Truist Advisory Services, Inc.

Investment Advisory Group

Expanded House Views

Further downgrading equities to Less Attractive following rebound, upgrading fixed income to More Attractive after the sharp rise in yields, and adding a slight value tilt

10/28/22

TRUIST

Wealth

Expanded House Views

Highlights

We are making changes in our *House Views*, which has a tactical time horizon of 3 to 12 months, given a shift in the weight of the evidence.

- **We are taking advantage of the recent stock market rally to further downgrade the outlook on equities to Less Attractive from Neutral.**
- In conjunction, we are **using the sharp rise in interest rates to upgrade fixed income to More Attractive from Neutral**.
- **Within equities, we are upgrading our view of the value style relative to growth from Neutral to More Attractive** given value's higher exposure to our more favored sectors, such as industrials, energy, health care, and consumer staples. Relative performance for value is also improving after more than a decade of underperformance.

Downgrading equity to Less Attractive

We are shifting our view on **equities to Less Attractive from Neutral**.

- **Although stocks have become cheaper on an absolute basis this year, they have actually become more expensive relative to bonds given the sharp rise in interest rates**.
- **We see the risk/reward for fixed income relative to equities as much improved** given these higher yields alongside a wide range of potential market outcomes and our expectation for slower economic growth in 2023. Indeed, the weight of the evidence in **our work suggests recession risks over the next 12 months remain elevated as does downside risks to corporate profits**.
- Even if corporate earnings for the next year stay close to current consensus expectations, instead of lower as we anticipate consistent with a slower economy, applying an optimistic market valuation assumption (17x to 18x for the S&P 500 up from the current 16.2x) **suggests the upside in equities from current levels is limited to 5% to 8%, while high quality bonds are yielding around 4%, with arguably a lot less downside risk.**
- Part of the recent rally for stocks has been based on the possibility that the Federal Reserve (Fed) pivots to a less aggressive monetary stance and the potential of softening inflation data. **While we have anticipated such a discussion to energize a short-term rally, even if the Fed does pivot or inflation softens, it wouldn't be a cure-all over the intermediate term.** One only needs to look back to 2000 or 2008 to see that a shift in Fed policy alone is not always enough to stop an economy on a downward trajectory or start a new bull market.

Continued on next page

Expanded House Views continued

Indeed, monetary policy works with a lag. And with the **most aggressive U.S. and global central bank monetary tightening cycle in 40 years underway, this is likely to weigh on the economy into 2023**.

Our view is supported by the recent inversion of the 3-month/10-year U.S. Treasury yield curve, which followed the 2-/10-year yield curve earlier this year, the sharp slowdown in the housing market, and the negative trend in the Conference Board's Index of Leading Economic Indicators. Collectively, these indicators suggest recession risks remain elevated.

And, as mentioned, despite the stock market correction, the equity risk premium (ERP), which compares the earnings yield of stocks relative to the yield of bonds, has become less favorable with the surge in interest rates, **making bonds the most competitive relative to stocks in more than a decade**. While the ERP is still at a level where stocks tend to outperform bonds on a 12-month basis, Fed policy and earnings downgrades remain risks.

Upgrading value relative to growth to More Attractive

Within our equity allocation, we are upgrading our view on value relative to growth to More Attractive from Neutral. Our sector strategy continues to favor market segments that have larger weights in the value style, such as industrials, energy, health care, and consumer staples. Conversely, the growth style remains heavily influenced by the technology and communications services sectors, which make up more than 50% of the index; relative earnings and price trends remain weak, and valuations are not compelling for these sectors. **Moreover, value's relative price trends are improving after more than a decade of underperformance.**

