

## Morning Meeting Notes

## QuickNotes

Morning Call

## US EQUITIES RESEARCH

## PO Raised

[AJ Gallagher](#) | UNDERPERFORM | AJG US | Mkt Cap:USD51,330mn |

Joshua Shanker

In-line result for 4Q23, 7-9% organic growth guidance for 2024

- Gallagher reports 4Q23 op. EPS of \$1.85, in line with our forecast and Consensus.
- Higher results in the Risk Management and Corporate segments offset a modest miss in Brokerage.
- The company reiterated organic growth guidance of 7-9% for 2024E.

[American Airline](#) | UNDERPERFORM | AAL US | Mkt Cap:USD11,428mn |

Andrew Didora

Cost trend encouraging, valuation still expensive

- Our 1Q24E EPS is now \$(0.17) from \$0.07 on the weaker unit revenue outlook, our forecast is at the better end of the outlook
- The better cost outlook and slightly better revenue cadence throughout 2024 raises our 2024E EPS to \$2.65 from \$2.08
- We raise our price objective to \$12 from \$10 but maintain our Underperform rating on relatively high valuation

[Liberty Energy](#) | NEUTRAL | LBRT US | Mkt Cap:USD3,379mn | Saurabh

Pant

Staying course on resilience and retooling

- LBRT continues to expect flattish Adj. EBITDA YoY in 2024E and is investing in electric hybrid newbuild fleets and upgrades
- We see flattish US frac market in 2024 with lingering pricing risk which puts our 2024E Adj. EBITDA of \$1,065mm 8% below Cons
- LBRT screens cheap & offers strong return on/of capital but peak-ish earnings in a flattish overall market keep us at Neutral

26 January 2024

Equity

United States

Investor Support

BofAS

## Today's Events: Economic Indicators

- 8:30 Personal Income
- 8:30 Personal Spending
- 8:30 PCE Headline Prices (mom)
- 8:30 PCE Headline Prices (yoy)
- 8:30 PCE Core Prices (mom)
- 8:30 PCE Core Prices (yoy)
- 8:30 Personal saving rate
- 10:00 Pending Home Sales

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

**[Nokia](#) | NEUTRAL | NOK US | Mkt Cap:USD21,121mn | Didier Scemama**  
**4Q23 review Green shoots in 2H, IPR helps**

- Lifting FY24-25E EBIT mainly on IPR. PO lifted to Eur 3.68 (\$4.05) on 4.4x '25E EV/EBITDA. Reiterate Neutral
- Likes: Network Infrastructure, 2H green shoots, cost savings, Enterprise strength, IPR, share buybacks
- Risks: Open-RAN, RAN market outlook remains under pressure in '24

**[Trane Technologies](#) | NEUTRAL | TT US | Mkt Cap:USD62,450mn | Andrew Obin**

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

- This week, we take a look at companies that already reported 4Q23 earnings & implications for our multi-industrial coverage.
- While industrial demand seems in line with expectations, we think consumer appears to be a source of incremental weakness.
- Semis remain a drag, expectations for improvement in 2H24. We discuss industry trade shows and DD, MMM, AIT, & FAST earnings.

**[Western Digital](#) | BUY | WDC US | Mkt Cap:USD19,562mn | Wamsi Mohan**  
**Cyclical improvements underway, Raising PO to \$70**

- WDC is in the early stages of a cyclical recovery in both the HDD and NAND businesses
- We see potential for significant positive estimate revisions driven by a better demand and pricing backdrop in both HDD, NAND
- Reiterate Buy. PO moves to \$70 on 9x C25 EPS of \$8.16.

**PO Lowered**

**[Capital One](#) | BUY | COF US | Mkt Cap:USD50,502mn | Mihir Bhatia**  
**OpEx drive EPS miss, but credit trends are favorable, Reiterate Buy.**

- We think 4Q shakes out as a positive despite the OpEx driven headline miss. Credit commentary was a positive.
- COF said credit normalization is complete and NCOs will follow seasonality prospectively and be about 15% above '19 levels.
- Expects to deliver modestly positive operating efficiency, even including CFPB late fee impact in 4Q. Maintain Buy.

