

Progressive Corp.

## September '23: Catastrophe loss breather & underlying loss ratio improving

Reserve development alternation: Sept – modest favorable PYD, August unfavorable, July favorable, June (and prior months) unfavorable. Given the volatility of reserve development in recent months, we cannot point to a definitive trend.

PGR's **underlying loss ratio** of 71.5% (vs. our estimated 76.9%) improved sequentially from 74.6% in August '23. Its underlying loss ratio has been bouncing around in recent months (74.6% in August, 72.5% in July, and 76.6% in June). We would like to see more sustainability of results, though we recognize this month's notable improvement.

In September, PGR reported **marginal favorable PYD** of \$8mn (vs. \$58mn unfavorable estimate) or (0.2) pts on the loss ratio (vs. our 1.3 pt estimate). This follows 1.6 pts, 3.1 pts, 4.6 pts, 4.6 pts, 3.4 pts, 3.5 pts, and 6.5 pts of unfavorable PYD in August, June, May, April, March, Feb., Jan., respectively. July was the outlier with a favorable PYD of 0.5 pts. Despite a quiet PYD quarter, we are not revising our unfavorable PYD pts on the loss ratio estimates of 0.9% in Oct., 0.6% in Nov., and 0.3% in Dec.

PGR's expense ratio of 16.6% in Sept. (from 16.5% in August and 15.4% in July) is not enough of a boost for us to believe approaching rate adequacy is closer in reach. We anticipate seeing PGR return to its pre-pandemic expense ratio of nearly 20% only when pricing is adequate and it can organically grow statutory surplus.

PGR reported quiet **catastrophe losses** of \$84mn (vs our \$106mn estimate) or 1.8pts on its consolidated combined ratio; PGR received a \$21mn reinsurance recoverable in the quarter (9.5 pt favorable impact to its property loss ratio.) Nice reprieve following elevated catastrophe loss ratio points of 4.5% in August, 3.2% in July, and an average monthly cat loss ratio points of 4.1% in 1H23.

Personal auto PIF shrunk 0.1% sequentially (Sept '23 vs. Aug '23), better than the previous -0.6% sequential print (Aug '23 vs. July '23) and better than our estimated sequential PIF decline of (0.8%). On an annualized basis, that would imply PIF compression of ~1% although we do not expect monthly trend to be constant over 12 months. On a y/y basis, PGR recognized +12.0% personal auto PIF growth, down from +12.6% in August y/y.

| CORE

PGR	<b>UNDERWEIGHT</b>
	Unchanged
U.S. Insurance/Non-Life	<b>POSITIVE</b>
	Unchanged
Price Target	<b>USD 111.00</b>
	raised 2% from USD 109.00
Price (12-Oct-23)	<b>USD 143.30</b>
Potential Upside/Downside	<b>-22.5%</b>
Market Cap (USD mn)	<b>83844</b>
Shares Outstanding (mn)	<b>585.10</b>
Free Float (%)	<b>99.73</b>
52 Wk Avg Daily Volume (mn)	<b>2.6</b>
Dividend Yield (%)	<b>0.28</b>
Return on Equity TTM (%)	<b>10.92</b>
Current BVPS (USD)	<b>27.71</b>

Source: Bloomberg



Source: IDC  
[Link to Barclays Live for interactive charting](#)

### U.S. Insurance/Non-Life

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PGR's pre-tax net investment income this month was \$175mn vs. our \$172mn estimate, reflecting a ~3.4% pre-tax annualized book yield.

September operating EPS of \$0.84 beat our \$0.40 estimate due to lower catastrophe losses and better combined ratio vs. our estimates.

**PGR: Quarterly and Annual EPS (USD)**

<b>FY Dec</b>	<b>2022</b>	<b>2023</b>			<b>2024</b>			<b>Change y/y</b>	
	<b>Actual</b>	<b>Old</b>	<b>New</b>	<b>Cons</b>	<b>Old</b>	<b>New</b>	<b>Cons</b>	<b>2023</b>	<b>2024</b>
Q1	1.12A	0.65A	0.65A	0.75A	1.63E	1.71E	2.00E	-42%	163%
Q2	1.03A	0.32A	0.32A	0.57A	1.43E	1.46E	1.78E	-69%	356%
Q3	0.49A	1.66E	2.09E	1.68E	1.37E	1.39E	1.65E	327%	-33%
Q4	1.25A	1.48E	1.81E	2.09E	1.39E	1.41E	2.17E	45%	-22%
Year	3.90A	4.12E	4.88E	4.82E	5.82E	5.97E	7.65E	25%	22%
P/E	36.8		29.4			24.0			

