

Morning Meeting Notes

QuickNotes

Morning Call

US EQUITIES RESEARCH

Initiations & Reinstatements

[Palmer Square BDC](#) | NEUTRAL | PSBD US | Mkt Cap:USD434mn | Derek Hewett

Differentiated liquid credit strategy but lower ROEs, Initiate at Neutral

- We are initiating coverage on PSBD with a Neutral rating and \$16.50 PO
- PSBD has a differentiated strategy focused on the liquid BSL market, which we think could drive superior credit vs peers
- We think profitability will lag peers in the near-term, we forecast 10%-11% core ROEs with a roughly 10.5% div yield in '24

Rating Changes

[Marqeta](#) | BUY | MQ US | Mkt Cap:USD2,697mn | Cassie Chan

Plenty of upside optionality, upgrade to Buy

- We upgrade modern card issuing platform provider MQ to Buy from Neutral
- MQ has an enviable combination of near-term visibility and longer-term opportunities (ie. credit) to drive M-T 20% growth
- We believe the recent pullback is overdone, and our unchanged \$7 PO represents 21% upside potential

12 February 2024

Equity

United States

Investor Support
BofAS

Today's Events: Economic Indicators

1. 14:00 Monthly Budget Statement

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QuickNotes is a list of today's Global Research activities. Please use the links to read the full Research report before making investment decisions. The reports also contain important disclosures.

PO Raised

[Autodesk](#) | NEUTRAL | ADSK US | Mkt Cap:USD57,271mn | Michael Funk
January BofA Cloud View: Consumption & Desktop Data Accelerates from December

- Inaugural release of our proprietary Cloud View report, a monthly usage tracker for several cloud consumption/desktop vendors
- We have found high correlations (86% on average) to key growth metrics such as product and subscription revenue/growth
- An uptick in Jan activity for both cloud consumption and desktop groups suggests a healthy rebound from a Dec decline

[Construction Partner](#) | BUY | ROAD US | Mkt Cap:USD2,052mn | Michael Feniger

More visibility on the ROAD as inflationary pressures take a back seat

- ROAD shares down 7% given the 1Q beat & reaffirmed FY guide - albeit this conservatism is not uncommon given 1H seasonality
- Record project backlog of \$1.62bn, up 10% YoY/ 1% QoQ - public spending picking up, Southeast private work holding steady
- Maintain Buy: positive price-cost dynamics & cash generation bright spots as ROAD starts to deliver on higher margin backlog

[Generac](#) | NEUTRAL | GNRC US | Mkt Cap:USD8,184mn | Julien Dumoulin-Smith

Noodling on segment prospects into '24 – Stay Neutral, Raise PO. Key year to put up

- Watching HSB trends ahead of critical FY24 guidance - see recovery ahead, but cadence unclear: '24 focused on 'reboot'
- Forecasting miss vs. Consensus for 4Q23 while FY24 still a bit high - watch for new end-markets for C&I.
- Moderating estimates for FY24 C&I rev's- PO to \$130, Reit Neutral - clean energy softness risk, int'l acceleration upside.

[Mettler-Toledo](#) | NEUTRAL | MTD US | Mkt Cap:USD33,207mn | Derik De Bruin

Updated FY24 guide reflects conservatism, not worsening fundamentals

- Updated '24 guide was lower than expected, but with MTD stressing conservatism vs. weaker demand as markets weak but stable
- MTD sees the new EPS guide as likely achievable even if markets remain soft given much easier 2H24 comps
- We tweak our model following MTD's 4Q'23 call, modestly raise ests, increase PO to \$1325, Reiterate Neutral

[Phillips Edison](#) | BUY | PECO US | Mkt Cap:USD4,709mn | Jeffrey Spector
4Q23 Retail REIT earnings recap: KIM, PECO, REG, MAC, and SPG

- Retail REITs reported strong 4Q results so far driven by robust leasing and limited supply.
- 4 out of 5 REITs introduced '24 guidance below the Street implying muted core and earnings growth.
- See inside for a summary of 4Q earnings stats and our updated estimates/PO.

[Shinhan FG](#) | BUY | SHG US | Mkt Cap:USD17,044mn | Jeehoon Park
Conservative provisioning in 4Q, remains committed to higher shareholder returns

- SFG posted 4Q23 net profit of W550bn, down 54% QoQ and lower than consensus of W641bn, although above our estimate of W490bn.
- This was a quarter of more conservative, pre-emptive provisioning and asset valuations. SFG seems more optimistic on 2024.
- We like management's commitment to a steady increase in shareholder returns. Reiterate Buy with a higher W51,000 PO (\$39.2).

