BANKING SECTOR REPORT – June 2020

EXECUTIVE SUMMARY

US banks were flat in June as it was in May after very volatile first four months of the year. But banks underperformed the broad market again, the fifth month of weaker dynamics over the last 6. Thus, BKX index increased by 0.2% MoM in June vs +1.8% MoM of SPX index. Absolute performance on MoM basis was -0.1 std from the mean and it is in the bottom 44% of absolute MoM performance of BKX index. Relative June performance was -1.6% MoM. It is -0.3 std from the mean and it is in the bottom 36% of relative MoM performance vs SPX index since 1992. It was the worst first half of the year on relative basis in BKX index history but on absolute basis it was the second worst year in index history after 2008.

It was mixed month for banks with very strong dynamics in the first week due to better than expected employment report but weaker dynamics afterwards as a result of accelerating growth of confirmed COVID cases and the Fed decision to cap dividends. So, banks with weaker stress test results were among key underperformers in June.

The earnings season of US banks will start on June 14th, when 2Q20 results will be provided by JP Morgan, Citigroup and Wells Fargo. After that, within two weeks, all members of BKX index will provide quarterly results. US banks reported very mixed figures in 1Q20 with the lowest number of positive EPS surprises among our group of banks since 4Q08, the worst quarter during GFC, but with relatively solid revenues, especially taking into account current challenging revenue environment. Underlying trends were better than feared while key reason of large number of negative EPS surprises was considerable loan-loss reserve build which will remain elevated in coming quarters. So, EPS estimates were revised down significantly since the end of 1Q20. Thus, according to Bloomberg consensus, median decline of 2Q20 EPS of BKX index members is -63.1% ytd (as end of June). Full-year estimates for the current and next years were also revised down by -53.3% ytd / -43.7% qoq and -31.3% ytd / -19.6% qoq, respectively. Notwithstanding, estimates were relatively flat in June as a result of the economy reopening and quite optimistic tone of comments from banks management. Despite loan loss provisions remain elevated and average loan rates are markedly lower on qoq basis, revenues will remain relatively resilient due to strong balance sheet growth, solid mortgage and capital market fees. Thus, revenue estimates were flat on qoq basis with median growth of BKX index members of +0.1%.

From our point of view, the main focus of investors will be on the credit quality, capital and partly on NIM dynamics. We don't expect that key credit quality indicators will worsen significantly as early as in 2Q20 as a result of different support programs from both government and banks. But we should see the first signs of deterioration of credit quality such as growth of 30-89 days past due loans and growth of both criticized and classified loans. Notwithstanding, provision expense will remain elevated in 2Q20 and it will be even higher for some banks than it was in 1Q20. According to Bloomberg consensus, total provision expense of BKX index members will increase by 339% yoy but -13.5% qoq. Median growth of estimates is 139% qtd as a result of negative surprises on provision expenses in 1Q20. Given results of the stress test and the Fed's decision to cap dividends as well as requirement for large banks to resubmit their capital plans, management's comments on future capital distribution policy are particularly important at the moment. At least, WFC has already announced that dividends will be cut in 3Q20. It was widely expected decision but even expected dividend cut isn't a catalyst for the bank and the industry.

Economic situation has dramatically worsened in March and April as a result of

lockdowns in the vast majority of States but recent macro figures were markedly better than expected, especially employment report, indicating that the worst is behind us. But we don't think that we have been out of the woods yet, given the early stage of recovery and resuming growth of confirmed COVID-19 cases in the USA during two recent weeks. We don't expect sharp improvement of banking fundamentals even if asset quality deterioration isn't dramatic as revenue environment remains challenging with prolonged period of zero rates. Moreover, banks don't look cheap at the moment. Thus, banks are trading with +2.4/+2.2 std on P/E CY and -0.9/-0.6 on P/E NY (on the basis of samples from 2000 and 2010 yrs to current moment) relative to historical averages (as of June 26th). As for relative to S&P 500, banks are currently trading at -1 std and -2 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively. On P/B, banks are trading with -1.6 std from the sample mean (2010-current moment) vs SPX which is trading with +1.7 std. **Despite stocks are still trading at significant discount to S&P 500 index, we remain cautious on US banks given severity of upcoming recession and high level of uncertainty about the speed of US economic recovery.**

EU banks markedly increased in June after flat dynamics in May, following very weak start of the year. On relative basis, EU banks index outperformed for the first time over the last four months. On absolute basis, SX7P index increased by 5.4% MoM in June or +0.8 std from the mean and this result is in the top 16% of absolute monthly performance of SX7P since index inception. Also, relative monthly performance was +2.5% MoM or +0.8 std and it is in the bottom 16% of relative monthly performance either. Despite weak relative dynamics in two previous years when SX7P index underperformed the broad market by 12.1% and 17.1% in 2018 and 2017, respectively, EU banks continue to lag broad market considerably. On ytd basis, SX7P underperformed by 24% as the end of June.

Dynamics of European banks was relatively uniform in June with just 6 banks in red zone out of 44 financial institutions from our group. The key outperformers were Spanish banks which were among key underperformers before. Thus, Bankia added 19.5% MoM while Banco Sabadell increased by 14.2% MoM. Among key underperformers in June were Scandinavian banks.

European macro data published in June was better than expected with positive surprises on majority macro figures. So, European economy continues to stabilize after significant decline in March and April. But expectations remained almost unchanged in June after ongoing revision down during 3 previous months. According to ECB staff projections, GDP will decline by 8.7% yoy in 2020. Also, ECB announced at June meeting that it would increase the size of PEPP by €600 mln to €1.35 bn, slightly higher than consensus of €500 mln. But it seems that PEPP size could be increased again in foreseeable future especially in case of weaker recovery than it is expected currently. Estimates continue go down while variability of them remains very high, pointing to high level of uncertainty. Thus, median decline of FY2020 revenue estimates is -0.1% MoM or -5.4% ytd, implying decline of 14% yoy. As of FY2021 revenue estimates, median decline is 0.2% MoM or -7.1% ytd. Median EPS 2020 decline is -3.7% MoM or -58.2% ytd while median EPS 2021 decline is -1.2% MoM or -41.2% ytd. Notwithstanding, it seems that EU banks have already tested the bottom given current economic estimates. As a result of significant decline of EPS estimates, EU banks is no more trading with discount to historical averages, while the discount to US peers is much lower than usually. Thus, premium to historical averages is 4% or +0.22 std (from mean P/E NY of SX7P index members, sample from 2010 to the present) while discount to US peers (on median P/E NY of BKX index vs SX7P index) is just 10.2% at the moment vs average since 2010 of 20.8%, out of synch with reality, from our point of view, given higher risks associated with EU banks which have not fully recovered from the previous crisis yet. **So, we continue prefer US banks to EU ones at the moment.**

MARKET PERFORMANCE

US

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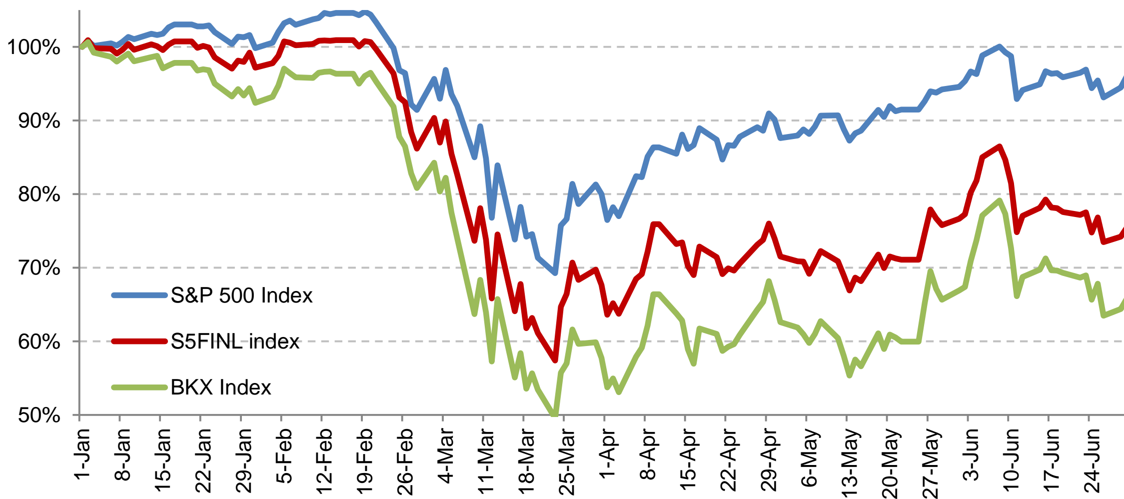
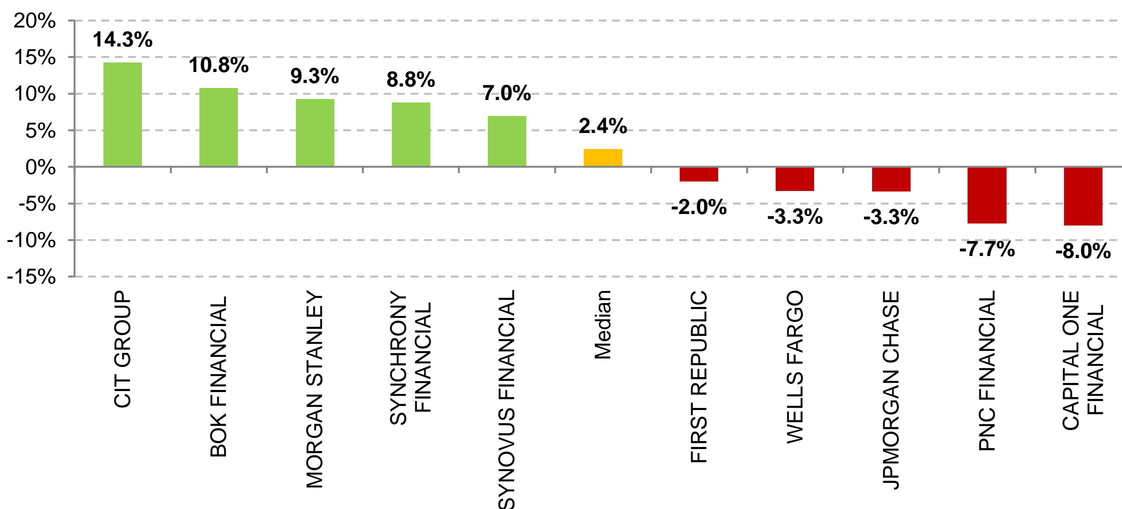
Chart 1. US Banks Performance. BKX Index vs S&P500 & S5FINL Indexes



Source: Bloomberg

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



Source: Bloomberg

Europe

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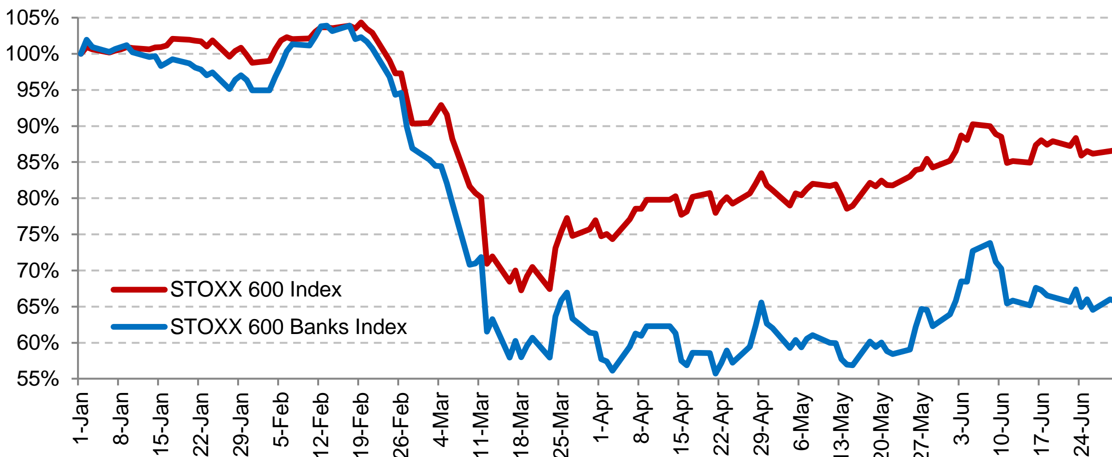
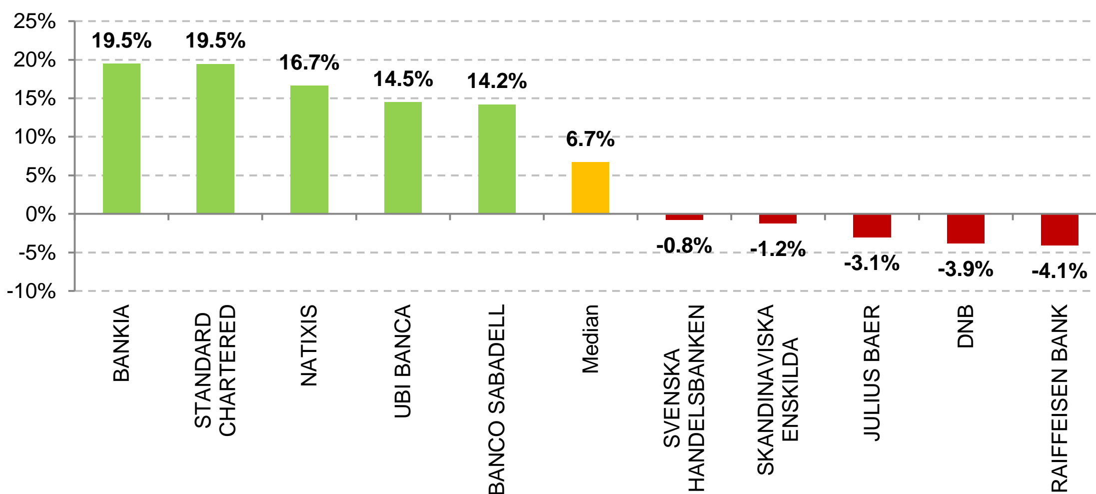
Chart 3. EU Banks Performance. SX7P Index vs STOXX 600 Index



Source: Bloomberg

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



Source: Bloomberg

COMPANY NEWS

US

Stress Test 2020

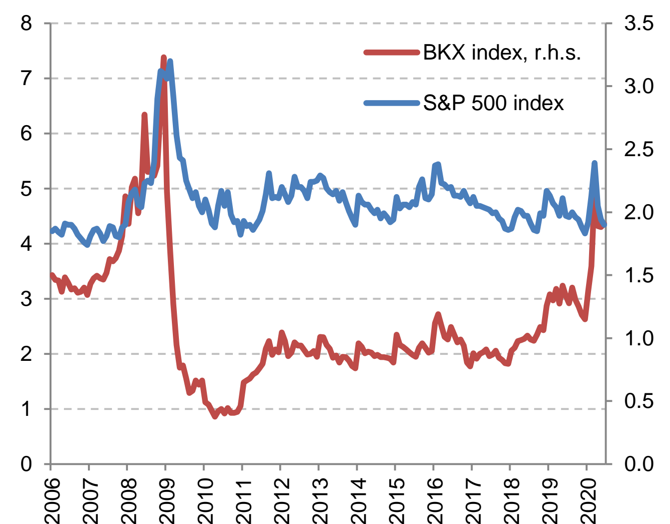
The Fed released results of its DFAST stress test 2020 on June 25th after markets were closed. Also, it published results of additional sensitivity analysis which was conducted because of coronavirus impact. According to Vice Chair Randal Quarles, "the banking system has been a source of strength during this crisis and the results of our sensitivity analyses show that our banks can remain strong in the face of even the harshest shocks". Notwithstanding, despite the fact that banks can withstand serious economic shocks, it was also announced that the Board is requiring large banks to preserve capital by suspending share repurchases and capping dividend payments. So, banks can't repurchase their shares at least in 3Q20 and dividends can't be higher than it was in 2Q20. Further dividends will be depended on recent earnings. Also, banks should re-evaluate their long-term capital plans while all large banks will be required to resubmit and update their capital plans later this year, according to the Fed. Such results were seen as a sign that significant uncertainty remained and that the capital of the banking system was not as high as it was previously assumed. Unsurprisingly, results of the stress test were perceived very negatively and banks tumbled on the next trading day with decline of BKX index of 6.4% while some of banks decreased by more than 8%. So, it is hardly to assume that banks will return to substantial capital distributions until the economy will stabilize. At least, Wells Fargo has already announced that dividends will be cut in 3Q20 from the current $0.51 per share. It was widely expected decision but even expected dividend cut isn't a catalyst for the bank and the industry as well.

Table 1. Minimum CET1 Ratios in Different Downside Scenarios

Scenario	Minimum CET1 capital ratio		
	25th percentile	75th percentile	Aggregate
Stress test			
Severely Adverse	8.0%	12.3%	9.9%
Sensitivity Analysis			
V-shaped	7.5%	11.3%	9.5%
U-shaped	5.5%	10.8%	8.1%
W-shaped	4.8%	10.5%	7.7%

Source: Federal Reserve

Chart 5. Dividend Yield Est. BKX index vs SPX index, %



Source: Bloomberg

All banks passed 2020 stress test with overall decline of aggregate CET 1 ratio of 2.1% from 12% as 4Q19 to projected minimum under severely adverse scenario of 9.9%. But it should be noted that current year stress test doesn't include the effect of common dividends distributions. Notwithstanding, declines between actual 4Q19 figure and minimum under severely adverse scenario widely differ across banks and are in a range from +0.1% for AXP and -0.2% for USB/BK to -5.3% for MS, -5.4% for COF and -6.4% for GS, implying very high SCB levels for MS and GS. On June 29th, MS announced indicative SCB of 5.9% while GS's one is 6.7%. It isn't a risk for 3Q20 dividends but it could be a restriction for

future capital distributions of these banks.

From one hand, results of the stress test indicate that the capital of US banks is strong and it is more than enough to cover losses even under severe adverse scenario. From the other hand, economic situation deteriorated significantly since economic scenarios of the stress test had been published. Thus, sensitivity analysis under scenarios that included the downside risks to the economy posed by COVID-19 event revealed that several firm would approach minimum capital ratios under certain conditions. Under severe adverse scenario of DFAST 2020, cumulative loss rate was 6.3% which is in-line with the figures of 5 previous stress tests which were between 5.7% and 6.4% and comparable with actual loss rate over 9 quarters of GFC of 6.8%. Under sensitivity analysis, it was implied that cumulative loss rate would be 8.2%, 10.3% and 9.9% for V-, U- and W-shaped recovery scenarios, respectively. So, aggregate minimum CET1 ratio declined from 9.9% for severe adverse scenario to 9.5%, 8.1% and 7.7% for V-, U- and W-shaped recovery scenarios, respectively. But for 25th percentile, the situation looks much more pessimistic with decline of minimum CET1 ratio from 8.0% under severe adverse scenario to 7.5%, 5.5% and 4.8% for V-, U- and W-shaped recovery scenarios, respectively. But it should be noted that COVID-19 scenarios didn't take into account unprecedented stimulus measures both fiscal and monetary which markedly reduced the level of stress in the economy.

