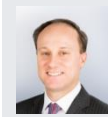


No ceiling, no landing: 3-5% inflation cruising altitude



David Bianco

Americas Chief Investment Officer
DWS

Debt ceiling suspended until Jan 2025: Fiscal health to be general election issue
Republicans ask for very little to suspend the debt ceiling. Their strategy appears to be let federal debt grow into a major issue for the Nov 2024 general election. House Speaker Kevin McCarthy and President Joe Biden announced an agreement in principle to suspend (not lift) the debt ceiling by freezing non-defense discretionary spending through Sep end 2024. Their accord boosts defense spending by 3.5% next fiscal year. Other aspects of the tentative deal are of small budgetary significance and not binding to a future Congress. No limits specified for other 70% of federal spending, e.g. Social Security, Medicare, Medicaid, VA; nor executive spending under emergency and no new boundaries. This spending will rise as entitlements and need require, so blue sky for Tsy bond issuance until Jan 2025.

Inflation is unlikely to land on target this year or next with loose fiscal discipline

Before Memorial Day weekend, April's Personal Consumption Expenditures and inflation measures surprised to the upside. The Fed's most favored measure of inflation, core PCE accelerated to 4.7% y/y and 4.5% m/m annualized. The details of consumption suggest households are depleting savings to spend more on essential goods and services. We think the Fed will take this most recent and important datapoint and likely stare at it. For over two years, the Fed has hoped for reopening normality or productivity upside surprises to tame inflation. The Fed was too late to hike, too early to shrink the size of hikes and will likely err again by being too early to pause. Despite many hikes since March 2022, the Fed Funds rate is only where it was in 2006-2007 before the financial crisis. Oil prices were a problem back then, but inflation was nowhere close to today's breadth and persistence.

Slowflation: It's not cyclical inflation, it's structural: Real growth will be very slow

If the Fed chooses to pause for summer, we don't know if the economy will slip into recession later this year or not. But given the data, at this stage we are convinced it will take at least a small recession to put inflation under 3% this year and next. Despite tighter credit conditions from smaller banks suffering net interest margin pressures from the jump in deposit base costs, we think a no landing scenario now has a 1/3 chance or roughly the same for soft landing (small recession w/ UE <5%) and hard landing (bigger recession w/ UE 5%+) if the Fed doesn't hike more this summer. Our no landing scenario has inflation between 3-5% through 2024 with no definitive recession, but real growth stuck around 1%.

Stubborn inflation, deteriorating US fiscal health: 10yr Treasury yield likely rising

May was the month that short-term Treasury investors got the message that without a large recession the Fed was unlikely to cut overnight rates until probably spring of 2024. We think June & July, if the Fed doesn't hike, will be months that longer-term Treasury investors realize that without a recession this year inflation is unlikely to fall below 2.5% over the next few years and real interest rates are likely to stay over 1% for the rest of the decade. Without conviction in imminent recession, we'd be uncomfortable owning 10yr Treasuries yielding under 4%. While the Fed has signaled that the terminal rate and angle of ascent are uncertain, we think they've been clear in desire to stay at that rate for at least a year, like past plateaus, and that positive real interest rates are likely appropriate for much longer than that, just as before the surge in globalization and the financial crisis. We think longer-term real interest rates (TIPS) should be about 1.5% and that Treasury breakeven should be about 2.5% with inflation risk premiums being approximately offset by risk hedge value. But, Treasury risk hedge value is uncertain until yields normalize, wherever that might be.

Higher short and long-term nominal & real interest rates underlie debt problem

The deficit remains too high for a full employment economy and the debt to GDP ratio is at levels that would give fiscal hawks from the 1980s a heart attack. But rising debt to GDP wasn't a problem when interest rates were descending and then spent years at 0% and negative real rates. This is not the case with interest rates today and with the debt ceiling suspended, we expect Treasury to issue more than \$1trn of notes before year end and the deficit to exceed 5% of GDP this year and next. Unless inflation is 4% or more, we expect the debt to GDP to climb. More importantly, we expect interest expense on debt and as a share of GDP to rise. This was under 3% until this year and we expect it to be over 4% by next year. Treasury will need to decide on whether it wants to issue mostly short-term debt at 5% or longer-term debt still under 4%. Unless a recession that quickly tames inflation is expected, we'd suggest issuing more toward the long end. But we hear they'll likely issue mostly short, which is more costly and might stay more costly than long-term rates are now. It could be a muggy summer for long-term bonds, if it gets too hot it will also burn stocks.

Contributor: Ju Wang, Portfolio Manager Equity

Global Equity Index Forecasts: 12-months			
Index	Mar 2024F	NTM EPS Growth	Target PE
S&P 500	4,100	1.3%	18.1
EuroStoxx 50	4,350	0.1%	13.1
Stoxx 600	480	1.7%	13.6
MSCI Japan	1,250	3.2%	13.3
MSCI Asia xJ	670	3.2%	14.1
MSCI EM	1,020	-0.5%	12.5

S&P 500 Outlook at Yearend			
	2021	2022	2023F
S&P 500	4766	3840	4000
Dividend Yield	1.3%	1.75%	1.75%
S&P EPS	\$210	\$222	\$220
Trailing PE	22.7	17.3	18.2
DPS	\$61	\$67	\$70

Next 5%+ Price Move
(Up / Balanced Risk / **Down**)
Risk of near-term 10%+ correction
(Low / Moderate / **High**)

Taxable U.S. Investor Asset Allocations		
Asset Class	Long-term	Current
Fixed Income/Cash	30-35%	36.5%
Equities	55-60%	54.0%
US Equities	40%	35%
S&P 500	35%	33.0%
Small Caps	0-10%	2%
Foreign DM	10-15%	11%
Foreign EM	0-10%	8%
Alternatives	10%	9.5%

Key CIO Views		
Macro signal:	May 2023	Mar 2024F
U.S. Fed Funds rate	5.00%-5.25%	5.25%-5.50%
10yr Treasury yield	3.80%	4.30%
US IG Corp Spreads	180bp	110bp
US High Yield Spreads	510bp	450bp
Crude Oil (WTI) \$/bbl	72	100
EUR / USD FX rate	1.08	1.10

GDP Forecasts			
Region	2022	2023F	2024F
US	2.0%	0.7%	1.1%
World	3.4%	2.7%	3.1%
Euro area	3.5%	0.8%	1.1%
China	3.0%	5.5%	5.3%
Japan	1.1%	1.0%	0.8%

* Q4/Q4 GDP growth.
EPS = Earnings Per Share
GDP = Gross Domestic Product
FX = Foreign Exchange
TIPS = Treasury Inflation Protected Securities
Source: DWS Investment Management GmbH. All opinions and claims are based upon data on 5/30/2023 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. All foreign asset exposures are not FX hedged unless otherwise noted. For illustrative purposes only.



