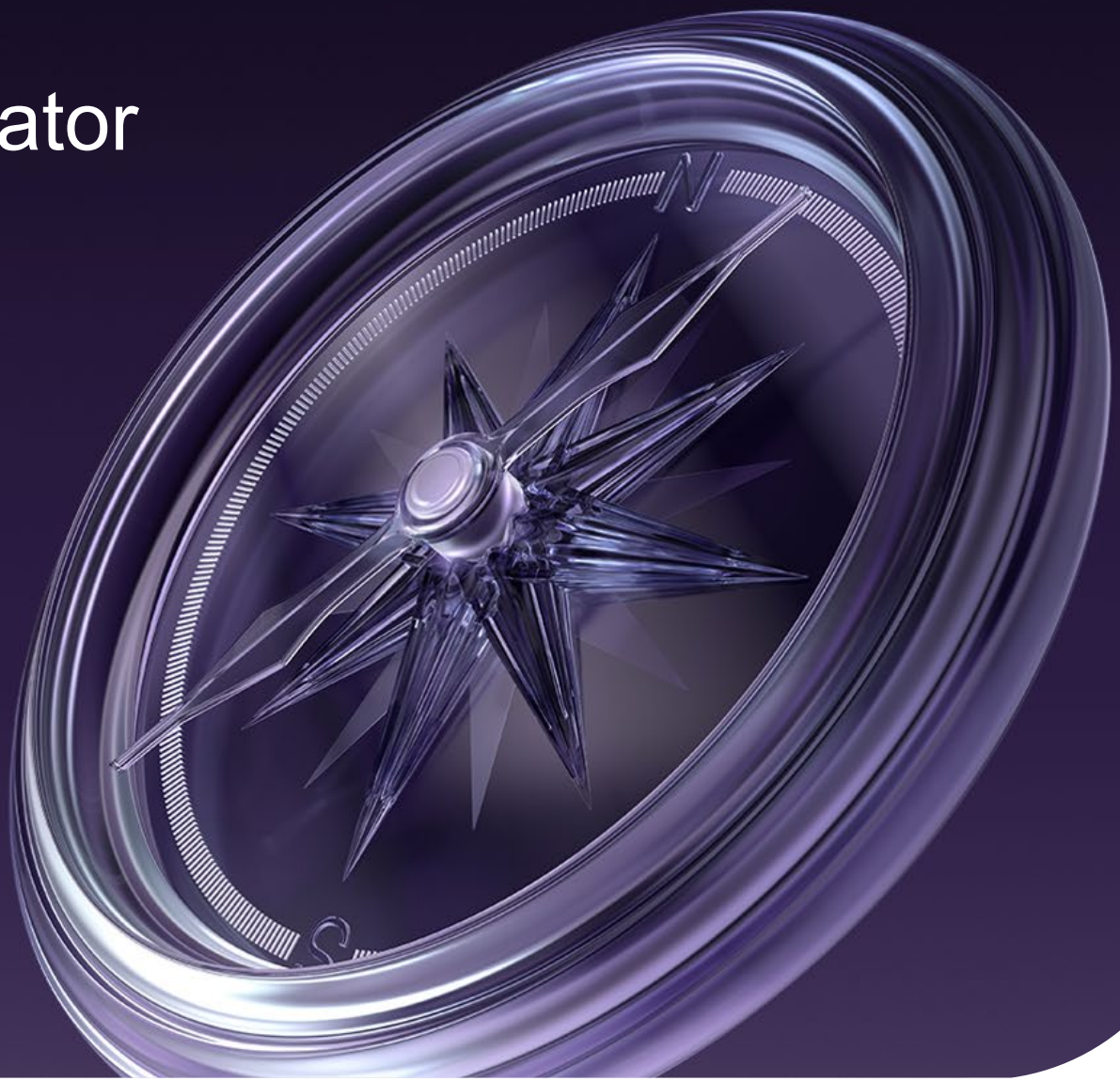
Market Navigator

from the Investment Advisory Group
Truist Advisory Services, Inc.

January 5, 2023



TRUIST

Wealth

Monthly letter

Keith Lerner, CFA, CMT
Co-Chief Investment Officer
Chief Market Strategist
Senior Managing Director

> *Our team continues to see Three keys for 2023 — remain defensive, remain tactical, and remain open-minded.*

A year to forget. For many, 2022 will be remembered as one of the most complex and challenging market environments in decades. Global markets came under pressure as inflation saw a resurgence worldwide, global central banks embarked on one of the most aggressive tightening cycles in decades, and Russia launched a full-scale invasion of Ukraine.

The S&P 500 recorded its worst year since 2008 and its sixth down year since the turn of the century. U.S. core bonds declined 13%, the worst year since the inception of the Bloomberg U.S. Aggregate Index in 1976. The one-two punch of declining stocks and bonds posed a headwind for diversified investors as the traditional 60/40 portfolio (60% S&P 500, 40% Bloomberg U.S. Agg rebalanced monthly) declined nearly 16%.

The silver lining is the reset in valuations in both bonds and stocks should benefit longer-term investors, which is reflected in an uptick in our long-term capital markets return assumptions. Moreover, the sharp equity market selloff over the past month since we published our 2023 outlook, likely exacerbated by year-end tax-loss selling, has left the market moderately oversold**.**

Still, we expect *choppy waters* to continue given macro challenges.

- Indeed, either the economy is going to weaken, and that will tame inflation but also likely hit corporate profits and challenge asset prices.
- Or instead, the economy stays stronger as does inflation, and the Fed and other central banks will continue to tighten policy, also challenging asset prices.

In either case, there's a potential headwind for investors. To be fair, there is a third path, where inflation comes down, and the economy avoids recession, the so-called soft landing. It's possible.

However, the path still appears somewhat narrow given the lagged impact of the most aggressive monetary tightening in forty years and the triggering of several historically reliable recession indicators.

As we turn the page into the new year, **our team continues to see** *Three keys for 2023* — remain defensive, remain tactical, and remain open-minded.

Continued on the next page

Remain defensive

- Recession risk is elevated, and equity and credit valuations are uncompelling. Therefore, we have a tilt to fixed income and are focused on high quality bonds.
- The recent market pullback has helped to ease valuations somewhat, but it's not enough yet to suggest the risk/reward has flipped in a meaningful way relative to the macro challenges.
- We expect the market's ***focus to shift from elevated inflation to fading economic growth*** in 2023, as the most aggressive rate hikes weigh on the economy and earnings.
- Notably, stocks have never bottomed before a recession has even begun. And history shows that a Fed pivot isn't always a cure-all.

Remain tactical

- We have seen six moves of at least ±10% over the past year—three to the upside and three to the downside. While the recent decline has relieved some of the frothiness, most of our technical indicators are not yet at an extreme.
- Investors should be prepared for an opportunity to move from defense to offense later in the year should better value emerge. Although stocks have never found their low before a recession has even started, they tend to bottom well before the recession is over, and the initial snapback tends to be sharp.

Remain open-minded

- The post-pandemic backdrop is unprecedented, so the historical playbook may be challenged.
- We will adjust if the weight of the evidence shifts, as we did over the past year. In fact, we pride ourselves on this approach.

Positioning

We maintain our overweight in fixed income and a relative underweight in equities. **Indeed, bonds are back.** 2023 will be a year to keep bond allocations simple and take advantage of the high-quality opportunities created over the past year. This month, **we are further downgrading our view across credit**, given our work suggests credit spreads do not properly reflect elevated recessionary risks.

Within equities, we still favor the U.S., a value tilt, and see better opportunities below the market's surface, such as the equal-weighted S&P 500, a proxy for the average stock.

From a sector standpoint, we advocate for a barbell strategy**.** This includes higher weightings to health care and consumer staples, which are more defensive in nature given their lower sensitivity to weakening economic growth. We pair this with industrials, which should benefit from increased defense spending and reshoring, alongside energy, which is still relatively cheap and a partial hedge to a smoother China reopening.

Importantly, this is a starting point. We look forward to keeping you informed of our views as the year unfolds.

Keith Lerner, CFA, CMT
Co-Chief Investment Officer
Chief Market Strategist

Three keys to 2023

2022 was one of the most challenging years in history for capital markets. We see three keys for 2023:

Remain *defensive*

Recession risk is elevated, and equity and credit valuations are uncompelling. Overweight fixed income relative to equities.

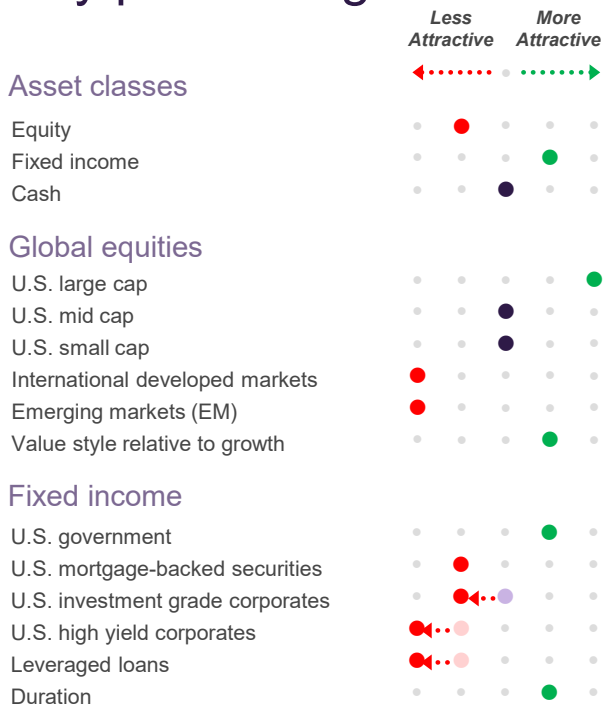
Remain *tactical*

We expect volatile markets that will provide investment opportunities.

Remain *open-minded*

We find ourselves in an unprecedented post-pandemic backdrop. The historical playbook may be challenged, and a wide range of potential outcomes persists.

Key positioning



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	4.25%
Fed funds rate (year end)	4.50%	to	4.75%

Wide ranges are not year-end targets.

- Instead, they are *used to guide tactical allocation* given our expectation for wide price swings.
- For example, our initial estimated 2023 S&P 500 range is 3400 to 4300 relative to the November closing level of 4080. This is *consistent with the average annual spread of 27% between a market high and low* since 1950.

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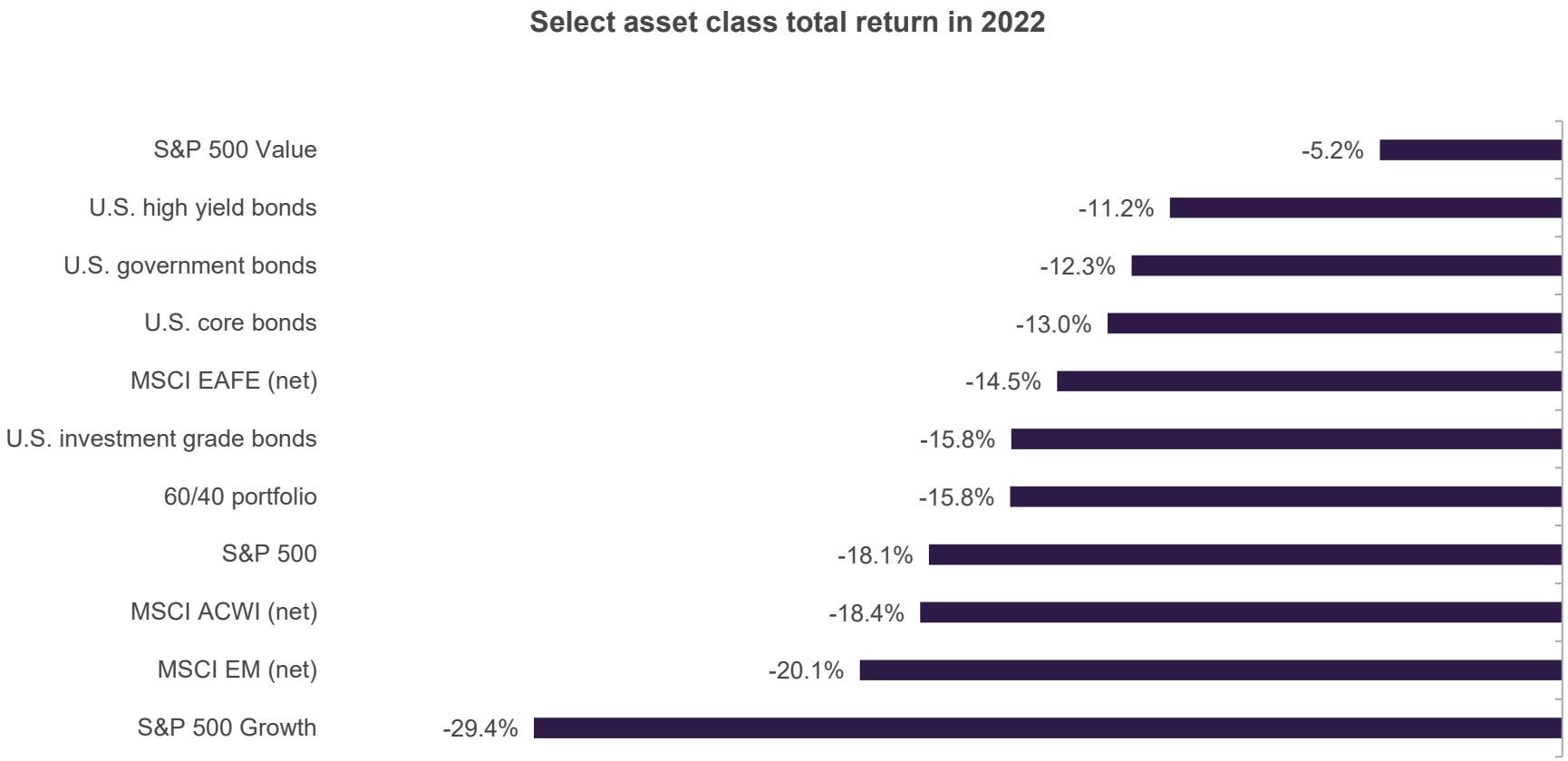
Wealth

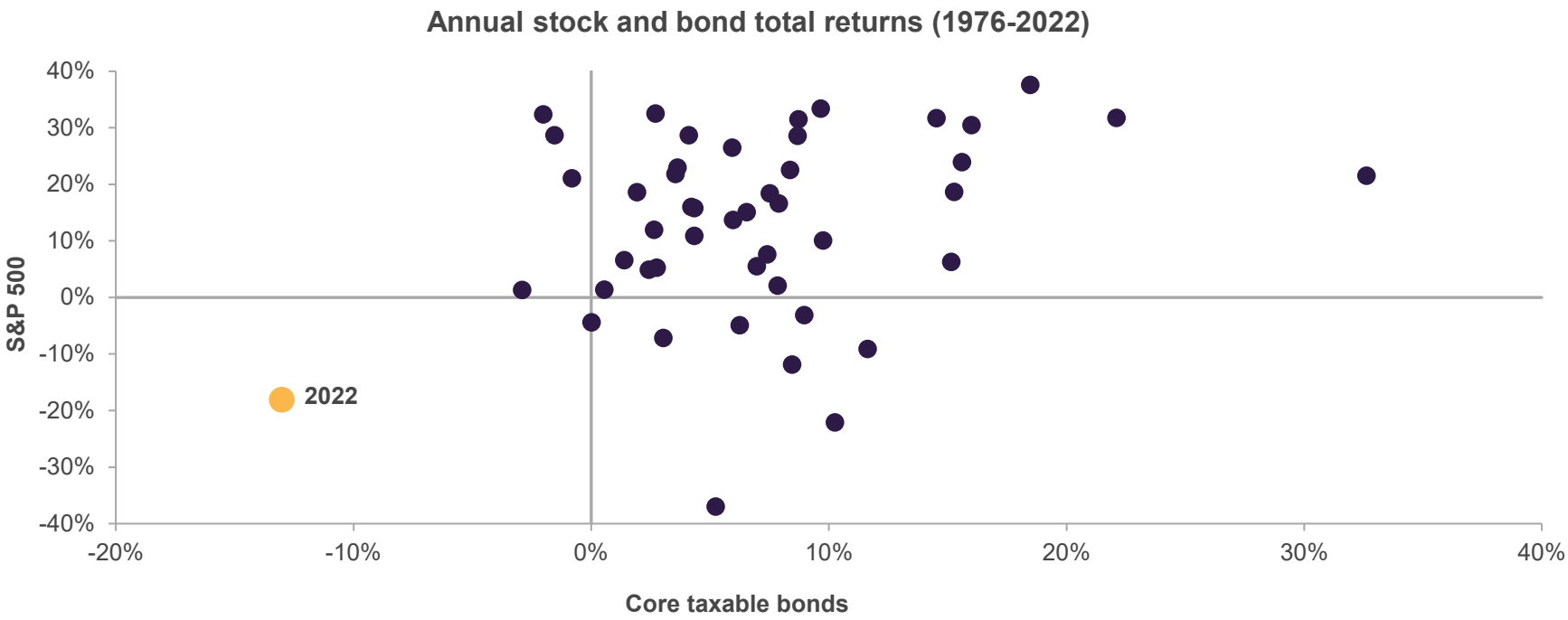
Asset classes were broadly down in 2022



Data source: Truist IAG, Morningstar, MSCI. U.S. high yield bonds = ICE BofA High Yield, U.S. government bonds = Bloomberg U.S. Government, U.S. core bonds = Bloomberg U.S. Agg, U.S. investment grade bonds = Bloomberg Corporate Investment Grade, 60/40 portfolio = 60% S&P 500, 40% Bloomberg U.S. Agg (rebalanced monthly).

