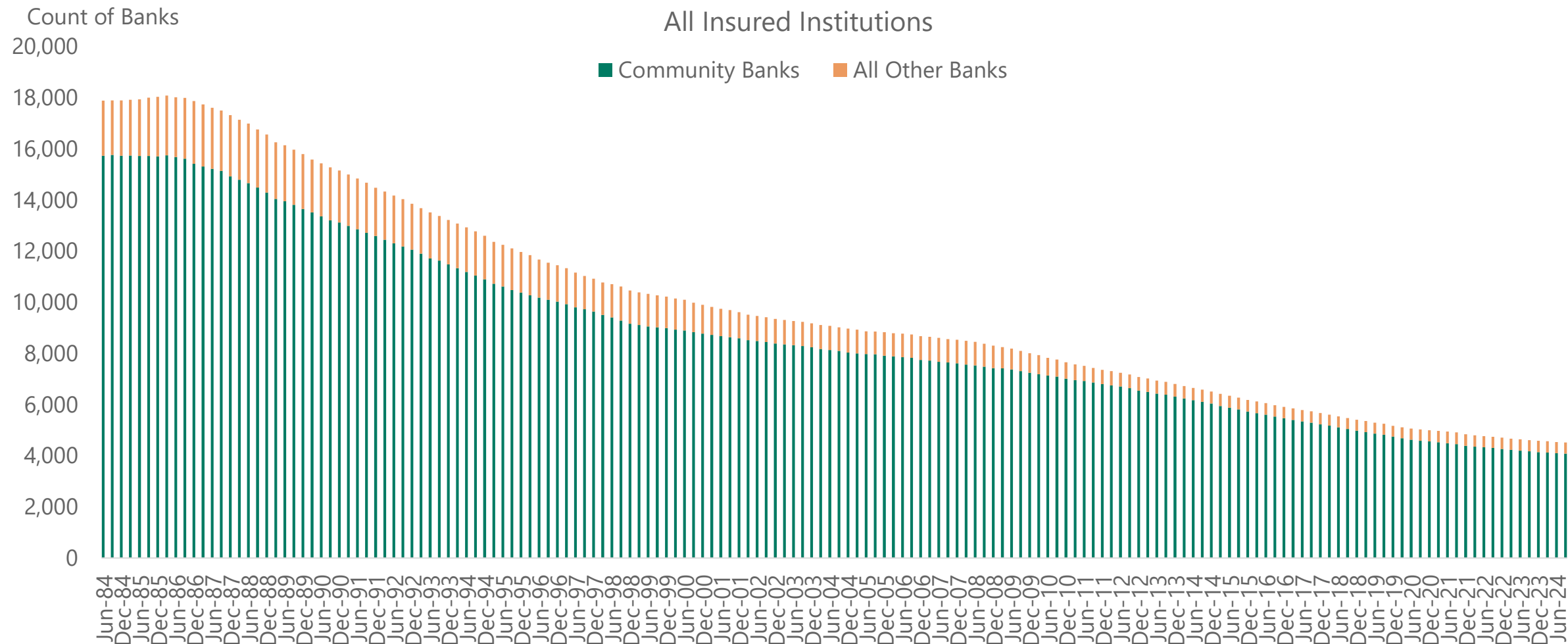
# CD rates have slowly increased as the Fed has raised interest rates



Source: RateWatch, Haver Analytics, Apollo Chief Economist. Note: For \$10,000 Minimum CD

