

State Street is one of the world's largest custody banks and, through State Street Global Advisors (SSGA), provides asset-management products and services. Custody clients include mutual fund companies and other investment managers, corporations, public pension funds, unions, and nonprofit organizations. State Street provides custody and management of customers' assets; accounting, daily pricing, and administration of their funds; the information and analytical tools that help clients make investment decisions; and the foreign-exchange, cash-management, credit, and electronic-trading services that help clients negotiate global financial markets. SSGA manages the popular SPDR series of exchange-traded index funds.

## Analyst's Notes

*Analysis by Stephen Biggar, April 21, 2025*

**ARGUS RATING:** **BUY**

- Recent share price weakness offers opportunity
- On April 17, State Street reported 1Q25 earnings of \$2.04 per share, up from \$1.69 a year earlier and above the consensus of \$2.01.
- Despite uncertainty in the macro environment, management maintained guidance for 2025 calling for fee revenue growth of 3%-5% and expenses up 2%-3%, leading to positive fee operating leverage and total operating leverage for the year.
- The company repurchased only \$100 million of common shares in 1Q25, but expected a step-up in repurchase activity going forward.
- We believe that the current valuation provides a favorable entry point for the high-quality STT shares, which trade at under 9-times our 2025 EPS estimate and yield about 3.7%. Our target price is \$94 (lowered from \$115).

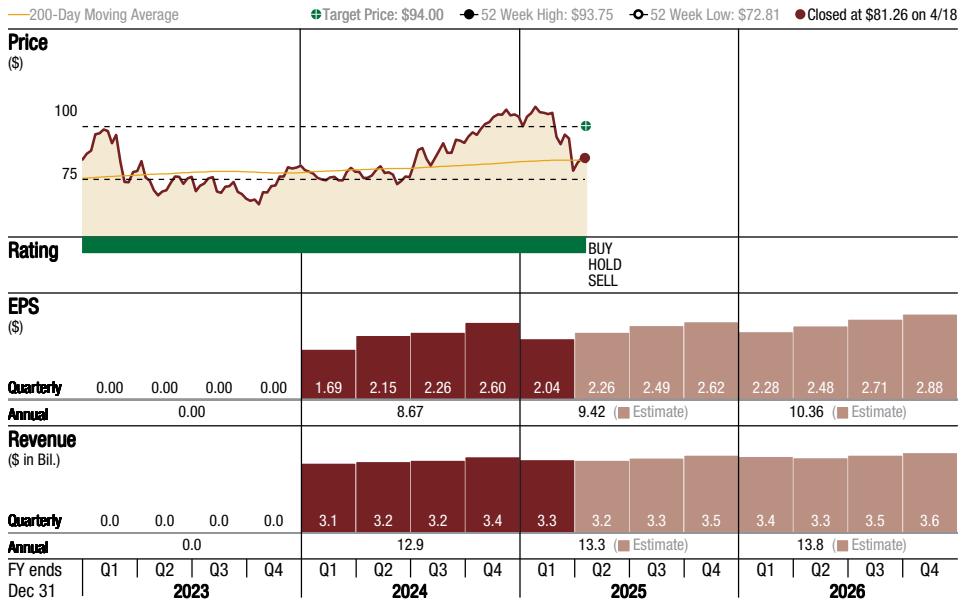
## INVESTMENT THESIS

We are maintaining our BUY rating on State Street Corp. (NYSE: STT). The company's 1Q25 results included 6% growth in fee revenues but flat net interest income (NII). Management maintained guidance calling for fee revenues in 2025 to be 3%-5% higher. It also expects to deliver both positive fee operating leverage and positive total operating leverage for the year.

After terminating its planned acquisition of Brown Brothers Harriman Investor Services in November 2022 due to regulatory hurdles (reflecting the elevated scrutiny of deals involving globally systemically important banks), the company approved a \$4.5 billion share-repurchase program for 2023, which was later amended to a new \$5 billion plan in early 2024. We note that STT had issued \$1.9 billion of its stock in 2021 to complete the planned Brown Brothers transaction.

