2023 INVESTMENT OUTLOOK

10 PREDICTIONS

Robert C. Doll, CFA®
Chief Investment Officer

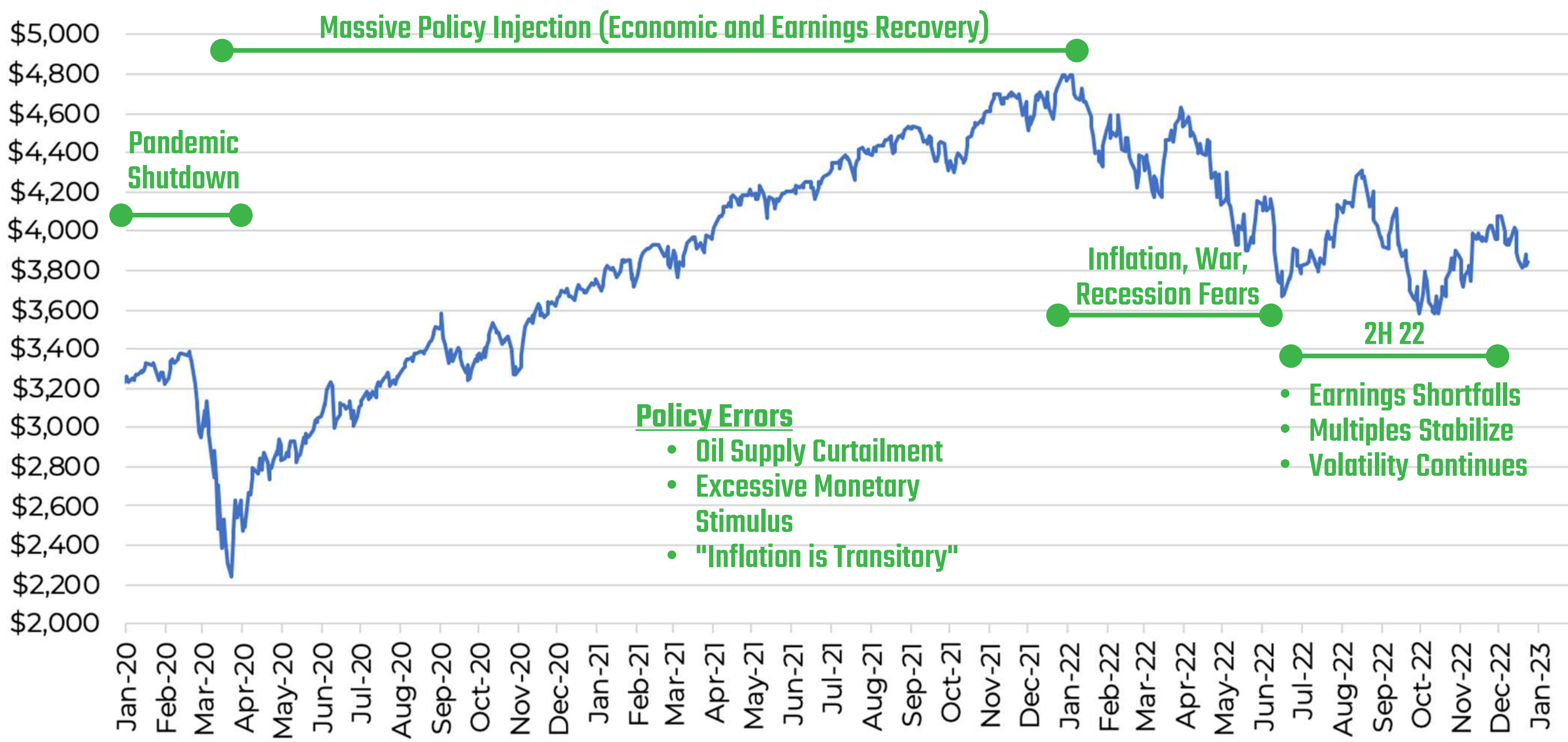
Financial services industry veteran, with over 40 years of experience. Experienced portfolio manager for large-cap equity strategies, as well as long and long-short equity strategies. Author of weekly, quarterly, and annual investment commentaries focusing on key themes and risks driving equity markets, monetary policy, and the global economy. Regular guest and contributor to multiple media outlets such as CNBC, Bloomberg TV, Moneywise, and Fox Business News.

2022 Returns

Index	2022
90-Day Treasury Bills (Bloomberg U.S. Treasury Bill 1-3 Month TR)	1.5%
10-Year U.S. Treasury (Bloomberg U.S. Treasury 10+ Yr TR) **(1.50% → 4.25% → 3.87%)**	-16.2%
U.S. Bonds (Bloomberg U.S. Agg Bond TR)	-13.0%
High-Yield Corporate Bonds (Bloomberg U.S. Corp High Yield TR)	-11.2%
S&P 500 TR Index **(4800 → 3600 → 3840)**	-18.1%
MSCI World Ex. U.S. (MSCI World Ex USA NR)	-14.3%
MSCI Emerging Markets (MSCI EM NR)	-20.1%
Commodities (DJ Commodity TR)	-16.1%

Source: Bloomberg. As of December 31, 2022.

S&P 500 3-Year History



Source: Bloomberg. As of December 23, 2022.

2022 Predictions Scorecard

Theme: Tug of War Between Earnings Tailwinds and Valuation Headwinds

½	1	U.S. real growth and inflation remain above-trend but decline from 2021 levels.
½	2	Inflation falls, but core inflation remains stuck at around 3%.
✓	3	For the first time since 1958/1959, 10-year Treasuries provide a second year of negative returns.
✓	4	Stocks experience their first 10% correction since the pandemic and fail to make the gains widely expected.
½	5	Cyclical, value, and small stocks outperform defensive, growth, and large stocks.
✓	6	Financials and energy outperform utilities and communication services.
✓	7	International stocks outperform the U.S. for only the second time in the last decade.
✓	8	Values-based investing continues to gain share.
✓	9	After a 60+ year low in 2021, federal interest expense as a percentage of revenue begins a long-term move higher.
✗	10	Republicans gain at least 20-25 House seats and barely win the Senate.

7.5 Correct!

2023 Theme: The Fed Calls the Shots

Question	Likely Consequence
Q: Will the Fed insist on 2% inflation?	Normal Recession
OR	
Q: Will the Fed blink, raise the inflation target to 3%, and possibly tolerate 4% inflation?	Soft Landing
OR	
Q: Will the Fed attempt to thread the needle?	Shallow Recession

2023 Investment

1	2	3	4	5
Have central banks already overtightened?	Will we have a recession?	What are trough earnings?	What is core inflation rate?	Can bond yields fall further?

6	7	8	9	10
How will QT complicate things?	Will there be breakage (liquidity/credit)?	How long will the dollar stay strong?	What happens to the war and oil prices?	Will China rebound and prevent a global recession?

Likely 2023 Developments

1. A mild recession
2. Inflation falls, but not far enough
3. Fed funds peaks, but stays high
4. Unemployment rises more than expected
5. Treasury yields are range bound
6. Stocks are volatile but trendless
7. Dollar falls modestly
8. Oil prices rise despite economic weakness
9. China rebounds
10. Fiscal policy is nearly non-existent

2023 Outlook

BULL CASE		BEAR CASE
Sustained Declines from Peak	INFLATION	Core Remains Very Persistent
"Pivot" into Slowing Growth	THE FED	"Higher for Longer"
Weakening	DOLLAR	Strengthening
Soft Landing	ECONOMY	Demand-Driven Recession
Modest EPS Growth	EARNINGS	Earnings Contractions >10%
Strains Are Temporary	CREDIT & LIQUIDITY	Rising "Blow Up" Risks
Duration & Cyclicality	POSITIONING	Defense & High Quality

Source: Wolfe Research Portfolio Strategy

PREDICTION 1

The U.S. experiences a shallow recession as real GDP is in bottom ten of last 50 years.

Recession Views

- No Recession in 2022
- Likely Mild Recession in 2023

Quotes

- Brace yourself for an “economic hurricane” – Jamie Dimon
- An “economic tsunami” is coming to NYC – Mayor Adams
- You might want to rethink buying an “automobile, refrigerator, or whatever” – Jeff Bezos
- No post war expansion died of old age – they were all murdered by the Fed – Rudi Dornbusch
- Consumer demand is cooling – Bank of America, Wells Fargo

PREDICTION 1

The U.S. experiences a shallow recession as real GDP is in bottom ten of last 50 years.

Why Recession?

Fundamentals

- Yield curve deeply inverted (deepest in 40 years)
- Commodity prices down (Oil down 40% in six months)
- Money growth turned negative (after being up 25% y/y two years ago)
- Manufacturing PMIs under 50
- Underperformance of financials, especially banks
- High inventory levels

Why Shallow?

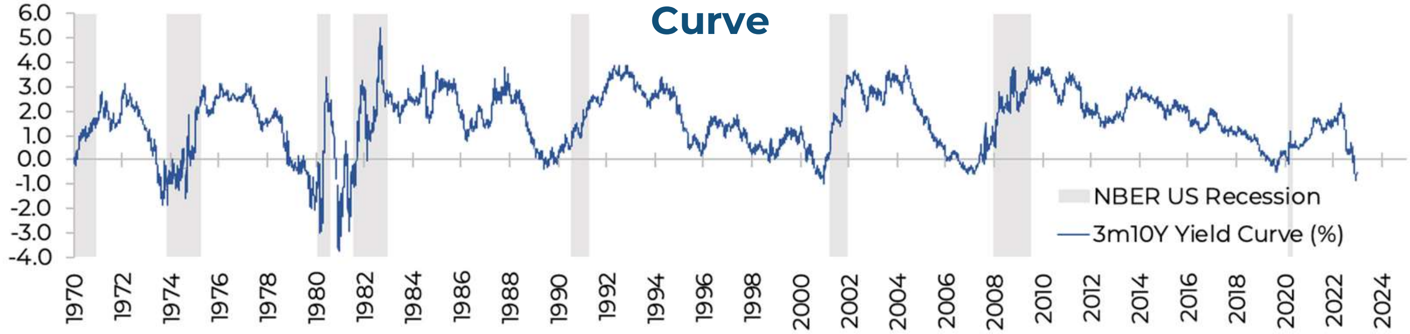
- Consumer cash still strong (especially top half)
  - Excess cash still ≈ $1 trillion
- Corporate sector balance sheets healthy
- Corporate profit margins, while under pressure, are at high levels
- Bank balance sheets are remarkably healthy
- High-yield bond spreads have not jumped significantly

PREDICTION 1

The U.S. experiences a shallow recession as real GDP is in bottom ten of last 50 years.

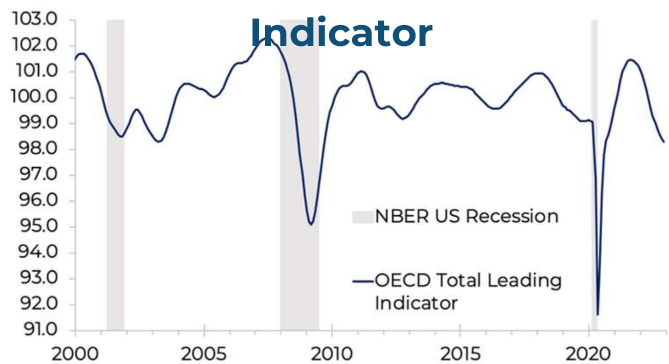
Indicators of Recession

3-Month / 10-Year Yield Curve



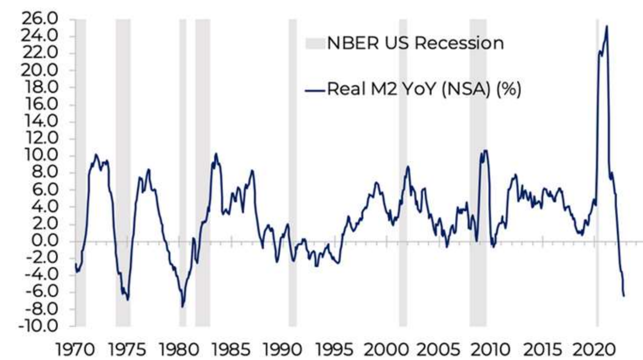
Source: Bloomberg.

OECD Leading Indicator



Source: Bloomberg.

Real U.S.



Source: Bloomberg.

PREDICTION 1

The U.S. experiences a shallow recession as real GDP is in bottom ten of last 50 years.

Economy Growth Slowing: Recession In Our Future?

Manufacturing PMI's

	12/21	1/22	2/22	3/22	4/22	5/22	6/22	7/22	8/22	9/22	10/22	11/22	12/22
Global	54.3	53.2	53.7	52.9	52.3	52.3	52.2	51.1	50.3	49.8	49.4	48.8	48.6
Developed Markets	56.6	56.3	56.6	56.5	56.3	55.0	52.5	51.3	50.3	50.1	48.8	47.8	47.3
Emerging Markets	51.7	50.0	50.9	49.2	48.1	49.5	51.7	50.8	50.2	49.4	49.8	49.7	49.8
US	57.7	55.5	57.3	58.8	59.2	57.0	52.7	52.2	51.5	52.0	50.4	47.7	46.2
Euro Area	58.0	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8
UK	57.9	57.3	58.0	55.2	55.8	54.6	52.8	52.1	47.3	48.4	46.2	46.5	45.3
Japan	54.3	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9
China	50.9	49.1	50.4	48.1	46.0	48.1	51.7	50.4	49.5	48.1	49.2	49.4	49.0
Brazil	49.8	47.8	49.6	52.3	51.8	54.2	54.1	54.0	51.9	51.1	50.8	44.3	44.2

Sources: Markit and Bloomberg.