Although we still believe that US banks have strong balance sheet and more than enough capital to cover loan losses during the current recession, especially taking into account that financial sector isn't the reason of the downturn as it was during GFC, we must admit that stress test results gave a negative signal to the market regarding financial stability of the sector and it could lead to further underperformance of the sector until uncertainty about capital distributions disappear. Given recent macro data and faster than feared recovery of US economy, it is probable that restrictions on capital distribution will be lifted as early as in 2021. From the other hand, resuming growth of confirmed COVID-19 cases in the USA in recent weeks implies that U- and W-shaped recovery scenarios are still on the table, assuming that uncertainty around banking fundamentals will remain high for some time.

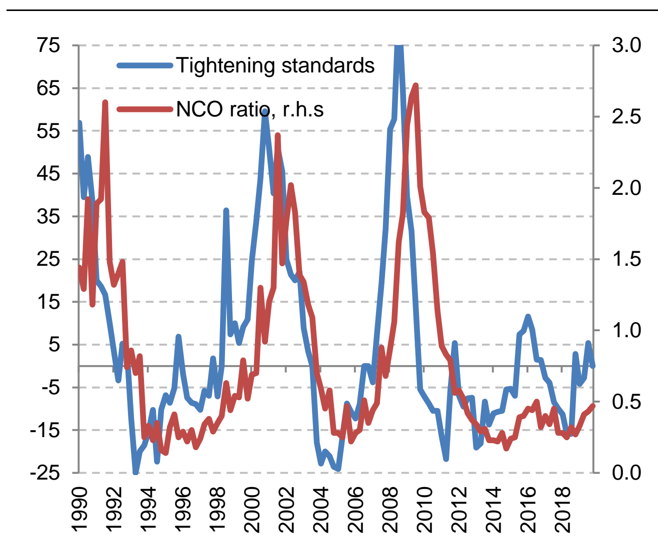
MACROECONOMIC NEWS

US

C&I loans

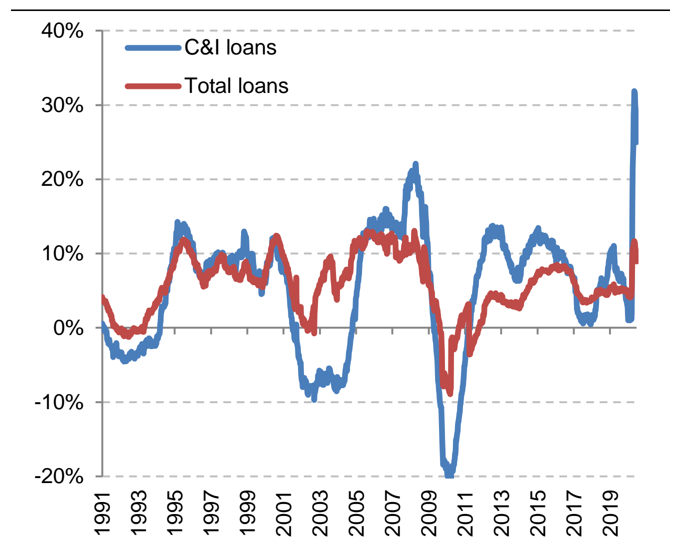
C&I loans growth accelerated to double-digit figures on yoy basis in March-May 2020 after anemic growth in the first two months of the year but it slightly decelerated since then as liquidity crisis was fixed, at least now, and companies started to repay revolvers which had been taken out previously. C&I loans increased by $687 Bn since the end of February till May 13th. But it decreased by more than $150 Bn for the next five weeks. We expect that growth will continue to decelerate and C&I loans will inevitably go down in coming quarters given depth of economic slowdown, accompanied by significantly higher number of bankruptcies and tighter lending standards. According to the Fed H.8 survey, C&I loans increased by 25% yoy (as of June 17) vs 6.5% yoy 1 year ago and +1% yoy as the end of 2019. On ytd basis, C&I loans skyrocketed by 25% vs +6.7% ytd of total loans.

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



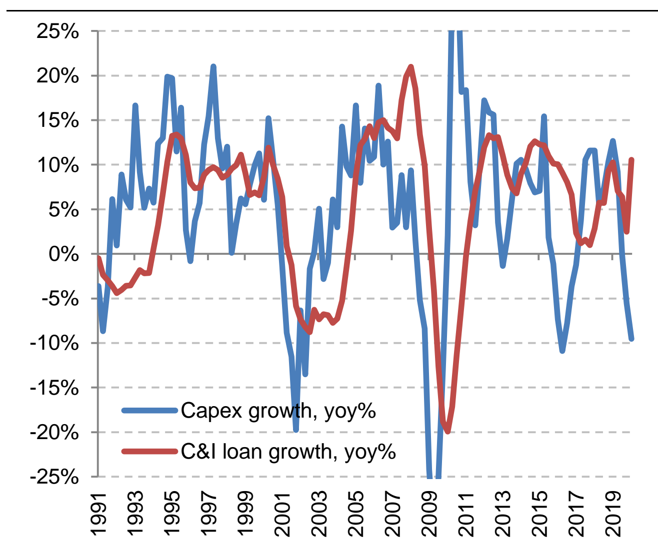
Source: Bloomberg

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



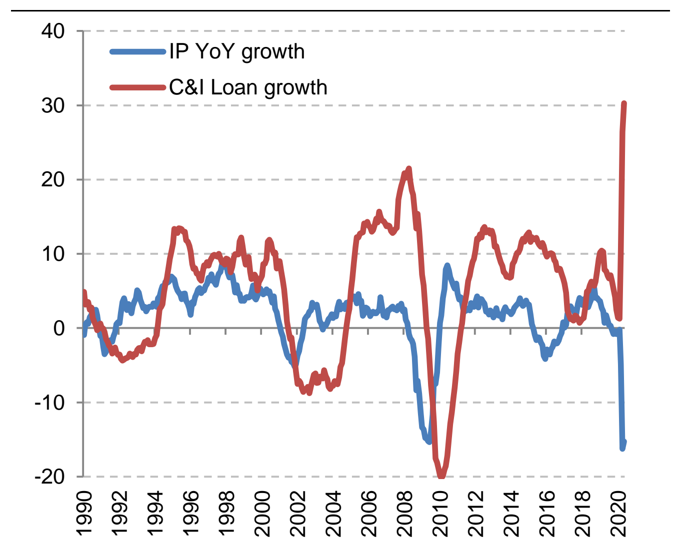
Source: Bloomberg

Chart 8. C&I. Loan Growth vs CAPEX



Source: Bloomberg

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



Source: Bloomberg

Despite unprecedented support measures from both the Fed and the government, it will be difficult to avoid decline of C&I loans in coming quarters even taking into account banking

forbearance programs and willingness to provide liquidity and restructure loans. We have already seen bankruptcies in the Energy sector because of significant decline of oil prices while tourism, restaurants and nonfood retailers started to open just few weeks ago and we expect a wave of bankruptcies in these segments even despite US economy was slightly better than expected after reopening. In any case, we don't expect that it will be V-shaped recovery, taking into account the depth of decline in March-May and still elevated jobless claims, U-shaped at best. But it shouldn't be a big threat for banks given significantly higher capital levels, lower leverage and more cautious approach to borrowers during the cycle while non-bank lenders may be hit hard.

Despite concerns about deterioration of C&I credit quality over the recent quarters (and total loan portfolio at all), it remains benign so far (even in 1Q20 in spite of significant growth of provision expense) but deteriorated and it will undoubtedly continue worsen in the coming quarters. According to FDIC data, 30-89 delinquency rate even decreased by 2 bps yoy but +3 bps qoq to 0.34% in 1Q20. Being a leading indicator of asset quality, it confirms that it remains in a good shape so far despite recent slowdown of US economy. Noncurrent rate increased by 4 bps both qoq and yoy, to 0.83%. FDIC numbers were slightly lower than Fed figures, where delinquency ratio was flat both qoq and yoy at 1.12%. FDIC's NCO ratio increased by 4 bps qoq or +20 bps yoy to 0.47%, still lower than average figures of the last two cycles. According to the Fed data, NCO ratio increased by 25 bps yoy and +20 bps qoq to 0.55% in 1Q20.

So far, financial health of US corporate sector was solid even despite relatively high leverage. Thus, ROA was high, quick ratios were solid while interest expense coverage was strong but deteriorated as total profit of the sector was flat in recent quarters. Situation changed considerably in March and it continued to deteriorate in April and May. Given high leverage of US corporate sector and inevitable decline of revenues because of imminent recession in US, accompanied by skyrocketing growth of corporate spreads, especially for non-investment grade companies (but spreads have already declined markedly from the recent highs), we will see significant drop of interest coverage ratios as early as in 2Q20 even despite the fed funds rate was cut to zero. Moreover, interest coverage ratios have already been declining for eight quarters in a row despite relatively low benchmark rates and declining corporate spreads (to record lows). The Fed acted quickly and it implemented an unprecedented set of measures to ease the negative impact of the perfect storm of financial markets on the economy. But it will just slow down somewhat growth of NPLs and NCOs but don't prevent it. The magnitude of the problem will depend on how long the recession will last (it seems just 2 quarters). And the key risk for corporate credit quality during recession comes from leveraged loans and its spillover effects on the economy as it grew rapidly during the cycle. Currently, corporate debt as a percent of GDP is higher than it was before the Great Recession while the share of covenant-lite leveraged loans issuance remained very high in recent years.

April 2020 Senior Loan Officer Opinion Survey indicated that C&I lending standards and terms were tightened significantly for firms of all sizes. It is partly consistent with January SLOOS when banks expected tighter standards and deterioration in loan performance for most loan categories over 2020. From the other hand, banks didn't focus on tightening during 1Q20 earnings season. Unsurprisingly, banks noted that loan demand from large and middle-market firms was stranger but demand from small firms was unchanged. Notwithstanding, "banks noted that they were focused on existing clients rather than granting loans to new clients". The key reason of higher demand is an increase of cash and liquidity needs as a result of significant deterioration of internal generation of cash in recent months. It seems that demand will be weaker in coming quarters as emergency liquidity needs have already declined significantly while demand for investments and receivable financing needs will remain insignificant because of substantial drop of economic activity.

Macro data published in June were clearly strong after very disappointing figures in April and May. It is quite possible that the worst is over but it doesn't mean that we are out of woods already. The start of the economy after reopening was markedly better that it was feared but majority of forecasts remain weak. And we still don't believe that economy will return to pre-COVID levels sooner than in 2022, even despite stock indices have almost moved back to pre-crisis levels. Obviously, 2Q20 figures will be the weakest for several decades or even in the whole history of observations. But forecasts have improved recently due to more optimistic macro data as well as economic surprise indices, which skyrocketed in two recent months from multi-year lows in April. ISM manufacturing index increased by 1.6 pts MoM to 43.1 pts, slightly missing consensus of 43.8 pts. Despite it is still markedly below 50 pts, the latter reading is encouraging, from our point view, given improvement of majority of subcomponents of the index. The key positive surprise of June was employment report, which was significantly better relative to expectations and the beat was broad-based across both subcomponents and industry sectors. But GDP growth rates for the nearest 3 years were almost unchanged after significant revision down in previous months. Thus, according to Bloomberg survey conducted in June, GDP growth rates were equal to -5.7%/4.0%/2.8% yoy for 2020/2021/2022, respectively, vs -5.7%/3.9%/3.0% yoy in May. The most pessimistic forecasts for GDP 2020 still imply that yoy decline could exceed 10%. Manufacturing payrolls increased by 225K in May vs consensus of -400K, after it tumbled by 1.3 mln in April. Total payrolls skyrocketed by 3.1 mln in May instead of decline of 6.8 mln what was implied by consensus. So, unemployment rate tumbled by 1.4 percentage points on MoM basis to still elevated 13.3%. Industrial production increased by 1.4% MoM vs expectations of growth of 3.0% MoM, after decline by 12.5% MoM in April and -4.5% MoM in March. So, capacity utilization increased by 0.8% MoM in absolute terms to 64.8%, after it tumbled to the lowest level on record in April. Empire manufacturing index skyrocketed again, adding 48.3 pts MoM to just -0.2 pts in June vs consensus of -29.8 pts. Markit manufacturing PMI increased by 10 pts MoM to 49.8 pts in June, being 13.7 pts higher than 2020 low and just 0.8 pts lower than it was 1 year ago. Unsurprisingly, consensus IP growth forecast was revised up in June after significant decline in April and May, to -7.7%/2.9%/2.9% yoy for 2020/2021/2022, respectively, from -8.4%/2.2%/3.0%.

CRE

Growth rate of commercial real estate loans still remains pretty resilient despite significant negative effect of the lockdown on some CRE subsegments, such as retail and hotels. On yoy basis, it even accelerated vs 1 year ago and end-2019 levels. Thus, according to the last Fed H8 weekly report, CRE loan growth was +6.1% yoy (as of June 17th) vs +4.3% yoy 1 year ago. But recent uptick is temporary, from our point of view, given upcoming recession and imminent deterioration of fundamental characteristics of the sector which were relatively healthy so far. But we have already seen deterioration of some fundamentals in April and May. At least, transaction volumes decreased substantially across all major segments. From the other hand, April and May rent collection was better than expected, especially for retail segment, where majority of properties were closed or were operating in a limited functionality mode. Notwithstanding, forecasts continue to be revised down with lower rent, higher vacancy rates, negative absorption and declining prices. As a consequence, loan growth will inevitably turn negative while NCO and NPL ratios will go up in the coming quarters. Unsurprisingly, REITs quotes remain markedly lower ytd after collapse in March. Thus, BBREIT index decreased by 15.3% ytd but it was +12.4% qoq and +37.2% from March low. Even significant decline of key benchmark rates didn't support REITs as the risk of substantial deterioration of fundamentals is markedly higher at the moment.

Credit quality remains strong so far but early signs of deterioration have already been seen in 1Q20. Obviously, CRE's credit quality will continue worsen in coming quarters. According

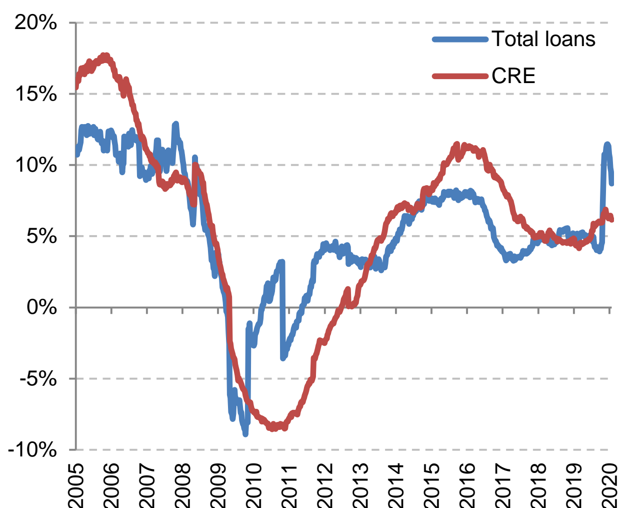
to the Fed data, CRE NCO ratio was almost flat on yoy basis at just 0.02% in 1Q20 while delinquency ratio increased by 13 bps yoy to 0.82%. According to FDIC data, NCO ratio for all CRE subsegments (construction, multifamily, commercial mortgage) remains stable, almost 0% during the last year. Non-current ratios didn't increase significantly in major segment in 1Q20 – commercial mortgage noncurrent ratio is 0.63%, +4 bps yoy; construction one is 0.46%, +1 bps yoy; multifamily noncurrent ratio is 0.12%, -2 bps yoy. In turn, leading indicator of future credit quality, 30-89 days delinquency ratio, deteriorated markedly in 1Q20 but it still remains not far from multi-year lows. The figure of commercial mortgage increased by 13 bps yoy to 0.37%; in construction it was +16 bps yoy to 0.54%; in multifamily it was +10 bps yoy at 0.2%. In any case, NCO ratio highs booked in domestic offices were very different during three last recessions. According to Federal Reserve data, GFC's high was 2.82%, comparable to recession of early 1990s figure of 2.44%, but significantly higher that just 0.15% of recession of early 2000s. And we don't expect that NCO ratio high of the current cycle will reach high of GFC even despite significant problems in retail and hotel segments (according to REIS forecasts, deterioration in Retail in 2020 will be worse than 2009 one) due to shorter period of current downturn and much tighter lending standards during the last credit cycle. Moreover, rent collections still remain very high in majority segments. Price growth remains solid so far but it decelerated markedly in recent months. But we expect that prices will be negative on yoy basis in coming quarters, especially in the most affected segments, such as retail and hotels. But CRE price index has renewed its all-time high again (more than 30% higher than peak of the previous cycle), adding +4.9% yoy as the end of May 2020 vs +6.7% 1 year ago and +6.3% yoy as the end of 2019, the lowest growth rate since mid-2011.

Transaction volumes tumbled significantly both MoM and yoy in April and May with just few deals in majority of subsegments as market participants prefer to stay on the sidelines and preserve liquidity given high level of uncertainty. But volumes could increase somewhat in summer months given reopening of US economy. According to RCA, "transaction volume fell to the lowest level for a May since 2010 and none of the major property types escaped the continuing rout. In the hotel market, just fourteen assets traded in the month. The industrial sector took a slightly smaller hit than other major sectors though volume still fell 70% from a year earlier". But prices remained resilient so far despite significant decline of transactions number. Thus, apartment price index added +9.3% yoy as the end of May, slight acceleration from growth rate in the middle of 2019. In turn, price index of retail CRE increased only by +2.8% yoy, relatively flat growth rate for the last year and half. Growth of prices of industrial CRE decelerated to +6.1% yoy from +12.5% yoy in July 2019 and 11.3% yoy in May 2019. Growth rate of office prices decelerated to 1.6% yoy from 4% yoy as of April 2019 as a result of remote work because of pandemic. It is the only segment with negative price growth on ytd basis at the moment.

Solid but decelerating growth of US economy and rising employment supported CRE fundamentals so far, especially in office segment where we have seen growth of both same-store NOI and occupancy rates at the end of 2019. But the situation has changed dramatically in recent months with skyrocketed growth of unemployment, closed malls and stores, social distancing and home working. All of these suggest difficult times for the sector in the near future, accompanied by lower occupancy rates, lower rents and so on. Moreover, some REITs (with high leverage) have already announced suspension of dividends because of liquidity concerns while some of them didn't pay the principal and percentages on their loans since April and tried to renegotiate loan terms. Of course, it currently applies to the most levered companies but it may spread to the other companies in the industry over time and the problem is that we won't see normalization of the situation in the coming months, accompanied by significant deterioration of key CRE fundamentals, lower credit quality and negative loan growth. The key question is whether it will be a second wave of the pandemic or not. If the answer is no, we will not see significant

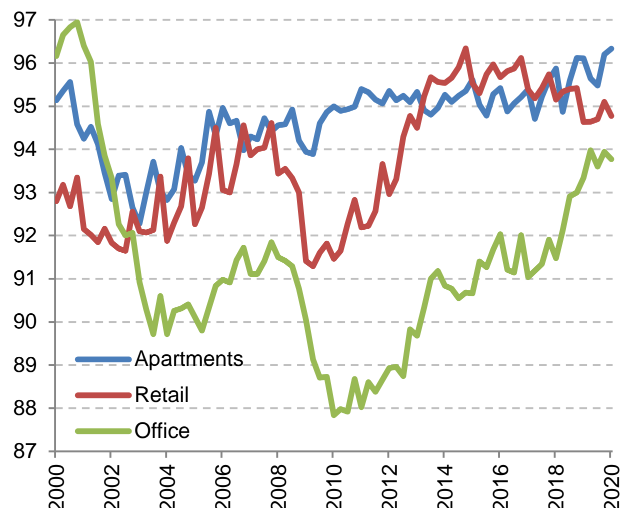
problems in majority of CRE segments. Otherwise, many players in hotel and retail segments will go bankrupt while fundamentals in other CRE segments will deteriorate significantly. But the base case is still markedly lower losses for banks than it was during GFC.

