



Axiom Alternative Investments

Webinar – European Banks, Q3 2025 results and 2026 outlook

12/03/2025

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Key takeaways

A look back at a great quarter and a standout year

- Bank earnings **maintained their momentum in Q3**. The **beat rate across NII, fees, asset quality and costs was above 70%**. Forward EPS were **revised up by c. 2%**.
- NII was overall in-line with consensus in Italy, France, Germany and the Benelux. Nordic banks surprised somewhat positively. **UK/Asian and CEE banks printed large beats to consensus NII**.
- Fees were boosted by **record inflows in Asian wealth, strong trading**, and improved market valuations.
- **CET1 was the highlight of the quarter**, with a median beat of 10 bps, demonstrating the ability of banks to grow capital-light revenues and optimise RWAs through SRTs.
- Banks have shined throughout the year, **consistently leading the European market in terms of beat rates and EPS upgrades**.

2026 outlook: growth at a discount, with upside to consensus EPS

- Banks are **growing revenues again**, due to balance sheet expansion, a shift away from term deposits, and strong savings inflows. Capital markets revenues are set to benefit from a catch-up in the Origination and Advisory business.
- Banks remain **statistically cheap** versus most other sectors and their international counterparts despite their improved quality.
- A private sector releveraging from low levels, M&A synergies, costs optimisation through AI offer **unpriced upside optionality**.
- The **cash carry of 8%-9% offers a strong buffer from downside risks**. Distributions could be further boosted from a broadening of SRT usage across banks.

Portfolio positioning: protecting the base case against macro risks

- The global economy is becoming harder to read. US data (jobs, spending, industrial) is softening. French political/fiscal uncertainty is high. Europe inflation may surprise to the downside next year. On the other hand, fiscal and monetary stimulus remains strong.
- We favor a quality approach given **low valuation dispersion** and **mounting macro uncertainty**. We see a **strong base case** for the sector but chose to **protect the portfolio** against potentially underpriced macro risks (lower rate curves, wider sovereign spreads, private credit).
- **Picks** (High Resilience/Capital Return): DNB, Unicredit, UK banks, and specialist (re)insurers.
- **Underweights**: rate-sensitive banks (Spanish/Italian regionals); high legal tail risks (BNP, SEB) ; IB names and UK life insurers (private credit risks).

Data as of 03/12/2025 | Source: Axiom Alternative Investments

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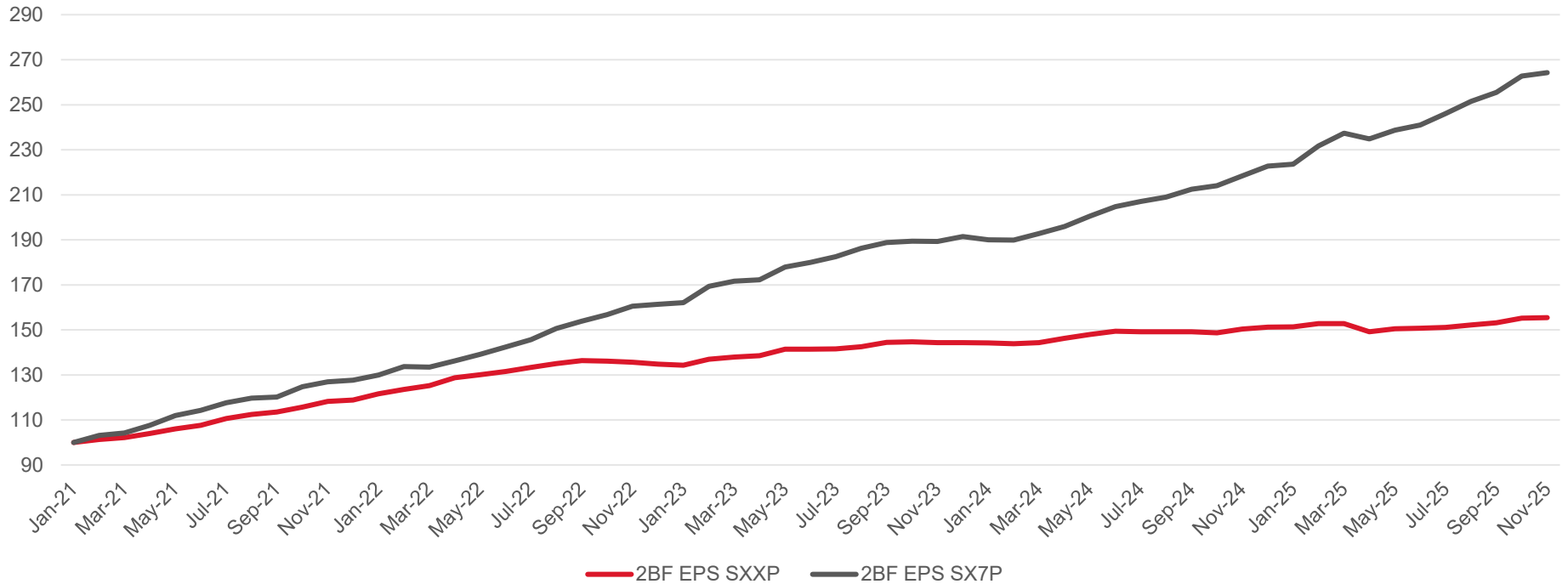


- I. **A look back at a standout year**
 - II. 2026 Outlook: Growth at a discount, with upside to consensus EPS
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I.1 Continuous momentum in earnings revisions

Two-year rolling EPS expectations: SX7P vs SXXP



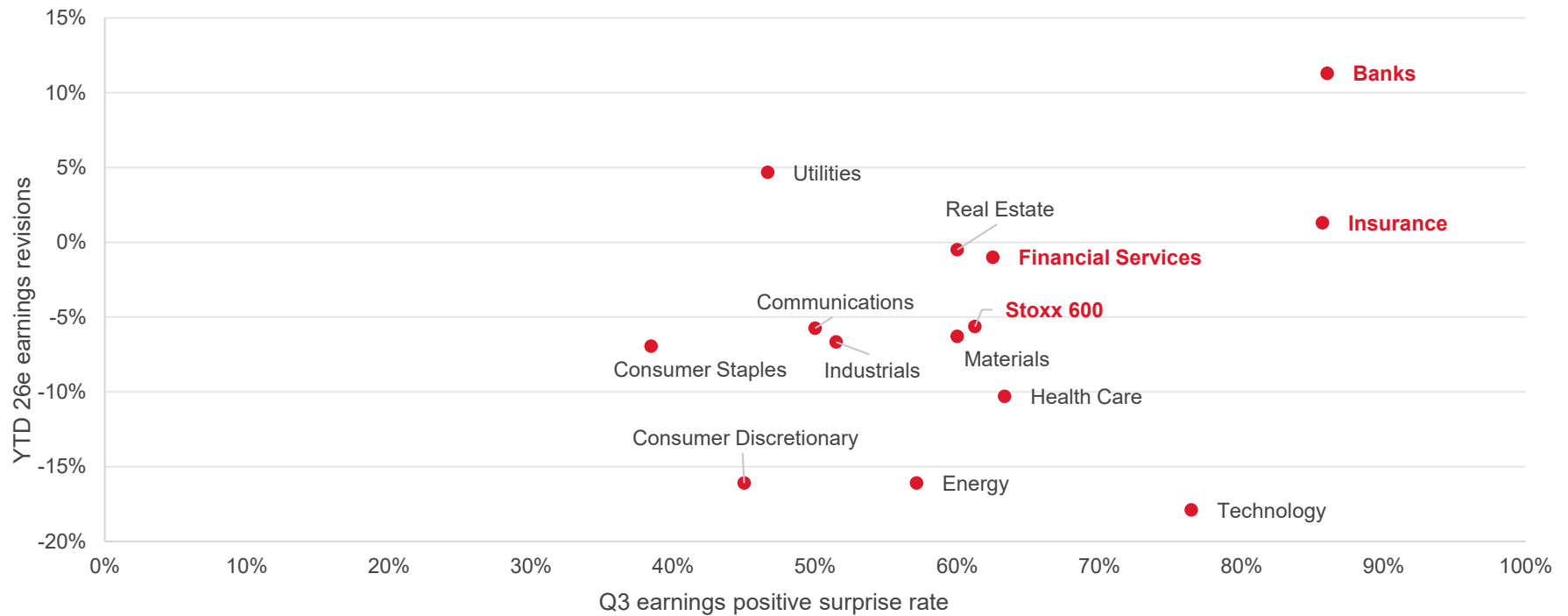
Without financials, the Stoxx 600 would have seen negative EPS growth in 2025.

