



Turning a Corner?

Q4 2022 Economic and Market Outlook

November 9, 2022

Presented By:

Benjamin A. Pace, III

Chief Investment Officer

James Lebenthal, CFA

Chief Equity Strategist

Thomas Cohn, CFA

Deputy Chief Investment Officer

Key Themes for 2022

Short Term Themes

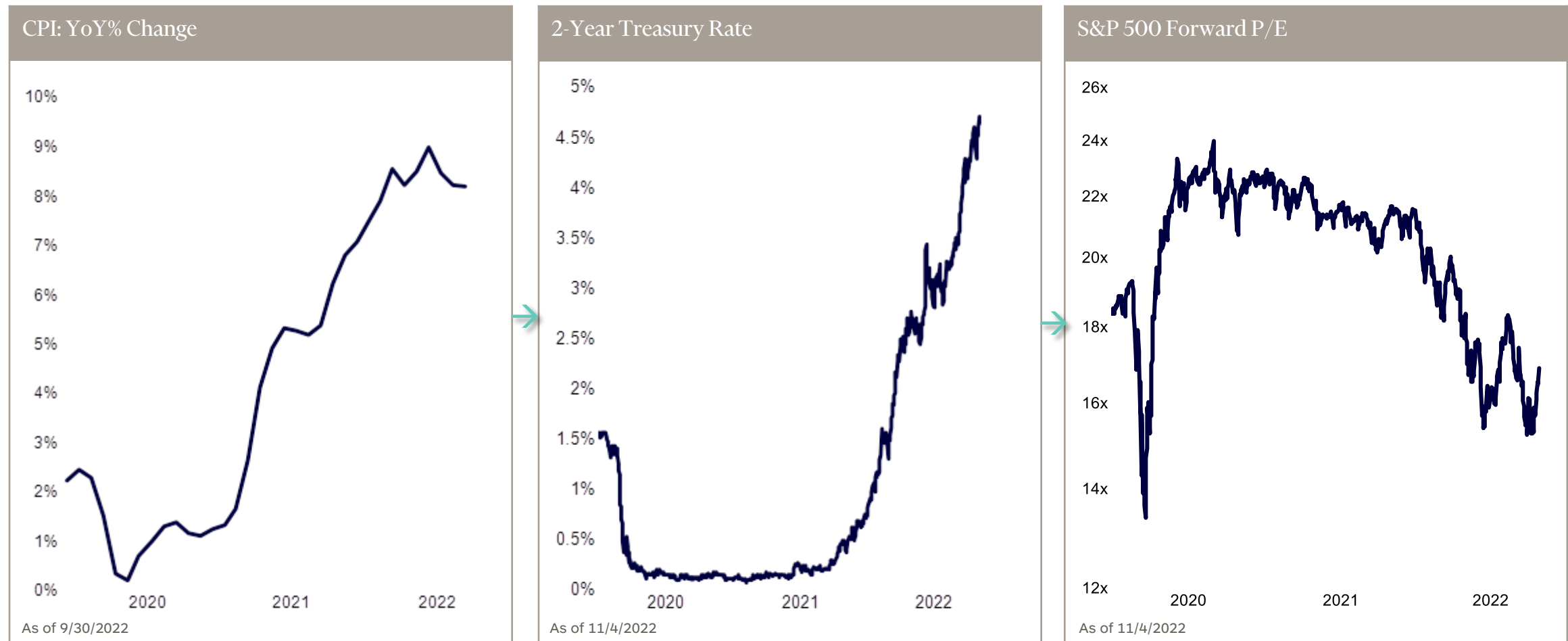
1. U.S. Consumer Resiliency Tested by Tighter Financial Conditions.
2. Value Stocks Continue to Outperform Amidst a Growth Slowdown.
3. The Economy Hits Growth Recession, Not an Economic Recession.
4. Stocks Find a Floor Around Current Levels.
5. Rates Normalize as Central Banks Reduce Purchases.
6. Labor Market Strength Reaching a Peak.
7. Inflation Declines as Inventories Build and Demand Slows.
8. Chinese Growth Headwinds Persist, but Policy Makers Have Flexibility

Long Term Themes

1. Transition Towards Clean Energy/ ESG Driver in the Commodity Markets (demand and supply)
2. Supply Chain Onshoring to Propel US Economic Expansion

The Market in Three Acts

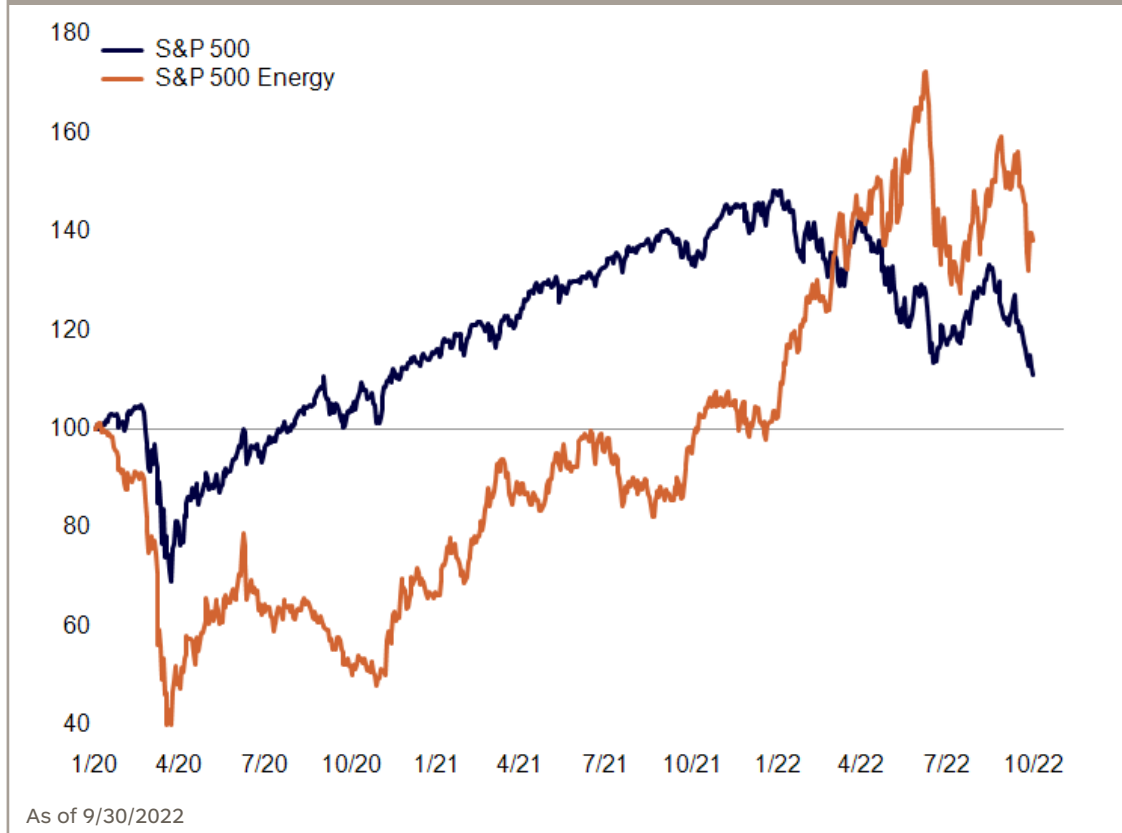
Inflation > Rates > Multiples



Energy: The Only Place to Hide?

Though too small to move the needle at the index level, energy still offers the lowest relative valuation

Energy Made Back Its Brutal 2020 Performance And More



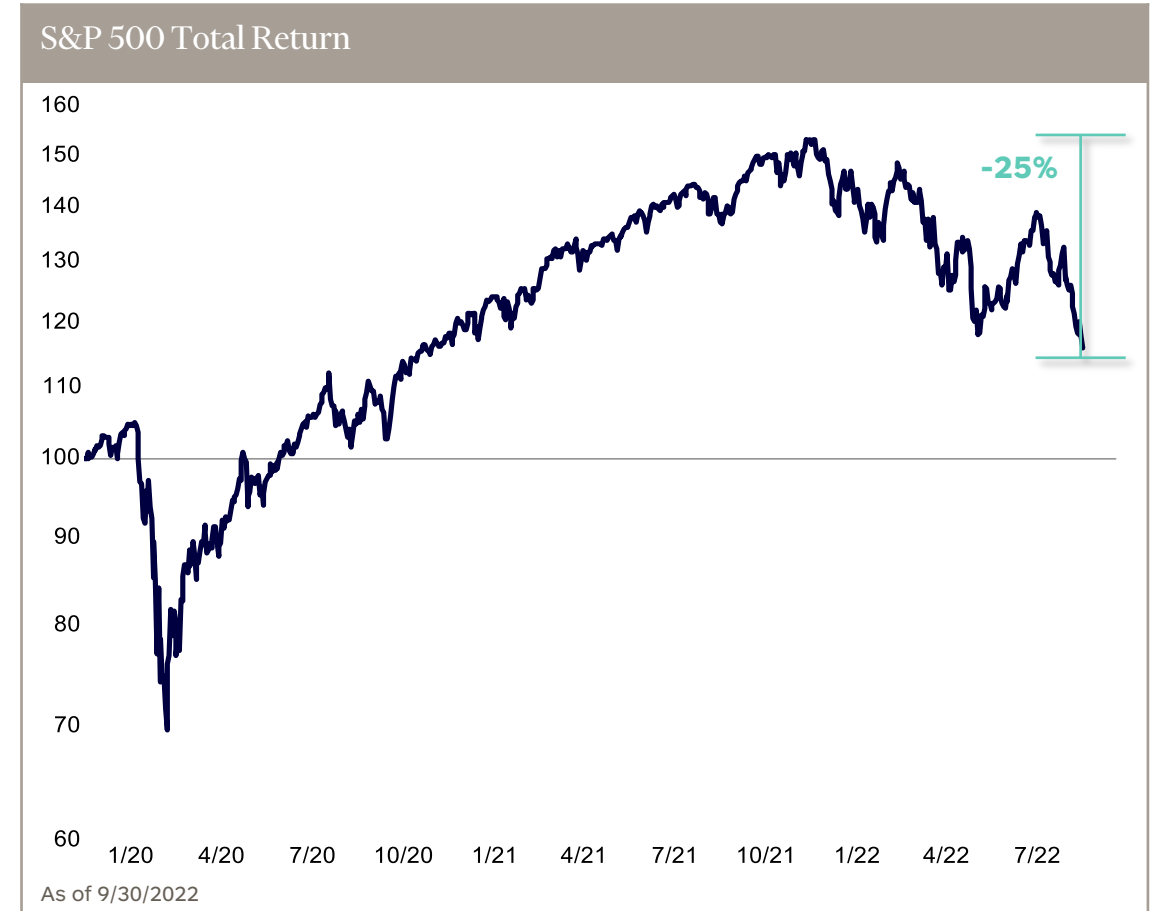
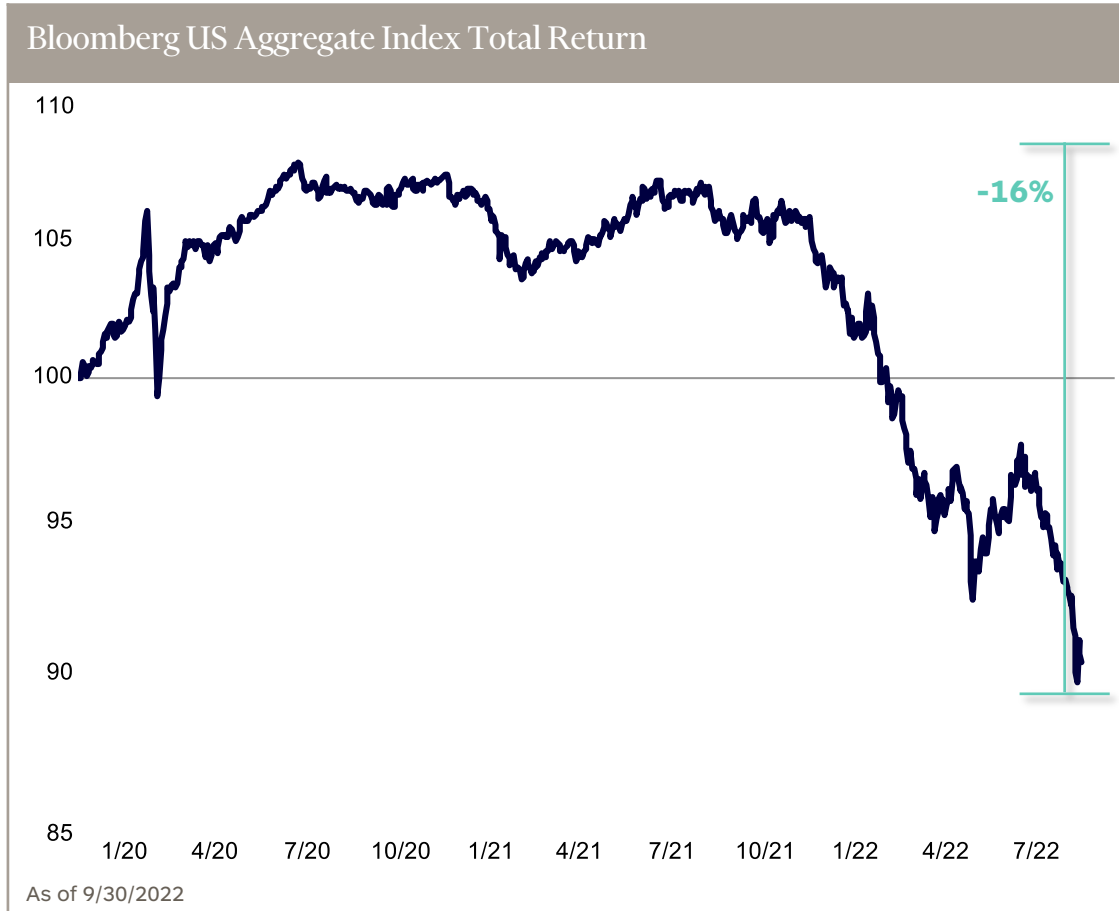
S&P 500 Sector Breakdown

Sector	S&P Weight*	Dividend Yield	Q3 Total Return	YTD Total Return	1-Year Total Return	Current Forward P/E	25-Year Average Forward P/E
S&P 500	100%	1.7%	-4.9%	-23.9%	-2.0%	15.2x	16.3x
Information Technology	26.3%	1.1%	-6.2%	-31.4%	-7.8%	18.4x	19.5x
Health Care	15.3%	1.7%	-5.2%	-13.1%	9.6%	15.1x	16.3x
Financials	11.4%	2.3%	-3.1%	-21.2%	6.3%	10.6x	12.7x
Consumer Discretionary	10.9%	0.8%	4.4%	-29.9%	-12.8%	24.2x	19.8x
Industrials	8.3%	1.8%	-4.7%	-20.7%	-4.0%	15.3x	16.7x
Communication Services	7.5%	1.0%	-12.7%	-39.0%	-25.9%	13.6x	17.5x
Consumer Staples	6.9%	2.7%	-6.6%	-11.8%	4.6%	18.7x	18x
Energy	5.4%	3.6%	2.3%	34.9%	108.7%	7.9x	15.6x
Utilities	3.0%	3.1%	-6.0%	-6.5%	10.0%	17.6x	14.7x
Real Estate	2.6%	3.4%	-11.0%	-28.8%	4.0%	15.6x	17.5x
Materials	2.5%	2.3%	-7.1%	-23.7%	-2.9%	12.4x	15.5x

