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S&P 500 Target Update

Upping year-end target to 6300; 12-month target of 6600

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Equity and Quant Strategy
United States

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"It's dangerous to underestimate Corporate America"

Mea culpa for ignoring our own advice (above) on Liberation Day. The resiliency of large public companies in the face of macro uncertainty leads us to lower our equity risk premium (ERP) assumption. The benefit to valuation from a lower ERP is only partially offset by our higher normalized rates assumption based on persistent sovereign risk, yielding an increased S&P 500 year-end target of 6300 (from 5600) and a 12mth target of 6600.

The US isn't exceptional, but Corporate America might be

Despite tentative trade deals, the One Big Beautiful Bill Act (OBBA) and receding recession risks, policy uncertainty is near all-time highs and sovereign yields are at multi-decade highs. But corporate transparency has remained intact. Most co's have continued to guide on profits, and estimate dispersion (a measure of EPS uncertainty) is near post COVID lows. Volatility in currency, inflation and rates have failed to rattle S&P 500 margins since COVID - corporates either adapted or dropped out of the index.

Short-term outlook: tepid to cool

It's hard to identify a positive catalyst for the S&P 500 to continue its meteoric run into Q3. Among our five target models, our EPS Surprise framework represents our near-term read and is mixed, at best. Negative guidance and revisions in April/May have improved to average levels but economic surprises have broken down. And the meat of corporate profits, tech company earnings, are slated to decelerate. The OBBA suggests a lower fiscal impulse (see July 2 econ note) and Fed speak indicates no near-term rate catalysts.

Medium to long-term: warm…

Sentiment (see Sell Side Indicator) has improved but is nowhere near dangerous euphoric levels. Into next year, deregulation and a pick-up in business investment could buoy markets ahead of mid-term elections. Over the next ten years, valuation is strongly predictive and indicates ~1% price return per annum over the next decade based on today's multiple vs historical multiples. Not great. But 6% p.a. price returns are indicated for the equal-weighted S&P 500. Moreover, comparing today's S&P 500 to history is punitive given its downshifts in leverage, asset-intensity and labor-intensity. And corporates' renewed focus on efficiency since COVID is bullish for multiples.

…and outright hot vs. bonds

Remember, price return is only half the story –dividends are likely to contribute more from here. Dividend growth undershot earnings growth amid zero interest rate policy (ZIRP) which diminished the importance of cash return. But prior to 2013, dividends contributed ~40% of total returns. Aging demographics and sticky inflation create a compelling supply/demand case for inflation-proof income and easily favors stocks over bonds.

Timestamp: 08 July 2025 02:09AM EDT

New S&P 500 year-end target: 6300

We raise our S&P 500 year-end target to 6300 (last change was our post-Liberation-Day update (see report) to 5600). Amid less policy uncertainty and corporate resilience, we incorporate a lower equity risk premium but increase our country risk premium in our US fair value model, and mark-to-market our remaining returns-based target frameworks.

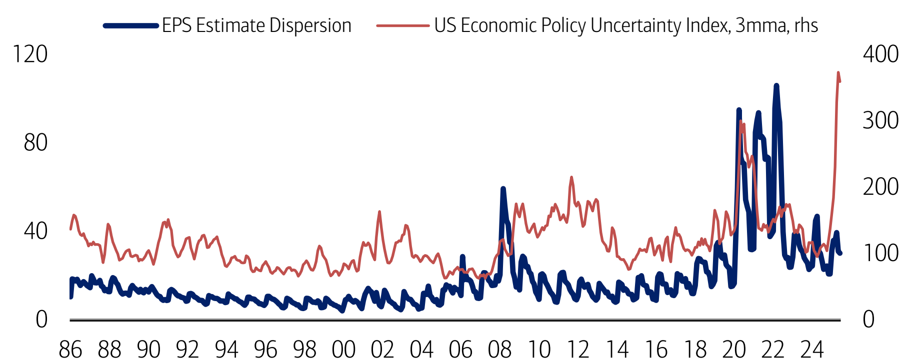
What's changed?

Despite tentative trade deals, the One Big Beautiful Bill Act (OBBA) and receding recession risks, policy uncertainty is near all-time highs and sovereign yields are at multi-decade highs. But corporate transparency has been intact: most co's have continued to guide on profits, and estimate dispersion (a gauge of EPS uncertainty) is near post-COVID lows. Volatility in currency, inflation and rates have failed to rattle S&P 500 margins since COVID- corporates either adapted or dropped out of the index.

American exceptionalism? No, Corporate America Exceptionalism

Policy uncertainty is just off its highs, but earnings uncertainty still low, at the 30th percentile since the onset of COVID.

Exhibit 1: Policy uncertainty at all time highs, but earnings uncertainty close to 5y lows
S&P 500 EPS FY1 EPS estimate dispersion vs. US Economic Policy Uncertainty Index



Source: BofA US Equity & Quant Strategy, FactSet

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Exhibit 2: 2025 S&P 500 forecast = 6300
S&P 500 2025 Target Models

Model	Category	Time Horizon	2025 Target	Expected Return (Annualized)	Current Weight in Forecast
BofA Fair Value Model	Fundamental/Valuation	Medium Term	5,721	-16.2%	25%
Sell Side Indicator	Sentiment	Medium Term	6,610	12.6%	30%
Earnings Surprise Indicator	Fundamental/Sentiment	Short-term	6,501	9.2%	20%
Long-term Valuation Model	Valuation	Long-term	6,243	0.4%	10%
12-Month Price Momentum	Technical	Medium Term	6,472	8.2%	15%
		Official S&P 500 Target	**6,300**	**+2.3%**	

Source: BofA US Equity & Quant Strategy; Short-term = 1-3 months, medium-term = 1 year, and long-term = 5+ years. We calculate our price target based on S&P 500 price as of 7/7/2025.

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BofA Fair Value Model

Exhibit 3: S&P 500 2025 Fair Value = 5700
BofA Fair Value Model (2025)

	BofA Fair Value Model (2025)	
	Normalized 2026 EPS	$257
	Nominal Long-Term Risk-Free Rate	5.50%
-	Assumed Long-Term Inflation	3.00%
=	Normalized Real Risk-Free Rate	2.50%
+	Equity Risk Premium	200bp
=	Fair Real Cost of Equity Capital (Ke)	4.50%
	Fair Forward PE (1 ÷ Fair Ke)	22.2x
	2025 Target (Fair PE × Normalized 2026 EPS)	**5,721**

Source: BofA US Equity & Quant Strategy

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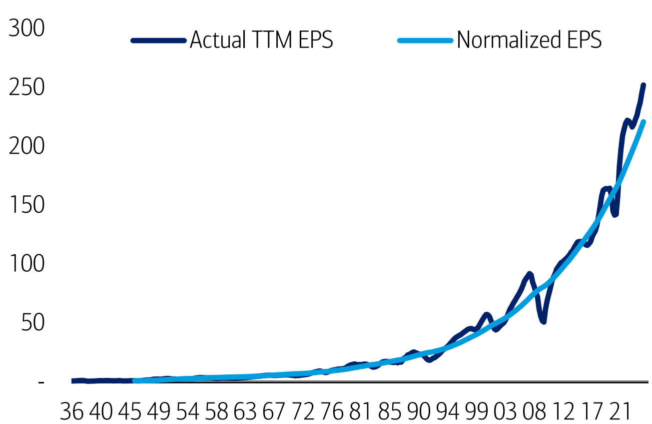
S&P 500's fair value = 5700

We make the following assumptions for our Fair Value Model based on the current market environment:

- **Sovereign risk: Real rates (to 2.5% from 2.25%):** We raise our normalized nominal rate to 5.5% (up from 5%) on higher sovereign risks and increased inflation expectations (3.0% vs. prior assumption of 2.75%), thus increasing real rates to 2.5% from 2.25%.
- **Equity risk premium (lowered to 200bp from 250bp):** This equity risk premium is decidedly lower than the average since the GFC (540bp) but a lower ERP is justified today given the index's shift toward a higher-quality, more asset-light index (see our note 95th percentile PE). We lower our ERP assumption by 50bp to incorporate corporate resilience amid uncertainty and less policy risk vs. post-Liberation-Day.
- **Normalized EPS:** We cyclically adjust earnings using a long-run log-linear regression on earnings using various starting points for a robustness check. This framework yields 2026 Normalized EPS forecasts ranging from $244 to $263. We forecast normalized EPS of $257 in 2026 based on the median forecast (unchanged from prior outlook).

