



MONTHLY RESEARCH WEBINAR

FINANCIAL SERVICES: RISING RATES AND THE FEDERAL RESERVE

Moderator:

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■ **Financial Services: Rising Rates and the Federal Reserve**

- Jim Kelleher, CFA, Director of Research
- Director of Financial Services Research Stephen Biggar
- Senior Analyst & Fixed Income Strategist Kevin Heal
- Argus President John Eade

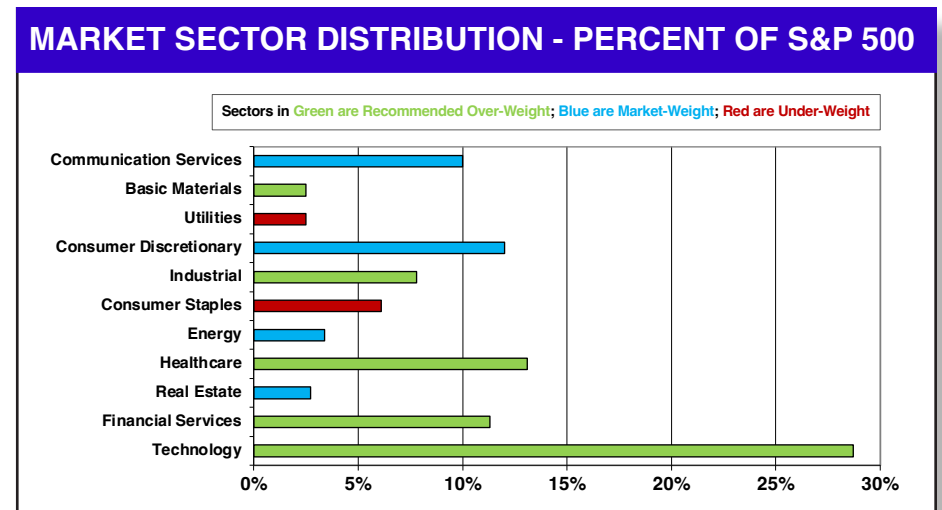
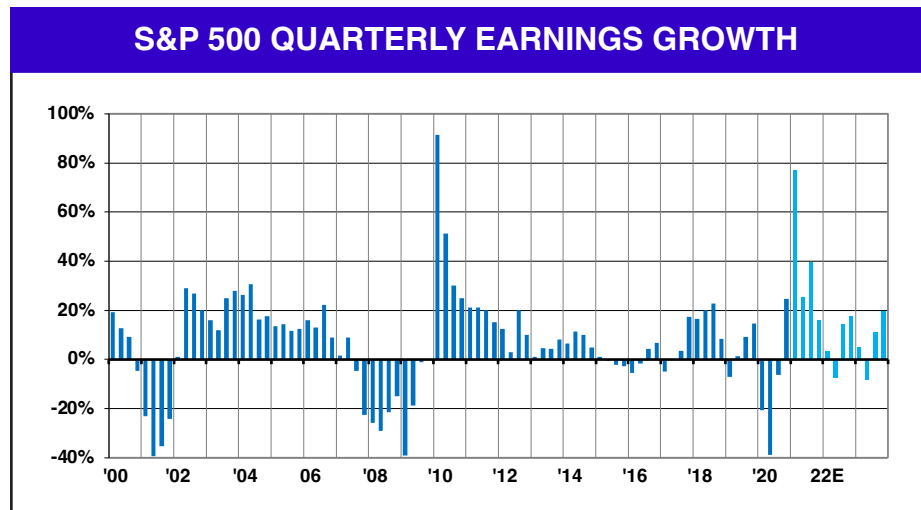
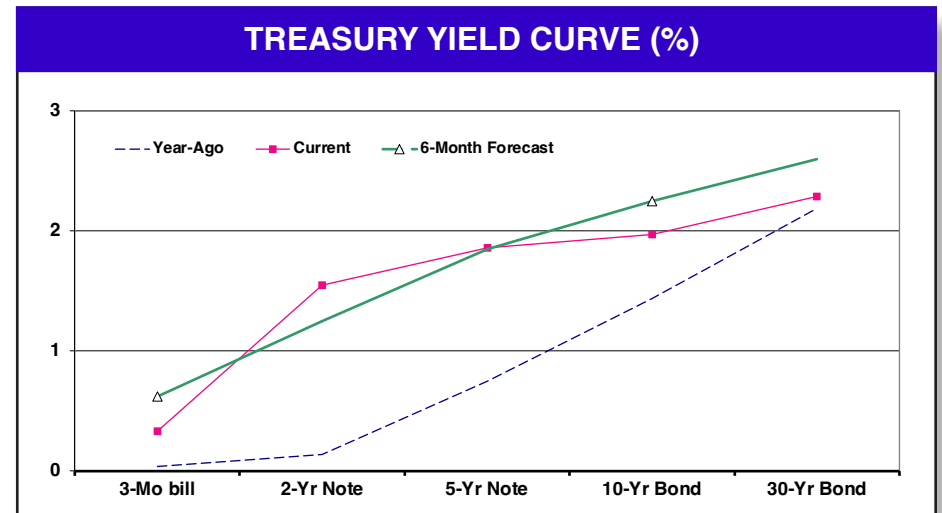
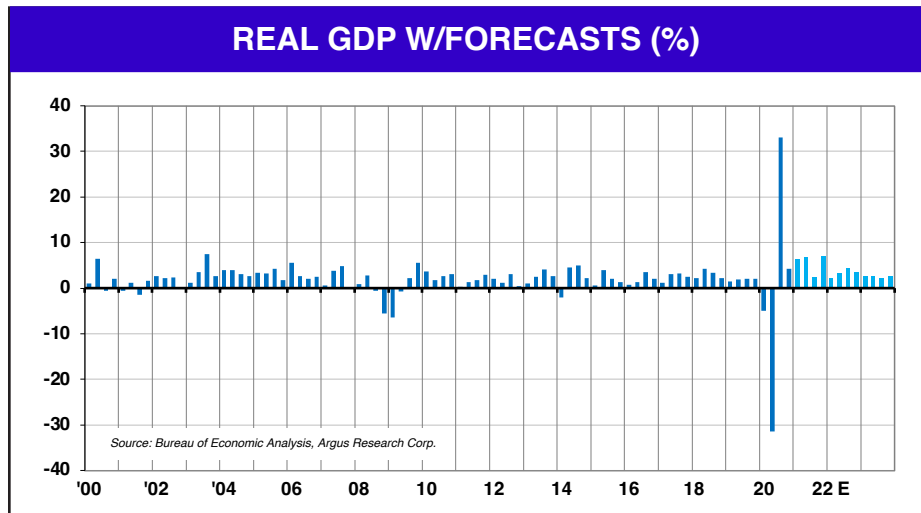
■ **Argus Quick Notes**