S&P weights as of 10/31/2022

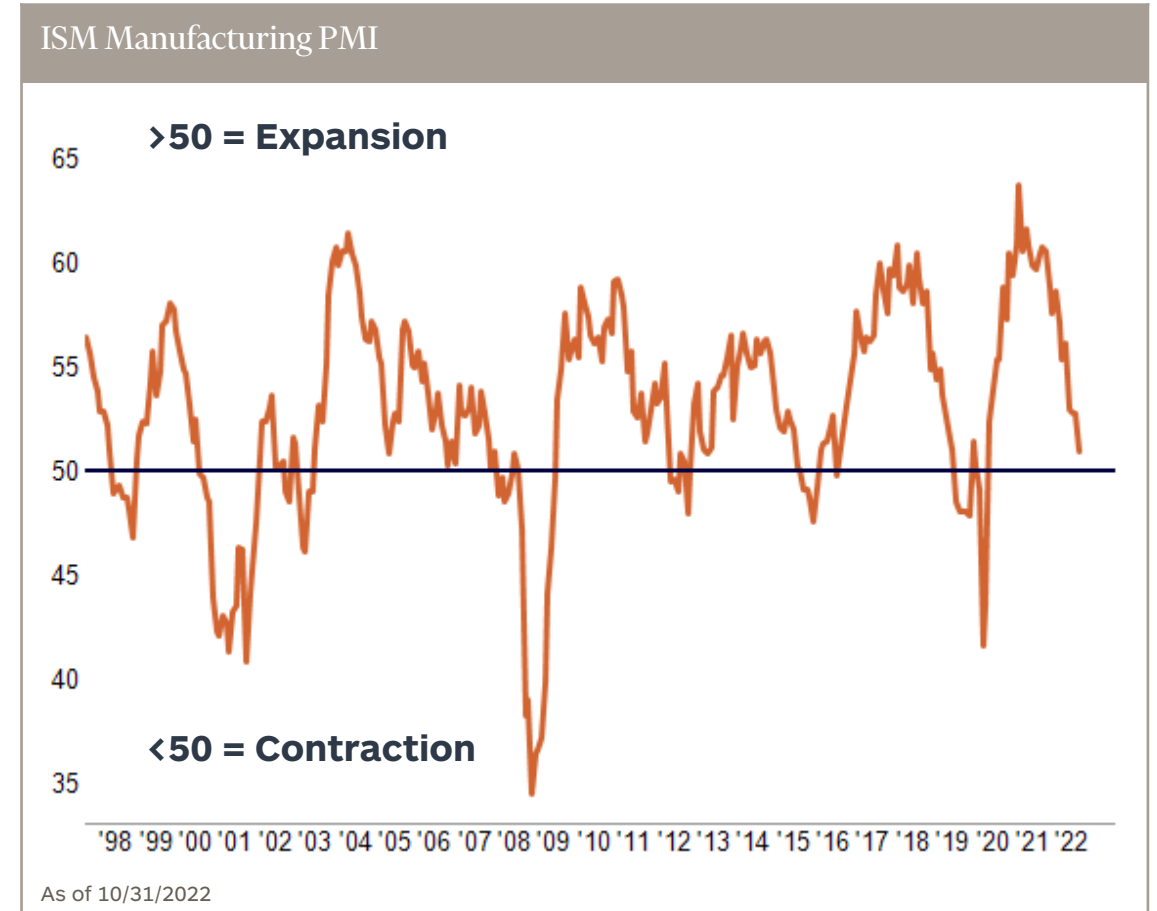
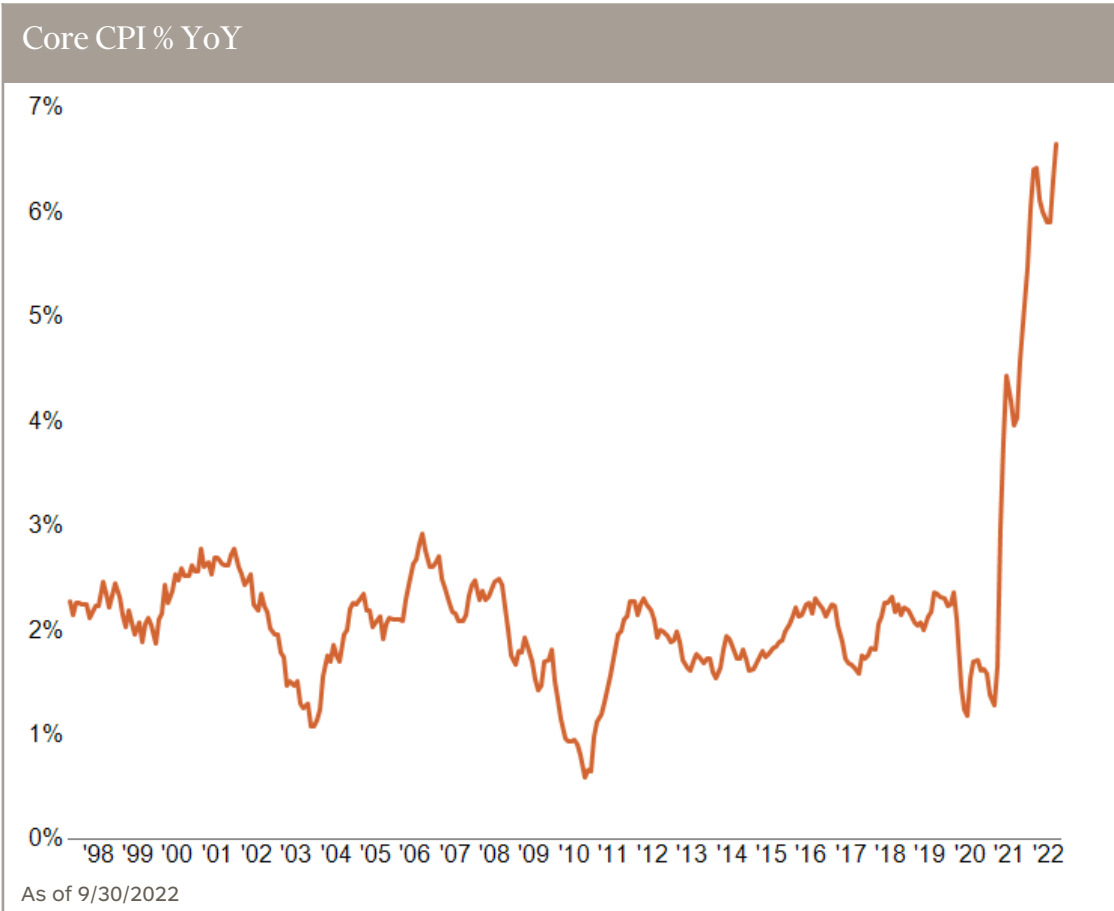
A Rare Year With Both Stocks and Bonds Down

Very little has worked in 2022



2023 Might be About Growth

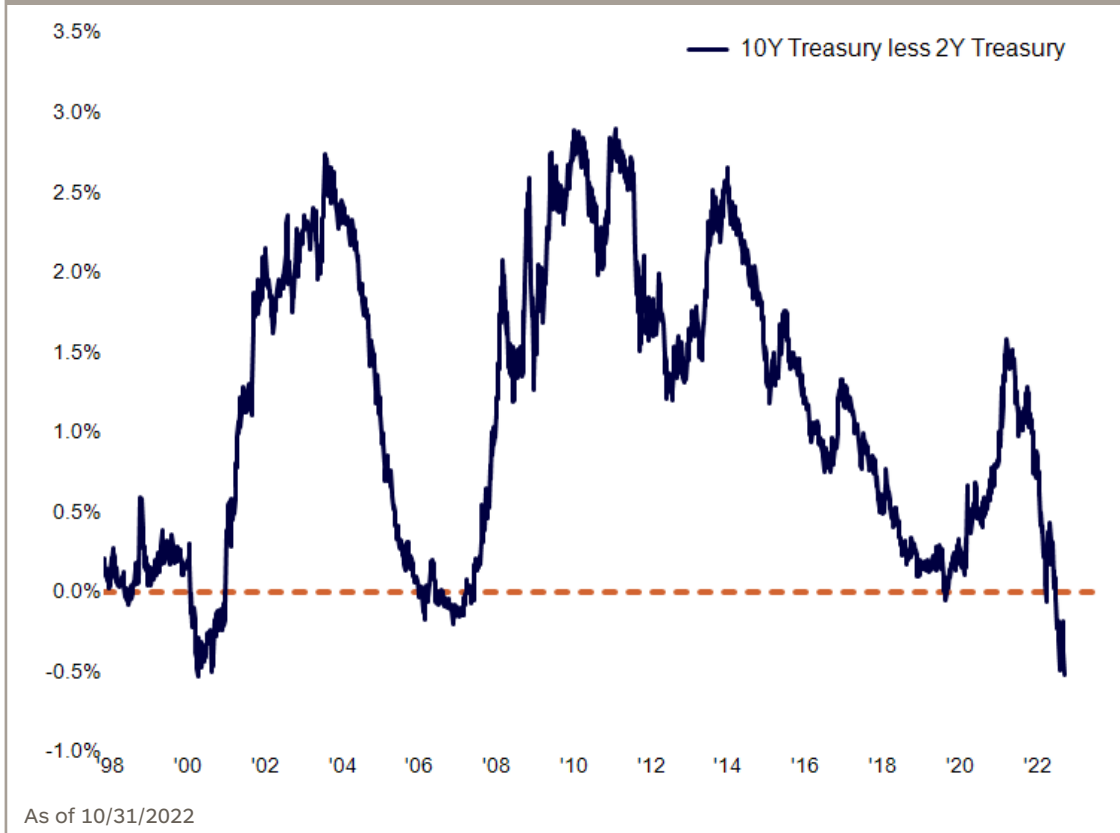
Economic and earnings growth will be the key to forecasting 2023



Watching the Leading Indicators

Looking to the bond market and high yield market for signs of a recession.

The Yield Curve is Flashing Red

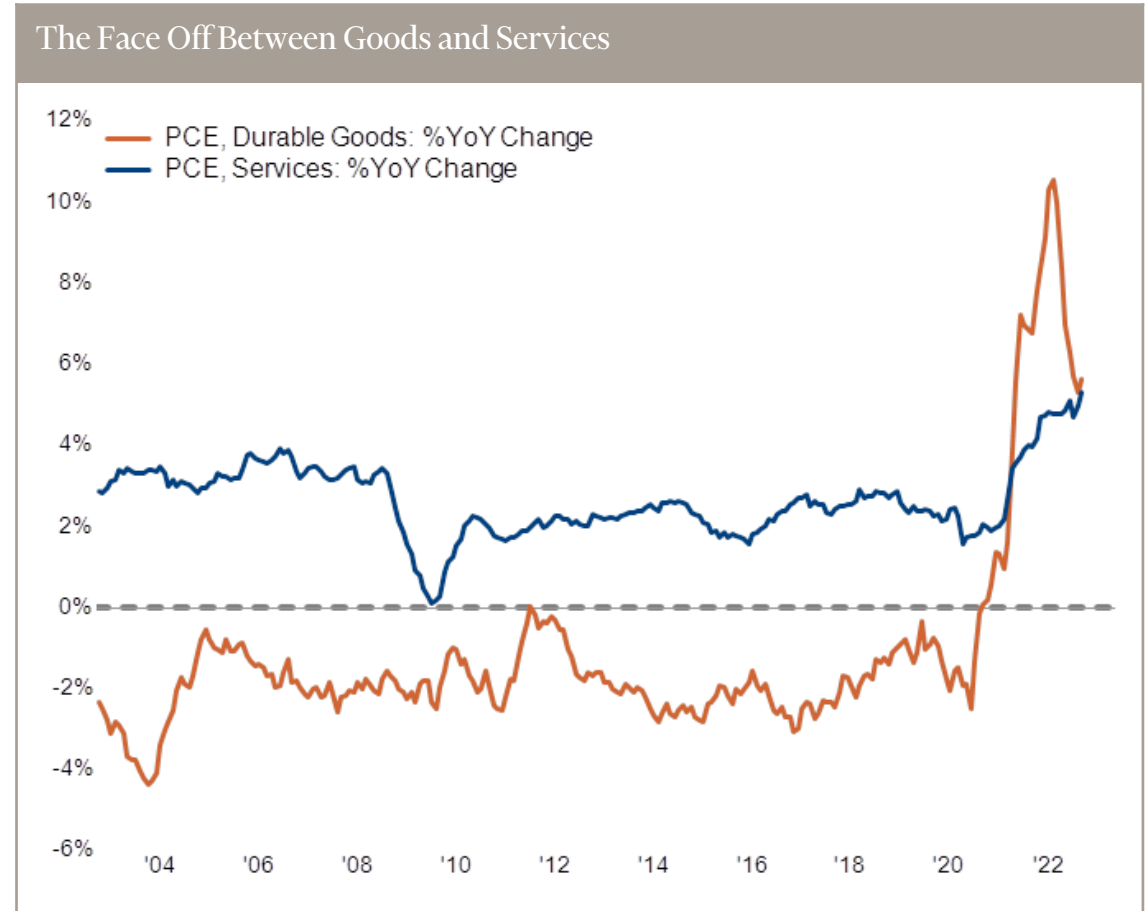
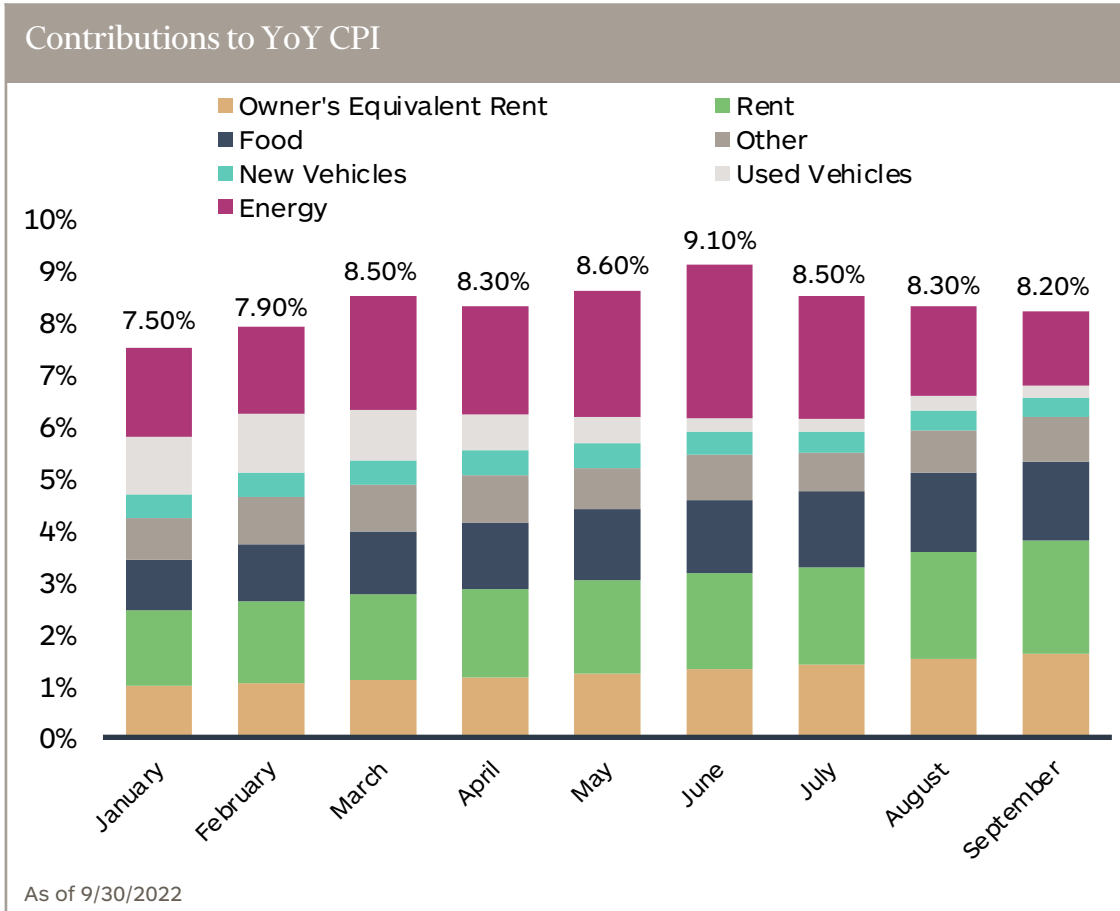


