

## State Street Corporation

## Downgrade to Underperform

Rating Change: UNDERPERFORM | PO: 81.00 USD | Price: 77.30 USD

## Risk/reward less appealing vs. retail banks

We downgrade State Street (STT) to Underperform from Neutral as we expect the stock to lag the broader banks space (especially credit sensitive retail banks) in a soft-landing scenario and potentially the investment banks if capital markets activity rebounds. We revise our 4Q23e/FY24e EPS to \$1.90/\$7.17 from \$1.85/\$7.27 to reflect management's recent update. Our \$81 PO implies 11.3x FY24e EPS and 1.7x YE24e TBV/share vs. 16.2% FY24 ROTCE forecast. For investors looking to add exposure to trust banks, we highlight Buy-rated BNY Mellon (BK), where we see relative risk/reward as more favorable.

## Rate-cuts to serve as a drag to EPS growth

STT will be entering the rate-cutting cycle with an asset sensitive balance sheet with management's rate sensitivity disclosure indicating a 7% hit to annual net interest income from -100bp rate shock. That said, asset repricing should partially mitigate this pressure with the bond book yielding ~3% with an average duration of 2.7yrs.

## Capital return to moderate

With 2023 capital pay-out (share buybacks + dividends) of 200%+, STT ended 3Q23 with a common equity tier 1 (CET1) capital ratio of 11% or -220bp YoY and vs. management's targeted range of 10-11%. As a result, we expect share buybacks to moderate to \$1.1bn in FY24 vs. \$4.2bn for FY23. Limited flexibility to buyback shares reduces EPS defensibility in the event where revenue growth disappoints. Moreover, the larger GSIB banks should see a greater boost to their capital return outlooks and stock performance due to potential revisions to the Basel III Endgame proposal, in our opinion.

## Fee revenue pressures to persist

While the outlook for stable to rising asset prices should be a positive for fee revenue growth, we expect pricing pressures to persist, thereby mitigating the revenue upside. However, management's continued focus on efficiency and new client growth (\$2.3tm of assets and \$255mn in servicing fee revenue to be installed over the next couple of years) provide defensibility. We forecast FY24/25 YoY fee revenue growth of +0.4%/2.2% YoY. See additional details in our sector outlook: [US Banks: 2024 Year Ahead: Top ten questions asked \(and answered\) 04 January 2024](#)

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	7.42	7.29	7.51	7.17	7.78
GAAP EPS	7.18	7.00	5.36	7.17	7.78
EPS Change (YoY)	11.2%	-1.8%	3.0%	-4.5%	8.5%
Consensus EPS (Bloomberg)			7.41	7.56	8.44
DPS	2.18	2.40	2.64	2.82	2.92
Valuation (Dec)					
P/E	10.4x	10.6x	10.3x	10.8x	9.9x
GAAP P/E	10.8x	11.0x	14.4x	10.8x	9.9x
Dividend Yield	2.8%	3.1%	3.4%	3.6%	3.8%

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Timestamp: 04 January 2024 06:00AM EST

04 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-3-7
Inv. Rating	NEUTRAL	UNDERPERFORM
2023E Rev (m)	11,860.9	11,852.0
2024E Rev (m)	12,001.4	11,849.7
2025E Rev (m)	12,288.4	12,120.9
2023E EPS	7.46	7.51
2024E EPS	7.27	7.17
2025E EPS	7.93	7.78

Ebrahim H. Poonawala

Research Analyst

BofAS

+1 646 743 0490

ebrahim.poonawala@bofa.com

Brandon Berman

Research Analyst

BofAS

+1 646 855 3933

brandon.berman@bofa.com

Christian Panebianco

Research Analyst

BofAS

+1 646 855 3912

christian.panebianco@bofa.com

Isiah Austin

Research Analyst

BofAS

+1 646 855 0472

isiah.austin@bofa.com

Gabriel Angelini

Research Analyst

BofAS

+1 646 855 3081

gabriel.angelini@bofa.com

## Stock Data

Price	77.30 USD
Price Objective	81.00 USD
Date Established	14-Dec-2023
Investment Opinion	B-3-7
52-Week Range	62.78 USD -94.74 USD
Mrkt Val / Shares Out (mn)	23,854 USD / 308.6
Free Float	94.0%
Average Daily Value	155.63 USD
BofA Ticker / Exchange	STT / ASE
Bloomberg / Reuters	STT US / STT.N
ROE (2023E)	11.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

# iQprofile<sup>SM</sup> State Street Corporation

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	1,903	2,544	2,657	2,326	2,388
% change	-13.5%	33.7%	4.4%	-12.5%	2.7%
Net Fee Income	10,012	9,606	9,489	9,524	9,732
Securities Gains / (Losses)	110	(2)	(294)	0	0
Total Operating Income	12,025	12,148	11,852	11,850	12,121
Operating Expenses	(8,745)	(8,801)	(8,942)	(9,063)	(9,278)
% change	1.9%	0.6%	1.6%	1.4%	2.4%
Provisions Expense	33	(20)	(46)	(60)	(60)
% change	-137.5%	NA	130.0%	30.4%	0%
Operating Pre-Tax Income	3,286	3,394	3,158	2,727	2,783
Operating Net Income to Comm S/Hold.	2,571	2,591	1,743	2,120	2,171
GAAP Net Income	2,571	2,591	1,743	2,120	2,171

