

Financials Sector

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A wide-angle, low-angle shot of a busy street in front of a grand, classical building with tall columns and a balcony. The scene is filled with a dense crowd of people, many wearing dark suits and ties, suggesting a financial district. Numerous white papers are flying through the air, creating a sense of motion and activity. Several American flags are strung across the street. The lighting is bright, with a strong light source in the upper right corner, casting long shadows and highlighting the architectural details of the building.

Overview

Size of Sector & How it Compares to SP500

Financials

Index = 556.4

Mkt Cap = 4.609 Trillion

P/E Last 12 Months = 19.3X

P/BV = 1.8X

SP500

Index = 4,409.6

Mkt Cap = 36.875 Trillion

YTD Return = 14.8%

12 - Month Return = 20.3%

P/E Last 12 Months = 25.2X

P/BV = 4.3X

* Returns stated later

Included Industries - Looking at Inside Sector

Banks:

Weight in Sector = 24.36%

of Companies = 15

Insurance:

Weight in Sector = 16.52%

of Companies = 23

Financial Services:

Weight in Sector = 59.12%

Sub Industries of FS Weights:

Capital Markets = 36.55%

Consumer Finance = 6.96%

[Multi-Sector Holdings &

Transaction & Payment Processing] = 56.49%

of Companies = 33

SIM Weight S&P 500 Weight



The Top Players

By Market Cap

- ❑ Banks
 - ❑ JPM Chase - \$418.65 Billion
 - ❑ Bank of America - \$232.62 Billion
- ❑ Insurance
 - ❑ MetLife - \$42.5 Billion
 - ❑ Progressive - \$76.09 Billion
- ❑ Financial Services
 - ❑ Visa - \$469 Billion
 - ❑ Mastercard - \$356.81 Billion

YTD: (2.3) %
12 Months: 8.9 %
QTD: 3.95 %

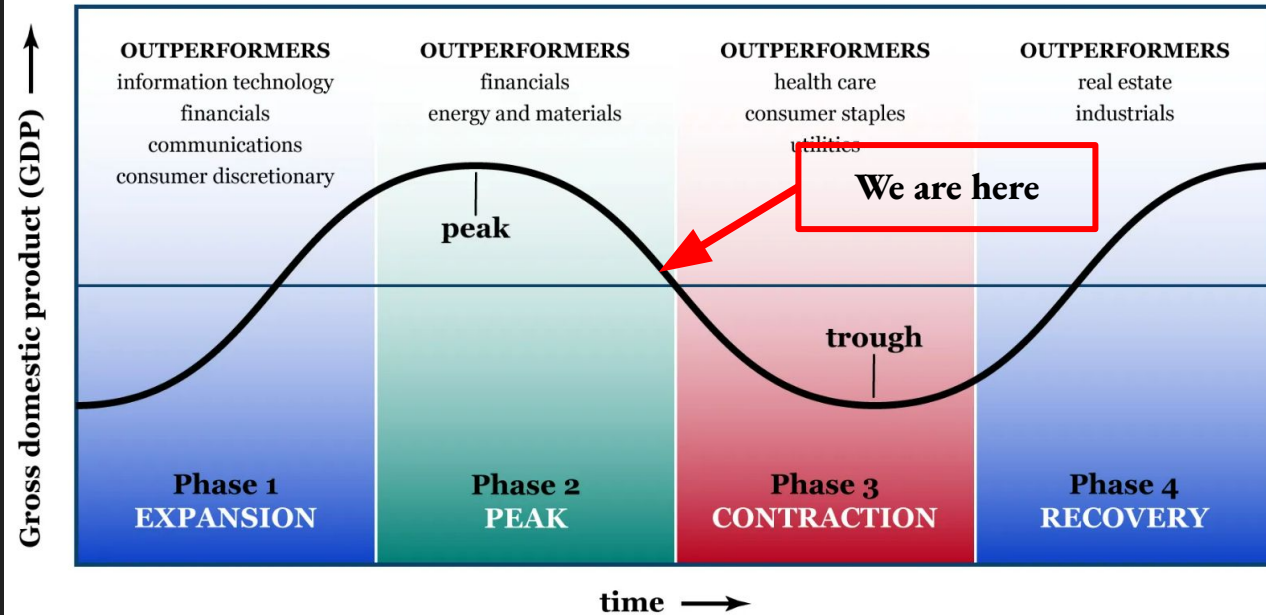
Performance YTD , 12 Months, & QTD

A busy street scene in front of a grand classical building with many people in suits and papers flying in the air. The scene is filled with a dense crowd of men in dark suits and ties, some walking and others standing. The background features a large, ornate building with classical columns and arches. Several American flags are strung across the street. The overall atmosphere is one of a bustling, professional environment.