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



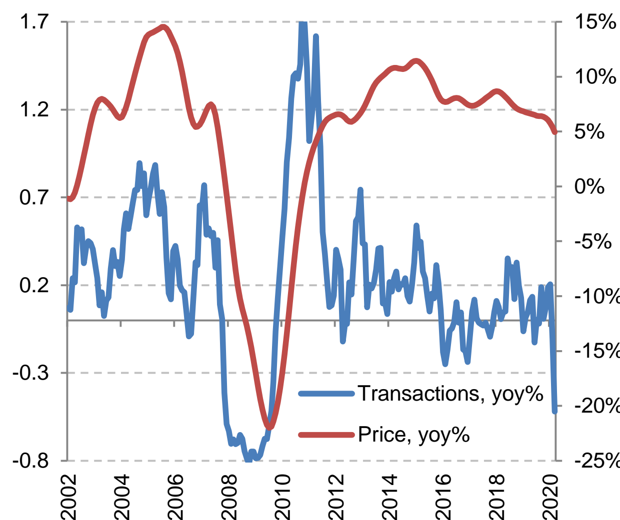
Source: Bloomberg

Chart 11. CRE. Occupancy rates, %



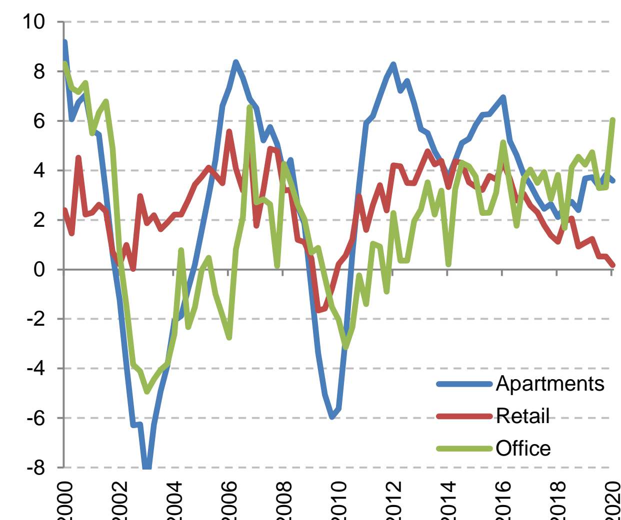
Source: Bloomberg

Chart 12. CRE. Price Growth vs Transactions Volumes



Source: Bloomberg

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



Source: Bloomberg

In 1Q20, banks continue to tighten standards for CRE loans. Standards were tightened for all three major CRE loan categories. For construction loans it was the 20th quarter of tightening in a row while for multifamily loans standards were tightened again by significant net fraction of banks after flat standards in 4Q19 following 17 consecutive quarters of tighter standards. Also banks noted weaker demand for all three major loan categories of CRE. Among the key reasons of tighter standards and weaker demand, banks mentioned “uncertainty in the CRE market due to the effect of the COVID-19 crisis”.

Mortgage

The growth rate of mortgage loans decelerated slightly in recent months vs the end of 2019, given significant deterioration of economic situation. And it remains flat ytd as a consequence of that a number of banks have already announced tighter lending standards

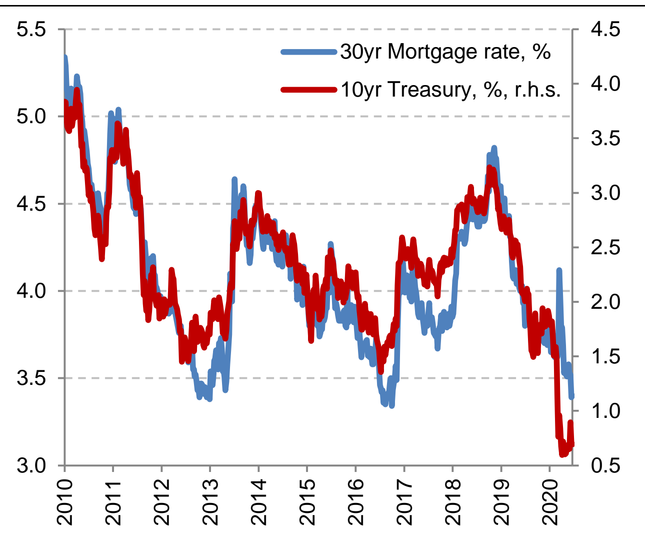
for mortgage loans because of significant deterioration of financial health of US consumer. Thus, mortgage loans increased by 2.5% yoy (as of June 10th) vs +4.9% yoy 1 year ago and +5.3% yoy as the end of 2019. Notwithstanding, credit availability index by MBA decreased by 4.2 pts MoM to 129.3 pts in May, the lowest level over more than 5 years. Also, affordability ratios have already declined meaningfully from the cycle highs but they should increase in the nearest future because of substantial decline of key benchmark rates. However, even current level of affordability ratios isn't low from the historical averages point of view, as well as household debt burden isn't either. But banks prefer to remain on the sidelines (at least for new mortgage borrowers) given significant growth of unemployment ratio in the recent months and as a consequence forthcoming growth of problem loans. We don't expect that NPL and NCO ratios will even approach the values that we saw in the last crisis (2.72% for NCO ratio and 10.5% for delinquency ratio) due to more cautious approach of US banks to the mortgage lending during all last cycle and more strong financial health of US Consumer now vs 2007-2008 years. Housing market also looks significantly healthier with no obvious imbalances as it was just before the last recession when it was a key engine of economic contraction. We expect that NCO ratio dynamics will be more like during recession of early 2000s with the highest figure of 0.3%. At least, according to the National Multifamily Housing Council Rent Payment Tracker, 89% of apartment households made a full or partial rent payment by June 13th. It is even 0.1% higher than 1 year ago and 1.3% higher than in May 2020 (4% higher than in April 2020).

US economy created 2.9 mln payrolls in May 2020 instead of loss of as much as 7.5 mln, as it was implied by consensus, after it was lost more than 20 mln payrolls in April. Notwithstanding, employment is very far from normal levels and we don't expect that it will continue to improve as quickly as it worsened in March-April. Jobless claims decreased substantially from March high but the indicator still remains elevated and it went down less than it had been implied by consensus in recent weeks, average figure of 1.51 mln in June (first 3 weeks), sevenfold higher than January-February levels. So, median forecast of average monthly payrolls for 2020-2022 years were significantly revised up in June to -789K/338K/225K for 2020/2021/2022 years, respectively, from -1260K/451K/244K in May and it seems that the worst is behind us. Unemployment rate declined by 1.4 percentage points MoM to 13.3%, significantly better than consensus estimate of 19.0% but it is still markedly higher than the peak value of GFC. Moreover, underemployment rate still remains higher than 20%. It declined by 1.6 percentage points MoM to 21.2% in May. Unsurprisingly, unemployment projections were revised down markedly in June, to 9.5%/7.5%/5.7% for 2020/2021/2022 years, respectively, from May estimates of 11.0%/7.9%/6.5%, with the most pessimistic estimates for the end of 2Q20 as high as 20%. Despite significant growth of unemployment, it seems that negative impact of this factor on quality of mortgage portfolio could be restricted in case of relatively quick constrains removal due to extensive use of various forbearance programs. Thus, according to MBA, "the total number of loans now in forbearance decreased - for the first time since the survey's inception in March - from 8.55% of servicers' portfolio volume in the prior week to 8.48% as of June 14, 2020. According to MBA's estimate, 4.2 million homeowners are now in forbearance plans - down from almost 4.3 million homeowners the prior week".

Mortgage credit quality was very strong so far. According to the Fed data, NCO ratio in the segment decreased by 3 bps yoy to -0.3% in 1Q20 while delinquency ratio tumbled by 35 bps to 2.33%, the lowest figure over 12 years. According to FDIC, the quality of mortgage portfolio remains also very strong with NCO ratio at -0.01% in 1Q20, -2 bps yoy. 30-89 days delinquency ratio decreased by 4 bps yoy to 0.89%. Noncurrent ratio declined significantly again, -22 bps yoy to 1.76% in 1Q20, flat QoQ. MBA's mortgage delinquencies increased by 59 bps qoq from the lowest figure in dataset history but still -6 bps yoy to 4.36% in 1Q20. In turn, foreclosures declined by 2 bps qoq or -19 bps yoy to 0.73%, the lowest figure over more than 30 years. According to NY Fed, "about 0.9% of current mortgage balances

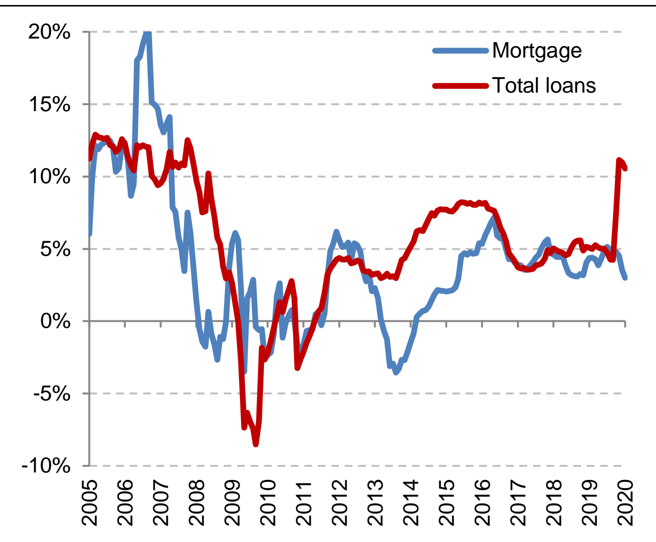
became 30 or more days delinquent in 2020Q1 and about 75,000 individuals had a new foreclosure notation added to their credit reports between January 1 and March 31. Foreclosures remain low by historical standards”. The key drivers of very good quality of mortgage portfolio were strong job market, rising home prices and tight underwriting standards which remain markedly tighter than historical averages even despite some easing in recent quarters. In coming quarters, asset quality will undoubtedly worsen as situation has changed dramatically. We expect that credit quality deterioration will be seen as early as in 2Q20 earnings season but overall credit quality of mortgage loans will remain very strong vs GFC’s average figures of NCO and delinquency ratios.

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



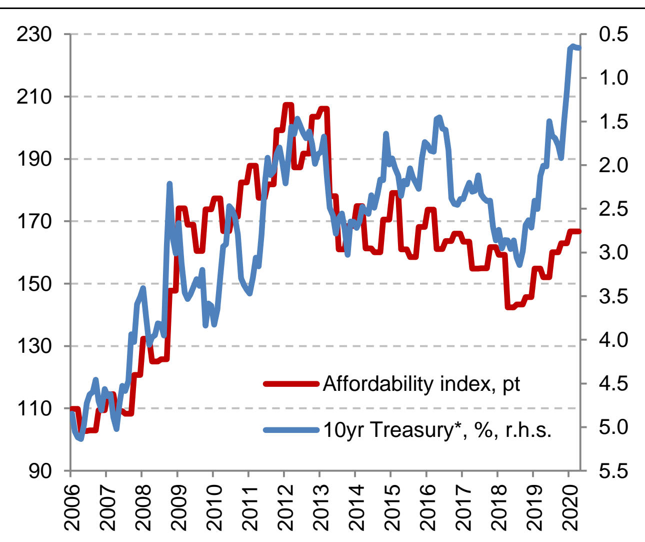
Source: Bloomberg

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



Source: Bloomberg

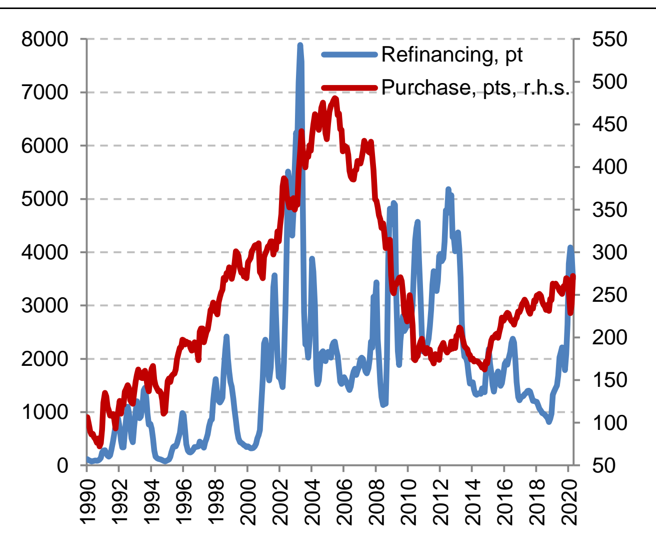
Chart 16. Mortgage. Aff. Index vs 10yr Treasury yield



*reversed order

Source: Bloomberg

Chart 17. Mortgage. MBA Applications Indexes



Source: Bloomberg

Lending standards for most mortgage segments were tightened in 1Q20 after five consecutive months of relatively flat standards. In 4Q19 SLOOS, banks noted that they weren’t going to tighten standards in mortgage segment but the situation deteriorated very quickly. Despite unprecedentedly high level of unemployment, banks eased standards for government residential mortgages. Also, banks noted stronger demand for most loan categories in mortgage segment. It was slightly surprising given more than 20% of underemployment rate. According to NY Fed 1Q20 report on HH debt and credit, “credit

standards tightened slightly, again, in the first quarter. The median credit score of newly originating borrowers increased in the first quarter for mortgages, to 773, up 14 points from a year ago".

Mortgage demand strengthened for four recent quarters after several quarters in a row of weaker demand. But demand will inevitably be weaker in coming quarters as a result of pandemic and consequences of the economic crisis. Despite recent uptick of employment and relatively solid dynamics of the economy after reopening, unemployment rate remains elevated. Moreover, credit availability declined in May because of tightening lending standards.

Mortgage rates continued to go down in June even despite key benchmark rates were relatively flat but volatile. The key reason is spreads narrowing as a result of normalizing economic situation. Thus, 10yr treasury yield was relatively flat in three recent months, ending the month at 0.66%, +0.4 bps MoM. 30yr fixed rate mortgage (national average, Bankrate.com) decreased by 25 bps MoM in June, after being relatively flat in May. 30-yr mortgage rate (effective rate, MBA) decreased by 7 bps MoM to 3.39% (as the end of June), still being near all-time low.

Housing market indicators published in June were weaker than expected after slightly better figures in May. Despite majority of indicators is substantially lower ytd and weaker June figures, recent figures are encouraging, from our point of view. Unsurprisingly, NAHB index increased by 19 pts MoM to 58 pts in June, beating consensus of 45 pts, pointing to optimism of homebuilders. In turn, construction spending decreased by 2.9% MoM in April, markedly beating consensus of -7.0% MoM. So, mortgage origination forecasts remain pretty resilient in June even despite sharp decline of US economy. Thus, according to Fannie Mae's June housing forecast, total 2020 mortgage originations increased by 14.2% MoM for 2020 year and decreased by 4.6% MoM for 2021 year. Currently, it is expected that total originations will increase by 30.2% yoy in 2020, but it will decrease by 22.5% yoy in 2021. The key drivers of growth will be refinance originations for 2020 and purchase originations for 2021. According to MBA's forecast published in June, total mortgage originations will increase by 22% yoy in 2020 (+8.7% vs May forecast) driven by refinancing which is estimated to increase by 50% yoy in 2020 but total originations will decrease by 21.4% yoy in 2021 (0.4% MoM). The key driver of originations remains significant decline of 10yr treasury yield but we disagree that it will be significantly more important than deterioration of financial health of US consumer in 2020 and tightening of lending standards.

Housing starts were just 974K in May 2020 vs expectations of 1100K, just +40K MoM from revised down April figure (initially it was 891K), still markedly lower pre-COVID levels. Building permits also missed estimates, 1220K vs consensus of 1245K. Existing home sales declined by 9.7% MoM to 3.91 mln vs expectations of 4.09 mln after it tumbled by 18% MoM in April. So, it is the lowest level since the end of 2010 and it is -32% from February 2020. In turn, new home sales skyrocketed by 16.6% MoM to 676K in May, significantly beating consensus of 623K but initial April estimate of 640K was markedly revised down, to 580K. Housing prices continue to grow and growth rate even slightly accelerated in April despite coronavirus spreading and lockdowns in majority of States. Thus, FHFA house price index added +0.2% MoM in April vs consensus of +0.2% MoM and March figure of +0.1% MoM. Also, S&P CoreLogic home price index for 20 cities went up by 0.33% MoM vs consensus of +0.5% after growth of +0.49% MoM in March (revised up from initial estimate of +0.47% MoM). On yoy basis, it was just +3.98% and it is not far from the lowest level since the end of 2012, significant deceleration from price growth of early 2018 of 6.7% yoy.

Consumer

Consumer loan growth decelerated significantly in the recent months both in credit card segment and other segments of consumer credit. According to Fed H8 data, growth rate of consumer loans even turned negative in early May and it is currently -2.0% yoy (through June 17th) vs +5.0% 1 year ago and +6.2% yoy as the end of 2019, the lowest growth rate since the end of 2011. On ytd basis, it already declined by 4.9%, driven by credit cards. Thus, CC growth rate was -7.7% yoy (as of June 17th) vs +5.0% yoy as the end of 2019. On ytd basis, CC loans decreased by 9.7% as credit cards limits were markedly cut because of rapid deterioration of US economy. Net change of consumer credit in April was -$68.8 Bn, meaningfully missing consensus of -$20 Bn and it should continue to decline significantly in coming months. Other segments of consumer credit also decelerated significantly, adding just 4.5% yoy (as of June 17th) vs 7.6% yoy as the end of 2019, just +0.4% ytd. According to 1Q20 HH debt and credit survey by NY Fed, “total household debt increased by $155 billion, or 1.1 percent, to reach $14.3 trillion in the first quarter of 2020. Mortgage balances rose by $156 billion, while nonhousing debt balances remained relatively flat. Credit card balances declined by a larger-than-expected degree, based on seasonal patterns, but it is too soon to confidently assess any connection between this decline and the coronavirus outbreak”. But “the March 2020 Survey of Consumer Expectations shows a significant deterioration in households’ expectations regarding their labor market and financial situation, a decline seen across all age, education, and income groups”.

