

# S&P 500 to 5000: Within reach thanks to virtual reality



David Bianco  
Americas Chief Investment Officer

IN A NUTSHELL

- DWS Global CIO View: Another good year ahead, if inflation trends downward
- Slower GDP and inflation ahead, but both above trend. Some overheating risks
- S&P 500 Outlook: 2022E S&P EPS up 7% to \$228, if stable PE at 21.9x = 5000
- S&P is digital, seek foreign stocks for value, boost small cap shopping budget
- The digitalization of the S&P 500 and virtualization of Communications

## DWS Global CIO View: Another good year ahead, if inflation trends downward

This note includes strategic views and forecasts from our November 18th CIO Day at DWS. Four times a year, DWS economists, strategists, asset class heads and senior portfolio managers convene from around the world to shape our strategic views to help guide our investment strategies and inform our clients. We set our 2022 end targets at this CIO Day. While we and others at DWS have year ahead publications soon coming, this note includes many of our key macro forecasts and investment benchmark targets for 2022.

Inflation was a topic of focus at CIO Day deliberations. US and Europe's inflation in 2021 exceeded many investor's expectations and especially central bank targets. The 2022 inflation outlook depends not only on the ability of the supply-side to resolve pandemic disruptions and deliver healthy productivity gains in this new cycle, but also on the right timing and magnitude of monetary policy. As central banks shift from crisis policy to whatever is appropriate for normal supply/demand conditions of this new age. Uncertainty in matching appropriate monetary policy to natural supply/demand is exacerbated by fiscal policies still in the making. For these reasons, inflation is much more uncertain than usual and thus the related outlooks for interest rates – nominal and real, across the curve – are also uncertain. This uncertainty ripples through the outlook for currencies and commodities and fair valuations for income producing risk assets.

It's early days into an expansion with very uncertain macro conditions and even longevity. That stated, we present our macro and cross asset class return forecasts for 2022. Our views are constructive and optimistic given the demonstrated resilience and innovation of the private economy and likelihood of monetary actions being incremental and adjustable along the way. We embrace diversification in this cloudy macro world and seek to enhance investment performance by positioning with thematic secular trends; such as digitalization, ESG, aging and health. We stay underweight bonds and seek portfolio inflation protection with equities and alternatives. We suggest small equity macro tilts and more stock picking.

## Slower GDP and inflation ahead, but both above trend. Some overheating risks

We forecast US gross domestic product (GDP) slowing from 5.6% in 2021 to 4% growth in 2022. Inflation slowing from 3.7% in 2021 to 2.8% in 2022 on a core personal consumption expenditures (PCE) vs. prior yearend basis. Headline consumer price index (CPI) inflation will likely be higher and more volatile, but also slowing over full 2022 and 2023. Global growth from 5.6% to 4.5% with slowing led by U.S. and China. Japan and parts of Europe should accelerate as they catch-up on services and manufacturing demand. U.S. inflation above Eurozone should narrow from about 250bp to 100bp and 50bp over 2021-2023. Short-term real interest rate differentials and risk asset demand should drive foreign exchange (FX) rates. We expect U.S. Federal Reserve (Fed) hiking to begin in late 2022. The dollar depends on how much hiking is required to tame inflation.

If less than 200bp of Fed hikes are required into 2024 the dollar could weaken or if the Fed hikes less on greater tolerance for inflation over target. The dollar could strengthen if inflation stays high and the Fed signals resolve to quash it. This adds to oil price uncertainty, but we prefer better businesses for inflation protection.

## S&P 500 Outlook: 2022E S&P EPS up 7% to \$228, if stable PE at 21.9x = 5000

We raise our 2022E S&P earnings per share (EPS) on no U.S. corporate tax rate hikes now expected in 2022. We also fine-tune estimates by sector for other reasons. Notably higher at Energy given oil prices above our prior views and parts of Industrials. Taxes aside, small trims at Financials, Tech, Communications and Health Care. But these usually deliver most upside surprises.

## S&P is digital, seek foreign stocks for value, boost small cap shopping budget

The pandemic accelerated the digital and virtual world and we see no turning back. The S&P 500 is an index dominated by digital and innovation assets. The performance of the index next year and beyond will be driven by these companies. We remain constructive on these businesses, but we also seek diversification. First, we believe that Health Care is a Growth sector at very reasonable price. We see underappreciated innovation and potential at this sector. Second, while we think the climb in long-term interest rates will be slow and limited to about 2% in 2022 and probably longer if Fed hikes contain inflation to 2%, we think Financials offer value and provide the best protection against rising interest rates. Third, we believe foreign stocks belong in the portfolio and while we have no strong regional preferences at this time, we think investors should keep both foreign developed and emerging markets. Fourth, if staying more at home, seek out more small cap opportunities.

