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February 3rd 2017

FLASH

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Insights from Financials 4Q16 earnings calls

Tailwinds of NIM, Regulation, Taxes, Macroeconomic and demand support equities

We like Financials (the "A" in CRAP) in 2017, as we see tailwinds building for the sector—higher interest rates/inflation, de-regulation, pro-growth policy—all add upside to EPS and multiples. A review of the transcripts of 48 Financials 4Q16 transcripts affirm these positive trends.

- **5 themes emerged from 4Q16 results (Slide 2):** Tailwind drivers are: (i) better macro outlook; (ii) potential for better loan growth; (iii) NIM/margins rising; (iv) regulatory costs are "peaking" after surging last few years; (v) tax reform net positive.
- **Snippets—we review transcripts and abstract key highlights:** We reviewed Financials transcripts (48 of 63 S&P 500 constituents reported) and included highlights from 26 companies.
- **Affirms we are "mid-cycle" in Financial outperformance which typically peaks when outperformance reaches 15,000bp (Slide 5).** After de-rating for much of the past 7 years, given surging regulatory burdens, we believe Financials are poised to demonstrate sustained leadership.
- **What could go wrong? Shift from "Fed put" to "policy put" means turbulence—we still look for a pullback in 1H17, which could hurt our CRAP call.** We remain cautious on equities in 1H17. We realize we are "leaning against the wind" but prefer to be patient.

BOTTOM LINE: Financials are underperforming by 220bp YTD, arguably "resting" after the surge in 4Q16. We would be steady buyers here. We also favor CRAP and laggards.

Performance	1Q17	2Q17	3Q17	4Q17	YTD
S&P 500	1.9%	—	—	—	1.9%
Cyclicals	3.7%	—	—	—	3.7%
Near Cyclicals	-1.4%	—	—	—	-1.4%
Defensives	-0.1%	—	—	—	-0.1%
Value	0.4%	—	—	—	0.4%
Growth	3.2%	—	—	—	3.2%

Valuation	Current	1H 2017E	YE 2017E
S&P 500 price / target	2281	2150	2275
Fundstrat 2017E EPS	$135	—	—
Fundstrat 2018E EPS	$147	—	—
2018 P/E	15.5x	14.6x	15.5x

Cyclicals		Near Cyclicals		Defensives	
Industrials	N	**Energy**	R **OW**	**Telecom**	P **OW**
Materials	R OW	**Financials**	A **OW**	Healthcare	N
Technology	C OW	*Real Estate*	*UW*	*Staples*	*U*
Discretionary	N			*Utilities*	*U*

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#1: *Insights* from Financials in 4Q16 results

Macroeconomic Outlook	Loan Growth	Net Interest Margin	Regulation	Taxes
Companies almost universally noted the strengthened outlook for 2017 and higher confidence by clients of these institutions	The expectations for loan growth is about the same as 2016, so the improved confidence by clients is not yet reflected in demand—but that is an upside story.	In all cases, financial institutions expect to see improved earnings attributable to higher Net Interest Margin (NIM) and higher rates earned on their securities portfolio.	The increases in regulatory costs and burden has likely "peaked" but the pace at which this declines is not yet clear.	Overall, tax burdens should fall for most Financials. The potential for higher costs are associated with: (i) loss of value of deferred tax assets; (ii) treatment of life insurance; (iii) tax credits for low income housing; (iv) interest deductibility; (v) energy credits.
Positive	**Expected Better**	**Positive**	**Better**	**Net Positive**

Macroeconomic Outlook

Comerica: "we are starting to have conversations with clients that are indicating they are more optimistic business owners around possibilities of increased economic growth and maybe some tax relief"

JPMorgan: "the broad spectrum, Capital Expenditures, business confidence, consumer confidence, household building, household formation, wage income, unemployment going down, auto sales going up, retail sales going up - it looks like it's stronger not weaker"

Goldman Sachs: "I would say as we come into 2017, activity levels are quite high"

PNC: "We still see the small to medium-sized business as the growth engine for the U.S. And it seems like tax policy and other policies are going to be supportive of that."

Loan Growth

Discover Financial Services: "Another driver of the loan growth is higher sales, there we expect to continue with focused innovations around our rewards program to drive engagement and growth in our target segments"

Citizens Financial Group: "…first slightly slower loan growth in commercial in 2017 given higher rates which is offset by higher securities portfolio growth."

US Bancorp: "In the first quarter, we expected loan growth to be similar to the linked quarter growth experienced in the fourth quarter of 2016, as customers consider the implications of potential policy decisions and tax decisions of the new administration."

Net Interest Margin

BB&T: "We expect core margin to increase 8 basis points to 10 basis points due to the impact of the federal home loan bank restructure, last month's rate increase and favorable asset mix and funding cost and mix changes."

Fifth Third: "The cumulative increase in LIBOR over the last two quarters, and our ability to maintain pricing discipline have had a sizeable positive impact on our NIM."

Keycorp: "The other thing that can impact that is as we look at rate increases, we should see some benefit for NIM from that as well…we are only assuming one mid-year rate increase."

Suntrust: "We expect the Net Interest Margin to expand further by 5 or 6 basis points in the first quarter."

Wells Fargo: "it's pretty easy to sketch out a 4%, 5%, 6% net interest income growth trajectory, full year '17 over full year '16."

Regulation

Bank of America: ". We kind of crested all the different things have gone on in the industry.

BB&T: "I would say over a couple of year period of time, if you had the maximum amount of regulatory pullback, you could see a 20% kind of reduction in regulatory costs, maybe 25% but not 50% or 75%. It's meaningful, but it's not dramatic."

JPMorgan: "The cost of controls had increased for the Company by about $3 billion over several years, but that we expected they would peak and start bending down and that is indeed what we have been seeing."

