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Wall Street says the worst is over for Wall Street

In this article:

Wall Street is making the case that the the worst is over for Wall Street. So far investors agree.

Top bank executives spent much of this past week pointing to "green shoots" in dealmaking or trading despite in most cases logging another disappointing quarter.

Morgan Stanley (MS) CFO Sharon Yeshaya said that "sentiment and activity improved towards the end of the quarter, evidenced by green shoots that emerged across our businesses."

Citigroup (C) CFO Mark Mason said "we are seeing green shoots" in the issuance of debt "as clients start to have a greater conviction" about the direction of interest rates.

Goldman Sachs (GS) CEO David Solomon said Wednesday that the month of June "was certainly better" than the earlier part of the quarter and that he has noticed more "risk-on sentiment" in July.

"It definitely feels better over the course of the last six to eight weeks than it felt earlier in the year."

That's certainly what investors wanted to hear. Stocks of most big banks rose this past week. Morgan Stanley's stock was up more than 6% on Tuesday after its results were released. Goldman's stock even rose more than 1% Wednesday despite reporting that profits fell by 58%, more than expected.

Yet the performance of Wall Street's core businesses were certainly nothing to celebrate across most banks. Trading revenue fell by 22% at Morgan Stanley, 14% at

Goldman, 13% at Citigroup, and 10% at JPMorgan Chase. Only Bank of America (BAC) had trading revenue rise, by 7%.

The drops were not as much as analysts expected at all but one firm, Morgan Stanley.

Investment banking revenues were down by 24% at Citi, 20% at Goldman, and 6% at JPMorgan. They were flat at Morgan Stanley and up 1.6% at Bank of America.

The drops at Goldman and Citigroup were worse than expected. For the others, the results beat estimates.

'We feel good about where we are'

The global slowdown in dealmaking began last year after a boom in 2021, causing firms across Wall Street to slash bonuses and staff. It continued in 2023 as worldwide investment banking revenues for the second quarter fell 52% from a year ago, according to Dealogic.

Goldman, Morgan Stanley, and Citigroup were among the firms on Wall Street that have made or announced cuts of roughly 20,000 jobs since the end of 2022, resulting in hundreds of millions in severance costs.

Goldman spent $260 million through the first half of the year and Citigroup spent $450 million. Morgan Stanley's severance costs were $308 million in the second quarter.

Some executives hinted this week that the headcount reductions were likely over.

"I'm glad we were early in January to work on head count sizing," Solomon said, referring to a decision that month to lay off more than 3,000 workers. But now, "we feel good about where we are."

'We will see'

Solomon said he is noticing activity picking up in a few spots, citing equity capital markets and mergers and acquisitions.

"When I go back and I look historically at other periods where the macro environment has created sharp drops in investment banking activity, they tend to last for a year or so and then they start to improve," the CEO said. "And so I think we're starting to see that here. It definitely feels better."

Goldman, he added, doesn't have to go back to the boom period of 2021 to see "material uplift."

At Morgan Stanley, Yeshaya said the firm's backlog of deals is on the rise and M&A activity is picking up in energy and financials.

Mason, at Citigoup, cited a "healthy" M&A pipeline "which we would expect to unlock as the sentiment continues to improve." Still the company has "more work to do" on equity capital markets and M&A.

His boss, CEO Jane Fraser, also sounded a cautious note. In a release she said that "the long-awaited rebound in investment banking has yet to materialize."

Then she told analysts "corporates are pretty cautious," citing the prospect of another Federal Reserve interest rate hike, tensions with China, and concerns about limited economic growth.

"I think clients have been trying to understand and get their arms around both the macro and the market outlook for a while," she added. "I think they now seem to accept the current environment is the new normal and are beginning to position themselves globally."

JPMorgan CFO Jeremy Barnum said investment banking was better than expected in June, but cautioned analysts on Friday that it was "too early" to label it a trend.

"We will see," he said. For overall capital markets "July should be a good indicator for the remainder of the year."