Business Analysis

Current Business Cycle

Four phases of an economic cycle



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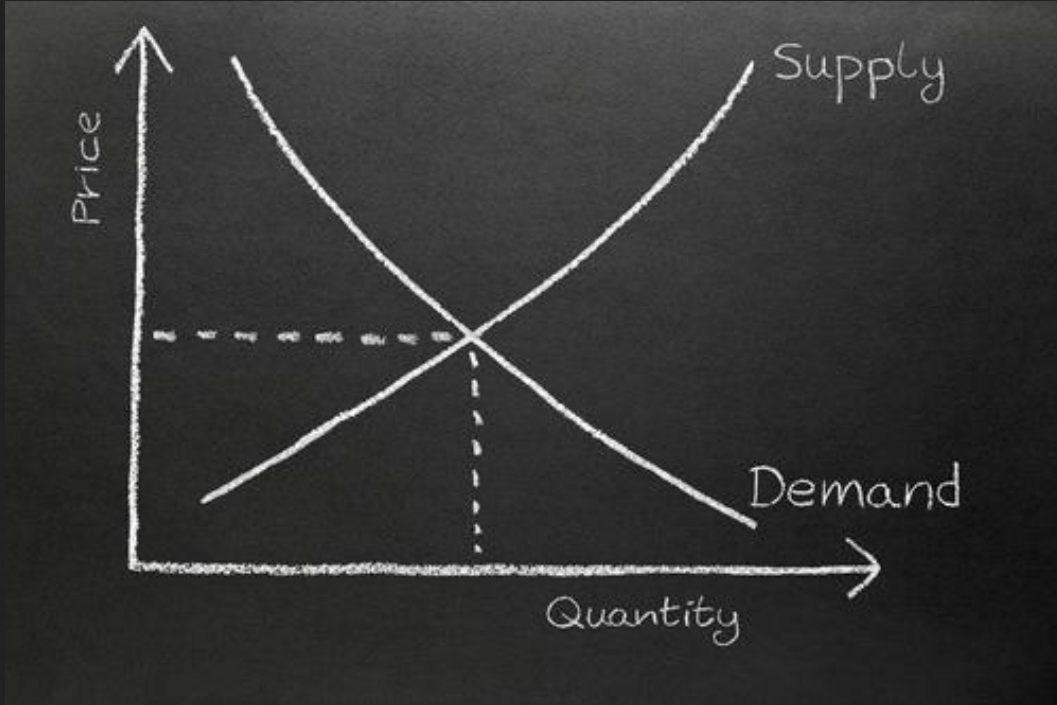
- Highly cyclical
- High interest rates & consumer spending = beneficial
- As consumer loses spending power, financial sector contracts

Financial Sector & Regulation

- Regulation is always a factor, especially true in current climate
- Potential regulations related to:
 - Consumer protection
 - More accurate financial reporting
 - Cyber/ IT protections
 - Continued sanctions on Russia
- Immediate result → uncertainty
- Long-term → stability with increased costs



Supply & Demand



Supply driven by:

- Economic Conditions
- Economic Regulations
- Market dynamics

Demand driven by:

- Interest Rates
- Business Cycle
- Economic Data

Sector Segmentation

Sub-Industry (in TRILLIONS)	Market Cap	% of Market Cap
Banks	\$3.42	38.00%
Diversified Financial Services	\$2.08	23.11%
Capital Markets	\$1.72	19.11%
Insurance	\$1.45	16.11%
Consumer Finance	\$0.28	3.14%
Mortgage REITs	\$0.58	6.40%
TOTAL	\$ 9.00	100.00%

Porter's 5 Forces

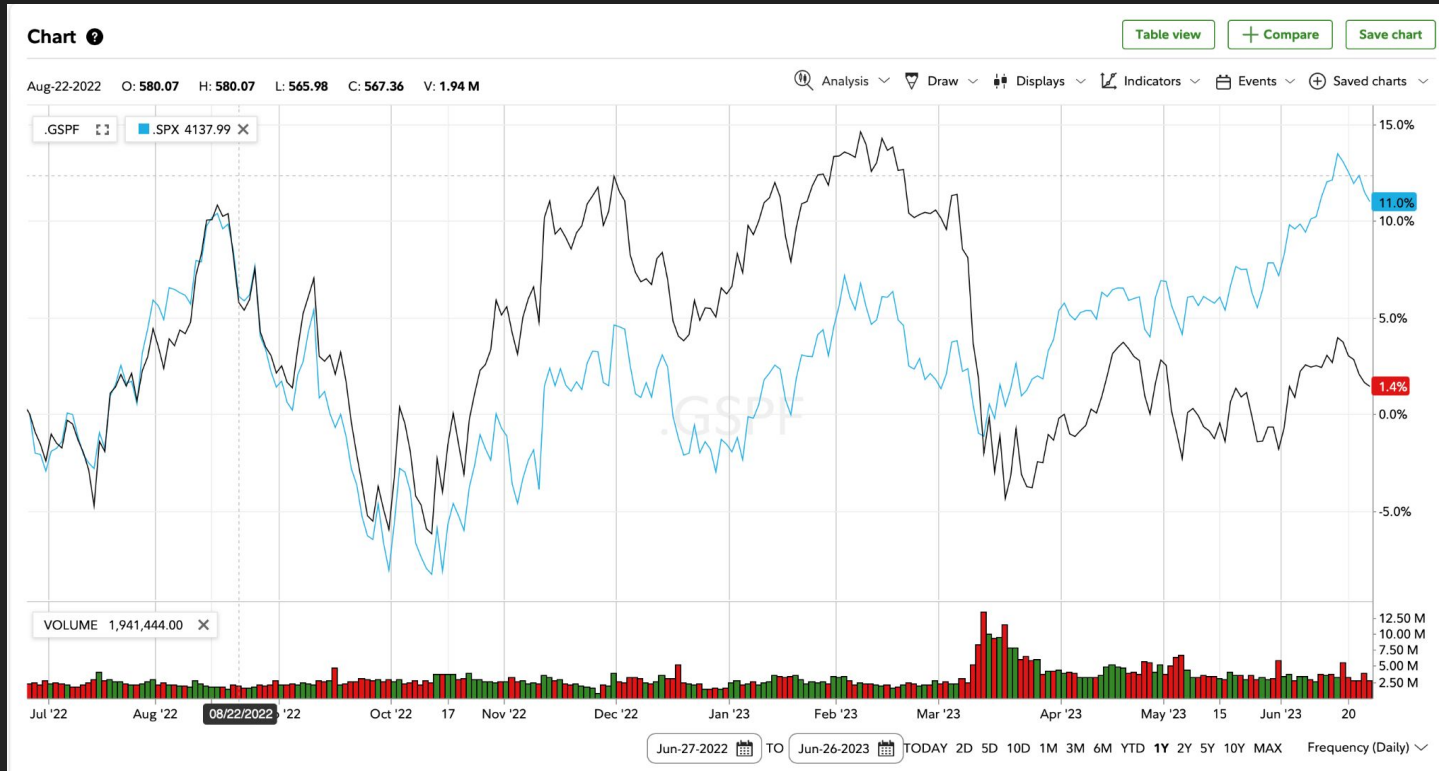
Threat of New Entrants	LOW	<ul style="list-style-type: none">• Capital Requirements• Government policies & regulations• Consumer Trust
Supplier Bargaining Power	MODERATE	<ul style="list-style-type: none">• Economic factors• Market Saturation• Government oversight
Buyer Bargaining Power	MODERATE	<ul style="list-style-type: none">• Technological Developments• Switching costs• Rise of Unconventional Companies
Threat of Substitutes	HIGH	<ul style="list-style-type: none">• Technological Developments• High quantity of substitutes• Unconventional Firms
Competitive Rivalry	HIGH	<ul style="list-style-type: none">• Number of competitors• Similar products• Increasing concentration

