

Strategy Snippet

The tide is turning for stock picking

Just as active share plummets to decade lows...

...see Exhibit 1 – benchmark hugging hasn't been this rampant in awhile, amid index concentration and low investor conviction. Active to passive flows that began decades ago may be at a tipping point. Active equity is now just 47% of total AUM (down from 80%) but admittedly, Japan got to 75% passive, due to BoJ buying ETFs. Passive inflows have slowed, active fees have been halved and fee compression is slowing. BofA Securities clients are now buying more single stocks than ETFs as a new generation of stock pickers has been spawned by Robinhood, "meme" stock headlines, etc. BofA US Research clicks have shifted by 7ppt from macro to single stock research since 2021.

Fewer eyeballs, more alpha

A brain drain (20% fewer sell-side eyeballs) and asset drain (40% fewer funds) from active fundamental investing to passive and private equity suggest equity markets may be less efficient and thus offer more alpha potential. The number of stocks has shrunk as companies remain private longer; but public equity and credit are now historically cheap vs. private counterparts and S&P 500 valuation dispersion is near record highs (abundant mean reversion alpha). We expect a pickup in volatility this year, which is good for stock picking. And beware of cap-weighted index risks: the S&P 500 is concentrated in statistically expensive mega-caps, the Russell 2000 has a record % of non-earners.

How to beat your benchmark

If we are in a stock pickers' market, we offer some tools for outperformance based on our empirical analysis. First, pick your universe carefully. Certain sectors (Consumer, Health Care, Tech) lend themselves to stock selection due to lower intra-stock correlations and wider performance spreads. Fundamental strategies have generated more alpha when applied to more idiosyncratic universes, or to universes with less information flow vis-a-vis sell-side coverage. But fear not, mega-cap managers: some fundamental strategies are enhanced by robust coverage (see Exhibit 27 for an example). Finally, time horizons are an equity owner's friend, and since 2008 it would have behooved portfolio managers to freeze their holdings at the beginning of each year, as returns for active funds with holdings frozen for 3yrs would have eclipsed actual, unfettered active returns during almost every period.

Screens for better breadth

The narrowness of the S&P 500 (34% of companies outperformed in January, 27% in 2023) is likely to shift, in our view. We present several screens that could benefit from a broadening market. Retirees have shifted assets to cash for income, but an easing cycle could drive them to equity income funds. Today, 80 of the S&P 500 companies (**the Magnificent 80?**) offer higher dividend yield over the next 3yrs than cash, assuming short rates peak here (capital appreciation would be "gravity"). We present **stocks that act like stocks** (high idiosyncratic risk), **valuation mean-reversion opportunities** and **stocks with the most upside potential to BofA analyst price objectives**.

Trading ideas and investment strategies discussed herein may give rise to significant risk and are not suitable for all investors. Investors should have experience in relevant markets and the financial resources to absorb any losses arising from applying these ideas or strategies.

BofA Securities does and seeks to do business with issuers covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 15 to 17.

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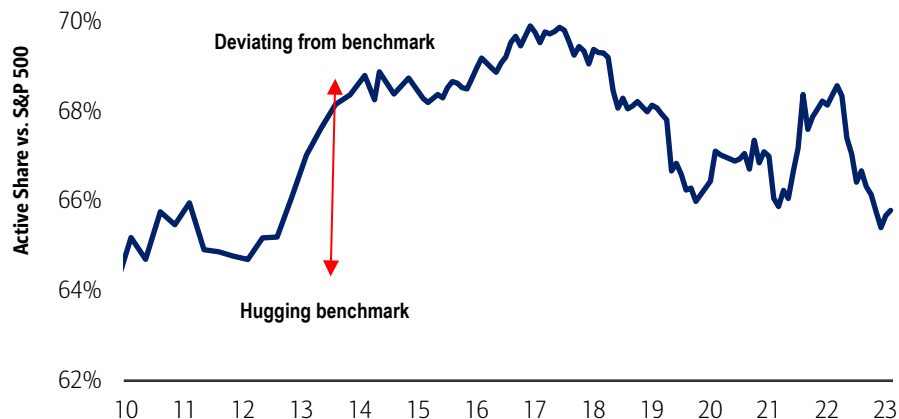
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Get active

In 2023: active share plummeted amid career risk, benchmark concentration risk and macroeconomic uncertainty.

Exhibit 1: More benchmark hugging = waning investor conviction

Active share ratio of core managers vs. S&P 500 (Nov 2010- Dec. 2023)



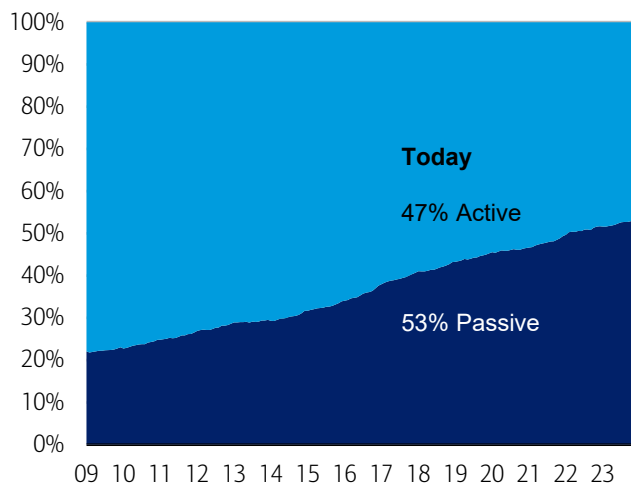
Source: BofA US Equity & Quant Strategy, FactSet Ownership. Active Share Ratio is calculated as the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and then dividing by two. For example, if the benchmark includes one stock, and a portfolio manager invests half of assets in that stock and half in another stock, the Active Share of the portfolio is 50%.

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The tide is turning

Exhibit 2: Passive is >50% of US domiciled AUM

US AUM allocation active vs. passive (as of 12/23)

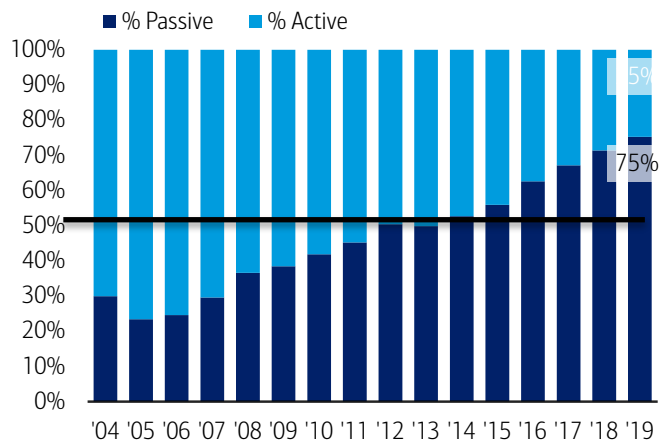


Source: BofA US Equity & Quant Strategy, Strategic Insights SimFund

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Exhibit 3: How far can the rotation go? Japan got to 3/4 passively managed

Japan-focused equity funds: % of AUM in passive vs. active

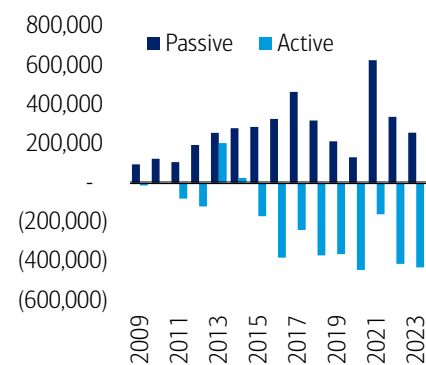


Source: BofA US Equity & Quant Strategy, Strategic Insights SimFund

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Exhibit 4: Passive inflows slowing

Flows by year into active vs. passive funds (\$mn), 2009-2023

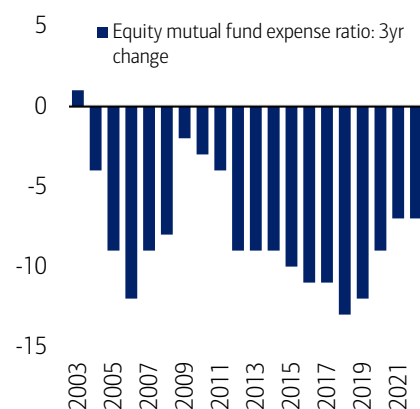


Source: BofA US Equity & Quant Strategy, Strategic Insights SimFund

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Exhibit 5: Fee compression is slowing

