

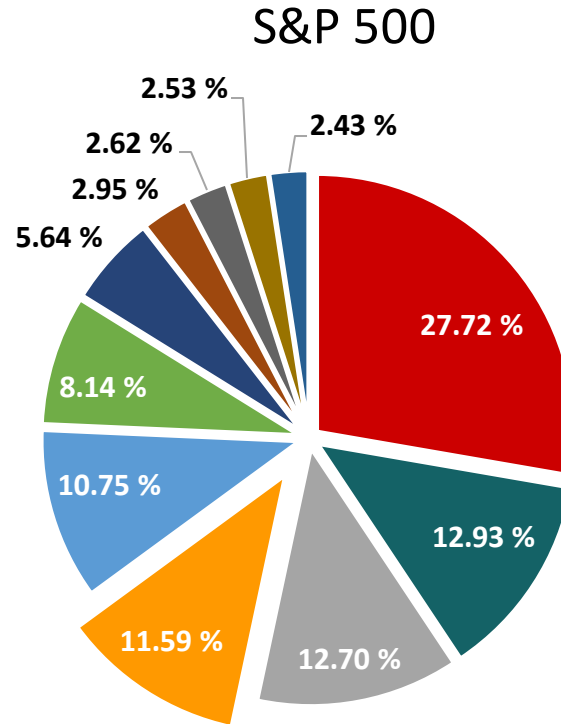
A large, ornate metal safe is the central focus of the image. It is set in a room with a checkered floor and a decorative ceiling. The safe is open, revealing its interior. The text 'Financials Sector Update' is overlaid on the left side of the image.

Financials Sector Update

Brendon Schultz, Drake [Safranic](#), and
Ethan Talley

Sector Overview

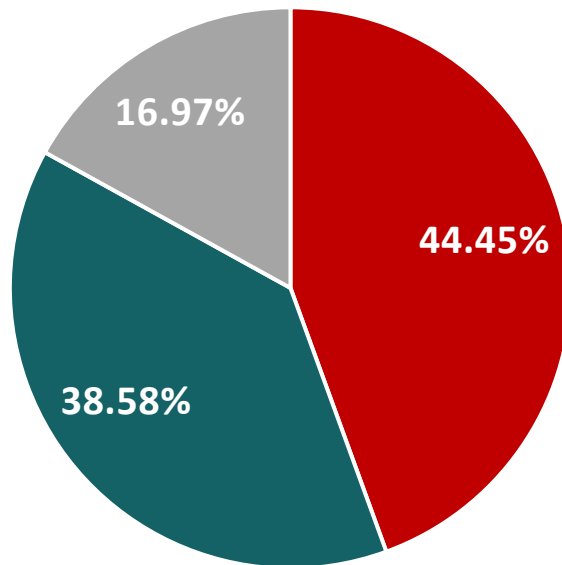
Financials Accounts for \$4.5T of the S&P 500



- Information Technology
- Health Care
- Consumer Discretionary
- Financials
- Communication Services
- Industrials
- Consumer Staples
- Energy
- Real Estate
- Materials
- Utilities