S&P 500 Sector and Industry views

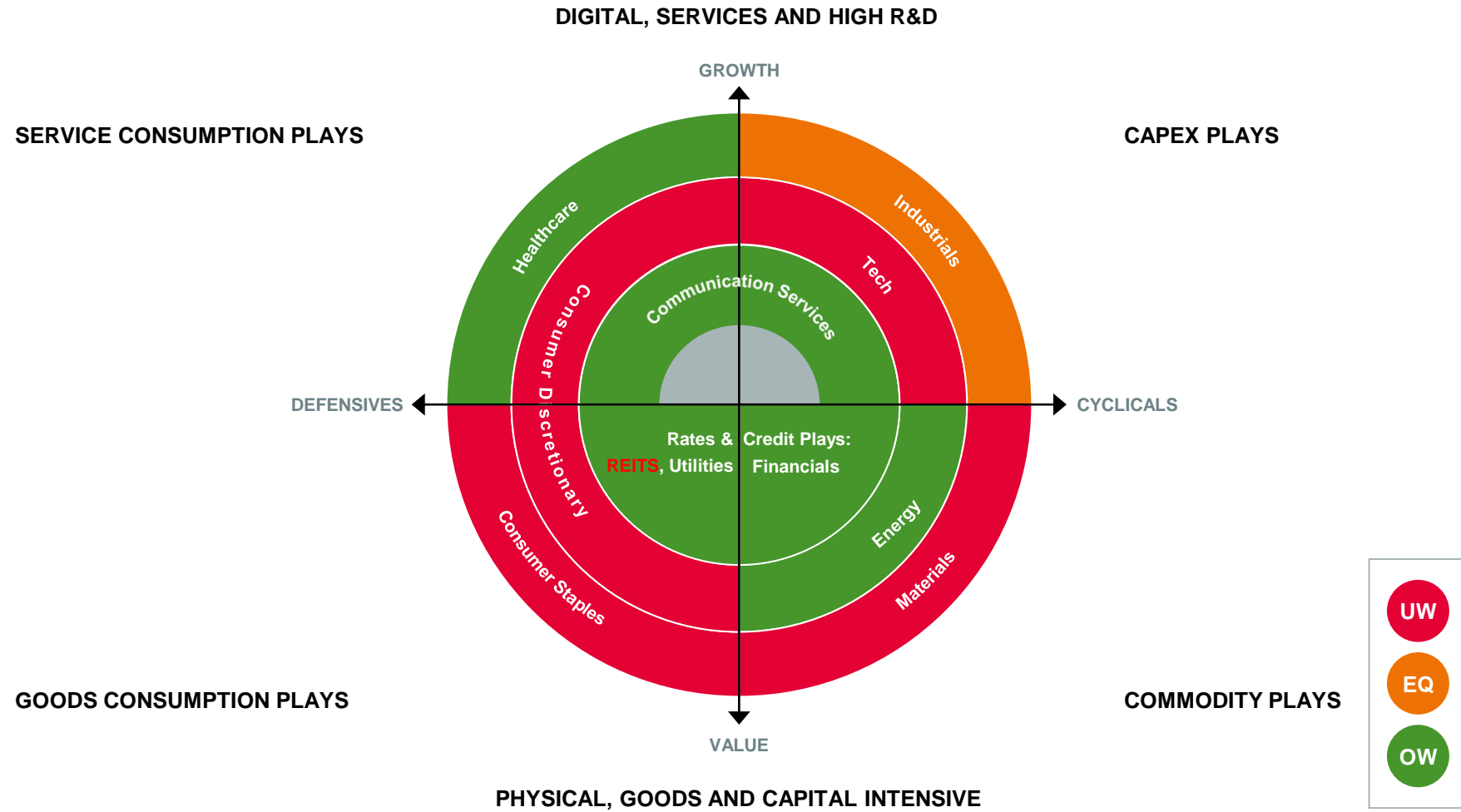
	Market	Allocated	Sector	2022 PE	2023	2024	Overweight	2022	2023	2024	Equal weight	2022	2023	2024	Underweight	2022	2023	2024	
Over-weight	13.8%	19.6%	Health Care	15.6	16.5	15.5	Biotechnology	11.7	14.3	13.4	Health Care Providers & Services	15.3	14.3	13.5	Life Sciences Tools & Services	23.6	24.6	22.7	
							Health Care Equipment & Supplies	24.8	23.3	20.7									
							Pharmaceuticals	12.9	14.6	13.9									
	8.7%	12.4%	Communication Services	21.0	18.3	17.2	Diversified Telecommunication Services	6.4	7.2	7.2	Wireless Telecommunication Services	65.6	20.1	18.7					
							Entertainment	51.8	26.1	21.4									
							Interactive Media & Services	28.2	23.2	21.8									
							Media	10.8	11.2	10.9									
	4.3%	5.8%	Energy	7.6	9.5	9.0	Energy Equipment & Services	19.8	13.9	11.8	Oil Gas & Consumable Fuels	7.2	9.3	8.8					
	12.6%	13.4%	Financials	14.6	13.7	13.0	Banks	9.2	8.8	8.6					Capital Markets	16.5	17.0	15.9	
							Insurance	16.0	13.0	11.7					Consumer Finance	8.9	10.4	9.1	
															Financial Services	23.4	20.8	20.0	
	2.7%	3.2%	Utilities	18.5	17.4	16.5	Electric Utilities	19.1	17.4	16.4	Gas Utilities	19.9	18.9	17.9	Water Utilities	32.4	31.5	30.1	
											Independent Power & Renewable Energy	11.9	11.4	10.5					
											Multi-Utilities	16.9	16.8	16.1					
Equal-weight	8.4%	8.4%	Industrials	20.9	19.0	17.8	Aerospace & Defense	32.7	22.3	19.3	Industrial Conglomerates	20.6	22.9	19.8	Air Freight & Logistics	13.4	16.2	15.6	
							Passenger Airlines	16.0	7.1	6.5					Building Products	19.1	17.5	16.2	
							Electrical Equipment	21.8	22.0	20.4					Commercial Services & Supplies	33.2	32.2	31.0	
							Ground Transportation	17.1	17.4	16.0					Construction & Engineering	27.4	24.9	20.8	
Under-weight	2.4%	2.1%	Real Estate	16.1	16.3	15.7	Industrial REITs	24.2	22.8	22.2	Hotel & Resort REITs	9.4	10.0	10.0	Health Care REITs	16.9	16.6	15.7	
							Specialized REITs	17.4	17.8	16.9	Real Estate Mgmt. & Development	13.3	15.3	13.6	Office REITs	10.1	10.4	10.4	
											Residential REITs	17.1	16.4	16.0	Retail REITs	11.3	11.6	11.3	
	7.0%	5.7%	Consumer Staples	21.0	20.4	19.6	Beverages	25.7	23.9	22.6	Consumer Staples Distribution & Retail	22.0	21.1	19.8	Food Products	16.6	17.8	17.4	
											Household Products	26.0	25.0	24.0	Tobacco	12.3	12.0	12.0	
											Personal Care Products	31.8	30.1	26.6					
	2.5%	1.0%	Materials	13.5	16.6	15.6									Chemicals	15.3	17.5	15.8	
															Construction Materials	35.6	33.9	28.3	
															Containers & Packaging	11.5	14.0	12.1	
															Metals & Mining	8.2	12.8	14.9	
	10.0%	5.5%	Consumer Discretionary	32.6	26.7	24.6	Automobile Components	18	15.0	12.4	Hotels Restaurants & Leisure	59	25.4	22.4	Automobiles	21.1	25.6	24.5	
														Distributors	16.8	16.4	15.4		
														Household Durables	8.0	11.0	11.1		
														Broadline Retail	-1418.5	66.7	51.2		
														Leisure Products	13.5	13.1	13.1		
														Multiline Retail					
														Specialty Retail	18.2	18.5	18.3		
														Textiles Apparel & Luxury Goods	24.9	24.2	22.8		
	27.6%	22.9%	Information Technology	28.2	28.4	26.1	Communications Equipment	16.8	15.0	14.3					Electronic Equipment	19.1	20.6	19.6	
							IT Services	20.0	19.3	18.0					Semiconductors	26.7	32.7	29.1	
														Software	35.3	31.7	29.1		
														Technology Hardware Storage & Peripherals	27.1	26.8	24.9		
Aggregate PE: DWS View							Overweight	16.7	15.9	14.9	Equalweight	14.3	14.9	14.0	Underweight	23.8	24.0	22.5	
S&P 500								4205				2022, 2023 & 2024 EPS	219.79	220.00	235.00	2022, 2023 & 2024 PE	19.1	19.1	17.9
												Bottom-up Consensus EPS	219.79	222.59	247.56	Bottom-up Cons. PE	19.1	18.9	17.0
															2022, 2023 & 2024 Ex Energy PE	19.9	19.9	18.7	
															Btm-up Cons. Ex Energy PE	20.6	19.7	17.6	

