

CALCHAS CAPITAL

Sector Analysis

US Money Centre Banks

April 2026

Executive Summary

Sector: U.S. Money Centre Banks — JPMorgan Chase, Bank of America, Wells Fargo,

Citigroup

Calchas View: Active Avoid

Time Horizon: 1–2 quarters

U.S. money centre banks are in a multi-factor de-rating episode that is unlikely to resolve near-term. The sector trades at above-average multiples while three forces compound simultaneously.

The credit cycle is late-stage. Leading indicators have turned: credit card charge-off rates are rising (JPM projecting 3.6% in 2026, up from 3.3%), CRE office delinquencies are at decade highs, and February 2026 showed -92,000 jobs with unemployment at 4.4%. Reported NCO rates remain contained — but the divergence between leading and lagging indicators is the textbook signature of late-cycle positioning. The full impact of the 2022–2024 rate hiking cycle on credit quality typically takes 18–24 months to flow through, placing peak credit stress squarely in 2026 earnings. Banks are modestly under-reserved for the cycle their own management teams are describing.

The Fed is trapped. WTI remains elevated driven by effective Strait of Hormuz closure. It is keeping inflation sticky and blocking the rate cut path. Our base case (45% probability) is stagflation: rates on hold while growth slows. This is the worst combination for bank earnings — NIM compresses from deposit repricing on the liability side while credit deterioration builds on the asset side at the same time.

Institutional distribution is underway. The sector is in Stage 2 of a positioning unwind: persistent underperformance on both up and down days, sellers using rallies to reduce, buyers

absent with conviction. A durable recovery requires a fundamental catalyst, not price movement alone.

Within the group: JPM is best insulated — 20% ROTCE and 14.5% CET1 provide margin for error — but its premium multiple limits upside. BAC is most exposed: highest NII dependence, largest retail deposit base facing repricing pressure, and the most transmission links in the oil-inflation-credit chain. WFC has buyback sustainability risk at 10.6% CET1. Citi remains mid-transformation and hardest to value cleanly.

The stance shifts to Watch when: WTI sustains below \$90 for five consecutive sessions on a credible Hormuz ceasefire; the FOMC explicitly signals H2 2026 rate cuts; and Q1 2026 charge-off data stabilizes rather than accelerates. At least two of those three conditions must be met before the risk-reward justifies adding exposure.

Section 01 — Sector Overview

Universe and Composition

JPMorgan Chase has spent the past three years consolidating its position as the undisputed leader of U.S. commercial banking. With \$4.4 trillion in assets, a full-year 2025 ROTCE of 20%, and simultaneous market share gains in investment banking, trading, and consumer banking, JPM has no structural peer in this universe. Bank of America (\$3.4T assets, 14.2% ROTCE) holds the largest U.S. retail deposit base and materially improved its profitability in 2025 — full-year net income of \$30.5 billion, EPS growth of 19% — though the gap with JPM on ROTCE has narrowed without closing. Wells Fargo (\$2.1T assets, 15% ROTCE) is a different story: the resolution of the Fed asset cap was the pivotal event of its recent history, and management has successfully shifted the narrative from restructuring to growth, returning \$23 billion to shareholders in 2025. Citigroup (\$2.66T assets, 7.7% adjusted ROTCE) is mid-transformation — divesting consumer operations across multiple countries, pivoting from universal bank to institutional services platform under CEO Jane Fraser. It is the most complex and most discounted name in the group.

These four institutions collectively hold over 50% of U.S. commercial banking assets. What makes them analytically distinct from their comparison groups is that they sit at the intersection of three different risk vectors simultaneously. Regional banks (PNC, USB, Truist) are more rate-sensitive and geographically concentrated, but they lack the diversification benefit of trading and advisory revenue. Investment-only banks (Goldman Sachs, Morgan Stanley) derive the majority of revenue from fee-based activities — advisory, wealth management, trading — making their earnings *less sensitive* to the interest rate cycle and the credit cycle but more sensitive to capital markets activity and AUM. Non-bank financial institutions (private credit funds, fintech lenders, insurance companies) compete with banks in specific lending segments but under different regulatory frameworks. The money center

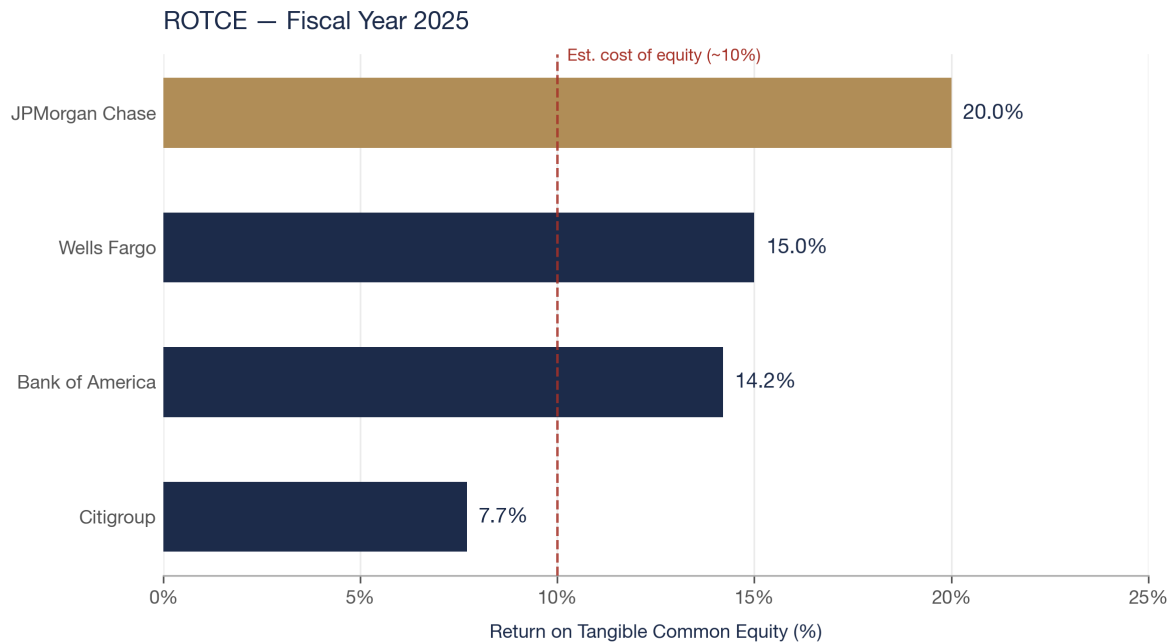
banks carry rate sensitivity like the regionals, capital markets exposure like the investment banks, and competitive displacement risk from non-banks — all at once. That combination makes them the most macro-sensitive sector in financials and the hardest to analyse in a cross-cycle environment.

Key Metrics

Metric	JPM	BAC	WFC	C
<i>Net Interest Margin (NIM)</i>	~2.50%	~1.97%	~2.67%	~2.86%
ROTCE (FY 2025)	20%	14.2%	~15%	~7.7% adj.
<i>Efficiency Ratio</i>	~51% (Q4)	~61% (Q4)	~64% (elevated – severance)	~68%
<i>CET1 Capital Ratio</i>	14.5%	11.4%	10.6%	13.2%
<i>Net Charge-Off Rate</i>	~0.65%	~0.44%	~0.53%	~0.55%
<i>Allowance for Credit Losses (ACL%)</i>	~1.8%	~1.3%	~1.4%	~1.5%
<i>Price / Tangible Book Value</i>	~2.5x	~1.5x	~1.7x	~0.8x
<i>Forward P/E</i>	~13.5x	~11.5x	~12.0x	~9.0x
<i>Dividend + Buyback Yield</i>	~2.8%	~3.2%	~3.0%	~3.5%