Consensus numbers are from Bloomberg received on 13-Oct-2023; 12:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE
Progressive Corp. (PGR)						
Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR	Price (12-Oct-2023) <b>USD 143.30</b>
Net premiums earned	49,241	56,583	60,233	65,406	9.9%	Price Target <b>USD 111.00</b>
Net investment income (NII)	1,260	1,941	2,371	2,651	28.1%	<b>Why UNDERWEIGHT?</b>
Underwriting income	1,342	1,171	1,490	2,447	22.2%	Our call on PGR takes a longer term view. PGR may need to hold more capital to support an evolving business mix, which could lower ROEs. Likewise, we struggle to see how PGR could return to its historical PIF growth rate, as the company cut rates early during the pandemic and is now playing catch up, which is proving tough to gain approval from regulators.
Operating income	2,287	2,866	3,502	4,540	25.7%	
Net income	566	2,863	3,502	4,540	100.1%	
Effective tax rate (%)	35.6	20.5	21.0	21.0	-16.2%	
Combined ratio (%)	95.8	96.4	96.0	94.8	-0.4%	
Combined ratio (ex cats & py development) (%)	91.9	91.1	94.3	93.0	0.4%	
Per share data (\$)	2022A	2023E	2024E	2025E	CAGR	<b>Upside case</b> <b>USD 148.00</b>
EPS (adj)	3.90	4.88	5.97	7.75	25.7%	PGR is able to achieve personal auto rate adequacy and return to historical PIF growth rates. PGR leverages its multivariate pricing model across newer business lines. Upside case reflects ~25x '24E EPS.
EPS (reported)	0.97	4.89	5.99	7.78	100.4%	
DPS	0.40	0.20	2.65	2.65	87.8%	
BVPS	26.32	30.30	33.51	33.96	8.9%	
BVPS (ex AOCI)	30.79	35.36	38.58	39.03	8.2%	
Diluted shares (mn)	587	587	587	586	0.0%	
Balance sheet and capital return (\$mn)	2022A	2023E	2024E	2025E	CAGR	<b>Downside case</b> <b>USD 105.00</b>
Total investments	53,548	62,847	67,569	68,131	8.4%	PGR's baseline pricing may be low, brought on by a pandemic with greater rate catch up. Downside case reflects ~18x '24E EPS.
Common shareholders' equity (ex AOCI)	18,012	20,688	22,539	22,786	8.2%	
Share buybacks	63	70	104	132	27.7%	
Dividends paid	234	117	1,548	1,546	87.7%	
Balance sheet and capital return metrics	2022A	2023E	2024E	2025E	Average	<b>Upside/Downside scenarios</b>
Debt leverage (%)	25.7	24.5	23.0	22.8	24.0	 <p>The chart shows price history for the last 12 months with a high of 149.87 and a current price of 143.30. It also shows the price target for the next 12 months at 148.00, with an upside of 105.00 and a downside of 110.04. The chart is divided into three horizontal sections: Low (blue), Current (grey), and Up/Downside (red).</p>
Financial leverage (%)	27.6	26.3	24.7	24.5	25.8	
Total capital return as a % of op. earnings	13.0	6.5	47.2	36.9	25.9	
Valuation metrics	2022A	2023E	2024E	2025E	Average	
P/BV (ex AOCI) (x)	4.65	4.05	3.71	3.67	4.02	
P/E (adj) (x)	36.8	29.4	24.0	18.5	27.2	
Dividend yield (%)	0.3	0.1	1.8	1.8	1.0	
ROE (%)	3.1	14.3	15.4	15.8	12.1	

