

AUGUST 24, 2023

U.S. Banking Industry Update

Over the past two weeks, the three major rating agencies, Moody's Investor Service (Moody's), Fitch Ratings (Fitch), and S&P Global Ratings (S&P) issued updates on the U.S. banking sector. We've summarized the updates below.

MOODY'S INVESTOR SERVICES

Moody's reviewed the second quarter of 2023 earnings results and business activity outlook for the banking industry amid an operating environment of elevated interest rates and economic uncertainty. While the banking industry is currently navigating a challenging environment, Moody's notes that it is doing so from a solid foundation. The factors of concern that instigated the ratings actions by Moody's began with the events surrounding the collapse of three U.S. regional banks earlier this year. Moody's believes that the Federal Open Market Committee's (FOMC) interest rate increases that began in March 2022 will continue to have a lingering impact on bank financial statements. Moody's areas of focus that they believe will be the most challenging include funding costs, margin pressure, capital maintenance, and asset quality.

DOWNGRADES	RATINGS UNDER REVIEW	NEGATIVE OUTLOOKS
Commerce Bancshares, Inc.	Bank of New York Mellon Corporation (The)	PNC Financial Services Group, Inc.
BOK Financial Corporation	Northern Trust Corporation	Capital One Financial Corporation
M&T Bank Corporation	State Street Corporation	Citizens Financial Group, Inc.
Old National Bancorp	Cullen/Frost Banker, Inc.	Fifth Third Bancorp
Prosperity Bancshares, Inc.	Truist Financial Corporation	Huntington Bancshares Inc.
Amarillo National Bancorp, Inc.	U.S. Bancorp	Regions Financial Corporation
Webster Financial Corporation		Cadence Bank
Fulton Financial Corporation		FNB Corporation
Pinnacle Financial Partners, Inc.		Simmons First National Corporation
Associated Banc-Corp		Ally Financial Inc.
		Bank OZK



FITCH RATINGS

Fitch Ratings issued warnings about the possibility of negative rating changes for U.S. banks. They cited similar concerns related to the challenging operational landscape within the banking industry, specifically noting tightening net interest margins due to higher rates on deposits compared to the earnings yield on their assets. Additionally, Fitch stated that banks are increasing provisions for potential declines in asset quality, along with ongoing pressure on non-interest expenses due to inflationary conditions. Fitch highlighted positive aspects within the U.S. banking system, specifically emphasizing the anticipated growth of capital and liquidity reserves in the upcoming quarters. This response is a reaction to a more stringent regulatory landscape, serving to counterbalance the banking industry's diminished earnings and providing a bolstering effect on their creditworthiness.

STANDARD & POOR'S GLOBAL RATINGS

On Monday, August 21, 2023, Standard & Poor's Global Ratings (S&P) provided an update to U.S. banking entities. Among the U.S. banks tracked by S&P, a recent review impacted 10 banks. S&P highlighted that 90% of the banking entities it monitors maintain a "Stable" outlook. In response to ongoing banking challenges since March, S&P has made adjustments to the ratings or outlooks of 18 banks in total. The actions taken by S&P Global Ratings are driven by various factors, including funding cost challenges, liquidity, asset quality, and the economic recession forecast for the U.S. economy. These factors are expected to continue influencing the U.S. Banking sector throughout 2023 and extending into 2024. Presently, S&P foresees a further decline in bank profitability in the upcoming quarters. However, the expectation is that there will be adequate support to gradually enhance capital generation over time.

DOWNGRADES	OUTLOOK LOWERED TO NEGATIVE	RATINGS AFFIRMED & MAINTAINED OUTLOOK NEGATIVE	RATING AFFIRMED & MAINTAINED OUTLOOK STABLE
Associated Bank Corporation	River City Bank	Zions Bancorporation N.A.	Synovus Financial Corporation
Comerica Incorporated	S&T Bank		Truist Financial Corporation
KeyCorp			
UMB Financial Corporation			
Valley National Bancorp			

However, as is the case with any shifts in the market environment, it remains crucial to monitor banking relationships, adhere to FDIC limits, and meet collateral requirements.

If you would like to discuss this further, please contact your Meeder adviser.



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