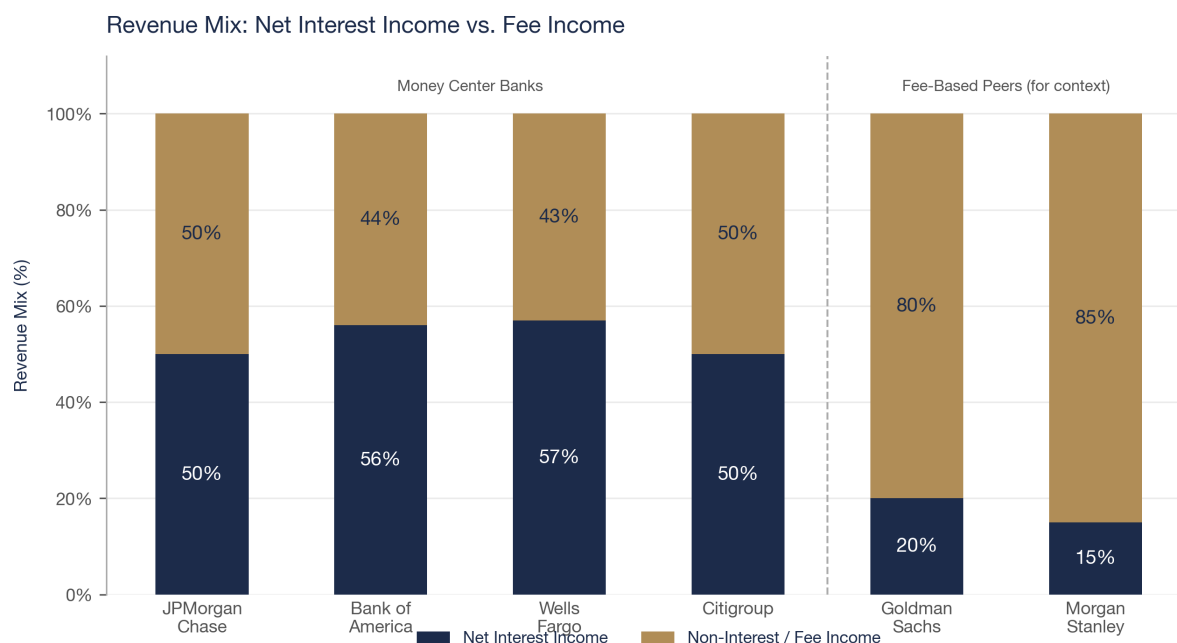
The single metric that best captures the divergence within this peer group is ROTCE. JPM's 20% is 1,200 basis points above Citi's 7.7% adjusted — the widest dispersion in the group and the direct explanation for Citi's persistent sub-book valuation at 0.8x TBV. The market is not

wrong to price Citi below book; it is pricing a business that is currently earning below its cost of equity. BAC and WFC have both closed the gap with JPM relative to prior years, but a 14–15% ROTCE still commands a materially lower multiple than 20% — and the forward question is whether JPM's ROTCE is sustainable or mean-reverting.



Section 02 — Business Model Analysis

Revenue Composition and the Fee Shift

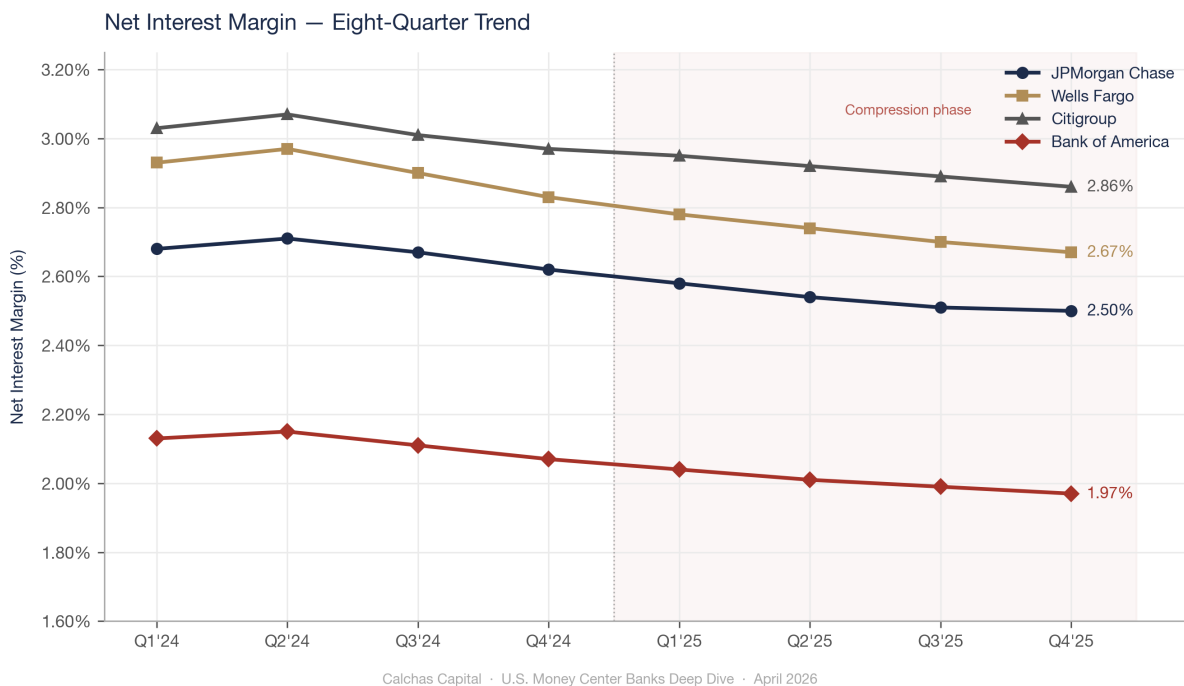


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The strategic intent of all four banks is the same: reduce dependence on net interest income. The execution varies considerably. JPM has the most balanced revenue mix in the group, roughly 50/50 NII to non-interest income, reflecting its strength across consumer banking (NII-heavy), investment banking, trading, and a growing wealth management platform. BAC runs approximately 56% NII, 44% non-interest income — modestly more rate-dependent than JPM, though the characterisation of BAC as an NII-dominated bank understates how far it has diversified: full-year 2025 investment banking fees were the highest since 2020, and asset management fees grew 12%. WFC is similar to BAC at roughly 55–60% NII, its ongoing restructuring having shed some fee-based businesses while the asset cap constrained balance sheet growth. Citi is explicitly targeting a fee-led transformation — 78% IB revenue growth in Q4 2025 and strong branded cards performance reflect this pivot, even if the transition remains mid-innings at a 50/50 NII-to-fee mix excluding markets.

The directional signal is unambiguous, and the 2026 outperformance of Goldman Sachs and Morgan Stanley — both predominantly fee-driven businesses — is the real-world proof of its importance. Fee-based revenue earns a premium because it is structurally less exposed to the exact risks now weighing on the sector: rate sensitivity, deposit repricing, and the credit cycle. JPM is the closest to this model within the money center universe.

Net Interest Margin: The Direction of Travel



Current NIMs — JPM ~2.50%, BAC ~1.97%, WFC ~2.67%, Citi ~2.86% — are broadly in-line to slightly above 10-year historical averages of 2.2–2.8%, having benefited from the 2022–2024 rate hiking cycle. The forward trajectory is compression, not expansion.

Three specific forces will drive that compression over the next four quarters. First, deposit repricing lag: banks were slow to pass higher rates to depositors during the hiking cycle; depositors are now increasingly migrating to money market funds and T-bills, forcing banks to compete on deposit pricing. BAC and WFC, with their large retail deposit bases, are most exposed on this liability side. Second, the yield curve shape: the 2s10s spread is near flat after

steepening only modestly from the 2023–2024 inversion. Banks borrow short and lend long; a flat curve compresses the spread they earn, and the current macro environment — Fed on hold while long rates rally on safe-haven demand — makes further flattening more likely than steepening. Third, loan demand trajectory: GDP growth slowed to +0.5% annualised in Q4 2025, tracking ~1.3% for Q1 2026. Softer economic growth reduces the volume of interest-earning assets on bank balance sheets, compressing NIM from the asset side simultaneously with rising liability costs.

Net assessment: NIM compression is the base case across the group. Citi's higher NIM reflects its emerging-market and institutional mix; JPM's lower NIM reflects its larger securities portfolio. BAC is most exposed — high NII dependence, large deposit base facing repricing pressure, and no significant offset from fee income diversification.

Earnings Quality and the Trading Distortion

Trading revenue drove the Q4 2025 sector earnings beat. JPM equities trading surged 40% year-over-year, fixed income trading was strong sector-wide, driven by elevated market volatility and client rebalancing activity during a turbulent quarter. These are episodic gains tied to market conditions — not structural improvements in earning power.