PREDICTION 1

The U.S. experiences a shallow recession as real GDP is in bottom ten of last 50 years.

2023 Economic Forecast

	Probability	Real GDP
Soft Landing	30%	1.5
Mild Recession	50%	0.5
Average Recession	20%	-0.5

Note: Real GDP likely to be in bottom quintile of last 50 years for U.S. and globe

Memo	Growth Rate
U.S. Bottom Quartile	1.5%
Global Bottom Quintile	2.0%
Global Bottom Decile	1.5%

PREDICTION 2

Inflation falls substantially, but remains above Fed's target.

Review of Inflation

WAS	0-2%
PEAKED	8-9%
CURRENTLY	6-7%
HEADING TO	4-5%
FED GOAL	2%

If Fed insists on 2% → Recession probability near 100%

- Stocks vulnerable (earnings cuts severe), bonds good

If Fed raises target to 3% and can tolerate 4% → Soft landing possible

- Stocks okay, earnings targets achieved, valuation questionable
- Bonds trading range

PREDICTION 2

Inflation falls substantially, but remains above Fed's target.

Inflation

Was: "0-2% forever"

Recent Peak: 2Q 8-9%

By Year End: 4-5% (on an annualized basis)

Big Question: Will the Fed pause at 4-5% inflation or insist on 2%?

Inflation Causes

- Absorption of slack created by the Great Recession
- Excessive money growth
- Artificially low interest rates for too long
- Excessive fiscal policy stimulus post pandemic
- Wage pressures turning higher
- Reversal of disinflationary impact of globalization
- Supply chain disruptions resulting from pandemic-induced economic shutdown

Why Is Inflation Declining?

Reasons Inflation Is Declining

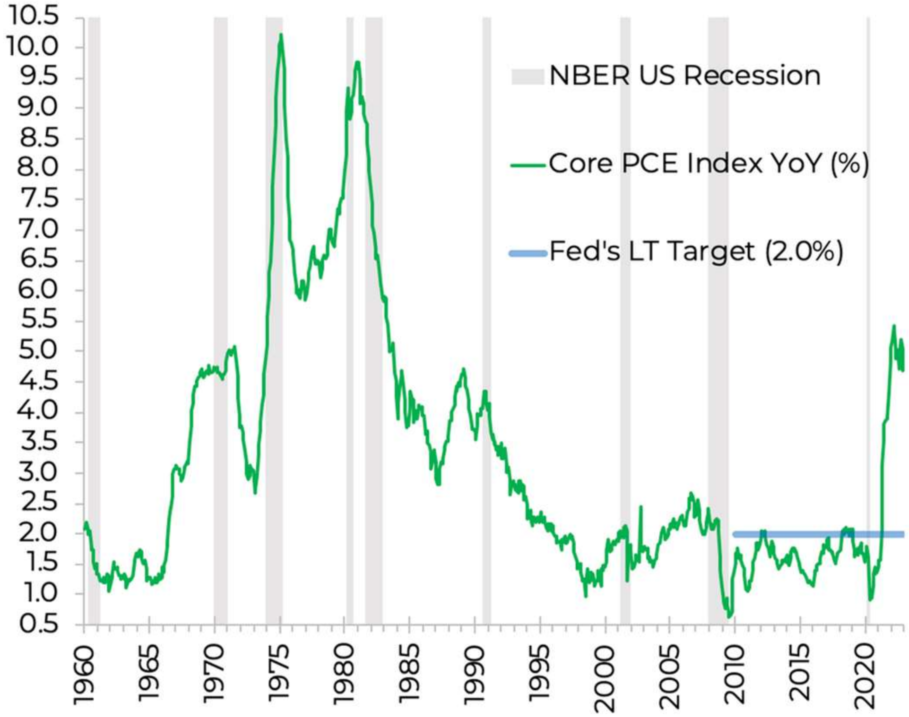
1	2	3	4	5
Fed raising rates to slow economic growth	Significant slowing in money growth	Dollar strength	Lower commodity prices	Some let-up in supply chain disruption

PREDICTION 2

Inflation falls substantially, but remains above Fed's target.

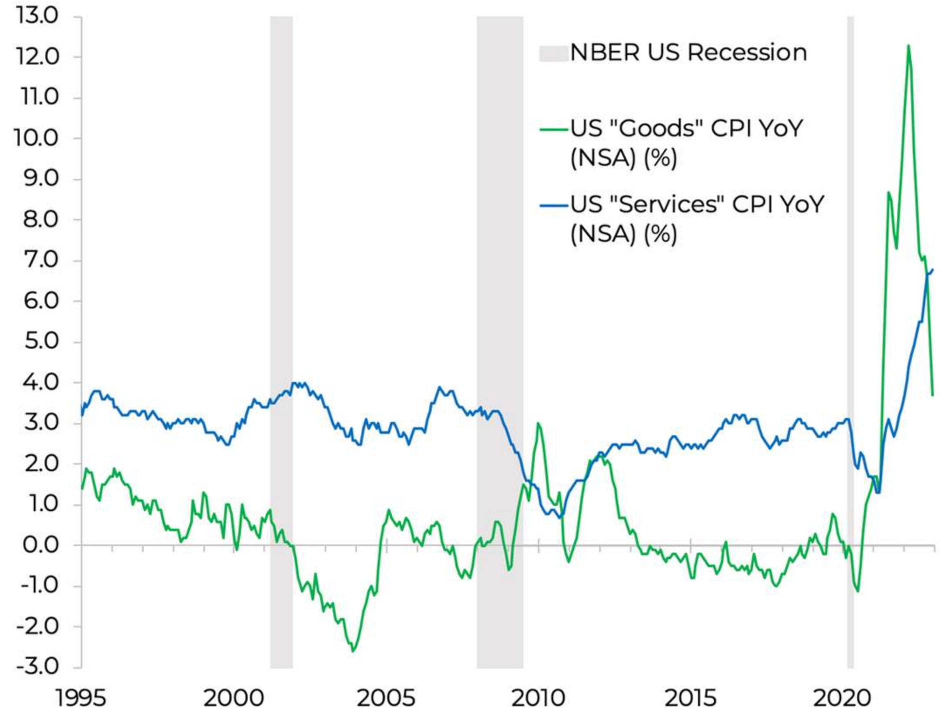
Fed Has More Work To Do!

Core PCE Still Way Above Fed Target



Source: Canaccord Genuity.

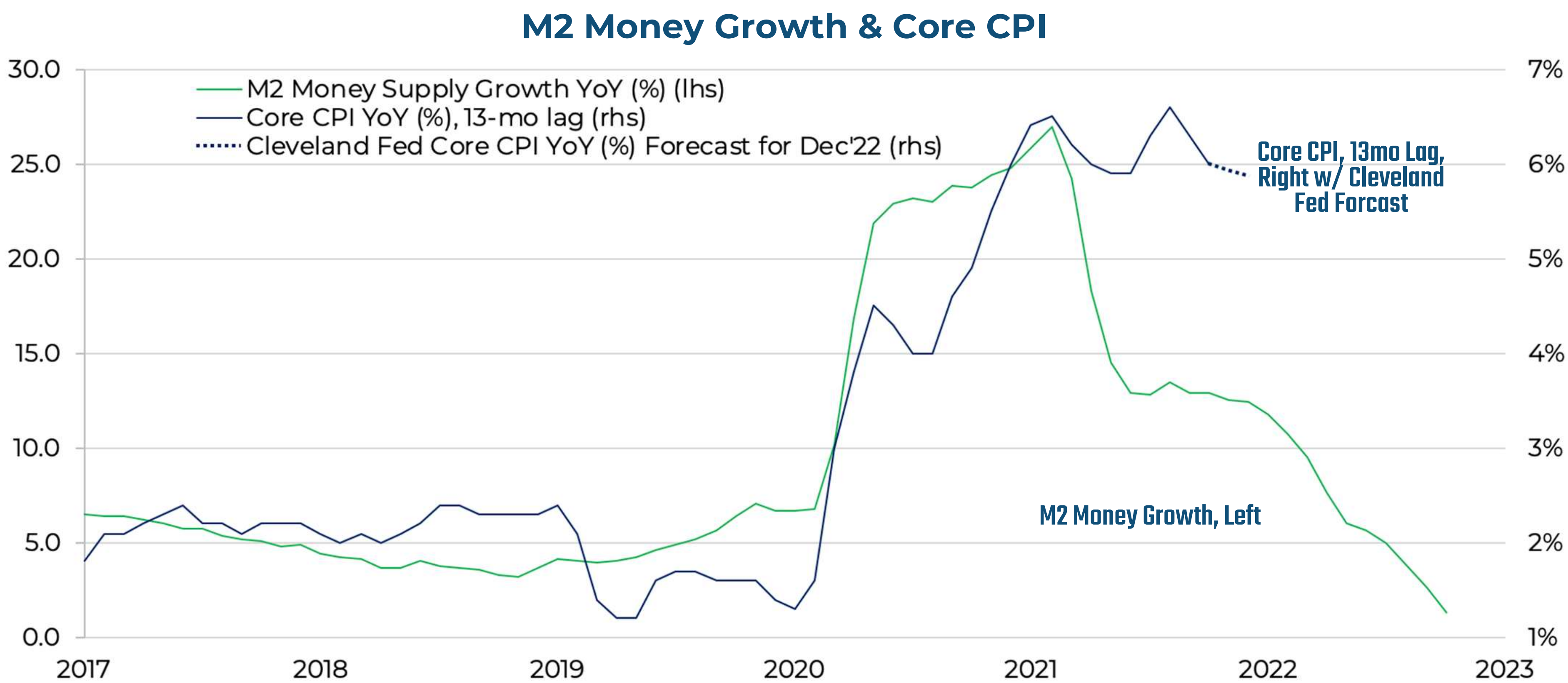
Services vs. Goods CPI (YoY)



Source: Wolfe Research.

PREDICTION 2

Inflation falls substantially, but remains above Fed's target.



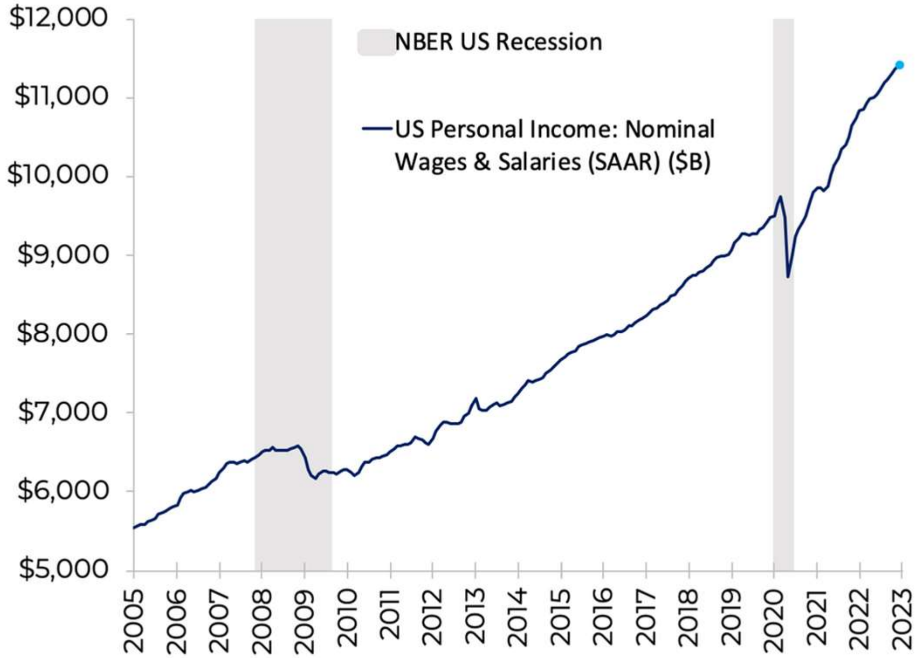
Source: Strategas.

PREDICTION 2

Inflation falls substantially, but remains above Fed's target.

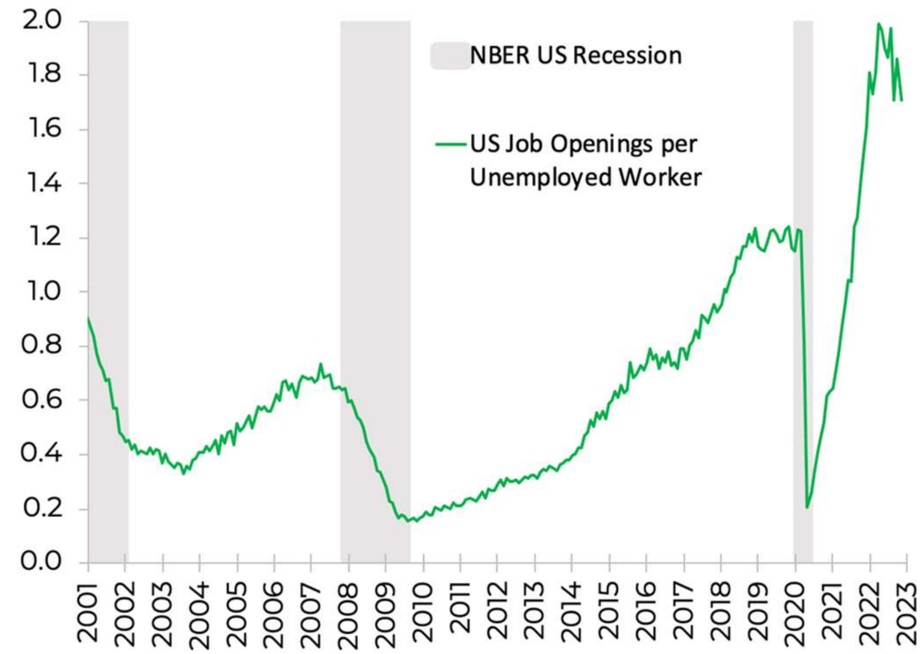
Fed Has More Work To Do!

