Market Commentary Monday, July 20, 2020

July 19, 2020

EXECUTIVE SUMMARY

Week in Review – MegaCap High Flyers Pull Back; Value Rallies
Health News – Moderna Vaccine Enthusiasm; Rising COVID-19 Case/Death Counts
Econ News – Mostly Better-than-Expected Stats
Fed Speak – Brainard, Williams & Harker Strike Cautious but Supportive Tones
Interest Rates – Stocks Very Attractive vs. Fixed Income
Sentiment – Very Little Enthusiasm for Stocks; Major Infatuation with Bonds
Target Prices – New Listing Coming to theprudentspeculator.com
Earnings Season – Small Sample Size, but Q2 Numbers Beating the Street
Stock News – Updates on BAC, DAL, JNJ, BK, BLK, PNC, TFC, ABT, GS, JPM & C

Market Review

With the Russell 3000 Value index (up 3.47%) outperforming the Russell 3000 Growth (down 0.63%) by more than 400 basis points, it was a terrific week for inexpensively priced stocks in particular and equities in general. Making the five trading days even better was that pullbacks in high-flying mega and giant capitalization stocks like Amazon (off 7.4%), Facebook (off 1.2%), Netflix (off 10.2%) and Nvidia (off 2.7%) did not drag down the rest of the market. Indeed, despite other huge weightings in the index like **Microsoft** (MSFT – $202.88) retreating by 5.1% and **Alphabet** (GOOG – $1515.55) dropping by 1.7%, the S&P 500 still managed to gain 1.27% for the week.

No doubt, a big catalyst for the rebound in many long-suffering stocks was a favorable development on the vaccine front, with Moderna publishing very promising results (produced antibodies that can neutralize the novel coronavirus in all 45 patients tested) of its mRNA-1273 Phase 1 trial on Tuesday in the *New England Journal of Medicine*.

THE PRUDENT SPECULATOR

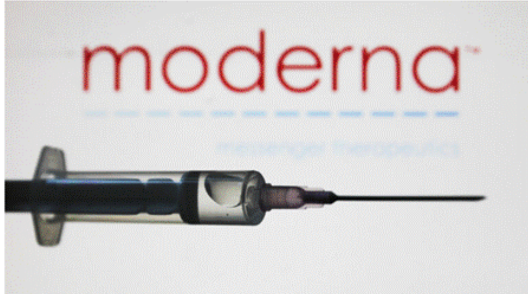
MODERNA VACCINE: "THIS IS REALLY GOOD NEWS"

STAT Topics Coronavirus Opinion Podcast Newsletters Reports Events

HEALTH

First data for Moderna Covid-19 vaccine show it spurs an immune response

By MATTHEW HERPER @matthewherper and DAMIAN GARDE @damiangarde / JULY 14, 2020 Reprints



JAKUB PORZYCKI/NURPHOTO VIA AP

Moderna's Covid-19 vaccine led patients to produce antibodies that can neutralize the novel coronavirus that causes the disease, though it caused minor side effects in many patients, according to the first published data from an early-stage trial of the experimental shot.

The results were published Tuesday in the New England Journal of Medicine. Moderna had previously released some results in a press release, but many experts said they were not sufficient to draw many conclusions. Even now, many are withholding judgment.

https://www.statnews.com/2020/07/14/moderna-covid19-vaccine-first-data-show-spurs-immune-response/

BUSINESS | HEALTH CARE | HEALTH

Moderna's Covid-19 Vaccine Moves to Bigger Study

New U.S.-funded trial would seek 30,000 subjects and could deliver answer by year-end

Moderna's vaccine induced the desired immune response for all 45 people evaluated.
PHOTO: ADAM GLANZMAN FOR THE WALL STREET JOURNAL

https://www.wsj.com/articles/modernas-covid-19-vaccine-moves-to-bigger-study-11594760401?mod=searchresults&page=1&pos=8

"This is really quite good news," Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, said in an interview Tuesday. NIAID co-developed the Moderna vaccine and led the study.

"The gold standard of protection against a viral infection is neutralizing antibodies," he added. "And the data from the study, small numbers as it may be, are pretty clear that this vaccine is capable of inducing quite good [levels] of neutralizing antibodies."

Researchers said they found no serious safety risks, though some participants had injection-site pain and symptoms such as fatigue, headache and chills.

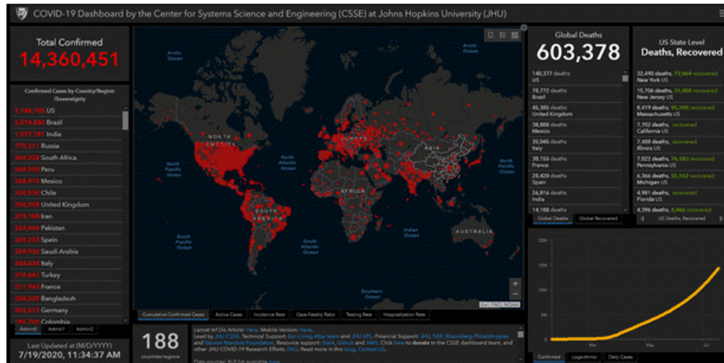
Dr. Fauci said it is possible that the coming large study would yield an answer by year-end about whether the vaccine induced immune responses sufficient to protect people safely from Covid-19. A positive answer would clear the way for wider use and potentially help curb the deadly pandemic.

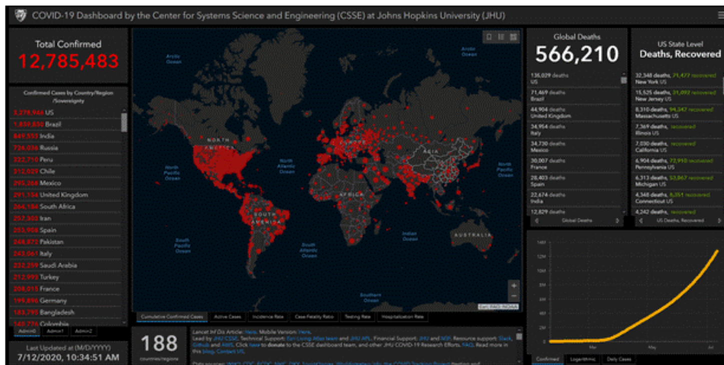
Per StatNews, "The data roughly mirror the results from a similar vaccine being produced by Pfizer and BioNTech, which were released July 1. Moderna posted a listing on clinicaltrials.gov, a government registry, that says it will start a Phase 3 study in 30,000 patients on July 27. Pfizer and BioNTech said they plan to start their own large study by the end of the month. There are 23 vaccines in human clinical trials against the virus, SARS-CoV-2, according to the World Health Organization, with more set to begin testing soon."

Of course, any vaccine is still many months away from approval, much less widespread availability, so the COVID-19 news in the near-term is likely to get worse before it gets better with the number of cases and deaths around the world continuing to rise significantly and many U.S. hospitals filled to capacity with patients.

THE PRUDENT SPECULATOR

COVID-19 GLOBAL SPREAD



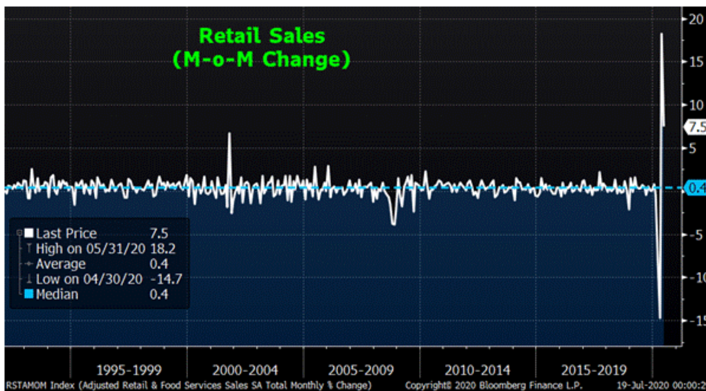


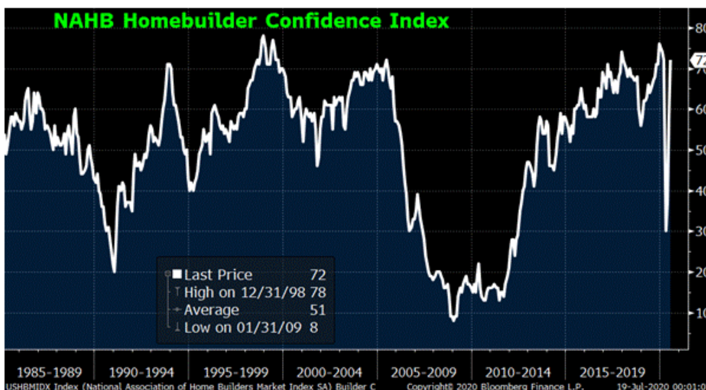
With access to testing markedly higher, there was a jump of nearly 1.6 million in global COVID-19 confirmed cases in the latest week. Case counts have risen as economies have reopened, social distancing has waned and mask wearing has been inconsistent, and the U.S. is now up to more than 140,000 fatalities. With deaths lagging cases, we would expect to see a big jump in the former, but the global mortality increase over the last seven days equaled 6.6%, not too dissimilar from 6.5% and 6.4% in the two weeks prior, and down from 7.3% and 8.0% the two weeks before that.

https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

As a result, numerous states have rolled back in whole or in part the reopening of businesses and many school districts have opted to begin the fall school year remotely rather than returning children to campus. The renewed shutdowns of various portions of the economy have yet to show up in the statistics, with economic data out last week generally coming in well above expectations and far stronger than most were forecasting a couple of months back. Indeed, folks have been willing to open their pocketbooks,…

