BANK OF AMERICA

# Bank of America

## Goldman Sachs US Financial Services Conference

## December 6, 2022

## Participants

Host

Richard Ramsden – Goldman Sachs, MD

Participant

Brian Moynihan – Bank of America, Chair and CEO

## Q&A

### Richard Ramsden

Excited to welcome our next presenter, who is Brian Moynihan, Chairman and CEO. He has been at Bank of America now, I think, for 30 years.

### Brian Moynihan

29 years.

### Richard Ramsden

And this is the 13th consecutive time presenting at this conference, which is a record. So Brian, thank you very much for coming back and joining us.

### Brian Moynihan

That proves we're getting old, Richard.

### Richard Ramsden

So look, I thought we could start off with where we always start off, which is a discussion around the economy and economic growth for next year. And look, and I appreciate there's a lot of different moving pieces here. But if you could just start off with just your base case in terms of what you're expecting in terms of interest rates, GDP growth and inflation. But also touch on what you're seeing across both corporate and consumer spending. And you've also been giving these really helpful updates in terms of what's been happening with consumer liquidity. So if you could touch on how that's changed over the quarter, that would be great as well.

### Brian Moynihan

Sure. So I think if you start with our team, your competitors, our research team, has basically got 3/4 of negative growth in the first part of next year, but mild, 1%, 2%, 1.5%, which means next year overall is negative, but then they have it coming back out positive 1% plus in the fourth quarter. So, what is that really saying? A mild recession. So that's the base case assumption. And there's -- issues around that, I'm sure we can all discuss.

But if you back up, the thing that -- maybe the more unique thing is you look at what's happening in the consumer payments space, year-to-date payments at Bank of America across nearly $4 trillion are up 11% over last year. Month of November, they were up about 5%. So what is that telling you? The rate of growth of spending is starting to slow. That's a natural outcome of 2 things. One is the base effect is getting pretty big now. So last year, think of last year fourth quarter, about this time, a little bit earlier than this is when people actually started really going out and doing whatever they wanted across the whole nation. And so that growth rate from '20 to '21 was a huge growth rate. So it's slowing down.

So that's the Fed's impact, the rate rise and things like that, the base effect, the rate rise and stuff are starting to slow it down. That is more consistent with sort of a 2% growth economy if you go back and look at history. So we're sort of there. If you look at Thanksgiving, to Cyber Monday, again, a record amount spent, but up about 3%. But last year, that was up 19%. And over '19, it's up almost 25%, 30%. So the

consumers are still spending more money right now than they did last year at this time, and they're spending more money this quarter than they did last quarter, but the rate of growth is slowing.

That depends, glass half full, half empty. Half full is consumers are still in the game, half empty is they're starting to slow it down. Half full again would be the Fed's having the impact they want, so they should be starting to think about whether they need to go, how much they need to go. If you look at the deposit balances in the consumer cohorts I've talked about, they are starting to come down a little bit. But if you really think it through for the median income, 2x median income households coming down, as long as they stay employed, the rate of them spending out those excess savings is very small.

They peaked -- to give you a sense, year-over-year, they're up about 10%. So they peaked in April when tax returns came back in, and then they've been slowly flattish and now they're slowly down now like 1% a month, type of number. So on a base of you have 13,000 for the 2,000 to 5,000 cohort pre-pandemic at 3,500, 13,000 is right into the $70, $80 a month type of number. So they've got plenty of cash, and that's good news. But that's going to come down to where they stay employed. And right now, they are staying employed and that's very good news for the American consumer. That's going on.

And then borrowing and credit quality and everything we've talked more about is all in good shape. So the U.S. consumer is in good shape, yet the rate of their good-shape-ness, it's starting to slow down by indicated by their activity. But that was the intended outcome. And I think that's where people -- we've got to get some comments around the life right now, which is the intended outcome as the Fed tries to bring down the rate of inflation by slowing down the economy, and you're starting to see that take hold. The real question will be, how soon they have to stabilize that in order to avoid more damage is the question that's on the table.

