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With Government Shut, Earnings Dominate

The shutdown of the U.S. federal government, which pundits claimed would be over in time to pay military personnel on October 15, was well into its third week as the market opened on 10/20/25. Both sides have dug in on the extension of the Affordable Care Act subsidies set to expire at the end of the year. The “No Kings” protests of October 18 underscored the political divisions in the country and the difficulty in reaching resolution to the shutdown.

The shutdown has left investors without key economic data, most notably nonfarm payrolls but also reports on inflation, personal income and outlays, housing starts and permits, industrial production, the trade balance, and more. The government will release one key data set, the consumer price index for September, given that it will figure within the cost-of-living-adjustment calculation used to set the increase in 2026 Social Security benefits. The CPI will be issued more than a week behind schedule on 10/24/25.

The market has moved on to privately compiled and released data, which often includes diffusion and sentiment indicators such as small business optimism and consumer sentiment. However, these only partly substitute for the missing government data. Calendar 3Q25 earnings season is partly filling this void, and so far, it is sending an encouraging message.

3Q Earnings Off to a Strong Start

Heading into the 3Q25 earnings season, analysts and investors were more optimistic than they were heading into 2Q25 season. Back in early July, consensus expectations were for low-single-digit 2Q25 EPS growth. Instead, S&P 500 earnings from continuing operations for 2Q25 increased in low double-digits.

That sharp outperformance against expectations may have contributed to optimism heading into the 3Q EPS season. One month into the calendar third quarter, the bulk of tariffs kicked in. Whereas second-quarter earnings reflected positioning in advance of tariffs, third-quarter earnings will be directly impacted by tariffs on both nations and on product categories. So far, companies are using a range of strategies to mitigate tariffs, including selectively passing on higher input costs, seeking to localize supply chains, and reducing costs where possible. Tariffs are set to be in place for a long time, but so far, companies appear to be navigating this challenge with minimal damage to margins and earnings.

The market is very early in the 3Q25 earnings season, and earnings data is both limited and skewed to one particular sector. With a little more than 10% of companies having reported quarterly results, the blended annual growth rate for calendar 3Q25 earnings is in the 8%-9% range. Blended earnings growth rates combine both actual results for companies that have

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ECONOMIC & MARKET COMMENTARY (CONT.)

reported with estimates for companies yet to report. Given that estimates tend to be based on conservative guidance, the final calculation of actual EPS growth for any quarter tends to be several percentage points above the blended estimate from early in the reporting period.

As is always the case early in the reporting season, the Financial sector is dominating results for the period to date and earnings are up in high-teen percentages from 3Q24. Banks are benefiting from improved business confidence, which is leading to increased loan activity, higher M&A and IPO activity, and increased equity and fixed-income trading volumes.

Relatively few Information Technology companies have reported, but the sector is forecast to report strong 3Q25 earnings growth. Three of the Magnificent 7 stocks are in the IT sector (NVDA, MSFT, AAPL). Two of the Mag 7 companies are in Consumer Discretionary (TSLA, AMZN) and two are Communication Services (META, GOOGL). In 2Q25, Mag 7 earnings collectively were forecast to grow in low- to mid-teens percentages; actual 2Q25 Mag 7 earnings growth was in the mid-20% range. Currently, consensus expectations are for Mag 7 earnings to grow in mid-teens, and Information Technology earnings to grow in the low-20% range on a year-over-year basis.

Other sectors forecast to grow 3Q25 earnings more than the S&P 500 (and in many cases, in double-digit percentages) include Real Estate, Materials, and Industrials. Sectors expected to grow earnings less than the S&P 500 average include Consumer Discretionary, Healthcare, Consumer Staples, and Energy. Two sectors, Communication Services and Utilities, could potentially either beat or lag average index EPS growth.

We will check in on 3Q25 earnings as the season progresses. Argus is modeling low-double-digit EPS growth for 3Q25. We also look for high-single to low-double-digit EPS growth for 4Q25, which will be reported early in 2026. Assuming 3Q and 4Q earnings growth is within our ranges, full-year 2025 S&P 500 earnings from continuing operations is on track for low-double-digit growth, in line with our forecast of \$270.

Diffusion, Sentiment Surveys Signal Caution

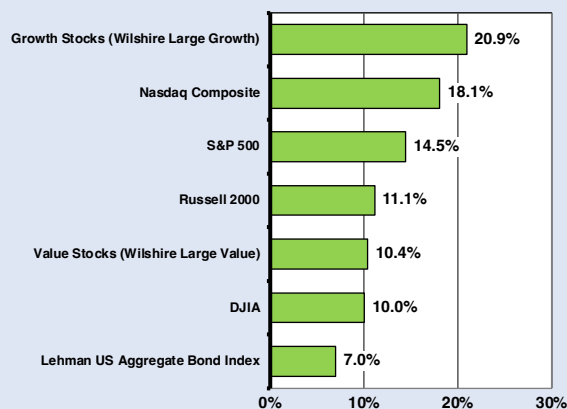
In the absence of government data, economic releases from private sources have taken on extra weight. The University of Michigan consumer sentiment survey remained at 55.0% for October after falling to 55.1% in September from 58.7% in August. Sentiment was 70.5% a year earlier in October 2024. The Conference Board's Consumer Confidence Index fell to 94.2 for September from 97.4 for August. Within this series, the Expectations Index reading of 73.4 remained

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MAJOR INDEX

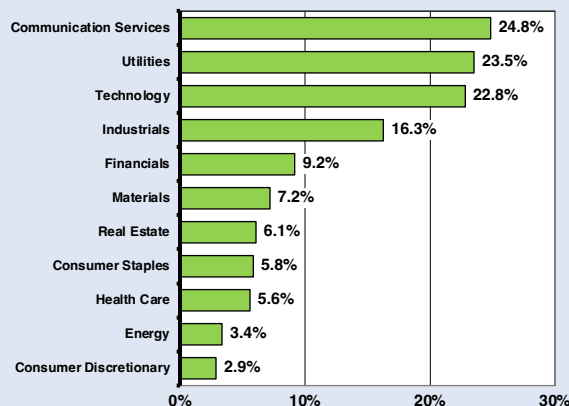
DATA AS OF OCTOBER 17, 2025

Year-To-Date Return



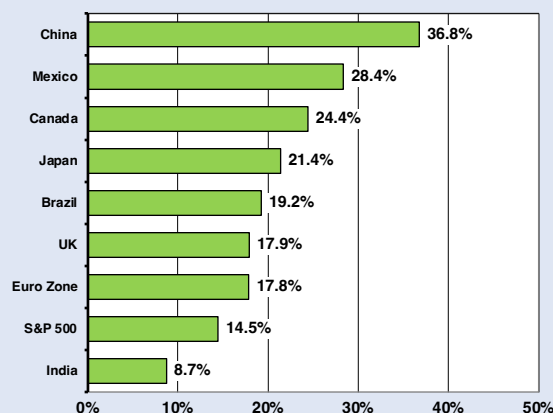
SECTOR PERFORMANCE

Year-To-Date Performance



INTERNATIONAL EQUITY MARKET PERFORMANCE

Year-To-Date Return



Source: Dow Jones, Argus Research

ECONOMIC & MARKET COMMENTARY (CONT.)

below the 80 threshold – as it has since February 2025 – that tends to signal a recession is ahead.

The business community appears guardedly optimistic but frustrated by ongoing economic uncertainty, given the slowing jobs economy compounded by tariffs and the government shutdown. The ISM's manufacturing Purchasing Managers' Index (PMI) edged up to 49.1% in September from 48.7% in August and 48.0% in July. Purchasing managers report that contraction in new orders and in employment is being offset partly by higher production.

ISM's Services PMI, however, unexpectedly fell from 52.0% for August to 50.0% for September. That put the Service PMI at the breakeven point between expansion and contraction for the first time since 2010. In the large Services category of Accommodations and Food Services, survey respondents complained of tariff impacts on food input costs. In the Construction sector, respondents worried that higher materials costs along with high mortgage rates were keeping would-be buyers sidelined.

The NFIB Small Business Optimism Index slipped to 98.8 in September from 100.8 in August. The index remained above its 51-year average of 98.0 but is down from 105.1 in December 2024 (right after President Trump's election win). The Uncertainty Index for September rose sharply to its fourth-highest reading ever, according to NFIB Chief Economist Bill Dunkelberg.

Another input for data-starved investors is "Fedspeak" commentary from Fed governors. Fed Governor Christopher Waller, who is reportedly in line to replace Jerome Powell as Fed chairman, argued for a 25-basis-point rate cut in October in a speech at a Council of Foreign Relations

meeting in New York. The newest Fed governor, Stephan Miren, argued for a more-aggressive approach to reducing rates without specifying a rate-cut timeline.

Conclusion

The government shutdown is a challenge for government employees who have now gone multiple weeks without being paid. It is becoming an issue for some citizens seeking information or services normally provided by shuttered government offices.

Ironically, for the stock market, the shutdown may be a moderate positive. That's because nonfarm payrolls has not been reported. Amid the mounting enthusiasm from the positive earnings season, nonfarm payrolls is likely to be a "rain on everyone's parade" data point, revealing the fragility of the employment economy. Once the government shutdown ends, investors will confront a wave of economic data, some of which may be in conflict with the cheery picture being painted by corporate earnings.

The stock market rose fairly steadily from mid-April to the end of September, with just a late-July wobble ahead of early-August tariff implementation; that selling spasm tuned into a buyable dip. The stock market has been choppy in October, making little net progress in what is normally a strong market month.

Performance across the remainder of the month could be dependent on resolving multiple issues, including reaching a trade deal with China and ending the federal government shutdown. Even if those issues remain unresolved, and assuming corporations continue to deliver 3Q25 earnings above already-high expectations, stock sentiment could remain strong heading into the holiday season and year-end.

Jim Kelleher, CFA,
Director of Research

TECHNICAL TRENDS COMMENTARY

Back on October 10, we wrote about the ugly bearish reversal candlestick traced out by the SPDR Gold Shares (GLD). It also occurred on extremely heavy volume, another negative.

And yes, that wasn't the first time we called for an end to this gold rally. Well, we were early again as GLD spiked another 10% over the next seven days.

Switching to the weekly spot gold log chart, it has gone parabolic – a move that started back in late August. How high prices might go is anyone's guess, as momentum has a way of feeding on itself. The chasers chase, the perma-bulls continue to increase their targets, and everyone else gets left behind shaking their heads. Coulda, woulda, shoulda! There is a lot of that going around -- and not just in the gold and silver markets. Steep advances almost always end badly,

and this type of price action probably had some investors licking their chops to go short. Previously, any shorting led to obliteration -- until October 21, when GLD plunged over 6% and the iShares Silver Trust (SLV) plummeted over 8%. Volume was extremely heavy as there was some panic in the air.

The U.S. Dollar Index (USD) rallied 0.4%, so we can't blame the greenback. USD has been trapped in a trading range between \$96 and \$100 for five months. As we have said for many months, the Commitment of Traders data is very bullish for USD and, in recent years, has been very accurate in calling dollar rallies and declines. If the dollar continues higher, it is very likely that it will put more pressure on both gold and silver.

Mark Arbeter, CMT

FOCUS LIST

Focus List Stocks		
	TICKER	PRICE AS OF 10/22/25
Basic Materials		
Newmont Corp	NEM	\$86.32
Communication Services		
DoorDash Inc	DASH	261.97
Netflix Inc	NFLX	1,241.35
Reddit Inc.	RDDT	205.71
T-Mobile US Inc	TMUS	229.08
Consumer Discretionary		
EBay Inc.	EBAY	94.98
Nike, Inc.	NKE	68.36
Tractor Supply Co.	TSCO	54.77
Consumer Staples		
Kroger Co.	KR	67.60
Monster Beverage Corp.	MNST	68.90
Energy		
Baker Hughes Co	BKR	46.75
Financial		
Intercontinental Exchange Inc	ICE	156.79
Morgan Stanley	MS	159.23
PayPal Holdings Inc	PYPL	70.05
Zions Bancorporation N.A	ZION	52.70
Healthcare		
Lilly(Eli) & Co	LLY	799.57
Solventum Corp	SOLV	72.91
Industrials		
Axon Enterprise Inc	AXON	707.04
Eaton Corporation PLC	ETN	373.46
Trane Technologies plc	TT	424.20
Real Estate		
Ventas Inc	VTR	70.24
Technology		
Advanced Micro Devices Inc.	AMD	238.03
Cisco Systems, Inc.	CSCO	70.72
Corning, Inc.	GLW	86.05
Duolingo Inc	DUOL	317.61
Jabil Inc	JBL	201.12
Microsoft Corporation	MSFT	517.66
MongoDB Inc	MDB	325.76
Texas Instruments Inc.	TXN	180.84
Utility		
Southern Company	SO	97.00

Focus List Stocks in this Report		
	TICKER	PRICE AS OF 10/22/25
Morgan Stanley	MS	\$159.23

Morgan Stanley (MS)

Current Rating: **BUY**

Publication Date: **10/15/25**

HIGHLIGHTS

*MS: Raising target as investment banking rebound takes hold*On October 15, Morgan Stanley reported 3Q25 EPS of \$2.80, up from \$1.88 in the prior-year quarter and well above the \$2.07 consensus.

*Investment banking revenues were up 44%, with strength across advisory, equity and debt underwriting. We believe a more durable rebound in this segment is underway, with management noting continued constructive conversations with clients.

*Net new assets came to \$81.0 billion in 3Q, while fee-based client assets in wealth management were up 15% to \$2.7 trillion.

*MS trades at about 17-times our 2025 EPS estimate. We are raising our 12-month target price to \$182 (from \$153), which assumes a multiple of 18.6-times our EPS forecast for 2026, to reflect an expected improved environment for investment banking revenue and the potential for more relaxed capital requirements.

ANALYSIS

INVESTMENT THESIS

We are reiterating our BUY rating on Focus List selection Morgan Stanley (NYSE: MS) following 3Q earnings, which benefited from higher investment banking and trading revenues. We look for a more durable rebound in this segment as tariff concerns subside, with management noting more constructive conversations with clients.

We have a positive view of MS based on expected improvements in ROE and pretax margin. In our view, MS has made significant progress in lowering its risk profile, strengthening its capital buffers, and reducing earnings volatility. In particular, the Wealth Management segment, which has a more stable revenue and profit profile, now accounts for over 50% of revenue, and risk-weighted assets continue to decline. Results in this segment have also been helped by the company's focus on high and ultra-high net-worth clients, which are seeing the fastest growth.

In March 2021, Morgan Stanley acquired Eaton Vance, a provider of investment strategies and wealth management solutions with some \$500 billion in assets under management, for about \$7 billion in cash and stock. We liked this transaction for several reasons. Eaton Vance adds a less volatile and more annuity-like revenue stream, and integration/execution risk was low.

In October 2020, the company acquired ETrade Financial Corp.

FOCUS LIST

in a \$13 billion stock transaction. The acquisition increased the percentage of pretax profits coming from Morgan Stanley's Wealth Management business. We view this positively, as we expect the valuation of MS shares to continue to benefit from the stability of the Wealth Management business, in contrast to the more volatile income streams from fixed-income trading and investment banking.

The company has outlined five drivers of growth. These are to gain market share, to expand the client base and deepen relationships, realize acquisition synergies, demonstrate operating leverage, and return excess capital. Management remains transparent with its near- and long-term financial targets, which we believe are achievable. Capital returns received a boost in June 2025 following the CCAR cycle, with the quarterly dividend rising 8% to \$1.00 per share.

Long-term financial targets include a Wealth Management pretax margin of 30%+ (24.9% in 2023), a firm-wide efficiency ratio of less than 70% (77% in 2023), and a return on tangible common equity of 20% (12.8% in 2023).

MS trades at about 17-times our 2025 EPS estimate. We are raising our 12-month target price to \$182 (from \$153), which assumes a multiple of 18.6-times our EPS forecast for 2026, to reflect an expected improved environment for investment banking revenue and the potential for more relaxed capital requirements.

RECENT DEVELOPMENTS

Over the past year, MS shares have risen 47%, versus a 13% increase for the broad market.

On October 15, Morgan Stanley reported 3Q25 EPS of \$2.80, up from \$1.88 in the prior-year quarter and well above the \$2.07 consensus.

Net revenues rose 18%, to \$18.2 billion, led by higher investment banking and trading revenues.

The company had \$81.0 billion of net new assets in 3Q within wealth management, versus \$63.9 billion in the year earlier quarter, while long-term net inflows were \$41.9 billion within investment management, versus 35.7 billion a year earlier.

EARNINGS & GROWTH ANALYSIS

The company's major segments include Institutional Securities, Wealth Management, and Investment Management. We summarize 3Q results by business segment below.

In Institutional Securities, revenue rose 25% to \$8.5 billion, reflecting 44% higher investment banking revenues (with higher equity and fixed income underwriting and advisory revenues), 35% higher equity revenues, and 8% higher fixed income revenues. Expenses were up 10%, and segment pretax income surged to \$3.2 billion from \$1.9 billion a year earlier. We continue to look for a more durable rebound in investment banking activity as uncertainty regarding global trade policy (and associated volatile markets)

subsidies.

Wealth Management revenues were up 13% to \$8.2 billion, aided by higher asset management revenues (from greater asset levels), transactional revenues and net interest income. Expenses rose 10%, and segment pretax income was \$2.5 billion, for an adjusted pretax profit margin of 30.3%. Fee-based client assets totaled \$2.7 trillion as of September 30, up 15% from the prior year. The company added net new assets of \$81.0 billion in the segment during the quarter, much improved from \$63.9 billion a year earlier.

Investment Management revenues were up 13% to \$1.7 billion. Expenses were up 8%, while segment pretax income increased to \$364 million from \$260 million.

We believe that Morgan Stanley has managed well through an extended downturn in underwriting and is poised to participate strongly as an upturn is currently underway. On the 3Q earnings call, management noted healthy pipelines in many of its business segments.

The Wealth Management segment has generally maintained a strong pretax margin above 25% and added stability to earnings. Margin improvement drivers are expected to include greater lending penetration and cost discipline. In 2024, the Wealth Management pretax margin was 27.2%, up from 24.9% in 2023. The company has long-term aspirations of 30%+ for the pretax margin. Longer-term financial goals also include a firm-wide efficiency ratio of less than 70% and a return on tangible common equity of 20%.

The acquisitions of ETrade and Eaton Vance (as of March 2021) increased the percentage of revenue coming from wealth management and investment management and has provided greater revenue stability.

On better-than-expected 3Q EPS and an expected further recovery in investment banking, we are raising our 2025 EPS estimate to \$9.71 from \$8.72, while upping our 2026 forecast to \$9.77 from \$9.37.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Morgan Stanley is High.

As of September 30, 2025, the company estimated a Tier 1 common equity ratio of 17.0% under the Basel III Standardized Approach, down from 17.1% a year earlier.

Following the results of the Fed's June 2025 CCAR stress tests, Morgan Stanley announced an 8% increase in its quarterly dividend to \$1.00 per share effective with the 3Q25 payment. We expect dividends of \$3.85 in 2025 and \$4.10 in 2026. The current yield is about 2.6%.

MANAGEMENT & RISKS

The CEO of Morgan Stanley is Ted Pick, who took over in

FOCUS LIST

January 2024 for the retiring James P. Gorman. Sharon Yeshaya is the CFO.

Morgan Stanley is broadly exposed to conditions in the global economy and financial markets as well as to changes in financial regulations. We believe that Morgan Stanley has generally done a good job navigating the current regulatory environment.

COMPANY DESCRIPTION

Morgan Stanley is a diversified global financial securities firm. Its businesses include institutional securities sales and trading, investment banking, retail securities brokerage, and institutional asset management. Mitsubishi UFJ Financial Group, one of the largest banks in the world, owns about 23% of Morgan Stanley, and the two companies continue to expand their partnership.

VALUATION

We think that MS shares are attractively valued at current prices, despite being near the high of their 52-week range. We believe that Morgan Stanley's mix of wealth management and capital markets businesses has proven beneficial, and that it distinguishes the company from pure-play investment banks. We expect the stock's valuation to improve as investors recognize the greater earnings stability and cross-selling capabilities of the franchise. Investment banking activity improved throughout the third quarter, and we now look for a more durable rebound in the capital markets environment. Meanwhile, the company continues to see surging trading revenue

As of September 30, Morgan Stanley's tangible book value was \$48.64 per share. MS shares now trade at 3.3-times tangible book value, versus near par at the depths of the pandemic. We believe that an upward revaluation of MS shares is also justified based on the company's generally improving pretax margin and capital position

MS trades at 17-times our 2025 EPS estimate. We are raising our 12-month target price to \$182 (from \$153), which assumes a multiple of 18.6-times our EPS forecast for 2026, to reflect an expected improved environment for investment banking revenue and the potential for more relaxed capital requirements.

On October 15 at midday, BUY-rated MS traded at \$164.39, up \$9.05. (Stephen Biggar, 10/15/25)

CHANGE IN RATING / INITIATION OF COVERAGE

*There are no companies updated in the **Change in Rating / Initiation of Coverage** category this week.*

GROWTH / VALUE STOCKS

Growth / Value Stocks in this Report

	TICKER	PRICE AS OF 10/22/25
Abbott Laboratories	ABT	\$127.54
Alphabet Inc	GOOGL	250.46
American Express Co.	AXP	355.22
ASML Holding NV	ASML	1,025.02
Badger Meter Inc.	BMI	177.35
Bank Of America Corp.	BAC	51.52
Bank of New York Mellon Corp	BK	107.00
Barrick Mining Corp.	B	31.50
Charles Schwab Corp.	SCHW	95.09
Cintas Corporation	CTAS	196.49
Citigroup Inc	C	98.25
Citizens Financial Group Inc	CFG	50.83
Dominos Pizza Inc	DPZ	419.88
DuPont de Nemours Inc	DD	81.13
Fastenal Co.	FAST	43.32
Fifth Third Bancorp	FITB	42.17
Huntington Bancshares, Inc.	HBAN	15.94
J.B. Hunt Transport Servs, Inc	JBHT	168.98
KeyCorp	KEY	17.54
M & T Bank Corp	MTB	181.70
ManpowerGroup	MAN	34.38
Pepsico Inc.	PEP	153.18
PNC Financial Services Group	PNC	181.91
ProLogis	PLD	125.99
Schlumberger Ltd.	SLB	33.52
State Street Corp.	STT	114.36
Taiwan Semiconductor Manufactu	TSM	294.51
Thermo Fisher Scientific Inc.	TMO	557.99
Travelers Companies Inc.	TRV	269.34
U.S. Bancorp.	USB	47.61
United Airlines Holdings Inc	UAL	100.11
Wells Fargo & Co.	WFC	84.76

Abbott Laboratories (ABT)

Current Rating: **BUY** Publication Date: **10/17/25**

HIGHLIGHTS

ABT: Raising EPS estimates Abbott is a diversified MedTech company investing for growth in its franchises in Diabetes Care, Diagnostics, and Cardiovascular medical devices.

*The MedTech segment and Structural Heart products are leading sales growth.

*Abbott has raised its dividend for 52 consecutive years and now carries a yield of 1.82%, most recently in January.

*We are raising our estimates for adjusted EPS to \$5.16 from \$5.14 for 2025 and to \$5.70 from \$5.68 for 2026.

*We are reaffirming our price target of \$150.

ANALYSIS

INVESTMENT THESIS

Abbott's growth drivers in cardiovascular devices and diabetes care are the foundation of our investment thesis for BUY-rated Abbott Laboratories (NYSE: ABT). Still, as the 3Q25 results show, there is room for improvement in terms of execution.

We believe Abbott's growth drivers (including the FreeStyle Libre, electrophysiology products, leadless pacemakers, and cardiovascular devices) as well as its ability to develop and launch new products could lead to continued growth in sales and earnings. We note that Abbott plans to expand the FreeStyle portfolio beyond the diabetic market to the consumer market.

RECENT DEVELOPMENTS

Abbott delivered mixed results for 3Q25 (reported October 15), with adjusted EPS of \$1.30, matching the consensus estimate and increasing 7.6% from a year ago. GAAP net income was \$1.644 billion or \$0.94 per share, compared to \$1.646 billion or \$0.94 per share a year ago.

Sales were \$11.369 billion, increasing 6.9% as reported and 5.5% on an organic basis. Excluding COVID-19 testing, sales increased 7.5%.

Sales growth was led by Medical Devices (+12.5% organic), Established Pharmaceuticals (+7.1%), and Adult Nutrition (+5.4%). Diagnostics growth (0.4%, ex. COVID-19) was impacted by headwinds in China. Setting aside the headwinds, there was strength in other areas of Diagnostics. U.S. Core Labs sales increased 10.4% and Point-of-care sales increased 7.9%.

Within Medical Devices, Rhythm Management, Electrophysiology, Heart Failure, Structural Heart, and Diabetes Care all achieved double-digit growth. FreeStyle Libre sales reached \$2.0 billion (+17%). FreeStyle Libre is a wearable continuous glucose monitor.

By measures of profitability, the adjusted gross margin was 55.8%, down 110 basis points. This was largely driven by the impact of tariffs. The adjusted pretax margin was 23.0%, up 40 basis p

Looking ahead, we see recent approvals for medical devices that treat heart valve repair and atrial fibrillation as catalysts for commercial sales in the rest of 2025 and into 2026.

EARNINGS & GROWTH ANALYSIS

Abbott updated its guidance for 2025. It narrowed the guidance range for adjusted EPS to \$5.12-\$5.18 from a prior \$5.10-\$5.20. The midpoint of \$5.15, representing 10.3% growth, is unchanged. The company reaffirmed the guidance for sales growth at 7.5%-8.0%

GROWTH / VALUE STOCKS

We are raising our estimates for adjusted EPS to \$5.16 from \$5.14 for 2025 and to \$5.70 from \$5.68 for 2026.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Abbott is Medium, the midpoint on our five-point scale. Abbott raised its dividend by 7.3% in January 2025 to an annualized \$2.36. The company has raised its dividend for 52 consecutive years. The current yield is about 1.82%. Our dividend estimates are \$2.36 for 2025 and \$2.52 for 2026.

MANAGEMENT & RISKS

Robert B. Ford is chairman, president, and CEO of Abbott. Phillip B. Boudreau serves as CFO.

Abbott faces operational, competitive, and regulatory risks. In the near term, it faces operational risks as it seeks to control costs while addressing supply-chain issues.

The company faces pricing pressure in markets in which it seeks reimbursement coverage for its products. In certain overseas, markets reimbursement policies are set by national health agencies, such as the NHS in the U.K.

Abbott's medical devices are subject to premarket review by regulators in the U.S., Japan, and the EU.

COMPANY DESCRIPTION

Abbott Laboratories is a diversified healthcare company that develops, manufactures and markets a wide range of medical products and services. Its main product lines are nutritionals for adults and infants, diagnostic systems, vascular implants, cardiac rhythm management products, and diabetes care products.

INDUSTRY

Our rating on the Healthcare sector is Market-Weight. The Healthcare sector accounted for 8.9% of the S&P 500 as of the end of September. We think diversified investors should have exposure to the sector, in line with the current market weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength and analyst conviction, among other factors.

The sector has underperformed the market year to date, with a gain of 1.2%. The sector underperformed in 2024, with a gain of 0.9%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 0.6.

Over the past five years, the sector's weighting has ranged from 8% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.3% was above the market average. The sector's smoothed earnings growth rate of 8% was below the market average.

The Healthcare sector is primarily a defensive, counter-cyclical

sector. The largest macroeconomic factor that will affect the performance of stocks in the Healthcare sector is the aging population, both in the U.S. and in other developed countries, including China. Other factors include GDP Growth, Interest Rates, Inflation, Government Policy and Regulation, Trade, Pandemics or Health Crises, and Employment/Unemployment Rates. Trends in the dollar can affect factors such as Cost of Goods Sold.

Healthcare stocks are often favored during periods of economic weakness. Sell signals for stocks in the sector can be material changes in regulatory decisions that alter business models, pending patent cliffs for pharma companies or a weakened balance sheet that threatens a dividend.

At this stage of the market and economic cycle, our favored industries within the Healthcare sector include Healthcare Equipment and Healthcare Distributors.

VALUATION

ABT shares trade at 22.7-times our 2026 EPS estimate, above the average multiple of 20.0 for our coverage universe of MedTech stocks. We believe that Abbott's growth drivers (including the FreeStyle Libre, electrophysiology products, leadless pacemakers, and other cardiovascular devices) and its solid track record in developing and launching new products will continue to propel growth in sales and earnings.

On October 16, BUY-rated ABT closed at \$127.63, down \$1.82. (David Toung, 10/16/25)

Alphabet Inc (GOOGL)

Current Rating: **BUY** Publication Date: **10/20/25**

HIGHLIGHTS

*GOOGL: Raising target price to \$300*After skirting onerous conditions in its first federal antitrust trial, Alphabet has entered the remedies phase of its second federal antitrust trial.

*While Search remains Alphabet's crown jewel and Google Cloud is a robust number two, YouTube has emerged as the third critical revenue stream and new tools unveiled at the recent Made on YouTube event demonstrate continued innovation by this dominant short form streaming platform.

*The company continues to face extreme regulatory pressure and risk from negative rulings in two federal U.S. antitrust investigations, other lawsuits, and regulatory investigations and actions in Europe.

*Our 2025 GAAP EPS estimate is \$9.63 and our 2026 forecast is \$10.05. Our estimates imply 12% EPS growth on average over the next two years. Our long-term earnings growth rate forecast is

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on Alphabet Inc. (NGS: GOOGL) and raising our target price to \$300 from \$265. While GOOGL shares may be sharing in the generative AI halo effect that

GROWTH / VALUE STOCKS

has driven the so-called Magnificent Seven this year, we need to remember that its actual revenue producing businesses, Search, Cloud, and YouTube, remain robust growth drivers. Risks other than a change in market sentiment around GenAI remain. First, is the possible fallout from the upcoming judge's decision on remedies in the second U.S. antitrust case and second, the idea that GenAI will kill Google Search. On the litigation, we expect any decision no matter how onerous will be appealed so that the outcome remains in flux, perhaps for years to come. On the GenAI threat, we see it as real, though management has also recognized this existential threat and moved to mitigate it with its own GenAI services that are gaining traction with users.

We see Alphabet as one of the Tech industry's leaders, along with Meta Platforms, Apple, Amazon, and Microsoft. These companies have come to dominate new developments in mobile, public cloud, and big data analytics, as well as emerging areas such as artificial intelligence, virtual/augmented reality, and even quantum computing. While Alphabet has often been criticized as a Johnny-one-note for its dependence on digital advertising, the rapid growth of Google Cloud and YouTube have begun to diversify the company's revenue. Even the much-maligned Waymo autonomous vehicle business has begun to expand commercial services, well ahead of competitors. Alphabet remains at a minimum competitive, if not a leader, in the development of generative AI, perhaps the new computing paradigm.

We remain positive on Alphabet's underlying businesses and believe that GOOGL shares are attractively valued.

RECENT DEVELOPMENTS

The remedies phase of Google's antitrust trial concerning its ad-tech business brought by the DOJ and 17 states continues. On April 17, Alphabet/Google lost the initial trial phase of the case as Google was again declared a monopolist; this time in the market for software used to buy and sell advertising placed on web pages. In a recent hearing, the parties got to again argue their positions on remedies. The DOJ is pushing for the judge to mandate Alphabet/Google to divest itself of its ad-Tech business. Google argues that breakup could hurt advertisers and publishers who rely on the advertising revenue generated by Google's ad-tech. While the judge might want the parties to settle the case, we consider this unlikely before a final decision on remedies and in any event, the case is likely to be appealed to a higher court. Closing arguments in this case are scheduled for November and it could take the judge several months after that to come to a decision.

In another regulatory related matter, the French data protection authority levied a 325 million euro fine against Google for breaking France's data protection law, alleging that Google did not properly inform French users of cookie tracking when accessing Google services and encouraging users to opt for personalized advertising. The French authority also sanctioned Google in 2020 and 2021 over practices involving cookies. Cookies are small pieces of code sent by a website to a browser to provide an easier, more personalized and

functional user experience. While the fine is relatively small--a hard thing to say over hundreds of millions of euros--compared to multi-billion dollar past fines against Google, it is one more indication of the amount of global regulatory backlash against this highly successful internet competitor.

Alphabet/Google's YouTube held its Made on YouTube event on September 16. The event was aimed primarily at introducing YouTube creators (and industry press and critics) to a host of new creation tools, including many GenAI powered features. While much has been made in the last few weeks of the introduction of new GenAI powered video services including the launches of OpenAI's Sora 2 and Meta Platforms' Vibes, we need to remember that Google's YouTube is the 500-pound gorilla in streaming video with 500 hours of content uploaded to YouTube every minute. YouTube dominates not just short form streaming video but also has the highest share of television viewing time overall in the U.S. at 12% according to Nielsen.

While using new GenAI tools to make content creation easier, cheaper, and perhaps more vivid is all well and good, industry analyst Ben Thompson pointed out the introduction of one new GenAI tool that could be game changer for both YouTube and its large cadre of creators. YouTube announced a new GenAI-powered product tagging tool that makes it easier for creators to link products mentioned/shown in a video with that product's e-commerce site. While this tool is still in its infancy, the future implications for a robust product auto-tagging tool that could drive e-commerce, something that is of critical importance for creators, could be one more reason for creators to flock to YouTube rather than other streaming services. Of course, the cut of e-commerce generated by auto-tagging could also become another YouTube revenue stream. YouTube generates annual run rate revenue of \$36 billion, about 12% of Alphabet total net revenue.

YouTube may also have figured in another industry deal. Streaming music and podcast service Spotify and long-form streaming video service Netflix announced a new deal on October 14 whereby Spotify will license certain podcasts, including popular sports podcasts from Bill Simmons, for exhibition on Netflix in 2026. The New York Times reports that the deal prohibits the license of these podcasts to YouTube. That the deal would include the YouTube prohibition reveals just how potent a threat Netflix thinks YouTube could be to its business.

Although some industry critics speak of a GenAI bubble, similar too or perhaps even bigger than the early 2000's dotcom bubble, Google continues to announce new investments as demand from GenAI compute infrastructure skyrockets. In October, Google announced a new \$9 billion investment in its South Carolina data center through 2027 and a \$15 billion investment in a data center in India through 2030. In September, Google announced a \$6.67 billion investment in AI research and data center infrastructure in the United Kingdom.

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Alphabet expects to announce 3Q25 results on October 29 after market close.

Our 2025 GAAP EPS estimate is \$9.63 and our 2026 forecast is \$10.05. Our estimates imply 12% EPS growth on average over the next two years. Our long-term earnings growth rate forecast is

MANAGEMENT & RISKS

Generative AI, exemplified by the success of OpenAI's ChatGPT model among a host of other competitors, poses an existential threat to Alphabet's core revenue engine, internet search. OpenAI launched its SearchGPT search engine in beta (test) mode in July 2024 and it became generally available to all users in February 2025. Google now provides an AI overview in its search results and has even begun to monetize AI overview with advertising. The GenAI competitive threat to Google's internet search business bears close monitoring.

Like Microsoft and Intel before it, Alphabet has run into serious antitrust issues. Google has lost both the federal, U.S. Department of Justice cases against it at the trial court level. Though the remedies decided in the first case turned out to be liable for Alphabet, the second case related to Google's ad-tech business is now in the remedies phase and the judge could decide on remedies which could run anywhere from a possible break-up to more benign sanctions. In any event, we think these cases will be headed for appellate review, perhaps up to the U.S. Supreme Court. The European Commission has issued adverse rulings and levied record-breaking fines, with perhaps more to come. Many U.S. states have filed complaints against Alphabet's Google division. Much of this antitrust litigation targets Google's dominance in the search and digital advertising markets. Google continues to face antitrust litigation from all si

Google continues to face regulatory issues in Europe. In late 2022, the European Union passed new legislation, the Digital Services Act (DSA) and the Digital Markets Act (DMA), both aimed at strictly regulating large online businesses, i.e., Google and other large American tech companies. On April 25, 2023, Google Search, Google Play, Google Maps, and Google Shopping were designated as a 'very large online platform' or a 'very large online search engine' by the European Commission, making them subject to the DSA. The DSA is aimed at regulating Google's practices around content moderation/disinformation and user privacy, among other issues, and the company will be required to undergo outside audits of its practices and share algorithmic data with EU regulators.

The DSA took effect on August 25, 2023, and penalties for noncompliance are severe. The obvious risk to Alphabet is the imposition of a severe financial penalty for alleged noncompliance, though regulations could also have the perverse effect of locking in the existing competitive structure of an industry. Some critics claim that this occurred when the EU enacted its General Data Protection Regulation in 2018, as large companies with more resources are better able to comply with these laws than smaller competitors. EU regulators have tried to skirt this issue by making the new laws

applicable only to services that aggregate very large numbers of users. While regulatory litigation and actions in the U.S. and Europe may take years to play out, we see them as a material risk to Alphabet which could one day be subject to onerous regulation and perhaps even to a forced breakup, as well as to additional large fines.

In September 2024, the company lost an appeal of a 2017 EU decision that charged Google with giving preferential treatment to its own price-comparison shopping service versus competitors, which included a 2.4 billion euro fine. In a separate case, Google scored a partial win when the General Court of the European Union, the EU's second highest court, reversed a 1.49 billion euro fine, though upheld the European Commission's findings around Google's anticompetitive behavior in restrictive contracts related to advertising on third party websites. In an echo of the U.S. ad-tech case against Google, the U.K. Competition and Markets Authority made a provisional finding that Google has engaged in anti-competitive conduct around favoring its own ad-tech. In January 2025, the CMA began an investigation of Google's search services.

Google also continues to be sued for anti-competitive behavior in the private litigation space. In August 2024, local business and social network website Yelp sued Google in federal court for preferencing its own local services over Yelp. In December 2023, Google lost an antitrust jury trial in a suit brought by videogame publisher Epic Games, the distributor of the iconic 'Fortnite' videogame. Epic Games' lawsuit revolved around the Google Play app store, the 30% fee charged to app developers for customer purchases, and the rights of app developers to use their own distribution and billing methods while remaining on Google Play. Google is appealing the verdict. We note that Epic Games lost a similar antitrust suit against Apple and as Tech reporter Casey Newton pointed out, third-party app stores and billing systems became a legal requirement in Europe in 2024. In something of a turnabout, Google filed a complaint against Microsoft in September 2024 with the European Commission alleging anti-competitive behavior in the enterprise software market by Microsoft's Azure cloud service.

Alphabet's internet advertising-based businesses are highly competitive and subject to rapid and disruptive technological change. The rapid development of generative AI is a new and material risk to Google's dominance in internet search and to Alphabet as a whole. To remain relevant, Alphabet must keep up with, if not lead, such technological changes. Management recognizes that cultural norms around user privacy are evolving. Such norms could develop in a direction that limits Google's use of user data to make advertising more targeted, more relevant to the user, and thus more valuable to advertisers. The rapid adoption of mobile connectivity is a strong secular trend, and Google competitor Facebook has developed a mobile advertising platform to challenge Google's hegemony in digital advertising. Another deep-pocketed tech competitor, Amazon, has also moved into the advertising business, which threatens Alphabet/Google's industry position. Mobile search, particularly important to Alphabet/Google, remains a vibrant business, though it typically carries a lower rate. Alphabet must find ways to capitalize

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profitably on emerging platforms to sustain its growth.

Management does not provide specific forecasts and instead discusses the business only in general terms. This leads to large variances - positive or negative - between consensus estimates and actual results. In addition, while the first and fourth quarters are seasonally strong, the second and third quarters are seasonally slower, and the investment community may underestimate or overestimate these seasonal effects. Large negative variances to consensus may hurt GOOGL shares.

Finally, management may not be able to guide the company's rapid growth efficiently. Competitive pressures are also likely to increase as Alphabet's rivals - Apple, Facebook, Amazon, Yahoo, and Microsoft - continue their attempts to capture market share in the online advertising space, enterprise cloud computing, streaming internet video, generative artificial intelligence, and other competitive markets. While Alphabet's search engine, its core business, has essentially outpaced all its peers and its Android mobile operating system is the dominant global system, Alphabet competes at subscale in both cloud computing, well behind Amazon Web Services and Microsoft Azure, and in hardware, with a small fraction of competitor Apple's business. Alphabet has invested heavily to catch up in cloud computing and hardware, but although Alphabet's cloud computing business is obviously growing rapidly, it has yet to demonstrate that it can actually take market share while also expanding profitability.

Anat Ashkenazi became CFO on July 31, 2024, replacing Ruth Porat who was promoted to president and chief investment officer. Ms. Ashkenazi had been CFO of pharma company Eli Lilly since 2021 and worked for Lilly in various financial executive positions since joining that company in 2001.

