

# Global Banking Outlook 2026

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## Part 1: Four reasons to be positive about banking in 2026

Global banking ends 2025 with resilience and renewed optimism. Despite falling interest rates, geopolitical volatility and macroeconomic uncertainty, the sector is set to deliver another year of robust profitability.

As rates declined through 2025, many anticipated profitability would fade. Instead, returns have strengthened: the sector is on track to deliver an average global return on equity (ROE) of 12.8%<sup>1</sup> in 2025 – a 0.7 percentage point increase from 2024 and well above pre-pandemic norms – with ROE forecast to rise further to 13.0% in 2026, underscoring structurally stronger earnings power.

What's driving the outlook?

### 1. Robust net interest income

Net interest income (NII) achieved an average increase of more than 5% in 2025, despite falling global interest rates. This was driven by two key factors:

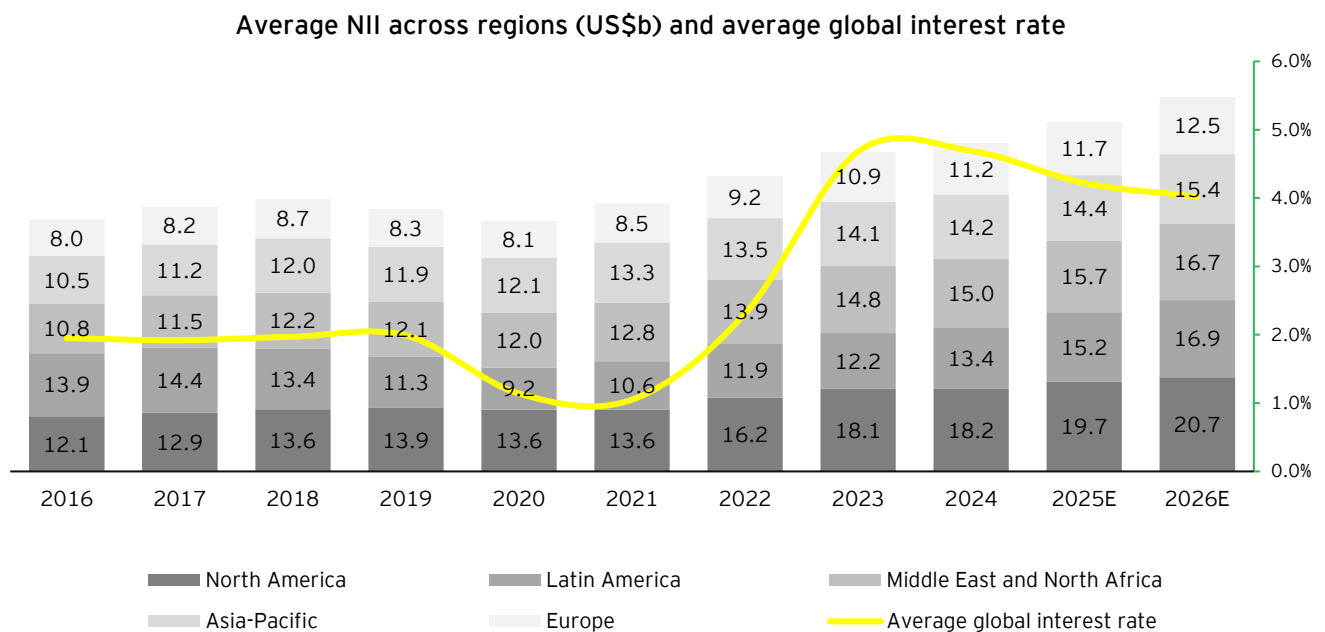
- ▶ Average loan growth of nearly 10%, reflecting strong credit demand
- ▶ Strategic portfolio positioning, with banks locking in higher yields through expanded fixed-rate bond holdings

Performance varied across regions, reflecting differences in balance-sheet repricing, market competition and interest-rate dynamics. In parts of Europe and Asia – notably Spain, Italy, the Nordics, Hong Kong and Singapore – NII declined as assets repriced more quickly than liabilities, compressing margins. In Mainland China, competitive pressure and low policy rates continued to suppress lending spreads, while Japan saw a modest boost as the central bank raised rates, providing relief to long-compressed margins.

