

# THE MONTHLY RESEARCH CONFERENCE CALL

## FINANCIAL SERVICES: FAVORABLE RATE ENVIRONMENT, LOWER TAXES



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ARGUS RESEARCH COMPANY



# WHAT'S NEW AT ARGUS

## MAY 2018

### ■ Argus Updates its ETF Model Portfolios

- Argus' Investment Policy Committee has updated its ETF model portfolios
- Argus offers three separate ETF portfolio strategies:
  - Conservative, Growth, & Aggressive
- For information on subscriptions to the ETF model portfolios
  - Please contact the Argus Sales Department

### ■ New to Coverage

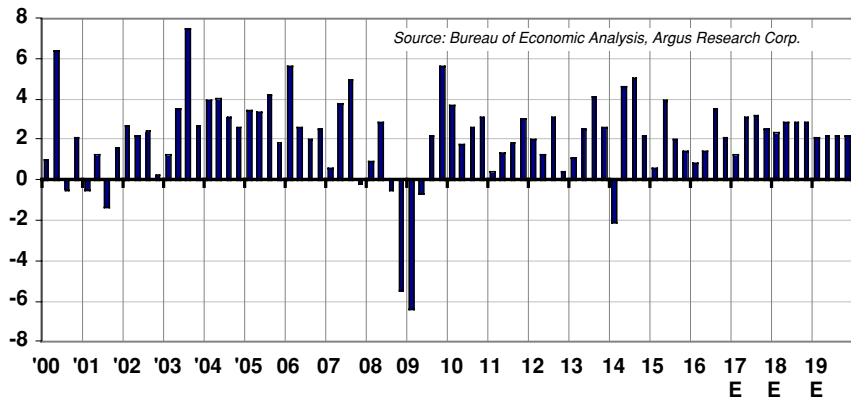
- Chubb Ltd. (NYSE: CB)
  - Leading specialty & reinsurance company that is one of world's largest P/C companies
- Harris Corp. (NYSE: HRS)
  - Comms./Electronics systems for government, commercial applications
- Markel Corp. (NYSE: MKL)
  - Diversified insurance, industrial investment, and IT consulting company

### ■ Argus in the News

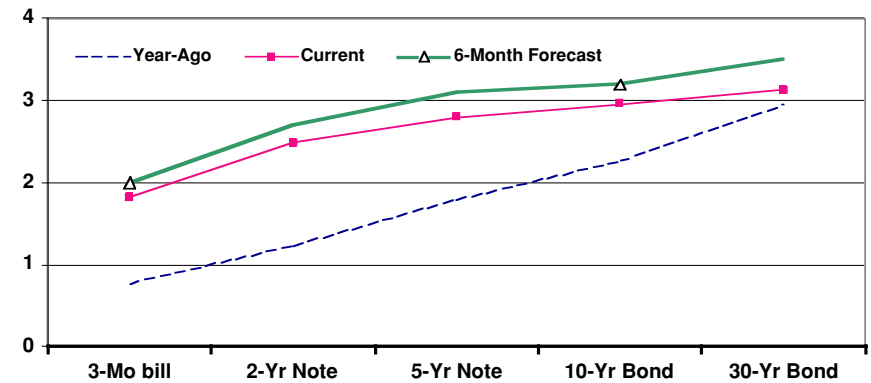
- Argus Chief Investment Strategist Peter Canelo appeared on Reuters
- Look for 15% upside in the S&P 500, according to Peter Canelo
- Despite flattening in yield curve, low risk of recession
- Peter's interview with Reuters' Fred Katayama is on our website

# MACRO FORECASTS

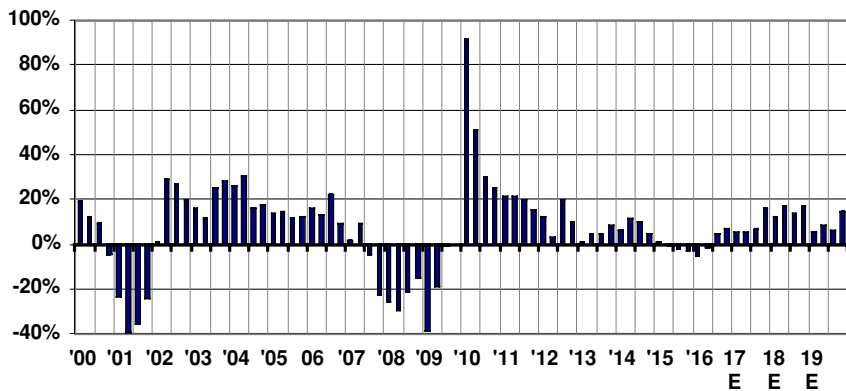
## REAL GDP W/FORECASTS (%)



