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Bank Watch

ARTICLE

2024 Recap: Bank Stock Performance

In This Issue

2024 Recap: Bank Stock Performance

After the twin shocks of rapidly rising interest rates in 2022 and regional bank failures in 2023, community and regional bank stocks finally staged a recovery in 2024. The S&P Small Cap Bank index appreciated by 15% in 2024 (see Figure 1) but nevertheless remains 4% below the level at year-end 2021. Mid-cap and large-cap banks outperformed small-cap banks, which is attributable to expectations of better net interest margin performance, M&A opportunities, and capital markets activity among the largest banks.

Figure 1

	S&P Small Cap Banks	S&P Mid Cap Banks	S&P Large Cap Banks
2022	-14.1%	-28.4%	-19.8%
2023	-2.9%	-29.0%	13.6%
2024	14.7%	28.3%	35.7%

Source: S&P IQ Pro., Mercer Capital Research

The positive performance for 2024 belies a volatile year. Between year-end 2023 and June 30 2024, the S&P Small Cap index declined by 7%. Evidence that net interest margins had bottomed and optimism that the Federal Reserve would begin reducing short-term interest rates led to a 19% increase in the S&P Small Cap Index in July 2024, which was further boosted by a 14% return in November that largely occurred after the presidential election. Rising intermediate and long-term bond rates contributed to a return of negative 10% for the index in December 2024, but the S&P Small Cap Index nevertheless appreciated by 23% between June 30, 2024 and year-end 2024.

What Goes Down…

Figure 2 provides a stratification of bank stock price changes. In our year-end 2023 bank stock performance recap, we noted that 36% of banks experienced year-over-year stock price appreciation in 2023. This improved to 74% of banks in 2024. The median bank reported share price appreciation of 12% in 2024. Index returns occasionally can be biased by unusual factors influencing component companies, such as the bank failures in 2023. Focusing on the change in share price performance for the median bank provides another perspective.

Figure 2

12/31/23 - 12/31/24 Stock Price Change	Banks	% of Total	Price Change
Up > 20%	101	33%	30%
Up 10% to 20%	67	22%	14%
Up 0% to 10%	58	19%	5%
Total Up	**226**	**74%**	**17%**
Down 0% to 10%	44	14%	-4%
Down 10% to 20%	25	8%	-14%
Down > 20%	9	3%	-36%
Total Down	**78**	**26%**	**-8%**
All Banks	**304**	**100%**	**12%**

Table excludes banks subject to M&A transactions

Source: S&P Capital IQ Pro, Mercer Capital research

Figure 3 illustrates stock price performance in 2024, as stratified by asset size. Nearly all banks with assets over $100 billion (95% of all such banks) reported positive share price appreciation in 2024, with a median appreciation of 28%. For the very largest banks, this reflects the strength of their capital markets businesses, which performed well in 2024 due to both a strong backdrop for trading and capital raising while M&A advisory was better vs 2023 but not booming. The outlook for 2025 assumes the deregulatory inclination of the Trump Administration will support the large banks' consumer units and M&A advisory fees as corporate M&A presumably increases.

Figure 3

	12/31/23 - 12/31/24 Stock Price Change				% with Share Price Change > 0%	Median Stock Price Change
Asset Size Range	Down > 15%	Down 0% to 15%	Up 0% to 15%	Up > 15%		
< $1 Billion	11%	17%	39%	33%	72%	10%
$1 - $5 Billion	8%	26%	30%	37%	67%	8%
$5 - $10 Billion	2%	20%	41%	38%	78%	11%
$10 - $100 Billion	6%	13%	39%	42%	81%	13%
> $100 Billion	5%	0%	5%	89%	95%	28%
Total	**6%**	**19%**	**34%**	**41%**	**75%**	**12%**

Values in the table represent the % of banks with stock price changes of 0% to 15%, greater than 15%, etc.

Source: S&P Capital IQ Pro, Mercer Capital research

Banks with assets below $5 billion reported weaker performance, with approximately 70% reporting higher stock prices at year-end 2024 and a median share price change of 8% to 10%. Margin compression remained a challenge for many banks in this group, and many are burdened with low-yielding assets that will constrain their 2025 net interest margin and return on assets.

Figure 4 repeats the analysis in Figure 3 but covers the entire rising rate cycle, beginning from year-end 2021. Despite significant capital accumulation over this period, the median bank reported a share price change of exactly 0%. It is notable that this period of weak performance occurred in the absence of significant credit costs. In one sense, bank investors are fortunate, as adding higher credit costs to a period marked by significant NIM pressure would have been much more stressful.

