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Bank Watch

ARTICLE

Banks Join the Risk on Trade

In This Issue

Banks Join the Risk on Trade

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As shown in Table 1, large community and regional banks have joined in the equity rally that has been off and on the past several years after posting strong returns in the ~12 months after SVB failed. Through July 29, the S&P Regional Bank ETF that encompasses ~160 equally weighted bank stocks, returned 18.9% year-to-date, ahead of the S&P 500's 7.5% gain and broad financial sector's return of 4.4% that was hindered by underperformance of large cap alternative asset managers.

The Russell 2000 also outperformed, rising 17.7%, suggesting that the bid for bank shares is part of a broader rotation toward smaller-cap companies rather than a bank-only phenomenon.

Table 1 – Sector Total Returns & Yield Curve Spread

Selected ETFs		7/29	3M	YTD	1Y	3Y
S&P 500	SPY	729.5	2.8	7.5	16.1	65.2
NASDAQ	NASD	111.6	1.0	8.0	17.9	76.6
Russell 2000	IWM	288.6	6.3	17.7	30.9	52.2
Technology	XLK	166.6	4.8	16.0	26.8	90.9
Energy	XLE	58.7	0.1	33.0	35.9	50.3
Industrials	XLI	176.7	4.2	14.5	17.1	67.4
Financials	XLF	56.7	9.5	4.4	9.0	68.8
Regional Banks	KRE	76.2	11.0	18.9	26.7	70.0
10Yr - 3Mo bps		84	74	51	-6	-158

Source: S&P Global Market Intelligence

Aside from sector rotation and relatively modest multiples, bank stocks have been supported via earnings growth that has been powered by net interest margin (NIM) expansion and flattish credit costs. NIM improvement reflects a combination of factors, most notably the return to a positively sloped yield curve, repricing of assets that were originated at ultra-low rates during 2020-1H22, and lower funding costs once the Fed cut policy rates in the fall of 2024 and 2025.

The spread between the ten-year Treasury and three-month Treasury widened to 84 basis points as of July 29 from an inversion of 158 basis points three years earlier. A positively sloped curve does not solve every balance-sheet issue, but it improves the backdrop for deposit rates that track the short-end of the yield curve, asset repricing, reinvestment, and prospective margin performance.

Earnings Supply the Fundamental Support

Second-quarter results explain much of the market's enthusiasm. Every peer group reported double-digit year-over-year EPS growth, with the strongest gains among Wall Street and trust banks as booming capital markets supported trading, investment banking and asset management. Revenue and pre-provision net revenue also increased across the board, while loan growth generally remained in the low- to mid-single digits.

For community and regional banks, the more relevant point is that earnings growth was not confined to the money centers. Banks with \$2 billion to \$10 billion of assets produced median ROA of 1.28%, ROTCE of 14.3%, and 18.8% EPS growth as NIMs expanded ~25bps over the past year. Institutions above \$10 billion posted similar profitability and traded near 12x expected 2026 earnings. That valuation is not cheap per se, but it leaves room for expansion if the Street's earnings estimates hold or improve provided the credit outlook remains benign.

Table 2 – 2Q26 Public Banks' Summary Performance

	P/E FY26E	Price/ TBV	2Q26 ROA	2Q26 ROE	2Q26 ROTCE	Y/Y EPS	Y/Y Rev	Y/Y PTPP	Y/Y Loans	25-26E EPS	26-27E EPS
Wall Street Banks	14.1x	284%	1.27%	20.7%	17.1%	60.7%	14.9%	25.6%	7.7%	26.9%	4.7%
Trust Banks	16.5x	306%	1.54%	17.2%	34.1%	68.2%	13.0%	23.3%	10.1%	26.8%	11.1%
Super Regionals	11.7x	191%	1.19%	12.2%	16.0%	20.8%	10.0%	14.3%	6.3%	14.1%	11.1%
Regionals $10B+	11.9x	173%	1.30%	10.6%	15.0%	17.4%	8.8%	13.0%	6.5%	21.3%	10.1%
Assets $2B - $10B	10.9x	157%	1.28%	12.3%	14.3%	18.8%	11.2%	19.7%	5.7%	17.2%	7.4%
Assets $500-$2B	11.9x	126%	0.97%	9.1%	10.0%	18.3%	8.1%	14.0%	3.1%	18.7%	10.8%
Thrifts	15.6x	107%	0.98%	7.5%	7.5%	18.9%	8.7%	24.1%	2.1%	12.0%	13.2%

Source: S&P Global Market Intelligence

The table also highlights the industry's remaining divide. Larger banks continue to earn higher ROEs and command richer tangible book multiples, while the smallest banks and thrifts lag on profitability. Scale is not the only answer, but the market is assigning a clear premium to institutions that can generate operating leverage.

