

Deutsche Bank
Markets Research
North America
United States
Periodical

US Equity Insights

2016 S&P EPS growth to surge to 5%!

Falling standards of excellence this cycle: Is there an objective passing grade?

We reduce 2016E S&P EPS from \$128 to \$125. We're unsure of the tone of language appropriate to describe this reduction. Slashing or even cutting is too

harsh as our new estimate is merely 2.5% lower. This trimming shouldn't surprise investors given recent commodity and currency markets. So is \$125 good S&P EPS in 2016? Is it bullish or bearish? It's only 5% growth, subnormal

mid-cycle real EPS growth, but 10x better than 2015. Thus, S&P EPS growth is set to surge in 2016! But is there an objectively healthy S&P EPS growth rate?

In this note we present our new 2016E S&P EPS and we explain why a healthy S&P EPS growth rate is the nominal cost of equity less the dividend yield. 2016 S&P EPS cut from \$128 to \$125 on stronger dollar, lower oil 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. 2015 did not have healthy underlying revenue or EPS growth ex oil and dollar. S&P sales and operating EPS growth was broadly weak in 2015. Weakness extended beyond commodity producers and FX drags at multinationals. A surge in airline profits masked a significant Industrial Cap Goods profit decline.

Revenue was flat at Financials with EPS growth from less litigation than 2014.

No growth at Consumer Staples despite lower input costs. Good growth at Retailers, but disappointing given the macro tailwinds owing to fierce price competition. Strong at auto, but home builders disappointed. The strongest growth was at Health Care and consumer oriented Tech firms. Corporate tech spending on equip. and software remains very sluggish and chip makers were flattish on earnings given slow PC, handset and weak industrial end markets. Ex. Energy, Financials, HC and AAPL, AMZN & GOOG 2015 S&P EPS growth is

~-2.5%; this is the underlying trend with ~4% FX drag that should fall to ~-1.5%.

Stronger revenue growth is key to achieving healthy S&P EPS growth in 2016. Strong revenue growth at Health Care, better capex on productivity enhancers like tech equip/software, slower but still strong revenue growth at consumer oriented big cap Tech are key to our 4% S&P sales growth, 1% share shrink and flat net margin estimates for 2016. Some cyclically risky sectors like Auto,

Airlines, Chemicals & Semiconductors must avoid losing any earnings power. 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 a Tsy yield jump. Fed hikes are a small boost to S&P EPS.

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 a PE = 1/- real CoE.

Date

20 November 2015

David Bianco

Strategist

(+1) 212 250-8169

david.bianco@db.com

Winnie Nip

Strategist

(+1) 415 617-3297

winnie.nip@db.com

S&P 500 Key Forecasts

Price

Ju Wang

Strategist

(+1) 212 250-7911

ju.wang@db.com

2089.17

Next 5%+ move Balanced

Risk

2014

Year-end Target 2058.90

EPS

Target P/E

Current P/E

DPS
\$118
17.4x
17.7x
\$38.30
Related recent research
S&P should finish the year in
black, but more red ahead for
Energy
Amazing margins, but mind the
GAAP
A structural slowing of
Industrials: Investing around this
late cycle risk
Don't pull the plug on Health
Care
US Equity Strategy Baskets
High Foreign Cash (Repatriation
Beneficiaries)
Big-Cap Reasonable PE Tech
Challenged Industrial Capital
Goods
US Domestic Strength
2015E
20502100
\$119
17.4x
17.6x
\$41
2016E
22502300
\$125
18.2x
16.7x
\$44
Date
16
Nov 2015
8 Nov 2015
1 Nov 2015
23 Oct 2015
Bloomberg
Ticker
DBUSHIFC
DBUSBRT
DBUSCICG
DBUSDMST

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

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We also tempered our growth assumptions at US Retailers, Housing and Banks.

Figure 1: DXY & EUR/USD

2015YTD avg: 96.0

100

2013 & 2014 EUR avg: 1.33

2012 EUR avg: 1.29

75

80

85

90

95

2015YTD EUR avg:

1.11

2012 avg: 80.6

2013 avg: 80.4

2014 avg: 82.6

1.00

1.05

1.10

1.15

1.20

1.25

1.30

1.35

1.40

1.45

DXY (lhs)

Source: Bloomberg Finance LP, Deutsche Bank

EUR/USD (rhs)

Figure 2: Oil prices (1st month futures)

105

115

125

35
45
55
65
75
85
95

WTI

Source: Bloomberg Finance LP, Deutsche Bank

Brent

105
115
125
35
45
55
65
75
85
95

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

WTI futures prices over time

\$35
\$40
\$45
\$50
\$55
\$60
\$65
\$70
\$75
\$35
\$40
\$45
\$50
\$55
\$60
\$65
\$70
\$75
\$40
\$45
\$50
\$55
\$60
\$65
\$70
\$75
\$80

Figure 4: Brent now expected to settle at ~\$50 at 2016

end and stay under \$60 even by 2018 end

Brent futures prices over time

\$40

\$45

\$50

\$55

\$60

\$65

\$70

\$75

\$80

Dec 2015

Dec 2016

Source: Bloomberg Finance LP, Deutsche Bank

Dec 2017

Dec 2018

Dec 2015

Dec 2016

Source: Bloomberg Finance LP, Deutsche Bank

Dec 2017

Dec 2018

Figure 5: Weak oil prices: Industry impact spectrum

Detriment

Benefit

Energy

Industrial Cap Gds

Machinery

Materials

Metals & Mining, mixed for Chems

Utilities

MLPs

Rails

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

Source: Deutsche Bank

Tech

Financials

REITs

Cons. Disc.

Retailers

Cons. Staples

Transports

Packaged Food Airlines/Trucking

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Front Month Futures (\$/barrel)

Jan-13

Mar-13

May-13

Jul-13

Sep-13

Nov-13
Jan-14
Mar-14
May-14
Jul-14
Sep-14
Nov-14
Jan-15
Mar-15
May-15
Jul-15
Sep-15
Nov-15

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Figure 6: S&P 2016 EPS scenarios

Poor global growth (China ~5%)

A continued profit recession,

Foreign

Cons Disc

Cons Staples

Energy

Financials

Health Care

Industrials

Tech

Materials

Telecom

Utilities

S&P 500

per share

Avg oil price

Euro

Avg FF rate

US UE yr end

US GDP

Global GDP

Source: Deutsche Bank

Sales % Profits %

27%

28%

41%

18%

20%

36%

59%

49%

1%

6%

31%

FX A possible upside scenario

2015

2016

25%

28%

20%

15%

20%

35%

37%

40%

0%

6%
25%
115.5
85.5
45
218
154.5
115
225
30.3
33.5
33.4
1055.7
\$119
\$47
89
y/y 2016 EPS
128 10.8% 14.39
4.1% 10.01
6.75
60 33.3%
234
168
120
242
34.5
1142
\$128
\$60
1.10 1.10-1.15
0.2% 0.75%
5.0%
4.7%
2.5% 2.5-3%
3%
3.5%
34 12.2%
32.5 -3.0%
3.3%
7.3% 26.31
8.7% 18.89
4.3% 13.49
7.6% 27.21
3.82
3.65
3.88
8.2% 128.39
DB's base case for 2016 S&P EPS
2016
125
87.5

2015
115.5
85.5
45
218
154.5
115
225
30.3
33.5
33.4
1055.7
\$119
\$47
1.05
2.3%
52 15.6%
230
165
117
239
32.5
32.5
34.5
1115
\$125
\$55
1.05
0.2% 0.50%
5.0%
2.5% ~2.5%
3% ~3.0%
4.7%
y/y 2016 EPS
8.2% 14.05
9.84
5.85
5.5% 25.86
6.8% 18.55
1.7% 13.15
6.2% 26.87
7.3%
-3.0%
3.3%
but decent US and global GDP growth
y/y 2016 EPS
2015
115.5
85.5
45
218

3.65
3.65
3.88
5.6% 125.35
154.5
115
225
30.3
33.5
33.4
2016
125
85.5
230
161
232
34.5
1055.7 1064.5
\$119
\$47
1.05
\$40
0.90
0.2% 0.50%
5.0%
4.7%
2.5% ~2.5%
3% ~3.0%
8.2% 14.05
0.0%
30 -33.3%
5.5% 25.86
4.2% 18.10
105 -8.7% 11.80
3.1% 26.08
3.26
3.65
3.88
0.8% 119.68
\$120
29 -4.3%
32.5 -3.0%
3.3%
9.61
3.37
yet 2%+ US growth with low credit costs
Tight US labor mkt, Fed hikes >1% in 2016 Global recession and flat US GDP
y/y 2016 EPS
2015
115.5
85.5

45
218
154.5
115
225
30.3
33.5
33.4
1055.7
\$119
\$47
1.05
0.2%
5.0%
2016
122
85
233
160
225
5.6% 13.72
-0.6%
30 -33.3%
9.56
3.37
6.7% 26.16
3.6% 17.99
100 -13.0% 11.24
0.0% 25.30
2.92
3.60
3.82
26 -14.2%
-4.5%
1.8%
32
34
1046.7
\$118
\$40
0.90
1.2%
4.4%
2.5% 2.25%
3%
2.5%
-0.9% 117.68
2015
115.5
85.5
45

218
 154.5
 115
 225
 30.3
 33.5
 33.4
 1055.7
 \$119
 \$47
 1.05
 2016
 y/y 2016 EPS
 110 -4.8% 12.37
 83 -2.9%
 20 -55.6%
 210 -3.7% 23.61
 2.3% 17.76
 158
 90 -21.7% 10.12
 210 -6.7% 23.61
 23 -24.1%
 30 -10.4%
 32.5 -2.7%
 966.5 -8.4% 108.66
 \$109
 \$35
 0.85
 0.2% 0.25%
 5.0%
 2.5%
 3%
 6.5%
 0.5%
 1.5%
 2.59
 3.37
 3.65
 9.33
 2.25

Figure 7: S&P annual EPS rule-of-thumb sensitivities

Rules of thumb sensitivities

Oil prices: Every \$5/bbl decline in oil prices reduces S&P net income by roughly \$7.5bn or nearly \$1 EPS

Dollar FX rates: Every 10% appreciation in the dollar vs. mature currencies (DXY) tends to reduce S&P net income by \$20bn or ~\$2.50 of EPS

FF rate: Every 25bp on the FF rate, if it similarly moves net interest margins at banks is ~\$0.50 to S&P

US GDP: S&P EPS is most sensitive to US investment spending on equipment and software and exports

Global GDP: S&P EPS tends to be more sensitive to global GDP than US GDP

Source: Deutsche Bank

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Figure 8: S&P 500 Advised Sector and Industry Allocation (2014/15 PE based on DB US Equity Strategy top down sector and industry EPS estimates)

Market

Advised

Weight (%) Weight (%)

Sector

2015 2016

PE

PE

Biotechnology

Health Care Equipment & Supplies

14.5% 18.0% Health Care

17.0 15.9 Health Care Technology

Life Sciences Tools & Services

Pharmaceuticals

Technology Hardware, Storage & Peripherals

Internet Software & Services

IT Services

21.0%

Overweight

16.4%

17.2%

Financials

21.0%

Information

Technology

17.5

16.5 Semiconductors

Software

Communications Equipment

Electronic Equipment

Banks

Capital Markets

14.0 13.2 Consumer Finance

Electric Utilities

Gas Utilities

2.9%

2.3%

3.4%

2.6%

Utilities

15.7

15.2

Independent Power Producers

Multi-Utilities

Telecom 12.6 13.0 Telecommunication Services

Overweight

2015	2016	
PE		
PE		
15.1	13.5	
21.8	20.4	
27.2	23.6	
19.5	18.8	
17.1	16.3	
12.2	11.5	
29.8	26.6	
19.0	17.9	
16.6	16.1	
21.4	20.2	
12.2	11.7	
17.5	16.3	
12.1	11.5	Diversified Financial Services
15.0	13.9	Insurance
11.7	11.2	REITs
		Real Estate Mgmt. & Development
		Thrifts & Mortgage Finance
15.0	14.7	
21.2	19.8	
10.8	9.8	
17.1	16.5	
12.6	13.0	
		Auto Components
		Automobiles
		Distributors
		Equalweight
13.0%		
13.2%		
		Consumer
		Discretionary
21.1	19.5	
		Household Durables
		Leisure Products
		Multiline Retail
		Specialty Retail
		Internet & Catalog Retail
		Media
		Food & Staples Retailing
9.6%		
8.5%		
		Consumer
		Staples
20.6		
20.1		
		Airlines
		Underweight
10.3%		
8.5%		

Industrials

16.8

16.5

7.3

8.3 Building Products

Air Freight & Logistics

Commercial Services & Supplies

Industrial Conglomerates

Professional Services

Road & Rail

Chemicals

3.0%

2.6%

Materials

17.9

16.7

24.2

18.8

19.6

23.0

20.1

15.9

17.3

13.7

8.6

19.5

16.6

21.2

14.5

21.1

80.7

18.9

18.1

12.7 Diversified Consumer Services

8.2 Hotels, Restaurants & Leisure

18.2 Textiles, Apparel & Luxury Goods

14.7

20.0

13.6

19.4

64.6

17.8

17.5 Beverages

Food Products

Household Products

Personal Products

Tobacco

22.6 Aerospace & Defense

17.6 Construction & Engineering

18.7 Electrical Equipment

21.8 Machinery

18.3 Trading Companies & Distributors
 15.0
 16.5 Construction Materials
 Containers & Packaging
 Metals & Mining
 Paper & Forest Products
 7.0%
 5.0%
 Energy
 28.5
 Aggregate PE of DB Industry allocations
 S&P 500 Index
 Source: Deutsche Bank Markets Research
 24.6
 Overweight
 15.6
 2081.24
 14.9
 Equalweight
 2015 & 2016 DB Strategy EPS
 Bottom-up Cons. EPS
 18.5
 17.4
 Energy Equipment & Services
 Oil, Gas & Consumable Fuels
 Underweight
 119.0 125.0 2015 & 2016 DB Strategy PE
 118.8 128.5 Bottom-up Cons. PE
 23.1 22.9
 21.3 20.4
 20.6 20.0
 27.7 24.2
 20.3 20.6
 17.7 16.7
 13.7 13.7
 16.3 16.3
 15.5 16.0
 16.7 15.9
 45.6 38.0
 16.1 15.4
 28.3 18.5
 11.0 11.0
 20.9 29.9
 30.6 23.8
 21.3
 20.0
 17.5 16.6
 17.5 16.2
 18.3 16.7
 25.0 22.8
 23.6 21.5

20.9

12.3

18.8

17.4

33.2

19.3

11.7

18.0

16.1

11.7

Equalweight

2015 2016

PE

PE

Underweight

Health Care Providers & Services

2015 2016

PE

PE

16.0 15.2

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Figure 9: S&P EPS Model by sector – 2016 S&P EPS cut from \$128 to \$125 on stronger dollar, lower oil assumptions

EPS

Bottom-up

2005A

S&P 500 EPS (historical index)

S&P 500 EPS (current constituents)

Sector (\$ bn)

Consumer Discretionary

Consumer Staples

Energy

Financials

Health Care

Industrials

Information Technology

Materials

Telecommunication Services

Utilities

S&P 500 (\$ bn)

S&P ex. Financials (\$bn)

S&P ex. Energy (\$bn)

S&P ex. Tech (\$bn)

Energy & Financials (\$bn)

S&P ex. Energy and Financials (\$bn)

Key Macro Forecast

Global GDP growth (real, DB est.)

US GDP growth (real, DB est.)

US Bus. FI (Equip + IPP, DB est.)

US Unemployment Rate (year-end, DB est.)

US 10yr Treasury Yield (year-end, Our est.)

Bank Litigation (post-tax, \$bn)

Loan Loss Provisioning (% of loans, Our est.)

US\$/Euro (average/year-end, Our est.)

US\$/Euro (year-end, DB est.)

Avg Oil Price (WTI/Brent, \$/bbl)

Avg Natural Gas Price (Henry Hub \$/mmbtu)

\$76.28

\$79.53

51.6

94.0

133.8

68.6

63.2

83.6

17.4

13.9

21.4

603.1
469.3
509.1
519.5
227.8
375.3
2006A
\$88.18
\$91.14
53.9
57.0
2007A
2008A
2009A
2010A
\$85.12 \$65.47 \$60.80 \$85.28
\$93.81 \$71.79 \$64.23 \$88.54
2007 - 14 shown below is agg. net income, 2014 y/y is EPS growth:
55.6
52.5
61.1
114.3
173.1
73.0
71.0
97.6
21.2
18.0
23.4
702.6
529.4
588.3
605.0
287.5
415.1
118.7
143.8
81.8
83.9
121.4
24.8
26.4
25.9
740.2
596.5
621.6
618.8
262.4
477.8
40.9
66.8

141.5
-19.9
86.7
75.3
122.1
21.0
27.0
26.9
588.2
608.1
446.7
466.1
121.6
466.6
48.6
68.9
59.0
56.6
88.3
51.7
105.6
13.2
21.8
26.6
540.3
483.7
481.3
434.7
115.6
424.7
74.1
73.6
94.5
129.0
101.3
73.8
151.4
24.9
23.2
28.2
773.9
644.9
679.4
622.5
223.5
550.4
2011A
2012A
2013A
2014A
y/y

\$97.82 \$103.75 \$110.39 \$118.82 7.6%
\$99.73 \$105.09 \$111.63 \$117.75 5.5% \$118.84 0.9% \$128.55 8.2% \$119
84.0
78.0
129.7
132.5
109.6
88.2
175.2
31.7
22.4
29.5
880.7
748.2
751.0
705.4
262.1
618.5
90.4
78.7
122.1
162.6
112.5
94.3
185.7
29.2
23.9
29.8
929.1
766.6
807.0
743.5
284.6
644.5
99.5
84.2
113.9
189.1
117.9
102.5
193.1
30.5
25.1
30.4
986.2
797.1
872.3
793.1
303.0
683.2
102.9

86.2
112.3
189.9
136.3
113.4
209.8
32.7
30.7
33.2
1047.4
857.5
935.1
837.6
302.2
745.2
4.7% 5.2% 5.3% 2.7% -0.4% 5.2% 3.9% 3.2% 2.8% 3.4%
3.4% 2.7% 1.8% -0.3% -2.8% 2.5% 1.9% 2.8% 1.9% 2.6%
8.4% 7.1% 3.8% -3.1% -14.1% 9.4% 9.2% 5.9% 4.1% ~5.5%
4.9% 4.4% 5.0% 7.3% 9.9% 9.5% 8.6% 7.8% 7.0% 5.7%
4.4% 4.7% 3.9% 2.5% 3.8% 3.3% 1.9% 1.8% 3.0% 2.2%
8.9
5.7
8.4
14.3
23.3
0.8% 0.7% 1.3% 3.0% 4.2% 2.6% 1.2% 0.8% 0.4% 0.4%
1.25/1.18 1.26/1.32 1.37/1.46 1.47/1.40 1.39/1.32 1.33/1.29 1.39/1.30
1.28/1.32 1.33/1.38 1.33/1.21
56/54
8.67
Source: Deutsche Bank
Based on current constituents in the index unless specified
66/65
6.74
72/72
6.96
100/97
8.88
61/61
3.95
79/79
4.40
95/111
3.99
94/111
2.75
98/108
3.73
93/99
4.26
3.4% 115.5

2.4% 85.1
-1.5% 46.8
0.4% 216.8
15.6% 155.0
10.7% 116.3
8.6% 224.1
7.4% 30.6
22.1% 33.7
9.2% 33.2
6.2% 1057.1
7.6% 840.3
7.2% 1010.3
5.6% 833.0
-0.3% 263.6
9.1% 793.5
-1.3% 91.0
-58.4% 46.8
14.2% 235.5
13.7% 168.9
2.6% 121.5
6.8% 243.3
-6.5% 34.3
9.8% 34.9
-0.1% 34.4
0.9% 1143.4
-2.0% 907.9
8.0% 1096.6
-0.6% 900.1
-12.8% 282.3
6.5% 861.1
15.0% 115.5
6.9% 85.5
0.1% 45.0
8.6% 218.0
9.0% 154.5
4.4% 115.0
8.6% 225.0
12.0% 30.3
3.4% 33.5
3.7% 33.5
8.2% 1055.7
8.0% 837.7
8.5% 1010.7
8.1% 830.7
7.1% 263.0
8.5% 792.7
3.1%
2.1%
~4%
4.8%
2.25%

4.5
0.6%
~\$1.10
1.05
~\$50
~2.50
1.1% \$125
All 2015/16 estimates are aggregate earnings representative of EPS
12.3% 132.8
12.2% 125.0
-0.8% 87.5
-59.9% 52.0
14.8% 230.0
13.4% 165.0
1.4% 117.0
7.3% 239.0
-7.5% 32.5
9.1% 32.5
0.7% 34.5
5.0% \$122
8.3% 115.5
2.3% 85.5
15.6% 80.0
5.5% 218.0
6.8% 151.5
1.7% 112.2
6.2% 225.0
7.3% 31.4
-3.0% 33.5
3.1% 33.5
1.1% 1114.9 5.0% 1086.0
-2.3% 884.9
5.6% 868.0
8.1% 1062.9 5.2% 1006.0
-0.8% 875.9
-13.0% 282.0
6.4% 832.9
5.4% 861.0
7.2% 298.0
5.1% 788.0
3.5%
2.7%
~4%
4.5%
2.75%
2
0.5%
~\$1.05
0.90
~\$55
~2.75

<3%
0.75%
\$1.10-1.15
~\$65
~ 3.00
103%
100%
100%
178%
100%
98%
98%
100%
104%
100%
100%
103%
104%
100%
104%
113%
99%
2015E
y/y
2016E
y/y
2015E
DB US Equity Strategy
y/y
2016E
Normalized 2015
y/y
(\$) % of 2015

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Figure 10: S&P EPS Model by industry (1 of 2)

2005A

2006A

CONSUMER DISCRETIONARY (\$bn)

Auto Components

Automobiles

Distributors

Diversified Consumer Services

Hotels, Restaurants & Leisure

Household Durables

Internet & Catalog Retail

Leisure Products

Media

Multiline Retail

Specialty Retail

Textiles, Apparel & Luxury Goods

CONSUMER STAPLES (\$bn)

Beverages

Food & Staples Retailing

Food Products

Household Products

Personal Products

Tobacco

ENERGY (\$bn)

Energy Equipment & Services

Oil, Gas & Consumable Fuels

FINANCIALS (\$bn)

Capital Markets

Banks

Consumer Finance

Diversified Financial Services

Insurance

Real Estate Investment Trusts (REITs)

Real Estate Management & Development

Thrifts & Mortgage Finance

HEALTHCARE (\$bn)

