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Déjà vu?
European Banks Now vs
U.S. Banks in 2011
(and what followed)

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The S&P 500 Index ("SPX") is a widely known capitalization-weighted equity index of U.S. large-cap companies. The S&P 500 Financials Index ("S5FINL", "U.S. Financials") is a sub-set of the S&P 500 Index of those U.S. companies classified as financials by global industry classification standards ("GICS"). The S&P/TSX Financials Index ("STFINL", "Canadian Financials") is a sub-set of the S&P/TSX Index of those Canadian companies classified as financials by GICS. The S&P Global 1200 Financials Index ("SGFS", "Global Financials") is a sub-set of the S&P Global 1200 Index of those companies classified as financials by GICS. The KBW Bank Index ("BKX") is a modified capitalization-weighted equity index of 24 U.S. large-cap banks, including money centers and large regionals. The S&P/TSX Diversified Banks Index ("STDBNK", "Canadian Banks") is a sub-set of the S&P/TSX Index of those Canadian companies classified as diversified banks by global industry classification standards ("GICS").

The STOXX Europe 600 Banks Index ("SX7P", "European Banks") is a capitalization-weighted equity index which includes European companies involved in the banking sector. This index is denominated in euros, and hence its returns are influenced both by movements in the underlying stocks, as well as the movement in the currency of the various stocks versus the euro.

Déjà vu? – Euro Banks Now vs. U.S. Banks at Similar Point in Cycle

Slide #1 shows that since the trough in 2011, that European bank earnings have seen earnings recover from close to zero to 70% of pre-cycle levels...

Yet ... this recovery has NOT been matched by stock prices as a macro driven correction (China/oil) has resulted in multiple compression.

Where were U.S. banks at the same time of their credit recovery?

Slide #2 shows that at a similar stage of earnings recovery (~80%) as their European counterparts at present, U.S. banks were also in the midst of a macro correction (from Europe) and shares also unchanged from earnings trough

What happened next?

The fundamental earnings recovery was eventually reflected in stock prices, with the large-cap U.S. banks (BKX) rising 30% in 2012, 35% in 2013, and 7% in 2014.

European Bank Earnings Recovering, but NOT Stock Prices

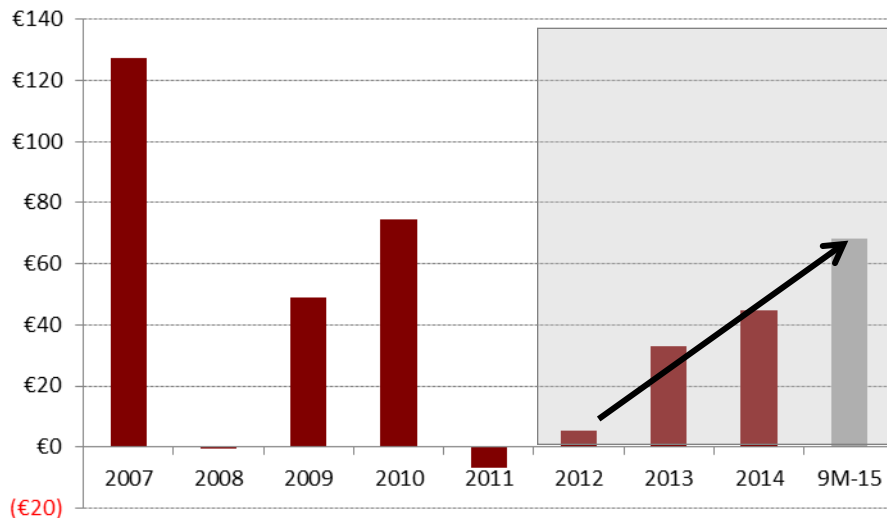
■ Total Sector Earnings Now ~70% Recovered; But Share Prices Unchanged

Since 2011, the top 50 European banks have seen earnings recover significantly, and rapidly move towards “normal”. In 9M-15, annualized earnings represented ~70% of ‘normal’ (**bottom left**).

Despite this recovery, index levels/share prices are essentially flat (**bottom right**), with valuations similar to that when profits were negative (i.e., the sovereign debt crisis).

Since 2011, earnings have recovered from an annual loss to ~70% of “normal” (annualized) ...

