MARKET PULSE

TAM MARKET INSIGHTS

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MARKET UPDATE

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Four months into 2023, investors have experienced unexpected bank closures, additional rate hikes by the Federal Reserve, and an increasingly inverted yield curve — yet equity markets have remained resilient. With this backdrop we would like to provide the following update to our Market Outlook.

INFLATION

We believe inflation has seen its peak for this current cycle and expect headline consumer price index and personal consumption expenditure monthly reports to trend lower for the remainder of the year. We believe core (ex food and energy) rates of inflation stand a good chance of mitigating below 4% in the second half of the year as the impacts of Federal Reserve rate hikes fully filter through the economy.

BANKS

We believe the swift government responses following the collapses of Silicon Valley and Signature Banks have helped to avert widening crisis and further contagion in the banking sector. However, as a result of these closures, we now expect most banks to further tighten lending policies going forward, thereby creating a more restrictive credit environment throughout the economy. This will likely negatively impact overall economic growth and increase the probability of recession beginning later in the year.

RECESSION RISK

Given the prospect of a tighter and more restrictive credit environment stemming from recent bank closures as well as ongoing negative trends of leading economic indicators, we assess the probability of a recession beginning by year-end to be approximately 60%. At the current time, we see an upcoming downturn as more likely to be moderate rather than severe and believe the markets may have already discounted much of its impact.

U.S. STOCKS

While short-term volatility will likely persist in the months ahead, we see upside for stocks and believe a realistic year-end 2023 target on the S&P 500® to be about 4,400. This is based on a pending improvement in corporate earnings for CY 2024 as well as incremental upside coming from potentially declining rates of inflation and a conclusion of the Fed's current tightening cycle.

INTEREST RATES

The Fed is likely to conclude rate hikes by midyear at a target range on the federal funds rate of 5.00–5.25%. We would also view a realistic year-end range on the 10-year Treasury yield to be 4.00–4.25%, reflecting a narrowing but still fully inverted yield curve. At this point, we do not see a Fed pivot to reducing rates as being in the cards during the remainder of 2023.

INCOME AND CREDIT

We continue to favor short to middle of the curve investment-grade and high-yield bonds offering what we believe are attractive yields with comparatively lower interest rate risk than longer-term bonds given the currently inverted slope of the yield curve. We see the current credit-risk environment for bond investors as better positioned than prior to previous recessions based on opportunistic refinancings in the corporate markets during the pandemic that have resulted in extended maturity schedules more heavily weighted toward the end of the decade.

INTERNATIONAL STOCKS

While Europe and China still face challenges, international investors should take a long-term view of opportunities within developed and emerging markets as these asset classes can still provide effective diversification for global portfolios.

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Tom oversees investment and mutual fund development and the sub-adviser selection process. He heads Transamerica Asset Management'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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The 10-Year U.S. Treasury bond is a U.S. Treasury debt obligation that has a maturity of 10 years.

S&P 500® Index: An unmanaged index of 500 common stocks primarily traded on the New York Stock Exchange, weighted by market capitalization.

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