Strip out the trading beat, and the underlying picture is less encouraging. NII growth is decelerating — JPM is guiding flat-to-modest NII growth, and BAC's 5–7% NII growth guidance embeds deposit repricing assumptions that may not materialise. IB advisory fees at JPM actually declined 5% YoY, suggesting the anticipated deal boom has been slower and more uneven than consensus expected. And expenses are rising, not falling — JPM guided to \$105 billion in 2026 expenses, a 9% increase.

The analytical error the market risks making is capitalising a trading beat at the same multiple as NII growth. A dollar of trading revenue is inherently more volatile, lower-quality, and less likely to recur than a dollar of NII or wealth management fee income. The Q4 2025 beat, when

decomposed by source, provides less forward earnings confidence than the headline number suggests.

Cost Structure: Investment or Creep?

JPM's \$105 billion 2026 expense guidance includes \$19.8 billion in technology spend — the largest tech investment budget in the sector — framed by management as AI infrastructure and competitive positioning. The test of value-creating investment versus cost creep is whether the incremental dollar of spending generates measurable revenue or market share gains. For JPM, the 20% ROTCE is the answer: technology investment appears to be translating into operating leverage. For WFC and Citi, the verdict is less clear. WFC's efficiency ratio remains elevated at ~64%, burdened by \$612 million in Q4 2025 severance charges as management attempts to right-size the cost base. The benefits are forward-looking while the costs are in today's P&L. Citi's ~68% efficiency ratio is the highest in the peer group, reflecting transformation costs that management is targeting to bring to ~60% by year-end 2026. Neither WFC nor Citi has yet produced visible P&L evidence that their restructuring investment is working.

Section 03 – Macro Environment

Current Conditions

<i>Macro Indicator</i>	<i>Current Level</i>	<i>Direction</i>	<i>Relevance to Banks</i>
<i>Fed Funds Rate</i>	3.50–3.75%	On hold; futures imply limited cuts through 2026	Neutral-to-negative for NIM expansion
<i>10-Year Treasury / 2s10s</i>	~3.96%; 2s10s near flat	Modest rally on safe-haven demand	Curve compressed; NIM pressure persists
<i>CPI / Core PCE</i>	2.4% CPI (Jan); 2.7% core PCE projected year-end	Re-acceleration risk if oil holds elevated	Complicates rate cut path; stagflation concern rising
<i>GDP Growth</i>	+1.4% Q4 2025 annualised; GDPNow ~2.1% Q1	Slowdown from +4.4% Q3	Slowing growth → softer loan demand, rising credit risk
<i>Unemployment</i>	4.4% (Feb 2026)	-92K jobs Feb; shutdown distortions	Early signs of labour market softening
<i>WTI Crude Oil</i>	~\$111	Surge on Hormuz closure threat; +9.7% single session	Stagflation risk; consumer spending pressure
<i>Consumer Savings Rate</i>	Declining	Post-pandemic buffers substantially depleted	Consumer spending capacity thinning; credit risk rising
<i>Credit Card Delinquencies</i>	Rising; JPM card NCO 3.3% (2025), projected 3.6% (2026)	Upward trajectory across issuers	Leading indicator of consumer credit deterioration

<i>CRE Office</i>	~12.34% delinquency	Office CRE remains	Reserve builds rising;
<i>Vacancy /</i>	rate; highest in a	the highest near-term	potential for further
<i>Delinquency</i>	decade	credit risk	provisioning

Yield Curve: Inflection-to-Compression

The yield curve is near flat, with the 2s10s spread slightly positive after a modest steepening from the 2023–2024 inversion. Historically, the transition from inversion to tentative re-steepening is an inflection point for bank NIMs, not an expansion phase. The lag effect matters: banks locked in assets at lower rates during the inversion period, and those assets have not yet fully repriced. Meanwhile, deposit costs continue to rise as depositors demand competitive yields. In the current environment — Fed on hold due to sticky inflation while long rates rally on safe-haven flows — the curve is more likely to flatten further than steepen. This is compression territory, not expansion.

Rate Scenarios

Three scenarios bracket the forward outlook, and the base case is the most dangerous for bank earnings.

Scenario 1 — Cuts Resume (~25% probability): If inflation cools toward 2% and oil retreats below \$80, the Fed resumes cutting in H2 2026. The NII impact is asymmetric: cuts reduce asset yields faster than liability costs adjust downward, because deposit rates are sticky on the way down. JPM has disclosed that a 25bp parallel rate decline reduces NII by approximately \$1.5–2.0 billion annualised; sector-wide, a 50bp cut cycle would reduce aggregate NII by approximately \$5–7 billion, partially offset by improved loan demand.

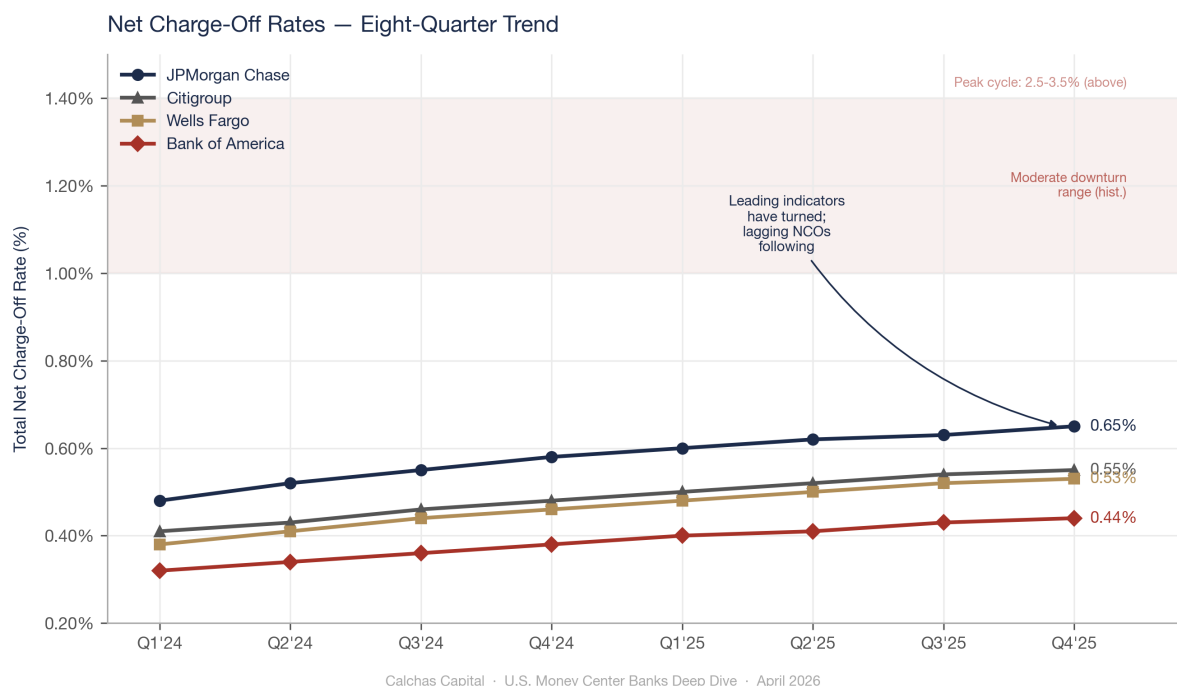
Scenario 2 — Hold (~45% probability, base case): Rates stay at current levels through 2026. This is the stagflation scenario — the Fed cannot cut because inflation is sticky, but growth is slowing. NIM compresses gradually as deposit costs rise while the asset side reprices

slowly. Management NII guidance (JPM ~\$103 billion, BAC 5–7% growth) embeds optimistic deposit repricing assumptions that may not materialise. Net effect: NII flat to modestly down while credit costs rise. The hold scenario delivers the worst combination of margin compression and credit deterioration — and it is the current base case.

Scenario 3 — Hike (~5–10% probability): A low-probability scenario if oil-driven inflation re-accelerates materially. Rate hikes would temporarily widen NIMs on the asset side but simultaneously worsen credit quality and loan demand. The credit cost increase would overwhelm the NIM benefit.

