Truist Advisory Services, Inc.

Portfolio Perspective from the Investment Advisory Group

Strategically constructive, yet tactically cautious

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Wasif Latif
Managing Director
Portfolio Strategy

Shelly R. Simpson, CFA, CAIA
Senior Analyst
Portfolio & Market Strategy

Key Takeaways

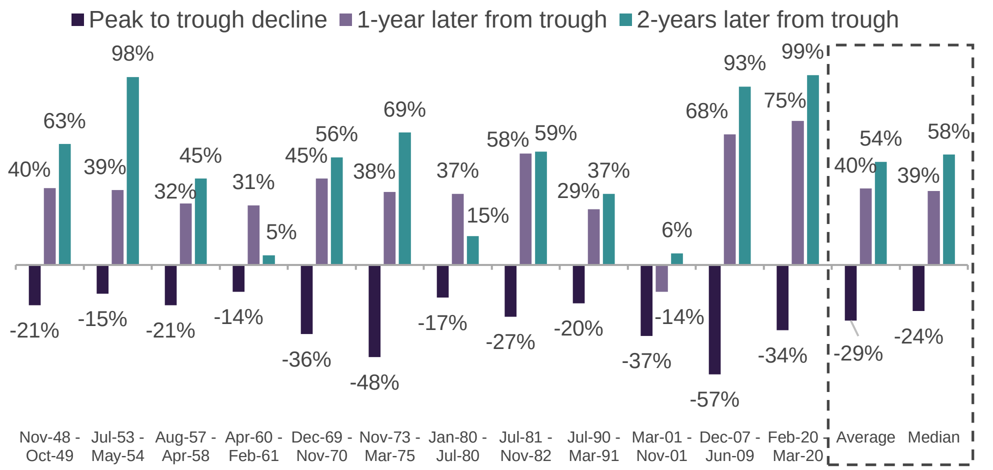
While we are cautious on risk assets such as equities in our near-term tactical outlook, equities have demonstrated attractive returns when looking through to the longer-term strategic and financial planning time horizon.

- We lead with planning. As most investment portfolios are likely to be invested based on that longer-term strategic and financial planning time horizon, it is important to bear those long-term results in mind, especially in the context of the challenged tactical environment.
- IAG's asset allocation framework includes strategic asset allocation, which is focused on the long term and serves as the anchor, and tactical asset allocation which adds a near-term overlay, seeking to add value and help smooth out short-term market swings.
- When we zoom out from the near-term cautious tactical views to the strategic time horizon, which is more in line with financial plans, equities and bonds remain attractive.

Long-term context

Given our view of elevated recession risks this year, we have been cautious on risk assets, especially considering the behavior of the equity markets around recessions. A weak macro environment tends to be a headwind for equities, and our work shows that stocks have declined by 29% on average (24% median decline) around recessions. Thus, we remain defensive currently on a tactical asset allocation basis.

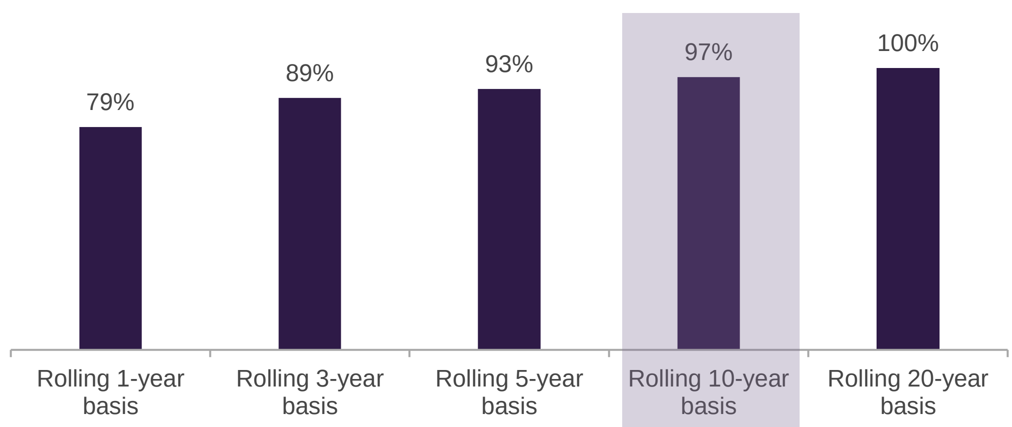
S&P 500 returns around recessions



Data source: Truist IAG, FactSet, NBER. Past performance does not guarantee future results. Using recessions since 1948.

However, over a longer-term time horizon, or the strategic time period, equities should be the growth engine for diversified portfolios to meet investor goals. Therefore, it makes sense to review our overall asset allocation framework.

