Economic update

Future of Catawba County Summit
Hickory, NC

April 19, 2023

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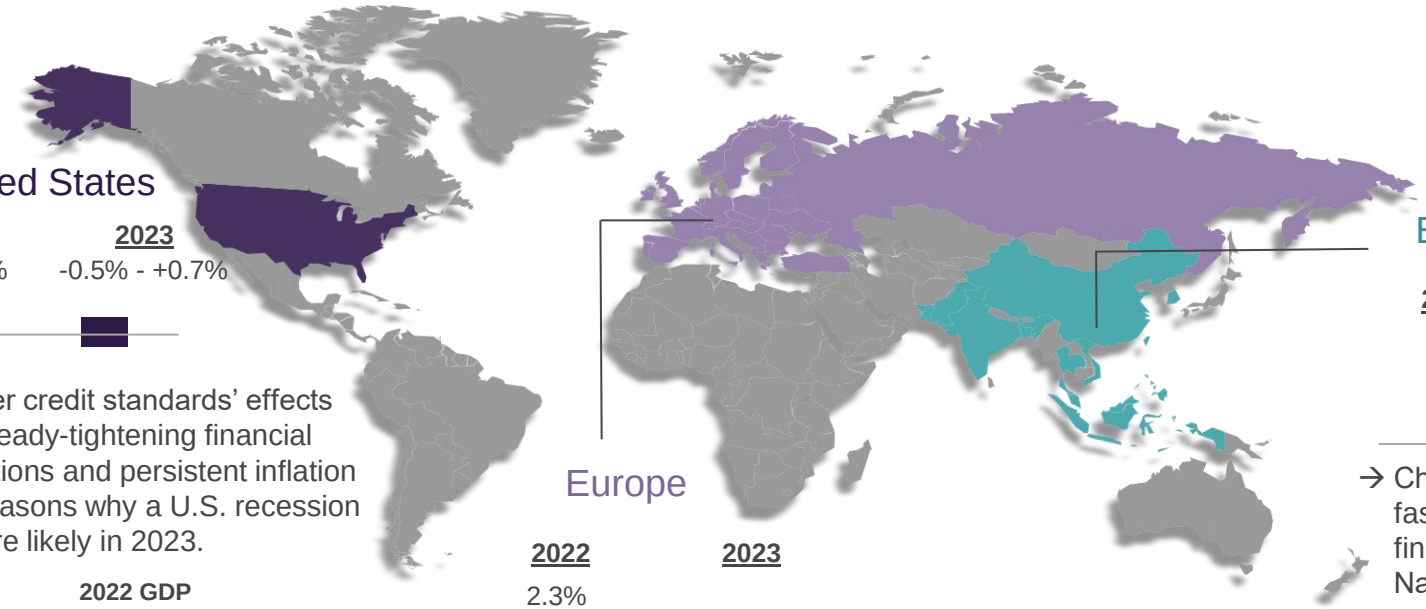
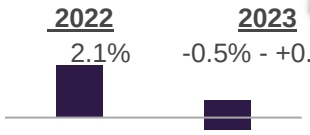
Wealth

Economy

Global growth set to slow in 2023

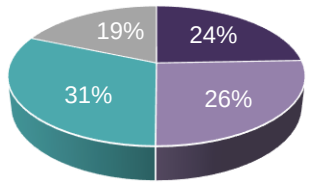


United States



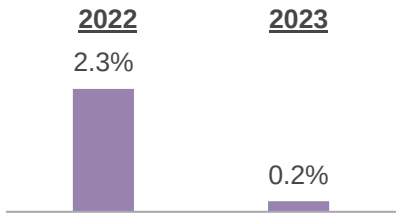
→ Stricter credit standards' effects on already-tightening financial conditions and persistent inflation are reasons why a U.S. recession is more likely in 2023.

2022 GDP
($104 trillion total)



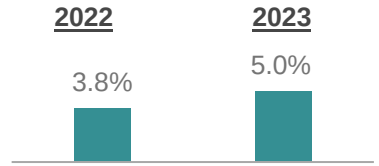
▪ U.S. ▪ Europe ▪ EM Asia ▪ Rest of the World

Europe



→ In Europe, stubborn inflation prompted yet another half a percent rate hike by the European Central Bank (ECB). Manufacturing and services surveys indicate that the region can escape recession if summer travel is as strong as last year and energy shortages are on the back burner.

Emerging Asia



→ China's money supply growth rate is among the fastest within the G20 nations, indicating easing financial conditions in the country. At the National People's Congress, the new leadership set a 5% GDP growth target for 2023.

→ In India, a prominent conglomerate led to declines in investor confidence after a negative short seller report. The country is expected to grow above 7% in 2023 and has the potential to grow at this pace over the next decade.

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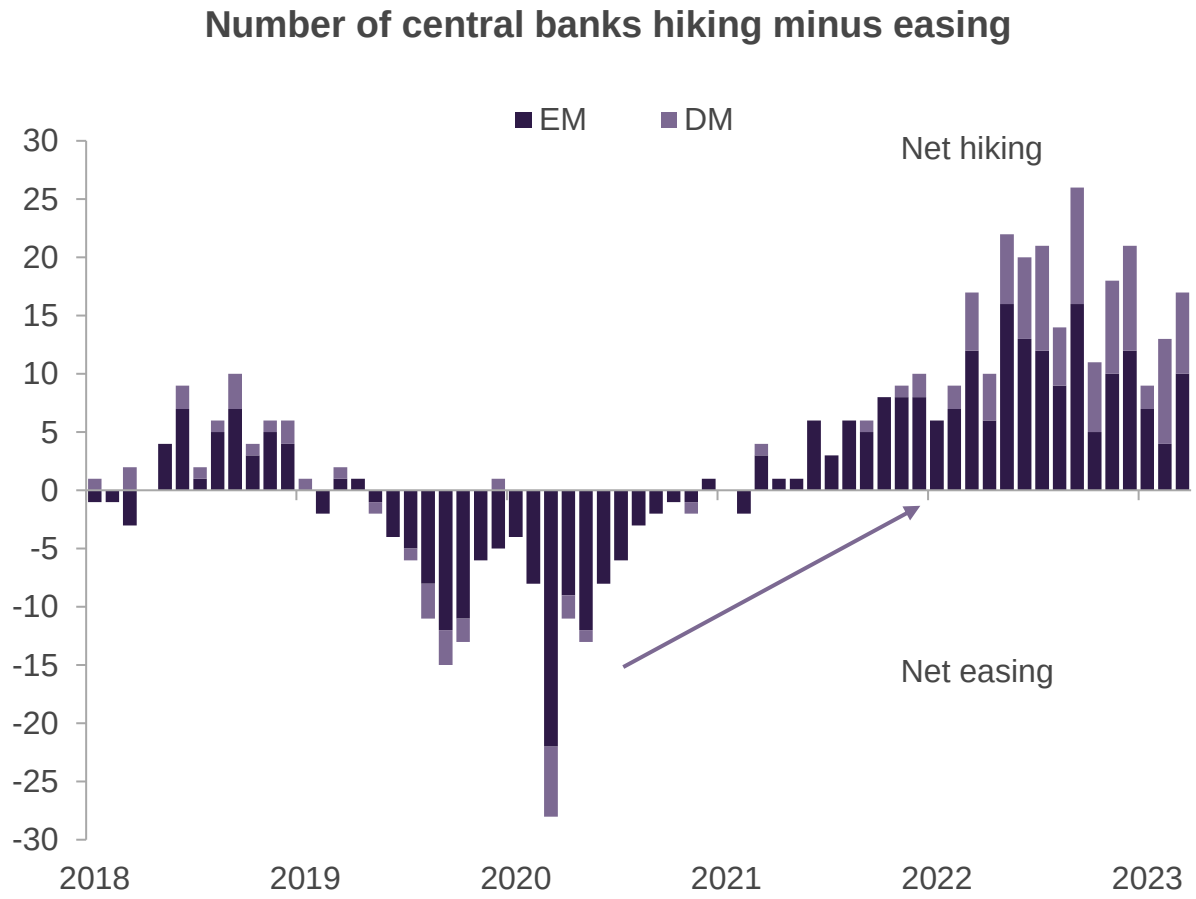
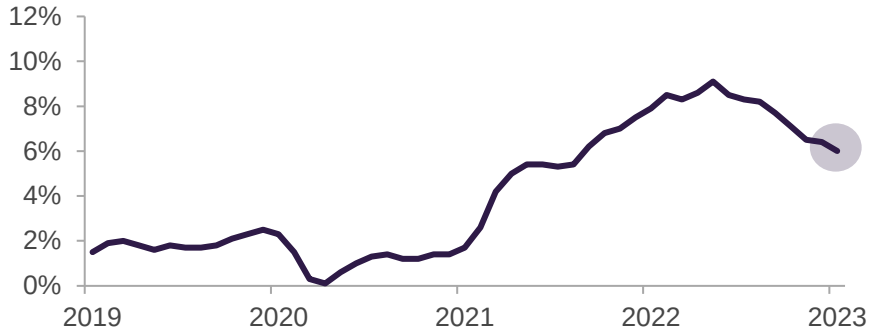
Data source: Truist IAG, 2022 global macro estimates from the International Monetary Fund, regional growth estimates from Bloomberg. Europe includes developed countries and economies considered to be "emerging," such as Russia, Turkey, and Ukraine.

