



# US Securities Industry – *Ten Years After.*

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Stock-trading desks at big banks have been enjoying their best year in a decade.

- WSJ

Wealth & Investment Management booked a 2017 Return on Equity of 21% - Wells Fargo.



We expect 2018 revenues to be higher by +8% on average. This will be driven by strength in equity trading, investment banking, and rate-based revenues. – Merrill Lynch Research

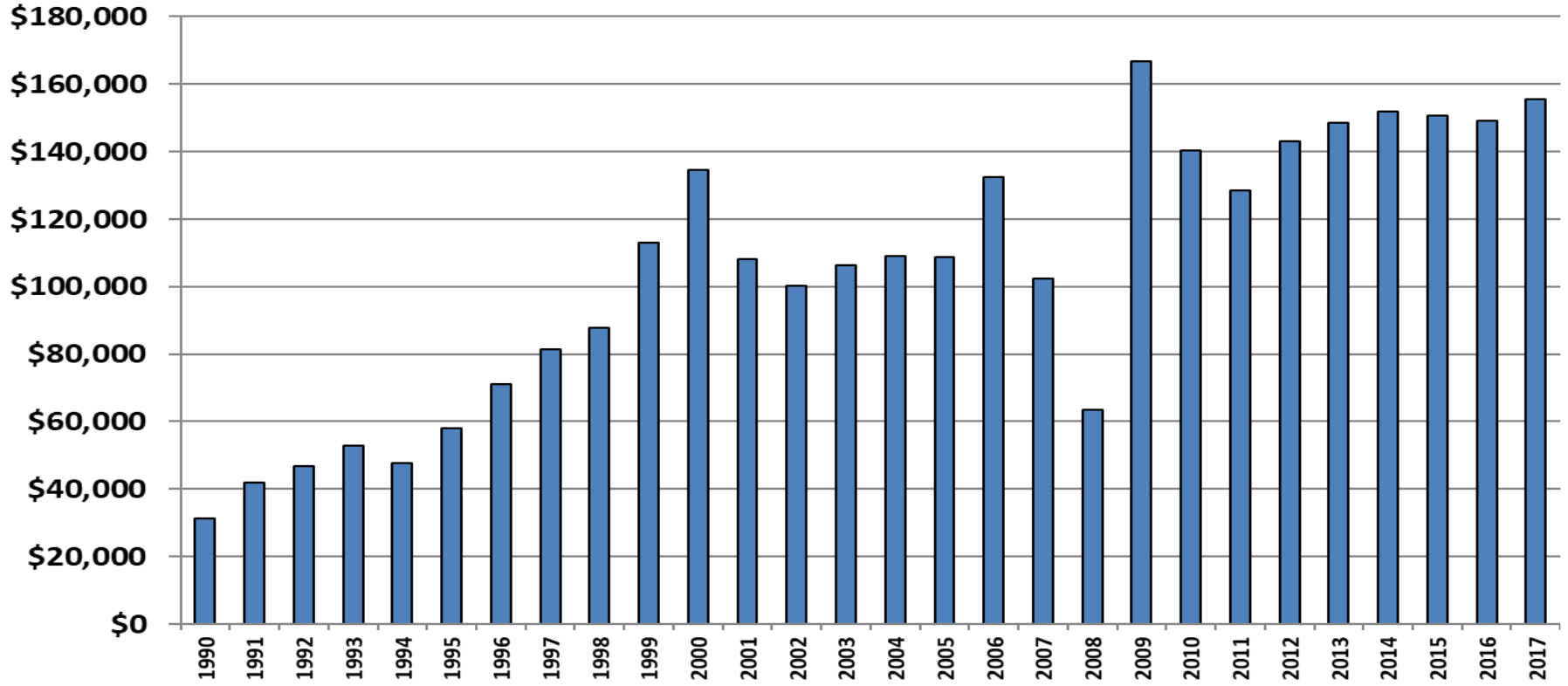
*"I am pleased first of all that we had two consecutive quarters where we reached a return on tangible equity above 15%,"* - CEO UBS

Jefferies Group LLC's second quarter results were strong. - JEF 8-K.

Overall U.S. banking industry earned a record \$48.3 billion during the second quarter, ... Well above the pre-crisis high of \$38 billion . - CNN

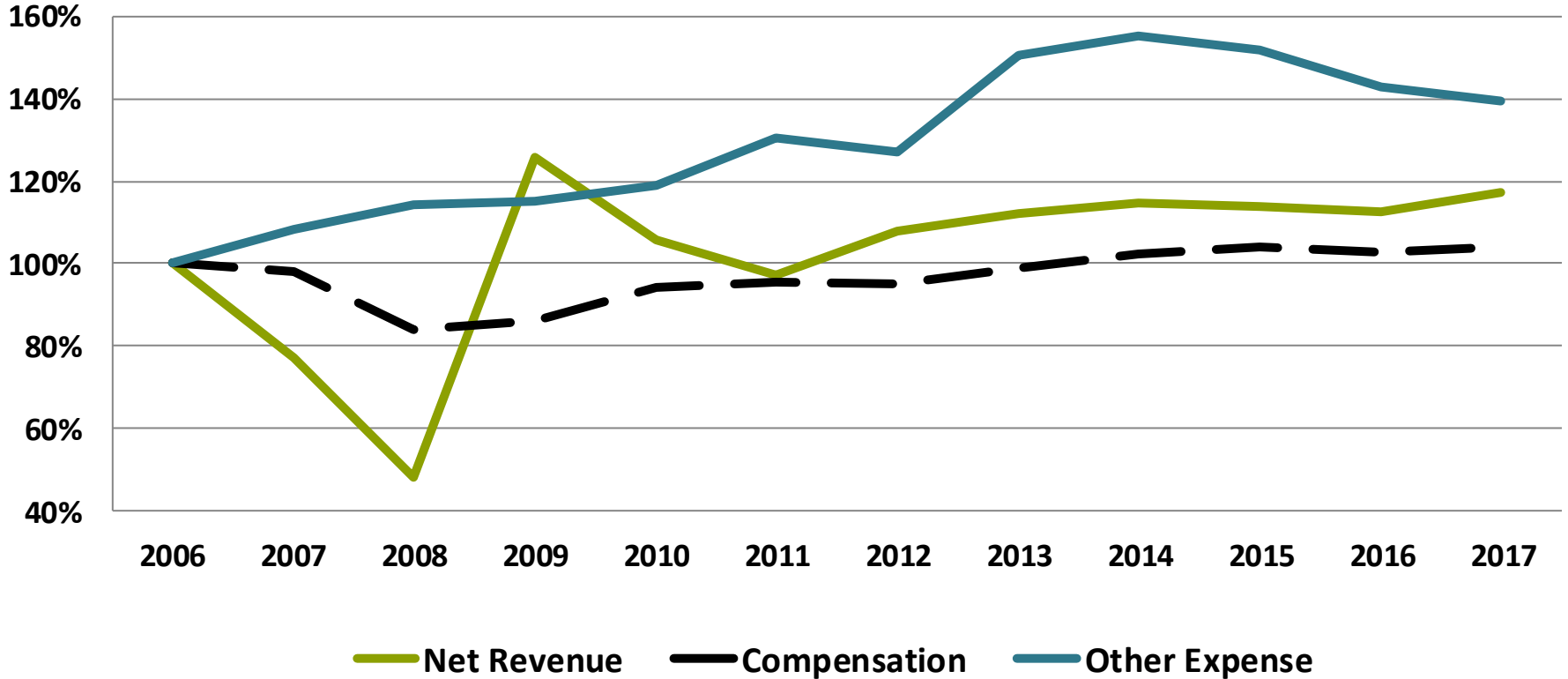
Big commercial banks are expected to post a stellar quarter in terms of profits.

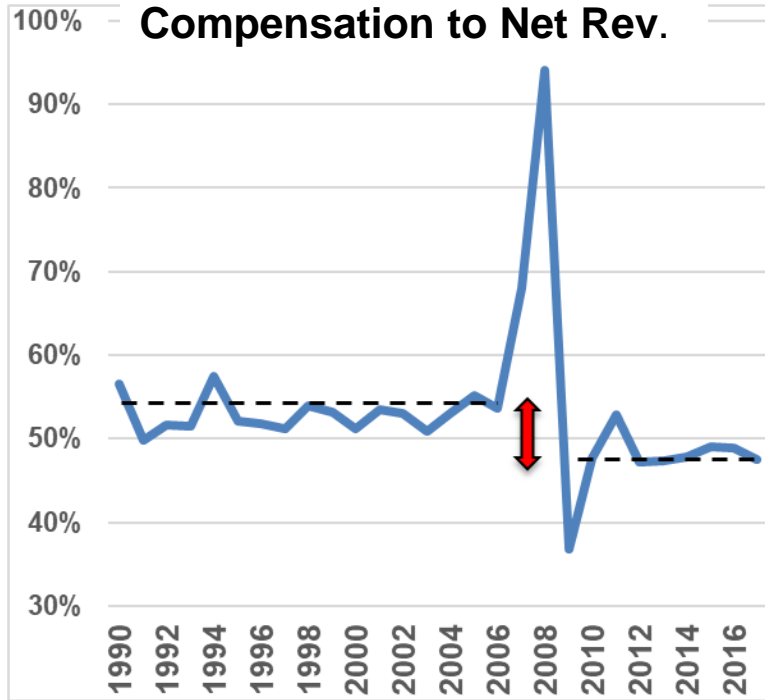
# US Securities Industry - Net Revenue.



