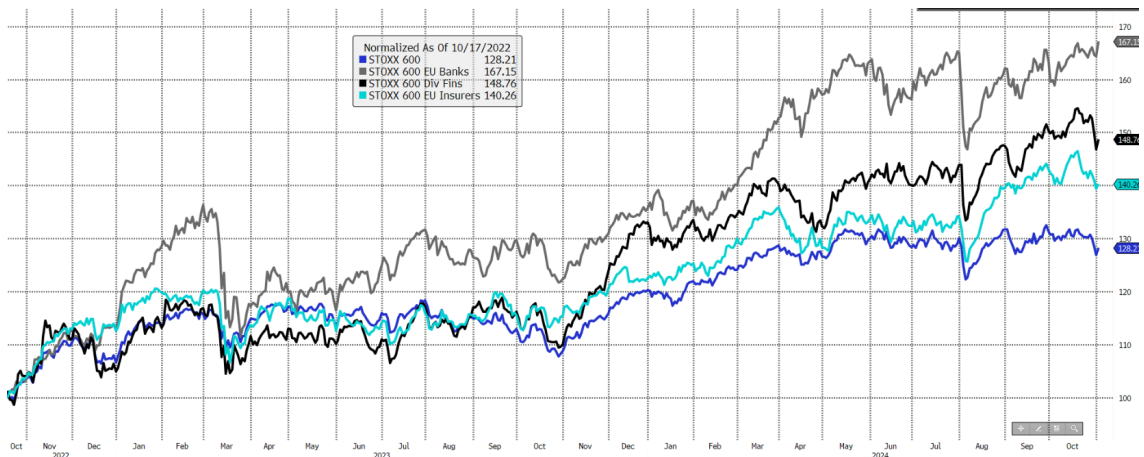


Quo Vadis? Higher - Bank Snapshot 4/11/24

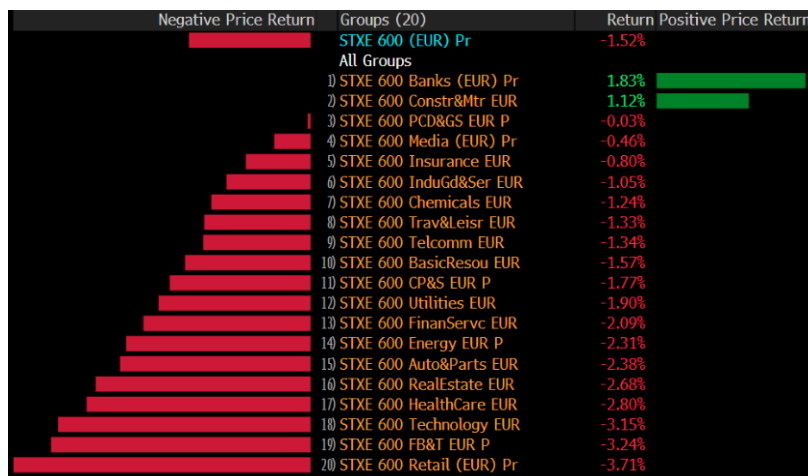


Spec sales: Jonathan Tyce

Jonathan Tyce

- **3Q Earnings strength** should drive upgrades to give an extra leg to banks' relative outperformance, with weakness in other sectors further driving a **stronger-for-longer EU banks' appeal**
- **Momentum and c. 50% discount to market underpin appeal** - with EPS upgrades for banks vs. downgrades across other sectors
- More realistic expectations for interest rate trajectories plus 3Q guidance are again **supportive for the banks** sector relative, confirming our shift in view in the Oct. 7 snapshot
- **UK likely to lag Europe** as concerns over UK budget and slowing growth keep spreads elevated into 1Q25.
- Smaller banks with gearing to higher-for-longer rates a sweetspot