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

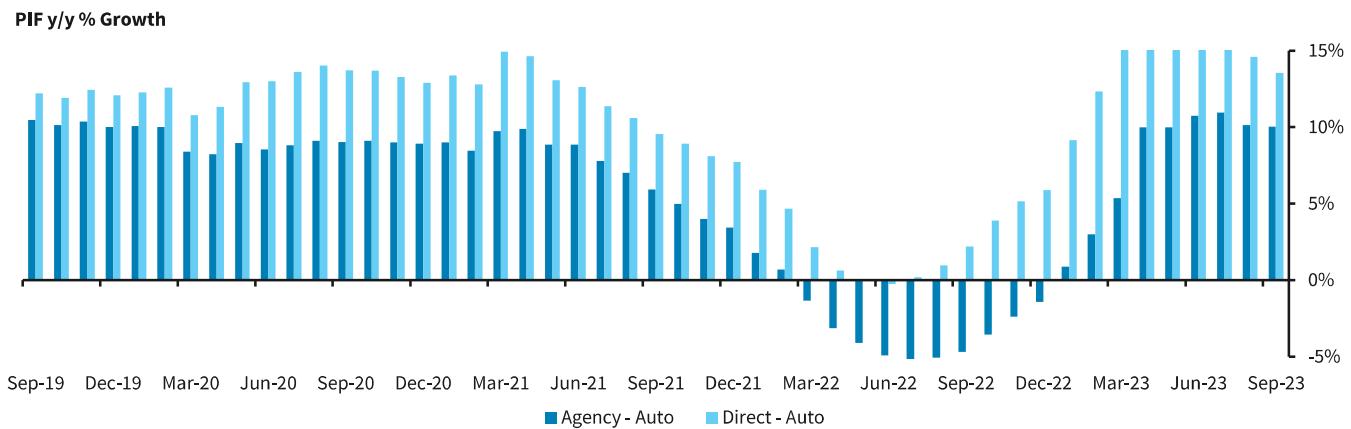
## PIF Growth Spotlight

### Personal Auto PIF Declined by 10k M/M

Personal auto PIF was down 10k (September '23 vs. August '23), better than the previous decline of 115k sequential print (August '23 vs. July '23) and better than estimated 164k decline estimate.

On a y/y basis, PGR reported personal auto PIF growth of +12.0% in September (above our estimate of +11.1% y/y), with auto agency PIF +10.0% (vs. our +9.4%) and auto direct +13.5% (vs. our 12.4%).

**FIGURE 1. PIF growth y/y in August with agent (+10.0%) and direct (+13.5%)**



Source: Barclays Research, Company Data

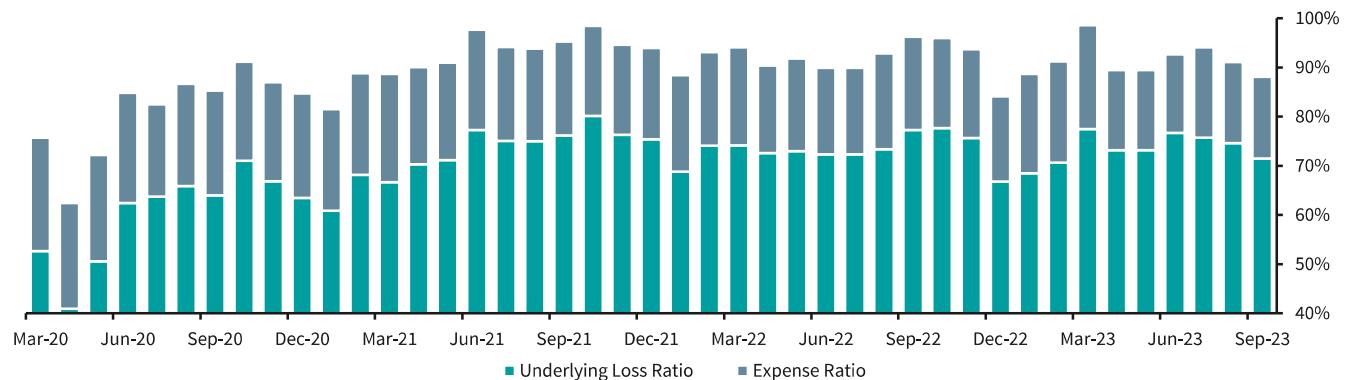
### Underlying combined ratio – Lower expense ratio is less sustainable over the long term

PGR's underlying combined ratio of 88.1% in September improved from 91.1% in August, driven by a better underlying loss ratio of 71.5% (vs. 74.6% in August) and offset slightly by a modestly higher expense ratio (16.6% in September vs. 16.5% in August).

The construction of PGR's underlying combined ratio is different than pre-pandemic. To recap, PGR's pre-pandemic underlying loss ratio stood at ~68% and expense ratio ran just north of 20%. We think a reversion to this pre-pandemic composition would be positive for the stock.

