MARKET PULSE

TRANSAMERICA ASSET MANAGEMENT, INC. 2023 MID-YEAR MARKET OUTLOOK

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TRANSAMERICA®

Insurance / Investments / Retirement

ABOUT THE AUTHOR

Tom is the Chief Investment Officer of Transamerica Asset Management Inc. (TAM), the mutual fund arm of Transamerica.

Tom has more than 30 years of investment management experience and has managed large mutual fund portfolios and separate accounts.

As a member of the senior management team, Tom heads Transamerica Asset Management's thought leadership efforts and provides perspectives to advisors, clients, the media, and general public. He writes and publishes TAM's Market Outlook and other relevant commentary. He also heads Transamerica's mutual fund sub-adviser selection and monitoring process, as well as product management. 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.

THOMAS R. WALD, CFA®

Chief Investment Officer,
Transamerica Asset Management, Inc.

MARKET PULSE: MID-YEAR 2023

U.S. ECONOMY

- While our base case scenario remains one in which recession begins by year-end, we now view a potential soft landing as a more realistic, though still less than even, probability. We see core rates of inflation continuing to decline and reaching the sub-4% range into CY 2024, and we view the recent turmoil within the regional banking sector as not being systemic in nature.

INTEREST RATES

- We see the year likely ending with a federal funds rate target range of 5.25–5.50%, representing a 0.25% increase from its current level, and then a conclusion to the Federal Reserve's current tightening cycle. Factors contributing to the Fed concluding rate hikes would be a declining pace of core inflation, positive real interest rates, the pending economic impact of previous rate hikes over the past year, and a more restrictive credit environment stemming from recent bank failures. We view a realistic year-end target on the 10-year U.S. Treasury yield to be approximately 3.65%.

INCOME AND CREDIT

- We continue to favor opportunities in the high-yield and investment-grade bonds where fixed income investors can benefit from locking in recently elevated yields. We view intermediate-term maturities as best positioned to provide income while mitigating both yield curve steepening and reinvestment risk. Despite the probability of recession, the overall credit environment appears more benign than prior to previous economic downturns.

U.S. STOCKS

- We are increasing our year-end 2023 price target on the S&P 500® to 4,600 and now see a realistic one-year target for mid-year 2024 to be about 4,800. This is based on a scenario probability analysis weighted mostly between a moderate recession and soft landing in the year ahead as well as potential tail wind catalysts coming from declining inflation and the conclusion of the Fed's current tightening cycle. We also now see market conditions as most conducive to balanced allocations of growth and value stocks.

INTERNATIONAL STOCKS

- Global investors are likely to benefit from international developed and emerging market equities as growth in advanced and developing regions could be improving in CY 2024 and valuations appear favorable. Europe's economy has proved resilient, growth remains strong in India, and market conditions appear to be improving in Japan.

WILD CARDS

- Potential wild cards in the year ahead include regional banks, the war in Ukraine, U.S. tensions with China, an artificial intelligence (AI) bubble, and the upcoming 2024 election season.

GAME ON

Investors face an onslaught of questions as they survey the playing field at the midpoint of 2023. The economy continues to display strong resilience, yet leading indicators are flashing bright recession warning signs. Ongoing inflation is crossing paths with an uncertain Federal Reserve all too often sending mixed messages to the markets. Stocks have had an impressively strong run since their cycle lows of last autumn, yet they still appear overvalued to a good portion of equity investors. In the bond markets, fixed income investors are debating where to be positioned along an inverted yield curve and whether recently elevated yields are worth locking in versus the prospect of waiting for credit spreads to widen based on a pending economic downturn.

Yet it is precisely at times such as this that inflection points can emerge, shifting the undecided and potentially turning bears to bulls. It's like the old saying, "few people buy at the bottom of a cycle and even fewer sell at the top. It's what they do in between that matters." And even though stocks have made a big move since last autumn, we are now solidly into that in-between land, translating into what we believe is a tangibly higher probability the major indexes challenge their pre-bear market highs than fall back to more recent bear market lows.

The bond world, coming off its worst year in history, is now offering some of its highest yields in years and doing so amid a credit environment probably not nearly as treacherous as most may have feared about a year ago. Given this environment, we see investors benefiting from both equities and fixed income. Ironically, it was only months ago balanced portfolios were proclaimed by many to be dead, but as Mark Twain once commented on his own reported demise, we would view that proclamation as greatly exaggerated under the current market environment.

Inflation looks to have peaked last year and now seems to be on a meaningfully downward trajectory. The Fed may still raise rates a time or two before the year concludes but is most likely in the final innings of its tightening cycle. The central economic debate has, for the most part, turned away from a severe recession scenario and is focusing on the spectrum of a moderate recession versus a soft landing. High-yield bonds are offering some of their most opportunistic yields since the pandemic began, and same for investment-grade bonds going back much further than that. History also seems to tell us it's more beneficial than not to own stocks after inflation has peaked and the Fed has stopped raising rates.

Yes, there are still risks in this market environment, but as we have said in the aftermath of previous downturns as well as their initial recoveries, the equity and credit markets appear to have more working for them than against them. It is now less about why investors need to get back in the game and more about where on the playing field they should be.

U.S. ECONOMY

While our base case scenario remains as one in which recession begins by year-end, we now view a potential soft landing as a more realistic, though still less than even, probability. We see core rates of inflation continuing to decline and reaching the sub-4% range into CY 2024, and we view the recent turmoil within the regional banking sector as not being systemic in nature.

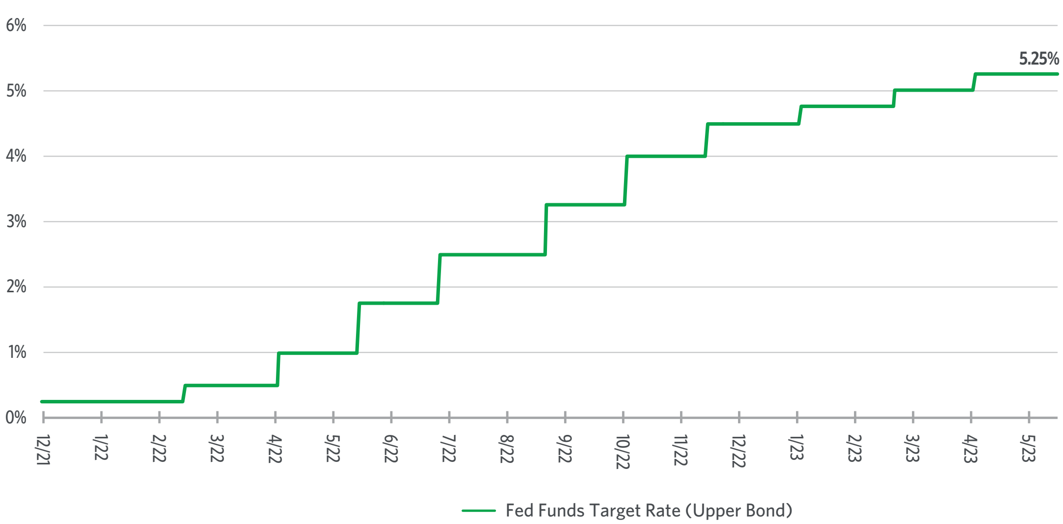
If there has been one major change in sentiment since the year began, it is a shift in the premise of the debate regarding economic growth. At the outset of the year, the central argument seemed to surround whether the economy was headed toward a severe recession or a moderate one. Now at the year's midpoint, that spectrum appears to have moved to a more investor-friendly conversation, as in whether the economy is headed toward a moderate recession or a soft landing with no recession at all. While we still believe the odds favor a moderate recession beginning by year-end, the soft-landing scenario now has a real seat at the probability table.

OUR BASELINE CASE: MODERATE RECESSION BEGINNING BY YEAR-END 2023

There is no question the U.S. economy has held up admirably amid the treacherous backdrop of the past year. Job growth continues strong, consumer spending has remained solid, and gross domestic product (GDP) expansion is well above the break-even line. However, in looking below the hood, the engine of growth is at risk of stalling. We make this assessment, based in large part, on the following:

Ongoing impact of Fed rate hikes. It is our judgment that the full effects of the fastest trajectory of rate hikes in a half century, totaling 5% on the fed funds rate since March of 2022, are yet to be completely represented in aggregate demand across the economy. However, this could prove to be the case in the upcoming six to nine months, thereby putting real pressure on the prospect of continuing growth in the economy.

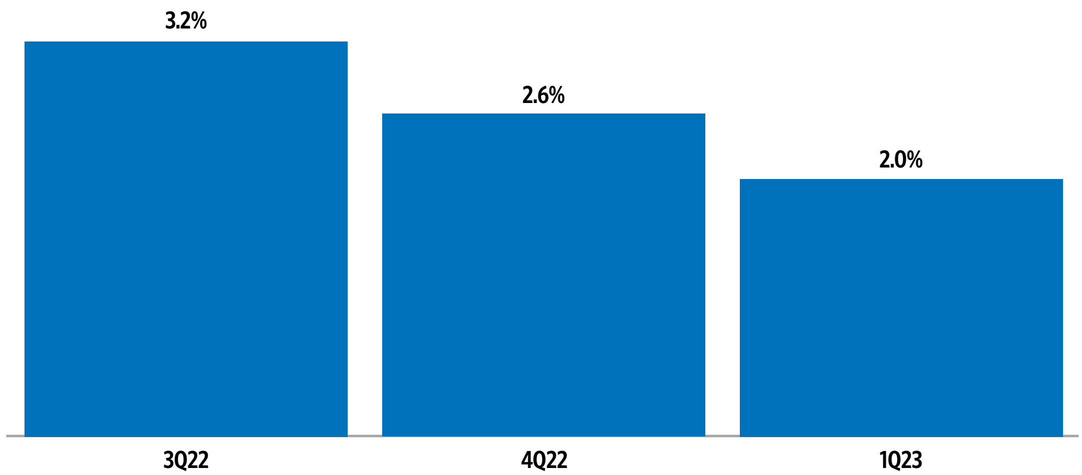
Awaiting Full Impact of Higher Rates
Fed Funds Target Rate (Upper Bound)



As of 6/15/2023, Source: Federal Reserve Board of Governors

Slowing GDP growth. Over the past year U.S. GDP growth has been declining, from 3.2% on an annualized basis in 3Q 2022 to 2.0% in 1Q 2023. While this past first quarter certainly presented economic bulls with a glass-half-full argument as consumer spending exceeded most expectations with growth of 4.2%, in aggregate, it appears evident in our view that the overall economy is now heading into 2H 2023 with a good bit less steam.

Declining GDP Growth Trend
U.S. Gross Domestic Product Annualized Growth 3Q 2022–1Q 2023



Source: Bureau of Economic Analysis, as of 6/29/23

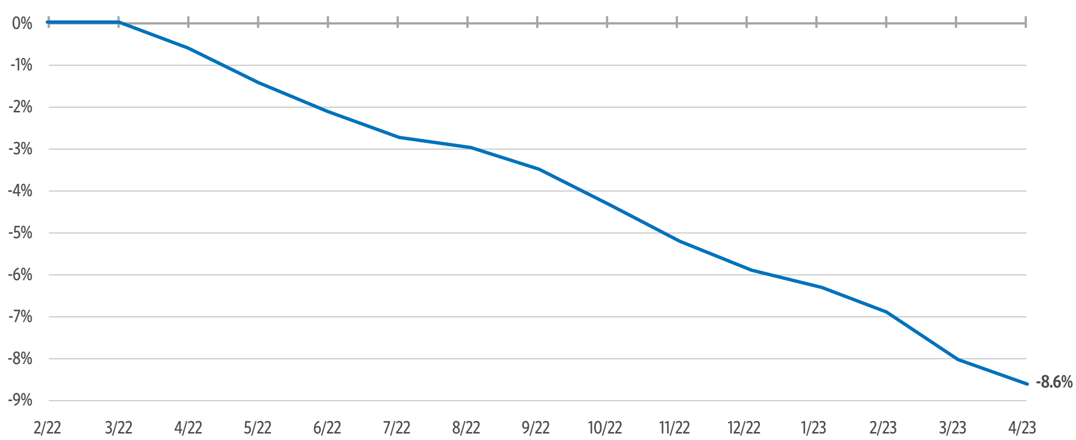
Tightening credit conditions resulting from recent bank failures. Clearly an unexpected occurrence in recent months yet to be fully felt through the economy has been the unfortunate collapses of Silicon Valley, Signature, and New Republic banks. While we view these failures as primarily caused by individual asset-liability mismanagement at each of these institutions and not being systemic in nature to the widespread banking system, it appears, in our view, the result of these closures will be tighter credit conditions and lending requirements across the economy, likely increasing the probabilities of a recession commencing by year-end.

RECESSION WARNING SIGNALS FLASHING

Against this backdrop, recession warning signals are flashing bright red. We point to two of them in particular:

Conference Board Leading Economic Index*. The Conference Board Leading Economic Index is a compilation of 10 economic, consumer, and market metrics all with a long history of turning negative prior to economic downturns. These include components reflecting measures such as manufacturing orders, manufacturing hours worked, building permits, initial jobless claims, consumer credit, and consumer expectations. As of its April reading, eight of these 10 components posted a negative monthly trend and, in aggregate, this index has declined cumulatively more than 8% versus a year earlier. Simply put, over the past 40-plus years, this index has never fallen by this amount without a recession to follow in the upcoming year.

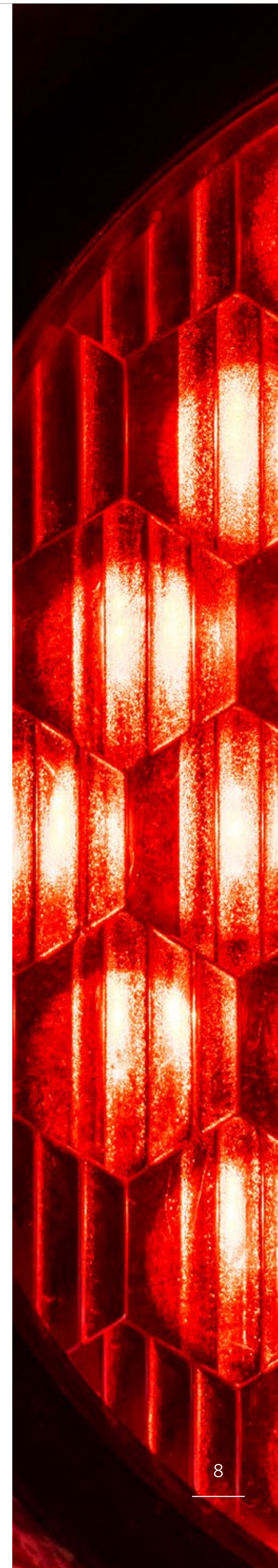
Recession Warning: Leading Indicators
Cumulative Decline in the Conference Board Index of Leading Economic Indicators



Source: Conference Board, as of 4/30/23

Inverted yield curve. The 3-month to 10-year Treasury yield curve has been inverted (long-term rates lower than short-term rates) since last October and has now reached some of its widest differentials since 1981 and, in terms of percentage of yield, its largest margin ever. Negatively sloping 3-month to 10-year yield curves have essentially forecasted all eight recessions since 1969 within 18 months of initial inversion and, in our view, the current curve now infers a high likelihood of recession beginning by year-end. As of June 15, the 3-month to 10-year slope was inverted by 1.61% (5.33% vs. 3.72%).

In summary, we estimate about a 60% probability of the U.S. economy entering a recession by the end of 2023. For purposes of clarity, we define a recession as two consecutive quarters of negative GDP growth accompanied by broad-based declines in employment and consumer spending. Within that overall probability, we see about a 50% chance of a moderate recession lasting less than a year with peak-to-trough GDP declines in the 1–2% range, similar to those experienced in 1990 and 2001, and approximately a 10% probability of a severe and prolonged contraction, perhaps lasting more than a year with peak-to-trough GDP declines in the 3–5% range, similar to the ones experienced back in 1981 and 2007. We see approximately a 40% probability of a soft landing and aversion of a recession altogether.



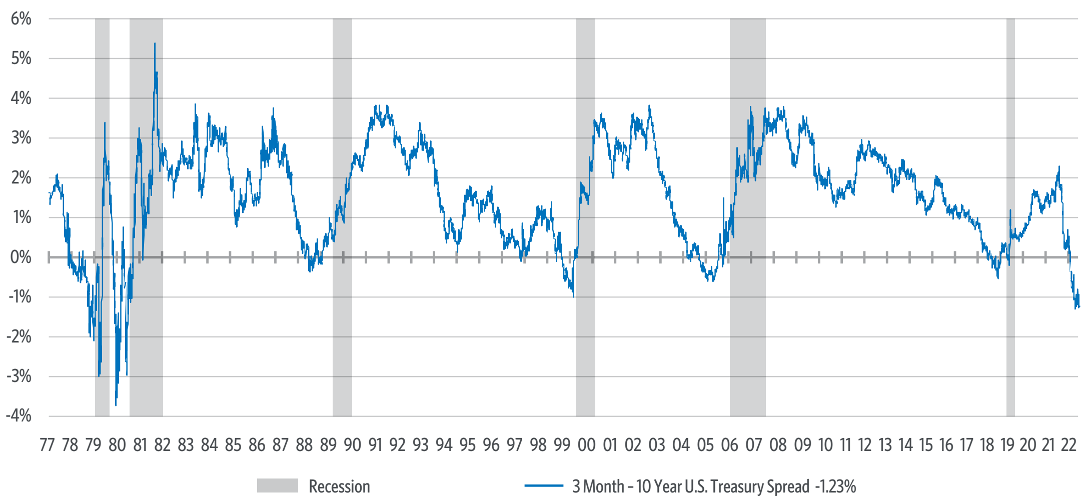
Recession Warning: Treasury Bond Yield Curve

3-Month to 10-Year Treasury Bond Yield Curve

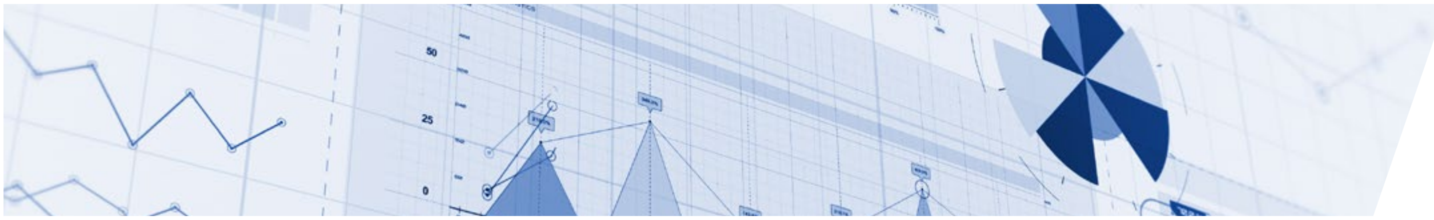
Source: Bloomberg, as of 6/14/23

Inverted Yield Curves And Recessions

3-Month to 10-Year Treasury Yield Spreads 1977–2023



Source: Treasury Yields: Bloomberg; Recession Indicator: National Bureau of Economic Research.

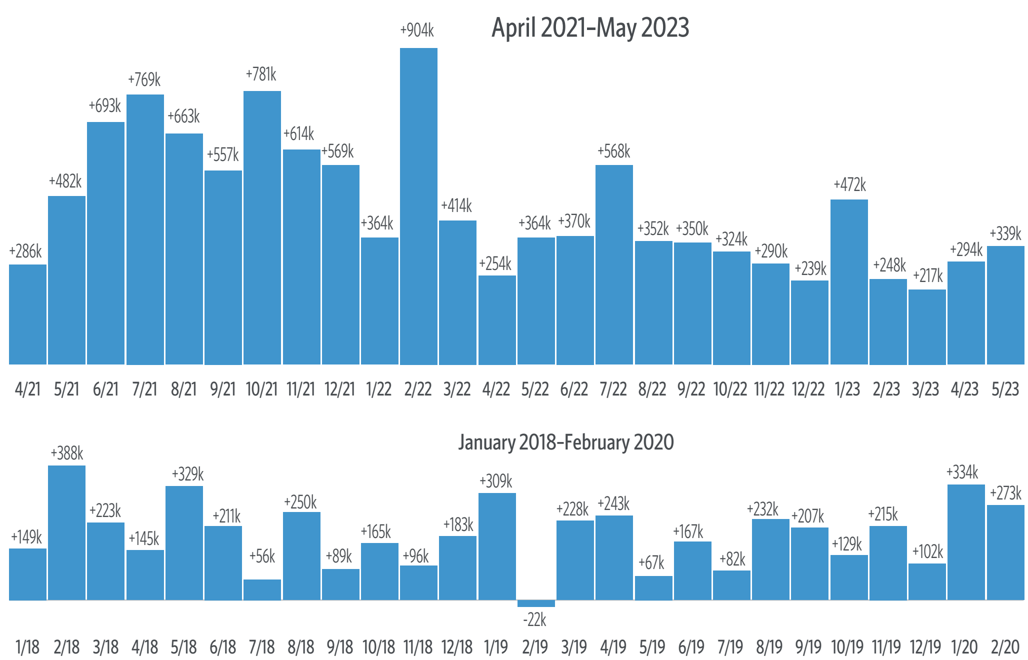


JOBS DATA REMAINS STRONG AND SUPPORTIVE OF SOFT LANDING

At the forefront of the soft landing (no recession) argument has been an incredibly resilient and solid labor market, which, for the most part, has remained undeterred throughout the past year-and-a-half's barrage of higher inflation, rising interest rates, and slowing GDP trends. This can be seen in the most recent May monthly nonfarm payrolls report in which 339,000 jobs were added to the economy, far outpacing consensus expectations of about 190,000. Despite some monthly volatility skewing rolling averages, the longer-term trend is yet to show the effects of the Fed's tightening monetary policy or any real slowing in the broader economy.

For example, as of the May report, the 12-month average was yet to show any real slowing in jobs growth over the past year. In addition, the three-, six-, and 12-month averages of new jobs added to the economy as of the end of May (all in the vicinity of 300,000) were each higher than comparable periods prior to the pandemic, as of February of 2020. Finally, the 26-month average monthly job gain since April 2021, when headline year-over-year consumer price index (CPI) first hit 4%, stands at 453,000. The 15-month average since the Fed began tightening in March 2022 is at 340,000, also spot on with the May report and well above averages for the same periods immediately prior to February 2020. In summary, the labor market is presently conveying a simple two-word message about recession: Not now.

Current Job Market Stronger than Pre-COVID-19 Economy
Monthly Job Gains



5/31/2023	
3 Month Avg	+283K
6 Month Avg	+302K
12 Month Avg	+339K
15 Month Avg	+340K
26 Month Avg	+453K

2/29/2020	
3 Month Avg	+236K
6 Month Avg	+210K
12 Month Avg	+190K
15 Month Avg	+183K
26 Month Avg	+187K

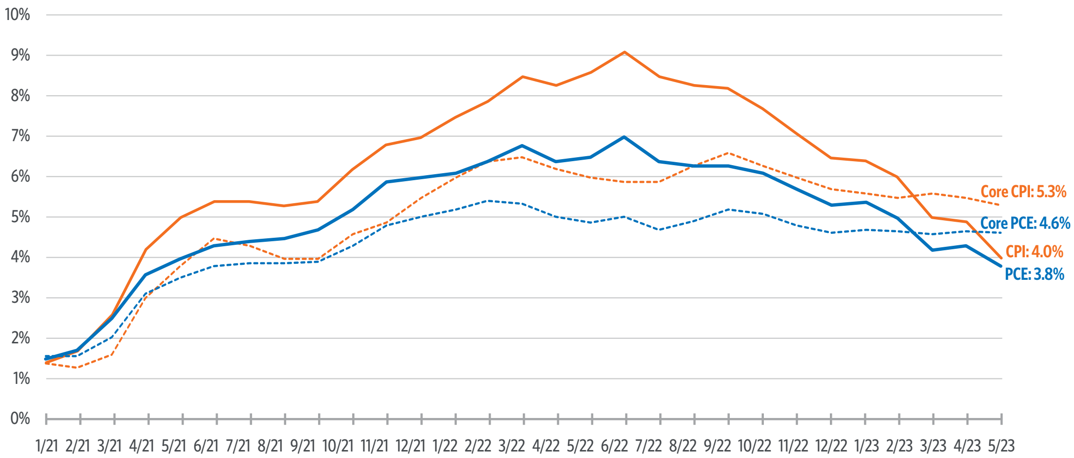
Source: Bureau of Labor Statistics, as of 5/31/23

INFLATION ON A DOWNWARD TRAJECTORY

It appears that inflation, which has ravaged the economy and the markets over the past year and a half, has likely peaked and, in our view, is now solidly on a downward path. However, there is good news and less than good news in this declining trend. The good news is that, like a barge at sea, the directional reversal has finally been established. The less than good news is that this reversal is still moving at the speed of a barge.

