

ACTIVE INSIGHTS

September 2021

This is Putnam’s monthly market update from Senior Market Strategist Chris Galipeau. We monitor four critical building blocks as we think about our outlook: (click below to select a section)

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In addition to this update, we have included a link below to a dealer approved piece, authored by our Capital Market Strategies group, that looks at the return of equities and fixed income in the second year of an economic expansion.

ECONOMY

- Our 2021 U.S. real GDP forecast is 6.5%.
- We expect the U.S. economic recovery to be stronger for longer relative to Europe’s recovery.
- We expect emerging market economies to generate the strongest year-on-year increase in real GDP.
- Our 2021 core PCE forecast is 3.10%. We expect inflation data to trend higher in the next few quarters as we lap easy compares and supply chain issues related to the shutdown.
- The chart below shows you the latest core PCE reading:



Source: Bloomberg Finance L.P. Used with permission from Bloomberg Finance L.P.

Post-recession market trends

MARKETS

Equities

- Our price target for the S&P 500 is 4,300 by year end. The onus is on earnings growth to drive stock prices materially higher from here.
- Putnam’s equity portfolio managers favor the consumer discretionary, industrials, materials, information technology and financials sectors. Apart from technology, these are “early cycle” sectors that we believe should benefit as the economy re-opens.
- Historically, value outperforms growth when the U.S. economy exits a recession.
- Historically, small caps outperform large caps when the U.S. economy exits a recession.
- We remain constructive on emerging-market equities, believing the recent correction has created opportunity.
- Earnings estimates for the S&P 500 continue to be revised higher. The consensus earnings estimate for the next 12 months stands at \$205.34. See the table below:

SPX Index		96 Actions ▾		97 Settings				
S&P 500 INDEX								
Periodicity A ▾		Flavor F12 ▾		View Growth ▾		Currency USD ▾		
Measure	Actual	F12 Est	Growth	Y+1 Est	Growth	Y+2 Est	Growth	
1) Earnings Per Share	165.19	205.34	24.30%	218.69	6.50%	240.59	10.01%	
2) EPS Positive	175.24	206.70	17.96%	218.69	5.80%	240.59	10.01%	
3) Cash Flow Per Share	224.13	300.76	34.19%	298.71	-0.68%	329.21	10.21%	
4) Dividends Per Share	58.62	65.41	11.58%	65.52	0.15%	69.65	6.32%	
5) Book Value Per Share	957.58	1001.36	4.57%	1109.77	10.83%	1232.58	11.07%	
6) Sales Per Share	1440.58	1562.83	8.49%	1608.58	2.93%	1694.61	5.35%	
7) EBITDA Per Share	287.26	342.90	19.37%	358.68	4.60%	385.04	7.35%	
8) Long Term Growth	0.00	14.92	0.00%	0.00	0.00%	0.00	0.00%	
9) Net Debt Per Share	340.47	486.12	42.78%	409.88	-15.68%	328.72	-19.80%	
10) Enterprise Value Per Share	4966.02	5002.20	0.73%	4925.95	-1.52%	4836.81	-1.81%	
Valuation Measure	Actual	F12 Est	Y+1 Est	Y+2 Est				
11) Price/EPS	27.05	21.76	20.43	18.57				
12) Price/EPS Positive	25.50	21.62	20.43	18.57				
13) Price/Cash Flow	19.94	14.86	14.96	13.57				
14) Dividend Yield	1.31	1.46	1.47	1.56				
15) Price/Book	4.67	4.46	4.03	3.62				
16) Price/Sales	3.10	2.86	2.78	2.64				
17) Price/EBITDA	15.55	13.03	12.46	11.60				
18) EV/EBITDA	17.29	14.48	13.85	12.90				
19) Net Debt/EBITDA	1.19	0.99	0.95	0.88				

Source: Bloomberg Finance L.P. Used with permission of Bloomberg Finance L.P.

- Our primary concerns are centered on S&P 500 valuation and the potential for higher interest rates. The S&P 500 is trading at 22x forward earnings today versus the last 70-year median of 17x forward earnings. Higher interest rates could limit further multiple expansion.

Fixed Income

- Our forecast for U.S. 10-year yields is for yields to end the year in the range of 1.55% - 1.80%.
- Putnam's fixed income portfolio managers are constructive on high yield, investment grade and municipal bonds. However, credit spreads have tightened significantly from March 2020 and may limit total return going forward. See the chart below that shows the Bloomberg High Yield Index option adjusted spread:



Source: Bloomberg Finance L.P. Used with permission of Bloomberg Finance L.P.

- We remain constructive on structured credit and see scope for spread tightening going forward.

RISKS

- Putnam's investment division generally believes the biggest risks going forward are the pace of economic growth, valuation, and the potential for higher interest rates.

OPPORTUNITIES

- Putnam's investment division generally believes the biggest areas of opportunity going forward will be found in value, growth, small caps, emerging-market equities and structured credit.

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