



# Banking in the Current Environment

**Brandon Koeser**

*RSM US LLP*



# Banking in the Current Environment

June 11, 2024





# What's driving banking today



## Economic growth outlook

01 The economy has been much more resilient than predicted.

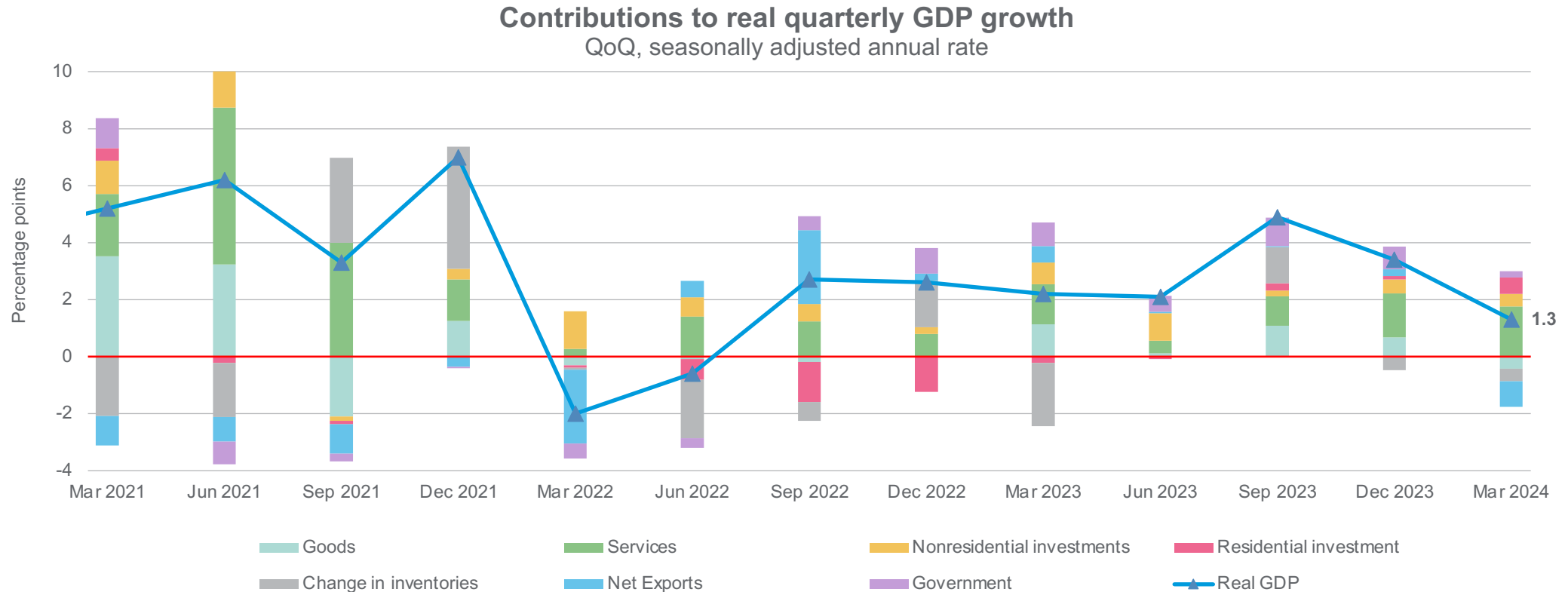
02 RSM forecast for annual GDP growth in 2024 of 2.0% to 2.5%.

03 Recession probability remains significantly low at ~15%.

04 The risks of the economy outperforming exceeds underperforming in 2024.

# RSM GDP forecast at 2.0% to 2.5% for annual growth in 2024

U.S. GDP growth fell in Q1, largely impacted by a reduction in net exports



Source: BEA, RSM US

# The economy continues to be more resilient than predicted

No sign of recession according to our recession tracker using the NBER criteria



Note: Normalized with 2020 = 100. Source: BEA, RSM US

# Employment outlook

01

Over the past three months, the U.S. economy has generated an average of 242,000 jobs

02

That captures the underlying trend in the domestic labor market and is well aligned with our own proprietary data and other corporate surveys on current and future hiring.

03

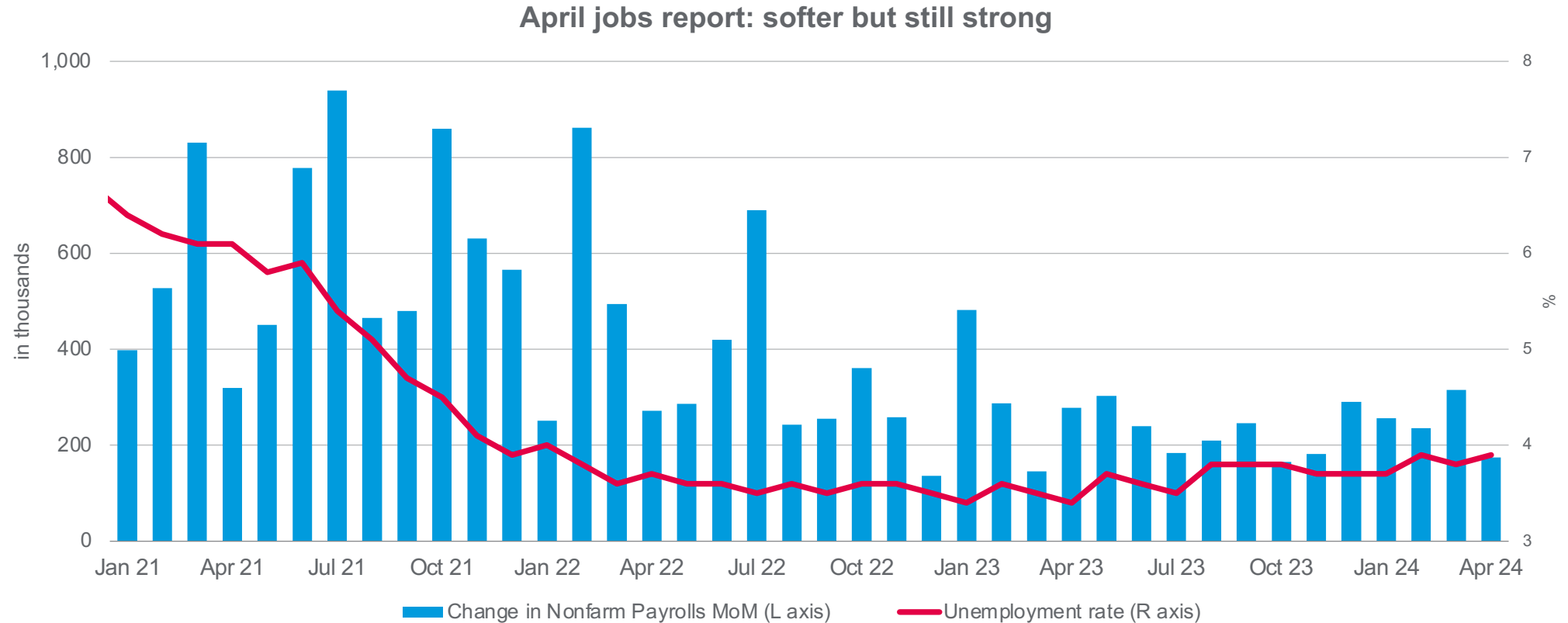
The unemployment rate lands at 3.9%, the 27th consecutive month that the rate has remained below 4%.