Since June 2022, headline CPI has declined from a year-over-year rate of 9.1% to its recent May reading of 4%, and core CPI (ex food and energy) has fallen from 6.6% in September 2022 to 5.3%. The headline personal consumption expenditures (PCE) reading has declined from 7% in June 2022 to 3.8% in May, and the Fed's preferred measure, core PCE, has declined from 5.4% in February 2022 to 4.6%.

Inflation Looks To Have Peaked
Key Inflation Rates Since January 2021



CPI - Source: Bureau of Labor Statistics, as of 5/31/23; PCE - Bureau of Economic analysis, as of 4/30/23

We attribute much of this decline in the rate of inflation to the ongoing impacts of Fed rate hikes, depleting post-pandemic savings levels, and the ability of corporations to better navigate global supply chain bottlenecks. We also caution that similar to reversals of previous inflationary cycles, such as those peaking in 1980 and 1990, monthly reports can be subject to volatility and aberration within the longer-term trend. That said, based on these factors and the recent trajectory, we continue to expect core rates on PCE and CPI to decline into the 4% range or lower by year-end.

ASSESSING RECENT TURMOIL IN THE BANKING INDUSTRY

A major and unexpected economic development in 1H 2023 has been turmoil in the banking industry, as seen in the closures of three prominent regional banks, Silicon Valley Bank, Signature Bank, and New Republic Bank, all of which collapsed and were taken into government receivership. While the full impacts of these failures are yet to be determined and may not be so for some time, it is our assessment that these bank closures should be viewed as individual events and not a systemic financial risk to the economy.

We hold this perspective based on the following criteria:

The downfalls of these banks were predominantly caused by asset-liability mismanagement. The root cause of these failures was in large part created by the mismatch of long-term bond portfolios held on balance sheets at maturity values rather than real market prices. Thus, when inundated with depositor withdrawals, these banks could not sustain the realized losses of those bonds and were unable to cover withdrawals. While highly unfortunate to these banks as well as their equity and bond investors, this, in our view, is a far different situation than the inevitable comparisons that have been made to the widespread and toxic credit environment that wreaked havoc on the economy during the global financial crisis of 2008.

Swift and effective government actions. In the immediate aftermath of the Silicon Valley Bank and Signature Bank closures, the response of the Federal Deposit Insurance Corporation (FDIC), Federal Reserve, and U.S. Treasury Department proved crucial in averting a far more wide-ranging crisis. Specifically, two actions proved critical. The first being the FDIC guaranteeing both insured and uninsured depositors of Silicon Valley and Signature banks. The second was the Federal Reserve establishing the Bank Term Funding Program, allowing lending institutions in future similar positions to receive collateralized loans based on the maturity value of Treasury and government-agency bond portfolios. In our judgment, these immediate and collective responses wound up going a long way toward mitigating contagion in the banking industry and further depositor angst.

JP Morgan acquisition of First Republic Bank. Concurrent with the FDIC announcement that First Republic Bank had been taken into receivership on May 1 was the sale of its depositor base and a large percentage of its assets to JP Morgan, which was also accompanied by a $50 billion government credit line and agreement to share in any losses on the former First Republic loan portfolio. This transaction also allowed for $30 billion of deposits provided to First Republic from a consortium of larger banks in March to be preserved, as well as a mitigated cost to the FDIC itself in terms of its insurance fund. We therefore view this government-orchestrated acquisition of First Republic's remaining structure following its collapse as an outcome far more favorable to the banking system and overall economy than most had likely feared.

However, while these bank failures, in our judgment, are not a systemic risk to the economy in and of themselves, we expect them to result in noticeable tightening of credit conditions across the economy. Banks will likely now become more stringent in terms of their lending requirements, thereby constraining the availability of credit on a broader spectrum and, all else being equal, increasing the likelihood of a recession beginning by the end of 2023.

RECESSION COULD HAVE ONLY A MUTED IMPACT ON THE MARKETS

In reviewing what in our view is a better than even probability of recession beginning by year-end, we feel it is also important to note that as economic downturns go, this pending one just might be the most widely anticipated in history. The past year's environment of rising inflation and interest rates following the scorching-hot, post-COVID-19 economic recovery have enabled businesses, consumers, and most importantly markets to brace for a pending recession unlike any ones previous. In our judgment, these expectations played a large role in the dramatic stock price declines experienced between December 2021–October 2022, when most major stock and bond indexes saw peak-to-trough price declines. For this reason, we would not be surprised if equity and credit markets display a relatively benign reaction to the actual occurrence of recession and may well have already discounted it close to entirely.

MARKET PULSE: U.S. ECONOMY

- We believe there is approximately a 60% probability of recession beginning by the end of 2023, with our base case assuming a moderate downturn lasting less than a year with a peak-to-trough GDP decline of 1%–2%. We see approximately a 40% probability of a soft landing and the aversion of a recession altogether.
- Core rates of inflation are likely to mitigate into the 4% range or lower by the end of 2023, although within that trend monthly reports could be subject to aberration.
- We view recent bank failures as not being a financially systemic risk to the economy, however, they are likely to result in tightening credit conditions throughout the economy and, therefore, are now contributing to a higher probability of recession beginning by year-end.
- Given the highly expected nature of a pending economic downturn as well as the severely negative reaction in stocks to its anticipation over the past year and a half, we would not be surprised to see equity and credit markets display a relatively benign reaction to its actual occurrence or perhaps have already discounted it close to entirely.

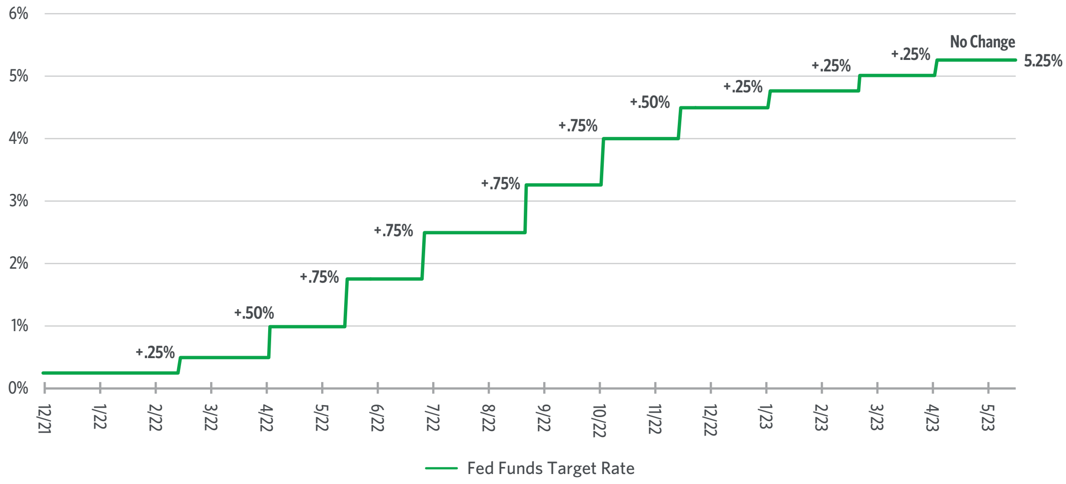
INTEREST RATES

We see the year likely ending with a federal funds rate target range of 5.25–5.50%, representing a 0.25% increase from its current level, and then a conclusion to the Fed's current tightening cycle. Factors contributing to the Fed concluding rate hikes would be a declining pace of core inflation, positive real interest rates, the pending economic impact of previous rate hikes over the past year, and a more restrictive credit environment stemming from recent bank failures. We would view a realistic year-end target on the 10-year U.S. Treasury yield to be approximately 3.65%.

Like the ninth inning of a close ballgame, markets and investors are anxiously waiting to see if the Fed will take its tightening cycle into extra innings.

What looked just a couple of months ago to be a fairly clear signal that an end might be in sight has now given way to one of the great paradoxical phrases in recent memory, that being the term "hawkish pause," which has now left investors to ponder which of these two words will turn out to be more accurate.

Trajectory of Fed Rate Hikes
Fed Funds Target Rate (Upper Bound)
December 2021–June 2023



As of 6/15/2023, Source: Federal Reserve Board of Governors
Past performance does not guarantee future results. It is not possible to invest directly in an index.

In addressing this quandary, we believe that while a 10th inning could be in the cards in terms of one more quarter-point rate hike, odds likely favor the conclusion of this rate hike cycle in the months ahead at a fed funds target range of 5.25–5.50%. We make this judgment based on the following criteria:

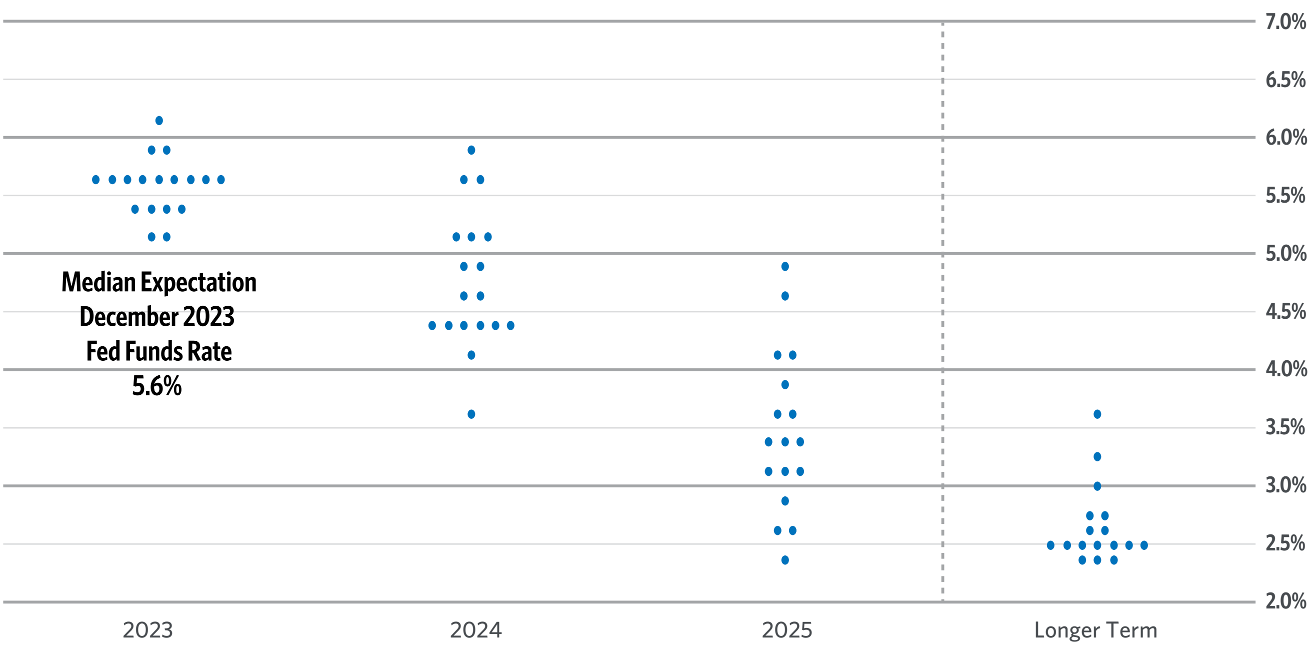
- In applying the universal adage of actions being more convincing than words, we place more emphasis on the pause itself rather than the hawkish tone surrounding it.
- The return to positive real interest rates as the fed funds rate now exceeds the current rate of core inflation.
- Expected impacts of the past year's rate hikes on the economy and their more pronounced effects on economic data
- Recognition of a more restrictive credit environment and tighter lending requirements within the banking sector following the recent regional bank failures
- Continuing strength in the labor market will probably provide the Fed with rationale to raise the fed funds rate once more this year before ending the cycle.

MAKING SENSE OF THE JUNE MEETING

All considered, we regard the Fed's recent June meeting as one of mixed messages to the markets. The mere fact the Fed decided not to raise the fed funds rate for the first time in 11 meetings while simultaneously increasing expectations of higher rates via the participants assessment of appropriate monetary policy (more commonly known as the "Fed dot plot") by 0.5% to a year-end fed funds rate median expectation of 5.6% (versus 5.1% in March), in our judgment, conveyed a sense of directional uncertainty not seen since this tightening cycle began 15 months ago.

That said, we defer to one of investing's golden rules, which is actions (or in this case the absence of action) speak louder than dots. It is highly important to recognize, in our opinion, that the steady deluge of rate hikes, first increasing in magnitude and then decreasing, has now finally round tripped back to zero. Given that result, it is hard to believe that if most of those higher rate expectations of the Fed's 18 voting members recorded on the June dot plot had immense conviction, somehow that would have made its way into an actual rate hike at the meeting, or, if not, at least something more hawkish than a unanimous vote not to raise rates.

Fed Dot Plot
June 14, 2023



Source: Federal Reserve Board of Governors, as of 6/14/23

In addition, we also note that the Fed's dot plot has not historically been an overly accurate indicator of future rates and should probably be viewed in concept as reflecting expectations at a moment in time but not necessarily the factors ultimately translating those expectations into actual decisions. Therefore, this most recent account of the Fed's collective views of the future should perhaps be processed by investors with at least a grain of salt for each dot.

Finally, Federal Reserve Chair Jay Powell's post-meeting press conference, in our view, displayed less of a hawkish tone. While he did once again throw cold water on the market's continuing interpretation that the Fed will actually cut rates by year-end (a perspective we do not and have never ascribed to), he also reiterated the economy had yet to see the cumulative impact of the Fed's 500 basis points of rate hikes since March of last year, and that the upcoming July Fed gathering would, in his words, be a "live meeting."

Therefore, we suggest investors "take the win," so to speak, on the trajectory of rate hikes finally reaching zero and likely signifying the Fed is now on the edge of the cycle's conclusion.

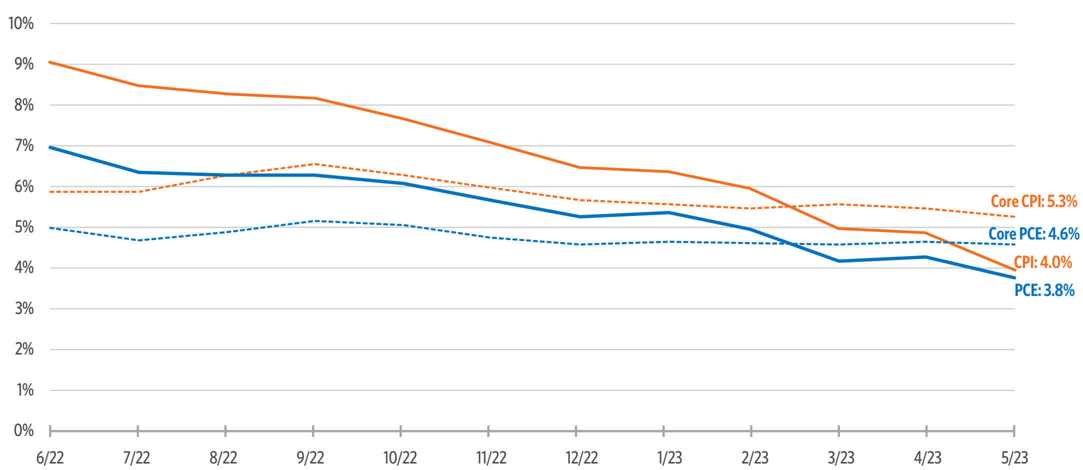
ONE MORE FOR THE ROAD

All considered, it now appears likely Chair Powell and his colleagues will take advantage of current economic data to book one more quarter-point rate hike as the final shot fired in the battle to reverse the pace of inflation back toward their 2% long-term target. In doing so, this will likely help to push core rates of inflation into or below the 4% range by the beginning of CY 2024 and potentially closer to their long-term 2% target a year or so thereafter.

It could also be relevant to recognize the timing of the next two Fed meetings, which will include close to a two-month break between July and September, thereby providing time for basically double the amount of new economic data and market activity than is usually consumed between policy decisions. This, in our opinion, likely plays toward a "one more and done" scenario as declining inflation and slowing economic trends driven by earlier rate hikes will have an extra month between those two meetings. Perhaps one more reason the Fed could decide to raise in July and call it a cycle.

Inflation in Downward Trend

Key Inflation Rates Since June 2022



As of 5/31/23. Source - CPI: Bureau of Labor Statistics; PCE: Bureau of Economic analysis.

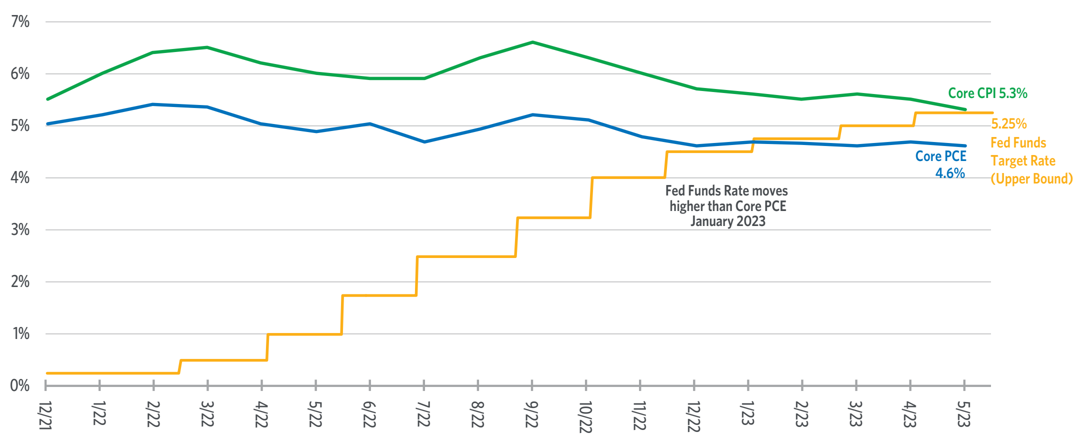
REAL INTEREST RATES NOW POSITIVE

In taking a step back and looking at what we believe to be the single most important metric in the Fed's ongoing efforts to combat inflation, that being the real rate of interest as calculated by the current absolute interest rate minus the core rate of inflation, the evidence now suggests the Fed's work could be mostly done. This can be seen in the now positive gap between the current upper bound on the fed funds rate and the most recent PCE core inflation rate.

Having recently crossed over in January and further widened since then (5.25% fed funds vs. 4.6% PCE core inflation), this gap could expand further, assuming one more rate hike in July followed by two more months of declining inflation until the Fed's next meeting. Should that scenario play out, the case for a rate hike in September, or anytime thereafter, could become a challenging one for the Fed.

Real Interest Rate Turns Positive

Fed Funds Rate and Core Inflation



Fed Funds Rate - Source: Federal Reserve Board of Governors, as of 6/15/23 Core CPI - Source: Bureau of Labor Statistics, as of 5/31/23 Core PCE Source: Bureau of economic Analysis, as of 5/31/23

HIGHER RATES NOT YET FULLY FILTERING THROUGH

Despite the rising dots of June, the Fed is likely also watching for increasing economic impacts of its 500 basis points of rate hikes since March of last year beginning to take a growing toll on the economy. This was specifically expressed by Chair Powell in the June post-meeting press conference when he commented specifically, "the full effects of our tightening so far have yet to be felt."

Common economic belief holds that it typically takes a year to 18 months for the full impact of rate hikes to take effect across the economy. Assuming the lower end of that range, this implies the economy is now only feeling about 1.5% of the Fed's 5% of rate hikes since March 2022. Therefore, given further progress on inflation, Chair Powell's bias could quickly turn toward holding firm and waiting out the results of previous rate hikes now in motion but not yet surfaced.

RECENT BANKING TURMOIL COULD ALSO PLAY A ROLE

While it would be our opinion that the recent collapses of Silicon Valley, Signature, and First Republic banks were the results of individual asset-liability mismanagement at these institutions and not endemic of systemic financial risks within the broader economy, the Fed is still likely to be highly conscious of impending credit tightening and stricter lending policies to ensue as a result of these failures. This could, all else being equal, negatively impact the availability of credit and therefore, in and of itself, have similar effects to those of rate hikes.

The Fed is clearly aware of this as evidenced by the fact it has included language in each post-meeting statement since the Silicon Valley and Signature closures this past March reading, "Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain."

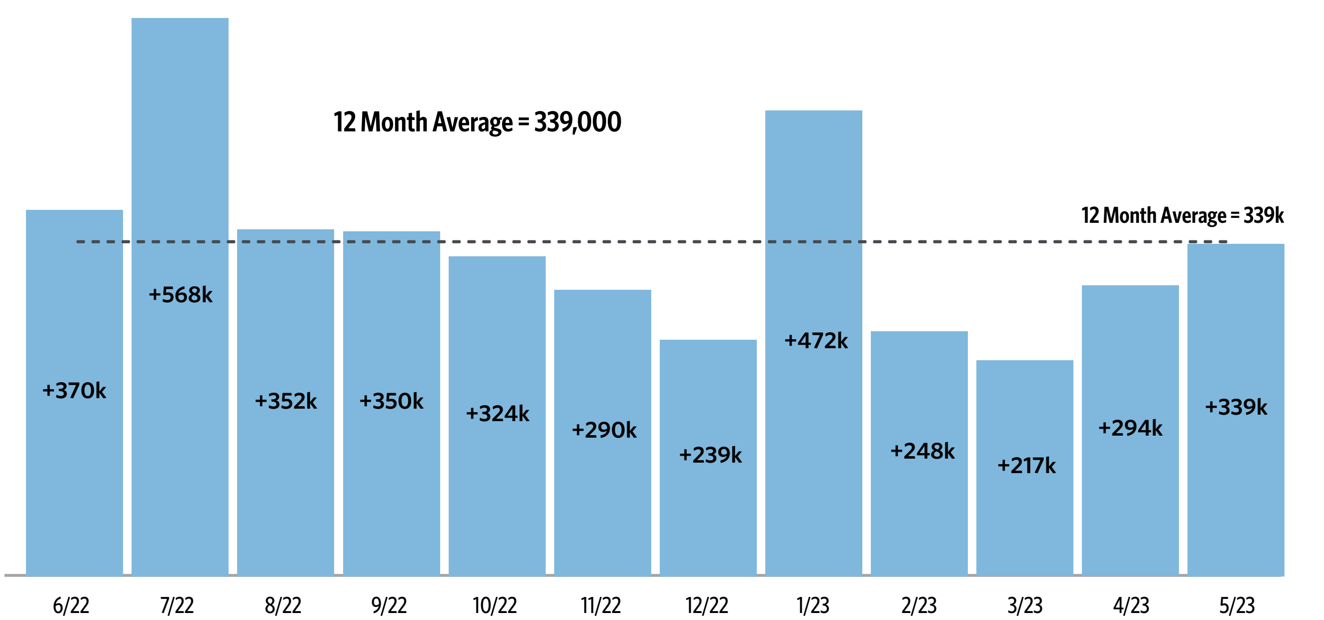
There is an old saying to the effect of "when the Fed tightens, they do so until something breaks" and in the case of the banking sector something (or perhaps better said three things) clearly broke. While we would not apportion blame to the Fed for the individual failures of these three banks (that squarely rests on the managements of the banks themselves), the Fed certainly appears conscious of the post-collapse implications upon the overall credit environment, which, again all else being equal, weighs toward holding off on incremental rate hikes.

JOB MARKET PROVIDES COUNTER ARGUMENT

If there is a strong antithesis to the notion that the Fed is on the cusp of concluding rate hikes, it would be the continuing strength in the labor market and resilience of consumer spending. For the 12 months ending in May, more than 4 million jobs have been added to the economy at an average monthly pace of 339,000, accompanied by a current unemployment rate of 3.7%. This is certainly far from recessionary and is potentially inflationary, as in isolation it could give the Fed cause for more hikes. While the labor market is often cited as a lagging indicator and historically known to peak just prior to the onset of recession, job numbers this strong undoubtedly provide some degree of rationale for further hikes but should still be viewed in the overall mix of factors impacting the Fed's decisions.

In addition to the ongoing strong labor market, consumer spending has remained solid as seen in a strong annualized 1Q reading of 3.8%, as well as retail sales reports exceeding expectations for April and May.

Strength in the Labor market
Monthly Jobs Growth June 2022–May 2023



Source: Bureau of Labor Statistics, as of 5/31/23

In summary, and when taking these and other factors into account, our best assessment would be that the fed funds rate will conclude CY 2023 with a target range of 5.25–5.50%, reflecting one additional quarter-point rate hike, and no rate cuts, from its current level.

