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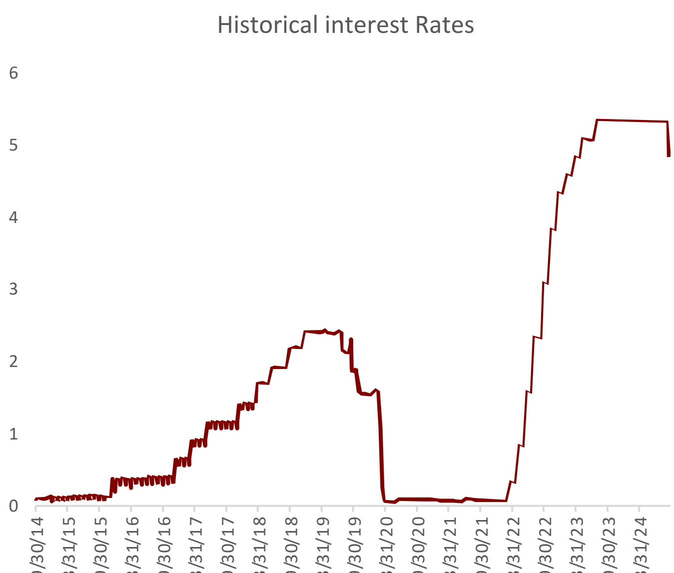
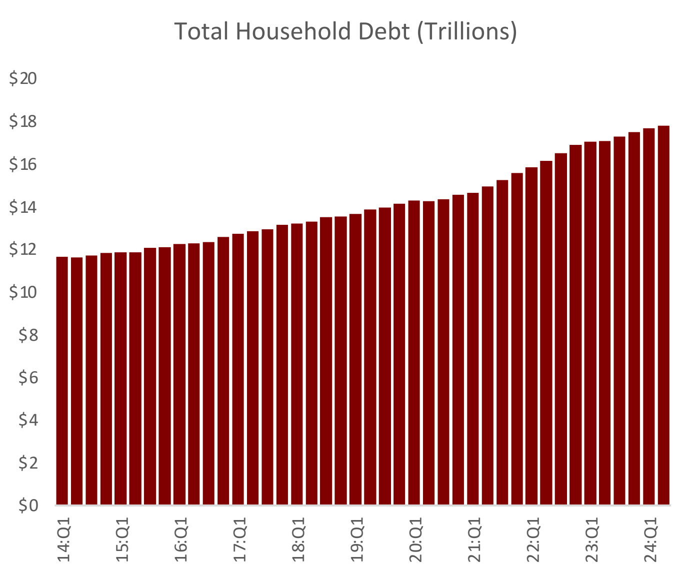
Sector Report





<u>Thesis / outlook:</u>

The financial sector, encompassing banking, investment, insurance, and FinTech, is experiencing mixed performance across different company sizes, with mega- and large-cap firms benefiting from diversified operations and strong equity markets, while small and mid-cap firms face more challenges. Growth is driven by technological innovations like FinTech, alongside robust market activity in equity and M&A. However, rising borrowing costs and negative consumer sentiment are hindering lending and investment demand, especially for smaller institutions. Larger firms remain resilient, but regulatory pressures and macroeconomic uncertainties continue to pose risks across the sector. Overall, the sector's future growth hinges on balancing innovation with adapting to economic challenges and evolving consumer behavior.
Externalities, including Federal Funds Rates, Macroeconomic Conditions, Geopolitical Happenings, and Street Sentiment have affected the sector and will continue to do so. A generally volatile industry, the Financial Sector has been hit hard by by negative macro condition in recent periods. Unfavorable Federal Funds Rates have been a primary cause for reduced revenues, and steep inflation has reduced the demand for financial services and borrowing.
In 2024 we have seen more positive economic indicators. Inflation has cooled, and most recently, The Federal Operating Market Committee made the decision to cut interest rates by 50 basis points.
A more positive outlook in the sector, combined with a more positive outlook in the US economy, leads us to conclude that our current positions in the financial sector are **underweight**.

A key to competing effectively for clients is optimizing financial performance across three intertwined issues: balance sheet management, technology and regulatory response.
-PWC on Uncertainty and Opportunity

Sector Report

Current Events

2024 Presidential Election
Both candidates have unique economic plans that will affect financial institution in different ways. Differing tax policies, specifically regarding capital gains, will serve to affect equity and debt markets, and by proxy financial institutions and investor income.