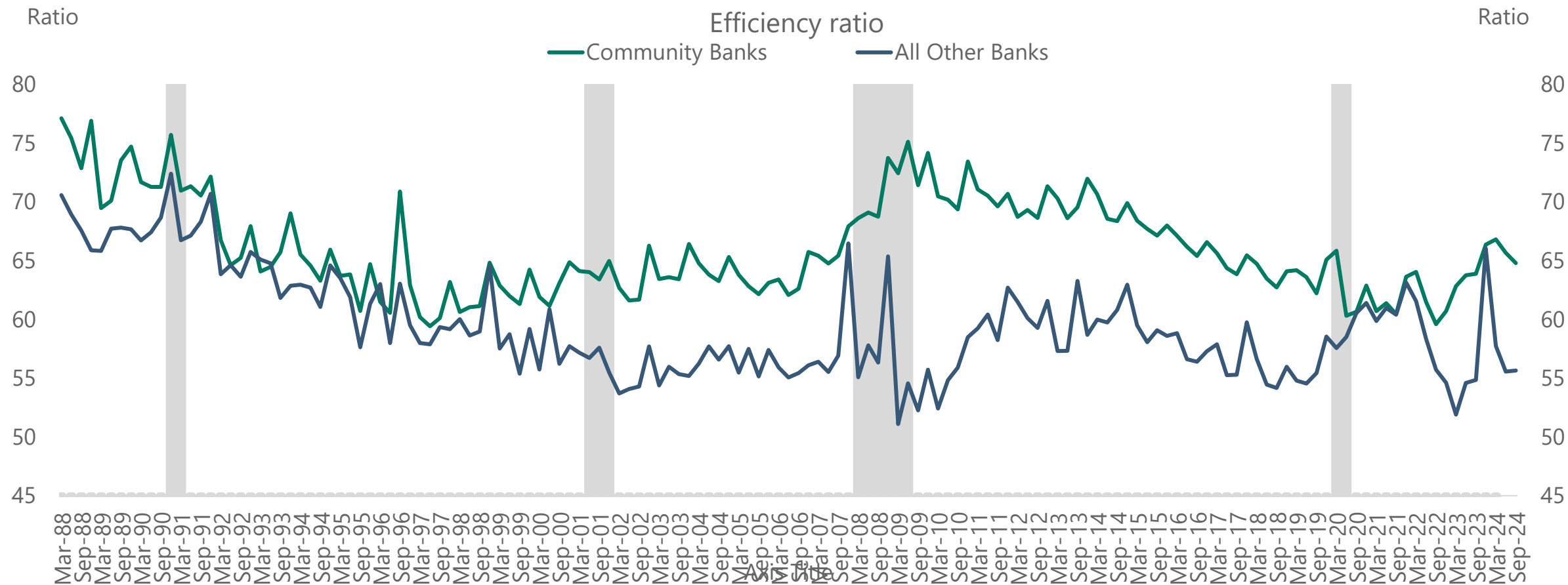
# Community banks

# 90% of all banks in the US are community banks



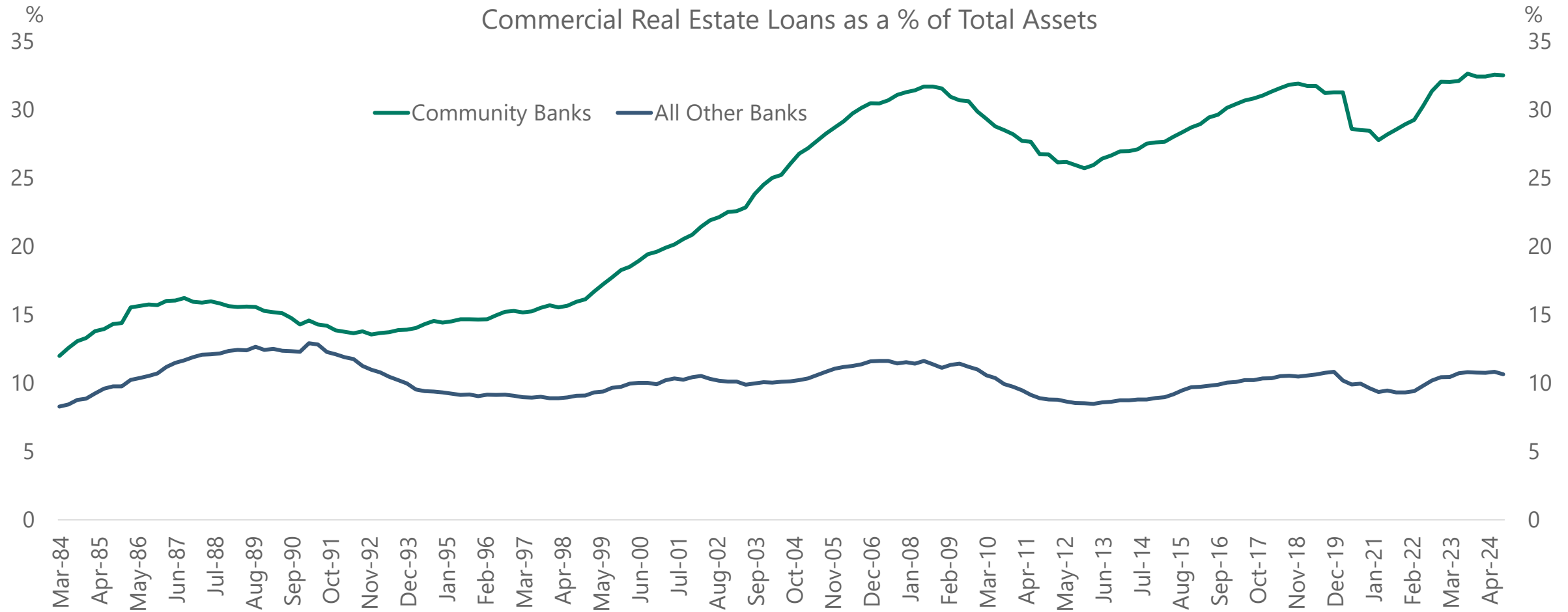
Source: FDIC, Apollo Chief Economist.