Sector OW	11.03%
Sector UW	-11.03%
Industry OW	20.73%
Industry UW	-20.73%

Macro tilts:	
Cyclicals	-4.41%
Defensive	4.42%
Value (Financial+Energy)	1.83%
Growth	0.04%
Growth ex Health Care Consumer	-5.06%
Services/experience	-4.86%
Disc. Goods	-0.26%
Retailing	-3.71%
Durables	-1.72%
Staples Goods/Retail	-1.99%
Commodity	-0.89%
Energy	1.04%
Metals/Chemicals	1.40%
Capex	-0.36%
Capacity additions	2.75%
Productivity	1.10%
Health Care	1.65%
Innovation	5.10%
Marketers	2.74%
Insurers	2.43%
Financials	0.42%
Up rates/low spreads	0.43%
Capital Markets	2.19%
Insurance	-2.70%
Bond Substitutes	0.94%
Weak FX \$ plays	0.80%
High R&D plays	0.28%
Transports	1.77%
Geopolitical risk	1.00%
Weak oil prices	2.03%
Inflation shock	-1.10%
Stagflation Protection	0.31%
Domestic GDP	4.21%
Global GDP	-1.77%
Consumer TMT	-5.38%
Trade sensitive	1.65%
	-2.45%

Note: More details on sector earnings forecast and sector intrinsic valuation can be found towards the back of this note.
Price as of 5/26/2023
Source: DWS Investment Management GmbH

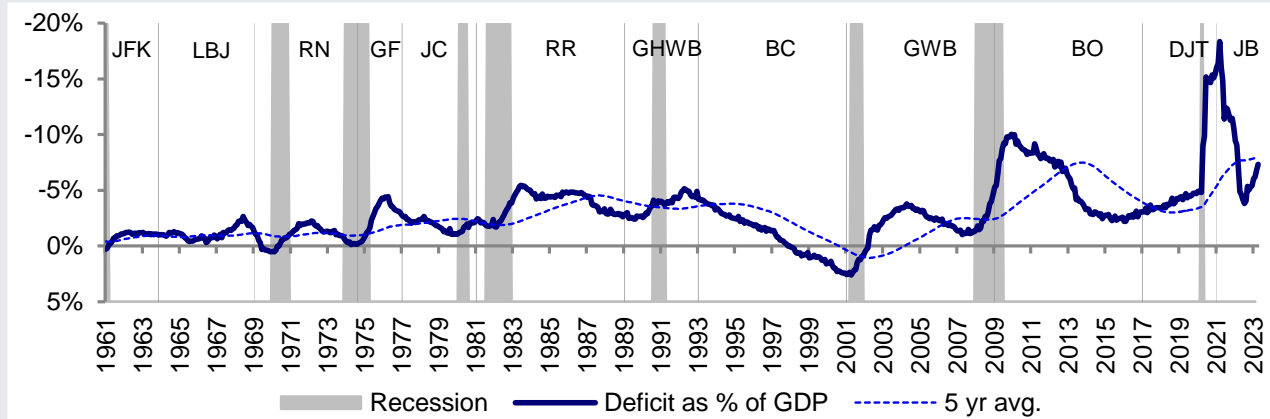
Sector Strategy: Per Key Macro Plays



Source: DWS Investment GmbH as of May 2023. Past performance may not be indicative of future results.

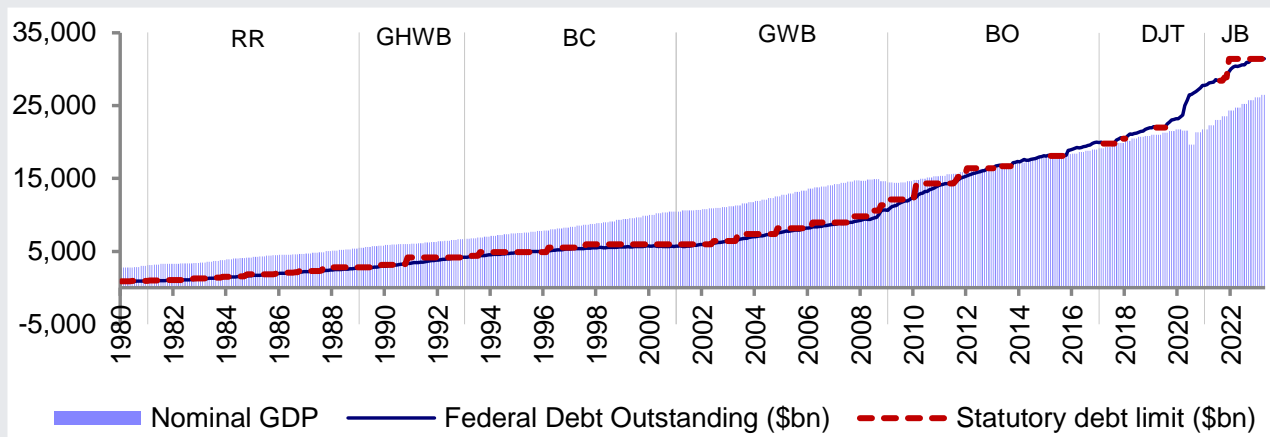
Debt ceiling

U.S. federal deficit % of GDP



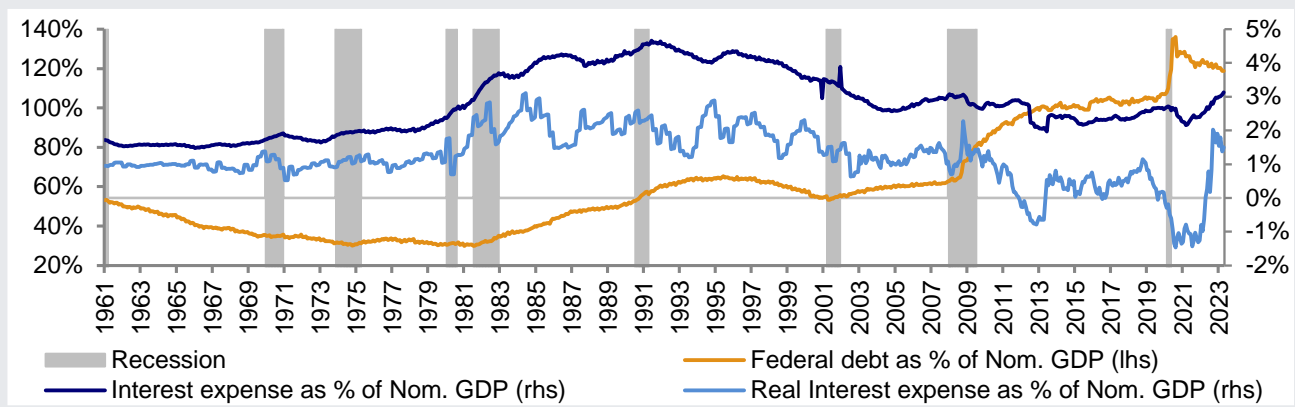
Source: Haver, DWS Investment GmbH as of April 2023.