COMPANY DESCRIPTION

Alphabet, formerly called Google, maintains the largest online index of websites accessible through automated search technology. It generates revenue through online advertising, cloud services, and hardware. Google is now an operating segment of Alphabet. The company was founded in 1998 by Sergey Brin and Larry Page and went public in 2004.

Google's AdWords is an auction-based program that lets businesses display ads along with particular search results. Google's AdSense program enables websites in the company's network to serve targeted ads, based on search terms or web content, from AdWords advertisers. Most of the revenue generated through AdSense is shared with network partners. In addition, Alphabet owns YouTube.com, the web-based video site. It has expanded into mobile telephony with its Android smartphone operating system, into cloud services, and most recently, into autonomous driving. About 52% of Alphabet's revenue is generated outside the U.S.

On April 3, 2014, Alphabet's new nonvoting class C shares began trading under the ticker GOOG. Alphabet's publicly held class

A shares switched to the ticker GOOGL. The effect of the new class C share issuance was a non-economic 2-for-1 stock split.

On July 15, 2022, Alphabet executed a 20-for-1 stock split on its Class A, Class B and Class C stock. The stock split had no impact on the economic value of GOOGL shares.

INDUSTRY

Our rating on the Communication Services sector is Over-Weight. Social media giants, which represent the largest weight in the sector, continue to widen their leadership in AI over top cloud company Amazon and consumer products leader Apple. The Communication Services sector accounted for 10.1% of the S&P 500 as of the end of September. We think diversified investors should have exposure to the sector, in line with the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 23.7%. The sector outperformed in 2024, with a gain of 38.9%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.2.

Over the past five years, the sector's weighting has ranged from 7% to 12%. The sector's P/E ratio on projected 2026 EPS was 21, below the market multiple. The yield of 1.0% was below the market average. The sector's smoothed earnings growth rate of 11% was above the market average.

The Communication Services sector is primarily a cyclical growth sector. Because the sector is highly valued, it is not very sensitive to changes in the macroeconomy. However, the macroeconomic factors that may affect the performance of stocks in the Consumer Services sector include Unemployment Rates, Labor Costs, and Price Increases, among others.

Potential sell signals for stocks in the Communications Services sector can be a change in the direction or rate of a company's sales or earnings growth; rising interest rates, which can reduce premium valuations; and changes or uncertainty in the regulatory or global trade environment.

At this stage of the market and economic cycle, our favored industry within the Communication Services sector is Interactive Media & Services.

VALUATION

Alphabet shares are up 33% year-to-date on a total return basis, compared to a 14% advance for the S&P 500, a 27% gain for the S&P 500 Interactive Media & Services (Industry) GIC level 3 index, a 25% gain for the NYSE FANG+ Index, and a 18% gain for the Roundhill Magnificent Seven ETF according to Bloomberg. Alphabet's trailing EV/EBITDA of 20.5 is above the peer median of 18 and its own

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five-year average of 17. The forward EV/EBITDA of 15 is about equal to the peer average, compared to an historical discount of 6%. We are maintaining our BUY rating on GOOGL and raising to a 12-month target price to \$300 from \$265.

On October 17, BUY-rated GOOGL closed at \$253.30, up \$1.84. (Joseph Bonner, CFA, 10/17/25)

American Express Co. (AXP)

Current Rating: **BUY**

Publication Date: **10/17/25**

HIGHLIGHTS

*AXP: Raising target as spending volume growth accelerated in 3Q*On October 17, American Express reported 3Q25 earnings of \$4.14 per share, up from \$3.49 a year earlier and above the \$3.98 consensus. Total network volumes rose 8%, up from the 7% pace in 2Q.

*We expect continued healthy spending volume from AXP's generally affluent card members and see marketing efforts leading to good card member growth. A recent re-fresh offering an enhanced value proposition for the flagship Platinum card should also provide spending volume benefits.

*Along with 3Q results, management improved the 2025 guidance range now calling for revenue growth of 9%-10% (up from a prior 8%-10%) and EPS of \$15.20-\$15.50 (up from a prior \$15.00-\$15.50), implying 14%-16% growth and healthy positive operating leverage in our view.

*Our revised target price is \$365, or 21-times our 2026 est

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on American Express Co. (NYSE: AXP) following 3Q earnings, which were helped by continued strength in billed business. Management improved the 2025 guidance range now calling for revenue growth of 9%-10% (up from a prior 8%-10%) and EPS of \$15.20-\$15.50 (up from a prior \$15.00-\$15.50).

In September 2025, American Express announced enhancements to its U.S. consumer and business Platinum cards, offering what it said was \$3,500 in annual value across travel, dining, entertainment, shopping, wellness, and business solutions segments of spending. We look for the re-fresh to provide additional spending volume benefits going forward as cardmembers consolidate spending on their Platinum card to maximize reward benefits.

With respect to billed business, the company's customers, who tend to have higher incomes than those of other credit card companies as well as better credit scores, are generally more insulated from economic distress and have not shown signs of slower spending despite periods of high inflation and interest rates. Rising stock market and home equity values, along with greater interest income from bond portfolios, remain tailwinds for consumer spending for this cohort.

AXP appears keenly aware of elevated competition in the credit card industry, noting that rewards and pricing in particular have become very heated. However, the company has also emphasized the strong cardholder loyalty and other differentiating factors of its premium cards. While we believe that AXP will maintain share at the high end of the premium card market, we expect the lower tier of that market to face increased competition from lower-priced cards with similar rewards benefits.

Merchant acceptance remains a top 'pain point' for AXP card members. The company continues to make progress on this front, emphasizing the benefits of its card members' higher spending; however, AXP's greater transaction fees are often an offsetting negative for merchants. The company is aiming to reach merchant-acceptance parity with other card networks by using modified pricing in some segments, as well as by focusing on franchises and partnerships.

In our view, the company has competitive advantages with its closed-loop platform, in which it acts as merchant acquirer, merchant processor, issuer processor, and payment issuer. This is particularly true in the co-brand space, as the closed-loop system provides the company with data on consumer spending habits that allow it to target offerings and promotions more effectively. The closed-loop system also helps with fraud prevention. We note that management's own metrics show above-industry-average performance with respect to spending growth, customer retention, and the prevention of fraud. Among large competitors, only Capital One (which recently acquired Discover Financial) has a similar closed-loop system. However, we do not believe that Amex has been as innovative in the payments space as other providers, such as PayPal, which have developed in-app, in-store, and online payment mechanisms to compete with traditional operators.

We believe that the high-quality AXP shares offer value at current levels. We are raising our target price to \$365 from \$340, or 22-times our 2026 EPS forecast, deserved we believe by demonstrating consistent positive operating leverage and mid-teens EPS growth.

RECENT DEVELOPMENTS

AXP shares have risen 15% over the past year, versus a 14% gain for the broad market.

On October 17, American Express reported 3Q25 earnings of \$4.14 per share, up from \$3.49 a year earlier and above the \$3.98 consensus.

Net revenues rose 11% to \$18.4 billion, aided by a 7% increase in discount revenues on higher billed business and a 12% rise in net interest income. Consolidated expenses were \$13.3 billion, up 10% from the prior year, mostly reflecting higher customer engagement costs.

Lending net write-offs were 1.9% of loans in 3Q25, equal to a

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year earlier. The company had a \$1.29 billion loan loss provision, down from \$1.36 billion a year earlier. Net income was up 16%, to \$2.90 billion. EPS was up a greater 19%, reflecting a 2% decline in average shares outstanding.

EARNINGS & GROWTH ANALYSIS

In 3Q25, total network volumes rose 8% from the prior year, up from the 7% pace of 2Q25, with increases of 9% in U.S. consumer, 4% in commercial services, and 13% in international. We expect card spending growth, and thus billed business, to remain in the 7%-9% range. We note that the company's relatively affluent cardholders have been less impacted by inflation and have not shown signs of slower spending. Rising stock market and home equity values, along with greater interest income from bond portfolios, remain tailwinds for consumer spending for this cohort in what's known as the 'wealth effect.' While AXP is often perceived as having significant exposure to travel & entertainment spending, the proportion of T&E spending on its cards is actually about 30%. The company's September 2025 re-fresh of its Platinum card benefits is also producing early cardmember spending gains.

Along with 3Q results, management increased its 2025 guidance now calling for revenue growth of 9%-10% (up from a prior 8%-10%) and EPS of \$15.20-\$15.50 (up from a prior \$15.00-\$15.50), implying 14%-16% growth. Its long-term aspiration is annual revenue growth over 10% and mid-teens EPS growth.

The company continues to spend significantly on marketing, with \$6 billion spent in 2024, as it seeks to acquire new card members and makes a push toward Millennial and Gen Z demographics.

We are raising our 2025 EPS estimate to \$15.58 from \$15.50, as spending volumes continue to surprise to the upside. That said, we are moderating our 2026 forecast, which moves to \$17.26 from \$17.34.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on American Express is High

AXP reported a Tier 1 common equity ratio of 10.5% on September 30, 2025, under Basel III, down from 10.7% a year earlier and well above the regulatory minimum of 7%. AXP has targeted a ratio in the 10%-11% range. In 3Q25, the company repurchased 7 million shares of its common stock. Amex's long-term capital allocation goal is to return 50% of capital to shareholders and retain 50% for growth initiatives and acquisitions.

The company raised its quarterly dividend by 17% to \$0.82 per share, or \$3.28 annually, beginning with the 1Q25 payment. We expect dividends of \$3.28 in 2025 and \$3.52 in 2026. The yield is about 1.0%.

MANAGEMENT & RISKS

American Express is led by Chairman and CEO Stephen J. Squeri, who succeeded Kenneth Chenault following his retirement in February 2018. In August 2023, Deputy CFO Christophe Le Caillec

became the new CFO following the retirement of Jeffrey C. Campbell.

American Express is broadly exposed to global economic conditions because its revenue growth depends on increased spending by both consumers and businesses. In fact, merchant discount fees now account for about 55% of the company's revenue. However, in contrast to Visa and MasterCard, American Express has a large card loan portfolio of about \$145 billion that generates added revenues from loan growth and/or margin expansion.

In June 2018, the Supreme Court ruled that American Express did not violate antitrust laws through the use of contractual agreements with merchants that prohibit merchants from encouraging individuals to use credit cards with lower swipe fees.

A long-term concern is that the discount rate - the rate the company charges merchants for transactions - declines faster than we expect. If it does, AXP will need to add even more accounts and drive more spending volume to compensate for the lost revenue. At the same time, the discount rate gap between American Express and both Visa and MasterCard has narrowed in recent years, thereby increasing the value proposition for Amex merchants. AXP has also demonstrated to merchants that card member spending is typically much greater on Amex cards than on either Visa or MasterCard.

COMPANY DESCRIPTION

American Express provides charge and credit payment card products and travel-related services to customers worldwide. The company's product portfolio consists of charge and credit card products; expense management products and services; consumer and business travel services; stored-value products, including travelers checks and other prepaid products; network services; point-of-sale, marketing, and information products and services for merchants; fraud prevention services; and the design of customer loyalty and rewards programs.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16,

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below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

AXP shares have traded in a range of \$220-\$349 over the past year and are currently toward the upper end of that range. We expect spending volume from the company's generally affluent cardholders to remain strong, helped by a recent re-fresh of rewards for the flagship Platinum card, while marketing efforts lead to good card member growth. We also see long-term benefits from the greater usage of credit cards relative to cash and checks.

AXP shares trade at 21.5-times our EPS estimate for 2025. Our target price is \$365 (raised from \$340), or about 21-times our 2026 estimate.

On October 17 at midday, BUY-rated AXP traded at \$342.11, up \$18.99. (Stephen Biggar, 10/17/25)

ASML Holding NV (ASML)

Current Rating: **BUY**

Publication Date: **10/15/25**

HIGHLIGHTS

*ASML: Raising 12-month target to \$1,200*ASML delivered 3Q25 IFRS revenue that missed consensus expectations but EPS that topped the Street view. ASML rallied on above-consensus 4Q25 guidance and reaffirmation of 2025 top-line growth targets.

*Revenue grew 1% year over year and EPS grew 4%. Bookings were up 100%-plus annually and down 3% sequentially, about matching consensus expectations. AI is a key driver of demand for the company's most advanced products.

*Sales of leading-edge EUV lithography tools declined in 2024 but are on track for strong growth in 2025 in response to demand for generative AI applications and premium tier edge devices. While the company remains cautious on the 2026 outlook, management has become more positive on the year ahead.

*We believe that the U.S.-traded ASML shares are attractively valued at current prices. We are reiterating our BUY rating and raising our 12-month target price to \$1,200 from \$1,000.

ANALYSIS

INVESTMENT THESIS

BUY-rated ASML Holding N.V. (NGS: ASML) rose 4% in a moderately higher market on 10/15/25 after the company delivered IFRS revenue that missed consensus expectations but EPS that topped the Street view. ASML rallied on above-consensus 4Q25 guidance and reaffirmation of 2025 top-line growth targets, and very strong bookings of EUV tools.

ASML's 3Q25 revenue of 7.52 billion euros was up 1% from 3Q24 and below the middle of management's guidance range. Gross margin expanded year over year on mix and volume, and earnings of 5.48 euros per share for 3Q25 rose 4% on a year-over-year basis. Management, which in July stated it could not guarantee growth in 2026 due to macroeconomic and geopolitical factors, has become guardedly positive on the year-ahead outlook.

Following a strong first half of 2025, 3Q25 bookings of 5.4 billion euros more than doubled year over year from a depressed 3Q24 and came in about in line with consensus expectations. EUV bookings of 3.6 billion euros were 67% of total. ASML's EUV machines are now contributing about half of revenue (47% in the first nine months of 2025), after representing less than 40% in 2024.

ASML continues to expect 2025 to be a growth year. For 4Q25, ASML guided for revenue of 9.2-9.8 billion euros; midpoint guidance is consistent with 3% growth. The company reiterated revenue growth guidance for full-year 2025 revenue of about 15%, equating to 32.5 billion euros.

On a regional basis, ASML anticipates lower overall shipments to China in 2026 amid still percolating political pressures. The Dutch government's seizure of Netherlands-based but China-owned Nexperia could result in collateral damage to ASML. The combination of recovery in market demand from traditional regional leaders (Korea, Taiwan, and Japan) and lower net percentage of sales derived from

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China is expected to be positive for margins going forward, given an improved mix of cutting-edge devices.

After a challenging 2022, ASML benefited in 2023 from additions to productive capacity. Prohibitions on technology exports to China were a limiting factor in 2024. AI and premium-tier device demand, a normalized supply chain, and the company's improved ability to fulfill orders have driven top-line growth and margin expansion in 2025. We look for these factors to drive long-term growth.

ASML has unmatched leadership in extreme ultraviolet (EUV) and deep ultraviolet (DUV) lithography, blue-chip finances, and a strong commitment to shareholder returns. We launched ASML with a BUY rating at a price of \$490 in June 2022, based on growing demand for the company's advanced semiconductor capital equipment solutions and a healthy industry environment. We believe that the U.S.-traded ASML shares are favorably valued at current prices. We are reiterating our BUY rating to our 12-month target price of \$1,200, raised from \$1,000.

RECENT DEVELOPMENTS

ASML is up 42% year-to-date in 2025, compared with a 57% gain for close peers. ASML edged up 1% in 2024, compared with a 35% gain for the semiconductor capital equipment peer group and 26% for the total Argus semiconductor group. ASML rose 39% in 2023, compared with the 57% gain for close peers; declined 31% in 2022, versus a 32% decline for peers; and rose 67% in 2021, vs. a 53% gain for the semiconductor capital equipment peer group.

For 3Q25, revenue of 7.52 billion euros rose 1% from a year earlier. Revenue lagged the 7.65 billion euro midpoint of company guidance of 7.4-7.9 billion euros and missed Street expectations of 7.73 billion euros. On an IFRS basis, 3Q25 earnings were 5.48 euros per diluted share, up 4% from 5.28 euros in 3Q24. The consensus estimate was 5.37 euros for 3Q25. On a U.S. dollar basis, and assuming a \$1.17/euro average exchange rate for 3Q25, GAAP EPS of \$6.41 rose 12% annually.

CEO Christopher Fouquet, while acknowledging the overhang of U.S. tariffs on global trade, stated that the company has seen a flow of positive news in the past few months. This news flow has helped reduced some of the uncertainties regarding the 2026 outlook that the company discussed in July. ASML continues to see strong news about commitments to AI, which is expected to drive investments in advanced logic and DRAM.

The CEO noted that AI demand growth is now expected to benefit a larger portion of the customer base, in what the company sees as a key new development. ASML continues to make good progress with what it calls 'lithography intensity,' as new EUV machines are adopted by DRAM and advanced logic customers. On the downside, demand from China is on track to be significantly lower in 2026 compared to 2024 and 2025.

After guiding cautiously on 2026 in June, due to tariffs, geopolitics and China, management now expects 2026 revenue to grow from 2025 levels. The dynamics of the product mix are expected to favor EUV, according to the CEO, while the lower level of China sales is expected to impact DUV demand.

Artificial intelligence continues to be the primary growth driver in the semiconductor and semiconductor capital equipment markets, encompassing both logic and memory. ASML is forecasting growth in logic in 2025 compared to 2024, as customers continue to add capacity in the most advanced nodes. DRAM memory remains 'very strong' as customers invest in high bandwidth memory (HBM) and DDR5 products. Memory customers want more and more layers on DRAM devices.

The intensifying focus on AI and customer demand is supporting a planned capacity expansion for EUV of approximately 30%. The low-NA NXE:3800 tool has significant throughput compared to predecessor products and will support this capacity expansion without a significant increase in machines in field. High-NA tools further support this planned expansion.

The Dutch government recently took actions against Nexperia that, while not directly pertinent to ASML, could have repercussions in a fraught political environment. Spun off from Philips N.V. in 2006, Netherlands-based Nexperia primarily produces lagging-edge diodes and transistors most notably for the automotive market. In 2019, Nexperia was acquired by China-based Wingtech Technology Co.

Late in September 2025, the Dutch government cited the Goods Availability Act and announced plans to seize control of Nexperia, based on national security concerns about losing access to crucial technology. The U.S. government earlier warned that the company would need to replace the Chinese national serving as CEO in order to prevent Nexperia from being placed on the U.S. entities list. Chairman and CEO Zhang Xuezheng was suspended by an Amsterdam court on 10/6/25. Nexperia CFO Stefan Tifler is currently serving as interim CEO.

China responded by banning Nexperia and its subcontractors from exporting any of its products manufactured in China. Although this matter does not directly impact ASML, we note that ASML's sales to China amounted to 8.9 billion euros in 2024. First-half 2025 sales to China were 3.1 billion euros, down 28% from 1H24 but still nearly 30% of total revenue. China could use limitations on ASML imports as a lever in its tiff with the Dutch government.

ASML's bookings in 3Q25 were 5.4 billion euros, up over 100% annually and down 3% sequentially from 5.5 billion euros in 2Q25. Total book-to-bill was 0.97, about level with 0.99 in 2Q25. EUV orders of 3.6 billion euros represented 67% of total bookings. Bookings are expected to remain volatile in any given quarter.

For 3Q25, net systems sales of 5.56 billion euros (74% of total

GROWTH / VALUE STOCKS

revenue) decreased 6% annually from 3Q24. Revenue from service and field operations of 1.96 billion euros (26% of total) was up 27% annually.

Within systems sales, EUV systems revenue of 2.11 billion euros (38% of systems revenue) was up 2% annually and down 21% sequentially from 2Q25. EVU sales represented 38% of 2024 system revenue and declined 9% annually in 2024. The first quarter of 2025 represented the first time in which EUV was more than half of total systems revenue. For the first nine months of 2025, EUV sales represented 47% of systems sales and grew 56% annually.

Investor excitement around the ASML shares is focused on EUV systems, and particularly the company's most advanced machines known as High NA. The CEO reiterated that customers will ultimately use a mix of high NA and low NA machines to optimize their production, their technology roadmaps, and their costs. Both low NA and high NA demand and production are continuing to ramp as planned.

As customers transition to the new technology, ASML anticipates that the majority of EUV shipments in 2025 will be 3800E lithography machines, which will then transition to EXE:5000 systems as the year ends and 2026 gets underway. ASML's EUV products are several generations ahead of the competition in serving these end markets. The company has largely resolved its fast-shipping issues and does not anticipate any additional fast-shipping revenue for EUV.

ArFi sales include the company's advanced deep ultra-violet (DUV) lithography systems, which from a technology perspective are one level below the company's leading EUV systems. In 3Q25, DUV lithography systems (52% of systems revenue) were up 2% year over year and up 20% sequentially from 2Q25. Shortages of skilled WFE system operators at semiconductor customers have been constraining sales, but that issue is moderating.

Remaining system sales of less advanced (legacy) devices represented a combined 10% of sales for 3Q25. All of these older categories declined year over year with the exception of Metrology & Inspection (4% of systems revenue), which rose 5% year over year. ASML may be ceding share to industry leader KLA Corp., but still grew this business 19% for all of 2024 and 78% for the first nine months of 2025.

In terms of end markets for 3Q25, logic customers accounted for 65% of system sales, while memory customers accounted for 35%. Sales to logic customers were down 5% year over year. Sales to memory customers declined 9% annually. The full-year 2024 end-market breakout within systems sales was 61% logic (down 7% from 2023) and 39% memory (up 11% from 2023), compared with 65% logic and 35% memory for both 2023 and 2022 breakout. For 2025, we expect continued strength in logic and gradual recovery in memory.

The company sold 72 lithography units in 3Q25, down 38% from 116 lithography units sold in 3Q24; the year-earlier quarter included a much lower-margined mix of older machines shipped to China. On a full-year 2024 basis, EUV units declined 17% from 2023, and DUV units increased 3%. The 9 EUV systems shipped in 3Q25 decreased 18% from 11 units shipped in 3Q24.

On a regional basis, sales contributions can fluctuate dramatically due to the lumpy nature and high cost of system shipments. Sales to China amounted to 42% of 3Q25 revenue and were down 16% year over year but up 54% sequentially. For all of 2024, China sales amounted to 41% of revenue and rose 39%, after rising 191% in 2023. For the past two years, Chinese customers have been purchasing earlier-generation DUV systems ahead of possible stiffer sanctions than those initially issued by the Biden Administration in October 2023. Generally, the Netherlands has honored U.S. sanctions.

Two large traditional regional end markets are Taiwan and South Korea. For 3Q25, Taiwan represented 30% of systems revenue; sales to Taiwan rose by 87% year over year. We believe large customer Taiwan Semiconductor Manufacturing will be receiving multiple low-NA and high-NA EUV systems across 2025-2026. South Korea (18% of 1Q25 revenue) posted a 12% annual sales gain. For all of 2024, Korea revenue (21% of total) declined 15%, while Taiwan (11% of 2024 revenue) was down 63%. Argus believes these two end markets are preparing for shipments of mainly low-NA and some High-NA EUV systems in 2025-2026.

Sales to the U.S. fell 73% year over year in 3Q25 from record year-earlier sales. ASML's sales to the U.S. rose 64% in 2024 and amounted to a highest-ever 17% of annual revenue, after rising by 125% for all of 2023. Non-Asian markets have been benefiting from national programs such as the CHIPS Act. Tariffs and other incentives are now also acting to drive semiconductor production on-shore in the U.S., Europe and parts of Asia in recognition of electronics production as a key national strategic priority.

ASML reiterated 2025 guidance for revenue to grow 15%, which would be consistent with sales of 32.5 billion euros - at the midpoint of its earlier 30-35 billion euros guidance range. The company expects China to normalize in the high-20% of revenue range in 2025 and then to decline in 2026. We expect China sales to drop from 8.9 billion euros for 2024 to the 7.0 billion euros range for 2025, as sales to Taiwan, Korea, Japan and U.S. all rise in strong double digits. ASML is also modeling 2025 gross margin of 52%, refined from an earlier 51%-53% range and up from 51.3% for 2024.

Global megatrends in the electronics industry are expected to continue to fuel growth across the semiconductor market. Growth in semiconductor demand and increasing lithography intensity, in turn, are driving demand for ASML's products. End markets driving demand include premium-tier edge devices and generative AI applications. ASML views emergence of cheaper AI solutions such as China's DeepSeek as positive for overall AI demand worldwide

GROWTH / VALUE STOCKS

Notwithstanding near-term demand volatility, ASML has unmatched leadership in extreme ultraviolet (EUV) and deep ultraviolet (DUV) lithography. End markets driving demand include premium-tier edge devices and generative AI applications. The company's comprehensive product portfolio is aligned with customers' roadmaps, providing cost effective solutions in support of all applications from leading edge to mature nodes.

As near-term challenges give way to growth opportunities, we believe ASML is poised for multiple years of growth given the multiple market drivers including generative AI data centers and devices, cloud computing, robotics, IoT, EVs and vehicle autonomy, and more. Despite tariff-related caution on 2026 growth, management reiterated its goal for 2030 of revenue of 44-60 billion euros and gross margin of 56%-60%.

EARNINGS & GROWTH ANALYSIS

For 3Q25, revenue of 7.52 billion euros rose 1% from a year earlier. Revenue lagged the 7.65 billion euro midpoint of company guidance of 7.4-7.9 billion euros and missed Street expectations of 7.73 billion euros.

The 3Q25 gross margin was 51.6%, up from 50.8% a year earlier. The operating margin was 32.8% in 3Q25, up from 32.7% in 3Q24.

On an IFRS basis, 3Q25 earnings were 5.48 euros per diluted share, up 4% from 5.28 euros in 3Q24. The consensus estimate was 5.37 euros for 3Q25. On a U.S. dollar basis, and assuming a \$1.17/euro average exchange rate for 3Q25, GAAP EPS of \$6.41 rose 12% annually.

For all of 2024, revenue of 28.3 billion euros rose 3% from 27.6 billion euros for 2023. IFRS earnings were 19.25 euros for 2024, down 3% from 19.89 euros for 2023. On a U.S. dollar basis and using a blended euro/\$ exchange rate of 1.08, we estimate that EPS of \$20.80 per ADS was down 4% from \$21.63 per ADS for 2023.

For 4Q25, ASML expects net sales of 9.2-9.8 billion euros, which at the 9.5 billion euros midpoint would be up in the 3% range annually. Management also forecast gross margin of 51%-53%. That points to EPS of 7.55-7.65 euros, which at the midpoint would be up more than 10% annually from 4Q24. For all of 2025, the company expects revenue to be 30 billion to 35 billion euros, which at the 32.5 billion euros midpoint would be up about 15% from 2024. Gross margin is forecast at 52%.

We are reducing our 2025 IFRS EPS estimate to 25.00 euros per diluted share from 25.99 euros. We are reducing our 2026 IFRS EPS projection to 28.58 euros per diluted share from 29.23 euros. Our estimates are tentative based on tariff uncertainty and the potential for additional U.S. restrictions on China sales impacting The Netherlands' own policies.

On a USD basis, and assuming a euro/\$ exchange rate around

\$1.17/euro for the remainder of 2025 and about 1.14 for all of 2025, our 2025 dollar-based estimate is \$28.56, lowered from \$29.58. Our 2026 dollar-based EPS projection is \$33.44, lowered from \$33.91. Our five-year annualized EPS growth rate forecast for ASML is

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on ASML Holdings is Medium-High. The company is a strong cash generator. In 2021-2022, ASML issued additional debt in order to fund aggressive share buybacks and a doubling of the semiannual dividend.

Cash & short- and long-term investments were 6.81 billion euros at the end of 3Q25. Cash & short- and long-term investments were 13.1 billion euros at the end of 2024, 7.07 billion euros at the end of 2023, 7.38 billion euros at the end of 2022, and 7.97 billion euros at the end of 2021.

Total debt was 2.70 billion euros at the end of 3Q25. Debt was 3.68 billion euros at the end of 2024, 4.63 billion euros at the end of 2023, 3.51 billion euros at the end of 2022, and 4.09 billion euros at the close of 2021.

Debt-to-capitalization was 16.6% at the end of 2024. Debt-to-cap was 25.6% at the end of 2023, 28.5% at the end of 2022, 28.7% at the end of 2021, and 25.2% at the end of 2020.

Net cash was 9.38 billion euros at the end of 2024. Net cash was 2.44 billion euros at the end of 2023, 3.86 billion euros at the end of 2022, 3.99 billion euros at the end of 2021, and 3.07 billion euros at the end of 2020.

Cash flow from operations was 5.44 billion euros in 2023, 8.47 billion euros in 2022, 10.85 billion euros in 2021, 4.63 billion euros in 2020 and 3.28 billion euros in 2019.

ASML has a strong commitment to shareholder returns. In 2021, it spent 8.6 billion euros to repurchase shares, up sharply from 1.2 billion euros in 2020.

Consistent with the IFRS accounting used in Europe, the 2024 dividend will be paid in 2025. Our dividend estimates are 6.40 euros for 2025 and 6.80 euros for 2026.

MANAGEMENT & RISKS

CEO and president by Christophe Fouquet, formerly the Chief Business Officer and head of the EUV business, succeeded Peter Wennink (CEO from 2013 through 2024) in April 2024. Roger Dassen has served as CFO since 2018. Other key management roles include Frederic Schneider-Maunoury, COO; Ron Kool, EVP of the DUV business line; and Jim Koonmen, appointed to the new role of chief customer officer in April 2024.

Costs are rising across the technology sector and particularly in the semiconductor industry. ASML sells an extremely expensive set of products, and each system sale impacts both revenue and operating

GROWTH / VALUE STOCKS

income. At present, exceptional demand for ASML's products is outweighing the risk that high system costs could limit sales.

ASML's main customers are in Asia, while the U.S. and Europe together account for less than 10% of revenue. ASML faces some geopolitical risk, particularly with China acting more aggressively toward Taiwan, and the ever-present risks of conflict between North and South Korea.

Another risk for ASML is that strong multiyear growth in memory has now abated, and that demand may not recover as anticipated. We see limited risk on that front given explosive data demand, fueled by cloud and AI, as well as by new 5G smartphones. Additionally, ASML is benefiting from accelerating demand for advanced logic solutions from merchant foundry and semiconductor companies.

More and more companies are adopting a fully fabless or 'fab-light' strategy in which they use foundries to build their products. The explosive growth in fixed and mobile broadband ensures that demand for high-performance semiconductors will continue to strengthen on both a cyclical and structural basis.

COMPANY DESCRIPTION

Netherlands-based ASML Holdings N.V. provides advanced semiconductor capital equipment solutions. ASML manufactures ultraviolet lithography systems critical to the production of integrated circuits. The company, based in Europe's top technology hub near Eindhoven, has operations in Europe, the Americas, and Asia, and employs 33,000 people. The company supplies both primary semiconductor companies such as Intel and Samsung as well as merchant foundry companies such as Taiwan Semiconductor. Together with its partners, ASML is driving the development of more affordable, more powerful, and more energy-efficient chips and devices.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 34.8% of the S&P 500 market cap as of the end of September 2025. We think diversified investors should have meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of about 21.7%. The sector outperformed in 2024, with a gain of 35.7%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.2.

Over the past five years, the sector's weighting has ranged from 16% to 35%. The sector's P/E ratio on projected 2026 EPS was

28-times on a GAAP basis, above the market multiple. The yield of 0.2% was below the market average. The sector's smoothed earnings growth rate of 15% was above the market average.

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

The following valuation discussion uses ASML financial data calculated in euros and translated into dollars at current exchange rates.

ASML trades at 34.5-times our 2025 dollar-translated GAAP estimate and at 29.4-times our 2026 GAAP forecast; the average two-year forward P/E of 32.0 is below the historical (2020-2024) P/E of 37.8. ASML trades at a two-year-forward relative P/E of 1.39, below the historical (2020-2024) relative P/E of 1.82. Comparable price-based historical valuations point to a value in the \$1,200s, in a rising trend and above current prices.

Compared to semiconductor capital equipment peers, ASML trades at premiums on most price-based multiples. Given the Tech sector recovery after the early-year selloff, peer-indicated value of \$1,000 is rising and is above current prices. We believe that ASML warrants meaningful premiums to peers based on its multi-generation leadership in EUV lithography and on the importance of its machines for semiconductor companies.

Our discounted free cash flow analysis suggests a value in the \$1,600 range. Our blended valuation estimate is in the \$1,400 area, well above current prices. Including the current dividend yield of about 0.8%, appreciation to our 12-month target price of \$1,200 (raised from \$1,000) implies a risk-adjusted total return greater than our forecast return for the broad market and is thus consistent with a BUY rating.

On October 15 at midday, BUY-rated ASML traded at \$1005.90, up \$22.72. (Jim Kelleher, CFA, 10/15/25)

Badger Meter Inc. (BMI)

Current Rating: **BUY**

Publication Date: **10/22/25**

HIGHLIGHTS

GROWTH / VALUE STOCKS

*BMI: Recent weakness offers buying opportunity*BMI shares have underperformed their market benchmark over the past six months, declining 10% compared to a 3% advance for Russell 2000.

*The BMI shares dropped 5% on October 21 after the company reported 3Q diluted EPS that rose 10% year over year.

*Management has signaled confidence in the outlook with another double-digit dividend increase.

*While we have trimmed our EPS estimates, we continue to anticipate double-digit growth.

ANALYSIS

INVESTMENT THESIS

Our rating on Badger Meter Inc. (NYSE: BMI) is BUY. Badger is a Clean Energy company that sells smart water products and services, such as real-time water-quality monitoring, pressure monitoring, and software to municipal water utilities, as well as flow instrumentation and measurement products for water, oil, and chemicals. This well-managed company has a long record of market outperformance and dividend growth supported by increased industry adoption of advanced metering infrastructure (AMI). Management estimates that only 35% of the industry has implemented AMI currently and sees a long runway of growth ahead. BMI's balance sheet is clean, and the company recently signaled confidence in its outlook with a 26% dividend hike. From a technical standpoint, the shares have been in a bullish pattern of higher highs and higher lows since March 2020. The shares are not cheap, and pullbacks often present attractive buying opportunities. That just happened. We are reiterating our BUY rating but lowering our target price from \$240 to \$210 to account for the recent earnings volatility.

RECENT DEVELOPMENTS

BMI shares have underperformed their market benchmark over the past six months, declining 10% compared to a 3% advance for Russell 2000. Over the past year, the shares have also underperformed the benchmark, falling 12% while the Russell 2000 has gained 11%. Over the past five years, BMI shares have returned more than 130%, topping both the index and the industry ETF. The beta on BMI is 0.94.

The BMI shares dropped 5% on October 21 after the company reported 3Q diluted EPS that rose 10% year over year and topped consensus forecasts. Diluted EPS came to \$1.19, versus the consensus of \$1.10. Net sales rose 13% year over year to \$236 million. The 3Q operating margin was steady year over year at 19.5%. For the first nine months of the year, the company has earned \$3.65 per share, up 14% year over year.

Management does not provide formal guidance, but CEO Kenneth C. Brockhorst has commented that the company targets high-single-digit annual top-line growth over the next five years, with stable-to-higher margins depending in part on M&A. Two quarters ago, he noted that 2Q comparisons will be challenging. They were. Last quarter, management commented that 3Q sales are expected to decline sequentially due to the timing of new water metering projects. That was accurate as well. This time, management forecast that its

pricing actions and other factors will lead to wider margins and raised its normalized gross margin target range from 38-40% to 39-42%.

The company has a growth-by-acquisition strategy. In January 2025, BMI acquired SmartCover systems for \$185 million. The transaction, funded with available cash, adds real-time monitoring of utility water collection systems, with a focus on sewer line and lift station monitoring, to the network monitoring applications already offered under Badger Meter's BlueEdge suite of water management solutions. SmartCover's revenue run rate was approximately \$35 million. It is not as profitable as BMI's core operations and may cut into margins for two or three quarters.

EARNINGS & GROWTH ANALYSIS

Badger's products fall into two categories: utility water products (water meters, radios, and related technologies for municipal water utilities, many of which are connected through the company's BlueEdge suite of solutions), typically 85% of sales; and flow instrumentation products (meters, valves, and other products for industrial applications in water, wastewater, and other industries), typically 15% of sales. The company estimates that almost 90% of its products are used in water-related applications, the largest category being municipal water.

Sales to water utilities rose 14% year over year in 3Q. The increase reflected in part the impact of the SmartCover acquisition. Excluding SmartCover, sales increased 8% year over year driven by the Beacon software-as-a-service offering, ultrasonic meters and water quality solutions. The sales comparison was difficult; a year ago, sales were up 26% year over year.

Third-quarter sales of flow instrumentation products rose 4% year over year. Results reflected growth in global wastewater markets offset in part by de-emphasized products and applications.

On the expense side, the 3Q gross margin of 40.7% was above Badger's normalized range of 38%-40% and was wider by 50 basis points from the prior year. The operating margin was steady year over year at 19.5%, due in part to the impact of the acquisition. Base operating earnings, excluding the impact of the acquisition, rose 15% year over year.

Turning to our estimates, based on management's targets, the company's recent results, the expected impact from recent acquisitions and industry trends in water conservation and monitoring, we are trimming our EPS 2025 estimate to \$4.90 from \$4.95. Our estimate implies growth of 16% for the year. We look for growth to continue in 2026 but are also trimming our preliminary EPS estimate to \$5.50 from \$5.55.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Badger Meter Inc. is High, the highest rank on our five-point scale. The company scores above average on our key financial strength criteria of debt levels, fixed-cost coverage, and cash flow generation. It scores average on profitability.

GROWTH / VALUE STOCKS

Badger Meter has no long-term debt outstanding - and no short-term debt. As a result, it has no credit ratings from the major agencies.

The company ended 2024 with cash and cash equivalents of \$295 million. In 2024, free cash flow conversion was 114%, above its target of 100%. In 2023, the free cash flow conversion ratio was 106%.

BMI pays a dividend. It raised its quarterly payout by 19% in August to \$0.40 per share or \$1.60 annually, for a yield of about 0.7%. We think the dividend is secure, and very likely to grow. Our dividend estimates are \$1.48 (up from \$1.46) for 2025 and \$1.70 (up from \$1.64) for 2026.

The company does not repurchase stock and we do not expect it to do so in the near term, as it also prioritizes R&D spending and M&A.

MANAGEMENT & RISKS

Kenneth Bockhorst has been the company's CEO since January 2019 after previously serving as COO. He is also the company's chairman. Robert Wrocklage is the CFO; he joined BMI in August 2018.

Management believes that given the company's backlog and its 'bid funnel' for its digital smart water solutions, it is well positioned for high-single-digit sales growth over the next five years. Going forward, management looks for a gross margin of 39%-42% and continued growth in EBITDA and operating margin.

Management expects to drive growth through the continued development of cellular, radio, and fixed-network technologies. These technologies allow for automated metering, providing an advantage over traditional manual-read meters. According to IHS Markit, meters with connectivity currently make up roughly two-thirds of the North American water-meter market. Automated meter-reading has a lower penetration rate in most international markets.

The company is also driving growth through acquisitions, such as the recent purchases of Trimble, ATi, s::can GmbH, Syrinix, and Telog/Unity, which offer additional monitoring capabilities for customers.

BMI investors face risks related to the cyclical nature of the company's businesses and end markets; intense competition; and economic, political, and other risks - including tariffs -- associated with its foreign operations. The company's numerous acquisitions also raise integration risks. Valuations are steep for the BMI shares, and the stock can sell off if earnings or outlooks disappoint investors.

COMPANY DESCRIPTION

Badger Meter Inc. offers water meters and related radio and software technologies and services to municipal water utilities. The company also provides flow instrumentation products, including meters, valves, and other sensing instruments to measure and control

fluids going through a pipe or pipeline. Its products are in use in over 50 countries. The company is based in Milwaukee, Wisconsin, and has over 2,200 employees. The shares are a component of the S&P 600 small-cap index.

VALUATION

We think that BMI shares are attractive at current prices near \$177, near the low end of their 52-week range of \$162-\$256. The shares had been in a long-term bullish pattern of higher highs and higher lows since March 2020, though the trend has turned bearish since July.

On a fundamental basis, the shares are trading at 32-times our 2026 EPS estimate, at the low end of the five-year historical range of 32-48. Compared to close peer ITRI, BMI trades at a premium. Given the increased demand for remote water metering and monitoring capabilities, as well as the company's market share gains, expanding margins, and record of dividend growth, we are maintaining our BUY rating but are trimming our price target to \$210 to take into account the recent earnings volatility.

On October 21, BUY-rated BMI closed at \$177.35, down \$10.06. (John Eade, 10/21/25)

Bank Of America Corp. (BAC)

Current Rating: **BUY** Publication Date: **10/17/25**

HIGHLIGHTS

*BAC: Raising target following better-than-expected 3Q EPS*On October 15, the company reported 3Q25 earnings of \$1.06 per share, up from \$0.81 a year earlier and above the consensus of \$0.95.

*Management said 4Q25 net interest income should be at the upper end of its prior guidance range, and offered an initial 2026 forecast calling for 5%-7% growth based on similar drivers to 2025.

