S&P Global
Market Intelligence

US banks' dividend outlook: 2024 dividend dynamics and challenges

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The Take

- Banking dividends are forecast to increase by 5.6%.
- More than 80% of the banks' aggregated dividends are contributed by S&P 500 companies.
- This report analyzes the confidence level breakdown and contribution of each bank category.
- Regional and community banks are struggling the most because of decreasing net income, rising efficiency ratio and unrealized losses.
- M&A deals are pacing up in the sector, and we analyze their impact on dividend policy and confidence.

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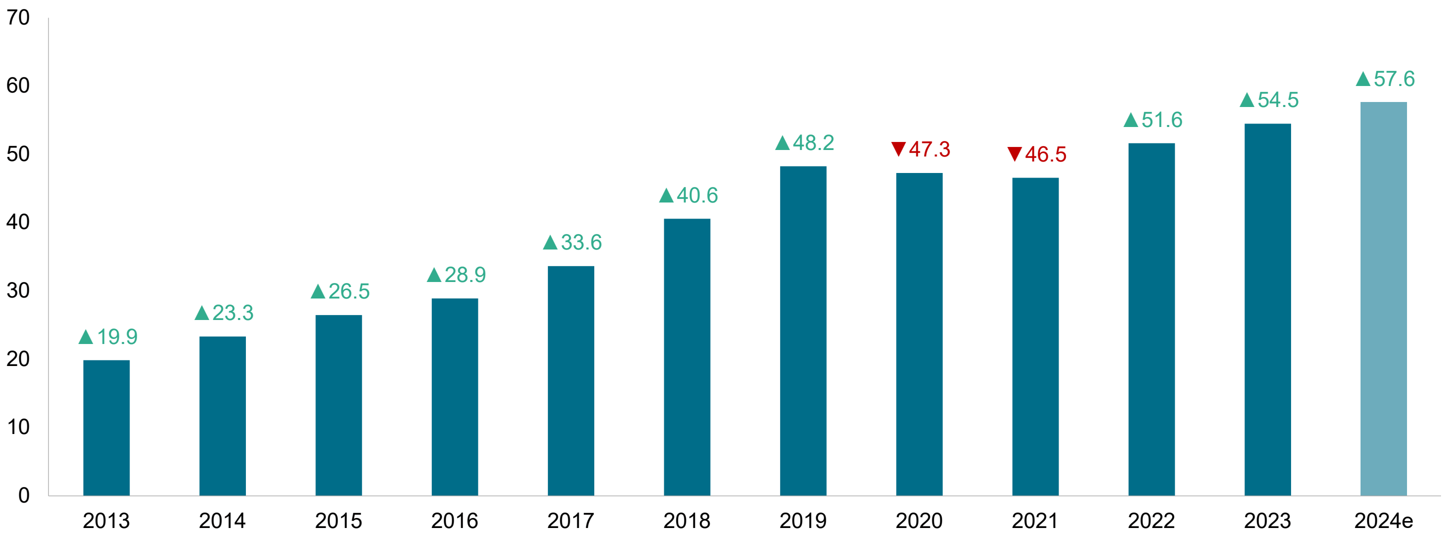
Banks' aggregated dividend growth over the years

The collapse of large banks like Silicon Valley Bank (SVB) and Signature Bank, which were the second- and third-largest bank failures in the US, respectively, brought the whole banking sector under scrutiny. The impact of this was seen on dividend growth in 2023, which came down to 5.5% compared with 11% in 2022. This had a domino effect on 2024 banking dividends, which are expected to grow by 5.6% to $57.6 billion. The growth is similar to the US broad market's aggregated dividend growth of 5.8%.

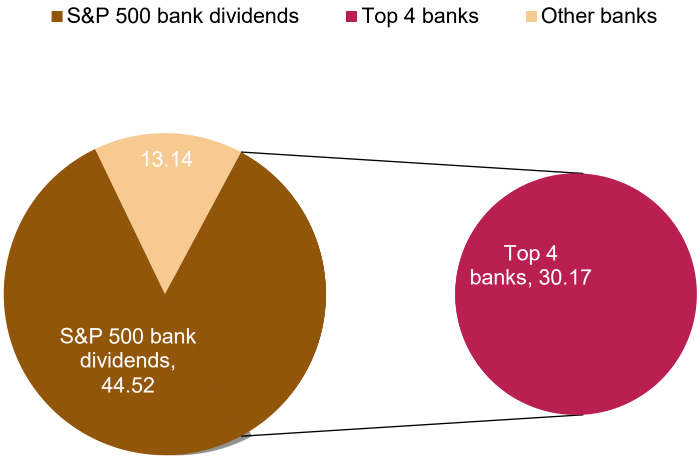
Banks' aggregated dividend trend ($B)



Data compiled May 15, 2024.
e = estimated.
Source: S&P Global Market Intelligence.