U.S. Nominal Wages & Salaries



Sources: Wolfe Research.

There are 1.6 job openings per every unemployed worker in the U.S.

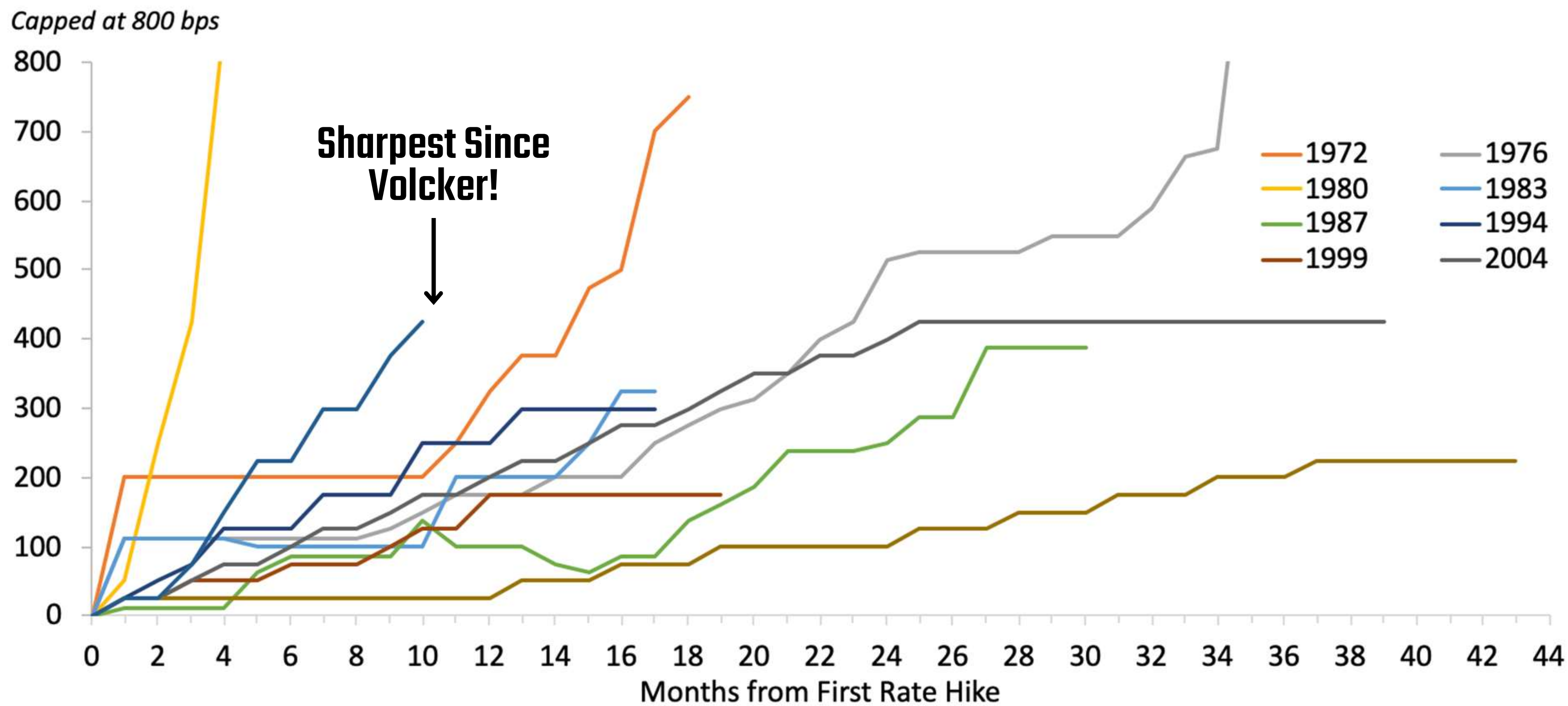


Sources: U.S. Bureau of Labor Statistics. As of 10/04/22.

PREDICTION 3

Fed funds reaches 5% and remains there for the balance of the year.

Fed Hiking Cycles: Cumulative Basis Point Change



Sources: Wolfe Research Portfolio Strategy, Bloomberg, Crossmark.

PREDICTION 3

Fed funds reaches 5% and remains there for the balance of the year.

Assumptions

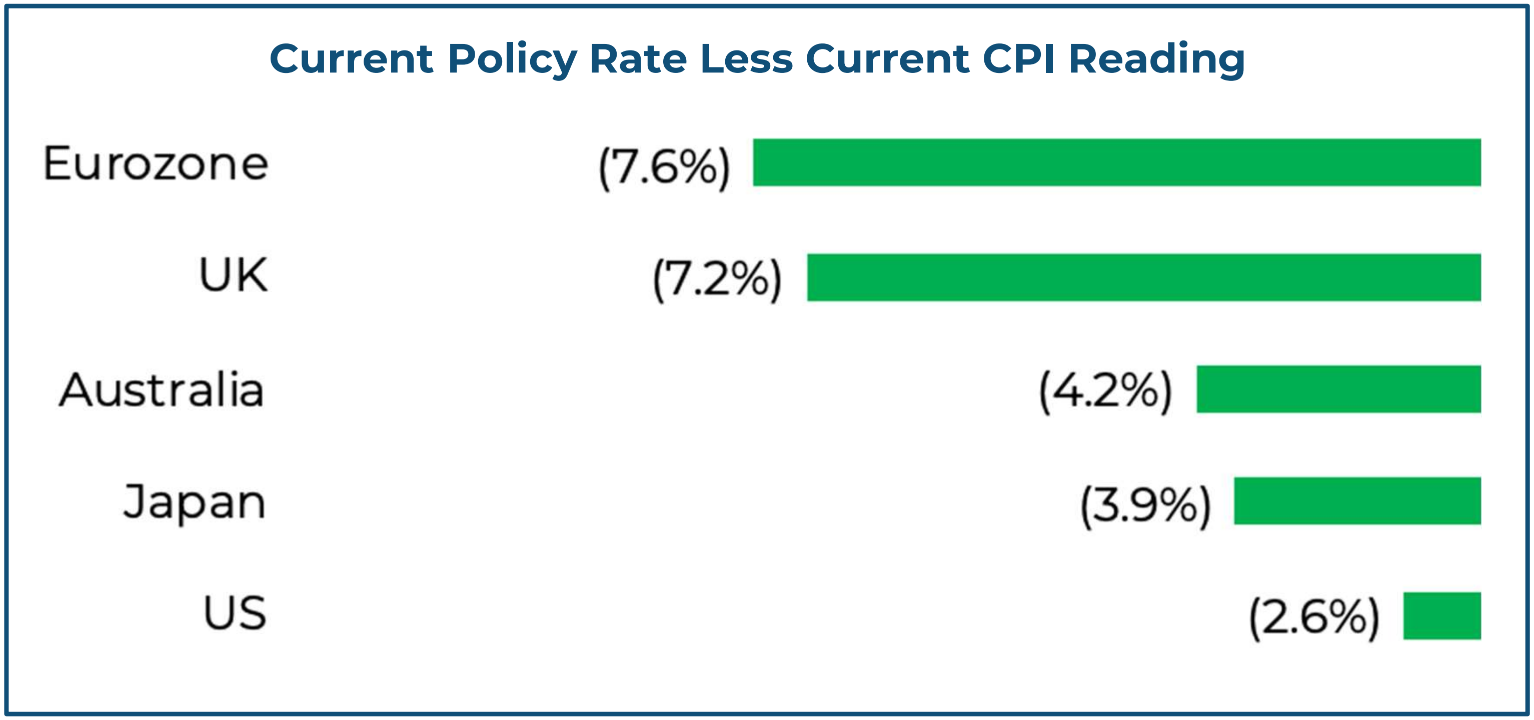
1. Fed will eventually raise rates 25 basis points (not 50)
2. Fed reaches peak rates at 5% or higher early in 2023
3. Fed keeps rates at peak longer than consensus expects
4. Fed funds exits 2023 at 5% or higher
5. Additional inversion likely

Note: Fed still has $9 trillion of balance sheet assets to sell off

PREDICTION 3

Fed funds reaches 5% and remains there for the balance of the year.

Non U.S. Central Banks Have More Work To Do Than Fed



Note: as of 12/31/22.

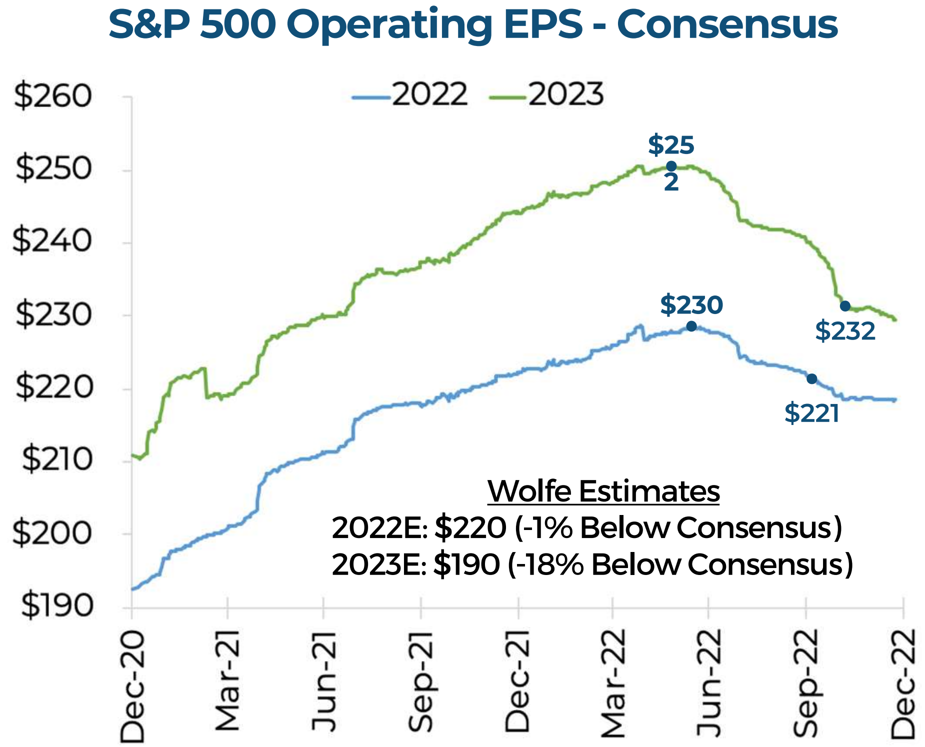
PREDICTION 4

Earnings fall short of expectations in 2023 due to cost pressures and revenue shortfalls.

Earnings Estimates Too High

S&P Earnings		
	Consensus	Our Guess
2021	$204 (Actual)	$204 (Actual)
2022	$221 +10%	$220 +8%
2023	$231 +8%	$200 -9%
2024	$254 +9%	$230 +15%

Consensus Has Only Started To Come Down

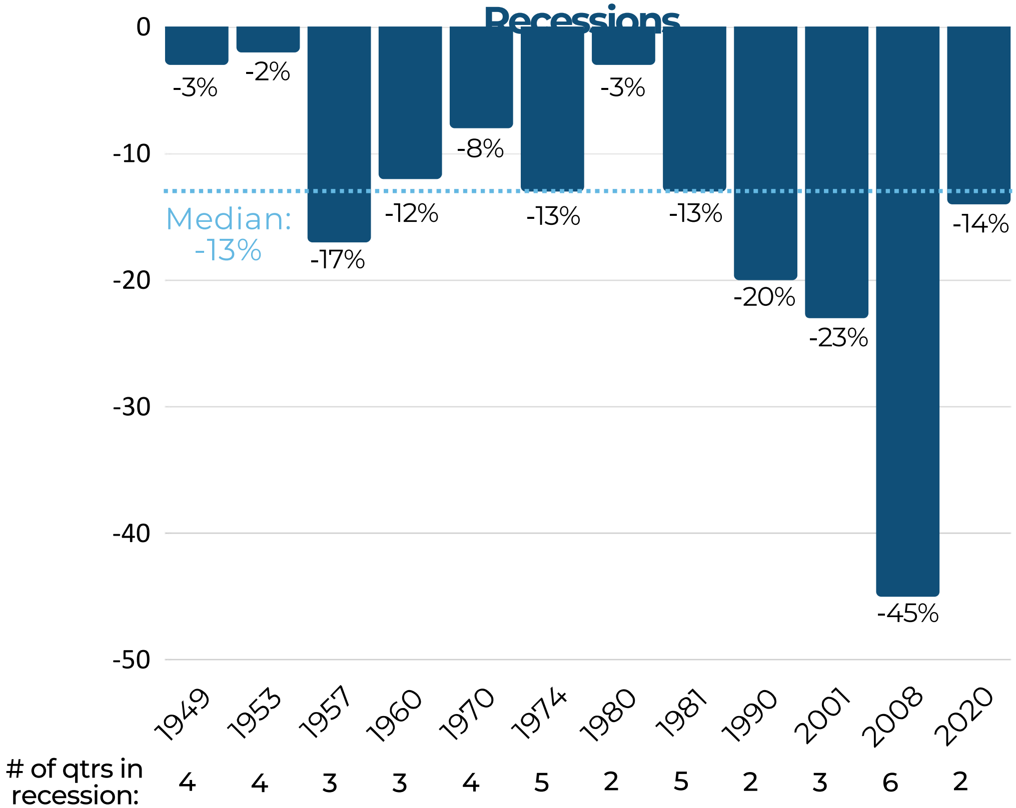


Sources: Wolfe Research Portfolio Strategy, Compustat, Refinitiv, Standard & Poor's and FactSet.