- Activist Stocks
- Financial Services Stocks
- Min Vol Stocks
- Corporate Break-Up Candidates
- Find these on the homepage of our website

■ **Argus High-Yield Model Portfolio**

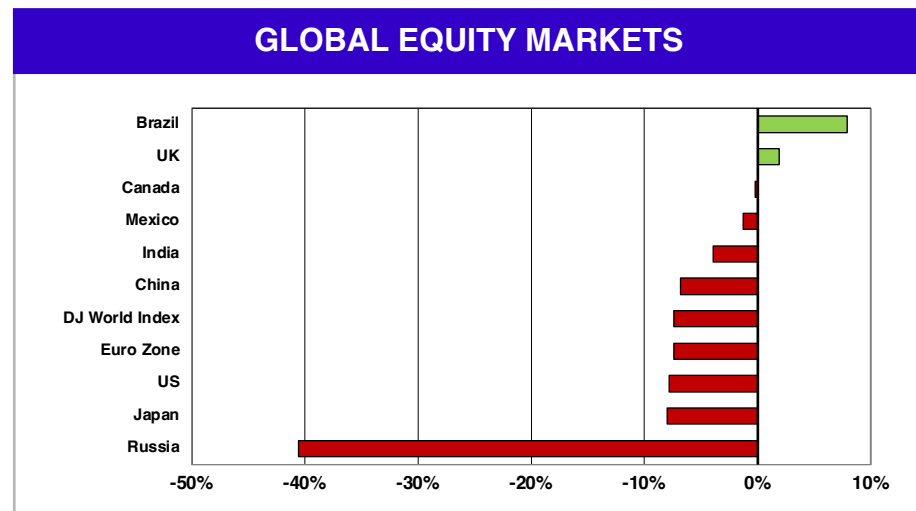
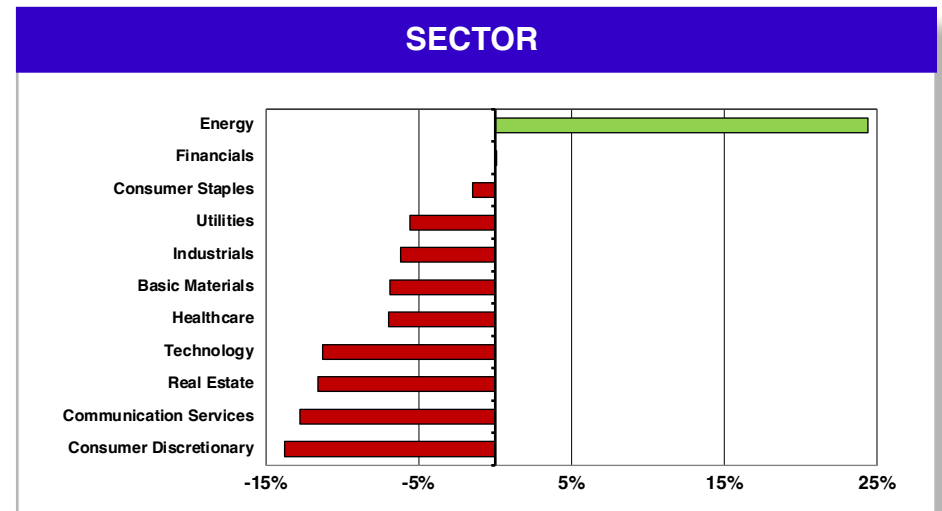
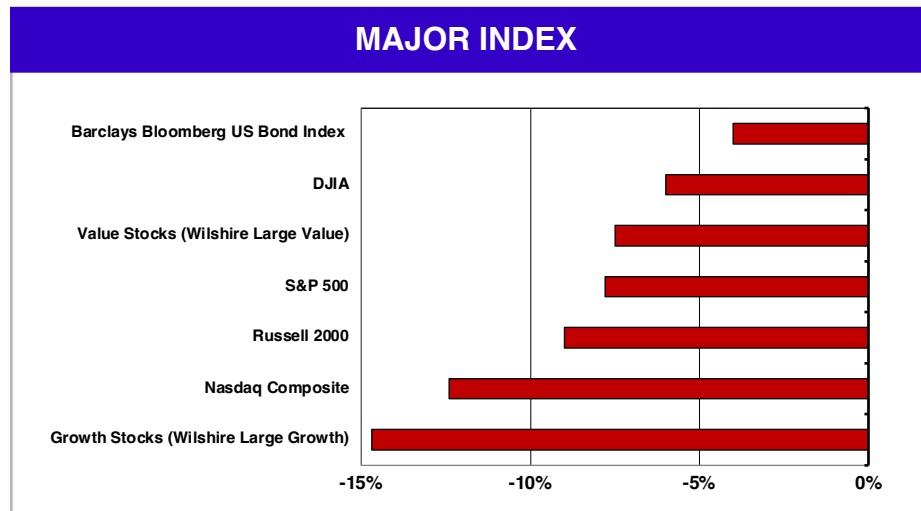
- Value/high yield stocks are outperforming in 2022
- Value and growth rotate in and out of favor
- Growth/low income have led recently, but tide may be turning
- Find information on the homepage of our website