Looking ahead, average NII is projected to grow more than 7% in 2026, even amid expectations of further declines in policy rates across major economies. This demonstrates banks' ability to manage balance sheets effectively and deploy sophisticated hedging strategies to protect income.

1. Represents a simple average of the ROEs across 100 large global banks. Other data points are calculated on the same basis, using consensus estimates as of 8th December 2025, unless stated otherwise.

Figure 1: NII is forecast to grow in all regions despite declining interest rates



Source: S&P Capital IQ, EY Insights analysis  
 Note: Data for each region represents the NII for the average bank

## 2. Structural tailwinds supporting fee income

Fee income emerged as a bright spot in 2025. Trading revenues surged as clients navigated heightened market volatility. While activity moderated later in the year, it remained above recent historic averages - and in today's environment of accelerated change and increased volatility, trading income may remain structurally elevated. EY forecasts indicate this strength will continue into 2026.

Investment banking fees (M&A, debt and equity issuance) started the year subdued amid market uncertainty but rebounded sharply in the second half. By 3Q25, global deal activity had reached US\$1t, driven by CEO confidence, renewed strategic decision-making and faster regulatory approvals - particularly in the US, where average transaction times nearly halved. With pipelines at their strongest in three years, EY forecasts suggest this momentum will persist into 2026, with fees projected to grow by up to 19%.

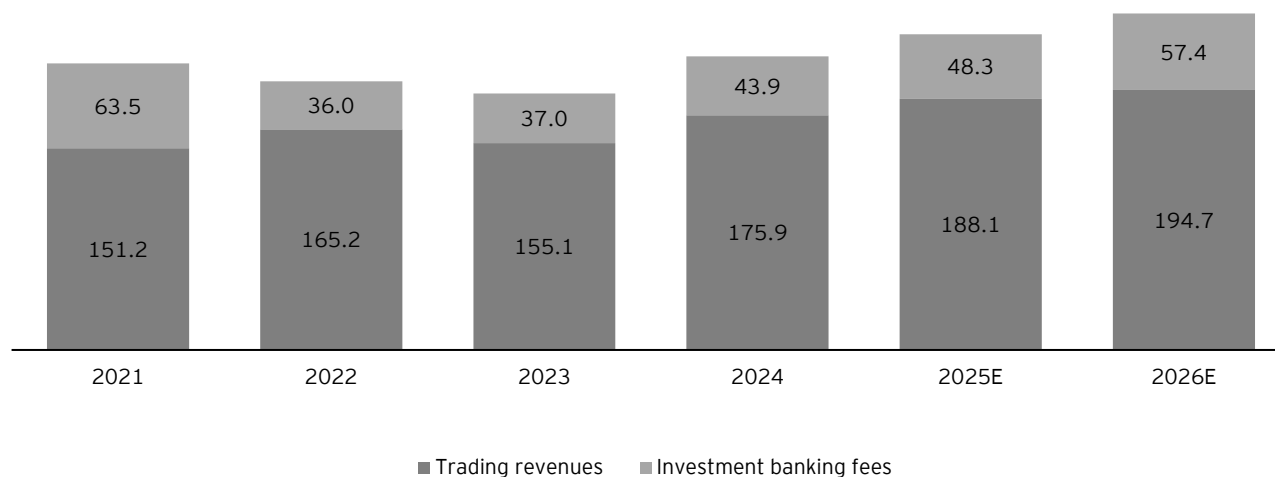
Meanwhile, wealth management divisions continued their standout performance. Robust inflows and strong equity markets supported revenue growth, as clients shifted from deposits to investment products in response to central bank rate cuts.

Looking ahead, growth in wealth management is expected to accelerate as banks prioritize this capital-light revenue stream. A key focus will be the mass affluent segment, which offers deeper product penetration and attractive cross-selling opportunities.

