

MACRO INSIGHTS

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MARKET OUTLOOK

- 2023 should be a strong year for global equities as a new bull market takes hold
- Despite decent economic and corporate results, investor sentiment fell to historic lows last year, but investors' main fears are fading
- Recession is possible, but recession expectations are already widespread, muting its impact
- Equities typically recover well before the economy and earnings
- The most favorable part of the US election cycle is upon us
- Inflation should fall faster than many appreciate, capping interest rates
- Growth should outperform early as the hardest-hit equity categories rebound, but cyclical value stocks may take over by yearend

As of February 2023.

EARLY BULLS BOOM

The strong equity returns since late 2022 lows is typical of early bull markets. Since the Great Depression, returns in the first six and twelve months of new bull markets have averaged +27% and +43%, respectively.

Peak → Trough	Duration (M)	% Decline	+6M	+12M	Recovery Duration (M)	Total Bull Market Return
03/06/1937 04/28/1942	62	-60%	25%	54%	45	158%
05/29/1946 06/13/1949	37	-30%	23%	42%	12	267%
08/02/1956 10/22/1957	15	-22%	10%	31%	11	86%
12/12/1961 06/26/1962	6	-28%	20%	33%	14	80%
02/09/1966 10/07/1966	8	-22%	22%	33%	7	48%
11/29/1968 05/26/1970	18	-36%	23%	44%	21	74%
01/11/1973 10/03/1974	21	-48%	30%	38%	69	126%
11/28/1980 08/12/1982	20	-27%	44%	58%	3	229%
08/25/1987 12/04/1987	3	-34%	19%	21%	20	65%
07/16/1990 10/11/1990	3	-20%	29%	29%	4	417%
03/24/2000 10/09/2002	31	-49%	12%	34%	56	101%
10/9/2007 03/09/2009	17	-57%	52%	69%	49	401%
02/19/2020 03/23/2020	1	-34%	48%	75%	5	114%
Average	19	-36%	27%	43%	24	167%
Median	17	-34%	23%	38%	14	114%

Source: Global Financial Data, FactSet, as of 03/23/2021. S&P 500 price returns, daily, 03/06/1937 – 03/23/2021.

EQUITIES RECOVER WITHOUT AN “ALL CLEAR” SIGNAL

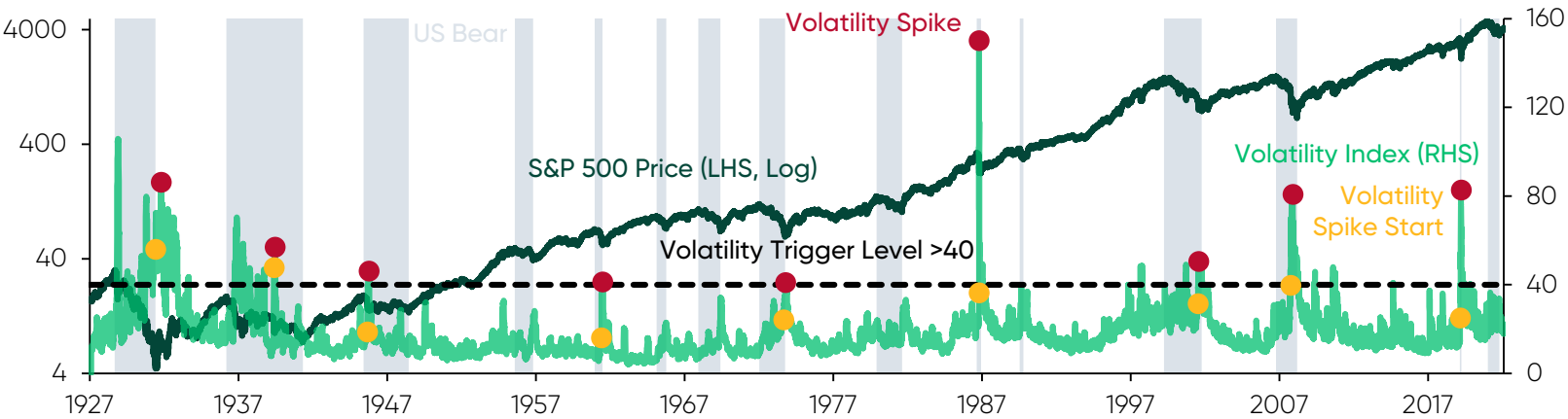
As the saying goes, if you are looking for clarity, equity markets are an expensive place to find it. That is because when economic conditions look clear, equities are well on their way higher. The bull market that began in March 2009 provides a good example. Equities bottomed well before the recession was over, and significant economic uncertainty lay ahead.