Figure 4

	12/31/21 - 12/31/24 Stock Price Change				% with Share Price Change > 0%	Median Stock Price Change
Asset Size Range	Down> 15%	Down 0% to 15%	Up 0% to 15%	Up> 15%		
< $1 Billion	44%	33%	11%	11%	22%	-14%
$1 - $5 Billion	30%	14%	23%	33%	56%	2%
$5 - $10 Billion	30%	25%	17%	28%	45%	-1%
$10 - $100 Billion	29%	23%	24%	24%	48%	-1%
> $100 Billion	16%	32%	16%	37%	53%	6%
Total	**30%**	**21%**	**21%**	**28%**	**49%**	**0%**

Values in the table represent the % of banks with stock price changes of 0% to 15%, greater than 15%, etc.

Source: S&P Capital IQ Pro, Mercer Capital research

The weakest performance was among banks with assets of less than $1 billion, which reported a median share price change of negative 14% from 2021 to 2024. Some of these banks may face pressure from investors to consider strategic alternatives.

We have noted in prior years the correlation between net interest margin management and share price performance. This trend continued in 2024, with share prices rising by only 4% for banks with NIM compression between the fourth quarter of 2023 and third quarter of 2024 versus 14% for banks with NIM expansion (see Figure 5).

Figure 5

	4Q23 - 3Q24 Change in NIM			Stock Price Change
	Smallest	Largest	Median	Median
1st Quartile	-77 bps	-11 bps	-18 bps	1%
2nd Quartile	-10 bps	0 bps	-5 bps	12%
3rd Quartile	1 bps	11 bps	6 bps	11%
4th Quartile	11 bps	137 bps	23 bps	19%
Tighter NIM	-77 bps	-1 bps	-11 bps	4%
Wider NIM	0 bps	137 bps	11 bps	14%

Source: S&P Capital IQ Pro, Mercer Capital research

EPS Estimates & Valuation

Analysts expect EPS to decline by 8% in 2024, relative to the prior year (see Figure 6), but are much more optimistic for 2025 and 2026. The estimates do not appear far-fetched, assuming a few basis points of net interest margin expansion, expense control, and low credit costs. Some bugaboos remain, though. Short-term rates may remain higher for longer, limiting NIM expansion for banks with higher funding costs and substantial legacy fixed rate assets. Credit issues remain a concern for low rate loans, with maturities and repricing dates moving ever closer. While boosting earning asset yields, maturities and repricings of loans from the 2020 and 2021 vintages may come at the cost of higher credit costs. This effect may become more evident, if it occurs at all, in 2025 as the loans from the 2020 vintage with five-year terms mature or reprice.

Figure 6

	Year-Over-Year EPS Change		
	2024	**2025**	**2026**
Down More than 25%	21%	2%	1%
Down 10% - 25%	25%	3%	1%
Down 0% - 10%	21%	14%	2%
Total Down	**67%**	**20%**	**3%**
Up 0% - 10%	15%	26%	40%
Up 10% - 25%	10%	26%	39%
Up More than 25%	7%	28%	18%
Total Up	**33%**	**80%**	**97%**
Median EPS Change	**-8%**	**13%**	**11%**

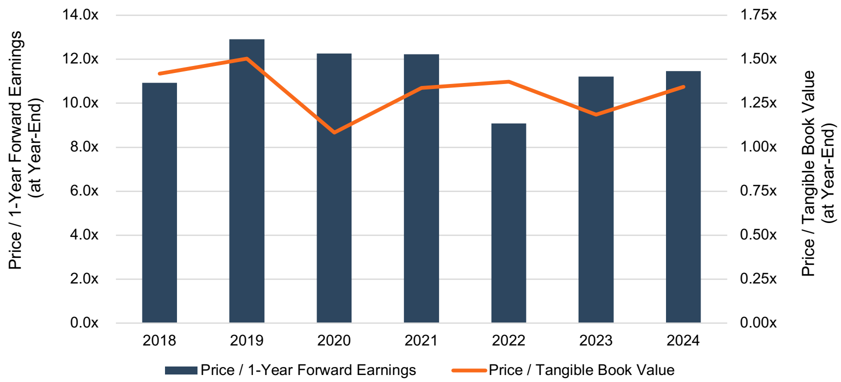
Analysis includes banks with assets between $1 and $15 billion

2024-26 EPS represents the mean analyst estimate; 2023 represents core EPS

Source: S&P Capital IQ Pro, Mercer Capital research

Figure 7 (on the next page) illustrates historical price/one-year forward earnings and price/tangible book value multiples. The median P/E multiple was 11.5x at year-end 2024, which is consistent with the long-term average. Although the effect of Trump's deregulatory policies on bank valuations is unquantifiable, the market data would suggest that future bank stock returns will be driven by EPS growth rather than P/E multiple expansion.