Economic Analysis

Economic Indicators Affecting Sector

- Economic Conditions in US (S&P 500)
- Interest Rates
- Consumer Spending & Credit
- Manufacturing and Housing Prices
- Regulations and Policy

S&P 500 vs. Financial Sector Performance: 1 Year

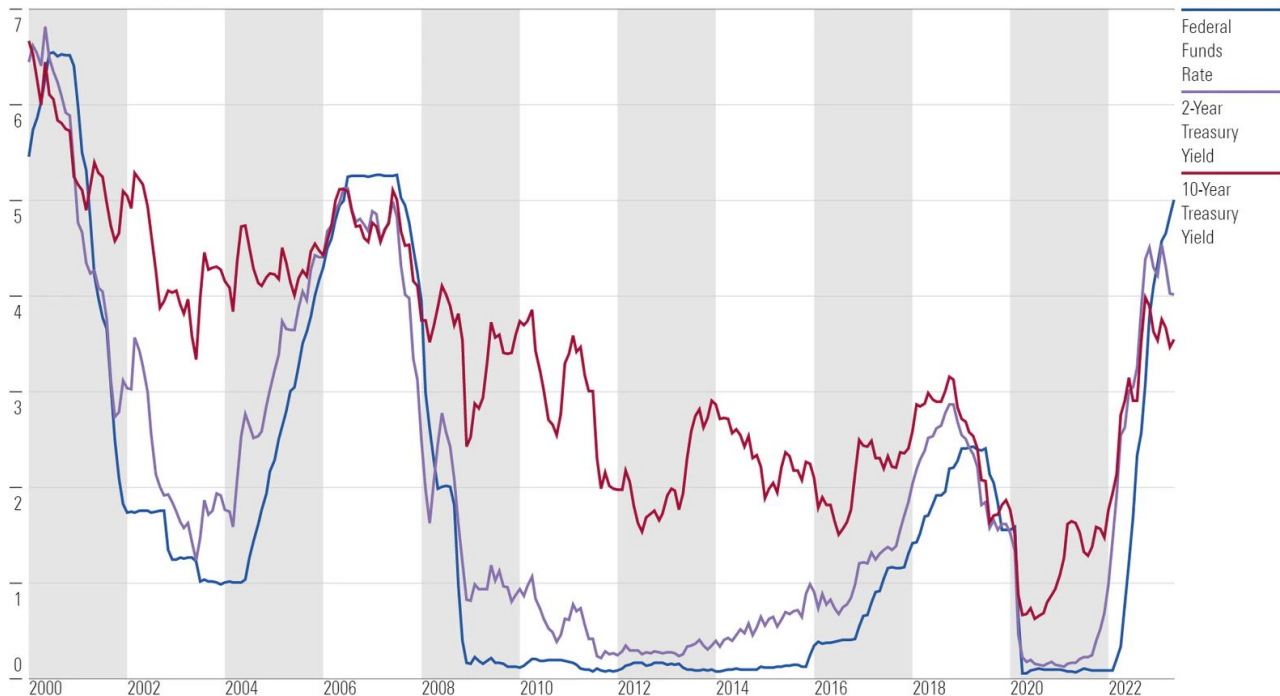


S&P 500 vs. Financial Sector Performance: 5 Year



Historical Treasury Interest Rates

U.S. Interest Rates



Interest Rate Forecast

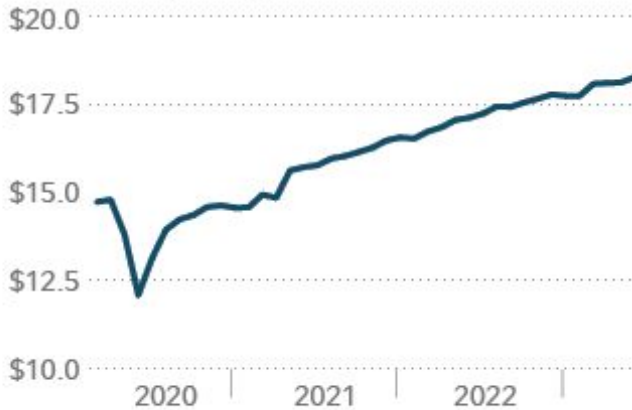


Consumer Spending & Credit

CONSUMER SPENDING

Spending is holding up, underpinned by the strong employment backdrop.