Overall, fee income for the average global bank is projected to rise by just over 8% in 2026, cementing its role as a critical driver of growth.

Figure 2: Investment banking fees are likely to see continued growth

Breakdown of capital markets revenues for major global investment banks (US\$b)



Source: Major investment banks' financials, EY Insights analysis and forecasts

### 3. Resilient credit quality

Credit quality remained a central focus for investors throughout 2025. Early concerns centered on the potential fallout from newly imposed trade tariffs and their knock-on effects on corporate borrowers. However, those risks largely failed to materialize.

Later in the year, attention shifted following two high-profile bankruptcies in the US auto sector, which reignited scrutiny of banks' indirect exposures to the 'shadow banking' system - non-bank financial institutions (NBFIs). US and European banks hold an estimated US\$4.5t<sup>2</sup> in exposures to NBFIs, equivalent to roughly 9% of total loans. For US banks in particular, lending to this segment was a key driver of loan growth in 2025.

So far, losses linked to these exposures appear contained. Banks emphasize that lending is well-secured, backed by stringent underwriting standards and long-standing relationships across this diverse segment. Nonetheless, NBFIs exposures are likely to remain a priority for investors and regulators into 2026.

Overall, average loan impairment rates in 2026 are expected to remain broadly in line with current levels.

### 4. Embracing innovative change

Simplification, including cost transformation, remained a priority for global banks in 2025. Even as inflationary pressures eased, banks continued to seek ways to free up capacity for investment. This included headcount reductions, but also reviewing their off-shore and near-shore footprints to understand how they could unlock greater value from global capability centers. At the same time, they accelerated spending on next-generation technologies to meet changing customer expectations and counter competitive pressures from digital-first challengers, which are driving faster innovation cycles and compelling incumbents to modernize at scale.

Looking ahead, emerging technologies such as agentic AI, advanced analytics and digital asset infrastructure are increasingly viewed as essential to future competitiveness rather than optional enhancements.

2. <https://www.imf.org/en/Publications/GFSR/Issues/2025/10/14/global-financial-stability-report-october-2025>

As investors see spending on technology rise, they are increasingly asking how banks are maximizing returns on these investments. To fund these investments, banks will need to continue to identify efficiency gains, streamline operations and reshape workforces for an AI-enabled operating model and ensure they can demonstrate the return this investment is delivering to the market.

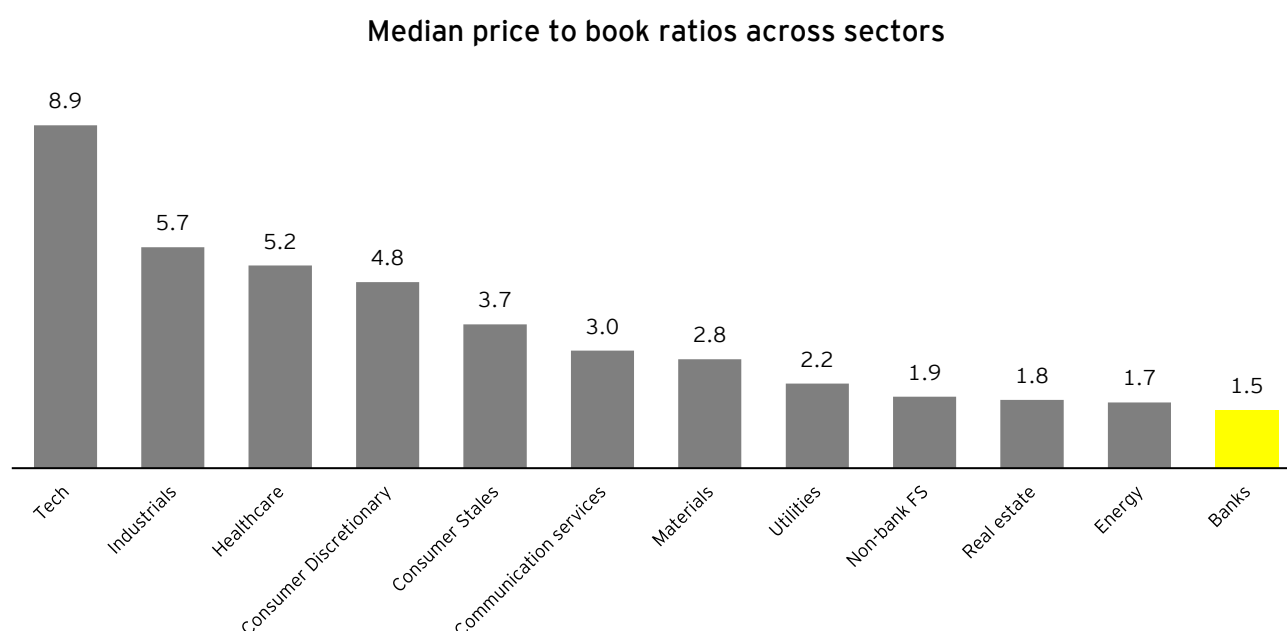
Average industry cost bases are expected to rise by over 7%, reflecting the scale of ongoing investment in technology, talent and operating model redesign.