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I.2 Marked outperformance versus the broader market



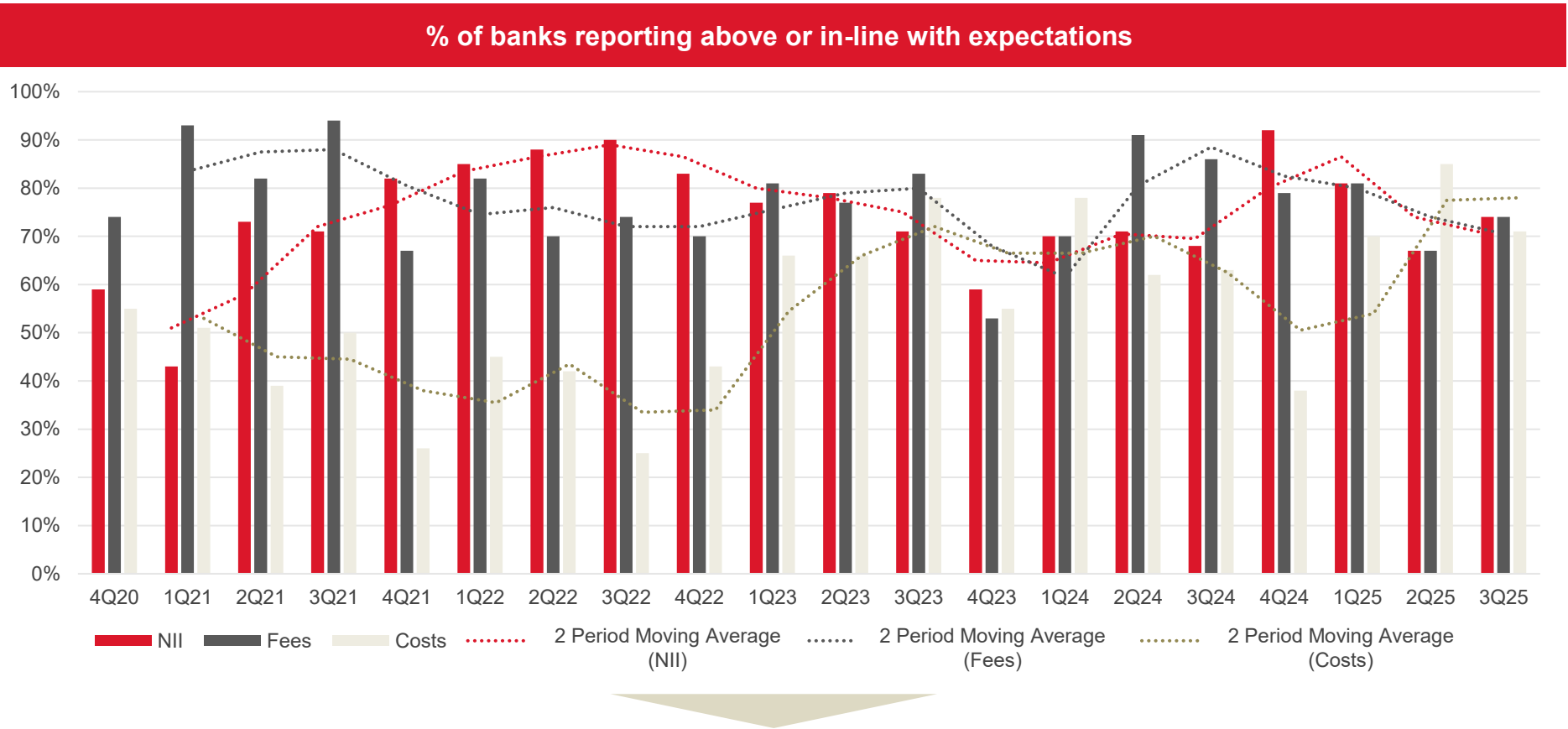
Banks have seen the highest beat rates and earnings revisions throughout the year, when most sectors outside financials have disappointed on fundamentals.

Data as of Q3 2025 | Source: Axiom Alternative Investments, Bloomberg

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I.3 Sustained earnings beat breadth



Earnings beat breadth stayed strong in Q3, with outperformance across NII, fees, and costs, though the magnitude of NII beats was more contained outside of the UK.

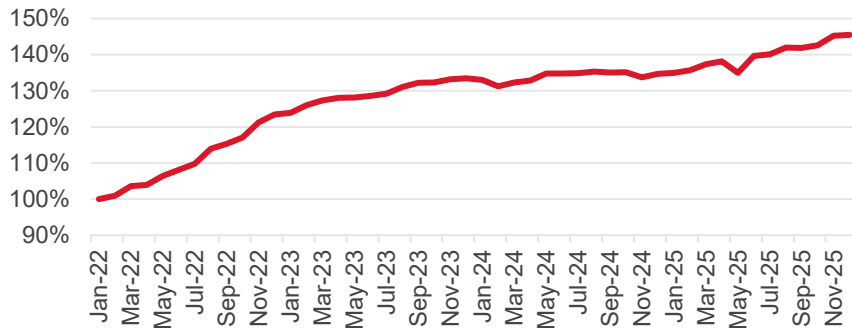
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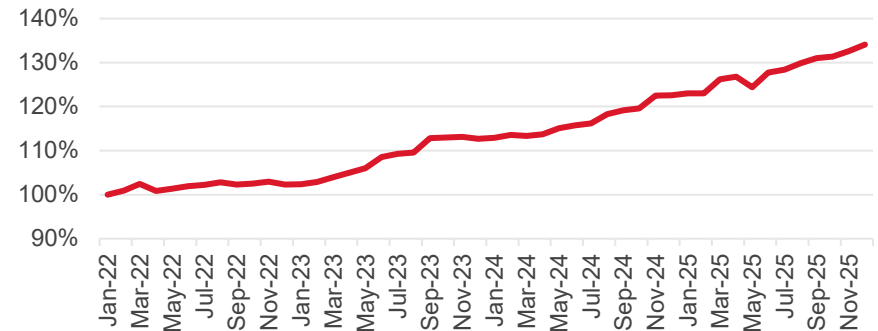


