Transportation - Trucking

Survey Says: Demand (53.4) remains range-bound, below freight recession avg

Industry Overview

31 May 2024

Equity
Americas
Road Transport/Trucking

BofA Data Analytics

Truck Shipper Survey #310, week of May 30, 2024

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **decreased to 53.4** from 53.7 last survey. The Demand Indicator remains below the 54.2 average of the '12, '15, '19 Freight Recession periods. Nevertheless, the Demand Indicator has been at- or above 50 for 12 consecutive surveys and now 18x over the past 22 surveys (only surpassing 54 three issues prior, on May 3rd, for its highest level since June 2, 2022). The Demand Indicator is up 26% year-year, its 19th yr-yr uptick in the past 20 issues. Rail carloads decreased 0.5% year-year this week, ending 16 weeks of consecutive upticks. Dry van spot rates ex-fuel was $1.29/mile, up from $1.28 last week. Of the respondents, 23% had a positive short-term demand outlook, down from 28% last survey; Neutral outlooks were 64%, from 55% last survey, and Negative outlooks were 14%, down from 17% last survey. In the week of May 30th, we surveyed 44 shippers for views on truckload demand, supply, pricing, and inventory levels.

Rates and Inventory views tick down

The Rate Indicator, or shippers' view on truck rates, **decreased to 51.1** from 52.1 last issue, down 1.9% sequentially, in line with a slight pullback in the demand outlook. **The Inventory Indicator decreased to 53.4** from 58.5 last issue, down 9% sequentially, as inventory views fall from elevated levels. The **Truck Capacity Indicator**, which gauges shippers' views of available capacity, **decreased to 56.8** from 61.7 last survey, suggesting capacity exits continue in an over-supplied market. With respect to rates, 11% of shippers expect rates to fall, in line with 11% from last issue, 75% expect pricing to be flat, up from 74% last issue, and 14% expect rates to rise, down from 15% last issue. On capacity, 25% expect capacity to rise vs 28% last issue, 64% expect capacity to stay flat, from 68% last issue, and 11% expect capacity to be lower, from 4% last issue. **SHIPPER COMMENTS:** An Industrial Products Shipper noted rates appear stable, as it completed a bid for the next four months and the rate movement was negligible. Another Industrial Products Shipper expects further capacity exits as more carriers close down, yet as these will be mostly small carriers, the total impact on capacity will not be pronounced. *(Commentary cont'd p.5).*

Spot rates slight seasonal lift, sustain road check gains

Truckload spot rates appear to be sustaining a moderate seasonal lift following impacts from the Commercial Vehicle Safety Alliance's May 14-16 International Roadcheck inspections, and the Memorial Day holiday. Dry-Van rates, excluding fuel surcharges, increased to $1.29/mile this week, up from $1.28/mile a week prior and from near-decade low levels hit on May 13 ($1.24/mile). We believe the lift could indicate some degree of seasonality, as beverage and produce season ramps. This would align with commentary from Knight-Swift's CEO Adam Miller at our 31st annual BofA Transportation, Airlines, and Industrials Conference (see our May 17 note), who noted a return of some normal seasonality in 2Q, albeit at significantly low levels. While the market works to improve the supply/demand imbalance, too much capacity remains, which is keeping pricing under pressure. We remain selective with Buys on KNX and JBHT, as well as less-than-truckloads' XPO/SAIA, with Neutrals on SNDR, ODFL, UPS, EXPD, TFII, RXO.

Ken Hoexter
Research Analyst
BofAS
+1 646 855 1498
ken.hoexter@bofa.com

Adam Roszkowski, CFA
Research Analyst
BofAS
+1 646 855 5498
adam.roszkowski@bofa.com

Chart 1: DEMAND INDICATOR
Shipper's view of demand next 0-3 months; Demand Indicator at 53.4

Source: BofA Global Research.
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Chart 2: RATE INDICATOR
Shipper's rates view; Rate Indicator at 51.1

Source: BofA Global Research.
BofA GLOBAL RESEARCH

Timestamp: 31 May 2024 05:00AM EDT

SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator
Demand Indicator: at 53.4, -0.3 pts sequentially.

