

Evolve US Banks Enhanced Yield Fund

CALL offers investors potential benefits from the positive fundamentals of the largest U.S. banks, with the added value of a covered call strategy applied on up to 33% of the portfolio. Covered call options have the potential to provide extra income and help hedge long stock positions.

TSX

CALL

ETF TICKERS: CALL (HEDGED); CALL.B (UNHEDGED); CALL.U (USD)

In late June, the Federal Reserve provided a vote of confidence to the largest U.S. banks following its annual health check. The results of the Fed's stress test indicated that the banks have sufficient capital to weather a potential severe economic downturn.

According to the Fed, the 34 lenders with more than \$100 billion in assets that it oversees would suffer a combined \$612 billion in losses under a hypothetical severe downturn. However, that would still leave them with roughly twice the amount of capital required under its rules. As a result, large banks such as JPMorgan Chase, Bank of America, Wells Fargo, Citigroup, Morgan Stanley, and Goldman Sachs (all holdings in the fund) can use their excess capital to issue dividends and buybacks to shareholders.(i)

A major macroeconomic event this year is the Russia-Ukraine war, which has exposed U.S. banks to some increased financial risk. Citigroup said its potential losses could amount to as much as \$3 billion and has put aside \$1 billion in loan-loss reserves, while JPMorgan said it had provisioned roughly \$300 million to cover markdowns on its Russian loans. Goldman Sachs, disclosed that its Russian exposure was \$650 million and that it had suffered a net loss of about \$300 million on investments in Russia and Ukraine.(ii)

Several large U.S. banks have recently started offering cryptocurrency services. BNY Mellon announced that it would hold, transfer and issue bitcoin for its asset management clients, while U.S. Bancorp commenced providing bitcoin custody services for its institutional clients. State Street also announced that it intends to offer cryptocurrency custody services in partnership with Deutsche Bank. Meanwhile, Morgan Stanley, JPMorgan Chase Wells Fargo & Co are also offering their clients access to cryptocurrency.(iii)

On the M&A front, 16 U.S. bank deals were announced in March, pushing total first-quarter announcements to 46, according to S&P Global Market Intelligence data. Total deal value in the first quarter was \$15.15 billion, down from \$25.63 billion in the fourth quarter of 2021, but up from \$11.22 billion in the first quarter of 2021. The largest of the M&A transactions announced was that of Toronto-Dominion Bank's \$13.67 billion deal for First Horizon Corp., which was announced on February 28, 2022.

On the earnings front, Bank of America posted a first-quarter profit of \$8.1 billion, or 86 cents a share,

exceeding the 66 cents a share expected by analysts surveyed by Refinitiv. The company made \$22.9 billion in revenue, higher than the \$22.1 billion estimate. Bank of America also announced a \$25 billion stock repurchase program.(iv)

JP Morgan announced first quarter 2022 adjusted earnings of \$2.76 a share vs. \$2.69 estimate on revenue of \$31.59 billion versus \$30.86 billion estimate. The company said that first-quarter profit fell sharply from a year earlier, driven by increased costs for bad loans and market upheaval caused by the Ukraine war.(v)

Regions Financial Corporation, one of the largest holdings in the fund, reported first-quarter 2022 earnings of 55 cents per share, beating the Zacks Consensus Estimate of 48 cents. However, the results compare unfavorably with the prior-year figure of 63 cents. Total revenues were \$1.6 billion in the reported quarter, marginally missing consensus estimate of \$1.61 billion.(vi)

Performance Attribution

For the six-month period ended June 30, 2022, M&T Bank Corp, followed by Ameriprise Financial Inc. were the largest contributors to the Fund's performance. The largest holdings by weight were M&T Bank Corp, followed by East West Bancorp Inc.

Sources

- (i) <https://www.reuters.com/markets/us/us-fed-says-banks-can-weather-severe-downturn-comfortably-2022-06-23/>
- (ii) <https://www.thomsonreuters.com/en-us/posts/investigation-fraud-and-risk/managing-geopolitical-risk/>
- (iii) <https://www.ndtv.com/business/list-of-top-us-banks-capitalizing-on-crypto-potential-reuters-report-2863935>
- (iv) <https://www.cnbc.com/2021/04/15/bank-of-america-bac-earnings-q1-2021.html>
- (v) <https://www.cnbc.com/2022/04/13/jpm-earnings-1q-2022.html>
- (vi) <https://ca.finance.yahoo.com/news/regions-financial-1q-earnings-121512539.html>

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