Exhibit 4: Actual earnings are elevated vs. full time-series trend
S&P 500 EPS vs normalized EPS based on log-linear regression since 1936



Source: BofA US Equity & Quant Strategy, FactSet, Haver Analytics. Pro-forma EPS used since 1988, Operating EPS used between 1977-1988, GAAP EPS (adjusted for write-offs) used from 1936-1977.

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Exhibit 5: Normalized EPS output based on different windows–$257 median for 2026
Normalized EPS estimates based on log-linear regression of actual earnings starting in different decades

Regression begins in...	2025 Norm EPS	2026 Norm EPS
1936	$232	$247
1950	$229	$244
1960	$242	$259
1970	$244	$261
1980	$241	$257
1990	$246	$263
2000	$239	$255
Median	$241	$257

Source: BofA US Equity & Quant Strategy, FactSet, Haver Analytics

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Exhibit 6: 2025 S&P 500 price scenarios based on 2026 EPS and cost of equity assumptions
S&P 500 scenarios

	Cost of equity (ERP + Rf)	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%
	Fwd. P/E	**40x**	**33x**	**29x**	**25x**	**22x**	**20x**	**18x**	**17x**	**15x**	**14.3x**
2026 EPS	**$200**	8,000	6,667	5,714	5,000	4,444	4,000	3,636	3,333	3,077	2,857
	$205	8,200	6,833	5,857	5,125	4,556	4,100	3,727	3,417	3,154	2,929
	$210	8,400	7,000	6,000	5,250	4,667	4,200	3,818	3,500	3,231	3,000
	$215	8,600	7,167	6,143	5,375	4,778	4,300	3,909	3,583	3,308	3,071
	$220	8,800	7,333	6,286	5,500	4,889	4,400	4,000	3,667	3,385	3,143

Exhibit 6: 2025 S&P 500 price scenarios based on 2026 EPS and cost of equity assumptions

S&P 500 scenarios

Cost of equity (ERP + Rf)	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%
$225	9,000	7,500	6,429	5,625	5,000	4,500	4,091	3,750	3,462	3,214
$230	9,200	7,667	6,571	5,750	5,111	4,600	4,182	3,833	3,538	3,286
$235	9,400	7,833	6,714	5,875	5,222	4,700	4,273	3,917	3,615	3,357
$240	9,600	8,000	6,857	6,000	5,333	4,800	4,364	4,000	3,692	3,429
$245	9,800	8,167	7,000	6,125	5,444	4,900	4,455	4,083	3,769	3,500
$250	10,000	8,333	7,143	6,250	5,556	5,000	4,545	4,167	3,846	3,571
$255	10,200	8,500	7,286	6,375	5,667	5,100	4,636	4,250	3,923	3,643
$260	10,400	8,667	7,429	6,500	5,778	5,200	4,727	4,333	4,000	3,714
$265	10,600	8,833	7,571	6,625	5,889	5,300	4,818	4,417	4,077	3,786
$270	10,800	9,000	7,714	6,750	6,000	5,400	4,909	4,500	4,154	3,857
$275	11,000	9,167	7,857	6,875	6,111	5,500	5,000	4,583	4,231	3,929
$280	11,200	9,333	8,000	7,000	6,222	5,600	5,091	4,667	4,308	4,000
$285	11,400	9,500	8,143	7,125	6,333	5,700	5,182	4,750	4,385	4,071
$290	11,600	9,667	8,286	7,250	6,444	5,800	5,273	4,833	4,462	4,143
$295	11,800	9,833	8,429	7,375	6,556	5,900	5,364	4,917	4,538	4,214
$300	12,000	10,000	8,571	7,500	6,667	6,000	5,455	5,000	4,615	4,286
$305	12,200	10,167	8,714	7,625	6,778	6,100	5,545	5,083	4,692	4,357
$310	12,400	10,333	8,857	7,750	6,889	6,200	5,636	5,167	4,769	4,429

Source: BofA US Equity & Quant Strategy

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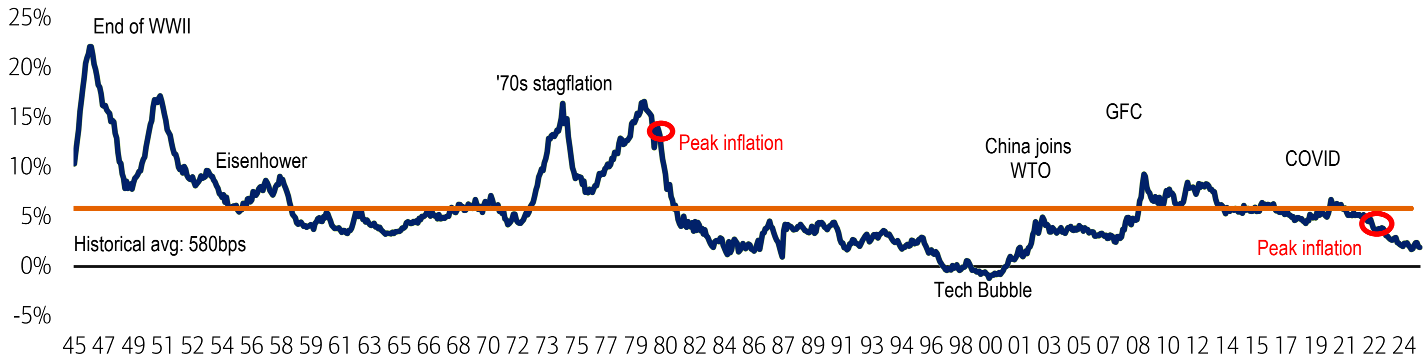
Exhibit 7: Equity risk premium will likely be lower than 2000s and 2010's, closer to productivity era 80s/90s

S&P 500 normalized ERP (1950-present)



Source: Bloomberg, FactSet, Haver Analytics, BofA US Equity & US Quant Strategy. Normalized ERP is calculated as the spread between the normalized earnings yield and real risk-free rate, where normalized EPS is based on a log linear regression of a blend of S&P 500 pro-forma EPS and operating EPS. The real rate is the difference between 1) 10-year Treasury yield and 2) 10-year breakeven, where prior to 1998, fwd 1-year CPI was used as a proxy, which showed the strongest correlation to the 10-year breakeven.

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Sell Side Indicator: warming up, but not euphoric

Equity sentiment improved the last two months based on our Sell Side Indicator.

Sentiment is not euphoric and still in Neutral territory, but closer to a "Sell" signal than a "Buy" signal.