Biotechnology

Health Care Equipment & Supplies

Health Care Providers & Services

Health Care Technology

Life Sciences Tools & Services

Pharmaceuticals

53.9

2007A

52.5

1,423

3,454

434
567
7,420
5,352
692
700
13,078
5,131
15,042
2,269
51.6
10,386
10,759
7,801
10,956
251
11,485
94.0
6,038
133.8
15,673
69,061
5,600
3,165
1,533
(1,711)
472
428
8,153
3,788
577
746
5,931
2,817
57.0
1,939
519
502
427
9,029
(2,025)
909
859
5,528
2008A 2009A 2010A
40.9
1,354
(6,288)
472
494
9,208

(2,460)
 1,158
 655
 4,344
 3,393
 66.8
 48.6
 332
 396
 501
 74.1
 2011A
 2007 - 2014 shown below is aggregate net income, 2014 y/y is EPS growth:
 55.6
 2,354
 69 12,291
 471
 438
 8,480 10,326
 (263)
 1,549
 831
 5,023
 3,383
 68.9
 1,384
 2,123
 1,016
 15,151 16,986 16,265 15,425 18,574
 6,196
 16,045 14,639 12,310 12,847 14,779
 3,236
 61.1
 4,099
 73.6
 11,407 13,256 14,398 14,586 16,411
 11,879 13,960 15,323 15,742 16,462
 8,266
 8,625
 268
 8,928 10,298 11,651
 13,058 14,777 16,354 16,955 16,521
 256
 222
 118.7
 143.8
 141.5
 243
 59.0
 12,135 10,242 11,529 11,062 12,137
 114.3

94.5
10,634 14,712 19,272 12,769 12,051
173.1
(19.9)
129.0
22,636 20,810 10,948 17,073 20,564
78,646 54,072 (17,914)
6,707
2,288
6,320
3,082
30,279
9,386
198
398
69.1
5,062
13,260
12,599
76
1,179
36,969
428
480
3,216
394
8,867
179
609
87.7
8,010
159
2,326
388 51,586
7,189
8,806 13,138
51,613 47,404 (26,200) 20,581 26,359
10,526 11,160
299
422
6,688
94
611
73.7
6,259
82.6
7,046
127
89.4
9,220
178

102.5
9,949
13,706 15,061 17,284 18,656 20,079
14,952 16,835 15,183 15,859 17,985

98

1,458

Source: Deutsche Bank, IBES

2007 - 2014 shown below is aggregate net income, 2014 y/y is EPS growth

2,326

2,500

2,103

2,756

37,226 41,208 44,533 43,409 51,559

220

9,293

206

644

382

84.0

3,566

12,310

559

393

11,867

1,986

2,343

1,096

22,014

6,987

16,018

4,887

78.0

17,613

17,336

12,715

15,795

485

14,025

129.7

14,886

132.3

15,695

55,025

9,910

2012A

90.4

3,782

10,832

642

415

12,003

3,597
2,042
1,209
25,579
7,302
17,370
5,671
78.7
17,300
19,249
10,963
16,064
572
14,531
122.1
16,874
87,976 103,680 103,941 122,236 46,261 82,431 114,789 105,211
56.6
11,536
27,881
12,463
288
(502)
110.9
11,009
21,631
20,796
283
3,278
53,915
162.6
18,152
67,599
10,824
13,752
36,495
14,899
344
500
114.1
12,292
22,952
22,813
366
3,544
52,089
2013A
99.5
4,616
11,678
646

452
12,536
5,643
2,980
1,225
27,898
6,680
18,721
6,379
84.2
18,055
20,396
13,666
16,617
674
14,794
113.9
17,681
96,265
188.8
23,804
76,558
12,217
15,412
43,545
16,466
409
415
119.5
14,114
18,523
24,935
433
3,619
57,897
2014A
y/y
102.9 3%
5,156 12%
705 9%
474 5%
2015E
y/y
2016E
y/y
2015E
115.5 12.3% 132.8 15.0% 115.5
5,384 4.4%
702 -0.4%
545 14.8%
755 7.5%

639 17.3%
 y/y
 6,255 16.2% 5,400 4.7%
 700 -0.7%
 550 16.0%
 2016E
 12.2% 125.0
 y/y
 5,800 7.4%
 750 7.1%
 600 9.1%
 Normalized 2015
 (\$) % of 2015
 8.3% 115.5
 100%
 5,400 100%
 9,867 -16% 14,184 43.7% 16,329 15.1% 14,000 41.9% 14,700 5.0% 14,000 100%
 700 100%
 550 100%
 12,652 1%
 4,350 -23%
 3,391 14%
 865 -29%
 30,273 9%
 7,300 9%
 20,781 11%
 7,048 10%
 86.2 2%
 18,510 3%
 21,253 4%
 14,968 10%
 16,534 0%
 685 2%
 112.3 -1%
 20,584 16%
 189.9 0%
 26,314 11%
 12,199 0%
 17,166 11%
 21,969 33%
 484 18%
 412 -1%
 13,627 7.7% 15,730 15.4% 13,700 8.3% 15,000 9.5% 13,700 100%
 4,800 100%
 4,850 11.5%
 4,415 30.2%
 815 -5.8%
 7,589 4.0%
 5,580 15.1% 4,800 10%
 800 -7.5%
 5,400 12.5%

6,654 50.7% 4,800 41.6% 6,000 25.0%
 927 13.8%
 850 6.3%
 8,328 9.7%
 91.0 6.9%
 7,500 2.7%
 8,000 6.7%
 7,900 9.7%
 87.5 2.3%
 4,800 100%
 800 100%
 32,747 8.2% 37,026 13.1% 33,000 9.0% 35,000 6.1% 33,000 100%
 7,500 100%
 23,331 12.3% 26,469 13.4% 23,000 10.7% 25,000 8.7% 23,000 100%
 7,200 100%
 100%
 7,316 3.8%
 85.1 -1.3%
 8,152 11.4% 7,200 2.2%
 85.5 -0.8%
 85.5
 18,361 -0.8% 19,513 6.3% 18,300 -1.1% 18,500 1.1% 18,300 100%
 22,173 4.3% 23,256 4.9% 22,500 5.9% 23,300 3.6% 22,500 100%
 14,029 -6.3% 15,722 12.1% 14,000 -6.5% 14,600 4.3% 14,000 100%
 15,844 -4.2% 16,575 4.6% 16,000 -3.2% 16,500 3.1% 16,000 100%
 700 100%
 683 -0.3%
 46.8 -58.4%
 779 14.2%
 46.8 0.1%
 700 2.3%
 800 14.3%
 14,274 -4% 14,031 -1.7% 15,147 8.0% 14,000 -1.9% 13,800 -1.4% 14,000 100%
 45.0 -59.9% 52.00 15.6%
 80.0
 216.8 14.2% 235.5 8.6%
 218.0
 178%
 10,696 -48.0% 6,890 -35.6% 10,000 -51.4% 7,000 -30% 15,000 150%
 91,707 -5% 36,065 -60.7% 39,930 10.7% 35,000 -61.8% 45,000 28.6% 65,000 186%
 218.0 14.8% 230.0 5.5%
 100%
 27,020 2.7% 30,868 14.2% 27,300 3.7% 29,500 8.1% 27,300 100%
 68,385 -11% 92,332 35.0% 98,156 6.3% 93,200 36.3% 98,000 5.2% 93,200 100%
 11,887 -2.6% 12,637 6.3% 12,000 -1.6% 12,500 4.2% 12,000 100%
 18,040 5.1% 21,396 18.6% 18,000 4.9% 19,500 8.3% 18,000 100%
 42,951 -1% 43,172 0.5% 46,390 7.5% 43,100 0.3% 45,000 4.4% 43,100 100%
 23,460 6.8% 25,009 6.6% 23,500 7.0% 24,500 4.3% 23,500 100%
 600 100%
 300 100%
 98%

586 21.0%
295 -28.4%
138.1 16%
26,719 89%
20,386 10%
26,541 6%
504 16%
4,464 23%
59,445 3%
667 14.0%
346 17.4%
155.0 12.3% 168.9 9.0%
600 23.9%
300 -27.2%
650 8.3%
350 16.7%
154.5 11.9% 165.0 6.8%
151.5
37,528 40.5% 40,218 7.2% 38,500 44.1% 43,000 11.7% 38,500 100%
19,364 -5.0% 21,291 10.0% 17,500 -14.2% 18,700 6.9% 17,500 100%
29,977 12.9% 33,541 11.9% 30,000 13.0% 31,500 5.0% 27,000
90%
632 25.5%
4,316 -3.3%
718 13.6%
650 29.0%
4,801 11.2% 4,350 -2.5%
750 15.4%
4,500 3.4%
650 100%
4,350 100%
63,174 6.3% 68,332 8.2% 63,500 6.8% 66,500 4.7% 63,500 100%

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Figure 11: S&P EPS Model by industry (2 of 2)

2005A

2006A

INDUSTRIALS (\$bn)

Aerospace & Defense

Air Freight & Logistics

Airlines

Building Products

Commercial Services & Supplies

Construction & Engineering

Electrical Equipment

Industrial Conglomerates

Machinery

Professional Services

Road & Rail

Trading Companies & Distributors

INFORMATION TECHNOLOGY (\$bn)

Communications Equipment

Technology Hardware, Storage & Peripherals

IT Services

Software

MATERIALS (\$bn)

Chemicals

Metals & Mining

Paper & Forest Products

TELECOMMUNICATION SERVICES (\$bn)

UTILITIES (\$bn)

Electric Utilities

Gas Utilities

Multi-Utilities

71.0

2007A

83.9

13,997

4,924

(2,963)

958

5,897

414

3,025

22,232

10,111

713

3,215

663

83.6

11,360

17,783
 Electronic Equipment, Instruments & Components 1,454
 Internet Software & Services
 3,551
 14,226
 Semiconductors & Semiconductor Equipment 15,276
 19,948
 17.4
 Construction Materials
 Containers & Packaging
 11,063
 526
 1,070
 4,204
 516
 13.9
 21.4
 12,373
 194
 772
 Independent Power and Renewable Electricity Producers
 8,057
 2008A 2009A 2010A
 75.3
 51.7
 73.8
 2011A
 2007 - 2014 shown below is aggregate net income, 2014 y/y is EPS growth:
 63.2
 16,143 21,089 21,283 17,753 20,532
 5,553
 (3,940)
 882
 5,114
 546
 3,631
 797
 5,754
 1,464
 659
 3,296
 844
 4,029
 4,721
 (2,835)
 109
 3,580
 1,242
 4,111
 857
 3,452

(3,356)
25
3,277
1,176
2,687
4,752
2,591
56
3,612
867
3,835
24,932 27,201 22,830 15,318 17,891
11,980 12,641 12,380
882
6,747 11,764
(90)
4,616
790
97.6
5,085
908
121.4
6,060
928
122.1
4,215
495
105.6
151.4
13,448 13,708 13,448 12,992 15,777
26,262 38,703 38,380 21,589 34,033
1,961
5,162
3,616
7,128
13,172 14,879
24.8
3,808
8,466
9,832
21.0
3,000
4,828
9,197 11,789
16,461 18,598 21,833 23,225 27,369
8,163 23,992
21,096 24,800 26,316 27,394 33,620
21.2
13.2
12,009 13,313 12,173
716

709
1,081
6,786
630
18.0
23.4
1,093
8,406

Source: Deutsche Bank, IBES

2007 - 2014 shown below is aggregate net income, 2014 y/y is EPS growth

1,516
8,338
950
26.4
25.9
211
1,260
9,176
360
1,559
6,108
843
27.0
26.9
208
1,959
9,449
1,328
2,995
371
21.8
26.6
223
1,670
24.9
8,405 15,424

102
(6)
1,438
7,168
878
23.2
28.2
13,646 15,204 15,261 14,857 16,442
213
1,178
9,888 10,358
238
920
6,264
728

88.2
23,118
5,745
1,563
7
3,650
1,062
4,848
20,687
17,511
1,324
7,648
1,060
175.2
17,039
47,528
4,530
13,955
30,354
23,937
37,905
31.7
20,512
(26)
1,297
8,540
1,332
22.4
29.5
17,508
236
1,138
10,605
2012A
94.3
23,181
5,984
2,400
112
3,396
1,366
5,051
22,656
18,886
1,557
8,280
1,427
185.7
18,963
57,598
3,754

16,068
31,272
19,351
38,660
29.2
20,796
46
1,296
5,858
1,155
23.9
29.8
17,984
290
986
10,544
2013A
102.5
26,449
5,992
5,724
474
3,645
1,390
5,821
23,844
16,710
1,744
9,002
1,689
193.1
21,367
53,981
3,780
19,854
35,794
20,165
38,190
30.5
22,693
128
1,444
4,819
1,401
25.1
30.4
18,830
304
555
10,741
2014A

y/y
113.4 11%
29,332 11%
6,361 6%
10,010 75%
599 26%
3,839 5%
1,525 10%
6,174 6%
24,285 2%
17,199 3%
2,006 15%
10,146 13%
1,963 16%
209.8 9%
21,413 0%
58,701 9%
4,304 14%
24,308 22%
36,653 2%
27,382 36%
32.7 7%
24,473 8%
333 160%
2,193 52%
4,469 -7%
1,280 -9%
30.7 22%
33.2 9%
19,691 5%
563 85%
1,085 96%
11,879 11%

2015E
y/y
116.3 2.6%
7,413 16.5%
4,013 4.5%

2016E
y/y
121.5 4.4%

2015E
y/y
115.0 1.4%

2016E
y/y
117.0 1.7%
8,258 11.4% 7,300 14.8% 7,800 6.8%
845 23.4%
4,289 6.9%
5,757 0.6%

700 16.9%
 4,000 4.2%
 750 7.1%
 4,200 5.0%
 Normalized 2015
 (\$) % of 2015
 112.2
 17,091 70.7% 14,805 -13.4% 17,000 69.8% 15,000 -12% 15,300
 684 14.3%
 1,296 -15.0% 1,394 7.6%
 5,723 -7.3%
 1,300 -14.7% 1,300 0.0%
 5,500 -10.9% 5,500 0.0%
 2,410 11.6% 2,100 4.7%
 2,300 9.5%
 2,000 5.3%
 239.0 6.2%
 98%
 29,413 0.3% 31,789 8.1% 29,300 -0.1% 31,000 5.8% 29,300 100%
 7,300 100%
 90%
 700 100%
 4,000 100%
 1,235
 5,225
 95%
 95%
 21,279 -12.4% 24,367 14.5% 21,000 -13.5% 22,100 5.2% 21,000 100%
 95%
 15,350 -10.7% 14,752 -3.9% 15,000 -12.8% 14,500 -3.3% 14,250
 2,160 7.7%
 9,834 -3.1% 10,675 8.5%
 2,088 6.3%
 224.1 6.8%
 2,171 4.0%
 243.3 8.6%
 9,900 -2.4% 10,500 6.1%
 1,900 -3.2%
 225.0 7.3%
 225.0
 2,100 100%
 9,900 100%
 1,900 100%
 100%
 21,374 -0.2% 22,026 3.1% 21,600 0.9% 22,500 4.2% 21,600 100%
 70,219 19.6% 75,362 7.3% 70,800 20.6% 75,000 5.9% 70,800 100%
 4,100 100%
 4,179 -2.9%
 4,510 7.9%
 4,100 -4.7%
 4,400 7.3%

25,112 3.3% 29,979 19.4% 25,500 4.9% 28,600 12.2% 25,500 100%
38,022 3.7% 41,148 8.2% 38,000 3.7% 40,300 6.1% 38,000 100%
27,838 1.7% 29,248 5.1% 27,500 0.4% 28,500 3.6% 27,500 100%
36,992 -3% 37,325 0.9% 41,026 9.9% 37,500 1.4% 39,700 5.9% 37,500 100%
30.3 -7.5%
30.6 -6.5%
532 59.8%
2,151 -1.9%
1,554 21.4%
33.7 9.8%
33.2 -0.1%
34.3 12.0%
864 62.3%
2,343 9.0%
500 50.1%
2,200 0.3%
32.5 7.3%
600 20.0%
2,300 4.5%
32.5 -3.0%
34.5 3.1%
375 7.1%
31.4
104%
24,522 0.2% 26,357 7.5% 24,500 0.1% 25,700 4.9% 24,500 100%
500 100%
1,857 -58.4% 3,054 64.4% 1,500 -66.4% 2,300 53.3%
1,665 7.2%
34.9 3.4%
34.4 3.7%
1,600 25.0% 1,600 0.0%
33.5 9.1%
33.5 0.7%
356 -36.7%
979 -9.8%
365 2.5%
1,033 5.6%
1,000
350 -37.8%
-8%
1,100 10.0%
2,200 100%
2,625 175%
1,600 100%
100%
100%
33.5
33.5
19,889 1.0% 20,402 2.6% 20,000 1.6% 20,500 2.5% 20,000 100%
350 100%
1,000 100%

11,968 0.8% 12,615 5.4% 12,100 1.9% 12,500 3.3% 12,100 100%

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Figure 12: S&P DPS Model by sector

2005

S&P 500 DPS (historical index)

S&P 500 DPS (current constituents)

Sector (\$ billions)

Consumer Discretionary

Consumer Staples

Energy

Financials

Health Care

Industrials

Information Technology

Materials

Telecommunication Services

Utilities

S&P 500

S&P 500 ex. Financials

Financials and Tech

S&P 500 ex. Financials and Tech

S&P 500 Banks

Source: Deutsche Bank, IBES

DB US Equity Strategy

Dividends

2006

2007

2008

2009

2010

2011

2012

2013

Payout Ratio (%)

2014 2007 2008 2009 2010 2011 2012 2013 2014 2015

\$22.21 \$24.89 \$27.73 \$28.38 \$22.41 \$22.73 \$26.43 \$31.24 \$34.99 \$39.44 33%
43% 37% 27% 27% 30% 32% 33%

\$23.24 \$26.02 \$29.40 \$28.31 \$22.48 \$23.86 \$27.13 \$31.44 \$35.78 \$38.31 31%
39% 35% 27% 27% 30% 32% 33% \$41

9.9

21.6

15.9

48.0

19.7

22.7

10.3

6.5

10.1

11.6

12.2
24.5
18.5
54.2
22.0
25.4
12.2
7.8
11.3
12.5
66.5
35.3
13.4
33.1
20.6
61.2
24.1
28.0
14.9
7.8
15.9
13.0
76.1
38.8
13.9
30.8
22.3
54.5
26.0
29.5
16.6
8.1
16.9
13.5
71.1
32.9
12.8
29.9
22.6
20.4
24.1
24.0
17.6
6.1
17.7
14.2
38.0
16.1
32.5
24.4
20.7

30.0
23.7
20.4
7.3
18.7
15.1
41.1
19.0
35.4
27.7
29.9
30.1
27.4
25.1
9.1
20.1
16.2
55.1
13.4
22.5
37.7
31.4
36.7
37.4
30.5
33.5
10.4
20.1
18.1
70.3
13.3
26.4
41.2
35.8
44.6
36.3
33.6
48.0
12.5
19.1
19.1
7%

\$44 7% 34% 35%

31.5 26% 34% 26% 22% 23% 25% 27% 31% 34.6 10% 38.1 10% 30% 31%

44.0 54% 46% 43% 44% 45% 48% 49% 51% 45.3 3% 47.3 4% 53% 54%

34.6 17% 16% 38% 26% 21% 26% 31% 31% 29.3

-15% 23.4 -20% 65% 45%

51.9 43% -274% 36% 16% 23% 23% 24% 27% 58.9 13% 66.7 13% 27% 29%

37.7 29% 30% 27% 30% 27% 33% 31% 28% 44.8 19% 49.5 10% 29% 30%

37.9 33% 39% 46% 32% 31% 32% 33% 33% 39.1 3% 40.9 5% 34% 35%

50.3 12% 14% 17% 13% 14% 18% 25% 24% 60.8 21% 69.3 14% 27% 29%

12.1 32% 39% 47% 29% 29% 36% 41% 37% 11.8
 -3% 12.0 2% 39% 37%
 21.5 60% 63% 81% 81% 90% 84% 76% 70% 23.5 9% 23.7 1% 70% 73%
 19.6 50% 50% 53% 53% 55% 61% 63% 59% 20.7 6% 21.7 5% 62% 63%
 176.3 200.7 232.1 232.2 189.4 208.9 239.9 278.4 316.6 341.2 31% 39% 35% 27%
 27% 30% 32% 33% 368.7 8% 392.7 6% 34% 35%
 128.3 146.5 170.9 177.7 169.0 188.2 210.0 241.6 272.0 289.3 28% 38% 39% 30%
 30% 32% 34% 35% 309.9 7% 326.0 5% 37% 37%
 58.3
 92.6 102.3 29% 70% 23% 15% 18% 20% 24% 26% 119.6 17% 136.0 14% 27% 29%
 118.0 134.3 156.0 161.1 151.4 167.8 184.9 208.1 224.0 239.0 31% 47% 46% 36%
 35% 37% 37% 38% 249.1 4% 256.7 3% 41% 40%
 19.0 72% NM NM 7% 24% 20% 21% 28% 23.3 22% 27.4 18% 25% 28%
 31.7
 5.3
 3.7
 16.2
 Dividends
 y/y
 2016
 y/y
 Payout (%)
 2015 2016
 Figure 13: S&P fair valuation by sector – we still see 5% downside to Energy
 Market
 Value
 (\$bn)
 Consumer Discretionary
 Consumer Staples
 Energy
 Financials
 Banks
 Health Care
 Industrials
 Information Technology
 Materials
 Telecom
 Utilities
 S&P 500 (\$ bn)
 S&P 500 Index (\$/sh)
 Source: Deutsche Bank, IBES
 2,433
 1,762
 1,281
 3,044
 1,127
 2,628
 1,930
 3,939
 543
 423

526
18,508
2081.24
17.5
Current
2015
PE
21.1
20.6
28.5
14.0
12.1
17.0
16.8
17.5
17.9
12.6
15.7
2015E
Earnings
(\$bn)
115.5
85.5
45.0
218.0
93.2
154.5
115.0
225.0
30.3
33.5
33.5
1055.7
119.0
Normal
Ratio
100%
100%
178%
100%
100%
98%
98%
100%
104%
100%
100%
102.9%
103%
Normal
2015E

Earnings

115.5

85.5

80.0

218.0

93.2

151.5

112.2

225.0

31.4

33.5

33.5

1086.0

122.0

Accounting

Quality

Adjustment

-10%

-10%

-10%

-10%

-10%

-10%

-10%

-10%

-10%

-10%

-10%

-10%

-10%

Fully

Adjusted

Earnings

103.9

77.0

72.0

196.2

83.9

136.4

101.0

202.5

28.3

30.2

30.1

977.4

109.8

Real

CoE

5.25%

5.00%

6.25%

6.25%
6.50%
5.25%
5.75%
5.50%
6.25%
5.00%
5.00%
5.58%
5.50%
Steady
State
Value
1,979
1,539
1,152
3,139
1,290
2,597
1,756
3,682
453
603
602
17,502
1996.4
Growth
Premium
10%
5%
0%
-5%
-5%
10%
0%
5%
0%
-15%
0%
3%
0%
2015 Start
Fair Value
(\$bn)
2,177
1,616
1,152
2,982
1,226
2,857
1,756

3,866
453
513
602
17,974
1996.4
2015E
Dividend
Yield
1.4%
2.6%
2.3%
1.9%
2.1%
1.7%
2.0%
1.5%
2.2%
5.5%
3.9%
2.0%
2.0%
2015 End
Fair Value
(\$bn)
2,304
1,688
1,221
3,171
1,305
3,015
1,857
4,096
480
520
620
18,972
2106.8
2015 End
Fair Value
PE
20.0
19.7
27.1
14.5
14.0
19.5
16.1
18.2
15.8
15.5

18.5
17.7
2015 end
Upside
%
-5%
-4%
-5%
4%
16%
15%
-4%
4%
-12%
23%
18%
2.5%
1.2%

20 November 2015

US Equity Insights

2015 did not have healthy underlying broad based revenue or EPS growth ex oil and dollar

S&P sales and operating EPS growth was broadly weak in 2015. Weakness extended

beyond commodity producers and FX drags at multinationals. A surge in airline profits

masked a significant decline in profits at Industrial Capital Goods. Revenue was flat at

Financials with EPS growth from less litigation than 2014. No growth at Consumer

Staples despite lower input costs. Good growth at Retailers, but disappointing given the

macro tailwinds owing to fierce price competition. Strong at auto, but home builders

disappointed.

