Trinity Student Managed Fund
Sector Reports

Financial Banks

September 2025

TRINITY SMF
STUDENT MANAGED FUND

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Sector Overview

The Financial banks subsector of the Global Industry Classification Standard (GICS®) Financial Institutions refers to a company that engages with financial and monetary interactions, acting as intermediaries between lenders and borrowers in order to meet both parties' financial needs (1). Through methods such as deposits, loans, investment and currency exchange banks enable the reallocation of resources within the economy collecting from individuals, businesses, and institutions with surplus funds and channelling them towards borrowers who need capital for various purposes, such as investments, purchases, or operational expenses. This then enables efficient markets as well as industry growth. Key drivers of this sector include economic growth, interest rate movement and regulatory framework. The sector is broadly divided into retail, corporate and investment banks with universal banks combining their practices.

Retail Banks

These institutions provide a wide range of banking services to businesses and individuals such as checking and savings accounts, debit and credit cards, personal loans and mortgages. By accepting deposits from savers, these banks can loan to borrowers with an interest rate. These banks play a central role for consumers, allowing them to safely manage and access their money. Examples of retail banks are Bank of America, AIB and BNP Paribas.

Corporate Banks

These banks focus on providing financial services such as loans, cash management services and trade finance to corporations. What differentiates retail and corporate banks is the scale of lending; the latter's loans being at a larger scale given its clientele. This provides the necessary funding for these businesses to grow and expand. There are corporate banking divisions in many major global banks such as Citi, Wells Fargo and JP Morgan.

Investment Banks

Investment banks primarily focus on corporate finance, helping businesses to raise funds from financial markets. They provide strategic advice on a range of matters such as mergers & acquisitions (M&A), restructuring and underwriting securities for Initial Public Offerings (IPOs) and bond issuance. Many investment banks will also provide a range of other services such as equity research, asset management and sales and trading. Examples of investment banks include Goldman Sachs, Morgan Stanley and JP Morgan.

Sales and Trading

Investment banks serve as intermediaries connecting buyers and sellers of financial instruments. They provide liquidity in markets for stocks, bonds, and other securities by facilitating transactions. Operating on the "sell-side," sales teams collaborate with asset managers, hedge funds, insurance companies, and other buy-side investors to present investment ideas and execute trades in securities or derivatives, such as options, futures, and warrants.

Asset Management

Many investment banks have asset management divisions that oversee investments for high-net-worth individuals, pension funds, and institutional clients. These managers allocate capital across a variety of assets, including equities, fixed income, real estate, commodities, and alternative investments.

Wealth Management

Investment banks often provide wealth management services for high-net-worth clients. Wealth managers offer comprehensive financial guidance, covering investment planning, estate planning, tax strategies, retirement planning, and accounting services.

Research

Investment banks employ analysts to study companies, industries, and markets to generate insights and recommendations for clients. Research reports on specific companies or sectors are used by the bank's sales teams to inform clients and support investment decisions.