TREASURY BILL ISSUANCE COULD PRESSURE SHORT-TERM YIELDS

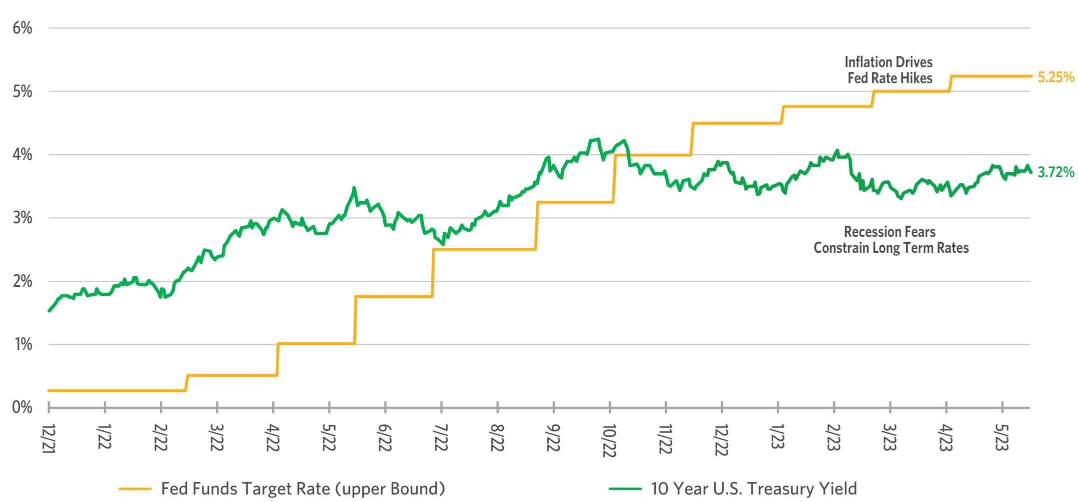
A harrowing development for the markets during 1H 2023 was the contentious debt ceiling negotiations between the political parties taking the prospect of U.S. Treasury bond defaults closer to reality than at any point in history. While the binary result of the debt ceiling agreement and subsequent passage by Congress, with only days to spare, prevented such a disastrous outcome, the aftermath of this soap opera has manifested itself in the form of an expected $1 trillion backlog of Treasury bill issuance before year-end.

A potentially large source to help absorb this upcoming supply of bills would be government money market funds now estimated in aggregate at approximately $4.5 trillion in assets. Due to a lack of recent Treasury bill issuance, these funds have been invested heavily in the Federal Reserve's overnight reverse repurchase agreement facility (Fed repo), which now exceeds $2 trillion. Therefore, it is probable that modest Treasury bill yield premiums to the current Fed repo rate of 5.05% could be necessary over the next few months to attract a good portion of this asset base without material market disruption. The 3-month U.S. Treasury bill yield closed on June 15 at 5.33% and might need to move modestly higher to suffice this upcoming increase in supply.

10-YEAR TREASURY BOND YIELD TARGET

A question facing fixed income investors is how much further the yield curve will invert given current economic conditions as well as its historically wide margin, displayed as of June 15 by a 1.61% differential between the 3-month and 10-year Treasury rates (5.33% vs 3.72%). This current inversion has resulted from both short- and long-term rates moving up precipitously over the past year. However, short-term rates have moved faster and higher due to the Fed tightening to combat inflation and long-term rates lagging as recession fears became pervasive.

The Making of An Inverted Yield Curve
Upper Bound Fed Funds Rate vs 10-Year Treasury Yield

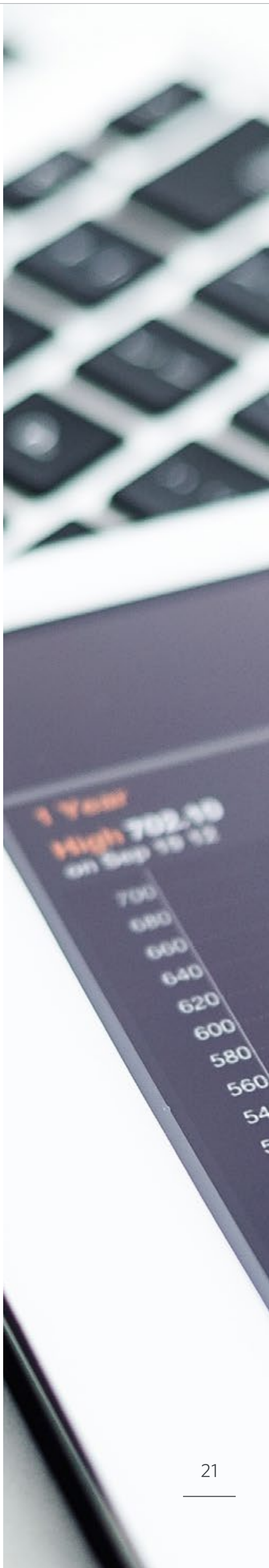


Fed Funds Rate -Source: Federal Reserve Board of Governors, as of 6/15/23,10 Year US Treasury Yield -Source: Bloomberg, as of 6/15/23

Given the prospect of a recession coming to fruition by year-end, we could see this yield curve inverting further, potentially pushing the 10-year Treasury yield lower and to approximately 3.65%, before normalizing back to an upward slope during CY 2024 following onset of the downturn.

MARKET PULSE: INTEREST RATES

- We believe the year is likely to conclude with a fed funds rate target range of 5.25–5.50%, representing a 0.25% increase from its current level and a conclusion to the Fed's current tightening cycle.
- Factors contributing to the Fed concluding its current rate hike cycle would be declining rates of core inflation, positive real interest rates, the upcoming impact of previous rate hikes over the past year, and a more restrictive credit environment stemming from recent bank failures.
- While continuing strength in the labor market, as evidenced by impressive job growth, provides a counter argument and a potential case for further rate hikes, the overall mix still favors a conclusion to the rate hike cycle at a lower bound fed funds rate of 5.25%.
- Short-term yields could see some modest upward pressure in the months ahead, resulting from a large backlog of Treasury bill issuance caused by late timing of the debt ceiling agreement and its passage by Congress.
- We view a realistic year-end target on the 10-year Treasury yield to be approximately 3.65% based on a further inversion of the yield curve occurring before the economy officially enters into recession.



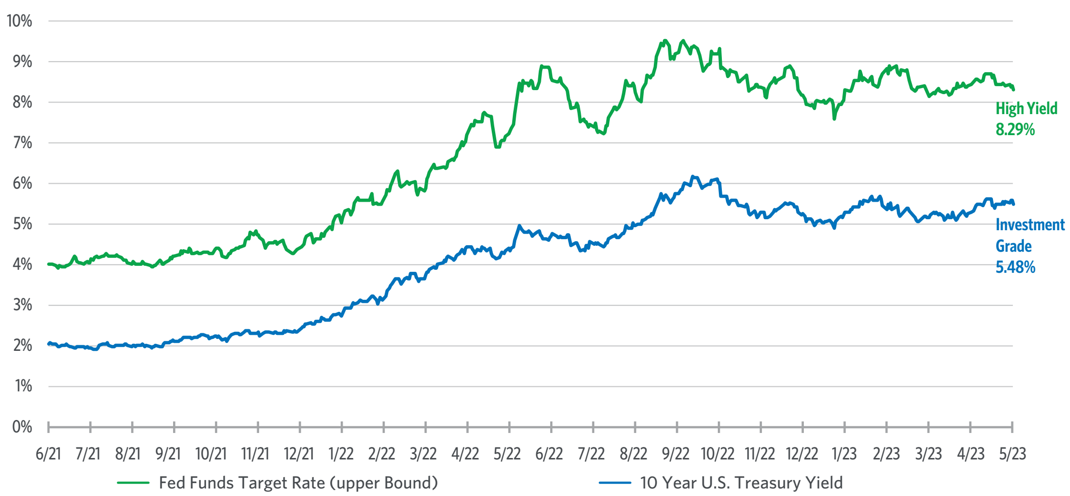
INCOME AND CREDIT

We continue to favor opportunities in high-yield and investment-grade bonds where fixed income investors can benefit from locking in recently elevated yields. We view intermediate-term maturities as best positioned to provide income while mitigating both yield curve steepening and reinvestment risk. Despite the probability of recession, the overall credit environment appears more benign than prior to previous economic downturns.

We believe the environment remains quite favorable for intermediate-term investment-grade and high-yield corporate bonds in the 5-year to 8-year maturity range. In making this judgment, we look to the following criteria as relevant to the risk-reward of recently elevated bond yields now playing out in favor of fixed income investors.

- Given the meaningful increase in yields for both investment-grade and high-yield bonds over the past year and a half, we view the 5-year to 8-year maturity range as best positioned to provide ongoing income with less reinvestment risk than short-term bonds and less yield curve steepening risk than longer-term bonds.
- Intermediate-term bond investors can avoid reinvestment risk by locking in increased yields for longer and potentially benefitting in price from a falling rate environment perhaps occurring in the latter half of CY 2024.
- With the yield curve currently inverted, intermediate-term bond investors are being paid more in yield than longer-term bonds and are also taking on less price risk in the process.
- History infers favorable returns for high-yield and investment-grade corporate bonds in years following negative total returns, as was the case last year.
- Despite the risk of recession, the overall credit environment appears more benign than prior to previous economic downturns.

Higher Corporate Bond Yields
ICE BofA Corporate Bond and High-Yield Bond Yields Since June 30, 2021

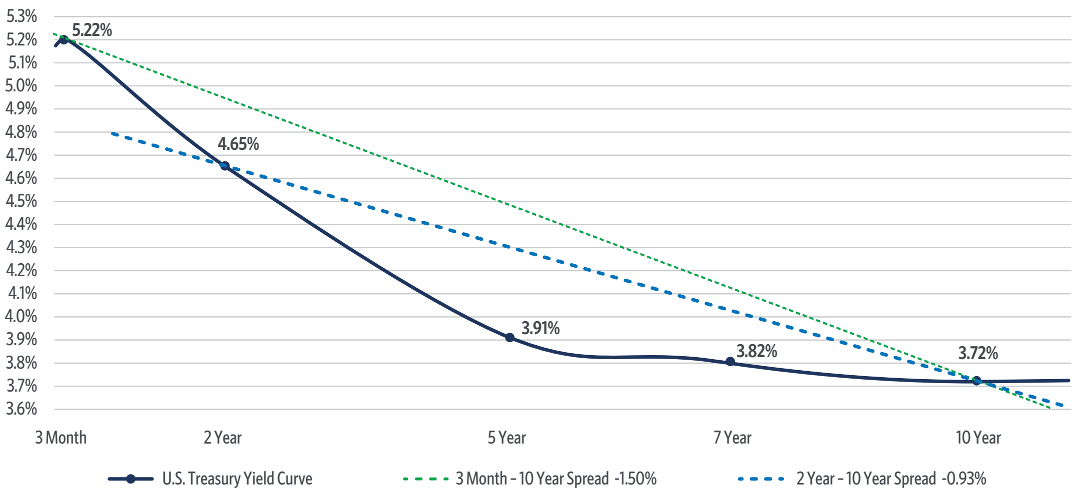


Source: Ice Indexes, as of: 6/15/23
Past performance does not guarantee future results. It is not possible to invest directly in an index.

FINDING THE MOST EFFICIENT PLACE ON THE YIELD CURVE

Inverted Treasury Yield Curve

Treasury Bond Yield Curve June 14, 2023



Source: Bloomberg, as of 6/14/23

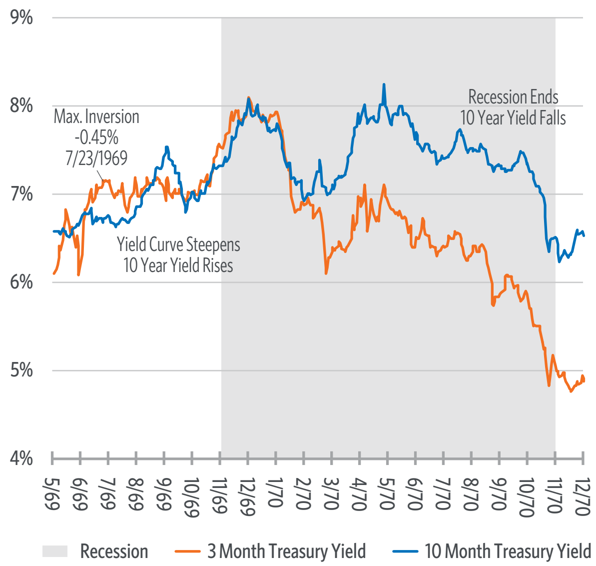
Past performance does not guarantee future results. It is not possible to invest directly in an index.

History tells us that over the past 54 years, yield curves have inverted prior to recessions and returned to an upward slope by their conclusion. This has been the pattern for all eight inverted 3-month to 10-year Treasury bond yield curves preceding recessions since 1969. In seven of these eight cases, the yield curve returned to an upward post-recession slope from a peak inverted pre-recession slope via a drop across the curve for both short- and long-term rates, with short-term rates declining more. The only exception to this occurred in 1973, when the pending recession ultimately concluded with the 3-month yield lower and the 10-year yield higher.

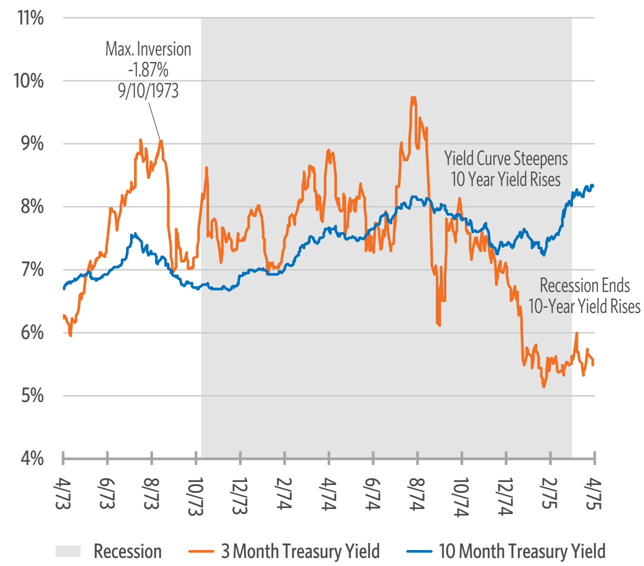
However, in four of the eight cases, the yield curve initially steepened to an upward slope prior to the recession's conclusion with the long end rising. This occurred following yield curve inversions prior to recessions in 1969, 1973, 1981, and 2007. Therefore, in these cases there was a bit of pain along the way for long-term bondholders as the curve normalized.

Yield Curve History: Inverted to Upward Sloping

Recession of 1969–1970



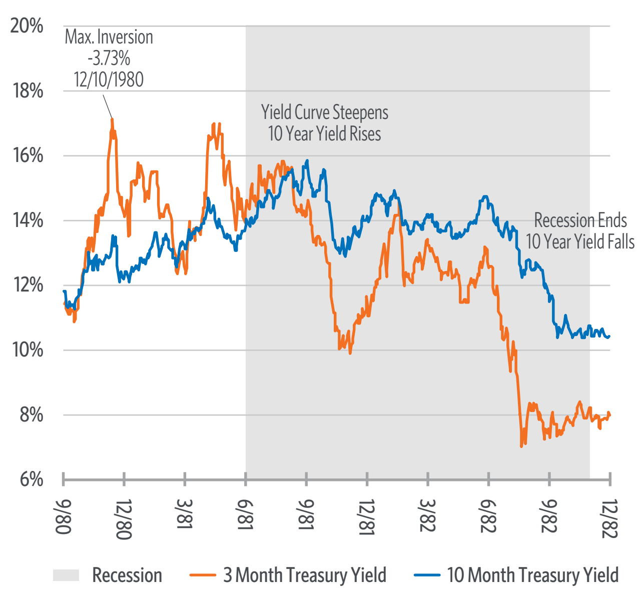
Recession of 1973–1975



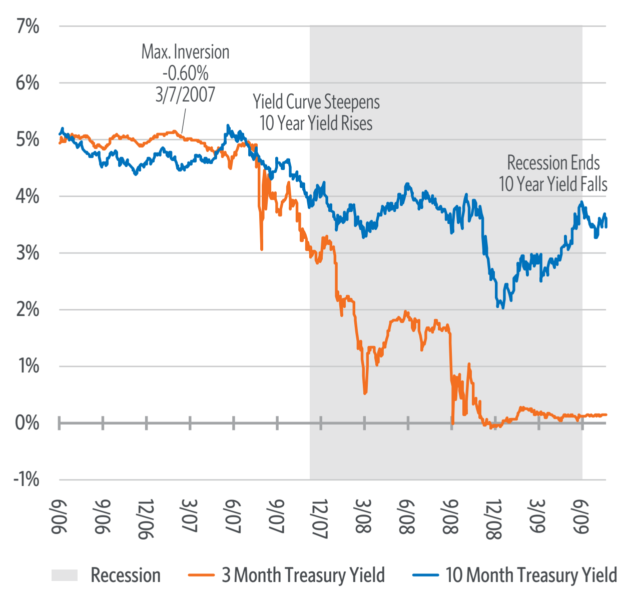
Source: Bloomberg

Yield Curve History: Inverted to Upward Sloping

Recession of 1981–1982



Recession of 2007–2009



Source: Bloomberg

With this in mind, we will highlight two risks apparent in the year or so ahead under the twofold dynamic of the Fed potentially concluding its tightening cycle and the yield curve normalizing back to an upward slope. These are:

Reinvestment Risk: Short-term bonds mature into a declining rate environment and must be reinvested at lower yields.

Curve Steepening Risk: Longer-term bonds rise in yield and decline in price as the yield curve eventually steepens to upward sloping.

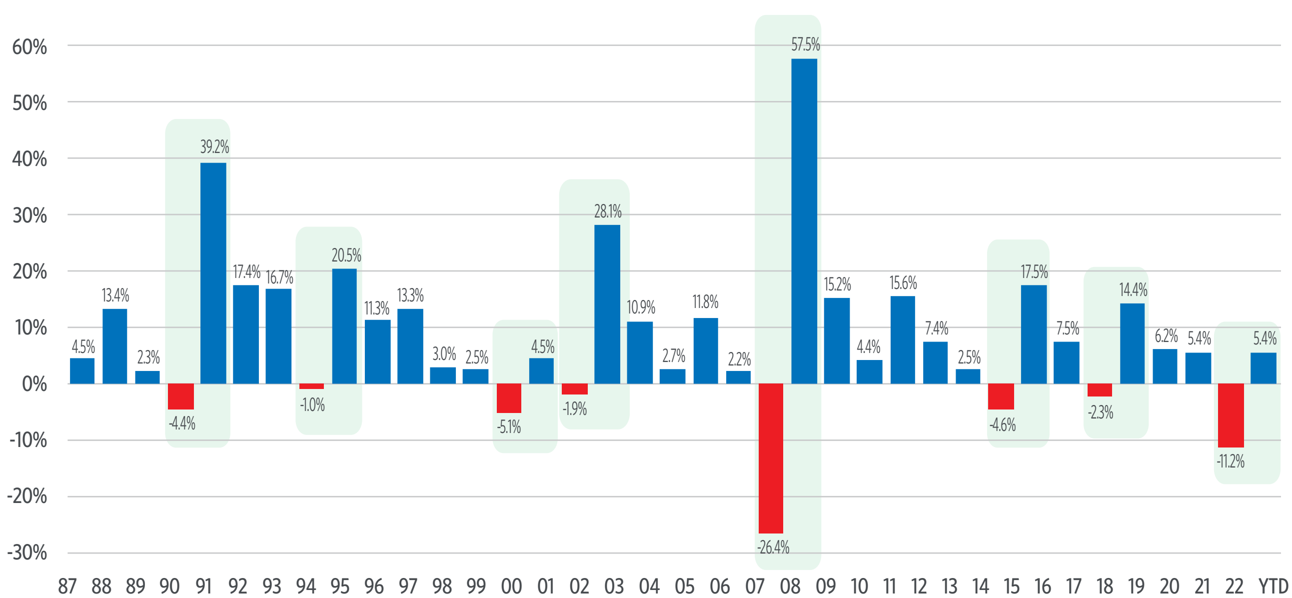
For these reasons, we view intermediate bonds in approximately the 5-year to 8-year maturity range as being likely better positioned than short-term bonds to provide ongoing and recently elevated yields for an extended time frame, and able to do so with less price risk than longer-term bonds.

HISTORY APPEARS ON THE SIDE OF CORPORATE BOND INVESTORS

History has typically been quite kind to both high-yield and investment-grade bonds following years in which they had posted negative total returns, as was the case in CY 2022.

Since 1987, when high-yield bonds, then called "junk bonds," were first categorized as an asset class, CY 2022 was only the eighth year out of the previous 36 in which they experienced a negative calendar year total return (ICE BofA US High Yield Index). Those seven previous negative years averaged -6.5% and in each of the following calendar years, total returns in high yield were positive, averaging better than +26%.

High-Yield Bond Returns Following Negative Years
ICE BofA US Corporate High-Yield Index 1987–2023 (YTD)

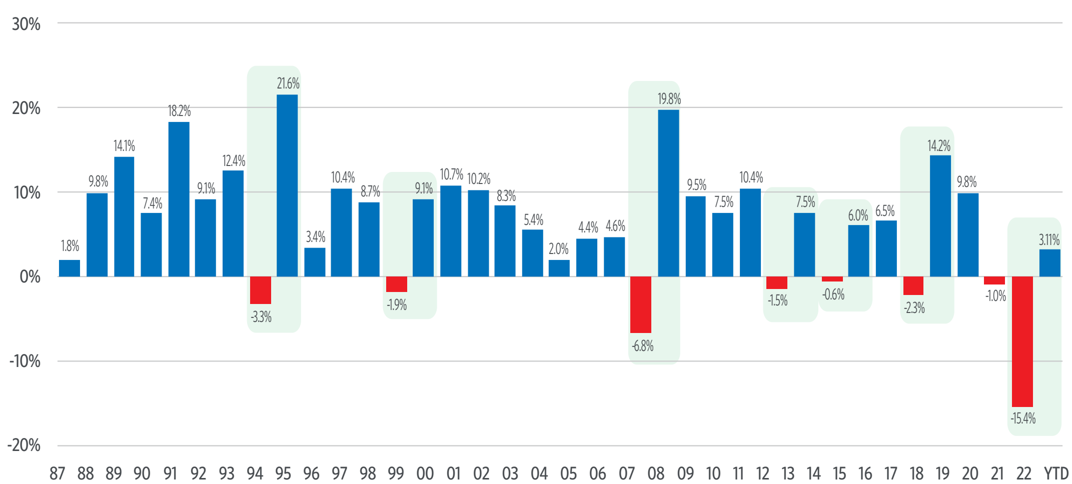


Source: Ice Indexes, as of: 6/15/23
Past performance does not guarantee future results. It is not possible to invest directly in an index.

The same concept can also be seen for investment-grade bonds, which prior to 2022 had seen only seven negative years since 1987, averaging -2.4% (ICE BofA US Corporate Index), followed each time accept once by positive total returns averaging +11%.

To be clear, we are not forecasting total returns on high-yield and investment-grade bonds of similar magnitudes to these averages. However, statistically speaking, it appears evident that history is on the side of corporate-bond investors in years following negative total returns. This now seems as though it could be the case once again as investment-grade bonds (ICE BofA US Corporate Index) and high-yield bonds (ICE BofA US High Yield Index) have displayed year-to-date total returns of better than 3% and 5%, respectively, through June 15, 2023.

Investment Grade Bond Returns Following Negative Years
ICE BofA US Corporate Index 1987–2023 (YTD)



Source: Ice Indexes, as of: 6/15/23
Past performance does not guarantee future results. It is not possible to invest directly in an index.

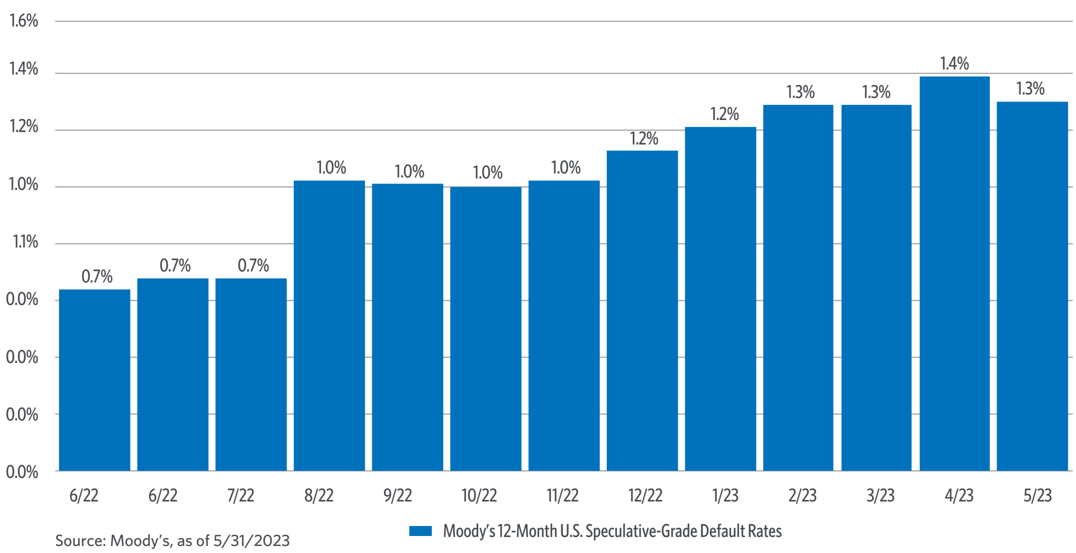
We also note that intermediate-term investment-grade and high-yield bonds also stand to benefit from the conclusion of the Fed's tightening cycle. Under this scenario, we would expect bond yields at intermediate points of the curve to remain stable for at least the remainder of the year and potentially decline during 2024, serving as perhaps one more factor putting the odds in the favor of fixed income investors in the current environment.