2022 is the only year since 1976 to see stocks and bonds decline together

The Fed's most aggressive tightening cycle in 40 years to combat generationally-high inflation weighed heavily on both stocks and bonds in 2022.



Data source: Truist IAG, Morningstar. Core taxable bonds = Bloomberg U.S. Aggregate Bond Index, Stocks = S&P 500.

Performance summary as of December 31, 2022

Truist Advisory Services, Inc.

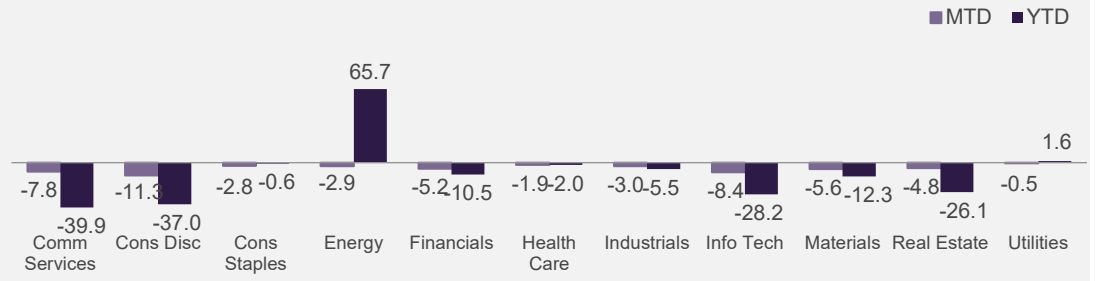
Index % Total Return	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	-3.94	9.76	-18.36	-18.36
S&P 500	-5.76	7.56	-18.11	-18.11
MSCI EAFE (net)	0.08	17.34	-14.45	-14.45
MSCI Emerging Markets (net)	-1.41	9.70	-20.09	-20.09
Dow Jones Industrials	-4.09	16.01	-6.86	-6.86
Bloomberg Commodity Index	-2.45	2.22	16.09	16.09
Bloomberg Aggregate	-0.45	1.87	-13.01	-13.01
ICE BofA US High Yield	-0.76	3.98	-11.22	-11.22
Bloomberg Municipal Bond Blend 1-15 Year	0.47	3.59	-5.95	-5.95
ICE BofA Global Government xUS (USD Unhedged)	1.02	7.28	-21.70	-21.70
ICE BofA Global Government xUS (USD Hedged)	-2.61	-0.55	-11.62	-11.62
JP Morgan EMBI Global Diversified	0.33	8.11	-17.78	-17.78

Rates (%)	12/31/22	9/30/22	6/30/22	3/31/22	12/31/21
Fed Funds Target	4.50	3.25	1.75	0.50	0.25
Libor, 3-Month	4.76	3.75	2.28	0.96	0.20
T-Bill, 3-Month	4.41	3.23	1.64	0.51	0.05
2-Year Treasury	4.41	4.20	2.93	2.28	0.72
5-Year Treasury	4.00	4.03	3.00	2.42	1.26
10-Year Treasury	3.87	3.79	2.97	2.32	1.51
30-Year Treasury	3.96	3.76	3.12	2.45	1.90
Bloomberg Aggregate (YTW)	4.68	4.75	3.72	2.92	1.75
Bloomberg Municipal Bond Blend 1-15 Year	3.18	3.73	2.82	2.36	0.87
ICE BofA US High Yield	8.95	9.58	8.93	6.02	4.31
Currencies	**12/31/22**	**9/30/22**	**6/30/22**	**3/31/22**	**12/31/21**
Euro ($/€)	1.07	0.98	1.05	1.11	1.14
Yen (¥/$)	131.95	144.75	135.86	121.37	115.16
Pound ($/£)	1.20	1.12	1.21	1.32	1.35
Commodities	**12/31/22**	**9/30/22**	**6/30/22**	**3/31/22**	**12/31/21**
Crude Oil (WTI)	80.26	79.49	105.76	100.28	75.21
Gold	1,826	1,672	1,807	1,954	1,829
Volatility	**12/31/22**	**9/30/22**	**6/30/22**	**3/31/22**	**12/31/21**
CBOE VIX	21.67	31.62	28.71	20.56	17.22

U.S. style % total returns (S&P indexes)

	Month				YTD		
	Value	Core	Growth		Value	Core	Growth
	-3.91	-5.76	-7.62	Large	-5.22	-18.11	-29.41
	-5.05	-5.54	-6.02	Mid	-6.93	-13.06	-18.96
	-6.52	-6.71	-6.90	Small	-11.04	-16.10	-21.08

S&P 500 sector % total returns



Data Source: Truist IAG, FactSet.

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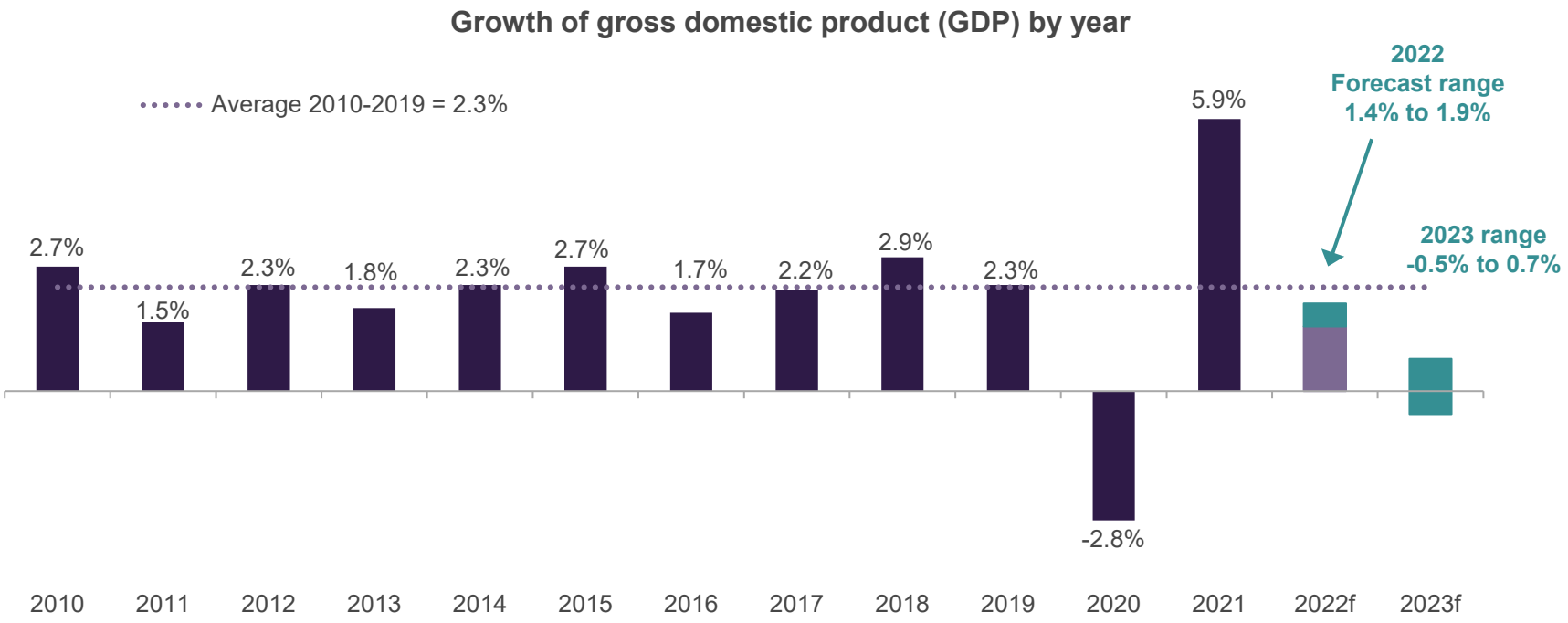
Wealth

Economy

Fading growth / easing inflation

U.S. economy is expected to weaken in 2023

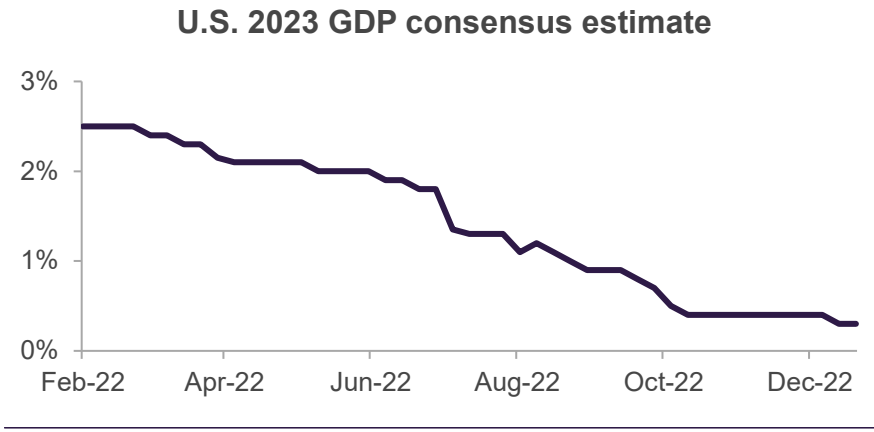
Financial conditions have quickly tightened as the Fed has dramatically increased interest rates to combat inflation. The likely result is slower growth through at least 2023, making the U.S. vulnerable to a recession within the next year. While it isn't necessarily inevitable, our base case is a 2023 recession.

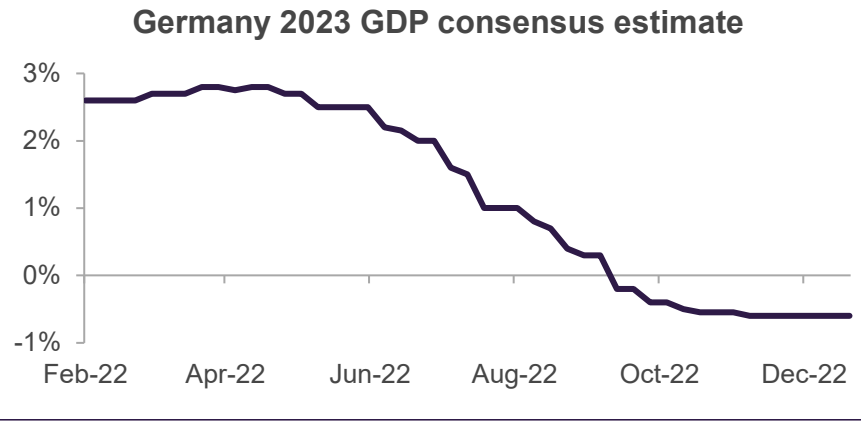


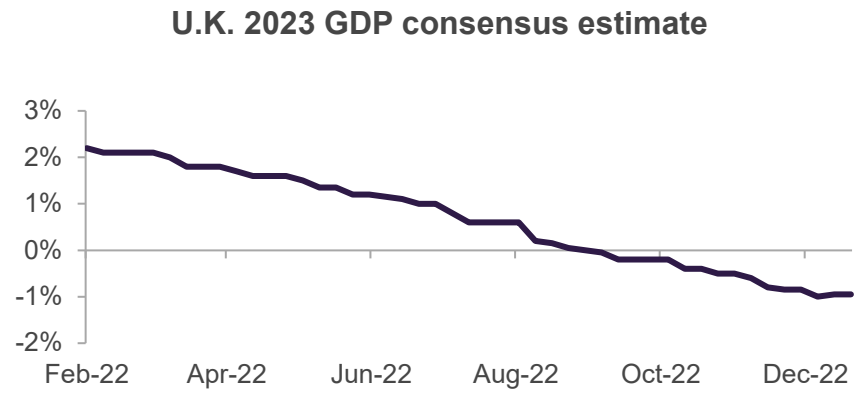
Data source: Truist IAG, Bureau of Economic Analysis, IHS Markit. Change in real gross domestic product year over year, actual for 2010 through 3Q2022.

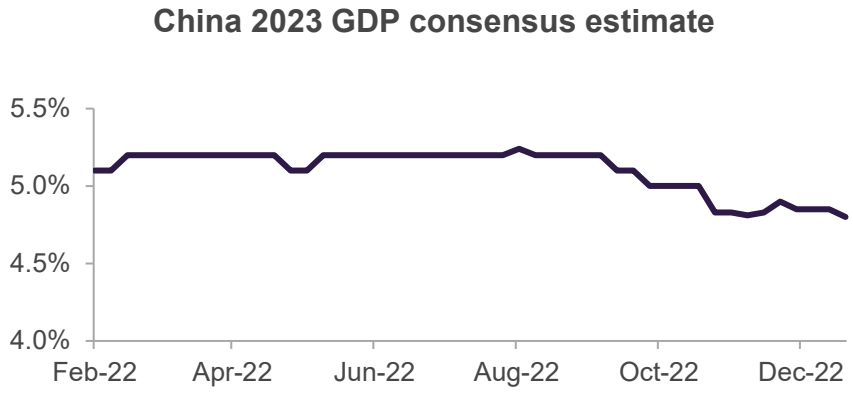
f = Truist IAG forecast for 4Q2022 through 2023

Economic growth estimates deteriorating





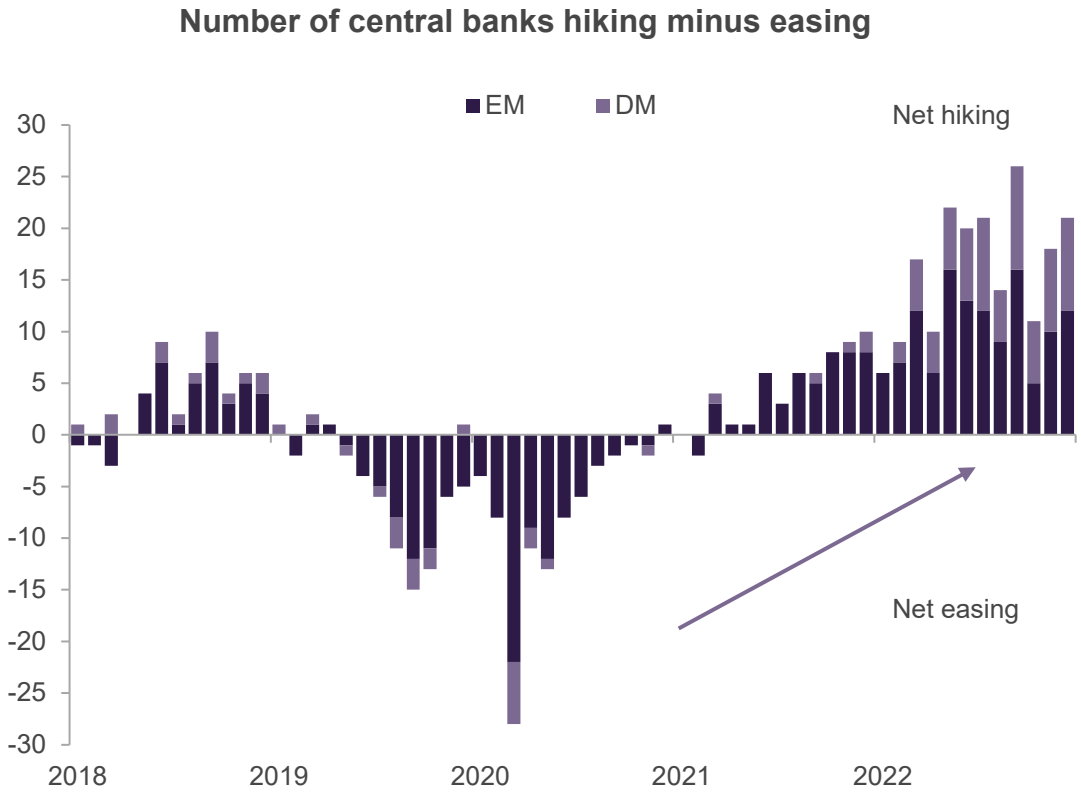




Data source: Truist IAG, Bloomberg

Most aggressive global monetary tightening cycle in decades to weigh on global growth in 2023

We expect that we are near the end of the global tightening cycle as the Federal Reserve (Fed) moves closer to a 5% Fed funds rate. However, there is still the lagged effect from the tightening in the system, and policy rates will likely remain at high levels until we see a definitive break in inflation. This keeps pressure on the global economy.



Data source: Truist IAG, Haver. Series constructed using predominantly countries in the MSCI All Country World Index

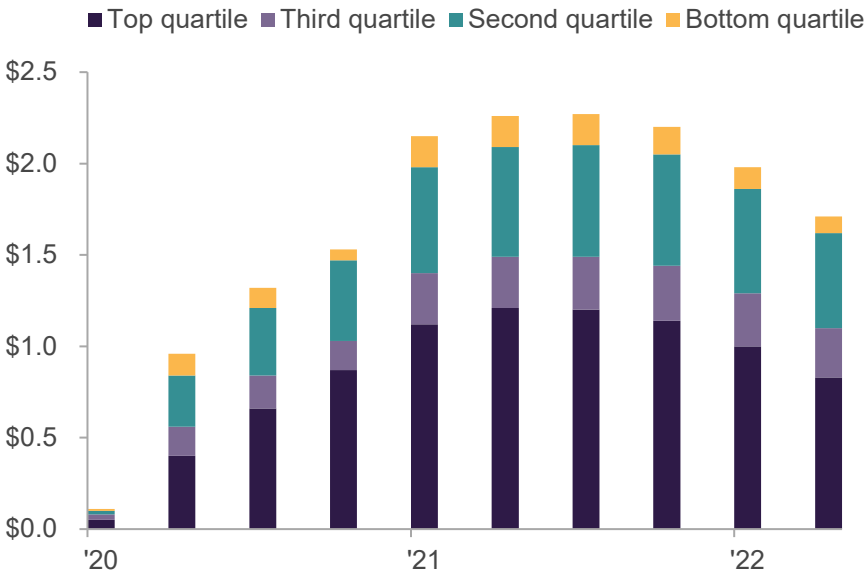
EM = Emerging markets; DM = Developed markets

Past performance does not guarantee future results.

