# HEALTH CHECK: Q3 2020 WEALTH FINANCIALS

## LARGE FIRM FINANCIALS, IM&T, NONTRADITIONALS

# LARGE FIRM Q3 FINANCIALS

**Wealth management assets, loans, and deposits grew in Q3; revenues were up for most firms.**

The Q2 recovery extended into Q3, albeit at a slightly slower pace. Although *average* wealth management revenues were down 4.7% from a year ago (top), the median large private bank actually saw revenue improve both year-over-year and quarter-over-quarter (page 3). In general, firms saw stronger noninterest revenue growth thanks to higher market valuations and improved sales volumes, but this was largely offset by net interest income decreases.

**The good:**

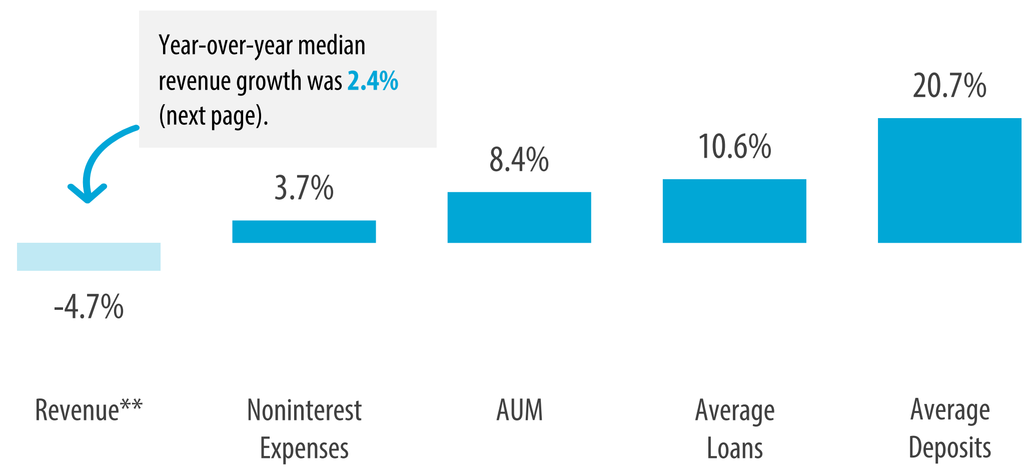
- *Assets*. Many firms achieved record high client balances driven primarily by higher market valuations and client inflows. This bodes well for Q4 noninterest revenues.
- *Loans*. Loans were up in Q3 due to a slight increase in consumer loans. For many, this has been a record loan year.
- *Provisions for credit losses*. For the first time in two quarters firms either decreased or reversed their provisions for credit losses, reflecting optimism about the economy.

**The bad:**

- Some firms saw slower revenue growth as clients shifted assets to lower-fee investments. Other firms have lost assets to discount brokerages and self-directed investments. These trends could have major implications for future revenues if they continue.
- Recent spikes in COVID cases may lead to a new wave of state and local shutdowns, prolonging the economic recovery well into next year.

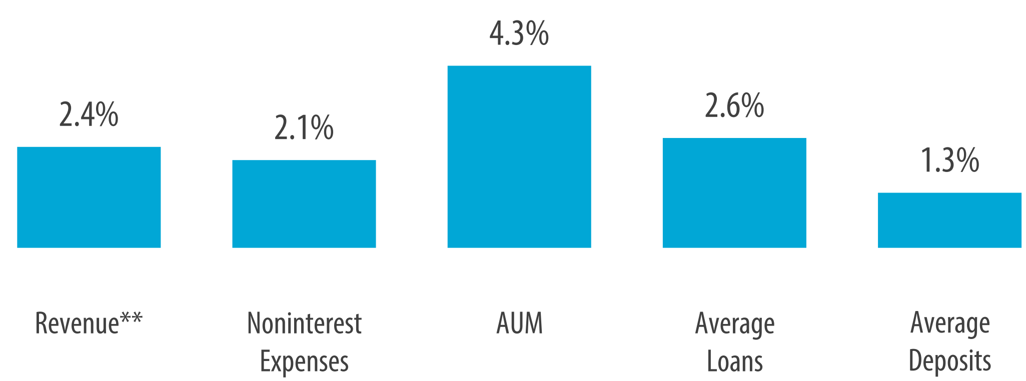
**Year-over-year Growth Rates, Large Private Banks and Wirehouses***

**Weighted Averages**, Q3 2020 vs. Q3 2019 Change




**Quarter-over-quarter Growth Rates, Large Private Banks and Wirehouses***

**Weighted Averages**, Q3 2020 vs. Q2 2020 Change




**Methodology**

WISE analyzed Q3 2020 earnings reports for 13 of the largest private banks and wirehouses in the US. *Where possible and unless noted, data are for wealth management businesses only. Some public domain data, however, are commingled with other business lines such as brokerage or asset management. RBC was removed from this analysis because their financial calendar does not align with other firms in this report. For more detail, please see page 7. **Revenues include both net interest and noninterest revenues.