Credit Cycle Positioning: Late-Stage

The evidence is consistent with late-cycle positioning, where leading indicators have turned but full deterioration has not yet arrived in reported numbers. Four data points anchor the assessment. JPMorgan's credit card charge-off rate rose from 3.3% in 2025 to a projected 3.6% in 2026, with delinquencies peaking at ~4.59% in Q4 2024 — the direction is unambiguously upward. The February 2026 labour market report showed -92,000 jobs, unemployment reaching 4.4%, and post-pandemic consumer savings buffers that have been depleting for three years. This is in contrast to March where non-farm payrolls printed +178k jobs and the unemployment rate fell to 4.3%. CRE office delinquencies reached 12.34%, the highest in a decade, with reserve levels against office portfolios quietly rising. And sector-wide NCO rates — BAC at 0.44%, WFC at 0.53% — remain historically contained while trending upward.



The analytically critical observation is the divergence between leading and lagging indicators. Leading indicators (card delinquencies, labour market, leveraged loan spreads) are signalling deterioration. Lagging indicators (reported NCO rates, total loan losses) remain contained but are moving in the same direction. This divergence is the textbook signature of late-cycle positioning: stress is building but has not yet fully manifested in reported earnings. The full impact of the 2022–2024 rate hiking cycle on credit quality typically takes 18–24 months to flow through — placing peak credit stress squarely in 2026 earnings.

The Oil Transmission Chain

The transmission mechanism from WTI at ~\$111 to bank earnings runs through four linked stages. First order: elevated oil prices increase energy costs for consumers and businesses, functioning as a direct tax on spending that reduces disposable income. Second order: higher energy costs feed into headline inflation (CPI was 2.4% in January with re-acceleration risk), constraining the Fed's ability to cut rates even as growth slows — the stagflation mechanism in which the Fed is trapped between two deteriorating conditions. Third order: with rates on hold and inflation elevated, consumers face rising costs on essentials while carrying higher

debt service burdens — credit card utilisation increases, savings buffers deplete further, delinquency rates accelerate; simultaneously, businesses facing higher input costs pull back on investment and hiring, weakening commercial loan demand and increasing corporate default probability in leveraged sectors. Fourth order: credit deterioration flows into bank P&Ls via rising charge-offs, increased provisioning, and reserve builds, while NII is simultaneously compressed by the flat yield curve. The earnings impact is a two-sided squeeze: revenue flattens while credit costs rise.

Bank of America is most exposed to this transmission chain. Its largest retail consumer franchise, highest NII dependence (~56% of revenue), largest deposit base facing repricing pressure, and direct credit card portfolio exposure means it is hit on the most transmission links simultaneously when stagflation takes hold.

Section 04 — Five Structural Forces

These are not cyclical headwinds. They are permanent or semi-permanent changes to the competitive landscape that will compound the cyclical pressures described in Section 03.

Force 1 — Private Credit: Competitor and Counterparty

Private credit funds now manage over \$3 trillion in assets and have systematically taken corporate lending market share from banks, particularly in the middle market. For the money center banks, this has created a dual exposure: the direct loss of lending business to private credit managers, and an indirect counterparty exposure through the leverage lines and subscription credit facilities they have extended to those same private credit vehicles.

The transmission mechanism when private credit funds face redemption stress is straightforward: forced asset sales compress underlying loan book values; credit losses flow upstream to bank balance sheets via the leverage lines; mark-to-market losses on subscription facilities and warehouse lines create provisioning requirements. The precision of this risk is deliberately obscured — the magnitude of bank exposure to private credit vehicles has not been fully disclosed in the detail required for downside modelling, and that opacity is itself a risk factor.

In Q1 2026, Morgan Stanley's North Haven Private Income Fund received redemption requests totalling 10.9% of shares outstanding, prompting withdrawal caps. Cliffwater followed with similar restrictions. Gating is self-reinforcing: the gate signals distress, which prompts further redemption requests, which creates pressure to sell assets, which depresses NAVs across the private credit universe.

The best historical analog is 2007 SIV/conduit stress — not in magnitude, but in process. Banks extended leverage to off-balance-sheet vehicles; those vehicles came under liquidity

stress; the losses eventually flowed back to bank balance sheets. The market was aware of SIV stress for 12–18 months before the systemic event. Early buyers of cheap financials in early 2008 were destroyed. The current private credit stress is at the awareness stage, not the resolution stage. JPM's scale and capital position provide the most insulation; Citigroup's global institutional exposure and ongoing transformation create the most uncertainty.

Force 2 — Artificial Intelligence: Three Timelines

The AI impact on money center banks operates on three distinct timelines that require separate analytical frameworks.

Near-term (0–12 months): AI agents are reducing white-collar employment at technology companies, and bank loan books carry significant exposure to these employees and employers. Citrini Research published a direct thesis on this mechanism; JPM shares fell 4.3% on the day of publication. This is a credit quality concern — tech sector job losses translate into consumer loan delinquencies and commercial loan stress in a sector that has been a disproportionate driver of high-income consumer spending and commercial real estate demand.

Medium-term (1–3 years): AI threatens to commoditise the high-margin fee businesses that banks have spent a decade building as their hedge against NII sensitivity. Retail wealth management advisory fees are already under pressure from AI-driven robo-advisory; transaction banking processing fees are susceptible to AI automation; and junior-level IB analysis — a meaningful cost centre — is being automated. This is precisely the revenue diversification strategy that was supposed to reduce rate-cycle exposure. The hedge itself is at risk.

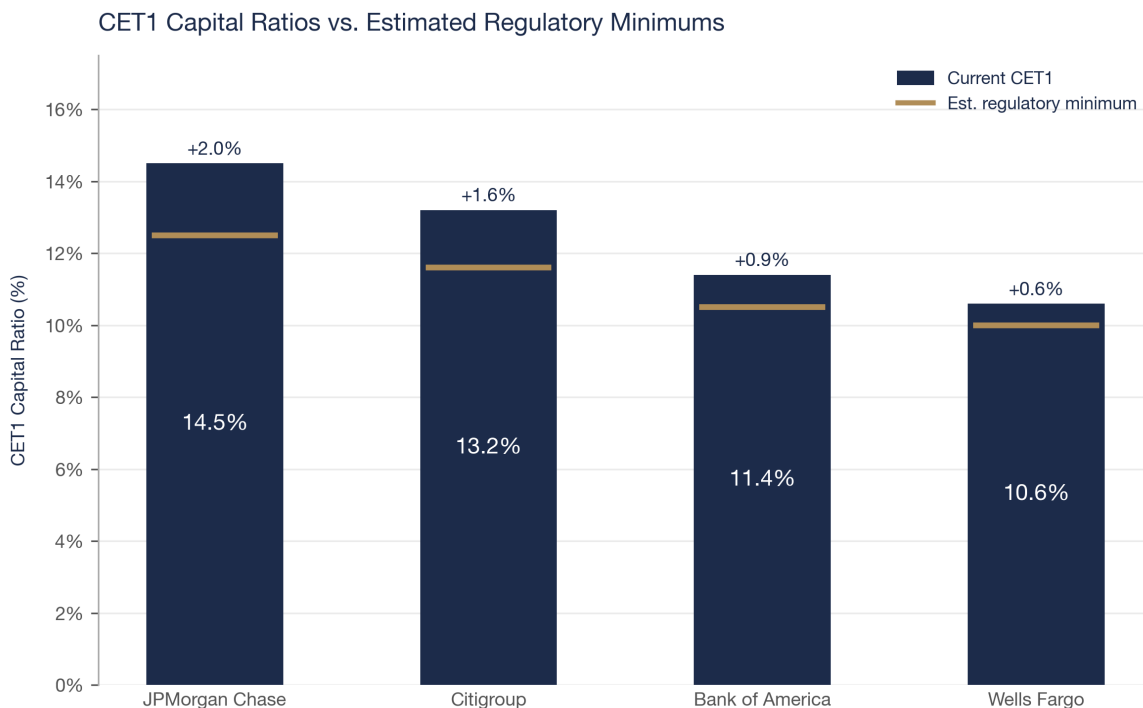
Cost opportunity (ongoing): Back-office operations and compliance represent massive headcount reduction potential; customer service is being displaced by AI agents; credit underwriting and risk assessment can be done faster and more cheaply. The banks that

translate this into operating leverage before competitors will widen their efficiency ratio advantage.

JPM is best positioned: \$19.8 billion in 2026 tech spend, scale to spread fixed AI investment costs across a larger revenue base, and a 20% ROTCE that suggests prior technology investment has already translated into operational advantage. Citi is worst positioned: AI disruption arrives as a second layer of structural change on top of an already-complex reorganisation, compounding transformation risk at a moment when execution capacity is already stretched.