Homebuilders churn out smaller homes to attract first-time buyers

Homebuilders are downsizing the American Dream to lure in entry-level buyers frustrated by the resale housing market.

Builders have been increasing housing starts and offering incentives like mortgage-rate buy-downs to boost demand. Now they're shrinking footprints and choosing more affordable finishes, according to experts and some executives in the latest homebuilder earnings calls.

The strategy largely reflects how more first-time buyers are considering new builds because there are still too few previously owned properties for sale as homeowners with low mortgage rates remain reluctant to sell.

“As data suggests, some first-time buyers are opting to go with less square footage or fewer options and upgrades as buyers need to purchase a home in today's dynamic market environment,” PulteGroup (PHM) president and CEO Ryan Marshall said on the call with analysts Tuesday after the builder's second quarter results blew past Wall Street’s expectations.

D.R. Horton (DHI), which reported in its third quarter ending June 30 last week, showed that the average square footage of homes closed was about 2,020 square feet, down 2% from the same quarter in the prior year.

“To adjust to changing market conditions and higher mortgage rates over the past year, we increased our use of incentives and reduced the sizes of our homes to provide better affordability to homebuyers,” Paul Romanowski, D.R. Horton's co-COO, said on the earnings call with analysts Thursday.

The average square footage of a new home stood at 2,469 square feet in the first quarter of 2023, almost in line with the fourth quarter of 2022, but down 2.2% from the previous six quarters when the square footage averaged 2,525 square feet, according to data from the Census Quarterly Starts and Completions by Purpose and Design and NAHB analysis. That's a difference of 56 square feet or about the size of a generously proportioned full bathroom.

“It’s all about solving for affordability,” Eric Finnigan, vice president, research and demographics at John Burns Research & Consulting told Yahoo Finance. “Builders are reducing the square footage of their homes as one way to keep costs down and their homes affordable."

They're also employing other strategies in the name of affordability.

"Builders are also changing up design specs and features to simplify designs and reduce costs. That includes switching out higher-priced materials for lower-cost, easier-to-install options, removing built-ins, and fewer windows," Finnigan said.

To that end, the average prices per square foot for homes in public homebuilder communities were down 2% to 15% versus the last year, depending on the home's status, according to data from John Burns Research & Consulting.

And, so far, it's bringing in those entry-level buyers.

They are responding "to modest rate incentives, smaller product offerings, lower, more stable interest rates in our targeted marketing," Eric Thomas Lipar, chairman & CEO of LGI Homes (LGIH), said in the company's first quarter earnings call in May.

As for PulteGroup, it said 7,518 homes closed for the quarter, a 4.8% gain over the last year, and beating the estimates of 7,266 homes. First-time buyers made up 41% of homes closed, up from 36% a year ago.

"The year-over-year increase in first-time buyer orders shows that our homes continue to offer a compelling value and meet the affordability requirements of this buyer group," Robert O'Shaughnessy, PulteGroup's CFO, told analysts on Tuesday.

That helped to drive the builder's adjusted earnings per share to $3.21, beating the $2.51 estimate from analysts, according to Bloomberg. Revenue in the quarter totaled $4.19 billion, up 6.7% over the last year, and higher than the $4 billion expected by analysts.

Net new orders from first-time buyers climbed 28% over the last year to 3,150 homes, while orders for move-up buyers increased 33% to 2,897 homes and orders from active adult buyers increased 7% to 1,900 homes.

"Our first-time buyers remain financially resilient as personal savings remain the primary source of down payment," Marshall said. "At the same time, we continue to see millennials are getting self-support from parents if they need help making the move into homeownership."

Following a series of interest rate hikes from the Federal Reserve, which has made mortgages more expensive, buyer appetite hasn't cooled off, at least not in the newly built homes market.

Data from the US Census Bureau shows sales of new homes jumped 12.2% to a seasonally adjusted rate of 763,000 units in May from the downwardly revised April rate of 680,000. That's a 20% gain from a year ago. The latest new homes data comes out Wednesday.

“Our first-time buyers indicate that an overwhelming majority bought a new construction Pulte home rather than an existing home because they felt it offered the best overall value,” Marshall said.

