



MONTHLY RESEARCH WEBINAR

FINANCIAL SERVICES: SECTOR OUTLOOK

Moderator:

John Eade

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■ **Financial Services: Sector Outlook**

- John Eade, Argus President
- Stephen Biggar, Director of Financial Services Research
- Kevin Heal, Fixed Income Strategist

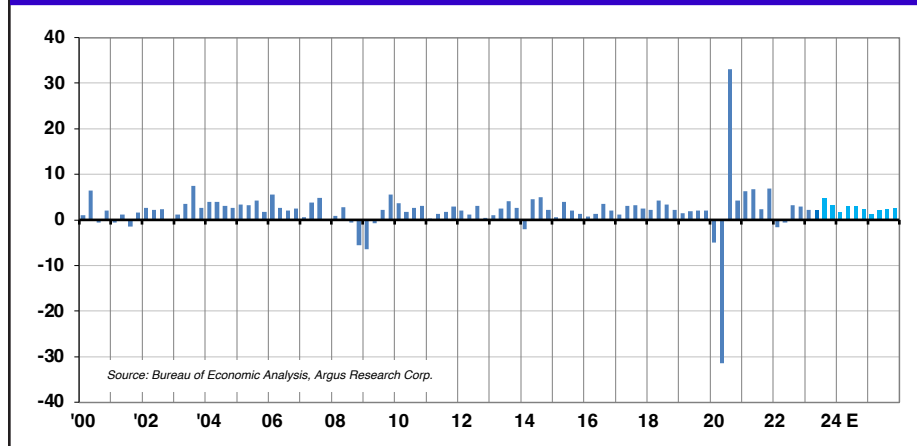
■ **Argus Quick Notes**

- Election Part 2: Energy and Healthcare
- Election Part 1: Industrials and Financials
- Communication Services is Growing
- Investing in High-Yield Stocks
- Find these on the homepage of our website

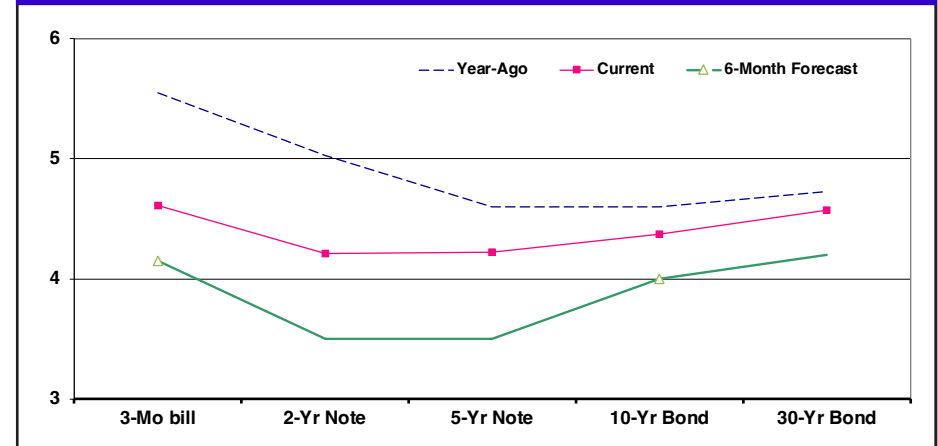
■ **Portfolio Update: the Argus Innovation Model Portfolio**

- Innovation a vital necessity for U.S. companies
- Low value manufacturing has moved overseas
- U.S. companies now focus on high-value-added products & services
- Innovation draws global fund flows to U.S. markets
- Find the Argus Innovation MP on the homepage of our website

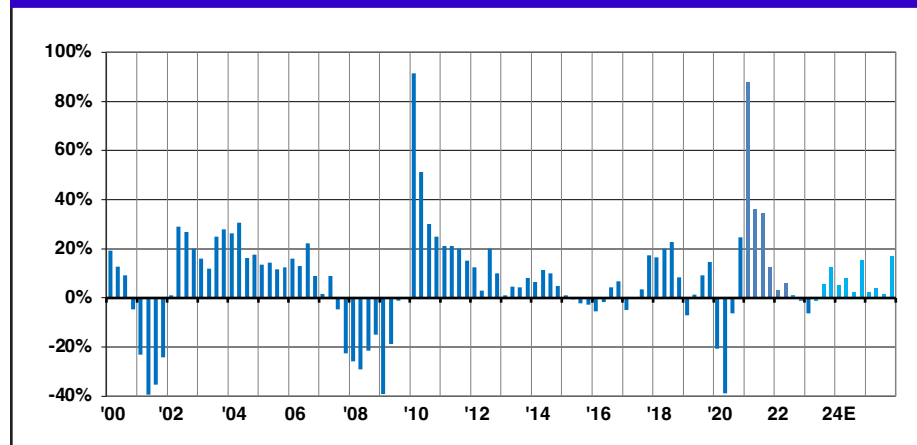
REAL GDP W/FORECASTS (%)



