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Outlook for US banks

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Apollo Global Management

June 2025

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Conclusions

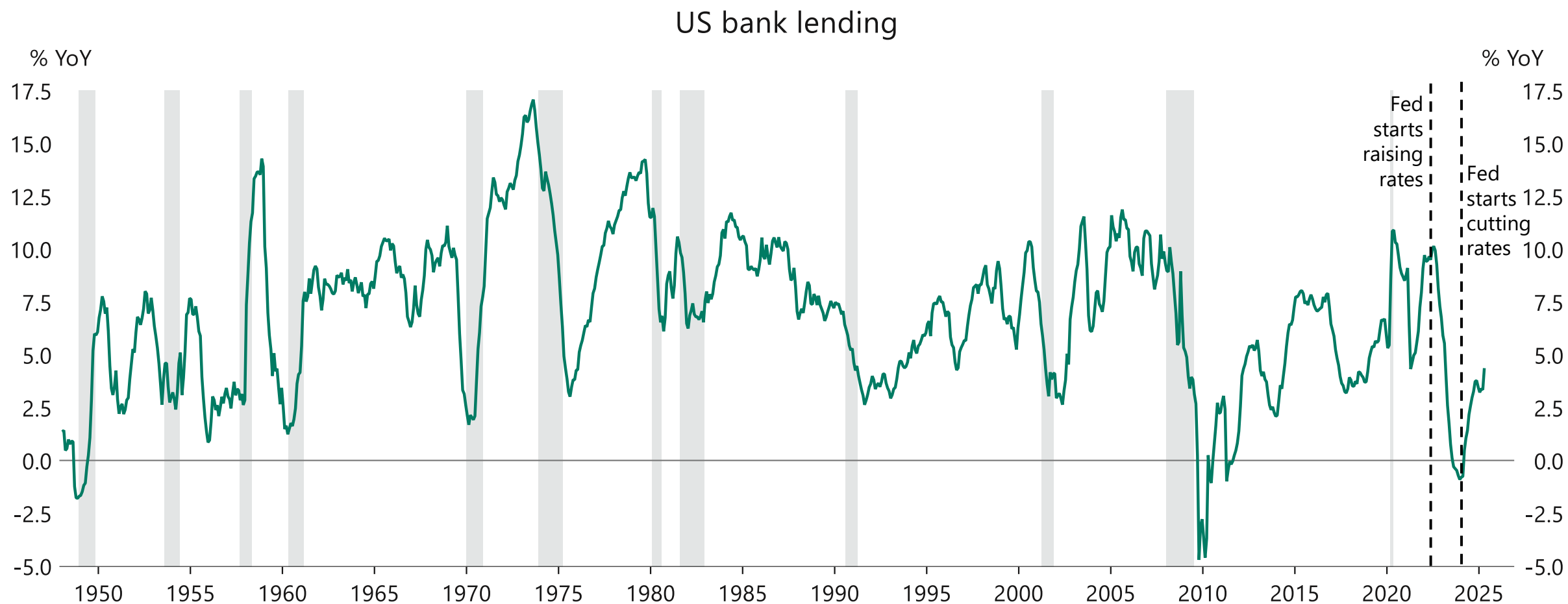
1. Banking sector balance sheets are generally in good shape, and credit growth is positive, driven by lending by large banks.
2. Delinquency rates are peaking on credit cards and auto loans, but restarting student loan payments is a headwind to credit quality and credit growth.
3. The trade war and Moody's downgrade have not yet had any impact on the banking sector or credit growth.
4. Permanently higher interest rates are putting downward pressure on CRE prices for office, multi-family apartments, and health care facilities. This remains a problem for banking sector balance sheets.

Outline

1. Overview
2. Recent trends in banking sector balance sheets
3. Weekly data for banking sector credit growth
4. Lending standards and credit quality
5. The importance of CRE for banking sector balance sheets
6. Bank deposits
7. US banks by asset size
8. Measures of banking sector liquidity and capital ratios
9. Stock market performance of small and large banks
10. Community banks

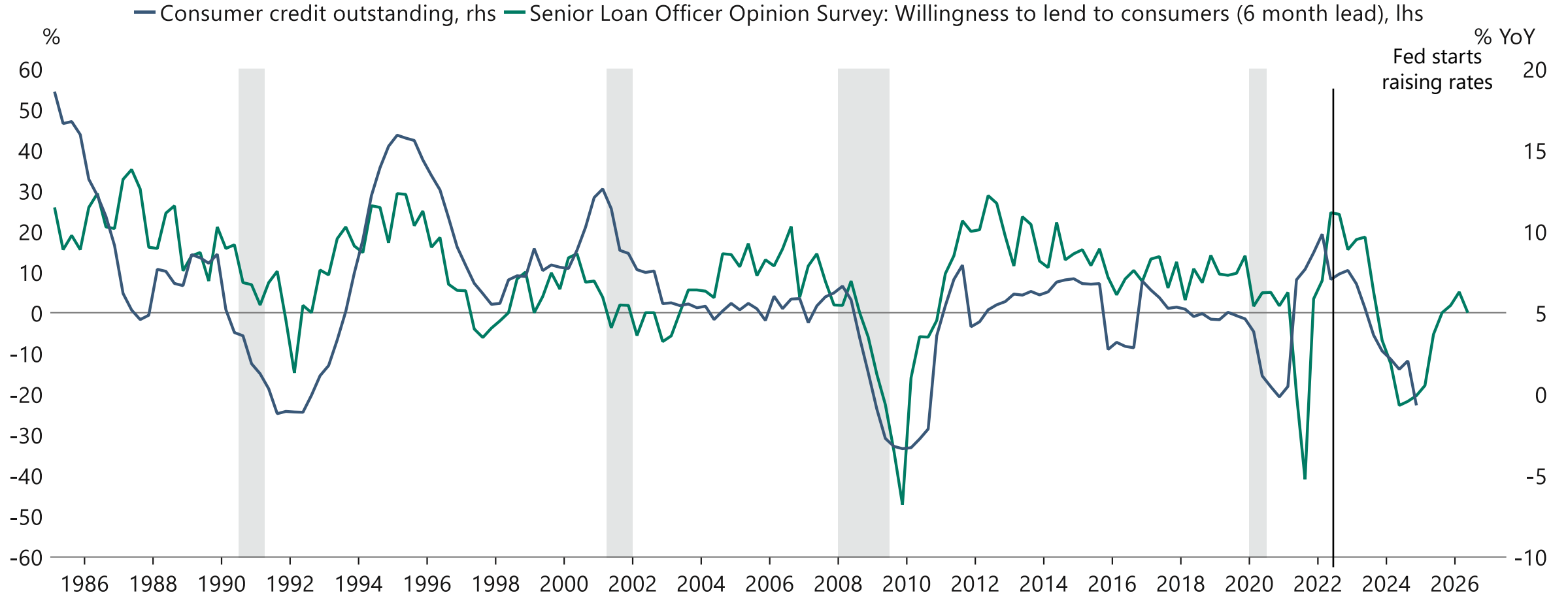
Overview

Bank credit growth is accelerating, driven by Fed cuts



Source: Federal Reserve, Macrobond, Apollo Chief Economist

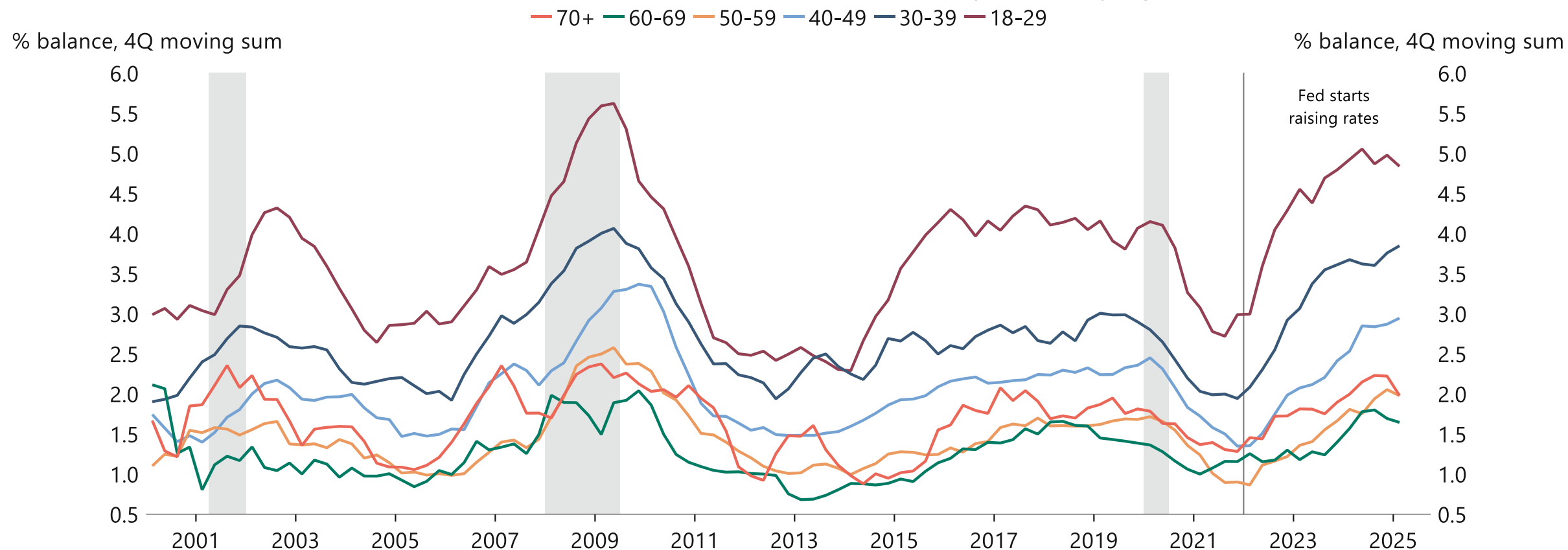
Banks are more willing to lend, and this is an upside risk to consumer credit



Source: Federal Reserve, Macrobond, Apollo Chief Economist

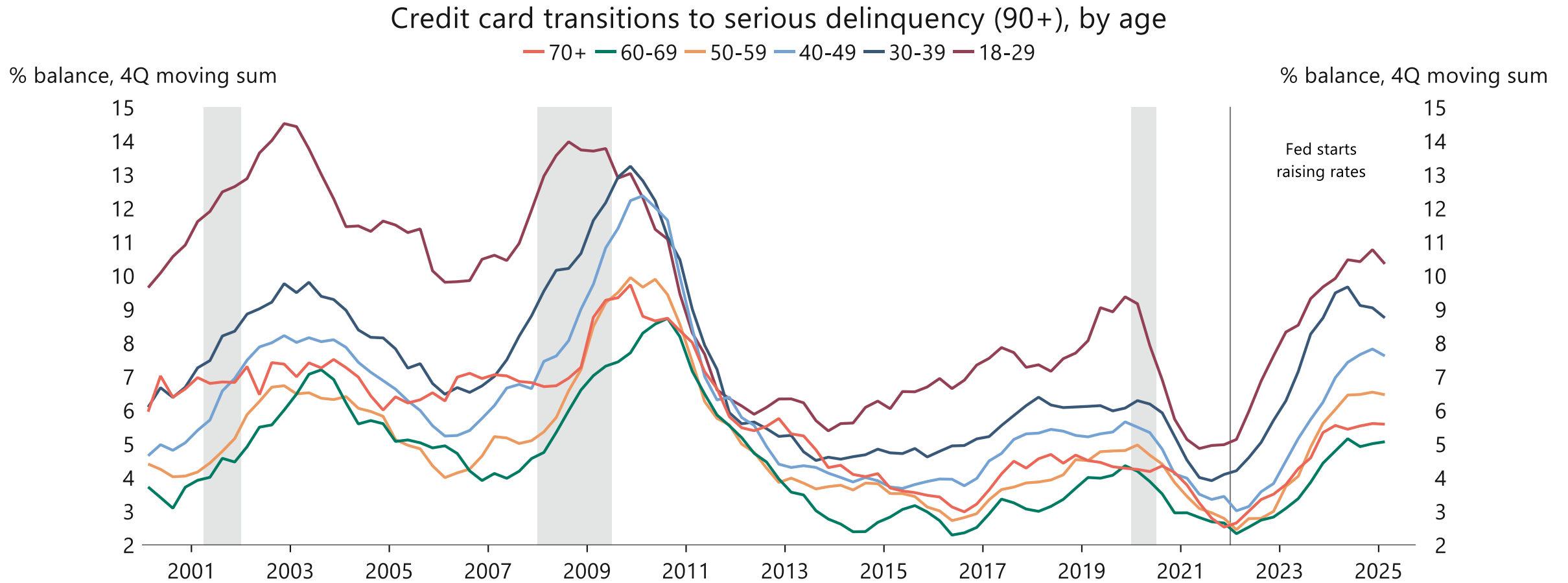
Delinquency rates peaking for auto loans

Auto loan transitions to serious delinquency (90+), by age



Source: Federal Reserve Bank of New York, Macrobond, Apollo Chief Economist

Delinquency rates peaking for credit cards

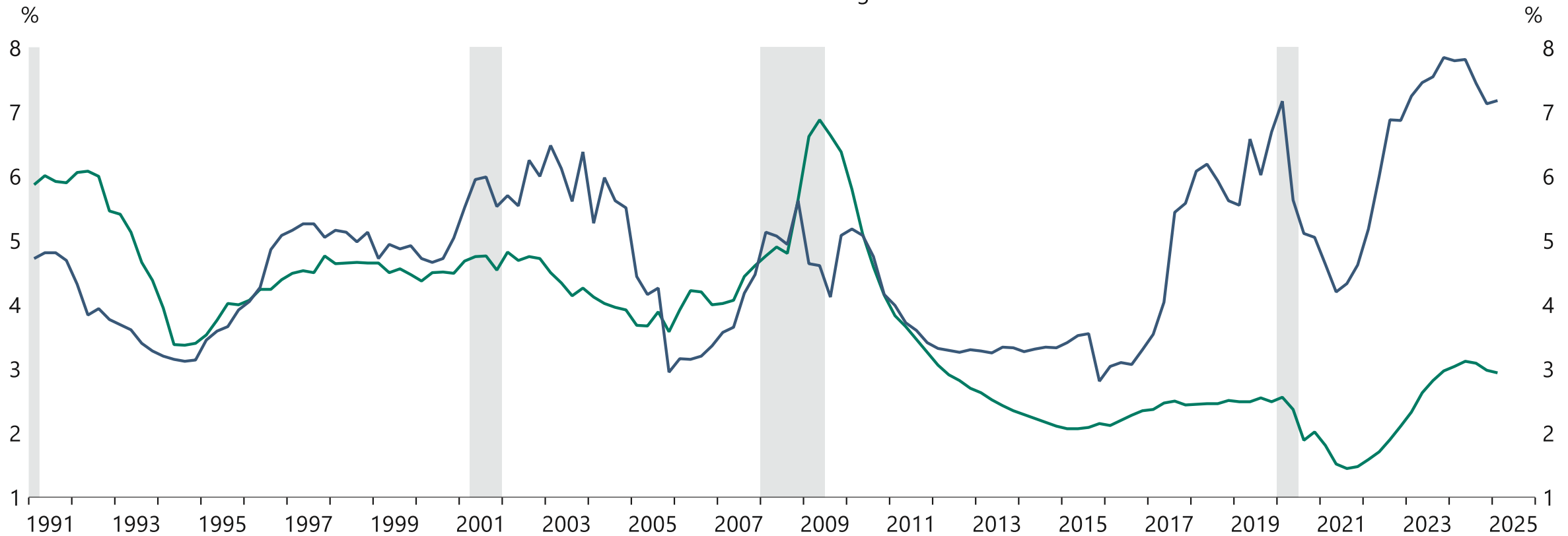


Source: Federal Reserve Bank of New York, Macrobond, Apollo Chief Economist

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

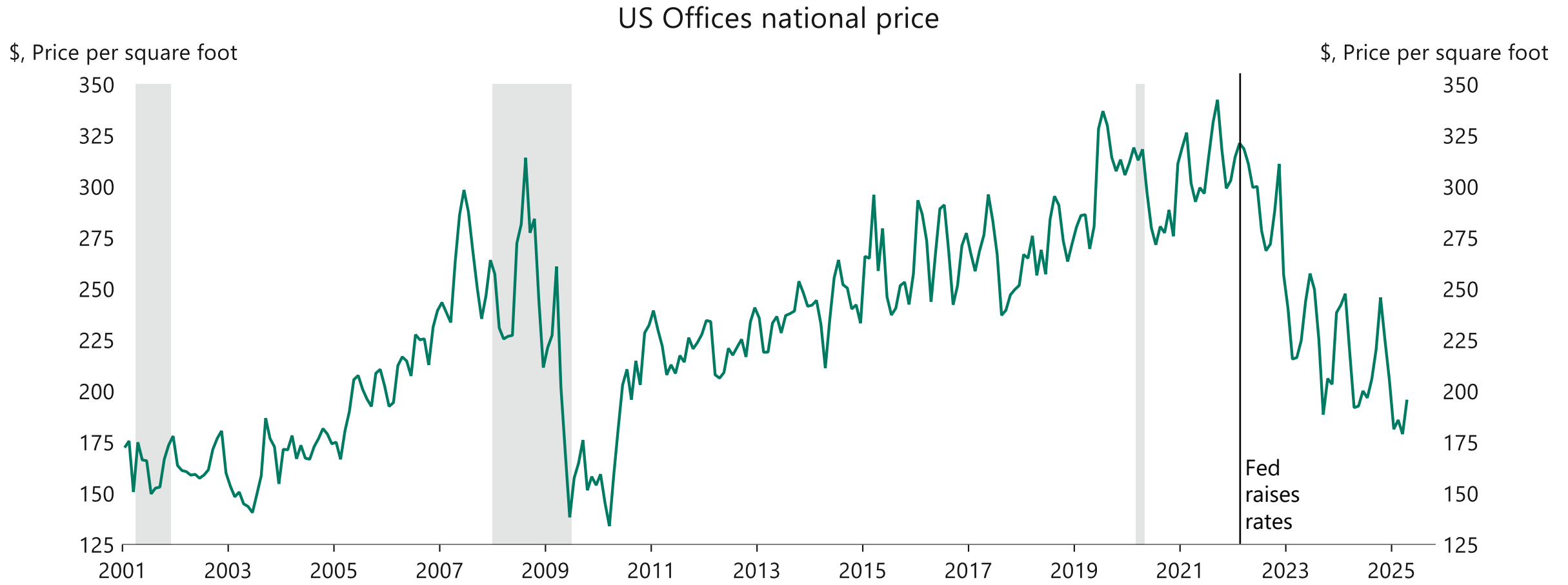
Delinquency rates on consumer credit cards

— Other Banks — 100 Largest Banks



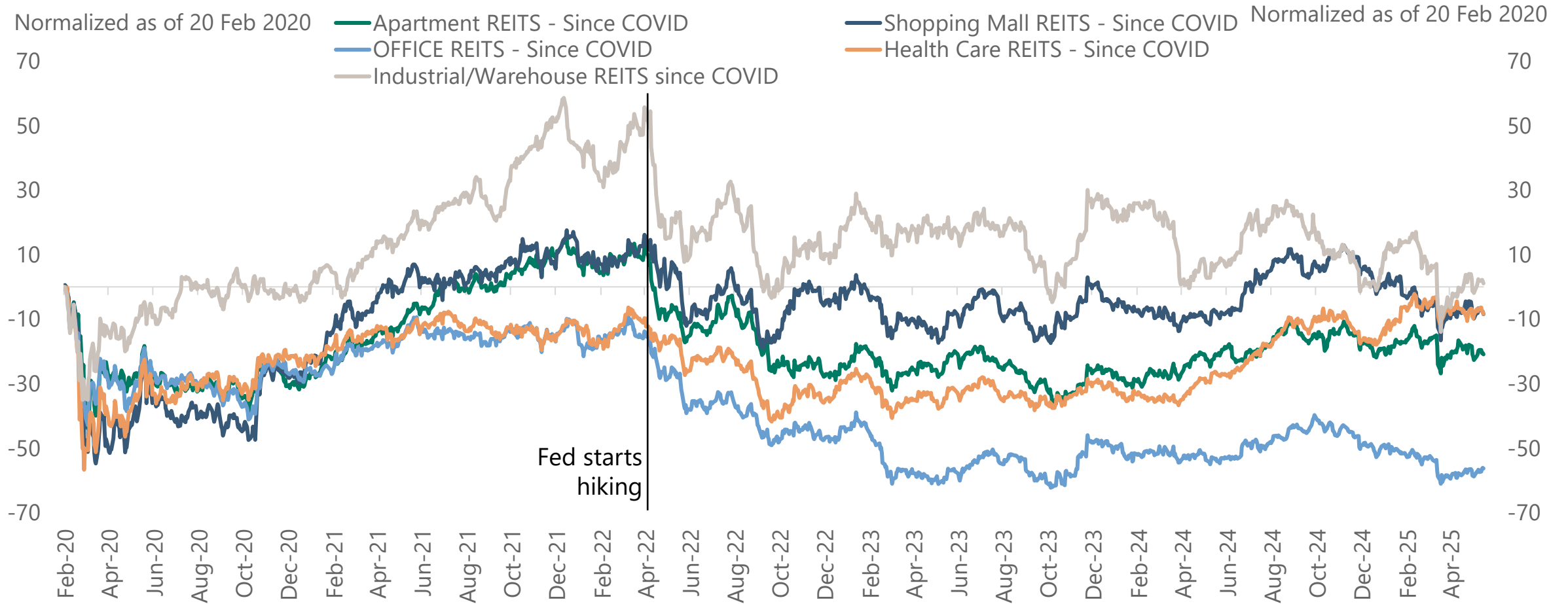
Source: Federal Reserve, Macrobond, Apollo Chief Economist

US office: The nationwide price per square foot is down 40% from the peak

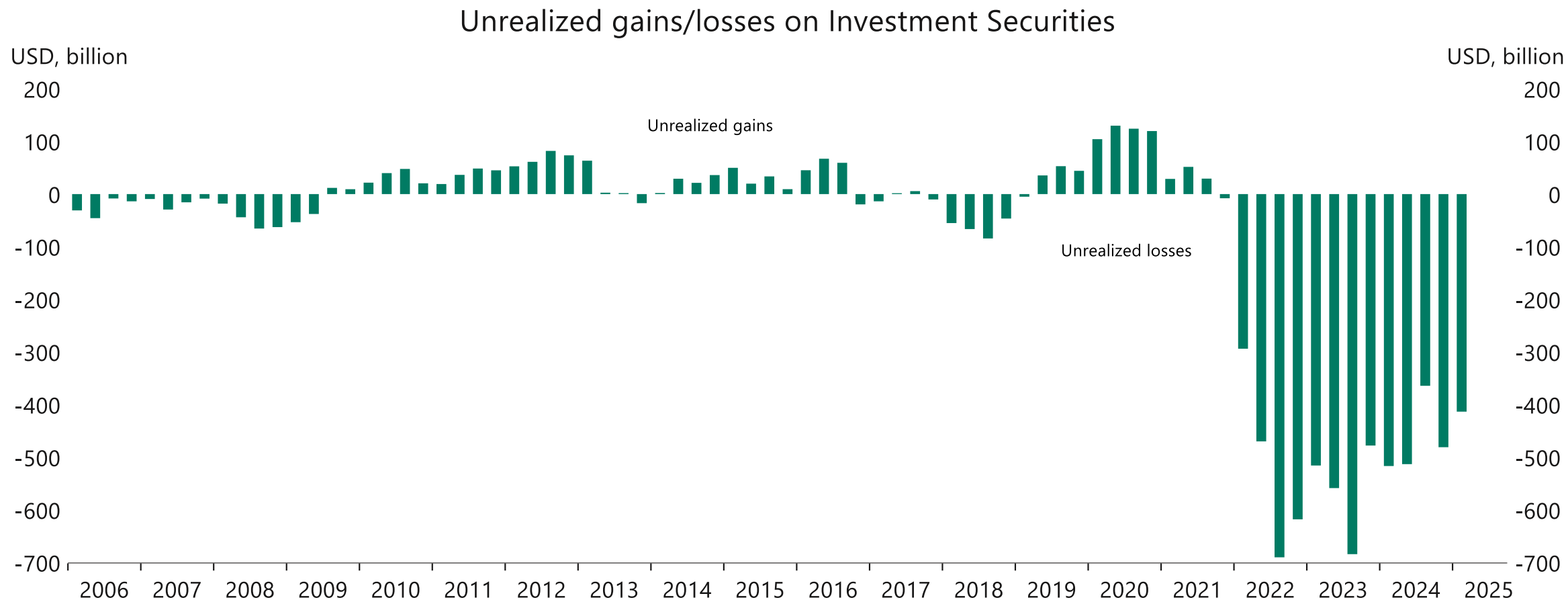


Source: Bloomberg, Macrobond, Apollo Chief Economist

Higher interest rates putting downward pressure on commercial real estate



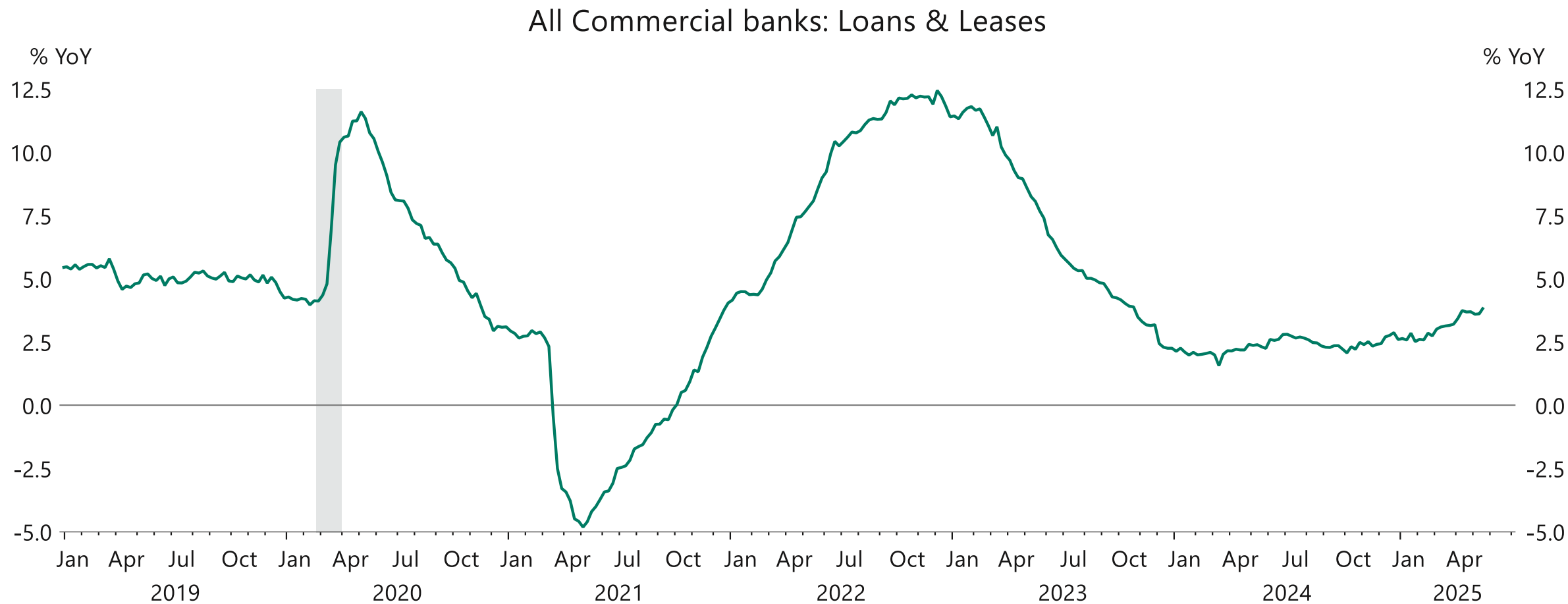
Banks: Unrealized losses on investment securities



Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist

Recent trends in banking sector balance sheets

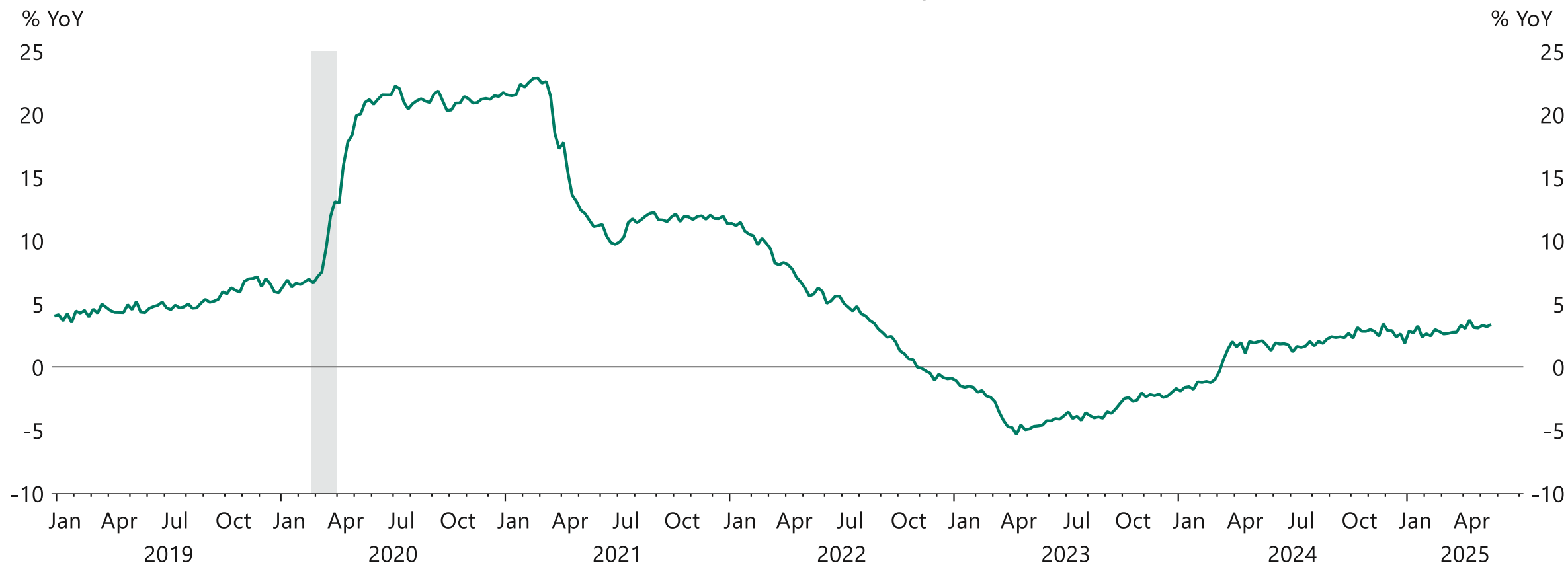
Bank loan growth rising



Source: Federal Reserve, Macrobond, Apollo Chief Economist

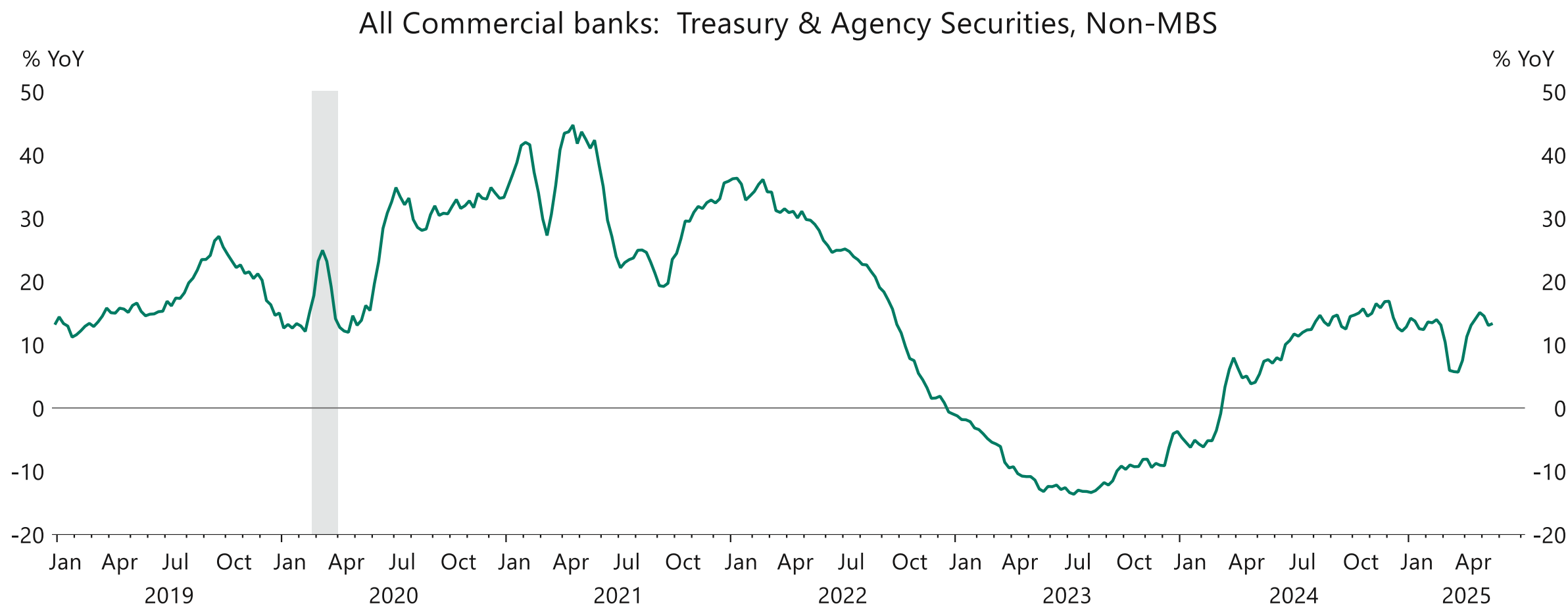
Banking sector deposit growth stable

All Commercial banks: Deposits



Source: Federal Reserve, Macrobond, Apollo Chief Economist

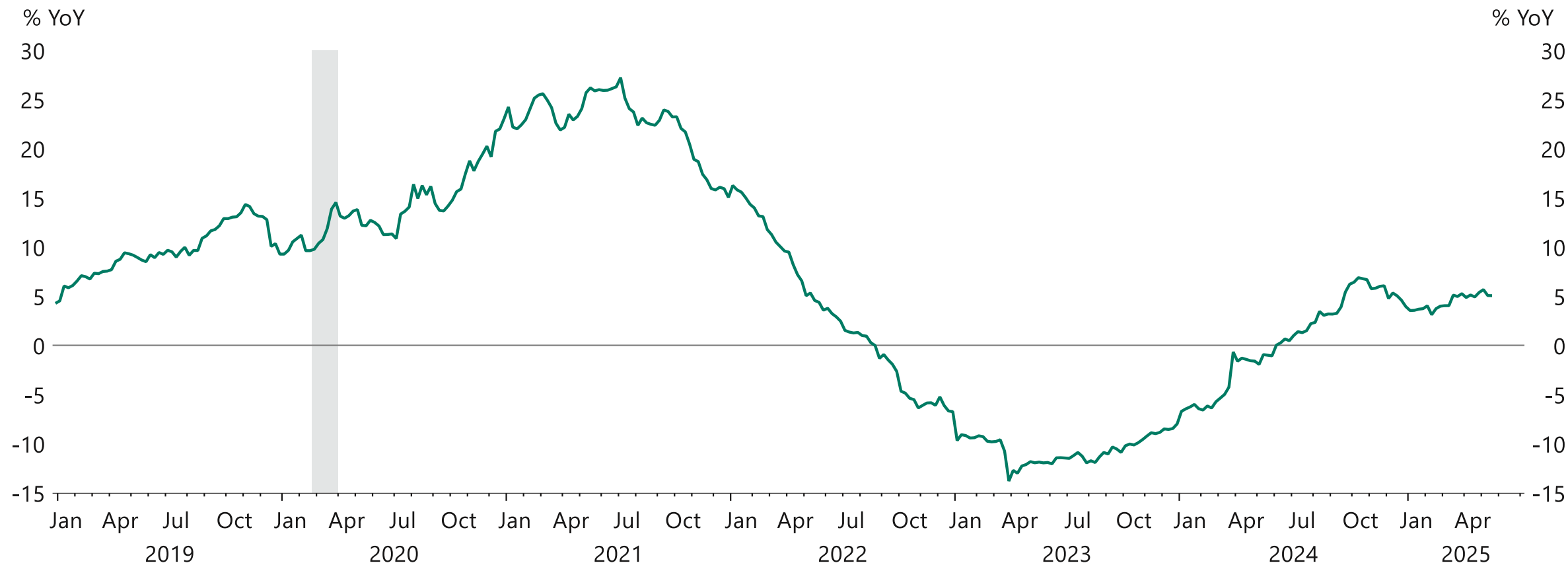
Growth in bank holdings of Treasuries



Source: Federal Reserve, Macrobond, Apollo Chief Economist

Growth in bank holdings of mortgages

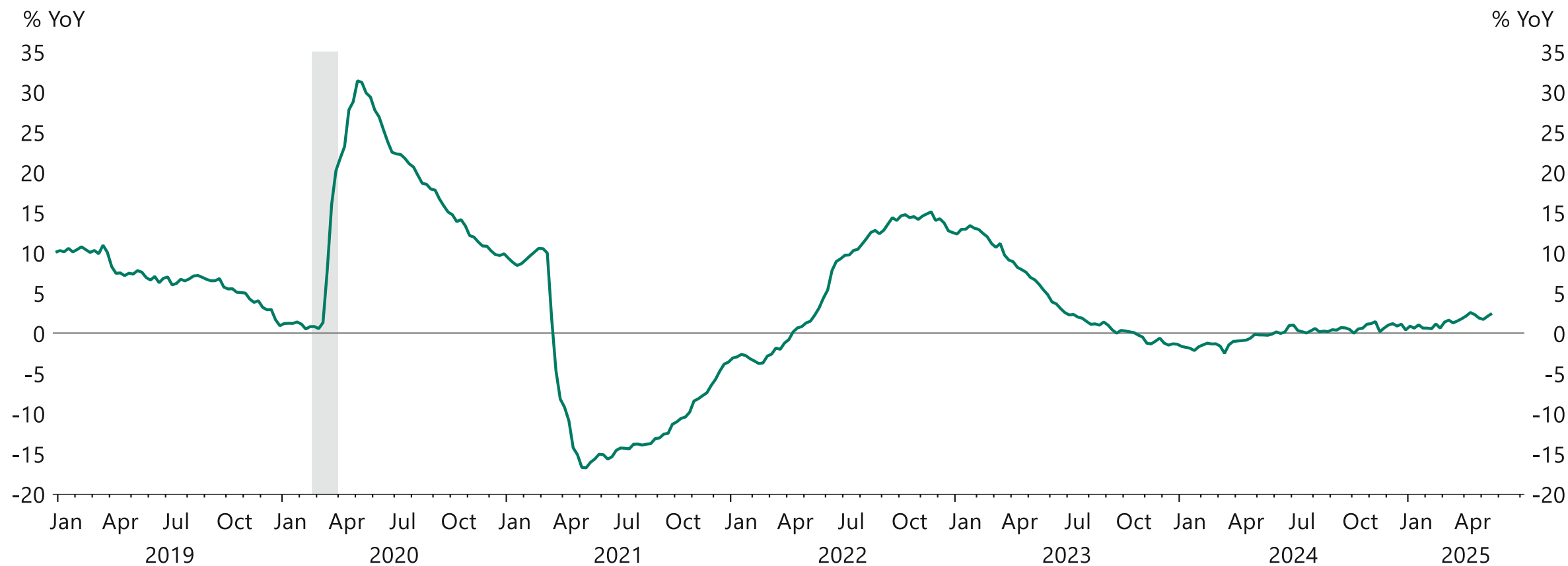
All Commercial banks: Treasury & Agency Securities, MBS



Source: Federal Reserve, Macrobond, Apollo Chief Economist

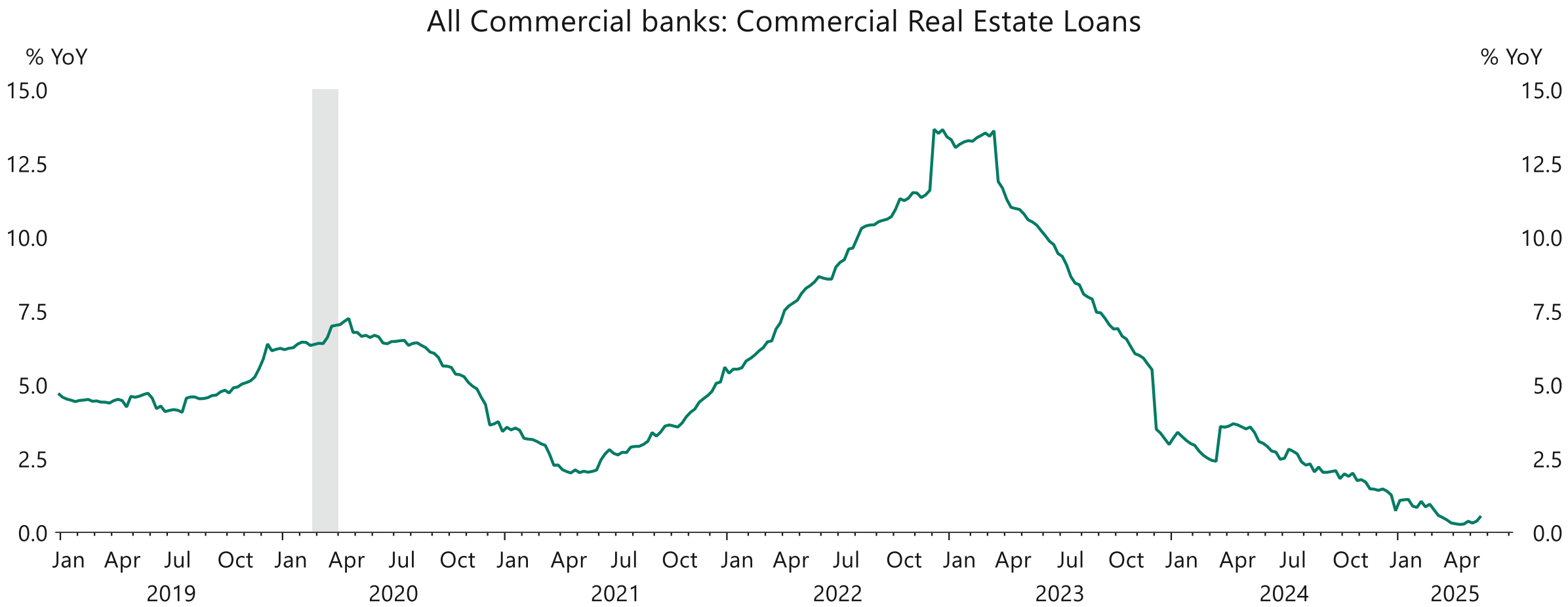
Growth in lending to corporates

All Commercial banks: C & I loans



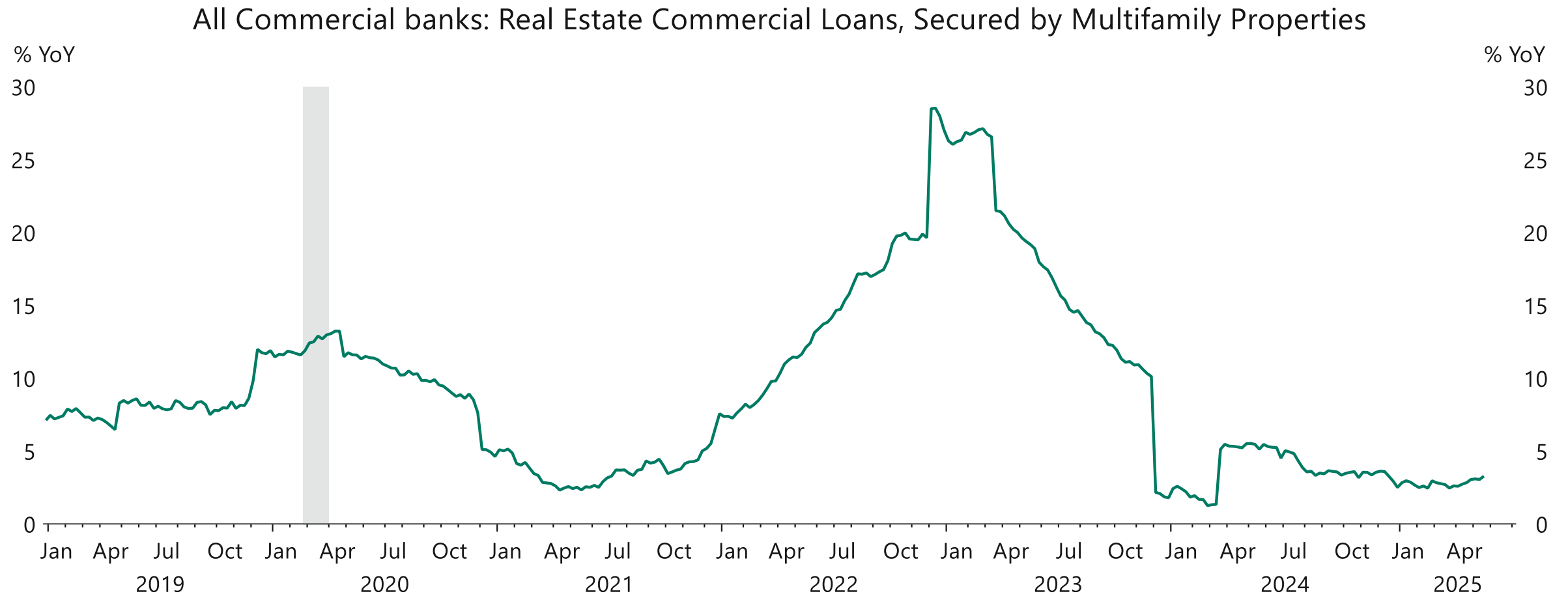
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Growth in real estate lending



Source: Federal Reserve, Macrobond, Apollo Chief Economist

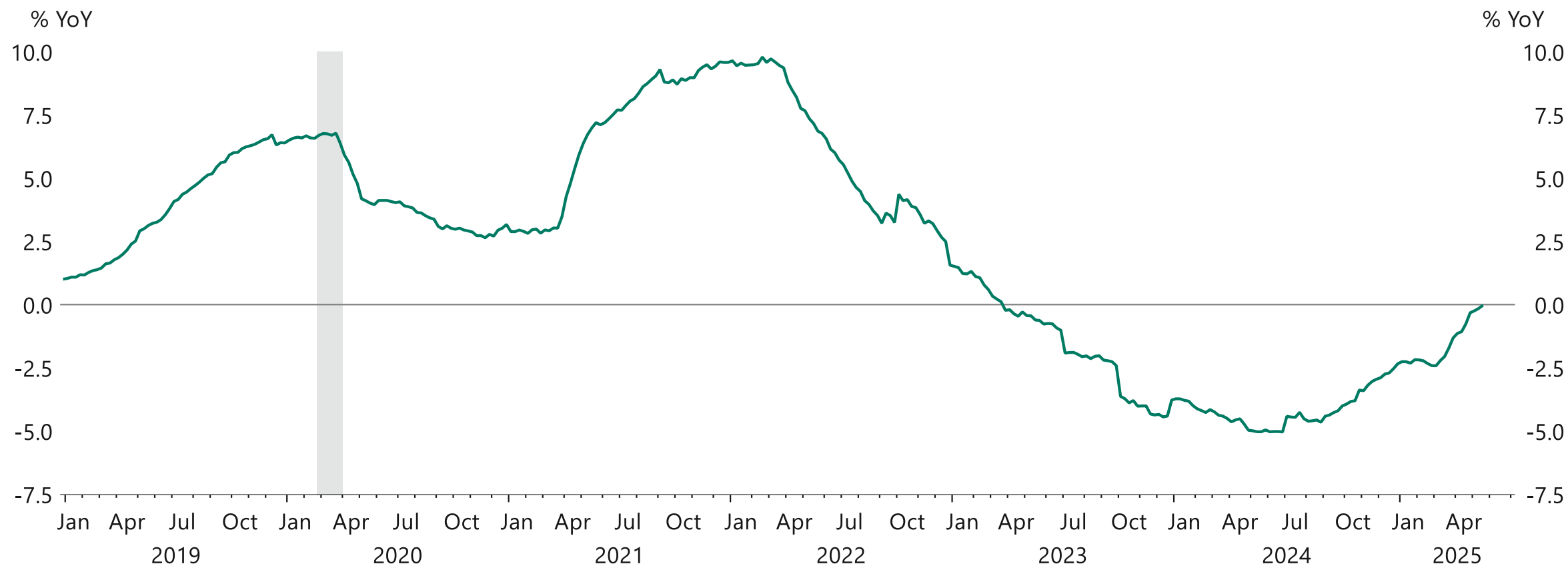
Growth in lending to multifamily construction



Source: Federal Reserve, Macrobond, Apollo Chief Economist

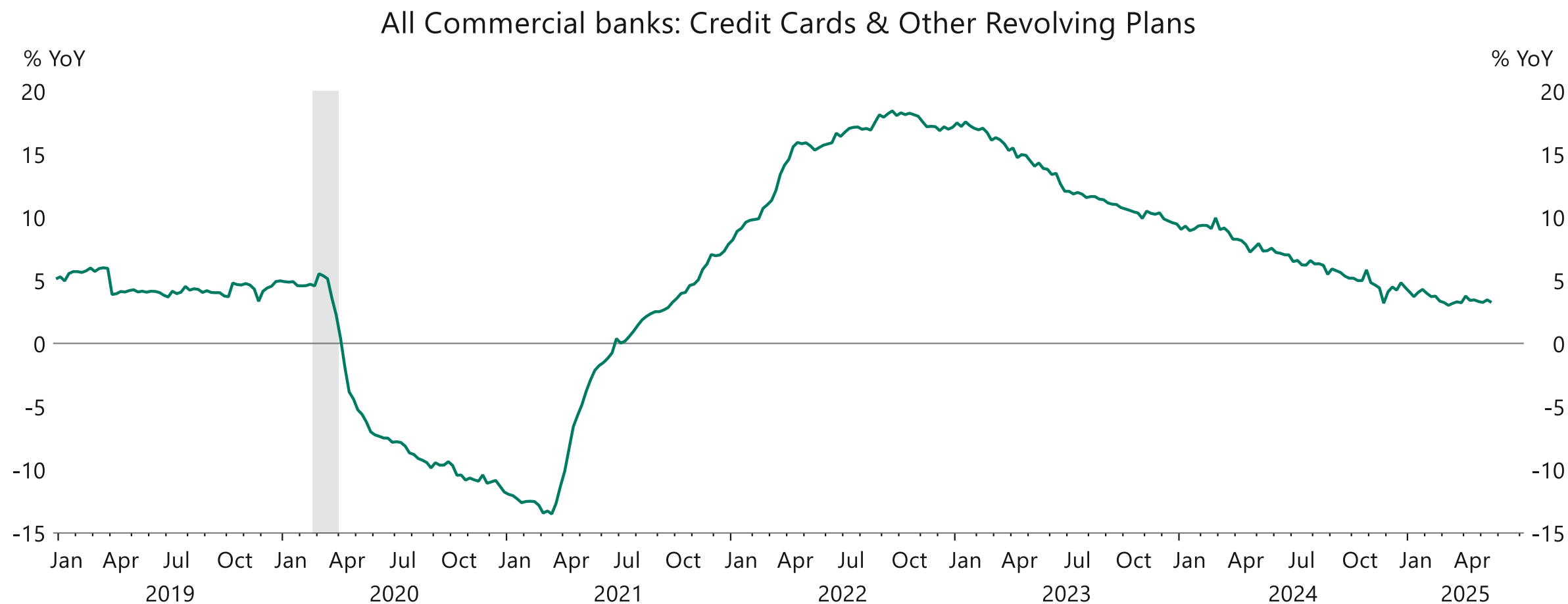
Growth in auto lending improving

All Commercial banks: Automobile loans



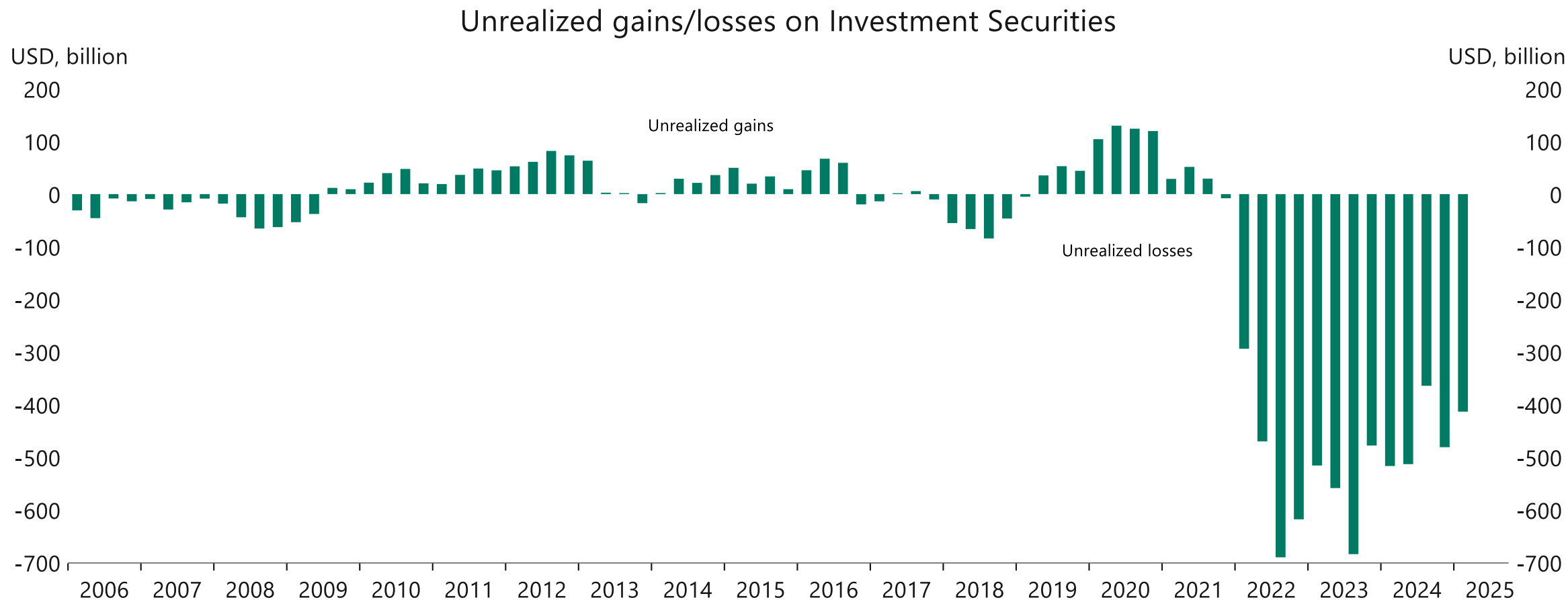
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Growth in banks' credit card lending



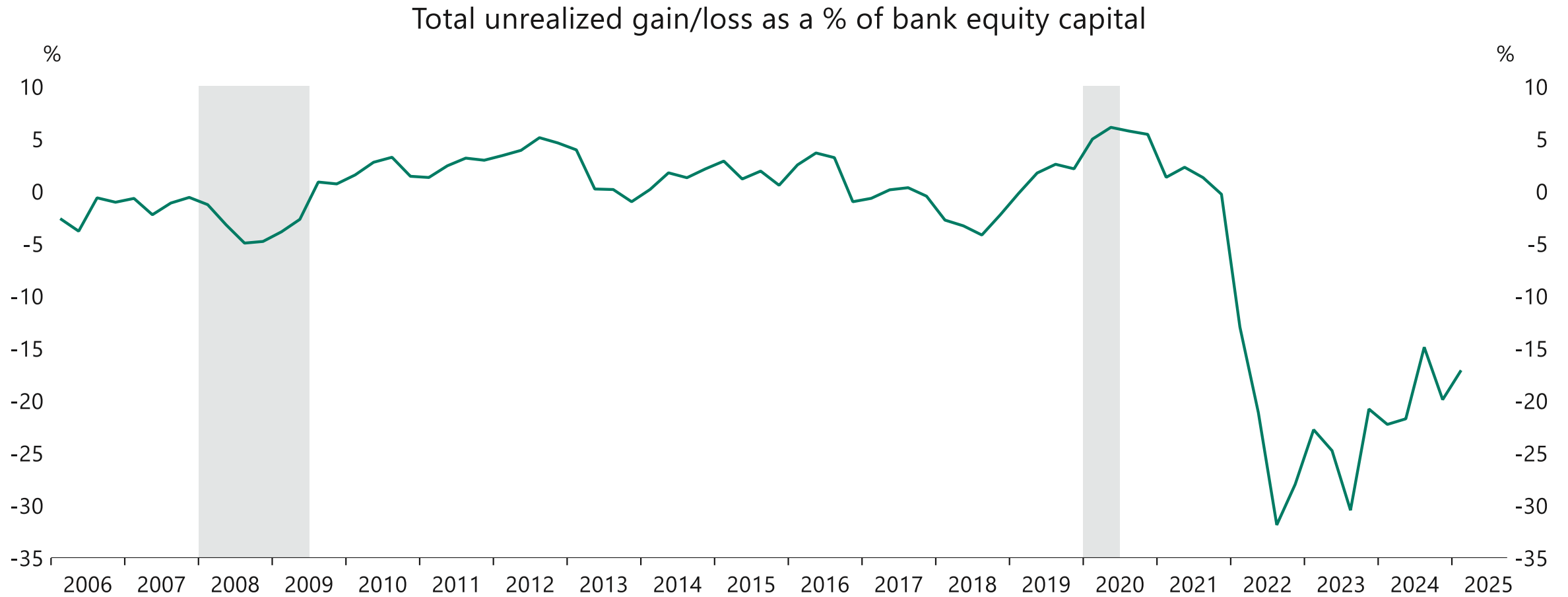
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Banks: Unrealized losses on investment securities



Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist

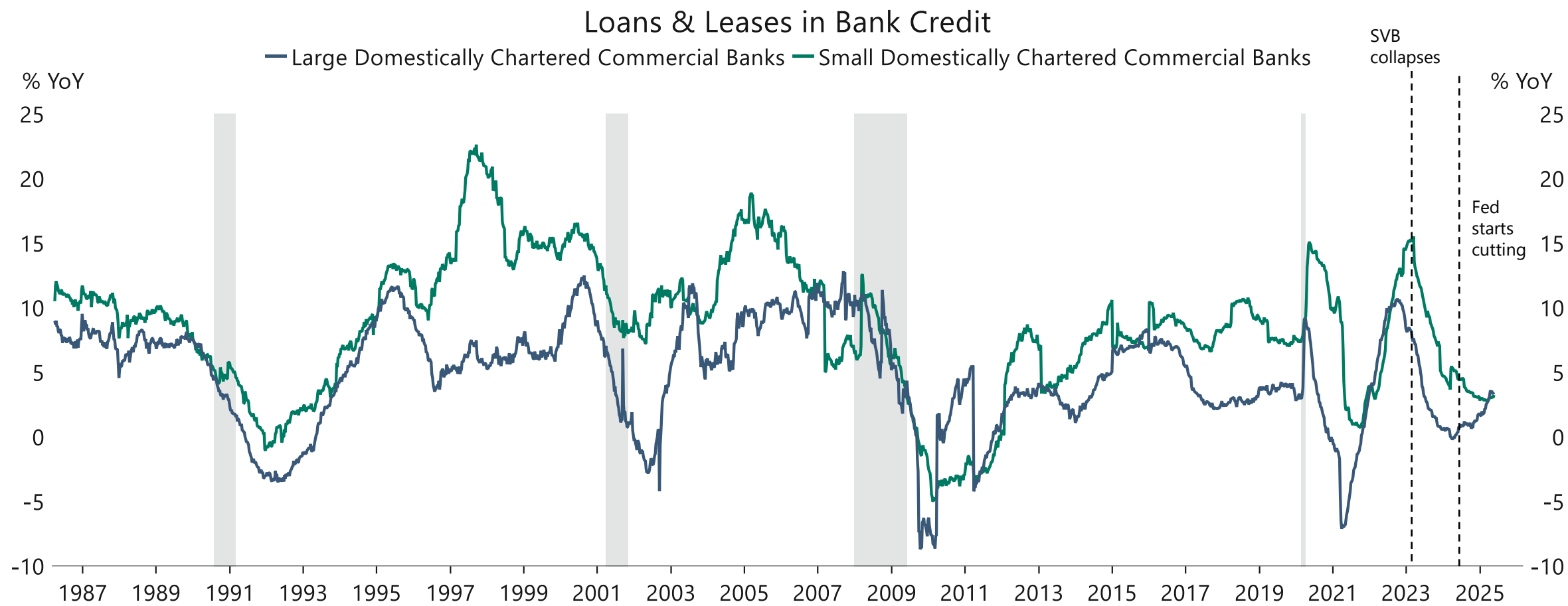
Unrealized losses making up 15% of bank equity capital



Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist

Weekly data for banking sector credit growth

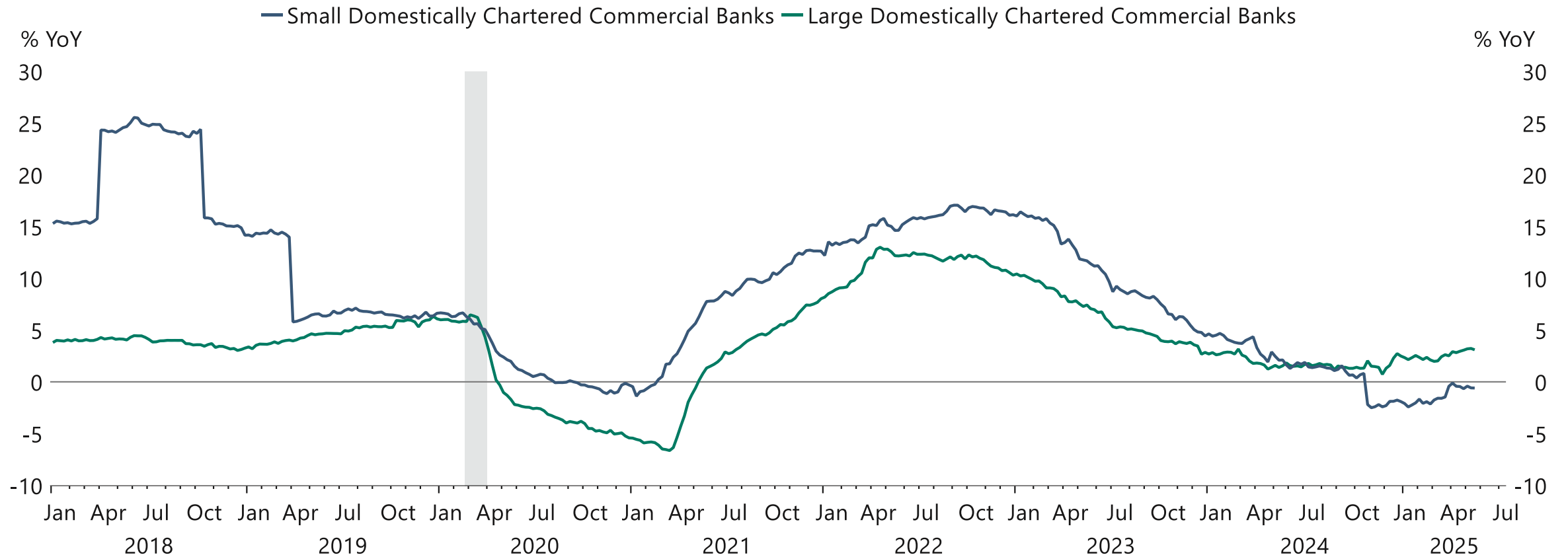
Large banks driving rise in loan growth



Source: Federal Reserve, Macrobond, Apollo Chief Economist

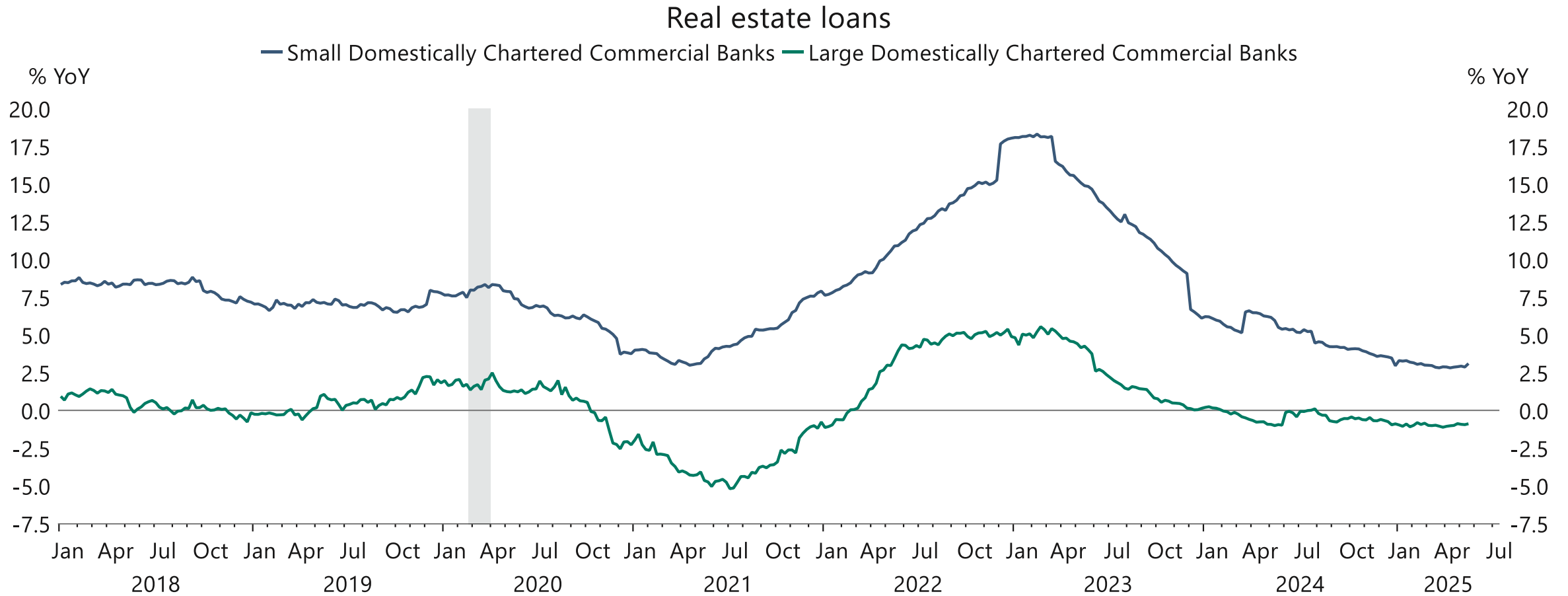
Lending to consumers is slowing for small banks, and growing for large banks

Consumer loans



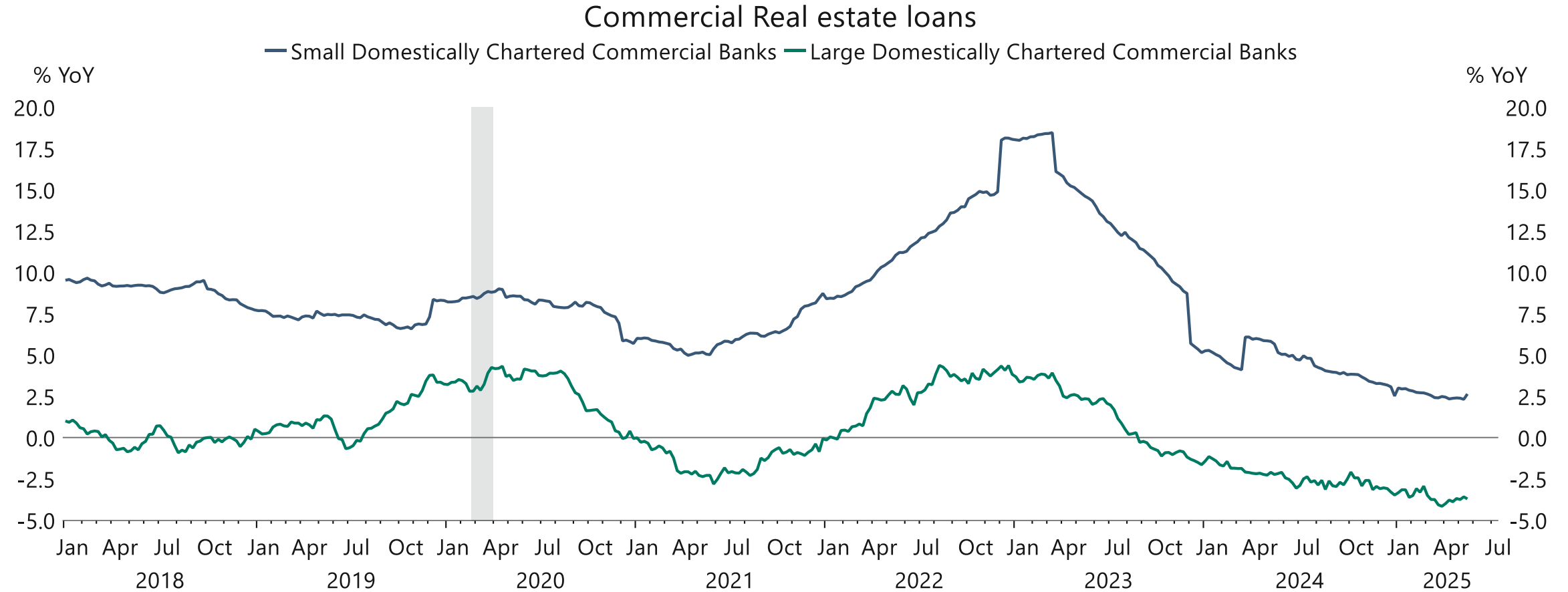
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Real estate lending is slowing for both small and large banks



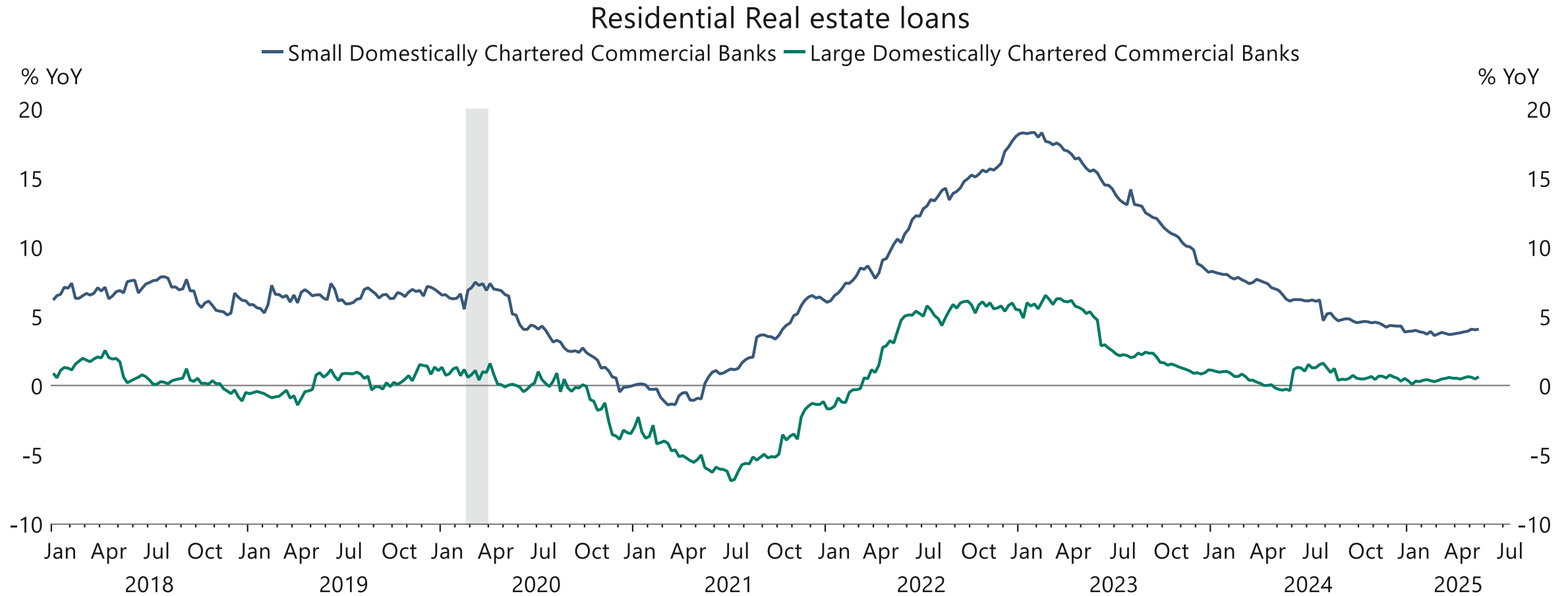
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Commercial real estate lending is growing for small banks

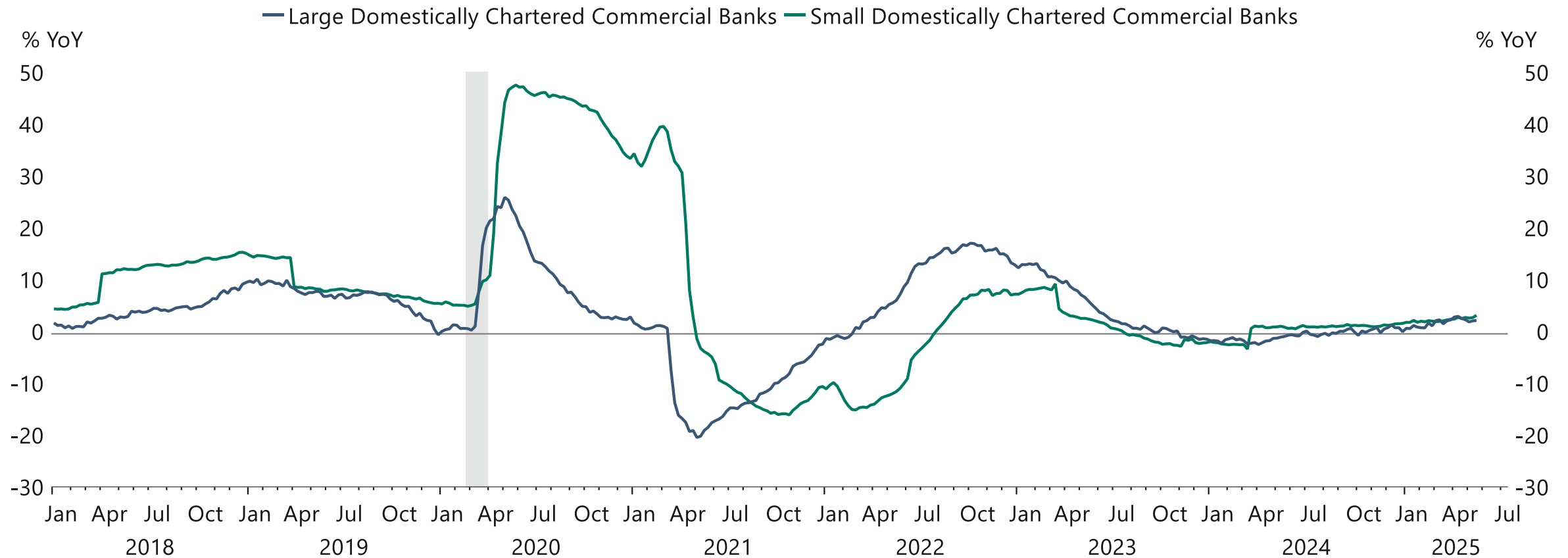


Source: Federal Reserve, Macrobond, Apollo Chief Economist

Residential real estate lending is growing for large banks



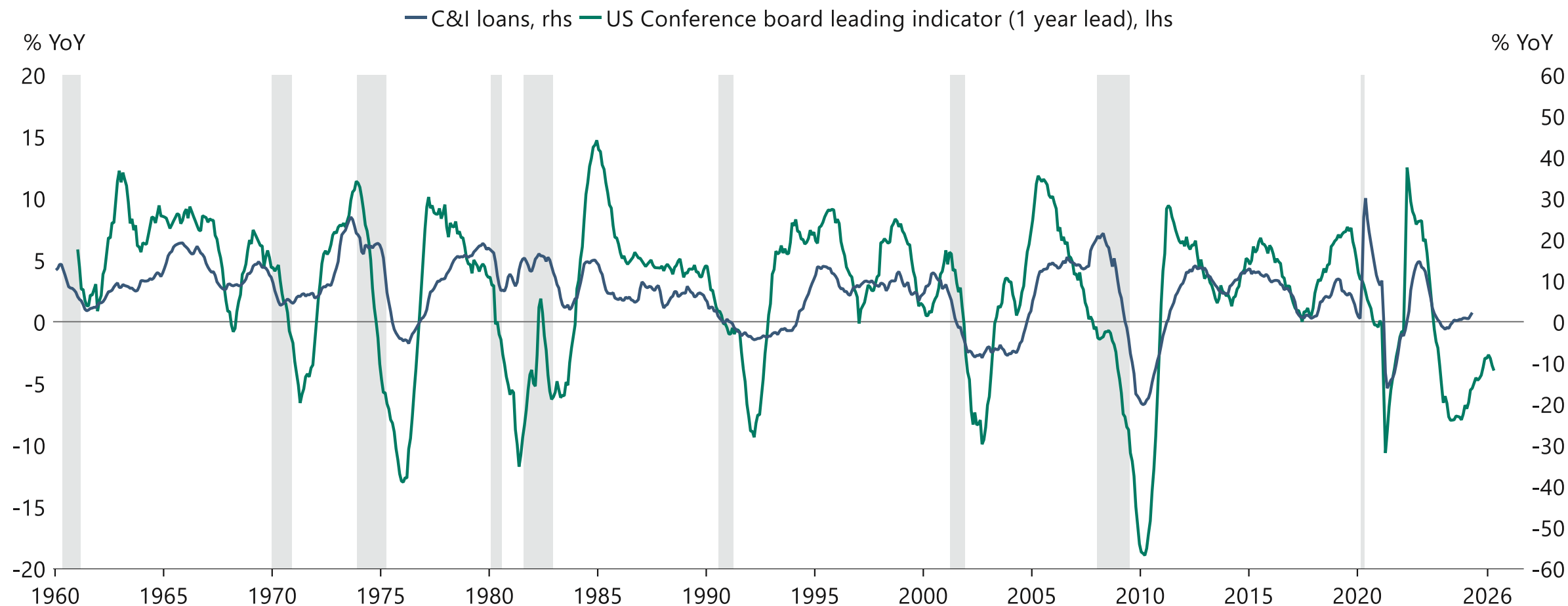
Source: Federal Reserve, Macrobond, Apollo Chief Economist



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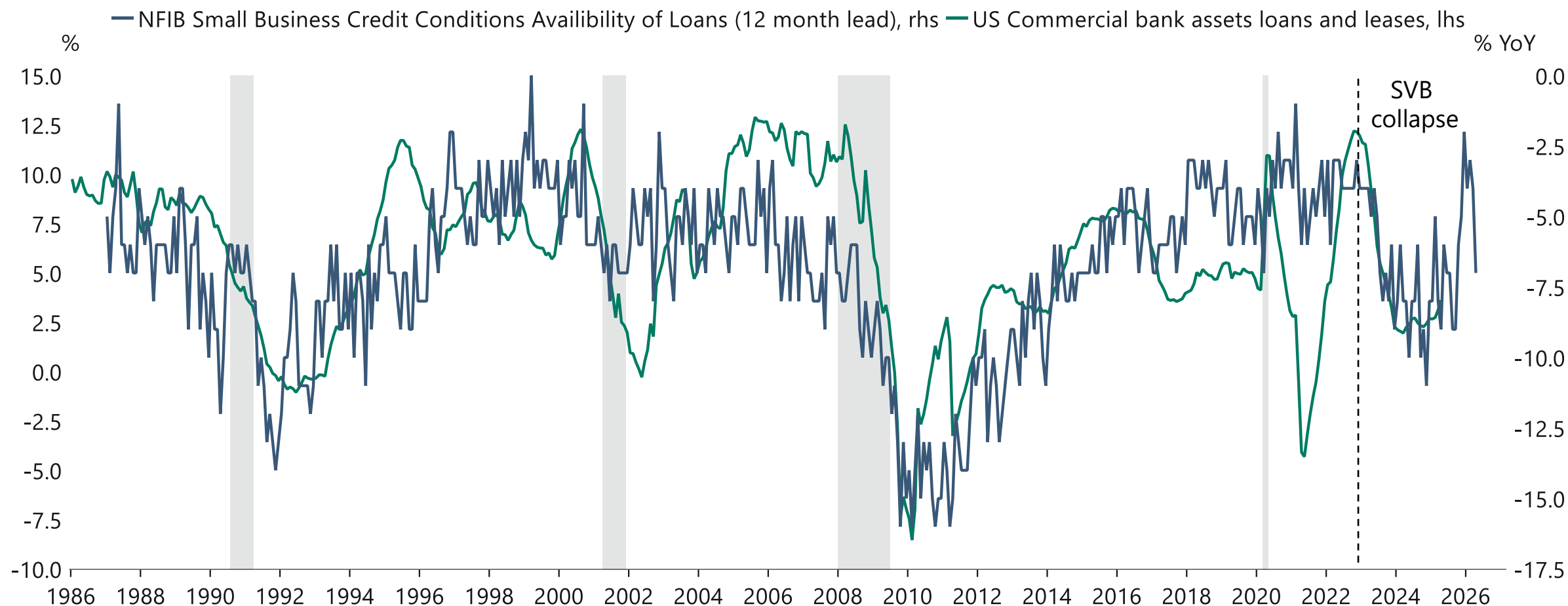
Lending standards and credit quality

Improving credit conditions should be positive for credit growth



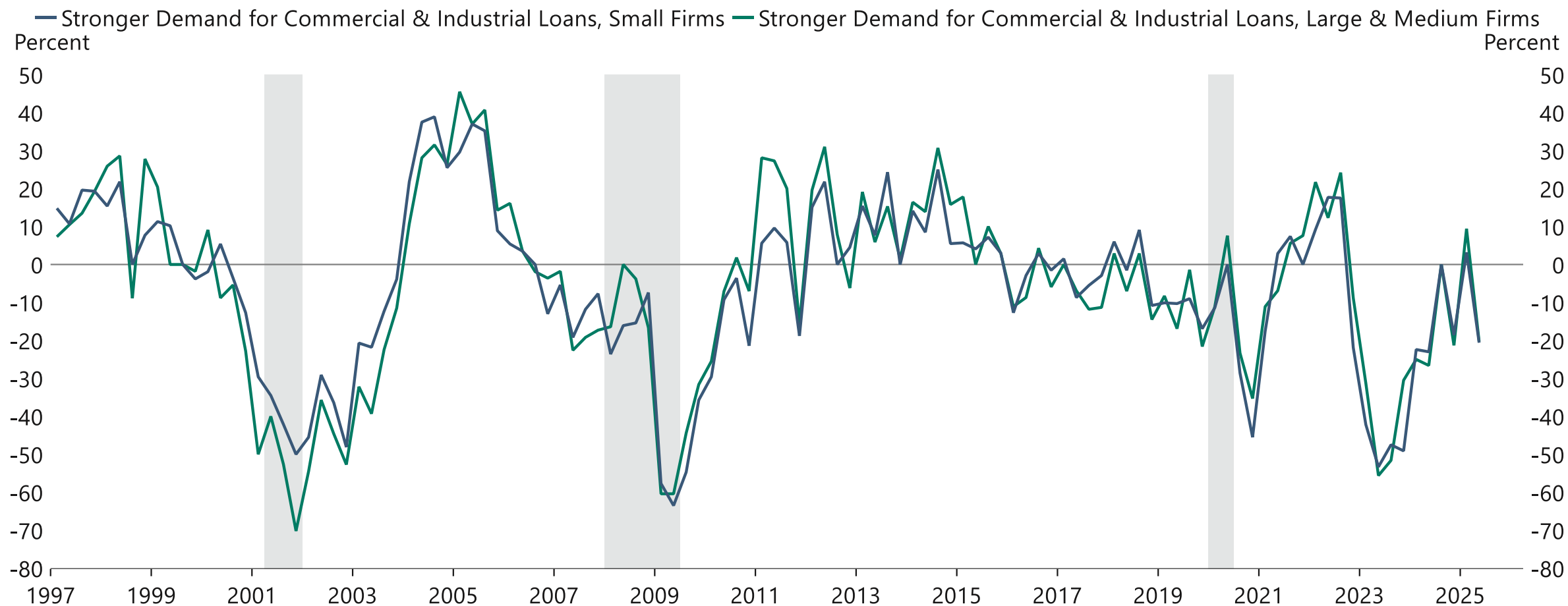
Source: Conference Board, Federal Reserve, Macrobond, Apollo Chief Economist

Signs of bottom in credit conditions



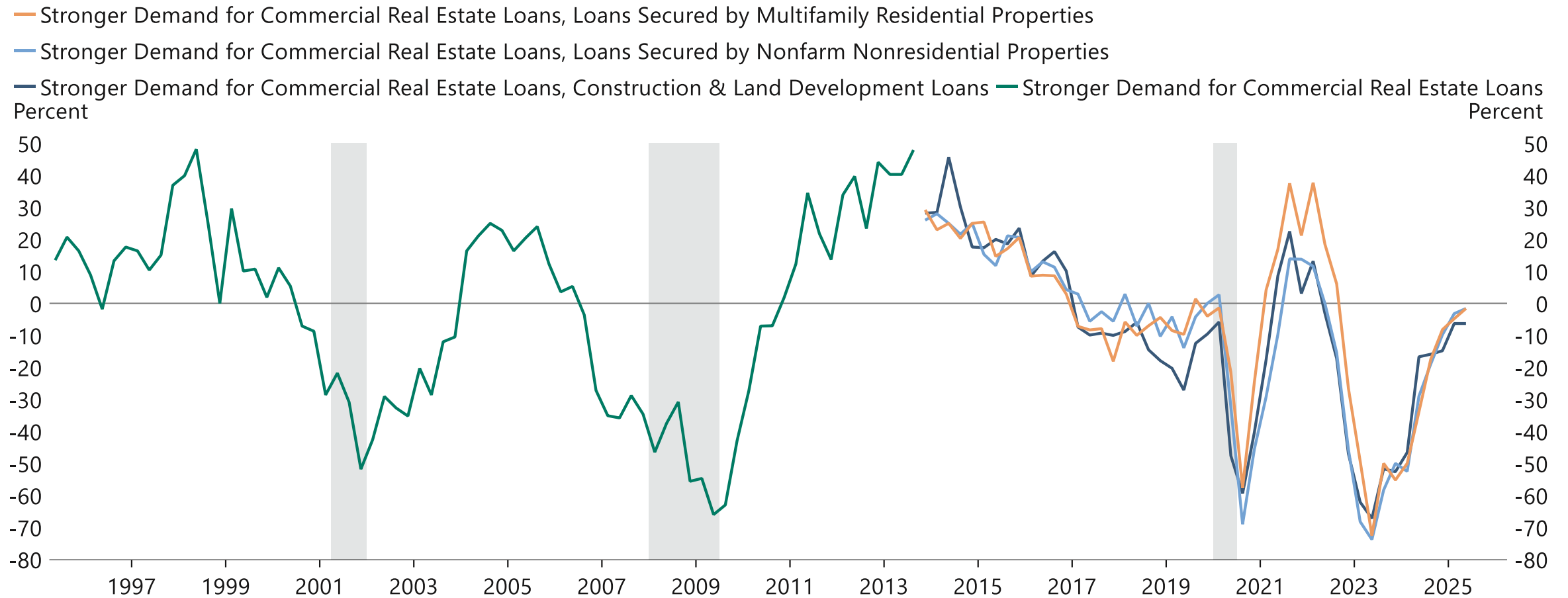
Source: Federal Reserve, National Federation of Independent Business, Macrobond, Apollo Chief Economist

Demand for corporate loans



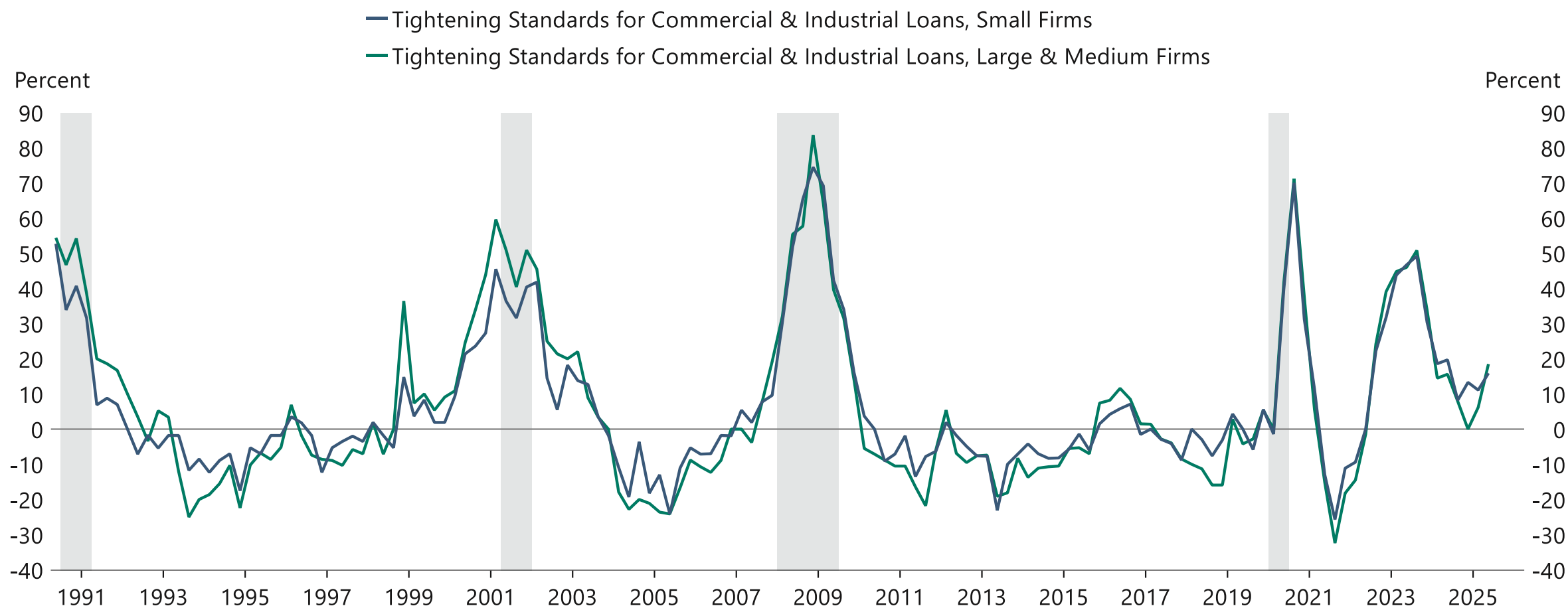
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Demand for commercial real estate loans improving



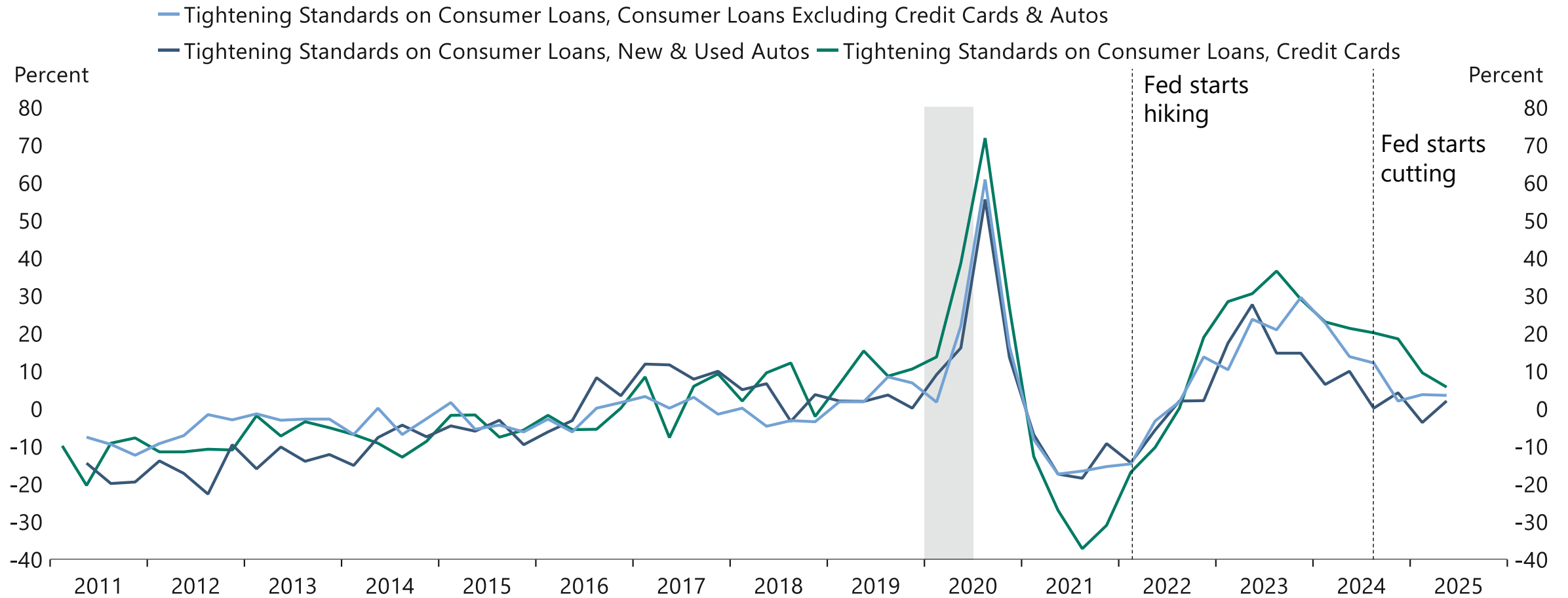
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Lending standards improving