### The banking paradox: improved returns, low valuations

Global banks enter 2026 in a position of strength. Profitability is expected to remain at the elevated levels achieved over the past three years, supported by resilient credit quality and, in markets such as the US and UK, the potential for significant capital release to fuel renewed balance sheet growth.

Yet, valuations tell a different story. Banks continue to trade at a discount of around 60% to the broader market, implying an undervalued sector despite improved returns.

Figure 3: Banks are the most discounted sector



Source: S&P Capital IQ, EY Insights analysis


Note: Based on the 100 largest players in each sector by market capitalization

This disconnect reflects three realities:

- ▶ First, while returns have risen, they remain only slightly above the cost of equity, offering investors limited protection against future shocks.
- ▶ Second, doubts persist about the durability of current returns, even though they have held up longer than expected.
- ▶ Third, investors remain skeptical that banks can deliver meaningful, profitable and sustainable top-line growth without macro tailwinds.

Closing this valuation gap will increasingly depend on management action – specifically, the ability to differentiate against peers while maintaining cost discipline and pursuing strategic, profitable growth.

Encouragingly, the [EY CEO Confidence Survey](#) suggests this pivot is already under way. While cost control remains a priority, transformational leaders are sharpening their focus on growth – expanding fee income, deepening customer engagement and investing in scalable digital platforms to create more durable sources of value.



## Part 2: Bridging the valuation gap

In Part 1 of the Global Banking Outlook 2026, we explored how global banks sustained profitability even as interest rates fell, and uncertainty grew. This resilience is set to continue, yet valuations continue to lag those of other sectors, reflecting investor caution about whether strong returns will last.

As macro tailwinds fade, what comes next will depend less on external conditions and more on management action - on how effectively banks convert resilience into long-term, differentiated advantage.

EY analysis<sup>1</sup> shows that while 55% of banks' return on equity (ROE) is influenced by external structural "beta" factors such as monetary policy and market cycles, the remaining 45%, "alpha", is shaped by management decisions, execution discipline and operational excellence.

Within this 45%, two key areas that drive outperformance stand out:

### 1. Simplification: the foundation of competitive advantage

Cost control remains a priority for many banks,

but already leading institutions are going further - driving simplification programs that enable flexible, scalable and transparent cost bases. EY analysis shows this is best delivered through three key levers.

- ▶ **Strategic simplification:** Typically, high-complexity, long-term initiatives that reshape the business model or portfolio to deliver the largest and most sustainable savings. This is how banks redefine where and how they compete, prioritizing profitable client segments, rebalancing portfolios toward high-growth markets and streamlining underperforming products. Many banks are also adopting zero-based budgeting (ZBB) to make every dollar count.
- ▶ **Structural simplification:** This incorporates medium-complexity, medium-term actions that redesign the organization, operating model, or footprint to unlock lasting efficiency and scalability. This includes simplifying legal entities, optimizing where teams are located and expanding global capability centers (GCCs) from cost-arbitrage hubs to centers of excellence for innovation,