US Bancorp: "Our compliance costs in the entire company are now in terms of FTE, they are over 7000 people of our 70,000 and that's up more than twice what it was a few years ago."

E*Trade Financial: [Regulatory changes to systemically important financial institution thresholds could reduce expenses] "…our current assumptions for roughly $20 million in implementation costs, plus $15 million in running costs, would reduce to around $15 million upfront and $10 million ongoing.

Taxes

BB&T: "we get almost 90% of it for our given tax rate change. So, if tax rates fall from 35% to 15%, we would get close to 18% lower taxes on it."

Citizens Financial Group: "We're operating with the Federal rate of 35 and if you got to something like 25 or 20 that would be a meaningful benefit to I think the whole regional banking group"

M&T Bank: "the vast majority of it not all of it, but the vast majority of it would fall to the bottom line."

Bank of America: "our DTAs that would be re-priced if the tax rate changed equaled approximately $7 billion"

Citigroup: "corporate tax reform may lead to a writing down of a proportion of our deferred tax assets, it should also result in higher net income and improved returns."

H&R Block: "Given our historical effective tax rates in the mid 30% range, such reductions would have a material positive impact on our net income and cash flow"

Source: Fundstrat, Bloomberg, Company filings and releases

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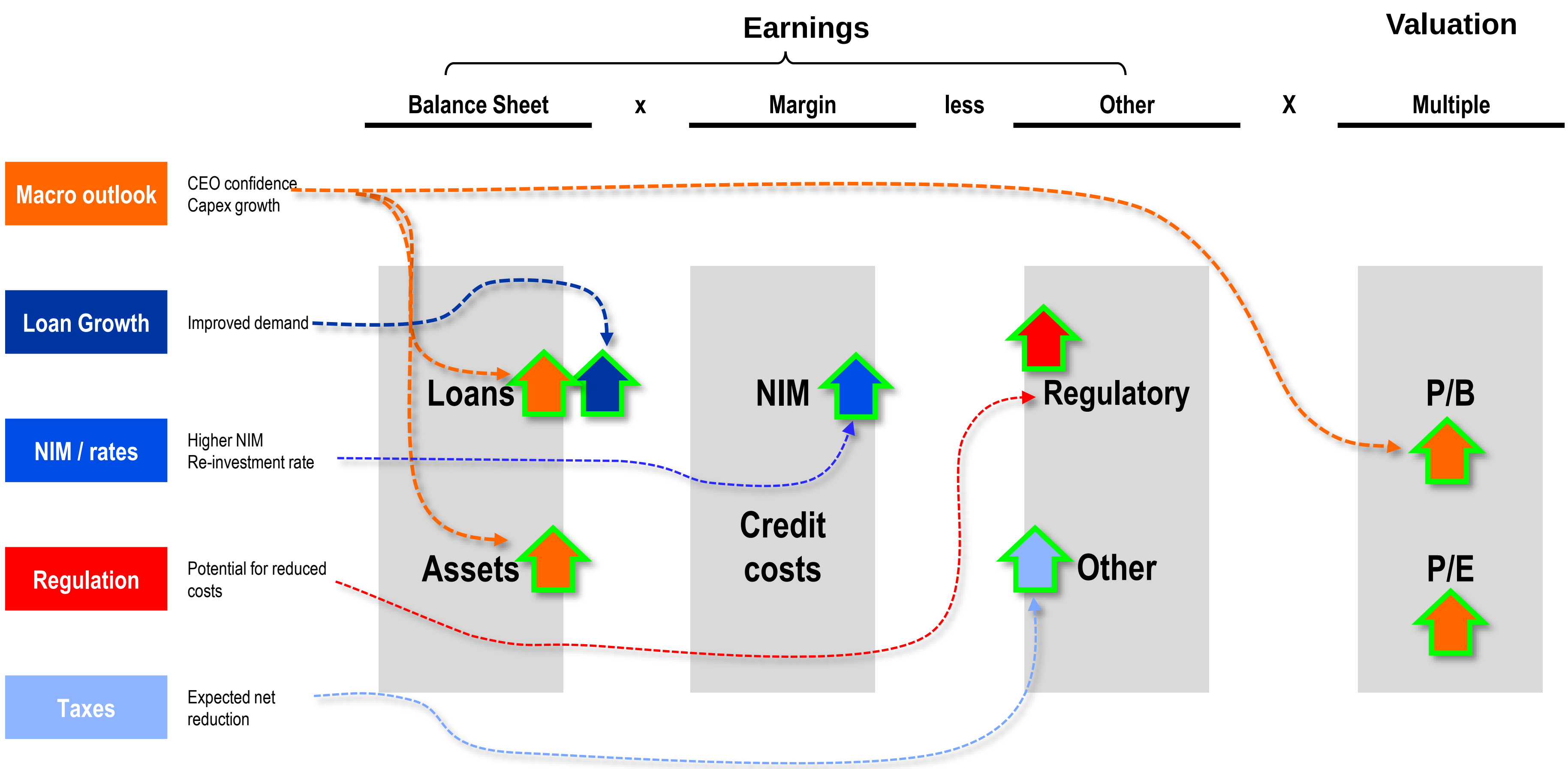
#1a: *5 tailwinds* for Financial earnings and multiples to gain

The biggest takeaway, reviewing the conference call transcripts, is that multiple tailwinds support higher Financial stocks:

- **As shown below, most of the tailwinds act to boost EPS (and growth rates) but also multiples (P/B and P/E)**

Figure: Major Trends lead to upside to Financial Earnings and Valuation outlook
Stylized Financial earnings model and valuation



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#1b: Companies quoted in this report

