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Subject: Buy WFC L Pfd at 6.27%
Date: Tue, 06 Dec 2016 19:03:42 +0000
Attachments: Future_of_Financials_Conference_Takeaways.pdf
Inline-Images: image001.jpg

This WFC 7.5% convertible perpetual preferred at 6.27% QDI-eligible yield looks attractive.
Coupon: 7.5%
Price: 1197.50
Yield: 6.27%
QDI-eligible: yes
Conversion is optional; strike is far out of the money at $156.71
Call: N/A

- The Goldman Sachs financial services conference starts today in NYC.

- Erika Najarian, BAML financials research analyst, just returned from a marketing trip. Bottom line: North American investors are <u>very</u> bullish the banks (long only AND hedge funds AND macro funds), but then conclude "I don't own enough". Note that high touch flows have slowed down significantly since Thanksgiving and where the buying has been concentrated in XLF (every client sector we have has been a better buyer of XLF).

- Client focus:

  1) Regulation: Excitement, with the base case that it's not getting worse.

  2) Sentiment on rates: Cautiously bullish

  3) Sentiment on growth: Also bullish

  4) Sentiment on corporate tax rate cuts: buyside more bullish than sellside. In 1986, bank stocks exploded upward (outperforming the S&P) after Reagan's tax reform bill passed the Senate; and 2) in 2003, the last time we saw personal tax cuts, loan growth industry wide accelerated in 2003 and 2004.

- WFC has been in our Top 2 notable buy names since the election with demand in WFC coming from US Asset managers, US long/short HF's and overseas LO's

- Biggest Pushback on owning sector at current levels: Too far too fast: BKX +18.00% post election: Valuation coming into question and Q4 has typically been a seasonally weak qtr. Bulls defend valuation on '18ests with potential upside to 2018 EPS from ~25-40% and stocks still cheap vs. discretionary.

- Price action and sentiment keeps us constructive, we like the long and would expect US financials to benefit from any beta chase into year end.

- **Another way to play it:** We still like "appearing" call spreads on XLF.
  - Buy a 6 month 105% call with a short 110% call that knocks in if XLF trades above 115% during the life of the trade = 1.75% offer (as a comparison the 6m 105/115 call spread costs 2.7%)

- Or buy a 1 year 110% strike XLF call spread with a short 117.5% strike call that knocks in if XLF trades above 125% at EXPIRY for 2.75% premium (call is not active unless XLF is 125% or higher at expiry)
  - Total premium is 2.75%
  - Gross max payoff if knock-in is triggered: **2.7x** (7.5%/2.75%)
  - Gross max payoff if knock-in is not triggered: **5.4x** (14.9%/2.75%) – you have upside up to 124.9%

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