I.4 Balanced contribution from all P&L engines

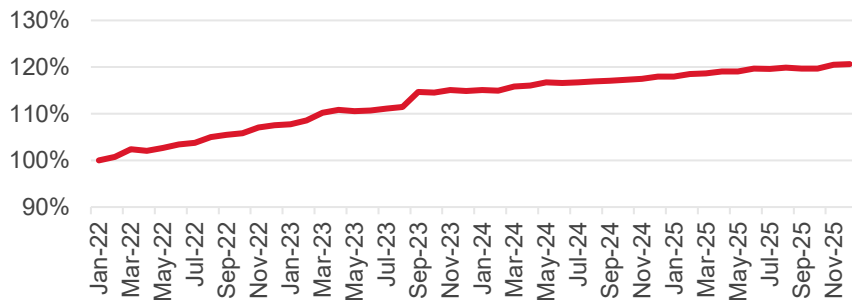
Net Interest Income¹



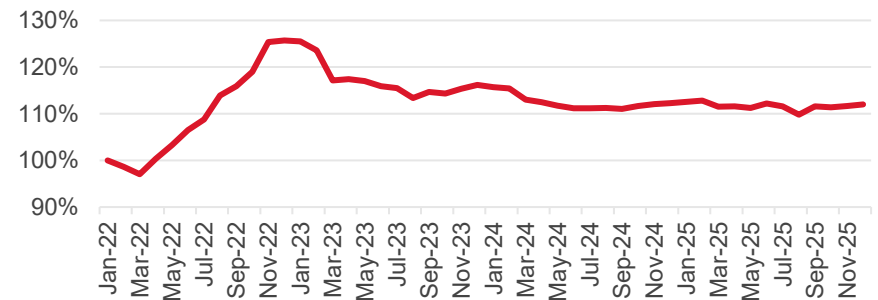
Fees¹



Costs¹



Provisions¹

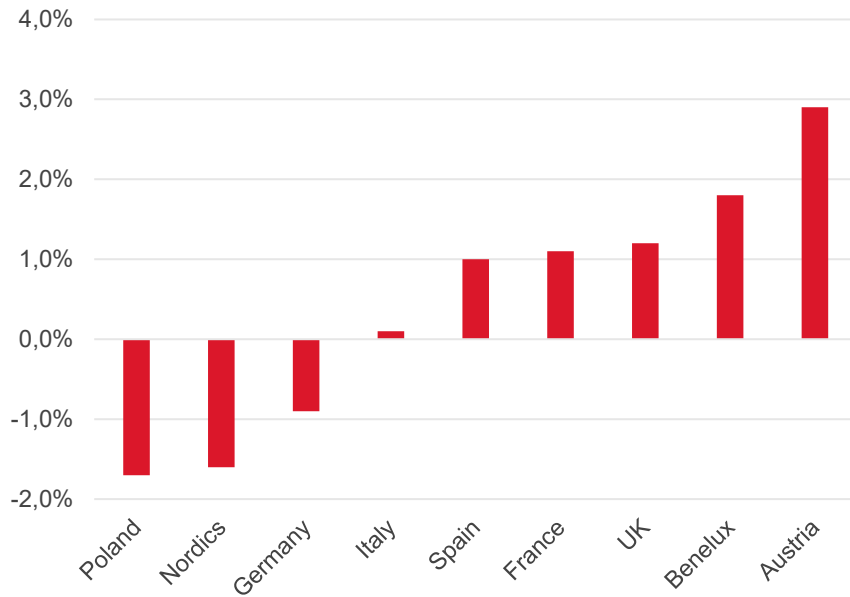


Revisions were again driven by revenues, with stable expenses and provisions leading to pre-provision profit upgrades. Strength in fees is supported by a recovery in IBD and trading, as well as strong inflows and performance in wealth/asset management.

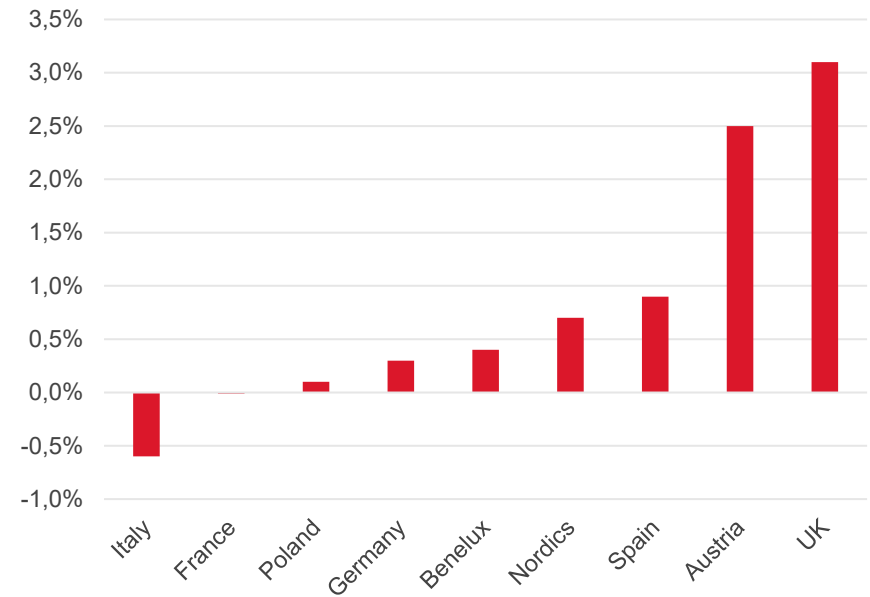


I.5 Q3 highlights - A zoom on Net Interest Income

QoQ Net Interest Income %



Q3 Net Interest Income vs consensus



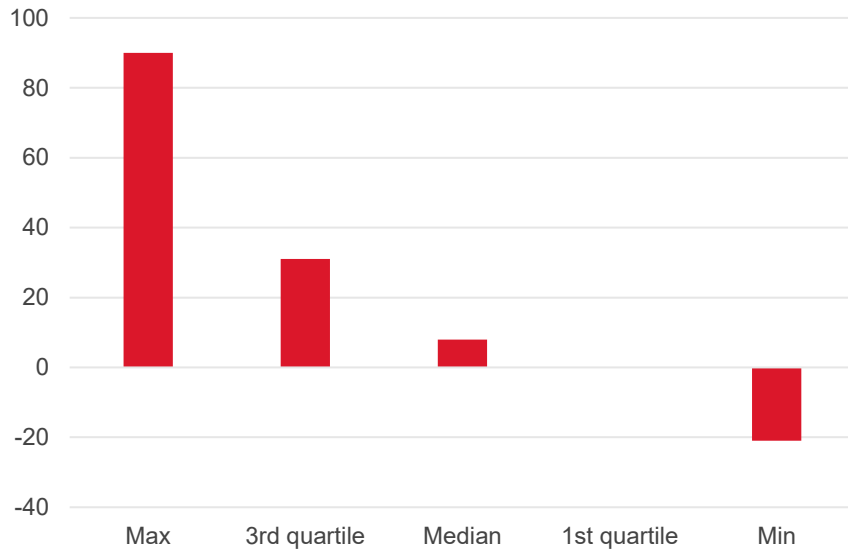
QoQ NII declines were found in Poland, Nordics and Germany vs increases QoQ in Austria, Benelux, UK, Spain, Italy.

NII surprises were skewed to the UK/Asian and CEE banks. Other regions were mostly in line



I.6 Q3 highlights - Capital and asset quality

CET1 ratio surprise (in basis points)





Q3 was a good quarter for CET1, demonstrating solid profits, capital light organic growth and the ability to manage RWAs through SRT.

Asset quality highlights


Focus was on **private credit, CRE, US consumer finance and the construction industry:**

 Deutsche Bank  Reported no exposure to recent high-profile cases.

 BARCLAYS Tricolor/First Brand were described as one-offs. US credit card loan book maintained low and stable delinquencies.

 HSBC ECL steady in the Hong Kong Office CRE book despite an increase in stage 3 assets.

 Santander Saw better-than-expected asset quality trends in Brazil given high real interest rates.

 pbb US office market still under pressure, but close to stabilizing. Some strain in German development project in a construction phase.

Banks delivered a reassuring message on asset quality in a context of private credit headlines in the US.