Financials is Broken Down into 3 Sub-Sectors

Financial Services Sector



■ Diversified Financials



■ Banks



■ Insurance



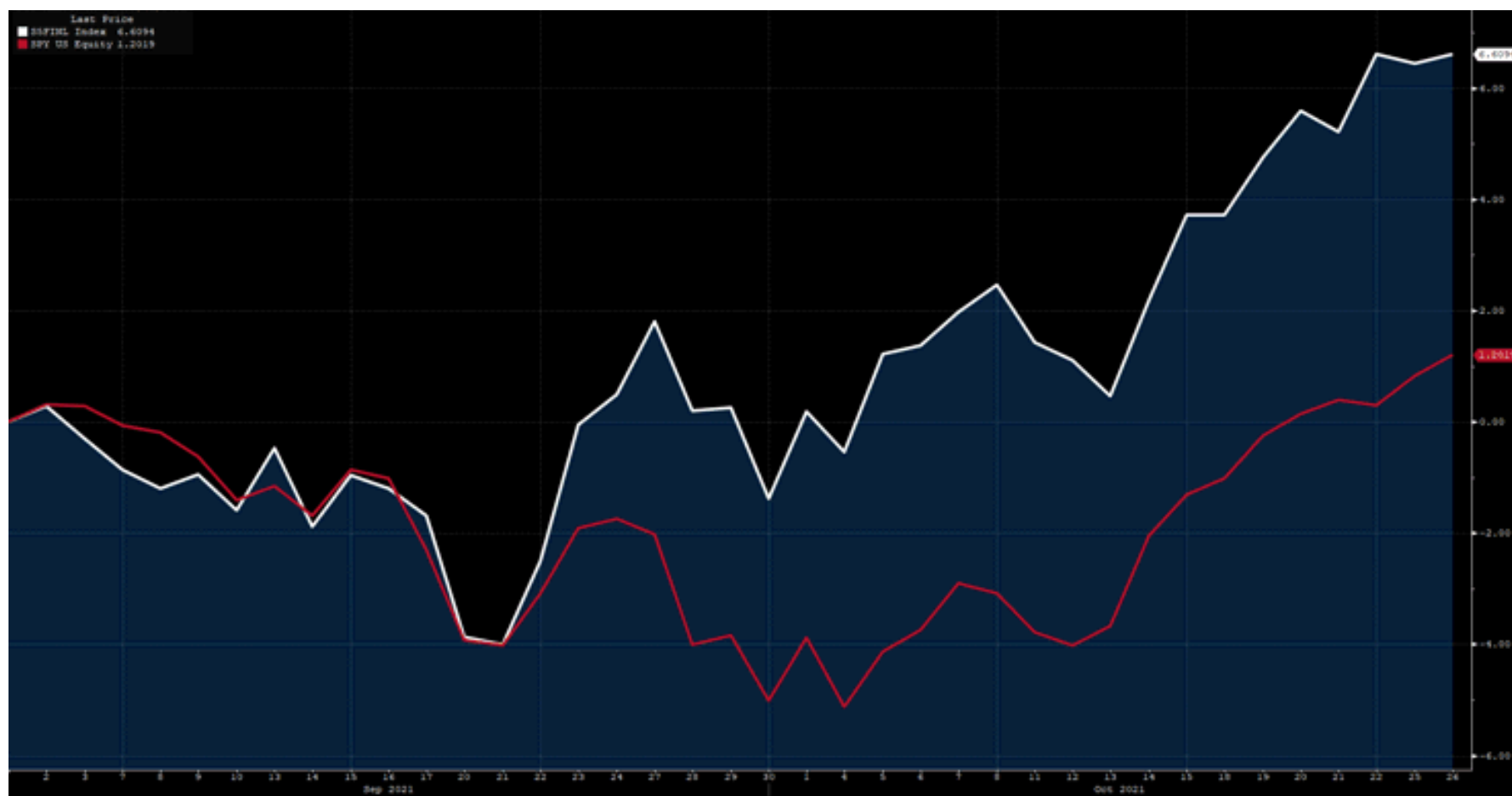
Largest Financials Companies by Market Capitalization

Company	Ticker	Market Capitalization ⁽¹⁾
JPMorgan Chase & Co.	\$JPM	\$510.8bn
Bank of America Corp.	\$BAC	\$391.54bn
Berkshire Hathaway Inc.	\$BRK	\$384.7bn
Wells Fargo & Co.	\$WFC	\$202.32bn
Morgan Stanley	\$MS	\$185.94bn
Charles Schwab Corp.	\$SCHW	\$149.92bn
American Express Co.	\$AXP	\$141.21bn
BlackRock Inc.	\$BLK	\$140.74bn
Citigroup Inc.	\$C	\$139.81bn



Sector Performance

Financials Vs S&P 500 QTD



- Quarter to Date, Financials are outperforming the S&P 500 by 5.4%
- Since September 1st, Financials have appreciated 6.6% compared to 1.2% for the S&P 500



Financials Vs S&P 500 YTD



- The Financials sector is outperforming the broader S&P 500's YTD returns, up 37.5% and 21.6%, respectively