Source: FactSet, MSCI World Index Level, USD, daily, 12/31/2008 – 07/04/2014.

INCONSISTENT CAPITULATION

Not all bear markets end in high-volatility capitulation. Historically, only about half of bear markets featured a significant volatility spike at the bottom. When they do occur, volatility spikes usually coincide with a V-shaped bottom.



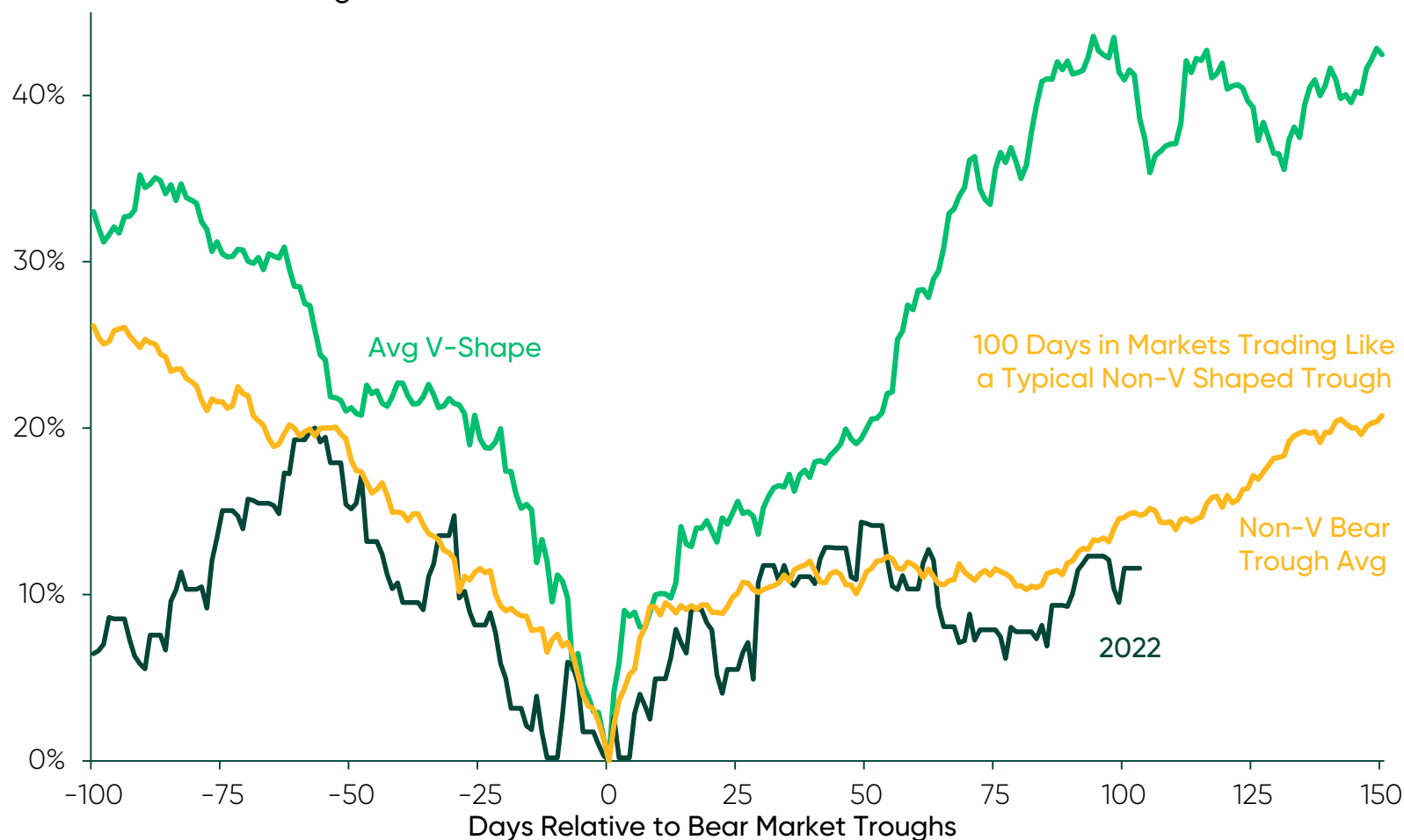
Bear Start	Bear Bottom	Duration (M)	% Decline	Volatility Spike?	S&P 500 Price Return			
					Bear Start to Spike Start	Spike Start to Bear Bottom	+12M After Spike Start	+18M After Spike Start
Sep 1929	Jun 1932	32.8	-86.2%	Y	-86.0%	-1.4%	115.8%	121.1%
Mar 1937	Apr 1942	61.6	-60.0%	Y	-51.0%	-18.3%	4.4%	2.6%