### Richard Ramsden

Recession fears, obviously, have been front and center this year for investors. But if we look at credit losses, not just for you but for the industry, they're obviously at very, very low levels. What do you think it's going to take for credit to normalize? Are there any portfolios that you're watching particularly closely today? Has it changed over the last few months? And maybe you can talk a little bit about how we should think about the sensitivity of your loan loss reserve to some of the changes in key assumptions. I think you were assuming 5% unemployment. I mean what is the sensitivity of the reserve if that unemployment number starts to increase?

### Brian Moynihan

So our base is sort of 60% base case, 40% adverse case. And so even severely adverse is part of that 40%. So you look at all that, that shakes out to unemployment rate predicted for all this year, year-end and all next year, 5 -- between 5% and 5.5%. But you haven't achieved it so far. So obviously, that's off. So there's a sensitivity -- obviously, as that number comes up, you need to do it. You have to put more reserves and loan growth also determine that.

But we're kind of settled into place, which is the interesting impact as you roll forward through quarters will be, if our economic experts are right, is that you'll start to be pulling into that analysis a time after the recession as soon as you're building in. So this is where the interesting thing about CECL is, instead of being the old days of credit card, you sort of took your short-term projections on losses and then roll rates and all that stuff. Now you're in this thing. So you have this odd thing that, at some point, we'll be incorporating periods of time that are longer that are on the recovery side than on the duration side. So that's a more complex question it sounds.

But right now, the reserve we set in the third quarter, weighted average unemployment for 2023, 5% plus. What's going to happen is as the recession becomes more -- convinced that's going to occur, it goes more in the base case. And then your adverse, variance off that becomes less impactful. So it will move along. But we feel pretty good with the reserve. And so it can move around. But remember, PPNR year-over-year-to-date is up 17%. The NII benefits are flowing through the bottom line. But you've seen a change to where we're -- our provision costs are closer to where they were pre-pandemic, $1 billion, round numbers, a

quarter. Right now, we're still building reserves with that, what will happen is that will be more charge-off oriented at those times.

If you look at 5- and 30-day delinquencies, we're not seeing that move a lot yet. So we have a high-quality credit book. We look at all the portfolios. We worry about them all. We examine them all. We do all the work that you expect. The 7,000 people we have in risk that look at this stuff constantly. The reality is you're just not seen the deterioration yet. Has it moved up some? Yes, but it's still not near where it was in '19. And '19 was a pretty good credit year. So that's the constant debate. But remember, in the end, that's all going the unemployment-driven. 3.6, 3.5, 3.7, these are all full employment levels.

And so that's going to be -- the question I keep asking our economists and you probably asked yours is, okay, your employment projection is X, how can you have a recession if your unemployment projection is that? And so we had the jobless recovery back in '10, '11, '12, and '13. Are we going to have an unemployment-less recession is the question on the table now. And you sort of say, how can that happen? And so I think we've got to be careful about being overly confident in either side now. There's a lot of volatility around.

But when I look at the roll rates and stuff, not there. You look at the commercial credit, even though you're marking the interest rate cost to the underlying borrowers up, you still see where we are in the capital structure, 92% are investment grade or equivalent rate. It's just not banging us around. We built the company for that purpose.

### Richard Ramsden

So let's talk about risks you're focused on outside of credit. So obviously, a lot of focus on things like market liquidity. Obviously, there's been some concerns around levered lending, marks that people need to take. I think there's some growing concerns around funding for some of the nonbank lenders. How do you think about those risks? And how do they impact Bank of America?

### Brian Moynihan

Well, the -- so the market-related risk, the market is so quick, they go up through the system. So the leverage finance got marked, and you can -- it's not that big a deal. But you haven't been doing any deals, so the outstandings keep drinking. The interesting thing is, as opposed to past where you're marketing undrawn line, so you see the draws are actually getting some yield off on. So it's got an interesting effect, the yields are pretty high. So it's kind of a different time than we have.