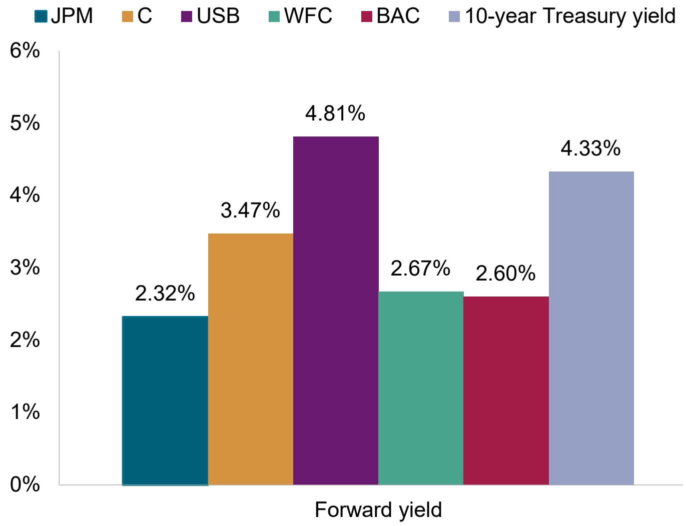
In the US broad market, aggregated dividends are expected to increase by 5.8% in 2024. S&P 500 companies are responsible for more than 80% of these dividends. In the S&P 500 banking sector, 16 companies pay dividends, with nine anticipated to maintain stable dividends in 2024. The three largest dividend payers are expected to contribute about 3.5% to the overall 5.6% growth, while the remaining increase is attributed to the other 249 banks.

Composition of banking dividends ($B)



Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

Forward yield of top 5 largest payers vs. 10-year Treasury yield



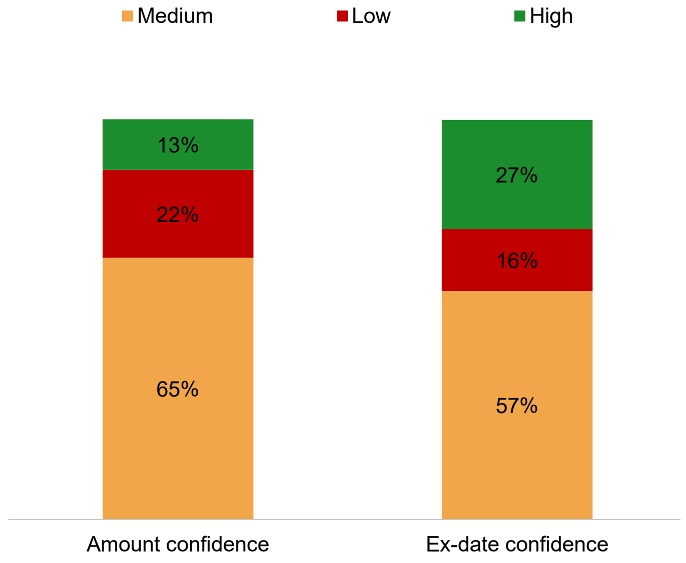
Data compiled June 1, 2024.
Source: S&P Global Market Intelligence.

Among the major banks analyzed, 105 banks are currently paying flat dividends since at least 2023 due to rising interest rates, ongoing deposit fight and losses in bond portfolios.

Confidence level breakdown: Changing dynamics

We have two independent confidence metrics: the amount confidence rank and the ex-date confidence rank. The confidence level for any stock is assigned after considering company-specific fundamental analysis, macroeconomic conditions and industry-level trends. Since 2023, the confidence level for banks has shifted to medium and low due to the bank failures of Signature Bank, SVB and First Republic Bank in 2023 and of Republic First Bancorp in 2024, and problems caused by rising interest rates in banks' balance sheets.