**FIGURE 2. September '23 underlying loss ratio of 71.5% (vs. 76.9% Barclays) and expense ratio of 16.6% (vs. 16.3% Barclays)**

**PGR Underlying CR %**

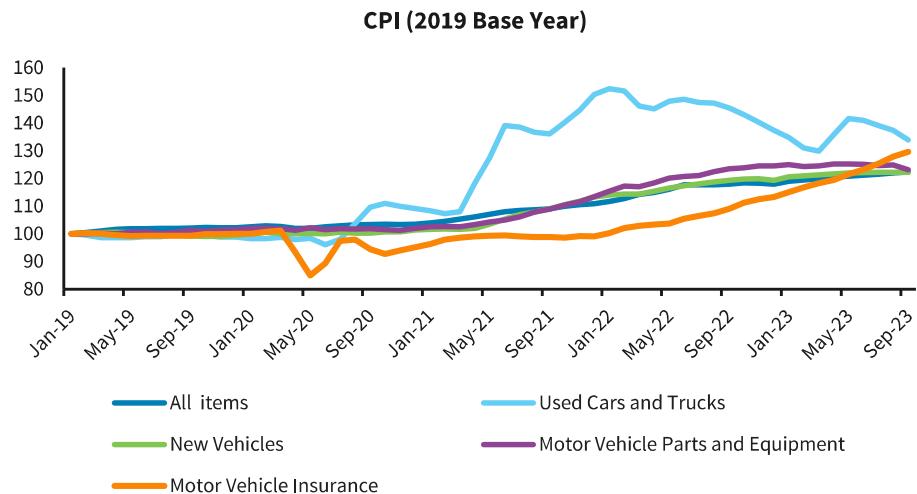


Source: Barclays Research, Company Data

## Inflation: Focus on Absolute Levels

Motor insurance pricing remains subdued relative to used car pricing using a 2019 base year (see Figure 3). Specifically, used car & truck pricing is up 33.9% vs. motor insurance pricing at 29.6% since Jan. '19. Compounded auto pricing during that period has not caught up – not anywhere close. There is still rate catch-up needed to see that inflection point.

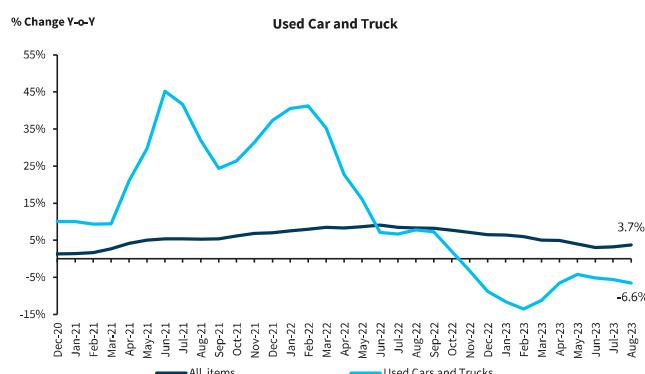
**FIGURE 3. CPI Indexed to January '19**



Source: Barclays Research, U.S. Bureau of Labor Statistics

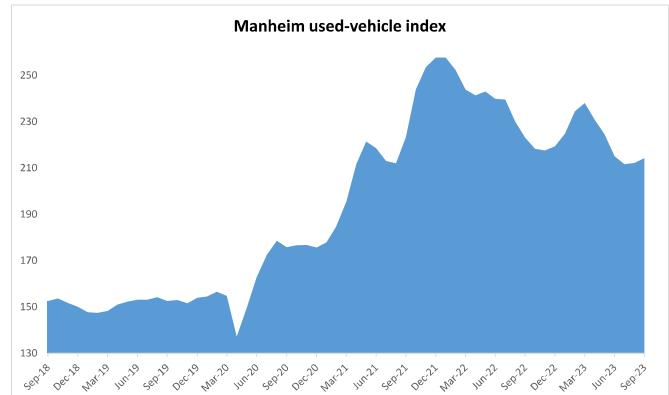
Manheim pricing was +1.0% m/m and -3.9% y/y. More importantly, if we compare September '23 to September '19, Manheim pricing is still up 40.4%.

