



BMO Investment Strategy Group

2022 Market Outlook- US

Brian G. Belski

Chief Investment Strategist

BMO Capital Markets Corp.

(212) 885-4151 / (416) 359-5761

brian.belski@bmo.com

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For disclosure statements, including the Analyst Certification, please refer to page(s) 16 to 20.

US Strategy Overview

Still Bullish, With a Dose of Reality

S&P 500 2022 Year-End Price and EPS Targets: Base Case: 4,800; \$245

The aggressive re-rating has “jump-started” the transition to normalcy for US stocks, setting the market on an accelerated path to more normalized returns

However, our secular bull market thesis remains intact

A still healthy US economy, still low interest rates vs. history, potential peaking inflation and supply chain fears, and solid earnings growth REMAINS a very good recipe for equities

A Sharp Price Recovery With Continued Volatility Are Very Possible

- **Historically, the S&P 500 has posted strong gains following 15-20% price corrections and bear market declines**
- EPS-driven environments tend to bring more volatile returns, requiring a sharper focus from investors

Maintain your investment discipline and stay invested as opposed to trying to time the market at every turn

Stock selection will likely be more important than sector allocation in this environment

Source: BMO Investment Strategy Group

US Sector Opinions: **OVERWEIGHT**

Sector	Opinion	Target Weight	Comments
Communication Services	OW	10%	Quintessential barbell; overweight the value and yield component; secular theme of Three C's (Cash, Content, and Cannibalism) remains intact
Financials	OW	12%	Our favorite "value play;" valuations are very attractive, and growth is improving; theme of scale in money centers, brokers and asset managers remains very much in place
Health Care	OW	15%	Valuation remains very attractive; focus on pipeline and product companies; free cash flow and yield remains strong

Source: BMO Investment Strategy Group

US Sector Opinions: MARKET WEIGHT

Sector	Opinion	Target Weight	Comments
Consumer Discretionary	MW	9%	High multiple areas of the sector likely to remain drag on relative performance over next 6-12 months as interest rates normalize.
Consumer Staples	MW	8%	True defensive sector – focus on beverages and tobacco for value and hypermarkets for growth and stability
Energy	MW	4%	The “it” sector and a bit extended; much more attractive LT to add on pullbacks
Information Technology	MW	26%	Mr. Market has been efficient with respect to discriminating against excessive multiples which need time to repair; focus on secular growers with strong cash flow and steady earnings
Materials	MW	3%	Taking some gains; focus on chemicals and select metals
Real Estate	MW	3%	Traditionally does better during a rising rate environment – especially compared to Utilities
Utilities	MW	3%	Classic defensive sector; dividend yields remain strong

Source: BMO Investment Strategy Group

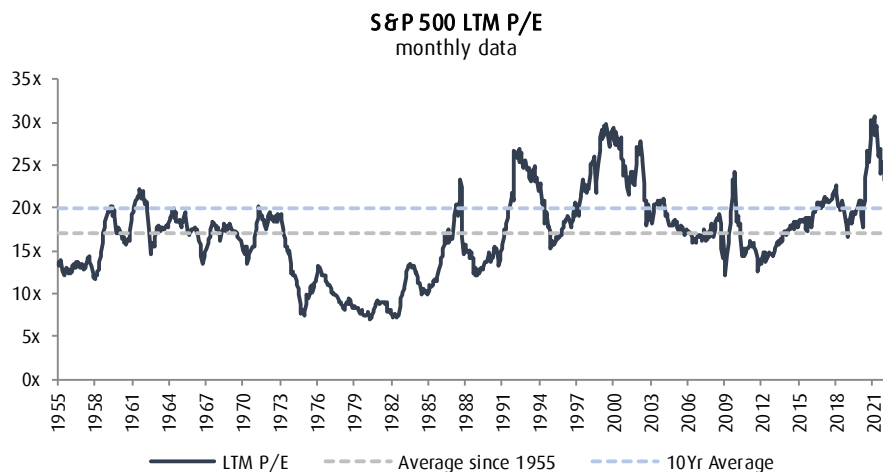
US Sector Opinions: **UNDERWEIGHT**

Sector	Opinion	Target Weight	Comments
Industrials	UW	7%	Earnings have been disappointing and operating performance appears to be decelerating

