# Global Research Highlights

# US Economy: Defying Gravity

**Investment Strategy**

29 January 2024

Global

**Investment Strategy**
BofAS

**Derek Harris**
Portfolio Strategist
BofAS
+1 646 743 0218
derek.harris@bofa.com

**Thomas Hopkins**
Portfolio Strategist
BofAS
thopkins2@bofa.com

**Evan Morris**
Portfolio Strategist
BofAS
evan.morris@bofa.com

**Andrew Shields, CFA**
Portfolio Strategist
BofAS
andrew.shields@bofa.com

## Banks may be this year's coiled spring

Active funds added 14ppt of exposure to Comm. Services (Tech, Media and Telecom or TMT) in 2023, driven by a move into "New Media" industries (Entertainment +16ppt, Interactive Media & Services +13ppt). Funds dropped exposure to Banks, despite the strong year-end rally. S&P 500 Bank exposure is 12ppt lower than where it started 2023, just 3ppt off its SVB lows (Exhibit 6). New Media versus Banks positioning is >1 standard deviation above average (Exhibit 7), a precursor to Banks historically outperforming New Media by ~4ppt (avg since 2008) over the next 12 months.

## US Economics: Defying gravity

Small caps GDP cooled but not nearly as much as we expected. The economy continues to defy expectations. Progress on inflation continues despite the resiliency of the activity data. We expect headline and core PCE inflation in December to rise by 0.15% m/m and 0.17%, respectively. Solid growth and falling inflation support our soft-landing view. We expect the Fed to shift to neutral rate guidance next week as it discusses when to begin normalizing its policy rate stance and slow the pace of balance sheet runoff.

## Small caps: Stick with Value over Growth

While small cap active funds had a challenging year (see Mutual Fund Performance) and fundamental factors had a relatively low explanatory power on 2023 small cap stock returns, Value funds fared best. Overall, buying cheap stocks and selling expensive stocks was the route to alpha within small caps in 2023.

## Red Sea headwind could be material for retailers

In light of Red Sea shipping disruptions, we assess potential impacts to our Broadlines, Hardlines, and Food Retailers coverage universe. We expect all of our coverage to potentially face some degree of incremental profit margin headwinds and/or late shipments if global shipping prices continue to rise and capacity shortages occur due to spillover effects from lingering Red Sea disruptions.

**Top Macro reports**



**Top Industry reports**



**Top Stock reports**




**Refer to important disclosures on page 31 to 35. Price Objective Basis/Risk on page 15.**

Active managers' holdings update

# Positioning makes a strong case for banks, dividends, and why it's time to pick stocks

24 January 2024

Equity and Quant Strategy
United States

BofA Data Analytics

**Savita Subramanian**
Equity & Quant Strategist
BofAS
+1 646 855 3878
savita.subramanian@bofa.com

**Alex Makedon**
Equity & Quant Strategist
BofAS

**Victoria Roloff**
Equity & Quant Strategist
BofAS

**Jill Carey Hall, CFA**
Equity & Quant Strategist
BofAS

**Ohsung Kwon, CFA**
Equity & Quant Strategist
BofAS

**Nicolas Woods**
Equity & Quant Strategist
BofAS

## Banks may be this year's coiled spring

Active funds added 14ppt of exposure to Comm. Services (Tech, Media and Telecom or TMT) in 2023, driven by a move into "New Media" industries (Entertainment +16ppt, Interactive Media & Svcs. +13ppt). Funds dropped exposure to Banks, despite the strong year-end rally. S&P 500 Bank exposure sits 12ppt lower than where it started 2023, just 3ppt off its SVB lows (Exhibit 6). New Media vs. Banks positioning is >1 std. dev. above average (Exhibit 7), a precursor to Banks historically outperforming New Media by ~4ppt (avg since 2008) over the next 12-mths. An upturn in the cycle (Global Wave) supports Banks, and our fundamental analysts see potential for re-rating (Banks outlook).

## 2024: new highs are in, stock pickers' paradise is next

Half of our 2024 Year Ahead call has been achieved (new S&P 500 highs), but broadening remains elusive. We see reasons for broadening from here – in fact, today might be the best environment for fundamental stock selection. Relative to private investments, public investments reflect higher rates & inflation and are trading near record low relative valuations to private counterparts. Moreover, within the stock market, inefficiencies driven by fewer eyeballs tracking public equity (20% fewer sell-side analysts, 40% fewer active funds than peak, passive > active AUM) are apparent. Within the S&P 500, the gap between cheap and expensive stocks is just off record highs, and encouragingly, idiosyncratic vs. macro risk is above average for S&P 500 stocks.

## Everyone says everyone else is bullish....

... but few are positioned for risk-on. The Sell Side increased equity allocations (SSI), 8 in 10 PMs expect "soft"/"no" landing (FMS), and AAII is 14ppt net bullish (vs. 26ppt *net bearish* in Nov.). But pension funds' allocation to stocks is at multi-decade lows, long only funds added a bit to cyclical sectors (Industrials +2ppt, Materials +1ppt, Disc. +1ppt) but faded others (Energy -2ppt, Fins -1ppt), leaving cyclical vs. defensive exposure still at extremely low levels for LOs and at record lows for HFs. Everyone says the market will broaden, but funds are 50% u/w the S&P 500's smallest quintile (Exhibit 13) and active share is near decade lows. We think the Magnificent 7, which account for roughly 30% of funds' S&P 500 holdings (~1ppt above benchmark weight), but high dividend yielding stocks which offer better income potential over the next three years than cash (capital appreciation would be "gravy") are 50% underweight by LOs.

## Equity income inflows would help Utilities, hurt TMT

US households hold $18tn in cash, up from $13tn pre-COVID (Exhibit 31) – if short rates fall as expected (our economists forecast 100bp of Fed cuts this year – see US Economic Viewpoint), retail cash may be used to fund equities, with an emphasis on equity income. Traditional active managers are typically underweight high dividend yield, but equity income funds, which account for over 40% of large cap active AUM, represent the other side of the trade. Income funds are overweight higher dividend yielding sectors vs. the S&P 500 (particularly Utilities) and are most underweight Tech/TMT (Exhibit 38).

Click Active managers' holdings update for full report, including important disclosures.

**Note:** stock-level ownership data for S&P 500 and Russell 1000 stocks are available upon request.

**Abbreviations:**

LO: long only fund

HF: hedge fund

o/w: overweight

u/w: underweight

PM = Portfolio Manager

AAII: American Association of Individual Investors

"New Media": "Interactive Media & Services" and "Entertainment" industries.

Magnificent 7: Amazon (AMZN), Apple (AAPL), Tesla (TSLA), Alphabet (GOOG/GOOGL), Nvidia (NVDA), Microsoft (MSFT), Meta Platforms (META).

# The Flow Show

## Liquidity = Inequality

**25 January 2024**

Investment Strategy
Global

BofA
Data
Analytics

**Michael Hartnett**
Investment Strategist
BofAS
+1 646 855 1508
michael.hartnett@bofa.com

**Elyas Galou** >>
Investment Strategist
BofASE (France)
+33 1 8770 0087
elyas.galou@bofa.com

**Anya Shelekhin**
Investment Strategist
BofAS
+1 646 855 3753
anya.shelekhin@bofa.com

**Myung-Jee Jung**
Investment Strategist
BofAS
+1 646 855 0389
myung-jee.jung@bofa.com

**Scores on the Doors**: oil 8.0%, commodities 4.0%, US dollar 2.2%, stocks 0.9%, cash 0.3%, HY bonds -0.2%, IG bonds -1.4%, gold -2.6%, gov bonds -2.9%, crypto -4.8% YTD.

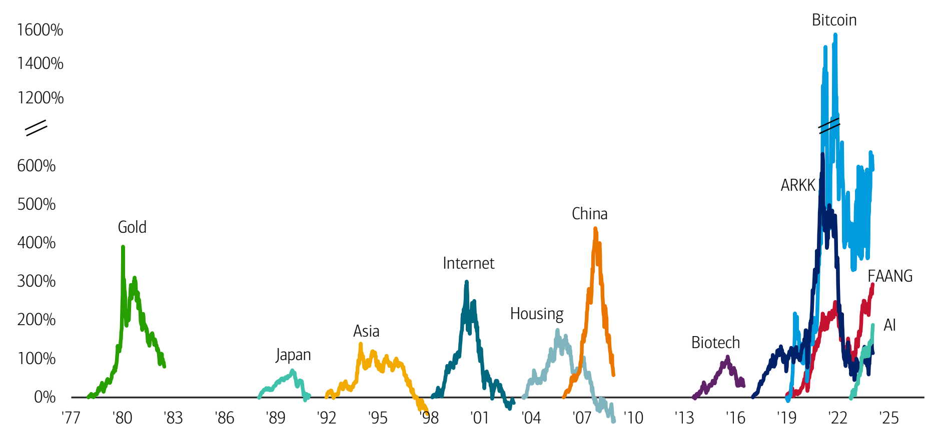
**Winners & Losers**: asset/ETF winners… cannabis 28%, uranium 16%, Japan (unhedged) 8%, oil 8%, semis 7%, Magnificent Seven 4% vs losers… rare earths -19%, renewables -17%, electric vehicles -15%, China tech -11%, ARKK -12%, Korea -11% YTD.

**Tale of the Tape**: record $12.1bn inflows to EM equities ($11.9bn to China) as PBoC eases after China stocks hit Oct'08 GFC lows & exodus of foreign investors; epic deflation of property stocks (Chart 4) makes China the world's most enticing contrarian long "trade" (no-one believes it's an "investment").

**The Price is Right**: Q4 US nominal GDP up hot 6% YoY, up sizzling 40% since COVID low (fastest expansion since stagflationary '70s – Chart 3)… the "government bubble" huge driver… fiscal deficit 7.5% of GDP under Biden, 6.6% under Trump, both biggest since Great Depression/WW2 (Chart 7)… neither likely to campaign on "balancing the budget".

**The Biggest Picture**: Goldilocks macro, Goldilocks yields (10-year UST 3¾% to 4¼%), US stocks surging to new highs driven by monopolistic tech as AI "baby bubble" grows (Chart 2); rates, penetration, regulation 3 catalysts that pop tech bulls/bubble; regulators on prowl but need US 10-year real rates back to 2½% (currently 1¾%) to pop this one.

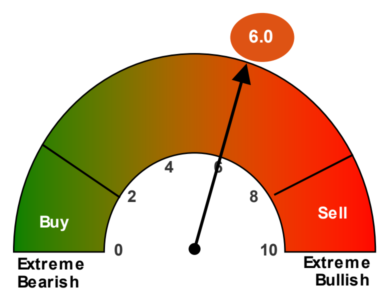
**Chart 2: Tech Bubbles popped by Rates, Penetration and/or Regulation**
History of asset bubbles




**Source:** BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

**Chart 1: BofA Bull & Bear Indicator**
Rises to 6.0 from 5.5




**Source:** BofA Global Investment Strategy The indicator identified above as the BofA Bull & Bear Indicator is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

BofA GLOBAL RESEARCH

*More on page 2…*

Click The Flow Show for full report, including important disclosures.

# US Economic Weekly

# Defying gravity

26 January 2024

Economics
United States

**Michael Gapen**
US Economist
BofAS
+1 646 855 3270
michael.gapen@bofa.com

**Aditya Bhave**
US Economist
BofAS
+1 646 855 9929
aditya.bhave@bofa.com

**Stephen Juneau**
US Economist
BofAS
+1 202 442 7429
stephen.juneau@bofa.com

**Shruti Mishra**
US and Global Economist
BofAS
+1 646 855 1040
smishra44@bofa.com

**Jeseo Park**
US Economist
BofAS
+1 646 855 8688
jeseo.park@bofa.com

**US Economics**
BofAS

PCE: Personal Consumption Expenditures

GDP: Gross Domestic Product

BTFP: Bank Term Funding Program

## Weekly viewpoint

GDP cooled, but not nearly as much as we expected. The economy continues to defy expectations. Progress on inflation continues despite the resiliency of the activity data. We expect headline and core PCE inflation in December to rise by 0.15% m/m and 0.17%, respectively. Solid growth and falling inflation support our soft-landing view. We expect the Fed to shift to neutral rate guidance next week as it discusses when to begin normalizing its policy rate stance and slow the pace of balance sheet runoff.

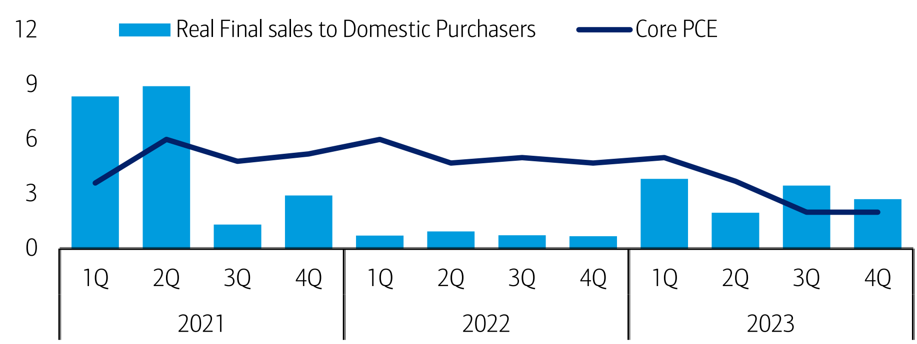
## Data preview: The Fed playing for time at the Jan FOMC

We expect the Fed to stay on hold at the January FOMC meeting and to change its policy rate guidance in the post-meeting statement to more neutral language. This would be a de-facto easing bias since most Fed members have indicated the hiking cycle is likely over. In addition, the Fed can accelerate its discussion about when and how it should slow the pace of securities runoff from its balance sheet. The Fed should be pleased with the overall state of the economy. Labor markets have cooled, and inflation has come down more rapidly than expected absent a large rise in unemployment but we don't think the Fed is ready to send a strong signal about its intentions just yet (see: Federal Reserve Watch: January FOMC preview: Playing for time).

## Data preview: A gradually cooling labor market

We forecast nonfarm payrolls rose by 175k in January, slightly below the 193k average gain over the previous six months. Job growth should again be narrowly driven by the public and high-touch service sectors. Meanwhile, the unemployment rate is likely to remain at 3.7% and the participation rate should recover to 62.7%. The report will also include annual benchmark to the payroll numbers and updated population estimates will be incorporated into the household survey estimates (see: January US Employment Preview 25 January 2024 ).

**Exhibit 1: Real final sales vs. Core PCE (% q/q seasonally adjusted annualized rate)**
Growth finished the year on a strong note and progress on inflation continued




**Source:** Bureau of Economic Analysis, Haver Analytics

BofA GLOBAL RESEARCH

Click US Economic Weekly for full report, including important disclosures.

# Small/Mid Cap Factors: a PM's Guide

## Three strategies for 2024

Small Cap

26 January 2024

Small Cap Research
United States

**Jill Carey Hall, CFA**
Equity & Quant Strategist
BofAS
+1 646 855 3327
jill.carey@bofa.com

**Nicolas Woods**
Equity & Quant Strategist
BofAS
+1 646 556 4179
nicolas.woods_barron@bofa.com

### Stick with Value over Growth

While small cap active funds had a challenging year (see: Mutual Fund Performance) and fundamental factors had a relatively low explanatory power on 2023 small cap stock returns, Value funds fared best. Overall, buying cheap stocks and selling expensive stocks was the route to alpha within small caps in 2023. Even though the Russell 2000 Growth index beat the Value index, Value was the best-performing small cap style, both long (+11ppt top quintile vs. equal-weighted Russell 2000) and long-short (+21ppt Q1-Q5), led by stocks with high FCF yields (FCF = our favored Value attribute in '23) and EBITDA/EV. But small cap Value is still historically cheap relative to Growth (see SMID Valuations), and multiple factors support potential continued Value outperformance in 2024: accelerating profits growth, end of the hiking cycle, fewer non-earners/low quality stocks vs. Growth (see SMID Year Ahead).

