

Investment banks 1H20: Volatility drives record trading revenues

EY Global Banking & Capital Markets
benchmark report



















August 2020



EY

Building a better
working world

Contents

	Performance snapshot	 03 
	Return on equity	 04 
	Revenue performance	 05 
	Business efficiency	 08 
	Analysis by business line	 11 
	Appendices	 19 

About this report

The *EY Global Banking & Capital Markets benchmark report* analyzes the financial performance of banks at a subsector level.

This investment banking 1H20 report analyzes the performance of the investment banking divisions of 16 leading investment banks across the globe.

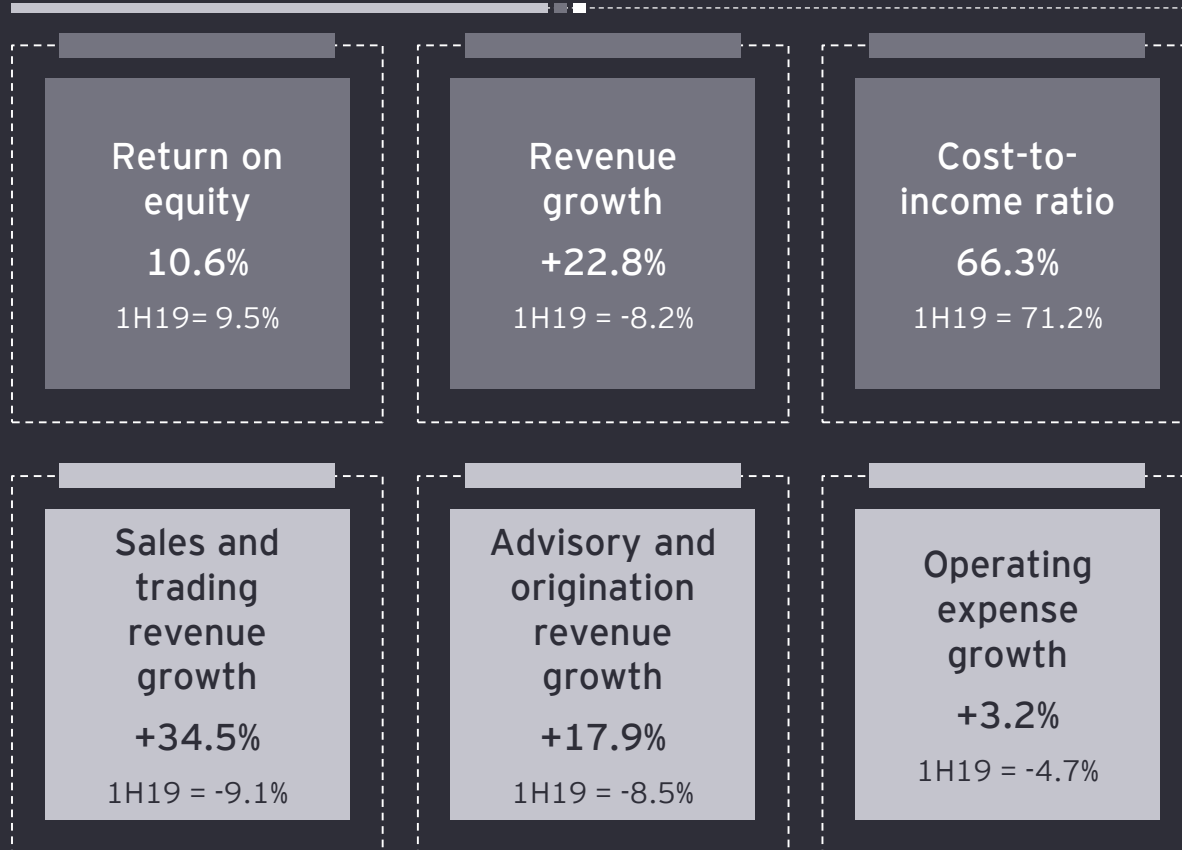
This analysis helps to identify and track global trends for the subsector's performance.

The report is based on a proprietary EY database that details balance sheet and income statement line items, in addition to critical company intelligence.

All information is sourced from banks' publicly available financial statements.

Performance snapshot

1H20 key performance indicators: Investment banking (IB) performance was driven by robust revenue growth across most traditional IB businesses