Industry	Macro Outlook	Loan Growth	Net Interest Margin	Regulation	Tax
Banks	Comerica (CMA) Citigroup (C) JPMorgan Chase (JPM) PNC Financial Services Group (PNC) U.S. Bancorp (USB)	Citigroup (C) Citizens Financial Group (CFG) U.S. Bancorp (USB)	BB&T (BBT) Citizens Financial Group (CFG) Fifth Third Bancorp (FITB) Huntington Bancshares (HBAN) Keycorp (KEY) PNC Financial Services Group (PNC) Regions Financial (RF) Suntrust Banks (STI) U.S. Bancorp (USB) Wells Fargo (WFC)	Bank Of America (BAC) BB&T (BBT) JPMorgan Chase (JPM) U.S. Bancorp (USB)	Bank Of America (BAC) BB&T (BBT) Citigroup (C) Citizens Financial Group (CFG) Comerica (CMA) Fifth Third Bancorp (FITB) Keycorp (KEY) M & T Bank (MTB) U.S. Bancorp (USB)
Capital Markets	Goldman Sachs Group (GS) Morgan Stanley (MS) Nasdaq (NDAQ)		Bank Of New York Mellon (BK) E*Trade Financial (ETFC)	E*Trade Financial (ETFC)	Goldman Sachs Group (GS) Invesco (IVZ)
Consumer Finance		Discover Financial Services (DFS)	Discover Financial Services (DFS) Navient (NAVI) Synchrony Financial (SYF)	Discover Financial Services (DFS)	Synchrony Financial (SYF)
Diversified Consumer Services					H&R Block (HRB)
Insurance	Principal Financial Group (PFG)				Travelers Cos Inc/The (TRV)

Source: Fundstrat, Bloomberg, Company filings and releases

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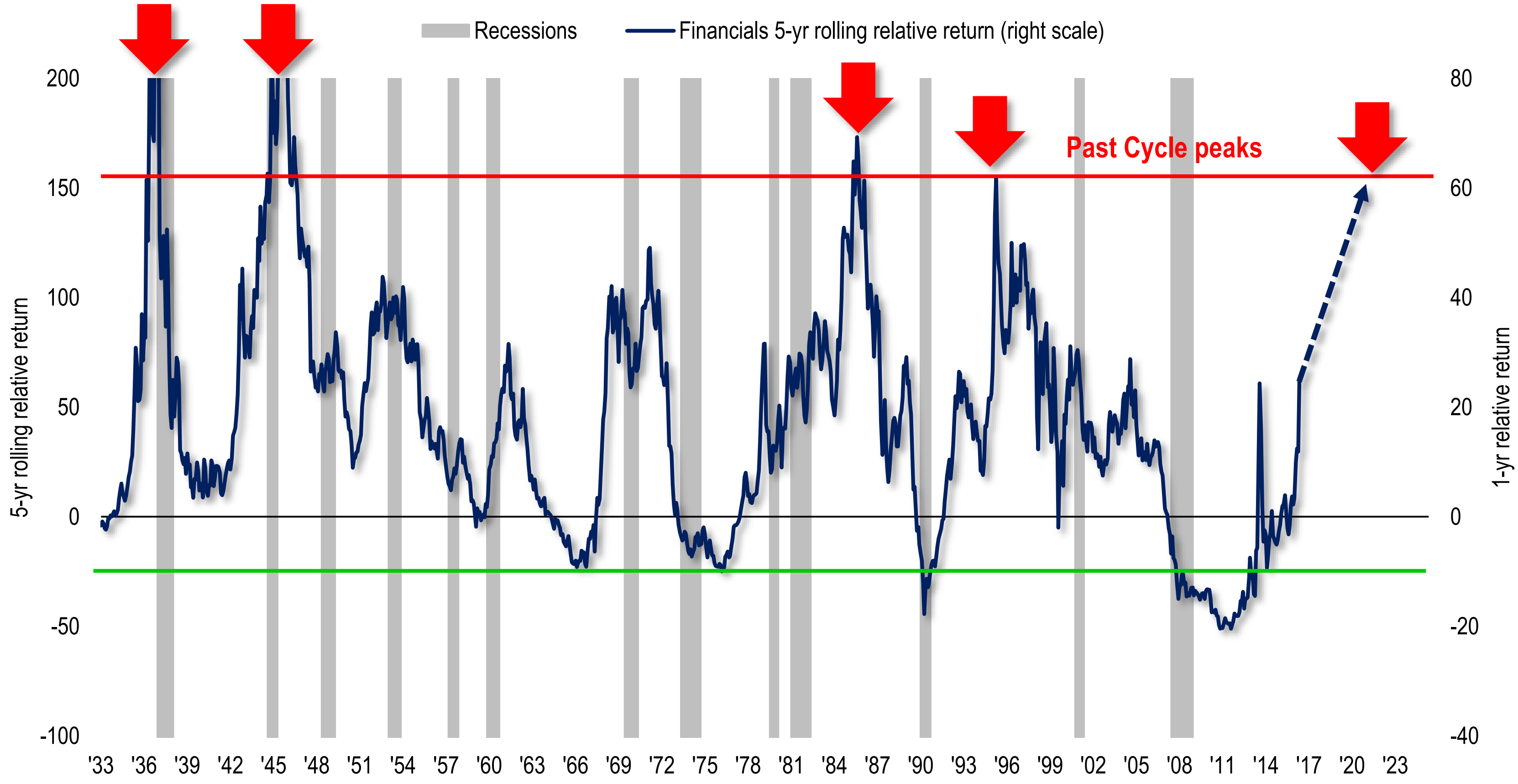
#2: Financials: Reversing worst returns in 80-yrs...

We believe Financials are mid-cycle in their outperformance.

- **As shown below, they tend to peak at 15,000 basis points of relative performance**

Figure: Rolling 5-year returns of Financials
Since 1933



Source: Fundstrat, Thomson Reuters.

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#3: Since 2008, >$55b annually in increased regulatory costs...