# The average efficiency ratio is 58% for all types of banks



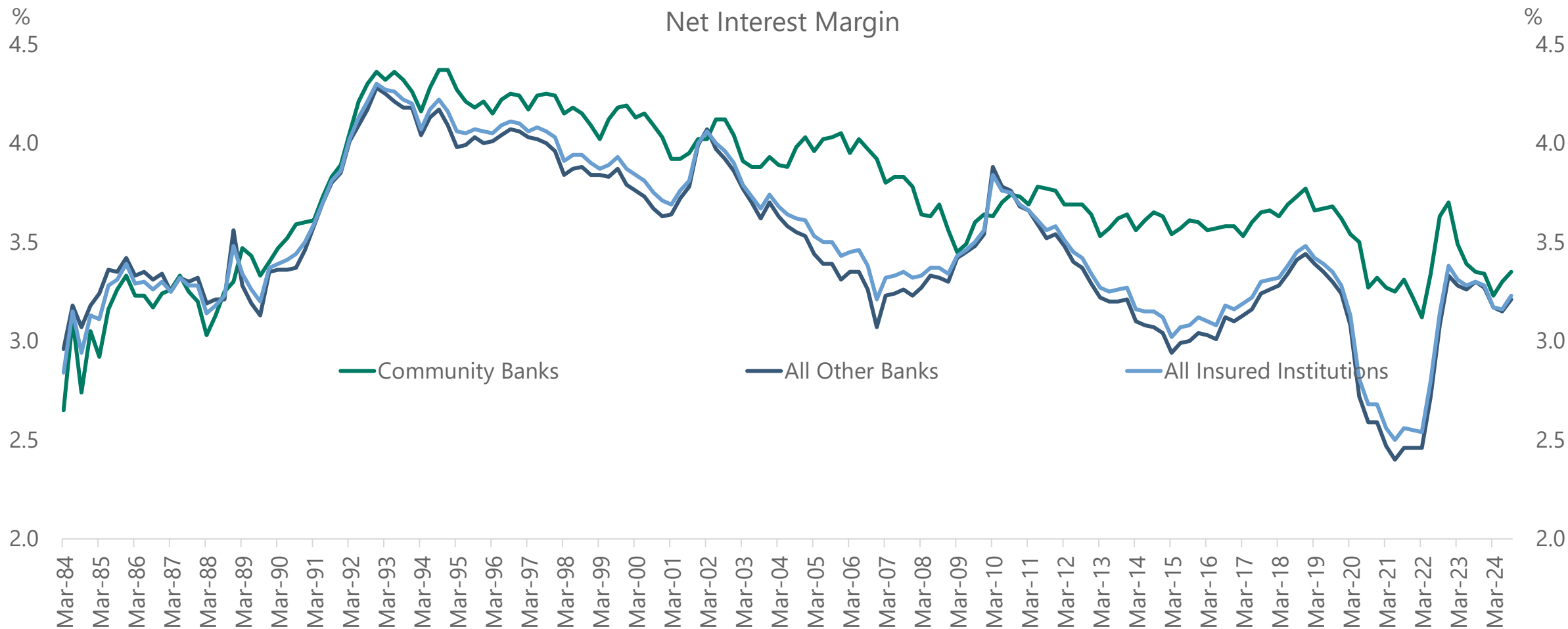
Source: Haver Analytics, Bloomberg, Apollo Chief Economist. A bank's efficiency ratio is defined as the ratio of a bank's non-interest expense to revenues. Higher efficiency ratios indicate less efficient banks.

# CRE loans make up a significant share of community banks' assets



Source: FDIC, Apollo Chief Economist.