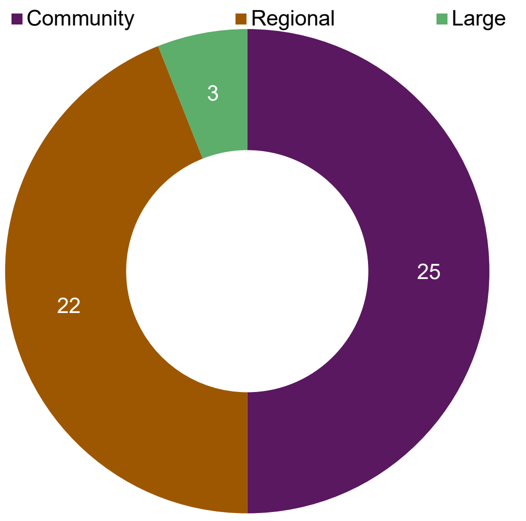
Confidence level breakdown (%)



Data compiled June 1, 2024.
Source: S&P Global Market Intelligence.

Low confidence in dividend amount by bank type

Number of companies with low confidence



Data compiled June 1, 2024.
Source: S&P Global Market Intelligence.

Out of 508 pending announcements, 106 are expected to have a low confidence level in amount and 77 are expected to have a low confidence level in ex-date. The latter number is contributed by 56 banks. These confidence levels are impacted by the risks involved in the banking sector because of ongoing headwinds and upcoming M&A deals.

List of companies having low confidence in amount and ex-date

Ticker	Security name	Type	Amount & ex-date confidence
RBB	RBB Bancorp	Community	Low
RVSB	Riverview Bancorp Inc.	Community	Low
CIVB	Civista Bancshares Inc.	Community	Low
PKBK	Parke Bancorp Inc.	Community	Low
HIFS	Hingham Institution for Savings	Community	Low
BCML	BayCom Corp.	Community	Low
FHN	First Horizon Corp.	Regional	Low
UMBF	UMB Financial Corp.	Regional	Low
HOMB	Home BancShares Inc.	Regional	Low
WTFC	Wintrust Financial Corp.	Regional	Low
BHLB	Berkshire Hills Bancorp Inc.	Regional	Low
BHRB	Burke & Herbert Financial Services Corp.	Regional	Low
PNFP	Pinnacle Financial Partners Inc.	Regional	Low
GBCI	Glacier Bancorp Inc.	Regional	Low
PB	Prosperity Bancshares Inc.	Regional	Low

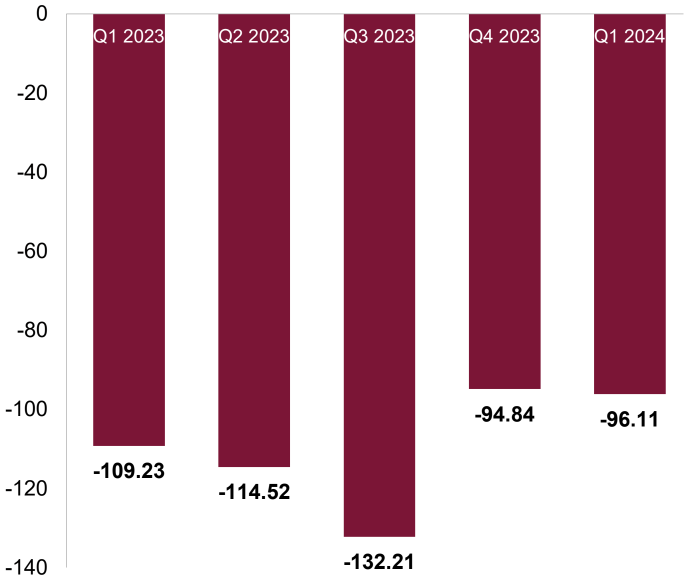
Data compiled June 1, 2024.
Source: S&P Global Market Intelligence.

