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Q1’22 – Earnings Review
U.S. Bulge Bracket Banks

Key Observations

Global geopolitical uncertainties had derailed planned M&A deals in Q1’22 though advisory fees increased aided by deal closures

- The ongoing Russia-Ukraine conflict has halted overall investment banking revenues of U.S. bulge bracket banks, down by an average of 37% YoY
- The sharp decline is in contrast to Q1’21, wherein these banks benefited from an exceptionally favourable deal-making environment supported by the release of funds previously set aside for loan losses
- However, M&A advisory revenues showcased strong y-o-y growth primarily driven by the closure of previously announced deals from last year
- Deals activity should pick up in the medium-term and long-term as companies will need to refine their core strategies to address business challenges

Inflation is a double-edged sword

- Investors will likely focus more on prospects for banks to increase their net interest income as they benefit from higher interest rates
- However, investors have also voiced their concerns about a probable recession amid inflationary pressure, which might lead to higher defaults

ECM and DCM issuances practically came to a halt, with trading activities surprisingly acting as a bailout for the U.S. banks

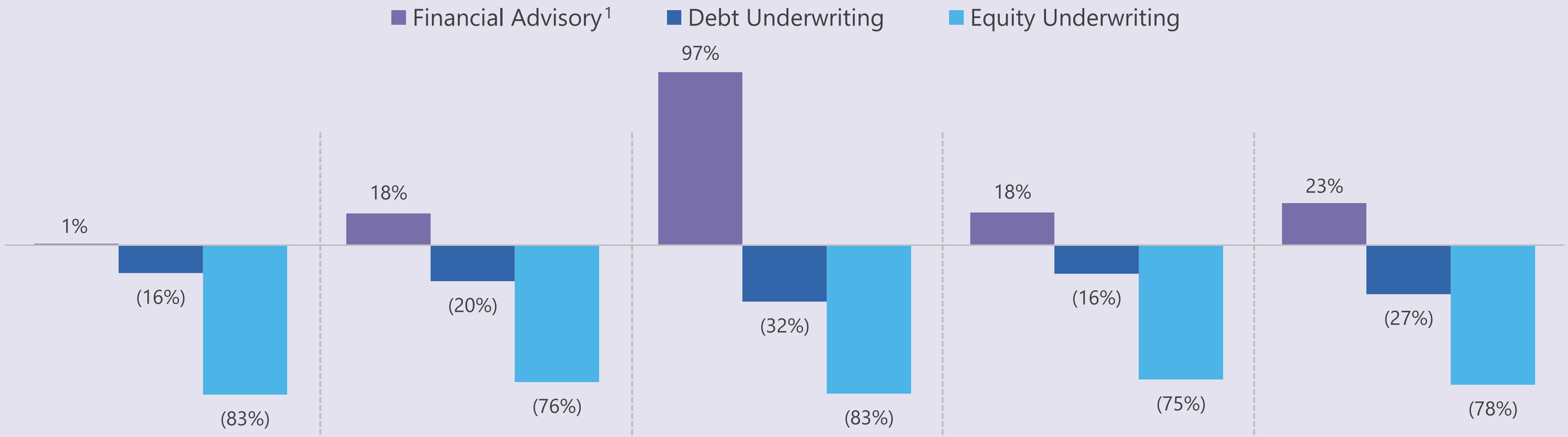
- The capital market witnessed a highly volatile environment across all asset classes due to the Russia-Ukraine conflict, increasing concerns over recession and a changing interest rate backdrop, which weighed on primary and secondary market issuances
- A heightened level of volatility substantially increased brokerage revenue from commodities, currencies and fixed rates; however, some softness in credit / structured products across the banks partially offset the increase in revenue
- Trading activity is expected to remain high, and clients are expected to stay engaged as the dispersion of potential macro-outcomes remains high

Labour shortages and wage inflation are growing concerns in the industry

- The industry has been facing a severe talent crunch in the recent past, witnessing the highest employee attrition ever in opting out of investment banking
- Highly competitive salaries along with slightly favourable working hours in private equity have made the situation even more challenging
- This year all the banks have rolled out higher bonuses (for FY 2021) aimed at retaining top-performing talents and avoiding high employee turnover

U.S. Investment Banks Witnessed a Sharp Decline in Business Due to Volatile Markets and the Ukraine Crisis

Q1’22 – Investment Banking Revenues and YoY Change



IB Revenue (USD Million)	Goldman Sachs	J.P.Morgan	Morgan Stanley	Bank of America	citi
Q1’22	2,131	2,050	1,634	1,457	1,028
Q1’21	3,566	2,988	2,613	2,246	1,798

Source: Company reports
Note: 1. Financial advisory revenue growth was primarily driven by the closure of previously announced deals from 2021

Bulge Bracket Investment Banks' Performance – Key Highlights

Goldman Sachs

In Q1'22, investment banking (IB) revenues were down by 40% YoY primarily due to a significant decline in industry-wide activities both in equity underwriting and in debt underwriting. The bank's M&A franchise continued its outstanding performance and participated in 115 transactions worth ~USD 385 billion. The IB backlogs are stable, and the bank expects market volatility to settle down during the year which is likely to bring some issuance back into the marketplace