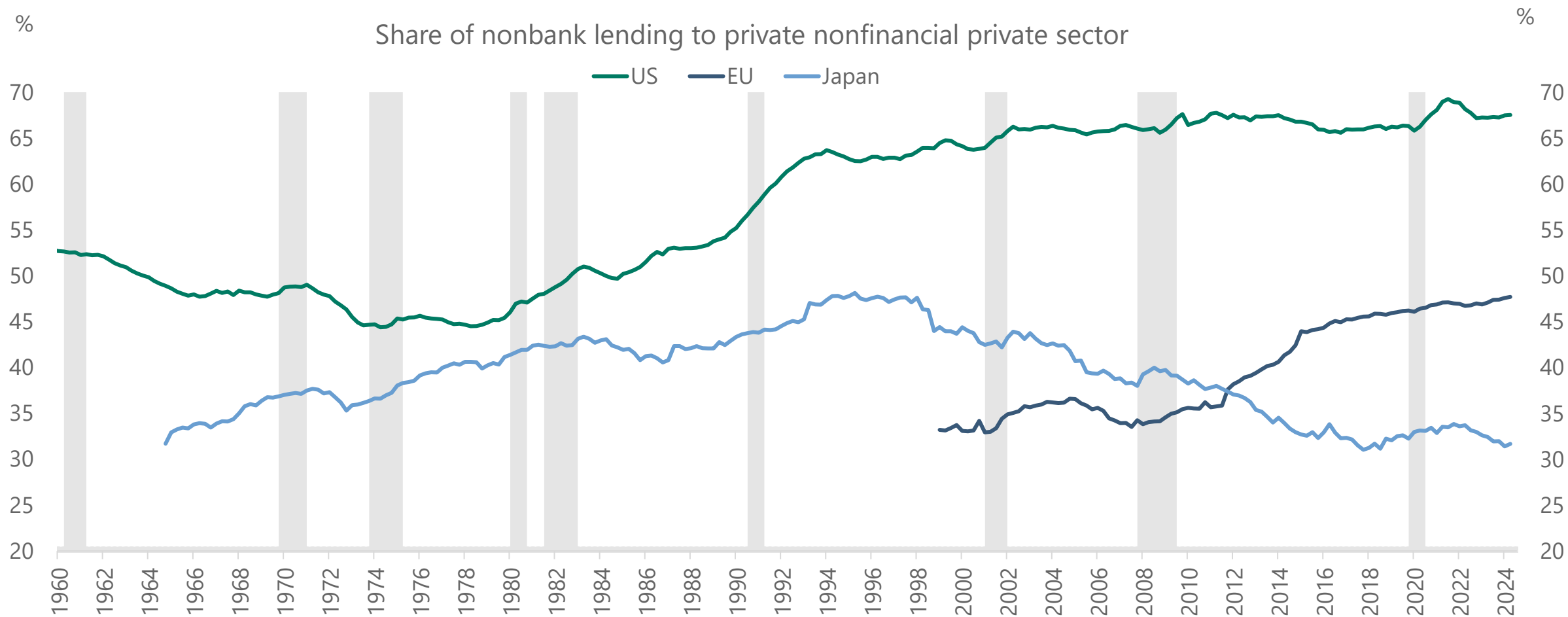
# Net interest margin



Source: FDIC, Apollo Chief Economist.