Financials Vs S&P 500 Last Decade



- In the last decade, Financials and the broader S&P have had similar returns







Sector Drivers

Porter's Five Forces

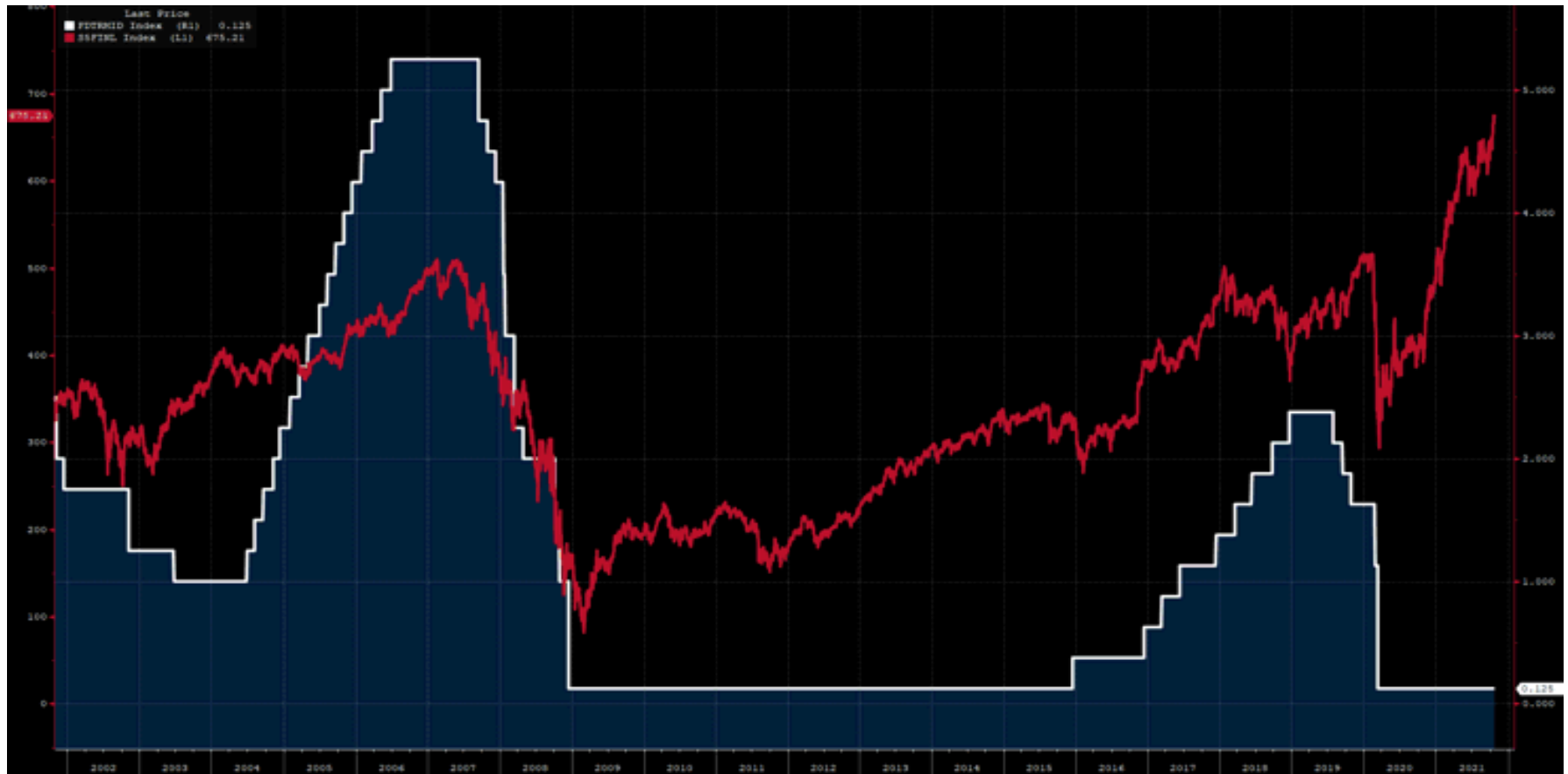
Force	Impact	Rationale
Barriers to Entry	Moderate/High	<ul style="list-style-type: none"> - Difficult to raise necessary capital to gain entry - Highly regulated, making it difficult to enter the market - Small banks and FinTech able to offer innovative products
Supplier Power	Moderate	<ul style="list-style-type: none"> - Consumers can change banks easily and move deposits - Federal Reserve Policy can dictate supply
Buyer Power	Moderate	<ul style="list-style-type: none"> - Buyers can usually substitute banks for financial products - As rates increase, ability to refinance profitably decreases - Banks compete to offer the lowest fees and rates on products
Substitution	Moderate	<ul style="list-style-type: none"> - FinTech companies taking aim at segments - Increased competition and low rate products
Rivalry	High	<ul style="list-style-type: none"> - Highly competitive between bank types - Small banks have different regulations, giving advantages - Products are usually similar, meaning pricing is key

Key Sector Drivers

Drivers	Impact	Rationale
High Interest Rates		- Financials loan money, and get higher revenues from higher interest rates
Low Unemployment		- Low unemployment means consumers buy more goods and take out more loans
High Consumer Confidence		- Increased consumer confidence means more buying, increasing payments revenue and borrowing
High GDP Growth		- Companies increase borrowing when the economy grows, which benefits financials loan portfolios and origination fees