ROBUST ECONOMIC NUMBERS



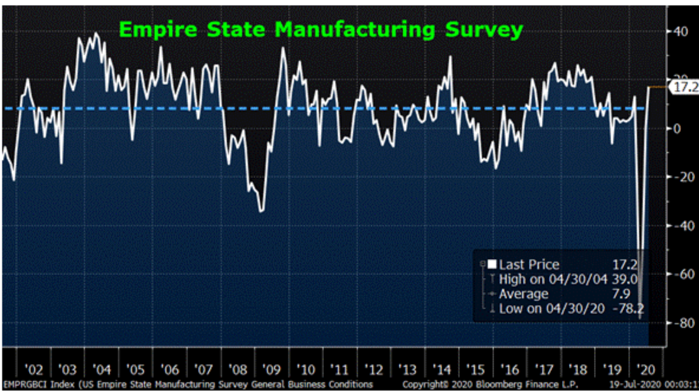


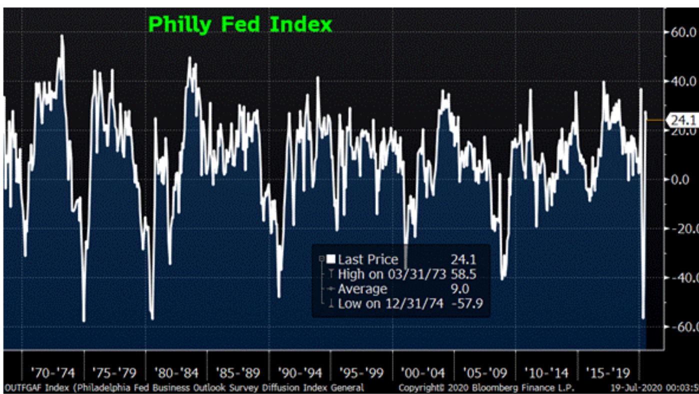
Retail sales in June jumped by an impressive 7.5%. Though the figure was down from the whopping 18.2% skyrocket in May, it beat expectations of a 5.4% increase. Autos and sales at clothing stores were again strong, while sales at restaurants and bars soared 20%. Meanwhile, the National Association of Home Builders' monthly confidence index for July rose sharply to a well-above-average reading of 72, up from the eight-year-low figure of 30 in April.

…while manufacturing business conditions are looking much better,…

THE PRUDENT SPECULATOR

FACTORY OUTLOOK CONTINUES DRAMATIC IMPROVEMENT



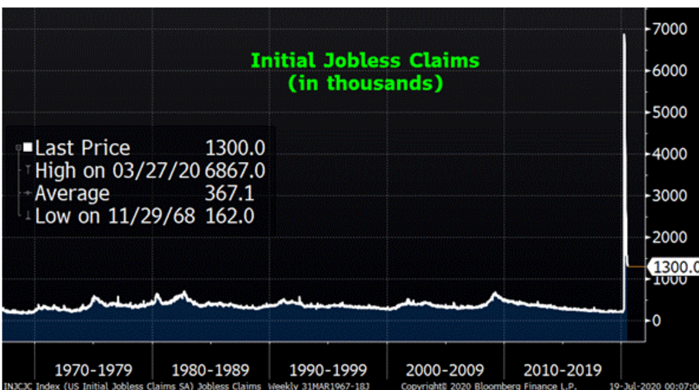


The Empire State gauge of manufacturing activity in the New York area continued to rebound sharply, climbing to a better-than-expected reading of 17.3 for July, more than 9 points above the average level for this business conditions index. It was a similar story for the Philadelphia Fed's July measure of manufacturing activity in the mid-Atlantic region, as the tally came in well above average at 24.1 and some six points better than projections.

…and other numbers are improving.

THE PRUDENT SPECULATOR

ECON STATS TRENDING IN THE RIGHT DIRECTION

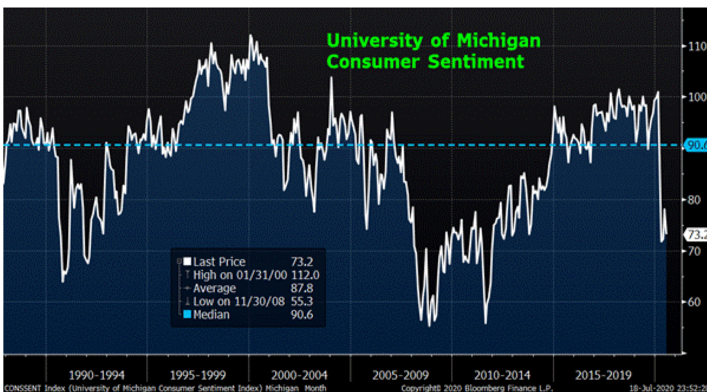


Factory output rebounded smartly in June, with industrial production climbing 5.4%, topping estimates of a 4.1% advance, while capacity utilization vaulted to 68.6%, up from 65.1% in May. Of course, though showing considerable improvement, the labor market remains in tatters, with the number of first-time filings for unemployment benefits coming in at 1.3 million for the latest week and continuing jobless claims totaling 17.3 million.

Of course, while economic data for June looks to be very good, relatively speaking that is, all is not rosy as we move into the third quarter,…

THE PRUDENT SPECULATOR

MIXED PICTURE ON MAIN STREET SENTIMENT



The NFIB Small Business Optimism Index for June rebounded by a better-than-expected 6.2 points to 100.6, up from 94.4 the month prior, the figure now a couple of points above the 30-year average. On the other hand, the preliminary Univ. of Michigan gauge of consumer sentiment this month unexpectedly declined to a reading of 73.2, down from 78.1 in June, with the widespread resurgence of the coronavirus not helping matters.

…especially as some stimulus measures passed by Congress this spring are set to expire soon, including the extra $600 a week in unemployment benefits that will end in July. To be sure, the near-term economic outlook is as uncertain as ever with Federal Reserve Governor Lael Brainard reminding us again last week, “The pandemic remains the key driver of the economy’s course.”

THE PRUDENT SPECULATOR

FEDERAL RESERVE GOVERNOR LAEL BRAINARD: 7.14.20

The COVID-19 contraction is unprecedented in modern times for its severity and speed. Following the deepest plunge since the Great Depression, employment and activity rebounded faster and more sharply than anticipated. But the recent resurgence in COVID cases is a sober reminder that the pandemic remains the key driver of the economy's course. A thick fog of uncertainty still surrounds us, and downside risks predominate. The recovery is likely to face headwinds even if the downside risks do not materialize, and a second wave would magnify that challenge. Fiscal support will remain vital. Looking ahead, it likely will be appropriate to shift the focus of monetary policy from stabilization to accommodation by supporting a full recovery in employment and a sustained return of inflation to its 2 percent objective.

A variety of data suggest the economy bottomed out in April and rebounded in May and June. Payroll employment rebounded strongly in May and June. Retail sales jumped 18 percent in May, exceeding market expectations, and real personal consumption expenditures (PCE) are estimated to have increased 8 percent. Consumer sentiment improved in May and June. And both the manufacturing and nonmanufacturing Institute for Supply Management indexes jumped into expansionary territory last month. Financing conditions remain broadly accommodative on balance: They continued to ease over recent weeks for nonfinancial corporations and municipalities, although they remained stable or tightened slightly for small businesses and households.

The earlier-than-anticipated resumption in activity has been accompanied by a sharp increase in the virus spread in many areas. Uncertainty will remain elevated as long as the pandemic hangs over the economy. Even if the virus spread flattens, the recovery is likely to face headwinds from diminished activity and costly adjustments in some sectors, along with impaired incomes among many consumers and businesses. On top of that, rolling flare-ups or a broad second wave of the virus may lead to widespread social distancing—whether mandatory or voluntary—which could weigh on the pace of the recovery and could even presage a second dip in activity. A broad second wave could re-ignite financial market volatility and market disruptions at a time of greater vulnerability. Nonbank financial institutions could again come under pressure, as they did in March, and some banks might pull back on lending if they face rising losses or weaker capital positions.

That said, the Fed has done all that it can to support the economy and the financial markets, with New York Fed President John Williams, more or less echoing Fed Chair Jerome H. Powell's comments last month,…

THE PRUDENT SPECULATOR

FEDERAL RESERVE CHAIR JEROME H. POWELL: 6.10.20

The Fed's response is guided by our mandate to promote maximum employment and stable prices for the American people, along with our responsibilities to promote the stability of the financial system. We are committed to using our full range of tools to support the economy in this challenging time. In March, we quickly lowered our policy interest rate to near zero, where we expect to keep it until we are confident that the economy has weathered recent events and is on track to achieve our maximum employment and price stability goals.

We have also been taking broad and forceful actions to support the flow of credit in the economy. Without access to credit, families could be forced to cut back on necessities or even lose their homes. Businesses could be forced to downsize or close, resulting in further losses of jobs and incomes and worsening the downturn. Preserving the flow of credit is thus essential for mitigating the damage to the economy and setting the stage for the recovery.

Since March, we have been purchasing sizable quantities of Treasury and agency mortgage-backed securities in order to support the smooth functioning of these markets, which are vital to the flow of credit in the economy. Our ongoing purchases have helped to restore orderly market conditions, and have fostered more accommodative financial conditions. As market functioning has improved since the strains experienced in March, we have gradually reduced the pace of these purchases. To sustain smooth market functioning and thereby foster the effective transmission of monetary policy to broader financial conditions, we will increase our holdings of Treasury and agency mortgage-backed securities over coming months at least at the current pace. We will closely monitor developments and are prepared to adjust our plans as appropriate to support our goals.