### Own the "SMEARNERS"

We still see limited appetite for low quality/risky small caps, and in 2023, Quality was the second-best performing style (+6ppt vs. index and +14ppt long-short). Quality tends to outperform in Downturns and underperform in Recoveries (two phases our US Regime Indicator is oscillating between; more below), but a rising VIX in 2H24 ahead of the election supports sticking with Quality. And if rates stay elevated, duration risks for non-earners lead us to prefer the "SMEARNERS" (small cap earners).

### Hedge regime risk: own cash return stocks

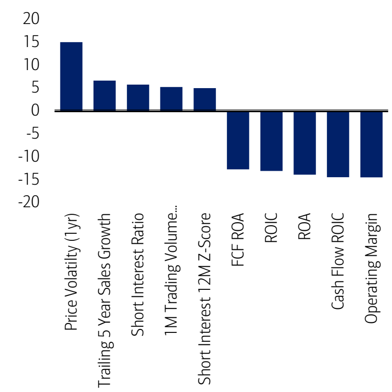
Our team's US Regime Indicator (based on a 3m moving avg. of eight macro inputs) shifted back into Downturn in late '23 after a short Recovery, but more of the underlying 1m signals improved vs deteriorated last month (see: Quant Profiles). While different styles tend to work in Downturns vs Recoveries (Exhibit 7), a style that has consistently led in both regimes is Cash Return. And buybacks (which have outperformed over the last two years within small caps) could continue to be rewarded in a size segment that is still historically cheap. Additionally, as Savita Subramanian pointed out in our large cap quant note above, falling cash yields make equity income more attractive. Cash Return been the top long-short style (besides GARP) over the last three months within small.

### Screen of the month: Stocks that could surprise on results

So far in January, Estimate Revisions and Earnings Surprise have been two of the most alpha-generative small cap factors caps (long-short spreads of +4ppt/+3ppt, respectively). Inside we screen for small and mid-caps that could positively/negatively surprise this earnings season, based on Buy-/Underperform-rated stocks where our analysts are above-/below consensus on 4Q EPS and sales and that also beat/missed expectations last quarter. Also see our Earnings Tracker for the more on 4Q results/guidance in SMID.

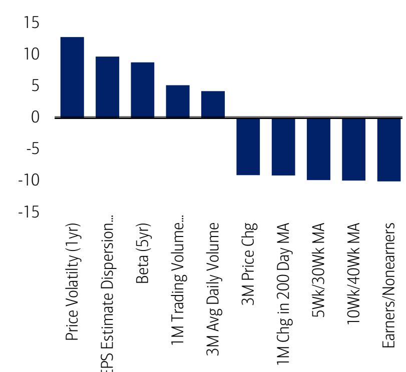
Click Small/Mid Cap Factors: a PM's Guide for full report, including important disclosures.

**Exhibit 1: Russell 2000 top 5/bottom 5 factors by Q1-Q5 spreads in Dec. (ppt)**
Price Volatility (1yr) best; Operating Margin worst




**Source:** FactSet, BofA US Equity & Quant Strategy
BofA GLOBAL RESEARCH

**Exhibit 2: Russell Midcap top 5/bottom 5 factors by Q1-Q5 spreads in Dec. (ppt)**
Price Volatility (1yr) best; Earners/Nonearners worst




**Source:** FactSet, BofA US Equity & Quant Strategy
BofA GLOBAL RESEARCH

Broadlines, Hardlines & Food Retailers

# Assessing potential negative impacts of Red Sea disruption

**Industry Overview**

26 January 2024

Equity
United States
Broadlines, Hardlines & Food Retailers

**Robert F. Ohmes, CFA**
Research Analyst
BofAS
+1 646 855 0078
robert.ohmes@bofa.com

**Elizabeth L Suzuki**
Research Analyst
BofAS
+1 646 855 2547
elizabeth.suzuki@bofa.com

**Kendall Toscano**
Research Analyst
BofAS
+1 646 855 1704
kendall.toscano@bofa.com

**Molly Baum**
Research Analyst
BofAS
+1 646 855 4904
molly.baum@bofa.com

**Madeline Cech**
Research Analyst
BofAS
+1 646 855 5219
madeline.cech@bofa.com

## Red Sea headwind could be material for retailers

In light of Red Sea shipping disruptions, we assess potential impacts to our Broadlines, Hardlines and Food Retailers coverage universe. We expect all of our coverage to potentially face some degree of incremental profit margin headwinds and/or late shipments if global shipping prices continue to rise and capacity shortages occur due to spillover effects from lingering Red Sea disruptions.

## FND, YETI and DLTR have the most risk, in our view

We believe FND has the most exposure to Red Sea disruptions driving up container shipping prices. FND directly sources its flooring, and approximately 29% of its products sold in 2022 were produced in China. YETI sources 50-60% of its product directly from China and we believe spillover from Red Sea disruptions could translate into potential gross margin pressures and inventory shortages similar to the environment in 2022. DLTR's Dollar Tree division directly imports approximately 41-43% of its merchandise. DLTR's low/fixed price points create challenges to adjusting prices quickly to mitigate sourcing cost pressures. We note that BBY is not the importer of record for most of the products it sells (and we believe most products it sources directly do not travel through the Suez Canal). However, BBY's shipping cost negotiations typically occur in the spring and spillover effects related to the Suez Canal could negatively impact BBY's freight costs and delay receipt of goods from its vendors. Importantly, HD and LOW have relatively low exposure to overseas imports.

## TGT likely has the most risk in Broadlines retail

TGT has higher relative exposure to container rate increases compared to other broadline retailers given the company's impressive global sourcing organization that supports TGT's large own-brands business (33% of sales). TGT saw significant margin pressure in 2022 (with gross margin dropping to 23.6% from 28.3% in 2021) from merchandising challenges including excess markdowns (>$1bn), higher freight and transportation costs ($1bn) and higher inventory shrink (>$500mn), much of which was related to shipping disruptions and capacity challenges. DKS and ASO have high private label penetration (14% and 20%, respectively), particularly in apparel, and higher costs and late shipments could be risks, similar to TGT. WMT, DG, and BJ face less overall risk due to their higher % of sales in grocery (see Exhibit 2), which is ~85-90% domestically sourced. WMT, COST and TGT also have scale benefits including more favorable port access, long-term container shipping agreements and chartered vessels that limit reliance on spot markets and enable capacity advantages.

## Food Retailers source mostly in the US, see little risk

We see Food Retailers KR, ACI, SFM and GO as relatively insulated from Red Sea disruptions given their store footprints are entirely within the US with ~90%+ grocery sales mix (typically sourced domestically). Global foodservice distributor SYY does have operations in Western Europe (~6% of total sales), but we would not expect a significant portion of SYY's predominantly food offering to be sourced from Asia (and therefore be traveling through the Suez Canal). **See page 2 for more.**

**Investment decisions should not be made prior to reading the research report, which includes important information and disclosures.**
Click Broadlines, Hardlines & Food Retailers for full report, including important disclosures.

**Broadlines Retailers**:

WMT = Walmart
TGT = Target
COST = Costco
BJ = BJ's Wholesale
DG = Dollar General
DLTR = Dollar Tree

**Food Retailers**:

KR = Kroger
ACI = Albertsons
GO = Grocery Outlet
SFM = Sprouts Farmers Market
SYY = Sysco

**Hardlines Retailers**:

DKS = Dick's Sporting Goods
ASO = Academy Sports
BBY = Best Buy
FND = Floor and Décor
YETI = Yeti
HD = Home Depot
LOW = Lowe's

Industrials/Multi-Industry

# DEM#561: 4Q23 earnings (so far): read across to our coverage

**Price Objective Change**

26 January 2024

Equity
Americas
Industrials/Multi-Industry

**Andrew Obin**
Research Analyst
BofAS
+1 646 855 1817
andrew.obin@bofa.com

**David Ridley-Lane, CFA**
Research Analyst
BofAS
+1 646 855 2907
david.ridleylane@bofa.com

**Sabrina Abrams**
Research Analyst
BofAS
+1 646 556 3520
sabrina.abrams@bofa.com

**Devin Leonard**
Research Analyst
BofAS
+1 646 855 3698
devin.leonard@bofa.com

## 4Q23 earnings: read across to our coverage

In this week's *Deus Ex Machina*, we take a look at companies that already reported 4Q23 earnings and implications for our multi-industrial coverage. Next week, DOV, ETN, FTV, HON, ITW, JCI, PH, PNR, ROK, and TT report. While industrial demand seems in line with expectations, we think consumer appears to be a source of incremental weakness. The global semi market remains a drag to companies with exposure, with consensus inflection in 2H24. Our framework into 2024 reflects exposure to our favorite end markets: VRT (datacenter); GE (aerospace), ITT and EMR (process), and PH (aerospace). APG, a services business, is our remaining top pick. We continue to view consumer/residential as weak; semis/electronics still weak until 2H24; and industrial short-cycle as soft but bottoming out (with a positive tone towards growth in '24).

## Consumer & residential construction weakness

This week, we attended the AHR Expo in Chicago and the Pool & Spa Show in Atlantic City. During our visit to the AHR Expo, our takeaway was that residential volumes in 4Q23 were weaker than expected. We heard that residential units could be down 20-30% y/y, worse than expectations. The tone on the consumer was more negative given stimulus running out and higher interest rates. Our conversations at the Pool & Spa show were negative on new pool construction, but more mixed on consumer health generally. We heard that while the consumer still has cash, consumers are cautious and uncertain, leading to paused projects. MMM 2024 guidance for its Consumer business would be flat excluding portfolio restructuring. We would highlight Underperform-rated ITW as having above-peer consumer and residential construction exposure.

## Semis still weak, but not any worse: DD, MMM

On 1/24, Dupont de Nemours (ticker: DD), covered by our colleague Steve Byrne, negatively pre-announced 4Q23 on industrial destocking and weak China demand. CEO Ed Breen said in the press release, "We continue to see stabilization within Semiconductor Technologies with slight sequential sales lift occurring in the fourth quarter as expected and we remain confident of a broad-based market recovery for electronics materials in 2024." We view recovery in electronic materials as a positive read-across for Honeywell's Advanced Materials business into 4Q. We model flat growth in AM in 4Q23; ~20% of the business is semis, with implied growth in 60% of the business (fluorine). 3M forecasts semis to improve into 2H24 (full earnings note here). It is seeing some signs of consumer electronics stabilizing. On the conference call, CFO Monish Patolawala stated, "The semiconductor market is forecasted to start the year soft, however, improve as we progress through the year." We continue our end market read across on page 3 of this report.

**Exhibit 1: Changes to TT PO and EPS**

Raising TT PO to $265

| | Old | New |
|---|---|---|
| TT PO | $245 | $265 |
| TT 2024 EPS | $9.63 | $9.94 |

**Source:** BofA Global Research estimates

BofA GLOBAL RESEARCH

**Investment decisions should not be made prior to reading the research report, which includes important information and disclosures.**

Click Industrials/Multi-Industry for full report, including important disclosures.

# Transportation - Trucking

# Survey Says: Demand (52.8) 2nd highest in 17 mos; Rate view 50+ first time in 92 wks

**Industry Overview**

26 January 2024

Equity
Americas
Road Transport/Trucking

BofA Data Analytics

**Ken Hoexter**
Research Analyst
BofAS
+1 646 855 1498
ken.hoexter@bofa.com

**Adam Roszkowski, CFA**
Research Analyst
BofAS
+1 646 855 5498
adam.roszkowski@bofa.com

**Nathan Ho, CFA**
Research Analyst
BofAS
+1 646 855 3599
nathan.m.ho@bofa.com

## Truck Shipper Survey #301, week of January 25th, 2024

This is a break-out data note. This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **increased to 52.8 from 51.6 last survey**. This is the highest level for the Demand Indicator since August 2022 (17 months), aside from one issue on August 10, 2023. The Demand Indicator has now been at- or above-50 for 3 consecutive issues and 6x in the past 11. This positive stretch follows a period at- or below-50 for 21 of the prior 25 issues (since February 2023). The Indicator remains just below the 54.2 average in the '12, '15, '19 Freight Recession periods, highlighting a still soft backdrop, but a notable improvement from its 2023 trough (42.6). The Demand Indicator was up 3% year-year, its 10th yr-yr uptick in the past 11 issues. Rail carloads fell 18% year-year this week, the 6th downtick in 13 weeks mainly due to weather-related shutdowns. Dry van spot rates ex-fuel was $1.49/mile, up from $1.47/mile last week, remaining well above the $1.21-$1.26 band it was at between Aug-Oct. Of the respondents, 25% had a positive short-term demand outlook, up from 23% last survey; Neutral outlooks were 55%, flat with last survey, and Negative outlooks were 20%, down from 21% last survey. In the week of January 25th, we surveyed 44 shippers for views on truckload demand, supply, pricing, and inventory.

## Rates Indicator above 50 for the first time in 92 weeks

**The Rate Indicator**, or shippers' view on truck rates, **increased to 52.3** from 47.9, as more shippers expect rates to rise over the next 3 months. This is the Rate Indicator's first move above 50 after 46 consecutive surveys (92 weeks). **The Inventory Indicator was flat at 54.5** from 54.3 last issue. **The Truck Capacity Indicator**, which gauges shippers' views of available truck capacity, **decreased to 61.4** from 68.1 last survey as capacity relatively tightens. With respect to rates, 11% of shippers expect rates to fall, from 15% last issue, 73% expect pricing to be flat, from 74% last issue, and 16% expect rates to rise, from 11% last issue. On capacity, 27% expect capacity to rise, vs 38% last issue, 68% expect capacity to stay flat, from 60% last issue, 5% expect capacity to be lower, from 2% last issue. **SHIPPER COMMENTS**: A Manufacturing Shipper had long haul truck brokers approaching it with rate hikes, claiming rates are going up as they are not making money on lane rates set in November '23. A Consumer Shipper is already seeing freight rates increase through 1Q despite lower fuel, as smaller carriers are challenged with costs. An Industrial Shipper finished its 1Q-2Q bids with rates up 5-7% vs last quarter. It believes the consensus among its carriers is that capacity is starting to get tighter due to bankruptcies and carriers are parking trucks given depressed rates.

## More signs of rising demand, See support for 2024 view

We see a building demand base with Demand Indicator moving to its 2nd highest level since the end of the post-COVID tightening period, and as spot truck rates ex-fuel have moved up to $1.49/mile. J.B. Hunt saw Intermodal load growth accelerate in 4Q due to an unanticipated peak as normalized demand patterns reemerged (partly countered at KNX, which saw truck demand deceleration exiting 2023). Increased commentary of potential rate increases augurs well for carrier returns as we pass the potential cycle floor. We see volume declines stabilizing, for a potential upturn later in 2024, as we noted in our 2024 Year Ahead,. We focus on leading multimodal carriers JBHT and KNX and Less-than-Truckload (LTL) carriers XPO, SAIA, and ODFL in the related sector.

**Investment decisions should not be made prior to reading the research report, which includes important information and disclosures.**

Click Transportation - Trucking for full report, including important disclosures.

**Chart 1: DEMAND INDICATOR**

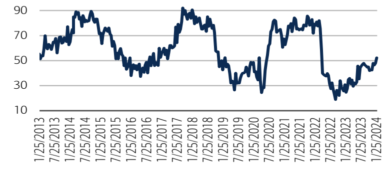
Shipper's view of demand next 0-3 months; Demand Indicator at 52.8


**Source:** BofA Global Research.

BofA GLOBAL RESEARCH

**Chart 2: RATE INDICATOR**

Shipper's rates view; Rate Indicator at 52.3




**Source:** BofA Global Research.

BofA GLOBAL RESEARCH

Software

# AI Evolution: Long-Term Competitive Advantages for Insurance

**Industry Overview**

25 January 2024

Equity
Americas
Server & Enterprise Software

**Alkesh Shah**
Research Analyst
BofAS
+1 646 855 1556
alkesh.shah@bofa.com

**Joshua Shanker**
Research Analyst
BofAS
+1 347 821 9017
joshua.shanker@bofa.com

**Andrew Moss**
Research Analyst
BofAS
+1 646 743 2178
andrew.moss@bofa.com

## Insurance & AI? Transformation begins incrementally

We hosted a call with Jay Rajendra, Chief Strategy and Innovation Officer at Arch Capital Group, a global specialty insurance company that invests in disruptive technologies like AI to improve underwriting decisions and generate competitive advantages.[1] As we wrote in our (see reports) AI Primer and Software Year Ahead, we expect the newest AI wave to catalyze a technological evolution that disrupts every sector globally (Exhibit 1). AI tools may provide insurance companies with new revenue opportunities, but similar to the implications for utilities (see report), our view is that the more sizable opportunity will likely emerge from integrating AI into processes that drive operational efficiencies and increased productivity (Exhibit 2).