04

Employment of prime-age workers between 25-54 up to 83.5%, indicative of what we estimate to be the strongest labor market since the 1950's.

# Demand for labor in the economy still on display despite cooling

Over the trailing 12 months, labor gains averaged 234K per month



Source: BLS, RSM US



# Prime-age participation rate at multidecade high

Driven mostly by female workers due to childcare improvement and hybrid work environment



Source: BLS, RSM US

# Inflation Outlook

01

Overall trend: disinflation and progress in 2H'23, yet bumpy path toward the 2% target in 2024.

02

Fed's key metric: PCE at 2.7% and Core PCE at 2.8% y/y. in April 24. Slight improvement CPI metrics in April do not materially alter Fed rate path.

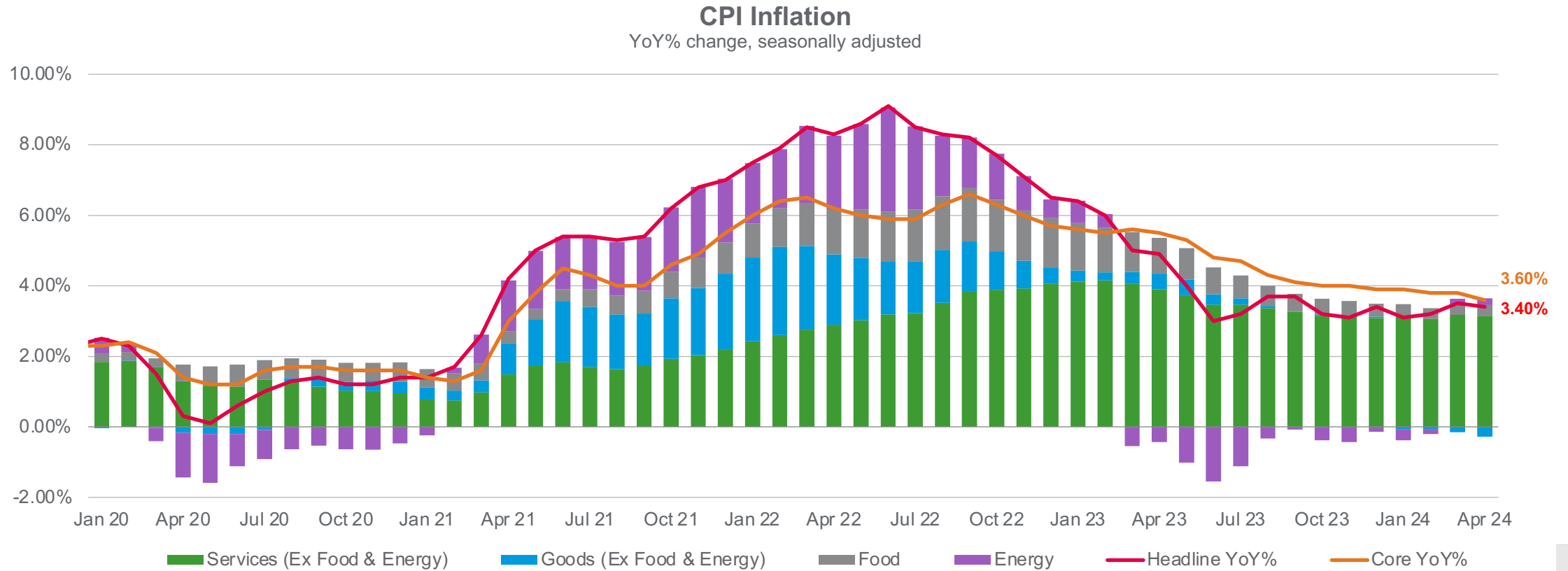
03

Wage growth remains around 4% for both hourly wage rate and employment cost index—the Fed's key gauge. Thus, continuing pressure on service inflation beside housing.

04

Inflation expectations well-anchored. Fed could tolerate inflation slightly higher than 2% and begin cutting rates to shift toward growth mandate.