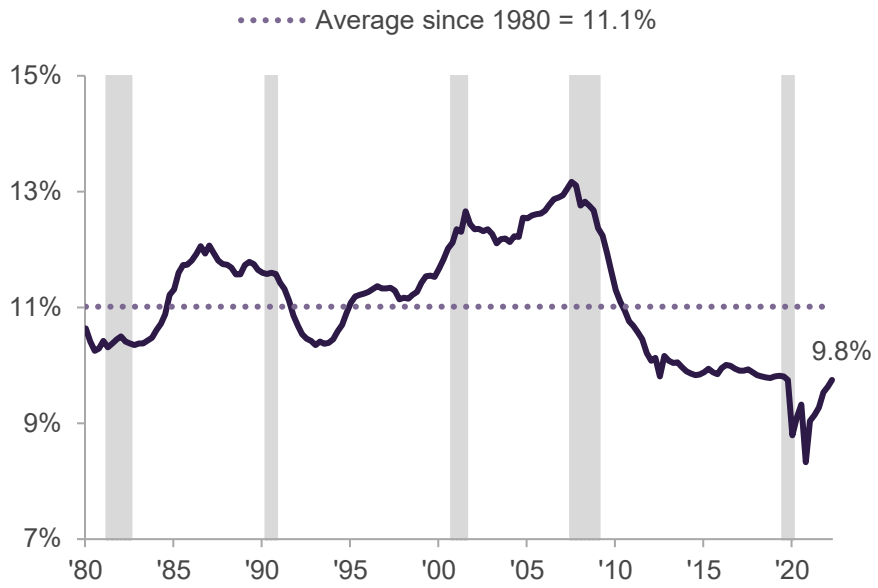
Consumers' balance sheets still relatively healthy given a significant portion of excess savings remain and low debt service ratios

While household savings levels have come down from their 2021 peak, all income quartiles are carrying excess savings compared to pre-pandemic levels. Similarly, the debt service ratio is up from the pandemic lows but remains well below the longer-term average and is considerably below previous levels just prior to recessionary periods.

Excess household savings by income quartile ($trillions)

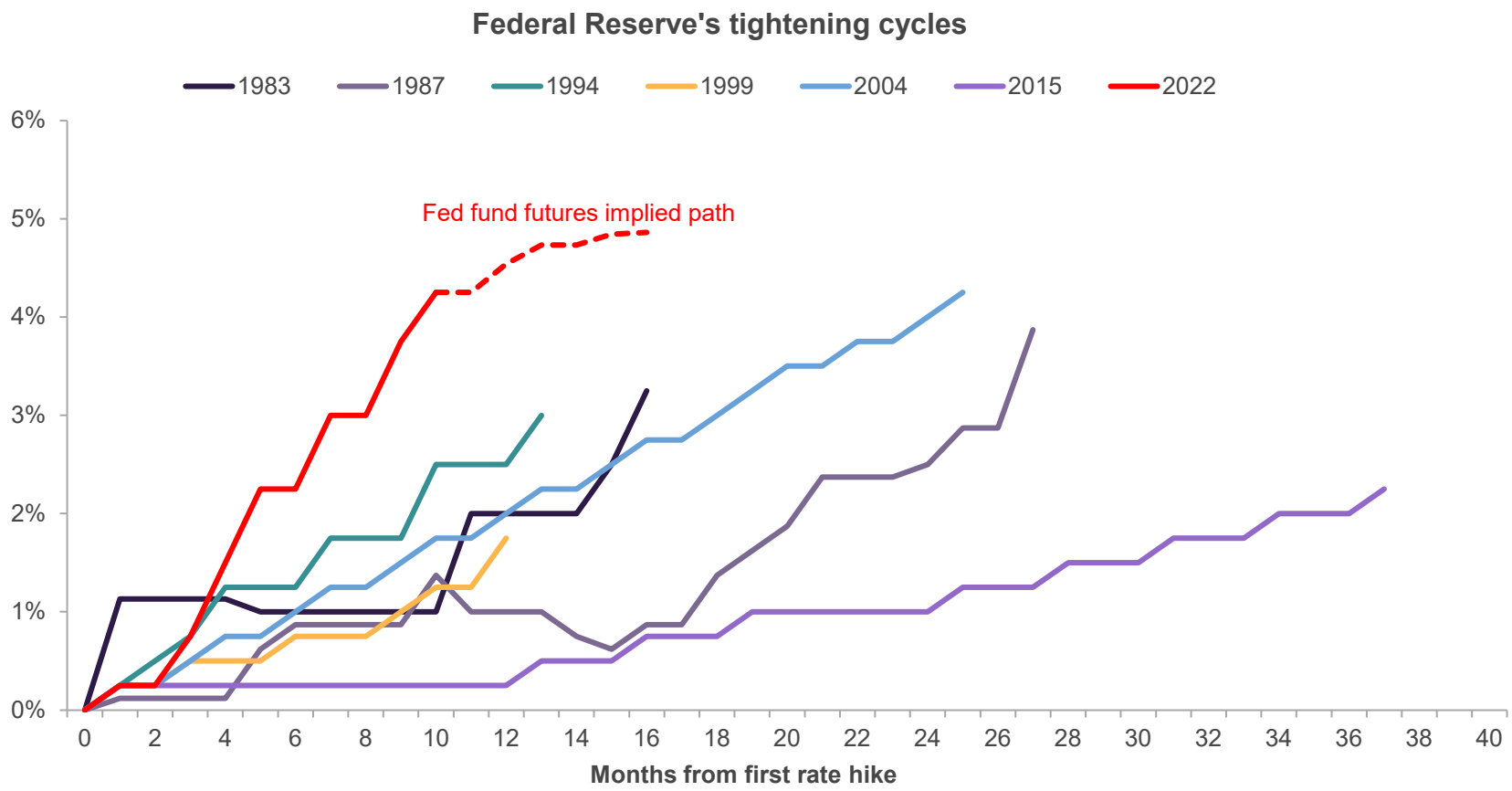


Household debt service ratio



Data source: Truist IAG, Haver, Federal Reserve Board. Excess household savings calculated by Federal Reserve Board; quarterly data through 2Q2022. Household debt service payments as percentage of disposable (after-tax) personal income; quarterly data through 3Q2022

The most aggressive Fed tightening in 40 years is set to weigh on the economy in 2023



Data source: Truist IAG, Bloomberg

Key indicators suggest elevated recession risk in 2023

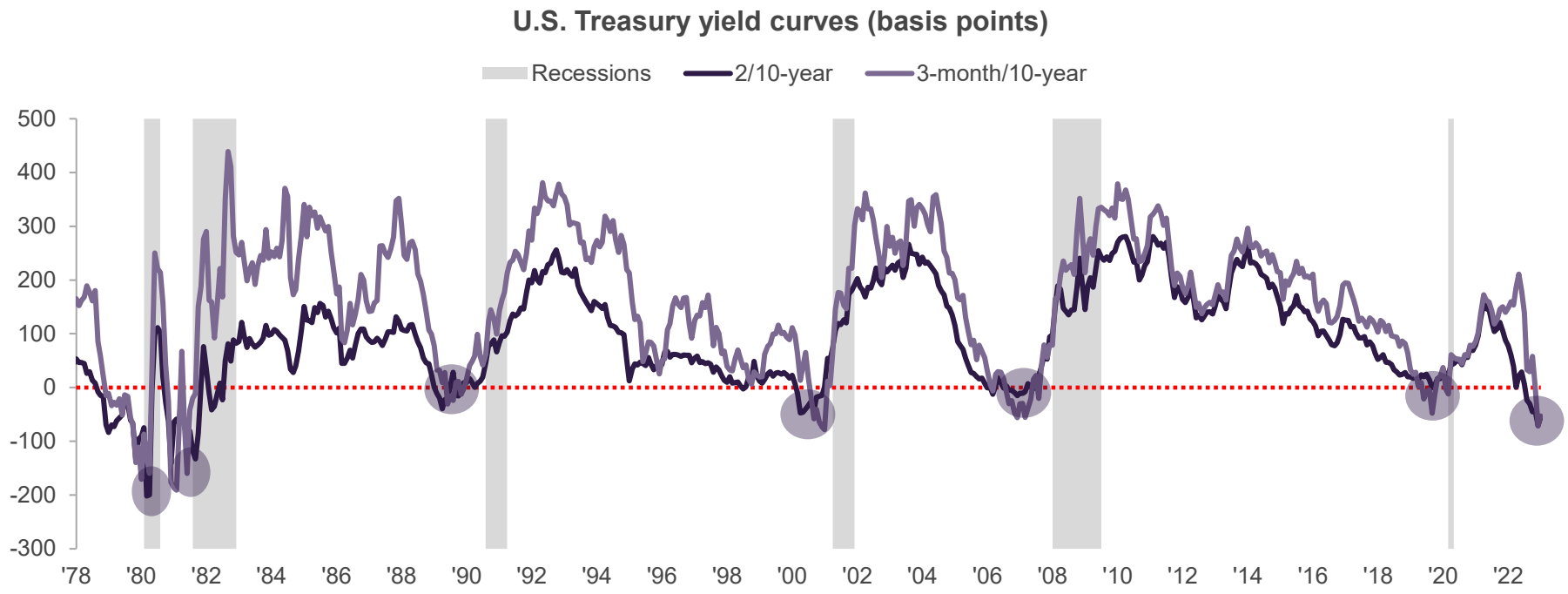
Lead time until onset of recession (in months)

Recession starts	S&P 500 peak	New home sales peak	Leading economic indicators peak	Unemployment claims bottom	Unemployment rate bottom	Yield curve inverts (2/10-year)	3-month/10-year yield curve inverts
Dec-69	13	78	8	7	15	-	-
Nov-73	11	13	9	9	1	-	-
Jan-80	4	15	15	16	8	18	15
Jul-81	8	11	8	4	7	11	9
Jul-90	-	53	18	18	16	20	13
Mar-01	12	28	11	12	11	14	8
Dec-07	2	29	21	22	14	24	16
Feb-20	-	8	7	10	5	6	8
Current	**12**	**28**	**9**	**9**	**5**	**9**	**2**
Average	**6**	**30**	**12**	**12**	**10**	**16**	**12**
Implied recession date	**June 2022**	**February 2023**	**March 2023**	**March 2023**	**May 2023**	**July 2023**	**October 2023**

Data source: Truist IAG, Haver, Bloomberg. Current cycle calculation is through 12/31/22. Yield curve refers to the 2-year U.S. Treasury yield/10-year U.S. Treasury yield. Data for new home sales and Index of Leading Economic Indicators are through November 2022. S&P 500 dates for February 2020 and current cycle are based on daily numbers but are based on monthly numbers for prior cycles.

Yield curve inversions suggest elevated recession risk

The 3-month/10-year yield curve, the Fed's preferred curve-related gauge, inverted in late October for the first time this cycle. Simultaneously, the 2-year/10-year curve is enduring its deepest inversion since 1981. With the Fed pledging to hold the Fed funds rate steady at elevated levels, these curve segments will likely remain inverted for some time. If the past is any guide, these inversions suggest the probability of a recession in 2023 remains high.

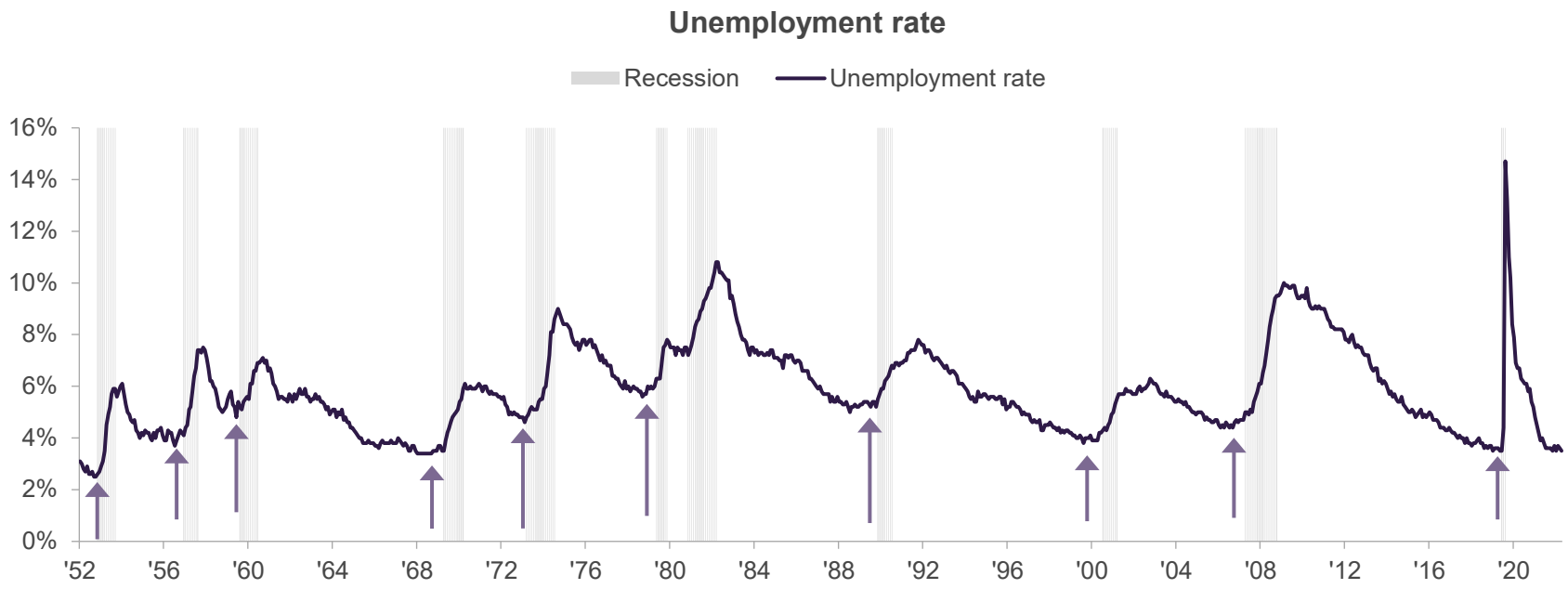


Data source: Truist IAG, Bloomberg. One basis point = 0.01%.

Past performance does not guarantee future results.

While the unemployment rate remains low, it's a lagging indicator and normally reaches its trough just prior to a recession

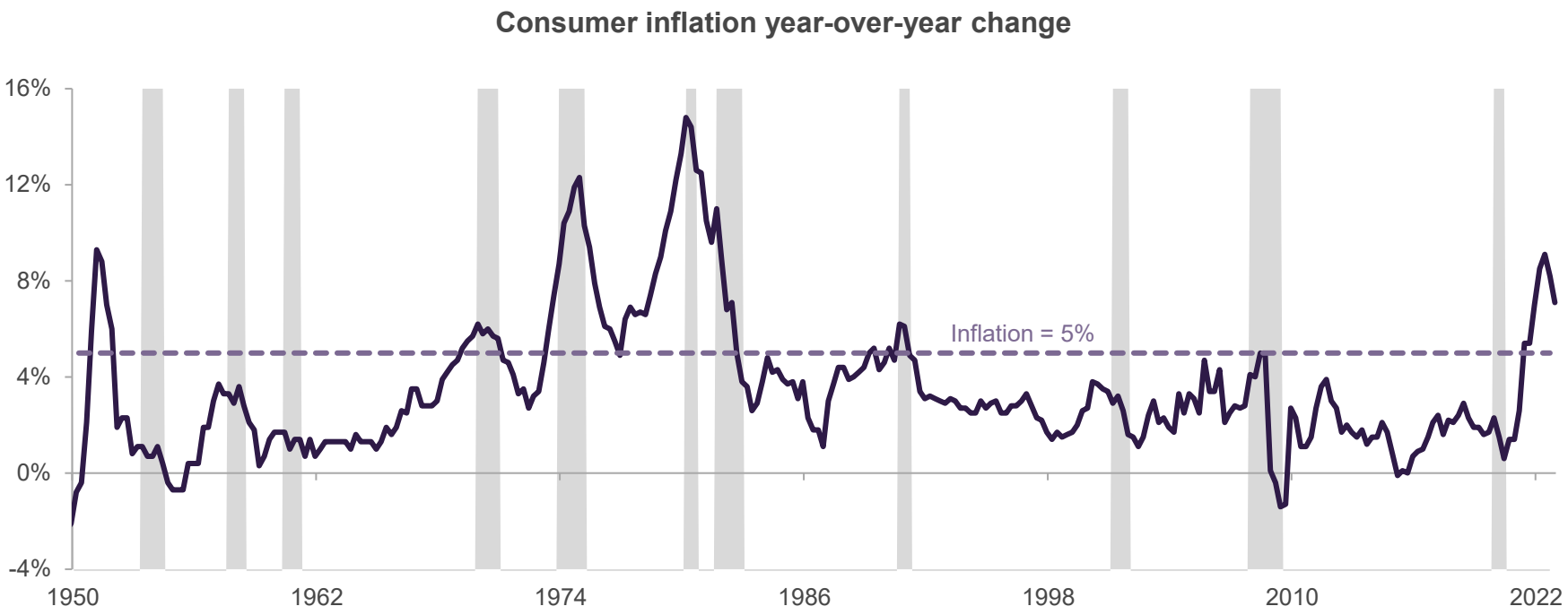
The unemployment rate is a lagging indicator and is typically one of the last indicators to deteriorate. It's usually near the cycle lows just prior to a recession and hasn't historically peaked until after the recession is over or nearly completed.