Financials Vs Interest Rates



- The Financials sector benefits from rising interest rates
 - Rising rates increase yield on variable rate loans, and allow the bank to originate fixed rate loans at higher yields
 - Net income is driven from the spread between what the Financial Institutions borrow at and rate they proceed to lend at

Financials Vs Unemployment



- The Financials sector is benefitted by lower unemployment
 - Lower unemployment means more people are buying goods and financing purchases, which boosts companies need for financial products and ability to originate loans



Financials Vs Consumer Confidence



- The Financials sector is benefited by an increase in consumer confidence
 - Consumers demand more goods when confident on the economies upward trajectory, which also bolsters companies need for financial products and individuals desire to borrow

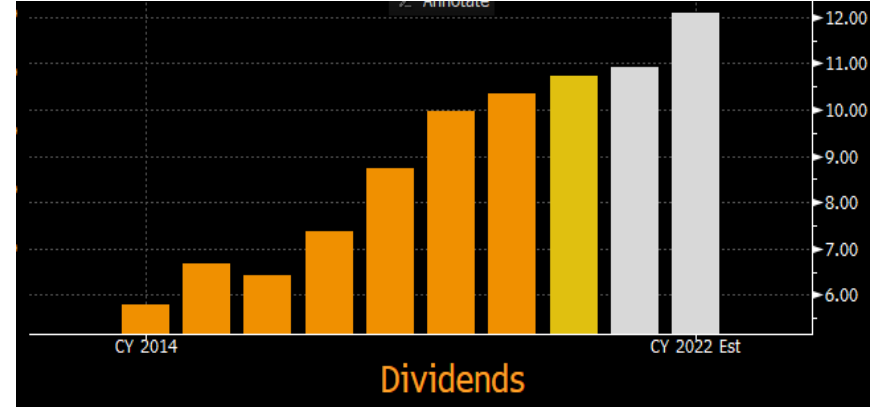
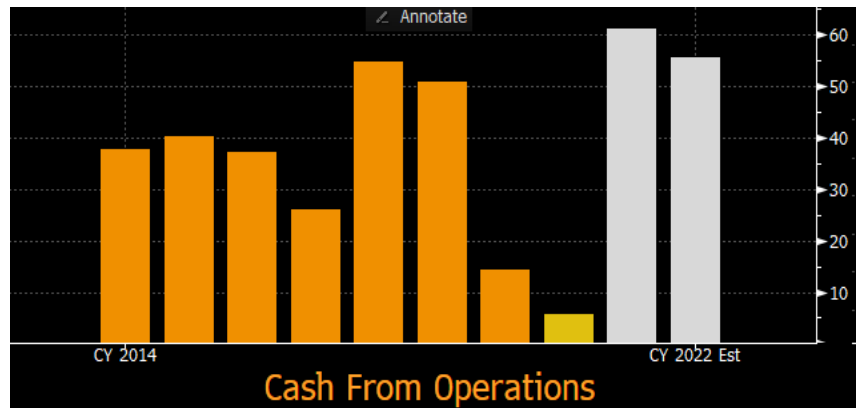
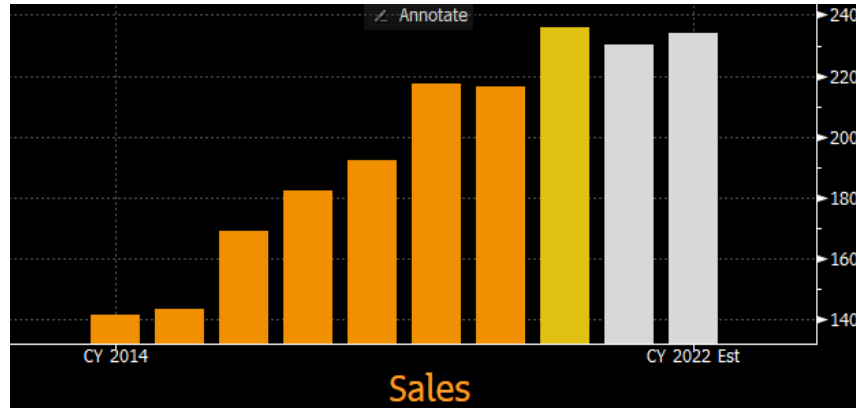
Financials Vs GDP Growth