Exhibit 8: Equity sentiment improved in May/June but remains neutral
Sell Side Indicator, 8/1985-6/2025

Source: BofA US Equity & Quant Strategy Note: Buy and Sell signals are based on rolling 15-year +/- 1 standard deviation from the rolling 15-year mean. A reading above the red line indicates a Sell signal and a reading below the green line indicates a Buy signal

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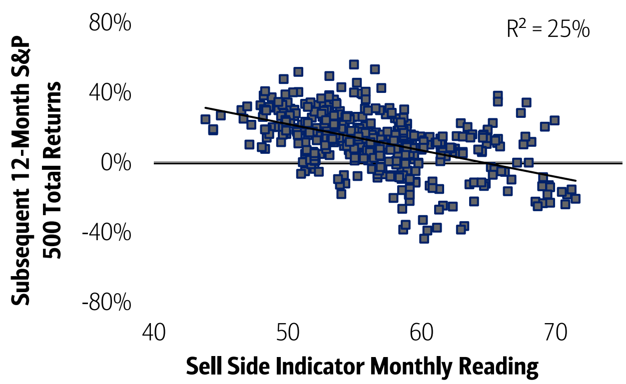
Exhibit 9: Sell Side Indicator has historically been a reliable contrarian indicator
Sell Side Indicator Monthly Readings & Subsequent 12-Month S&P 500 Total Return (8/1985-6/2024)



Source: BofA US Equity & Quant Strategy, Haver Analytics

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Exhibit 10: Sell Side Indicator has a higher R-squared than most other single factor market timing models
Predictive Power of Selected Indicators Forecasting 12-Month S&P 500 Returns (8/1985-6/2024)

Indicator	R2
Sell Side Indicator	25%
Sell Side Indicator at extremes (Buy or Sell)	34%
Proforma PE	10%
S&P 500 Dividend Yield	9%
M1 Growth	2%
Fed Model (EPS Yield - 10-Yr Treasury)	1%
3-Mo T-Bill Rate	1%
Adj. Fed Model (EPS Yld - Real 10-Yr Tsy Yld)	0%
Yield Curve (10-Yr - 3-Mo)	0%
10-Yr Treasury Yield	0%
M2 Growth	0%
GAAP PE	0%
BBB to Treasury Spread	0%

Source: BofA US Equity & Quant Strategy. Haver Analytics

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12m Price Momentum: reversion to mean = +8% over NTM

Exhibit 11: The last 12-mo. price return of 11.9% (as of 7/7/2025) is 0.2 std. dev above average and implies a projected 12-month price return of 8.2%, all else equal
Historical 12-month S&P 500 price return z-scores by range and average subsequent 12-month S&P 500 price returns since 1928

	-2 or Less Std Dev Below Avg.	-1 to -2 Std Dev Below Avg.	-1 to 0 Std Dev Below Avg.	0 to +1 Std Dev Above Avg.	+1 to +2 Std Dev Above Avg/	+2 or More Std Dev Above Avg.
Average 12-Month Return	30.9%	10.8%	9.5%	8.2%	9.7%	-0.2%
Standard Deviation of 12m Returns	13.9%	20.5%	18.7%	14.1%	14.5%	16.5%
Probability of Negative Returns	0.0%	28.6%	27.3%	28.6%	22.9%	60.0%
Percent of observations	0.7%	4.9%	34.5%	43.2%	7.2%	0.4%

Note: Based on S&P 500 return data since 1928, with cumulative average and z-scores beginning in 1933 when at least 5 years of data history is available
Source: FactSet, BofA US Equity & US Quant Strategy

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Near-term outlook: tepid to cool

Earnings Surprise directional indicator: Neutral

Earnings are unlikely to surprise to the upside from here, in our view. Economic surprises have turned negative since the start of June, guidance (based on our management guidance ratio) is average, and BofA analysts are roughly in line with consensus on 2025 earnings.

Exhibit 12: We see a "Neutral" earnings surprise backdrop
BofA Earnings Surprise directional indicator

Indicators	Direction	Current	Historical avg.	z-score
Economic Surprise Index	Negative	-0.4%	0.0%	-1.2
Guidance ratio	Neutral	0.8	0.8	-0.1
BofA analysts vs. consensus (2025 EPS)	Neutral	-0.1%		
BofA Strategy view	**Neutral**			

Source: BofA US Equity & Quant Strategy, Bloomberg, FactSet
Note: BofA Strategy view is not based on quantitative metrics, but based on our discretionary view on what the leading indicators are suggesting *Based on aggregate earnings amount, not average or median; BofA analyst forecasts account for ~90% of the S&P 500 stocks and ~95% of market cap. We use consensus estimates for stocks not covered by BofA analysts

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Exhibit 13: Range of 12-month S&P 500 price returns since 1928
Returns have been negative one-third of the time, >15% one-third of the time, and between 1-15% the remaining third of the time

	% of returns	Median 12m return in range	Classification
<1%	33%	(11%)	Negative
Between 1-15%	33%	9%	Neutral
>15%	35%	25%	Positive

Source: Bloomberg, BofA US Equity & US Quant Strategy

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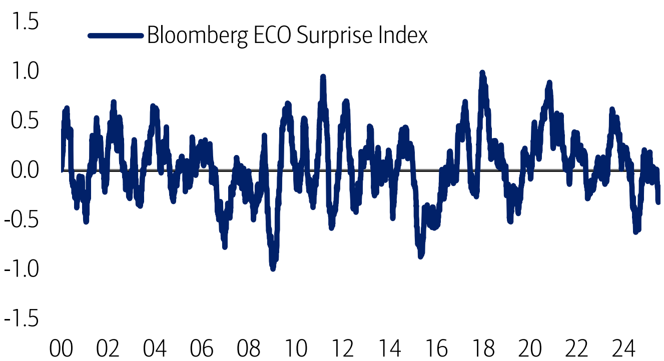
Exhibit 14: The Economic Surprise Index has turned negative since the end of May
Bloomberg ECO Surprise Index (2000-present)



Source: Bloomberg

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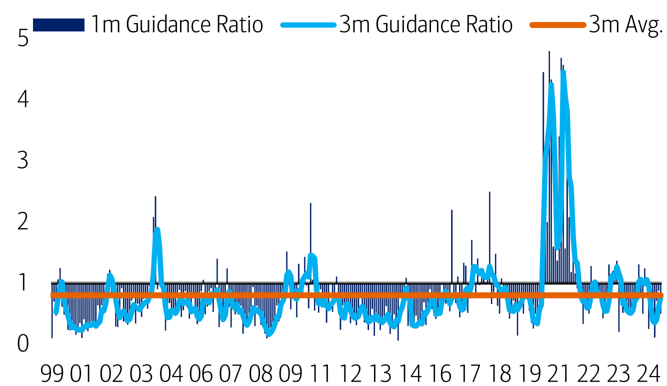
Exhibit 15: Guidance is average
S&P 500 Management Guidance Ratio (# Above vs. Below Consensus) – as of 6/25



Source: BofA US Equity and Quantitative Strategy

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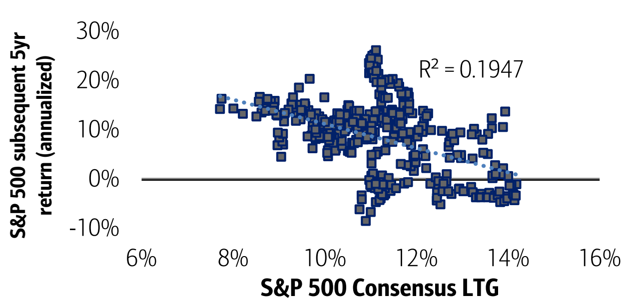
Exhibit 16: Analyst consensus growth forecasts are better contrary than positive indicators
S&P 500 consensus LTG vs subsequent 5yr annualized returns (1986-2024)



Source: BofA US Equity & Quant Strategy, FactSet

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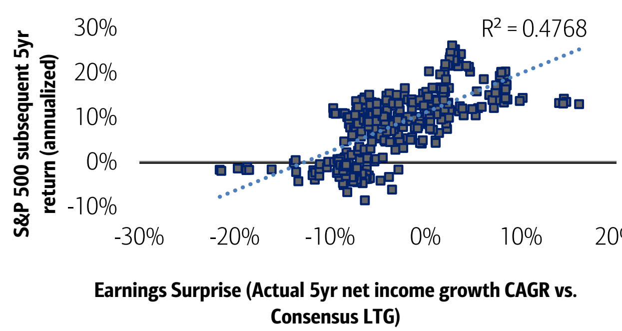
Exhibit 17: Earnings surprises are far better indicators
S&P 500 earnings surprises vs subsequent 5yr annualized returns (1986-2024)



Source: BofA US Equity & Quant Strategy, FactSet

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Tariffs: dial back since April, but risks remain

Effective tariffs rates of 40% on China (with 10% retaliatory tariffs on US) and 5% on Canada/Mexico and 10% on Rest of World (table below) represent a direct impact of ~5% to S&P 500 operating earnings. The US had announced deals with regions including China, Vietnam and the UK.