MACRO FORECASTS



MARKET PERFORMANCE

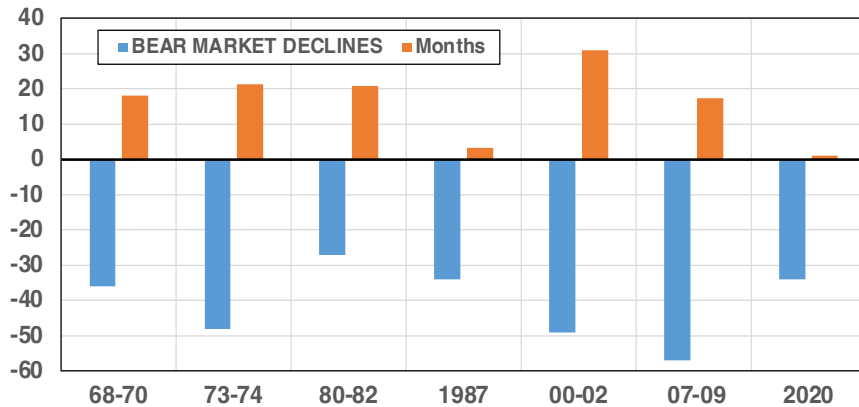
DATA AS FEBRUARY 28, 2022



RISING RATES AND THE FEDERAL RESERVE



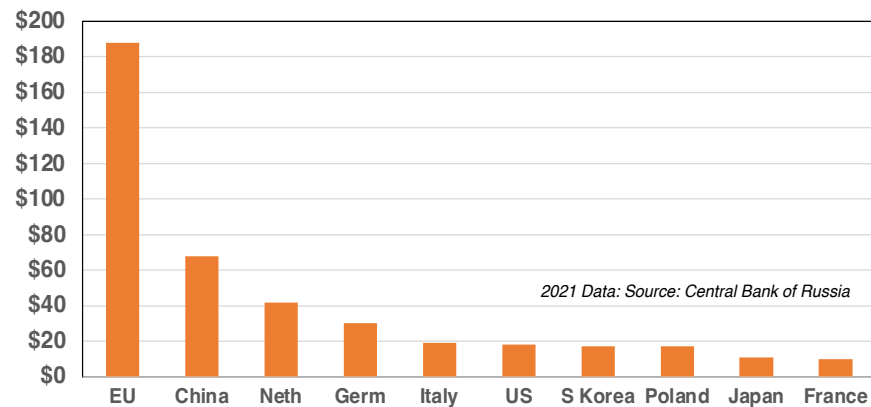
BEAR MARKET DECLINES IN PERCENTAGES AND IN MONTHS



STOCKS & FED RATE CYCLES, 1980 TO PRESENT

Number of Cycles	6
Average duration of cycles (months)	18.7
Average increase of rates during cycle	300 bps
Average fed funds rate at cycle end	3.8%
S&P 500 performance pre cycle start (6-month period)	6.3%
S&P 500 performance post cycle start (6-month period)	4.8%
Average S&P 500 performance across rate hike cycle	14.0%
Annualized S&P 500 return across rate hike cycle	9.0%
Annualized S&P 500 return all years	10.7%

RUSSIAN EXPORT PARTNERS (\$BIL)



■ Drivers of Positive Outlook for Banks

- Expect 3-4 Fed funds rate increases in 2022, another 3-4 in 2023, while longer-dated yields also rise, resulting in steeper yield curve, helping net interest margins.
- Loan growth expected to see continued improvement on good economic/jobs growth, roll-off of government stimulus measures.
- We look for credit costs to remain at cycle lows on strong employment trends.
- We expect good capital returns from mid-year CCAR results following more muted 2020/2021.
- Sector still inexpensive on historical price-earnings/price-book ratios, offers good yields.

■ Risks

- Inflation double-edged sword, banks have cautioned on high expense growth in 2022 (wages, tech spending).
- Banks likely to be hyper-sensitive to any change in the rising interest rate narrative.
- Fin-tech has shown to be an able competitor, forcing spend to defend.
- Short-term slowdown in investment banking activity due to Russia conflict.
- Availability of funding in short term rate markets and currencies.

