DATA DISPATCH

Falling interest rates lift banks' underwater bonds nearer to the surface

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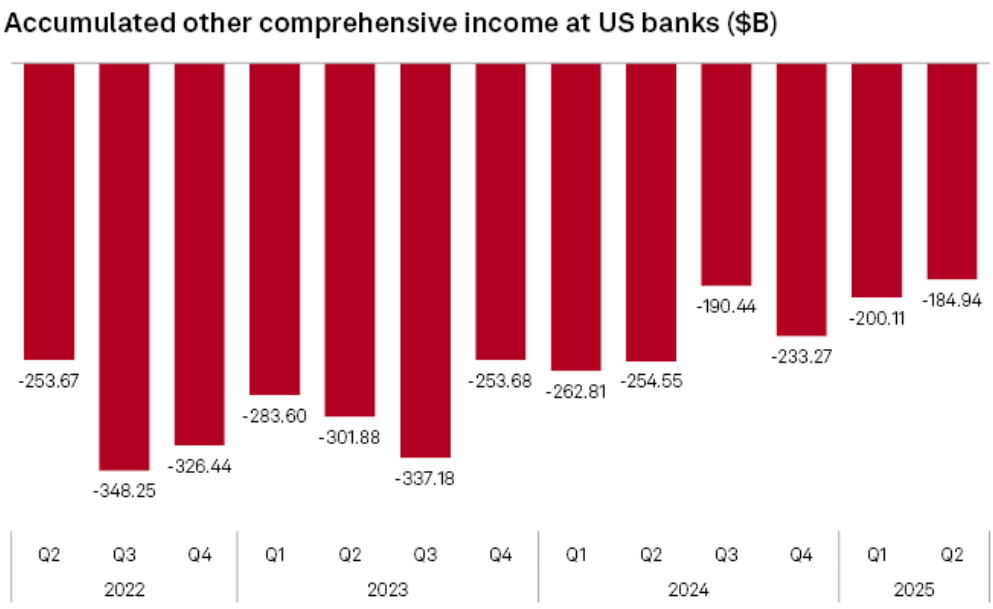
By Harry Terris and Ayesha Shahbaz
Market Intelligence

The market value of banks' bond portfolios continued to improve in the second quarter as interest rates kept falling, and firm expectations for Federal Reserve rate cuts are set to deliver another boost in the third quarter.

Accumulated other comprehensive income (AOCI), which captures changes in market pricing for banks' available-for-sale securities, improved sequentially in the quarter by $15.18 billion to negative $184.94 billion, according to data from S&P Global Market Intelligence. Bond prices move inversely with rates, and the improvement reflected a drop in yields across medium-term maturities.

Weak employment reports have solidified expectations for another series of Fed cuts starting this month. So far in the third quarter, medium and long-term yields have not fallen by as much as short-term yields, with persistently high inflation and President Donald Trump's push against Fed independence exerting a countervailing force on the longer-term outlook for rates.

Nevertheless, average interest rates across Treasurys with two-year to seven-year maturities, which encompass much of banks' bond holdings, fell 20 basis points from the end of the second quarter through Sept. 5. Average Treasury rates across those maturities fell 17 basis points in the second quarter.



Data compiled Aug. 25, 2025.
Analysis includes US commercial banks, savings banks, and savings and loan associations; excludes nondepository trusts and companies with a foreign banking organization charter.
Data based on regulatory filings.
Source: S&P Global Market Intelligence.
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Less underwater

The improvement in AOCI in the second quarter brought the measure to its smallest negative position since the first quarter of 2022. Industrywide AOCI had been positive in the second quarter of 2021, before an aggressive hiking campaign by the Fed.

AOCI flows into tangible common equity and, for the biggest and most complex banks, regulatory measures of capital.

AOCI improved sequentially at each of the 20 largest banks by assets, by a median 7.3%. Adjusted tangible common equity (TCE), which includes unrealized gains and losses on held-to-maturity (HTM) securities, also improved at the vast majority of the big banks, by a median 2.7%.

The improvement in the market value of banks' bond portfolios is one factor supporting increasing capital distributions to shareholders.