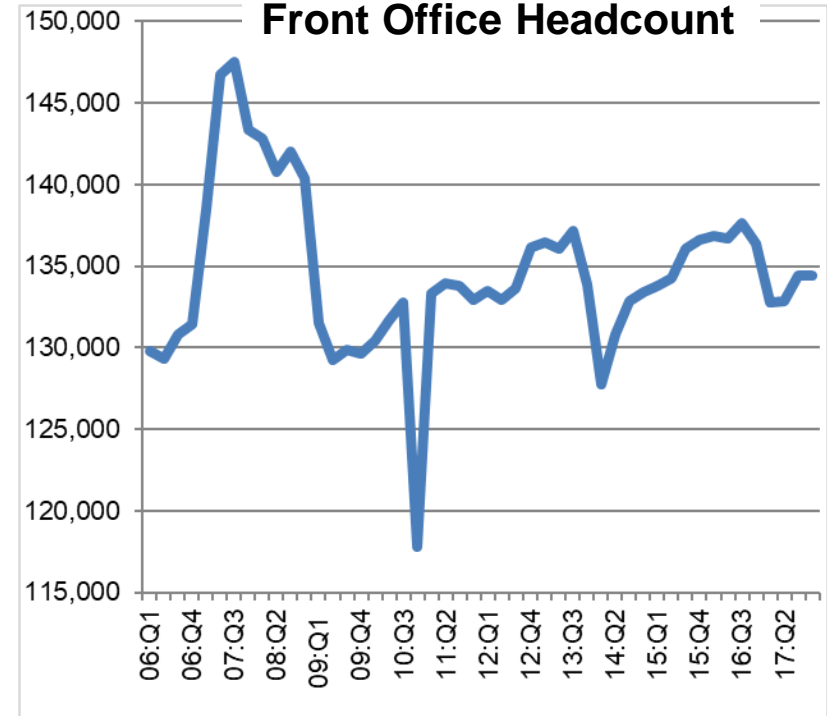
Source: SIFMA Database

# US Securities Industry - Expense and Revenue Trends.



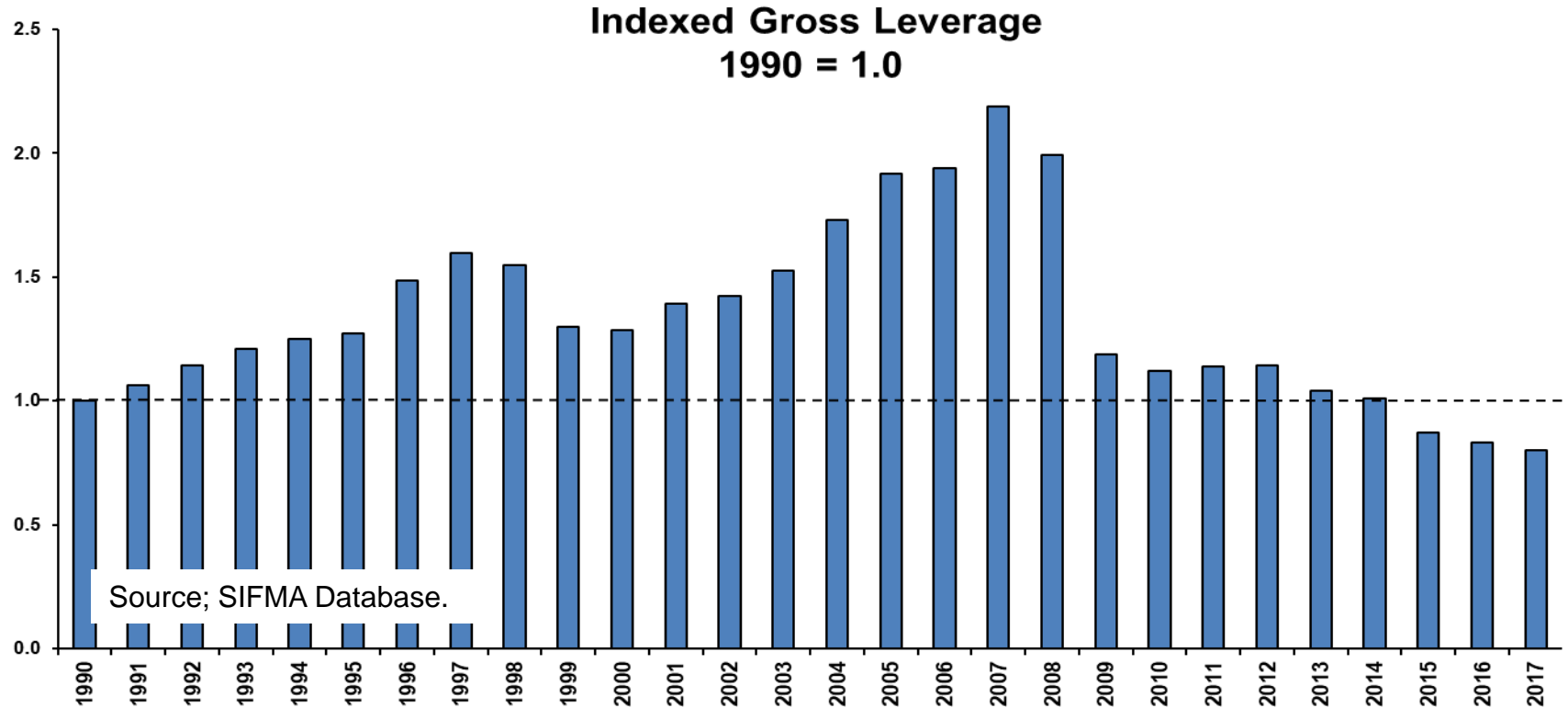


Source: SIFMA Database.

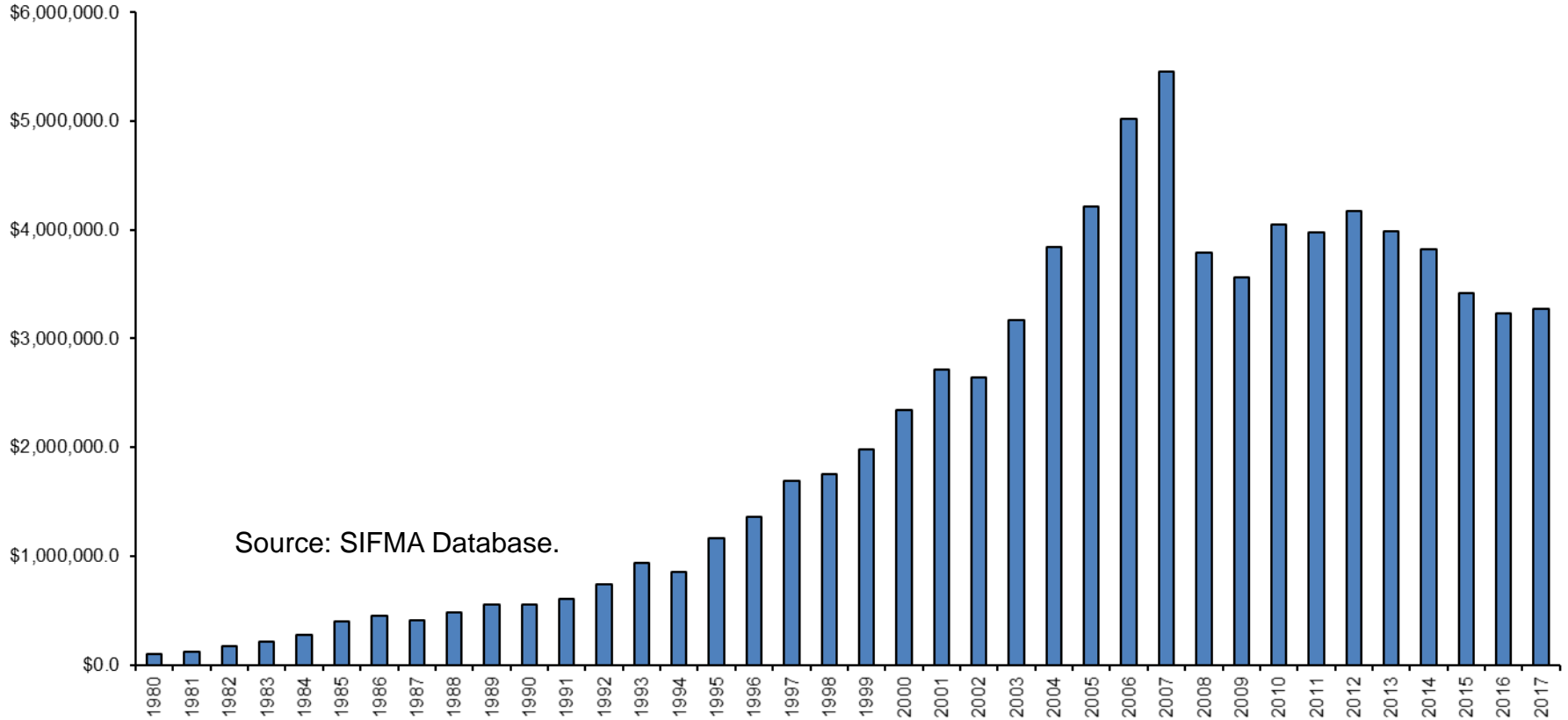


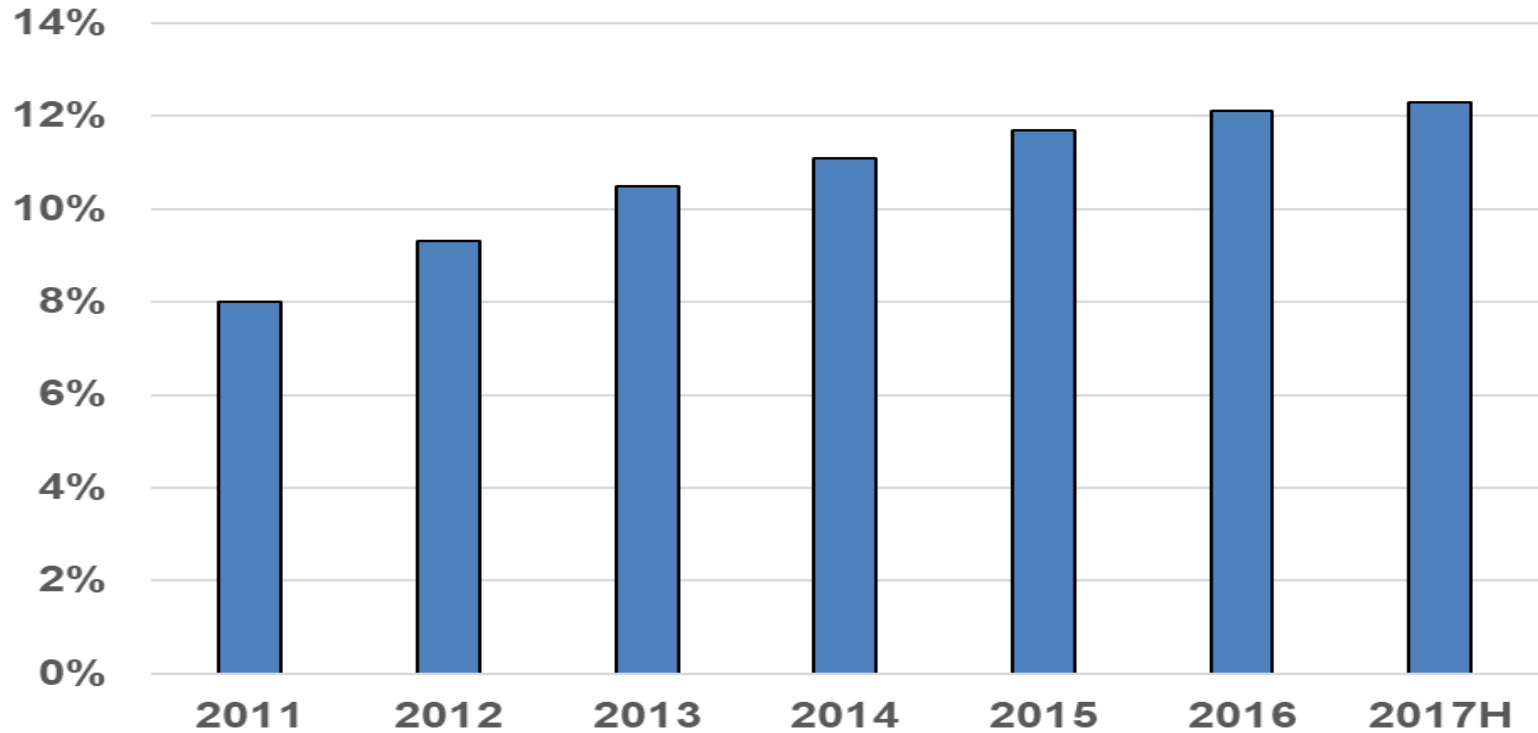
Source: SIFMA Database.

# Broker Dealer Leverage has Declined.



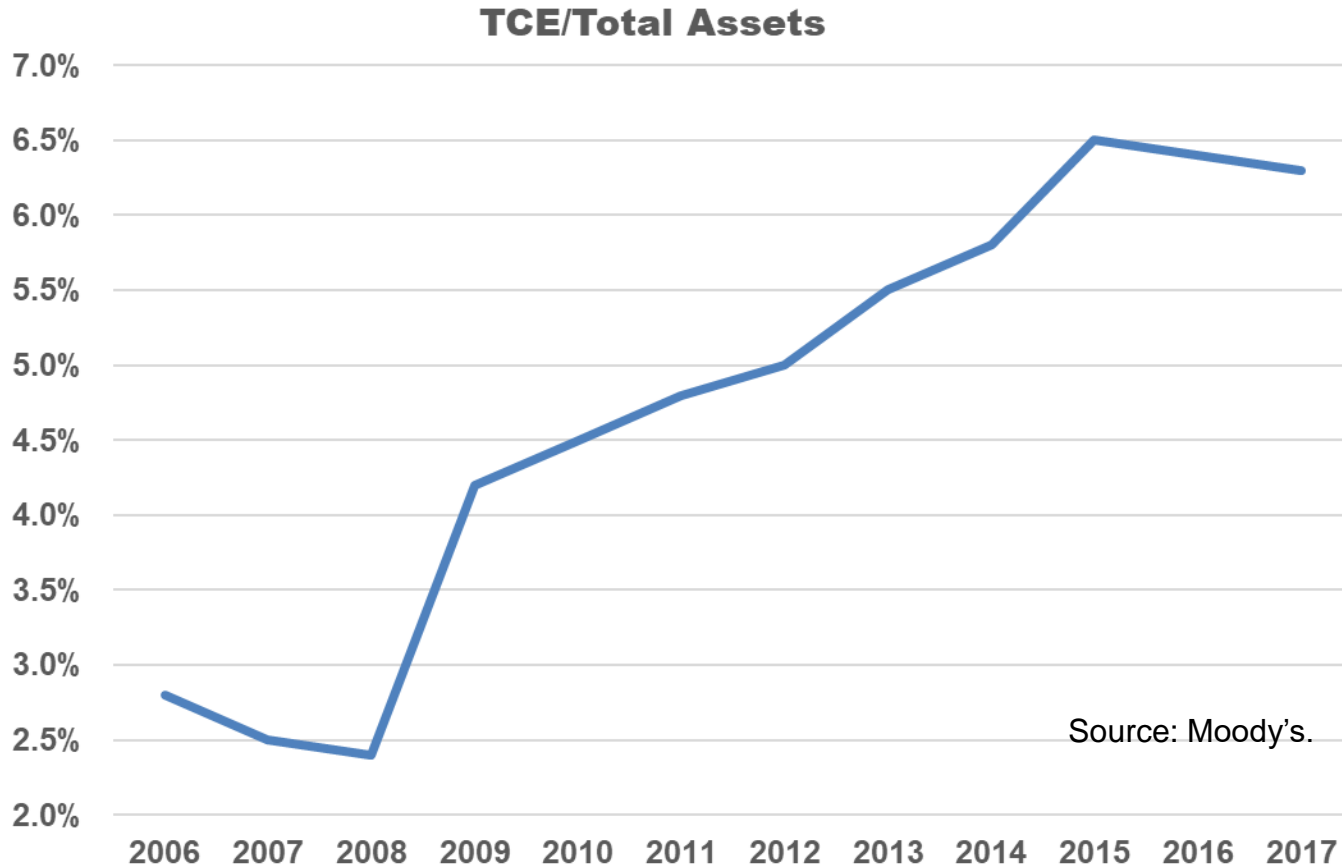
# US Securities Industry Total Assets.