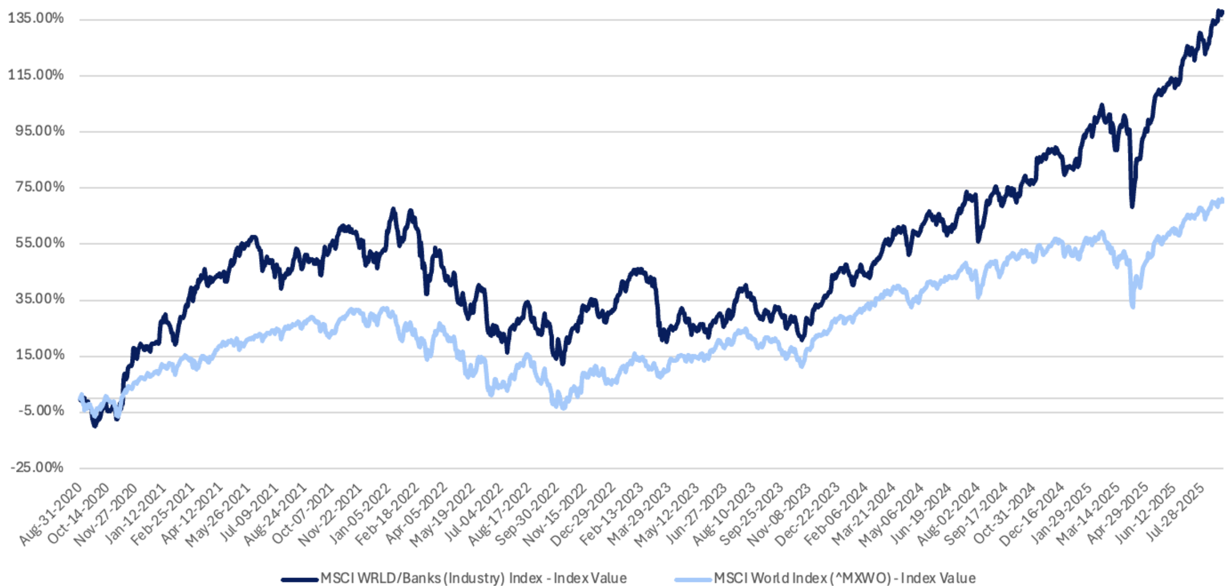
Universal Banks

Universal banking is a system whereby banks provide a wide range of specialized services including those of retail, corporate and investment banks. This allows clients to access all services under one roof and enables banks to have a more diversified earnings stream. UBS, Barclays and JP Morgan are examples of universal banks.

The MSCI World Banks Index

The MSCI World Banks Index shows that the banking sector has provided mostly constant growth since 2009. The US makes up a large part of this sector at 38.66% of 75 constituents, the top three bring JP Morgan Chase & Co, Bank of America Corp. and Wells Fargo & Co. The sector has experienced 30.5% YTD index return (as of 31/07) as banks are continuing to perform well (2).

MSCI World Banks vs MSCI World



Top 10 Constituents

Constituent	Country	Index Wt. (%)
JP Morgan Chase & Co	US	12.34
Bank of America Corp	US	5.09
Wells Fargo & Co	US	3.92
HSBC Holdings (GB)	GB	3.22
Commonwealth Bank of Aus	AU	2.86
Citigroup	CA	2.71
Royal Bank of Canada	US	2.63
Mitsubishi UFJ Fin Grp	JP	2.40
Banco Santander	ES	1.95
HDFC Bank	IN	1.94

Key performance indicators (KPIs)

Capital Adequacy Ratio (CAR):

Comparison of the available capital that a bank has against its risk-weighted assets – provides insight into whether a bank has enough funds to cover losses under different financial conditions

Non-Performing Loan Ratio (NLP):
Measures the percentage of loans that are in default – indicative of the bank's level of credit risk

Cost of Risk (COR):
Total cost of managing risks and losses incurred by the business – benchmark for risk management

Liquidity Coverage Ratio (LCR):
Assesses whether a bank has enough high-quality assets to survive a 30-day stress test

Profitability Metric	Description	How to calculate
Return on Equity (ROE)	Shows how much profit a company generates with the money shareholders have invested.	Net Income x 100 / Total Shareholder's Equity
Return on Assets (ROA)	How efficiently a company is using its assets to generate profit.	Net Income x 100 / Total Assets
Net Interest Margin (NIM)	Measures the difference between the interest income generated by a bank and the amount of interest paid out to their lenders, relative to the amount of their interest-earning assets – used to evaluate the profitability of a bank's lending and investments.	Net Income x 100 / Total Interest Generating Assets
Dividend yield	Measure of return on investment for investors as shows which banks pay higher dividends relative to their share price.	Annual dividends per share / Share price

Current Holdings – JP Morgan (Hold)

Entry Price – $114.58

Price on 29/08/2025 – $301.42

Theis Outline: Hold

JP Morgan outperformed its benchmark by approximately 20.5% year-to-date (as at 31.08), continuing to demonstrate strong earnings power in a still-mixed macroeconomic environment. Net interest rose 2% YoY to $23.3B in Q2, supported by resilient consumer demand and strength in wholesale deposits, with full-year guidance raised to $95.5B.

The firm's LCR improves slightly to 113% from 112% last year, showing a solid liquidity position. Its CET1 standardised ratio stands at 15.0% (15.1% advanced), well above regularity requirements, with TLAC of $560b. Average loans rose 5% YoY to $1.4T and deposits increased 6% YoY to $2.5T, reflecting ongoing balance sheet expansion and stable client demand (3).

Expenses reached $23.8B in Q2, resulting in a managed overhead ration of 52%, indicating effective cost management despite revenue headwinds in select capital markets businesses. While net income declined 17% YoY to $15.0B, profitability remains robust and capital buffers string, giving JPM the ability to weather adverse market conditions.

We plan to hold our position of JP Morgan. We believe that the bank is well positioned to capitalise on higher interest rates in the US and is large enough with diverse revenue streams to be able to absorb market volatility.