IPOs for Banks Too

A functioning IPO market is another sign that risk appetite has improved. Although there is not a flood of IPOs in the sector (capital is high), the market is receptive. Aside from one mutual conversion shown in Table 3 (CSB Financial), multiple conversions are expected this year.

Lincoln International is a boutique investment bank and is outside the wheelhouse of Bank Watch, but its IPO speaks to the current state of the capital markets.

Forbright, Inc. is the parent company of Chevy Chase, Maryland-based Forbright Bank, whose model entails a digital-focused deposit franchise that funds middle market companies, i.e., somewhat akin to a commercial finance company in a bank wrapper. The company was founded by CEO John Delaney, who founded Healthcare Financial Partners in 1993 (sold to Heller Financial in 1999) and CapitalSource in 2001 (sold to PacWest Bancorp in 2013, now Banc of California). Mr. Delaney also served in the U.S. House of Representatives during 2013-2019.

Underwriters struggled with the IPO for Raleigh-based First Carolina Financial Services, Inc., which priced at $12.50 per share vs a targeted range of $18 to $20 per share. We were not privy to the roadshow dialogue, but suspect investors questioned losses incurred by 2024 FinTech acquisition BM Technologies for $70 million of cash. The company funded the acquisition in part via a private placement of common equity at $35 per share in late 2024.

Table 3 – 2026 Financial Services IPOs

		7/29	Price Date	Raise $Mil	IPO Price	Target Range
Lincoln International	LCLN	$21.99	5/19	$421	$20.00	$18-$20
Forbright	FRBT	$19.63	6/10	$142	$18.00	$18-$20
First Carolina Financial	FCBM	$12.36	6/17	$69	$12.50	$14-$16
CSB Financial	CSBA	$10.00	7/29	$14	$10.00	NA

Source: S&P Global Market Intelligence

M&A Pace is Slow vs. Expectations

Bank M&A has been slower than expected this year, in part because of the Iran War that began in late February and sort of continues today. As of July 30, there were 96 reported transactions of which 31 have reported pricing. Although it does not quite feel like it, the pace of M&A activity will be comparable to most years as the annualized rate is ~170, or 3.8% of the charters at the beginning of the year.

The median transaction involved an $808 million-asset target and was valued at 152% of tangible book value and 14.7x earnings. Investors are focused on (a) pay-to-trade multiples (seller's P/TBV multiple relative to the buyer's pre-announcement P/TBV multiple); (b) day one dilution to TBVPS; and (c) the projected time to recoup the day one dilution to TBVPS given EPS accretion.

As shown in Table 4 on the following page, the median pay-to-trade TBV multiple of 96% is consistent with recent year's pricing, while the median 2.4 year earn back is within the Street's preference of no more than 2 to 3 years.

Also of note is the P/E based on the target's projected earnings plus after-tax expense saves of 7.8x, which is consistent with the past several years where the majority of synergized P/Es tend to be in a range of 6x to 9x though weak earners may be higher.

Where From Here

Taken together, the public market, earnings, IPO, and M&A data illustrate the positive operating environment of the past 18 months or so once the yield curve became positively sloped with Fed rate cuts. From here, relative performance will depend on the economy performing well, or well enough, credit and the absence of sharp changes in rates that negatively impact NIMs. Plus, many banks continue to repurchase shares given solid capital and profitability that is overlaid with just moderate loan growth.