## Innovation for "old economy" industries

Across covered insurance companies globally, 82% have articulated plans to implement AI strategies that drive operational efficiencies and 12% have articulated plans that drive revenue opportunities (Exhibit 3), which could boost operating margins by 1.9% over the next five years (Exhibit 4).[2] Arch has acquired, invested in and onboarded insurance-specific AI vendors like CAPE Analytics, Kalepa and Upfort to better analyze insurable risks.[3] Underwriting a commercial property traditionally involved manual internet searches, but the newest AI tools provide incremental insight that enrich and expedite the process. For example, AI-powered aerial imagery and web scraping help determine the condition of a roof, differentiate between a high-end restaurant and late-night dive bar and identify if nearby hazards (trees, power lines) exist.[4] AI tools may also create new revenue opportunities by enabling new products like cyber insurance.[5]

## Underwriting advantages for me, disadvantages for thee

Arch's focus on AI isn't new, but we expect the newest AI tools to drive automation of manual and administrative tasks, reduce the reliance on insurance agents and expedite claims processing, which may reduce costs and improve the customer experience in the near term. However, over the longer term, specialty vendors that offer AI-powered tools may facilitate a more holistic view of insurable risks that drive improved underwriting decisions and competitive advantages that result in diverging sector performance. Tools for underwriters to price risk more efficiently may boost Arch's underwriting margins, but could also enable mispriced risk to be passed on to less innovative competitors.

## Only the beginning for AI applications

Some investors may be skeptical that insurance companies will adopt the newest AI tools, but insurance falls into the middle 50% of industry groups by past AI investment as a percentage of revenue (Exhibit 5). We expect insurance companies to continue integrating AI tools into their processes as a natural extension of current operational efficiency strategies and as the potential to realize cost savings becomes more apparent. However, AI implementation strategies initially focused on efficiencies may ultimately generate incremental revenue or new revenue streams as underwriting decisions improve, new products become economically viable and displaced workers are reallocated to higher-value tasks (Exhibit 7 & Exhibit 8).

Click Software for full report, including important disclosures.

**AI** = Artificial Intelligence

[1] Arch's four primary areas of focus include primary commercial, reinsurance, mortgage insurance and trade credit. We view Arch's consistent focus on innovation as a key factor behind its industry-leading 15% compounded annual book value per share since its founding in 2001.

[2] We surveyed 114 fundamental equity analysts on corporate AI strategies across ~3,500 covered companies globally. Only 1% of covered insurance companies have not articulated a plan to implement an AI strategy. See page two for additional survey details.

[3] Arch acquired Ventus Risk Management, invested in NOW Insurance, and onboarded CAPE Analytics, Kalepa and Upfort, among others. Arch has also onboarded large AI vendors, including Microsoft, Google, Amazon and Salesforce.

[4] High-end restaurants and dive bars are two distinct businesses with different risk profiles.

[5] Arch expects cyber insurance premiums to grow 20% y/y until 2025 and partnered with Upfort, a cyber security and insurance platform.

US Oil and Gas

# OIM# 655: impacts of Red Sea attacks on refiners pale with upcoming maintenance

Industry Overview

## Rising freight may have only modest impact on margins

Ahead of earnings season for the US oils, the impact and risk of potential market disruption of the ongoing tensions in the Red Sea on US refining margins has become one of the most debated aspects of the sector outlook, albeit any conclusions remain fluid, subject to how the situation evolves. Quantifying the magnitude on product markets is clearly imprecise at best. However, if we consider that the incremental cost of delivery translates to higher net backs for US refiners, we believe it is reasonable to consider some uplift in realized margins as the de-facto cost of supply has increased.

While the disruption only impacts the Red Sea transit, tying up vessels on longer journeys means de-facto shipping availability has tightened. With Russian product cargoes excluded through sanctions, the backfill for European product supplies that had been seen from Mid-East refiners, may now benefit US & Brazilian exporters. At the simplest level, the impact so far is on tanker rates, with long haul transport routes from the Middle East to Europe increased, as an indicative order of magnitude by ~$5/bbl. However, when pro-rated to the proportion of product that moves between the US and Europe (say, 25% US distillate exports, or 1,000 bpd) then it seems reasonable that the spike in tanker rates may translate to only a $1/bbl - $2/bbl impact on margins. In the grand scheme of things, we call the impact marginal versus the seasonal changes in refining margins we expect over the course of the year. Remember that as we examined in last week's OIM, less than 10% of global crude flows transit through the Red Sea.

## Winter storms & Spring maintenance have bigger impacts

With this week's DOE we have our first glimpse into the impacts from winter storm Heather. Commercial crude stocks fell 9.2mm bbls pushing inventories to the bottom of the 5-year range noting domestic production impacts from weather that the EIA suggests could be as high as 1mnbd from 'freeze offs'. Refined products are another story. Despite refining utilization falling by 7.1% to 85.5%, again on weather issues, gasoline inventories still increased by 4.9 mm bbls albeit with the help of net imports rising by 500,000 bpd w/w. Distillate declined - but only by 1.4mm bbls.

While both products are following seasonal trends, gasoline remains well above the 5yr average whereas distillate stocks are still below the 5-year average, inventories are above levels at this time last year with minimal impact so far from the winter storm.

From here, the focus turns to the upcoming Spring maintenance season. Here we see outages in 2024 at a similar level to 2019; but 2019 refinery capacity was 1.3mm b/d higher suggesting a bigger proportional level of downtime. On balance, elevated maintenance may prove to be the catalyst to resume positive margin revisions for US refiners – in contrast to a declining forward oil curve and weak US natural gas prices. Refiners in 2024 may well be setting up as the best house in a mediocre neighborhood.

**Please save the date for our 21st dedicated US refining conference which will take place 'in person' on March 14th in New York City.**

Click US Oil and Gas for full report, including important disclosures.

25 January 2024

Equity
United States
Oils

**Doug Leggate**
Research Analyst
BofAS
+1 713 247 6013
doug.leggate@bofa.com

**Kalei Akamine**
Research Analyst
BofAS
+1 713 247 7880
kalei.akamine@bofa.com

**Noah Hungness**
Research Analyst
BofAS
+1 832 341 5807
noah.hungness@bofa.com

**Exhibit 1: BBG vs. Actuals (mbbls)**
Gasoline draws while crude inventories build

| | |
|---|---|
| **Crude Stocks** | |
| *Est* | **(908)** |
| *Actual* | (9,233) |
| *Diff* | (8,325) |
| **Distillate Stocks** | |
| *Est* | **578** |
| *Actual* | (1,417) |
| *Diff* | (1,995) |
| **Gasoline Stocks** | |
| *Est* | **1,414** |
| *Actual* | 4,912 |
| *Diff* | 3,498 |
| **Utilization** | |
| *Est* | **92.0%** |
| *Actual* | 85.5% |
| *Diff* | **(908)** |

**Source:** EIA

BofA GLOBAL RESEARCH

OPEC – organization of petroleum exporting countries
E&P – exploration and production
IEA – international energy agency
DOE – department of energy
OIM – oil inventory monitor
bpd – barrel per day
bbl – barrel
DUC – drilled uncompleted

# Western Digital Corporation

# Cyclical improvements underway; Raising PO to $70

**Reiterate Rating: BUY | PO: 70.00 USD | Price: 60.33 USD**

25 January 2024

Equity

**Key Changes**

| (US$) | Previous | Current |
|---|---|---|
| Price Obj. | 49.00 | 70.00 |
| 2024E Rev (m) | 12,130.1 | 12,594.2 |
| 2025E Rev (m) | 14,597.4 | 15,529.5 |
| 2026E Rev (m) | 17,036.3 | 18,058.6 |
| 2024E EPS | -1.79 | -1.10 |
| 2025E EPS | 5.78 | 6.88 |
| 2026E EPS | 8.24 | 9.21 |

## Beat F2Q24 Revenue and EPS guidance

WDC reported its F2Q24 results with revenue of $3.03bn (+10% q/q) vs company guidance of $2.95bn at the midpoint and our/Street estimates of $2.96bn/$2.99bn. F2Q24 EPS came in at $(0.69) vs company guidance of $(1.20) at the midpoint and our/Street estimates of $(1.05)/$(1.14). Mgmt. guided F3Q24 rev/EPS to be $3.30bn/$0.05 at the midpoint. As cyclical tailwinds are starting to kick in on both HDD (Cloud recovery) and NAND (careful management of capacity should drive sustained pricing upside), we view room for significant positive estimate revisions. We reiterate our Buy rating on WDC on being close to the bottom of the cycle and potential strategic options. Company remains on track to split the HDD and NAND business in 2H24.

## Flash: GM +18.2% q/q in F2Q

Flash revenue of $1.7bn in F2Q was up +7% q/q (+0% y/y). ASPs increased +10% on a blended basis (up +7% on a like-for-like basis). Flash bit shipments declined -2% q/q (+21% y/y). Flash GM came in at 7.9% in F2Q (+18.2% q/q, -6.6% y/y). The underutilization charges of $107mn created a 6.4% headwind to Flash GM. We do not see incremental underutilization charges in Flash and expect continued strong margin recovery.

## HDD: GM +190bps q/q in F2Q

In F2Q HDD rev of $1.4bn and grew +14% q/q (-6% y/y). HDD exabyte shipments grew +14% q/q and average price per HDD grew +9% q/q to $122. HDD GM increased +190bps q/q to 24.8% despite underutilization charges of $49mn which created a 3.6% headwind. We model GM growing +50bps q/q in F3Q. Recovery in nearline demand (including China Hyperscale) is driving improvement in exabyte shipments and in like for like pricing, which we see as sustainable over the next few qtrs. Company expects to introduce HAMR late 2025 or early 2026 when it can produce 4TB+/platter, at which point the company expects superior TCO relative to current generation products.

## Adjusting estimates; PO moves to $70

Our F24 revenue/EPS move to $12.6bn/$(1.10) from $12.1bn/$(1.79). We raise our PO to $70 from $49 on 9x C25 EPS of $8.16 (prior 14x C24 EPS of $3.51). We lower the multiple as we roll forward to C25 based valuation as WDC is in the early stages of a deep cyclical recovery.

| Estimates (Jun) (US$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| EPS | 8.22 | (3.58) | (1.10) | 6.88 | 9.21 |
| GAAP EPS | 4.74 | (5.42) | (2.20) | 5.59 | 7.77 |
| EPS Change (YoY) | 81.1% | NM | 69.3% | NM | 33.9% |
| Consensus EPS (Bloomberg) | | | (2.92) | 4.77 | 5.28 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| **Valuation (Jun)** | | | | | |
| P/E | 7.3x | NM | NM | 8.8x | 6.6x |
| GAAP P/E | 12.7x | NM | NM | 10.8x | 7.8x |
| EV / EBITDA* | 6.2x | 109.5x | 22.5x | 6.0x | 5.1x |
| Free Cash Flow Yield* | 3.5% | -6.1% | 2.7% | 8.7% | 15.1% |

**Investment decisions should not be made prior to reading the research report, which includes the opinion key and other important information and disclosures.** Click Western Digital Corporation for full report, including important disclosures.

**Wamsi Mohan**
Research Analyst
BofAS
+1 646 855 3854
wamsi.mohan@bofa.com

**Ruplu Bhattacharya**
Research Analyst
BofAS
+1 646 855 0315
ruplu.bhattacharya@bofa.com

**Joseph Leeman**
Research Analyst
BofAS

**Nathawan Asdornwised**
Research Analyst
BofAS

**Stock Data**

| | |
|---|---|
| Price | 60.33 USD |
| Price Objective | 70.00 USD |
| Date Established | 25-Jan-2024 |
| Investment Opinion | C-1-9 |
| 52-Week Range | 31.97 USD - 60.55 USD |
| Mrkt Val (mn) / Shares Out (mn) | 19,562 USD / 324.2 |
| Free Float | 99.4% |
| Average Daily Value (mn) | 340.82 USD |
| BofA Ticker / Exchange | WDC / NAS |
| Bloomberg / Reuters | WDC US / WDC.OQ |
| ROE (2024E) | -3.1% |
| Net Dbt to Eqty (Jun-2023A) | 43.1% |
| 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".

GM: Gross Margin, HDD: Hard Disk Drive

FCF: Free Cash Flow

BofA SECURITIES

# Humana Inc

# Fischbeck Focus: HUM's growth and the state of the MA market

**Reiterate Rating: BUY | PO: 470.00 USD | Price: 355.36 USD**

26 January 2024

Equity

## Guide a disappointment, but a better setup at rebased levels

HUM issued disappointing 2024 guidance, and although 2025 EPS is expected to grow by $6-10 (38-62%), the magnitude of the growth has raised questions even as the implied $22-$26 range is well below its prior $37 target. We think the focus on the 50% EPS growth misses the mark, as there can be significant EPS growth off of a base where margins are sub 1%. In our view, the key to multiple expansion for HUM and the group is beating earnings guidance "the right way" i.e. on medical costs rather than SG&A. While HUM's 2024 guidance was clearly disappointing, we think that it is conservative (particularly the MLR), creating a good set up from these depressed levels. Following the quarter, we are lowering our EPS estimates. Our $470 PO is now based on 18.4x 2025E EPS (vs 15.5x prior) given higher visibility in hitting our rebased estimates. While the near-term results are well below expectations, we reiterate Buy as we see little reason to believe that the business long term is fundamentally different, and we expect at least three years of above-average growth off of these depressed levels.

## Debunking some popular bear MA arguments

In our note, we debunk some popular bear theories on MA: 1) MA can't predict trend/it's more volatile (2023 was a perfect storm, incredibly high degree of difficulty to get right that no one (MCOs, hospitals or medtech) predicted would happen), 2) margins are permanently impaired (excluding these trend issues, the margins of the largest MA names have been remarkably consistent and with 1/3rd of the industry losing money in 2023, margins have to move up in 2025), 3) that rate pressures/benefit cuts will pressure growth (historically not true), and 4) that the market is getting aggressive/competitive (most datapoints indicate the opposite).

## Fischbeck Focus: HUM's growth and the state of MA

This quarter, we focus on why 2023/2024's problems are not a HUM-specific problem, but an industry problem, which should make it easier to return to the LT trajectory. We do not see HUM's mispricing (or anyone's mispricing) as emblematic of some structural problem, inability to forecast costs, or reach target margins, but rather a function of a rare disruption in utilization post-COVID. Meanwhile, we see little evidence that the market is suddenly irrational (analyzing industry MA margins over time), making it easier to see how HUM's earnings can rebound meaningfully over the next three years.

| Estimates (Dec) (US$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| EPS | 25.22 | 26.00 | 16.25 | 25.50 | 30.50 |
| GAAP EPS | 22.05 | 19.83 | 10.03 | 19.24 | 24.20 |
| EPS Change (YoY) | 22.4% | 3.1% | -37.5% | 56.9% | 19.6% |
| Consensus EPS (Bloomberg) | | | 27.96 | 33.26 | 37.23 |
| DPS | 3.09 | 3.47 | 4.12 | 4.67 | 5.30 |
| **Valuation (Dec)** | | | | | |
| P/E | 14.1x | 13.7x | 21.9x | 13.9x | 11.7x |
| GAAP P/E | 16.1x | 17.9x | 35.4x | 18.5x | 14.7x |
| Dividend Yield | 0.9% | 1.0% | 1.2% | 1.3% | 1.5% |

**Investment decisions should not be made prior to reading the research report, which includes the opinion key and other important information and disclosures.** Click Humana Inc for full report, including important disclosures.

