U.S. banking sector raises its game

**Tangible common equity ratio for U.S. banks**

- **1934**: 0.1
- **1944**: 0.2
- **1954**: 0.3
- **1964**: 0.4
- **1974**: 0.5
- **1984**: 0.6
- **1994**: 0.7
- **2004**: 0.8
- **2014**: 0.9


**Federal Reserve 2018 stress tests passed**

CCAR\(^2\): SEVERE ADVERSE SCENARIO TESTS

- If unemployment increases to **10%**
- If real GDP declines **8.9%**
- If market declines **65%**
- If house prices fall **30%**
- If commercial real estate declines **40%**
- If 3 month treasury yield declines to **0.1%**
- If 10 year treasury yield declines to **0.7%**


---

1 Tangible Common Equity Ratio (TCER) is used to try and estimate how much capital a bank can sustainably lose before shareholder equity starts to become affected. As such, the higher the TCER, the more robust banks’ balance sheets are deemed to be.

2 The Comprehensive Capital Analysis and Review (CCAR) is an annual exercise by the Federal Reserve to ensure that institutions have well defined and forward-looking capital planning processes that account for their unique risks and sufficient capital to continue operations through times of economic and financial stress. In the most recent test in June 2018, 34 of the largest 35 banks in the U.S were found to be able to withstand a severe economic downturn.
A decade ago, it may have felt like the world was going to end. The financial system appeared broken and banks were deemed to blame. Share prices in the sector fell dramatically and governments around the globe offered bailouts. A decade on and things have improved. U.S. regulators have imposed higher capital requirements of banks and other financial services companies, so they have been forced to raise their game.

Now, the banking sector is in much better shape and looks very different indeed. U.S.-based financial services firms have less leverage and more liquidity than they have had in decades, as demonstrated by their Tangible Common Equity Ratios.1 In this sense, the global financial crisis provided an opportunity to try and get things moving in the right direction. We believe the U.S. banking sector now looks much more resilient as a consequence.

John Bailer, US equities portfolio manager at Mellon – a BNY Mellon company
A Tangible Common Equity Ratio is used to try and estimate how much capital a bank can sustainably lose before shareholder equity starts to become affected. As such, the higher the TCER, the more robust banks' balance sheets are deemed to be.

All investments involve risk, including the possible loss of principal.

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees. The banking and financials industries are subject to extensive government regulation, can be subject to relatively rapid change due to increasingly blurred distinctions between service segments, and can be significantly affected by availability and cost of capital funds, changes in interest rates, the rate of corporate and consumer debt defaults, and price competition.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a period of time, often annually or quarterly.

Views expressed are those of the advisor stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. This information contains projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product.

Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Please consult a legal, tax or investment advisor in order to determine whether an investment product or service is appropriate for a particular situation. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. BNY Mellon Investment Adviser, Inc., Mellon and BNY Mellon Securities Corporation are subsidiaries of BNY Mellon.

© 2019 BNY Mellon Securities Corporation, distributor, 240 Greenwich Street, 9th Floor, New York, NY 10286

Not FDIC-Insured | No Bank Guarantee | May Lose Value

MARK-48472-2019-01-28