## The digitalization of the S&P 500 and virtualization of Communications

## GLOSSARY

The **consumer price index (CPI)** measures the price inflation as a percentage, year over year, of a basket of products and services that is based on the typical consumption of a private household.

**Earnings per share (EPS)** is calculated as a company's net income minus dividends of preferred stock, all divided by the total number of shares outstanding.

**Fiscal policy** describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

FX or **foreign exchange** is the currency — literally foreign money — used in the settlement of international trade between countries.

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

**Inflation** is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

**Monetary policy** focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

The **personal consumption expenditure (PCE)** measure is the component statistic for consumption in gross domestic product (GDP) collected by the United States Bureau of Economic Analysis (BEA).

The **price-to-earnings (P/E) ratio** compares a company's current share price to its earnings per share.

The **real interest rate** is the nominal interest rate adjusted for inflation as measured by the GDP deflator.

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

**Small cap** firms generally have a market capitalization of less than \$2 billion.

The **U.S. Federal Reserve**, often referred to as "**the Fed**," is the central bank of the United States.

## IMPORTANT INFORMATION – EMEA, APAC & LATAM

DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they do business. The DWS legal entities offering products or services are specified in the relevant documentation. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness or fairness of such information. All third party data is copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Investments are subject to various risks. Detailed information on risks is contained in the relevant offering documents.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid.

DWS does not give taxation or legal advice.

This document may not be reproduced or circulated without DWS's written authority.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

For institutional / professional investors in Taiwan:

This document is distributed to professional investors only and not others. Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

© 2021 DWS Investment GmbH

Issued in the UK by DWS Investments UK Limited which is authorised and regulated in the UK by the Financial Conduct Authority.

© 2021 DWS Investments UK Limited

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited. The content of this document has not been reviewed by the Securities and Futures Commission.

© 2021 DWS Investments Hong Kong Limited

In Singapore, this document is issued by DWS Investments Singapore Limited. The content of this document has not been reviewed by the Monetary Authority of Singapore.

© 2021 DWS Investments Singapore Limited

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640). The content of this document has not been reviewed by the Australian Securities and Investments Commission.

© 2021 DWS Investments Australia Limited

as of 11/22/21; 086769\_1 (11/2021)

## IMPORTANT INFORMATION – NORTH AMERICA

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas Inc. and RREEF America L.L.C., which offer advisory services.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not and is not intended to constitute an offer, recommendation or solicitation to conclude a transaction or the basis for any contract to purchase or sell any security, or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein and should not be treated as giving investment advice. DWS, including its subsidiaries and affiliates, does not provide legal, tax or accounting advice. This communication was prepared solely in connection with the promotion or marketing, to the extent permitted by applicable law, of the transaction or matter addressed herein, and was not intended or written to be used, and cannot be relied upon, by any taxpayer for the purposes of avoiding any U.S. federal tax penalties. The recipient of this communication should seek advice from an independent tax advisor regarding any tax matters addressed herein based on its particular circumstances. Investments with DWS are not guaranteed, unless specified. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such. All opinions and estimates herein, including forecast returns, reflect our judgment on the date of this report, are subject to change without notice and involve a number of assumptions which may not prove valid.

Investments are subject to various risks, including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time. Further, investment in international markets can be affected by a host of factors, including political or social conditions, diplomatic relations, limitations or removal of funds or assets or imposition of (or change in) exchange control or tax regulations in such markets. Additionally, investments denominated in an alternative currency will be subject to currency risk, changes in exchange rates which may have an adverse effect on the value, price or income of the investment. This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. The terms of an investment may be exclusively subject to the detailed provisions, including risk considerations, contained in the Offering Documents. When making an investment decision, you should rely on the final documentation relating to the investment and not the summary contained in this document.

This publication contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this material. Forward

looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

No assurance can be given that any investment described herein would yield favorable investment results or that the investment objectives will be achieved. Any securities or financial instruments presented herein are not insured by the Federal Deposit Insurance Corporation ("FDIC") unless specifically noted, and are not guaranteed by or obligations of DWS or its affiliates. We or our affiliates or persons associated with us may act upon or use material in this report prior to publication. DB may engage in transactions in a manner inconsistent with the views discussed herein. Opinions expressed herein may differ from the opinions expressed by departments or other divisions or affiliates of DWS. This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Past performance is no guarantee of future results; nothing contained herein shall constitute any representation or warranty as to future performance. Further information is available upon investor's request. All third party data (such as MSCI, S&P & Bloomberg) are copyrighted by and proprietary to the provider.

For Investors in Canada: No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the [document – may need to identify] contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you. Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.

For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are permitted to do so under applicable Bermuda legislation.

© 2021 DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany.

All rights reserved.

as of 11/22/21; 086790\_1 (11/2021)