

From: Richard Kahn <[REDACTED]>

To: "jeffrey E." <jeevacation@gmail.com>

Subject: Fwd: MS Note - Goldman Sachs (GS): Trading Back in Force

Date: Wed, 26 Oct 2016 17:57:19 +0000

Attachments: GS_Pfd_10.26.16.pdf

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Begin forwarded message:

From: "Atlas, Andrew S" <[REDACTED]>

Subject: MS Note - Goldman Sachs (GS): Trading Back in Force

Date: October 26, 2016 at 1:49:47 PM EDT

To: "Richard Kahn ([REDACTED])" <[REDACTED]>

Hey Rich,

Our credit analyst just put out a GS note that I wanted to share with Southern Trust Co.
(Not a Product of Research)

Like Goldman Sachs (GS): Trading Back in Force

Summary

GS (A3/BBB+/A, Stable) reported adjusted EPS of \$4.88, easily beating estimates of \$3.88. Total revenue of \$8.17 billion beat estimates by about \$750 million with Fixed Income Trading and Investing and Lending revenue more than offsetting slight weakness in investment banking fees on a YoY basis. Investment Management and Equities posted relatively steady, modest improvements YoY. Compensation accrual was reduced somewhat to the benefit of profitability while capital/liquidity remained strong. The new consumer finance unit attracted some attention though we expect Marcus to be inconsequential for results in the near term. Capital was slightly improved QoQ. We continue to view GS as a strong credit.

Relative Value

Senior: GS benchmark senior 10 year paper trades 5-7 bp behind MS, C and BAC senior debt and about 15 bp wider than JPM and WFC. Because GS has less TLAC-related senior issuance remaining, we are comfortable owning GS 10yr senior debt. We LIKE owning GS 3.75% 2026 trading at a G-spread of ~143bps (20 bp tighter than after our last review). We may change our reference security if a generously priced new deal comes to market.

Subordinated (Baa2/BBB-/A-): GS 4.25% 2025 trades in line with BAC and MS 10yr subordinated debt on a G-spread basis and about 22bps inside of C 4.125% 2028. We retain our Like on GS 4.25% 2025 but similar with GS seniors, we

may change our reference security upon well priced new issue.

Preferred (Ba1/BB/BB+), we Like owning the following GS preferreds:

\$1000 par:

GS 5.3% Perp-26 (L+383) provides the longest call protection period among GS \$1000 par AT1s with a 4.9% YTC and 135 bp spread to 10 year senior (spread to senior has compressed about 60 bp since our last review). YTP is 5.5% and the perpetual 140 bp spread to senior unchanged since our last review.

\$25 Par:

GS 6.3% Perp-21, Fixed for Life (GS.N) provides a current yield of 5.8% and a YTC of 4.17%, TE YTC of 5.75%.

GS 5.95% Perp-17, Fixed for Life (GS.I) provides a YTC of 2.9% (TE YTC of 4.0%) and a current yield of 5.78%. If called, GS.I will provide a good return for 13 month exposure to GS and if not called, 5.78% current yield remains attractive in our view. For investors who expect increased rate volatility in the short term, they may wish to wait for such events to play out before putting new money to work in \$25 fixed for life structures

Let me know if you have any questions.

Best,
Andrew

Andrew S. Atlas
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