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FINANCIAL INSTITUTIONS

Bank Outlook 2025: Bank risks and market shifts

Our comprehensive look at the challenges and opportunities facing financial institutions next year



Executive summary

How preferred is preferred senior?

The upcoming revisions to the CMDI framework and the CRR amendments from 1 January 2025 are on balance a negative for preferred senior unsecured bonds. While we recognise the challenges posed by these revisions in terms of bail-in risk, ratings, and potentially risk weights, we believe that the current spread levels for preferred senior unsecured bonds are already broadly pricing in these risks.

Keeping an eye on private markets' not so private vulnerabilities

NBFIs are under increased scrutiny due to the sector's growth. Private markets, in particular, are drawing significant interest because they lack transparency, have strong connections with the broader financial sector, and benefit from light regulatory oversight. We have identified five vulnerabilities within the sector. As a result, we

believe that stress in this sector could spill over to banks, primarily through indirect channels. This makes it a sector worth monitoring closely in 2025.

ECB rate cuts will benefit bank loan quality

The strong tailwind from higher interest rates has come to an end. We believe that banks focusing more on fee-based income rather than solely on net interest income, and those with potential for mergers and acquisitions, are better positioned for 2025. This includes banks in Germany, Italy, Spain, and France, although French banks may face more challenges due to sovereign concerns.

The ECB rate cuts should ease some pressure on the loan quality side next year. While we consider names with a mix of higher NPEs and lower coverage more at risk of further weakness, names with higher NPEs will also benefit from the ECB's easing measures. This should be helpful for banks with particularly high cyclical exposures such as real estate. We expect credit costs in 2025 to remain elevated but fall below the levels seen in 2024.

From peaks to plateau: EUR bank bond supply in 2025

EUR bank bond supply remained high in 2024 and is expected to reach €420bn. We expect the market to remain active in 2025 despite falling behind the 2024 total with a full-year supply of €400bn. The end of the TLTRO repayments will negatively impact bank bond supply while lending growth is not expected to become a firm driver of next year's supply. However, the significant amount of redemption across the liability structure will push banks to remain active in refinancing the majority of maturing instruments.

Less sustainable issuance by banks

Against the backdrop of overall lower issuance volumes, banks are expected to reduce their issuance in sustainable format next year to €70bn. With lending growth improving only gradually, sustainable loan portfolios will grow modestly next year. 2025 is also the first year that issuers can opt to issue their green bonds under the EU Green Bond Standard. Considering the low first green asset ratio (GAR) disclosures by banks this year, we doubt we will see a lot of bank bond supply under this standard.

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