An Update On The Recovery In Financial Stocks

S&P 500 Financials Index & Various Subsectors

S&P 500 Indices	All-Time High (Date)	% Off High Value
Property & Casualty Insurance	11/10/17	0.00%
Insurance Brokers	10/24/17	-2.61%
Life & Health Insurance	11/2/17	-3.21%
Consumer Finance	12/30/14	-4.12%
Asset Management & Custody Banks	10/18/17	-4.16%
Diversified Banks	11/2/17	-4.40%
Financials (Sector Index)	2/20/07	-15.17%
Regional Banks	2/20/07	-23.52%

Source: Bloomberg. Past performance is no guarantee of future results. As of 11/10/17.

View from the Observation Deck

1. Financial companies have been in serious recovery mode since the 2008-2009 financial crisis. Financials, particularly the banks, were at the epicenter of the crisis. Financials actually peaked months before the crisis began.
2. As indicated in the table, the all-time high for the S&P 500 Financials Index was set on 2/20/07. From 2/20/07-3/6/09 (peak to trough), the index declined by 84% on a price-only basis (not including dividends), according to Bloomberg.
3. Considering that the S&P 500 Index has posted 53 new all-time highs just in 2017, those investors still seeking value in the market may find it in Financials, especially the banks, in our opinion.
4. Regulatory changes have slowed the recovery process for banking institutions, in our view. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law in July 2010.
5. The basic premise of the law is to reduce the level of risk exposure in the U.S. financial system, especially with respect to banking institutions, in an effort to prevent another financial crisis.
6. Just yesterday (11/14), the Senate reached a bipartisan agreement to relieve small and regional lenders of many of the most onerous rules imposed following the financial crisis, according to *The Wall Street Journal*. Stay tuned on this front.
7. The 2018 and 2019 estimated price-to-earnings (P/E) ratios on the S&P 500 Financials Index are 13.96 and 12.70, respectively, as of 11/14/17, according to Bloomberg. For comparative purposes, the 2018 and 2019 estimated P/Es for the S&P 500 Index are 17.59 and 15.98, respectively.
8. Bloomberg's 2018 and 2019 consensus earnings growth rate estimates for the S&P 500 Financials Index are 15.70% and 9.96%, respectively, as of 11/14/17, compared to 9.98% and 10.09%, respectively, for the S&P 500 Index.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Financials Index is a capitalization-weighted index comprised of U.S. financial companies in the S&P 500 Index. The S&P 500 Financial Index Subsector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific financial subsector. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks (currently 505) used to measure large-cap U.S. stock market performance.