



5% delineates healthy from unhealthy S&P EPS growth and supports an 18 PE

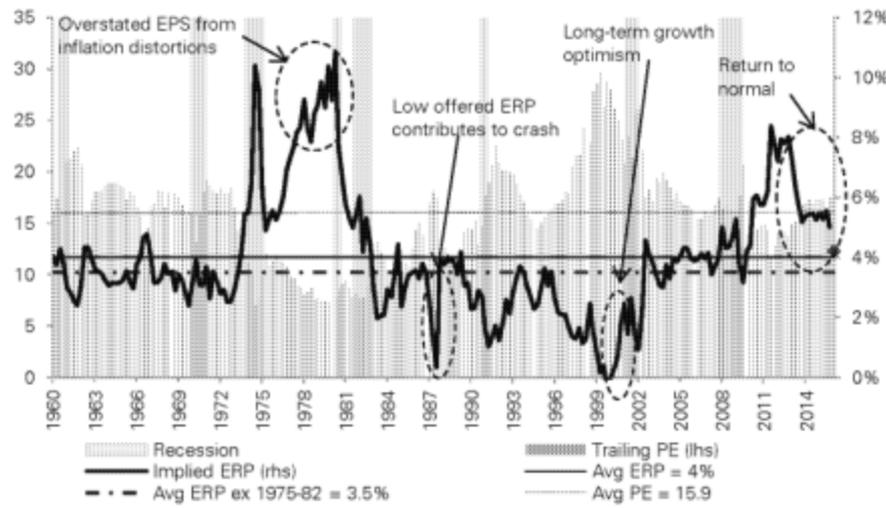
Our 1 year target of 18x trailing S&P EPS uses a 5.5% real and 7.5% nominal CoE. EPS is retained, so real EPS g must = real CoE - div yld to justify PE = 1/real CoE.

Figure 40: S&P fair valuation & real CoE by sector

	Market Value (\$bn)	Current 2015 PE	2015E Earnings (\$bn)	Nominal Rate	Nominal 2015E Earnings	Accounting Quality Adjustment	Fully Adjusted Earnings	Real CoE	Steady State Value	Growth Premium	2015 Stat Fair Value (\$bn)	2015E Dividend Yield	2015 End Fair Value (\$bn)	2015 End Fair Value P/E	2015 end Upside %
Consumer Discretionary	2,433	21.1	115.5	100%	115.5	-10%	103.0	5.25%	1,979	10%	2,177	1.4%	2,304	20.0	-9%
Consumer Staples	1,782	20.8	85.5	100%	85.5	-10%	77.0	5.00%	1,539	5%	1,816	2.8%	1,888	19.7	-4%
Energy	1,281	28.5	45.0	178%	80.0	-10%	72.0	6.25%	1,152	0%	1,152	2.3%	1,221	27.1	-9%
Financials	3,044	14.0	218.0	100%	218.0	-10%	196.2	6.25%	3,130	-5%	2,982	1.9%	3,171	14.5	4%
Banks	1,127	12.1	93.2	100%	93.2	-10%	83.9	6.50%	1,200	-5%	1,226	2.1%	1,305	14.0	18%
Health Care	2,628	17.0	154.5	98%	151.5	-10%	136.4	5.25%	2,587	10%	2,857	1.7%	3,015	19.5	15%
Industrials	1,930	16.8	115.0	98%	112.2	-10%	101.0	5.75%	1,750	0%	1,750	2.0%	1,857	18.1	-4%
Information Technology	3,939	17.5	225.0	100%	225.0	-10%	202.5	5.50%	3,082	5%	3,888	1.5%	4,098	18.2	4%
Materials	543	17.0	30.3	104%	31.4	-10%	28.3	6.25%	453	0%	453	2.2%	480	15.8	-12%
Telecom	420	12.6	33.5	100%	33.5	-10%	30.2	5.00%	603	-15%	513	5.5%	520	15.5	23%
Utilities	526	19.7	33.5	100%	33.5	-10%	30.1	5.00%	602	0%	602	3.9%	620	18.5	18%
S&P 500 (\$bn)	18,508		1055.7	102.9%	1086.0	-10%	977.4	5.50%	17,502	3%	17,974	2.0%	18,972		2.9%
S&P 500 Index (\$bn)	2091.24	17.5	119.0	100%	122.0	-10%	109.8	5.50%	1996.4	0%	1996.4	2.0%	2106.8	17.7	1.2%

Source: Deutsche Bank, IBES

Figure 41: S&P Trailing PE vs implied equity risk premium



Source: Deutsche Bank, S&P, IBES