## Market Data

Pricing reflects previous trading week's closing price.



## Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 26% Hold, 0% Sell.

## Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

### Market Overview

Price	\$81.26
Target Price	\$94.00
52 Week Price Range	\$70.20 to \$103.00
Shares Outstanding	288.59 Million
Dividend	\$3.04

### Sector Overview

Sector	Financial
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	14.70%

### Financial Strength

Financial Strength Rating	MEDIUM-HIGH
Debt/Capital Ratio	59.4%
Return on Equity	12.1%
Net Margin	12.9%
Payout Ratio	0.33
Current Ratio	--
Revenue	\$22.24 Billion
After-Tax Income	\$2.87 Billion

### Valuation

Current FY P/E	8.63
Prior FY P/E	9.37
Price/Sales	1.05
Price/Book	1.01
Book Value/Share	\$80.14
Market Capitalization	\$23.45 Billion

### Forecasted Growth

1 Year EPS Growth Forecast	8.65%
5 Year EPS Growth Forecast	13.00%
1 Year Dividend Growth Forecast	7.59%
Beta	0.98
Institutional Ownership	89.05%

**Analyst's Notes** ...Continued

We believe that State Street is successfully managing the ongoing shift from active to passive money management, which has created fee pressure and increased competition. In a still-challenging revenue environment, the company is working to control costs, and we expect well-contained expenses to continue into 2025.

We expect State Street to benefit from several long-term earnings drivers. First, asset managers are facing cost pressures that will likely lead to the further outsourcing of back-office operations. Second, the company has scale advantages and should see improved operating leverage over time. Third, asset managers must focus on their core competency (managing money) and not on more mundane servicing tasks. State Street's front-to-back platform, State Street Alpha, provides an integrated software solution allowing front and back offices to facilitate operations and communications on a single platform.

We believe that the current valuation provides a favorable entry point for the high-quality STT shares, which trade at under 9-times our revised 2025 EPS estimate and yield about 3.7%. Our target price is \$94, implying a multiple of about 10-times our 2025 estimate.

**RECENT DEVELOPMENTS**

Over the past year, STT shares have risen 11%, above the 6% increase for the broad market.

On April 17, State Street reported 1Q25 earnings of \$2.04 per

share, up from \$1.69 a year earlier and above the consensus of \$2.01.

Operating revenues were up 5% to \$3.1 billion, with fee revenues up 6% (aided by higher management fees) but net interest income flat. Assets under custody and administration (AUC/A) rose 6% to \$46.7 trillion, and assets under management (AUM) rose 9% to \$4.7 trillion, reflecting higher market levels and net inflows.

**EARNINGS & GROWTH ANALYSIS**

On the 1Q earnings call, management maintained its prior guidance for 2025 calling for fee revenue growth of 3%-5%, aided by growth in servicing and management fees, as well as higher foreign exchange trading and securities financing on higher volumes and activity. It expects NII to be flat, with loan growth offset by a deposit mix shift in non-interest-bearing deposits. Management also continues to project expenses up 2%-3% with incremental investments in infrastructure and technology and higher revenue-related expenses, offset by productivity savings. The company expects to deliver positive fee operating leverage and positive total operating leverage for the year. Management also said it continues to target \$350 million to \$400 million in new servicing fee revenue wins in 2025.