But we managed a lot of subcategories and limits, and we're down below those -- way below those limits and may keep running off. So we'll see that play out. But it's all through the P&L, and it wasn't even worth talking about last quarter. If you go to the risk outside that, the -- half the lending in the U.S. is outside the banking system. So half the mortgage lending, half the mortgage servicing. And so you worry about a spike in the -- unemployment spike and delinquencies and how it impacts us. So what do we watch? We watch our exposure to those nonbank companies and watch it carefully.

But -- could that reverberate back even on the private loan funds into the banking system, because they could handle the workouts differently, that's something we talk about a lot. We talked a lot about the stuff in '17, '18, '19 and it never came. So we look at all the risks. Russia-Ukraine risk, China, change the circumstance risks. The real risk, I think, is still there until the world straightens out, even though supply chain feels easier. It's still bumpy in different businesses. You're only getting the car inventory up to where it was in terms of inventory for sold cars and stuff.

So there's still a lot of sand in the system that I think would go out. And those risks could get worse or better in a given day. But again, we just keep looking at the portfolios and trying to manage them too. On the good news, in that spending I gave you, like travel spending is still going up strongly, which is those companies, the airlines and the cruise companies and stuff like that, which were interesting in 2020, they're doing very well. So that's helping us. Those cover -- those credits come back into good shape as other credits may be bouncing around a little bit.

Real estate is a long-term issue, not a short-term issue. For us, it's only $60 billion on a $1 trillion plus loan book, it's just not a very high level. But I do worry that over time, this whole question of how people are going to work in the space utilization, all that stuff, will affect the demand side of that. But I think that's -- just looking at our real estate portfolio, we are at 130 million square feet in '10. We're down about 70 million, 65 million, 60 million, 70 million now, including the branches and everything.

We have a pathway to keep taking that down, but it takes you years to do that. You've got to be letting leases go. So I think everything is not going to happen overnight because of some of the market-based aspect of it. So it takes a good time to run through. For us, it's just not going to be the problem.

### Richard Ramsden

Okay. So let's talk a bit about your strategic priority. And I know that this conference always follows the strategic planning meeting that you have with the Board. So maybe you could talk a little bit about what came out of that meeting, what are your priorities, have they changed in any way? They've been pretty consistent, I know over the last few years, but is anything starting to emerge that's a little bit different? And then maybe talk a little bit about what you are the most focused on in terms of redeploying capital to drive growth?

### Brian Moynihan

Sure. So we have 8 lines of business, we haven't changed that. They continue to do it. I think the major thing we talked to them about, frankly, this year was more top of the house stuff. Sort of whether the dynamics around all -- the variability of the plan this year is probably -- I've been doing plans for 29 years, I've always had a role in the planning process, and the variability outcomes on deposits and all the stuff, I'm sure you want to talk about, is more debatable because the amount of stimulus was unprecedented, et cetera. So we talked about that, but that's more sort of tactical at the moment.

When you get down to 8 lines of business, driving responsible growth. The unique thing is we're investing heavily in the transaction services business. We've got the -- it broadly stated, so our merchant business now is starting to accumulate customers pretty quickly because we've got all the systems retooled, got the joint venture taken, invested heavily. The 401(k) business, we're starting to make a round of investments. We've made around investments and are trying to push harder on it. GTS around the world, we think that's a good market for us. So those are strategic initiatives on that side.

The markets business, we grew. From where it is now, it won't grow a lot in the capital and balance sheet commitment to it has been made and they're doing well, and we can talk about that. But the real thing is digitization. It's -- with everything that's going on, it just keeps going on more. So we have of $1.9-something trillion in deposits and we have 3,900 branches now. At the start of the pandemic, we had $1.6 billion, $1.5 trillion deposits, we have 4,300 branches. It's not like 10 years ago, that is the start of the pandemic.