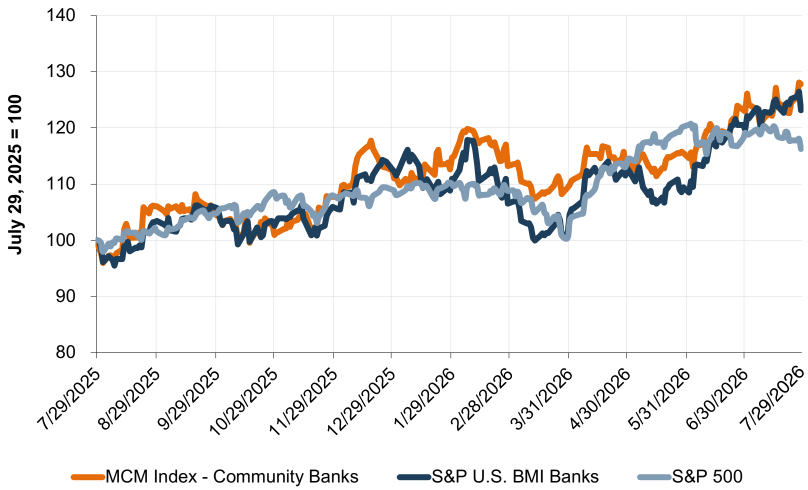
(see Bank M&A with Disclosed Pricing table on the next page)

Table 4 – Bank M&A with Disclosed Pricing

Announce Date	Buyer	Seller	ST	Target Assets ($M)	LTM ROA (%)	LTM ROE (%)	Deal Value ($M)	Est Cost Saves (%)	Price/ TBV (%)	Pay-to Trade (%)	TBV Dil (%)	TBV Earnback Yrs	Price/ EPS (x)	P/E Exp Sav (x)	EPS Accre (%)	Core Dep Prem (%)
1/15/26	Cmnty Finl System	ClearPoint Fed B&T	IN	132	1.27	11.3	40	NA	219	70	NA	NA	22.9	NA	NA	19.6
1/27/26	Stock Yards Bancorp	Field & Main Bancorp	KY	861	1.29	15.3	106	34	166	69	0.9	0.9	9.9	6.0	5.7	6.3
1/28/26	Prosperity Bancshares	Stellar Bancorp	TX	10,807	0.97	6.3	1,999	35	182	109	7.8	4.5	19.6	10.7	9.2	NA
2/2/26	Columbia Financial	Northfield Bncp-Staten	NJ	5,754	0.01	0.1	597	35	86	52	4.4	1.8	NM	NA	NA	NA
2/3/26	Banco Santander SA	Webster Financial	CT	84,074	1.23	10.7	12,225	NA	204	111	NA	NA	12.8	NA	NA	NA
2/25/26	FS Bancorp	Pacific West Bancorp	OR	386	0.18	1.9	34	30	96	90	2.2	2.4	53.0	7.8	7.4	NA
2/26/26	Arrow Financial Corp	Adirondack Bancorp	NY	942	0.45	6.2	89	45	138	102	9.1	2.9	25.4	5.3	18.1	3.5
3/12/26	Esquire Financial	Signature Bancorp	IL	1,950	1.78	17.7	393	5	153	52	(11.0)	NA	10.6	10.2	23.0	10.5
3/18/26	Independent Bank Corp	HCB Financial Corp	MI	596	1.09	15.8	70	40	151	103	NA	NA	10.4	6.6	NA	4.8
3/30/26	Fidelity BancShares-NC	Affinity Bancshares	GA	882	0.91	6.6	148	NA	136	NA	NA	NA	17.8	NA	NA	6.8
4/8/26	Catalyst Bancorp	Lakeside Bancshares	LA	376	0.56	5.9	41	30	114	136	14.2	3.0	19.6	11.6	18.0	2.8
4/21/26	Peoples Bancorp	Citizens National Corp	KY	689	0.85	7.7	79	40	121	80	0.9	0.9	12.7	6.7	5.6	NA
4/21/26	United Community	Peach State Bcshs	GA	786	1.37	14.3	101	40	194	126	NA	NA	11.9	6.0	3.0	7.2
4/29/26	Hawthorn Bancshares	FSC Bancshares	MO	384	0.93	12.2	28	NA	141	103	NA	NA	9.8	NA	NA	2.8
4/29/26	OppFi	BNCCORP	ND	1,100	0.89	8.7	129	NA	121	NA	NA	NA	14.7	NA	25.0	2.6
4/30/26	Banner Corp	Pacific Financial Corp	WA	1,291	0.98	10.0	177	40	156	108	2.0	2.8	14.2	6.3	3.2	NA
5/5/26	Cambridge Financial	First Seacoast Bancorp	NH	599	(0.14)	(1.4)	85	NA	135	NA	NA	NA	NA	NA	NA	5.3
5/12/26	Brookfield Bancshares	NSTS Bancorp	IL	267	(0.14)	(0.5)	76	NA	95	NA	NA	NA	NA	NA	NA	(3.3)
5/15/26	Hancock Whitney	OFB Bancshares	FL	2,119	1.24	13.7	355	40	207	133	NA	4.0	15.6	10.9	8.0	11.2
5/19/26	Bank First Corp	PSB Holdings	WI	1,495	0.99	11.5	203	35	165	53	1.0	0.3	14.1	7.4	14.0	NA
6/12/26	Isabella Bank Corp	Grand River Commerce	MI	512	0.18	2.7	55	35	149	72	4.0	1.8	57.9	9.1	10.4	6.0
6/18/26	North Shore Bank	1895 Bancorp Wisc	WI	595	0.53	5.1	96	NA	147	NA	NA	NA	29.8	NA	NA	10.2
6/24/26	Colony Bankcorp	First Reliance Bcshs	SC	1,118	1.16	14.4	164	35	162	112	12.0	3.5	12.9	6.8	20.0	NA
7/6/26	Hometown Fin'l MHC	Primary Bank	NH	743	1.61	10.8	160	NA	137	NA	NA	NA	13.8	NA	NA	10.1
7/13/26	First Hawaiian	TriCo Bancshares	CA	9,948	1.30	9.8	2,026	25	199	96	4.7	2.8	16.0	10.7	6.0	13.4
7/14/26	First Bancorp	First Carolina Bcshs	SC	831	1.60	12.9	166	30	158	68	1.0	1.7	13.5	9.1	3.0	9.3
7/22/26	Northrim BanCorp	PBCO Financial Corp	OR	779	1.15	9.7	167	24	177	83	2.5	2.4	18.2	11.0	3.5	11.4
7/22/26	Optus Financial	M&F Bancorp	NC	518	0.81	3.2	103	NA	285	NA	NA	NA	24.5	NA	NA	27.3
			Median	**808**	**0.98**	**9.8**	**118**	**35**	**152**	**96**	**2.5**	**2.4**	**14.7**	**7.8**	**8.0**	**7.0**