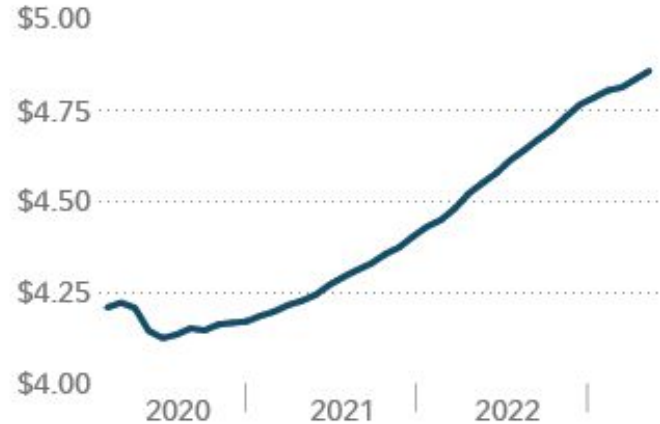
Consumer spending (trillions of dollars)



CONSUMER CREDIT

Growth in consumer borrowing has slowed from its peak last summer, and delinquencies are still low relative to history.

Total consumer credit (trillions of dollars)

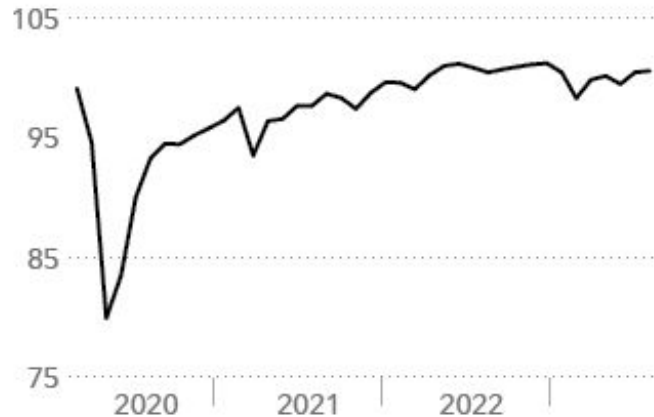


Manufacturing and Housing

MANUFACTURING

Manufacturing activity, a leading indicator of the broader cycle, has stalled.

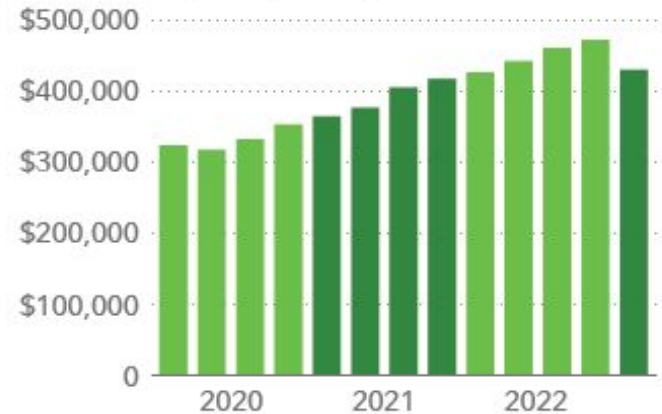
Industrial production manufacturing index



HOUSING

Housing prices have softened, following 2 years of slowing housing activity as mortgage rates rose.

Median sale price (quarterly)



Regulations and Policy

◆ WSJ NEWS EXCLUSIVE | FINANCIAL REGULATION

Big Banks Could Face 20% Boost to Capital Requirements

Those relying on fees might need larger buffers to absorb losses under planned rules

By [Andrew Ackerman](#) [Follow](#)

Updated June 5, 2023 11:11 am ET

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Fed Bank Stress Test

- In 2023, 23 banks will be tested.
- That's down from 34 banks in 2022, as the Fed decided in 2019 to allow banks with between \$100 billion and \$250 billion in assets to be tested every other year.
- Powell anticipates stricter requirements will fall primarily on banks with over \$100 billion in assets, sparing small lenders.

A busy street scene in front of a grand classical building with many people in suits and papers flying in the air. The scene is filled with a dense crowd of men in dark suits and ties, some walking and others standing. The air is filled with numerous white papers or documents that appear to be blowing in the wind. In the background, the building features large, ornate columns and a balcony. Several American flags are strung across the street. The overall atmosphere is one of a bustling financial district.