And so the leverage in just getting customers to continue to use digitally. So in the Wealth Management business, 85% of the customers engage with us digitally. The financial advisers using it and their relationship with the customer is completely different than 5 years ago, 3 years ago, 2 years ago and even a year ago. All the consumer products up and ability to go from initiation on opening account all the way through to closing. That calls into question, if 50% of your sales are driven digitally, the branch count sales are going back up a normalized again and you haven't lost your percentage, then the question comes, can you -- when we talk about how strategic you can drive there, then we're spending more money on marketing and driving people to the digital platform.

Better experience, quicker. Talent team made some critical improvements for those customers who aren't comfortable with that. But the reality is there's a lot of customers that are, so you can drive a lot of share without having the same reach. Those are kind of strategic insights that you see from the lines of business presentations and what they're doing. We don't need to take a lot of capital and put it anywhere. At the end of the day, it's one of the big debates. It's all about the expense question. It's just where can you put the

expenses down? We're trying to run the company to generate operating leverage, have for 5 quarters in a row, and will again this quarter, 20 quarters.

But the question is, how do you use that expense capacity wisely? And that's really the strategic question for our industry. We all have the capital, and you shifted around a little bit here and loan growth comes up that takes a little more capital, but it's not like it's going to take some outrageous demand. And other than that, yes, that's sort of...

### Richard Ramsden

So let's talk about the expense. Because it's another really good year in terms of operating leverage, I think the market's got your revenues up high single digit, expense growth of close to 2%. So can you talk a little bit about your thoughts around the expense growth heading into next year given where inflation is? And just maybe just talk about your ability to continue driving these types of operating leverage improvements year-on-year. Presumably, it gets harder.

But I think it will also be helpful for you to unpack a little bit below the surface in terms of what's happening in terms of investment spend relative to efficiency phase and how that's tracking.

### Brian Moynihan

So it is harder. And why is it harder, because inflation affects everybody. So we've run the company for the first 3 quarters of a year, $15.3 billion. But there's -- each one of them is very different how you got there, right? You had high FICA in the first quarter, which we always do – and other related expenses, e managed some litigation, et cetera. So as we look in the near term, we've been investing a little bit in the marketing, getting some year-end stuff cleaned up, some technology and stuff, we'll probably be -- we said we'd be flattish this quarter, we'll probably be $15.3 - $15.5 billion -- not rounded down to $15.3 billion, but probably rounding up a little bit. So say $15.5 billion, you take that, times 4, that's $62 billion. You had the $500 million in FDIC that we got landed on us after earnings...

It's -- we're comfortable with that. Now what do you do to make that happen is you're taking out expenses here. So we've -- like you read about corporate America... we don't lay off people, but we have an ability to reshape our headcount pretty quickly just by the turnover that occurs and stuff. And so what we did is we went back and said all the job openings are closed out. Let's start from scratch. What do you need the people for? Well, we need people to process capabilities. We needed people to hit the client-facing businesses. But we, basically, by doing that, eliminate the hiring rate and the noncustomer-facing, noncore product management -- noncore product delivery type frameworks and so branch teammates. And so you do that, and that gets you that starts to shape your head count back down.

And so that's how you manage this by taking out work that doesn't to be done, by shaping the headcount into it and then by managing it. So we are -- we ran down to about 205,000. We're up to about 215,000. We need to run that back down. It flattened out now finally. And part of that was sort of fundamental stuff. Part of that was in-sourcing, some activities in co-development technology. 35,000 programs in the company now, engineers, whatever you want to call them. So in investments, increasing our investment next year for $300 million plus in technology spend and absorbing in that $60 -- $62.5 billion run rate. That's how we run the company.

But it is tedious and hard work, and it's harder when you have the inflationary aspects of -- that we're all facing. But I think the team has done a pretty good job, and we have a pretty good record. And -- but the key was, as we came into '19 -- '17, '18, '19, we had to get people off a nominal dollars more to operating leverage, and that's what we seek to deliver. And year-to-date, it's been strong. And longer term, we think we give a couple of hundred basis points of operating leverage on a given year. And this year, it's exceeded that, but that's because of the NII. We let that fall through the bottom line.