CREDIT CONDITIONS LIKELY MORE BENIGN THAN PRIOR TO PREVIOUS RECESSIONS

While the arrival of recession in the year ahead could result in some level of increasing overall default rates and widening credit spreads, we believe it is unlikely those trends will disrupt positive total returns for both investment-grade and high-yield bonds in the year ahead. Reasons for this include:

- Advantageous refinancings throughout the corporate bond markets during the pandemic allowing companies to lock in lower rates available at that time
- Revised maturity schedules also resulting from those refinancings pushing high-yield principal repayment dates weighted more toward the 2027–2030 time frame
- Better balance sheet and liquidity management by most corporate issuers in anticipation of the pending downturn
- Default rates on high-yield bonds will be starting the pending downturn at historically low levels (Moody's May 2023 trailing 12-month US Speculative default rate 1.3%), inferring this rate could hypothetically double yet remain below the long-term historical default average of 3.6%.

Default Rates Remain Low
Moody's 12-Month U.S. Speculative Default Rates



Source: Moody's, as of 5/31/2023

MARKET PULSE: INCOME AND CREDIT MARKETS

- We continue to believe the environment remains quite favorable for investment-grade and high-yield corporate bonds.
- We view intermediate-term corporate bonds in about the 5-year to 8-year maturity range as potentially best positioned to provide ongoing yield while mitigating both reinvestment risk and yield curve steepening risk.
- History infers favorable returns for high-yield and investment-grade corporate bonds in years following negative total returns, as was the case last year.
- Despite the risk of recession, the overall credit environment appears more benign than prior to historically previous economic downturns.

U.S. EQUITIES

We are increasing our year-end 2023 price target on the S&P 500 to 4,600 and now see a realistic one-year target for mid-year 2024 to be about 4,800. This is based on a scenario probability analysis weighted mostly between a moderate recession and soft landing in the year ahead as well as potential tail wind catalysts coming from declining inflation and the conclusion of the Fed's current tightening cycle. We also now see market conditions as most conducive to balanced allocations of growth and value stocks.

HOW BIG IS THE BEAR?

One of the most frustrating characteristics of bear markets is the negative psychology they can create. This often shows up in trading patterns reflecting fearful market sell-offs yet skeptical rallies. Lower highs and lower lows. A vicious circle seeking catalysts for change but all too selective in determining what those should be.

In looking at the past 10 bear markets (defined as a 20% or greater decline in the S&P 500) prior to this one since 1957, they have ranged in declines from 21% (1957) to 57% (2007–2009), with an average decline of 36%. They have lasted in length (peak to trough) from three months (1957) to 31 months (2000–2002), with an average length of 13 months. Following their troughs, they averaged 26 months until fully recovering back to their previous market high from when the bear market began.

Assessing the Current Bear Market
Prior 10 Bear Markets 1957–2020

BEAR MARKET BEGIN	BEAR MARKET END	MONTHS	S&P 500 DECLINE	FULL RECOVERY	MONTHS FROM BEAR MARKET END TO FULL RECOVERY	MONTHS RECOVERY / DECLINE
Jul 15, 1957	Oct 22, 1957	3.3	-20.7%	Sep 24, 1958	11.2	0.5
Dec 12, 1961	Jun 26, 1962	6.5	-28.0%	Sep 3, 1963	14.5	0.5
Feb 9, 1966	Oct 7, 1966	8.0	-22.2%	May 4, 1967	7.0	0.3
Nov 29, 1968	May 26, 1970	18.1	-36.1%	Mar 3, 1972	21.6	0.6
Jan 11, 1973	Oct 3, 1974	21.0	-48.2%	Jul 17, 1980	70.5	1.5
Nov 28, 1980	Aug 12, 1982	20.7	-27.1%	Nov 3, 1982	2.8	0.1
Aug 25, 1987	Dec 4, 1987	3.4	-33.5%	Jul 26, 1989	20.0	0.6
Mar 24, 2000	Oct 9, 2002	31.0	-49.1%	May 30, 2007	56.5	1.2
Oct 9, 2007	Mar 9, 2009	17.2	-56.8%	Mar 28, 2013	49.3	0.9
Feb 19, 2020	Mar 23, 2020	1.1	-33.9%	Aug 18, 2020	4.9	0.1
	AVERAGE	**13.0**	**-35.6%**		**25.8**	**0.7**
CURRENT BEAR MARKET						
Jan 3, 2022	**Oct 12, 2022[1]**	**9.4[1]**	**25.4[1]**	**???**	**???**	**???**

(1) Assumes Bear Market Conclusion as of October 12, 2022
Source: "Stock Market Historical Tables: Bull and Bear Markets" Dr Edward Yardeni, October 28, 2022
https://www.yardeni.com/pub/sp500corrbeartables.pdf

Since this sample had a wide range of peak-to-trough declines, we added another metric — the ratio of months until full price recovery to percentage decline. This averaged out to 0.7 (26 months/36% = 0.7). This ratio ranged from 0.1, when in 1982 the bear market concluded on August 12 with the S&P 500 nursing losses of 27% but then fully recovered that 27% by November 3, just 2.8 months later (2.8 months/27% = 0.1), to 1.5 for the bear market of 1973–1974. That one hit its trough October 3, 1974, down 48% and did not fully recover that decline until July 17, 1980 (70.5 months/48% = 1.5).

So where does this current grizzly rank among the 10 prior bears? Assuming we saw the lows of this cycle last October (a premise still not subscribed to by many) at a 25% price decline on the S&P 500, we currently stand as the third-least scary decline over the past 65 years at 11% better than the average. At nine months from peak-to-trough decline, it's the sixth-longest tenure, ranking four months below the average. Therefore, in the realm of the past 10 bear markets, this one is not as bad as most and thus perhaps a candidate to view through the lens of the average months to full recovery ratio of the previous cycles.

In applying the average months to full recovery ratio of 0.7, this would infer about 18 months out from October 12, 2022, or about mid-April 2024, as a calendar target for the S&P 500 to reclaim its Jan 3, 2022, market close of 4,798. However, we quickly caution this inference should be viewed as a mostly ballpark figure and back-of-the-envelope baseline estimate.

BULL VERSUS BEAR DEBATE REMAINS IN FULL SWING

Of course, all bear markets are unique in their profiles and driven by varying dynamics both in their initial descent and subsequent recovery. With that in mind, the equity markets enter the second half of 2023 under a fierce bull-versus-bear debate.

The bear camp cites a number of ailments that include an upcoming recession, stubborn inflation, declining corporate earnings, expensive stock price valuations, more regional bank collapses percolating below the surface, and a Federal Reserve too slow to recognize the longer-term effects of its tightening monetary policy. The result of all this being stock prices formally challenging last October's bear cycle lows.

Bulls on the other hand quickly point to the most anticipated recession in history as one that, when all is said and done, will most likely rank as only moderate in nature, and the prospect of a soft landing (no recession) remains on the table. Then there are two potential tail winds for stocks — the passing of peak inflation and the end of the Fed's rate hike cycle. Given that stocks have already experienced major declines over the past year, bulls believe all of this will result in the most recent bear market lows fading into the rearview mirror and an upward move toward the record highs of two Januarys ago with a potential breakout to follow into a new bull market.

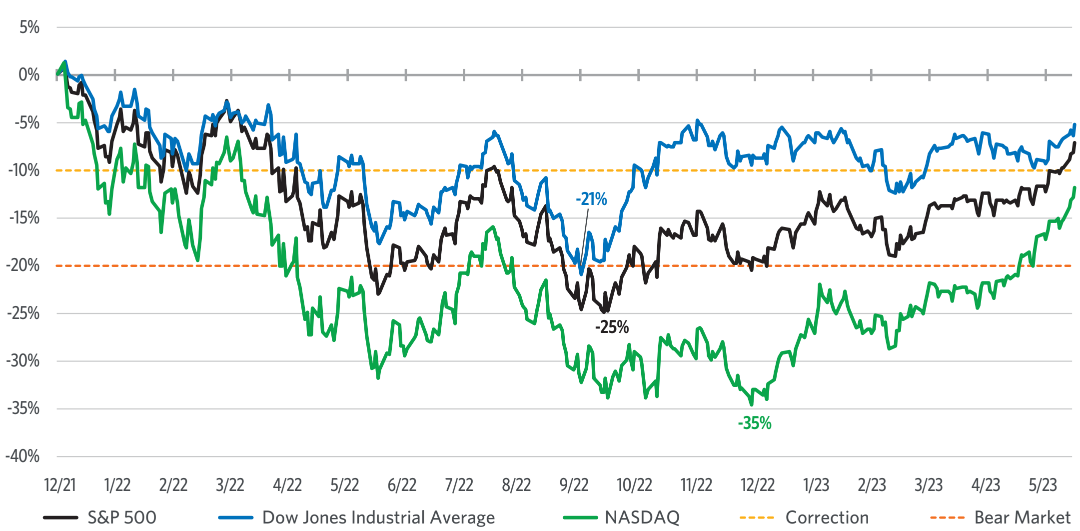
So where do we come out in this debate? As with most disagreements, the truth probably resides somewhere in between, though, in our view, not necessarily in the middle. Call it a cocktail of two parts bull and one part bear, thus resulting in net favorable total returns for stocks in the year ahead.

LOOKING BACK TO LOOK FORWARD

In gauging the road ahead for stocks, we believe it is important to recognize the degree to which they have declined over the past year and a half. Since the early days of January 2022, the Dow Jones Industrial Average has experienced a price decline of -7% (June 15, 2023), reaching a low of -22% in October 2022. For the S&P 500, these declines for the same periods amounted to -8% and -25%. The Nasdaq, having peaked in November 2021, has declined in price by -15% with a low point of -35% in October of 2022.

Current Bear Market

Major Stock Indexes December 31, 2021–June 15, 2023



Source: Bloomberg

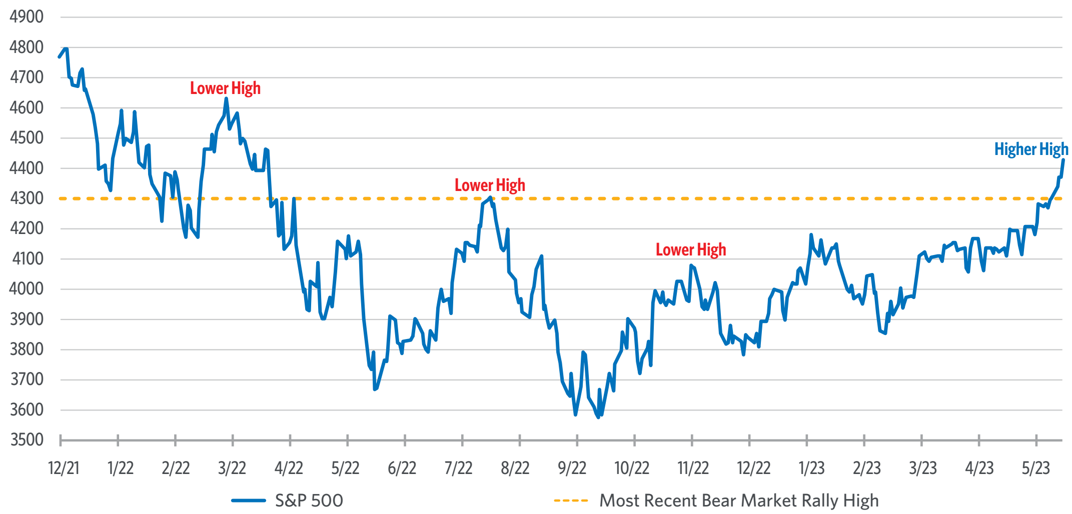
Past performance does not guarantee future results. It is not possible to invest directly in an index.

It is our perspective that the degree to which the equity markets sold off from peak to trough in 2022 likely was driven in large part by concerns of a worse economic downturn than will wind up occurring. While official corporate earnings estimates for CY 2023 have come down over this period, market fears during the summer and autumn of 2022 seemed to focus on expected declines on S&P 500 earnings south of -20% for CY 2023, which now seem quite unlikely.

In addition, during the time of last year's market lows, the debate on economic growth for the year ahead seemed to focus on the prospect of a prolonged and severe recession versus a moderate one, with the probability of a soft landing (no recession) viewed as the furthest outlier scenario. As we look forward now, we believe the central argument is currently swaying between a moderate recession and a soft landing, with a prolonged and severe recession now viewed as the least probable.

For these reasons and others, we believe this bear market cycle has likely put in its lows during 3Q 2022, and for the eight months thereafter continued to follow a classic bear market pattern of lower highs and lower lows. That pattern has since potentially broke for the S&P 500 and Nasdaq in June, when both indexes eclipsed their previous bear market rally highs of August 2022, a milestone perceived by most market technicians as a bullish event.

Breaking the Bear Market Pattern
S&P 500 December 31, 2021–June 15, 2023



Source: Bloomberg

ASSESSING THE PATH FORWARD

In looking at the potential outcomes for stocks for the remainder of the year and into CY 2024, we have conducted a scenario probability analysis, similar to the one we applied to start the year. However, for this analysis, we've adjusted for what we believe is now a lower probability of a severe recession and a better, though still less than even, probability of a soft landing without a recession.

This analysis is as follows:

BASE CASE SCENARIO: MODERATE RECESSION (50% PROBABILITY)

During 2H 2023, the economy begins a moderate recession, similar in nature to those of July 1990–March 1991 and March 2001–November 2001, lasting less than a year and with a peak-to-trough GDP decline in the range of 1%–2% and forcing CY 2023 earnings results lower than current estimates. By the end of 2023, core inflation declines into the 4% range and the Fed concludes its tightening cycle with a lower bound fed funds rate of 5.25%, however, without rate cuts for the remainder of the year. CY 2023 S&P 500 net operating earnings decline approximately -7% from CY 2022 to about $205 but then show prospects for strong recovery in 2H 2024 and back toward the $235 level for CY 2024. With the Fed on hold, the market provides a 17x forward multiple on that expectation and a year-end 2023 price on the S&P 500 of about 4,000.

Scenario Probability Analysis

	50% Probability	40% Probability	10% Probability
	BEST CASE SCENARIO	**OUTLIER CASE SCENARIO #2**	**OUTLIER CASE SCENARIO #1**
State of Economy	**Moderate Recession**	**Soft Landing (No Recession)**	**Severe Recession**
Core Inflation	Declines in 4% range	Falls below 4%	Stays above 5%
Fed Funds Rate (Target Range)	5.25% - 5.50%	5.25% – 5.50%	5.75 - 6.00%
CY 2023 S&P500	Net operating earnings of $205	Net operating earnings of $230	Net operating earnings of $185
CY 2024 S&P 500	Net operating earnings of $235	Net operating earnings of $270	Net operating earnings of $200
Price Level Year-End 2023	17x forward multiple = 4,000 on S&P 500	19x forward multiple = 5,100 on S&P 500	16x forward multiple = 3,200 on S&P 500

OUTLIER SCENARIO 1: SOFT LANDING AND NO RECESSION (40% PROBABILITY)

The Fed successfully pulls off a soft landing as employment and consumer spending trends remain strong and no recession comes to fruition. Core rates of inflation drop below 4% in 2H 2023 and CY 2023 S&P 500 net operating earnings come in stronger than expected at about $230. The Fed concludes its tightening cycle with a lower bound on the fed funds rate of 5.25%. With inflation appearing to be on a downward trajectory, the market begins to discount rate cuts in CY 2024 along the earnings estimates of double-digit growth to about $270. Expecting an environment of rising earnings growth and declining interest rates, the market attributes a forward multiple of 19x on this estimate and the S&P 500 approaches 5,100.

OUTLIER SCENARIO 2: SEVERE RECESSION (10% PROBABILITY)

During 2H 2023 the economy falls into a more severe recession, similar to that of July 1981–November 1982, appearing to last more than a year and with a peak-to-trough GDP decline in the 3–4% range. Core inflation remains stubbornly high in the 5% range and the Fed is forced to continue raising rates toward an upper bound fed funds rate of 6%. The Fed holds tight on not cutting rates in 2023, however, the market discounts rate cuts in CY 2024. S&P 500 net operating earnings fall precipitously to a calendar year decline of about 15%, or approximately $185, and show signs of about 8% growth in CY 2024 to $200. With a 16x forward multiple on this estimate, the S&P closes out the year trading at about 3,200.

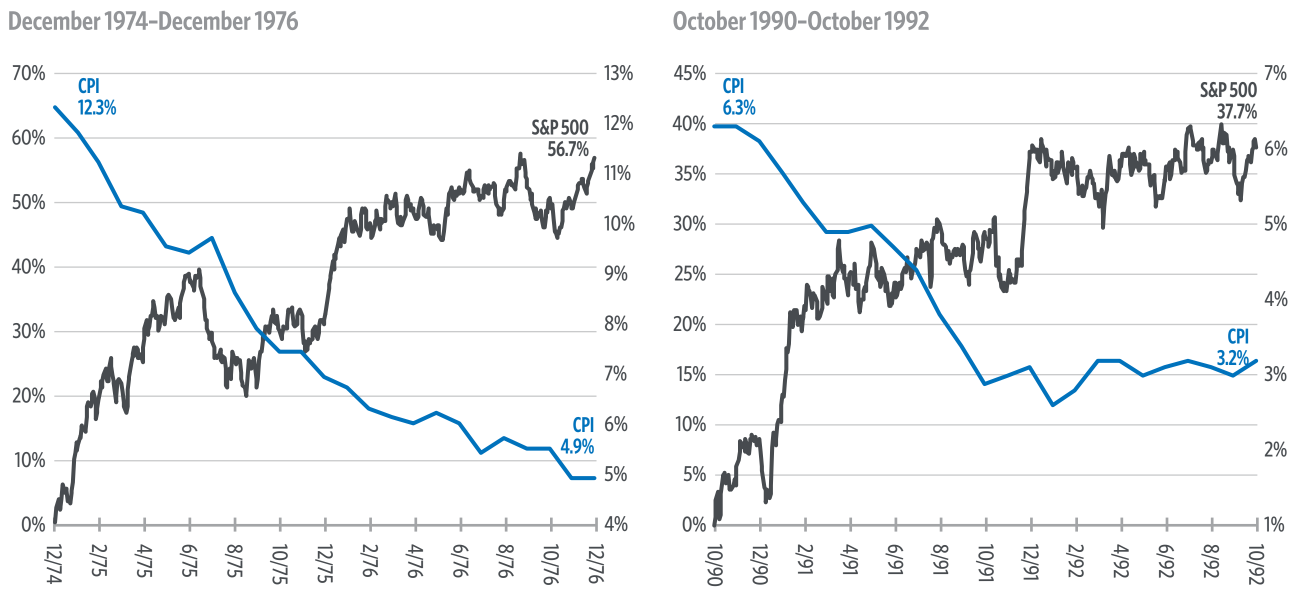
Adding together the expected probabilities of these scenarios leads to a weighted average price target on the S&P 500 of approximately 4,400. However, we feel there are a couple of potential tail winds in the offing capable of driving stock prices incrementally higher than this level in the upcoming year.

ENTER THE TAIL WINDS

The first potential tail wind for stocks in the year ahead would be a favorable reaction by the equity markets to a lower trajectory on inflation and recognition that peak levels have passed. Here we believe it is important to recognize that year-over-year headline CPI reached 9.1% in June of 2022 and 6.6% on its core reading the following September. The most recent May CPI report displayed headline and core inflation of 4% and 5.3%, respectively. Historically similar conditions and market reactions to them worth noting include:

- The first inflationary cycle of the 1970s peaked in December 1974 when CPI in the U.S. reached a year-over-year reading of 12.3%. Two years later in December of 1976, CPI had decline to a rate of 4.9% and the S&P 500 had posted a cumulative total return of more than 56% over that time.
- In November of 1990 following the Iraq invasion of Kuwait the previous summer, CPI peaked in this cycle at 6.3% before declining to 3% two years later. During that time, the S&P 500 generated a cumulative total return of more than 37%.

Potential Market Catalyst: Passing of Peak Inflation
S&P 500 Following Peaks of Inflationary Cycles

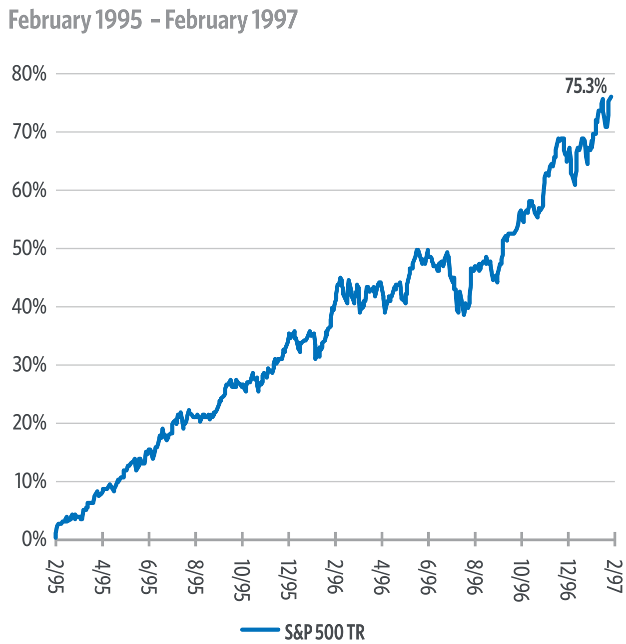


Source: CPI: Bureau of Labor Statistics. S&P 500: Bloomberg

We would also not be surprised to see a favorable response in stocks to a recognized conclusion of rate hikes, which we believe is likely to occur at a lower bound of 5.25% on the fed funds rate in the months ahead. This conclusion would be similar in concept to the culmination of two previous tightening cycles when the Fed either sought to control inflation or raised rates off a zero fed funds level. Those cases being:

- In February 1995, the Fed finished a year-long tightening cycle in which it raised the federal funds rate on seven occasions from 3.25% to 6%. Over the following two years to February 1997, the S&P 500 posted a cumulative total return of better than 75%.
- In December of 2018, the Fed completed three years of rate hikes resulting in an increase on the lower bound federal funds rate from zero to 2.25%. Two years later the S&P 500 had achieved a cumulative total return of more than 54%.

Potential Market Catalyst: Conclusion of Fed Tightening Cycle
S&P 500 Following Conclusions of Fed Tightening Cycles



Source: Bloomberg
Past performance does not guarantee future results. It is not possible to invest directly in an index.

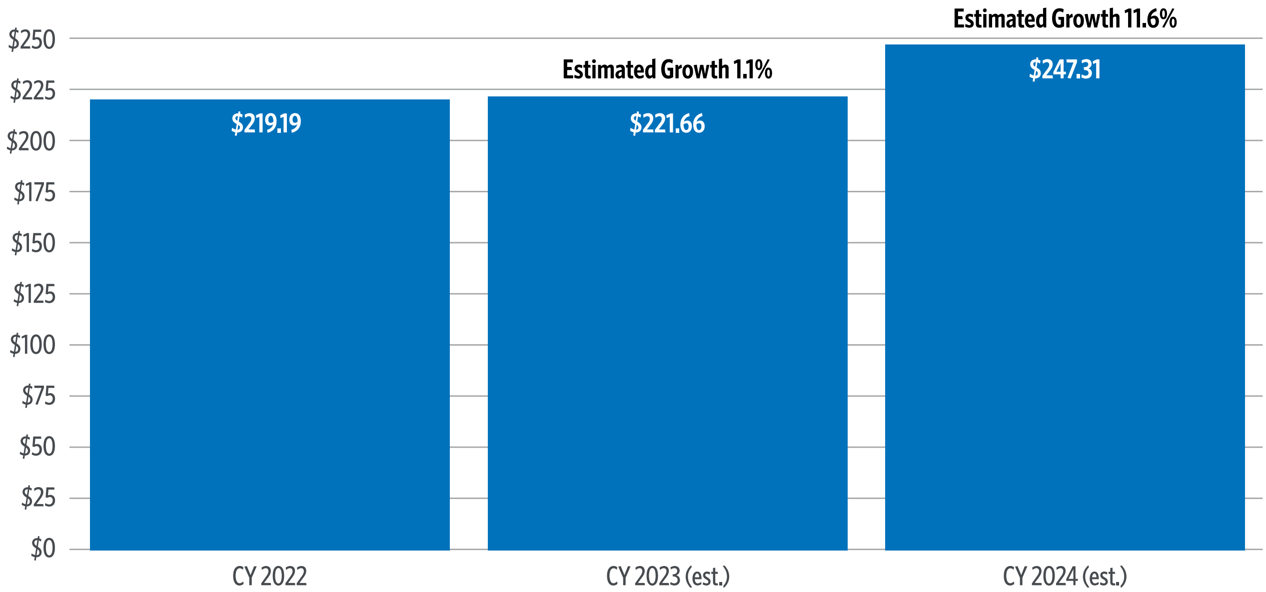
To be clear, we do not expect an upcoming market reaction to declining rates of inflation or a conclusion to the Fed's recent tightening cycle to be of the same magnitude of those referenced above. These previous periods included numerous other market dynamics in addition to inflation and interest rate trends. However, the broader point is that history does seem to infer that a recognized peak and reversal in the rate of inflation and/or the end of a Fed tightening cycle can provide incremental momentum for stocks in the two or so years to follow.