The Federal Reserve is also undertaking programs to provide stability to the financial system and to more directly support the flow of credit in the economy—for households, for businesses of all sizes, and for state and local governments. These programs benefit the economy by providing financing where it is not otherwise available. In addition, by serving as a backstop to key credit markets, the programs can increase the willingness of private lenders to extend credit. Many of these programs rely on emergency lending powers that are available only in very unusual circumstances, such as those we find ourselves in today. We are deploying these lending powers to an unprecedented extent, enabled in large part by financial backing and support from Congress and from the Treasury. We will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery. When the time comes, after the crisis has passed, we will put these emergency tools back in the toolbox.

…stating last week, "These actions to provide massive liquidity have proven successful. They restored market functioning and averted what could have been a much more severe pullback from markets and the flow of credit to households and businesses. In the wake of these efforts, we have seen a significant improvement in the pricing and availability of credit. We are working tirelessly to address the economic damage caused by the coronavirus and to put the economy back on a path toward achieving our dual mandate goals of maximum employment and price stability."

FED: BIG REBOUND IN '21 AND LOW INTEREST RATES

The Fed's latest projections call for a severe recession (6.5% plunge in real GDP) this year, but a significant recovery in 2021 and 2022, while the Fed Funds rate will likely remain near zero all three years.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2020

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2020	2021	2022	Longer run	2020	2021	2022	Longer run	2020	2021	2022	Longer run
Change in real GDP	-6.5	5.0	3.5	1.8	-7.6–-5.5	4.5–6.0	3.0–4.5	1.7–2.0	-10.0–-4.2	-1.0–7.0	2.0–6.0	1.6–2.2
December projection	2.0	1.9	1.8	1.9	2.0–2.2	1.8–2.0	1.8–2.0	1.8–2.0	1.8–2.3	1.7–2.2	1.5–2.2	1.7–2.2
Unemployment rate	9.3	6.5	5.5	4.1	9.0–10.0	5.9–7.5	4.8–6.1	4.0–4.3	7.0–14.0	4.5–12.0	4.0–8.0	3.5–4.7
December projection	3.5	3.6	3.7	4.1	3.5–3.7	3.5–3.9	3.5–4.0	3.9–4.3	3.3–3.8	3.3–4.0	3.3–4.1	3.5–4.5
PCE inflation	0.8	1.6	1.7	2.0	0.6–1.0	1.4–1.7	1.6–1.8	2.0	0.5–1.2	1.1–2.0	1.4–2.2	2.0
December projection	1.9	2.0	2.0	2.0	1.8–1.9	2.0–2.1	2.0–2.2	2.0	1.7–2.1	1.8–2.3	1.8–2.2	2.0
Core PCE inflation[4]	1.0	1.5	1.7		0.9–1.1	1.4–1.7	1.6–1.8		0.7–1.3	1.2–2.0	1.2–2.2	
December projection	1.9	2.0	2.0		1.9–2.0	2.0–2.1	2.0–2.2		1.7–2.1	1.8–2.3	1.8–2.2	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.1	2.5	0.1	0.1	0.1	2.3–2.5	0.1	0.1	0.1–1.1	2.0–3.0
December projection	1.6	1.9	2.1	2.5	1.6–1.9	1.6–2.1	1.9–2.6	2.4–2.8	1.6–1.9	1.6–2.4	1.6–2.9	2.0–3.3

Source: Federal Reserve, June 10, 2020

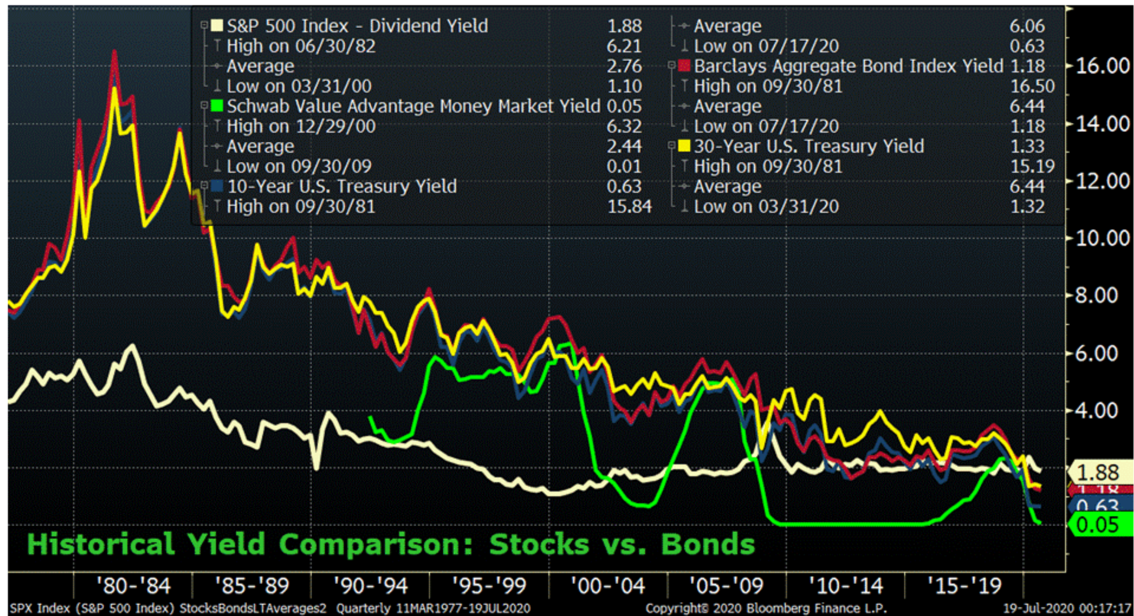
Certainly, the Fed is hardly optimistic in its near-term projections, with Federal Reserve Bank of Philadelphia President Patrick Harker commenting last week, "The state of the economy really begins and ends right now with the virus and how the virus is being contained and controlled, or not." He does not see a fast recovery: "If you think of a letter, it's definitely not a U, it's probably closer to a swoosh, written with a very shaky hand. We aren't going to see a smooth recovery until the virus is controlled and contained."

To be sure, a cloudy economic outlook is cause for concern. However, it also means that the Fed is likely to remain highly accommodative, with Mr. Harker adding, "I don't see any need to act any time soon until we see substantial movement in inflation to our 2% target and ideally overshooting a bit." The Fed thus seems committed to keeping interest rates at extraordinarily low levels for the foreseeable future, which we continue to argue adds to the attractiveness of equities, especially from an income perspective.

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.88%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. Incredibly, **equities yield more than the Barclays Aggregate Bond Index and 37 times a "generous" Money Market Fund**!



Incredibly, given that the "high-yielding" Schwab Value Advantage Money Market Fund now sports a yield of 0.05% (a rate at which money doubles in 1,387 years), investors are infatuated with their mattresses (i.e. cash) these days,…

Investors Flee Market Volatility By Going to Cash

By Gunjan Banerji

Investors have rarely been this flush with cash.

Grappling with the most economic uncertainty in decades and a head-spinning stretch of volatility in the U.S. stock market, many investors have rushed into money-market funds. Assets in the funds recently swelled to about $4.6 trillion, the highest level on record, according to data from Refinitiv Lipper going back to 1992.

It is a "pantry-loading and survival" mentality, said Peter Crane, founder of Crane Data, which tracks the industry. "It's blown the lid off the previous record high."

Assets in money-market funds are one, but not the only, measure of cash holdings, and investors have socked away cash in other places, too. Other measures, like bank deposits, are also at a high.

Analysts attribute the flight to cash to the coronavirus pandemic, which spurred a rush out of stocks, bonds and commodities. Meanwhile, stimulus checks sent to millions of Americans as part of the economic rescue package helped add to the heap.

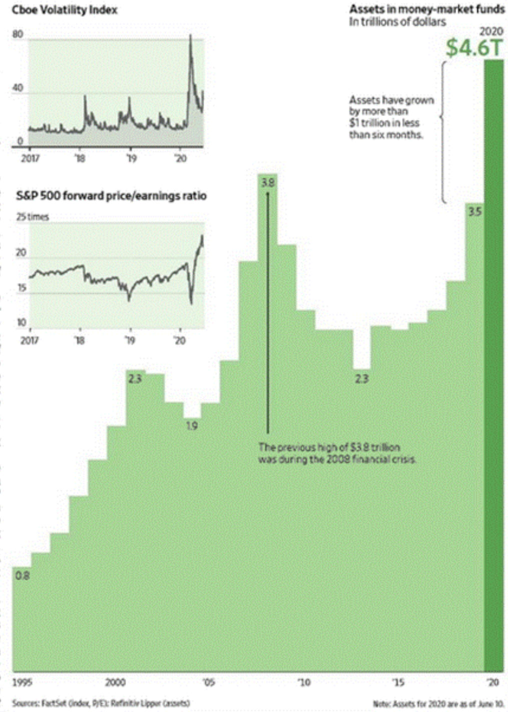
It is the latest perplexing signal in markets, coming as many investors are already struggling to reconcile the economic downturn stemming from the coronavirus pandemic with the simultaneous, staggering rally that has pulled major U.S. stock indexes up more than 35% off their lows of late March.

Few can agree on what the giant pile of cash means for markets. Many investors, nervous about the economic downturn, are questioning if stocks have soared too far, too fast, and have chosen the safety of cash over investing in the market. Others are keeping cash on the sidelines, ready to deploy when they spot an attractive buying opportunity.

