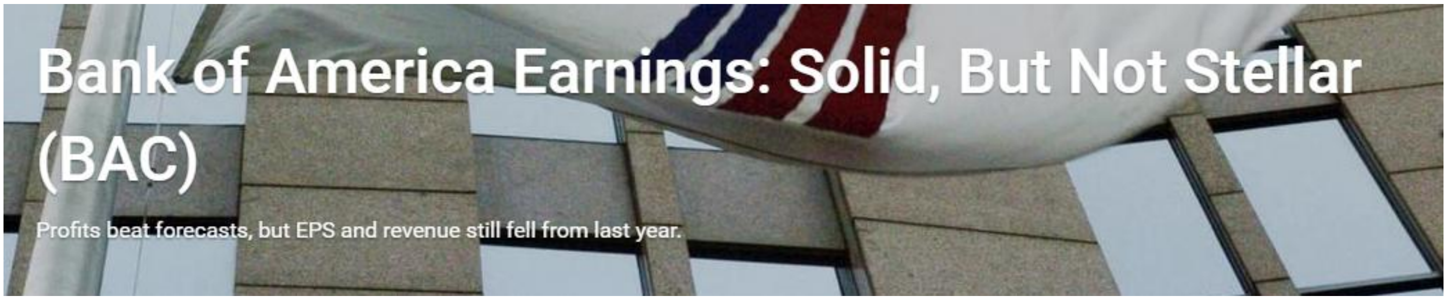
July 18, 2016



By John Divine | Staff Writer

July 18, 2016, at 10:18 a.m.

Bank of America Corp. (ticker: BAC), one of the three largest U.S. banks by assets, reported second quarter earnings on Monday morning, and all in all, the results were largely as expected.

The Charlotte, North Carolina-based bank did deliver an earnings beat, posting earnings per share of 36 cents, 3 cents higher than analysts anticipated. Profits, however, were down 20 percent from a year ago.

Revenue was more or less in line with analyst expectations at $20.4 billion, but even that was down more than 7 percent from the same period last year.

Counterintuitively, "BAC benefited from higher bond trading revenue as a result of Brexit, boosting their trading income," says Jerry Braakman, chief investment officer of First American Trust in California. "Expenses were reduced over 3 percent (from a year ago)."

Bank of America is also making concerted efforts to get higher-quality loans on its books, and it's on the right track. "BAC has made progress in improving its balance sheet as non-performing loans came in at 0.93 percent of assets versus 1.2 percent in last year's quarter," Braakman says.

A tough environment. K.C. Ma, professor of finance at Stetson University, thinks it's important to remember when interpreting Bank of America's second-quarter that financial stocks are facing an uphill battle. "Clearly, the negative performance of the entire banking sector has been totally driven by nothing other than the persistent lower interest rate environment and sluggish global economy," Ma says.

Low interest rates make it very difficult for BAC and its peers to magically produce higher earnings. When rates rise, net interest margins should expand, meaning the difference between the interest rates paid on deposits and the interest they earn on their assets increases.

But that hasn't happened yet, and while Bank of America stock was trading as much as 2 percent higher in early trading Monday, those gains are tenuous and two of its peers, Wells Fargo & Co. (WFC) and Citigroup (C) both fell on Friday after announcing second-quarter results. Citigroup was up for much of the day before ending Friday in the red.

How Wells Fargo and Citigroup fared. Wells Fargo fell about 3 percent on Friday after its report, even as revenue rose 4 percent from last year. Earnings per share were in line with expectations at $1.01, but revenue was also pretty pedestrian, matching consensus forecasts at $22.2 billion.

As for Citigroup, its stock was basically unchanged even after posting slightly higher-than-expected revenue of $17.52 billion and earnings per share that crushed expectations, with EPS coming in at $1.24 versus the $1.10 analysts expected.

Overall though, Citigroup's revenue still fell about 10 percent from the same quarter a year ago. And while EPS beat expectations, it still fell nearly 15 percent from the same quarter a year ago, when it clocked in at $1.45.

Bank of America's earnings on Monday seem to confirm that for big bank stocks, soaring profits just aren't in the cards right now.