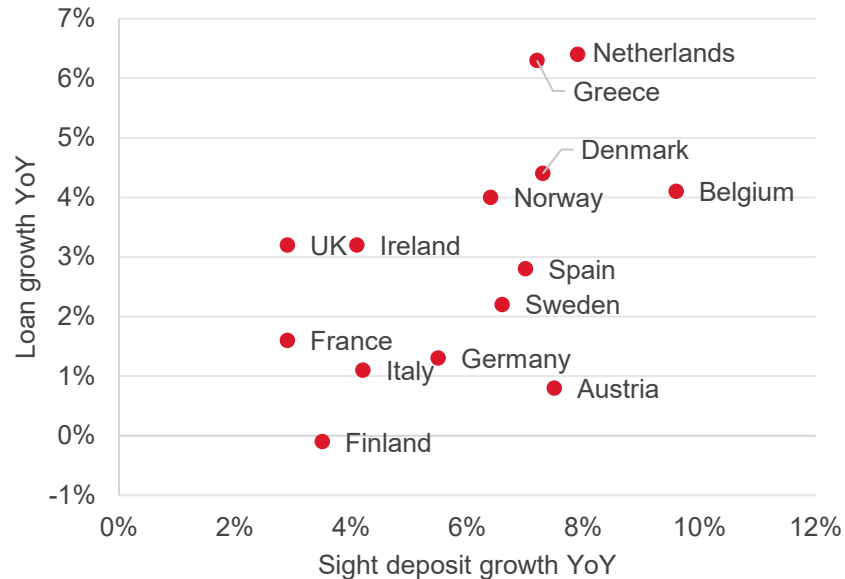


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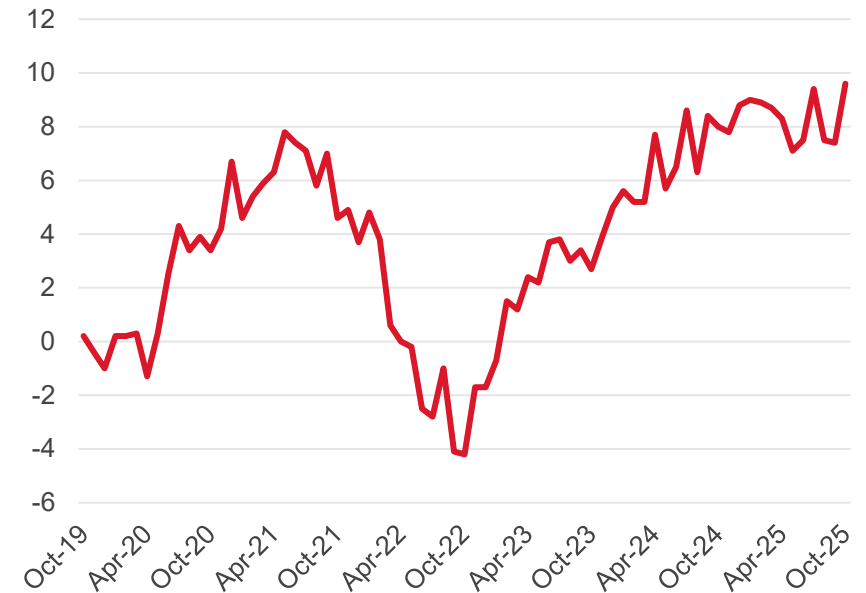
II.1 Banks are growing: deposits, loans and savings

Household and corporate aggregate balance growth by country



Loan growth has caught up to nominal GDP growth, with a low starting point on private sector leverage. Sight deposit growth is benefitting from the reduction in term deposits and retail short-term government bonds.

Eurozone confidence survey - intention to save over the next 12 months



Households saving rate is high and not projected to decline, supporting higher inflows into investment products

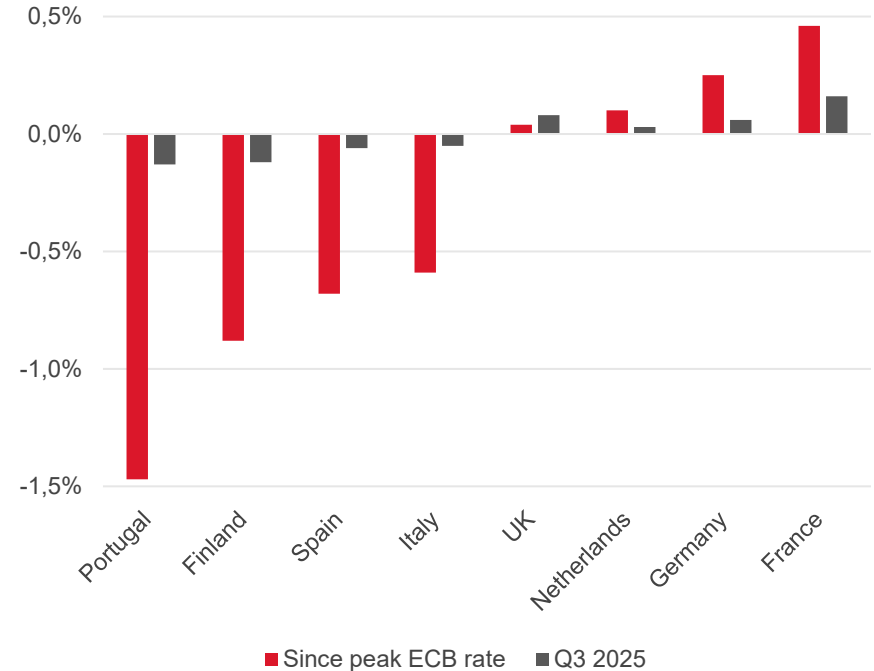


II.2 Net interest margins are supported by an improvement in the deposit mix

Euro area customer spread



The change in customer spreads reveals contrasting country dynamics

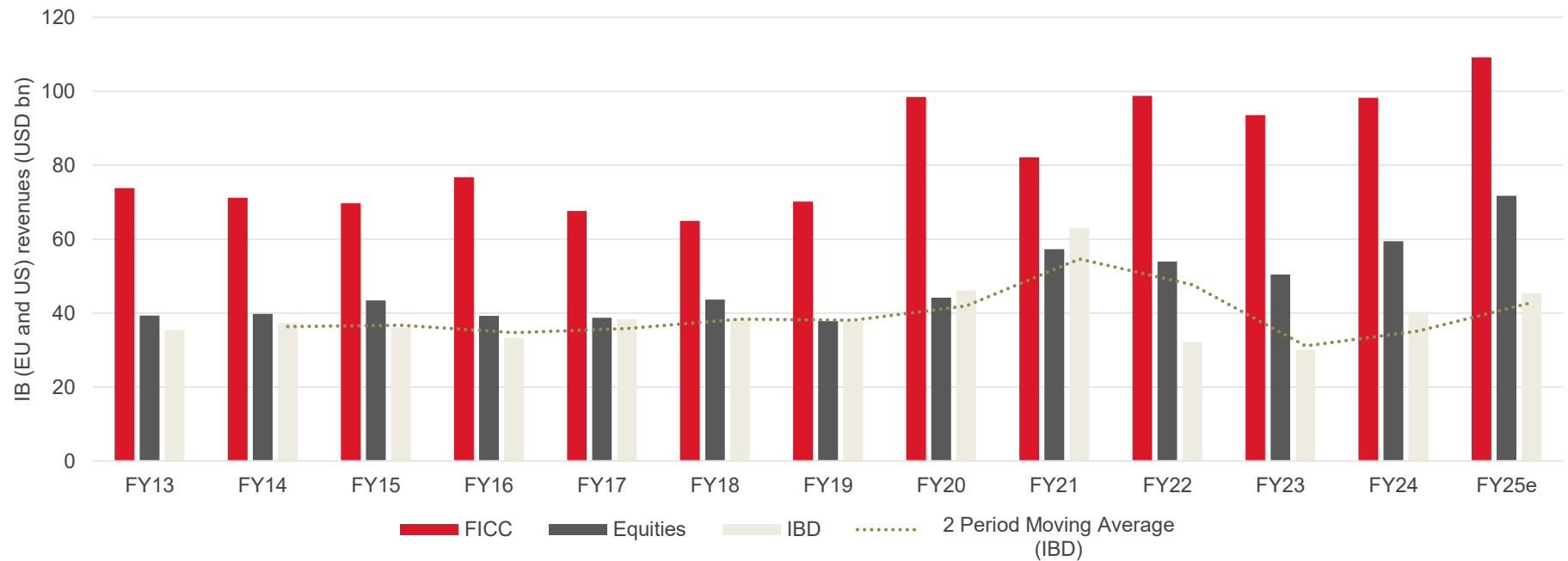


Customer spreads have returned to their long-term pre-NIRP norm of around 250 bps, with the pre-Covid period proving exceptional, while the shift in spreads highlights contrasting country dynamics driven by differences in loan structures and deposit cultures.