# CPI stickiness continues to dominate headlines

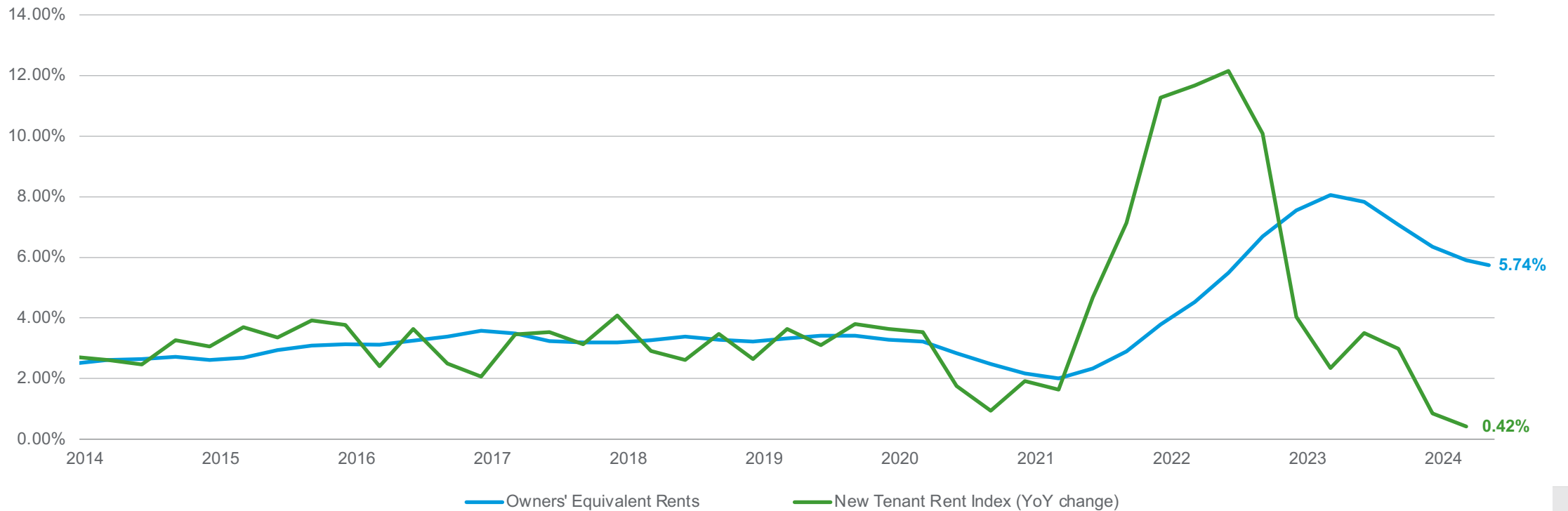


Source: BLS, RSM US

# The path for rents shows more progress coming

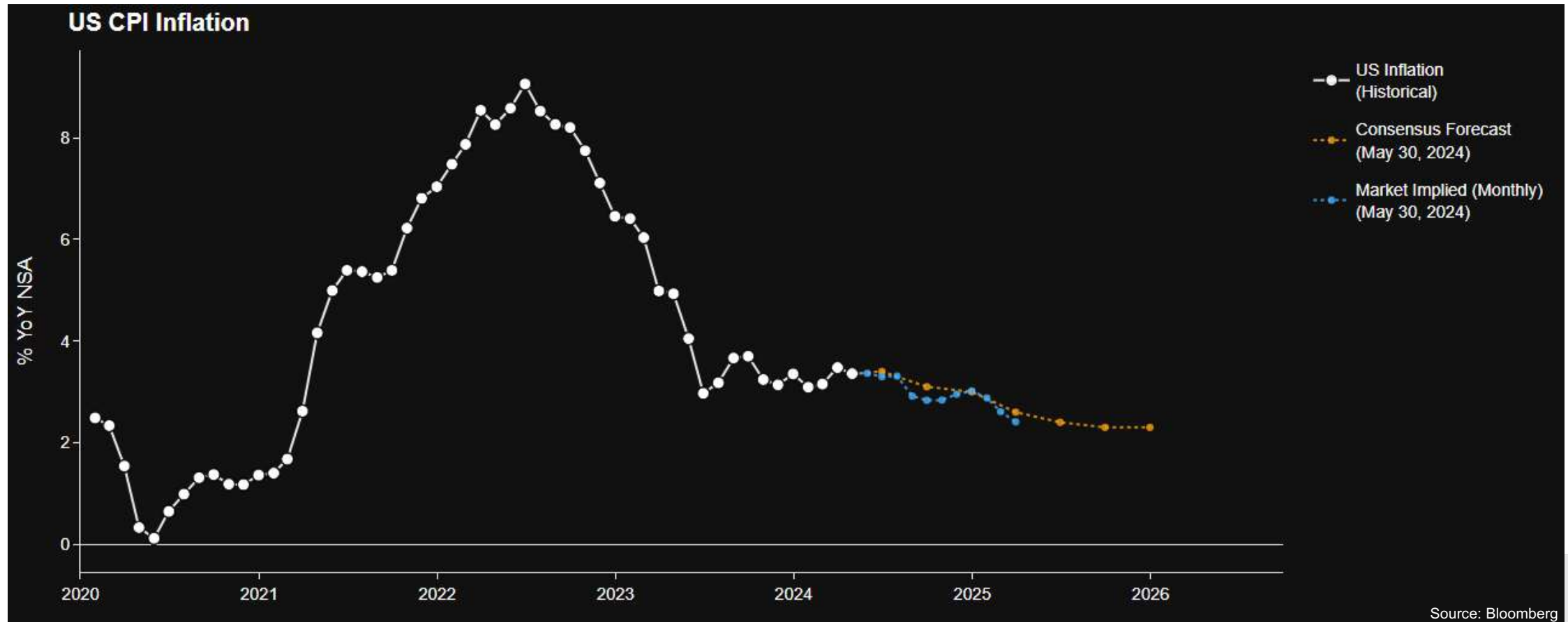
Cleveland Fed's New Tenant Rents Index points to further disinflation

