

## US Strategy Snapshot

### S&P 500 Target Update

#### Raising S&P 500 Year-End Price Target to 4,550

Through five months of the year, it has become increasingly clear to us that stock market resilience is here to stay. Admittedly we entered the year more cautious than we have been in the past given the host of uncertainties the market faced to begin 2023, but it seems that all the doom and gloom that many others were prognosticating has yet come to fruition. We have always taken our cues from the data and the biggest worry entering the year was that the Fed would “hike” our economy into a severe recession. Well after 5 ppt points of rate hikes, inflation has clearly subsided, and yet labor market strength has remained intact. In other words, we believe the anticipated recipe for disaster is simply not present. So, from our perspective, all the worries that damaged 2022 market performance are slowly beginning to subside. Yes, earnings growth is likely to remain a sticking point, but it appears investors fully understand this and are looking past 2023 results and expecting growth to reaccelerate in 2024 and beyond. Therefore, we expect market price momentum to persist, albeit at a slightly slower clip for the remainder of the year, and are raising our 2023 S&P 500 year-end price target to 4,550 from 4,300.

#### Swapping Technology for Health Care

We are also making two sector opinion changes: upgrading Technology from Market Weight to Overweight and downgrading Health Care from Overweight to Market Weight. From our perspective, the AI hype surrounding the Tech sector is real and likely to propel future growth for many stocks within the space. So, despite an extremely strong YTD sector performance, we believe the momentum, even if it slows a bit, is likely persist for the foreseeable future. By contrast, the COVID-fueled boost has clearly evaporated for Health Care and the sector has struggled from both a performance and earnings growth perspective. Despite this weakness, we do believe the sector has some redeemable qualities and are not suggesting that investors avoid it entirely. Instead, we believe it is best to be highly selective within the sector and would recommend a barbell approach as the primary stock selection strategy. As a result of these changes and YTD index composition trends of the S&P 500, we are also adjusting our target weights for several sectors:

#### US Strategy – Recommended S&P 500 Sector Target Weight Revisions

Sector	Index	New	Old	Chg.	Sector	Index	New	Old	Chg.
Communication Services	8.8%	9.5%	9%	0.5%	Industrials	8.2%	8.5%	8.5%	0%
Consumer Discretionary	10.2%	10.25%	10.5%	-0.25%	Information Technology	28.1%	29%	26%	3%
Consumer Staples	6.9%	5%	5%	0%	Materials	2.4%	2.5%	2.5%	0%
Energy	4.2%	4%	4.5%	-0.5%	Real Estate	2.4%	2.5%	2.5%	0%
Financials	12.5%	13.5%	14%	-0.5%	Utilities	2.7%	1.5%	2%	-0.5%
Health Care	13.7%	13.75%	15.5%	-1.75%					

Source: BMO Capital Markets Investment Strategy. Index weights as of 5/31/23.

For disclosure statements, including the Analyst Certification, please refer to page(s) 6 to 9.

#### Investment Strategy

**Brian G. Belski** Chief Investment Strategist  
brian.belski@bmo.com (212) 885-4151

**Nicholas Roccanova, CFA** Head of US Equity Strategy  
nicholas.roccanova@bmo.com (212) 885-4179

Andrew Birstingl Senior US Investment Strategist  
andrew.birstingl@bmo.com (212) 885-4172

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#### US Strategy – S&P 500 Targets

Price Target Model	2023E
DDM	4,750
Fair Value P/E	4,350
<b>Price Target</b>	<b>4,550</b>
EPS Target Model	2023E
Macro Regression	\$215
Bottom-Up Consensus	\$220
Normalized EPS	\$200
<b>EPS Target</b>	<b>\$220</b>
<b>Implied P/E</b>	<b>20.7x</b>

Source: BMO Capital Markets Investment Strategy

#### US Strategy – Recommended S&P 500 Sector Weightings

Sector	Opinion	Tgt. Wgt.
Communication Services	OW	9.5%
Consumer Discretionary	MW	10.25%
Consumer Staples	UW	5%
Energy	MW	4%
Financials	OW	13.5%
Health Care	MW	13.75%
Industrials	MW	8.5%
Information Technology	OW	29%
Materials	MW	2.5%
Real Estate	MW	2.5%
Utilities	UW	1.5%