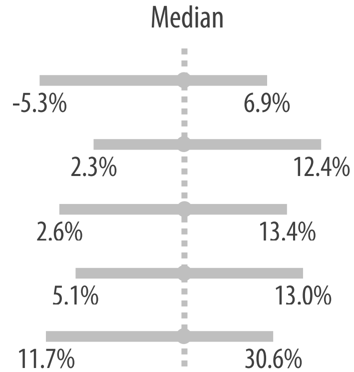
# LARGE FIRM Q3 FINANCIALS

The median large private bank saw a year-over-year increase in revenue of 2.4% (item 1, left). The top 25% of firms saw at least 6.9% in total growth, a significant improvement from just last quarter, which saw flat or declining revenue. Revenues relative to Q2 did even better, improving 3.5% from Q2 revenue (item 1, right). Once again, most firms reported double-digit year-over-year growth rates in deposits (item 5, left) and reported modest quarter-over-quarter growth in total AUM (item 3, right). As mentioned on the previous page, however, loan and deposit growth appear to be slowing (items 4 and 5, right).

**Key Wealth Growth Rates, Interquartile Ranges***

**Year-over-year (Q3 2020 vs. Q3 2019 Change)**

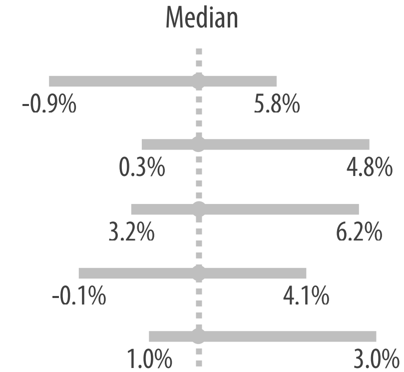
| | **Median** |
|---|---|
| 1. Revenue** | **2.4%** |
| 2. Noninterest Expense | **6.3%** |
| 3. AUM | **8.5%** |
| 4. Average Loans | **8.9%** |
| 5. Average Deposits | **23.2%** |




**Key Wealth Growth Rates, Interquartile Ranges***

**Quarter-over-quarter (Q3 2020 vs. Q2 2020 Change)**

| | **Median** |
|---|---|
| 1. Revenue** | **3.5%** |
| 2. Noninterest Expense | **1.5%** |
| 3. AUM | **4.1%** |
| 4. Average Loans | **2.1%** |
| 5. Average Deposits | **1.4%** |




Interquartile range (IQR): the range from the 25th to 75th percentiles (i.e., the middle 50%). The IQR is represented by the gray line. For example, year-over-year revenue (left chart, item 1) ranged between -5.3% and 6.9% for the middle 50% of firms.

**Methodology**

WISE analyzed Q3 2020 earnings reports for 13 of the largest private banks and wirehouses in the US. *Where possible and unless noted, data are for wealth management businesses only. Some public domain data, however, are commingled with other business lines such as brokerage or asset management. RBC was removed from this analysis because their financial calendar does not align with other firms in this report. For more detail, please see page 7. **Revenues include both net interest and noninterest revenues.

# IM&T Q3 FINANCIALS

**Investment management and trust revenues had their best quarter in 2020.**

Key performance outcomes in the larger and more diverse FFIEC dataset are similar, if not better than those for large private banks and wirehouses (page 2). Observations:

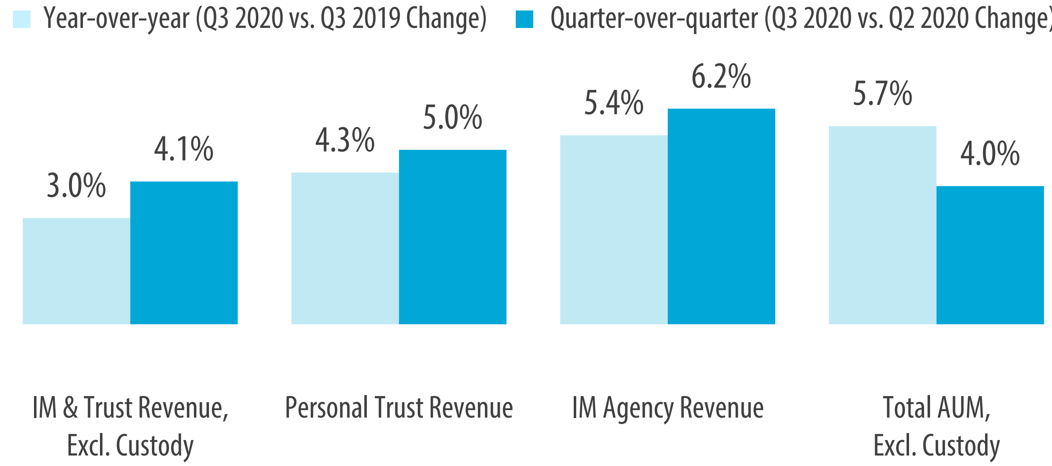
- *Q3 revenues*. Revenues for the median firm grew 4.1% versus Q2 and were up 3.0% compared to this time last year (top left). In general, revenue was up for nearly every category.
- *Q3 assets*. Assets increased steadily in Q3. While not as dramatic as Q2, Q3 asset increases should help firms close Q4 on a positive note.
- *Q4 revenues*. As WISE anticipated in our Q2 report, the asset spikes in Q2 helped IM&T businesses have their first strong revenue performance of the year. Thanks to improving economic conditions in Q3, Q4 is setting up to also be strong.

### Median Versus Average Growth Rates

Like the industry it covers, the FFIEC dataset comprises a large number of small and midsize firms and a handful of very large companies. The data on this page are medians except where noted and are more reflective of the experiences of a medium-sized trust business. Weighted averages appear on the following page and are more heavily impacted by larger companies.

**Key IM & Trust Growth Rates**

Total Market **Medians**, FFIEC Call Report Data*




**IM & Trust Asset Growth by Business Line**

Total Market, Q3 2020 vs. Q2 2020 Change

| | Median | Average |
|---|---|---|
| Total AUM (Excl. Custody) | 4.0% | 5.1% |
| Total Assets (Excl. Custody)** | 3.8% | 4.7% |
| Personal Trust** | 3.2% | 2.9% |
| IM Agency** | 3.8% | 5.1% |
| IRA** | 5.1% | 6.3% |
| Employee Benefits** | 5.0% | 8.1% |
| Corporate Trust** | 0.0% | 0.4% |
| Foundations and Endowments** | 4.2% | 4.2% |
| Custody | 2.4% | 4.1% |

**Includes both managed and nonmanaged assets

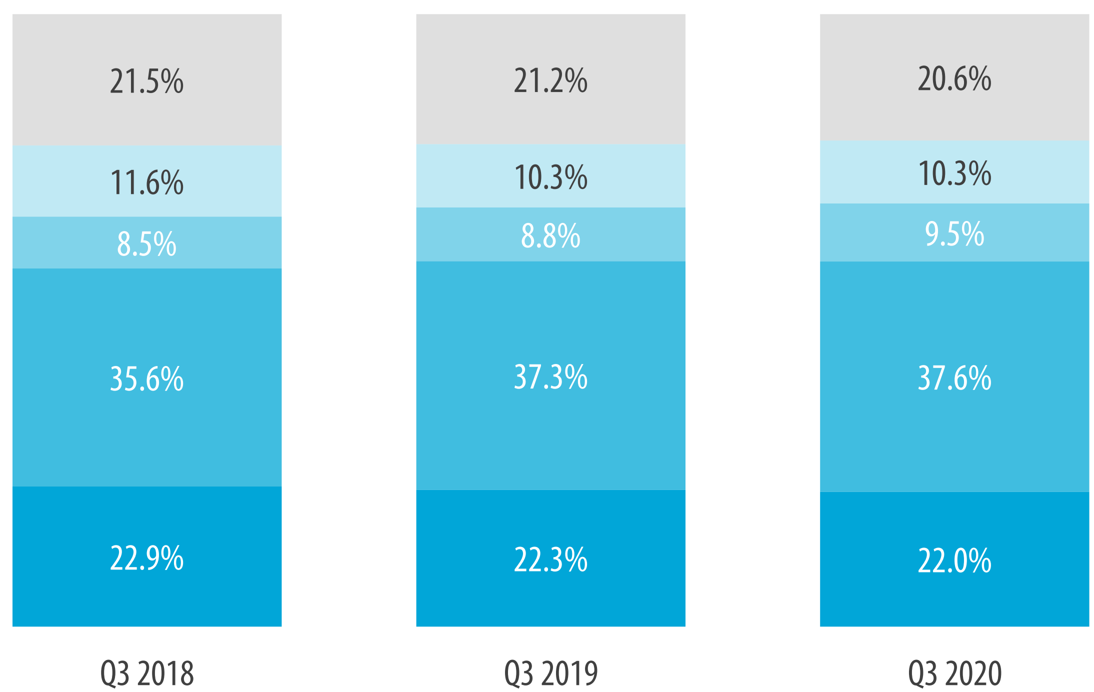
Notes: *For full methodology, see page 5.