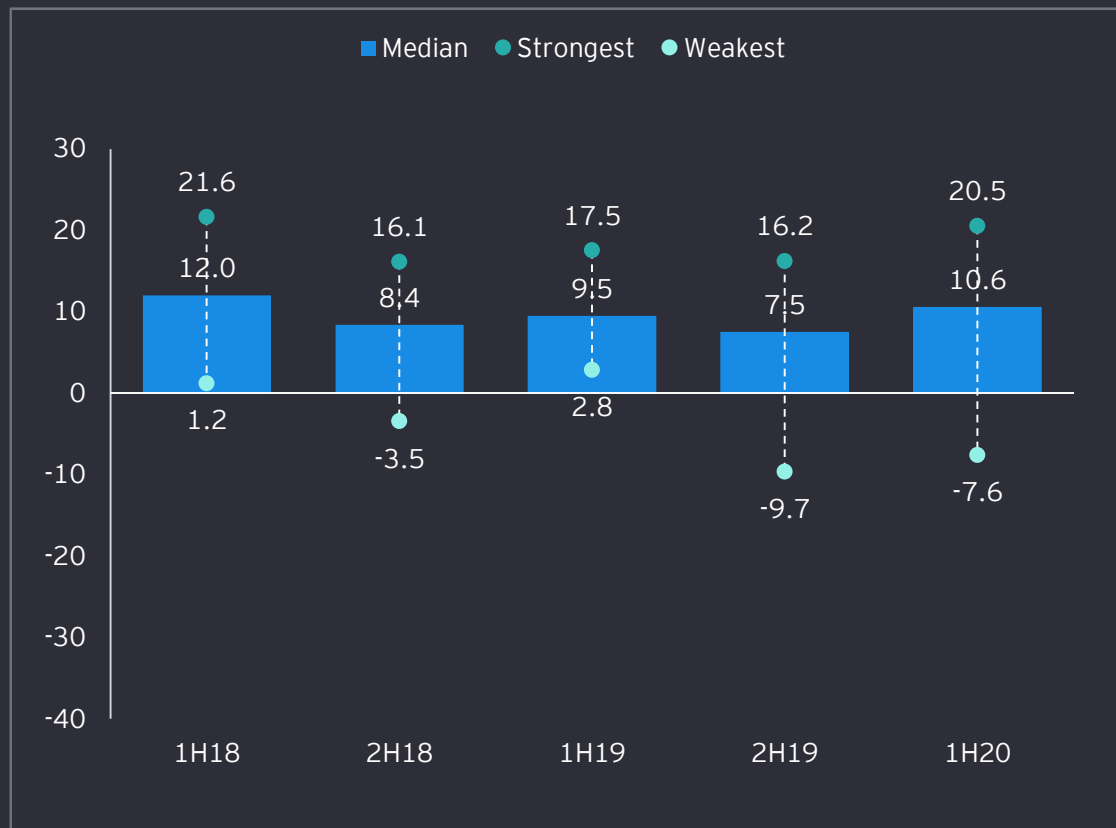


- ▶ In 1H20, IB industry profitability rose year-over-year (YoY) as the majority of investment banks in our peer set reported improved return on equity (ROE), reflecting higher profit before taxes.
- ▶ Revenues grew YoY, driven by strong sales and trading (S&T) performance, as well as higher underwriting fees. Most IB businesses benefited from higher volatility and increased client activity. This was the result of a rapidly evolving operating environment caused by the COVID-19 crisis.
- ▶ Investment banks recorded the highest 1H fixed income, commodities and currencies (FICC) revenues since 1H11, benefiting from widened credit spreads and low interest rates. Equity trading revenues were driven by high levels of volatility and market price moves.
- ▶ Advisory and origination revenues increased YoY as strong equity and debt underwriting performance offset weak M&A activity.
- ▶ Efficiency improved across investment banks as revenues grew at a faster rate than expenses.

Source: EY Global Investment Banking Database; company filings.
Industry reporting of income statement data is subject to transparency and availability of public data.
Note: Median values are used to reduce the influence of outliers across a relatively small dataset.

Return on equity

Return on equity (%); median; 1H18-1H20



Source: EY Global Investment Banking Database.

Industry reporting of income statement data is subject to transparency and availability of public data.

*Of the 16 investment banks in our peer set, ROE is not available at two banks due to lack of financial metrics in public disclosures.

Industry ROE increased, driven by higher ROEs at seven investment banks

- ▶ Industry ROE increased 0.5 percentage points (pps) in 1H20, driven by increases at seven of the 14 investment banks in our peer set.*
- ▶ The investment bank with the highest ROE in 1H20 benefited from strong performance across rates, currencies, credit, equity derivatives and cash equities. The investment bank with the greatest YoY ROE improvement realized strong capital markets' performance, as well as higher volumes, volatility and credit spread movements in S&T operations. In contrast, one investment bank in our peer set reported negative ROE in 1H20, impacted by ongoing restructuring costs.
- ▶ More than half of the investment banks in our peer set made higher equity allocations to the IB business to weather the turbulent environment. Aggregate IB division equity increased 2.1% YoY to US\$479.0b.
- ▶ Median ROE for European investment banks improved from 8.6% in 1H19 to 10.0% in 1H20, as some firms in our peer set started to realize the benefits of past restructuring initiatives.
- ▶ However, European investment banks continued to lag their North American peers in terms of IB profitability. North American investment banks reported 11.7% median ROE in 1H20.



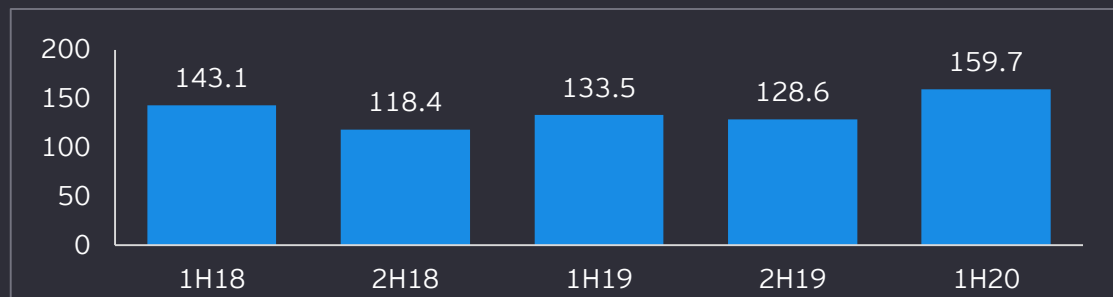
1

Revenue performance

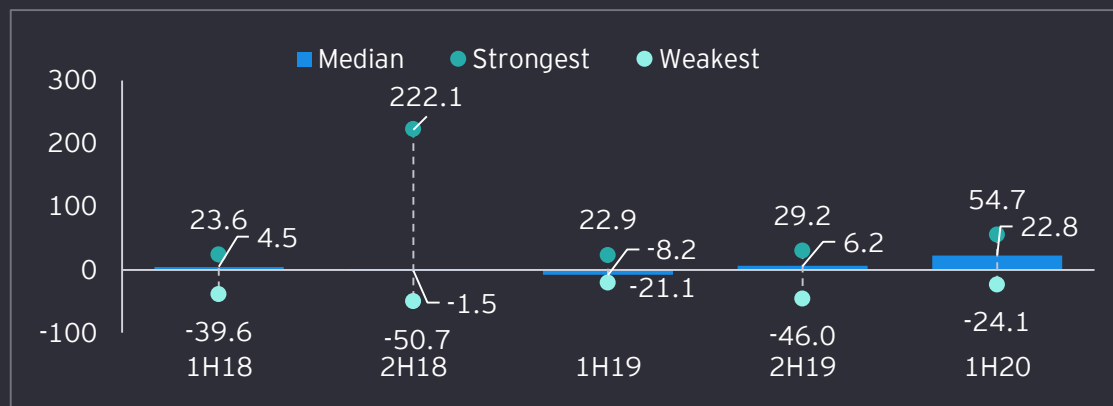


Revenue growth

IB aggregate revenues (US\$b); 1H18-1H20



IB revenues (%); median; YoY change



Source: EY Global Investment Banking Database; company filings.
Industry reporting of income statement data is subject to transparency and availability of public data.

IB revenues reached their highest point in the past five periods, reflecting strong performance across most business lines

- ▶ 1H20 started on a strong footing, with an environment characterized by continued economic growth, steadily climbing markets and positive investor sentiment. In early March 2020, conditions changed dramatically as policy responses to COVID-19, including lockdowns, border closures and disaster relief packages, drove high market volatility. Nevertheless, this proved to be beneficial for investment banks.
- ▶ IB revenues grew meaningfully in 1H20, up 19.6% YoY to US\$159.7b, as investment banks capitalized on market volatility during the COVID-19 crisis.
- ▶ S&T revenues rose 34.5% YoY in 1H20 ([slide 12](#)) reflecting widening credit spreads and increased volatility. FICC revenues increased 55.3% YoY, while equity trading revenues increased 15.4% YoY in 1H20.
- ▶ Advisory and origination revenues increased 17.9% YoY in 1H20 ([slide 15](#)), primarily driven by better performance from equity and debt underwriting revenues. In contrast, M&A advisory revenues decreased as activity declined.
- ▶ Revenues from other businesses in global banks' IB divisions, including treasury, transaction services, securities services and corporate lending, declined 9.9% YoY in 1H20.