**FIGURE 4. CPI: Used Car and Truck (-6.6% y/y in August '23)**



Source: Barclays Research, U.S. Bureau of Labor Statistics

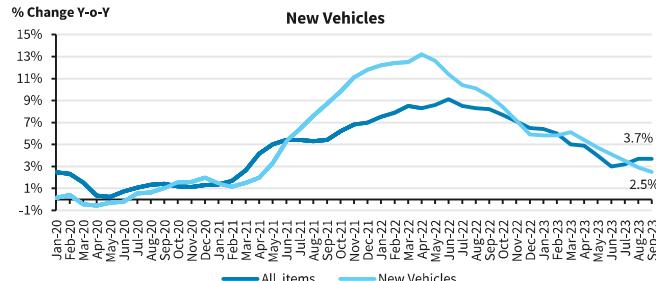
**FIGURE 5. Manheim Used Car Prices (-3.9% y/y in September '23)**



Source: Barclays Research, Bloomberg, Manheim

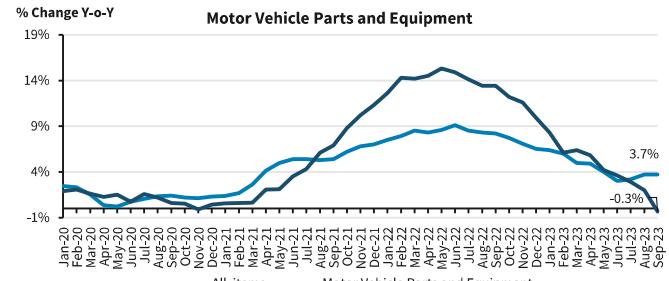
The new vehicle CPI index rose 2.5% y/y in September (down compared to the 2.9% increase in August) and Motor Vehicle Parts and Equipment CPI index declined (0.3)% y/y (vs. increase of 2.0% in August). However, comparing September '23 vs. Jan '19, new vehicles and car parts rose 22.2% and 23.0%, respectively.

**FIGURE 6. CPI % Change (Y-o-Y): New Vehicles**



Source: Barclays Research, U.S. Bureau of Labor Statistics

**FIGURE 7. CPI % Change (Y-o-Y): Motor Vehicle Parts and Equipment**

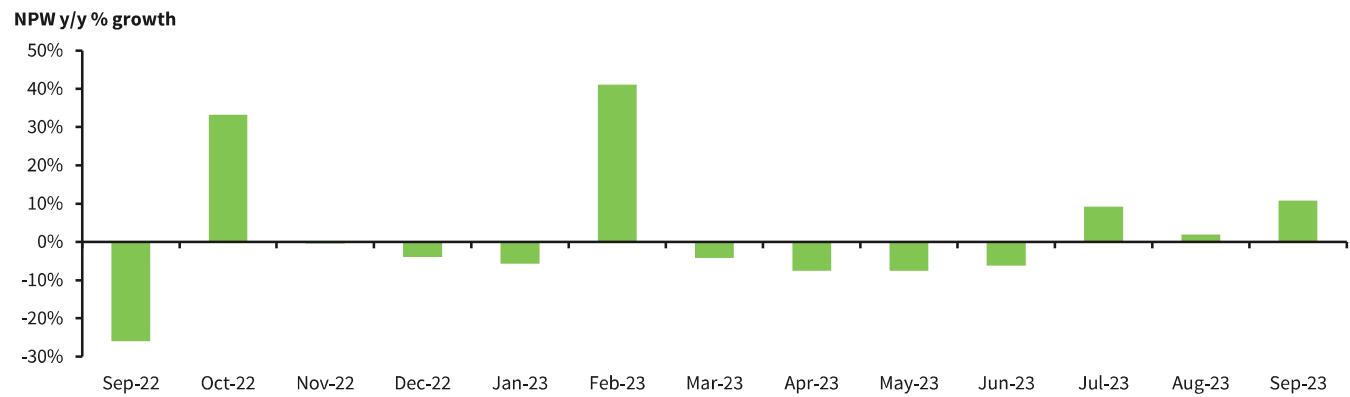


Source: Barclays Research, U.S. Bureau of Labor Statistics

## Commercial NPW Increased 10.8% (y/y)

Reported commercial premium growth was 10.8% in September '23, a pickup from prior months.

**FIGURE 8. Commercial NPW growth (monthly)**



Source: Barclays Research, Company Data

## Valuation

Our PT of \$111 (from \$109) is based on 16.5x (unchanged) our '24E EPS of \$5.97 (up from \$5.82) and 3.2x (unchanged) '24E BVPS (ex AOCI) of \$38.58 (up from \$37.88).

### Model Updates:

We have slightly raised our expense ratio and lowered our underlying loss ratio estimates for the balance of 2023. We have raised our personal auto PIF estimates slightly.

Updated Operating EPS: We revise '23E from \$4.12 to \$4.88 and '24E from \$5.82 to \$5.97.

