Yardeni Research

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Morning Briefing

Banks, Consumers & mRNA

Check out the accompanying chart collection.

Executive Summary: Investors in the stocks of big banks are looking forward to the earnings boosts likely in a lower-interest-rate environment, and their optimism has fueled nice share price momentum. The S&P 500 Financials sector lags only tech-related sectors ytd. Yet there were some concerning aspects of the major banks' Q2 earnings reports; their robust investment and trading business saved the day. … Are consumers' rising credit-card delinquencies a warning sign for consumer spending? No, reports Jackie; the evidence suggests that delinquency rates are simply normalizing after pandemic-related distortions. … And: Moderna is leveraging the mRNA technology of its Covid vaccines into treatments for a wide range of conditions.

Financials I: Banking on a Steeper Yield Curve. Large bank stocks have rallied sharply despite muted earnings growth because investors are hoping the Federal Reserve is on the cusp of cutting the federal funds rate. Doing so should lead to a steeper yield curve and improved net interest income (NII) during the second half of the year. In addition, investors may be optimistic that a second Trump presidency and the recent Supreme Court ruling that revokes the Chevron doctrine will lead to fewer regulations on the financial industry.

This rosy forward-looking view bypasses some of the warts in Q2 earnings, including the pressure on banks' NII because higher interest rates have made deposits more expensive. But investment banking and trading saved the day, with revenues and profits in trading and capital markets surging well above very low year-earlier levels. And credit quality at the nation's two largest banks remains solid, even with provisions for credit-card loans creeping back up to pre-pandemic levels.

The S&P 500 Financials stock price index has risen a respectable 15.4% ytd through Tuesday's close, lagging behind only tech-related sectors. Here's the ytd performance derby for the S&P 500 and its 11 sectors: Information Technology (33.4%), Communication Services (25.9), S&P 500 (18.8), Financials (15.4), Industrials (12.5), Consumer Discretionary (10.9), Utilities (10.6), Energy (10.3), Health Care (9.8), Consumer Staples

(9.1), Materials (7.4), and Real Estate (1.2) (*Fig. 1*).

Within the S&P 500 Financials sector, banking-related industries are the top ytd performers: Consumer Finance (27.7%), Diversified Banks (24.1), Regional Banks (15.0) and Investment Banking & Brokerage (14.4) (*Fig. 2*). The shares of American Express, Goldman Sachs, JPMorgan, and Morgan Stanley are all at record levels.

Here are some of the earnings report details:

(1) *Better days ahead.* High interest rates—particularly at the short end of the Treasury yield curve—are denting banks' bottom lines. Consumers are slowly pulling funds out of low interest rate bank accounts and shifting funds into higher-yielding alternatives. At $1.9 trillion, Bank of America's average deposits increased 1.9% y/y, but they were largely unchanged q/q and down 5.1% from Q2-2022. Likewise, the bank's non-interest-bearing deposits shrank from $597 billion in Q2-2023 to $514 billion last quarter.

At the same time, income from loans has been largely unchanged with loan volumes flat and rates rising but not as much as needed. BofA had outstanding loans and leases of $1.06 trillion last quarter, largely unchanged from $1.05 trillion the prior quarter and $1.05 trillion in Q2-2023.

As a result, NII—the difference between the bank's borrowing costs and its loan income—has declined at many banks (*Fig. 3*). BoA's NII fell 2.1% q/q and 2.8% y/y to $13.9 billion as "higher deposit costs more than offset higher asset yields and modest loan growth," per the company's *press release*. But management expects NII to improve during H2-2024, hitting $14.5 billion in Q4, thanks to cash-flow hedges rolling off the balance sheet, an extra day in Q3 versus a year earlier, and expectations for three Fed interest-rate cuts by year-end.

(2) *Wall Street saves the day.* While investors wait for NII to improve, trading and investment banking boosted Q2 results, helped by a roaring bull market and plateauing interest rates. JPMorgan's investment banking revenues jumped 46% y/y to $2.5 billion, and markets' revenues increased 10% y/y to $7.8 billion, with equities markets revenues popping 21% y/y to $3 billion.

Results have room for further improvement if the IPO market regains its groove. In Q2, 39 IPOs valued at $8.9 billion came to market. That's up nicely from 2023 when 23 deals valued at $6.6 billion were priced. But it's nowhere near the hot IPO market of 2021, when 118 deals worth $40.7 billion were sold, according to Renaissance Capital *data*.