Upgrading fixed income to More Attractive following the sharp rise in yields

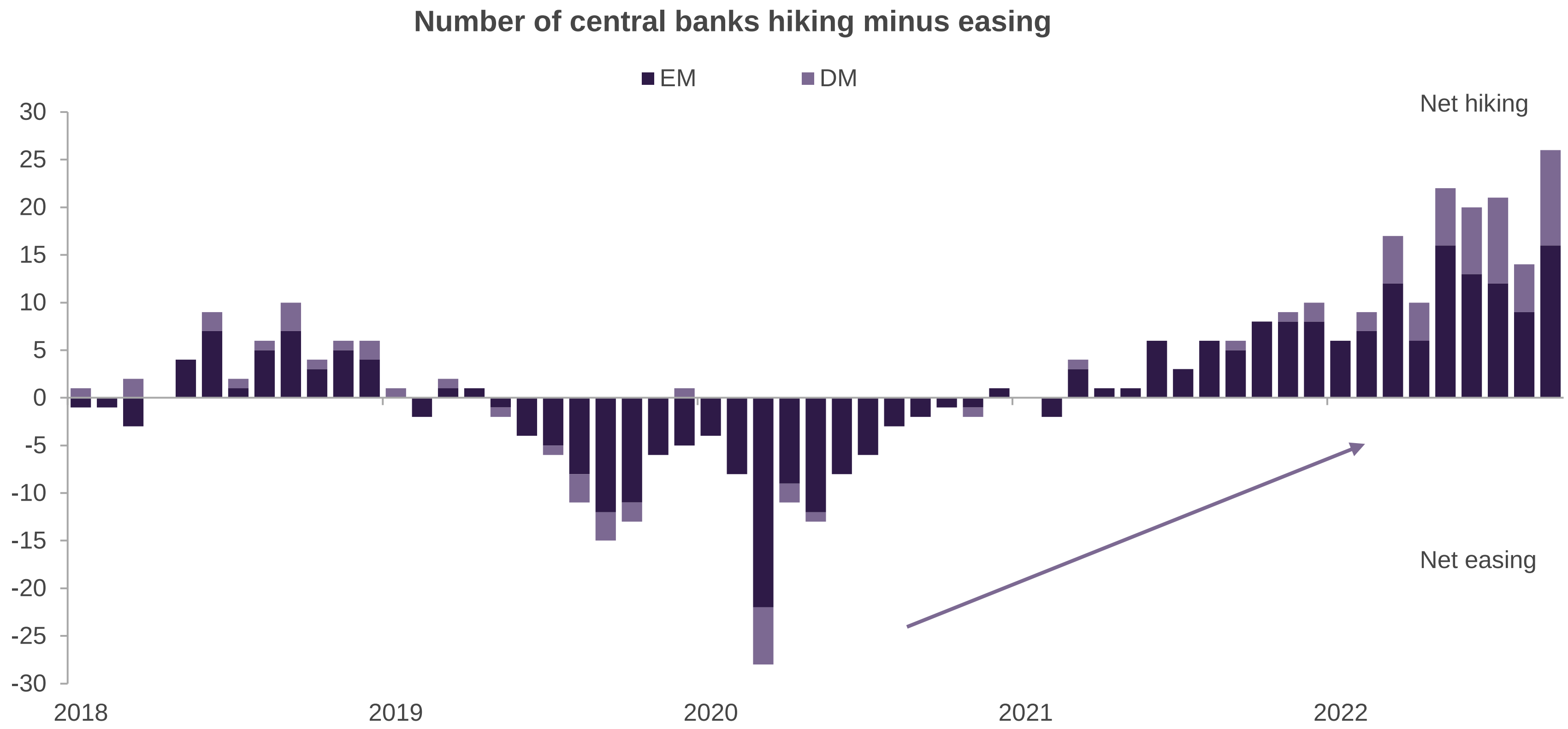
Yields in the fixed income space are productive again given the sharp upward move in interest rates, especially in the high-quality sectors. Year to date, yields have risen for U.S. Treasuries across most of the curve and are **flirting with 15-year highs**.

Moreover, **during periods of economic stress, high quality fixed income, and specifically longer-duration U.S. government bonds, tends to outperform** shorter alternatives as demand for safe haven assets strengthens.

Additionally, the recalibration in yields puts intermediate and longer-duration bonds in a far better position to deliver more compelling income and portfolio ballast in the event of decelerating economic activity. This was important in our changes to our last update to *House Views*, where we upgraded our view on duration to More Attractive from Neutral.

See charts on following pages

The sharpest global monetary tightening cycle in decades to combat inflation will continue to weigh on economic growth



Data source: Truist IAG, Haver. Series constructed using predominantly countries in the MSCI All Country World Index. Data through 9/30/2022.

EM = Emerging markets; DM = Developed markets

Past performance does not guarantee future results.

Bond yields are now competitive with earnings yields

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.