May 1946	Jun 1949	36.5	-29.6%	Y	-12.1%	-19.9%	-9.9%	-17.7%
Aug 1956	Oct 1957	14.7	-21.6%	N				
Dec 1961	Jun 1962	6.5	-28.0%	Y	-12.5%	-17.7%	10.3%	12.6%
Feb 1966	Oct 1966	7.9	-22.2%	N				
Nov 1968	May 1970	17.9	-36.1%	N				
Jan 1973	Oct 1974	20.7	-48.2%	Y	-40.5%	-13.0%	17.8%	42.0%
Nov 1980	Aug 1982	20.5	-27.1%	N				
Aug 1987	Dec 1987	3.3	-33.5%	Y	-16.1%	-20.8%	-2.5%	6.6%
Jul 1990	Oct 1990	2.8	-19.9%	N				
Mar 2000	Oct 2002	30.5	-49.1%	Y	-36.0%	-20.5%	3.2%	15.9%
Oct 2007	Mar 2009	17.0	-56.8%	Y	-25.8%	-41.7%	-11.3%	1.5%
Feb 2020	Mar 2020	1.1	-33.9%	Y	-4.7%	-30.6%	21.7%	39.1%
Avg Perf					-31.6%	-20.4%	16.6%	24.9%
Median Perf					-25.8%	-19.9%	4.4%	12.6%