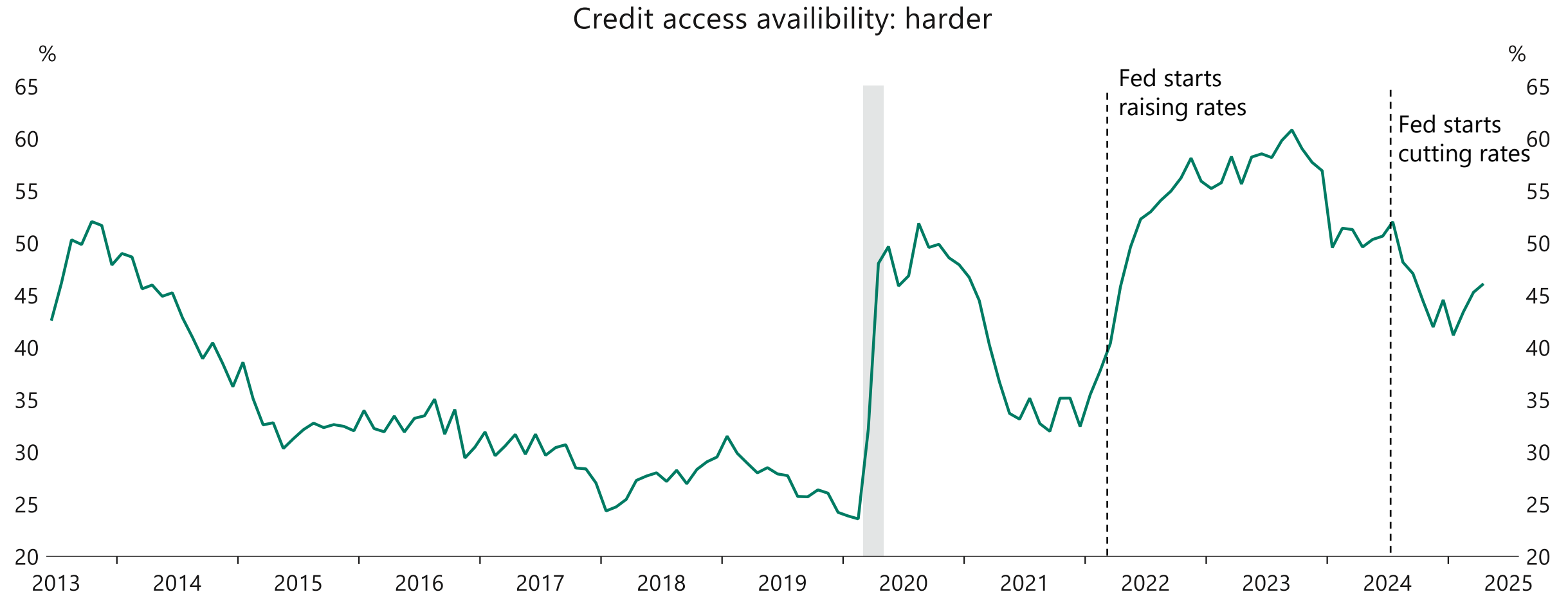
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Lending standards for consumers starting to improve



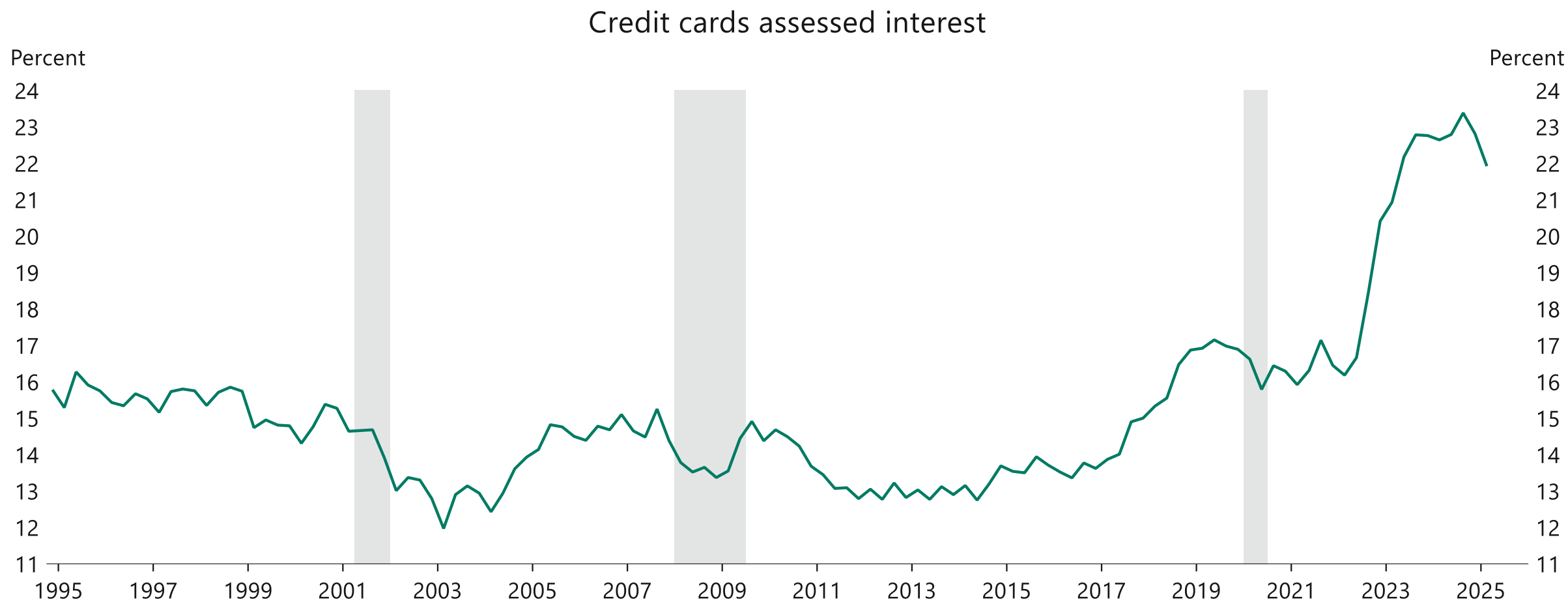
Source: Federal Reserve, Macrobond, Apollo Chief Economist

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



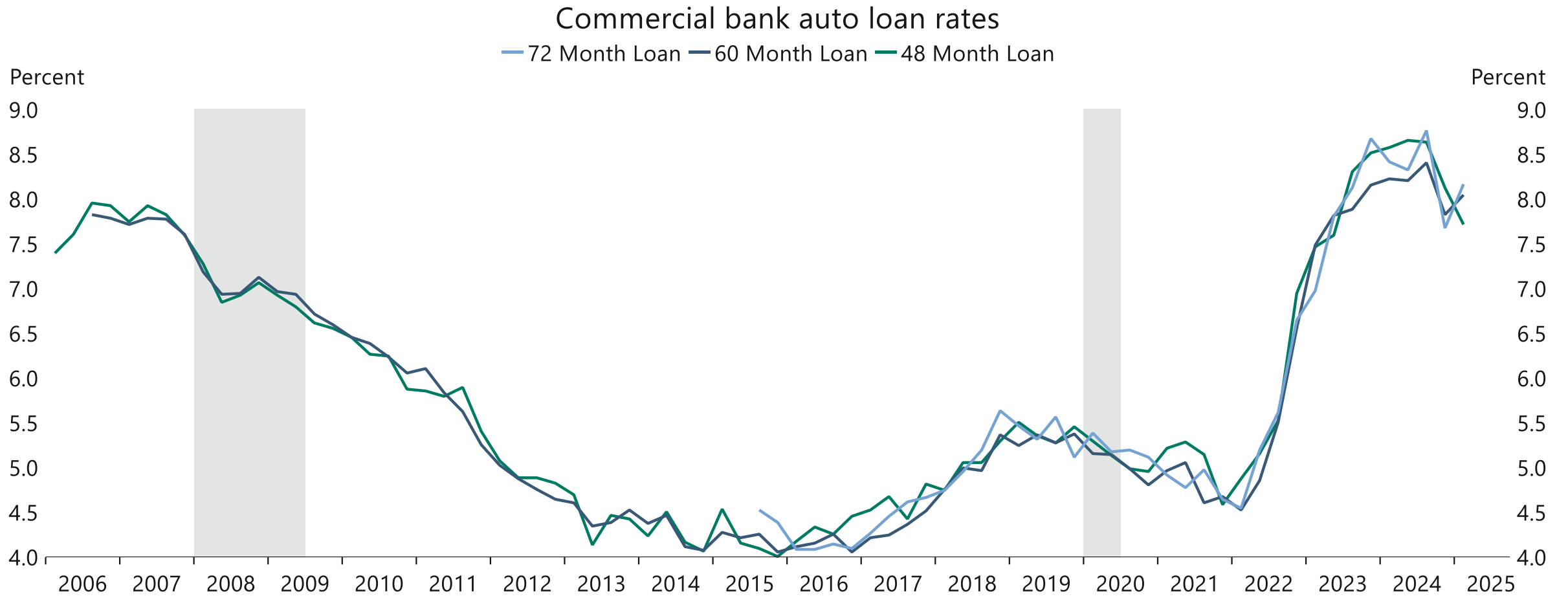
Source: Federal Reserve Bank of New York, Macrobond, Apollo Chief Economist. Note: Harder = much harder + somewhat harder

Interest rate on credit cards



Source: Federal Reserve, Macrobond, Apollo Chief Economist

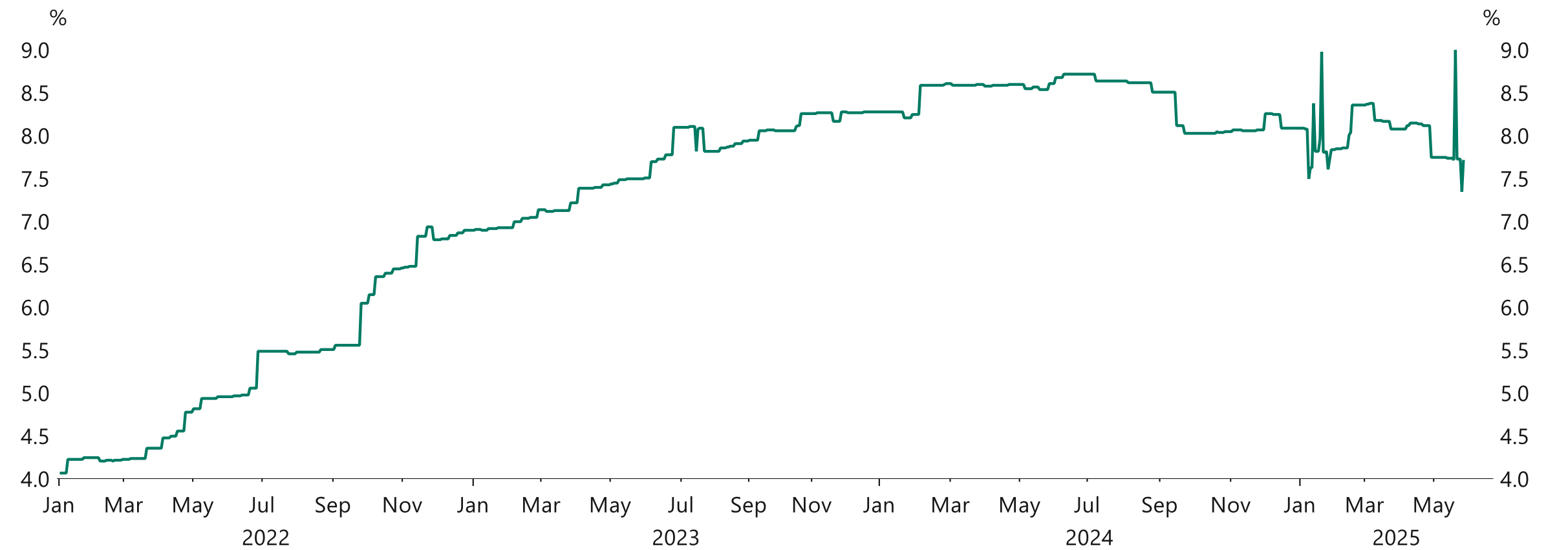
Commercial bank auto loan interest rates highest since 2008



Source: Federal Reserve, Macrobond, Apollo Chief Economist

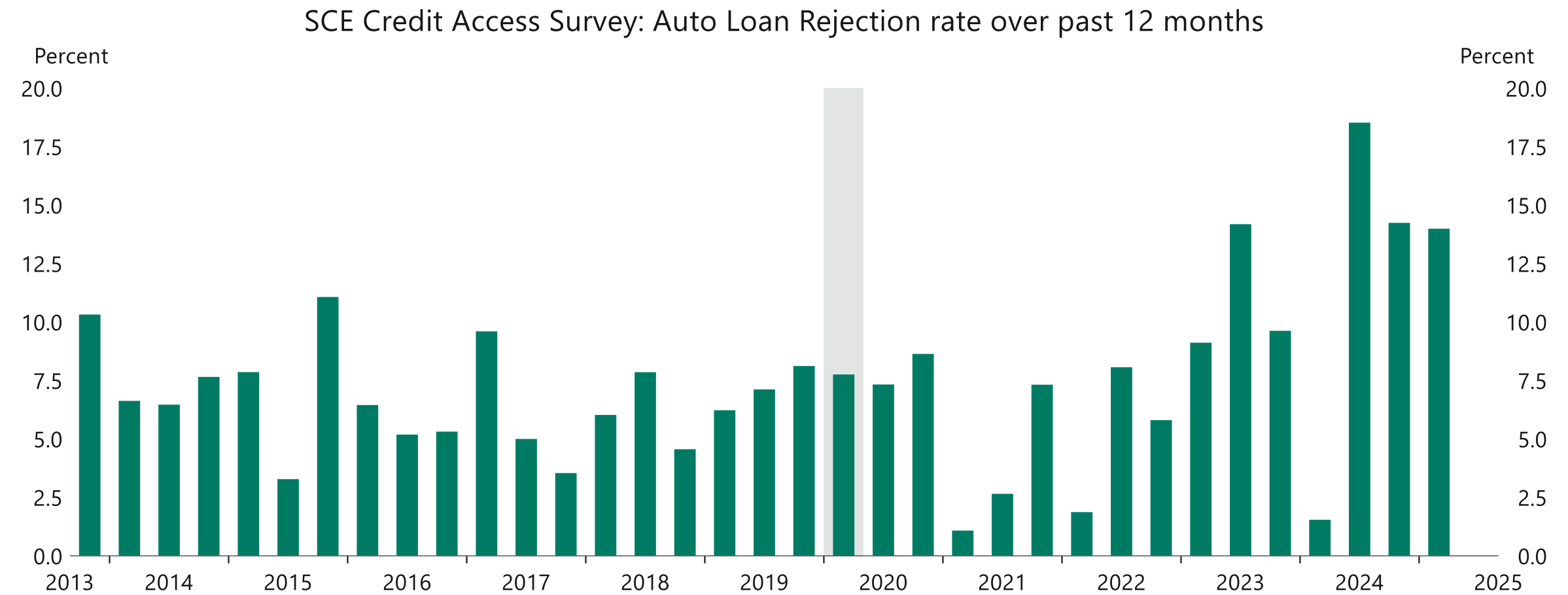
Interest rate on auto loans

US Used Auto Rate National Average



Source: Bankrate.com, Bloomberg, Macrobond, Apollo Chief Economist

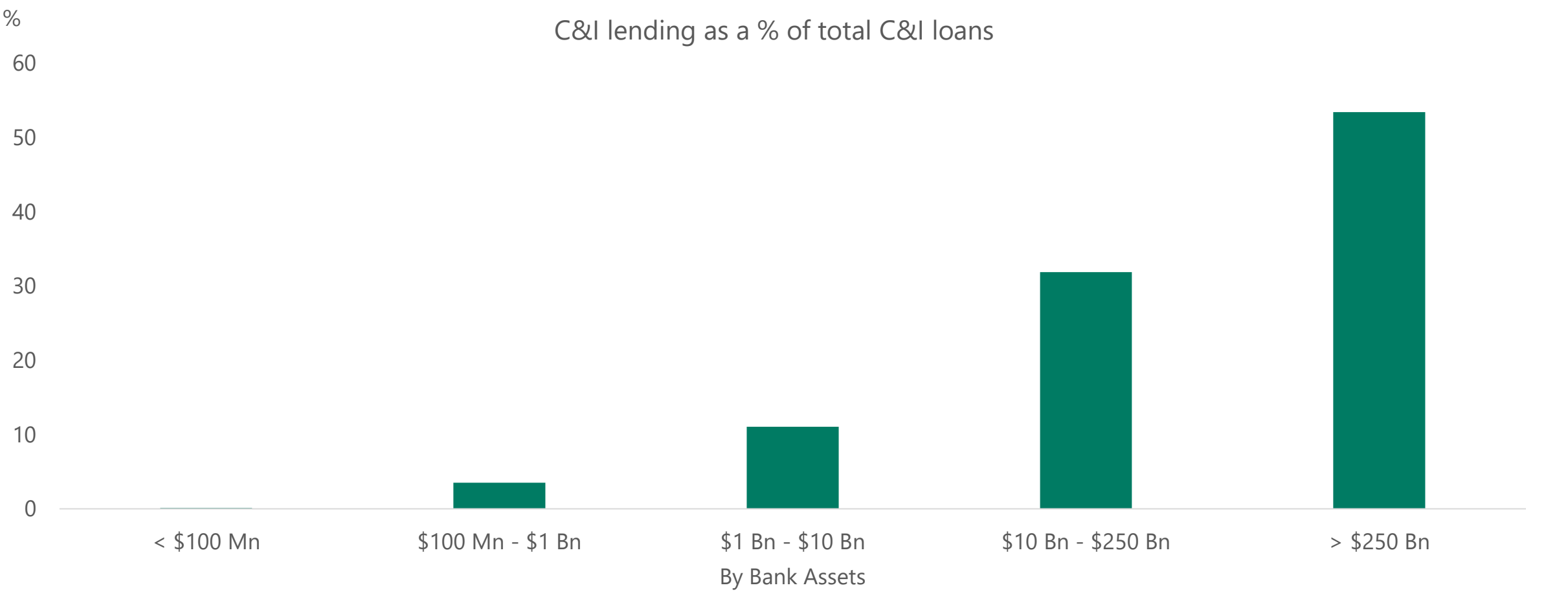
Auto loan rejection rate over the past 12 months



Source: Federal Reserve Bank of New York, Macrobond, Apollo Chief Economist

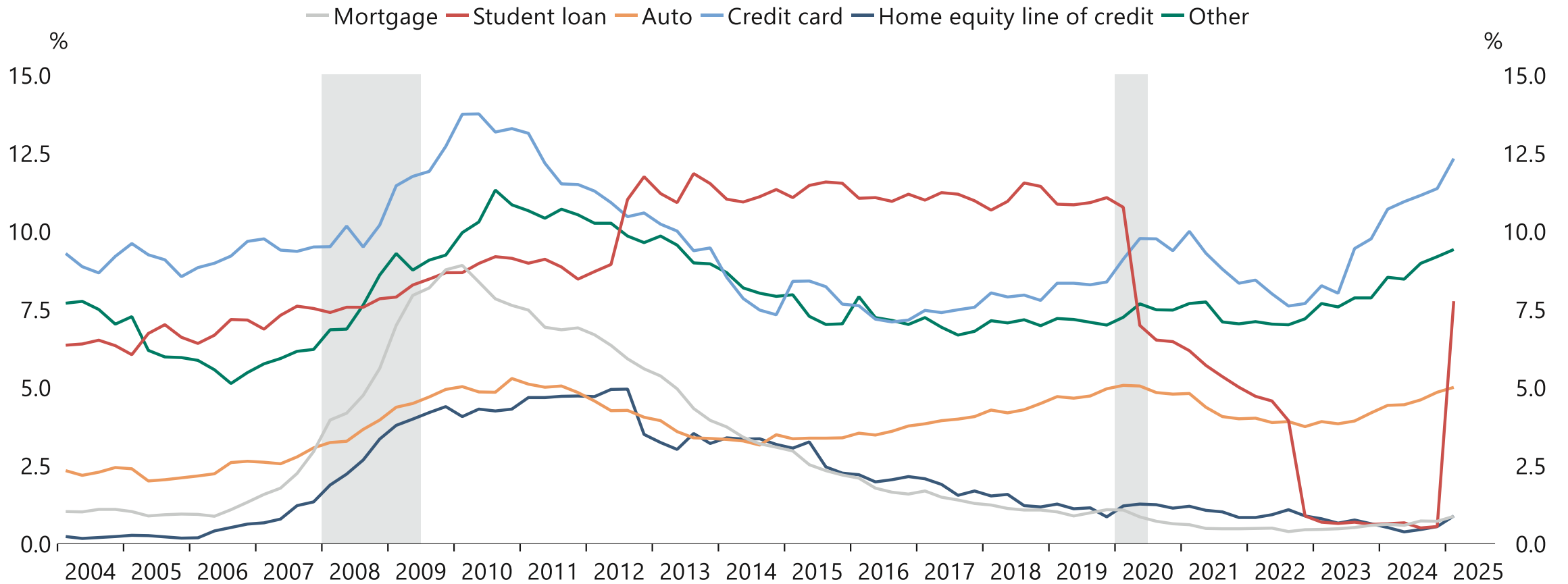
Small banks lend to small businesses

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



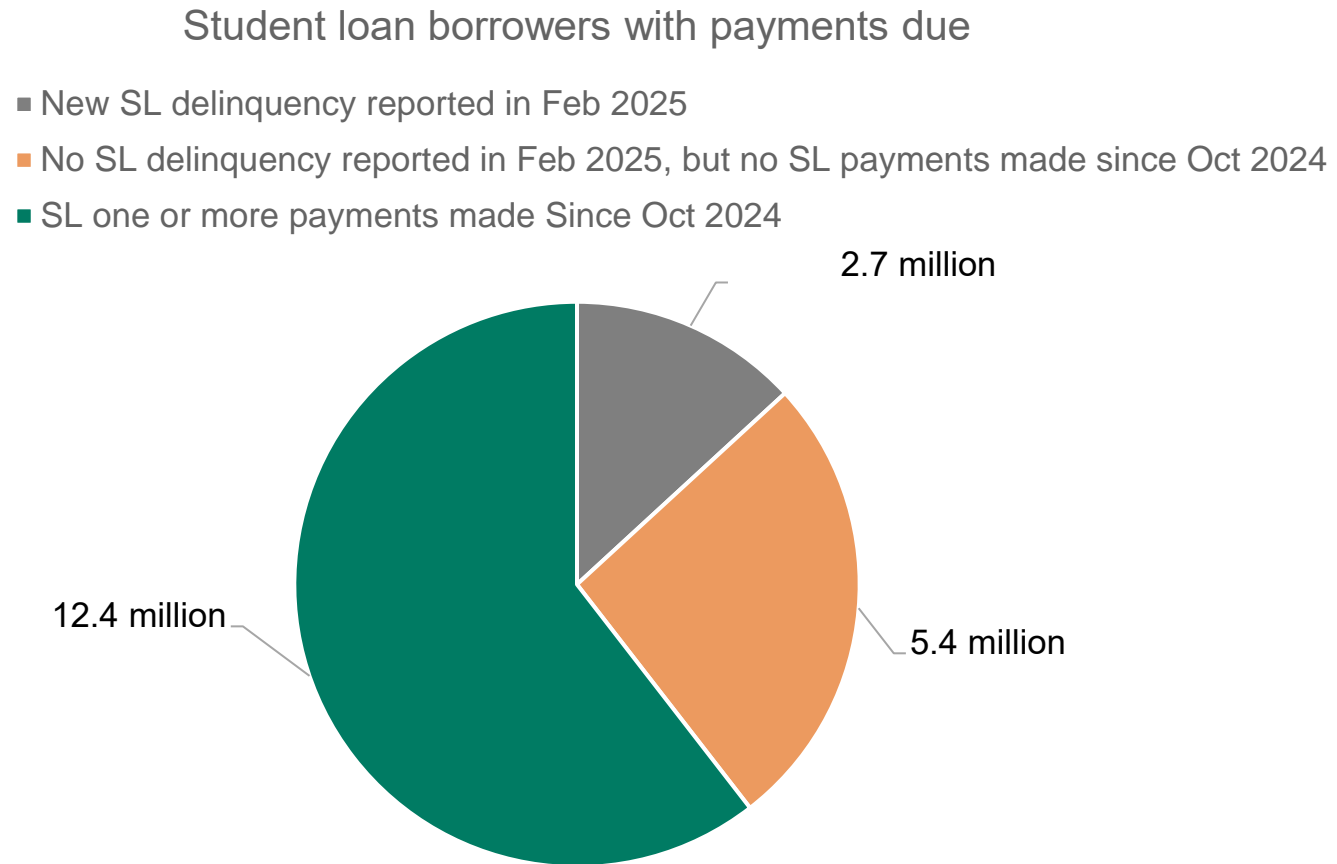
The pause on reporting delinquent federal student loans has ended

Percent of balance 90+ days delinquent



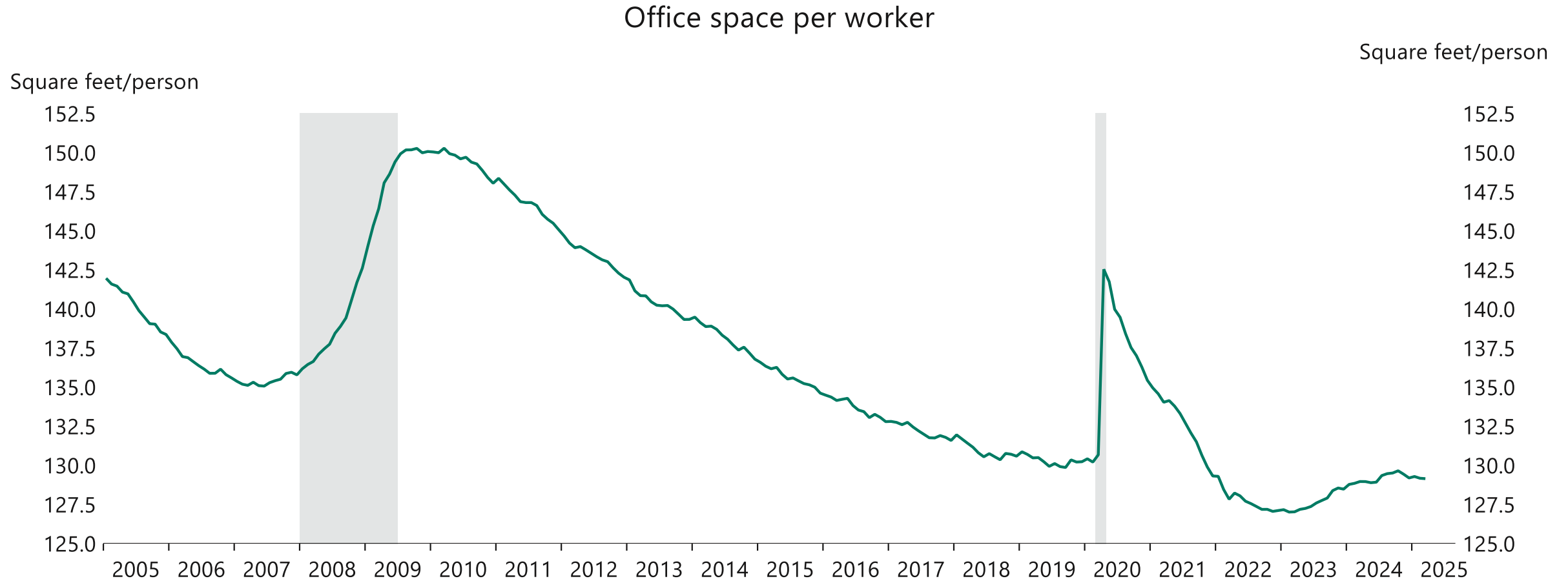
Source: Federal Reserve Bank of New York, Macrobond, Apollo Chief Economist

Student loan delinquencies are rising



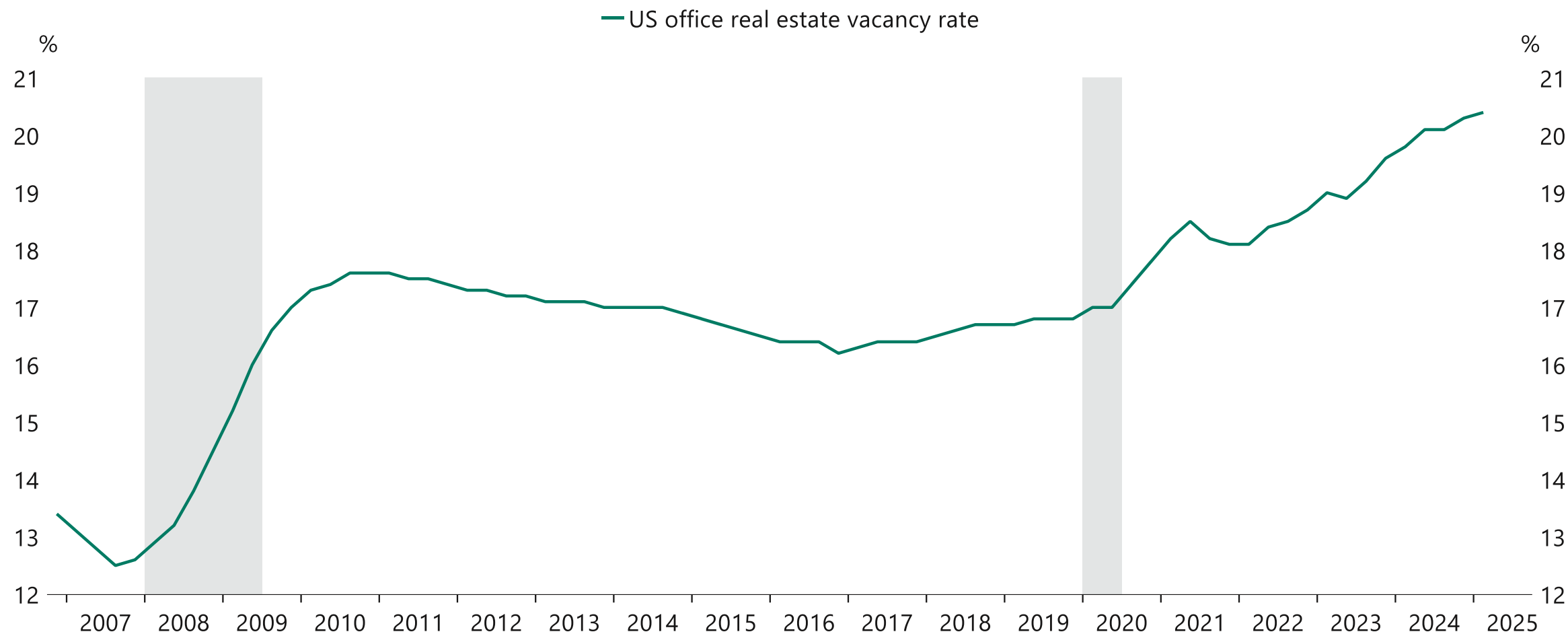
The importance of CRE for banking sector balance sheets

