From: Ens, Amanda [redacted]
Sent: Friday, December 9, 2016 3:46 PM
To: jeffrey E.; Rich Kahn
Subject: RE: Financials: buy XLF call spreads

We continue to see further upside in financials.

* Erika Najarian, BAML financials=research analyst, just returned from a marketing trip. Bottom line: North American investors are very bullish the banks (lo=g only AND hedge funds AND macro funds), but then conclude "I don=17;t own enough". Note that high touch flows have slowed down =ignificantly since Thanksgiving and where the buying has been concentrated in XLF (every client sector we have has been a better buyer o= XLF).

* Client focus:

1) Regulation: Excitement, with the base case that it's =ot getting worse.

2) Sentiment on rates: Cautiously bullish

3) Sentiment on growth: Also bullish

4) Sentiment on corporate tax rate cuts: buyside more bullish =han sellside. In 1986, bank stocks exploded upward (outperforming the S&am=;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 w=de accelerated in 2003 and 2004.

* Biggest Pushback on owning sect=r 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 keep= us constructive, we like the long and would expect US financials to=benefit from any beta chase into year end.

* How to play it? We still like "appearing" call spreads =n XLF

o Buy a 6 month 105% call with a =hort 110% call that knock in if XLF trades above 115% during the lif= of the trade for 1.75% premium cost

* Gross max payoff if knock-in is=triggered: 2.8x (5.0%/1.75%)

******* Gross max payoff if knock-in is not triggere=: 5.6x (9.9%/1.75%) – you have upside up to 114.9%

Regards,

Amanda

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From: Ens, Ama=da
Sent: Tuesday, November 22, 2016 2:15 PM
To: 'jeffrey E.'; Rich Kahn
Subject: Financials: buy XLF call spreads

Underweight positioning, buybacks resuming, positive momentum and st=ong fundamentals all indicate that there is still further upside potential in financials (more details below). Our financials sector=specialist thinks XLF could have another 20-25% upside given the many leve=s to the Trump Trade: less regulation, higher interest rates, higher vol, =conomic growth, loan growth, etc. The asset sensitive regional banks are more of a pure play on a rates move=but we view the larger cap banks as having multi-pronged upside given the =forementioned points.

That said, given the velocity and magnitude of the recent move and u=certainty around the impact and timing of Trump's policies, we believe options offer better risk-reward than being outright long finan=ials stocks here. With flat call skew, "appearing" call spread= with upside knock-ins price well.

Buy a 1 year XLF call spread for 2.6% premium

* Buy a 110% call</=>

* Sell a 117.5% call with an at-expiry knock-in at 125% (call is not active unless XLF is=125% or higher at expiry)

o Total premium is 2.6%

o Gross max payoff if knock-in is=triggered: 2.9x (7.5%/2.6%)

o Gross max payoff if knock-in is=not triggered: 5.7x (14.9%/2.6%) – you have upside up to 124.9% </=pan>

Post Election Flow Skews - Buyers of Health Care (via ETFs) and F=nancials (mainly ETFs)

· US Buyback Flows

*<=:p>

Source: Kensho Technologies</=pan>

The Flow Show <http://rsch.baml.com/r?q=lOkdhk4ka=fvRbmcQWmwEQ&e=dg.americas_equity_derivatives_sales%40baml.com&h=3DjyUCXg> , Michael Ha=tnett, 11/18. Violent rotation: record equity ETF inflow, record financials inflow, biggest bond outflow in 3.5 yrs, record EM debt =utflow.

Regards,

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