3yr change (bps) in equity mutual fund expense ratios, 2003-2022

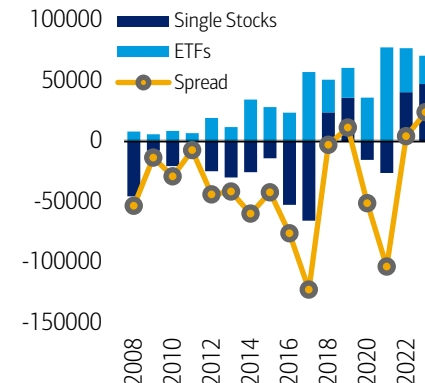


Source: ICI Factbook, BofA US Equity & Quant Strategy

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Exhibit 6: BofA Securities clients bought - more single stocks than ETFs in 2023

Cumulative flows into single stocks vs ETFs by BofA Securities clients, \$mn

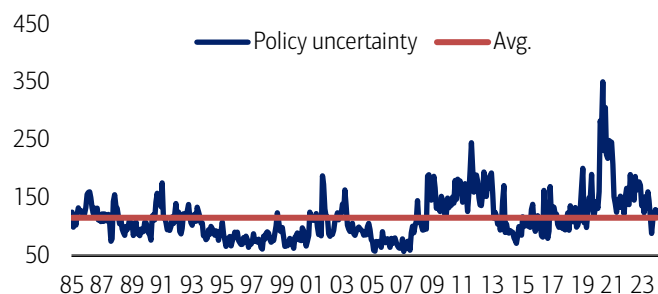


Source: BofA Securities

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Volatility is likely in 2H 2024 and is good for active**Exhibit 7: Election year: Policy uncertainty spiked into Nov. 2020, Nov 2016, Nov 2012, Nov 2008...**

US Economic Policy Uncertainty Index, 1985-today

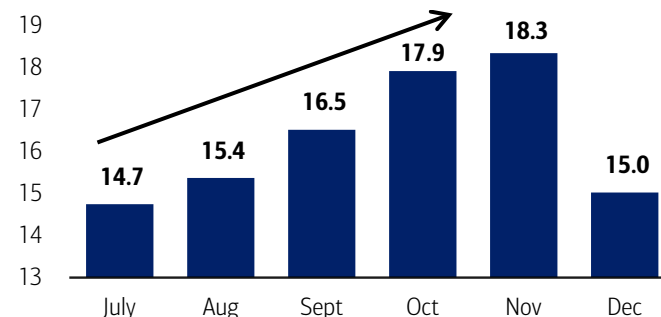


Source: BofA US Equity & Quantitative Strategy

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Exhibit 8: 25% VIX jump ahead of election

Average monthly volatility (VIX 1990-present, monthly average of daily S&P 500 return volatility 1928-1989) for US election years since 1928

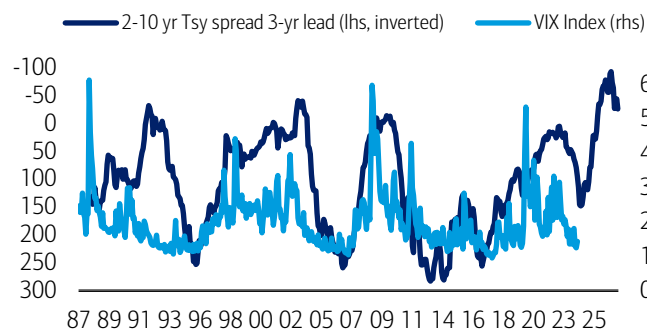


Source: Bloomberg, FactSet, BofA US Equity & Quantitative Strategy

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Exhibit 9: The slope of the yield curve indicates a mid-'24 VIX trough

YC 2-10 spread (3yr lead) vs CBOE VIX (44% correlation)

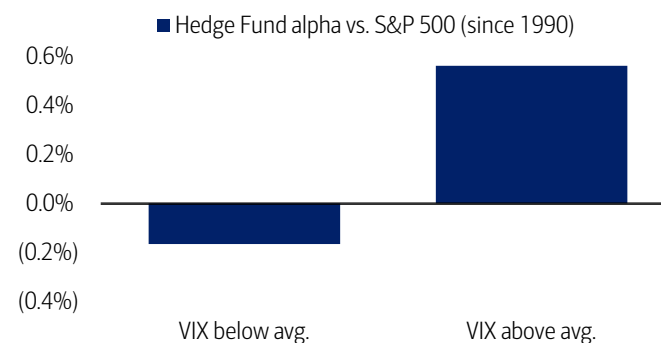


Source: BofA US Equity & Quantitative Strategy

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Exhibit 10: Hedge funds shine amid heightened volatility

HFRI equity hedge total index vs. S&P 500 when the VIX is above/below avg. (since 1990)



Source: BofA US Equity & Quant Strategy, Bloomberg

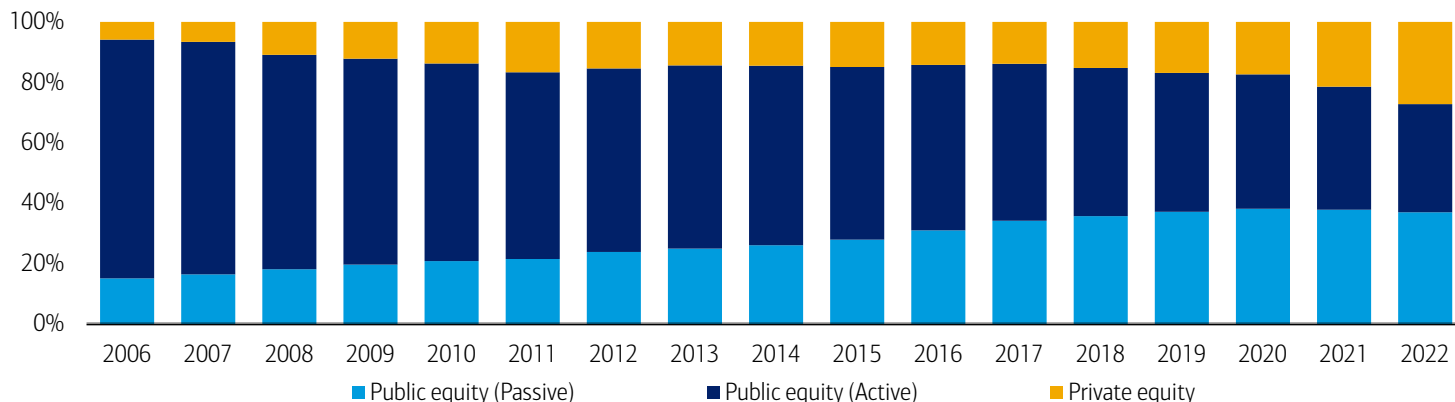
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Fewer eyeballs means more alpha

Private equity AUM grew 90% in 2018-21, similar to the gain on the S&P 500 of 100%. But a sectoral breakdown of the growth indicates private equities took on much bigger exposure to zero interest rate policy (or ZIRP) winners in long duration Tech & Health Care, which drove 75% of the AUM growth during the period. Public market ZIRP winners have aggressively de-rated (e.g. SPAC Index -40% since peak), private equities have yet to see a similar magnitude of markdowns. One data point of evidence: the spread between the cost of debt issued by private companies vs. the overall high yield market is at the bottom 10th percentile in history - too little risk may be priced into private investments vs. public investments.

Exhibit 11: Fundamental active equity squeezed out by passive & private

Pension allocation: Public equity (Active)*, Public equity (Passive)*, Private Equity as a % of total equity

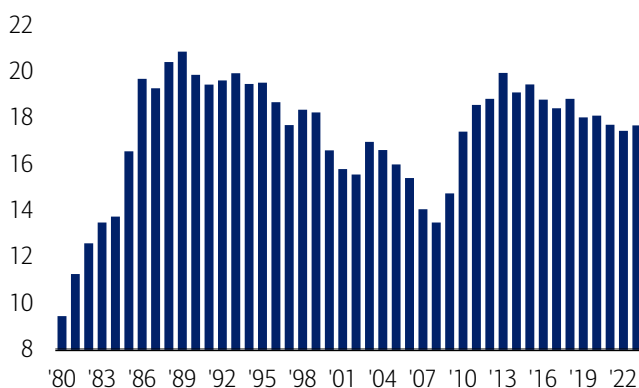


Source: BofA US Equity & Quant Strategy, FactSet. Pensions & Investments, Strategic Insights, SimFund, BofA US Equity & US Quant Strategy. Based on US pension funds within the top 1000 that have available asset allocations. Total equity includes public equity (global, international, and domestic) and private equity. *We make assumptions on mix shift based on SimFund US AUM tracked in passive vs active.