**[NXP Semiconductors](#) | BUY | NXPI US | Mkt Cap:USD63,020mn | Vivek Arya**

**[ON Semiconductor](#) | BUY | ON US | Mkt Cap:USD31,307mn | Vivek Arya**  
**Auto semis: NXPI/ON Preview, speedbump ahead though valuations attractive**

- Maintain Buy but lower estimates for NXPI (top pick) and ON pre-Q4 earnings releases Feb 5/6

- Near-term risks: auto chip inventory correction, greater industrial inventory correction, muted EV demand
- Longer-term potential: compelling trough valuation, many content drivers as semis only 2-3% of auto bill of materials

**[Virtu](#) | BUY | VIRT US | Mkt Cap:USD2,884mn | Craig Siegenthaler**  
**4Q23 Earnings Subdued volatility and shifting retail preferences hurt results**

- Attribute soft results to subdued volatility and retail mix shift toward crypto and sub-dollar stocks
- Recent Bitcoin ETF approvals should be an incremental tailwind (est. \$5-10M) in 1Q24
- Reiterate Buy, Entry point is attractive given trough volatility, lack of long-only ownership and regulatory cloud

## Significant EPS Change

**[Air Lease Corp](#) | BUY | AL US | Mkt Cap:USD4,710mn | Ronald J. Epstein**  
**Emphasis on delevering and sales pipeline, reiterate Buy**

- We continue to see Air Lease (AL) as well positioned to benefit from the external macro environment.
- AL management is skeptical about the feasibility of the OEMs achieving their goals
- In 4Q23, AL took delivery of 22 new aircraft from the orderbook to lease to customers and made \$1.2bn in aircraft investments

**[Alaska Air Group](#) | BUY | ALK US | Mkt Cap:USD4,718mn | Andrew Didora**  
**2024 outlook in-line excluding 737 MAX 9 grounding, maintain Buy**

- ALK's '24 EPS guide of \$3-\$5 was largely in line with our est. after factoring in a nearly \$1 impact from the MAX 9 grounding
- ALK now expects 1Q24 capacity growth to be down mid-single digits year-over-year, while targeting 3% growth in 2024
- We are lowering our 2024E EPS to \$4.21 from \$5.02 to reflect the impact of the grounding. Our PO is unchanged at \$50

**[B2Gold](#) | BUY | BTG US | Mkt Cap:USD3,516mn | Harmen Puri**  
**Bad news out of the way, a name to own in a constructive gold price environment**

- Following BTG's guidance release, the stock underperformed sharply, down 10.7% on the day vs. 1.9% GDX.
- We think the sell-off is overdone, bad news largely out of the way, and we see attractive risk/reward.
- We view BTG as a name to own in a constructive gold price environment. Reiterate Buy.

**[Crown Castle Inc](#) | NEUTRAL | CCI US | Mkt Cap:USD47,981mn | David Barden**  
**4Q wrap: Steady as she goes while strategic review & CEO search are pending**

- CCI shares outperformed peers, AMT and SBAC, after it announced an in-line 4Q23 and left full year 2024 guidance unchanged.



- We believe outperformance relates to 4Q being straightforward despite the activist-induced turmoil that emerged as '23 ended.
- The Board of Directors is steeped in 1) a strategic review of the fiber/small cell business, and 2) the search for a new CEO.

[Dow](#) | **BUY** | **DOW US** | **Mkt Cap:USD38,535mn** | **Steve Byrne**

### **Reiterating Buy as signs of recovery strengthen, potential upside from Red Sea**

- Dow's 4Q results fell short of our estimates but commentary reinforced our expectations of a meaningful earnings recovery
- While some of Dow's businesses are still struggling (MDI, siloxanes), pricing and volumes in polyethylene are improving
- We estimate Dow could generate \$8bn in 2025 EBITDA, up from \$5.4bn in 2023. Reiterate Buy

[Humana Inc](#) | **BUY** | **HUM US** | **Mkt Cap:USD43,518mn** | **Kevin Fischbeck**

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

- 2024 guidance disappointing, but we think it's conservative (particularly MLR), creating a good set up from here.
- We argue trend issues from 2023/24 are not a HUM-specific problem, but an industry problem, driven by COVID disruption.
- MA will under-earn next couple of years, but isn't broken. We debunk popular bear views on sector. Lowering ests. Reit. Buy.