Operating performance

Operating revenue and expenses growth; 1H19, 1H20



Source: EY Global Investment Banking Database; company filings.
Industry reporting of income statement data is subject to transparency and availability of public data.

Most of the investment banks in our peer set generated positive operating jaws in 1H20

- ▶ Strong revenue growth of 22.8% YoY in 1H20 was driven by record trading performance.
- ▶ Expenses also rose in 1H20, in line with higher revenues, but by just 3.2% YoY; 12 of the 16 investment banks in our peer set will generate positive jaws (revenue growth greater than expense growth).
- ▶ While 1H20 operating performance was encouraging, management at many investment banks acknowledge that it may not be sustainable. As markets stabilize and COVID-19 impacts continue, it is expected that client activity may dissipate, which will drive slower IB revenue growth and have a knock-on impact on efficiency.
- ▶ This could lead to further restructuring of IB divisions, which typically includes refocusing on less capital intensive businesses, shifting risk weighted assets (RWAs) to commercial banking activities, cutting staff and shutting down trading units.
- ▶ *EY's global banking outlook 2020, Banking in the new decade* highlights how three big bets – resilience, cost leadership and customer centricity – can help banks free-up capital to invest in transformation even when profits are weak.



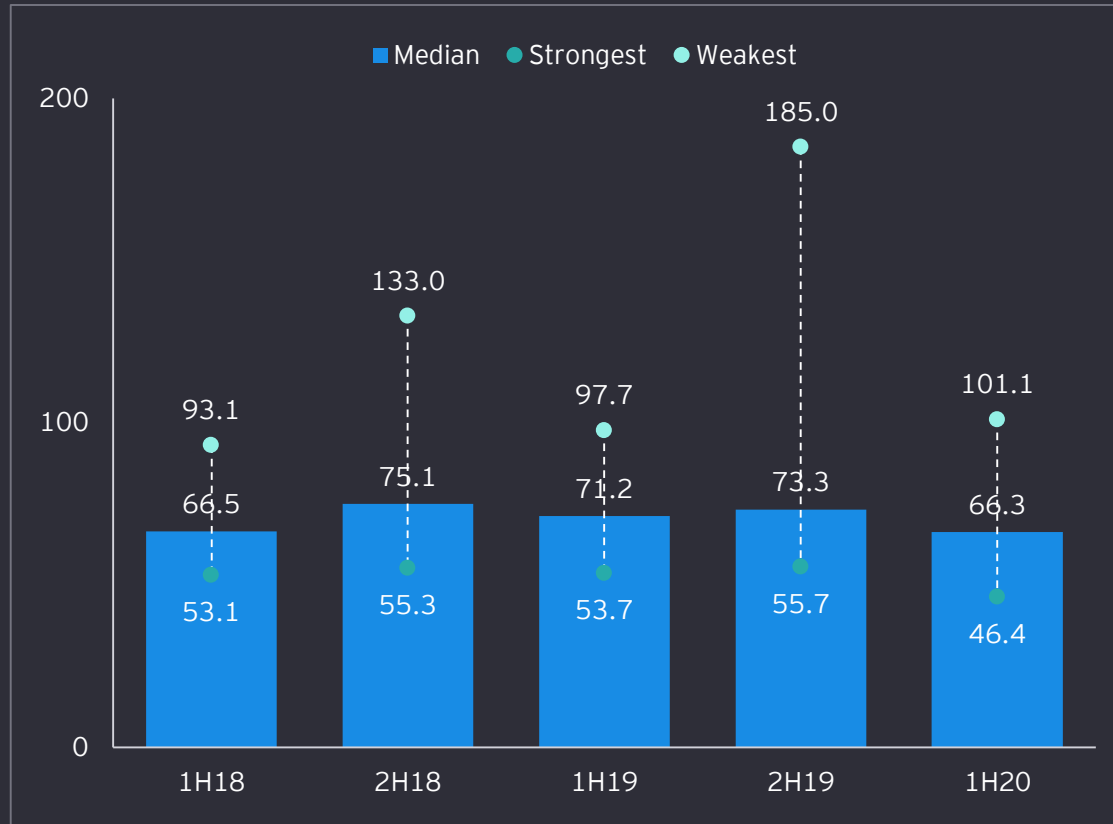
2

Business efficiency



Cost income ratio

Cost income ratio (%); median; 1H18-1H20



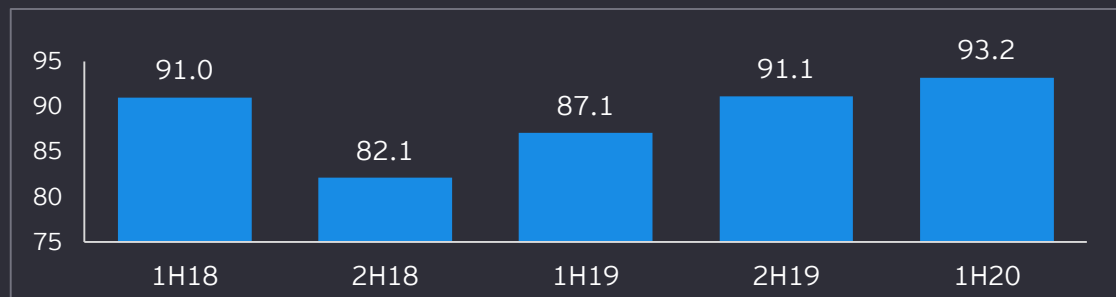
Industry efficiency improved as the median cost-income ratio (CIR) dropped to its lowest point in the last five periods

- ▶ In 1H20, industry efficiency improved YoY, as the majority of investment banks in our peer set reported positive jaws.
- ▶ The median CIR declined 4.8 pps to its lowest point in the last five periods, as 12 of the 16 investment banks in our peer set reported declining CIRs.
- ▶ The most efficient bank in our peer set recorded lower operating expenses, as the use of digital platforms (internally and by clients) increased. The investment bank with the greatest YoY efficiency improvement benefited from an absence of litigation expenses.
- ▶ The least efficient bank in our peer set was impacted by a significant increase in impairment charges.
- ▶ European investment banks performed better than their North American peers. European investment banks recorded a 7.2 pps decline in CIR compared to the 4.1 pps decline recorded by North American investment banks.
- ▶ However, median CIR for North American investment banks was significantly lower, at 55.0% compared to 70.8% for European investment banks.