% of time U.S. stocks have a positive return (Since 1950)



Data source: Truist IAG, Morningstar; data as of 12/31/2022. Past performance does not guarantee future results.

Our asset allocation framework

The diagram below illustrates our asset allocation framework, starting with the foundational long-term capital market assumptions, then strategic and tactical asset allocation, followed by the portfolio construction process. Each process component employs a rigorous, empirical, and fundamentally-driven approach.

Optimal portfolios are described in the context of Modern Portfolio Theory; generally, the goal of portfolio optimization is to select and combine asset classes in proportions to potentially achieve the highest return for a given level of risk and under varying constraints.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.

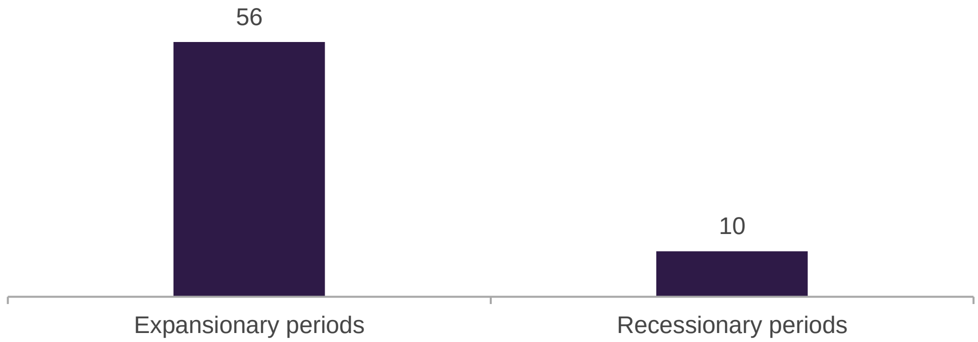
Past performance does not guarantee future results.

In the capital market assumptions (CMAs) step, we construct the 10-year forward expected returns and risk of the asset classes in our comprehensive investment universe.

Then, we work on strategic asset allocation, which is in alignment with the CMAs' time horizon. In this step, we are seeking to add value over the policy benchmark by expanding the investment universe beyond the policy benchmark asset classes and **taking advantage of our longer time horizon**.

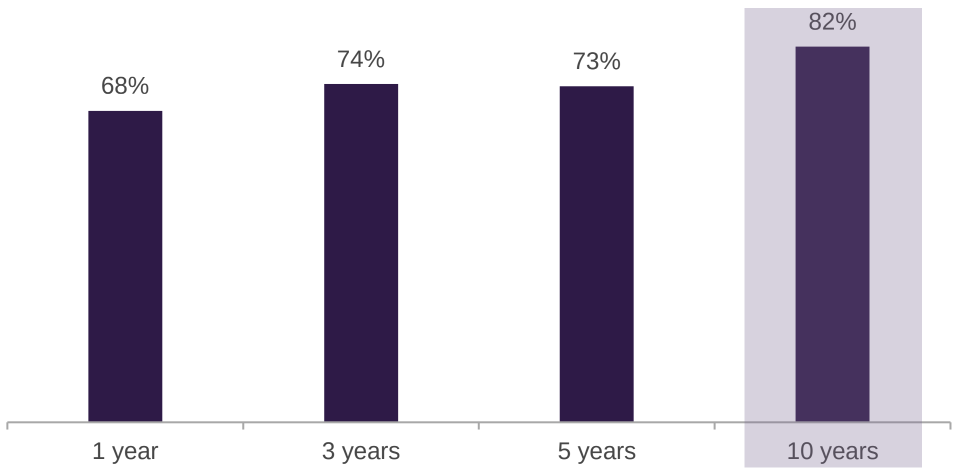
Over a 10-year time horizon, we expect the business cycle to be predominantly in expansionary mode, and equities tend to rise during economic expansions. Thus, strategic portfolios are constructed to take advantage of this longer time period and will generally be more oriented to growth assets relative to the benchmark. **The magnitude of the risk positioning will be in alignment with our work on the business cycle.**

Duration of economic expansionary periods far exceed recessionary ones (duration in months since 1948)



Data source: Truist IAG, Haver

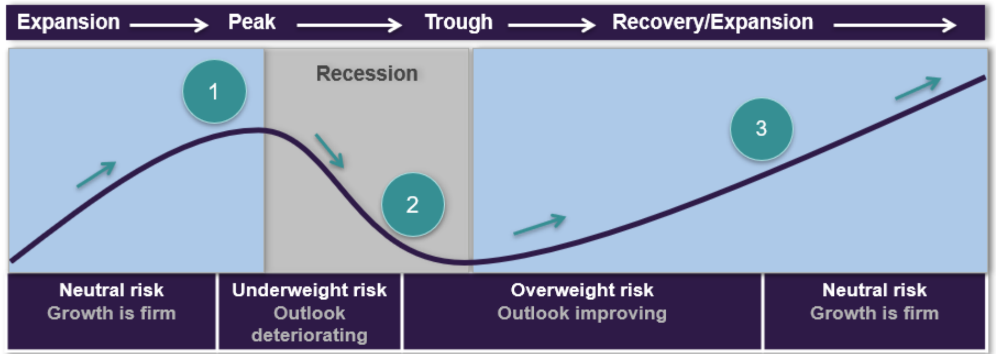
Percentage of holding periods where equities beat core bonds (since 1955)