# IM&T Q3 FINANCIALS

On average, total revenues increased 3.8% year-over-year (bottom gray box). Although personal trust revenues grew 2.3%, personal trust continues to lose share of total IM&T revenue. IM agency and IRA revenues grew at a much faster pace, increasing their total share of IM&T revenue, a trend that is likely to continue. In general, most revenue categories were up both year-over-year and quarter-over-quarter.

## Investment Management and Trust Revenue Composition

Total Market **Weighted Average**, FFIEC Call Report Data*




**Q3 2020 vs. Q3 2019 Change, Average:**

Other†: 0.8%

Benefits††: 3.5%

IRA: 11.8%

IM Agency: 4.6%

Personal Trust: 2.3%

**Q3 2020 vs. Q3 2019 Change, IM & Trust Revenue Excl. Custody: 3.8%**

| Q3 2020 vs. Q2 2020 Change, Average | |
|---|---|
| Other | -0.3% |
| Benefits | 3.7% |
| IRA | 6.9% |
| IM Agency | 4.9% |
| Personal Trust | 1.2% |
| **IM&T Revenue** | **3.2%** |

**Methodology and Notes**

WISE analyzed Q3 2020 FFIEC data to assess the financial performance of the IM&T business. †Other: Foundations and endowments, corporate trust, other fiduciary accounts and revenue. ††Employee benefits: Defined contribution and defined benefit plans. All metrics on this page exclude custody unless otherwise noted. *Due to FFIEC filing limitations, not all firms reported quarter-end information for each year. In addition, a few firms failed standard outlier tests and were removed from the sample. As a result, the chart may vary slightly from previous versions due to small variations in the sample.

# NONTRADITIONALS

*Data about robo-advisors and other nontraditional wealth management businesses remain challenging to find. Anecdotal evidence, however, suggests that these businesses and other low-cost options have performed well in 2020.*

**Vanguard and Blackrock are dominating US fund net flows.**

Of the top 10 US fund families, Vanguard and Blackrock accounted for 75% of all positive net flows in Q3, further demonstrating their dominance in the fund market. Perhaps more concerning for traditional bank wealth managers, Vanguard's pure robo-advisor is nearing the end of its pilot stage. Already home to a hybrid advice model overseeing $170 billion in assets under management, Vanguard may soon boast one of the most robust nontraditional wealth management offerings in the US.[1;2]

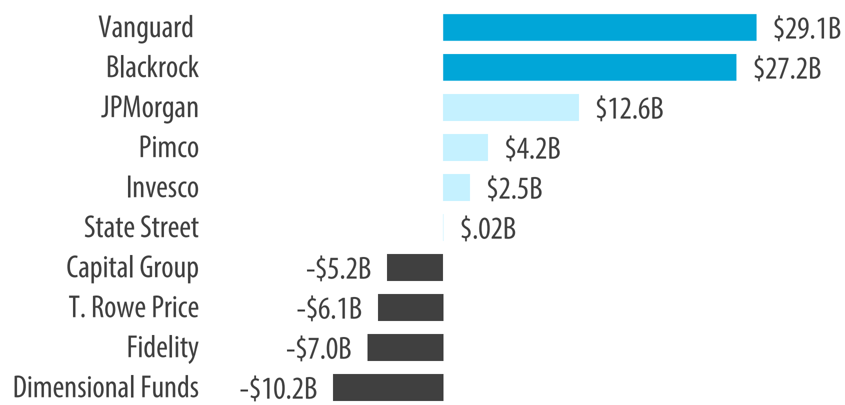
**New data suggest that robo-advisors are making inroads among wealthy Millennials.**

In a survey of 5,461 US households conducted in July 2019, Hearts & Wallets found that 50% of millennials with $500K or more in household assets use robo-advisors. Traditionally considered a "cheaper" investment option for the mass affluent, this research suggests that robo-advisors may have more appeal to younger investors, particularly wealthy young investors, than previously thought.[3]

As WISE has suggested before, traditional wealth mangers risk being locked out of financial relationships with the mass affluent as they increasingly engage with cheaper investment options like robo-advisors.

