



## ***MONTHLY RESEARCH WEBINAR***

# **FINANCIAL: OPPORTUNITIES IN A HIGHER RATE ENVIRONMENT**

Moderator:

Stephen Biggar

Director of Financial Research

May 8, 2024

61 Broadway • NYC, N.Y. 10006  
Telephone: (212) 425-7500

## ■ **Financial: Opportunities in a Higher Rate Environment**

- Stephen Biggar, Director of Financial Services Research
- Chris Graja, CFA, Director of Economic Research & Senior Analyst
- Kevin Heal, Fixed Income Strategist and Insurance Analyst

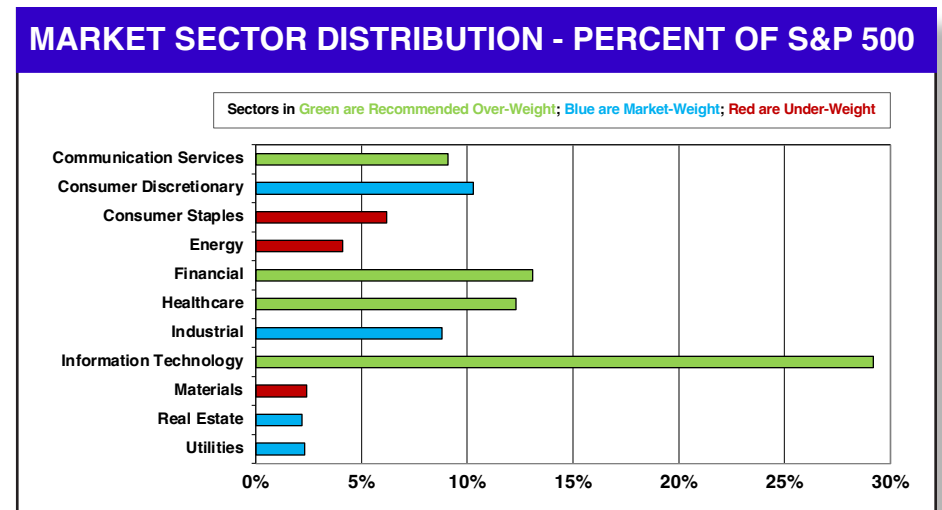
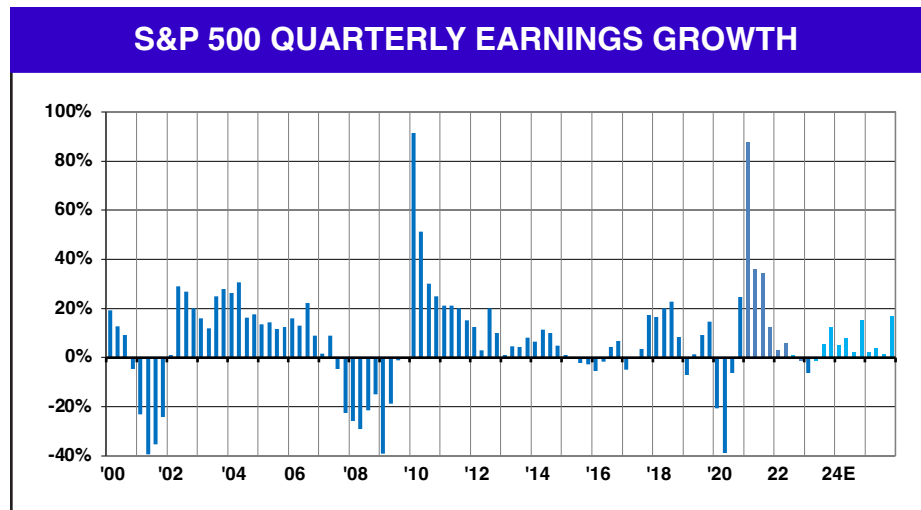
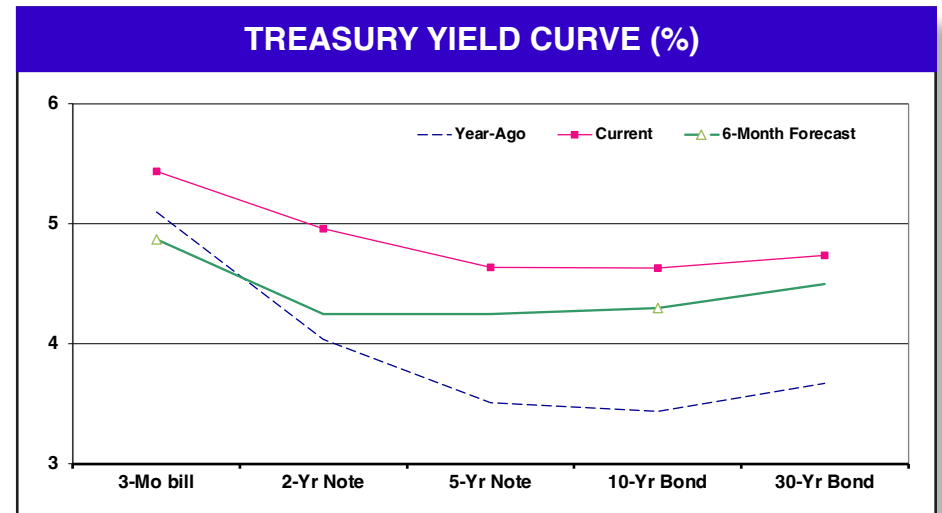
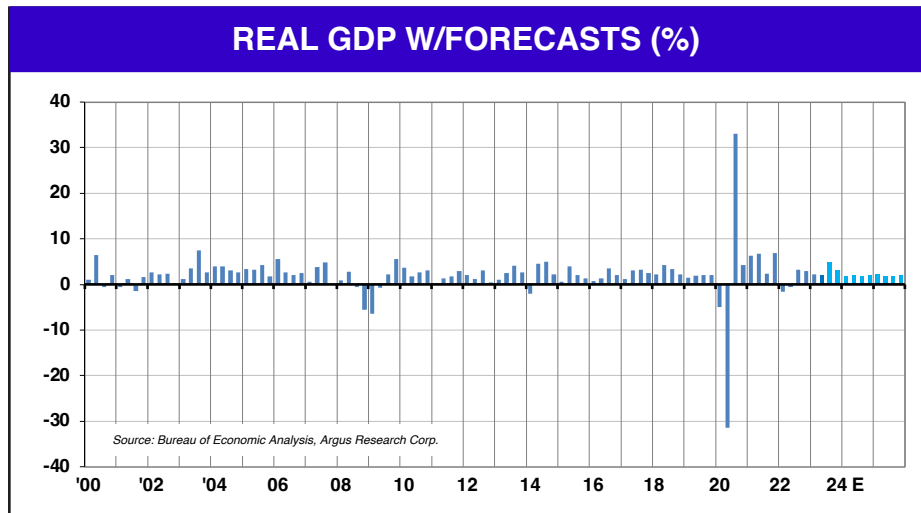
## ■ **Argus Quick Notes**