*Average loans were up a healthy 9%, ahead of peers, with gains across all consumer and commercial categories except commercial real estate.

*We are raising our target price to \$58 (from \$53), or 13.5-times our 2025 EPS estimate, to reflect a better expected revenue and credit loss environment.

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on Bank of America Corp. (NYSE: BAC) following the company's 3Q results. The quarter included a 9% rise in average loans, up from the 7% pace in 2Q, and a continued sequential improvement in net interest income. Trading revenues were strong given volatile markets, while investment banking fees had a healthy rebound.

Management continues to focus on what it terms 'responsible growth.' We believe this may be seen in the company's ability to expand its loan portfolio without taking on excessive credit risk, and to balance growth across segments so that more volatile businesses,

GROWTH / VALUE STOCKS

such as trading and investment banking, do not account for an outsized portion of profits.

We believe that the current BAC share price undervalues the franchise given ongoing improvement in return metrics and continued positive operating leverage. Our target price of \$58 assumes a multiple of 13.5-times our 2026 EPS estimate.

RECENT DEVELOPMENTS

BAC shares are up 23% over the past year, versus a 15% increase for the broad market.

On October 15, the company reported 3Q25 earnings of \$1.06 per share, up from \$0.81 a year earlier and above the consensus of \$0.95. Net revenues were up 11% to \$28.1 billion, reflecting a 9% increase in net interest income (helped by loan growth and a wider net interest margin) and 13% higher fee income.

Net charge-offs were 0.47% of average loans, down from 0.54% a year earlier. The company had a loan loss provision of \$1.30 billion, down from \$1.54 billion a year earlier.

EARNINGS & GROWTH ANALYSIS

Bank of America has four operating segments: Consumer Banking, Global Wealth and Investment Management, Global Banking, and Global Markets. Third-quarter results by segment follow below.

In Consumer Banking, 3Q net income was up 28% to \$3.4 billion, reflecting a 7% increase in revenue (driven by higher net interest income) but only 1% higher expenses and a 23% decline in the provision for credit losses. Consumer investment assets rose 17% to \$580 billion, aided by client net inflows and higher market valuations.

In Global Wealth and Investment Management, net income was up 19% to \$1.3 billion. Revenue was up 10%, aided by higher asset management fees. There was a loan loss provision of \$4 million, down from \$7 million a year earlier, and following a 7% increase in operating expenses (attributed to revenue-related incentives and investment in human resources), the segment pretax margin was 26%, up from 23% a year earlier. Client balances rose 11% to \$4.6 trillion, driven by client inflows and higher market valuations. We expect BAC's focus on this segment to lead to stronger, less volatile earnings going forward, with general improvement in the pretax margin.

In Global Banking, net income rose 12% to \$2.1 billion, as 7% higher revenue was helped by only 2% higher operating expenses. We expect a continuing rebound in investment banking activity to aid results in this segment moving into 2026.

In Global Markets, net income was up 6%, to \$1.6 billion. Revenues were up 11%, mainly reflecting higher sales and trading revenues. Following a 13% increase in noninterest expense, pretax income rose 6%.

Turning to our estimates, in 2025 we look for 8% growth in revenues (up from a prior 7%), aided by a 7% rise in net interest income and higher investment banking revenues. Net interest income troughed in 2Q24 and has steadily improved. Along with 3Q results, the company maintained prior guidance calling for net interest income to grow sequentially to \$15.5 billion-\$15.7 billion by 4Q25, and likely at the higher end of that range. Management also provided initial guidance calling for net interest income growth of 5%-7% in 2026.

The company has also guided to 2%-3% higher operating expenses in 2025, leading to positive operating leverage. With only a 3% rise expected in loss provisions, we look for EPS to be 16% higher in 2025.

We are raising our 2025 EPS estimate to \$3.77 from \$3.66, mostly on the better-than-expected 3Q results, while our 2026 forecast moves to \$4.29 from \$4.31.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on BAC is Medium-High. The company's Tier 1 ratio under the Basel III Advanced Approach (fully phased in) was 13.1% as of September 30, 2025, down from 13.5% a year earlier. We believe BAC remains well positioned to meet the enhanced capital buffers being contemplated by regulators.

Following the June 2025 Federal Reserve CCAR results, the company said its stress capital buffer (SCB) will be 2.5% effective in 3Q25, while its common equity Tier 1 minimum requirement will be 10.0%. Following the results, the company increased its common stock dividend by 8% to \$0.28 per share beginning in 3Q25. Our dividend estimates are \$1.08 for 2025 and \$1.16 for 2026. The shares currently yield about 2.1%.

In October 2021, BAC renewed its authorization to repurchase up to \$25 billion of common stock over time. It repurchased \$5.3 billion in 3Q25.

MANAGEMENT & RISKS

Bank of America is led by Chairman and CEO Brian Moynihan, who was elected to both posts amid calls to separate the positions. Alastair Borthwick took over as CFO in 4Q21, replacing Paul Donofrio.

The company owns about \$470 billion of U.S. consumer loans and is thus broadly exposed to the health of the U.S. economy and housing market. Its total loan portfolio is about \$1.2 trillion.

COMPANY DESCRIPTION

Bank of America is one of the largest financial companies in the world. The company is primarily a U.S. retail and commercial bank, with a network of more than 4,000 branches across much of the country. The 2005 acquisition of MBNA made Bank of America the nation's largest credit-card lender. As such, trends in consumer interest rates, employment, income growth, and borrowing patterns

GROWTH / VALUE STOCKS

represent a significant risk to the company's earnings. The 2008 acquisition of Countrywide made BofA the country's largest mortgage company as well. BofA became a top-tier securities firm and retail broker with the acquisition of Merrill Lynch.

VALUATION

BAC shares have traded between \$33 and \$53 over the past year and are currently near the upper end of that range. We look for lending revenues to continue to improve amid better loan growth and an expanding net interest margin from a steeper yield curve. Investment banking has also been rebounded from tariff-induced market turmoil. We believe that BAC's earnings quality has been steadily improving, as evidenced by its better ROE metrics. Shareholder returns also improved following the 2025 CCAR results, with an 8% dividend increase.

We believe that BAC shares, trading at 13.8-times our 2025 EPS estimate, remain attractively valued. Our target price of \$58 (raised from \$53) assumes a multiple of 13.5-times our 2026 estimate.

On October 16, BUY-rated BAC closed at \$50.44, down \$1.84. (Stephen Biggar, 10/16/25)

Bank of New York Mellon Corp (BK)

Current Rating: **BUY** Publication Date: **10/20/25**

HIGHLIGHTS

*BK: Raising target as positive operating leverage story continues*On October 16, the Bank of New York Mellon reported adjusted 3Q25 EPS of \$1.91, up from \$1.52 a year earlier and above the consensus forecast of \$1.77.

*Management raised net interest income guidance for 2025, now calling for 12% growth (up from a prior high single-digit), aided by higher reinvestment yields.

*Capital returns received a boost following the mid-2025 stress test results with a 13% increase in the common share dividend effective with the third quarter.

*The shares have significantly outperformed the broader market over the past year, which we believe has been helped by the company showcasing consistently positive operating leverage. Our target price is \$116, up from \$105.

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on Bank of New York Mellon Corp. (NYSE: BK) following the company's 3Q25 results. Fees and other revenues were up 7%, while net interest income rebounded 18%. Net interest income guidance was also raised to about 12% for all of 2025, up from prior guidance for high single-digits.

The company has noted the increasing effectiveness of its new commercial model, with more multi-product relationships, higher organic growth and accelerating product innovation. The bank's Pershing unit, which provides clearing, custody, and advisory

services, remains a long-term growth driver. Pershing revenues were up 7% in 3Q, reflecting higher client activity and market values, while assets under custody also rose 11% to \$3.0 trillion.

Medium-term goals include a pretax margin of 33% and ROTCE of 23% (both achieved in 2024). This includes at least a 30% pretax margin in securities services, 45% in market & wealth services, and 25% in investment and wealth management.

At current prices, the stock is trading at about 14-times our 2025 EPS forecast. Based on our expectations that positive operating leverage will continue in the medium-term, we believe that the shares are undervalued. Our target price of \$116 (raised from \$105) implies a multiple of 14.5-times our 2026 EPS estimate.

RECENT DEVELOPMENTS

Over the past year, BK shares are up 35%, versus a 13% increase for the broad market.

On October 16, the Bank of New York Mellon reported adjusted 3Q25 EPS of \$1.91, up from \$1.52 a year earlier and above the consensus forecast of \$1.77.

Revenues were up 9% year over year to \$5.1 billion, reflecting a 7% rise in fee and other revenues and 18% greater net interest i

The Investment & Wealth Management segment had \$2.1 trillion in assets under management as of September 30, 2025, flat with the prior year, as higher market values were offset by offset net outflows. Firm-wide assets under custody or administration (AUC/A) totaled \$57.8 trillion at that date, up 11%.

EARNINGS & GROWTH ANALYSIS

Along with 3Q results, management updated its 2025 financial guidance, calling for net interest income in 4Q to be flat sequentially, resulting in full year net interest income to be up 12%. Expenses were projected to be up 3%. The company continues to expect returning capital consistent with a total payout ratio of 90% to 100%. We look for total revenues to be up 8% in 2025 (up from a prior 5%), with positive operating leverage leading to 21% EPS growth.

Mostly reflecting the better-than-expected 3Q results, we are raising our 2025 EPS estimate to \$7.36 from \$7.04. Our 2026 forecast moves to \$8.00 from \$7.65.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on BK is High. At September 30, 2025, long-term debt of \$32.3 billion was just 7% of total capital. The company's pretax operating margins have been running in the low- to mid-30s area.

In June 2025, the Federal Reserve completed its CCAR stress-test review process for large banks. Following this review, BK raised its quarterly dividend by 13% to \$0.53 per share beginning in 3Q25. The yield is about 2.0%. Our dividend estimates are \$2.00 for 2025 and \$2.18 for 2026. Directors authorized a new \$6 billion

GROWTH / VALUE STOCKS

share-buyback plan effective April 2024, and the company made \$849 million of repurchases in 3Q25.

As of September 30, 2025, BK's estimated common equity tier 1 ratio was 11.7% under the Basel III fully phased-in Advanced Approach, down from 11.9% a year earlier. Management intends to keep the tier 1 common ratio above 10% and the tier 1 leverage ratio above 5.5% on a sustainable basis.

Given its rising capital ratios, the company plans to focus less on acquisitions and more on integration efforts, cost cutting, and the return of capital to shareholders. The company's goal is to return 100% of its earnings to investors in the form of dividends (20%-30% of earnings) and share buybacks (70%-80%).

MANAGEMENT & RISKS

Robin Vince became the company's president and CEO in August 2022 following the retirement of Todd Gibbons, who had been CEO since March 2020. Dermot McDonogh was named CFO effective February 2023, replacing Emily Portney, who transitioned to a new role within the company.

The business model for securities processors carries several major risks. First, the processing businesses involve significant fixed costs for systems and technology and require ongoing investment to improve processing speeds and efficiency. In addition, margins are thin. As a result, the ability to add volume, preferably from new clients and stronger activity levels, is critical to earnings growth. Revenues are dependent on market trading volume, new security issuance, market volatility, and the price performance of the markets themselves.

COMPANY DESCRIPTION

BNY Mellon, the world's largest custody bank, is a global investment company that helps clients manage and service their financial assets throughout the investment lifecycle. The Investment Services segment offers custody and related services for corporations, foundations, endowments, government agencies, banks, and others. The Investment Management segment provides solutions for institutional, intermediary, retirement, and retail markets. BNY Mellon delivers investment management and investment services in 35 countries and more than 100 markets.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of

28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

BK shares have significantly outperformed the broad market over the past year, which we believe reflects the company's story of delivering positive operating leverage on a more consistent basis.

BK shares are trading near the upper end of their 52-week range of \$70-\$111. The stock is trading at about 14-times our 2025 EPS forecast, a modest premium to peer State Street, and at 3.4-times tangible book value, a premium to recent levels that we believe reflects consistently improving operating margins. Trust and custody banks also tend to trade at a healthy premium to book value, reflecting the more stable nature of their growth.

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BK historically has translated mid-single-digit revenue growth into low double-digit earnings growth with help from strong cost controls and share buybacks. Capital returns received a boost following the Fed's mid-2025 CCAR results, with a 13% increase in the quarterly dividend, and the company is in the midst of a sizeable \$6 billion share buyback program.

As the company embarks on continued efficiency efforts and aims to achieve positive operating leverage and ROE improvement, we see BK as favorably valued at current prices. Our target price is \$116 (raised from \$105), or 14.5-times our 2026 EPS estimate.

On October 17, BUY-rated BK closed at \$105.98, down \$0.74. (Stephen Biggar, 10/17/25)

Barrick Mining Corp. (B)

Current Rating: **BUY**

Publication Date: **10/16/25**

HIGHLIGHTS

*B: Raising target price*B shares have significantly outperformed over the past three months, rising 70% compared to a gain of 7% for the S&P 500.

*Given global economic uncertainty over tariffs, the wars in Ukraine and the Middle East, and inflation, gold - which is already trading near the top of its five-year range - is likely to remain in demand.

*The company's results are linked in part to trends in gold production and pricing, as gold prices are soaring to cyclical hi

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INVESTMENT THESIS

Our rating on Barrick Gold Corp. (NYSE: B) is BUY. Barrick is a major producer of gold, with a long history as an industry leader and a clean balance sheet. The company's results are linked to trends in gold production and pricing. Given global economic uncertainty, the wars in Ukraine and the Middle East and inflation, gold - which is already trading at the top of its five-year range - is likely to remain in demand. Recent tariff concerns and global trade uncertainty has also contributed to the increase in gold prices. We are impressed with the company's decision to run the business for the long term, focusing on replenishing and replacing gold reserves, rather than buying them at a premium. Barrick has recently announced a performance dividend of \$0.05 per share raising the total quarterly dividend to \$0.15. We have a favorable view of management's aim of rewarding shareholders for positive performance. The company has set 10-year production goals that assume 25% growth. Our 12-month target price is \$40, up from \$24.

RECENT DEVELOPMENTS

B shares have significantly outperformed over the past three months, rising 70% compared to a gain of 7% for the S&P 500. The shares have outperformed over the past year, with a 77% gain, while the S&P 500 has gained 14%. B has outperformed the materials industry ETF IYM over the past year and underperformed over the past five years. The beta on B is 0.77.

Barrick is based in Toronto but reports results in U.S. dollars. The company recently reported 2Q25 adjusted net income of \$0.47 per diluted share, up 74% from the prior quarter and slightly above the consensus forecast of \$0.46. Revenue of \$3.7 billion rose 18% quarter over quarter. Attributable EBITDA came to \$1.7 billion, as the attributable EBITDA as a percentage of adjusted revenues expanded to 55.4% from 50.7% in 1Q25.

For the first half of the year, adjusted net income per share was \$0.75. Attributable EBITDA came to \$3.1 billion and net sales were \$6.8 billion for the first half of the year.

The company's results are linked in part to trends in gold production and pricing. When global economic conditions become unpredictable, investors often flock to gold. According to Trading Economics, gold is currently trading near \$4,191 per ounce, up 57% for the year and at the high point of its five-year range of \$1,640-\$4,200. Gold prices spiked in 2022 due to the war in Ukraine. Over the past year, gold has jumped another 45%-plus, driven in part by global uncertainty over tariffs and trade wars. The current price of gold reflects the perceived safety of hard assets amid the global conflicts, as well as expectations for lower U.S. interest rates, which tend to weaken the dollar, the currency in which it is priced. The outlook for Federal Reserve rate cuts also helps gold, as lower rates reduce the risk for a global economic recession and thus a potential decline in gold purchased for jewelry. Looking ahead, our forecast trading range for gold in 2025 is \$2,500-\$4,500 and our average price forecast for the year is \$3,700. This compares to average gold prices of \$2,450 in 2024, \$1,960 in 2023, \$1,873 in 2022, \$1,806 in 2021, \$1,781 in 2020, \$1,400 in 2019, \$1,265 in 2018, \$1,277 in 2017, \$1,258 in 2016, and \$1,155 in 2015. In conclusion, as long as geopolitics and global economic uncertainty are part of the market conversation, gold is likely to remain at levels well above the historical averages of \$1,200 since 2000.

Management recently held an investor presentation and shared its financial outlook. Management noted that it expects a five-year price of gold of \$2,400/oz. and a five-year price of copper of \$4.00/oz.

EARNINGS & GROWTH ANALYSIS

Barrick has a history of growth and profitability. Over the past five years, net sales have grown 15% and adjusted EBITDA has risen 25%. The company's full-year EBITDA margin has ranged from 42% to 61% over this time.

The company produced 797,000 ounces of gold in 2Q25 up 5% from 758,000 ounces produced 1Q25. Barrick produced 59,000 pounds of copper in 2Q25, compared to 44,000 pounds in 1Q25. The average realized gold price in 2Q was \$3,295 per ounce, up 14% quarter over quarter. The average realized copper price was \$4.36 per pound, down 3% quarter over quarter.

Management keeps an eye on expenses. Second-quarter

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attributable EBITDA came to \$1.7 billion, as the attributable EBITDA margin narrowed by 470 basis points quarter over quarter to 55.4%. The gold cost of sales was \$1,654 per ounce, up 2% quarter over quarter, and gold all-in sustaining costs (AISC) were \$1,684 per ounce, down 5% quarter over quarter. The reported copper cost of sales was \$2.56 per pound, down 12% quarter over quarter. Copper AISC were \$2.90 per pound, down 5% quarter over quarter.

Along with 2Q25 results, the company has maintained its 2025 guidance. It continues to expect to produce 3.15 million-3.5 million ounces of gold, down from 3.9 million ounces produced in 2024. It projects AISC for gold of \$1,460-\$1,560 per ounce, and constant costs applicable to sales (CAS) of \$1,460-\$1,560 per ounce. It also continued to note that a \$100-per-ounce move in the price of gold from that average would have an attributable EBITDA impact of +/- \$320 million. It maintained projections for copper production in the range of 200 million-230 million pounds, compared with 195 million pounds in 2024, with an AISC of \$2.80-\$3.10 per pound.

Based on management's production forecasts and our outlook for gold and copper prices, as well as expected costs of production, we are raising our 2025 adjusted EPS estimate to \$2.00 from \$1.80. Our estimate implies an EPS increase of approximately 59% for the year. We look for another good year for gold in 2026 and are raising our preliminary adjusted EPS estimate to \$2.50 from \$2.20. We note that due to the volatility in the global gold markets, the consensus range for B is very wide. For 2026, the EPS forecasts range from \$1.91 to \$3.89.

FINANCIAL STRENGTH & DIVIDEND

We rate Barrick Gold's financial strength as High, the top of our five-point scale. The company receives above-average scores on our main financial strength criteria of debt levels, fixed-cost coverage, cash flow generation, and profitability. The company's debt is rated BBB+/stable by Standard & Poor's and A3/stable by Moody's.

Barrick had \$4.1 billion in cash at the end of the latest year and total debt of \$4.7 billion. The debt/capitalization ratio was 16%. Barrick's EBITDA margins are typically in the 40% range.

Barrick pays a dividend. In August, Barrick raised their quarterly dividend by 50% to \$0.15 per quarter or \$0.60 annually, including a \$0.05 per share performance dividend, and the yield is about 1.7%. The rate is highly volatile, as is the price of gold. Our dividend estimates are \$0.50 for 2025 and \$0.50 for 2026.

The company also buys back stock. In February 2025, Barrick announced a new share repurchase program to repurchase up to \$1 billion of outstanding shares over the next year. So far, in 1H25, the company repurchased \$411 million of the announced repurchase program.

MANAGEMENT & RISKS

Barrick is undergoing a management transition. Mark Hill was

appointed Interim President and CEO after former CEO Mark Bristow stepped down at the end of September 2025. Mr. Hill joined Barrick in 2006 and, prior to his appointment, served as the executive responsible for the Latin America and Asia Pacific region. Graham Shuttleworth is the CFO. John L. Thornton is the chairman.

Management is running the business for the long term, focusing on replenishing and replacing gold reserves, rather than buying them at a premium. The company has set ten-year production goals that assume 25% growth.

The primary risk for B investors is gold and copper price volatility. The company also faces a variety of political, financial, operational, country, regulatory, and foreign exchange risks, as well as integration risk related to the recent mergers.

COMPANY DESCRIPTION

Barrick Gold engages in the production and sale of gold, including exploration, development, mining, and processing and operate in 18 countries. Barrick was founded in 1983 and is based in Toronto.

VALUATION

B shares have traded between \$15 and \$36 over the past 52 weeks. At prices near \$36, they are at the top of this range.

On the fundamentals, B shares trade at 14-times our 2026 EPS estimate, below the midpoint of the historical range of 9-23. They are also trading at a price/book multiple of 2.33, at the top of the historical range of 1.1-2.3. On price/sales, the ratio is 4.25, with a range of 2.2-4.3. Given the outlook for the price of gold, we think the current valuations are attractive. Our 12-month target price is now \$40, up from \$24.

On October 16 at midday, BUY-rated B traded at \$36.13, up \$1.45. (Alexandra Yates, 10/16/25)

Charles Schwab Corp. (SCHW)

Current Rating: **BUY**

Publication Date: **10/20/25**

HIGHLIGHTS

*SCHW: Raising target after 3Q EPS beat*On October 17, Schwab reported adjusted 3Q25 EPS of \$1.31, up from \$0.77 a year earlier and above the consensus of \$1.25.

*Core net new assets totaled \$137.5 billion in 3Q, bringing 2025 year-to-date asset gathering to \$355.5 billion (up 41% from prior year), and Schwab ended the quarter with a record \$11.6 trillion of client assets, up 17% from a year earlier.

*The company continues to maintain a strong pace of new account growth, adding more than one million accounts for the fourth consecutive quarter in 3Q.

*We are raising our target price to \$113 from \$110 along with our EPS and revenue estimates after better-than-expected 3Q re

ANALYSIS

INVESTMENT THESIS

GROWTH / VALUE STOCKS

We are maintaining our BUY rating on The Charles Schwab Corp. (NGS: SCHW) following 3Q results, while raising our target price to \$113 (up from \$110). Revenue grew a robust 27% with gains in all categories. The net interest margin expanded, total client assets reached a record \$11.6 trillion, and core net new assets were healthy at \$137.5 billion.

We expect Schwab's long-term revenue drivers to remain asset management fees and net interest income, which together account for about 75% of revenues. Other drivers include strong account growth in most quarters, innovative low-cost products that are taking market share, and operating expense leverage. While industry competition remains heated, Schwab now has the largest number of active brokerage accounts in the industry, and we believe that it has managed competition well. The development of innovative, scalable digital tools has aided the company in acquiring and engaging clients. Currently, the company is actively developing and implementing AI use cases, with 40 different AI applications in various stages. The near-term focus for AI is to empower client-facing representatives and improve internal team efficiency.

We believe that Schwab remains at the forefront of many important industry trends, including business consolidation, reduced fees, and the increasing focus on lower-cost investment vehicles, including passive index funds and its own line of ETFs. When asked about competition from newer digital brokers like Robinhood and Webull in a recent earnings call, Schwab emphasized their differentiated value proposition through broader trading platforms and physical presence with over 400 locations.

Schwab has continued to engage in active product development. In 2Q25 the company launched Advisor ProDirect, a fee-based membership program for new RIAs. It also launched a discretionary version of Schwab Wealth Advisory service and broadly rolled out a retail alternatives platform. Plans are currently in place to develop spot trading capabilities for Bitcoin and Ethereum, with plans to add stablecoins later, and offer Wealth.com's estate planning tools to retail clients.

We expect Schwab to post above-peer-average growth in the medium term thanks to its innovative products and continued market share gains. Schwab has rapidly grown core net assets and continues to take cost-conscious clients from other financial service providers.

RECENT DEVELOPMENTS

In the past year, SCHW shares have risen 31%, compared to a 14% increase for the broader market.

On October 17, Schwab reported adjusted 3Q25 EPS of \$1.31, up from \$0.77 a year earlier and above the consensus of \$1.25. Net revenues for the quarter increased 27% to \$6.1 billion, led by higher asset management fees (powered by organic growth and rebounding equity markets), net interest income (aided by a rebound in securities lending activity), trading revenue (driven by robust volumes), and bank deposit account fees.

Core net new assets totaled \$137.5 billion, up 44%, bringing 2025 year-to-date asset gathering to \$355.5 billion, up 41% from the prior year. Adjusted expenses were up only 5% from the previous year, leading to an adjusted net income gain of 61% to \$2.46 billion.

The company reported record total client assets of \$11.59 trillion as of September 30, 2025, up 17% from the prior year and 8% sequentially. Schwab ranked first in total client assets for publicly reported peers, RIA custodial assets, and daily average trades.

In October 2020, Schwab completed the acquisition of TD Ameritrade (AMTD) in an all-stock deal that valued AMTD at \$26 billion. AMTD stockholders received 1.0837 shares of Schwab for each AMTD share.

EARNINGS & GROWTH ANALYSIS

The company handled an average of 7.4 million daily trades in 3Q25, up 30% from the prior year. This remains well above-trend as customers continue to trade heavily amid volatile markets. Schwab now has 37.9 million active brokerage accounts, up 6% year over year. The company also saw the number of banking accounts increase 10% to 2.2 million.

Schwab's proprietary ETFs have remained a strong source of asset growth (up 23% in 3Q), along with other third-party ETFs (up 27%). ETF assets totaled \$2.87 trillion at the end of 3Q25, up 26% from the prior year. Total mutual fund assets totaled \$2.97 trillion at the end of 3Q, up 11% from 3Q24.

We look for revenues to be up 21% in 2025, led by 28% higher net interest income. We expect long-term market share gains through innovative, competitively priced products, with asset growth well above the industry average. The company has strived for 5%-8% annual asset growth over time.

Based on better-than-expected 3Q results, we are raising our 2025 EPS estimate to \$4.69 from \$4.60. Our 2026 forecast moves to \$5.40 from \$5.37.

FINANCIAL STRENGTH & DIVIDEND

The company had \$20.2 billion in long-term debt as of September 30, 2025, compared to \$49.4 billion in shareholders' equity. It had an estimated adjusted Tier 1 leverage ratio of 7.3%, compared to the company's 6.75%-7.00% long-term target. The company achieved a 38% return on tangible equity in 3Q25, helped by its strong balance sheet and efficient capital management.

Following the Federal Reserve's June 2025 CCAR stress test results, the company said its stress capital buffer (SCB) requirement would remain at 2.5%, effective in 4Q25. The Tier 1 (CET1) ratio minimum is 4.5%.

Schwab increased its quarterly dividend by 8% to \$0.27 per share in 1Q25. The annualized payout of \$1.08 per share yields about

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1.2%. The company continues to target a payout ratio of 20%-30% of earnings. Our dividend estimates are \$1.08 in 2025 and \$1.20 for 2026. In 1Q25, Schwab repurchased 19.2 million shares of common stock for \$1.5 billion related to Toronto-Dominion Bank's secondary offering. In 3Q25, SCHW repurchased 28.9 million shares of common stock for \$2.7 billion.

MANAGEMENT & RISKS

Charles R. Schwab has been chairman of the company since its inception in 1986. Mr. Schwab remains the largest shareholder, with a 12% stake. He owns 141 million shares of stock recently valued at about \$13.3 billion. Walter W. Bettinger II, who served as chief executive officer since 2008, retired at the end of 2024 and was replaced by Rick Wurster. Mike Verdeschi is the chief financial officer.

The company is subject to risks from changing interest rates and trends in the global equity and fixed-income markets. It is also subject to significant regulatory oversight, which has become more burdensome in recent years. The Dodd-Frank Act, for example, has raised the company's requirements for capital and liquidity levels. This may prove less challenging in the near-term as regulatory requirements become looser for big banks under new Fed leadership and presidential administration.

In the near-term, SCHW faces risks from continued deposit outflows and funding costs (wholesale funding specifically) that compress net interest margins. Longer-term, Schwab faces risks from low equity risk premiums, persistent inflation or economic downturns, private creditor competition, reputational risk, and technology or cybersecurity disruptions.

COMPANY DESCRIPTION

Charles Schwab is a leading provider of financial services, with about 37.5 million active brokerage accounts and \$11.6 trillion in client assets. The company offers wealth management, securities brokerage, banking, money management and financial advisory services to individual investors and independent investment advisors. The company has around 33,000 employees.

VALUATION

SCHW shares have traded between \$66 and \$100 over the past 52 weeks and are currently near the upper end of that range.

SCHW shares currently trade at about 20-times our 2025 EPS estimate. We believe that SCHW merits a higher multiple based on the company's strong EPS growth prospects relative to peers, supported by market share gains and a long history of product innovation. Our target price of \$113 (up from \$110) implies a multiple of 21-times our 2026 EPS estimate.

On October 17, BUY-rated SCHW closed at \$94.14, up \$0.73. (Stephen Biggar, 10/17/25)

Cintas Corporation (CTAS)

Current Rating: **BUY**

Publication Date: **10/17/25**

HIGHLIGHTS

*CTAS: Recent pullback in the shares offers a buying opportunity*CTAS shares have underperformed over the past quarter, falling 13% while the S&P 500 rose 6%.

*We believe that high demand, investments in technology and an active M&A pipeline will continue to help the company grow revenue and margins.

*Management has signaled confidence in its outlook with a 15% dividend hike and share repurchases.

*The shares are trading at 38-times our FY25 EPS estimate, below the midpoint of the five-year historical range of 33-45. The price/sales ratio of 7 is within the historical average range of 5.

ANALYSIS

INVESTMENT THESIS

Our rating on Cintas Corp. (NYSE: CTAS) is BUY. This well-managed company has a long record of market outperformance as well as dividend and earnings growth. Cintas, which provides employee uniforms and workplace safety and cleaning services, has continued to generate solid sales growth with help from reoccurring revenue and new client wins that provide Cintas with opportunities to cross-sell their products and services from their vast array of offerings. On profitability, investments in technology have made the company more efficient, resulting in meaningful margin growth. Through these efforts, revenue again grew in all business segments in fiscal 1Q26 and gross margin exceeded 50%.

In our view, Cintas is well positioned for the future as businesses increasingly choose to outsource non-core tasks such as laundry services and workplace cleanliness. Cintas can perform these services for customers while maintaining attractive margins at a lower cost than customers can manage themselves. The flexibility of the company's global supply chain may also attract new business as customers seek to minimize their tariff exposure. On valuation, the shares are trading at 38-times our FY25 EPS estimate, below the midpoint of the five-year historical range of 33-45. The price/sales ratio of 7 is within the historical average range of 5.5-9.0. Our new target price is \$220.

RECENT DEVELOPMENTS

CTAS shares have underperformed over the past quarter, falling 13% while the S&P 500 rose 6%. Over the past year, the shares have declined 13% compared to gains of 14% for the index and 6% for the Industrial sector ETF IYJ. Over the past five years, CTAS has risen nearly 115%, exceeding gains for both the index and the industry. The beta on CTAS is 0.88.

CTAS reports earnings on a GAAP basis. The company recently reported fiscal 1Q26 results that met analyst expectations. Diluted EPS came to \$1.20 (up 1%) in line with the consensus and compared to \$1.19 per share a year earlier. Revenue rose 9% to \$2.7 billion and was slightly above the consensus. On an organic basis, which adjusts for currency fluctuations and acquisitions, revenue rose

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8%. The operating income grew 10% while the operating margin widened by 30 basis points from the prior year to 22.7%.

Along with the results, management updated its outlook for FY26. The company projects revenue of about \$11.1 billion, up about 7% from the prior year. Diluted EPS is now expected to be \$4.74-\$4.86, up about \$0.02 at the midpoint from the company's previous estimate. Guidance does not include any benefits from share buybacks or impacts from currency. The company has a history of under promising and overdelivering. In FY24, management raised guidance three times, as it also did in FY25.

EARNINGS & GROWTH ANALYSIS

Cintas reports revenue for three divisions: Uniform Rental and Facility Services (77% of fiscal 1Q26 net sales); First Aid and Safety Services (12%); and Other (11%). Recent business trends and outlooks for these segments are discussed below.

Revenue grew in each business line supported by volume growth, higher recurring revenue, supply improvements, and route/energy optimization. Cost saving efforts and technology-enabled efficiencies in the company's facilities helped to increase margins.

In the Uniform Rental and Facility Services segment, fiscal 1Q revenue rose 8% from the prior year or 7% organically. The operating margin for the segment expanded by 80 basis points to 23.9%. For the First Aid and Safety Service segment, revenue rose 14% year over year on a reported and organic basis. The operating margin of 24% narrowed by 40 basis points. Sales in Other revenue, consisting of fire protection services and direct uniform sales, rose 6%, though the operating margin of 12.9% narrowed by 40 basis points.

In 4Q, company-wide gross margin was 50.3%, compared to 50.1% in 1Q25. Selling and administrative expenses were about 28% of sales, consistent with the prior year. The operating margin was 22.7%. Margins were driven by volume growth and operating efficiencies from investments in technology.

Turning to our estimates. Based on recent revenue and margin trends as well as management's guidance, we are maintaining our FY26 EPS estimate of \$4.88. Our estimate is above management's guidance range and implies EPS growth of 11% for the year. We look for growth to continue in FY27 and are maintaining our preliminary EPS estimate of \$5.30.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Cintas Corp. is Medium-High, the second-highest rank on our five-point scale. The company scores above average on our key financial strength criteria of debt levels, fixed-cost coverage, cash flow generation, and profitability.

Cintas ended fiscal 1Q26 with \$0.1 billion in cash, compared to \$0.3 billion in fiscal 4Q25. Inventory increased 13% and rental items in service increased 10%, reflecting business growth. Total debt was

\$2.4 billion, unchanged from 4Q25. Including lease liabilities, the debt/cap ratio was 36% consistent with the prior year. Free cash flow for FY25 rose 5% from FY24.

Cintas pays a dividend and has increased it for 42 consecutive years. In August 2025, the company raised the payout by over 15% to \$0.45 per share or \$1.80 annually for a current yield of about 1%. We think the dividend is secure and very likely to grow. Reflecting the stock split in September 2024, our dividend estimates are \$1.74 for FY26 and \$2.00 for FY27.

The company repurchased nearly \$350 million under its share buyback plan during the quarter. It repurchased \$935 million of its shares in fiscal 2025 and \$1 billion in FY24.

CTAS shares split 4-for-1 in September 2024. Shareholders of record as of September 4 received three additional shares for each share held. Shares were distributed after the market closed on September 11, 2024.

MANAGEMENT & RISKS

Cintas' CEO is Todd Schneider, the former COO, who joined the company in 1989. J. Michael Hansen is the company's CFO. He joined the company in 1995 and has served as CFO since 2015. In April 2025, Cintas announced Mr. Hansen's appointment to an assistant to the CEO while supporting the transition of his successor Scott Garula as the company's new CFO. Before his appointment to CFO, Mr. Garula had served as president & COO of the Rental Division for two years. Scott D. Farmer, the company's chairman, retired as CEO in May 2021. Mr. Farmer joined the company in 1981 as vice president of the National Accounts Division. His father, Richard T. Farmer, founded the company in 1956 as a small family business, which subsequently grew into the current Cintas through a series of acquisitions.

The company's financial goals include mid- to high single-digit growth in organic sales on an annual basis, incremental margin expansion, 25%-35% EPS growth, and strong free cash flow generation.

Management's strategies are to expand its market, increase market share (the company does business with only 1 million of 60 million businesses in North America) and further penetrate its customer base (penetration rates are generally below 20%).

Cintas faces risks associated with fluctuations in the cost of fuel for its trucks and other equipment. Such fluctuations may be caused by geopolitical tensions, especially in oil-producing countries, as well as by natural disasters and pandemics.

The company may also face pressure from employee unionization, which could raise labor costs and materially impact its profitability. The company has been, and continues to be, targeted by several unions.

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Cintas also faces supplier risk through the global sourcing of supplies as well as risks from unfavorable currency translation.

Cintas is subject to strict federal and state employment regulations and could be hurt by any failure to comply with them. Litigation risks pertaining to employee injuries, customer contracts, and environmental issues are also a concern. Adverse settlements may materially affect the company's results. On the balance sheet, goodwill represents over 35% of total assets.

COMPANY DESCRIPTION

Cintas Corp. provides products and services that help customers to keep their workplaces clean and safe. These include leasing, selling, and servicing corporate uniforms and other garments; fire protection products and services; restroom cleaning services and supplies; first aid and safety services; carpet and tile cleaning services; and safety and compliance training. Based in Cincinnati, Cintas is a Fortune 500 company with approximately 46,500 employees. The shares are a component of the S&P 500.

INDUSTRY

Our rating on the Industrial sector is Market-Weight. The Industrial sector accounted for 8.3% of the S&P 500 as of the end of September. We think diversified investors should have exposure to the sector, in line with the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 17.1%. The sector underperformed in 2024, with a gain of 15.6%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.2.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2026 EPS was 23, above the market multiple. The yield of 0.8% was below the market average. The sector's smoothed earnings growth rate of 7% was below the market average.

The Industrial sector is primarily a cyclical sector. The macroeconomic factors that may affect the performance of stocks in the Industrial sector include Interest Rates, New Housing Starts, Data Center Growth, Trade Policy, and U.S. Government Defense Spending. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Industrial sector can be a change in the direction or rate of a company's sales or earnings growth, a high dividend payout ratio above 70%, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Industrial sector include Aerospace & Defense,

Building Products, and Electrical Components & Equipment.

VALUATION

We think that CTAS shares are attractively valued at recent prices near \$184, at the low end of their 52-week range of \$181-\$229. On a technical basis, the shares had been in a long-term bullish pattern of higher highs and higher lows that date back to 2020, though recently the shares have traded lower.

On a fundamental basis, the shares are trading at 38-times our FY25 EPS estimate, below the midpoint of the five-year historical range of 33-45 but well above a peer group that includes CPRT, UNF, and RBA. The price/sales ratio of 7 is within the historical average range of 5.5-9.0, but meaningfully above the peer group. Compared to the industry (ETF IYJ), the shares are trading at premium multiples, which we think are warranted given the company's strong balance sheet, experienced management team, consistent growth record, and investments in technology that are boosting margins. Our new target price is \$220 lowered from \$

On October 17 at midday, BUY-rated CTAS traded at \$188.04, up \$3.68. (Kristina Ruggeri, 10/17/25)

Citigroup Inc (C)

Current Rating: **BUY**

Publication Date: **10/16/25**

HIGHLIGHTS

*C: Boosting target after 3Q EPS beat as turnaround continues*On October 14, Citigroup reported 3Q25 earnings from continuing operations of \$2.26 per share, up from \$1.51 a year earlier and above the consensus of \$1.93.

*Along with 3Q results, management offered better 2025 guidance calling for revenues to come in better than \$84 billion, led by fee momentum across the investment banking, services and wealth segments.

*In September, the company announced the sale of a 25% stake in its Banamex unit. Citigroup continues to work toward an IPO of Banamex in 2026.

*Our target price of \$112 (up from \$101) implies a multiple of 11.4-times our 2026 EPS estimate, still a discount to peers as C works toward peer financial metrics.

ANALYSIS

INVESTMENT THESIS

We are reaffirming our BUY rating on Citigroup Inc. (NYSE: C) following the company's 3Q earnings report, which featured healthy gains in investment banking fees and trading revenues.

In September 2023, Citigroup announced significant changes in its organizational structure intended to support its business strategy and simplify the bank. Under the new structure, the leaders of the company's five businesses will report directly to the CEO. Citi will also have a streamlined geographic structure and a new client organization that will strengthen client delivery across all business lines. Citi's past restructurings, of which there have been many, have

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not noticeably improved return on equity. But we view the latest round of changes, along with the company's exit from a substantial number of noncore, non-U.S. businesses, and geographic regions, as well as related headcount reductions, as a new approach with a greater likelihood of success. The five business segments include Services (treasury and trade solutions), Markets (fixed income and equities), Banking (investment banking, corporate banking, and commercial banking), Global Wealth Management (Citi private bank and wealth management), and U.S. Personal Banking (branded credit cards, retail services, and retail banking).

Citigroup hosted an Investor Day in June 2024 that focused on its Services segment, which has the highest return on common tangible common equity (ROTCE) of the five segments. For Services, it expects low- to mid-single digit revenue growth with drivers including commercial client wins and a focus on e-commerce and fintech. Markets also has a low- to mid-single-digit revenue goal with drivers including growth in spread-based product financing and private credit. In Banking, the company sees high-teens revenue growth aided by a focus on leveraged financing and greater cross-selling to its commercial and middle-market customers. In Global Wealth, revenue goals are high-single to low-double-digit revenue growth on improved productivity and capturing greater customer wallet. In U.S. Personal Banking, the revenue target is mid- to high-single digits with drivers including credit card growth and additional partnerships.

