

NASHVILLE NOTES

Citigroup and the M&A irony

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An irony of the slowdown in M&A stemming from the US-Israel war with Iran is that Citigroup Inc. may be angling for a big deal.

Bloomberg News reported March 27 that Citigroup is mulling the acquisition of a regional US bank, such as Truist Financial Corp. or PNC Financial Services Group Inc., to shore up its core deposit funding or a regional broker to augment its wealth unit with a large private client addition. Citigroup management dismissed the report.

Even if the reporting is only directionally correct, in the sense that management has had a "what if" discussion with regulators, it makes sense. Citigroup does not produce a competitive return on common equity, although recent initiatives have contributed to an improvement in its return, to 6.7% in 2025 from 4.2% in 2023. The company's core return on tangible common equity in 2025 was higher, at 8.6%, according to S&P Global Market Intelligence, equivalent to a term loan B that Citigroup might originate at 500 basis points over the secured overnight financing rate (SOFR).

Execution risks from a shareholder perspective would be big, though perhaps it would be worth it to reduce the cost of funds and improve operating leverage if execution was reasonably okay. Citigroup's fourth-quarter 2025 interest expense as a percentage of average assets was 3.1%, which was well above roughly 2.1% for JPMorgan Chase & Co. and Bank of America Corp. and 1.8% for both Truist and PNC.

The math of a deal for Citigroup would be challenging but not insurmountable.

Another irony to this March M&A story is that in September 2008, a liquidity-constrained and likely insolvent Citigroup had a deal to acquire the banking unit of liquidity-constrained and likely insolvent Wachovia Corp. The transaction would have brought a rich deposit franchise, but Wells Fargo & Co. announced a deal to acquire all of Wachovia that October.

Precluded from a Federal Deposit Insurance Corp.-supported deal to acquire Wachovia's banking unit, Citigroup entered into an arrangement in early 2009 that resulted in a phased sale of its valuable Smith Barney retail brokerage franchise to Morgan Stanley to raise capital. Stifel Financial Corp. and Raymond James Financial Inc. likely would be on Citigroup's hypothetical buy list, too, given their highly valuable private client units.

I have not seen any reports about how the named targets would feel about a combination with Citigroup. I think if PNC Chairman and CEO Bill Demchak had his way, his company would have Truist merge with PNC and thereby double its asset base to \$1.1 trillion.

The math of a deal for Citigroup would be challenging but not insurmountable, given its \$187 billion market cap as of March 27, compared to \$82 billion for PNC, \$55 billion for Truist, \$28 billion for Raymond James and \$11 billion for Stifel. Citigroup's shares as an acquisition currency are limiting, however, at 10.5x consensus 2026 earnings per share (EPS) and 1.1x tangible book value per share (BVPS).

Only Truist's shares outwardly appear "affordable" for Citigroup, assuming a typical roughly 25% acquisition premium trading around 10x 2026 EPS and 1.3x tangible BVPS. The other three companies trade around 11x to 12x 2026 EPS, and PNC has the lowest tangible BVPS multiple at 1.8x, while the two brokers trade above 2.5x. The tangible BVPS dilution earn-back calculus would be challenging, I think, regardless of what a spreadsheet would say.

Why would one of the targets say yes if Citigroup actually pursued a rumored deal?

Yet the prospects of a stock-swap transaction highlight another irony about Citigroup: Its shares over the past several years have outperformed most of its peers as investors priced in a turnaround in profitability that has a way to go.

As of March 27, the shares produced a three-year total return of 166% in the immediate aftermath of Silicon Valley Bank's failure and a five-year total return of 75%, which was comparable to the brokers and trounced returns of 35% for PNC and negative 5% for Truist.

So, why would one of the targets say yes if Citigroup actually pursued a rumored deal? The financial upside would have to be really compelling versus alternative paths and execution risks. Plus, investors probably could or would pivot from seeing Citigroup's shares as a turnaround story to seeing it as a Missouri stock. That is, "Show me."

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