[Intel](#) | **NEUTRAL** | **INTC US** | **Mkt Cap:USD208,903mn** | **Vivek Arya**

### **Two steps forward, two steps back, as turnaround extends into 2025**

- Maintain Neutral and \$50 PO as foundry is making progress, but core x86 business lukewarm (sub-seasonal Q1 PC/DC)
- PC refresh and AI adoption CY25 tailwinds, but NVDA/AMD/ARM competition remains. Unlocking manufacturing value key to stock
- Catalysts: February foundry event, CHIPS Act grants (throughout CY24), April re-segmentation (separation of design/manufac.)

[Levi Strauss](#) | **NEUTRAL** | **LEVI US** | **Mkt Cap:USD1,615mn** | **Christopher**

### **Nardone**

### **Cost savings program supports margins in 2H**

- Holiday sales (Nov/Dec) increased LSD and included 9% DTC growth and positive trends in US wholesale
- The company announced plans to reduce its corporate workforce by 10-15%, expected to generate \$100m in net savings in F24
- Reit, Neutral & lower F24E EPS to \$1.20, 2H margin improvement led by cost savings, higher sales, lapping wholesale price cut

[T-Mobile US](#) | **BUY** | **TMUS US** | **Mkt Cap:USD202,693mn** | **David Barden**

### **4Q23 Wrap: Results & guide in-line, Industry-leading FCF growth on track**

- TMUS reported 4Q results generally in-line with Street expectations and shared 2024 guidance on key metrics.
- TMUS' '24 FCF guide includes one-offs such as merger integration costs, severance, a settlement charge, and payments to CCOI.

- We reiterate our Buy rating as TMUS continues to expand into new markets and delivers the highest FCF/sh growth in the group.

## Buy Reiterations

### Communication Services

[Comcast Corp](#) | BUY | CMCSA US | Mkt Cap:USD210,189mn | Jessica Reif Ehrlich

#### Finishing strong

- Comcast reported better than forecast broadband results as the company delivered solid ARPU growth and fewer broadband losses
- We maintain our resi. broadband net loss forecast of -150k for 2024, including -40k in 1Q24. We project \$13.6bn in FCF in 24

[Meta Platforms](#) | BUY | META US | Mkt Cap:USD1,038,388mn | Justin Post  
2024 PM level outlook

- 2024 PM Outlook: Reels monetization ramp and growing AI capabilities keep us constructive after a strong 2023.
- Potential positives: Reels & messaging monetization upside, underappreciated AI capabilities, and attractive core valuation.
- Risks: Revenue deceleration, Reels content devalues network effects, regulatory headwinds, and Chinese ad spend uncertainty.

### Consumer Discretionary

[Ferrari](#) | BUY | RACE US | Mkt Cap:USD60,802mn | John Murphy

[Magna Intl](#) | BUY | MGA US | Mkt Cap:USD16,767mn | John Murphy  
Automotive Industry

- The accompanying valuation framework is one of the most important fundamental factors when buying or selling Auto stocks.
- This report also includes a snapshot of current US Auto industry metrics, including sales, inventory, pricing and Econ data.
- \*\*BofA Global Auto Summit on March 26-27, and will include fireside chats w/OEMs, suppliers & dealers and key topic panels. \*\*

[The Home Depot](#) | BUY | HD US | Mkt Cap:USD349,307mn | Elizabeth L Suzuki

#### Broadlines, Hardlines & Food Retailers

- If global shipping prices continue to rise & capacity shortages occur due to the spillover effects of Red Sea disruptions...
- ...we would expect all of our coverage to see some degree of potential profit margin headwinds and/or late shipments in 2024.
- We see FND, YETI & DLTR most exposed to sourcing cost pressure & Food Retailers least so as grocery is largely sourced in US.