Normally, a rising stock market would foster a robust IPO market. But until this week, mid-cap and small-cap stocks have languished, giving small private companies little reason to tap the public markets. Likewise, many private companies raised capital in the private markets a few years ago at "pretty high" valuations, noted JPMorgan's CFO Jeremy Barnum on the company's earnings *conference call*. Some of those companies might have to accept a lower valuation in the public markets, which their existing private investors wouldn't like to see.

Financials II: Still Seeing Consumer Strength. There has been growing debate over whether the past year's increase in credit-card delinquencies signifies post-pandemic normalization or consumers getting themselves in hot water. The delinquency rate on credit-card loans at all banks jumped to 3.16% in Q1 from less than half that, or 1.54%, in Q3-2021(*Fig. 4*).

There are a number of positive indications that credit-card delinquencies won't be problematic. The folks at BofA are optimistic that their credit-card delinquency rates will continue to plateau, the stocks of credit-card companies are on fire, and consumers are still clicking and tapping with no apparent hesitation suggests June's retail sales report.

Let's take a look:

(1) *A return to normalcy.* The credit-card default rate dropped during the pandemic as the government gave away money but consumers trapped at home had little to spend it on. As the world reopened and government subsidies ended, credit-card balances and delinquencies increased.

BofA's credit-card loss rate inched up to 3.88% in Q2 from 3.62% in Q1. And consumer net charge-offs—including on credit-card loans—increased to $1.06 billion, only slightly above the prior quarter's $1.03 billion but up sharply from the year-ago $720 million.

BofA believes net credit-card losses should stabilize during H2 because the 30-plus and 90-plus days delinquent amounts have plateaued, as has the delinquency rate.

(2) *Consumers shopping 'til they drop.* Consumers continue to actively use their cards. BofA saw combined Q2 consumer credit/debit card spending rise 6.5% q/q and 3.3% y/y to $233.6 billion. Meanwhile, Q2 credit-card outstanding balances dipped slightly to $99.0 billion from $99.8 billion in Q1 and rose 4.9% y/y.

The June retail sales report also indicated that consumers are spending freely. Retail sales were unchanged m/m in June; but excluding motor vehicle and parts, they rose by 0.4% m/m, and excluding gasoline station sales as well, they rose 0.8% m/m.

Eliminating auto sales makes sense because a software provider widely used by auto dealerships was hit with a cyberattack in mid-June through early July, causing salespeople to revert to using pen and paper. Sales at motor vehicle & parts dealers fell 2.0% m/m in June.

We also back out retail sales at gas stations because lower sales at gas stations reflect industry trends, not the health of the consumer. The price of gas fell in June m/m (*Fig. 5*). The average retail gasoline price in June was $3.45 a gallon, down from $3.60 in May, according to US Energy Information Administration *data*. In addition, cars appear to be getting more efficient, with miles traveled rebounding to pre-pandemic levels despite depressed gasoline usage (*Fig. 6*).

(3) *Boom times for credit-card companies.* The S&P 500 Consumer Finance stock price index, which is up 27.7% ytd to a record high, certainly isn't reflecting any investor concern (*Fig. 7*). After dipping in 2023, the industry's forward earnings has resumed its upward trend and appears headed toward new record highs (*Fig. 8*). (FYI: Forward earnings is the time-weighted average of analysts' consensus estimates for the current and following year; the forward P/E is the multiple based forward earnings.)

The S&P 500 Consumer Finance industry's revenues are expected to increase 7.7% this year and 5.5% in 2024, while earnings are forecast to jump 12.0% and 12.0% this year and next (*Fig. 9* and *Fig. 10*). The industry's forward P/E, at 13.3, is lower than that of the broader market, but it's at the high end of the industry's norm during non-recessionary years (*Fig. 11*).

The S&P 500 Diversified Banks stock price index is also at an all-time high (*Fig. 12*). While revenue growth is expected to be muted, at 3.1% this year and 1.0% in 2025, earnings are forecast to rebound from a 2.5% decline this year to 8.9% growth in 2025 (*Fig. 13* and *Fig. 14*). The industry's forward P/E, at 12.1, is also well below that of the broader market, but it's near the top of the industry's range during non-recessionary years over the past three decades (*Fig. 15*).