So that's -- I mean, I'd like to say there's something more interesting that you can do, but it's just a constant pounding at every single thing.

Richard Ramsden

So you mentioned NII growth, obviously, very important driver this year. I think you said back in October that you expect that you can grow NII from here. Is that still the case? And maybe you can just unpack some of the drivers to that growth as we think about next year.

Brian Moynihan

So last year, we were sitting here time, at my 12th time, we were about $11.5 billion in NII and then moving up -- we said that we were up about $100 million in the first quarter. I think $800 million in second quarter. $1.2 billion or $1.3 billion in the third quarter. And so we'll be up somewhere between $900 million and $1 billion this quarter, and largely just shifts around a little bit given the interest rate environment around us. So that's good. So that means -- and you kind of lock that in and then that plays out. So how do we think about locking in? Well, there's 3 things that go through, right? There's loans, deposits, and then pricing on both of those, but I guess that's 4 things.

Our deposits right now are basically flat to where they were at period end at third quarter. And so what happened in June 30, I think Fed funds were 2.5%. At September 30, Fed funds were 3.25%. They're now up 4% and expected go up a little higher. But if you think about the adjustment by people of their deposits, if they're going to move the money, they would have moved it now. So in the Wealth Management, that happened. In a Corporate business, that happened. But in the Consumer business, basically, there's been some of that, but we're basically sitting at relatively stable deposits.

And one of the things to remember is of our $1.9 trillion, $600 billion-ish of that is checking in Consumer. So that is -- not just checking, because they're both interest-bearing, nonbearing, but there's not much distinction. So we feel pretty good about the deposit side is stabilizing. Now where it goes from here, you've got monetary accommodation that's fully drawn, you've got all these things. The huge difference in the way -- when I hear people talk about that and analyze and all those smart talent teammates we have, is we're forgetting -- and this is a different question, a different problem, a different risk.

In past, monetary accommodation, dropping rates, et cetera, was not accompanied by the governments of the world going out and borrowing a bunch of money and handing it to individuals. That is different. And so all the rules -- I went back and looked at AP textbook to read about all the stuff again that my sister-in-law published is because I was trying to -- none of the rules ever contemplated that. It's more of a Fed-driven exercise -- easing and tightening. But -- so that will be interesting.

But right now, what are we seeing? Day-to-day stability in consumer deposits despite the ebbs and flows, despite some of the lower balance count spending down a little bit, despite the movement to more rate-sensitive customers that would have -- that occurred despite the huge payment of tax that have occurred, you're basically sitting at $1.93 trillion and kind of bouncing around there. And that's kind of interesting because it's been there for multiple weeks and it's equivalent to what it was at [quarter-end] (corrected). So we feel pretty good about loans growing mid-single digits. Ebbs and flows, but mid-single digits.

The caution I put on loans just from the economy is we're seeing it flatten in the use of the lines again. And so that line usage is still down a lot from pre-pandemic. And that means customers are probably being a little more careful out there. But overall, we're growing mid-single digits. And then the pricing on the loan side, ultimately, is pretty transparent assets because they have market-driven equivalencies. And then on the deposit side, going back to the point, if you think about our pricing that you see and how we do it, we're holding deposits with -- disciplined about pricing and we'll continue to do it. We'll give a fair amount of service to customers for what they get from us.

But $600 billion in checking, it's probably, say, $500 billion, $600 billion. It's not going to move much from this point, because that's money in and out every month. Some of the other stuff, the higher end have moved, has already done that. And even in wealth management, we're basically flattish for the quarter.

Richard Ramsden

So just briefly on that, I mean, are you seeing anything that's materially different in terms of the competitive environment for deposits today now that Fed funds is at 4%. And is it that different to what you saw over the 2016 to 2019 cycle, either in terms of pricing or flows? I mean is there anything that surprised you so far?