Source: BMO Capital Markets Investment Strategy

OW: Overweight  
MW: Market Weight  
UW: Underweight

## Raising 2023 Year-End S&P 500 Price Target to 4,550

### 2023 S&P 500 Targets

#### Price Target

Model	Category	2023E
Dividend Discount Model	Fundamental	4,750
Fair Value Price-to-Earnings Model	Valuation	4,350
Expected Return*		6.2%
Latest S&P 500 Close		4,282
<b>Price Target</b>		<b>4,550</b>

#### Earnings Per Share Target

Model	Category	2023E
Macroeconomic Regression Model	Macro	\$210
Bottom Up Mean Consensus Expectation	Fundamental	\$230
Normalized EPS	Mean Reversion	\$197

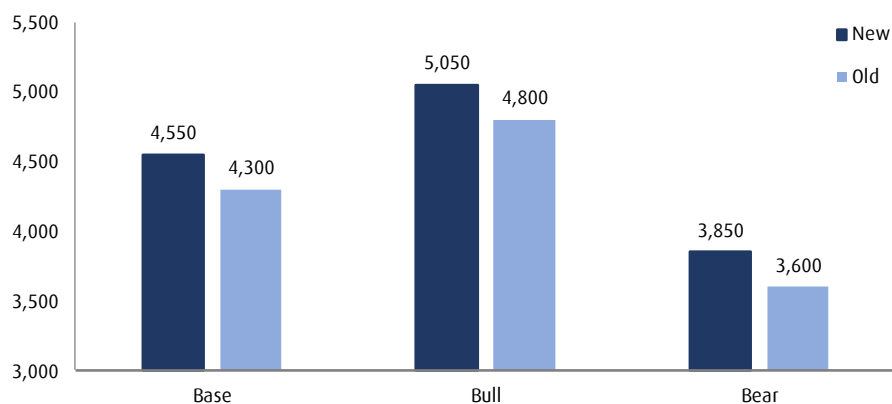
Expected EPS Growth	0.4%
Prior Year S&P 500 EPS	\$219
<b>EPS Target</b>	<b>\$220</b>

<b>Implied P/E</b>	<b>20.7x</b>
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\*Based on 6/4/23 closing price.

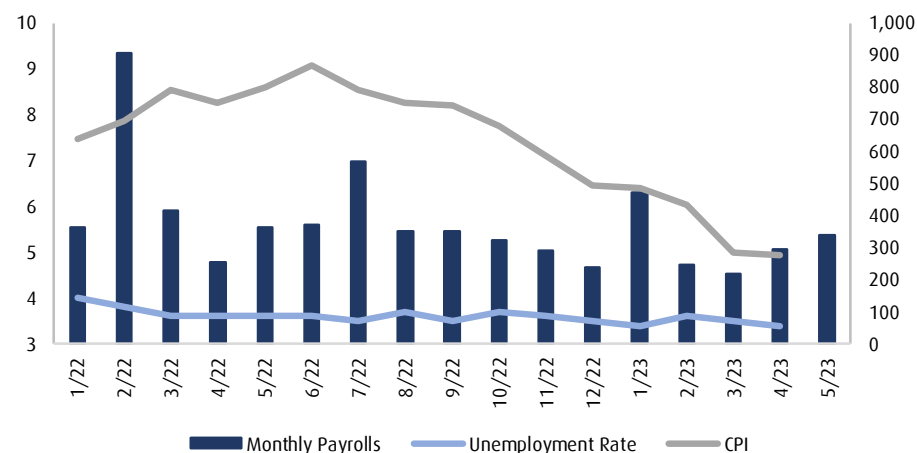
Source: BMO Investment Strategy Group.

### 2023 S&P 500 Price Target Scenarios



Source: BMO Investment Strategy Group, FactSet.

### Inflation and Labor Market Trends Have Been Better than Expected



Source: BMO Investment Strategy Group, FactSet, BLS, DOL.

Entering 2023, the biggest worry was that the Fed was underestimating its tightening campaign and that the cumulative effect would lead the economy into a severe recession. Well, after 5 ppt of rate hikes it has become increasingly clear that the worst-case scenario has not materialized. In fact, inflation has continued to decelerate at a faster than expected rate, while the labor market has continued to surprise to the upside with its resiliency.