Issues in focus: Factors affecting confidence level

Unrealized losses in bond portfolios: Further improvement awaits rate cut

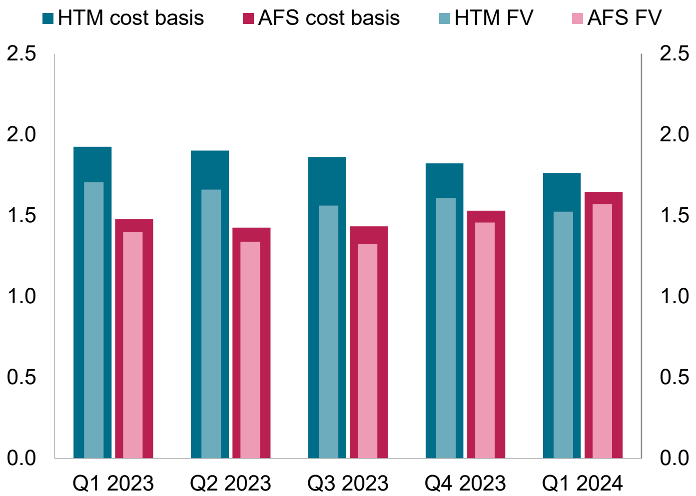
In the first quarter of 2024, the unrealized losses in the bond portfolios increased again marginally in quarter-over-quarter terms after decreasing in the fourth quarter of 2023. Since the interest rates are at the same level, there was no significant change in the unrealized losses. However, if rate cuts materialize, these losses can start to come down as bond yields decrease. This is why the domination of held-to-maturity (HTM) securities is decreasing and investments in available-for-sale (AFS) securities have started to catch up. However, the market speculation is that the rate cuts are to happen later in the year. Until then, realization of these losses can affect the funds available to shareholders.

Unrealized losses ($M)



Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

Cost basis and fair value of bond portfolio of banks ($B)



Data compiled May 15, 2024.
HTM = held-to-maturity; AFS = available-for-sale; FV = fair value.
Source: S&P Global Market Intelligence.

A majority of the banks reduced their unrealized losses in the first quarter of 2024 as interest rates stabilized. However, for some banks, the losses elevated on AFS securities and can be termed as risky.

Top 5 increases in unrealized losses on available-for-sale securities

Ticker	Company name	Category	QOQ change (%)
SFNC	Simmons First National Corp.	Regional	79.3%
PB	Prosperity Bancshares Inc.	Regional	66.9%
TCBX	Third Coast Bancshares Inc.	Community	31.0%
TBNK	Territorial Bancorp Inc.	Community	22.6%
OFG	OFG Bancorp	Regional	22.0%

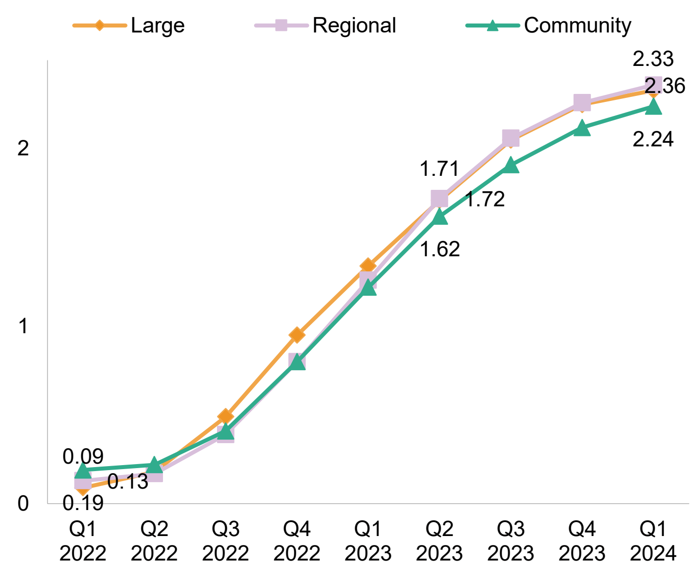
Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

Deposit fight: All banks got the taste of higher costs

Since the interest rates started to increase, depositors began to demand higher interest rates on their deposits. As a result, there were a lot of deposit inflow and outflow from one bank to the other. Consequently, banks had to offer higher interests on deposits to attract and encourage depositors to park their funds with the banks. This increased the deposit costs of the banks.This competitive pricing led to the deposit fight in the sector, which increased the costs further. All categories of banks witnessed a deposit cost above 2% on average in the first quarter of 2024, which was higher than 0.50% at the start of 2022.