Data source: Truist IAG, Bloomberg, Department of Labor. Monthly data through December 2022.

A recession has typically been needed to tame elevated inflation

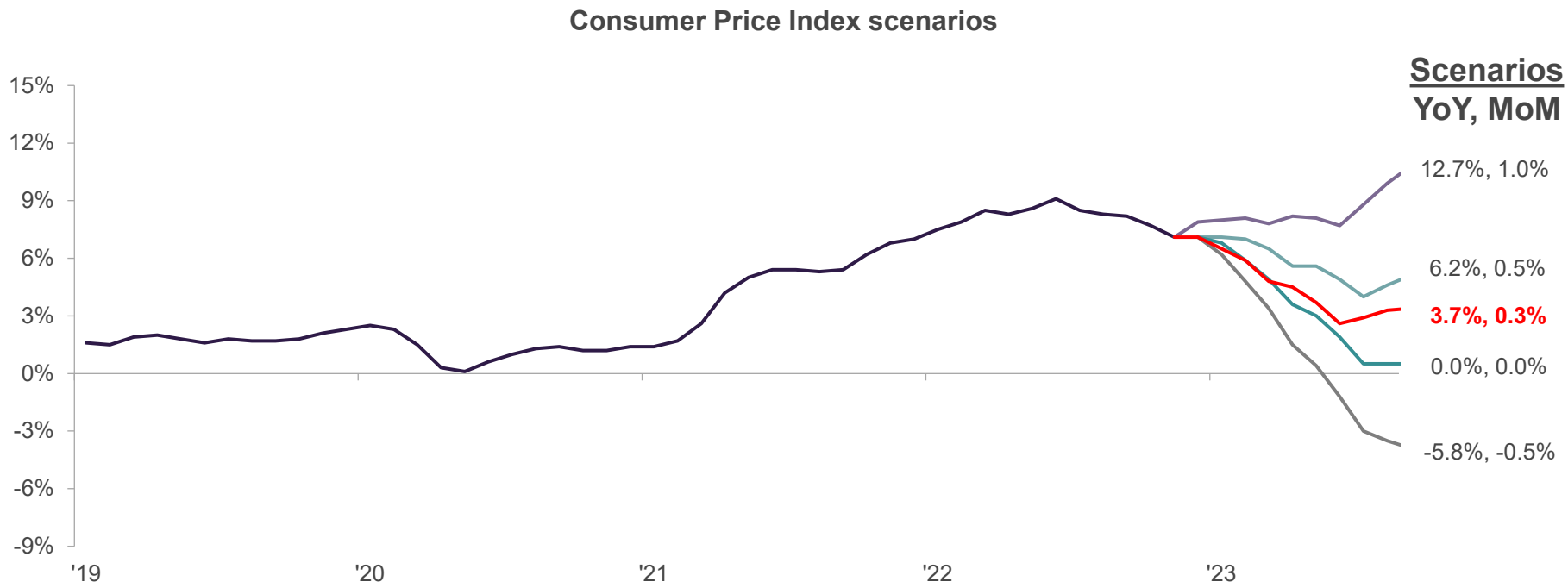
Historically, once inflation is above 5%, it has generally taken a recession to bring it back down. There are unique circumstances this cycle given the pandemic and supply chain challenges. So, while it could be different this time, elevated inflation and the Fed's aggressive shift indicate risks are rising.



Data source: Truist IAG, Bloomberg, Haver. Consumer inflation is measured using the Consumer Price Index (CPI); monthly data through November 2022. Shaded areas represent recessions.

Consumer inflation scenarios – Wide range of outcomes but expect it to trend toward 3% to 4%

The year-over-year (YoY) rate of the Consumer Price Index (CPI) slipped to 7.1% in November, down considerably from 9.1% in June. The month-over-month (MoM) pace rose 0.1%, cooling for the fifth straight month. Below are several scenarios of how it might unfold over the coming year. For instance, if the pace of CPI was unchanged (0%) MoM for the next 12 months, it would equate to a 0.0% YoY rate in November 2023. Or, if the MoM pace accelerated to 1.0% per month, it would swell to 12.7% YoY. We expect 0.275% per month during 2023, which would be 3.7% YoY in November 2023.

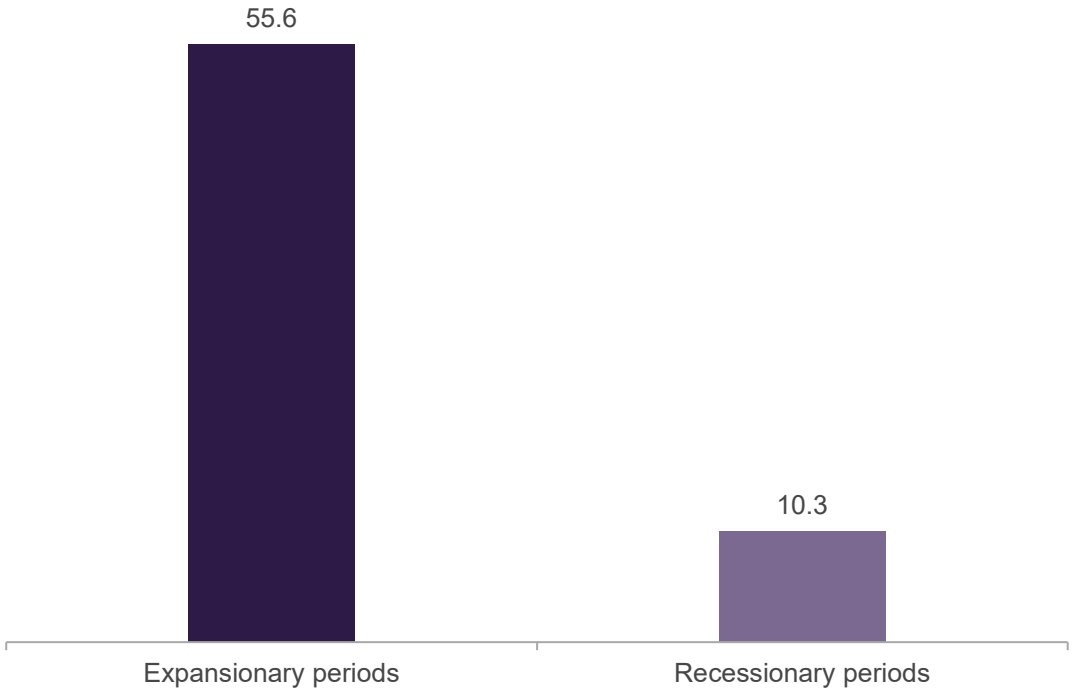


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics; actual monthly data through November 2022; calculated scenarios and Truist IAG forecast through November 2023.

Economic expansionary periods far exceed recessionary periods

While recessions vary in length and severity, they tend to be relatively brief episodes when compared to expansions.

Average length of economic expansions and recessions since 1950 (in months)



Data source: Truist IAG, Bloomberg, National Bureau of Economic Research.

Equity markets

Choppy waters to continue

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; further downside to earnings

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

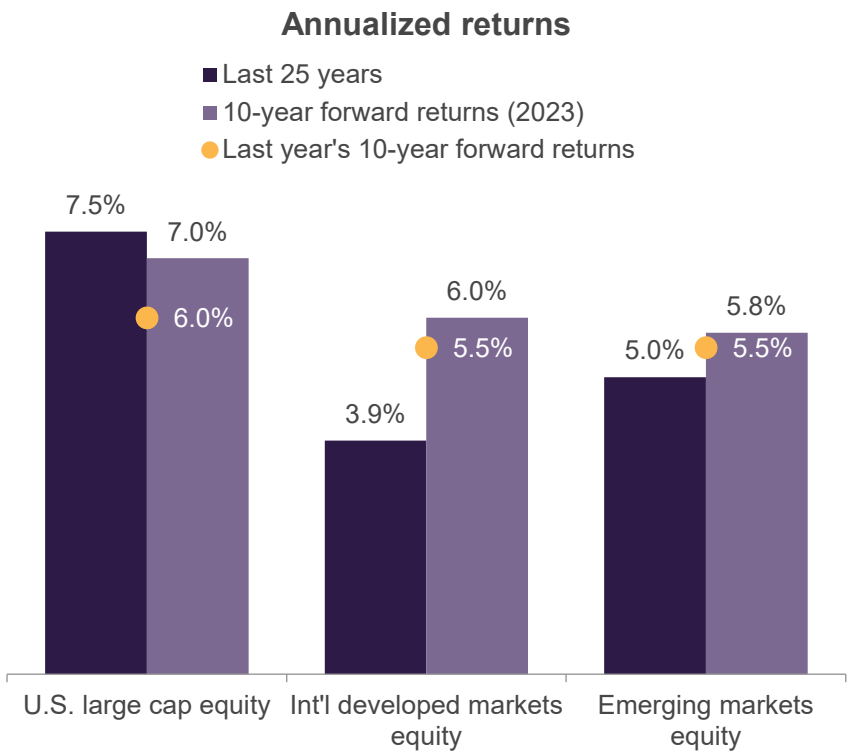
Earnings weaker than expected

Geopolitical risks

Better starting points for long-term investors after the selloff is a silver lining, though we expect the near term to remain challenging

Stocks are still down double digits from the high

Our 10-year estimated equity returns are higher following the selloff

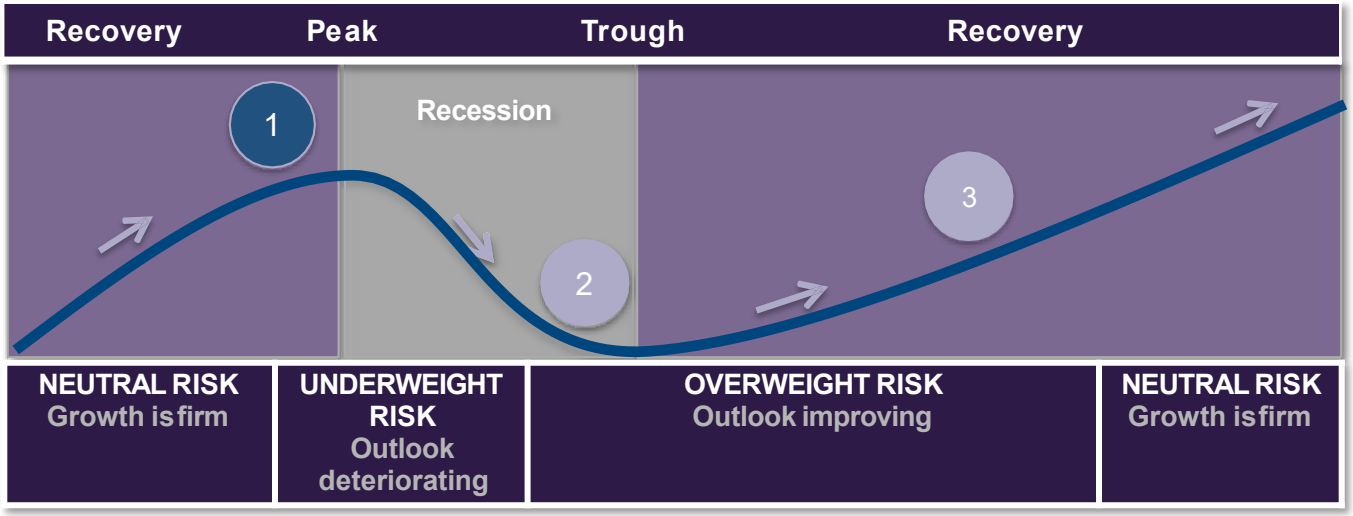


Data source: Truist IAG, Morningstar, S&P 500 . Expected returns reflect Truist's current average annual return assumptions (calculated using a geometric mean) over the next 10 years for each asset class as of November 2022, are not guaranteed and are subject to revision without notice. Historical returns are for the last 25 years ending September 30, 2022. Asset classes are represented by the following indexes: U.S. Large Cap Core Equity = S&P 500 Index, Int'l Developed Markets Equity = MSCI EAFE Index, Emerging Markets Equity = MSCI EM Index. Past performance is not indicative of future results

Remain defensively positioned shorter term given elevated recession risks

Our shorter-term, tactical outlook, which is driven by our assessment of the business cycle and the risk/reward proposition within the environment, leads us to remain defensive heading into 2023. Recession risks remain elevated, yet valuations are not compelling.

The economy appears to be approaching the recessionary stage of the business cycle



Source: Truist IAG
Asset Allocation does not ensure a profit or guarantee against loss. Past performance is not indicative of future results

Estimated 2023 S&P 500 range = 3400 to 4300

Our estimated 2023 S&P 500 range, which we rolled out in early December, is 3400 to 4300.

This range is consistent with the average annual spread of 27% between a market high and low since 1950. **The wide range should provide tactical opportunities.**

The top end of the range is defined using the optimistic assumption of an 18.5x price-to-earnings (P/E) ratio—the highest valuation level reached over the past decade outside of the pandemic overshoot—against current consensus forward earnings.

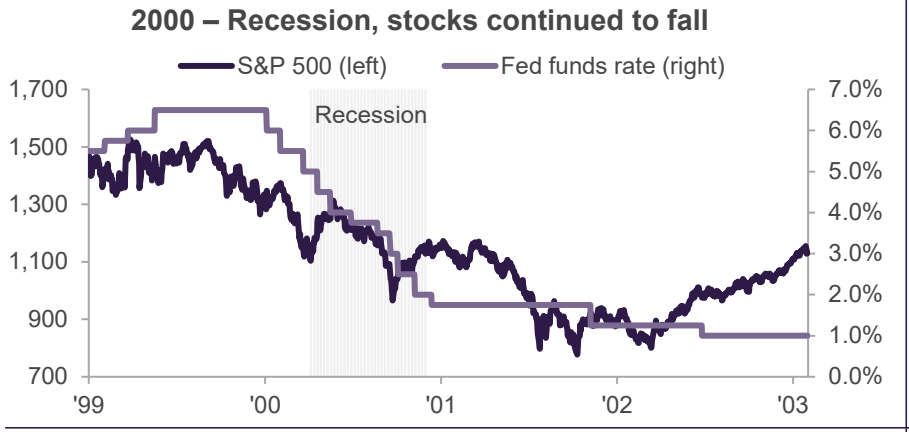
This level also considers technical price resistance and that markets can overshoot fundamentals on a short-term basis.

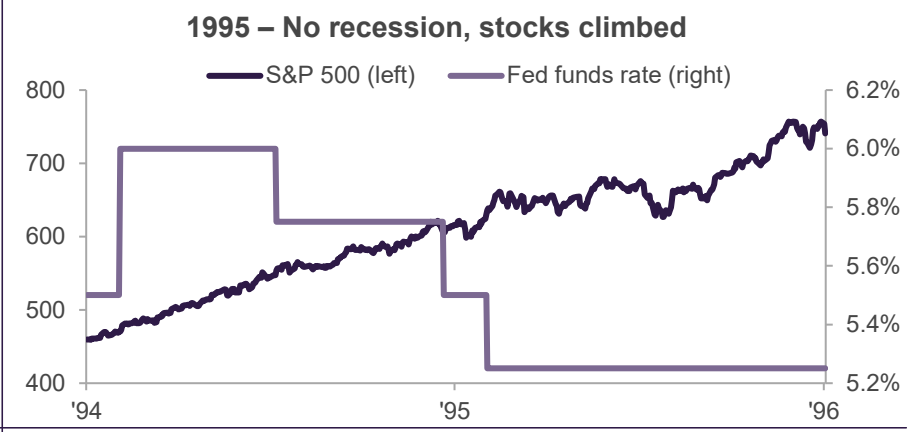
The bottom end of the range is based on the average decline around recessions of 29%, represents the pre-pandemic market peak, and incorporates our valuation work reviewing trough earnings with respect to previous recessions.

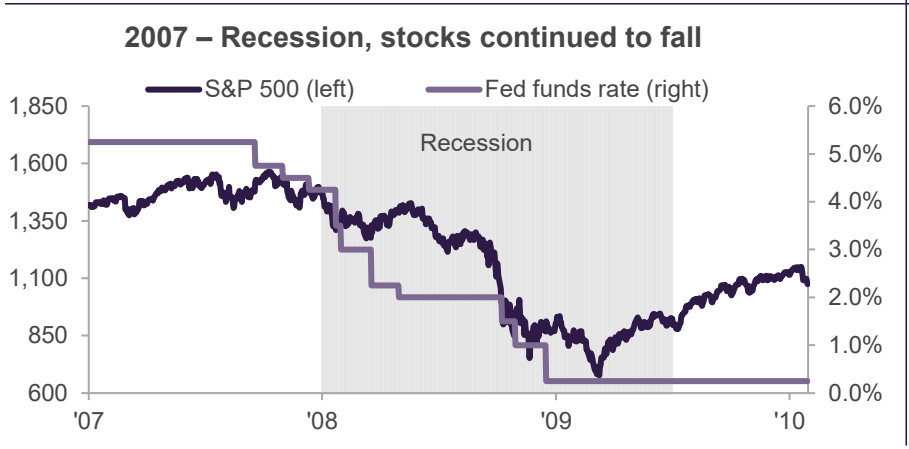
We anticipate updating this range during the year as we gain additional earnings and economic visibility.