[UDR, Inc.](#) | NEUTRAL | UDR US | Mkt Cap:USD12,601mn | Joshua Dennerlein
Residential earnings recap week 2: ESS, MAA, UDR

- ESS provided a realistic outlook but beats and bumps are less likely. UDR's guide appears realistic to modestly conservative.
- Too early to call the turn higher in the Sunbelt. MAA's renewal rate growth assumption seems optimistic to us.
- ESS & UDR's loan / preferred books represent a growth headwind.

[Weatherford](#) | BUY | WFRD US | Mkt Cap:USD6,991mn | Saurabh Pant
Can't stop, won't stop the Weatherphoenix

- WFRD continues to beat/raise with 4Q EBITDA 3% vs. Cons & guidance pointing to '24E EBITDA of \$1.4bn (5% vs. pre-call Cons)
- Mgmt. sees negligible impact from Saudi move to halt oil MSC expansion & continues to see strong INTL/Offshore growth in '24E
- We raise our '24E/'25E Adj. EBITDA by 6%/4% to \$1.40/\$1.53bn & bump our DCF-based PO to \$123, Reit. Buy and top Mid-Cap pick



PO Lowered

[Axis Capital](#) | BUY | AXS US | Mkt Cap:USD5,072mn | Joshua Shanker

Reinsurance: pricing may be at a peak, but valuation definitely in a trough

- Already trading at a discount, a reserve charge for EG in 4Q23 brought reinsurers to all-time relative valuation lows
- Current P/B valuations appear to ignore reinsurers compounding their BVPS at pace at least as fast as onshore counterparts
- Insecurities around loss reserve adequacy are likely to take time to overcome, even if valuations appear attractive

[Baker Hughes](#) | BUY | BKR US | Mkt Cap:USD29,002mn | Saurabh Pant

Much more than a one trick pony

- While US DOE "pause" and peaking LNG cycle poses challenges, we note only 5-6% of BKR's '23 EBITDA came from LNG Equipment
- We see multiple paths to growth for BKR -- 1) LNG Services, 2) non-LNG Gas Tech, 3) INTL & Offshore OFSE, 4) New Energy / CCS
- We lower '24E/'25E EBITDA by 2%/2% to \$4.3/\$5.0bn, lower PO to \$37.50 but Reit. Buy on still solid growth & strong S/H return

[Essex Property](#) | NEUTRAL | ESS US | Mkt Cap:USD15,270mn | Joshua Dennerlein

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[Instacart](#) | NEUTRAL | CART US | Mkt Cap:USD7,454mn | Justin Post

4Q preview: Busy 30 days ahead - Results, lock up expiration & easing SNAP comps

- Reports 2/13, Street est. GTV growth of 5.6% y/y (stable vs 3Q) and we expect in-line results.
- Street will closely look at take rates & marketing expense to help gauge quality of GTV growth and signs of competition.
- Biggest potential call positive is outlook for accel'ing trends, biggest potential negative is relative growth vs gig peers.

[Kilroy Realty](#) | NEUTRAL | KRC US | Mkt Cap:USD4,111mn | Camille Bonnel

4Q23 earnings weekly recap: AAT, CDP, CUZ, DEI, HIW & KRC

- Mixed results so far with 3 beats, 2 meets & 3 misses. Most FY23 results have been within initial guidance ranges.
- 2024 guidance is 1% below the Street and implies negative Y/Y FFO/sh growth. The leasing environment remains challenging.
- See inside for summaries of 4Q23 results, key performance metrics and our price objective / estimate changes.

[Terex Corp.](#) | UNDERPERFORM | TEX US | Mkt Cap:USD4,008mn | Michael Feniger

Stumbles: doesn't necessarily 'stick the landing' - 2024 is ultimately a call on 2025

- Underwhelming Q4: Op profit of \$132mn (7% below cons) due to AWP - the miss follows last quarter, where TEX lowered AWP guide
- 2024 EPS guide (\$6.85-7.25) is flat on YoY basis at the midpoint - a theme in Machinery - ultimately 2024 is a call on 2025.
- Reit. Underperform on AWP cycle risk. Bigger question: FCF slight miss but balance sheet robust - what is TEX's next step?

Significant EPS Change

[Catalent, Inc.](#) | NO RATING | CTLT US | Mkt Cap:USD10,265mn | Derik De Bruin

F2Q24 Recap: Sales ahead, but adj. EBITDA below Street, Update model, No rating

- CTLT's F2Q sales were ahead of BofAe/Street but margins were lower, and so adj. EBITDA fell short of ests
- We update our model, but have no rating given the announcement earlier this week that Novo Holdings will acquire CTLT
- Novo Holdings will sell 3 of CTLT's biologic CDMO sites to NVO, level of regulatory scrutiny remains to be seen

[Columbia Sportswear](#) | UNDERPERFORM | COLM US | Mkt Cap:USD4,844mn | Alexander Perry

Local Leisure Spending Update through January

- Local Leisure categories largely decelerated in January due to cold weather headwinds.
- Winter clothing spend accelerated given weather benefits & following a warm holiday (correlated with GOOS/COLM web traffic).
- We expect some reversal in Feb. as weather has trended warmer y/y in most of the country thru Feb. 10th.