Charting rent movements



Source: BLS, Cleveland Federal Reserve Bank, RSM US

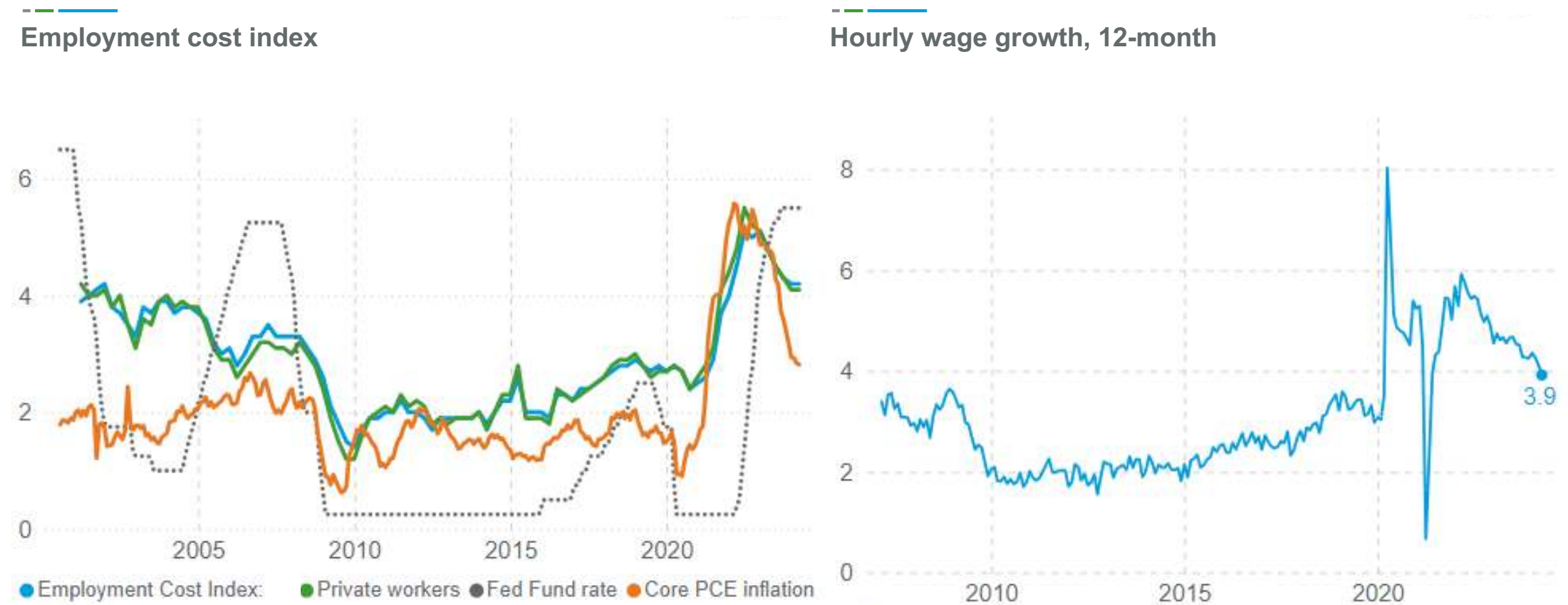
# Charting CPI going forward





# Wage growth elevated due to tight labor market

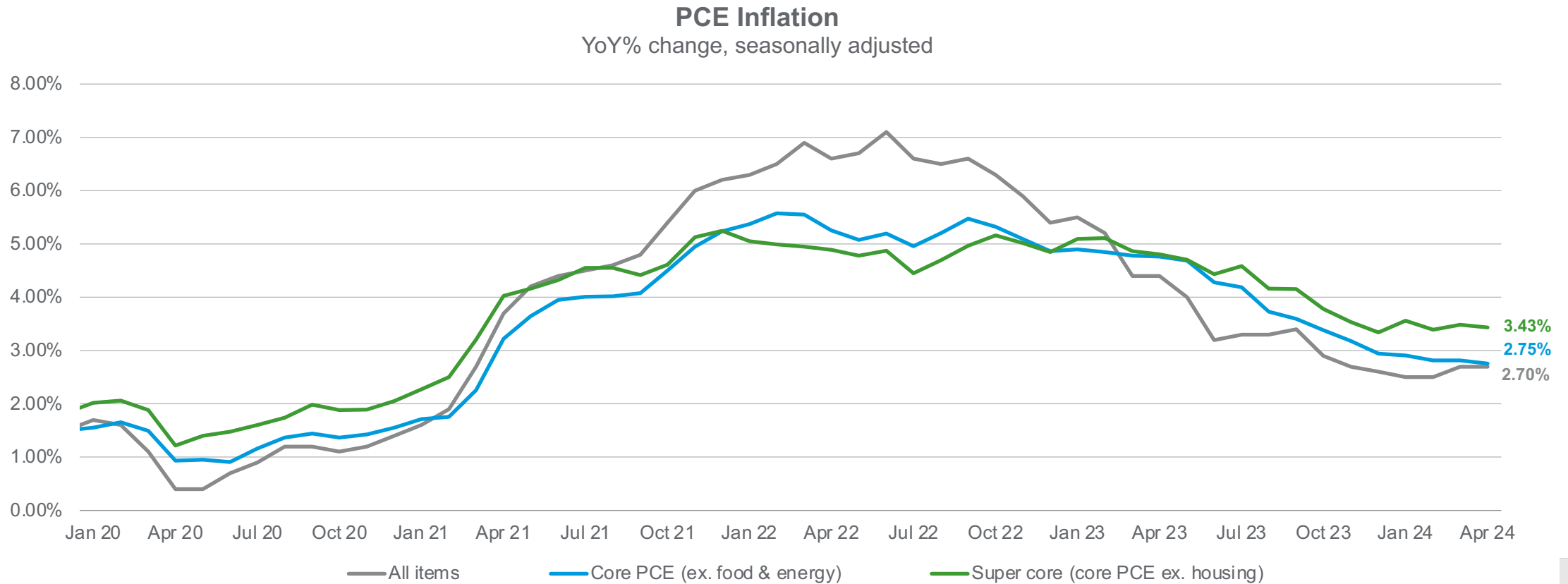
Real wage turns positive as inflation comes down; support stronger spending



Source: BLS, BEA, Federal Reserve, RSM US

# PCE disinflation shows 2% target in sight

Despite a rebound in January, trend shows inflation target in sight



Source: BLS; RSM US

## Fed and interest rate outlook

01

Fed is in no rush to cut rates as inflation remains sticky.

02

Baseline forecast: first cut in Q3 '24, followed by a holiday cut in Q4 '24.