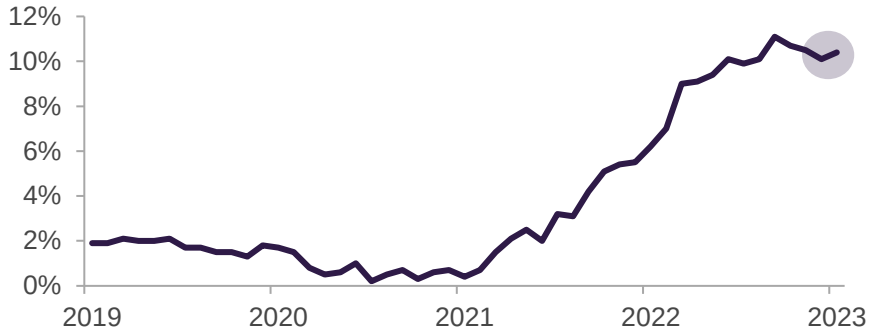
Tightening lending conditions along with the lagged effects of higher rates set to weigh on global economy

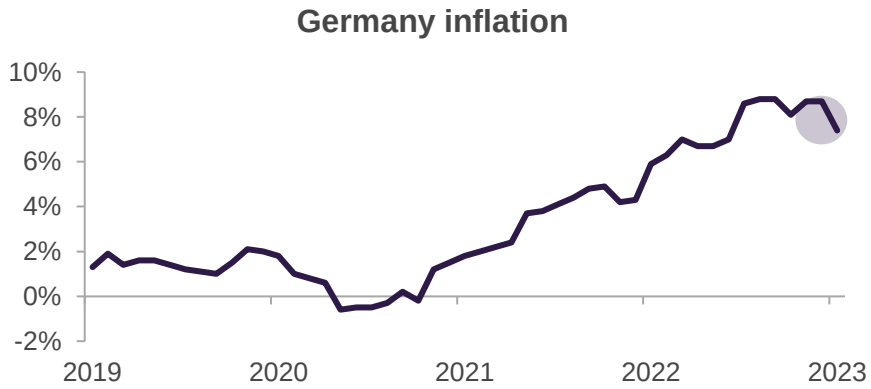


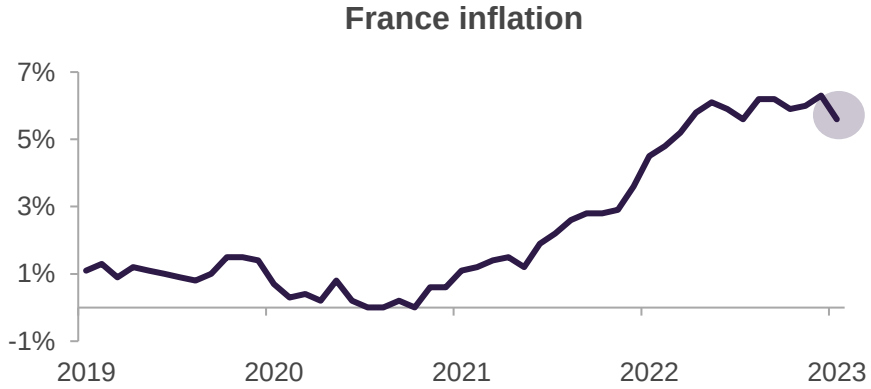
Data source: Truist IAG, Haver. Series constructed using predominantly countries in the MSCI All Country World Index
EM = Emerging markets; DM = Developed markets
Past performance does not guarantee future results.

Inflation moderating globally but still stubbornly high



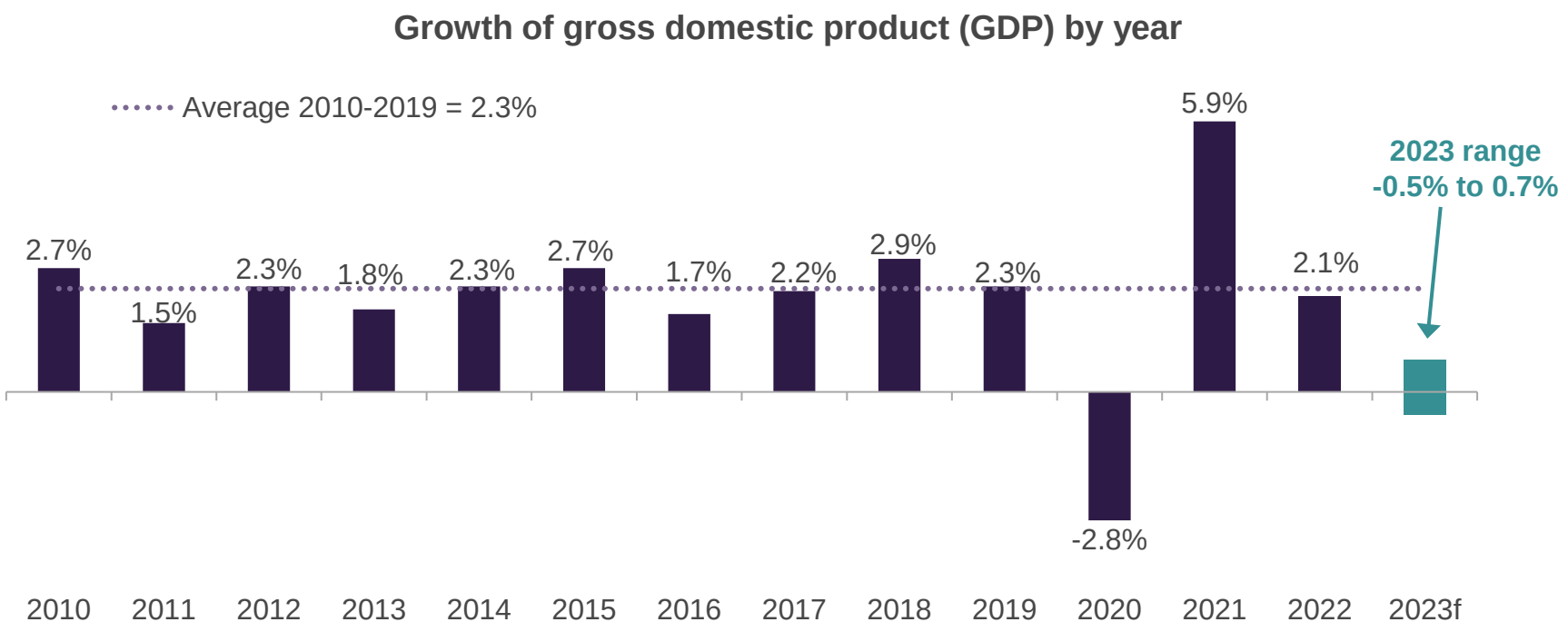






Data source: Truist IAG, Bloomberg. Data as of February 2023 for the U.S. and U.K. and as of March 2023 for Germany and France.