Financial Analysis

Expected Revenue Growth

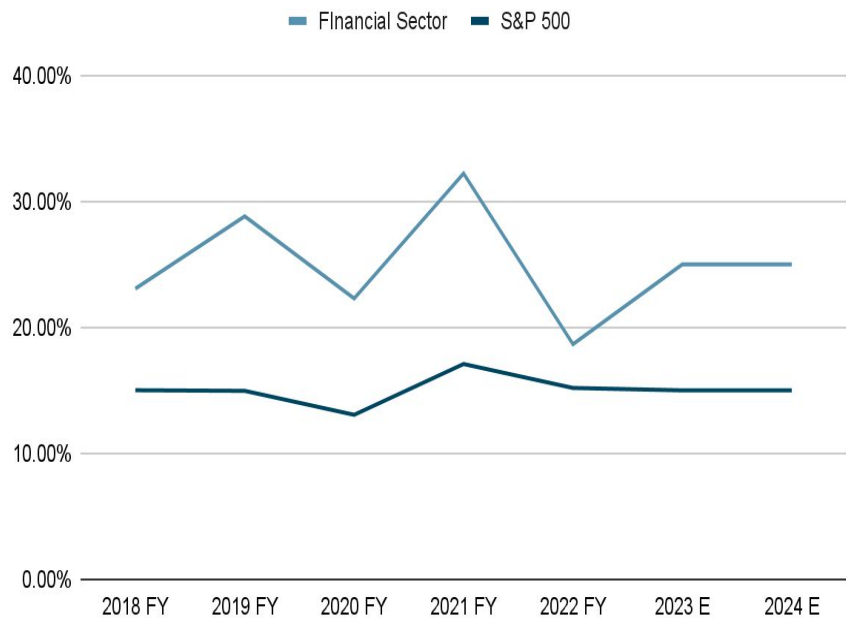
- Expected revenue growth for fiscal year 2023: -3.7%
- Expected revenue growth for fiscal year 2024: 5.2%
- 5 year historical revenue growth rate: 3.1%
- 3 year historical revenue growth rate: 1.4%

Expected Earnings Growth

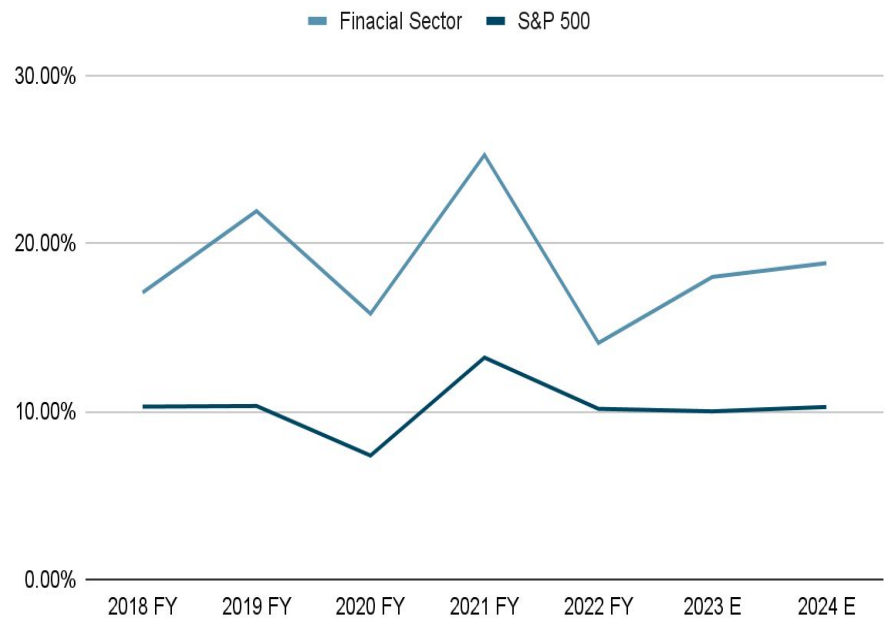
- Expected EPS growth for fiscal year 2023: -3.2%
- Expected EPS growth for fiscal year 2024: 9.5%
- 5 year historical EPS growth rate: 1.9%
- 3 year historical EPS growth rate: -1.6%