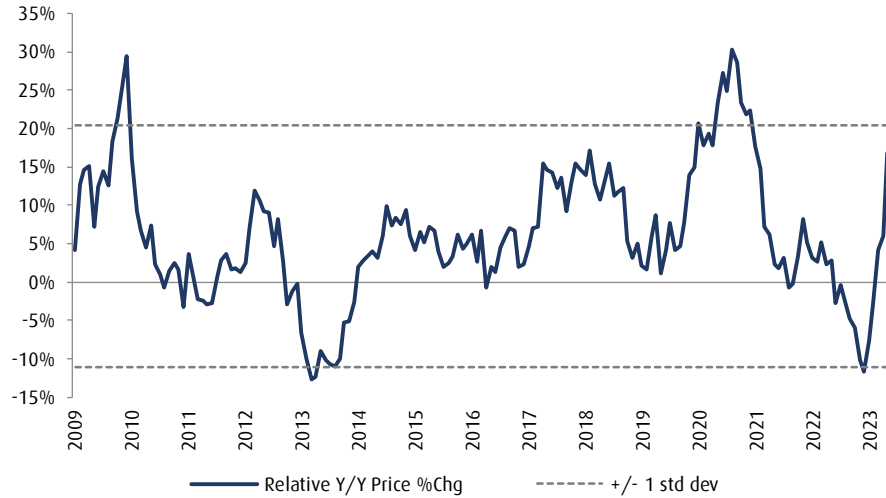
Given these dynamics, we have adjusted our price target model assumptions to reflect this better-than-expected macro data. Specifically, we have lowered our CoE assumption by 20 bps, which reflects a combination of a lower ERP, 10-yr Treasury yield and CPI rate in our DDM model.

In addition, we believe the market fully understands that the EPS environment is likely to be challenged this year and has already moved onto next year and beyond for valuation purposes. Therefore, we are applying a ½ standard error to our 2023 fair value PE model to account for this.

Finally, we are not making any changes to our 2023 EPS targets since we believe it will be difficult for earnings to grow this year from their current run rate, but we are also adjusting all of our price target scenarios by +250 to account for the better-than-expected macro environment.