Force 3 – Basel III Endgame

The final rule is expected in Q2 2026. The original 2023 proposal required an average 16% increase in capital for the eight G-SIBs; the revised proposal moderated this, but the final number remains uncertain.



Current CET1 buffers: JPM at 14.5% standardised (approximately 200 basis points above the estimated requirement) has ample headroom — even under a stricter-than-expected final rule, JPM's capital return capacity is unlikely to be materially impaired. BAC at 11.4% has an adequate but narrower buffer and may need to moderate buyback pace temporarily under a stricter outcome. WFC at 10.6% is the tightest in the peer group, actively managing to a 10–10.5% target and having already guided to lower share repurchases in 2026. A stricter Basel rule would bind most tightly on WFC and could meaningfully constrain capital return capacity for 2–3 years. Citi at 13.2% — 160 basis points above its 11.6% regulatory requirement — has adequate buffer, though transformation costs compete for capital.

The valuation implication is direct: a 150 basis point reduction in buyback yield implies P/TBV compression of roughly 0.2–0.3x for the most constrained names (WFC, BAC). The pending Basel III resolution is a binary catalyst that will directly determine the capital return narrative for the sector over the next 2–3 years.

Force 4 — Political Risk: Credit Card Rate Cap

The Trump administration's proposed 10% cap on credit card interest rates — against current average APRs of 22–25% — has created a valuation overhang. The probability tree runs as follows.

A 10% hard cap as proposed carries approximately a 5% probability; it would be catastrophic for card-heavy names, eliminating the vast majority of card lending profitability and forcing banks to withdraw credit from subprime and near-prime borrowers. A modified cap at 15–18% is more politically viable (15–20% probability) and would compress card margins by 5–10% of EPS for BAC and WFC, and 2–3% for JPM and Citi given their more diversified mix. The most likely near-term outcome is enhanced disclosure requirements without a hard price cap (~40% probability), creating regulatory uncertainty without direct earnings impact. And

the proposal dies in Congress through financial services industry lobbying and Republican resistance (~35–40% probability), lifting the overhang entirely.

The probability-weighted EPS impact for the most exposed names (BAC, WFC) is approximately -1.5–2.5% of forward EPS. The appropriate way to reflect this risk is as a multiple discount of 0.3–0.5x P/E on card-heavy names rather than an earnings haircut — binary legislative risk belongs in the discount rate, not in the base-case earnings estimate.

Force 5 — The NII-to-Fee Transition: Structural or Cyclical?

Goldman Sachs and Morgan Stanley have significantly outperformed the money center banks in 2026. The outperformance is approximately 70% structural and 30% cyclical.

The structural case: Goldman's 27% annual EPS growth reflects resurgent M&A and IPO activity and a growing asset management platform. Morgan Stanley's wealth management segment reached a record 31.4% margin in Q4 2025, with client assets at \$9.3 trillion. These are fee-based revenue streams that are structurally less exposed to the interest rate cycle and the credit cycle — precisely the two risks dominating the 2026 sector narrative for money center banks. The cyclical component: trading revenue surged sector-wide in Q4 2025, and Goldman benefits disproportionately from elevated market volatility. Some outperformance would compress if volatility normalises. The evidence that would confirm the structural thesis: GS/MS premium persisting after trading revenue normalises, and MS wealth management margin sustaining above 30% across multiple quarters. Until then, the market is making a valid structural distinction — fee-based financial businesses earn a valuation premium because their earnings are more durable, more predictable, and less exposed to the exact risk factors currently weighing on the sector.

Section 05 — Q4 2025 Earnings Autopsy

Clean Run-Rate EPS

Stripping one-time items reveals the genuine run-rate earnings picture:

JPMorgan Chase reported adjusted EPS of \$5.23. Excluding the \$2.2 billion Apple Card reserve build (a one-time accounting event tied to the portfolio acquisition), clean run-rate EPS is approximately \$5.50–5.60. Strip the equities trading surge to a normalised level and structural EPS drops closer to \$5.00–5.10. The gap between headline and clean earnings is moderate.

Bank of America reported \$0.98 per share with no material one-time items — the cleanest set of results in the group. Clean run-rate EPS of approximately \$0.95–1.00 per quarter.

Wells Fargo was burdened by \$612 million in severance charges. Excluding them, clean EPS is approximately \$1.40–1.50 adjusted. The asset cap resolution provides a structural positive not yet reflected in run-rate earnings.

Citigroup reported EPS of \$1.19 against adjusted EPS of \$1.81, the difference attributable to the \$1.2 billion Russia divestiture loss and approximately \$800 million in restructuring charges. The 78% IB revenue surge is notable but partly episodic. Clean structural run-rate EPS is approximately \$1.50–1.60. Citi shows the largest gap between reported (\$1.19) and clean (\$1.81) earnings — a 52% difference that reflects transformation noise rather than underlying business deterioration, but that makes Citi the hardest name in the group to value on current earnings.

Revenue Quality and What the Market Heard

The primary driver of the Q4 2025 sector beat was trading revenue — equities up 40% at JPM, fixed income strong sector-wide — driven by elevated volatility and client rebalancing. This is episodic. It provides no forward earnings information.

The underlying picture is weaker: NII growth is decelerating, JPM's IB advisory fees actually declined 5% YoY, and expenses are rising (+9% guided at JPM). The Q4 beat was on a revenue line that does not compound.

What the market heard was the forward guidance. Jamie Dimon described conditions as "a little bit more fragile," projected unemployment to "grind a little higher," and observed that consumers "look resilient but their spending capacity is running thin." When the CEO of the best-managed bank in the world signals caution on the macro outlook, institutional investors read the forward implication rather than the trailing number. The post-earnings stock declines are the correct response to the information set: a beat on non-recurring revenue paired with cautious guidance from management who carry more credit cycle information than any sell-side model.

Three forces converged on the post-earnings selloff. First, valuation overshoot: banks entered Q4 earnings at above-average multiples priced for NII acceleration and a deal boom, neither of which arrived in structural form. When the beat was trading-driven rather than revenue-quality-driven, the premium was no longer justified. Second, guidance caution: Dimon's language was specific and directional, not hedged boilerplate. Third, positioning unwind: the reflation trade — long banks, short bonds — was among the most crowded positioning themes of 2024–2025. Institutions used the earnings beat as a liquidity event to reduce positions. The incremental buyer was gone.

Reserve Adequacy: The Telling Disconnect

Cross-referencing management's verbal caution against their actual reserve positioning reveals a concerning gap. Management language acknowledged credit deterioration — "more fragile" conditions, unemployment "grinding higher," consumer spending capacity "running thin." Reserve positioning does not match this language. ACL ratios are relatively stable: JPM ~1.8%, BAC ~1.3%, WFC ~1.4%, Citi ~1.5%. These levels are below peak-cycle historical ranges of 2.5–3.5% (2008–2009) and 1.8–2.2% (moderate downturns).

Banks are modestly under-reserved for the credit cycle their own management teams are describing. If unemployment rises toward 5%+ — consistent with the stagflation scenario that carries 45% probability weight in the rate scenario analysis — current ACL levels will prove insufficient. In late-cycle environments, companies have consistent incentive to delay reserve builds to protect near-term reported earnings. When management talks cautiously about credit quality but does not materially increase reserves, the more likely explanation is the sceptical one.

Capital Return Sustainability

JPMorgan (~2.8% total yield): Sustainable. The combination of 20% ROTCE and 14.5% CET1 generates capital at a rate that comfortably supports current dividends and buybacks even under a moderate credit deterioration scenario.

Bank of America (~3.2% total yield): Conditionally sustainable. The \$30 billion annualised total capital return pace from Q4 cannot be maintained through credit stress. The dividend itself (~\$8.4 billion annualised) is well-covered by \$30.5 billion in full-year 2025 net income; the buyback pace is what moderates under pressure.