Brian Moynihan

I think you have to sort out. We don't have -- I think we have $30 billion in CDs, we just don't play in that market. And so we don't need the funding. We're at 52%, 53%. We get about a $1 trillion in loans, $1.9 trillion in deposits, so whatever that math is. And so we don't need it. So yes, there's competition going on there, but I think other people that you're going to have during this conference will be better to speak of that on that, because we just -- it's not the business model we have.

What you're seeing is competition among ourselves to move money. You have clients moving money to higher rate direct holding treasuries and wealth management business, stuff like that, but that happens in the cycle. That's not different. The real question would be the money market pricing over time, but it's just -- it's a lag effect, and we'll see how it plays out. Because in '17, '18, '19, I don't think the yield curve, you can correct me if I'm wrong, ever got truly inverted. It got up and stopped. And here -- we're sitting here.

So the real question, it will be -- that implies at some point, it gets back in orientation. And so we just -- we don't see it a lot yet. It doesn't -- because there's a holding stability with our pricing methodology and capabilities. But if you back up, what we told people in '17, '18, '19 as we got to that, we said, look, we got up to 11 basis points in consumer and Fed funds were 2.5% for a year, and we kept growing deposits. And so our job is to price to grow deposits once we get them stabilized at 2%, 3%. It's sort of a little bit better than the market.

And that's what they've got to do. So they can't milk short term over the long term. They have to. And so your strategy have to be consistent with that. How do you do that? 1 million new checking account customers a year, we're up to now. How do you do that? We probably added $50 billion, $75 billion in wealth management customer relationships over the last several years, types of numbers. We had a goal of $100 billion, I think we actually hit it, but some of that may have gone back out. But how do you do that? Core operating consumer and commercial. That's how you get there.

And so -- but we -- now that's our structure of our customer team, and they will do that. And the question now is just where is the transition? The interesting thing is kind of settled in at $1.93 trillion, which is probably higher than I would have guessed, but we'll see what happens next.

Richard Ramsden

So maybe you can just touch on the securities portfolio and how you're thinking about managing that. I mean is QT or the deposit picture in any way impacting how you're managing the securities portfolio from a liquidity standpoint?

Brian Moynihan

We just -- we don't want the securities portfolio, because if we didn't have a security portfolio, that means our loan demand would actually use up our deposits. The securities portfolio is there for really 2 purposes. The core liquidity question, that's short-term treasury. And then second is, to extract the value of deposits. So we're sitting with $1.9 trillion from the customers, $1 trillion of loans, you got to do something with the rest of that. So we drop it in securities. All government-guaranteed, mortgage-backs, treasuries, no credit risk, because we take enough credit risk in the portfolio, we don't need to find some more. Yada, yada, yada.

And so what we're doing now is, as the deposit balances went up over $2 trillion, have come down from the peak, you're basically letting the trade portfolio liquidate and you're putting that into cash or funding the deposit runoff, and now we're stabilizing deposits. There'll be a time, I wouldn't say now, sort of as we get into middle of next year, when you start to think about do you need to start putting more money into the into the mortgage-backed securities portfolio or not, and that the team will make a decision on.

But right now, we're basically taking the $15 billion per quarter of cash flow off that portfolio out of held to maturity and apply it on cash. And we're sitting with a lot more cash, a lot more liquidity. Again, trying to run at very high levels given all the horribles people can talk about. And also just making sure we got the stability in the deposit base that keeps -- that's where we want to be. But the best news is we're starting to see the loan growth come back up and exceed where we were pre-pandemic, which was $1 trillion loans and $1.4 trillion or $1.5 trillion deposits.

So you sort of say, $500 billion of excess deposits was enough -- more than enough at all of the different rules by a lot, and now we're sitting with $800 billion. So you expect cash -- underutilized cash in the securities would start to be made up by loan growth over time and/or we can take more duration with it. But right now, we're just taking everything out, plowing it into the short term.