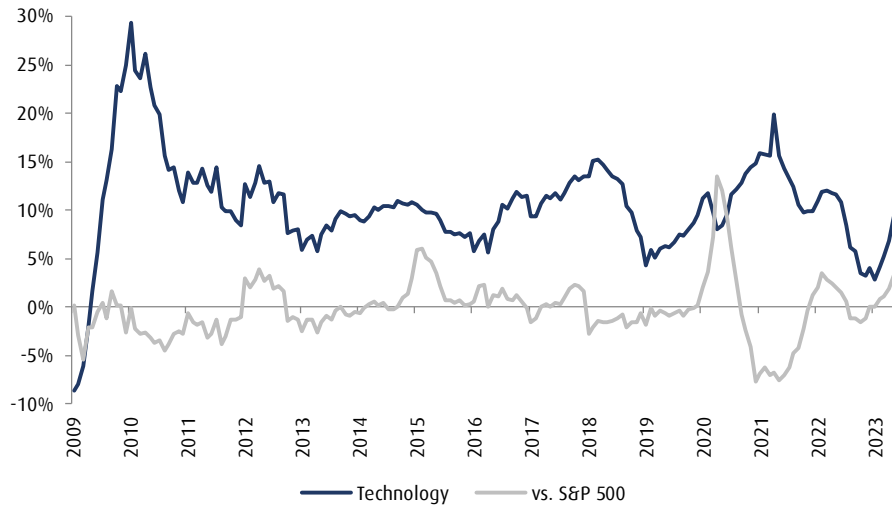
## Upgrading Technology to Overweight

### Y/Y Relative Price Change - Technology



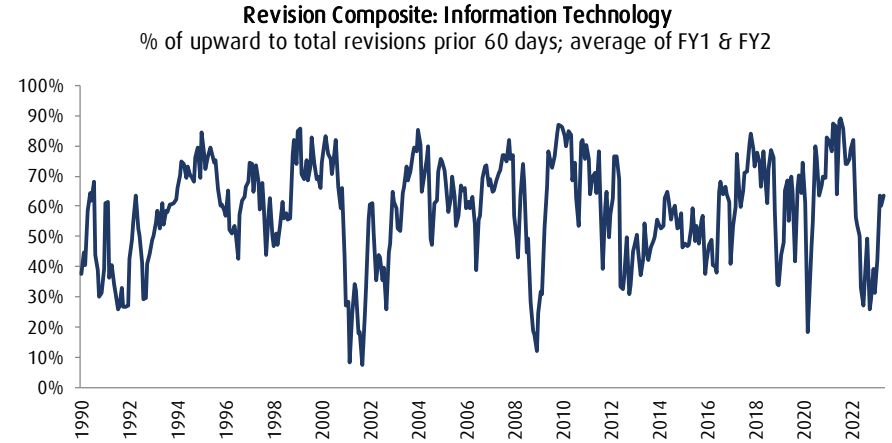
Source: BMO Investment Strategy Group, FactSet.

### NTM EPS Growth - Technology



Source: BMO Investment Strategy Group, FactSet, IBES.

### EPS Revisions - Technology



Source: BMO Investment Strategy Group, FactSet, IBES.

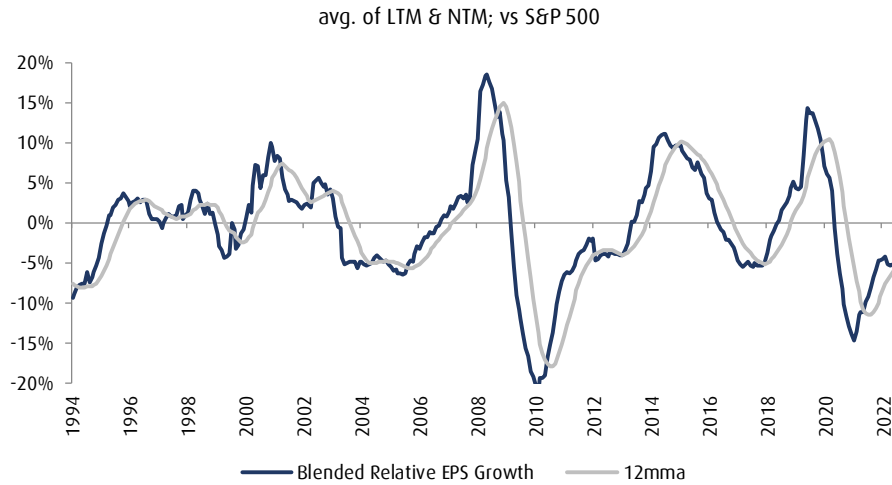
Clearly, Technology has been off to a torrid start to 2023 with the sector gaining more than 30% YTD. And while this performance has been impressive by historical standards, we believe the sector’s relative strength is likely to continue even if recent trends begin to fade. Remember, 2022 was an awful year for the sector so we believe part of this is simply a reversal of that. In addition, relative y/y performance trends are not necessarily out of context with those that have been in place since 2009. For instance, even if current trends represent a “peak” for Technology relative performance, we have found that the sector has continued to outperform the S&P 500 for a considerable amount of time post similar relative price peaks.

Technology’s earnings backdrop is essentially the basis for our upgrade. Heading into 2023, NTM EPS growth was lagging the S&P 500 which made its above-average price multiples hard to justify. However, that trend has improved dramatically over the past few months with NTM EPS growth expectations now surpassing the S&P 500 by its widest margin since early 2022. And given what is likely to be a strong AI tailwind, this is a trend we expect to continue throughout the year.

Finally, revision trends have also been a positive signal. This has always been a reliable contrarian indicator for us when there has been excessive pessimism. According to our model, revision trends bottomed in late 2022 and have essentially improved every month since then which we view as a positive catalyst for continued outperformance.