- Innovative Companies
- Our Favorite Energy Stocks
- Leaning into Higher Rates
- Focus List Stocks
- Investing in Small- and Mid-Cap Stocks
- Find these on the homepage of our website

## ■ **Portfolio Update: the Argus Innovation Model Portfolio**

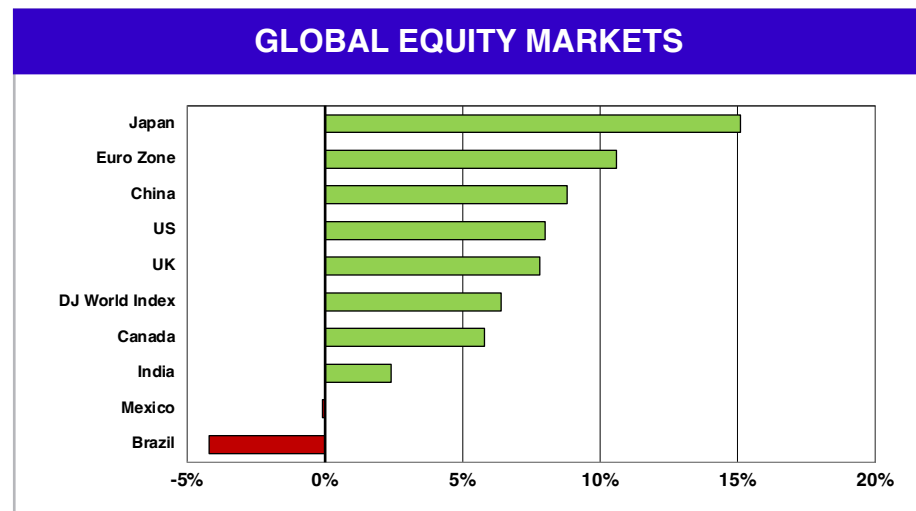
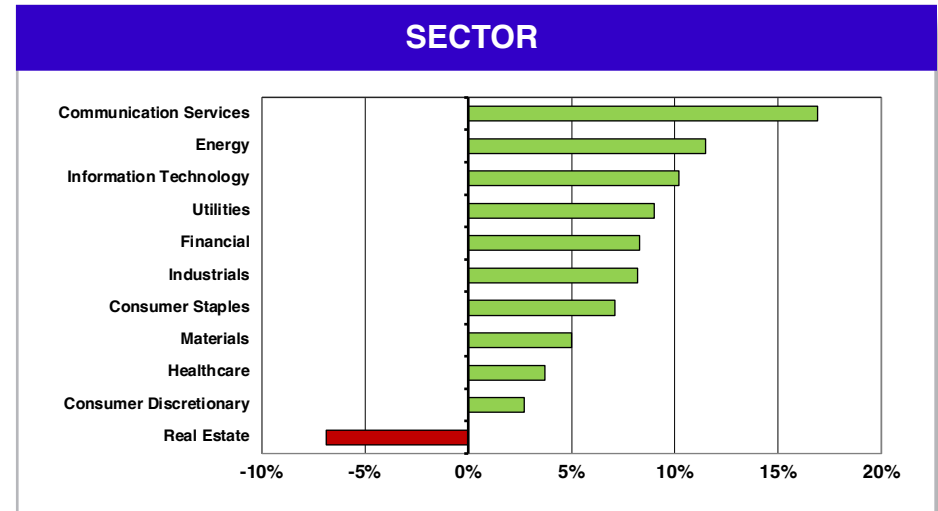
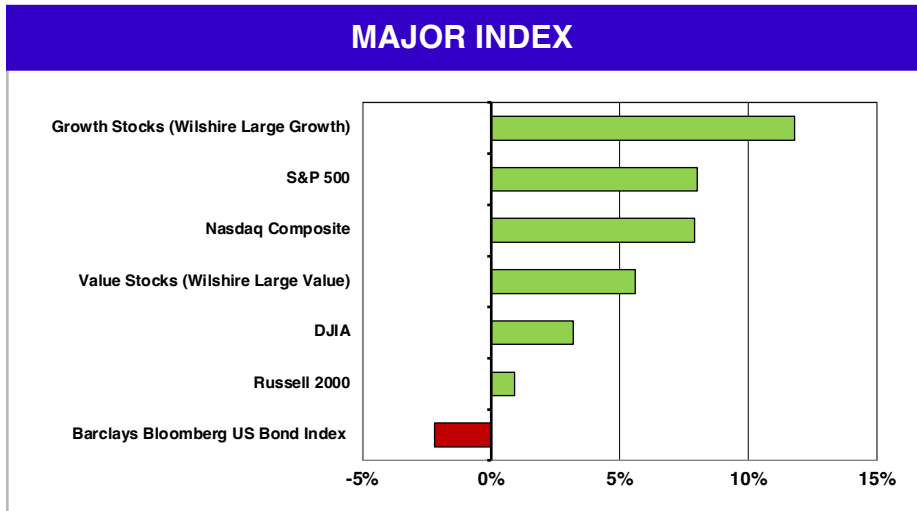
- The U.S. economy has expanded to record levels despite challenges
- U.S. companies drive growth with innovative products and services
- Dollar strength attests to global confidence in U.S. innovation
- Find the Argus Innovation MP on the homepage of our website