The strongest growth was at Health Care and consumer oriented Tech firms. Corporate

tech spending on equip. and software remains very sluggish and chip makers were

flat on earnings given slow PC, handset and weak industrial end markets. Ex.

Energy, Financials, HC and AAPL, AMZN & GOOG 2015 S&P EPS growth is ~2.5%; this

is the underlying trend with ~4% FX drag that should fall to ~1.5%.

Figure 14: S&P Industrials ex. Defense sales growth vs.

Core capital goods shipments & Mfg ISM

-25%

-20%

-15%

-10%

-5%

0%

5%

10%

15%

20%

y/y growth

was high single-digit

y/y sales growth was low single-digit in 2014

when ISM was >55. 1H sales growth is negative

on lower Mfg ISM.

34.0

38.0

42.0

46.0

50.0

54.0

58.0

62.0

Industrials ex. Def sales growth (y/y, lhs)

Mfg ISM (3m avg, rhs)

Source: Census, ISM, IBES, Deutsche Bank

Core Capital Goods Shipment (3m avg, y/y)

New Orders

Source: Census, Deutsche Bank

Shipments

Figure 15: Core non-defense capital goods new orders & shipments

-30%

-25%

-20%

-15%

-10%

-5%

0%

5%

10%

15%

20%

Non defense Capital Goods ex. Aircraft (Core)

3mo average y/y

y/y growth

was double-digit

y/y growth has slowed down

since late 2014, and new orders

3mo average started to decline in

2Q2015

-30%

-25%

-20%

-15%

-10%

-5%

0%

5%

10%

15%

20%

Figure 16: Industrials ex. Airlines / Defense sales growth

-20%

-16%

-12%

-8%

-4%

0%

4%

8%

12%

16%

20%

24%
Sales growth
y/y
-20%
-16%
-12%
-8%
-4%

0%
4%
8%
12%
16%
20%
24%

Industrials

Source: IBES, Deutsche Bank

Industrials ex. Defense

Industrials ex. Airlines

Figure 17: Tech ex. AAPL & GOOG sales growth

-16%
-12%
-8%
-4%

0%
4%
8%
12%
16%
20%
24%

Sales growth
y/y

-16%
-12%
-8%
-4%

0%
4%
8%
12%
16%
20%
24%

Information Technology

Source: IBES, Deutsche Bank

Tech ex. AAPL & GOOG

Deutsche Bank Securities Inc.

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2006

1Q06

3006
1007
3007
1008
3008
1009
3009
1010
3010
1011
3011
1012
3012
1013
3013
1014
3014
1015
3015
2007
2008
2009
2010
2011
2012
2013
2014
2015
1006
3006
1007
3007
1008
3008
1009
3009
1010
3010
1011
3011
1012
3012
1013
3013
1014
3014
1015
3015
2000
2001
2002

2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015

20 November 2015

US Equity Insights

Figure 18: S&P EPS growth ex Energy, Fin., HC and
AAPL, AMZN & GOOG

EPS growth y/y

-60%

-50%

-40%

-30%

-20%

-10%

0%

10%

20%

30%

Energy

Financials Healthcare AAPL,

AMZN &

GOOG

2015 btm-up

Source: Gartner, Deutsche Bank (October 2015)

8.2%

0.9%

7.9%

2.5%

-12%

-10%

-8%

-6%

-4%

-2%

0%

2%

4%

6%

S&P S&P ex all of

above

2016 btm-up

Source: IBES, Deutsche Bank

2.5%

1.3%

3.1%

3.2%

3.4%

Figure 19: Global enterprise tech spending growth

forecast by region

-3.0%

2014

N. America

2015E

2016E

W. Europe

2017E

Japan

2018E

ROW

2019E

Global

Figure 20: Linear Technology (LLTC, broad-based Industrial player) Industrial bookings, weak through 1H16

100

110

120

130

140

150

160

170

180

-10%

-5%

0%

5%

10%

15%

20%

Figure 21: Aggregate Industrial revenues (DB US semiconductor coverage) expected to rebound after 1Q16

2500

2750

3000

3250

3500

3750

4000

Industrial bookings (m)

y/y

-10%

0%

10%

20%

30%

40%

50%

Industrial revenues (\$m)

Source: Linear Technology, Deutsche Bank estimates

Source: Company data, Deutsche Bank estimates

y/y

Figure 22: S&P 500 trailing 4-qtr EPS growth: 1960 – 3Q2015

-40%

-30%
-20%
-10%
0%
10%
20%
30%
40%

Est

1960-2014 CAGR: 6.7%

Aggressive Fed tightening
slowed GDP growth and
weighed on S&P EPS

Weak oil and
strong \$ weighed
on S&P EPS

Weak oil and
Russian default
weighed on
S&P EPS

Recession

S&P 500 Trailing 4-qtr EPS (y/y)

Source: IBES, Compustat, Deutsche Bank

CAGR avg.

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Deutsche Bank Securities Inc.

1960

1962

1964

1966

1968

1970

1972

1974

1976

1978

1980

1982

1984

1986

1988

1990

1992

1994

1996

1998

2000

2002

2004

2006

2008

2010
2012
2014

20 November 2015

US Equity Insights

Figure 23: S&P Sales growth lags US GDP growth...

-20%

-15%

-10%

-5%

0%

5%

10%

15%

20%

25%

30%

y/y % chg

Correl: 0.69

1977-79

GDP: 12.1%

Sales: 17.1%

1985-89

GDP: 6.8%

Sales: 5.3%

2H1993-99

GDP: 5.9%

Sales: 7.9%

Recession

Avg 1970-1990

GDP: 8.7%

Sales: 9.7%

Source: S&P, BEA, Deutsche Bank

Nominal GDP

2004-07

GDP: 5.6%

Sales: 9.2%

2H2011-2H14

GDP: 4.0%

Sales: 3.0%

S&P 500 Sales

Avg 1991-now

GDP: 4.5%

Sales: 4.9%

Recession

Source: BEA, Deutsche Bank

Real GDP

Real Exports of Goods

-20%

-15%

-10%

-5%

0%

5%

10%
15%
20%
25%
30%

Figure 24: ... even though GDP growth was not particularly strong

-20%
-15%
-10%
-5%

0%
5%
10%
15%
20%
25%

y/y % chg

1992-99

GDP: 4.0%

Exports: 8.0%

2003-07

GDP: 3.0%

Exports: 7.8%

-20%
-15%
-10%
-5%

0%
5%
10%
15%
20%
25%

Figure 25: Capex growth is key for healthier S&P Sales growth

y/y % chg

1967

capex

slowdown

1985-87

capex

slowdown

-20%
-15%
-10%
-5%

0%
5%
10%
15%
20%

25%
FY2015
estimates
1962-69
Domestic
infrastructure
GDP: 4.7%
Capex: 8.7%
Recession
Avg 1951-1970
GDP: 3.7%
Capex: 5.0%
Source: BEA, Deutsche Bank
1976-79
Oil boom
GDP: 4.3%
Capex: 10.4%
1992-99
Productivity
driven IT
capex boom
GDP: 4.0%
Capex: 10.3%
Real GDP
Avg 1971-1990
GDP: 3.2%
Capex: 5.7%
2003-07
Asia / export/
commodity capex
GDP: 3.0%
Capex: 6.3%
Capex (Equip. + IPP) y/y % chg
Avg 1991-2014
GDP: 2.6%
Capex: 5.3%
-20%
-15%
-10%
-5%
0%
5%
10%
15%
20%
25%
Figure 26: Spenders of capex (S&P 500 capex by sectors)
Healthcare
4%
Financials
5%

Telecom

6%

Energy

28%

Figure 27: Receivers of capex (GDP accounts – US capex
by type)

2014

27%

Energysensitive

Ag/Mining/

Const.

Equip.

6%

Tech

12%

\$711bn

Cons. Staples

6%

Materials

4%

Cons. Disc.

13%

Utilities

12%

Source: Company reports, Deutsche Bank

Source: BEA, Deutsche Bank

Industrials

10%

~54% S&P

heavy

industrial

Industrial Equip.

13%

\$1,720bn

Software

18%

Transportation

Equip.

16%

Other IPP

5%

R&D

17%

22%

Intangibles

Other Equip

7%

Medical Equip.

5%

Comm. Equip.

6%

Computers

5%

Other IT

2%

31% of

capex =

Tech &

Telecom

Deutsche Bank Securities Inc.

Page 11

1950

1954

1958

1962

1966

1970

1974

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2014

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US Equity Insights

Reiterating OW on Healthcare

Healthcare is 15.3% of US GDP (22.4% of PCE). The largest piece of this is healthcare

services as rendered by healthcare professionals, hospitals and other facilities. The

smaller but even faster growing part of Healthcare is drugs, devices and equipment. As

is typical for the S&P 500, the Health Care sector is more exposed to manufacturing

products than delivering services. We believe growth in healthcare products will stay

strong owing to an aging population and increasing efforts to treat conditions with

drugs and maximize the productivity of scarce healthcare labor with as many tools and

conveniences as conceivable. We believe S&P 500 Biotech, Pharma, Devices, Equipment, Supplies, Tech and Tools sit in the sweet spot of these trends.

We remain

cautious on Managed Care and other HC services and facilities.

Given superior growth, the sector normally trades at a 10% premium to the S&P, so the

current discount is rare. We see nearly 4pts of PE upside as we believe the sector

should trade at 18-20x fwd PE or ~20x trailing, if the 10yr Treasury yield doesn't

significantly exceed 3%. Currently, HC is trading at a 15.5-16x fwd PE, below S&P's

16.7x.

HC trailing PE is already as undemanding as it was in 1993 during the worst of the

Hillary Care sell-off back then as a 13-14 PE with 6-7% 10yr Tsy yields is more

demanding than a 14-15 trailing PE with 2-2.5% 10yr Tsy yields. So valuations are

similar or even less demanding now than during the bottom of the 1993 sell-off.

Moreover in 1993, Democrats held a Congress majority and when Republicans took it in

1994, Hillary Care stopped. Today, Republicans control Congress.

We expect 6%+ sales growth and ~7% EPS growth from S&P Healthcare next year, and

it has best sales and EPS estimates revision trends of any major sector. We also like its

low cyclicality and strong balance sheets. As the biggest and fastest growing part of US

GDP and household consumption, HC remains our most favored sector.

Figure 28: S&P Healthcare Trailing PE as low as during worst of Hillary Care sell-off in 1993

10

15
20
25
30
35
40
5

Figure 29: 10yr Treasury yields 6-7% in 1993 sell-off vs. 2-2.5% today

10
0
1
2
3
4
5
6
7
8
9

Source: Clarifi/Compustat, Deutsche Bank
Source: Bloomberg Finance LP, Deutsche Bank
Page 12

Deutsche Bank Securities Inc.

1990
1991
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2014
2015

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US Equity Insights

Figure 30: Relative price performance during Clinton healthcare initiatives in the 1992-1994 election

-20%

0%

20%

40%

60%

80%

100%

S&P 500

S&P Healthcare

Nov 1992: Clinton Elected

Jan 1993: Hillarycare task force created

Figure 31: Hit to Health Care since Hillary Clinton's tweet on Sept 21 (relative price performance)

Sept 1994: Sen Majority leader Mitchell declares Clinton initiatives dead

Clinton initiatives dead

-16.0%

-14.0%

-12.0%

-10.0%

-8.0%

-6.0%

-4.0%

-2.0%

0.0%

2.0%

4.0%

6.0%

S&P 500

S&P Healthcare

Sept 21: Hillary Tweets about drug prices

Source: IBES, Deutsche Bank

Source: IBES, Deutsche Bank

Reiterating UW on Energy

We continue to question the still highly elevated valuations at Energy stocks. YTD oil

prices are down nearly \$50 y/y, a huge headwind to Energy profits. Every \$5/-barrel

decline in oil prices reduces S&P annual net income by ~\$7.5bn or nearly \$1

EPS, as it hits S&P Energy profits by 10%, even as Energy companies cut costs aggressively.

We think Energy stocks are overvalued. We assume normalized oil prices of \$65-70

(40% gain vs. ~\$50 YTD average), but likely not achieved until 2017. For

normalized

Energy earnings, we forecast \$80bn on improved costs (60% gain in profits on 40% gain in oil price), but again, not until 2017.

However, at Energy's current ~\$1.3tr market cap, the market-implied normalized

Energy earnings is \$90bn in 2016, if a fair forward PE on normalized earnings is

assumed to be 15x. In fact, history suggests 13-15x fair fwd PE on normalized earnings

is more appropriate, in which case the market is implying an even higher normalized

Energy earnings of \$90-100bn in 2016. Note: we are not applying 13-15x on either our

forward Energy earnings or bottom-up consensus; we are using a 13-15x fwd 12-month

PE as suggested by history solely for the purpose of implying the level of Energy

earnings that the market currently expects to be achieved by 2016.

\$90bn+ of normalized earnings would imply that either an 80% gain in profits is

required on 40% gain in oil price (to \$65-70) for the entire sector, or that the market

assumes oil prices will normalize above \$70. Achieving \$90bn+ in profits even with

\$70/bbl oil will be challenging given:

1) oil service profits staying very weak given the capacity rationalization likely

needed to get oil prices to \$70/bbl,

2) natural gas prices that are likely to stay very depressed for a long time,

3) oil refining margins would suffer a big hit should oil prices rise to \$70/-bbl without

a large WTI to Brent price spread.

We think a fair intrinsic value for Energy at YE2015 is ~\$1.2tr or 25x our actual (but

sub-normal) estimate for 2016 Energy earnings of \$52bn. We see ~5% downside to

Energy stocks into YE2015, unless oil prices quickly rally to ~\$60 or higher. Credit

markets also support our cautious stance on Energy, as a comparison of equity risk

premium (EPS yield – 10 TIPS yld) vs. credit risk spreads by sector reveals that Energy

equities are expensive vs. the sector's debt. We think it is too early to rotate into Energy

equities and we maintain our UW on the sector.

Deutsche Bank Securities Inc.

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7/1/2015

7/8/2015

7/15/2015

7/22/2015
7/29/2015
8/5/2015
8/12/2015
8/19/2015
8/26/2015
9/2/2015
9/9/2015
9/16/2015
9/23/2015
9/30/2015
10/7/2015
10/14/2015
10/21/2015

20 November 2015

US Equity Insights

Stronger revenue growth is key to achieving healthy S&P EPS growth in 2016

Strong revenue growth at Health Care, better capex on productivity enhancers like tech

equip/software, slower but still strong revenue growth at consumer oriented big cap

Tech are key to our 4% S&P sales growth, 1% share shrink and flat net margin estimates for 2016. Some cyclically risky sectors like Auto, Airlines, Chemicals &

Semiconductors must avoid losing any earnings power.

Figure 32: S&P Quarterly EPS growth breakdown

-2%

0%

2%

4%

6%

8%

10%

12%

Average for the last 15 quarters (S&P 500):

EPS growth: 6.2%

Net income growth: 4.8%

EPS growth from share buybacks = 1.4%

Qtrly Net Income Growth y/y

Source: Deutsche Bank, IBES

EPS growth from share buybacks (earnings weighted)

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1Q12

2Q12

3Q12

4Q12

1Q13

2Q13

3Q13

4Q13

1Q14

2Q14

3Q14

4Q14

1Q15

2Q15

3Q15

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US Equity Insights

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

12%

10%

8%

6%

4%

Cyclical but not

mean reverting

2%

0%

2%

0%

Figure 34: S&P quarterly net margins

12%

10%

8%

6%

4%

-8%

-6%

-4%

-2%

0%

2%

4%

6%

8%

10%

12%

Recession

S&P 500 GAAP Net Margins

Non-GAAP Net Margins

Pro forma Net Margins

Source: Deutsche Bank, Compustat, IBES

Source: Deutsche Bank, IBES

GAAP Net Margins

-8%
-6%
-4%
-2%
0%
2%
4%
6%
8%
10%
12%

Figure 35: Labor participation in decline

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

58%
60%
62%
64%
66%
68%

Recession

Full-time employed (% of employed, rhs)

Source: BLS, Deutsche Bank

78%
80%
82%
84%
86%
88%

Participation rate (% of 16 yrs+ pop, lhs)

0%
2%
4%
6%
8%
10%

0%
1%
2%
3%
4%
5%

Recession

Fed Funds Target (lhs)

Avg. hourly earnings (Production and non-supervisory, y/y, rhs)

Avg. hourly earnings (All employees, y/y, rhs)

Source: BLS, FRB, Deutsche Bank

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2012
2015
1Q05
3Q05
1Q06
3Q06
1Q07
3Q07
1Q08
3Q08
1Q09
3Q09
1Q10
3Q10
1Q11
3Q11
1Q12
3Q12
1Q13
3Q13
1Q14
3Q14
1Q15
3Q15

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Figure 37: Large vs. small companies' compensation

\$10

\$15

\$20

\$25

\$30

\$35

\$40

\$45

\$50

\$0

\$5

Annual

Quarterly

150%

155%

160%

165%

170%

175%

180%

185%

Ratio

Pvt cos. with 1-99 employees total comp. \$/hr

Source: BLS, Deutsche Bank

Pvt cos. with 500+ employees total comp. \$/hr

Figure 38: S&P industry-level returns on interest rate changes

-30%

-20%

-10%

0%

10%

20%

30%

Correlation of 3m S&P industry total returns vs. 3m chg in real 10yr yield (2003-2014)

Source: FRB, IBES, Deutsche Bank

Figure 39: Higher overnight rates: Financials industries benefit spectrum

Most

Least

Online Brokers

Trust Banks

Asset Managers

Source: Deutsche Bank

Consumer Finance

Diversified Banks

Investment Banks

Regional Banks

Thrifts & Mortgage Finance

Exchanges
P&C Insurance
Life Insurance
REITs
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Commerical Banks
Distributors
Div Financial Svcs
Containers & Packaging
Airlines
Air Freight & Logistics
Div Consumer Svcs
Road & Rail
Consumer Finance
Construction Materials
Commercial Svcs & Suppl
Auto Components
Trading Co & Distributors
Aerospace & Defense
Specialty Retail
Electr Equip & Instru
Industrial Conglomerates
Household Products
Automobiles
Life Sci Tools & Svcs
Semi & Semi Equip
Office Electronics
Construction & Engineering
Building Products
Food Products
Real Estate Inv & Develop
Media
Health Care Technology
Electrical Equipment
Capital Markters
Textiles & Apparel
Paper & Forest Products
Insurance
Communication Equipment
Household Durables
Food & Staples Retailing
Biotechnology
Software
Multi-line Retail
Personal Products
Leisure Equip & Prod
Health Care Equip & Suppl
Machinery
Oil, Gas & Cons Fuels
Health Care Providers & Svcs

Thrifts & Mortgage Finance
Energy Epqt & Services
Internet Software & Services
Chemicals
Hotels, Resturants & Leisure
Pharmaceuticals
REITs
IT Services
Wireless Telecom Services DISC
Beverages
Tech Hardware, Storage & Peripherals
Internet Retail
Diversified Telcom Services
Tobacco
Gas Utlities
Power/Renewable Elec. Producers
Metals & Mining
Multi-Utilities
Electric Utlities
Q1.90
Q1.94
Q1.98
Q1.02
Q1.03
Q1.04
Q1.05
Q1.06
Q1.07
Q1.08
Q1.09
Q1.10
Q1.11
Q1.12
Q1.13
Q1.14
Q1.15

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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)

Consumer Discretionary

Consumer Staples

Energy

Financials

Banks

Health Care

Industrials

Information Technology

Materials

Telecom

Utilities

S&P 500 (\$ bn)

S&P 500 Index (\$/sh)

2,433

1,762

1,281

3,044

1,127

2,628

1,930

3,939

543

423

526

18,508

2081.24

Source: Deutsche Bank, IBES

17.5

Current

2015

PE

21.1

20.6

28.5

14.0

12.1

17.0

16.8

17.5

17.9
12.6
15.7
2015E
Earnings
(\$bn)
115.5
85.5
45.0
218.0
93.2
154.5
115.0
225.0
30.3
33.5
33.5
1055.7
119.0
Normal
Ratio
100%
100%
178%
100%
100%
98%
98%
100%
104%
100%
100%
102.9%
103%
Normal
2015E
Earnings
115.5
85.5
80.0
218.0
93.2
151.5
112.2
225.0
31.4
33.5
33.5
1086.0
122.0
Accounting

Quality
Adjustment

-10%
-10%
-10%
-10%
-10%
-10%
-10%
-10%
-10%
-10%
-10%
-10%
-10%

Fully
Adjusted
Earnings

103.9
77.0
72.0
196.2
83.9
136.4
101.0
202.5
28.3
30.2
30.1
977.4
109.8

Real
CoE

5.25%
5.00%
6.25%
6.25%
6.50%
5.25%
5.75%
5.50%
6.25%
5.00%
5.00%
5.58%
5.50%

Steady
State
Value

1,979
1,539

1,152
3,139
1,290
2,597
1,756
3,682
453
603
602
17,502
1996.4
Growth
Premium
10%
5%
0%
-5%
-5%
10%
0%
5%
0%
-15%
0%
3%
0%
2015 Start
Fair Value
(\$bn)
2,177
1,616
1,152
2,982
1,226
2,857
1,756
3,866
453
513
602
17,974
1996.4
2015E
Dividend
Yield
1.4%
2.6%
2.3%
1.9%
2.1%
1.7%

2.0%
1.5%
2.2%
5.5%
3.9%
2.0%
2.0%
2015 End
Fair Value
(\$bn)
2,304
1,688
1,221
3,171
1,305
3,015
1,857
4,096
480
520
620
18,972
2106.8
2015 End
Fair Value
PE
20.0
19.7
27.1
14.5
14.0
19.5
16.1
18.2
15.8
15.5
18.5
17.7
2015 end
Upside
%
-5%
-4%
-5%
4%
16%
15%
-4%
4%
-12%
23%

18%

2.5%

1.2%

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

10

15

20

25

30

35

0

5

Recession

Implied ERP (rhs)

Avg ERP ex 1975-82 = 3.5%

Source: Deutsche Bank, S&P, IBES

Trailing PE (lhs)

Avg ERP = 4%

Avg PE = 15.9

Overstated EPS from
inflation distortions

Low offered ERP

contributes to crash

Long-term growth

optimism

Return to

normal

0%

2%

4%

6%

8%

10%

12%

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1969

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S&P intrinsic valuation model

An EPS discount model

Our intrinsic valuation model combines our detailed S&P EPS analysis with our intrinsic

valuation expertise. We did this by creating a single-stage earnings discount model so

that we could intrinsically value the S&P 500 based upon our EPS estimates. Our EPS

discount model is consistent with the principles underlying a dividend discount model

(DDM) or a discounted cash flow (DCF) model, but the direct input is EPS and not DPS.