Source: S&P Global Market Intelligence

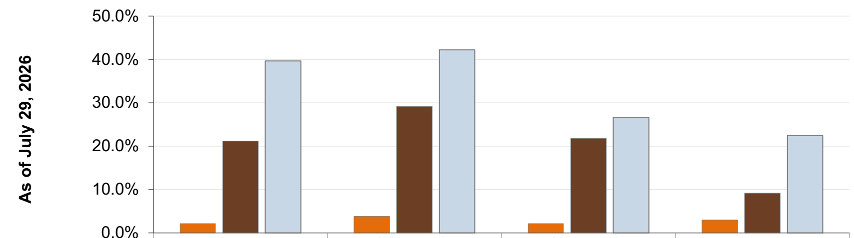
Mercer Capital's Bank Group Index Overview



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	2.12%	3.82%	2.12%	3.01%
Year-to-Date	21.15%	29.16%	21.83%	9.13%
Last 12 Months	39.63%	42.21%	26.56%	22.40%

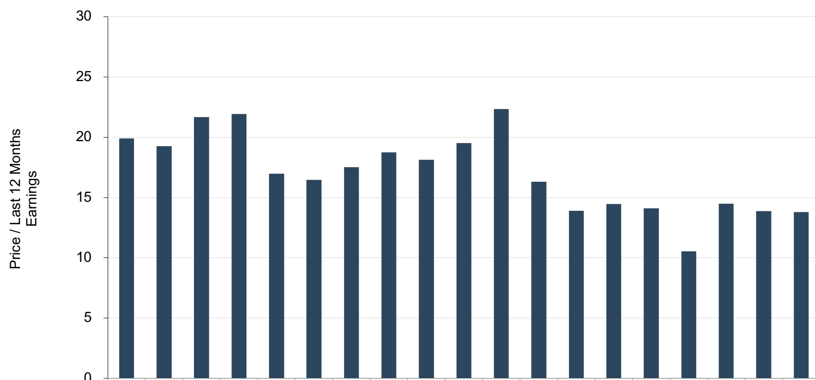
Source: S&P Capital IQ Pro.