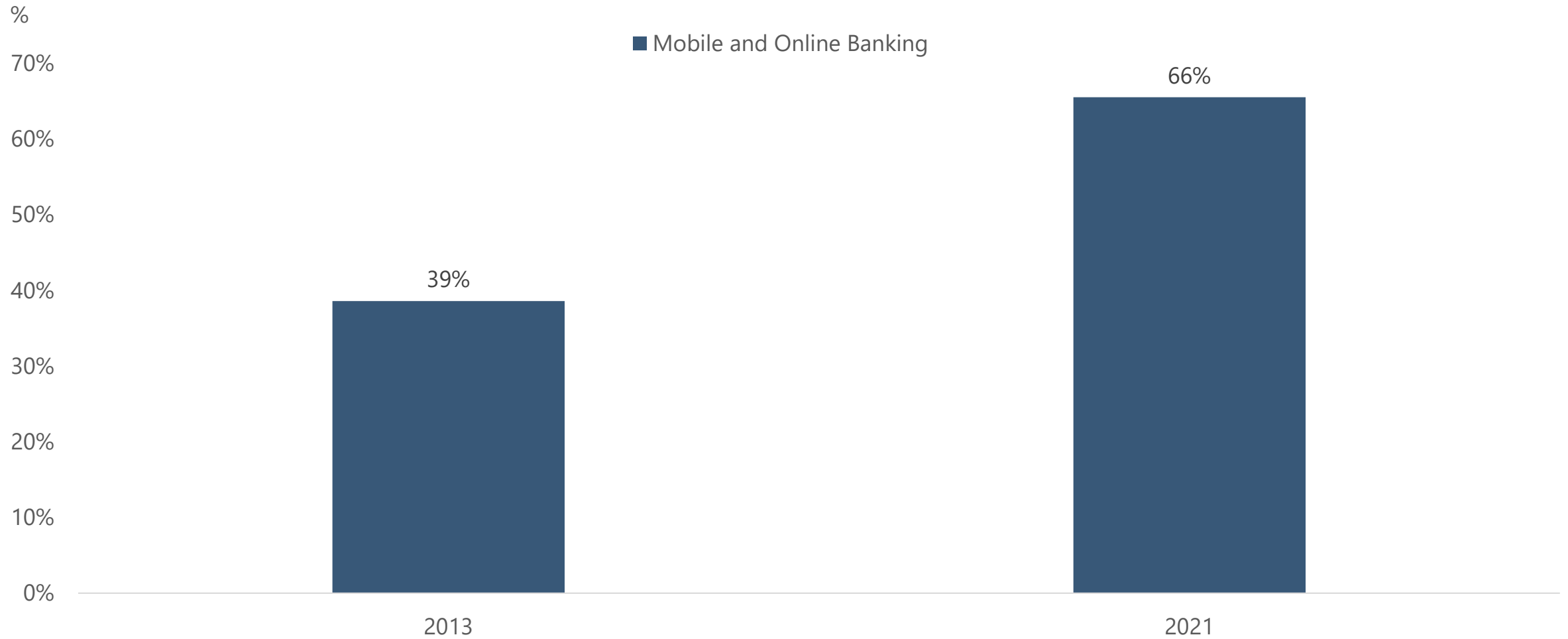
# Other banking sector indicators

The US is a market-based financial system. EU and Japan are bank-based.



