From: Ens, Amanda <amanda.ens@baml.com>
Sent: Wednesday, June 21, 2017 12:10 PM
To: jeffrey E.; Richard Kahn
Subject: Banks top picks/ideas

Top picks:

* Buy Sept 25 XLF calls for ~$0.50.

* Buy JPM calls: With 2M vol <2nd percentile, we like buying the Aug 92.5C for 0.70 (Ref 88.07 - includes CCAR and Q2 earnings)

* Long C: Cheap, not asset sensitive, CCAR beneficiary, bullish into mid-July analyst day. We are a buyer on any pullback to low $60.00's, would take profits in late June, ahead of possible Q2 estimate revisions.

* Long RF: 15% upside, 3.00% yield, has lagged large cap banks YTD, CCAR beneficiary, market undervaluing cap return story. We prefer to buy the stock under $14.00 and would be aggressive $13.50. Look to take profits around the YTD highs at $16.00.

* Long JPM: Given the underperformance vs. peers since the election and YTD, we think the market is mispricing two things: 1) JPM's ability to improve returns by ~100bp over 2 years even without tax or regulatory reform; and 2) the potential to improve returns by an incremental ~240bp over time from regulatory relief. Not as over owned as many believe. it is important to zoom out and compare JPM's ownership levels to top-owned stocks in the S&P, especially given recent view among our in-house strategists to favor value over growth/momentum. Active US managers are 136% overweight the top 25 best-owned stocks in the S&P. Within these top 25 owned names, 2 are financials. Within the S&P 500, JPM is the 116th-most owned. We think this is important to point out as incremental ownership for shares of JPM is likely to not just come from investors rotating out of bank stocks, but from investors looking to boost exposure to value stocks, like financials.

* Sell WFC: Continued negative press, least asset sensitive of "Big 4" CCAR concerns. Comfortable shorting at current levels, cover at 200 day...52.75.

* Sell USB: CCAR short, stock is expensive, loan growth slowing. Press shorts to $52.00, cover sub $50.00

Sector Thoughts:

Bank stocks closed on their lows on as the underlying bid we have seen most of June faded with oil at $43.00 and a flatter yield curve. Fed speak yesterday read much more cautious than Yellen last week and Dudley on Monday and nobody seemed to pay much attention to Paul Ryan's speech on tax. (Not much new on the details: Quick thoughts from BofAML eco team: What was new is that he is calling for permanent tax cuts and wants it done 2017. Don't know how he gets that done since he needs it to be deficit neutral to have it be permanent. Where do you get the revenue to do this? BAT gets you 1 trillion dollars in revenue but that's nonstarter for Dems and some Republicans. Ryan knows he has to get this done in this Congress. At best, he only loses a handful of seats in mid-terms, reducing the margin of votes he can afford to lose. At worst, he becomes the house minority leader. US futures off their lows but would be surprised to see any meaningful upside ahead of the 10:30 DOE #'s. (API data which printed last night was viewed as bearish.)

We remain constructive on the sector but feel the need to be opportunistic as we approach CCAR and Q2 earnings.

UST Update from Mike Russell:

Recap: Curve bull flattened in US rates (2s10s -1.8bps 5s30s -2.8bps) as the pain trade continued; TY rallied (5s-TY-10s -.54bps), 10s hit (5s10s30s +1.45bps); WN anchored the long end (10s-WN-30s -2.1bps, 10s30s -2.1bps); long end in Japan flattened (JGB 10s30s -1.9bps); Germany bull flattened into 30yr supply which met solid demand (Germany 10s30s -1.2bps); Spain 10y syndication now unlikely to happen this week; Gilts much weaker post hawkish comments from BOE's Haldene (GU7 -.14c, 2s10s -2.9bps); UST mixed, curve slightly flatted (10s30s -.6bps).

Flows: Domestic AM were better sellers yday early, particularly in 10s and 30s (net 800k/01 better selling on the day); flow quieted down later. Clients were biased towards steepeners throughout the day. O/n flows quiet, net duration was flat.

Thoughts: Long end remains anchored so far this week and the appetite to fade it has been minimal; sentiment in the short-to-medium term points to this trend continuing. Balance sheet still looks to remain a concern into quarter end w/ 2s/5s both trading special on the curve...light economic data w/ existing home sales this morning

Subsector Performance from 6/21.

SPX: -67bps: Volumes 5.00% below 20 day while HT activity levels were better than recent averages as consumer sector remains active. Still not seeing buying of dips in favorite tech names and top short baskets lagged indicated momentum accounts looking for any opportunity to press.

XLF: -86bps: Volumes light, consensus bank longs lagged while cards and FITB were the most notable outperformers.

BKX: -95bps; 60bps move lower the last 2 hours of the day. Beta and consensus longs lagged. WFC was down 144bps and we saw sellers closer to $54.00. We were encouraged with JPM price action until it faded late. BK was a relative outperformer and we saw a bit of supply north of $50.00.

KRE: -131bps: Biggest down day in a month: We saw sellers in CFG and TCBI and ZION lagged. CIT continues to screen well. EB out this am with thoughts on NYC multifamily lenders.
<http://rsch.baml.com/r?q=wdH8ewYqfHxHcnWO8YZREg&e=r.wright%40baml.com&h=GXnYnQ> NYC multifamily lenders - SBNY, NYCB, BKU - have underperformed YTD given the challenging near-term fundamental outlook. Despite the fundamental challenges we see potential positive catalysts: regulatory relief, steepening yield curve, tax reform. Buy-rated SBNY and BKU offer attractive risk/reward to investors who are willing to bear some near-term pain.

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