Sector Financial Analysis



Income Statement



Sales & EBIT Growth Compared

12 Months Ending	2015 Y 12/31/2015	2016 Y 12/30/2016	2017 Y 12/29/2017	2018 Y 12/31/2018	2019 Y 12/31/2019	2020 Y 12/31/2020	Current 10/25/2021	2021 Y Est 12/31/2021	2022 Y Est 12/31/2022
Income & Expenses per Share									
Sales	143.18	169.00	182.17	192.39	217.61	216.57	235.96	230.06	233.95
Growth (YoY)	1.22	18.03	7.79	5.61	13.10	-0.48	8.96	6.23	1.69
S&P 500 INDEX	1,109.73	1,128.70	1,212.00	1,310.81	1,382.06	1,330.86	1,456.06	1,531.96	1,630.35
Growth (YoY)	-2.32	1.71	7.38	8.15	5.44	-3.70	9.41	15.11	6.42
S&P 500 INDEX	33.35	33.62	33.48	33.91	33.99	33.77	34.81	44.18	44.54
Growth (YoY)	1.28	0.84	-0.44	1.30	0.23	-0.63	3.06	30.82	0.80
EBIT	33.76	38.15	39.42	42.93	57.85	39.31	76.61	63.46	56.54
Growth (YoY)	10.80	13.00	3.34	8.89	34.76	-32.05	94.88	61.44	-10.90
S&P 500 INDEX	137.85	147.10	161.95	175.41	188.35	133.05	217.04	261.14	286.26
Growth (YoY)	-9.78	6.71	10.09	8.31	7.37	-29.36	63.12	96.27	9.62
Margin %	22.38	21.78	20.78	21.07	25.02	17.68	31.52		
Growth (YoY)	9.48	-2.70	-4.55	1.39	18.70	-29.33	78.28		
S&P 500 INDEX	12.31	12.94	13.24	13.31	13.48	9.98	14.82		
Growth (YoY)	-7.94	5.11	2.33	0.55	1.28	-25.98	48.54		