03

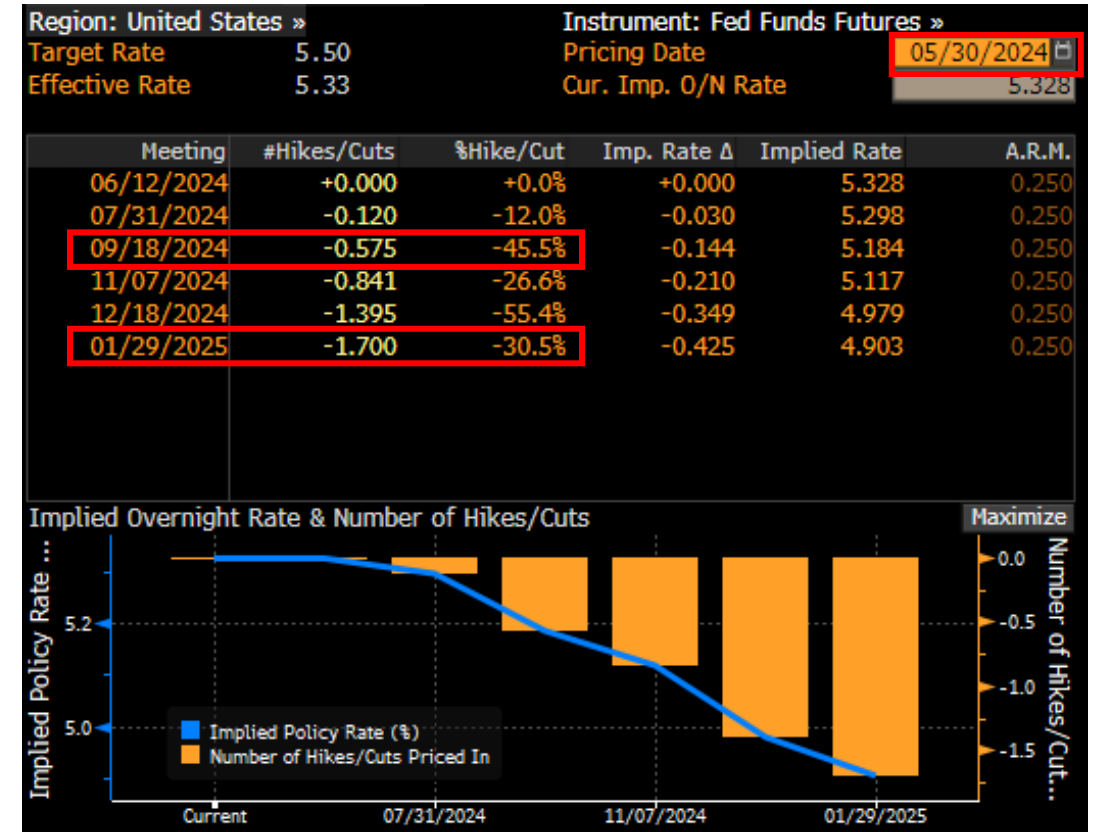
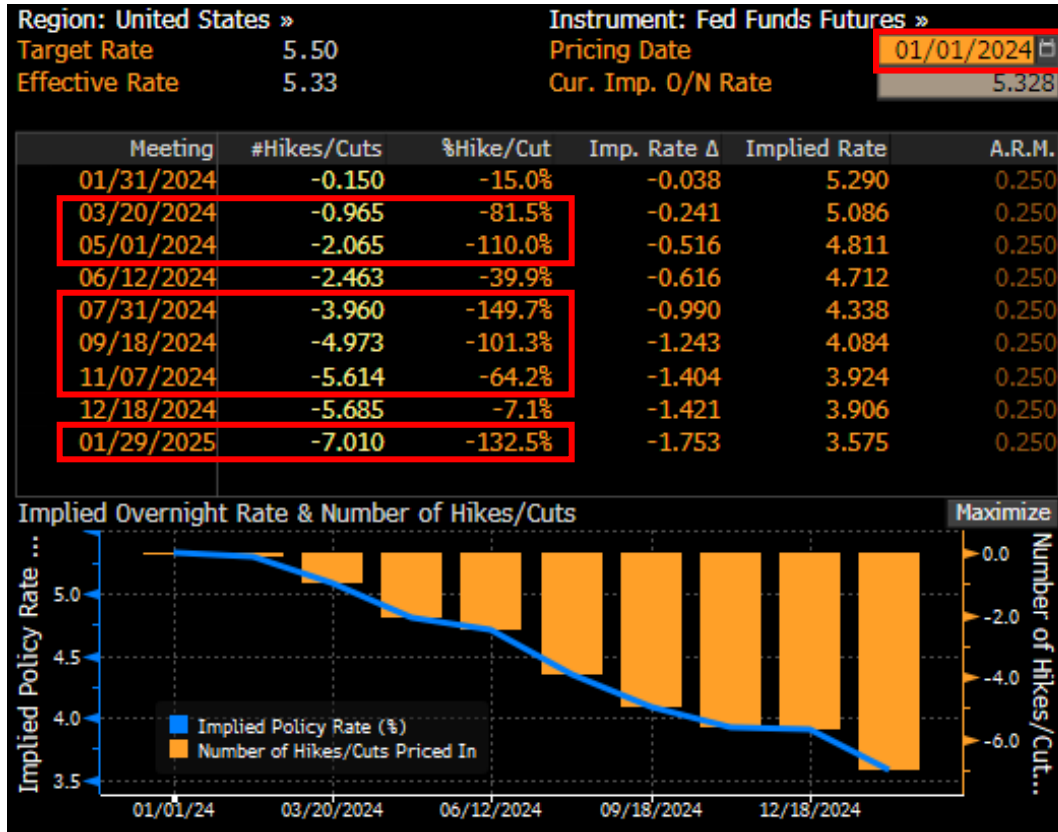
Market has been aligning its expectations closer to what the Fed will likely do, which means less volatility.

04

Forecasting 10yr US Treasury yield to land around 4.25% by the end of 2024.