Current Holdings – UBS (Sell)

Entry Price – CHF 22.91

Price on 29/08/2025 – 32.58

Theis Outline: Sell

UBS Group AG (SWX:UBS) Share Price

UBS underperformed the benchmark by approximately 5.6% year-to-date (as at 31.08), yet the stock still recorded a modest YTD gain of 4.3%, reflecting resilience amid challenging interest rate and macroeconomic conditions. The bank maintains a strong CET1 ratio of 15.1% (4), which supports ongoing share buybacks, capital returns and total loss-absorbing capacity, providing a solid foundation for long-term stability.

Net new assets in Global Wealth Management totalled USD 29B, demonstrating continued client momentum and reinforcing UBS's leadership in the wealth management sector. Q2 net profit exceeded expectations, driven by disciplined cost management and revenue growth in both the Wealth Management and Investment Bank divisions. Capital markets activity helped offset pressures from lower NII due to muted lending, deposit growth and low Swiss interest rates.

Despite regulatory pressures following the acquisition of Credit Suisse, UBS remains well-capitalised to meet upcoming requirements, with projected additional capital needed of $22-25B by 2030 manageable given its CET1 strength. However, the Swiss government want UBS to fully capitalise its foreign subsidiaries which will require an increase of up to $26 billion in CET1 reserves (5). UBS opposes these requirements and believes that it will put the bank at a significant disadvantage against foreign competitors (6).

Given the recent underperformance against the market, we have the sell thesis for UBS. The acquisition of Credit Suisse has large amounts of excess capital and we believe that the benefits of this move are already priced in. The increased regulatory pressures on UBS will burden the bank's global expansion (7). We do not expect that UBS's share price will accurately reflect the market's potential and that other banks have better ability to outperform and to provide higher returns to investors.

Investment Themes

Strong Capital Positioning

A key investment theme in our portfolio is banks with strong capital bases and liquidity, which provide both defensive strength and strategic flexibility. European banks enter 2025 with high Common Equity Tier 1 (CET1) ratios (8), significant cash reserves and diversified funding sources. This strategic positioning provides multiple advantages, including the ability to withstand potential stress in credit markets, maintain investor confidence and act decisively on market dislocations.

These institutions are also well-placed to deliver sustainable shareholder value, whether through targeted dividends, share repurchases, or selective investments in growth initiatives. Within our portfolio, we prioritise banks that combine prudent risk management with strategic flexibility, ensuring resilience while retaining the ability to capitalise on favourable market conditions.

Institutions like JPMorgan Chase exemplify this approach. Under CEO Jamie Dimon's leadership (9), JPMorgan has maintained a fortress balance sheet (10). This emphasises their capital resilience and strategic patience. This strategy has enabled the bank to navigate crises effectively and capitalise on growth opportunities. Similarly, European banks such as Deutsche Bank and UBS have demonstrated capital strengths, with recent stress tests indicating their ability to withstand economic uncertainty. These institutions are well-positioned to deliver shareholder value thorough dividends, share buybacks and strategic acquisitions.

Diversification and Earnings Resilience

Another central theme guiding our investment approach is the focus on banks with diversified revenue streams. As interest rate-driven lending margins begin to normalise (11) institutions with broad operations access wealth management, transaction banking, capital markets and fee-based corporate services are expected to outperform.

These diversified income streams help mitigate fluctuations in lending income, enhance earnings predictability and provide a more stable foundation from growth. Moreover, banks that effectively integrate technology and maintain cost disciplines are better positioned to sustain efficiency ratios (12), even in slower growth environments. For our portfolio, this theme informs our preference for institutions with balanced business models and resilient fee-based income, reducing sensitivity to interest rate changes while capturing long-term growth opportunities.