U.S. federal debt vs. debt ceiling



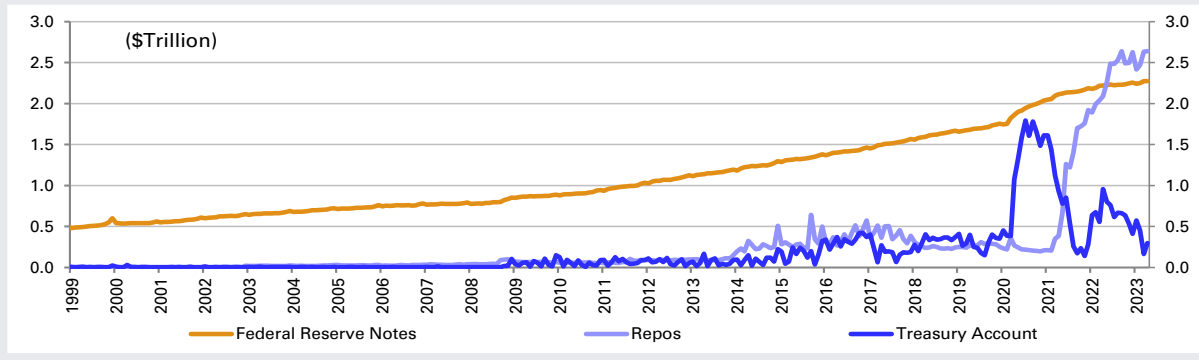
Source: Haver, DWS Investment GmbH as of April 2023.

U.S. federal debt and interest expense as % of GDP



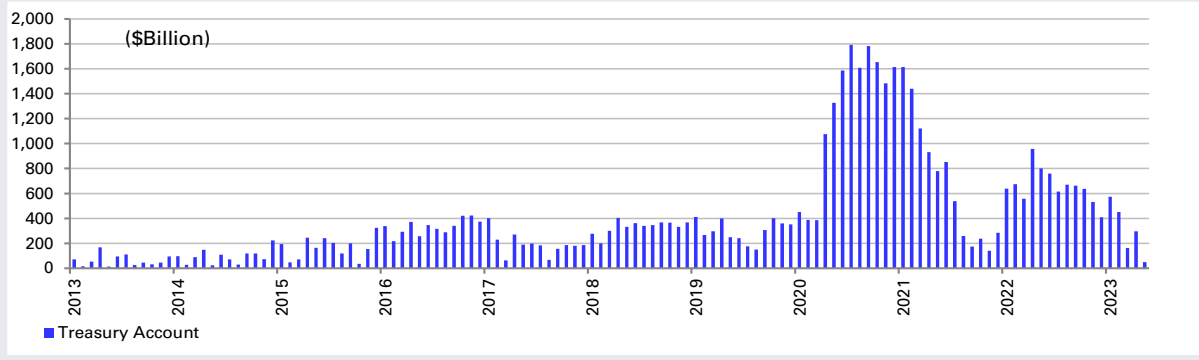
Source: Haver, DWS Investment GmbH as of April 2023.

Fed liabilities: Federal reserve notes, Repos and Treasury account



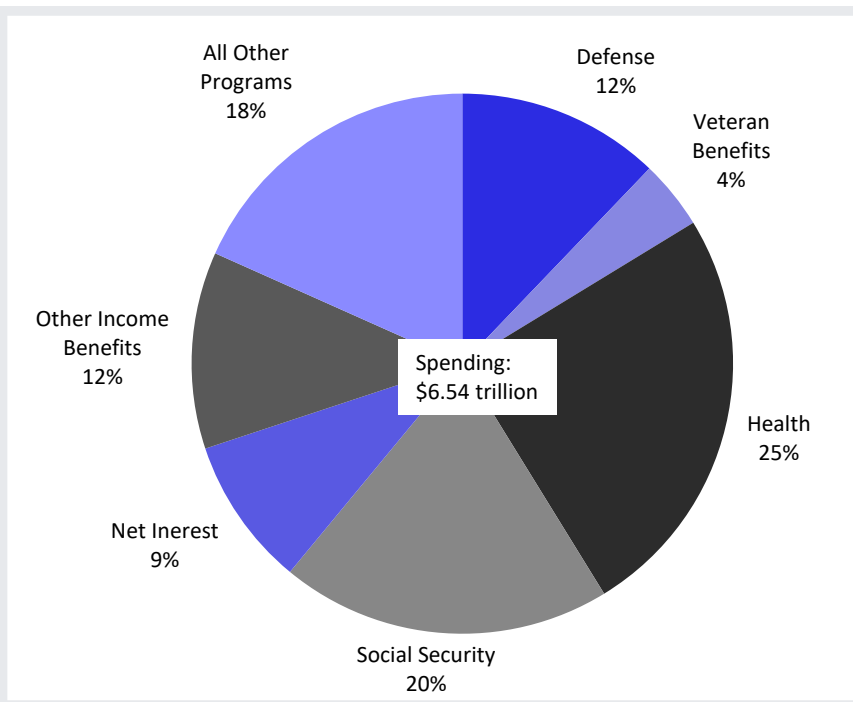
Source: Haver, DWS Investment GmbH as of May 2023.

Fed liabilities: Treasury account



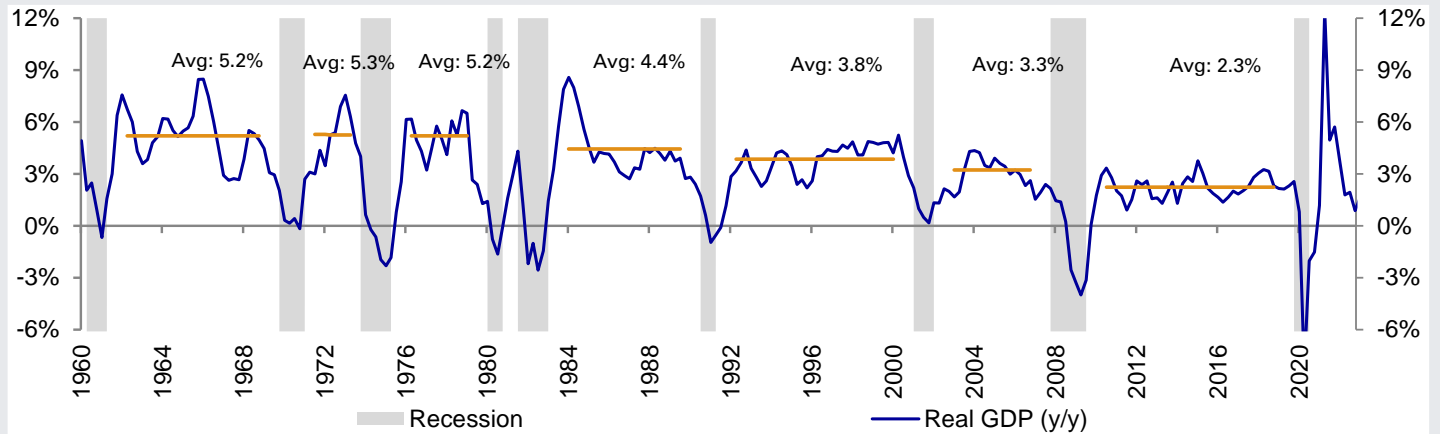
Source: Haver, DWS Investment GmbH as of May 2023.