Exhibit 18: S&P 500 operating income hit 5% under our current assumptions

Impact to Russell 2000 operating income using BofA Econ's estimates of US effective tariff rates (40% China, 5% Canada/Mexico, 10% RoW) and an incremental 10% retaliatory rate from China

		% passed through pricing					
		0%	20%	40%	60%	80%	100%
% hit to foreign sales	0.0%	(2.1%)	(1.6%)	(1.2%)	(0.8%)	(0.4%)	0.0%
	-0.5%	(2.9%)	(2.5%)	(2.1%)	(1.7%)	(1.3%)	(0.9%)
	-1.0%	(3.8%)	(3.4%)	(2.9%)	(2.5%)	(2.1%)	(1.7%)
	-1.5%	(4.6%)	(4.2%)	(3.8%)	(3.4%)	(3.0%)	(2.6%)
	-2.0%	(5.5%)	(5.1%)	(4.7%)	(4.2%)	(3.8%)	(3.4%)
	-2.5%	(6.3%)	(5.9%)	(5.5%)	(5.1%)	(4.7%)	(4.3%)

Source: FactSet, BEA, BofA US Equity & US Quant Strategy

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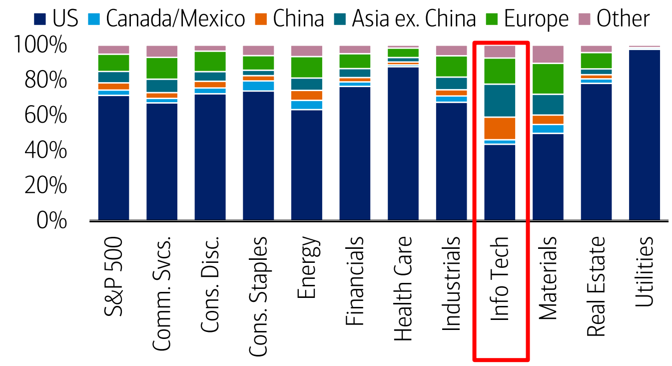
Exhibit 19: S&P 500 has ~30% foreign sales that could be exposed to retaliatory tariffs; Tech most vulnerable

S&P 500 LTM foreign sales exposure by sector (as of 6/30/2025)



Source: FactSet Georev estimates, BofA US Equity & Quant Strategy

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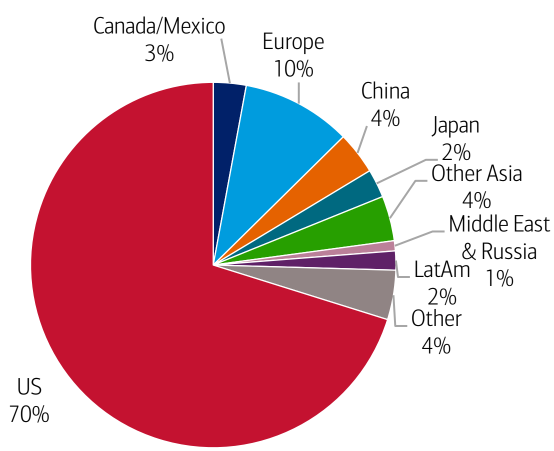
Exhibit 20: S&P 500 has the most direct exposure to Europe

S&P 500 foreign sales exposure by region



Source: FactSet, BofA US Equity & US Quant Strategy

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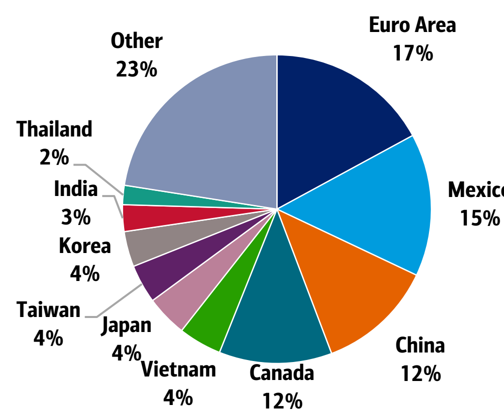
Exhibit 21: Biggest import exposure by region to Europe, Canada, Mexico, China

US imports by major region (L12m as of 5/2025)



Source: Haver Analytics, BofA US Equity & US Quant Strategy

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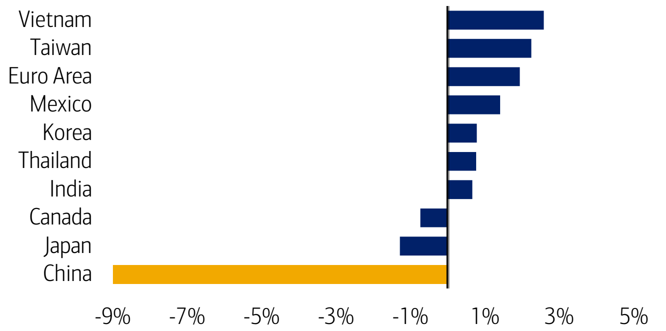
Exhibit 22: US imports from China have seen the biggest decrease since 2018 of the major regions
Changes in market share in US imports since 2018 (TTM as of 5/25 vs. 2018)



Source: Haver Analytics, BofA US Equity & US Quant Strategy

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This week, the Trump administration announced revised reciprocal rates for nations that have not reached deals, including Korea (25%) and Japan (25%). It also announced an additional 10% tariff on countries aligned with what it considers to be "Anti-American policies of BRICS" (Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran, and the United Arab Emirates). Aside from China which represents 5% of S&P 500 direct sales disclosed by companies, sales exposure to the other regions mentioned above is small. Even a conservative estimate of 15% tariffs on all rest of the world (up from 10%) would only increase the earnings impact by about 40bp. (President Trump has signed an executive order extending his July 9 tariff deadline to August 1.)

Medium-term: neutral to positive

Launch 12-month S&P 500 target of 6600

With half of 2025 in the books, we extend our S&P 500 target models to launch a 12-month view, forecasting 6600 on the S&P 500 for 12 months out. Medium-term catalysts for equities (as we move toward Year 2 of the presidential cycle and the mid-term elections are likely to be more positive than negative - deregulation and a pick-up in business investment after tariff uncertainty forced a pause in April/May/June. Capex from hyperscalers remains strong, and capex from other corporates could pick up as well.

Exhibit 23: 12-month ahead S&P 500 forecast = 6600
S&P 500 next 12-month (NTM) Target Models

Model	Category	Time Horizon	12m Target	Expected Return (Annualized)	Current Weight in Forecast
BofA Fair Value Model	Fundamental/Valuation	Medium Term	5,911	-5.2%	25%
Sell Side Indicator	Sentiment	Medium Term	7,014	12.6%	30%
Earnings Surprise Indicator	Fundamental/Sentiment	Short-term	6,792	9.2%	20%
Long-term Valuation Model	Valuation	Long-term	6,256	0.4%	10%
12-Month Price Momentum	Technical	Medium Term	6,732	8.2%	15%
		Official S&P 500 Target	**6,600**	**+6.1%**	

Source: BofA US Equity & Quant Strategy; Short-term = 1-3 months, medium-term = 1 year, and long-term = 5+ years. We calculate our price target based on S&P 500 price as of 7/7/2025.