	2020		2021		2022		2023		2024	
Jan	1/3	55.1	1/14	63.8	1/13	75.0	1/12	47.5	1/11	51.6
	1/17	58.1	1/28	63.8	1/27	70.0	1/26	51.3	1/25	52.8
Feb	1/31	56.7	2/11	67.5	2/10	69.5	2/9	45.1	2/8	50.5
	2/13	53.1	2/25	68.8	2/24	71.9	2/23	47.6	2/22	54.1
Mar	2/27	51.3	3/11	72.9	3/10	70.3	3/9	46.9	3/8	54.2
	3/12	46.1	3/25	68.8	3/24	69.2	3/23	48.3	3/22	53.6
Apr	3/26	43.5	4/8	73.0	4/7	64.1	4/6	49.5	4/5	52.2
	4/9	37.2	4/22	75.7	4/21	58.0	4/20	44.4	4/19	52.8
	4/23	33.3	5/6	77.6	5/5	57.5	5/4	49.5	5/3	56.5
May	5/7	37.8	5/20	78.3	5/19	55.0	5/18	44.3	5/17	53.7
	5/21	46.2	6/3	78.3	6/2	58.5	6/1	42.6	5/31	53.4
Jun	6/4	54.6	6/17	78.1	6/16	54.0	6/15	47.9	6/14	
	6/18	56.4	7/1	75.7	6/30	55.5	6/29	49.4	6/28	
Jul	7/2	59.3	7/15	70.9	7/14	50.9	7/13	47.1	7/12	
	7/16	62.5	7/29	74.3	7/28	53.9	7/27	50.0	7/26	
Aug	7/30	59.1	8/12	73.0	8/11	50.0	8/10	55.2	8/9	
	8/13	63.5	8/26	73.0	8/25	54.5	8/24	51.0	8/23	
Sep	8/27	71.1	9/9	73.6	9/8	51.6	9/7	52.4	9/6	
	9/10	75.8	9/23	75.0	9/22	50.0	9/21	50,0	9/20	
Oct	9/24	78.1	10/8	69.4	10/6	47.6	10/5	48.9	10/4	
	10/8	73.3	10/21	68.3	10/20	45.6	10/19	52.5	10/18	
	10/22	70.0	11/4	76.6	11/3	42.4	11/2	47.7	11/1	
Nov	11/5	72.5	11/18	67.7	11/17	50.4	11/16	44.4	11/15	
	11/19	69.9	12/2	69.7	12/1	47.8	11/30	49.0	11/29	
Dec	12/3	63.8	12/16	68.6	12/15	47.2	12/14	49.0	12/13	
	12/17	66.3	12/30	66.7	12/29	49.4	12/28	52.4	12/27	
	12/31	67.7								

Source: BofA Global Research

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Chart 3: BofA Truckload Demand Diffusion Indicator
0–3 months demand time series; Demand Indicator at 53.4

Source: BofA Global Research

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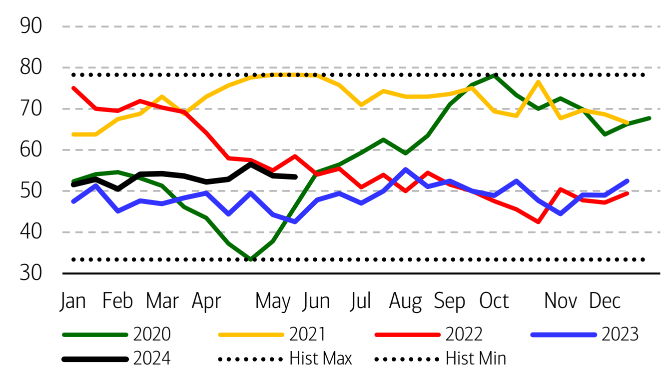
Disclaimer: The indicator identified as BofA Truckload Diffusion Indicator in this report is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark

Chart 4: BofA Truckload Demand Diffusion Indicator
0-3 months demand outlook – stack basis y-y; Demand Indicator at 53.4



Source: BofA Global Research
Historical Max 04/03/14 (and 5/20-6/3/21). Historical Min 4/23/20. Survey began in mid-2012

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SHIPPERS' VIEW OF RATES

Chart 5: Shippers' view of rates over next three months
Rate Indicator at 51.1, down 1.9% sequentially

Source: BofA Global Research.

