Big US banks report mixed earnings

Executives point to 'mild recession' amid high inflation, interest rates

WASHINGTON: Major US banks reported mixed fourth-quarter results Friday as executives pointed to the rising odds of a "mild recession," with inflation and interest rate hikes challenging households and businesses. The biggest US bank, JPMorgan Chase, set aside $1.4 billion in fresh reserves in case of loan defaults, noting that its "central" scenario is "a mild recession" with somewhat higher unemployment.

Bank of America accounted for $403 million in possible bad loans as Chief Executive Brian Moynihan alluded to an "increasingly slowing economic environment," while Citigroup reserved $640 million and Wells Fargo $397 million for similar purposes.

Citigroup Chief Financial Officer Mark Mason described the outlook as "a rolling country-level recession rather than a simultaneous global downturn." But Mason cited the moderate winter thus far in Europe as an ameliorating factor in the outlook, while noting that credit card delinquencies are still coming in at exceptionally low levels, a sign of consumer resilience.

"Our base case is still a mild recession in the latter part of 2023," he said in a briefing with reporters, calling the outlook "very manageable." Bank shares initially tumbled on the reports, but reversed course in the middle of the session. All four banks finished solidly higher.

'We remain vigilant'

Briefing.com analyst Patrick O'Hare noted that JPMorgan Chief Executive Jamie Dimon has warned last year of a potential economic "hurricane." "The banks are bracing for at least a mild recession, but it's not a hard landing," O'Hare told AFP. The addition of reserves in the fourth quarter reflects a shift from the year-ago period when many of the banks released reserves, boosting profits. At JPMorgan, profits came in at $11.0 billion, up six percent from a year ago, while revenues rose 18 percent to $34.5 billion. The biggest lift to earnings came from a whopping 48 percent rise in net interest income, offsetting the drag from lower investment banking results and elevated expenses.

Dimon praised the company's performance, saying the "US economy currently remains strong with consumers still spending excess cash and businesses healthy." But he pointed to war in Ukraine, persistent inflation and tightening Federal Reserve policy as headwinds, adding that "we remain vigilant and are prepared for whatever happens," according to a JPMorgan press release.

While charge-offs for loan losses were abnormally low in 2022, JPMorgan forecast a return to historic levels by mid-2023. Dimon, who has warned for months about major macroeconomic obstacles that could lead to a mild or severe recession, said his views had not changed.

"We don't know the future," Dimon told reporters. "I'm simply pointing out that there are geopolitical uncertainties, which are real and we just have our eyes focused on it."

"We hope they go away. They may not," he added at a briefing. At Bank of America, profits came in at $6.9 billion, up two percent from a year ago on an 11 percent jump in revenues to $24.5 billion.

The results included a 33 percent rise in charge-offs to $689 million compared with the prior quarter.

Chief Financial Officer Alastair Borthwick described overall asset quality as "strong with loss rates increasing modestly off recent historic lows." For Citigroup, fourth-quarter profits fell 21 percent to $2.5 billion, while revenues climbed 6.0 percent to $18 billion.

Wells Fargo reported a 50 percent drop in fourth-quarter earnings to $2.9 billion, due largely to a $3.3 billion hit related to regulatory problems. The bank in December agreed to pay $2 billion to compensate customers and $1.7 billion in civil fines, under a Consumer Financial Protection Bureau settlement. Wells Fargo reported revenues of $19.7 billion, down 5.7 percent from the year-ago period. JPMorgan Chase finished up 2.5 percent at $143.01, while Citigroup rose 1.7 percent to $49.92. Bank of America advanced 2.2 percent to $35.23 and Wells Fargo jumped 3.3 percent to $44.22. —AFP

LOS ANGELES: In this file photo, the buildings of Bank of America and Wells Fargo in downtown Los Angeles. Major US banks reported mixed fourth-quarter results Friday as executives pointed to the rising odds of a "mild recession," with inflation and interest rate hikes challenging households and businesses. —AFP

OpenAI, creator of ChatGPT, casts spell on Microsoft

PARIS: The hottest startup in Silicon Valley right now is OpenAI, the Microsoft-backed developer of ChatGPT, a much-hyped chatbot that can write a poem, college essay or even a line of software code. Tesla tycoon Elon Musk was an early investor in OpenAI and Microsoft is reported to be in talks to up an initial investment of $1 billion to $10 billion in a goal to challenge Google's world-dominating search engine.

If agreed, the cash injection by the Windows-maker would value OpenAI at a whopping $29 billion, making it a rare tech-world success when major players such as Amazon, Meta and Twitter are cutting costs and laying off staff.

"Microsoft is clearly being aggressive on this front and not going to be left behind on what could be a potential game-changing AI investment," said analyst Dan Ives of Wedbush Securities. Before the release of ChatGPT, OpenAI had wowed tech geeks with Dall-E 2, a software that creates digital images with a simple instruction. Microsoft, which makes no secret of its AI ambitions, has integrated Dall-E 2 into several of its applications and now, according to a report in Bloomberg, the tech giant wants to graft ChatGPT to its Bing search engine to take on Google.