Home prices will drop next year after falling flat in 2023, analysts predict

Morgan Stanley housing analysts expect home prices to hold steady year over year in 2023, before edging lower next year.

"We forecast house prices in 2023 to finish the year flat versus 2022 before falling 2% in 2024 as affordability continues to adjust slowly back to long-run averages and inventories begin a slow climb off multi-decade lows," wrote the firm's housing research team.

This comes as home prices clocked in their fourth consecutive monthly increase in May, climbing 0.7% from the previous month, the S&P CoreLogic Case-Shiller Index showed on Tuesday, amid constrained inventory. At the same time, the index also showed that home prices declined 0.5% year over year.

Meanwhile, data from Zillow revealed that the average US home value was $348,853 as of July 28, 2023, up 1.2% from the prior year.

"Putting on a rosier pair of glasses, we could also say that home prices have increased 2.8% from January," the firm's housing research team wrote. "We expect this dip into negative year-over-year prints to be a brief one."

Still, that's good news for buyers who have been pressured by affordability due to inflated property prices and rising mortgage rates. After increasing 45% from the start of 2020 to the peak in June 2022, housing prices have since dropped 5%.

The turnaround in home prices has helped affordability become "no longer deteriorating," though it remains challenging, the researchers wrote. At the same time, the deficit of supply, and the prospect of increased regulation on the banking system could lead to "steep declines in home sales and housing starts behind us, but also prevents any sharp increases over the forecast horizon," wrote the firm's housing research team.

"Housing activity has bottomed, but tightening lending standards and a persistent gap between new and outstanding mortgage rates are likely to prevent a meaningful increase in activity this year," wrote the firm's housing research team.

Many homeowners are locked into their current properties because they have a mortgage rate that's well below the prevailing one and so are reluctant to sell. That's made it harder for buyers to find previously owned homes, pushing home resales to tumble 18% compared with June of last year.

The newly built homes market has more life, propped up by buyers discouraged by the resale market. While new-home sales fell 2.5% to a seasonally adjusted rate of 697,000 units in June from the revised May rate of 715,000, according to the Census Bureau, the sales pace was still 23.8% above the year-ago level.

"We forecast existing-home sales to finish 2023 14% below 2022 levels, while new home sales scratch out a 2% gain,"wrote the firm's housing research team.

Total housing inventory at the end of June totaled 1.08 million units, according to the NAR, which equates to 3.1 months of supply at the current sales pace. An industry rule of thumb is that five to six months of supply is generally considered a balanced resale market.

The lack of supply has convinced homebuilders to churn out more homes. The Morgan Stanley team expects single-unit housing starts to end 2023 down 12% versus 2022, an improvement over the 29% decline so far year to date.

"Once again, challenged affordability and a difficult lending landscape prevent substantial increases in the near term," the firm's housing research team wrote about housing activity. "But we do think that the steepest parts of the decline are behind us and envision more of an 'L-shaped' recovery from here."

More vaccines now covered by Medicare / Shingles, RSV and other vaccines now covered by Medicare

It's easier to stay up to date with your immunizations now that **people with Medicare Part D pay nothing out of pocket for even more vaccines.** This means more people with Medicare can get protection against disease and severe illness.

Medicare Part D now covers these vaccines and more at no cost to you:

- Shingles
- RSV
- Tetanus/diphtheria (Td)
- Tetanus, diphtheria, and pertussis (whooping cough) (Tdap)
- Hepatitis A
- Hepatitis B, if you're at low risk for the virus

Also, Medicare still covers flu shots, COVID-19 vaccines, and pneumococcal shots.

Stay up to date with vaccines. Talk with your doctor about which vaccines are right for you!

Americans are still ransacking their retirement savings

The number of workers looting their retirement savings is escalating.

In the second quarter, the tally of folks taking hardship withdrawals from their 401(k) was up 12% compared to the first three months of the year and leapt 36% year over year, according to a new survey from Bank of America, which tracks about 4 million clients' employee benefit programs.