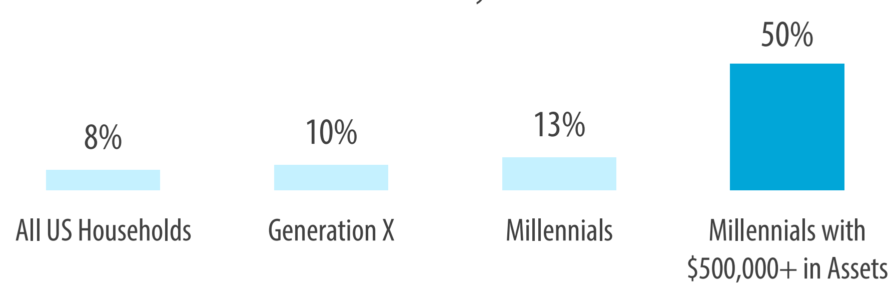
**Estimated Net Flows from the Top 10 US Fund Families (by Total Assets)[1]**

All Client Segments, Q3 2020




**Percentage of Investors Currently Investing with a Robo-advisor[3]**

*Data as of July 2019*




**JPMorgan's You Invest is growing from younger clients:**

Since September 2019, JPMorgan's robo-advisor platform, You Invest, has increased account openings by 97% and managed assets by 131%. According to the firm's head of digital and client solutions, the average age of JPMorgan's robo-advisor is 42, 16 years younger than the average private banking client.[4]

1. Morningstar US Fund Flow Reports, July - September 2020; excludes money market flows; net flow is the change in assets not explained by the performance of the fund. 2. RIABiz, "Ten Months After it Signaled it Would, Vanguard Group Unleashes its Advice Robot", August 1, 2020. 3. Hearts & Wallets, "Wealthy Millennials and Experienced Investors: Where Robos are Gaining Traction and Strategies to Capture the Mass Market", September 3, 2020. 4. Wealth Management, "Accounts Double at JPMorgan Robo Advisor You Invest", November 23, 2020.

# APPENDIX

### Large Firms, Key Q3 2020 Financial Metrics

All financial data used for the large firm segment were taken directly from each firm's earnings report using the segments identified after the colon. Where possible, WISE used each firm's wealth management segment; however, the vast majority of firms combine their wealth management segment with other business units like brokerage or asset management.

1. Bank of America Q3 2020 Earnings Report: Global Wealth and Investment Management
2. BNY Mellon Q3 2020 Earnings Report: Investment Management
3. Boston Private Bank Q3 2020 Earnings Report: Total Bank
4. Fifth Third Q3 2020 Earnings Report: Wealth and Asset Management
5. First Republic Bank Q3 2020 Earnings Report: Wealth Management
6. Goldman Sachs Q3 2020 Earnings Report: Consumer and Wealth Management
7. JPMorgan Chase Q3 2020 Earnings Report: Asset and Wealth Management
8. Morgan Stanley Q3 2020 Earnings Report: Wealth Management
9. Northern Trust Q3 2020 Earnings Report: Total Bank
10. PNC Q3 2020 Earnings Report: Asset Management Group
11. Regions Q3 2020 Earnings Report: Wealth Management
12. US Bank Q3 2020 Earnings Report: Wealth Management and Investment Services
13. Wells Fargo Q3 2020 Earnings Report: Wealth and Investment Management

### FFIEC Results

WISE analyzed Q3 2020 FFIEC data for the total IM&T business in order to continue measuring the impact of the pandemic on Q3 financials. The sample includes every company that files a Consolidated Report of Conditions and Income (AKA a call report). Due to FFIEC filing limitations, not all firms reported quarter-end information for each year. The overall impact of these firms is minor, but a few significant outliers were excluded from the results due to their outsized impact.

Data includes approximately $6.5 trillion in total assets under management and $25 billion in annual revenue (excluding custody).

WISE

Helping you make **WISE** decisions

www.wiseinsights.com


AUTHORS

David Lincoln, Partner
david.lincoln@wiseinsights.com
(202) 997-5962

Jack Miossi, Senior Research Analyst
jack.miossi@wiseinsights.com

Sunghoon Park, Senior Director
sunghoon.park@wiseinsights.com