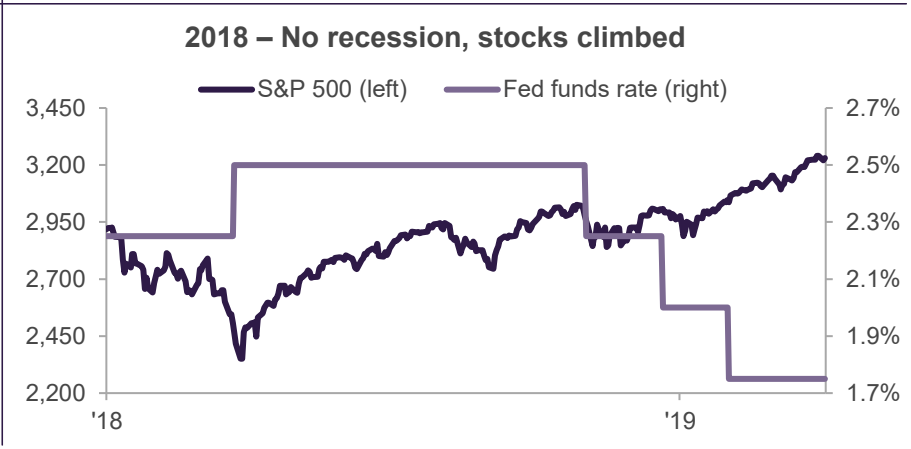
Data source: Truist IAG, FactSet. Past performance does not guarantee future results.

A Fed pivot less helpful for the market if economy is headed into a recession





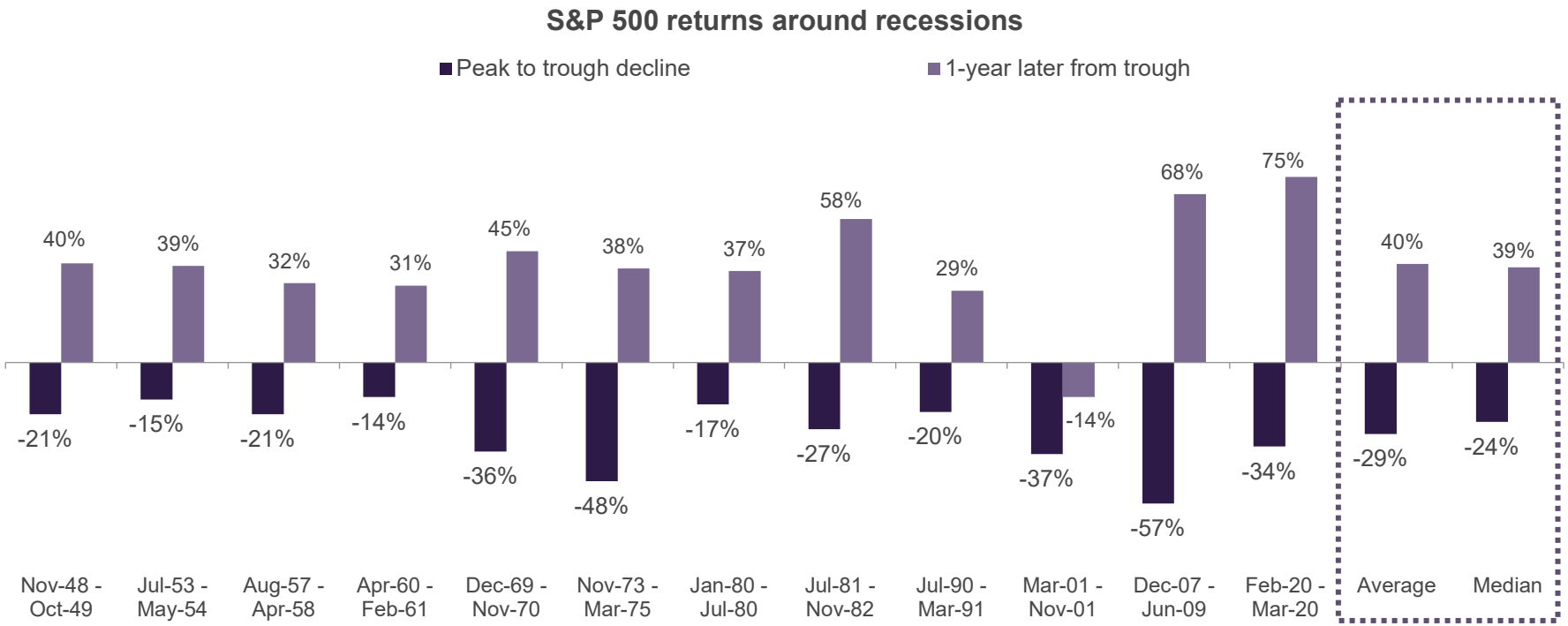




Data source: Truist IAG, FactSet, Haver. Past performance does not guarantee future results.

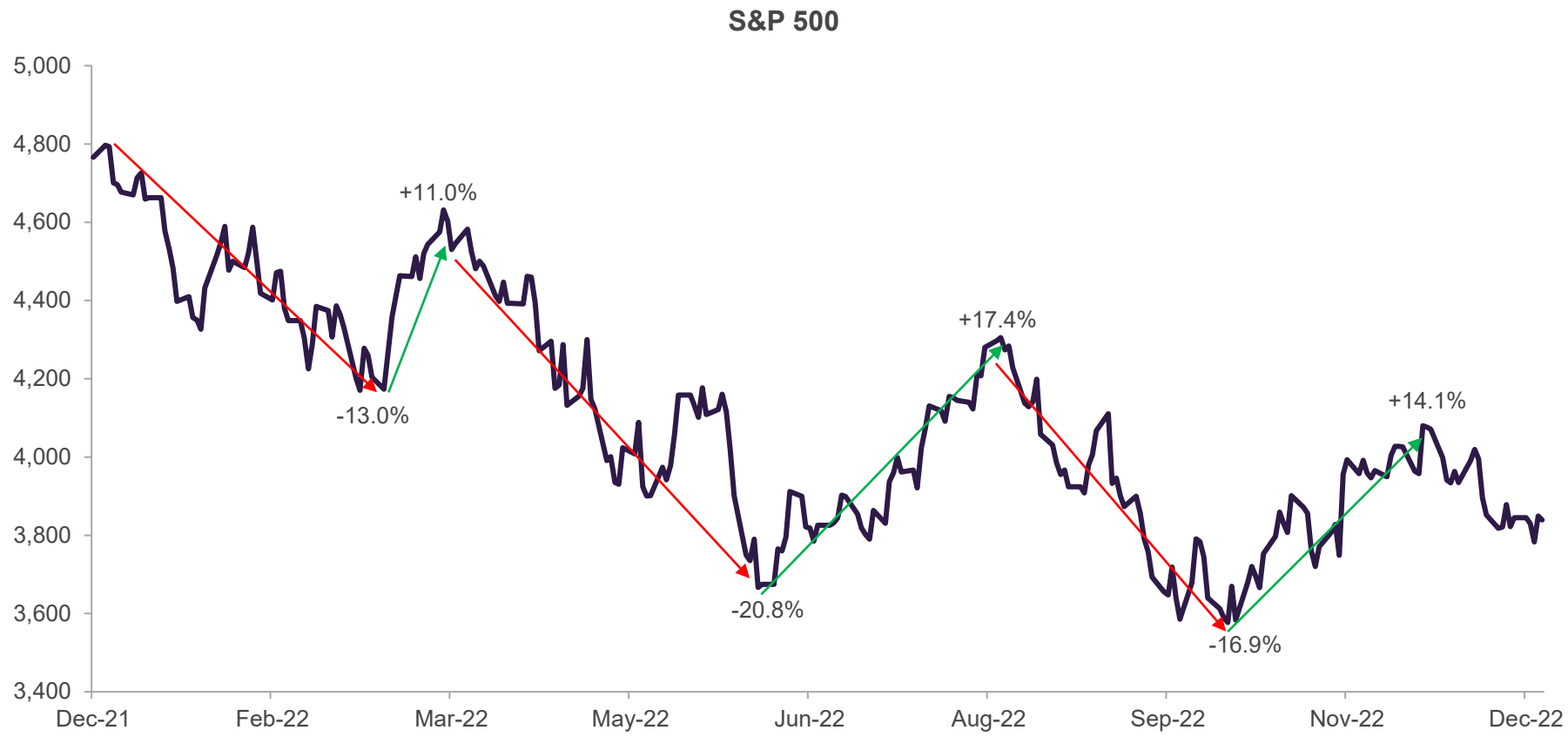
Starting 2023 on defense but prepared to move to offense later in the year

Although stocks have never found their low before a recession has even started, they tend to bottom well before the recession is over, and the initial snapback tends to be sharp. Thus, we are starting the year more cautiously, awaiting value to emerge, which could lead to a shift in our positioning.



Data source: Truist IAG, FactSet, NBER; Past performance does not guarantee future results

Remain tactical in 2023 as we expect wide swings to continue

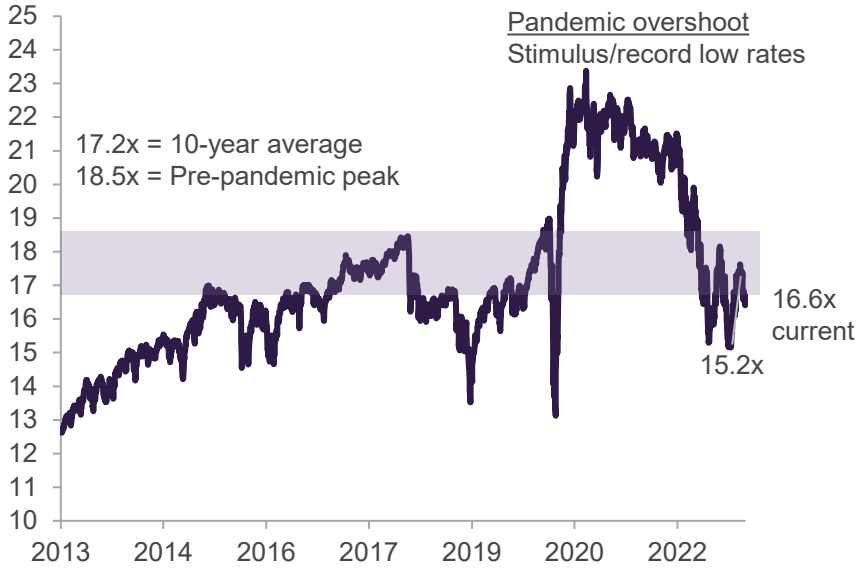


Data source: Truist IAG, FactSet. Past performance does not guarantee future results.

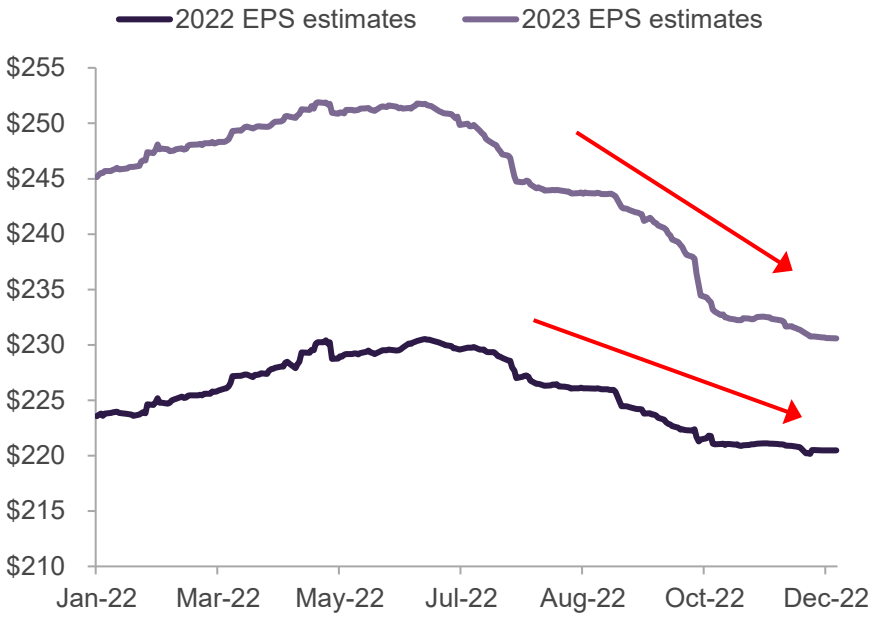
Equity valuations have improved over the past month, but not significantly cheap given earning risks and elevated interest rates

Over the past month, the S&P 500's forward P/E has pulled back from 17.6x to 16.6x. While improved, valuations are still not compelling given downside earnings risks alongside a slowing economy. Moreover, the 10-year U.S. Treasury rate is significantly above its 10-year average of 2.1%.

S&P forward P/E likely capped in the 17.5x-18.5x range



S&P 500 consensus earnings estimates

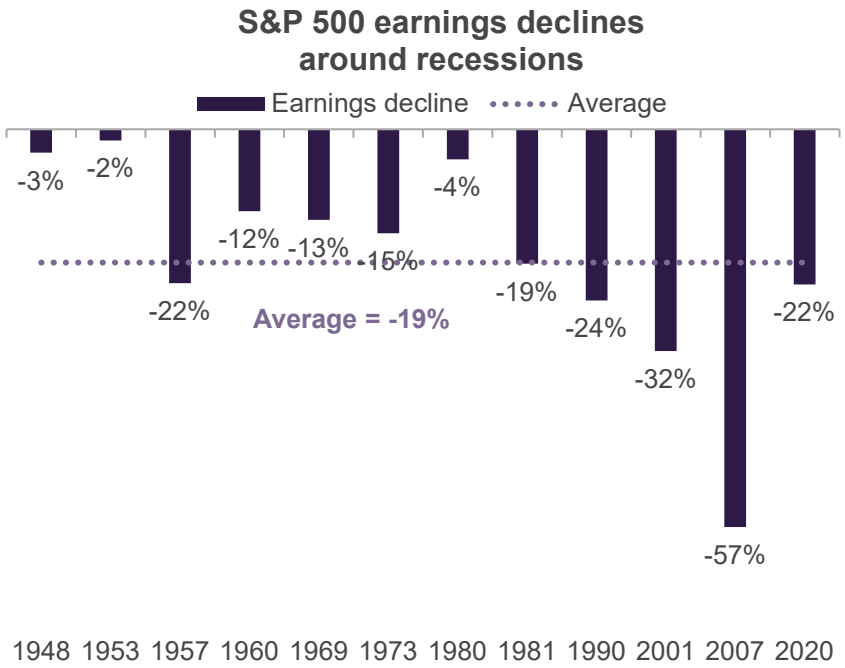


Data source: Truist IAG, FactSet.

Past performance does not guarantee future results.

Earnings remain at risk

Aided by the post-pandemic boom, corporate earnings remain well above their long-term trend, as do profit margins. Historically, earnings around recessions have averaged a drop of almost 20%. We don't necessarily believe that earnings have to fall that far given how well corporations have navigated the pandemic and the fact that elevated inflation raises nominal sales figures, but there remains downside risk.



Data source: Truist IAG, Haver, FactSet

Past performance does not guarantee future results.

Bonds are now more competitive with stocks

The gap between bond yields and the earnings yield for stocks, which is the inverse of the P/E ratio, has closed dramatically. This simply means that there is now more competition for stocks than there has been for more than a decade. This has put downward pressure on equity valuations.

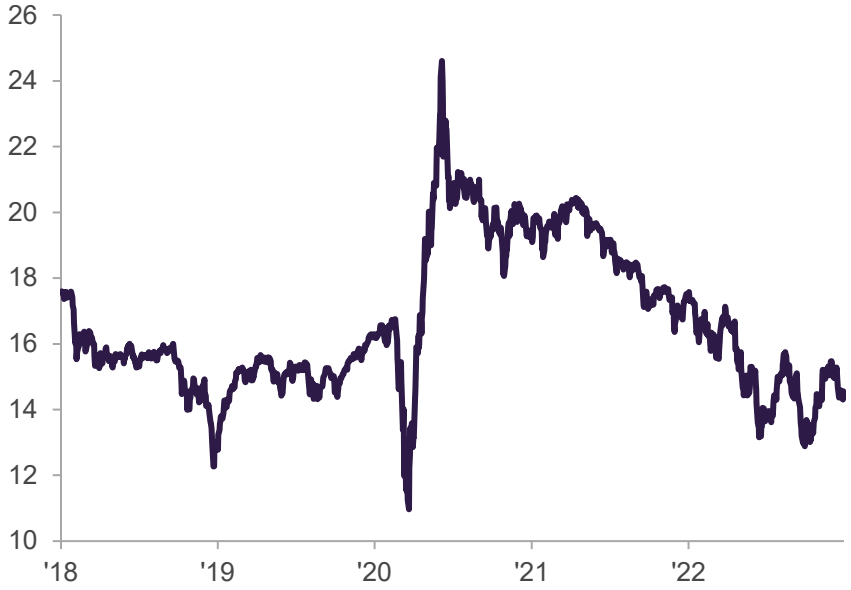
Data source: Truist IAG, FactSet

Past performance does not guarantee future results

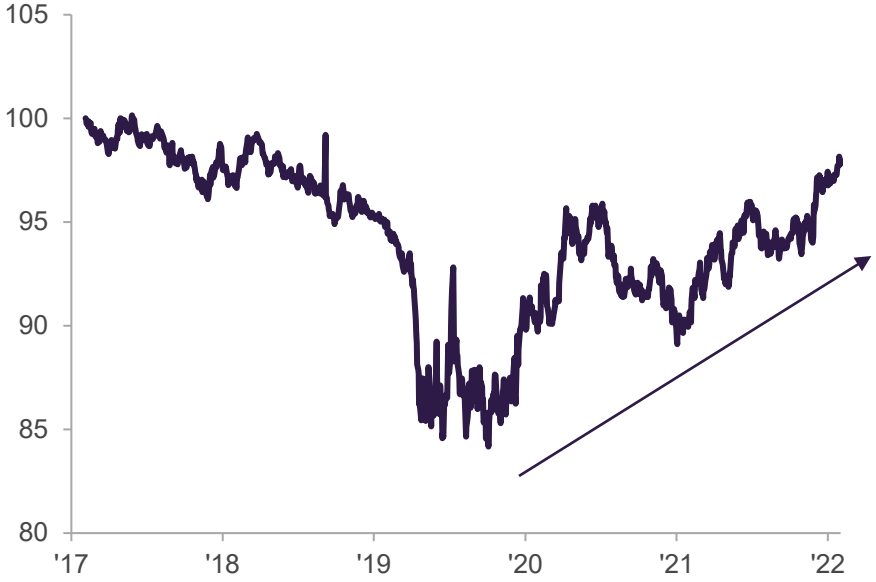
We see relative value below the market's surface

The average stock, as proxied by the S&P 500 Equal Weight Index, is trading at a very reasonable forward P/E of 14.5x, and relative performance continues to improve. This benchmark gives an equal weighting to each stock in the index. Therefore, it is less influenced by a few mega cap growth stocks that are still trading at more expensive valuations.