Figure 7



Analysis includes banks with assets between $1 and $15 billion
Source: S&P Capital IQ Pro, Mercer Capital research

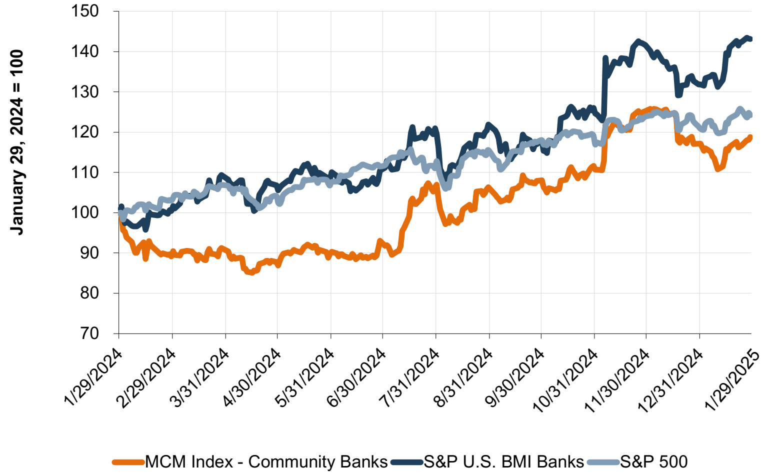
Conclusion

An inflection point occurred in 2024, with both net interest margins and stock prices reaching a base from which expansion can occur. With NIM expansion proving a tailwind, for the banks in our analysis, EPS growth in 2025 should be positive for the first time since 2022. However, many banks remain burdened with excessive assets originated in the 2020 and 2021 vintages, which will restrain the normalization in return on assets towards historical levels. While credit costs are expected to remain benign, analysts' EPS estimates contain little cushion in the event of asset quality deterioration. Finally, broad market indices, such as the NYSE or Nasdaq, are richly valued. A pull back in these indices may drag down bank stock prices too.

Andrew K Gibbs

Andrew K. Gibbs, CFA, CPA/ABV
gibbsa@mercercapital.com | 901.322.9726

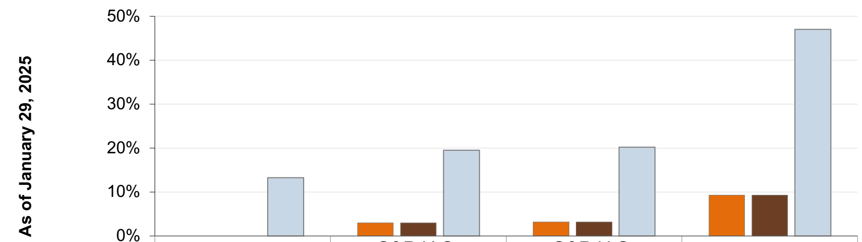
Mercer Capital's Bank Group Index Overview



Source: S&P Capital IQ Pro.

Return Stratification of U.S. Banks

by Market Cap



	S&P U.S. Banks Market Cap Under $250 Million	S&P U.S. Banks Market Cap Between $250 Million - $1 Billion	S&P U.S. Banks Market Cap Between $1 Billion - $5 Billion	S&P U.S. Banks Market Cap Over $5 Billion
Month-to-Date	0.00%	2.93%	3.15%	9.30%
Year-to-Date	0.00%	2.93%	3.15%	9.30%
Last 12 Months	13.22%	19.47%	20.19%	46.99%

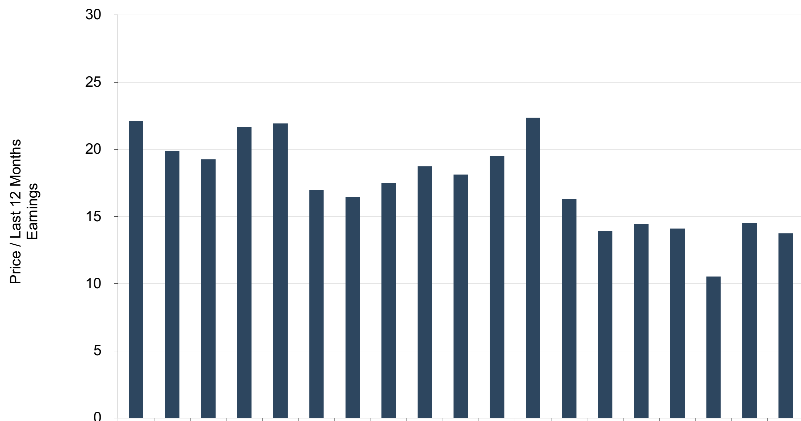
Source: S&P Capital IQ Pro.