[HudBay Minerals](#) | NEUTRAL | HBM US | Mkt Cap:USD1,800mn | Lawson Winder

Q4'23 earnings reporting kicks off this week: NGD, GOLD, KGC, RGLD, AEM, IAG



- The North American precious metals sector will kick off Q4'23 financial results reporting this Tuesday, February 13.
- Reporting this week are NGD, GOLD, KGC, RGLD, AEM, and IAG. We provide brief capsule comments for each reporting company.
- Last week, Barrick Gold announced that it had more than replaced 2023 gold mining depletion, an unexpected positive (page 2).

Buy Reiterations

Consumer Discretionary

[Amazon.com](https://www.amazon.com) | BUY | AMZN US | Mkt Cap:USD1,774,331mn | Justin Post
Internet/e-Commerce

- Online spend accelerated to 2% y/y in January, boosting the rate of online retail penetration growth to 90bps y/y.
- Early online spending data is stable QTD, above Street projecting a 3pt deceleration for Amazon North America sales growth.
- Transit growth decelerated 5pts in January (possibly weather related), Uber's recent 1Q guidance suggests less deceleration.

[The Home Depot](#) | BUY | HD US | Mkt Cap:USD382,397mn | Robert Ohmes
Bull vs. Bear: Share gains, Pro, & new market oppty support sales in soft macro

- While the macro remains choppy, we expect HD comps to see support from higher relative pro exposure, OSA improvements, ...
- ... the company's EDLP value proposition, strategic investments, & newer market opportunities (e.g. complex pro, MRO).
- We maintain our Buy rating & \$372 PO. See inside for bull vs. bear case analysis.

Consumer Staples

[PepsiCo](#) | BUY | PEP US | Mkt Cap:USD233,397mn | Bryan Spillane
Catching up with PEP

- We hosted a fireside chat last week with PEP chairman/CEO Ramon Laguarta and Executive Vice President/CFO Jamie Caulfield
- Topics of discussion included PEP's strong international business and North America's operating environment, to name a few
- We view Frito's improvement over the year as a key driver of PEP's 2024 story. Reiterate Buy rating and \$210 PO.

Energy

[ConocoPhillips](#) | BUY | COP US | Mkt Cap:USD131,963mn | Doug Leggate
4Q23 Earnings recap: solid first year of a 10yr plan: debating recognition of value

- Another qtr of strong execution stands as the product of a reset that's created one of the most predictable portfolios in E&P
- This transformation has earned mgmt the right to more aggressive dividend growth as a route to market recognition of value
- Absent of such a move, share performance risks stagnating with E&P peers, betraying the depth and resilience of the portfolio

Financials

[M&T Bank](#) | BUY | MTB US | Mkt Cap:USD21,279mn | Ebrahim Poonawala
Consistent execution should pay off: CFO meeting takeaways

- We hosted M&T CFO Daryl Bible for investor meetings amid renewed concerns around CRE exposure across the banking industry.
- Meetings highlighted consistent approach towards client selection, identifying borrower stress... significant B/S optionality
- While CRE concerns could serve as a near-term overhang on the stock, we consider relative risk/reward as attractive, Buy



Industrials

[Owens Corning](#) | BUY | OC US | Mkt Cap:USD13,494mn | Rafe Jadrosich
OC to acquire Masonite, closing the DOOR on glass reinforcements could be next

- OC announced agreement to acquire Masonite (DOOR) for \$3.9bn. We estimate deal is 5% accretive to '25 EPS (15% net income).
- OC also announced strategic review of glass reinforcements (\$1.3bn in rev), which could reduce composites and Int'l exposure.
- Net-net, DOOR glass reinforcement sale would improve end market exposure and could support a higher earnings multiple.

Materials

[IAMGOLD](#) | BUY | IAG US | Mkt Cap:USD1,179mn | Lawson Winder
North American Precious Metals Weekly

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Real Estate

[COPT](#) | BUY | CDP US | Mkt Cap:USD2,731mn | Camille Bonnel
Office REITs

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- 2024 guidance is 1% below the Street and implies negative Y/Y FFO/sh growth. The leasing environment remains challenging.
- See inside for summaries of 4Q23 results, key performance metrics and our price objective / estimate changes.