PREDICTION 4

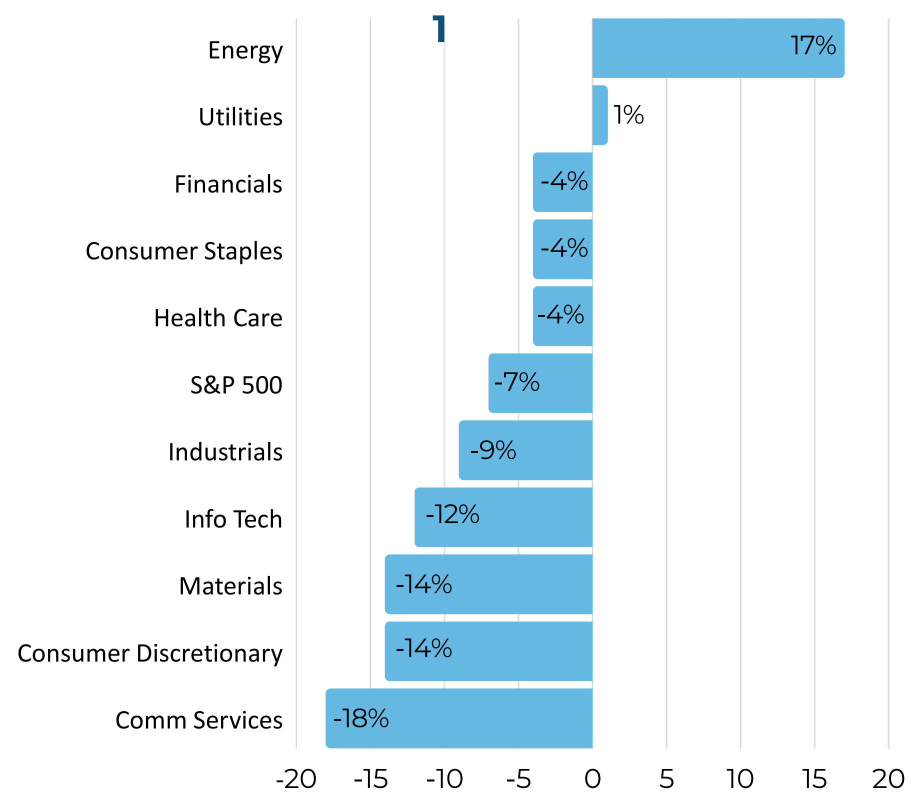
Earnings fall short of expectations in 2023 due to cost pressures and revenue shortfalls.

Median EPS Decline of 13% During Prior Recessions



Source: Goldman Sachs Global Investment Research

2023 S&P 500 EPS Revisions July 1 to Dec. 1



Source: Factset, Goldman Sachs Global Investment Research. As of Dec. 1, 2022.

PREDICTION 5

No major asset class is up or down by a double-digit percentage for only the fourth time this century.

Perspective On Prediction 5

- Since 2000, this has happened only three times (2005, 2015, 2018) So, $\frac{3}{23}$ = 13% of the time. In the last 100 years, it has occurred 20% of the time.
  So, this was probably a foolish prediction to make.
- BUT...
  - We know cash will have a low single-digit positive return
  - We expect the ten-year treasury will have some upside in the event of a mild recession (a large upside in the event of an average recession), and modest downside if we have a soft landing
  - Equities: like most observers argue, if a recession takes stocks down some due to earnings disappointments, visibility into a 2024 recovery should create some upside. If we have a soft landing, earnings should be acceptable, but P/E's may erode some.

    Note: in the 20 years the S&P 500 has declined a double-digit percentage, the average return the next year is 3.5% (although 16 of the years the market was up or down a double-digit percentage!)

10-Year yield range permissible to get this correct: 2.57% to 5.28%.

S&P 500 range permissible to get this correct: 3455 to 4223.

PREDICTION 5

No major asset class is up or down by a double-digit percentage for only the fourth time this century.

2023 Market Targets

S&P 500							
Probability	**Scenario**	**Low**	**%△**	**Close**	**%△**	**10-Year Yield**	**%△**
30%	Soft Landing	3600	-6.2%	4200	+9.4%	4.25%	+38bp
50%	Mild Recession	3400	-12.4%	3900	+1.6%	3.50%	-37bp
20%	Normal Recession	3000	-21.9%	3600	-6.2%	2.75%	-112bp
Probability Weighted Average				3930		3.60%	

Reminder: Stocks have never bottomed before a recession started.

Biggest Risk: Without exception, every tightening cycle has been associated with a financial shock/crisis.

PREDICTION 5

No major asset class is up or down by a double-digit percentage for only the fourth time this century.

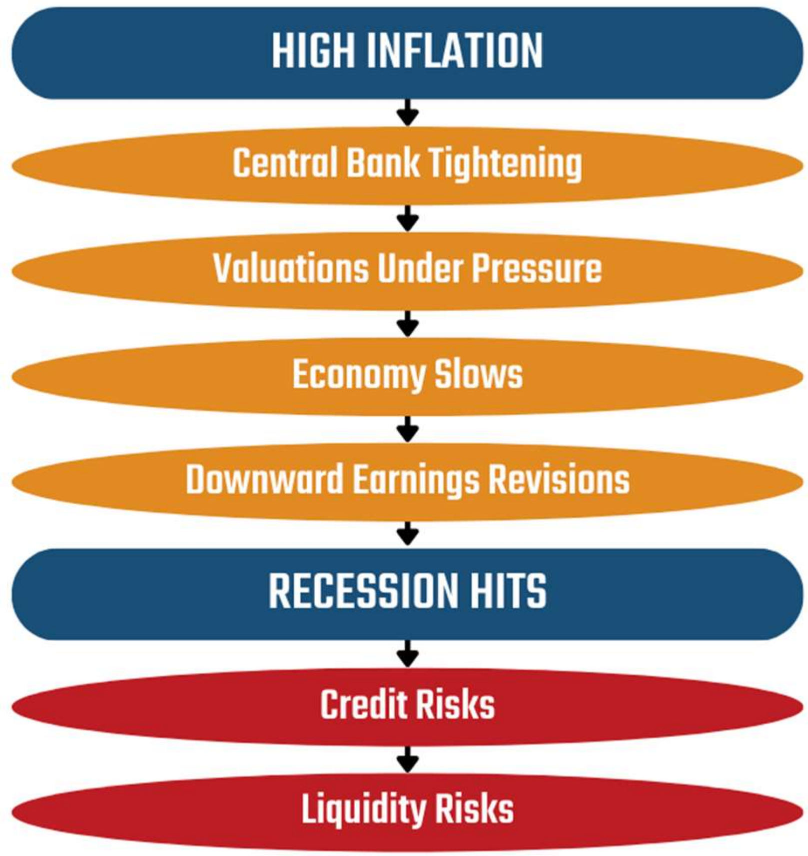
Bear Markets Are A Process

Fed actions will be the most important determinant of how fast we go down the bear market path

Current Situation

Our base case remains that a mild recession hits in 2023

Once a recession hits, we need to worry about worst-case scenarios



Source: Wolfe Research.

PREDICTION 5

No major asset class is up or down by a double-digit percentage for only the fourth time this century.

Using Recession to Qualify "A" vs. "The" Low

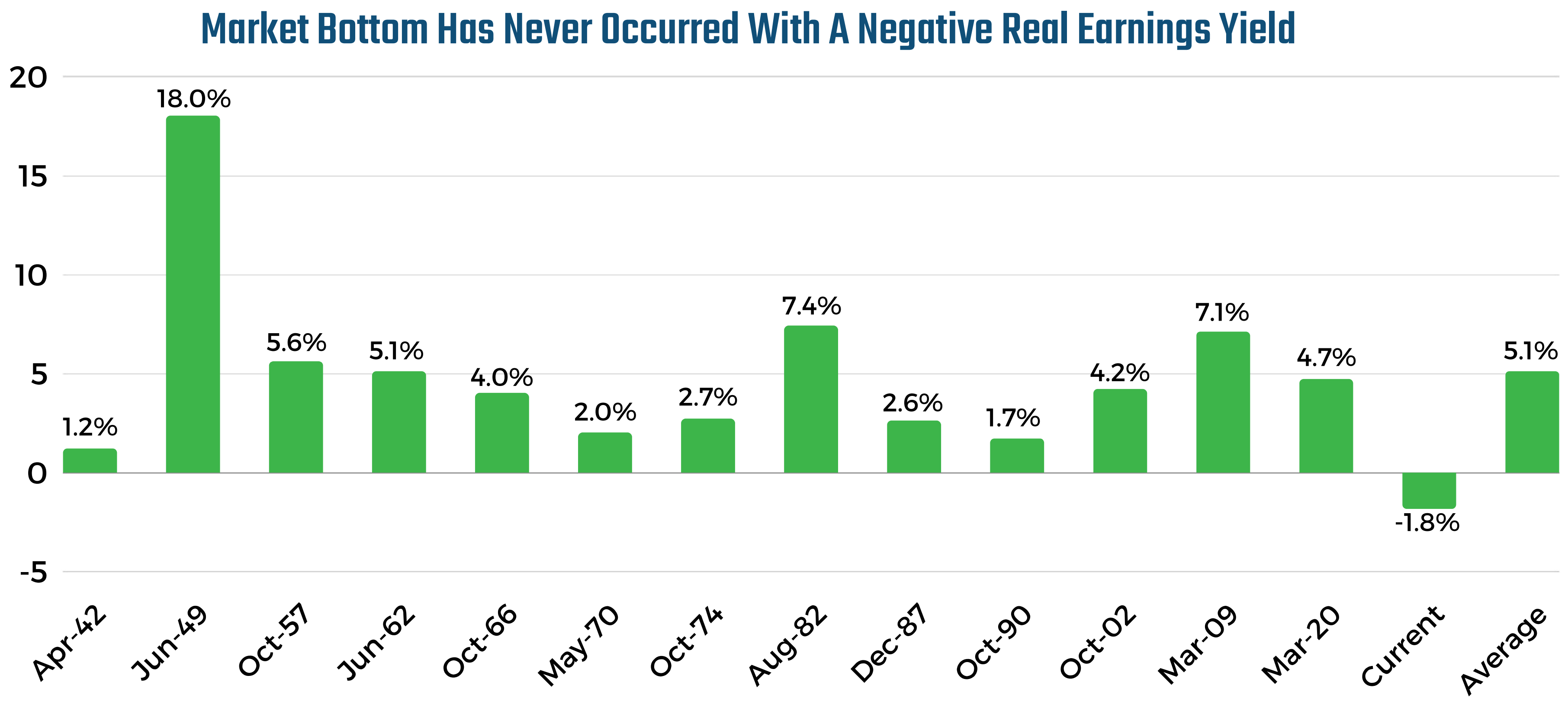
U.S. Recessions			SPX Low		SPX Low in Recesssion?	Weeks from Start to Low
Start	Trough	# of Mths	Date	SPX		
8/30/1957	4/30/1958	8	10/22/57	38.98	Yes	8
4/29/1960	2/28/1961	10	10/25/60	52.3	Yes	26
12/31/1969	11/30/1970	11	5/26/70	69.29	Yes	21
11/30/1973	3/31/1975	16	10/3/74	62.28	Yes	44
1/31/1980	7/31/1980	6	3/27/80	98.22	Yes	8
7/31/1981	11/30/1982	16	8/12/82	102.42	Yes	54
7/31/1990	3/31/1991	8	10/11/90	295.46	Yes	10
3/31/2001	11/30/2001	8	10/9/02	776.76	After	79
13/31/2007	6/30/2009	18	3/9/09	676.53	Yes	62
2/29/2020	4/30/2020	2	3/23/20	2237.4	Yes	3
					Median	23.5

Source: Bloomberg/Cannacord.

PREDICTION 5

No major asset class is up or down by a double-digit percentage for only the fourth time this century.

Positive Earnings Yield Required for Equity Bottom



Source: Strategas.

PREDICTION 5

No major asset class is up or down by a double-digit percentage for only the fourth time this century.

U.S. Valuation Metrics Are Still High Relative To History

Valuation Metrics	Current	Historical Percentile	Last Year Percentile
U.S. Market Cap / GDP	22.0x	96	100
Cash Flow Yield	6.7%	85	95
Free Cash Flow Yield	4.1%	51	60
Forward P/E	17.9x	83	94
Cyclically Adjusted P/E (CAPE)	26.2x	83	93
Price / Book	4.0x	90	95
EV/EBITDA	12.5x	88	99
Yield Gap vs. 10-Yr U.S. Treasury	207 bp	55	38
Yield Gap vs. IG	37 bp	78	32

Source: Wolfe Research.