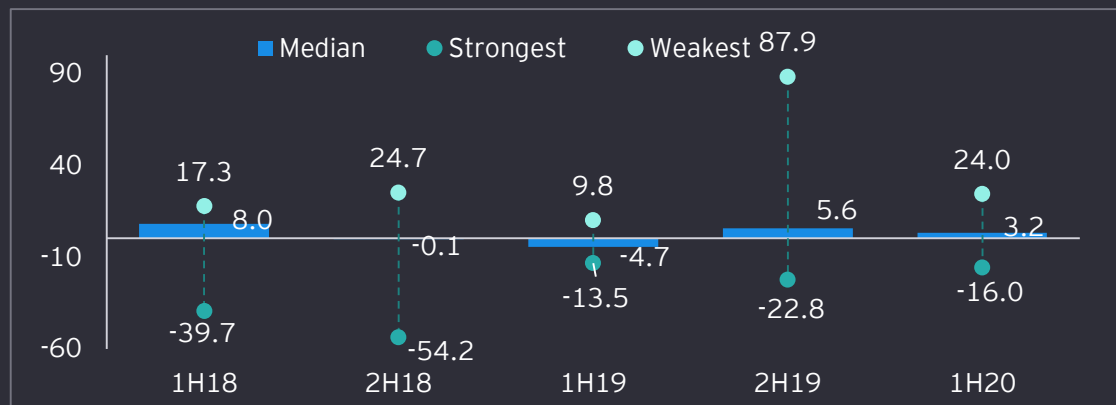
Source: EY Global Investment Banking Database; company filings.
Industry reporting of income statement data is subject to transparency and availability of public data.

Expense growth

Industry operating expenses (US\$b); 1H18-1H20



IB expense growth (%); median; YoY change



Operating expenses grew YoY, in line with revenue growth

- ▶ In 1H20, IB expenses rose 3.2% YoY, as banks were impacted by unexpected COVID-19-related expenses, as well as restructuring and litigation expenses.
- ▶ For the seven investment banks in our peer set that disclose compensation costs, median staff costs increased 10.4% YoY, as investment banks rolled out one-time benefits to support employees during the COVID-19 crisis.
- ▶ Meanwhile, non-compensation expenses grew 6.9% YoY, reflecting higher volume-related growth, increased investment in technology as investment banks moved to remote working conditions, restructuring-related integration expenses and costs associated with legal and litigation charges.
- ▶ Notably, in 1H20, IBs also spent less on expenses related to travel, conferences and power for unused facilities. Costs related to marketing, business development and professional services also declined, as lockdowns continued to be imposed globally. Savings in these areas partially offset the cost increases detailed above.

Source: EY Global Investment Banking Database; company filings.

Industry reporting of income statement data is subject to transparency and availability of public data.

Note: Operating expenses are the total expenses generated by a firm and include: personnel expenses, general and administration expenses (which include the cost of due diligence), provisions, losses and other expenses.

*Based on the 7 investment banks in our peer set, which report a break down of compensation and non-comp costs

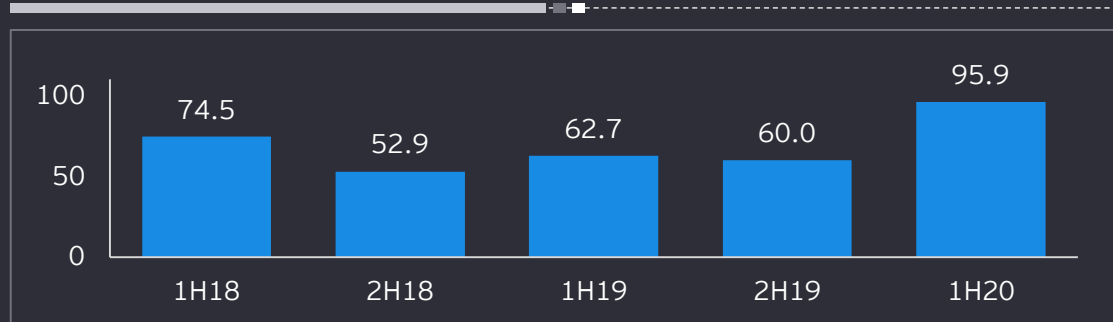


3

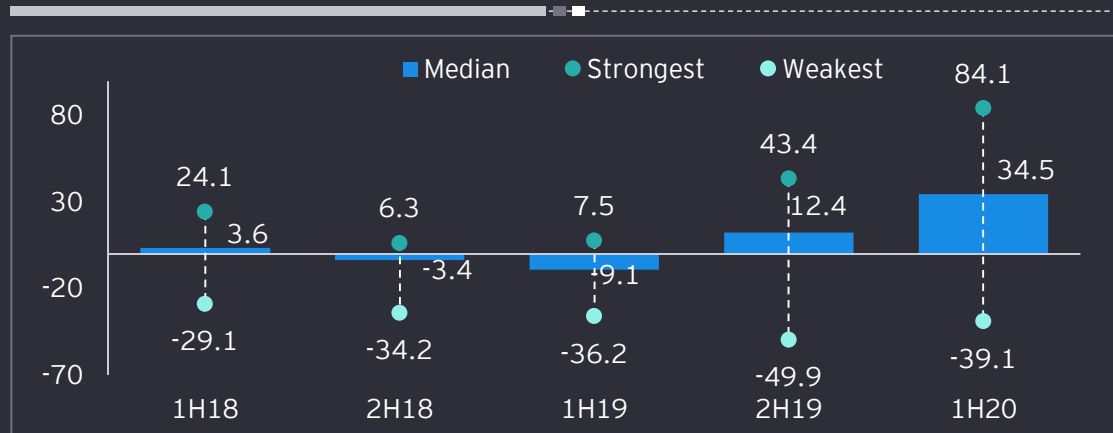
Analysis by business line

Sales and trading performance

Sales and trading revenues (US\$b); 1H18-1H20



Sales and trading revenues (%); median; YoY change



Sales and trading revenues benefited from higher client activity and volatility

- ▶ IB S&T revenues reached their highest level for the past five periods. Aggregate S&T revenues grew by 34.5% YoY in 1H20, driven by strong FICC, and equity trading revenues.
- ▶ Only one bank of the 16 in our peer set recorded a YoY decline in aggregate S&T revenue, reflecting poor performance in structured products.
- ▶ Falling interest rates, wider credit spreads and increasingly volatile conditions in the financial markets saw FICC revenues increase by 55.3% (slide 13). Equity trading revenues increased by 15.4% YoY in 1H20 due to market volatility (slide 14),
- ▶ S&T continues to account for the largest share of IB revenues. Contributions from S&T to total IB revenues increased from 50.7% in 1H19 to 60.1% in 1H20. This rise was mainly due to an increase in FICC contribution, up from 31.9% to 42.9% in the same period.
- ▶ Notably, investment banks believe that 1H20 trading performance will normalize in the second half of FY20.

