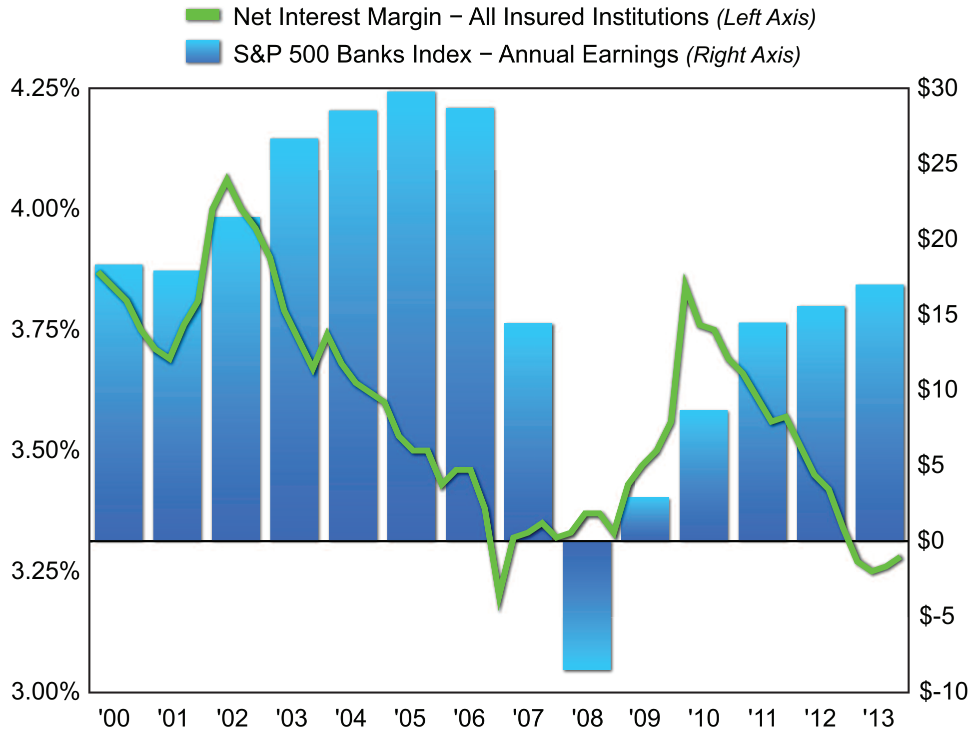
Investors Looking To Play The Recovery In Bank Stocks May Need Some Patience



Source: Bloomberg.

View from the Observation Deck

1. Banking institutions were at the epicenter of the U.S./global financial crisis from 2008 through Q1'09. As indicated in the chart, earnings plunged.
2. The S&P 500 Banks Index declined 88% from its all-time high on 2/20/07 to its financial crisis trough on 3/5/09, according to Bloomberg.
3. While bank stocks have already rebounded significantly from their lows, the S&P 500 Banks Index still stood 47.2% below its all-time high (2/20/07) on 7/9/14.
4. With the broader market indices trading at or near their all-time highs, the banking sector is one of the few niches of the market still priced at a "deep value," in our opinion.
5. Earnings are rebounding, but are well below the 2003-2006 pace set during the housing boom.
6. While Bloomberg's 2014 estimated earnings growth rate on the S&P 500 Banks Index was -10.17% as of 7/10/14, its 2015 estimate stood at 15.28%. This is why we believe some patience may be in order.
7. For banking institutions, net interest margin (NIM) is essentially the spread between the interest earned from the bank's loan portfolio and the amount of interest the bank pays on its deposits.
8. That spread has been shrinking in recent years. We believe that higher interest rates could enable banks to boost that spread by charging more on loans, but it could take a while to get there.

The chart and performance data referenced are for illustrative purposes only and not indicative of any actual investment. The index performance data excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The S&P 500 Banks Index is capitalization-weighted and comprised of S&P 500 constituents representing the banking sector.

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