II.3 Banks are growing: capital markets

Aggregate trading and O&A revenues of major US and European investment banks



IBD revenues are trending well below their long-term level as a % of GDP, with upside likely to materialize when rates come down. FICC is projected to stay elevated due to the more volatile macro environment.

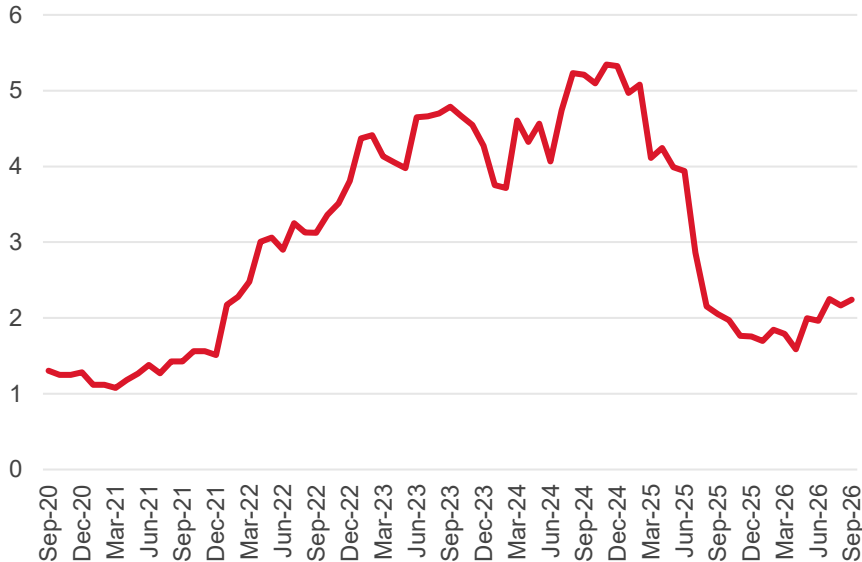
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II.4 Banks have room to beat on costs with slowing wage pressures and AI commodification

ECB estimated wage growth YoY (%)



Example of AI use cases:

Risk management and compliance

- Fraud detection
- AML & KYC
- Underwriting, credit risk assessment
- Covenant monitoring
- Regulatory documents

Customer experience and marketing

- Virtual Assistants
- Personalized product recommendations
- Money coaching
- Marketing (translation, content generation)








Investment and trading

- Model automation
- Enhanced research

The ECB wage growth tracker shows salary inflation should be back to c. 2% in the years to come (consensus sees 2.5% expense growth). AI offers avenues for further cost efficiency, though net of the investment costs we don't expect the benefits to materialize in the immediate future.



II.5 Friendly M&A can create value

Acquirer	Target / business	Comment
Banking		
	Tesco Bank's UK retail banking business (credit cards, loans, savings)	Significant expansion of Barclays' UK consumer finance franchise; long-term distribution partnership with Tesco.
	Barclays Consumer Bank Europe (Germany, Austria, Spain, Portugal)	BAWAG adds scale in continental consumer finance; Barclays exits non-core EU consumer operations.
	Hauck Aufhäuser Lampe (HAL) (German private bank)	Makes ABN AMRO one of the top 3 wealth managers in Germany, strong fit with Bethmann.
	Illimity Bank (specialty SME & NPL lender) – public offer	All-share & cash offer to consolidate Italian specialty lending; issuer reaches >50% and triggers mandatory squeeze-out.
	Several smaller Italian banking deals (e.g. BPER, Popolari; other local mergers)	Italy remains one of the more active banking M&A markets, with regulators generally supportive of consolidation
Insurance / life / brokerage		
	Saga's underwriting business (Acromas) + 20-yr distribution	Ageas strengthens UK non-life presence with a long-term affinity deal; Saga deleverages and "asset-lightens".
Asset & wealth management / other financials		
	AXA Investment Managers (AXA IM)	Creates a top-5 European asset manager by AuM (>€1.5tn), heavily focused on long-term savings and private markets.

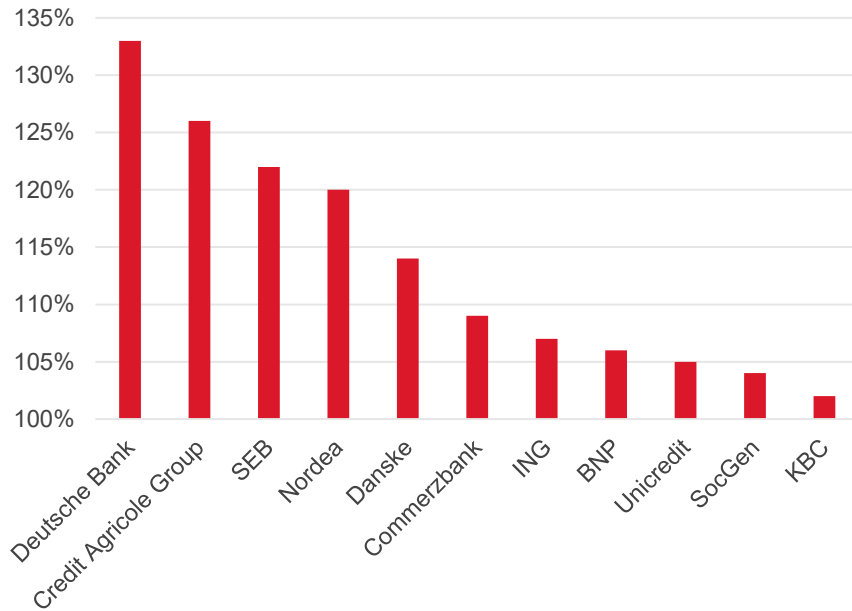
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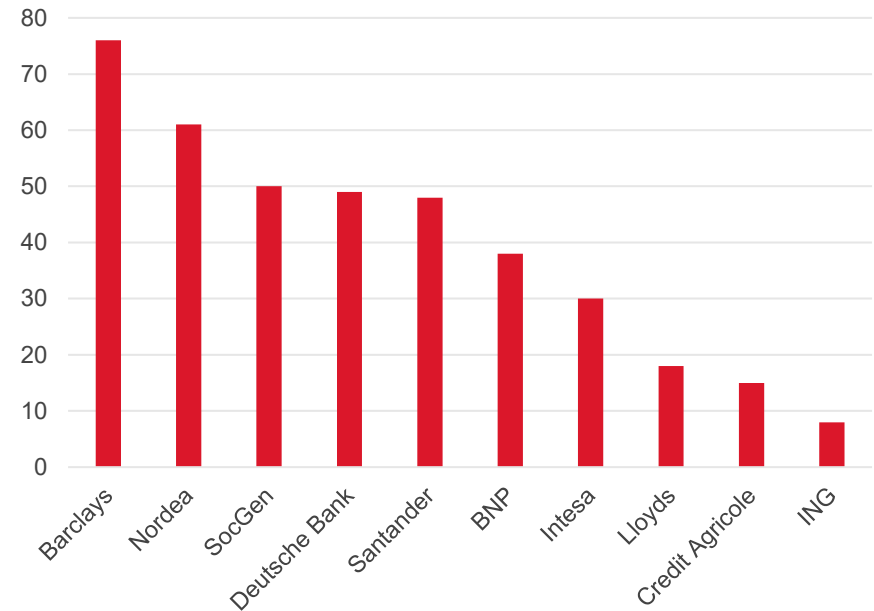