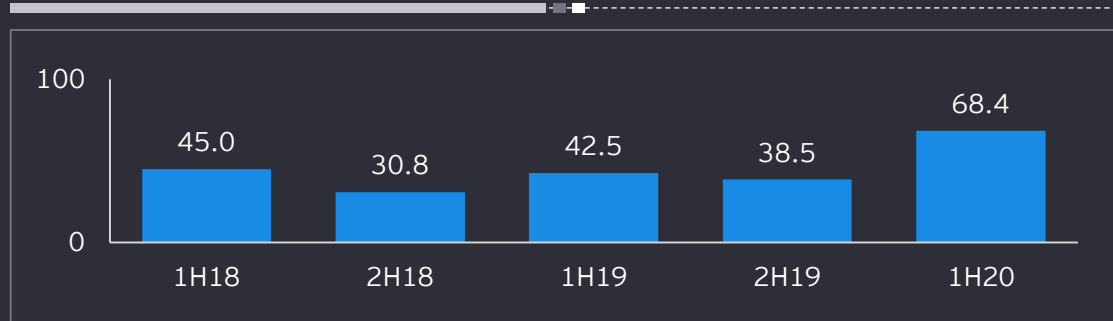
Source: EY Global Investment Banking Database; company filings.

Industry reporting of income statement data is subject to transparency and availability of public data.

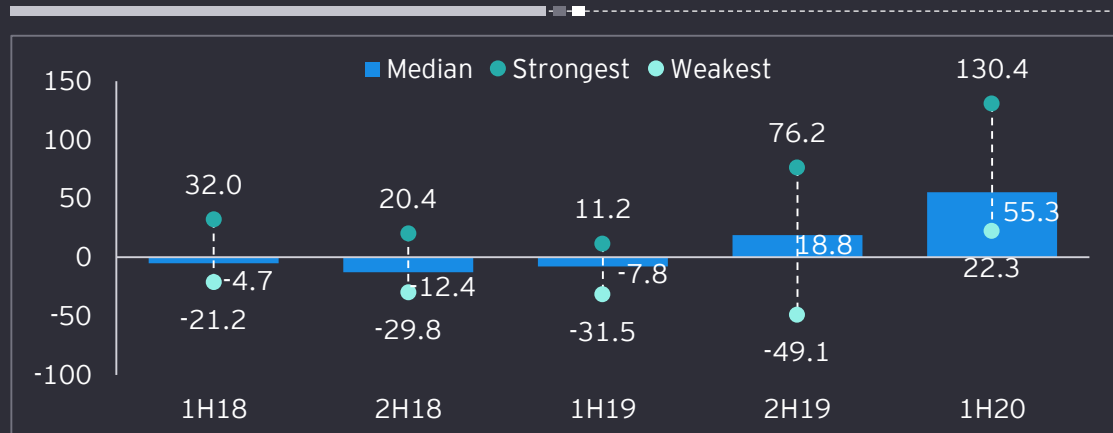
Note: Operating expenses are the total expenses generated by a firm and include: personnel expenses, general and administration expenses (which include the cost of due diligence), provisions, losses and other expenses.

FICC trading performance

FICC trading revenues (US\$b); 1H18-1H20



FICC trading revenues (%); median; YoY change



Strong FICC performance continued, as interest rates remained near-zero

- ▶ Increased client activity boosted FICC revenues to their highest level in the past five periods.
- ▶ Near-zero interest rates, high levels of client activity and volatility across all macro products led to record revenues from fixed income securities issuances.
- ▶ FICC trading benefited from increased demand for safe-haven products, driven by interest rate cuts, as well as widening credit spreads, a volatile US repurchase agreement or repo market, recovery of market liquidity and rapid resumption of bond issuances after the outbreak of the COVID-19 crisis.
- ▶ FICC performance varied across products: strong revenue growth in macro products, particularly rates, forex and emerging markets, more than offset weakness in certain credit-sensitive businesses.
- ▶ All of the investment banks in our peer set reported double digit YoY growth in FICC trading revenues, while FICC revenues more than doubled at three investment banks.
- ▶ The weakest performer of the peer set suffered due to restructuring initiatives in rates and franchises in emerging markets.

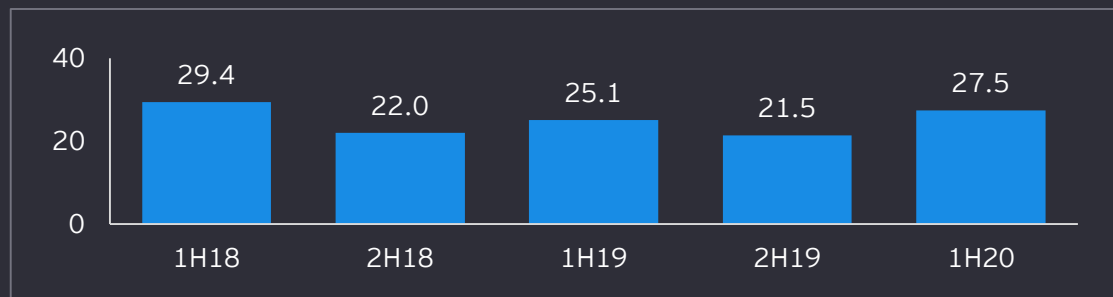
Source: EY Global Investment Banking Database; company filings.

Industry reporting of income statement data is subject to transparency and availability of public data.

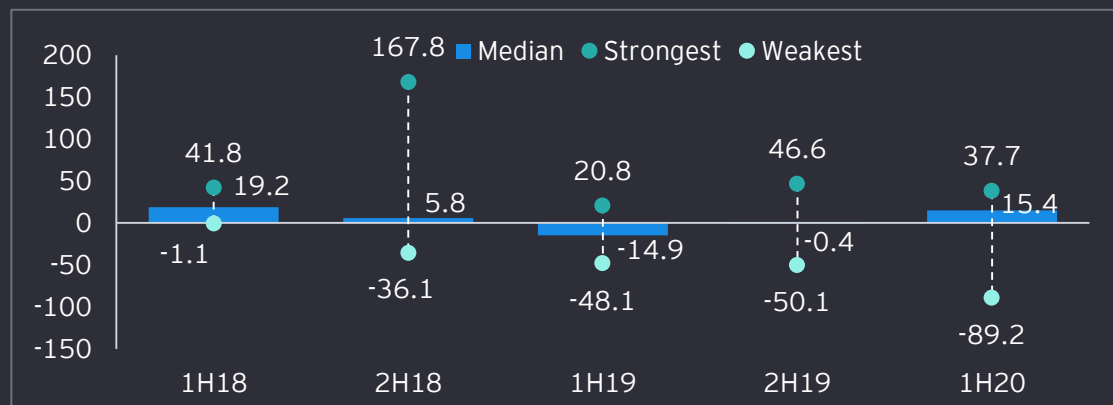
Note: Operating expenses are the total expenses generated by a firm and include: personnel expenses, general and administration expenses (which include the cost of due diligence), provisions, losses and other expenses.