Federal spending (LTM)



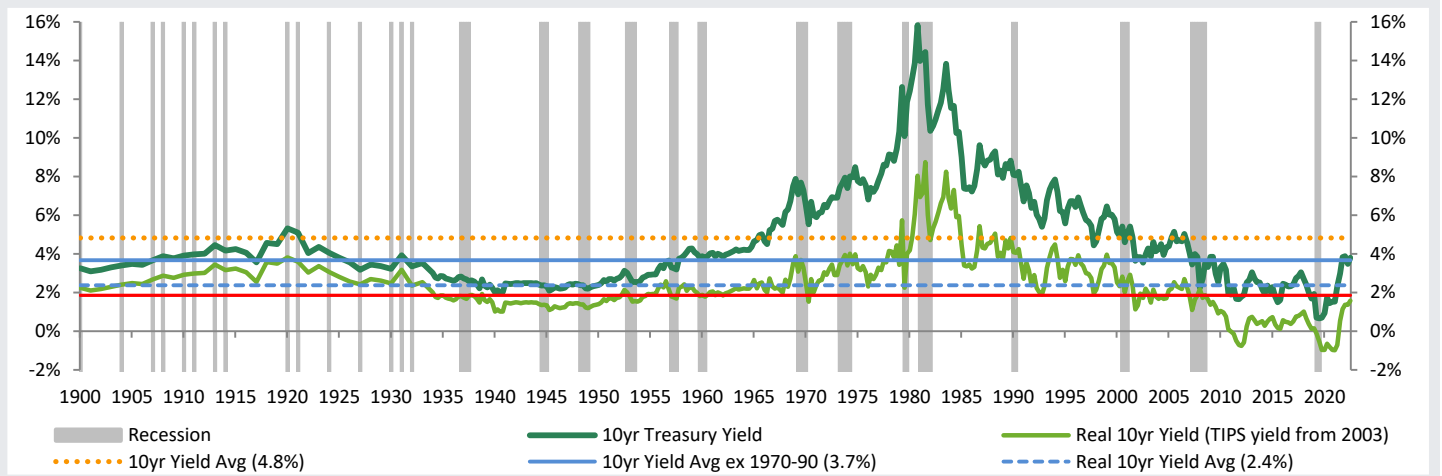
Source: Haver, DWS Investment GmbH as of May 2023.

US real GDP growth



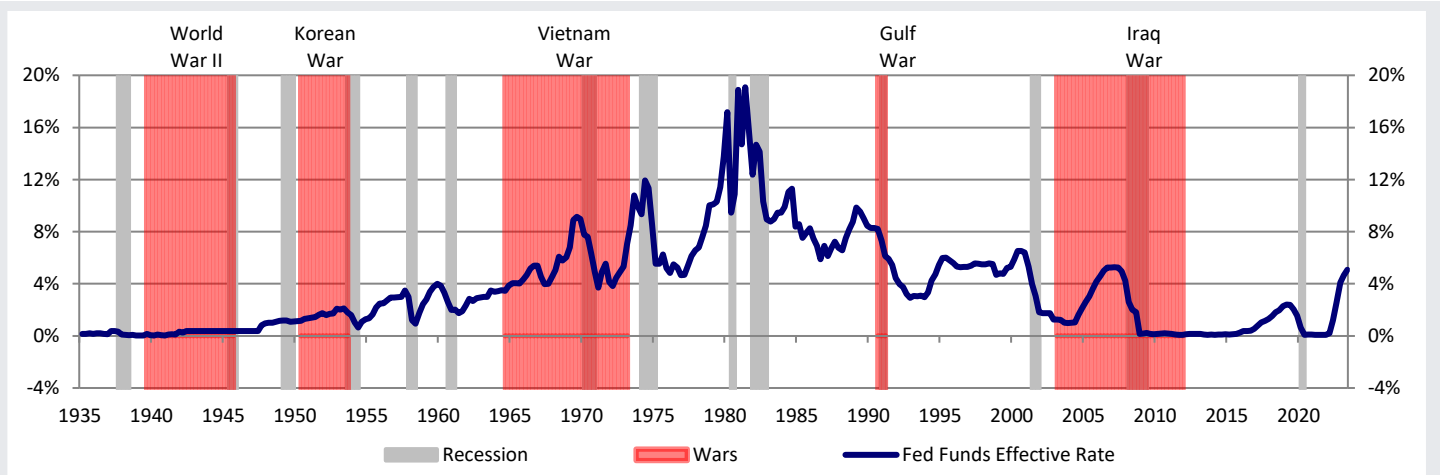
Source: Haver, DWS Investment GmbH as of May 2023.

US real GDP growth



Source: Haver, DWS Investment GmbH as of May 2023.

Fed Funds rate



Source: Haver, DWS Investment GmbH as of May 2023.

DWS Investment GmbH S&P 500 Annual EPS Outlook

	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A	y/y	Bottom-up Consensus (IBES)				DWS View				Normalized 2023	
											2023E	y/y	2024E	y/y	2023E	y/y	2024E	y/y	(\$)	% of 2023
S&P 500 EPS (historical index)	\$118.82	\$117.46	\$118.10	\$132.00	\$161.93	\$162.93	\$139.72	\$208.12	\$218.09	4.8%										
S&P 500 EPS (current constituents)	\$116.65	\$117.27	\$117.34	\$129.30	\$155.67	\$161.41	\$144.04	\$207.87	\$219.79	4.7%	\$223	1.3%	\$248	11.2%	\$220	0.1%	\$235	6.8%	\$220	100%
Sector (\$ bn)																				
Communication Services	67.8	78.4	91.3	99.3	124.2	130.6	135.8	188.4	148.9	-21.0%	172.1	15.6%	201.4	17.0%	171.0	14.8%	182.0	6.4%	166.2	97%
Consumer Discretionary	59.7	70.0	78.4	82.5	97.6	95.2	70.7	114.6	110.1	-4.0%	138.1	25.5%	163.0	18.0%	134.5	22.2%	146.0	8.6%	141.2	105%
Consumer Staples	83.6	82.4	85.1	89.4	96.4	97.4	104.8	117.2	117.0	-0.1%	121.0	3.4%	131.8	9.0%	120.0	2.6%	125.0	4.2%	120.0	100%
Energy	94.6	39.6	10.4	37.1	69.8	49.2	-6.7	79.1	201.3	154.6%	151.5	-24.7%	152.6	0.7%	160.0	-20.5%	170.0	6.3%	138.1	86%
Financials	184.4	200.6	203.1	212.5	262.6	276.5	224.7	362.3	305.0	-15.8%	336.7	10.4%	367.1	9.0%	324.0	6.2%	342.5	5.7%	320.4	99%
Health Care	137.2	152.1	157.1	171.4	188.2	206.1	226.2	293.3	308.0	5.0%	279.9	-9.1%	305.0	9.0%	290.0	-5.8%	310.0	6.9%	288.4	99%
Industrials	100.5	104.0	98.4	107.3	130.6	125.2	66.7	111.8	140.4	25.6%	159.8	13.8%	181.3	13.4%	154.5	10.0%	165.0	6.8%	155.7	101%
Information Technology	162.5	168.1	176.4	207.8	239.5	233.2	264.5	345.4	352.6	2.1%	355.3	0.8%	412.2	16.0%	350.0	-0.7%	381.0	8.9%	362.0	103%
Materials	24.8	23.7	22.8	28.7	36.1	34.1	32.4	61.3	64.0	4.4%	53.2	-16.8%	55.7	4.8%	52.0	-18.7%	55.5	6.7%	51.3	99%
Real Estate	22.3	25.5	28.0	31.5	35.1	36.5	36.4	43.5	50.5	16.2%	50.4	-0.2%	53.5	6.1%	50.0	-1.0%	52.0	4.0%	48.4	97%
Utilities	32.6	32.8	35.3	36.7	40.5	44.5	45.9	49.0	50.4	2.9%	53.6	6.4%	58.1	8.4%	53.5	6.3%	56.5	5.6%	55.3	103%
S&P 500	969.9	977.2	986.2	1104.1	1320.6	1328.6	1201.3	1765.9	1848.2	4.7%	1871.8	1.3%	2081.8	11.2%	1859.5	0.6%	1985.5	6.8%	1847.0	99%
S&P ex. Energy (\$bn)	875.3	937.6	975.8	1067.0	1250.7	1279.4	1208.0	1686.9	1646.9	-2.4%	1720.2	4.5%	1929.1	12.1%	1699.5	3.2%	1815.5	6.8%	1708.8	101%
S&P ex. Tech (\$bn)	807.4	809.1	809.8	896.3	1081.1	1095.4	936.8	1420.5	1495.6	5.3%	1516.4	1.4%	1669.5	10.1%	1509.5	0.9%	1604.5	6.3%	1485.0	98%
S&P 500 Sales/Share (historical index)	\$1,163	\$1,127	\$1,151	\$1,232	\$1,339	\$1,415	\$1,362	\$1,567	\$1,753	11.9%										
S&P 500 Non-GAAP Net Margin	10.2%	10.4%	10.3%	10.7%	12.1%	11.5%	10.3%	13.3%	12.4%											