Disruptive Technologies: mRNA's Next Test. Moderna's mRNA technology played a major role in developing a vaccine to battle Covid. While the company still produces Covid vaccines, its ambitions are much grander. Moderna hopes its mRNA technology can battle cancers (melanoma, bladder, and renal cell), respiratory diseases (bird flu, RSV, and human flu), and other viruses (herpes and Epstein-Barr). Longer term, it aims to apply mRNA technology to treat heart failure, Lyme disease, and cystic fibrosis, among other ailments.

The company needs to diversify because after initially spiking, demand for Covid vaccines plummeted. Moderna's revenue peaked at $19.1 billion in 2022 and fell to $6.8 billion last year. Fortunately, Moderna's $8.5 billion of cash and investments gives the company some financial flexibility.

Let's take a look at some of the company's big plans:

(1) *Battling skin cancer.* Moderna has developed a vaccine that appears to be effective when administered along with Merck's Keytruda in fighting melanoma, a deadly form of skin cancer. In a trial, 75% of patients who took the two treatments were alive without any recurring cancer after two and a half years, an improvement from the 56% of patients who only took Keytruda. The overall survival rate was 96% using both treatments, up from 90% among patients who only took Keytruda.

"The vaccine, which uses the same mRNA technology as Moderna's Covid vaccine, is custom-built based on an analysis of a patient's tumors after surgical removal. The shot is designed to train the immune system to recognize and attack specific mutations in cancer cells," a June 3 CNBC *article* reported.

(2) *Battling bird flu.* Moderna recently received a $176 million award from the US government to advance the development of a bird flu vaccine. The urgency around developing the vaccine increased after the outbreak of bird flu in 130 herds of dairy cows in 12 US states this year. Three dairy workers have been infected with bird flu since March.

"Scientists are concerned that exposure to the virus in poultry and dairy operations could increase the risk that the virus will mutate and gain the ability to spread easily among people, touching off a pandemic," a July 2 CNBC *article* reported. Moderna began testing its bird flu vaccine in healthy adults last year and expects results this year.

(3) *Battling respiratory diseases.* Moderna's RSV vaccine was approved last month, making it the first mRNA vaccine approved after Moderna's Covid vaccine. However, Moderna's RSV vaccine was only 50% effective after 18 months, while RSV vaccines from GSK and

Pfizer were still 78% effective at preventing the disease after 18 months, a June 26 Reuters *article* reported.

Moderna is also working to develop one shot that will protect against both flu and Covid. The company reported that patients aged 50 or over who received the combo shot in its latest trial had a stronger immune response than adults who received Moderna's Covid vaccine along with a traditional flu shot, currently available from GSK and Sanofi, a June 10 Reuters *article* reported. Moderna hopes its combo vaccine will be available in the fall of 2025 or 2026.

Calendars

US: Thurs: Leading Indicators -0.3%; Initial Claims 229k; Philadelphia Fed Manufacturing Index 2.7; Logan; Daly; Bowman. **Fri:** Baker-Hughes Rig Count; Williams; Bostic. (FXStreet estimates)

Global: Thurs: ECB Interest Rate Decision & Deposit Facility Rate 4.25%/3.75%; UK Average Earning Index Including Bonus 5.7%; UK Claimant Count Change 23.4k; UK Unemployment Rate 4.4%; UK Gfk Consumer Confidence -12; Eurogroup Meetings; Germany Buba Monthly Report; Lagarde. **Fri:** Germany PPI 0.1%; UK Retail Sales -0.6%. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* advanced to a 13-week high of 3.81, up from last week's 3.50. It was at 4.43 15 weeks ago—which was the highest reading since February 5, 2018. *Bullish sentiment* climbed from 62.7% to 63.6% this week, exceeding the end of March's peak rate of 62.5% for the most bulls since 2021. Meanwhile, *bearish sentiment* fell from 17.9% to 16.7%, which again was the fewest bears since just 14.1% in late March 2024 (which also saw the last high for the bulls, which was just exceeded). The *correction count* edged up from 19.4% to 19.7%, continuing in the narrow near 20% area of the last six weeks. Turning to the *AAII Sentiment Survey* (as of July 11), individual investors' optimism about the short-term jumped, while both neutral sentiment and pessimism declined. *Bullish sentiment* jumped 7.4ppts to 49.2%—unusually high and above its historical average of 37.5% for the 35th time in 36 weeks. Neutral sentiment fell