The amount of office space per worker declining



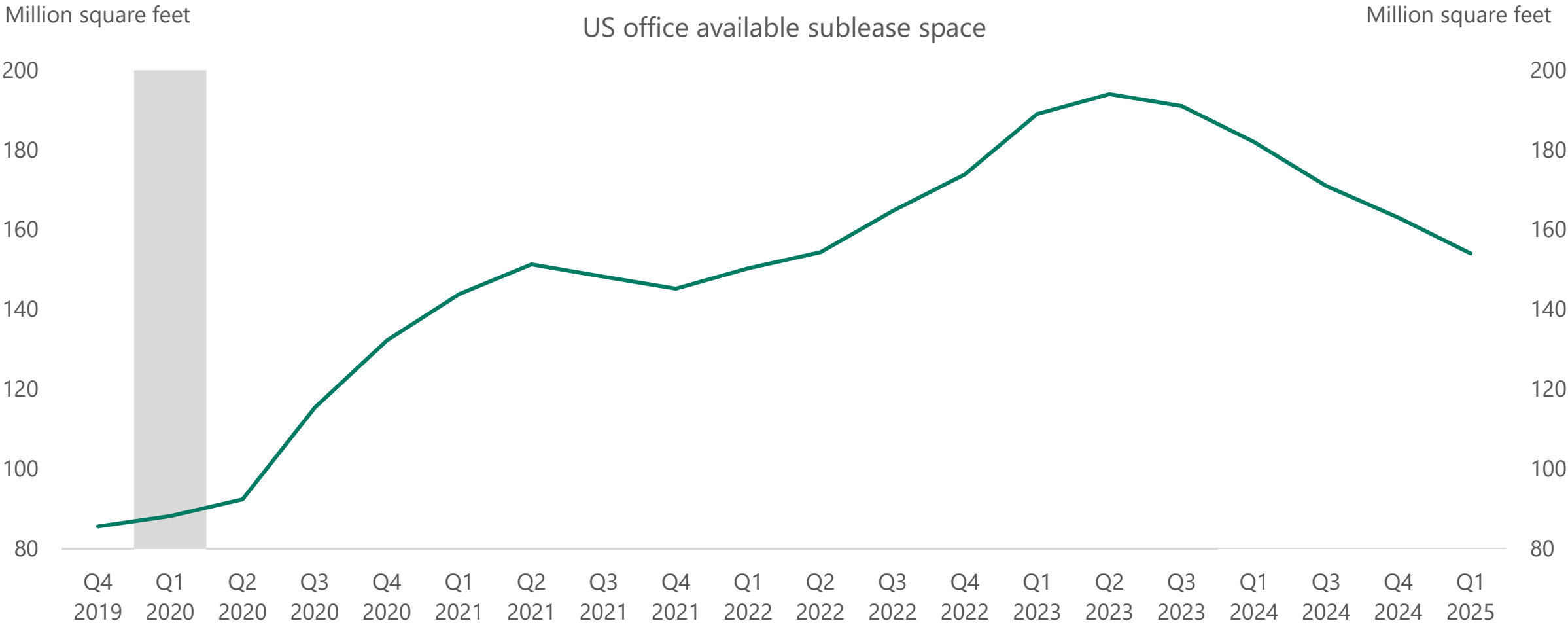
Source: REITS, BLS, Bloomberg, Apollo Chief Economist (Note: Office using employment includes professional and business services, Information and Financial activities)

US: Office vacancy rate at 20%



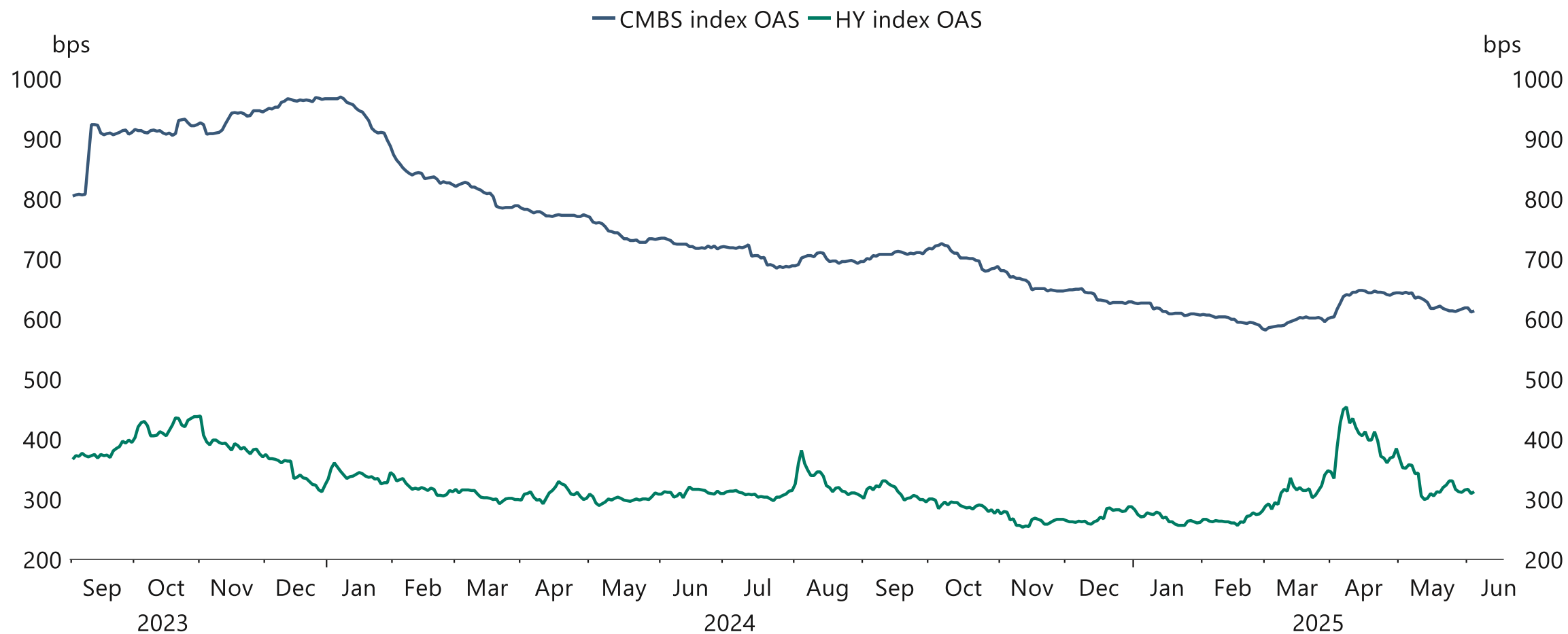
Source: REIS Data, Bloomberg, Macrobond, Apollo Chief Economist

Available US office space



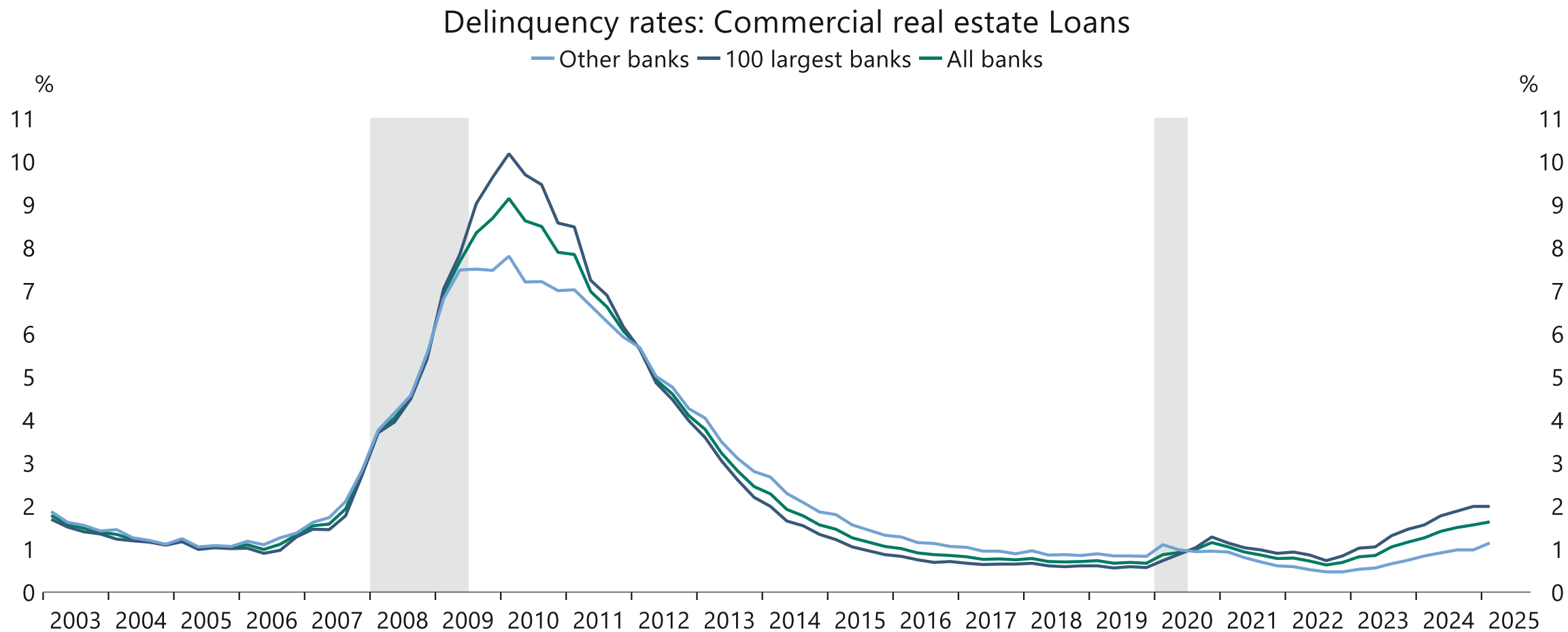
Source: CBRE, Bloomberg, Apollo Chief Economist.

CMBS spreads compared with HY spreads



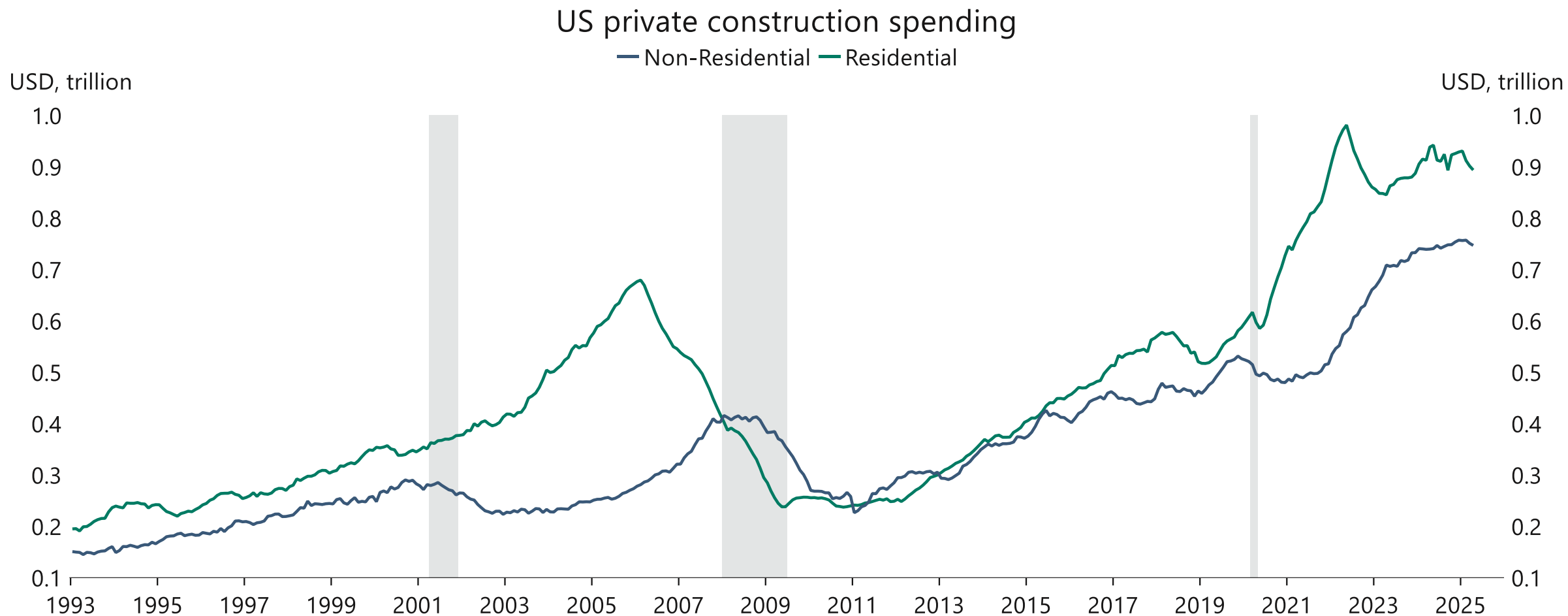
Source: Bloomberg, Macrobond, Apollo Chief Economist

CRE delinquency rate



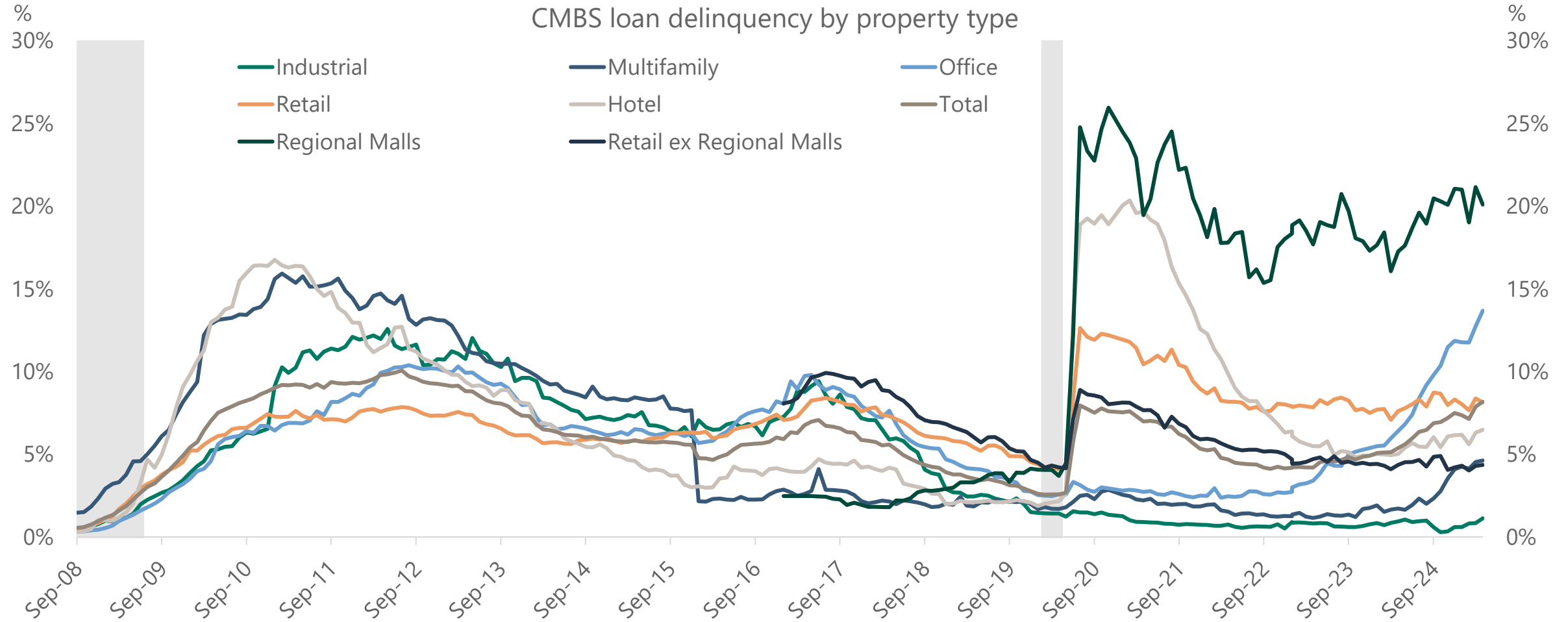
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Residential construction spending elevated

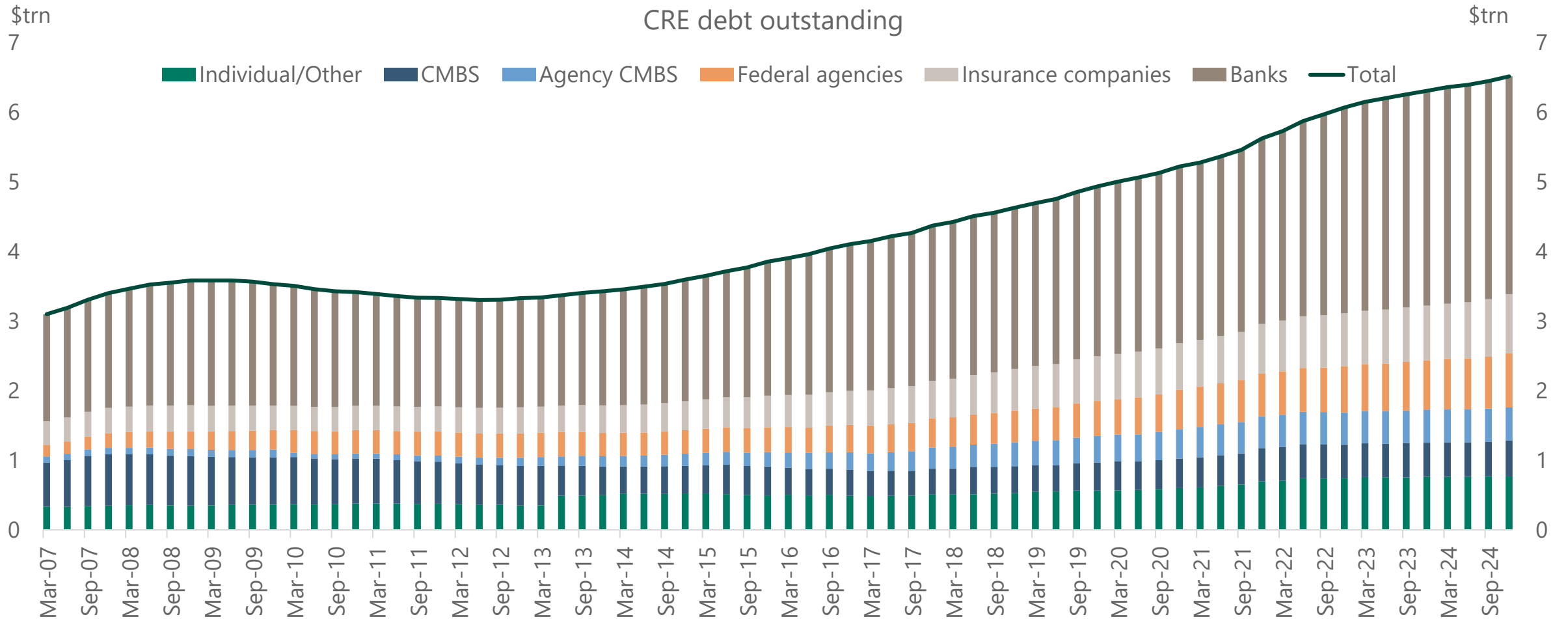


Source: U.S. Census Bureau, Macrobond, Apollo Chief Economist

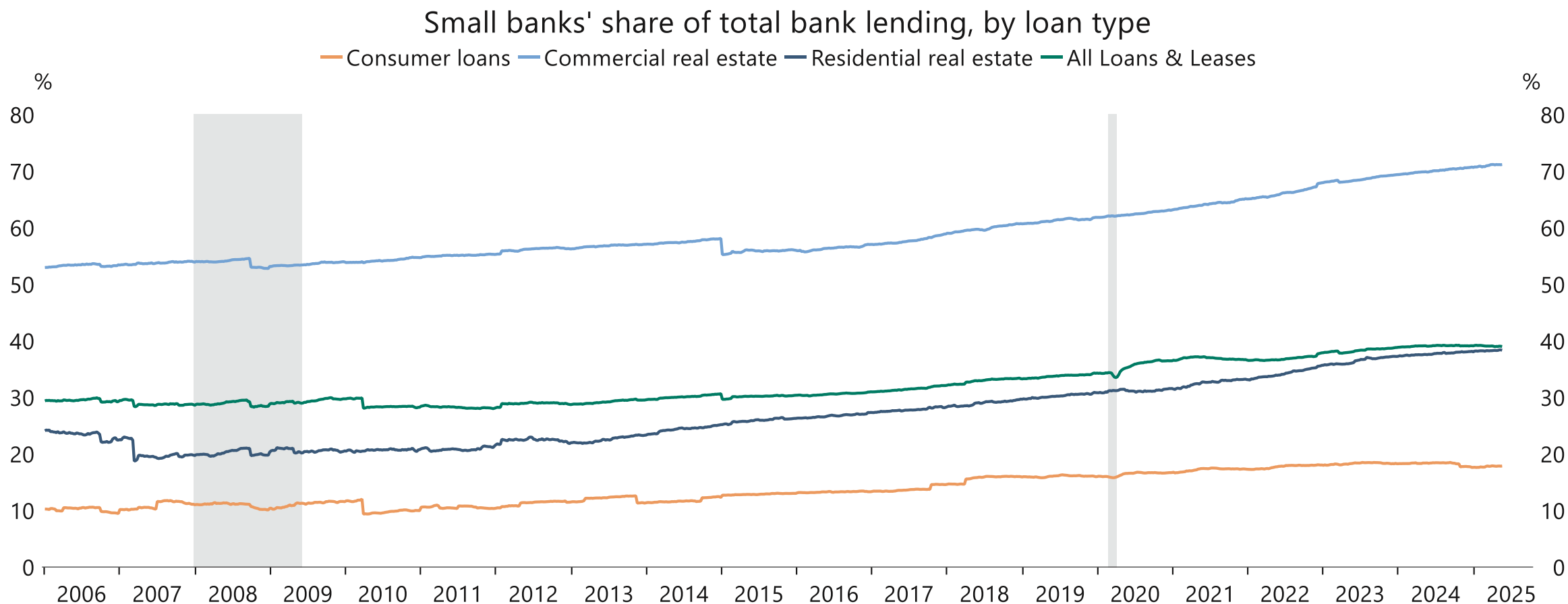
Delinquency rates rising for multifamily



Banks hold half of all CRE debt outstanding

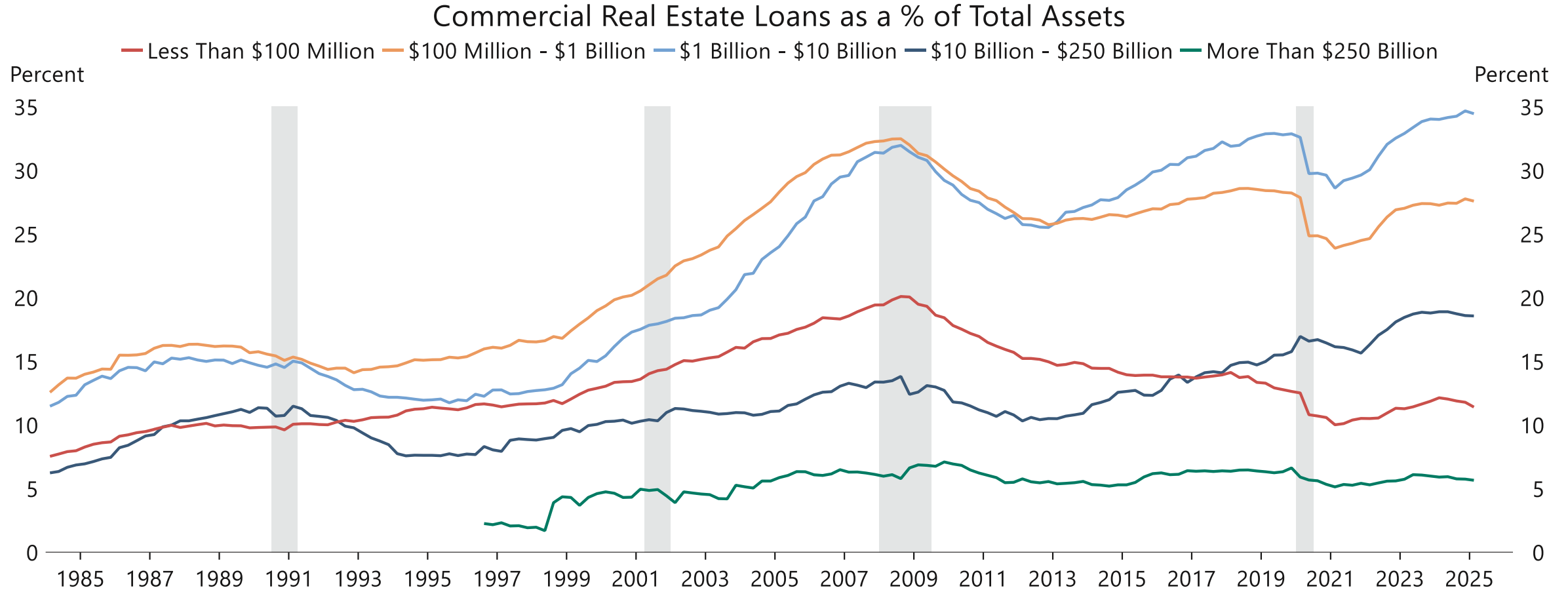


Small banks account for 70% of all bank commercial real estate loans outstanding



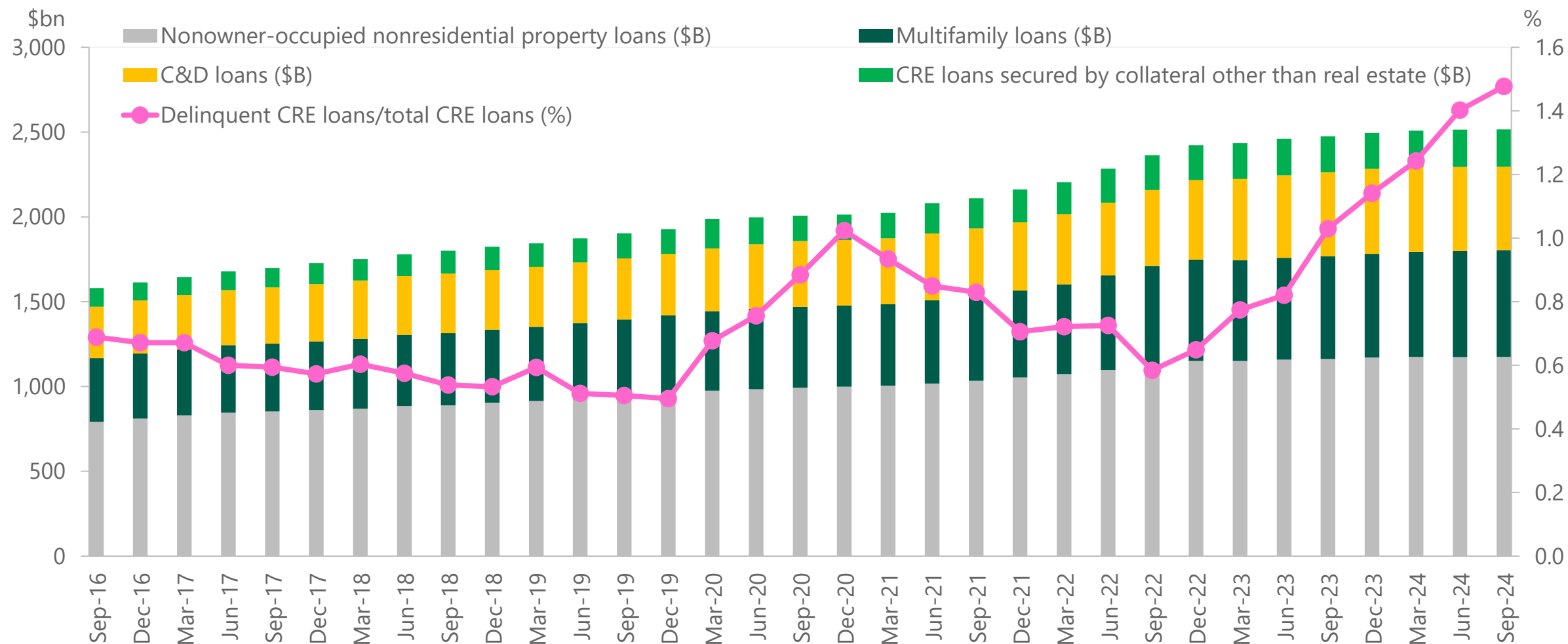
Source: Federal Reserve, Macrobond, Apollo Chief Economist

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

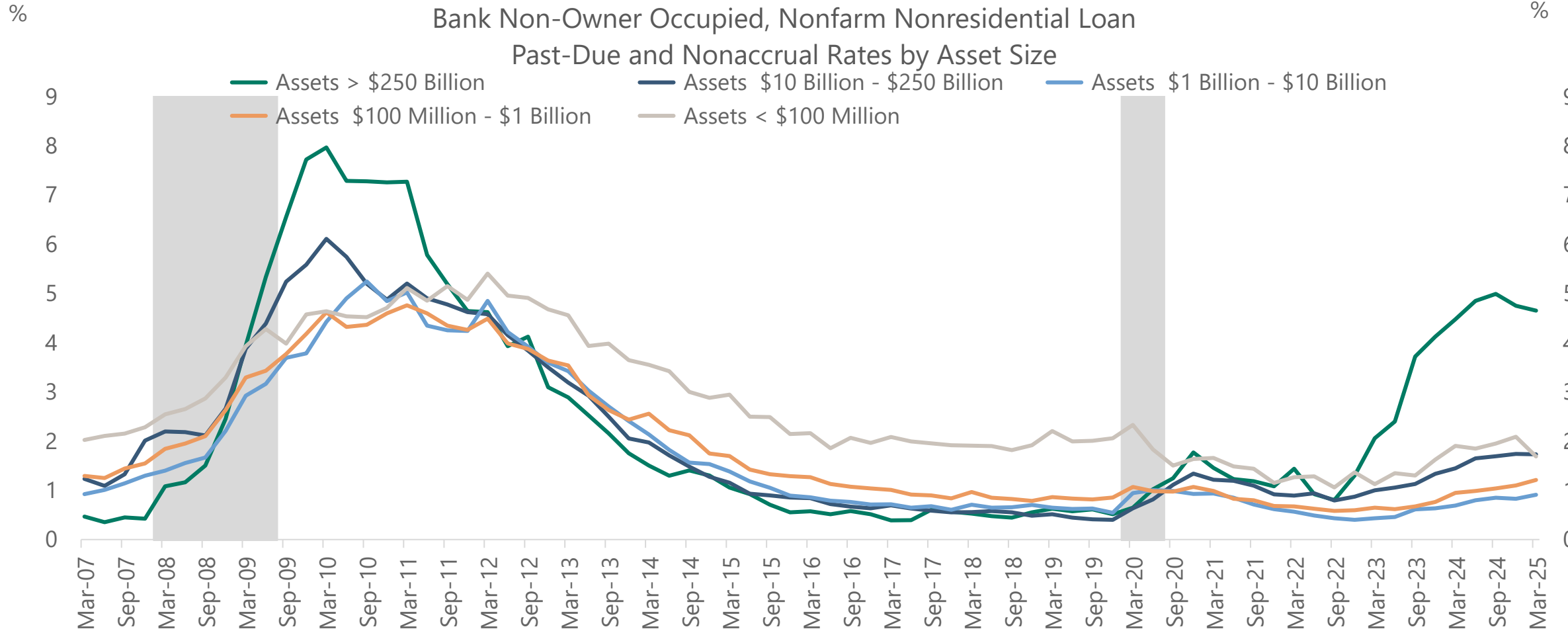


Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist

CRE composition and delinquency at US banks

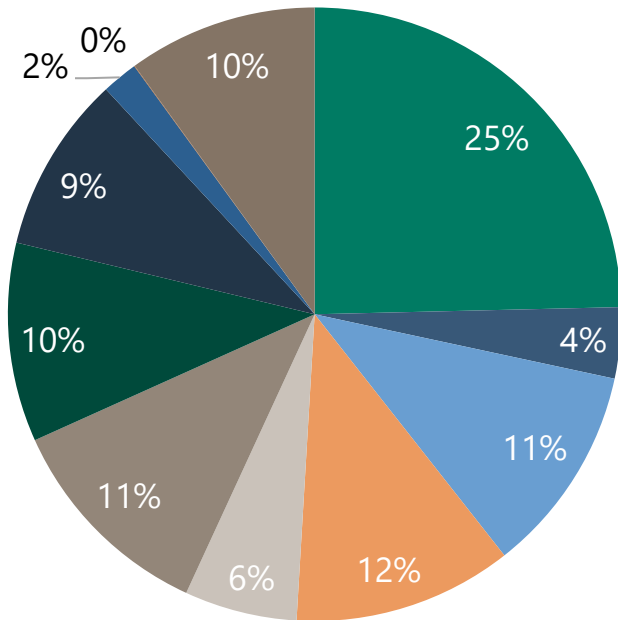


Non-owner-occupied CRE past-due



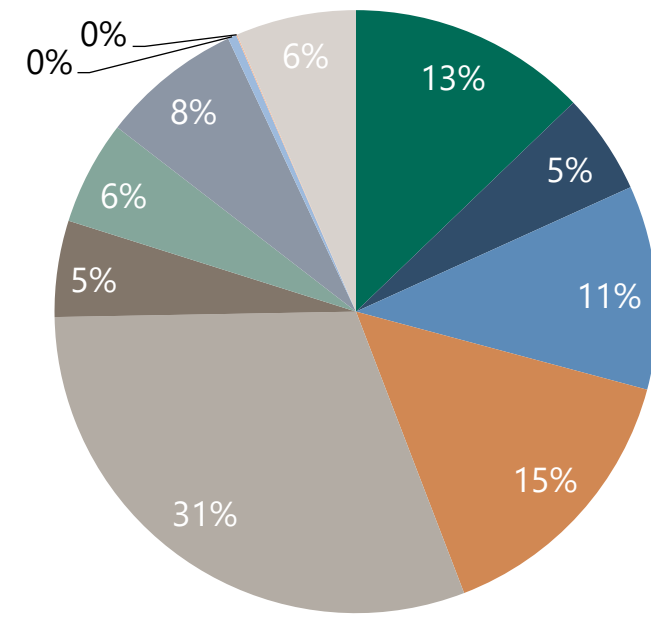
Important differences between the balance sheet of regional banks and money center banks