As highlighted on the right, Financials have seen significant increases in regulatory burden:

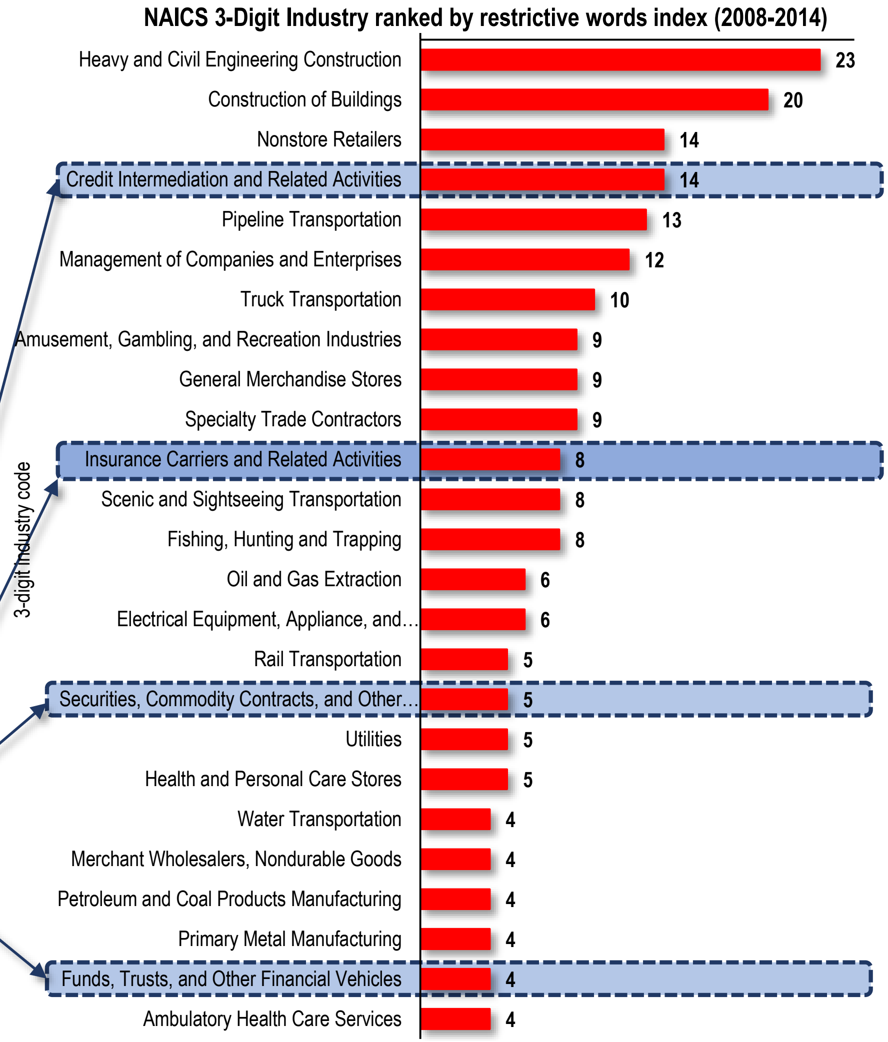
- **Just 4 regulatory actions (see below) added $55 billion annually to the industry's expense structure.**
- **USB noted that 10% of its employees are compliance personnel.**
- **J.P.Morgan noted that higher regulatory costs added $3 billion annually to its cost structure.**

Financials—selected regulations

- Dodd-frank: $36B implementation cost
- Pay disclosure ratio (2015)--$1.3B and $0.5B annually.
- Reg. SBSR (2015)—Swap: $0.4B annually
- DOL Fiduciary rule—$11B annually

Source: Fundstrat, and various industry news sources and reports

Figure: Industries with greatest rise in regulatory burden since 2008
Based on CAGR of restrictive regulations



Source: Fundstrat, Mercatus Center

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#4: Banks – Macroeconomic Outlook

Company	Insight	Comment
Citigroup (C)	Macroeconomic Outlook	**Looking forward, economic sentiment is clearly become more positive since the U.S. election.** In general, the benefit from pro-growth policies as well as our clients. **In addition, we see a path for more consistent interest rate increases and revenue opportunities in areas such as infrastructure investment**
Comerica (CMA)	Macroeconomic Outlook	…**we are starting to have conversations with clients that are indicating they are more optimistic business owners around possibilities of increased economic growth and maybe some tax relief or other things that might come with the new administration yet to be determined.** And we saw that some activity in November and December kind of heading into the end of the year. I think we are encouraged by what we are hearing from our consumers and a lot of that though is yet to play out. There is encouragement around potential for additional economic growth that might lead to more CapEx spend, possible tax relief or other changes with the administration.
JPMorgan Chase (JPM)	Macroeconomic Outlook	I'm saying we don't react to the small change in the economy to how we grow and expand our business but **it looks to us if you look across the broad spectrum, Capital Expenditures, business confidence, consumer confidence, household building, household formation, wage income, unemployment going down, auto sales going up, retail sales going up - it looks like it's stronger not weaker.** That's just my own personal belief.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#4: Banks – Macroeconomic Outlook

Company	Insight	Comment
PNC Financial Services Group (PNC)	Macroeconomic Outlook	**As we look ahead, our current indicators suggest improving confidence amongst consumers and business leaders about the direction of economy, which could bode well for our industry.** There is also growing sentiment that we are entering a period of rising rate -- rising interest rates. In addition, we've all heard that the new administration of Washington supports tax reform, regulatory relief and other pro-growth policies.
U.S. Bancorp (USB)	Macroeconomic Outlook	Yes, I would add maybe just two different things. **One is that you know as corporates kind of waiting to see what happens from a policy perspective as they have cash and they are waiting to figure out how to deploy that, they are probably parking it a little bit.** And then as we talked about in the third quarter [with money market reform, there was a fairly strong inflow of deposits in the third quarter, I am not sure all that has abated yet, as people kind of figure out what they are going to do from a money market standpoint in terms of government funds or whatever.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#4a: Banks – Loan Growth