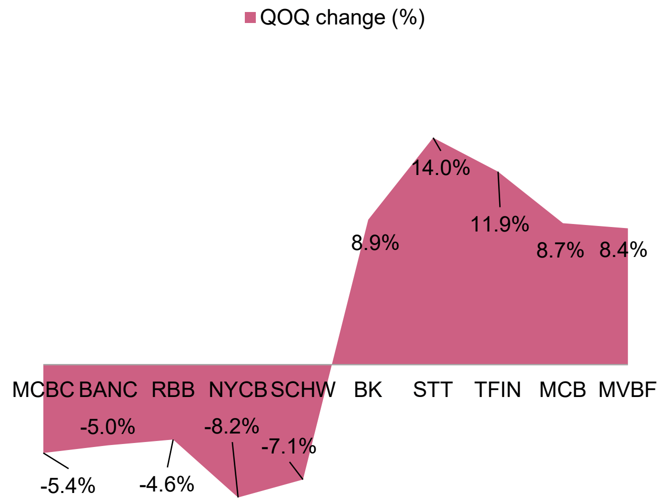
While regional banks were in the list of the top decreasing deposits in quarter-over-quarter terms and large banks witnessed mostly deposit growth, community banks contributed to both lists. Other than New York Community Bancorp Inc. (NYCB), which had a dividend cut recently, four other banks with the largest decreases in deposits in quarter-over-quarter terms are expected to pay stable dividends for 2024 as the increase in cost was partially offset by net interest income.

Deposit cost of different bank sizes (%)



Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

Five largest percentage increases and decreases in deposits



Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

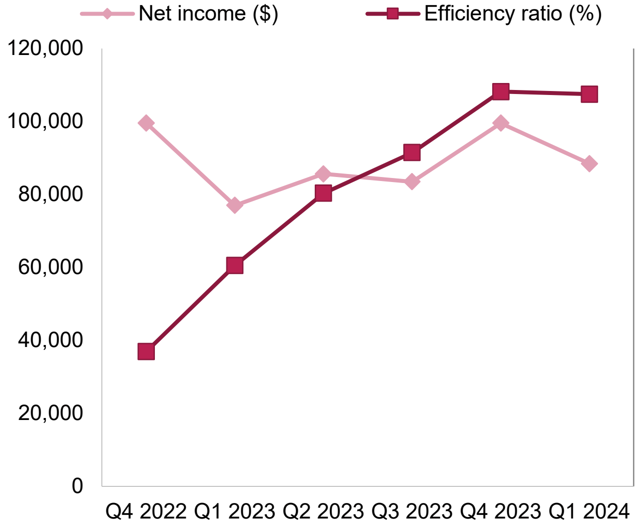
Net income: Regional and community banks' struggling continues

The efficiency ratio for all categories of banks is approximately at the same level. In the first quarter of 2024, net income for large banks increased, but net income for regional and community banks declined despite a rising efficiency ratio. Primary reasons for this are increasing provisions for loan losses, deposit cost and decreasing net interest income.

In the fourth quarter of 2023, NYCB reported a loss of $260 million for the first time in the last eight years, triggered by a loan loss provision of $552 million. Following this, the bank announced a reduction in dividends from $0.17 per share to $0.05 per share. Subsequently, in the first quarter, the bank further decreased dividends to $0.01 per share due to worsening conditions.