	Total Return			Regional Index Data as of January 29, 2025					
	Month-to-Date	Year-to-Date	Last 12 Months	Price / LTM EPS	Price / 2025 (E) EPS	Price / 2026 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	-3.9%	2.4%	19.3%	15.0x	11.6x	9.8x	116%	124%	2.4%
Midwest Index	-6.8%	-1.5%	20.8%	11.3x	11.3x	10.5x	98%	116%	3.0%
Northeast Index	-3.0%	4.1%	20.5%	12.2x	10.1x	9.0x	110%	130%	3.2%
Southeast Index	-9.5%	0.5%	19.9%	12.1x	10.0x	8.0x	100%	119%	2.3%
West Index	-8.4%	-1.0%	12.7%	12.5x	10.2x	9.5x	103%	124%	2.8%
Community Bank Index	-5.1%	1.4%	18.8%	12.4x	10.2x	9.1x	106%	124%	2.8%
S&P U.S. BMI Banks	1.0%	8.5%	43.1%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

Median Price/Earnings Multiples

Target Banks' Assets <$5B and LTM ROE >5%

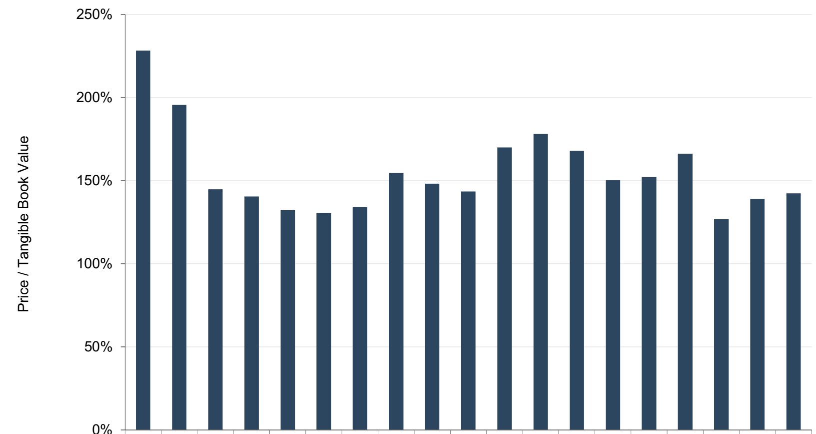


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM 2025
U.S.	22.1	19.9	19.3	21.7	21.9	17.0	16.5	17.5	18.8	18.1	19.5	22.4	16.3	13.9	14.5	14.1	10.5	14.5	13.8

Source: S&P Capital IQ Pro.

Median Price/Tangible Book Value Multiples

Target Banks' Assets <$5B and LTM ROE >5%

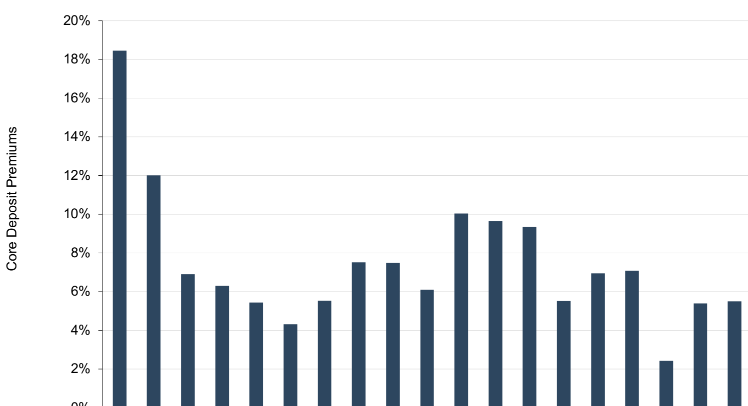


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM 2025
U.S.	228	196	145	141	132	130	134	155	148	143	170	178	168	150	152	166	127	139	142

Source: S&P Capital IQ Pro.

Median Core Deposit Premiums

Target Banks' Assets <$5B and LTM ROE >5%



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	LTM 2025
U.S.	18.4	12.0	6.9%	6.3%	5.4%	4.3%	5.5%	7.5%	7.5%	6.1%	10.0	9.6%	9.3%	5.5%	6.9%	7.1%	2.4%	5.4%	5.5%

Source: S&P Capital IQ Pro.