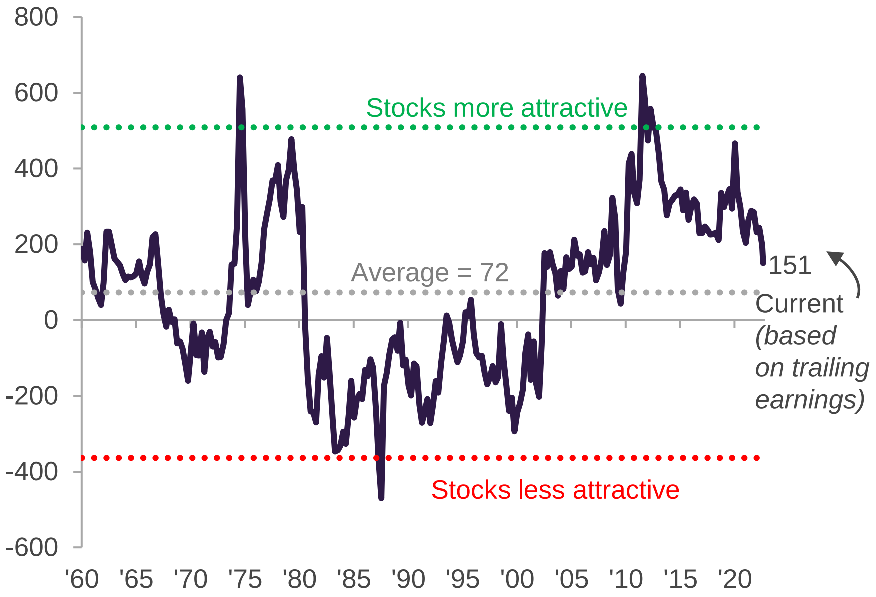
Data source: Truist IAG, FactSet.

Past performance does not guarantee future results

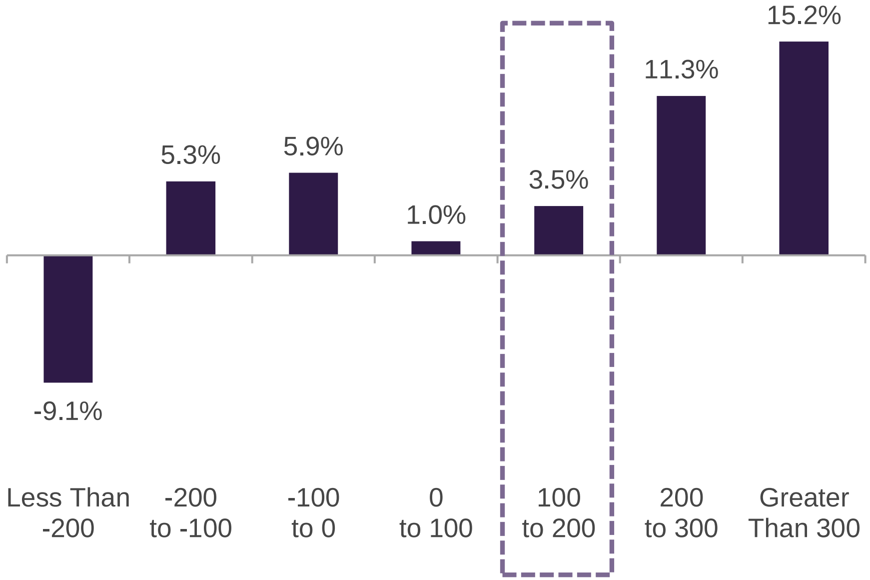
Equity relative valuations to bonds have dwindled even as stock prices have corrected given the sharp rise in interest rates

The equity risk premium (ERP), which compares the earnings yield of stocks relative to the yield of bonds, has become less favorable with the surge in interest rates, making bonds more competitive relative to stocks. While the ERP is still at a level where stocks tend to outperform bonds on a 12-month basis, the Fed's aggressive policy and earnings downgrades remain downside risks for the outlook on stocks.

