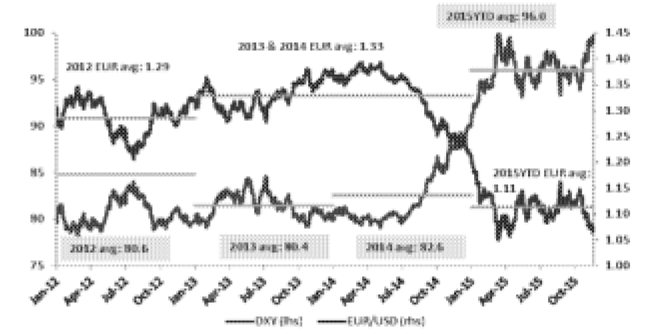
2016E S&P EPS cut from $128 to $125 mostly on stronger dollar and lower oil price assumptions

We have long cautioned that every 10% appreciation in the dollar vs. mature currencies drags on S&P EPS growth by 2.5%. Every dime the Euro declines vs. USD hits S&P EPS by $1. Every $5/bbl oil price decline hits S&P EPS by $1, net of small benefits outside of Energy, Industrial Capital Goods & Materials; which all suffer. Airlines, Consumer Staples & Discretionary firms benefit from lower oil prices, but most of the cost savings is passed forward to customers.

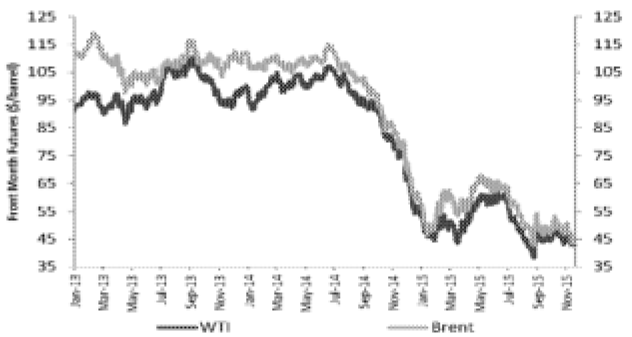
We lower our average 2016 Euro assumption from about $1.10 to $1.05. We raise our 2016 avg. DXY assumption from about 95 to 100. We lower our 2016 avg. oil price assumption from $60/bbl to $55/bbl and natural gas to $2.75. We also tempered our growth assumptions at US Retailers, Housing and Banks.

Figure 1: DXY & EUR/USD



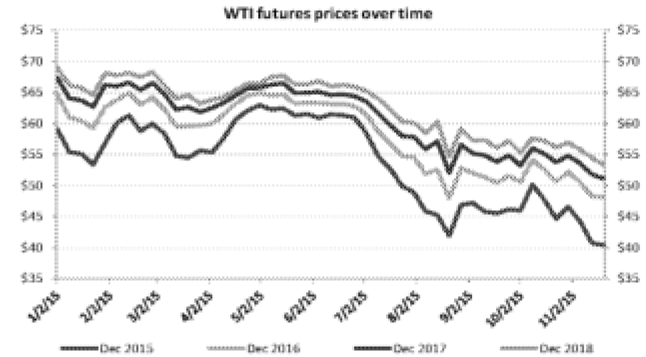
Source: Bloomberg Finance LP, Deutsche Bank

Figure 2: Oil prices (1st month futures)



Source: Bloomberg Finance LP, Deutsche Bank

Figure 3: WTI now expected to settle at ~$50 at 2016 end and stay under $55 even by 2018 end



Source: Bloomberg Finance LP, Deutsche Bank

Figure 4: Brent now expected to settle at ~$50 at 2016 end and stay under $60 even by 2018 end

Source: Bloomberg Finance LP, Deutsche Bank

Figure 5: Weak oil prices: Industry impact spectrum

Based on observed EPS history and DB estimates, oil prices have no material influence on Health Care or Telecom

Source: Deutsche Bank