1. The analysis draws on a proprietary regression framework to explore what really drives bank profitability. The model is built on 30,000+ data points from 100 large global banks, covering a 13-year period up to 2024. By examining performance through multiple economic and interest-rate cycles, the study isolates how management levers and market forces have together shaped bank returns.

analytics and digital delivery. Where this is not possible, banks are increasingly looking at outsourcing, where third parties might be able to deliver services better, faster and cheaper. Technology optimization also plays a pivotal role, with growing activity around core banking platform replacement, cloud migration and DevOps adoption to reduce complexity while enhancing scalability. Collaboration with FinTechs and tech giants are also paths to cost-efficient innovation

- ▶ **Operational simplification:** focuses on embedding continuous productivity improvement through intelligent automation, process digitization and advanced analytics. Investments in AI are transforming banks' potential to unlock these productivity gains well beyond back-office functions; reshaping compliance, credit assessment and client contact and onboarding. But, alongside these investments, banks need to reshape their workforce to ensure people are upskilled and deployed where they add most value alongside "digital colleagues".

There are great examples of some banks applying these levers, from employing zero-based budgeting, strengthening captive centers, unlocking savings from migration to the cloud, or moving AI use cases to production.

One leading UK bank consolidated around 13,000 roles across technology, operations, HR, audit and treasury into its largest operations hub in India, with the site now a core engine for AI-enabled operations and global innovation.

Another bank, in the US, deployed more than 450 AI-driven use cases, boosting developer productivity by 10-20% and saving about US\$1.5b across fraud prevention, trading and operations.

But it is applying all these levers in a joined-up fashion, with a focus on simplification that enables banks to self-fund technology investment and strengthens long-term competitiveness.

## 2. Growth: creating sustainable value

While simplification protects profitability, real valuation gains come from growth. EY analysis shows that leading banks are growing smart – expanding where it matters most and scaling what works, focusing on three areas.

- ▶ **Strategic growth:** Reimagining business models, moving beyond traditional balance-sheet lending, and embedding banking into everyday life through partnerships and platforms is unlocking new demand and deepening customer relationships. Sustainable finance also remains a priority, given strong client demand for products such as ESG-linked lending, and investment and advisory offerings. Fee income diversification through wealth management, payments, insurance and advisory, continues to be a key driver for banks delivering higher ROEs.
- ▶ **Structural growth:** Using digital platforms and data to expand reach and personalize services, from tailored pricing to dynamic recommendations, is unlocking new profit pools. APIs and open banking are expanding distribution while next-generation payments and digital wallets are expanding transaction volumes and deepening engagement.
- ▶ **Operational growth:** Using customer segmentation, AI-powered experiences and financial wellness platforms are helping banks to improve retention and engagement. Underpinning these initiatives are robust data management, integrated performance measurement and agile delivery models.

There are plenty of examples to take inspiration from – from banks that have launched lifestyle-centric super apps to those that are using behavioral and relationships data to modernize their pricing engines, to financial wellness platforms that helping boost customer loyalty.

One mid-sized US bank modernized its pricing engine using behavioral and relationship data, driving a 25% increase in deposit balances.

Another bank's financial-wellness platform shows clients with top scores are 97% less likely to fall into arrears and hold 11 times more deposits - clear evidence that aligning customer wellbeing with behavioral banking boosts loyalty and performance.

As banks deploy these growth levers, they are increasingly embedding data-driven and capital-light models that help diversify revenues and enhance customer relevance. As this growth translates into greater profitability it should also support stronger valuations.

## Don't just do it, say it

The next phase of banking profitability will be defined by intentional transformation. Simplification and profitable growth are no longer competing priorities, they are complementary. Banks that master both - combining structural agility, digital innovation and disciplined execution - will be better placed to sustain superior returns and rebuild investor confidence.

Equally critical is clear communication with investors. Banks that articulate strategy, define measurable targets and report progress consistently tend to build stronger market confidence. In an environment where investor sentiment is the final catalyst for valuation recovery, transparency and engagement can turn strong fundamentals into sustained market recognition.



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