	Total Return			Regional Index Data as of Julu 29, 2026					
	Month-to-Date	Year to-Date	Last 12 Months	Price/ LTM EPS	Price / 2026 (E) EPS	Price / 2027 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	4.7%	22.7%	31.9%	11.7x	10.8x	10.0x	127%	134%	2.2%
Midwest Index	3.2%	17.0%	33.8%	12.5x	11.3x	10.1x	112%	134%	2.5%
Northeast Index	6.0%	24.1%	36.0%	11.1x	11.1x	9.9x	128%	135%	2.6%
Southeast Index	-0.7%	11.7%	28.1%	12.1x	9.4x	9.0x	105%	126%	1.9%
West Index	-0.1%	9.9%	15.5%	14.2x	12.5x	10.5x	101%	128%	2.5%
Community Bank Index	4.0%	15.0%	27.8%	11.9x	11.2x	10.1x	120%	132%	2.3%
S&P U.S. BMI Banks	3.0%	10.5%	23.2%	na	na	na	na	na	na

Source: S&P Capital IQ Pro.

Median Price/Earnings Multiples

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

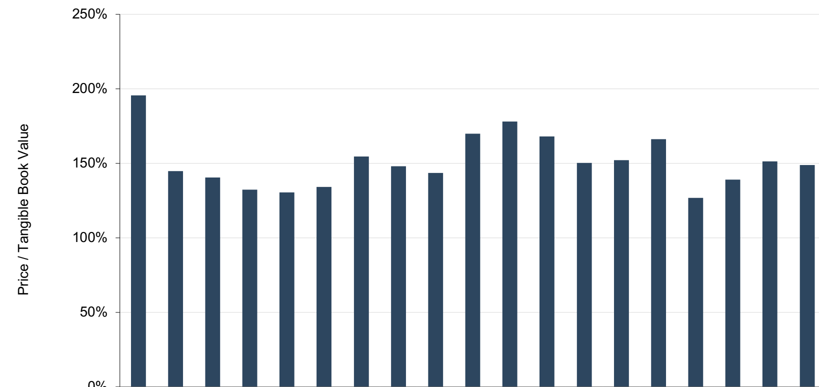


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	LTM 2026
■ U.S.	19.9	19.3	21.7	21.9	17.0	16.5	17.5	18.8	18.1	19.5	22.4	16.3	13.9	14.5	14.1	10.5	14.5	13.9	13.8

Source: S&P Capital IQ Pro.

Median Price/Tangible Book Value Multiples

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

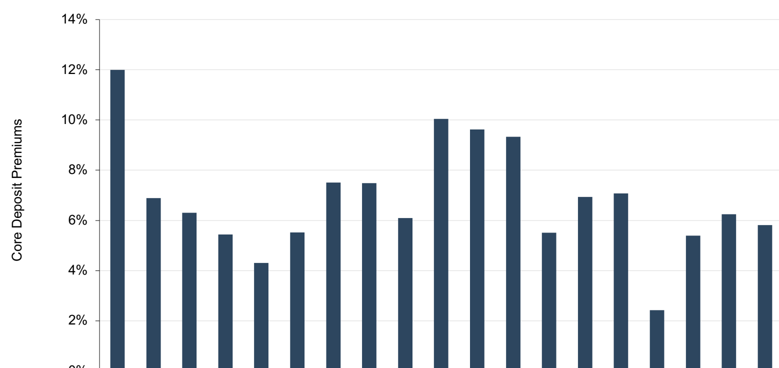


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	LTM 2026
■ U.S.	196%	145%	141%	132%	130%	134%	155%	148%	143%	170%	178%	168%	150%	152%	166%	127%	139%	151%	149%

Source: S&P Capital IQ Pro.