We now look for overall revenue growth of 3% in 2025, aided by new business wins, although we have reduced our assumptions for market performance given a down start to the year. The company said it had \$182 billion of AUC/A wins in 1Q and \$3.1

**Growth & Valuation Analysis****GROWTH ANALYSIS**

(\$ in Millions, except per share data)	2020	2021	2022	2023	2024
Revenue	11,694	12,027	12,125	11,945	12,919
COGS	—	—	—	—	—
Gross Profit	—	—	—	—	—
SG&A	4,445	4,659	4,477	4,704	4,854
R&D	—	—	—	—	—
Operating Income	—	—	—	—	—
Interest Expense	-2,200	-1,905	-2,544	-2,759	-2,923
Pretax Income	2,899	3,171	3,327	2,316	3,395
Income Taxes	479	478	553	372	708
Tax Rate (%)	17	15	17	16	21
Net Income	2,420	2,693	2,774	1,944	2,687
Diluted Shares Outstanding	357	358	370	327	302
EPS	6.32	7.19	7.19	5.58	8.21
Dividend	2.08	2.18	2.40	2.64	2.90
<b>GROWTH RATES (%)</b>					
Revenue	-0.5	2.8	0.8	-1.5	8.2
Operating Income	—	—	—	—	—
Net Income	7.9	11.3	3.0	-29.9	38.2
EPS	17.5	13.8	—	-22.4	47.1
Dividend	5.1	4.8	10.1	10.0	9.8
Sustainable Growth Rate	6.8	6.8	7.2	6.5	4.8
<b>VALUATION ANALYSIS</b>					
Price: High	\$85.89	\$100.69	\$104.87	\$94.74	\$101.91
Price: Low	\$42.10	\$69.02	\$58.62	\$62.78	\$70.20
Price/Sales: High-Low	2.6 - 1.3	3.0 - 2.1	3.2 - 1.8	2.6 - 1.7	2.4 - 1.6
P/E: High-Low	13.6 - 6.7	14.0 - 9.6	14.6 - 8.2	17.0 - 11.3	12.4 - 8.6
Price/Cash Flow: High-Low	25.5 - 12.5	— —	4.3 - 2.4	9.1 - 6.0	— —

**Financial & Risk Analysis**

FINANCIAL STRENGTH	2022	2023	2024
Cash (\$ in Millions)	105,625	91,712	116,102
Working Capital (\$ in Millions)	—	—	—
Current Ratio	—	—	—
LT Debt/Equity Ratio (%)	55.3	81.8	103.4
Total Debt/Equity Ratio (%)	73.6	103.1	147.1
<b>RATIOS (%)</b>			
Gross Profit Margin	—	—	—
Operating Margin	—	—	—
Net Margin	21.9	15.2	19.2
Return On Assets	0.9	0.6	0.8
Return On Equity	10.9	8.1	11.2
<b>RISK ANALYSIS</b>			
Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	16.3	0.8	-14.3
Oper. Income/Int. Exp. (ratio)	—	—	—
Payout Ratio	31.4	33.1	37.5

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**Analyst's Notes** ...Continued

trillion of AUC/A yet to be installed at the end of the quarter.

We are lowering our 2025 EPS estimate to \$9.42 from \$9.66 on a weaker start to asset levels, and our 2026 forecast to \$10.36 from \$10.68.

**FINANCIAL STRENGTH & DIVIDEND**

Our financial strength rating on State Street is Medium-High. As of March 31, 2025, State Street's common equity tier 1 ratio (standardized approach) was estimated at 11.0%, down from 11.1% a year earlier. State Street is targeting a long-term tier 1 common ratio of 10%-11%, and its 12%-15% return on equity target is based on that level of capital.

In June 2024, following the Federal Reserve's Comprehensive Capital Analysis and Review stress test results, the company announced a 10% increase in its quarterly dividend, to \$0.76 per share, beginning in 3Q24. In January 2024, the board authorized a \$5 billion repurchase program with no expiration date. The company repurchased \$100 million of common shares in 1Q25. Management said it anticipated a step-up in repurchase activity and expected its total payout ratio (buybacks and dividends) in 2025 to be 80% of earnings.

We look for dividend payments of \$3.12 in 2025 and \$3.28 in 2026. The 2024 dividend was \$2.90 per share. The current yield is about 3.7%.