Source: FactSet & Global Financial Data, daily, 12/31/1927 – 01/31/2023. Prior to VIX inception (1986), 30 day realized volatility of S&P 500 daily price returns was used as a proxy. A VIX capitulation spike trigger level occurs when VIX is above 40 when near a bear bottom. The spike start date is based on when VIX begins to be above 1 standard deviation of its trailing 3-year average.

TO "V" OR NOT TO "V"

Some bear markets end with a final sharp move down followed by an equally sharp rebound—a "V-shaped" bottom—while some bottoms are more gradual. So far, the market recovery since late 2022 has been strong but resembled a typical non-V bottom.

% Market Returns vs Troughs



Source: FactSet. Shows average of S&P 500 Index Price Level before and after past US bear markets troughs, monthly, USD, 11/01/1930 – 09/30/2021. V-shaped bears consist of the following years: 1932, 1942, 1949, 1982, 2009 and 2020. Non V-shaped bears consist of the following years: 1957, 1962, 1966, 1970, 1974, 1999 and 2002. Excludes 1987 due to its unique correction-like behavior.

CURRENT MARKET TOPICS

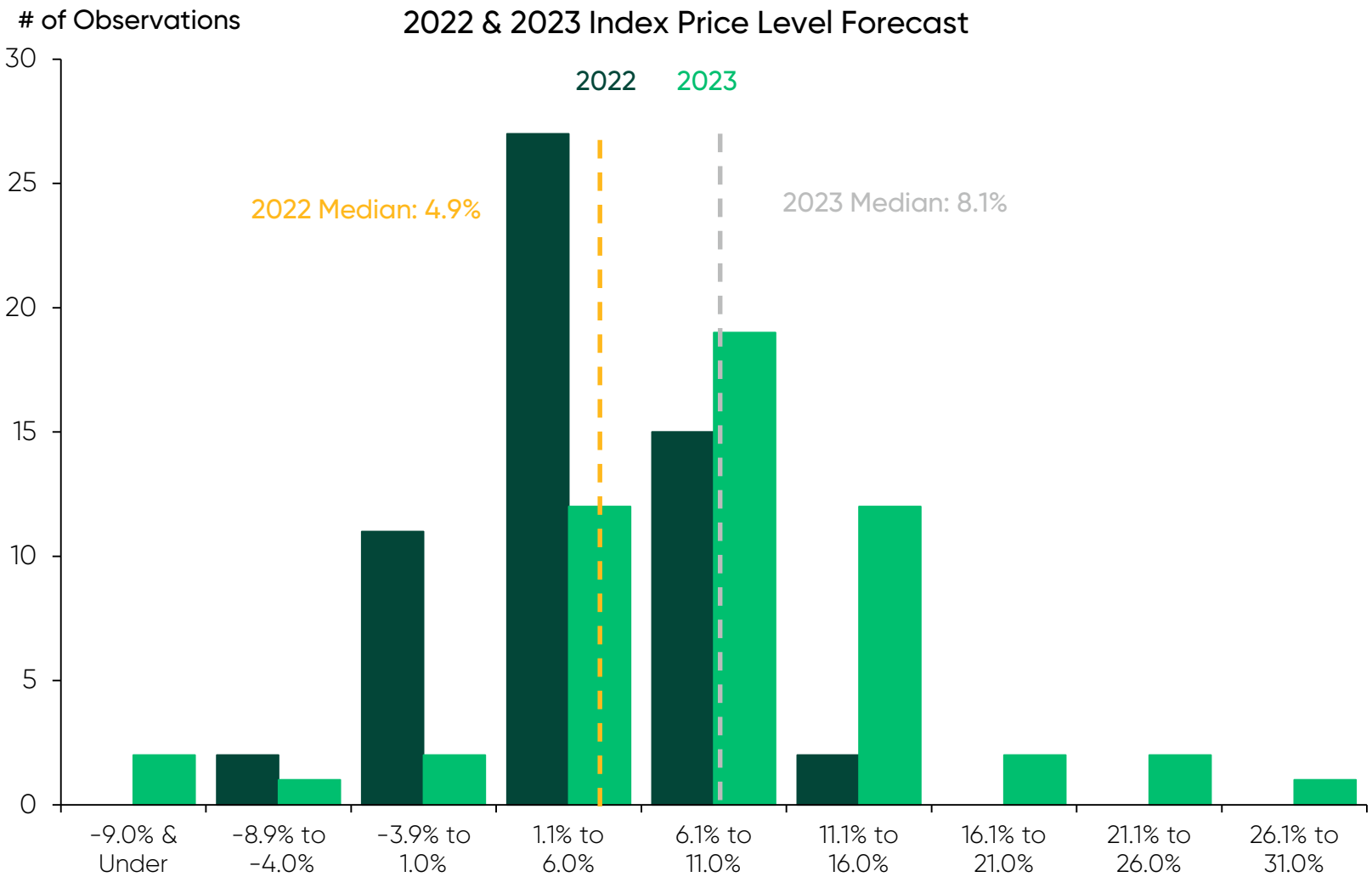
Our views on contemporary investor topics in the market

- Expectations for equity returns in 2023 are mixed
- Investor sentiment reached extreme lows in 2022, setting the stage for strong returns going forward
- Equity valuations were not as extreme as other sentiment indicators, but valuations have less influence over equity returns than many believe
- Corporate earnings are likely to slow or even fall slightly, but equities are often resilient in the face of modest earnings declines

As of February 2023.