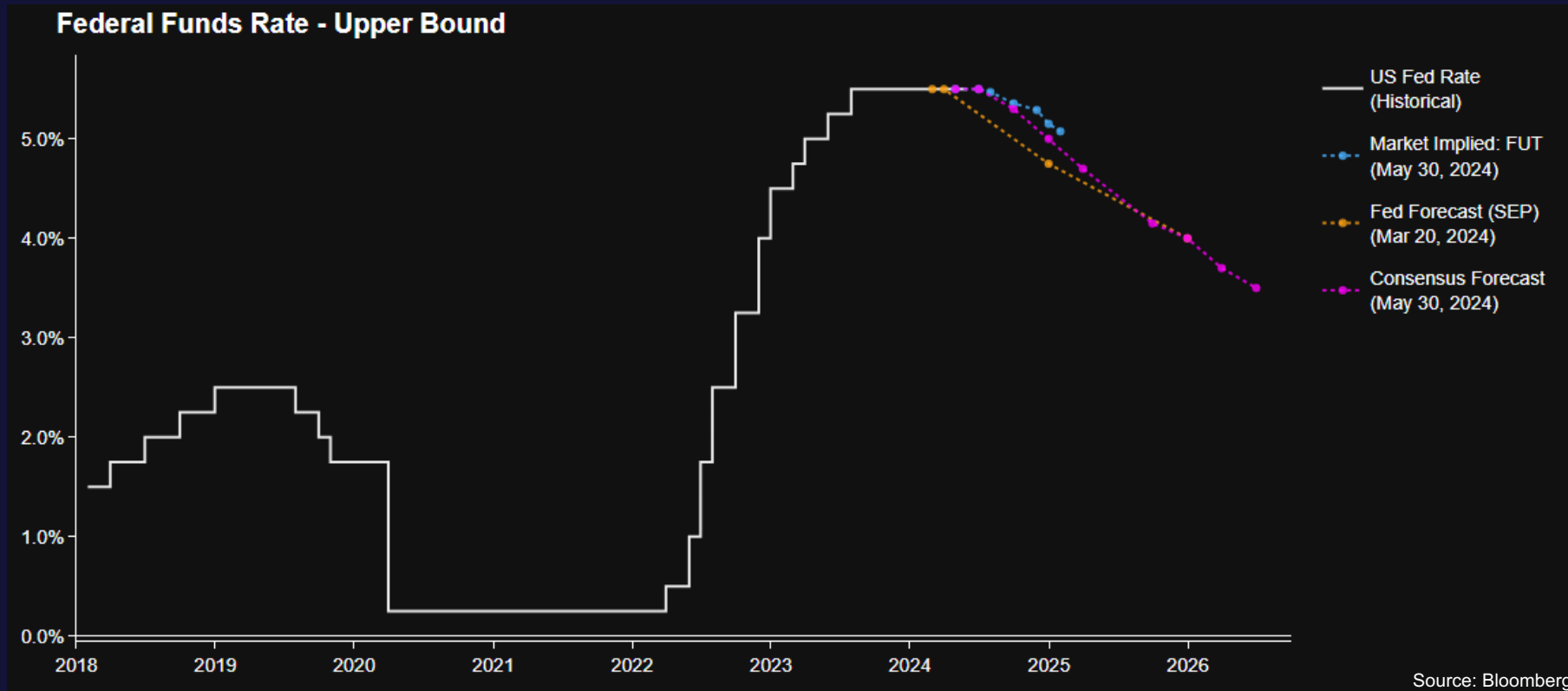
# Macro data shifted expectations on rate path