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Exhibit 12: Avg. # of analysts covering an S&P 500 stock down 15% since 1990

Avg. # of analysts covering an S&P 500 stock (1980-2023)

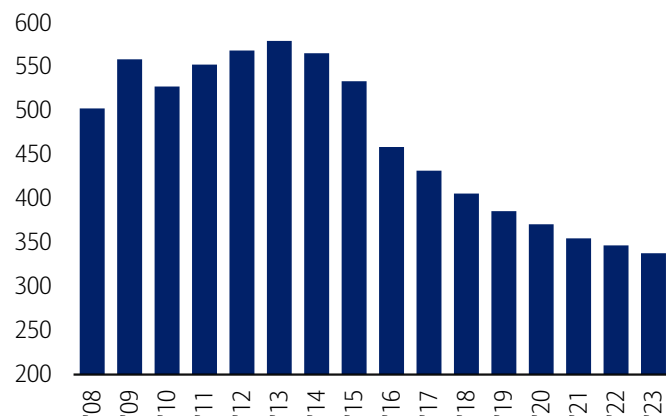


Source: FactSet Ownership

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Exhibit 13: # of funds down 40% since 2013

of large cap US long only funds (2008-2023)

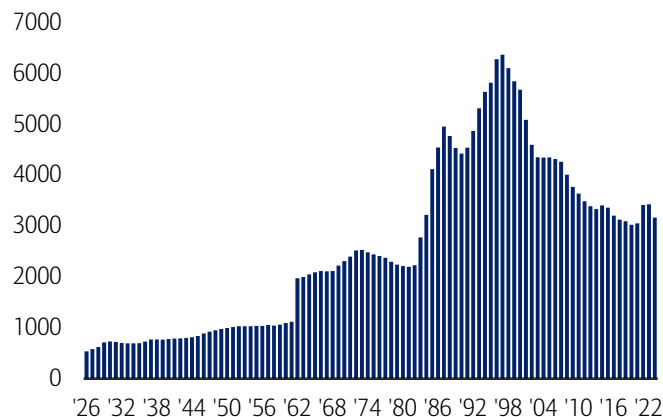


Source: BofA US Equity & Quant Strategy, Lipper, FactSet Ownership

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Exhibit 14: # of US stocks shrinking since 1990s

Number of US public co's (1926-2023)

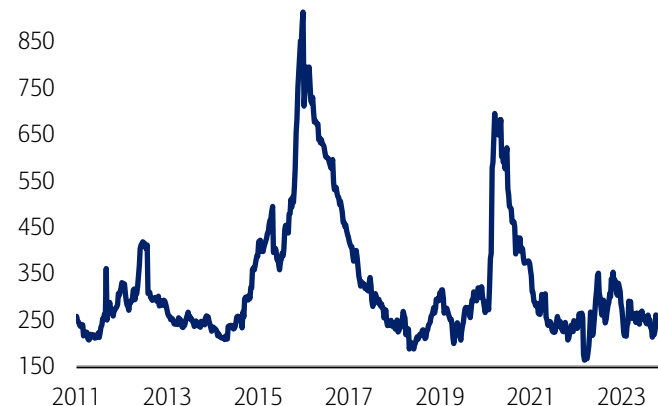


Source: BofA US Equity & Quant Strategy, CRSP®, Center for Research in Security Prices. Graduate School of Business, The University of Chicago. Used with permission. All rights reserved. www.crsp.uchicago.edu

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Exhibit 15: Cost of debt from private companies vs. the overall high yield market is at the bottom 10th percentile

Spread between small private Bs/CCCs vs. overall high yield (2011-1/5/24)



Source: BofA Global Research

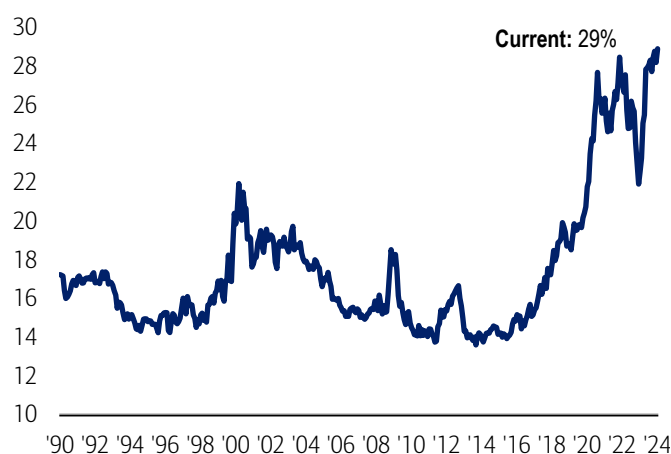
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Passive problems

Both large and small market-capitalization weighted benchmarks in the US have unique and extreme problems relative to history. The S&P 500 has peaked in concentration risk with mega-cap growth stocks benefiting from free capital and passive dividend reinvestment inflows. The Russell 2000 has a record percentage of non-earners in the index, largely driven by an influx of unprofitable IPOs/SPACs in tandem with two profits recessions, and faces heightened credit risk amid a higher-rate environment.

Exhibit 16: Large cap indices have concentration risk

Weight of largest 7 companies in the S&P 500 (as of 1/24)

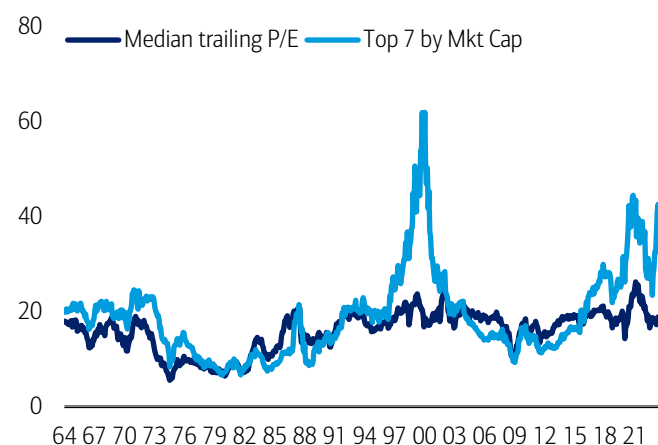


Source: BofA US Equity & Quant Strategy, FactSet

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Exhibit 17: The S&P 500 is expensive, but the average stock is not

S&P 500 median trailing P/E vs. top 7 P/E (as of 1/24)

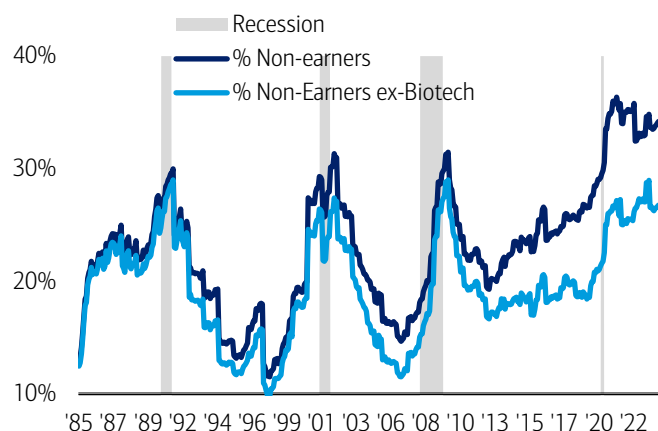


Source: BofA US Equity & Quant Strategy, FactSet

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Exhibit 18: One of three small public companies is unprofitable

% of Russell 2000 stocks that are non-earners (as of 1/24)



Source: BofA US Equity & Quant Strategy, FactSet

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Exhibit 19: Size and style vs. rate risk via equity duration

Russell style & size indices and their current metrics as of 12/23

	Value	Core	Growth	
Large	Shortest duration: LTG: 7% Div. payout: 35% FCF/EV: 4% % non-earners: 6%	LTG: 10% Div. payout: 31% FCF/EV: 4% % non-earners: 7%	LTG: 15% Div. payout: 24% FCF/EV: 3% % non-earners: 8%	Highest Duration Risk ↓
	LTG: 10% Div. payout: 31% FCF/EV: 3% % non-earners: 7%	LTG: 10% Div. payout: 29% FCF/EV: 3% % non-earners: 8%	LTG: 13% Div. payout: 21% FCF/EV: 3% % non-earners: 11%	
	LTG: 7% Div. payout: 41% FCF/EV: 3% % non-earners: 32%	LTG: 10% Div. payout: 37% FCF/EV: 3% % non-earners: 33%	Longest duration: LTG: 20% Div. payout: 35% FCF/EV: 1% % non-earners: 36%	
Highest Duration Risk →				

Source: BofA US Equity & Quant Strategy, FactSet

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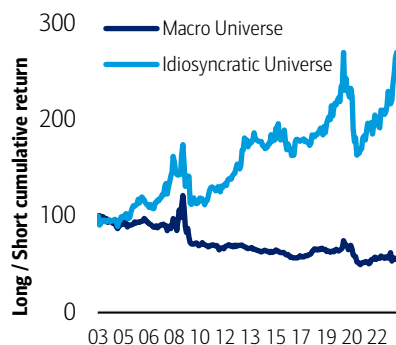
Pick stocks that act like stocks

When we slimmed down our universe to stocks that “act like stocks”, fundamental signals dramatically improved.