S&P 500 EPS	Year	1Q	2Q	3Q	4Q
2019A	163	39	41	41	42
2020A	140	33	28	38	42
2021A	210	49	53	54	54
2022A	222	55	58	56	53
2023E	220	53	55	55	57

S&P 500 EPS historical constituents represents the earnings per share (EPS) of S&P 500 index constituents at the time, while S&P 500 EPS current constituents represents the earnings per share of index constituents as of the date the data was compiled 3/31/2023.

Source: Factset, DWS Investment GmbH as of 5/26/2023. Past performance may not be indicative of future results.



DWS Investment GmbH View: S&P 500 fair value by sector: Assuming a ~5.60% real cost of equity (CoE) for overall S&P 500

	Market Value (\$bn)	Current 2023 PE	2023E Earnings (\$bn)	Normal Ratio	Normal 2023E Earnings	Accounting Quality Adjustment	Fully Adjusted Earnings	Net Debt / Market Cap	Real CoE	Steady State Value	Growth Premium	2023 Start Fair Value (\$bn)	2023E Dividend Yield	2023 End Fair Value (\$bn)	PE on Normal 2023E EPS	2023 End Upside %	2023 End Upside vs. S&P 500
Communication Services	3,132	18.3	171.0	97%	166.2	-8%	152.9	15%	5.60%	2,731	0%	2,731	1.0%	2,939	17.7	-6%	2%
Consumer Discretionary	3,586	26.7	134.5	105%	141.2	-8%	129.9	12%	5.50%	2,362	15%	2,725	1.1%	2,926	20.7	-18%	-10%
<i>Automobiles</i>	614	25.6	24.0	100%	24.0	-12%	21.1	19%	6.50%	325	30%	422	0.5%	460	19.2	-25%	-17%
<i>Broadline (Internet) Retail</i>	1,100	66.7	16.5	150%	24.8	-7%	23.0	1%	5.50%	419	50%	628	0.0%	681	27.5	-38%	-30%
<i>ex. Auto & Broadline (Internet) Retail</i>	1,872	19.9	94.0	98%	92.4	-7%	85.7	17%	5.30%	1,618	3%	1,674	1.6%	1,786	19.3	-5%	3%
Consumer Staples	2,451	20.4	120.0	100%	120.0	-7%	111.6	13%	5.00%	2,232	0%	2,232	2.9%	2,347	19.6	-4%	4%
Energy	1,527	9.5	160.0	86%	138.1	-15%	117.4	16%	6.00%	1,957	-20%	1,565	3.1%	1,657	12.0	9%	16%
Financials	4,442	13.7	324.0	99%	320.4	-9%	291.5		6.40%	4,555	-8%	4,191	2.2%	4,491	14.0	1%	9%
<i>Banks</i>	1,076	8.8	122.0	100%	122.0	-10%	109.8		7.50%	1,464	-15%	1,244	3.9%	1,327	10.9	23%	31%
Health Care	4,798	16.5	290.0	99%	288.4	-8%	265.4	9%	5.40%	4,914	0%	4,914	1.7%	5,244	18.2	9%	17%
Industrials	2,937	19.0	154.5	101%	155.7	-8%	143.3	18%	5.60%	2,558	0%	2,558	2.0%	2,728	17.5	-7%	1%
Information Technology	9,937	28.4	350.0	103%	362.0	-5%	343.9	2%	5.40%	6,369	10%	7,005	0.9%	7,529	20.8	-24%	-16%
Materials	865	16.6	52.0	99%	51.3	-10%	46.1	17%	5.75%	802	0%	802	1.9%	857	16.7	-1%	7%
Real Estate	815	16.3	50.0	97%	48.4	-8%	44.5	29%	5.25%	848	0%	848	4.0%	884	18.3	8%	16%
Utilities	930	17.4	53.5	103%	55.3	-8%	50.9	60%	5.25%	969	0%	969	3.6%	1,014	18.3	9%	17%
S&P 500 (\$ bn)	35,421	19.0	1859.5	99%	1847.0	-8.1%	1697.4		5.57%	30,296	0.8%	30,540	1.7%	32,616	17.7	-8%	0%
S&P 500 Index (\$/sh)	4205	19.1	220.0	100%	220.0	-8.2%	202.0	11%	5.60%	3607	0.0%	3607	1.7%	3847	17.5	-9%	0%

>5%	Bigger upside vs. S&P 500
between -5% and 5%	Same upside as S&P 500
<-5%	Smaller upside vs. S&P 500

Source: IBES, DWS Investment GmbH as of 5/26/2023. Past performance may not be indicative of future results.

S&P 500 EPS historical constituents represents the earnings per share (EPS) of S&P 500 index constituents at the time, while S&P 500 EPS current constituents represents the earnings per share of index constituents as of the date the data was compiled 3/31/2023.

The estimated 2023 year end upside is on absolute valuation basis of each sector, not on relative sector valuation basis.

S&P 500 industry monitor (1 of 2)