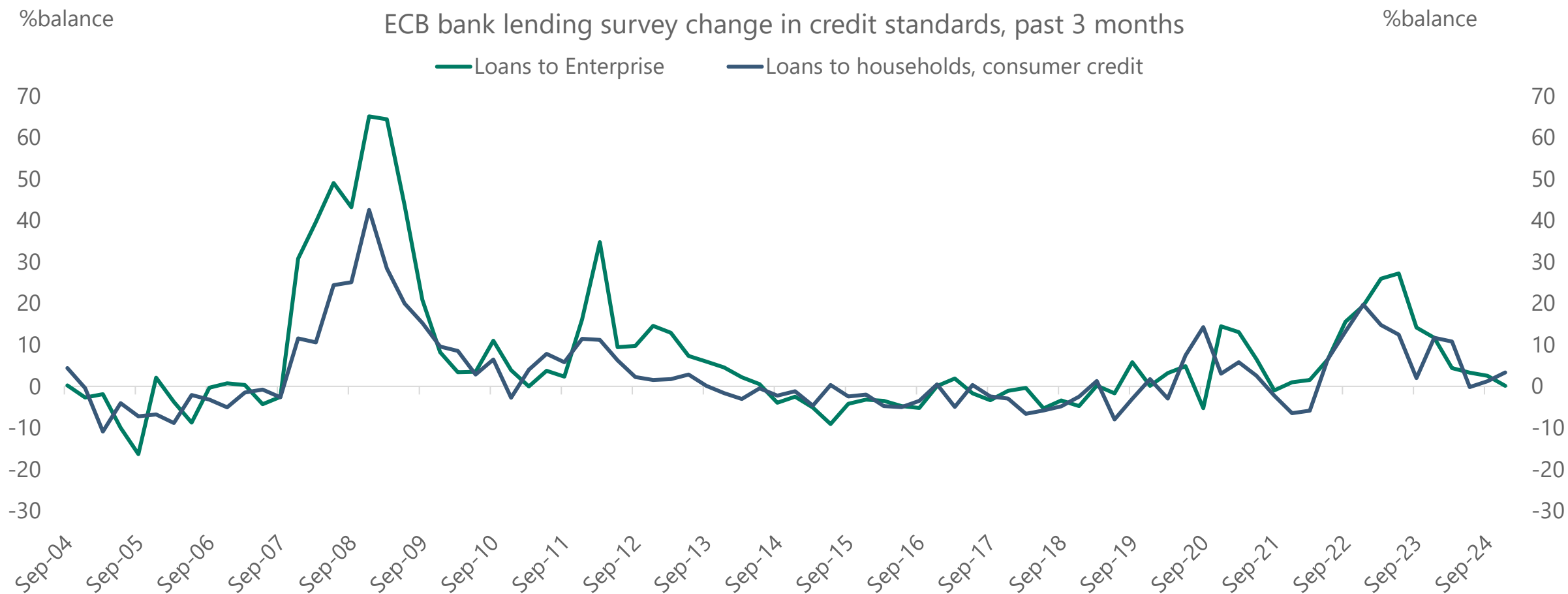


# Primary method of bank account access: More and more households use mobile and online banking



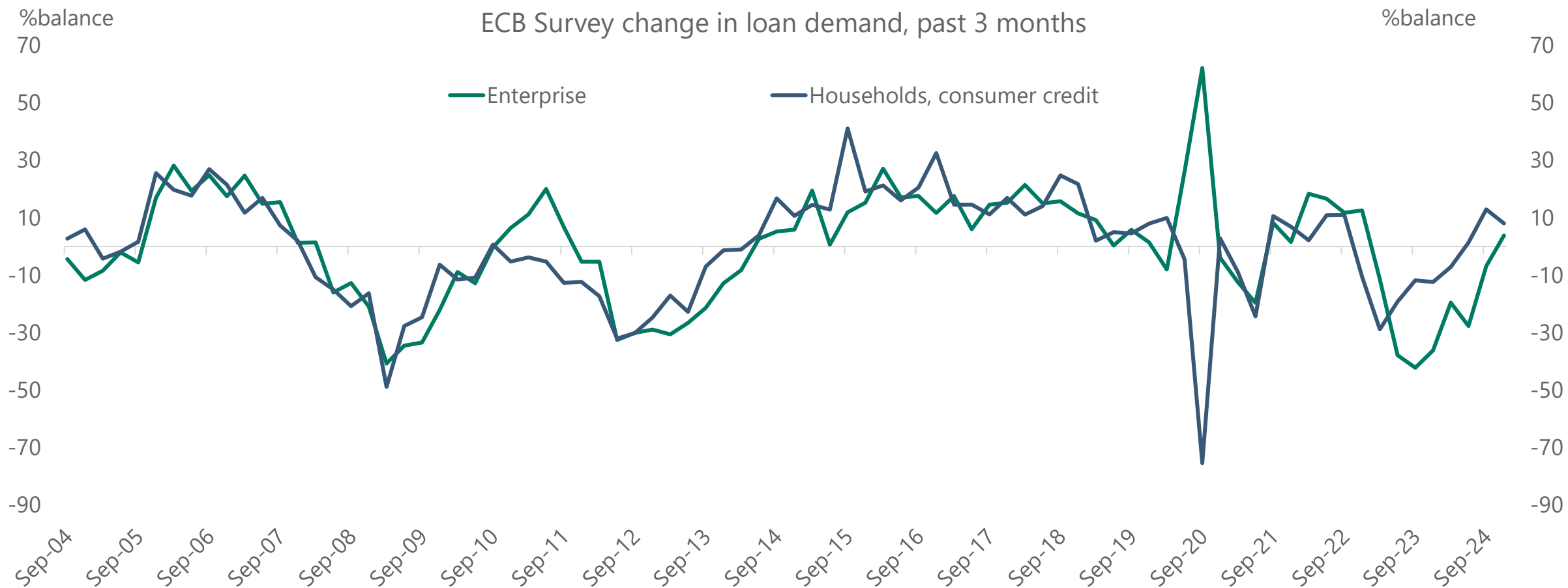
Source: FDIC, Apollo Chief Economist. Note: The data shows the sum of households using mobile and online banking, some respondents may use both.

