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MARKETS

# Morgan Stanley Earnings Fall Short As Trading Hampers Results

The bank led by CEO James Gorman is the final of the six largest in the U.S. to report earnings


Morgan Stanley, whose results are often driven by stockbrokers, traders and deal makers, reported its fourth quarter earnings Thursday. **PHOTO:** MICHAEL NAGLE/BLOOMBERG NEWS

*By Liz Hoffman*

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Morgan Stanley 's MS **-6.07%** ▼ fourth-quarter profit fell short of expectations as a rise in corporate deal making failed to compensate for a slowdown in trading.

Morgan Stanley on Thursday posted a profit of $1.5 billion, or 80 cents a share, on revenues of $8.5 billion. Both were lower than a year ago, when the firm earned 84 cents a share, excluding the effects of the 2017 tax-law change, on $9.5 billion in revenue. Including the tax change, the year-ago profit was $643 million, or 26 cents per share.

Analysts polled by Refinitiv had predicted $1.6 billion, or 89 cents a share, on revenue of $9.3 billion. Morgan Stanley shares, which had been up premarket before the earnings were announced, quickly reversed and more recently were down 4% in morning trading.

It was a slow end to an otherwise strong year for Chief Executive James Gorman. The firm posted record annual revenues of $40.1 billion, up 6% from 2017.

Mr. Gorman will give his annual strategic update to investors Thursday morning. In the past, he has set ambitious targets meant to steady earnings and avoid the screw-ups that for years made Morgan Stanley Wall Street's punching bag. The firm has hit nearly all of them: higher profitability in its giant retail brokerage to rival Merrill Lynch, shrinking its fixed-income trading activities while staying profitable, and delivering a return on shareholder equity above 10%.

Mr. Gorman has lately sounded weary when asked about setting new goal posts. He has focused on the small game instead, such as making acquisitions for Morgan Stanley's money-management arm and protecting its edge over rivals in high-speed stock-trading. The firm has fully integrated its takeover of Smith Barney's retail brokerage, and wealth management now makes up nearly half of revenue.

Mr. Gorman bristled when asked by a stock analyst last summer his plans for Morgan Stanley "2.0." The changes in recent years are "not a modest shift," he said. "We don't feel compelled to act simply because we read the newspapers about stuff."

This quarter, the only one of Morgan Stanley's four major divisions to post higher revenue from 2017 was asset-management, a high-margin but small business that shareholders tend to assign little value. The amount of money the division oversees shrank amid market turmoil as investors fled stock and bond funds for the safety of cash-like accounts.

The big surprise was in stock trading, where Morgan Stanley -- the No. 1 shop on Wall Street -- failed to capture the double-digit gains seen by peers including Goldman Sachs Group Inc. and JPMorgan Chase & Co. Revenue from that business, which includes trade commissions and financing to clients, was flat from a year ago.

Fixed-income trading revenue of $564 million was down 30% from a year ago, its worst quarter in three years. Mr. Gorman fired one-quarter of employees and pulled billions of dollars in capital from that business in 2016, setting a more modest goal of $1 billion a quarter in revenue that it had hit until now.

Investment-banking revenue was down 3%. Merger revenue rose 44% to as Morgan Stanley collected fees on completed deals including Cigna Corp.'s $54 billion takeover of Express Scripts Holding Co., for which it was set to earn $65 million. That's a comparable rise to arch-rival Goldman, but lighter on revenue as Morgan Stanley continues to try to raise fees.

Underwriting revenue fell 28%, in line with declines across Wall Street as corporate executives delayed issuances in the face of roiling markets. During the quarter, a record 40-day stretch with no high-yield debt offerings started, stretching into early January.

Morgan Stanley CEO James Gorman has focused recently on acquisitions for the firm's asset-management division. PHOTO: SIMON DAWSON/BLOOMBERG NEWS

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