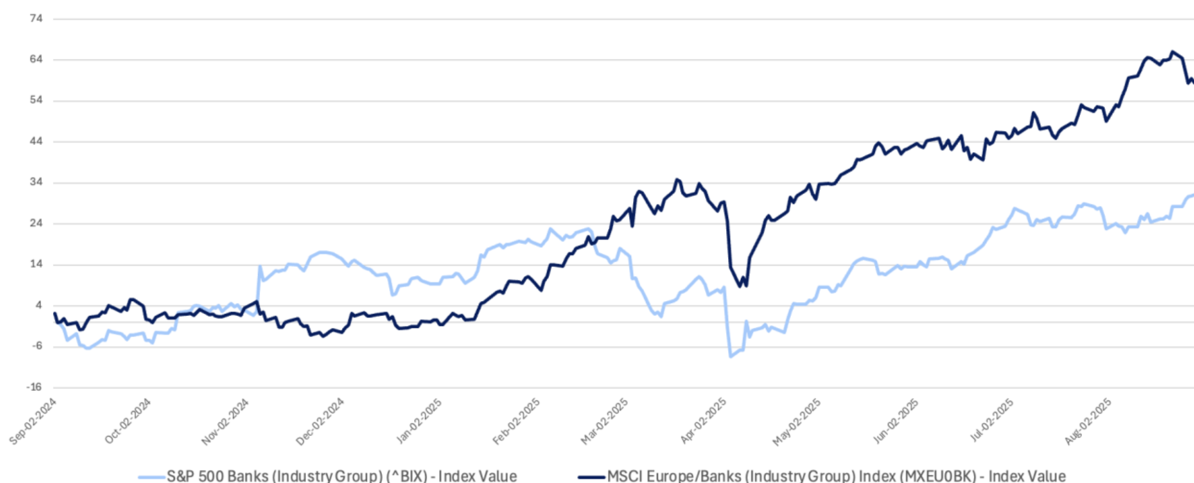
European Banks

European banks continue to demonstrate structural advantages over US regional banks. This is supported by stronger capitalisation, more stable deposit bases and more balanced interest rate risk management. Exposure to commercial real estate (CRE) and consumer finance remains limited, helping mitigate late-cycle credit risks. Smaller European institutions also operate in a more stable regulatory environment, providing a further buffer against volatility. These distinctions leave the sector well positioned for resilience and potential expansion through the second half of 2025 and into 2026.

While rate cuts in 2025 (13) are expected to moderate net interest income, the impact is likely to be offset by reduced deposit funding costs and stronger reinvestment yields. As a result, earnings drivers are shifting toward fee-based revenues, operating cost discipline and capital deployment. Investment banking activity, wealth management inflows and trading revenues are gaining momentum, while easing inflation is helping narrow cost growth. Recent volatility has benefited non-interest income across European banks (14).

The strength of European banking as seen over the first half of 2025 is a key investment theme for our sector. With projections for eurozone bank lending forecast to increase 3.1% in 2025 and 4.2% in 2026 (15), the market retains potential for growth. We believe that higher exposure to Europe will benefit our portfolio.

S&P 500 Bank's Returns vs MSCI European Bank’s Returns



Headwinds

Interest Rate Environment

The financial sector has been benefiting from higher interest rates which has led to an all-time profitability high for European banks. However, these rates have been falling and may continue to do so or to remain steady into 2026. According to the European Banking Authority (EBA), pressure has already increased on net interest margins (NIM) from a decrease in net interest income (NII) across several markets (16). In turn, banks are looking to other sources of income such as that from fees and trading which may help maintain profitability despite interest rate cuts.

US banks are less sensitive to rate cuts that those in Europe (17). Higher for longer is the expectation of US rates with the Federal Reserve balancing inflationary pressures and labour market risks. (18)

Geopolitical Tensions

The banking sector in Europe has proven to be resilient with the Euro Stoxx Banking Index up 51.8% over the past year (19), the Euro Stoxx index itself up only 12.4%. This is in light of tariff discussions between the the US and Europe which prompted uncertainty across all sectors shown by strong market reactions and increased volatility. This volatility has also stabilised in light of international trade deals and discussions. While European financial institutions have performed very well in spite of these tensions and trade friction, tariffs remain a high risk which must be monitored.

War and political instability both globally and in Europe have affected the macroeconomic climate. The risk to economic growth has grown in recent years which may see a reduction in consumer confidence, consumption and investment. Defense spending is also expected to increase in Europe which may put strain on countries with high debt countries. This increased risk also raises cyber-security concerns for financial institutions who have become increasingly dependent on technology systems and cloud services. This risk of cyber-attacks may challenge the operational resilience of these institutions as the International Monetary Fund (IMF) pointed out in April of 2025 (18).

Outlook

The banking sector offers a constructive outlook for investors over the coming year, particularly so in Europe. Despite macroeconomic headwinds, banks have displayed strong fundamentals that have allowed them to continue their growth trajectory. Over recent years, higher interest rates have increased NII and strengthened NIM, allowing for investment into infrastructure and providing strong shareholder returns. Coupled with this is economic growth in several European markets. Strong balance sheets with high capital adequacy ratios and robust liquidity positions have positioned European banks to be resilient through recent volatility.

Banks are facing significant headwinds into 2026 such as decreasing interest rates, slower economic growth in Europe, a changing regulatory and compliance landscape for ESG and Basel IV requirements. While banks have performed well in recent months despite geopolitical uncertainty, their stability is not certain.

Despite these challenges, we believe that European banks will perform well into 2026. A focus on non-interest income such as fee-based income will ensure profitability for banks. This will come from diversified streams such as asset management, advisory services and trading income among others. Along with this, we believe that a prior investment in technology and cost cutting will benefit banks allowing them to operate more efficiently. Altogether, our outlook on this sector, particularly with our focus on European banks, is optimistic.

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