Net income and efficiency trend

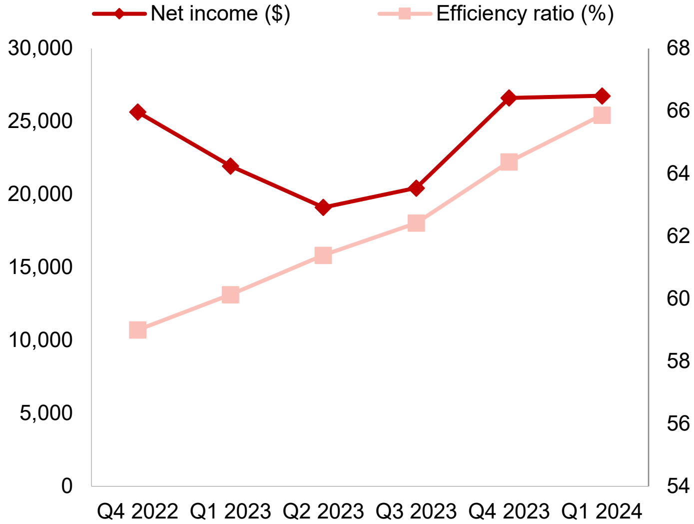
Regional banks



Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

Net income and efficiency trend

Community banks



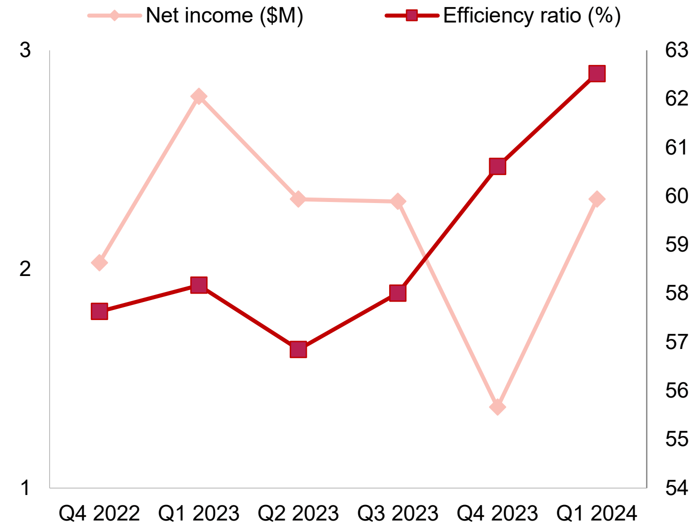
Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

Another reason for lower net income in the first quarter of 2024 is the 13.4-basis-point special assessment fees that the Federal Deposit Insurance Corp. (FDIC) collects from banks to recover the loss of the Deposit Insurance Fund (DIF) associated with protecting uninsured depositors following the closures of SVB and Signature Bank.

Among the top 20 banks with the highest decreases in net income, only one bank is large and all other banks are community or regional banks. A low confidence signifies negative net income, and the dividend payment is at risk.

Net income and efficiency trend

Large banks



Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

Largest decreases in net income quarter over quarter

Ticker	Company name	Bank type	QOQ change (%)	Amount confidence
FFNW	First Financial Northwest Inc.	Community	-152%	Low
EGBN	Eagle Bancorp Inc.	Regional	-108%	Low
BRKL	Brookline Bancorp Inc.	Regional	-79%	Low
MSBI	Midland States Bancorp Inc.	Community	-72%	Medium
FFIC	Flushing Financial Corp.	Community	-69%	Low
FFWM	First Foundation Inc.	Regional	-56%	Low
BWFG	Bankwell Financial Group Inc.	Community	-56%	Medium
CADE	Cadence Bank	Regional	-55%	Medium
GBCI	Glacier Bancorp Inc.	Regional	-55%	Low
FISI	Financial Institutions Inc.	Community	-55%	Medium
CIVB	Civista Bancshares Inc.	Community	-52%	Low
BFC	Bank First National Corp.	Community	-51%	Medium
MVBF	MVB Financial Corp.	Community	-43%	Low
CODI	Compass Diversified Holdings	Community	-40%	Medium
BBU	Brookfield Business Partners LP	Regional	-36%	Medium
ARES	Ares Management Corp.	Regional	-34%	High
RBB	RBB Bancorp	Community	-34%	Low
APO	Apollo Global Management Inc.	Large	-34%	Medium
BR	Broadridge Financial Solutions Inc.	Community	-33%	Low
BSIG	BrightSphere Investment Group Inc.	Community	-33%	Low

Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

Commercial real estate loans: Reduced lending and increasing provisions

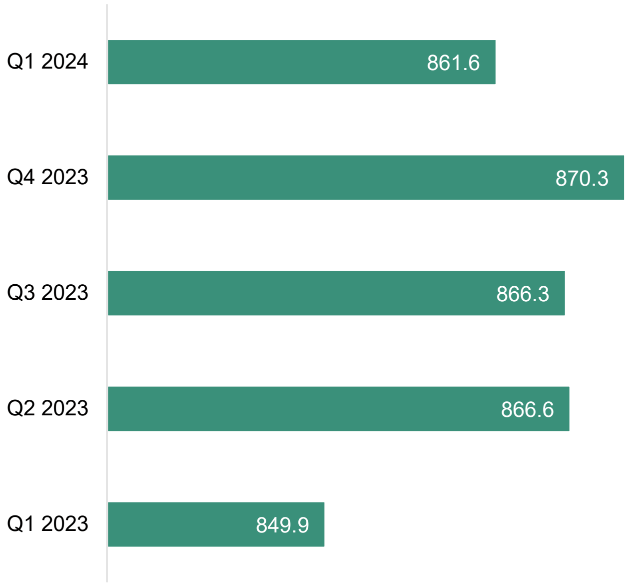
Commercial real estate (CRE) has been one of the crucial categories in the banks' loan portfolio. However, since the commercial property bubble burst in 2023, the banks have started to reduce lending or do it at even stricter terms. Most of the banks halted their additional CRE lending and decreased their loan-to-deposit ratio, while the increase in the ratio for others was not significant.