Source: BMO Investment Strategy Group

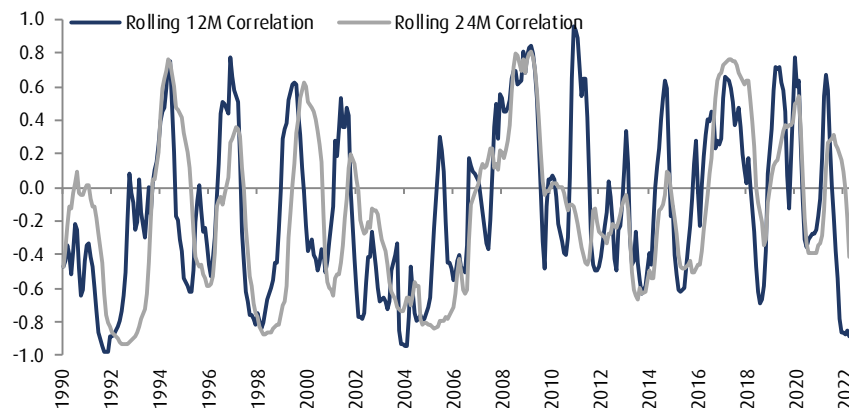
S&P 500 P/E Has Significantly Contracted, but Could Finish Year Above Historical Norms Given Market Environment

S&P 500 P/E Has Contracted Considerably Since Its Peak in Feb '21



Recent Inverse Correlation Between P/E and CPI Has Been Very Strong

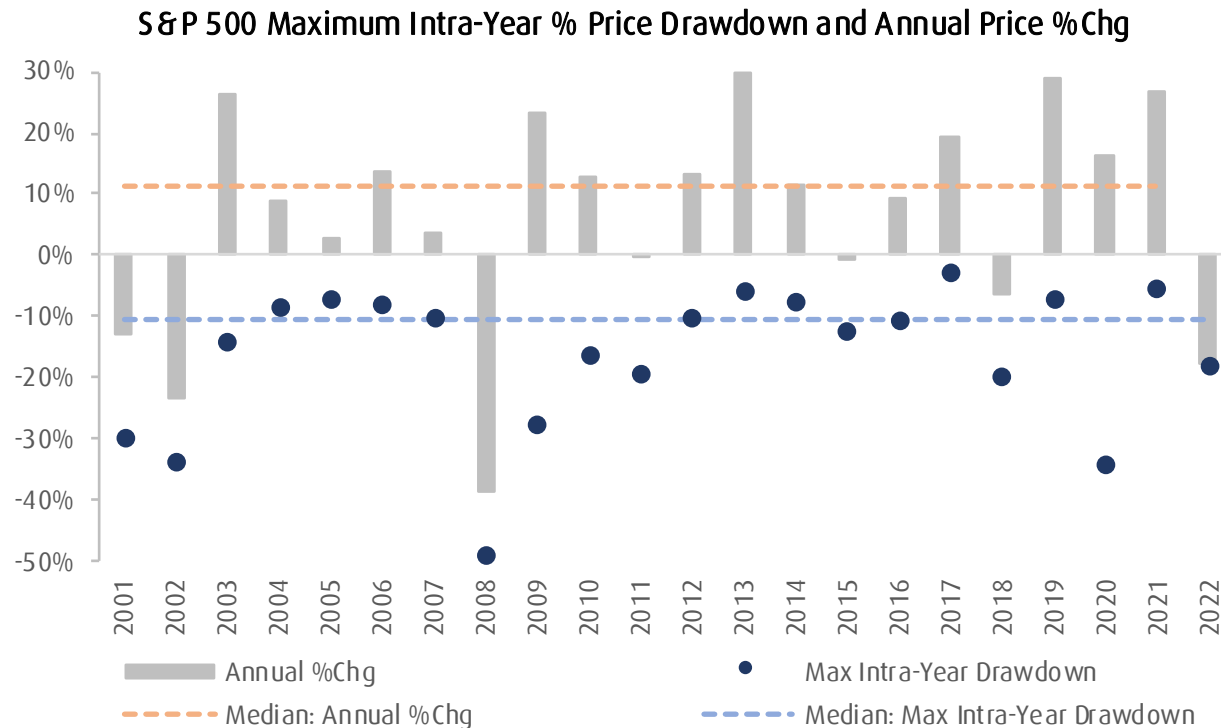
S&P 500 LTM P/E vs. Y/Y %Chg in CPI: Rolling 12M and 24M Correlation



Source: BMO Investment Strategy Group, Bloomberg, BLS.