LONGER-TERM VALUATION ANALYSIS

In past years, we have looked toward the equity risk premium (ERP) valuation as a useful directional guide for stocks, however, at the midpoint of 2023 this range of inferred outcomes appear less conclusive than in years past. Our ERP analysis simply takes the expected earnings yield on the S&P 500 for the upcoming four quarters and then subtracts from that the long-term government bond rate (10-year U.S. Treasury yield). We then compare that ERP calculation (earnings yield minus 10-year Treasury rate) to more than 200 quarterly ERP calculations dating back more than 50 years.

When using the official FactSet Earnings Insight aggregated estimate for the forward four quarters of 3Q 2023–2Q 2024 of $231 (as of June 9, 2023), this provides an earnings yield of 5.24% based on the S&P 500 closing price on June 15, 2023, which when subtracting the 10-year Treasury yield of 3.72% on this same day calculates to an ERP of 1.5%, which has historically preceded 3-year annualized total returns on the S&P 500 in the range of -12% to +21% with a median of approximately +12%. We would therefore view this ERP profile as implying a wide range of historical outcomes and therefore less definitive in identifying broader stock opportunities than we have seen in previous years.

Estimated Corporate Earnings Growth
S&P 500 Net Operating Income Growth • CY 2022–CY 2024 (FactSet Earnings Insight)



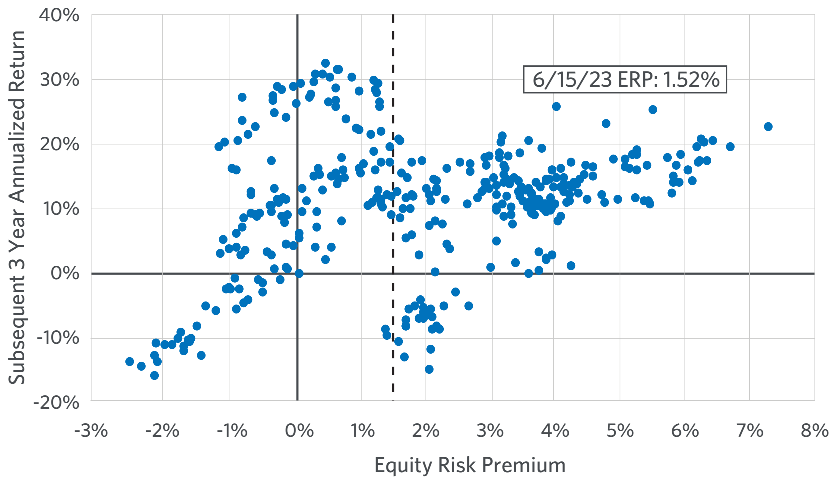
Source: FactSet Earnings Insight, as of June 9, 2023

Stock Valuations
Equity Risk Premium (ERP) Analysis

	6/15/23	
	S&P 500 Forward Earnings Yield	5.24%
minus	Est 10 Year U.S. Treasury Yield	3.72%
	Equity Risk Premium	1.52%

S&P 500 Forward Earnings Yield Calculated by dividing estimated earnings for the next 4 quarters by the current index value.

FactSet Earnings Insight Estimate
$231.87 3Q 2023–2Q 2024 (June 9, 2023)



Source: FactSet, Bloomberg, Transamerica Asset Management, Inc.

THE BANKING WILD CARD

One of the major unexpected developments so far in 2023 has been the regional bank turmoil resulting in the collapses of Silicon Valley, Signature, and First Republic banks. As we have stated in previous commentaries, we do not view the predominant cause of these bank failures, that being the asset-liability mismanagement at each of these institutions, as a systemic issue endemic throughout the banking sector or broader economy. In addition, we believe the swift actions of the FDIC, Federal Reserve, and U.S. Treasury Department, which included the establishment of the Bank Term Funding Program, as being crucial in containing the crisis and preventing more closures. We would therefore categorize this recent bank turmoil as being caused by individual failures and, from a systemic perspective, more along the lines of major crisis averted. Nonetheless, should we see more bank collapses and closures in 2H 2023, we would certainly view such events as likely to create ongoing market volatility and a resulting negative impact on overall stock prices.

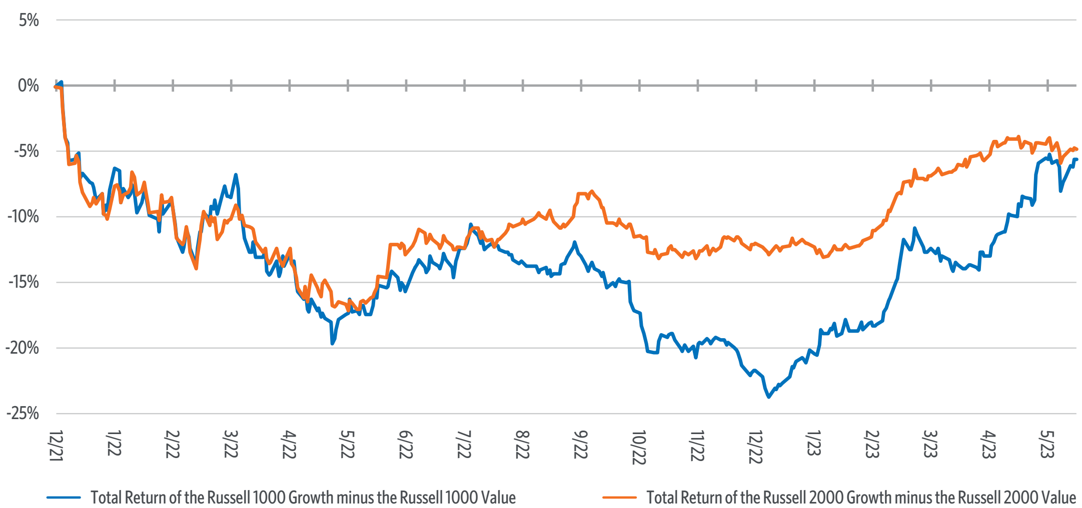
CONDITIONS NOW FAVOR BALANCE OF GROWTH AND VALUE STOCKS

Following our judgment two years ago that value stocks were likely to outperform growth during an inflationary and rising rate market environment, we would now be apt to bank some of that relative differential and move toward a balanced allocation of growth and value stocks across the market capitalization spectrum. Reasons for this shift in perspective include:

- As the worst of inflation fades into the background, stocks of companies with stronger earnings growth will be more prone to see the out-year value of those earnings streams more highly valued by the market.
- A conclusion to the Fed's tightening cycle should also benefit the longer-term earnings value of growth stocks.
- Given a pending recession or potentially slowing economic environment, growth stocks are also likely to benefit from a "scarcity of growth" factor evident in previous downturns.
- As the market looks past a potentially moderate recession and into late 2024 and beyond, the prospect of lower interest rates in a normalized inflationary environment should also benefit growth stocks.
- Against this backdrop, we would still reiterate a favorable outlook for value stocks, particularly over a multiyear time frame and given their decade-long disparity in performance versus growth stocks prior to last year.
- By moving from an overweight on value to a balanced allocation, equity investors can benefit from an improving environment for growth stocks in the year ahead while still being well positioned in value longer term.

Growth and Value

Russell 1000 Growth vs Russell 1000 Value • December 31, 2021–June 15, 2023



Source: Bloomberg, as of: 6/15/23

Past performance does not guarantee future results. It is not possible to invest directly in an index.

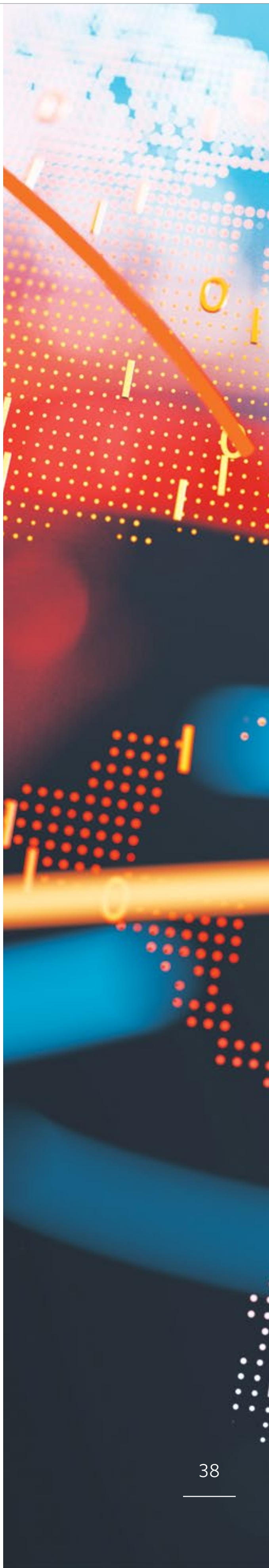
THE FINAL VERDICT

In determining a year-end 2023 and one-year (June 30, 2024) price target on the S&P 500, we begin with our scenario probability analysis inferring a weighted average price level on the S&P 500 of approximately 4,400. From there we add approximately 100 points each for the potential impacts of both a lower ongoing trajectory of inflation following its recognized peak in June of last year and the potential conclusion of the Fed's tightening cycle. This calculates to a year-end 2023 price target on the S&P 500 of 4,600. We also view a realistic one-year target on the S&P 500, as of June 30, 2024, to be 4,800.

MARKET PULSE: U.S. EQUITIES

- We believe a realistic year-end 2023 price target on the S&P 500 to be 4,600 based on a scenario probability analysis, the prospect of declining rates of inflation, and the conclusion of the Fed's current tightening cycle. We also view a realistic one-year (June 30, 2024) price target on the S&P 500 to be 4,800.
- We do not expect the major stock indexes to challenge the bear market cycle lows from October 2022, and from a trading perspective we view the S&P 500 sustaining itself above 4,300 as the first real signal of a shift to a more bullish technical profile.
- Though we do not believe recent bank collapses are representative of systemic risks across the banking sector or broader economy, we would view a wild card in the equity markets over the upcoming year to be any additional failures or closures in the regional banking sector, which, if it were to occur, could result in heightened market volatility and negative pressure on stock prices.
- Following the strong outperformance of value stocks throughout the recent inflationary and higher interest rate cycles, we now view a balanced allocation of growth and value stocks to be prudent as economic and market conditions now appear to be leveling the playing field toward growth stocks.

INTERNATIONAL STOCKS



Global investors are likely to benefit from international developed and emerging market equities as growth in advanced and developing regions could be improving in CY 2024 and valuations appear favorable. Europe's economy has proved resilient, growth remains strong in India, and market conditions appear to be improving in Japan.

While the outlook appeared somewhat bleak to begin the year, international developed and emerging markets now seem better positioned for positive returns in the year ahead. While there are still major challenges to be faced in various regions of the world, when all is said and done, we view the overall risk-return potential for international stocks to be tilted in favor of global investors.

Rationale for this judgment include:

- Despite recently dipping into recession, Europe has proved more resilient than most had expected.
- Growth in India remains encouraging.
- Greater emphasis on more effective corporate governance and asset utilization in Japan
- Valuations appear attractive for international developed and emerging market stocks versus U.S. equities.
- Potential tail winds created by newly experienced trading levels on the U.S. dollar

EUROPE HAS PROVED MORE RESILIENT THAN EXPECTED

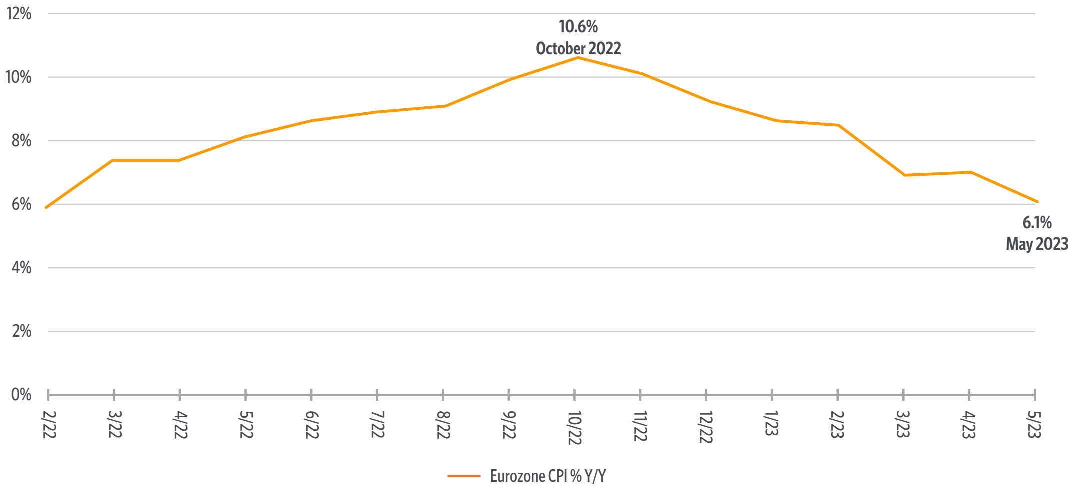
Europe's economy began the year behind the eight ball but has since migrated to a somewhat more comfortable position on the pool table.

What looked to be an ominously developing severe recession, energy crisis, and potentially cruel winter has given way so far to only a mild recession and one that has only been officially recognized after downward revisions to original Eurostat estimates. Following what was believed to be flat quarterly GDP growth in 4Q 2022 and a 0.1% increase in 1Q 2023, both quarters were revised to -0.1% readings, thereby pushing the eurozone into recession by the slimmest of margins. Despite this contraction over the two most recent quarters, year-over-year eurozone GDP still logged in at +1%.

Also of relevance was the fact that Ireland's economy saw a 4.6% decline in 1Q driven entirely by accounting changes coming from multinational technology and pharmaceutical companies domiciled there, moving intellectual property products (patents and software) out of the country. When not including those intangible non-cash exports, Ireland would have experienced about 2.7% growth and eurozone GDP would have been solidly positive for the quarter.

Nonetheless, Europe has suffered this year from higher inflation and, specifically, more expensive energy costs resulting in lower consumer spending. This was particularly seen in Germany, Europe's largest single economy, where economic growth was negatively revised for 1Q from flat to -0.3%, thereby also directly contributing to the region's overall negative growth.

Eurozone Inflation Declines
Eurozone Year-over-Year CPI February 2022–May 2023



Source: Eurostat, as of 5/31/2023

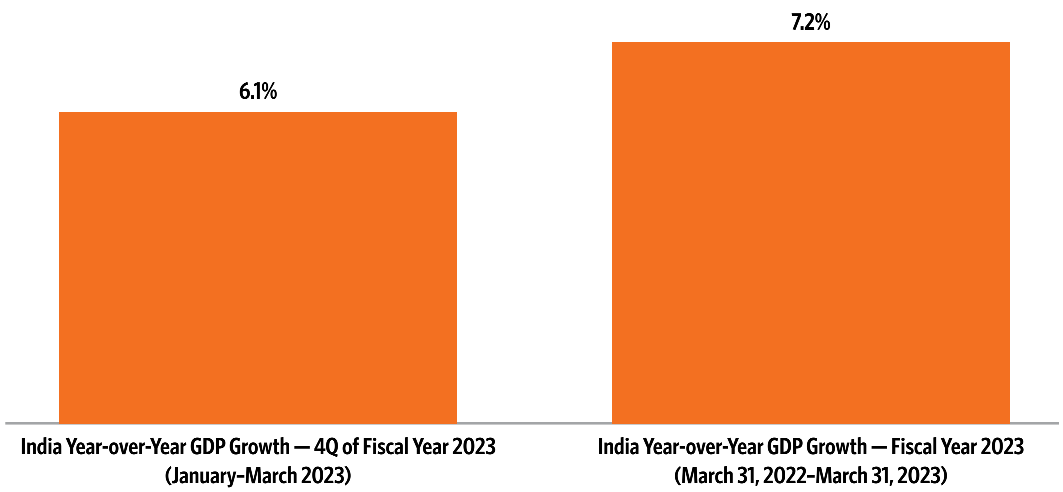
In addition, further contraction in Europe is still a risk as inflation annualized at 6.1% for May and the European Central Bank (ECB) appears to be less than finished in terms of rate hikes. With the ECB deposit facility raised to 3.5% as of June 15, the eurozone continues to adjust to what is now 400 basis points of higher rates since the first half of last year, when negative interest rates were still filtering through the economy.

Yet despite the recession designation and higher interest rates imminently on the way from the ECB, we still give credit to Europe's resilience in averting what could have been a far worse scenario as it clearly came through a potentially brutal winter in better shape than most feared several months ago. At the year's outset, the eurozone prepared for a rough transition away from Russian natural gas dependency against a backdrop of double-digit inflation, however, cooperating weather and concerted energy stock piling and conservation efforts enabled the region to mostly navigate those treacherous waters. All considered, we still believe Europe maintains a strong probability of concluding CY 2023 with positive GDP growth, perhaps in the 1% range.

INDIA SHOWING CONTINUED STRENGTH

India continues to be a global leader in economic growth as seen in its better than expected 6.1% year-over-year growth for the recent March quarter concluding its fiscal year. This represented an uptick from the 4.5% pace in the previous quarter as growth accelerated in manufacturing, private consumption, real estate, and agriculture. For fiscal year 2023, India finished with GDP growth of 7.2%.

India Remains a Global Growth Leader



Source: Reuters, as of 3/31/2023

Annualized retail inflation for April continued to move lower to 4.25% in May, its lowest level in more than two years and down considerably from 6.5% in January. With the Reserve Bank of India (RBI) still holding firm since February at 6.5% on its repurchase agreement ("Repo") rate, there is likely less comparative inflationary risk when compared to the larger global community.

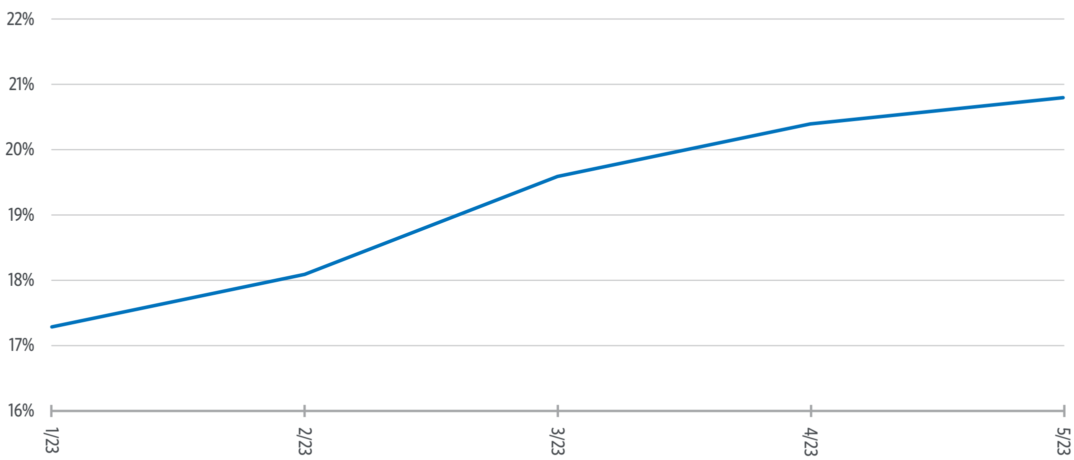
Currently, the International Monetary Fund (IMF) has estimated India's economy to grow at a pace of 5.9% in CY 2023 and 6.3% in CY 2024, though there could be upside to these estimates if the pace of inflation continues to decline and the RBI sees no further reasons to raise rates. Perhaps most impressively, the IMF estimates India to contribute more than 15% of total global growth in CY 2023.

LONGER-TERM PROSPECTS IN CHINA REMAIN CHALLENGING

Recent economic momentum in China has been strong in aggregate, however, longer-term prospects beyond the consumer segment continue to appear on a difficult path.

Driven by the reopening of its economy following last year's onerous COVID-19 lockdowns, China's 1Q 2023 GDP posted at 4.5% year-over-year growth, exceeding consensus survey expectations of 4% while also achieving its highest quarterly rate of growth since 1Q 2022. The short-term catalyst of this acceleration has been coined as "revenge spending" by China's consumers, referring to large-scale purchases by individuals previously constrained from activity over the past year. This was seen in 12.7% year-over-year retail sales growth for the month of May following 18.4% growth in April.

China Youth Unemployment Rises Sharply
Monthly Surveyed Urban Unemployment in China Ages 16–24 • January 2023–May 2023



Source: Statista, as of 5/31/2023

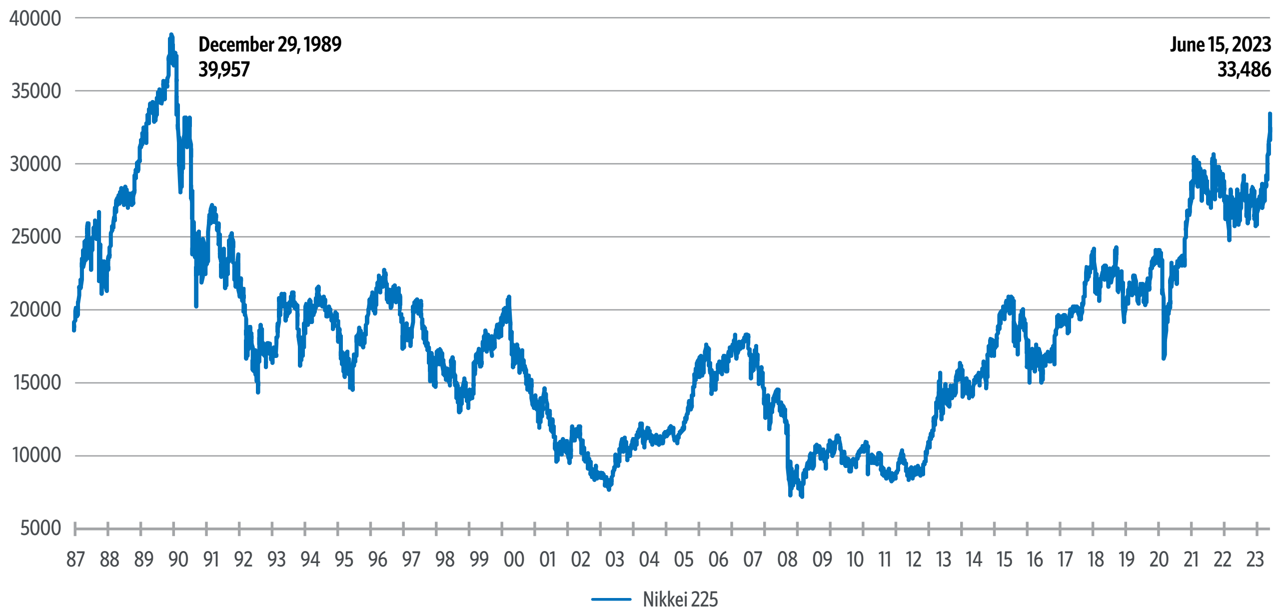
However, China's ability to maintain this acceleration for more than a couple of quarters is unlikely, in our judgment, as consumers burn through pent-up savings and overall momentum has yet to show signs of transcending into other areas of the economy. Data for April displayed a declining trend in industrial production at just 3.9%, and May's Manufacturing Purchasing Managers' Index also dropped further into contractionary territory. Perhaps most concerning is the youth unemployment rate, which reached 20.8% in May for those between the ages of 16 and 24, who have seen a lack of job opportunities stemming from the previous lockdowns. Therefore, while favorable comparisons coming off the lockdowns could display an uptick in growth for CY 2023, we see any further acceleration as unlikely to be sustained into CY 2024.

POTENTIAL CORPORATE RENAISSANCE IN JAPAN

Japan stocks have experienced dramatic upside since the year began, as the Nikkei 225 has risen more than 30% as of June 15. This move has now taken the index above its most recent high in September 2021, but, perhaps more importantly, to its highest level since 1990. Given this breakout, whispers are now gathering that this could be part of a larger secular move to perhaps challenge the Nikkei's record high achieved back in 1989. Such a move would now only infer about 13% appreciation from its current level and is clearly no longer being viewed as the pipe dream it once was.

There are a few surface reasons behind the strong move higher in Japan equities, with the most obvious being comparatively lower rates of inflation than the rest of the world as seen in its most recent April reading of 3.5% on an annualized basis. Moreover, following about two decades of miniscule inflation and at times deflationary trends, these higher rates appear somewhat welcome to the Japanese markets. At present, there are no signs the Bank of Japan will be taking any restrictive policy actions as its benchmark interest rate has been held firm and is still in negative territory at -0.1%. At the margin, this is certainly a favorable backdrop for Japan stocks.