**Consumer Staples****[Costco](#) | BUY | COST US | Mkt Cap:USD300,965mn | Robert Ohmes****[Walmart](#) | BUY | WMT US | Mkt Cap:USD524,670mn | Robert Ohmes****Broadlines, Hardlines & Food Retailers**

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**Financials****[Cullen/Frost](#) | BUY | CFR US | Mkt Cap:USD6,800mn | Ebrahim Poonawala****Expansion strategy delivering as advertised**

- CFR reported 4Q23 EPS of \$2.18 vs. BofAe/cons. \$2.09/\$2.04 ests with the beat to our forecast driven by lower credit costs
- Net interest income expected to grow 2-4% YoY despite the assumption of five rate cuts, investments to drive 12% exp. growth
- Franchise investments brand recognition superior Texas demographics to drive above avg. growth and stock outperformance

**[Progressive Corp](#) | BUY | PGR US | Mkt Cap:USD104,189mn | Joshua Shanker****Be prepared for soft premium volume for January '24 (and probably for February too)**

- Some revenue recognition quirks are likely to lead to depressed revenue numbers in Jan. 2024 results (released on Feb. 14)
- These revenue quirks may disguise and boost growth month-to-month through September 2024
- To cut through the "noise," investors should track policycount growth which saw its best-ever December in 2023 results

**[Qifu Technology](#) | BUY | QFIN US | Mkt Cap:USD2,396mn | Emma Xu****Takeaways from management call: slower growth and focus on profitability**

- QFIN has tightened risk control since July 2023 amid rising credit risk. Its risk metrics could stabilize/improve from 1Q24.
- It will be conservative when planning loan growth this year, but looks to improve profitability and profit growth in 2024.
- Its current capital return (dividend buyback) is c.55% of its 2023E profit, implying 13-14% yield, and could further rise.

**StoneCo | BUY | STNE US | Mkt Cap:USD5,852mn | Mario Pierry****Earnings power remains underappreciated by the Market, Notes from the road**

- In our recent meetings, Stone's mgmt. addressed the transformation of the Company beyond payments, with a focus on monetizing
- the client base with credit and banking services. Software is viewed as an enabler of TPV growth and efficiency gains.
- The execution of the strategy should lead to EPS CAGR of 30% through '27, while the Market forecasts growth of c.15%. Buy.

**Visa | BUY | V US | Mkt Cap:USD431,412mn | Jason Kupferberg****A few items to pick on in F1Q, but Buy thesis intact**

- Shares pulled back after hrs on deceleration in F1Q vols, MTD Jan metrics, and new flows, plus slightly light F2Q revs guide
- F24 guide remains back-half loaded and was largely reiterated ex. slight Pismo acq impact on opex
- Remain bullish on V's business model quality, recession-resistance, secular tailwinds, and reasonable valuation, maintain Buy

**Health Care****Argenx | BUY | ARGX US | Mkt Cap:USD22,287mn | Tazeen Ahmad****Takeaways from our group meeting with ARGX management, Maintain Buy**

- Mgmt commented they expect to continue to see growth in the Vyvgart franchise driven by gMG and the potential launch in CIDP
- The company expects a regulatory decision for CIDP by end of June with a launch expected after July 4th
- Mgmt highlighted the ph 2 readouts for Sjogren's (1H), PC-POTS (1H) and myositis (2H) are designed as signal finding

**Zoetis Inc. | BUY | ZTS US | Mkt Cap:USD87,029mn | Michael Ryskin****Animal Health**

- Vet clinic visit and revenue data have had a very poor start to 2024, despite broad expectations for some normalization
- Capacity constraints and consumer pressures are known headwinds, We think severe winter weather could be to blame
- We will continue to monitor the situation, but if there is no uptick in coming weeks, FY24 outlook will turn more negative

**Industrials****CSX Corporation | BUY | CSX US | Mkt Cap:USD72,975mn | Ken Hoexter****Better, stronger, faster... ONE CSX, focus on momentum, PO to \$39**

- CSX posted 4Q23 EPS of \$0.45, down 8% yr-yr, above our \$0.43/Street's \$0.44, sees momentum building and profit growth in '24
- Targets low-mid-single digit revenue & volume gains in '24, COO Cory notes CSX is in early stages of refining operating plan