Our full valuation model, shown on page 21, can be daunting upon first glance, but it is

actually very simple at its core. The model simply capitalizes S&P 500 EPS.

$$\text{S\&P 500 value} = \text{normalized EPS} / \text{a fair long-term real return on S\&P 500 ownership}$$

While our model can be reduced to the basic formula above, the full version of our

model allows us to decompose and more closely examine our underlying assumptions.

Examining our assumptions piece by piece helps us to fully consider current macro

conditions and make more meaningful comparisons to history. It also allows us to

better compare our assumptions to market implied expectations and run sensitivity

tests. We validate the mechanics of our model by reconciling it to a dividend growth

model, as well as a DCF and economic profit valuation model. This helps ensure correct

math and provides us additional frameworks of thought to assess our assumptions.

A simple version of our model before introducing the full version

The simplest version of our model is just like a steady-state terminal value calculation in

a DCF model. We set DPS equals to EPS and assume long-term growth is only inflation.

Figure 42: Capitalize steady state earnings at the real cost of equity

Deutsche Bank's 2015E S&P 500 EPS

DB's "normal 2015E" S&P 500 EPS

"Normal 2015E" EPS / 2015E EPS

Accounting quality adjustment to pro forma EPS

Normal 2015E S&P 500 EPS fair to capitalize

Fair long-term return on S&P 500 index:

+ Long-term real risk free interest rate

+ Long-term fair S&P 500 equity risk premium

= Fair real return on S&P 500 ownership

+ Long-term inflation forecast

= Nominal S&P 500 cost of equity
S&P 500 intrinsic value at 2015 start
= Adj. normal EPS / (nominal CoE - inflation)
S&P 500 intrinsic value at 2014 end
= Year start value * (1 + nominal CoE - div. yld.)

Source: Deutsche Bank

\$119.00

\$122.00

103%

-\$12.00

\$110.00

1.50%

4.00%

5.50%

2.00%

7.50%

2000

2109

We capitalize our cyclically
normalized and accounting
quality adjusted pro forma
S&P 500 EPS estimate at the
real cost of equity.

This assumes that there will
be no long-term S&P 500
economic profit growth or
deterioration.

We try to stay disciplined
about our real cost of equity
assumption, usually 5.5-6.5%

We set our 12-month S&P
500 target using a fair
intrinsic value model.

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The drivers of our full S&P 500 intrinsic value model

Most of our valuation model inputs are fairly straightforward and typical of any intrinsic

value model; such as interest rates, risk premiums, retained earnings ratio, return on

reinvestment, etc. But our normalized EPS input tends to require additional explanation.

Understanding our normalized EPS estimates

We assess EPS normality or sustainability by evaluating the ability of current year EPS

to grow at a healthy rate over the next several years. If EPS cannot grow at a healthy

rate, which we approximate as the nominal cost of equity less the expected dividend

yield, then current year EPS must be considered cyclically peaked. It is not enough for

EPS to merely grow; in order to be considered normal or sustainable, EPS must grow at

a rate that yields a return equal to the cost of equity on any additionally retained EPS.

Let us explain further using our S&P 500 EPS estimates. Although our 2015E S&P 500

EPS is \$119, we think \$122 better represents normalized S&P 500 EPS for 2015. Apart

from Energy and Managed Health Care, we think 2015 earnings generally represent

normal mid-cycle earning for most sectors. We think Energy is under earnings in 2015

and parts of Health Care and some other industries over earnings. We think Managed

Health Care (HMOs) profits could drift lower on higher industry taxes, limits to premium

hikes and the mix of new enrollees weighted towards elderly or with pre-existing

conditions. Our \$122 normalized EPS estimate for 2015 captures the outlook for

improving profitability at Energy and weakness to come at HMOs. We consider our

2016E EPS of \$125 to be roughly \$2 shy of fully normalized mid-cycle earnings.

Comparing EPS growth expected over the next several years to a value neutral hurdle

rate is how we capture the magnitude of current cyclical EPS distortions and the time it

should take to return to healthy long-term growth in our normalized EPS estimates.

Why an accounting quality adjustment to normalized EPS?

We deduct \$12 from our normalized S&P 500 EPS estimate for accounting quality. Pro

forma or non-GAAP EPS tends to overstate and GAAP EPS tends to understate true

EPS. A good measure of EPS should capture what FCF per share would be when no investments are made for growth. At steady-state $EPS = FCF/sh = DPS$.

An EPS discount model versus a dividend discount model explained

In a dividend growth or free cash flow discount model, future flows can be discounted

directly because earlier period flows should be reduced by investments that fed growth.

However, earnings growth cannot be discounted directly because earnings growth fails

to account for what portion of prior period earnings were retained to feed growth. Thus,

an EPS discount model must separate EPS growth into two parts: 1) growth from reinvestment at returns equal to the cost of equity, 2) growth from returns in excess of

the cost of equity or economic profit growth. Our EPS discount model calculates value

by taking the present value of growth in economic profits (not ordinary profits) and

adds this to the capitalized value of current normalized EPS.

DCF: Value = PV of all future free cash flows

DDM: Value = PV of all future dividends

Economic Profit Model: Value = book value plus all future economic profits

Incremental EP Model: Value = capitalized EPS plus all future economic profit growth

Once economic profit growth stops, equity value is simply EPS capitalized at the real

cost of equity. This is because EPS growth only adds to steady-state value (EPS/real

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We reduce our pro forma

normalized EPS est. to ensure

that it represents steady-state

FCF per share and DPS.

Our normalized S&P 500 EPS

estimate is the main driver of

our intrinsic value model.

The mechanics of our model

are equivalent to a DDM.

Intrinsic value drivers:

1) Normalized EPS

2) Accounting adjustments

3) Long-term real interest rate

4) Equity risk premium

5) Growth premium

Inflation affects EPS quality,

and the risk premium.

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CoE), when EPS growth is greater than the retention ratio times the real cost of equity.

EPS growth that does not exceed this threshold is merely a dividend substitute.

Our full model allows for the consideration of economic profit growth

To really understand our valuation model, and for that matter our macro minded

intrinsic value driven investment strategy, it is very important to understand the

concepts of normalized earnings and economic profit growth potential.

Whenever we think about the worth of a business, we ask ourselves three questions:

- 1) What are its normalized and accounting quality adjusted earnings?
- 2) What is a fair rate at which to capitalize such normalized earnings?
- 3) Can the business replicate itself and increase its economic profits?

For the S&P 500 overall, the key investor debate is usually about normalized EPS and a

fair capitalization rate. Economic profit growth potential (or decline) is usually more of

an industry or company specific debate. Right now, the market seems dismissive of

long-term economic profit growth potential for the vast majority of big cap stocks. This

is a bit conservative relative to long-term market history, but contrasts sharply from the

late 1990s. This may provide the S&P 500 with additional upside over the long-term.

But over the shorter-term, overall market and relative sector performance will likely be a

function of 2016 & 2017 EPS outlooks and actual results and the course of interest rate.

Normalized vs. current EPS is a crucial PE driver for cyclical companies.

Often it is the

perception of normal EPS that drives short-term performance, but actual EPS through

the full cycle tends to drive most of long-term performance.

Confidence or uncertainty in the normalized EPS estimate, as well as in every intrinsic

value driver estimate, affects the fair PE. Confidence in normalized S&P 500 EPS has

risen from very low levels over the past few years as Financial profits have improved

and now that Energy profits declined due to the collapse in highly elevated oil prices.

But what is a fair cost of equity?

Valuing normal EPS and estimating economic profits requires a cost of equity estimate.

The cost of equity is the long-term risk free interest rate plus an equity risk premium.

Today's long-term real risk free interest rate is among the lowest in history, at 0.500.75%
10yr TIPS, versus a 2-3% norm. Our intrinsic value model and target PE assume that real interest rates stay below the low end of their normal range. Because cyclical fluctuations in rates and risk premiums are opposite in direction, we think it is good practice to estimate a normalized interest rate and add to it a normalized risk premium. The real cost of equity assumed in our intrinsic valuation model is 5.5%. This assumes a 1.5% long-term real interest rate (10yr TIPS yield) and a 4% ERP. This risk premium is in-line with the upper range of the 3-4% typically observed on both an ex. ante and ex. post long-term basis. We use the upper end of the normal ERP range given that we are using the lower end of the normal long-term real interest rate range and we do not want to deviate too much from a real cost of equity of 5.5%-6.5% (we have used 7% for short periods of severe risk) as this range best proxies most measures of long-term real returns on S&P 500 ownership. Focus on secular changes in interest rates. Real interest rates are far below their historical nom. This is likely attributable to both cyclical and also secular causes. Our full model details our assumptions and allows consideration of economic profit growth potential. Right now the market is focused on what are typically value investor debates. Perception of normal EPS tends to drive short-term performance, but actual EPS through the full cycle drives most of the market's longterm performance.

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Figure 43: Our S&P 500 Intrinsic Valuation Model

S&P 500 Capitalized EPS Valuation

Deutsche Bank's 2015E S&P 500 EPS

DB's "normal 2015E" S&P 500 EPS

"Normal 2015E" EPS / 2015E EPS

Accounting quality adjustment to pro forma EPS

Normal 2015E S&P 500 EPS fair to capitalize

Key principle: steady-state value = normal EPS / real CoE

S&P 500 EPS Capitalization Valuation

Normal EPS / (real CoE - (EM/payout) - EM):

S&P 500 intrinsic value at 2015 start

S&P 500 intrinsic value at 2015 end

Implied fair fwd PE in early 2015 on 2015E \$119 EPS

Implied fair trailing PE at 2015 end on 2015E \$119 EPS

Normal EPS / (real CoE-value added EPS growth)

S&P 500 Dividend Discount Model

S&P 500 Long-term EPS & DPS Growth

\$119 Deutsche Bank's 2015E S&P 500 DPS

2015E dividend payout ratio

\$122 DB's "normal 2015E" S&P 500 DPS

103% Normal dividend payout ratio

-\$12.00 EPS directed to net share repurchases

Normal share repurchase payout ratio

\$110 Total payout of S&P 500 EPS

Total payout rate

S&P 500 DPS Discount Model

Normal DPS / (nominal CoE - DPS growth):

2000 S&P 500 intrinsic value at 2015 start

2109 S&P 500 intrinsic value at 2015 end

16.8

17.7

2000

Implied fair forward yield on 2015E DPS of \$41.0

Implied fair trailing yield on 2015E DPS of \$41.0

DPS discount model using true DPS (all payout)

\$41.00 Deutsche Bank's 2015E S&P 500 aggregate ROE

34% 2014 end S&P 500 book value per share

\$41.00 DB's "normal 2015E" S&P 500 aggregate ROE

37%

S&P 500 EPS retained for true reinvestment

\$26.50 Estimated ROE on reinvested S&P 500 EPS

24% Economic margin (EM) or ROE-CoE

\$67.50 Sources of long-term earnings growth:

61% + Long-term inflation forecast

+ Fair return on true reinvestment

+ Value added return on true reinvestment

= Long-term earnings growth

2000 + Growth from net share repurchases
 2109 = Long-term S&P 500 EPS/DPS growth
 2.05% + Fair normal dividend yield
 1.94% = Total shareholder return at constant PE
 2000
 Value added growth premium in fair value est.
 S&P 500 Cost of Equity & Fair Book Multiple
 15.9% Fair long-term nominal return on S&P 500 index
 \$750 Components of estimated fair S&P 500 return:
 14.7% + Long-term real risk free interest rate
 + Long-term fair S&P 500 equity risk premium*
 39% = Long-term real S&P 500 cost of equity
 7.50% + Long-term inflation forecast
 0.00% = S&P 500 nominal cost of equity
 2.00%
 2.13% Fair S&P 500 Market Value and Book Value Multiple
 0.00% 2014 end S&P 500 book value per share
 4.13% Fair PB = Fair PE * normal aggregate ROE
 1.33% Fair PE = (ROE-g) / (real ROE*(real CoE-real g))
 5.45% Implied S&P 500 fair value of book at 2015 start
 2.05% Steady-state PB = normal agg. ROE / real CoE
 7.50% Confirmed by fair steady-state PE = 1 / real CoE
 0%

Normal 2015E economic profit per share
 S&P 500 EPS discount model 5 steps to value:
 1) Estimate normalized S&P 500 EPS
 2) Adjust normalized EPS for pro forma accounting quality
 3) Estimate a fair long-term real return on S&P 500 ownership (CoE)
 4) Capitalize normalized and accounting quality adj. EPS at real CoE
 5) Consider long-term potential for value added growth opportunities

Source: Deutsche Bank

Real
 cost of
 equity

Sensitivity matrix of S&P fair value at 2015 yearend to normalized EPS and Real CoE

Normal 2015E S&P 500 EPS

5.00%
 5.25%
 5.50%
 5.75%
 6.00%
 \$118
 2227
 2124
 2031
 1945
 1867
 \$120
 2270
 2165

2070
1983
1903
\$122
2313
2206
2109
2020
1939
\$125
2377
2267
2168
2077
1993
\$130
2484
2370
2265
2170
2083
\$135
2591
2472
2363
2264
2173
\$750
2.67
18.2
2000
2.67
18.2
\$68.75
7.50%
1.50%
4.00%
5.50%
2.00%
7.50%

* S&P 500 ERP usually 300-400bps, w/ real CoE @ 5.5% - 6.5%

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What's normal S&P EPS growth? It depends on EPS retention.

Figure 44: S&P nominal and real trailing 4-qtr EPS growth (y/y % chg)

-40%
-30%
-20%
-10%
0%
10%
20%
30%
40%
50%
60%

S&P 500 EPS CAGR from
1960-2013 was

Nominal: 6.7%

Real: 2.8%

1960-2013 Nominal CAGR: 6.7%

1960-2013 Real CAGR: 2.8%

Series2

Nominal 1yr EPS growth

Source: S&P, Deutsche Bank

Real 1yr EPS growth

Figure 45: Rolling 3yr and 10yr Real EPS growth

-20%
-10%
0%
10%
20%
30%

Median Rolling Real EPS Growth:

1960-1993: 3yr CAGR 1.2%; 10yr CAGR: 1.9%

1994- 2013: 3yr CAGR 7.3% ; 10yr CAGR: 5.4%

-20%
-10%
0%
10%
20%
30%

Rolling 3 yr Real EPS CAGR

Source: S&P, Deutsche Bank

Rolling 10yr Real EPS CAGR

Rolling 3yr and 10yr CAGR of

real EPS growth show higher

EPS growth since mid 1990s

than from 1960 to 1990

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2008
2011
2014

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Figure 46: S&P 500 dividend payout ratio and subsequent EPS growth trend

30%

35%

40%

45%

50%

55%

60%

65%

Median Forward 10yr

TrendEPS Growth:

1960-1984: 1.4%

1985-2004: 4.5%

-2%

0%

2%

4%

6%

8%

10%

12%

3yr Avg. Div Payout (lhs)

Subsequent 10yr Real EPS Trend Growth (rhs)

Note: EPS trend growth is the regressed exponential growth rate that best explains all observed EPS over the subsequent 10yr period

Source: S&P, Deutsche Bank

Is the empirical proof that retained earnings affect long-term EPS growth?

The empirical evidence on earnings retention and long-term EPS growth is inconclusive. However, the theory is robust and consistent with DCF based corporate finance.

Figure 47: S&P div payout ratio vs. subsequent 10yr rolling real EPS growth (1960-2004)

-3%

-2%

-1%

0%

1%

2%

3%

4%

5%

6%

7%

8%

30%

1990

1986

1992

2003

2004
2000
1996
1997
1994
1995
1988
1984
1978
1998
1979 1980
1999
1974
1976
1973
35%
40%
1981
45%
50%
55%
60%
Dividend payout ratio (%)
Source: Deutsche Bank
65%
70%
75%
80%
1972
1965
1966
 $y = 0.1055x - 0.0228$
 $R^2 = 0.1718$
1977
1975
1989
1987
1983
1985 1993
1971
1968
1969
1982
1963
1961
1964 1962
1967
1960
2002
2001
1970

1991

The chart above shows a positive relationship between payout ratio and subsequent 10 year real EPS growth. However, the data includes recessions, which causes payout ratios to surge and associated subsequent EPS growth to be measured from depressed levels. The regression is inconclusive if one excludes years with payout ratio > 60% or 10yr EPS growth <1% (chart below).

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Subsequent 10yr rolling real EPS growth

1960

1962

1964

1966

1968

1970

1972

1974

1976

1978

1980

1982

1984

1986

1988

1990

1992

1994

1996

1998

2000

2002

2004

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Figure 48: S&P 500 div payout ratio vs. subsequent 10yr real EPS growth (1960-2004, excluding years with EPS growth <1% or dividend payout >60%)

0%

1%

2%

3%

4%

5%

6%

7%

8%

$y = -0.0044x + 0.0382$

$R^2 = 0.0005$

1986

1996

1995

2003

1997

2004

1988

1983

1984

1982

2000

1978

1998

30%

35%

40%

45%

Dividend payout ratio <60%

Source: Deutsche Bank, S&P, IBES

50%

55%

60%

1975

1969

1971

1964

1968 1967

1962

1960

1963

1994

1989 1987

1985

2002

1993

Years excluded in Figure 149 are: 1961, 1965, 1966, 1970, 1972, 1973, 1974,

1976, 1977, 1979, 1980, 1981, 1990, 1991, 1992, 1999 and 2001. The years in bold are the ones which were recession at start of the 10yr period and the years underlined were recession at the end of the 10yr period.

Figure 49: Real S&P 500 earnings growth and dividend yield

-40%
-30%
-20%
-10%
0%
10%
20%
30%
40%
50%

Real Trailing EPS y/y Growth

Source: Deutsche Bank, IBES, S&P

In concept, the higher the payout the more the fair PE converges with a steady-state PE of 1/real CoE. The S&P PE is often above average when its dividend payout ratio is high, but this is usually because its EPS is cyclically

depressed following recessions. Some studies suggest that high dividend payout ratios lead to strong EPS growth, but this fails to account for the distortion of cyclically peaked payout ratio and then EPS growth measured from depressed levels.

long and strong growth periods

-40%
-30%
-20%
-10%
0%
10%
20%
30%
40%
50%

Real Trailing EPS y/y Growth + Div Yield

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1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980

1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014

Subsequent 10yr rolling EPS growth >1%

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Figure 50: S&P 500 trailing PE vs. dividend payout ratio (1960-2014)

70%

60%

50%

40%

30%

20%

Recession

Dividend Payout Ratio (trailing 4-qtr, lhs)

Source: I/B/E/S, S&P, Deutsche Bank

10

15

20

25

30

35

5

5

25%

S&P 500 Trailing PE (rhs)

30%

35%

Source: I/B/E/S, S&P, Deutsche Bank

40%

45%

50%

Dividend Payout Ratio (trailing 4-qtr)

55%

60%

65%

Figure 51: S&P 500 trailing PE vs. dividend payout ratio (1960-2014, ex. recessions and 1 year after recessions)

10

15

20

25

30

35

$y = -1.8307x + 16.679$

$R^2 = 0.0015$

1960-2014 (excluding recessions and the year followign recessions)

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1960

1965

1970

1975

1980
1985
1990
1995
2000
2005
2010
S&P 500 Trailing PE

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Deutsche Bank Securities Inc.

Figure 52: Our S&P Intrinsic Valuation Model

S&P 500 Capitalized EPS Valuation

Deutsche Bank's 2015E S&P 500 EPS

DB's "normal 2015E" S&P 500 EPS

"Normal 2015E" EPS / 2015E EPS

Accounting quality adjustment to pro forma EPS

Normal 2015E S&P 500 EPS fair to capitalize

Key principle: steady-state value = normal EPS / real CoE

S&P 500 EPS Capitalization Valuation

Normal EPS / (real CoE - (EM/payout) - EM):

S&P 500 intrinsic value at 2015 start

S&P 500 intrinsic value at 2015 end

Implied fair fwd PE in early 2015 on 2015E \$119 EPS

Implied fair trailing PE at 2015 end on 2015E \$119 EPS

Normal EPS / (real CoE-value added EPS growth)

S&P 500 Dividend Discount Model

S&P 500 Long-term EPS & DPS Growth

\$119 Deutsche Bank's 2015E S&P 500 DPS

2015E dividend payout ratio

\$122 DB's "normal 2015E" S&P 500 DPS

103% Normal dividend payout ratio

-\$12.00 EPS directed to net share repurchases

Normal share repurchase payout ratio

\$110 Total payout of S&P 500 EPS

Total payout rate

S&P 500 DPS Discount Model

Normal DPS / (nominal CoE - DPS growth):

2000 S&P 500 intrinsic value at 2015 start

2109 S&P 500 intrinsic value at 2015 end

16.8

17.7

2000

Implied fair forward yield on 2015E DPS of \$41.0

Implied fair trailing yield on 2015E DPS of \$41.0

DPS discount model using true DPS (all payout)

\$41.00 Deutsche Bank's 2015E S&P 500 aggregate ROE

34% 2014 end S&P 500 book value per share

\$41.00 DB's "normal 2015E" S&P 500 aggregate ROE

37%

S&P 500 EPS retained for true reinvestment

\$26.50 Estimated ROE on reinvested S&P 500 EPS

24% Economic margin (EM) or ROE-CoE

\$67.50 Sources of long-term earnings growth:

61% + Long-term inflation forecast

+ Fair return on true reinvestment

+ Value added return on true reinvestment

= Long-term earnings growth

2000 + Growth from net share repurchases
 2109 = Long-term S&P 500 EPS/DPS growth
 2.05% + Fair normal dividend yield
 1.94% = Total shareholder return at constant PE
 2000
 Value added growth premium in fair value est.
 S&P 500 Cost of Equity & Fair Book Multiple
 15.9% Fair long-term nominal return on S&P 500 index
 \$750 Components of estimated fair S&P 500 return:
 14.7% + Long-term real risk free interest rate
 + Long-term fair S&P 500 equity risk premium*
 39% = Long-term real S&P 500 cost of equity
 7.50% + Long-term inflation forecast
 0.00% = S&P 500 nominal cost of equity
 2.00%
 2.13% Fair S&P 500 Market Value and Book Value Multiple
 0.00% 2014 end S&P 500 book value per share
 4.13% Fair PB = Fair PE * normal aggregate ROE
 1.33% Fair PE = (ROE-g) / (real ROE*(real CoE-real g))
 5.45% Implied S&P 500 fair value of book at 2015 start
 2.05% Steady-state PB = normal agg. ROE / real CoE
 7.50% Confirmed by fair steady-state PE = 1 / real CoE
 0%
 Normal 2015E economic profit per share
 S&P 500 EPS discount model 5 steps to value:
 1) Estimate normalized S&P 500 EPS
 2) Adjust normalized EPS for pro forma accounting quality
 3) Estimate a fair long-term real return on S&P 500 ownership (CoE)
 4) Capitalize normalized and accounting quality adj. EPS at real CoE
 5) Consider long-term potential for value added growth opportunities
 Real
 cost of
 equity
 Sensitivity matrix of S&P fair value at 2015 yearend to normalized EPS and
 Real CoE
 Normal 2015E S&P 500 EPS
 5.00%
 5.25%
 5.50%
 5.75%
 6.00%
 \$118
 2227
 2124
 2031
 1945
 1867
 \$120
 2270
 2165
 2070

1983
1903
\$122
2313
2206
2109
2020
1939
\$125
2377
2267
2168
2077
1993
\$130
2484
2370
2265
2170
2083
\$135
2591
2472
2363
2264
2173
\$750
2.67
18.2
2000
2.67
18.2
\$68.75
7.50%
1.50%
4.00%
5.50%
2.00%
7.50%

* S&P 500 ERP usually 300-400bps, w/ real CoE @ 5.5% - 6.5%
Source: Deutsche Bank

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3Q EPS Tracker

479 S&P 500 companies comprising 98% of S&P earnings have reported. 62% of companies beat on EPS with a weighted average beat of 3.9% (5.3% ex Fin). 33% of companies beat on sales with a weighted average miss of -0.4% (-0.5% ex Fin).