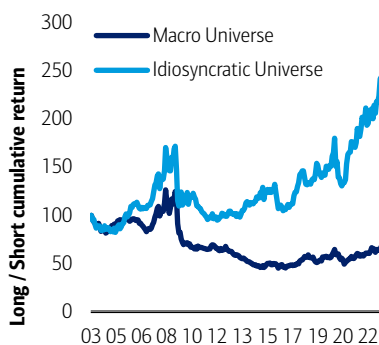
Using constituents of the S&P 500, we calculated the percentage of returns variation explained by the index over the last fifteen years (the R-square). The residual returns were considered idiosyncratic, or company-specific. Using the median idiosyncratic risk as a breakpoint, we divided the S&P 500 into halves: the idiosyncratic (above-median company-specific risk) and macro (below-median company-specific risk) groups. We found that long-short stock selection strategies based on earnings growth, return on equity (ROE) and analysts' outlooks (EPS revisions) would have generated more alpha within the idiosyncratic universe, less within the macro universe (charts below).

Exhibit 20: Earnings growth: Idiosyncratic universe generated 5ppt alpha p.a. vs. -3ppt for macro universe

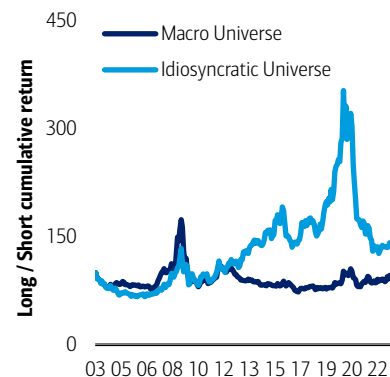
Stocks with highest vs. lowest earnings growth in each universe, top/bottom quintiles, monthly rebalancing 4/2003-12/2023

Source: FactSet, BofA US Equity & Quant Strategy
BofA GLOBAL RESEARCH**Exhibit 21: EPS Estimate Revisions: Idiosyncratic universe generated 3ppt alpha p.a. vs. -1ppt for macro universe**

Stocks with highest vs. lowest EPS estimate revisions, top/bottom quintiles, monthly rebalancing 4/2003-12/2023

Source: FactSet, BofA US Equity & Quant Strategy
BofA GLOBAL RESEARCH**Exhibit 22: ROE: Idiosyncratic universe generated 2ppt alpha p.a. vs. 0ppt for macro**

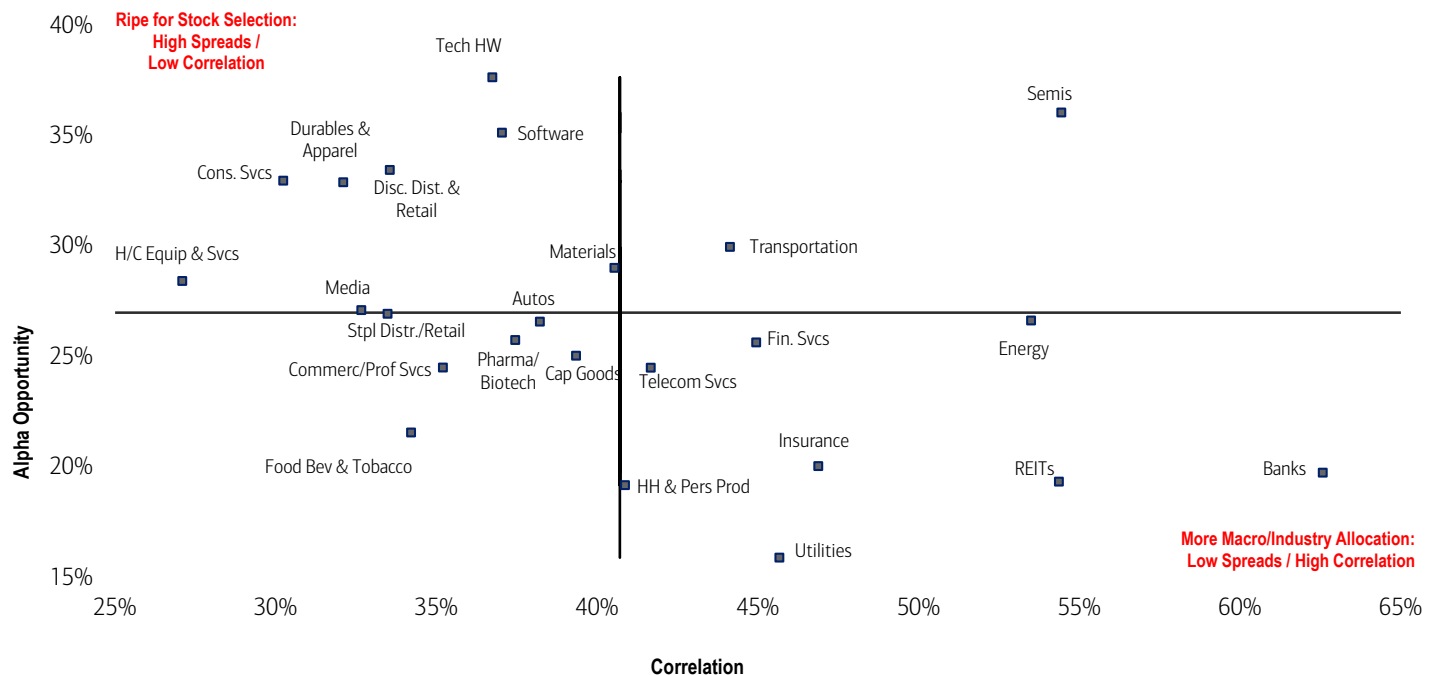
Stocks with highest vs. lowest ROE, top/bottom quintiles, monthly rebalancing 4/2003-12/2023

Source: FactSet, BofA US Equity & Quant Strategy
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We also find that stock selection may be enhanced by focusing on specific sectors with more idiosyncratic risk and wider dispersion between the best and worst performers. Consumer, Technology and Health Care companies are sectors where stock selection may be more fruitful, whereas sectors like Financials, Utilities or Commodities may be driven by macro cycles in rates, inflation, economic growth trends etc.

Exhibit 23: Pick your battles: correlations vs. dispersion by sector

Historical Intra-stock correlation vs. performance spread (3Q86 to 4Q23)



Source: BofA US Equity & Quant Strategy, FactSet

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Take the road less traveled

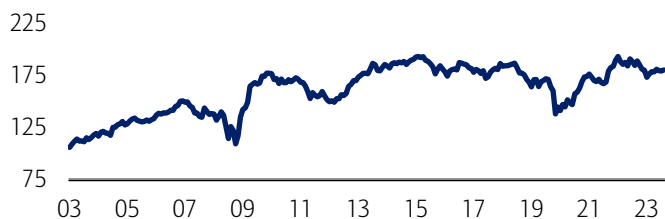
The value or trading price of a company with less information flow may be less reflective of its risks and opportunities than one with more information flow. This makes sense intuitively, and our analysis bears this out empirically.

We split the S&P 500 into two industry-neutral groups of stocks: (1) Sell-Side darlings: stocks within an industry with an above median number of analyst estimates, and (2) Sell-Side Neglect: stocks within each industry with a below median number of analysts covering it.

When we limited our universe to stocks with lower sell-side analyst coverage – arguably a less efficient universe – fundamental factors' performance dramatically improved.

Exhibit 24: Low Price/Sales in Sell Side Neglect universe outperformed by 3ppt p.a.

Cumulative rel. total return perf. (vs. equal-wtd. S&P 500) of top quintile by Low Price/Sales within the Sell-Side Neglect universe, monthly rebalancing 4/2003-12/2023

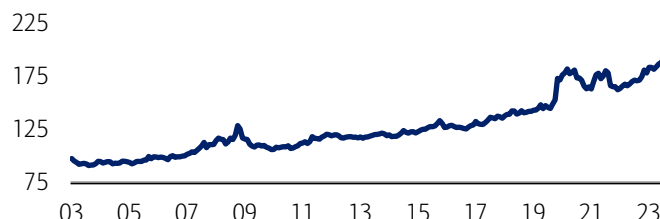


Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 25: High Return on Capital in Sell Side Neglect universe outperformed by 3ppt p.a.