S&P 500 Can Still Deliver Strong Annual Returns Despite Price Drawdowns During the Year

Market Corrections Do Not Necessarily Ravage Calendar Year Price Returns



Source: BMO Investment Strategy Group, FactSet.

A Sharp Price Recovery Is Very Possible Based on History

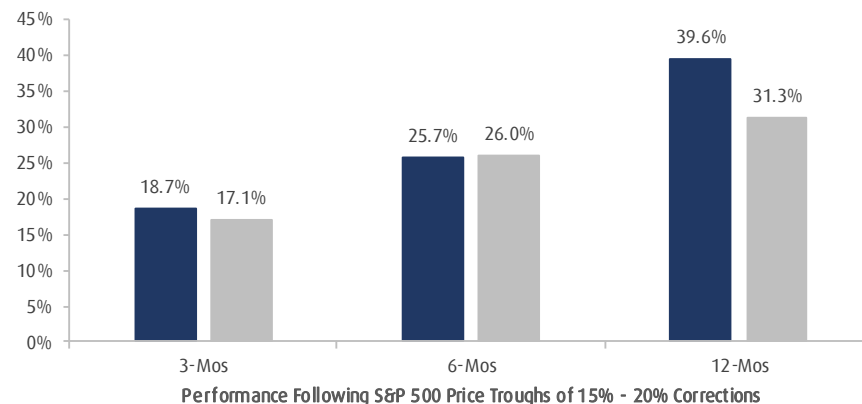
On Average, US Stocks Log a 20% Gain Less Than Five Months Following Bear Market Trough

S&P 500 Bear Markets Since 1945 (Secular Bull Markets in Blue)

Bear Market (Peak to Trough)	% Decline	Duration	Days From Trough to 10% Gain	Days From Trough to 20% Gain	Days From Trough to 30% Gain
May 46 - Oct 46	-26.6%	133	112	611	1315
Jun 48 - Jun 49	-20.6%	363	36	142	296
Aug 56 - Oct 57	-21.6%	446	181	276	349
Dec 61 - Jun 62	-28.0%	196	15	162	283
Feb 66 - Oct 66	-22.2%	240	25	130	298
Nov 68 - May 70	-36.1%	543	3	121	199
Jan 73 - Oct 74	-48.2%	630	7	33	133
Nov 80 - Aug 82	-27.1%	622	8	33	60
Aug 87 - Dec 87	-33.5%	101	12	95	419
Jul 90 - Oct 90	-19.9%	87	54	118	187
Mar 00 - Oct 02	-49.1%	929	6	43	250
Oct 07 - Mar 09	-56.8%	517	3	14	56
Feb 20 - Mar 20	-33.9%	33	2	16	37
Jan 22 - May 22	-18.1%	129			
Average	-32.6%	372	36	138	299
Secular Bull Average	-25.7%	209	46	134	267
15-20% Corrections (not shown)	-18.5%	157	31	115	311

S&P 500 Can Register Sharp Gains After Bear Markets and 15-20% Price Corrections

Average S&P 500 Performance Following Market Corrections of 15-20% corrections since 1945; performance following 15-20% correction troughs

