

## **1Q20 Bank Earnings**

*A brief note*

22 April 2020

The focus of US banks' 1Q20 results is on their outlook for loan losses and reserve strengthening stemming from the economic effects of the COVID-19 pandemic. Here, we saw large banks posting much higher loss provisions in preparation for higher expected impairments. This caused banks' net income to drop, significantly in some cases. We do not view this as a weakness. Rather, it reflects US banks' philosophy of 'Take your medicine and move on'. Fortunately, US banks came into this crisis with robust pre-provision earnings that allow them to substantially strengthen their loss reserves and still show a profit. Their capital and loan quality coming into this crisis were solid as well. We expect that 2020 will be a year of reserve strengthening for US banks, with profits being modest. That said, even the possibility of being able to post a profit given such a challenging economic backdrop is quite an achievement. And we note that US banks are still paying common dividends. Earning releases are just beginning for European banks, but the situation should be similar, although the strength of earnings and loan quality are often weaker than their US counterparts. Nevertheless, European banks are well positioned to weather this economic storm after years of capital and control strengthening. The massive support being provided by central governments and banks is also a major pillar upholding banks' resiliency.

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