Cumulative rel. total return perf. (vs. equal-wtd. S&P 500) of top quintile by high ROC within the Sell-Side Neglect universe, monthly rebalancing 4/2003-12/2023



Source: FactSet, BofA US Equity & Quant Strategy

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Tailor your framework to your universe

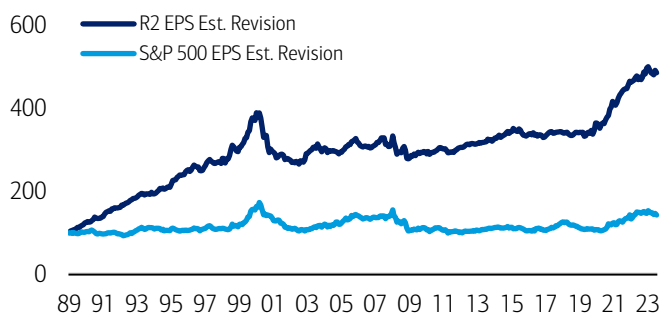
Whereas many signals have been more fruitful for screening in less trafficked universes, some strategies are more suited for efficient well followed universes. We present a case study in contrast for smaller (generally less followed) and larger (generally more followed) companies below.

Trend measures in small caps: an investment strategy based on a simple trend such as upward revisions to consensus earnings estimates within the Russell 2000 would have hypothetically generated excess returns of 5ppt per year relative to the equal-weighted index since 1989 (vs. only 1ppt for the S&P 500).

Out of consensus metrics in large caps: One of the most powerful factors we track within the S&P 500 is predicated on robust analyst coverage. We screen for stocks where our BofA analyst's earnings estimate is statistically significantly above (or below) consensus. Since inception (1/1989), the long strategy (Forecast Positive Earnings Surprise) would have hypothetically outperformed the equal-weighted S&P 500 by 1.4ppt p.a. vs. -2.1ppt p.a. for the short strategy (Forecast Negative Earnings Surprise). For more details, see our [Quantitative Profiles](#) publication.

Exhibit 26: Plain vanilla earnings revisions works better in small than large

Equal-wtd relative cumulative performance of EPS Estimate Revision within Russell 2000 and S&P 500 vs. the respective equal-weighted benchmark (6/89-12/23)

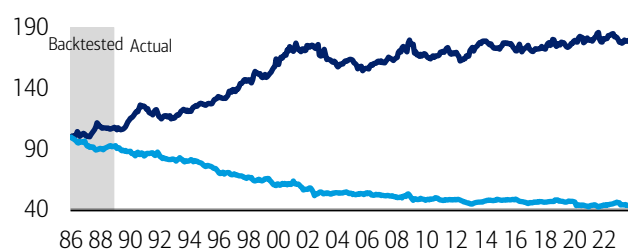


Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 27: ...But fear not, large cap managers: expert vs consensus measures require and work better in robust coverage universes

BofA vs. Consensus forecast surprise: Cumulative performance of Forecast Positive/Negative EPS Surprise vs. Equal-Weighted S&P 500 (2/86-12/23)



Source: FactSet, BofA US Equity & Quant Strategy

Note: The shaded area in performance chart shows back tested results during the period from month end February 1986 to month end December 1988. The unshaded portion represents actual performance since January 1989. Back tested performance is hypothetical in nature and reflects application of the screen prior to its introduction and is not intended to be indicative of future performance. This is a screen and not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

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The analysis of BofA vs. Consensus forecast surprise in this report is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the hypothetical back-tested performance of a particular strategy over the time period indicated. In future periods, market and economic conditions will differ and the same strategy will not necessarily produce the same results. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. In fact, there are frequently sharp differences between back-tested returns and the actual results realized in the actual management of a portfolio. Back-tested performance results are created by applying an investment strategy or methodology to historical data and attempts to give an indication as to how a strategy might have performed during a certain period in the past if the product had been in existence during such time. Back-tested results have inherent limitations including the fact that they are calculated with the full benefit of hindsight, which allows the security selection methodology to be adjusted to maximize the returns. Further, the results shown do not reflect actual trading or the impact that material economic and market factors might have had on a portfolio manager's decision-making under actual circumstances. Back-tested returns do not reflect advisory fees, trading costs, or other fees or expenses.

Extend your time horizons

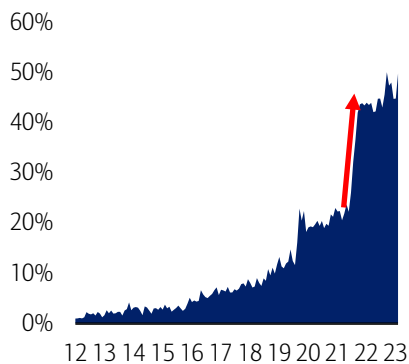
As investors have collectively moved to the short-term (0-day S&P options account for nearly 50% of volume vs. <5% a decade ago) – we remind ourselves that...

The likelihood of losing money in the S&P 500 drops from a coin flip to a 2-sigma event by extending one's holding period from a day to a decade.

Moreover, if a fund manager had not traded out of his initial portfolio for three years, he almost always outperformed the actual returns of the funds.

Exhibit 28: Major shift in focus to short-term trading

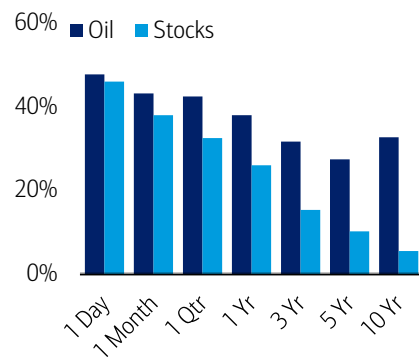
SPX 0-days to expiry option volume as a % of total options volume



Source: BofA Global Equity Derivatives Research, Bloomberg
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Exhibit 29: Time really is money...at least for stocks

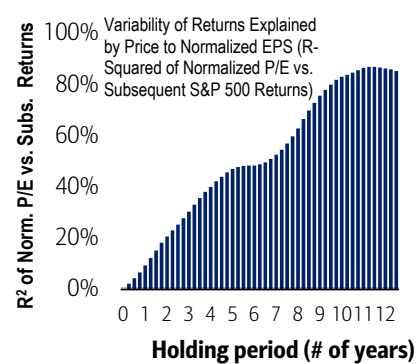
Probability of negative returns over different time horizons (1929-present)



Source: BofA US Equity & Quant Strategy, Bloomberg, Haver
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Exhibit 30: Valuation is almost all that matters for long-term stock returns

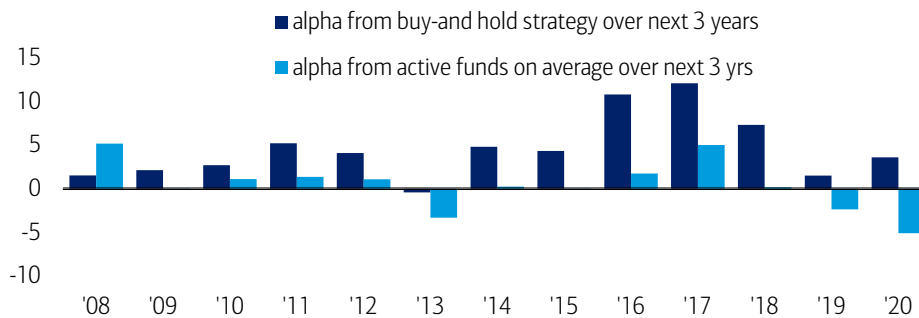
Price to normalized EPS r-sq vs. returns (1987-present)



Source: BofA US Equity & Quant Strategy, FactSet, Haver
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Exhibit 31: Alpha from buy-and-hold versus reality

Avg. excess gross total return vs. S&P 500 from forced 3-yr holding period vs. avg. excess return of actual large cap active funds over subsequent 3-yr (2008-2020)



Source: BofA US Equity & Quant Strategy, FactSet Ownership, Lipper

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Screens for better breadth

The narrowness of the S&P 500 (34% of companies outperformed in January, 27% in 2023) is likely to shift, in our view. We present several screens that could benefit from a broadening market: S&P 500 companies that offer higher dividend yield over the next 3 yrs than cash, stocks that act like stocks (high idiosyncratic risk), valuation mean-reversion opportunities and stocks with the biggest upside potential to price objectives.