Median Core Deposit Premiums

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



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	LTM 2026
■ U.S.	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%	6.3%	5.8%

Source: S&P Capital IQ Pro.

Median Valuation Multiples for M&A Deals

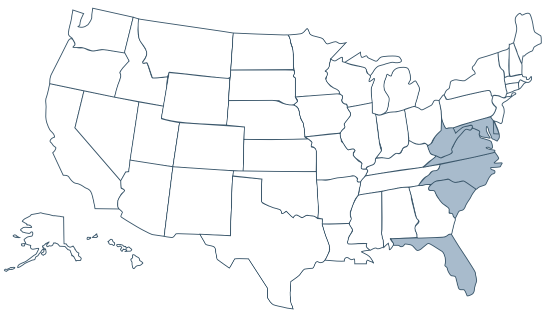
Target Banks' Assets <$5B and LTM ROE >5%, 12 months ended July 29, 2026

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	15.6x	184%	10.8%	5	180.0	1,141,781	12.9%
Midwest	12.4x	149%	4.8%	15	129.3	1,408,272	11.5%
Northeast	13.8x	138%	4.7%	6	129.5	909,334	9.7%
Southeast	13.8x	132%	3.7%	9	79.1	689,339	11.3%
West	16.2x	151%	5.8%	5	176.6	1,235,620	9.7%
National Community Banks	13.8x	149%	5.8%	40	157.0	1,130,085	11.0%

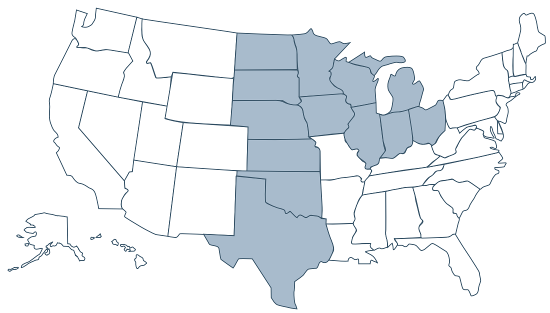
Source: S&P Capital IQ Pro.

Mercer Capital's Regional Public Bank Peer Reports

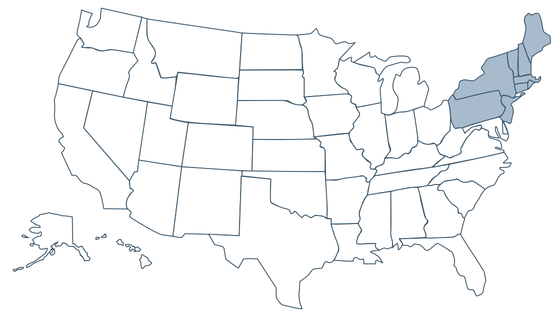
Updated monthly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



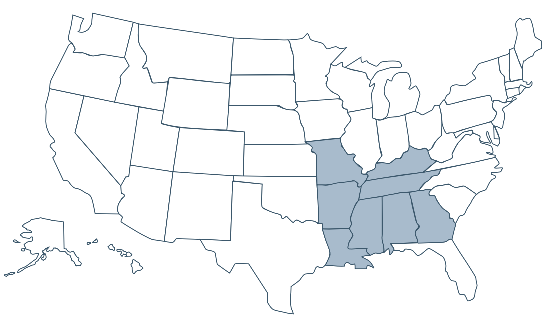
Atlantic Coast



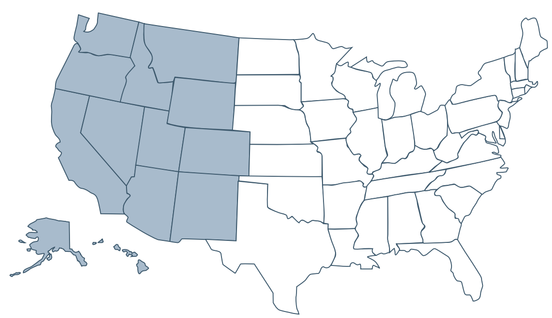
Midwest



Northeast



Southeast



West

OTCQX

with assets greater than $1.5 billion

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