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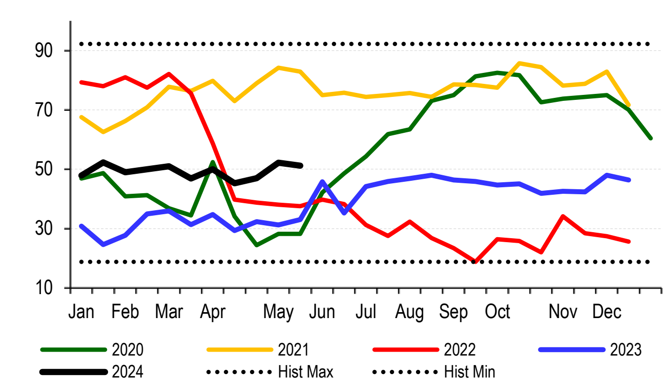
Chart 6: Shippers' view of rates
Stack basis year-over-year; Rate Indicator at 51.1



Source: BofA Global Research.

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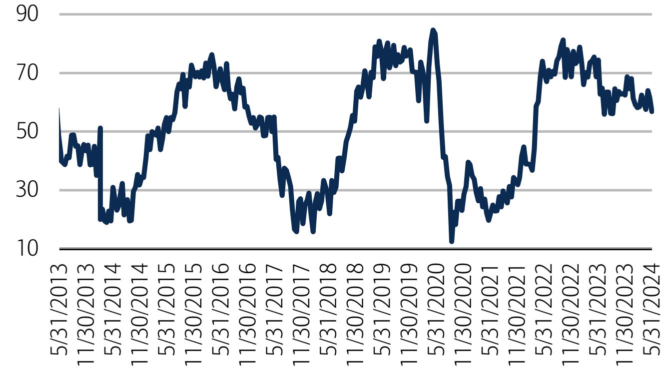
CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity
Capacity Indicator at 56.8, down 7.9% sequentially



Source: BofA Global Research.

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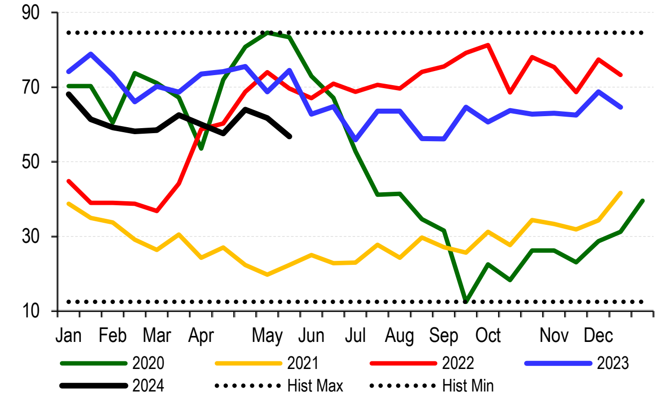
Chart 8: Shippers' view of available capacity
Stack basis year-year; Capacity Indicator at 56.8



Source: BofA Global Research.

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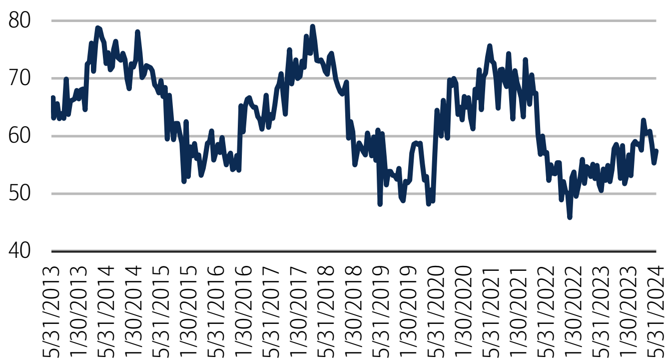
6-12-MONTH FREIGHT DEMAND

Chart 9: Shippers' 6-12 month outlook for freight demand
L-T Demand Indicator at 57.4, up 3.7% sequentially



Source: BofA Global Research.