[CoStar](#) | BUY | CSGP US | Mkt Cap:USD32,797mn | Heather Balsky

Housing traffic inspection: Jan muted before billion-ish dollar blitz

- Homes.com reached 40mn visitors in January down from December's 43mn, but in line with November
- Homes.com's traffic peaked in September, but since fallen off materially. We attribute this to seasonal and strategic factors
- We maintain our Buy, We're not concerned about current traffic levels & think Homes.com has an opportunity to narrow the gap

[Kimco Realty](#) | BUY | KIM US | Mkt Cap:USD12,457mn | Jeffrey Spector

Retail REITs

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Macro & Strategy

[US Rates Watch](#) | US Rates Research

Longs remain dominant but challenged position

- Many of our positioning indicators agree that longs are dominant; long way for position to unwind if conviction challenged
- Foreign official sector remains net seller YTD; auction stats suggest limited bid from foreign investors
- More US funds added vs reduced UST allocations in Q4; UST funds observe outflows on the week

[CPI Inflation Watch](#) | US Economics

January US CPI Inflation preview: Pre-owned disinflation

- Headline and core CPI likely rose by 0.2% m/m and 0.3% m/m respectively, which should lead to declines in the y/y rates.
- Used car deflation should drive a decline in core goods prices while core services should remain sticky high.
- The report is unlikely to alter our expectations for Fed policy. We expect the Fed to start its cutting cycle in June.



High Frequency Monitor | Nigel Tupper**Multiple drivers**

- US data, China policy, and the persistent AI investment theme drove global equity markets higher last week.
- Our short-term Tactical Indicators remain positive, helped by tighter credit spreads and lower volatility.
- Triple Momentum is strongest for the global Software sector and India, and weakest for Consumer Staples and Hong Kong.

Earnings Tracker | Savita Subramanian**Week 4: Another strong quarter with a broad-based beat**

- 80% of earnings are in. Consensus 4Q EPS (actuals ests) is tracking a 4% beat, with reported EPS coming in 7% above.
- The Mag. 7 beat by 7%, in line with other reporters. Small caps (only 1/3 reported) are seeing the biggest beat (10%).
- The growth differential between the Mag. 7 and the other 493 is expected to close by 3Q and reverse for the 493 by 4Q24.

Emerging Insight | GEMs FI Strategy & Economics**Korea treasury bonds – ‘high-beta’, yet favorable domestic backdrop**

- KTB's sensitivity to UST has increased, potentially due to higher foreign ownership and more synchronized inflation cycle.
- In the near-term, resilient US data may have spillover effect on KTB yield, but we are constructive over the medium term
- Domestic backdrop for KTB looks favorable - notable decline in net issuance and conservative market expectation on BoK cut.

What's priced in | Claudio Irigoyen**Cuts are welcome**

- Thailand's BOT kept the monetary policy unchanged at 2.50% in a split decision. We now expect the first 25bp cut in June.
- Czechia's CNB cut more than expected on February 8. We maintain our year-end forecast at 4.00%
- Mexico's BANXICO hold the rate on February 8 and opened the door for cuts. We expect a 25bp cut in March.

Global Macro Watch | Global Economics Rates & FX**Known Unknowns Feb 12 – Feb 16**

- US CPI and retail sales. UK CPI, GDP, retail sales. EA IP and 2nd GDP est. JP GDP. AU labour market data. Swiss CPI. NO GDP
- Many Fed, ECB, BoE (incl. Bailey) speakers. We hear from RBNZ and Norges Governors, and Riksbank speakers (incl. Thedeen).
- Monetary policy meetings in Philippines and Romania. CPI inflation in India and Poland. Monthly GDP proxy in Brazil.

[Systematic Flows Monitor](#) | Global Equity Derivatives Rsch**CTAs turning short US Treasury bonds; systematic equity leverage is stretched**

- US Treasury Bond futures trend turning negative which implies CTAs having to initiate short positions
- USD rally continues, CTAs have more to buy, next week EUR, AUD, GBP, MXN selling could lead the way
- Risk parity leverage back near max levels; equity vol control leverage rebounds after last week's decline

[Small/Mid-Cap Valuations](#) | Jill Carey Hall, CFA**Small caps priced for conditioned credit deterioration, no manufacturing recovery**

- Small caps' P/E compressed in Jan; discounting a further decline in the ISM Mfg. Index and further tightening of credit.
- Small vs large P/E is 28% below its historical average. Small cap Value remains historically cheap vs small cap Growth.
- Mid caps remain expensive vs. small caps, but two sectors offer relative value in Mid: Staples & Materials.

[Global Research Highlights](#) | Derek Harris**No signs of slowing down**

- Global Research Highlights features key macro and industry reports published by BofA Global Research this week.
- This week's reports highlight retail sales preview, recent employment report, AI contribution to cloud capex, and more..

Credit

[Credit Market Strategist](#) | Yuri Seliger**Tariffs vs. IG credit**

- One of the potential implications of the 2024 US elections is an increase use of tariffs.
- "Trade war" was by far the biggest concern for US credit investors in 2019.
- We discuss how IG sector spreads performed in 2019 which sectors have the highest share of foreign sales currently.



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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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