### Key Changes

| (US$) | Previous | Current |
|---|---|---|
| 2024E Rev (m) | 107,137.8 | 111,828.7 |
| 2025E Rev (m) | 118,562.2 | 120,423.6 |
| 2026E Rev (m) | 130,765.7 | 129,703.1 |
| 2024E EPS | 26.50 | 16.25 |
| 2025E EPS | 30.40 | 25.50 |
| 2026E EPS | 34.65 | 30.50 |
| 2024E DPS | 3.99 | 4.12 |

**Kevin Fischbeck, CFA**
Research Analyst
BofAS
kevin.fischbeck@bofa.com

**Joanna Gajuk**
Research Analyst
BofAS
joanna.gajuk@bofa.com

**Adam Ron**
Research Analyst
BofAS
adam.ron@bofa.com

**Nabil Gutierrez**
Research Analyst
BofAS
nabil.gutierrez@bofa.com

### Stock Data

| | |
|---|---|
| Price | 355.36 USD |
| Price Objective | 470.00 USD |
| Date Established | 25-Jan-2024 |
| Investment Opinion | B-1-7 |
| 52-Week Range | 342.69 USD - 541.21 USD |
| Mrkt Val (mn) / Shares Out (mn) | 43,518 USD / 122.5 |
| Free Float | 98.7% |
| Average Daily Value (mn) | 700.63 USD |
| BofA Ticker / Exchange | HUM / NYS |
| Bloomberg / Reuters | HUM US / HUM.N |
| ROE (2024E) | 12.1% |
| Net Dbt to Eqty (Dec-2023A) | 42.7% |
| 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".

See page 14 for abbreviations

# Boeing

## Slowing down to ramp up, move to Neutral and lower PO to $225

**Rating Change: NEUTRAL | PO: 225.00 USD | Price: 214.13 USD**

25 January 2024

Equity

### Moving to Neutral on Alaska Airlines grounding aftermath

In the wake of the Alaska Airlines Flight 1282 incident, where a 737 MAX-9 door plug was ejected from the fuselage mid-flight (see report), Boeing (NYSE: BA) has again found itself in the spotlight of materially increased regulatory scrutiny. The subsequent grounding and FAA mandated production rate freeze at current levels will likely prevent Boeing from reaching its 2025/2026 production, delivery, and FCF goals outlined during its 2022 investor day. We expect the FAA ruling to delay BA's 737 ramp by roughly a year (see Deferring MAX production ramp up by roughly a year). We move to the sidelines with our rating on the shares, lowering it to a Neutral from a Buy and cutting our PO to $225 from $255.

### Best-in-class production favors smoother future ramps

Nevertheless, we think the forced slowdown will ultimately benefit Boeing in the long term. To be blunt, the current situation is not tenable. The slowdown will enable BA, its suppliers, and regulators to focus on quality assurance and best-in-class production practices without the stress of ramping production in the near term. In our view, the resulting stronger production system should ultimately allow Boeing to ramp up to higher rates smoothly. The robust demand environment coupled with OEMs struggling to meet customer orders should enable Boeing to continue benefiting from its albeit shrinking share of the global duopoly for commercial aircraft.

### FAA caps 737 MAX production at current levels

The FAA announced on January 24 that it would be capping 737 MAX production at current levels. FAA Administrator Mike Whitaker emphasized that the "[FAA] will not agree to any request from Boeing for an expansion in production or approve additional production lines for the 737 MAX until we are satisfied that the quality control issues uncovered during this process are resolved." This comes after 1) a *Seattle Times* report suggested that Boeing may likely be to blame for the unsecured door plug that caused the Alaska Airlines incident and 2) airlines found other loose bolts and discrepancies during recent 737 MAX-9 inspections.

| **Estimates (Dec) (US$)** | **2021A** | **2022A** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| EPS | (9.44) | (11.05) | (6.20) | 0.25 | 6.35 |
| GAAP EPS | (7.15) | (8.29) | (3.91) | 2.13 | 8.05 |
| EPS Change (YoY) | 59.4% | -17.1% | 43.9% | NM | NM |
| Consensus EPS (Bloomberg) | | | (6.17) | 3.81 | 8.67 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| **Valuation (Dec)** | | | | | |
| P/E | NM | NM | NM | 856.5x | 33.7x |
| GAAP P/E | NM | NM | NM | 100.5x | 26.6x |
| EV / EBITDA* | NM | NM | 205.6x | 39.7x | 21.8x |
| Free Cash Flow Yield* | -3.4% | 1.8% | 2.6% | 3.2% | 4.9% |

**Investment decisions should not be made prior to reading the research report, which includes the opinion key and other important information and disclosures.**
Click Boeing for full report, including important disclosures.

**Key Changes**

| **(US$)** | **Previous** | **Current** |
|---|---|---|
| Inv. Opinion | B-1-9 | B-2-9 |
| Inv. Rating | BUY | NEUTRAL |
| Price Obj. | 255.00 | 225.00 |
| 2024E Rev (m) | 84,397.5 | 82,259.1 |
| 2025E Rev (m) | 93,000.8 | 90,209.0 |
| 2024E EPS | 2.70 | 0.25 |
| 2025E EPS | 7.45 | 6.35 |

**Ronald J. Epstein**
Research Analyst
BofAS
+1 646 855 5695
r.epstein@bofa.com

**Mariana Perez Mora**
Research Analyst
BofAS
+1 646 855 5696
mariana.perezmora@bofa.com

**Andre Madrid**
Research Analyst
BofAS
+1 646 725 3107
andre.madrid@bofa.com

**Jordan Lyonnais**
Research Analyst
BofAS
+1 646 855 5204
jordan.lyonnais@bofa.com

**Samantha Stiroh**
Research Analyst
BofAS
+1 646 855 5725
samantha.stiroh@bofa.com

**Stock Data**

| | |
|---|---|
| Price | 214.13 USD |
| Price Objective | 225.00 USD |
| Date Established | 25-Jan-2024 |
| Investment Opinion | B-2-9 |
| 52-Week Range | 176.25 USD - 267.54 USD |
| Mrkt Val (mn) / Shares Out (mn) | 129,544 USD / 605.0 |
| Free Float | 99.9% |
| Average Daily Value (mn) | 2358.42 USD |
| BofA Ticker / Exchange | BA / NYS |
| Bloomberg / Reuters | BA US / BA.N |
| ROE (2023E) | NA |
| Net Dbt to Eqty (Dec-2022A) | NA |
| 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".

# Intuitive Surgical

# The future starts now

**Reiterate Rating: BUY | PO: 450.00 USD | Price: 371.41 USD**

24 January 2024

Equity

## Now that it's official – what to do with stock

Last night ISRG officially confirmed it filed its next-gen multiport platform Da Vinci 5 with the FDA in August 2023. We had outlined the impact of a new system last month (see our Dec 19 report). We didn't learn enough details about Da Vinci 5 to fine tune the model but do raise our 2026E EPS to $9.00 (from $8.25). ISRG called the new system substantive. Our guess is this system helps get robotic surgery to industrial scale - accelerating penetration of robotic surgery. Given many inputs of a new launch are initially dilutive we think investors would quickly move to value the stock on 2026 EPS when a launch is at full scale. We agree expectations for a new system announcement are mostly factored into the stock (which we got last night) but the totality of what a new system can bring is not fully appreciated yet and we see ISRG moving higher as this becomes more apparent. ISRG's 2024 sales force meeting was titled "the future starts now" and we believe it's too early to not have exposure to the most significant 5+ year product cycle in medtech. We reiterate our Buy rating.

## 2024 approval likely; full launch by 2026

ISRG did not give an expected approval date but said its hope was to have a 2024 launch. We also note ISRG included the first phase of da Vinci 5 launch as part of its 2024 priorities. ISRG said timing from filing to approval on prior system launches are not the best rule given how different the FDA environment is today but we'd guess approval anywhere from 8-12 months post filing is most likely. ISRG is in the Q&A process with the filing right now. ISRG decided to disclose the update on the earnings call given where it was with the FDA process and given it started training its 2k sales people at its January sales meeting and then started talking with large IDN customers. All Gen 4 instruments and accessories will work on Da Vinci 5 but the endoscope will need to change and there are possibilities for incremental innovation in instruments and imaging that only work on Da Vinci 5. ISRG said approval timing would determine if the system is visible at SAGES.

## New model…$7.16 in 2025E and $9.00 in 2026E

We assume a late 2024 approval and limited launch into 2025 and full scale launch in 2026. We model $6.00 in 2024E EPS; $7.05 in 2025E EPS; and $9.00 in 2026E EPS. We raise our PO to $450 from $400 (based on 50x 2026E EPS vs 53x 2025E prior).

| Estimates (Dec) (US$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| EPS | 4.96 | 4.68 | 5.71 | 6.00 | 7.05 |
| EPS Change (YoY) | 46.3% | -5.6% | 22.0% | 5.1% | 17.5% |
| Consensus EPS (Bloomberg) | | | 5.59 | 6.26 | 7.24 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| **Valuation (Dec)** | | | | | |
| P/E | 74.9x | 79.4x | 65.0x | 61.9x | 52.7x |
| EV / EBITDA* | 48.8x | 50.9x | 45.5x | 42.3x | 34.8x |
| Free Cash Flow Yield* | 1.3% | 0.7% | 1.1% | 1.3% | 1.8% |

**Investment decisions should not be made prior to reading the research report, which includes the opinion key and other important information and disclosures.** Click Intuitive Surgical for full report, including important disclosures.

**Key Changes**

| (US$) | Previous | Current |
|---|---|---|
| Price Obj. | 400.00 | 450.00 |
| 2024E Rev (m) | 7,934.7 | 7,855.4 |
| 2025E Rev (m) | 9,068.0 | 9,189.8 |
| 2023E EPS | 5.61 | 5.71 |
| 2024E EPS | 6.01 | 6.00 |

**Travis Steed**
Research Analyst
BofAS
+1 404 607 3251
travis.steed@bofa.com

**Craig Bijou**
Research Analyst
BofAS
craig.bijou@bofa.com

**Stephanie Piazzola**
Research Analyst
BofAS
stephanie.piazzola@bofa.com

**Carolyn Huszagh**
Research Analyst
BofAS
carolyn.huszagh@bofa.com

**Stock Data**

| | |
|---|---|
| Price | 371.41 USD |
| Price Objective | 450.00 USD |
| Date Established | 24-Jan-2024 |
| Investment Opinion | B-1-9 |
| 52-Week Range | 222.65 USD - 379.39 USD |
| Mrkt Val (mn) / Shares Out (mn) | 130,763 USD / 352.1 |
| Free Float | 99.5% |
| Average Daily Value (mn) | 654.53 USD |
| BofA Ticker / Exchange | ISRG / NAS |
| Bloomberg / Reuters | ISRG US / ISRG.OQ |
| ROE (2023E) | 16.7% |
| Net Dbt to Eqty (Dec-2022A) | -14.3% |
| 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".

ISRG = Intuitive Surgical

IDN = integrated delivery network

SAGES = Society of American Gastrointestinal and Endoscopic Surgeons

## Price objective basis & risk

**3M Company (MMM)**
We base our $110 price objective on 11x P/E on our 2025 estimates. Our 11x target multiple is at a discount to Industrial peers trading at 22x on 2024 estimates. 11x is also at a discount to high quality consumer goods peers trading at 24x on 2024E. We believe valuation at a discount to peers is warranted given 3M's lower growth outlook, choppier execution, and PFAS liability risk.

Upside risks to our PO are 1) little headline risk/market reaction to PFAS liability, 2) limited PFAS legislative action taken by the federal government, and 3) better-than-expected operational execution.

Downside risks to our PO are 1) a need for greater investment could be a margin headwind, 2) slower-than-anticipated recovery of end markets, and 3) PFAS litigation risk.

**Academy Sports + Outdoors (ASO)**
Our PO of $65 is based on 8-9x our F25 GAAP EPS estimate of $7.55, in line with the average P/E for the Athletic/Sporting Goods retail group given: (1) potential for margin uplift as ASO shifts to higher margin national brands and private label, (2) ASO success with new store growth and plans to expand the store base by 50% (120-140 stores) over the next 5 years, and (3) Academy's ability to manage SG&A.

Risks to the downside are: (1) Nike may choose to allocate product differently in the future, (2) more competitive pressures including expansion of Dick's into value-oriented apparel, and (3) increased regulation affecting the sale of firearms & ammunition.

**Albertsons Companies, Inc. (ACI)**
We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

**Allegion (ALLE)**
We base our $95 price objective on a 11x EV/EBITDA of our 2025 estimates. Our 11x target multiple is in line with peers trading at 11x on 2024E.
We believe the an in-line multiple is warranted given it balances ALLE's above-peer margins and our concerns for ALLE's end markets.

Upside risks are: 1) North American residential downturn less severe than expected and 2) pricing holds up into '23. Downside risks are: 1) Greater-than-expected headwinds from raw material inflation and supply chain headwinds, 2) Lost market share to North American competitor, and 3) Emerging market slowdown could impact the company's growth, reliant on increased security demand from urbanization.

**AMETEK Inc (AME)**
We base our $165 price objective on an 16x EV/EBITDA multiple of our 2025 estimates. Our target 16x multiple is in line with the 16x peer average on 2024E, reflecting the similar earnings trajectory as peers.

Downside risks to our price objective are: 1) weaker industrial production trends, 2) slower pace of acquisitions, and 3) cyclical risks on shorter cycle component businesses. Upside risks are: 1) secular growth in automation and aerospace end markets, 2) accretive acquisitions, and 3) share gains for differentiated products.

**Best Buy Co., Inc. (BBY)**
Our 12-month PO of $70 is based on 10x our FY25E EPS estimate, which is a discount to BBY's long-term average of 11x and the hardline retail average of 16x. We believe this

discount is warranted given the pressure on consumer discretionary spending in light of inflation. However, growing long-term demand for consumer electronics as people stay, work and learn more at home more so than pre-pandemic mitigate the potential downside to the P/E multiples at the lower end of the hardline retail group (which are in single digits).

Downside risks to our PO are slower-than-expected industry headwinds, deteriorating ASPs, a slowdown in share gains, greater-than-expected cost inflation, and a slowdown in macro and consumer trends.

Upside risks to our PO are better-than-expected margin improvements, a pickup in product cycles, market share gains, and strong investor sentiment on the Consumer Discretionary sector.

**Boeing (BA)**
Our PO of $225 is based on the 2026e FCF of $13/share and relative discount to the S&P500 of 0.8x (about half standard deviation above historical average). In our view, a multiple roughly in line with the historical average fairly reflects the looming aerospace recovery, strong demand for commercial jets, defense opportunities, and the lack of dividend.

Upside risks to our PO are the possible involvement of an activist shareholder, better-than-expected cash margins at 787 and/or MAX programs, the company's ability to sustain 777 delivery rates through the bridge to 777X, lower-than-expected 777X, future single-aisle and middle-of-the-market aircraft development costs.

Downside risks to our PO are as follows: Tight competition for engineering talent in the current labor market could make new product development more challenging. Execution risk on new programs and production ramp-ups (737MAX, 777X, KC-46) could result in cost overruns and margin contractions. Changes in trade policy that end in a trade war. A sharp and prolonged surge in oil prices to above $100/bbl would be negative to aircraft demand. A downturn in commercial aviation, due to an exogenous factor, could adversely affect financial results. As aircraft are priced in USD, an unexpected rapid revaluation in the dollar could significantly affect order activity. Also, a strong dollar could improve Airbus' competitive advantage. 787 fixes could take longer than expected.

**Carrier Global Corp. (CARR)**
We base our $55 price objective on 11x EV/EBITDA of our 2025 estimates. Our 11x target multiple is at a discount to peers, trading at 12x on 2024 estimates. We believe that the discount is warranted given the potential for destocking across res and non-res.