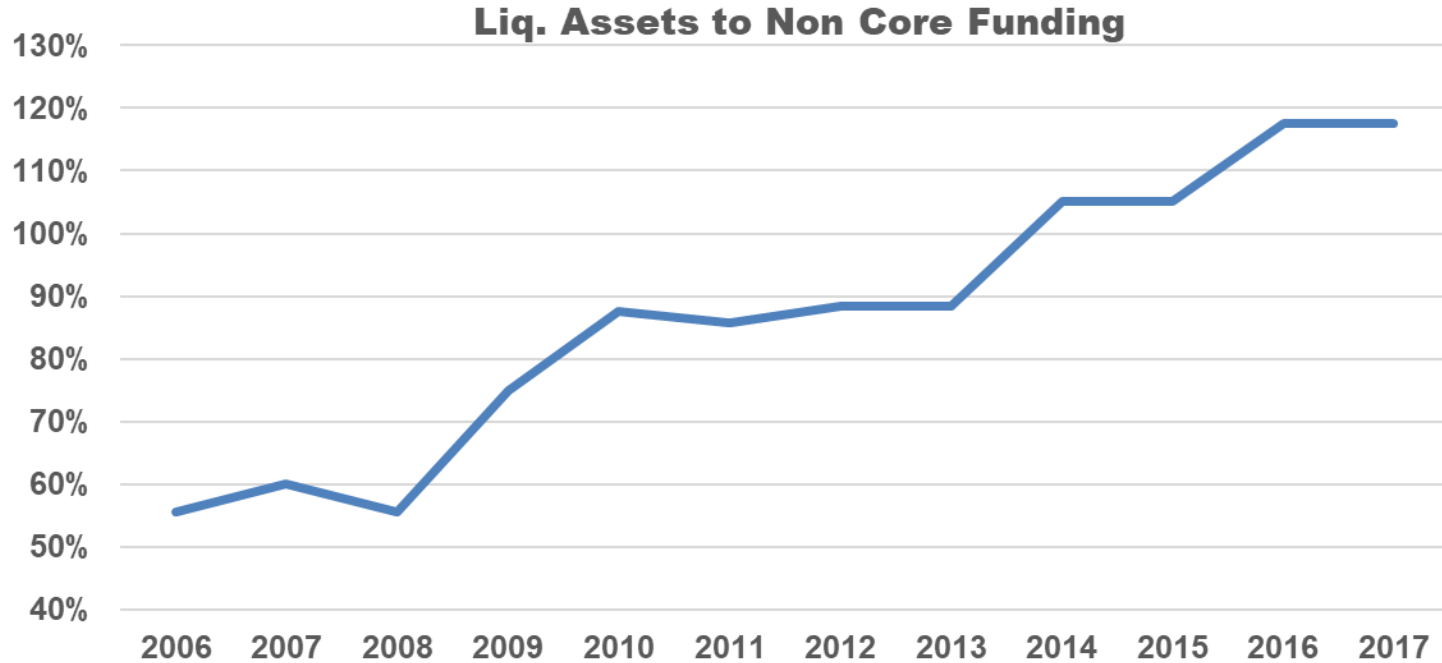


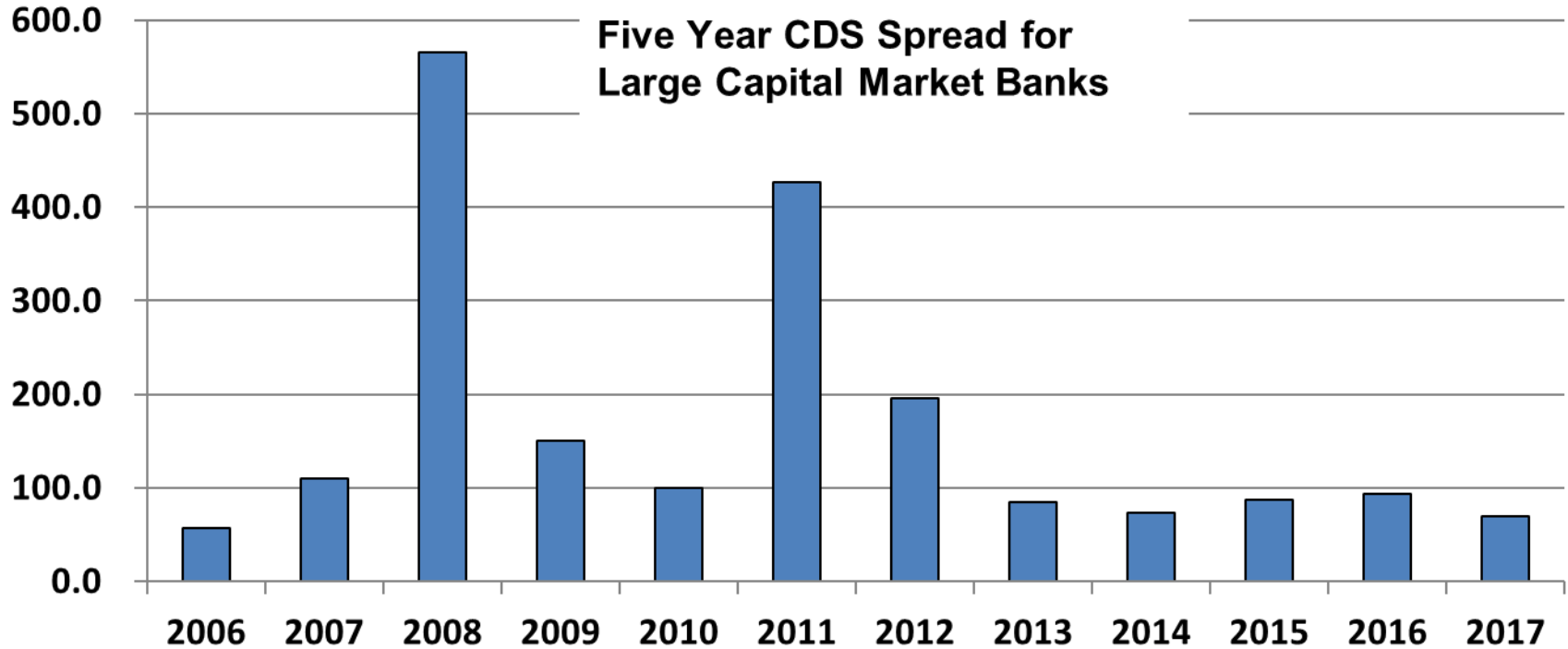


Source: Moody's.









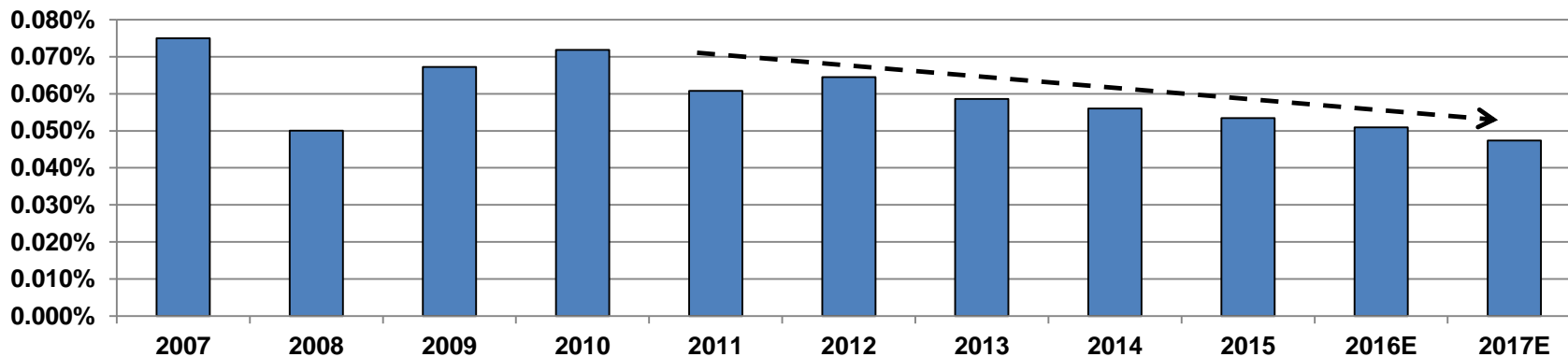
Source: Bloomberg

# Challenges...

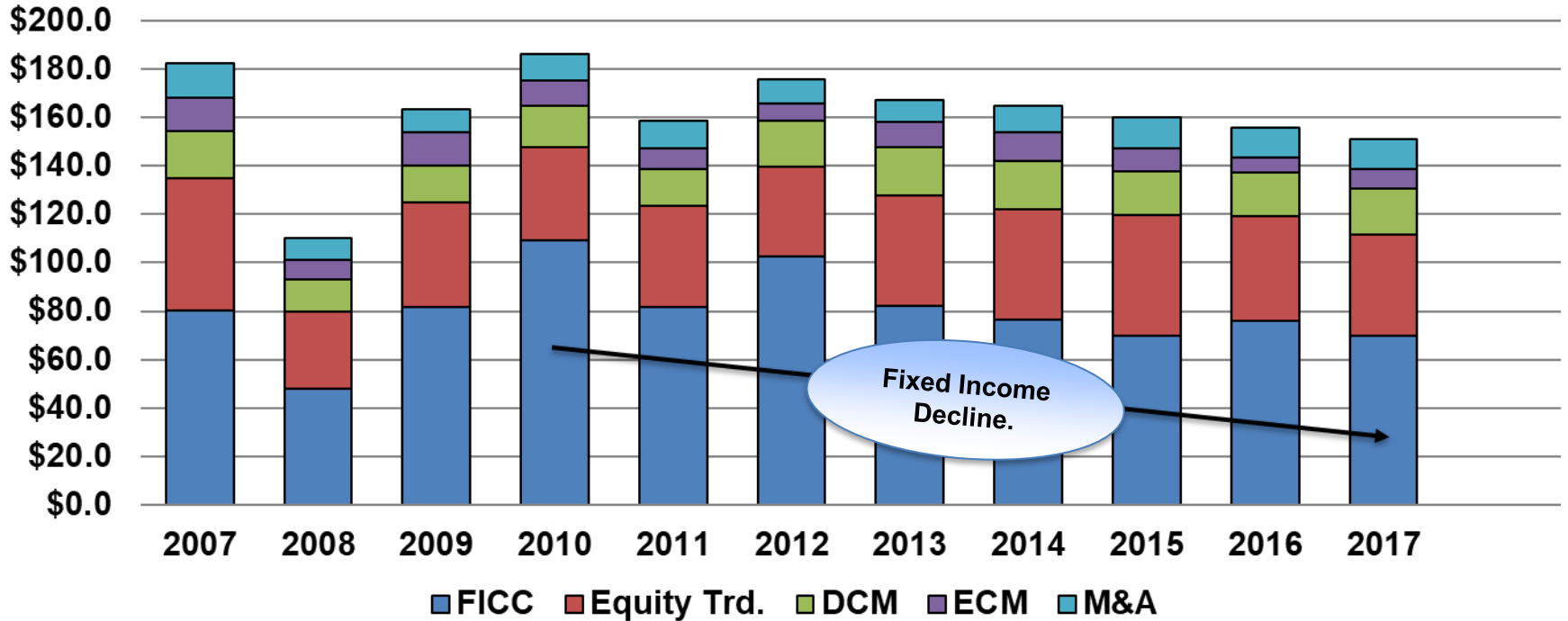
# Revenue Yield on Global Financial Assets.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016E</u>	<u>2017E</u>	<u>CAGR</u>
<b>Rev. of Top 10 Banks from Coalition (\$Bln)</b>	\$ 182.2	\$ 110.6	\$ 163.3	\$ 186.0	\$ 158.7	\$ 175.5	\$ 167.1	\$ 164.6	\$ 160.2	\$ 156.1	\$ 150.4	-1.90%
<b>Global Financial Assets (\$Tln)</b>	\$ 243.0	\$ 221.0	\$ 243.0	\$ 259.0	\$ 261.0	\$ 272.0	\$ 285.0	\$ 294.0	\$ 300.0	\$ 306.6	\$ 317.4	2.71%

<b>Yld. on Global Financial Asset</b>	0.075%	0.050%	0.067%	0.072%	0.061%	0.065%	0.059%	0.056%	0.053%	0.051%	0.047%
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# Global Net Revenues from Capital Markets.