Wells Fargo (~3.0% total yield): Under pressure. Management has already guided to lower buybacks in 2026 to preserve capital flexibility. At 10.6% CET1 against a 10–10.5%

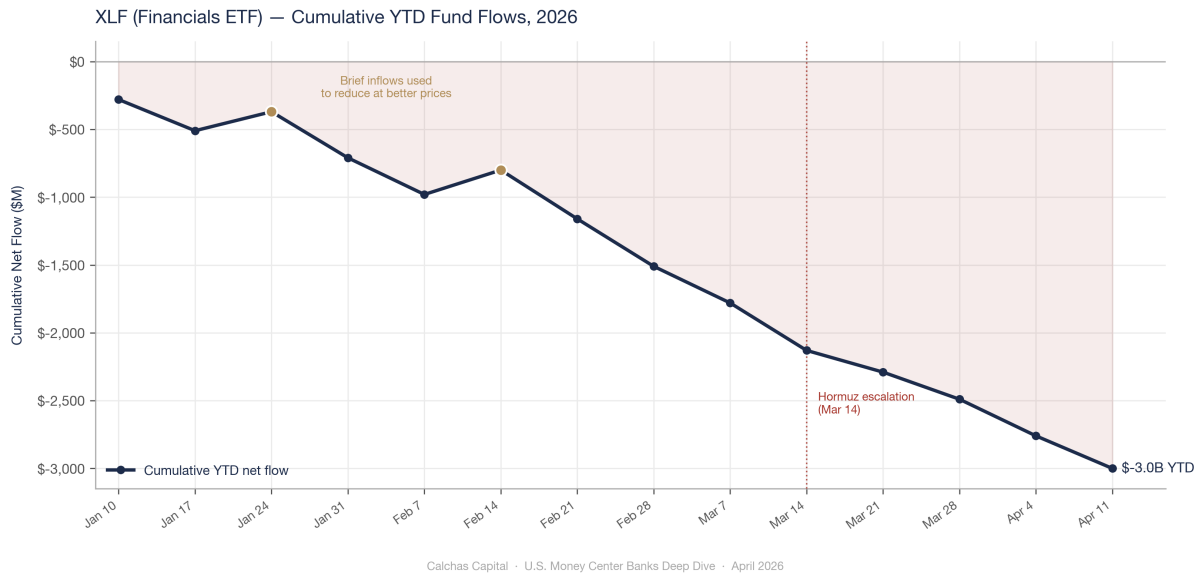
target, there is no margin for error. Reserve builds accelerating would directly constrain the buyback programme.

Citigroup (~3.5% total yield): At risk. Citi's 133% payout ratio in 2025 was elevated by capital optimisation decisions. With ROTCE still at 7.7% adjusted and transformation costs continuing, maintaining this pace requires delivering on the 10–11% ROTCE target for 2026. If the target slips, the buyback slows materially.

Section 06 – Sentiment and Positioning

Positioning Dashboard

Indicator	Current Reading	Direction	Interpretation
<i>Short Interest (KBW / XLF)</i>	Elevated vs. 12M avg.	Shorts adding, not covering	Informed directional bearishness; not at capitulation extreme
<i>XLF Put/Call Ratio</i>	~70th–80th percentile of trailing distribution	Rising; elevated put demand	Elevated hedging; not yet contrarian extreme
<i>IV Term Structure</i>	Front-month elevated above average	Above average across near-dated	Market pricing near-term event risk; not structural distress
<i>ETF Fund Flows (XLF, KBW)</i>	Persistent net outflows YTD	Multi-week outflow streak	Institutional de-risking underway; Stage 2 unwind
<i>13F Institutional Positioning</i>	Large holders trimming	Overweight positions reducing	Long-only funds reducing; consistent with Stage 2 distribution
<i>Sell-Side Consensus Revisions</i>	Downward trend for NII	Cuts accelerating post-guidance	Negative revision momentum; sell-side marking down 2026
<i>Sector vs. S&P 500</i>	Significant underperformance YTD	Lagging on both up and down days	Classic distribution pattern; sellers using rallies to reduce



Reading the Short Interest

Elevated short interest in the KBW Bank Index is predominantly a signal of informed directional bearishness, not a mechanical artifact of ETF arbitrage or risk parity rebalancing. Mechanical shorts arise from non-directional hedging activity tied to ETF creation/redemption or volatility-driven risk parity rebalancing; they do not reflect a fundamental view on the sector. Informed shorts — hedge funds and active managers taking directional bets based on a fundamental thesis — are stickier and require a genuine catalyst to cover.

The evidence points to informed shorting dominating: short interest is rising while the underlying negative catalyst narrative (stagflation, private credit stress, credit cycle deterioration) has strengthened rather than weakened; days-to-cover ratios are elevated, suggesting shorts are not opportunistically covering on dips; and the timing of positioning increases coincides with identifiable negative catalysts — the Citrini AI employment thesis, private credit fund gating, the Hormuz oil surge — rather than mechanical rebalancing dates.

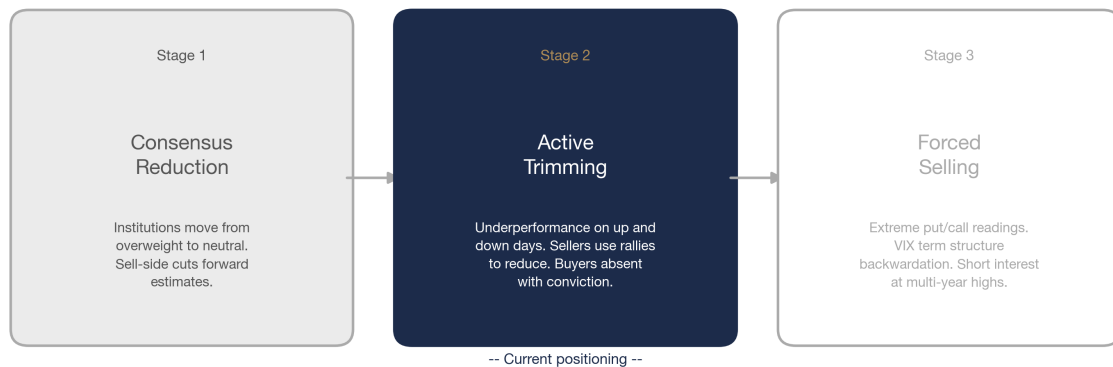
The implication for the squeeze question: informed shorts cover on fundamental improvement, not on price movement alone. A short squeeze requires either a capitulation

event on a sharp rally or a genuine fundamental catalyst reversal (ceasefire, rate cut signal, credit data stabilisation). A technical bounce driven by oversold conditions is unlikely to trigger sustained covering. The probability of a squeeze without a fundamental trigger is low.

Options Positioning and Staging

The XLF put/call ratio at the 70th–80th percentile of the trailing 12-month distribution is elevated but not extreme. Historical analysis of this ratio shows a mixed 30-day return distribution at current levels, a modest negative skew at 60 days (elevated hedging tends to coincide with genuine fundamental deterioration, not just sentiment), and modest mean reversion at 90 days. The reliable contrarian buy signal has historically appeared at the 90th-plus percentile — extreme pessimism levels where subsequent 60–90 day returns have been consistently positive. We are not there.

Institutional Distribution: Current Stage



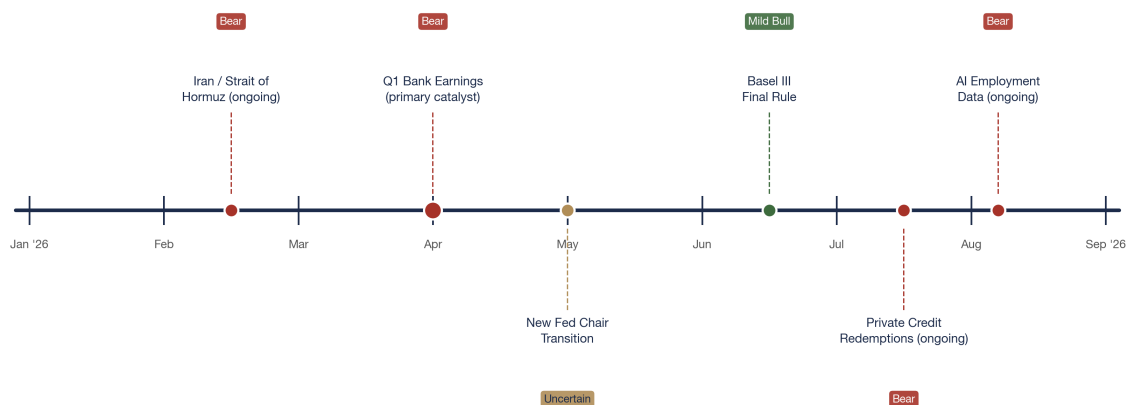
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The sector is in Stage 2 of an institutional distribution process. Stage 1 (consensus reduction) has concluded: institutions have moved from overweight to roughly neutral. Stage 2 (active trimming) is underway — identifiable by persistent underperformance on both up and down days, sellers using rallies to reduce, buyers unwilling to step in with conviction at current levels. Stage 3 (forced selling) has not yet arrived; it becomes identifiable through extreme put/call readings, VIX term structure backwardation, and short interest at multi-year highs.