Company	Insight	Comment
Citigroup (C)	Loan Growth	**Citigroup cost of credit should be somewhat higher in 2017 driven by loan growth and seasoning and our tax rate should be in the range of around 31%.**
Citizens Financial Group (CFG)	Loan Growth	**…first slightly slower loan growth in commercial in 2017 given higher rates which is offset by higher securities portfolio growth.** So, overall earning asset growth about the same. Strong NIM improvement largely due to yield curve benefit that'll be slightly less self-help benefit then in 2016. The provision continues to gradually normalize largely due to reserve bill tied to loan growth.
U.S. Bancorp (USB)	Loan Growth	**In the first quarter, we expected loan growth to be similar to the linked quarter growth experienced in the fourth quarter of 2016, as customers consider the implications of potential policy decisions and tax decisions of the new administration.**

Source: Fundstrat, Seeking Alpha, company filings and releases

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#4b: Banks – Net Interest Margin

Company	Insight	Comment
BB&T (BBT)	Net Interest Margin	Given the expected growth in capital, we plan to significantly increase CCAR '17 payout, which will support faster EPS growth. This does not include any potential corporate tax policy changes. **Looking into the first quarter, we expect core margin to increase 8 basis points to 10 basis points due to the impact of the federal home loan bank restructure, last month's rate increase and favorable asset mix and funding cost and mix changes.** We expect GAAP margin to increase 10 to 12 basis points.
Citizens Financial Group (CFG)	Net Interest Margin	The rate curve as of December 31st delivers a benefit of slightly over a 100 million to 2017 NIM assuming two hikes in 2017 and continued steepness in the yield curve. This obviously will move around on us. So we'll see how things will actually play out. Strong NIM improvement largely due to yield curve benefit that'll be slightly less self-help benefit then in 2016. The provision continues to gradually normalize largely due to reserve bill tied to loan growth. … **I think that's what's in that and the good news there is that the NIM should still expand in a fairly robust fashion**
Fifth Third Bancorp (FITB)	Net Interest Margin	We expect the NIM to widen by approximately 8% to 9% basis points from the fourth quarter reported number to about 2.95% in the first quarter. On a full year basis, we expect the NIM to range between 2.95% and 3%. The low end of the range is based on the rate scenario with no additional Fed moves, while the upper end of the range assumes two additional Fed moves in June and September. **The cumulative increase in LIBOR over the last two quarters, and our ability to maintain pricing discipline have had a sizeable positive impact on our NIM.**
Huntington Bancshares (HBAN)	Net Interest Margin	**We do think the core NIM is going to expand from this point**. ….. I would suggest that it's going to be difficult to project the NIM because of the purchase accounting impact and some of the accelerated accretion. That we do expect to happen, that we have seen happen in both the third and fourth quarters. But feel good about the core margin expanding from this point.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#4b: Banks – Net Interest Margin

Company	Insight	Comment
Keycorp (KEY)	Net Interest Margin	We would expect to see that and purchase accounting accretion continue to trend down over the next several years, I assume an average life of around 4 years for that. And then the other thing is that NIM will continue to have some pressure because of that purchase accounting reduction, but we are going to start just getting closer to the overall impact adjusted or not adjusted for rates, so that 2.89 number that you had talked about before. **The other thing that can impact that is as we look at rate increases, we should see some benefit for NIM from that as well. And so that's not any meaningful increase in 2017 since we are only assuming one mid-year rate increase.**
PNC Financial Services Group (PNC)	Net Interest Margin	**Net Interest Margin stabilized in 2016 and NIM improved slightly in the fourth quarter compared to the third quarter due to higher loan yields.**
Regions Financial (RF)	Net Interest Margin	**From a NIM standpoint, we still will get the benefit of lower rates now for the full quarter, which we think will be meaningful and we will pick up a couple of points with lower premium amortization as well.** But don't dismiss the impact of two less days in the quarter, which actually is accretive to the NIM and that will be two to three points in and of itself. So as you think about where we might be in the first quarter, we could be up in that low to 3.20%, in the low 3.20s then and continuing to improve, if the rate environment will hold, if it were to improve from there towards the fourth quarter.
Suntrust Banks (STI)	Net Interest Margin	Net Interest Margin improved 4 basis points, driven by higher loan yields as a result of the increase in short-term rates and a steeper yield curve. **Looking ahead, we expect the Net Interest Margin to expand further by 5 or 6 basis points in the first quarter. From there, NIM trends will be dependent on the interest rate environment.** We will continue to manage to a moderately asset sensitive balance sheet while being cognizant of opportunities to add duration if the yield curve continues to steepen.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#4b: Banks – Net Interest Margin

Company	Insight	Comment
U.S. Bancorp (USB)	**Net Interest Margin**	**Given the improving interest rate environment, including the current shape of the yield curve, we expect that the Net Interest Margin or the NIM will expand modestly in the first quarter.**
Wells Fargo (WFC)	**Net Interest Margin**	Net Interest Margin increased five basis points from the third quarter driven by growth in earning assets including deployment of cash into investments and the net benefit from higher interest rates. Income from variable sources benefited the NIM by approximately two basis points. Our growth in earning assets in the higher rate environment continue to benefit net interest income as we remain asset sensitive. However first quarter will reflect the impact from two fewer days and the typical linked quarter reduction in income from variable sources. … NIM is really an outcome and we can't predict what exactly is going to happen with deposit flows, et cetera. But just to put a dollar sign on it, if we don't get any more moves by the Fed in 2017, and I anticipate that we might, but if we didn't given that their pace of TLAC issuance that you mentioned, given the balance sheet positioning today, given what we might expect from loan growth, what we could imagine from redeployment et cetera, we're -- **it's pretty easy to sketch out a 4%, 5%, 6% net interest income growth trajectory, full year '17 over full year '16.**