S&P 500 – Equity risk premium* – Earnings yield minus 10-year Treasury yield



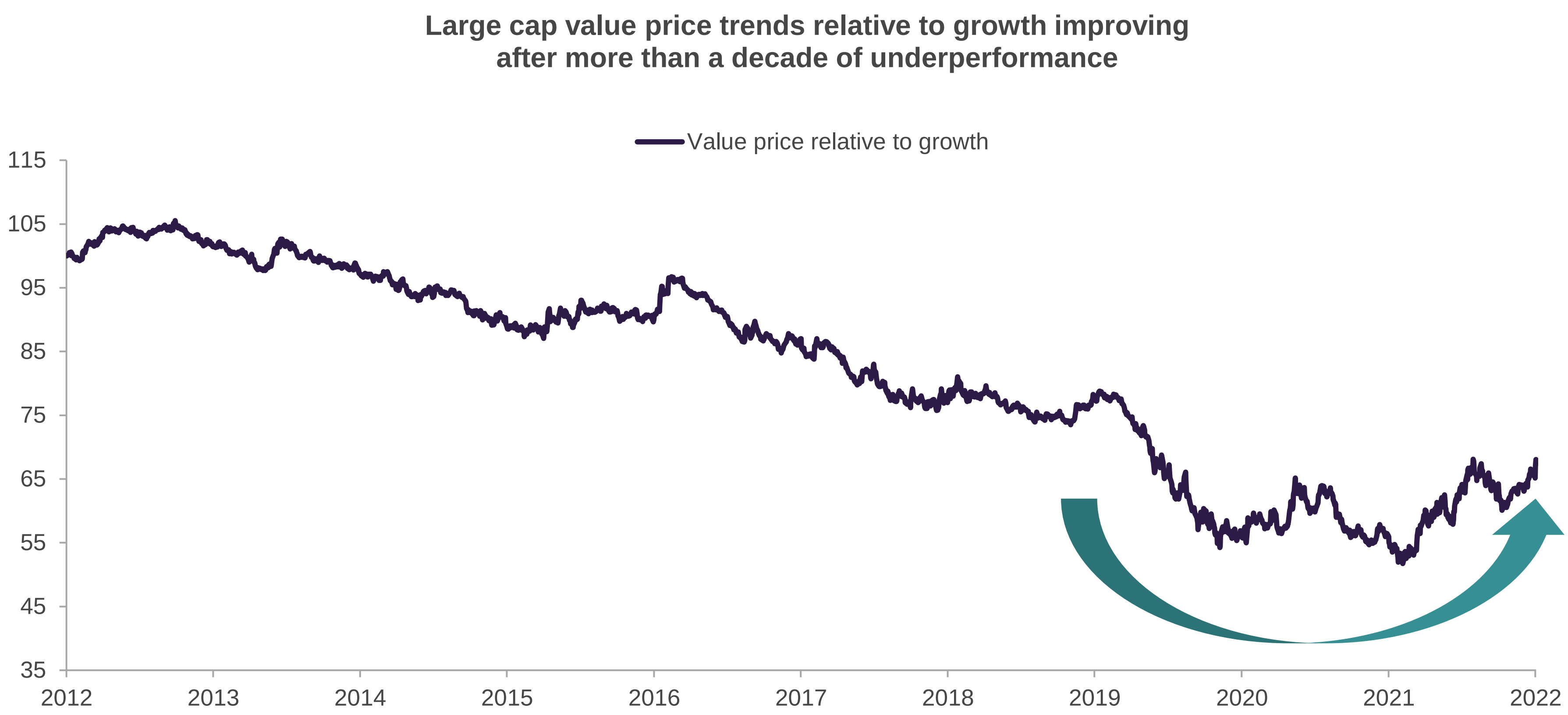
Average 12-month forward S&P 500 excess return over the 10-year Treasury return by ERP tranche (1960-current)



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

*The equity risk premium (ERP) compares the earnings yield of stocks (inverse of the P/E ratio) to the 10-year U.S. Treasury yield. ERP is quantified in basis points (bps). One basis point = 0.01%