A WIDE RANGE OF FORECASTED EQUITY OUTCOMES

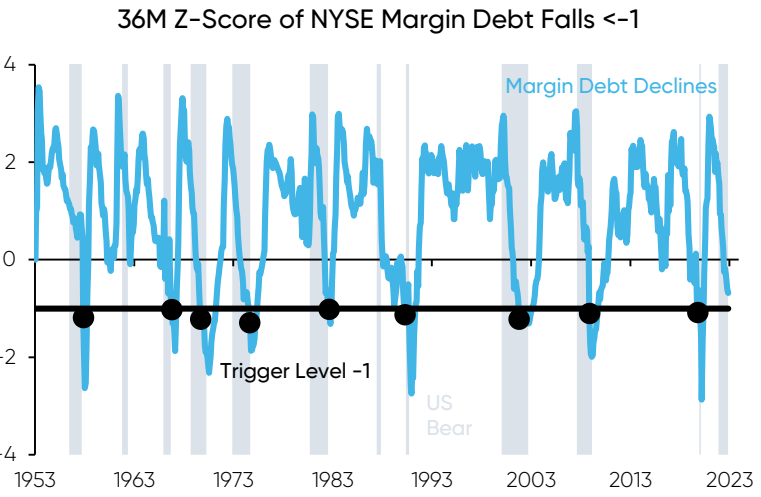
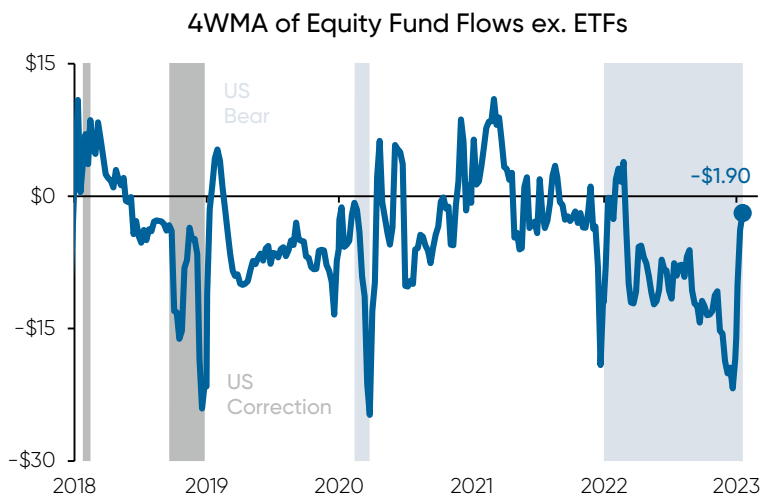
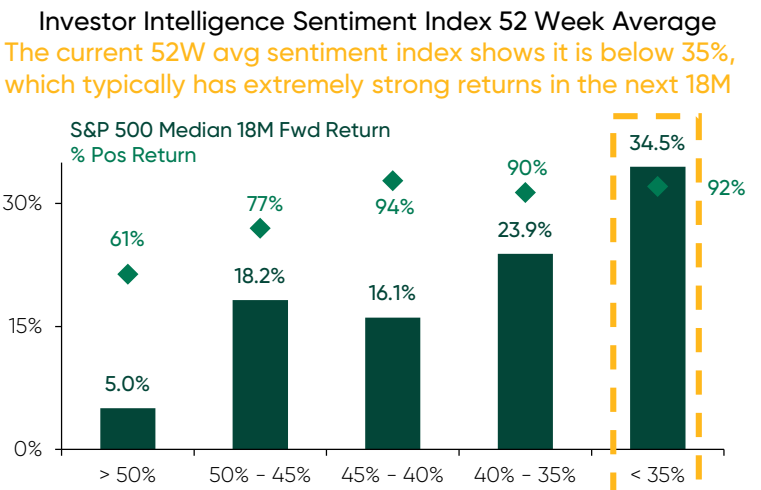
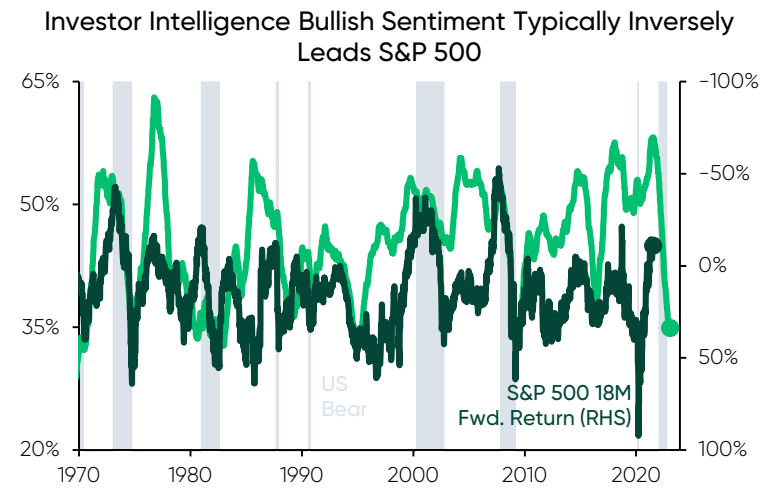
Studying forecasts for equity market returns can be a useful contrarian tool. Many forecasts are based on information already priced into markets. Viewing those forecasts in aggregate as a “sentiment bell curve” can indicate the least likely outcomes for markets. However, there is less consensus about 2023 returns than usual, suggesting significant uncertainty remains.



