



CIO believes investors should have a defensive bias within equities. (ddp)

Bad news for profits

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Yesterday the Fed released its quarterly Senior Loan Officer Opinion Survey (SLOOS) and the results were not encouraging.

The survey measures the extent that banks are tightening or loosening credit availability. This is an important leading indicator for corporate profits because access to capital drives the business cycle. Yesterday's release showed that 39% of banks are tightening lending standards for commercial and industrial loans. [As Fig. 1 shows](#), the tightening trend has accelerated sharply over the last year and suggests a potential material contraction in S&P 500 profits in the quarters ahead.

This SLOOS reading suggests a higher probability of our downside scenario, whereby 2023 S&P 500 EPS trends towards USD 190-200 and the S&P 500 falls to 3,300. Our base case view calls for a 4% decline in 2023 S&P 500 EPS (USD 215).

We continue to believe investors should have a defensive bias within equities. Within sectors, we prefer consumer staples, healthcare, and energy. Energy is not a traditional defensive but its 10% free cash flow yield should offer some downside support in the context of tight oil markets. We also retain our long-standing preference for value over growth.

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Content is a product of the Chief Investment Office (CIO).

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