Equity trading performance

Equity trading revenues (US\$b); 1H18-1H20



Equity trading revenues (%); median; YoY change



Equity trading rebounded, benefiting from high levels of volatility

- ▶ The value of global equity trading declined 5.3% from US\$44.4t to US\$42.0t, due to the market sell-off caused by the COVID-19 crisis. Globally, stock markets plummeted, posting their steepest declines since the 2008 global financial crisis.
- ▶ Equity trading revenues rebounded, reflecting elevated volatility and significant equity price movements in the wake of the COVID-19 crisis.
- ▶ Equity derivative revenues increased as a result of higher flow trading activity, while cash equity revenues rose due to increased client trading activity across the regions. Revenues from prime services also rose, reflecting higher client financing activity.
- ▶ Of the 14 investment banks in our peer set that report equity trading revenues, nine recorded a double-digit YoY increase in 1H20.
- ▶ Five investment banks in our peer set reported lower equity trading revenues, due to shocks to the markets in the first quarter and the impact of dividend restrictions across industries in Europe.

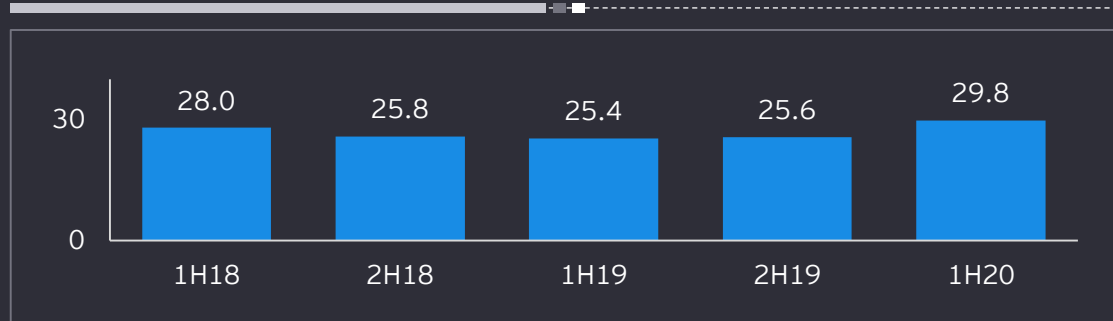
Source: EY Global Investment Banking Database; company filings.

Industry reporting of income statement data is subject to transparency and availability of public data.

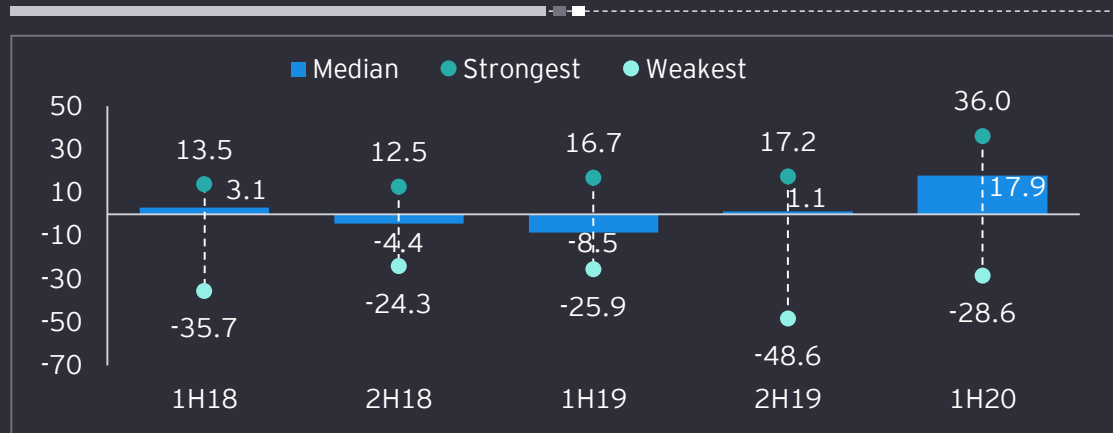
Note: Operating expenses are the total expenses generated by a firm and include: personnel expenses, general and administration expenses (which include the cost of due diligence), provisions, losses and other expenses.

Advisory and origination performance

Advisory and origination performance (US\$b); 1H18-1H20



Advisory and origination revenues (%); median; YoY change



Advisory and origination performance improved, reflecting higher underwriting revenues

- ▶ In 1H20, advisory and origination revenues grew 17.9% YoY. The increase was primarily driven by underwriting revenues as cash-poor firms looked for additional financing. Advisory revenues declined due to uncertainty in the markets.
- ▶ Debt underwriting revenues rose 26.9% YoY in 1H20, reflecting higher bond issuance activity as clients demanded increased financing. **(slide 16)**
- ▶ Equity underwriting revenues rose 59.3% YoY, as equity trading rebounded in the latter part of 1H20. **(slide 17)**
- ▶ M&A revenues declined 7.9% YoY as the COVID-19 crisis impacted CEO confidence and slowed deal activity and completion. **(slide 18)**
- ▶ Of the 15 investment banks in our peer set reporting advisory and origination revenues, 12 reported a rise in advisory and origination revenues YoY in 1H20.
- ▶ The weakest performer in the peer set suffered from muted equity capital market (ECM) and M&A activity, partially offset by higher debt capital market (DCM) activity.

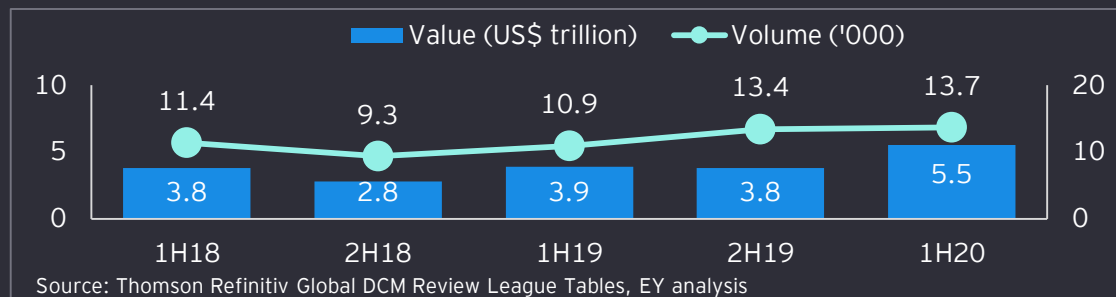
Source: EY Global Investment Banking Database; company filings.