Foreign exchange risk
Strong dollar strength and political tensions are driving up import costs. Sustained USD strength will garner an influx of international investors. Risks involved with futures contracts, however, remain an area of exposure for all sorts of investors.

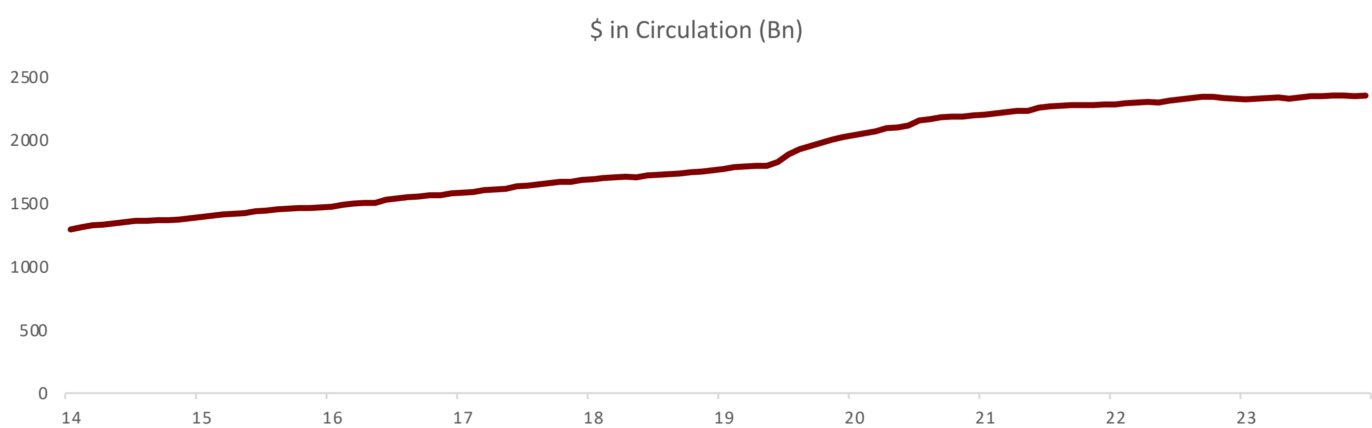
Hurricane Helene
Predicted economic losses between $225 billion and $250 billion and insurance losses expected to reach billions. Helene is a representation of a trend showing the increased effects of climate change around the globe.

A Changing Landscape
Increasing digitization, among other things, has changed how institutions and investor interact and deal with one another. Decreased supply of physical currency has decreased demand for certain services, while increasing demand for other services, all while opening the door to new industries. This is a trend we can expect to increase exponentially in the future.

Street Sentiment

Effect of Lawsuits
The Justice Department filed a lawsuit (on September 24th, 2024) against Visa, claiming anti-competitive conduct from the world's largest payment processor in their practices regarding the debit card market. The news breaking to the public resulted in Visa's shares dropping as much as 5.5% during market hours, the sharpest drop since October 27, 2021, where shares dropped a total of 6.9% (MarketWatch). While the exact implications of this lawsuit remain unclear to investors, it's believed that this lawsuit may lead to new regulations within the debit card market, possibly allowing for more competitors to enter and challenge the market dominance of Visa and Mastercard.
Future rate cuts are likely to have significant implications for PIMCO closed-end funds (CEFs). As interest rates decrease, existing bond prices typically rise, which could enhance value of PIMCO's portfolios and lead to potential capital gains. However, lower rates may result in new investments yielding less income. Overall, the long-term effects of rate cuts on income and distributions will depend on PIMCO's strategic adjustments and market conditions.

Middle East Tensions
In the past century, a strong relationship has been observed between unexpected geopolitical events and the volatility of markets. When a geopolitical event occurs, such as the beginning of the Ukraine-Russia conflict, investors around the world become less certain of the risks associated with their investments, resulting in greater market volatility. In the case of the Russia-Ukraine conflict, the S&P 500 responded with a 2.1% drop on the first day, with a total drawdown of 6.8% two weeks after (BankRate). If tensions in the Middle East continue to escalate, it may result in increased market-wide volatility, but financial institutions with direct exposure to this region will be affected significantly more than the rest of the market, these being J.P. Morgan (JPM) and Bank of America (BAC), with each having their own branches present within the region.



