

# State Street Corporation

## Playing catch-up

Reiterate Rating: NEUTRAL | PO: 72.00 USD | Price: 68.10 USD

### NII guidance drives stock sell-off

State Street (STT) shares sold-off 12% vs. -2.4% for the bank index after reporting weaker than expected 2Q revenues. The stock sell-off accelerated during the earnings call (started 10am ET) as management outlined expectations for significant negative mix-shift in deposits for 2H23. This is expected to drive a decline in 3Q23 net interest income (NII) of 12-18% QoQ (vs. -7% pre-2Q consensus) and another 2-6% decline in 4Q23. We revise our FY24e EPS to \$7.41 or -13%; estimate revisions drive PO to \$72 (from \$80) or 9.7x 2024 P/E and 1.7x YE23e TBV/share.

### Catching-up to higher interest rates

Management noted that it had observed an accelerated pace of repricing in the back book as customers demanded higher rates on deposits. Non-interest bearing (NIB) balances (average) declined 17% (or ~\$7bn) QoQ while cost of interest bearing deposits rose 50bp to 2.75%. Management expects the negative deposit mix-shift to continue with guidance for NIB balances declining an additional \$5bn in 3Q23 and \$3bn in 4Q23. Management expects NII to stabilize (likely 1H24 event) in the \$550-600mn range (vs. \$691mn reported for 2Q23) as the pace of deposit repricing moderates, benefit from higher reinvestment yields on the bond book and growth. We forecast FY23 NII to stay flat YoY.

### ROE, asset light model to drive buybacks

Management reiterated its plans for \$4.5bn in share buybacks for FY23. Common equity tier 1 (CET1) capital ratio 11.8% vs. management's 10-11% target (8% regulatory minimum). STT should see capital requirements move higher on the back of Basel reforms, but an asset light business model and a relatively healthy ROTCE should allow the bank to maintain buybacks (albeit at a slower pace) while growing into the new requirements. We forecast share buybacks of \$1.0bn/\$1.2bn for 3Q23/4Q23 and \$1.5bn for FY24.

### Stock lacking a catalyst

No change to our stock outlook. Coming into the year we expected trust banks to see a more measured pace of deposit repricing (relative to retail banks) given a sophisticated deposit base that had already begun repricing last year, providing mgmt. with better visibility on customer behavior (= lower risk of negative NII surprise). This has clearly not been the case at State Street. Topline story challenged given the pressure on NII and muted fee growth. Capital return likely to moderate and expense flex unlikely a game changer. Credit defensibility could become a bigger factor if recession risk rises.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	7.42	7.29	7.20	7.41	7.58
GAAP EPS	7.18	7.00	7.20	7.41	7.58
EPS Change (YoY)	11.2%	-1.8%	-1.2%	2.9%	2.3%
Consensus EPS (Bloomberg)			7.77	8.55	9.52
DPS	2.18	2.40	2.64	2.74	2.84
Valuation (Dec)					
P/E	9.2x	9.3x	9.5x	9.2x	9.0x
GAAP P/E	9.5x	9.7x	9.5x	9.2x	9.0x
Dividend Yield	3.2%	3.5%	3.9%	4.0%	4.2%

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14 July 2023

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	80.00	72.00
2023E Rev (m)	12,469.3	12,143.3
2024E Rev (m)	12,638.7	12,177.7
2025E Rev (m)	12,836.6	12,391.2
2023E EPS	8.05	7.20
2024E EPS	8.51	7.41
2025E EPS	8.58	7.58

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### Stock Data

Price	68.10 USD
Price Objective	72.00 USD
Date Established	14-Jul-2023
Investment Opinion	B-2-7
52-Week Range	58.62 USD -94.74 USD
Mrkt Val / Shares Out (mn)	22,763 USD / 334.3
Average Daily Value	166.21 USD
BofA Ticker / Exchange	STT / ASE
Bloomberg / Reuters	STT US / STT.N
ROE (2023E)	10.6%
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	2,564	1,987	1,943
% change	-13.5%	33.7%	0.8%	-22.5%	-2.2%
Net Fee Income	10,012	9,606	9,579	10,191	10,448
Securities Gains / (Losses)	110	(2)	0	0	0
Total Operating Income	12,025	12,148	12,143	12,178	12,391
Operating Expenses	(8,745)	(8,801)	(9,022)	(9,181)	(9,517)
% change	1.9%	0.6%	2.5%	1.8%	3.7%
Provisions Expense	33	(20)	(41)	(40)	(40)
% change	-137.5%	NA	105.0%	-2.4%	0%
Operating Pre-Tax Income	3,286	3,394	3,080	2,957	2,834
Operating Net Income to Comm S/Hold.	2,571	2,591	2,339	2,253	2,154
GAAP Net Income	2,571	2,591	2,339	2,253	2,154