Since ChatGPT was introduced in November, the prowess of this chatbot has aroused the curiosity and fascination of internet users. It is capable of formulating detailed and human-like answers on a wide range of subjects in a few seconds, raising fears that it is vulnerable to misuse by school cheats or for disinformation.

'Not cheap'

The dizzying success is due in part to OpenAI's clever marketing strategy in which it made its research accessible to non-experts, said AI specialist Robb Wilson, founder of OneReach.ai, a software company. "Having this technology available to technologists was one thing. Offering it in a chat user interface and allowing non-developers to start playing with it ignited a conversation," he said.

Founded in late 2015, OpenAI is led by Sam Altman, a 37-year-old entrepreneur and former president of startup incubator Y Combinator. The company has counted on the financial support of prestigious contributors from the start, including LinkedIn co-founder Reid Hoffman, investor Peter Thiel and Musk. The multi-billionaire served on OpenAI's board until 2018, but left to focus on Tesla, the electric vehicle company.

The startup also relies on a team of computer scientists and researchers led by Ilya Sutskever, a former Google executive who specializes in machine learning. OpenAI, which did not respond to AFP's inquiries, had about 200 employees by 2021, according to a query made directly on ChatGPT.

For now, despite the excitement generated by ChatGPT, the company has yet to find a path to financial independence. Founded as a nonprofit, the startup became a "capped for-profit" company in 2019 to attract more investors and this week co-founder Greg Brockman said that a paid version of ChatGPT was in the works. The search for funding seems necessary for a company with exorbitant expenses.

In a Twitter exchange with Musk in early December, Altman acknowledged that each conversation on ChatGPT costs OpenAI several US cents. —AFP

Full brunt of financial tightening yet to come: IMF

WASHINGTON: Countries have yet to see the full impact of tightening financial conditions, IMF chief Kristalina Georgieva said Thursday, warning that central banks have some way to go in their inflation battle. Global growth is expected to slow further this year, as central banks including the US Federal Reserve have raised interest rates to cool surging prices.

While sectors like housing have been reeling in the United States for example, the labor market remains strong with low joblessness. "As long as people are employed, even if prices are high, consumers spend.... But we all know that the impact of tightening financial conditions is yet to bite, in terms of unemployment," Georgieva told reporters in a briefing on the world economy.

"Inflation remains stubborn, and in that sense, the job of central banks is not yet done," she said.

This suggests central banks may need to continue hiking interest rates, walking a fine line between easing demand and avoiding tipping economies into recession. Doing so comes with risks, and Georgieva stressed the need to watch how tightening conditions hit the labor market and possibly translate into "more tensions between employers and workers."

Governments have been quick to provide policy support thus far, adding a buffer between consumers and surging food and energy costs, but this policy space is "shrinking," she cautioned.

Bottoming out

The International Monetary Fund also expects the global slowdown to "bottom out" towards year-end, and for the world economy to trend towards a higher growth trajectory in 2024, Georgieva said. The IMF maintains that a "global recession can be avoided" even if some countries see downturns. But this is subject to an absence of negative shocks like growing social unrest and spillovers between countries, climate events, or a worsening in Russia's invasion of Ukraine. "We are now in a more shock-prone world," she said. While tighter financial conditions will have a "dramatic" impact on countries with high debt levels, Georgieva said the IMF does not see a "systemic debt crisis on the horizon." She added that a new global sovereign debt roundtable is set to meet for the first time in February, on the sidelines of a Group of 20 finance officials meeting, bringing key creditors and private finance together.

'Stay the course'

Weighing in on specific countries, Georgieva noted that China needs to "stay the course" in reopening from nearly three years of a strict zero-COVID policy that has battered business activity.

China's rebound from its latest surge in coronavirus cases since recently lifting lockdowns, quarantines and mass testing would have significant implications globally, she said.

Kristalina Georgieva

The world's second biggest economy used to deliver up to 40 percent of world growth.

"What is most important is for China to stay the course, not to back off from that reopening," Georgieva said. If so, it could turn into a "positive contributor" to average global growth by mid-year or thereabouts, she added. Meanwhile, Georgieva expressed optimism over "remarkable" market resilience in the United states, with COVID-era support helping consumer demand in the world's biggest economy. "It gives some... expectation that the US would avoid falling into a recession," she said, adding that a potential downturn will likely be very mild. "For now, the dynamic seems to be more indicative for a soft landing," she said. —AFP

Yellen: US eyes crucial measures to avoid default

WASHINGTON: The US Treasury Department said Friday it will likely begin "extraordinary measures" next week to prevent a default on government debt, setting up a high-stakes showdown in Congress over raising the nation's borrowing limit. Treasury Secretary Janet Yellen, in a letter to congressional leadership, said that the United States was projected to reach its legal borrowing limit-set at $31.4 trillion-as soon as next Thursday.