PREDICTION 5

No major asset class is up or down by a double-digit percentage for only the fourth time this century.

10-Year Treasury Returns (Since 1928)

Number of down years (Total Returns)	19/95	20%
Number of back to back down years	3/94	3%
Number of three down years in a row (In fact, never in the 250-year history of U.S. Treasuries)	0/94	0%

Note: Total return for 2021-2022 was worst in over 100 years.

PREDICTION 5

No major asset class is up or down by a double-digit percentage for only the fourth time this century.

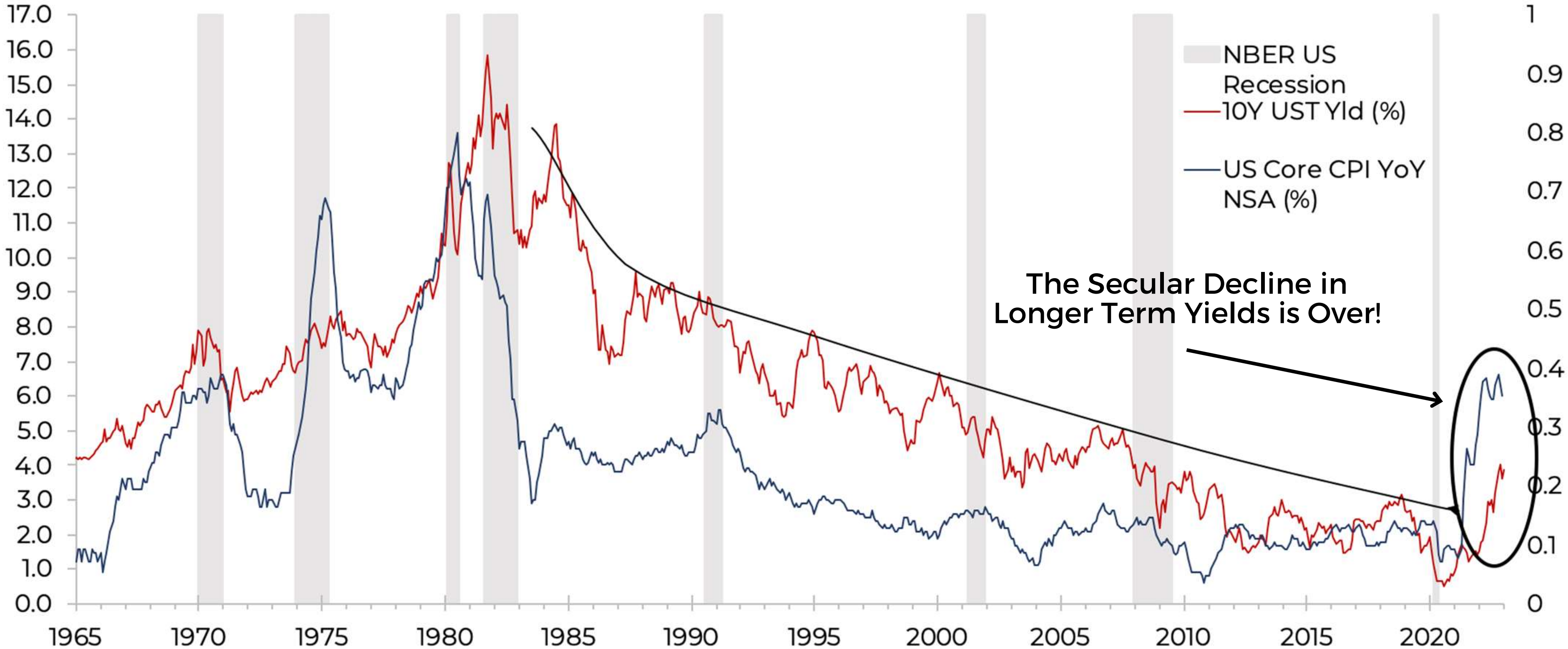
Potential Fixed Income Positioning

1. Legitimate alternative to equities (No longer TINA)
2. Neutral duration until outlook is clearer
3. Selectivity in spread products
4. Own yield curve steepeners
5. Muni's attractive, where tax positioning permits

PREDICTION 5

No major asset class is up or down by a double-digit percentage for only the fourth time this century.

U.S. Core CPI YoY vs. 10Y Yield Graph



Source: Wolfe Research.

PREDICTION 6

Energy, Consumer Staples, and Financials outperform Utilities, Technology, and Communication Services as Value beats Growth.

OVERWEIGHTS

Energy

- Record free cash flow
- Limited capex due to environmental restrictions
- Strong earnings growth

Risk: Significant decline in oil prices, war ends

Consumer Staples

- Price increases and "shrinkflation"
- Quality and dividend yield/growth
- Late cycle outperformer

Risk: Rising interest rates, valuation

Financials

- Very inexpensive on most all measures
- High-quality balance sheets; overcapitalization
- Higher quality earnings than usual

Risk: Flattening yield curve

UNDERWEIGHTS

Utilities

- Expensive vs. bonds and other equities
- Payout rates high
- Hurt by higher rates and inflation

Risk: Moderating inflation, lower rates, defensive characteristics

Technology

- Cyclical recession earnings risk (falling demand)
- Past peak globalization; large China exposure
- Regulatory overhang

Risk: Strong secular unit growth

Communication Services

- Crowded, competitive sector
- Poor fundamentals
- Regulatory risk

Risk: Oversold bounce could be significant

PREDICTION 6

Energy, Consumer Staples, and Financials outperform Utilities, Technology, and Communication Services as Value beats Growth.

Sector Earnings vs. Capitalization Comparison

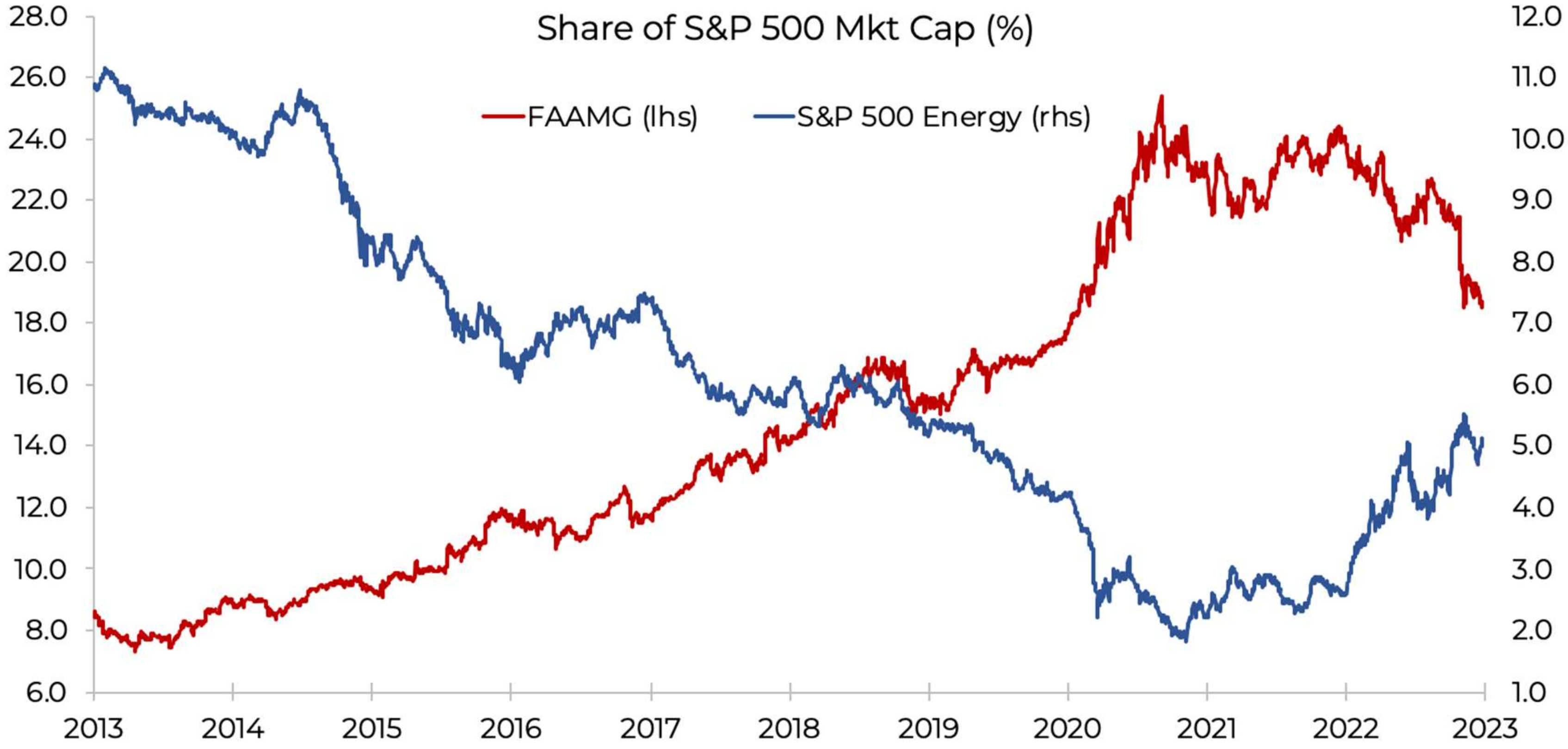
	Earnings Weight	Sector Weight in S&P 500	Difference
Energy	11.2%	4.9%	6.3%
Staples	5.7%	7.1%	-1.4%
Financials	15.0%	11.4%	3.6%
	31.9%	**23.4%**	**+8.5%**
Communication Services	6.5%	7.1%	-0.6%
Technology	21.2%	26.3%	-5.2%
Utilities	2.5%	3.1%	-0.6%
	30.2%	**36.5%**	**-6.4%**

Source: Strategas. As of 12/2/22.

PREDICTION 6

Energy, Consumer Staples, and Financials outperform Utilities, Technology, and Communication Services as Value beats Growth.

Energy & Technology: Will They Trade Places?



Source: Bloomberg Finance L.P., Goldman Sachs.

PREDICTION 6

Energy, Consumer Staples, and Financials outperform Utilities, Technology, and Communication Services as Value beats Growth.

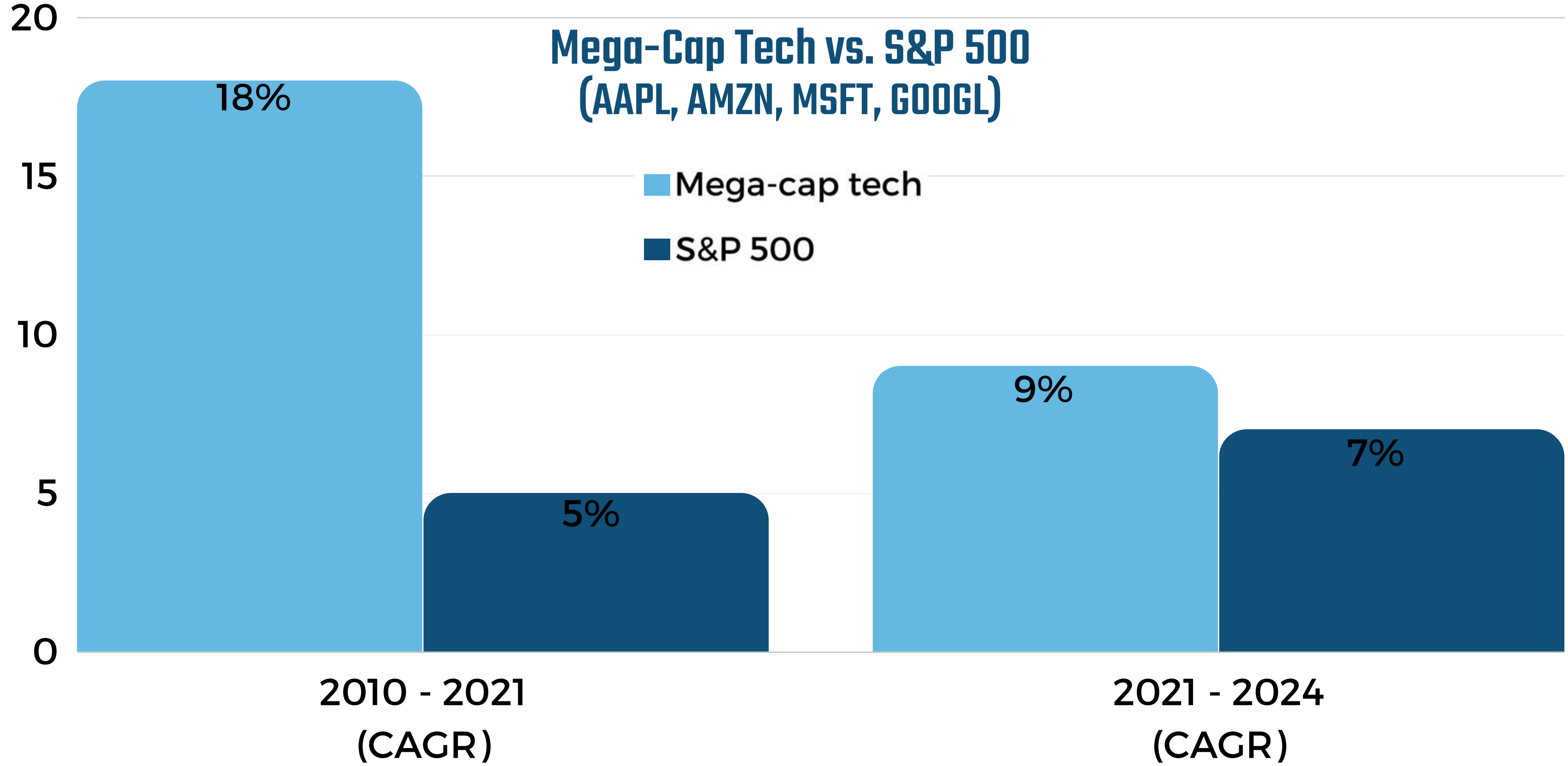
Tesla vs. Exxon

Source: Strategas.