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	314,624	301,450	289,426	288,620	293,806
Average Interest Earning Assets	260,023	247,301	240,345	242,414	244,915
Total Gross Customer Loans	32,532	32,150	34,809	37,594	40,601
% change	16.5%	-1.2%	8.3%	8.0%	8.0%
Total Customer Deposits	255,035	235,464	216,750	217,274	223,388
% change	6.4%	-7.7%	-7.9%	0.2%	2.8%
Tangible Equity	16,445	14,669	12,329	12,329	12,329
Common Shareholders' Equity	25,387	23,215	20,691	20,588	20,386

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	0.73%	1.03%	1.07%	0.82%	0.79%
Effective Tax Rate	15.4%	17.1%	20.0%	19.8%	19.8%
Loan / Deposit Ratio	12.8%	13.7%	16.1%	17.3%	18.2%
Tangible Common Equity / Assets	5.2%	4.9%	4.3%	4.3%	4.2%
ROA	0.9%	0.9%	0.8%	0.8%	0.7%
ROE	11.1%	11.3%	10.6%	10.9%	10.5%
RoTE	17.1%	17.3%	17.3%	18.3%	17.5%
Dividend Payout Ratio	27.7%	31.4%	33.3%	33.4%	33.7%
Efficiency Ratio (Cost / Income Ratio)	73.4%	72.4%	74.3%	75.4%	76.8%

## Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	84.2%	79.1%	78.9%	83.7%	84.3%
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%	0.36%	0.37%	0.37%

## 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 well positioned given outsized capital buffers relative to peers, and guidance for capital payout to exceed management's strategic target of 80% payout in FY23. We, however, believe these benefits are largely reflected in the stock price.