Margins

Operating Margin

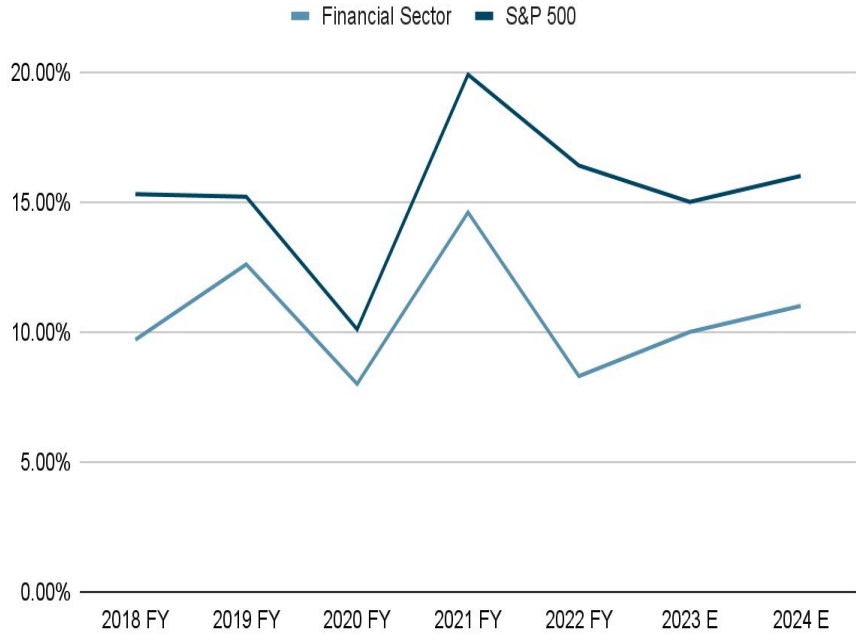


Net Margin

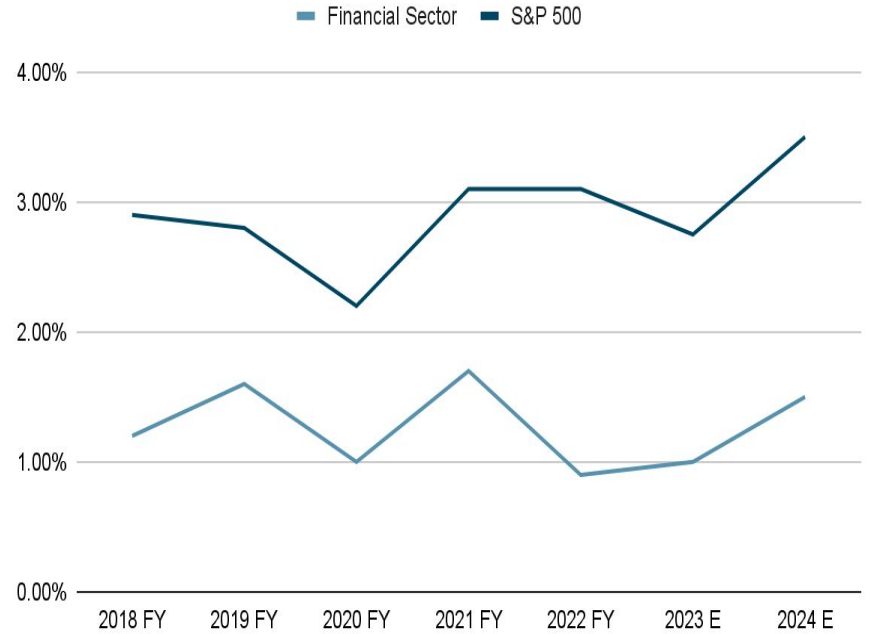


Returns

Return on Equity



Return on Assets



A busy street scene in front of a grand classical building with columns. Many people in suits are walking, and papers are flying in the air. American flags are visible on the building's facade.

Valuation Analysis

	Ticker	P/E (TTM)	P/B (TTM)	P/S (TTM)	P/CF (TTM)	Beta (24M)
American Express	AXP	17.66 19.45	4.80 4.53	2.41 2.74	7.43 12.15	1.25
Bank of America	BAC	8.33 12.34	0.88 1.16	2.38 3.41	7.95 26.51	1.06
Citigroup	C	6.32 8.93	0.48 0.71	1.25 1.99	23.39 50.24	0.90
Discover Financial	DFS	7.77 10.65	2.23 2.36	2.88 3.16	4.07 4.38	1.18
Fidelity	FIS		1.15 2.04	2.17 5.02	8.50 19.85	1.15
JPMorgan Chase	JPM	10.24 11.86	1.47 1.57	3.19 3.50	10.74 15.88	0.98
SP500		25	4.2	1.61	11.45	
SP500 Fin		18.6 14.56	1.8	2.5 2.4		

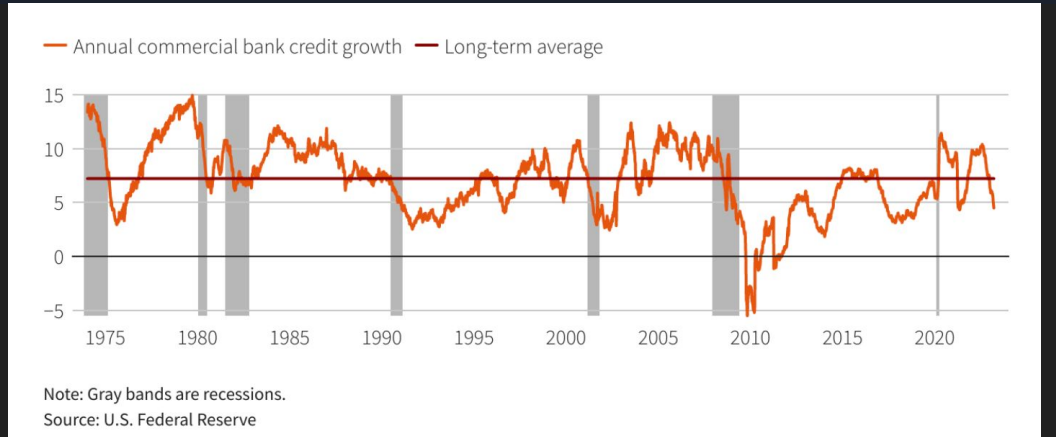
5 year Avg

3 year Avg

Trends

- Investors seem to be most optimistic about the Diversified Financials
 - trading above its 3y average of 27.4x
- Investors are pessimistic about the Banks
 - trading below its 3y average of 12.1x
- Analysts are most optimistic about Mortgage REITs
- Banks on the other hand are projected for a flat growth

	Price to Earnings	Forecasted Growth
US Market	27.8x	15.7% >
Financials	18.6x	17.3% >
Diversified Financial	65.6x	27.3% >
Insurance	27.4x	21.7% >
Mortgage REITs	27.3x	70.4% >
Capital Markets	23.7x	16.2% >
Consumer Finance	11x	9.2% >
Mortgage Finance	8.7x	9.9% >
Banks	8.2x	1.6% >



A busy street scene in front of a classical building with columns. Many people in suits are walking, and papers are flying in the air. American flags are visible on the building. The word "Recommendations" is overlaid in the center.