II.6 RWA intensity can be improved at banks that are underutilizing SRTs

72,5% output floor to current RWAs



Estimated current CET1 benefit of SRTs in bps

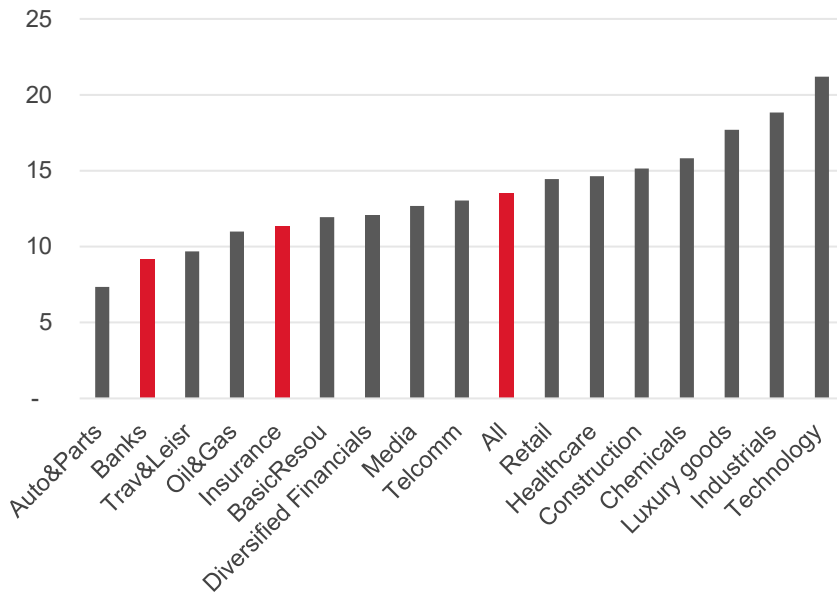


A few banks may see an increase in RWA intensity due to Basel 4, although a significant portion of the impact will likely be mitigated. Many banks have not yet begun using SRT at scale; by following the examples of Barclays and Santander, they could free up around 50 bps of CET1.

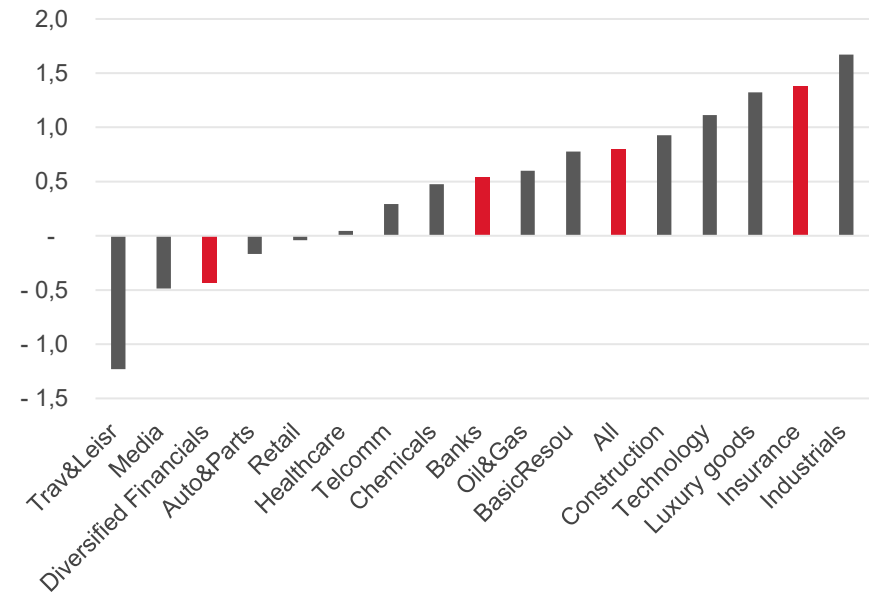


II.7 European banks remain cheap versus the broader European market

Price-to-earnings ratio (PE)



PE Z-score versus the last 20 years

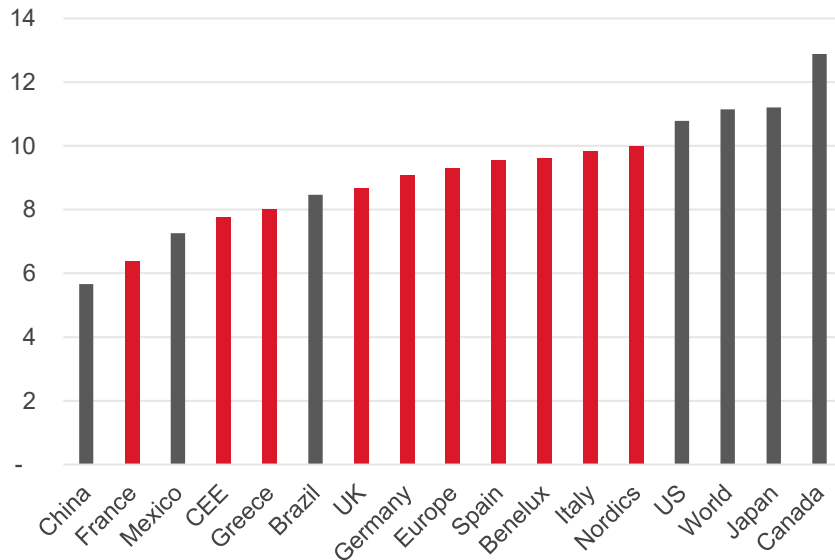


Banks remain the second cheapest sector after autos despite outperforming the market by over 200 percentage points in the last five years. Many sectors, especially industrials, insurance, luxury goods and technology, trade above their long-term multiples, leaving banks and diversified financials looking comparatively cheap.

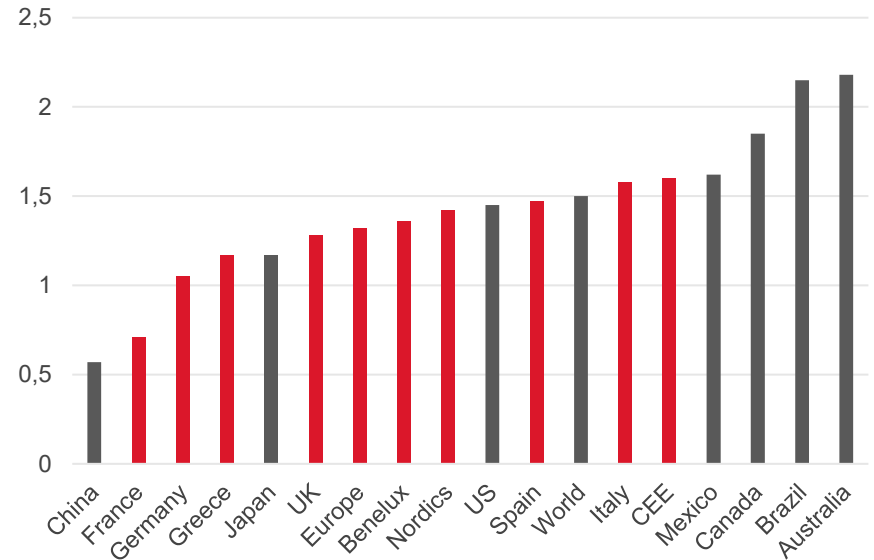


II.8 European banks remain cheap versus their international counterparts

Price-to-earnings ratio



Price-to-book ratio



European banks are discounted versus most other developed regions, as lower growth prospects and an incomplete currency union weigh on their multiples even though they are often regarded as having safer balance sheets. China and France stand out as the only major economies where banks trade below book value, in one case due to non-performing loan, in the other due to non-performing politicians.