1-wk SXXP Moves Show Banks Back on Top

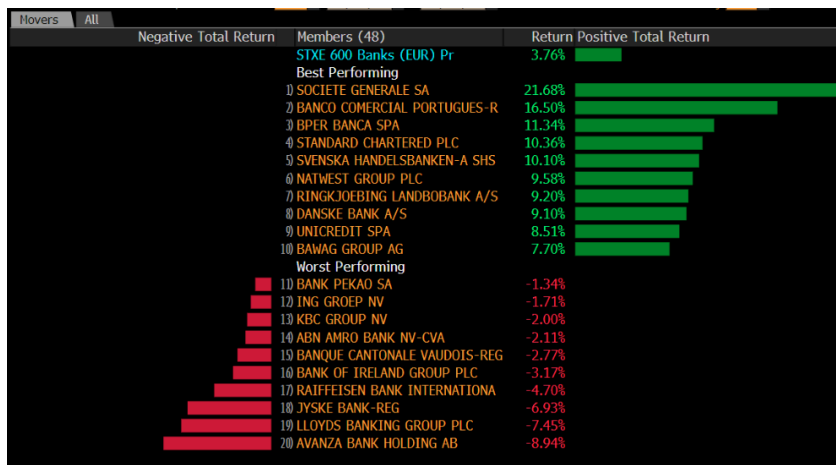


Source: Bloomberg

3Q Strength + SXXP Weakness = WIN WIN

The extent of Societe Generale’s rally since releasing strong - but not exceptional 3Q results - is the poster child for the re-emergence of European banks’ attractive valuation appeal versus other sectors, management levers and improved fundamentals. A near-20% one week move against BNP (soggy 3Q, CET1 miss) also highlights the intra-sector alpha-generation capacity.

1-Wk Moves : SocGen to StanChart - 3Q Impresses



Source: Bloomberg

Trading at a near-50% discount to the wider market on forward PE, the desk now believes that there are twin drivers to drive further outperformance. Positive 2024/2025 EPS revisions from 3Q results and guidance will mechanically widen the discount further, necessitating positive share moves. This, coupled with a re-rating in sentiment on better outlook and the beneficial revenue impact of higher-for-longer rates should underpin the next leg of outperformance.

Bank's 50% PE Discount vs. Better EPS Momentum



The desk would thus argue that the broad-brush strength of 3Q earnings beats - and not solely reliant on provision beats - is a key positive. Pre-provision operating profits have averaged about 10% ahead of consensus, with revenues c. 2-3% higher and costs 2-3% better.

ING, BNP, SEB, Santander and Deutsche Bank have reported the weakest results suggesting that while tailwinds remain, it is the smaller 'ships' that offer most value. The likes of AIB and Bawag (both cited in **Risk On, Again? Bank Snapshot 7/10/24**) are in a relative sweetspot shared by the likes of BCP, Erste and the smaller Italians.

We include an excerpt from a September snapshot which neatly encapsulates the debate to determine further outperformance. Currently, the downside risk to banks' 2025 consensus is falling with stronger-for-longer clearly coming into view. More resilient NII and more self-help and catalysts are critical with new management plans and investor days upcoming.

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What Goes Up Must Come Down, But How Fast?

Clearly, the *game from here for investing in banks vs. the wider market is to assess how quickly the blue line (ECB refi rate) will fall and how much further the red line (see chart below - Stoxx600 European banks vs. Stoxx600 Europe) can recover.*

On an absolute basis, we continue to prefer well-capitalised names with strong capital return dynamics as well as names with self-help or M&A dynamics coming into play. We note that given recent currency moves, a weak USD and EM currencies (Real, Peso) may lead to some earnings and consensus risk in 4Q and 2025.

ECB Refi Rate vs. Banks / STOXX600 Performance

Source: Bloomberg

From the desk's perspective, the following questions are key to assessing the outlook for the banks versus the wider market:

- How does the **valuation of the sector** compare vs. the **outlook and history**?
- What is **2025 / 2026 consensus discounting** and what is the **upside/downside** to this?
- Does the market **underestimate risk to NII on way down** as it underestimated **upside to NII** as rates rose?
- What level of **self-help / M&A** is likely to maintain newsflow and interest?

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Source: TriggerPoint, 23/9/24

Rate Relief Tangible for Banks

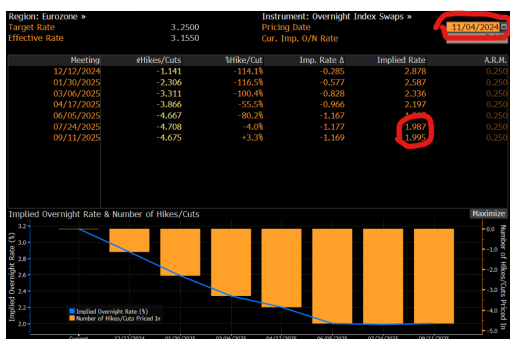
In our 7th October **Risk On?** Snapshot we noted that several names were 'firmly back on our radar' after the weakness driven by interest rate cut fears. **Bawag, AIB and Standard Chartered** were among those identified specifically but more generally, it was the marked underperformance of the most nii-sensitive names that piqued our interest.