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



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

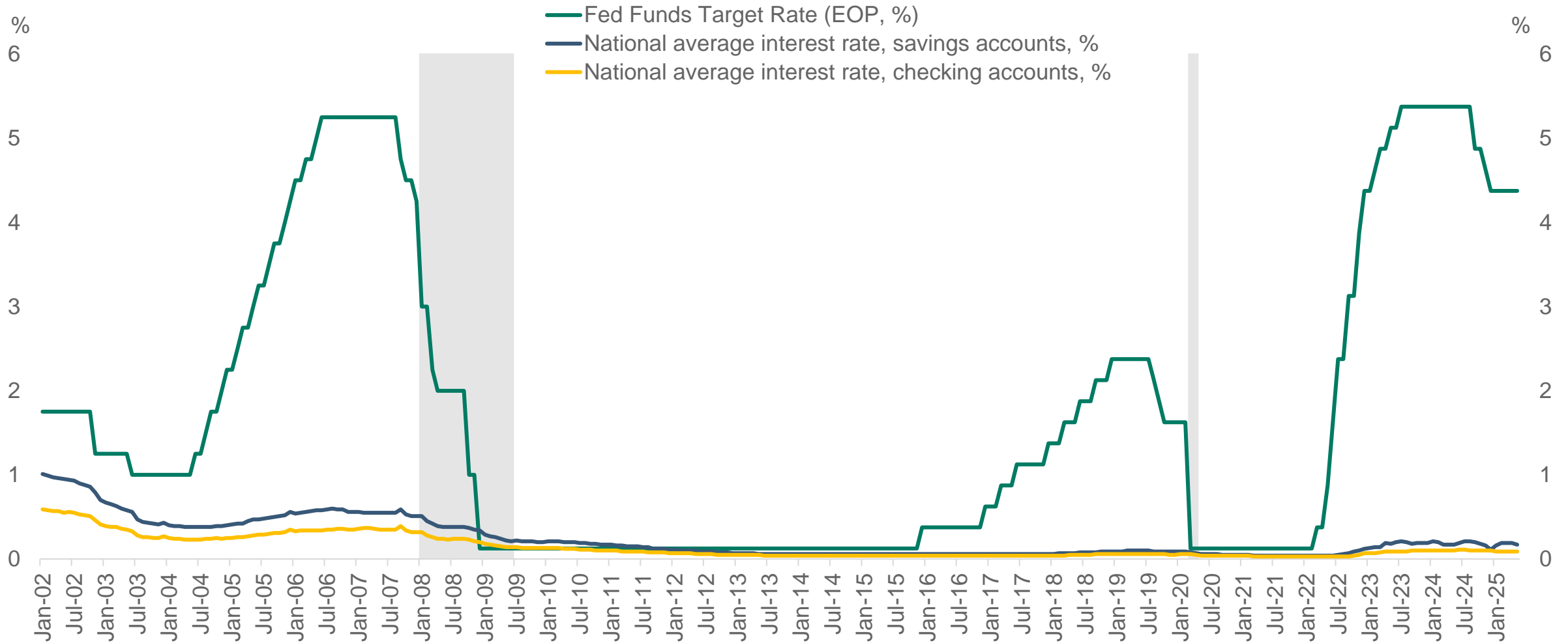
Composition of **small** domestically chartered commercial bank assets



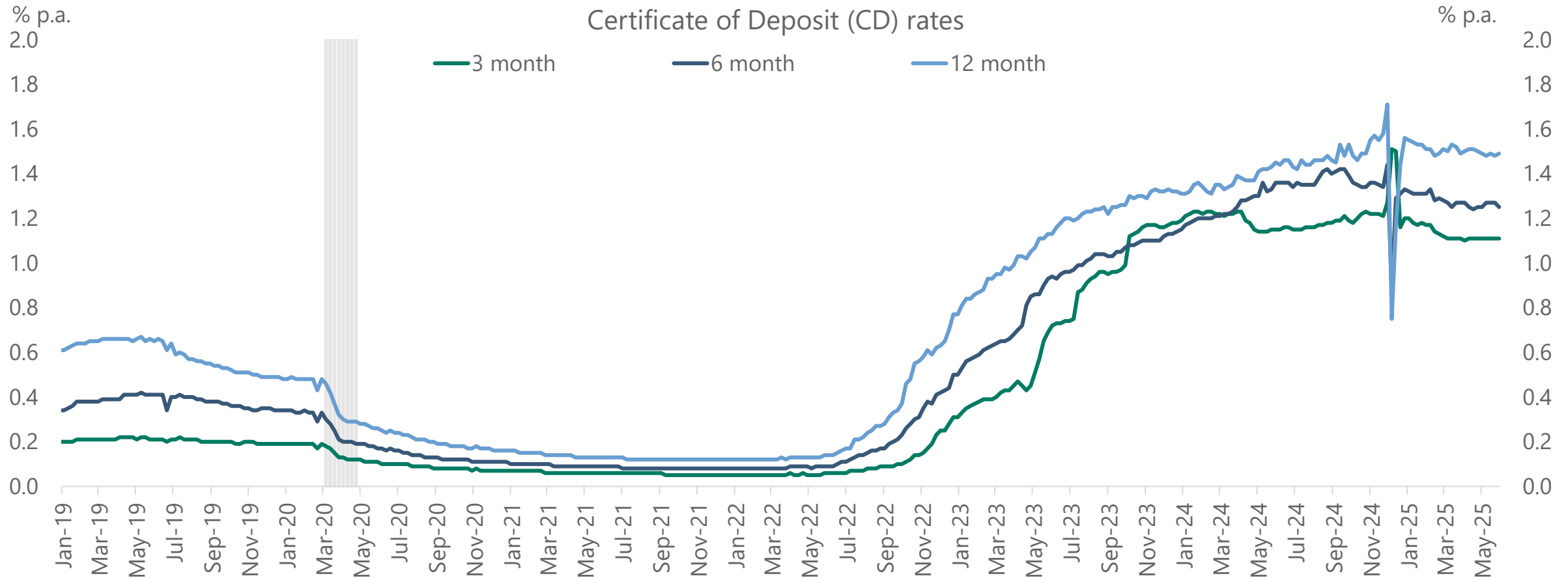
- Treasury and agency securities
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- Interbank Loans

Bank deposits

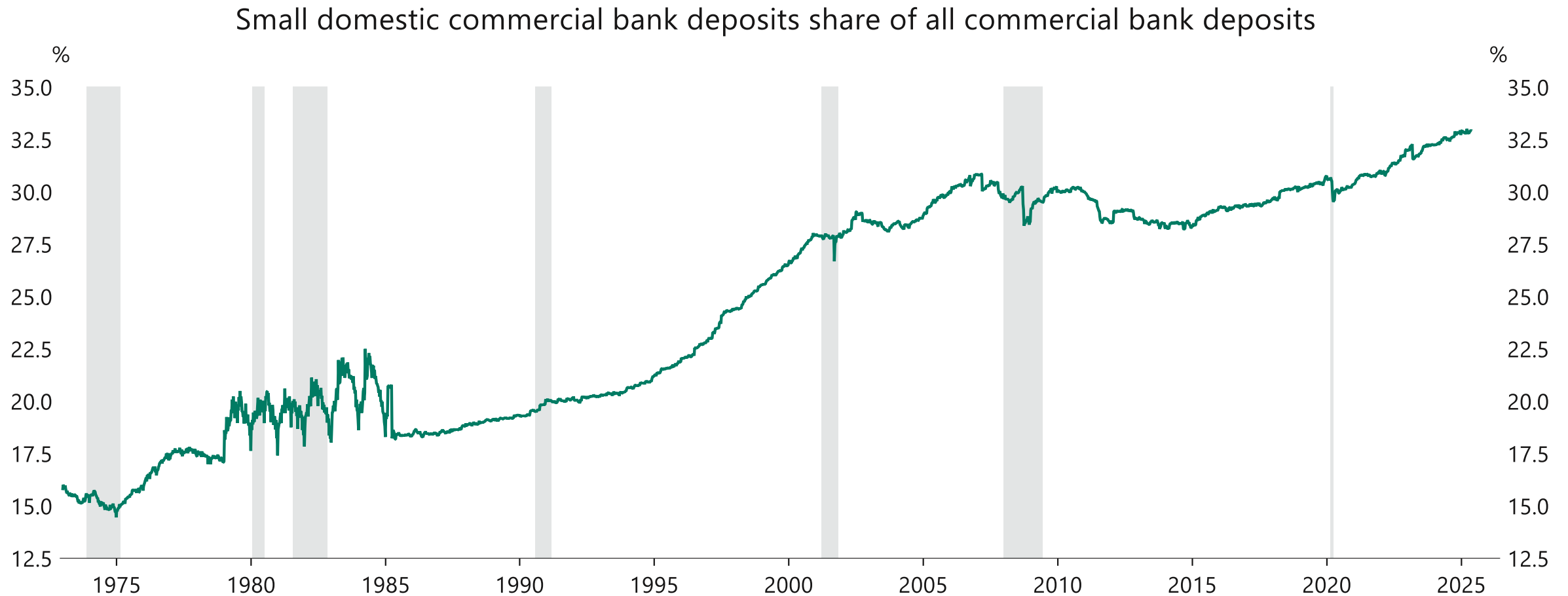
Interest rate on checking accounts versus the Fed funds rate



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



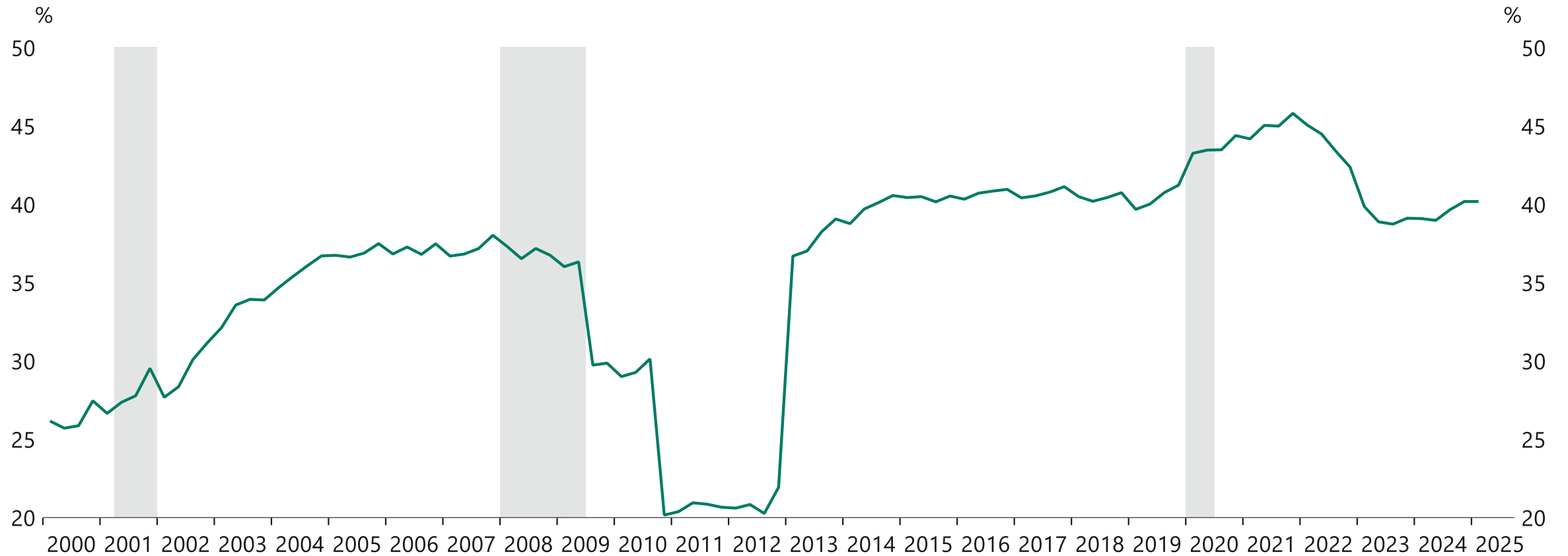
Small banks account for about 30% of total deposits in the banking sector, and the share has been rising since the 2008 financial crisis



Source: Federal Reserve, Macrobond, Apollo Chief Economist

Share of total bank deposits that are uninsured: 40%

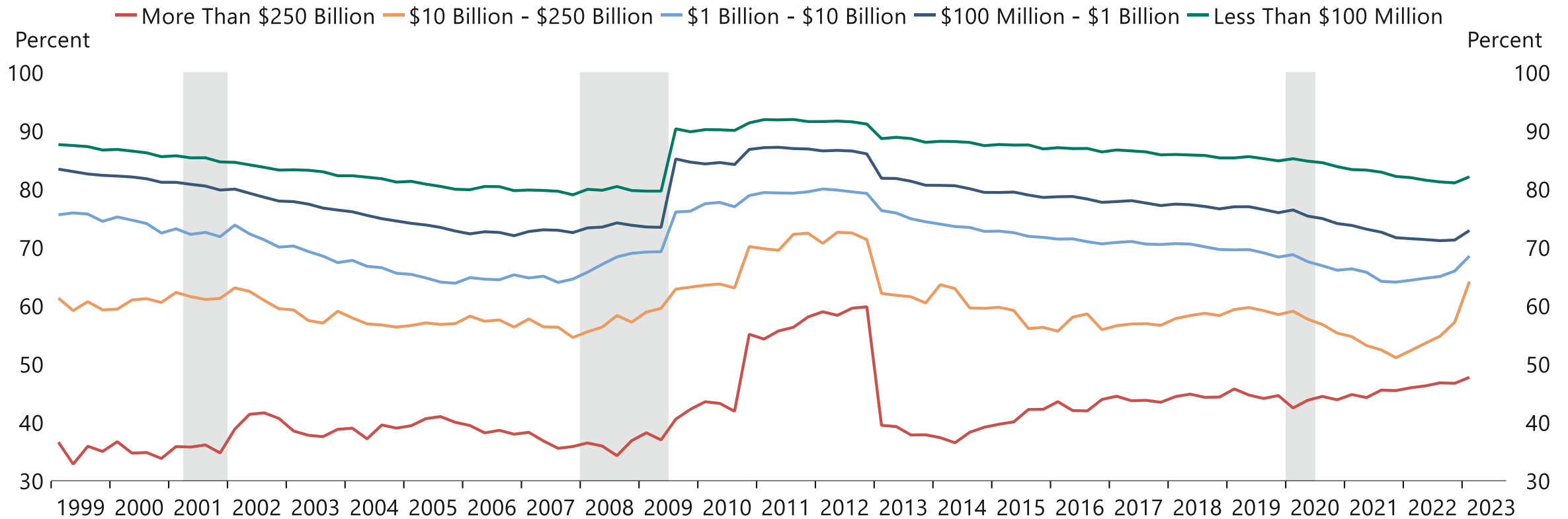
Percentage of uninsured deposits



Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist

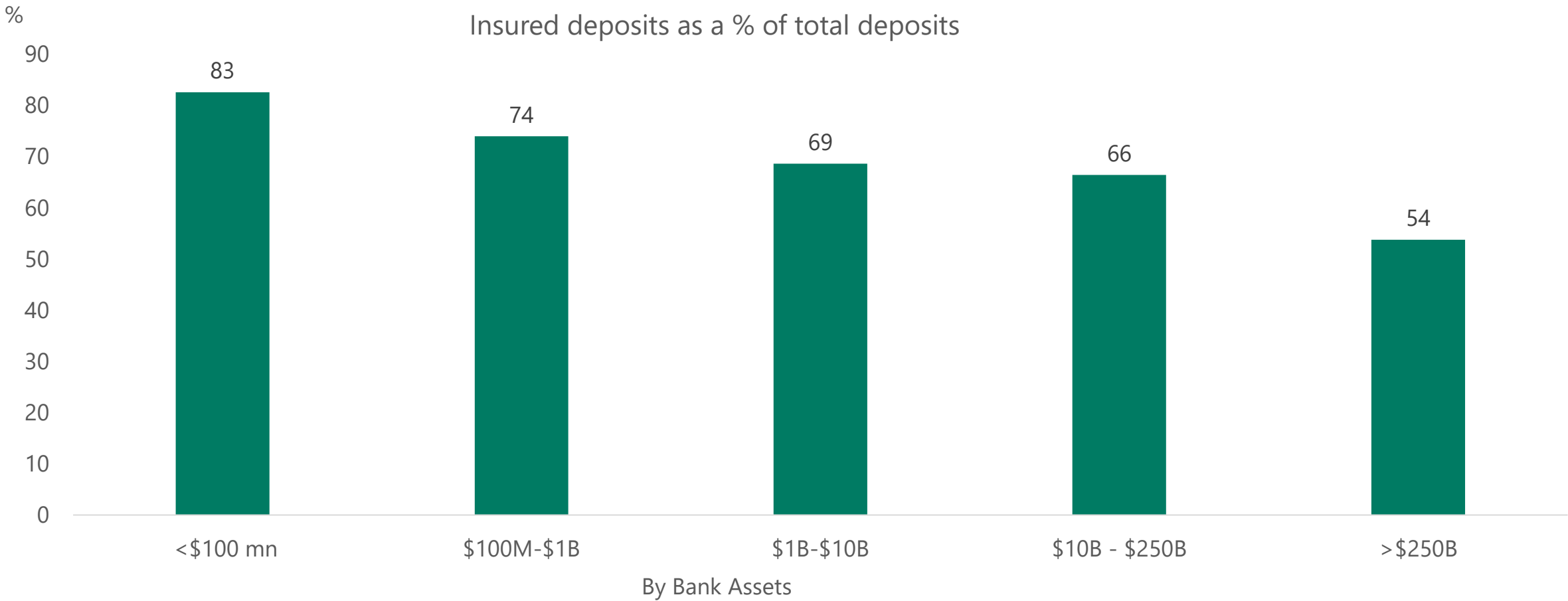
Share of insured deposits, by bank size

Insured deposits % total deposits by asset size



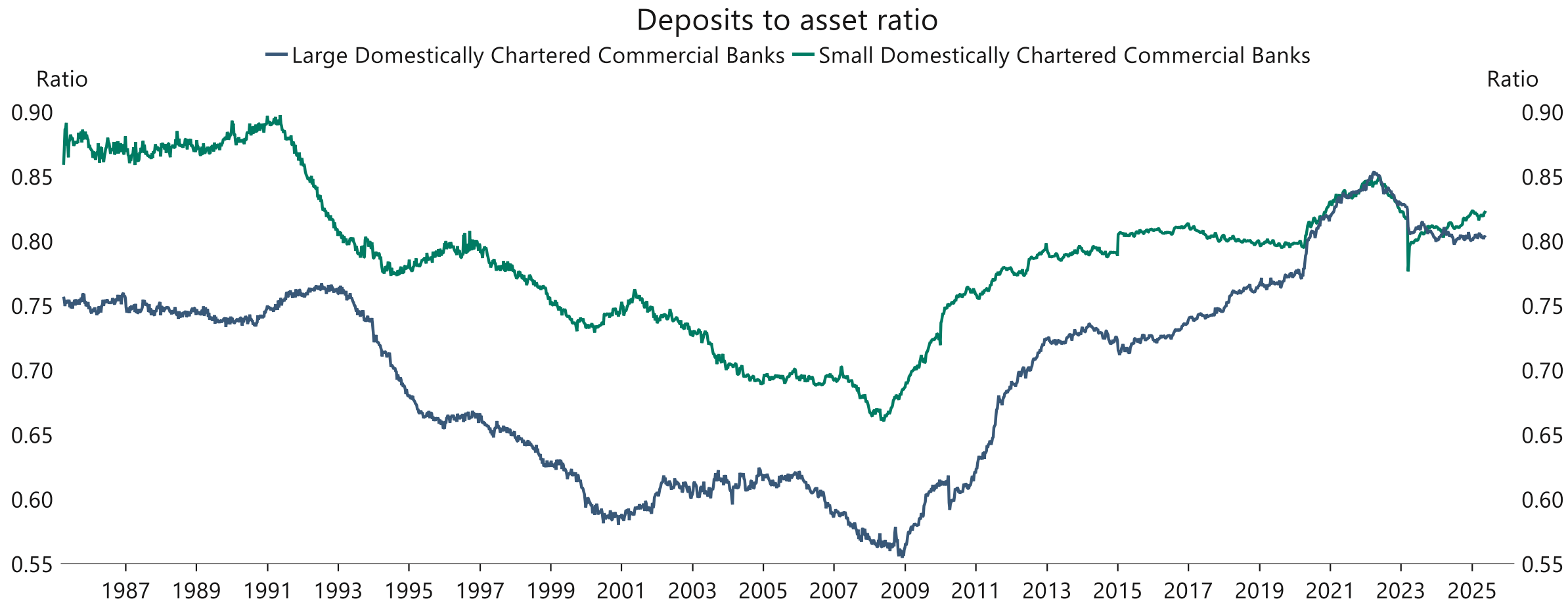
Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist

Share of insured deposits, by bank size



Source: FDIC, Haver Analytics, Apollo Chief Economist. As of Q3 2024

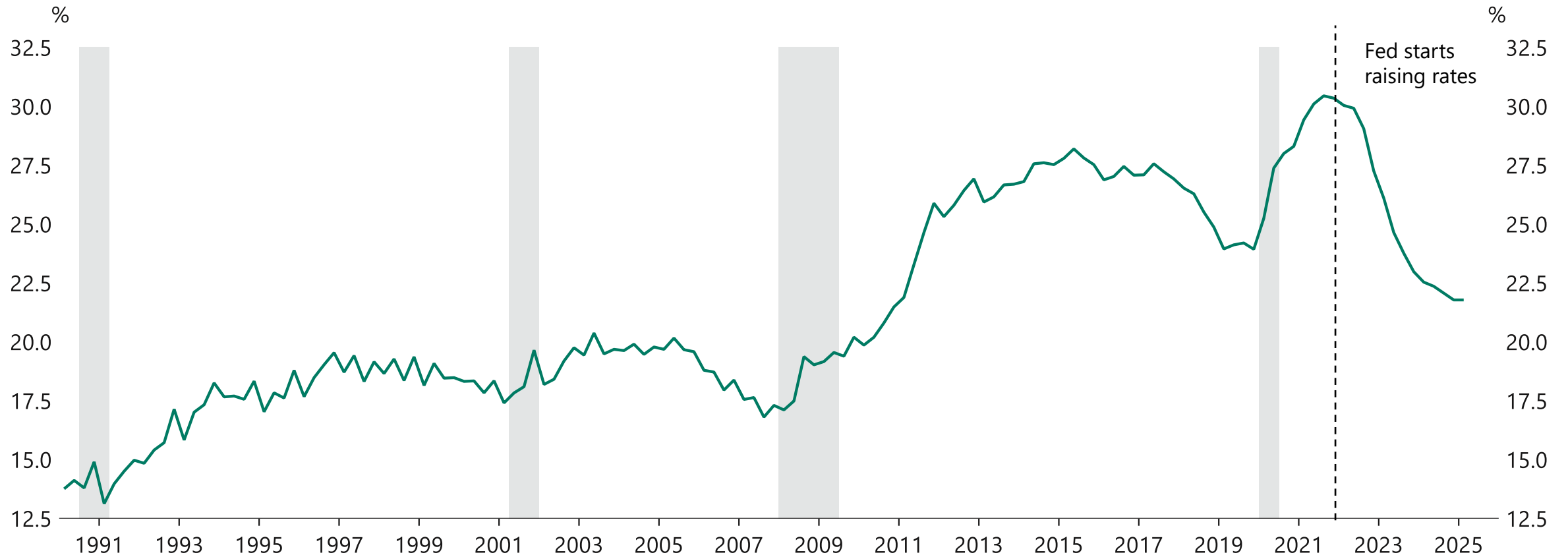
Deposit to asset ratio for large and small banks



Source: Federal Reserve, Macrobond, Apollo Chief Economist

21% of deposits pay no interest

Domestic noninterest-bearing deposits as a % of total deposits

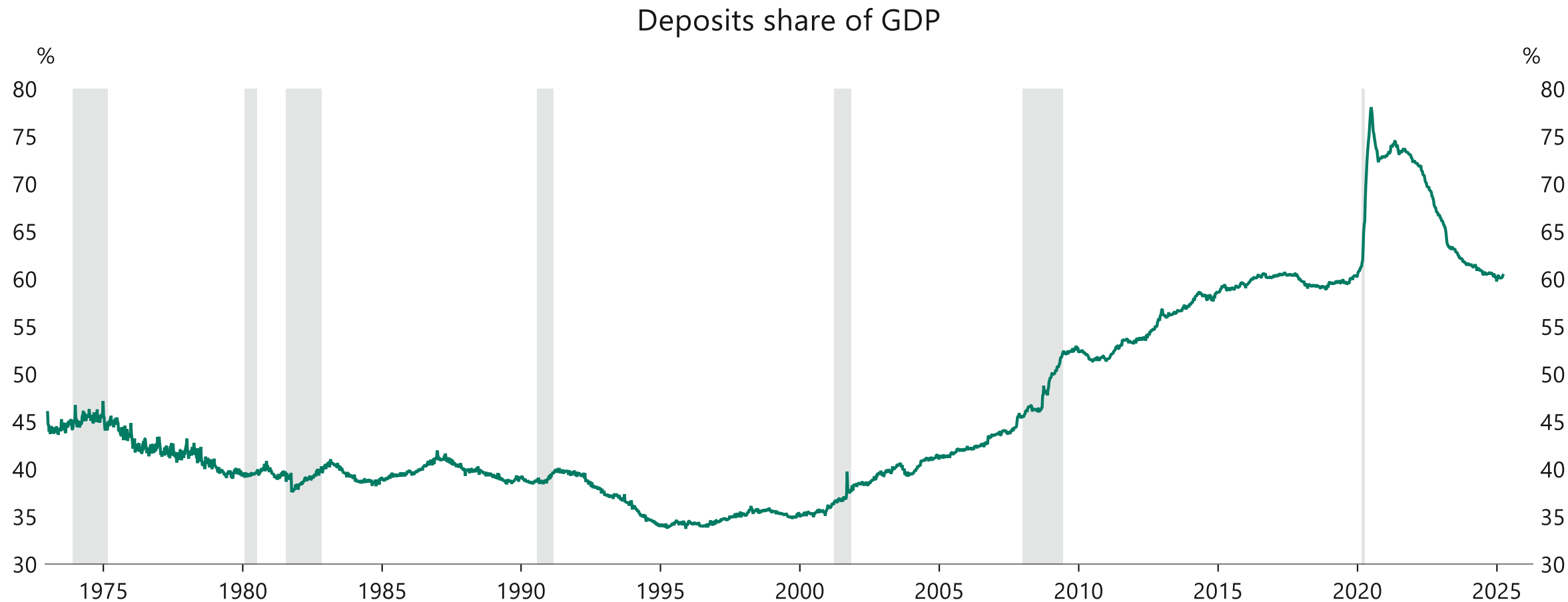


Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist

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

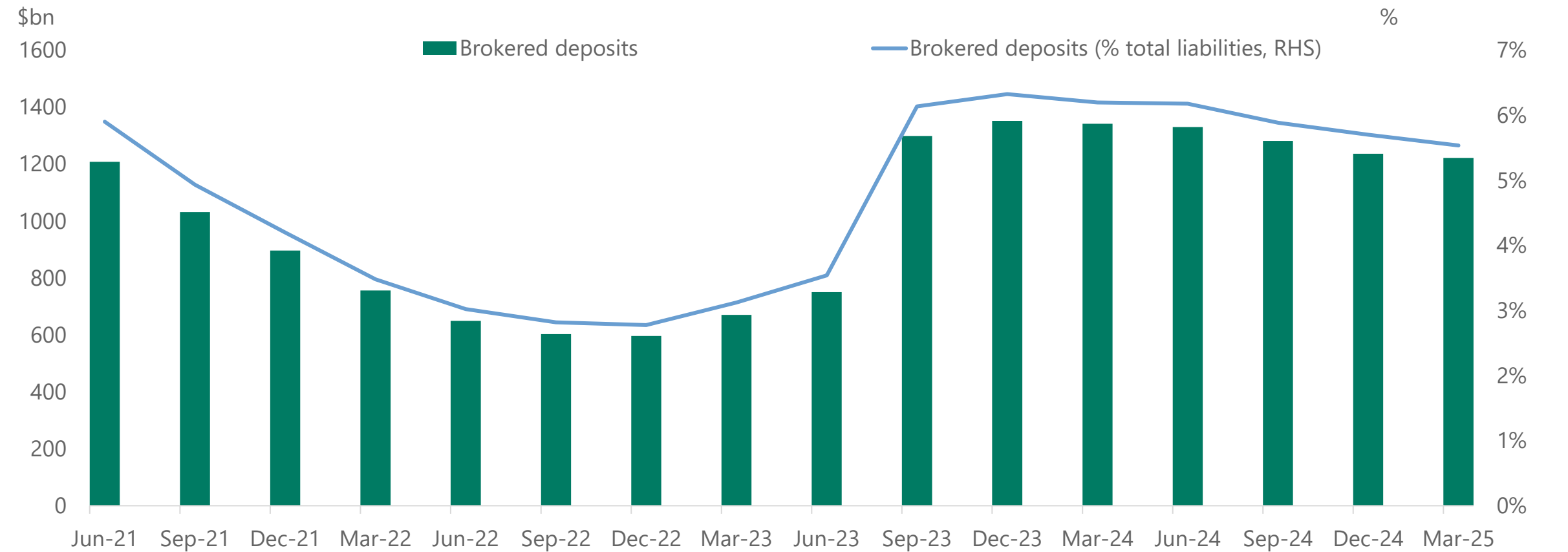


Deposits as a share of GDP



Source: Federal Reserve, BEA, Macrobond, Apollo Chief Economist

Brokered deposits in US banks

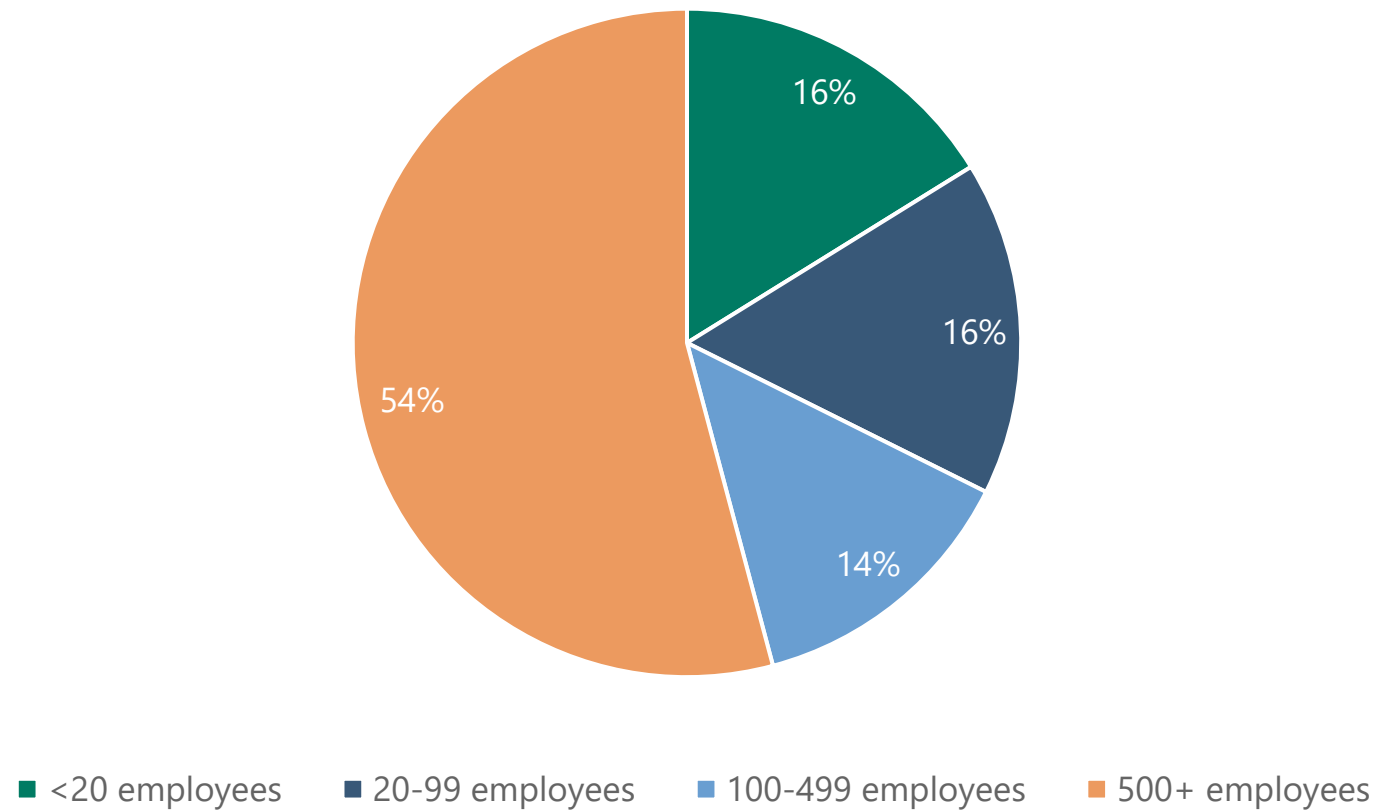


Source: S&P CapitalIQ Pro, Apollo Chief Economist. Note: Brokered deposits represent funds which the reporting bank obtains, directly or indirectly, by or through any deposit broker for deposit into one or more deposit accounts. Thus, brokered deposits include both those in which the entire beneficial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