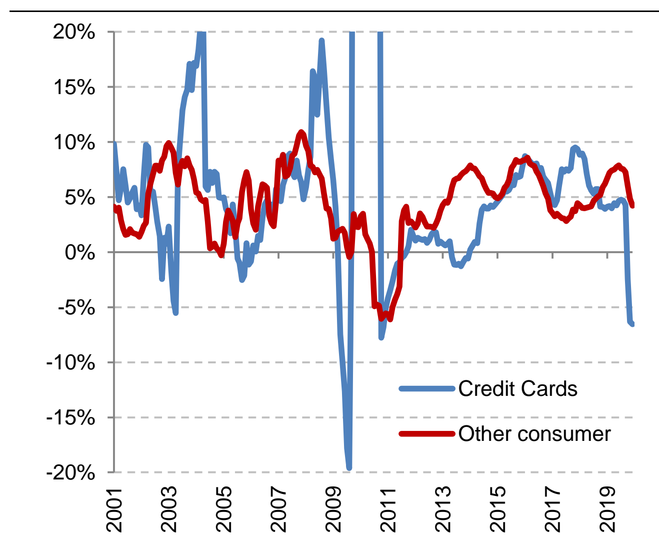
We didn’t expect marked deterioration of the quality of consumer loans (only return to historic averages) until the recent times but the situation has changed dramatically. Thus, GDP forecasts for the coming quarters were revised almost every week (of course, in the downward direction). According to Bloomberg compiled estimates in May, the most pessimistic GDP growth forecast is decline of around 10% yoy for 2020 US GDP while mean figure is -5.7% yoy. As of unemployment, it is estimated to be as high as 9.5% as the end of 2020 and more than 13.4% as the end of 2Q20. So, it is undoubtedly that quality characteristics of consumer portfolio will worsen significantly in the coming quarters even despite DSR and FOR of median HH is still markedly lower than historical averages. But the figures of low-income consumer, which is usually suffer the most during recession, is already at or higher than pre-financial crisis levels. Even despite that, quality characteristics of consumer loan portfolio were resilient in 1Q20, banks have already provisioned more than $36 bn in total for future credit losses in 1Q20, and most part of reserve build related to credit cards segment. And we still don’t expect that highs of the previous crisis (NCO ratio for credit cards of 10.5% and for other consumer loans of 3.3%) will be reached in the coming recession due to forbearance programs and the fact that financial health of US Consumer is much stronger today than it was then but, of course, it will depend on how long the restrictions related to controlling the virus spread will last. The longer the higher losses will be. And the dependence of losses on the time of restrictions will also be somewhat exponential. So, our expectations slightly improved during the recent month.

According to the Fed data, total consumer NCO ratio increased by 3 bps qoq and +5 bps yoy to 2.3% in 1Q20. NCO ratio in CC segment increased by +7 bps yoy to 3.76% while NCO ratio of other consumer loans increased by 6 bps yoy to 0.93%. Delinquency ratio also increased, +14 bps yoy to 2.47%, driven by credit cards segment where delinquency ratio increased by 16 bps yoy to 2.73%. According to FDIC, credit cards NCO ratio increased by 6 bps yoy to 4.03% in 1Q20; in other consumer loans NCO ratio increased by 7 bps to 0.97%; Auto NCO ratio also increased by 7 bps yoy to 0.97%. 30-89 delinquency ratios (leading indicator of credit quality deterioration) also slightly increased in 1Q20: 1.35% (+4 bps yoy) in credit cards, 1.51% (+13 bps yoy) in other consumer loans and 2.06% (+24 bps yoy) in Auto. Number of bankruptcy filings decreased again in 1Q20, 189K vs 192K in 1Q19, the lowest figure since the end of 2006. According to NY Fed, “aggregate

delinquency rates were mostly unchanged in the first quarter of 2020. As of March 31, 4.6% of outstanding debt was in some stage of delinquency, a 0.1 percentage point decrease from the fourth quarter of 2019. Of the $652 billion of debt that is delinquent, $449 billion is seriously delinquent".

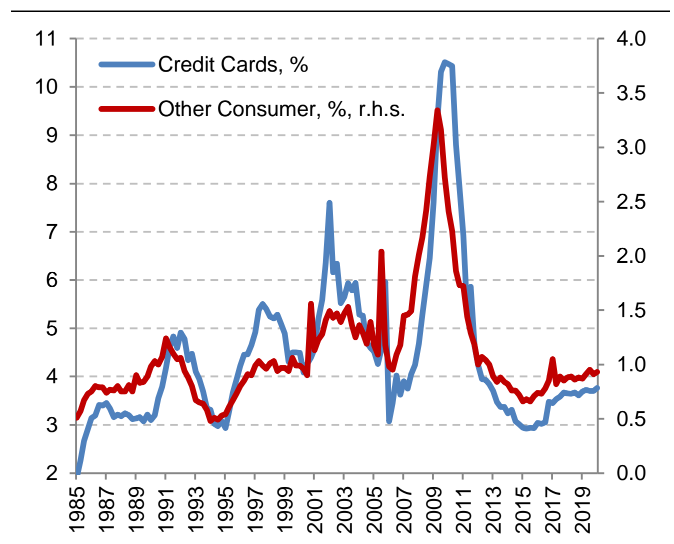
April 2020 SLOOS survey indicated that "a moderate net share of banks tightened lending standards on auto loans, while significant net shares of banks tightened standards on credit card loans and other consumer loans. Significant net fractions of banks also tightened important terms on credit card loans, including credit limits, minimum credit scores required, and the extent to which loans are granted to customers who do not meet credit scoring thresholds". As of demand, banks noted that demand was weaker across all three major categories of consumer credit. Unsurprisingly, given the rate of economic deterioration. According to NY Fed, "auto loans also saw tightening in underwriting standards, with a 3 point increase in the median originating credit score. The volume of subprime auto originations was $28 billion, a level on par with the last several years".

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



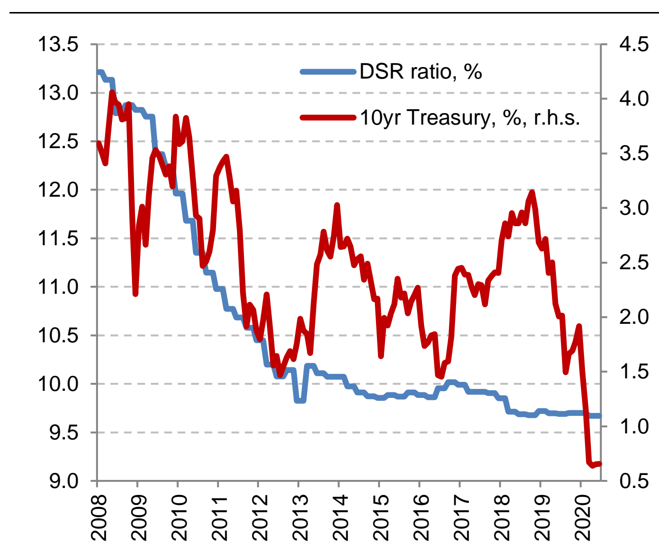
Source: Bloomberg

Chart 19. Consumer. NCOs Ratios, %



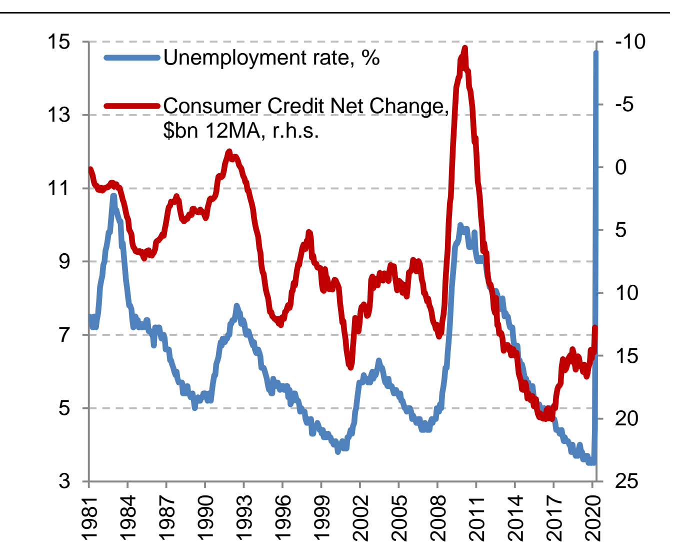
Source: Bloomberg

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



Source: Bloomberg

Chart 21. Unemployment vs Net Change of Cons Credit



Source: Bloomberg

Consumer activity data published in June was slightly better than expected after relatively in-line figures in May following unprecedented drop in April. Both indicators are still

markedly lower on ytd basis, but they have already begun to grow. Thus, consumer sentiment indicator published by Michigan University increased by 6.3 pts MoM to 78.9 pts vs expectations of 75 pts, driven by both current conditions index and expectations index. It is more than 23 pts higher than low of the last cycle but it seems that 2Q20 consumer spending decline will be the biggest on record. According to June Bloomberg survey, it will decline by 6.4%. In turn, conference board consumer confidence index was markedly stronger than expected and it increased by 12.2 pts MoM from revised down May estimate to 98.1 pts vs consensus of 91.5 pts. It was driven by present situation index.

All data which is related to employment published in June 2020 were clearly optimistic except for jobless claims which remain elevated, especially continuing jobless claims. But we don't think that it means V-shaped recovery in any case as it is just a result of reopening of the economy and employment will remain far from pre-COVID levels for long time. So, the most significant payrolls growth was demonstrated by industries which showed the largest losses in previous months. But uncertainty is still very high and businesses will inevitably collide with lower profitability and bankruptcies growth. So, employment recovery will be much slower than losses in 1H20. Notwithstanding, May employment report was significantly better than expected across majority of the metrics. Thus, nonfarm payrolls turned positive with May figure of 2.5 mln vs expectations of -7.5 mln and April figure of -20.7 mln. Private payrolls increased by 3.1 mln. The vast majority of sectors demonstrated employment growth in May. Unemployment ratio declined by 1.4 percentage points MoM to 13.3% in May vs consensus of 19.0%. In turn, average hourly earnings declined by 1% MoM as a result of employment growth which was driven by low-wage workers. From the other hand, underemployment ratio was 21.2% in May, -1.6 percentage points from April level but still significantly higher than the high of the Great Recession of 17.2%. In any case, more than 20 mln people are still filling unemployment claims while total employment level declined by 13% from pre-COVID levels. Continuing claims remain very important indicator to track employment situation. On a year-over-year basis, hourly earnings were +6.7% vs consensus of +8.5% and April figure of +8%. Average weekly hours were +0.5 MoM at 34.7, markedly beating consensus of 34.3 hours. Initial jobless claims noticeably decreased in June vs May figures, but overall initial jobless claims over 3 weeks in June exceeded 4.5 mln. While overall jobless claims since mid-March exceeded 45 mln over 14 weeks.

Interest Rates

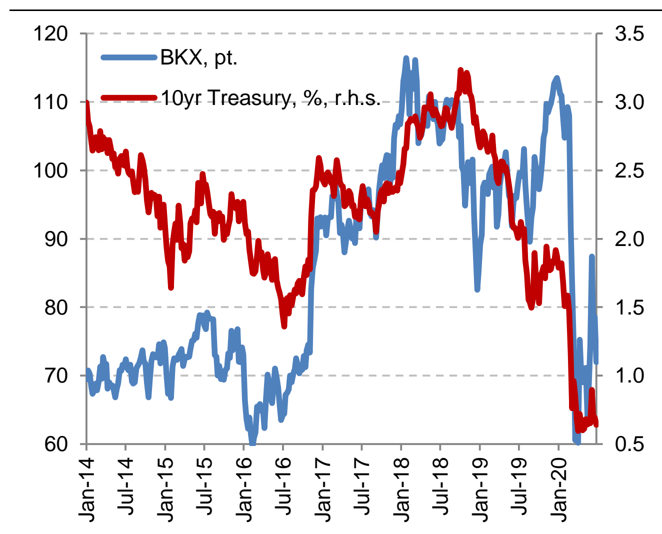
At its June meeting, the Fed left the target range for the FF rate and its guidance unchanged. The decision was unanimous. During the press conference it was noted that the committee wasn't even thinking about thinking about rising. So, "the Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals". But FOMC projections imply that rates will remain unchanged at least till the end of 2022. Moreover, Jerome Powell intimated during press conference that period of zero-lower bound could be even longer given several years of lower unemployment without excessive pressure on wages and prices during the last cycle. But even taking into account dot plot publication for the first time since 2019, it seems that rates guidance isn't clear enough for market participants. Partly, it is also correct for asset purchases. It was more details for QE program than it was before but the guidance is still indistinct. Thus, "to support the flow of credit to households and businesses, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace to sustain smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial condition". As of economic projections, they also imply that recovery to pre-COVID levels will also be around three years with sharp drop in 2020 and fast growth in 2021. But it was

noted that there was a great uncertainty around the future. Possibly, minutes of the meeting will shed some light on the forward guidance parameters. However, uncertainty around future monetary policy details disappointed investors, with significant decline of key share indices.

Despite significantly better May employment report, it was emphasized that nearly 20 mln jobs were lost since the end of February. But GDP projections imply V-shaped recovery, even taking into account “the great uncertainty about the future”. Thus, according to FOMC projections, GDP will decline by 6.5% in 2020 but it will increase by 5.0% yoy in 2021 and by 3.5% yoy in 2022. But potential GDP growth was revised down slightly. Also, it was noted that some indicators suggested stabilization or even a modest rebound in some segments of the economy in recent weeks. As of unemployment ratios, it is implied that it will be 9.3% as the end of 2020, 6.5% as the end of 2021 and 5.5% as the end of 2022. In other words, it will be markedly higher even in 2022 vs pre-COVID levels. PCE inflation will decline to just 0.8% in 2020 but then it will rebound to 1.6% and 1.7% in 2021 and 2022, respectively. Overall, FOMC projections are relatively close to consensus forecasts. Thus, according to Bloomberg June survey, GDP growth will be -5.7%/+4.0%/+2.8% yoy for 2020/2021/2022 years, respectively, vs -5.7%/+3.9%/+3.0% yoy in May, while most pessimistic forecasts imply that US GDP could shrink by more than 10% yoy in 2020. Unemployment forecasts decreased from 11.0%/7.9%/6.5% for 2020/2021/2022 years, respectively, in May to 9.5%/7.5%/5.7% in June.

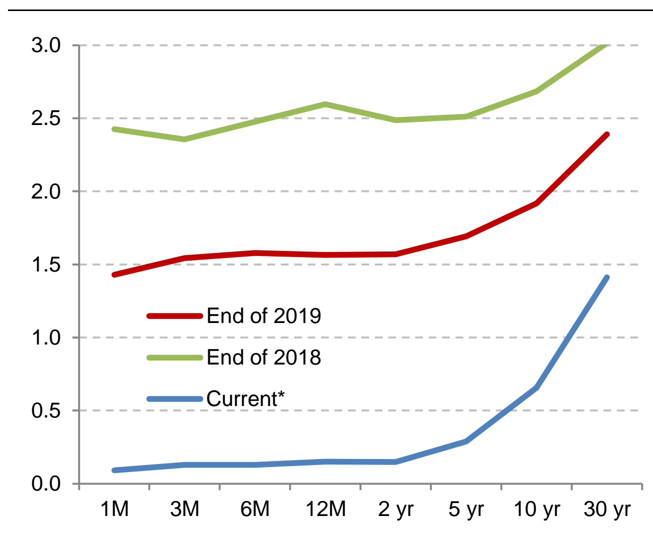
So, challenging rate environment for US banks will persist for a long time. It seems that the worst is behind us but we are very far to be out of woods. At least, uncertainty is still very high at the moment. So, we still do not exclude that new measures to support the economy will be announced if situation deteriorate but the probability of that has diminished substantially in the recent weeks. The Fed overcome the liquidity crisis by massive injections but it doesn’t mean that saved companies will operate as usual given substantial growth of leverage for many of them during recent months which had been quite high before. So, we still expect a wave of bankruptcies in corporate sector in coming quarters, unless, of course, the fed decides to continue supporting zombies with weak balance sheets. But this can’t go on forever since gradually the short-term benefits of this support outweigh the long-term negative consequences for the economy. Answering the question whether there is a bubble on the stock market, Jerome Powell emphasized that the Fed focused on the broad financial conditions and the key aim was to restore the broad market functioning. But given the overall tone of the press conference, it seems that the growth of the stock market was too far too fast.

Chart 22. BKX Index vs 10yr Treasury Yield



Source: Bloomberg

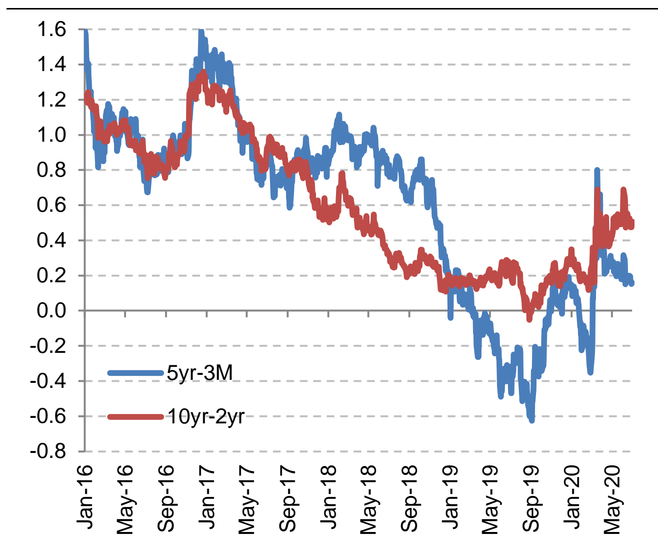
Chart 23. US Yield Curves, %



*As of end-June 2020

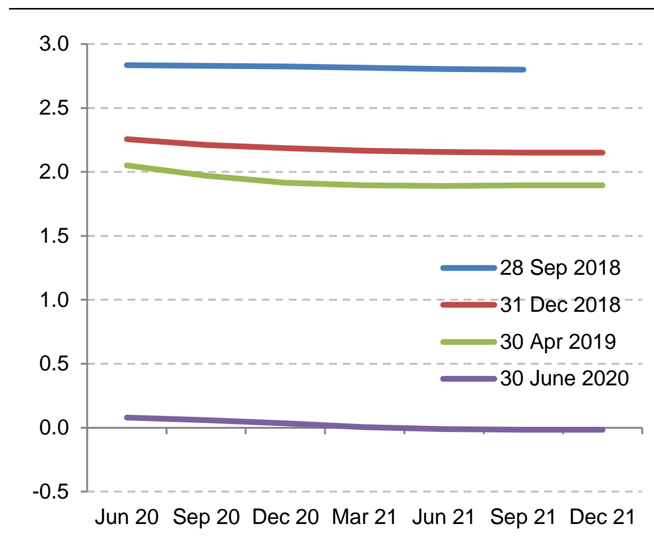
Source: Bloomberg

Chart 24. Treasury Spreads, %



Source: Bloomberg

Chart 25. Futures Implied FF Rate, %



Source: Bloomberg

Median NII growth of BKX index members was 0.7% qoq in 1Q20 but -0.6% yoy vs -0.4% qoq or -2.3% yoy in 4Q19, the first qoq growth after 4 consecutive quarters of decline. Also, median NII surprise of BKX index members was +1.5% (vs estimates for April 13), after two consecutive quarters of missed expectations. The key driver of positive sequential NII dynamics was strong growth of earning assets and relatively resilient NIM but it seems both drivers are unsustainable at the moment and we will see further decline of NII in coming quarters especially taking into account rate cut to zero in March. Median NIM of BKX index members decreased by 3.5 bps qoq or -21 bps yoy to 2.96% (the lowest figure since 2Q17) vs -5 bps qoq or -17.5 bps yoy in 4Q19. So, despite better NIM in 1Q20 and stabilization of key benchmark rates in 2Q20, Bloomberg consensus estimates of median NIM of BKX index members slightly decreased in 2Q20. Thus, median NIM 20E of BKX index members decreased by 12.4 bps QoQ or -29.2 bps ytd to 2.76% as the end of June while NIM 21E declined by 10.5 bps QoQ or -28.9 bps ytd to 2.68%.