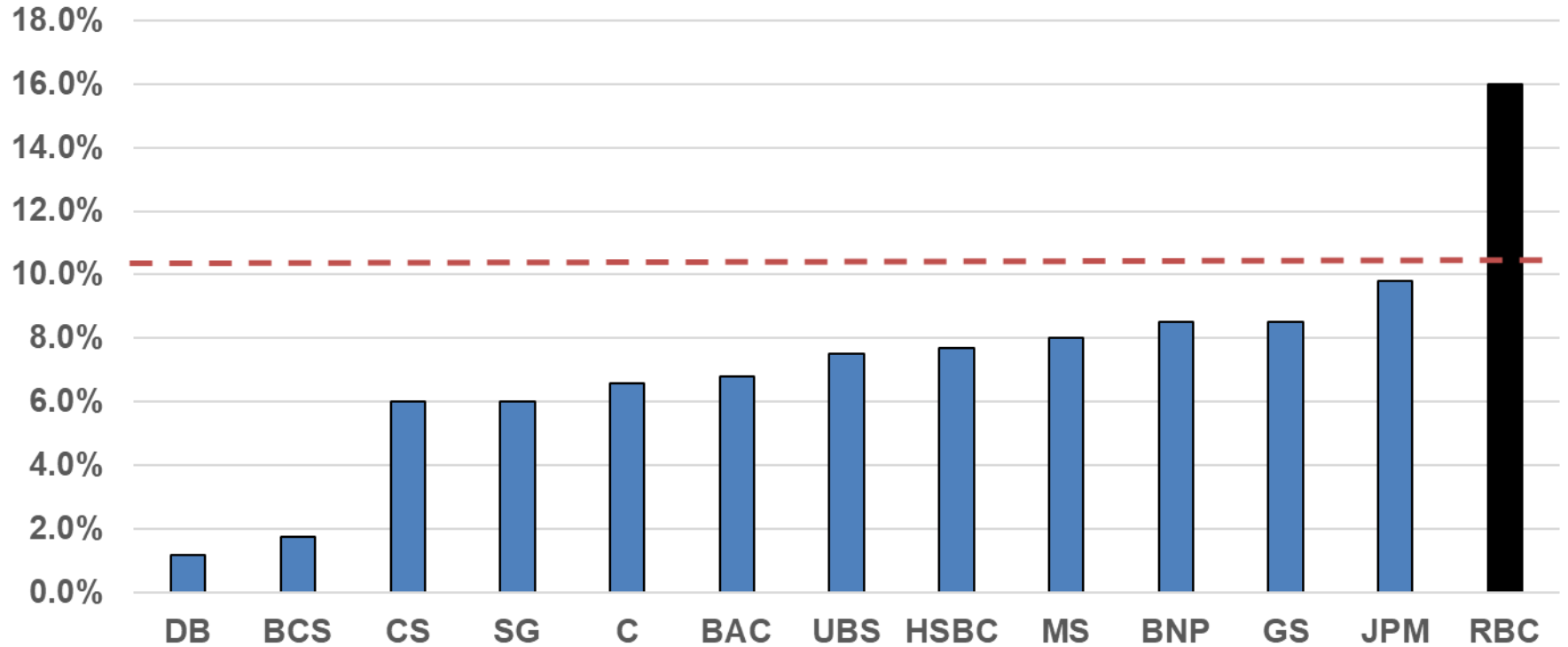


Source: Coalition.

# Few US Banks Achieve Satisfactory ROEs.

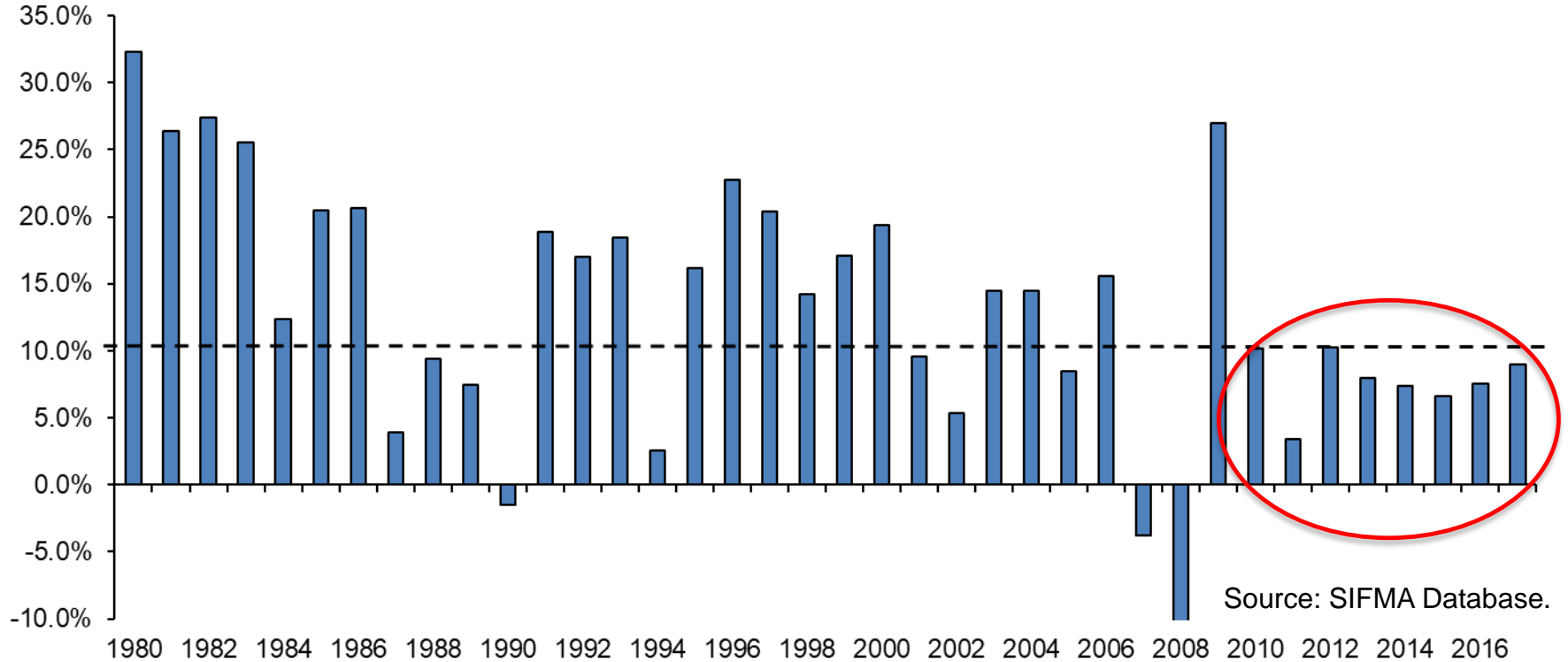
	Cost of Equity	WFC	GS	MS	BAC	C	JPM
2012	12.6%	12.7%	10.2%	0.1%	1.8%	4.1%	11.0%
2013	13.2%	13.4%	10.4%	4.6%	4.9%	7.0%	8.6%
2014	12.0%	13.0%	10.5%	5.1%	2.0%	3.5%	9.8%
2015	12.6%	12.1%	7.2%	8.4%	6.4%	8.0%	10.2%
2016	11.8%	11.2%	5.1%	7.9%	6.8%	-3.2%	9.6%
2017	10.5%	10.5%	8.5%	8.0%	6.8%	6.6%	9.8%

Source: Mergent Online (Univ of Arizona Library), Hintz CAPM Computation.



Source: Data Moody's and Mergent (Univ of Arizona Library).





# Margins and Capital.

**A study of 15 broker dealers found that one-third had over 25% of their cost base allocated to corporate overhead.**

	Industry Segment Margins	Calculated Margins	Regulatory Disclosure
FICC Trading	37.2%	24.9%	
Equity Trading	28.2%	13.8%	
Investment Bnk.	31.4%	25.0%	
<b>Total</b>	<b>33.3%</b>	<b>21.9%</b>	<b>15.2%</b>

**Filings show this margin.**

**Large banks claim these margins.**

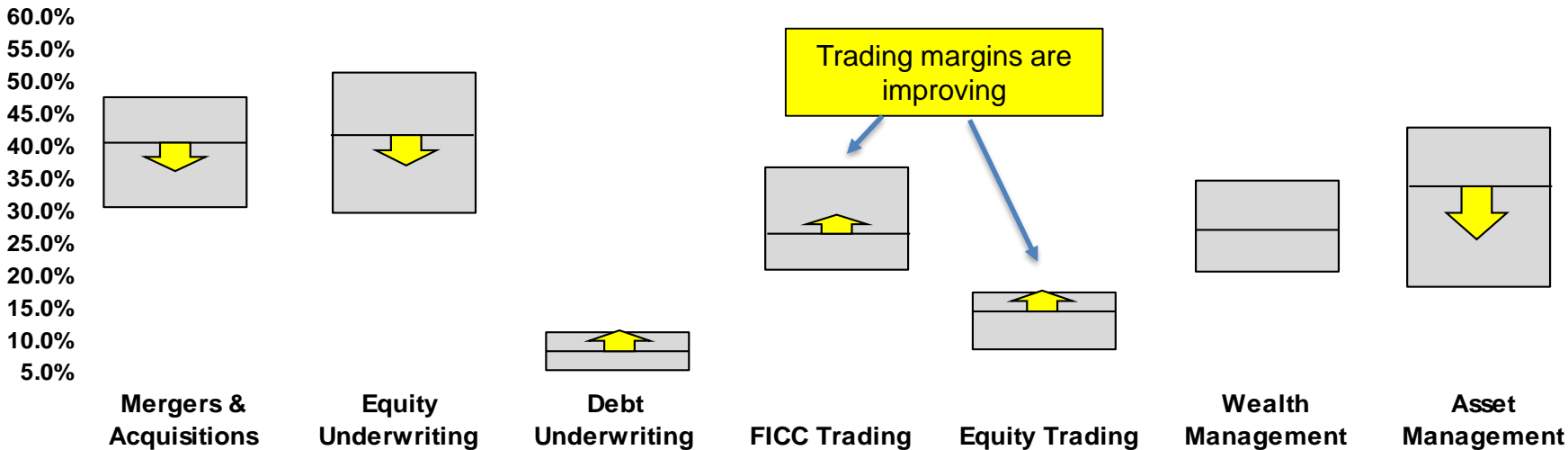
**Statistics support these margins.**

Source: Coalition, SIFMA, Sanford Bernstein and Hintz.