Sector	Industry	PE on 2022 EPS	PE on 2023 Consensus EPS	2023 Consensus EPS Growth	2024 Consensus EPS Growth	2023 EPS 3m Revision	3m Total Return Momentum	2023 End Upside (Intrinsic Valuation)	Combined Signal
Consumer Discretionary		31.4	22.1	20.1%	18.3%	2.0%	6.8%	-16.0%	1
	<i>Automobile Components</i>	20.5	11.9	33.4%	28.4%	0.3%	-15.8%	29.9%	0
	<i>Automobiles</i>	23.7	21.4	-0.7%	11.3%	1.0%	-2.7%	-15.2%	0
	<i>Household Durables</i>	7.6	9.8	-26.4%	6.1%	13.8%	9.3%	-4.0%	1
	<i>Leisure Products</i>	13.8	12.0	2.1%	12.6%	-8.4%	7.7%	-13.3%	0
	<i>Textiles Apparel & Luxury Goods</i>	24.1	19.7	3.4%	18.5%	0.6%	-8.8%	-25.8%	0
	<i>Hotels Restaurants & Leisure</i>	80.1	19.9	226.0%	23.5%	6.6%	5.2%	-8.0%	1
	<i>Distributors</i>	16.8	15.5	0.0%	8.8%	-0.6%	-8.9%	-2.1%	0
	<i>Broadline Retail</i>	104.9	43.3	57.4%	53.9%	9.0%	26.6%	-32.9%	1
	<i>Specialty Retail</i>	18.5	17.3	-0.7%	7.8%	-5.3%	-1.0%	-4.9%	0
Consumer Staples		21.1	18.6	4.1%	9.0%	-1.4%	1.3%	-8.8%	0
	<i>Consumer Staples Distribution & Retail</i>	22.5	19.1	6.7%	10.5%	-3.7%	-0.4%	-4.3%	0
	<i>Food Products</i>	16.5	16.5	-5.8%	6.7%	-1.7%	3.2%	-0.1%	0
	<i>Beverages</i>	25.9	21.9	8.8%	8.7%	0.9%	3.3%	-10.0%	1
	<i>Tobacco</i>	12.5	11.0	5.8%	7.1%	-0.7%	-5.4%	5.5%	0
	<i>Household Products</i>	26.1	22.0	8.4%	9.6%	1.3%	5.7%	-23.7%	1
	<i>Personal Care Products</i>	29.0	31.2	-34.6%	42.3%	-28.3%	-19.6%	-20.5%	-1
Energy		8.3	10.0	-17.5%	0.9%	-10.8%	-5.7%	8.3%	-1
	<i>Energy Equipment & Services</i>	23.4	11.1	70.2%	23.9%	0.0%	-15.5%	36.2%	0
	<i>Oil Gas & Consumable Fuels</i>	7.9	9.9	-20.0%	-0.5%	-11.4%	-4.7%	5.8%	-1
Financials		14.3	12.1	8.7%	8.9%	-0.8%	-6.6%	1.7%	0
	<i>Banks</i>	9.1	8.4	9.4%	-1.6%	2.3%	-14.4%	29.2%	1
	<i>Financial Services</i>	23.6	18.2	13.6%	14.2%	2.2%	2.3%	-7.9%	1
	<i>Consumer Finance</i>	8.5	9.2	-17.8%	12.0%	-6.5%	-8.7%	11.6%	-1
	<i>Capital Markets</i>	16.2	13.7	3.6%	13.8%	-5.7%	-9.0%	-19.8%	-1
	<i>Insurance</i>	15.4	10.8	18.3%	20.3%	-4.1%	-7.1%	9.8%	-1
Health Care		15.6	15.8	-9.4%	9.0%	-0.7%	-0.3%	5.4%	0
	<i>Health Care Providers & Services</i>	15.4	12.9	7.9%	10.4%	0.1%	-4.2%	15.2%	0
	<i>Health Care Equipment & Supplies</i>	25.8	23.2	1.3%	9.8%	0.6%	5.4%	-3.9%	0
	<i>Life Sciences Tools & Services</i>	23.2	21.8	-6.2%	13.2%	-2.4%	-5.3%	-11.9%	0
	<i>Biotechnology</i>	11.4	14.5	-23.9%	3.2%	-4.0%	-4.1%	18.0%	-1
	<i>Pharmaceuticals</i>	12.9	14.0	-16.0%	9.5%	0.1%	3.0%	11.3%	0
Industrials		22.3	16.3	20.7%	13.5%	2.5%	-1.5%	-7.3%	1
	<i>Aerospace & Defense</i>	42.9	18.6	82.7%	26.6%	-2.4%	-4.5%	-4.1%	0
	<i>Building Products</i>	19.7	15.6	14.7%	10.2%	1.8%	-4.4%	-9.1%	1
	<i>Trading Companies & Distributors</i>	19.3	14.5	23.9%	7.5%	0.8%	-4.7%	12.3%	0
	<i>Electrical Equipment</i>	21.8	19.3	2.7%	10.0%	2.9%	2.2%	-7.4%	0
	<i>Construction & Engineering</i>	28.0	21.2	13.4%	16.6%	1.0%	8.4%	-23.6%	1
	<i>Industrial Conglomerates</i>	20.9	18.0	-7.0%	25.0%	1.4%	6.3%	-17.7%	0

Combined signal rules: Green – at least 2 of the following 3 must be green: EPS growth, EPS revision, price momentum

Red – at least 2 of the following 3 must be red: EPS growth, EPS revision, price momentum

Source: Factset, DWS Investment GmbH as of 5/26/2023. Past performance may not be indicative of future results.

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S&P 500 industry monitor (2 of 2)

Sector	Industry	PE on 2022 EPS	PE on 2023 Consensus EPS	2023 Consensus EPS Growth	2024 Consensus EPS Growth	2023 EPS 3m Revision	3m Total Return Momentum	2023 End Upside (Intrinsic Valuation)	Combined Signal
	Machinery	18.1	14.0	24.7%	3.4%	9.0%	-6.6%	3.3%	1
	Commercial Services & Supplies	33.9	26.9	12.2%	12.3%	2.4%	11.6%	-37.9%	1
	Professional Services	28.4	23.1	8.1%	13.4%	-1.5%	0.7%	-32.2%	0
	Air Freight & Logistics	12.9	14.0	-18.4%	12.8%	-2.2%	0.6%	-13.2%	-1
	Passenger Airlines	25.5	5.4	286.4%	22.2%	11.6%	-6.8%	62.6%	1
	Ground Transportation	17.3	16.0	-0.4%	9.0%	-1.8%	-2.0%	4.5%	0
Information Technology		27.6	24.1	-1.2%	16.0%	1.5%	24.3%	-17.1%	0
	IT Services	20.2	17.6	5.1%	8.7%	-0.6%	6.6%	-1.2%	0
	Software	35.8	27.4	14.4%	14.5%	3.2%	28.7%	-16.4%	1
	Communications Equipment	17.6	14.1	17.4%	6.6%	1.7%	6.9%	16.3%	1
	Technology Hardware Storage & Peripherals	26.6	25.0	-4.0%	10.8%	-1.1%	19.1%	-18.6%	0
	Electronic Equipment Instruments & Components	19.1	17.4	-2.1%	12.6%	-3.8%	-4.4%	-17.8%	0
	Semiconductors & Semiconductor Equipment	24.6	23.4	-17.9%	28.3%	3.5%	33.2%	-21.6%	1
Materials		13.0	15.5	-20.6%	4.9%	-1.3%	-5.7%	-3.4%	-1
	Chemicals	15.0	16.0	-15.3%	10.6%	-6.3%	-4.5%	-3.8%	-1
	Construction Materials	34.4	23.4	25.2%	17.5%	4.8%	8.7%	-40.4%	1
	Metals & Mining	7.4	13.5	-35.1%	-15.3%	20.6%	-12.7%	7.0%	-1
	Containers & Packaging	11.1	13.1	-22.9%	9.2%	-7.9%	-10.0%	1.7%	-1
Real Estate		26.9	31.0	-21.1%	10.0%	-0.2%	-5.6%	4.5%	-1
	Industrial REITs	28.7	42.9	-34.3%	1.9%	2.0%	3.7%	-15.4%	1
	Hotel & Resort REITs	14.8	18.3	-7.3%	-12.3%	15.1%	-0.5%	68.4%	0
	Office REITs	18.1	27.2	-33.0%	-0.6%	6.3%	-26.0%	23.0%	-1
	Health Care REITs	89.7	65.0	-8.3%	50.5%	7.1%	-7.5%	2.4%	-1
	Residential REITs	28.0	39.3	-31.5%	3.9%	0.2%	-4.5%	1.6%	0
	Retail REITs	26.7	21.9	7.6%	13.0%	2.9%	-11.8%	17.8%	0
	Specialized REITs	26.6	30.6	-21.7%	11.1%	-3.0%	-4.7%	3.4%	-1
	Real Estate Management & Development	12.3	13.0	-21.9%	20.6%	-4.7%	-11.1%	28.0%	-1
Communication Services		18.6	15.6	1.7%	17.4%	3.4%	22.7%	-2.2%	1
	Diversified Telecommunication Services	6.0	6.9	-13.4%	1.2%	-0.3%	-12.6%	1.6%	-1
	Wireless Telecommunication Services	77.7	14.1	309.6%	35.0%	3.7%	-6.4%	11.8%	1
	Media	11.1	10.1	-2.5%	12.8%	-1.8%	0.4%	-4.5%	0
	Entertainment	28.4	19.8	0.2%	43.3%	-8.5%	1.9%	-2.0%	0
	Interactive Media & Services	24.8	19.3	7.3%	19.6%	9.5%	43.4%	0.5%	1
Utilities		18.3	16.0	5.4%	8.4%	-0.6%	-2.3%	2.0%	0
	Multi-Utilities	17.1	15.9	2.5%	5.1%	-0.4%	-4.4%	-3.8%	0
	Water Utilities	33.4	28.0	11.3%	7.2%	-0.5%	1.8%	-24.0%	0
	Gas Utilities	20.1	17.4	8.3%	6.6%	0.2%	-1.1%	-6.5%	0
	Electric Utilities	18.6	15.9	6.5%	9.8%	-0.8%	-1.1%	8.9%	0
	Independent Power and Renewable Electricity Producers	12.2	10.3	5.5%	11.8%	-0.6%	-20.9%	2.4%	0
S&P 500		19.3	17.3	0.1%	11.4%	-0.5%	5.0%	-6.7%	0

