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MARKETS

Bank Stocks Climb on Mexico Tariff Delay

Agreement averting Trump administration's proposed levies eases Wall Street investors' growth fears

By Michael Wursthorn

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Bank stocks rose after the U.S. decision to hold off implementing trade tariffs on Mexican imports brightened investors' economic outlook.

The KBW Nasdaq Bank Index of large commercial lenders rose 1.1% Monday to help lead the stock market higher, as yields on the benchmark 10-year U.S. Treasury notched their biggest one-day gain since April 1. The moves followed the Trump administration's opting not to impose tariffs on billions of dollars of goods from Mexico, removing a threat that had hampered bank stocks and the broader market.

Shares of Bank of America Corp. rose 2%, while Wells Fargo & Co. and JPMorgan Chase & Co. added at least 1.1% each. Citigroup Inc., C 2.18% ▲ which gets about 7% of its global revenue from its Mexican unit, climbed 2.2%.

Rises in yields are often good for banks since higher long-term rates usually create a steeper yield curve, widening lenders' profit margins as the spread between what they pay for funds and what they charge borrowers expands.

The U.S.'s deal with Mexico to avoid trade tariffs removed a potential economic hurdle that had caused investors to sour on lenders. Before Monday, bond prices had been falling for five weeks straight, causing yields on some short-term Treasury bills to exceed those of longer-term bonds, an event also known as an inverted yield curve—which tends to presage a recession. At the same time, the KBW bank index fell 10% in May.

Resurgent trade tensions with China last month started to upset investors' economic outlooks. Traders worried the new levies would further pressure a global economy already showing signs of slowing down.

The threat of additional tariffs against Mexico exacerbated those concerns, analysts said, helping to send Treasury yields on their biggest five-week slide in more than three years.

But those stocks appeared to be steadying even before Monday's move in bond yields. Last week, Federal Reserve Chairman Jerome Powell suggested the central bank could cut interest rates to keep the economy expanding, sending major U.S. indexes to their best weekly gains of the year.

Although lower rates are generally bad for banks, investors were also considering the likelihood of a still-expanding U.S. economy and the role lenders would play, said Devin Ryan, a banking analyst with JMP Securities. Besides that, big U.S. banks had already proved to investors over the last decade that they are capable of making a profit in a low-rate environment.

The KBW bank index jumped 3.5% following Mr. Powell's speech on Tuesday, its biggest one-day gain since late December.

"It's kind of a perverse move," said Mr. Ryan, referring to those stocks' gains last week. "But we may now have an extended business cycle, and that's what the market has found some comfort in now that the Fed is going to be flexible."

Those stocks are now up 4.9% this month, pushing them up 12% for the year.

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