Exhibit 32: The “Magnificent 80”: stocks that can yield more than cash over the next three years

S&P 500 companies whose dividend yield can clear the cash yield over the next three years

Ticker	Company name	Sector	Price	Indicated dividends	Div. growth assumption*	3-yr annualized div. yield	Excess yield over cash	BofA Rating
MO	Altria Group, Inc.	Consumer Staples	\$41.7	\$3.92	5%	9.4%	5.3%	Neutral
PFE	Pfizer Inc.	Health Care	\$27.3	\$1.68	16%	6.8%	2.7%	Neutral
KMI	Kinder Morgan Inc Class P	Energy	\$17.0	\$1.13	7%	6.7%	2.6%	Neutral
DVN	Devon Energy Corporation	Energy	\$41.8	\$2.87	5%	6.7%	2.6%	Neutral
KEY	KeyCorp	Financials	\$14.2	\$0.82	24%	6.6%	2.6%	Buy
DOW	Dow, Inc.	Materials	\$53.5	\$2.80	32%	6.6%	2.5%	Buy
SWK	Stanley Black & Decker, Inc.	Industrials	\$91.9	\$3.24	77%	6.4%	2.3%	
PEAK	Healthpeak Properties, Inc.	Real Estate	\$18.8	\$1.20	5%	6.4%	2.3%	Underperform
MMM	3M Company	Industrials	\$95.9	\$6.00	6%	6.3%	2.2%	Neutral
WHR	Whirlpool Corporation	Consumer Discretionary	\$111.4	\$7.00	5%	6.3%	2.2%	Underperform
D	Dominion Energy Inc	Utilities	\$46.7	\$2.67	14%	6.3%	2.2%	Underperform
VZ	Verizon Communications Inc.	Communication Services	\$42.5	\$2.66	5%	6.2%	2.1%	Neutral
T	AT&T Inc.	Communication Services	\$18.0	\$1.11	5%	6.2%	2.1%	Buy
IP	International Paper Company	Materials	\$34.4	\$1.85	21%	5.9%	1.9%	Underperform
PM	Philip Morris International Inc.	Consumer Staples	\$93.3	\$5.20	9%	5.9%	1.8%	Buy
BXP	Boston Properties, Inc.	Real Estate	\$65.3	\$3.92	5%	5.8%	1.8%	Buy
CFG	Citizens Financial Group, Inc.	Financials	\$31.2	\$1.68	18%	5.8%	1.7%	Neutral
OKE	ONEOK, Inc.	Energy	\$68.5	\$3.96	5%	5.8%	1.7%	Buy
CCI	Crown Castle Inc.	Real Estate	\$111.1	\$6.26	5%	5.7%	1.7%	Neutral
HAS	Hasbro, Inc.	Consumer Discretionary	\$50.0	\$2.80	5%	5.7%	1.6%	Neutral
O	Realty Income Corporation	Real Estate	\$55.3	\$3.08	5%	5.6%	1.5%	Neutral
WMB	Williams Companies, Inc.	Energy	\$34.9	\$1.90	8%	5.6%	1.5%	Buy
TFC	Truist Financial Corporation	Financials	\$36.5	\$2.08	5%	5.6%	1.5%	Buy
LYB	LyondellBasell Industries NV	Materials	\$94.6	\$5.00	9%	5.5%	1.4%	Neutral
VICI	VICI Properties Inc	Real Estate	\$31.1	\$1.66	5%	5.5%	1.4%	Buy
IVZ	Invesco Ltd.	Financials	\$16.1	\$0.80	14%	5.5%	1.4%	Neutral
SPG	Simon Property Group, Inc.	Real Estate	\$139.4	\$7.60	5%	5.5%	1.4%	Buy
MRK	Merck & Co., Inc.	Health Care	\$126.4	\$3.08	95%	5.4%	1.3%	Buy
CMA	Comerica Incorporated	Financials	\$51.1	\$2.84	5%	5.4%	1.3%	Neutral
AMCR	Amcor PLC	Materials	\$9.5	\$0.50	5%	5.3%	1.2%	Underperform
PNW	Pinnacle West Capital Corporation	Utilities	\$70.1	\$3.52	8%	5.3%	1.2%	Neutral

Exhibit 32: The “Magnificent 80”: stocks that can yield more than cash over the next three years

S&P 500 companies whose dividend yield can clear the cash yield over the next three years

Ticker	Company name	Sector	Price	Indicated dividends	Div. growth assumption*	3-yr annualized div. yield	Excess yield over cash	BofA Rating
USB	U.S. Bancorp	Financials	\$40.9	\$1.96	15%	5.2%	1.1%	Buy
RF	Regions Financial Corporation	Financials	\$18.2	\$0.96	5%	5.1%	1.1%	Neutral
F	Ford Motor Company	Consumer Discretionary	\$12.1	\$0.60	5%	5.1%	1.0%	Buy
BBY	Best Buy Co., Inc.	Consumer Discretionary	\$75.2	\$3.68	6%	5.1%	1.0%	Underperform
EVRG	Evergy, Inc.	Utilities	\$51.8	\$2.57	6%	5.1%	1.0%	Neutral
HBAN	Huntington Bancshares Incorporated	Financials	\$12.5	\$0.62	9%	5.1%	1.0%	Neutral
PRU	Prudential Financial, Inc.	Financials	\$102.7	\$5.00	10%	5.0%	0.9%	Neutral
ES	Eversource Energy	Utilities	\$56.0	\$2.70	5%	5.0%	0.9%	Underperform
BMJ	Bristol-Myers Squibb Company	Health Care	\$48.7	\$2.40	5%	4.9%	0.8%	Neutral
CAG	Conagra Brands, Inc.	Consumer Staples	\$29.7	\$1.40	5%	4.8%	0.7%	Neutral
EIX	Edison International	Utilities	\$68.3	\$3.12	9%	4.8%	0.7%	Underperform
C	Citigroup Inc.	Financials	\$56.1	\$2.12	30%	4.8%	0.7%	Buy
FMC	FMC Corporation	Materials	\$62.1	\$2.32	20%	4.8%	0.7%	Underperform
KIM	Kimco Realty Corporation	Real Estate	\$20.5	\$0.96	5%	4.8%	0.7%	Buy
NEM	Newmont Corporation	Materials	\$35.6	\$1.60	6%	4.7%	0.6%	Buy
UPS	United Parcel Service, Inc. Class B	Industrials	\$142.4	\$6.52	7%	4.7%	0.6%	Neutral
UDR	UDR, Inc.	Real Estate	\$36.5	\$1.68	5%	4.7%	0.6%	Neutral
BEN	Franklin Resources, Inc.	Financials	\$27.1	\$1.24	5%	4.7%	0.6%	Underperform
MAA	Mid-America Apartment Communities	Real Estate	\$127.9	\$5.88	5%	4.7%	0.6%	Underperform
TROW	T. Rowe Price Group	Financials	\$109.9	\$4.96	7%	4.7%	0.6%	Underperform
ETR	Entergy Corporation	Utilities	\$102.0	\$4.52	7%	4.6%	0.6%	Buy
AEP	American Electric Power Company, Inc.	Utilities	\$79.7	\$3.52	6%	4.6%	0.5%	Neutral
FE	FirstEnergy Corp.	Utilities	\$37.3	\$1.64	6%	4.5%	0.4%	Underperform
IFF	International Flavors & Fragrances Inc.	Materials	\$82.2	\$3.24	17%	4.5%	0.4%	Neutral
EXR	Extra Space Storage Inc.	Real Estate	\$146.1	\$6.48	5%	4.5%	0.4%	Neutral
WBA	Walgreens Boots Alliance, Inc.	Consumer Staples	\$23.3	\$1.00	5%	4.5%	0.4%	Underperform
EQR	Equity Residential	Real Estate	\$61.0	\$2.65	5%	4.4%	0.3%	Buy
MS	Morgan Stanley	Financials	\$86.8	\$3.40	16%	4.4%	0.3%	Buy
DUK	Duke Energy Corporation	Utilities	\$97.8	\$4.10	6%	4.4%	0.3%	Buy
KHC	Kraft Heinz Company	Consumer Staples	\$37.8	\$1.60	5%	4.3%	0.3%	Buy
FRT	Federal Realty Investment Trust	Real Estate	\$103.2	\$4.36	5%	4.3%	0.2%	Buy
REG	Regency Centers Corporation	Real Estate	\$63.7	\$2.68	5%	4.3%	0.2%	Buy
PNC	PNC Financial Services Group, Inc.	Financials	\$145.4	\$6.20	9%	4.3%	0.2%	Neutral
CPT	Camden Property Trust	Real Estate	\$95.6	\$4.00	5%	4.3%	0.2%	Underperform
AES	AES Corporation	Utilities	\$17.2	\$0.69	8%	4.3%	0.2%	Neutral
PSA	Public Storage	Real Estate	\$286.5	\$12.00	5%	4.3%	0.2%	Buy
ARE	Alexandria Real Estate Equities, Inc.	Real Estate	\$122.5	\$5.08	5%	4.2%	0.2%	Buy
WEC	WEC Energy Group Inc	Utilities	\$81.8	\$3.34	7%	4.2%	0.2%	Underperform
NI	NiSource Inc	Utilities	\$26.4	\$1.06	7%	4.2%	0.1%	Buy
EXC	Exelon Corporation	Utilities	\$35.0	\$1.44	6%	4.2%	0.1%	Neutral
HST	Host Hotels & Resorts, Inc.	Real Estate	\$19.4	\$0.80	5%	4.2%	0.1%	Buy
SO	Southern Company	Utilities	\$70.5	\$2.80	8%	4.2%	0.1%	Neutral
FITB	Fifth Third Bancorp	Financials	\$33.8	\$1.40	6%	4.2%	0.1%	Buy
CVX	Chevron Corporation	Energy	\$147.9	\$6.04	5%	4.1%	0.1%	Buy
K	Kellanova	Consumer Staples	\$55.6	\$2.24	5%	4.1%	0.0%	Neutral
DTE	DTE Energy Company	Utilities	\$107.5	\$4.08	11%	4.1%	0.0%	Buy
VTRS	Viatis, Inc.	Health Care	\$11.9	\$0.48	5%	4.1%	0.0%	Underperform
KMB	Kimberly-Clark Corporation	Consumer Staples	\$123.4	\$4.88	5%	4.1%	0.0%	Underperform
IRM	Iron Mountain, Inc.	Real Estate	\$69.3	\$2.60	10%	4.1%	0.0%	