Aggregate Reported Earnings (in blns)
Top 50 European Banks



Source: Hamilton Capital, Company Reports, SNL Financial

... yet, bank stocks are flat over the same period⁽¹⁾

European Bank Index Prices (SX7P)



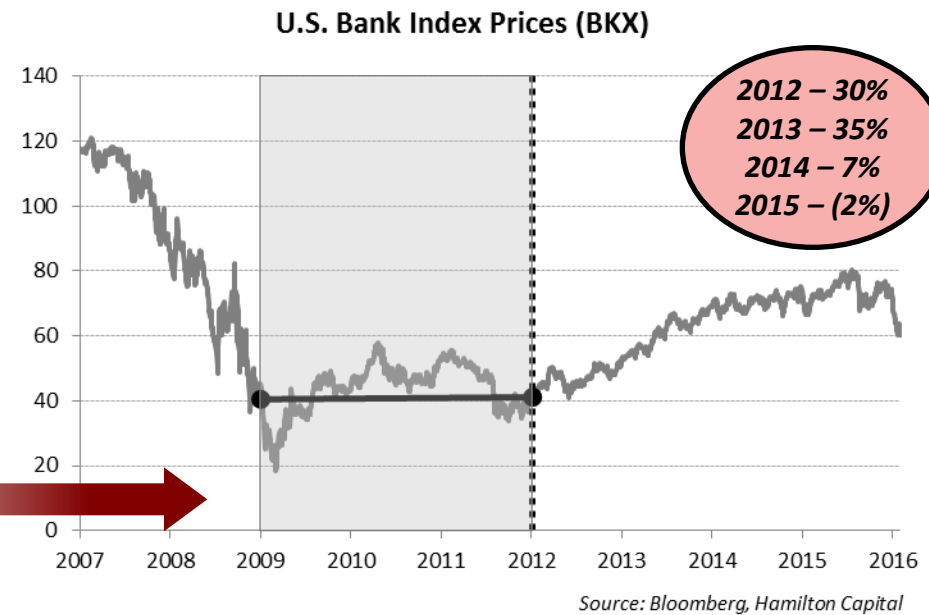
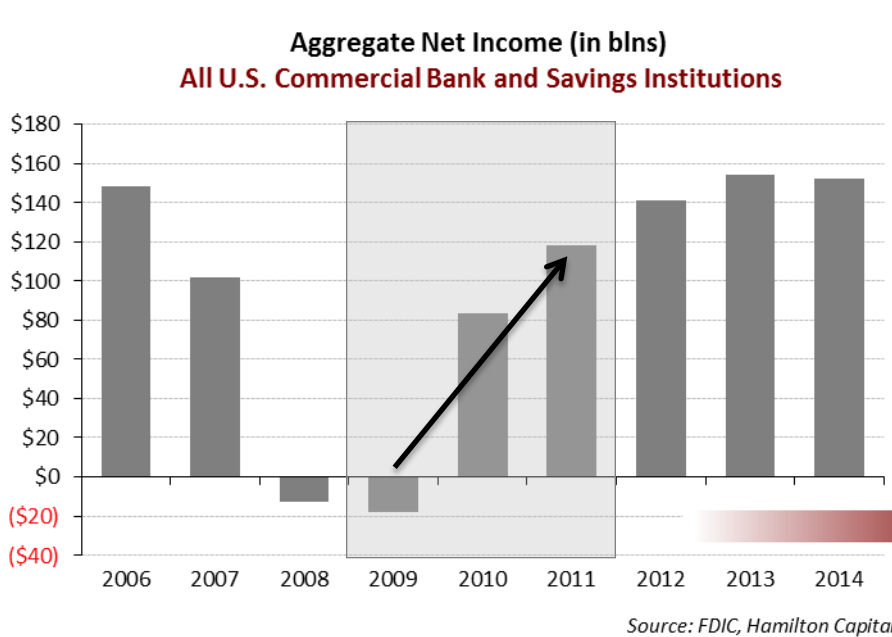
Source: Bloomberg, Hamilton Capital

1. Historical price returns as of January 29th, 2016. "European Bank Index" represented by the SX7P Index.

U.S. Banks in 2011 Looked Similar to European Banks Today

■ U.S. Bank Earnings ~80% Recovered at end of 2011; Similar to Europe Today

U.S. bank earnings by the end of 2011 were at a similar stage in their recovery as European banks are today, at ~80% of “normal”. Also like European banks today, U.S. bank share prices at this time lagged the fundamental recovery in bank profitability, remaining essentially flat since the start of the recovery in 2009. Eventually stock prices did catch up, with the large-cap U.S. banks (BKX) rising 30% in 2012, 35% in 2013, and 7% in 2014⁽¹⁾.



1. Historical price returns as of January 29th, 2016. “U.S. Bank Index” represented by the BKX Index.



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