AOCI and adjusted TCE at largest US banks, Q2 2025

Ranked by total assets as of June 30, 2025

		AOCI ($B)		Adjusted TCE ($B)[1]	
Company (top-level ticker)	Total assets ($B)	Balance	QOQ change	Balance	QOQ change
JPMorgan Chase & Co. (JPM)	4,552.48	-7.24	1.87	273.75	4.88
Bank of America Corp. (BAC)	3,441.14	-12.50	0.77	130.02	3.28
Citigroup Inc. (C)	2,622.77	-43.79	1.94	173.95	3.19
Wells Fargo & Co. (WFC)	1,981.27	-9.37	0.63	108.00	0.83
Goldman Sachs Group Inc. (GS)	1,785.01	-1.99	0.08	100.60	-0.51
Morgan Stanley (MS)	1,353.87	-5.91	0.05	66.05	1.85
U.S. Bancorp (USB)	686.37	-8.61	0.43	33.84	1.13
Capital One Financial Corp. (COF)[2]	658.97	-6.82	0.71	70.06	18.59
PNC Financial Services Group Inc. (PNC)	559.11	-4.68	0.56	38.03	1.79
Truist Financial Corp. (TFC)	543.83	-6.89	0.36	33.40	0.38
TD Group US Holdings LLC (TD)	520.87	-2.09	0.24	45.28	0.17
Bank of New York Mellon Corp. (BK)	485.79	-3.55	0.57	16.16	0.93
Charles Schwab Corp. (SCHW)	458.94	-12.59	1.03	15.59	3.32
State Street Corp. (STT)	376.72	-1.32	0.47	11.01	0.75
American Express Co. (AXP)	295.56	-3.25	0.12	27.74	0.71
BMO Financial Corp. (BMO)	295.17	-2.25	0.22	23.04	0.80
HSBC North America Holdings Inc. (HSBA)	242.06	-1.92	-0.03	10.97	-0.91
First Citizens BancShares Inc. (FCNC.A)	229.65	-0.11	0.09	19.32	-0.22
United Services Automobile Association	228.29	-6.95	0.53	34.65	2.30
Citizens Financial Group Inc. (CFG)	218.91	-2.64	0.30	13.61	0.38
Industry aggregate[3]		**-184.94**	**15.18**	**1,977.95**	**40.40**

Data compiled Aug. 25, 2025.

AOCI = accumulated other comprehensive income; TCE = tangible common equity.

Analysis limited to US top-tier consolidated operating banks and thrifts that disclosed AOCI as of June 30, 2025; excludes nondepository trusts.

[1] Adjusted TCE is calculated as TCE + unrealized gain or loss from held-to-maturity securities, tax-adjusted at the 21% corporate rate (except for subchapter S corporations which are exempt from paying corporate taxes) + loss reserves - adjusted nonperforming assets - loans 90 or more days delinquent but still accruing interest.

[2] Capital One Financial Corp. completed the acquisition of Discover Financial Services on May 18, 2025.

[3] Includes US commercial banks, savings banks, and savings and loan associations; excludes nondepository trusts and companies with a foreign banking organization charter.

Tickers based on top-level entities' home country stock exchanges.

Data based on regulatory filings.

Source: S&P Global Market Intelligence.

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Rising tide

Interest rate moves continued to impact banks' bond portfolios broadly, with 2,889 posting a sequential improvement in AOCI in the second quarter, while 1,087 banks showed degradation.

Similarly, 3,357 showed sequential improvement in adjusted TCE, compared to 946 with degradation.

Q2 2025 AOCI and adjusted TCE data overview



Data compiled Aug. 25, 2025.

AOCI = accumulated other comprehensive income; TCE = tangible common equity.

Analysis limited to US top-tier consolidated operating banks and thrifts that disclosed AOCI as of June 30, 2025; excludes nondepository trusts. Banks are also excluded from the analysis when the data is not available for prior quarter or the year-ago quarter.

* Adjusted TCE is calculated as TCE + unrealized gain or loss from held-to-maturity securities, tax-adjusted at the 21% corporate rate (except for subchapter S corporations which are exempt from paying corporate taxes) + loss reserves - adjusted nonperforming assets - loans 90 or more days delinquent but still accruing interest.

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