## TREASURY YIELD CURVE (%)

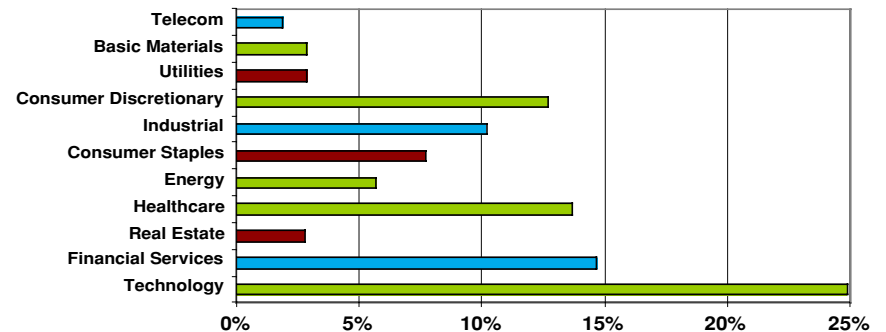


## S&P 500 QUARTERLY EARNINGS GROWTH



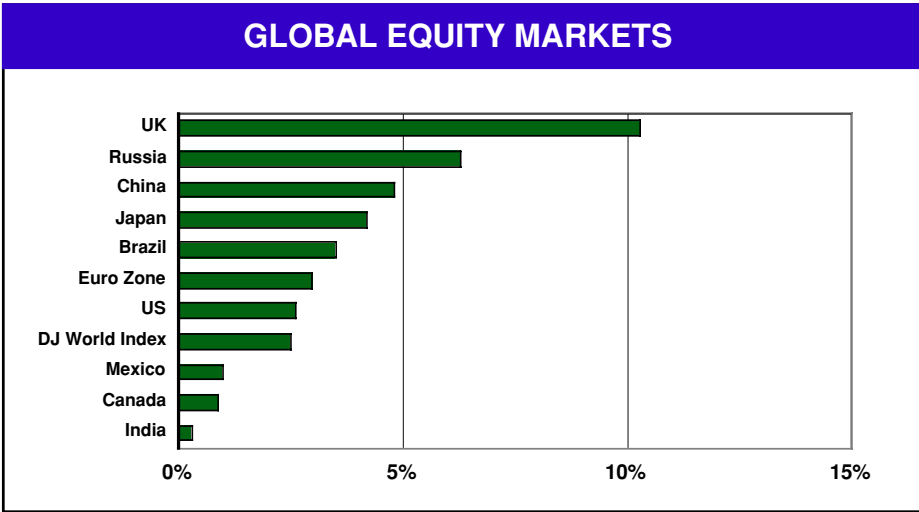
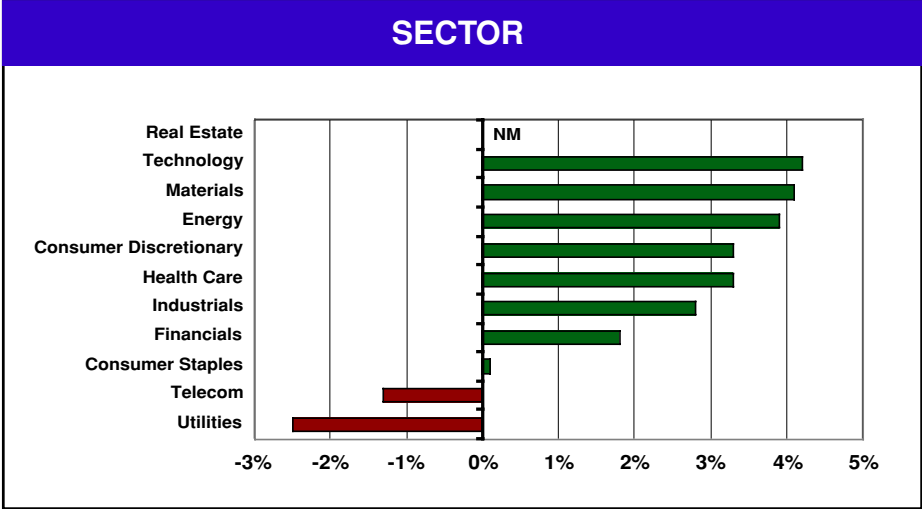
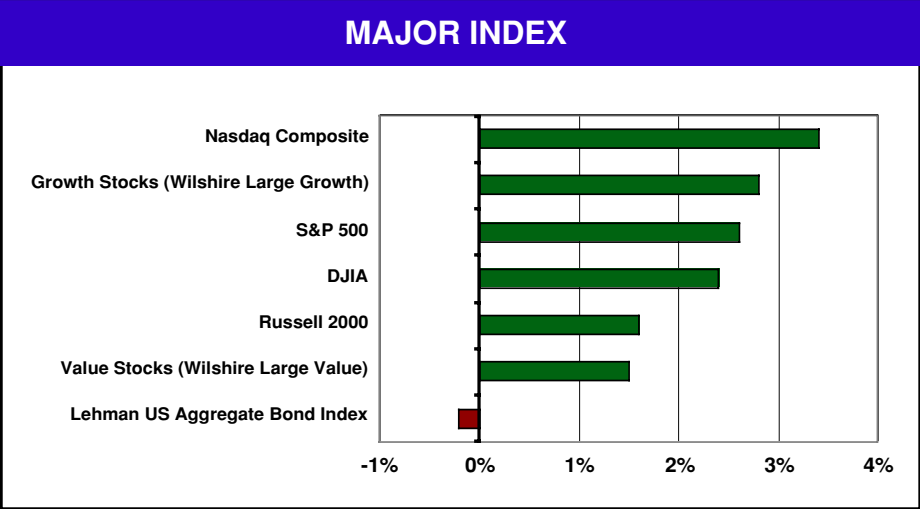
## MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