## Stock Data

Average Daily Volume 2,440,640

## Quarterly Earnings Estimates

	2022	2023
Q1	1.59A	1.52A
Q2	1.94A	2.17A
Q3	1.82A	1.77E
Q4	1.94A	1.75E

**Exhibit 1: STT Variance Table**

New vs. old EPS estimates, assumptions

(in millions, except per share amounts)										
<b>KEY FORECAST VARIABLES:</b>	<b>1Q23</b>	<b>Actual 2Q23</b>	<b>Estimate 2Q23E</b>	<b>Variance</b>	<b>New 2023E</b>	<b>Old 2023E</b>	<b>Variance</b>	<b>New 2024E</b>	<b>Old 2024E</b>	<b>Variance</b>
Net Interest Income (FTE)	768.0	691.0	714.2	-3.25%	2,566.3	2,717.4	-5.56%	1,989.1	2,297.9	-13.44%
Loan Loss Provision	44.0	(18.0)	7.5	-	41.0	66.5	-38.35%	40.0	40.0	0.00%
Servicing fees	1,217.0	1,259.0	1,264.0	-0.4%	4,965.2	5,100.4	-2.7%	5,243.3	5,340.8	-1.8%
Management fees	457.0	461.0	461.7	-0.1%	1,877.6	1,933.0	-2.9%	2,149.0	2,217.8	-3.1%
FX Trading	342.0	303.0	349.2	NA	1,328.6	1,374.8	-3.4%	1,381.7	1,429.8	-3.4%
Securities finance	109.0	117.0	109.1	7.2%	441.1	433.2	1.8%	449.9	441.9	1.8%
Processing fees and other	165.0	221.0	195.5	13.0%	793.6	763.5	3.9%	793.6	763.5	3.9%
Tot. Revenue	3,101.0	3,110.0	3,141.7	-1.01%	12,143.3	12,469.3	-2.61%	12,177.7	12,638.7	-3.65%
Total Expenses	2,369.0	2,212.0	2,223.1	-0.50%	9,022.4	9,024.5	-0.02%	9,180.9	9,182.8	-0.02%
Pre-Tax Income (FTE)	688.0	916.0	911.1	0.54%	3,079.9	3,378.3	-8.83%	2,956.7	3,415.9	-13.44%
FTE Tax Rate (%)	20%	17%	19%	0pp	20%	19%	0pp	20%	19%	0pp
Taxes	139.0	153.0	173.1	-11.61%	616.7	650.2	-5.15%	584.3	644.7	-9.37%
Net Income	549.0	763.0	738.0	3.39%	2,463.2	2,728.2	-9.71%	2,372.5	2,771.2	-14.39%
Available For Common	525.0	726.0	702.0	24mn	2,342.2	2,609.2	-267mn	2,251.5	2,652.2	-401mn
<b>Op. EARNINGS PER SHARE (F.D.)</b>	<b>\$1.52</b>	<b>\$2.17</b>	<b>\$2.12</b>	<b>2%</b>	<b>\$7.20</b>	<b>\$8.05</b>	<b>-10%</b>	<b>\$7.41</b>	<b>\$8.51</b>	<b>-13%</b>
<b>GAAP EPS (F.D.)</b>	<b>\$1.52</b>	<b>\$2.17</b>	<b>\$2.12</b>	<b>2%</b>	<b>\$7.20</b>	<b>\$8.05</b>	<b>-10%</b>	<b>\$7.41</b>	<b>\$8.51</b>	<b>-13%</b>
Book Value Per Share	\$67.69	\$69.01	\$64.88	\$4.13	\$71.37	68.99	\$2.38	\$76.88	62.66	\$14.22
Tangible Book Value Per Share	\$42.34	\$42.68	\$39.28	\$3.40	\$42.52	33.68	\$8.84	\$45.81	32.25	\$13.55
Dividends Per Share	\$0.63	\$0.63	\$0.63	\$0.00	\$2.64	2.64	\$0.00	\$2.74	2.74	\$0.00
Average Fully-Diluted Shares	345.5	333.5	330.8	3mn	324.8	325.7	-1mn	304.0	311.8	-8mn
<b>CAPITAL RATIOS:</b>										
EOP Common Equity/Assets (%)	7.8%	7.5%	7.5%	0bp	7.1%	7.2%	0bp	7.2%	7.2%	0bp
Tang. Common Equity/Assets (%)	4.9%	4.7%	4.6%	0bp	4.3%	4.2%	0bp	4.3%	4.2%	0bp
Tangible Common Equity/RWA (%)	12.3%	12.1%	11.5%	1bp	11.0%	10.7%	0bp	11.0%	10.7%	0bp
Tier 1 Common/RWA (%)	12.1%	11.8%	11.7%	0bp	10.7%	10.8%	0bp	10.6%	11.3%	-1bp
<b>PROFITABILITY RATIOS:</b>										
Return On Assets (%)	0.8%	1.0%	1.0%	9bp	0.8%	0.9%	-9bp	0.8%	0.9%	-15bp
Return On Common Equity (%)	9.1%	12.9%	12.6%	26bp	10.5%	12.0%	-144bp	10.9%	12.8%	-191bp
Return On Tangible Common Equity (%)	13.2%	18.7%	18.4%	28bp	15.4%	17.7%	-227bp	16.2%	19.0%	-281bp
Operating Expenses/Revenues (%)	76.4%	71.1%	70.8%	36bp	74.3%	72.4%	193bp	75.4%	72.7%	274bp
<b>BALANCE SHEET ITEMS:</b>										
EOP Total Deposits	223,631	222,316	218,068	1.95%	216,750	216,402	0.16%	217,274	218,338	-0.49%
EOP Total Assets	290,816	294,561	285,477	3.18%	289,426	284,321	1.80%	288,620	284,922	1.30%
EOP Equity	24,750	24,204	23,438	3.27%	22,667	22,387	1.25%	22,564	22,932	-1.61%
EOP Preferred Equity	1,976	1,976	1,976	0.00%	1,976	1,976	0.00%	1,976	1,976	0.00%
EOP Common Equity	22,774	22,228	21,462	3.57%	20,691	20,411	1.37%	20,691	20,411	1.37%
EOP Tangible Common Equity	14,246	13,746	12,993	5.79%	12,327	12,060	2.22%	12,327	12,060	2.22%

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH



## Price objective basis & risk

### State Street Corporation (STT)

Our \$72 PO incorporates recession risk. We apply a 50% weighting to our 2023 P/E multiple, with the remaining 50% evenly split between 2024 P/E and 2023 P/TBV multiples. We assign 10.5x/9.0x/2.2x multiples respectively, below peer multiples (11.0x/9.8x/2.1x).

Risks 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>				
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	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
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	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>				
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
<b>UNDERPERFORM</b>				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala

## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	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

**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

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**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**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

**IQmethod<sup>SM</sup>** is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of IQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

**IQdatabase<sup>®</sup>** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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# Disclosures

## Important Disclosures

### 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.

### Equity Investment Rating Distribution: Banks Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	98	50.52%	Buy	81	82.65%
Hold	45	23.20%	Hold	33	73.33%
Sell	51	26.29%	Sell	37	72.55%

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<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.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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%

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