### Richard Ramsden

I mean would you ever think about trying to reduce the asset sensitivity of your balance sheet as we think about the next 2 years? I mean, obviously, if this rate cycle plays out, the market's pricing in rate cuts in late '23 or '24, would you do things to actively reduce the risk?

### Brian Moynihan

Through hedges or other decisions, yes. Interestingly enough, that -- when you're at a very low rate environment, you can't reduce it by really doing something really strange, right? Now when you're in a more normalized rate environment, you have choices. And so yes, we'll look at -- that's the decision the guys will make to mitigate the -- some of the sensitivity to the downside, especially with the rates falling as we get through the cycle. But right now, we just got to make sure that the whole thing -- with a recession predicted, with unprecedented stimulus and unprecedented nominal dollars of savings at play here, with unemployment level, the belief is have to break, therefore, people have to use excess cash.

I think what -- don't look for us to make any big moves until all that sort of stabilized, because you've got to make sure everything is really there. Right now, I mean, our LCR and all that happy stuff is through the roof. But you just got to let time settle down here. And then you would lengthen it at some point just because you could. We do a little more bullet treasuries than 3, 5, 7s right now than we would go out very long, because you don't need to.

### Richard Ramsden

Right. Okay. And then you talked about loan demand, but again, as we think about next year, do you think there'll be more of a bifurcation between commercial and consumer loan demand over the course of '23?

### Brian Moynihan

I think we're just grinding it out. I mean this is sort of consistent with the very low growth economy, what we're seeing now. And so at some point, you'd expect that the dynamics about the line usage would have to -- they were coming to normal and then they stopped. And I think that has to do, again – if you tell everybody there's a recession coming, they're going to be a little more conservative, so things happen. But I think we always say the economy is growing a couple of percent, we should outgrow with loan growth, outgrow with deposits, and we did that consistently. And that organic growth engine. In terms of client relationships, what we call new logos in the commercial business, accumulation of those clients and all that stuff, the client formation is as strong as it's ever been. It's just a big question, honestly, on the commercial side to be on line usage questions. So it's really -- I mean, that number is for each percentage, I think, is probably $5 billion in outstandings or more, yes.

### Richard Ramsden

Got it. Okay. So maybe we can talk about the capital market businesses. I know we're only 2 months, just over, through the quarter. But how are the Capital Market and Wealth Management business is performing so far? And as you think about next year for the primary investment banking businesses, so M&A, ECM, DCM, are you actually expecting some sort of mean reversion in those businesses?

Brian Moynihan

Which “mean” is the question on the investment banking. So if you look at it, we were running $6 billion in our market share in third and fourth, and everybody else is sort of running that thing. And all of a sudden, it shot to $8 billion, and now its shot down to $5 billion and change, and then -- so I expect it to get back to it. So right now, year-over-year pools are down, I don't know, 55%, 60%, where our market share is holding, it will be in the same range. And so probably, that's a $2 billion and change handle to under $1 billion handle, that's kind of -- good news is on the trading side, you're up -- you're going to be up 10% to 15% year-over-year.

Richard Ramsden

That's both of equities and fixed income?

Brian Moynihan

So you're seeing the revenue being made up on that side, which -- and the team there has done a good job. Right now, knock on wood, it will be the highest fourth quarter we've had that we can remember.

Richard Ramsden

Can you talk about what's driving that? Is there a big difference between equities and...

Brian Moynihan

Equity is flattish. Fixed income, up 20%.

Richard Ramsden

And the key drivers within that?

Brian Moynihan

It's just -- when there's this much volatility, people will make decisions. So think -- just to be clear, investment banking down with the market, 55%, 60% this quarter, year-over-year look. Sales & Trading, year-over-year look, 10% to 15%, and that's the natural balance as you like to have in our franchise. Your question was, what would investment banking do? The pipelines are still pretty strong and you expect that to kick back and normalize. The question is we'll go all the way back to the high volumes we had in 2021, that's an interesting question versus getting back to where you had a sort of pre-pandemic, which for us is a different sort of between $6 billion and $8 billion a year. And I think it'll come back to the $6 billion, that we feel good about.