J.P.Morgan

Debt underwriting revenues declined due to leveraged finance as issuers contended with market volatility. In the equity underwriting, decline in revenues were attributable to lower issuance activities, particularly in North America and EMEA. However, advisory witnessed the best first quarter ever, benefiting from the closing of deals announced in FY'21. The bank is optimistic on the economy at least for the short term but expects significant geopolitical and economic challenges ahead due to high inflation, supply chain issues and the war in Ukraine

Morgan Stanley

Morgan Stanley's IB revenue declined by 37% YoY to ~USD 1.6 billion in Q1'22. Advisory revenue almost doubled YoY driven by higher levels of completed M&A transactions during the period. Equity underwriting declined significantly by 83% due to lower issuances, driven by uncertain economic environments. Fixed income underwriting was also lower under the backdrop of negative bond market sentiments. However, bank's IB pipeline remains healthy which will likely drive revenue growth in underwriting

BANK OF AMERICA

Bank of America's IB revenue decreased by 35% YoY, as industry-wide underwriting activities retreated from record levels in Q1'21. The ongoing Russia-Ukraine war and ambiguity over the economic slowdown due to inflation weighed on business sentiments. However, the bank gained market share in some crucial areas, including moving to the number 2[(1)] position in midcap investment banking. Also, the bank's forward IB pipeline remains quite strong

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In Q1'22, Citi's IB revenue decreased by 43% YoY due to fewer capital markets activities. However, growth in the advisory partially offset a decrease in revenue. The advisory grew by 23% YoY. Equity and debt underwritings were down by 78% and 27%, respectively. The decline was mainly due to heightened geopolitical uncertainties and the overall macroeconomic backdrop, reducing the overall activities in debt and equity capital markets. IB pipelines are healthy and loan demand is on the rise

"This year continues to test the resiliency and agility of companies looking to go public. With increased volatility in the markets and uncertainties surrounding geopolitical crises, oil prices and inflation, there is increased focus on public company readiness to give companies the flexibility to capitalize when market conditions are optimal."

– Rachel Gerring, IPO Leader, EY Americas (March 2022)

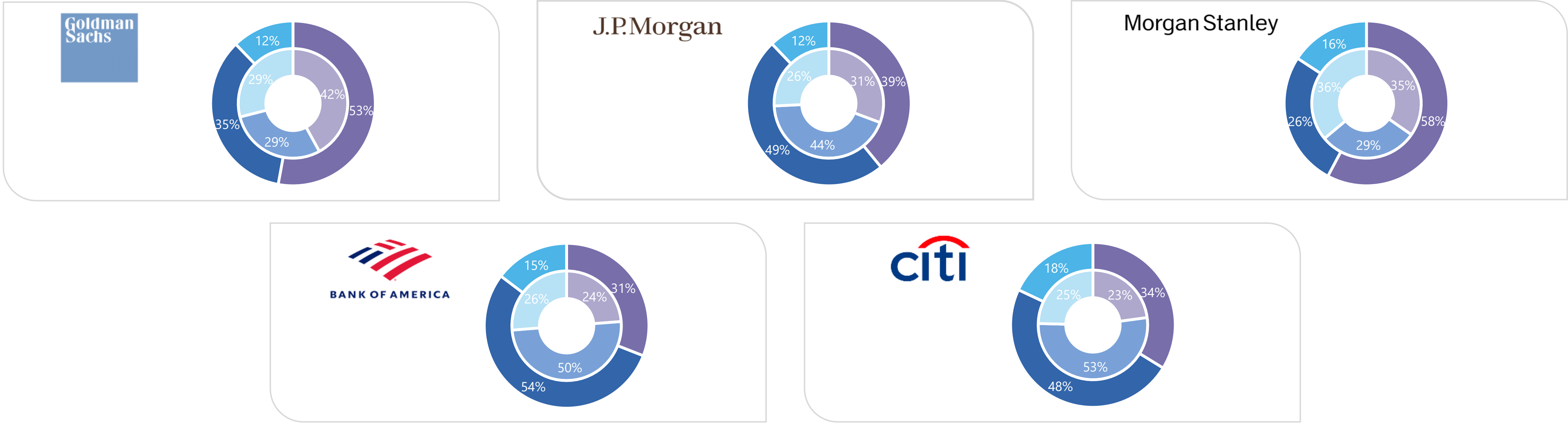
Source: Company reports and press
Note: 1. As per Dealogic, as mentioned in BofA filings

M&A Advisory Accounted for a Higher Share in Q1'22, as Capital Market Activity Remained Muted

"We remain optimistic on the U.S. economy, at least for the short term – consumer and business balance sheets as well as consumer spending remain at healthy levels – but see significant geopolitical and economic challenges ahead due to high inflation, supply-chain issues and the war in Ukraine...I can't tell you the outcome of it. I hope all those things disappear and go away, we have a soft landing and the war is resolved. I just wouldn't bet at all that. I cannot foresee any scenario at all where you're not going to have a lot of volatility in markets going forward."

– Jamie Dimon, CEO, JP Morgan (April 2022)

Change in IB Fee Composition in Q1'22



M&A Advisory   Debt Underwriting   Equity Underwriting   **Inner Ring:** Last 4 years average (FY'18–FY'21)   **Outer Ring**: Q1'22

Source: Company reports

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Thank you