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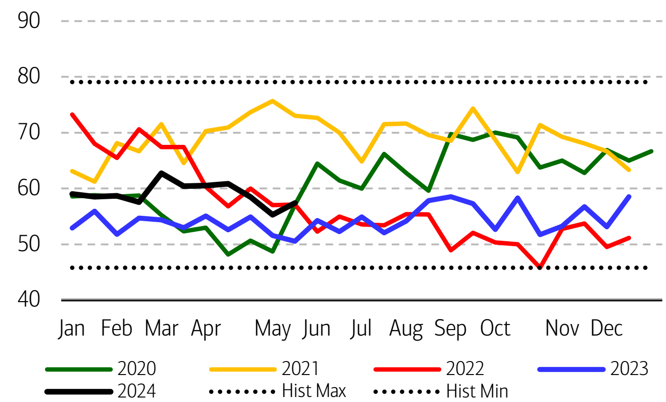
Chart 10: Shippers' 6-12 mo. outlook for freight demand
Stack basis year-year; Long-Term Demand Indicator at 57.4



Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels
Inventory Indicator at 53.4 down 8.7% from last issue.

Source: BofA Global Research.

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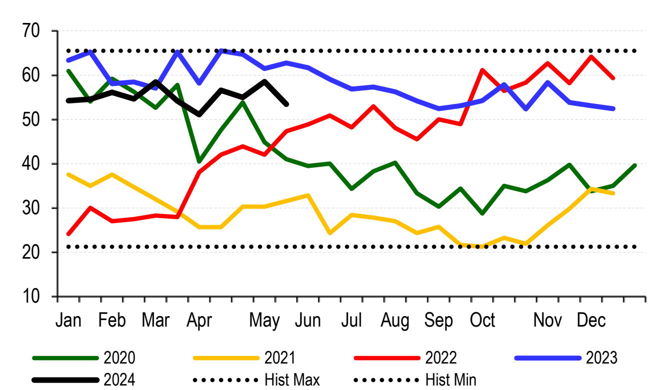
Chart 12: Shippers' view of inventory levels
Stack basis year-year; Inventory Indicator at 53.4



Source: BofA Global Research.

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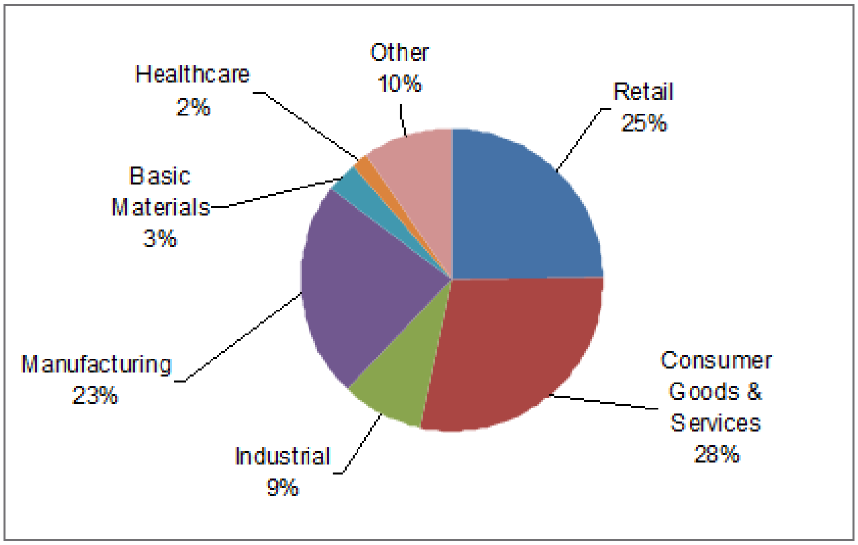
The survey, which is distributed to approximately 1,300 shipping managers, received responses from a varied mix of all major end markets (retail, consumer goods, industrial, manufacturing, basic materials, healthcare, tech).

Figure 1: Shippers' core end-market
Retail and Manufacturing oriented end-markets



Source: BofA Global Research estimates.