Source: Fundstrat, Seeking Alpha, company filings and releases

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#4c: Banks – Regulation

Company	Insight	Comment
Bank Of America (BAC)	Regulation	**I think the House passed a couple cost benefit analysis type requirements for the SEC and the commodity things, so I think there will be a body of work that will go on to sort of balance, let's make sure we understand the pluses and minuses a lot of stuff.** But the reality, if you think about our company, we have maintained – we invest a lot of talent and capabilities in people, in compliance and risk in '10, '11, '12 and it's then relatively flat, but the company has shrunk around it, so it's become a higher percentage, but it's not – we are able to now start to optimize that, make it better. **And so I think if we get that, that's terrific, that will help us even do more potentially. But even if we don't, there is optimization to come now. We kind of crested all the different things have gone on in the industry.**
BB&T (BBT)	Regulation	I would say that if you get the maximum amount of regulatory changes, it's not going to be as much reduction in regulatory costs as a lot of people think. Maybe an outlier on this, but a lot of people are thinking kind of euphorically that they will do all this stuff they are talking about and regulatory costs going to zero. That will not happen. … **I would say over a couple of year period of time, if you had the maximum amount of regulatory pullback, you could see a 20% kind of reduction in regulatory costs, maybe 25% but not 50% or 75%.** It's meaningful, but it's not dramatic. **The bigger changes, of course for banking is tax reductions and increased margins and increased growth rates in GDP.** …. if you also get a substantial change in the tone or the intensity of regulation, then that is a big deal because it's not just the regulations. It's the degree of potentially with which the regulators apply those regulations and so what happens is it's not just absolute direct cost that goes into regulations, it's the indirect costs of all of the management time that is on executing on all these regulatory changes and so it's – that's pretty big…

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#4c: Banks – Regulation

Company	Insight	Comment
JPMorgan Chase (JPM)	Regulation	**… the cost of controls had increased for the Company by about $3 billion over several years, but that we expected they would peak and start bending down and that is indeed what we have been seeing.** Now I'm not saying that bend down is a sharp bend as we continue to be held to very sort of hard compliance burdens, but nevertheless we are seeing some efficiencies as we mature our processes and automate them. Offsetting against that and one of the reasons why it may be less obvious is that we've continued to increase our spend in cyber security as we want to protect the bank and the customers data.
U.S. Bancorp (USB)	Regulation	The number one issues are health care reform, taxes and infrastructure and somewhere in the top five might be financial services, but it's not the top three, a lot of financial services issues I think will be dealt with in the early part of the year but with some implications later. **So I think the best thinking is that the understanding of what implications and lower regulation might happen will be known probably in the second half of the year and benefited in sometime in '18, but I'll also tell you but for things like an unusual consent order or an event like DOL transition, I think this bank has peaked on those costs.** Our compliance costs in the entire company are now in terms of FTE, **they are over 7000 people of our 70,000 and that's up more than twice what it was a few years ago.** That's a little high because of these issues I just mentioned, but it's not going to go back to where it was, it's going to stay much higher because that's the cost of running a high-quality bank.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#4d: Banks – Tax

Company	Insight	Comment
BB&T (BBT)	Tax (Positive)	If tax rates change, so right now, our corporate rate is 35%. **In essence, we get almost 90% of it for our given tax rate change. So, if tax rates fall from 35% to 15%, we would get close to 18% lower taxes on it.** The reason we don't get all of it is really driven by how our state taxes impact a change in the corporate tax rate, but we get the vast majority of it. So, it's close to 90% would basically flow through the bottom line If tax exempt loans and securities are impacted, then what I told you needs to get adjusted…
Citizens Financial Group (CFG)	Tax (Positive)	**We're operating with the Federal rate of 35 and if you got to something like 25 or 20 that would be a meaningful benefit to I think the whole regional banking group since we're all hovered around maybe 28 to 32 as our tax rate.** What we're left with is really investing in Federal tax credit programs or State tax planning and it really doesn't move the needle down that far from the Federal rates.
M & T Bank (MTB)	Tax (Positive)	**I guess that depends on what the changes, but based on the work we've done when we look at any change in tax rates, we think that whatever the changes the vast majority of it not all of it, but the vast majority of it would fall to the bottom line.**
U.S. Bancorp (USB)	Tax (Positive)	**If we saw a tax – a corporate tax rate decline of 10%, we would expect our effective tax rate to benefit or go down by about half of that or about 60% of that.** So think about five percentage points to 6 percentage points in that range, that's essentially what we would expect to see the change in our effective tax rate and its because of the various dynamics associated with how tax credits work. **Economy being better is actually trumps all of that, a really good economy, reflection of what our customers feel and when that economy kicks and we hope it does that'll be more important than anything.** But were disappointed as you might be to hear it, we are like canaries at mind, we can see balance sheets, we can see customer behavior, optimism is high, but actions are not present yet.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#4d: Banks – Tax