Citigroup has been disposing of noncore operations and continues to work towards an IPO of its Banamex unit. We believe the sales of these noncore, non-U.S. operations will improve the company's focus and reduce earnings volatility.

Despite its significant scale, Citi often lags other global banks in league tables for equity underwriting, announced M&A, and global investment banking. However, it does have a leading market share in treasury and trade solutions and the second-largest share in fixed-income and equity markets, in part reflecting its greater exposure to emerging markets.

Citigroup has also continued to engage in innovative product development to expand its market share and customer base, most recently launching a new premium credit card called 'Citi Strata Elite' to expand reward offerings for affluent customers. The company has developed and expanded partnerships with companies through offerings like the Costco Anywhere Visa card and their American Airlines credit card. This quarter, C announced further developments in digital asset capabilities, including Citi Token Services which is now live in four major markets.

The shares trade at about 105% of tangible book value, a discount to mega-cap bank peers, and in our view offer value. We believe that Citi's improved capital position, focus on core businesses, and planned transformation will result in better ROE metrics. Our target price of \$112 implies a multiple of 11.4-times our 2026 EPS estimate.

RECENT DEVELOPMENTS

Over the past year, C shares are up 59%, compared to a 15% rise for the broad market.

On October 14, Citigroup reported 3Q25 earnings from continuing operations of \$2.26 per share, up from \$1.51 a year earlier and above the consensus of \$1.93.

Revenues were up 9% to \$22.1 billion, reflecting a 12% rise in net interest income (NII) and a 4% increase in noninterest income. The company is redeploying maturing investments into higher yielding assets to further improve NII. Adjusted expenses were up 3%, while credit costs were down 8%.

EARNINGS & GROWTH ANALYSIS

Following a late 2023 restructuring, Citigroup now reports results in five main segments: Services, Markets, Banking, U.S. Personal Banking, and Wealth. Third-quarter results by segment are summarized below.

Services revenues were up 7% to \$5.4 billion, mainly on growth in treasury and trade solutions and securities services. Net interest income (NII) was up 14% from the prior year led by an increase in average deposit and loan balances as well as higher deposit spreads. Expenses were up 5% in part reflecting volume-related increases. After a cost of credit of \$61 million, down from \$127 million, net income was up 9%, to \$1.8 billion.

Markets revenues were up 15%, to \$5.6 billion, aided by 24% growth in equity markets (driven by momentum in prime services and cash equities) and 12% growth in fixed income markets (driven by rates and currencies). Expenses were up 5%, driven by higher volume. Following credit costs of \$32 million, down from \$141 million, net income was up 46% to \$1.6 billion.

Banking revenues were up 30% to \$2.29 billion, reflecting 39% revenue growth in corporate lending and a 23% increase in investment banking fees. Operating expenses were up 2% and following a \$157 million cost of credit (versus \$177 million a year earlier), net income was up 168% to \$638 million.

Wealth revenues increased 8%, driven by Citigold and the Private Bank. Operating expenses were up 4%, driven by higher volume, and net income surged 32% to \$374 million.

U.S. Personal Banking revenues rose 7%, reflecting higher interest-earning balances in Branded Cards, partially offset by higher partner payment accruals in Retail Services. Operating expenses were flat and following a \$1.8 billion cost of credit (down 4% from the prior year), net income was up 64% to \$858 million.

Citigroup is in a broad restructuring that includes new segment reporting and oversight, headcount reductions, and the sale of many non-U.S. businesses that had resulted in many years of uneven financial performance. The company has announced a targeted

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headcount reduction through 2026 of 20,000, or about 10% of the workforce (not including its Banamex unit that is slated for an IPO in 2026). A primary goal includes pushing return on tangible common equity (ROTCE) to 10%-11% in 2026, closer to the peer group. ROTCE was only 7.0% in 2024, though up from 4.9% in 2023, and reached 8.0% in 3Q25.

Along with 3Q results, management offered revised 2025 guidance that calls for revenues of better than \$84 billion, up from the prior \$84 billion, with net interest income up about 5.5%. The company also maintained their guidance for 2025 expenses to be \$53.4 billion, down from \$53.8 billion in 2024, benefiting from organizational simplification and subject to volume and other revenue-related expenses. For credit cards, 2025 net credit losses are expected to be 3.5% to 4% for branded cards and 5.75% to 6.25% for retail services. The company continues to strive for 4%-5% annual revenue growth and \$51-\$53 billion in operating expenses over the medium term, resulting in an efficiency ratio below 60%.

We are raising our 2025 EPS estimate to \$7.98 from \$7.49 based mostly on the better-than-expected 3Q results. Our 2026 forecast moves to \$9.83 from \$9.43.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Citigroup is Medium-High

Citigroup estimates that its Tier 1 common equity ratio under Basel III was 13.2% on September 30, 2025, down from 13.7% a year earlier. It estimates a supplementary leverage ratio of 5.5%.

Following the Federal Reserve's June 2025 CCAR stress test results, the company said its stress capital buffer (SCB) requirement would decrease to 3.6%, from 4.1%, effective in 4Q25. The Federal Reserve has proposed changes to CCAR including averaging results from previous two years and modifying the annual effective date. If finalized, Citi expects their SCB to be 3.8%. After the results, Citi increased its quarterly dividend to \$0.60 per share from \$0.56. Our dividend estimates are \$2.32 for 2025 and \$2.50 for 2026. In early 2025, directors authorized a \$20 billion share buyback program. The company repurchased \$5.0 billion of shares in 3Q25. Year to date, the company has repurchased \$8.75 billion of shares.

Management has a 2026 goal for a return on tangible common equity of 10%-11%, up from 7.0% in 2024 and 4.9% in 2023.

MANAGEMENT & RISKS

Citigroup has been led since February 2021 by CEO Jane Fraser. Ms. Fraser succeeded Michael Corbat, who had been CEO since October 2012. Ms. Fraser previously served as president and CEO of Global Consumer Banking and has been with the company for 20 years. Mark Mason is the CFO.

In October 2020, Citigroup was fined \$400 million by the Federal Reserve and the Office of the Comptroller of the Currency for deficient risk-management practices. The fine follows the accidental

wiring of \$900 million to a group of lenders for Revlon, deficient policies for money laundering, and violations of the Fair Housing Act and the Flood Disaster Protection Act. Regulators also required Citi to revamp its risk management practices.

In July 2024, the Federal Reserve Board issued an additional \$60.6 million civil money penalty to Citigroup due to a delay in completing milestones included in its approved plan related to its data quality management program and inadequate measures for managing and controlling its data quality risks. The Office of the Comptroller of the Currency also issued a \$75.0 million civil money penalty for similar reasons.

Of the largest U.S. banks, Citigroup has by far the greatest exposure to international consumer finance, with major businesses in Latin America and Asia. Additionally, competition from non-bank lenders, like Apollo or Blackstone, continuing ROTCE concerns, global economic uncertainty, digital disruptions from decentralized finance, large credit losses, and regulatory uncertainty and changes pose long-term risks to the business.

COMPANY DESCRIPTION

Citigroup is one of world's largest banks, with global consumer banking, corporate banking, and investment banking operations. The company has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence

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loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

Citigroup shares have traded between \$55 and \$105 over the past year and are currently at the high end of that range. We believe that Citi's generally improving capital levels and better ROE metrics point to a firm that is well positioned. We also believe that Citi has a catalyst for improving earnings in its divestiture of noncore international operations and ongoing restructuring efforts.

C shares appear attractively valued at 12.6-times our 2025 EPS estimate, a discount to large bank peers. In addition, the shares trade at 105% of tangible book value, also a discount to peers. Our target price of \$112 (up from \$101) implies a multiple of 11.4-times our 2026 EPS estimate, still a discount to peers as C works toward peer financial metrics.

On October 16 at midday, BUY-rated C traded at \$98.38, down \$1.40. (Stephen Biggar, 10/16/25)

Citizens Financial Group Inc (CFG)

Current Rating: **BUY** Publication Date: **10/16/25**

HIGHLIGHTS

*CFG: Raising target on leading regional bank*On October 15, CFG reported underlying 3Q25 earnings of \$1.05 per share, up from \$0.79 in 3Q24 and above the consensus of \$1.03.

*CFG noted that Citizens Private Bank continues to grow, reporting \$12.5 billion in deposits, \$7.6 billion in investments, and \$5.9 billion in loans since the launch in 4Q23.

*On the 3Q call, CFG announced a 9.5% increase in the

quarterly dividend to \$0.46 from \$0.42 per share, or \$1.84 annually, for a yield of about 3.6%.

*Our revised target price of \$60 assumes a 12-times multiple, in line with other larger regional banks.

ANALYSIS

INVESTMENT THESIS

We are reiterating our BUY rating on Citizens Financial Group Inc. (NYSE: CFG) with a revised target price of \$60, up from \$53. Positive policies around deregulation, looser capital requirements, and more stress test transparency stand to benefit CFG. On the 3Q earnings call, CFG management noted that it saw a common equity tier 1 capital ratio (CET1 ratio) of 10.7% and relatively stable, or 1% growth in, average deposits from 3Q24. CFG also reported that Citizens Private Bank continues to grow, reporting \$12.5 billion in deposits, \$7.6 billion in investments, and \$5.9 billion in loans since the launch in 4Q23. Management has remained confident that Private Bank will deliver 20% to 25% return on equity for FY2025 and maintain this over the medium term, contribute more than 7% to total CFG earnings in 2025, and continue to add deposits, loans, and investments to reach 2025 year-end goals (\$12 billion, \$7 billion, and \$11 billion, respectively). Additionally, the bank continues to show strong performance in the New York metro region.

The company posted above-consensus 3Q earnings due to a sequential improvement in the net interest margin and positive earnings for the Private Bank and legacy core, offset by losses in a noncore portfolio (-\$0.03). The bank saw net loan growth across all three business segments (consumer, commercial, and private bank) in 3Q, which more than offset non-core rundown. The costs for the Private Bank include certain income guarantees for the new advisors. The noncore portfolio, currently in runoff, consists of lower-yielding fixed-rate indirect auto and education loans.

CFG is trading at 10-times our revised 2026 EPS estimate, below the midpoint of the historical average range, reflecting muted loan demand and concerns about commercial real estate exposure offset by Private Bank growth and lowering deposit costs. However, we believe that the stock merits a higher multiple based on the company's strong long-term growth prospects, including its expansion on the East Coast. CFG also carries an attractive dividend with an above-peer-average yield of about 3.6%. Our revised target price of \$60 implies a multiple of 12-times our 2026 estimate.

RECENT DEVELOPMENTS

CFG shares have risen 18% over the past year, compared to a 13% advance for the S&P 500 and a 6% increase for the S&P Regional Bank ETF KRE. Approximately 21% of the shares are in various ETFs. The beta on CFG is 1.21.

On October 15, CFG reported underlying 3Q25 earnings of \$1.05 per share, up from \$0.79 in 3Q24 and above the consensus of \$1.03. Revenues of \$2.2 billion rose 10% from a year earlier.

Net interest income of \$1.49 billion rose 3.5% from the prior

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year due to a higher net interest margin and interest-earning assets. The net interest margin rose 23 basis points and 5 bps sequentially to 3.00% as the benefit of lower funding costs, non-core runoff, and fixed-rate asset repricing. Total non-interest income of \$630 million rose 18% from the prior year, reflecting higher capital markets activity. Underlying non-interest expense of \$1.33 billion rose 7% primarily due to Private Bank investments related to salaries and employee benefits offset by lower outside services. The 3Q underlying efficiency ratio fell to 63.0%, down from 65.6% a year earlier, primarily due to Citizens Private Bank and Private Wealth expenses.

The company had a credit loss provision of \$154 million in 3Q25, down from \$172 million in 3Q24. Core net charge-offs were \$162 million, or 0.46% of loans, down from \$192 million in 3Q24. Nonaccrual loans decreased by \$169 million from the prior year to \$1.52 billion, reflecting a decrease in non-accrual loans in the commercial and industrial (C&I) segment.

In 1Q25, the company announced that it had reached an agreement to sell \$1.9 billion in student loans, which are part of the non-core portfolio. \$200 million of loans were sold in 1Q, \$600 million in 2Q, and \$485 million in 3Q with the balance to be sold in 4Q25.

In October 2023, CFG announced the launch of Citizens Private Bank, accelerating its previous efforts in expanding the wealth management platform. CFG has opened six private banking offices over the past year. Locations include New York; Palm Beach, Florida; Boston; and the metro San Francisco and Los Angeles areas.

In 1Q22, the company acquired HSBC's East Coast branches and online deposits, which added approximately 800,000 custo

In April 2022, CFG completed the acquisition of Investors Bancorp. The acquisition expands Citizens' presence in the New York and Philadelphia metro markets. With the addition of Investors and the HSBC branches, Citizens has become a top 10 bank in deposits in the New York metro area.

EARNINGS & GROWTH ANALYSIS

In 3Q, average deposits rose by \$1.9 billion from the prior year to \$176.0 billion, and total deposit costs fell to 1.84% from 2.26% in 3Q24. Deposit costs are expected to decline over the next couple of quarters as the Fed is expected to lower the fed funds rate. The consumer sector accounts for 74% of total deposits, and 66% of total deposits are insured or secured. On the earnings call, management said it expects the net interest margin to rise to approximately 3.05% -3.10% in FY25 due to the sale of non-core loans, 3.15%-3.30% in FY26, and has a medium-term goal (by 2027) of 3.25%-3.50%. Management's estimates are based on swaps, non-core runoffs and a Fed funds terminal range of 3.0% to 4.0%.

In 3Q25, average loans declined 1% from the prior year to \$140.0 billion, primarily due to noncore portfolio sales. The

Consumer segment saw growth in home equity and mortgage loans. The average loan yield of 5.35% fell 15 basis points from 5.50% in 3Q24.

Credit quality remains strong, in our view; however, we are continuing to see signs of stress in the commercial real estate sector. The \$140 billion loan book is split between consumer (48%) and commercial loans (52%). Commercial real estate loans of \$25.5 billion represent about 18% of total loans. General office loans total \$2.5 billion, representing 1.8% of total loans. Approximately 77% of the consumer portfolio (38% of the total) consists of residential mortgage and home equity loans.

The company launched TOP 10 in early 2025, targeting a \$100 million pretax run-rate benefit by the end of 2025 and indicated on the earnings call that they are on track to realize the savings. They also embarked on a 'Reimagining the Bank' initiative, which is serving as a multi-year transformational TOP program leveraging new technologies including generative AI and agentic AI to redesign customer service and bank operations. The firm has also engaged in product development include the launch of a new suit of Mastercard credit cards designed for different customer segments, including a premium 'Summit Reserve' metal black card with an annual fee attracting 30% of early sales.

On the 3Q earnings call, management provided updated 4Q25 guidance based on current interest rates, lower loan demand, and contributions from recent acquisitions, however cautioned that if the current macro challenges persist, it may hamper business activity. In 4Q25, it expects net interest income to rise 2.5% to 3%. It also looks for noninterest income growth to be stable, noninterest expense to be stable to be up slightly, net charge-offs to be modestly lower, and a stable CET1 ratio of around 10.7%. Share repurchases will be around \$125 million, dependent on loan growth and market conditions. The tax rate will be around 22.5%.

The \$44.5 billion securities portfolio has an average yield of 3.71% and an average duration of 3.6 years. Approximately \$8.3 billion of the securities are categorized as held-to-maturity. We believe that most of these are lower-coupon mortgage-backed securities. The company uses swaps to manage its interest rate exposure. CFG has several receive fixed swaps that are designed to protect against lower rates from 2025 to 2027.

Reflecting the company's recent growth in the Private Bank, Capital Markets and on-going share repurchases offset by muted loan demand, we are inching our 2025 EPS estimate to \$3.84 from \$3.83 and our 2026 EPS estimate to \$5.05 from \$5.01.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on CFG is Medium-High, the second-highest rank on our five-point scale, based on the company's solid capital levels and above-average net interest margin. The company is rated as investment-grade BBB+/stable by S&P. The company's CET1 ratio was 10.7% at the end of 3Q25, exceeding its

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target CET1 range of 10.0%-10.5%.

In June 2025, the board of directors increased the capacity of the CFG common stock repurchase authorization to \$1.5 billion, up from \$1 billion under the prior authorization. During 3Q, CFG repurchased \$75 million of common shares, bringing the total shares repurchased in 2025 to \$600 million.

On the 3Q call, CFG announced a 9.5% increase in the quarterly dividend to \$0.46 from \$0.42 per share, or \$1.84 annually, for a yield of about 3.6%. Our dividend estimates are \$1.72 (up from \$1.68) for 2025 and \$1.96 for 2026.

MANAGEMENT & RISKS

CFG is led by Chairman and Chief Executive Officer Bruce Van Saun. Aunoy Banerjee was recently named CFO, replacing John F. Woods. The company is transparent with its growth strategy and provides guidance with respect to loan growth, noninterest expense, and efficiency and credit quality metrics. Management also uses performance metrics such as return on average tangible common equity and the CET1 ratio to gauge the company's progress toward its strategic and operational goals.

The company is subject to several risks, including changes in interest rates, credit quality, loan demand, and capital markets liquidity. It also faces risks from financial services regulation.

COMPANY DESCRIPTION

Based in Providence, Rhode Island, Citizens Financial Group, Inc. operates as the bank holding company for Citizens Bank, National Association and Citizens Bank of Pennsylvania. As of July 17, 2025, the company had approximately 17,000 employees in 14 New England, mid-Atlantic, Western, and Midwestern states, California and Florida. It also provides online, telephone, and mobile banking services.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal

to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

At current prices near \$51, CFG is trading near the top of its 52-week range of \$33-\$54. CFG is also trading at 10-times our revised 2026 EPS estimate, reflecting growth in the Private Bank and Capital Markets offset by muted loan demand. We believe that the stock merits a higher multiple based on the company's strong long-term growth prospects, including expansion in key mid-Atlantic metro areas and the development of a national presence in wealth management and its digital banking offering. CFG also carries an above-peer-average dividend yield of about 3.6%. Our revised target price of \$60 assumes a 12-times multiple, in line with other larger regional banks.

On October 15, BUY-rated CFG closed at \$51.70, down \$0.10. (Kevin Heal, 10/15/25)

Dominos Pizza Inc (DPZ)

Current Rating: **HOLD**

Publication Date: **10/15/25**

HIGHLIGHTS

*DPZ: Fourth-quarter sales get off to a slow start amid

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weakness in international markets*Domino's reported that 3Q total revenue increased 6.2%.

*Third-quarter EPS came to \$4.08, down from \$4.19 in the prior-year period and above the consensus estimate of \$3.98.

*The decrease reflected a \$3 million loss on an investment in DPC Dash, a master-franchise in China, and a higher tax rate.

*Based on above-average margins and plans to open new stores over the next several years, our long-term rating is BUY.

ANALYSIS

INVESTMENT THESIS

We are reiterating our HOLD rating on Domino's Pizza Inc. (NYSE: DPZ). Higher food prices and G&A continue to harm Domino's results. Due primarily to wage increases, we expect the company to see higher costs in several of its markets for a while.

Weak international same-store sales are also a headwind.

Our long-term rating is BUY, based on the company's above-average margins, history of positive earnings surprises, and plans to open new stores over the next several years.

RECENT DEVELOPMENTS

Domino's reported 3Q25 results on October 14, 2025. Revenue rose 6.2% from the prior year to \$1.147 billion, above the consensus estimate of \$1.140 billion. In the U.S., same-store sales were up 5.2%, compared to a 300-basis-point increase in 3Q24. The increase reflected a 530 basis-point increase at franchised stores in the U.S. The consensus estimate had called for 4.2% higher same-store sales. Comps at company-owned locations in the U.S. rose 3.4%, below the consensus estimate calling for an increase of 3.7%. Comps at franchised stores rose 5.3%, accelerating from a 300 basis-point gain in the prior-year period and 110 basis points above the consensus estimate. Following an 80 basis-point gain in 3Q24, international same-store sales rose 170 basis points in 3Q25, below the consensus estimate calling for a 190-basis-point increase. The company opened 214 new stores in 3Q25, consisting of 185 international stores and 29 in the U.S.

Third-quarter EPS came to \$4.08, down from \$4.19 in the prior-year period and above the consensus estimate of \$3.98. The year-over-year decrease reflected a \$3 million loss on an investment in DPC Dash, a master-franchise in China, and a higher tax rate. The gross margin rose by 90 basis points to 40.1%. Overall G&A expense rose by \$1.1 million to \$105.1 million. This metric fell 50 basis points year over year to 9.1%, 40 basis points below the consensus forecast. The operating margin rose to 19.5% from 18.4% and was 60 basis points above consensus. Interest expense rose to \$41.0 million from \$40.4 million in 3Q24. The share count fell to 34.1 million from 35.0 million,

During the third-quarter conference call, management said that fourth-quarter sales got off to a slow start amid weakness in international markets.

As discussed in a previous note, revenue rose 500 basis points in 2024 to \$4.7 billion, while adjusted EPS rose to \$16.69 from \$16.69 in 2024.

EARNINGS & GROWTH ANALYSIS

Based on new product launches, a growing digital and carryout program, and the third-quarter positive earnings surprise, we are raising our EPS estimate to \$17.50 from \$17.40 for 2025 and increasing our 2026 estimate to \$19.60 per share from \$19.40.

Our long-term growth estimate remains 13%, based on management's plans to open new stores and accelerate share buybacks.

FINANCIAL STRENGTH & DIVIDEND

We rate Domino's financial strength as Medium-Low, the second-lowest rank on our five-point scale. At the end of 3Q, the company had \$362 million in cash and cash equivalents, and approximately \$4.8 billion in total long-term debt.

Operating income covered interest expense by a factor of 5.4 in 3Q, up from 5.0 in 3Q24. We think the interest coverage ratio should be above 5.0.

In February 2025, the company raised its quarterly dividend by 15% to \$1.74 per share, or \$6.96 annually, for a yield of about 1.4%. Our dividend estimates are \$6.73 for 2025 and \$7.30 for 2026.

The board of directors also authorized an additional \$1.0 billion in share buybacks, raising the company's authorization to \$1.14 billion.

MANAGEMENT & RISKS

Russell Weiner has been CEO since May 2022. Before that, he had been COO of Domino's U.S. business from July 2020 to April 2022. Sandeep Reddy is the company's CFO.

Domino's Pizza is subject to competition that would be considered extreme in almost any other industry but is considered normal for quick-service restaurants. The company has also faced pressure in recent years as delivery menus have expanded to meet consumer demand for 'healthy' and 'gourmet' fare. There has also been strong growth in the casual dining segment over the past few years, and casual dining establishments have begun to challenge the delivery segment by expanding takeout service and, in some cases, by offering delivery as well. Within its segment, the company competes not only with other large pizza delivery chains but also with many local pizzerias.

We believe the company will likely face increasing difficulty obtaining domestic franchisees unless it sacrifices margins in its distribution operations.

With a market capitalization of about \$15.9 billion, Domino's Pizza is considered a mid-cap issue, despite its strong name recognition.

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COMPANY DESCRIPTION

Domino's Pizza Inc. is a leader in the pizza delivery business, having pioneered the concept 50 years ago. The company completed its initial public offering in July 2004. Domino's is primarily a franchise operation that derives revenue from fees and the sale of materials to franchisees. The company also directly owns almost 600 stores and uses them as a base for testing menu changes and as a pool for franchise liquidity. It has operations in 80 countries.

INDUSTRY

Our rating on the Consumer Discretionary sector is Under-Weight. The Consumer Discretionary sector accounted for 10.5% of the S&P 500 as of the end of September. We think diversified investors should have exposure to the sector, but at about 50-75% of the current sector weight.

The sector receives below-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been underperforming the market year to date, with a gain of 4.7%. The sector outperformed in 2024, with a gain of 29.1%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.2.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2026 EPS was 29, above the market multiple. The yield of 0.5% was below the market average. The sector's smoothed earnings growth rate of 10% was above the market average.

The Consumer Discretionary sector is a cyclical growth sector. The macroeconomic factors that may affect the performance of stocks in the Consumer Discretionary sector include Nonfarm Payrolls, Personal Income, Fuel Prices, Retail Sales, Auto Sales, Housing Starts, and New and Existing Home Sales, among others. Trends in the dollar can affect gross profit for companies in the sector.

Potential sell signals for stocks in the Consumer Discretionary sector can be a change in the direction or rate of a company's sales or earnings growth, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Consumer Discretionary Group include Broadline Retail, Homebuilding, and Home Furnishings.

VALUATION

The shares rose 3.9% on October 14 after the company reported better-than-expected revenue and earnings. DPZ shares are trading at 21.7-times our revised 2026 EPS estimate. We think the current multiple adequately reflects prospects for higher food costs, and rising wages. Consequently, our rating is HOLD. Were international same-store sales growth to accelerate or wage growth moderate, we would consider an upgrade.

On October 15 at midday, HOLD-rated DPZ traded at \$414.62, down \$9.61. (John Staszak, CFA, 10/15/25)

DuPont de Nemours Inc (DD)

Current Rating: **BUY** Publication Date: **10/15/25**

HIGHLIGHTS

*DD: Raising target price*DD shares have underperformed the market over the past three months, rising 3% while the S&P 500 has gained 6%.

*The company is continually refining its line-up of businesses and has announced a plan to separate into two distinct, publicly traded companies, one focused on the booming electronics divi

*Business is fine; the company recently reported adjusted EPS that topped Street expectations for the seventh consecutive qua

*Management has signaled confidence with a recent 8% dividend hike and continued share repurchases.

ANALYSIS

INVESTMENT THESIS

Our rating on DuPont de Nemours Inc. (NYSE: DD) is BUY. DuPont is a leading materials company that is continually refining its line-up of businesses. The latest plan calls for a break-up into two smaller companies, spinning off its electronics business in November 2025. The plan takes a page from the playbooks of other industry leaders such as General Electric and United Technologies, which have successfully executed their strategies. 3M Corp is another industrial giant heading down this path, with thus far less successful results. Based on our review of recent DD earnings, the business appears to be in good shape. Management has signaled confidence in the outlook by maintaining or raising guidance in recent quarters, increasing the dividend, and taking advantage of trends around artificial intelligence and semiconductor production. We think valuations are attractive and are reiterating our BUY rating and raising our target price to \$86 from \$82.

RECENT DEVELOPMENTS

DD shares have underperformed the market over the past three months, rising 3% while the S&P 500 has gained 6%. The shares have also underperformed over the past year, falling 10% compared to a gain of 13% for the S&P 500. They have underperformed the materials industry ETF IYM over the past year and over the past five years. The beta on DD is 1.03.

The company is continually refining its line-up of businesses. In January 2025, DuPont revised a plan to separate into two distinct, publicly traded companies, down from the planned three-company, including water, electronics, and New DuPont, spinoff announced in May 2024.

The two businesses are detailed below.

Electronics: The electronics company, which will be known as Qnity, will be a leading global provider of differentiated electronics

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materials including key consumables used in semiconductor chip manufacturing, as well as advanced electronic materials enabling reliable signal integrity, power management and thermal management. The company will be well positioned to capture growth in the semiconductor industry, driven by high-performance computing demands from AI, high speed connectivity, smart and autonomous vehicles and the Internet of Things, among other mega-trend growth drivers. Electronics will be comprised of the company's existing Semiconductor Technologies and Interconnect Solutions lines of business, as well as the electronics-related product lines from Industrial Solutions. These businesses generated net sales of approximately \$5.9 billion and operating EBITDA margin of approximately 29% in 2024. It will be finalized on November 1, 2025, and Jon Kemp, the president of Dupont Electronics and Industrial, will step up as CEO. Michael Stubblefield, CEO and president of biotechnology company Avantor, will be chairman of the board of directors for Qnity.

New DuPont: New DuPont will be a premier diversified industrial company powered by deep materials science and application engineering expertise, industry-leading innovation, top-tier manufacturing capabilities, and iconic brands such as Tyvek, Kevlar, and Nomex. It will also now include the water business that was initially going to be spun off into a third business. Water consists of a comprehensive portfolio of water filtration and purification solutions with leading technologies in reverse osmosis, ion exchange, and ultrafiltration. Its solutions provide critical components and systems that generate clean and fit-for-purpose water across a variety of market segments including industrial water and energy, life sciences and specialties, municipal and desalination, and residential and commercial. DuPont will have a strong presence in fast-growing healthcare end-markets including applications for biopharma consumables, medical devices, and medical packaging. The company will also be a leading provider of key technologies enabling advanced mobility particularly within electric vehicles. Finally, New DuPont will remain a provider of advanced solutions serving safety, construction, aerospace and other industrial-based end-markets. These businesses generated net sales of approximately \$6.5 billion and operating EBITDA margin of approximately 25% in 2024. The current CEO and CFO will remain in their respective positions for New DuPont.

DuPont has announced record date for the spinoff as close of business on October 22, 2025. The separation transactions will not require a shareholder vote and are subject to satisfaction of customary conditions, including final approval by DuPont's board of directors, receipt of tax opinion from counsel, the filing and effectiveness of Form 10 registration statements with the U.S. Securities and Exchange Commission, applicable regulatory approvals, and satisfactory completion of financing. The initial Form 10 filing with the SEC occurred on April 24, 2025.

The company recently reported 2Q EPS that topped Street estimates. DuPont reported adjusted 2Q25 earnings from continuing operations of \$1.12 per diluted share, up 15% from \$0.97 per diluted

share in 2Q24. EPS results exceeded the consensus forecast of \$1.06. Adjusted EPS has now exceeded consensus estimates for the seventh consecutive quarter. The company reported 2Q net sales of \$3.3 billion, up 3% year over year, and 2% on an organic basis. DuPont's 2Q operating EBITDA was \$859 million, up 8% year over year, with a margin that expanded 120 basis points from the prior year to 26.4%.

For the first half of the year the company earned \$2.14 per share on an adjusted basis, up from \$1.76 in the first half of 2024. Net sales totaled \$6.3 billion and adjusted EBITDA was \$1.6 billion for the first half of 2025.

Along with the 2Q results, the company raised its guidance for 2025. The company expects 2025 net sales of \$12.85 billion, at the midpoint of their previously provided guidance range of: \$12.8-\$12.9 billion. Management now expects operating EBITDA of \$3.36 billion above the midpoint of their guidance range of \$3.325-\$3.375 billion and adjusted EPS of \$4.40, at the top of their guidance range of \$4.30-\$4.40.

EARNINGS & GROWTH ANALYSIS

DuPont has a spotty history of growth and profitability. Over the past five years, net sales have fallen 42% and adjusted EBITDA has fallen 44%. The company's full-year EBITDA margin has ranged from 24.4% to 26.4% over this period.

DuPont currently has two business segments: Electronics & Industrial, which supplies materials and printing systems to the printing industry and materials for the fabrication of semiconductors and integrated circuits; and Water & Protection, which provides engineered products and integrated systems for worker safety, water purification and separation, transportation, energy, medical packaging, and building materials. We review 2Q25 results for these segments below.

ElectronicsCo (EC) reported 2Q25 net sales of \$1.2 billion, up 6% from the prior-year quarter. EBITDA increased to \$373 million from \$328 million as organic growth and lower legal costs were partly offset by growth investments. For the second quarter, volumes increased 8% and pricing was down 2%.

Within the EC segment, semiconductor technologies sales increased in the mid-single digits, due to strong end-market demand, primarily driven by advanced nodes and AI technology applications. In interconnect solutions, sales increased in the high-single digits from the prior-year quarter, driven by volume benefits from AI-driven technology ramps and content and share gains. The segment operating EBITDA margin expanded by 220 basis points from the prior year to 31.9%.

The IndustrialsCo segment (IC) reported 2Q25 net sales that were up 1% year-over-year at \$2.1 billion. EBITDA rose 3% to \$509 million from \$495 million due to volume benefits and productivity gains. For the second quarter, volume was up 2%, while pricing was

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down 1%.

Within the IC segment, Healthcare & Water technologies revenue was up in the high single-digits driven by volume gains in both healthcare and water end markets. Results in the diversified industrials were down in the low-single-digits due to softness in construction markets. The segment operating EBITDA margin of 24.4% expanded 50 basis points from the prior year.

Turning to our estimates, we are maintaining our 2025 adjusted EPS estimate of \$4.40 to reflect recent business trends and DuPont's guidance. Our estimate is at the high point of management's guidance range and implies growth of 8% year over year. We look for growth to continue in 2026 and are maintaining our preliminary adjusted EPS estimate of \$4.80 to reflect our expectations for volume gains driven by continued demand recovery.

FINANCIAL STRENGTH & DIVIDEND

We rate DD's financial strength as Medium, the midpoint on our five-point scale. The company's debt is rated investment-grade BBB+ under review by Standard & Poor's and Baa1/negative by Moo

At the end of 2024, DD's total debt/capitalization ratio was 23.5%. Total debt was \$7.17 billion at the end of 2024. At the end of the year, DD had cash and equivalents of \$1.85 billion.

DuPont pays a dividend. On February 21, 2025, DuPont raised its quarterly dividend by 8% to \$0.41 per share, or \$1.64 annually. The current yield is about 2.1%. Our dividend estimates are \$1.64 for 2025 and \$1.76 for 2026.

DuPont buys back its common shares.

MANAGEMENT & RISKS

Lori D. Koch became DuPont's CEO on May 22, 2024. Ms. Koch was the former chief financial officer and succeeded Edward D. Breen, who is now executive chairman of the board.

On June 1, 2024, Antonella B. Franzen, former CFO of DuPont's Water and Protection segment was appointed DuPont's chief financial officer. Before joining DuPont, Ms. Franzen worked for Johnson Controls International.

Investors in the DD shares face risks. DuPont faces stiff competition. The firm operates in many highly cyclical end markets, including automotive, residential construction, and electronics. DuPont could see a prolonged slowdown in demand in any of these markets. In addition, there is no guarantee that DD's investments in specialty chemical R&D will yield positive results. DuPont also faces risks from tariffs and geopolitical conflicts. DuPont imports large quantities of its materials from non-US suppliers, including India and Vietnam, and could face rising costs or supply chain disruption

COMPANY DESCRIPTION

DuPont de Nemours is a leading specialty chemicals company, formerly known as DowDuPont. It has two business segments:

ElectronicsCo and IndustrialsCo. The company has approximately 24,000 employees. The DD shares are a component of the S&P

INDUSTRY

Our rating on the Materials sector is Market-Weight. The Materials sector accounted for 1.8% of the S&P 500 as of the end of September. We think diversified investors should have exposure to Materials in order to reduce sector risk, but no more than the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength and analyst conviction, among other factors.

The sector has underperformed the market year to date, with a gain of 7.7%. The sector underperformed in 2024, with a loss of 1.8%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.2.

Over the past five years, the sector's weighting has ranged from 1% to 4%. The sector's P/E ratio on projected 2026 EPS was 20, below the market multiple. The yield of 1.4% was above the market average. The sector's smoothed earnings growth rate of 2% was below the market average.

The Materials sector is primarily a cyclical, value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Materials sector include Tariffs, Input Costs, Interest Rates, and Trade Policy, among others. Trends in the dollar can affect factors such as Gross Profits.

Potential sell signals for stocks in the Materials sector can be an impending recession, a supply glut for a specific commodity, or a weakened balance sheet that threatens the dividend payout.

At this stage of the market and economic cycle, our favored industries within the Materials sector include: Specialty Chemicals, Steel, and Industrial Gases.

VALUATION

DD shares appear attractively valued at current prices near \$77. The shares have traded between \$54 and \$88 over the past 52 weeks and are currently above the midpoint of this range. From a technical standpoint, the shares appear to be in a bullish pattern of higher highs and higher lows dating back to April 2025.

To value the stock on a fundamental basis, we use peer group and historical multiple comparisons, as well as a dividend discount model. The shares are trading at 16-times our 2026 estimate, at the bottom of the historical range of 16-25. They are also trading at a price/book multiple of 1.47, compared to a historical range of 1.3-1.6; and at a price/sales multiple of 2.69, compared to the historical range of 2.0-2.9.

We believe that DuPont shares continue to offer meaningful

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upside potential (about 12% based on our estimates) at current prices, as the company offers investors high-margin businesses with above-average growth prospects, along with solid cash flow to support higher dividends and increasing stock buybacks. We are reiterating our BUY rating with a revised target price of \$86, up from \$82.

On October 15 at midday, BUY-rated DD traded at \$78.81, up \$1.22. (Alexandra Yates, 10/15/25)

Fastenal Co. (FAST)

Current Rating: **BUY**

Publication Date: **10/20/25**

HIGHLIGHTS

*FAST: Recent pullback in the shares offers a buying opportunity*FAST shares have underperformed over the past three months, dropping 8%, while the S&P 500 gained nearly 6%.

*The company is gaining market share and expects to profit from a recovery in the industrial sector.

*Management has signaled confidence in its long-term outlook with its fifth double-digit dividend increase since the pandemic

*We are maintaining our target price of \$50.

ANALYSIS

INVESTMENT THESIS

Our rating on Fastenal Co. (NGS: FAST) is BUY. Fastenal is a wholesale distributor that sells industrial and construction supplies, including fasteners. Despite sluggish end markets and inflation that has impacted its margins, the company is driving growth through technology and its Onsite distribution locations that are within or near its customers' facilities. Management says that Fastenal is gaining market share and believes it is poised for out-sized growth as the industry shows early signs of a recovery. The company cited encouraging trends, including growth in fasteners for the third consecutive quarter after nearly two years of declines.

We like the company's transition from brick-and-mortar branches to Onsite distribution locations and management's focus on larger, more profitable customer accounts. Fastenal's recent efforts to digitize its sales and inventory processes should attract current customers with contracts that have unplanned needs (repair work), as well as smaller companies that don't have contracts but find it easier to work with FAST by ordering online. The flexibility of Fastenal's global supply chain is helping existing customers mitigate some tariffs. It is also attracting new business as new customers sign contracts to help them lower their tariff exposure. Over the long term, we expect this industrial company to generate mid- to high single-digit sales and EPS growth. The balance sheet is clean, and management plans to return over \$1 billion to shareholders this year. It has also focused on growing the dividend, which currently yields about 2.1%. Our rating remains BUY with a target price of \$50.

RECENT DEVELOPMENTS

FAST shares have underperformed over the past three months, dropping 8%, compared to a gain of nearly 6% for the S&P 500. The

shares have returned 9% over the past year, compared to advances of 14% for the index and 5% for the industry ETF IYJ. Over the past five years, the shares have gained 88%, compared to increases of over 90% for the index and 64% for the industry. The beta on FAST is 0.84.

Fastenal recently reported 3Q25 results that missed analyst earnings expectations. Revenue of \$2.1 billion rose 12% from the prior year. EPS came to \$0.29 (up 12%) compared to \$0.26 per share a year earlier but was below the Street estimate of \$0.30. Operating income rose 14% while the operating margin widened by 40 basis points year over year to 20.7%.

The company does not issue earnings guidance but does normally provide detailed updates on its two growth drivers: Onsite locations, which provide dedicated sales and service within or near a customer's facility; and weighted FMI, embedded scanning technology (including FASTVend and FASTBin systems.). The 3Q25 signings for FMI scanning technology were 7,050 machine equivalent units (MEU), a drop of 3% from the prior year. Management's MEU target for 2025 is 25,000 to 26,000. Onsite locations for customers with over \$50,000 in sales per month rose 15% to \$2,771.

Management's expectation for property and equipment expense is now \$235 million to \$255 million, down \$15 million on either side of the range but up from \$214 million in 2024. The spend includes planned investments in technology, distribution center hubs, automation and FMI hardware.

EARNINGS & GROWTH ANALYSIS

The FAST business model is relatively straightforward. The company generates revenues by selling industrial and construction supply and safety products to customers. FAST management attempts to offset inflation, product costs, and relatively fixed operating costs through pricing strategies, innovation, and new product development.

Sales growth in the quarter benefited from higher contract signings, price hikes and easy comps. All product lines saw improved growth year over year and sequentially. The DSR (daily sales rate) was 12%, up from 2% a year ago and 9% sequentially. Fastenal has three product categories, Fasteners (31% of 3Q sales), Safety Supplies (22%), and Other Product lines (47%). Results for 3Q are summarized below.

By product line, DSR for the high-margin Fastener products rose 14% compared to a 4% decline a year earlier. The results reflected large customer signings and easy comps. DSR rose 10% in Safety products compared to 7% growth in 3Q24, with help from an increase in vend installed bases and success with warehousing and data center customers. Other Products DSR grew 11% versus 4% a year ago, reflecting growth from maintenance and repair business lines.

End market revenue grew from the prior year and was higher

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sequentially. Strength was seen from manufacturing customers, where DSR grew 13% from a year ago up from 9% last quarter. Non-manufacturing end markets rose 8% from 3Q24 compared to 7% in 2Q25.