The sector will not find a durable floor until either the sellers are exhausted or a fundamental catalyst arrives that attracts fresh positioning. Neither condition is currently present.

Section 07 – Catalyst Watch

Key Catalysts – Q1 to Q3 2026



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Event Calendar

Catalyst	Timing	Key Variables	Directional Lean
<i>Q1 2026 Bank Earnings</i>	Apr 2026	Charge-off trajectory; reserve build guidance; NII run-rate	Bear-leaning: first hard data on credit deterioration
<i>New Fed Chair Transition</i>	May 2026	Kevin Warsh replaces Powell; regulatory posture	Uncertain: Warsh historically hawkish; higher capital requirements possible
<i>Iran / Strait of Hormuz</i>	Ongoing	Ceasefire status; WTI vs. \$90 threshold; Trump escalation timeline	Bear dominant: WTI ~\$111, Strait effectively closed
<i>Private Credit Redemptions</i>	Ongoing	MS, Cliffwater fund gating developments	Bear-leaning: contagion risk more likely to widen than stabilise

<i>Basel III Final Rule</i>	Q2 2026	Capital requirement revisions; CET1 impact by bank	Mild bull: revised proposal likely less severe than original
<i>AI Employment Data</i>	Ongoing	Tech sector layoff trajectory; white-collar employment	Bear: tech layoffs likely to continue as AI adoption accelerates

Primary Catalyst: Q1 2026 Earnings

Q1 2026 bank earnings — reporting in April — is the single most important catalyst over the next 90 days because it is the first fundamental confirmation event for the credit deterioration thesis. Every other catalyst in the table is either lower probability, lower magnitude, or on a longer timeline. The March FOMC outcome (hold with cautious language) is largely priced. The Iran/Hormuz resolution timeline is unpredictable and could extend well beyond 90 days. Private credit contagion evolves slowly. The Fed Chair transition occurs at the end of the 90-day window.

Q1 earnings are different: they will provide hard data on the three questions the market is most focused on. Is the charge-off trajectory accelerating, stabilising, or decelerating? Are banks building reserves at a pace consistent with the credit cycle their management teams have described? Is the NII run-rate holding, or are deposit repricing dynamics worse than guided? If charge-offs accelerate and reserve builds are meaningful, the bear case is confirmed with data rather than narrative, and the sector likely re-rates lower. If charge-offs stabilise and NII holds, the fear premium dissipates and the sector could rally 5–10% on short covering alone.

Catalyst Dependency Chain

The catalysts are not independent. The most important dependency chain runs: Iran/Hormuz → Oil Prices → Inflation → Fed Policy → Bank NIM and Credit Quality → Earnings → Institutional Positioning.

Branch A — Ceasefire: A credible agreement reopening the Strait causes oil to drop below \$80 within weeks. Inflation re-acceleration risk fades. The Fed has room to signal rate cuts in H2 2026. The yield curve steepens on rate cut expectations. Bank NIM expansion outlook improves. Consumer spending pressure eases and credit deterioration slows. Q1 earnings guidance becomes more constructive. Short covering fires. Sector rallies 10–15%. The first-mover advantage for re-entering the sector would be measured in hours — bank stocks are among the most liquid in the market, and the short interest overhang means any positive catalyst triggers a rapid covering rally.

Branch B — Escalation/Stalemate: Oil holds \$90–110 or rises further. CPI re-accelerates toward 3%+. The Fed cannot cut and may consider hiking. The yield curve flattens or re-inverts. NIM compression deepens. Consumer credit deterioration accelerates. Q1 earnings show rising charge-offs and reserve builds. Institutional selling moves from Stage 2 to Stage 3.

The falsification condition for the current bearish view is specific: a credible ceasefire agreement causing WTI to sustain below \$90 for five consecutive sessions. This is the only near-term observable that simultaneously resolves the stagflation scenario, reopens the rate cut path, and improves the consumer credit outlook. No other single data point shifts as many downstream variables.

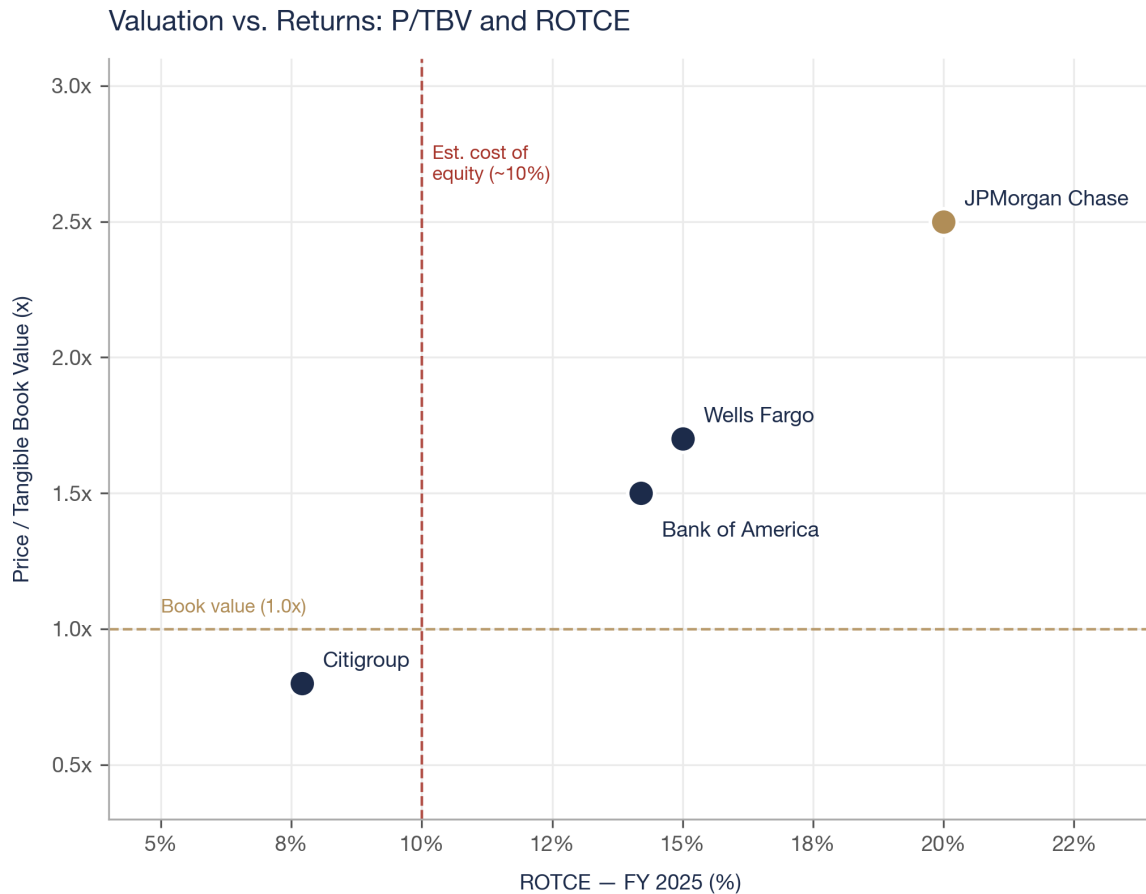
Section 08 – Relative Context and Synthesis

Valuation in Context

<i>Peer Group</i>	<i>Fwd P/E</i>	<i>Price / Book</i>	<i>Shareholder Yield</i>	<i>Observation</i>
<i>U.S. Money Center Banks</i>	~11–13.5x	~2.0–2.5x	~2.5–3.5%	Above historical average; credit cycle risk not fully priced
<i>U.S. Insurance Sector</i>	~12–14x	N/A	~2.5–3.5%	Rate beneficiary without credit exposure; cleaner earnings quality
<i>U.S. Asset Managers (GS, MS)</i>	~13–15x	N/A	~1.5–2.5%	Fee-based premium growing; MS wealth management margin >30%
<i>European Banks</i>	~7–9x	~1.1x	~6–8%	Deep discount; 8% shareholder yield; less U.S.-specific risk
<i>Regional U.S. Banks</i>	~10–12x	~1.2–1.5x	~3–4%	More NII-dependent; more CRE exposed; limited capital markets offset

Are They Cheap?