High Yield Spreads are Flashing Yellow



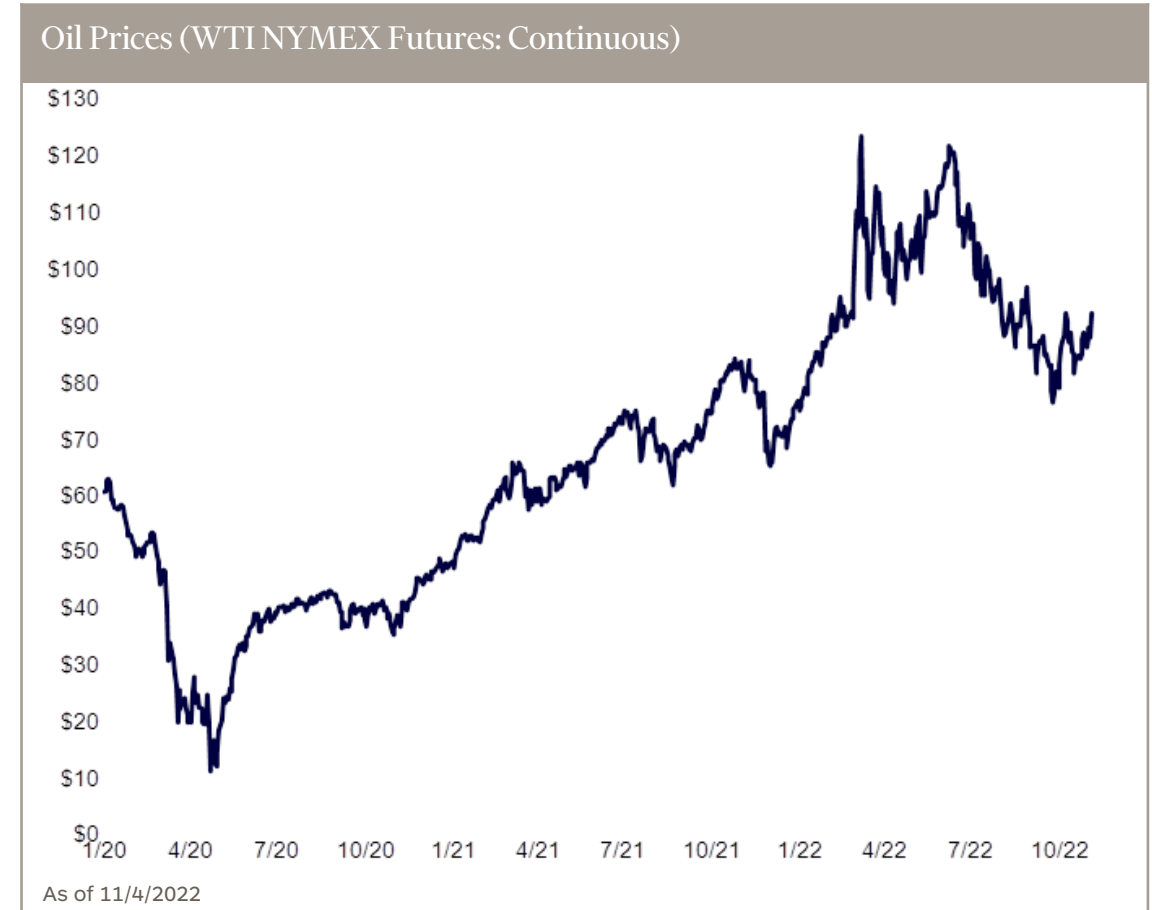
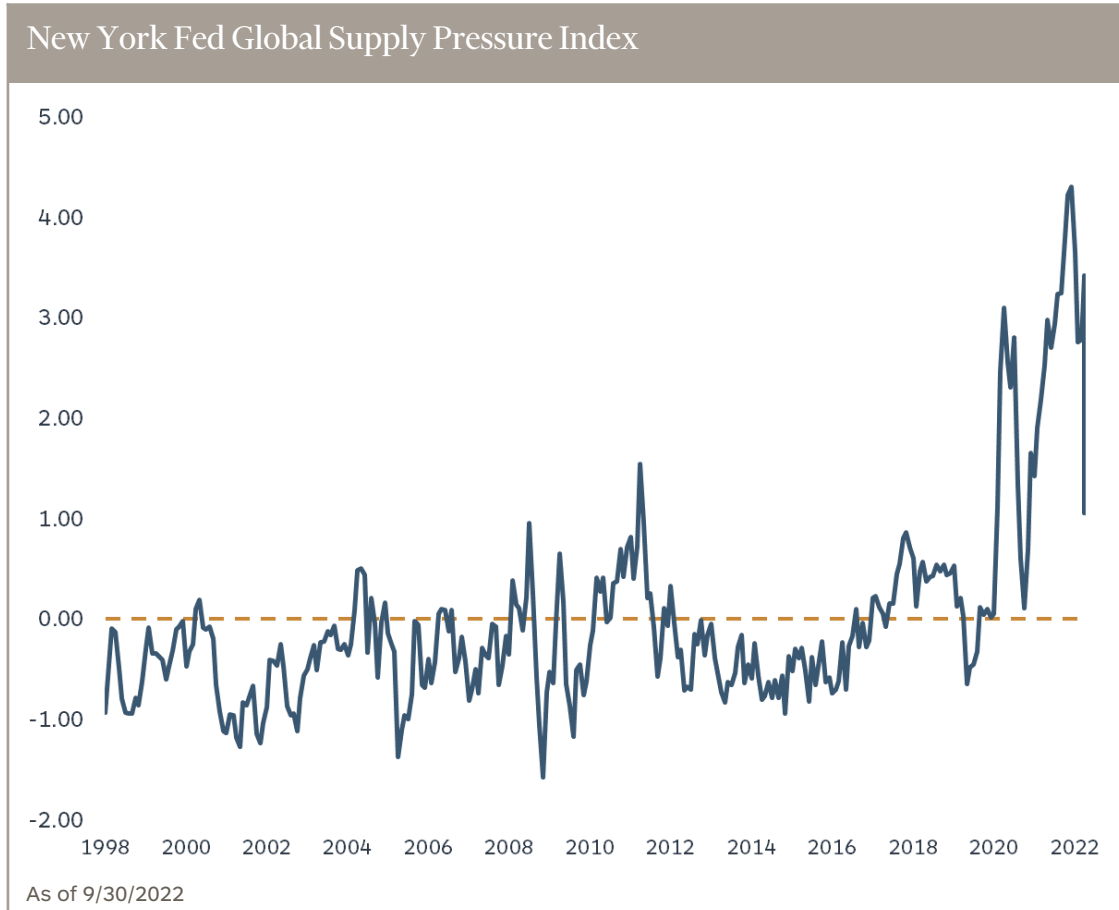
The Inflation Fulcrum

As inflation goes, so does the Fed



The Choking of Supply Chains

Supply chain pressures are still here but appear to be fading



Housing Market, Transitioning?

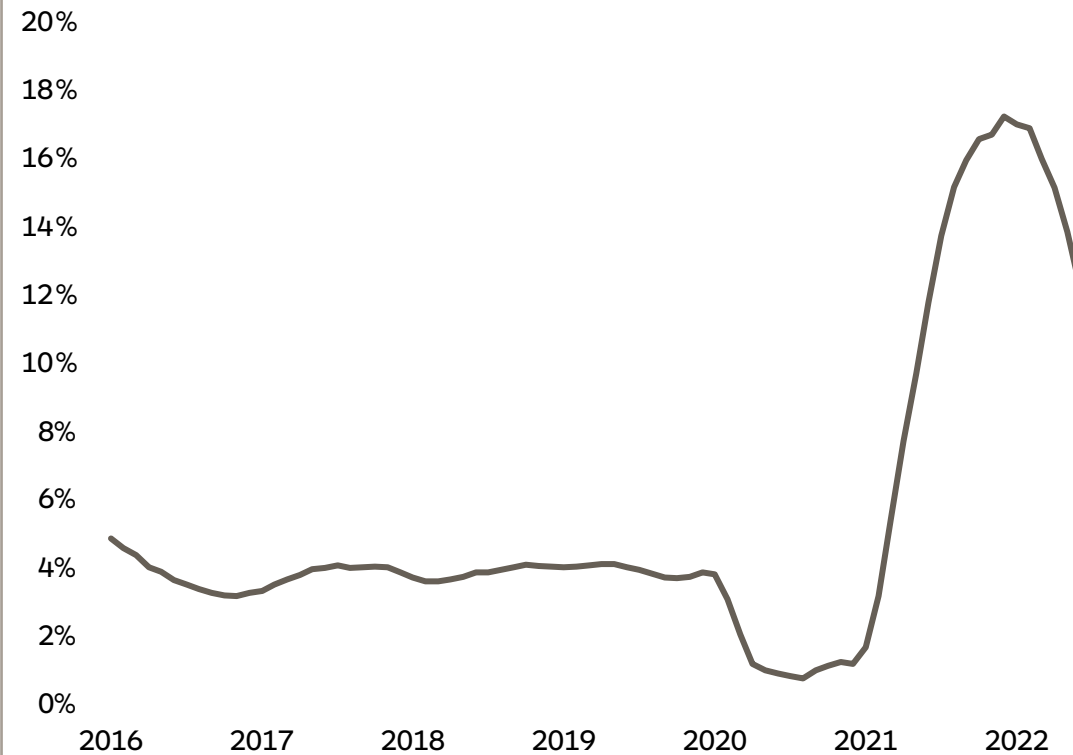
Rising rates should sap demand in the red-hot housing market

Mortgage Rates



As of 9/30/2022

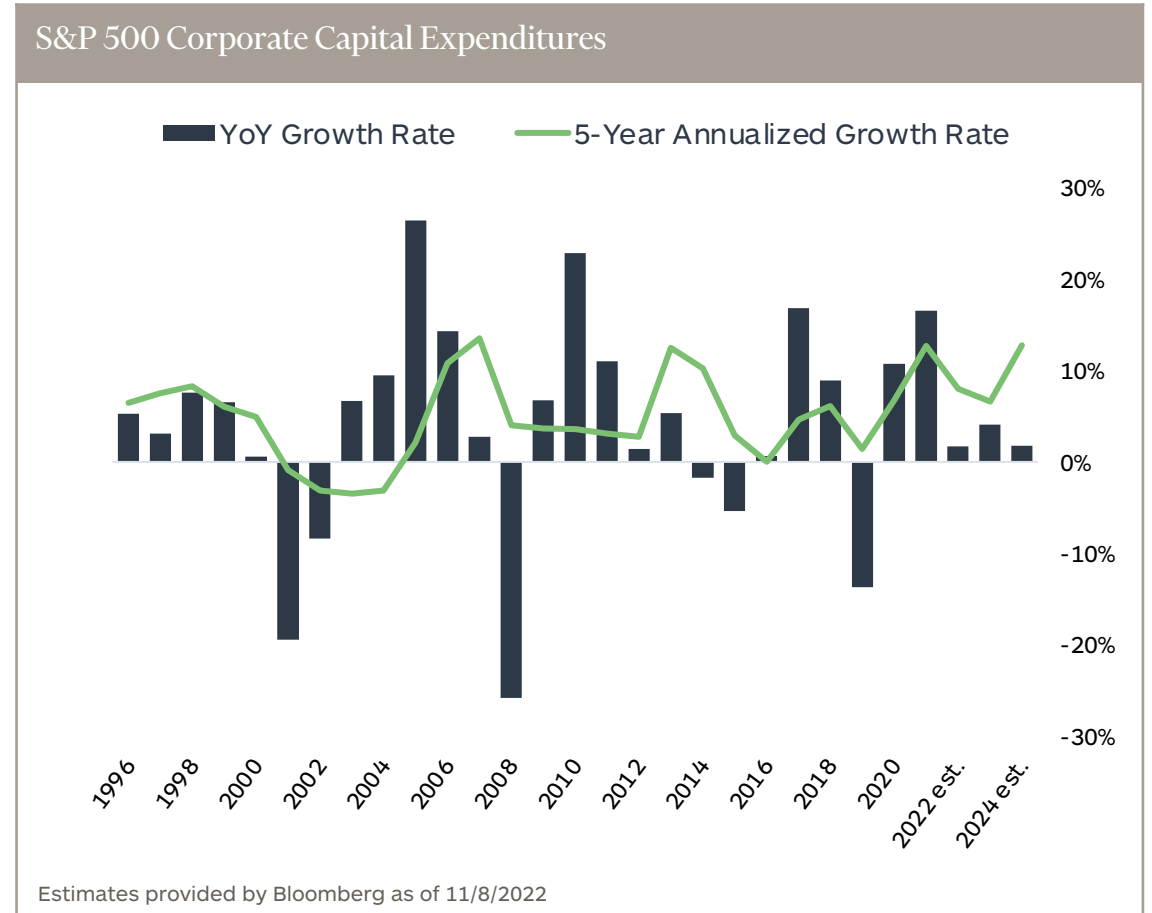
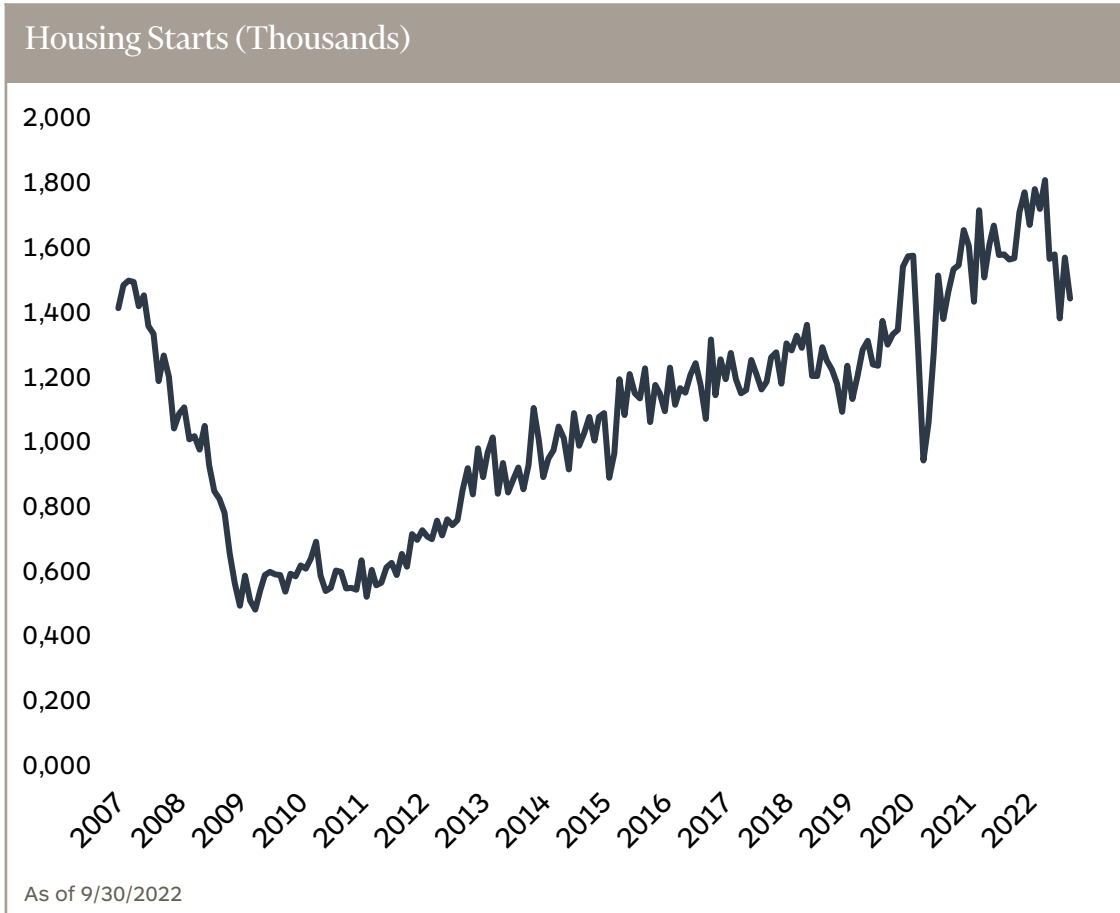
Zillow Rent Index Year over Year %