Big banks posted soft profits to start the earnings season, on moderate loan growth, a still challenging rate environment and lulls in trading and capital markets. Industrials companies reported weak results and guidance. Sizable beats from Tech giants GOOG, MSFT & AMZN brightened 3Q earnings season. Health Care companies (PFE, BMY, GILD, BAX) had large beats on both EPS and sales. Large Oil & Gas companies (XOM, CVX, MPC, VLO) had big beats on EPS on very low bars. Retailers (M, JWN, FOSL) reported weak results. The blended (actual for reported and estimate for remaining) bottom-up 3Q EPS is \$30.02. Less litigation charges vs. a year ago at JPM, BAC, C, and GS is

\$0.60 tailwind to 3Q15 EPS, adding 2% to 3Q S&P EPS y/y growth.

We think 3Q EPS will finalize around \$30.00, flattish y/y, with sales down ~4%,

margins up ~3%, and ~1% from share count shrink.

Analysts continue to cut 4Q15 EPS and btm-up 4Q EPS is \$29.72 now, down from \$31.21 on 9/1/2015. Our 4Q EPS estimate is \$30.25, essentially flat y/y.

We think 4Q growth will be slow: (1) FX will be a smaller drag; (2) Oil still a

negative; (3) Mfg, exports, and capex continue to deteriorate; (4) Low interest

rates continue to challenge NIM of Banks; (5) Less bank litigations is a positive;

(6) Slower buybacks a smaller contribution to EPS growth; (7) Fair value pension charges at year end hit 4Q operating EPS. (8) Oct Mfg. ISM is 50.1, weakest since Dec 2012. Latest core capital goods new orders are -5.8% y/y, worst since Dec 2009. Mfg. IP ex Auto growth is weak.

Analysts have cut 2015 S&P 500 EPS by 1.2% since June end, led by the 6.8% and 7.9% cuts in Energy and Materials earnings, on renewed worries of lower for longer oil and commodity prices. The consensus 2015 btm-up EPS is \$118.63, about \$0.35 lower than our estimate of \$119.

Blended EPS y/y growth is -0.2% for S&P 500, 7.0% ex. Energy, and 6.4% ex. Energy & Financials. Blended sales y/y growth is -4.1% for S&P, 1.3% ex. Energy, and 1.6% ex. Energy & Financials.

Blended sales growth is strongest at Health Care (9.2%) again, followed by Cons. Disc. (3.8%). All other sectors (except Telecom) have sales decline or low

single digit sales growth. Tech sales growth is 0.5% y/y (-4.7% ex AAPL & GOOG) due to continuing weak enterprise spending. There is significant revenue recession at Energy (-36.5%), Materials (-13.3%) and Industrials (5.3%).

Blended

EPS y/y growth is strongest at Cons. Disc. (17.1%), followed by Telecom (15.3%), Health Care (13.9%), Financials (9.2%) and Tech (7.5%). Tech ex AAPL & GOOG EPS is -0.1% y/y. There is significant profit recession at

Energy (-57.0%) and Materials (-16.6%). Industrials EPS is flat y/y. S&P net margins remains at historic highs. Blended net margin is 10.8% for S&P 500, 11.3% ex. Energy, and 10.5% ex. Energy & Financials. Margins at Cons. Disc. expanded to 7.8%, its highest during this cycle. Health Care (10.6%) and Tech (19.4%) margins continued to hold up well. As sectors with Deutsche Bank Securities Inc.

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high foreign currency sales, they demonstrated that the stronger dollar didn't

hurt margins much despite a significant hit to sales as foreign currency revenue and costs were fairly well aligned. Energy margins were 5.4% in 3Q and flattish from 1H, but much lower than the 8%+ before the oil price plummet.

Figure 53: Summary statistics on 3Q 2015 EPS reporting

% of EPS

reported

S&P 500

S&P 500 ex. Financials

S&P 500 ex. Energy

S&P ex. Tech

Consumer Discretionary

Consumer Staples

Energy

Financials

Health Care

Industrials

Information Technology

Materials

Telecommunication Services

Utilities

Source: IBES, Deutsche Bank

3Q15 Summary (Based on reported companies)

EPS (% of of co's)

Cos

reported

97.8%

97.3%

97.7%

98.5%

97.9%

95.5%

100.0%

100.0%

97.0%

98.7%

95.1%

100.0%

100.0%

100.0%

479

392

439

413

77

32

40

87
52
63
66
28
5
29
65%
62%
61%
57%
63%
70%
52%
79%
68%
68%
46%
80%
52%
25%
23%
25%
26%
26%
19%
25%
34%
10%
21%
15%
46%
20%
38%
EPS
EPS
Sales (% of co's)
3.9% 0.0% 33%
5.3% -2.1% 34%
3.2% 7.4% 33%
3.6% -1.8% 31%
50%
52%
49%
54%
56%
50%
65%
43%
31%
67%

24%
 75%
 20%
 72%
 Sales
 Sales
 % beat % miss surprise (%) y/y (%) % beat % miss surprise (%) y/y (%)
 62%
 -0.4% -4.4%
 -0.5% -5.1%
 -0.6% 1.3%
 -0.5% -5.0%
 4.2% 17.6% 43%
 2.5% -2.8% 34%
 20.9% -57.0% 30%
 -1.2% 9.2% 28%
 7.5% 14.3% 52%
 3.8% 1.8% 17%
 5.4% 8.1% 39%
 -2.1% -16.6% 14%
 3.5% 15.3% 40%
 0.3% -2.0% 21%
 0.0% 3.0%
 -1.2% 1.4%
 1.3% -36.5%
 0.0% -0.1%
 0.6% 8.5%
 -1.2% -4.7%
 0.6% 1.2%
 -5.1% -13.3%
 -2.1% 12.3%
 -4.6% -2.0%

Figure 54: Fish hooks: S&P 500 quarterly btm-up EPS revisions

22
 23
 24
 25
 26
 27
 28
 29
 30
 31
 32
 33
 4Q14
 S&P 500 quarterly btm-up EPS revisions
 3Q14
 4Q13
 3Q13

4Q12
4Q11
3Q11
2Q11
2Q12
3Q12
1Q12
1Q13
2Q13
1Q14
2Q14
2Q15
3Q15
4Q15
1Q15
22
23
24
25
26
27
28
29
30
31
32
33

Figure 55: Change in quarterly EPS before and during reporting (1Q11 – now)

-10%
-8%
-6%
-4%
-2%
0%
2%
4%
6%
8%

Avg (1Q11-2Q15): 3.3%

Avg: -3.9%

EPS beat during reporting

EPS cut prior to reporting

Source: IBES, Deutsche Bank

Source: IBES, Deutsche Bank

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Jan-11

Apr-11

Jul-11

Oct-11

Jan-12
Apr-12
Jul-12
Oct-12
Jan-13
Apr-13
Jul-13
Oct-13
Jan-14
Apr-14
Jul-14
Oct-14
Jan-15
Apr-15
Jul-15
Oct-15
1Q11
2Q11
3Q11
4Q11
1Q12
2Q12
3Q12
4Q12
1Q13
2Q13
3Q13
4Q13
1Q14
2Q14
3Q14
4Q14
1Q15
2Q15
3Q15

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Figure 56: Change in btm-up 3Q15 EPS since 6/30/2015
(current 3Q EPS is blended: actual for reported and
consensus for the rest)

-20%
-15%
-10%
-5%
0%
5%
10%
6.1%
3.9%
0.0% 1.2%
1.1% 1.7%
-0.2%
-0.4%
-3.0%
0.0%
-4.6%
1.7%
-2.5%
-2.4%
7.1%

Figure 57: Change in btm-up 2015 EPS since 6/30/2015

-14.5%
-10%
-8%
-6%
-4%
-2%
0%
2%
4%
Change in btm-up 2015 EPS since 6/30/2015
-1.2%-1.0%
-1.0%-1.2%
-2.8%
-0.7% 0.0%
3.2%
2.2%
-0.6%
-2.1%
-2.0%
-1.5%
-1.4%
-6.5%
-7.9%

Source: IBES, Deutsche Bank

Source: IBES, Deutsche Bank

Figure 58: S&P EPS (earnings weight) to be reported each week

0%
5%
10%
15%
20%
25%
30%
35%
S&P 500 EPS (earnings weight) to be reported each week

32.2%
27.0%
16.7%
12.4%
3.2%
1.0%
2.7% 2.6% 2.2%

Figure 59: Sector EPS (earnings weight) to be reported each week

0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%

Reported

After 11/22 #21

Source: IBES, Deutsche Bank

Source: IBES, Deutsche Bank

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S&P

Pre-season

19

W1 (10/5-10/9) #5

ex. Tech

En, Fin.

W2 (10/12-10/16) #34

Ex. En, Fin

W3 (10/19-10/23)

W4 (10/26-10/30)

W5 (11/2-11/6)

W6 (11/9-11/13)

W7(11/16-11/20)

After 11/23

#114
#168
#102
#19
#18
#21
Materials
Telecom
Utilities
Ex. En, Fin, HC
Disc.
Staples
Energy
Financials
Health Care
Industrials
Tech
ex. Fin
ex. En
Disc.
S&P
Staples
Energy
Financials
Health Care
Industrials
Tech
Materials
Telecom
Utilities
Health Care
Industrials
Tech
Materials
Telecom
Utilities
Ex. En, Fin, HC
Disc.
Staples
Energy
Financials
ex. Fin
ex. En
ex. Tech
En, Fin.
Ex. En, Fin

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Figure 60: S&P 500 quarterly EPS & Sales growth and Net Margins by sector
(3Q15 is blended with actual for reported
and consensus for the rest)

2011

EPS growth (y/y)

S&P 500

S&P 500 ex. Financials

S&P 500 ex. Energy

S&P 500 ex. Tech

S&P ex. Energy & Financials

S&P ex. Energy, Financials, Healthcare

Consumer Discretionary

Multiline & Specialty Retail

Cons. Disc. ex. Auto & Home Builders

Consumer Staples

Energy

Energy Equipment & Services

Oil, Gas & Consumable Fuels

Financials

Financials ex. BAC, C & JPM

Health Care

Industrials

Industrials ex. Defense

Information Technology

Tech ex. AAPL & GOOG

Materials

Telecommunication Services

Utilities

1Q11

2Q11

3Q11

4Q11

1Q12

2Q12

3Q12

4Q12

1Q13

8.8% 8.2% 3.2% 8.8%

18.4% 15.2% 13.1% 11.3% 10.7% 5.9% 2.4% 4.5%

20.4% 16.7% 13.2% 11.3% 12.0% 5.5% 2.4% 5.0%

3.1%

5.5%

6.4%

3.2%

3.3%

2013

2Q13

3Q13

4Q13
 1Q14
 2Q14
 2Q14
 3Q14
 4Q14
 1Q15
 2Q15
 2Q15
 3Q15
 18.4% 12.3% 17.5% 9.9% 10.5% 8.3% 3.3% 7.3% 5.1% 6.3% 5.8% 10.4% 5.2% 9.3%
 10.8% 6.7% 2.8% 1.7% -0.2%
 21.1% 19.2% 19.8% 11.6% 9.3% 2.2% -0.2% 5.9%
 15.9% 8.0% 11.9% 9.4% 11.8% 12.7% 6.1% 6.4%
 17.1% 9.9% 19.0% 7.5%
 1.3% 7.2% 7.5% 6.5% 13.5% 9.5% 9.1% -0.3% -1.7% -2.3%
 8.3% 7.7% 13.3% 5.9% 8.2% 10.8% 10.6% 11.1% 9.4% 7.0%
 8.3% 5.0% 10.2% 4.5% 7.7% 10.9% 3.4% 1.0% 0.3% -2.0%
 3.0% 10.0% 10.6% 7.7% 12.7% 9.3% 14.4% 9.7% 7.4% 6.4%
 2.4% 10.2% 10.8% 7.0% 11.5% 8.0% 12.9% 7.7% 6.0% 4.8%
 18.1% 7.6% 20.7% 13.5% 11.3% -0.1% 8.1% 13.7% 8.1% 14.3% 21.6% 7.1% 7.3%
 7.6% -1.5% 15.7% 9.3% 12.3% 17.1%
 15.7% 19.4% 18.6% 14.9% 20.5% 9.3% 10.1% 13.2% 8.8% 17.3% 13.8% -6.3% 0.6%
 7.7% 11.4% 22.6% 17.2% 11.2% 15.1%
 13.1% 21.9% 19.9% 17.4% 18.9% 8.5% 11.3% 11.1% 11.6% 17.1% 13.5% 5.1% 14.4%
 11.0% 10.3% 14.6% 6.2% 7.7% 12.2%
 8.5% 11.3% 10.3% 6.4%
 7.6% 3.8% 1.4% 9.9%
 3.5%
 2.4% 6.0% 4.2% 4.0% 7.4% 6.5% 0.0% 4.0% 0.9% -2.4%
 36.6% 41.6% 62.7% 13.2% 2.7% -14.3% -11.9% 13.3% 2.3% -7.6% -7.4% -8.5% 0.0%
 18.6% 10.9% -24.3% -57.6% -56.1% -57.0%
 -3.6% 19.0% 26.8% 26.1% 30.9% 15.7% 8.6% -4.9% -1.9% 1.0% 10.7% 16.5% 15.8%
 20.9% 16.7% 22.2% -22.3% -44.9% -55.1%
 42.6% 44.5% 68.3% 11.2% -0.3% -17.7% -14.5% 16.5% 2.9% -9.1% -10.4% -12.2%
 -2.4% 18.2% 9.7% -33.5% -63.4% -58.3% -57.5%
 6.3% -23.9% 6.6% 0.9% 16.0% 54.9% 23.3% 15.4% 14.0% 30.6% -0.9% 24.7% -0.1%
 -6.5% 17.0% -3.4% 16.2% 17.3% 9.2%
 10.8%
 3.5% 0.9% 0.6% 25.1% 16.8% 42.5% 13.3% 11.3% 27.4% 11.1% 22.1% 7.3% 6.7%
 11.6% 3.9% 7.1% 1.9% -5.4%
 10.6% 8.6% 12.5% 11.2% 5.4% 7.8% 2.2% 1.9%
 38.7% 16.2% 17.5% 18.6% 19.3% 16.8% 5.6% -3.9% 5.7%
 45.3% 17.1% 19.0% 19.5% 19.8% 18.2% 6.2% -2.9% 5.4%
 23.9% 23.3% 11.5% 18.5% 17.5% 8.7% 3.5% 2.4%
 17.1% 11.8% 5.2% 3.6%
 2.7%
 3.7% 5.8% 0.5% 2.7%
 8.5% 1.4% -1.3% -6.8% -8.5% -7.9% 9.0%
 2011
 Sales growth (y/y)

S&P 500
 S&P 500 ex. Financials
 S&P 500 ex. Energy
 S&P 500 ex. Tech
 S&P ex. Energy & Financials
 S&P ex. Energy, Financials, Healthcare
 Consumer Discretionary
 Multiline & Specialty Retail
 Cons. Disc. ex. Auto & Home Builders
 Consumer Staples
 Energy
 Energy Equipment & Services
 Oil, Gas & Consumable Fuels
 Financials
 Financials ex. BAC, C & JPM
 Health Care
 Industrials
 Industrials ex. Defense
 Information Technology
 Tech ex. AAPL & GOOG
 Materials
 Telecommunication Services
 Utilities
 1Q11
 2Q11
 3Q11
 4Q11
 9.2% 9.1% 7.1%
 1Q12
 2Q12
 3Q12
 4Q12
 9.8% 12.7% 12.3% 8.6%
 9.8% 11.1% 10.5% 8.6%
 10.8% 12.0% 10.9% 9.2%
 10.2% 9.7% 11.5% 8.9%
 3.8%
 5.1% 4.8% 5.2%
 6.2% 3.9% 2.7% 6.6%
 6.2% 1.7% 1.0% 5.0%
 6.9% 4.0% 2.8% 4.6%
 7.1% 3.2% 2.3% 3.9%
 11.0% 10.4% 12.3% 10.1% 8.7%
 8.1% 10.2% 12.8% 9.9%
 1.7% 2.7% 3.4%
 3.5% 3.4% 3.7%
 1Q13
 1.4%
 3.4%
 1.4%

3.3%
 2.6%
 2.7% 11.9% 12.8% 6.1% 15.5% 7.8% 9.1% 2.5% -0.2% -0.1%
 5.8% 8.8% 9.7% 10.9% 18.2% 15.8% 22.5% 18.4% 13.3% 13.9%
 2.3% 8.8% 20.5% 3.0% 14.6% 14.9% 14.0% 10.3% -0.1% 0.0%
 1.8% 8.6% 22.0% 1.2% 15.6% 15.7% 12.7% 11.8% -1.0% -0.5%
 0.0% -2.2% 9.2% 10.9% 8.1% 17.0% 10.5% 18.2% 10.4% 7.9% 7.5%
 5.0%
 56.5% 60.3% 23.6% -16.9% -3.0% -13.2% -21.9% 13.8% 0.1% -3.4% 9.0% 17.5%
 -1.2% 10.4% 20.0% 3.4% 2.1% 8.2% -16.6%
 -6.0% -3.8% 3.7% -19.2% 9.9% 13.2% 12.9% 3.7% 10.4% 5.4% 8.9% 23.6% 15.7%
 4.0% 3.6% 7.3% 0.8% 9.7% 15.3%
 -5.5%
 1.9% -2.8% 2.1% -4.9% 22.4% 0.4% 1.8% 9.4% 2.4% 4.2% -2.0%
 2013
 2Q13
 3Q13
 4Q13
 1Q14
 2Q14
 3Q14
 4Q14
 1Q15
 2Q15
 3Q15
 10.2% 12.9% 12.1% 8.9% 6.7% 2.2% 1.3% 5.2% 1.7% 2.9% 3.7% 2.2% 3.3% 4.9%
 4.3% 1.4% -3.2% -3.7% -4.1%
 12.3% 15.1% 13.7% 10.4% 7.3% 2.1% 1.2% 3.5%
 7.8%
 2.6% 4.2% 3.6% 3.8% 5.2% 4.1% 1.7% -4.2% -4.4% -4.7%
 3.8% 3.9% 2.8% 3.8% 5.3% 5.8% 4.7% 2.2% 1.1% 1.3%
 3.0% 3.6% 1.8% 3.2% 4.5% 3.9% 0.5% -4.3% -4.5% -4.7%
 3.7% 4.6% 4.5% 4.5% 5.8% 5.7% 5.8% 2.0% 1.2% 1.6%
 3.3% 3.6% 3.7% 3.6% 4.6% 4.4% 4.1% 0.5% -0.4% -0.1%
 7.1% 1.6% 2.6% 3.9%
 6.1%
 8.3% 4.1% 3.8% 3.4%
 3.8%
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 3.6%
 2.6%
 6.7% 5.9% 4.0% 4.5% 4.7% 4.1% 3.7% 0.8% 2.1% 3.8%
 5.1% 4.4% 1.3% 3.2% 5.8% 5.1% 5.5% 4.0% 3.9% 5.1%
 5.6% 5.0% 3.9% 5.3% 5.9% 5.3% 4.6% 1.8% 2.6% 3.3%
 2.8% 2.5% 3.3% 1.4% 3.3% 2.8% 1.4% 1.8% 0.6% 1.3%
 24.7% 34.8% 29.7% 19.3% 9.1% -5.9% -5.4% -1.6% -7.1% -2.2% 2.3% -0.8% 0.6%
 2.3% -3.5% -18.0% -34.8% -31.7% -36.5%
 30.8% 34.4% 26.6% 26.3% 25.7% 17.5% 11.3% 16.5% 4.7%
 9.3% 8.9% -0.4% 7.2% 3.2% 7.0% 5.0% -10.3% -24.8% -33.6%

24.2% 34.8% 30.0% 18.7% 7.7% -7.9% -6.9% -3.4% -8.3% -3.4% 1.6% -0.8% -0.2%
 2.2% -4.7% -20.9% -37.8% -32.5% -36.9%
 -1.4%
 3.9%
 5.3%
 0.0% 2.0% -0.9% 2.7% 3.2% 2.3% 17.8% 3.7%
 6.6% 1.9% 0.3%
 6.9% 8.1% 5.4%
 5.1%
 12.6% 10.2% 11.1% 8.3%
 15.5% 12.8% 13.6% 7.9%
 8.3% 6.2% 2.7%
 29.1% 33.6% 16.5% 6.0%
 2.5%
 -2.7%
 2011
 Net margins
 S&P 500
 S&P 500 ex. Financials
 S&P 500 ex. Energy
 S&P 500 ex. Tech
 S&P ex. Energy & Financials
 S&P ex. Energy, Financials, Healthcare
 Consumer Discretionary
 Multiline & Specialty Retail
 Cons. Disc. ex. Auto & Home Builders
 Consumer Staples
 Energy
 Energy Equipment & Services
 Oil, Gas & Consumable Fuels
 Financials
 Financials ex. BAC, C & JPM
 Health Care
 Industrials
 Industrials ex. Defense
 Information Technology
 Tech ex. AAPL & GOOG
 Materials
 Telecommunication Services
 Utilities
 Source: IBES, Deutsche Bank
 1Q11
 9.7%
 9.3%
 9.9%
 8.6%
 9.4%
 9.2%
 6.5%
 4.9%
 6.6%