PREDICTION 6

Energy, Consumer Staples, and Financials outperform Utilities, Technology, and Communication Services as Value beats Growth.

Annualized Sales Growth

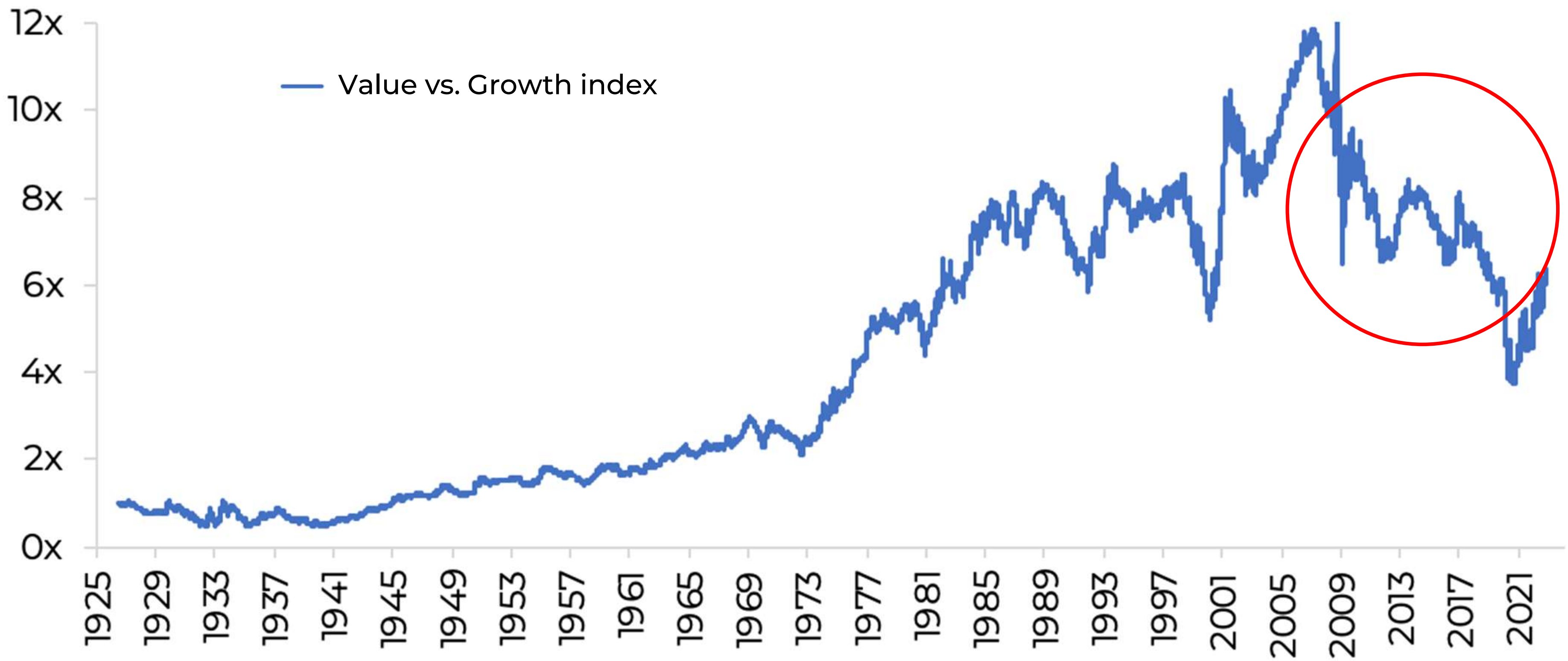


Source: FactSet, Goldman Sachs Global Investment Research. As of December 1, 2022.

PREDICTION 6

Energy, Consumer Staples, and Financials outperform Utilities, Technology, and Communication Services as Value beats Growth.

Despite The Last Ten Years, Value Has Outperformed Growth Over The Long-Term



Source: Tuck School of Business Data Library, BofA US Equity & Quant Strategy.
Note: October performance is based on the Russell 1000 Value & Growth index.

PREDICTION 7

The average active equity manager beats the index in 2023.

No Clear Winner in Active vs. Passive Large-Cap Funds

Index Wins – 19x, Active Wins – 15x, Tie – 1x

	Active Large Blend Category (%)	S&P 500 Index Funds (%)
1987	2.78	**3.94**
1988	**15.85**	15.26
1989	27.51	**30.02**
1990	-3.61	**-3.59**
1991	**31.28**	29.63
1992	**9.24**	7
1993	**11.92**	9.41
1994	-1.03	**0.85**
1995	33.24	**36.9**
1996	20.99	**22.46**
1997	29.66	**32.74**
1998	20.68	**28.18**
1999	**21.68**	20.34
2000	**-0.36**	-9.44
2001	**-8.05**	-12.11
2002	**-19.86**	-22.31
2003	**29.51**	27.57
2004	**11.57**	10.42
2005	**6.72**	4.44
2006	14.68	**15.28**
2007	**7.76**	4.95
2008	**-36.29**	-36.86
2009	**29.1**	25.88
2010	**14.41**	**14.41**
2011	-0.36	**1.47**
2012	15.39	**15.68**
2013	**32.49**	31.57
2014	11.07	**13.26**
2015	-0.18	**0.93**
2016	9.78	**11.48**
2017	20.67	**21.32**
2018	-6.51	**-4.8**
2019	29.05	**30.94**
2020	16.02	**18.52**
2021	25.62	**28.18**

Sources: Morningstar and Hartford Funds. 2/22.

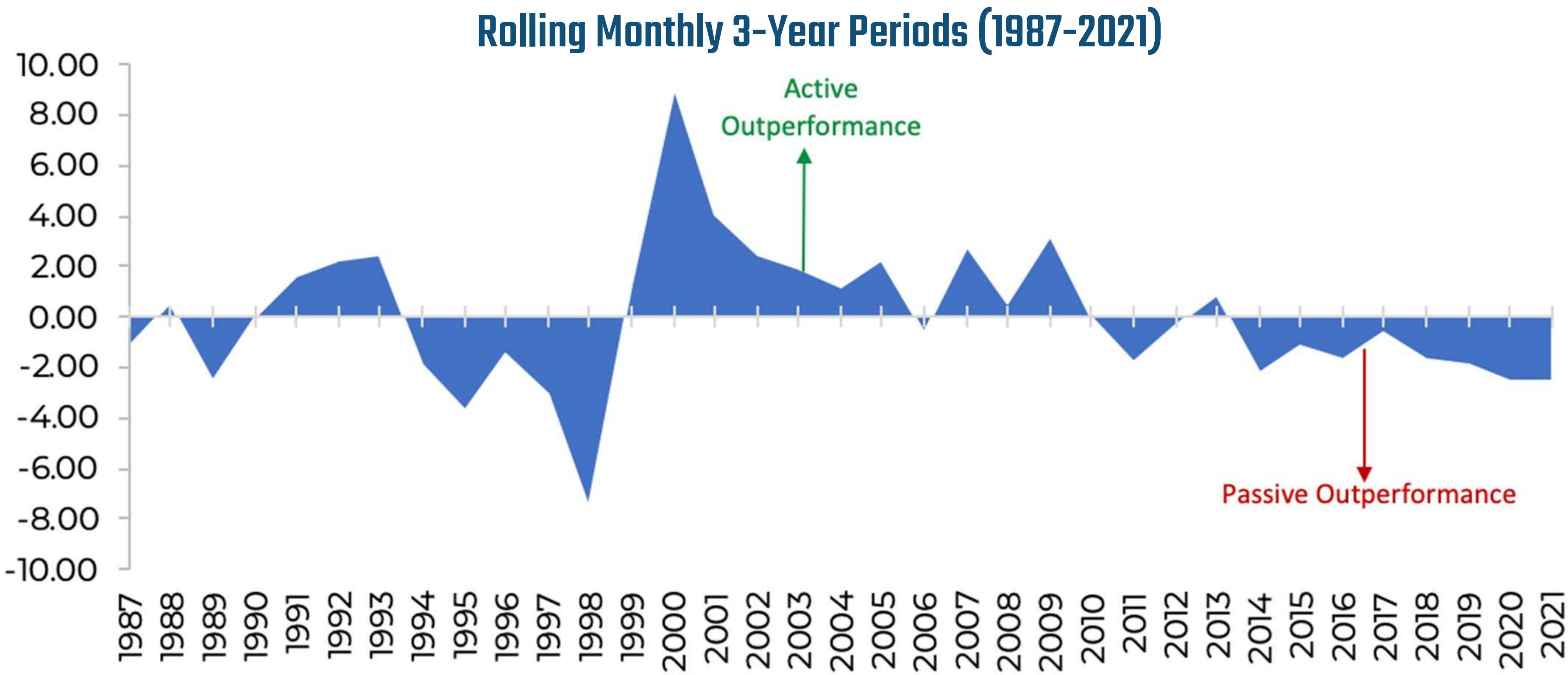
Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment.

- Active Large Blend is made up of funds from the Morningstar Large Blend category that are not index or enhanced index funds.
- S&P 500 Index Funds are represented by the Morningstar S&P 500 Tracking category.

PREDICTION 7

The average active equity manager beats the index in 2023.

Active and Passive Outperformance Trends Are Cyclical



Sources: Morningstar and Hartford Funds. 2/22.

PREDICTION 7

The average active equity manager beats the index in 2023.

When Does Active Beat Passive

- Average Stock > Index (Equal-weighted portfolios > cap-weighted portfolios)
- Small > Big
- Value > Growth
- Interest rates flat to up
- Stocks flattish or down
- Fundamentals matter
- Low stock correlation
- "Normal" monetary policy
- High dispersion
- High volatility

Barriers to Active Outperformance

- Central bank distortions
- Very low/negative interest rates
- Cash in up markets
- High stock correlations
- Low tracking error
- Low dispersion
- Low volatility
- Fees

PREDICTION 8

International stocks outperform the U.S. for the second year in a row (first time since 2006-2007).

MSCI Annual Returns (%)

	MSCI USA	MSCI ACWI ex US
2011	1.4	(13.7)
2012	15.3	16.8
2013	31.8	15.3
2014	12.7	(3.9)
2015	0.7	(5.7)
2016	10.9	4.5
2017	21.2	27.2
2018	(5.0)	(14.2)
2019	30.9	21.5
2020	20.7	10.7
2021	26.5	7.8
2022	**(19.8)**	**(16.0)**
Trailing 3-Yr	22.4	0.2
Trailing 5-Yr	52.1	4.5
Trailing 10-Yr	205.6	45.2

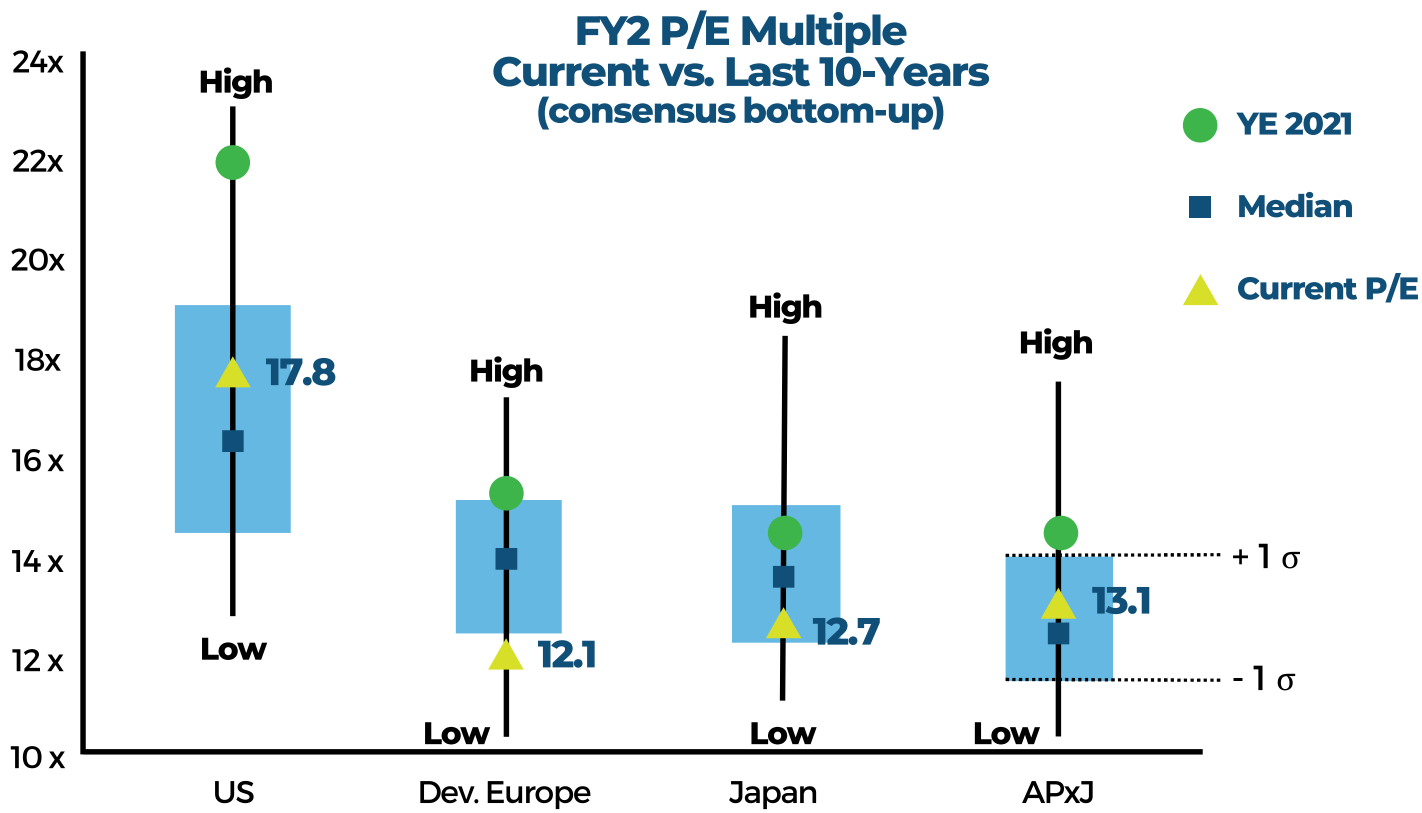
International Equities To Outperform U.S. in 2022

1. U.S. expensive vs. ROW
2. U.S. tends to lag international when rates are rising
3. Likely dollar weakness
4. Sector composition favors international
5. U.S. overweighted significantly by global managers

PREDICTION 8

International stocks outperform the U.S. for the second year in a row (first time since 2006-2007).