As of 9/30/2022

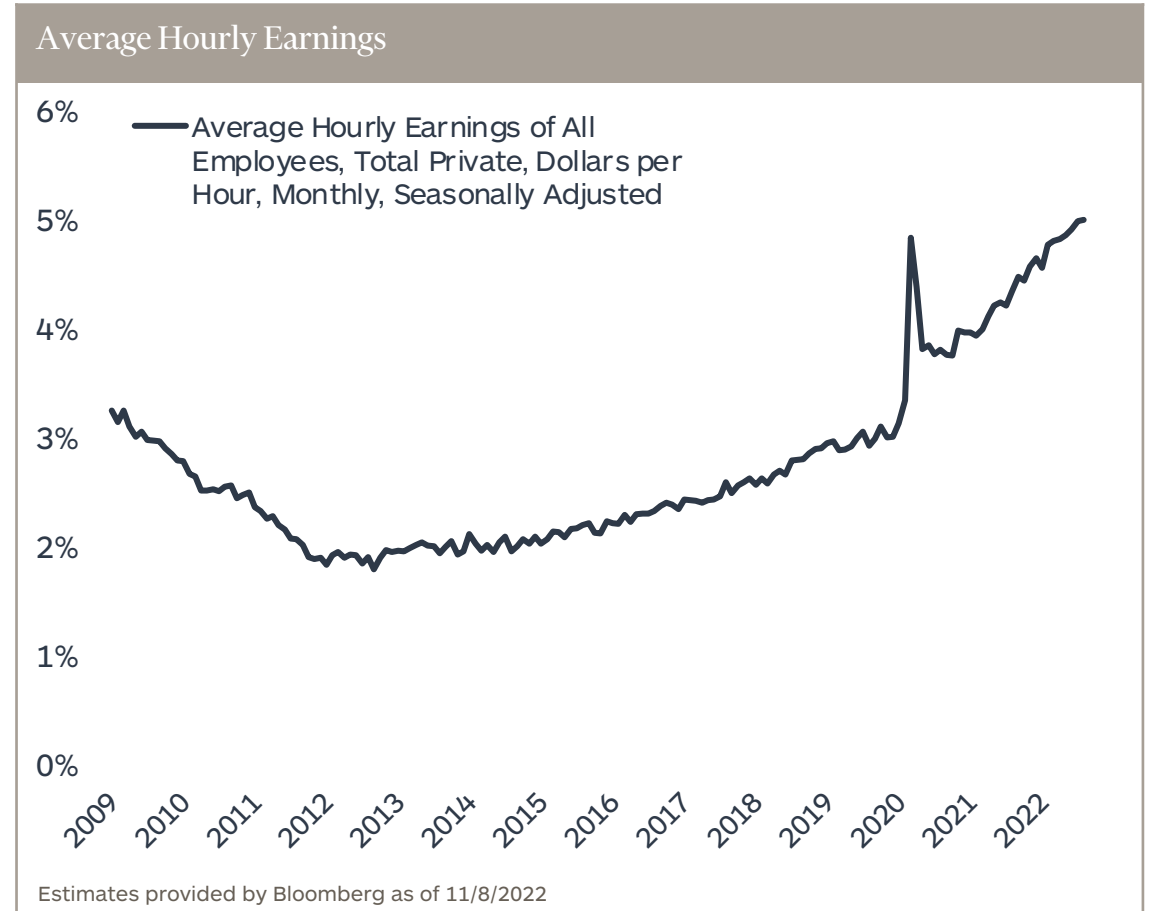
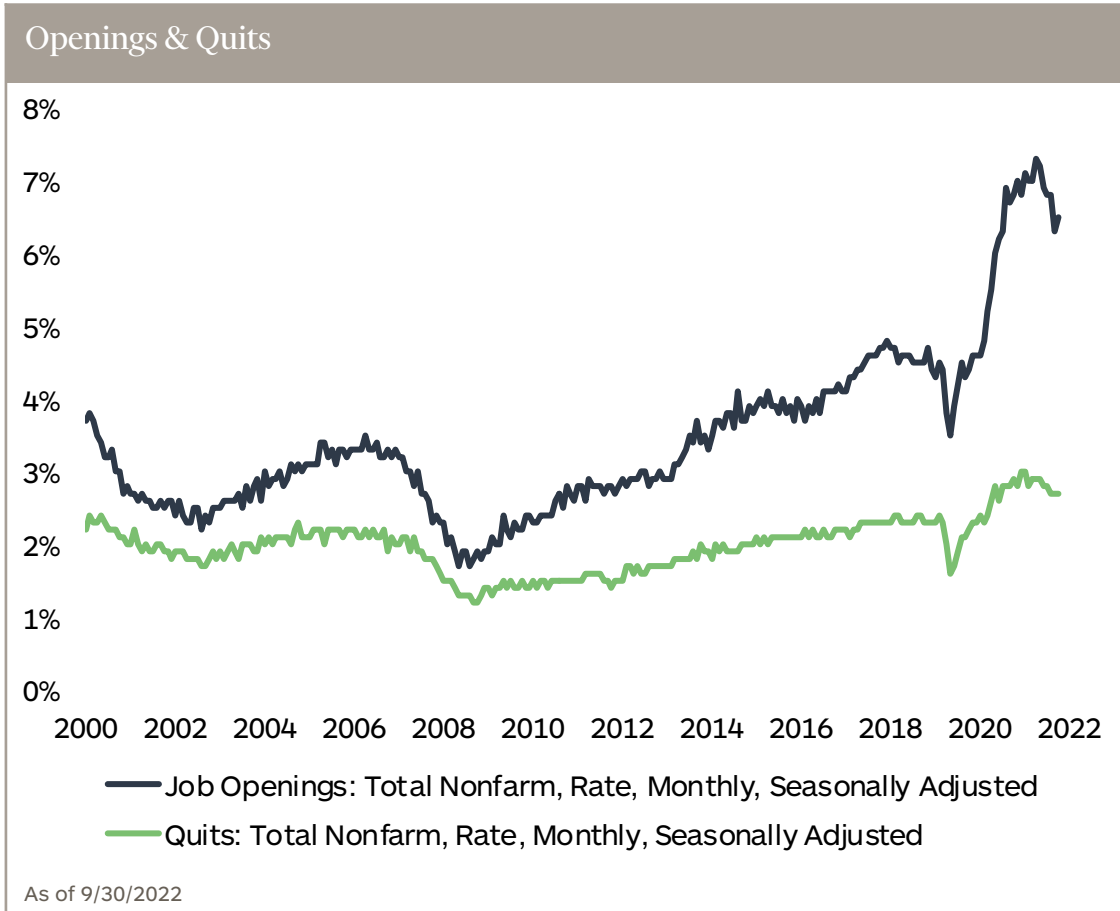
Business Investment Pulls Back

Homebuilders and other businesses are putting a pause on projects



Tightness in the Labor Markets

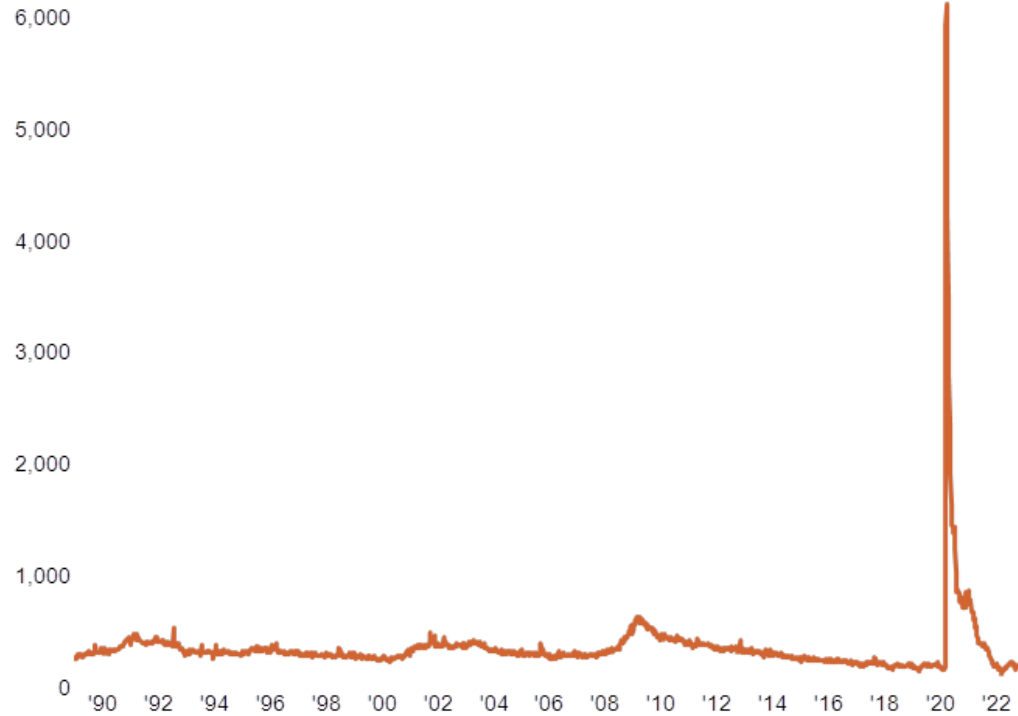
Labor supply needs a services increase to help guide down inflation



The Job Market Holds Strong

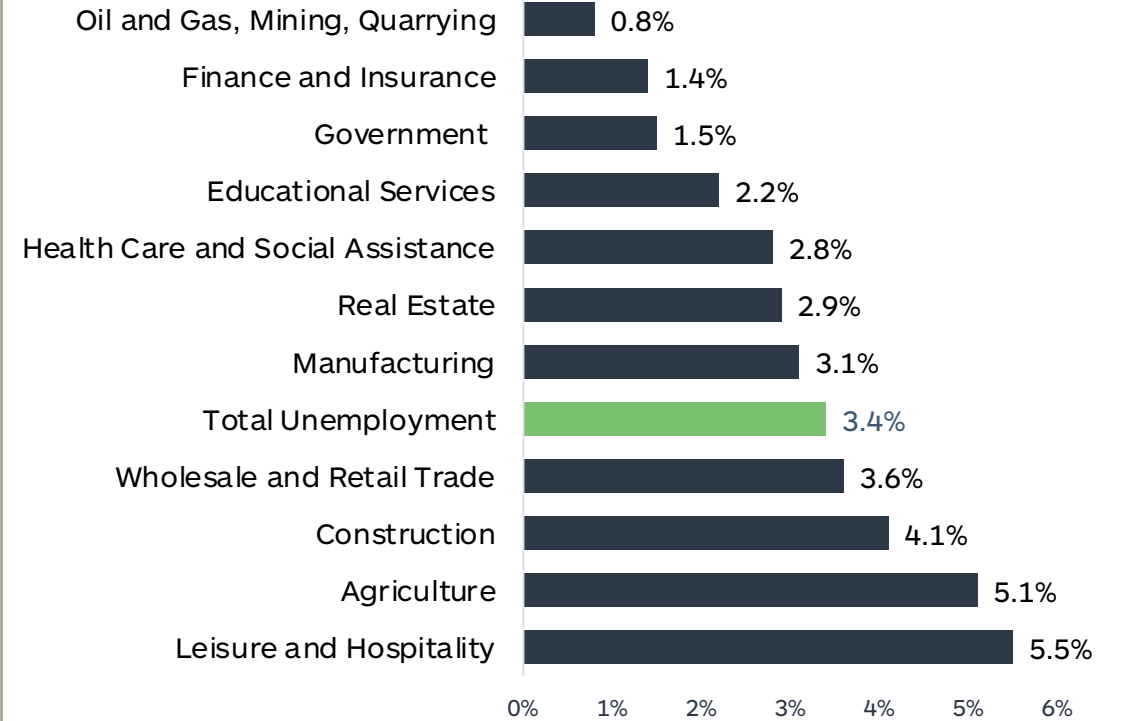
Even when facing a highly uncertain future, companies are hanging on to their workers