Source: Fisher Investments Research, as of 01/04/2023. S&P 500 guru forecasts for 2022 and 2023.

EXTREME NEGATIVE SENTIMENT BODES WELL FOR EQUITIES

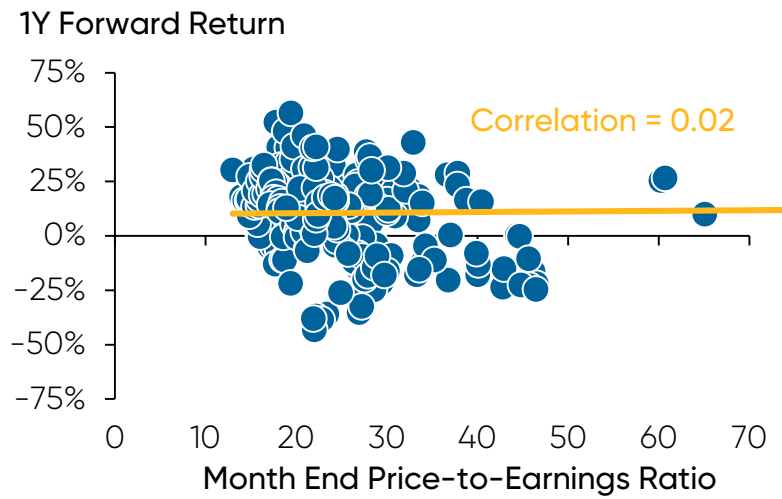
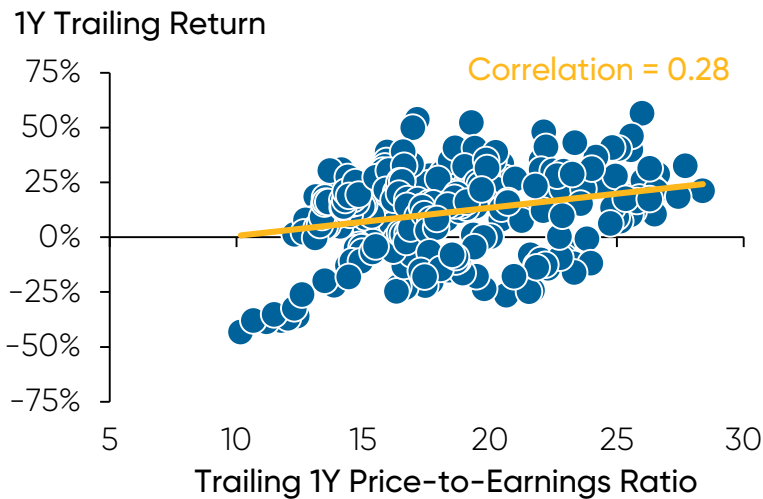
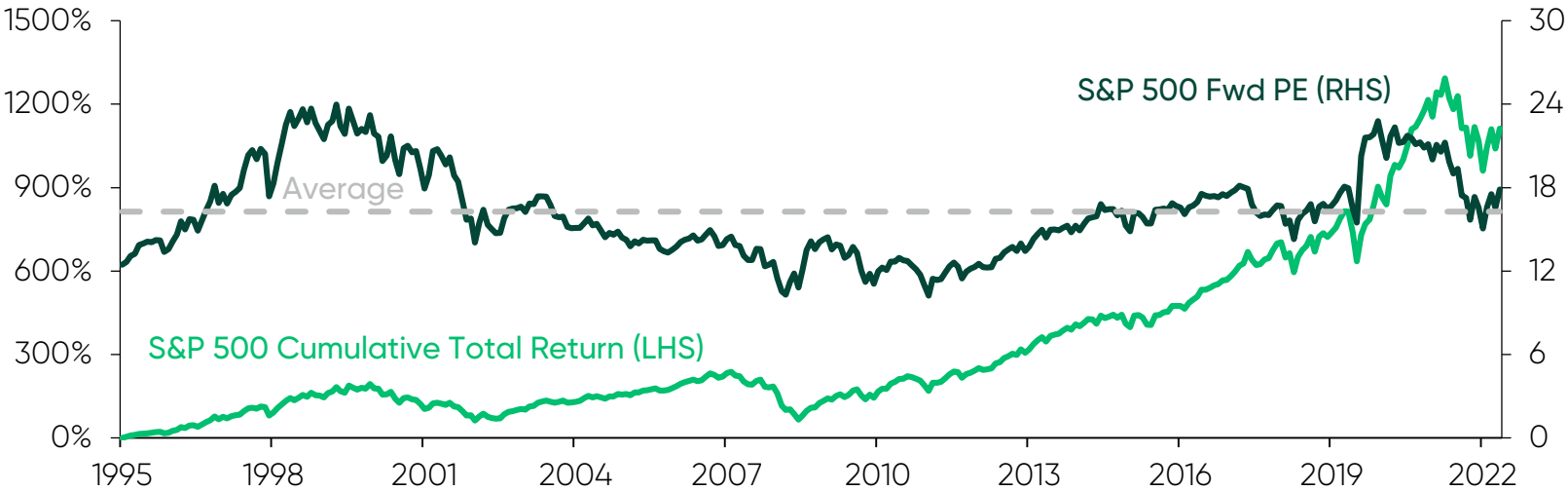
By most measures, investor sentiment reached historic lows in 2022. Surveys of professional and retail investors, newsletter writers, fund flows, and margin debt reduction, among others, indicated extreme pessimism. Historically, extreme negative sentiment readings bode well for equities moving forward.



