Think Strategically

America's Most Profitable Industry, Still Discounted: U.S. Banks Show Strength as Markets Lag Behind Fundamentals

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Birling U.S. Bank Index – 1Q25 Highlights: A Resurgent Sector, Undervalued and Under Pressure

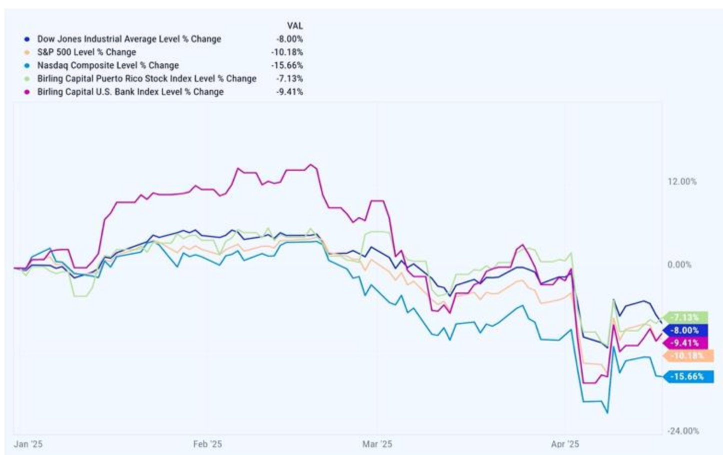
Following two years of robust gains in 2023 and 2024, the U.S. banking sector has entered 2025 with continued strength in fundamentals—solid profitability, fortified capital positions, and ample liquidity. However, these fundamentals have not translated into stock prices due to current market volatility and the tariff wars. Despite these headwinds and other dynamics, banking has reaffirmed itself as the world's most profitable industry and signaled the best collective performance since the pre-2007 financial crisis.

Yet, despite this resurgence, banks remain among the most undervalued sectors by price-to-book multiples. Investors continue discounting long-term risks around regulation, interest rate compression, and digital disruption. The disconnect between performance and valuation remains stark, as shown by 1Q25 results.

The Birling Capital U.S. Bank Index 1Q25 Review and Second Half 2025 Outlook: A Testament to Resilience Amid Uncertainty

The Birling Capital U.S. Bank Index is a market value-weighted benchmark tracking the six largest U.S.-based bank holding companies listed on the NYSE: Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo. These institutions serve as the foundation of the global financial system and remain essential to understanding the direction of U.S. economic health.

Dow Jones, S&P 500, Nasdaq Composite, Birling Puerto Rico Stock Index & Birling US Bank Index YTD Returns 4.17.25



In 2024, despite rising interest rates, inflation volatility, and international trade disruptions, U.S. banks delivered one of their best years in over a decade. Their earnings resilience, strong loan growth, and expanding net interest margins helped them outperform every primary benchmark index.

As Sir John Templeton famously said, "*The four most dangerous words in investing are: This time it's different*". In 2024, it wasn't different—it reaffirmed that disciplined fundamentals and strong capital still matter.

Index Performance vs. Broader Market Benchmarks YTD Returns as of Q1 2025:

- Dow Jones Industrial Average: -8.00%
- S&P 500: -10.18%
- Nasdaq Composite: -15.66%
- Birling Puerto Rico Stock Index: -7.13%
- Birling Capital U.S. Bank Index: -9.41%

Even amid early 2025 market turbulence, the U.S. banking sector has outperformed several broader indices regarding earnings strength and capital adequacy, underscoring its role as a stabilizing force.

The 2024 return of +43.75% positioned the Index as the top-performing benchmark, driven by strong loan growth, margin expansion, and earnings resilience, despite the broader market's reaction to inflationary pressures, Federal Reserve tightening, and global trade volatility. In contrast, 2025 YTD shows a decline of -9.41%, highlighting the market's renewed risk aversion and growing concern over macroeconomic uncertainty and tariff-related dislocations. Nevertheless, fundamentals remain strong across the banking sector.

First Quarter 2025 Results of the Top Six U.S Banks

1. JPMorgan Chase & Co. (JPM) YTD Return: -3.23%

- Revenue: $45.31 billion, increasing 8%.
- Net Income: $14.64 billion, increasing 9%)
- Earnings Per Share: $5.07 – beating estimates
- Tier 1 Capital Ratio: 16.70%
- Target Price: $299.12
- Stock Price on 4/17/25: $231.96
- JPMorgan remains the industry's gold standard, delivering balanced Growth, capital strength, and operational leadership.