S&P 500 Equal Weight Index – forward P/E



S&P 500 Equal Weight Index price relative to S&P 500 at multi-year high



Data source: Truist IAG, FactSet. Left chart: S&P 500 Equal Weight Index is represented by the Invesco S&P 500 Equal Weight ETF.

Maintain value tilt – Performance shifting after prolonged underperformance

Data source: Truist IAG, FactSet. Value/growth represented by S&P style indices.

Past performance does not guarantee future results

Sector Strategy to start the year – Barbell approach

We continue to favor industrials, energy, health care, and consumer staples.

- Industrials are benefitting from reshoring and the global rise in military defense spending.
- Energy remains relatively cheap, is helped by a refocus on corporate cash flow, and is a good hedge should the global economy prove stronger than anticipated and on a China reopening.
- Heath care and consumer staples are more defensive plays given our expectation for choppy markets and elevated recession risks.

It is important to note that our sector strategy tends to be very tactical and shifts somewhat frequently.

Sector	S&P 500 sector weight	Tactical outlook (3-12M)			T	F	V
		Under-weight		*Over-weight*			
Industrials	8.6%			●	+	+	-
Energy	5.2%			●	+	↔	↔
Consumer Staples	7.2%			●	+	↔	-
Health Care	15.7%			●	+	-	-
Financials	11.6%		●		↔	+	↔
Materials	2.7%		●		↔	↔	↔
Utilities	3.2%		●		↔	↔	↔
Consumer Discretionary	9.8%		●		-	+	+
Information Technology	25.6%	●			↔	-	↔
Real Estate	2.7%	●			-	↔	+
Communication Services	7.3%	●			-	↔	+

T = Technical. This factor has the greatest focus in our overall methodology with an emphasis on relative price trends

F = Fundamentals. Includes earnings and sales trends, with an emphasis on recent changes to estimates

V = Valuation. Inputs include current/historical and absolute/relative to the overall market

+ Top Tier, -Bottom Tier, ↔ Middle Tier;

Data source: Truist IAG, FactSet. Weights represented by the weight in the iShares S&P 500 ETF.

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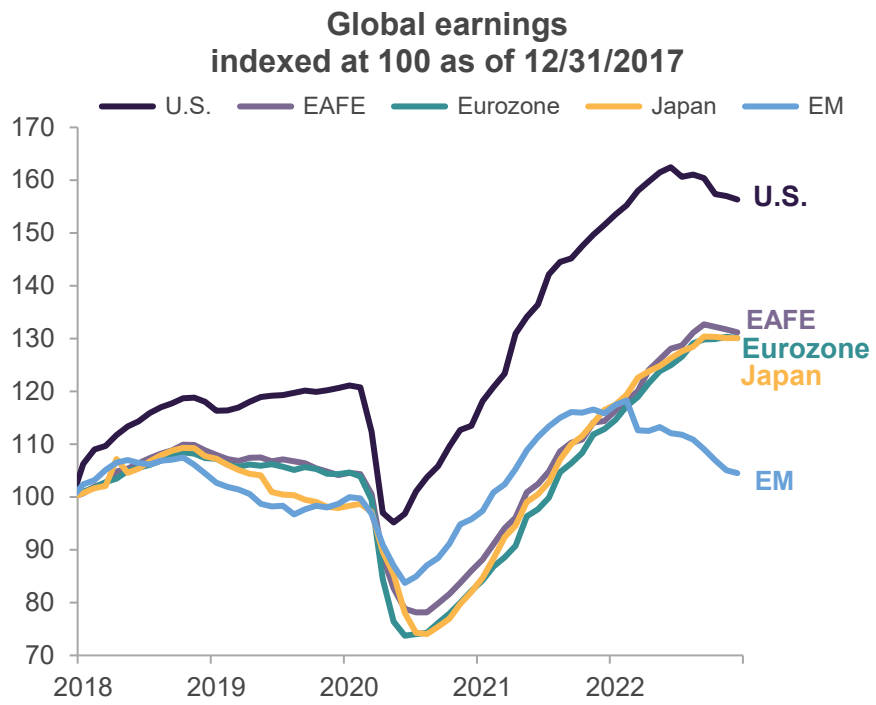
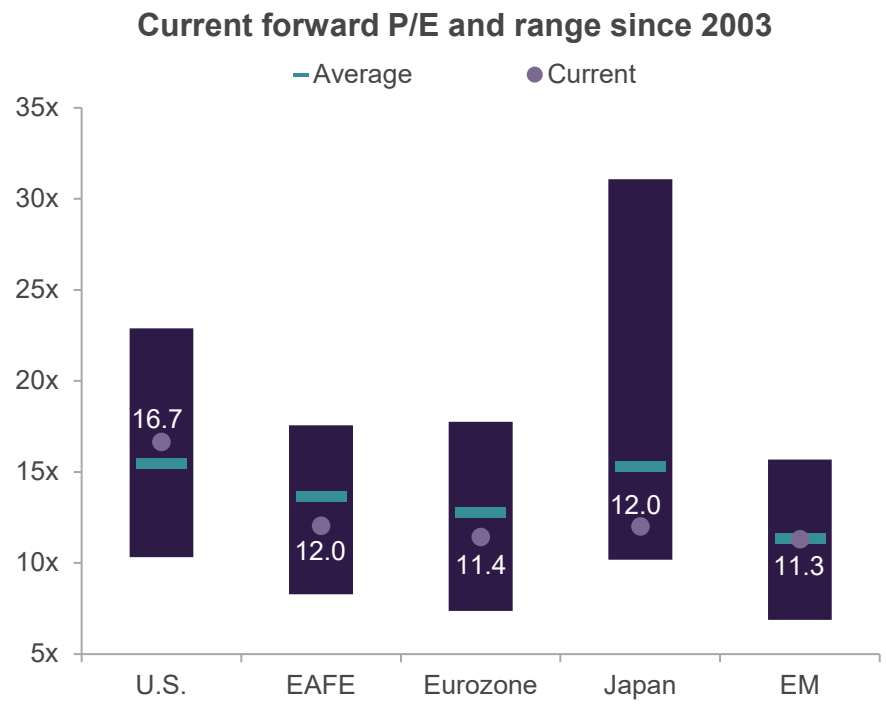
Wealth

Stay with a U.S. bias given its higher quality and lower risk profile

Overseas markets remain cheap on a relative basis, but valuation is a condition not a catalyst. A more favorable environment for international stocks would likely include the early stages of a strong global economic recovery and a falling U.S. dollar. Given the weak global economic backdrop, the U.S. economy should remain a relative outperformer, and while the upward momentum in the U.S. dollar is likely to slow, it should remain relatively strong.



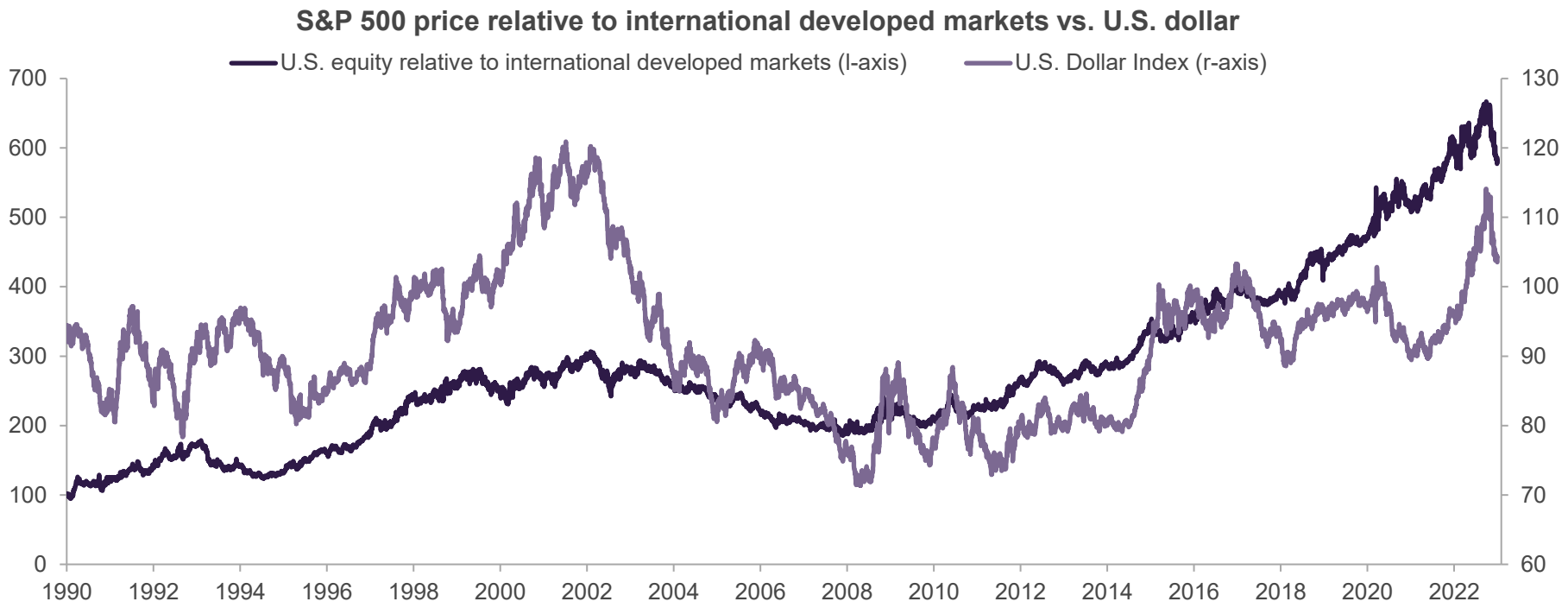


Data source: Truist IAG, FactSet, MSCI

Past performance does not guarantee future results. Earnings are next twelve months' earnings in local currency.
U.S. = S&P 500, Japan = MSCI Japan, EAFE = MSCI EAFE, EM = MSCI EM, Eurozone = MSCI EMU

A strong dollar and U.S. outperformance generally go hand in hand

Although the upward momentum in the U.S. dollar has weakened recently, this is after a tremendous run. We expect the dollar should remain well supported given the weak global economic backdrop and positive interest rate differentials.

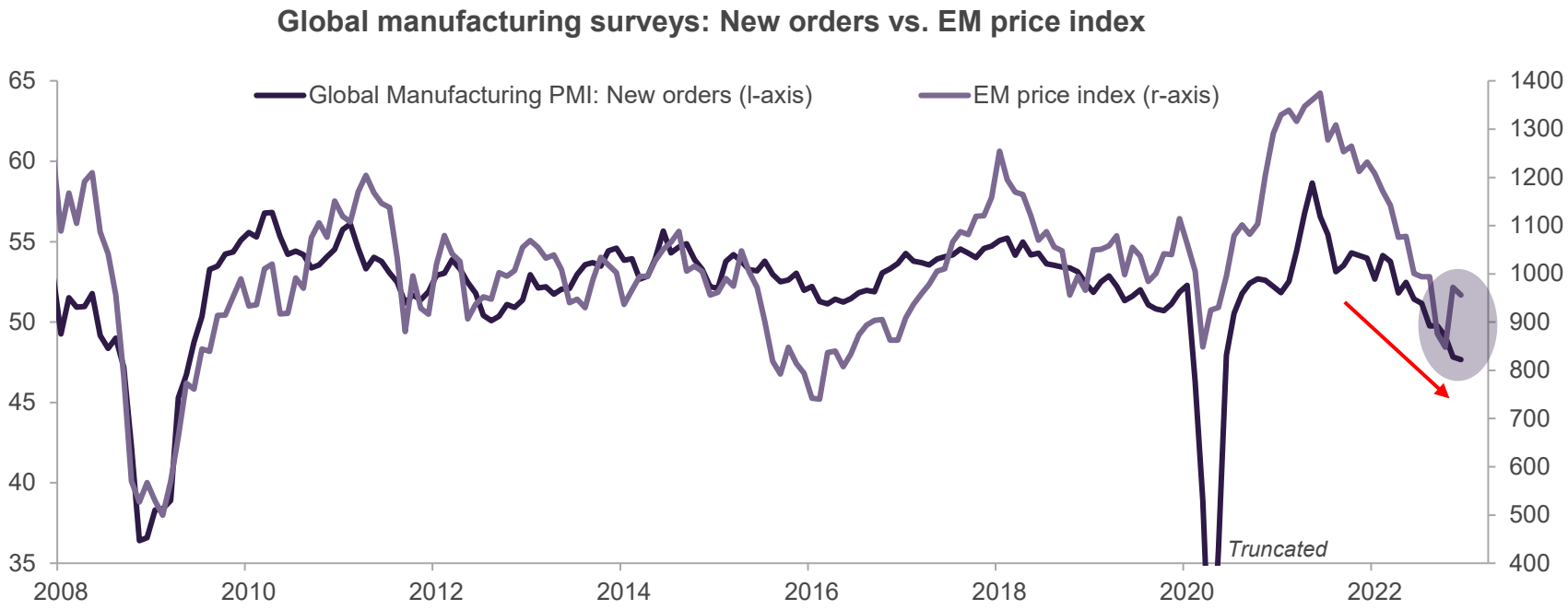


Data source: Truist IAG, Bloomberg, FactSet, MSCI, Haver

International developed markets equity = MSCI EAFE

Worsening global growth outlook is not supportive of EM equities

Emerging markets (EM) have rebounded from deeply oversold conditions. However, we are skeptical that the recent outperformance is sustainable given heightened recession risk. Historically, EM has generally underperformed during periods of weakening global growth.



Data source: Truist IAG, Haver, FactSet. EM price index = MSCI Emerging Markets Price Index

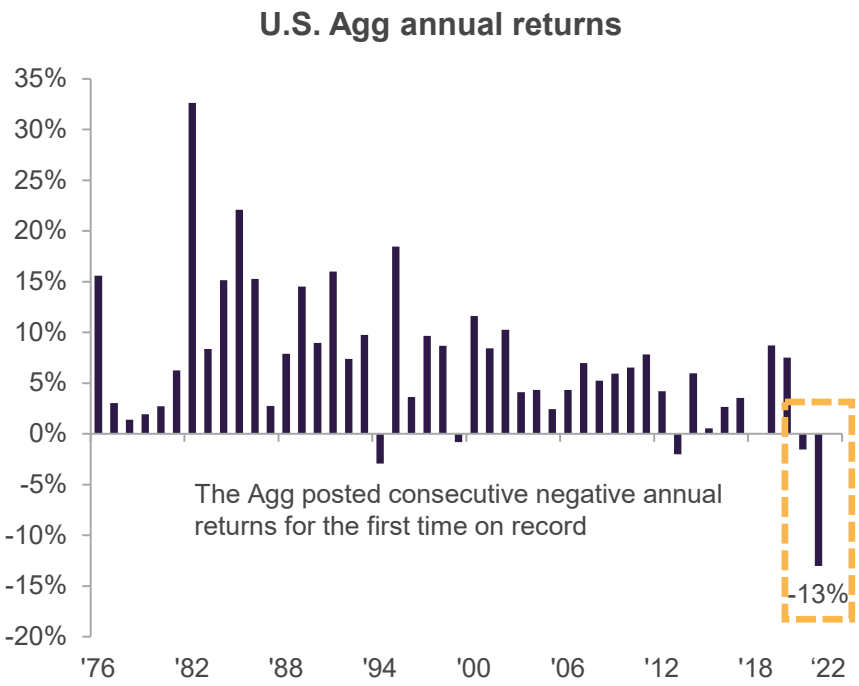
Past performance does not guarantee future results

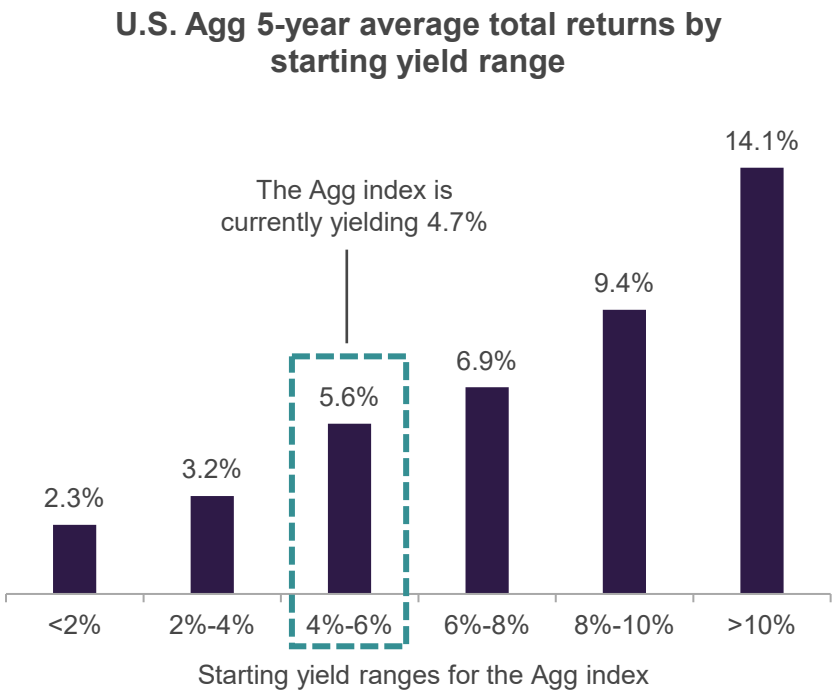
Fixed income

Bonds are back

Following a difficult year, bonds are back

2022 saw the Bloomberg U.S. Aggregate Bond Index's (Agg) sharpest decline since its inception in 1976. However, the move to higher yields (i.e., lower prices) leaves the benchmark more capable of providing critical income and portfolio stability going forward and should support better total returns for core fixed income in 2023.