The expectations around cuts has fallen as 'higher for longer' takes hold



# Timing of cuts likely a fall event

The new neutral rate is likely around 3%

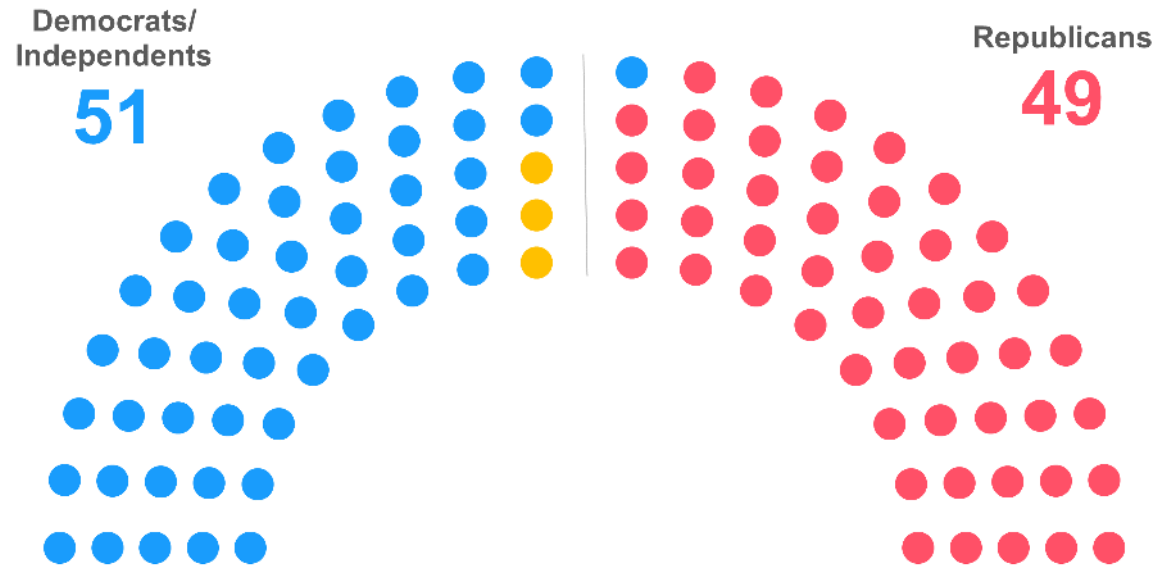




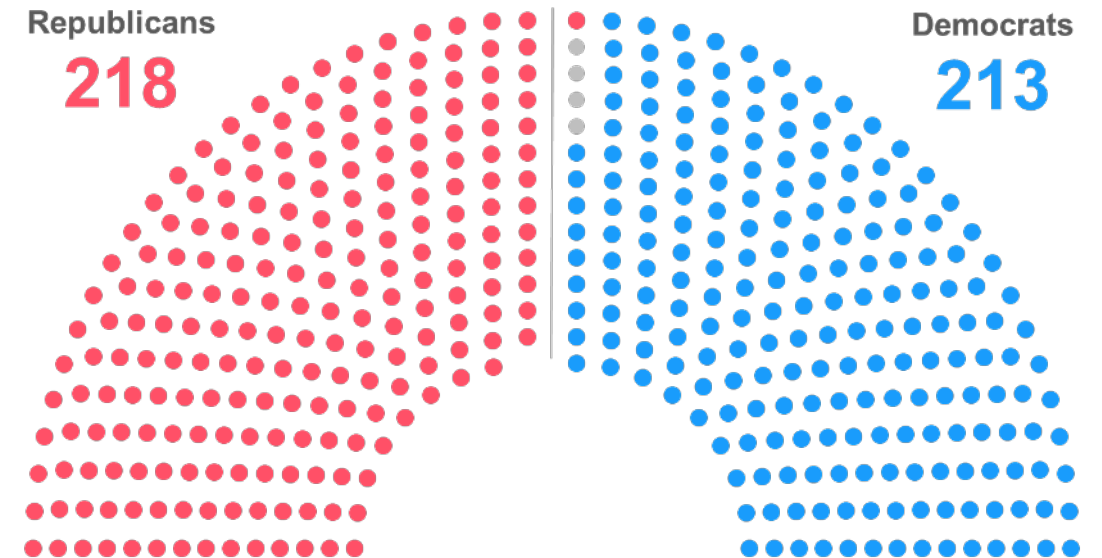
# Election cycle moving to center stage

Balance of power in the 118th Congress

## Senate



## House



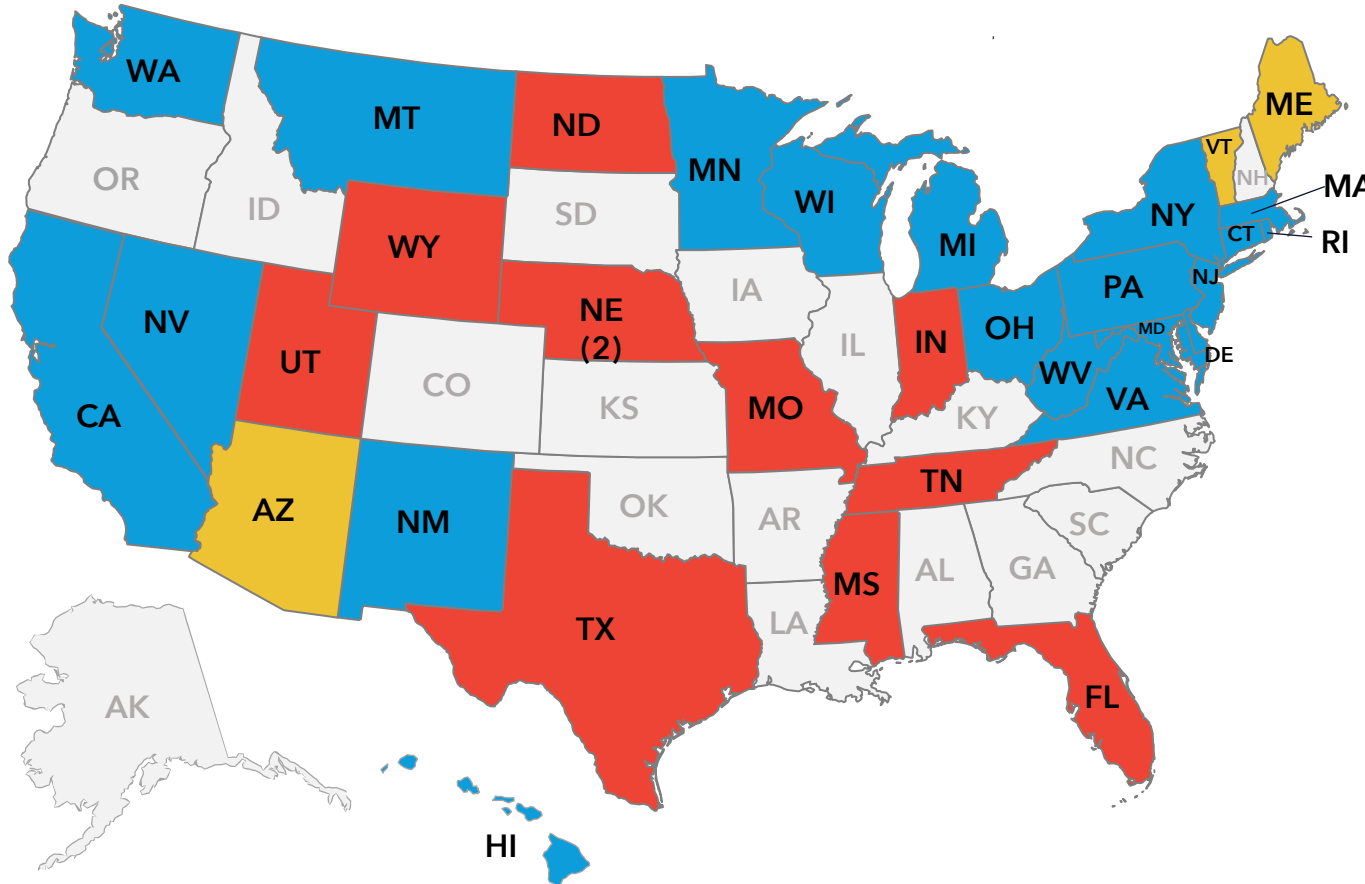
Source: Bloomberg Government, RSM US

Notes: As of May 29. Light red seat represents CA-20 seat that Rep-elect Vince Fong won May 21. Grey seats represent OH-06 seat vacated Jan. 21 by Bill Johnson (R); CO-04 seat vacated March 22 by Ken Buck (R), WI-08 seat vacated April 24 by Mike Gallagher (R-Wis.), and NJ-10 vacancy caused by April 24 death of Donald Payne Jr. (D). Yellow dots are independents who are aligned with Democrats in the Senate

# Senate races to watch

Balance of power in Senate will be up for grabs

■ Republican incumbent (11)
 ■ Democratic incumbent (20)
 ■ Independent incumbent (3)