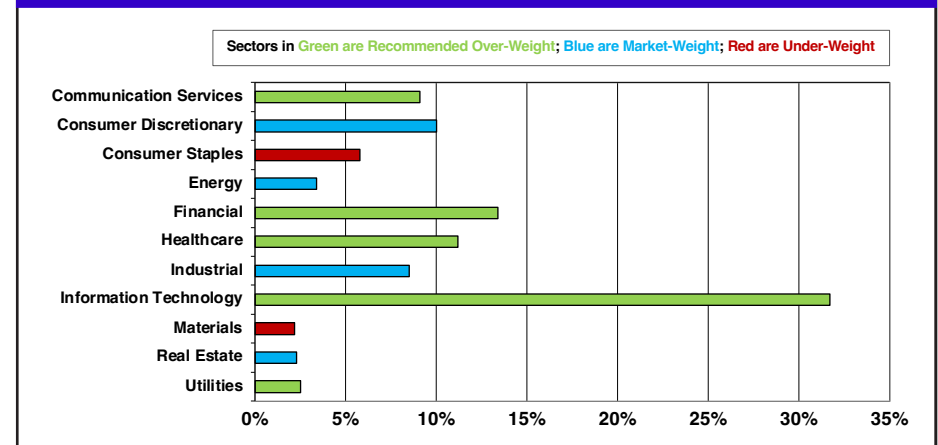
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH



MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

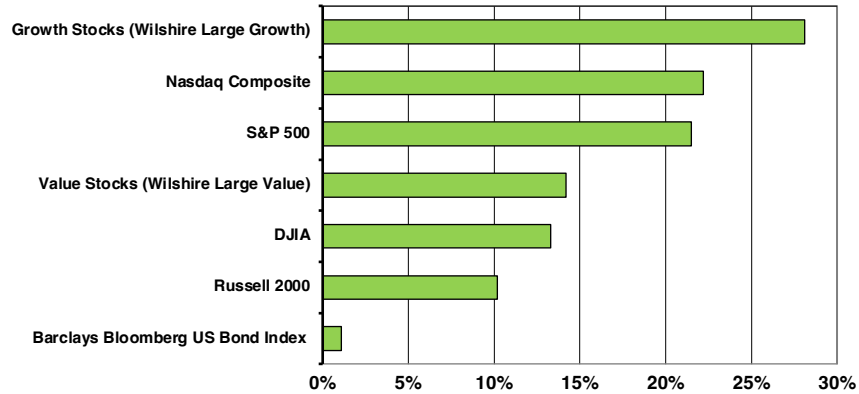


MARKET PERFORMANCE

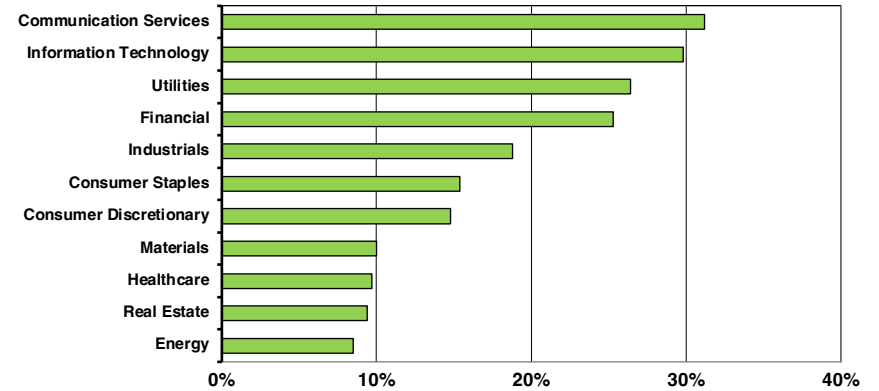
DATA AS OCTOBER 31, 2024



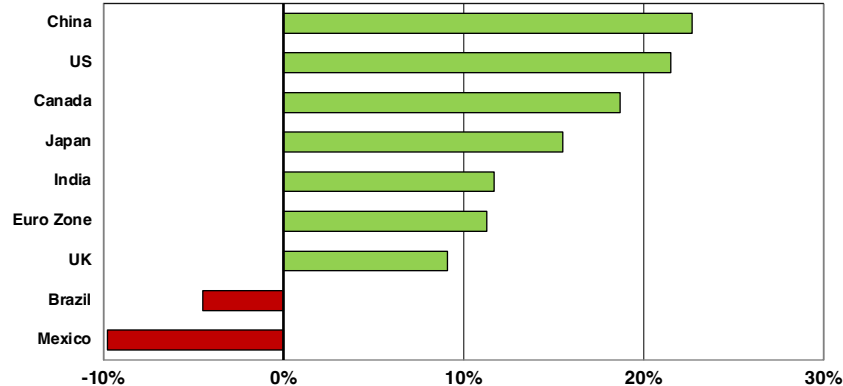
MAJOR INDEX



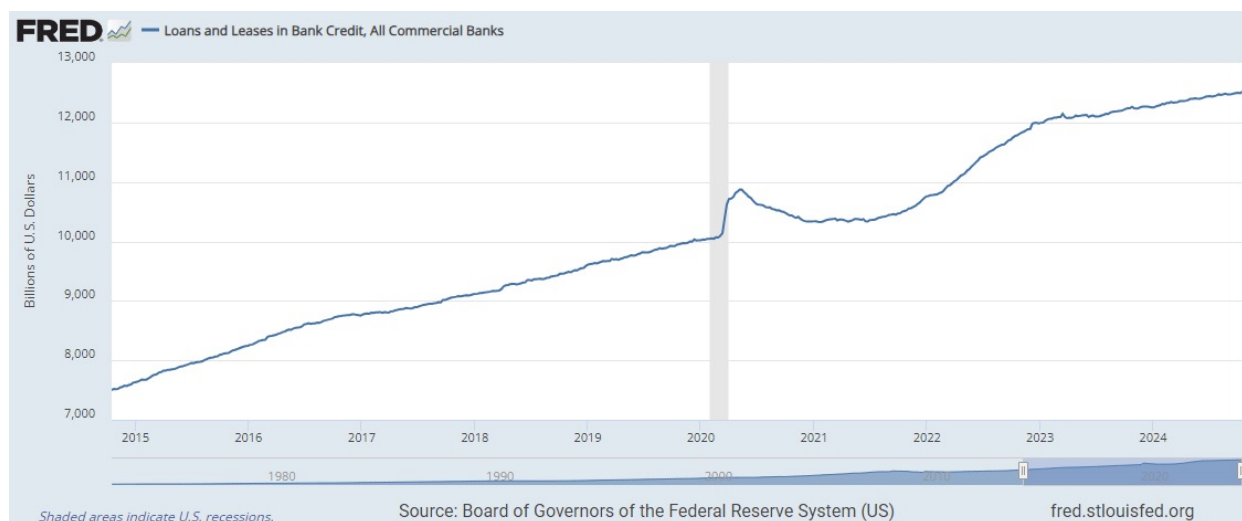
SECTOR



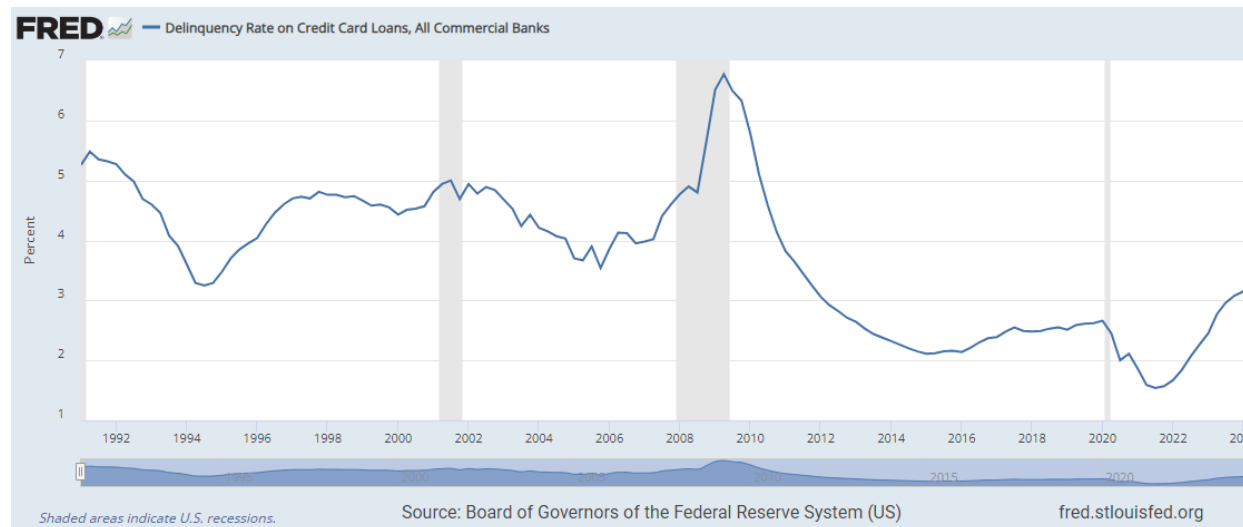
GLOBAL EQUITY MARKETS



- **Loan growth anemic over the past two years as high interest rates crimp demand (total loans up 2% YOY in 2Q24, helped by 7.5% credit card loan growth).**
- **Banks normally benefit from higher rates, but they have outweighed their welcome this cycle.**
- **Net interest margins have narrowed on higher deposit costs, but...**
...deposit cost pressures should ease/reverse as rates move lower.



- **Pockets of weakness in the credit card and auto lending segments.**
- **Loan loss allowances have been bulked up, as loss provisions have exceeded net charge-offs for past two years.**
- **Commercial real estate (particularly the office market) remains a wild card, but banks have been broadly reducing exposure, and loan-to-values have declined.**



- **Broadly improving capital markets environment.**
- **Follow-on global equity issuance up 14% in first three quarters of 2024, helped by healthy liquidity, elevated market valuations and pent-up demand.**
- **Fixed-income issuance (corporate and municipal) helped by narrower credit spreads. Rush of activity when 10-year yields dipped below 4%.**
- **M&A activity (announced volume) up over 20% in first three quarters of 2024 on good credit availability, improving CEO confidence, pent-up demand.**
- **Trading activity remains at a high point, but hard to see large gains from here.**

- **Loan growth should pick up, though gradually so, as rates decline.**
- **Margin pressure from higher deposit costs should abate, yield curve becoming more favorable.**
- **Delinquencies should remain manageable as long as unemployment stays under 5%.**
- **Solid case for continued rebound in capital markets revenues.**
- **Capital buildups for new regulations are largely complete.**
- **Valuations reasonable at low teens price/earnings, 1.3-1.5x book value.**
- **Dividend yields above average at 4%.**

■ JPMorgan Chase (JPM)

