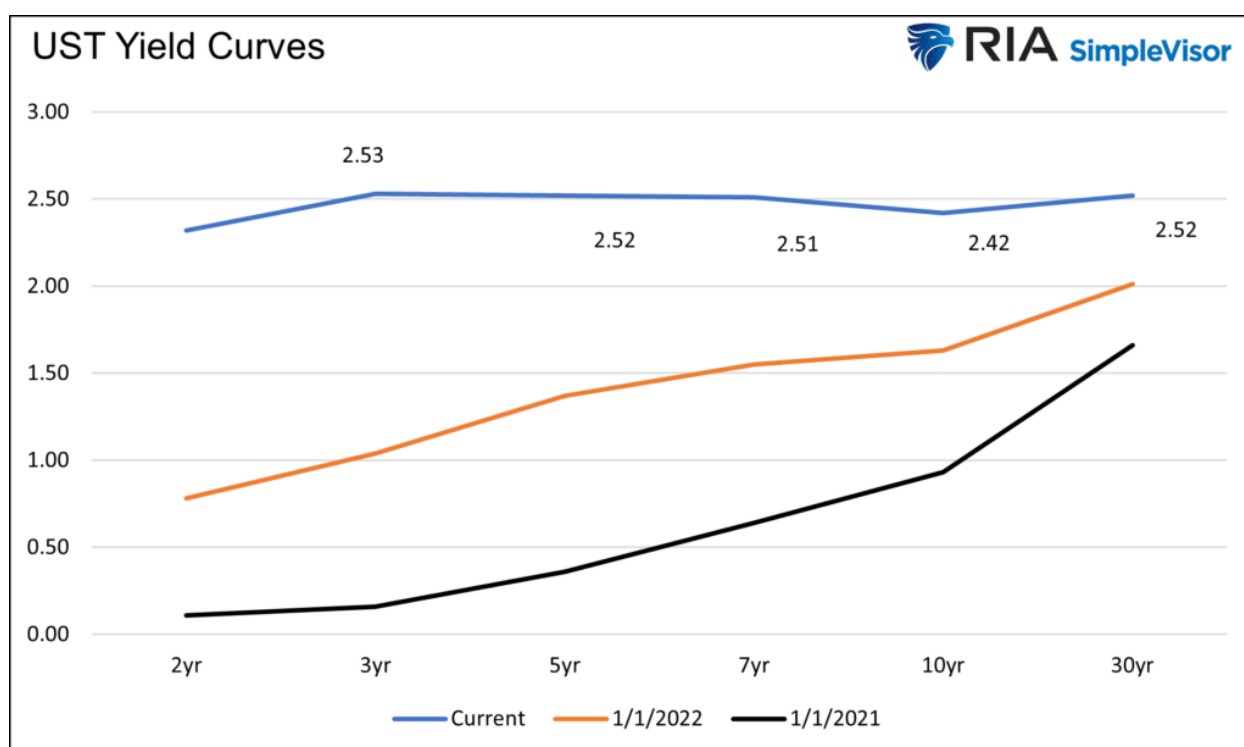


## Five Financials For a Steeper Yield Curve

As we show below, the U.S. Treasury yield curve has flattened considerably over the last three months. The yield curve tends to correlate well with earnings for many financial companies. This occurs because financial companies borrow to invest in most cases. As such, the difference between borrowing costs and investment yields is a critical component of earnings. Many financials tend to borrow using shorter maturities and lend for longer maturities.



When the yield curve flattens, profit margins tend to diminish at banks and other financials. Conversely, a steeper yield curve often generates higher margins. With the yield curve now essentially flat and likely to invert further in the coming days and weeks, we want to create a list of companies to follow for the eventual yield curve steepening (un-inversion).

In this scan, we seek higher-quality financials with solid dividend yields. This is not a list of considerations for stocks to buy today. Instead, the list provides stocks to follow for when the yield curve starts to steepen. The yield curve will likely further invert, and thus we do not need to be in a hurry to buy these stocks. Additionally, a recession should not be dismissed, as is typical after the yield curve inverts. However, having this list in hand will provide a few good ideas for the future.

This week's screen involves two different screens. First, we use 65 stocks from a pre-existing Zacks Earnings & Dividend Quality Screen. From that, we scan for value and dividend attributes within the financial industry.

## Screening Criteria

Sector = Financials from Zack's Earnings & Dividend Quality Screen. For more on how Zack's screens for earnings and dividend quality, please read the following white paper from Zacks. [LINK](#)

We then screened for the following factors:

- P/E and Forward P/E <15
- Dividend Yield >2.5%
- EPS Growth next year > 10%

Ticker	Company	P/E	Forward P/E	EPS Next Year	Dividend yield
BK	Bank of New York	12.73	9.22	21.73%	2.58%
MET	MetLife	9.78	8.86	11.18%	2.68%
JPM	JPMorgan Chase	9.2	11.27	12.06%	2.83%
USB	U.S. Bancorp	11.15	10.73	21.12%	3.24%
C	Citigroup	5.6	7.31	10.19%	3.61%

## Company Summaries (all descriptions courtesy Zacks)

### Bank of New York Mellon (BK)

Bank of New York Mellon Corporation (BNY Mellon) is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets.

All five companies are expected to grow EPS by more than 10% next year, but BK is expected to double that pace with 21.7% growth. While you are gaining in EPS growth versus the screen results, you give up some dividend yield. BK has the lowest dividend yield on the list (2.58%).

### MetLife (MET)

MetLife, Inc. is a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers. Through its subsidiaries and affiliates, MetLife holds leading market positions in the United States, Japan, Latin America, Asia, Europe, the Middle East and Africa.

While MET beat other financials to make our list of five stocks, it does not particularly stand out versus the other screen results. It trades at a solid valuation, pays a respectable dividend yield, and is expected to keep up on EPS growth next year.

### JPMorgan Chase & Co (JPM)

JPMorgan Chase & Company is a financial services firm. The Company is engaged in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, asset management and private equity.

Despite sitting in the middle of the pack when it comes to trailing P/E, JPM trades at the highest forward P/E on the list. JPM is expected to grow EPS by 12.1% next year and pays a nice dividend

yield of 2.8%.

## **U.S. Bancorp (USB)**

Minneapolis-based U.S. Bancorp is the parent company of U.S. Bank National Association, the fifth-largest commercial bank in the United States. The Company operates 3,072 banking offices in 25 states and 4,801 ATMs and provides a comprehensive line of banking, investment, mortgage, trust and payment services products to consumers, businesses and institutions.

USB carries the second-highest forward P/E of the five companies, but in contrast to JPM, USB is expected to grow EPS by 21.1% next year. In addition to expectations for much better EPS growth, the stock also carries a higher dividend yield than JPM (3.2%).

## **Citigroup (C)**

Citigroup Inc. is a global financial services company. It provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management. The Company also offers various wholesale banking products and services, including fixed income and equity sales and trading, foreign exchange, prime brokerage, and equity and fixed income research services. Citigroup Inc. is based in New York.

Citigroup trades at the lowest valuations of the five stocks and is expected to grow EPS the least next year. As a value play within a list of value stocks, Citi pairs slower growth with the highest dividend yield on the list (3.61%).

## **Five for Friday**

Five for Friday uses stock screens to produce five stocks that we expect will outperform if a particular investment theme plays out in the future. Investment themes may be relevant to the current or expected market, industry and/or economic trends. Investment themes may not always represent our current forecast.

## **Disclosure**

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures](#) carefully and do your own research before investing.