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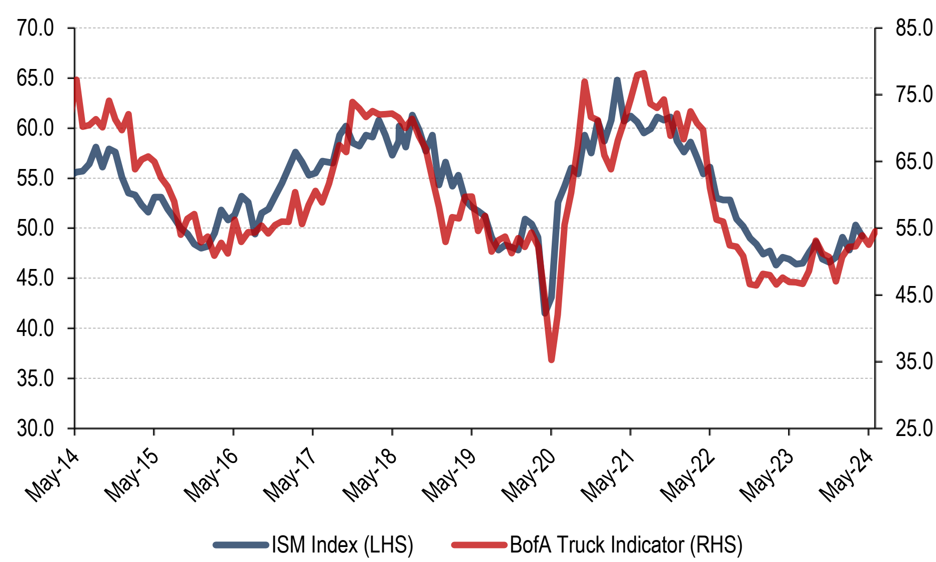
Correlation between BofA Truck indicator and ISM Index

Chart 13: BofA Truck Indicator and ISM Index
Two data sets have shown correlation since survey inception (0.81 on a one-month leading basis)



Source: BofA Global Research estimates, ISM Index

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Shipper Comments (cont'd)

- An Industrial Products Shipper noted carriers are grasping at straws to generate revenue and maintain the price increases that have come through over the last 4 years. However, it noted this is becoming increasingly more difficult as shippers exert continued downward pressure.

- A Consumer Products Shipper noted that carriers are showing concerns of increases in operating costs, which is driving up contractual rates.

Exhibit 1: Stocks Mentioned
Stocks mentioned include EXPD, JBHT, KNX, ODFL, RXO, SAIA, SNDR, TFII, UPS, and XPO

Ticker	Company	QRQ	RTNG	Price	PO
EXPD	Expeditors International	B-2-7	Neutral	$120.22	$126
JBHT	J.B. Hunt Transport Services	B-1-7	Buy	$156.95	$199
KNX	Knight-Swift Transportation	B-1-7	Buy	$47.09	$54
ODFL	Old Dominion Freight Line	B-2-7	Neutral	$173.04	$205
RXO	RXO	C-2-9	Neutral	$19.74	$22
SAIA	Saia, Inc	B-1-9	Buy	$403.74	$484
SNDR	Schneider National	B-2-7	Neutral	$21.86	$23
TFII	TFI International	B-2-7	Neutral	$131.88	$148
TFII	TFI International	B-2-7	Neutral	C$180.38	C$200
UPS	UPS	B-2-7	Neutral	$136.86	$160
XPO	XPO, Inc	C-1-9	Buy	$106.37	$135

Source: BofA Global Research estimates and Bloomberg

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Price objective basis & risk

Expeditors International (EXPD)

Our $126 PO is based on 25.0x our 2024 EPS estimate, above the midpoint of its all-time 15x-28x range (and above the top end of its 5-year 18x-24x range) as the operator moves past the trough of the Forwarding cycle (typically a late-cycle group in the Freight industry) in 2023. We are positive on Expeditors' strong core operating focus as well as its balance sheet strength yet view its share multiple as fair (premium to Forwarding peer average of 22x). We also remain cautious on continued excess capacity in Air and Ocean pressuring pricing. The challenging supply-demand backdrop highlight our uncertain view on near-term returns.

Downside risks are a softer than expected macro demand which could drag on volume growth and rates, intensifying competition (on pricing) from its Forwarding peers, and disruption in freight technology leading to share win for smaller, newer operators.

Upside risks are a faster than expected tightening in Air and Ocean capacity, better than expected macro demand leading to improved volume and rate increases, and accelerating attrition in Expeditors' workforce, which could lead to better-than-anticipated margins.

J.B. Hunt Transport Services (JBHT)

Our $199 price objective is based on a 31.5x target multiple of our 2024E EPS estimate. Our target multiple is above its 16x-23x one standard deviation trading band as earnings look to pass their trough in 2024.