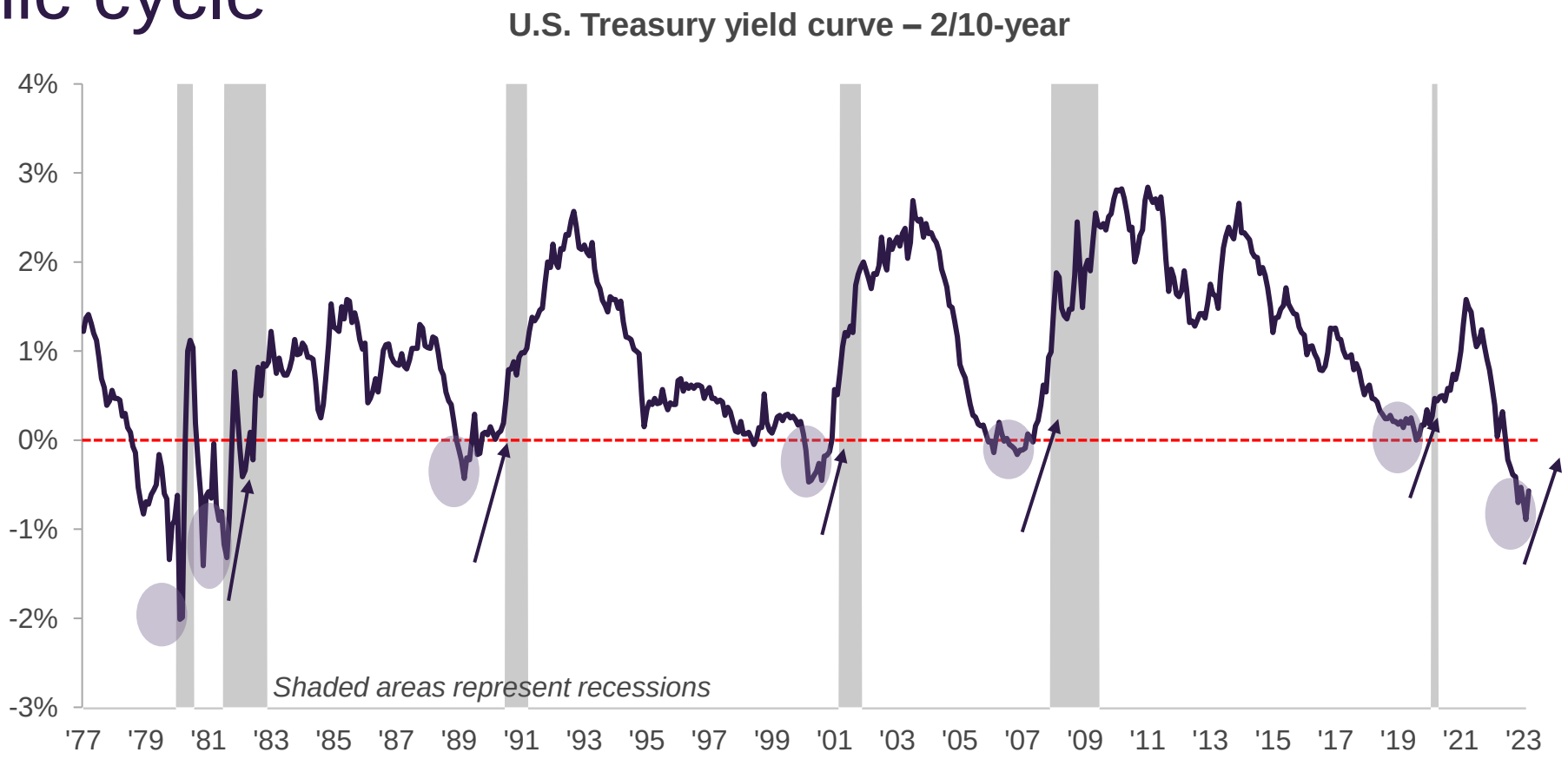
U.S. economy is expected to weaken in 2023



Data source: Truist IAG, Bureau of Economic Analysis, IHS Markit. Change in real gross domestic product year over year, actual for 2010 through 4Q2022.

f = Truist IAG forecast for 2023

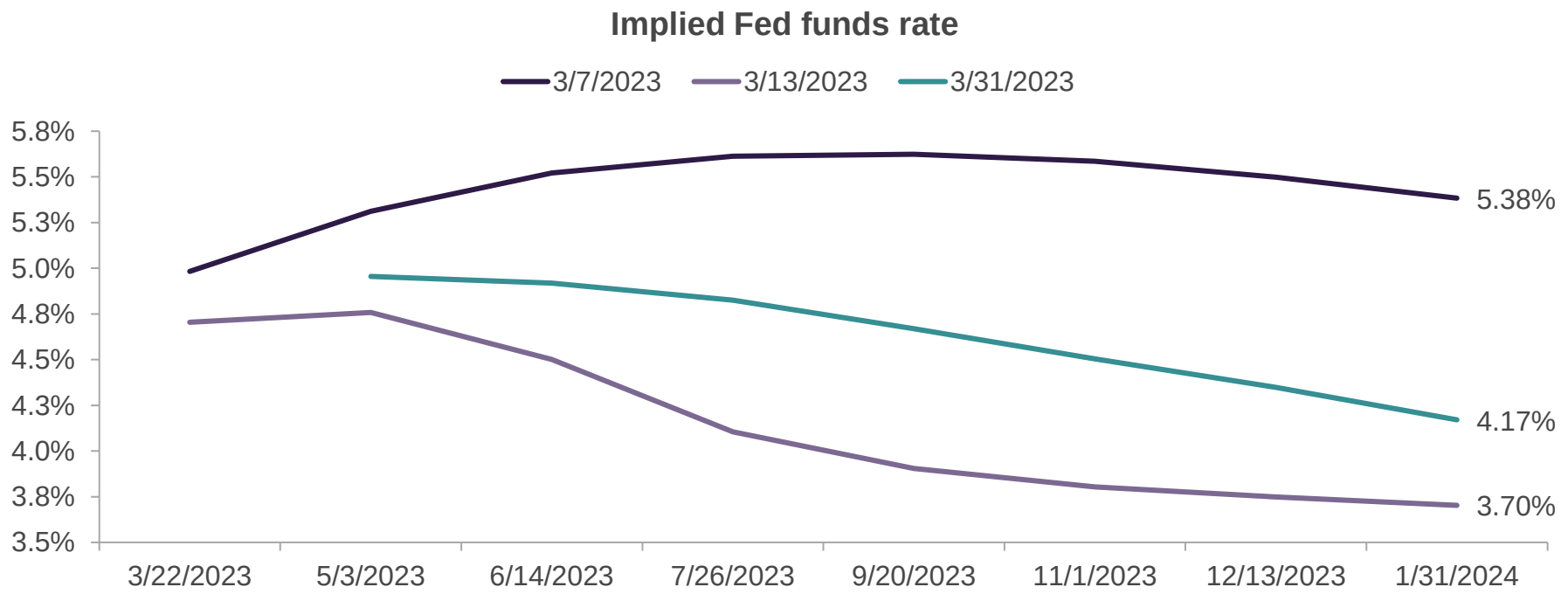
Yield curve re-steepening consistent with late-stage economic cycle



Data source: Truist IAG, Bloomberg.