Anxiety surrounding the market's run-up has been on display recently, with the S&P 500 plunging 5.9% on Thursday—its biggest drop since March—before swinging wildly on Friday and Monday. The index has surged 40% since late March and is off just 3.3% for the year.

Yet despite the advance, overall stock positioning among investors remains among the lowest levels of the past decade, according to data from Deutsche Bank. New individual investors jumped into the stock market during the

Please turn to page B2



We remain perplexed by pundits who continue to assert that investors are irrationally exuberant about U.S. stocks. After all, as *The Wall Street Journal* reported on June 17, 2020, assets in money market funds are at record highs, soaring by more than $1 trillion this year.

…with all that money on the sidelines and parked in low-yielding fixed income instruments potentially providing a massive supply of dollars that could eventually flow into stocks. After all, equities have performed admirably in recent years and held up well in the face of the COVID-19 threat with little in the way of positive sentiment or mutual/exchange traded fund interest!

THE PRUDENT SPECULATOR

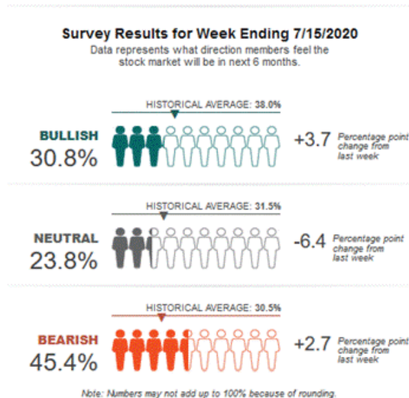
SENTIMENT: NO ENTHUSIASM FOR STOCKS

Pessimism among individual investors continues to be unusually high, climbing to nearly 15 points above normal in the latest AAII Sentiment Survey. Bullish sentiment is more than 7 percentage points below normal.

We remain perplexed that many supposed market experts continue to argue that investors are piling into stocks, given that the latest data on mutual and exchange traded fund flows from ICI shows an exodus from U.S. stocks and a continued infatuation with bonds.

AAII Investor Sentiment Survey

Since 1987, AAII members have been answering the same simple question each week. The results are compiled into the AAII Investor Sentiment Survey, which offers insight into the mood of individual investors.



The AAII Investor Sentiment Survey has become a widely followed measure of the mood of individual investors. The weekly survey results are published in financial publications including Barron's and Bloomberg and are widely followed by market strategists, investment newsletter writers and other financial professionals.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	7/8/2020	7/1/2020	6/24/2020	6/17/2020	6/10/2020
Total Equity	-9,310	-22,863	-17,244	-9,276	13,052
Domestic	-6,050	-14,309	-12,762	-5,940	15,883
World	-3,259	-8,554	-4,482	-3,337	-2,831
Hybrid	-293	-1,841	-1,382	-1,980	1,998
Total Bond	23,241	18,739	25,090	18,964	25,564
Taxable	21,397	16,438	22,216	16,021	21,378
Municipal	1,844	2,300	2,874	2,942	4,186
Commodities	1,575	1,036	2,469	313	197
Total	15,214	-4,929	8,933	8,020	40,812

Source: Investment Company Institute

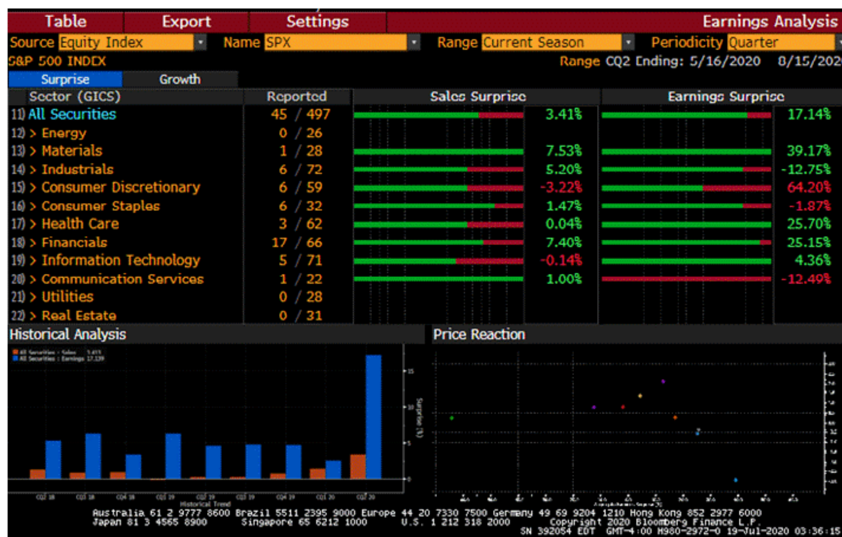
Stock Updates

We are in the process of posting updated Target Prices to theprudentspeculator.com, while Q2 earnings reporting season is now underway. We are just one week in, but thus far the numbers have been very good relative to subdued expectations. With 45 members of the S&P 500 having announced results, 85.7% have topped analyst projections, much better than the usual 70% or so that beat Wall Street forecasts, though not surprisingly, management teams have been very guarded in their outlooks.

THE PRUDENT SPECULATOR

EPS LIKELY TO PLUNGE IN 2020 BUT REBOUND SHARPLY IN 2021

The Q2 reporting season is young, but analysts thus far have been a little too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS likely will be miserable, but a significant rebound is projected next year.



Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$44.55	$160.89
9/30/2021	$41.69	$152.19
6/30/2021	$38.05	$141.61
3/31/2021	$36.60	$126.25
12/31/2020	$35.85	$109.15
9/30/2020	$31.11	$112.48
6/30/2020	$22.69	$121.18
ACTUAL		
3/31/2020	$19.50	$138.63
12/31/2019	$39.18	$157.12
9/30/2019	$39.81	$152.97
6/30/2019	$40.14	$154.54
3/31/2019	$37.99	$153.05
12/31/2018	$35.03	$151.60
9/30/2018	$41.38	$150.42
6/30/2018	$38.65	$140.37
3/31/2018	$36.54	$132.23
12/31/2017	$33.85	$124.51
9/30/2017	$31.33	$118.56
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26

S&P 500 Earnings Per Share

Source: Standard & Poor's. As of 7.16.20

Jason Clark, Chris Quigley and Zach Tart look at 11 of our companies that posted quarterly results last week. Readers should keep in mind that all stocks are rated as a "Buy" until such time as they are a "Sell," while a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/.

Diversified financial services giant **Bank of America** (BAC – $23.22) released Q2 2020 financial results that topped expectations ($0.37 vs. $0.25 est.). Despite the beat, shares opened trading Thursday morning 4% lower than the previous close as the bank disclosed a $5.1 billion provision for credit losses, with $4.0 bill accounted for reserves, pushing the cumulative reserve build to nearly $10 billion since the beginning of the year (loan loss reserves now represent 2% of total loans). Revenue was down 3% year-over-year to $22.3 billion due to lower net interest income and margin, but was bolstered by a record quarter in investment banking and strong trading revenues. BAC's CET1 ratio increased to 11.4% in the quarter, above the 9.5% required minimum.

CEO Brian Moynihan stated, "During the crisis, we also haven't lost our way on our strategic programs. During the first half, we have driven our promise as the digital leader across all our businesses. Our capabilities have enabled smooth transitions for our companies and our institutional investors and our people who we work with as customers, whether they're working

from home or sheltering in place to transact their financial business whatever way they want to…This quarter, we showed the balance in our company. While our more credit-sensitive businesses saw lower earnings due to provisions and lower rates impacted our fast-growing deposit-intensive businesses, our position as a top capital markets platform for issuers and institutional investors allows us to produce solid overall results. Markets served as an anchor to windward for the company."

He continued, "As I did last quarter, I think it's useful to draw your attention to the pretax preprovision income number. We believe that number helps assess the earnings power of the company to support credit costs in a downturn. We produced $8.9 billion of pretax preprovision income, which was down 9% from [Q2 '19], given the changes in interest rates in the growth of deposits and the impact it has in our company, the forgiveness in fees we've made to help accommodate our consumer customers in time of stress and the overall lower economic activity of record drops in this quarter. It shows pretty remarkable resilience. In fact, it's just below the average of pretax preprovision income for the level of the past 4 quarters."

Deposit balances have risen by 20% year-to-date to $1.7 trillion, which should cap deposit costs for some time. Despite the increase in deposits, total loans stand at only $1.0 trillion as clients paid down $62 billion of the $67 billion loan growth in Q1. Since the flight to liquidity throughout February and March that saw a massive reliance on bank credit, many corporate customers have since tapped the bond market (hence the record investment banking performance) to replace these loans with less restrictive credit. Nevertheless, much of this liquidity remains on the bank's balance sheet.

While certainly a positive, massive deposit growth presents management with an interesting dilemma given abysmal short-term interest rates and a wildly uncertain macro environment. CFO Paul Donofrio explained, "The growth of NII is going to be dependent upon sort of asset growth and redeployment of deposits into higher-yielding securities. We've added $284 billion in deposits since year-end. All of that has gone into cash, earning 10 basis points. So as we assess the future of this pandemic, as we kind of assess how much of that is going to stay around and we get a little bit more confident on the — on those 2 elements, that can be deployed into securities or a portion of it, let's say, can be deployed into securities. There's a big difference even in these rates between what you can earn on a mortgage-backed security or a treasury bond and 10 basis points. So there's some opportunity there, I think we're going to be thoughtful about it, and it's one of those things I think you know when you see it."

