

DATA DISPATCH

# US banks continue to move excess cash into bonds, but some proceed with caution

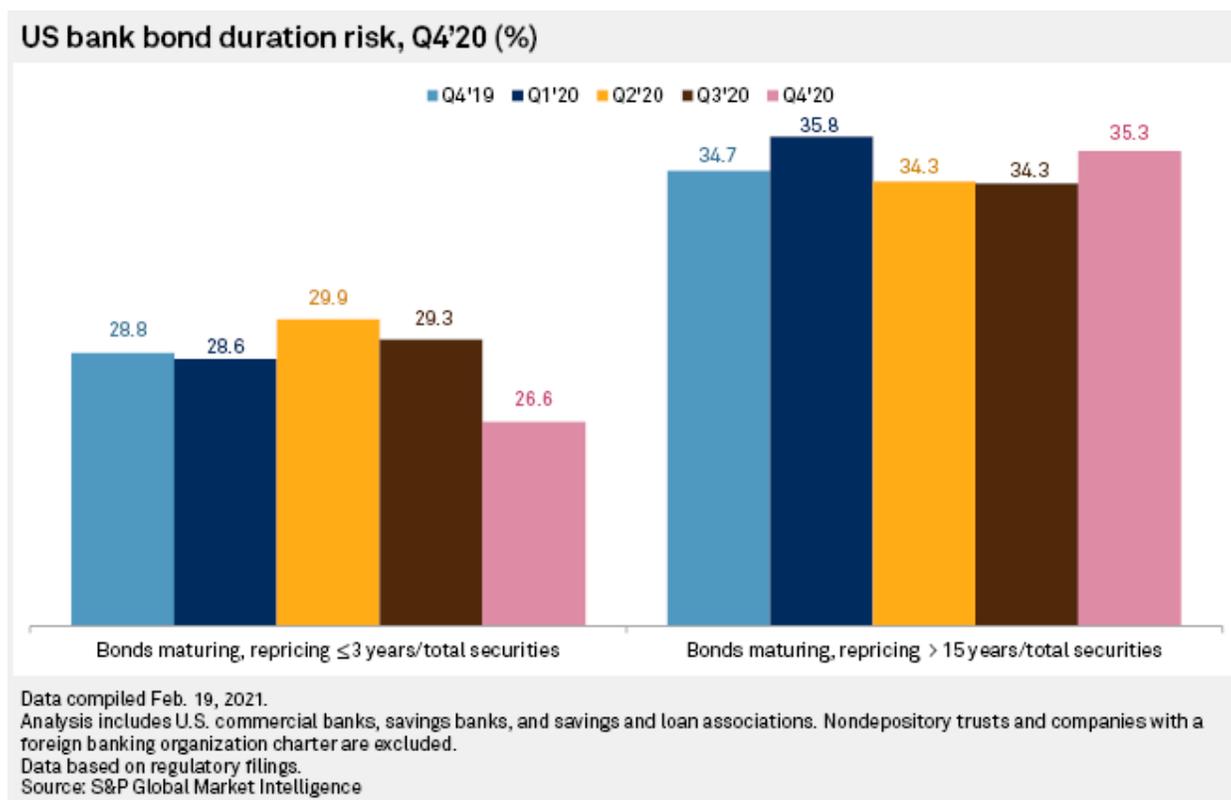
Thursday, March 4, 2021 9:18 AM CT

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Market Intelligence

Banks deployed more excess liquidity in the bond market in the fourth quarter, though a number of institutions seemed to view future investments — particularly those further out on the yield curve — with greater trepidation.

Banks allocated more cash to securities in the fourth quarter as excess liquidity continued to build on their balance sheets. Deposit growth continued to flow into banks in the final three months of 2020, while loan demand remained weak.

Securities became larger portions of bank balance sheets, growing to 23.4% of assets from 22.6% in the third quarter as long-term interest rates rose in the period. The yield curve steepened in the fourth quarter, with the average yield on the 10-year Treasury moving to 0.86% from 0.65% in the third quarter, while short-term rates held steady. Bank managers leaned into the increase in long-term rates in the period and increased their exposure to further out on the yield curve.