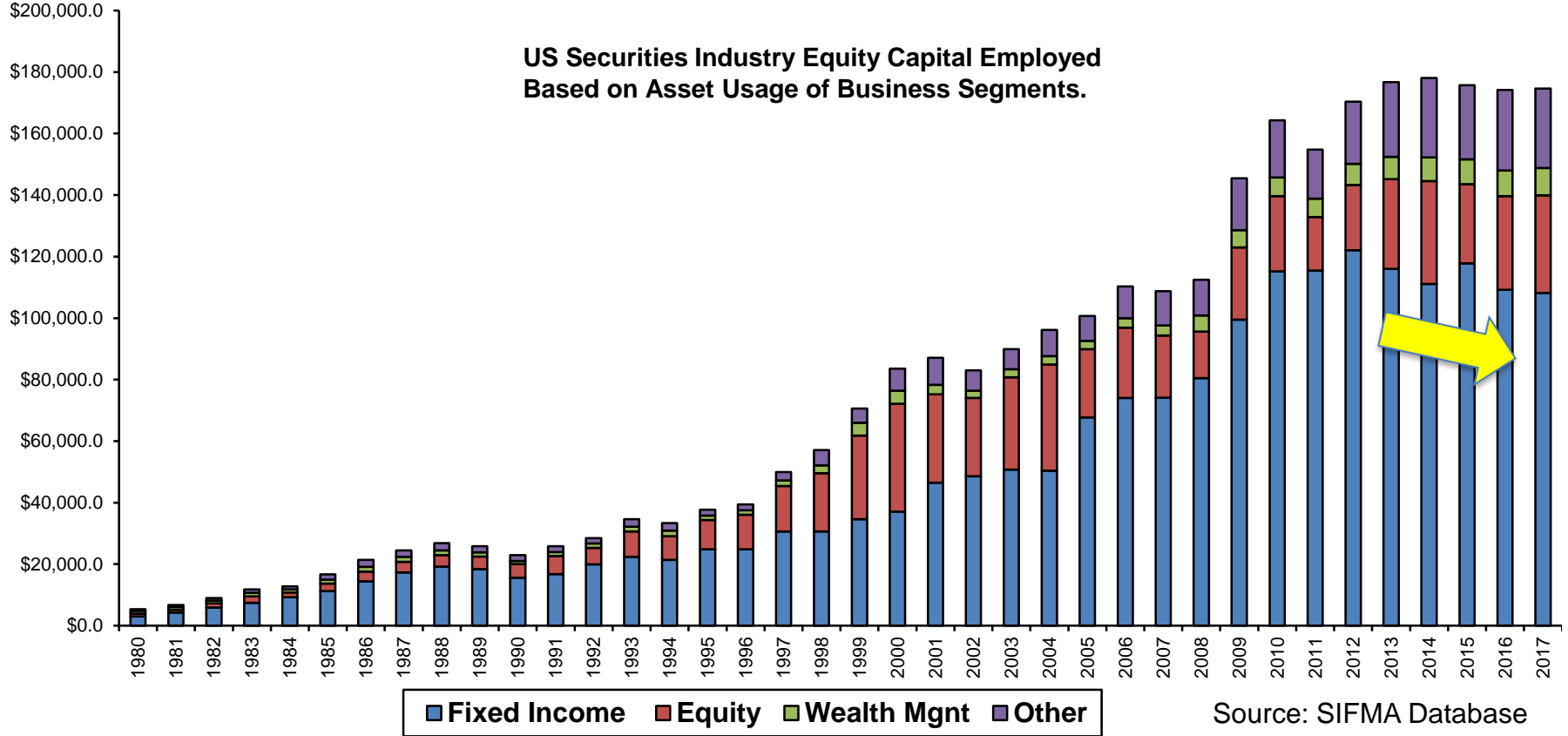
# Capital Markets Pre Tax Profit Margins.

Mix largely determines margins.

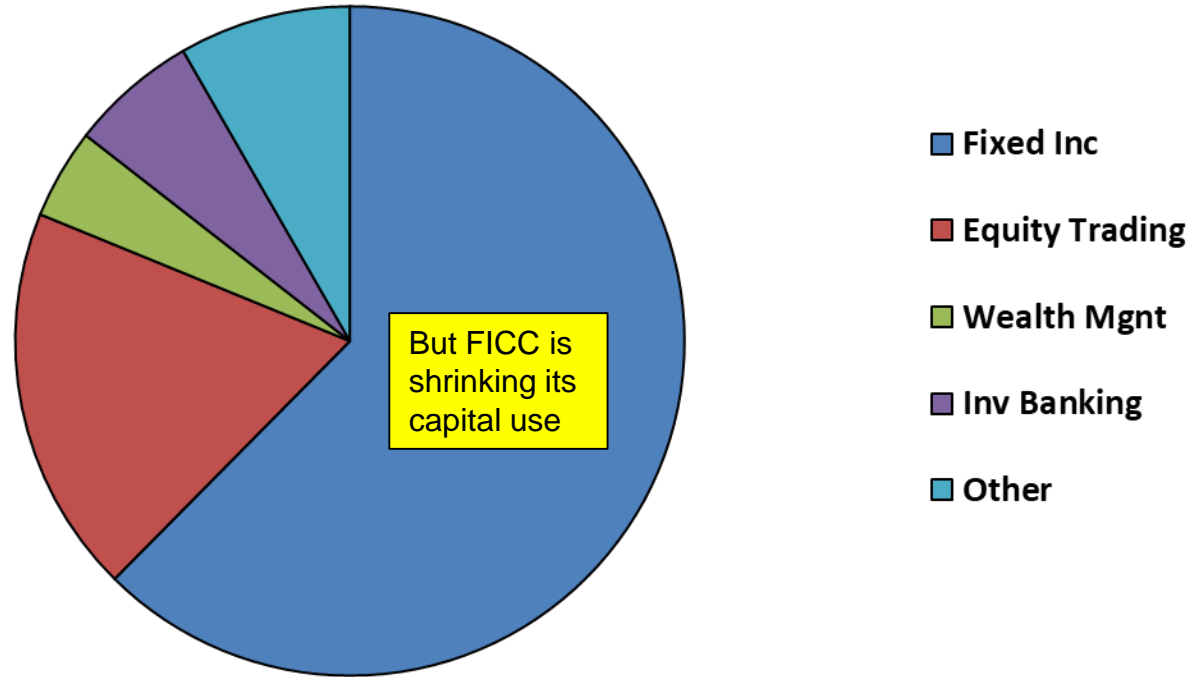
## Calculated Industry Margins.



These margin estimates were determined by multiple regression of US security industry pre-tax earnings versus six revenue sources over period 1990-2007.

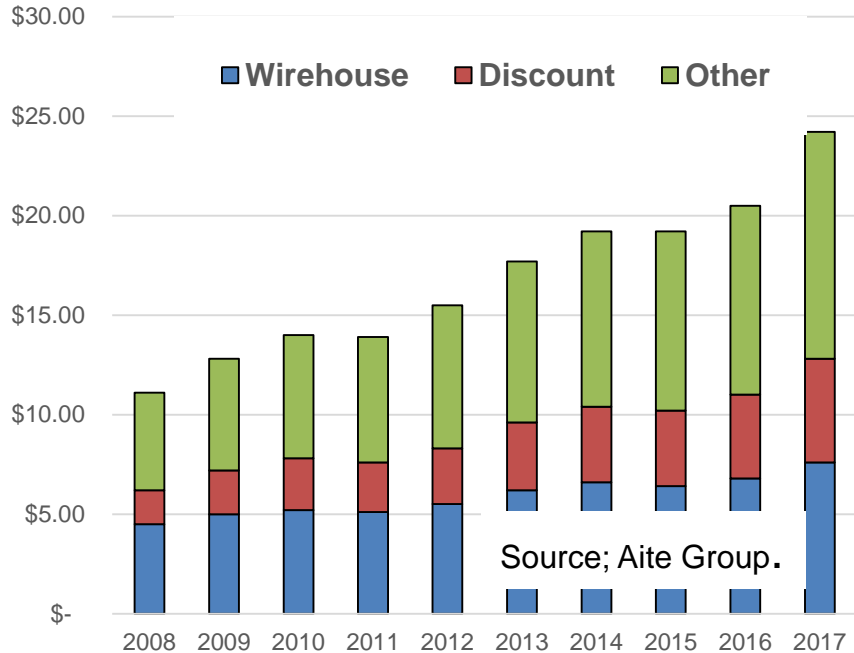


Mix determines ROE.

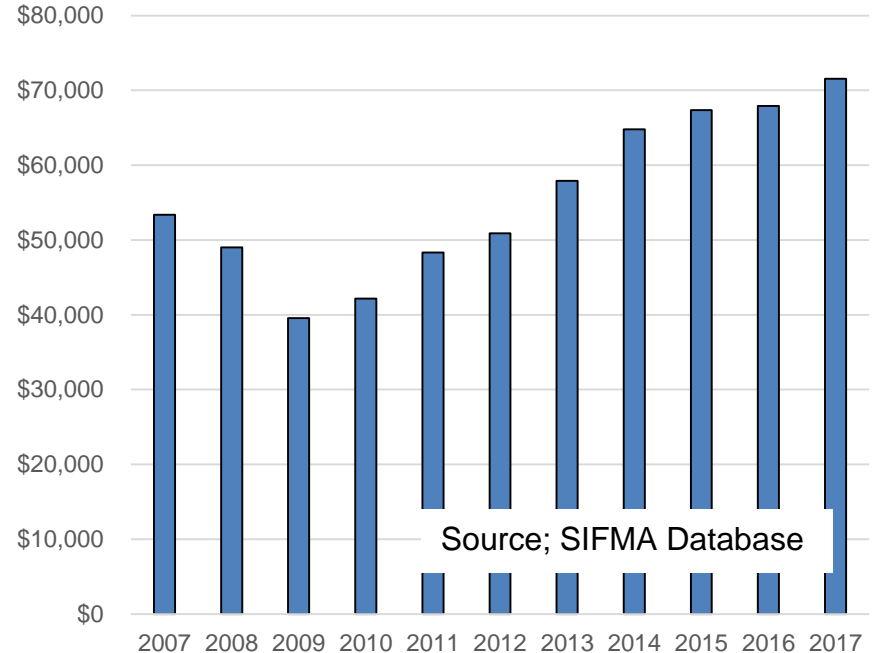


# Wealth Management.

## Wealth Mgt. Client Assets.

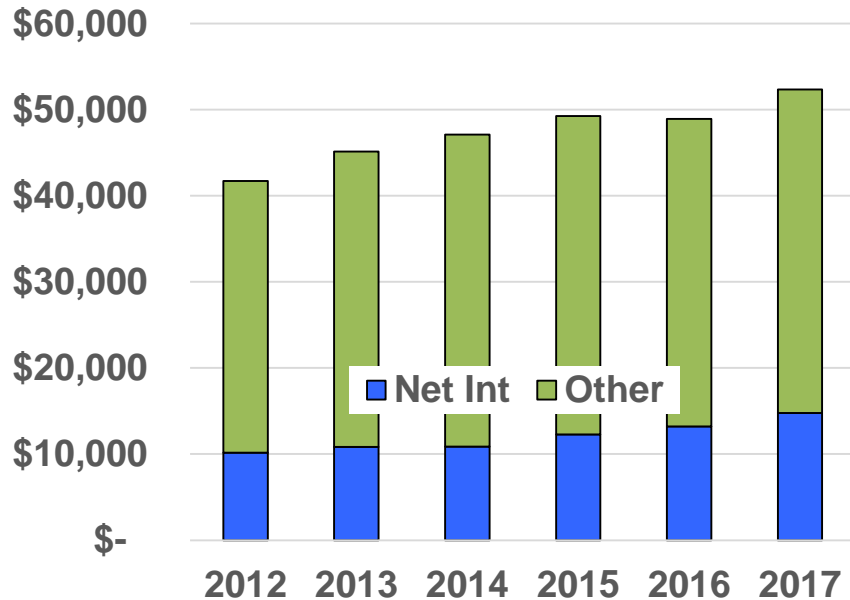


## Wealth Mgt. Net Revenues.



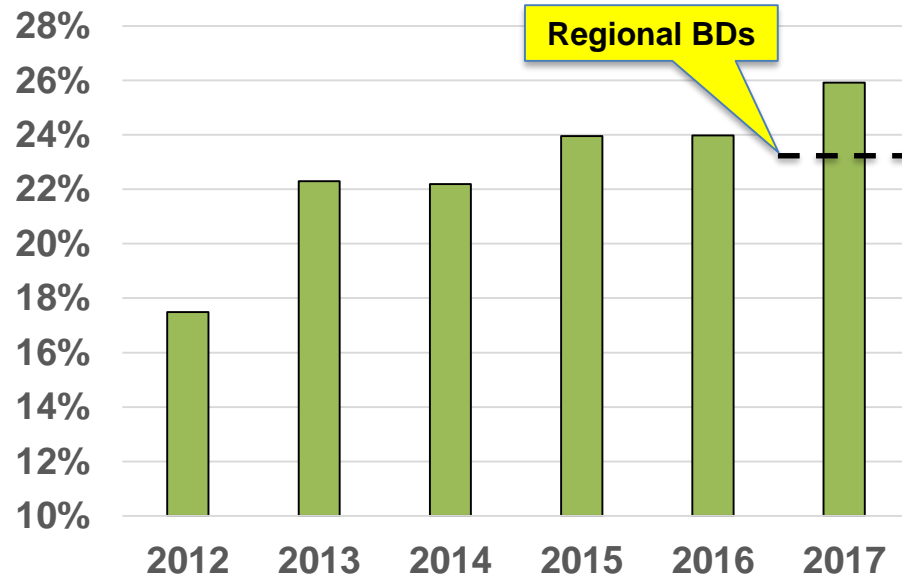


### Big 3 Wirehouse Net Rev.



Source: Company Disclosure.