Borrowing from retirement savings was also up. The percentage of 401(k) participants who got a loan from their workplace plan stash in the second quarter was 2.5%, up from 1.9% in the first three months of the year.

Experts are worried that people are beginning to treat these accounts as savings rather than retirement accounts and may even be spurred to do more in the future due to a change in the law that could end up having the opposite effect than intended.

"I fear the public will go in and out of their retirement plans," Steve Parrish, adjunct professor and co-director of the Center for Retirement Income at The American College of Financial Services, told Yahoo Finance. "The current increase in withdrawals and loans may be an indicator of movements to come."

'Understand the consequences'

According to the Bank of America survey, the average worker hardship withdrawal from a 401(k) plan in the second quarter of the year was $5,050, on par with the average withdrawal of $5,100 in the first quarter.

The average loan per participant was $8,550. Generations with the highest percentage of loans outstanding are Gen X (22%) followed by millennials (14.5%).

Withdrawals, of course, are worse for savers because not only is that money gone, robbing your future self, the withdrawal triggers some hefty taxes and penalties.

A withdrawal from your 401(k) account is typically taxed as ordinary income. Also, you'll pay a 10% early withdrawal penalty before age 59½, unless you meet one of the IRS exceptions. These include certain medical expenses, qualified tuition payments, and up to $10,000 for first-time homebuyers. Some employer plans, too, will allow a non-hardship withdrawal.

With a loan, you borrow money from your retirement savings and pay it back to yourself, usually within five years, with interest — the loan payments and interest go back into your account.

One caveat: If you leave your current job, you might have to repay your loan in full within short order. When you can't repay the loan, it's considered defaulted, and you'll owe both taxes and a 10% penalty if you're under 59 ½.

“Yes, you can access your accounts, but you need to understand the consequences,” Parrish said.

'Prioritizing short-term expenses over long-term saving'

There are myriad reasons for pulling money from these accounts ranging from paying off high interest credit card debt — interest rates on credit cards are at near 40-year highs — to medical bills, home improvements, buying a car or a house, or plainly to make ends meet right now.

“In 2023, the rise in living costs and short-term financial needs are forcing participants to dip into their retirement savings,” Lisa Margeson, managing director of external affairs, retirement research, and insights at Bank of America, told Yahoo Finance.

The findings also match other recent data on retirement account raids.

A 2023 survey by the nonprofit Transamerica Center for Retirement Studies (TCRS) in collaboration with the Transamerica Institute, published in July, reported that nearly 4 in 10 (37%) of workers have taken a loan, early withdrawal, and/or hardship withdrawal from their 401(k) or similar plan or IRA. That includes a hefty 28% of Gen Z workers who have taken a hardship withdrawal, 24% of millennials, 19% of Gen X, and 12% of boomers, according to the report.

Last year, 2.8% of 401(k) plan participants took a hardship withdrawal, a record high, up from 2.1% in 2021 and 1.9% in 2018, according to a recent Vanguard report.

Said Lorna Sabbia, head of retirement and personal wealth solutions at Bank of America: “This year, more employees are understandably prioritizing short-term expenses over long-term saving.”

The question is: Will the siphoning continue once inflation cools? Maybe not.

The SECURE 2.0 Act that passed at the end of 2022 created six new ways to access retirement accounts penalty-free before age 59 ½ as a way to encourage workers to contribute more by making it easier to tap those funds if needed without penalty.

Still, Parrish said he “wouldn’t draw too big a conclusion from short-term data. It suggests that employers may want to assure they provide at least some education to employees about their plans.”

Medicare drug costs soar — here are a few things to consider for your retirement budget

The cost of healthcare in retirement is one of those great unknowns in life that no one wants to think about when they're young and healthy. Rest assured, though, one day you'll be there.

The fact is that out-of-pocket medical bills will eat up more of your retirement budget than you can fathom. Fidelity's retiree healthcare cost estimate shows that if you retire this year at age 65, you can expect to spend an average of $157,000 on medical expenses throughout retirement.

