

US Equity Strategy Year Ahead

11 stocks for 2022

Our one stock pick per sector for the year ahead

In this report we provide our 11 stock ideas for 2022 – one stock from each of the 11 GICS sectors within the BofA-covered S&P 500 universe. We selected these stocks based on alignment with themes in our [2022 Year Ahead](#) (including High Quality, inflation-protected yield, Value over Growth and/or FCF generators) plus consideration of factors such as fund positioning, our analysts' 2022 earnings outlook vs. consensus, ESGMeter™ and more. Selected stocks are Buy-rated by our fundamental analysts; we also considered our analysts' views in making our decisions.

These stocks have 23% implied upside, on average, to our analysts' price objectives (as of December 16, 2021), plus an average dividend yield of 2.2% (vs. 1.7% for the 11 sectors on average). These stocks are mostly neglected by active funds and benefit more from inflation, higher GDP, higher interest rates, higher oil prices and wage growth than an equal-weighted 11 sector portfolio, all of which we expect will occur in 2022. See inside for more details. This list is intended for the full year, meaning we do not provide updates intra-year. For a recap of our "11 stocks for 2021" and their performance year-to-date, see inside.

Table 1: 11 stocks for 2022

BofA US Equity & Quant Strategy team's 11 stocks for 2022

Sector	Ticker	Company	BofA US Equity & Quant Strategy Comments
Communication Services	DIS	Walt Disney Company	Reopening exposure (parks/cruise/movies) Neglected by funds (rel. weight 0.54x), High Quality
Consumer Discretionary	BWA	BorgWarner Inc.	Inflation beneficiary, capex beneficiary, neglected (0.54x) High Quality, strong FCF yield (8%)
Consumer Staples	MDLZ	Mondelez International, Inc.	High Quality, High ESGMeter, slightly underweight (0.95x) Positive GDP and interest rate betas
Energy	XOM	Exxon Mobil Corporation	Neglected (0.27x), higher oil beta than CVX Strong 10% FCF yield (2022 consensus); High ESGMeter level
Financials	WFC	Wells Fargo & Company	High Quality, Value, positive inflation, GDP, interest rate betas High ESGMeter level; likely benefits more from higher rates than other banks
Health Care	CVS	CVS Health Corporation	High Quality, Value, medium duration, domestic High ESGMeter level
Industrials	ETN	Eaton Corp. Plc	Positive inflation/GDP/oil betas; capex/reshoring beneficiary High Quality, High ESGMeter level; neglected (0.81x)
Information Technology	FFIV	F5, Inc.	Neglected (0.60x), High Quality Positive betas vs. inflation, GDP, interest rates; High ESGMeter level
Materials	EMN	Eastman Chemical Company	Neglected (0.89x), High Quality Attractive dividend yield (2.6%); High ESGMeter level
Real Estate	WELL	Welltower, Inc.	Neglected (0.22x), High Quality Attractive dividend yield (2.9%); High ESGMeter level
Utilities	NRG	NRG Energy, Inc.	Positive inflation/GDP betas; screens well on our Alpha Surprise and DDM Alpha models Neglected (0.60x); attractive dividend yield (3.3%)

Source: BofA US Equity & Quant Strategy

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Exhibit 1: Additional details on 11 stocks for 2022

BofA opinion on 11 stocks for 2022

Ticker	Price	BofA opinion
DIS	148.74	B-1-9
BWA	44.22	B-1-7
MDLZ	65.69	A-1-7
XOM	61.37	B-1-7
WFC	50.24	B-1-7
CVS	101.22	B-1-7
ETN	168.80	B-1-7
FFIV	233.93	B-1-9
EMN	120.09	B-1-7
WELL	83.08	B-1-7
NRG	39.85	B-1-7

Source: BofA Global Research, FactSet

Note: closing prices as of 12/16/21

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Timestamp: 17 December 2021 12:01AM EST

Exhibit 2: Our 11 stocks are underweight by active funds, have a higher dividend yield, and have higher betas to inflation, GDP, interest rates, oil and wage growth than the equal-weighted 11 sectors

11 stocks for 2022 attributes

Sector	Ticker	Div. yield	Quality	LO ownership	Inflation beta	GDP beta	Interest rate beta	Oil beta	AHE beta	ESGMeter
Communication Services	DIS	0.0%	A	0.54	0.15	0.34	0.00	0.06	0.51	High
Consumer Discretionary	BWA	1.5%	B+	0.54	1.49	-0.43	0.03	0.17	-0.65	Medium
Consumer Staples	MDLZ	2.1%	B+	0.95	-0.16	0.30	0.01	0.00	-0.98	High
Energy	XOM	5.7%	B-	0.27	1.08	0.02	0.04	0.04	2.16	High
Financials	WFC	1.6%	B+	1.29	0.85	0.59	0.11	0.04	-0.96	High
Health Care	CVS	2.2%	A	1.04	-0.71	-0.11	0.01	-0.06	-0.98	High
Industrials	ETN	1.8%	A-	0.81	0.51	0.12	0.00	0.03	-0.91	High
Information Technology	FFIV	0.0%	B+	0.60	0.71	0.27	0.04	0.01	3.19	Medium
Materials	EMN	2.5%	B+	0.86	1.59	0.57	-0.02	0.07	1.78	High
Real Estate	WELL	2.9%	B+	0.22	-0.22	0.26	-0.08	-0.04	-0.41	High
Utilities	NRG	3.3%	B	0.60	1.19	0.78	-0.02	0.02	2.76	Medium
Average of 11 stocks		2.2%		0.70	0.59	0.25	0.01	0.03	0.50	
Equal-weighted 11 sectors		1.7%			-0.01	-0.03	-0.35	0.00	-0.06	