Median growth of NII income of BKX index members was positive on qoq basis in 1Q20 despite lower day count but it is not a good guidance for coming quarters given significant growth of earning assets due to strong deposit inflow and emergency liquidity demand from C&I segment, primarily by utilizing revolvers. And its growth remains elevated in June as well as deposit growth. The key driver of future decline of NII is significant drop of NIM due to full impact of March cuts in 2Q20. But it will be partly mitigated by lower deposit costs and wider spreads. The key risk for NIM is that it will remain low for prolonged time. At least, current futures imply that there will be no rate hike in two coming years while the last cycle example tell us that this period could be much longer.

Treasury yields were almost unchanged in June 2020 after slight growth in May, but frankly speaking, the yield curve remained unchanged in three last months following significant decline in the first three months of the year. Thus, 1M yield decreased by 2 bps MoM to 0.09% while 3M yield went up by 0.5 bps MoM to 0.13%. In turn, 2yr yield went down by 1.2 bps MoM to 0.15% and 5yr yield decreased by 1.6 bps MoM (currently at 0.29%). 10yr yield increased by 0.4 bps MoM to 0.66% (-126 bps ytd), while 30yr yield went up by 0.4 bps to 1.41%. Notwithstanding, according to current futures, the yield curve in next 2 years will be just 20-30 bps higher than the current one.

So, spreads also changed insignificantly in June as it did in two previous months, remaining near multi-month high for 10yr-2yr spread but markedly lower than average levels of 2017 year. Thus, 5yr/3M spread decreased by 2.1 bps to +0.16% but it is still 81 bps lower than average level of 2017 yr while 10yr-2yr spread is 43 bps lower (as the end of June). Spread

(10yr-2yr) increased by 1.5 bps MoM to +0.51%.

According to Bankrate.com data, loan yields continue to decline following significant drop of key benchmark rates ytd, but decline of loan yields is much slower because of spreads widening which is started to decline in recent weeks. Thus, average 30yr mortgage rate decreased by 14 bps MoM to 3.4% as the end of June following meaningful decline in May and April but its decline is still 67 bps slower ytd than decline of 10yr treasury yield. Average 15yr mortgage rate decreased by 14 bps MoM either, to 2.84%, -62 bps ytd. Auto loans rate (new loans, 60 mnth) went down by 4 bps MoM to 4.45%, -9 bps lower ytd. Deposit rates continued to decline in June as well, but the rate of decline slightly decelerated recently after some acceleration in March and April, following rate cuts in March, the 9th month in a row of decline So, it will continue partially mitigate the negative impact of significant decline of key benchmark rates but NIM will continue to decline in coming quarters.

Thus, national average cost of 6 month deposits decreased by 6 bps MoM to 0.36%, -43 bps ytd; average 3yr CDs cost declined by 8 bps to 0.64%, -61 bps ytd; average 5yr CDs cost decreased by 6 bps MoM to 0.76% (-65 bps ytd) while cost of interest checking accounts decreased by 1 bps MoM to 0.21%, -47 bps ytd. Average cost of money market accounts fell by 1 bps MoM to 0.29%, -28 bps ytd.

Europe

Corporate

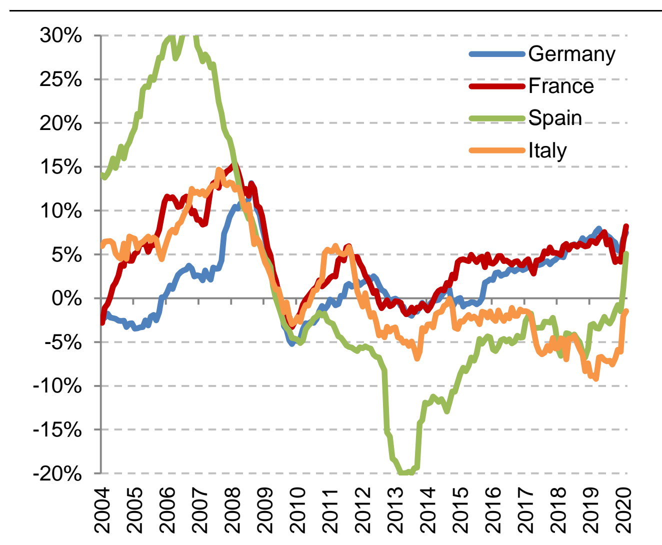
Corporate loans growth markedly accelerated in recent months driven by emergency liquidity needs but it seems that the growth is unsustainable given significant decline of economic activity across majority of EU countries. So, EU corporate loans growth was positive on MoM basis in March and April, the fourth consecutive month of growth after significant decline in December. Even on yoy basis it markedly accelerated due to active use of credit lines because of liquidity needs after deceleration in previous months. Thus, loans up to 1 year increased by 0.4% yoy but -1.2% MoM in April. Loans 1-5 yrs accelerated to 12.2% yoy from +3.4% yoy in February and +4.2% yoy 1 year ago. Loans over 5yrs were +4.5% yoy in April vs +2% yoy 1 year ago, +1.4% MoM. Total corporate loans increased by +5.1% yoy vs +2.0% yoy 1 year ago, +1.6% MoM, after +2.6% MoM in March, which was the highest monthly growth on record. Credit growth in the EU still varies markedly across countries but it was very similar across majority of EU countries in two recent months. So, we still see very healthy growth rates in Germany and France (and other Northern countries) while Italian corporate loans growth remained negative so far. From the other hand, Spanish corporate loans growth rate turned positive in March and it was solid +5.1% yoy in April.

European corporations benefited from low interest rate environment so far but this will be little consolation in a recession time given imminent decline of revenues. At the end of last year, there was hope for stabilization of the macroeconomic situation, but the coronavirus spreading disrupted these hopes. In May 2020 ECB's Financial Stability Review it was noted that the coronavirus pandemic caused the largest and sharpest economic contractions in history. "Economic indicators suggest an abrupt contraction in economic growth in the first half of 2020 with full-year figures likely to be weaker than in the year following the 2008 global financial crisis, according to private sector estimates". It will inevitably lead to lower corporate profits and higher default rates given the fact that financial health of EU corporate sector had already worsened even before lockdowns. Notwithstanding, "credit risk measures have surpassed their average values since 2014, but remained below the levels that had been observed during the financial and sovereign debt crises". But the situation could deteriorated substantially given the depth of economic decline and significant refinancing needs in coming years for companies in sensitive sectors, especially in case of the second wave of the pandemic. From our point of view, how deep credit quality problems will be depends on how quickly the economy starts to recover. We think that probability of V-shaped recovery tends to zero, taking into account recent macroeconomic data. At least, PMI figures were at unprecedented low levels just two months ago. Industrial production decreased by double-digit figures in March while recovery after lockdowns isn't as fast as it was expected. Uncertainty is still very high and it will remain high for some time.

According to April 2020 Euro Area bank lending survey, demand for corporate loans surged in 1Q20 after decline in 4Q19, reflecting "firms' emergency liquidity needs to cover ongoing payment needs (e.g. for rents or employees) during the lockdown period" as well as drawing previously committed credit lines. Loan demand was heterogeneous across European countries and banks expect that it will increase further in 2Q20. In turn, credit standards were tightened in 1Q20, reflecting significant uncertainty related to COVID-19 spreading. The net percentage was still below the historical average since 2003 but banks noted that "they were not yet able to fully evaluate the effects of the coronavirus pandemic". The key driver of tightening standards was risk perception while competitive pressure was the main driver of easing. Rejection rate increased but banks expect that "a considerable net easing of credit standards for firms (a net percentage at -11%) in the second quarter of 2020, probably on account of the liquidity support measures and loan guarantees

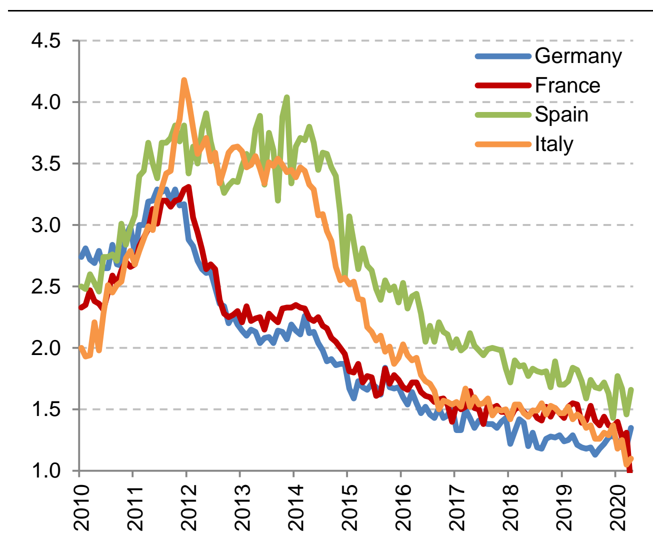
introduced by governments". But we don't expect that there will be long-lived effect if there is any at all.

Chart 26. EU Corporate Loan Growth, YoY



Source: Bloomberg

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



Source: Bloomberg

Unadjusted EoP corporate loans increased by 5.1% yoy at the end of April, it is the 31st consecutive month of positive growth on yoy basis. In turn, adjusted for sales and securitizations loans increased by 6% yoy, the 58th consecutive month of positive yoy growth. It was the highest rate of growth since the end of 2008. Notwithstanding, despite recent acceleration, it should weaken in 2H20 given the depth of recession. We don't exclude that it will be negative in several quarters, accompanied by challenging rate environment for a long period of time, having double negative effect on NII and profit.

German outstanding corporate loans (unadjusted figures) increased by 7.5% yoy as the end of April or +1.1% MoM vs +6.4% yoy as the end of 2019. French corporate loans outstanding (unadjusted figures) added 8.2% yoy or +2.2% MoM as the end of April vs +6.5% yoy one year ago. Due to significant MoM growth, Spanish loans are higher than it was 1 year ago but corporate loan growth in Southern countries in general remains weak. Thus, Spanish outstanding corporate loans added 5.1% yoy or +3.7% MoM vs -2.9% 1 year ago, the highest rate of growth on yoy basis since 2H08. Italian loans continue to decrease, -1.4% yoy but +1% MoM (the second month in a row of positive MoM growth) vs -8.8% yoy 1 year ago.

European corporate rates continue their negative dynamics on yoy basis but they markedly increased on MoM basis in April, almost back to February level as a result of spreads widening while key benchmark rates declined then. Thus, average EU corporate loan rates (all maturities, new business lending, adjusted for loan sales) increased by 5 bps MoM to 1.35% in April but -9 bps yoy. Back book yields of EU banks continuously decreased on yoy basis since April 2014 and rate of decline went up in February-March after being relatively flat over the last year. It declined by 2 bps MoM to 1.8%. On yoy basis, it is -17 bps vs the lowest yoy decline since mid-2014 of 10 bps.

Dynamics of rates within European countries wasn't uniform in April with significant decline of front book yields in France but skyrocketed growth in Germany and Spain. Thus, Spanish yield increased by 20 bps MoM to 1.66% in April after two months in a row of significant decline. Italian one came up by 5 bps MoM to 1.1%, -36 bps on yoy basis. German corporate rate on new loans increased by 15 bps MoM in April to 1.35% and it is even 6 bps higher ytd and +14 bps higher than 1 year ago. French yield on new corporate loans tumbled by 44 bps MoM to 0.87%, new all-time low, -49 bps ytd and -67 bps yoy. In

turn, Dutch yield skyrocketed by 63 bps MoM to 1.87% in April, +57 bps yoy. Back book yields declined in all major European countries except for Spain and Netherlands in April. Thus, German yield decreased by 2 bps MoM to 1.82% in April, -16 bps yoy. French yield decreased by 3 bps MoM to 1.58%, -17 bps yoy. Italian yield declined by 2 bps to 1.95%, -17 bps yoy. Spanish increased by 2 MoM to 1.75%, -10 bps yoy. Dutch yield increased by 1 bps MoM to 1.95%, -14 bps yoy. Thus, spread between new and outstanding rates tumbled by 7 bps MoM to 0.45%, the lowest level Since December 2011, after being relatively flat over the last 1.5 year.

Consumer

EU consumer was the main driver of total loans growth so far but situation changed dramatically in recent months. So, growth rates of both mortgage and other consumer loans decelerated markedly in March and April while banks started to tighten credit standards in 1Q20. There were quite predictable actions given rapid deterioration of EU economy, which will inevitably lead to a significant deterioration of financial health of EU consumer. At least, unemployment rate has already started to grow while consumer confidence declined to the levels unseen from the last crisis. It should be noted that sustained growth of property markets which positively impacted on household wealth during recent years will be inevitably replaced by a fall in coming quarters. But a positive moment is that the indebtedness of euro area households remains relatively low, stabilized near 58% of GDP. Given very low rate environment, household debt burdens are also near multi-year lows and it will remain at these levels or only slightly higher in the nearest years because of prolonged negative rate environment. Currently, households debt interest burden is 40-50% lower for majority of European countries than it was just before the US mortgage crisis. But in the event of a significant increase in unemployment, this will be a little help for people who lost a job. Notwithstanding, overall quality of consumer credit portfolio of European banks should be better in the current crisis vs GFC levels unless it will be L-shaped recovery rather than U-shaped one.

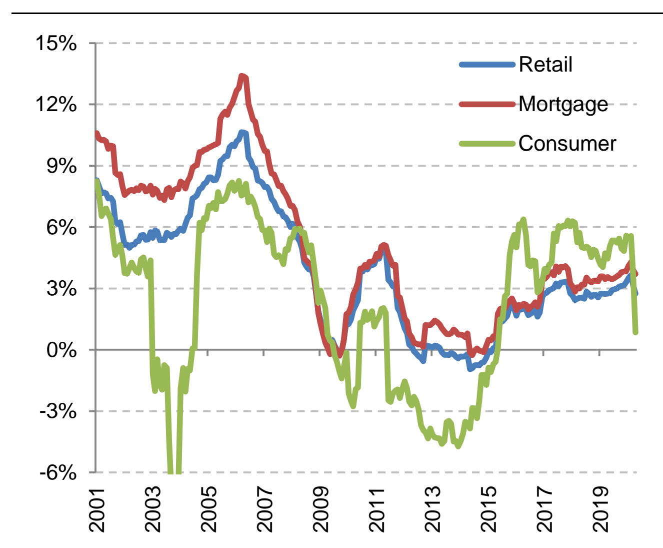
EU loans to households increased by 2.7% yoy but -0.1% MoM in April (the second month of MoM decline in a row, after 25 consecutive months of growth). Consumer loan growth remained relatively strong so far but it will continue to decelerate in the near term given more strict lending standards and imminent recession. Moreover, it will continue to differ widely across countries (as well as for corporate loans). Thus, German household loans increased by 4.4% yoy in April or +0.2% MoM, French retail lending added 4.7% yoy but -0.3% MoM (marked deceleration vs December 2019 figures), while household loans in Spain declined by 1.3% on yoy basis, the 10th month in a row, after non-negative loan growth rate for 13 months in a row following more than 7 years of negative yoy growth. Italian consumer loans lost 0.3% yoy in April, the first month on negative yoy growth over the last 11.

Consumer lending (excluding mortgage) remained the key driver of EU household loan portfolio but it was negative on MoM for two consecutive months. But it still remains positive on yoy basis, adding just 0.9% yoy in April, -2.0% MoM after non-negative MoM dynamics over 11 months in a row. EU mortgage loans increased by 3.7% yoy as the end of April, +0.1% on MoM basis. According to April 2020 bank lending survey conducted by the ECB, loan demand for consumer credit was lower as well as net increase for housing loans because of worsening outlook. For more than 3 years, Spain demonstrated double-digit growth of consumer credit, significantly outperforming other major European countries. But the growth substantially decelerated in recent months. Thus, Spanish consumer credit was flat on yoy basis vs 13.8% yoy 1 year ago, the lowest growth rate since the end of 2015. In turn, Spanish mortgage portfolio continues to stagnate, -1.9% yoy as the end of April vs -1.3% yoy 1 year ago, -0.2% on MoM basis.

As of mortgage lending standards, it was tightened in 1Q20 after being broadly unchanged in 4Q19. Net percentage was above the historical average level since 2003 but it still remained overall moderate vs GFC. “Banks referred to a lower risk tolerance and a worsening creditworthiness of households as relevant factors for the tightening. By contrast, banks’ cost of funds and balance sheet situation had a neutral impact”. Unsurprisingly, banks expect that standards will tighten in 2Q20 while demand will be strongly negative. “The net tightening was mainly related to a tightening impact of loan-to-value ratios and collateral requirements, while margins on average loans continued to narrow and margins on riskier loans remained broadly unchanged”. It was also noted that rejection rate for housing loans increased. As of consumer loans, the lending standards continued to tighten in 1Q20 and it was “the strongest net tightening since 1Q13”. “Higher risk perceptions related to the general economic outlook and a lower risk tolerance of banks were the most important factors contributing to the net tightening of credit standards on consumer credit in the first quarter of 2020”. Rejection rate was also higher.

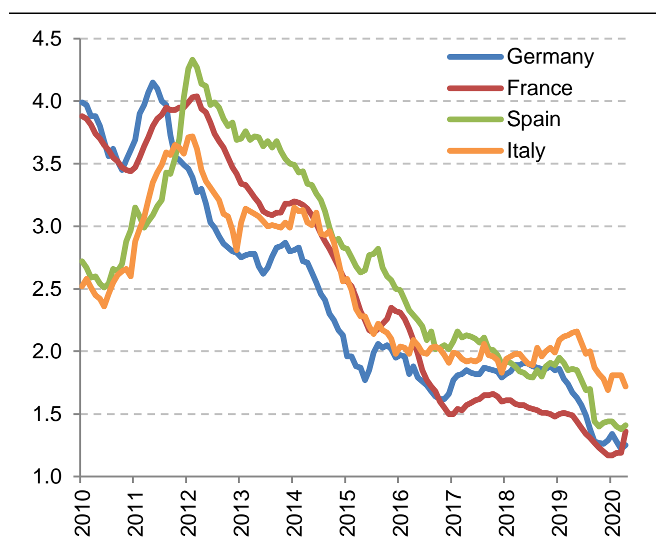
Average EU rate on new mortgage loans increased by 3 bps MoM to 1.4% in April 2020 after decline by 2 bps MoM in March and 3 bps MoM in February. But it still is 34 bps lower than it was 1 year ago. It was hovering around 1.82-1.83% over 8 months from July 2018 to February 2019 but it declined by more than 40 bps since then because the key benchmark yields for mortgage rates declined markedly ytd, except for the short end which is slightly higher than it was at the end of 2019. But since April 2020, 10yr generic yield increased by 13.9 bps to -0.45%, after decline in April, +41 bps from this year low. In fact, it just returned to the end of February level and it is still -0.26% ytd. 30yr yield added 18 bps MoM but it is just +0.03% as the end of May 2020. So, almost the entire yield curve still remains to be below 0% at the moment. In April, German mortgage rates on new loans increased by 3 bps MoM to 1.25%, -42 bps yoy. In turn, Italian mortgage rate went up by 3 bps MoM to 1.41% but it is still 45 bps lower than it was 1 year ago. French yields skyrocketed by 17 bps MoM to 1.36%, just -13 bps yoy. Spanish mortgage rate decreased by 9 bps MoM to 1.72%, after three consecutive months of being flat but it is 43 bps lower than it was 1 year ago. Because of lower front book yields, we continue to see declining back book rates on year-over-year basis, -18 bps yoy for all Eurozone mortgage loans. On month-over-month basis, it decreased by 1 bps to 1.9%, the second month of decline after unexpected growth in February. The rate of decline increased from 4.5 years low of -12 bps yoy which was shown in May-July of 2019 due to significant drop of benchmark rates.