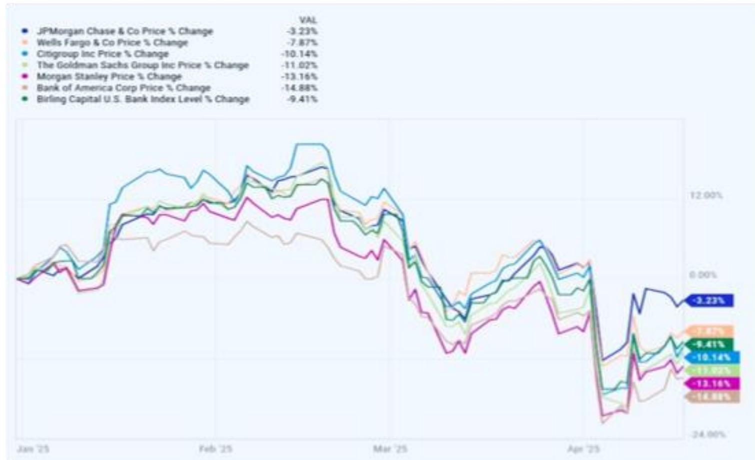
2. Wells Fargo & Co. (WFC) YTD Return: -7.87%

- Revenue: $20.15 billion, decreasing -3.42%.
- Net Income: $4.894 billion, increasing 5.95%)
- Earnings Per Share: $1.39 – beating estimates
- Tier 1 Capital Ratio: 11.01%
- Target Price: $78.36
- Stock Price on 4/17/25: $64.71
- Despite revenue pressure, Wells Fargo improved profitability through disciplined cost control and a resilient credit portfolio.

3. Citigroup Inc. (C)YTD Return: -10.14%

- Revenue: $21.60 billion, increasing 3%.
- Net Income: $4.06 billion, increasing 21%)
- Earnings Per Share: $1.96 – beat estimates
- Tier 1 Capital Ratio: 13.40%
- Target Price: $86.82
- Stock Price on 4/17/25: $63.25
- Citi delivered strong earnings momentum, with meaningful gains in net Income, reflecting ongoing transformation progress.

Birling US Bank Index YTD 2025 Returns :, JP Morgan Chase,Wells Fargo, Citi, Goldman Sachs, Morgan Stanley, & Bank of America



4. Goldman Sachs Group (GS)YTD Return: -11.02%

- Revenue: $15.06 billion, increasing 6%
- Net Income: $4.74 billion, increasing 15%
- Earnings Per Share: $14.12 – beating estimates
- Tier 1 Capital Ratio: 14.80%
- Target Price: $608.26
- Stock Price on 4/17/25: $509.49
- Goldman continues to execute across trading and advisory businesses, but valuation pressure persists amid market uncertainty.

5. Morgan Stanley (MS)YTD Return: -13.16%

- Revenue: $17.74 billion, increasing 17.21%.
- Net Income: $4.54 billion, increasing 12.04%
- Earnings Per Share: $2.60 – beating estimates
- Tier 1 Capital Ratio: 17.20%
- Target Price: $129.83
- Stock Price on 4/17/25: $109.18
- Morgan Stanley led in revenue growth, fueled by its wealth management and institutional businesses, yet investor sentiment remains cautious.

6. Bank of America (BAC)YTD Return: -3.23%

- Revenue: $27.34 billion, increasing 5.99%.
- Net Income: $7.40 billion, increasing 10.81%
- Earnings Per Share: $0.90 – beating estimates
- Tier 1 Capital Ratio: 13.20%
- Target Price: $49.17
- Stock Price on 4/17/25: $37.41
- Bank of America produced solid results across core franchises but remains the most discounted stock in the Index by YTD performance.

As of the first quarter of 2025, the six largest U.S. banks—JPMorgan Chase, Bank of America, Wells Fargo, Citigroup, Goldman Sachs, and Morgan Stanley—reported the following consolidated financial metrics:

- Total Revenue: $147.19 billion
- Total Net Income: $40.27 billion
- Combined Market Capitalization: $1.590 trillion

These figures underscore the sector's significant scale and profitability, even amid a challenging market environment.

Birling Capital Key Predictions for U.S. Banks – 2025 Outlook

1. Strong Fundamentals Will Outpace Market Sentiment Despite a YTD decline of -9.41%, the sector's underlying performance remains robust, with $147.19 billion in Q1 revenues and $40.27 billion in net Income. These figures point to sustained profitability and sound risk management. As investor sentiment stabilizes, we expect market prices to begin reflecting the sector's intrinsic value, particularly in the second half of 2025.