Source: BofA Global Research, Bloomberg

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How did our 11 stocks for 2021 do?

Each year, we publish the performance of the previous year's list for informational purposes. Last December, we published our 11 stocks for 2021 (one from each GICS sector) that aligned with our themes for the year ahead 2021 and our quantitative work. To come up with our stock ideas, we limited our universe to S&P 500 stocks which were Buy-rated by BofA fundamental analysts. We reviewed the stocks in each sector based on metrics such as valuation, institutional ownership, growth expectations, revision trends, dividend growth, foreign exposure, macro factor sensitivities, BofA vs. consensus EPS expectations, Environmental Social & Governance (ESG) scores, and more. We also considered the views of our fundamental analysts in making our selections.

Our 11 stocks for 2021 were: **DIS** (Communication Services), **HLT** (Consumer Discretionary), **WMT** (Consumer Staples), **CVX** (Energy), **ALL** (Financials), **HCA** (Health Care), **ALK** (Industrials), **QRVO** (Information Technology), **VALE** (Materials), **O** (Real Estate) and **NEE** (Utilities).

Since last year's publication, from December 16, 2020 (report published after close on this date) through December 16 2021, the stocks' equal-weighted total return was 14.8%, or 12.6% since the start of 2021.

- The list underperformed the S&P 500 total return index by 13.1ppt since last year's publication and by 13.4ppt since the start of 2021. It underperformed the equal-weighted S&P 500 total return index by 13.2ppt since last year's publication and by 13.9ppt since the start of 2021.
- The average total return of the stocks relative to their respective S&P 500 GICS sector indices since publication was -13.5ppt, or -14.6ppt year-to-date (as of December 16, 2021). See Table 2 below for details.

This list differs from the S&P 500 index in that it is more exposed to stock specific risk. As a result, this list is subject to higher volatility than its benchmark. The performance results are model in nature and do not reflect actual transactions. The performance results of persons following the list will differ for a variety of reasons, including differences related to incurring advisory fees and transaction costs, the time and price that the stocks are acquired and disposed of and differences in the weighting of stocks.



In addition, the results presented should not and cannot be viewed as an indicator of future performance or the performance of future lists.

Table 2: 11 stocks for 2021: absolute and relative total return performance (as of 12/16/21)

Our 11 stocks for 2021 underperformed the S&P 500 YTD

Ticker	YTD return ^a	Return since publishing ^b	YTD return relative to sector ^c	Return since publishing relative to sector ^c
DIS	-17.9%	-14.1%	-38.2ppt	-34.8ppt
HLT	24.9%	33.1%	+5.0ppt	+12.3ppt
WMT	1.0%	0.1%	-15.8ppt	-17.9ppt
CVX	45.4%	38.5%	-7.0ppt	-6.9ppt
ALL	8.2%	11.7%	-27.5ppt	-28.7ppt
HCA	55.8%	58.6%	+31.9ppt	+32.1ppt
ALK	-5.3%	-1.1%	-24.2ppt	-20.9ppt
QRVO	-11.2%	-7.1%	-41.6ppt	-40.4ppt
VALE	-1.1%	-2.1%	-25.2ppt	-29.3ppt
O	16.9%	18.9%	-23.6ppt	-23.2ppt
NEE	21.9%	26.3%	+5.9ppt	+8.6ppt
Average	12.6%	14.8%	-14.6ppt	-13.5ppt
S&P 500	26.0%	27.9%		
Rel. Performance vs. S&P 500	-13.4ppt	-13.1ppt		
S&P 500 Equalweight (EW) Index	26.5%	28.0%		
Rel. Performance vs. EW S&P 500	-13.9ppt	-13.2ppt		

a- close of 12/31/2020 through close of 12/16/21

b- close of 12/16/20 through close of 12/16/21 ("11 stocks for 2021" report was published after market close on Dec. 16, 2020)

c- performance relative to each stock's relevant S&P 500 GICS sector index.

Note: These performance results do not reflect transaction costs, tax withholdings or any investment advisory fees. The total return performance calculation assumes that dividends are continuously reinvested. Past performance is no guarantee of future results.

Source: Bloomberg, BofA US Equity & US 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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