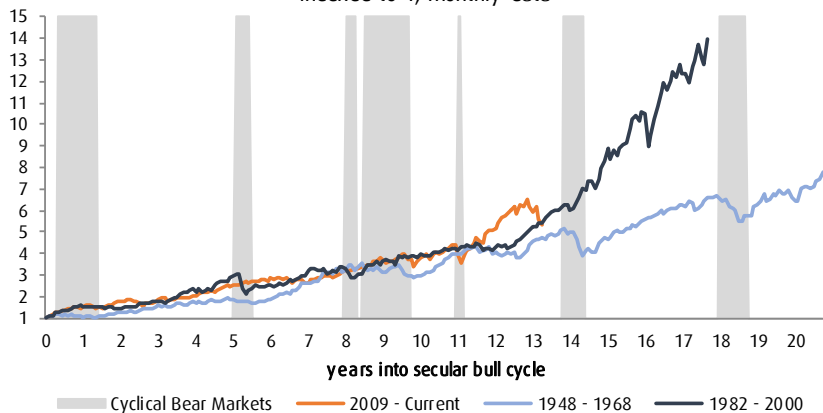


Source: BMO Investment Strategy Group, FactSet.

Secular Bull Market Thesis Remains Intact

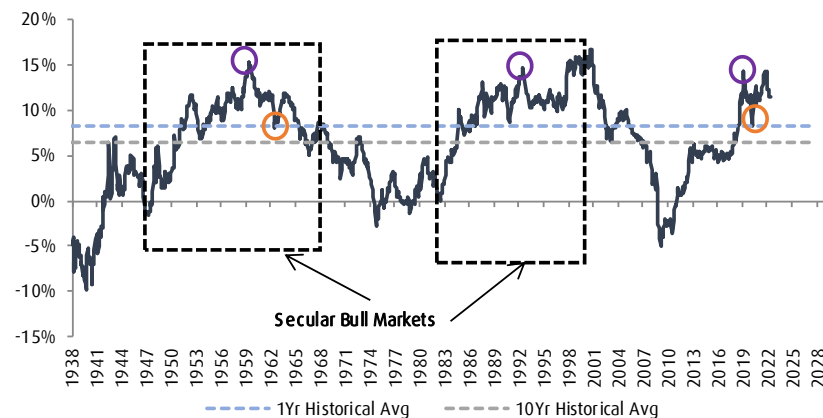
Corrections and Cyclical Bears Are Not a Secular Bull Killer

Normalized S&P 500 Price Performance of Secular Bull Markets
indexed to 1; monthly data



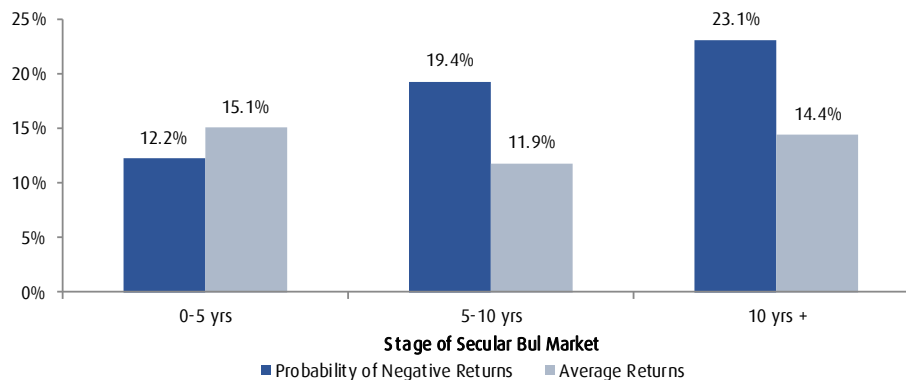
It Typically Takes Six Years for 10Y Annualized Returns to Fall Below Average

S&P 500 Annualized 10-Year Holding Period Price Returns



Returns Are More Volatile, But Still Solid, During This Part of the Bull

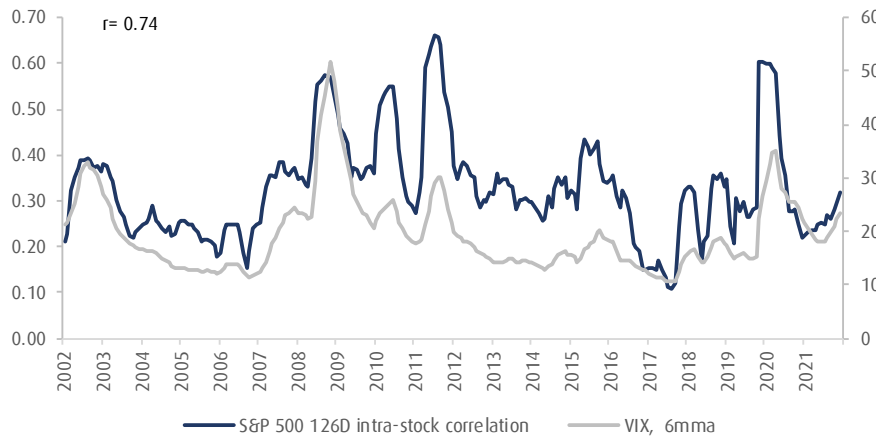
Analysis of S&P 500 Rolling 1Y Holding Period Returns During Secular Bull Markets