3.1ppts to 29.1% below its historical average of 31.5% for the 10th time in 17 weeks, while *bearish sentiment* dropped 4.4ppts to 21.7%—remaining below its historical average of 31.0% for the ninth time in 10 weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin remained steady w/w at a 24-month high of 13.3% during the July 11 week. That's up from a 24-month low of 12.3% during the March 30, 2023 week and just 0.1pt below its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 3.0pts above its seven-year low of 10.3% during April 2020. Forward revenues ticked down less than 0.1% w/w from a new record high. Forward earnings fell less than 0.1% w/w from a record high too. It had hit that mark during the September 21, 2023 week for the first time since the June 16, 2022 week. Revenues and earnings had been steadily making new highs from the beginning of March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth remained steady w/w at a 21-month high of 5.6%. It has gained 3.3pts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast was unchanged w/w at a 33-month high of 13.2%. It's now 9.9pts above its 31-month low of 3.3% during the February 16, 2023 week. That's down from its 23.9% reading at the end of April 2021, which was at its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 4.7% in 2024 (unchanged w/w) and 5.8% in 2025 (down 0.1pt w/w) compared to a revenues gain of 2.2% in 2023. They expect an earnings gain of 10.3% in 2024 (down 0.2pt w/w) and a 14.9% rise in 2025 (up 0.2pts w/w) compared to an earnings gain of 2.5% in 2023. Analysts expect the profit margin to rise 0.7ppt y/y to 12.6% in 2024 (unchanged w/w), compared to 11.9% in 2023, and to rise 1.0ppt y/y to 13.6% in 2025 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.4pts w/w to a 31-month high of 21.6. That's up from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.05pts w/w to a 31-month high of 2.86. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 31-month low of 1.98 in October 2022. That also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Looking at the 11 S&P 500 sectors during the July 11 week, forward revenues rose for five sectors and forward earnings moved higher for four. This led to rising forward profit margins w/w for four of the 11 sectors. These three sectors had forward revenues at a record or post-pandemic high this week: Communication Services, Consumer Discretionary, and Information Technology. Financials' forward revenues would be at a record high too when adjusted for the incoming transfer of five former Tech sector firms in March 2023. Five sectors remain less than 0.8% below their recent post-pandemic highs: Consumer Staples, Health Care, Industrials, Real Estate, and Utilities. The two remaining sectors have forward revenues more than 5.0% below their post-pandemic highs: Energy and Materials. Three sectors have record-high forward earnings this week: Consumer Discretionary, Information Technology and Utilities. Financials would be too adjusted for GICS changes in March 2023. Just two sectors still have forward earnings down more than 19.8% from their post-pandemic highs: Energy and Materials. Three sectors are less than 1.0% from their recent record highs in forward earnings: Communication Services, Consumer Staples, and Industrials. The remaining two sectors, Health Care and Real Estate, are 6.5% and 3.7% below their highs. Looking at the forward profit margin, nearly all of the sectors are showing signs of recovering from their early 2023 forward profit margin lows. Information Technology is the only sector with a forward profit margin at a record high this week. In recent weeks, Communication Services, Consumer Discretionary, and Industrials were in that camp as well. Energy's forward margin is up to 10.7% now from its 23-month low of 10.4% in February, while those of Consumer Staples and Health Care remain at or slightly above their record lows. The annual profit margin is expected to fall y/y in 2024 for Energy, Materials, and Real Estate and to improve for the other eight sectors. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.3%, up 0.1pt w/w to a new record high), Financials (19.1, down 0.1pt w/w and down from its 19.8 record high in August 2021), Communication Services (17.8, record high this week), Real Estate (17.1, down from its 19.2 record high in 2016), Utilities (14.0, down from its 14.8 record high in April 2021), S&P 500 (13.3, a 24-month high and just 0.1pt below its record high of 13.4 achieved intermittently in 2022 from March to June), Materials (11.6, up 0.4pt to a 20-month high and down from its 13.6 record high in June 2022), Energy (10.7, down 0.1pt w/w from its recent six-month high of 10.9 and down from its 12.8 record high in November 2022), Industrials (10.8, matches its prior record high from September 2023), Consumer Discretionary (9.1, a record high this week), Health Care (8.7, up 0.2pts from its record low at the end of April and down from its 11.5 record high in February 2022), and Consumer Staples (6.9, down from its 7.7 record high in June 2020).