2. Capital Strength and Liquidity to Buffer Volatility All six banks maintain Tier 1 Capital Ratios well above regulatory minimums—ranging from 11.01% (WFC) to 17.20% (MS)—a testament to their ability to absorb shocks. Capital adequacy will remain a competitive differentiator and a magnet for institutional flows in a potentially more volatile macro environment.
3. Valuation Reset Will Create Tactical Opportunities After a +43.75% return in 2024, the market's sharp reversion in early 2025 is pricing in geopolitical risks, interest rate uncertainty, and global trade frictions. However, banks remain deeply undervalued relative to their historical price-to-book multiples. This disconnect positions the sector for a tactical rebound—especially among names like JPM, BAC, and C, which have strong franchises and improve efficiency.
4. Wealth Management and Fee-Based Income to Lead Growth Morgan Stanley and Goldman Sachs continue to scale their wealth and asset management businesses. MS's 17.21% revenue growth in Q1 shows that the strategic pivot is working. This trend will accelerate in 2025, with investors favoring more diversified earnings streams in a high-rate, fee-sensitive environment.
5. Regulatory Pressure and Tariffs Will Shape Investor Risk Appetite New tariff rounds and financial regulation proposals under President Trump's second term could impact capital markets activity and cross-border finance, especially for global banks like GS, C, and JPM. While banks are well-positioned structurally, headline risk may persist, requiring investors to separate policy noise from operating performance.

US Bank Stocks Strategic Positioning for the second Half of 2025

- **JPMorgan Chase (JPM)** remains the sector bellwether, combining leadership with resilience. Its modest -3.23% YTD decline suggests investors still reward quality in uncertain times.
- **Wells Fargo (WFC) and Citigroup (C)** are poised for a re-rating if they continue improving return on equity and cost efficiency.
- **Bank of America (BAC)**, despite being the most discounted stock in the Index, offers a high-beta recovery opportunity if investor sentiment improves.
- **Morgan Stanley (MS)** leads in top-line momentum but may need margin expansion to regain investor confidence.
- **Goldman Sachs (GS)** remains a high-conviction name for long-term investors seeking optionality in global markets.

The Final Word: 2025 Forecast Scenarios &. The Road Ahead for U.S. Banks

As we assess the trajectory for the U.S. banking sector in 2025, three distinct scenarios emerge—each shaped by macroeconomic policy, investor sentiment, and regulatory dynamics. The Birling Capital U.S. Bank Index, down -9.41% YTD, remains fundamentally strong, yet the path forward depends on how external pressures evolve and in our view, here is how the year could unfold:

- **Base Case: Stability Through a Soft Landing**

In our base case, the Federal Reserve maintains current interest rates throughout the year, anchoring inflation expectations while allowing the economy to cool without tipping into recession. Consumer and business confidence gradually rebuilds as labor markets stabilize and earnings growth persists.

Implication: Investor sentiment rebounds cautiously, particularly in financials. With balance sheets strong and credit quality intact, bank stocks are poised to recover 8–12% by year-end, driven by improving valuations and consistent earnings performance.

- **Bull Case: Reacceleration on Policy Easing**

In the bull case, inflation moderates faster than expected, prompting the Fed to initiate rate cuts in the second half of the year. Simultaneously, tariff tensions de-escalate, removing a key source of uncertainty for global trade and financial markets. With lending, investment banking, and wealth management activity picking up momentum, investor appetite for bank equities returns in force.
Implication: A re-rating of the sector takes hold. Capital flows back into underweighted financials, and bank stocks surge 15–20% from current levels, led by institutions with diversified earnings models and strong capital efficiency. This scenario would mark a clear return to outperformance for the Birling Capital U.S. Bank Index.

- **Bear Case: Policy Headwinds and Market Stress**

In the **bear case**, protectionist trade policies expand, leading to renewed tariff escalation and slowing global Growth. Simultaneously, inflation proves stickier than anticipated, reviving fears of stagflation. Regulatory scrutiny intensifies, particularly around capital rules and digital banking standards, adding pressure on margins and compliance costs.
Implication: Investors retreat from cyclical sectors, including financials. While earnings remain stable, multiple compression persists, and banks underperform the broader market, with returns ending flat or modestly negative. In this scenario, resilience—not Growth—becomes the key narrative.

- **Strategic Takeaway**

Regardless of the scenario that materializes, the U.S. banking sector enters the rest of 2025 with a powerful foundation: strong Tier 1 capital ratios, consistent earnings, and disciplined credit management. Yet, markets don't reward what's visible—they reward what's next. For investors, timing the turn in sentiment may prove more critical than tracking fundamentals alone.

The tariff-driven market dislocation of early 2025 has clouded investor confidence and distorted valuations—masking the sector's true financial strength. Yet history shows that sentiment always catches up to substance. The Birling Capital U.S. Bank Index is not just weathering the storm—it's quietly preparing to lead once the clouds clear. For those thinking strategically, the time to reposition is now.

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