Past performance does not guarantee future results.

Fed expectations transformed by banking industry challenges

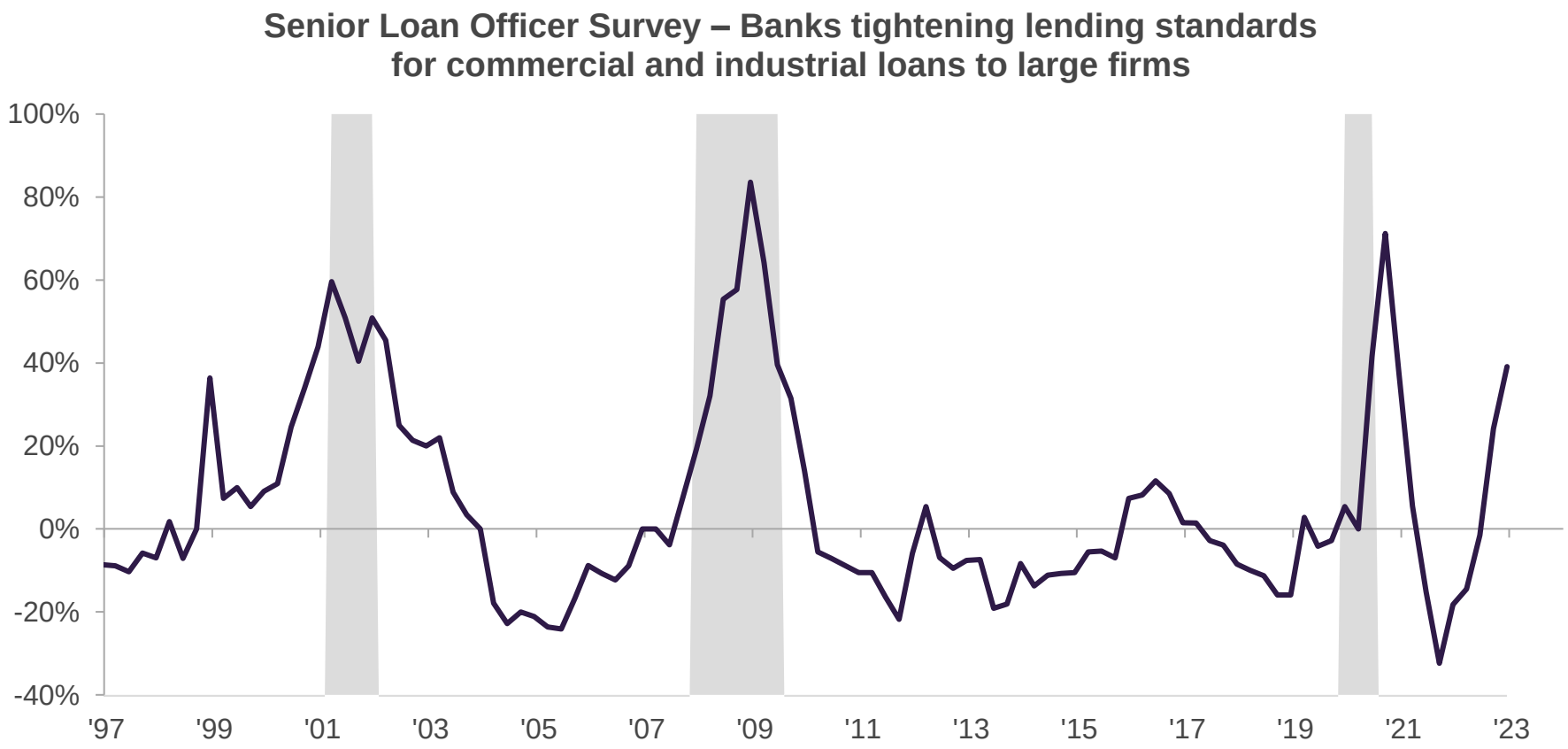


Data source: Truist IAG, Bloomberg.

Market implied Fed funds rate derived from Fed funds futures pricing

Past performance does not guarantee future results.

Bank lending standards only going to get tighter



Data source: Truist IAG, Haver; Gray bars = recession. Past performance does not guarantee future results.