By customer mix, Fastenal skews toward contract sales, (74% of total customers in 3Q). The DSR for contract sales rose 13% compared to 3% for non-contract sales. Non-contract sales tend to be smaller companies that provide fewer opportunities for share gains, while larger customers (\$10,000 per month or more) grew over 15%. Management believes that smaller companies more closely reflect industry trends.

Fastenal believes that digital capabilities enhance product visibility, reduce operational risk, and create ordering and fulfillment efficiencies for Fastenal and its customers. Its e-business online ordering strategy should attract current customers with contracts that have unplanned needs (repair work), as well as smaller companies that don't have contracts but find it easier to work with FAST by ordering online. In 3Q, e-business DSR (e-procurement and e-commerce sales) grew 8% from 3Q24 and represented 29% of sales. Including digital products (FMI), FAST's digital footprint grew 12% and represented 61% of sales, approaching management's revised 2025 target of above 61%.

Turning to expenses, the 3Q gross margin rose 40 basis points to over 45% due to favorable pricing and supplier initiatives. SG&A rose 11% and was 25% of sales, consistent with the prior year. The company continues to manage employee costs and headcount. The operating margin was 20.7%, an increase of 40 basis points compared to the prior year. Looking ahead, we expect margin improvement in the coming quarters as inflation slowly abates and demand for higher margin fasteners improves.

Based on recent trends in the company's sales and margins, as well as tariff challenges in its end markets, we are lowering our 2025 EPS estimate to \$1.10 from \$1.13, still implying 10% growth this year. Our estimate has been adjusted to reflect the recent two-for-one stock split. We look for growth to continue in 2026 and are maintaining our EPS forecast of \$1.22.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on FAST is Medium High, the second highest rank on our five-point scale. The company scores above average or average on our main financial strength criteria of debt levels, fixed-cost coverage, profitability, and cash conversion.

The company had \$0.3 billion in cash and equivalents at the end of 3Q25, consistent with the end of the prior year. Cash from operating activities rose 30% to \$0.4 billion in the quarter due to higher net income and favorable shifts in working capital. Inventory rose over 10% year over year in support of customer growth and ahead of tariffs. Total debt, including operating lease liabilities, rose slightly from the prior year to \$0.5 billion, reflecting higher lease liabilities. The debt/capital ratio was 12% in line with the previous

year.

FAST also pays a dividend. In 1Q25, the company announced a 10% increase in its quarterly dividend to \$0.43 per share. Three months later in April, the board approved a quarterly increase of \$0.01 per share to \$0.44. Following the May 2025 stock split, the dividend became \$0.22 per share or \$0.88 annually for a current yield of 2.1%. In 2024, the company raised its dividend by 11%. Fastenal also pays special dividends, the most recent being in 2023 and 2020. We think the regular dividend is secure and likely to grow. Our regular dividend estimates are now \$0.88 for 2025 and \$0.97 for 2026.

FAST has a share buyback program but has not repurchased any stock in 2025. The company did not buy back any stock in 2024.

MANAGEMENT & RISKS

Jeff Watts was appointed president and chief sales officer, effective August 1, 2024. Daniel Florness had been the company's president and CEO since 2016. He will continue to serve as CEO. In December 2024, Holden Lewis announced his unexpected resignation as Fastenal's CFO. Mr. Lewis remained at the company until mid-April 2025. Sheryl Kisowski, the current chief accounting officer and treasurer, was named interim CFO until a permanent replacement can be found. We view Fastenal as a well-run company that focuses on growth, cost efficiency, and business optimization. The company is also highly transparent in discussing its results and operating strategies.

We believe that Fastenal faces significant risk from the cyclical nature of the industries it serves. In the past, the company has been hurt by sharp downturns in the oil and gas, agriculture, and mining sectors. Earnings have also been affected over time by weak purchasing from the heavy equipment manufacturers that service these customers. In addition, the company is exposed to the cyclical nature of the construction industry, and to negative impacts from tariffs.

COMPANY DESCRIPTION

Fastenal Co. sells industrial and construction supplies, including fasteners, at approximately 1,600 stores and 1,800 onsite locations, as well as through vending machines at customer locations and through e-commerce channels. Most of the company's customers are in the manufacturing and nonresidential construction markets. Headquartered in Winona, MN, the company has over 20,000 employees and its shares are a component of the S&P 500.

VALUATION

We believe that FAST shares are attractively valued at current prices near \$42, below the midpoint of their 52-week range of \$35 to \$51. From a technical standpoint, the shares had been in a bullish pattern of higher highs and higher lows since October 2022 but dropped sharply in October 2025 after missing earning expecta

On the fundamentals, FAST shares are trading at 39-times our 2025 EPS estimate and a more reasonable 35-times our 2026 estimate compared to their 5-year historical range of 28-36. On price/sales the

GROWTH / VALUE STOCKS

shares trade at a multiple of 6, at the top of their historical range. Given the benefits of Fastenal's global supply chain to help customers mitigate tariffs, its consistent performance, record of double-digit dividend growth, and strong balance sheet we believe the higher valuation is warranted. Compared to a group of peers, the shares trade at premium valuations, which we also think are warranted. Our rating remains BUY with a target price of \$50.

On October 17, BUY-rated FAST closed at \$42.46, up \$0.50. (Kristina Ruggeri, 10/17/25)

Fifth Third Bancorp (FITB)

Current Rating: **BUY**

Publication Date: **10/22/25**

HIGHLIGHTS

*FITB: Maintaining BUY following 3Q EPS*On October 17, Fifth Third Bank reported adjusted 3Q25 earnings of \$0.93 per share, up from \$0.85 a year earlier and above the consensus of \$0.87.

*Earlier in the month, the company said it was acquiring Dallas-based Comerica Inc. in a \$10.9 billion stock deal that would create the ninth largest U.S. bank by assets. Factoring in cost savings from combined expense efficiencies, the company expects the deal to be 9% accretive to earnings in 2027.

*The merger, which allows Fifth Third to expand into the faster growing Texas and Southeast regions of the U.S., is expected to close at the end of 1Q26.

*We are keeping our target price at \$49, which implies a multiple of 12-times our 2026 EPS estimate.

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on Fifth Third Bancorp (NGS: FITB) following 3Q25 EPS, which showed further momentum in net interest income, aided by lower deposit costs, and the fourth consecutive quarter of positive operating leverage.

On October 6, Fifth Third said it was acquiring Dallas-based Comerica Inc. (NYSE: CMA) in an all-stock deal valued at \$10.9 billion. The merger would create the ninth largest U.S. bank with \$288 billion in assets. We believe the company laid out a compelling case for the consolidation that included expansion into faster growing regions of the U.S. (Texas and the Southeast), an expected 200 basis point boost to return on tangible common equity (to 19% or better), as well as a 200-basis-point improvement in the efficiency ratio (to the low- to mid-50s). The combined company will also have two \$1 billion recurring revenue franchises in commercial payments and wealth & asset management. Terms call for each CMA share to be exchanged for 1.8663 shares of FITB. Following expense synergies of \$850 million (35% of Comerica's expense base), with 38% expected to be realized in 2026, the deal is projected to be 9% accretive to FITB's earnings in 2027. The merger is expected to close at the end of 1Q26.

We expected consolidation among large and mid-sized banks, absent for much of the 2022-2024 period, to accelerate as the new

administration takes a lighter touch to the regulatory approval of corporate mergers. In addition to the usual back-office and marketing efficiencies gained from mergers, banks face the need for considerable investments in technology (cybersecurity, digital transformation, AI initiatives, etc.) that can be leveraged over a larger expense base.

As a stand-alone, we continue to view Fifth Third as a high-quality Midwest bank with strong fee-based income from its asset management business, a better-than-peer-average efficiency ratio, and strong credit quality. The company reported an adjusted 17.7% ROE, a 1.25% ROA, and a 54.1% efficiency ratio in 3Q25, above industry peers.

Fifth Third also ranks as one of the largest asset managers in the Midwest. The wealth and asset management businesses remain a strong driver of fee-based income.

In the Southeast, the fastest growing region in the U.S., the company's expansion plans already included intentions to open about 35 new branches per year through 2028, at which time about 50% of its branches would be in Southeast markets.

We look for FITB to trade at a premium to regional bank peers based on its above-peer-average earnings growth, efficiency, and ROE metrics. Our target price of \$49 implies a multiple of 12-times our 2026 EPS estimate.

RECENT DEVELOPMENTS

Over the past year, FITB shares have declined 6%, underperforming the 15% increase for the broad market.

On October 17, Fifth Third Bank reported adjusted 3Q25 earnings of \$0.93 per share, up from \$0.85 a year earlier and above the consensus of \$0.87.

Net interest income rose 7% in 3Q25, as a 1% decline in average loans was offset by a much wider net interest margin (3.13% versus 2.90% a year earlier), which was the seventh consecutive quarter of expansion. Noninterest income increased by 10%, led by higher wealth/asset management and mortgage banking revenue.

The net charge-offs ratio of 1.09% was sharply higher than the 0.48% a year earlier, hurt by a \$178 million impairment of an asset-backed commercial credit. There was a loan loss provision of \$192 million, up from \$159 million in 3Q24.

EARNINGS & GROWTH ANALYSIS

On the 3Q earnings call, management guidance for 4Q25, calling for average loans and leases to be up 1%; net interest income to be stable to up 1%; noninterest income to be up 2%-3%; noninterest expense to be up 2%; and the net charge-off ratio to be around 0.40% of average loans.

We are raising our 2025 EPS estimate to \$3.54 from \$3.52, while increasing our 2026 forecast to \$4.08 from \$4.02.

GROWTH / VALUE STOCKS

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on FITB is Medium-High.

Fifth Third Bank estimates a Basel III Tier 1 common equity ratio of 10.5% as of September 30, 2025, down from 10.8% a year earlier.

The company repurchased \$300 million of its common shares in 3Q25. In June 2025, Fifth Third's board approved a share-repurchase authorization of up to 100 million shares.

Fifth Third increased its quarterly dividend by 8% to \$0.40 per share, or \$1.60 annually, starting in 3Q25. Our dividend estimates are \$1.54 for 2025 and \$1.64 for 2026. The current yield is about 3

MANAGEMENT & RISKS

Tim Spence became the company's president and CEO in July 2022 following the retirement of Greg D. Carmichael, who had led Fifth Third since 2015. Bryan Preston is the CFO.

FITB management is very transparent in outlining its financial goals, providing extensive guidance with respect to loan growth, net interest margins, credit quality, tax rates, and other financial and strategic metrics.

In terms of risks to earnings, Fifth Third is most sensitive to economic and housing market conditions in the Midwest. FITB's growth investments are concentrated in the greater Chicago area. The company's major state markets are Illinois, Ohio, and Florida.

Among larger regional banks, Fifth Third competes primarily with Chase Bank and Huntington National Bank.

COMPANY DESCRIPTION

Fifth Third Bancorp is a diversified financial services company based in Cincinnati. The company has about 1,100 banking centers and 2,100 ATMs across 11 states. The company has four main business segments: Commercial Banking, Branch Banking, Consumer Lending, and Wealth & Asset Management. In October 2025, it announced the acquisition of Comerica, Inc. in a \$10.9 billion stock deal that would create the ninth largest U.S. bank by assets.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for

the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

FITB has traded between \$32 and \$49 over the past year and is currently near the middle of that range. Tangible book value was \$21.66 per share at September 30. The stock is currently trading at 1.9-times book value, above historical levels.

FITB trades at 11.8-times our 2025 EPS estimate, above the historical average multiple. We believe that the shares deserve to trade at a premium to peers based on the company's better credit quality and above-average efficiency and ROE metrics. Our target price of \$49 implies a multiple of 12-times our 2026 EPS estimate.

On October 21, BUY-rated FITB closed at \$42.17, up \$0.37. (Stephen Biggar, 10/21/25)

GROWTH / VALUE STOCKS

Huntington Bancshares, Inc. (HBAN)

Current Rating: **BUY**

Publication Date: **10/22/25**

HIGHLIGHTS

*HBAN: Loan growth continues*On October 17, Huntington reported 3Q25 EPS of \$0.41, up from \$0.33 in 3Q24 and above the consensus estimate of \$0.38.

*Management updated its 2025 outlook. Average loan growth, average deposit growth, and net interest income were revised upward to 8% (from a prior 6%-8%), 5.5% (from a prior 4%-6%), and 10% -11% (up from a prior 8%-9%), respectively.

*On the 3Q25 earnings call, HBAN announced the closing of the merger with Veritex Holdings Inc. Veritex has approximately \$13 billion in assets, \$9 billion in loans, and \$11 billion in deposits.

*Our target price of \$19 implies a multiple of 12-times our 2026 EPS estimate.

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating and \$19 target price on Huntington Bancshares Inc. (NGS: HBAN). Regional bank shares have recently faced pressure due to concerns over loan fraud at a couple smaller regional banks and the impact of new tariff regulations. On the 3Q earnings call, HBAN management noted that it saw growth in loans and deposits along with higher fee income.

The company is also benefiting from its expanded presence in the Midwest, Rocky Mountain region, Texas and the Southwest. In addition, Huntington has a strong balance sheet and a focus on shareholder returns.

HBAN is trading at 10-times our 2026 EPS estimate, below the midpoint of the historical average range, reflecting concerns over leveraged lending and commercial real estate exposure. However, we believe that the stock merits a higher multiple based on the company's strong long-term growth prospects and new business lines. The stock also carries an attractive dividend with a yield of about 3%. Our target price of \$19 implies a multiple of 12-times our 2026 EPS estimate, in line with its peers.

RECENT DEVELOPMENTS

HBAN shares have risen 4% over the past year, versus a 15% increase for the S&P 500 and a 2% rise for the SPDR S&P Regional Banking ETF KRE. Approximately 20% of the shares are in various ETFs. HBAN accounts for 2% of the KRE. The beta on HBAN is 1.11.

On October 17, Huntington reported 3Q25 EPS of \$0.41, up from \$0.33 in 3Q24 and above the consensus estimate of \$0.38. Revenue increased 5% year over year to \$1.98 billion, supported by both net interest income and fee-based revenue through the strength of its product suite and capabilities. Second-quarter net interest income increased 11.5% to \$1.5 billion, reflecting loan growth and a higher net interest margin. The net interest margin rose to 3.13% from 2.98% in the prior year.

Average loans rose 9.2% to \$138 billion, with gains from both commercial loans and contributions from their new initiatives. Noninterest income rose 14% to \$606 million, with increase in all segments. Noninterest expense rose 10.2% to \$1.25 billion, due to higher personnel costs, incentive compensation and salary expense, and technology investments. The efficiency ratio fell to 57.4% from 59.4% a year earlier.

Average total core deposits increased 5.3% from the prior year to \$165.2 billion. Average balances grew 0.8% quarter over quarter, driven by continued household growth and the deepening of primary bank relationships. Total cost of deposits declined to 2.0% from 2.4% in 3Q24. Non-interest-bearing deposits totaled \$29 billion, slightly higher from previous quarters.

In 3Q25, the \$44.1 billion securities portfolio had an average yield of 3.72%, down from 4.25% a year. Approximately 87% of the portfolio consisted of U.S. Treasuries and agency/mortgage-backed securities. The balance consists of municipal bonds, corporate bonds, asset-backed securities, and 'other.' Approximately 37% (\$16.1 billion) of the portfolio is categorized as held to maturity, with an average yield of 2.66%.

On the 3Q25 earnings call, HBAN announced the closing of the merger with Veritex Holdings Inc. Veritex has approximately \$13 billion in assets, \$9 billion in loans, and \$11 billion in deposits. This acquisition will help accelerate HBAN's growth in Texas by expanding its presence in Dallas-Fort Worth and Houston. The company strongly believes the state of Texas, one of the most dynamic and fastest-growing economies in the country, has a lot of opportunities to expand its business and asserts a long-term commitment to the area.

EARNINGS & GROWTH ANALYSIS

We expect Huntington to post high-single-digit growth in net interest income in 2025 as the Treasury curve has remained positively sloped with growth in newer markets, especially Minneapolis, Denver and Texas.

In 3Q, average total loans and leases rose 9% from the prior year to \$136 billion, with an average yield of 5.96%. Commercial loans rose 12% to \$77.6 billion, helped by growth in commercial and industrial and partially offset by a decrease in commercial real estate. Consumer loans rose 5%, to \$58 billion, reflecting growth in automobile loans. Commercial real estate loans of \$10.7 billion represented 7.9% of total loans. Leveraged Lending loans of \$2.8 billion represent 2.1% of the total loan balance.

Credit quality has held steady over the past year and is on an improving path. In 3Q, the company's allowance for credit losses ratio declined to 1.86% from 1.93% in 3Q24, and the nonperforming asset ratio declined to 0.60% from 0.62 in 3Q24. The criticized asset ratio declined to 3.79% from 4.09% a year earlier. Provisions for credit losses totaled \$122 million, compared to \$106 million a year

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earlier. In 2Q25, net charge-offs fell to 0.22% of average loans from 0.30% in 3Q24, remaining well below the peer median.

On the earnings call, management updated its 2025 outlook. Average loan growth, average deposit growth, and net interest income were revised upward to 8% (up from a prior 6%-8%), 5.5% (from a prior 4%-6%), and 10%-11% (up from a prior 8%-9%), respectively. Noninterest income is expected to increase by 7%, and expenses are expected to rise 6.5% (prior: 5%-6%). Net charge-offs are projected to be 20-30 basis points.

Based on solid 3Q results, management's 2025 outlook and the potential easing of banking regulations, offset by macroeconomic uncertainty, we are inching up our 2025 EPS estimate to \$1.49 from \$1.47 and our 2026 EPS estimate to \$1.60 from \$1.57.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on HBAN is Medium-High, the second-highest rank on our five-point scale, based on the company's solid capital levels. The company's tier 1 capital ratio was 10.6% as of September 30, slightly above management's 9%-10% target range. Tangible book value was \$9.54 per share as of September 30, 2

The company has a \$1 billion share buyback authorization in place. However, HBAN didn't repurchase shares in 3Q pending new Federal Deposit Insurance Corp. regulations.

Huntington pays a quarterly dividend of \$0.155 per share, or \$0.62 annually, for a yield of about 3.9%. Our dividend estimates are \$0.62 for 2025 and 2026.

MANAGEMENT & RISKS

HBAN is led by president and CEO Stephen D. Steinour. Zachary Wasserman is CFO. The company is transparent with its growth strategy and cost-saving initiatives and provides guidance with respect to loan growth, noninterest expense, and efficiency and credit quality metrics.

The company is subject to a number of risks, including changes in interest rates, credit quality, loan demand, and capital markets liquidity. It also faces risks from financial services regulation. Huntington is most sensitive to economic and housing market conditions in the Midwest.

COMPANY DESCRIPTION

Based in Columbus, Ohio, Huntington is a regional bank providing a range of retail and commercial banking, residential mortgage lending, and asset management services. The company has \$208 billion in assets and branch offices in 13 states.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

HBAN is trading near the midpoint of its 52-week range of \$12.50-\$18.25 and at 10-times our 2026 EPS estimate, reflecting the uncertainty over tariffs and their effect on loan demand and recent regional banking concerns. However, we believe that the stock merits a higher multiple based on the company's strong long-term growth

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prospects, and we maintain a favorable view of prior acquisitions. In addition, the dividend yield of about 3.9% is slightly above the peer average. Our target price of \$19 assumes a 12-time multiple.

On October 21, BUY-rated HBAN closed at \$15.94, up \$0.10. (Kevin Heal, 10/21/25)

J.B. Hunt Transport Servs, Inc (JBHT)

Current Rating: **BUY**

Publication Date: **10/21/25**

HIGHLIGHTS

*JBHT: Raising target price*JBHT has been hurt by unfavorable market conditions that have lowered volumes and customer pricing, putting pressure on its margins -- yet it continues to take market share.

*Margins improved meaningfully this quarter following cost savings initiatives as well as productivity and efficiency improvements helped by investments in technology.

*Market conditions should improve later in 2025 and into 2026, where management believes the company is well positioned to continue to take market share.

*The shares are trading at 27-times our 2025 EPS estimate compared to the five-year historical range of 20-32 and at a meaningful discount on price/sales.

ANALYSIS

INVESTMENT THESIS

Our rating on J.B. Hunt Transport Services Inc. (NYSE: JBHT), a major U.S. transportation company, is BUY. Over the last decade, J.B. Hunt has successfully adapted to changes in customer demand for shipping and freight services, by pivoting to an asset-light model that reduced its traditional long-haul truck fleet and shifted its focus to faster-growing logistics and final-mile services. It has also grown its intermodal, 'truck-to-rail' transport, and higher-margin dedicated contract services. In the last two years, the company has been hurt by unfavorable market conditions that have lowered volumes and customer pricing, putting pressure on its margins and overall profitability. Yet, management says the company is taking market share and is responding by right-sizing costs while focusing on investments in the business.

More recently, there has been some positive news for the company. J.B. Hunt exited the bid season for its largest segment, Intermodal, with modest pricing improvement for the first time in two years. Market conditions are also expected to improve later in 2025 and into 2026, where management believes the company is well positioned to continue to take market share. JBHT also stands to benefit from recent regulatory developments and associated enforcement of English language requirements for truck drivers that is reducing the number of drivers thereby lowering industry capacity. This development should increase demand and pricing for the company. On tariffs, JBHT has some exposure to Chinese imports. It is prepared to respond as needed to meet the shifting needs of its customers in the unpredictable environment. On valuation, the shares are trading at 27-times our 2025 EPS estimate compared to the

five-year historical range of 20-32. Compared to the peer group, JBHT trades at meaningful discounts on P/E and price/sales. Our target price is now \$190, raised from \$165.

RECENT DEVELOPMENTS

JBHT shares have outperformed the market over the past quarter, rising 12% while the S&P 500 advanced 7%. They have underperformed over the past year, dropping 6% compared to gains of 15% for the index and 7% for the Industrial sector ETF IYJ. Over the past five years, the shares have climbed nearly 30% compared to advances of 95% for the index and 67% for the industry. The beta on JBHT is 0.98.

J.B. Hunt recently reported 3Q25 GAAP earnings that exceeded analyst estimates. Revenue of \$3.1 billion declined less than 1% from the prior year but was above the consensus. Excluding fuel surcharges, revenue was slightly up with the prior year. Diluted earnings per share came to \$1.76 (up 18%) compared to \$1.49 a year earlier and topped the Street estimate of \$1.46. Operating income rose 8% to \$243 million, while the operating margin expanded by 60 basis points to 7.9%. Share repurchases benefited earnings by \$0.09 from 3Q24.

Following several fatal crashes, the U.S. Transportation Secretary announced emergency action to restrict those eligible for a Commercial Driver's License. New regulation requires that operators be able to 'read and speak English proficiently enough to converse with the general public and understand highway traffic signs,' among other new requirements. The regulatory developments and associated enforcement are lowering industry capacity by removing non-qualified drivers from the road, which should increase demand and pricing for JBHT.

The proposed rail consolidation between Union Pacific (UNP) and Norfolk Southern (NSC) could have negative implications on the trucking industry. Management stated that JBHT is one of the largest purchasers of rail capacity via its Intermodal service and does not believe that a consolidation of the two railroads would impact the service it provides for NSC. It also cited its adaptability and years of experience navigating seven previous rail consolidations.

The company continues to focus on its cloud-based, AI-driven Marketplace for J.B. Hunt 360, which brings shippers and carriers together on an innovative e-commerce platform.

J.B. Hunt does not provide earnings guidance. During the conference call to discuss results, President Shelley Simpson reiterated that while market dynamics remain uncertain around the timing and magnitude of a potential inflection in demand, the company's focus in 2025 is to grow and repair its margins. She noted that the company continues to focus on operational excellence and efficiencies through process streamlining, best practices, and technology investments to lower the company's cost base and improve margins. The EVP of marketing and sales said that the company's reputation for the best service and value helps it win new

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customers and modestly improve rates in some businesses.

EARNINGS & GROWTH ANALYSIS

Revenue in the latest quarter fell in three of the company's five segments, including its largest segment, compared to the prior-year period. Margins benefited from cost savings initiatives, improved productivity and lower purchase transportation costs. J.B. Hunt has five business segments: Intermodal (50% of 3Q revenue); Dedicated Contract Services (28%); Integrated Capacity Solutions (9%); Final Mile Services (7%) and Truckload (6%). Third-quarter results for these segments are discussed below.

Intermodal revenue fell 2% year over year, reflecting a 1% decrease in both volume and revenue per load. Operating income increased by 12% due to efficiency improvements and improved network balance from reduced movement of empty cargo containers in the network.

In Dedicated Contract Services (trucks used exclusively by a single shipper), sales were up 2% from the prior year reflecting higher truck productivity offset by fewer trucks. The segment dropped by nearly 60 revenue-producing trucks from 3Q24. The customer retention rate in the period was 95% (lower than the normal 98% rate due to fleet downsizing). Operating income rose 9% amid higher revenue and lower costs.

In Integrated Capacity Solutions, which arranges shipments through owner/operators, revenue fell 1% from the prior year, as a 9% increase in revenue per load was offset by lower volume. Final Mile Services reported a 5% decline in revenue due to soft end market demand. In the Truckload segment, revenue increased 10% year over year with help from higher volume (the highest in a decade) that more than offset a decline in revenue per load.

Management keeps a close eye on costs. Salaries, wages, and employee benefits as a percentage of sales were about 27%, up 50 basis points from the prior year. Cost savings efforts have reduced people costs by over \$200 million in the last two years. JBHT has also achieved over \$20 million in cost savings towards its goal of \$100 million. The reported operating margin expanded to 7.9% in the most recent quarter from 7.3% a year earlier.

Reflecting the strong quarter, we are raising our 2025 EPS forecast to \$6.05 from \$5.67. Our estimate implies growth of 9% for the year. We expect market conditions and savings to continue to improve in 2026, though we are lowering our EPS forecast to \$6.97 from \$7.03. Our long-term earnings growth rate estimate is 10%

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on J.B. Hunt is Medium-High. The company receives above-average scores on our key financial strength criteria of debt levels and fixed-cost coverage; and below average scores on profitability and cash flow. S&P assigns a BBB+ rating to the company's debt.

Cash and cash equivalents totaled \$52 million at the end of 3Q25 compared to \$47 million in 4Q24. As of June 2025, the latest information available, \$280 million was outstanding on the company's \$1 billion line of credit. Also as of June 2025, cash flow from operations fell 3% to \$0.8 billion. In 2024, cash conversion was about 90%. Total debt rose 8% from the end of the prior year to \$1.6 billion but declined sequentially. The debt/capital ratio for the quarter was 31%, compared to 27% in 4Q24. Operating income covered net interest expense by a factor of 10 in 2024.

J.B. Hunt pays a dividend. In 1Q25, it raised its quarterly payout by 2% to \$0.44 per share. The current annualized dividend of \$1.76 yields about 1.1%. Our dividend estimates are \$1.76 for 2025 and \$1.80 for 2026.

J.B. Hunt has a new \$1 billion share buyback plan with no expiration date. During 3Q25, the company purchased about \$230 million worth of its shares for a total of about \$780 million or 5.4 billion shares thus far in 2025. In 2024 JBHT bought back \$500 million of its shares. At the end of the quarter, JBHT had approximately \$107 million remaining under its authorization.

MANAGEMENT & RISKS

J.B. Hunt underwent an orderly CEO transition. Former president Shelley Simpson, who has worked at the company for 30 years, was appointed to the CEO position in February 2024, replacing John N. Roberts III who had been the company's CEO since 2011. CEO Roberts is now the company's chairman. Brad Delco was named as the CFO in August 2025. Delco joined the company in 2019 and most recently served as the SVP of Finance.

The company has relatively straightforward goals, including remaining committed to disciplined long-term investments in its people, technology, and capacity; delivering exceptional value to customers through operational excellence; and driving long-term compounding returns for shareholders.

Investors in J.B. Hunt face risks. Growth in the company's intermodal and trucking operations may be exposed during economic downturns as excess capacity leads to rate cutting and margin pressure. Customers may have trouble paying their bills. Earnings may also face pressure from increased fuel costs, which may rise more quickly than shipping rates, as well as from higher labor costs. In addition, the company relies on efficient rail transport, and results may be negatively affected by train delays and congestion.

COMPANY DESCRIPTION

J.B. Hunt Transport Services, based in Arkansas, provides surface transportation, delivery and logistic services throughout the U.S. and to destinations in Canada and Mexico. The company has approximately 35,000 employees. JBHT shares are a component of the S&P 500.

VALUATION

We consider JBHT shares attractively valued at current prices near \$166 just above the midpoint of their 52-week range of

GROWTH / VALUE STOCKS

\$123-\$200. From a technical standpoint, the shares had been in a bearish trend of lower highs and lower lows that reversed in April 2025.

On the fundamentals, the shares are trading at 27-times our 2025 EPS estimate compared to the five-year average range of 20-32 and below 31 for a group of peers that includes ODFL, SAIA, LSTR and KNX. On price/sales, JBHT shares trade at a multiple of 1.2, below its five-year historical range of 1.3 to 1.6 and at a significant discount compared to the peer group. Based on the valuation and the company's industry position, we believe that the shares are attractive. Our target price is now \$190, up from \$165.

On October 20, BUY-rated JBHT closed at \$165.49, up \$0.64. (Kristina Ruggeri, 10/20/25)

KeyCorp (KEY)

Current Rating: **BUY**

Publication Date: **10/21/25**

HIGHLIGHTS

*KEY: Maintaining Buy following 3Q EPS*On October 16, KeyCorp reported 3Q25 earnings of \$0.41 per diluted share, up from \$0.30 a year earlier and above the consensus of \$0.38.

*Management modestly improved guidance for 2025, now calling for net interest income to grow at the upper end of its prior 20%-22% range.

*Though average loans have been stable, net interest margins continue to benefit from significant securities re-positioning efforts in the second half of 2024.

*Our target price of \$21 implies a multiple of 12.1-times our 2026 EPS estimate. The stock also carries an attractive dividend yield of about 4.8%.

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on KeyCorp. (NYSE: KEY) with a target price of \$21, with our favorable view reflecting notable improvement in the net interest margin (NIM). Lending balances are likely to remain under pressure reflecting still weak client demand for loans, flat utilization rates, and an intentional runoff of low-yielding consumer loans as they pay down and mature. However, we see a better 2026 for the lending business and continued improvement in the NIM as balance sheet re-positioning efforts show ongoing benefits.

We view the company as in a relatively good position with respect to regulatory oversight for regional banks. At its asset-size of \$187 billion, the company is not subject to annual Federal Reserve stress tests, which apply only to banks above \$250 billion in as

KEY trades at 11.7-times our 2025 EPS estimate, below the historical average. We believe that this discount is unwarranted based on the company's favorable ROE and efficiency metrics and strong credit quality. Our target price of \$21 implies a multiple of about 12.1-times our 2026 EPS estimate.

RECENT DEVELOPMENTS

Over the past year, KEY shares have declined 2%, compared to a 14% gain for the broad market.

On October 16, KeyCorp reported 3Q25 earnings of \$0.41 per diluted share, up from \$0.30 a year earlier and above the consensus of \$0.38.

Net interest income rose 24%, as a 1% decline in average earning assets was offset by a much wider net interest margin of 2.75% versus 2.17%, reflecting lower deposit costs, reinvestment of proceeds from maturing lower-yielding securities, and a repositioning of the available-for-sale portfolio in the second half of 2024.

Net charge-offs were \$114 million in 3Q25, down from \$154 million a year earlier. Over the past four quarters, net charge-offs of \$440 million compared to loan loss provisions of \$402 million.

In December 2024, KeyCorp announced that The Bank of Nova Scotia (Scotiabank) completed its \$2.8 billion investment in KeyCorp's common stock (at \$17.17 per share) resulting in a 14.9% minority ownership.

EARNINGS & GROWTH ANALYSIS

Along with 3Q results, management updated 2025 guidance calling for average loans to be down 1%-3% (same as prior guidance) and net interest income to be up 22% (versus a prior 20%-22%). The net interest margin was expected to be 2.75%-2.80% in 4Q25. Noninterest income was expected to be up 5%-6% (versus a prior 5%), while noninterest expense was forecasted to increase 4% (versus a prior 3%-5%). It also expected net charge-offs to be 0.40%-0.45% of average loans (unchanged). Management's long-term targets include a cash efficiency ratio of 54%-56% and a return on tangible common equity of 16%-19%.

Overall, we see revenues up 34% in 2025 after a 14% decline in 2024 due to balance sheet securities re-positioning efforts, which are allowing the company to significantly widen the net interest margin in 2025.

Based mostly on the better-than-expected 3Q, we are raising our 2025 EPS estimate to \$1.48 from \$1.45. Our 2026 forecast remains \$1.74.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on KeyCorp is Medium-High

KeyCorp estimates a Basel III Tier 1 common equity ratio of 11.8% as of September 30, 2025, up from 10.8% a year earlier.

The company last raised its quarterly dividend by 5% to \$0.205 in 4Q22, or \$0.82 annually. Our dividend estimates are \$0.82 for 2025 and \$0.84 for 2026. The company has a long-term target payout ratio of 40%-50%. The current yield is about 4.8%.

GROWTH / VALUE STOCKS

In 3Q22, the board extended an existing \$790 million share repurchase authorization. However, management has noted that meaningful share repurchases are unlikely as the company builds regulatory capital.

MANAGEMENT & RISKS

KeyCorp is led by chairman and CEO Chris Gorman, who assumed those roles in May 2020 following the retirement of Beth E. Mooney. Mr. Gorman was previously president and COO. Clark H. I. Khayat is the CFO.

Management provides detailed financial guidance with respect to revenues, loan growth, net interest margin trends, and net charge

The company has a diversified business model. The Key Community Bank segment includes branch-based deposit and investment products; personal finance services; and loans, including residential mortgages, home equity, credit card, and various types of installment loans. The Key Corporate Bank segment includes syndicated finance, debt and equity capital markets, commercial payments, equipment finance, commercial mortgage banking, derivatives, foreign exchange, and financial advisory, and public finance.

Among mid-cap regional banks, KeyCorp competes primarily with Fifth Third Bank and Regions Financial.

COMPANY DESCRIPTION

Cleveland-based KeyCorp is one of the largest bank-based financial services companies in the U.S., with about 1,000 branches in 15 states and assets of \$186 billion. The company also operates a national consumer bank and a national corporate bank.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector.

The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

KeyCorp's tangible book value was \$13.38 per share as of September 30. At current prices near \$17, KEY trades at approximately 1.3-times tangible book value and at 11.7-times our 2025 EPS estimate, a discount to regional bank peers. We believe that these discounts are unwarranted given the company's favorable ROE and efficiency metrics and strong credit quality. Our target price of \$21 implies a multiple of 12.1-times our 2026 EPS estimate.

On October 20, BUY-rated KEY closed at \$17.38, up \$0.42. (Stephen Biggar, 10/20/25)

M & T Bank Corp (MTB)

Current Rating: **BUY** Publication Date: **10/21/25**

HIGHLIGHTS

*MTB: Earnings beat and 11% dividend hike in 3Q*On October 16, M&T reported adjusted 3Q25 earnings of \$4.81 per share, up from \$4.08 a year earlier and above consensus of \$4.39.

*Average loans increased only 1%, though the net interest margin improved, aided by securities repricing.

*Shareholder returns received a boost with the dividend rising by 11% effective with the 3Q25 payment.

*MTB is trading at only 11-times our 2025 EPS estimate, which

GROWTH / VALUE STOCKS

in our view does not adequately reflect the company's current outlook. Our target price is \$230, or 12.4-times our 2026 EPS estimate.

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on M&T Bank Corp. (NYSE: MTB) following 3Q results, which showed weak loan growth and lower net interest income guidance but a strong improvement in credit quality, EPS that beat consensus, and a notable increase in share buybacks. We believe the shares remain at an attractive entry point.

In April 2022, M&T acquired People's United Financial (PBCT) in an all-stock transaction valued at \$8.4 billion. Each PBCT share was exchanged for 0.118 shares of MTB.

We think the deal made strategic sense for several reasons. The consolidation of M&T's 716 branches and PBCT's 419 branches gives the franchise the second-largest branch network in the Northeast (behind only Bank of America). The company looked to achieve a 30% reduction in PBCT's cost base, in line with the savings generated in other recent regional bank mergers. The combined bank has best-in-class efficiency ratio and strong ROE/ROA metrics. The acquisition also provided valuable specialty businesses like fund banking, mortgage warehouse, and corporate institutional banking that M&T has been able to scale.

MTB has completed 27 acquisitions since the early 1980s and expects to do more deals when opportunities arise, according to management on the 2Q25 earnings call. The bank's focus is on growing in existing markets or contiguous areas with high commercial real estate concentrations at potential acquisition targets that M&T can manage through loan sales or risk transfer trades.

M&T tends to trade at a premium to its regional bank peers, which we believe reflects the company's historically consistent (though below-peer-average) loan growth, above-average credit quality, and strong efficiency.

The merger should provide long-term advantages, and we believe that MTB's current multiple of 11.7-times does not adequately reflect the company's current outlook. Our target price is \$230, or 14-times our 2025 EPS estimate.

RECENT DEVELOPMENTS

Over the past year, MTB shares have declined 8%, versus a 15% advance for the broad market.

On October 16, M&T reported adjusted 3Q25 earnings of \$4.81 per share, up from \$4.08 a year earlier and above consensus of

Net interest income was up 2%, reflecting flat average earning assets but a wider net interest margin of 3.68%, versus 3.62% a year earlier. There was a credit loss provision of \$125 million, up from

\$120 million a year earlier. Net charge-offs were 0.42% of average loans, up from 0.35% a year earlier. Noninterest income increased 24% from 3Q24, led by growth in mortgage banking revenues, brokerage services income and trading account gains.

Average loans increased 1%, to \$135.4 billion, with growth in commercial and industrial, consumer and residential real estate

EARNINGS & GROWTH ANALYSIS

Management's guidance for 4Q25 calls for net interest income of \$1.8 billion, fee income of \$670 million to \$690 million, operating expenses of \$1.35 billion to \$1.37 billion, and a net charge-off rate of 0.40%-0.60% of average loans. Management also expects the CET1 Capital Ratio to be in a range of 10.75% to 11.00%, near their long-term 10% target. We expect total revenues to rise about 5% in 2025, in line with this guidance.

The company has held expense growth in check, in our view. The adjusted efficiency ratio (noninterest expense divided by net revenues) was 53.6% in 2Q25, improved from 55.0% a year earlier and better than most peers.

We are increasing our 2025 EPS estimate to \$16.55 from \$16.44 mostly on the better-than-expected 3Q. Our 2026 forecast moves to \$18.60 from \$18.75.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on M&T Bank is Medium-High, the second-highest point on our five-point scale.

M&T estimates that its Tier 1 common equity ratio was 10.90% at September 30, 2025, down from 11.54% a year earlier.

Previously, the Federal Reserve agreed to exempt banks with assets of \$100-\$250 billion, including M&T, from the 2019/2020 supervisory stress testing cycle. However, with the recent failure of Silicon Valley Bank, MTB and other mid-sized banks are again to be subject to stress tests.

Following the Federal Reserve's June 2025 CCAR stress test results, M&T Bank said its preliminary stress capital buffer (SCB) requirement would decrease to 2.7%, from the previous SCB of 3.8%, effective October 1, 2025. The company's regulatory minimum CET1 ratio implied by the preliminary SCB is now 7.2%, down from 8.3%. In January 2025, M&T Bank's Board of Directors authorized a new \$4.0 billion share repurchase program, replacing the prior \$3.0 billion repurchase program from July 2022. The company repurchased \$409 million of its shares in 3Q25.

In 3Q25, MTB raised its quarterly dividend by 11% to \$1.50 per share. Our dividend estimates are \$5.70 (up from \$5.48) for 2025 and \$6.14 (up from \$5.65) for 2026. The current yield is about

MANAGEMENT & RISKS

In December 2017, M&T Bank appointed Rene Jones as chairman and CEO, replacing Robert G. Wilmers, who passed away

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unexpectedly. Daryl Bible is EVP and CFO.

In our view, MTB management is transparent with investors and provides reliable financial guidance during its quarterly earnings calls. This includes forecasts for loan growth and credit quality, net interest margins, and operating expense trends.

The company faces risks from general economic uncertainty and slowdowns in consumer spending, credit and financial market disruptions, interest rate movements, commercial real estate stress (due to its high exposure), competitive pressure on loan volumes and margins from other banks and private lenders, and changes in regulations. M&T also faces long-term risks from regional concentration, institutional ownership volatility (about 90% held by institutions like Blackrock and Vanguard), and cybersecurity breaches. The bank is exploring potential involvement in stablecoin/digital currency payment, likely through partnerships, which carries risk.

COMPANY DESCRIPTION

Headquartered in Buffalo, New York, M&T Bank Corp. is a bank holding company that operates branch offices in New York, Maryland, New Jersey, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia, and the District of Columbia. The company was founded in 1856. The firm has around 22,000 employees.