Median Valuation Multiples for M&A Deals

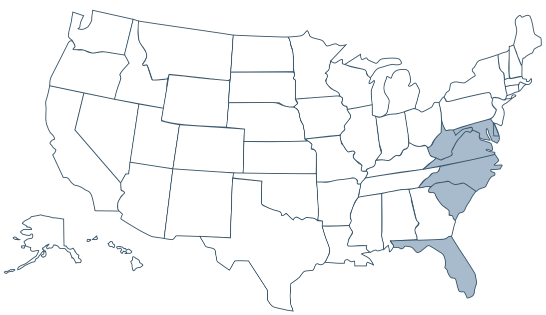
Target Banks' Assets <$5B and LTM ROE >5%, 12 months ended January 30, 2025

Regions	Price / LTM Earnings	Price/ Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value ($M)	Target's Median Assets ($000)	Target's Median LTM ROAE
Atlantic Coast	13.7x	110%	5.6%	3	69.4	547,563	8.3%
Midwest	13.4x	153%	6.6%	6	117.5	1,055,595	14.0%
Northeast	14.3x	136%	3.4%	6	253.3	2,258,309	9.3%
Southeast	9.8x	155%	8.4%	5	26.9	313,648	16.7%
West	17.1x	160%	11.0%	4	58.4	665,190	10.2%
National Community Banks	13.8x	142%	5.5%	24	83.5	771,625	10.7%

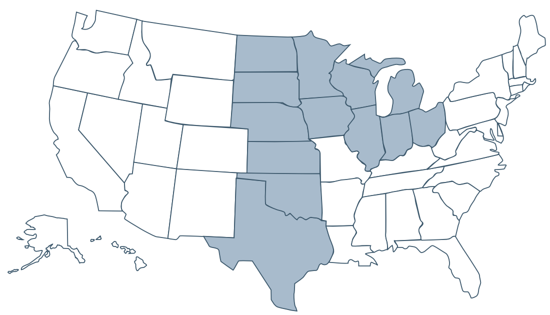
Source: S&P Capital IQ Pro.

Mercer Capital's Regional Public Bank Peer Reports

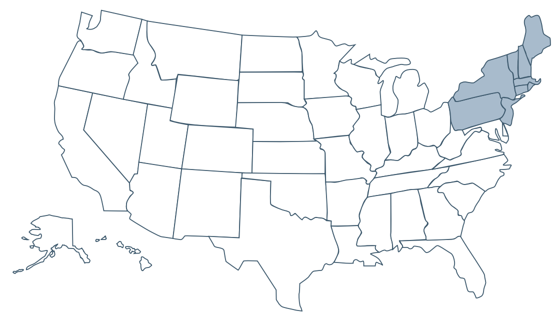
Updated monthly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



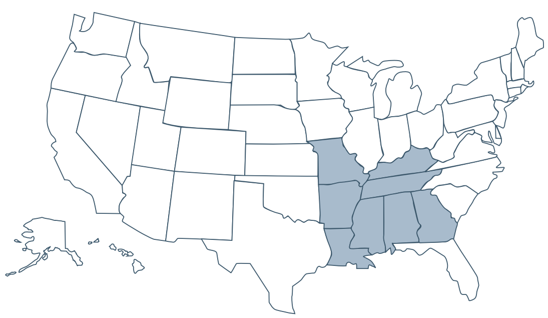
Atlantic Coast



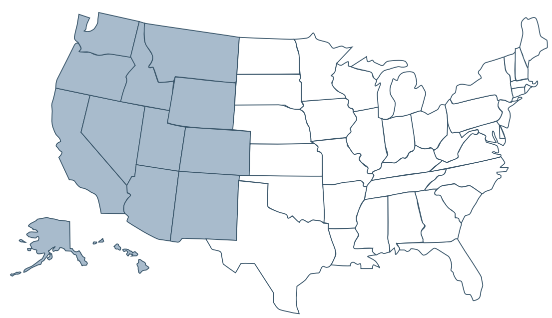
Midwest



Northeast



Southeast



West

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Depository Institutions Team

Jeff K. Davis, CFA
615.345.0350
jeffdavis@mercercapital.com

Andrew K. Gibbs, CFA, CPA/ABV
901.322.9726
gibbsa@mercercapital.com

Jay D. Wilson, Jr., CFA, ASA, CBA
469.778.5860
wilsonj@mercercapital.com

Eden G. Stanton, CFA, ASA
901.270.7250
stantone@mercercapital.com

Mary Grace Arehart, CFA
901.322.9720
arehartm@mercercapital.com

Heath A. Hamby, CFA
615.457.8723
hambyh@mercercapital.com

Luke Tanner
469.904.6719
tannerl@mercercapital.com

www.mercercapital.com

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www.mercercapital.com