Chart 28. EU Consumer Loan Growth, YoY



Source: Bloomberg

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



Source: Bloomberg

As for other consumer loans, EU new business rates tumbled by 29 bps MoM to 5.18% in April 2020, the third month in a row of decline with a total drop of 50 bps. Consumer yields remain too volatile. On year-over-year basis it decreased by 44 bps. Consumer yields markedly decreased in all major European countries on MoM basis except for Germany, where it increased significantly. German yield went up by 40 bps MoM to 6.21% in April, +45 bps yoy. French rate tumbled by 112 bps MoM to just 2.59%, -132 bps yoy. Spanish rate decreased by 58 bps MoM to 6.45%, after it increased by 19 bps MoM in March, but it is still -87 bps yoy. Italian consumer yield went down by 62 bps MoM to 5.87%, -73 bps on yoy basis.

Average European new consumer deposits rate (with agreed maturity) tumbled by 7 bps MoM to 0.26% in April 2020 after decline by 2 bps MoM in March following unexpected growth by 4 bps MoM in February. Thus, it is -3 bps ytd and -11 bps yoy. In turn, cost of outstanding deposits (with agreed maturity) increased by 1 bps MoM to 1.18%, remaining relatively flat over last year, hovering around 1.2%. Total cost of deposits was flat MoM in April after decline by 1 bps in March. On yoy basis, it is just 5 bps lower than it was 1 year ago. So, spread between total loans yield and cost of total deposits decreased by 5 bps over two recent months, after being relatively flat during 6 months, hovering around 2%. Consumer deposits growth remains healthy, adding 6% yoy as the end of April 2020, slight acceleration vs +5.1% as the end of April 2019 and the fastest growth since 2H09. The growth rates of deposits are around 5-7% yoy for all major European countries despite increasingly clear threats by banks to start shuffling off the burden of negative rates on to consumers. Corporate deposits growth also accelerated significantly in recent month, +12.6% yoy as the end of April vs +5.8% yoy 1 year ago, the fastest growth on record as a result of preserving liquidity by EU corporations.

Overall Macro

European economy contracted at a record pace in 1Q20 but the speed of decline will be significantly higher in 2Q20. High level of uncertainty remains but diminished. Thus, according to ECB’s introductory statement, “most recent indicators suggest some bottoming-out of the downturn in May as parts of the economy gradually reopen. Accordingly, euro area activity is expected to rebound in the third quarter as the containment measures are eased further, supported by favourable financing conditions, an expansionary fiscal stance and a resumption in global activity, although the overall speed and scale of the rebound remains highly uncertain”. High-frequency indicators (such as traffic, electricity, public transport usage and so on) have pointed to slightly faster recovery than feared, but they remain markedly lower pre-COVID 19 levels. Majority of key economic indicators increased significantly in the last month, from the worst levels in history shown in April 2020. PMI figures in some countries turned even into expansion territory in June. ECB continues to support European economy with massive monetary stimuli. The size of PEPP was even increased at June meeting as recovery is still fragile while risks remain high.

European real GDP tumbled by 3.6% qoq or -3.1% yoy in 1Q20, slightly revised up from initial estimates of -3.8% qoq and -3.3% yoy, respectively, after tiny growth in 4Q19, +0.1% qoq or +0.9% yoy. It was the biggest decline of EU GDP in history but 2Q20 plunge will be double-digit given the recent macro data. French GDP decreased by 5.3% qoq in 1Q20, or -5.0% yoy, vs expectations of -4.0% qoq or -3.6% yoy, after decline of -0.1% in 4Q19, implying technical recession in the country. Italian GDP decreased by 5.3% qoq within the same quarter, or -5.4% yoy, vs expectations of -5.4% qoq and -5.4% yoy, after decline by 0.3% qoq in 4Q19. Spanish GDP declined by 5.2% qoq or -4.1% yoy in 1Q20 vs expectations of -4.3% qoq or -3.2% yoy, after growth of +0.4% qoq or +1.8% yoy in 4Q19. German GDP decreased by 2.2% qoq or -2.3% yoy in 1Q20 vs -0.1% qoq or +0.4% yoy in 4Q19. ECB estimates imply that EU GDP will decline by 8.7% yoy in 2020 and will rebound

by 5.2% and 3.3% in 2021/2022 years, respectively. The market is slightly more optimistic. Thus, according to June estimates compiled by Bloomberg, EU GDP growth rates were equal to -8.6%/+5.4%/+1.8% yoy for 2020/2021/2022 years, respectively vs -7.6%/5.1%/1.8% yoy in May. But the most pessimistic estimates still imply that EU GDP will decline by more than 13% yoy in 2020.

European macro data published in June 2020 was slightly better than expected with positive surprises on majority of macro figures. So, European economy continues to stabilize after significant decline in March and April. But expectations remained almost unchanged in June after ongoing revision down during 3 previous months. Also, economic surprise indices increased markedly in June from its all-time lows, after relatively flat dynamics in May. Thus, Citi's economic surprise index decreased by 7 pts MoM in May after it tumbled by 219 pts MoM in April and -50 pts in March. During May, it decreased to -304.6 pts. Bloomberg surprise index declined by 0.045 pts MoM to -0.65 pts, near multi-year low. It seems that both figures will continue to improve in the coming months due to recovery of EU economy after reopening. But recovery is still fragile, from our point of view, and risks remained tilted to downside. So, we will see further deceleration of loan growth (after emergency liquidity needs demand for corporate loans will decline) and growth of NPLs what is very negative for EU banks given very challenging revenue environment.

Composite PMI (preliminary figure), which is usually well correlated with GDP growth, markedly beat expectations in June, after slight beat in May following significant miss in March and April. It skyrocketed by 15.6 pts MoM to 47 pts vs consensus of 43 pts. So, it is just 4.1 pts lower than it was in February. Unsurprisingly, it was driven by services PMI which skyrocketed again, adding 16.8 pts MoM to 47.3 pts vs expectations of 41.5 pts, thanks to the abolition of most restrictions. Manufacturing PMI also increased more than expected, +7.5 pts MoM to 46.9 pts vs consensus of 45 pts. French PMI figures even exceeded 50 pts in June, both in manufacturing and services indicators. In turn, April industrial production decreased by 17.1% MoM or -28% yoy vs expectations of -18.5% MoM, after it decreased by 11.9% MoM in March. Given recent PMI figures, it seems that IP will begin to stabilize in coming months. But estimates were revised down slightly again in June. Thus, according to estimates compiled by Bloomberg, it will decline by 10.5% yoy in 2020 and increased by 5.9% yoy in 2021 and by 4.8% yoy in 2022 vs -10.2% yoy/+6.4% yoy for 2020/2021 years as of May estimates.

EU consumer remained the key driver of European economy, demonstrating strong growth of consumer spending due to ongoing and broad-based wage growth in the pre-COVID era. But the situation has changed dramatically and difficult times are ahead for EU consumers. According to June Bloomberg survey, household consumption will decline by 8.6% yoy in 2020 but increased by 6.0% yoy in 2021 and by 2.5% yoy in 2022. Unemployment will increase markedly in 2020 even despite massive support measures for employment. Notwithstanding, the growth rate of unemployment will be much lower than US one. Unsurprisingly, consumer confidence has already decline significantly while companies have announced more and more job cuts, especially in the most affected industries such as airlines and tourism. According to June introductory statement, "the latest economic indicators and survey results confirm a sharp contraction of the euro area economy and rapidly deteriorating labour market conditions". But unemployment forecasts were almost unchanged in June vs May figures, after significant deterioration before. Thus, unemployment rate was markedly better in April even despite lockdowns, 7.3% vs expectations of 8.2% while March figure was revised down from initial estimate of 7.4% to 7.1%. But Bloomberg consensus of unemployment rates for 2020, 2021 and 2022 years were almost unchanged on monthly basis in June, 9.3%/9.5%/9.0% for 20/21/22 years, respectively, vs May estimates at 9.5%/9.3%/8.9%. ECB's unemployment projections are more pessimistic, being at 9.8%/10.1%/9.1% for 20/21/22 years, respectively. April retail

sales tumbled by 11.7% MoM or 19.6% yoy vs consensus of -15.0% MoM after it declined by 11.1% MoM in March. So, June preliminary consumer confidence increased by 4.1 pts MoM to -14.7 pts vs consensus of 15 pts, +7.3 pts from April low but -8.1 pts from February level and -7.4 pts from the average level of 2014-2019 yrs.

Rates

As it was widely expected, ECB announced at June meeting that it would increase the size of PEPP by €600 mln to €1.35 bn, slightly higher than consensus of €500 mln. Also, ECB announced that the horizon for net purchases under PEPP would be extended to at least the end of June 2021 but "the Governing Council will conduct net asset purchases under the PEPP until it judges that the coronavirus crisis phase is over". Moreover, reinvestments of maturing principal payments under PEPP will be last until at least the end of 2022. Also, "net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion, together with the purchases under the additional €120 billion temporary envelope until the end of the year". And APP will run as long as necessary and it will end shortly before ECB will start to raise rates. So, monetary easing was implemented through PEPP while rates were remained unchanged. Also, it was noted that PEPP had already demonstrated that it is very successful programme but it was necessary to increase its size and to maintain its flexibility given significant deterioration of economic conditions because of COVID-19 negative impact, especially in terms of inflation outlook. Thus, staff projections were revised down meaningfully. So, GDP will decline by 8.7% yoy in 2020, according to baseline scenario. Notwithstanding, market perception of the meeting was clearly positive with even growth of EUR currency even despite more easing than expected. Also, German yields increased while Spanish and Italian yields declined, implying lower risks for European economy due to more accommodation even despite more pessimistic staff projections. Given the general attitude that nothing can be excluded, we assume that PEPP size could be increased again in foreseeable future especially in case of weaker recovery than it is expected currently.

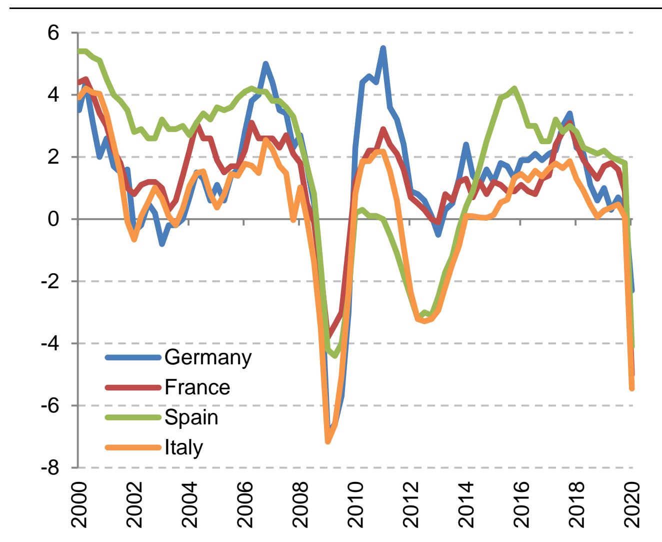
According to the introductory statement, survey data and real-time indicators for the economic activity have shown some signs of bottoming-out recently, but improvements remain relatively tepid. So, EU economy will decline by unprecedented pace in 2Q20 after decline by 3.8% qoq in 1Q20. According to June staff projections, "in the baseline scenario of the projections, annual real GDP is expected to fall by 8.7% in 2020 and to rebound by 5.2% in 2021 and by 3.3% in 2022". Compared to March projections, total GDP growth over 20-22 years was revised down by 4.2%. As of inflation, it decreased to 0.1% in May 2020 vs 0.3% in April. So, staff projections were revised down to 0.3% in 2020 (-0.8% vs March projections), 0.8% in 2021 (-0.6% vs March) and 1.3% in 2022 (-0.3% vs March), according to baseline scenario.

ECB remains as flexible as it can and it is ready to expand its facilities but efficiency of these measures will be relatively low without strong joint fiscal response, from our point of view, given sharp deterioration of economic activity. Thus, EU GDP tumbled by 3.8% qoq in 1Q20, the worst decline on a record, and it will decline even more significantly in 2Q20 while uncertainty still remains high but declining. As we had expected, new monetary easing measures were announced in June but it seems that new measures could be announced till the end of the year. Accompanied by previous ECB's liquidity and capital relief measures, it could ease some pressure on banking quotes and reduce the risk of dilution but fundamentals will remain weak in coming quarters.

Notwithstanding, NII remains pretty resilient so far despite significant decline of key benchmark yields ytd. Thus, median NII growth of EU banks was +3.1% yoy in 1Q20 driven by both earning assets growth and NIM growth. Thus, median NIM increased by 5.4 bps yoy to 1.62%, unexpectedly higher by 11.3 bps on qoq basis. Notwithstanding, NII outlook

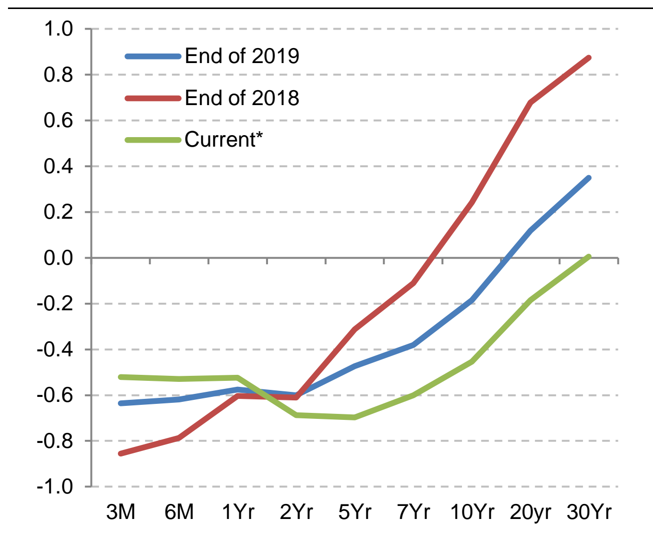
continues to worsen despite ECB's actions aimed at easing the effect of negative rate on banks' P&L and spike in corporate lending as a result of active use of drawdowns. Thus, median decline of NII FY20 estimates of EU banks was 2.9% qoq or -5.1% ytd while FY21 estimates declined by 4.1% qoq and -6.8% ytd. Median NIM FY20 estimate increased by 17.8 bps ytd and by 10 bps qoq to 1.7% while NIM FY21 increased by 7 bps ytd and by 4 bps qoq to 1.59% as the end of June.

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



Source: Bloomberg

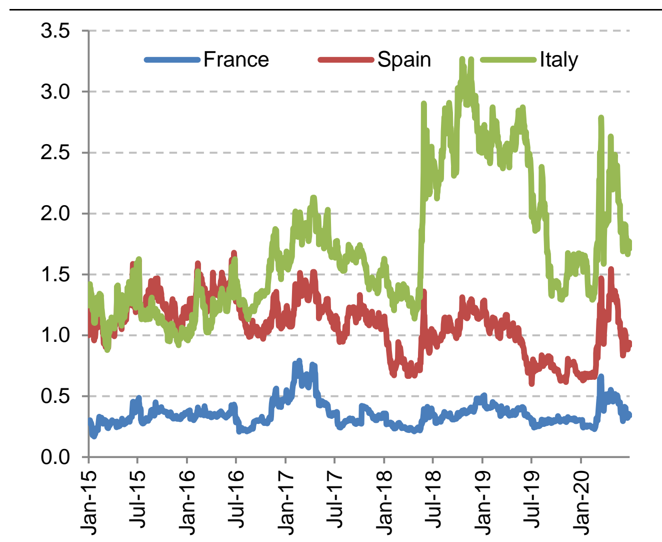
Chart 31. EU Yield Curves, %



*end of June

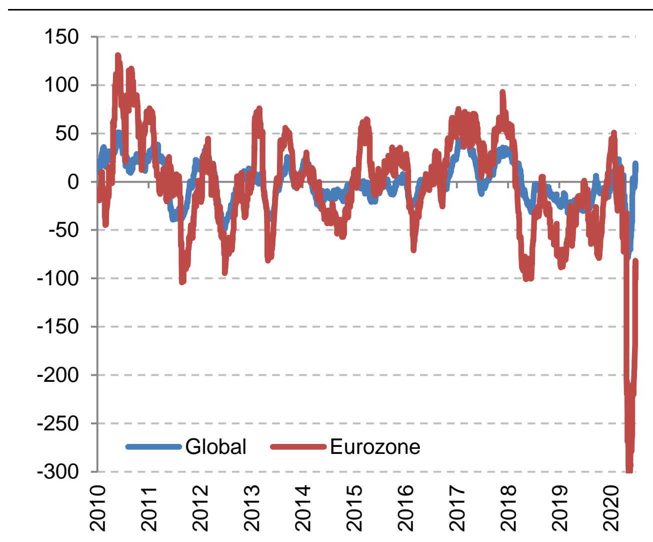
Source: Bloomberg

Chart 32. EU Countries Sov. Spreads vs Germany, 10Yr, %



Source: Bloomberg

Chart 33. Citi Economic Surprise Indexes, pts



Source: Bloomberg

Key benchmark rates decreased in June after slight growth in May. Notwithstanding, rates remain significantly lower ytd. Thus, 3M Euribor (Dec 2021) decreased by 6.5 bps MoM to -0.49% (as the end of June 2020) or -21.5 bps ytd while 3M Euribor (Dec 2022) went down by 6.5 bps MoM to -0.46% and it is -33 bps yoy.

The direction of dynamics of generic yields was uniform in June 2020 with slight decline across the yield curve. So, it remains meaningfully lower than it was at the end of 2019. 3M yield decreased by 0.5 bps MoM to -0.52%. 6M yield went down by 2.2 bps to -0.53%. 1yr generic yield declined by 0.3 bps MoM to -0.52% while 2yr yield decreased by 2.8 bps MoM to -0.68%. 5yr yield went down by 5.3 bps to -0.7% while 10yr yield declined by 0.7 bps to

-0.45%. Overall, the yield curve remains relatively flat and inverted in the middle part of the curve. Spreads only slightly changed in June 2020. Thus, spread between 10yr yield and 1yr yield increased by 2.3 bps MoM to +0.07% while spread between 5yr and 3M yields went down by 4.8 bps MoM to -0.18%.