Economic Trends

Macroeconomic Trends: (Robert)

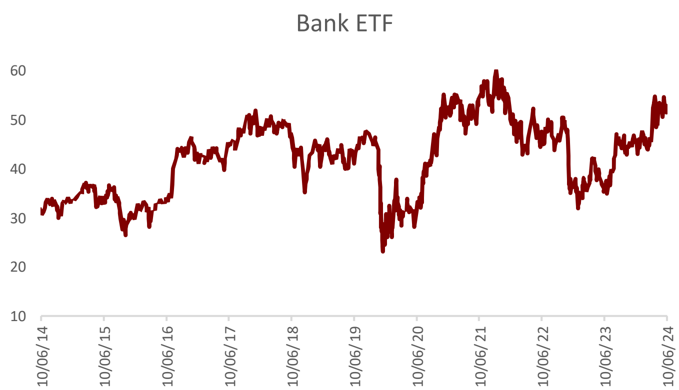
As technology and AI are becoming more integrated into the financial industry, tools such as blockchains and chatbots provide a great opportunity for accurate automation. This automation helps reduce transaction costs and enhances accessibility for customers and businesses. Further, with the convenience of technology, we see how credit cards are harming consumers as they continue to rely on them to fight against rising prices. More and more consumers tend to pay minimum payments towards their liabilities, which offers a short-term solution. This results in increased accumulated interest which worsens consumers' financial burdens over time. Also, as the economy is becoming slightly better, we will see default rates decrease due to job stability and increased consumer confidence. Next, we have seen an increase in competition for small and mid-cap companies in the past years. We can tie this to lower barriers to entry, the growing number of digital firms, and the digitalization of cash. In relation to that, government intervention like the Credit Card Competition Act of 2023 reduced the Visa-Master card duopoly by encouraging competition, fixing interchange fees, increasing company transparency, and increasing the networks to appeal to consumer choice. The digitization and diversification of the banking and credit card landscapes will usher in further headwinds as companies face their current ones.

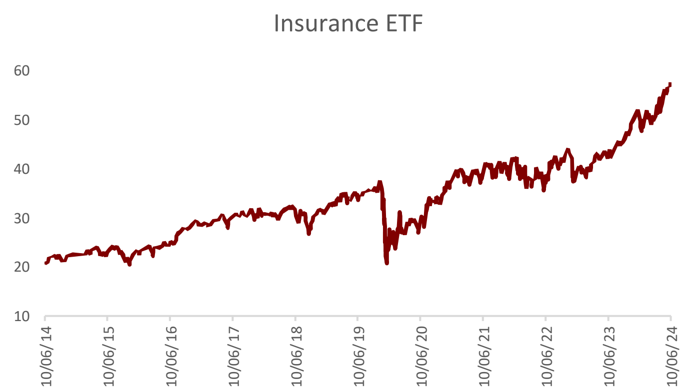
Interest Rate Changes/Inflation: (Angel)

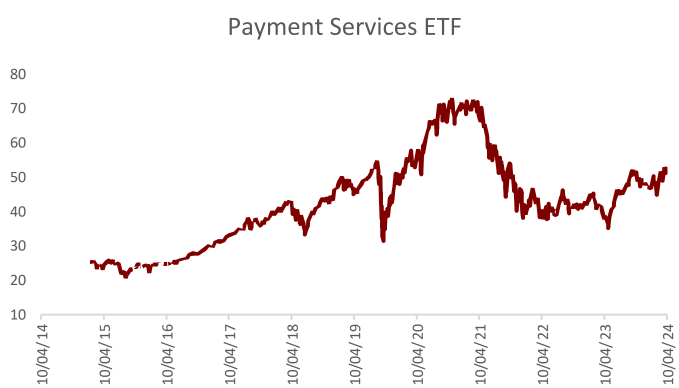
The financials sector is highly sensitive to changes in the US Federal Funds Rates. When the Fed adjusts rates it affects financial sector's margins, lending activity, and asset values. For example, banks make money on the interest they charge thus lower rates means they charge less. This effects small banks but big banks not that much. On the other hand, cuts will encourage people to get more loans thus will cancel out the NIL compression, but only time will tell if people do get more loans. Insurance companies and asset managers will be impacted by the cuts because **lower yields** on their bond portfolios will impact their income streams.