6.4%
 8.6%
 2Q11
 3Q11
 4Q11
 1Q12
 5.6% 8.1% 5.3% 8.5%
 6.6% 5.1% 1.5% 1.9%
 7.6%
 6.0% 2.1% 2.7%
 4.0%
 3.1% -0.5% 3.1%
 14.7% 14.9% 10.2% 11.7% 10.8% 6.7% 4.6% 7.0%
 8.9%
 4.6% -2.6% -5.9% 3.8%
 7.8% 6.0% 10.2% 8.0% 2.7% 2.3% 2.1%
 8.3% 2.8% 6.3% -3.3% -2.4% 0.8% 5.1%
 2012
 2Q12
 3Q12
 4Q12
 9.2% 9.4% 9.3% 9.1%
 8.7% 8.9% 8.9% 8.2%
 9.5% 9.7% 9.5% 9.2%
 9.4% 9.6% 9.4% 9.3%
 5.7% 4.7% 6.3%
 7.3% 7.5% 7.6%
 1Q13
 9.3%
 9.0%
 9.4%
 9.3%
 3.3% 8.6% 23.6% 4.3%
 7.1%
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 4.4% 0.3% -6.1% -0.1% 2.5% 6.2% -1.1% 3.0% 0.7% -0.1%
 3.3% -0.9% -8.0% 1.0% 4.3% 6.7% -0.2% 4.0% 0.9% 1.0%
 5.6% 9.2% 8.8% 8.9% 11.8% 11.7% 13.6% 9.1% 8.1% 9.2%
 1.0% 1.6% 2.5% 1.6% 3.7% 4.5% 3.9% -2.3% -3.5% -5.3%
 1.4% 2.2% 3.5% 2.3% 4.6% 5.3% 3.9% -2.4% -4.1% -6.1%
 1.5% 4.2% 5.5% 3.7% 8.5% 7.9% 8.2% 5.5% 2.5% 0.5%
 0.8% 4.1% 4.8% 3.1% 8.6% 6.9% 2.5% 0.2% -3.3% -4.7%
 2.0% 6.1% 3.5% 1.5% 3.2% 2.4% -1.7% -9.2% -9.5% -13.3%
 2.2% 2.6% 2.1% 3.7% 3.1% 3.0% 5.2% 2.5% 2.4% 12.3%
 8.8% 2.5% 2.7% 16.8% 3.1% 4.7% 9.1% -2.5% -4.6% -2.0%

2013
 2Q13
 3Q13
 4Q13
 1Q14
 2014
 2Q14
 3Q14
 4Q14
 1Q15
 2015
 2Q15
 3Q15
 9.5% 9.8% 9.3% 9.8% 9.8% 9.9% 9.4% 10.0% 10.1% 10.0% 10.0% 10.1% 10.4% 10.5%
 10.4% 10.6% 10.8% 10.8%
 9.6% 9.6% 9.0%
 9.2% 9.5% 9.3% 9.4% 9.7% 9.8% 9.8% 9.6% 9.9% 10.0%
 9.6% 10.0% 9.7% 10.2% 10.2% 10.2% 9.6% 10.3% 10.6% 10.4% 10.4% 10.4% 10.7%
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 8.9% 9.1% 7.5%
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7.8% 7.5% 7.2% 7.2% 7.4% 7.6% 7.3% 6.7% 5.9% 5.0%
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11.7% 10.9% 10.3% 12.0% 14.0% 12.3% 13.4% 10.9% 14.7% 15.0% 14.9% 14.5%
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8.9% 8.6% 7.7%
8.5% 8.2% 6.2%
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19.0% 18.5% 18.6% 21.2% 19.3% 18.9% 19.4%
18.0% 17.2% 17.4% 18.6% 17.3% 17.0% 17.1% 18.1% 17.4% 17.0% 18.1% 19.2%
17.7% 17.7% 17.8% 19.8% 17.6% 17.7% 18.7%
10.1% 10.0% 8.1% 6.2%
8.1%
9.0%
8.5% 7.1% 7.9% 9.0% 8.9% 8.2% 8.0% 9.7% 10.4% 7.7%
9.1% 9.0% 7.1% 10.2% 10.5% 10.4% 8.3% 11.0% 11.1% 11.3%
9.0% 12.1% 7.9% 9.9% 8.9% 11.9% 8.0% 10.4% 9.7% 12.1%

20 November 2015

US Equity Insights

Figure 61: 3Q15 Sales and EPS growth by sector

Sales y/y

EPS y/y

-20%

Cons Disc

Ex Auto & Home Builders

Cons Staples

Energy

Financials

Health Care

Industrials

Tech

Ex AAPL & GOOG

Materials

Telecom

Utilities

-15%

-10%

-5%

0%

5%

4%

17%

3%

12%

1%

-2%

-37%

-57%

0%

9%

9%

14%

-5%

0%

0%

8%

-5%

0%

-13%

-17%

12%

15%

-2%

-2%

10%

15%

20%

S&P 500

-4%

0%

S&P 500 ex Energy

S&P ex Energy & Fin.

Source: Deutsche Bank, IBES

1%

2%

7%

6%

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Figure 62: S&P 500 quarterly EPS

GAAP

2007 Q1

Q2

Q3

Q4

Year

2008 Q1

Q2

Q3

Q4

Year

2009 Q1

Q2

Q3

Q4

Year

2010 Q1

Q2

Q3

Q4

Year

2011 Q1

Q2

Q3

Q4

Year

2012 Q1

Q2

Q3

Q4

Year

2013 Q1

Q2

Q3

Q4

Year

2014 Q1

Q2

Q3

Q4

Year

2015 Q1

Q2

Q3 E

Q4 E

EPS Write-offs

22.79

23.38

23.16
18.02
87.35
18.35
18.23
15.36
-17.18
34.77
9.01
0.26
1.43
0.21
2.21
4.11
2.15
4.24
4.69
14.70
16.23
16.92
56.87
19.18
21.44
21.74
22.01
84.37
22.76
24.36
24.38
22.36
93.86
24.49
23.21
22.74
22.91
93.34
26.06
27.34
26.58
27.72
107.70
25.13
27.64
28.04
23.16
103.98
21.95
22.40
24.44
23.25
Year E 92.04

2016 Year E 113.00

23.84
34.92
4.37
1.33
0.94
0.18
6.83
1.29
0.87
1.06
1.25
4.47
1.27
0.40
1.68
2.96
6.30
1.69
3.09
3.75
3.71
12.24
1.05
0.42
1.16
1.36
3.99
2.66
2.13
2.19
7.26
14.25
6.62
7.72
5.58
7.00
26.91
12.00

Source: Deutsche Bank, IBES, Company data

EPS
23.06
24.81
23.36
20.24
91.47
20.50
22.47
20.05
6.66
69.69

13.39
16.03
17.17
17.10
63.69
20.47
22.31
22.81
23.25
88.85
24.03
24.75
26.06
25.32
100.16
26.18
26.30
26.49
26.62
105.59
27.12
27.76
27.74
29.08
111.69
27.79
29.78
30.23
30.43
118.23
28.56
30.12
30.02
30.25
118.95
125.00
S&P 500 Quarterly EPS (\$/sh)
Pro-forma EPS
10.0%
3.6%
-11.7%
-11.1%
-9.4%
-14.2%
-67.1%
-34.7%
-28.6%
-14.4%
156.9%
53.0% 0.20
39.1% 0.00

32.8% 0.15
36.0% 0.30
0.65
17.4% 0.21
11.0% 0.33
14.2% 0.20
8.9% 0.26
1.00
8.9% 0.27
6.2% 0.04
1.7% 0.24
5.1% 0.39
0.94
3.6% 0.21
5.6% 0.13
4.7% 0.92
9.2% 0.34
1.61
2.5% 0.54
7.3% 0.79
9.0% 0.81
4.7% 0.48
2.61
2.8% 0.14
1.2% 0.23
-0.7% 0.23
-0.6% 0.10
0.70
0.20
20.68
22.31
22.96
23.55
89.50
24.24
25.09
26.25
25.58
101.16
26.45
26.33
26.74
27.01
106.53
27.33
27.89
28.66
29.42
113.30
28.33
30.56

31.04
30.90
120.84
28.70
30.35
30.25
30.35
119.65
125.20
Litigation EPS ex.
EPS
y/y % Charges Litigation y/y %
10.4%
S&P 500
180.4
194.3
184.9
161.8
721.4
166.7
182.9
165.5
54.9
570.0
110.5
133.5
145.6
146.8
536.5
178.2
194.8
199.2
204.5
776.7
17.2% 213.0
12.5% 219.3
14.3% 230.1
8.6%
9.1%
5.0%
1.8%
5.6%
3.3%
5.9%
7.2%
8.9%
3.7%
9.6%
8.3%
5.1%
1.3%

S&P 500 Quarterly Pro-forma Net Income (\$ bn)

Non-financials

Financials

y/y %

12.0%

11.7%

3.9%

-8.5%

-7.6%

-5.9%

-10.5%

-66.1%

-33.7%

-27.0%

-12.0%

167.4%

61.2%

45.9%

36.8%

39.3%

222.0

884.4

230.6

233.0

234.1

235.8

933.5

239.8

245.5

245.1

256.4

986.8

248.3

265.1

268.5

269.6

1051.5

252.3

-0.7% 265.3

-2.6% 264.8

-1.8% 278.0

1060.4

1114.9

19.6%

12.6%

15.5%

8.5%

8.2%

6.2%

1.7%

6.2%

4.0%
5.3%
4.7%
8.7%
3.5%
8.0%
9.6%
4.7%
2.8%
1.2%
-0.7%
-0.6%
47.2
48.9
39.9
8.4
144.4
18.8
22.8
5.0
-66.7
-20.1
8.1
21.5
17.1
3.5
50.3
31.9
31.1
33.6
32.2
128.7
36.5
25.7
34.3
34.0
130.5
42.4
39.7
41.9
39.2
163.1
47.8
51.4
41.6
48.9
189.6
47.7
47.7
48.2
46.5

190.0
54.5
55.1
52.0
58.0
219.5
230.0
y/y %
14%
12%
-7%
-81%
-60%
-53%
-88%
NM
-57%
-6%
244%
NM
295%
44%
96%
812%
15%
-17%
2%
6%
16.2%
54.5%
22.2%
15.2%
12.8%
29.5%
-0.9%
24.7%
-0.3%
-7.1%
15.9%
-4.9%
14.3%
15.5%
7.9%
24.8%
133.1
145.4
145.0
153.4
576.9
147.9
160.1

160.5
121.7
590.1
102.5
112.0
128.5
143.3
486.2
146.3
163.7
165.7
172.3
647.9
176.5
193.6
195.8
187.9
753.9
188.2
193.3
192.2
196.6
770.4
192.0
194.1
203.5
207.6
797.2
200.7
217.4
220.3
223.2
861.5
197.8
210.3
212.8
220.0
840.9
884.9
y/y %
11%
12%
7%
17%
11%
10%
11%
-21%
-31%
-30%
-20%

18%
43%
46%
29%
20%
21%
18%
18%
9%
6.6%
-0.2%
-1.8%
4.6%
2.0%
0.4%
5.9%
5.6%
4.5%
12.0%
8.3%
7.5%
-1.4%
-3.3%
-3.4%
-1.4%

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Strategy Flashcard

Strategy Flashcard

S&P 500 to reach 2250-2300 by 2016 end on a long expansionary cycle of moderate growth

Reasons to still buy stocks:

2015 end target: 2050-2100

EPS

PE on yearend S&P targets

DPS

EPS/DPS growth

Market strategy and tactics:

Lower S&P returns than history likely, but still decent and few alternatives

- stay involved, buy on dips

Consider lesson of 2014: Interest rates stayed very low despite better growth and tighter labor market

Next 5%+ move is likely:

Balanced Risk

Thematic and sector strategy:

Tilt toward:

1) Secular Growth Sectors - industries with strong sales growth in the middle of economic cycles

2) Sales Growth near 5% - industries not dependent on margin expansion to drive 5%+ EPS growth

3) High ROE or long competitive advantage - ability to defend ROE/margins amidst low interest rates

4) Dividend Growth - stocks with ability to significantly raise dividend payout ratios

5) Debt Capacity - companies that can issue cheap debt for acquisitions and share buybacks

Tilt away from:

1) Consumer companies w/tired brands or facing tough competition (seek unique products/experiences)

2) Smaller cap cyclical plays which are still expensive, prefer big-cap banks and select retailers

3) Commodity and industrial capital goods producers, prefer Transports

Risk of near-term correction: Moderate

"S&P PE stands on the shoulders of bonds."

2014A

\$118

17.4

\$38

2015E

\$119

17.4

\$41

2016 end target: 2250-2300

2016E

\$125

18.2

\$44

6%/6% 1%/7% 5%/7%

Quarterly EPS

1Q14A

2Q14A

3Q14A

4Q14A

\$28.00

\$29.75

\$30.00

\$30.25

Div Yld: 2%

1Q15A

2Q15A

3Q15E

4Q15E

\$28.60

\$30.10

\$30.00

\$30.25

1) ~2.25% US GDP likely in 2015

2) S&P EPS will rise despite \$/oil

3) PEs justifiable and been higher

4) Bond yields are nil after inflation

Dare to ask:

Why not 2500+ S&P cycle-high?

2500+ = ~18x 2018E EPS of ~\$145

S&P 500 avg. trailing 4qtr PE:

1960-2014

1985-2014

1995-2014

2005-2014

16.0

17.6

18.6

15.9

Sectors/Industries:

Health Care, Tech

Health Care, Tech, Consumer Disc.

Tech, Health Care, some Consumer

Big Banks, Mega-cap Tech

Tech, Health Care, some Consumer

Staples

Be selective and valuation mindful

Energy, Industrial Capital Goods

Risks

- US tax on foreign profits, whether repatriated or not, threatens large multinationals and would cause margin contraction

- EM economy weakness that causes a steep decline in commodity prices,

especially oil, and threatens US exports and investment spending
- A surge in long-term interest rates or any global economic shock would threaten our constructive view on the S&P for 2015

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EPS outlook, Performance & What to buy now

Figure 63: The Seven Signs (cross asset class market signals) suggest
Cautious / Neutral stance on equities

Current Change vs

Change vs

"The Seven Signs" Cross Asset Class Market Signals

Interest Rates and Inflation

10yr Treasury yield

10yr TIPS yield

10yr Treasury - TIPS spread

5yr Treasury yield

30yr Treasury yield

Fed Fund Rate 2015 End (Futures)

Fed Fund Rate 2016 End (Futures)

Duration

US Treasury yield curve slope (10-2yr)

US Treasury yield curve slope (10-5yr)

Credit

Corporate IG credit spreads (bps)

Financial

Industrial

Financial spreads over Industrial

Corporate HY credit spreads (bps)

TED spreads (bps)

Muni spreads (bps)

Sovereign spreads (bps)

Germany

France

Italy

Spain

Currency

US Dollar index

USD/EUR

JPY/USD

CHF/USD

USD/Gold (real \$)

Commodities

CRB

Brent Oil

WTI Oil

Natural gas

Copper

Uncertainty

VIX

1M Implied Vol

1M Realized Vol

1M Vol Premium (Implied - Realized)

Correlation (S&P 500)
1M Implied Correlation
1M Realized Correlation
1M Correl Premium (Implied - Realized)
LTM PE / 3m Avg. VIX (mkt emotion)
Offered Equity Risk Premium
LTM PE
PE on 2015E EPS
PE on normalized 2015E EPS
Implied real return offered by S&P 500
Implied ERP offered by S&P 500
14.2
14.3
-0.1
35.4
27.3
8.1
0.85
17.5
17.5
17.1
5.7%
5.1%
-1.2
1.5
-2.8
-3.8
4.4
-8.2
0.01
1.7%
-1.7%
0.1%
13.4
13.3
0.1
31.3
25.2
6.1
0.85
17.4
5.7%
5.1%
-3.2
-5.5
2.2
-3.9
-26.3
22.4
0.01
4.7%

-4.5%
-6.9%
11.2
9.9
1.3
33.9
24.1
9.8
1.17
17.5
5.7%
5.2%
14.9
13.8
1.2
40.1
37.0
3.1
0.95
15.2
6.7%
6.2%
18.6
16.9
1.6
36.9
32.4
2.6
0.98
18.5
6.5%
3.6%
33%
48%
26%
51%
44%
73%
33%
63%
35%
75%
382.59
44.18
40.54
2.28
4651.5
-0.3%
0.3%
-2.9%
0.7%

-3.8%
389.50
46.88
43.87
2.27
4987.4
-2.5%
-5.0%
-5.5%
-8.5%
-3.9%
451.97
78.10
74.58
4.37
6755.0
481.12
98.48
87.45
3.56
7427.5
347.21
56.79
54.89
4.49
4535.7
62%
45%
43%
13%
54%
94.10
1.0734
122.87
1.0128
449.5
0.0%
-0.7%
0.2%
1.3%
-1.5%
92.59
1.0852
122.09
0.9985
469.4
1.4%
-3.8%
1.8%
3.4%
-3.2%

82.80
1.2554
117.97
0.9570
502.2
77.27
1.2934
96.12
0.9254
616.7
86.57
1.2193
108.22
1.2356
350.3
71%
23%
88%
27%
69%
71%
77%
12%
73%
138.7
169.2
-30.5
637.2
25.8
19.78
-176.8
-144.8
-75.1
-54.4
-0.7
1.7
-2.4
15.8
2.6
1.0
-4.8
-4.8
-5.0
-4.2
142.1
169.0
-27.0
611.9
27.5
21.9
-165.6

-131.9
-63.1
-46.9
-13.5
-10.6
-3.0
-45.1
-5.1
-13.9
-17.8
-22.1
-25.0
-24.8
130.3
135.3
-5.0
488.7
23.1
15.5
-151.1
-116.4
-3.0
-23.2
182.7
141.8
40.9
527.7
25.6
22.1
-75.4
-16.0
171.5
182.3
174.8
156.1
18.7
609.7
43.6
2.5
-47.4
-25.3
65.4
53.2
51%
71%
23%
63%
40%
63%
0%
1%

10%
21%
1.40%
0.59%
-0.06%
-0.02%
1.43%
0.62%
0.00%
-0.07%
1.84%
0.72%
1.93%
1.03%
1.25%
0.61%
64%
75%
Level
2.25%
0.65%
1.60%
1.67%
3.01%
0.21%
0.78%
1 Wk Ago 4 Week Avg. 4 Wks Ago
-0.06%
-0.10%
0.04%
-0.04%
-0.08%
0.00%
-0.06%
2.22%
0.67%
1.55%
1.60%
3.00%
0.20%
0.76%
0.17%
0.11%
0.06%
0.24%
0.12%
0.01%
0.14%
Level
1yr Ago
2.36%

0.52%
1.84%
1.64%
3.08%
0.53%
1.47%
0.21%
2.14%
1.32%
3.34%
0.25%
0.25%
4.18%
1.75%
2.43%
3.57%
4.79%
2.66%
2.66%
5yr Avg. 20yr Avg. Rel to Hist. Rel to Hist.
2.35%
4%
12%
3%
8%
4%
96%
88%
3%
92%
96%
PCTL Risk Aver. Risk Aversion Incremental
Level
High
High
High
Low
High
High
High
High
Normal
36% Normal
25% Normal
Normal
51% Normal
High
71%
23%
Low
63% Normal

40% Normal
63% Normal
0%
1%
10%
21%
Low
Low
Low
Low
High
High
High
Low
High
69% Normal
Normal
38% Normal
55% Normal
57% Normal
87%
High
46% Normal
Normal
33% Normal
48% Normal
26%
Low
51% Normal
44% Normal
73%
High
67% Normal
Normal
37% Normal
Normal
Normal
35% Normal
75% Normal
Risk Aversion
Down
Up
Up
Up

Down
Up
Up
Up
Down
Down
Down
Up
Up
Up
Up
Up
Up
Down
Down
Down
Up
Down
Down
Down
Up
Down
Down
Down
Down
Down
Down
Down
Down
Down

Source: FRB, Bloomberg Finance LP, I/B/E/S, Deutsche Bank

A signal's risk aversion is based on its current level expressed as a percentile of all the observations in its long-term history. Monthly observations from 1960 for Interest Rates & Inflation, Duration, LTM PE and Implied ERP; 20 yr history for the rest.