Global Equity Market Valuation vs. History



Source: Goldman Sachs Global Investment Research. As of December 2, 2022.

PREDICTION 9

India surpassed China as the world's largest population and is the fastest growing large economy.

Largest 10 Countries By Population

10 Most Populous Countries (July 1, 2021)

Rank	Country	Population
1	China	1,410,539,758
2	India	1,389,637,446
3	United States	332,838,183
4	Indonesia	277,329,163
5	Pakistan	242,923,845
6	Nigeria	225,082,083
7	Brazil	217,240,060
8	Bangladesh	165,650,475
9	Russia	142,021,981
10	Mexico	129,150,971

Source: Compustat, Goldman Sachs Global Investment Research.

2024 Consensus GDP Growth

India	6.6%
China	4.9%
Spain	2.0%
Brazil	1.9%
Canada	1.7%
USA	1.4%
Germany	1.3%
France	1.3%
Italy	1.2%
UK	1.1%
Japan	1.1%

Source: Goldman Sachs.

Real GDP

	China	India
2011 - 2021	6.6%	5.2%
2022 - 2031 (Est)	3.8%	6.8%

Source: MRB Partners.

PREDICTION 9

India surpassed China as the world's largest population and is the fastest growing large economy.

China

- The closed nature of the Chinese system, its cash flow production, and success in export markets suggest it will continue to plod along, albeit at a diminished growth rate.
  – Empirical Research, December 12, 2022
- China's much increased debt burden and fractured relationship with the U.S. constitute some heavy baggage.
- China's growth premium vs. the rest of the globe has moved from 2.0 to 1.5.
- China's working age population turned negative in 2019 and will decline sharply after 2025.
- China does not seem content with exercising control within its borders and is seeking to extend its military, economic, technological and diplomatic power internationally.
- Chinese Communist Party now exercises absolute control over China, ruling over military, administration, and legislation.
- "To maintain his grip on power, President Xi will continue to pre-emptively eliminate any potential rivals and tighten social control, making China look increasingly like North Korea."
  – Foreign Affairs, October 2022

Source: Foreign Affairs, Strategas, Empirical Research Partners, MRB Partners, Yardeni Research.

PREDICTION 9

India surpassed China as the world's largest population and is the fastest growing large economy.

India

- There is a growing shift to India as the future major Asian nation.
- India will be the fastest-growing major economy in the world in 2023 and surpass China as the largest population in the world.
- India will become the next major nation for offshore production.
- India has long been a country with great promise and owner-led businesses accustomed to generating large amounts of cash. But India's rise has been fitful, and often overshadowed by China's. (Barron's 11-21-22)
- Structural reforms in India:
  - Millions connected to financial services
  - Tax overhaul
  - Higher investment incentives (Barron's 11-21-22)

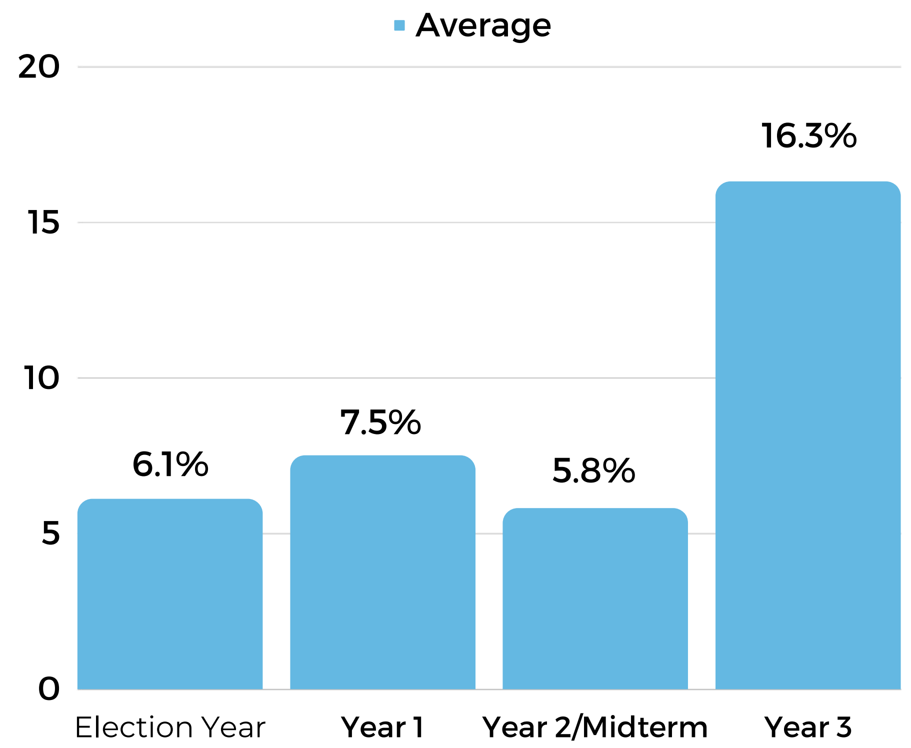
PREDICTION 10

A double-digit number of candidates announce for President.

2023 - Washington DC

- With Republicans taking control of the House, voters have removed the party power in 8 of the past 9 elections. (Most political volatility since the post-Civil War period.)
- The 2024 Presidential campaign will overshadow the 2023 legislation agenda.
- Biden's agenda will make little progress in the Republican House.
- Hearings into Covid, illegal immigration, retreat from Afghanistan, and Hunter Biden likely.
- Support for Ukraine likely continues.
- Restrictions on sale of technology to China likely tightens – prohibitions on certain China investments may surface.
- Fiscal debate will shift due to record debt, rising deficits, and higher interest costs.
  - Won't be easy to extend 2017 Trump tax cuts
  - New tax cuts and/or entitlement expansion unlikely

Third Year Of A Presidential Cycle Tends To Be Strong For US Equities



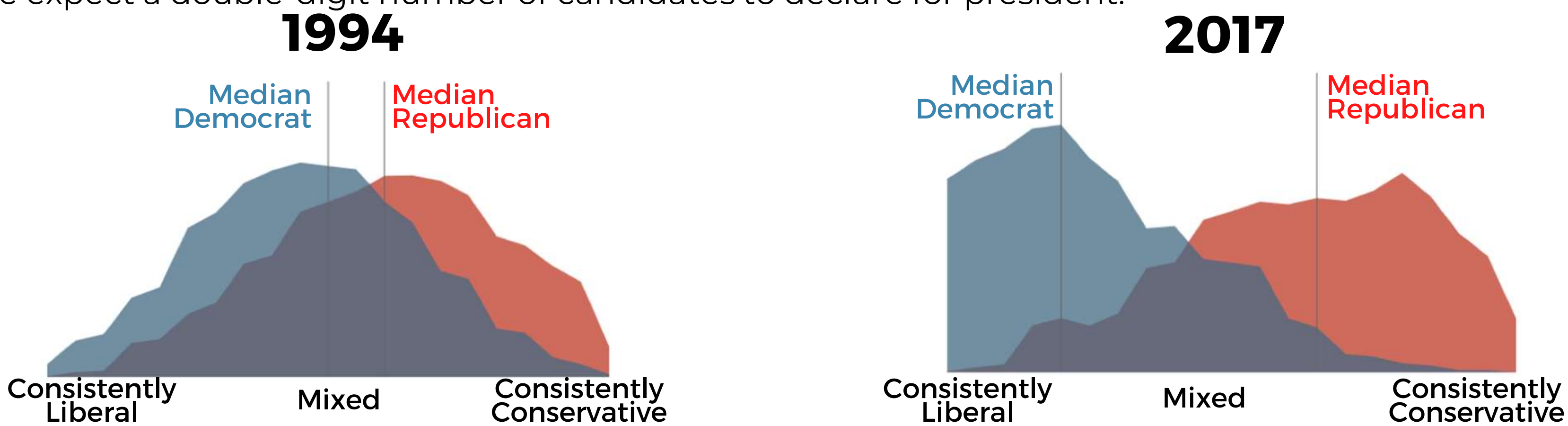
Source: RBC. Data since 1932.

PREDICTION 10

A double-digit number of candidates announce for President.

2024 Election

- Republican field wide open (party is fragmented): Possible candidates – Republicans – Donald Trump, Ron DeSantis, Mike Pompeo, Ted Cruz, Mike Pence, Nikki Haley, Tim Scott, Glen Youngkin, Larry Hogan, Liz Cheney, Chris Christie, Marco Rubio, Greg Abbott, Kristi Noem, Chris Sununu.
- Will Biden run again? Democrats: Joe Biden, Kamala Harris, Pete Buttigieg, Gavin Newsome, Gretchen Whitmer.
- Senate almost certain to become Republican in 2024. (GOP currently has no vulnerable seats, while Democrats have half dozen vulnerable incumbents.)
- Trump probably can only win the nomination if field remains large like in 2016.He probably cannot win a two (or maybe) three person race.
- We expect a double-digit number of candidates to declare for president.



Source: Pew Research Center. https://www.pewresearch.org/politics/interactives/political-polarization-1994-2017/.

PREDICTION 10

A double-digit number of candidates announce for President.

Globalization Is Over For Now

- Globalization – each country makes and sells what it does best ("free trade")
- Significant growth engine for the global economy (global trade went from 5% of global GDP in 1948 to 25% in 2010)
- Contributed to lower inflation in many goods and services (e.g., cheap labor in China)
- Significant focus on the economic benefits of "free trade"
- Produced significant social costs on those least able to be absorbed into work forces (e.g., how to integrate into "information economy").
- Has led to economic populism
- Retrenchment began around 2010

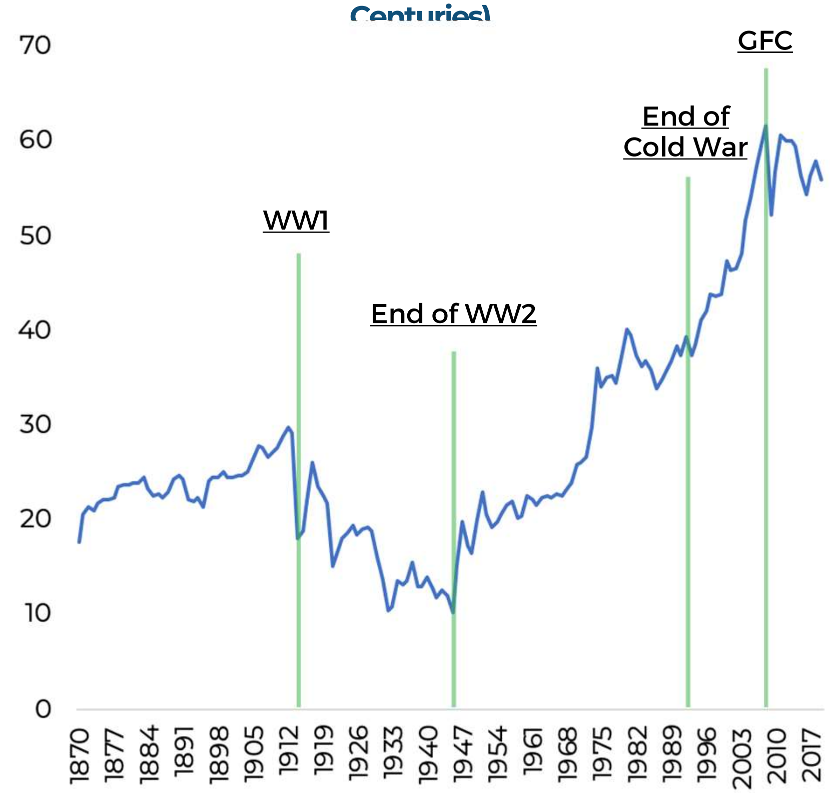
Globalization Consequences

- Higher inflation
- Weaker profit margins
- Slower economic growth
- Greater levels of defense spending
- More political volatility
- Could be a positive for energy investments
- Many companies re-shoring production (despite higher labor costs

Source: Goldman Sachs.