II.9 A pick-up in growth would translate into meaningful upside for bank multiples

2y forward PE ratio of banks relative to utilities – a proxy for the “reflation trade”



The relative valuations of banks and utilities reflect by how much banks can outgrow nominal GDP through a private-sector releveraging, NIM expansion, a rebound in fees or an improvement in asset quality. The multiple would increase if the market starts pricing higher loan growth (for instance due to German stimulus) and/or lower asset quality and funding risks following the transformation of the sector in the 2010s.

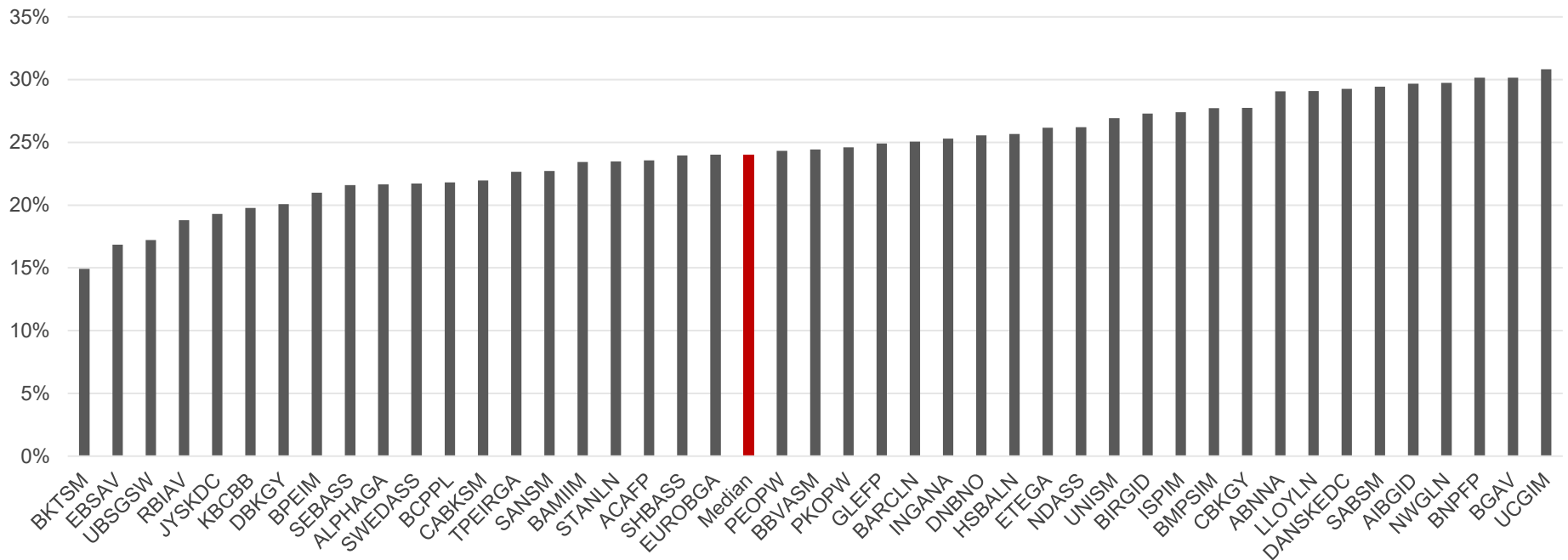
Data as of Q3 2025 | Source: Axiom Alternative Investments, Bloomberg

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II.10 The high single digit cash yield provides a meaningful buffer against downside risks

Cumulative cash yield 2026-2028



European banks typically distribute 8%-9% of their market cap every year in dividends and share buybacks, representing c. 75%-80% of their profits.

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III.1 US coincident indicators are flashing warning signs

Cass Shipment Index SA



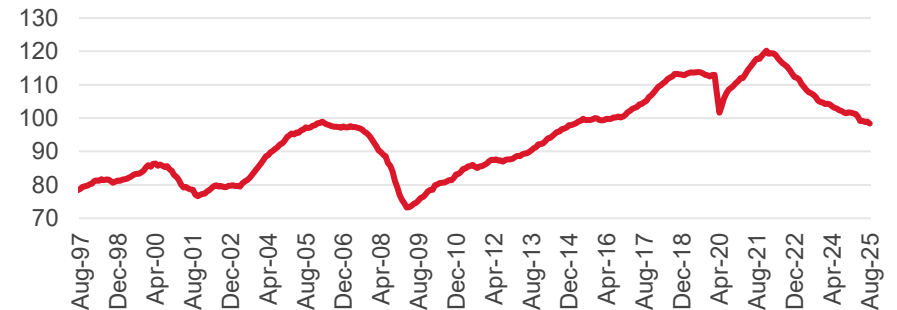
Bloomberg High Frequency Consumer Spend (%YoY 30D avg.)



Linkup Job Postings



US Conference Board LEI



Economic data has been mixed in the US, with signals showing a weakening job market and consumer despite strong GDP numbers. The jury is still out as to whether the US is in a “normalization”, in the start of a “recession” or even a “reacceleration”, with more stimulus possible ahead of the mid-term elections.

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III.2 The ECB may have to cut a bit more than expected

Market expectation for Euro area inflation in the next 2 years



Market expectation for Euro area long-term inflation (5Y5Y)

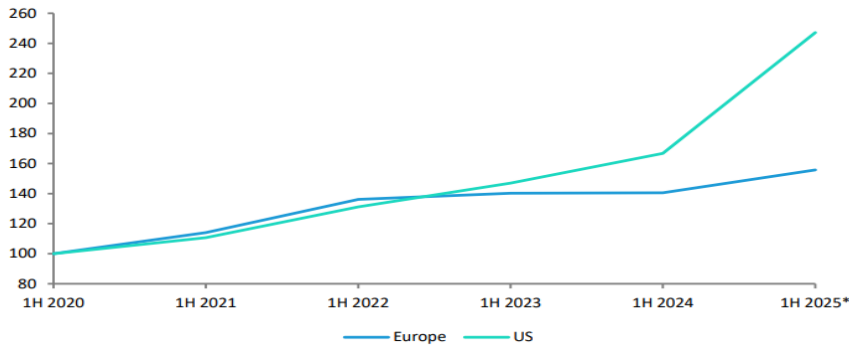


Short-term inflation is predicted to fall below 2% due to lower commodity prices, easing supply chain pressures and declining wage growth, while the shift away from austerity politics keeps long-term inflation expectations anchored at 2% and supports the ECB's view that rates are in a good place. A forced return to austerity triggered by widening sovereign spreads remains a key risk to monitor, though unlikely at this stage.

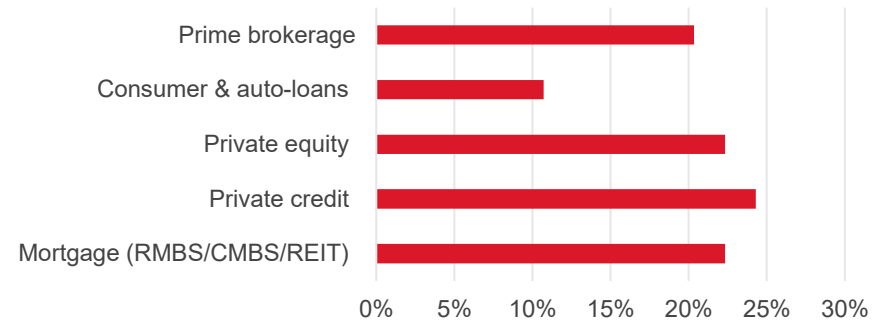


III.3 Cockroaches in private credit warrant prudence with IB names

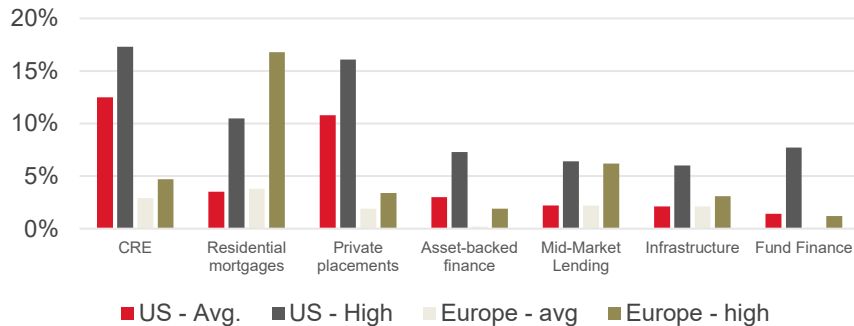
Absolute NBFI loans indexed to 100 as of 1H 2020