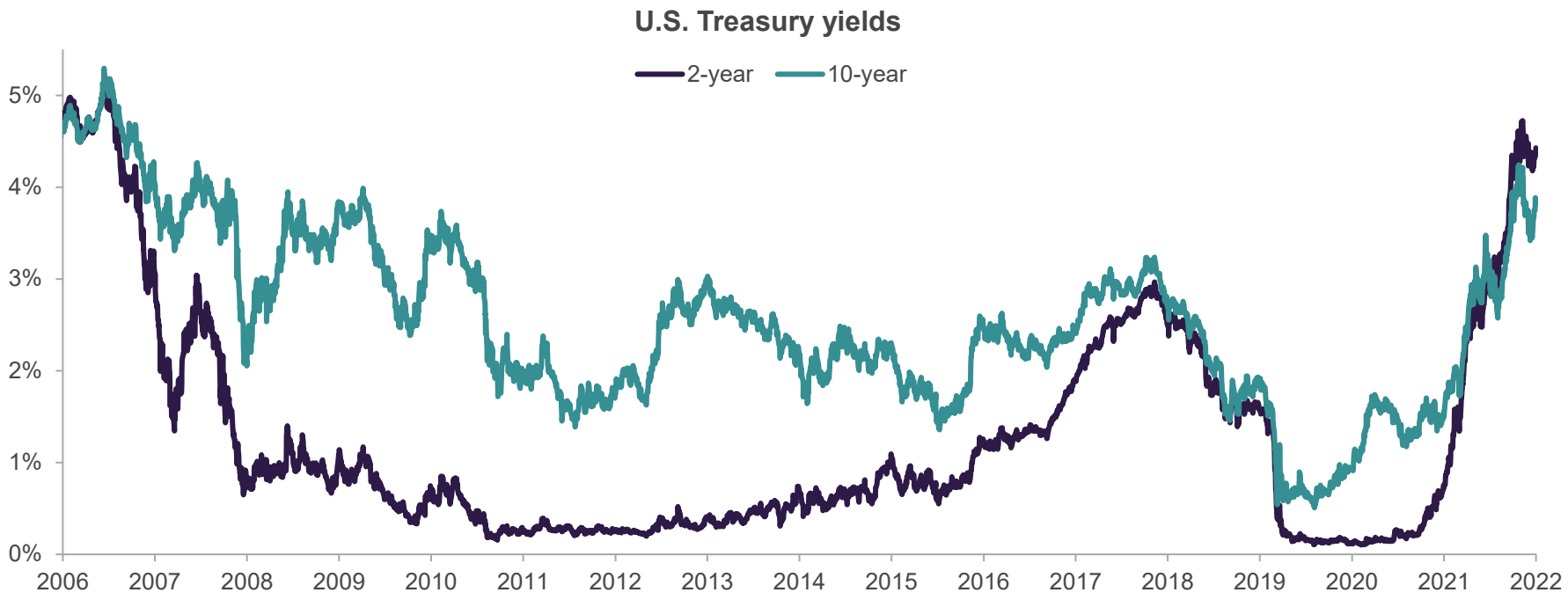


Data source: Truist IAG, Bloomberg

Past performance does not guarantee future results.

Expect growth concerns to pull U.S. Treasury yields lower in 2023

U.S. Treasury yields rose to finish 2022, yet remain below their early November highs. In the year ahead, we expect yields beyond 2-year maturities to fall as the impact of the Fed's monetary tightening more fully emerges. However, yields in the front end of the curve will likely be slower to respond as the Fed holds policy rates high and waits for confirmation that U.S. inflation is returning to its 2% long-run target.

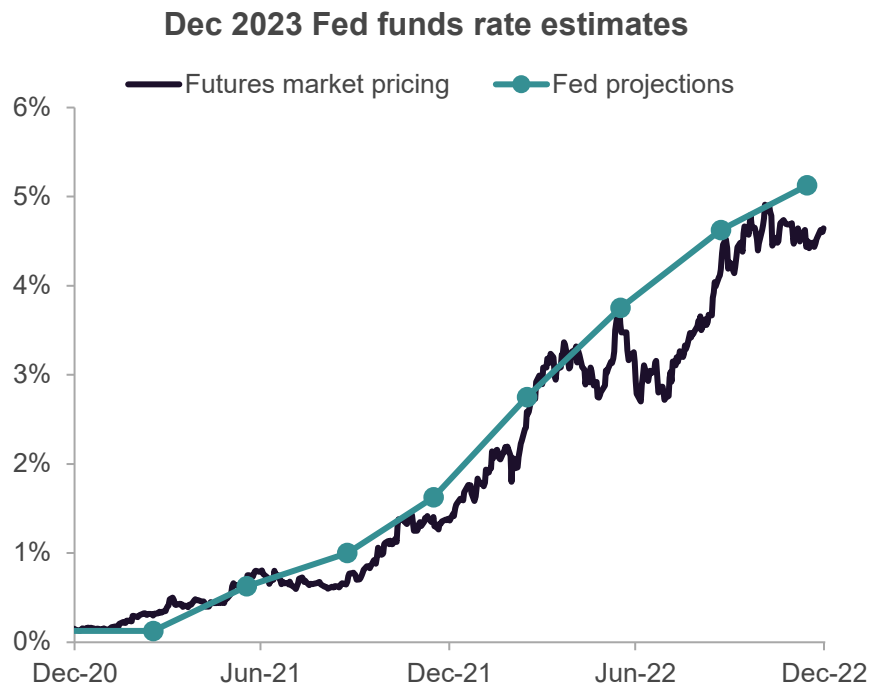


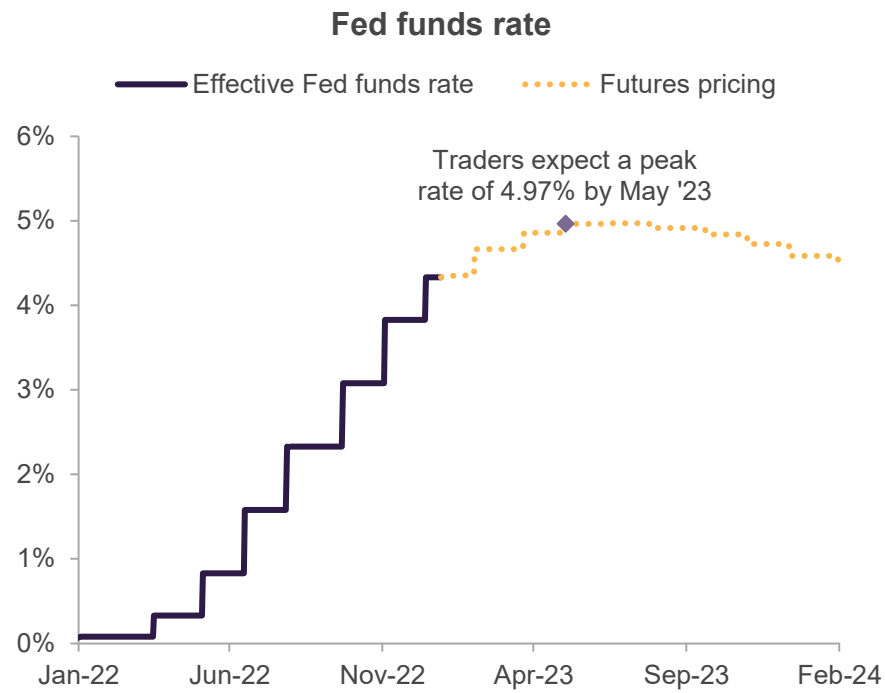
Data source: Truist IAG, Bloomberg

Past performance does not guarantee future results.

We expect the Fed funds rate to top out near 5% in mid-2023

The December Fed meeting confirmed that policymakers foresee a few more rate increases, albeit at a slower pace. We currently expect the Fed to raise the Fed funds rate to around 5% by mid-2023 and then eventually cut towards the end of the year as the economy and inflation slow.





Data source: Truist IAG, Bloomberg

Copper/gold ratio points to lower U.S. yields

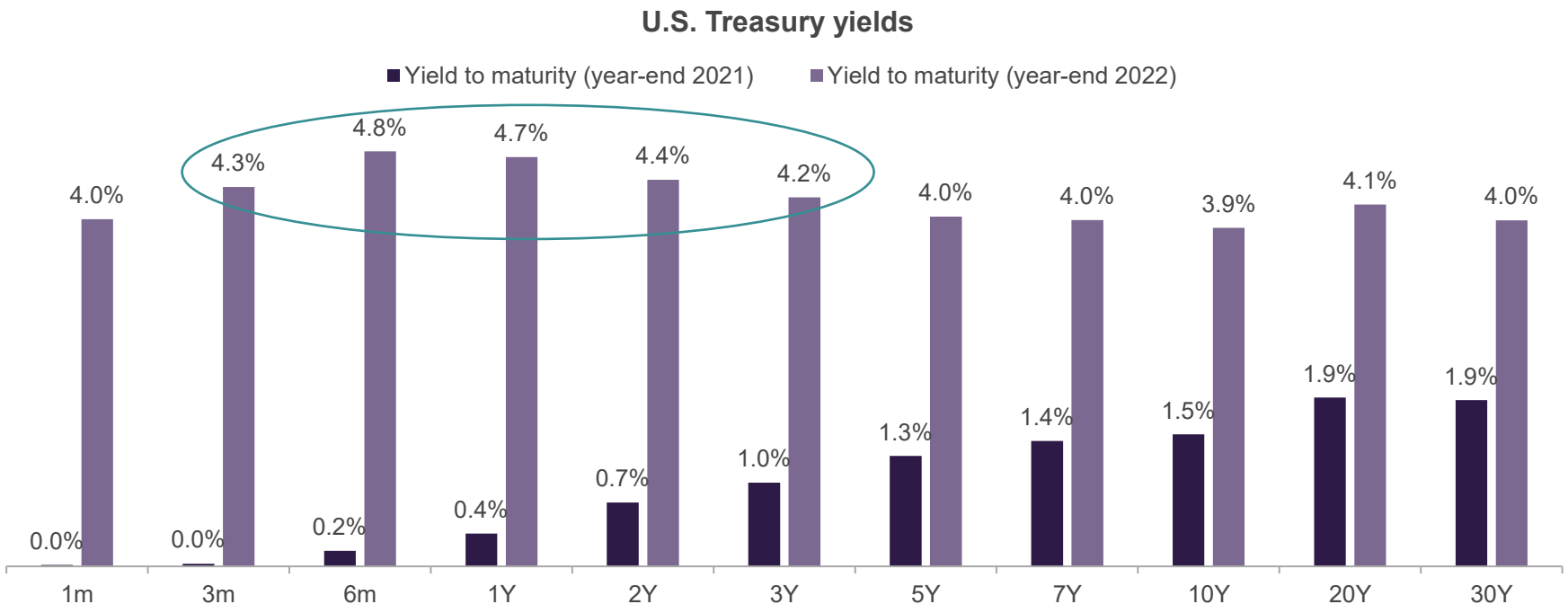
The copper/gold ratio tends to rise in expansionary environments and fall in contractionary environments. In instances where the ratio and 10-year yields diverge, the copper/gold ratio has historically provided directional leadership to the 10-year U.S. Treasury yield. The current divergence between the two suggests the 10-year yield is too high relative to economic activity.

Data source: Truist IAG, Bloomberg

Past performance does not guarantee future results.

Fed hike expectations creating value in front end of curve for passive income seekers

The highest U.S. Treasury yields currently reside between 3-month and 3-year maturities, creating a compelling entry point for passive income investors seeking productive, high-quality opportunities. A short-dated, laddered structure in this region of the curve offers the opportunity to make routine reinvestment decisions while generating the highest income stream in roughly 15 years.



Data source: Truist IAG, Bloomberg

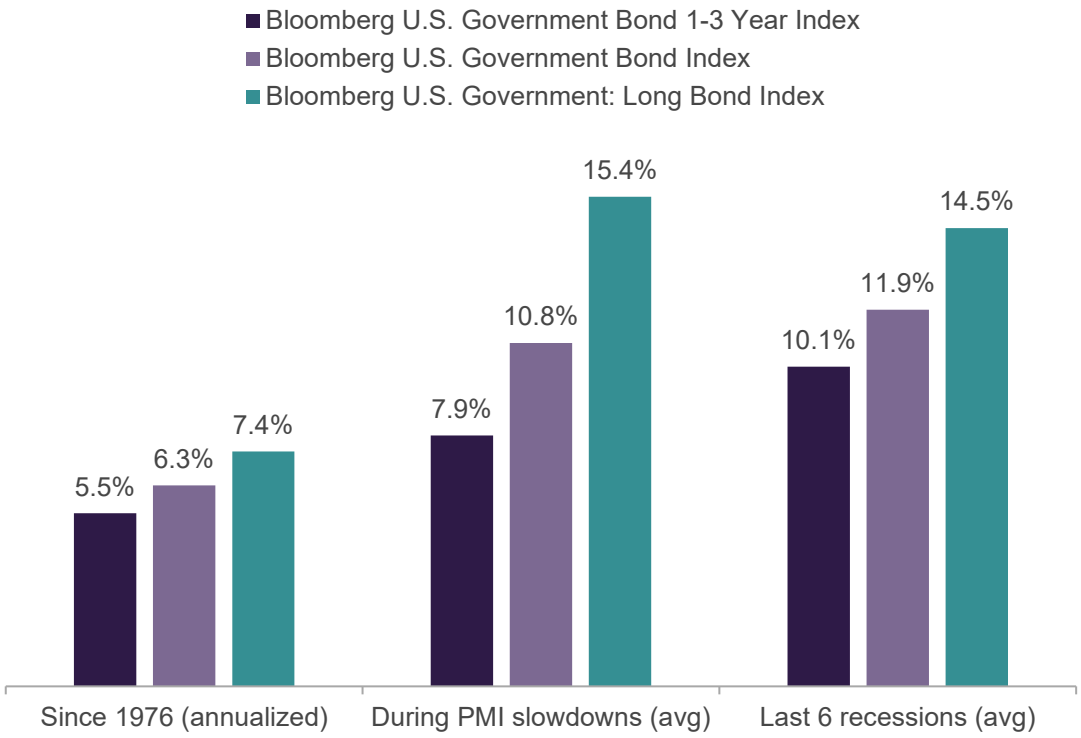
Past performance does not guarantee future results.

As economic growth and inflation fade, longer-term bonds should provide portfolio ballast

High quality fixed income with greater interest rate sensitivity (i.e., longer duration) tends to provide better performance as the U.S. economy decelerates.

Following historic losses in 2022, the forward-looking total return outlook for longer duration, high quality fixed income has improved significantly. The end of Fed rate hikes, easing inflation, and slower growth should support better total returns in core fixed income.

U.S. government bond index returns by maturity

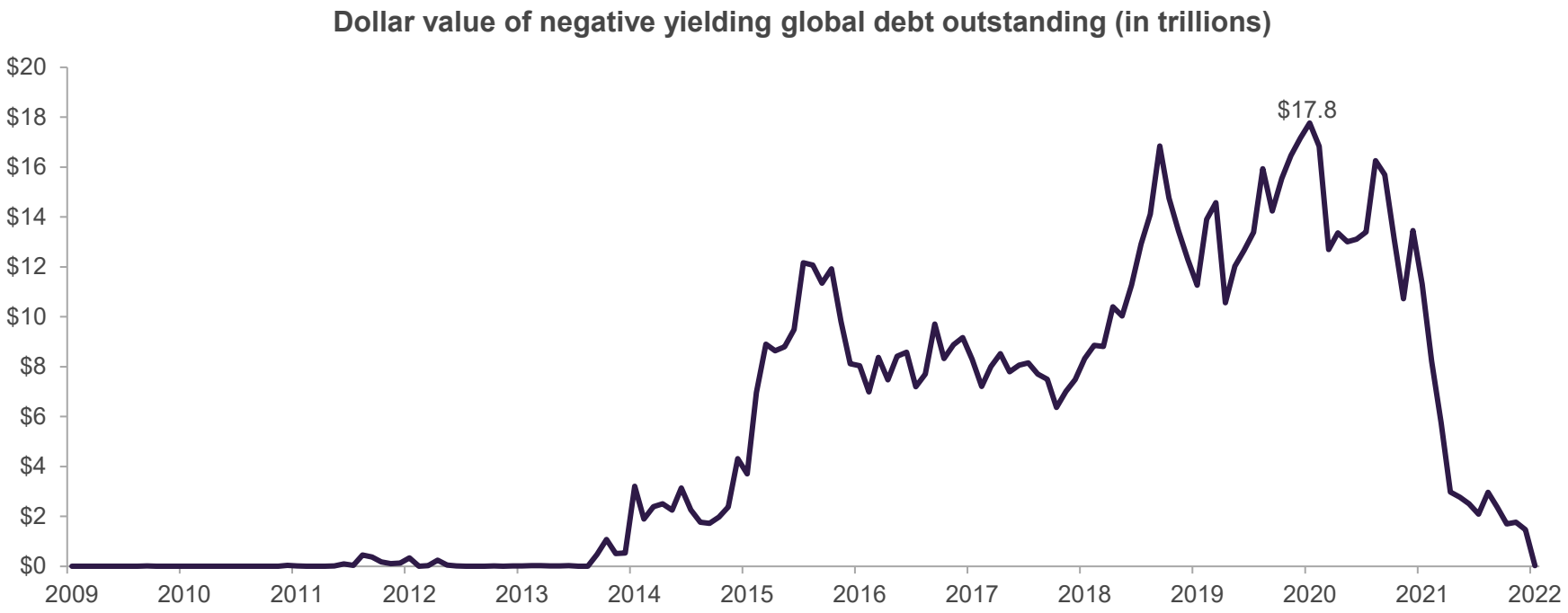


Data source: Truist IAG, Bloomberg.