But the pipelines are there to open back up as long as we get some stability in the market. But that -- it's hard to do the types of M&A when you don't know the price. The debt side is still bouncing all over the place, availability and price.

Richard Ramsden

Okay. So we only have a couple of minutes left. So let's talk about capital and how you're thinking about capital deployment. And look, you've just moved into an excess capital position. I know you -- obviously, your capital requirements have gone up. There's been a lot of taxes on capital this year between loan growth and AOCI and what's happened in terms of market risk. So how are you thinking about returning capital versus investing in the communities that you operate, versus distribution to shareholders over the course of next year? And how are you thinking about dividends versus buybacks in terms of relative attractiveness?

And then just more broadly, obviously, there's a lot of question marks around where capital requirements could go. Does that in any way impact your thinking around the types of buffers that you need to run with over the next few months?

Brian Moynihan

So on the first sort of use of capital, then we'll come to the second question, we -- our requirement at the stress test was 10.4%. We like to have a 50 basis point buffer, especially at these higher levels, that number -- the range of variability, it -- you can run a little closer buffer in our belief, just all the math they put behind it. Year-end -- for the first quarter of '24, we have to get to 10.90%, we're now running at 11% as of

last quarter. So we're clear to your point. And then we got to build up the same 50 basis points. So you'll see us accumulate that as the next few quarters run around. And so that keeps your share buyback.

The #1 use of capital always is to support the organic growth. The reality is the loan growth is modest, markets business really doesn't change a lot. Honestly, from RWA usage, they're sitting a 300 basis point G-SIB buffer. The goal is to keep more than that. That's -- we have a clear path to that, not to shrink on beyond that but clicking there. And then so then it's going to come down to the core organic loan growth driving because deposits relatively risk asset to margin. So there's not an RWA attachment and our tangible common equity ratios are where we want to be, so they're around 5.5%, 6%, which back up closer to 6%, which we think is a governor.

Leave aside the regulatory calculations we do, those who have been around this industry realize that you got to be around 6% tangible common equity per, end of story, or else you got to think that through. So we're running there. So that's all good. So what are we going to do? Around 30%, round numbers, or less. You have dividends, 70% buybacks. Organic growth first and then the rest of that. And what we had to do to is slow down those buybacks. We still bought back some shares in the third quarter and we'll still buy back some shares this quarter, but we had to slow it down to make sure we meet those capital levels.

Once we sort of hit that, which ought to be in the next few quarters, then you will start returning it. To go to where this goes and higher capital levels and stuff, I think people have to -- there's a finalization of the set of rules that have to take place that have never been sort of finalized. I maintain more balance in the thinking that, at the end of the day, you got to be careful about -- I got asked in one of the hearings you were referencing earlier, what does 100 basis points of capital mean? If you do the math, it's like $150 billion, $175 billion of loans. And you're saying, we got to be careful about pushing capital levels to where they constrain economic activity and things like that.

So I think there's balances to all this. At the end of the day, the stress test, 10, 12 years, whatever they've been run, the consistency of those have changed. The variability in them, the 3 we ran, I think, during the pandemic, all proved that this company and this industry have the capital to operate. And so there's some nuances and debate about Basel III finalization, this and that. But I think people ought to just keep a level head about it. Because at the end of the day, we have proven that this industry was there to help when the world faced its toughest economic issue maybe in a long, long time. As opposed to being there to accentuate it, or make it worse.

There's been a lot of bumps in the night since then, and this industry has been there to stabilize. And so people have blown up, you've had meltdowns and other types of things. And so I think that's what we have to be wary of in this business. It's a good industry. Run well, regulated well, capital levels well, but at the end of the day, we'll deal with everything -- we've been around 240 years, we'll do whatever comes at us and move forward.

### Richard Ramsden

Okay. We're out of time. And that's a great note to end it on. So thank you. Thank you, Brian.

### Brian Moynihan

Thank you.

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