Source: BofA US Equity & Quant Strategy, FactSet. *Greater of 3-yr EPS growth and 5% nominal GDP growth. This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

BofA GLOBAL RESEARCH

Exhibit 33: Top 3 most idiosyncratic stocks in each sector

S&P 500 stocks with the highest idiosyncratic risk* over the past year in each sector

Ticker	Company name	Sector	Idiosyncratic risk	BofA rating
T	AT&T Inc.	Communication Services	0.95	Buy
VZ	Verizon Communications Inc.	Communication Services	0.94	Neutral



Exhibit 33: Top 3 most idiosyncratic stocks in each sector

S&P 500 stocks with the highest idiosyncratic risk* over the past year in each sector

Ticker	Company name	Sector	Idiosyncratic risk	BofA rating
TMUS	T-Mobile US, Inc.	Communication Services	0.93	Buy
ULTA	Ulta Beauty Inc.	Consumer Discretionary	0.94	Neutral
ORLY	O'Reilly Automotive, Inc.	Consumer Discretionary	0.92	Buy
DPZ	Dominio's Pizza, Inc.	Consumer Discretionary	0.90	Buy
GIS	General Mills, Inc.	Consumer Staples	1.00	Neutral
CPB	Campbell Soup Company	Consumer Staples	1.00	Underperform
SJM	J.M. Smucker Company	Consumer Staples	0.99	Neutral
PSX	Phillips 66	Energy	0.95	Neutral
XOM	Exxon Mobil Corporation	Energy	0.93	Buy
MPC	Marathon Petroleum Corporation	Energy	0.92	Neutral
PGR	Progressive Corporation	Financials	0.99	Buy
CBOE	Cboe Global Markets Inc	Financials	0.97	Buy
CME	CME Group Inc. Class A	Financials	0.96	Neutral
HUM	Humana Inc.	Health Care	1.00	Buy
MCK	McKesson Corporation	Health Care	0.99	Buy
ABBV	AbbVie, Inc.	Health Care	0.99	Neutral
NOC	Northrop Grumman Corp.	Industrials	0.97	Buy
WM	Waste Management, Inc.	Industrials	0.96	Neutral
LMT	Lockheed Martin Corporation	Industrials	0.95	Neutral
JNPR	Juniper Networks, Inc.	Information Technology	0.95	
FSLR	First Solar, Inc.	Information Technology	0.88	Buy
FTNT	Fortinet, Inc.	Information Technology	0.86	Buy
CF	CF Industries Holdings, Inc.	Materials	0.96	Buy
NEM	Newmont Corporation	Materials	0.94	Buy
FMC	FMC Corporation	Materials	0.91	Underperform
EXR	Extra Space Storage Inc.	Real Estate	0.83	Neutral
O	Realty Income Corporation	Real Estate	0.82	Neutral
PSA	Public Storage	Real Estate	0.81	Buy
ED	Consolidated Edison, Inc.	Utilities	0.95	Buy
AEE	Ameren Corporation	Utilities	0.93	Neutral
CMS	CMS Energy Corporation	Utilities	0.92	Buy

Source: BofA US Equity & Quant Strategy, FactSet. This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions. *Calculated as 1-R-sq vs. the S&P 500 over the past year.

BofA GLOBAL RESEARCH

Exhibit 34: Buy-rated stocks that trade below the bottom 25th percentile valuations vs. sector peers

S&P 500 companies with inexpensive valuations and Buy ratings

Ticker	Company name	Sector	Fwd P/E	Sector 25th percentile	Trail PE	Sector 25th percentile	EV/EBITDA	Sector 25th percentile	BofA rating
APA	APA Corporation	Energy	6.7	10.3	6.6	8.6	3.4	4.6	Buy
BG	Bunge Global SA	Consumer Staples	8.2	13.9	6.9	17.8	5.1	10.9	Buy
BLDR	Builders FirstSource, Inc.	Industrials	14.4	16.4	14.9	19.7	8.6	12.6	Buy
BWA	BorgWarner Inc.	Consumer Discretionary	8.0	12.1	10.9	13.7	6.2	9.9	Buy
CAT	Caterpillar Inc.	Industrials	14.8	16.4	17.2	19.7	10.2	12.6	Buy
CF	CF Industries Holdings, Inc.	Materials	11.6	13.2	7.2	13.3	4.3	7.7	Buy
CI	Cigna Group	Health Care	10.5	14.6	16.7	22.0	9.6	11.7	Buy
CVS	CVS Health Corporation	Health Care	8.6	14.6	11.1	22.0	8.5	11.7	Buy
DAL	Delta Air Lines, Inc.	Industrials	6.0	16.4	5.5	19.7	5.0	12.6	Buy
DGX	Quest Diagnostics Incorporated	Health Care	14.2	14.6	19.1	22.0	11.7	11.7	Buy
DHI	D.R. Horton, Inc.	Consumer Discretionary	9.8	12.1	10.2	13.7	8.0	9.9	Buy
EG	Everest Group, Ltd.	Financials	6.2	10.5	7.0	11.5	4.9	7.4	Buy
ELV	Elevance Health, Inc.	Health Care	13.1	14.6	19.5	22.0	8.9	11.7	Buy
ETR	Entergy Corporation	Utilities	13.8	13.9	14.4	16.5	9.5	10.2	Buy
F	Ford Motor Company	Consumer Discretionary	6.8	12.1	7.6	13.7	6.8	9.9	Buy
FDX	FedEx Corporation	Industrials	12.0	16.4	14.3	19.7	8.6	12.6	Buy
GEN	Gen Digital Inc.	Information Technology	10.8	18.0	10.8	23.9	11.6	15.6	Buy
GILD	Gilead Sciences, Inc.	Health Care	10.8	14.6	16.7	22.0	9.7	11.7	Buy
GM	General Motors Company	Consumer Discretionary	4.8	12.1	5.2	13.7	5.7	9.9	Buy
HPQ	HP Inc.	Information Technology	8.3	18.0	8.9	23.9	7.3	15.6	Buy
HST	Host Hotels & Resorts, Inc.	Real Estate	10.2	13.4	11.0	14.3	11.1	15.9	Buy
JBL	Jabil Inc.	Information Technology	13.1	18.0	21.3	23.9	7.4	15.6	Buy
KHC	Kraft Heinz Company	Consumer Staples	12.2	13.9	15.3	17.8	9.9	10.9	Buy



Exhibit 34: Buy-rated stocks that trade below the bottom 25th percentile valuations vs. sector peers

S&P 500 companies with inexpensive valuations and Buy ratings

Ticker	Company name	Sector	Fwd P/E	Sector 25th percentile	Trail PE	Sector 25th percentile	EV/EBITDA	Sector 25th percentile	BofA rating
KIM	Kimco Realty Corporation	Real Estate	12.6	13.4	13.0	14.3	15.0	15.9	Buy
MOS	Mosaic Company	Materials	9.5	13.2	8.1	13.3	4.9	7.7	Buy
NXPI	NXP Semiconductors NV	Information Technology	15.0	18.0	19.7	23.9	13.3	15.6	Buy
ON	ON Semiconductor Corporation	Information Technology	15.1	18.0	14.1	23.9	11.0	15.6	Buy
QCOM	QUALCOMM Incorporated	Information Technology	14.9	18.0	22.2	23.9	15.3	15.6	Buy
SPG	Simon Property Group, Inc.	Real Estate	11.4	13.4	11.7	14.3	15.0	15.9	Buy
T	AT&T Inc.	Communication Services	7.9	11.3	8.9	14.7	6.5	6.9	Buy
TPR	Tapestry, Inc.	Consumer Discretionary	9.1	12.1	9.9	13.7	8.0	9.9	Buy
UAL	United Airlines Holdings, Inc.	Industrials	4.3	16.4	5.3	19.7	4.0	12.6	Buy
UHS	Universal Health Services, Inc. Class B	Health Care	13.4	14.6	16.5	22.0	9.1	11.7	Buy
URI	United Rentals, Inc.	Industrials	14.9	16.4	18.2	19.7	7.5	12.6	Buy

Source: BofA US Equity & Quant Strategy, FactSet. This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