Source: BMO Investment Strategy Group, FactSet.

Market Backdrop Suggests More Conservative Sector Positioning

S&P 500 126-Day Intra-stock Performance Correlation vs. Market Volatility



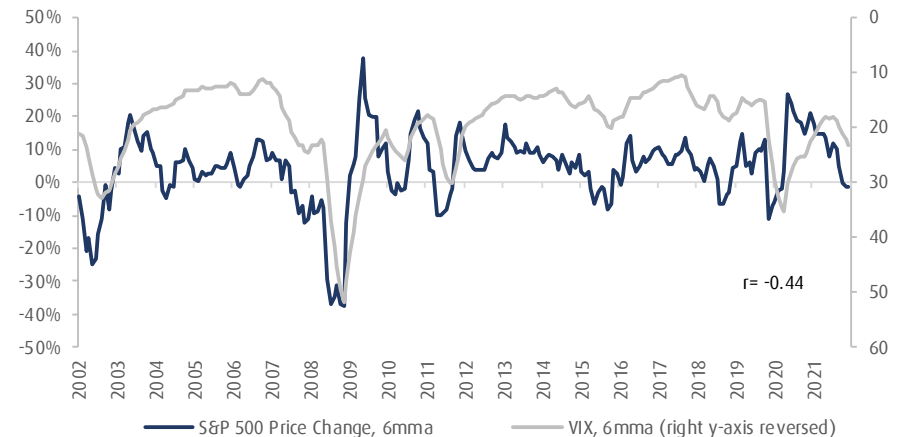
Stock Correlations Rising Amid Higher Volatility, but Still Below Prior Peaks

Our newly revised outlook suggests recent trend is likely to reverse

Inverse Correlation Between Performance and VIX Suggests Lower Intra-Stock Correlation

Low or decreasing performance correlations raises importance of getting stock selection correct

S&P 500 6-Month Price Performance vs. Market Volatility

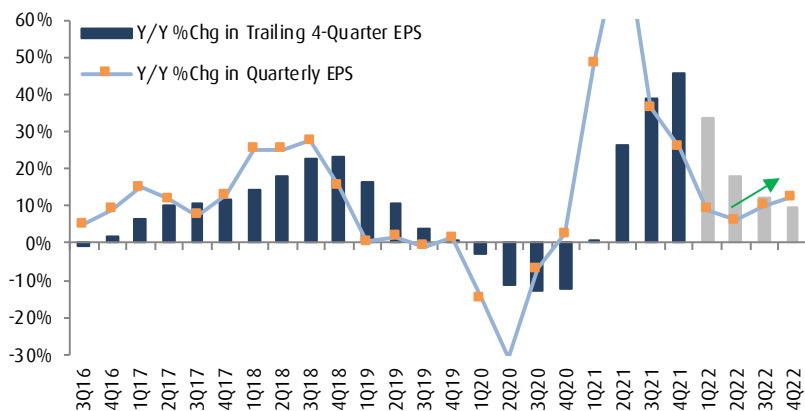


Source: BMO Investment Strategy Group, FactSet CBOE.