Rate Cut Fears Now Being Priced In

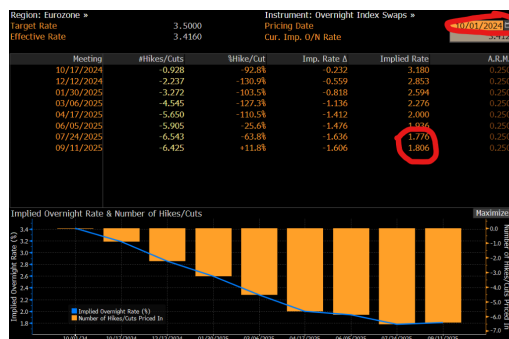
The SX7P's 13% best-to-worst spread in performance over the past week is one of the biggest spreads for some time, with a clear sell-off in interest income driven names where fear of estimate cuts as rates fall are now being baked into prices.

Source: TriggerPoint, 7/10/24

Euro Zone - Today



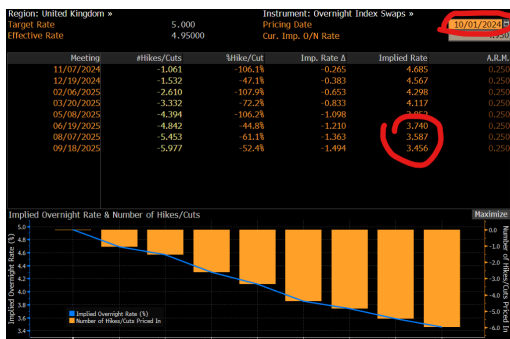
Euro Zone - October 1st



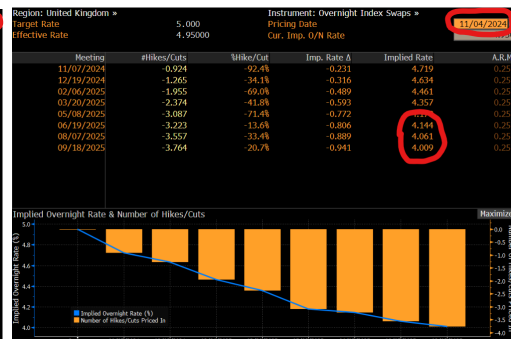
Source: Bloomberg

Since early October, market expectations for ECB rate cuts have been pared back about 25bps through next July which we believe is appropriate. This is more pronounced when considering the UK, where the consensus for the June 2025 meeting is now some 40-bps higher than a month ago.