Risks to our PO are a slowing economic environment, an inability for the company to raise rates to offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting costs or the company's image, or significant impacts (strikes, network outages) to the rail network of or its relationship with two major carriers impacting intermodal operations. Additional risks are regulatory changes impacting the flow of freight from the highway to rail, or rapidly falling fuel prices that could encourage freight to stay on the highway, its occasional arbitration with BNSF over rail rates, a sustained loose capacity truckload market that may overhang Intermodal pricing, and inability to obtain labor.

Knight-Swift Transportation Holdings Inc (KNX)

Our $54 price objective is based on a 21x target multiple on our 2025 EPS estimate. Our target multiple is above the mid-point of its one-standard-deviation 22-year historical trading range of 14x-25x on year ahead estimates, as it moves past trough earnings in '24. We view downside as somewhat limited given its diversified model and strong operational performance, and a truckload market that is beginning to work out excess capacity (though recognize the pendulum can overswing on rate declines and cost pressures). Nevertheless, given its diversification moves (LTL, Intermodal, Brokerage/Logistics, and Trucking/Dedicated) it looks to prove earnings will be more sustainable than in prior cycles, while it should be solidly levered to an improving market at this structure.

Risks to our price objective are volatility at its truckload segment (particularly its historical USX/SWFT segments, which is more exposed to large retail and project pricing), slower earnings growth from its LTL acquisitions, weaker-than-expected economic conditions, an inability for the company to have trucking rates offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting the company's image and finances, over-expanding (or acquiring assets) without maintaining its focus on cost controls, and a lack of growth opportunities, and the failure to complete the effective integration of US Xpress, which may affect its growth outlook.

Old Dominion Freight Line (ODFL)

Our $205 price objective is based on a 35.0x target multiple on our 2024 EPS estimate. Our target multiple is above the company's 20-year historical one-standard-deviation range of 13x-27x forward earnings, adjusted for outlier periods, and the top of its 3-year range of 28x-34x. We are at the top of its historical range given the seminal event in the LTL industry as Yellow declared bankruptcy, ODFL's sustained share gains, above-inflation cost pricing, and a robust free cash flow yield. It continues to post superior operating performance relative to peers and the favorable dynamics of the LTL industry.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Additionally, increasing LTL competition could limit Old Dominion's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. . A potential return of Yellow capacity could lead to increased freight capacity and negative pricing pressures.

Upside risks to our PO are stronger than expected pricing acceleration. A faster-than anticipated recovery in macro demand could lead to more robust earnings given the high operating leverage built into ODFL's operating model. The sudden exit of a peer operator could potentially drive additional tightness in LTL capacity, leading to higher-than-expected pricing.

RXO, Inc. (RXO)

Our $22 price objective is based on a 15.5x 2025E EV/EBITDA multiple, based on it passing through trough earnings and should see accelerating growth into the upturn. We hold a balanced view on shares as we remain positive on its ability to win share over its truck brokerage peers yet see risks to margins into a cycle upturn as cost of capacity moves higher.

Upside risks are a faster than expected inflection in the truck freight cycle, which may drive a rapid influx of spot-related project volumes for RXO. Increased shipper freight demand, which may lead upside to rates, as well as better-than-expected execution on cost reduction may result in higher than expected margins.

Downside risks are weaker than expected economic conditions resulting in more spot and less contract revenues, which could compress gross profit margins, it relies on third-party carriers to deliver customers freight (exposing it to service parameters it does not control, higher carrier prices which could decrease op income), fuel price volatility could impact results, unusual weather could impact operations (freight volumes), carriers status as independent contractors or labor disputes among its carrier base, risk to IT systems being compromised by cyberattacks, court decisions on insurance accident exposure from a 3rd party performance, ability to retain qualified employees, and cost initiatives may not prove fruitful (its target to eliminate some overhead costs).

Saia Inc. (SAIA)

Our $484 price objective is based on a 32x target multiple on our 2024 EPS estimate. Our target remains above its 14x-23x one-standard deviation 10-year trading range as it continues to be benefit from ramping EPS. Our target multiple is above the top end given its leading service, ability to win share, and disruption in the LTL market which can aid premiere carriers, which should more than offset a soft freight environment and slightly below target 1Q24 results.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Our price objective is also threatened by increasing competition, which could limit Saia's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. The less-than-truckload industry is competitive, with a large number of national and regional companies vying for business.