Japan Stocks Challenging Record Highs
Nikkei 225 Index 1987–2023



Source: Bloomberg, as of 6/15/2023
Nikkei 225 is a price-weighted equity index, which consists of 225 stocks in the Prime Market of the Tokyo Stock Exchange.

However, the strong move in Japan's market is likely most attributable to a cultural shift regarding corporate governance and balance sheet management some years in the making but only just recently taking wing. Specifically, this pertains to a concerted effort among investors and the Tokyo Stock Exchange (TSE) to require stronger deployment of corporate assets by managements as seen in listing requirements for stock trading based on price-to-book value measures deemed above minimum levels.

The TSE is now in the process of reorganizing its trading into three sections designated as Prime, Standard, and Growth, with the first of these requiring the most rigorous of listing criteria. At the forefront of those requirements to trade in the Prime section of the exchange is price/book value prices consistently trading above 1x, something typically expected in the U.S. but less of an everyday occurrence in Japan due to more conservative allocations of capital and higher concentrations of cash held on balance sheets. In fact, estimates are that almost twice the number of companies within Japan's TOPIX 500 trade at discounts to book value as compared to the S&P 500. Should this gap be closed materially in the years ahead, it would infer material outperformance for Japanese stocks.

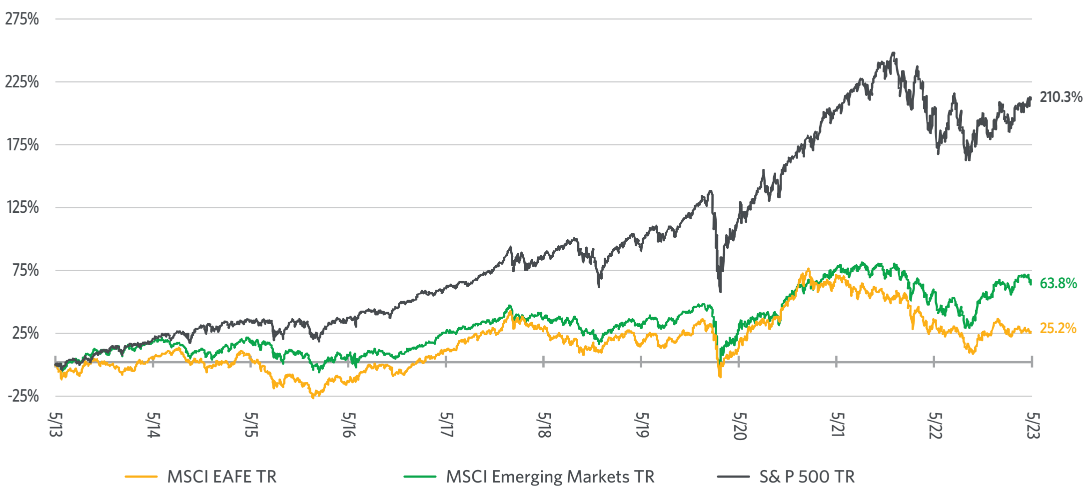
Of course, all of this will not happen overnight, and the TSE is already being criticized by some for acting too slowly in enforcing these new standards. Companies trading below price/book value are not anticipated to face immediate action and will be given time to submit improvement plans and additional disclosures to the exchange. The TSE has set a hard deadline of March 2025 for any grace periods to conclude for companies failing to meet the new requirements.

If there is a renaissance in corporate governance under way in Japan, it could take a while to show up in real numbers. However, as the great discounter of future events the market seems to be recognizing some sort of a longer-term opportunity, and with Japanese stocks representing more than 20% of the MSCI EAFE Index, we would view this development as quite favorable.

VALUATIONS COULD PROVE MORE MEANINGFUL IN THE YEAR AHEAD

Over the past decade, the argument has often been made that international developed and emerging market stocks have traded at attractive discounts to U.S. stocks and at times with premium growth rates. Yet, the seemingly inarguable profile of higher growth at cheaper prices has failed to produce better returns and, in large part, this has likely been attributable to declining rates of growth. Hence, without a rising pace of growth among international economies, the market has seemed to care little about what that growth was or how inexpensive it might be priced. Perhaps not fair, but still true.

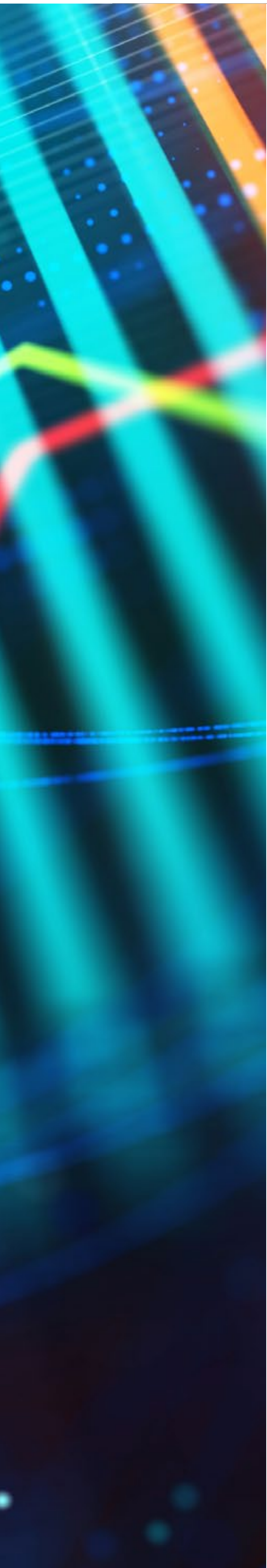
Underperforming Decade for International Stocks
MSCI EAFE and MSCI EM vs S&P 500 May 2013–May 2023



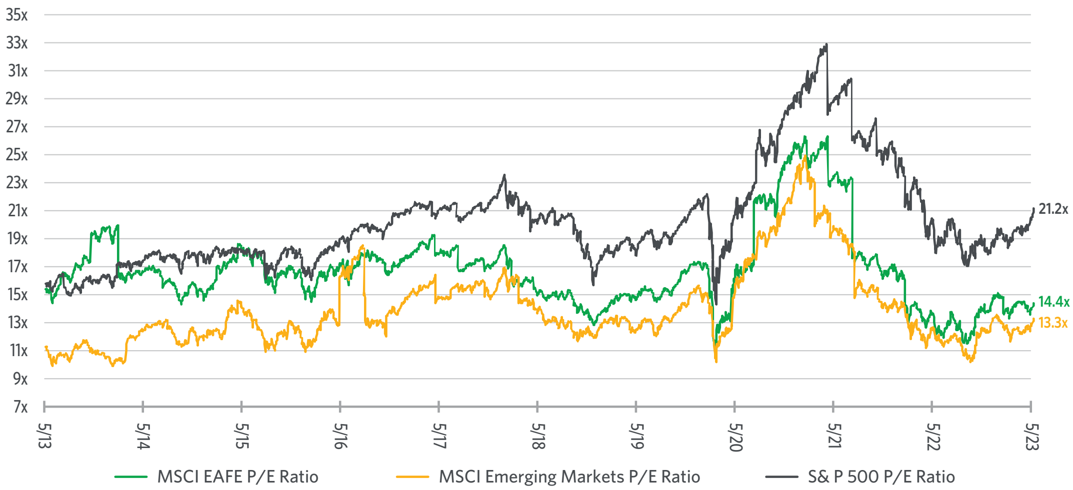
Source: Bloomberg, as of 5/31/2023

With this in mind, there may be opportunities for international developed and emerging market stocks in the year ahead, given the difficult environment for CY 2023 and what could be a meaningful rebound in CY 2024. Clearly, there is a good bit yet to be determined before such an acceleration can be fully visible, but at this time a path looks open to that scenario.

At this point, we believe there's a better than even probability Europe, Japan, as well as the broader segment of advanced economies see a step up in growth for CY 2024 as they work through the current global inflationary and central bank tightening cycles. As a result, there could be upside to the IMF's most recent CY 2024 projection of 1.4% growth across advanced economies, which, if exceeded, could provide upside for international developed market stocks, given present valuations and past underperformance versus U.S. equities over the past decade.



Valuation Disparity: International vs U.S. Stocks
MSCI EAFE, MSCI Emerging Markets vs S&P 500
Price to 12-Month Trailing Earnings May 2013–May 2023



Source: Bloomberg, as of 6/15/2023

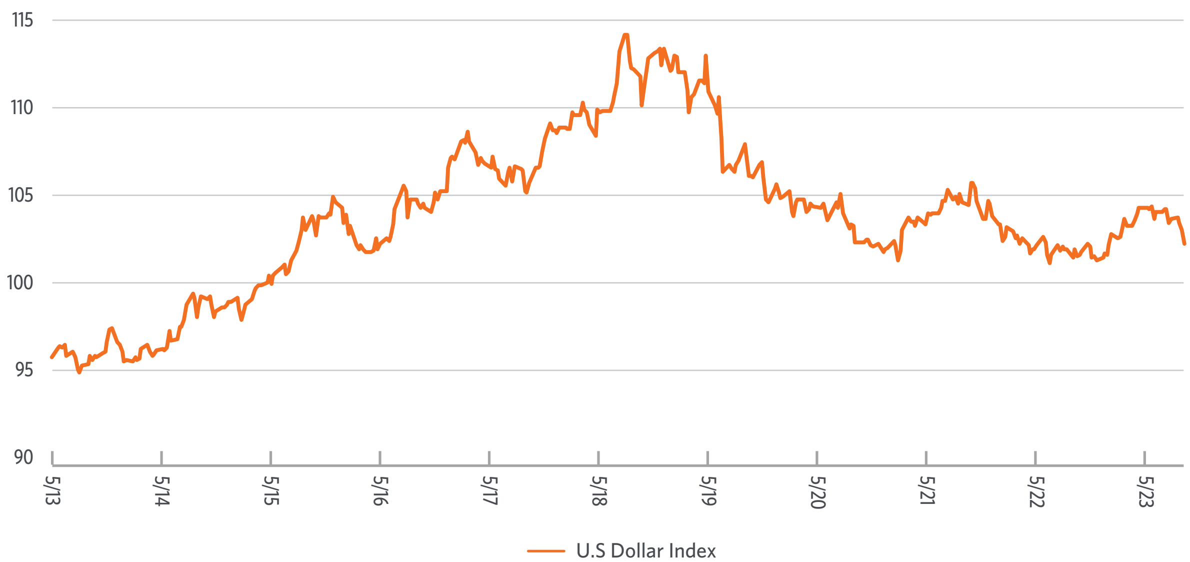
Pertaining specifically to emerging markets, there also could be upside to the IMF CY 2024 projection of 4.2%, which would bode well for developing economy stocks if exceeded in the year ahead. We would also emphasize greater opportunities for emerging market stocks in portfolios with less relative exposure to China and higher comparative weightings in India.

In summary, valuations could soon matter more than in recent years, particularly with widening disparities between international developed and emerging market stocks versus U.S. equities.

U.S. DOLLAR POTENTIAL TAIL WIND

A potential tail wind for international developed and emerging market stocks in the year ahead could also be a further retreat in the U.S. dollar following its recent highs of last year. Having topped out at the level of approximately 115 versus six other major currencies in October 2022, the U.S. Dollar Index (DXY) could see further declines as the Federal Reserve concludes its current tightening cycle. With other regions of the world likely to continue raising rates, it is increasingly probable DXY does not challenge its October 2022 high and could plateau in the year ahead in the low 100 range, therefore creating a more advantageous fundamental backdrop and incentive to own international stocks.

Declining U.S. Dollar
U.S. Dollar Index (DXY) December 31, 2021–June 15, 2023



Source: Bloomberg, as of 6/15/2023
The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.

MARKET PULSE: INTERNATIONAL STOCKS

- Opportunities for international developed and emerging market equities appear to be stronger than at the year's outset due to potentially improving advanced and developing economy growth in CY 2024 and ongoing attractive valuations.
- In aggregate, long-term profiles for most regions could improve over the year ahead as global inflationary cycles begin to subside and central banks ultimately conclude tightening policy actions in CY 2024.
- We would be encouraged by strong growth in India, resiliency in Europe, and improving market conditions in Japan, while China appears challenged longer term.
- Trends in the U.S. dollar could also prove beneficial for international stocks in the year ahead based on monetary policy differences between U.S. and overseas central banks.

WILD CARDS

Potential wild cards in the year ahead include regional banks, the war in Ukraine, U.S. tensions with China, an AI bubble, and the upcoming 2024 election season.

All environments have potential wild cards defined as events or developments capable of emerging quickly from the woodwork and creating impacts on the markets. As we look ahead to 2H 2023 and beyond, we rank the following close to the top of that list.

Regional Banks: At the current time, we continue to view the recent failures of Silicon Valley, Signature, and First Republic banks as individual cases of asset-liability mismanagement under stressed interest rate conditions and not representative of systemic issues within the broader economy. Nonetheless, should we see more bank collapses and closures surface in the months ahead, such events would likely not be received well by the markets.

Ukraine War: Sadly, the war in Ukraine continues to rage on, though it no longer receives the daily headlines it did almost a year and a half ago. Nonetheless, should a peaceful resolution or successful Ukrainian counteroffensive occur in the months ahead, such a development could be received favorably by the global markets. To the contrary, any events construed as escalating the warfare to new levels could have a negative impact.

Geopolitical Tensions: As U.S.-China relations continue to be strained, unexpected geopolitical events or governmental policy shifts could stress markets. These could span a number of areas, including developments of economic, military, or societal connotations.

AI Bubble: The initial phases of artificial intelligence have garnered strong responses from the markets and, in the process, less than happy memories of the early days of the dot-com bubble that first began a quarter century ago. While in our view there is yet to be a close comparison, early groundbreaking technology and the stock prices of those companies at the forefront of distributing or best utilizing AI could quickly result in speculative valuations.

Pre-Election Conjecture: With the 2024 election season certain to gear up in the months ahead there will undoubtedly be a lot of speculation as to what candidates and which of the two parties will be best positioned for victory and or majorities in Congress, and with that, what their economic and tax policies might be.

PORTFOLIO POSITIONING MID-YEAR 2023

- We would maintain balanced allocations between stocks and bonds as current bond yields offer greater opportunities than in years past and stocks await clarity on ongoing earnings growth in the year ahead amid the continuing uncertainties of inflation and potential recession. We view both asset classes as positioned for positive returns in the coming year.
- Within fixed income, intermediate-maturity bonds in the 5-year to 8-year range are best positioned to provide recently elevated yields with a lower combined yield curve steepening and reinvestment risk.
- High-yield and investment-grade bonds are well positioned in the corporate credit markets given their opportunistic yields in a more benign credit environment than most previous economic downturns.
- Within U.S. equities, we believe a balanced allocation between growth and value stocks is most prudent given changing market conditions as inflationary and interest rate cycles fully play out.
- We also view a proportional allocation of large-, mid- and small-cap stocks as being appropriately positioned within the current market environment.
- Global investors can potentially benefit from international developed and emerging market equities given what appears to be a combination of improving market conditions and favorable valuations and as global inflation and central bank tightening ultimately subside.
- Wild cards to watch include regional banks, the war in Ukraine, U.S. tensions with China, a potential AI bubble, and the upcoming 2024 election season.

ASSET ALLOCATION	EQUITIES
• Balanced Allocations Stocks / Bonds	• Balanced Allocation Growth / Value • Proportional market cap weightings • Long term allocations to International and Emerging Markets

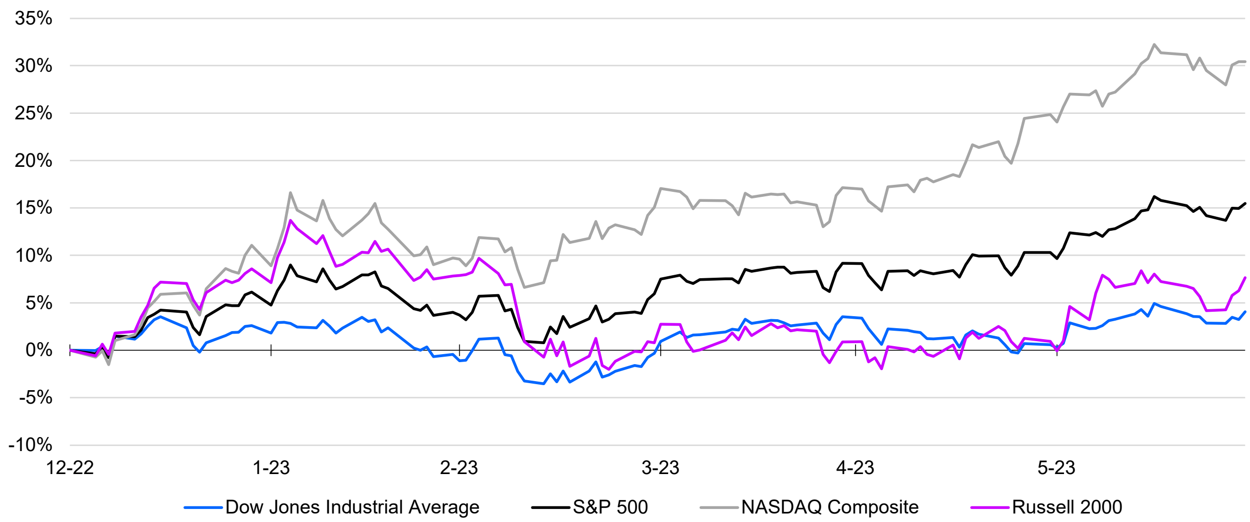
FIXED INCOME	WILD CARDS
• Favorable on high yield bonds • Favorable on investment grade bonds • Move toward middle of the curve maturities	• Regional Banks • War in Ukraine • AI Bubble • Geo-Political / China

The above strategy overview is intended to illustrate major themes for the identified period. No representation is being made that any particular account, product or strategy will engage in any or all of the themes.

APPENDIX

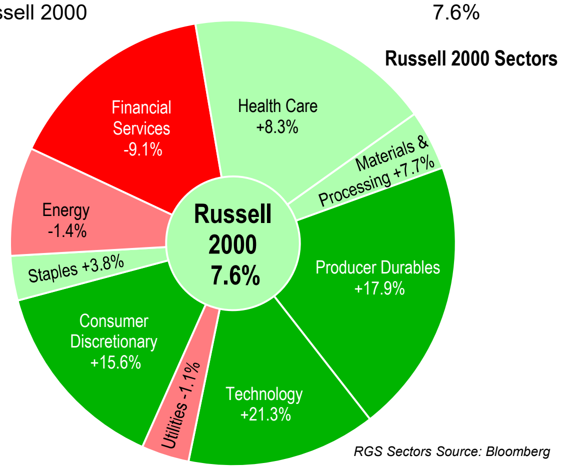
MARKETS IN REVIEW

APPENDIX – U.S. EQUITY

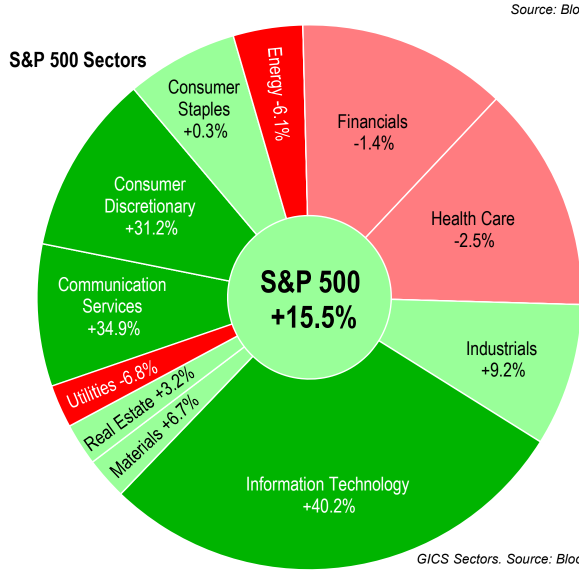


Source: Bloomberg

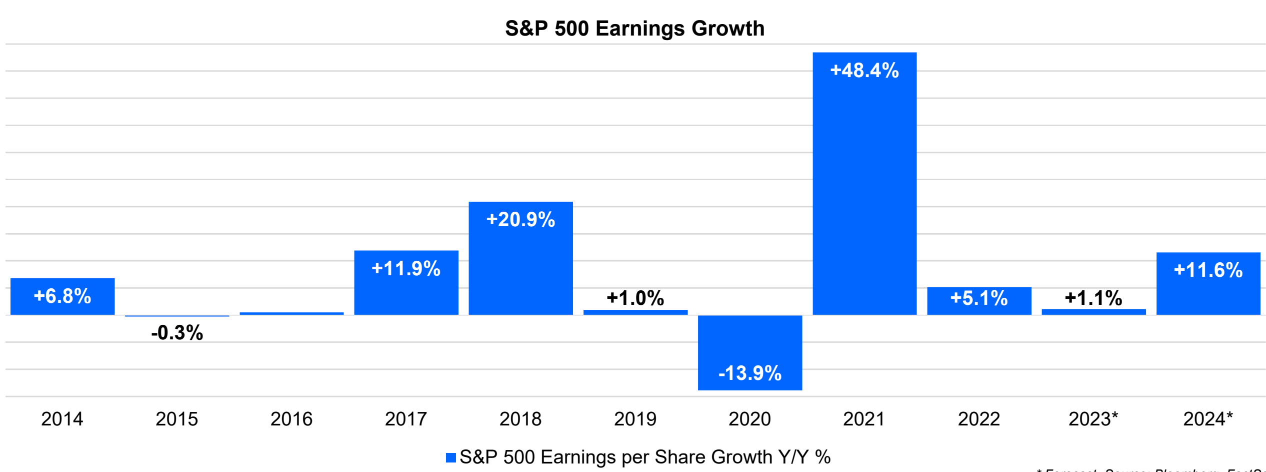
Major Indices 2023 YTD	Total Return %
Dow Jones Industrial Average	4.1%
S&P 500	15.5%
NASDAQ Composite	30.4%
Russell 2000	7.6%



RGS Sectors Source: Bloomberg

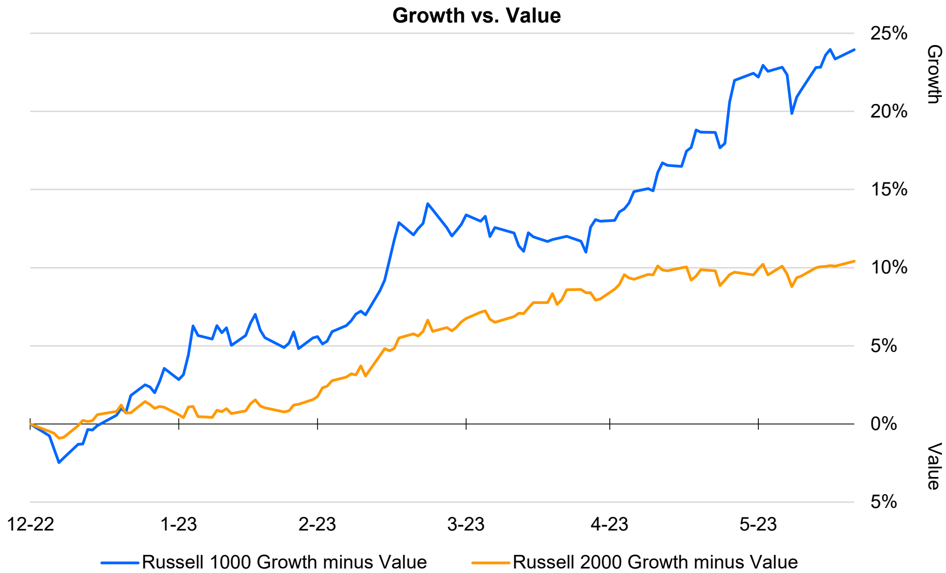


GICS Sectors. Source: Bloomberg



* Forecast. Source: Bloomberg, FactSet

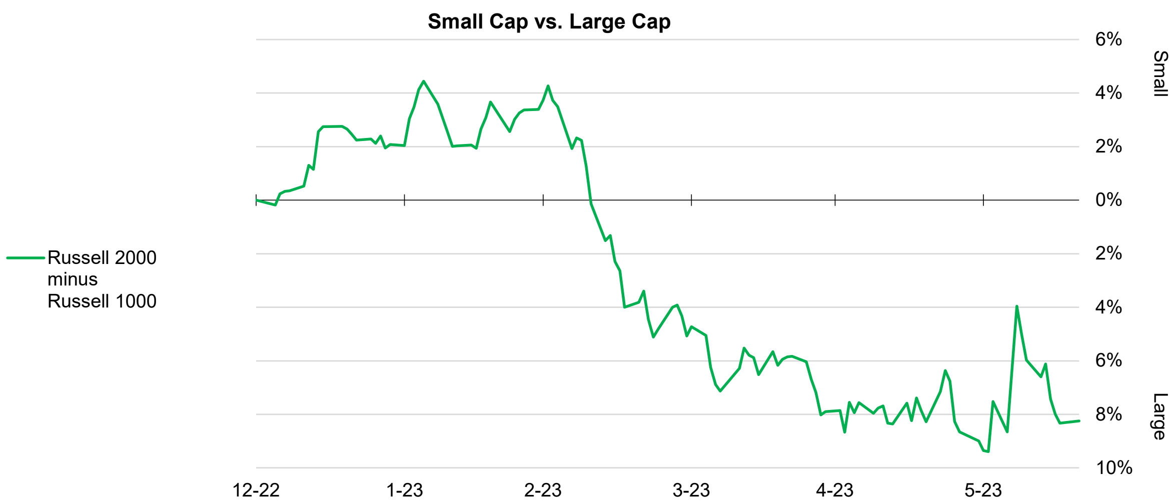
APPENDIX – U.S. EQUITY



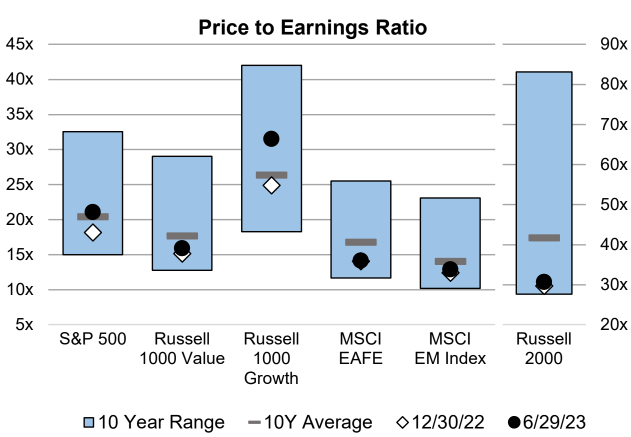
Style and Market Cap 2023 YTD

	Value	Broad	Growth
Large	4.2%	15.3%	27.1%
Mid	4.3%	8.0%	14.6%
Small	2.4%	7.6%	12.7%