UK - Today



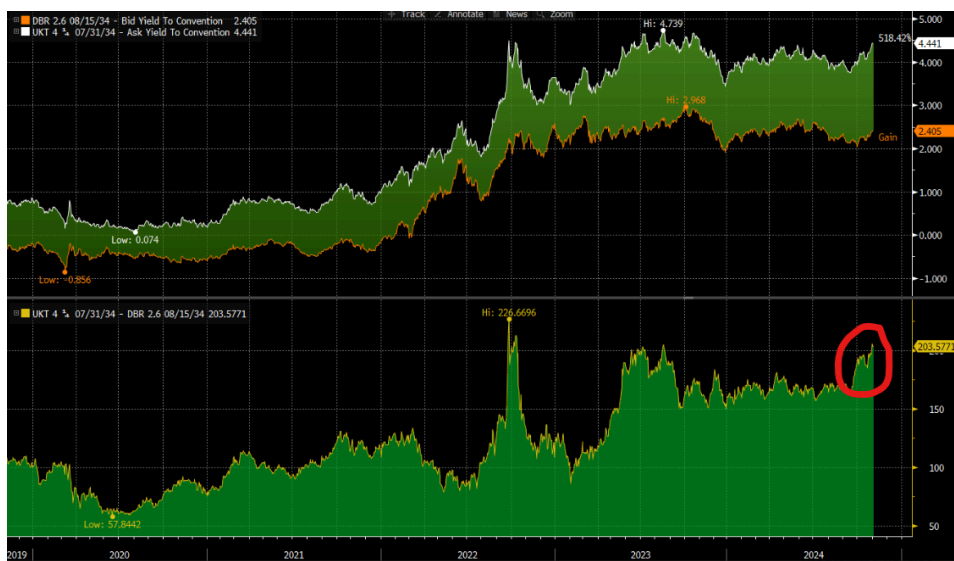
UK - October 1st



In the US, a July 2025 target rate of nearly 3% was being priced in last month. In the most dramatic reversal of all three, this consensus view has reset 75bps higher to 3.74% at time of writing.

UK vs. Europe

Positioning in the UK versus Europe is another key banks question with, we believe, a fairly straightforward answer medium-term. The UK budget raised concerns that greater borrowing and lower growth are the inescapable conclusion of Labour's plans, and this is clearly reflected in the still elevated spread of the 10-yr gilt over German 10-yr yields.



Source: Bloomberg

The two Asia-focused UK-listed banks - **HSBC** and **Standard Chartered** - delivered impressive 3Q results and offer a solid mix of catalysts, strong capital return and earnings momentum. Further, the travails of the UK will impact them only marginally versus the underlying investment theses.

The UK motor finance debacle, similar to the long-running payment protection insurance (PPI) scandal, complicates matters for **Lloyds Banking Group** where a £2 billion cost and many quarters of negative headlines are likely. **Bank of Ireland's** €3bn motor book in the UK will also weigh on sentiment.

In both cases - and despite recent underperformance - the desk believes that the alternatives of **NatWest Group** and **AIB Group** screen well. Both are still minority owned by their respective governments and further share placings are likely but do not derail the attractive fundamentals.

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One Savings Bank - Not If, But When?

TriggerPoint Research

One Savings Bank - Round Tripping...

Ticker	OSB LN	Currency	GBP
Name	One Savings Bank	Mkt Cap (€m)	1,568
Date	20/08/2024	Price (p)	384
Spec Sales	Jonathan Tyce	C'sus PT (p)	556


Performance & Peers:

Peer	Market Cap (€ m)	1M Tot Ret (%)	3M Tot Ret (%)	6M Tot Ret (%)	1Yr 1 Yr Total	3Yr 1 Yr Total
ONE SAVINGS BANK	€1,400	-18.8%	-18.8%	8.5%	3.3	15.1%
PRAXIS BANK	€1,875	5.7%	3.7%	3.3%	2.7	14.9%
NATWEST GROUP	€29,230	5.7%	11.8%	9.9%	2.6	12.2%
LLOYD	€38,895	4.3%	5.4%	4.9%	8.1	10.8%
BARCLAYS	€31,611	4.2%	3.7%	3.8%	3.8	8.9%

Source: Bloomberg

4 Triggers....but timing hard to quantify

- **Management credibility rebuild** - tougher after second NIM guidance disappointment, consensus reset sensible
- **Round-tripped share price and valuation may attract PE / M&A speculation** should price fall further
- **Valuation attractiveness, total return yield** tempered by **communication failures and loss of visibility**, can reverse over time
- **Efficiency of business model** proven despite NIM debacles, ROE and capital return intact



Source: Bloomberg

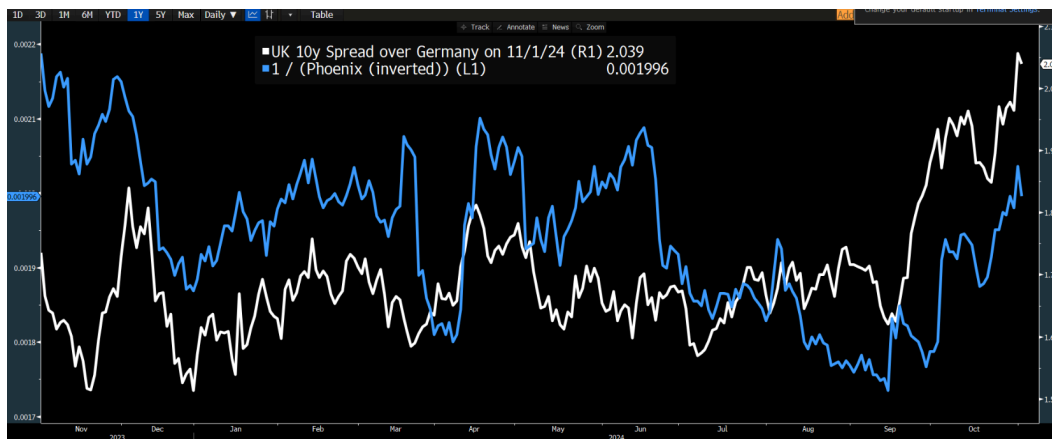
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Source: TriggerPoint, 20/8/24