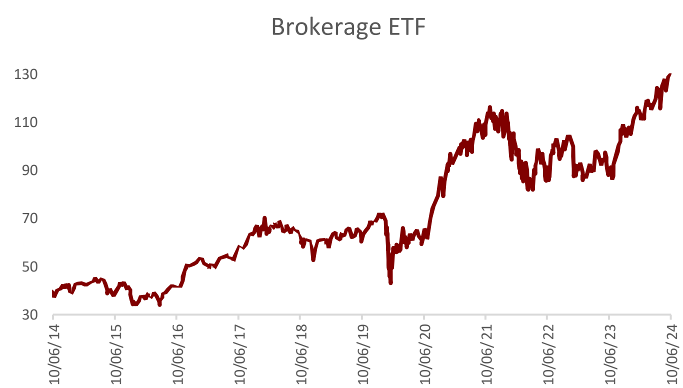
Inflation has also served as a major factor within the Financial Sector. Overall, high inflation in recent periods has decreased the value of Banks and Other Institutional Investors investments. Lending companies also suffered, as consumers took out fewer loans, by proxy decreasing revenue for firms. High inflation also reduces demand for financial services in general. Recent data suggest inflation has cool, and thus, we can expect revenue for financial institution and aggregate demand for financial services to increase. Cooling inflation should serve to offset the decrease in revenue incurred from lower bond yields and lower loan rates.

Industry Performance









Sector Companies

Top Performers

Berkshire Hathaway (Mega Cap)
Berkshire's Class A and B stock are the largest in the financial sector in terms of market cap and hit record levels in the last two months while up around 10% following strong second-quarter earnings in August and have risen 30% on the year while Berkshire's market value also surpassed $1 trillion in late August.

J.P. Morgan Chase & Co. (Mega Cap)
J.P. Morgan Chase & Co. showed a strong financial performance in the most recent quarter, with a net income of 18.1 billion, up 25% from the year prior while also showing a strong revenue growth of 20% year-on-year amplifying its resilience and likeliness to continue to see such growth.

Bank of America Corp. (Mega Cap)
Bank of America Corp. recorded strong Q2 2024 earnings, driven by higher interest rates. Fees were up 6% year-over-year and were 46% of total revenue. The company presents a compelling investment opportunity as its strong financial performance as well as diversified revenue streams position it for continued growth.

Mastercard Incorporated (Mega Cap)
Mastercard Inc. had seen massive growth over the last couple years , seeing 22% EPS growth per year, compound in the last 3 years, which generally is a beaming light for shareholders. In the wake of the Visa lawsuit, Mastercard is also presented with potential benefit as a result.

KKR & Co. Inc. (Large Cap)
KKR & Co. Inc 's reported second-quarter adjusted net income went up 49% year-on-year, largely caused by an increase in management, transaction and performance fees, as well as earnings from its annuities business.

Progressive Corp (Large Cap)
Progressive Corp. is a very strong pick in a strong industry, as its earnings are expected to grow 111.1% year-over-year for the current fiscal year, with sales growth of 19.7%.

Jackson Financial Inc. (Mid Cap)
Jackson Financial Inc. saw a 204% increase in revenue from the year prior and appear undervalued. Likely driven by favorable market conditions and strong business performance that are likely to continue, JXN sits in a great spot.

The Baldwin Insurance Group Inc. (Mid Cap)
Baldwin Insurance Group's stock has increased due to strong financial performance and investor confidence. Over the past six months, the stock has risen by 63.13%, with a 49.05% gain in the last three months. This growth is supported by a gross margin of 63.13%, which reflect the company's profitability.

Sezzle Inc. (SmallCap)
Sezzle's stock surged due to accelerating profitability, with Q2 financials showing a 60% revenue increase and a staggering 2,506% rise in net income compared to 2023. This impressive growth and earnings momentum, along with a 1,200% rally over the past year, support a bullish outlook despite potential volatility.

LendingTree Inc. (SmallCap)
LendingTree's stock has gained momentum due to analyst upgrades from firms like Oppenheimer, which raised its target price to $65. With a 15.1% year-over-year revenue increase and positive ratings from multiple analysts, the stock's outlook remains promising, drawing interest from institutional investors.