Earnings Remain Supportive of Stocks

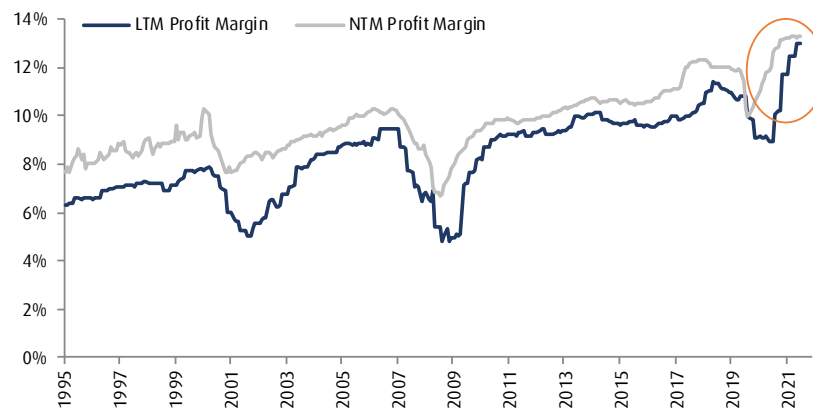
Quarterly Y/Y Growth Forecasted to Reaccelerate in Back Half of 2022

S&P 500 Y/Y EPS Growth: Quarterly and Trailing 4 Quarters
actuals + estimates; gray bars represent estimates



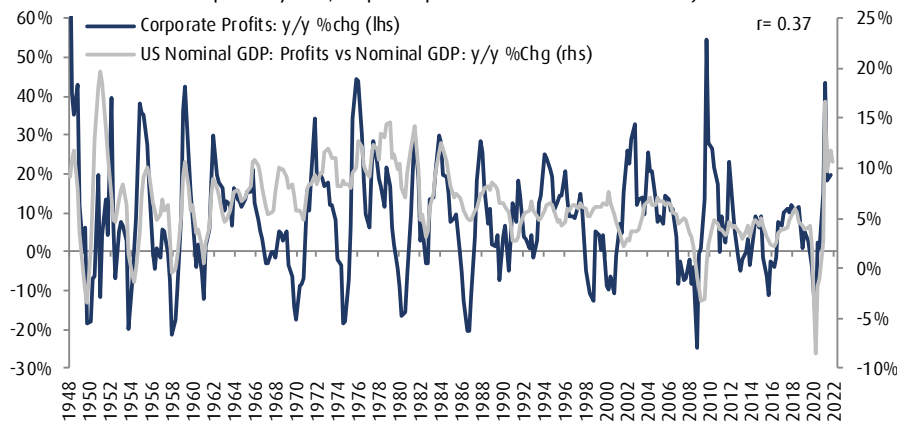
Profit Margins Have Held Up Despite Elevated Inflation

S&P 500 LTM and NTM Profit Margin



Corporate Profits Are Inherently Inflationary

Y/Y %Chg in Corporate Profits vs. Y/Y %Chg in US Nominal GDP
quarterly data; corporate profits after tax with IVA & CCAdj