Since our late-August update on **One Savings Bank**, shares have drifted and have now underperformed the European banks by nearly 40% over three months. We reiterate our view that while valuation is compelling, the loss of management credibility, concerns about UK growth and elevated risk premium will continue to weigh. Further, the slower descent of UK policy rates and fears about Labour's strategy will stall the recovery in OSB's new business generation in the professional buy-to-let market.

We remain on the sidelines for now, as the catalysts for unlocking what is undeniably significant value in OSB's business model remain obscured by macro- and policy-headwinds.

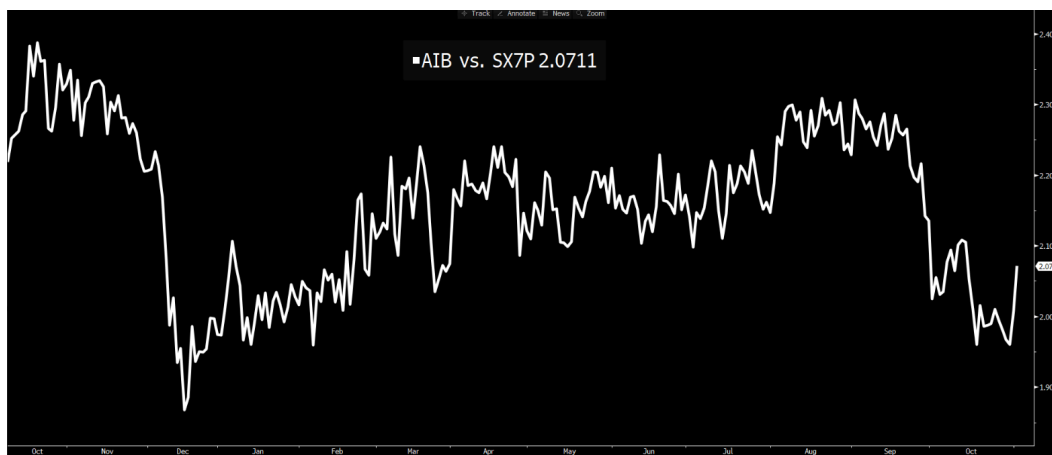
1/Phoenix Share Price vs. 10y Spread (vs. Germany)



Source: Bloomberg

Phoenix is the perfect illustration of how rates and yields continue to drive the domestic financials space. Should the market become more comfortable with Labour’s economic policies and the yield premium begin to dissipate, Phoenix is the obvious play. However, in a very similar vein to the OSB thesis, it is clearly a question of when, not if, for Phoenix but the when is currently too difficult to identify.