■ PNC Financial Services (PNC: BUY)

- Well-diversified territory with a strong management team and stable credit risk profile.
- Mid-2021 acquisition of U.S. banking assets of Banco Bilbao Vizcaya (BBVA) providing solid benefits.
- Purchase provided geographic expansion in the faster-growing Sunbelt region of the U.S. Expect a healthy 21% earnings accretion in 2022 due to all cash purchase price and \$900 million of cost savings.
- Service territory offers above-peer average loan growth.
- Target price \$245

■ **Truist Financial Corp. (TFC: BUY)**

- **BB&T Corp. and SunTrust Banks merger still providing benefits.**
- **About 65% of \$1.6 billion merger expense savings achieved as of 2021 year end**
- **Medium-term goals of above-peer-average ROE (20%+) and efficiency measures (low 50s) following merger.**
- **Steady growth profile, strong revenue diversification, and an above-average dividend yield, which we believe merit a premium valuation.**
- **Target price \$77**

■ US Bancorp (USB: BUY)

- USB well levered to rising interest rates. We look for sequential margin improvement in all quarters through 2023 year-end.
- Should see loan growth improvement throughout 2022. Management has forecasted mid-single digit net interest income growth in 2022.
- Agreed in September to acquire MUFG Union Bank's core regional banking franchise from Mitsubishi UFJ Financial, which has a focus in California, Washington and Oregon, including about \$58 billion in loans. Transaction expected to be 8% accretive to earnings when fully integrated.
- Target price of \$70

■ **American Express Co. (AXP: BUY)**

- **Worldwide credit card and travel-related services.**
- **Travel and entertainment categories, where AXP has large market share, hardest hit during pandemic, but have the biggest potential for rebound.**
- **Management recently issued robust guidance for 18%-20% revenue growth for 2022.**
- **Higher income AXP customers are spending faster as the economy rebounds.**
- **Making progress on expanding merchant acceptance.**
- **Target price of \$200**

■ Diversified Banks

- JPMorgan Chase (JPM), Bank of America (BAC), Morgan Stanley (MS), Citigroup (C)

■ Regional Banks

- KeyCorp (KEY), Wells Fargo (WFC), Fifth Third Bancorp (FITB)

■ Credit Card Companies

- Capital One Financial (COF), Discover Financial (DFS)

■ Payment Companies

- PayPal (PYPL), Square (SQ), Visa (V), Mastercard (MA), Fidelity National (FIS), Global Payments (GPN)

■ Investment Management

- Blackrock (BLK), Invesco (IVZ)

■ **Citizens Financial Group (CFG: BUY)**

- Expanding presence on East Coast with acquisition of HSBC's branches and online deposits. Will add approximately 800,000 new customers.
- Agreed in July to acquire Investors Bancorp expanding presence in NYC and Philadelphia markets. Expected to close 1Q22. Top-10 bank in deposits in NYC Metro area.
- Closed the acquisition of JMP Group, a provider of investment banking services for the technology and healthcare sectors.
- Future potential acquisitions in wealth management.
- Dividend yield of approximately 3%
- Target price of \$60.

■ Prudential Financial Inc. (PRU: BUY)

- Return on Equity remains robust at 12.5%, above many of its peers.
- Expanding into higher margin geographic areas (EMEA, Africa) and shedding assets in lower margin areas (Japan, Korea).
- Expect lower COVID-19 morbidity rates offset by lower equity and fixed income valuations.
- Recently raised quarterly dividend rate 4% to \$1.20 for a yield of 4.25%.
- Target price of \$128

■ **Intercontinental Exchange (ICE: BUY)**

- **Transforming from primarily an exchange operator dependent on commissions to a data provider.**
- **Exchange revenue is now 55% of total revenue. Fixed Income & Data Services is 26% and Mortgage Technology is 19%.**
- **Expect revenues to remain steady with increases in Energy and Agriculture offset by lower Mortgage and Listings revenue.**
- **Sold stake in Coinbase (COIN) in April 2021, realizing a \$900 million profit. Recently purchased majority stake in TZero, an alternative trading system focused on stocks trading on the blockchain.**
- **Recently raised quarterly dividend 15% to \$0.38, for a yield of approximately \$1.2%.**
- **Target price of \$148**

■ Regional Banks

- Regions Financial (RF), Zions Bancorp (ZION)

■ Exchanges

- CBOE Global Markets (CBOE), Nasdaq Inc. (NDAQ)

■ Insurance

- Allstate (ALL), Chubb Limited (CB), Hartford Financial (HIG), Metlife (MET), Sun Life (SLF), Travelers (TRV)

■ Asset Managers

- Ameriprise Financial (AMP), Raymond James (RJF)

■ Mortgage

- AGNC Investment (AGNC), Annaly Capital (NLY), New Residential (NRZ)

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