Initial Jobless Claims



As of 11/3/2022

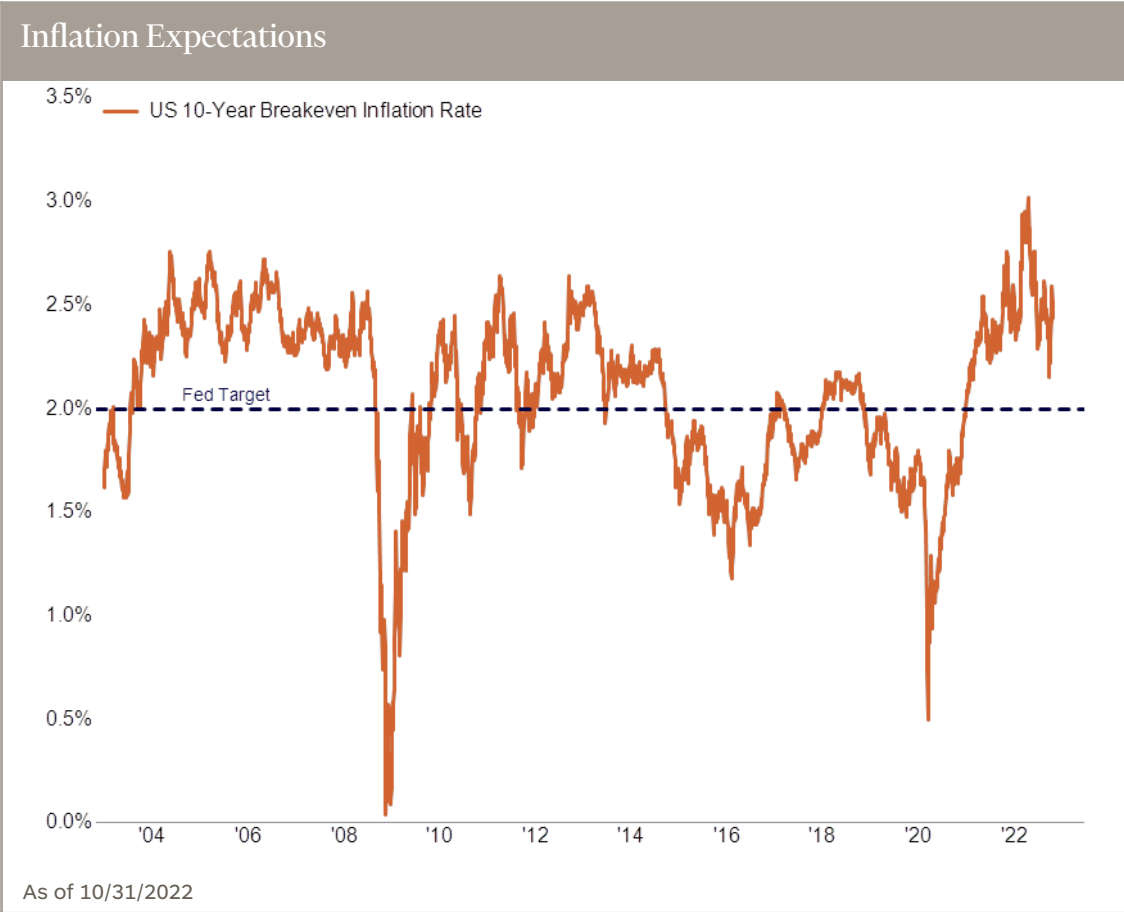
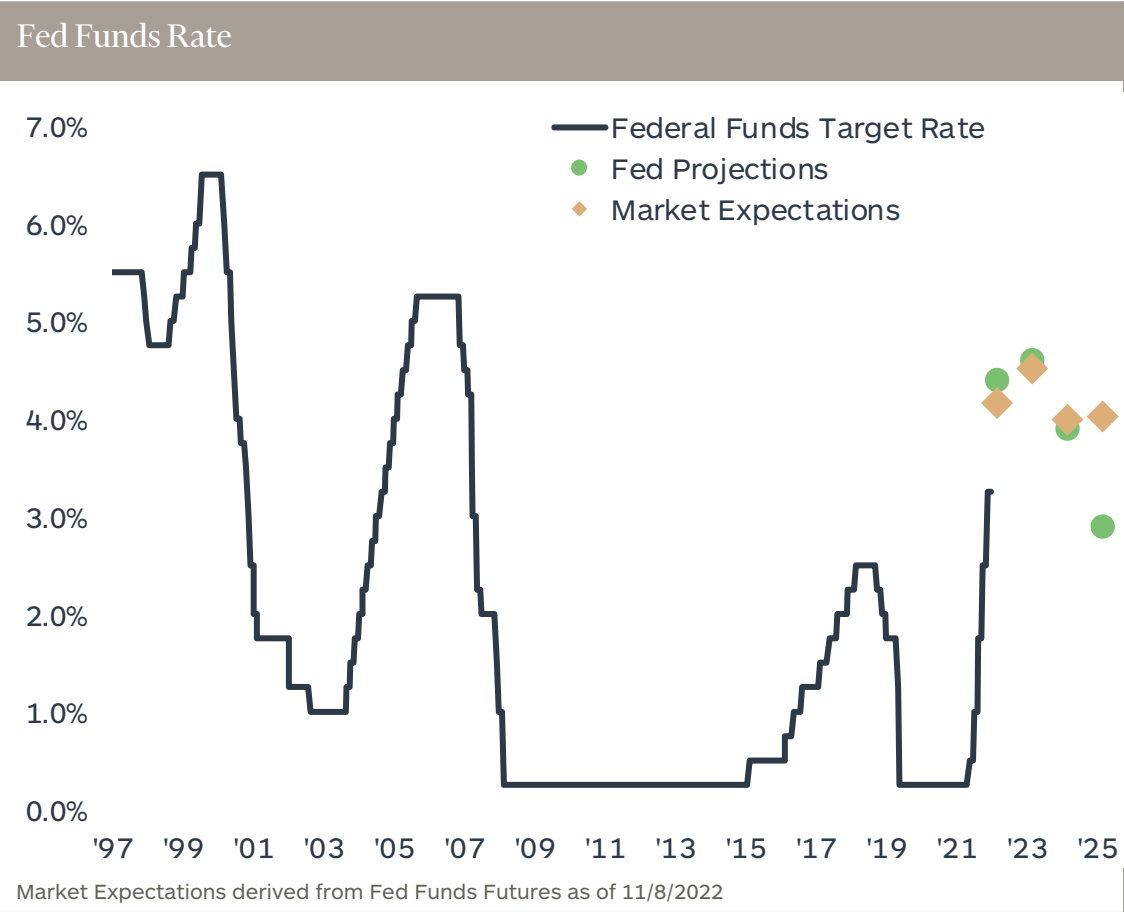
Unemployment By Sector



As of 10/31/2022

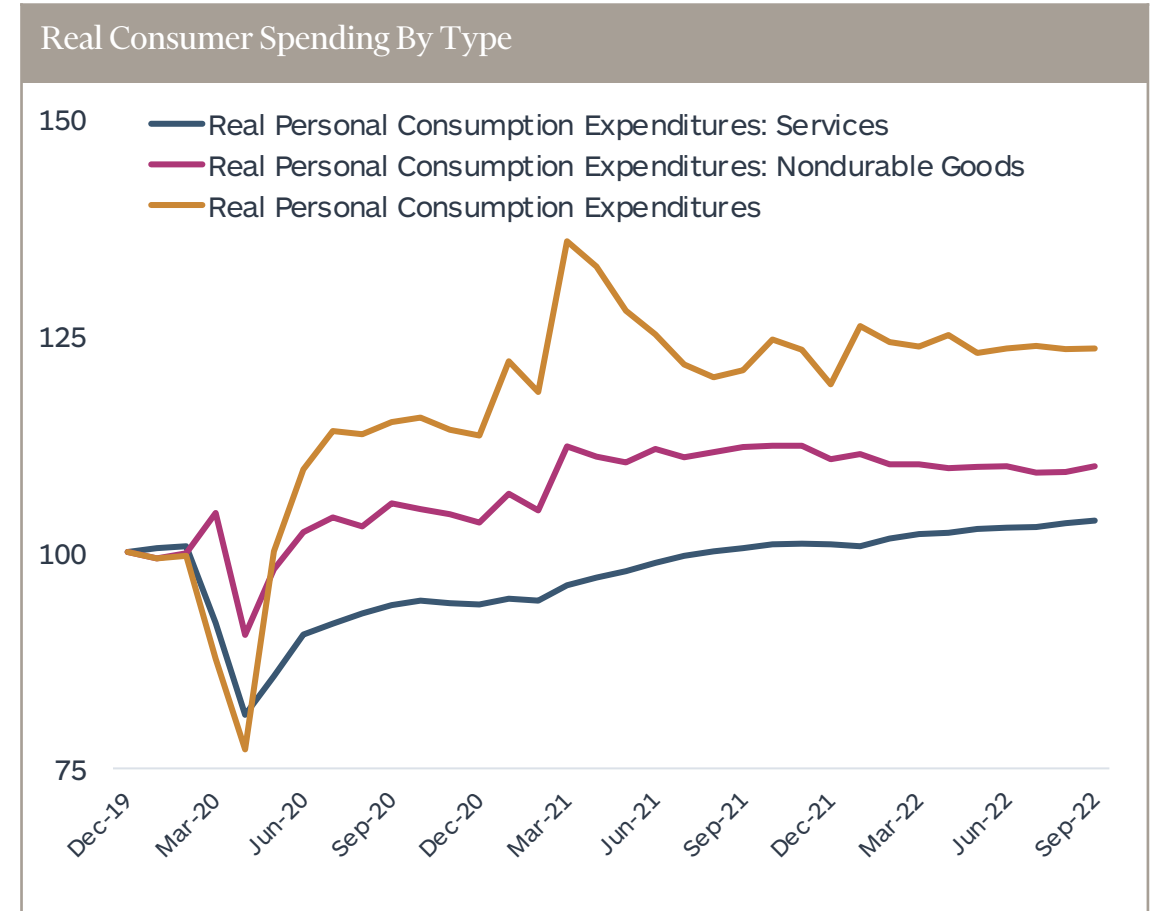
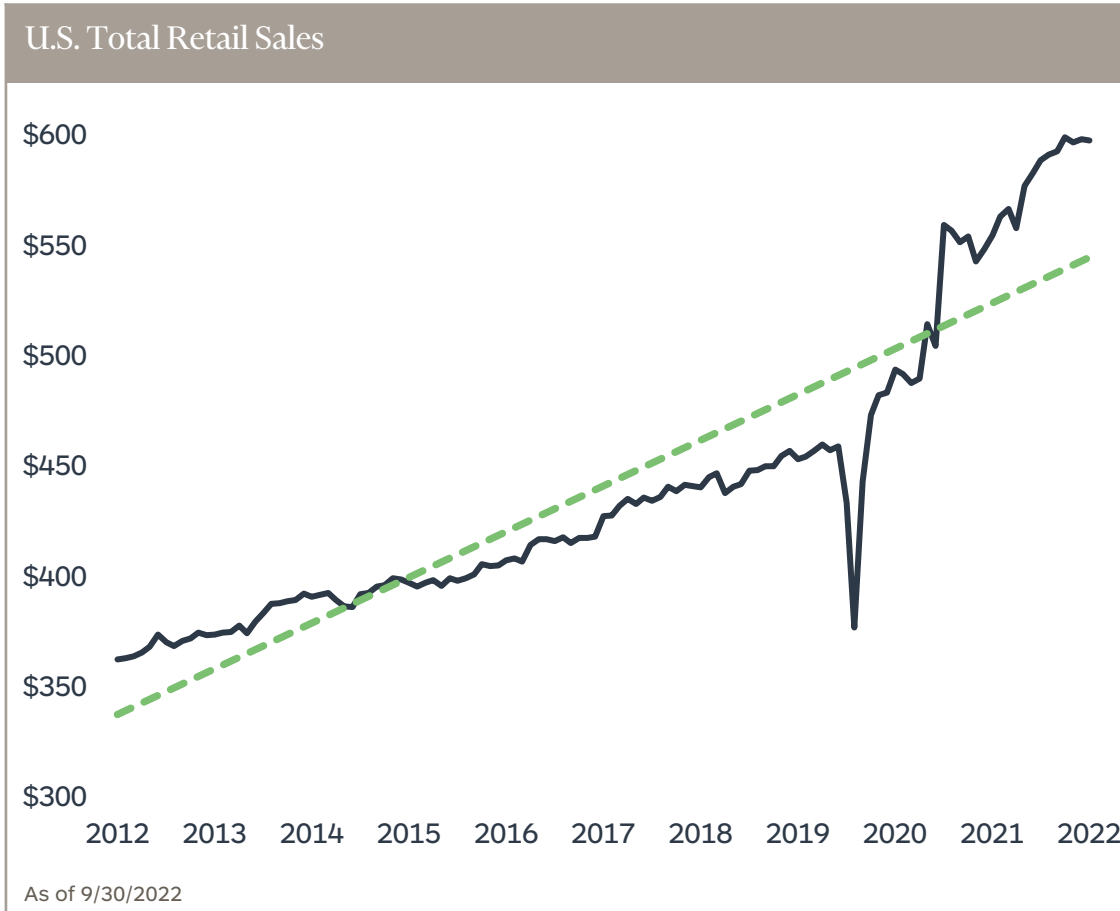
How High Will the Fed Have to Go?

The good news is that long-term inflation expectations are remaining anchored



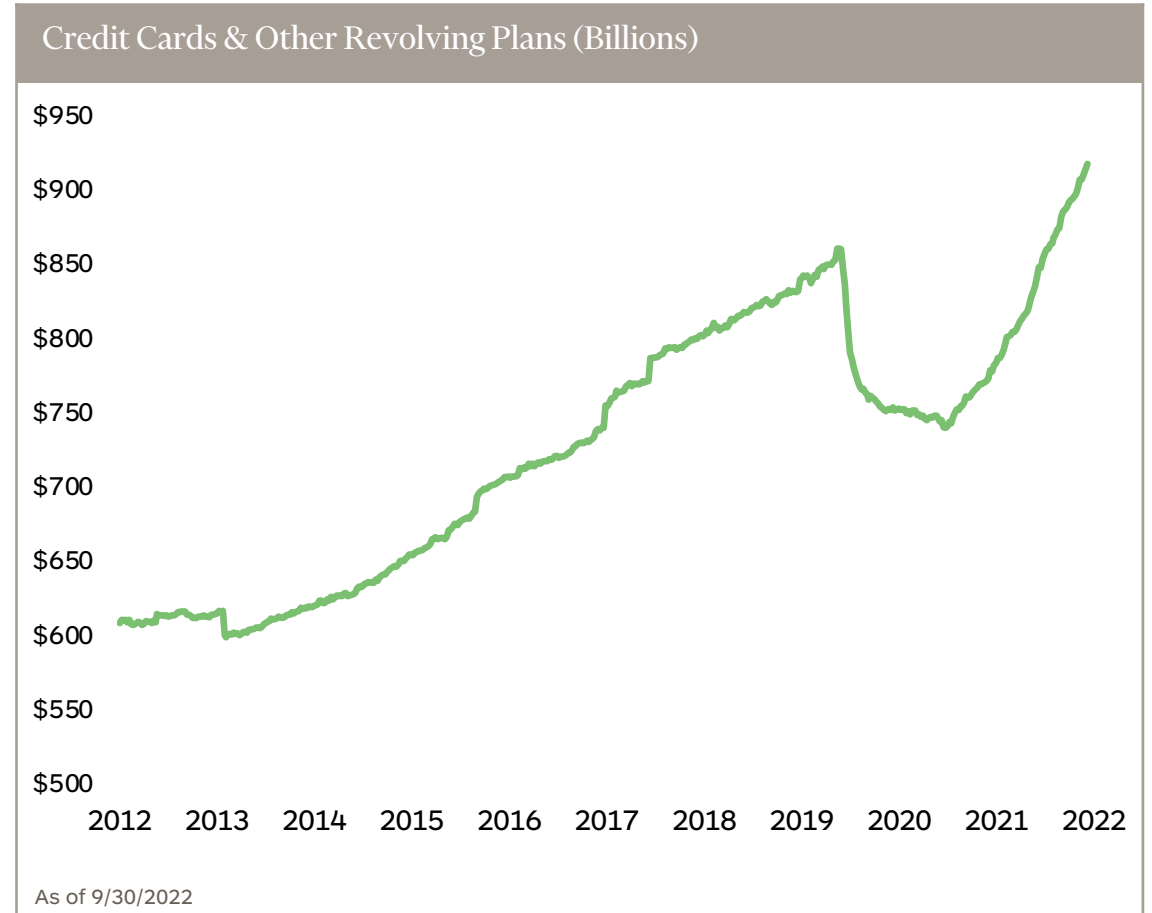
The U.S. Consumer Has Not Stopped Spending