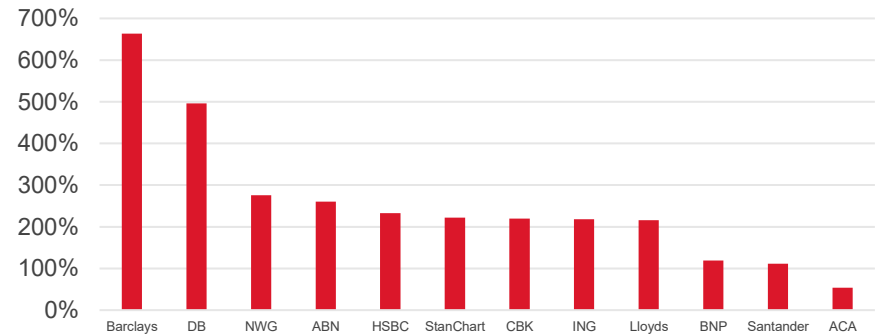
Split of US banks exposures to NBFIs



Some US insurers have a worrying level of exposure to NBFIs



Ratio "CR1 - Other financial corporations" to CET1



US private credit is displaying "late cycle" risks (elevated growth, weak underwriting standards, fraud, non-alignment of interest). US insurers and regional banks are the most exposed. Europe is overall insulated, but a few names like Barclays and Deutsche Bank may see an earnings impact in case of an acceleration in defaults.

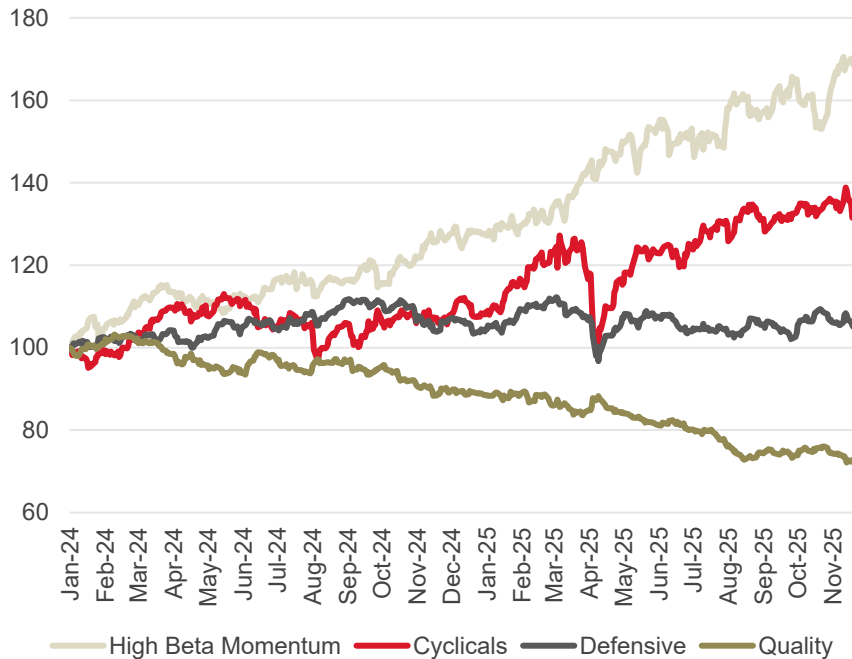
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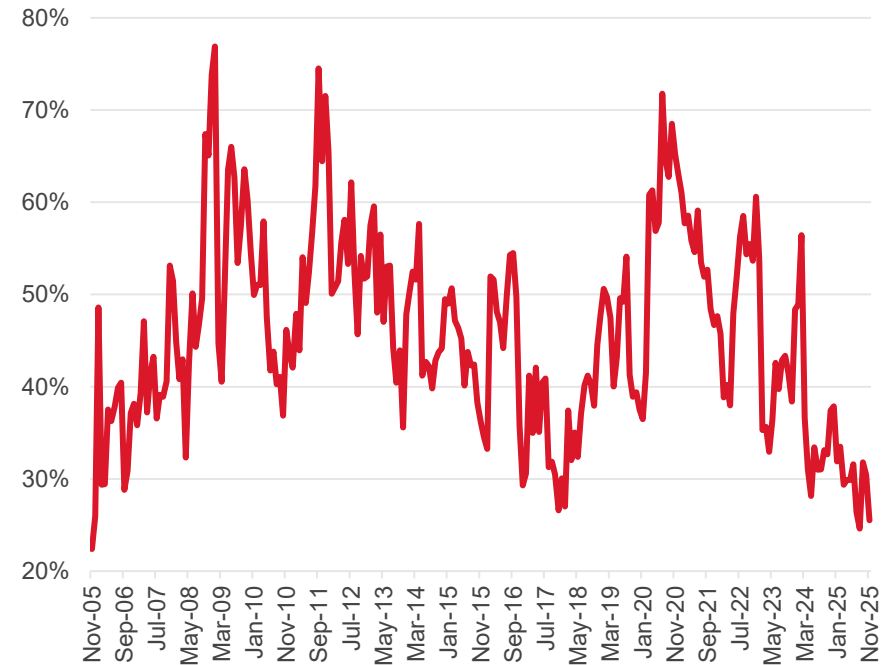


III.4 The record run of high beta and momentum favors an overweight to quality and defensive names

Goldman Sachs L/S basket performance



PE dispersion (top versus bottom quartile PE spread as a percentage of average PE)



High Beta, momentum and cyclical stocks had a record run, while quality stocks underperformed by the highest margin since 2000. The lack of valuation dispersion makes quality inexpensive vs. high beta names.



III.5 Portfolio positioning overview – Axiom European Bank Equity

Category		Positioning
General factor exposure		Since the summer we have maintained a defensive positioning (low beta, overweight quality, underweight momentum and cyclicals) due to stretched momentum outperformance and mounting macro uncertainty , while preserving carry and value .
Rate sensitive banks		We view one or two more rate cuts in the Euro area vs. the market. We are underweight banks with limited ability to reprice deposits and low replicating portfolio upside (Spanish/Italian regionals). We are overweight non-euro domestics (UK, Norway, CEE) and well-hedged banks with capital return upside (Irish, Unicredit).
Investment bank		We are generally underweight investment/large corporate banks with private credit (Deutsche, Barclays) or legal (BNP, SEB) tail risks. Credit Agricole, ING or Commerzbank offer better risk-rewards in our opinion.
France		We are cognizant of the sentiment on French sovereign risk but see many attractively priced stories. Scor screens extremely cheap vs. its gross capital generation and strong balance sheet. Ayvens offers capital return and synergy upside, with the minorities overhang removed. Credit Agricole has upside on revenue growth.
Insurance and diversified financials		Insurance, asset managers and exchanges have largely underperformed banks due to their defensive nature and in some cases fundamental headwinds (insurance pricing cycle, lower rates/equity volatility, threats from AI). We see value and carry with earnings expectations resilience in select opportunities (Scor, Hannover Re, UK specialist insurers, Euronext, Amundi).

The composition of the portfolio may change without prior notice. This does not constitute investment advice.

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Thank you for attending our webinar.

See you next quarter.