Industry reporting of income statement data is subject to transparency and availability of public data.

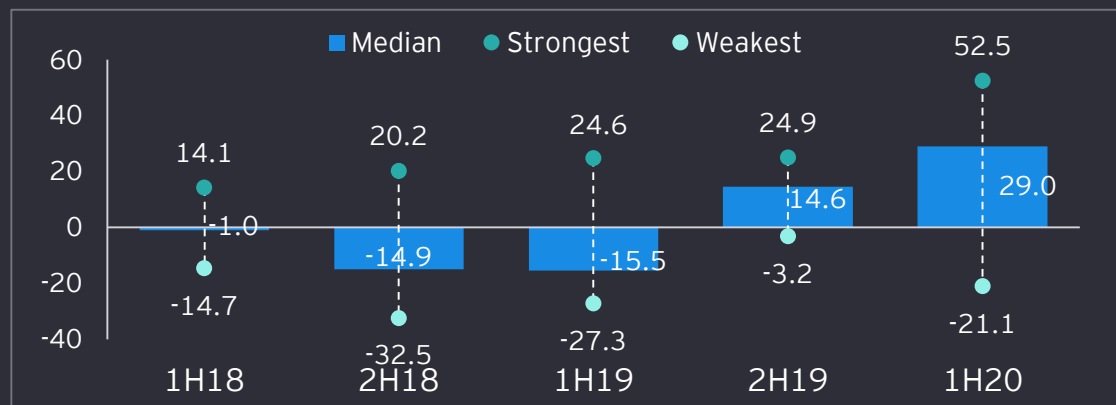
Note: Operating expenses are the total expenses generated by a firm and include: personnel expenses, general and administration expenses (which include the cost of due diligence), provisions, losses and other expenses.

Debt capital markets (DCM) performance

DCM issuance values and volumes; 1H18-1H20



DCM revenues (%); median; YoY change



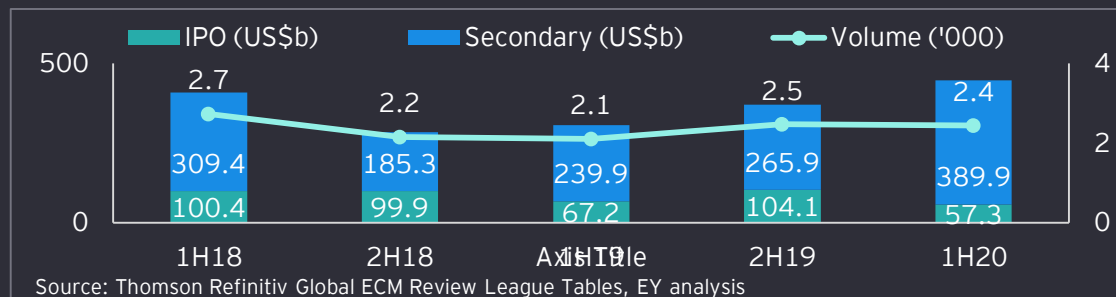
Source: EY Global Investment Banking Database; company filings.
 Industry reporting of income statement data is subject to transparency and availability of public data.
 Note: Nine of the 16 banks in our peer set report DCM revenues.

Debt underwriting revenues rose, as global interest rate cuts drove higher bond issuance activity

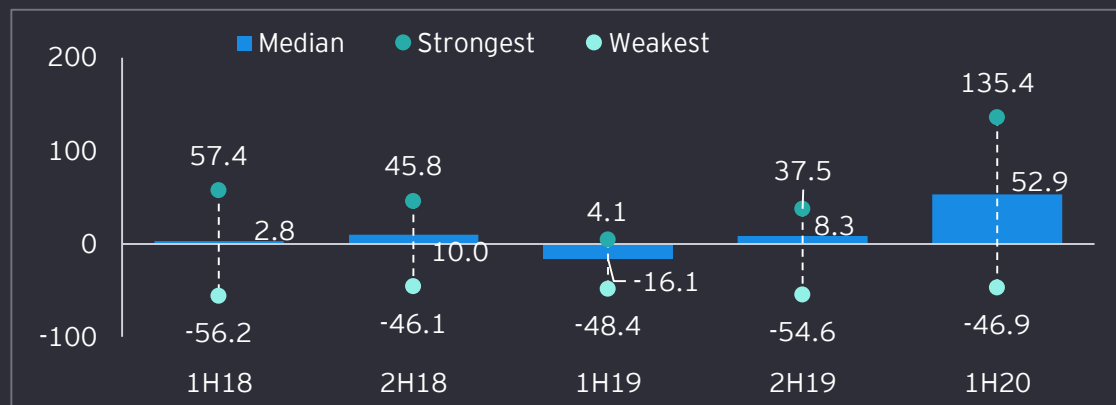
- ▶ Debt underwriting revenues rose in 1H20 in line with higher bond issuance activity, as investment banks helped clients take advantage of the evolving market conditions to source funding.
- ▶ Global DCM activity surged 35.0% YoY in 1H20, totaling US\$5.5t. This is the strongest first half performance for global debt markets since 1980.
- ▶ This was driven by the strong performance of global high-yield debt and US investment grade corporate debt. US-targeted investment-grade corporate debt offerings more than doubled YOY in 1H20, totaling US\$1.2t. March, April and May realized record levels of client activity, as issuers took advantage of near-zero interest rates. Global high-yield corporate debt increased 22% YoY.
- ▶ DCM activity saw double-digit percentage increases, compared to 1H19, in all industry sectors.
- ▶ International bond offerings totaled a record US\$3.1t during 1H20, a 38% increase YoY. However, green bond issuances decreased 17.0% YoY in 1H20, as the COVID-19 crisis delayed projects.