Markets

2023 S&P 500 base case & upside/downside risks

Base case

S&P 500 estimated range = 3400 to 4300

Choppy trading range that provides tactical opportunities

U.S. moves into recession later in year; downside earnings risk

Valuations far from compelling considering macro risks

Relative value below market's surface

Upside risks

Economy avoids recession and much softer inflation

Earnings hold up better than expected

Improvement in China's economy boosts global economy

Progress on Russia/Ukraine war

Depressed sentiment/light positioning propel stocks higher

Downside risks

Steeper and longer recession

Valuations overshoot to the downside

Inflation stays sticky; Fed raises rates higher than expected

Earnings weaker than expected

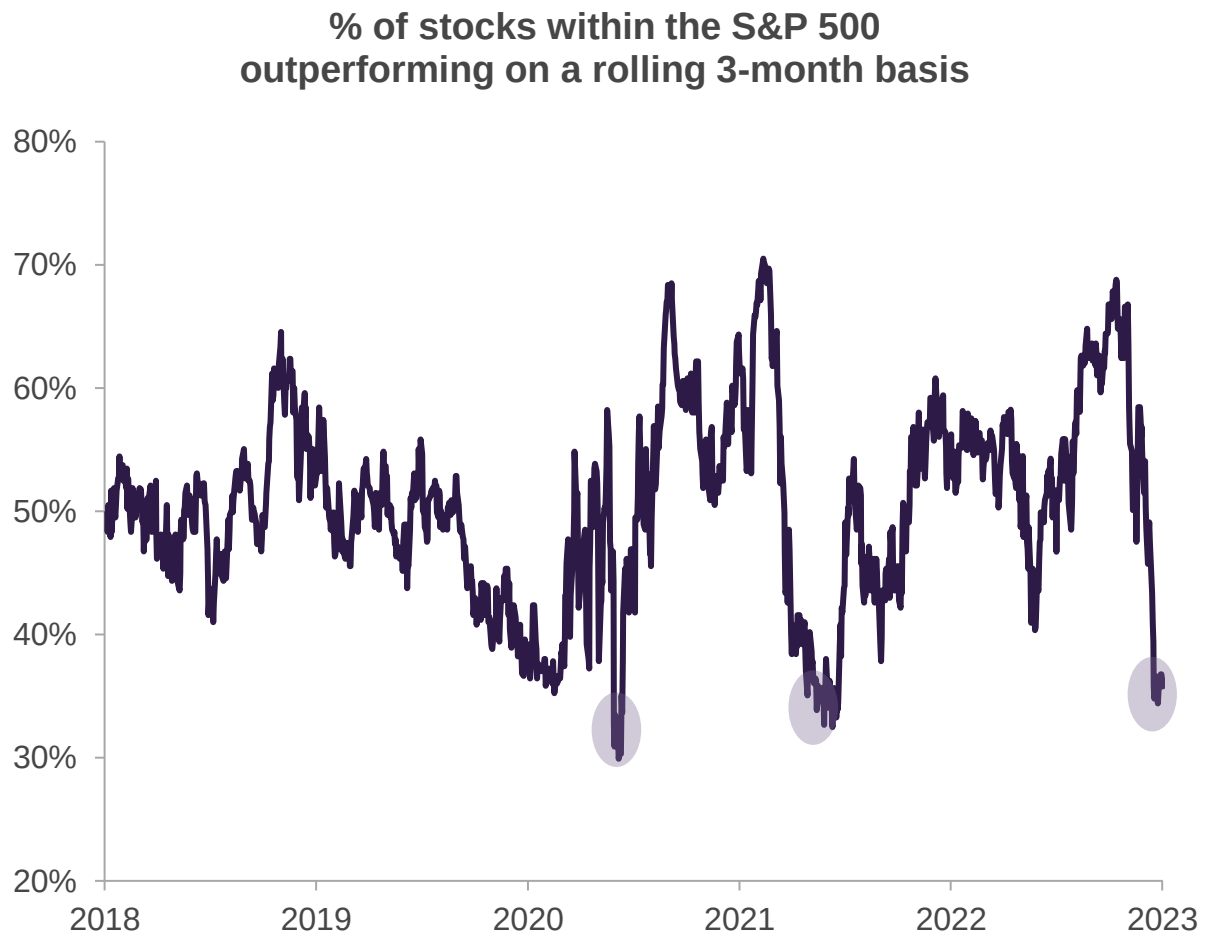
Banking turmoil spreads

Geopolitical risks escalate

Stocks vacillating between risk-on & risk-off within broader choppy range

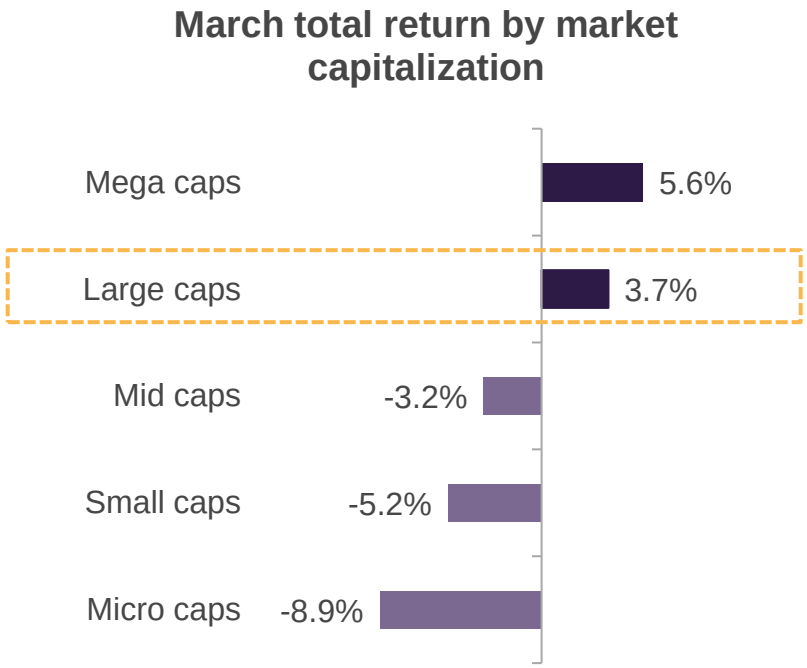
Data source: Truist IAG, FactS

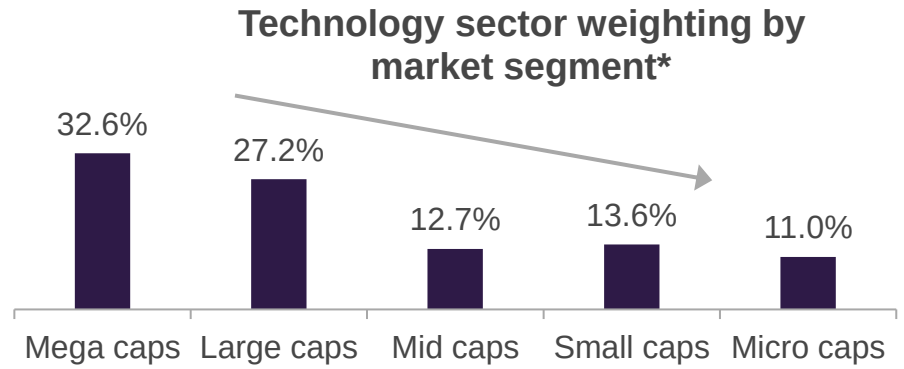
Narrowing market leadership

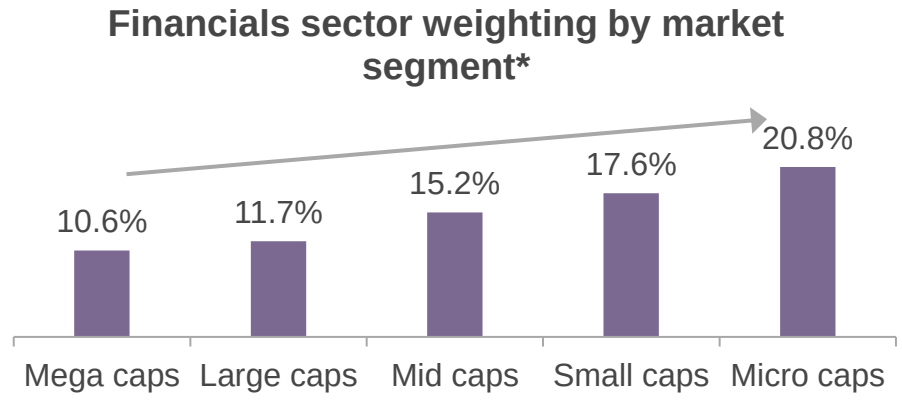


Data source: Truist IAG, FactSet. Past performance does not guara

Market rebound led by largest stocks; mid and smaller companies lagging







Data source: Truist IAG, Morningstar. Past performance does not guarantee future results.

*Sector weightings as of February 28 (before reclassification) and proxied by iShares ETF. S&P 500, Mid caps = S&P 400; Small caps = S&P 600 ETF

