

Subject: FW: US Equity Insights - 2017 S&P Outlook: Up...Financials led
From: Stewart Oldfield <[REDACTED]>
Date: Wed, 07 Dec 2016 08:39:27 -0500
To: Richard Kahn <[REDACTED]>
Bcc: [REDACTED],
[REDACTED]

From: David Bianco, Deutsche Bank [REDACTED]
Sent: Friday, December 02, 2016 6:30 AM
To: Stewart Oldfield
Subject: US Equity Insights - 2017 S&P Outlook: Up...Financials led

Deutsche Bank - Equity Research - North America

US Equity Insights - 2017 S&P Outlook: Up...Financials led
02 December 2016 (114 pages/ 6655 kb)

Download the complete report: <http://pull.db-gmresearch.com/p/2042-5D5D/-241776956/0900b8c08c22349e.pdf>

Trumponomics: Core policies very bullish, but some executive action tail risk

Republican sweep economic policies will be more about deregulation and tax cuts than protectionism or huge spending. We think so because big actions require legislation, which Congress will shape. This Congress is likely to resist surging deficits, protectionism and executive overreach. President-elect Trump can push his America first goals with orders and statements, some of which will be hard on investor's ears and some of it music. Often these will be negotiating starting points with US trade/ border/ defense partners or with Congress on the tax cuts & infrastructure spending. Our 2017 strategy expects pro growth policies, but also some bumps & disappointments along the way.

S&P should be 2250 by inauguration and 2300 upon a sizable corp. tax rate cut

The corp tax rate is likely cut in the first 100 days and other proposed major corp tax code changes deferred. The time in-between inauguration and tax cuts is risky, waiting for stimulus when rates and FX markets reflect such will cap stocks. Fed will pause until Act is passed. A 15% corp tax

rate is unlikely, but if cut to 25% from 35% it would align with the OECD avg and likely raise the deficit by only ~0.5% of GDP until growth can offset it. Cutting to 25% cuts repatriation taxes on a permanent basis and will also provide small businesses that want to reinvest their profits for growth a more tax efficient alternative than pass through entities. A 25% corp tax rate, all else equal, would boost S&P EPS by \$10 and support a quick S&P rally to 2300 and 2400 by 2017 end.

Financials and Health Care are our biggest over-weights, 20% upside in 2017

Financials and Health Care most preferred sectors for 2017. In-line market gains at Tech, Con. Disc., attractive real yields at Utilities, REITs. We stay UW Staples, Industrials, Materials & Energy on dollar headwind & demanding PEs.

Top themes for 2017:

- 1) Late cycle fiscal stimulus: A long, record rivaling, US expansion now likely
- 2) US corp tax rate cut: Biggest and quickest bang for the buck fiscal stimulus
- 3) US infrastructure: Positive headlines in 2017, but few new starts until 2018
- 4) Repatriation: Corp tax rate cut takes spotlight, but \$500bn to return if at 5%
- 5) Fed hikes: Dec '16, then June '17, then 2-4x annually with neutral of ~2%
- 6) 10yr Treasury yields: 2.25-2.75% in 2017, climbing to about 3% in 2018
- 7) Dollar: Grinding higher as fiscal stimulus takes hold and faster Fed hikes
- 8) Oil's new norm: Many challenges for oil to average above \$60/bbl in 2017
- 9) Reflation? More of wages than prices, Fed hikes to contain broad inflation
- 10) Financials OW: This is the year that Financials have long been waiting for
- 11) Health Care OW: Less political risk, same demographic tailwinds, low PEs
- 12) Tech EW: Remains core US equity holding, key bull market contributor
- 13) Cons Disc. EW: Good macro backdrop, domestic, but fierce competition
- 14) What are bond investors to do? Seek reliable real yield at Utilities
- 15) Energy, Industrials, Materials: Creditors patience might run out in 2017

Treasury yields have a long way to climb before threatening our PE targets

Our 2350 S&P target for 2017 end and 2500 for 2018 implies a 17-18 trailing PE, we're comfortable with this provided 10yr yields stay under 3% in 2017 and 3.5% in 2018. A rapid climb in yields could shock bond and real estate investors and drag on the economy. Thus, it's important that Congress right-size the stimulus and the Fed hike at a quicker pace as the stimulus kicks in to prevent an overheating labor market and restrain the climb in long-term yields.

David Bianco

Ju Wang [REDACTED]

Winnie Nip [REDACTED]

Please visit our group webpage at <https://gm.db.com/welcome.html?ger/-analyst/Analyst.eqsr?analystID=39531>

{Autobahn Mobile - now available on iPhone and iPad. Click here to download 'Deutsche Bank Autobahn' in the App Store: <https://itunes.apple.com/gb/app/deutsche-bank-autobahn/id646407534>}

Autobahn Mobile - now available on iPhone and iPad. Click here to download 'Deutsche Bank Autobahn' in the App Store: <https://itunes.apple.com/gb/app/deutsche-bank-autobahn/id646407534>

Click/ copy this link into a browser to access the report: <http://pull.db-gmresearch.com/p/2042-5D5D/241776956/0900b8c08c22349e.pdf>. If you have any difficulty accessing the report, please forward this email with the word 'PDF' in the subject line to GMResearch.Subscriptions@db.com. After 90 days you can access the report on our web site: <http://gm.db.com>.

You have received this mail because you have subscribed to David Bianco
For changes to your current research subscription, visit <https://gm.db.com/rsm> or email GMResearch.Subscriptions@db.com.

Please refer to the applicable legal disclaimers in the full report.

Mail Reference:0900b8c08c22349e/[REDACTED]

This communication may contain confidential and/or privileged information. If you are not the intended recipient (or have received this communication in error) please notify the sender immediately and destroy this communication. Any unauthorized copying, disclosure or distribution of the material in this communication is strictly forbidden.

Deutsche Bank does not render legal or tax advice, and the information contained in this communication should not be regarded as such.