Upside risks to our price objective are: 1) continued solid execution in 2023, 2) non-residential markets take longer to crack than our thesis, and 3) price increases offset impact of destocking cycle.

Downside risks to our price objective are: 1) slower-than-expected macro recovery, 2) inability to execute on announced cost savings plan, and 3) lost market share to competitors.

**Core & Main (CNM)**
We base our $28 price objective on an 8x EV/EBITDA multiple of our CY25 estimate. Our target multiple is below the peer average of 15x on CY24 estimates. We argue a below-peer multiple is warranted given CNM's higher financial leverage and slower near-term EBITDA growth.

Downside risks to our price objective are: 1) the ability to raise pricing in excess of cost inflation, 2) a downturn in new construction markets (approximately 45% of revenue), 3) risks around acquisition selection and integration, and 4) above-peer financial leverage may limit the company's ability to pursue its M&A strategy. Upside risks to our price objective are: 1) accretive M&A transactions, 2) better than expected growth in new construction, and 3) sustained period of premium pricing on manufacturing supply chain constraints.

**Costco Wholesale Corporation (COST)**

Our price objective of $740 is based on 41x our F25E EPS of $17.90. Costco's long-term (20yr) average two-year forward PE is 24x, with a peak of 41x and a trough of 16x. We view a premium valuation as appropriate given 1) COST's healthy customer traffic growth and strong membership renewal rates, which should continue given our expectation for a further rise in the perceived value of shopping at warehouse clubs and COST's leading warehouse club position from a merchandising, store execution, and private label standpoint, 2) COST's strong same-store sales outlook given strong customer traffic growth, and 3) expected continued strength in COST's International segment, which is generating mid-single-digit %+ comps in local currencies and supports Costco's premium valuation.

Downside risks to our price objective are adverse macro shocks, tariffs, regional dependence on California, food inflation/deflation pressures, foreign exchange risk, challenging membership trends, increased competition, wage increases, gas profit comparisons and the potential for increased unionization of COST's employee base, which could pressure labor expenses.

**Dollar General Corporation (DG)**

Our $100 price objective is based on 13x our F2025E EPS estimate of $7.60. Our PO assumes that DG stock trades at the middle of its historical 11x-18x P/E range. We believe this valuation is justified given potential benefits from strategic investments and initiatives offset by lower traffic vs. peers, and continued profitability pressures.

Upside risks to our PO are a consumer-led recession driving accelerated trade down to the dollar store space, food inflation driving higher-than-expected comparable sales, success of international expansion and accelerated store growth as a result.

Downside risks to our PO are increased price competition given the highly competitive food retail industry, pressures from a macroeconomic slowdown or lower consumer confidence, SNAP benefit cuts, and volatility in food product costs or gas prices.

**Dollar Tree, Inc. (DLTR)**

Our $105 PO is based on 15x (at the lower end of the company's historical average) our F25E EPS of $7.00. Our PO assumes that DLTR multiples could compress given unknown headwinds associated with its accelerated multi-price point rollout.

Downside risks to our PO are: increased price competition given the highly competitive food retail industry, pressures from a macroeconomic slowdown or lower consumer confidence, SNAP benefit cuts, volatility in food product costs, and increased wage pressures. Upside risks to our PO are: a same-store sales acceleration, improved margins supported by discretionary category growth, accelerated store growth, and a rollback of tariffs.

**Dover Corp (DOV)**

We base our $180 price objective on a 13x EV/EBITDA multiple of our 2025 estimates. Our target multiple is in line with multi-industrial peers, trading at 13x 2024 estimates. We argue that an in-line valuation discount is fair given Dover's improved portfolio mix, capital allocation strategy, and margin trajectory, offset by slower near-term revenue growth.

Downside risks to our PO are 1) slowing US industrial production, 2) not achieving expected returns from organic investments or acquisitions, and 3) slower-than-expected margin improvement.

**Eaton Corp PLC (ETN)**
We base our $275 price objective on a 20x EV/EBITDA multiple of our 2025 estimates. Our target multiple is at a premium to the 15x peer average on 2024 estimates. We argue a premium valuation is warranted due to broad exposure to key growth end markets, expected upside from cyclical operating leverage, strong margin performance, and Eaton's less cyclical portfolio mix.

Downside risks to our PO are 1) a slower-than-expected manufacturing capex growth, 2) a more active M&A is inherently risky as it relies on the availability of accretive synergistic targets and the company's ability to integrate, and 3) the trajectory of the recovery in automotive and aerospace end markets.

**Emerson Electric Co (EMR)**
We base our $120 price objective on a 15x EV/EBITDA multiple of our CY25E EBITDA. Our target multiple is a premium to multi-industrial peers trading at 14x CY24 estimates. We argue that a premium is warranted, given above-peer margins and execution.

Downside risks to our PO are 1) deterioration in energy capex outlook or oil price correction 2) emerging market slowdown, which could impact the company's growth, and 3) acquisition integration risks.

**Floor and Decor Holdings, Inc. (FND)**
Our 12-month price objective of $112 is based on 44x our 2024 EPS estimate. We believe a multiple that is substantially above hardline retail peers (20x) is warranted given its superior store growth trajectory and above-average same-store sales growth. In 2024-2025 we expect annual earnings growth of almost 20%, illustrating the long-term compounding earnings growth opportunity of FND.

Downside risks to our price objective are a weakening of the housing market beyond our forecasts, execution risk given large store growth and supply chain diversification, increased competition, and higher labor costs. Upside risks are a stronger housing/flooring market than expected, or faster market share gains than modeled.

**Flowserve (FLS)**
We base our $44 price objective on a 10x EV/EBITDA multiple on our 2025 estimates. A 10x multiple puts the company at a discount to the 11x peer average multiple on 2024. We think the discount is warranted given below-peer margins.

Upside risks to our PO are: 1) Faster-than-expected recovery in oil & gas capital spending, and 2) Better than anticipated global industrial production growth. Downside risks: 1) a reduction in capital spending in the key end-markets, specifically oil & gas 2) Greater consolidation in the flow control market increases competition and reduces prices across the industry, and 3) weaker than anticipated global industrial production.

**Fortive Corporation (FTV)**
We base our $77 price objective on a 15x EV/EBITDA multiple of our 2025 EBITDA estimate. Our target multiple is a discount to the 20x peer average on 2023 estimates. We argue a discount is warranted given below-peer margins and EPS growth.

Upside risks to our PO are: 1) stronger industrial demand, 2) better than expected pricing, 3) potential accretive acquisitions.

Downside risks to our PO are: 1) weaker-than-expected capex cycle, 2) acquisition integration risks, 3) continued weakness in China (approx. 12% of revenue).

**General Electric Company (GE)**
We base our $145 price objective on a 14x EV/EBITDA multiple of our 2025 estimates. Our target multiple is in line with the 15x peer average on 2024 estimates which reflects below-peer margins.

Downside risks to our PO are 1) the pace of the recovery in Aerospace, 2) progress on Renewable's turnaround, and 3) transactional risks relating to pending spin-off of Vernova (Renewable Energy & Power).

**Grocery Outlet Holding Corp. (GO)**
Our $40 price objective is based on 34x our 2024E adj. EPS of $1.18, a premium to the Food Retailers & Discount Stores group average (roughly 18-20x). We believe a premium valuation is warranted given our view of: 1) GO's unique and hard-to-replicate IO model aligns incentives while reducing costs and risks, 2) GO's opportunistic sourcing model delivers deep value and consistent margins, and 3) GO's low-risk/steady model supports stable/highly predictable margins and a sustainable LT growth horizon (with potential to establish over 5,000 stores in the US). We believe these factors support valuation upside, as does our outlook for elevated food inflation to continue (given likely sales and margin benefits).

Downside risks to our PO are: 1) GO operates in a highly competitive food and discount retail industry, 2) treasure hunt model makes grocery ecommerce difficult 3) any disruptions or inability to source products could adversely impact sales, 4) store growth opportunity depends on attracting and maintaining Independent Operators, 5) IO concept still unproven outside of five core West Coast states, 6) IO model results in reduced fixed cost leverage for GO relative to traditional retail model, 7) the build out of East Coast talent, systems, real-estate, and infrastructure could pressure expenses more than expected, and 8) a less favorable inflationary environment.

**Honeywell International Inc. (HON)**
We base our $250 price objective on 15x 2025E EV/EBITDA. Our target multiple is a premium to peers trading at 14x EV/EBITDA on 2024E. We argue a premium multiple is warranted given top quartile execution and end market exposure to aerospace and oil & gas.

Downside risks to our price objective are: 1) Acquisitions, specifically that Honeywell overpays for deals in the pursuit of diversifying and expanding into new, faster-growing adjacent markets, 2) Unforeseen future sales deceleration due to economic pressures (e.g., slowing global flying hours, oil price volatility and muted O&G capex outlook), and 3) execution around ongoing simplification efforts.

**Humana Inc (HUM)**
Our $470 PO is based on 18.4x our 2025 EPS estimate, above its 5-year average of 17.1x, supported by opportunity for future margin improvements.

Upside risks are potential for share repurchase and several non-healthcare catalysts, margin normalization, and the rebound in risk coding.

Downside risks are regular industry sensitivity points (cost trend, MA rates), as well as unknowns from a new administration.

**Illinois Tool Works (ITW)**
We base our $235 price objective on 16x 2025E EV/EBITDA. This compares to the peer average at 15x and high-quality compounders at 18x. We maintain a slight premium to

the industrial group given above-average EBITDA margins.

Upside risks to our PO are 1) Auto production volumes revised upward, driving better near-term margin expansion and topline, 2) Welding price/cost and volumes better than expected, and 3) T&M&E recovers from cyclical downturn faster than forecasted. More margin expansion vs. our forecast would alleviate pressure on the multiple and drive positive earnings revisions. Downside risks are: 1) Auto volumes remain depressed, limiting near-term margin expansion, 2) investor sentiment pressured more than expected on lackluster earnings growth.

**Intuitive Surgical (ISRG)**
Our $450 PO is based on roughly 50x our 2026E EPS. We think the premium multiple relative to average large cap peers is justified given ISRG's expected mid-teens top-line growth over the next several years, nearly 3x that of the medtech market, and ISRG is well ahead vs competition in one of the most significant growth markets in medtech (soft tissue robotics). ISRG pipeline also justifies our multiple as ISRG is spending over $500m a year in R&D and it's a matter of time before the fruits of these investments show up in estimates.

Downside risks are 1) lower surgical volumes due to covid, 2) slowdown in hospital capital spending, 3) other competitive entrants and 4) supply chain headwinds.

**ITT Inc. (ITT)**
Our $135 price objective reflects 12x our 2025 estimates, in line with peers trading at 12x 2024E. We believe an in-line valuation is warranted given better EPS growth and margin expansion in '24, offset by decelerating organic growth.

Downside risks to our PO are: 1) ITT may overpay for deals in the pursuit of diversifying and expanding its product portfolio, 2) Lower than expected capex spending in the auto, oil & gas, power gen, and other key end markets, 3) Short-cycle and chemical pumps could slow, 4) above-peer exposure to European markets, and 5) declining backlog coverage may limit visibility.

**J.B. Hunt Transport Services (JBHT)**
Our $216 price objective is based on a 26.5x target multiple of our 2024E EPS estimate. Our target multiple is above its 16x-23x one standard deviation trading band as earnings trough in '23 and begin to recover in '24. We expect pricing pressure, a lagging indicator to volumes, to be somewhat countered with improved rail operational performance as supply chains improve fluidity. We forecast solid double-digit EPS gains over time, robust Intermodal performance, and potential for improved box turns. It also plans to grow its container fleet to 150k over 2-4 years as it scales growth on BNSF's network.

Risks to our PO are a slowing economic environment, an inability for the company to raise rates to offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting costs or the company's image, or significant impacts (strikes, network outages) to BNSF or Norfolk Southern's rail network or J.B. Hunt's relationship with either of those carriers impacting intermodal operations. Additional risks are regulatory changes impacting the flow of freight from the highway to rail, or rapidly falling fuel prices that could encourage freight to stay on the highway, its occasional arbitration with BNSF over rail rates, a sustained loose capacity truckload market that may overhang Intermodal pricing, and inability to obtain labor.

**John Bean Technologies (JBT)**
We base our $85 price objective on an 9x EV/EBITDA multiple of our 2025 estimates. Our 9x target multiple is below the peer average trading at 13x on 2024 estimates. We argue a discounted valuation is warranted given JBT's below-peer EBITDA margins and below-peer cash conversion.

Upside risks to our PO are: 1) better than expected execution on restructuring/facility consolidation, 2) lower input cost inflation, and 3) faster pace of accretive M&A. Downside risks to our PO are: 1) valuation already implies future M&A, 2) ability to source accretive acquisitions, 3) execution risk in restructuring/facility consolidation, 4) input cost inflation, 5) rising low-cost competition, and 6) failure for AeroTech sale to complete.

**Johnson Controls International PLC (JCI)**
We base our $60 price objective on 10x EV/EBITDA of our 2025 estimates. Our 10x target multiple is below the peer group average trading at 14x on 2024 estimates. We think the discount valuation is warranted given risk from slowdown in the non-residential cycle.

Downside risks to our price objective are 1) potential loss of market share to peer and building automation competitors, 2) execution risks, particularly on the cost takeout plan, and 3) risks from the aqueous film forming foam litigation.

**Knight-Swift Transportation Holdings Inc (KNX)**
Our $64 price objective is based on a 25.5x target multiple on our 2024 EPS estimate. Our target multiple is above the upper end of its one-standard-deviation 22-year historical trading range of 14x-25x on year ahead estimates, as it moves past trough earnings. We view downside as somewhat limited given its diversified model and strong operational performance, and a truckload market that is beginning to work out excess capacity (though recognize the pendulum can overswing on rate declines and cost pressures). Nevertheless, given its diversification moves (LTL, Intermodal, Brokerage/Logistics, and Trucking/Dedicated) it looks to prove earnings will be more sustainable than in prior cycles.

Risks to our price objective are volatility at its truckload segment (particularly its historical SWFT segment, which is more exposed to large retail and project pricing), slower earnings growth from its LTL acquisitions, weaker-than-expected economic conditions, an inability for the company to have trucking rates offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting the company's image and finances, over-expanding (or acquiring assets) without maintaining its focus on cost controls, and a lack of growth opportunities, and the failure to complete its acquisition of US Xpress, which may affect its growth outlook.

**Lowe's Companies, Inc. (LOW)**
Our PO of $289 is based on around 21x our 2024 EPS estimate. We believe a multiple above the hardlines average (20x) is warranted given solid fundamentals and the relatively defensive nature of the home improvement industry, countered by near-term economic and sentiment risk. In addition, LOW has an opportunity to expand margins for several years through continued productivity improvements and product differentiation.

Upside risks to our PO are improving consumer sentiment and other macro metrics tied to renovation spending, better-than-expected margin expansion from sales growth coupled with cost-saving and productivity initiatives, and upside from favorable weather events. Downside risks to our PO are rising interest rates which may continue to dampen investor sentiment towards housing, a slower than expected improvement in comps, and slower than anticipated progress towards margin improvement goals.

**Montrose Environmental Group, Inc. (MEG)**
We base our $40 price objective on 24x EV/EBITDA of our 2025 estimates. This is at a premium to the peer group average trading at 10x on 2024E. We believe the premium is warranted capital allocation and secular growth trends from US environmental regulations/infrastructure stimulus.

Downside risks to our PO are 1) greater-than-expected y/y declines in the CTEH business, 2) inability to source or integrate deals, and 3) poor execution tied to ERP rollout and initiation of European operations.