THE PRUDENT SPECULATOR

BAC – MASSIVE LOAN-LOSS-RESERVE "COOKIE JAR"

Allowance for Credit Losses Has More Than Doubled YTD to $21.1B

($MM)	4Q19		1Q20		2Q20	
	Amount	% of Loans and Leases Outstanding	Amount	% of Loans and Leases Outstanding	**Amount**	**% of Loans and Leases Outstanding**
Residential mortgage	$325	0.14%	$430	0.18%	**$439**	**0.18%**
Home equity	221	0.55%	378	0.96%	**394**	**1.03%**
Credit Card	3,710	3.80%	7,583	8.25%	**9,247**	**10.98%**
Direct/indirect/other consumer	286	0.31%	675	0.75%	**875**	**0.99%**
Total consumer	$4,542	0.98%	$9,066	1.95%	**$10,955**	**2.43%**
U.S. commercial [1]	3,015	0.94%	4,135	1.11%	**4,788**	**1.36%**
Non-U.S. commercial	658	0.63%	1,041	0.89%	**1,321**	**1.27%**
Commercial real estate	1,042	1.66%	1,439	2.16%	**2,235**	**3.49%**
Commercial lease financing	159	0.80%	85	0.45%	**90**	**0.50%**
Total commercial	$4,874	0.96%	$6,700	1.16%	**$8,434**	**1.57%**
Allowance for loan and lease losses	$9,416	0.97%	$15,766	1.51%	**$19,389**	**1.96%**
Reserve for unfunded lending commitments	813		1,360		**1,702**	
Allowance for credit losses	$10,229		$17,126		**$21,091**	

Note: Effective January 1, 2020, the Company adopted the new CECL accounting standard that measures the allowance based on management's best estimate of lifetime expected credit losses inherent in the Company's lending activities. Prior periods included in this presentation reflect measurement of the allowance based on management's estimate of probable incurred credit losses.
[1] Includes allowance for loan and lease losses for U.S. small business commercial loans.

16

We agree with Mr. Moynihan that the past two quarters are evidence of the resiliency built into the B of A franchise over the past decade, while we note that the current $21 billion allowance for credit losses is an asset that potentially can bolster earnings in years to come via reserve releases and/or lower new loss provisions. BAC remains a favored holding in many of our diversified portfolios as we continue to appreciate the multiple levers the bank has to generate business. Moreover, we expect growth in digital engagement to continue (digital log-ins were 20% higher over the last 12 months), driving further reduction of the bank's physical footprint and cost savings. Obvious headwinds from the pandemic remain and elevated loss provisions throughout the remainder of the year are likely, although efforts to support customers in distress ought to build goodwill with clients going forward and should support a sticky deposit base. Notwithstanding the obstacles ahead, the dividend is half of a depressed earnings figure and the yield is 3.1%. Our Target Price now resides at $38.

Delta Air Lines (DAL – $27.05) reported Q2 2020 results that were not surprisingly awful and the stock price, while flying all over the map, ended near unchanged for the week. Delta lost an adjusted $4.43 per share in the quarter on revenue of $1.47 billion, compared with analyst consensus estimates of -$4.22 and $1.43 billion, respectively.

CEO Ed Bastian commented, "We are now 4 months into the pandemic, and the nearly $4 billion pretax loss that we just posted reflects the severe impact that COVID-19 is having on our company and our industry. The June quarter was remarkable for a confluence of crises that have wrought our nation. In addition to the pandemic and its impact on public health and the economy, the issue of inequality and social injustice for Black Americans has been front and center. In this environment, our #1 focus is taking care of our people. This includes not only protecting the health and safety of our employees but also maintaining our commitment to supporting the fight for equality and social justice. We are committed to listening and understanding. We must be a stronger advocate for justice and equality across our business, from our operating procedures to the programs that we offer our people to support for policy change. Our people are the heart and soul of Delta, and I am incredibly proud of their perseverance and resiliency through these trying times and forever grateful for the sacrifices that they are making for our company."

Mr. Bastian continued, "Since demand bottomed in mid-April at less than 5% of our normal traffic, we've seen a small but welcome uptick in passenger volume being driven almost entirely by domestic leisure travelers or those flying for essential reasons. And while it's encouraging to see customers start to return, the revenue environment remains challenging. We have thought from the start that the recovery will be choppy, and the past few weeks have shown that to be true. We're expecting our overall revenue for the September quarter will be only 20% to 25% of what we saw last summer, and we've seen demand growth flatten recently with the rise in COVID-19 cases. We are watching trends closely and have pared back our capacity plans for August. Business travel, which typically provides 50% of our revenue, has not yet returned in any meaningful way with corporate offices slow to reopen, quarantine restrictions in markets like New York and Chicago and states in the Sun Belt reversing or pausing reopening plans. We remain cautious on the pace of recovery through the balance of the year."

Mr. Bastian concluded, "With demand growth stalled at present, we expect July's daily cash burn to be similar to what we saw in June. As we go through the summer and into the fall, we'll continue to move quickly to balance what we're seeing in the revenue environment with our ability to get costs out of the business and keep us on the path to achieve our goal of breakeven cash burn by the end of the year. Given the combined effects of the pandemic and associated financial impact on the global economy, we continue to believe it could be 2 years or more before we see a sustainable recovery. So to succeed in this environment, we are building resilience across the company in creating a new, stronger Delta, albeit one that will need to be smaller for the next several years… Given the combined effects of the pandemic and associated financial impact on the global economy, we continue to believe it could be 2 years or more before we see a sustainable recovery. So to succeed in this environment, we are building resilience across the company in creating a new, stronger Delta, albeit one that will need to be smaller for the next several years."

We have long thought that Mr. Bastian was one of the best leaders in the business, and we remain confident that Delta will be able to navigate through this terrible time. We were initially optimistic about our airline stocks due to the essential cargo hauling and fast snap-back of the economy. Some of that optimism has faded, unfortunately, as the reality that the recovery from the pandemic is going to be a much longer haul than anticipated. Fortunately, Delta entered the

shutdown as one of the strongest airlines from a balance sheet perspective, offering some financial cushioning, while the significant cuts to the fleet and workforce are both painful and helpful. The suffering may continue; however, we think that the long-term prospects for Delta, and the airline industry in general, are positive. Our Target Price for DAL is now $50.

Global health and pharmaceutical concern **Johnson & Johnson** (JNJ – $149.35) released Q2 results that were substantially higher than analyst estimates, sending shares up about 1% on Friday, capping a gain of nearly 5% for the week. JNJ earned $1.67 per share, compared with an analyst consensus of $1.50, while revenue was $18.3 billion, above the $17.6 billion estimate. Although global sales growth was heavily impacted by COVID-19, making year-over-year comparisons seem soft, JNJ said that it was seeing a rebound in some areas, including China, and a strong return in demand in the company's Medical Devices unit.

2nd Quarter 2020 Results

2nd Quarter 2020 Sales

$18.3B — Worldwide Decreased (10.8)% | Excluding acquisitions/divestitures on an operational basis — Worldwide Decreased (8.8)%*

Diluted Earnings Per Share: $1.36 — Decreased (34.6)%

Adjusted Diluted Earnings Per Share*: $1.67 — Decreased (35.3)%

"Our second quarter results reflect the impact of COVID-19 and the enduring strength of our Pharmaceutical business, where we saw continued growth even in this environment. Thanks to the tireless work of our colleagues around the world and our broad range of capabilities, we continue to successfully navigate the external landscape, and we remain focused on advancing the development of a vaccine to help address this pandemic and save lives. We are bringing together our best minds, our global footprint and our sophisticated supply chain technology to deliver on our commitment to provide the vaccine on a not-for-profit basis for emergency pandemic use, globally. We know the need is urgent, and every day we commit to doing our part to find a solution for the global good."

Alex Gorsky
Chairman and
Chief Executive Officer
Johnson & Johnson

$3.3 Billion

Worldwide Consumer Health Sales

Consumer Health worldwide reported sales decreased (7.0)% or (3.6)% operationally[1]. Primary offsets to decline:

$10.8 Billion

Worldwide Pharmaceutical Sales

Pharmaceutical worldwide reported sales increased 2.1% or 3.9% operationally[1]. Primary operational drivers:

$4.3 Billion

Worldwide Medical Devices Sales

Medical Devices worldwide reported sales decreased (33.9)% or (32.7)% operationally[1]. Primary operational drivers:

Note: values may have been rounded

For full financial data and non-GAAP reconciliations, please refer to Johnson & Johnson's earnings release issued on July 16, 2020, available at http://www.investor.jnj.com/sales-earnings.cfm.
*Non-GAAP financial measure; non-GAAP financial measures should not be considered replacements for, and should be read together with, the most comparable GAAP financial measures.
[1]Non-GAAP measure; excludes the impact of translational currency.
Caution Concerning Forward-Looking Statements: This document contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding future operating and financial performance. You are cautioned not to rely on these forward-looking statements, which are based on current expectations of future events. For important information about the risks and uncertainties that could cause actual results to vary materially from the assumptions, expectations, and projections expressed in any forward-looking statements, review the "Note to Investors Concerning Forward-Looking Statements" included in the Johnson & Johnson earnings release issued on July 16, 2020, as well as the most recently filed Johnson & Johnson Reports on Forms 10-K and 10-Q. Johnson & Johnson does not undertake to update any forward-looking statement as a result of new information or future events or developments.