Company	Insight	Comment
Bank Of America (BAC)	Tax (Mixed)	The total deferred tax asset (DTA) I think will be $19 billion. But let me give you the number that kind of matters probably is what you are – if you are thinking about the future. I mean we are not here sitting predicting any tax change, but what really matters if there is to U.S. tax change in the U.S. is, I will use 2015. **In 2015, we had over $20 billion of U.S. profits, pretax profits, that's an important number. And then the other number that's important is, at year end, our DTAs that would be re-priced if the tax rate changed equaled approximately $7 billion.**
Citigroup (C)	Tax (Mixed)	**And while corporate tax reform may lead to a writing down of a proportion of our deferred tax assets, it should also result in higher net income and improved returns.** …if we now dropped to a 25% tax rate with the territorial system, we end up with still no reduction to our territory -- we end over combined with a territory system the P&L hit would be about $12 billion, which I think is consistent with what I quoted back in November.
Comerica (CMA)	Tax (Mixed)	… there were four pieces that could impact the tax rate. **One, what would be the new corporate tax rate? Today, it's 35%. What does that corporate tax rate move to? The second would be does any congressional action modify the ability for us to fully utilize low income housing tax credits? The third would be bank-owned life insurance. From time to time over the last 20 plus years, Congress has entertained either limiting or eliminating the benefit of that tax exempt income. And then lastly and this would be a one-time adjustment, but remember, we now have a net deferred tax asset and that net deferred tax asset is recorded at 35%.** So to the extent corporate tax rates decline, you have to write-down that deferred tax asset to remember the new corporate tax rate would be. That's a one-time item, but there is significant moving pieces.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#4d: Banks – Tax

Company	Insight	Comment
Fifth Third Bancorp (FITB)	**Tax (Mixed)**	Our tax positions are similar to other financial institutions in the form of tax credits associated with low income housing, a small portfolio and a very small mini portfolio in some leasing activities. **All else being equal, we believe that we should be able to allow a large percentage of any reduction in corporate tax rates to drop towards bottom line, but it is too early to define on the dynamics of the competitive environment and how that may ultimately impact bank's ability to retain any potential benefits associated with the anticipated changes.**
Keycorp (KEY)	**Tax (Mixed)**	But if you look at what drives our tax rate lower, I would say that it's some of the normal things. Others would be experiencing, one is corporate-owned life insurance. We don't know how that will be treated in the House bill and how that would play through. The other is some of the tax credits we would have from some of the leasing and other loan activities we have. And with those loans and leases, the way that it shows up through our P&L is we have very little PPNR coming through for those loans and leases. And we have a benefit coming through the tax line. And so as long as we will continue to have loan growth at the projected levels, we would think that we would have a greater net interest income and pre-tax pre-provision earnings coming from that loan growth as opposed to today, it shows up in the bottom line below in the tax rate. As far as tax reform, I think that this is again an industry wide issue. **And I think things that would impact banks and other financial institutions would include the treatment of life insurance, would include tax credits associated with low income housing, energy related credits for lending activities. And then it will also include any type of treatment as far as bank specific items, including deductibility of interest expense.**

Source: Fundstrat, Seeking Alpha, company filings and releases

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#5: Capital Markets – Macroeconomic Outlook

Company	Insight	Comment
Goldman Sachs Group (GS)	Macroeconomic Outlook	**I would say as we come into 2017, activity levels are quite high. You know we can't - we've come out of a very low volume, low volatility environment for a number of years. We're happy to see how this year progresses.** I think again it goes back to the broad question what's the driver of that activity, if the expectation is more progress moving away from deflation not inflationary, but not deflationary more inflationary in a normalized period of interest rates. Those were all positive catalysts what they'll be like quarter-to-quarter very difficult, but again coming out of eight years of declining interest rates, I think would - none of us really wanted to get used to that. And so I think getting into a period of normalized economic growth would normalize policy of normalized interest rates, I think that be a good catalyst over the forward for a number of years.
Morgan Stanley (MS)	Macroeconomic Outlook	**There is certainly more reason to be optimistic as we enter 2017 than there was at the beginning of 2016. The surge in consumer confidence after the U.S. election, the recent and anticipated Fed rate hikes, the strengthening U.S. economy and potential corporate tax reform are positives for our business.**
Nasdaq (NDAQ)	Macroeconomic Outlook	We're going to have to navigate the macroeconomic and geopolitical backdrop in 2017. **Looking very specifically at the most critical areas and matters that will impact us, our industry and our broader clients. Our initial areas of focus will be financial regulation, tax reform and broader trade and immigration issues given that we are a global business.**

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#5a: Capital Markets – Net Interest Margin

Company	Insight	Comment
Bank Of New York Mellon (BK)	Net Interest Margin	**Net Interest Margin for the quarter was 117 basis points, that's 18 basis points better than the year ago quarter, and 11 better than the third quarter.** The NIM was positively impacted by the five basis points related to the interest rate hedging activity and the premium amortization adjustment. As we look into next year, I mean, where interest rates are go is, anybody's guess, but we - and that's why the guidance I really gave was only for the first quarter. So knowing what we know, we would expect the balance sheet to come down a little bit, which it already has and **we would expect NIM to more than offset the balance sheet move. So we would expect to continue to see some of the improvement that we saw in the fourth quarter and the first quarter.** Not a huge run up, but a little bit.
E*Trade Financial (ETFC)	Net Interest Margin	The NIM guidance we gave assumes no additional Fed rate hikes. So the way we do that is we essentially if just were in the balance sheet according to our plan effectively reinvesting at the marginal reinvestment rate and not increasing the federal funds rate. **If we get one increase in mid-year, you can add 10 basis points to that range.** We are essentially allowing longer-term rates to evolve, according to the forward curve. So modeling some degree of upward drift if in that additional 10 basis points but in our base NIM guidance, we are holding rates constant.