VALUATION

MTB trades at 11-times our 2025 EPS estimate. The stock has traded between \$151 and \$226 for the past 52 weeks and is currently in the middle part of that range. Based on the company's continued below-trend credit costs, we believe that earnings quality remains healthy.

We look for 12% earnings improvement in both 2025 and 2026 as net interest margins recover, loan issuance grows modestly and credit costs remain contained while share repurchases continue. We are keeping our target price at \$230, or 12.4-times our 2026 EPS estimate.

On October 21 at midday, BUY-rated MTB traded at \$182.75, up \$0.68. (Stephen Biggar, 10/21/25)

ManpowerGroup (MAN)

Current Rating: **HOLD**

Publication Date: **10/22/25**

HIGHLIGHTS

*MAN: Looking for more favorable entry point*MAN shares have underperformed over the past six months, falling 14% compared with a 36% advance for the Russell 2000.

*The company recently reported 3Q25 adjusted earnings that fell 17% year over year.

*On a technical basis, the shares have been in a bearish pattern of lower highs and lower lows since May 2021.

*Despite a recent dividend cut, the current dividend yield of 4.2% is attractive.

ANALYSIS

INVESTMENT THESIS

Our rating on ManpowerGroup Inc. (NYSE: MAN), a provider of employee placement and workforce services, is HOLD. Manpower's results have been hurt by weak economic conditions and soft demand for staffing services, and management projects continued declines in revenue and earnings. Our long-term rating is BUY. We expect Manpower to benefit over time from its investment in data analytics and have a positive view of the company's long-term prospects as it focuses on selling higher-margin services. The current dividend yield of 4.2% is attractive but until margins start to widen we think a HOLD rating is appropriate.

RECENT DEVELOPMENTS

MAN shares have underperformed over the past six months, falling 14% compared with a 36% advance for the Russell 2000 and a 23% advance for the industry (the iShares U.S. Industrials ETF, IYJ). The shares have also underperformed over the past year, sliding 45% compared with gains of 15% for the index and of 8% for the industry. They have underperformed the index and the industry over the last five years. The beta on MAN is 0.96.

Manpower recently reported 3Q25 adjusted earnings per share that fell 39% year over year but topped the consensus estimate. For the quarter, revenue rose 2% year over year on a reported basis (-2% in constant currency) at \$4.6 billion. The adjusted EBITA margin was a thin 2.1%, narrower by 50 basis points year over year. Adjusted EPS came to \$0.83, compared to the consensus forecast for \$0.68 and above the midpoint of management's guidance range. Year to date, the company has earned \$2.15 per share on an adjusted basis.

Along with the 3Q results, the company issued 3Q25 guidance. Management predicts adjusted diluted earnings per share of \$0.78-\$0.88, down 18% at the midpoint from last year's comparable \$1.29. CEO Jonas Prising's tone during the quarter's call was once again a bit more upbeat compared to previous quarters, as he commented that 'stabilization of demand ... in the North America and Europe ... has been a key factor in the revenue trend improvem

EARNINGS & GROWTH ANALYSIS

Manpower organizes its business - providing workforce solutions and services such as recruitment, outsourcing, and training services - into four geographic regions: Southern Europe (48% of revenue), Northern Europe (18%), Americas (24%), and APME (11%). Recent results and outlooks are discussed below.

Revenue trends were mixed in the latest quarter. Southern Europe was down 1% year over year on a constant currency basis (better than last quarter's 2% decline), Americas was up 6%, Northern Europe was down 7%, and APME was down 8%. Our outlook for revenue growth in 4Q calls for another low-single-digit decline on a constant currency basis.

Management keeps an eye on margins. The adjusted EBITA margin in 3Q narrowed 50 basis points year over year to 2.1%. That's

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thin. Margins were wider year over year in APME; they were flat or lower in all other regions.

Turning to our estimates, based on the revenue and margin trends in the key markets, as well as management's guidance, we are lowering our 2025 adjusted EPS estimate to \$2.90 from \$3.05. Our estimate implies a 36% decline in EPS for the year. We look for growth to resume in 2026 and are maintaining our preliminary adjusted EPS forecast of \$3.75. Recent results for MAN have been depressed; we think the company has potential earnings power in the \$8.00 per share range.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on ManpowerGroup is Medium-Low. The company receives average or below-average scores on our main financial strength criteria of debt levels, fixed-cost coverage, profitability, cash flow generation, and earnings qual

Manpower had cash and equivalents of \$509 million at the end of 2024. Total debt was \$1.2 billion and represented 33% of total capital. The company's operating margins, in the single digits, are razor-thin and under pressure.

Manpower pays a semiannual dividend. In May 2024, the company cut the semi-annual payout 55%. The current annualized rate is \$1.44 per share. The current dividend yield of 4.2% is attractive, though we don't anticipate the dividend will grow until earnings growth becomes consistent and sustainable. Our dividend estimates are \$1.44 for 2025 and 2026.

Manpower has a stock repurchase program.

MANAGEMENT & RISKS

Jonas Prising is the chairman and CEO of ManpowerGroup. Mr. Prising became CEO in May 2014, after previously serving as president, and he became chairman in December 2015. He has worked for Manpower since 1999. Jack McGinnis has served as CFO since February 2016. Prior to Manpower, Mr. McGinnis worked for Morgan Stanley as Global Controller.

Through its new strategy, Diversification, Digitization, and Innovation, Manpower is shifting its focus toward higher value solutions and services. These are generally technology-driven product offerings that carry higher margins. The company's Experis division, which focused on IT resourcing and project solutions, accounted for 22% of gross profit in the latest quarter.

Investors in MAN shares face risks, including the company's sensitivity to global economic conditions, labor markets, and international trade, which could impact employment in a range of industries. The company has substantial exposure to Europe and thus has currency risks related to both the pound and the euro. It also faces potential disruption in the staffing industry from new entrants such as Uber.

COMPANY DESCRIPTION

ManpowerGroup is a provider of workforce solutions and services, with approximately 26,000 permanent employees globally and more than 600,000 associates on assignment on any given day. Operating in 70 countries, the company manages a range of brands, including Manpower, Experis, and Talent Solutions. The shares are a component of the S&P 400 Midcap Index.

VALUATION

We think MAN shares are fairly valued at current prices near \$35. MAN shares are currently trading toward the low end of their 52-week range of \$33-\$67. On a technical basis, the shares have been in a bearish pattern of lower highs and lower lows since May 2

On a fundamental basis, the shares are trading at 9-times our 2026 EPS estimate, near the low end of the five-year range of 8-18. On price/sales, the current multiple of 0.12 is below the five-year average. Given challenging conditions for staffing services in the U.S. and company's weak near-term outlook, we believe that MAN is fairly valued and that a HOLD rating is appropriate.

On October 21, HOLD-rated MAN closed at \$34.38, up \$0.45. (John Eade, 10/21/25)

Pepsico Inc. (PEP)

Current Rating: **HOLD**

Publication Date: **10/16/25**

HIGHLIGHTS

*PEP: Looking for a more favorable entry point*PEP shares have outperformed the S&P 500 over the last quarter, rising 13%, compared to a gain of 7% for the index and a decline of 1% for the industry ETF IYK.

*PepsiCo recently reported fiscal 3Q25 earnings that topped the consensus estimate.

*Pepsi has driven sales through price hikes, with an average increase of 5% over the past eight quarters, though volume has fallen by an average of 2% over the same period.

*In May 2025, Pepsi completed its acquisition of poppi for \$1.95 billion.

ANALYSIS

INVESTMENT THESIS

Our rating on PepsiCo Inc. (NGS: PEP) is HOLD. PEP, one of the largest food and beverage companies in the world, has struggled to increase volume. Pepsi has driven sales through price hikes, with an average increase of 5% over the past eight quarters, though volume has fallen by an average of 2% over the same period. We are concerned about consumer sentiment and cautious spending impacting Pepsi's sales, as well as impacts on margins as tariffs elevate costs. Consequently, the earnings outlook for Pepsi has turned negative. On the positive side, we like its better-for-you portfolio, which taps into the health-conscious market with more nutritious products, capitalizing on the growing trend.

From a technical standpoint, the shares had been in a bearish pattern of lower highs and lower lows that dates to October 2024.

GROWTH / VALUE STOCKS

However, they have risen in a volatile pattern following a low in June 2025. On the fundamentals, the stock trades at 18-times our 2026 EPS forecast, below the peer average of 21. We think that prospects for less rapid revenue and earnings growth are adequately reflected in the share price. If volumes were to recover sooner than we anticipate, we would consider an upgrade.

Longer term, PepsiCo's digital operations, efficient distribution, strong brands, and improved supply chain are all cause for optimism. We have a favorable view of its recent acquisitions and how they can support volume growth. We also like the long history of dividend growth, most recently raised 5% in February 2025. For these reasons, our long-term rating remains BUY.

RECENT DEVELOPMENTS

PEP shares have outperformed the S&P 500 over the last quarter, rising 13%, compared to a gain of 7% for the index and a decline of 1% for the industry ETF IYK. Over the past year, the shares have declined 14%, compared to a gain of 15% for the index and a decline of 3% for the industry. Over the past five years, the shares have underperformed the index and the industry. The beta on PEP is 0.42.

PepsiCo recently reported fiscal 3Q25 earnings that topped the consensus estimate. The company reported core EPS of \$2.29, down 2% from the prior year in constant currency, but above the consensus forecast of \$2.26. Net revenue of \$23.9 billion was up 3% on a reported basis and up 1% organically. Sales reflected a 4% higher contribution from pricing, partially offset by a 3% decline in volume. The third-quarter core gross margin narrowed by 160 basis points to 53.9%, while the core operating margin narrowed by 60 basis points to 17.3%. In the first three quarters, the company has earned \$5.88 per share.

Along with the results, management updated its 2025 guidance. It continues expect low-single digit organic revenue growth. Management now expects core EPS to be down 0.5% from the prior year, up from its previous expectation for a 1.5% decline. It continues to estimate \$8.6 billion in cash returns to shareholders, consisting of \$7.6 billion in dividends and \$1.0 billion in share buybacks.

The company also grows through acquisitions and new products. In July 2025, Pepsi launched the first prebiotic cola in the traditional cola category. In May 2025, Pepsi announced it had completed its acquisition of poppi, a prebiotic soda brand with rapid growth, for \$1.95 billion. Management noted the price includes \$300 million of anticipated cash tax benefits for a net purchase price of \$1.65 billion.

EARNINGS & GROWTH ANALYSIS

PepsiCo has reorganized its reporting segments and now reports in six segments. In 3Q, as a percentage of revenue, PepsiCo Foods North America (PFNA) accounted for 27%, PepsiCo Beverages North America (PBNA) for 31%, International Beverages Franchise (IB Franchise) for 5%, Europe, Middle East, and Africa (EMEA) for

21%, Latin America Foods (LatAm Foods) for 11%, and Asia Pacific Foods for 5%. We review recent results below.

Organic sales were up in four of the six segments. Organic sales were up 6% in EMEA, 4% in LatAm Foods, and 1% in both PBNA and in Asia Pacific. Management noted acceleration in sales and benefits from ongoing portfolio reshaping initiatives. This growth was partially offset by a 3% decline in PFNA and a 1% decline in IB Franchise.

Organic volume was up in only one of the six segments. Volume rose 4% in Asia Pacific. However, volume declined 4% in both PFNA and PBNA and declined 5% in IB Franchise. Volume remained flat in EMEA and LatAm Foods.

Management also keeps an eye on margins. The core gross margin narrowed by 160 basis points to 53.9%, while the core operating margin narrowed by 60 basis points to 17.3%. Margins were pressured by higher supply chain costs related to global sourcing of inputs and tariff impacts. Management is working to offset these impacts through productivity initiatives and increasing transportation and logistical efficiencies.

Pepsi has a history of growth and profitability. The company's revenues have grown 31% over the past five years, and core operating profit has grown 40%. The core operating margin has ranged from 14.3% to 16.0% over that time period.

Turning to our estimates, based on recent trends and management's guidance, we are raising our 2025 core EPS estimate to \$8.10 from \$8.00. Our estimate is in line with management's guidance and implies a decline of approximately 1%, as we expect the higher costs associated with tariffs and a tough consumer environment to pressure results. We expect growth in 2026 and are raising our core EPS estimate to \$8.55 from \$8.45. Our long-term earnings growth rate forecast is 6%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on PepsiCo is Medium-High, the second-highest rating on our five-point scale. The company receives above-average scores on our criteria of fixed-cost coverage, profitability, and average scores on debt levels.

The company ended 3Q25 with \$8.1 billion in cash and short-term investments, down from \$8.5 billion at the end of 2024. Long-term debt of \$44.1 billion was up from \$37.2 billion at the end of 2024, and long-term debt/capital was 69%. Adjusted operating income covered interest expense by a factor of 16.

PepsiCo pays a dividend. In February 2025, the company raised its annualized dividend by 5% to \$5.69 per share, for a yield of approximately 3.8%. The company has paid a dividend for 60 consecutive years and has increased the dividend for 53 straight years. The shares are included in the S&P Dividend Aristocrats group. Our dividend estimates are \$5.62 for 2025 and \$5.95 in 2026.

GROWTH / VALUE STOCKS

MANAGEMENT & RISKS

Ramon Luis Laguarta has served as CEO since 2018 and became chairman in 2019. On November 10, Steve Schmitt will take over as EVP and CFO. Mr. Schmitt succeeds James T. Caulfield, who has decided to retire but will assume an advisory role and assist with the transition through May 2026.

Pepsi continues to refine its portfolio. In January 2025, Pepsi announced it had completed its acquisition of Garza Food Ventures LLC-d.b.a. Siete Foods-for \$1.2 billion. Management believes these acquisitions will complement the portfolio and grow its better-for-you offerings.

Pepsi faces challenges from rising costs for commodities and other inputs. Although the company has implemented price increases across its portfolio, it has not been able to fully offset inflation. We note that Pepsi, which sells both food and beverages, is more exposed to agricultural cost inflation than Coca-Cola, which does not have food operations. PepsiCo also faces risks from unfavorable currency effects and could be hurt by strength in the U.S. dollar.

COMPANY DESCRIPTION

PepsiCo, founded in 1898, produces and sells food, snacks, and beverages around the world. The company's brands include Lay's, Santitas, Ruffles, Doritos, Tostitos, Cheetos, Quaker Oatmeal, and Rice-A-Roni; its beverage portfolio includes Pepsi, Mountain Dew, Gatorade, Lipton, Brisk, and various bottled-water products. The company also provides tea and coffee products through a joint venture with Starbucks and Unilever. The company has 319,000 employees. The shares are a component of the S&P 500.

INDUSTRY

Our rating on the Consumer Staples sector is Market-Weight. Already cash-strapped consumers are facing further price pressure from higher tariffs, causing them to moderate their spending on name brands. Meanwhile, prompted by changing generational preferences and health concerns overall, consumers are reducing their alcohol, sugar, and processed foods consumption. The Consumer Staples sector accounted for 4.9% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector is up 2.0%, underperforming the market year to date. The sector underperformed in 2024, with a gain of 12.0%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 0

Over the past five years, the sector's weighting has ranged from 4% to 12%. The sector's P/E ratio on projected 2026 EPS was 21, below the market multiple. The yield of 2.5% was above the market average. The sector's smoothed earnings growth rate of 4% was below the market average.

The Consumer Staples sector is a defensive, value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Consumer Staples sector include: Job and Wage Growth, Inflation (specifically brand-name items as consumers opt to cut out non-essential spending), and Tariffs. Trends in the dollar can affect factors such as Cost of Goods Sold.

Consumer Staples stocks are often favored during periods of economic weakness. Sell signals for stocks in the sector can be declining interest rates, which may usher in a period of economic growth, or major balance sheet weakness that threatens a divid

At this stage of the market and economic cycle, our favored industries within the Consumer Staples sector include Soft Drinks & Non-alcoholic Beverages, Household Products, Personal Care Products, Food Retail, and Tobacco.

VALUATION

We believe that PEP shares are fairly valued at current prices near \$144, below the midpoint of their 52-week range of \$127-\$178. From a technical standpoint, the shares had been in a bearish pattern of lower highs and lower lows that dates to October 2024. However, they have risen in a volatile pattern following a low in June 20

On the fundamentals, the stock trades at 18-times our 2026 EPS forecast, below the peer average of 21. The price/sales multiple of 2.1 is below the peer average of 4.8, while the dividend yield of about 3.8% is above the peer average of 3.4%. We think that prospects for less rapid revenue and earnings growth are adequately reflected in the share price. If volumes were to recover sooner than we anticipate, we would consider an upgrade.

On October 16 at midday, HOLD-rated PEP traded at \$153.60, up \$2.40. (Taylor Conrad, 10/16/25)

PNC Financial Services Group (PNC)

Current Rating: **BUY** Publication Date: **10/16/25**

HIGHLIGHTS

*PNC: Recent weakness offers opportunity*On October 15, PNC reported 3Q25 EPS of \$4.35, up from \$3.49 a year earlier and above the \$4.05 consensus. Revenues were up 9%, with gains of 7% in net interest income and 12% in fee-based income.

*Average loans increased by 2% year over year (led by commercial and industrial lending), similar to the 2Q pace, and the net interest margin expanded by 19 basis points.

*In September, PNC announced an agreement to acquire the \$27 billion asset FirstBank Holding, which would add 95 bank branches in Colorado and Arizona.

*We view recent weakness in the share price as a buying opportunity. Our target price remains \$218, or 12.5-times our EPS estimate for 2026. The shares yield a healthy 3.6%.

ANALYSIS

GROWTH / VALUE STOCKS

INVESTMENT THESIS

We are maintaining our BUY rating on PNC Financial Services Group Inc. (NYSE: PNC) following third-quarter earnings. PNC saw a 2% increase in average loans for the quarter, expansion in the net interest margin, and 4% revenue growth. We expect these trends to continue, as the securities portfolio re-prices and the yield curve has steepened.

In September 2025, PNC announced a definitive agreement to acquire Lakewood, CO-based FirstBank Holding Company, with \$26.8 billion in assets, for \$4.1 billion. PNC said the combination would increase its network in Colorado to 120 branches and in Arizona to more than 70 branches. The transaction is expected to close in early 2026.

In June 2021, PNC acquired BBVA USA Bancshares, the Houston-based U.S. banking subsidiary of Banco Bilbao Vizcaya (BBVA), for \$11.6 billion in cash. The acquisition included about \$100 billion in assets, \$82 billion in deposits, and 637 branches in Texas, Alabama, Arizona, California, Florida, Colorado, and New Mexico. The company said that the purchase provided PNC with a presence in 29 of the 30 largest markets in the U.S. We like this deal for several reasons, including the expansion it provides in the faster-growing Sunbelt region of the U.S., as well as a more coast-to-coast branch presence.

With the acquisition, the company also replaced the dividend income lost after PNC's May 2020 sale of its 22.5% stake in BlackRock (BLK), which resulted in net proceeds of about \$14 billion. PNC realized a considerable windfall from that sale (estimated at about 70-times its original purchase price), allowing it to acquire BBVA USA Bancshares for cash and paving the way for strong earnings accretion.

PNC trades at 11.6-times our 2025 EPS estimate. We view the bank as well positioned, with good revenue growth opportunities, strong capital levels, and a robust allowance for credit losses. Our target price of \$218 implies a valuation multiple of 12.5-times our 2026 EPS estimate, a premium to regional bank peers that we believe is warranted by the company's better-than-peer ROE and revenue growth prospects.

RECENT DEVELOPMENTS

PNC shares are down 2% over the past year, underperforming the 14% gain for the S&P 500.

On October 15, PNC reported 3Q25 EPS of \$4.35, up from \$3.49 a year earlier and above the \$4.05 consensus. Revenues were up 9% to \$5.9 billion.

Net interest income was up 7%, with earning assets up 2% and the net interest margin widening to 2.79% from 2.64%. Noninterest income grew 12% led by gains from capital markets and advic

Net charge-offs of \$179 million (0.22% of average loans) were

down from \$286 million (0.36%) a year earlier. The company had a provision for credit losses of \$167 million, down from \$243 million in 3Q24.

In September 2025, PNC announced a definitive agreement to acquire Lakewood, CO-based FirstBank Holding Company, with \$26.8 billion in assets, for \$4.1 billion. PNC said the combination would increase its network in Colorado to 120 branches and in Arizona to more than 70 branches. The transaction is expected to close in early 2026.

EARNINGS & GROWTH ANALYSIS

On the 3Q earnings call, management offered guidance for 4Q25 calling for average loans to be stable to up 1%, net interest income to be up about 1.5%, fee income to be down about 3%, total revenues to be stable to down 1%, noninterest expense to be up 1%-2%, and net charge-offs of \$200 million-\$225 million.

The company has a Continuous Improvement Plan (CIP) designed to reduce costs and improve efficiency. PNC has a goal to reduce costs by \$350 million in 2025, and management reiterated that it's on track to achieve the target.

Based mostly on the 3Q EPS beat, we are raising our 2025 EPS estimate to \$15.74 from \$15.48. Our 2026 forecast moves to \$17.48 from \$17.23.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on PNC is Medium-High, the second-highest rank on our five-point scale.

Following the Federal Reserve's June 2025 stress test results, PNC maintained its stress capital buffer of 2.5% and its start to trough capital depletion of 80 basis points was the lowest in its peer group. The company also announced its common dividend would be increased by \$0.10 or 6% to \$1.70 per share, effective with the 3Q25 payment. The yield is 3.6% based on the new dividend rate. Our dividend estimates are \$6.60 for 2025 (up from a prior \$6.50) and \$6.90 for 2026 (up from a prior \$6.80).

During the third quarter, the company repurchased \$300 million of its common stock.

MANAGEMENT & RISKS

PNC is led by Chairman and CEO William S. Demchak. The company is transparent with its growth strategy and cost-savings initiatives, and provides guidance with respect to revenue growth, balance sheet metrics, near-term expenses, and net charge-offs. Robert Reilly has been the CFO since 2013.

The company is subject to a number of risks, including changes in interest rates, credit quality, loan demand, and capital markets liquidity. It also faces risks from financial services regulation.

COMPANY DESCRIPTION

Based in Pittsburgh, PNC provides a range of retail and

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commercial banking, residential mortgage lending, and asset management services. It has operations in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Alabama, Virginia, Missouri, Georgia, Wisconsin and South Carolina.

In May 2020, PNC disposed of its 22% stake in BlackRock Inc. (BLK) in a registered offering. Proceeds were subsequently used to acquire BBVA USA Bancshares, the Houston-based U.S. banking subsidiary of Banco Bilbao Vizcaya, in June 2021.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat

different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

PNC trades at 11.6-times our 2025 EPS estimate. We view the bank as well positioned, with net interest income expansion potential, strong capital levels, and a robust allowance for credit losses. Our target price of \$218 implies a multiple of 12.5-times our 2026 EPS estimate, a premium to regional bank peers that we believe is warranted by the company's better financial metrics relative to

On October 15, BUY-rated PNC closed at \$182.34, down \$7.39. (Stephen Biggar, 10/15/25)

ProLogis (PLD)

Current Rating: **BUY**

Publication Date: **10/16/25**

HIGHLIGHTS

*PLD: Raising target price*Revenue increased 9% with 3Q25 core FFO growth of 4% to \$1.49 per share, up from \$1.43 in 3Q24

*New leases, retention rates, and rent increases have been gaining strength with solid 3Q25 year-over-year growth.

*After sequential quarters with solid year-over-year growth, the REIT raised the top of its guidance from \$5.80 to \$5.81 per share

*The shares have had recent momentum, and we think this can continue. We are raising our target price to \$128 per share, up from \$122.

*PLD had grown its dividend faster than its peers, with a 10% hike in 1Q24. The 1Q25 hike of 5% annually provides a yield of 3.5%.

ANALYSIS

INVESTMENT THESIS

We are reaffirming our BUY rating on Prologis Inc. (NYSE: PLD). The shares experienced recent momentum from sector rotation and an improving industry outlook. We think the momentum can continue. As a result, we are raising our target price to \$128, revised from \$122.

The company operates warehouse and distribution space, primarily for business-to-business fulfillment in North and South America, Asia, and Europe. PLD also offers manufacturing, storage, and research space. Premier locations and working with clients to create bespoke commercial spaces have created pricing power over peers. We are also positive on the REIT's entry into the data center market. Prologis has a solid management team, including several senior executives from the original founding company. The REIT has a

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recent history of strong rental rate increases, helped by well-located storage facilities, and of value creation through land and building purchases, M&A, and new construction.

The company saw a period of rapid growth as a result of the pandemic surge in e-commerce. The stock reached a high near \$168 in December 2021 but fell sharply in April 2022 amid slowing demand for warehouse space and retrenchment by large online retailers such as Amazon. We view 2023 and 2024 as a period of industrywide correction. However, earnings growth should strengthen in 2025, and we are currently estimating 3%-4% growth over 2024 results until the company reports on any future impact of the recent California wildfires. We expect PLD to continue to have a well-planned asset pipeline to help drive earnings as industry spending increases as the economy improves.

The PLD dividend yield near 4% is above the peer average. Although the company has a record of above-average dividend growth, including 10% hikes in both 1Q24 and 1Q23, its recent annualized hike was about 5% to \$4.04 per share.

RECENT DEVELOPMENTS

The shares have had recent momentum. Over the past three months, PLD shares have increased 11.5%, compared with a less than 1% gain for the Real Estate ETF (IYR), and a gain of just under 6% for the S&P 500. Over the YTD, the shares have gained just under 13%, compared with gains near 3% for the IYR, and gains of 15.4% for the broad market.

PLD reported sequential FFO earnings growth in 3Q25. Compared with 3Q24, core FFO was \$1.43 billion or \$1.49 per share, an increase of 4% from \$1.37 billion or \$1.43 per share. The results topped the consensus estimate of \$1.43 core FFO per share. Core FFO in 3Q25 reflected higher foreign currency gains compared with 3Q24, offset significantly lower negative impact dispositions. Adjusted EBITDA in 3Q25 was \$1.9 billion down from \$1.7 billion in 3Q24.

Same store cash NOI increased 5.2% year over year in 3Q25, while the trailing four quarters of net effective rent change was 55%. Total leases commenced for the operating portfolio in 3Q25 were 62 million square feet compared with 49 million square feet in 3Q

PLD had 9% revenue growth in 3Q25. Total revenues rose to \$2.2 billion, up from \$2.0 billion in 3Q24. For the nine months ending with 3Q25, revenues increased 9% to \$6.5 billion versus \$6.0 billion for the same period in 2024. Third-quarter expenses rose 5.5% to \$1.3 billion compared with a year ago. While 3Q25 G&A expenses increased 13% to \$111 million, rental expenses rose to \$485 million, up 13.5% from \$427 million in 3Q24. Interest expense in 3Q25 was \$258 million versus \$230 million in 3Q24.

The REIT has increased its development pipeline and had raised projections for its development starts for 2025. During 3Q25, the company acquired \$48 million in assets, \$604 million in

stabilizations, and \$446 million in development starts. Total dispositions during the second quarter were \$71 million. Like many REITs, PLD relies on partnerships to cut its share of investment costs. The company reports some of these results as Strategic Capital, which is revenue from joint ventures with institutional capital partners.

While the REIT is still primarily a warehouse provider for business-to-business and fulfillment customers, it has been broadening its exposure to data centers. In December, PLD announced that it had sold a warehouse with data center capacity of 32 megawatts near Chicago to HMC Capital. News agencies have reported that the Elk Grove facility was sold for \$440 million with an additional cost commitment of \$272 million for PLD's additional construction obligations. Prologis has partnered on two data center projects with Skybox Data Centers. At the end of 3Q25, management is projecting that the two centers have a total economic impact of \$1.9 billion with costs to complete of about \$1 billion.

Along with 3Q25 earnings, management raised its 2025 core FFO guidance of \$5.75-\$5.80 to \$5.78-\$5.81 per share. The new midpoint of almost \$5.80 implies year-over-year growth of 4.3% over 2024 results of \$5.56 per share. We note that the REIT has a history of updating its guidance each quarter.

EARNINGS & GROWTH ANALYSIS

Peaking in 2022, Prologis saw rapid earnings growth in line with the surge in e-commerce. The warehouse industry had slower demand growth through early 2024, reflecting a natural correction from the pandemic, weaker economic conditions, and lower consumer spending. The uptick in leasing trends in 2024 have maintained momentum through the first nine months of this year.

For 3Q25, average occupancy at the end of the quarter was 95.3%, this compares with average occupancy of 94.9% from the prior quarter. Customer retention rose to over 77% in 3Q25, compared with 74.9% in 2Q25 and 75.7% in 3Q24. Lease proposals have risen for the YTD with lease up to about 115 million square feet compared with a five-year trailing average of about 80 million square feet. Lease negotiation periods also shortened by the end of 3Q25 with the average gestation period of 52 days, compared to about 60 days at the beginning of 2025.

Compared with the prior year, 3Q25 ending occupancy based on global regions was as follows: Latin America was 96.8%, down from 97.0%; Europe decreased to 95.2% from 96.0%; and Asia increased to 92.8% from 92.3%.

Despite an uncertain outlook caused by tariffs, PLD has had solid earnings growth year to date compared with 2024. Leasing statistics and new assets have also increased the top line. As of the end of the third quarter, leasing statistics remained strong with solid growth in rent levels, retention rates, and overall occupancy. New leases commenced in 3Q25 were strong with 65.6 million square feet compared with 51 million square feet commenced in the prior quarter,

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2Q25. Management is projecting average annual occupancy, for PLD's share at a high of 95.3%.

PLD shares responded favorably to news of lower interest rates in early 2024, and Argus is projecting that rates may decrease as the year progresses, which could provide positive movement. The lower interest rate environment and stronger fundamentals are behind our increase in target price.

Results struggled in early 2024 as the economy tightened spending. As the year progressed, the REIT reported positive momentum in leasing statistics. Thus far in 2025, leasing has been sound. The REIT has premier locations and has enjoyed strong pricing power, which was able to drive earnings despite lower warehouse demand. Many insiders expect demand to improve after slowing from peak levels, and we expect companies to continue to seek new space to move inventory and materials closer to customers. We believe that PLD will be able to continue to offset slower leasing activity with higher rents thanks to its premier locations, custom-built facilities, and long-term leases. We also expect increased demand for international warehouse space from larger online retailers, which should benefit PLD's properties in Europe, Asia, and Latin America. PLD revenues should continue to benefit from pricing advantages, thanks to its position as the global leader in warehouse and distribution space. A significant increase in demand, driven by increased consumer spending, should continue into 2026 after an expected lag following falling interest rates, resulting in modest FFO growth in 2025.

Overall, we have a favorable view of PLD's long-term growth prospects and pricing strength based on its size, the location of its properties, and its plans for asset development. Management had reported that economic pressure on consumer spending lowered leasing decisions across most markets in 2023. The REIT has been increasing its development activity. Along with third-quarter results, PLD raised its projected development starts from \$2.25-\$2.75 billion, up to \$2.75-\$3.25 billion. It also raised its acquisition estimates from a high of \$1.25 billion to a high of \$1.5 billion for 2025.

The increasing portfolio has been reflected in growth in cash same-store NOI. Prologis reported a 4.9% increase in 2Q25 cash same-store NOI and a year-over-year increase of 5.2% in 3Q25. Management estimates that 2025 cash same-store NOI could grow between 4.75% and 5.25% compared to 2024. In addition to solid development activity, the REIT has also increased its acquisition pipeline to provide FFO growth. Compared with total acquisitions of \$1.9 billion for full-year 2024, Prologis has \$1.62 billion in 2025 year-to-date. The REIT's land portfolio has increased to about \$5 billion, up from \$4.5 billion at the end of 2024. About half of 1H25 domestic development is in the East and about 46% of global development is in Japan.

We expect new assets and growing consumer demand to improve fundamentals in 2025 and 2026. Based on strong 3Q25 performance, we are raising our 2025 core FFO per share estimate to \$5.81 from

\$5.78. Our estimate implies 4% year-over-year growth which compares to the average earnings growth for REIT peers of about 3%. Our 2026 core FFO estimate remains \$6.15 per share, which implies 6% growth over our 2025 estimate.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on PLD is Medium, the midpoint on our five-point scale. The company has an A3 stable credit rating from Moody's and an A rating from S&P.

The balance sheet remains healthy. At the end of 3Q25, PLD had \$1.2 billion in cash and equivalents compared with \$1.3 billion at the end of 2024. The net value of real estate and investments at the end of 3Q25 was \$80.7 billion, up from \$78.5 billion at the end of 2024. At the close of 3Q25, there was \$35 billion in total debt, up from \$31 billion at year end. The company hedges its exposure to foreign currency through derivative contracts.

The company has a record of annual dividend increases. PLD raised its 1Q25 quarterly dividend to \$1.01. However, this followed a 10% hike to \$0.96 per share in 1Q24 and a similar annual increase in 1Q23. The current yield is about 3.5%, which compares to the peer average of 3.8%. Our 2025 estimate is \$4.04, and our 2026 estimate is \$4.24.

MANAGEMENT & RISKS

Hamid R. Moghadam is the co-founder, chairman, and CEO of Prologis. In February, the REIT announced Mr. Moghadam will retire as CEO in January 2026 but will remain executive chair. President Dan Letter is to replace him and has been named to the board. Tim Arndt is the CFO.

Investors in Prologis face a range of risks. The company had assets impacted by the Los Angeles fires in January 2025. Shares can also trade on news of tariffs. The company's tenants face risk from reduced consumer spending, which could lower demand for distribution facilities. Like most REITs, PLD also has significant debt and faces risks from rising interest rates. In addition, supply-chain disruptions can affect development projects.

COMPANY DESCRIPTION

Prologis is a global industrial REIT that owns, builds, and manages space for warehouses, manufacturing, distribution, and large-scale storage. PLD has become the world's largest industrial REIT by focusing on business-to-business fulfillment and e-commerce.

As of the beginning of 2025, PLD's portfolio had just under 5,900 buildings with 1.3 billion square feet of space. Many properties have on-site solar, and about one-fifth of assets are warehouses over 500,000 square feet. The REIT has a presence in 20 countries on four continents, and about 65% of total properties are in North America, which accounted for about 85% of NOI. The company's top tenants are Amazon, Home Depot, and FedEx, with Amazon accounting for about 5% of net effective rent. PLD partners with other companies in joint ventures to reduce risk. The REIT also has a co-investment

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program labeled Strategic Capital that creates venture opportunities for institutional capital partners. Strategic Capital accounted for about 8% of total 2024 revenues. Recently, the company has also moved into the data center market.

PLD has faced pressure from an oversupply of warehouse space due to slowing sales at online retailers. In response, the company has focused on customized facilities and increased its focus on developing data center facilities. In early 2023, all new development projects were customized, 99% of total units were leased or in negotiations, and joint venture promote income was a key driver of earnings growth. In 2024, about one-third of new development starts were built to suit. Management estimates that the weighted-average stabilized yield of acquisitions in 2024 was about 5%.

The company is a member of the S&P 500 and has a market cap of about \$112 billion.

INDUSTRY

Our rating on the Real Estate sector is Market-Weight. The Real Estate sector accounted for 1.9% of the S&P 500 as of the end of September. We think diversified investors should have exposure to the sector, in line with the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been underperforming the market year to date, with a gain of 3.5%. The sector underperformed in 2024, with a gain of 1.7%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.2.

Over the past five years, the sector's weighting has ranged from 1% to 4%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 2.4% was above the market average. The sector's smoothed earnings growth rate of 6% is below the market average.

We think of the Real Estate sector as an income sector. The macroeconomic factors that may affect the performance of stocks in the Real Estate sector include Borrowing Costs, Labor Costs, Construction Costs, and Consumer Spending. Trends in the dollar can affect factors such as Cost of Goods Sold.

At this stage of the market and economic cycle, our favored industries within the Real Estate sector include Data Center REITs and Retail REITs.

VALUATION

PLD has reported solid sequential FFO growth year-over-year in each quarter for the year-to-date 2025. The shares have outperformed peers over the past three months and over the year to date. The shares are currently trading above the midpoint of their 52-week range of \$85-\$127.

We are maintaining our BUY rating on PLD based on earnings-based valuation metrics and growth potential from its solid asset pipeline and performance in Asia. The shares are trading favorably to peers with a 2025 price/FFO ratio of 20.7-times, compared with an average of 21.1-times for peers. The share's five-year average multiple is 24.7. The company's PEG ratio is about 3.3, which compares favorably to the peer average of 4.9.

We think the shares could continue recent momentum and, as such, we have raised our target price to \$128 from \$122 per share. The current dividend yield of about 3.5% adds to the total return.

On October 15, BUY-rated PLD closed at \$122.76, up \$7.31. (Marie Ferguson, 10/15/25)

Schlumberger Ltd. (SLB)

Current Rating: **BUY**

Publication Date: **10/21/25**

HIGHLIGHTS

*SLB: Recent weakness offers compelling long-term buying opportunity*SLB recently reported 3Q25 adjusted net income of \$1.027 billion or \$0.69 per share, down from \$1.271 billion or \$0.89 per share in 3Q24. EPS results beat our estimate of \$0.68 and the StreetAccount consensus estimate of \$0.67.

*The lower 3Q25 earnings reflected weaker sales in two out of the four business segments (Reservoir Performance and Well Construction) with softer year-over-year revenue (geographic) results in the Latin America (-14%), Middle East & Asia (-11%) and North America (-5%) regions.

*SLB does not provide full-year financial guidance as part of its corporate strategy. On the 3Q25 conference call (on October 17) to discuss operating results, CEO Olivier Le Peuch noted that third-quarter results were in line with company expectations, despite the backdrop of a fully supplied oil market, an uncertain geopolitical environment and subdued commodity prices.

*We are lowering our 2025 EPS estimate to \$2.95 from \$3.01 per share to reflect soft industry fundamentals (oversupplied oil and gas market, weak commodity price realizations and OPEC+ supply additions) and our expectations for modestly lower global drill rig demand for the remainder of 2025.

ANALYSIS

INVESTMENT THESIS

Our rating on Schlumberger Ltd. (NYSE: SLB), doing business as SLB, is BUY. SLB is a global multinational oilfield services and equipment (OFSE) firm, founded in France in 1926. It is also the world's largest offshore drilling company and the world's largest offshore drilling contractor by revenue. The company supplies the petroleum industry with services such as seismic data processing, formation evaluation, well testing and directional drilling, well cementing and stimulation, artificial lift, well completions, flow assurance and consulting, and software and information management. The company is also involved in the groundwater extraction and carbon capture and storage industries.

GROWTH / VALUE STOCKS

The sub-sector of the Energy industry that SLB operates in, the Oilfield Services and Equipment (OFSE) industry, continues to face both declining top-line (sales) and bottom-line (profit) growth in 2025, as the confluence of recession risk (global), weaker-trending crude oil prices, geopolitical concerns, tariff/trade tensions and supply additions by OPEC+ (despite an already oversupplied global crude oil market), have motivated E&P firms (SLB's customers) to reduce capital spending on new (and existing) projects, based mostly on industry pricing pressure.

However, while we would note that SLB is not immune to the pressures faced by all OFSE providers, we also highlight that we view SLB's business (and product) portfolio as being more resilient than its peers, based on its exposure to faster growing (and higher margin) offshore and international markets, with less exposure to North America markets, where production growth has been on a steady decline. In addition, we view the recent acquisition of ChampionX as a major strategic positive, as it adds both earnings and free cash flow durability and longevity to its portfolio. Our price target is \$42 per share.

RECENT DEVELOPMENTS

SLB recently reported 3Q25 adjusted net income of \$1.027 billion or \$0.69 per share, down from \$1.271 billion or \$0.89 per share in 3Q24. EPS results beat our estimate of \$0.68 and the StreetAccount consensus estimate of \$0.67.

The lower 3Q25 earnings reflected weaker sales in two out of the four business segments (Reservoir Performance and Well Construction) with softer year-over-year revenue (geographic) results in the Latin America (-14%), Middle East & Asia (-11%) and North America (-5%) regions.

Revenue for the third quarter of 2025 totaled \$8.928 billion, down 3% from \$9.159 billion in the third quarter of 2024. The StreetAccount consensus estimate for 3Q25 was \$8.970 billion. In the quarter, International market sales represented 78% of 3Q25 revenue, while North America accounted for 22%.

Beginning with the third quarter of 2025, SLB began reporting its Digital business as a standalone division while maintaining its four business segment alignment. Prior periods have been recast to conform to the current period presentation. Third-quarter 2025 results by division are summarized below.

Digital (includes software, data, analytics and digital-services solutions) segment revenue (pro forma) increased 3% from the prior year to \$658 million, with 76% of the total generated in international markets. Pretax operating income reached \$187 million in the quarter, compared to \$190 million a year ago, while the segment pretax operating margin declined to 28.4% from 29.8%. Pretax operating margin contracted due mostly to lower Digital Exploration revenue, partly offset by improved profitability in Digital Operations and Platforms & Applications.