## Variance Tables – September '23

FIGURE 9. Variance Analysis - September '23

Summary Details		M/M			Y/Y		Barclays Est.	
(in \$mn, except per share)	September '23A	August '23	% Change	September '22	% Change	September '23	% Var.	
Net premiums written	\$4,900	\$4,744	3%	\$4,007	22%	\$4,628	6%	
Net investment income	\$175	\$168	4%	\$131	34%	\$172	2%	
Combined Ratio	89.7%	97.2%	(750 bps)	116.2%	(2650 bps)	96.7%	(702 bps)	
Combined Ratio ex cats and PYD	88.1%	91.1%	(306 bps)	96.2%	(816 bps)	93.2%	(511 bps)	
Operating EPS	\$0.84	\$0.35	137%	-\$0.70	-219%	\$0.40	109%	
Book value per share (ex. AOCI)	\$33.65	\$33.03	1.9%	\$29.72	13%	\$33.43	1%	

NPW by Segment		M/M			Y/Y		Barclays Est.	
(in \$mn, except per share)	September '23A	August '23	% Change	September '22	% Change	September '23	% Var.	
Personal lines-agent	\$1,763	\$1,710	3%	\$1,456	21%	\$1,724	2.2%	
Personal lines-direct	\$2,197	\$2,099	5%	\$1,715	28%	\$2,047	7.3%	
Total Personal Lines	\$3,960	\$3,809	4%	\$3,171	24.9%	\$3,771	5.0%	
Commercial Business & Other	\$707	\$683	4%	\$638	11%	\$638	11%	
Property	\$233	\$252	-7%	\$198	17%	\$218	7%	
Total Written Premiums	\$4,900	\$4,744	3%	\$4,007	22%	\$4,628	6%	

CR by Segment		M/M			Y/Y		Barclays Est.	
(in \$mn, except per share)	September '23A	August '23	% Change	September '22	% Change	September '23	% Var.	
Total Personal Lines	89.4%	93.7%	(430 bps)	116.1%	(2670 bps)	95.4%	(598 bps)	
Commercial Business & Other	93.2%	113.3%	(2010 bps)	97.4%	(420 bps)	98.8%	(560 bps)	
Property	81.6%	98.0%	(1640 bps)	193.0%	(11140 bps)	114.0%	(3240 bps)	

Source: Barclays Research estimates, Company Data

## Variance Tables - 3Q23

FIGURE 10. Variance Analysis - 3Q23

Summary Details	Q/Q			Y/Y			Barclays Est.	
	3Q23A	2Q23	% Change	3Q22	% Change	3Q23E	% Var.	
(in \$mn, except per share)								
Net premiums written	\$15,594	\$12,957	20%	\$13,018	20%	\$15,322	2%	
Net investment income	\$503	\$466	8%	\$328	53.4%	\$500	0.7%	
Combined Ratio	92.4%	101.0%	(862 bps)	99.2%	(687 bps)	94.5%	(218 bps)	
Combined Ratio ex cats and PYD	89.0%	90.6%	(159 bps)	92.8%	(388 bps)	90.5%	(158 bps)	
Operating EPS	\$2.09	\$0.32	547%	\$0.49	326%	\$1.66	26%	
Book value per share (ex. AOCI)	\$33.6	\$31.8	6%	\$29.7	13%	\$33.4	1%	

NPW by Segment	Q/Q			Y/Y			Barclays Est.	
	3Q23A	2Q23	% Change	3Q22	% Change	3Q23E	% Var.	
(in \$mn, except per share)								
Personal lines-agent	\$5,656	\$4,918	15%	\$4,745	19%	\$5,618	1%	
Personal lines-direct	\$6,997	\$5,323	31%	\$5,584	25%	\$6,847	2%	
Total Personal Lines	\$12,654	\$10,241	24%	\$10,329	23%	\$12,465	2%	
Commercial Business & Other	\$2,215	\$1,963	13%	\$2,064	7%	\$2,146	3%	
Property	\$725	\$759	-5%	\$625	16%	\$711	2%	
Total Written Premiums	\$15,594	\$12,963	20%	\$13,017	20%	\$15,322	2%	