The excess savings binge fueling consumer spending is coming to an end



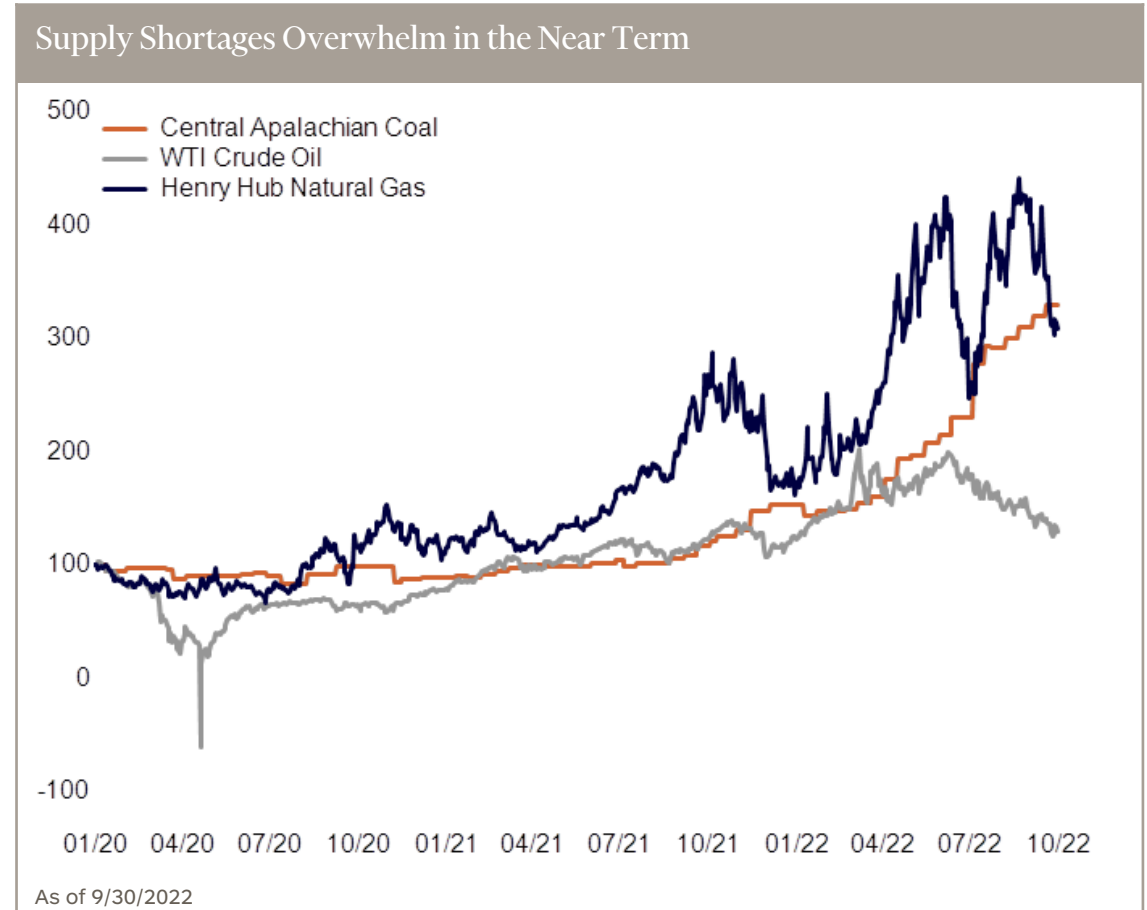
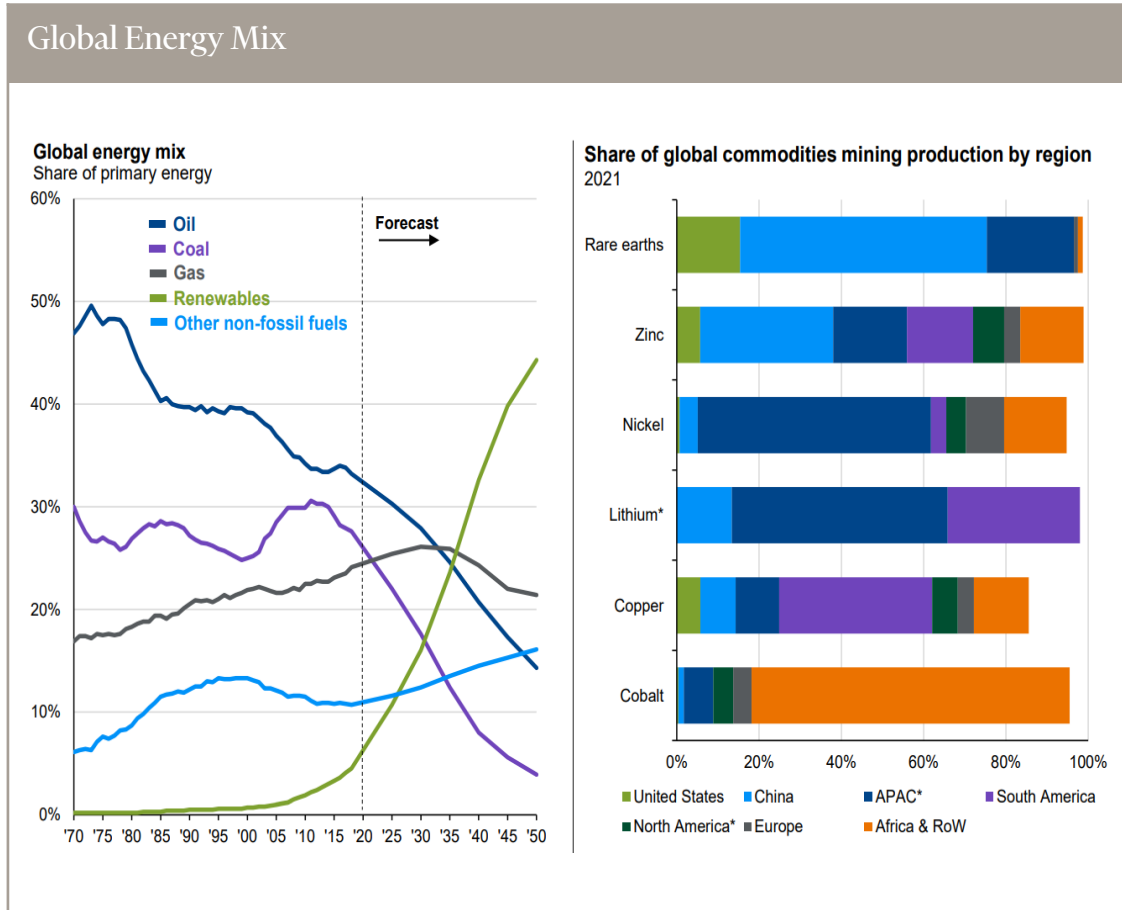
Covid Stimulus Savings Start to Dwindle

High inflation is drawing down savings accounts and pushing up credit card balances



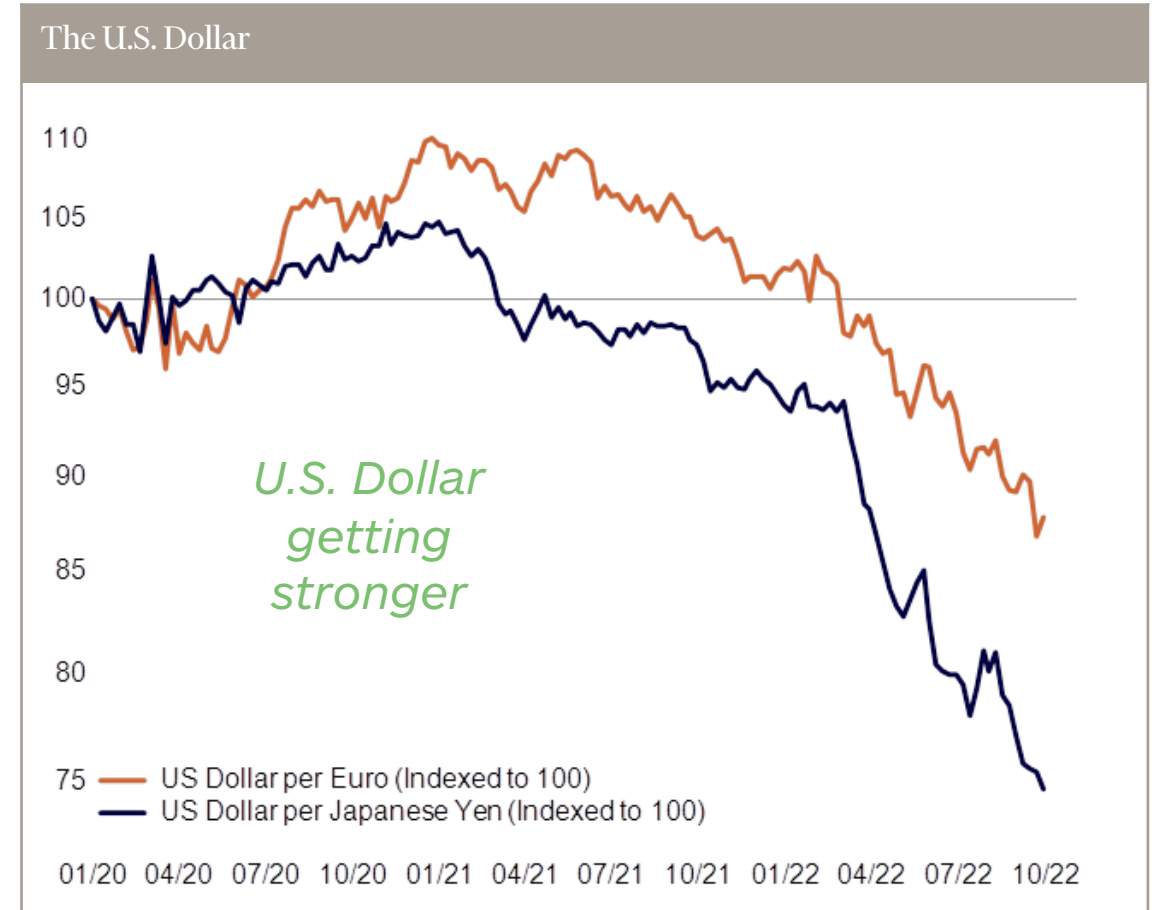
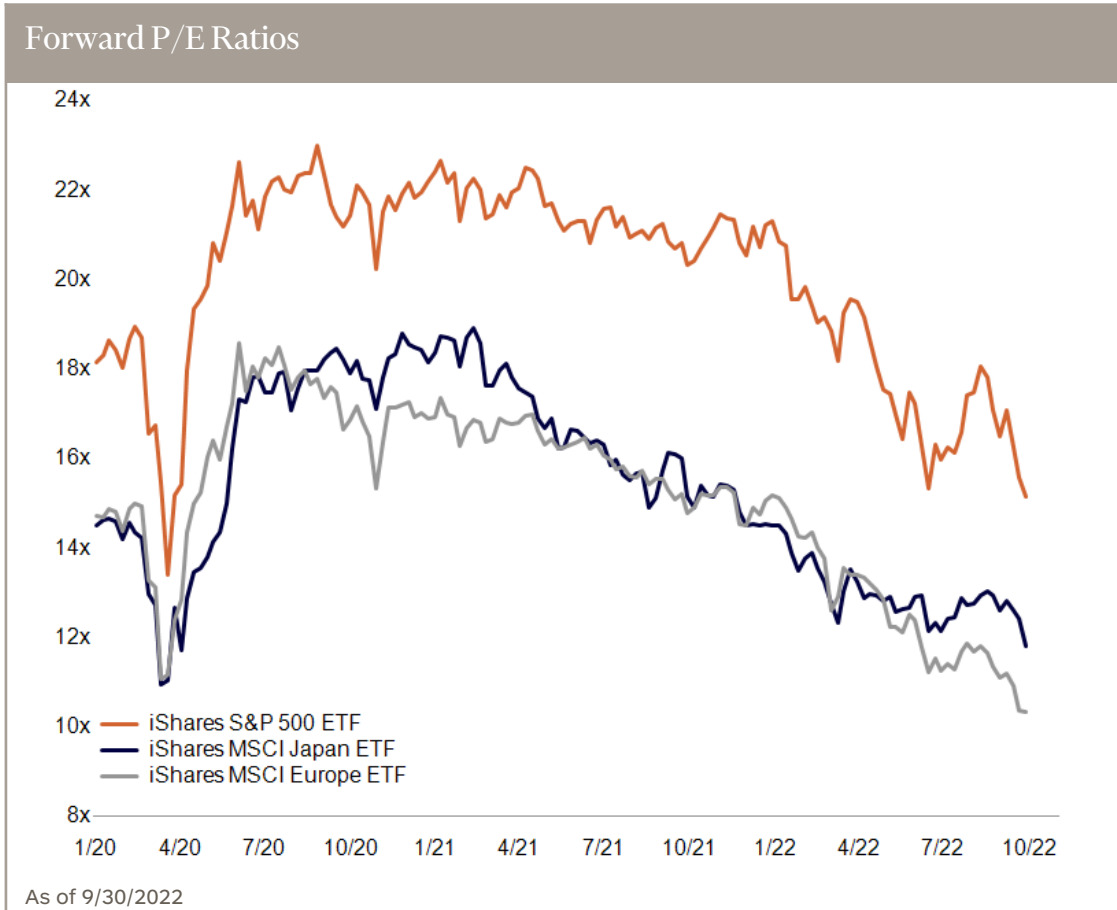
Energy Transition

The energy transition may create unintended consequences along the way



The International Markets Discount

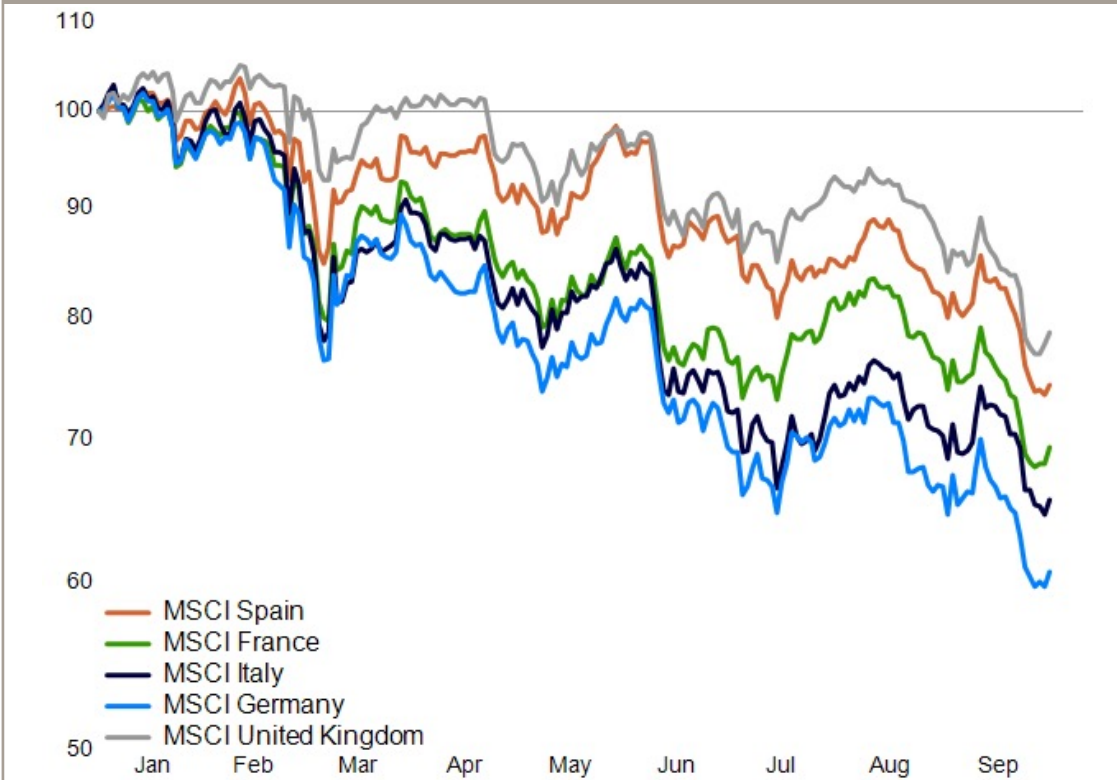
The strength of the dollar acts as another headwind to investing in overseas markets



European Recession Coming?

