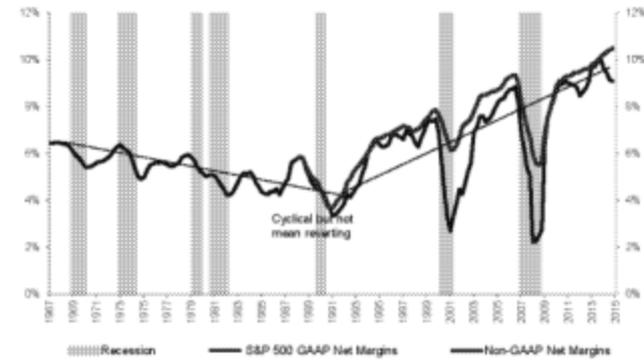




Margin expansion is possible, but upside counterbalanced by downside risk

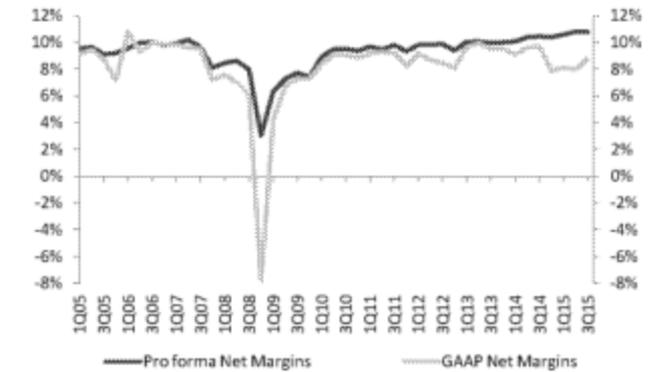
Fierce price competition at Retailers, more global competition at Industrials and the political threats at Health Care pose some sales risk, but mostly margin risk. There is also tax rate risk. Many are concerned about wage pressure on margins, but this is not a major risk for S&P firms. However, a tighter than expected labor market could lead to more Fed hikes than expected and thus EPS risks via dollar, oil or PE risk via credit market or higher Tsy ylds. Fed hikes are a small boost to S&P EPS.

Figure 33: S&P trailing 4qtr net margins



Source: Deutsche Bank, Compustat, IBES

Figure 34: S&P quarterly net margins



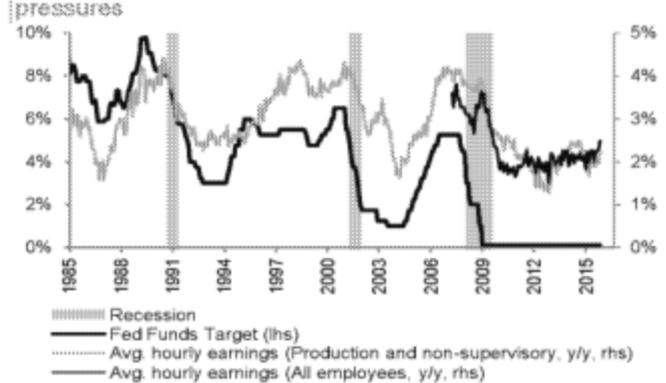
Source: Deutsche Bank, IBES

Figure 35: Labor participation in decline



Source: BLS, Deutsche Bank

Figure 36: Fed hikes yet to begin despite rising wage pressures



Source: BLS, FRB, Deutsche Bank