**Old Dominion Freight Line (ODFL)**

Our $447 price objective is based on a 34x target multiple on our 2024 EPS estimate. Our target is above the company's 20-year historical one-standard deviation range of 13x-27x forward earnings, adjusted for outlier periods, and the top of its 3-year range of 28x-34x. We are at the top of its historical range given the seminal event in the LTL industry as YELL declared bankruptcy, ODFL's sustained share gains, above-inflation cost pricing, and a robust free cash flow yield. It continues to post superior operating performance relative to peers and the favorable dynamics of the LTL industry.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Additionally, increasing LTL competition could limit Old Dominion's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. A return to industry pricing competition, last experienced en masse in the 2008 Great Recession, could weigh on investor views on the health of the industry, and thus OD's leading multiple. The less-than-truckload industry is competitive, with a large number of national and regional companies vying for business. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

**Parker Hannifin Corporation (PH)**

We base our $525 price objective on a 14x EV/EBITDA multiple applied to our CY25E estimate. Our 14x target multiple is at a discount to the 16x multi-industrial peer average on 2024E and 17x Aerospace Suppliers peer average on 2024E. Parker has historically traded at a discount, but we believe it should start to close the gap with high quality peers AME and ITW.

Downside risks are: 1) industrial short-cycle destocking worse than expected, 2) Meggitt integration, and 3) the ability to offset material inflation through pricing. Upside risks: 1) Aerospace recovery has more upside given more exposure from Meggitt, and 2) Multiple expansion as the company closes the performance gap.

**Pentair plc (PNR)**

We base our $76 price objective on a 13x EV/EBITDA multiple of our 2025 estimates. This slightly below the peer group trading at 14x on 2024 estimates. We think the below-peer valuation is fair given above average EBITDA margins offset by more cyclical topline.

Upside risks are: 1) better-than-expected revenue growth in pools, 2) success on incremental productivity actions. Downside risks are: 1) Reinvestment in most profitable (Pool) segment, 2) execution risk on sourcing & consolidation activities.

**Rockwell (ROK)**

We base our $320 price objective on a 17x EV/EBITDA multiple of our CY25 estimate. Our target multiple is a premium to the 14x peer average on 2024E. We argue a premium is warranted given ROK's position in the US automation market.

Upside risks are 1) supply chain improvement, 2) potentially accretive acquisitions.

Downside risks are 1) slowing global industrial production, 2) delays in global capex, 3) greater competition, and 4) supply-chain constraints.

**Rush (RUSHA)**

We base our $57 price objective on a 13x P/E multiple of our 2024 EPS estimate. Our target multiple is below the company's long term P/E multiple of 14x, which we think is fair given near-term pressures on the truck cycle.

Upside risks are: 1) improving mix of service-related revenue, 2) accretive use of free cash flow in either share repurchases or acquisitions, 3) an improvement in US truck market. Downside risks are: 1) Rush's relationship with PACCAR given the majority of revenue comes from the sale of PACCAR products, namely Peterbilt trucks and parts. 2) PACCAR has ultimate veto power on Rush's growth plans by virtue of having a right of first refusal on the purchase of additional Peterbilt dealerships. PACCAR may terminate Rush's dealership agreements upon change of control of the company from the Rush family or if the Rush family's aggregate voting power falls below 30%. 3) The heavy truck market is a highly cyclical business that can be affected by fuel prices, interest rate fluctuations, economic recessions and customer business cycles.

**Saia Inc. (SAIA)**

Our $498 price objective is based on a 31x target multiple on our 2024 EPS estimate. Our target remains above its 14x-23x one-standard deviation 10-year trading range as it continues to be benefit from ramping EPS. Our target multiple is above the top end given its leading service, ability to win share, and disruption in the LTL market which can aid premiere carriers, which should more than offset a soft freight environment.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Our price objective is also threatened by increasing competition, which could limit Saia's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. The less-than-truckload industry is competitive, with a large number of national and regional companies vying for business.

**Sprouts Farmers Market, Inc. (SFM)**

Our $30 price objective is based on roughly 11x our 2024E EPS of $2.75 (vs. roughly 18-20x for the Food Retailers & Discount Stores group) as we see risks that SFM's units per transaction will continue to decline (offsetting price increase benefits driving sales/EPS upside for grocery peers) as SFM lacks broad exposure to conventional grocery consumable items (paper products, popular national branded items, etc.), where we believe the unit decline is less dramatic in a challenging inflationary environment.

Upside (downside) risks to our PO are: 1) better (worse) than expected same-store sales 2) a more (less) favorable inflationary environment 3) better (worse) than expected margins 4) accelerated (slower) new store growth 5) improving (weaker) comp maturation curve for new stores.

**Sysco Corporation (SYY)**

Our $80 price objective is based on roughly 17x our F25 adjusted EPS estimate of $4.75. This in line with SYY's average two-year forward P/E of 17x over the last five years, and below its five-year high of 23x. It represents a premium to key foodservice distributor peers, which we believe is warranted given SYY's scale advantages, market share gains, higher margins, productivity improvements/supply chain transformation, lower leverage & higher dividend yield (SYY is a dividend aristocrat).

Downside risks are: 1) a highly competitive foodservice distribution industry with low switching costs, 2) risks associated with a macroeconomic slowdown or lower consumer confidence that could negatively affect food away from home consumption, 3) sales headwinds from product cost deflation or margin pressures from product cost inflation, 4) potential pressures on profitability from high fuel costs, and 5) inability to achieve productivity improvements, which could pressure operating margins.

**Target Corp. (TGT)**
Our $160 PO is based on 17-18x our F2025E adjusted EPS of $9.15, which is near the midpoint of TGT's ten-year historical P/E range of roughly 11x-20x but warranted in our view, given discretionary peers lower overall P/E multiples offset by TGT's exposure less elastic consumables & essential categories.

Downside risks to our price objective are gross margin pressures from labor costs, investments, and the rapid growth of the lower-margin e-commerce channel as well as aggressive competition from competitors.

**The Home Depot, Inc. (HD)**
Our 12-month price objective of $372 is based on around 23x our 2024 EPS estimate. We believe a multiple above the hardline retail average (20x) and above HD's 10-year pre-COVID average of 18.5x is warranted given the relative resilience of the home improvement retailers in the current macro backdrop, likely market share gains, and consistent execution at the company.

Downside risks to our price objective are a weakening in the housing market/consumer backdrop beyond our forecasts, a significant increase in promotions by HD and/or competitors, unfavorable weather and poor execution in supply chain upgrades. Upside risks are a noticeable acceleration in the housing market or re-acceleration in same-store sales trends as HD continues to take market share.

**The Kroger Co. (KR)**
Our PO of $65 is based on roughly 15x our F2025E EPS of $4.45, a premium to conventional supermarket peers given our outlook for continued momentum from fresh, Our Brands, personalization & seamless initiatives, but a discount to the Food Retailers & Discount Stores group avg. (18-20x) given KR's lack of general merchandise offering that we think supports a higher multiple for key digital competitors.

We see upside to KR's valuation from strategic initiatives (including fresh, Our Brands & digital), alternative profit streams & continued cost savings execution.

Downside risks to our PO are greater-than-expected headwinds from pharmacy, fuel, the build-out of the Ocado network, and employee wage/healthcare benefits as well as potential for deflation or accelerating industry promotions.

**Trane Technologies PLC (TT)**
We base our $265 price objective on 17x 2025E EV/EBITDA . Our 17x target multiple is above the peer group average trading at 13x on 2024 estimates. We believe the premium is warranted given above-average performance.

Downside risks are 1) slower-than-expected macro recovery, 2) lower-than-expected productivity improvement and cost synergies, 3) loss of market share to competitors. Upside risks are 1) continued solid execution in 2023, 2) non-residential markets take longer to crack than our thesis, and 3) price increases offset impact of destocking cycle.

**Vertiv (VRT)**
We base our $60 price objective on an 14x EV/EBITDA of our 2025 estimates (previously 12x). Our target multiple is in line with the 14x peer average on 2024E. We argue an in line multiple is warranted given above-peers earnings growth offset by below-peer margins.

Downside risks to our price objective are 1) declines in company-owned data centers, 2) inability to execute on cost savings plans, 3) pricing deterioration due to competition, and 4) disruptions due to supply chain or manufacturing execution.

**Vontier (VNT)**
We base our $40 price objective on 9.5x our 2025E EBITDA estimate. This is a discount to the peer average of 14x on 2024 estimates to reflect above-peer leverage.

Downside risks to our price objective are 1) greater-than-expected decline in US fuel dispenser revenue, 2) acquisition timing, selection, and integration risks, 3) greater adoption of electric vehicles hurting demand for retail fueling infrastructure.

**Walmart Inc (WMT)**
Our $190 price objective is based on 27x our F25E adj. EPS of $7.00, which is above WMT's average 2-year forward P/E multiple of roughly 21x but in line with a high of 27x over the past 5 years. Our multiple reflects an outlook for positive US comps (with positive traffic), omni-channel momentum, and healthy free cash generation. This P/E is more in line with other high-performing retailers such as COST but still a discount to other global ecommerce retailers.

Downside risks to our PO are the impacts of FX, pharmacy headwinds, slowing food inflation or deflation, Walmart's longer-term ability to continue gaining incremental market share given its large size, a weakening global retailing environment, competitive pressures at Sam's Clubs and/or Walmart International.

**Western Digital Corporation (WDC)**
Our PO of $70 is based on 9x C25E EPS of $8.16. This multiple is inline with the HDD/SSD historical average of 9x, which we view as justified as it balances near-term sluggish end markets offset by longer-term improving trajectory of the business both in HDDs and in NAND. WD is a cyclical company. Near-term estimates are lower given lower demand from weaker macro.

Downside risks are: (1) unit declines in desktops and notebooks (2) worse than expected high-capacity HDD industry, (3) faster declines in NAND Flash pricing, (4) higher NAND manufacturing cost from either stronger Yen, or manufacturing yield issues, (5) lower royalty revenue from NAND licensing, (6) degradation of cash position and lower free cash flow and (7) failure of strategic actions to drive incremental value

Upside risks are: (1) significant pickup in high capacity/nearline HDDs, which could drive ASPs and gross margin higher, (2) share gains in enterprise NAND flash SSDs, (3) consumer PC refresh cycle, (4) improved free cash flow generation and faster debt pay down and (5) strategic options that drive the stock higher.

**XPO, Inc. (XPO)**
Our $102 price objective is based on a 31x P/E multiple on its 2024e EPS, above the upper end of peer range at 8x-24x, as we look for it to close the premium gap to best-in-class peers as it executes on its Network 2.0 growth plan and its purchase of Yellow real estate.

Downside risks to our price objective are a downturn in the global economy, which could reduce volume and pressure margins, while also potentially having a disproportionate impact on XPO's earnings given its leveraged capital structure. Long term inability to secure a sale of its Europe operation may also be a downside risk to our price objective. Its inability to improve cargo claims, insource linehaul, obtain tractors/trailers at pace it desires, and failure to improve pricing on its improved service levels would be a downside risk to targets/valuation. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

**YETI Holdings, Inc. (YETI)**
Our $50 price objective is based on roughly 17x our 2025E adjusted EPS of $3.00, a valuation slightly below discretionary peers (18x) given: (1) strong brand momentum, (2)

significant under penetration in international, (3) healthy and stable margin outlook, and (4) long-term product and category expansion.

Risks to the downside are: 1) Earnings uncertainty related to softening consumer demand, 2) coolers and drinkware are very competitive categories with low barriers to entry, 3) significant supply chain constraints and heavy reliance on a few suppliers, 4) strong margins could be unsustainable, 5) limited replacement cycle because of durability of products, 6) high concentration of sales with a few retailers

Upside risks are: 1) international could perform better than expected, 2) new product launches could drive upside, & 3) margins could increase as freight pressures ease.

## Special Disclosures

BofA Securities is currently acting as Financial Advisor to Carrier Global Corp in relation to the sale of its commercial refrigeration business to Haier Smart Home Co Ltd., which was announced on December 13, 2023.

**US - Aerospace and Defense Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | AerCap Holdings N.V. | AER | AER US | Ronald J. Epstein |
| | Air Lease Corporation | AL | AL US | Ronald J. Epstein |
| | Booz Allen Hamilton | BAH | BAH US | Mariana Perez Mora |
| | BWX Technologies, Inc. | BWXT | BWXT US | Ronald J. Epstein |
| | CACI International | CACI | CACI US | Mariana Perez Mora |
| | Cadre Holdings Inc | CDRE | CDRE US | Ronald J. Epstein |
| | Crane Co. | CR | CR US | Ronald J. Epstein |
| | Embraer | ERJ | ERJ US | Ronald J. Epstein |
| | General Dynamics | GD | GD US | Ronald J. Epstein |
| | HEICO Corporation | HEI | HEI US | Ronald J. Epstein |
| | Howmet Aerospace Inc. | HWM | HWM US | Ronald J. Epstein |
| | KBR | KBR | KBR US | Mariana Perez Mora |
| | Leidos Holdings | LDOS | LDOS US | Mariana Perez Mora |
| | Leonardo DRS, Inc. | DRS | DRS US | Ronald J. Epstein |
| | Northrop Grumman | NOC | NOC US | Ronald J. Epstein |
| | Palantir Technologies | PLTR | PLTR US | Mariana Perez Mora |
| | Parsons Corporation | PSN | PSN US | Mariana Perez Mora |
| | RBC Bearings Inc | RBC | RBC US | Ronald J. Epstein |
| | Rocket Lab | RKLB | RKLB US | Ronald J. Epstein |
| | Teledyne Technologies Inc | TDY | TDY US | Ronald J. Epstein |
| | TransDigm Group Inc. | TDG | TDG US | Ronald J. Epstein |
| | Triumph Group | TGI | TGI US | Ronald J. Epstein |
| **NEUTRAL** | | | | |
| | Albany International | AIN | AIN US | Ronald J. Epstein |
| | Boeing | BA | BA US | Ronald J. Epstein |
| | Garmin | GRMN | GRMN US | Ronald J. Epstein |
| | Hexcel Corporation | HXL | HXL US | Ronald J. Epstein |
| | L3Harris | LHX | LHX US | Ronald J. Epstein |
| | Lockheed Martin | LMT | LMT US | Ronald J. Epstein |
| | RTX Corp | RTX | RTX US | Ronald J. Epstein |
| | Textron | TXT | TXT US | Ronald J. Epstein |
| **UNDERPERFORM** | | | | |
| | Bombardier | BDRBF | BDRBF US | Ronald J. Epstein |
| | Bombardier Inc. | YBBD B | BBD/B CN | Ronald J. Epstein |
| | CAE Inc. | YCAE | CAE CN | Ronald J. Epstein |
| | CAE Inc. | CAE | CAE US | Ronald J. Epstein |
| | Huntington Ingalls Industries | HII | HII US | Ronald J. Epstein |
| | Mercury Systems | MRCY | MRCY US | Ronald J. Epstein |
| | Spirit AeroSys-A | SPR | SPR US | Ronald J. Epstein |

**US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | Academy Sports + Outdoors | ASO | ASO US | Robert F. Ohmes, CFA |
| | BJ's Wholesale Club Holdings | BJ | BJ US | Robert F. Ohmes, CFA |
| | Costco Wholesale Corporation | COST | COST US | Robert F. Ohmes, CFA |
| | Fox Factory Holding Corp | FOXF | FOXF US | Alexander Perry |
| | Grocery Outlet Holding Corp. | GO | GO US | Robert F. Ohmes, CFA |
| | Harley-Davidson | HOG | HOG US | Alexander Perry |
| | Life Time | LTH | LTH US | Alexander Perry |
| | Planet Fitness, Inc. | PLNT | PLNT US | Alexander Perry |
| | Sysco Corporation | SYY | SYY US | Kendall Toscano |
| | Target Corp. | TGT | TGT US | Robert F. Ohmes, CFA |
| | The Kroger Co. | KR | KR US | Robert F. Ohmes, CFA |
| | Topgolf Callaway Brands Corp | MODG | MODG US | Alexander Perry |
| | Walmart Inc | WMT | WMT US | Robert F. Ohmes, CFA |
| **NEUTRAL** | | | | |
| | Dick's Sporting Goods | DKS | DKS US | Robert F. Ohmes, CFA |
| | Xponential Fitness | XPOF | XPOF US | Alexander Perry |