The company provided an update on its COVID-19 efforts. Chief Scientific Officer Dr. Paulus Stoffels explained, "As you know, we announced our lead COVID-19 vaccine candidate on March 30. And since then, we have made significant progress. We have seen strong preclinical data so far, which were published in the Journal of Science in May. These data validated the preclinical vaccine challenge model and showed that prototype DNA vaccines were able to create strong immunity. Based on these data and interactions with regulatory authorities, we

were able to accelerate the clinical development program of our COVID-19 vaccine candidate. Since then, we have initiated a study of a final Ad26 vaccine candidate in nonhuman primate challenge model. These results will be published in a major scientific journal in the coming weeks. Based on this total package of results, we are very comfortable moving forward with Phase I/IIa studies later this month. This represents an acceleration of our timeline from our original date of September to the end of July. These studies will establish both the safety and immunogenicity of our vaccine candidate as well as evaluate the single dose and the booster dose regimen. The trials will be conducted in more than 1,000 healthy adults aged 18 to 55 years as well as adult aged 65 years and older. Our study sites are located in the U.S. and Belgium."

Dr. Stoffels continued, "We are also planning for a Phase II study in the Netherlands, Spain and Germany and plan to conduct a Phase I study in Japan. We anticipate the initiation of the trial on July 22 in Belgium and the following week in the U.S. We are also in discussions with the National Institute of Health with the objective to start a Phase III clinical trial ahead of its original schedule, potentially in late September, to evaluate the effectiveness of our vaccine. We are using epidemiology data to predict and plan where our study should take place. We also announced that, in parallel with the clinical development, we are working to expand our global manufacturing capacity to be able to deliver more than 1 billion doses of our COVID-19 vaccine by the end of 2021. We have made excellent progress on this front as well."

Dr. Stoffels concluded, "We are also working on an HIV vaccine and are pleased to report that we have reached an important milestone. Earlier this month, our Imbokodo trial, taking place across Sub-Saharan Africa, reached an important milestone with all people having completed all study vaccination despite difficult COVID-19 circumstances. And we expect the outcomes of this study in the next 2 years. Together with our partners at the NIH and The Gates Foundation, we now have the most advanced HIV candidate in clinical development. These recent milestones strengthen our confidence in our vaccine technology. The work we are doing today to help address the COVID-19 pandemic built on more than 130 years of Johnson & Johnson's leadership in public health. We believe we have a responsibility to step in and invest in solutions for global public health crisis and are proud to be contributing to the global response to COVID-19. Our efforts to expedite the development of a COVID-19 vaccine and to identify potential treatments are enhanced by multiple collaborations with government, academia, health authorities and others worldwide. And we are working with them to ensure the broadest possible access to people around the world."

Although it's difficult to say with any certainty at this point which company will bring the first vaccine to market, and perhaps more importantly, which vaccine will be the most popular over the long term, we think that the work JNJ does is critical. Of course, if the winner is JNJ, it will be a blockbuster and shareholders are likely to see a substantial gain. Yet we are attracted to more than JNJ's COVID vaccine potential, and we like the company's diversified income stream (business units and geographic) and think JNJ fits well in our broadly diversified portfolios. JNJ yields 2.7% and sports reasonable valuation metrics including a forward P/E ratio of 18. Our Target Price for JNJ has been increased to $172.

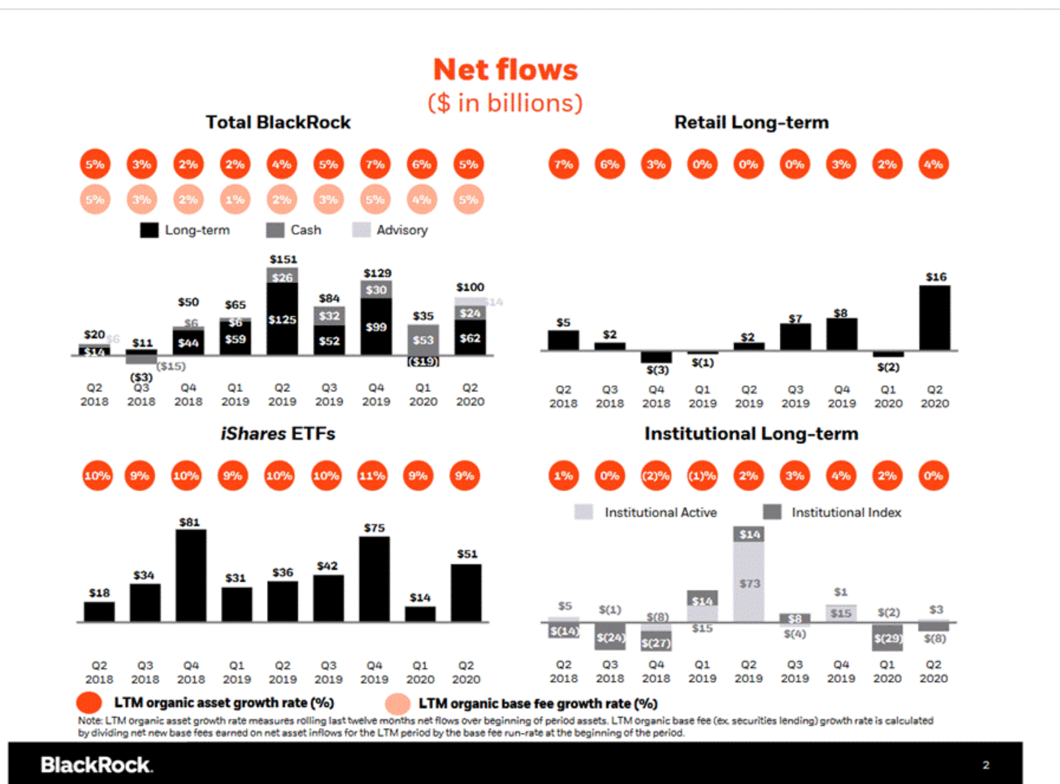
Global financial services giant **Bank of New York Mellon** (BK – $36.12) posted adjusted Q2 EPS ($1.01 vs. $0.92 est.) last Wednesday morning that topped analyst projections. Revenue

grew 2% year-over-year, mostly due to higher fees at Pershing and in Asset Servicing, partially offset by money market fee waivers. Low interest rates also negatively affected revenue by nearly 3% year-over-year. Deposit balances increased year-on-year by 40%, spread across the franchise as investments in new capabilities and increased focus on deposit gathering provided momentum to growth from earlier in the year. To preserve capital under the Federal Reserve's constraints, the firm suspended share repurchases along with other banks in the quarter.

CEO Tom Gibbons commented, "Looking ahead to the second half of 2020, we are confident that our business model, expense control and conservative credit risk profile will serve us well. Our efforts with clients are yielding results with higher win ratios, better revenue retention at a good pipeline in purchasing an Asset Servicing in particular. We are pleased with the momentum we are seeing across all of our businesses. The low interest rate environment will present a significant challenge, both through net interest revenue and money market fee waivers in Pershing and Investment Management and to a lesser extent, other Investment Services businesses. But at the same time, we will benefit from increases in transaction volumes, FX volatility, stronger market levels and activity in our Clearance and Collateral Management business. The recent DFAST and CCAR results demonstrate the strength and resilience of our business model. We had the lowest peak to trough reduction in CET1 capital under the Fed's model relative to other U.S.-based G-SIB's at just 20 basis points."

Though we would argue that Mr. Gibbons "significant challenge" remarks were simply stating the obvious, short-sighted investors greeted the better-than-expected Q2 results with a flurry of sell orders, with BK skidding more than 7% over the past three trading sessions. While the current environment it difficult, lower deposit costs (a quarter of which are in negative-yielding euro-denominated deposits) should aid spreads and overall net interest income, particularly as deposit balances climb. We think BNY Mellon maintains strong market positions in several segments (particularly in its Pershing business and certain other asset services offerings). We also appreciate the recurring nature of several of the bank's revenue streams, as well recent moves to bolster its capabilities and offerings through partnerships with Microsoft, Blackrock and others. The dividend remains stable and the yield is 3.4%. Our Target Price for BK has been shaved to $54.

Investment giant **BlackRock** (BLK – $587.72) has rebounded handsomely from the low on March 23, with the latest move higher propelled by a solid Q2 earnings beat. BLK's year-to-date gain is now more than 18%. In Q2, BLK earned an adjusted $7.85 per share (vs. $6.97 est.) and had revenue of $3.65 billion (vs. $3.54 billion est.). The company saw $100 billion of total net inflows during the quarter, which translates to 6% annualized organic growth and 10% in base fee growth. BLK saw record flows in the iShares Fixed Income ETFs and active equity funds.



CEO Larry Fink commented, “Our clients are turning to BlackRock more than ever as they face increasingly uncertainty about the future. Pensions, many of them already underfunded, are having an even harder time meeting their liabilities in a persistent low-rate environment. Insurers are dealing with the dual impact of a sharp increase in payouts and declining asset values. Individuals are becoming even more dependent on their retirement savings, which are all the more challenging to build in this environment… Across all segments, all geographies, clients have sought timely, contextualized context to help them analyze economic indicators, understand policy actions, make sense of these turbulent markets and rebalance their portfolios accordingly. BlackRock’s strategy has been centered around sharing the insights that meet this demand and delivering the comprehensive investment and technology solutions our clients need to build resilient portfolios. We are bringing together the entirety of the BlackRock platform for more clients in more ways than ever before. And as a result, clients are entrusting BlackRock with a greater share of their assets through a deeper partnership.”

Mr. Fink continued, “Despite this backdrop, financial markets have rebounded as historic stimulus measures by the world’s central banks and governments have been unquestionably successful in limiting investor fears. These policy measures, combined with the anticipated pace of recovery, has fueled optimism in the market. The S&P 500, for example, has bounced back more than 40% since its lows in March and is once again approaching a record high.”