CR by Segment	Q/Q			Y/Y			Barclays Est.	
	3Q23A	2Q23	% Change	3Q22	% Change	3Q23E	% Var.	
(in \$mn, except per share)								
Total Personal Lines	91.1%	100.9%	(981 bps)	100.0%	(887 bps)	93.0%	(186 bps)	
Personal lines-agent	93.8%	102.8%	(902 bps)	100.9%	(716 bps)	95.0%	(122 bps)	
Personal lines-direct	88.9%	99.4%	(1048 bps)	99.2%	(1030 bps)	90.4%	(153 bps)	
Commercial Business & Other	99.0%	98.2%	84 bps	89.7%	931 bps	100.8%	(178 bps)	
Property	88.2%	111.9%	(2371 bps)	125.1%	(3693 bps)	98.6%	(1036 bps)	

Source: Barclays Research estimates, Company Data

## Model Summary

FIGURE 11. Model Summary (pg. 1)

(\$ in mn, except per share data)	2019	2020	2021	2022	2023E	2024E	2025E
Net premiums written	37,578	40,569	46,405	51,081	58,814	62,700	68,635
Revenues:							
Net premiums earned	36,192	39,262	44,369	49,241	56,583	60,233	65,406
Investment income	1,042	937	861	1,260	1,941	2,371	2,651
Total net realized gains (losses) on securities	1,029	1,630	1,509	(1,912)	(4)	-	-
Fees and other revenues	564	604	692	722	857	903	981
Service revenues	195	226	271	299	317	361	392
<b>Total revenues</b>	<b>39,022</b>	<b>42,658</b>	<b>47,702</b>	<b>49,611</b>	<b>59,694</b>	<b>63,869</b>	<b>69,430</b>
Expenses:							
Losses and loss adjustment expenses	25,471	25,122	33,628	38,123	44,810	46,652	48,538
Total underwriting expenses	7,998	8,843	9,368	9,777	10,601	12,091	14,421
Policyholder credit expense	-	1,077	-	-	-	-	-
Investment expenses	25	20	26	24	26	33	35
Service expenses	179	206	253	297	341	331	360
Interest expense	190	217	219	244	268	276	276
<b>Total expenses</b>	<b>33,862</b>	<b>35,485</b>	<b>43,492</b>	<b>48,689</b>	<b>56,047</b>	<b>59,383</b>	<b>63,630</b>
Underwriting Income	2,724	5,297	1,374	1,342	1,171	1,490	2,447
Income before income taxes	5,160	7,173	4,210	922	3,648	4,487	5,800
Provision for income taxes	1,180	1,469	859	329	747	942	1,218
Other comp (income) loss att. to NCI	(10)	-	-	-	-	-	-
Net income	3,970	5,705	3,351	593	2,901	3,544	4,582
Less: Preferred stock dividends	27	27	27	27	38	42	42
<b>Net income to common shareholders</b>	<b>3,943</b>	<b>5,678</b>	<b>3,324</b>	<b>566</b>	<b>2,863</b>	<b>3,502</b>	<b>4,540</b>
ATX total net realized gains (losses) on sec	813	1,288	1,192	(1,496)	(3)	-	-
Other	-	-	-	(225)	-	-	-
<b>Operating income to common shareholders</b>	<b>3,130</b>	<b>4,390</b>	<b>2,132</b>	<b>2,287</b>	<b>2,866</b>	<b>3,502</b>	<b>4,540</b>
<b>Operating EPS</b>	<b>\$5.33</b>	<b>\$7.47</b>	<b>\$3.63</b>	<b>\$3.90</b>	<b>\$4.88</b>	<b>\$5.97</b>	<b>\$7.75</b>
<b>Net EPS</b>	<b>\$6.72</b>	<b>\$9.66</b>	<b>\$5.66</b>	<b>\$0.97</b>	<b>\$4.89</b>	<b>\$5.99</b>	<b>\$7.78</b>
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	10.1%	15.1%	6.6%	9.5%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	11.0%	14.9%	6.5%	8.6%

Source: Barclays Research estimates, Company Data

FIGURE 12. Model Summary (pg. 2)