Sectors in Green are Recommended Overweight; Blue are Marketweight; Red are Underweight



# MARKET PERFORMANCE

DATA AS APRIL 30, 2018



# BANK EARNINGS TRENDS

## ■ Loan Growth

- Consumer lending strong (ex. home lending), commercial anemic

## ■ Net Interest Margins

- Expanding slowly, no pressure on deposit rates

## ■ Credit Quality

- Benign and improving, aided by favorable employment levels

## ■ Capital Market Conditions

- Strong 1Q, especially equity trading
- Underwriting and advisory mixed

## ■ Corporate Tax Rates

- Down from high 20%/low 30% to low 20%

# OTHER TRENDS FOR FINANCIALS

## ■ Noted Weak Spots For Banks

- Home equity lending, mortgage production volume

## ■ Credit Card Firms

- Strong payment volume growth
- Increased merchant acceptance, greater online spending

## ■ Asset Management Firms

- Consolidation, AUM growth, but some pressure on fees/flows

## ■ Exchange Firms

- Strong trading volumes on market volatility

# **BUY-RATED STOCKS TO CONSIDER FOR VARIOUS THEMES**

## **■ Higher Interest Rates**

- Regional Banks – BBT, PNC, RY

## **■ Global Growth & Capital Markets**

- Diversified Financials – JPM, BAC, MS

## **■ Asset Management Growth & Consolidation**

- Asset Managers – BLK, SCHW, IVZ

## **■ Payment Digitization and Online Spending**

- Payment Processors – V, MA, PYPL
- Credit Card Firms – COF, DFS

## **■ Strong Trading Volumes**

- Exchanges – CME, ICE

# SECTOR OVERVIEW

## ■ Our rating on the Consumer Staples Sector is currently Under-Weight.

- Investors have been abandoning the sector for three years, and the current weight of 7.7% is at the low end of the historical range of 7-12%.
- The sector underperformed in 2017, with a gain of 10.5%, and in 2016, with a gain of 2.6%. The sector is down 8% thus far in 2018.
- **Problem #1: Growth.** We estimate a smoothed earnings growth rate for the sector of only 5%, driven by low-single digit top-line growth, modest margin expansion and share buybacks. This is below the market's expected growth rate of 8%.
- **Problem #2:** Despite the low expected growth rate, the current P/E ratio for the industry of 17.5 is a premium to the broad market. Even the average dividend yield for the group is only in line with the S&P 500.
- Beyond the metrics, the group is challenged by rising commodity prices, compressing margins, changes in purchasing patterns (on-line vs store) and the Millennials.
- Though we see challenges for the group as a whole, we do see opportunities among select companies.



# INVESTMENT THEMES

## ■ Growth Favorites

- EL, STZ, MNST

## ■ GARP

- SYY, COST

## ■ Value Opportunities

- KHC, MDLZ

## ■ Special Situations

- UNFI, PM

## ■ Recent Upgrades

- WMT, UN

## ■ Recent Downgrades

- PG, HSY

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