Mega caps = S&P 100, Large caps = Micro caps = iShares MSCI micro caps

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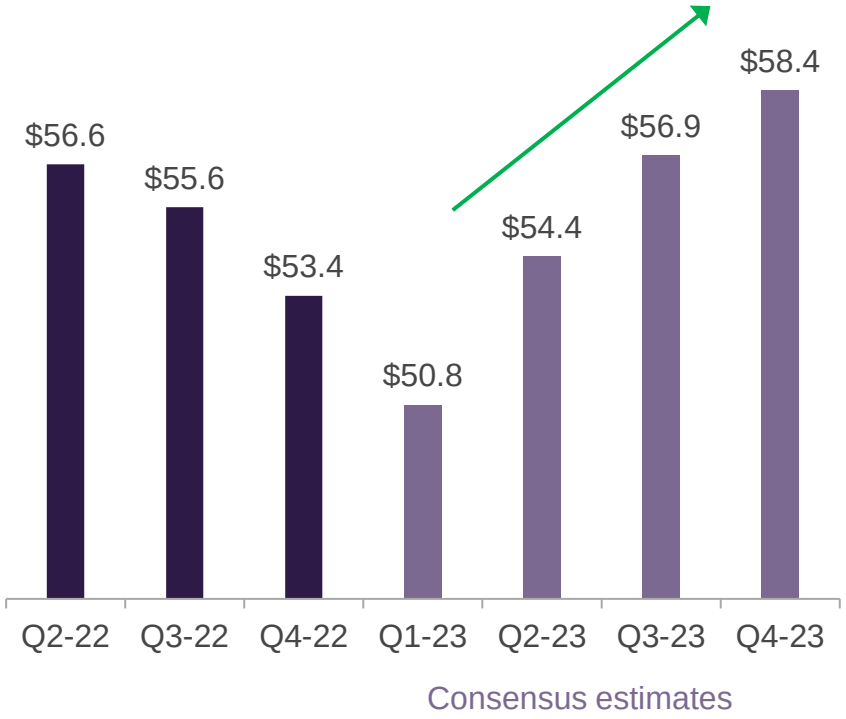
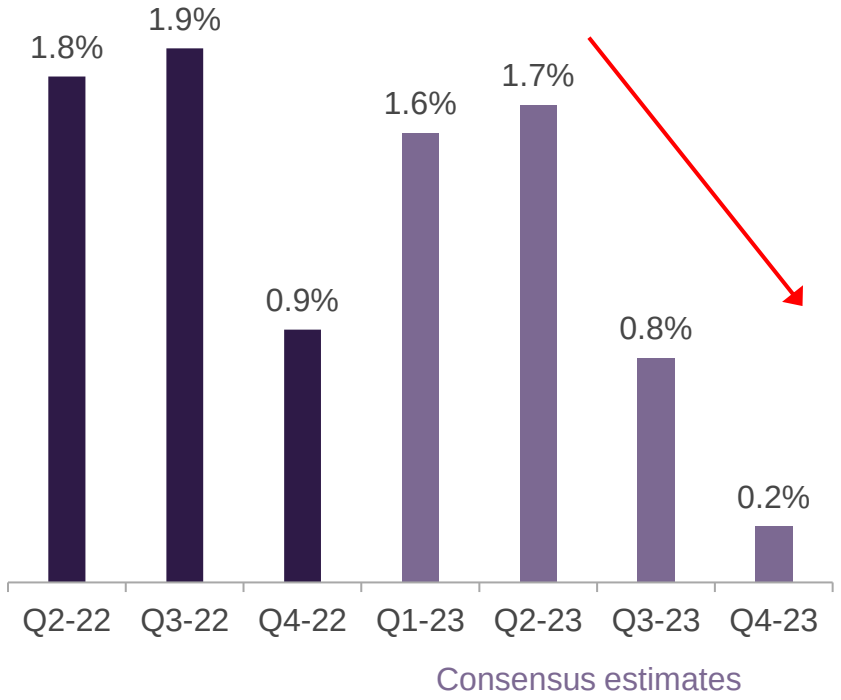
Disconnect between consensus earnings estimates that are expected to reach a record in the 2nd half vs. a material projected economic slowdown

S&P 500 actual and estimated quarterly earnings



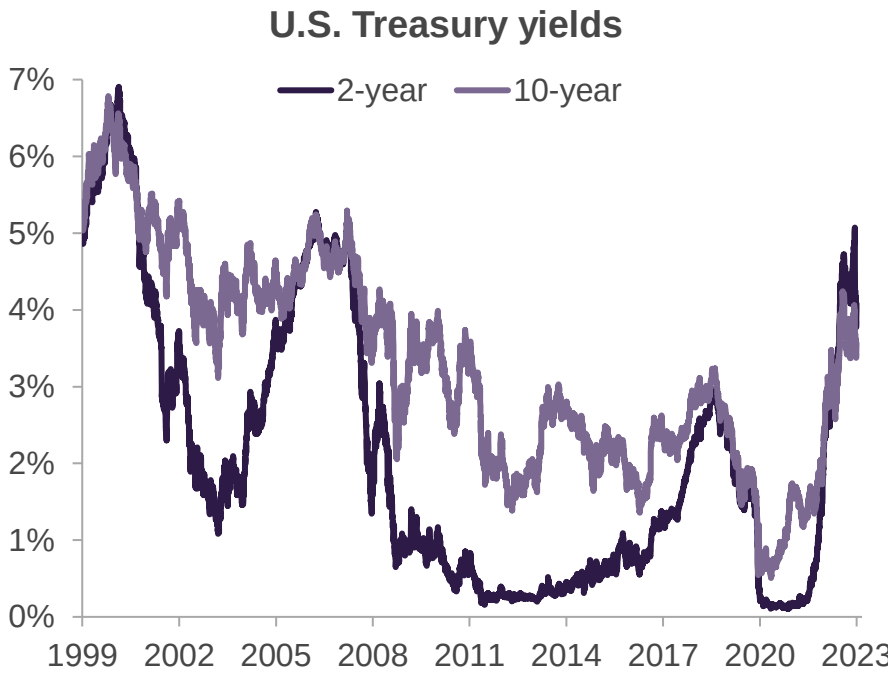
U.S. real GDP (year over year) actual and consensus estimates