Not Safe

No

No

Neutral

No

Safe

Yes

Yes

Yes

Yes
Yes
Yes
Yes
Neutral
Neutral
Neutral
Neutral
Neutral
Yes
below 18
below 18
below 3
below 40
below 40
below 10
0.8 - 1.2
below 18
below 17
below 17
above 5.5%
above 4%
\$70 - \$100
\$70 - \$100
Strategic
Safety
Caution
Yes
Caution
Yes
Caution
Yes
Yes
Yes
Yes
Neutral
Yes
Caution
Neutral
Yes
Yes
Yes
No
Yes
Yes
Yes
Yes
Yes
Yes
Yes
Neutral
Caution
\$1.20 - \$1.40

Safe

Criteria

2 - 4%

0.5% - 2%

bet. 1 - 3%

1.5% - 3%

2.5% - 4.5%

below 2.5%

below 2.5%

above 100bps

above 60bps

below 200

below 200

below 50

below 600

below 50

below 25

below 0 bps

below 100 bps

below 100 bps

below 100 bps

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Figure 64: S&P 500 Advised Sector and Industry Allocation (2014/15 PE based on DB US Equity Strategy top down sector and industry EPS estimates)

Market

Advised

Weight (%) Weight (%)

Sector

2015 2016

PE

PE

Biotechnology

Health Care Equipment & Supplies

14.5% 18.0% Health Care

17.0 15.9 Health Care Technology

Life Sciences Tools & Services

Pharmaceuticals

Technology Hardware, Storage & Peripherals

Internet Software & Services

IT Services

21.0%

Overweight

16.4%

17.2%

Financials

21.0%

Information

Technology

17.5

16.5 Semiconductors

Software

Communications Equipment

Electronic Equipment

Banks

Capital Markets

14.0 13.2 Consumer Finance

Electric Utilities

Gas Utilities

2.9%

2.3%

3.4%

2.6%

Utilities

15.7

15.2

Independent Power Producers

Multi-Utilities

Telecom 12.6 13.0 Telecommunication Services

Overweight

2015	2016	
PE		
PE		
15.1	13.5	
21.8	20.4	
27.2	23.6	
19.5	18.8	
17.1	16.3	
12.2	11.5	
29.8	26.6	
19.0	17.9	
16.6	16.1	
21.4	20.2	
12.2	11.7	
17.5	16.3	
12.1	11.5	Diversified Financial Services
15.0	13.9	Insurance
11.7	11.2	REITs
		Real Estate Mgmt. & Development
		Thrifts & Mortgage Finance
15.0	14.7	
21.2	19.8	
10.8	9.8	
17.1	16.5	
12.6	13.0	
		Auto Components
		Automobiles
		Distributors
		Equalweight
13.0%		
13.2%		
		Consumer
		Discretionary
21.1	19.5	
		Household Durables
		Leisure Products
		Multiline Retail
		Specialty Retail
		Internet & Catalog Retail
		Media
		Food & Staples Retailing
9.6%		
8.5%		
		Consumer
		Staples
20.6		
20.1		
		Airlines
		Underweight
10.3%		
8.5%		

Industrials

16.8

16.5

7.3

8.3 Building Products

Air Freight & Logistics

Commercial Services & Supplies

Industrial Conglomerates

Professional Services

Road & Rail

Chemicals

3.0%

2.6%

Materials

17.9

16.7

24.2

18.8

19.6

23.0

20.1

15.9

17.3

13.7

8.6

19.5

16.6

21.2

14.5

21.1

80.7

18.9

18.1

12.7 Diversified Consumer Services

8.2 Hotels, Restaurants & Leisure

18.2 Textiles, Apparel & Luxury Goods

14.7

20.0

13.6

19.4

64.6

17.8

17.5 Beverages

Food Products

Household Products

Personal Products

Tobacco

22.6 Aerospace & Defense

17.6 Construction & Engineering

18.7 Electrical Equipment

21.8 Machinery

18.3 Trading Companies & Distributors
 15.0
 16.5 Construction Materials
 Containers & Packaging
 Metals & Mining
 Paper & Forest Products
 7.0%
 5.0%
 Energy
 28.5
 Aggregate PE of DB Industry allocations
 S&P 500 Index
 Source: Deutsche Bank Markets Research
 24.6
 Overweight
 15.6
 2081.24
 14.9
 Equalweight
 2015 & 2016 DB Strategy EPS
 Bottom-up Cons. EPS
 18.5
 17.4
 Energy Equipment & Services
 Oil, Gas & Consumable Fuels
 Underweight
 119.0 125.0 2015 & 2016 DB Strategy PE
 118.8 128.5 Bottom-up Cons. PE
 23.1 22.9
 21.3 20.4
 20.6 20.0
 27.7 24.2
 20.3 20.6
 17.7 16.7
 13.7 13.7
 16.3 16.3
 15.5 16.0
 16.7 15.9
 45.6 38.0
 16.1 15.4
 28.3 18.5
 11.0 11.0
 20.9 29.9
 30.6 23.8
 21.3
 20.0
 17.5 16.6
 17.5 16.2
 18.3 16.7
 25.0 22.8
 23.6 21.5

20.9

12.3

18.8

17.4

33.2

19.3

11.7

18.0

16.1

11.7

Equalweight

2015 2016

PE

PE

Underweight

Health Care Providers & Services

2015 2016

PE

PE

16.0 15.2

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Figure 65: Sector and Industry ETFs

Note: Please see DB note "Equity ETPs capture \$4.1bn during last week" published on May 27 2015. [Click here for complete report](#)

Source: Deutsche Bank

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Figure 66: S&P 500 Annual EPS Outlook and PE (based on current constituents in the index unless specified)

EPS

y/y

2005A

S&P 500 EPS (historical index)

S&P 500 EPS (current constituents)

Sector (\$ bn)

Consumer Discretionary

Consumer Staples

Energy

Financials

Health Care

Industrials

Information Technology

Materials

Telecommunication Services

Utilities

S&P 500 (\$ bn)

S&P ex. Financials (\$bn)

S&P ex. Energy (\$bn)

S&P ex. Tech (\$bn)

Energy & Financials (\$bn)

S&P ex. Energy and Financials (\$bn)

Key Macro Forecast

Global GDP growth (real, DB est.)

US GDP growth (real, DB est.)

US Bus. FI (Equip + IPP, DB est.)

US Unemployment Rate (year-end, DB est.)

US 10yr Treasury Yield (year-end, Our est.)

Bank Litigation (post-tax, \$bn)

Loan Loss Provisioning (% of loans, Our est.)

US\$/Euro (average/year-end, Our est.)

US\$/Euro (year-end, DB est.)

Avg Oil Price (WTI/Brent, \$/bbl)

Avg Natural Gas Price (Henry Hub \$/mmbtu)

\$76.28

\$79.53

51.6

94.0

133.8

68.6

63.2

83.6

17.4

13.9

21.4

603.1
469.3
509.1
519.5
227.8
375.3
2006A
\$88.18
\$91.14
53.9
57.0
2007A
2008A
2009A
2010A
\$85.12 \$65.47 \$60.80 \$85.28
\$93.81 \$71.79 \$64.23 \$88.54
2007 - 14 shown below is agg. net income, 2014 y/y is EPS growth:
55.6
52.5
61.1
114.3
173.1
73.0
71.0
97.6
21.2
18.0
23.4
702.6
529.4
588.3
605.0
287.5
415.1
118.7
143.8
81.8
83.9
121.4
24.8
26.4
25.9
740.2
596.5
621.6
618.8
262.4
477.8
40.9
66.8

141.5
-19.9
86.7
75.3
122.1
21.0
27.0
26.9
588.2
608.1
446.7
466.1
121.6
466.6
48.6
68.9
59.0
56.6
88.3
51.7
105.6
13.2
21.8
26.6
540.3
483.7
481.3
434.7
115.6
424.7
74.1
73.6
94.5
129.0
101.3
73.8
151.4
24.9
23.2
28.2
773.9
644.9
679.4
622.5
223.5
550.4
2011A
2012A
2013A
2014A
\$97.82 \$103.75 \$110.39 \$118.82 7.6%

\$99.73 \$105.09 \$111.63 \$117.75 5.5% \$118.84 0.9% \$128.55 8.2% \$119
84.0
78.0
129.7
132.5
109.6
88.2
175.2
31.7
22.4
29.5
880.7
748.2
751.0
705.4
262.1
618.5
90.4
78.7
122.1
162.6
112.5
94.3
185.7
29.2
23.9
29.8
929.1
766.6
807.0
743.5
284.6
644.5
99.5
84.2
113.9
189.1
117.9
102.5
193.1
30.5
25.1
30.4
986.2
797.1
872.3
793.1
303.0
683.2
102.9
86.2

112.3
 189.9
 136.3
 113.4
 209.8
 32.7
 30.7
 33.2
 1047.4
 857.5
 935.1
 837.6
 302.2
 745.2
 4.7% 5.2% 5.3% 2.7% -0.4% 5.2% 3.9% 3.2% 2.8% 3.4%
 3.4% 2.7% 1.8% -0.3% -2.8% 2.5% 1.9% 2.8% 1.9% 2.6%
 8.4% 7.1% 3.8% -3.1% -14.1% 9.4% 9.2% 5.9% 4.1% ~5.5%
 4.9% 4.4% 5.0% 7.3% 9.9% 9.5% 8.6% 7.8% 7.0% 5.7%
 4.4% 4.7% 3.9% 2.5% 3.8% 3.3% 1.9% 1.8% 3.0% 2.2%
 8.9
 5.7
 8.4
 14.3
 23.3
 0.8% 0.7% 1.3% 3.0% 4.2% 2.6% 1.2% 0.8% 0.4% 0.4%
 1.25/1.18 1.26/1.32 1.37/1.46 1.47/1.40 1.39/1.32 1.33/1.29 1.39/1.30
 1.28/1.32 1.33/1.38 1.33/1.21
 56/54
 8.67
 66/65
 6.74
 72/72
 6.96
 100/97
 8.88
 Consumer Discretionary
 Consumer Staples
 Energy
 Financials
 Health Care
 Industrials
 Information Technology
 Materials
 Telecommunication Services
 Utilities
 S&P 500
 S&P ex. Financials
 S&P ex. Energy
 S&P ex. Tech
 Energy & Financials
 S&P ex. Energy & Financials

Trailing Pro-forma PE (year-end prices)

2005

17.3

15.8

10.1

15.0

17.9

18.6

20.0

16.8

13.2

15.1

15.9

14.6

17.0

15.3

13.0

17.7

2006

20.7

16.5

10.4

13.9

17.8

18.2

18.8

15.1

15.7

16.6

15.7

14.3

16.8

15.3

12.5

18.0

2007

18.9

17.3

12.9

14.9

16.5

16.9

18.0

16.4

16.4

17.3

16.2

15.9

16.8

15.8

14.0

17.4
61/61
3.95
79/79
4.40
95/111
3.99
94/111
2.75
98/108
3.73
93/99
4.26
Bottom-up
2008
15.5
13.9
7.0
NA
11.3
10.8
10.3
10.8
11.0
11.6
12.9
13.8
14.7
13.5
17.4
11.7
2009
18.4
14.8
18.2
26.0
12.6
18.6
18.9
26.3
13.6
12.7
17.6
18.5
17.5
17.3
22.1
16.4
2010
16.6
15.2

13.5
14.5
11.4
16.5
14.4
17.8
14.2
12.3
14.4
14.9
14.5
14.4
14.0
14.6
2011
14.8
15.6
10.5
12.2
11.6
13.4
12.5
12.4
15.8
13.7
12.8
13.6
13.1
12.8
11.4
13.3
2012
16.4
16.3
11.4
12.6
13.4
14.1
13.4
15.6
16.2
14.0
13.8
14.5
14.1
13.9
12.1
14.5
2013
20.8
18.4

14.7
14.4
17.9
18.0
16.4
18.3
15.7
15.5
16.8
17.5
17.1
16.9
14.5
17.8
2014
21.4
20.4
13.3
16.2
18.7
17.4
17.8
17.5
14.2
17.8
17.5
18.3
18.0
17.5
15.1
18.5
2015
21.1
20.7
27.4
14.0
17.0
16.6
17.6
17.7
12.5
15.8
17.5
18.4
17.1
17.5
16.4
17.9
2016
18.3
19.4

27.4
12.9
15.6
15.9
16.2
15.8
12.1
15.3
16.2
17.0
15.7
16.2
15.3
16.5

Note: 2005-2013 PE based on year end prices, 2014/2015 PE based on current prices and FC and DB US Equity Strategy EPS estimates for 2014 and 2015.

Dividend yield and payout is based on indicated dividend.

Source: Company reports, First Call, Deutsche Bank Markets Research

3.4% 115.5
2.4% 85.1
-1.5% 46.8
0.4% 216.8
15.6% 155.0
10.7% 116.3
8.6% 224.1
7.4% 30.6
22.1% 33.7
9.2% 33.2
6.2% 1057.1
7.6% 840.3
7.2% 1010.3
5.6% 833.0
-0.3% 263.6
9.1% 793.5
-1.3% 91.0
-58.4% 46.8
14.2% 235.5
13.7% 168.9
2.6% 121.5
6.8% 243.3
-6.5% 34.3
9.8% 34.9
-0.1% 34.4
0.9% 1143.4
-2.0% 907.9
8.0% 1096.6
-0.6% 900.1
-12.8% 282.3
6.5% 861.1
15.0% 115.5
6.9% 85.5

0.1% 45.0
8.6% 218.0
9.0% 154.5
4.4% 115.0
8.6% 225.0
12.0% 30.3
3.4% 33.5
3.7% 33.5
8.2% 1055.7
8.0% 837.7
8.5% 1010.7
8.1% 830.7
7.1% 263.0
8.5% 792.7

3.1%
2.1%
~4%
4.8%
2.25%
4.5
0.6%
~\$1.10
1.05
~\$50
~2.50

1.1% \$125

All 2015/16 estimates are aggregate earnings representative of EPS

12.3% 132.8
12.2% 125.0
-0.8% 87.5
-59.9% 52.0
14.8% 230.0
13.4% 165.0
1.4% 117.0
7.3% 239.0
-7.5% 32.5
9.1% 32.5
0.7% 34.5
5.0% \$122
8.3% 115.5
2.3% 85.5
15.6% 80.0
5.5% 218.0
6.8% 151.5
1.7% 112.2
6.2% 225.0
7.3% 31.4
-3.0% 33.5
3.1% 33.5
1.1% 1114.9 5.0% 1086.0
-2.3% 884.9

5.6% 868.0
8.1% 1062.9 5.2% 1006.0
-0.8% 875.9
-13.0% 282.0
6.4% 832.9
5.4% 861.0
7.2% 298.0
5.1% 788.0
3.5%
2.7%
~4%
4.5%
2.75%
2
0.5%
~\$1.05
0.90
~\$55
~2.75

DB US Equity Strategy

2015
21.1
20.6
28.5
14.0
17.0
16.8
17.5
17.9
12.6
15.7
17.5
18.5
17.0
17.5
16.4
17.9
2016
19.5
20.1
24.6
13.2
15.9
16.5
16.5
16.7
13.0
15.2
16.6
17.5
16.2

16.6
15.3
17.0
<3%
0.75%
\$1.10-1.15
~\$65
~ 3.00
Indicated Dividend
Yield
1.5%
2.7%
3.4%
2.0%
1.7%
2.3%
1.6%
2.2%
5.2%
3.9%
2.1%
2.1%
2.0%
2.3%
2.4%
2.0%
103%
100%
100%
178%
100%
98%
98%
100%
104%
100%
100%
103%
104%
100%
104%
113%
99%
2015E
y/y
Bottom-up
2016E
y/y
2015E
DB US Equity Strategy
y/y

2016E
Normalized 2015
y/y
(\$) % of 2015
Payout (2015)
32.0%
56.1%
94.7%
27.9%
28.9%
37.8%
27.5%
39.6%
66.3%
61.5%
37.3%
39.7%
34.7%
39.9%

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Figure 67: EPS revisions – The % below shows the change in 2015 consensus estimate since July end

Cons. Disc. (\$bn) – down 0.3%

Cons. Staples (\$bn) – down 1.9%

110
130
150
30

50
70
90
2010
2011
2008
2009
2016
2015
2014
2012
2013
60
70
80
90
2012
2011
2009 2010
2008
100
110
2013
2015 2016
2014
100
120
140
160
180
200
40
60
80
2008
2012
2011
2009
2010
2016
2015
Energy (\$bn) - down 8.1%
Financials (\$bn) - down 2.3%
2013 2014
100
150
200
250
300
2008
50

0
2009
2016
2014 2015
2011
2012
2010
2013
Healthcare (\$bn) – up 1.6%
Industrials (\$bn) – down 0.2%
100
120
140
160
180
200
80
2016
2015
2014
2012 2013
2011
2008
2009
2010
100
110
120
130
140
40
50
60
70
80
90
2008
2016
2015
2013 2014
2012
2011
2010
2009
50
Technology (\$bn) – down 0.5%
100
150
200
250
300

2016
2013
2012
2011
2008
2009
2010
2015
2014

Materials (\$bn) - down 6.0%

10
15
20
25
30
35
40
45
5

2016
2013
2012
2011
2008
2010
2009
2015
2014

Telecom (\$bn) - up 1.3%

Utilities (\$bn) - up 0.2%

17
19
21
23
25
27
29
31
33
35
37

2015 2016

2014
2011
2008
2009
2010
2012
2013
24
26

28
30
32
34
36
2016
2015
2014
2008
2009
2011
2012 2013
2010
S&P ex. Fin (\$bn) - down 0.8%
400
500
600
700
800
900
1000
1100
20152016
2014
2008
2009
2013
2012
2011
2010
S&P 500 EPS (\$/sh) - down 1.1%
\$40
\$60
\$80
\$100
\$120
\$140
\$160
2015
2009
2008
2012 2013 2014
2011
2010
2016

Source: I/B/E/S and Deutsche Bank Markets Research

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Figure 68: Sales revisions – The % below shows the change in 2015 consensus estimate since July end

Cons. Disc. (\$bn) – down 0.2%

Cons. Staples (\$bn) – down 1.4%

925
1025
1125
1225

1325
1425
1525
1625
1725
2016
2015
2014
2013
2012
2009
2008
2010
2011
900
950
1000
1050
1100
1150
1200
1250
1300
1350
1400
2016
2015
2014
2013
2012
2008
20092010
2011
800
1000
1200
1400
1600
1800
2000
2008
Energy (\$bn) - down 5.5%
Financials (\$bn) - down 0.7%
2012 2013
2014
2011
2016
2015
2009
2010
900

1000
1100
1200
1300
1400
2016
2015
2011
2009
2010
2008
2012
2014
2013

Healthcare (\$bn) - flat
Industrials (\$bn) - down 1.4%

800
900
1000
1100
1200
1300
1400
1500
1600
1700
2016
2015
2014
2013
2012
2011
2009
2010
2008

800
900
1000
1100
1200
1300
1400
2013
2012
2011
2008
2010
2009
2016

2014 2015
Technology (\$bn) - down 0.6%

600
700
800
900
1000
1100
1200
1300
2016
2015
2013 2014

2011
2012
2009
2008
2010

Materials (\$bn) - down 3.6%

2013
240
260
280
300
320
340
360
380
400
420
2012
2008
2010
2011
2009
2014
2015
2016

Telecom (\$bn) - down 2.0%

Utilities (\$bn) - down 0.7%

220
240
260
280
300
320
340
360
2016
2014 2015
2013
2012
2008

2009 2010

2011

280

290

300

310

320

330

340

350

360

2016

2011

2009

2008

2013

2014

2012

2010

2015

S&P ex. Fin (\$bn) - down 1.4%

5500

6000

6500

7000

7500

8000

8500

9000

9500

10000

2016

2014 2015

2013

2012

2011

2008

2009

2010

S&P 500 (\$bn) - down 1.3%

7000

7500

8000

8500

9000

9500

10000

10500

11000

2016

2014 2015

2013

2009

2010

2008

2011

2012

Source: I/B/E/S and Deutsche Bank Markets Research

Cons. Disc. 2010/11 jumped in Nov 2010 after GM was added to S&P. Cons.

Staples 2013 jumped in Oct 2012 due to KRFT IPO. Health Care 2012/13 jumped after ESRX's acquisition of Medco. Telecom 2011/12 jumped due to CTL's Qwest and Savvis acquisition.

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Figure 69: What to buy now (large caps)? DB Buy-rated S&P 500 stocks in our
OW industries with market cap > \$10bn, PE on 2015 EPS < 22, 2015 EPS
growth > 0%

DB

Ticker Company Name

BAC

JPM

MTB

PNC

STI

USB

Bank of America Corp

JPMorgan Chase & Co

M&T Bank Corp

PNC Financial Services Group Inc

SunTrust Banks Inc

U.S. BANCORP

WFC Wells Fargo & Co

AMP Ameriprise Financial Inc

BK

BLK

ABT

MDT

SYK

Bank of New York Mellon Corp

BlackRock Inc

TROW T. Rowe Price Group Inc

ABBOTT LABORATORIES

Medtronic Inc

Stryker Corp

AGN Allergan plc

ENDP Endo International PLC

MYL

Mylan Inc

PRGO Perrigo Company PLC

AAL

DAL

LUV

UAL

Southwest Airlines Co

CSCO Cisco Systems Inc

ADS

United Continental Holdings Inc

Alliance Data Systems Corp

AEP

EXC

NEE

American Airlines Group Inc
Delta Air Lines Inc
GICS Sector
Financials
Health Care
Industrials
Industrials
Industrials
Industrials
CTSH Cognizant Technology Solutions Corp Information Technology
AMAT Applied Materials Inc
LRCX Lam Research Corp
American Electric Power Company IncUtilities
Exelon Corp
NextEra Energy Inc
Utilities
Utilities
GICS Industry
Banks
Banks
Banks
Banks
Banks
Banks
Banks
Capital Markets
Capital Markets
Capital Markets
Capital Markets
DB
Rating
Buy
Buy
Buy
Buy

Buy
Buy
Buy
Buy
Buy
Buy
Buy
Health Care Equipment & Supplies Buy
Health Care Equipment & Supplies Buy
Health Care Equipment & Supplies Buy
Pharmaceuticals
Pharmaceuticals
Pharmaceuticals
Pharmaceuticals
Airlines
Airlines
Airlines
Airlines
Information Technology Communications Equipment
Information Technology
IT Services
IT Services
Electric Utilities
Electric Utilities
Electric Utilities
Buy
Information Technology Semiconductors & Semiconductor EquipmentBuy
Information Technology Semiconductors & Semiconductor EquipmentBuy
Buy
Buy
Buy
Price
Target
19
72
132
101
49
47
60
138

49
393
83
53
90
112
308
84
66
187
54
55
54
74
35
341
69
20
95
62
37
112

Source: Deutsche Bank, Compustat, Thomson Reuters

*Net Buyback Yield is calculated as (trailing 12-month buyback expenditures less option exercise proceeds and less stock option expense) / Market Cap

Note: The list has the following changes from our previous US Equity Insights report based on the screening rules: additions (CTSH), deletions (ACN).