Best diversified, expanding branch network, high capital levels to withstand pending regulatory increases.

■ Morgan Stanley (MS)

Thriving wealth management business, well levered to improving capital markets backdrop.

■ American Express (AXP)

Affluent customer base has above-average spending potential, improvements on merchant acceptance, successful younger demographic offering highlights rewards/experiences.

■ Apollo Global (APO)/Blackstone (BX)

Growth in private equity and credit as investors seek alternative investments, diversify from high correlation in public markets.

EXCHANGES: RECURRING REVENUE ON THE RISE



- **Recent analytics acquisitions providing steadier streams of income.**
- **Licensed index product revenues increasing.**
- **Trading revenues also on the rise as both equity and bond volatility remain elevated. VIX remains above 20 after trading in the low teens most of the year. MOVE Index near 130 versus historical averages of 50-70.**

- **P&C companies rebound with sticky price hikes. Life insurers see lower morbidity rates.**
- **Home & Auto price hikes continue. Auto seems to be leveling off but Home continues to rise.**
- **Sharp increases due to improving home prices and recent weather events. Litigation costs also on the rise.**
- **Life Companies saw a rebound on improving investment portfolio results. Results were hurt by lower demand from Asia due to falling currency prices.**

■ Nasdaq (NDAQ)

Recurring revenue from fraud detection (Verafin), risk-data and reporting (AxiomSL and Calypso). Index revenue (QQQ).

■ Intercontinental Exchange (ICE)

Data and pricing across all investment classes. Touch almost every mortgage from origination to securitization.

■ CME Group (CME)

Expect trading volumes to remain elevated on uncertain rate path and timing.

■ **Travelers Companies (TRV)**

Technology innovations helping speed up claims process and fraud detection.
High quality stable investment portfolio.

■ **Chubb Limited (CB)**

Long-term growth with large stake recently taken by Berkshire Hathaway.

■ **Prudential Financial (PRU)**

Asset Management growth. Expect growth to continue internationally in high growth areas.

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