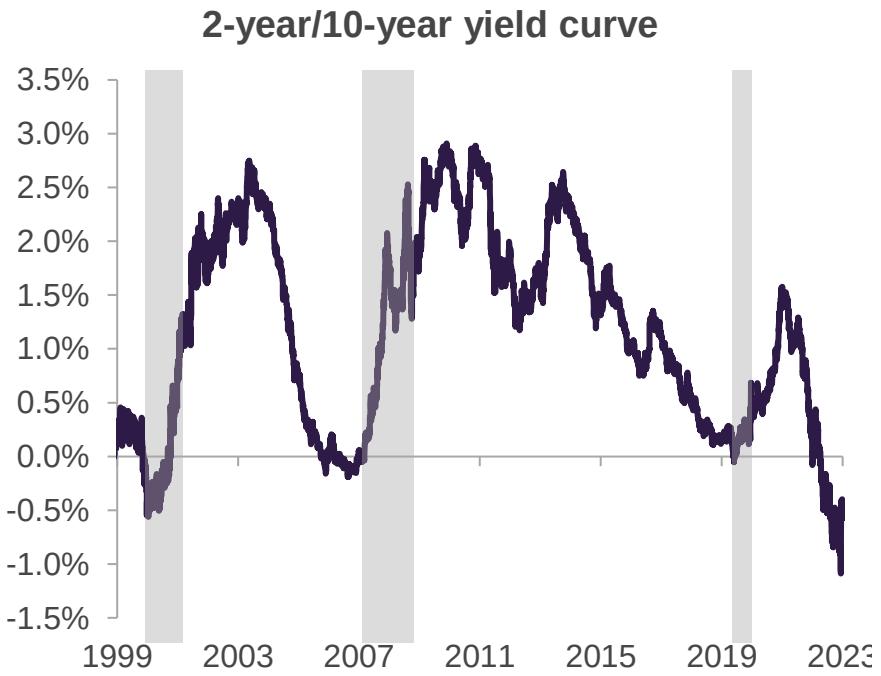


Data source: Truist IAG, FactSet. Bloomberg consensus GDP estimates

Fixed income

Banking industry and economic concerns are transforming the yield curve



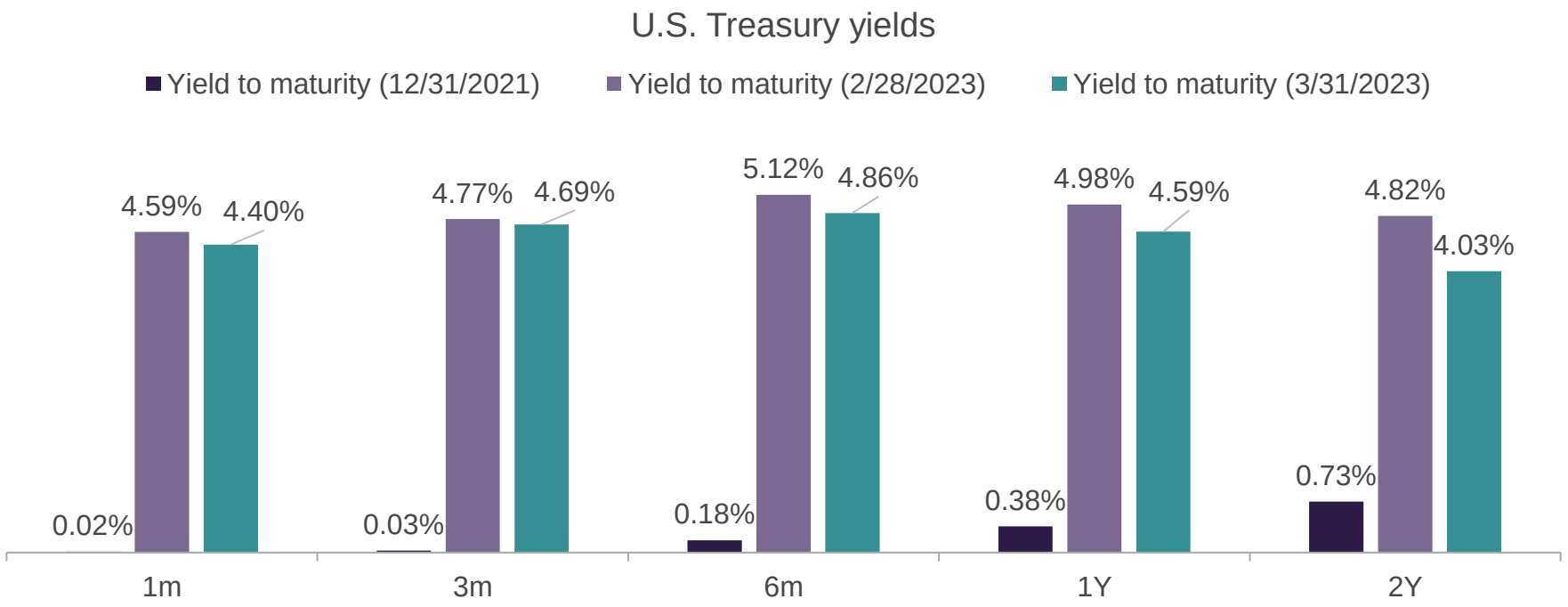


Data source: Truist IAG, Bloomberg

Past performance does not guarantee future results.

Shaded areas represent recessions.

Short yields are lower but still productive



Data source: Truist IAG, Bloomberg

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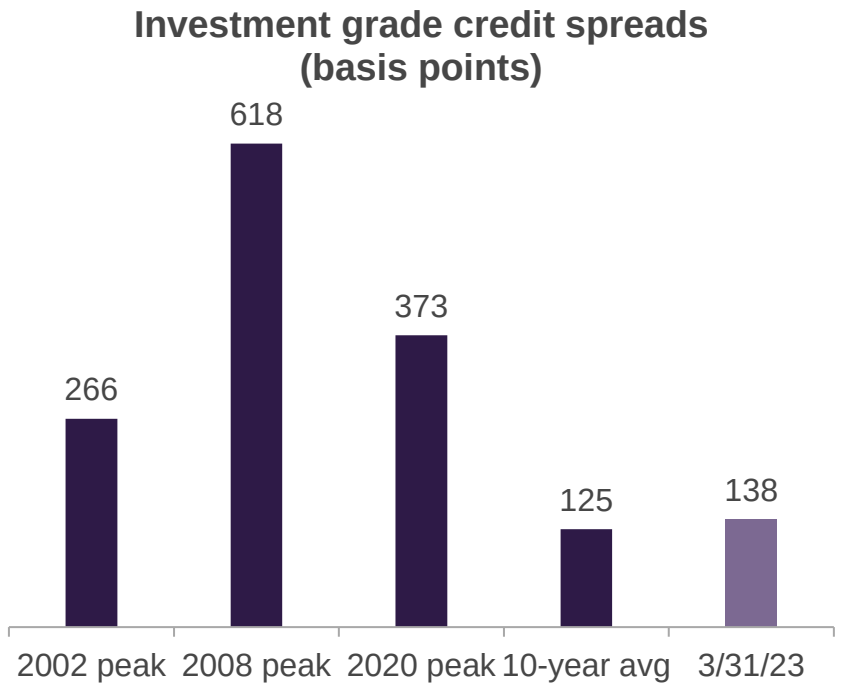
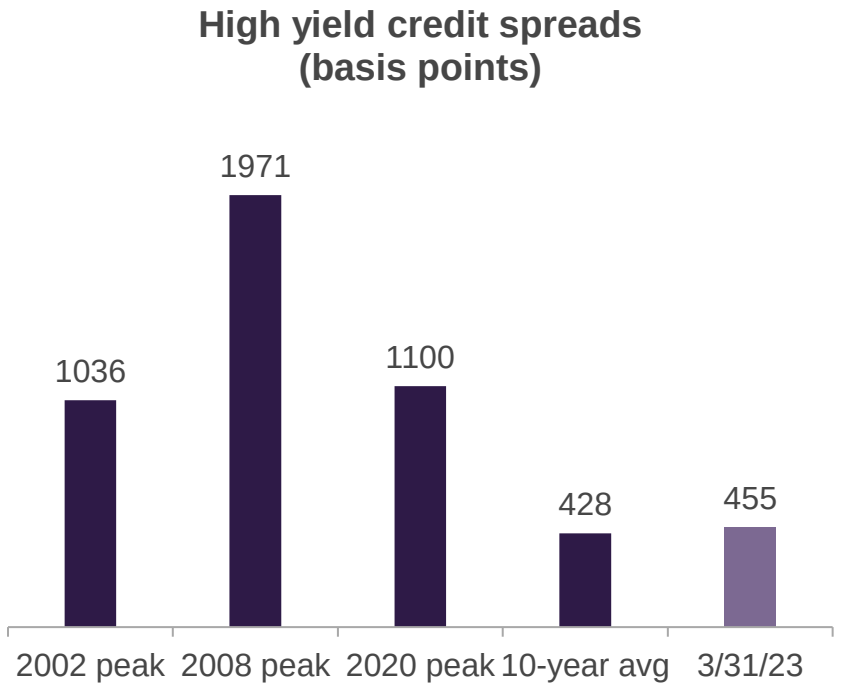
U.S. corporate bond spreads remain well below recessionary levels





Data source: Truist IAG, Bloomberg. One basis point = 0.01%.

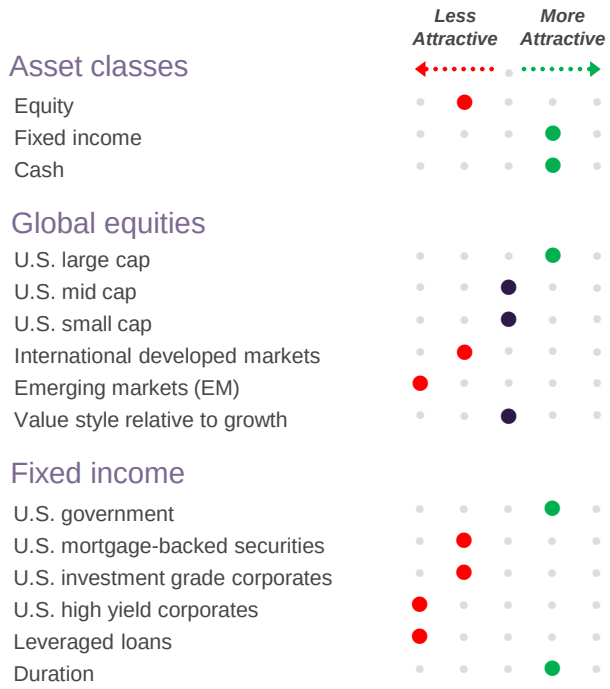
Past performance does not guarantee future results.

Asset class view, forecasts & valuation

Truist Advisory Services, Inc.

In late March, we downgraded our view of value relative to growth to neutral from more attractive. We also brought down the top end of our 10-year U.S. Treasury range to 2.75% to 4.00% from 2.75% to 4.25% and lowered our expected Fed funds rate range to 4.75% to 5.00% from 5.00% to 5.25%.