Data source: Truist IAG, data through 12/2022. Core bonds represented by 5-year Treasury from 1955-1975; thereafter, Bloomberg U.S. Aggregate Bond Index; Equities represented by the S&P 500. Calculated using rolling annualized returns. Past performance does not guarantee future results.

Next, we focus on tactical asset allocation—where the time frame is shorter, only 6- to 36-months, and the investment universe is further expanded. For this step, we consider the business cycle, fundamental indicators, and market & technical signals, and our goal is to generate incremental returns over the strategic portfolios.

The last step is to identify the appropriate investment vehicles such as mutual funds or exchange-traded funds in collaboration with our Manager Evaluation Group to create our recommended portfolios.



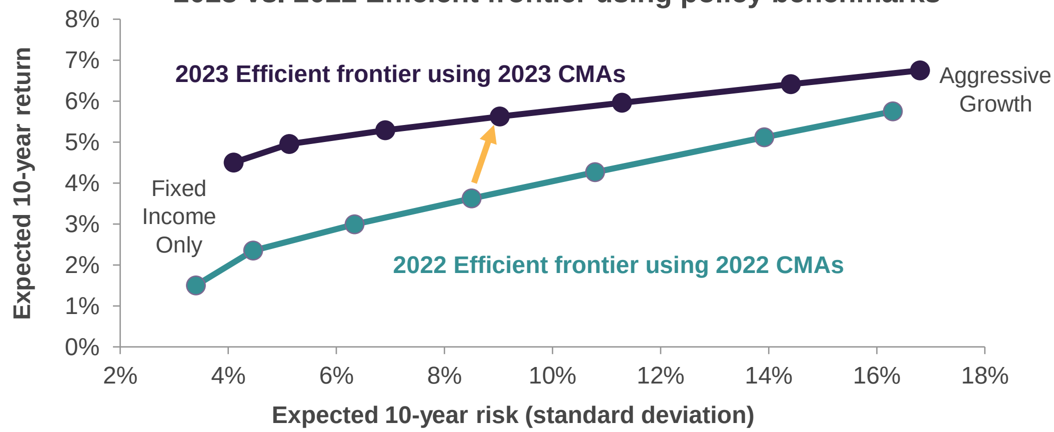
Asset allocation does not ensure a profit or guarantee against loss. Tactical allocation may involve more frequent buying and selling of assets and will tend to generate higher transaction cost. Investors should consider the tax consequences of moving positions more frequently. Data source: Truist IAG

Understanding where markets and economies are within the business cycle (illustrated above) helps inform our tactical asset allocation decisions. We are currently cautious on the economy, resulting in an underweight risk posture. We would look to adjust that risk upwards should the market begin to price in those economic and business cycle risks.

Strategic view

Just as in other arenas of life, starting points matter in investing. The silver lining to the market's rapid adjustment to higher rates in 2022, which resulted in the volatile repricing of both stocks and bonds, is that longer-term return expectations have been nudged up. Thus, the starting points for the assets classes within the strategic universe have materially improved. As a result, the 2023 policy benchmarks have higher expected returns, as can be seen in the risk/return efficient fronter chart below.

2023 vs. 2022 Efficient frontier using policy benchmarks



Data source: Truist IAG, Morningstar. Estimated returns and standard deviations are forward-looking assumptions over the next 10 years, are subject to revision, and are not guaranteed. Estimated returns are derived from a combination of fundamental research incorporating business cycle analysis and long-term secular themes along with quantitative methods and mean-reversion analysis. Standard deviations (annualized) are derived from a review of 10- and 25-year historical data and may be adjusted according to our research and professional judgment.

However, given the expectation for a more challenging macro environment, risk assumptions were also raised for most asset classes, and this pushes the efficient frontier slightly over to the right.

Bottom line

Our tactical asset allocation is currently cautious on risk assets as the lagged effects of the Federal Reserve's extraordinarily aggressive monetary tightening cycle continue to work through the economy and business cycle. However, when thinking over the long-term strategic time frame, which is more in line with most financial plans' time horizons, the expected returns look attractive for both equities and bonds. **Therefore, while we expect near-term macroeconomic headwinds to challenge the markets, we remain constructive on longer-term expectations for diversified portfolios.**

Disclosures

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