Mr. Fink concluded, “Within BlackRock, we are focused on living our purpose with compassion and with a lot of courage. This includes working together to build a more fair and just society. Recent events of racial injustice have been appalling, painful and truly eye-opening because they reveal how pervasive these issues are in our society. BlackRock has firmly committed to racial equality. And while we’ve made a lot of progress in these recent years, it is clear to me that we have not — we are not where we need to be. That is why BlackRock is making a long-term commitment to building more inclusive, a more diverse firm and use our platform and our voice to advocate for change within our industry and more broadly. We laid out some very specific goals for ourselves over the next several years. The process of building a more just, equitable society will not be easy or quick, and driving real change will require long-term accountability and measurable progress.”

We were pleased, but not surprised, to see BLK post another solid quarter amid the strong equity rebound. Analysts continue to look for earnings growth in 2020 (unlike most companies), with EPS expected to rise from $28.48 in 2019 to more than $35 in 2022. The company has also maintained its $3.63 quarterly dividend (a yield of 2.5%). Our Target Price has been hiked to $620.

PNC Financial Services (PNC – $101.50) reported adjusted Q1 2020 earnings that trailed analyst estimates, such as they were. The regional bank reported a loss of $1.90 per share (vs. $0.72 est.) as it took a $2.5 billion loan loss provision, more than 2.5 times the provision in Q1, bringing allowances vs. total loans to 2.6%. Deposits increased 23% year-over-year to $62 billion, which management attributes mostly to government stimulus payments and lower consumer spending. Net interest income of $2.5 billion was up 1% compared to the first quarter as higher earning asset balances and lower funding costs offset lower interest margin. As we mentioned back in May, PNC disposed of its long-held stake of BlackRock in the quarter, which opens up a lot of possibilities for the bank, potentially even some acquisitions.

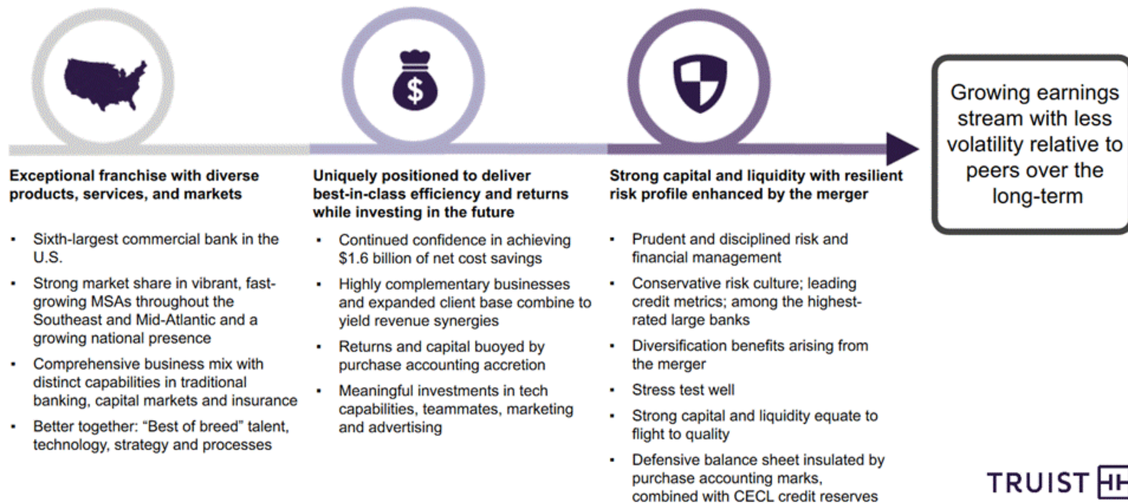
CEO Bill Demchak commented on the financial position, “Our recent CCAR results should later raise any concern that this is a PNC-specific balance sheet problem. The CCAR results underscore the strength of our balance sheet, which, coupled with the benefits of the monetization of our BlackRock investment position PNC with substantial capital and liquidity to continue to support our constituents and capitalize on opportunities that can arise during disrupted markets. In fact, our capital ratios are at record levels, and we saw a significant increase in our book value.”

Sharing his outlook on the macroeconomic environment, he continued, “Looking ahead, I fully recognize that we are perhaps a bit more pessimistic than the market on the odds of a full recovery anytime soon. While recent economic data has been encouraging, we’re still in the very early innings of how this is going to play out. Massive fiscal and monetary stimulus has allowed us to, in fact, kick the can down the road in terms of feeling the real effects of this recession. Much is going to depend on continuing support from the government as the economy continues to adjust with life with COVID. Unfortunately, what is becoming very clear, at least to me, is that there is a new normal that will have profound and lasting effects on parts of our economy and the workforce that supports it.”

Despite the persistently low interest rate environment, the surge in deposits should keep funding costs low for some time. While nonperforming loans increased in the quarter, net charge-offs remain in check and requests for loan modifications are trending in the right direction. Over the long term, we think that the company has made valuable investments in expansion into new markets, and that the asset management business will add meaningfully to the bottom line as billable assets recover. PNC yields 4.5%. Our Target Price now resides at $151.

BB&T and SunTrust combination **Truist Financial** (TFC – $36.30) released its second quarter financial results last Thursday. The bank earned $0.82 per share (vs. $0.71 expected by analysts) as lower net interest income was offset by 20% fee income growth on strong investment banking and mortgage business performance. Truist's $0.5 billion reserve build was lower than other banks, although assets were scrutinized very recently in the merger process. Current reserves to loans resides at 1.8%, while the bank's CET1 ratio is 9.7%. Excluding merger related expenses, Truist produced a 14.2% return on tangible equity, with an efficiency ratio of 55.8% versus 53.4% in Q1. Management mentioned that it would dedicate its efforts in the near term on vendor consolidation, instead of the core legacy systems that were in place pre-merger.

CEO Kelly King continues to promote the benefits expected from the merger, "We have a unique positioning to deliver best-in-class efficiency and returns. We feel very strong about our cost saves, as we've said, and the projected efficiency ratios that we talked about. We still feel very confident about our medium-term targets of ROTCE in the low 20s, adjusted efficiency in the low 50s, common equity Tier 1 ratio of 10%. We're closing in on that right now. So this is going to be a best-in-class, efficient, highly profitable organization. And largely, that's because we have strong capital and strong liquidity, and we have a very resilient risk profile; very strong, prudent, experienced risk management team; conservative risk culture; diversified benefits from the merger, which fits very well, which you just saw. And so we have a very defensive balance sheet, which is insulated by purchase accounting marks combined with CECL credit reserves. So all of that we knew would be true. We didn't know it would be tested as much as it is in this environment, but it really has proven to be the kind of underlying or girding support that we need to be a very resilient organization in this environment."



Uncertainties still abound in our economy, but we take comfort in management's confidence regarding the bank's reserve status, as both SunTrust and BB&T were said to have de-risked leading into the merger. Near term, we expect the downward adjustment of deposit costs to support net interest income. Further out, the relatively new combination should create opportunities for both growth and efficiency as management executes its plan. The dividend remains a comfortable 55% of recent earnings and the yield is now 5.0%. We've adjusted our Target Price to $59.

Shares of **Abbott Labs** (ABT – $99.25) reached all-time highs this past week as the diversified healthcare concern released strong quarterly financial results that beat analyst expectations (earning $0.57 vs. $0.42 per share). Revenue over the three months came in at $7.33 billion, versus the consensus analyst estimate of $6.80 billion. Despite the negative impact of the COVID-19 pandemic, three of ABT's four segments achieved organic growth in the first half of 2020. The company realized $615 million of COVID-19 diagnostic-testing-related sales during the quarter, and we were encouraged to hear that procedure volumes had rebounded to approximately 90% of pre-Covid-19 levels in the U.S., reflecting a faster-than-expected recovery.

Management confidently outlined multiple reasons for recovery/sales growth acceleration in the second half of 2020, as well as a positive set-up for 2021. These include encouraging end-of-June procedure/underlying diagnostic testing trends, robust demand for Abbott's critical growth-driving products, each set to benefit from incremental tailwinds, a full new product pipeline and increasing incremental COVID-related diagnostic testing revenue.

Abbott CEO Robert B. Ford had the following to say about the company's recent efforts, "Our diversified business model has proven to be a true strength during this time. We're a leader in the global COVID-19 testing efforts, we've continued to advance our pipeline and, importantly, we saw significant improvements in growth trends throughout the quarter in the business areas that were initially most impacted by the pandemic."

We continue to believe that Abbott's cash generation potential remains strong, which can be used to improve the balance sheet, return capital to shareholders and invest in the business. We also like that the company continues to invest heavily in R&D as it focuses on wringing new products out of previous acquisitions. We expect the upcoming launch of its Freestyle Libre 2 glucose monitoring system, expanded COVID-19 testing and a seemingly strong recovery in China to enable ABT to realize near-term operational improvements. All the positives mentioned, we continue to keep a close eye on ABT shares as the valuation isn't exactly cheap at face value, though we are comfortable continuing to hold our remaining shares of this high-quality name for the time being as our Target Price has been hiked to $105.

Goldman Sachs Group (GS – $211.44) turned in a Q2 that smashed consensus analyst estimates on the back of strong results across several segments, especially in trading, but the COVID-19 cloud hanging over financials limited the upside on the week to 2.9%. One might not see an issue with that, but we would have expected much more given that the company outpaced bottom-line forecasts by 58% and revenue estimates by 37%. Adjusted EPS totaled $6.26, versus the consensus number of $3.95. Although the end results were much better than expected, they were partially offset by relatively higher expenses and provisions for loan losses/asset impairments. Net revenue for the period came in well above forecasts at $13.3 billion, versus expectations of $9.71 billion.