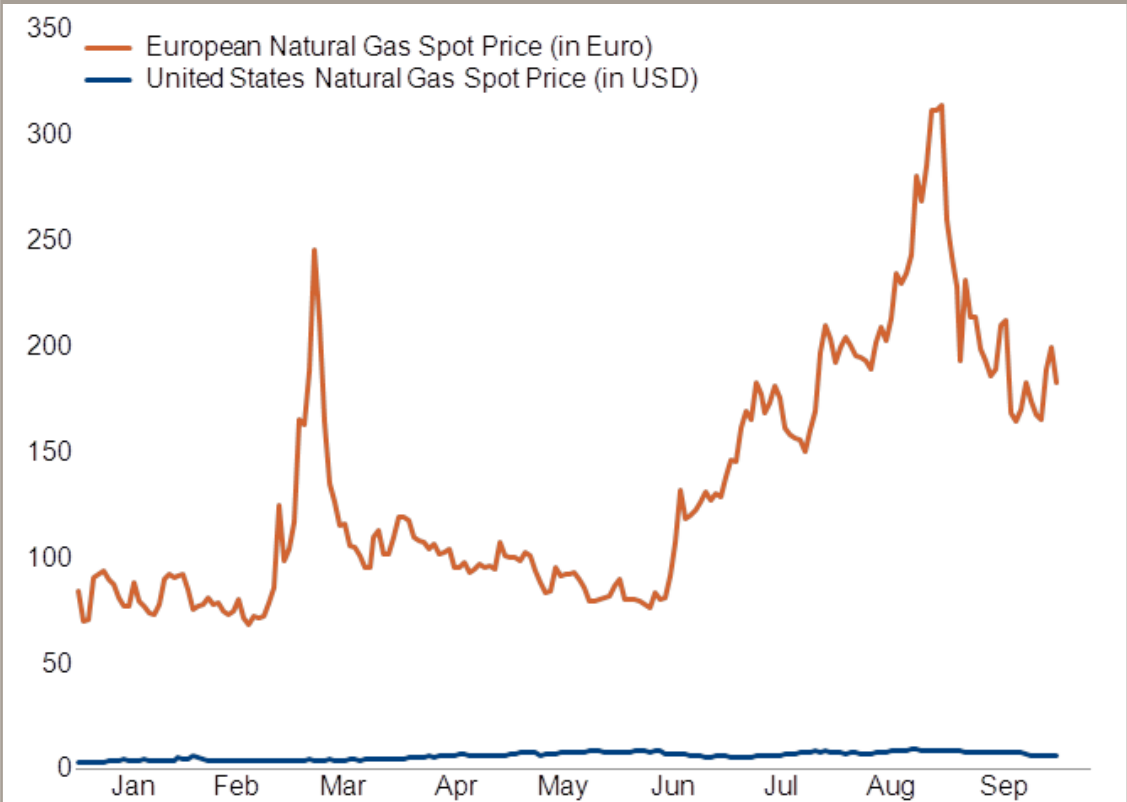
Europe may be unable to avoid an economic downturn

YTD European Equity Performance (in USD)



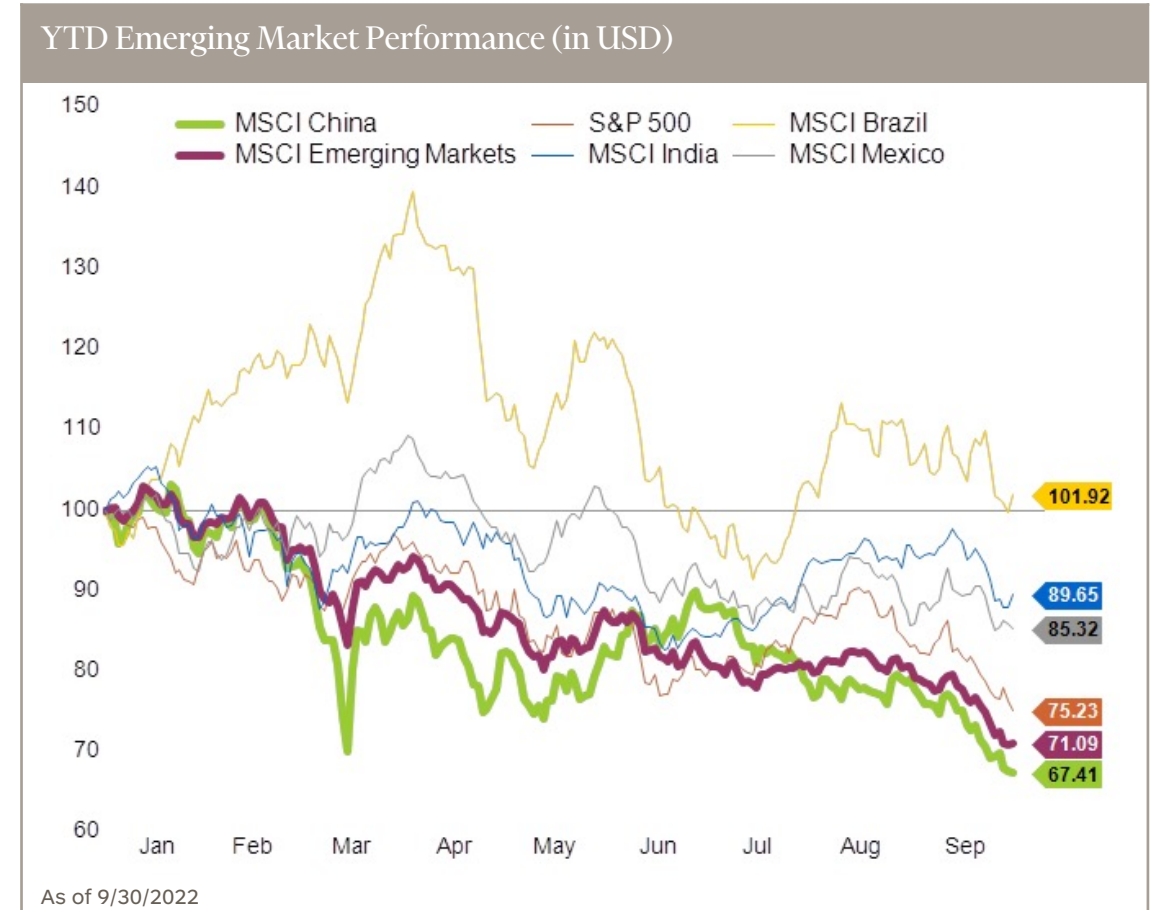
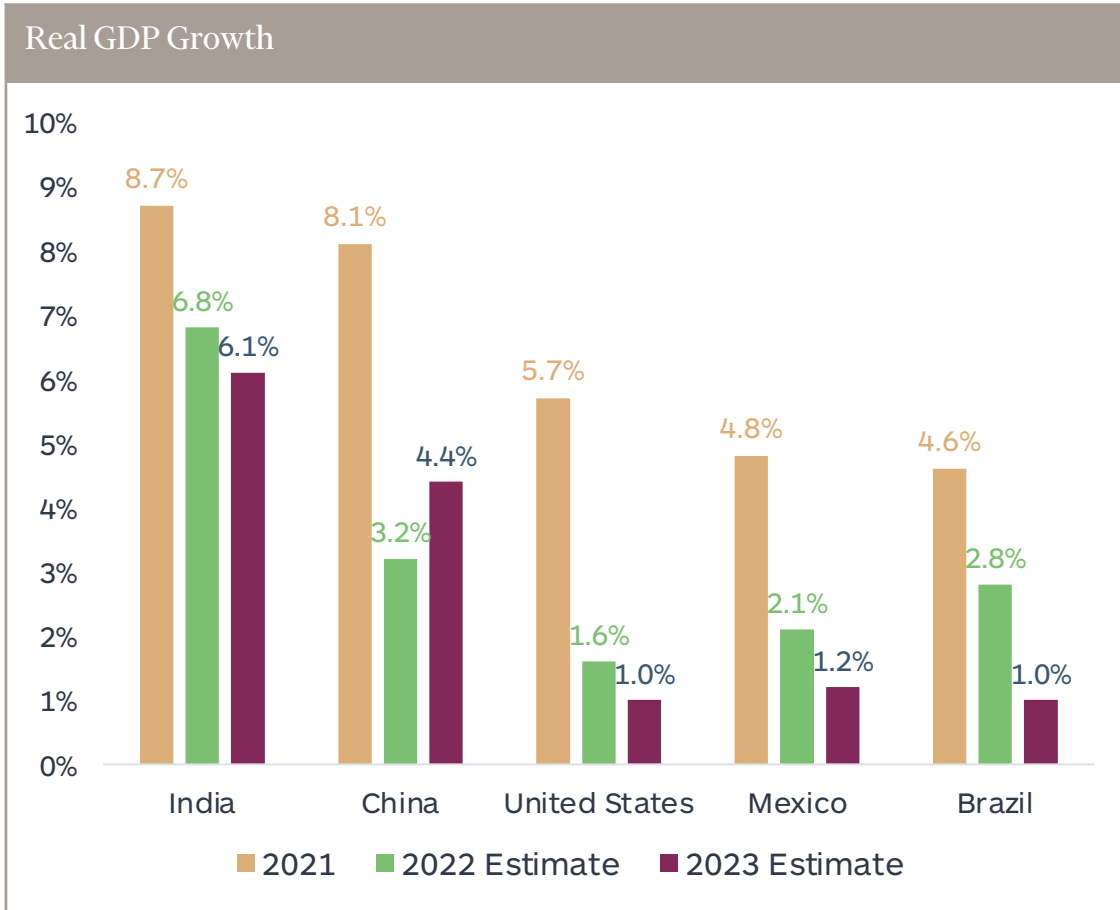
As of 9/30/2022

Energy Prices Still Extreme, But Well Below Highs



China, No Longer the Growth Engine

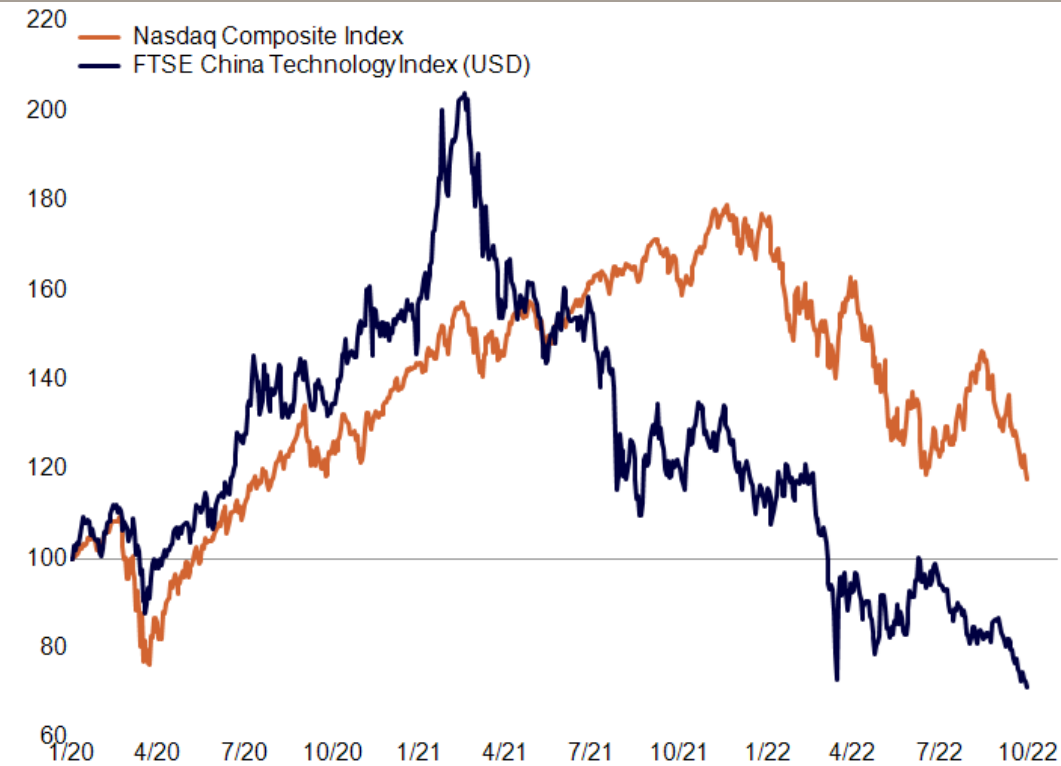
The regulatory actions in the education, housing, and health sectors are continued headwinds to Chinese growth



China, The Pain Continues

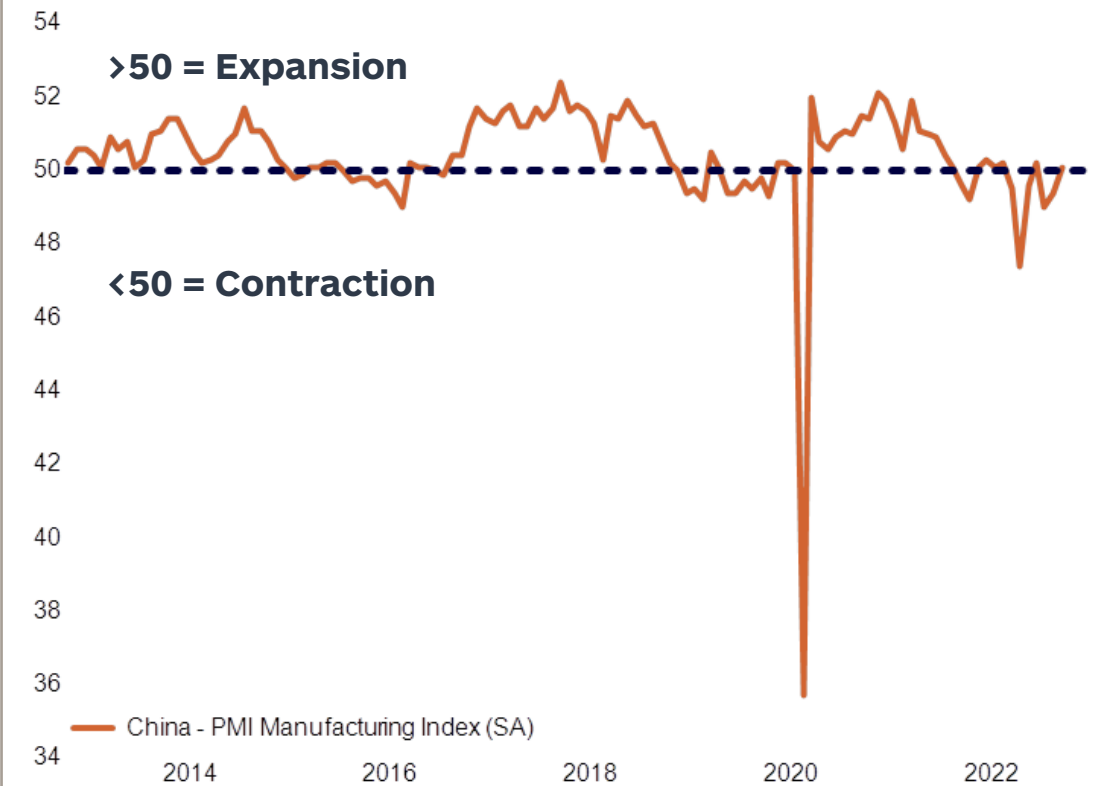
Zero-Covid policy, deflating real estate bubble, continued tech crackdown all put pressure on GDP growth

Technology Languishes



As of 9/30/2022

Manufacturing Struggles to Bounce Back



Is a Santa Rally Possible?