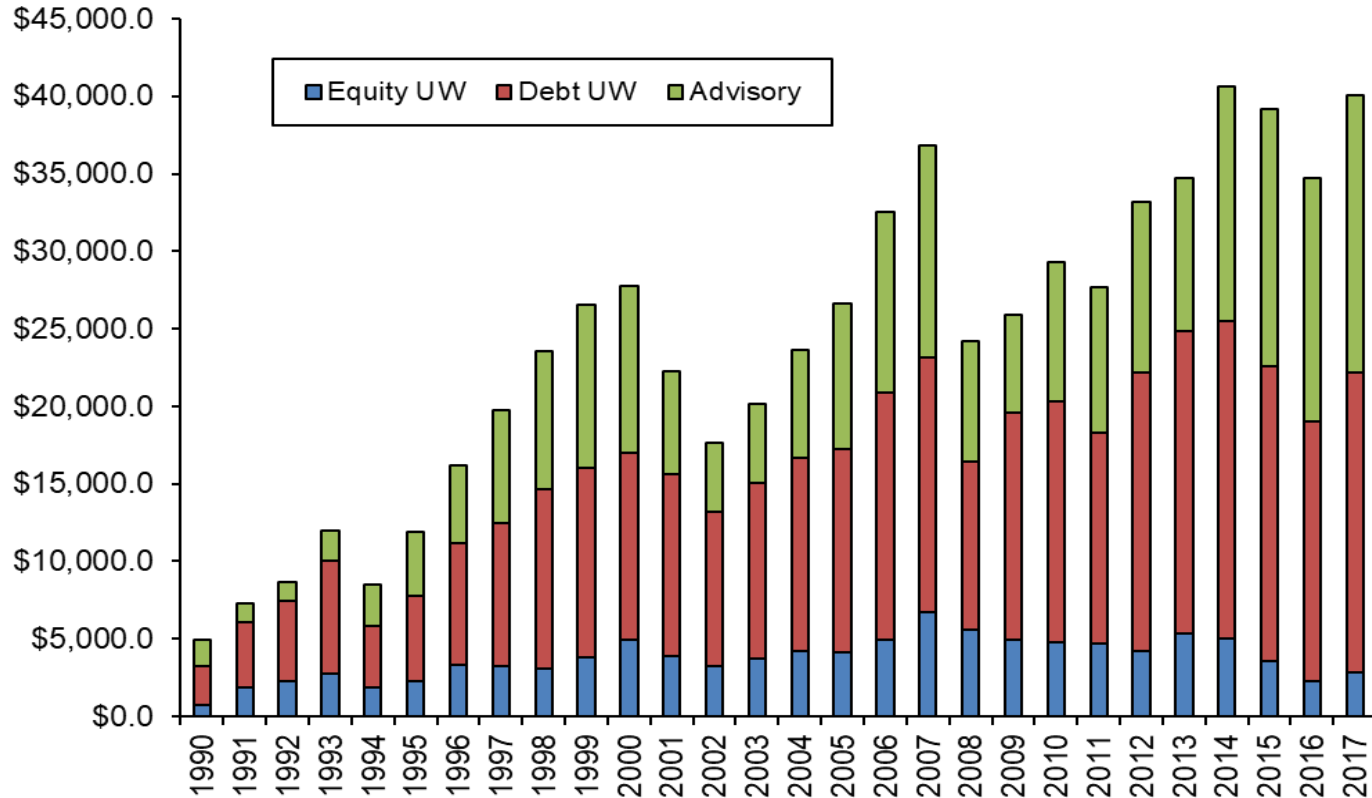
### Big 3 Wirehouse PT Margin.



Source: Company Disclosure.

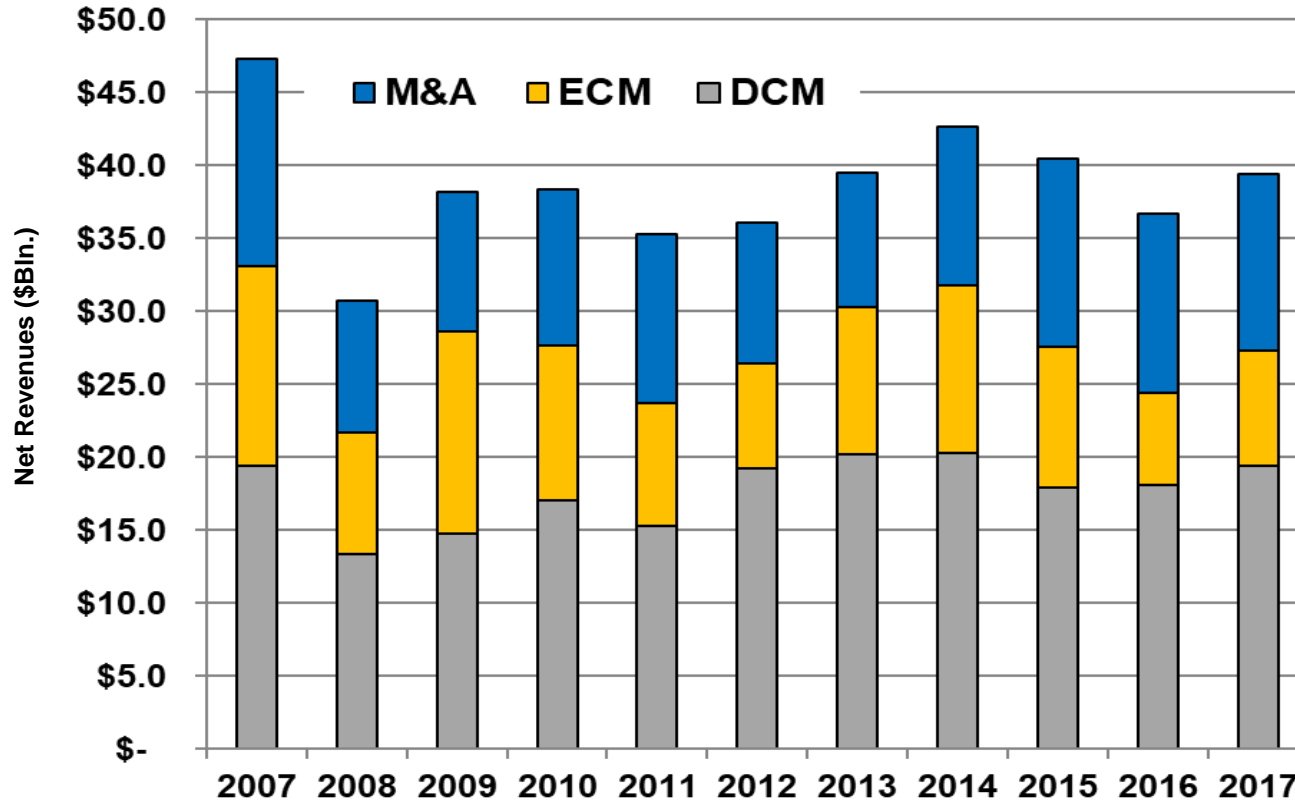
# Investment Banking.

# Domestic Investment Banking Net Revenues.



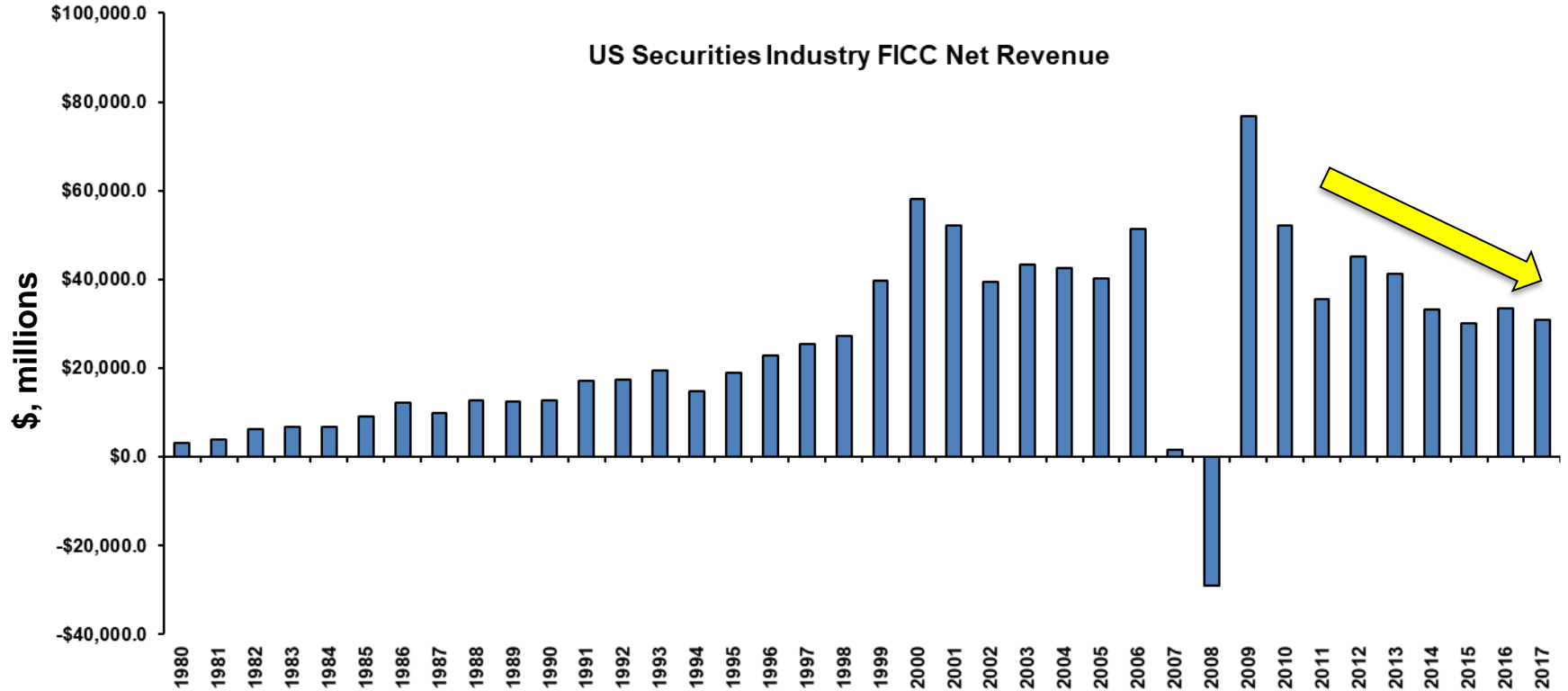
**US investment banking has rebounded with the US economy.**