Total Trade As a Share of World GDP

(Our World in Data, Globalization over 5 Centuries)



Source: Strategas.

PREDICTION 10

A double-digit number of candidates announce for President.

Debt Service Explosion

Consequences

- Counter-cyclical fiscal policy less likely in a recession
- Tough to extend Trump tax cuts (2017)
- Additional social spending agenda stymied
- More economic and market volatility and potential crises
- Dollar pressure

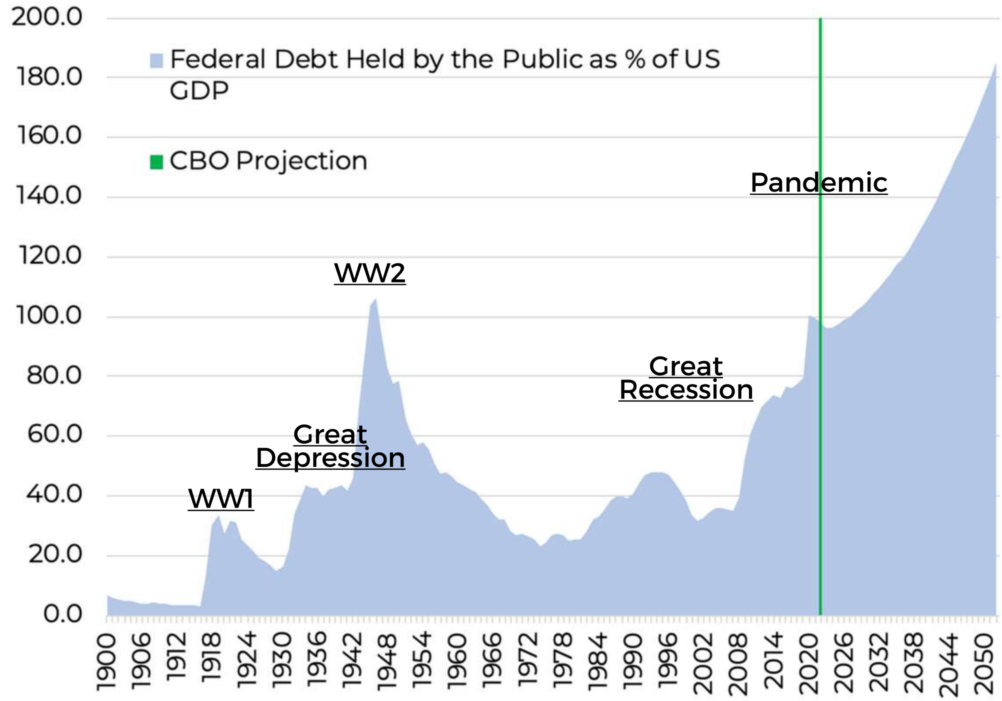
Consequences

- More debt issuance
- Higher inflation
- Financial repression
- Increased taxes
- Spending restraint (reduced benefits)

How will the debt be paid off?

- It won't be unless the U.S. runs budget surpluses which is highly unlikely.

Large Deficits Will Drive Federal Debt Held By The Public To Unprecedented Levels



Source: Congressional Budget Office.

Conclusions

1. The economy is weakening and will probably experience a mild recession in 2023.
2. Inflation is still too high even though it will probably come down during 2023.
3. The Fed is not done raising rates and those rates may stay higher for longer.
4. Earnings estimates are too high almost regardless of the economic contour.
5. Stocks and bonds are no longer expensive; but they are not cheap either.
6. Stocks have never bottomed before a recession started.
7. Own stocks that can weather the storm: strong income statements, solid balance sheets, and reasonable valuations.
8. Do some dollar cost averaging into international.
9. Expect some dollar weakness.
10. Don't fight the Fed; don't fight the tape.

Biggest Risks

1. Economy and earnings tank as second fastest Fed tightening takes hold
2. Inflation doesn't fall significantly
3. Liquidity/credit problems develop
4. Oil prices jump higher
5. Europe experiences a nasty recession
6. Russia-Ukraine worsens
7. Emerging market dislocations develop
8. More supply chain disruptions
9. Dollar moves significantly in either direction
10. China-Taiwan heats up

What To Do?

1. Expect choppy markets (buy dips/trim rallies)
2. Focus on earnings growth (not P/E expansion) and free cash flow
3. Own some bonds (unlike advice a year ago)
4. Diversify across asset classes and geographies (more non-U.S.)
5. Own high-quality value and less expensive growth
6. Consider an absolute return strategy to complement market exposures
7. Don’t fight the Fed; don’t fight the tape

Equity Investors

Receive:	Tolerate:
	3 corrections of 5% per year
	1 correction of 10% per year
≈ 8% annual return	1 correction of > 15% once every 3 years
	1 correction of > 20% once every 6 years

S&P 500 "batting average" (i.e. % of positive calendar years) since 1926: **73.7%**

Source: Fidelity Investments.

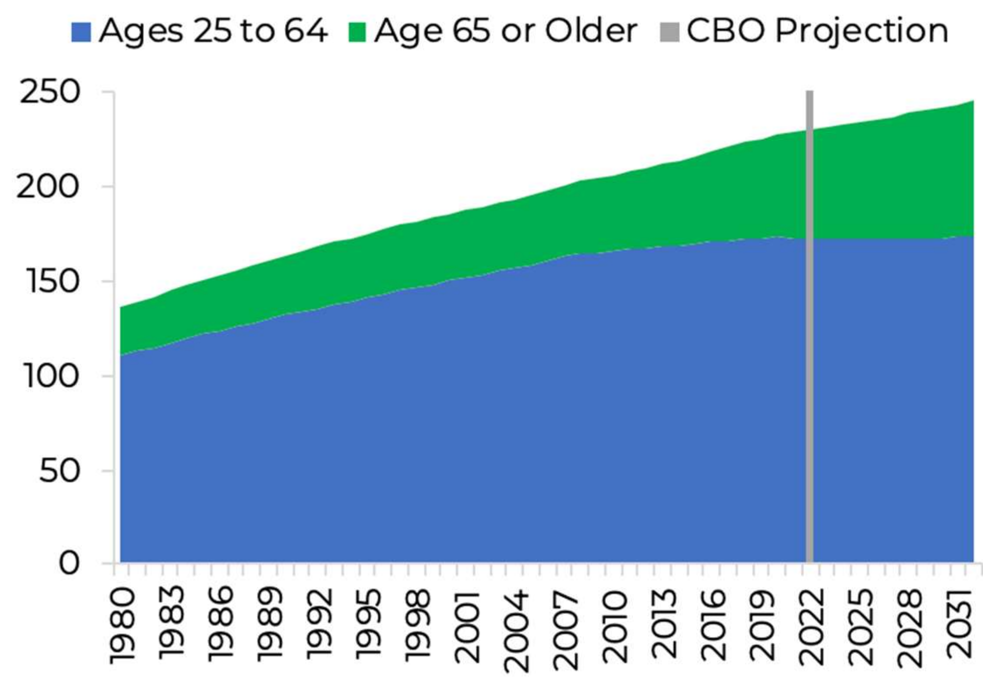
Long Term Trends

Real GDP

	Last 10+ Years	Next 10 Years
Real Growth	2%	1.5%
Inflation	0-2%	2-4%

- Slower growth
- Moderate inflation (but higher than recent years, and lower than current)
- Interest rates trendless
- Earnings growth modest
- Valuations constrained

U.S. Population, by Age Group



Sources: Wolfe Research Portfolio Strategy, BEA, BLS, CBO, and Bloomberg.

Think About The Long Term And Remain Diversified

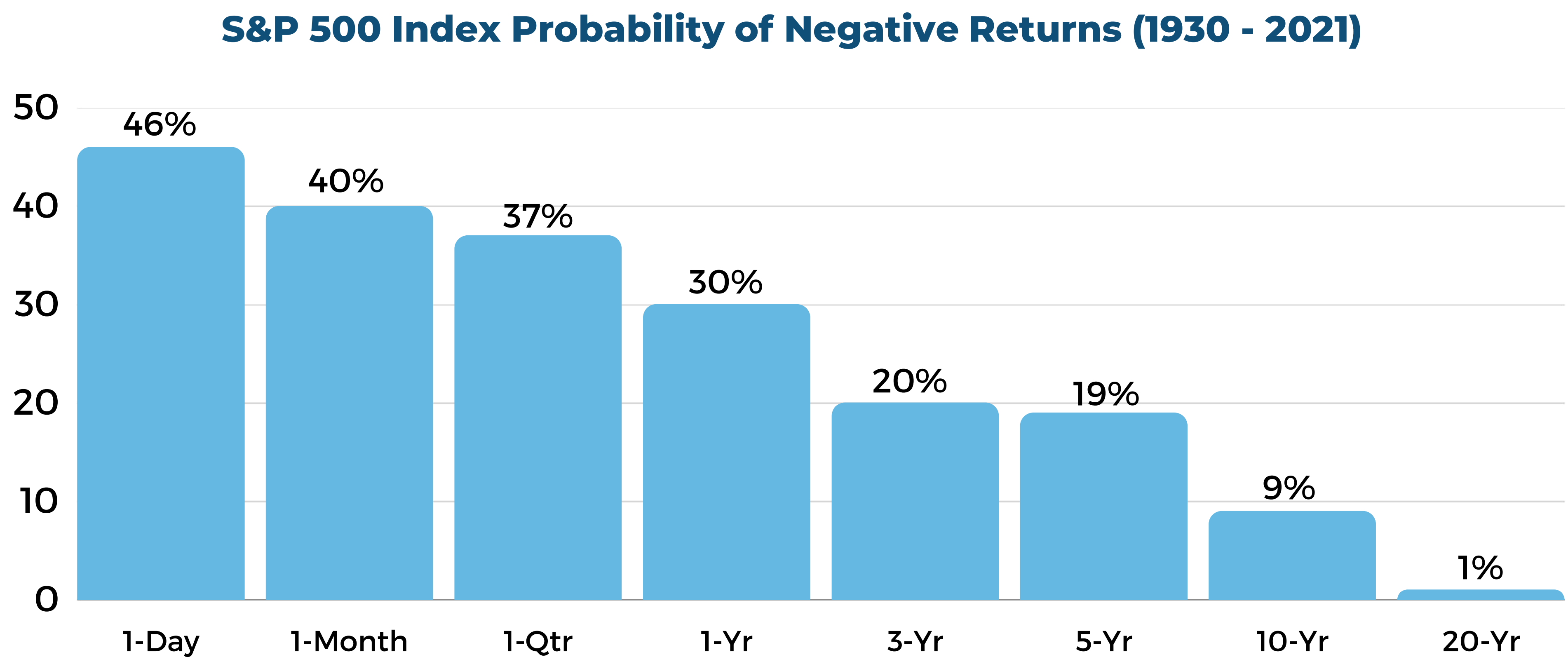
1. Inflation rise curtails returns
2. High starting valuation and profit margins suggest lower returns going forward
3. Equity returns acceptable, but below long-term averages
4. International markets begin to outperform
5. Traditional balanced portfolios mediocre
6. A gradual decline in U.S. dollar
7. India to take the lead over China
8. Emerging markets offer the best, but most volatile, long-term performance
9. Pension plans expected rates of return not realized
10. Absolute return products are more interesting

10-Year Return Forecast By Asset Class	Forecasted Return Range
Equities	**4-6%**
U.S.	4-6%
Non-U.S. Developed Markets	4-6%
Emerging Markets	5-7%
Bonds	**2-4%**
U.S. Government	2-4%
U.S. Investment Grade	2-4%
U.S. High Yield	3-5%
Emerging Market Sovereign	4-6%
Cash	**2-4%**
Inflation	**3-5%**
Diversified Portfolios	
Conservative	2-4%
Balanced	3-5%
Aggressive	4-6%

What To Expect Over The Next 10 Years

1. More modest investment market returns
2. Another recession
3. Population: older, with more grandparents than grandchildren
   - World population growth nearly 100% in 65 and older citizens
   - Obese children now outnumber underweight children for the first time ever
4. Technological innovation: information, healthcare, energy, and manufacturing
5. Robots and automation threaten jobs
6. Smart phone turns into smart everything
7. Space tourism
8. Globalization replaced by more isolationism/protectionism/populism
9. U.S./China cold war
10. Cyber warefare, possible biological warefare

Time Is On Your Side As An Equity Investor



Source: Bloomberg, Crossmark. As of 12/28/21.

Important Information

Crossmark Global Investments, Inc. (Crossmark) is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement Form ADV (Parts 2A and 2B) and Form CRS, and once a properly executed investment advisory agreement has been entered into by the client.

All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.

Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk).

Many municipal bonds also include call features that allow the issuer to call the bonds—repaying the principal before maturity—usually done in the context of a refinancing transaction if/when interest rates fall. When a bond is called, the holder does not incur a loss, but cash received from the call must be re-deployed, generally in a less favorable interest rate environment (call risk).

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax, or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.