Tactical outlook (3-12 months)



Long-term capital market assumptions (10 years)

Equity	Expected Return	Expected Risk
Global equity	6.75%	16.8%
U.S. large cap	7.00%	16.0%
U.S. small cap	8.25%	20.0%
International developed markets	6.00%	18.2%
Emerging markets (EM)	5.75%	24.5%

Fixed income	Expected Return	Expected Risk
Intermediate-term municipals	3.25%	4.0%
U.S. core taxable bonds	4.50%	4.1%
U.S. government bonds	4.00%	4.5%
U.S. investment grade corporates	5.75%	6.5%
U.S. high yield corporates	6.50%	10.3%

Key forecasted ranges

U.S. GDP	-0.5%	to	+0.7%
S&P 500	3400	to	4300
10-year U.S. Treasury	2.75%	to	4.00%
Fed funds rate (year end)	4.75%	to	5.00%

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Past performance does not guarantee future results. Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.
***In this document, we express our high-level investment strategy views without portfolio context constraints. We aim to represent relative opportunities within each broader asset class.** This allows us to signal what we are watching and where things are changing at the margin within positions that may differ from our asset allocation guidance and Strategy Portfolios. Long-term expected risk, return and correlation statistics are derived from the Portfolio & Market Strategy team's capital market assumptions process and are not guaranteed. Secular trends, such as demographics, global debt, inflation, etc. are initially assessed to determine the impact on global markets over the next decade. With an understanding of the current stage of the business cycle, a combination of quantitative and fundamental techniques is used to further analyze factors that include, but are not limited to: (1) the outlook for asset class return drivers; (2) the probability of sustained returns; (3) absolute and relative valuation measures; (4) the impact of economic drivers on asset class assumptions and (5) changes in investor sentiment and liquidity. +Capital market assumptions are reviewed and/or modified at least once a year and are currently as of 2022.

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Asset classes are represented by the following indexes. An investment cannot be made directly into an index.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

Equity is represented by the MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries*. With 2,897 constituents, the index covers approximately 85% of the global investable equity opportunity set

Fixed Income is represented by the Bloomberg U.S. Aggregate Index. The index measures the performance of the U.S. investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States – including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.

Commodities are represented by the Bloomberg Commodity Index which is a composition of futures contracts on physical commodities. It currently includes a diversified mix of commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock. The weightings of the commodities are calculated in accordance with rules that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity.

Cash is represented by the ICE BofA U.S. Treasury Bill 3 Month Index which is a subset of the ICE BofA 0-1 Year U.S. Treasury Index including all securities with a remaining term to final maturity less than 3 months.

U.S. Large Cap Equity is represented by the S&P 500 Index which is an unmanaged index comprised of 500 widely-held securities considered to be representative of the stock market in general.

U.S. Mid Cap is represented by the S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

U.S. Small Cap Core Equity is represented by the S&P 600 Small Cap Index which is a measure of the performance of the small-cap segment of the U.S. equity universe

International Developed Markets is represented by the MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries* around the world, excluding the U.S. and Canada. With 799 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Emerging Markets is represented by the MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries*. With 1,386 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Value is represented by the S&P 500 Value Index which is a subset of stocks in the S&P 500 that have the properties of value stocks.

Growth is represented by the S&P 500 Growth Index which is a subset of stocks in the S&P 500 that have the properties of growth stocks.

Disclosures

U.S. Government Bonds are represented by the Bloomberg U.S. Government Index which is an unmanaged index comprised of all publicly issued, non-convertible domestic debt of the U.S. government or any agency thereof, or any quasi-federal corporation and of corporate debt guaranteed by the U.S. government

U.S. Mortgage-Backed Securities are represented by the Bloomberg U.S. Mortgage-Backed Securities (MBS) Index which covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

U.S. Investment Grade Corporate Bonds are represented by the Bloomberg U.S. Corporate Investment Grade Index which is an unmanaged index consisting of publicly issued U.S. Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB- or higher) by at least two ratings agencies, have at least one year to final maturity and have at least $250 million par amount outstanding.

U.S. High Yield Corp is represented by the ICE BofA U.S. High Yield Index tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

Floating Rate Bank Loans are represented by the Morningstar LSTA Leveraged Loan 100 Index. The index represents tradable, senior-secured, U.S.-dollar-denominated non-investment-grade loans.

Global Equity is represented by the MSCI All World Country (ACWI) Index which is defined as a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI Index consists of 48 country indices comprising 24 developed markets countries and 24 emerging markets countries.

Emerging Markets Equity is represented by the MSCI EM Index which is defined as a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets countries

Intermediate Term Municipal Bonds are represented by the Bloomberg Municipal Bond Blend 1-15 Year (1-17 Yr) is an unmanaged index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least $50 million, that have a maturity value of at least $5 million and a maturity range of 12 to 17 years.

U.S. Core Taxable Bonds are represented by the Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

EU Corporate is represented by the Bloomberg Euro-Aggregate Corporates Index which is a benchmark that measures the corporate component of the Euro Aggregate Index and includes investment grade, euro-denominated, fixed-rate securities.

U.S. Government Bonds are represented by the Bloomberg U.S. Government Index which is an unmanaged index comprised of all publicly issued, non-convertible domestic debt of the U.S. government or any agency thereof, or any quasi-federal corporation and of corporate debt guaranteed by the U.S. government.

U.S. IG Corporate Bonds are represented by the Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S.D denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

U.S. High Yield Corporate Bonds are represented by the ICE BofA U.S. HY Index which is an index that tracks U.S. dollar denominated debt below investment grade corporate debt publicly issued in the U.S. domestic market.

EM hard currency bonds are represented by the Bloomberg EM USD Aggregate – Sovereign Index, which is a subset of the Bloomberg Emerging Markets Hard Currency Aggregate Index, a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

International developed markets bonds unhedged are represented by the ICE BofA Global Government ex U.S. Index which tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency excluding all securities denominated in U.S. dollars. In order to qualify for inclusion in the Index, a country (i) must be a member of the FX-G10 or Western Europe; (ii) must have an investment grade rating.

U.S. preferred securities are represented by the ICE BofA Preferred Stock Fixed Rate Index which tracks the performance of fixed rate US dollar-denominated preferred securities issued in the US domestic market.

U.S. TIPS are represented by the ICE BofA U.S. Treasury Inflation Linked Index which is an unmanaged index comprised of US Treasury Inflation Protected Securities with at least $1 billion in outstanding face value and a remaining term to final maturity of greater than one year.

High yield municipal bonds are represented by the Bloomberg HY Municipal Bond Index which is an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below with a remaining maturity of at least one year.

S&P 500 Information Technology Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the information technology sector based on GICS® classification.

S&P 500 Financials Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the financials sector based on GICS® classification.

S&P 500 Energy Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the energy sector based on GICS® classification.

S&P 500 Materials Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the materials sector based on GICS® classification.

S&P 500 Industrials Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the industrials sector based on GICS® classification.

S&P 500 Consumer Discretionary Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the consumer discretionary sector based on GICS® classification.

S&P 500 Communication Services Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the communication services sector based on GICS® classification.

S&P 500 Utilities Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the utilities sector based on GICS® classification.

S&P 500 Consumer Staples Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the consumer staples sector based on GICS® classification.

S&P 500 Health Care Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the health care sector based on GICS® classification.

S&P 500 Real Estate Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the real estate sector based on GICS® classification.

Disclosures

The HFRI Fund Weighted Composite Index which is a global, equal-weighted index of single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of $50 Million under management or a twelve (12) month track record of active performance.

The HFRI Macro (Total) Index includes managers with a broad range of strategies in which the investment process in predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency, and commodities markets.

Investing in commodities is speculative and involves a high degree of risk and not suitable for all investors.

Hedge funds often engage in leveraging and speculative investment practices that may increase the risk of investment loss, can be highly illiquid, and are not required to provide periodic pricing or valuation information to investors.

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