**US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| | YETI Holdings, Inc. | YETI | YETI US | Robert F. Ohmes, CFA |
| **UNDERPERFORM** | | | | |
| | Canada Goose Holdings Inc | YGOOS | GOOS CN | Alexander Perry |
| | Canada Goose Holdings Inc | GOOS | GOOS US | Alexander Perry |
| | Columbia Sportswear | COLM | COLM US | Alexander Perry |
| | Dollar General Corporation | DG | DG US | Robert F. Ohmes, CFA |
| | Dollar Tree, Inc. | DLTR | DLTR US | Robert F. Ohmes, CFA |
| | Hibbett Sports, Inc. | HIBB | HIBB US | Alexander Perry |
| | National Vision | EYE | EYE US | Robert F. Ohmes, CFA |
| | Sprouts Farmers Market, Inc. | SFM | SFM US | Robert F. Ohmes, CFA |

**US - Multi-Industrials/Engineering and Construction Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | APi Group | APG | APG US | Andrew Obin |
| | AspenTech | AZPN | AZPN US | Andrew Obin |
| | Atmus Filtration | ATMU | ATMU US | Andrew Obin |
| | Dover Corp | DOV | DOV US | Andrew Obin |
| | Eaton Corp PLC | ETN | ETN US | Andrew Obin |
| | Emerson Electric Co | EMR | EMR US | Andrew Obin |
| | Flowserve | FLS | FLS US | Andrew Obin |
| | General Electric Company | GE | GE US | Andrew Obin |
| | Honeywell International Inc. | HON | HON US | Andrew Obin |
| | ITT Inc. | ITT | ITT US | Andrew Obin |
| | Montrose Environmental Group, Inc. | MEG | MEG US | Andrew Obin |
| | Parker Hannifin Corporation | PH | PH US | Andrew Obin |
| | PTC Inc. | PTC | PTC US | Andrew Obin |
| | Rush | RUSHA | RUSHA US | Andrew Obin |
| | Vertiv | VRT | VRT US | Andrew Obin |
| | Vontier | VNT | VNT US | Andrew Obin |
| **NEUTRAL** | | | | |
| | 3M Company | MMM | MMM US | Andrew Obin |
| | AMETEK Inc | AME | AME US | Andrew Obin |
| | Fortive Corporation | FTV | FTV US | Andrew Obin |
| | Johnson Controls International PLC | JCI | JCI US | Andrew Obin |
| | Pentair plc | PNR | PNR US | Andrew Obin |
| | Rockwell | ROK | ROK US | Andrew Obin |
| | Trane Technologies PLC | TT | TT US | Andrew Obin |
| **UNDERPERFORM** | | | | |
| | Allegion | ALLE | ALLE US | Andrew Obin |
| | Carrier Global Corp. | CARR | CARR US | Andrew Obin |
| | Core & Main | CNM | CNM US | Andrew Obin |
| | Illinois Tool Works | ITW | ITW US | Andrew Obin |
| | John Bean Technologies | JBT | JBT US | Andrew Obin |
| | Keysight | KEYS | KEYS US | David Ridley-Lane, CFA |

**US - Transportation Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | Canadian Pacific Kansas City Ltd | CP | CP US | Ken Hoexter |
| | CSX Corporation | CSX | CSX US | Ken Hoexter |
| | FedEx Corp. | FDX | FDX US | Ken Hoexter |
| | J.B. Hunt Transport Services | JBHT | JBHT US | Ken Hoexter |
| | Kirby Corp | KEX | KEX US | Ken Hoexter |
| | Knight-Swift Transportation Holdings Inc | KNX | KNX US | Ken Hoexter |
| | Norfolk Southern | NSC | NSC US | Ken Hoexter |
| | Old Dominion Freight Line | ODFL | ODFL US | Ken Hoexter |

**US - Transportation Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| | RXO, Inc. | RXO | RXO US | Ken Hoexter |
| | Saia Inc. | SAIA | SAIA US | Ken Hoexter |
| | Teekay Tankers Limited | TNK | TNK US | Ken Hoexter |
| | Union Pacific | UNP | UNP US | Ken Hoexter |
| | Wabtec Corp. | WAB | WAB US | Ken Hoexter |
| | XPO, Inc. | XPO | XPO US | Ken Hoexter |
| **NEUTRAL** | | | | |
| | Canadian National | CNI | CNI US | Ken Hoexter |
| | Schneider National | SNDR | SNDR US | Ken Hoexter |
| | Scorpio Tankers Inc. | STNG | STNG US | Ken Hoexter |
| | TFI International | TFII | TFII US | Ken Hoexter |
| | TFI International | YTFII | TFII CN | Ken Hoexter |
| | UPS | UPS | UPS US | Ken Hoexter |
| **UNDERPERFORM** | | | | |
| | ArcBest Corporation | ARCB | ARCB US | Ken Hoexter |
| | C.H. Robinson | CHRW | CHRW US | Ken Hoexter |
| | The Greenbrier Companies | GBX | GBX US | Ken Hoexter |
| | Werner Enterprises | WERN | WERN US | Ken Hoexter |
| | World Kinect | WKC | WKC US | Ken Hoexter |

**US - Retail Hardline Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | Arhaus, Inc | ARHS | ARHS US | Jason Haas, CFA |
| | Boot Barn | BOOT | BOOT US | Jason Haas, CFA |
| | Driven Brands | DRVN | DRVN US | Jason Haas, CFA |
| | Five Below Inc. | FIVE | FIVE US | Jason Haas, CFA |
| | Floor and Decor Holdings, Inc. | FND | FND US | Robert F. Ohmes, CFA |
| | Genuine Parts | GPC | GPC US | Jason Haas, CFA |
| | Lowe's Companies, Inc. | LOW | LOW US | Elizabeth L Suzuki |
| | Mattel | MAT | MAT US | Jason Haas, CFA |
| | Mister Car Wash | MCW | MCW US | Jason Haas, CFA |
| | Ollie's | OLLI | OLLI US | Jason Haas, CFA |
| | O'Reilly Automotive, Inc. | ORLY | ORLY US | Jason Haas, CFA |
| | Petco | WOOF | WOOF US | Jason Haas, CFA |
| | PROG Holdings Inc | PRG | PRG US | Jason Haas, CFA |
| | Rollins Inc. | ROL | ROL US | Jason Haas, CFA |
| | Tempur Sealy International Inc. | TPX | TPX US | Jason Haas, CFA |
| | The Home Depot, Inc. | HD | HD US | Elizabeth L Suzuki |
| | Upbound Group Inc. | UPBD | UPBD US | Jason Haas, CFA |
| **NEUTRAL** | | | | |
| | AutoZone Inc. | AZO | AZO US | Jason Haas, CFA |
| | Hasbro | HAS | HAS US | Jason Haas, CFA |
| | Sonos, Inc. | SONO | SONO US | Jason Haas, CFA |
| | Williams-Sonoma | WSM | WSM US | Jason Haas, CFA |
| **UNDERPERFORM** | | | | |
| | Advance Auto Parts, Inc. | AAP | AAP US | Jason Haas, CFA |
| | Best Buy Co., Inc. | BBY | BBY US | Robert F. Ohmes, CFA |
| | Snap-on | SNA | SNA US | Elizabeth L Suzuki |
| | Tractor Supply Company | TSCO | TSCO US | Jason Haas, CFA |
| | Whirlpool | WHR | WHR US | Jason Haas, CFA |

**US - Facilities, Hospitals and Managed Healthcare Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | Acadia Healthcare | ACHC | ACHC US | Kevin Fischbeck, CFA |

**US - Facilities, Hospitals and Managed Healthcare Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| | Addus HomeCare | ADUS | ADUS US | Joanna Gajuk |
| | Agilon Health | AGL | AGL US | Adam Ron |
| | Chemed Corporation | CHE | CHE US | Joanna Gajuk |
| | Elevance Health Inc | ELV | ELV US | Kevin Fischbeck, CFA |
| | Encompass Health | EHC | EHC US | Kevin Fischbeck, CFA |
| | HCA | HCA | HCA US | Kevin Fischbeck, CFA |
| | Humana Inc | HUM | HUM US | Kevin Fischbeck, CFA |
| | Option Care Health | OPCH | OPCH US | Joanna Gajuk |
| | Oscar Health | OSCR | OSCR US | Adam Ron |
| | Privia Health | PRVA | PRVA US | Adam Ron |
| | Select Medical Corp. | SEM | SEM US | Kevin Fischbeck, CFA |
| | Service Corp. | SCI | SCI US | Joanna Gajuk |
| | Surgery Partners, Inc | SGRY | SGRY US | Kevin Fischbeck, CFA |
| | Tenet Healthcare | THC | THC US | Kevin Fischbeck, CFA |
| | The Cigna Group | CI | CI US | Kevin Fischbeck, CFA |
| | UnitedHealth Group | UNH | UNH US | Kevin Fischbeck, CFA |
| | Universal Health Services | UHS | UHS US | Kevin Fischbeck, CFA |
| | US Physical Therapy | USPH | USPH US | Joanna Gajuk |
| **NEUTRAL** | | | | |
| | Alignment Healthcare | ALHC | ALHC US | Adam Ron |
| | AMN Healthcare | AMN | AMN US | Kevin Fischbeck, CFA |
| | Apollo Medical | AMEH | AMEH US | Adam Ron |
| | Brookdale | BKD | BKD US | Joanna Gajuk |
| | Centene Corporation | CNC | CNC US | Kevin Fischbeck, CFA |
| | Molina Healthcare, Inc. | MOH | MOH US | Kevin Fischbeck, CFA |
| **UNDERPERFORM** | | | | |
| | AdaptHealth Corp. | AHCO | AHCO US | Joanna Gajuk |
| | Agiliti Health Inc | AGTI | AGTI US | Kevin Fischbeck, CFA |
| | Cross Country Healthcare | CCRN | CCRN US | Kevin Fischbeck, CFA |
| | DaVita Inc | DVA | DVA US | Kevin Fischbeck, CFA |
| | Enhabit Home Health & Hospice | EHAB | EHAB US | Joanna Gajuk |
| | Pediatrix Medical Group, Inc. | MD | MD US | Kevin Fischbeck, CFA |

**US - Medical Technology & Devices Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | Abbott Laboratories | ABT | ABT US | Travis Steed |
| | Axonics | AXNX | AXNX US | Travis Steed |
| | Bausch & Lomb | BLCO | BLCO US | Craig Bijou |
| | Becton Dickinson | BDX | BDX US | Travis Steed |
| | Boston Scientific | BSX | BSX US | Travis Steed |
| | Dexcom | DXCM | DXCM US | Travis Steed |
| | Inari Medical | NARI | NARI US | Travis Steed |
| | Inspire Medical | INSP | INSP US | Travis Steed |
| | Insulet | PODD | PODD US | Travis Steed |
| | Intuitive Surgical | ISRG | ISRG US | Travis Steed |
| | Medtronic | MDT | MDT US | Travis Steed |
| | Paragon 28 | FNA | FNA US | Craig Bijou |
| | Procept BioRobotics Corporation | PRCT | PRCT US | Craig Bijou |
| | RxSight | RXST | RXST US | Craig Bijou |
| | Shockwave Medical | SWAV | SWAV US | Travis Steed |
| | Si-Bone | SIBN | SIBN US | Craig Bijou |
| | Stryker | SYK | SYK US | Travis Steed |
| | The Cooper Companies | COO | COO US | Craig Bijou |
| **NEUTRAL** | | | | |
| | Baxter International Inc | BAX | BAX US | Travis Steed |
| | Conmed | CNMD | CNMD US | Travis Steed |
| | Edwards Lifesciences | EW | EW US | Travis Steed |
| | GE HealthCare | GEHC | GEHC US | Craig Bijou |
| | Integer Holdings Corporation | ITGR | ITGR US | Craig Bijou |

**US - Medical Technology & Devices Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| | Teleflex Incorporated | TFX | TFX US | Craig Bijou |
| | Zimmer Biomet | ZBH | ZBH US | Travis Steed |
| **UNDERPERFORM** | | | | |
| | Embecta | EMBC | EMBC US | Travis Steed |
| | Globus Medical | GMED | GMED US | Craig Bijou |
| | Integra Lifesciences | IART | IART US | Craig Bijou |
| | Nevro | NVRO | NVRO US | Travis Steed |
| | Outset Medical | OM | OM US | Travis Steed |
| | Silk Road Medical | SILK | SILK US | Travis Steed |
| | Tandem Diabetes Care | TNDM | TNDM US | Travis Steed |

**US - IT Hardware and Technology Supply Chain Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | Amphenol | APH | APH US | Wamsi Mohan |
| | Apple Inc. | AAPL | AAPL US | Wamsi Mohan |
| | Corning Inc. | GLW | GLW US | Wamsi Mohan |
| | Dell Technologies Inc. | DELL | DELL US | Wamsi Mohan |
| | Flex Ltd. | FLEX | FLEX US | Ruplu Bhattacharya |
| | HP Inc. | HPQ | HPQ US | Wamsi Mohan |
| | International Business Machines Corp. | IBM | IBM US | Wamsi Mohan |
| | Jabil Inc. | JBL | JBL US | Ruplu Bhattacharya |
| | Nutanix Inc | NTNX | NTNX US | Wamsi Mohan |
| | Roku, Inc. | ROKU | ROKU US | Ruplu Bhattacharya |
| | Seagate Technology | STX | STX US | Wamsi Mohan |
| | Sensata Technologies Holdings Plc | ST | ST US | Wamsi Mohan |
| | TE Connectivity Ltd. | TEL | TEL US | Wamsi Mohan |
| | Teradata Corporation | TDC | TDC US | Wamsi Mohan |
| | Western Digital Corporation | WDC | WDC US | Wamsi Mohan |
| **NEUTRAL** | | | | |
| | Arrow Electronics Inc. | ARW | ARW US | Ruplu Bhattacharya |
| | Avnet Inc. | AVT | AVT US | Ruplu Bhattacharya |
| | CDW Corp | CDW | CDW US | Ruplu Bhattacharya |
| | Concentrix Corporation | CNXC | CNXC US | Ruplu Bhattacharya |
| | Hewlett-Packard Enterprise | HPE | HPE US | Wamsi Mohan |
| | Pure Storage | PSTG | PSTG US | Wamsi Mohan |
| **UNDERPERFORM** | | | | |
| | DigitalOcean | DOCN | DOCN US | Wamsi Mohan |
| | NetApp Inc. | NTAP | NTAP US | Wamsi Mohan |
| | Sanmina Corporation | SANM | SANM US | Ruplu Bhattacharya |
| | Vishay Intertechnology, Inc. | VSH | VSH US | Ruplu Bhattacharya |
| | Vizio | VZIO | VZIO US | Wamsi Mohan |
| **RSTR** | | | | |
| | TD Synnex Corp | SNX | SNX US | Ruplu Bhattacharya |

# Disclosures

## Important Disclosures

**Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships [R1] | Count | Percent |
|---|---|---|---|---|---|
| Buy | 31 | 62.00% | Buy | 23 | 74.19% |
| Hold | 11 | 22.00% | Hold | 9 | 81.82% |
| Sell | 8 | 16.00% | Sell | 6 | 75.00% |

**Equity Investment Rating Distribution: Electrical Equipment Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | Count | Percent |
|---|---|---|---|---|---|
| Buy | 14 | 53.85% | Buy | 10 | 71.43% |
| Hold | 6 | 23.08% | Hold | 3 | 50.00% |
| Sell | 6 | 23.08% | Sell | 1 | 16.67% |

**Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | Count | Percent |
|---|---|---|---|---|---|
| Buy | 234 | 60.94% | Buy | 115 | 49.15% |
| Hold | 80 | 20.83% | Hold | 36 | 45.00% |
| Sell | 70 | 18.23% | Sell | 29 | 41.43% |

**Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | Count | Percent |
|---|---|---|---|---|---|
| Buy | 45 | 50.56% | Buy | 25 | 55.56% |
| Hold | 26 | 29.21% | Hold | 13 | 50.00% |
| Sell | 18 | 20.22% | Sell | 7 | 38.89% |

**Equity Investment Rating Distribution: Leisure Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | Count | Percent |
|---|---|---|---|---|---|
| Buy | 16 | 55.17% | Buy | 9 | 56.25% |
| Hold | 7 | 24.14% | Hold | 5 | 71.43% |
| Sell | 6 | 20.69% | Sell | 4 | 66.67% |

**Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | Count | Percent |
|---|---|---|---|---|---|
| Buy | 96 | 57.83% | Buy | 39 | 40.63% |
| Hold | 32 | 19.28% | Hold | 12 | 37.50% |
| Sell | 38 | 22.89% | Sell | 18 | 47.37% |

**Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | Count | Percent |
|---|---|---|---|---|---|
| Buy | 215 | 53.09% | Buy | 111 | 51.63% |
| Hold | 97 | 23.95% | Hold | 45 | 46.39% |
| Sell | 93 | 22.96% | Sell | 24 | 25.81% |

**Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | Count | Percent |
|---|---|---|---|---|---|
| Buy | 67 | 50.38% | Buy | 44 | 65.67% |
| Hold | 31 | 23.31% | Hold | 13 | 41.94% |
| Sell | 35 | 26.32% | Sell | 17 | 48.57% |

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

| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | 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% |

R1 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 R2 |
|---|---|---|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

R2 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.