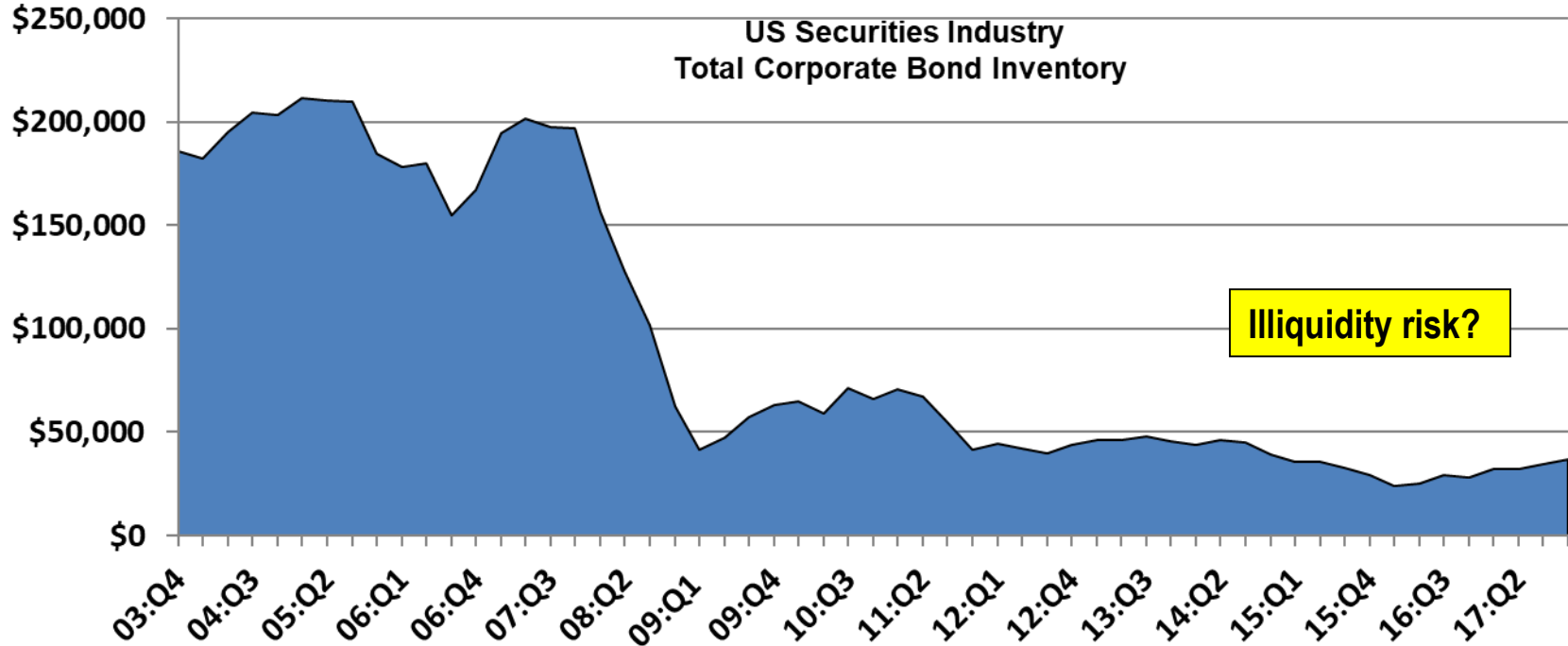
# Global Investment Banking Revenue

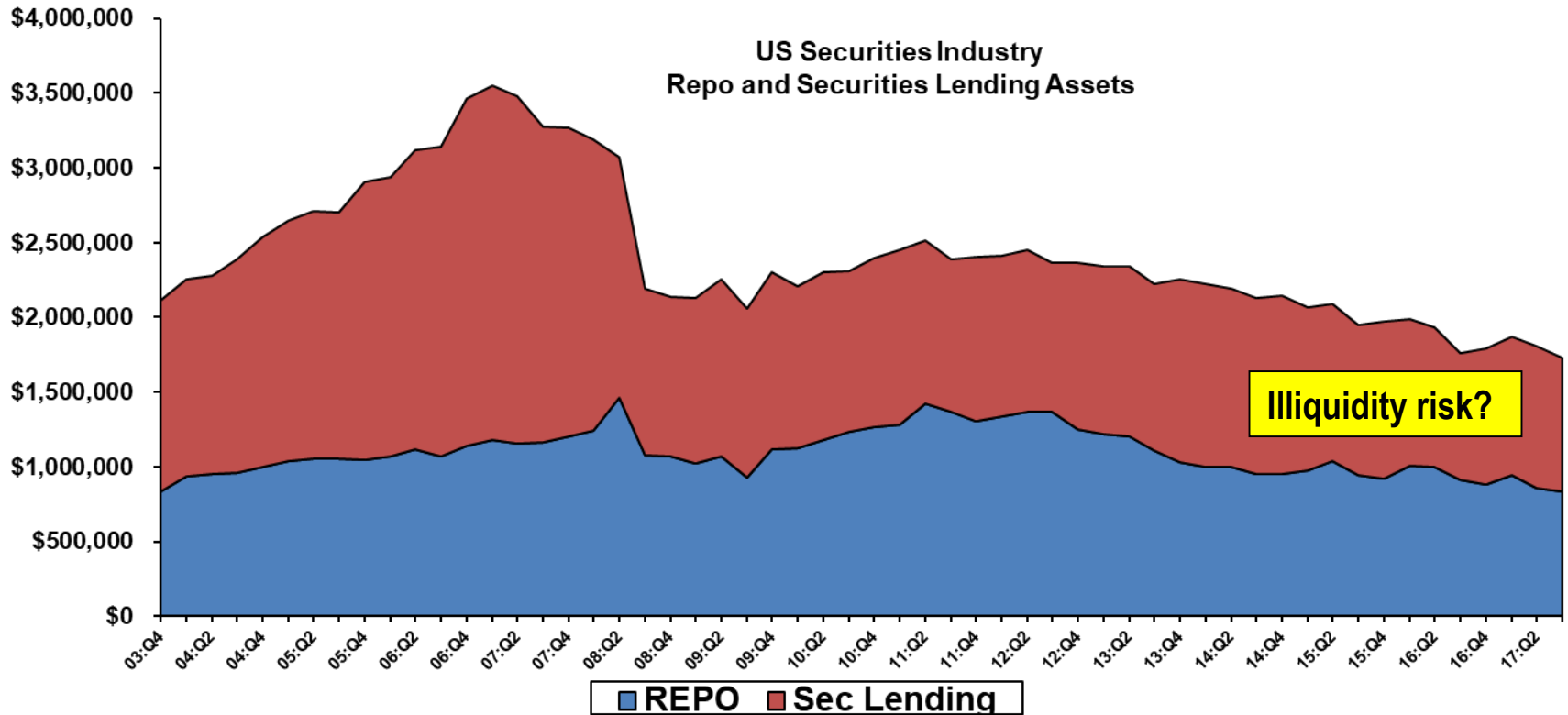


**Global Investment banking revenues growth have been slower in Europe and Asia.**

# The Trading Businesses.



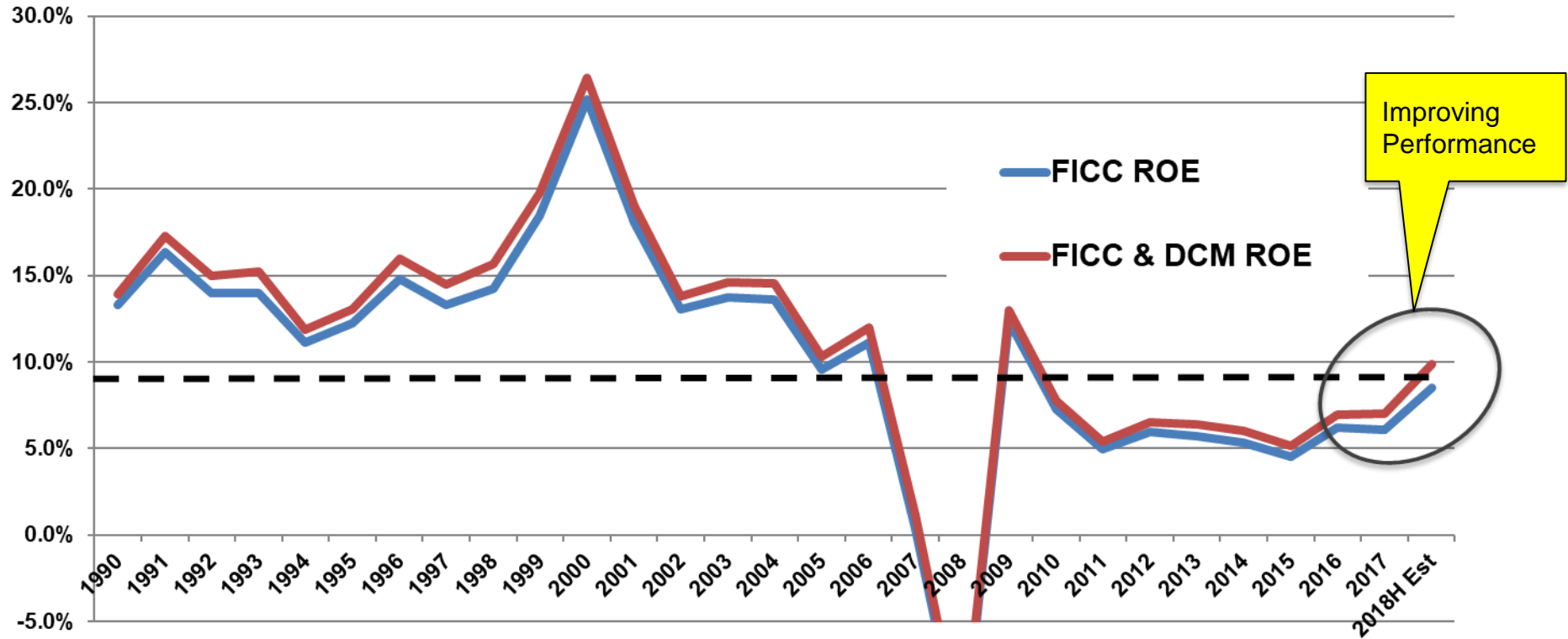




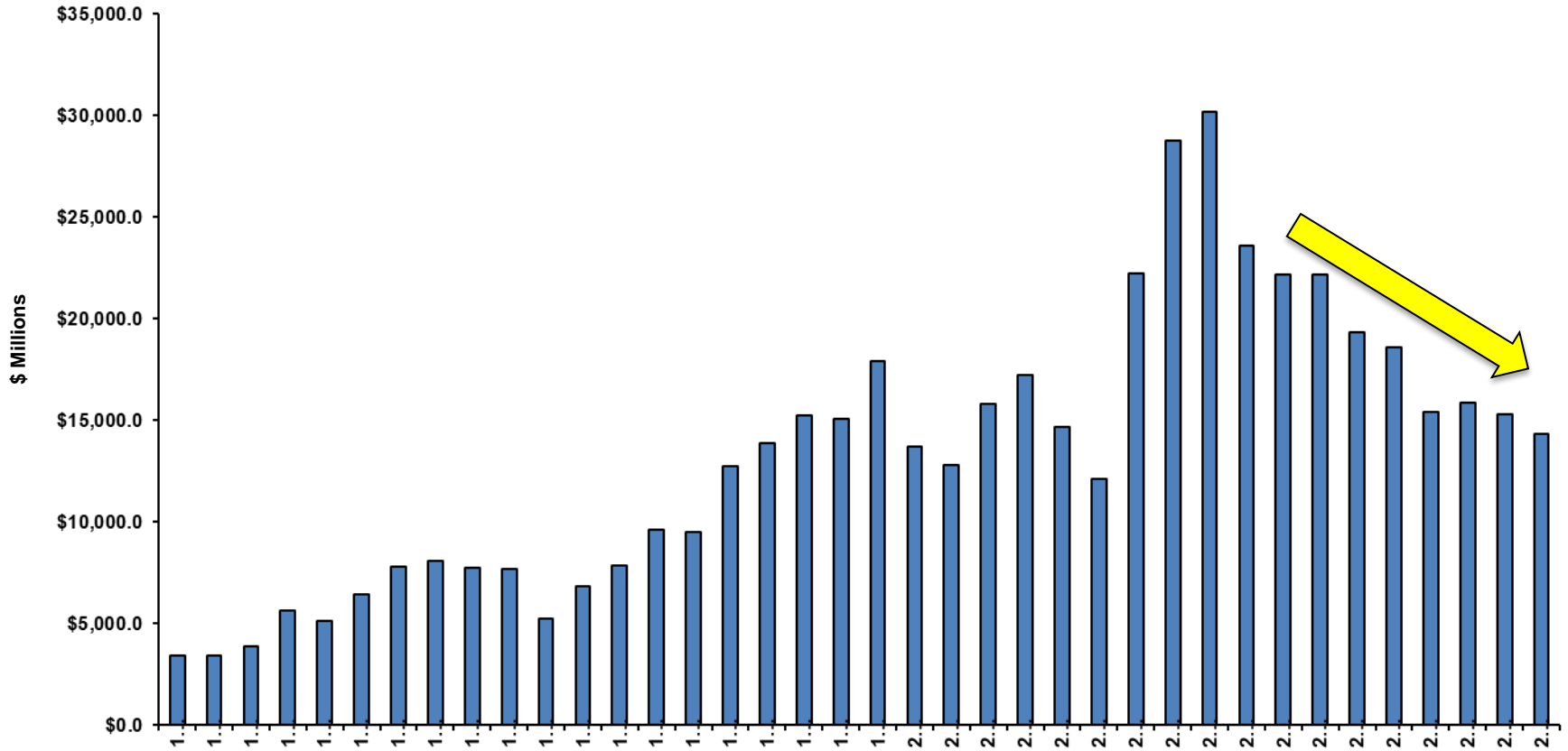


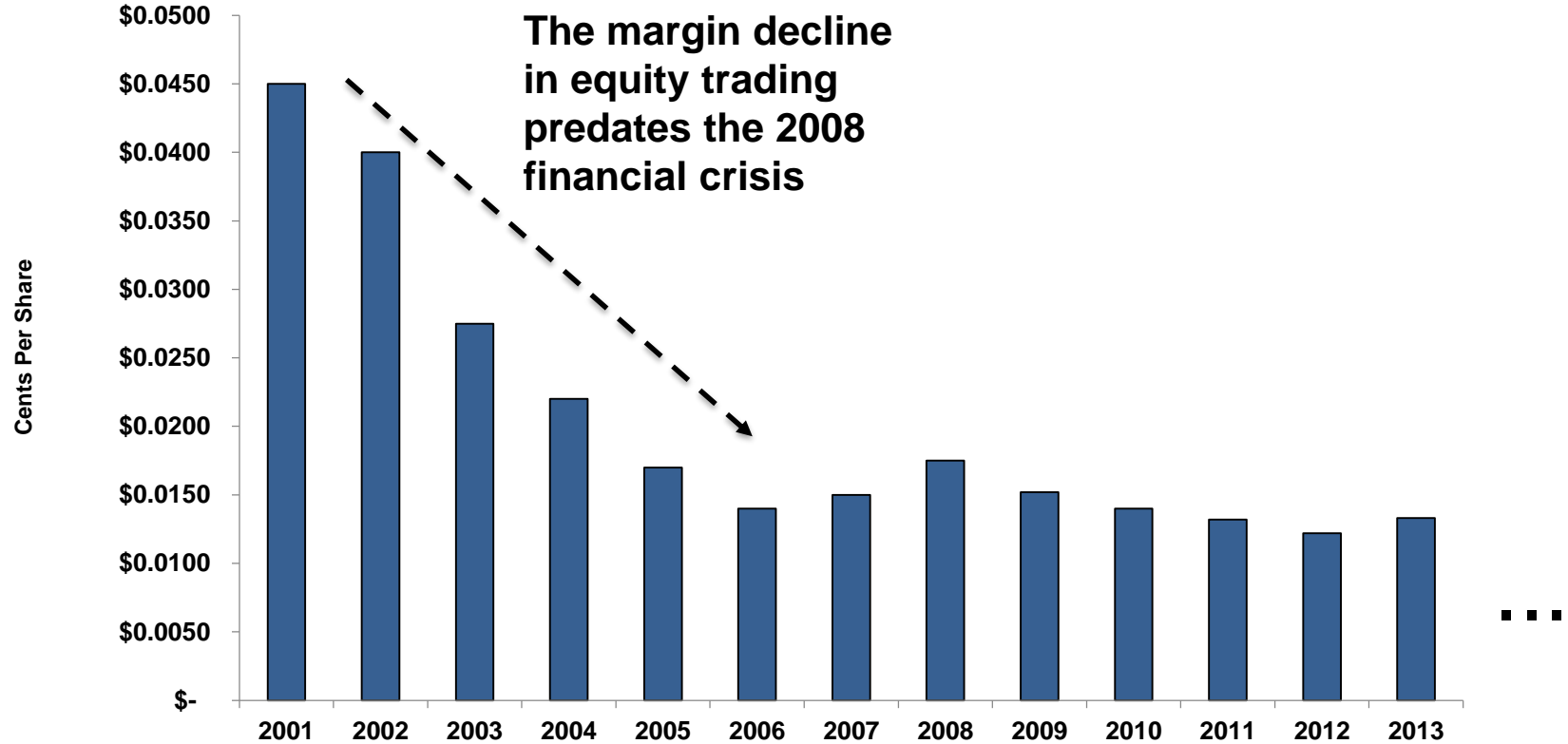


# Fixed Income ROE – With and Without Underwriting Revenue.



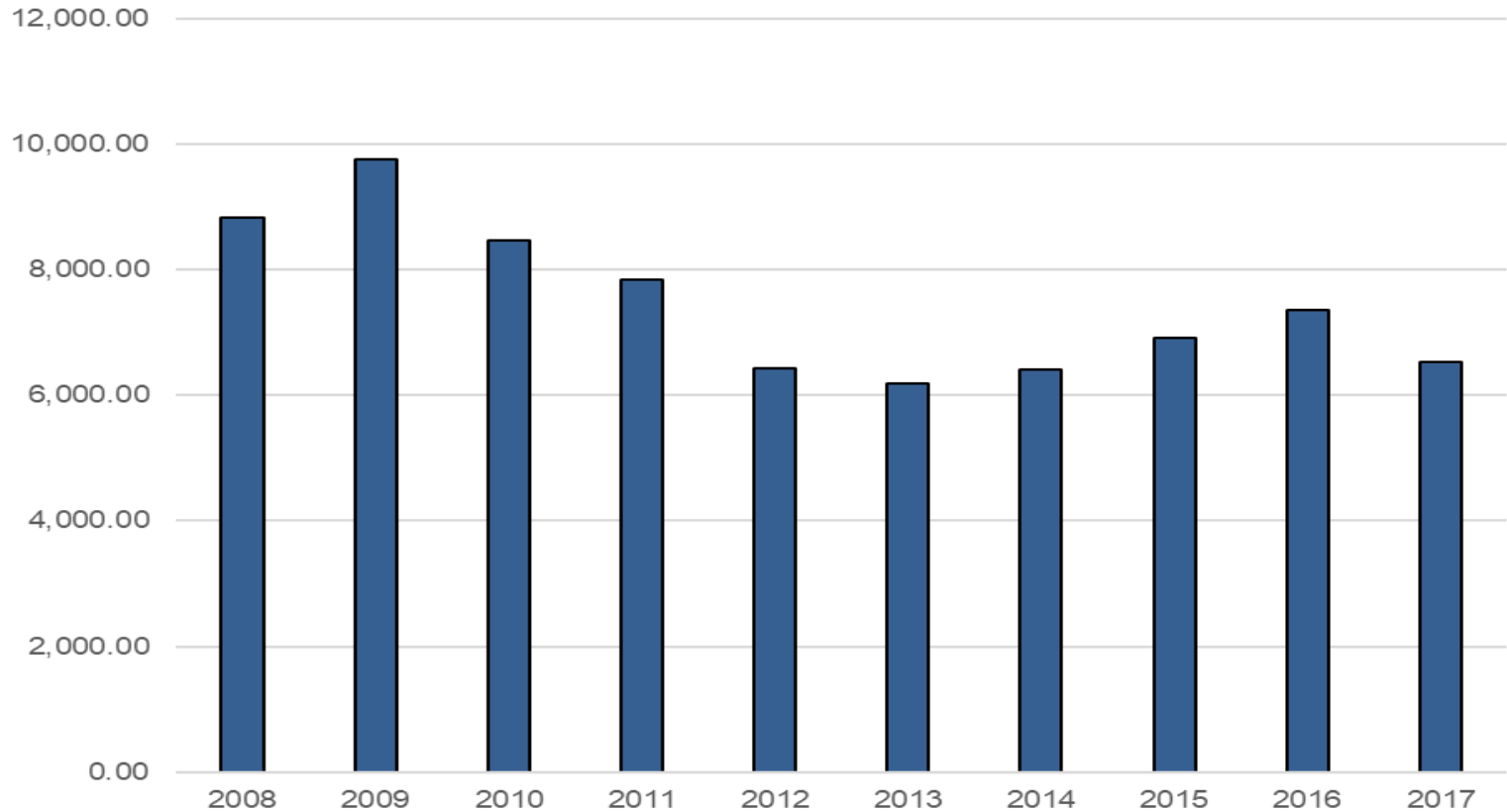
# Domestic Institutional Equities Net Revenues.

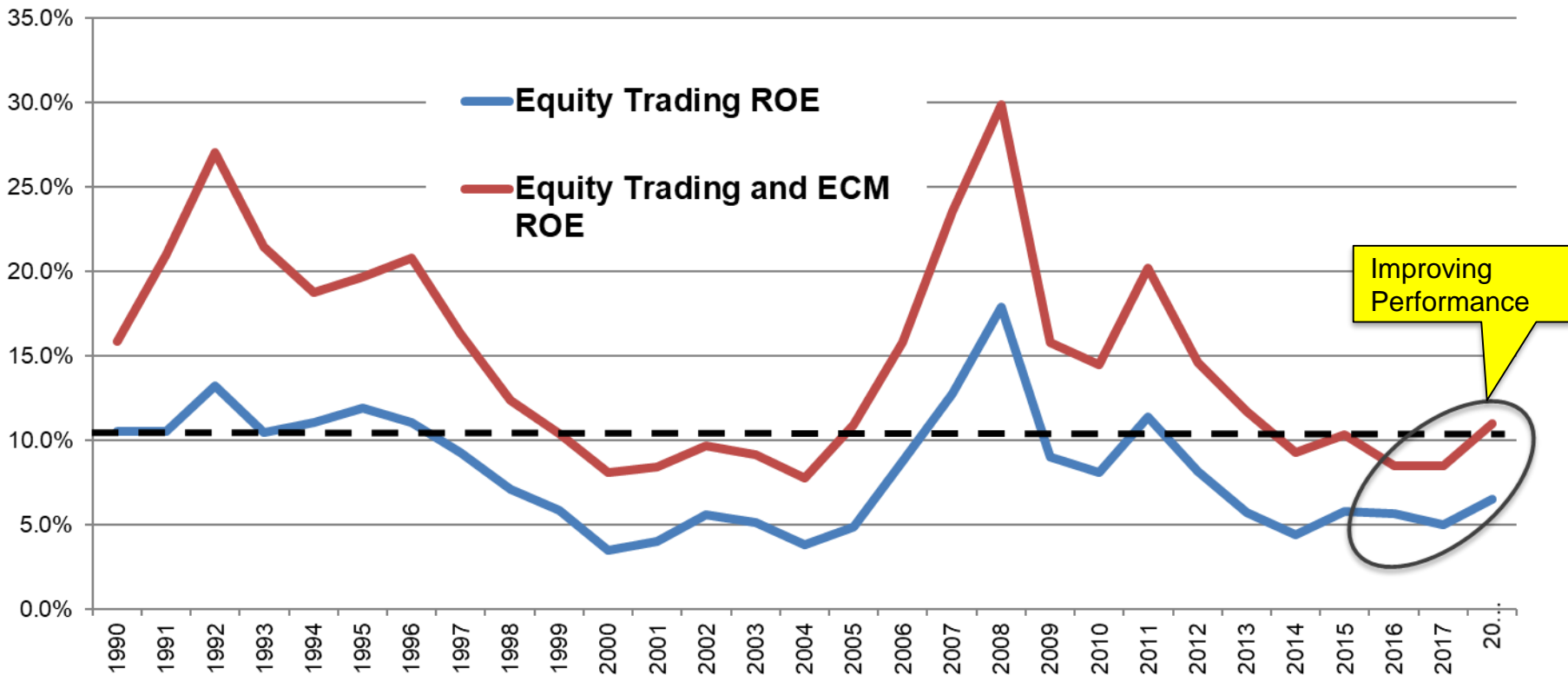




# Equity Trade Volumes

Daily Avg., Mils. of Shares.





Source; SIFMA database, company disclosure and LOB analysis

**Global GDP and Wealth is Growing.**

**Acceptable Returns on Capital.**

- **Wealth Management.**
- **Investment Banking.**
- **Asset Management.**

**Capital and Liquidity.**

- **Strong Capital Ratios.**
- **Improved Liquidity.**

**Regulation is Barrier to Entry.**

**Strong Internal Expense Control.**

**Decline in Cross Border Financial Flows.**

**Below Cost of Equity Returns.**

- **Fixed Income.**
- **Equity Sales and Trading.**

**Revenue Shift from Front Office to CCP, Custodians and Exchanges.**

**Legacy Technology Systems.**

**Institutional Inertia Limits New Industry Utilities and Outsourcing.**

## Institutional Investor View.

**Institutional Investors are still not optimistic about the industry. A majority believe that the large banks will be unable to beat their cost of capital in next five years.**

**Investors believe that bank regulation will continue to tighten around the globe and that new technologies will disrupt the banking, wealth management and capital market.**

**Investors recognize that the banks have cut bank expenses and reduced headcount. Low ROE is evidence that the industry's efforts have been insufficient.**

**Investors expect the number of bulge bracket banks and universal banks will decline in the next five years.**