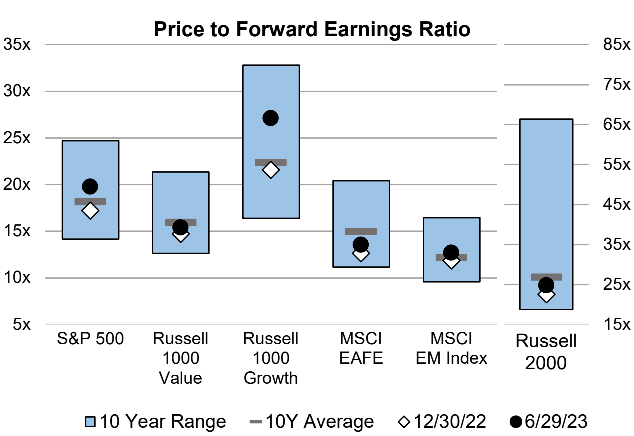
Source: Bloomberg



Source: Bloomberg

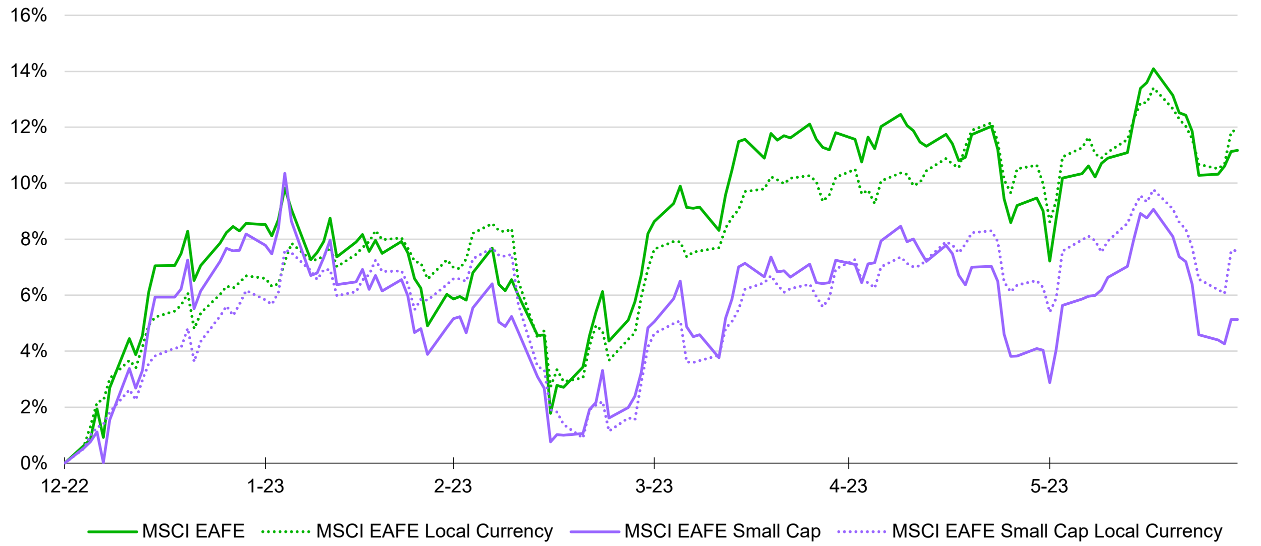


Aggregate TTM Earnings for the Russell 2000 were Negative as of 12/31/2021 Source: Bloomberg



Source: Bloomberg

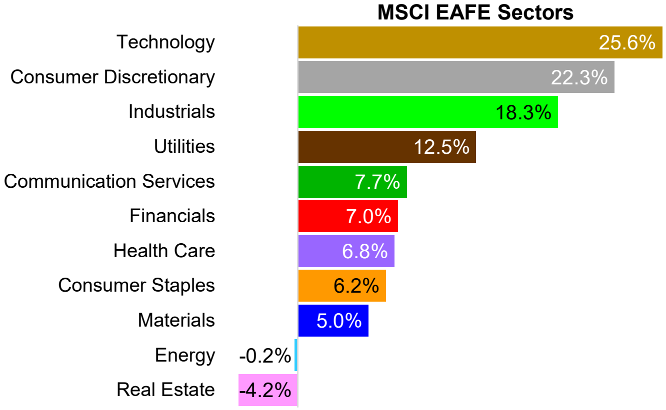
APPENDIX – U.S. EQUITY



Source: Bloomberg

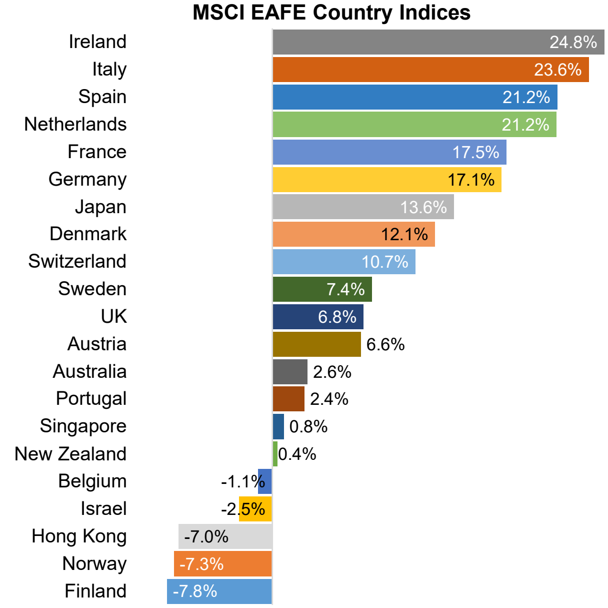
Major Indices 2023 YTD	Total Return %
MSCI EAFE	11.2%
MSCI EAFE Local Currency	11.9%
MSCI EAFE Small Cap	5.1%
MSCI EAFE Small Cap Local Currency	7.6%

MSCI EAFE Sectors



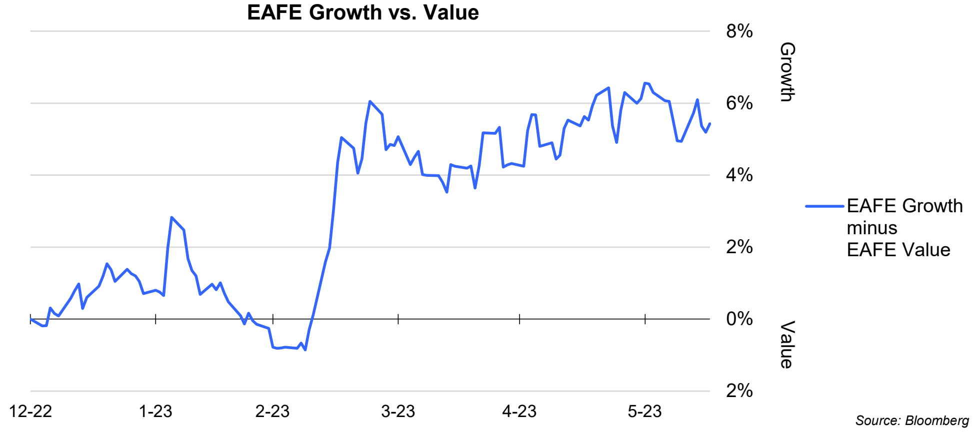
Source: Bloomberg

MSCI EAFE Country Indices



Source: Bloomberg

EAFE Growth vs. Value

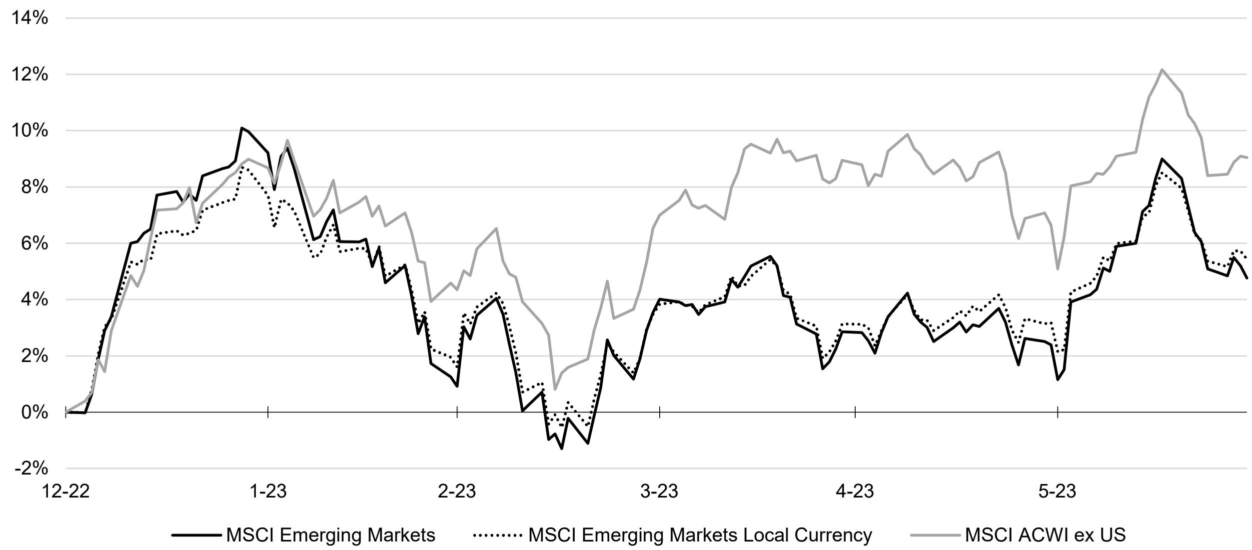


Source: Bloomberg

Style and Market Cap 2023 YTD

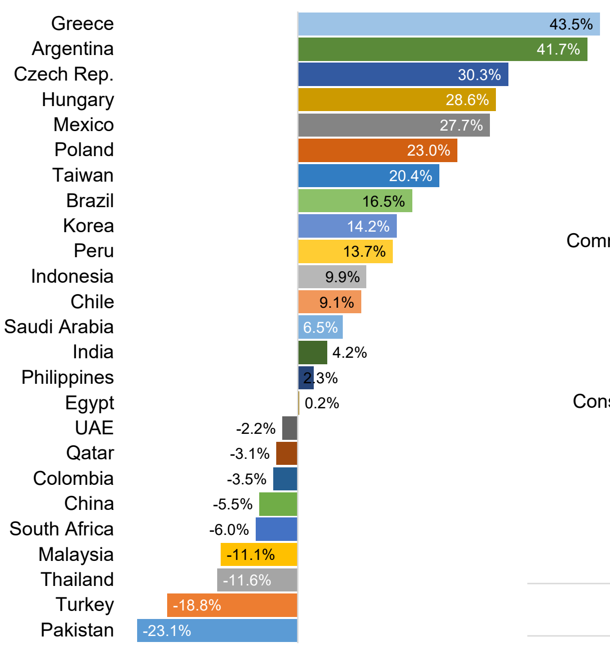
	Value	Broad	Growth
Large	9.9%	12.0%	14.2%
Mid	5.8%	7.8%	10.0%
Small	5.2%	5.1%	5.1%

APPENDIX – U.S. EQUITY



Source: Bloomberg

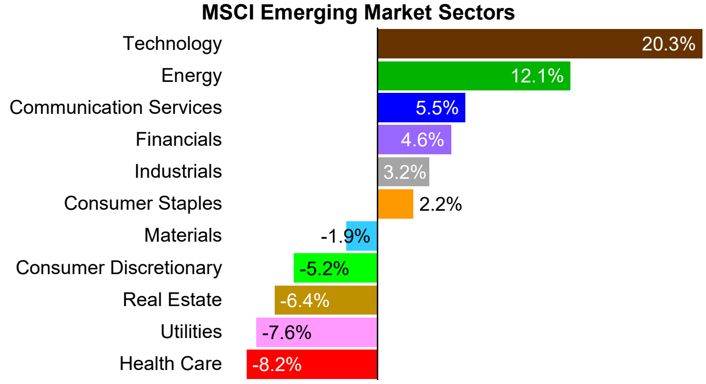
MSCI EM Country Indices



Source: Bloomberg

Major Indices 2023 YTD	Total Return %
MSCI Emerging Markets	4.8%
MSCI Emerging Markets Local Currency	5.4%
MSCI ACWI ex US	9.0%

MSCI Emerging Market Sectors

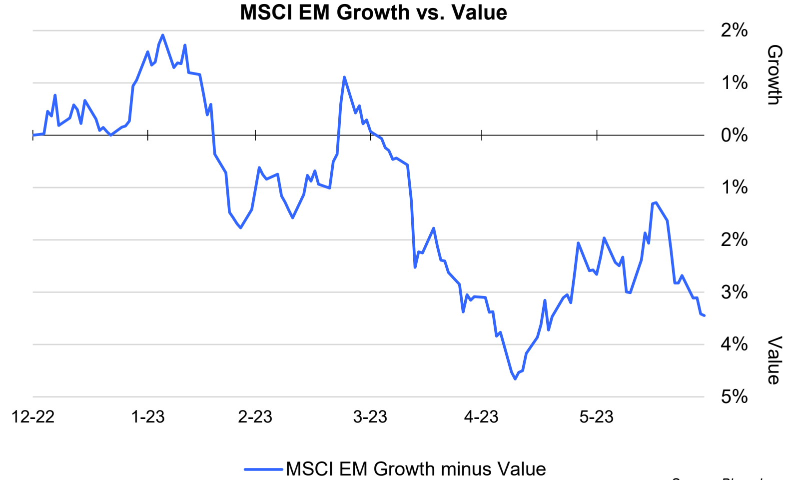


Source: Bloomberg

Style and Market Cap Year to Date

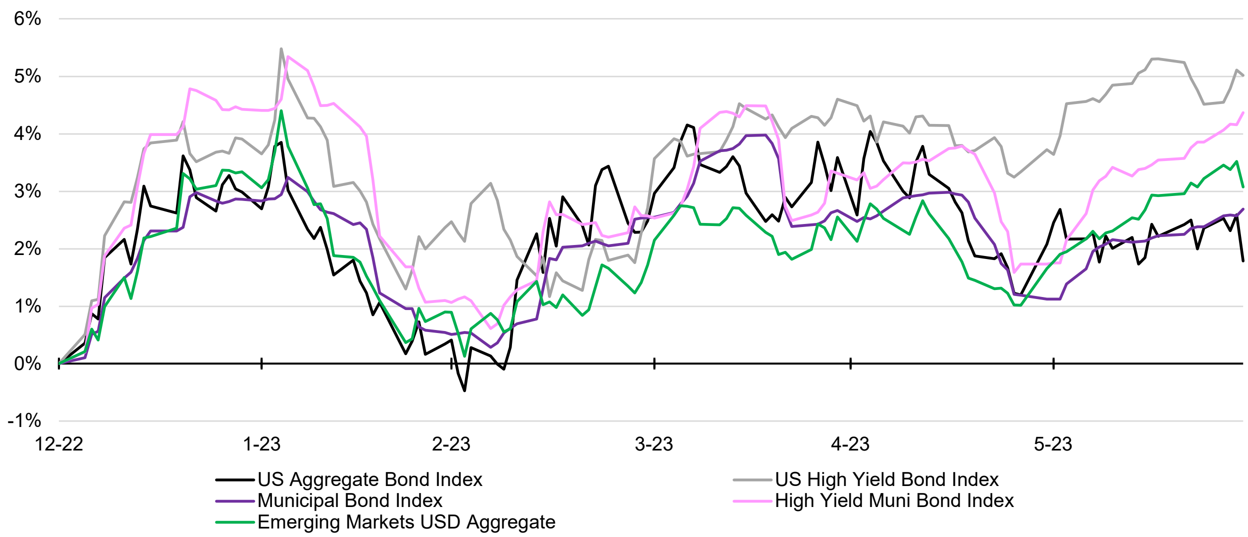
	Value	Broad	Growth
Large	6.7%	4.6%	2.7%
Mid	5.8%	5.6%	5.3%
Small	8.0%	10.0%	12.0%

MSCI EM Growth vs. Value



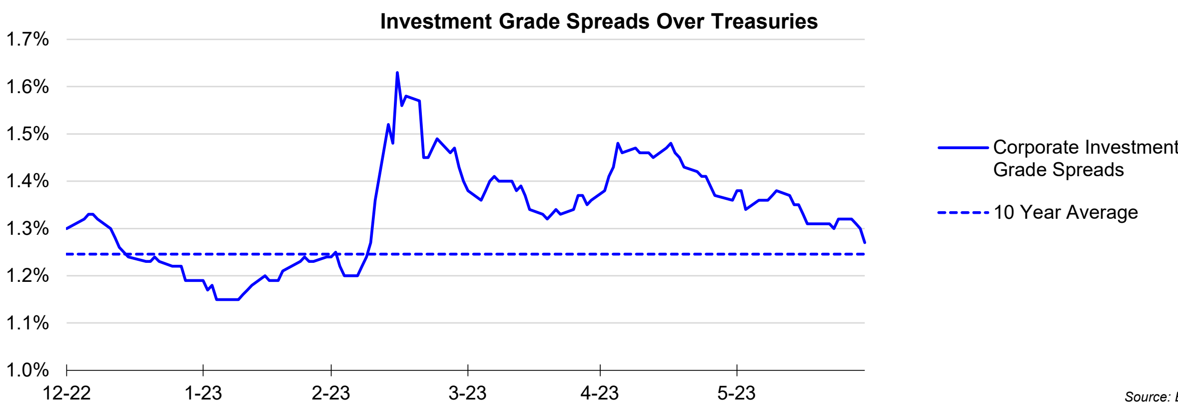
Source: Bloomberg

APPENDIX – U.S. EQUITY

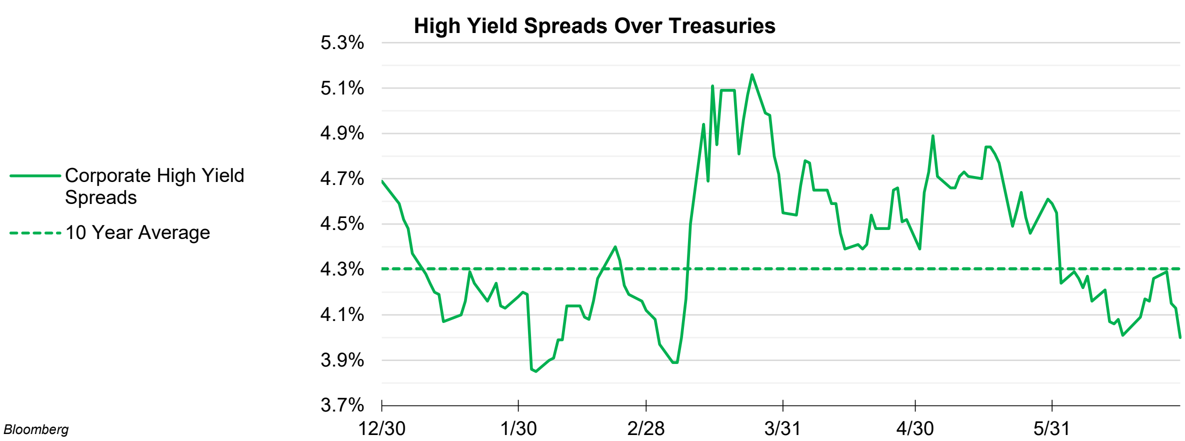


Source: Bloomberg

Major Indices 2023 YTD	Total Return %	Yield	2023 YTD Δ	Spread	2023 YTD Δ
US Aggregate Bond Index	1.8%	4.84%	+0.16	0.51%	0.00
US Corporate Bond Index	2.7%	5.54%	+0.12	1.27%	-0.03
US High Yield Bond Index	5.0%	8.59%	-0.37	4.00%	-0.69
Municipal Bond Index	2.7%	3.51%	-0.04	-	-
High Yield Muni Bond Index	4.4%	5.72%	-0.11	-	-
Emerging Markets USD Aggregate	3.1%	7.55%	+0.03	3.26%	-0.13

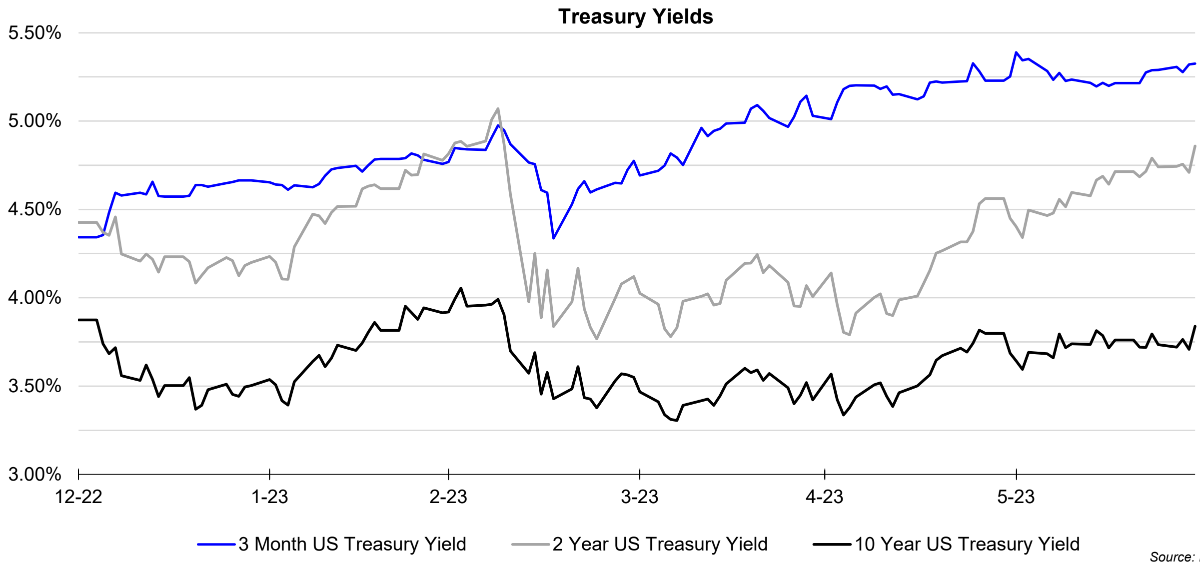


Source: Bloomberg



Source: Bloomberg

APPENDIX – U.S. EQUITY

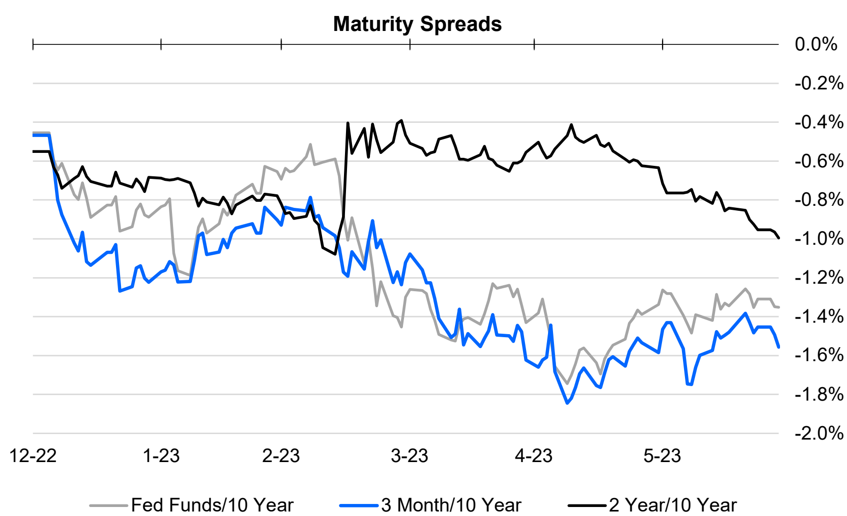


Source: Bloomberg

US Treasury Yields		2023 YTD Δ
1 Month	5.111%	1.135
3 Month	5.325%	0.982
6 Month	5.433%	0.679
1 Year	5.383%	0.696
2 Year	4.859%	0.434
3 Year	4.486%	0.262
5 Year	4.131%	0.127
7 Year	3.980%	0.014
10 Year	3.838%	-0.037
30 Year	3.900%	-0.063