- Reiterate Buy, PO to \$39 (from \$38) on 19.5x our '24e EPS (from 19x), hold our '24/'25E EPS at \$2.00/\$2.25

[Eaton Corp PLC](#) | BUY | ETN US | Mkt Cap:USD106,293mn | Andrew Obin

[Emerson](#) | BUY | EMR US | Mkt Cap:USD60,419mn | Andrew Obin  
**Industrials/Multi-Industry**

- This week, we take a look at companies that already reported 4Q23 earnings & implications for our multi-industrial coverage.
- While industrial demand seems in line with expectations, we think consumer appears to be a source of incremental weakness.
- Semis remain a drag, expectations for improvement in 2H24. We discuss industry trade shows and DD, MMM, AIT, & FAST earnings.

[Northrop Grumman](#) | BUY | NOC US | Mkt Cap:USD65,527mn | Ronald J. Epstein

**Strong quarter slayed by B-21 LRIP charge, reiterate Buy**

- NOC 4Q23 GAAP EPS miss was driven by the combined impact of B-21 LRIP charge of \$1.56bn and MTM pension expense.
- We note that the gross B-21 charge of \$1.56bn is well above the prior provided range of possible charges (\$0-1.2bn).
- On the bright side, it appears as though LRIP options are being awarded earlier than expected.

[Union Pacific](#) | BUY | UNP US | Mkt Cap:USD147,334mn | Ken Hoexter  
**Trust the Vena process, Revamping ops constrained by macro, PO to \$274**

- Posted \$2.71 in 4Q EPS, up 1% y-y, above our \$2.53/Street's \$2.56 target. Achieves 60.9% op ratio, 240 bps better vs 3Q.
- Productivity, service strides mitigating inflationary pressure. Efficiency gains to offset macro, weather, intermodal loss
- PO to \$274 on 24.5x our 2024 EPS, Lower 2024 and 2025 EPS 3% and 4% on volume uncertainty.

## Information Technology

[Apple Inc.](#) | BUY | AAPL US | Mkt Cap:USD3,002,236mn | Wamsi Mohan  
**The EU DMA flexes its muscle, Apple responds with changes**

- Apple introduced changes to apps distributed in the EU to comply with the Digital Markets Act
- We estimate the annual net impact to Apple will be relatively low, CTF will likely offset lost revenue
- Our PO stays at \$225 and our estimates are unchanged



**[KLA Corp](#) | BUY | KLAC US | Mkt Cap:USD87,226mn | Vivek Arya****Ignore push-out noise, trends solidly on track, reiterate Buy**

- FQ2 beat, FQ3 miss on customer project pushout, but upside from leading-edge ramps, memory recovery well on track, Reit. Buy
- Likes: Rebounding WFE market, Services resilience and contribution to growth, China stability
- Risks: Customer pushout, product mix, premium valuation

**[ServiceNow](#) | BUY | NOW US | Mkt Cap:USD155,638mn | Brad Sills****AI drives early wins in a strong Q4, Reiterate Buy on our top pick**

- Strong Q4 results w/ cRPO upside ( 2%) from broad strength across verticals & early contribution from Pro Plus AI offering.
- Maintained FY24 FCF margin outlook for 31%, despite ramping data intensive AI workloads, demonstrating scale advantage.
- Reiterate Buy on our top pick & raise PO to \$900. View ServiceNow as an AI, consolidation and cloud winner.

**Materials****[Vale SA](#) | BUY | VALE US | Mkt Cap:USD61,494mn | Caio Ribeiro****New Mariana overhang yet too soon to assume any financial impact**

- A federal judge determined that Vale, BHP and Samarco should pay R\$47.6bn in collective moral damages related to Mariana...
- ...tragedy. The ruling comes as a surprise and was not in the market's radar. We expect Vale to appeal this decision.
- Although the ruling does add more uncertainty over the final outcome we find it too soon to take these amounts at face value.