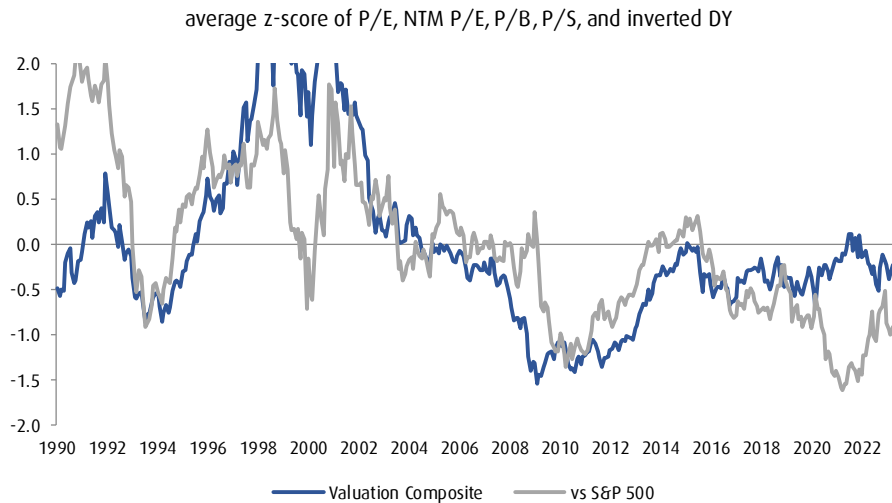
## Downgrading Health Care to Market Weight

### Blended EPS Growth – Health Care



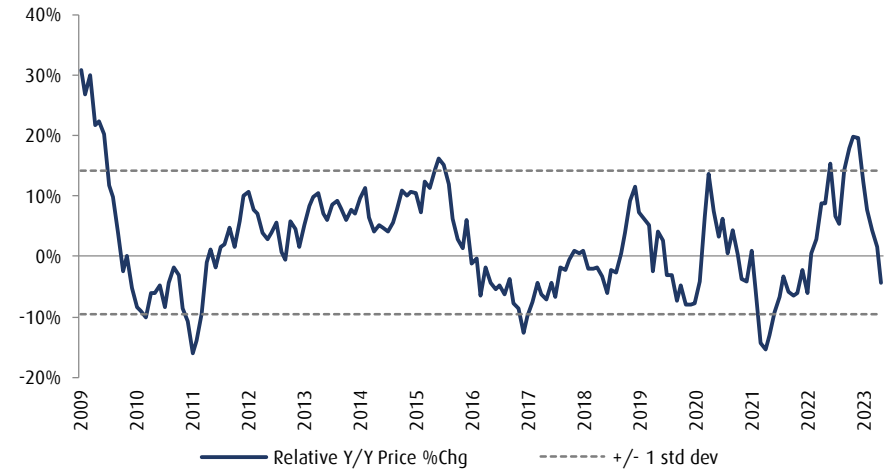
Source: BMO Investment Strategy Group, FactSet, IBES.

### Valuation Composite – Health Care



Source: BMO Investment Strategy Group, FactSet, IBES.

### Y/Y Relative Price Change – Health Care



Source: BMO Investment Strategy Group, FactSet.

We are unwinding our optimism for Health Care. While we always try to avoid “selling into weakness” with respect to our sector opinions, we believe sector fundamentals no longer warrant an Overweight recommendation. Specifically, earnings growth has remained a sore spot post-COVID. And while we found some reason for hope at the start of the year when EPS trends were improving, it appears those trends have begun to reverse in recent months particularly when compared to the S&P 500. Sector EPS growth continues to lag the overall market by a relatively wide margin and with the recent deterioration we think it makes sense to adopt a more neutral approach.

To be clear, we are not suggesting that investors avoid the sector entirely. There are some attributes that remain in its favor. For instance, valuation appears quite attractive from a historical perspective while recent performance appears to be approaching oversold territory. Therefore, we now recommend that investors be highly selective within the sector with a barbell approach being our preferred stocking picking strategy for Health Care.

## Recent US Strategy Research Reports

Date	Title
<b>Comments and Snapshot Reports</b>	
5/30/2023	<a href="#">US Strategy Snapshot: Market Resilience Does Not Necessarily Hang on Mega-Caps</a>
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1/20/2023	<a href="#">US Strategy Comment: Our Take on the New Price Low Debate</a>
1/12/2023	<a href="#">US Strategy Comment: Reinforcing Our Market Call and 2023 Price Target</a>
<b>Monthly Reports</b>	
5/4/2023	<a href="#">US Strategy: US Chartbook – May 2023</a>
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Hold	Market Perform	49.7 %	15.1 %	46.8 %	44.6 %	37.6 %	37.5%
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