(\$ in mn, except per share data)	2019	2020	2021	2022	2023E	2024E	2025E
<b><u>Underwriting Margins</u></b>							
Loss and LAE ratio	70.4%	64.0%	75.8%	77.4%	79.2%	77.5%	74.2%
Expense ratio	20.5%	21.0%	19.6%	18.4%	17.2%	18.6%	20.5%
<b>Combined ratio</b>	<b>90.9%</b>	<b>85.0%</b>	<b>95.3%</b>	<b>95.8%</b>	<b>96.4%</b>	<b>96.0%</b>	<b>94.8%</b>
Catastrophes pretax	552	880	1,310	1,643	1,732	863	944
Cat pts	1.5%	2.2%	3.0%	3.3%	3.1%	1.4%	1.4%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(282)	(1,298)	(176)	(187)
PYD pts (negative is unfavorable)	-0.6%	-0.5%	0.0%	-0.6%	-2.3%	-0.3%	-0.3%
<b>Underlying loss ratio</b>	<b>68.2%</b>	<b>61.2%</b>	<b>72.8%</b>	<b>73.5%</b>	<b>73.8%</b>	<b>75.7%</b>	<b>72.5%</b>
<b>Underlying combined ratio</b>	<b>88.8%</b>	<b>82.2%</b>	<b>92.4%</b>	<b>91.9%</b>	<b>91.1%</b>	<b>94.3%</b>	<b>93.0%</b>
<b><u>Share information</u></b>							
Shares beginning period	583.2	584.6	585.2	584.4	584.9	585.0	584.3
Shares issued	3	2	2	1	1	-	-
Shares Repurchased	1	1	2	1	1	1	1
Common Shares Outstanding, end of period	584.6	585.2	584.4	584.9	585.0	584.3	583.9
Weighted average shares - basic	583.8	584.9	584.7	584.6	585.1	584.6	584.4
Dilution	3.1	2.5	2.3	2.3	2.1	2.1	2.1
Weighted average shares - diluted	586.9	587.4	587.0	586.9	587.2	586.7	586.5
<b><u>Shareholders' equity and returns</u></b>							
Common shareholders' equity ex AOCI	12,612	15,613	17,697	18,012	20,688	22,539	22,786
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,854	19,350	21,613	22,662
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$30.79	\$35.36	\$38.58	\$39.03
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	12.8%	14.8%	16.2%	20.0%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	3.1%	14.3%	15.4%	15.8%

Source: Barclays Research estimates, Company Data

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**Primary Stocks (Ticker, Date, Price)**

**Progressive Corp.** (PGR, 12-Oct-2023, USD 143.30), Underweight/Positive, CD/CE/J/K/M

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## Progressive Corp. (PGR / PGR)

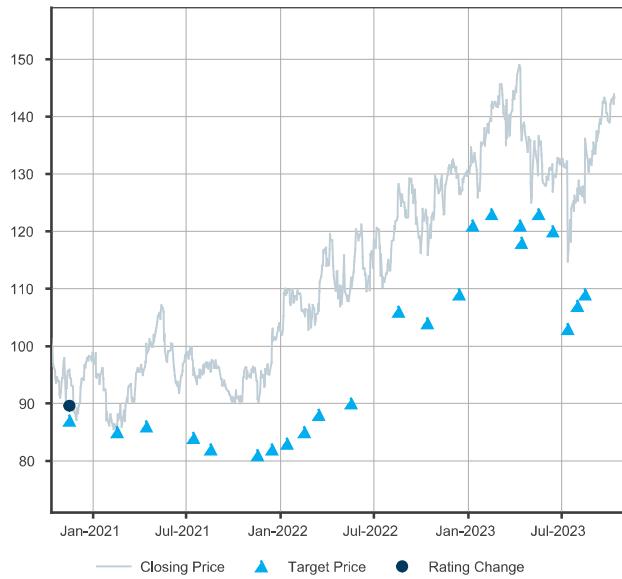
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

Closing Price: **USD 143.30** (12-Oct-2023)

### Rating and Price Target Chart - USD (as of 12-Oct-2023)

Currency=USD



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
16-Aug-2023	125.05		109.00
01-Aug-2023	125.98		107.00
13-Jul-2023	132.11		103.00
14-Jun-2023	131.68		120.00
17-May-2023	129.76		123.00
14-Apr-2023	138.21		118.00
11-Apr-2023	149.00		121.00
15-Feb-2023	139.27		123.00
09-Jan-2023	134.61		121.00
14-Dec-2022	126.58		109.00
13-Oct-2022	121.40		104.00
18-Aug-2022	122.49		106.00
18-May-2022	111.19		90.00
16-Mar-2022	107.31		88.00
16-Feb-2022	105.78		85.00
13-Jan-2022	109.85		83.00
15-Dec-2021	97.14		82.00
17-Nov-2021	90.73		81.00
18-Aug-2021	95.57		82.00
15-Jul-2021	94.95		84.00
15-Apr-2021	100.40		86.00
17-Feb-2021	86.25		85.00
16-Nov-2020	95.90	Underweight	87.00

Source: Bloomberg, Barclays Research

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