# Euro Area credit conditions

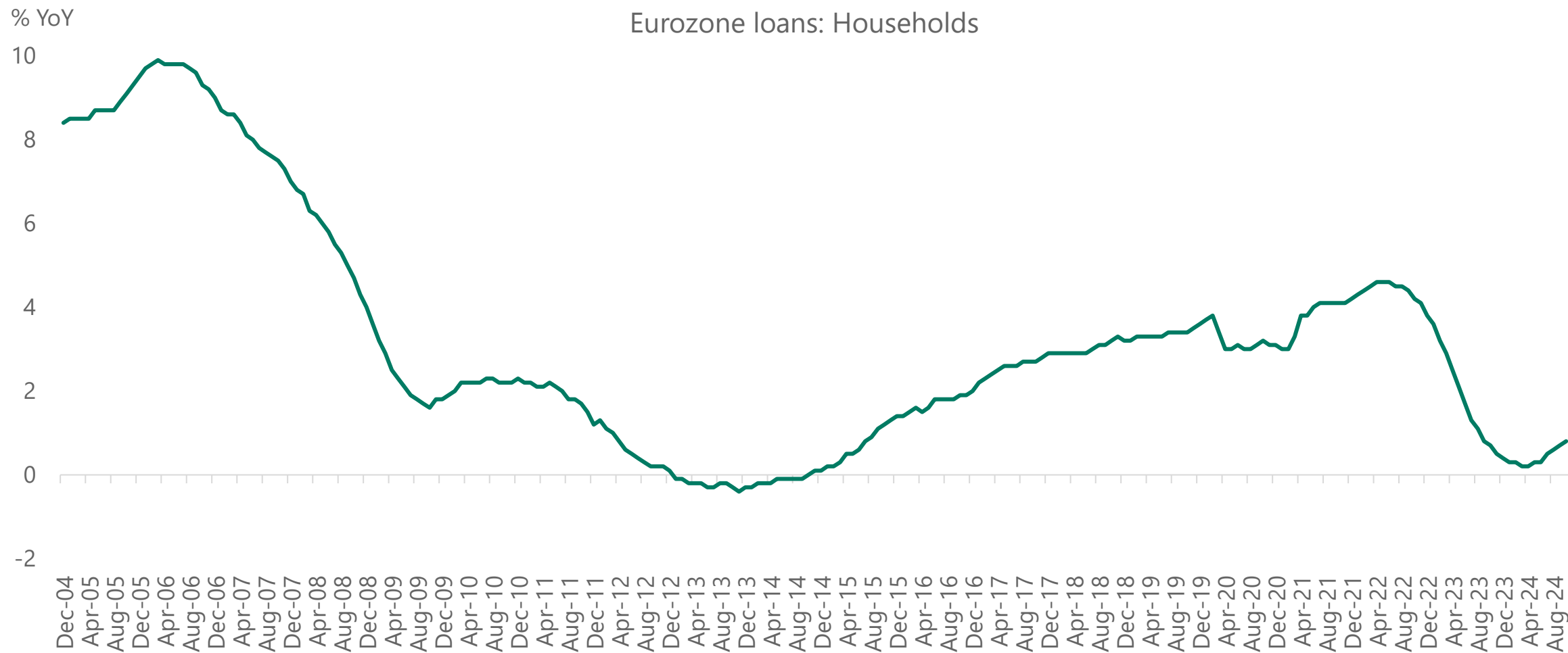


Source: ECB Bank Lending Survey, Bloomberg, Apollo Chief Economist

# Euro Area loan demand

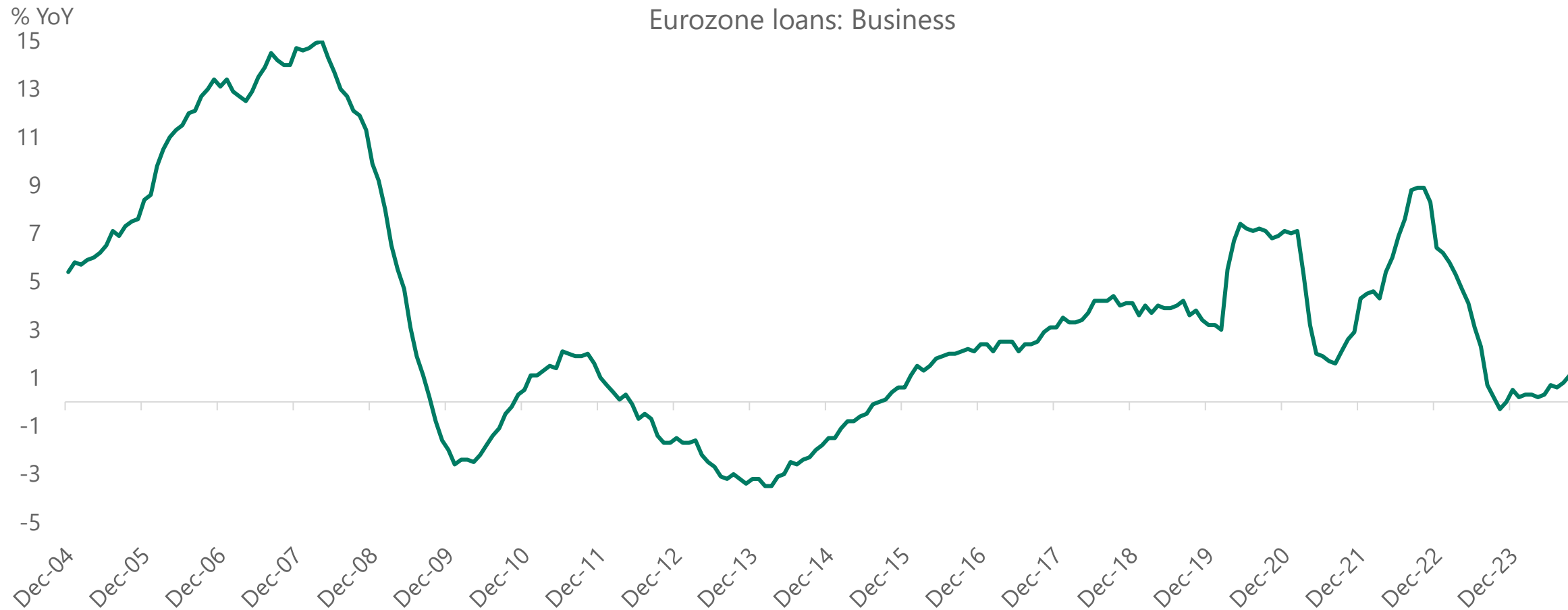


# Euro Area loan growth to households is slowing



Source: ECB, Bloomberg, Apollo Chief Economist.

# Euro Area loan growth to businesses

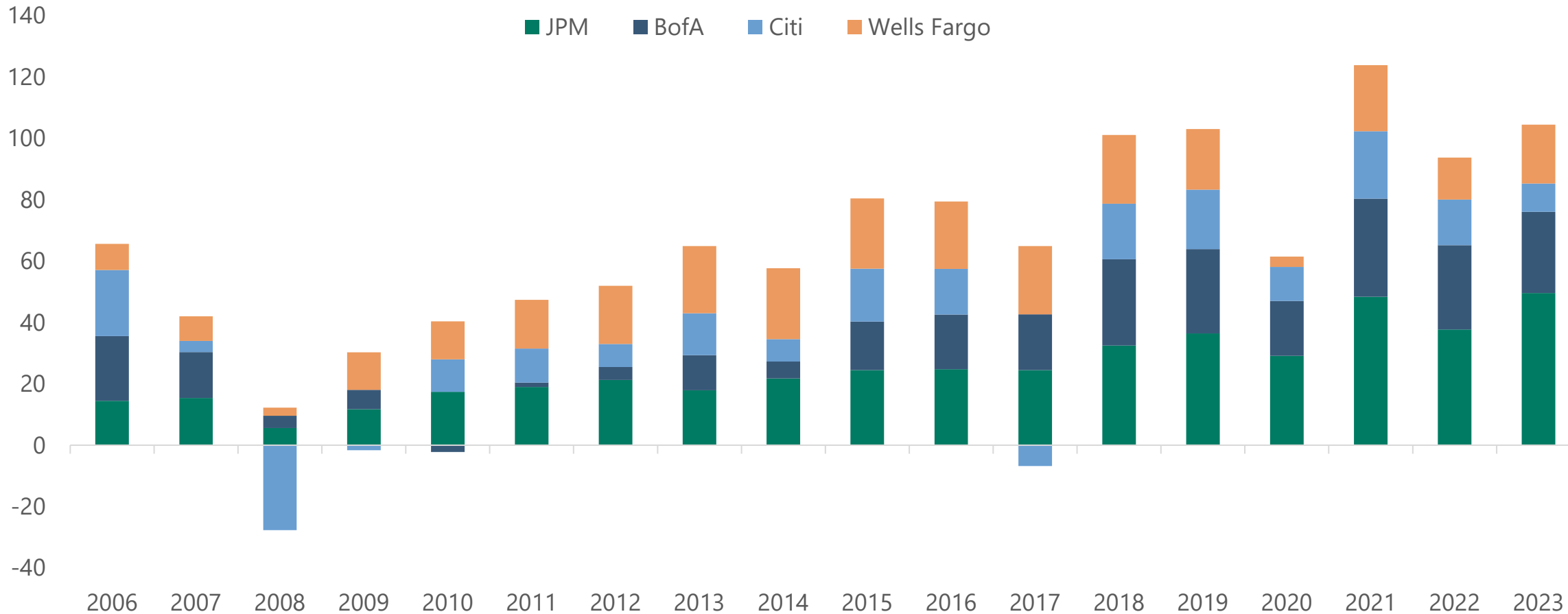


Source: ECB, Bloomberg, Apollo Chief Economist.

# The biggest US bank had profits of \$49.6bn in 2023

\$ bn (trailing 12m)

US: Net income (net profit/losses) of the biggest four banks





# Torsten Slok, Ph.D.

## Chief Economist

Apollo Global Management

tslok@apollo.com

Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist on the sell-side where his team was top ranked in the annual Institutional Investor survey for a decade. Mr. Slok has also worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and studied at the University of Copenhagen and Princeton University.