Fed Funds		2023 YTD Δ
Target Rate Range	5-5.25%	+0.75%

Maturity Spreads		2023 YTD Δ
10 Year - Fed Funds	#VALUE!	#VALUE!
10 Year - 3 Month	-1.49%	-1.02
10 Year - 2 Year	-1.02%	-0.47



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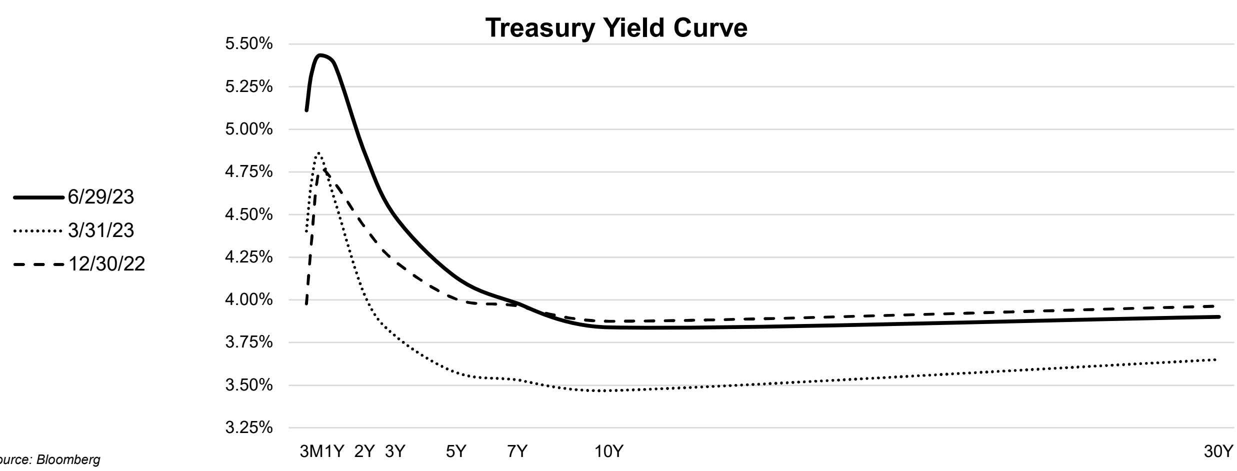
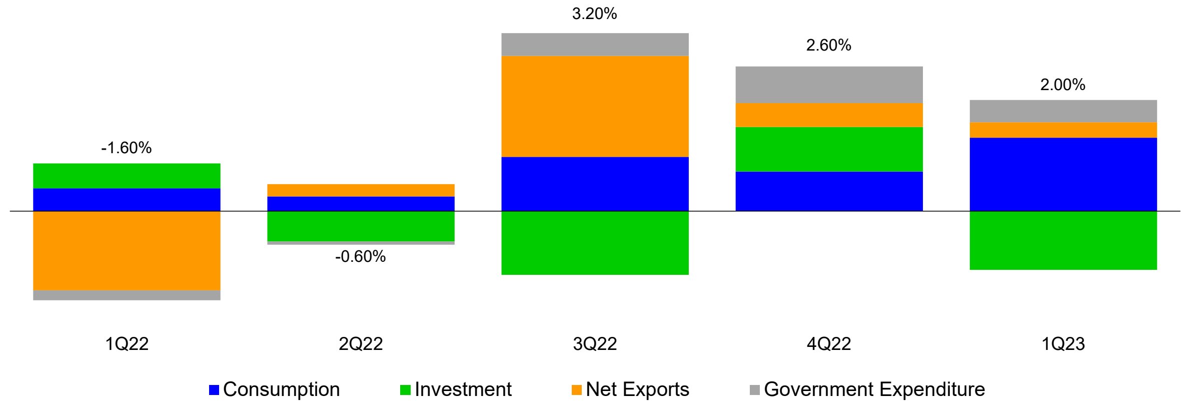


Source: Bloomberg

APPENDIX – U.S. EQUITY

GDP Growth & Composition

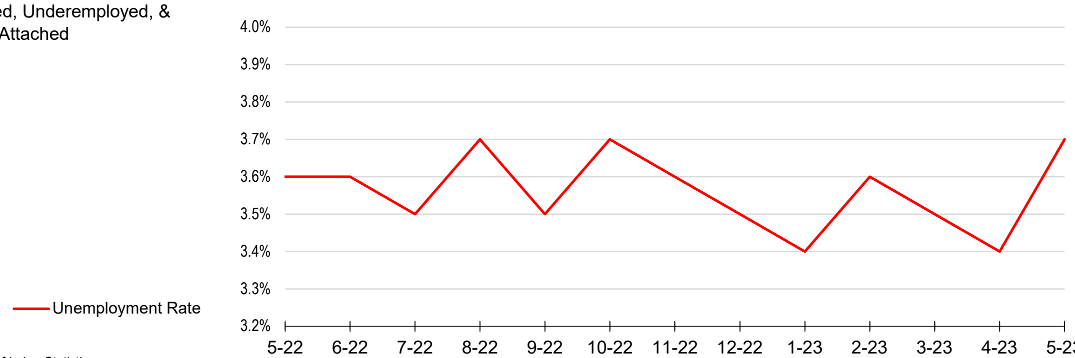


Source: Bureau of Economic Analysis

Gross Domestic Product	2Q23 Atlanta Fed Forecast	1Q23	4Q22	3Q22	2Q22	1Q22
Real GDP Growth % Q/Q SAAR	1.77%	2.00%	2.60%	3.20%	-0.60%	-1.60%
Consumption	0.9%	4.2%	1.0%	2.3%	2.0%	1.3%
Investment	5.3%	-11.9%	4.5%	-9.6%	-14.1%	5.4%
Exports	-4.7%	7.8%	-3.7%	14.6%	13.8%	-4.6%
Imports	1.1%	2.0%	-5.5%	-7.3%	2.2%	18.4%
Government Expenditure	2.4%	5.0%	3.8%	3.7%	-1.6%	-2.3%

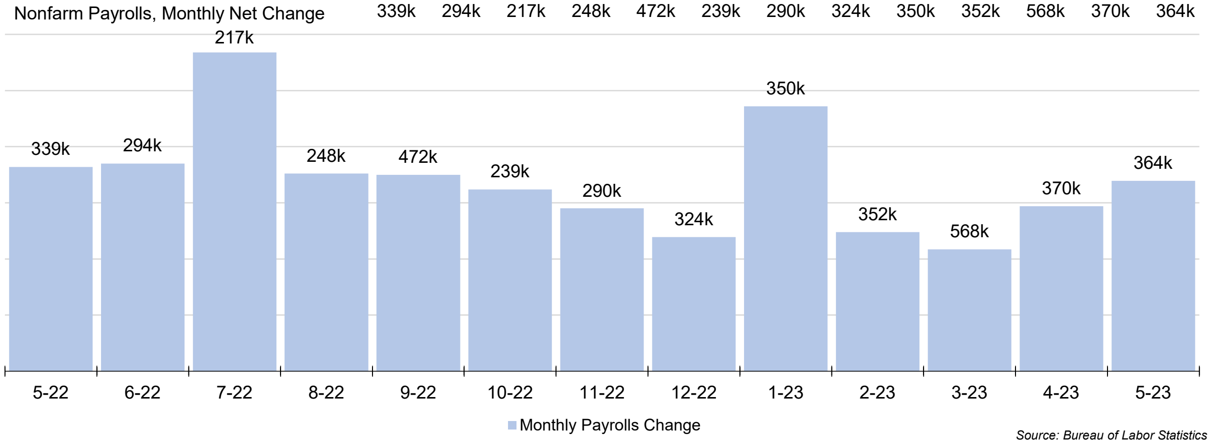
Atlanta Fed GDP Forecast as of 6/17

Unemployment	5-23	4-23	3-23	2-23	1-23	12-22	11-22	10-22	9-22	8-22	7-22	6-22	5-22
Unemployment Rate	3.7%	3.4%	3.5%	3.6%	3.4%	3.5%	3.6%	3.7%	3.5%	3.7%	3.5%	3.6%	3.6%
U-6 Unemployment Rate - Unemployed, Underemployed, & Marginally Attached	6.7%	6.6%	6.7%	6.8%	6.6%	6.5%	6.7%	6.7%	6.7%	7.0%	6.8%	6.7%	7.1%



Source: Bureau of Labor Statistics

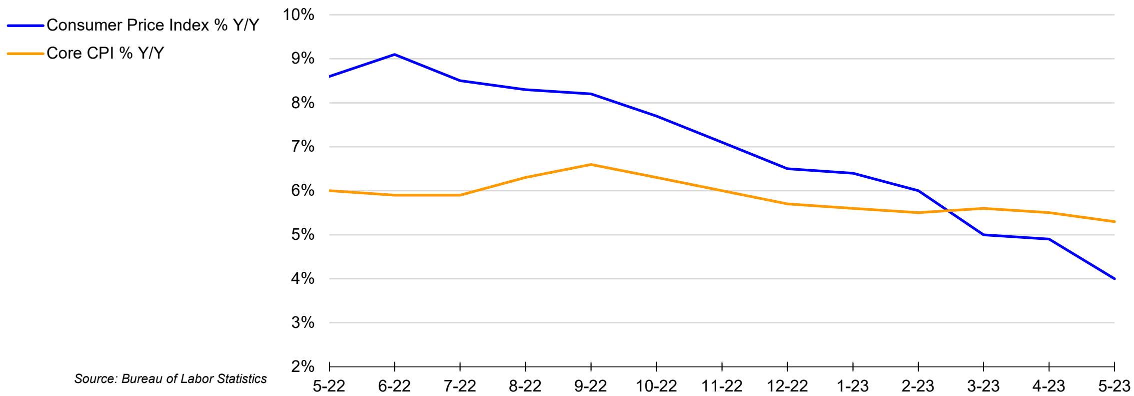
Hiring	5-23	4-23	3-23	2-23	1-23	12-22	11-22	10-22	9-22	8-22	7-22	6-22	5-22
Nonfarm Payrolls, Monthly Net Change	339k	294k	217k	248k	472k	239k	290k	324k	350k	352k	568k	370k	364k



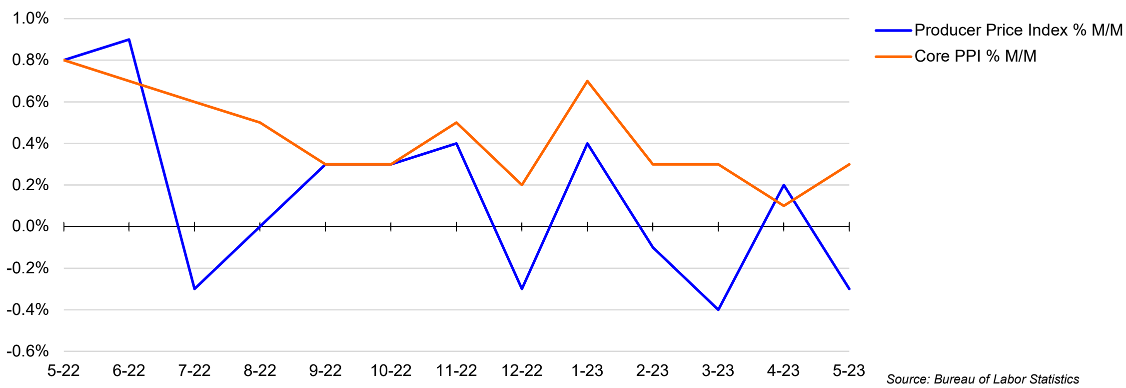
Source: Bureau of Labor Statistics

APPENDIX – U.S. EQUITY

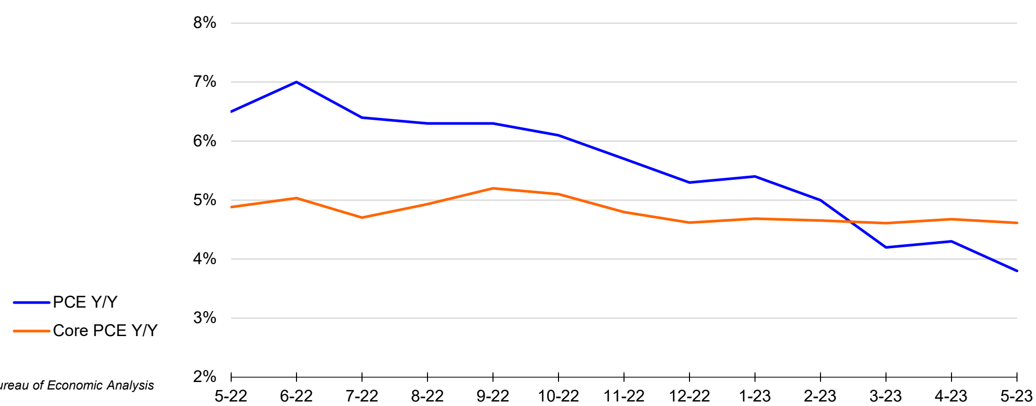
Inflation	5-23	4-23	3-23	2-23	1-23	12-22	11-22	10-22	9-22	8-22	7-22	6-22	5-22
Consumer Price Index % M/M	0.1%	0.4%	0.1%	0.4%	0.5%	0.1%	0.2%	0.5%	0.4%	0.2%	0.0%	1.2%	0.9%
Core CPI % M/M	0.4%	0.4%	0.4%	0.5%	0.4%	0.4%	0.3%	0.3%	0.6%	0.6%	0.3%	0.6%	0.6%
Consumer Price Index % Y/Y	4.0%	4.9%	5.0%	6.0%	6.4%	6.5%	7.1%	7.7%	8.2%	8.3%	8.5%	9.1%	8.6%
Core CPI % Y/Y	5.3%	5.5%	5.6%	5.5%	5.6%	5.7%	6.0%	6.3%	6.6%	6.3%	5.9%	5.9%	6.0%
Producer Price Index % M/M	-0.3%	0.2%	-0.4%	-0.1%	0.4%	-0.3%	0.4%	0.3%	0.3%	0.0%	-0.3%	0.9%	0.8%
Core PPI % M/M	0.3%	0.1%	0.3%	0.3%	0.7%	0.2%	0.5%	0.3%	0.3%	0.5%	0.6%	0.7%	0.8%
Producer Price Index % Y/Y	1.1%	2.3%	2.7%	4.7%	5.7%	6.4%	7.4%	8.2%	8.5%	8.7%	9.7%	11.2%	11.1%
Core PPI % Y/Y	2.8%	3.1%	3.3%	4.6%	5.0%	5.7%	6.3%	6.9%	7.2%	7.2%	7.6%	8.3%	8.6%



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

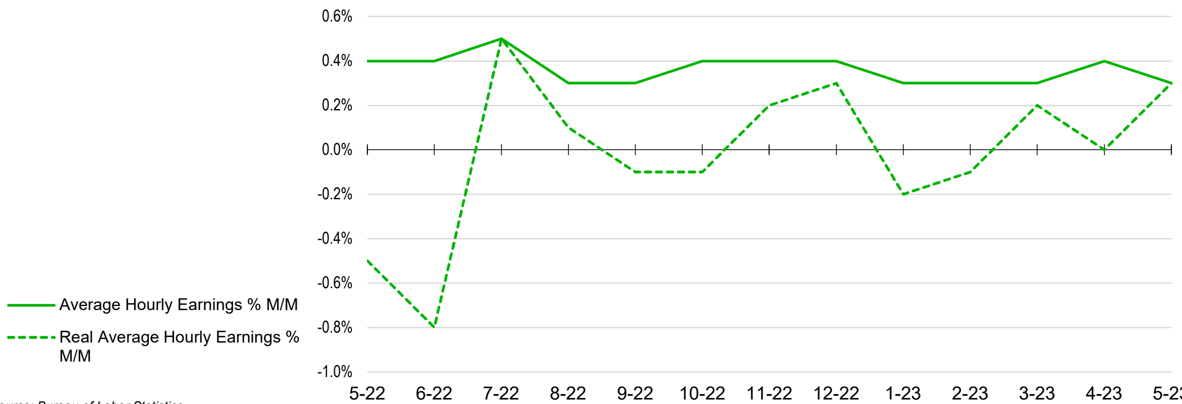


Source: Bureau of Economic Analysis

Inflation	5-23	4-23	3-23	2-23	1-23	12-22	11-22	10-22	9-22	8-22	7-22	6-22	5-22
PCE Price Deflator % M/M	0.1%	0.4%	0.1%	0.3%	0.6%	0.2%	0.2%	0.4%	0.3%	0.3%	-0.1%	1.0%	0.6%
Core PCE % M/M	0.3%	0.4%	0.3%	0.3%	0.5%	0.4%	0.2%	0.3%	0.5%	0.5%	0.1%	0.6%	0.4%
PCE Price Deflator % Y/Y	3.8%	4.3%	4.2%	5.0%	5.4%	5.3%	5.7%	6.1%	6.3%	6.3%	6.4%	7.0%	6.5%
Core PCE % Y/Y	4.6%	4.7%	4.6%	4.7%	4.7%	4.6%	4.8%	5.1%	5.2%	4.9%	4.7%	5.0%	4.9%

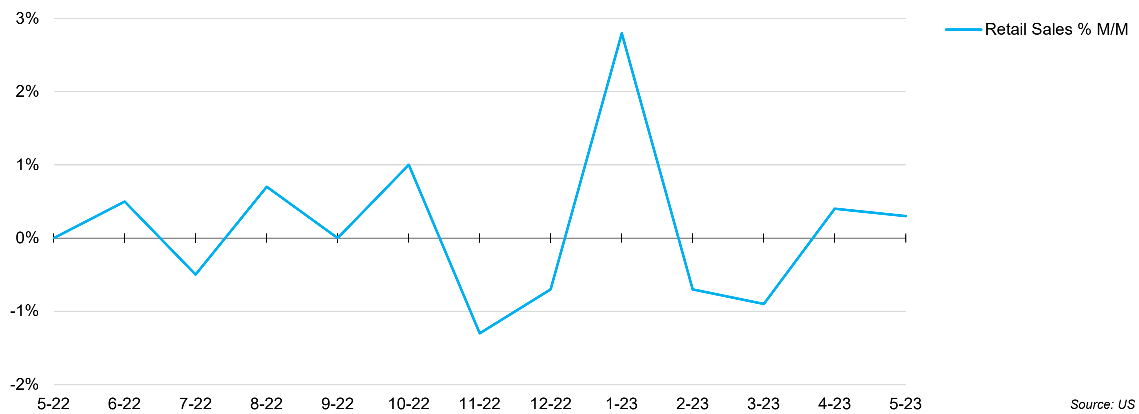
APPENDIX – U.S. EQUITY

Earnings	5-23	4-23	3-23	2-23	1-23	12-22	11-22	10-22	9-22	8-22	7-22	6-22	5-22
Average Hourly Earnings % M/M	0.3%	0.4%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.3%	0.3%	0.5%	0.4%	0.4%
Real Average Hourly Earnings % M/M	0.3%	0.0%	0.2%	-0.1%	-0.2%	0.3%	0.2%	-0.1%	-0.1%	0.1%	0.5%	-0.8%	-0.5%
Average Hourly Earnings % Y/Y	4.3%	4.4%	4.3%	4.7%	4.4%	4.8%	5.0%	4.9%	5.1%	5.4%	5.4%	5.4%	5.5%
Real Average Hourly Earnings % Y/Y	0.2%	-0.6%	-0.6%	-1.2%	-1.8%	-1.6%	-2.1%	-2.7%	-2.9%	-2.7%	-2.7%	-3.2%	-2.7%



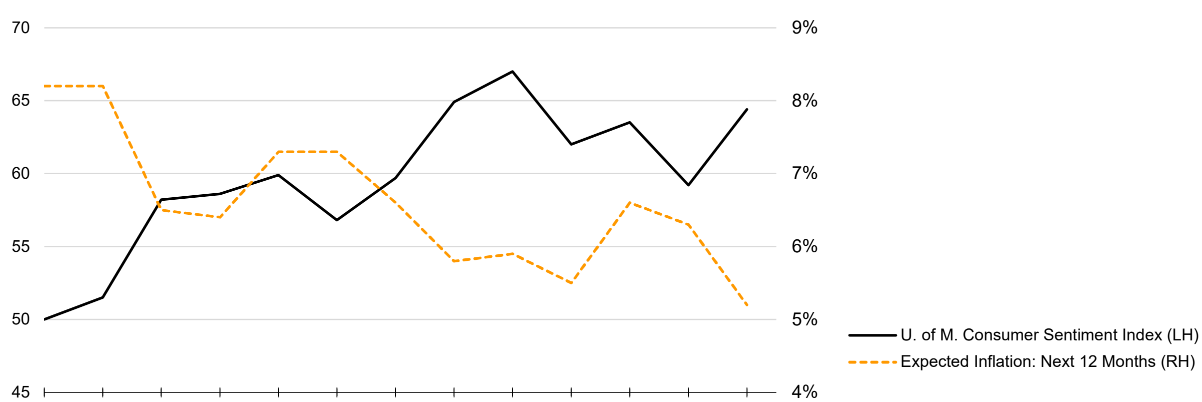
Source: Bureau of Labor Statistics

Retail	5-23	4-23	3-23	2-23	1-23	12-22	11-22	10-22	9-22	8-22	7-22	6-22	5-22
Retail Sales % M/M	0.3%	0.4%	-0.9%	-0.7%	2.8%	-0.7%	-1.3%	1.0%	0.0%	0.7%	-0.5%	0.5%	0.0%
Retail Sales % Y/Y	1.6%	1.2%	2.2%	5.3%	7.4%	6.0%	6.1%	8.8%	9.4%	10.2%	10.3%	9.3%	9.8%



Source: US Census Bureau

Consumer Sentiment	6-23	5-23	4-23	3-23	2-23	1-23	12-22	11-22	10-22	9-22	8-22	7-22	6-22
U. of M. Consumer Sentiment Index	64.4	59.2	63.5	62.0	67.0	64.9	59.7	56.8	59.9	58.6	58.2	51.5	50.0
Expected Inflation: Next 12 Months	5.2%	6.3%	6.6%	5.5%	5.9%	5.8%	6.6%	7.3%	7.3%	6.4%	6.5%	8.2%	8.2%
Expected Average Inflation: Next Five Years	4.2%	4.3%	4.3%	3.9%	4.0%	3.8%	4.3%	4.0%	3.8%	3.5%	3.8%	3.4%	4.0%



Source: University of Michigan

INDEX DEFINITIONS

The **Bloomberg Barclays US Aggregate Bond Index** measures investment grade, U.S. dollar denominated, fixed-rate taxable bonds, including Treasurys, government related and corporate securities, as well as both mortgage- and asset-backed securities.

The **Bloomberg Barclays US High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.

The **Bloomberg Barclays Municipal Index:** consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market.

The **Bloomberg Barclays US Corporate Investment Grade Index** 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. To qualify, bonds must be SEC-registered.

The **10-Year U.S. Treasury bond** is a U.S. Treasury debt obligation that has a maturity of 10 years.

The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue-chip U.S. stocks.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **Russell 1000 Growth Index®** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index®** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index®** measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

Indexes are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indexes.

IMPORTANT INFORMATION

Investments are subject to market risk, including the loss of principal. Asset classes or investment strategies described may not be appropriate for all investors.

Past performance does not guarantee future results.

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.

Equities are subject to market risk meaning that stock prices in general may decline over short or extended periods of time.

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.

Value investing carries the risk that the market will not recognize a security's intrinsic value for a long time or that an undervalued stock is actually appropriately priced.

Investments in global/international markets involve risks not associated with U.S. markets, such as currency fluctuations, adverse social and political developments, and the relatively small size and lesser liquidity of some markets. These risks may be greater in emerging markets.

The COVID-19 pandemic has caused substantial market disruption and dislocation around the world including the U.S. Economies and financial markets throughout the world are increasingly interconnected. Economic, financial, or political events, trading and tariff arrangements, terrorism, technology and data interruptions, natural disasters, and other circumstances in one or more countries or regions could be highly disruptive to, and have profound impacts on, global economies or markets.

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