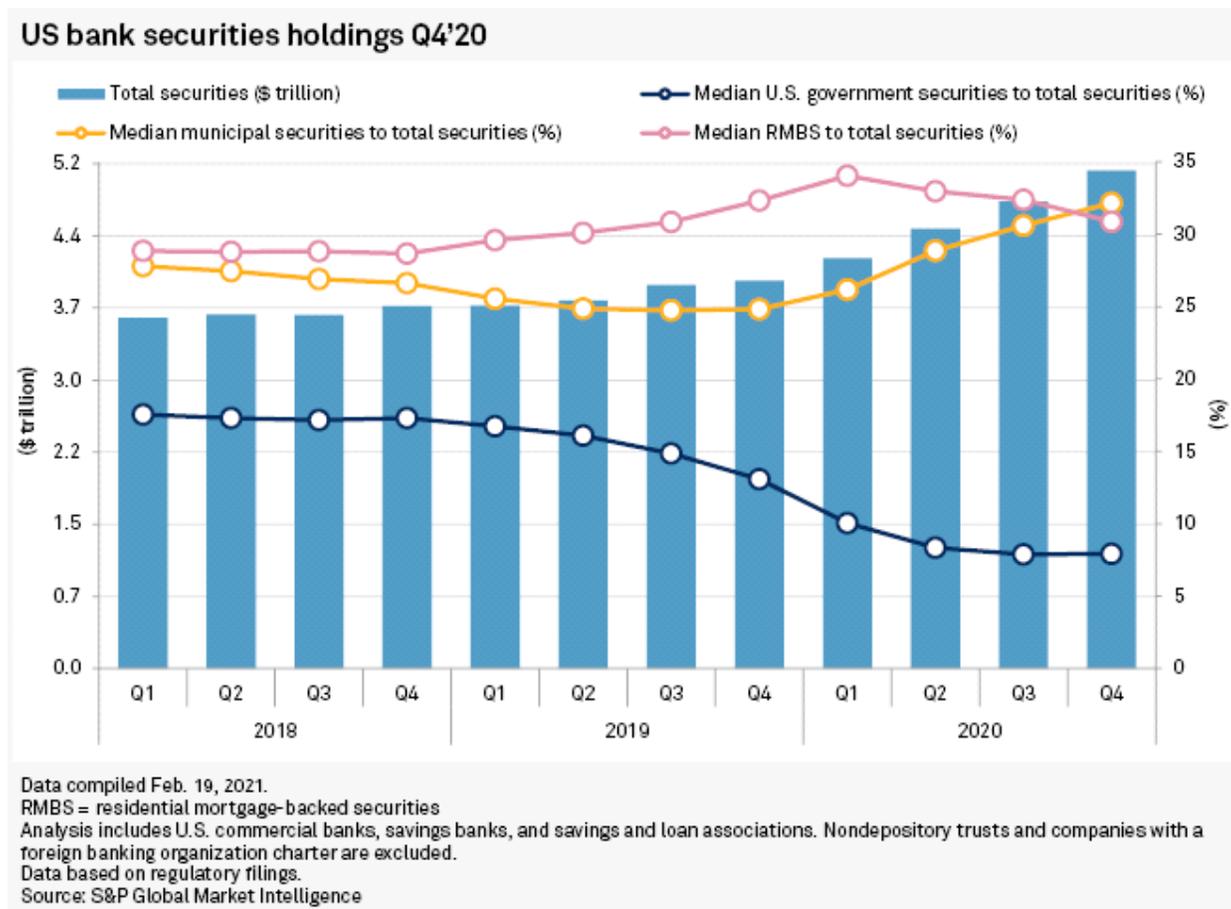
In the fourth quarter, securities portfolios grew 6.7% from the prior quarter, but investments on the long end of the yield curve grew even more quickly. Bonds expected to reprice or mature in more than 15 years increased nearly 10% from the prior period, rising to 35.3% of bank-held securities.

Meanwhile, banks trimmed their exposure to shorter-term securities in the fourth quarter. Securities expected to mature

or reprice in less than three years declined 3.0% in the fourth quarter from the prior period. With the decreases in positions, shorter-term securities declined to 26.6% of total securities from 29.3% in the prior quarter.

Some banks that grew their securities portfolios in 2020 expressed hesitation about further growth, at least in the near term. Texas Capital Bancshares Inc. CFO Julie Anderson, for instance, said in late January that the company would be cautious given the movement in interest rates.

"In a couple of months, we'll tell you more about what we're planning for the bond portfolio. But I think for now, we would probably expect to pause a little bit on some of that growth," Anderson said on the company's fourth-quarter earnings call.