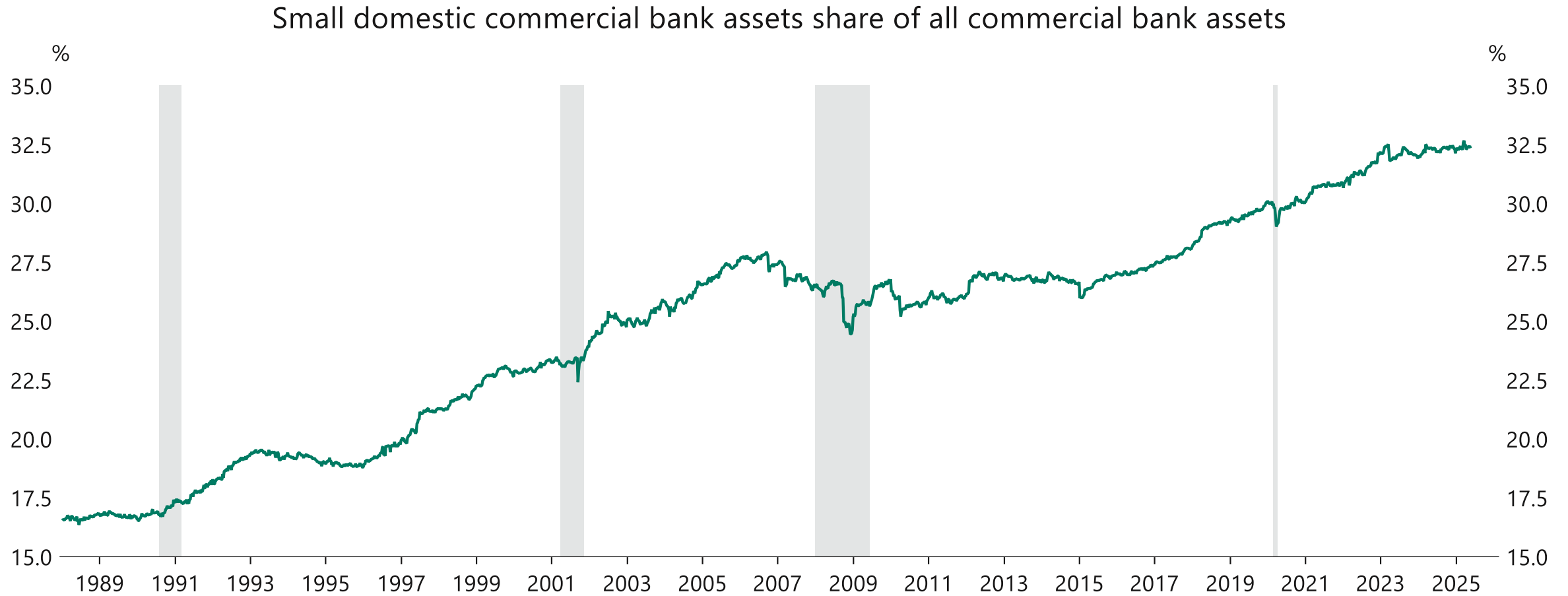
US banks by asset size:
The importance of regional banks for the US economy

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

Share of total employment by employment size of the firm, 2022

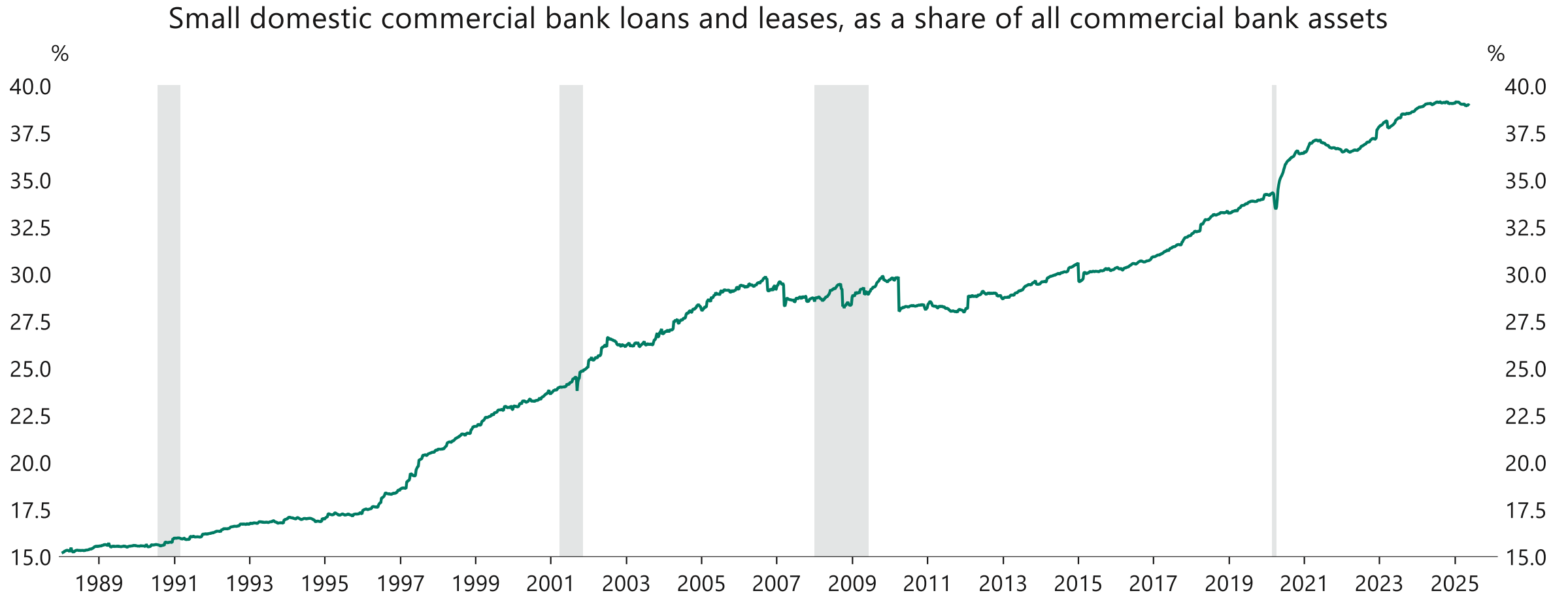


Small bank assets as a share of total banking sector assets



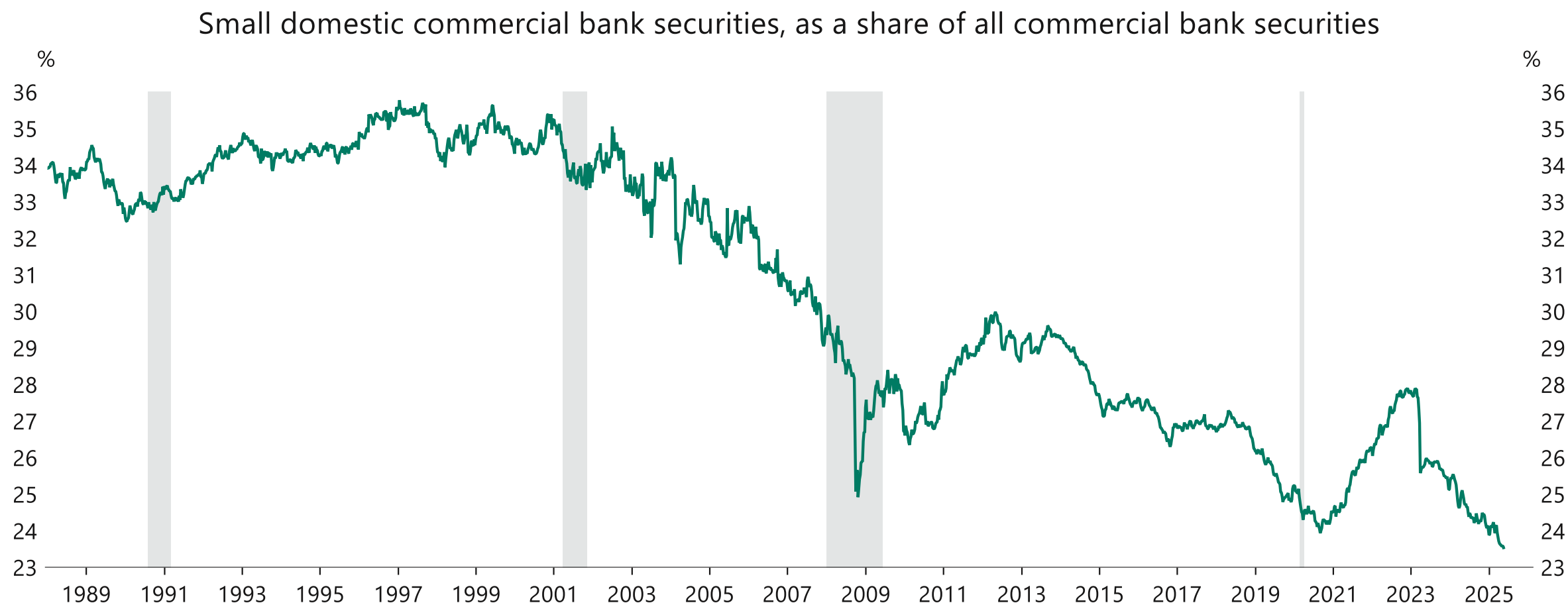
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Share of lending by smaller banks



Source: Federal Reserve, Macrobond, Apollo Chief Economist

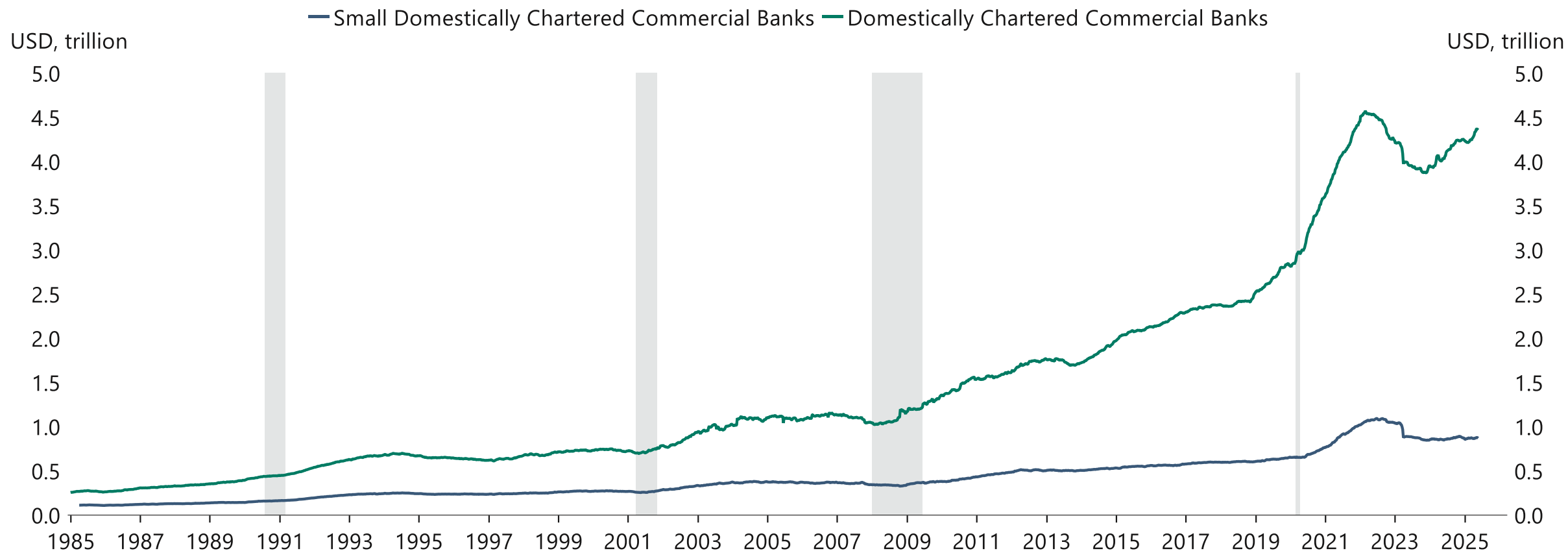
Share of securities in the banking sector held by small banks



Source: Federal Reserve, Macrobond, Apollo Chief Economist

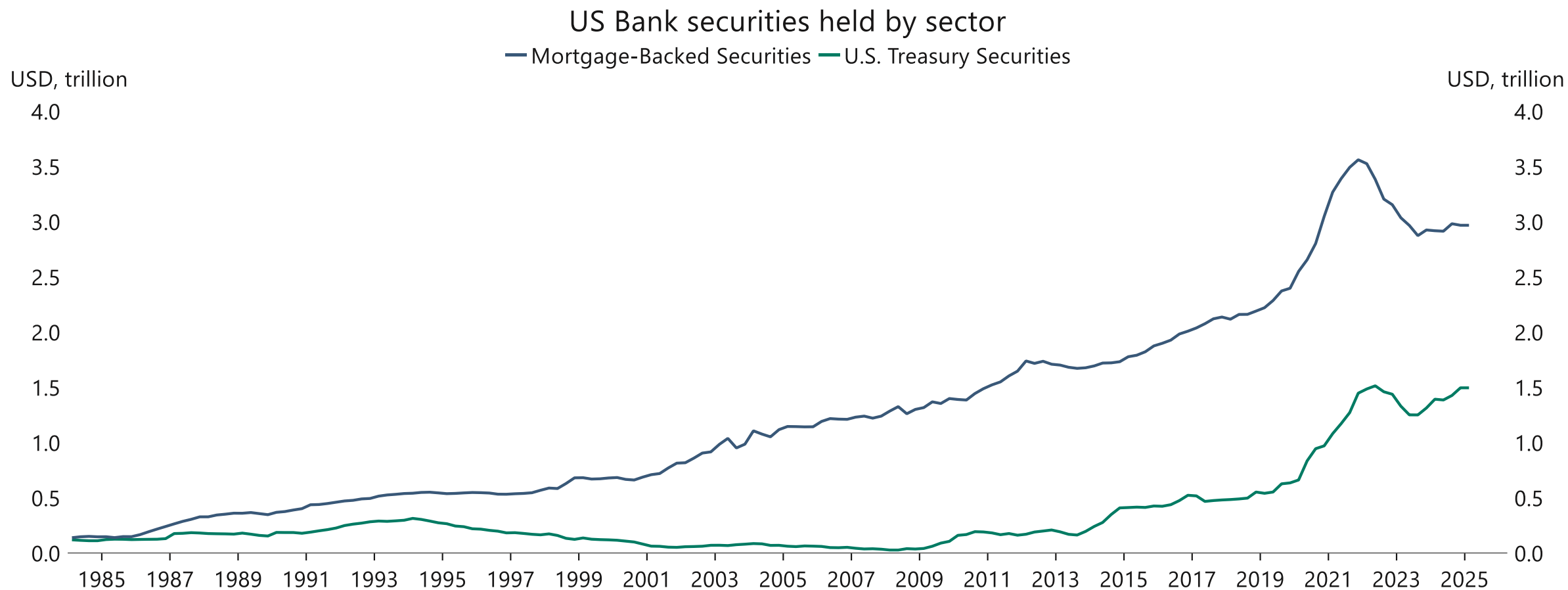
Large banks accumulating Treasuries

Government Securities: Bank Credit



Source: Federal Reserve, Macrobond, Apollo Chief Economist

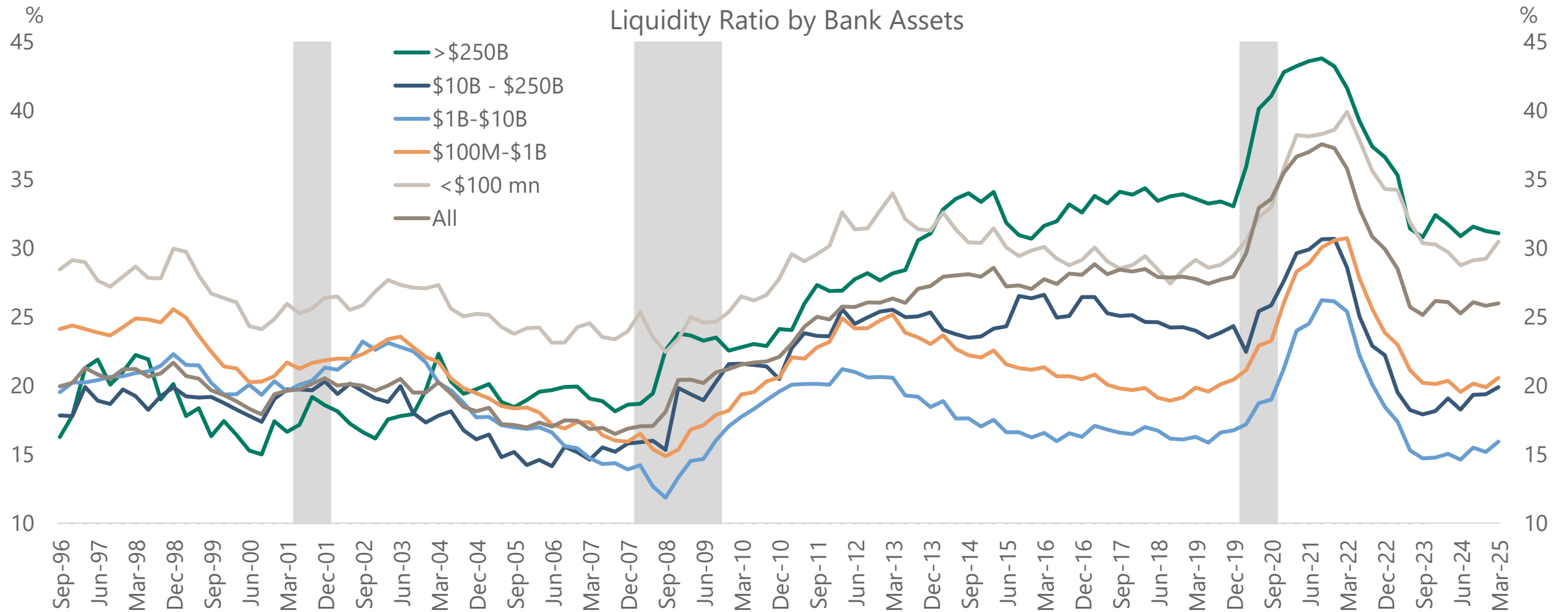
Securities held by FDIC-insured banks



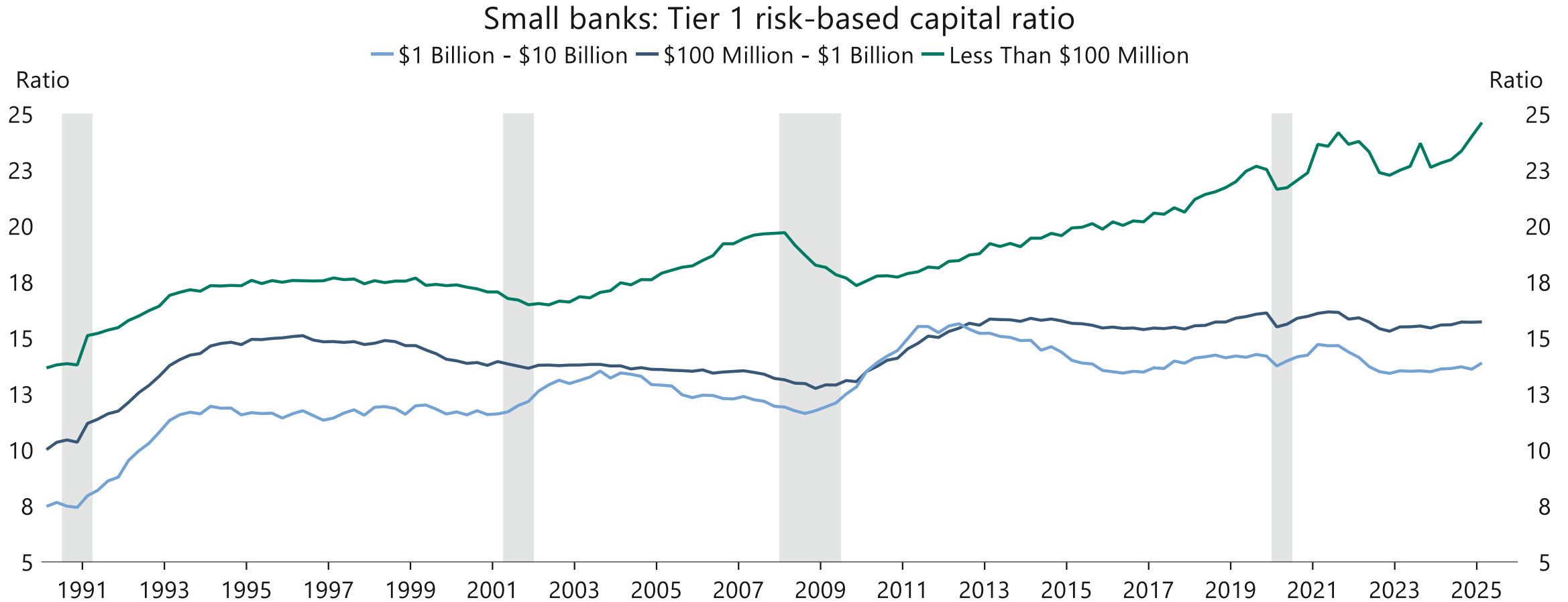
Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist

Measures of banking sector liquidity and capital ratios

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



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

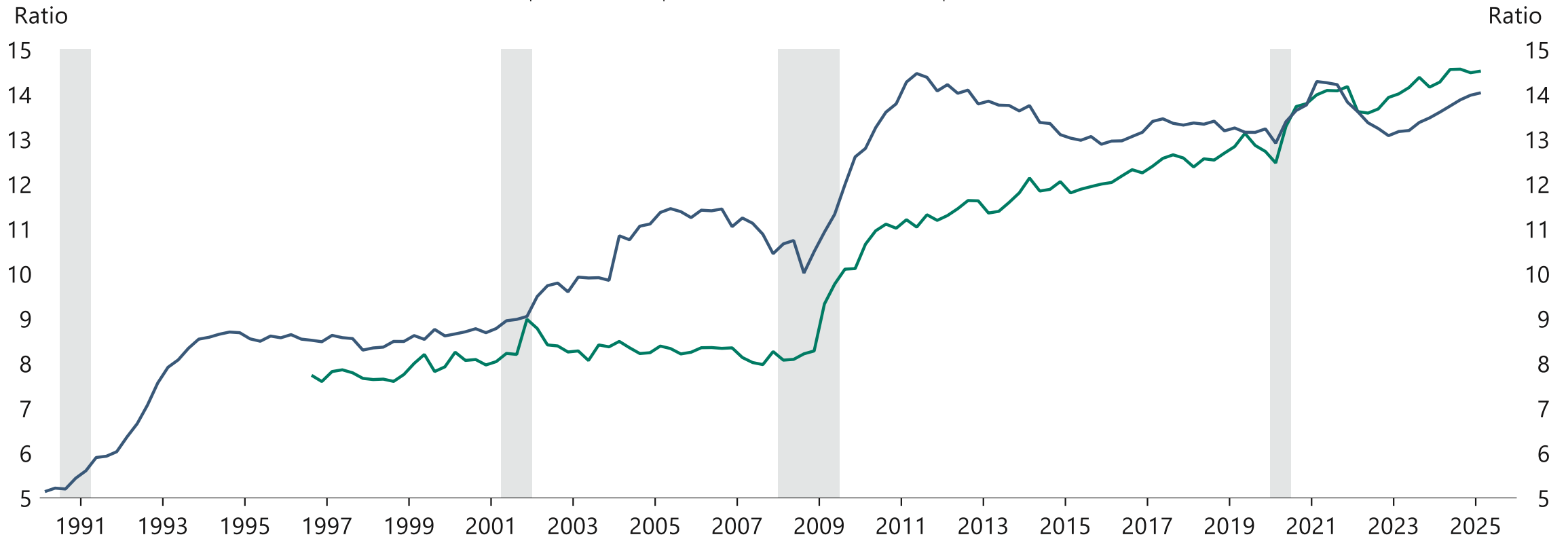


Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist. Note: As per FDIC, large banks are defined as institutions with total assets of \$10 billion or more and small banks have total assets under \$10 billion.

Tier 1 risk-based capital ratio for larger banks

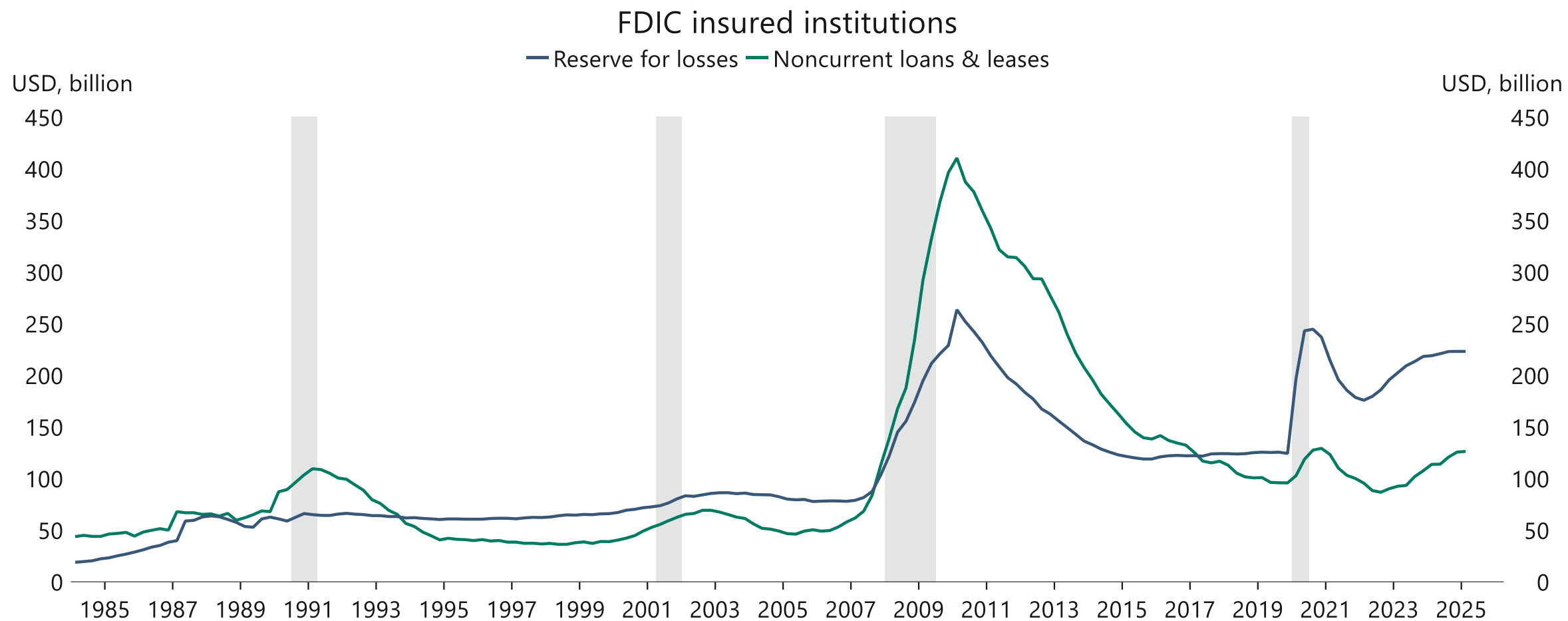
Large banks: Tier 1 risk-based capital ratio

— \$10 Billion - \$250 Billion — More Than \$250 Billion



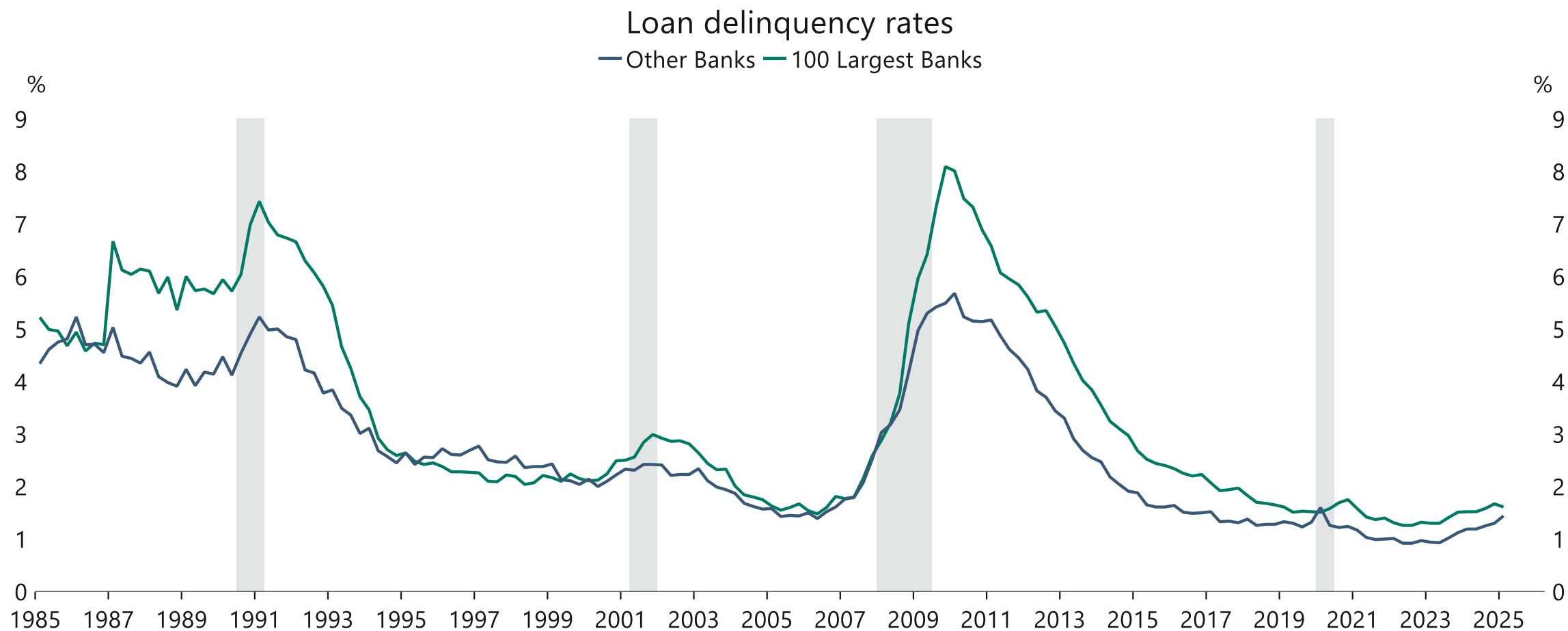
Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist. Note: As per FDIC, large banks are defined as institutions with total assets of \$10 billion or more and small banks have total assets under \$10 billion.