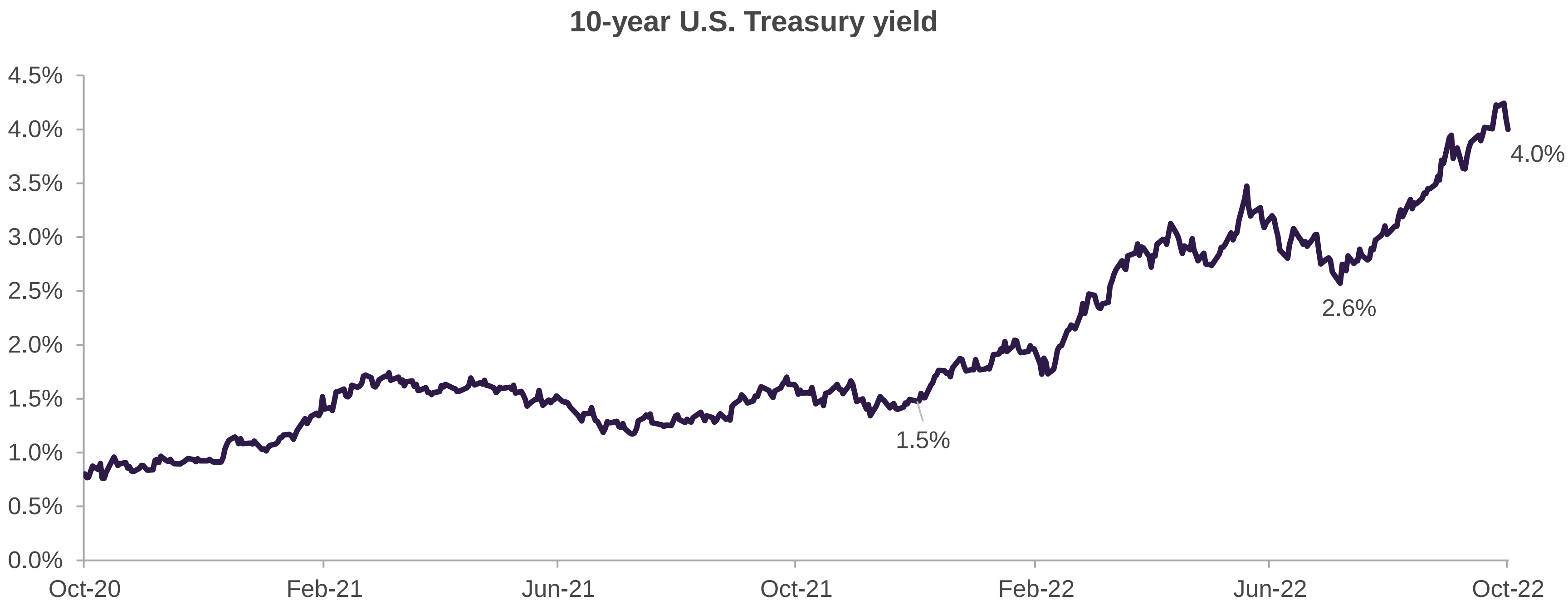
Value's price trends have been improving after more than a decade of underperformance



Data source: Truist IAG, FactSet. Value = S&P 500 Value Index; Growth = S&P 500 Growth

Past performance does not guarantee future results

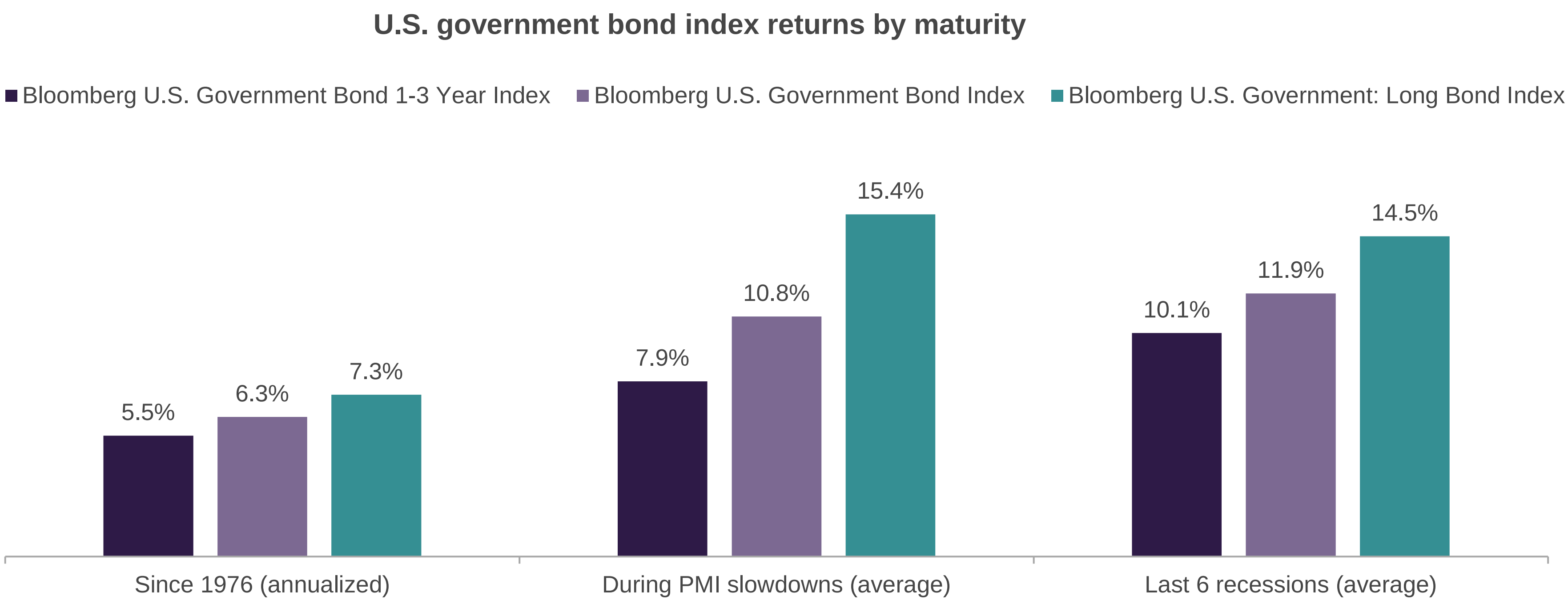
Bond yields are more productive given the sharp upward move in yields