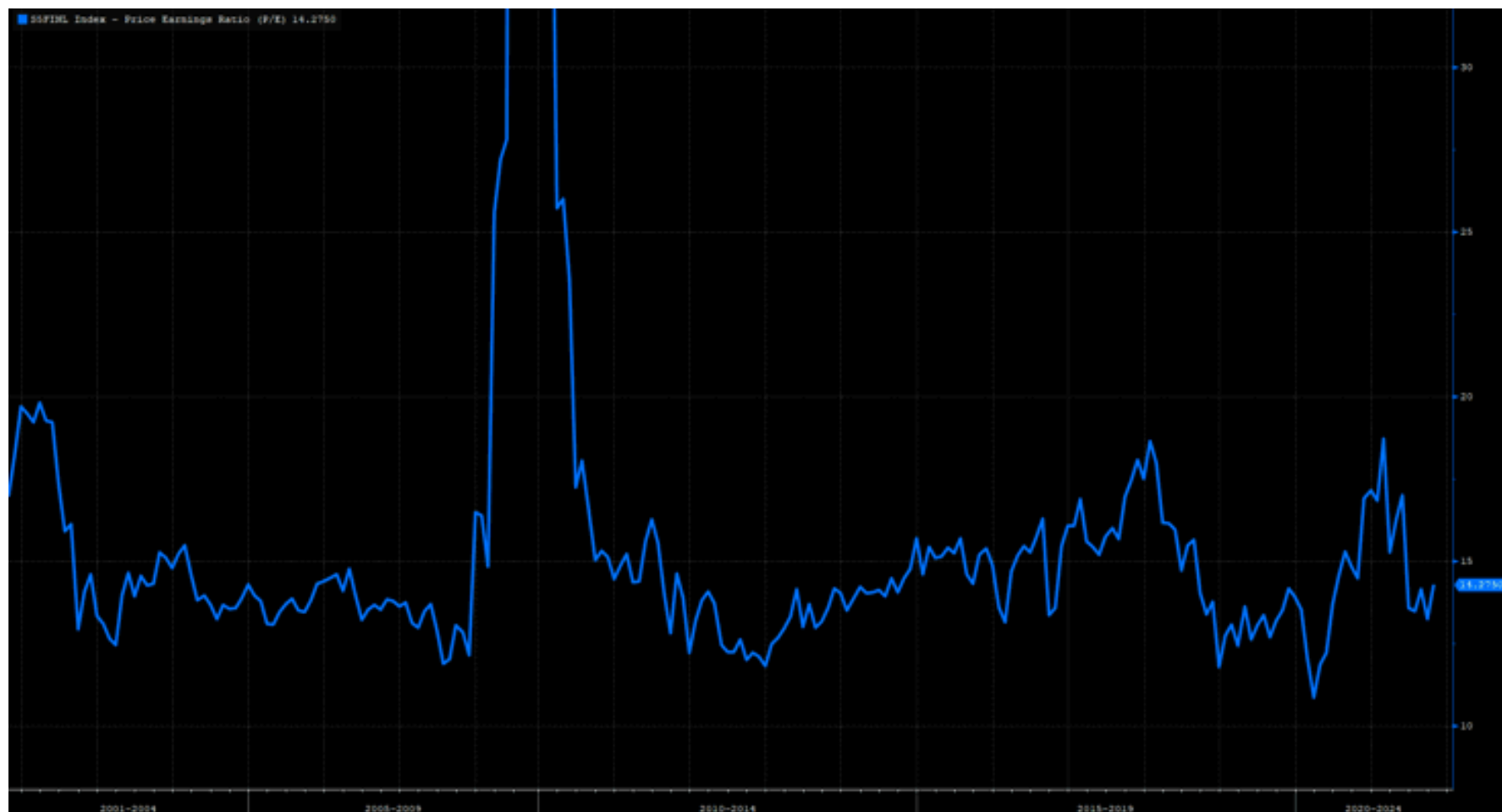
Valuation Analysis

Historical Price to Sales



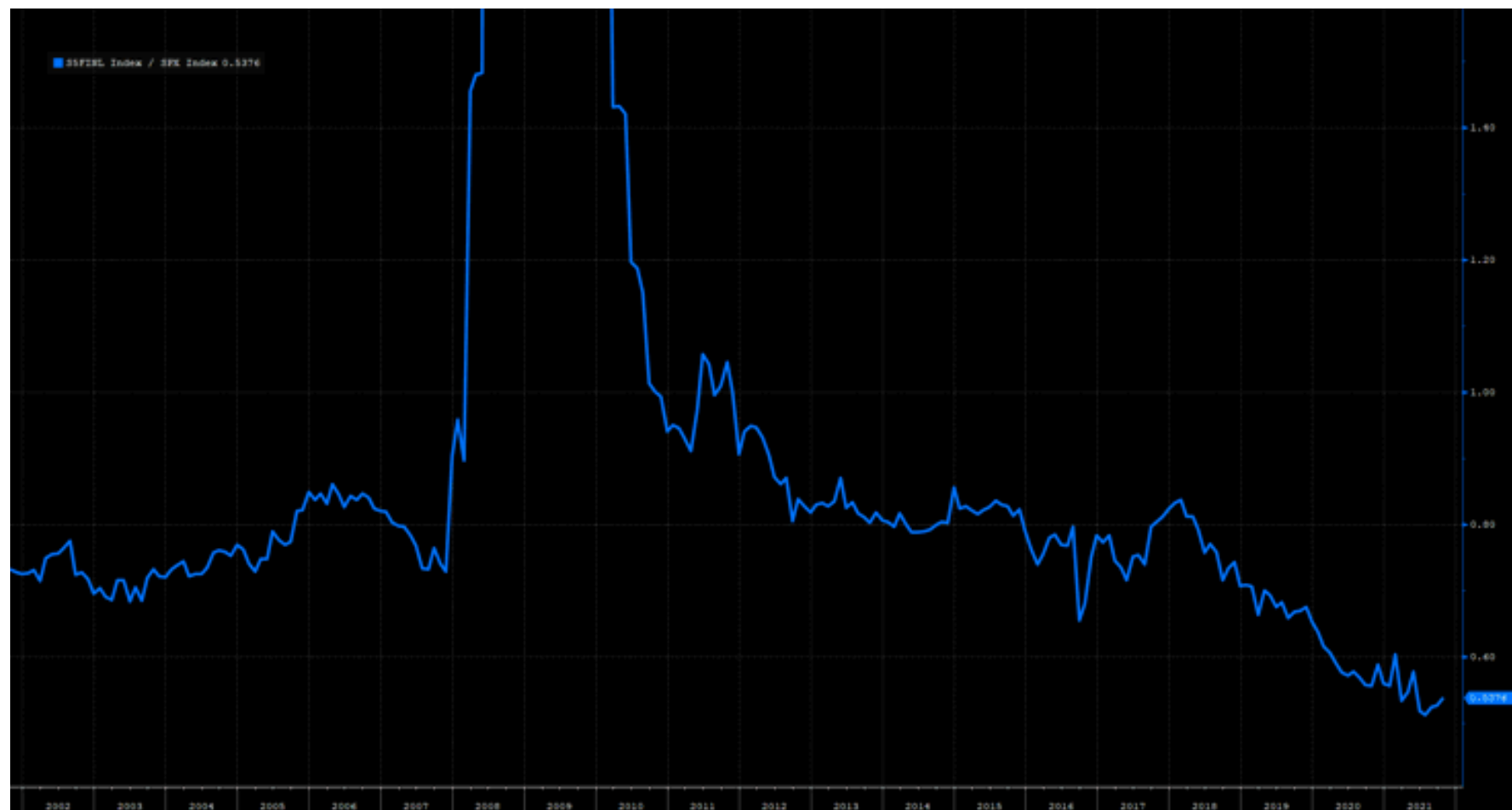
- Price to Earnings for the sector is relatively high compared to a 20-year historicals