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Exhibit 24: S&P 500 12-month ahead Fair Value = 5900
BofA Fair Value Model (12-month target)

BofA Fair Value Model (NTM)	
Normalized Q2 2027 EPS	$266
Nominal Long-Term Risk-Free Rate	5.50%
Assumed Long-Term Inflation	3.00%
Normalized Real Risk-Free Rate	2.50%
Equity Risk Premium	200bp
Fair Real Cost of Equity Capital (Ke)	4.50%
Fair Forward PE (1 ÷ Fair Ke)	22.2x
12-month Target (Fair PE × Normalized Q2 2027 EPS)	**5,911**

Source: BofA US Equity & Quant Strategy

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Exhibit 25: Normalized EPS output sensitive to start date – $266 median in TTM ending in Q2 2027
Normalized EPS estimates based on log-linear regression of actual earnings starting in different decades

Regression begins in...	2025 Norm EPS	Q2 2027 TTM Norm EPS
1936	$232	$255
1950	$229	$251
1960	$242	$267
1970	$244	$269
1980	$241	$266
1990	$246	$272
2000	$239	$263
Median	$241	$266

Source: BofA US Equity & Quant Strategy, FactSet, Haver Analytics

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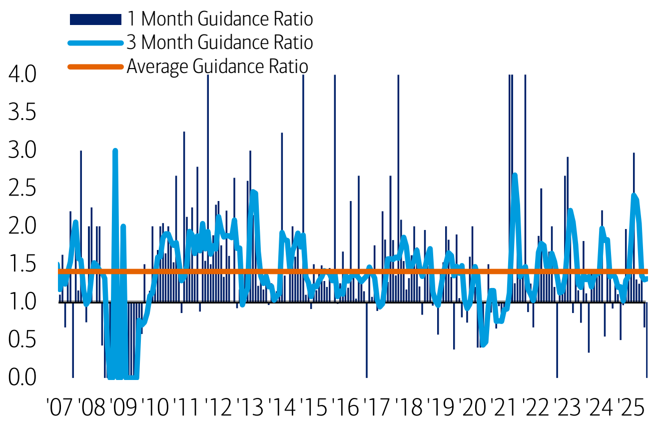
The AI arms race is bullish for old economy beneficiaries

Exhibit 26: 3m Capex Guidance ratio is below average (1.3x vs. 1.4x), but still implies more above- than below-consensus capex guides

S&P 500 capex guidance ratio



Source: BofA US Equity & Quant Strategy, Bloomberg, FactSet

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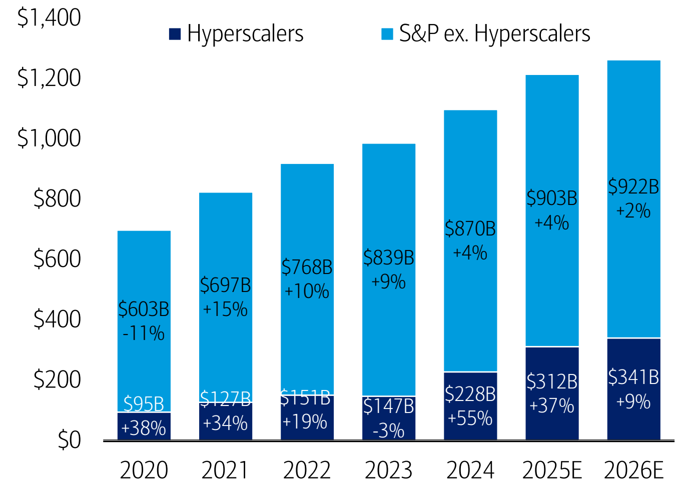
Exhibit 27: Hyperscalers' capex growth is decelerating but expected to remain strong in 2025

S&P 500 and hyperscalers (MSFT, AMZN, GOOGL, META) capex



Source: BofA US Equity & Quant Strategy, FactSet

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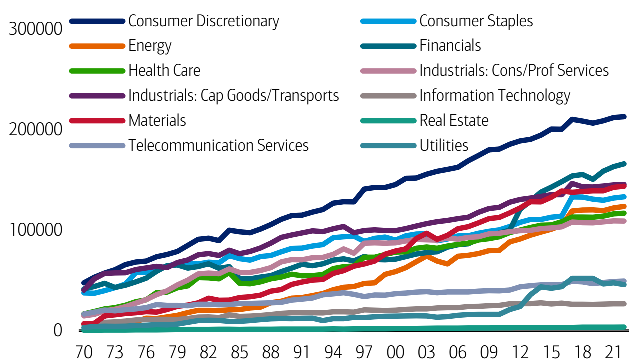
Positives of a Red Sweep = deregulation

Exhibit 28: Consumer, Financials, Commodities most regulated, TMT least

Estimated number of enforced regulations by GICS sector over time (1970-2022)



Source: BofA US Equity & Quant Strategy, FactSet, QuantGov

QuantGov data includes regulations that are considered to be in force each year. NAICS industries used by QuantGov.com have been mapped to GICS based on interpretations of NAICS & GICs industries. One-to-many assignments can occur when NAICS maps to GICs industries across sectors .

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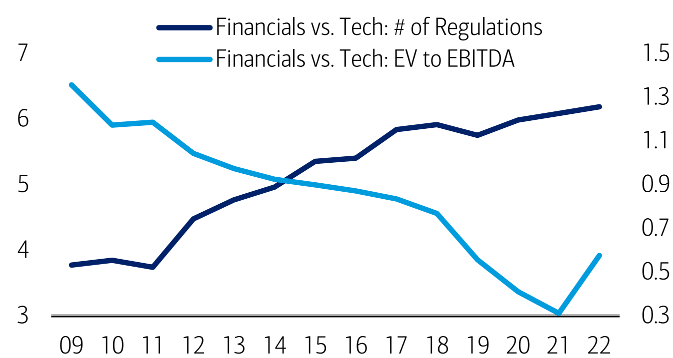
Exhibit 29: Financials & Tech: Tech got more expensive post-GFC as Financials got more regulated

Ratio of S&P 500 Financials and S&P 500 Information Technology regulations and EV/EBITDA (2009-2022)



Source: BofA US Equity & Quant Strategy, FactSet, QuantGov

QuantGov data on regulations includes regulations that are considered to be in force each year. NAICS industries used by QuantGov.com have been mapped to GICS based on interpretations of NAICS & GICs industries. One-to-many assignments can occur when NAICS maps to GICs industries across sectors .