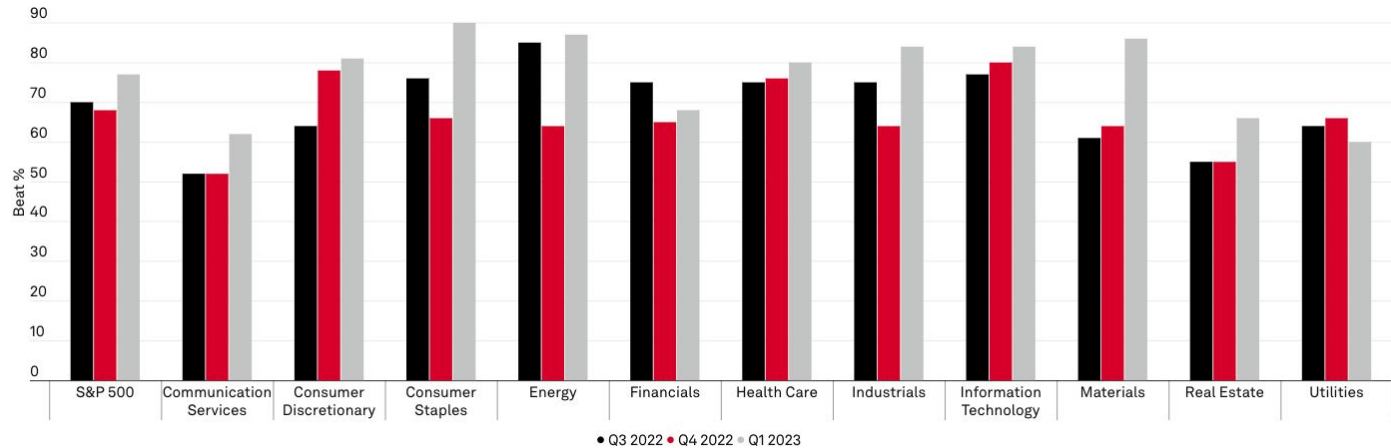
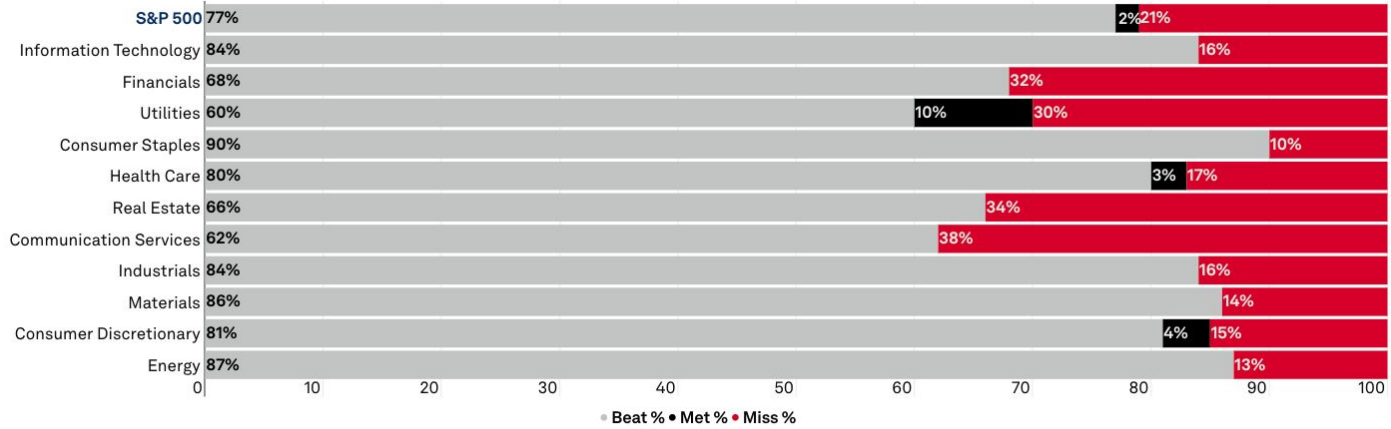
Recommendations

Recommendation for SIM

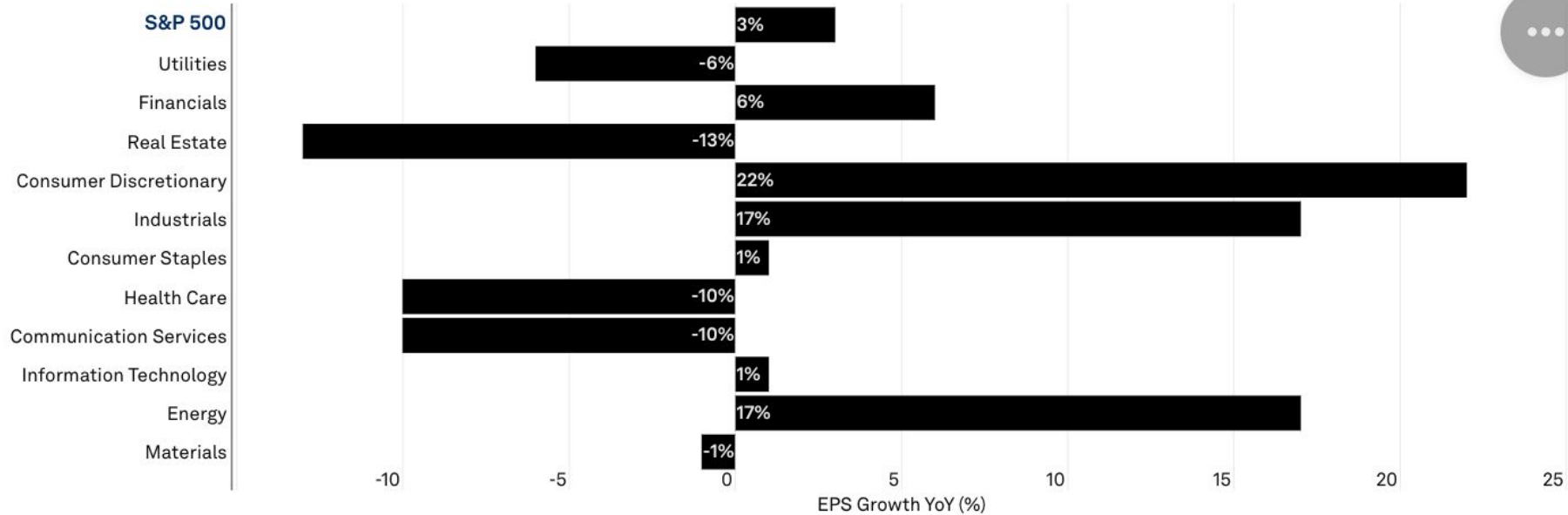
- Maintain rating: Underweight increase from -1.3% to -1%
- Take 33-50% of unrealized losses on FIS
- Replace with AXP, JPM ,SCHW and if allowed, gold (Overweight banks & FS)
- Rates expected to rise = more interest income
- Goal: further diversify our sector in high risk environment but keep underweight so we don't miss out on potential expected "fair value upside"
- Financials already make up a large portion of SP500 & SIM