# MACRO FORECASTS



# MARKET PERFORMANCE

DATA AS MAY 3, 2024



- **Loan growth expected to remain sluggish.**
  - Higher rates hurting loan demand. The exception has been credit cards.
  - Stricter underwriting in some categories, particularly commercial.
  - Lower rates moving into 2025 should begin to boost lending activity.
  
- **Net interest margins expected to trough in 2Q.**
  - Higher deposit costs have compressed margins for last several quarters, but...
    - » Client behavior suggests this will slow significantly in 2H.
  - Bank securities portfolio beginning to re-price upward (15% in second half).

- **Net charge-offs (relative to average loans) have risen steadily over the past two years and are now slightly ahead of pre-pandemic levels. We expected this “normalization”.**
  
- **Two categories are worth watching:**
  - » Credit card loans, which surpassed \$1 trillion last summer, have moved well ahead of pre-pandemic levels. Bifurcation of low income vs. affluent consumers evident in net charge-offs.
  - » Office loans within commercial have been hit by reduced cash flows due to higher vacancies, and refinancings at much higher interest rates. But banks well reserved and with low loan-to-value.
  
- **Credit quality correlated with soft landing. Low unemployment will keep credit losses at manageable levels.**

- **After two years of sluggish activity, equity underwriting is showing significant improvement:**
  - Better post-IPO pricing experience and near record high markets should push some private companies off the fence.
- **Debt underwriting near a record in 1Q as credit spreads narrowed.**
- **Merger/acquisition activity up double-digits in 1Q, building a revenue stream for 2H24.**
  - High balance-sheet cash levels, strong stock prices (currency), and better CEO optimism has led to more constructive conversations.
- **Trading revenues down from peak but remain high historically as geopolitical developments, interest rate movements, and election likely to cause portfolio re-positioning.**
- **Amongst larger regionals there has been expansion in Wealth Management and middle-market investment banking.**

# STOCK RECOMMENDATIONS

## BANK STOCKS



- **JPMorgan Chase (JPM)**
- **Bank of America (BAC)**
- **Goldman Sachs (GS)**
- **Morgan Stanley (MS)**
- **PNC Financial (PNC)**
- **Truist Financial (TFC)**
- **Citizens Financial (CFG)**
- **Huntington Bancshares (HBAN)**



- **Recent auto insurance results have shown that insurers have been able to push through significant rate increases to combat the rise in auto inflation. New and used car prices have leveled off after the dramatic rise post-pandemic.**
- **Property results remain mixed due to significant weather events across the country.**
- **Insurers are being more selective where they are willing to write policies. Many have exited high-risk states altogether leaving consumers with little options.**
- **Still prefer multi-line insurers over traditional Auto/Homeowners P&C companies.**

- **Post-pandemic, large insurers have seen steady growth due to lower morbidity rates.**
- **Higher rates have boosted fixed annuity sales.**
- **Higher rates have also boosted investment portfolio returns though still significant unrealized losses in the portfolio. Life insurers' investment portfolios typically have a longer duration than P&C insurers.**
- **Continue to shed low margin businesses.**
- **Brokerage business continues to thrive as smaller firms are swallowed up by the larger brokerages due to the aging of the profession.**

# STOCK RECOMMENDATIONS

## INSURANCE STOCKS



- **American International Group (AIG)**
- **The Travelers (TRV)**
- **Chubb Limited (CB)**
- **Prudential Financial (PRU)**
- **W.R. Berkeley (WRB)**

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