Hancock Whitney Corp. CFO Michael Achary said on the company's fourth-quarter earnings call that the company is trying to balance the prospect of keeping funds in cash, where they would earn very little yield, against opportunities to put the funds into longer-duration assets in the bond market.

"We're going to do a little bit of both. We're going to monitor, obviously, what goes on with our balance sheet every single day," Achary said.

Other institutions were even more hesitant to invest more of their cash at such historically low rates.

Regions Financial Corp. CFO David Turner said during the company's fourth-quarter earnings call in late January that the company was hesitant to put more excess liquidity to work in its bond portfolio. However, the executive said if the yield curve steepened further or if excess liquidity grew from levels at that time, the company's view might change.

"We've grown our securities book fairly strong compared to our peers. Now some have more cash than we do. But we're all trying to figure this out. We're all trying to figure out what type of risk we want to run. And I think for us, it's just — it's more rate-driven than anything," Turner said on the call.

Long-term rates have risen notably in recent weeks, with the yield on the 10-year Treasury climbing 35 basis points during February. The benchmark rate has risen as the outlook for economic growth has improved, while the prospect of additional government stimulus has raised some inflation concerns. With the recent increase, the average yield on the 10-year Treasury in the first quarter of 2021 had risen to 1.18% through March 1.

Cash has continued to build on bank balance sheets during that time frame, according to the Federal Reserve's H.8 release, which tracks commercial bank balances on a weekly basis. That data shows that banks have deployed even more cash into securities since the end of the fourth quarter as excess liquidity has continued to build. The Fed data shows deposits climbed another 2.2% through the week ended Feb. 17, while loans have dipped modestly during the period. Securities, meanwhile, have grown 3.2% during the time frame.

Company (top-level ticker)	Total securities (\$B)	Bonds ≤ 3 years		Bonds > 15 years	
		(\$B)	YOY change (%)	(\$B)	YOY change (%)
Bank of America NA (BAC)	663.19	58.37	16.6	468.62	47.5
JPMorgan Chase Bank NA (JPM)	589.18	199.64	52.6	222.61	44.8
Wells Fargo Bank NA (WFC)	417.28	93.40	1.4	269.80	0.3
Citibank NA (C)	406.47	207.37	5.5	78.70	20.0
Charles Schwab Bank SSB (SCHW)	291.44	45.10	-12.6	42.25	11.0
TD Bank NA (TD)	160.68	89.05	32.1	1.24	21.5
Bank of New York Mellon (BK)	153.31	53.86	27.9	22.33	34.6
U.S. Bank NA (USB)	135.37	19.61	3.6	71.68	38.2
Truist Bank (TFC)	121.60	8.94	48.1	54.61	35.9
State Street Bank and Trust Co. (STT)	108.02	43.65	7.1	26.65	-17.2
PNC Bank NA (PNC)*	89.42	19.88	11.7	28.57	-2.4
Capital One NA (COF)	86.41	16.01	122.8	43.49	44.7
Morgan Stanley Bank NA (MS)	71.73	23.16	59.6	26.35	51.1
Northern Trust Co. (NTRS)	59.01	31.98	16.2	2.25	173.2
USAA Federal Savings Bank	56.29	4.50	182.9	31.25	146.5
E*Trade Bank (MS)	53.30	6.49	-13.6	22.53	98.4
HSBC Bank USA NA (HSBA)	49.79	14.50	19.9	15.30	-15.9
Silicon Valley Bank (SIVB)	47.44	4.42	-14.5	18.07	111.7
Fifth Third Bank NA (FITB)	37.02	9.51	80.4	6.94	-19.1
KeyBank NA (KEY)	35.14	7.66	-14.0	1.06	81.1
<b>Industry aggregate</b>	<b>5,112.50</b>	<b>1,359.17</b>	<b>18.4</b>	<b>1,806.88</b>	<b>30.7</b>

Data compiled Feb. 19, 2021.  
 Analysis limited to U.S. commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking organization charter are excluded.  
 Data based on regulatory filings as of Dec. 31, 2020.  
 \* PNC Bank NA parent PNC Financial Services Group Inc. announced the acquisition of BEVA USA Bancshares Inc. on Nov. 16, 2020.  
 Tickers based on top-level entities' home country stock exchange.  
 Source: S&P Global Market Intelligence

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