Equity capital markets (ECM) performance

ECM issuance values and volumes; 1H18-1H20



ECM revenues (%); median; YoY change



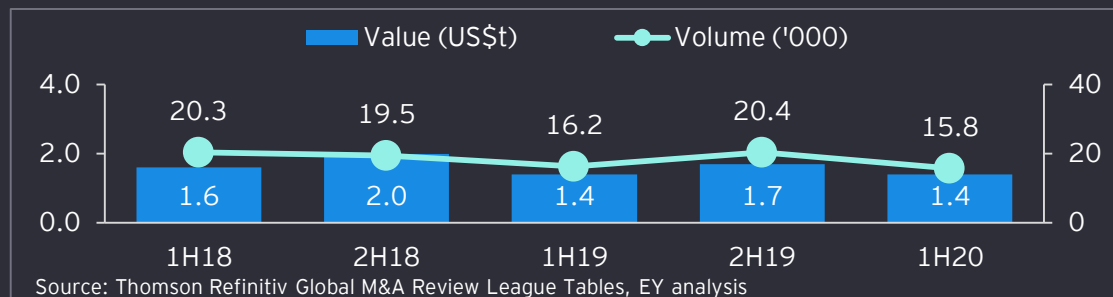
Source: EY Global Investment Banking Database; company filings.
 Industry reporting of income statement data is subject to transparency and availability of public data.
 Note: Eight of the 16 banks in our peer set report ECM revenues.

Equity underwriting revenues grew, despite slowdown in ECM activity

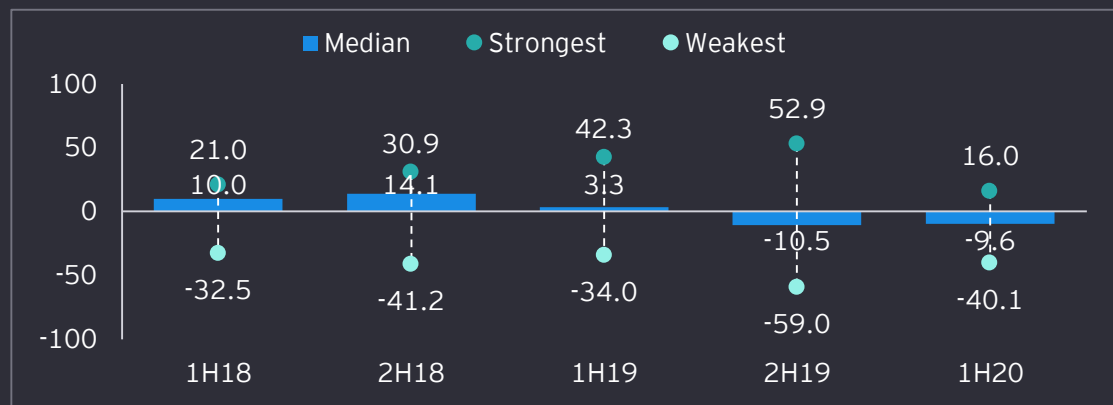
- ▶ Equity underwriting revenues increased, supported by proceeds generated from secondary offerings as ECM activity rebounded.
- ▶ Global ECM activity totaled US\$447.2b during 1H20, a 41% YoY increase and the strongest opening period for global ECM activity since 2015. ECM offerings from the US increased 76% YoY in 1H20, the Asia-Pacific region (APAC) increased 18% YoY and Europe, the Middle East and Africa (EMEA) increased 29% YoY.
- ▶ Global IPO activity declined 21% YoY in 1H20 as the COVID-19 impact was evident. While IPOs on US exchanges fell 33% YoY, China-domiciled IPOs rose 37% YoY.
- ▶ Global secondary offering activity increased 66.0% YoY, contributing to the strongest first half for this segment since 2016. Secondary offerings totaled US\$93.9b from 512 issues during June 2020, the second largest month for secondary offering proceeds behind December 2009 (US\$120.7 billion) and the largest ever month for the number of secondary offerings ahead of November 2017 (449).
- ▶ The best performing investment bank benefited from record levels of client activity and higher YoY change in market volumes.

M&A advisory performance

M&A deal values and volumes; 1H18-1H20



M&A advisory revenues (%); median; YoY change



Source: EY Global Investment Banking Database; company filings.
 Industry reporting of income statement data is subject to transparency and availability of public data.
 Note: 10 of the 16 banks in our peer set report M&A advisory revenues.

M&A advisory revenues declined, reflecting the slowdown in worldwide M&A activity amidst uncertainty

- ▶ M&A revenues declined as the COVID-19 crisis impacted confidence and slowed deal activity. There were fewer deal closings in 1H20, consistent with lower industry volumes.
- ▶ Global announced that M&A deal activity declined 41.0% YoY in 1H20, marking the slowest opening for M&A since 1H13. Five of the top 10 deals announced in 1H20 were EMEA based, where deal activity grew 37.0% YoY in 1H20. In the Americas and APAC, deal activity declined 69.0% and 8.0%, respectively.
- ▶ Industrials M&A accounted for 15% of overall M&A, down 17% compared to a year ago. Technology deal making accounted for 13% of activity during the first half of 2020, registering a 25% decrease in value and a 7% decrease in the number of deals compared to a year ago.
- ▶ Management teams are cautious about the future for transactions. M&A announcements have slowed, as volatility and uncertainty makes it difficult for buyers and sellers to agree on valuations. This will weigh on advisory revenues and impact underwriting businesses, due to a lack of event-driven financing opportunities to support acquisitions. However, in a post-COVID-19 scenario, M&A opportunities may rebound due to consolidations.



4

Appendices

Database overview

Size of the database (for year-end 2019)

US\$262.3b

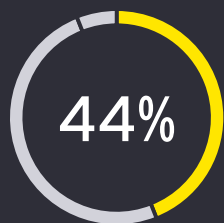
The combined sum of revenues for the investment banking divisions of the 16 global banks in our peer group.

Institutions covered (1H20)

16

The database tracks the performance of the investment banking divisions of banks with revenues greater than US\$6.5b in 2011; subject to data availability.

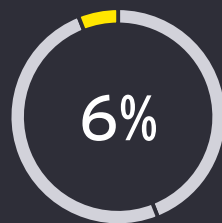
Geographic coverage (by headquarters)



North American firms



European firms



APAC firms

Data points (2007-1H20)

Over 20,000

The number of data points contained in the database, covering FY07 to 1H20 results.

Key Contacts



Dai Bedford

Global Capital Markets Leader
Global Banking & Capital Markets
dbedford@uk.ey.com



Karl Meekings

Lead Analyst
Global Banking & Capital Markets
kmeekings@uk.ey.com



Saoirse Kennedy

Analyst
Global Banking & Capital Markets
skennedy@uk.ey.com



Neha Datta

Analyst
Global Banking & Capital Markets
neha.datta@gds.ey.com



Aman Sinha

Analyst
Global Banking & Capital Markets
aman.sinha@gds.ey.com

EY | Assurance | Tax | Strategy and Transactions | Consulting

About EY

EY is a global leader in assurance, tax, strategy, transaction and consulting services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2020 EYGM Limited.
All Rights Reserved.

EYG no. 006204-20Gbl
GA 1016815

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com