APPENDIX

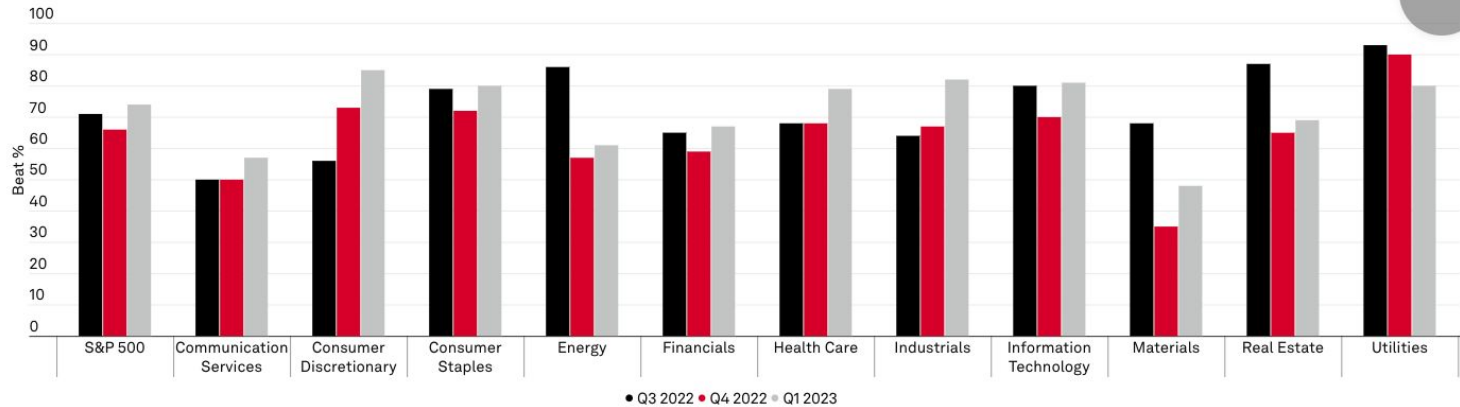
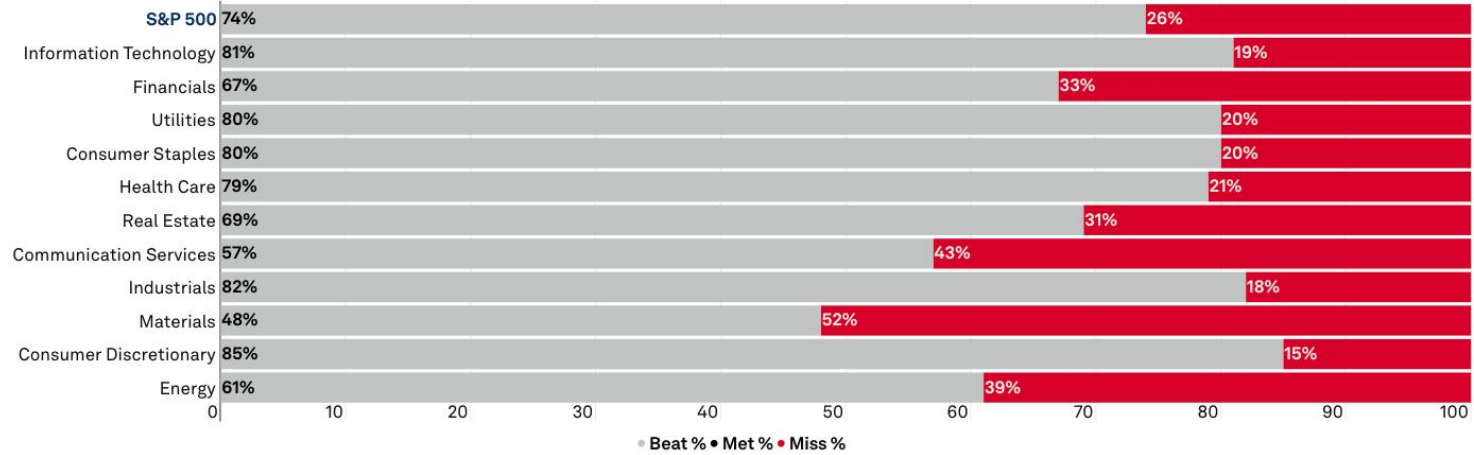
EPS EXPECTATIONS BEAT/MISS



EPS YoY GROWTH 1Q23



REVENUE EXPECTATIONS BEAT/MISS



REVENUE GROWTH YoY 1Q23