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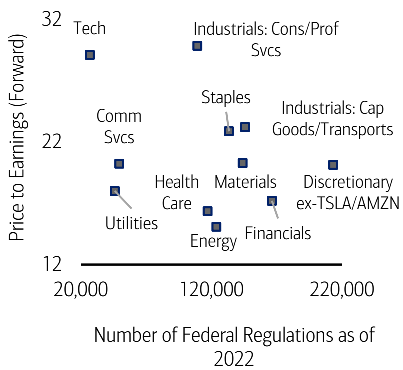
Exhibit 30: Heavily regulated sectors stand to gain most but trade cheaper (correlation = -28%)
Price to Forward Earnings as of 6/30/2025 vs. number of regulations (as of end of 2022)



Source: BofA US Equity & Quant Strategy, FactSet, QuantGov
QuantGov data includes regulations that are considered to be in force each year. NAICS industries used by QuantGov.com have been mapped to GICS based on interpretations of NAICS & GICs industries. One-to-many assignments can occur when NAICS maps to GICs industries across sectors.
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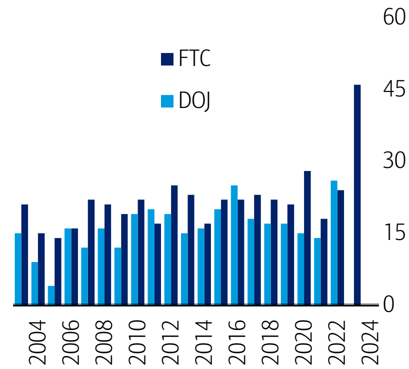
Exhibit 31: High number of merger challenges by US anti-trust regulators in prior administration…
Number of merger challenges by US anti-trust regulators



Source: Federal Trade Commission (FTC), Department of Justice (DOJ), BofA Global Research
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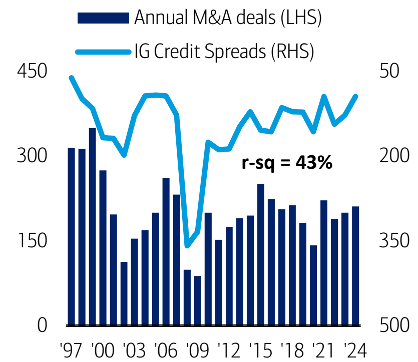
Exhibit 32: …but cost of capital is the ultimate driver of M&A decisions
Avg. annual inverse IG Credit Spreads vs. number of annual US M&A deals, 1994-2024



Source: BofA US Equity & Quant Strategy, FactSet, Bloomberg
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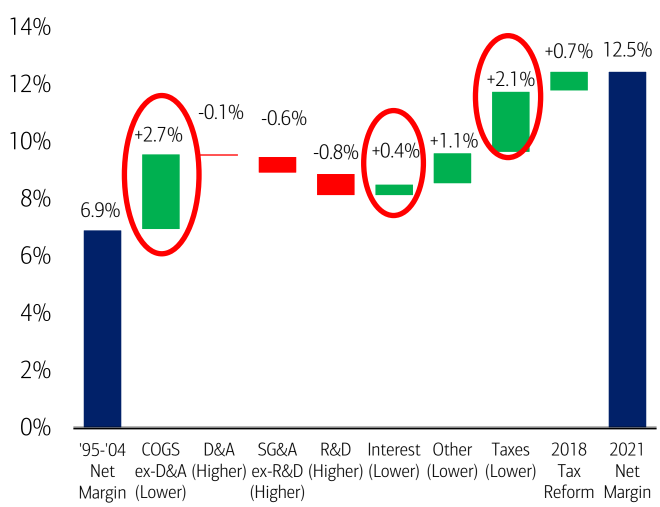
Exhibit 33: We are exiting an era of unpredictable growth from global arbitrage
S&P 500 ex-Fins change in net margin contribution from 1990s to 2021



Source: FactSet, BofA US Equity & Quant Strategy
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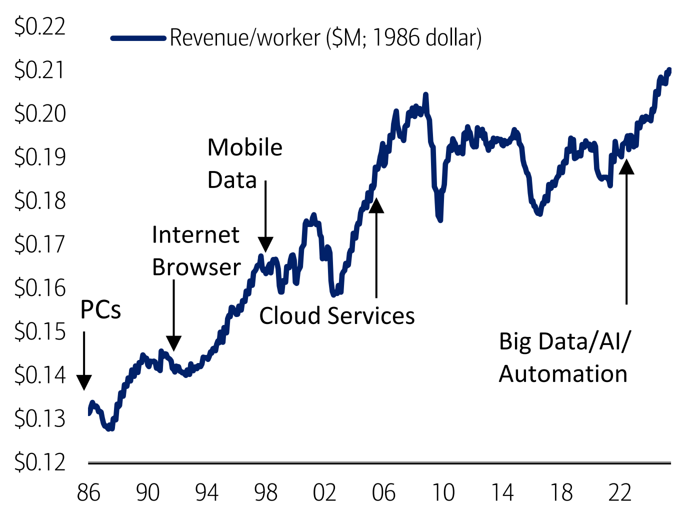
Exhibit 34: Productivity by $ to worker coming back
S&P 500 companies' real revenue per worker ($M 1986 dollar)



Source: BofA US Equity & Quant Strategy, FactSet, Bloomberg
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Long-term outlook: positive

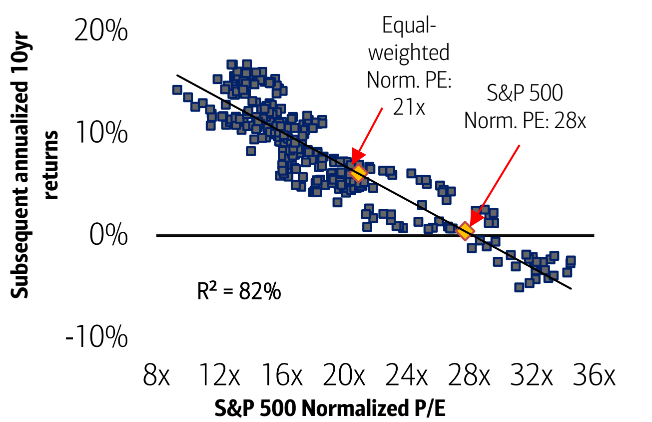
The US isn't exceptional, but Corporate America might be

Corporate transparency has remained intact. Most co's continued to guide on profits, and shouldered volatility in currency, inflation and rates without major margin degradation. Corporates have either adapted or dropped out of the index. Moreover, productivity gains have kicked in since COVID, necessitated by the onset of labor inflation.

Valuation tends to matter most over the long-run, and while today's multiples suggest only 0-1% annualized returns for the S&P 500 over the next decade, this framework projects 6% per annum for the avg. stock (where we continue to prefer the equal-wtd. index to the cap-td. index).

But overall, projected returns based on historical valuations may be too punitive: we see better total return potential given the higher quality composition of the S&P vs. history (including less leverage and greater earnings stability – see Relative Value Cheat Sheet), today's low dividend payout ratios, and better performance of stocks vs. bonds during periods of stagflation.

Exhibit 35: Valuations signal stronger price returns for the equal-weighted S&P 500 (6%) than the cap-weighted index (0.4%)
S&P 500 normalized P/E vs subsequent annualized returns (since 1987, as of 7/7/25)



Source: BofA US Equity & US Quant Strategy, Haver Analytics, FactSet. The equal-weighted normalized PE is calculated based on the discount between the average trailing PE of an S&P 500 stock and the cap-weighted trailing PE.

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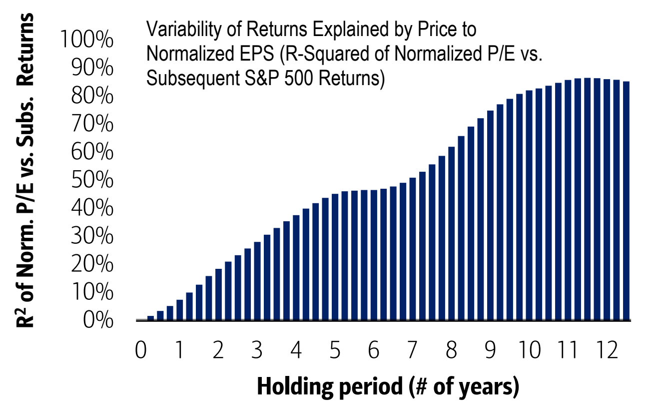
Exhibit 36: Valuation matters little in near term, but is almost all that matters in the long-term
Price to normalized earnings predictive power on subsequent holding period returns (since 1987)