Past performance does not guarantee future results.

Era of negative yields coming to a close – for now

In two years, the amount of global debt with negative yields has plunged from $18 trillion to essentially zero today. For bond investors, developed markets are now generating some of their highest income levels in more than a decade. However, global issuers now face significantly higher borrowing costs just as economic activity is weakening.

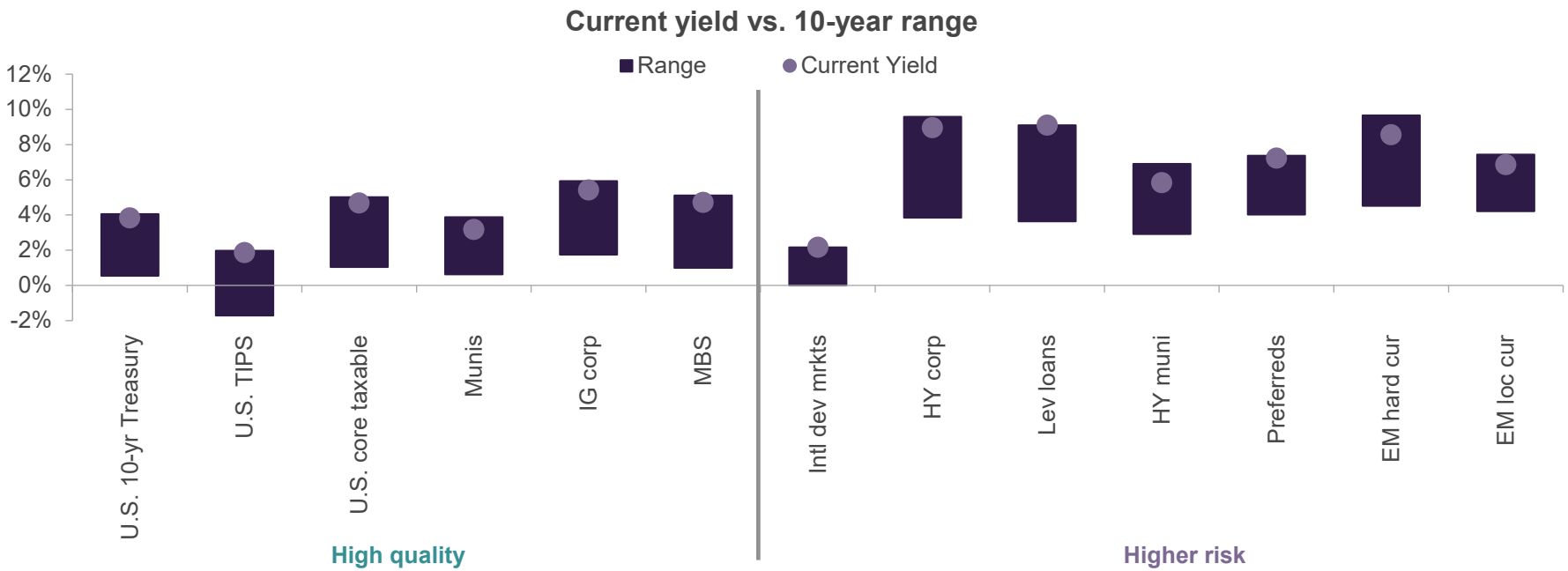


Data source: Truist IAG, Bloomberg

Past performance does not guarantee future results

Keep it simple to start the year with focus on high quality

Many fixed income asset classes have yields at or near 10-year highs – from high-quality sectors, such as U.S. Treasuries and mortgage-backed securities, to high yield corporate bonds and preferreds. With growing risks to the U.S. economy, our focus has turned more towards higher quality fixed income – an important source of ballast for portfolios. While yields have become more attractive for higher risk fixed income sectors, spreads in general are susceptible to further widening given tightening financial conditions and higher risks of an economic slowdown.

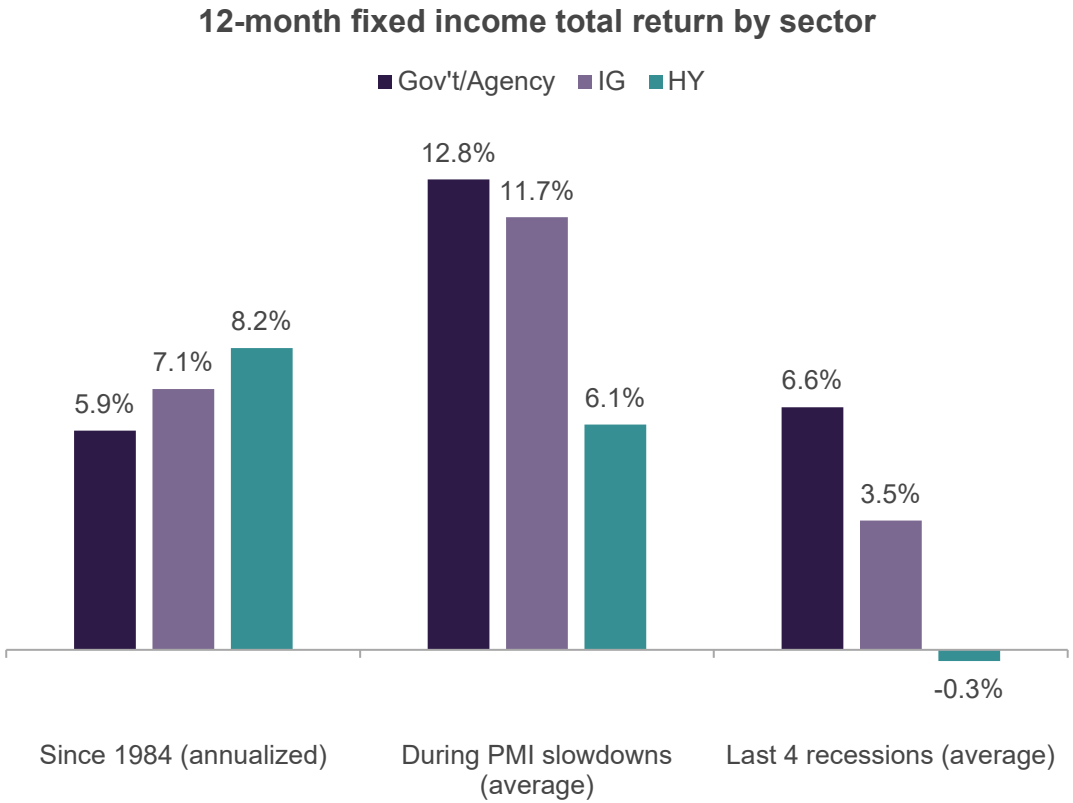


Data source: Truist IAG, FactSet, yield to worst shown except for preferreds and EM bond indices (yield to maturity).

U.S. 10-Yr Treasury = Bloomberg U.S. Treasury Bellwethers (10-Yr), U.S. Core Taxable = Bloomberg U.S. Aggregate, Municipals = Bloomberg Municipal Bond 1-15 Year, U.S. Corporates = Bloomberg U.S. Corporate IG, MBS = Bloomberg U.S. MBS, Intl Dev Mkts = ICE BofA Global Government ex U.S. (U.S.D hedged), HY Corp = ICE BofA U.S. High Yield, Lev Loans = S&P/LSTA U.S. Leveraged Loan 100 Index, HY Muni = Bloomberg Municipal High Yield, Preferreds = ICE BofA Fixed Rate Preferred, EM Hard Cur = JP Morgan EMBI Global Diversified, EM Loc Cur = JP Morgan GBI-EM Global Diversified. Past performance does not guarantee future results. Investing in the bond market is subject to certain risks, including market, interest rate, issuer and inflation risk – investments may be worth more or less than the original cost when redeemed. The value of most bond strategies and fixed income securities are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and more volatile than securities with shorter durations – bond prices generally fall as interest rates rise, and values rise when interest rates decline. Past performance does not guarantee future results.

High quality bonds tend to outperform during economic slowdowns

History has shown that during economic slowdowns, both investment grade and high yield corporate bonds have underperformed U.S. government bonds. Given our expectations of decelerating growth, we recommend an up-in-quality bias for fixed income allocations to start the year.

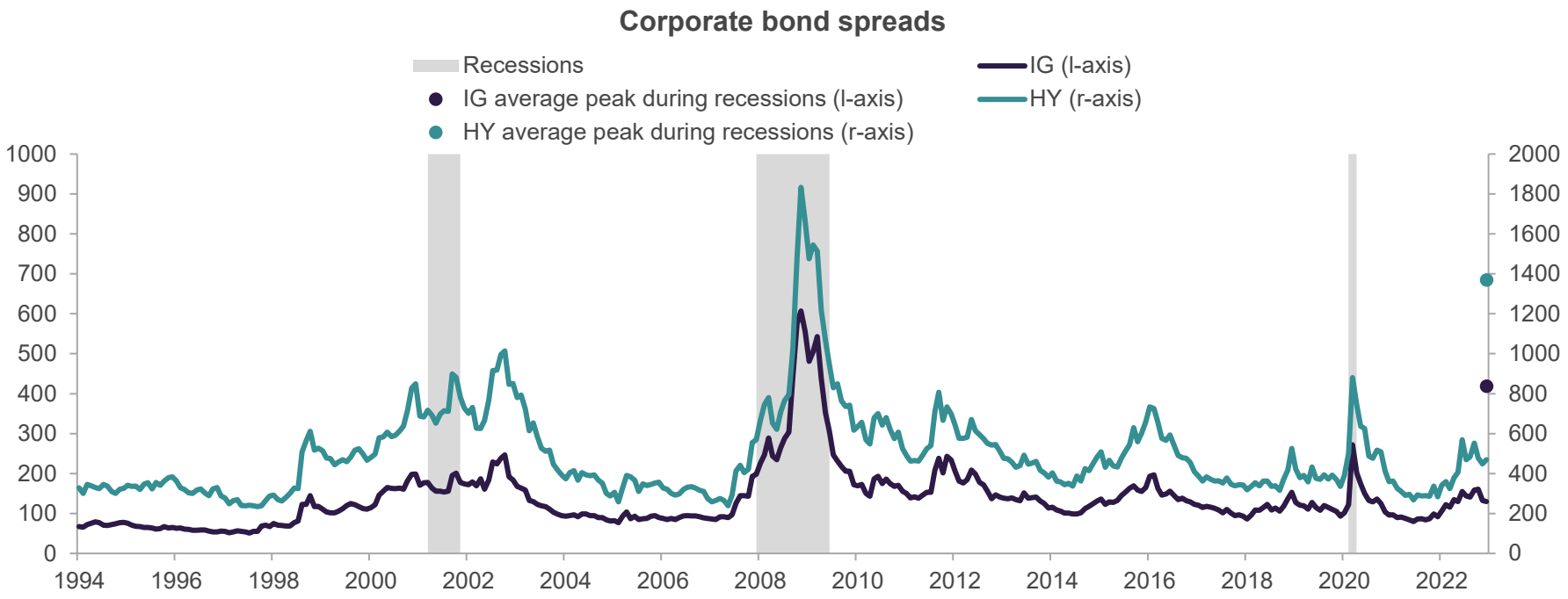


Data source: Truist IAG, Bloomberg.

Gov't/Agency = Bloomberg U.S. Government Bond Index; IG = Bloomberg U.S. Corporate Bond Index; HY = Bloomberg U.S. Corporate High Yield Bond Index

Remain underweight credit – Spreads are susceptible to widening as economy slows

High yield credit spreads have risen by over 200 basis points (2%) since their mid-2021 low. However, they remain far below typical recessionary levels. We expect slower growth and rising default rates, particularly in high yield corporates, to contribute to further spread widening this year.

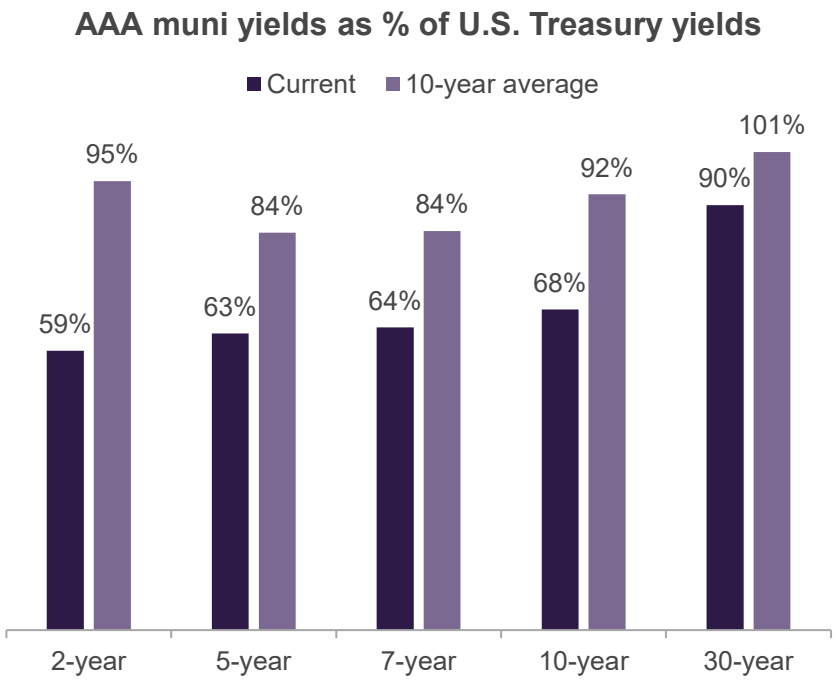


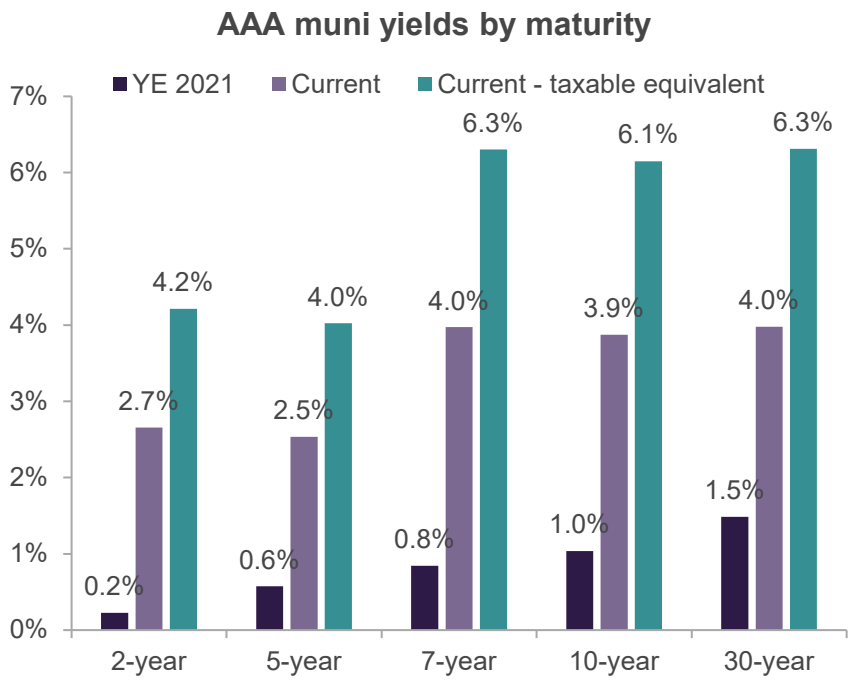
Data source: Truist IAG, Bloomberg

Past performance does not guarantee future results

High quality muni yields are compelling

AAA-rated muni-to-U.S. Treasury ratios remain suppressed compared to historical norms. However, absolute muni yields are flirting with 10- to 15-year highs and offer competitive taxable equivalent yields versus similarly-rated corporate bonds. Additionally, the rise in muni yields has largely been a function of macro factors such as inflation and Fed policy tightening while the overall underlying muni credit fundamentals remain on firm footing.





Data source: Truist IAG, Bloomberg. Interest income may be subject to the federal alternative minimum tax. Other state and local taxes may apply. Assumed federal tax rate of 37%.

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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.

The S&P U.S. REIT index measures the investable universe of publicly traded real estate investment trusts domiciled in the United States

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.

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.

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.

Hedge funds may involve complex tax structures and delays in distributing tax information. Hedge funds are not subject to the same regulatory requirements as mutual funds and often charge higher fees. Investing in commodities is speculative and involves a high degree of risk and not suitable for all investors. You could lose all or a substantial portion of your investment.

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.

Alternative strategies are not suitable for all investors. Many alternative strategies use sophisticated and aggressive techniques. Certain alternative strategies may be tied to hard assets such as commodities, currencies and real estate and may be subject to greater volatility as they may be affected by overall market movements, changes in interest rates of factors affecting a particular or currency, and international economic, political, and regulatory developments.

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

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