Price

125.43

95.10

43.60

44.15

114.97

43.83

359.09

76.38

45.73

Mkt Cap

(\$m)

17.69 186,626

67.66 249,385

22,277

48,297

22,306

77,924

55.97 284,352

20,105

48,090

59,141

19,206

68,321
75.75 109,640
95.41
36,530
302.05 122,494
59.41
51.22
154.63
42.30
48.51
46.87
58.50
286.07
65.24
18.20
77.92
56.32
28.16
100.99
13,435
25,571
22,786
28,049
37,554
30,118
21,515
27.37 137,964
17,589
39,683
21,767
12,423
27,196
25,858
46,450
P/E on
2015
EPS
12.6
11.3
16.7
12.9
12.3
14.0
13.4
12.4
15.4
18.6
16.7
21.3
17.7
18.7

19.0
13.1
11.9
20.2
4.7
10.5
13.1
4.9
15.7
19.0
21.4
15.3
15.4
15.0
11.3
17.9
2015
EPS
2016
EPS
Growth Growth
297%
13%
1%
1%
10%
0%
10%
2%
2%
9%
17%
0%
0%
9%
12%
8%
13%
6%
21%
22%
57%
41%
78%
137%
17%
19%
17%
12%
14%
9%

4%
7%
14%
-1%
0%
5%
4%
14%
12%
6%
8%
10%
2%
10%
-4%
27%
12%
22%
-39%
0%
2%
-40%
4%
13%
14%
0%
23%
-1%
-2%
9%
Dividend
Payout
Ratio
34%
30%
38%
26%
22%
31%
33%
26%
27%
40%
39%
44%
29%
26%
0%
0%
0%
8%

7%
7%
10%
0%
48%
0%
0%
37%
4%
59%
52%
55%
2015
DPS
Growth Div Yield
67%
9%
0%
7%
31%
5%
9%
15%
3%
6%
132%
9%
9%
10%
Net
Buyback
Yield
Total
Yield
1.1% -7.3% -6.1%
2.6% -0.9% 1.7%
2.2% -0.9% 1.4%
2.1% 4.2% 6.4%
2.2% 0.0% 2.2%
2.3% 2.0% 4.3%
2.7% 0.7% 3.4%
2.3% 6.8% 9.1%
1.5% 1.2% 2.7%
2.4% 1.3% 3.7%
2.7% 2.5% 5.2%
2.1% 0.9% 3.0%
2.0% 0.5% 2.4%
100%
50%
19%
11%

0%
300%
6%
0%
6%
1.4% 0.8% 2.2%
0.0% -7.9% -7.9%
0.0% -18.0% -18.0%
0.0% -0.8% -0.8%
0.3% -4.7% -4.4%
1.0% 3.8% 4.7%
1.1% 5.4% 6.5%
0.6% 3.2% 3.8%
0.0% 2.8% 2.8%
3.1% 1.0% 4.1%
0.0% 3.7% 3.7%
0.0% 0.0% 0.0%
2.2% 2.0% 4.2%
1.5% 2.9% 4.5%
4.0% -1.3% 2.7%
4.4% -0.6% 3.8%
3.1% -3.0% 0.1%

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Figure 70: What to buy now (mid and small caps)? DB Buy-rated non-S&P 500 stocks in our OW industries with market cap > \$800m, PE on 2015 EPS < 25, 2015 EPS growth > 8%, net debt/market cap < 30%, price upside > 5%

DB

DB

Ticker Company Name

LOPE Grand Canyon Education Inc

LOCK

Lifelock Inc

VIPS

FL

AKRX

JAZZ

BABA

IACI

GPN

NXPI

NUAN

SNCR

VRNT

Vipshop Holdings Ltd

Foot Locker Inc

WBA Walgreens Boots Alliance Inc

QGEN Qiagen Nv

Akorn Inc

Jazz Pharmaceuticals Plc

Alibaba Group Holding Ltd

Iac/interactivecorp

HAWK Blackhawk Network Holdings Inc

FLT

Fleetcor Technologies Inc

Global Payments Inc

WNS Wns (holdings) Ltd

MXL

Maxlinear Inc

Nxp Semiconductors Nv

SPWR Sunpower Corp

MSTR Microstrategy Inc

Nuance Communications Inc

Synchronoss Technologies Inc

Verint Systems Inc

GICS Sector

GICS Industry

Consumer Discretionary Diversified Consumer Services

Consumer Discretionary Diversified Consumer Services

Consumer Discretionary Internet & Catalog Retail

Consumer Discretionary Specialty Retail

Consumer Staples
Food & Staples Retailing
Health Care
Health Care
Health Care
Life Sciences Tools & Services
Pharmaceuticals
Pharmaceuticals
Information Technology Internet Software & Services
Information Technology Internet Software & Services
Information Technology IT Services
Information Technology IT Services
Information Technology IT Services
Information Technology IT Services
Rating
Buy
Price
Price
Target Upside
45.0
25.0
18.3
80.0
95.0
31.0
40.0
Buy 173.0
98.0
90.0
50.0
Buy 184.0
Buy 139.0
Buy
36.0
20.0
43.0
65.0
66.0
Information Technology Semiconductors & Semiconductor Equipment Buy
Information Technology Semiconductors & Semiconductor Equipment Buy 100.0
Information Technology Semiconductors & Semiconductor Equipment Buy
Information Technology Software

Information Technology Software
Information Technology Software
Information Technology Software
Buy 220.0
30.0
Buy
Buy
Buy

Source: Deutsche Bank, Compustat, Thomson Reuters

Note: The list has the following changes from our previous US Equity Insights report based on the screening rules: addition (AKRX, NUAN), deletions (NTES, ON).

For screening purpose, our over-weight industries for mid and small caps are all industries in Consumer Discretionary, Consumer Staples, Health Care, and Tech.

DB Analyst

16% Paul Ginocchio, CFA

72% Nandan Amladi

28%

30%

15%

Alan Hellowell

Paul Trussell

George Hill

16% Gunnar Romer

23%

19%

26%

45%

11%

Gregg Gilbert

Gregg Gilbert

Alan Hellowell

Ross Sandler

Bryan Keane

21% Ashish Sabadra

95%

15%

23%

24%

88%

27%

Bryan Keane

Bryan Keane

Ross Seymore

Ross Seymore

Vish Shah

Karl Keirstead

49% Nandan Amladi

66% Nandan Amladi

36% Nandan Amladi

Price

38.71

14.53

14.31

61.53

82.83

26.73

32.46

145.04

45.21

151.57

71.27

31.41

16.25

80.92

22.93

173.00

20.20

39.25

48.38

Mkt Cap

(\$m)

1,844

1,381

8,357

8,519

92,090

6,221

3,783

8,973

77.87 195,190

62.26

5,158

2,483

13,983

9,209

1,681

1,035

20,621

3,232

1,987

6,267

1,731

3,039

Net Debt /

Mkt Cap

-6%

-24%

-7%

-10%

14%
11%
28%
5%
-6%
4%
9%
20%
16%
-8%
-7%
13%
9%
-22%
27%
0%
12%
P/E on
2015 EPS
14.0
23.3
4.1
17.2
21.4
24.8
16.8
17.5
6.0
18.1
19.8
24.4
14.1
18.1
18.7
16.6
11.3
19.2
15.8
17.9
14.5
2015 EPS
Growth
17%
35%
69%
24%
18%
8%
81%
12%
10%

35%
29%
21%
22%
26%
100%
15%
54%
440%
14%
23%
18%
2016 EPS
Growth
6%
20%
43%
18%
18%
10%
25%
35%
30%
38%
14%
11%
17%
8%
24%
Div
Yield
Net
Buyback
Yield
Total
Yield
0.0% -0.6% -0.6%
0.0% -2.9% -2.9%
0.0% -0.5% -0.5%
1.6%
1.7%
0.0%
0.0% -0.7% -0.7%
0.0% -1.2% -1.2%
0.0% -6.5% -6.5%
2.2%
0.0% -1.5% -1.5%
0.0% -0.6% -0.6%
0.1%
0.0%
-3% 0.0%

10%
14%
3%
-9% 0.0% -0.3% -0.3%
2%
0.0% -1.1% -1.1%
0.0%
0.0% -3.7% -3.7%
0.0% -2.5% -2.5%
0.9% 0.9%
3.6% 5.2%
0.8% 2.5%
0.2% 0.2%
2.3% 4.5%
2.7% 2.7%
0.4% 0.4%
0.0% -2.5% -2.5%
3.3% 3.3%

20 November 2015
US Equity Insights
Figure 71: S&P 500 sector performance (total returns)
12 Month

YTD
S&P 500
Consumer Discretionary
Consumer Staples
Energy
Financials
Health Care
Industrials
Information Technology
Materials
Telecommunication Services
Utilities

Note:

3.7%
17.2%
4.4%
3.0%
12.5%
3.7%
-19.1% -13.1%

4.2%
5.4%
0.7%
9.5%
-6.4%
-4.1%
-1.9%

1.1%
4.8%
0.2%

Since

3 Month 1 Month 1 Week

6.2%

8.5%

8/25/2015

Mkt Trough

3.3% 1.8%

2.6% 0.5%

4.2% -0.8% 2.4%

8.0%

4.2%

-0.7%

8.6%

8.2% 12.8%

-4.5%

2.0%

-6.1%

6.4%
1.8%
0.4% 2.0%
4.9% 2.1%
3.9% 1.7%
4.1% 2.3%
5.7% 1.4%
5.1% 4.1%
1.2% 2.4%
-3.2% -3.8% 1.2%

Two biggest outperforming (underperforming) sectors are highlighted in green (red)

All sectors within 5% of their 5 year high are highlighted in yellow

Source: Deutsche Bank, Thomson Reuters

12.0%
13.4%
9.1%
15.5%
11.2%
4.9%
14.2%
18.3%
13.0%
7.5%
3.8%

Current Price
vs. 5yr High

2015

PE

97.7% 17.5
98.2% 21.1 12.9%
97.2% 20.7
67.2% 27.4
9.4%
6.9%
96.1% 14.0 16.2%
91.8% 17.0 14.2%
95.9% 16.6 10.1%
98.6% 17.6 20.6%
87.6% 17.7
87.6% 12.5
86.8% 15.8

2.8%

2.3%

2.8%

Sector

Wt. by

Mkt Cap

Figure 72: S&P 500 sector 12m vs. 3m performance

-6%

-4%

-2%
0%
2%
4%
6%
8%
10%
12%
14%

Tech ex. AAPL
Tech
Lagging
but gaining
Industrials
Energy
Materials
Cons. Disc.
S&P 500
Financials
Telecom
Cons. Staples
Health Care
Utilities
Lagging and
slipping

-20%
-15%
Source: Deutsche Bank, Thomson Reuters

-10%
-5%
0%
5%
12 Month Total Return

Figure 73: S&P 500 sector ytd vs. mtd performance

-2%
-1%
0%
1%
2%
3%
Lagging
but gaining
Industrials
Materials
S&P 500
Tech ex. AAPL
Tech
Financials
Leading
and gaining
10%

15%
Leading
but slipping

20%
Leading
and gaining
Energy
Telecom Health Care
Cons. Staples
Lagging and
slipping

-15%
-10%
Source: Deutsche Bank, Thomson Reuters

Utilities
-5%

0%
YTD Total Return

5%
10%
Leading
but slipping

15%
Cons. Disc.
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Deutsche Bank Securities Inc.

MTD Total Return
3 Month Total Return

20 November 2015

US Equity Insights

Figure 74: Russell 2000 sector ytd vs. mtd performance (price returns)

12

Since

3

Month

Russell 2000

Consumer Discretionary

Consumer Staples

Energy

Financial Services

Health Care

Materials & Processing

Producer Durables

Information Technology

Utilities

Note:

YTD

1

0.8%	-3.2%	0.9%	1.9%	1.0%
-4.7%	-9.9%	-5.4%	-3.8%	-0.8%
8.2%	1.7%	5.7%	1.2%	1.2%
-46.2%	-33.3%	-0.9%	-6.1%	0.7%
4.3%	0.9%	3.5%	2.4%	1.0%
14.7%	5.2%	-4.9%	6.8%	0.9%
-7.6%	-10.1%	1.3%	2.4%	3.3%
-7.3%	-10.0%	1.3%	1.8%	2.0%
11.2%	4.3%	7.5%	4.4%	1.4%
0.2%	-4.3%	2.6%	-0.5%	1.0%

8/25/2015

Month Month 1 Week Mkt Trough

Current

Price vs.

5yr High

5.7%	90.0%
-1.7%	84.1%
9.3%	98.6%
5.8%	34.0%
9.5%	96.9%
-1.1%	83.4%
7.6%	83.7%
5.7%	85.7%
12.0%	92.7%
8.0%	92.4%

Two biggest outperforming (underperforming) sectors are highlighted in green (red)

All sectors within 5% of their 5 year high are highlighted in yellow

Source: Deutsche Bank, Thomson Reuters, Bloomberg Finance LP

2015 PE

(ex. Neg

EPS)
18.4
17.5 14.4%
3.6%
2.8%
20.4
17.2
17.1 26.1%
22.3 16.5%
5.7%
18.6
16.8 11.6%
22.2 14.8%
4.5%
18.5
Sector
Weight

Figure 75: Russell 2000 sector 12m vs. 3m performance

Lagging

-8%
-6%
-4%
-2%
0%
2%
4%
6%
8%
-50%

Tech

but gaining

Leading

and gaining

Cons. Staples

Utilities

Materials & Proc

Producer Dur

Energy

Health Care

Lagging and

slipping

-40%
-30%

Source: Deutsche Bank, Thomson Reuters, Bloomberg Finance LP

-20%
-10%

12 Month Price Return

Figure 76: Russell 2000 sector ytd vs. mtd performance

-5%
-4%
-3%

-2%
-1%
0%
1%
2%
3%
4%
-40%

Health Care
Lagging
but gaining
Russell 2000
Materials & Proc
Producer Dur
Utilities
Lagging and
slipping
Energy
Cons. Disc.

-30%

Source: Deutsche Bank, Thomson Reuters, Bloomberg Finance LP

-20%

-10%

YTD Price Return

0%

10%

Leading

but slipping

Tech

Leading

and gaining

Financial Svcs

Cons. Staples

Cons. Disc.

Leading

but slipping

0%

10%

20%

Financial Svcs

Russell 2000

Deutsche Bank Securities Inc.

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MTD Price Return

3 Month Price Return

20 November 2015

US Equity Insights

Figure 77: Thematic plays – YTD total returns

-16%

-12%

-8%

-4%

0%

4%

8%

12%

Source: S&P, Deutsche Bank, Thomson Reuters, Bloomberg Finance LP

Figure 78: Thematic plays, underlying sectors and baskets – YTD total returns

Cyclicals

YTD Total Returns

0.9%

Consumer Discretionary

Energy

Financials

Industrials

Materials

Defensives

Utilities

Telecommunication Services

Consumer Staples

Health Care

Information Technology

Domestic Cyclicals

Consumer Discretionary

Financials

DBUSDMST (US Domestic Strength) *

Global Cyclicals

Energy

Industrials

Value

DBUSCICG (Challenged Cap Goods) *

Information Technology

Energy

Materials

Financials

Cyclical Growth

Consumer Discretionary

Industrials

Secular Growth

Health Care

Information Technology

S&P 500 ex. Secular Growth

* Returns of stock baskets are price returns

** Equal-weighted total return

Source: S&P, Deutsche Bank, Thomson Reuters, Bloomberg Finance LP

12.5%

-13.1%

1.1%

0.2%

-4.5%

3.0%

-6.1%

2.0%

3.7%

4.8%

8.2%

5.9%

12.5%

1.1%

-3.2%

0.9%

-13.1%

0.2%

-9.9%

-4.5%

8.2%

-3.6%

-13.1%

1.1%

6.8%

12.5%

0.2%

6.8%

4.8%

8.2%

1.0%

Credit vs. Commodity Play

Financials

Energy

Capex

Industrials

Energy Equipment & Services

Information Technology

DBUSBRTTE (Reasonable PE Tech) *

Consumer

Consumer Discretionary

Consumer Staples

Dividend Growth

Financials

Information Technology

Dividend Yield (Bond Substitutes)

Utilities

Telecommunication Services

REITs

Consumer Staples

Share Buybacks

Consumer Discretionary

Information Technology
Industrials
Health Care
Repatriation Holiday Beneficiaries
Strong Dollar
No foreign sales (139 Cos) **
Small Cap vs. Large Cap
Russell 2000
S&P 500
DBUSHIFC (High Foreign Cash) *
High foreign sales (139 Cos) **
1.1%
-13.1%
4.7%
0.2%
-11.6%
8.2%
-10.1%
8.6%
12.5%
3.7%
4.9%
1.1%
8.2%
1.4%
-6.1%
2.0%
1.5%
3.7%
6.8%
12.5%
8.2%
0.2%
4.8%
3.7%
-0.8%
0.2%
-2.0%
3.0%
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Deutsche Bank Securities Inc.

20 November 2015
US Equity Insights
Figure 79: Historical sector performance
Beta > 1
Beta ≈ 1
US Value
Credit Plays
Financials
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002

2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015 YTD
Financials
2.4%
48.7%
-14.4%
14.6%
2.6%
-5.6%
1.4%
2.0%
50.2%
-10.8%
6.4%
10.1%
32.3%
-5.9%
-35.1%
19.3%
35.5%
-8.9%
5.9%
18.2%
14.7%
11.4%
20.4%
14.8%
8.8%
41.7%
8.2%
-16.1%
18.0%
32.5%
-20.8%
49.1%
23.3%
10.6%
-3.5%
54.1%
35.2%

48.2%
11.4%
4.1%
25.7%
-9.0%
-14.6%
31.0%
10.9%
6.5%
19.2%
-18.6%
-55.3%
17.2%
12.1%
-17.1%
28.8%
35.6%
15.2%
1.1%
Global Value
Commodity Plays
Global Growth
Capex Plays
Energy Materials Industrials
Energy Materials Industrials
-4.4%
25.4%
-6.4%
31.6%
11.9% -10.5%
22.1%
26.7%
1.5%
-7.1% -16.9%
17.9%
22.0%
-24.1% -15.3%
17.5%
4.8%
22.2%
8.1%
-23.7% -22.3%
27.0%
36.5%
-3.4% -27.7%
9.2%
46.8%
62.2%
-20.2%
-6.8%
30.3%

25.0%
10.6%
18.8%
39.7%
15.9%
3.7%
31.0%
25.9%
25.3%
0.6%
18.7%
20.8%
22.5%
12.8%
23.6%
6.6%
11.0%
0.7%
14.1%
5.7%
41.1%
19.0%
3.8%
50.4%
23.5%
2.3%
1.9%
33.0%
19.8% -16.9%
22.3%
22.3%
19.3%
46.5%
19.3%
22.4%
2.9% -10.7%
6.9%
2.3%
25.5%
10.3%
13.5%
5.8%
20.0%
15.8%
8.4%
-6.2%
25.3%
15.7% -15.7%
-10.4%
-11.1%
25.6%

31.5%
31.4%
24.2%
34.4%
-34.9% -45.7%
13.8%
20.5%
4.7%
4.6%
25.1%
-7.8%
-13.1%
3.5%
-5.5%
38.2%
13.2%
4.4%
18.6%
22.5%
48.6%
22.2%
-9.8%
15.0%
25.6%
6.9%
-4.5%

Source: Deutsche Bank, Haver Analytics, Thomson Reuters

-10.2%
18.7%
Tech
Tech
-15.9% -33.2%
25.6%
13.2%
38.1%
-20.8%
42.0%
16.8%
-28.8%
Consumer Growth
Consumer Plays
Con Disc
Cons. Disc.
33.1% -10.1%
47.6%
31.3%
2.4%
31.9%
73.8%
-0.1%
16.6%

17.2% -16.3%
23.0%
27.8%
23.7%
30.3%
40.7%
39.1%
19.3%
13.4%
19.0%
24.1%
54.1%
40.3%
-7.9%
15.9%
-9.2%
7.7%
1.7%
-1.3%
47.1%
Staples
33.6%
36.3%
13.6%
14.4%
9.6% -29.5%
33.9%
10.3%
-3.8%
16.2%
19.9%
11.5%
65.6%
29.0%
-9.4%
0.2%
3.2%
-4.5%
31.4%
16.4%
10.2%
14.6%
20.5%
20.2%
-9.3% -21.9% -17.2%
-9.8% -13.2% -14.5%
-1.5%
31.3%
63.7%
-9.9% -21.1%
-2.2%

27.2%
-5.0%
27.5%
12.7%
21.0%
12.4%
18.4%
-7.6%
29.5%
9.6%
18.6%
-2.4%
39.1%
25.1%
27.0%
10.9%
21.5%
-6.7%
-0.1%
79.0%
30.0%
5.1%
24.4%
20.2%
4.1%
37.5%
12.4%
3.0% -12.2%
9.1%
2.9%
21.7%
19.9%
39.4%
43.9%
28.5%
78.1%
78.7%
13.3%
12.0%
47.2%
2.6%
1.0%
8.4%
61.7%
10.2%
2.4%
40.7%
9.8%
0.2%
14.8%
28.4%

20.1%
8.2%
41.5%
19.7%
14.6%
-8.3%
20.3%
12.4%
34.4%
41.1%
5.9% -40.9% -20.0%
-5.7% -25.9%
-26.3% -37.4% -23.8%
32.2%
18.0%
2.3%
16.3% -13.2%
41.3%
27.7%
6.1%
23.9%
43.1%
9.7%
12.5%
2.8%
37.4%
13.2%
-6.4%
18.6%
38.2%
10.9%
-5.4%
7.2%
-0.3%
11.6%
14.4%
41.2%
14.7%
13.5%
44.6%
31.9%
13.8%
28.7%
49.4%
15.3%
41.7%
39.6%
25.9%
32.9%
15.8%
Growth

Health
Care
Staples Healthcare Utilities
Cons.
Utilities
7.3%
26.1%
-7.0% -17.6% -18.6%
30.9%
30.5%
5.3%
20.9%
16.5%
30.4%
0.1%
25.1%
8.6%
19.8%
29.0%
-2.7%
12.2%
15.6%
4.7%
-4.6%
-0.6%
5.5%
23.6% -11.3%
-2.7%
19.8%
32.4%
5.0%
-4.0%
-9.2%
12.0%
16.0%
24.0%
2.4%
18.5%
9.5%
15.3%
43.5%
38.1%
11.0%
12.4%
44.9%
17.3%
53.7%
5.3% -16.2%
-3.9%
9.8%
-8.2%

-7.9% -17.7%
-26.9% -36.5% -42.3% -28.8% -18.2% -21.4%
25.4%
24.9%
42.9%
30.2%
8.1%
-3.7%
13.0%
14.0%
11.0%
24.5%
19.2%
28.1%
-2.5%
17.8%
45.8%
13.7%
13.7% -11.8%
58.0%
21.0%
43.7%
43.9%
25.2% -15.1% -10.7%
16.8%
37.1%
14.4%
14.2%
14.9%
14.1%
14.0%
10.8%
26.1%
16.0%
3.7%
15.1%
1.7%
6.5%
7.5%
7.2%
19.7%
2.9%
12.7%
17.9%
41.5%
25.3%
4.8%
32.7%
5.7%
24.7%
14.8%

-9.2%
26.3%
24.3%
16.8%
21.0%
19.4%
15.7%
2.2%
7.5%
Beta < 1
Low Beta Defensives
Domestic (Bond Subst.)
Telecom
Telecom S&P 500
0.0%
0.0%
0.0%
22.4%
0.9%
-8.0%
10yr Tsy
TR
0.3%
26.6%
-8.8%
22.5%
16.3%
12.3%
-5.8% -10.0%
-4.3%
10.0%
-3.6%
5.9%
-3.1%
23.9%
3.9%
4.1%
3.9%
1.6%
3.7%
0.7%
5.0%
23.7% -3.2%
10.8%
2.2%
-8.3% -5.5%
3.5% 18.4%
14.3% 11.1%
19.0%
0.5% -14.7%
-4.5% -26.5%

21.6%
32.3%
1.9%
7.6%
-5.6%
1.4%
34.0%
10.3%
13.4%
24.3% -66.3%
31.7%
35.7%
16.4%
7.8%
23.3%
61.8%
-0.6% -13.9%
23.9%
6.6%
13.2%
16.2%
15.1%
-4.8%
42.3%
1.1%
41.2%
52.4%
19.1%
57.2% -38.8%
7.1%
19.9%
-5.6%
36.8%
11.9%
8.9%
19.9%
1.3%
13.2%
29.0%
-6.1%
19.0%
6.3%
18.3%
11.5%
3.0%
2.0%
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US equity strategy 2015 Outlook

* Chartbook publications

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Hold

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54 %

41 %

2 %35 %

Sell

Cos. w/ Banking Relationship

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Große Gallusstraße 10-14
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Germany
Tel: (49) 69 910 00
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60 Wall Street
New York, NY 10005
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