Reservoir Performance (includes wireline, testing, well stimulation, slickline, and coiled tubing services) revenue (pro forma) declined 8% from the prior year to \$1.682 billion, with 91% generated in international markets. Pretax operating income decreased to \$312 million from \$367 million in the third quarter of 2024, while the operating margin declined to 18.5% from 20.1% in the year-ago quarter, primarily the result of lower profitability in evaluation and stimulation activity and project startup costs.

Well Construction (includes drilling fluids, drill bits, drilling tools, integrated drilling services, cementing, rotary drilling equipment, and land rigs) revenue (pro forma) declined 10% to \$2.967 billion, with 80% of sales generated in international markets. Pretax operating income decreased 22% from the prior year to \$558 million, while the pretax operating margin contracted (273 basis points) to 18.8% from 21.5% a year ago. The weaker pretax operating margin was primarily the result of widespread activity reductions in both North America and several international markets.

Production Systems (includes artificial lift, surface systems, valves and process systems, completion equipment, production facilities, and OneSubsea) revenue (pro forma) rose 14% in the quarter to \$3.474 billion, with 70% of sales generated in international markets. Pretax operating income rose 8% from the prior year to \$559 million, but the pretax operating margin declined to 16.1% from 17.1%. The lower performance in operating margin was driven by an unfavorable geographic mix, primarily impacting surface production systems and completions. These declines were partially offset by the accretive margin contribution from ChampionX.

As discussed in earlier notes, on April 2, 2024, SLB and ChampionX Corporation (NASDAQ: CHX) announced a definitive agreement for SLB to acquire ChampionX in an all-stock transaction. ChampionX is a global leader in chemistry solutions, artificial lift systems, and highly engineered equipment and technologies that help companies drill for and produce oil and gas safely in some of the less cyclical parts of the oil and gas life cycle (production and reservoir recovery). The acquisition was completed on July 16, 2025 and following the closing, ChampionX shareholders own approximately 9% of SLB's outstanding shares.

Additionally, SLB expects to realize annual pretax synergies of about \$400 million within the first three years post-closing (we see upside of \$450 million from enhanced sales opportunities) through incremental revenue and cost savings. We are supportive of the transaction, as the deal not only strengthens SLB's operations by adding both production chemicals and new artificial lift technologies to its portfolio, but also by providing the company with enhanced profit opportunities. SLB management noted that since the acquisition of ChampionX in 3Q25, all integration plans are proceeding as expected.

EARNINGS & GROWTH ANALYSIS

SLB does not provide full-year financial guidance as part of its

GROWTH / VALUE STOCKS

corporate strategy. On the 3Q25 conference call (on October 17) to discuss operating results, CEO Olivier Le Peuch noted that third-quarter results were in line with company expectations, despite the backdrop of a fully supplied oil market, an uncertain geopolitical environment and subdued commodity prices.

Looking ahead, CEO Le Peuch believes that energy markets will soon return to a balanced supply/demand environment, likely in mid-2026, allowing the company to once again generate industry-leading margins in the OFSE sector, helped by the recent acquisition of ChampionX.

We are lowering our 2025 EPS estimate to \$2.95 from \$3.01 to reflect soft industry fundamentals (oversupplied oil and gas market, weak commodity price realizations and OPEC+ supply additions) and our expectations for modestly lower global drill rig demand for the remainder of 2025.

At the same time, we are reducing our 2026 EPS estimate to \$3.16 from \$3.28 per share to reflect our expectations for modestly higher macro risks (OPEC+ production unwinds, tariff/trade tensions, global recession risk, and volatility in commodity price realizations) for full year 2026.

FINANCIAL STRENGTH & DIVIDEND

We rate SLB's financial strength as High, the highest rating on our five-point scale. The company receives 'above-average' scores on our financial strength scale of debt/cap levels, fixed cost coverage, dividend coverage, cash flow, and profitability.

SLB's credit profile is currently rated A/positive by Standard & Poor's and A2/stable by Moody's. Both credit ratings are considered 'investment-grade,' suggesting a relatively low-risk level of default. Additionally, we consider these ratings to be strategic 'competitive advantages' for the company.

Debt/capitalization at the end of 3Q25 was 40.6%, up from 37.5% a year earlier. The debt/cap ratio is slightly below the peer group average and SLB has prioritized accelerated debt repayment in the near-term. Over the past five years, the debt/cap ratio has averaged 45.6%.

Debt (total), consisting of both short-term and long-term borrowings, was \$12.766 billion at the end of 3Q25, up from \$12.074 billion at the end of 3Q24. In 2024, the company repaid \$1.1 billion in total debt borrowings, while repaying \$1.4 billion in total debt borrowings in full-year 2023.

Cash and cash equivalents totaled \$3.585 billion at the end of 3Q25, down from \$4.462 billion at the end of 3Q24. In addition, this compares to \$3.747 billion in 2Q25. The company has a \$6.5 billion revolving credit facility with \$6.3 billion currently available.

Cash from operating activities (cash flow) for the third quarter of 2025 totaled \$1.682 billion, down from \$2.449 billion reported in the

third quarter of 2024. In addition, this compares to \$1.142 billion recorded at the end of the second quarter of 2025.

During 3Q25, SLB repurchased 3.2 million shares of its common stock for a total purchase price of \$114 million. Thus far, for the first nine-months of 2025, SLB repurchased a total of 60.0 million shares of its common stock for a total purchase price of \$2.41 billion. It has \$6-7 billion left on its current authorization.

In full year 2024, SLB repurchased a total of 38.4 million shares of its common stock for a total purchase price of \$1.74 billion and in 2023, SLB repurchased approximately \$700 million of its common stock.

Dividends are part of SLB's strategy for capital allocation. On January 16, 2025, the company increased its quarterly dividend by 3.6% to \$0.285 per share or \$1.14 annually, which continues to be the current rate. The yield is approximately 3.49%. Our dividend forecasts are \$1.14 for 2025 and \$1.16 for 2026.

Capital expenditures for full-year 2025 were reaffirmed at \$2.4 billion, up from \$2.3 billion previously, reflecting the acquisition of ChampionX and its capital spending program. Capital expenditures for full-year 2024 was \$2.6 billion.

MANAGEMENT & RISKS

Olivier Le Peuch became the company's new CEO and a member of the board in August 2019. Mr. Le Peuch succeeded Paal Kibsgaard, who retired after a more-than-22-year career with the company, including eight years as CEO. Mark G. Papa is the nonexecutive chairman.

SLB shareholders face risks. The company's business depends on activity levels in the oil and gas industry, which can be volatile. Demand for its services is largely dependent on the number of oil rigs in operation, the number of oil and gas wells being drilled, the depth and condition of those wells, production volumes, and well completions. In addition, it is dependent on operator capital spending, which is in turn dependent on commodity prices.

The company has operations in politically unstable countries that are heavily dependent on oil exports. Although these operations are not large, the company may at some point be forced to close them as a result of sanctions or political instability.

We note that it is cheaper and far less risky for companies to produce on land than in deepwater. The shale revolution has also had a significant impact on deepwater rig builders as many E&P companies have pursued shale-based production rather than costly deepwater plays. As long as oil and natural gas can be found on land, E&P companies will focus on those plays first. SLB has substantial exposure to deepwater exploration, and major shale or other onshore discoveries could negatively impact the stock.

COMPANY DESCRIPTION

GROWTH / VALUE STOCKS

SLB is one of the world's leading oilfield services companies, supplying technology, information solutions, and integrated project management services that optimize reservoir performance. It employs approximately 82,000 people in more than 100 countries. SLB supplies a wide range of products and services, including seismic testing; formation evaluation; well testing and directional drilling; well cementing and stimulation; artificial lift and well completions; and consulting, software, and information management. It operates in nearly all major oilfield services markets, and typically generates higher returns on investment than peers. In 2024, the company generated 19% of its revenue from the U.S. and 81% from international markets. Additionally, the company is a component of the S&P 500 index and employs approximately 110,000 people

VALUATION

We believe that SLB shares are attractively valued at current prices. SLB shares have traded between \$31.11 and \$44.97 over the past 52 weeks and are currently trading below the midpoint of this range. To value the stock on a fundamental basis, we use peer group and historical multiple comparisons, as well as a dividend discount model.

On a price/earnings (P/E) basis, the common shares are trading at 11.3-times our 2025 EPS estimate and at 10.6-times our 2026 forecast, compared to a 12-year annual average range of 19-36.

On other valuation metrics, the shares are trading at a price/book multiple of 2.3, versus an average annual range of 2.3-3.5; a price/sales multiple of 1.2, versus a range of 1.8-2.9; and a price/cash flow ratio of 6.7, versus a range of 9.7-15.8. They are also trading at a price/EBITDA multiple of 5.8, below the low end of the range of 9.9-18.0.

We believe that SLB shares are attractive at current prices and that the dividend is safe and sustainable in the current energy environment, despite macroeconomic trends that currently appear mixed. In addition, with its 3Q25 earnings release, SLB once again reaffirmed its plan to return \$4 billion to shareholders (through share repurchases and dividends) in 2025, up from \$3.27 billion in 2024.

On October 20, BUY-rated SLB traded at \$33.43, up \$0.80. (Bill Selesky, 10/20/25)

State Street Corp. (STT)

Current Rating: **BUY** Publication Date: **10/20/25**

HIGHLIGHTS

*STT: Boosting target price as company raises 2025 fee revenue guidance*On October 17, State Street reported 2Q25 adjusted earnings of \$2.78 per share, up from \$2.26 a year earlier and above the consensus of \$2.65.

*Management increased guidance again for 2025, now calling for fee revenue growth of 8.5%-9% (up from a prior 5%-7%), with expenses expected to be up 4.5% (up from a prior 2%-4%), leading to positive fee operating leverage and total operating leverage for the year.

*The company repurchased \$400 million of common shares in 3Q25, a meaningful step-up from the 2Q pace of \$300 million.

*We believe that the current valuation provides a favorable entry point for the high-quality STT shares, which trade at 11-times our 2025 EPS estimate and yield about 3.0%. Our target price is \$124 (raised from \$115).

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on State Street Corp. (NYSE: STT). The company's 3Q25 results included 8% growth in fee revenues but a 1% decline in net interest income (NII). Management increased guidance, now calling for fee revenues in 2025 to be 8.5%-9% higher. It also expects to deliver both positive fee operating leverage and positive total operating leverage for the year.

We expect State Street to benefit from several long-term earnings drivers. First, asset managers are facing cost pressures that will likely lead to the further outsourcing of back-office operations. Second, the company has scale advantages and should see improved operating leverage over time. Third, asset managers must focus on their core competency (managing money) and not on more mundane servicing tasks. State Street's front-to-back platform, State Street Alpha, provides an integrated software solution allowing front and back offices to facilitate operations and communications on a single platform.

After terminating its planned acquisition of Brown Brothers Harriman Investor Services in November 2022 due to regulatory hurdles (reflecting the elevated scrutiny of deals involving globally systemically important banks), the company approved a \$4.5 billion share-repurchase program for 2023, which was later amended to a new \$5 billion plan in early 2024. We note that STT had issued \$1.9 billion of its stock in 2021 to complete the planned Brown Brothers transaction.

We believe that the current valuation provides a favorable entry point for the high-quality STT shares, which trade at 11-times our 2025 EPS estimate and yield about 3.0%. Our target price is \$124 (raised from \$115).

RECENT DEVELOPMENTS

Over the past year, STT shares have risen 22%, above the 14% increase for the broad market.

On October 17, State Street reported 2Q25 adjusted earnings of \$2.78 per share, up from \$2.26 a year earlier and above the consensus of \$2.65.

Operating revenues were up 9% to \$3.5 billion, with fee revenues up 8% (aided by higher management fees) but net interest income was down 1%. Assets under custody and administration (AUC/A) rose 10% to \$51.7 trillion, and assets under management (AUM) rose 15% to \$5.4 trillion, reflecting higher market levels and net inflows.

GROWTH / VALUE STOCKS

EARNINGS & GROWTH ANALYSIS

On the 3Q earnings call, management raised its guidance for 2025, now calling for fee revenue growth of 8.5-9% (up from a prior 5%-7%), aided by growth in servicing and management fees. It continues to expect NII to be down slightly, as loan growth is offset by a deposit mix shift in non-interest-bearing deposits. Management now projects expenses to be up 4.5% (up from a prior 3%-4%) given higher revenue-related expenses. The company expects to deliver positive fee operating leverage and positive total operating leverage for the year.

We now look for overall revenue growth of 7% in 2025 (up from a prior 5%), aided by new business wins and a rebound in equity market levels. The company said it had \$361 billion of AUC/A wins in 3Q and \$3.6 trillion of AUC/A yet to be installed at the end of the quarter.

We are raising our 2025 EPS estimate to \$10.11 from \$9.66 on the better-than-expected 3Q results and the improved guidance. Our 2026 forecast moves to \$11.23 from \$10.62.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on State Street is Medium-High. As of September 30, 2025, State Street's common equity tier 1 ratio (standardized approach) was estimated at 11.3%, down from 11.6% a year earlier. State Street is targeting a long-term tier 1 common ratio of 10%-11%, and its 12%-15% return on equity target is based on that level of capital.

In July 2025, following the Federal Reserve's Comprehensive Capital Analysis and Review stress test results, the company announced an 11% increase in its quarterly dividend, to \$0.84 per share, beginning in 3Q25. In January 2024, the board authorized a \$5 billion repurchase program with no expiration date. The company repurchased \$400 million of common shares in 3Q25. Management said it expected its total payout ratio (buybacks and dividends) in 2025 to be 80% of earnings.

We look for dividend payments of \$3.20 in 2025 and \$3.48 in 2026. The 2024 dividend was \$2.90 per share. The current yield is about 3.0%.

MANAGEMENT & RISKS

Ronald P. O'Hanley is the company's chairman and chief executive officer. John F. Woods is the CFO. We believe that management provides appropriate financial guidance with respect to revenue trends, expense goals, and capital management.

Compared to other large securities-transaction processors, State Street is leveraged more heavily to equity markets than to fixed income. More than two-thirds of the company's revenue derives from securities and asset-management services. As a result, weak markets present a significant risk to the company's near-term growth. However, we look for above-average long-term growth, driven by consolidation in the trust/custody industry, the growth of financial

assets in emerging markets, and the growth of alternative asset:

COMPANY DESCRIPTION

State Street is one of the world's largest custody banks and, through State Street Global Advisors (SSGA), provides asset-management products and services. Custody clients include mutual fund companies and other investment managers, corporations, public pension funds, unions, and nonprofit organizations. State Street provides custody and management of customers' assets; accounting, daily pricing, and administration of their funds; the information and analytical tools that help clients make investment decisions; and the foreign-exchange, cash-management, credit, and electronic-trading services that help clients negotiate global financial markets. SSGA manages the popular SPDR series of exchange-traded index funds.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other

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approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

STT shares have traded in a range of \$73-\$118 over the last 52 weeks and are currently near the upper end of that range.

We expect the company to benefit over time from industry consolidation that favors the most-efficient players and note a considerable mandate of new custody business yet to be installed. While fee rates and AUM for active investing are likely to remain challenging, we believe that STT is well positioned to service the passive index market.

Historically, STT has traded at a premium to the S&P 500 but now trades at only 11-times our 2025 EPS estimate, well below the index multiple and a bit below the multiple of peer Bank of New York Mellon (NYSE: BK: BUY). We are raising our target price to \$124 (from \$115), or a multiple of about 11-times our 2026 PES estimate.

On October 20 at midday, BUY-rated STT traded at \$114.44, up \$3.07. (Stephen Biggar, 10/20/25)

Taiwan Semiconductor Manufactu (TSM)

Current Rating: **BUY** Publication Date: **10/16/25**

HIGHLIGHTS

TSM: AI driving growth, raising target to \$360 Taiwan Semiconductor delivered above-consensus 3Q25 revenue and earnings, and both rose in strong double-digits annually.

*TSM, which faces actual and potential tariff impacts, could also benefit from final resolution of a trade agreement between the U.S. and China.

*We expect solid company growth as generative AI moves into the mainstream and electronic device demand accelerates. TSM is successfully expanding production of 3 nm and 5 nm products to meet surging demand.

*Beyond current macroeconomic and other headwinds, we believe the world's leading merchant fab is positioned for sustainable annual sales growth at a double-digit pace. We are raising our 12-month target price to \$360 from \$290.

ANALYSIS

INVESTMENT THESIS

BUY-rated Taiwan Semiconductor Manufacturing Company Ltd. (NYSE: TSM) rose 3% in a rising market on 10/16/25 after delivering above-consensus 3Q25 earnings and guiding for 4Q25 sales and margins above pre-reporting expectations. Revenue in US\$ rose 41% on a year-over-year basis in 3Q25, while earnings per ADR rose 39%.

AI-driven growth in high-performance computing (HPC) led to another revenue record for any quarter, and HPC grew annually in strong double-digit percentages while also rising sequentially. Management believes AI-driven growth in HPC is in very early stages, indicating more record quarters ahead. Year-to-date growth across regional markets, product markets and process nodes sets the stage for strong, market-leading growth into year-end 2025 and beyond. Management again raised its full-year 2025 revenue growth guidance.

The company's strong 4Q25 guidance was reassuring given macroeconomic and geopolitical uncertainty. Taiwan Semi's outlook has been impacted by restrictions on AI technology semiconductor exports to China. The Trump administration in July 2025 reversed an April ban on some AI products and announced it would allow mature-technology AI exports to China from companies such as Nvidia and AMD. Taiwan Semiconductor is also monitoring tariffs on goods from Taiwan, which is currently 20% but subject to negotiations. Tariffs on semiconductor imports could be 100%, but reportedly not for companies such as TSM that are building chips in the U.S.

TSM has meaningfully stepped up its U.S. investment as a means of offsetting tariffs. The company in March 2025 pledged to invest a further \$100 billion at its Arizona sites, on top of \$65 billion already committed. One Arizona fab has begun volume production for mature Apple semiconductors. In time, the site will manufacture chips for cutting-edge Apple products along with Blackwell GPUs for Nvidia.

We expect solid growth at TSM as generative AI continues to move into the mainstream and on-device AI drives smartphone demand. The company believes the global semiconductor market, excluding memory, rose about 10% in 2024, and grew in mid- to high-teens percentages including memory. TSM grew its full-year 2024 revenue in the 30% range. Based on 3Q performance and 4Q25 guidance, management effectively raised its 2025 revenue growth forecast to about 35% in U.S. dollars, up from earlier 30% growth guidance (and before that, mid-20% guidance). Given building momentum from AI, management forecast a strong growth trajectory in future years including a 2024-29 revenue CAGR of at least 2

TSM, which declined in 2022 and lagged the peer group in 2021, recovered in 2023 and in 2024. The ADSs are tracking the peer group in 2025 and remain attractively valued based on peer-leading growth expectations. The ADSs are attractive for investors seeking

GROWTH / VALUE STOCKS

participation in the leading merchant fab company. We are reiterating our near-term BUY rating on TSM and raising our 12-month target price to \$360 from \$290.

RECENT DEVELOPMENTS

TSM ADSs are up 55% year to date in 2025, versus a 63% gain for peers. TSM ADSs rose 100% in 2024, versus a 23% gain for the peer group of Argus-covered semiconductor capital equipment and merchant fab stocks. TSM rose 40% in 2023, versus a 57% gain for the peer group; declined 38% in 2022, while peers declined 32% and Argus-covered semiconductor stocks fell 33%; and rose 10% in 2021, vs a 52% gain for peers.

For 3Q25, Taiwan Semi reported revenue of \$33.1 billion in U.S. dollars, which was up 41% year over year and up 10% sequentially, or by \$3 billion. U.S. dollar-based revenue came in above the high end of management's \$31.8-\$33.0 billion guidance range and meaningfully topped the U.S. dollar consensus estimate of \$31.45 billion. The company reports revenue for every month, so quarterly growth was known before the EPS report. The company beat its guidance for gross margin and operating margins. On an ADS basis, Taiwan Semi posted 3Q25 earnings of \$2.92 per diluted ADS, up 39% from a year earlier. ADS earnings exceeded the \$2.63 consensus estimate. Taiwan Semi does not provide formal EPS guidance for common shares or American depository shares.

Senior SVP and CFO Wendell Huang noted that third-quarter growth was supported by 'strong demand for our leading-edge process technologies.' Chairman and CEO C.C. Wei noted that AI-related demand remains very strong, exceeding the company's aggressive expectations from three months ago. The company has been modeling 40% growth for AI accelerators, but demand growth has been even stronger, the CEO noted.

Taiwan Semiconductor, as the world's biggest merchant fab company, sits at the confluence of multiple geopolitical and economic cross-currents. China has long sought to bring Taiwan into the PRC, although that does not seem like an intermediate-term threat. More immediately, Taiwan Semi's outlook has been impacted by U.S. restrictions on AI technology semiconductor exports to China, which extends to TSM products manufactured in Asia. The Trump administration in July 2025 reversed an April ban on some AI products and announced it would allow mature-technology AI exports to China from companies such as Nvidia and AMD.

Taiwan Semiconductor is also monitoring tariffs on goods from Taiwan. In August, the Trump administration set a 20% tariff on goods from Taiwan, while keeping that level subject to negotiations. Separately, tariffs on semiconductor imports could be 100%, but reportedly not for companies such as TSM that are building chips in the U.S. while U.S. production is growing, TSM continues to manufacture in Asia the bulk of the chips used by U.S. customers.

Taiwan Semiconductor has not seen meaningful changes in customers' behavior so far related to tariffs, as accelerating AI demand

is superseding any trade-related caution. President Trump's administration wants the U.S. to lead the world in AI, and steep tariffs on Asian trading partners would complicate that mission.

The trade war and export restrictions complicate the current demand cycle, but in our view demand for AI enabling chips and new edge devices could supersede these factors. Generative AI remains the key growth driver on a global basis, and any foregone China business will likely be made up elsewhere. China remained below 10% of revenue in 3Q25, compared with double-digit percentages in 2023 and 2024.

After tripling in 2024, AI accelerator growth is forecast to more than double in 2025. Going forward, Taiwan Semiconductor expects its business to be supported by strong demand for industry-leading 3 nm and 5 nm products. The HPC (high-performance computing) category, which includes AI products that represented 59% revenue in the first nine months of 2025 and could rise to the low to mid-60% by year-end, in our estimation. The company defines AI server processors as including GPUs, AI accelerators, and CPUs used for training and inference. Notably, this category does not include networking products or edge or on-device AI processors, representing another substantial revenue percentage.

Taiwan Semiconductor meaningfully ramped its 3 nm production beginning late in 2023, and meaningful annual comparisons for 3 nm process products began in 4Q24. For 3Q25, 3 nm revenue of \$7.61 billion (23% of total) rose by 62% year over year and was up 5% sequentially. In 3Q25, 3 nm revenue set a new quarterly record and surpassed the prior record of \$7.2 billion from 2Q25. TSM's 3 nm revenue, which represented 18% of 2024 revenue, is up to 23% of revenue for the first nine months of 2025 and could surpass 25% by year-end.

The company continues to expand investment in 3 nm nodes, including N3 and N3E, and in 2-nanometer development. Of the new initial nodes, N3 is in volume production with good yields. TSM anticipates a strong continued ramp across 2025, supporting customers in the high-performance computing (HPC) and smartphone markets. Apple iPhone 17 Pro and Pro Max use the A19 Pro chip produced in 3 nm process by TSM.

The upcoming N2 (2 nm) node is designed for the most high-density and energy-efficient applications for AI and HPC. N2 will adopt nanosheet transistor structure for optimal power efficiency and backside power rail solution, suited for AI applications and HPC. The company expects new tape-outs from N2 in its first two years to be higher than those for both 3 nm and 5 nm.

In 3Q25, 5 nm device revenue of \$12.25 billion (37% of total) increased 63% year over year and 13% sequentially, as strength in HPC was complemented by growth in smartphone demand. Revenue from 5 nm in 3Q25 exceeded the prior peak level reached in 2Q25 and before that in 1Q25; 5 nm revenue has sustained nine quarters of sequential growth since 2Q23. We believe sequential growth could

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begin to moderate as 3 nm process is increasingly used in premium-tier phones and in HPC.

Although 5 nm supplanted 7 nm as the largest revenue category among all process nodes in 2023, this category remains significant. For 3Q25, 7 nm posted revenue of \$4.63 billion (14% of revenue), up 16% annually and 10% sequentially led by seasonal strength in smartphones across multiple tiers. Given customers' shifts to TSM's smaller nodes for new smartphone models, we expect 7 nm demand to decrease as a percentage of total revenue while remaining meaningful and continuing to fluctuate seasonally.

For the quarter, all advanced nodes comprising 7 nm and lower amounted to \$24.5 billion (74% of total) and increased 51% year over year and 10% sequentially. Revenue from mature nodes (16 nm and above) rose 18% annually and 10% sequentially; this category comprised 26% of total sales.

In terms of sales into end-markets (revenue contribution by platform), high-performance compute or HPC revenue of \$18.9 billion (57% of total) was up 57% annually and 5% sequentially. Relative strength in HPC revenue reflects ongoing growth in data center demand fueled by the mainstreaming of generative AI applications and development.

Revenue on the smartphone platform of \$9.9 billion (30% of total) increased 24% annually and 22% on a sequential basis, reflecting normal smartphone seasonality ahead of the holiday quarter. Internet of Things or IoT (5% of revenue) was up 1% annually and 10% sequentially. Automotive up 41% annually and up 10% sequentially, while Digital Consumer was up 40% annually. Categories including IoT, Automotive, and Digital Consumer are more highly exposed to mature nodes rather than leading-edge nodes

On a regional basis, North America remains TSM's largest single geographic market, reflecting the large number of fabless semiconductor companies (including the two leading makers of GPUs for AI applications, Nvidia and AMD) reliant on TSM's foundries. In 3Q25, revenue of \$25.1 billion from North America (76% of total) was up 51% annually and 12% sequentially. Asia-Pacific (9% of sales) rose 27% annually and 10% sequentially. Japan revenue (4% of total) rose 88% after edging lower in 2Q25. EMEA revenue (3% of total) was down 16% annually and down 17% sequentially.

Revenue from China (8% of total) was up 2% annually and down 2% sequentially. China, which represented 11% of 2024 revenue, generated multiple quarters of high double-digit or triple-digit annual growth at TSM over the past several years. Going forward, Chinese revenue will be impacted by U.S. restrictions on doing business with China-based companies such as Huawei and SMIC, along with newly restricted entities. Taiwan Semi is investing in other markets, such as the U.S. and Singapore, to reduce its geopolitical exposure.

Efforts by the Biden and Trump administrations to limit exports

to China and encourage onshoring of semiconductor technology have prompted Taiwan Semiconductor to ramp up its efforts to manufacture more semiconductors within the United States. As part of its prior efforts to steer manufacturing of its products to North America, Apple in 2022 announced that it would start using chipsets from Taiwan Semiconductor's Arizona plant for iPhone and other products. TSM's Phoenix-area plant will be producing 4 nm wafers for Apple's first U.S.-made A-series chipsets, mainly for mature iPhone and Apple Watch models.

TSM began production of a new Arizona fab in the first half of 2025, representing its third leading edge fab in Phoenix. In time, TSM plans to manufacture chips for cutting-edge Apple products along with Blackwell GPUs for Nvidia in Arizona. Taiwan Semiconductor in March 2025 pledged to commit an additional \$100 billion to its U.S. investment over the next four years, in addition to the \$65 billion pledged earlier. The company has also sought to accelerate the time from breaking ground to first production to about two years, from the five years it took for the first Apple processors to be produced.

AI's need powerful semiconductors, including the most advanced semiconductor process technologies developed and produced by TSM. To support soaring AI demand, the company's capital investment decision-making is based around four disciplines: technology leadership, flexible and responsive manufacturing, retaining customer trust, and earning sustainable and healthy re

With AI expected to be a durable demand driver going forward, Taiwan Semi expects to post at least a 20% revenue-growth CAGR for the five years from 2024 to 2028. All four growth platforms - smartphone, HPC, IoT, and Automotive - are expected to contribute to this double-digit CAGR.

EARNINGS & GROWTH ANALYSIS

For 3Q25, Taiwan Semi reported revenue of \$33.1 billion in U.S. dollars, which was up 41% year over year and up 10% sequentially, or by \$3 billion. U.S. dollar-based revenue came in above the high end of management's \$31.8-\$33.0 billion guidance range and meaningfully topped the U.S. dollar consensus estimate of \$31.45 billion. The company reports revenue for every month, so quarterly growth was known before the EPS report.

The gross margin was 59.6% in 3Q25, versus 58.7% in 2Q25 and 58.0% a year earlier. The operating margin was 50.6% in 3Q25, versus 49.8% in 2Q25 and 47.7% a year earlier.

On an ADS basis, Taiwan Semi posted 3Q25 earnings of \$2.92 per diluted ADS, up 39% from a year earlier. ADS earnings exceeded the \$2.63 consensus estimate. Taiwan Semi does not provide formal EPS guidance for common shares or American depository shar

For 2024 on a U.S. dollar basis, revenue of \$90.1 billion rose 30% year over year from \$68.3 billion in 2023. Earnings of \$7.55 per diluted ADS for 2024 rose 39% from \$5.40 per diluted ADS for 2023.

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For 4Q25, on a U.S. dollar basis, Taiwan Semi guided for revenue of \$32.2-\$33.4 billion. At the guidance midpoint of \$32.8 billion, revenue in U.S. dollars would be up 26% annually and 2% sequentially. The pre-reporting consensus revenue estimate for 4Q25 was around \$31.2 billion. Other elements of 4Q25 guidance include a midpoint gross margin of 60% and a midpoint operating margin of 50%. Based on this guidance and other elements of our modeling, we project 4Q25 earnings of about \$3.05-\$3.15 per ADS, which at the midpoint would be up by more than 25% from the prior year.

Based on 3Q performance and 4Q25 guidance, management effectively raised its 2025 revenue growth forecast to about 35% in U.S. dollars, up from earlier 30% growth guidance (and before that, mid-20% guidance).

We are raising our GAAP and non-GAAP EPS estimate for 2025 to \$10.65 per diluted ADS, from \$9.91. We are raising our GAAP and non-GAAP EPS forecast for 2026 to \$11.91 per diluted ADS, from \$11.58. We regard our estimates as volatile, based on fluid macro-economic and geo-political factors and the unfolding tariff and trade war. Our five-year annualized EPS growth rate forecast is

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Taiwan Semi is Medium-High. The company receives above-average marks on our financial strength criteria of debt levels, fixed-cost coverage, and cash flow generation. In recent years, Taiwan Semi has used its strong cash flow generation to reduce debt.

TSM's long-term debt is rated AA- by Standard & Poor's, and Aa3 by Moody's. All three agencies have a stable outlook for T

Taiwan Semi had \$95.0 billion in cash & equivalents at the end of 3Q25. Cash, equivalents, and marketable financial instruments translated into U.S. dollars totaled \$78.5 billion at year-end 2024, \$59.1 billion at year-end 2023, \$53.1 billion at year-end 2022, and \$44.0 billion at year-end 2021.

Debt in U.S. dollars was 31.3 billion at the end of 3Q25. Debt totaled \$30.1 billion at the end of 2024, \$30.0 billion at the end of 2023, \$27.8 billion at the end of 2022, and \$26.4 billion at the end of 2021.

TSM's board has approved two bond issues that total just under \$9 billion. These issues caused both debt and cash to rise as of mid-year 2022.

Cash flow from operations translated into U.S. dollars was \$56.8 billion in 2024. Cash flow from operations was \$39.8 billion in 2023, \$54.0 billion in 2022, \$39.8 billion in 2021, and \$27.9 billion in

Capital spending totaled \$29.8 billion for 2024. Capital spending totaled \$30.6 billion for 2023 and \$18.3 billion for 2022. Given global footprint expansion, capital spending is forecast in the \$38-\$42

billion range for 2025.

Our dividend estimates, translated into U.S. dollars, are \$2.20 for 2025 and \$2.40 for 2026.

MANAGEMENT & RISKS

C. C. Wei has been the company's CEO since 2018. CEO Wei served as president and co-CEO from 2013 to 2018 and previously served in other roles including co-COO and SVP of business development. Chairman Mark Liu stepped down in mid-year 2024, and CEO Wei succeeded him in that role while remaining chief executive officer. Wendell Huang is CFO. SVP of Operations Y.P. Chin and SVP of R&D Dr. Y.J. Mii were appointed as co-COOs of TSM. The company has a deep bench of executive talent and tends to promote C-level executives from within the organization.

Risks facing Taiwan Semi are now centered on tariffs and trade war, as well as worsening relations between the U.S. and China. We believe global demand for TSM's products and particularly for AI-related products will mitigate this risk to some extent although the situation is dynamic. Other risks include the potential for an economic downturn, which could hurt demand for electronic products. That risk seems low at present, particularly given that demand for electronic products accelerated during the pandemi

Taiwan Semi faces risks from other merchant fabs, such as United Microelectronics and Global Foundries, who might seek to undercut Taiwan Semi on price or via other strategies. As the global leader in the merchant fab space, Taiwan Semi benefits from above-peer-average financial strength, economies of scale, and blue-chip customer relationships.

The company faces risks if integrated semiconductor producers (those that use both wholly owned facilities and merchant fab services) such as Samsung, Texas Instruments, and Analog Devices, choose to 'in-source' more of their own production. Additionally, integrated producers such as Intel have indicated that they might begin to offer competitive merchant fab services. We do not see these risks as material at present given the ongoing global semiconductor shortage.

COMPANY DESCRIPTION

Taiwan Semiconductor Manufacturing Company Ltd., headquartered in Hsinchu, Taiwan, was founded in 1987 and pioneered the pure-play foundry or 'merchant fab' model. The company serves both integrated semiconductor producers who outsource a portion of their production as well as 'fabless' semiconductor producers who outsource all manufacturing. Taiwan Semi serves over 500 semiconductor customers, producing more than 11,500 distinct products while providing a broad range of advanced, specialty, and advanced packaging technologies.

INDUSTRY

Our rating on the Information Technology sector is Over-Weight. The Information Technology sector accounted for a substantial 34.8% of the S&P 500 market cap as of the end of

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September 2025. We think diversified investors should have meaningful exposure to the sector, at least in line with the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of about 21.7%. The sector outperformed in 2024, with a gain of 35.7%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.2.

Over the past five years, the sector's weighting has ranged from 16% to 35%. The sector's P/E ratio on projected 2026 EPS was 28-times on a GAAP basis, above the market multiple. The yield of 0.2% was below the market average. The sector's smoothed earnings growth rate of 15% was above the market average.

The Information Technology sector is primarily a secular growth sector. The macroeconomic factors that may affect the performance of stocks in the Information Technology sector include Global and Domestic GDP Growth, Global and Domestic Wage Growth, and Employment Trends, among others. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Information Technology sector can be a change in the direction or rate of a company's sales or earnings growth, a pronounced slowdown in new product announcements, or changes in the regulatory environment.

At this stage of the market and economic cycle, our favored industries within the Information Technology sector include Semiconductors and Application Software.

VALUATION

Taiwan Semi provides financial data both in New Taiwanese (NT) dollars and in U.S. dollars. NT stock trades in Taiwan, and the TMC American Depositary Shares (ADSs) trade on the U.S. Nasdaq Select Market. On that basis, we model and value TMC in U.S. dollars.

TMC trades at 27.8-times our 2025 EPS estimate and at 24.8-times our 2026 forecast; the two-year average forward P/E of 26.3 is above the average multiple of 21.0 over the past five years (2020-2024). The two-year forward relative P/E of 1.15 is above TSM's trailing five-year relative P/E of 1.00. With EPS and sales growth now accelerating, our comparable valuation range for TMC is in the \$220s, above current prices.

Compared with its peer group, which includes both semiconductor companies and semiconductor capital equipment companies, TMC trades at slight discounts to peers on most metrics, including absolute and relative P/E, P/S, and EV/EBITDA. Peer indicated value in the \$340s has rebounded with the recovery in tech

stocks and AI names in particular; peer indicated value is above current prices. Our forward-looking discounted free cash flow model points to a value in the \$750s, in a still-rising trend and well above current prices.

Our blended valuation for TSM is in the mid-\$500s, in a rising trend and well above current prices. Appreciation to our 12-month target price of \$360 (raised from \$290), along with the dividend yield of about 0.7%, implies a risk-adjusted total return higher than our forecast total return for the S&P 500, and is thus consistent with a BUY rating.

On October 16 at midday, BUY-rated TSM traded at \$299.21, down \$5.50. (Jim Kelleher, CFA, 10/16/25)

Thermo Fisher Scientific Inc. (TMO)

Current Rating: **BUY**

Publication Date: **10/20/25**

HIGHLIGHTS

*TMO: Open AI collaboration creates new growth vehicles*We see technology collaborations and M&A driving growth opportunities.

*The company plans to embed Open AI API (Application Programming Interfaces) into its service offerings.

*Thermo Fisher has outperformed its industry peers and the broader market. Over the past three months, the TMO shares have returned 26.9%.

*Our target price is \$580.

ANALYSIS

INVESTMENT THESIS

Our BUY rating on Thermo Fisher Scientific Inc. (NYSE: TMO) is supported by the company's superior sales execution, leading to market share gains and growth opportunities in its end markets. The company is investing its substantial cash flow in new product development, capacity expansions, and acquisitions. The just-announced collaboration with OpenAI presents another growth opportunity. We believe that these investments, along with strength in the base business will drive growth.

We see Thermo's recent acquisitions as driving increased market share as it serves existing and new customers. Our target price is \$580.

RECENT DEVELOPMENTS

Thermo Fisher announced that it would be collaborating with OpenAI to embed artificial intelligence (AI) tools into its businesses, ranging from product development, service delivery, and customer engagement to operational efficiency. The company plans to embed Open AI API (Application Programming Interfaces) into its service offerings.

We think this collaboration is notable, not just because of the link with the high-profile Open AI, but also due to the new tools and capabilities that Thermo will be able to deploy to help pharma and

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biotech customers reach faster and informed decisions in their drug development cycles.

One notable area we are intrigued with is deploying AI tools in Thermo's PPD clinical research business in order to help pharmaceutical and biotech customers improve the cycle time of clinical trials and speed up the time to bring new therapies to market. One such function is to deploy AI tools to more quickly identify therapies that are unlikely to succeed. This time- and cost-saving function would allow drug manufacturers to redirect investment and resources to more promising areas. The ability to combine APIs and deep clinical databases could also identify target areas for therapies and match patients to clinical trials.

Thermo also plans to put AI tools into its Accelerator Drug Development solution, a process that includes early development, Phase I-III clinical research, clinical manufacturing and supply and commercialization.

Since it takes, on average, 10-15 years and \$2.6 billion to bring a new medicine to market, according to the industry group PhRMA, tools that can shorten that time and more effectively target the therapies will also reduce development costs.

On the post-approval side, AI tools, combined with deep clinical datasets, can also assist in determining new uses or indications for approved therapies, in expanding to new populations and to help develop new formulations.

We are looking forward to Thermo providing more details on the collaboration with Open AI when it reports 3Q25 results on October 22.

EARNINGS & GROWTH ANALYSIS

For 2025 guidance, Thermo expects revenue of \$43.60 billion-\$44.2 billion and organic revenue growth of 1%-3%. It expects adjusted operating margin to be 22.5%-22.7%. It expects adjusted EPS of \$22.22-\$22.84.

Our estimates for adjusted EPS are \$22.25 for 2025 and \$24.95 for 2026.

Our projected five-year EPS growth rate is 9%.

FINANCIAL STRENGTH & DIVIDEND

We rate TMO's financial strength as Medium-High, the second-highest peg on our five-point scale. Thermo intends to invest its robust operating cash flow in technology upgrades, capacity expansions, and acquisitions - all contributing to future growth.

For returns to shareholders, the company assumes \$2 billion in share buybacks in 2025. It completed the share buybacks in January. It assumes returning \$600 million to shareholders through divi

Cash flow from operations was \$2.122 billion for the first six

months of 2025, compared to \$3.211 billion in the year-ago per

The company increased its dividend 10.2% earlier in 2025, raising it to an annualized rate of \$1.72 per share, for a yield of about 0.32%. Our 2025 estimate is \$1.72 per share and our 2026 forecast is \$1.86.

MANAGEMENT & RISKS

Marc Casper is chairman and CEO. Stephen Williamson is CFO. As noted earlier, Williamson plans to retire in March 2026.

There are risks in owning TMO shares. The company's growth is dependent on developing new products and adapting to technological change; economic conditions and related uncertainties; as well as the possibility that benefits related to recent or pending acquisitions may not materialize.