Data source: Truist IAG, Bloomberg.

Prefer high quality, longer-duration fixed income

During periods of economic stress, longer-duration, high quality fixed income, and specifically U.S. government bonds, tends to outperform shorter alternatives as demand for safe haven assets strengthens.



Data source: Truist IAG, Bloomberg.

Past performance does not guarantee future results

Asset class view, forecasts & valuation*

With this publication of *House Views*, we are downgrading our view of equity to Less Attractive from Neutral and upgrading our view of fixed income to More Attractive from Neutral. Additionally, within equity, we are upgrading our view of value relative to growth from Neutral to More Attractive.

Tactical outlook (3-12 months)

Asset classes	Less Attractive				More Attractive
Equity		●	○		
Fixed income			○	●	
Cash			●		

Global equity	Less Attractive				More Attractive
U.S. large cap					●
U.S. mid cap			●		
U.S. small cap			●		
International developed markets	●				
Emerging markets (EM)	●				
Value style relative to growth			○	●	

U.S. fixed income	Less Attractive				More Attractive
U.S. government				●	
U.S. mortgage-backed securities		●			
U.S. investment grade corporate (IG)			●		
U.S. high yield corporates (HY)		●			
Leveraged loans		●			
Duration				●	

Long-term capital market assumptions (10 yr)+

Equity	Expected Return	Expected Risk
Global equity	5.75%	16.3%
U.S. large cap	6.00%	15.2%
U.S. small cap	7.50%	19.0%
International developed markets	5.50%	17.5%
Emerging markets (EM)	5.50%	24.0%

Fixed income	Expected Return	Expected Risk
Intermediate-term municipals	1.25%	3.5%
U.S. core taxable bonds	1.50%	3.4%
U.S. government bonds	1.00%	3.9%
U.S. IG corporate bonds	2.25%	6.0%
U.S. HY corporate bonds	3.75%	9.0%

Key IAG 2022 forecasts

Global GDP forecast*	3.2%
U.S. GDP	0.4% - 1.6%
Year-end Fed Funds rate range	4.25% - 4.50%
10-yr U.S. Treasury yield	3.50% - 4.50%
S&P 500 12-month forward EPS**	$233.12

*IMF forecast **FactSet consensus estimates

Global equity market valuation	S&P 500	MSCI ACWI	MSCI EAFE	MSCI EM
Current price-to-earnings (P/E) ratio	16.3x	13.9x	11.5x	10.0x
10-year average P/E ratio	17.1x	15.6x	14.3x	11.8x
10-year high P/E ratio	23.4x	20.8x	18.2x	17.0x
10-year low P/E ratio	11.8x	11.4x	10.3x	8.9x

*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 2020.

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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 2,757 constituents, the index covers approximately 85% of the global investable equity opportunity set

Fixed Income is represented by the Barclays 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.

Disclosures

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 BofAML U.S. Treasury Bill 3 Month Index which is a subset of the ICE BofAML 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 921 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 1,125 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.

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 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 BofAML 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 Credit Suisse Leveraged Loan 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.

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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).

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 BofAML U.S. HY Master 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.

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