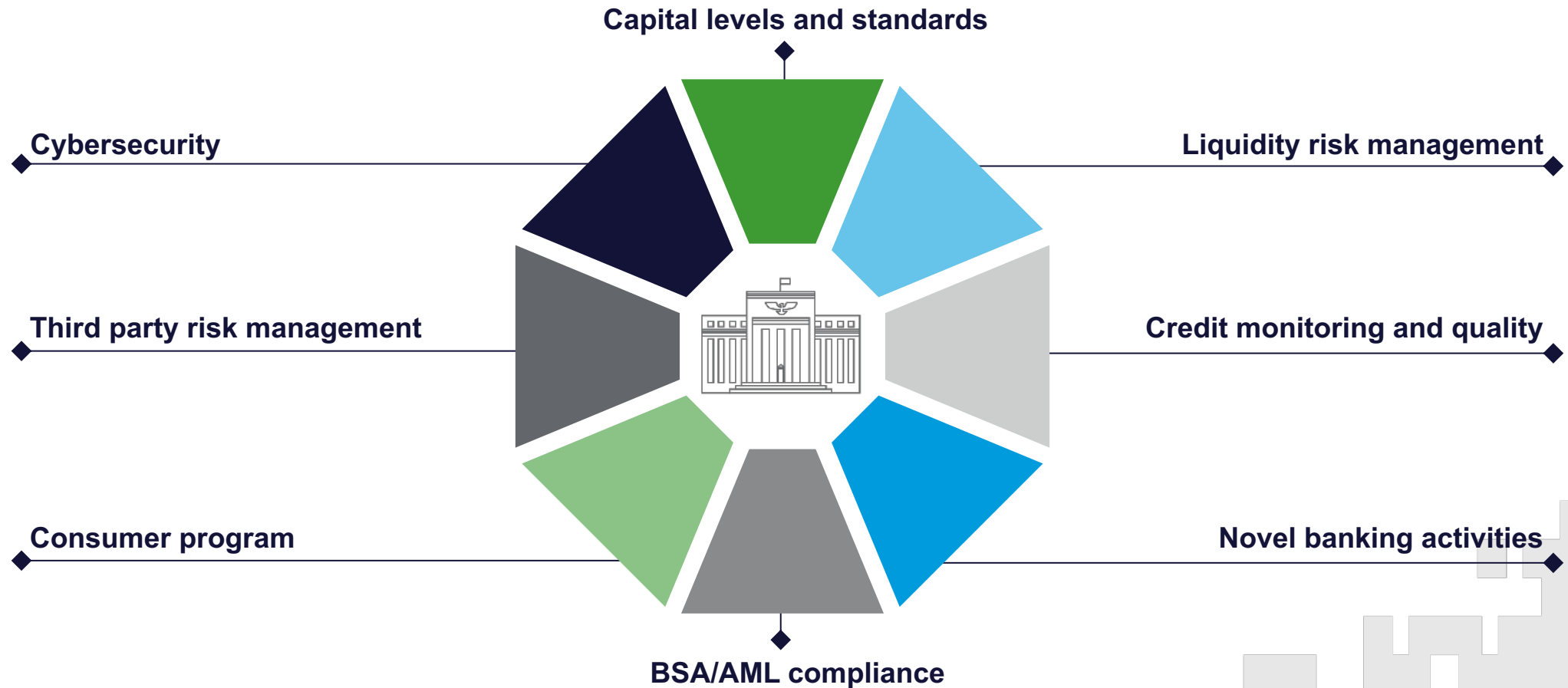
## Open Seats

- AZ: Kyrsten Sinema (I)
- CA: Laphonza Butler (D)
- DE: Tom Carper (D)
- IN: Mike Braun (R)
- MD: Ben Cardin (D)
- MI: Debbie Stabenow (D)
- UT: Mitt Romney (R)
- WV: Joe Manchin (D)

Source: Bloomberg Government, RSM US  
 Note: Nebraska will have two races in 2024, including a special election triggered by the resignation of Ben Sasse (R).

# Key regulatory focus areas

The regulatory environment continues to remain challenging for banks, with numerous areas of enhanced focus



# What's driving banking today



# Response across the banking ecosystem



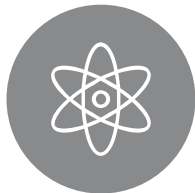
## The M&A comeback

For some banks, despite the current interest rate environment, consolidation is again offering the opportunity to achieve scale and to meet increasing regulatory requirements



## Develop offerings to meet customer demand

As new generations learn to engage with banking services, legacy institutions are analyzing where to lean in for the new and differentiated and capabilities



## Focus on customer experience

Competitive advantage from frictionless 24/7 mobile apps across retail and even some commercial banking applications



## Continued push for automation and use of data

Intelligent automation, better decisioning models using AI, decreasing reliance on EUC, drive toward better data and analytics.



## Bias to shorter term projects – speed to value

Growing adoption of low code, no code projects to shorten project lifetimes, reduce risk and decrease reliance on third parties for maintenance



## Looking critically at core vs noncore

Focus on core business, divesting noncore to free up capital, and exploration of reorganizations, partnering, outsourcing, and co sourcing of support functions



## Cautious adoption of Generative AI, LLM's

“Private” LLM's being adopted to enhance productivity of knowledge workers and reduce time to market for deliverables.

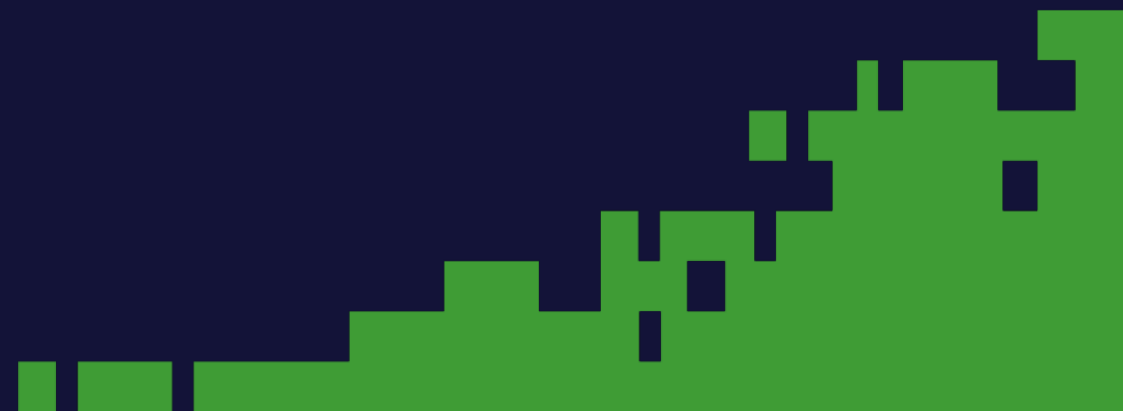


## Evaluating novel banking activities

Recent events have cast a shadow on this segment of banking activity leading some to scale back in the space while causing others to evaluate capitalizing on a changing landscape



Thank you





## THE POWER OF BEING UNDERSTOOD

### ASSURANCE | TAX | CONSULTING

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute assurance, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent assurance, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit [rsmus.com/aboutus](https://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

RSM, the RSM logo and *the power of being understood* are registered trademarks of RSM International Association.

© 2024 RSM US LLP. All Rights Reserved.