THEME OF THE MONTH

US Banks. 2Q20 Preview

The earnings season of US banks will start on June 14th, when 2Q20 results will be provided by JP Morgan, Citigroup and Wells Fargo. After that, within two weeks, all members of BKX index will provide quarterly results. US banks reported very mixed figures in 1Q20 with the lowest number of positive EPS surprises among our group of banks since 4Q08, the worst quarter during GFC, but with relatively solid revenues, especially taking into account current challenging revenue environment. Underlying trends were better than feared while key reason of large number of negative EPS surprises was considerable loan-loss reserve build which will remain elevated in coming quarters. So, EPS estimates were revised down significantly since the end of 1Q20. Thus, according to Bloomberg consensus, median decline of 2Q20 EPS of BKX index members is -63.1% ytd (as end of June). Full-year estimates for the current and next years were also revised down by -53.3% ytd / -43.7% qoq and -31.3% ytd / -19.6% qoq, respectively. Notwithstanding, estimates were relatively flat in June as a result of the economy reopening and relatively optimistic tone of comments from banks management. Despite loan loss provisions remain elevated and average loan rates are markedly lower on qoq basis, revenues will remain pretty resilient due to strong balance sheet growth, solid mortgage and capital market fees. Thus, revenue estimates were flat on qoq basis with median growth of BKX index members of +0.1%.

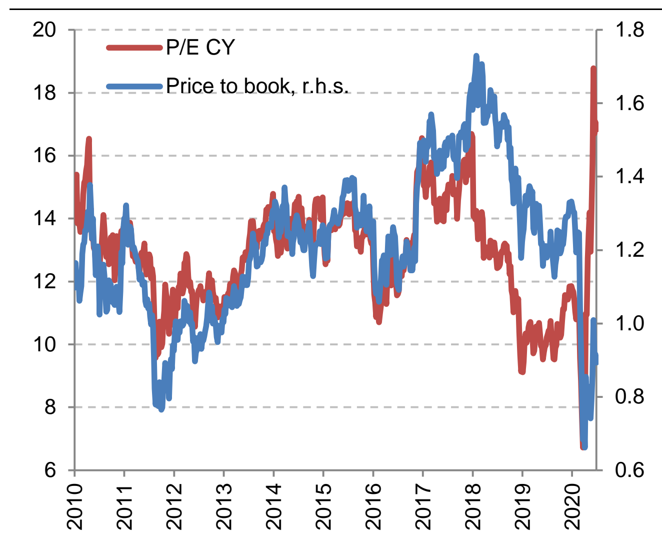
As key benchmark rates decreased markedly in 2Q20, NIM estimates continue to go down. Thus, according to Bloomberg consensus estimates, median decline of NIM of BKX index members in 2Q20 is 18.7 bps qoq and it is expected to decrease by 29.4 bps yoy, the most significant decline over more than ten years. Unsurprisingly, implied median decline of NII is -2.2% qoq or -1.4% yoy, the sixth consecutive quarter of negative qoq NII dynamics and the third one of negative yoy dynamics even despite very strong dynamics of balance sheet and key benchmark rates. But NII estimates were pretty resilient in recent months. Thus, median growth of 2Q20 NII estimates of BKX index members is +2.7% qtd. In turn, NIM estimates for 2021/2022 have declined by 11-12 bps qoq but it was flat in May and June.

Majority of key benchmark yields markedly decreased in 2Q20 on qoq basis after significant decline in 1Q20. Hence NIM dynamics will remain negative as it was in 5 previous quarters. As the end of June 2020, average 1M Libor tumbled by 105 bps qoq in 2Q20 to 0.35% and average 3M Libor lost 92.8 bps qoq to 0.6% while average prime rate went down by 116 bps qoq to 3.25%. Loan rates declined meaningfully driven by drop of benchmark rates and narrowing spreads as risks decreased. Thus, average rates of auto loans decreased by 16-19 bps qoq on new autos and by 24 bps qoq on used auto loans. Mortgage rates decreased by 21 bps to 3.53% for 30-years mortgage and by 20 bps qoq to 2.99% for 15-years mortgage. All benchmarks for securities yields went down in 2Q20 either. Thus, according to BVAL, average 10yr AA/Aa, A/A and BBB/Baa yields decreased by 47.6 bps qoq, 38.8 bps qoq and 20.9 bps qoq to 1.81%/2.12%/2.82%, respectively. Yield curve became normal again after 150 bps rate cut in March 2020 but spreads still remain very tight. Thus, average 10yr-2yr spread increased by 21 bps qoq to 0.49% in 2Q20, higher than average level of 2019 (0.17%) and average level of 2018 (0.39%). Average 5yr-3Mo spread increased by 16.8 bps to 0.24% in 2Q20, markedly higher than average level of 2019 (-0.13%) but significantly lower than average level of 2018 (0.79%). Fed futures (Dec 20/Dec 21) remained relatively flat MoM, pointing to no rate hikes in the nearest 2-3 years. Thus, implied rates decreased by 3/12 bps qoq to 0.04%/-0.02%. So, median NIM estimate of BKX index members for 2020 and 2021 years continued to go down. On qoq/ytd basis, they decreased by 12.4/21 bps and by 11/28 bps for 2020 and 2021 years, respectively.

Negative impact of decreasing yields will be only partly diminished by decline of funding

costs and balance sheet optimization in 2Q20. Usually, deposits are repriced more slowly than majority of loans but decline of deposit cost significantly accelerated in recent quarters. Thus, according to bankrate.com, average cost of 6Mo CDs decreased by 29 bps qoq to 0.41% in 2Q20 (vs -14 bps in 1Q20 and -7 bps qoq in 4Q19), average cost of 1yr CDs declined by 43 bps qoq to 0.58% (vs -18 bps in 1Q20 and -23 bps qoq in 4Q19), average cost of 5yr CDs went down by 47 bps qoq to 0.82% (vs -17 bps in 1Q20 and -33 bps qoq in 4Q19) while cost of interest checking accounts lost 54 bps qoq to 0.26% (vs -14 bps in 1Q20 and -7 bps qoq in 4Q19) and cost of MMAs declined by 17 bps qoq to 0.3% (vs -17 bps in 1Q20 and -7 bps qoq in 4Q19). Recall that median cost of IBD decreased by 16 bps qoq or -24 bps yoy to 0.71% in 1Q20 vs -12.5 bps qoq but +1.5 bps yoy in 4Q19.

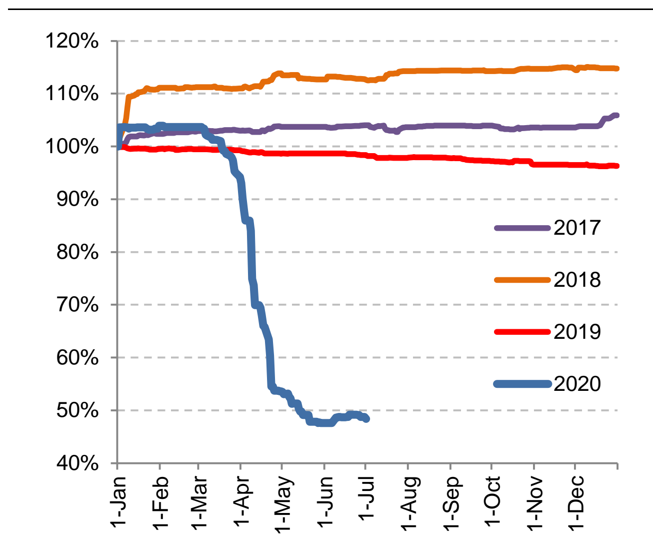
Chart 34. US Banks. Multipliers, Median*



*a sample of 34 banks which we are monitoring

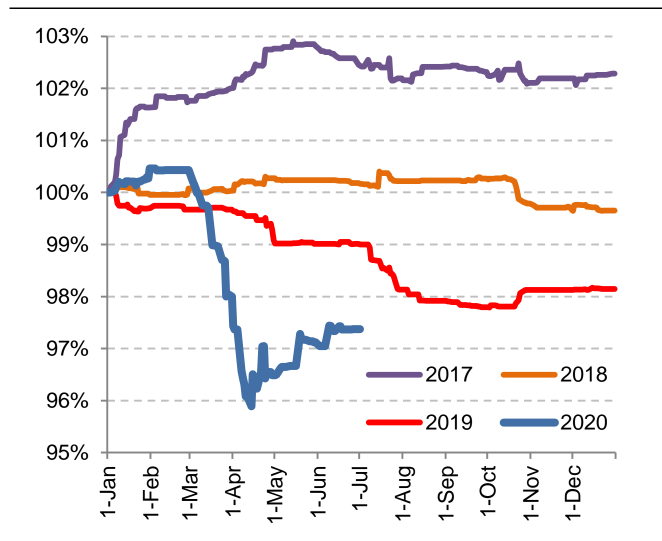
Source: Bloomberg

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



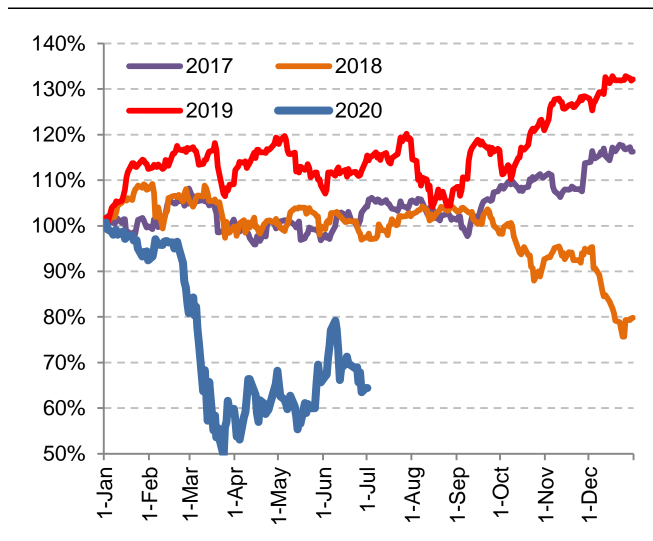
Source: Bloomberg

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



Source: Bloomberg

Chart 37. BKX Index. Price dynamics



Source: Bloomberg

Loan growth (EOP) was relatively flat on qoq basis in 2Q20 with decline by 0.7% qtd (as of June 17) but on yoy basis it is +8.9%. In turn, average loans increased significantly on qoq basis due to meaningful acceleration of C&I loan growth in mid-March and April because of active using of revolvers caused by liquidity shortage amid spreading of COVID-19 around the world. Thus, C&I added +25% yoy vs +1% yoy at the end of December 2019, +2.9% qtd and +29% ytd (as of June 17th). CRE added +6.2% yoy vs +5.9% as the end of 4Q19. Due

to significant decline of the long end recently and improving housing data, mortgage loans growth slightly accelerated initially but it decelerated then and it is currently just +2.7% yoy vs +4.4% yoy 1 year ago, +0.4% ytd. Consumer loans growth turned negative on yoy basis in 2Q20 as a result of recession and significant growth on unemployment ratio. Thus, consumer loans decreased by 2.0% yoy or -5.1% ytd (as of June 17th) vs +5.0% yoy 1 year ago, driven by credit cards which decreased by 7.7% yoy or -10% ytd vs +3.9% yoy 1 year ago. In turn, other consumer loans remain relatively resilient, adding +4.5% yoy or +0.6% ytd vs +6.2% yoy 1 year ago. Unsurprisingly, banks reported tighter standards for majority of loan categories as a result of higher risks. And we expect that standards will remain tighter in coming quarters. Total assets of US banks increased by 2.6% qtd in 2Q20 (as of June 17th) vs 11.5% qoq in 1Q20. Total liabilities increased by 3.1% qtd in 2Q20 vs 12.7% qoq in 1Q20.

Non-interest income of BKX index members will decrease by 5% qoq and by 3.3% yoy, according to Bloomberg consensus. Estimates went down qoq, median figure of BKX index members is -5.3%. Total non-interest income of BKX index members could be the worst one over the last 1.5 years despite relatively strong mortgage banking and capital markets. From the other hand, both consumer and corporate spending remains weak, negatively affecting on other categories of fee income. Mortgage origination forecasts remain pretty resilient in recent months even despite sharp decline of US economy. Thus, according to Fannie Mae's June housing forecast, total 2020 mortgage originations increased by 14.2% MoM for 2020 year and decreased by 4.6% MoM for 2021 year. Currently, it is expected that total originations will increase by 30.2% yoy in 2020 but it will decrease by 22.5% yoy in 2021. The key drivers of growth will be refinance originations for 2020 and purchase originations for 2021. According to MBA's forecast published in June, total mortgage originations will increase by 22% yoy in 2020 (+8.7% vs May forecast) driven by refinancing which is estimated to increase by 50% yoy in 2020 but total originations will decrease by 21.4% yoy in 2021 (0.4% MoM).

Expenses still remain under control and estimates markedly decreased qoq, -1.1%. According to Bloomberg consensus, median decline of OpEx of BKX index members will be -1.8% qoq and -0.7% yoy vs +1.5% yoy in 1Q20 and +1.4% in 2Q19. In result, median efficiency ratio will decrease by 50 bps qoq but it will be higher by 80 bps yoy, at 59.2% Unsurprisingly, operating leverage will be negative in the face of a significant drop in revenue, for the fourth consecutive quarter after nine month in a row of positive operating leverage. We don't expect that banks will be able to demonstrate significant positive operating leverage further in 2020 even despite still good expense control given challenging revenue environment and possible growth of expenses driven by COVID-19 related costs and higher expenses because of worsening credit quality.

Credit quality of US banks remained very strong so far but it will be a cornerstone for banks in the nearest quarters as a result of significant decline of US economy in 2Q20. Notwithstanding, we don't expect that key credit quality indicators will worsen significantly as early as in 2Q20 as a result of different support programs from both the government and banks. But we should see the first signs of deterioration of credit quality such as growth of 30-89 days past due loans and growth of both criticized and classified loans. According to FDIC data, in 1Q20, 30-89 days past due ratio increased by 2 bps qoq or +3 bps yoy to 0.66%, being in-line with average level of the ratio over four recent years. NCO ratio increased by 1 bps qoq or +5 bps yoy to 0.55%, remaining low from the historical point of view. According to June Master Trust data, credit card delinquency and NCO ratios remained pretty resilient so far despite skyrocketing growth of unemployment in April. From the other hand, number of defaults has already increased markedly but it applies more to high yield segments rather than investment grade companies where credit quality remained pretty resilient so far. Notwithstanding, provision expense will remain elevated in 2Q20 and

it will be even higher for some banks than it was in 1Q20. According to Bloomberg consensus, total provision of BKX index members will increase by 339% yoy but -13.5% qoq. Median growth of estimates is 139% qtd as a result of negative surprises on provision expenses in 1Q20. Thus, 20 out of 24 members of BKX index demonstrated provision expense worse than expected in 1Q20 vs just 8 banks in 4Q19. Median excess of actual provisions over estimates is 87% for BKX index members. But the key focus will not be on the numbers themselves, but on the forecasts that banks will give, from our point of view, taking into account CECL standards and better macro data in May and June.

Capital ratios continue to go down but still remain solid, significantly higher than it was just before the start of the last crisis (median TCE ratio of BKX index members of 7.4% in 1Q20 vs 5.7% in 4Q07). Notwithstanding, it will be one of the main focus for the market in the nearest quarters given the Fed's cap on dividends after the recent stress test. To preserve capital during recession and potential growth of problem loans, banks stopped buybacks in March but many of them will have to cut dividends either as early is in 3Q20. Median Basel III CET1 ratio of members of BKX index decreased by 33 bps qoq or -113 bps yoy in absolute terms to 9.9%, the lowest level over almost 7 years. Median TCE ratio decreased by 47 bps qoq or -44 bps yoy to 7.43%, the lowest figure since mid-2011.

Economic situation has dramatically worsened in March and April as a result of lockdowns in the vast majority of States but recent macro figures were markedly better than expected, especially employment report, indicating that the worst is behind us. But we don't think that we have been out of the woods yet, given the early stage of recovery and resuming growth of confirmed COVID-19 cases in the USA during two recent weeks. We don't expect sharp improvement of banking fundamentals even if asset quality deterioration isn't dramatic as revenue environment remains challenging with prolonged period of zero rates. Moreover, banks don't look cheap at the moment. Thus, banks are trading with +2.4/+2.2 std on P/E CY and -0.9/-0.6 on P/E NY (on the basis of samples from 2000 and 2010 yrs to current moment) relative to historical averages (as of June 26th). As for relative to S&P 500, banks are currently trading at -1 std and -2 std from the sample mean (2010-current moment) for P/E CY and P/E NY, respectively. On P/B, banks are trading with -1.6 std from the sample mean (2010-current moment) vs SPX which is trading with +1.7 std. Despite stocks are still trading at significant discount to S&P 500 index, we remain cautious on US banks given severity of upcoming recession and high level of uncertainty about the speed of US economic recovery.