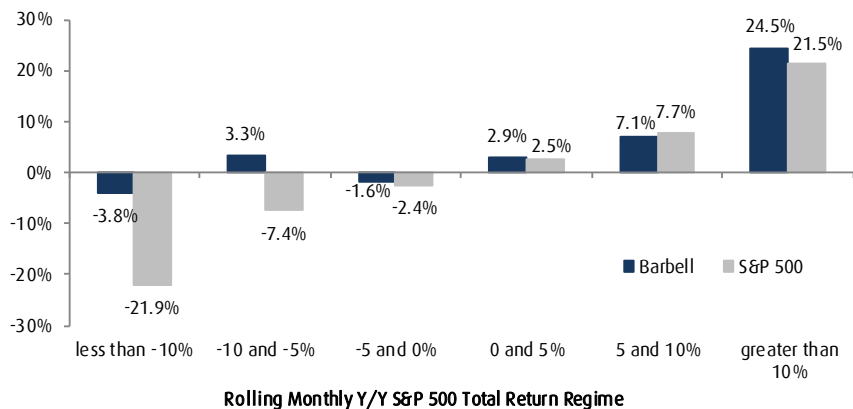


Source: BMO Investment Strategy Group, FactSet, IBES, BLS, BEA

Utilizing a High Quality GARP + High Quality Dividend Barbell

Barbell Strategy Can Mitigate Losses and Also Participate in Upside

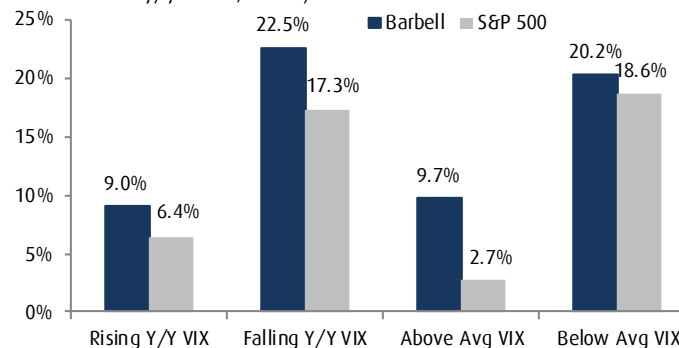
Average Total Return in Various Market Scenarios: Barbell vs. S&P 500
rolling monthly y/y periods since 1990



Barbell Can Also Help Combat Rising and Elevated Volatility

Average Total Return During Periods of Rising/Falling VIX and Above/Below Average VIX

monthly periods since 1990; mon avg of daily VIX; rising/falling uses y/y returns; above/below uses annualized mon returns



Source: BMO Investment Strategy Group, FactSet, S&P, IBES

Recent Investment Strategy Publications

US Strategy Commentary

May 17, 2022: Still Bullish, With a Dose of Reality (Snapshot)
April 28, 2022: Charts to Consider as Market Slide Rolls On (Snapshot)
April 20, 2022: Preparing for the Second Derivative of Earnings Growth
April 13, 2022: Sizing Up Small-Caps and Mid-Caps (Snapshot)
March 31, 2022: Select Not Neglect When Evaluating Health Care Sector
March 15, 2022: Views From the Observation Deck (Snapshot)
March 10, 2022: Earnings Holding Firm Despite Issues Plaguing Market (Snapshot)
February 23, 2022: Correction and Conflict Combo Finally Testing the Bull (Snapshot)
February 16, 2022: Deciphering Yield Curve Implications (Snapshot)
February 10, 2022: Market Attributes Bringing Stock Selection to Forefront
January 25, 2022: The Generation QE Correction (Snapshot)
January 20, 2022: Seek Dividend Growth During Periods of Trepidation
January 13, 2022: High Multiple Stocks – Proceed With Caution (Snapshot)
December 16, 2021: Notes From the Road – The Year Ahead Edition
December 8, 2021: Inflation and US Factor Performance Implications (Factor Focus)
October 28, 2021: Four Quick Points Worth Noting (Snapshot)
October 21, 2021: Here Comes the Recovery in Shareholder Distributions (Snapshot)
October 14, 2021: Rising Rates Not An Automatic Sell Signal for Technology
September 30, 2021: Expect More of the Same in Q4 (Snapshot)

Special Reports

March 24, 2022: Thematic Report - Industrial Renaissance Is Upon Us
November 18, 2021: 2022 Market Outlook

US Strategy Monthly

May 5, 2022: US Chartbook
May 5, 2022: US Factor Profiles

Canadian Strategy Monthly

May 5, 2022: Canadian Chartbook
May 5, 2022: Canadian Factor Profiles

Canadian Strategy Snapshots

May 18, 2022: Maintaining Our 2022 S&P/TSX Targets
April 20, 2022: Remaining Overweight Canadian Financials
April 13, 2022: Factor Style Preferences as Earnings Growth Slows
March 31, 2022: Dividend Growth Balances Offense With Defense
March 24, 2022: Communication Services – Our Contrarian Call of 2022
March 9, 2022: Canadian Equities a Source of Stability

Portfolio Strategy

May 2, 2022: Top 15 Fundamental Lists/Changes
May 2, 2022: BMO Research Model Portfolios
May 2, 2022: Investment Strategy Portfolios
May 2, 2022: US Strategy Portfolios
April 8, 2022: US Strategy Portfolios - 1Q22 Review
April 8, 2022: Investment Strategy Portfolios - 1Q22 Review

BMO Investment Strategy Group

Brian G. Belski

Chief Investment Strategist

US, Canadian & Portfolio Strategy

212.885.4151

416.359.5761

brian.belski@bmo.com

Brian, Chief Investment Strategist and leader of the Investment Strategy Group, provides strategic investment and portfolio management advice to both institutional and private clients. Brian's group produces several investment strategy publications on a regular basis, with particular focus on both the U.S. and Canadian equity markets.