COMPANY DESCRIPTION

Thermo Fisher manufactures scientific instruments, consumables, and chemicals. It provides analytical instruments, lab equipment, software reagents, and supplies to pharmaceutical companies, hospitals, clinical diagnostic labs, universities, research institutions, and government agencies.

VALUATION

TMO trades at 21.5-times our 2026 EPS estimate, above the average multiple of 18.4 for our coverage universe of life sciences stocks. The company has solid long-term growth opportunities in the U.S. and in overseas markets. It also has an enviable track record of integrating acquisitions that have added new technology and expanded its capabilities. Looking ahead, we expect TMO to continue to benefit from the launch of new products and services.

On October 20 at midday, BUY-rated TMO traded at \$546.60, up \$7.68. (David Toung, 10/20/25)

Travelers Companies Inc. (TRV)

Current Rating: **BUY** Publication Date: **10/21/25**

HIGHLIGHTS

*TRV: Raising target on leading multi-line insurer*Travelers reported 3Q25 core earnings of \$1.87 billion or \$8.14 per share, up from \$1.26 billion or \$5.24 per share a year ago. Total revenue rose 5%, to \$12.5 billion, and net written premiums rose 1%, to \$11.5 billion.

*The overall GAAP combined ratio fell to 87.3% in 3Q25 from 93.2% in 3Q24, primarily due to lower catastrophe losses; the underlying combined ratio fell to 83.9% from 85.6%.

*The trailing 12-month ROE stood at 18.7% on September 30, almost evenly split between underwriting gains and investment income.

*Based on 3Q results, expectations for further growth in net premiums written, higher net investment income, and consistent share repurchases, we are raising our 2025 EPS estimate to \$25.25 from \$20.43 and our 2026 EPS estimate to \$27.12 from \$25.70.

ANALYSIS

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INVESTMENT THESIS

We are reiterating our BUY rating on The Travelers Cos. Inc. (NYSE: TRV) and raising our target price to \$287 from \$282. Second-quarter earnings were much higher than expected due to lower catastrophe losses, a slightly higher underwriting gain and steady net investment income. TRV reported written premiums of \$11.5 billion, with slowing growth in the Business Insurance and Bond and Specialty segments and a flat result from Personal Insurance.

We expect margins to improve as the company increases prices on auto and homeowners' insurance while maintaining current retention rates. It is also expanding its data analytics and digital initiatives. We believe that Travelers can generate a higher return on capital. In 1Q25, the quarterly dividend was raised to \$1.10 per share. The company also has \$3.7 billion remaining on its share repurchase authorization.

RECENT DEVELOPMENTS

TRV shares have underperformed the broad market over the last year, rising 1% compared to a gain of 15% for the S&P 500 and a loss of 4.5% for the iShares U.S. Insurance ETF IAK. Approximately 19.7% of the shares are held in various ETFs. The beta on TRV is 0.65.

Travelers reported 3Q25 core earnings of \$1.87 billion or \$8.14 per share, up from \$1.26 billion or \$5.24 per share a year ago. Total revenue rose 5%, to \$12.5 billion, and net written premiums rose 1%, to \$11.5 billion. On a GAAP basis, the company reported earnings of \$1.89 billion, or \$8.24 per share.

In May 2025, TRV announced the sale of the personal insurance and the majority of the commercial insurance of Travelers Canada to Definity Financial Corporation for approximately \$2.4 billion. Travelers will retain its Canadian surety business. Travelers will use approximately \$700 million for share repurchases in 2026. The deal is expected to close in 1Q26.

In January 2024, the company completed its acquisition of Corvus Insurance, a leading cyber insurance underwriter. The acquisition allows TRV to expand its capabilities in cyber insurance utilizing the proprietary technology developed by Corvus. The platform also delivers solutions to insurance agents and brokers.

EARNINGS & GROWTH ANALYSIS

Current trends and outlooks by business segment are summarized below.

-- Business Insurance, Travelers' largest segment, posted a \$907 million gain in the second quarter, up from \$698 million a year earlier. The results reflected lower catastrophe losses and a higher underwriting gain. On the top line, net written premiums rose 4% to \$5.7 billion. The GAAP combined ratio (losses and expenses divided by premiums earned) declined to 92.9% from 95.8% in 3Q24; the underlying combined ratio rose to 88.3% from 87.9%. (A combined ratio of 90 means that TRV keeps \$0.10 of each dollar in premiums

earned.) The retention rate fell 1% to 85%.

-- The Bond & Specialty Insurance segment generated income of \$250 million, up from \$222 million a year earlier due to a net favorable prior-year reserve development and higher net investment income. Net written premiums rose 1% to \$1.1 billion. The GAAP combined ratio fell to 81.6% from 82.5% a year earlier, and the underlying combined ratio ticked up to 85.8% from 86.6%. The retention rate declined to 87% from 89% in the prior year.

-- The Personal Insurance segment generated income of \$798 million, up from \$294 million in 3Q24. The results reflected significantly lower catastrophe losses in the Homeowners segment. Net written premiums of \$4.7 billion was flat from the prior year. The GAAP combined ratio fell to 81.3% from 92.5%, while the underlying combined ratio declined to 77.7% from 82.7%. The automobile retention rate rose to 82% from 81% and homeowners fell to 84% from 85%.

The overall GAAP combined ratio fell to 87.3% in 3Q25 from 93.2% in 3Q24, primarily due to lower catastrophe losses; the underlying combined ratio fell to 83.9% from 85.6%.

The investment portfolio generated pretax net investment income of \$1.03 billion in 3Q25, up 14% from the prior year, primarily due to higher average yields on securities and growth in average invested assets. At the end of the quarter, fixed income securities made up 94% of the \$103.7 billion investment portfolio. Approximately 98.8% of these were investment grade, and the average duration was 4.6 years. The remaining 6% of the portfolio consisted of common stock, private equity, hedge funds, and real estate.

To generate our EPS estimates for the insurance industry, we focus on ROE, which is smoother and more predictable than catastrophe losses and net prior-year reserve development. The trailing 12-month ROE stood at 18.7% on September 30, almost evenly split between underwriting gains and investment income. The 2024 ROE of 17.2% reflects higher returns on long-term fixed-income assets and underwriting gains. TRV has an impressive 10-year average ROE of 13.0%. It posted operating ROE of 11.3% in 2020, 13.7% in 2021, 11.3% in 2022, and 11.5% in 2023.

We think the company has managed its risk exposure particularly well in the face of insurance losses from hurricanes, wildfires, and other catastrophes. Although insurance is TRV's primary business, its investment returns contribute significantly to ROE. In addition, the company has been raising its home and auto insurance premiums; however, we expect overall premium increases to level off in the next couple of quarters. Dividend increases and share buybacks should also boost shareholder returns.

Based on 3Q results, expectations for further growth in net premiums written, higher net investment income and consistent share repurchases, we are raising our 2025 EPS estimate to \$25.25 from

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\$20.43 and our 2026 EPS estimate to \$27.12 from \$25.70. Our estimates assume premium growth in all three business segments and lower catastrophe losses year over year. Our five-year earnings growth rate forecast is 7%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Travelers is High. At the end of 3Q25, the debt/capital ratio was 21.6%, within management's target range of 15%-25%. Ratings on the company's senior debt remain investment grade at Aa2/AA. Adjusted book value was \$150.55 per share at the end of 3Q, up from \$139.04 at year-end 2024.

In 1Q, the company raised its quarterly dividend by 5% to \$1.10 per share, or \$4.40 annually, for a yield of about 1.7%. Our dividend estimates are \$4.40 for 2025 and \$4.60 for 2026.

In 3Q25, the company repurchased \$628 million of its' stock and has \$3.7 billion remaining on its current authorization.

MANAGEMENT & RISKS

Alan Schnitzer has served as CEO since December 2015 after joining Travelers in 2007 as chief legal officer. He previously served as outside counsel to Travelers. Mr. Schnitzer led multiple Travelers businesses before becoming CEO. Dan Frey became the CFO in 2018 after joining Travelers in 2003.

Management's long-term goal is to produce a superior ROE in the mid-teens. This means that, in parts of the underwriting cycle, management may sacrifice growth to maintain profitability.

Travelers faces macroeconomic risks related to the impact of slow economic growth and volatile equity markets on its balance sheet, capital levels, credit ratings, revenues, and income. Other critical metrics to monitor include the company's exposure to commercial real estate and global bonds.

COMPANY DESCRIPTION

Travelers is a leading provider of auto, home, and business property casualty insurance. The company is organized into three units: Business Insurance, Bond & Specialty Insurance, and Personal Insurance. TRV is included in the S&P 500 index and the Dow Jones Industrial Average.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of

28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

At current prices around \$265, TRV shares are trading above the midpoint of their 52-week range of \$232-\$285. We expect TRV to remain disciplined in its' underwriting practices and not chase growth for growth's sake. Investment in AI tools should also provide a higher margin in underwriting. We also expect to see continued balanced returns from the investment portfolio as maturing bonds are reinvested at higher levels. We are reiterating our BUY rating and raising our target price to \$287.

On October 20, BUY-rated TRV closed at \$265.25, up \$3.24. (Kevin Heal, 10/20/25)

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U.S. Bancorp. (USB)

Current Rating: **BUY**

Publication Date: **10/17/25**

HIGHLIGHTS

*USB: Positive operating leverage story continues*On October 16, U.S. Bancorp reported 3Q25 earnings of \$1.22 per share, up from \$1.03 a year earlier and above the consensus of \$1.12. Net revenue rose 7%.

*Results included 530 basis points of year-over-year operating leverage in the quarter, well above the company's goal for 200 basis points of leverage.

*The company is already meeting or exceeding medium-term goals including a high-teens return on tangible common equity and an efficiency ratio in the mid- to high-50s.

*Our target price remains \$52 or a multiple of 11-times our EPS estimate for 2026.

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on U.S. Bancorp (NYSE: USB) following 3Q EPS, which modestly exceeded the consensus. We note a 1% rise in average loans, a bit below industry-wide lending growth, along with good expense control.

At its September 2024 Investor Day, the bank provided its case for achieving positive operating leverage, helped in part as higher capital expenditures, which have been elevated in recent years due to spending on digital capabilities, are now included in the run rate, as well as optimization efforts around the branch network, technology and operations, and organizational structure. The company believes it is at an inflection point with respect to revenue growth and expense management that will allow for positive operating leverage. USB highlighted its diversified business mix and goals to increase the percentage of total revenues coming from fee-based sources, particularly in transaction services and wealth & capital market

The company also announced a \$5 billion stock repurchase program. USB had suspended share buybacks since the announcement of the Union Bank acquisition in late 2021. As for capital requirements, the company is nearing Category II status (greater than \$700 billion in average total assets) for regulatory purposes but does not anticipate crossing that threshold until 2027. Overall, we came away with a better sense of the company's drivers to meet its financial targets.

In December 2022, USB acquired MUFG Union Bank's core regional banking franchise, which focuses on California, Washington, and Oregon, from Mitsubishi UFJ Financial Group for \$7.5 billion in cash and USB common stock. The transaction gave MUFG a roughly 3% minority stake in USB. The acquisition included about \$58 billion in loans and \$90 billion in deposits. Cost synergies of \$900 million were achieved in 2023.

USB now trades at 1.6-times tangible book value, a discount to both historical levels and regional bank peers. Based on the

company's above-peer-average ROE, ROA, and efficiency metrics, we believe the stock should trade at a premium valuation to the peer group. Our target price of \$52 implies a P/E of about 11-times our EPS estimate for 2026.

RECENT DEVELOPMENTS

Over the past year, USB shares have declined 3%, versus a 14% gain for the S&P 500.

On October 16, U.S. Bancorp reported 3Q25 earnings of \$1.22 per share, up from \$1.03 a year earlier and above the consensus of \$1.12. Net revenue of \$7.3 billion rose 7%.

Net interest income was up 2%, as a 1% increase in average loans was helped by a slightly wider net interest margin of 2.75% (versus 2.74% a year earlier). The company had a credit loss provision of \$571 million, up from \$557 million in 3Q24. Credit quality improved slightly with a net charge-off rate of 0.56%, versus 0.60% a year earlier.

EARNINGS & GROWTH ANALYSIS

For 2025, we project a 4% increase in revenue, within the company's guidance within a range of 3%-5%. We expect net interest income to be up 2%, with both modest loan growth and expansion in the net interest margin, coupled with a 7% rise in fee revenues on strength in trust/investment management fees. The company continues to strive for at least 200 basis points of positive operating leverage in 2025. Management has highlighted four major expense saving initiatives: real estate rationalization, organizational simplicity, AI/automation, and location optimization.

Along with 3Q results, management also offered guidance for 4Q25 calling for net interest income to be stable with the 3Q level of \$4.25 billion, noninterest income of about \$3.0 billion, and noninterest expense to be up 1%-1.5% from the \$4.2 billion in

We are raising our 2025 EPS estimate to \$4.52 from \$4.34 following better-than-expected 3Q results, while increasing our 2026 forecast to \$4.87 from \$4.81.

The company's medium-term goals include an ROTCE in the high teens, an ROA of 1.15%-1.35%, and an efficiency ratio in the mid- to high-50% range.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on U.S. Bancorp remains Hig

Following the Federal Reserve's mid-2025 CCAR stress test results, the company's preliminary stress capital buffer (SCB) was decreased to 2.6% for the period ending September 30, 2026. Following the stress test, USB increased its quarterly common stock dividend by 4% to \$0.52 from \$0.50, effective with the 3Q25 payment. The current yield is about 4.5%. Our dividend estimates are \$2.04 for 2025 and \$2.12 for 2026. Directors authorized a \$5 billion share repurchase plan in September 2024, with 2 million shares repurchased in 3Q25.

GROWTH / VALUE STOCKS

Under the Basel III fully implemented standardized approach, the company's common equity Tier 1 (CET1) capital ratio was 10.9% on September 30, 2025, up from 10.5% a year earlier.

The company has established long-term earnings distribution targets of 35%-45% for dividends, 30%-40% for share repurchases, and 15%-35% for reinvestment and acquisitions.

MANAGEMENT & RISKS

U.S. Bancorp's president and CEO is Gunjan Kedia, taking over from Andy Cecere in April 2025. John Stern is the CFO.

On the consumer banking side, USB is leveraged to economic conditions in the Midwest and Northwest. The company operates branches in 25 states. USB's wholesale bank is a national operation and thus exposed to macroeconomic risks on a national level.

COMPANY DESCRIPTION

U.S. Bancorp is one of the largest diversified financial services firms in the United States. Services include consumer and commercial lending and depository services, cash management, trust, and investment management services. The company also engages in credit and debit card services, merchant processing, mortgage banking, insurance, brokerage, and leasing.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

The Financial sector is a cyclical and often value-oriented sector. The macroeconomic factors that may affect the performance of stocks in the Financial sector include the Unemployment Rate (which can influence the debt repaying capability of consumers and therefore credit costs), Interest Rates (which can determine lending profitability), and GDP or growth in the economy (which influence loan growth). The industry is also highly regulated, so changes in the regulatory environment can influence capital set-aside requirements

and thus profitability.

Generally, investing in the stocks of banks and insurance companies is a good way to profit from overall economic growth and gradually rising interest rates. There are several approaches to investing in banks, and they include choosing banks that have greater revenue and profit upside from rising interest rates, selecting banks that appear to be attractive takeover candidates, and high growth banks that have a history of maintaining strong credit quality. Other approaches include selecting banks that pay an attractive and sustainable cash dividend or purchasing shares of large and relatively safe banks whenever they are attractively valued.

Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

USB shares have traded between \$35 and \$54 over the past 52 weeks and are currently toward the upper end of that range.

USB trades at 1.6-times tangible book value of \$27.84 per share, a discount to its historical valuation. In our view, the shares should trade at a premium valuation to peers based on the company's above-peer-average ROE, ROA, and efficiency metrics. We continue to see prospects for better-than-industry-average loan growth and look for benefits from the company's efficiency initiatives. Our target price of \$52 implies a multiple of about 11-times our 2026 EPS estimate.

On October 16, BUY-rated USB closed at \$45.65, down \$0.80. (Stephen Biggar, 10/16/25)

United Airlines Holdings Inc (UAL)

Current Rating: **BUY**

Publication Date: **10/16/25**

HIGHLIGHTS

*UAL: Positive guidance suggests accelerating flight demand*We expect demand for air travel to continue to grow, with strong growth in corporate travel, and look for higher revenue to outweigh inflationary headwinds.

*United Airlines reported above-consensus 3Q earnings.

*We are keeping our 2025 EPS estimate at \$12.00 and leaving our 2026 estimate at \$14.00 per share.

ANALYSIS

INVESTMENT THESIS

GROWTH / VALUE STOCKS

We are maintaining our BUY rating on United Airlines Holdings Inc. (NYSE: UAL) with a target price of \$120. We expect demand for air travel to continue to grow, with strong growth in corporate travel, and look for higher revenues to outweigh inflationary headwinds. Based on our expectations for a continued recovery in demand for premium seating and trans-Atlantic flights, our long-term rating is also BUY.

RECENT DEVELOPMENTS

On October 15, United Airlines reported 3Q25 adjusted earnings of \$2.78, compared to earnings of \$3.33 a year earlier, above management's guidance calling for earnings of \$2.25-\$2.75. The consensus estimate had called for adjusted earnings of \$2.65 per share. The results reflected solid loyalty revenues, lower than anticipated unit costs and strong growth in premium cabin seating. We believe that the earnings beat also reflects an operational turnaround at Newark International Airport following a period of staffing shortages and runway construction earlier in the year. GAAP EPS was \$2.90, unchanged from the prior-year period.

Reflecting a 3% increase in Cargo revenue, third-quarter revenue rose 2.6% to \$15.2 billion, up from \$14.8 billion in the prior-year period and \$100 million below consensus. Passenger revenue rose 1.9%, to approximately \$13.82 billion, below the consensus estimate of \$13.95 billion. Cargo revenue rose 3.2% to \$431 million, below the consensus estimate of \$450 million. Other revenue of \$979 million rose 13.2% and was above the consensus estimate of \$937 million. Revenue passenger miles increased to 73.7 billion from 69.5 billion. The consensus estimate had called for revenue passenger miles of 73.4 billion. Total revenue per available seat mile (TRASM) fell 430 basis points year over year to \$0.174, below the consensus estimate of 0.177. Available seat miles rose to 87.4 billion from 81.5 billion, above the consensus estimate of 87.04 billion. The consolidated load factor was 84.4%, down 90 basis points from the prior-year period and below the consensus estimate of 84.9%. Costs per available seat mile (CASM) excluding fuel, profit sharing, and other special items, fell 0.9% to \$0.122, below the consensus estimate of \$0.126. Average fuel costs fell 5.1%, to \$2.43 per gallon. Salaries and related costs rose 5.4% to \$4.6 billion. The adjusted operating margin rose 290 basis points to 8.0%, below the consensus estimate of 8.1%. The below consensus adjusted operating margin was driven by a mid-teens increase in Landing fees and other rents. The share count fell by 5.8 million from the prior year to 326.9 million.

In the press release, management said that recent positive momentum had continued into the fourth quarter and that it expected fourth-quarter earnings of \$3.00-\$3.50 per share, above the consensus estimate of \$2.87 per share. We believe the strong guidance suggests an acceleration in flight demand. S

United Airlines predicts 2025 adjusted earnings of \$9.00-\$11.00 per share, compared to two separate scenarios previously in which earnings ranged between \$7.00 and \$13.50.

As discussed in a previous note, 2024, revenue rose nearly 6%

to \$57.1 billion. EPS totaled \$10.61 up from EPS of \$9.75 in 2023.

EARNINGS & GROWTH ANALYSIS

Reflecting our greater confidence in the economy, an easing of geopolitical tensions, and the third-quarter earnings beat, we are leaving our 2025 EPS estimate at \$12.00 and keeping our 2026 estimate at \$14.00 per share. Both our estimates are above consensus.

FINANCIAL STRENGTH & DIVIDEND

Since the onset of the pandemic, UAL has been cutting spending to operate in a low revenue environment. Consequently, we believe that the company is well positioned to benefit from the ongoing recovery in airline traffic. We expect management's initiatives to result in a lower daily cash burn rate than that of other legacy airlines that we cover and look for UAL to further reduce its daily cash burn.

Our financial strength rating on United Airlines is Medium-Low, the second-lowest point on our five-point scale. Since March 2020, UAL has raised \$26 billion through borrowings and equity issuance. The company ended 3Q25 with approximately \$13.3 billion in cash and equivalents and short-term investments, down from \$14.5 billion at the end of 2024. UAL ended the third quarter with liquidity of \$16.3 billion.

UAL does not pay a dividend, and we do not expect it to initiate one over the next year.

MANAGEMENT & RISKS

Scott Kirby is CEO & director and Brett Hart is president.

Like other airlines, United Airlines faces a range of risks, including fuel cost volatility, labor negotiations, and fare wars. Airlines have also historically had difficulty matching capacity to demand and could be hurt by weak economic conditions that reduce demand for air travel. Airlines also face reputational risks from flight delays and poor customer service, as well as risks related to war, terrorism, and outbreaks of disease. As earnings in the airline industry tend to be highly cyclical and volatile, we believe that airline stocks are most appropriate for speculative investors.

COMPANY DESCRIPTION

Based in Chicago, United Airlines Holdings is a global airline that transports passengers and freight through both mainline and regional operations. With a market cap of about \$33.7 billion, United Airlines is generally regarded as a large-cap value stock.

INDUSTRY

Our rating on the Industrial sector is Market-Weight. The Industrial sector accounted for 8.3% of the S&P 500 as of the end of September. We think diversified investors should have exposure to the sector, in line with the current sector weight.

The sector receives average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with

GROWTH / VALUE STOCKS

a gain of 17.1%. The sector underperformed in 2024, with a gain of 15.6%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.2.

Over the past five years, the sector's weighting has ranged from 8% to 12%. The sector's P/E ratio on projected 2026 EPS was 23, above the market multiple. The yield of 0.8% was below the market average. The sector's smoothed earnings growth rate of 7% was below the market average.

The Industrial sector is primarily a cyclical sector. The macroeconomic factors that may affect the performance of stocks in the Industrial sector include Interest Rates, New Housing Starts, Data Center Growth, Trade Policy, and U.S. Government Defense Spending. Trends in the dollar can affect factors such as Cost of Goods Sold.

Potential sell signals for stocks in the Industrial sector can be a change in the direction or rate of a company's sales or earnings growth, a high dividend payout ratio above 70%, a rapidly rising unemployment rate or signs of an impending recession.

At this stage of the market and economic cycle, our favored industries within the Industrial sector include Aerospace & Defense, Building Products, and Electrical Components & Equipment.

VALUATION

The shares are trading just below \$102. Reflecting prospects for an improvement in travel demand, lower fuel prices, and an operational turnaround at Newark International Airport, we expect the shares to move higher. Consequently, we are maintaining our BUY rating. Our target price is \$120. At current prices, our target, if achieved, offers investors the prospect of an approximately 18% return.

On October 16 at midday, BUY-rated UAL traded at \$95.75, down \$8.30. (John Staszak, CFA, 10/16/25)

Wells Fargo & Co. (WFC)

Current Rating: **BUY** Publication Date: **10/15/25**

HIGHLIGHTS

*WFC: Raising target amid boost to medium-term return on equity goal*On October 14, WFC reported adjusted 3Q25 EPS of \$1.73, up from \$1.52 a year earlier and above the consensus estimate of \$1.54.

*Management maintained guidance for net interest income, still expecting it to be in line with the 2024 level of \$47.7 billion, though raised guidance for costs modestly considering higher revenue-related expenses from strong capital markets activity.

*In June 2025, the Federal Reserve removed a \$2 trillion cap on assets that had been in place since 2018. We expect that the asset cap removal will allow for better growth in deposits and the credit card portfolio, as well as in the company's wealth management franchise and capital markets businesses.

*Along with 3Q results, the company lifted its medium-term

goal for return on tangible common equity to 17%-18% from a prior 15%, as it realizes returns on investments and incremental efficiencies. We believe a sustainably higher ROTCE will result in valuation improvement for the shares and are raising our target price to \$94 from \$87.

ANALYSIS

INVESTMENT THESIS

We are maintaining our BUY rating on Wells Fargo & Co. (NYSE: WFC) following 3Q earnings results, which came along with an announced higher medium-term target for return on tangible common equity to the 17%-18% range from a prior 15%.

Wells' future brightened following a June 2025 decision by the Federal Reserve to remove a \$2 trillion cap on assets that had been in place since 2018 as penalty after a scandal involving the opening of fake client accounts to meet aggressive sales goals. In a statement, the Fed said, 'The removal of the growth restriction reflects the substantial progress the bank has made in addressing its deficiencies.' The Fed also completed its review of the bank's remediation effects, required third-party assessments, corporate governance, and firmwide risk management programs. Additionally, 13 regulatory orders have been terminated since 2019, with seven in 2025 alone. Moving beyond the asset cap will allow Wells to once again grow deposits (where its national share declined to 7% from 10% over the course of the seven-year asset cap) and credit card portfolio, as well as its wealth management franchise and capital markets businesses. In addition, we look for modest improvements to the efficiency ratio as the bank's compliance and regulatory costs become less burden

Wells has been led since late 2019 by Charles Scharf, who spent considerable focus on the company's regulatory issues that hindered growth. The consent order required several changes to board governance, including separating the roles of chairman and CEO; amending the company's by-laws to require an independent chair; electing new independent directors; enhancing the overall capabilities and experience of the board in such areas as risk management, cybersecurity, human-capital management, and consumer and social responsibility; reviewing the board's committee structure; amending committee charters to enhance risk oversight; and appointing new chairs of the risk, governance, and nominating committees. In addition, there has also been a strengthening of the sales culture in the wake of the 2016 sales-practice scandal.

Additionally, continued consumer focus through investment in the credit card business through with new product launches and customer experience enhancement, a renewed focus on wealthier clients through 'Wells Fargo Premier' at the branch levels, and the ability to be more aggressive with marketing and promotional activities now that constraints have been lifted provide good opportunities for WFC.

We also note that the company has divested some noncore businesses with low returns or high capital requirements in the

GROWTH / VALUE STOCKS

2019-2025 period. These included institutional retirement & trust, real estate investment banking, corporate trust, student lending and non-agency commercial mortgage servicing. It has also pursued a cost-conscious labor reduction strategy, having reduced headcount for 21 consecutive quarters, resulting in a more than 20% decline over five years.

We like Wells' loan-growth profile and see a continued catalyst for the shares in higher loan growth from the removal of the asset cap. Our target price is \$94, which implies a multiple of about 14-times our 2026 EPS estimate.

RECENT DEVELOPMENTS

WFC shares have risen 36% over the past year, well ahead of the 13% increase for the broad market.

On October 14, WFC reported adjusted 3Q25 EPS of \$1.73, up from \$1.52 a year earlier and above the consensus estimate of \$1.54. Results exclude \$0.07 per share of severance costs in the current period. Revenue increased 5% to \$21.4 billion, reflecting gains of 2% in net interest income and 9% in fee revenues. Average deposits were flat at \$1.3 trillion.

Average loans were up 2%, while the net interest margin narrowed to 2.61% from 2.67% a year earlier, largely reflecting declining average yields in commercial lending. Credit quality improved with net charge-offs of 0.40% of average loans, down from 0.49% a year earlier. There was a provision for credit losses of \$681 million, down from \$1.1 billion in 3Q24.

EARNINGS & GROWTH ANALYSIS

After remaining near \$1.76 trillion for the past two years, average earning assets jumped to \$1.83 trillion in 3Q25, while total assets moved above \$2 trillion for the first time, as the bank's Federal Reserve asset cap was removed. With assumptions for a slight rise in average loans, a modestly lower fed funds rate helping on deposit costs, and a balance sheet re-positioning that occurred in the second half of 2024, management originally guided toward a 1%-3% increase in net interest income (NII) in 2025. However, along with 2Q25 results, guidance was lowered to NII roughly in line with the 2024 NII of \$47.7 billion, with this guidance maintained following 3Q results.

We look for revenues overall to be helped by higher fee revenues, including credit cards and a rebound in capital markets income. Wells' lending business will no longer face challenges from a Federal Reserve consent order capping asset growth, leading to greater net interest income through an expanded balance sheet, an uptick in average loans, and greater fee-generating activities like payment services and mortgage origination. Also, Wells now has a large opportunity to expand its regional influence by opening more branches and wealth management offices.

The company has been working to control costs and has noted that its efficiency ratio (noninterest expense divided by revenue) is

too high. From an expense base of \$54.6 billion in 2024, management's guidance is now for expenses of about \$54.6 billion in 2025 (up from a prior \$54.2 billion). In particular, the company has been focused on headcount efficiency.

As we factor in improved capital markets revenues and better loan growth following the asset cap removal, we are raising our 2025 EPS estimate to \$6.18 from \$5.81. Our 2026 forecast moves to \$6.64 from \$6.75.

FINANCIAL STRENGTH & DIVIDEND

As of September 30, 2025, Wells Fargo estimated that its Tier 1 common ratio was 11.0% (under the standardized approach), down from 11.3% a year earlier.

In June 2025, Wells completed the 2025 Comprehensive Capital Analysis and Review (CCAR) stress test process. The company's stress capital buffer (SCB) through September 30, 2026, is expected to be 2.5% (down from the prior year's revised 3.7%). Following the results, the company increased its common stock dividend by 12.5% to \$0.45 per share beginning in 3Q25, up from \$0.40. Wells also said that it had significant capacity for common stock repurchases. It repurchased 74.6 million shares for \$6.1 billion in 3Q25. The board also authorized an additional \$40 billion common stock repurchase program in 2Q25. Since 2019, the company has reduced average common shares outstanding by 23%. Our dividend estimates are \$1.70 for 2025 and \$1.90 for 2026.

Along with 3Q results, the company lifted its return on tangible common equity goal over the medium term to 17%-18% from a prior 15%, as it realizes returns on investments and incremental efficiencies, and said it planned to manage its common equity tier 1 ratio down to 10%-10.5% from a previous 11%.

MANAGEMENT & RISKS

Charles W. Scharf was named the company's CEO in October 2019, taking over from Allen Parker, and was elected chairman in October 2025. Mr. Scharf was previously the CEO of Bank of New York Mellon, and prior to that, the CEO of Visa Inc. Michael Santomassimo is the CFO.

While Wells Fargo is a diversified financial services company, it has historically focused on the low-margin mortgage business. Wells Fargo views the mortgage as the gateway to a broader consumer relationship, and its earnings growth strategy has always been focused on revenue growth, driven in part by cross-selling, or selling multiple products to each customer. However, these sales practices were sharply curtailed in the wake of a 2016 sales scandal. There is also the risk that demand for WFC products may slow -- at least on the consumer side. In addition, Wells Fargo operates exclusively in the U.S. -- a mature and intensely competitive market.

Wells Fargo is primarily a retail and commercial banking and consumer finance firm. While the company has added to its trust and investment management business in recent years via internal growth

GROWTH / VALUE STOCKS

and acquisitions, market-sensitive revenues have remained a relatively small part of its mix. Continued pressure on spreads from other banks, especially middle market, as well as growing non-bank lenders, like private creditors, pose risk to loan spread growth and margin.

Wells Fargo is among the largest mortgage originators and servicers in the United States. However, in early 2023, the company announced plans to create a more focused home-lending business aimed at serving bank customers, as well as individuals and families in minority communities. Wells also said that it was exiting the correspondent business and that it planned to reduce the size of its mortgage servicing portfolio.

COMPANY DESCRIPTION

Wells Fargo is one of the largest diversified financial services firms in the United States, with a nationwide network of several thousand branches and a large base of financial advisors. Wells Fargo provides a full range of consumer banking, commercial banking, and investment banking services. The company nearly doubled its assets with the acquisition of the former Wachovia. It has approximately \$1.98 trillion in assets, passing the previous asset cap of \$1.95 trillion that had been in place since 2018.

INDUSTRY

Our rating on the Financial sector is Over-Weight. The Financial sector accounted for 13.5% of the S&P 500 as of the end of September. We think diversified investors should have meaningful exposure to the sector, at about 125-150% of the current sector weight.

The sector receives above-average marks on our six-part 'blind' sector rating criteria, which includes growth momentum, valuation, financial strength, and analyst conviction, among other factors.

The sector has been outperforming the market year to date, with a gain of 11.5%. The sector outperformed in 2024, with a gain of 28.4%, compared to a gain of 23.3% for the S&P 500. The beta for the sector is 1.1.

Over the past five years, the sector's weighting has ranged from 10% to 15%. The sector's P/E ratio on projected 2026 EPS was 16, below the market multiple. The yield of 1.2% was equal to the market average. The sector's smoothed earnings growth rate of 9% was equal to the market average.

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Investing in FinTech or financial data companies is somewhat different. These companies tend to be valued more for growth prospects than for valuation. While mid-teens growth may be achievable for emerging companies, more mature industry players target low double-digit growth through a combination of mid-single-digit sales growth, margin improvement and share buybacks.

At this stage of the market and economic cycle, our favored industries within the Financial sector include Diversified Banks, Financial Exchanges & Data, and Investment Banking & Brokerage.

VALUATION

WFC shares have traded in a range of \$58-\$87 over the past year and are currently near the top of that range.

The stock trades at 1.9-times tangible book value and at 13.8-times our new 2025 EPS estimate, leaving room for improvement in our view. WFC traded at depressed multiples prior to the pandemic, hurt, we believe, by the sales practice scandal and the subsequent cap on assets. We expect valuation to now improve as the company no longer faces the asset cap. Our revised target price of \$94 (up from \$87) implies a multiple of about 14-times our 2026 EPS estimate.

On October 15 at midday, BUY-rated WFC traded at \$87.04, up \$2.48. (Stephen Biggar, 10/15/25)

UTILITY SCOPE

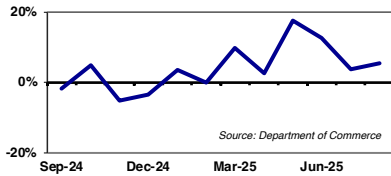
*There are no companies updated in the **Utility Scope** category this week.*

STOCKS TO AVOID

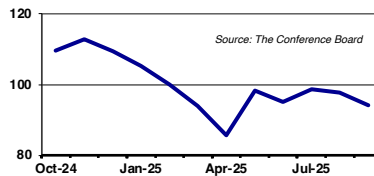
*There are no companies updated in the **Stocks to Avoid** category this week.*

ECONOMIC TRADING CHARTS & CALENDAR

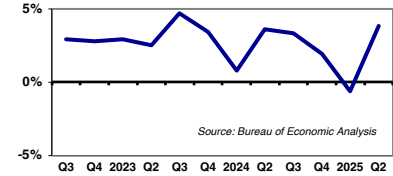
Release: **Durable Goods Orders**
 Date: 10/27/2025
 Month: September
 Previous Report: 5.4%
 Argus Estimate: 3.3%
 Street Estimate: NA



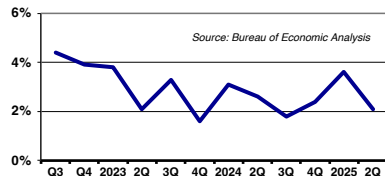
Release: **Consumer Confidence**
 Date: 10/28/2025
 Month: October
 Previous Report: 94.2
 Argus Estimate: 93.0
 Street Estimate: 93.3



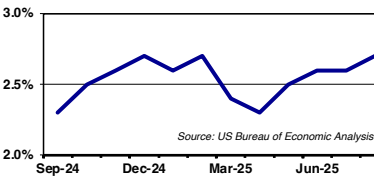
Release: **GDP Annualized QoQ**
 Date: 10/30/2025
 Month: 3Q
 Previous Report: 3.8%
 Argus Estimate: 2.6%
 Street Estimate: 2.9%



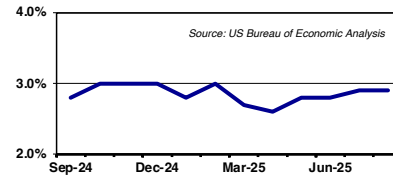
Release: **GDP Price Index**
 Date: 10/30/2025
 Month: 3Q
 Previous Report: 2.1%
 Argus Estimate: 2.7%
 Street Estimate: NA



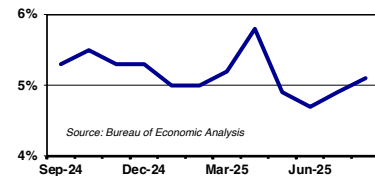
Release: **PCE Deflator**
 Date: 10/31/2025
 Month: September
 Previous Report: 2.7%
 Argus Estimate: 2.8%
 Street Estimate: NA



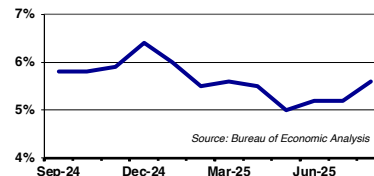
Release: **PCE Core Deflator**
 Date: 10/31/2025
 Month: September
 Previous Report: 2.9%
 Argus Estimate: 2.9%
 Street Estimate: NA



Release: **Personal Income**
 Date: 10/31/2025
 Month: September
 Previous Report: 5.1%
 Argus Estimate: 5.0%
 Street Estimate: NA



Release: **Personal Spending**
 Date: 10/31/2025
 Month: September
 Previous Report: 5.6%
 Argus Estimate: 5.4%
 Street Estimate: NA



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CHARTS & CALENDAR (CONT.)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
20-Oct	Leading Index	August	-0.5%	-0.8%	NA	NA
23-Oct	Existing Home Sales	September	4.00 Mln.	4.00 Mln.	4.06 Mln.	NA
24-Oct	Consumer Price Index	September	2.9%	3.0%	3.1%	NA
	CPI ex-Food & Energy	September	3.1%	3.0%	3.1%	NA
	New Home Sales	September	800K	700K	710K	NA

Next Week's Releases

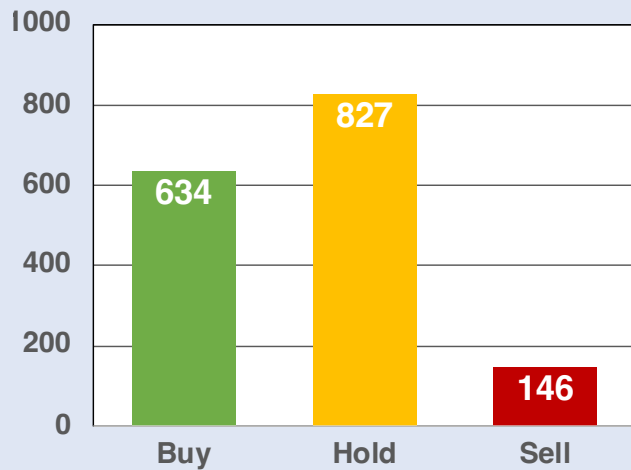
Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
3-Nov	ISM Manufacturing	October	49.1	NA	NA	NA
	ISM New Orders	October	48.9	NA	NA	NA
5-Nov	ISM Services Index	October	50.0	NA	NA	NA
7-Nov	U. Michigan Sentiment	November	55.0	NA	NA	NA

Postponed Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
	Retail Sales	September	5.0%	4.5%	NA	NA
	Retail Sales ex-autos	September	4.9%	4.2%	NA	NA
	PPI Final Demand	September	2.6%	2.5%	2.6%	NA
	PPI ex-Food & Energy	September	2.8%	2.3%	2.7%	NA
	Business Inventories	August	1.5%	1.0%	NA	NA
	Industrial Production	September	0.9%	1.0%	NA	NA
	Capacity Utilization	September	77.4%	77.4%	77.4%	NA
	Housing Starts	September	1,307K	1,200K	1,310K	NA
	Import Price Index	September	0.0%	0.1%	0.0%	NA
	Trade Balance	August	-\$78.3 Bln.	-\$60 Bln.	-\$61 Bln.	NA
	Total Vehicle Sales	September	16.4 Mln.	16.2 Mln.	16.2 Mln.	NA
	Wholesale Inventories	August	1.3%	0.7%	NA	NA
	Construction Spending	August	-2.8%	-3.0%	NA	NA
	Factory Orders	August	1.6%	1.4%	NA	NA
	Nonfarm Payrolls	September	22K	56K	42K	NA
	Unemployment Rate	September	4.3%	4.3%	4.3%	NA
	Average Weekly Hours	September	34.2	34.2	34.2	NA
	Average Hourly Earnings	September	3.7%	3.7%	3.7%	NA

SPECIAL SITUATIONS & SCREENS

ARGUS RESEARCH RATING DISTRIBUTION



ARGUS RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD and SELL. Stocks are rated relative to a benchmark, the S&P 500.

A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.

A HOLD-rated stock is expected to perform in line with the S&P 500.

A SELL-rated stock is expected to underperform the S&P 500.

MASTER LIST CHANGES

Stock	Rating		Date Change
	From	To	
None			

RECENT BUY UPGRADES

	Stock Symbol	Raised to BUY On this date
None		

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