Schneider National (SNDR)

Our $23 PO is based on a 23.5x target multiple on our 2024 EPS estimate. Our target multiple is above its 10x-19x historical range, as we see 2024 as trough in an elongated freight downcycle. It is at a discount to average of best-in-class peer targets, which include a blend of peer historical averages (50% of SNDR's revs are Truck, which peers trade low double digits, currently, 20% is Intermodal and its peer trades at mid-20x, 20% is Logistics which peers trade at mid-20x multiples, and 10% is other, or low double-digits), yielding a mid-teen fair value multiple target. SNDR's diverse base is countered by increasing concerns of decelerating economic and freight flows.

Risks to our price objective are a cyclical downturn impacting freight flows, higher-than-expected costs from weather, driver pay, accident claims, fuel costs, and equipment prices. Given Schneider operates in a fragmented market, it may not have pricing power to adjust as costs rise in an improving market to offset an increased cost base. Additionally, the company is a 'controlled company' given A shares have 10:1 votes and are completely controlled by the Schneider family and trusts.

TFI International (TFII / YTFII)

Our US$148 price objective (C$200) is based on 22x our 2024 US$ EPS estimate, above the top of its 10-year one-standard deviation trading range of 11x-17x, as the company is executing on post-merger gains, transforming its North American LTL operations (post the acquisition of UPS Freight for $800 million), countered with a decelerating economic backdrop. Our target multiple is in the middle of where LTL peers (10x-30x) and US Parcel peers (10x-16x) are trending toward.

Downside risks to our price objective are weaker-than-expected economic conditions resulting in a turnover in demand, an inability for the company to raise trucking rates to offset rising costs (driver pay, insurance, depreciation, and fuel), intensifying competition in brokerage and logistics and acquisition selection and integration risk.

Upside risks to our price objective are better-than-expected pricing, more accelerated M&A moves to drive inorganic growth, or higher-than-expected share repurchases.

UPS (UPS)

Our $160 price objective is based on a 19.0x multiple on our 2024 EPS estimate, the middle of its 20-year one-standard-deviation 15x-23x historical range, as it focuses on premium revenues, margin improvement ("laser focus"), to counter volume and yield pressure. UPS sees an inflection in the small package market in 2Q24 and beyond. UPS continues its Better and Bolder focus (from Better, Not Bigger) after settling in post its labor contract renewal.

Risks to our estimates and PO are weaker-than-expected domestic or global economic performance, and external impacts to global trade (such as protectionism, trade wars, or tariffs), weather impacts, higher-than-expected fuel prices, increased ground delivery and price competition, disruptions with its employee-union relationships, and external disruptions to its cargo facilities or aircraft. Continued pressure on margins from growth of e-commerce vol given its lower delivery density. Upside risks to our PO are stronger-than-expected pricing growth, a faster-than-expected rebound in freight volumes, and margin improvements from accelerated cost reductions.

XPO, Inc. (XPO)

Our $135 price objective is based on a 36x P/E multiple on its 2024e EPS, above the upper end of peer range at 8x-24x, as we look for it to close the premium gap to best-in-class peers as it executes on its Network 2.0 growth plan and its purchase of Yellow real estate.

Downside risks to our price objective are a downturn in the global economy, which could reduce volume and pressure margins, while also potentially having a disproportionate impact on XPO's earnings given its leveraged capital structure. Long term inability to secure a sale of its Europe operation may also be a downside risk to our price objective. Its inability to improve cargo claims, insource linehaul, obtain tractors/trailers at pace it desires, and failure to improve pricing on its improved service levels would be a downside risk to targets/valuation. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian National	CNI	CNI US	Ken Hoexter
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Expeditors International	EXPD	EXPD US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Mar 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	67	50.38%	Buy	41	61.19%
Hold	32	24.06%	Hold	13	40.63%
Sell	34	25.56%	Sell	14	41.18%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1848	53.43%	Buy	1067	57.74%
Hold	810	23.42%	Hold	468	57.78%
Sell	801	23.16%	Sell	370	46.19%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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