Reserves for loan losses



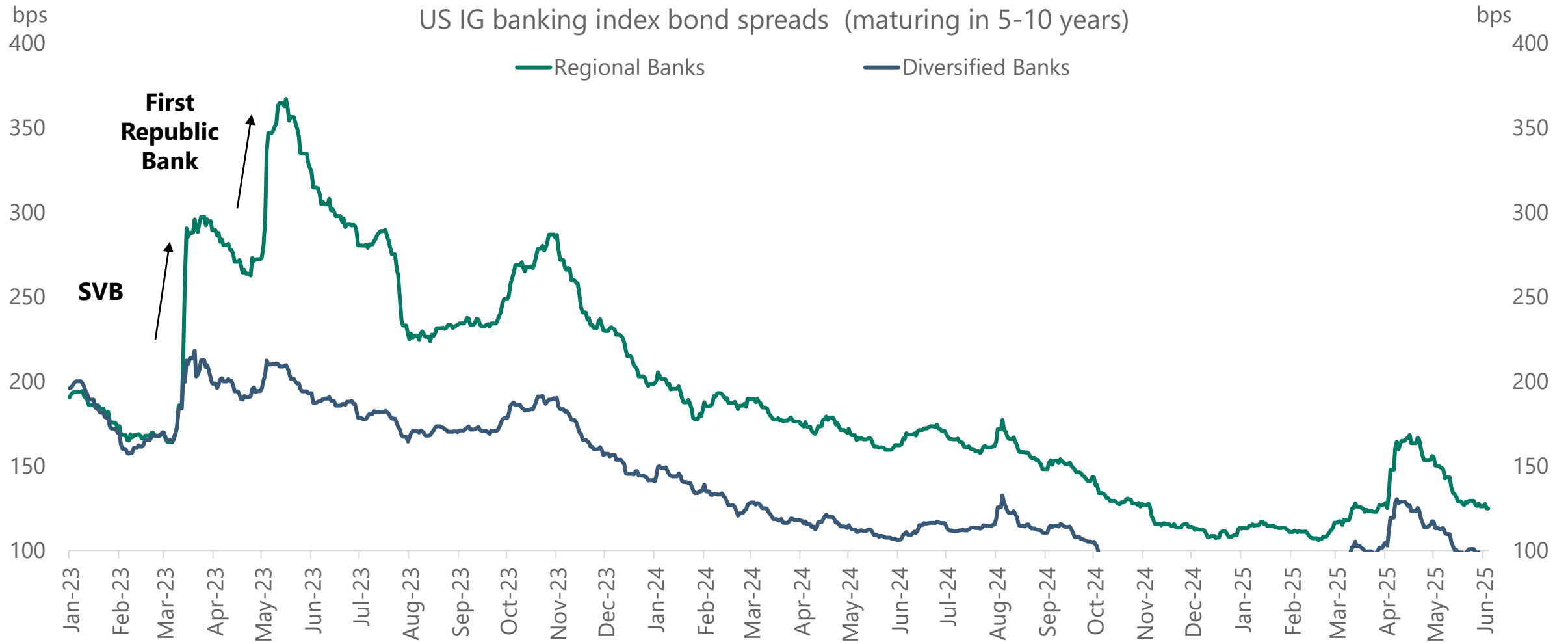
Source: Federal Deposit Insurance Corporation, Macrobond, Apollo Chief Economist

Loan delinquency rates for large and small banks



Source: Federal Reserve, Macrobond, Apollo Chief Economist

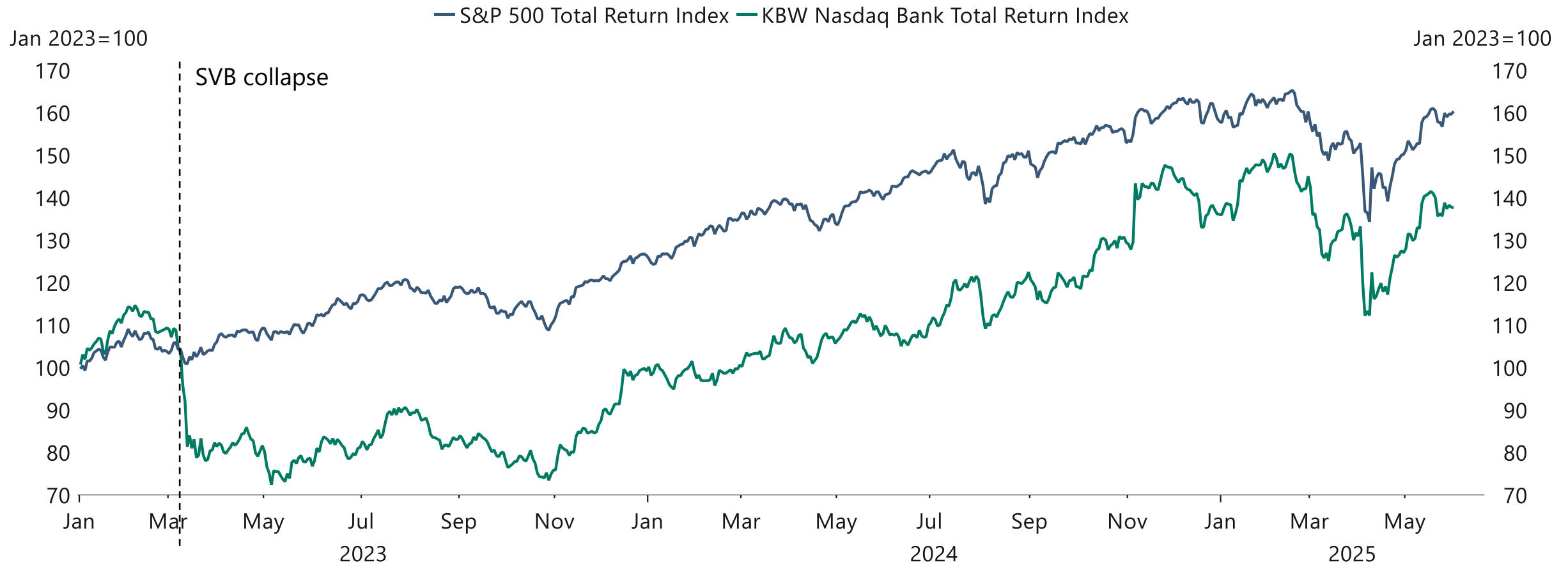
Funding costs higher for regional banks since SVB and FRB



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

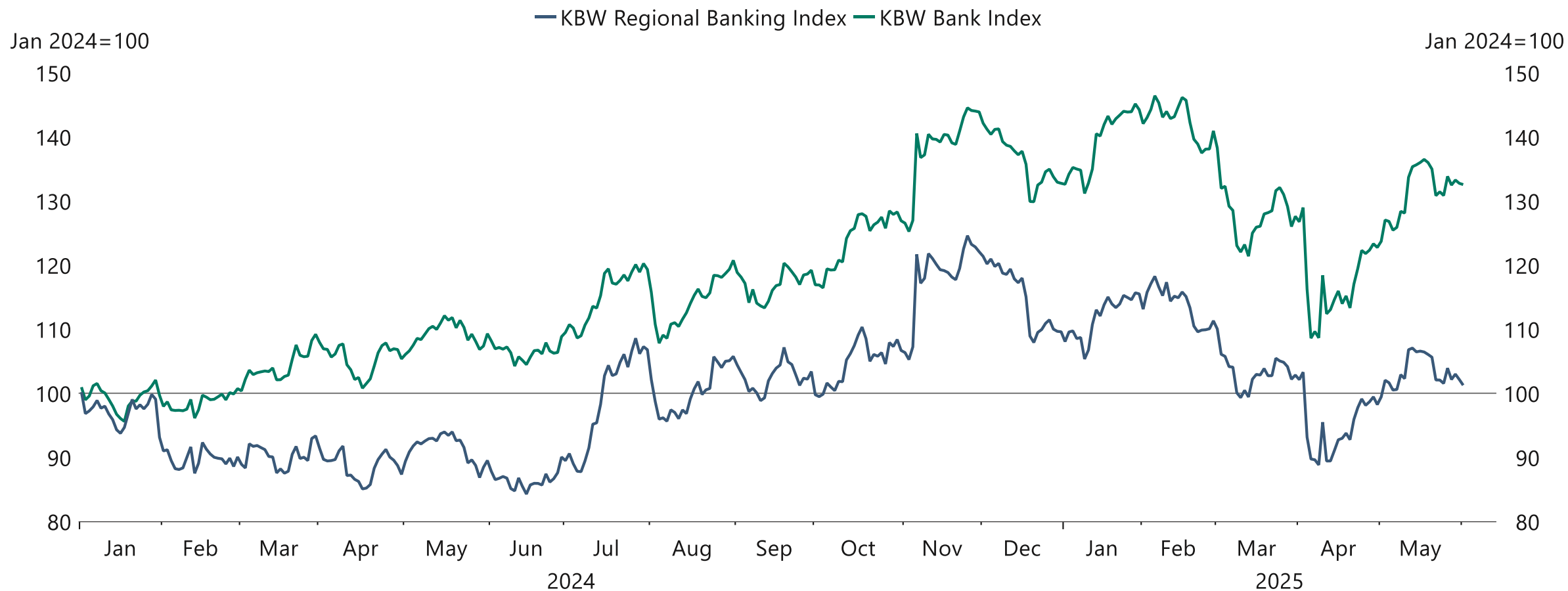
Stock market performance for small and large banks

Bank stocks continue to underperform the S&P500



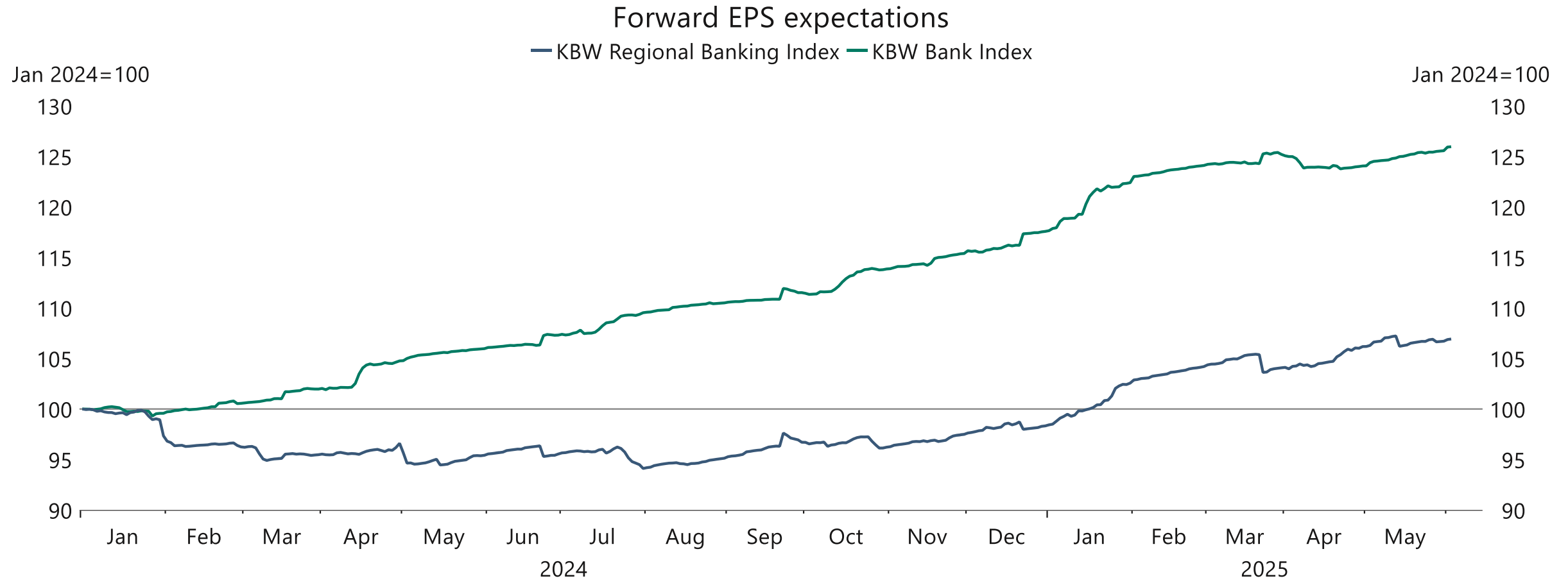
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: The KBW Bank Index consists of: Bank of NY Mellon, Bank of America, Capital One Financial, Citigroup, Citizens Financial Group, Comerica, Fifth Third Bank, First Horizon, Huntington, JP Morgan Chase, Keycorp, M&T Bank, Northern Trust, PNC, People's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

Regional bank stocks underperforming



Source: Bloomberg, Macrobond, Apollo Chief Economist.

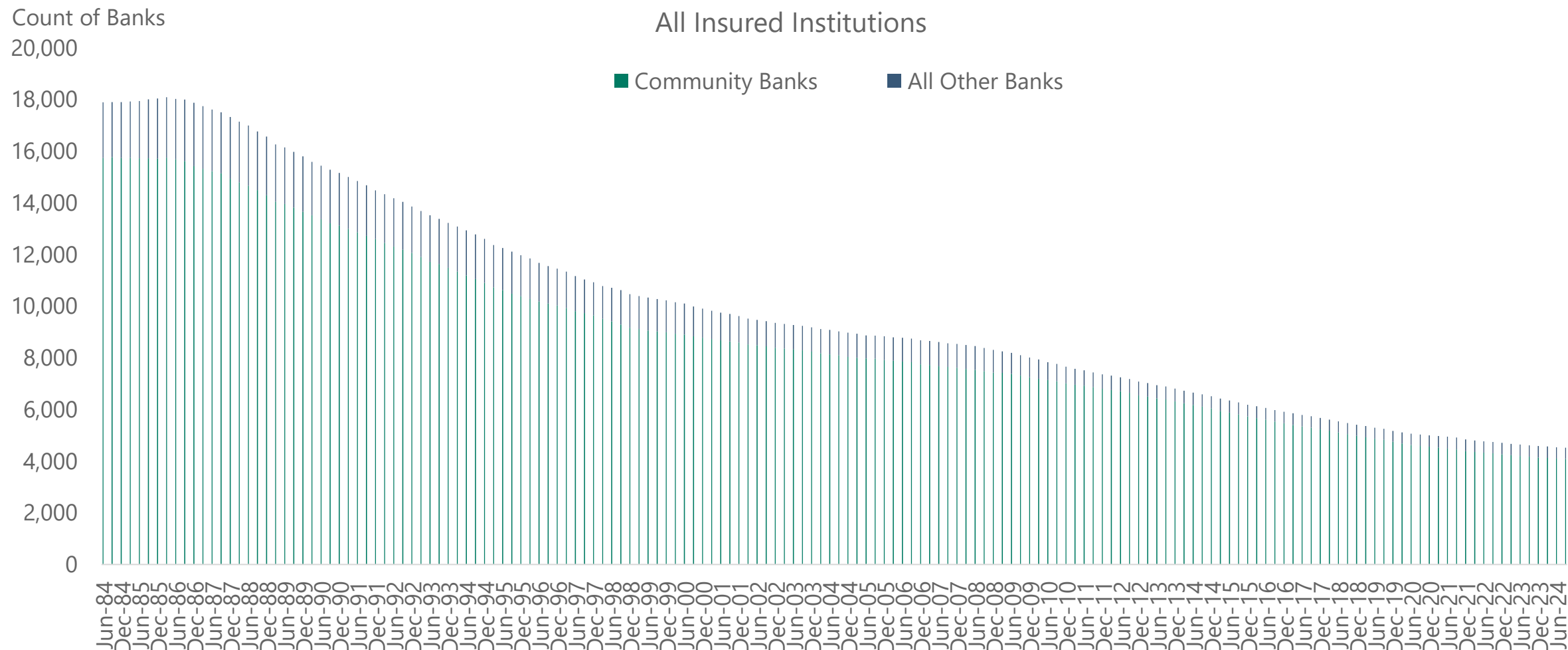
Earnings expectations weak for regional banks



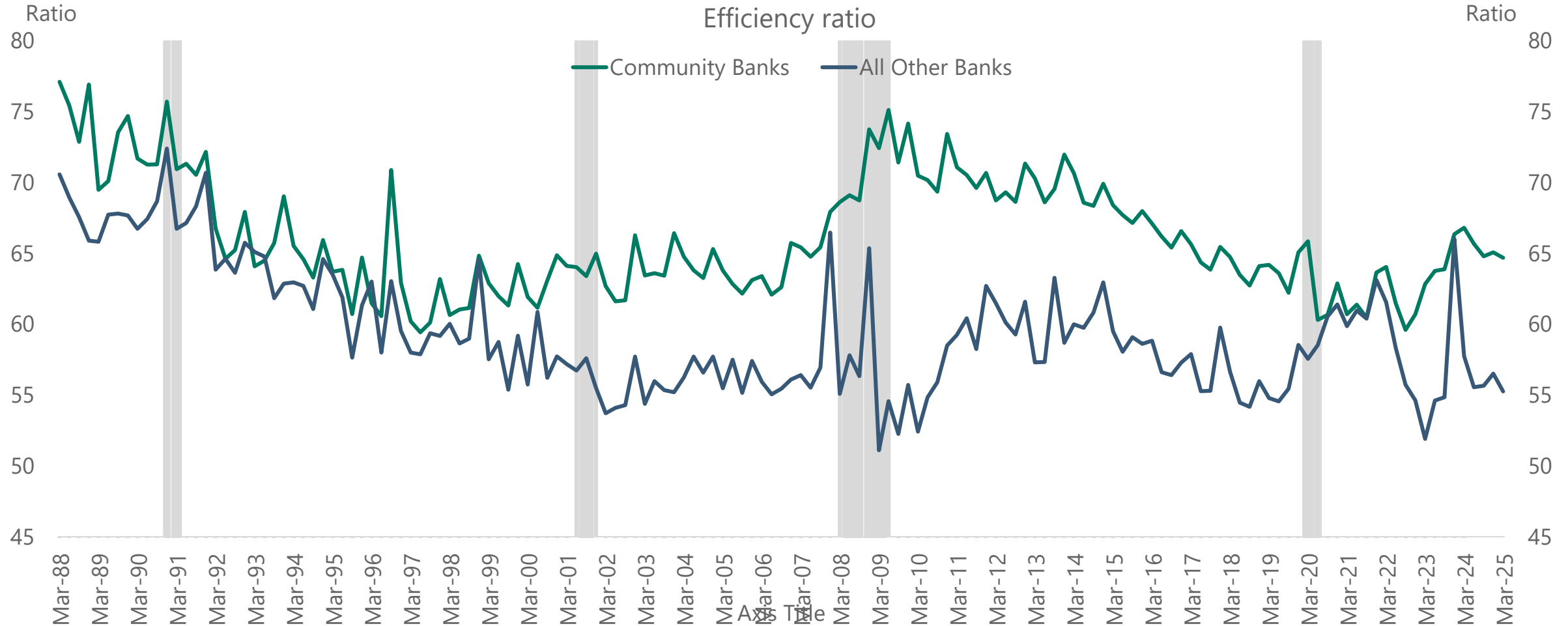
Source: Bloomberg, Macrobond, Apollo Chief Economist.

Community banks

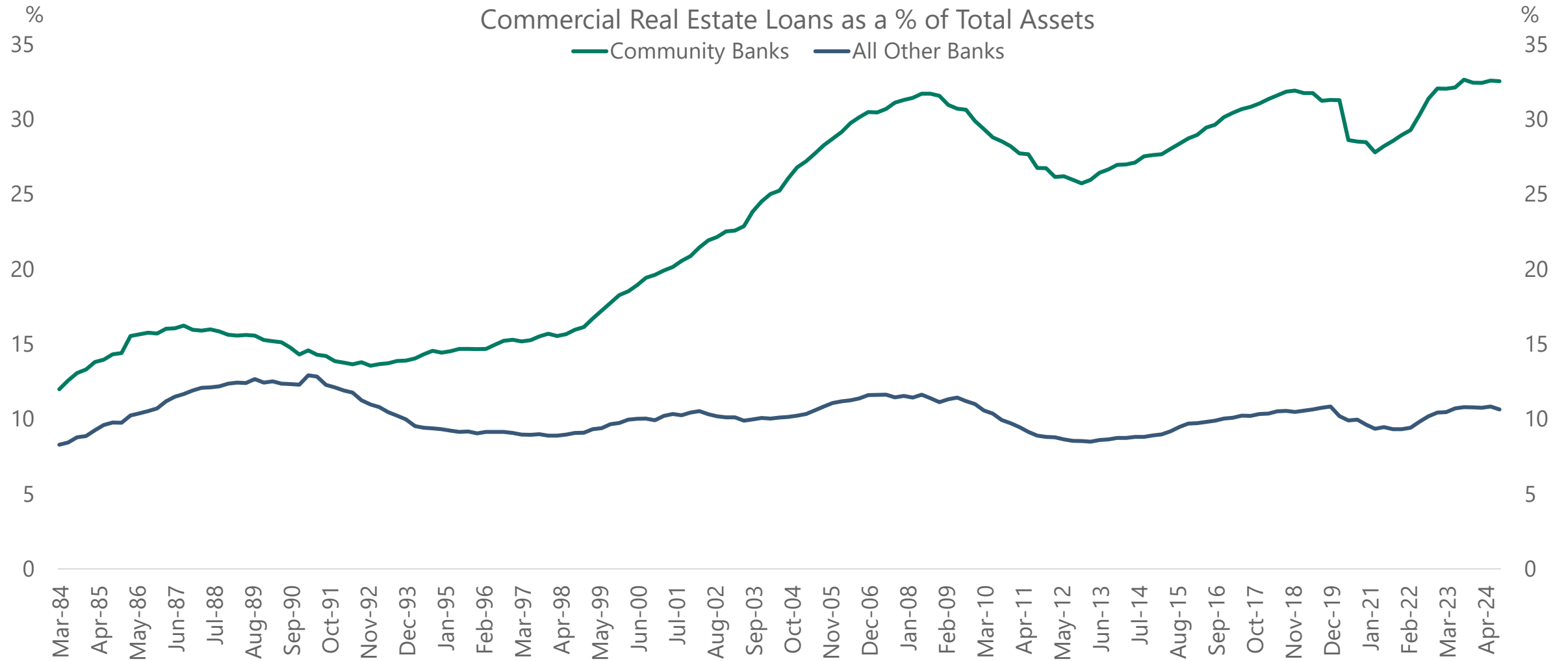
90% of all banks in the US are community banks



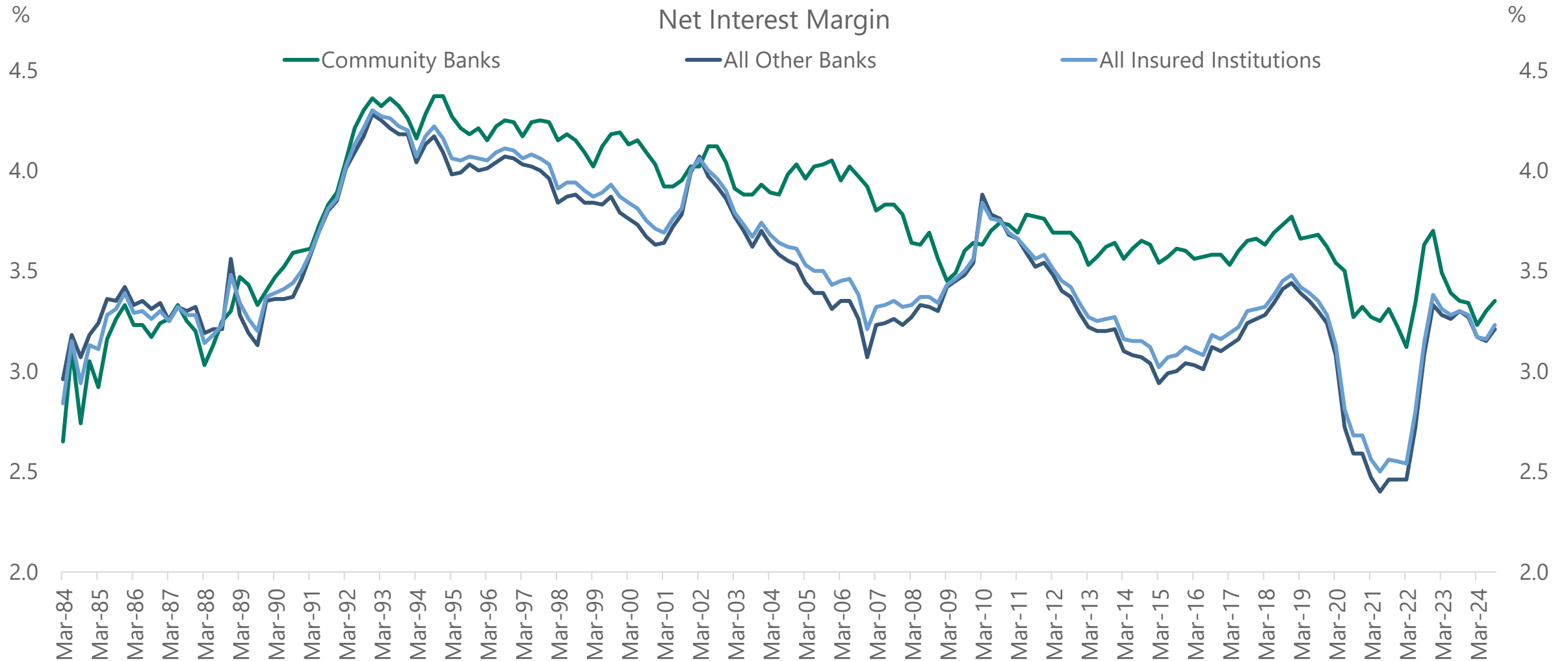
The average efficiency ratio is 58% for all types of banks



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



Net interest margin





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

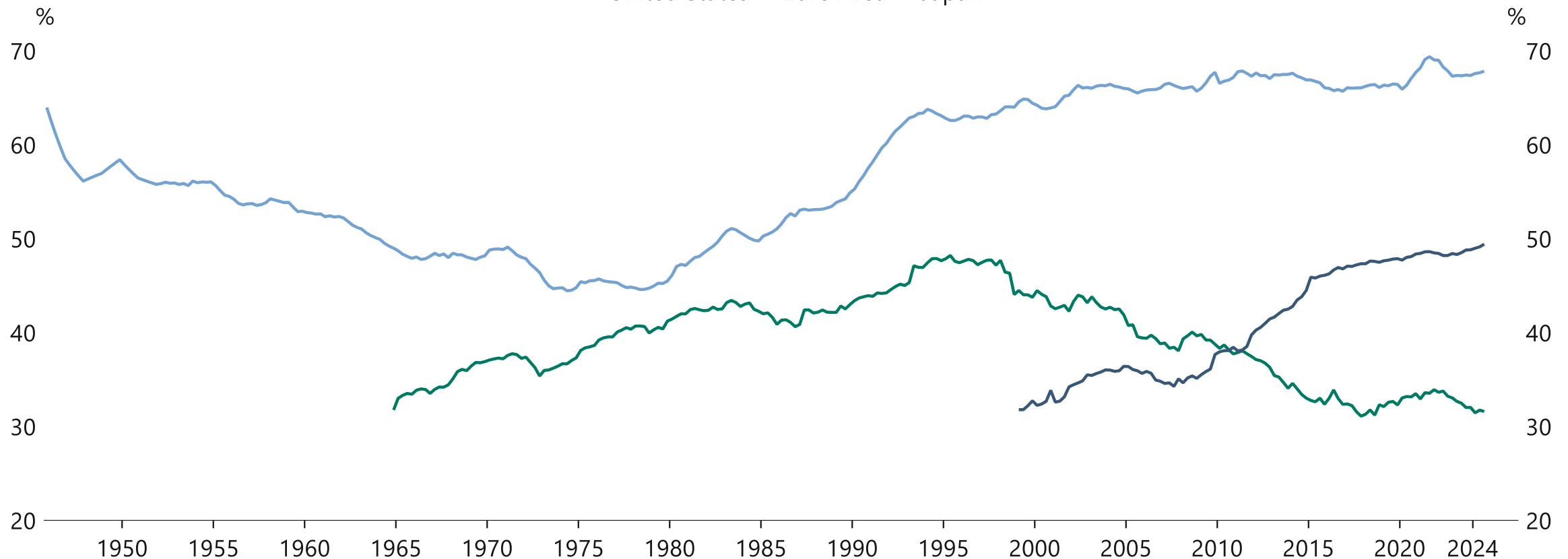
Prior to joining, Mr. Slok worked for 15 years as Chief Economist on the sell-side where his team was top ranked in the annual Institutional Investor survey for a decade. Mr. Slok has also worked at the IMF in Washington, DC and at the OECD in Paris.

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

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

Share of nonbank lending to private nonfinancial private sector

— United States — Euro Area — Japan



Source: BIS (The Bank for International Settlements), Macrobond, Apollo Chief Economist