APPENDIX

Table 1. US Banks: Valuations

Company	Ticker	Price as of 30/06/20, $	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			2020E	2021E	2022E	2020E	2021E	2022E			2020E	2021E	2022E		
American Express	AXP	95.2	104.9	10.2%	138.1	67.0	45.7	76.6	1.8%	1.9%	2.0%	31.8	13.6	10.9	3.6	N. A.	10.6	26.4	32.4	10.0	10.7
JP Morgan Chase	JPM	94.1	109.7	16.6%	141.1	77.0	44.6	286.6	3.9%	4.0%	4.2%	18.7	10.9	9.2	1.2	1.6	6.5	11.2	13.1	7.0	12.4
PNC Financial	PNC	105.2	117.2	11.4%	161.7	79.5	45.2	44.6	4.4%	4.4%	4.6%	16.6	13.6	10.4	1.0	1.2	6.7	6.9	8.9	9.8	9.5
Bank of America	BAC	23.8	27.6	16.0%	35.7	18.0	45.9	206.0	3.1%	3.3%	3.7%	17.1	10.7	8.4	0.9	1.2	5.1	7.7	9.3	7.2	11.2
Citigroup	C	51.1	64.2	25.6%	83.1	32.0	49.6	106.4	4.0%	4.2%	4.7%	18.4	8.2	6.0	0.6	0.7	3.2	7.4	9.2	7.7	11.8
Truist Financial Corp	TFC	37.6	43.3	15.2%	56.9	24.0	47.6	50.6	4.8%	4.9%	5.1%	13.1	10.5	8.6	0.9	1.6	6.0	7.4	9.2	7.3	9.5
Goldman Sachs	GS	197.6	224.0	13.3%	250.1	130.9	48.9	70.8	2.6%	2.6%	2.8%	14.0	9.1	7.8	0.8	0.9	6.3	9.1	9.7	7.5	13.3
Bank of NY Mellon	BK	38.7	43.5	12.6%	51.6	26.4	53.1	34.2	3.2%	3.2%	3.5%	10.5	10.2	9.0	0.9	2.0	8.6	8.3	9.1	4.8	12.5
Comerica	CMA	38.1	40.1	5.3%	74.1	24.3	49.5	5.3	7.1%	6.9%	7.1%	40.3	10.4	7.6	0.7	0.8	2.3	6.7	8.8	9.2	10.1
Citizens Financial	CFG	25.2	29.0	14.7%	41.3	14.1	51.1	10.8	6.2%	6.2%	6.2%	26.2	9.1	6.9	0.5	0.8	3.2	5.6	7.5	8.5	10.0
Regions Financial	RF	11.1	12.5	12.4%	17.5	7.0	46.1	10.7	5.6%	5.8%	6.1%	16.0	8.8	6.8	0.7	1.0	3.9	7.1	8.5	8.1	9.6
Discover Financial	DFS	50.1	55.3	10.4%	93.0	23.3	48.4	15.3	3.5%	3.6%	4.0%	27.8	8.4	5.7	1.7	1.8	5.2	16.6	26.0	9.6	11.2
M&T Bank	MTB	104.0	125.0	20.2%	174.9	85.1	45.8	13.3	4.2%	4.3%	4.4%	12.9	10.0	8.6	0.9	1.3	7.1	8.3	9.5	8.5	9.7
Fifth Third Bancorp	FITB	19.3	22.4	16.2%	31.6	11.1	45.5	13.7	5.6%	5.7%	6.0%	16.4	9.2	7.1	0.7	0.9	4.8	6.9	9.0	9.0	9.8
Huntington Bancorp	HBAN	9.0	10.2	12.6%	15.6	6.8	44.4	9.2	6.7%	6.8%	7.2%	23.7	9.4	7.2	0.9	1.1	3.6	8.3	11.0	7.8	9.9
Northern Trust	NTRS	79.3	84.1	6.0%	110.5	60.7	47.2	16.5	3.6%	3.7%	3.7%	14.3	13.9	12.4	1.5	1.6	11.4	11.3	12.4	7.6	13.2
People's United	PBCT	11.6	12.4	7.3%	17.2	9.4	47.6	4.9	6.2%	6.2%	6.4%	10.9	10.7	9.2	0.6	1.2	5.8	5.9	7.2	8.0	10.2
Synchrony Financial	SYF	22.2	25.0	12.7%	38.2	12.2	48.9	12.9	4.0%	4.1%	4.5%	14.7	7.8	5.3	1.2	1.4	3.5	13.2	17.6	11.7	14.1
KeyCorp	KEY	12.2	13.6	11.9%	20.5	7.5	46.3	11.9	6.1%	6.3%	6.5%	19.7	9.1	7.0	0.7	0.9	5.1	7.6	10.4	9.0	9.4
State Street Corp	STT	63.6	68.3	7.5%	85.9	42.1	51.3	22.4	3.3%	3.3%	3.8%	10.7	10.6	8.9	1.1	2.0	9.7	10.7	10.9	4.7	11.9
US Bancorp	USB	36.8	42.4	15.0%	61.0	28.4	48.1	55.5	4.6%	4.6%	4.8%	17.6	11.8	9.1	1.2	1.6	7.0	9.3	13.2	7.3	9.1
Zions Bancorp	ZION	34.0	36.3	6.9%	52.5	23.6	49.2	5.6	4.0%	4.0%	4.1%	17.0	10.9	8.5	0.8	0.9	5.4	7.0	8.9	8.5	10.2
Morgan Stanley	MS	48.3	50.7	5.0%	57.6	27.2	57.1	76.1	2.9%	3.1%	3.3%	12.6	10.4	8.8	1.0	1.1	7.6	8.9	9.7	7.2	16.4
Capital One Financial	COF	62.6	79.9	27.6%	107.6	38.0	42.6	28.5	2.6%	2.6%	2.7%	-27.4	8.1	5.3	0.6	0.8	-1.8	5.7	10.1	10.2	12.2
Wells Fargo	WFC	25.6	31.3	22.1%	54.8	22.0	42.8	105.0	7.2%	6.5%	6.6%	28.0	9.9	6.9	0.6	0.8	1.8	6.1	9.1	7.3	11.1
First Republic Banks	FRC	106.0	109.0	2.8%	125.1	70.1	47.5	18.2	0.7%	0.8%	0.9%	21.8	20.3	17.2	2.0	2.0	9.2	9.0	10.0	7.3	9.9
NY Commercial Bancshares	NYCB	10.2	11.8	15.7%	13.8	8.2	49.0	4.7	6.7%	6.7%	6.7%	12.7	10.2	9.0	0.8	1.3	6.1	7.1	8.1	7.4	9.9
SVB Financial	SIVB	215.5	218.9	1.6%	271.0	127.4	52.8	11.1	0.0%	0.0%	0.0%	17.3	14.1	11.5	1.7	1.7	9.5	10.4	12.7	8.4	12.6
Signature Bank	SBNY	106.9	119.7	12.0%	148.6	69.1	52.1	5.8	2.1%	2.1%	2.4%	11.5	9.6	8.2	1.2	1.2	10.4	10.8	11.8	9.4	11.6
East West Bancorp	EWBC	36.2	37.9	4.6%	51.8	22.6	49.6	5.1	3.1%	3.2%	3.9%	9.9	10.1	8.4	1.0	1.2	10.2	9.4	11.5	10.4	12.9
Synovus Financial	SNV	20.5	25.5	24.2%	40.3	10.9	48.9	3.0	6.4%	6.5%	6.6%	20.8	8.6	6.4	0.7	0.8	5.3	5.6	10.4	8.1	8.9
First Horizon National	FHN	10.0	11.6	16.7%	17.4	6.3	50.3	3.1	6.0%	6.1%	6.4%	12.8	7.3	6.3	0.7	1.0	3.3	9.0	9.8	7.5	9.2
BOK Financial	BOKF	56.4	55.1	-2.3%	88.2	34.6	50.8	4.0	3.6%	3.7%	3.7%	11.4	10.7	8.4	0.8	1.0	6.4	6.3	8.1	9.0	11.4
Median				**12.6%**			**48.4**		**4.0%**	**4.1%**	**4.4%**	**16.4**	**10.2**	**8.4**	**0.9**	**1.2**	**6.0**	**8.3**	**9.7**	**8.1**	**10.7**

Source: Bloomberg

APPENDIX

Table 2. EU Banks: Valuations

Company	Ticker	Currency	Price* (30/06/20)	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			2020E	2021E	2022E	2020E	2021E	2022E			2020E	2021E	2022E		
Erste Group	EBS AV	EUR	21.0	27.2	29.9%	35.8	15.2	48.2	9.0	3.3%	4.7%	6.2%	14.2	10.7	7.8	0.6	0.7	5.6	6.5	7.4	5.2	13.8
Raiffeisen Bank	RBI AV	EUR	15.9	20.2	27.4%	23.5	10.7	40.5	5.2	3.8%	4.7%	5.5%	8.7	6.8	6.4	0.5	0.5	5.8	6.7	7.2	7.3	13.9
KBC Groep	KBC BB	EUR	51.7	56.8	9.8%	73.6	33.4	52.8	21.3	3.2%	4.4%	5.6%	19.5	13.1	10.7	1.2	1.3	5.7	8.5	9.0	6.0	17.1
Komercni Banka	KOMB CK	CZK	571.0	682.8	19.6%	908.5	465.0	46.6	3.9	6.1%	6.7%	6.9%	12.9	11.7	10.1	1.0	1.1	8.3	8.0	8.6	9.0	19.1
Jyske Bank	JYSK DC	DKK	196.4	205.7	4.7%	285.4	150.5	50.6	2.0	3.6%	2.4%	3.1%	17.5	7.7	6.7	0.5	0.5	2.6	5.2	5.5	5.0	17.4
SydBank	SYDB DC	DKK	122.6	112.7	-8.1%	162.3	83.0	54.0	1.0	3.6%	4.7%	5.4%	13.2	9.9	8.8	0.7	0.7	4.9	6.2	6.8	7.3	17.8
Danske Bank	DANSKE DC	DKK	89.6	102.3	14.1%	123.6	68.0	53.2	10.2	2.0%	5.6%	7.0%	33.7	8.6	6.9	0.5	0.5	1.3	5.5	6.6	3.9	17.3
BNP Paribas	BNP FP	EUR	35.4	41.8	18.4%	54.2	24.5	54.4	44.2	5.6%	6.0%	7.5%	9.8	8.1	6.2	0.4	0.5	4.2	4.6	5.7	4.0	12.1
Natixis	KN FP	EUR	2.3	2.7	17.7%	4.4	1.5	51.9	7.3	3.8%	7.5%	9.8%	20.5	10.0	7.5	0.4	0.5	2.0	4.0	4.9	2.5	11.3
Societe Generale	GLE FP	EUR	14.9	17.4	17.1%	32.2	11.3	51.6	12.6	1.4%	5.8%	9.1%	31.5	7.7	5.1	0.2	0.2	1.0	2.7	3.8	4.2	12.7
Credit Agricole	ACA FO	EUR	8.5	10.3	20.9%	13.8	5.7	56.0	24.3	3.7%	5.7%	7.0%	9.6	8.2	6.8	0.4	0.6	3.6	4.0	5.6	2.2	12.1
Virgin Money	CYBG LN	GBp	94.2	132.9	41.2%	222.1	46.1	46.1	1.5	0.0%	0.0%	0.1%	58.9	8.9	4.6	0.3	0.3	0.1	3.5	6.0	5.0	13.3
HSBC	HSBA LN	GBp	374.0	437.3	16.9%	674.8	369.4	43.9	85.1	0.0%	0.1%	0.1%	13.5	8.2	6.4	0.5	N. A.	3.6	5.1	6.4	5.3	14.7
Royal Bank of Scotland	RBS LN	GBp	122.4	160.9	31.4%	265.0	100.4	51.5	16.3	0.0%	0.1%	0.1%	53.2	9.6	6.3	0.4	0.4	-0.7	3.6	5.9	4.5	16.2
Barclays	BARC LN	GBp	115.4	138.5	20.1%	193.0	73.0	49.3	21.9	0.0%	0.0%	0.1%	25.1	7.9	5.5	0.3	0.4	2.5	4.2	5.3	4.0	13.8
Standard Charted	STAN LN	GBp	440.4	512.3	16.3%	742.6	368.4	56.3	15.3	0.0%	0.0%	0.1%	13.0	6.9	5.0	0.4	0.5	1.2	4.1	5.8	5.3	13.8
Lloyds	LLOY LN	GBp	31.2	40.4	29.8%	70.0	27.1	45.7	24.4	0.0%	0.1%	0.1%	15.6	7.6	5.8	0.5	N. A.	1.6	7.6	8.3	4.3	13.6
Commerzbank	CBK GY	EUR	4.0	4.0	0.9%	6.8	2.8	52.3	5.0	0.3%	1.6%	2.6%	-172.5	16.5	6.6	0.2	0.2	-1.2	0.8	2.4	5.5	13.4
Deutsche Bank	DBK GY	EUR	8.6	6.0	-29.6%	10.4	4.4	57.5	17.5	0.0%	0.3%	1.5%	-24.2	37.8	11.6	0.3	0.4	-2.5	0.2	3.1	3.8	13.6
UniCredit	UCG IM	EUR	8.2	9.8	19.5%	14.4	6.0	53.6	18.3	1.6%	4.1%	6.3%	36.7	9.0	6.0	0.3	0.4	0.1	2.9	4.9	6.2	13.2
Mediobanka	MB IM	EUR	6.4	8.0	25.2%	11.0	4.1	48.4	5.7	5.2%	5.7%	6.5%	9.3	9.9	8.5	0.6	N. A.	6.2	5.4	6.0	11.5	14.1
Intesa Sanpaolo	ISP IM	EUR	1.7	1.9	10.7%	2.6	1.3	58.5	29.8	6.8%	6.7%	8.0%	11.8	10.2	8.3	0.6	0.7	5.1	5.0	6.5	5.2	13.9
Emilia Romagna	BPE IM	EUR	2.2	2.9	32.3%	4.7	1.8	46.3	1.2	1.0%	3.2%	6.0%	115.4	7.0	4.7	0.2	0.3	1.2	1.8	4.1	5.5	13.9
UBI Banca	UBI IM	EUR	2.9	3.0	2.3%	4.5	2.0	58.3	3.3	1.6%	3.0%	5.5%	23.4	13.6	8.0	0.3	0.4	1.5	2.7	4.0	6.2	12.3
ING Groep	INGA NA	EUR	6.3	7.6	21.7%	11.3	4.2	50.7	24.2	5.5%	7.1%	8.0%	8.9	7.9	6.5	0.4	0.5	4.3	5.7	6.5	5.8	14.6
ABN Amro	ABN NA	EUR	7.8	10.5	35.0%	19.8	5.7	49.7	7.2	2.0%	7.6%	10.6%	118.2	7.7	5.3	0.3	N. A.	0.4	4.7	6.4	5.7	18.1
DNB	DNB NO	NOK	130.2	135.5	4.1%	178.1	94.3	45.1	18.6	4.3%	5.8%	6.6%	14.8	10.5	9.3	0.9	0.9	6.6	8.4	9.0	7.5	18.6
BBVA	BBVA SQ	EUR	3.1	3.3	8.5%	5.3	2.5	50.4	20.4	1.3%	4.1%	5.7%	12.3	8.0	6.1	0.4	0.5	3.4	5.5	6.4	6.0	12.0
Santander	SAN SQ	EUR	2.2	2.6	18.9%	4.3	1.8	49.8	36.1	1.8%	4.8%	6.7%	11.3	8.5	6.2	0.4	0.5	3.7	4.6	5.5	4.8	11.7
Bankia	BKIA SQ	EUR	1.0	1.1	9.9%	2.2	0.7	50.8	2.9	1.8%	4.5%	6.6%	53.4	16.6	8.4	0.2	0.2	0.2	1.4	2.4	6.2	14.3
Bankinter	BKT SQ	EUR	4.2	4.2	-0.2%	6.9	3.0	52.9	3.8	1.4%	3.1%	4.9%	15.0	12.1	10.0	0.8	0.9	5.4	9.6	7.5	5.3	11.6
Sabadell	SAB SQ	EUR	0.3	0.4	26.2%	1.1	0.3	45.1	1.7	1.3%	3.2%	8.6%	52.4	13.7	5.1	0.1	0.2	1.1	1.8	3.2	4.7	12.4
CaixaBank	CABK SQ	EUR	1.9	2.1	11.1%	2.9	1.5	54.0	11.4	1.5%	4.6%	6.3%	17.0	10.5	7.5	0.5	0.6	2.6	4.6	5.7	5.5	12.0
SEB	SEBA SS	SEK	81.6	88.2	8.1%	104.9	59.8	51.5	16.9	5.4%	6.4%	7.1%	14.9	9.9	9.2	1.1	1.2	8.5	10.7	10.9	5.2	17.6
Handelsbanken	SHBA SS	SEK	88.5	92.5	4.5%	113.8	71.8	46.2	16.7	4.2%	5.7%	6.3%	12.7	10.9	10.1	1.1	1.2	8.7	9.4	9.5	4.9	18.5
Swedbank	SWEDA SS	SEK	122.4	147.3	20.3%	162.7	99.1	48.9	12.9	3.5%	5.9%	6.9%	10.4	8.3	7.4	0.9	1.1	7.4	11.1	11.2	5.1	17.0
Nordea	NDA SS	SEK	64.9	71.8	10.6%	86.7	48.0	47.1	24.9	0.4%	0.6%	0.7%	13.3	8.9	9.5	0.8	0.9	6.5	7.4	8.1	4.9	16.3
Julious Baer	BAER SW	CHF	39.8	44.2	11.0%	51.3	24.1	46.8	8.3	3.9%	4.2%	4.5%	10.5	10.9	9.7	1.4	2.6	13.2	12.3	13.1	3.3	14.0
Credit Suisse	CSGN SW	CHF	9.8	11.3	15.7%	13.7	6.1	57.5	23.5	2.6%	3.0%	3.2%	10.1	7.9	6.6	0.5	0.5	5.7	6.5	6.9	4.9	12.7
UBS	UBSG SW	CHF	10.9	12.1	10.6%	13.0	6.9	59.1	39.5	5.5%	6.1%	6.5%	9.8	9.2	8.4	0.7	0.8	7.4	7.2	8.2	5.0	13.7
Median					**16.6%**			**50.8**		**2.0%**	**4.5%**	**6.2%**	**13.9**	**9.1**	**6.8**	**0.5**	**0.5**	**3.6**	**5.2**	**6.4**	**5.2**	**13.9**

Source: Bloomberg

APPENDIX

Table 3. Calendar

Date	Region	Section	Event	Period
1-Jul	US	Macro	ADP Employment Change	Jun
1-Jul	US	Macro	ISM Manufacturing	Jun
2-Jul	EU	Macro	PPI	May
2-Jul	EU	Macro	Unemployment Rate	May
2-Jul	**US**	**Macro**	**Employment Report**	**Jun**
2-Jul	US	Macro	Factory Orders	May
6-Jul	EU	Macro	Retail Sales	May
8-Jul	US	Macro	Consumer Credit	May
10-Jul	US	Macro	PPI	Jun
14-Jul	EU	Macro	Industrial Production	May
14-Jul	US	Macro	CPI	Jun
14-Jul	**US**	**Corporate**	**JPMorgan Chase. Earnings Announcement**	**2Q20**
14-Jul	US	Corporate	Wells Fargo. Earnings Announcement	2Q20
14-Jul	US	Corporate	Citigroup. Earnings Announcement	2Q20
15-Jul	US	Macro	Industrial Production and Capacity Utilization	Jun
16-Jul	**EU**	**Macro**	**ECB Main Refinancing Rate**	**Jul 16**
16-Jul	US	Macro	Retail Sales	Jun
16-Jul	US	Macro	Philadelphia Fed Business Outlook	Jul
16-Jul	US	Corporate	Bank of America. Earnings Announcement	2Q20
17-Jul	US	Macro	Building Permits and Housing Starts	Jun
17-Jul	US	Macro	U. of Mich. Sentiment	Jul
22-Jul	US	Macro	FHFA House Price	May
22-Jul	US	Macro	Existing Home Sales	Jun
23-Jul	EU	Macro	Consumer Confidence	Jul
23-Jul	US	Macro	Leading Index	Jun
24-Jul	EU	Macro	Markit Eurozone Manufacturing, Services and Composite PMI	Jul
24-Jul	US	Macro	Markit US Manufacturing, Services and Composite PMI	Jul
24-Jul	US	Macro	New Home Sales	Jun
27-Jul	US	Macro	Durable Goods Orders	Jun
27-Jul	US	Macro	Dallas Fed Manf. Activity	Jul
28-Jul	US	Macro	Conf. Board Consumer Confidence	Jul
28-Jul	US	Macro	Richmond Fed Manufact. Index	Jul
29-Jul	EU	Corporate	Deutsche Bank. Earnings Announcement	2Q20
29-Jul	EU	Corporate	Banco Santander. Earnings Announcement	2Q20
29-Jul	EU	Corporate	Barclays. Earnings Announcement	2Q20
29-Jul	US	Macro	Pending Home Sales	Jun
29-Jul	**US**	**Macro**	**FOMC Rate Decision**	**Jul 29**
30-Jul	EU	Macro	Economic and Industrial Confidence	Jul
30-Jul	EU	Macro	Unemployment Rate	Jun
30-Jul	**US**	**Macro**	**GDP**	**2Q**
31-Jul	EU	Corporate	BNP Paribas. Earnings Announcement	2Q20
31-Jul	**EU**	**Macro**	**GDP**	**2Q**
31-Jul	EU	Macro	CPI	Jul
31-Jul	US	Macro	Personal Income and Spending	Jun