Investment Banking generated record quarterly net revenue of $2.66 billion, including record quarterly net revenue in both Equity and Debt underwriting. The firm remained ranked #1 worldwide in announced and completed mergers and acquisitions year-to-date and also ranked #1 worldwide in equity and equity-related offerings. Fixed Income, Currency and Commodities (FICC) generated quarterly net revenue of $4.24 billion, its highest quarterly performance in nine years and equities generated quarterly net revenue of $2.94 billion, its highest quarterly performance in eleven years.

Results Snapshot

Net Revenues	
2Q	$13.30 billion
2Q YTD	$22.04 billion

Net Earnings	
2Q	$2.42 billion
2Q YTD	$3.64 billion

EPS	
2Q	$6.26
2Q YTD	$9.36

Annualized ROE[1]	
2Q	11.1%
2Q YTD	8.4%

Annualized ROTE[1]	
2Q	11.8%
2Q YTD	9.0%

Impact of Litigation	
2Q EPS / YTD EPS	-$2.60 / -$3.15
2Q ROE / YTD ROE	-4.5pp / -2.8pp

Highlights

- Second highest quarterly net revenues
- Record quarterly Investment Banking net revenues
- #1 in Announced and Completed M&A[2]
  #1 in Equity and equity-related offerings[2]
- Highest quarterly FICC net revenues in 9 years
  Highest quarterly Equities net revenues in 11 years
- Record AUS[3,4]
- Standardized CET1 ratio[3] increased 110bps QoQ to 13.6%[4]

1

Goldman CEO Dave Solomon stated, "This quarter demonstrated the continued dedication of the people of Goldman Sachs to helping our clients navigate a very challenging environment, while working remotely or returning to offices that are quite different than the ones we left earlier in the year. We also continue to be grateful for those working hard to contain the pandemic and limit its human and economic costs. Additionally, Goldman continued to scale its digital consumer deposit platforms, as consumer deposits increased by a record $20 billion in the second quarter of 2020 to $92 billion…Our strong financial performance across our client franchises demonstrates the inherent benefits of our diversified business model. The turbulence we have seen in recent months only reinforces our commitment to the strategy we outlined earlier this year to investors. While the economic outlook remains uncertain, I am confident that we will continue to be the firm of choice for clients around the world who are looking to reshape their businesses and rebuild a more resilient economy."

Despite the challenging near-term backdrop and no real idea how long the pandemic or its fallout will last, given strong activity levels, a healthy balance sheet and strategic repositioning, we think GS shares are quite attractive for the long-term. We would not be surprised to see earnings rebound faster than peers because of the company's lower interest-rate exposure, though we understand that trading revenue and profits will not continue to be as strong as they have been the last few quarters. The build out of its traditional banking and investment-management

businesses should serve shareholders well in the long run, as currently almost two-thirds of Goldman's revenue comes from its investment banking and global markets trading business segments. The ultimate goal of Goldman's evolution is to change the trading and deal-making titan into a more well-rounded financial firm with more stable consumer and commercial businesses. That said, we realize that it may take a few years for the efforts to begin to be truly rewarded by investors. Our Target Price for GS now stands at $273.

Shares of **JPMorgan Chase** (JPM – $98.16) ended the week up 2% following a solid Q2. We must admit that we could never predicted that in a quarter that JPM took provisions of $10.5 billion, that it could also produce a 9% return on common equity. We believe management has been wisely dutiful about building credit reserves, which could mean far less need in the second half of the year. For Q2, JPM reported adjusted EPS of $1.38, some 37% above analyst expectations. Despite the COVID-19 headwinds, the bank built its CET1 ratio to 12.4%, materially widening its excess capital. Barring any industry-wide Fed action against dividends or a far worse economic environment, JPMorgan's capital generation capacity seemingly protects the dividend at current levels, on both the capital test and the new income test.

JPM CEO Jamie Dimon commented, "Despite some recent positive macroeconomic data and significant, decisive government action, we still face much uncertainty regarding the future path of the economy. However, we are prepared for all eventualities as our fortress balance sheet allows us to remain a port in the storm. We ended the quarter with massive loss absorbing capacity – over $34 billion of credit reserves and total liquidity resources of $1.5 trillion, on top of $191 billion of CET1 capital, with significant earnings power that would allow us to absorb even more credit reserves if needed. This is why we can continue to serve all of our stakeholders and to pay our dividend – unless the economic situation deteriorates materially and significantly."

Mr. Dimon continued, "We earned $4.7 billion of net income in the second quarter despite building $8.9 billion of credit reserves because we generated our highest quarterly revenue ever, which demonstrates the benefit of our diversified global business model. Record Markets revenue (up 79%) and Investment Banking fees (up 54%) in the Corporate & Investment Bank more than offset interest rate headwinds and reduced consumer activity. In Consumer & Community Banking, deposits and client investment assets continued to grow (up 20% and 9%, respectively) as we addressed our customers' needs remotely as well as in our branches. Card sales volumes are down but have been consistently trending upward since April. We remained active in Home Lending on the strength of our digital platform, and Auto originations picked up in the second half of the quarter driven by pent up demand in states that are re-opening. We maintained our #1 rank in Global IB fees and grew our year-to-date share to 9.8% with strength across the franchise, including in Commercial Banking. The CB also grew loans 13% to $234 billion and deposits were up 41% as we helped clients manage their liquidity needs. In Asset & Wealth Management, AUM grew 15% driven by $124 billion of net inflows into liquidity and long-term products as we helped clients navigate market volatility."

Mr. Dimon concluded, "We are fully committed to doing our part both in promoting the safety of our employees and customers and helping the economies of the world recover from the impact of the ongoing COVID-19 crisis, including helping to drive policies and programs for the benefit of

all of society and create opportunity for those who have been left out of the economy for far too long."

Even with the uncertainty and brisk near-term operational headwinds, we continue to believe that JPM will not only survive the current crisis but will thrive on the other side, as was the case during the Great Financial Crisis. The bank maintains a fortress balance sheet and a diverse overall business model, while we think that there is plenty of management bench strength behind Mr. Dimon, who only recently recovered from emergency heart surgery. While share buybacks have been frozen, the company continues to pay a quarterly dividend of $0.90, with the yield now residing at 3.7%. Our Target Price for JPM is $142.

Like most of the major U.S. banks, diversified financial giant **Citigroup** (C – $50.22) turned in a stronger-than-expected Q2, supported by a robust performance in trading. Adjusted EPS for the period came in at $0.50, more than 55% higher than the consensus expectation of $0.32. The beat is even more impressive considering that the bank took a $7.9 billion charge for credit provisions. While provisions now stand at $26.4 billion, we believe there will be more build in the next quarter for credit card, transportation, industrial and distressed consumer retail businesses. Looking at the positives, deposits rose 18% during the quarter, and trading and securities services revenue was up 68%. Further, Investment Banking saw its equity underwriting climb 56% and debt underwriting increase 41%. All considered, given the strong quarterly performance and the attractive valuations (trading at just 70% of tangible book value per share), we were a tad stunned to see shares fall almost 5% last week.

Citigroup CEO Michael Corbat commented, "While credit costs weighed down our net income, our overall business performance was strong during the quarter, and we have been able to navigate the COVID-19 pandemic reasonably well. The Institutional Clients Group had an exceptional quarter, marked by an increase in Fixed Income of 68%. Global Consumer Banking revenues were down as spending slowed significantly due to the pandemic. We entered this crisis from a position of strength. During the quarter, our regulatory capital increased and our CET1 ratio improved to 11.5%, comfortably above our new regulatory minimum of 10%. We continued to add to our substantial levels of liquidity and our balance sheet has plenty of capacity to serve our clients. With a sharp emphasis on risk management, we are prepared for a variety of scenarios and will continue to operate our institution prudently given this unprecedented situation."

Conclusions

Operated well in challenging environment during 1H'20

- Results in GCB impacted by lower levels of activity due to COVID-19
- Solid client engagement across ICG and robust performance in Markets and Inv. Banking
- Delivered profitable first half despite ~$10.5B increase in credit reserves due to economic outlook related to COVID-19
- Supported clients while maintaining credit discipline and balance sheet strength

Strong capital and liquidity position

- Common Equity Tier 1 Capital Ratio of 11.5%(1)
- Supplementary Leverage Ratio of 6.7%(1)
- Liquidity Coverage Ratio of 117%, with available liquidity of $900 billion(2)
- Tangible Book Value per share increased 5% year-over-year to $71.15(3)

Priorities in this uncertain environment

- Remain committed to serving clients, protecting employees and supporting economy
- Continue to demonstrate financial strength and operational resiliency
- Focus on risk management and building a stronger company for the future

Note: GCB: Global Consumer Banking. ICG: Institutional Clients Group.
(1) Preliminary. For additional information on these measures, please refer to Slides 32 and 33.
(2) Preliminary. $900 billion of available liquidity resources including HQLA, additional unencumbered securities and available borrowing capacity at the FHLBs and Federal Reserve Discount Window.

13

While the near-term uncertainty will continue to weigh, we think C shares are quite attractive for those with multi-year time horizons. A longer-term return to improving operational execution and business lines in faster growth markets around the globe (vs. its U.S. business) will be quite beneficial for shareholders. Using our longer-term lens, we still like that C has good leverage towards the U.S. economy, while also having the potential to show outsize benefits versus its peers from growth in Asia, Latin America and other emerging economies. Our Target Price for C now stands at $95. True, share repurchases have been halted, but we believe the cash dividend is secure. The yield is a hefty 4.1%.