While a higher loan-to-deposit ratio indicates optimum use of the deposits, since the past year, because the risk of nonperforming assets has increased, the banks considered it more wise not to elevate this ratio. On average, community banks have the highest loan-to-deposit ratio of more than 90%, while regional and large banks have ratios of 80%-85% and 65%-70%, respectively.

Considering the current macro view, lending more is becoming risky since interest rates are getting halted and CRE remains underwater. Lending more for banks will create more risks with less attractive returns. Hence, the aggregated lending toward CRE came down to $861.6 million for the banks in the first quarter of 2024.

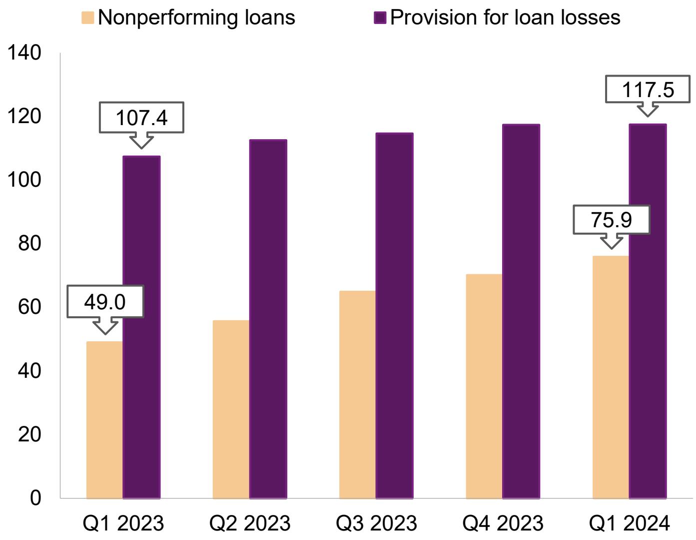
As a precautionary measure, banks started to raise their provisions for credit losses, which have increased by 9% year over year. As a result, less funds will be available for distribution to shareholders.

Commercial real estate loans ($M)



Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

Nonperforming loans and provision for loan loss trend ($M)



Data compiled May 15, 2024.
Source: S&P Global Market Intelligence.

M&A deal: Life jacket of struggling banks

In 2024, 28 US bank deals worth a combined $1.59 billion were announced through April 15. By comparison, there were 20 bank deals worth a total of $432.8 million announced over the same period in 2023. The reason for pacing up deals in the banking sector is that banks are having a hard time maintaining their margins and decreasing their losses in bond and loan portfolios.

A notable M&A deal is that of **Discover Financial Services (DFS)** and **Capital One Financial Corp.** The M&A deal is under regulatory investigation to see whether it is in the best interest of DFS shareholders. The transaction is all stock and both companies are under restrictions under the agreement to not increase the dividend per share (DPS) until the merger is closed. As there can be some unexpected M&A expenses that can impact cash flows, we have low confidence in our estimates.

Home Street Inc. (HMST) entered into a merger agreement with **FirstSun Capital Bancorp** after which HMST suspended its dividend. We expect the dividend to remain suspended until the merger agreement closes, and HMST's management expects to close the merger in late 2024. The surviving entity will be listed on the Nasdaq, and HMST shareholders are expected to have 22% of the outstanding shares of the combined entity.

On Dec. 12, 2023, **Orrstown Financial Services Inc.** entered into an agreement and plan of merger with **Codorus Valley Bancorp Inc.**, a corporation headquartered in Pennsylvania, pursuant to which Codorus Valley will be merged with and into Orrstown.