Historical Price to Earnings



- Based on a 20 year time horizon, Price to Sales multiples appear to show Financials as fairly valued

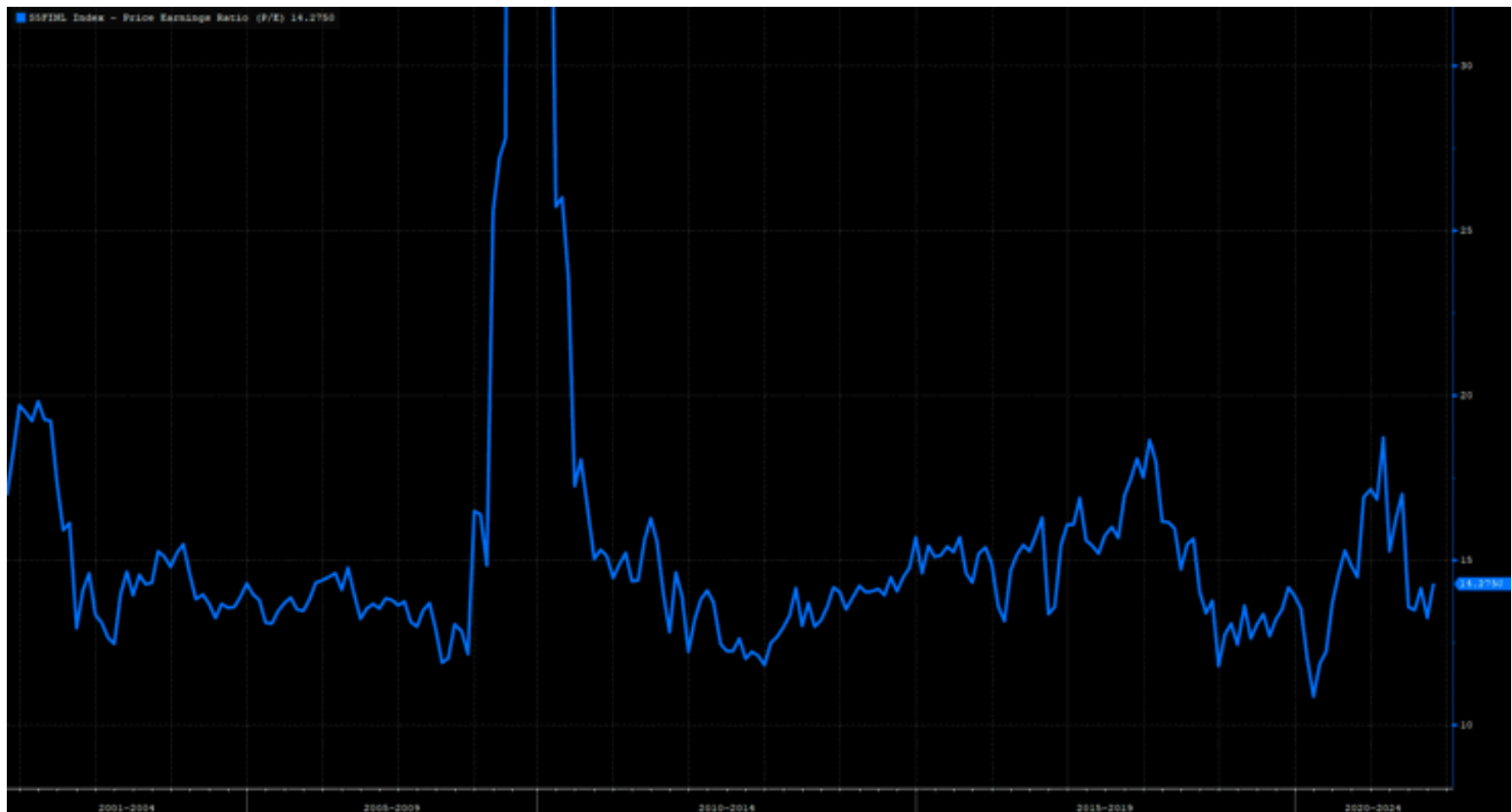
Historical Price to Sales Benchmarked to the S&P 500