In his more than 30 years in the investment industry, Brian has held various senior strategy and research roles, including positions at Oppenheimer & Company, Merrill Lynch, and Piper Jaffray.

Brian is frequently quoted in the financial press, including regular appearances on CNBC, Bloomberg, and BNN, and is renowned for his accuracy as a strategist. Brian holds a B.Sc. degree from St. Cloud State University and splits his time between the BMO offices in New York and Toronto.

Nick Roccanova, CFA

Head of US Equity Strategy

US & Portfolio Strategy

212.885.4179

nicholas.rocconova@bmo.com

Nick is the Head of US Equity Strategy and is responsible for all facets of developing and providing research and analysis within the Investment Strategy Group. His analysis focuses on traditional macroeconomic and fundamental methods, but he has also developed expertise in econometric and quantitative modeling.

In his nearly 20 years in the investment industry, Nick has held various senior research roles, including positions at Merrill Lynch and Oppenheimer & Company. He has been a Senior Investment Strategist advising institutional and private clients since 2004. Nick holds B.S. and MBA degrees from St. John's University and is a CFA charterholder.

Ryan Bohren, CFA

Head of Canadian Equity Strategy

Canadian & Portfolio Strategy

416.359.4993

ryan.bohren@bmo.com

Ryan is the Head of Canadian Equity Strategy, and provides strategic and analytical support within the Investment Strategy Group, with a focus on Canadian equity markets.

Ryan has over 15 years of investment industry experience, including various research roles at TD Securities, Connor Clark and Lunn Investment Management and Merrill Lynch. He is a CFA charterholder and has a master's in financial economics from the University of Toronto.

BMO Investment Strategy Group

Sooyun Hong

Fundamental & Portfolio Strategist

US & Portfolio Strategy

212.883.5117

sooyun.hong@bmo.com

Sooyun is a Portfolio & Thematic Strategist and provides technical and financial analysis of individual securities and industry groups to support portfolio composition and positions. She also focuses on developing thematic research relevant to current events and strategic investment ideas pertaining to overall sector recommendations.

Sooyun spent over 13 years in leveraged finance / corporate finance at BNP Paribas and DVB Bank, both in New York. She started her career in equity research at KGI Securities in Seoul, Korea. Sooyun has an MBA from NYU's Stern School of Business and BA from Ewha Womans University in Journalism/Social Studies.

Andrew Birstingl

Investment Strategy Analyst

US & Portfolio Strategy

212.885.4172

andrew.birstingl@bmo.com

Andrew is an Investment Strategy Analyst and provides strategic and analytical support within the Investment Strategy Group, with a focus on US equity markets.

Andrew has five years of experience working in the financial data industry at FactSet Research Systems, where he held various consulting and research roles. He holds a B.S. from Binghamton University.

Lexi Wang, CFA

Quantitative Analyst

US & Portfolio Strategy

lexi.wang@bmo.com

Lexi is a Quantitative Analyst and conducts in-depth research into quant equity strategies within the Investment Strategy Group. Her research focuses on factor investing and alpha generations. She has worked with various alternative data, including ESG scores, unstructured textual data and sentiment data, etc.

Lexi has 6 years of experience in quantitative equity research. She previously worked at McKinley Capital Management. She is a CFA charter holder and has a master's in quantitative and computational finance from Georgia Institute of Technology.

Dillon Suresh

Investment Strategy Associate

Canadian & Portfolio Strategy

416.728.5108

dillon.suresh@bmo.com

Dillon is an Investment Strategy Associate and provides strategic and analytical support within the Investment Strategy Group, with a focus on Canadian equity markets.

Dillon has two years of experience working in the investment consulting industry at Willis Towers Watson, where he advised institutional clients on portfolio construction and asset allocation. He holds a BBA from the University of Toronto.

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Hold	Market Perform	43.9 %	20.1 %	38.5 %	42.0 %	37.8 %	37.5%
Sell	Underperform	1.5 %	50.0 %	3.3 %	1.3 %	1.8 %	4.8%

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