Top Losers

Franklin Resources, Inc. (Large Cap)
Franklin Resources, Inc. has experienced a stock decline due to regulatory investigations by the SEC and DOJ concerning questionable trade allocations at its Western Asset Management division. The situation escalated when the co-Chief Investment Officer was placed on leave following a Wells Notice from the SEC, leading to the closure of a $2 billion fund and heightened investor concerns.

New York Community Bancorp Inc. (Mid Cap)
New York Community Bancorp (NYCB) has experienced a sharp stock decline, dropping over 67% in the past year due to financial losses, including a loss per share of $12.38 and a negative cash position of $10.29 billion. Contributing factors include a reverse stock split in July 2024 and challenges in managing profitability and debt.

TCP Capital Corp. (SmallCap)
BlackRock TCP Capital's stock has declined due to significant credit losses, increased non-accruals in its portfolio, and a reported loss of -$0.71 per share over the past year, with the stock down nearly 30% in that time

Sub-sector Analysis

Sub-Sectors Overview

Investment Banking & Security Mediation:
Businesses in this industry help corporations or individual investors get the best financial results from big capital-intensive decisions. The top company in this industry is JP Morgan Chase (JPM) which has a market cap of 598 billion. The industry is extremely top heavy with the biggest .017 companies in the US have 90% of the entire sectors market share.

Brokerages:
Brokerages connect buyers and sellers of financial vehicles such as stocks and bonds and collect a fee from the participants of the transaction. The top company in this industry is Charles Schwab (SCHW), the company has a market cap of 118.5 billion. This industry is top heavy as the major players being estimated to control over 50% of the industry.

Credit Card Issuers:
Businesses in this industry issue credit cards and lines of credit. One of the top companies in this sector is Visa Inc it as a market cap of $525.52 billion. The industry is top-heavy with few firms dominating the market share.

Insurance:
Companies in this industry manage risk for individuals and firms by provide life, property, and causality insurance. A top firm is Berkshire Hathaway Inc with market cap of approximately $992.32 and 1108 billion in assets undermanagement. Insurance companies needs massive AUM to cover liabilities. The industry is not top-heavy, there is room for smaller companies.

Private Banking:
Businesses in this industry manage the money, investments and other financial planning for Ultra High Net worth Individuals and make their money from charging fees to those clients. The biggest company in this industry is the UBS group (UBS) with a market cap of 107 billion and an AUM of 5.7 trillion. The industry has a fair share of competition and there are no clear stand-alone leaders.

Asset Services:
Businesses in this industry invest the money of individuals, institutional pension funds and many others with full discretion. The biggest asset manager is Blackrock ticker (BLK) with an AUM of over 10 trillion. The industry is extremely top heavy with the biggest 3 controlling over 70% of the industry in the US.

Processing & Transferring Services:
Firms in this sector provides equipment for electronic transactions and offer services from consumer to business to peer to peer. Is a growing industry driven by technology innovations and the transition from cash to electronic payments. Despite the presence of small firms, the top firms control most of the infrastructure for electronic payments.

Sub-Sector Major Player Key Financials

Company Name	Sub-Sector	Price	P/E (LTM)	P/B TTM	Div%	RoEquity	RoAssets	EPS	Mkt Cap (Bn)
JPMORGAN CHASE & CO.	IB & Security Mediation	$210.75	11.75	1.89	2.38%	17.3%	1.30%	$6.12	$598.91
VISA INC.	Credit Card Issuers	$274.77	34.70	5.97	0.76%	49.80%	21.20%	$2.40	$525.52
BERKSHIRE HATHAWAY INC.	Insurance	$691,180.00	14.54	1.62	0%	11.80%	6.30%	$21,122.08	$992.32
BLACKSTONE INC.	Asset Services	$ 153.13	58.5	10.02	2.19%	28.40%	8.70%	$0.58	$187.03
PAYPAL HOLDINGS, INC.	Processing and Transfer Services	$78.03	18.93	0.95	0%	22%	5.60%	$1.08	$79.62
UBS Group Inc.	Private/Commercial Banking	$30.91	63.70	1.27	2.23%	2.70%	0.10%	$0.34	$107.34
THE CHARLES SCHWAB CORPORATION	Brokerages	$64.82	25.76	2.7	1.55%	14%	1%	$0.68	$118.56
PIMPCO Dynamic Income Fund	Closed-End Funds	$20.45	10.33	1.01	2.65%	17.03%	6.38%	$1.96	$6.45