WHERE WE STAND

TRANSAMERICA MID-YEAR 2022 MARKET OUTLOOK SUMMARY

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RECESSION RISK: While the U.S. economy can potentially achieve 1%–2% annualized gross domestic product growth in CY 2022, it now stands a better than even probability of falling into recession at some point during the year ahead. We assess the overall risk of recession at some point in the upcoming 12 months at about 60% and, within that probability, the odds of a more prolonged and severe recession lasting longer than one year's time to be approximately 20%.

INFLATION: We see the core rate of inflation mitigating into the sub-4% range by year-end as Federal Reserve tightening and a consumer shift from goods to services begin to provide some relief to the pace of rising prices. Given recent stock and bond price declines, we still view this economic environment as opportunistic for longer-term investors, although the war in Ukraine, oil prices, and ongoing COVID-19 trends are potential wild cards.

U.S. STOCKS: Following their recent decline into bear market territory, we believe stocks are likely setting up for positive total returns in the year ahead based on the prospect of a prolonged and severe recession being avoided, some level of positive corporate earnings being preserved, and the simple premise that inflation, rising interest rates, and corporate profitability might not turn out as negative as most are anticipating. Our year-end 2022 target for the S&P 500® is 4,050 and our mid-2023 target is 4,200. We continue to favor value stocks more so than growth, as the inflationary and rising interest rate cycle further plays out.

INTEREST RATES: As the Fed takes a more aggressive approach to combatting inflation and a soft landing becomes less likely, we believe further upward pressure on short- and long-term interest rates will continue. We see a more aggressive pace of rate hikes as being necessary in the months ahead and when that is combined with newly implemented balance sheet reduction plans, we see CY 2022 concluding with the federal funds rate target range at a lower bound of 3.75% and the 10-year U.S. Treasury bond yield also at about 3.75% reflecting a flat yield curve.

CREDIT MARKETS AND INCOME: Recent months have seen a dramatic increase in high-yield and investment-grade bond yields against the backdrop of rising interest rates and widening credit spreads. Most high-yield and investment-grade bonds are now yielding more than two times their levels of last autumn. We view these newer and higher income opportunities as attractive given current market conditions.

INTERNATIONAL STOCKS: International developed and emerging market stocks currently face a number of challenges, including war in Ukraine, declining rates of economic growth, global inflation, a rising U.S. dollar, and continuing COVID lockdowns in China. However, we believe there is a strong probability most pending bad news and unfavorable outcomes are now close to fully priced in, inferring a favorable long-term risk-reward profile in the event these outcomes do not play out as badly as most might fear. That said, patience and tolerance of volatility may be required in the year ahead.

WILD CARDS: A handful of wild cards could be flying under the radar and capable of upside surprises for the markets between now and year-end. These could include a peaceful resolution to the war in Ukraine, pent-up consumer demand in a post-COVID environment, a lack of downward revisions to corporate earnings, the upcoming November congressional elections, and the simple premise that most expected bad news might not turn out as badly as feared.

Please stay tuned for the complete Transamerica 2022 Mid-Year Market Outlook Paper to be posted shortly.

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Tom oversees investment and mutual fund development and the sub-adviser selection process. He heads Transamerica's investment thought leadership with advisors, clients, and media. Tom has more than 30 years of investment experience and has managed large mutual funds and sub-advised separate account portfolios. Tom holds a bachelor's degree in political science from Tulane University and an MBA in finance from the Wharton School at the University of Pennsylvania.

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Past performance does not guarantee future results. Indexes are unmanaged and an investor cannot invest directly in an index.

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Fixed income investing is subject to credit rate risk, interest rate risk, and inflation risk. Credit risk is the risk that the issuer of a bond won't meet their payments. Inflation risk is the risk that inflation could outpace a bond's interest income. Interest rate risk is the risk that fluctuations in interest rates will affect the price of a bond. Investing in floating rate loans may be subject to greater volatility and increased risks.

Growth stocks typically are particularly sensitive to market movements and may involve larger price swings because their market prices tend to reflect future expectations. Growth stocks as a group may be out of favor and underperform the overall equity market for a long period of time, for example, while the market favors "value" stocks.

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