- Financials appear to be undervalued on a Price to Earnings basis when compared to the broader S&P 500
- Currently the Price to Sales of the Financials sector is at the lowest point in the last 20 years



Historical Price to Earnings Benchmarked to the S&P 500

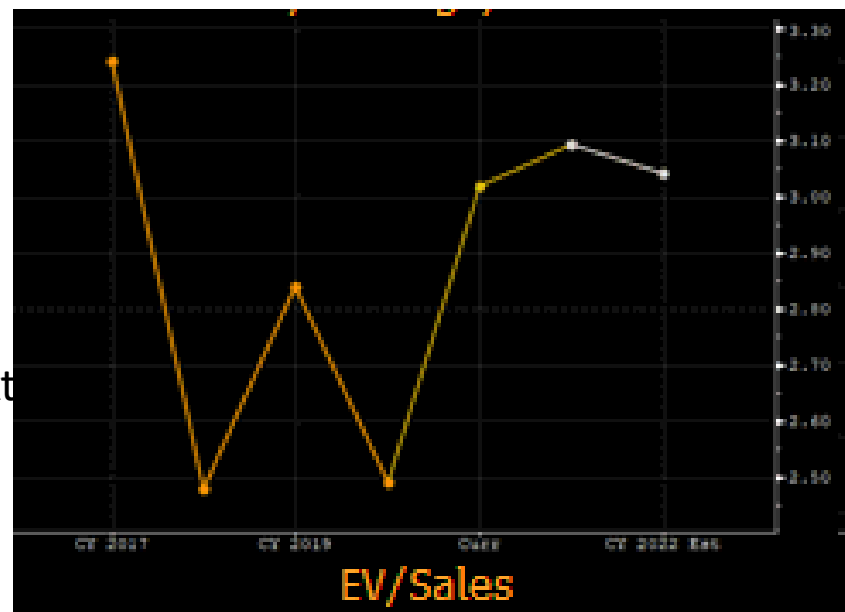


- Based on a 20 year time horizon, Price to Sales multiples appear to show Financials as fairly valued

Projected Price to Sales and Enterprise Value to Sales



text



- Both Price to Earnings and EV to Sales are expected to increase in the near-term
- This signals that Wall Street believes that current market conditions support higher valuations for Financials

Portfolio Breakdown and Recommendation

Portfolio Breakdown

Company	Holding Amount	% of Portfolio	P/E	P/S	Beta
American Express Co.	\$485.8k	5.08%	19.05	3.55	1.44
Bank of America Corp.	\$404.5k	4.23%	14.15	4.45	1.22
Morgan Stanley	\$315.3k	3.30%	12.64	3.03	1.29

Industry / Sector / Sub-Sector	P/E	P/S	Beta
S&P 500	22.23	3.14	n/a
Financials	14.27	3.02	1.12
Banks	11.52	3.77	1.24
Diversified Financials	17.46	3.28	1.05
Insurance	15.25	1.51	1.04



Recommendation

Large Fiscal Spending Boosts Borrowing and Personal Incomes

- Companies are bolstered by increases in fiscal spending, like the \$3T infrastructure bill
- Spending is expected to trickle down to individual workers, providing additional incomes which decrease default rates and increase borrowing and spending

Attractive Interest Rate Exposure

- Given the Fed's testimony detailing expectations for higher interest rates in the future, exposure to Financials can provide lucrative returns relative to the broader market

Economic Recovery Fuels Additional Borrowing and Lower Default Rates

- As the economy improves, individuals and companies borrow from banks in order to fuel growth, providing increased yield to banks loan portfolios and providing more opportunities to invest in loans

Very Attractive Relative to Valuation Metrics of the Broader S&P 500

- Benchmarked Price to Sales and Price to Earnings for Financials, when compared to the broader market, appear very attractive

Currently 1% Overweight

- **Increase Allotment 2% to be Net 3% Overweight**
- **Consider adding more Diversified Financials exposure to our current position, complementing our Banks exposure**



Questions/Comments?