It would therefore need to "start taking certain extraordinary measures" to prevent a default.

Any such measures would only help for a limited time, likely no longer than six months, she warned. Congressional lawmakers have found themselves gridlocked over raising the debt limit, with some Republican policymakers pushing for it to be used as leverage in hopes of gaining spending cuts.

If the Democratic-controlled Senate and Republican-controlled House cannot come to an agreement, the world's largest economy could risk defaulting on its debt. "Failure to meet the government's obligations would cause irreparable harm to the US economy, the livelihoods of all Americans, and global financial stability," Yellen warned. "It is therefore critical that Congress act in a timely manner to increase or suspend the debt limit," she urged. House Speaker Kevin McCarthy told reporters on Thursday that "we've got to change the way we are spending money wastefully in this country." But the White House rebutted that raising the debt ceiling was not up for "negotiation." President Joe Biden's press secretary, Karine Jean-Pierre, said the process was not meant to be "political football."

White House deputy press secretary Andrew Bates charged that House Republicans were "telling the country that they will cause the most egregious self-inflicted economic meltdown in modern history unless they can hurt the most popular programs in existence."

'Enormously concerning'

The debt limit refers to the amount of money the US government is allowed to borrow to meet existing legal obligations, including Social Security and Medicare benefits. America spends more money than it collects through taxation, so it borrows money via the issuing of government bonds, seen as among the world's most reliable investments.

Around 80 years ago, lawmakers introduced a limit on how much federal debt could be accrued.

Congress has always acted when called upon to raise the debt limit, according to the Treasury, and the ceiling has been lifted dozens of times. Yellen noted Friday that "increasing or suspending the debt limit does not authorize new spending commitments or cost taxpayers money."

WASHINGTON: US President Joe Biden speaks about the economy in the South Court Auditorium at the Eisenhower Executive Office Building next to the White House in Washington, DC. —AFP

"It simply allows the government to finance existing legal obligations that Congresses and presidents of both parties have made in the past," she said. The Treasury Department is unable to estimate precisely how long the extraordinary measures will allow it to continue paying the government's obligations, Yellen said. But she cautioned that cash and the measures could be exhausted after early June. Congressman Brendan Boyle, top Democrat on the House Budget Committee, called the situation "enormously concerning." "Republicans need to do the right thing and come to the table to raise the borrowing limit before it's too late," he said in a statement. —AFP

At Davos, war, climate and 'de-globalization'

DAVOS: The world's political and business elites will gather for the annual Davos summit next week to promote "cooperation in a fragmented world", with war in Ukraine, the climate crisis and global trade tensions high on the agenda. For half a century, the World Economic Forum in the Swiss Alps has brought together executives and policymakers to sing the praises of globalisation, but that process is seen as unwinding as new fault lines harden around the world.

The COVID-19 pandemic, growing US-China hostility and Russia's invasion of Ukraine have led some politicians and experts to even speculate about "an end to the era of globalisation", which began in earnest in the decade after the first Davos meeting in 1971.

The agenda for this year's meeting in the snow-deficient Alps, starting next Monday, reflects this gloomy reality. "There's no doubt that our 53rd annual meeting in Davos will happen against the most complex geopolitical and geoeconomic backdrop in decades. So much is at stake," said Borge Brende, a former Norwegian foreign minister who is now president of the meeting.

German Chancellor Olaf Scholz and UN chief Antonio Guterres are among the most prominent figures attending the forum, alongside nearly 400 government ministers and policymakers, 600 CEOs and a smattering of celebrities, including actor Idris Elba.

Ukrainian President Volodymyr Zelensky will appear by video link on Wednesday for a live interview. Other sessions will discuss whether we are living through "de-globalisation or re-globalization", the impact of trade tensions and supply-chain disruptions, the cost-of-living crisis and the planet's heating climate. Russia is expected to miss out on the event for a second consecutive time, underlining the sea change since 2021, when President Vladimir Putin addressed delegates via video link, or 2009 when he attended in person.

China has not yet announced its presence. Karen Harris, an economist at the consulting firm Bain & Company, said that hopes had faded that "we would go back to the old normal, this sort of globalised world." "I think there's an acknowledgement now that that era is ending."

Ukrainian lobbying

The conflict in Ukraine and its cascading effects on global energy and defense policies will be prominent throughout the five-day meeting, whose theme is "cooperation in a fragmented world".

It is expected to dominate the opening day on Tuesday as well as Wednesday, when NATO Secretary General Jens Stoltenberg takes the stage with Polish President Andrzej Duda. Several Ukrainian ministers, military leaders and soldiers will be among a large delegation that is expected to lobby for more weapons and financial support from the West. Climate change has also been announced as a top topic, with organizers keen for discussion to help prepare the next round of global talks, COP28, that will take place in the oil-producing United Arab Emirates from November 30. —AFP