Source: Factset, DWS Investment GmbH as of 5/26/2023. Past performance may not be indicative of future results.



S&P 500 Intrinsic Valuation Model

S&P 500 Capitalized EPS Valuation		S&P 500 Dividend Discount Model		S&P 500 Long-term EPS & DPS Growth		S&P 500 Cost of Equity & Fair Book Multiple	
DWS 2023E S&P 500 EPS	\$220.00	DWS 2023E S&P 500 DPS	\$70.00	DWS 2023E S&P 500 aggregate ROE	21.8%	Fair long-term nominal return on S&P 500 index	8.60%
		2023E dividend payout ratio	32%	2022E end S&P 500 book value per share	\$1,007	Components of estimated fair S&P 500 return:	
DWS "normal 2023E" S&P 500 EPS	\$220.00	DWS "normal 2023E" S&P 500 DPS	\$70.00	DWS "normal 2023E" S&P 500 aggregate ROE	20.1%	+ Long-term real risk free interest rate	1.60%
"Normal 2023E" EPS / 2023E EPS	100%	Normal dividend payout ratio	35%			+ Long-term fair S&P 500 equity risk premium*	4.00%
				S&P EPS retained for true reinvestment	47%	= Long-term real S&P 500 cost of equity	5.60%
Accounting quality adjustment to pro forma EPS	-\$18.00	EPS directed to net share repurchases	\$38.00	Estimated ROE on reinvested S&P EPS	8.60%	+ Long-term inflation forecast	3.00%
		Normal share repurchase payout ratio	19%	Economic margin (EM) or ROE-CoE	0.00%	= S&P 500 nominal cost of equity	8.60%
Normal 2023E S&P 500 EPS fair to capitalize	\$202	Total payout of S&P 500 EPS	\$108.00	Sources of long-term earnings growth:		* S&P 500 ERP history 300-400bps, w/ real CoE @ 5% - 6.5%	
Key principle: steady-state value = normal EPS / real CoE		Total payout ratio of normal and quality adj. EPS	53%	+ Long-term inflation forecast	3.00%	Fair S&P 500 Market Value and Book Value Multiple	
				+ Fair return on true reinvestment	2.61%	2022E end S&P 500 book value per share	\$1,007
<u>S&P 500 EPS Capitalization Valuation</u>		<u>S&P 500 DPS Discount Model</u>		+ Value added return on true reinvestment	0.00%	Fair PB = Fair PE * normal aggregate ROE	3.58
Normal EPS / (real CoE - (EM/payout) - EM):		Normal DPS / (nominal CoE - DPS growth):		= Long-term earnings growth	5.61%	Fair PE =(inc ROE-g)/(inc real ROE*(real CoE-real g))	17.9
S&P 500 intrinsic value at 2023 start	3607	S&P 500 intrinsic value at 2023 start	3607	+ Growth from net share repurchases	1.05%	Implied S&P 500 fair value of book at 2023 start	3607
S&P 500 intrinsic value at 2023 end	3847	S&P 500 intrinsic value at 2023 end	3847	= Long-term S&P 500 EPS/DPS growth	6.66%	Steady-state PB = normal agg. ROE / real CoE	3.58
Implied fair fwd PE in early 2023 on 2023E \$220 EPS	16.4	Implied fair forward yield on 2023E DPS of \$70.0	1.94%	+ Fair normal dividend yield	1.94%	Confirmed by fair steady-state PE = 1 / real CoE	17.9
Implied fair trailing PE at 2023 end on 2023E \$220 EPS	17.5	Implied fair trailing yield on 2023E DPS of \$70.0	1.82%	= Total long-term return at constant PE	8.60%		
Normal EPS / (real CoE-value added EPS growth)	3607	DPS discount model using true DPS (all payout)	3607	Value added growth premium in fair value est.	0%	Normal 2023E economic profit per share	\$145.61

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

		Normal 2023E S&P 500 EPS				
		\$210	\$215	\$220	\$225	\$230
Real	5.10%	4336	4473	4611	4751	4892
cost of	5.35%	3965	4079	4194	4310	4426
equity	5.60%	3653	3750	3847	3944	4041
	5.85%	3388	3471	3554	3636	3719
	6.10%	3158	3230	3302	3374	3444

Source: DWS Investment Management GmbH

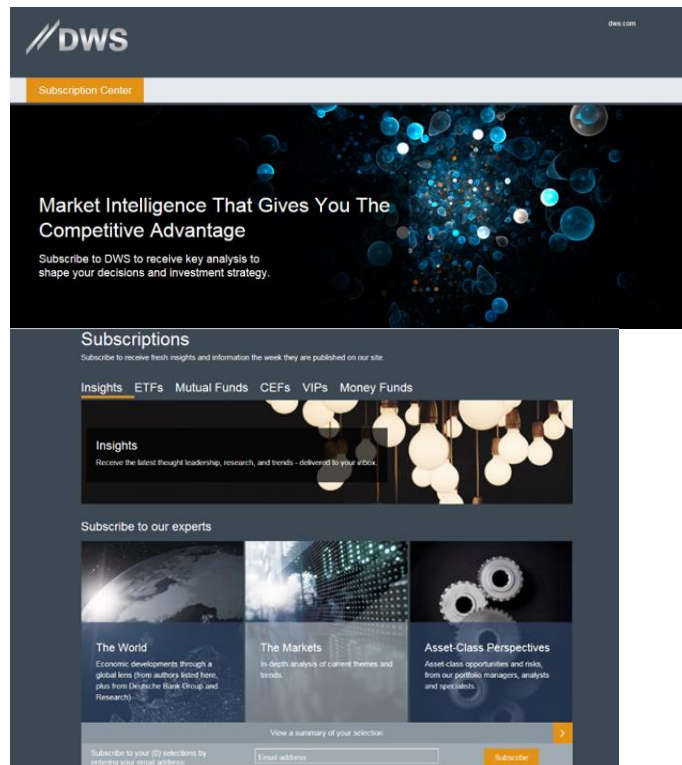
Optimistic 2023 end 10yr yield outlook: 2.5% inflation expectation + 1% overnight real rate + 0.75% inflation risk premium - 0.5% risk asset hedge = 3.75%

Pessimistic 2023 end 10yr yield outlook: 2.5% inflation expectation + 1% overnight real rate + 1.5% inflation risk premium - 0% risk asset hedge = 5.00%

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