So there's plenty to consider and plan for.

For example, there's new data on Medicare drug inflation and what it means to retirees. And there are warning signs, in the latest government data, when it comes to assisted living. And, oh, watch out for the rules that govern how you take money out of your healthcare spending account (HSA).

Here are a few things that came across my desk this week that you ought to pay attention to:

Medicare drug costs are off the charts: The 25 top Medicare Part D drugs, on average, have more than tripled since they first entered the market, according to a new report out last week from AARP's Public Policy Institute. That far surpasses "the corresponding rate of general inflation," according to the research.

The surging cost of these medications — from a blood thinner to a formula that keeps joint damage from worsening for people with rheumatoid arthritis — can be particularly tough for Medicare Part D enrollees who take an average of four or five prescription drugs every month, according to Leigh Purvis, prescription drug policy principal at the AARP Public Policy Institute, and author of the report.

Currently, prescription drugs account for about 20% of Medicare patients' out-of-pocket healthcare costs, according to the Commonwealth Fund. Not surprising, then, that one in five older adults are not filling a prescription or skipping doses to save money on their medications, Purvis said.

"The rising cost of these drugs is crippling for retirees today, especially when so many Social Security recipients have only moderate or even no savings," Mary Johnson, a Social Security and Medicare policy analyst for The Senior Citizens League, told Yahoo Finance.

Help may be on the way. Maybe.

The Inflation Reduction Act, a federal law passed last year that requires drug companies to pay a penalty to Medicare if their drug's price increases faster than the rate of inflation, gives Medicare the ability to negotiate lower drug prices with drug companies for the first time. The Centers for Medicare & Medicaid Services is expected to announce the first 10 drugs selected for negotiation by Sept. 1. The trouble is that the new prices won't become available until 2026.

Nursing home costs? Don't ask: On top of stratospheric out-of-pocket bills for many prescription drugs, costs for nursing homes and adult care surged by the largest monthly amount in July, according to new inflation data. The latest report from the Bureau of Labor Statistics released last Thursday showed that the costs for nursing homes and adult care increased by 2.4% in July from the previous month, the biggest gain on records dating back to 1997.

It's mind-boggling. An apartment in an assisted-living facility had an average rate of $73,000 a year as of the second quarter of 2023, according to the National Investment Center for Seniors Housing & Care —and costs go up as residents age and need more care. A unit, or room and board, for dementia patients can run more than $90,000 annually.

Big red warning flag: Johnson of the Senior Citizens League warns that you shouldn't expect your Social Security monthly check to cushion bills. Healthcare costs typically grow two to three times faster than overall inflation. "The rising cost of these drugs can be crippling because cost of living adjustments (COLAs) won't come close to offsetting your prescription drug and other healthcare costs as you age," she said.

Here's one reason why: The Consumer Price Index for Urban Wage Earners and Clerical Workers, used to calculate the annual increases, assumes that consumers spend 7% of their total budget on healthcare. In reality, older consumers tend to spend 16% or more of their household budgets on healthcare, said Johnson.

Ways to get relief: There are programs that help people with limited resources to pay for their premiums and cost-sharing. But many people who are eligible are not enrolled. To find out if you're eligible, start by contacting your state's Medicaid program or your State Health Insurance Assistance Program.

If you still have years to retirement, you can contribute to a health savings account, or HSA. To be eligible, though, you must be enrolled in a high-deductible healthcare plan. The annual inflation-adjusted limit on HSA contributions for self-only coverage under a high-deductible health plan is $3,850. The HSA contribution limit for family coverage is $7,750.

The beauty of it is that an HSA has a triple tax advantage for your retirement savings. It lets you put money in on a tax-free basis and allows it to build up tax-free, and spend it tax-free for qualified healthcare expenses.

Word of warning: If you pull the funds from the HSA before age 65 for something other than qualified medical expenses, your withdrawal will be subject to income tax, plus a 20% penalty. After 65, non-qualified medical expense withdrawals will be subject to tax only.

In other words: Don't try using the money for a vacation to St. Barths.