U.S. money center banks trade at above-average multiples that are defensible on current earnings power but vulnerable to forward deterioration. The valuation picture is more nuanced than a simple "expensive" call.



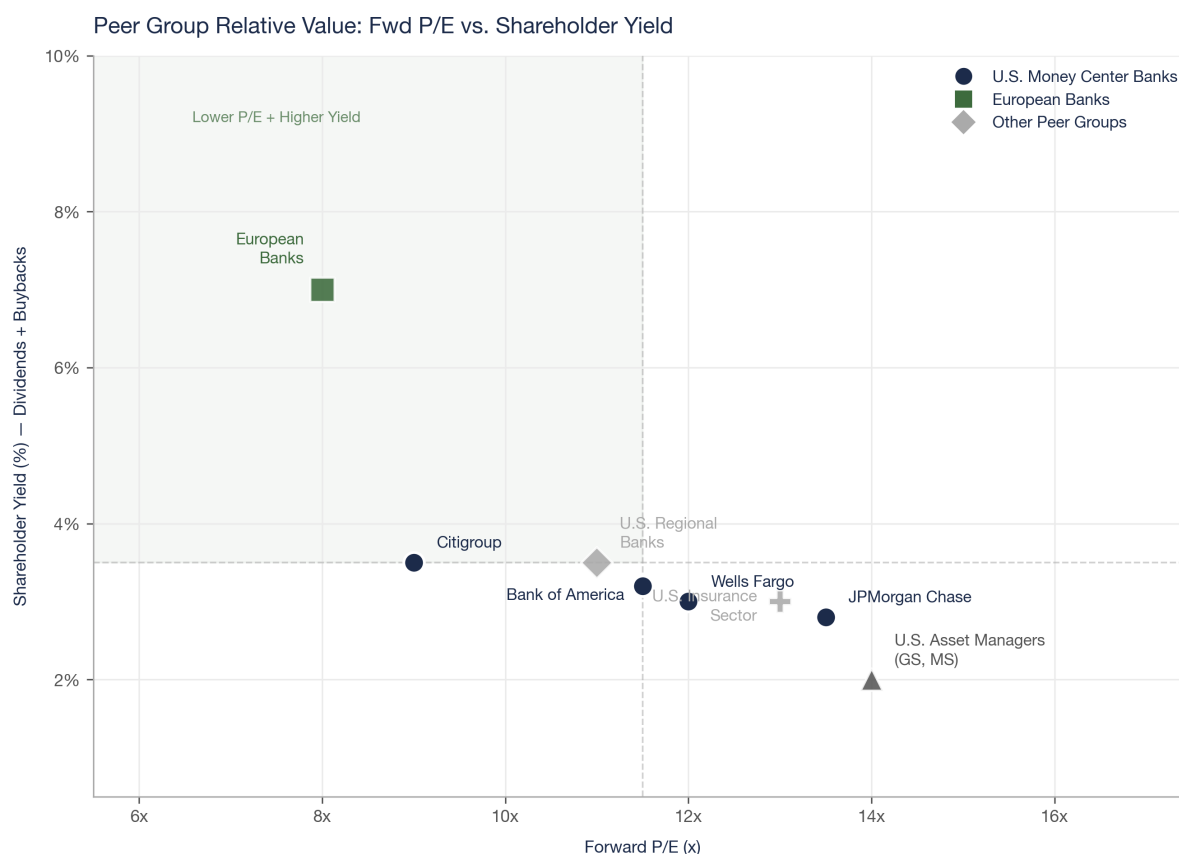
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JPM at 20% ROTCE and 2.5x P/TBV is pricing in some earnings normalisation already — a mid-cycle ROTCE of 16–18% would still support 2.0–2.2x P/TBV, implying modest downside risk of 10–15% rather than a steeper correction. BAC at 14.2% ROTCE and 1.5x P/TBV is not expensive — it is trading roughly in line with a fair value that reflects its current earning power. WFC at 15% ROTCE and 1.7x P/TBV appears close to fair value with upside optionality if the 17–18% ROTCE target materialises. Citi at 7.7% and 0.8x P/TBV is the only name clearly priced below cost of equity — and it is priced accordingly.

The "active avoid" case for the sector therefore rests primarily on the forward-looking credit cycle and oil/stagflation risks rather than on current overvaluation — a distinction the analysis must make explicitly. If the stagflation scenario materialises at its 45% probability, sector-level ROE is at risk of declining 200–400 basis points over the next 2–4 quarters, implying P/TBV compression of 0.3–0.5x across the group, or 10–20% downside from current levels. The risk-

reward asymmetry at current multiples is unfavourable: limited upside relative to where valuations already sit, meaningful downside if the credit cycle plays out as the leading indicators suggest.

U.S. vs. European Banks: Where the Relative Value Actually Sits



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The U.S. premium over European banks is partially justified but has become stretched beyond what the fundamental differential supports.

The justification for a premium is real: U.S. money centre banks have historically earned higher ROE (12–20% vs. 8–12% for European peers), operate in a larger and more dynamic domestic economy, and benefit from deeper capital markets. JPM's 20% ROTCE has no European equivalent. The U.S. regulatory framework, while stringent, is more transparent and predictable than the multi-jurisdictional European regime.

But the premium has overshot. European banks have returned nearly 200% including dividends since early 2022, demonstrating that their structural discount was overdone. They now trade at approximately 1.1x P/B with approximately 8% combined shareholder yield, reflecting ECB policy normalisation, European fiscal stimulus, and improving profitability. Critically, European banks carry less exposure to the U.S.-specific risks currently weighing on the sector: private credit contagion, political pressure on consumer finance pricing, and the AI-driven white-collar credit risk thesis.

The current U.S. premium of approximately 1.0–1.5x P/B implies that U.S. bank ROE will remain 500–800 basis points above European bank ROE on a sustained basis. If U.S. bank ROE declines toward 12–15% in a stagflation scenario while European banks hold at 10–12% with less cyclical risk, that implied premium shrinks dramatically. The relative value case for European banks over U.S. money center banks is the most straightforward trade in the financial sector today, though it requires currency hedging for USD-denominated portfolios.

Synthesis: Portfolio Manager Briefing

U.S. money center banks are in a multi-factor de-rating episode that is unlikely to resolve within the next one to two quarters. The sector trades at above-average multiples while facing a confluence of simultaneous headwinds: a flat yield curve compressing NIMs, a credit cycle that is late-stage and deteriorating (rising card charge-offs, decade-high CRE delinquencies, depleted consumer savings buffers), an oil-driven stagflation threat that traps the Fed on hold at precisely the moment growth is slowing, private credit contagion risk that remains unquantified and self-reinforcing, and structural competitive displacement from fee-based financial businesses that are widening their valuation premium by the quarter. Q4 2025 earnings beat on non-recurring trading revenue while management guided cautiously and reserve positioning lagged the credit cycle their own language described. Sentiment has shifted from consensus overweight to active de-risking, currently in Stage 2 institutional distribution — sellers using rallies to reduce, buyers unwilling to step in with conviction. **Current**

positioning: Active Avoid. The sector should be underweight in a diversified financial portfolio, with capital allocated instead to insurance (rate beneficiary without credit exposure), fee-based asset managers (Goldman Sachs, Morgan Stanley), or European banks (1.1x P/B, 8% shareholder yield, significantly less U.S.-specific risk). The stance shifts to Watch if WTI crude drops below \$90 and sustains there for five consecutive sessions on a credible Hormuz ceasefire, the FOMC explicitly signals rate cuts for H2 2026, and Q1 2026 charge-off data stabilises rather than accelerates. Until at least two of those three conditions are met, the risk-reward in this sector does not justify adding exposure.

Calchas Capital — April 2026. Analytical framework developed in collaboration with Calchas research staff. All data sourced from company filings, FDIC call reports, FRED, BLS, and CBOE public data.

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