Source: BofA US Equity & US Quant Strategy, Haver Analytics, FactSet

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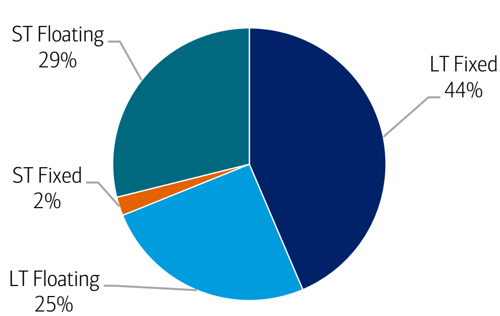
Exhibit: In 2007, 44% of S&P 500 debt was L/T fixed
S&P 500 debt composition (as of 4Q 2007)



Source: FactSet, BofA US Equity & US Quant Strategy

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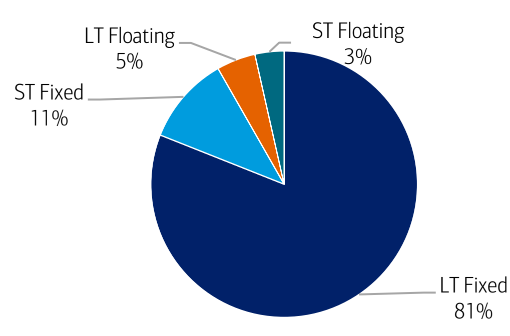
Exhibit 37: Today, >80% of S&P 500 debt is fixed and long-term
S&P 500 debt composition (as of 4/30/2025)



Source: FactSet, BofA US Equity & Quant Strategy

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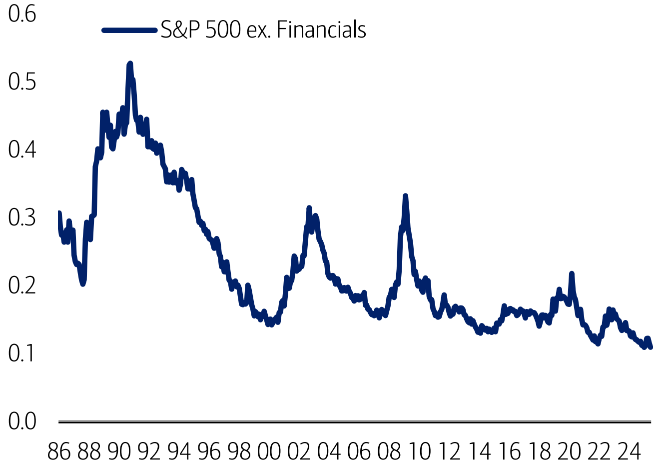
Exhibit 38: S&P 500 leverage is near record lows
S&P 500 Net Debt/Market Cap ex. Fins



Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 39: Regime shift in Financials: from levered to unlevered by assets to equity
Assets to Equity for Financials vs. S&P 500 (1987-Q1 '25)

Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 40: The S&P 500 has a higher quality composition than prior decades
S&P 500: % of B+ or better quality-rated stocks, 1990-present

Source: FactSet, BofA US Equity & US Quant Strategy

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Stagflation playbook: Value over Growth, stocks over bonds, dividends

Exhibit 41: Large Cap Value outperformed Growth and long-term Treasury bonds during the 70s
Assets class performance during the 70s broken out by periods

Time period	From	To	Large Caps	L-T Tsy	Small Cap	Corp Bond	90d T-Bill	Utilities	Value vs Growth	Value	Growth
1st Market selloff	12/72	09/74	-42.6%	-6.1%	-43.2%	-10.3%	13.5%	-42.5%	24.8%	-32.2%	-56.9%
2nd Market selloff	01/77	02/78	-9.7%	2.5%	21.8%	4.5%	5.7%	2.0%	7.6%	7.9%	0.3%
1st Recession	11/73	03/75	-7.9%	4.3%	11.5%	0.6%	10.3%	-2.7%	22.3%	13.0%	-9.4%
2nd Recession	01/80	06/80	2.5%	14.8%	-4.0%	16.0%	4.9%	13.2%	0.1%	-1.4%	-1.5%
3rd Recession	07/81	11/82	14.6%	48.0%	17.7%	50.9%	16.2%	24.0%	23.7%	33.1%	9.4%
2nd through 3rd Recession	01/80	11/82	41.6%	43.8%	85.7%	46.6%	39.0%	56.7%	22.5%	69.6%	47.2%
Entire Period (1st Rec. - 3rd Rec.)	11/73	11/82	124.0%	70.3%	759.3%	74.0%	110.6%	181.9%	274.0%	485.4%	211.4%
1974 - 1976 stagflation	12/73	12/76	24.9%	33.1%	92.5%	31.9%	20.1%	49.4%	59.1%	90.0%	30.9%

Source: BofA US Equity & Quant Strategy, FactSet. Value and Growth are based on Fama-French factors (Dartmouth data library).

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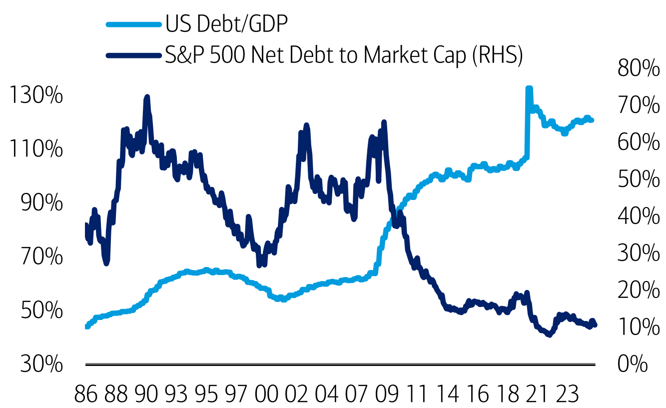
Stocks > Bonds: corporate (stock) risk vs. sovereign (bond) risk

Exhibit 42: S&P 500 debt at record lows, US government debt near highs
S&P 500 Net Debt to Market Cap and US debt to GDP (1/1986-5/2025)



Source: FRED, FactSet, BofA US Equity & Quant Strategy

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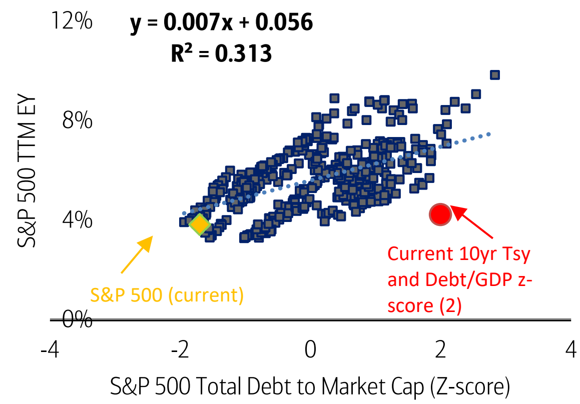
Exhibit 43: Current US Government Debt to GDP implies 7% yield
Relationship between S&P 500 earnings yield and S&P 500 total debt to market cap as a z-score (1/1986-5/2025)



Source: FRED, FactSet, BofA US Equity & Quant Strategy. Note: For debt to GDP, the z-score is based on the full history of the quarterly FRED time series, which begins in 1966.