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	314,624	301,450	276,737	278,854	284,189
Average Interest Earning Assets	260,023	247,301	228,286	218,331	222,574
Total Gross Customer Loans	32,532	32,150	35,436	37,727	40,745
% change	16.5%	-1.2%	10.2%	6.5%	8.0%
Total Customer Deposits	255,035	235,464	205,894	207,738	213,187
% change	6.4%	-7.7%	-12.6%	0.9%	2.6%
Tangible Equity	16,445	14,994	12,789	13,202	13,202
Common Shareholders' Equity	25,387	23,215	21,112	21,292	21,380

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	0.73%	1.03%	1.16%	1.07%	1.07%
Effective Tax Rate	15.4%	17.1%	18.8%	18.0%	17.6%
Loan / Deposit Ratio	12.8%	13.7%	17.2%	18.2%	19.1%
Tangible Common Equity / Assets	5.2%	5.0%	4.6%	4.7%	4.6%
ROA	0.9%	0.9%	0.9%	0.8%	0.8%
ROE	11.1%	11.3%	11.0%	10.0%	10.2%
RoTE	17.1%	17.2%	17.6%	16.3%	16.4%
Dividend Payout Ratio	27.7%	31.4%	43.3%	35.5%	33.9%
Efficiency Ratio (Cost / Income Ratio)	73.4%	72.4%	73.6%	76.5%	76.5%

## Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	84.2%	79.1%	77.6%	80.4%	80.3%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	0.27%	0.30%	0.38%	0.47%	0.51%

## Company Sector

Trust Banks

## Company Description

State Street is one of the largest trust banks in the US with operations organized into two main business lines: Investment Servicing and Investment Management. Investment Servicing activities include products and services for institutional clients to allow daily execution of financial transactions and facilitate clients' global securities settlement needs. Within Investment Management, STT provides a wide range of investment management strategies and products across multiple asset classes.

## Investment Rationale

We view State Street as potentially lagging the broader banks space (especially credit sensitive retail banks) in a soft-landing scenario. We expect capital return to moderate while the larger GSIB banks should see a greater boost to their capital return outlooks and stock performance due to potential revisions to the Basel III Endgame proposal.

## Acronyms

AEA – Average earning assets

NII – Net interest income

ROTCE – Return on tangible common equity

## Stock Data

Average Daily Volume

2013,274

## Quarterly Earnings Estimates

	2022	2023
Q1	1.59A	1.52A
Q2	1.94A	2.17A
Q3	1.82A	1.93A
Q4	1.94A	1.90E

**Exhibit 1: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
STT	STT US	State Street	US\$ 77.3	B-3-7
BK	BK US	BNY Mellon	US\$ 51.8	C-1-7

Source: BofA Global Research

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**Price objective basis & risk****State Street Corporation (STT)**

Our \$81 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 13.2x/1.4x multiples, respectively, below the bank's 5 year pre pandemic median of 13.5x/2.6x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop. Downside risks to our PO: severe selloff in equity/bond markets that that could put downward pressure on fee growth and M&A that could temper capital return. Upside risks: stronger equity/bond markets.

**The Bank of New York Mellon Corporation (BK)**

Our \$56 PO is based on 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 12.8x/1.6x multiples respectively, below the bank's 5 year pre pandemic median of 13.4x/3.1x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to uncertainty surrounding the outlook for interest rates and equity/bond prices.

Risk to the upside is stronger equity/bond markets. Risks to the downside are a severe selloff in equity/bond markets that that could put downward pressure on fee growth and M&A that could temper capital return.

**Analyst Certification**

I, Ebrahim H. Poonawala, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

**North America - Banks Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala



## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
<b>NEUTRAL</b>				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
<b>UNDERPERFORM</b>				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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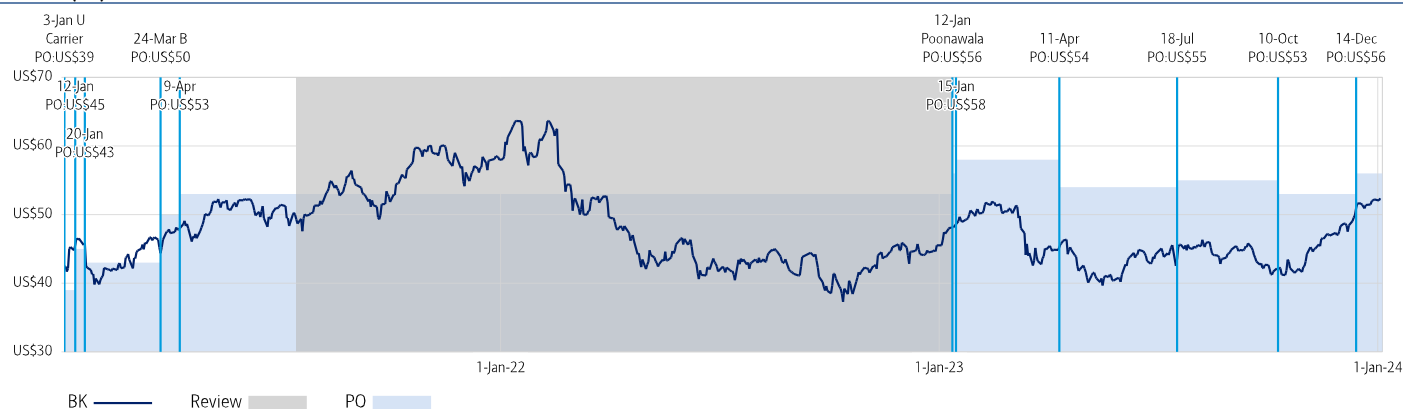
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### State Street (STT) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### BNY Mellon (BK) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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