Wintrust Financial Corp. has announced the acquisition of Macatawa Bank Corp. for $512.4 million. The deal, with a deal value-to-tangible common equity ratio of 177.7%, marks the third-largest and the second-most-expensive US bank M&A deal announced since the beginning of 2023, according to S&P Global Market Intelligence data.

Largest ongoing M&A deals

Target	Acquirer	Deal value	Current DPS (target)	Current DPS (acquirer)	Ex-date confidence	Amount confidence
Discover Financial Services	Capital One Financial Corp.	$35.2 billion	$0.70	$0.60	Low	Low
Home Street Inc.	FirstSun Capital Bancorp	$284.8 million	$0.00	NA	Low	Low
Macatawa Bank Corp.	Wintrust Financial Corp.	$512.4 million	$0.09	$0.45	Low	Low
First Financial Northwest Inc.	Global Federal Credit Union	$231.2 million	$0.13	NA	Low	Low
Codorus Valley Bancorp Inc.	Orrstown Financial Services Inc.	$205.6 million	$0.18	$0.20	Low	Low

Data compiled May 15, 2024.
DPS = dividend per share.
Source: S&P Global Market Intelligence.

Stress test for banks in 2024: More than half of banks expected to declare constant DPS

In 2023, it was observed that many of the large banks that were part of the Fed's stress test increased their dividends after the results. In 2024, we also expect some of the banks to increase their dividends in the third quarter.

The confidence level has been assigned after considering various financial statement elements such as net income, loan loss provisions, unrealized losses in bond portfolios, loan portfolio and its diversification and regulatory capital ratios. These elements will also be crucial factors of assessment in the stress test. Other than these factors, company-specific changes in the dividend policy, date pattern and any M&A the company is involved in have also impacted the confidence level. For example, while JPMorgan Chase & Co. is having a strong balance sheet and financial strength, the company raised its dividend in the first quarter, which was not its expected time of increase in the year.

The following table lists the US-domiciled banks that will be part of the upcoming Fed stress test and their DPS projections for the third quarter of 2024.

Upcoming DPS projection and confidence level of banks part of 2024 stress test

Ticker	Banks part of 2024 stress test	Current DPS	Forecast DPS	QOQ growth (%)	Amount confidence	Ex-date confidence
WFC	Wells Fargo & Co.	$0.35	$0.40	14%	Medium	High
RF	Regions Financial Corp.	$0.24	$0.27	13%	Medium	High
MS	Morgan Stanley	$0.85	$0.93	9%	Medium	High
STT	State Street Corp.	$0.69	$0.75	9%	Medium	High
BAC	Bank of America Corp.	$0.24	$0.26	8%	High	Medium
GS	Goldman Sachs Group Inc.	$2.75	$2.95	7%	Medium	High
NTRS	Northern Trust Corp.	$0.75	$0.80	7%	Low	Medium
BK	Bank of New York Mellon Corp.	$0.42	$0.44	5%	Medium	High
PNC	PNC Financial Services Group Inc.	$1.60	$1.65	3%	Low	High
USB	U.S. Bancorp	$0.49	$0.50	2%	High	Medium
C	Citigroup Inc.	$0.53	$0.54	2%	Low	High
ALLY	Ally Financial Inc.	$0.30	$0.30	0%	Medium	High
AXP	American Express Co.	$0.70	$0.70	0%	Medium	High
COF	Capital One Financial Corp.	$0.60	$0.60	0%	Low	Medium
SCHW	Charles Schwab Corp.	$0.25	$0.25	0%	High	High
CFG	Citizens Financial Group Inc.	$0.42	$0.42	0%	Medium	High
DFS	Discover Financial Services	$0.70	$0.70	0%	Low	Low
FITB	Fifth Third Bancorp	$0.35	$0.35	0%	High	High
HBAN	Huntington Bancshares Inc.	$0.16	$0.16	0%	High	Medium
JPM	JPMorgan Chase & Co.	$1.15	$1.15	0%	Low	High
KEY	KeyCorp	$0.21	$0.21	0%	High	High
MTB	M&T Bank Corp.	$1.35	$1.35	0%	High	High
TFC	Truist Financial Corp.	$0.52	$0.52	0%	Medium	High

Data compiled June 1, 2024.
Source: S&P Global Market Intelligence.

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