**MANAGEMENT & RISKS**

Ronald P. O'Hanley is the company's chairman and chief

executive officer. Eric Aboaf, the chief financial officer, departed in 1Q25, and the company has noted replacement hiring is underway. We believe that management provides appropriate financial guidance with respect to revenue trends, expense goals, and capital management.

Compared to other large securities-transaction processors, State Street is leveraged more heavily to equity markets than to fixed income. More than two-thirds of the company's revenue derives from securities and asset-management services. As a result, weak markets present a significant risk to the company's near-term growth. However, we look for above-average long-term growth, driven by consolidation in the trust/custody industry, the growth of financial assets in emerging markets, and the growth of alternative assets.

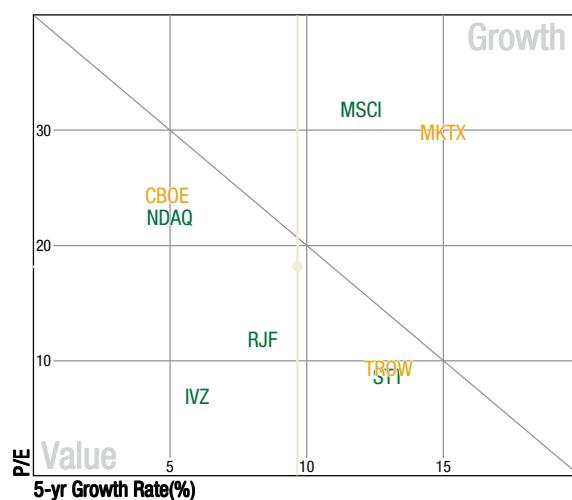
**COMPANY DESCRIPTION**

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**Peer & Industry Analysis**

The graphics in this section are designed to allow investors to compare STT versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how STT stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how STT might fit into or modify a diversified portfolio.



Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)		Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
			Current FY P/E	Rate (%)			
MSCI	MSCI Inc	42,440	12.0	31.9	38.8	13.0	BUY
NDAQ	Nasdaq Inc	41,514	5.0	22.4	24.0	12.7	BUY
RJF	Raymond James Financial, Inc.	27,347	8.4	11.9	14.1	6.9	BUY
STT	State Street Corp.	23,451	13.0	8.6	12.9	10.0	BUY
CBOE	CBOE Global Markets Inc.	22,730	4.9	24.4	36.9	5.1	HOLD
TROW	T. Rowe Price Group Inc.	19,137	13.0	9.4	29.6	4.9	HOLD
MKTX	MarketAxess Holdings Inc.	8,487	15.0	29.8	33.6	4.1	HOLD
IVZ	Invesco Ltd	5,727	6.0	6.9	12.8	10.8	BUY
<b>Peer Average</b>		<b>23,854</b>	<b>9.7</b>	<b>18.2</b>	<b>25.3</b>	<b>8.4</b>	



**Analyst's Notes** ...Continued

clients negotiate global financial markets. SSGA manages the popular SPDR series of exchange-traded index funds.

**VALUATION**

STT shares have traded in a range of \$70-\$103 over the last 52 weeks and are currently near the lower end of that range.

We expect the company to benefit over time from industry consolidation that favors the most-efficient players and note a considerable mandate of new custody business yet to be installed. While fee rates and AUM for active investing are likely to remain challenging, we believe that STT is well positioned to service the passive index market.

Historically, STT has traded at a premium to the S&P 500 but now trades at only 8.6-times our 2025 EPS estimate, well below the index multiple and a bit below the multiple of peer Bank of New York Mellon (NYSE: BK: BUY). We are lowering our target price to \$94 (from \$115), or a multiple of 10-times our 2025 PES estimate, to reflect greater uncertainty in the macro environment. We believe recent share price weakness has been overdone and see value at the current multiple.

On April 21 at midday, BUY-rated STT traded at \$80.39, down \$0.87.

## About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

### THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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