WHERE WE STAND

10 IMPORTANT POINTS FOR INVESTORS

AUGUST 18, 2021

TOM WALD, CFA®
Chief Investment Officer,
Transamerica Asset Management, Inc.

Much has transpired in the markets during recent weeks. Therefore, we have compiled a list of what we believe to be the 10 most important points investors should consider as they wrap up their summer and look ahead to the final stretch of 2021 and beyond.

1. **ECONOMIC GROWTH:** We believe the U.S. economy will likely achieve 6% gross domestic product (GDP) growth in CY 2021 and is positioned for 3%–4% growth in CY 2022, having now officially transitioned from recovery to expansionary mode and thus providing a favorable macroeconomic backdrop for investors.

2. **DELTA VARIANT:** While COVID-19 cases continue to rapidly increase due to the Delta variant, we see the economic impact as somewhat marginal and far from derailing strong GDP growth. This is in large part due to what appears to be meaningful protection against severe or life-threatening cases of this newer strain among those who are fully vaccinated, as well as the economy's increasing resilience to spiking trends with the virus.

3. **INFLATION:** Monthly inflation reports for the remainder of 2021 are likely to continue running hot and near multiyear highs. However, we believe trends should revert toward 2% in the early months of 2022 as base effects comparisons become less challenging and price increases within a handful of travel and lodging business areas level off.

4. **FED POLICY:** We now believe there is a stronger probability the Federal Reserve will begin tapering open market asset purchases in 4Q 2021, assuming strong job gains and inflation continues along recent trends throughout August and September. We still believe a fed funds rate hike is unlikely before CY 2023. (See Where We Stand: Fed Tapering Expectations.)

5. **LONGER-TERM INTEREST RATES:** We see the recent downward trend in longer-term interest rates as reversing course during the year ahead and believe the 10-year Treasury yield could challenge 2%.

6. **STOCKS:** We continue to believe the broad equity markets are positioned for future gains and maintain a one-year S&P 500® price target of 4,800 based on rising corporate earnings and reasonable valuations when comparing expected stock earnings yields to longer-term interest rates. While history infers we could see a market correction sometime in the near future, under current conditions, we would likely view such an event as a buying opportunity.

7. **VALUE VERSUS GROWTH:** While we believe both styles can perform well in the current environment, value stocks appear better positioned based on improving economic trends, shifts in consumer behavior as the economy ultimately reopens, and a potential steepening yield curve.

8. **CREDIT MARKETS:** We believe CY 2022 could be an extremely strong year for "rising stars," with many high-yield issues potentially upgraded into the investment-grade space, perhaps providing excess returns for those capable of identifying them.

9. **FIXED INCOME PORTFOLIOS:** We believe investors can potentially enhance yields and reduce interest rate risk by adding floating rate bonds, emerging markets debt, preferred stocks, and high-dividend common stocks to supplement traditional investment-grade and high-yield bond portfolios.

10. **RISKS AND CONCERNS:** Risks to the existing market environment include a worsening medical profile to the Delta variant, more permanent inflation, higher federal taxes, and a short-term market correction.

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THOMAS R. WALD, CFA®

CHIEF INVESTMENT OFFICER
TRANSAMERICA ASSET MANAGEMENT, INC.

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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1801 California Street, Suite 5200, Denver, CO 80202, USA

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