# Macro & Strategy

## [Global Economic Weekly](#) | Claudio Irigoyen

### US GDP keeps feeling the heat, will the Fed?

- Strong activity and a still tight labor market questions if we may be expecting too much from services disinflation ahead.
- ECB and BoJ on hold: we continue to expect the ECB to cut in June and the BoJ to exit NIRP/YCC in April.
- Red Sea disruptions persist, yet another example of geopolitics bringing upside risks to inflation.

## [US Economic Weekly](#) | US Economics

### Defying gravity

- GDP cooled in 4Q, but not nearly as much as expected. But progress on inflation continued towards year end.
- We expect the Fed to stay on hold next week, but to adjust its guidance to a more neutral stance.
- The January employment report should signal further gradual cooling in the labor market.

## [S&P 500 Relative Value Cheat Sheet](#) | Savita Subramanian

### Opportunities, value traps and sector surprises

- For 2024, buy beta, div. yield and cyclicity. For 1Q, own TMT & Real Estate. See tactical sector & industry ranks inside.
- Corporate profits are accelerating and we see encouraging signs from early cycle industries (e.g. Transports & Semis).
- We see a bigger risk in private markets than public. PE AUM growth in 2018-21 was driven by ZIRP winners facing markdowns.

## [Small/Mid Cap Factors: a PM's Guide](#) | Jill Carey Hall

### Three strategies for 2024

- 2024 strategies within small caps: 1) Value>Growth, 2) Own the "SMEARNERS", 3) Hedge regime risk: own cash return stocks.
- Value was the most alpha-generative style within small caps in 2023, followed by Quality.
- With 4Q reporting getting underway for SMID caps, we publish positive and negative surprise candidate screens inside.

## [Global FX weekly](#) | Adarsh Sinha

### The thriller of 2024: March vs. June

- USD strength consistent with fundamentals; clarity on Fed and China needed to reinvigorate USD bears.
- G10: USD, GBP, Scandies year ahead; Fed and Riksbank Previews. EM: Asia, EMEA, LatAm FX outlook; EM risks; BRL.
- FX vol pricing little event premium for next week's FOMC. Weaker EUR post ECB on watch for bearish range breakdown.

**The LatAm FX Strategist | Christian Gonzalez Rojas****Don't get carried away**

- We believe LatAm central banks have significant space to cut, posing downside risks on LatAm FX amid fading carry.
- We are bullish BRL amid supportive macro, but bearish COP amid macro underperformance and MXN as Banxico may cut soon.
- We are neutral CLP as low FX reserves limit upside, and PEN as negative rate differentials may offset stronger growth.

**GEMs FI & FX Strategy Watch | Claudio Piron****Real Money Tracker FX up, Bonds down, Cash reduced**

- Real money EM funds reduced bond underweights in Nov, by cutting overweights, while reducing underweight Asia
- Biggest bond underweight is Thai, followed by Malaysia both more underweight than China
- In FX, MXN is most favored currency overweight, followed by BRL. CNY remains biggest FX underweight

**The Flow Show | Michael Hartnett****Liquidity = Inequality**

- Record \$12.1bn inflows to EM equities (\$11.9bn to China biggest contrarian long trade on planet) as PBoC eases
- BofA Bull & Bear Indicator 6.0, highest since Jul'21 (sell signal awaits EM debt inflows & big decline in BofA FMS cash)
- Monopolistic tech, AI bubble front-running Fed cuts... need US 10-year real rates >2.5% (currently 1.75%) to pop this one

**GEMs Flow Talk | Jane Brauer****Inviting IG Crossovers as EM IG finally becomes cheap relatively to US Corps**

- We expect more crossover demand for EM assets, as large US IG spread compression leaves EM looking more attractive
- Gross issuance running at a monthly rate of \$104bn, 50% higher than average over the last 10 years
- Preference for ESG, even in EM. EM ESG funds flows suffered fewer outflows than EM non-ESG funds

**Labor Market Watch | US Economics****January US Employment Preview**

- The January employment report is likely to show further gradual cooling in the labor market.
- We expect nonfarm payrolls rose by 175k and look for the unemployment rate to print at 3.7%, unchanged from December.
- The report will also include revisions to nonfarm payrolls and updated population estimates for the household survey.



# Disclosures

## Important Disclosures

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

<sup>R1</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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