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#5b: Capital Markets – Regulation

Company	Insight	Comment
E*Trade Financial (ETFC)	**Regulation**	Crossing the $50 billion threshold has been an important part of our plan since the middle of last year and has grown increasingly more attractive over time. While the political landscape has infused meaningful uncertainty into the future of regulation, we continue to plan for full compliance under the current framework. **That said, if the $50 billion threshold were meaningfully raised, and the requirements surrounding CCAR, resolution planning and LCR were eliminated for companies of our size, the associated costs could further reduce. Hypothetically, if we were to limit our regulatory build-out to only the elements we believe we should address in any case, we believe our current assumptions for roughly $20 million in implementation costs, plus $15 million in running costs, would reduce to around $15 million upfront and $10 million ongoing.**

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#5c: Capital Markets – Tax

Company	Insight	Comment
Goldman Sachs Group (GS)	**Tax (Mixed)**	I think when you say indirect and direct you mean direct obviously we've been relatively high tax payer and so tax rates come down. **We're a beneficiary but obviously changes in tax policy can be a huge catalyst for how all of our clients think about deploying their capital strategic decisions and so that's board room dialog which obviously we're always front and center to.**
Invesco (IVZ)	**Tax (Positive)**	Well, we don't know fully, obviously, what's really happening but what **we would benefit from would be the lower tax rate in the U.S. on our U.S. business, which is clearly the largest part of our operating income right now. So that would be a direct benefit to us**. There would be no, per se, benefit to us relative to the business outside the U.S. since we are currently living in a territorial tax regime based on our domicile. So I think it would be limited in terms of what it offers us perhaps relative to other pure U.S. based firms. And as we have mentioned, we are free to bring back dividends without any tax consequences and we do so. And if there was some tax repatriation element, that would not provide any sort of immediate new opportunity for us. We do it all the time.

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#6: Consumer Finance – Loan Growth

Company	Insight	Comment
Discover Financial Services (DFS)	**Loan Growth**	**Another driver of the loan growth is higher sales**, there we expect to continue with focused innovations around our rewards program to drive engagement and growth in our target segments.

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#6a: Consumer Finance – Net Interest Margin

Company	Insight	Comment
Discover Financial Services (DFS)	Net Interest Margin	**Moving to our outlook for Net Interest Margin, we expect it to increase slightly versus full year 2016's Net Interest Margin.** The prime rate increase from last month is not fully reflected in fourth quarter results due to timing. And that alone will result in NIM expansion in 2017. **Further rate increases would also result in NIM expansion due to the asset sensitive position that we built into the balance sheet.** And we are currently expecting a couple of more rate increases this year based on the market implied forecast.
Navient (NAVI)	Net Interest Margin	**So if the rate rise doesn't happen, it will mean that we'll probably end up picking up a little bit more in unhedged floor income.** But one of the things I'll note embedded in this NIM guidance is the fact that as we went in to 2017 we have hedged more of our core position and this was something that we did at the beginning of 2016 anticipating that eventually rates will rise.
Synchrony Financial (SYF)	Net Interest Margin	So I'd say generally most of the drivers on NIM should be fairly stable. There is always a few puts and takes. **First, we are slightly asset sensitive, so we would expect to see a modest improvement from the rate hike that we just got in December, and the increase in prime.** But then we expect to have a couple of offsets. Last year, particularly in the second half of 2016, we had a pretty significant lift in receivable yields. We saw higher revolve, frankly came in better than we expected it to. And we think that that benefit will moderate a bit into 2017.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#6b: Consumer Finance – Regulation

Company	Insight	Comment
Discover Financial Services (DFS)	Regulation	**I would just say, I would characterize it as I feel like a lot of the (regulatory cost) build has occurred whether it's specifically or regulatory CCAR, whatever. It feels like this year is going to be a little more analyzation of some of those expenses as we continue to ramp up very quickly this past year.** But I would caution on thinking that it is going to go back to anything close to what it was pre-down turn, at least for us and I think for anyone. And frankly, I believe that some of it is going to be a big payoff for us. Because if we can have better quality controls to put in projects right the first time, to have things work more perfectly for customers every single time, to have better, more scientific understanding of our capital and what's important and what are the different scenarios.

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#6c: Consumer Finance – Tax

Company	Insight	Comment
Discover Financial Services (DFS)	Tax (Mixed)	I think we need to wait and see to see what kind of benefit we do realize on tax reform. **The key question I think is how does the competitive environment change under tax reform and we'll obviously have to react to that as well.**

Source: Fundstrat, Seeking Alpha, company filings and releases

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#7: Diversified Consumer Services – Tax

Company	Insight	Comment
H&R Block (HRB)	Tax (Positive)	**…potential changes to the corporate tax rate, specifically reducing the rate to as low as 15%, could be a significant benefit for H&R Block. Given our historical effective tax rates in the mid 30% range, such reductions would have a material positive impact on our net income and cash flow.** So as you can tell, the dialogue on tax policy is far from vague. Mostly, what we have heard is from the incoming administration, but Congress will have a great deal to say too.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#8: Insurance – Macroeconomic Outlook

Company	Insight	Comment
Principal Financial Group (PFG)	Macroeconomic Outlook	**We still see the small to medium-sized business as the growth engine for the U.S. And it seems like tax policy and other policies are going to be supportive of that.** These baby boomers are going to need income in retirement. We're enthusiastic about that.

Source: Fundstrat, Seeking Alpha, company filings and releases

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#8a: Insurance – Tax

Company	Insight	Comment
Travelers Cos Inc/The (TRV)	Tax (Mixed)	**And so there are couple of things going on that could impact cost and capital. For example, if the risk free rate goes up, cost of equity goes up. If the tax rate goes down then our after-tax cost of borrowing theoretically goes up. There could be other things in a change in tax policy. But if you just started with those two simple assumptions, you would look at that and say, gee, if the risk free rate goes up and if the tax rate goes down, you would speculate that our overall cost of capital would go up. If our overall cost of capital went up then our return objectives would go up with it.** Obviously, a lot is going to be determined by the shape of any tax legislation as a very extreme, if you needed, a revenue neutral bill and the municipal exemption itself were affected, that would be non-trivial. If corporate rates were simple, and individual rates were simply lowered and the relative value of municipal were affected then they've already achieved it. That would be less important

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