*INCOME RATINGS*, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the Price Charts website, or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: 3M, Academy, Albertsons, Allegion, AMETEK, Best Buy, Boeing, Carrier, Core & Main, Costco, Dollar General, Dollar Tree, Dover Corp, Eaton Corp PLC, Emerson, Floor and Decor, Flowserve, Fortive, General Electric, Grocery Outlet, Honeywell, Humana Inc, Illinois Tool Works, Intuitive Surgical, ITT Inc., J.B. Hunt Trans, John Bean Tech, Johnson Controls Int, Knight-Swift, Lowe's, Montrose, Old Dominion, Parker Hannifin, Pentair plc, Rockwell, Rush, Saia Inc., Sprouts Farmers Mkt, Sysco, Target Corp., The Home Depot, The Kroger Co., Trane Technologies, Vertiv, Vontier, Walmart, Western Digital, XPO, Inc., YETI.
BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Albertsons Companies, Carrier Global Corp., Dollar General Corp, Home Depot, Honeywell, Humana Inc, Johnson Controls Int, Lowe's, Sysco Corporation, Vertiv, Walmart, Western Digital Corp, XPO, Inc.
The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: 3M, Albertsons Companies, Allegion, Best Buy, Boeing, Carrier Global Corp., Costco Wholesale, Dollar General Corp, Dollar Tree Inc., Dover Corp, Eaton Corp PLC, Emerson, Floor and Decor, Flowserve, Fortive Corporation, General Electric Co, Grocery Outlet, Home Depot, Honeywell, Humana Inc, Illinois Tool Works, J.B. Hunt Trans, John Bean Tech, Johnson Controls Int, Knight-Swift, Lowe's, Montrose, Parker Hannifin, Pentair plc, Rockwell, Saia Inc, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., The Kroger Co., Trane Technologies, Vertiv, Vontier, Walmart, Western Digital Corp, XPO, Inc., YETI Holdings, Inc.
BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: 3M, Academy Sports + Out, Albertsons Companies, Allegion, AMETEK Inc, Best Buy, Boeing, Carrier Global Corp., Core & Main, Costco Wholesale, Dollar General Corp, Dollar Tree Inc., Dover Corp, Eaton Corp PLC, Emerson, Floor and Decor, Flowserve, Fortive Corporation, General Electric Co, Grocery Outlet, Home Depot, Honeywell, Humana Inc, Intuitive Surgical, ITT Inc., J.B. Hunt Trans, John Bean Tech, Johnson Controls Int, Knight-Swift, Lowe's, Montrose, Old Dominion Freight, Parker Hannifin, Pentair plc, Rockwell, Rush, Saia Inc, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., The Kroger Co., Trane Technologies, Vertiv, Vontier, Walmart, Western Digital Corp, XPO, Inc., YETI Holdings, Inc.
The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: 3M, Academy Sports + Out, Albertsons Companies, Allegion, AMETEK Inc, Best Buy, Boeing, Carrier Global Corp., Core & Main, Costco Wholesale, Dollar General Corp, Dollar Tree Inc., Dover Corp, Eaton Corp PLC, Emerson, Floor and Decor, Flowserve, Fortive Corporation, General Electric Co, Grocery Outlet, Home Depot, Honeywell, Humana Inc, Illinois Tool Works, Intuitive Surgical, ITT Inc., J.B. Hunt Trans, John Bean Tech, Johnson Controls Int, Knight-Swift, Lowe's, Montrose, Old Dominion Freight, Parker Hannifin, Pentair plc, Rockwell, Rush, Saia Inc, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., The Kroger Co., Trane Technologies, Vertiv, Vontier, Walmart, Western Digital Corp, XPO, Inc., YETI Holdings, Inc.
An officer, director or employee of BofAS or one of its affiliates is an officer or director of this issuer: Albertsons Companies, Target Corp., Trane Technologies.
BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: 3M, Albertsons Companies, Allegion, Best Buy, Carrier Global Corp., Dollar General Corp, Dover Corp, Eaton Corp PLC, Emerson, Fortive Corporation, General Electric Co, Grocery Outlet, Home Depot, Honeywell, Humana Inc, John Bean Tech, Johnson Controls Int, Knight-Swift, Lowe's, Montrose, Pentair plc, Rockwell, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., Trane Technologies, Vertiv, Walmart, Western Digital Corp, XPO, Inc., YETI Holdings, Inc.
BofAS or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer or an affiliate of the issuer within the next three months: 3M, Albertsons Companies, Allegion, Best Buy, Boeing, Carrier Global Corp., Costco Wholesale, Dollar General Corp, Dollar Tree Inc., Dover Corp, Eaton Corp PLC, Emerson, Floor and Decor, Flowserve, Fortive Corporation, General Electric Co, Grocery Outlet, Home Depot, Honeywell, Humana Inc, Illinois Tool Works, J.B. Hunt Trans, Johnson Controls Int, Knight-Swift, Lowe's, Montrose, Parker Hannifin, Pentair plc, Rockwell, Saia Inc, Sysco Corporation, Target Corp., The Kroger Co., Trane Technologies, Vontier, Walmart, Western Digital Corp, XPO, Inc., YETI Holdings, Inc.
BofAS together with its affiliates beneficially owns one percent or more of the common stock of this issuer. If this report was issued on or after the 9th day of the month, it reflects the ownership position on the last day of the previous month. Reports issued before the 9th day of a month reflect the ownership position at the end of the second month preceding the date of the report: Academy Sports + Out, Allegion, Boeing, Costco Wholesale, Dollar General Corp, Dollar Tree Inc., Dover Corp, Eaton Corp PLC, Emerson, Fortive Corporation, Home Depot, Honeywell, Humana Inc, Illinois Tool Works, Intuitive Surgical, Lowe's, Montrose, Parker Hannifin, Rockwell, Rush, Sysco Corporation, Target Corp.
BofAS or one of its affiliates is willing to sell to, or buy from, clients the common equity of the issuer on a principal basis: 3M, Academy, Albertsons, Allegion, AMETEK, Best Buy, Boeing, Carrier, Core & Main, Costco, Dollar General, Dollar Tree, Dover Corp, Eaton Corp PLC, Emerson, Floor and Decor, Flowserve, Fortive, General Electric, Grocery Outlet, Honeywell, Humana Inc, Illinois Tool Works, Intuitive Surgical, ITT Inc., J.B. Hunt Trans, John Bean Tech, Johnson Controls Int, Knight-Swift, Lowe's, Montrose, Old Dominion, Parker Hannifin, Pentair plc, Rockwell, Rush, Saia Inc., Sprouts Farmers Mkt, Sysco, Target Corp., The Home Depot, The Kroger Co., Trane Technologies, Vertiv, Vontier, Walmart, Western Digital, XPO, Inc., YETI.
The issuer is or was, within the last 12 months, a securities business client (non-investment banking) of BofAS and/or one or more of its affiliates: 3M, Albertsons Companies, Allegion, Best Buy, Boeing, Carrier Global Corp., Costco Wholesale, Dollar General Corp, Dollar Tree Inc., Dover Corp, Eaton Corp PLC, Emerson, Floor and Decor, Flowserve, Fortive Corporation, General Electric Co, Home Depot, Honeywell, Humana Inc, Intuitive Surgical, ITT Inc., J.B. Hunt Trans, John Bean Tech, Johnson Controls Int, Knight-Swift, Lowe's, Montrose, Old Dominion Freight, Parker Hannifin, Pentair plc, Rockwell, Rush, Sprouts Farmers Mkt, Sysco Corporation, Target Corp., The Kroger Co., Trane Technologies, Vertiv, Vontier, Walmart, Western Digital Corp, XPO, Inc., YETI Holdings, Inc.
Due to the nature of strategic analysis, the issuers or securities recommended or discussed in this report are not continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or securities.
BofA Global Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

## Other Important Disclosures

Prices are indicative and for information purposes only. Except as otherwise stated in the report, for any recommendation in relation to an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report and in relation to a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including BofA Securities trading desks.
The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.
Officers of BofAS or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.
Refer to BofA Global Research policies relating to conflicts of interest.
**"BofA Securities" includes BofA Securities, Inc. ("BofAS") and its affiliates. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor if they have questions concerning this report or concerning the appropriateness of any investment idea described herein for such investor. "BofA Securities" is a global brand for BofA Global Research.**
**Information relating to Non-US affiliates of BofA Securities and Distribution of Affiliate Research Reports:**
BofAS and/or Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") may in the future distribute, information of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by The Financial Service Board; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); BofASE (France): BofA Securities Europe SA is authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers (AMF). BofA Securities Europe SA ("BofASE") with registered address at 51, rue La Boétie, 75008 Paris is registered under no 842 602 690 RCS Paris. In accordance with the provisions of French Code Monétaire et Financier (Monetary and Financial Code), BofASE is an établissement de crédit et d'investissement (credit and investment institution) that is authorised and supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers. BofASE's share capital can be found at www.bofaml.com/BofASEdisclaimer; BofA Europe (Milan): Bank of America Europe Designated Activity Company, Milan Branch, regulated by the Bank of Italy, the European Central Bank (ECB) and the Central Bank of Ireland (CBI); BofA Europe (Frankfurt): Bank of America Europe Designated Activity Company, Frankfurt Branch regulated by BaFin, the ECB and the CBI; BofA Europe (Madrid): Bank of America Europe Designated Activity Company, Sucursal en España, regulated by the Bank of Spain, the ECB and the CBI; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSFC); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Canadian Investment Regulatory Organization; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa

de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; Merrill Lynch (Argentina): Merrill Lynch Argentina SA, regulated by Comisión Nacional de Valores; BofAS Japan: BofA Securities Japan Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International, LLC Seoul Branch, regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; BofAS India: BofA Securities India Limited, regulated by the Securities and Exchange Board of India (SEBI); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Brazil): Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários, regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company: Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority.

This information: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK), which is authorized by the PRA and regulated by the FCA and the PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been approved for publication and is distributed in the European Economic Area (EEA) by BofASE (France), which is authorized by the ACPR and regulated by the ACPR and the AMF; has been considered and distributed in Japan by BofAS Japan, a registered securities dealer under the Financial Instruments and Exchange Act in Japan, or its permitted affiliates; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated by HKSFC; is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by BofAS India; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch (Singapore) (Company Registration No 198602883D). Merrill Lynch (Singapore) is regulated by MAS. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this information in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of Bank of America N.A., Australia Branch, neither MLEA nor any of its affiliates involved in preparing this information is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this information in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Information prepared and issued by Merrill Lynch (DIFC) is done so in accordance with the requirements of the DFSA conduct of business rules. BofA Europe (Frankfurt) distributes this information in Germany and is regulated by BaFin, the ECB and the CBI. BofA Securities entities, including BofA Europe and BofASE (France), may outsource/delegate the marketing and/or provision of certain research services or aspects of research services to other branches or members of the BofA Securities group. You may be contacted by a different BofA Securities entity acting for and on behalf of your service provider where permitted by applicable law. This does not change your service provider. Please refer to the Electronic Communications Disclaimers for further information.

This information has been prepared and issued by BofAS and/or one or more of its non-US affiliates. The author(s) of this information may not be licensed to carry on regulated activities in your jurisdiction and, if not licensed, do not hold themselves out as being able to do so. BofAS and/or MLPF&S is the distributor of this information in the US and accepts full responsibility for information distributed to BofAS and/or MLPF&S clients in the US by its non-US affiliates. Any US person receiving this information and wishing to effect any transaction in any security discussed herein should do so through BofAS and/or MLPF&S and not such foreign affiliates. Hong Kong recipients of this information should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities or any other matters arising from, or in connection with, this information. Singapore recipients of this information should contact Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this information. For clients that are not accredited investors, expert investors or institutional investors Merrill Lynch (Singapore) Pte Ltd accepts full responsibility for the contents of this information distributed to such clients in Singapore.

### General Investment Related Disclosures:

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Securities.

This document provides general information only, and has been prepared for, and is intended for general distribution to, BofA Securities clients. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute, investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the issuer or the market that is anticipated to have a short-term price impact on the equity securities of the issuer. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned herein. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

BofAS or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BofAS or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Securities, through business units other than BofA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BofAS for the provision of research services for a separate fee, and in connection therewith BofAS may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BofAS has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BofAS). If such recipient uses the services of BofAS in connection with the sale or purchase of a security referred to herein, BofAS may act as principal for its own account or as agent for another person. BofAS is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

### BofA ESGMeter Methodology:

ESGMeter is a proprietary metric based on quantitative analysis and fundamental analyst inputs that reflects our assessment of a company's Environmental, Social and Governance-related attributes. The ESGMeter is intended to indicate a company's likelihood of experiencing stronger financial stability (higher return on equity and lower earnings and price volatility) over the next three years relative to peer group. There are three ESGMeter levels - Low, Medium, and High - which indicate whether a company has attributes most likely to translate into superior financial stability (in the case of a High level) or weaker financial stability (in the case of a Low level) over the next three years relative to its peer group. A Medium level suggests that a company exhibits ESG characteristics that are likely associated with financial stability results in line with its peer group over the next three years. Full details of our methodology, financial stability definition and disclaimers are available at BofA ESGMeter methodology. ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of the BofA Global Research fundamental equity analyst's investment rating, volatility risk rating, income rating or price objective for that company.

### Copyright and General Information:

Research information is distributed simultaneously to internal and client websites and other portals by BofA Securities and is not publicly-available material. Any unauthorized use or disclosure is prohibited. Receipt and review of this information constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained herein (including any investment recommendations, estimates or price targets) without first obtaining express permission from an authorized officer of BofA Securities.

Materials prepared by BofA Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Securities, including investment banking personnel. BofA Securities has established information barriers between BofA Global Research and certain business groups. As a result, BofA Securities does not disclose certain client relationships with, or compensation received from, such issuers. To the extent this material discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this material. BofA Global Research personnel's knowledge of legal proceedings in which any BofA Securities entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this material is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Securities in connection with the legal proceedings or matters relevant to such proceedings.

This information has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of BofAS any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Securities and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This information may contain links to third-party websites. BofA Securities is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this information and is not incorporated by reference. The inclusion of a link does not imply any endorsement by or any affiliation with BofA Securities. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Securities is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices also are subject to change without notice. BofA Securities is under no obligation to update this information and BofA Securities ability to publish information on the subject issuer(s) in the future is subject to applicable quiet periods. You should therefore assume that BofA Securities will not update any fact, circumstance or opinion contained herein.

Certain outstanding reports or investment opinions relating to securities, financial instruments and/or issuers may no longer be current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BofAS or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Securities nor any officer or employee of BofA Securities accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this information.