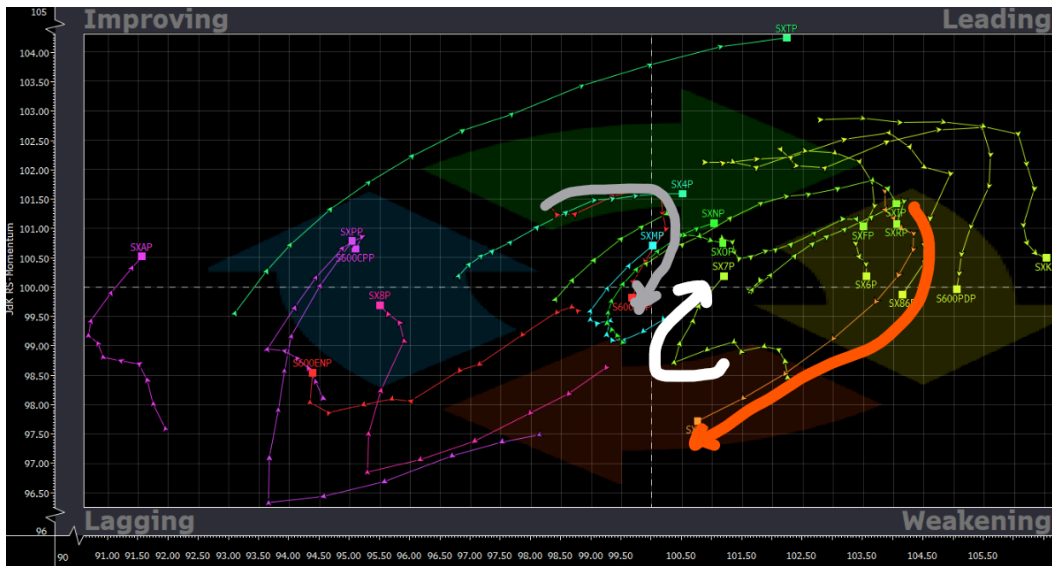
With many euro zone banks now showing good momentum (EPS and sentiment) and appealing relative valuations; the Asian-focused names firing on all cylinders and NatWest and Barclays screening well, we believe that the medium-term opportunities where clarity is greatest are clear to see as evidenced by the Allied Irish vs. SX7P banks chart.



Source: Bloomberg

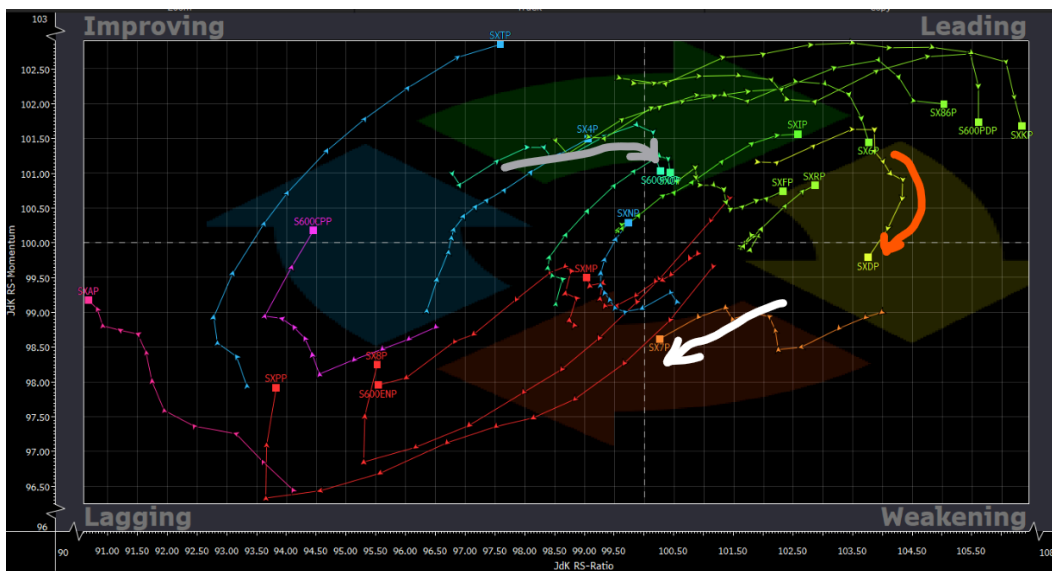
Sector Rotation Graphic Supports View

SX7P Dramatic U-turn Here to Stay...for a while



Source: Bloomberg

From a sector-positioning perspective, the dramatic reversal in the appeal of European banks (white arrow) over one month (see below for start-October RRG view) reflects the shift in rate expectations, weakness in other sectors and good 3Q numbers.



Source: Bloomberg

We highlight ASML and LVMH, two of the largest constituents of the SXXP to drive home the point. On a relative basis, banks are looking good and in absolute terms they are delivering at or ahead of expectation. Relative valuation is undemanding and with M&A and restructuring stories still ongoing, there is more gas in the tank than appeared to be the case 3 months ago.

ASML 2025 Consensus EPS vs. Share Price



Source: Bloomberg

LVMH 2025 Consensus EPS vs. Share Price



Source: Bloomberg

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