BofA GLOBAL RESEARCH

Exhibit 35: Non-Buy rated stocks that trade above the top 75th percentile valuations vs. sector peers

S&P 500 companies with expensive valuations and non-Buy ratings

Ticker	Company name	Sector	Fwd P/E	Sector 25th percentile	Trail PE	Sector 25th percentile	EV/EBITDA	Sector 25th percentile	BofA rating
AWK	American Water Works Company, Inc.	Utilities	24.0	16.9	25.7	22.5	16.3	12.8	Underperform
AJG	Arthur J. Gallagher & Co.	Financials	22.3	20.0	51.1	28.0	19.1	17.2	Underperform
AVY	Avery Dennison Corporation	Materials	21.0	20.0	33.6	33.5	16.1	15.0	Underperform
AXON	Axon Enterprise Inc	Industrials	60.3	25.4	127.8	36.1	117.1	20.0	
BIO	Bio-Rad Laboratories, Inc. Class A	Health Care	28.4	27.1	-57.9	57.6	390.4	23.8	
BA	Boeing Company	Industrials	49.2	25.4	-42.6	36.1	55.5	20.0	Neutral
BF.B	Brown-Forman Corporation Class B	Consumer Staples	26.7	23.0	34.4	33.3	21.9	16.5	Underperform
CTLT	Catalent Inc	Health Care	42.6	27.1	-9.5	57.6	25.2	23.8	Underperform
CDAY	Dayforce, Inc.	Industrials	40.7	25.4	2315.0	36.1	49.5	20.0	
CHD	Church & Dwight Co., Inc.	Consumer Staples	29.2	23.0	56.5	33.3	19.1	16.5	Neutral
CLX	Clorox Company	Consumer Staples	27.0	23.0	208.2	33.3	20.7	16.5	Neutral
ECL	Ecolab Inc.	Materials	32.3	20.0	46.5	33.5	21.4	15.0	Neutral
EL	Estee Lauder Companies Inc. Class A	Consumer Staples	39.7	23.0	87.1	33.3	27.4	16.5	Neutral
FDS	FactSet Research Systems Inc.	Financials	28.8	20.0	38.1	28.0	23.7	17.2	Neutral
FICO	Fair Isaac Corporation	Information Technology	47.1	33.5	65.8	64.9	45.5	34.8	
HES	Hess Corporation	Energy	18.1	13.7	30.0	13.9	9.8	8.7	
ILMN	Illumina, Inc.	Health Care	150.1	27.1	-20.7	57.6	53.0	23.8	Underperform
KMI	Kinder Morgan Inc Class P	Energy	13.8	13.7	16.2	13.9	9.4	8.7	Neutral
MKTX	MarketAxess Holdings Inc.	Financials	35.6	20.0	41.5	28.0	26.2	17.2	
MRNA	Moderna, Inc.	Health Care	-15.3	27.1	-11.3	57.6	-79.4	23.8	Neutral
MSCI	MSCI Inc. Class A	Financials	40.1	20.0	41.7	28.0	31.5	17.2	Underperform
NWSA	News Corporation Class A	Communication Services	31.8	23.3	99.2	70.3	13.5	13.4	
PANW	Palo Alto Networks, Inc.	Information Technology	57.8	33.5	172.9	64.9	58.2	34.8	Neutral
SO	Southern Company	Utilities	17.2	16.9	24.9	22.5	12.8	12.8	Neutral
TTWO	Take-Two Interactive Software, Inc.	Communication Services	25.4	23.3	-18.7	70.3	35.6	13.4	Neutral
TSLA	Tesla, Inc.	Consumer Discretionary	59.3	24.1	40.5	30.1	52.2	19.5	Neutral
TYL	Tyler Technologies, Inc.	Information Technology	48.6	33.5	114.6	64.9	45.1	34.8	
VRSK	Verisk Analytics Inc	Industrials	36.9	25.4	45.9	36.1	26.4	20.0	Neutral
XYL	Xylem Inc.	Industrials	27.7	25.4	46.1	36.1	23.6	20.0	

Source: BofA US Equity & Quant Strategy, FactSet. This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

BofA GLOBAL RESEARCH

Exhibit 36: S&P 500 companies with the highest upside to BofA price objectives

S&P 500 companies with the highest upside to price objectives

Ticker	Company name	Sector	Price	Price Objective	Upside to PO	BofA Rating
GM	General Motors Company	Consumer Discretionary	38.15	75	97%	BUY
FSLR	First Solar, Inc.	Information Technology	149.03	272	83%	BUY
WBD	Warner Bros. Discovery, Inc. Series A	Communication Services	10.10	17	68%	BUY
F	Ford Motor Company	Consumer Discretionary	11.78	19	61%	BUY



Exhibit 36: S&P 500 companies with the highest upside to BofA price objectives

S&P 500 companies with the highest upside to price objectives

Ticker	Company name	Sector	Price	Price Objective	Upside to PO	BofA Rating
BG	Bunge Global SA	Consumer Staples	90.30	140	55%	BUY
MOS	Mosaic Company	Materials	31.78	49	54%	BUY
APA	APA Corporation	Energy	32.42	49	51%	BUY
BWA	BorgWarner Inc.	Consumer Discretionary	34.42	52	51%	BUY
APTIV	Aptiv PLC	Consumer Discretionary	86.72	125	44%	BUY
UAL	United Airlines Holdings, Inc.	Industrials	41.66	60	44%	BUY
EQT	EQT Corporation	Energy	36.15	52	44%	BUY
MTCH	Match Group, Inc.	Communication Services	37.73	54	43%	BUY
DXCM	DexCom, Inc.	Health Care	120.79	170	41%	BUY
CCL	Carnival Corporation	Consumer Discretionary	16.47	23	40%	BUY
KR	Kroger Co.	Consumer Staples	46.65	65	39%	BUY
NEM	Newmont Corporation	Materials	34.51	48	39%	BUY
NOC	Northrop Grumman Corp.	Industrials	443.50	615	39%	BUY
EG	Everest Group, Ltd.	Financials	379.73	522	37%	BUY
OXY	Occidental Petroleum Corporation	Energy	58.90	80	36%	BUY
PGR	Progressive Corporation	Financials	179.71	244	36%	BUY
SBUX	Starbucks Corporation	Consumer Discretionary	94.08	127	35%	BUY
LOW	Lowe's Companies, Inc.	Consumer Discretionary	214.52	289	35%	BUY
UNH	UnitedHealth Group Incorporated	Health Care	503.61	675	34%	BUY
GPC	Genuine Parts Company	Consumer Discretionary	143.25	192	34%	BUY
XOM	Exxon Mobil Corporation	Energy	104.85	140	34%	BUY
LW	Lamb Weston Holdings, Inc.	Consumer Staples	103.51	138	33%	BUY
BKR	Baker Hughes Company Class A	Energy	29.34	39	33%	BUY
PODD	Insulet Corporation	Health Care	192.12	255	33%	BUY
BLK	BlackRock, Inc.	Financials	781.73	1025	31%	BUY
BDX	Becton, Dickinson and Company	Health Care	236.21	305	29%	BUY
CVS	CVS Health Corporation	Health Care	73.85	95	29%	BUY
FDX	FedEx Corporation	Industrials	243.77	313	28%	BUY
EMR	Emerson Electric Co.	Industrials	94.75	120	27%	BUY
CVX	Chevron Corporation	Energy	150.12	190	27%	BUY
DAL	Delta Air Lines, Inc.	Industrials	39.52	50	27%	BUY
MET	MetLife, Inc.	Financials	70.81	89	26%	BUY
SLB	Schlumberger N.V.	Energy	49.35	62	26%	BUY
HUM	Humana Inc.	Health Care	376.83	470	25%	BUY
KVUE	Kenvue, Inc.	Consumer Staples	20.87	26	25%	BUY
KLAC	KLA Corporation	Information Technology	595.35	740	24%	BUY
DGX	Quest Diagnostics Incorporated	Health Care	128.83	160	24%	BUY
PEP	PepsiCo, Inc.	Consumer Staples	169.62	210	24%	BUY
CI	Cigna Group	Health Care	298.95	370	24%	BUY
PM	Philip Morris International Inc.	Consumer Staples	91.76	113	23%	BUY
PPL	PPL Corporation	Utilities	26.02	32	23%	BUY
COP	ConocoPhillips	Energy	114.05	140	23%	BUY
CF	CF Industries Holdings, Inc.	Materials	77.40	95	23%	BUY
AMT	American Tower Corporation	Real Estate	195.56	240	23%	BUY
CTRA	Coterra Energy Inc.	Energy	25.31	31	22%	BUY
EMN	Eastman Chemical Company	Materials	85.09	104	22%	BUY

Source: BofA US Equity & Quant Strategy, FactSet. This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} 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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