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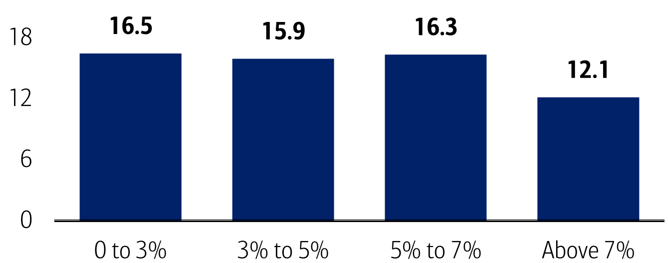
Exhibit 44: If there were a line in the sand for good vs. bad rates for equities, it might be 7% not 5%
Median S&P 500 Forward P/E based on different levels of the nominal 10yr Tsy yield ('86-6/'25)



Source: BofA US Equity & Quant Strategy, FactSet, Bloomberg

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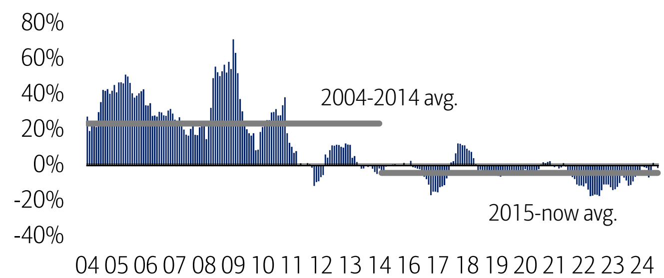
Exhibit 45: China selling Treasuries since 2015, Japan and Fed not buying anymore
YoY change in China holdings Treasuries (2004-4/2025)



Source: Bloomberg, BofA Global Research

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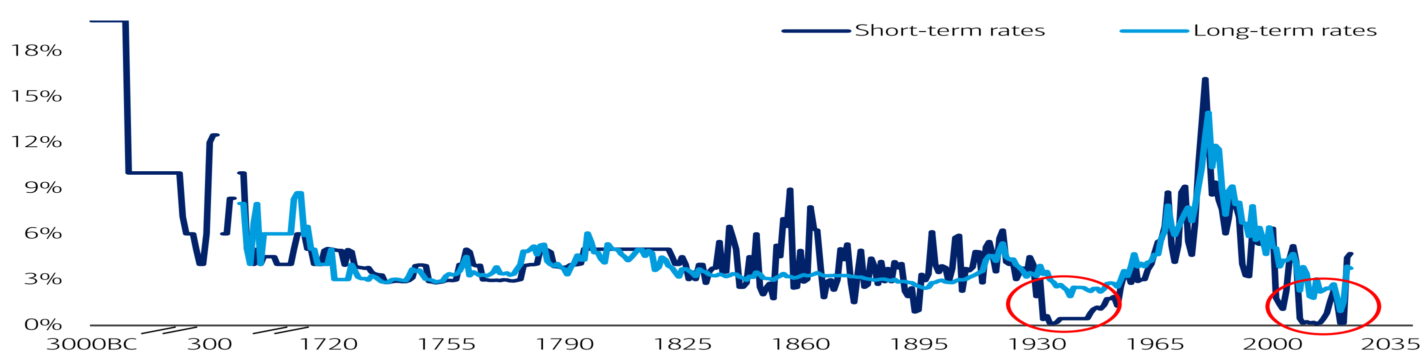
Exhibit 46: Interest rates just coming off 5000 year lows; rate cycles can last for years
Interest rates since 3000 BC



Source: BofA Global Investment Strategy, Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates" (2005)

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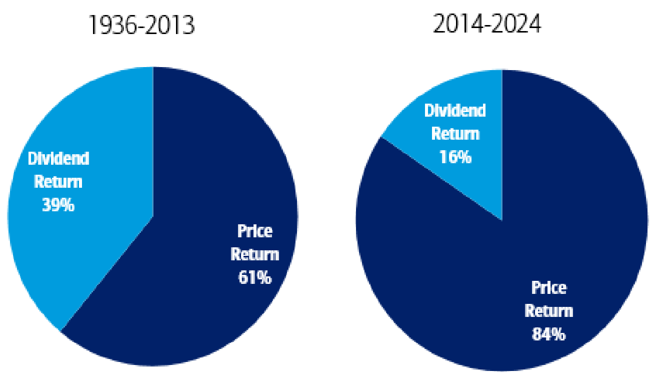
Welcome back to a total return world

We expect a rising contribution from dividends, where dividend growth has dramatically lagged earnings growth since COVID. Payout ratios are at record lows, years of zero interest rate policy rendered cash return via dividends close to worthless while companies used buybacks to increase earnings power amid low rates/lower valuations. These factors have now reversed. Dividends contributed ~40% of total returns in the century prior to 2013 vs. just ~15% since. With aging demographics and sticky inflation risks, the supply/demand argument for inflation-protected income via stocks is, in our view, compelling and bullish.

Exhibit 47: Dividends should contribute more to total returns than during last decade's ZIRP

S&P 500 total return decomposition (1936-2024)



Source: Bloomberg, BofA US Equity & Quant Strategy

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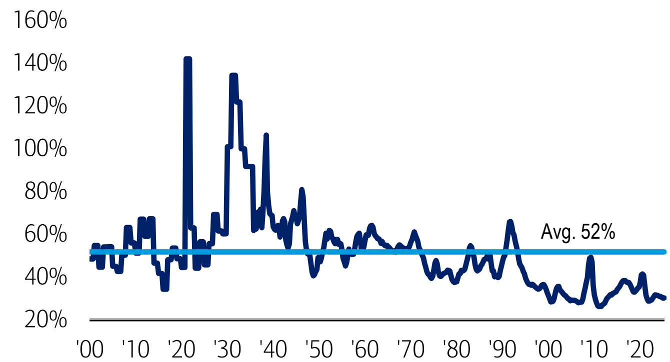
Exhibit 48: Room to raise dividends – payout ratio at all-time lows

S&P 500 dividend payout ratio 1900-2Q2025



Source: Haver Analytics/S&P, FactSet, BofA US Equity & US Quant Strategy

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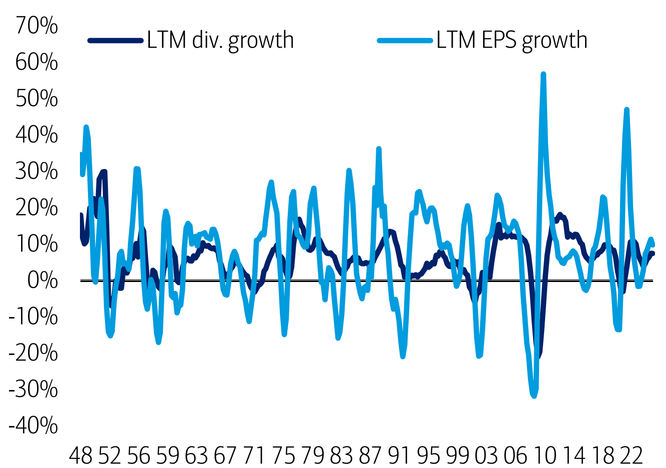
Exhibit 49: EPS has historically led dividends by a year; EPS growth suggests div. growth is next

S&P 500 L12M dividend & EPS growth YoY (1948 – Q2 2025)



Source: BofA US Equity & Quant Strategy, FactSet, Haver Analytics

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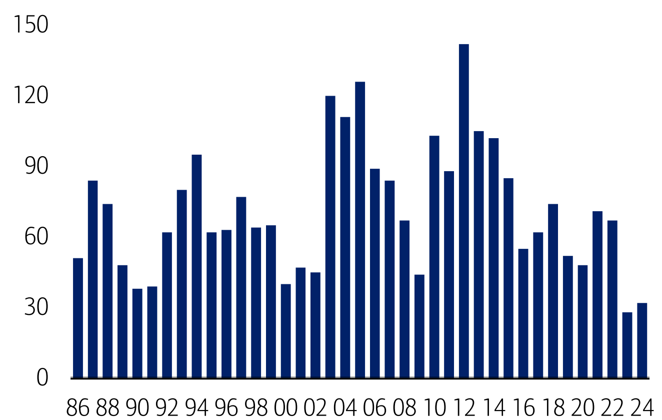
Exhibit 50: New dividends have scarcity value

The number of Russell 3000 companies initiating dividends 1986-2024



Source: FactSet, Bloomberg, BofA US Equity & Quant Strategy

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R1]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R1]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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