US Economic Indicators

Industrial Production (*link*): Industrial production in June was stronger than expected. *Headline* production expanded 0.6%, double the expected 0.3% gain, following May's unrevised 0.9% increase, which was the largest advance since last July. *By industry*, manufacturing also beat expectations, increasing 0.4%, double the expected gain, following May's upwardly revised 1.0% (from 0.6%). Nondurable goods manufacturing led June's gain, rising 0.8%, with only plastic & rubber products (-0.4%) in the red. The biggest gains in production were recorded by printing & support (2.6), textile & product mills, apparel & leather, and paper—which all increased 1.5% during the month. Meanwhile, manufacturing production was flat last month, with gains in output for motor vehicles (1.6) and electrical equipment, appliances & components (1.5) offset by declines in fabricated metals (-1.3) and miscellaneous (-1.7). *By market group*, gains were also widespread, led by *consumer goods* output, which climbed 1.0% on extensive gains—led by energy (2.7) and automotive products (1.7), with only a handful of declines. *Business equipment* output slipped 0.4%, as declines in information processing (-1.0%) and industrial (-0.8) equipment more than offset the 1.2% gain in transit equipment.

Capacity Utilization (*link*): The *headline* capacity utilization rate increased from 78.3% in May to a nine-month high of 78.8% in June, nearing its recent peak of 81.1% in September 2022. June's rate is 0.9ppt below its long-run (1972-2023) average. The *manufacturing* utilization rate climbed for the second month to 77.9% in June, from 76.9% in April; it peaked recently at 80.0% in April 2022. It's currently 0.4ppts below its long-run average. Meanwhile, the *mining* utilization rate was little changed at 89.3 in June—a rate that is 2.8ppts above its long-run average. The *utilities* rate rose for the third straight month, from 68.6% in March to 73.8% during June, though remains well below its long-run average.

Housing Starts & Building Permits (*link*): Both housing starts and building permits rebounded in June from May's plunge. *Housing starts* jumped 3.0% in June to 1.353mu (saar), led by a 23.1% surge in multi-family starts to 373,000 units (saar), while single-family starts slumped for the fourth successive month by 2.2% m/m and 13.6% over the period to 980,000 units (saar). *Total starts* were down 4.4% y/y in June, led by a 23.1% plunge in multi-family starts, while single-family starts were 4.4% below a year ago. Meanwhile, *building permits*, a proxy or future construction, rose 3.4% to 1.446mu (saar), on a 15.6% jump in multi-family projects, while single-family permits fell 2.3% to 934,000 units. Permits are 3.1% below a year ago, with single-family permits down 1.3% y/y and multi-family permits down 6.4%. *Builder sentiment* in July fell for the third straight month, after not posting a decline since November, as high mortgage rates, along with elevated rates for construction and development loans, continued to depress building sentiment. The *housing market index (HMI)* fell 1 point in July and 9 points during the three months through July, to 42—the lowest reading since December 2023.

Global Economic Indicators

Eurozone CPI (*link*): The *Eurozone CPI* was 2.5% y/y in June, down from 2.6% in May and holding near the recent low of 2.4% in April and March—which was its lowest rate since summer 2021—while the *core CPI* remained at 2.9% in June, up from to 2.7% in April, which was the lowest since February 2022. Both are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. Looking at the components, the *services* rate remained at 4.1% in June, up from April's 3.7%, which was the lowest percentage since July 2022, while the rate for *energy* (-0.8%) prices fell back into negative territory after a brief trip above in May (0.2) and April (0.3). Meanwhile, the rate for *food, alcohol & tobacco* eased again in June, slowing to 2.4%. Among the four *largest Eurozone countries*, Germany (2.5% y/y from 2.8% y/y), France (2.5 from 2.6), Italy (0.9 from 0.8), and Spain (3.6 from 3.8) are down from their peaks of 11.6%, 7.3%, 12.6%, and 10.7%, respectively. Yearly rates for Germany, France, and Spain all eased in June, while Italy's ticked up—though has the lowest rate of the group.

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