Top Source: FactSet. Investors Intelligence Sentiment Index & S&P 500 Index Price, weekly, 01/01/1970 – 01/06/2023. Bottom Left Source: Refinitiv Eikon – Lipper Fund flows ex. ETFs, weekly, 01/01/2018 – 01/18/2023. Bottom Right Source: FINRA, monthly, 02/01/1953 – 12/31/2022. Pulled forward 1M to reflect when data is released.

MULTIPLE DILEMMAS

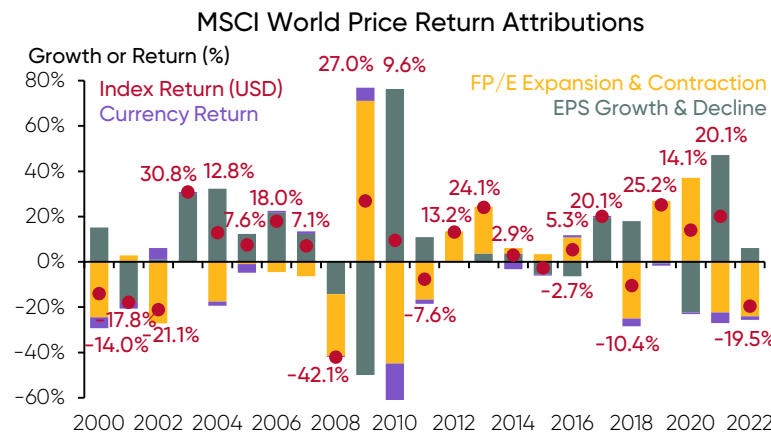
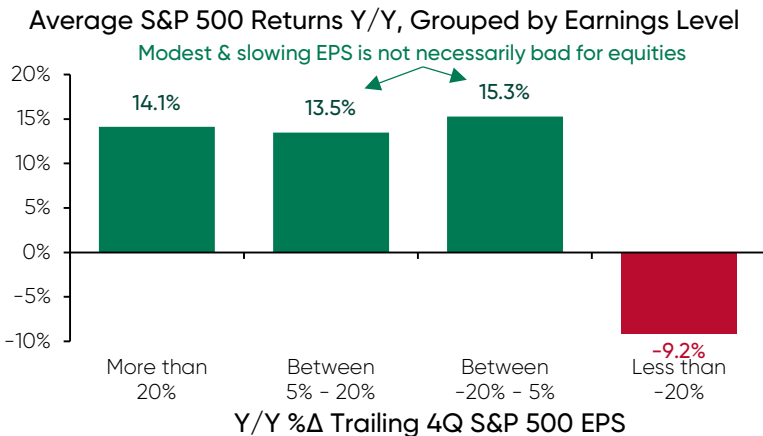
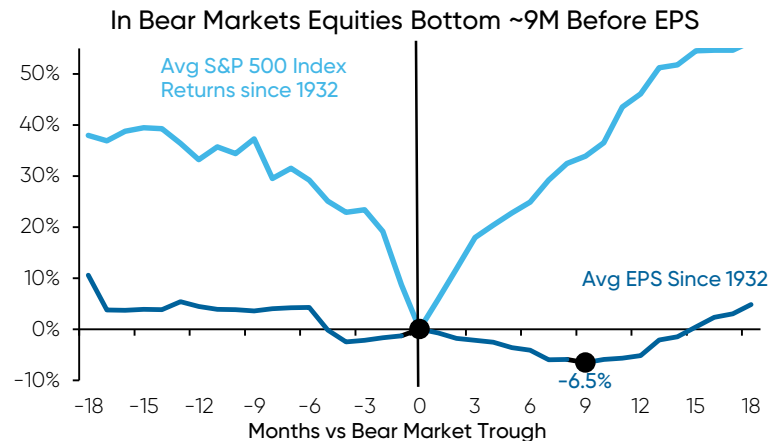
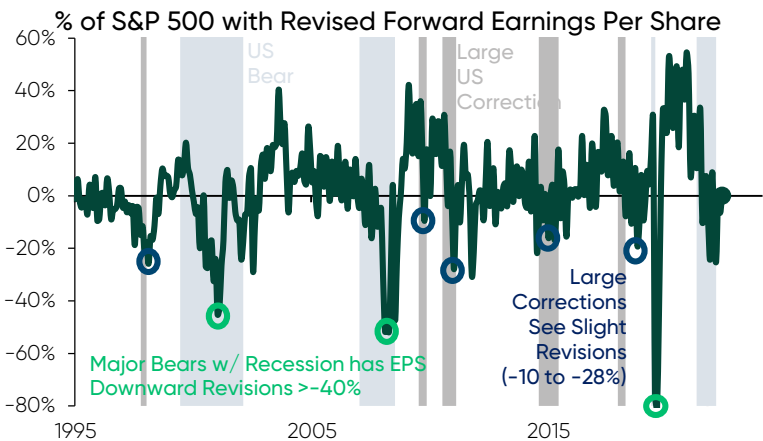
Equity valuations are important but have less influence over past and future equity returns than many believe. Since 1995, the S&P 500 has increased over 10X with only a modest increase in valuation. Even short-term returns and valuation changes are inconsistent. Trailing 12-month valuation changes and equity returns are only loosely correlated, and there has been no meaningful, consistent relationship between valuations and forward returns.



Source: Global Financial Data & FactSet. S&P 500 Total Return, S&P 500 trailing 1-year price-to-earnings ratio, S&P 500 month-end price-to-earnings ratio, monthly, 09/30/1995 – 01/31/2023.

EQUITIES RECOVER BEFORE EARNINGS

Earnings expectations have fallen considerably recently with many expecting an earnings decline. Historically, equity prices have bottomed well before earnings, and periods of mild earnings contractions have featured above-average equity returns where prices look past mild weakness. Often, earnings contractions are accompanied by offsetting multiple expansion.



Source: FactSet. Top left chart shows Percent of S&P 500 companies with upward and downward revisions for the current unreported calendar year, monthly, 09/01/1995 – 01/31/2023. Large Corrections are defined by declines between down 15–21% lasting longer than 3 months. Top right chart shows average of % change in S&P 500 Earnings Per Share and Index Price Level before and after past US bear markets troughs, monthly, USD, 11/01/1930 – 09/30/2021. Bottom left chart shows year-over-year performance of S&P 500 index for a given level of trailing 4 quarter (Y/Y%) earnings per share, quarterly, 03/31/1927 – 12/31/2022. Bottom right chart shows MSCI World Return attribution, yearly, 12/31/2000 – 12/31/2022.

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- Developed Markets, and
- Emerging Markets

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