

# Sector Insights

Global Securities Research

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## The third crack in credit hits Regional Banks

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### Summary

The S&P 500 Regional Bank Index fell over 5% on October 16, 2025, after Zions Bancorporation disclosed a \$50 million charge-off and \$60 million loan loss provision tied to borrower fraud, with Western Alliance Bancorp later confirming exposure to the same client. Shares of both banks dropped sharply, erasing about \$1 billion in market capitalization each — far more than the expected losses — suggesting investor fears of broader credit deterioration. These events follow other recent bankruptcies involving alleged borrower fraud and highlight oversight in underwriting, though they appear more symptomatic of borrower misconduct than systemic risk. We remain unfavorable on the Regional Bank sub-sector.

### Fraud fallout

The S&P 500 Regional Bank Index fell over 5% on October 16, 2025 after Zions Bancorporation NA (ZION — \$46.93) reported that it took a \$50 million charge-off and a \$60 million loan loss provision for two commercial and industrial loans following an internal review that identified apparent borrower and obligor misrepresentations, contractual defaults, and other irregularities involving the loans and associated collateral. Shortly thereafter, Western Alliance Bancorp. (WAL — \$70.32) released information confirming that it had exposure to the same client through a revolving credit facility. Shares of Zions Bancorporation NA and Western Alliance Bancorp. fell more than Regional Banks sub-sector, declining 13.5% and

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11.4%, respectively. While large, we would have expected much bigger declines if there was evidence of insolvency at either bank. The share price declines experienced on October 16 equate to about \$1 billion of lost market capitalization for each bank, substantially more than \$110 million that Zions Bancorporation NA expects to eventually charge off. This implies that investors are concerned that these issues may not be isolated, and more cracks in credit may appear.

Perhaps this development was the third crack in credit in recent memory, coming on the heels of the recent bankruptcies of auto related First Brands and Tricolor Holdings. Notably, alleged borrower fraud has emerged in these examples, too. Fifth Third Bancorp (FITB — \$40.36) disclosed a \$200 million impairment charge tied to Tricolor Holdings, while Truist Financial Corp. (TFC — \$41.09) noted its exposure to First Brands was under \$200 million. Both banks described the marks as significant, but isolated, incidents that can be absorbed with reserved capital. While concerning, we believe these issues appear more symptomatic of dishonest borrowers and incomplete underwriting procedures than systemic risk-taking. As banks reassess risk controls and borrower vetting procedures, we think recent events may ultimately serve as a catalyst for improved underwriting standards across the industry.

## We remain unfavorable on regional banks — history is on our side

Due to these developments, the S&P 500 Regional Bank Index is down over 12% since its recent high on September 4, 2025, underperforming Diversified Banks, the Financials sector, and the broader market by a wide margin. Additionally, Regional Banks have underperformed all these groups since June 7, 2024. In fact, Regional Banks have underperformed these groups over every common reporting period.

### Total return of select S&P 500 Indexes

Index	Year to date	1-Year	3-Year	5-Year	10-Year	15-Year	20-Year
S&P 500 Regional Banks Index	0.4%	0.8%	0.4%	6.3%	6.6%	8.4%	2.4%
S&P 500 Diversified Banks Index	21.7%	29.1%	30.5%	23.8%	13.5%	14.9%	8.3%
S&P 500 Financials Sector Index	8.3%	10.7%	20.8%	17.8%	12.7%	12.6%	6.2%
S&P 500 Index	13.9%	14.9%	24.6%	15.4%	14.5%	14.3%	11.1%

Source: FactSet. Data as of October 16, 2025. Periods greater than one year are annualized. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

This persistent underperformance reflects structural challenges facing Regional Banks, including heightened sensitivity to local economic conditions, concentrated borrower exposure, low returns on equity, and narrow revenue streams. In contrast, we remain favorable on Diversified Banks, which benefit from broader revenue diversification across investment banking, wealth management, and global lending—potentially providing stability in volatile markets. Diversified Banks scale, stronger liquidity, and more robust capital profiles may also position them to navigate regulatory and macroeconomic shifts. Notably, despite higher capital requirements, Diversified Banks have improved return on equity by nearly 2.5 percentage points over the past decade, while Regional Banks have struggled to offset rising costs and competitive pressures — which we believe highlights the importance of capital efficiency and diversified income streams for long-term performance.

## Banks recommended by Global Securities Research

Ticker	Company name	Market cap (billions)	Price	Dividend	Dividend yield	Estimated NTM EPS	NTM P/E	Core	DSIP	Growth	Focus	High Yield	SMID	Value
C	Citigroup Inc.	\$178.64	\$96.26	\$2.28	2.4%	\$9.37	10.3x					X		X
CBSH	Commerce Bancshares, Inc.	\$7.87	\$52.40	\$1.06	2.0%	\$4.27	12.3x		X					
JPM	JPMorgan Chase & Co.	\$822.32	\$298.54	\$5.55	1.9%	\$20.89	14.3x	X			X	X		X
MS	Morgan Stanley	\$248.28	\$160.02	\$3.70	2.3%	\$9.65	16.6x	X				X		
PNC	PNC Financial Services Group, Inc.	\$74.75	\$178.37	\$6.40	3.6%	\$17.18	10.4x					X		

Sources: FactSet, Wells Fargo Investment Institute. Prices and data as of October 16, 2025. NTM = next-twelve-months. EPS = earnings per share. P/E = price-to-earnings.

## Appendix table: Companies discussed

Company	Symbol	Price
Citigroup Inc.	C	\$96.26
Commerce Bancshares, Inc.	CBSH	\$52.40
Fifth Third Bancorp	FITB	\$40.36
JPMorgan Chase & Co.	JPM	\$298.54
Morgan Stanley	MS	\$160.02
PNC Financial Services Group, Inc.	PNC	\$178.37
Truist Financial Corporation	TFC	\$41.09
Western Alliance Bancorp.	WAL	\$70.32
Zions Bancorporation NA	ZION	\$46.93

Sources: FactSet, Wells Fargo Investment Institute. Prices as of October 16, 2025.

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The **Core List** includes a wide range of what we view as high-quality companies. In general, the list may have representation across all 11 sectors and exposure to stocks with varying levels of maturity, valuation, and cyclicity. The Core List assumes a long-term holding period and can be used to build or supplement a well-diversified equity portfolio.

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**S&P 500 Diversified Banks Index** focuses on the performance of banks classified as “Diversified Banks” within the broader S&P 500 Index.

**S&P 500 Financials Index** comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

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