Closure on midterm election uncertainty often leads to strong Q4 performance

Asset Class	First 3 Quarters
Tax Exempt Bond	-7.7%
TIPS	-13.7%
Core Taxable Bond	-14.5%
High Yield Bond	-14.6%
Emerging Market Bond	-23.9%
SMID Cap Equity	-24.1%
Large Cap Equity	-24.1%
Emerging Market Equity	-26.6%
International Equity	-27.0%
Real Estate	-28.1%

Asset Class	Q4 to Date*
SMID Cap Equity	7.2%
International Equity	6.6%
Large Cap Equity	5.3%
Real Estate	3.3%
High Yield Bond	1.9%
Emerging Market Equity	1.1%
Emerging Market Bond	0.6%
TIPS	0.3%
Tax Exempt Bond	-0.1%
Core Taxable Bond	-1.7%



What to Expect in Equity Markets

Year-End 2022

Goodbye & Good Riddance?

Before we go, let's take a look at what we should find by year-end . . .

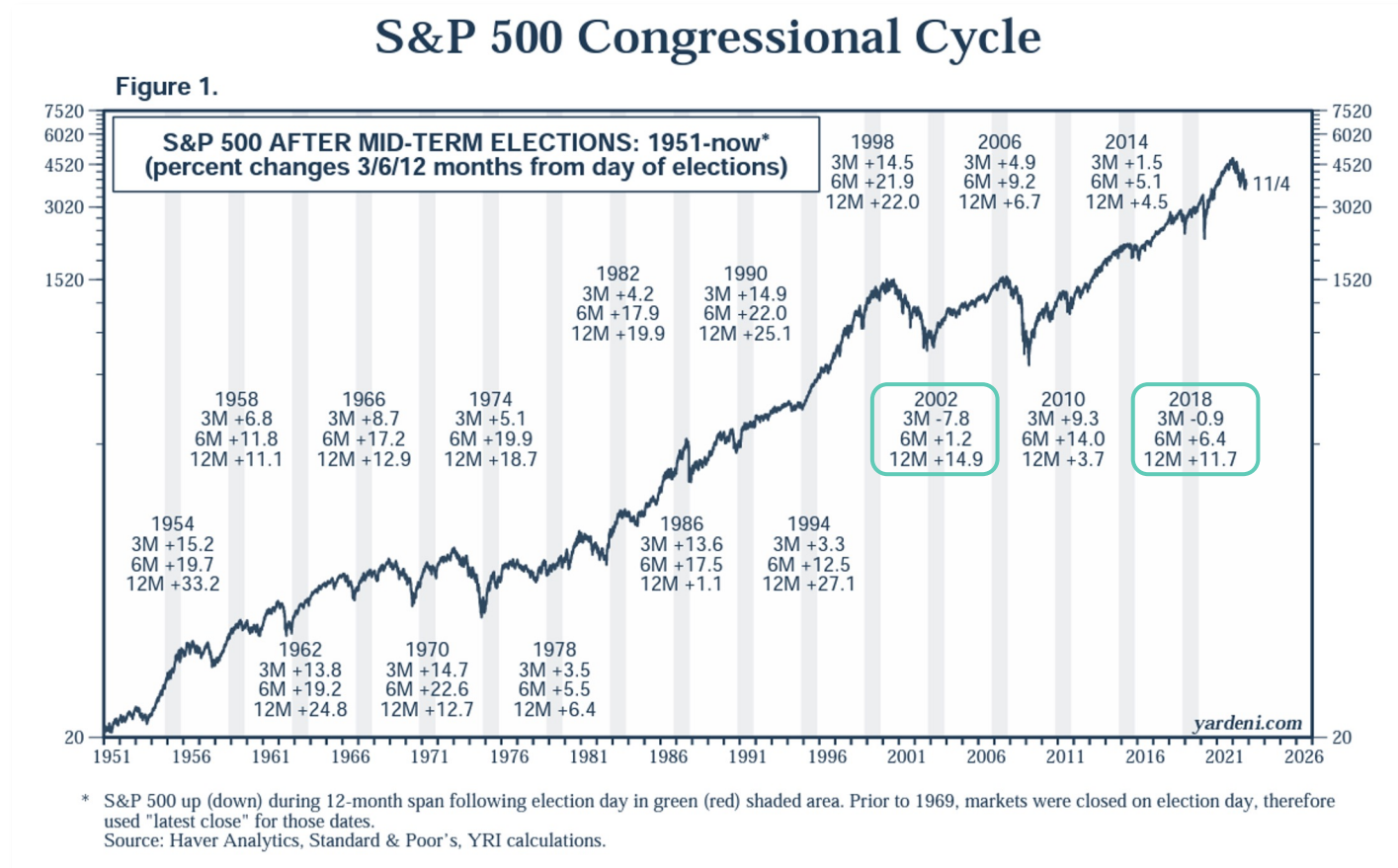


As of 11/4/2022

1. Fed Hikes Two More Times
2. Two More Inflation Readings
3. New Congress
4. 2023 Earnings Clarity
5. Progress on Supply Chain Onshoring

Let's Look a Little Further

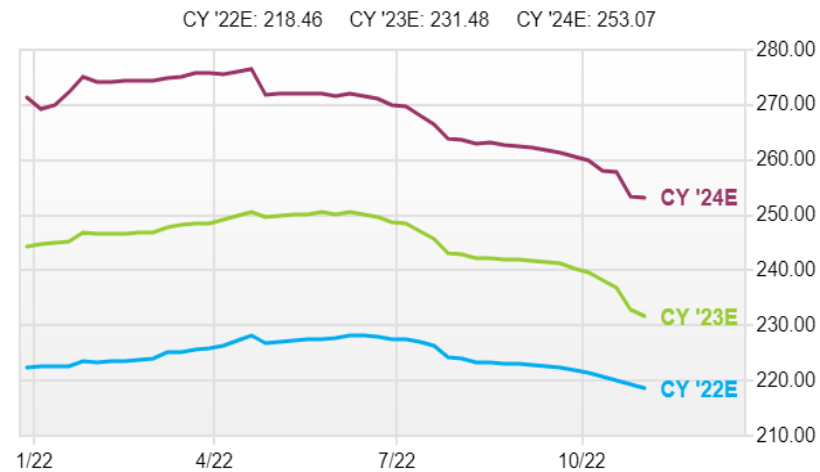
Mid-term elections are a strong catalyst. Could be data-mining, but there are fundamental reasons.



How About Earnings Clarity?

Earnings estimates have come down but still predict growth

S&P 500 (SP50) **\$3,770.55** [Key Statistics](#) [FactSet Market Aggregates](#)



Calendar Year Trend

Dates	CY '22E	CY '23E	CY '24E	CY '25E
04 Nov '22	218.46	231.48	253.07	-

But Many of the Worst Prognostications Still Look Unlikely

We showed these headlines on our last call. How many of them seem realistic now?

Bloomberg
US Edition ▾

• Live Now | **Markets** | Technology | Politics | Wealth | Pursuits | Opinion | Businessweek | Equality | Green

Markets
Economics

Shallow Recession Calls Are ‘Totally Delusional,’ Roubini Warns

- A reason Roubini cites is historically high debt ratios
- This time it ‘could be worse than ‘70s,’ economist says

PIPER | SANDLER | US Economics | **Macro Research**

July 27, 2022

The Profit/EPS Downturn Is Here.

[Report Link](#)

Conclusion: Profits always fall in recessions, and we’re moving into one now. On average, in recessions profits & EPS decline -12%, and -24%, respectively. We’re now forecasting S&P EPS to decline -8% cumulatively in 2022 & 2023 -- to \$200 in 2022, and \$190 in 2023. (pgs 2-4)

Morgan Stanley | RESEARCH

July 11, 2022

US Equity Strategy | North America

Weekly Warm-up: Strong Dollar Just Another Headwind for Earnings, Leaving Unfinished Business for the Bear

Bloomberg
US Edition ▾

• Live Now

Markets

JPMorgan Sees ‘Stratospheric’ \$380 Oil on Worst-Case Russian Cut

“Half-Full, Half-Empty” Commentary on Earnings Calls

We showed these headlines on our last call. How many of them seem realistic now?

yahoo/finance

GM earnings: Automaker reports strong Q3 profit, reaffirms guidance in 'major step' for Detroit stalwart

News > Social Media

Facebook Parent Meta's Earnings Fall Short as Advertising Fizzles

The social media giant is the latest to reveal signs of frailty in its ads-reliant business.

Caterpillar Surges Most in Two Years on Optimism Over Demand

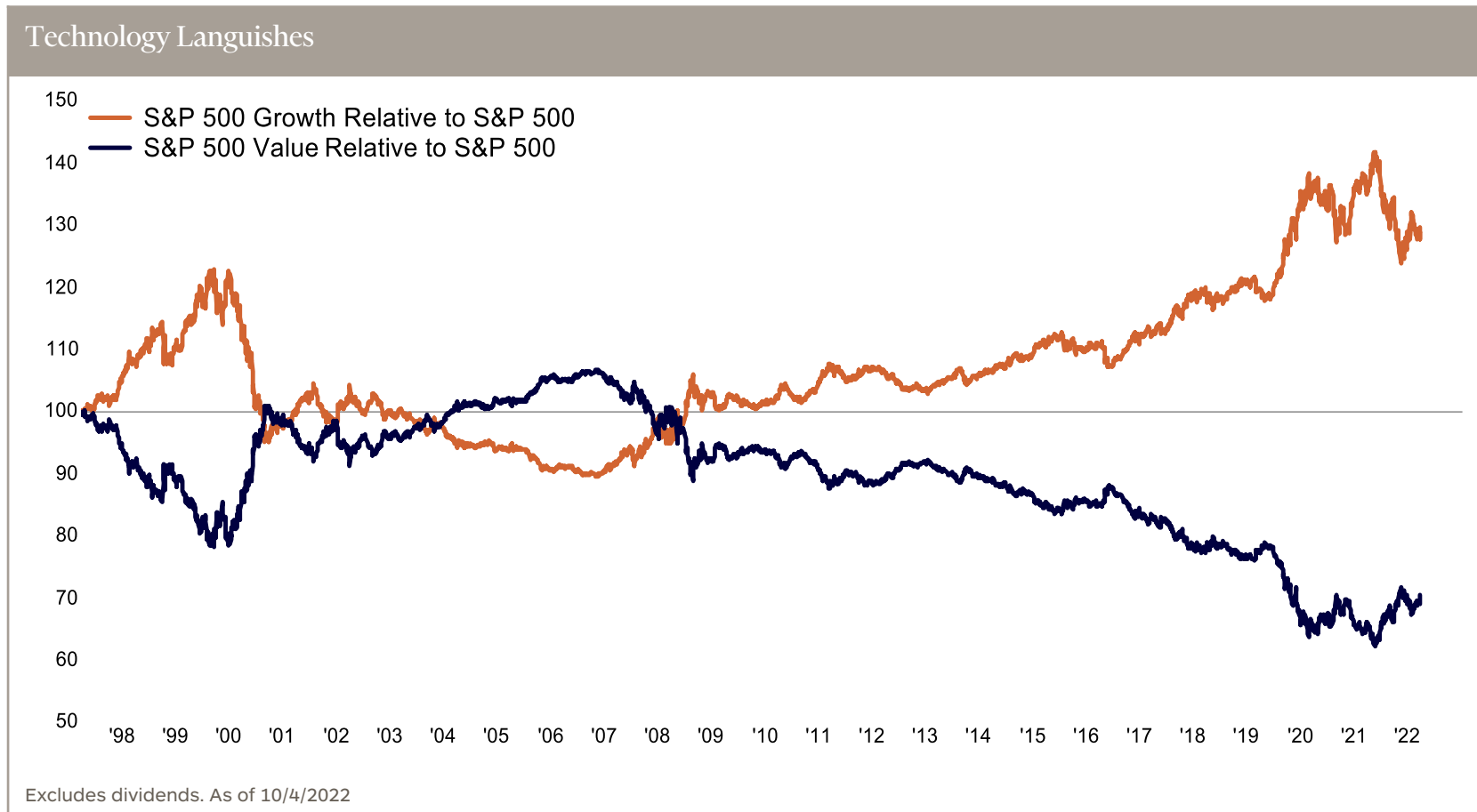
- Company says higher shipments and price hikes counter costs
- Strong buyer demand comes as the US economy rebounded

CNBC

Alphabet misses on earnings as YouTube shrinks; company will cut headcount growth by half in Q4

Does This Chart Explain 2022 in Equity Markets?

Growth-Value leadership changes occur over time

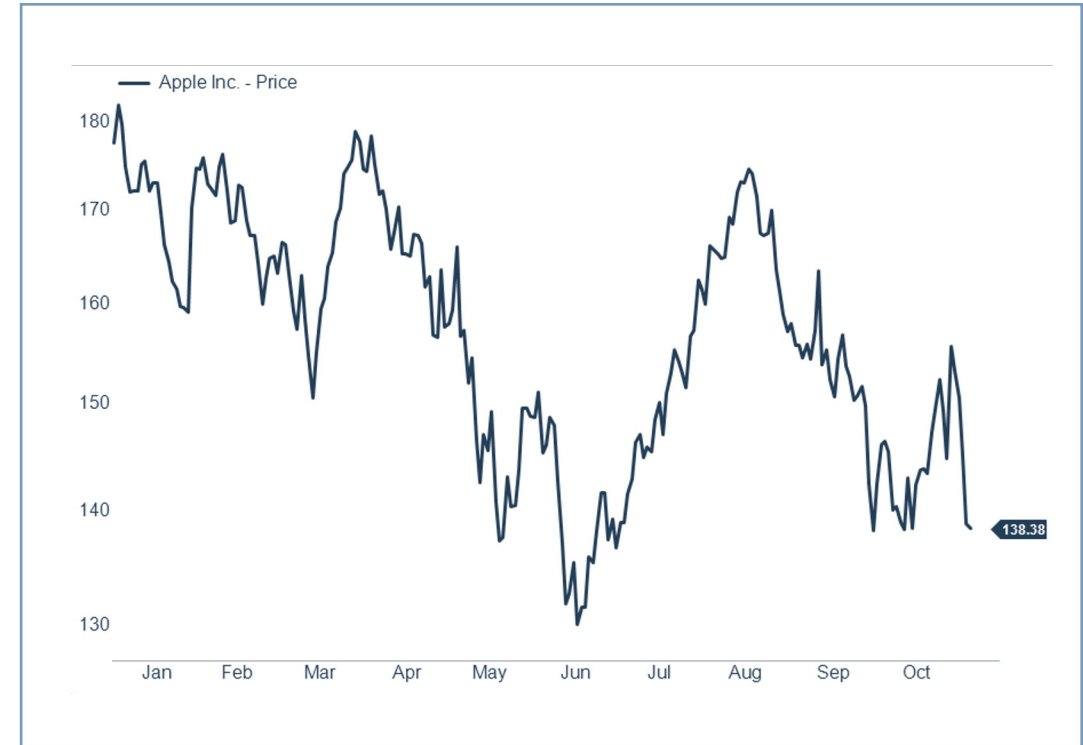


Going Back to What Has Worked May Be a Mistake

FAANGMA Example: Apple - buy the dip?



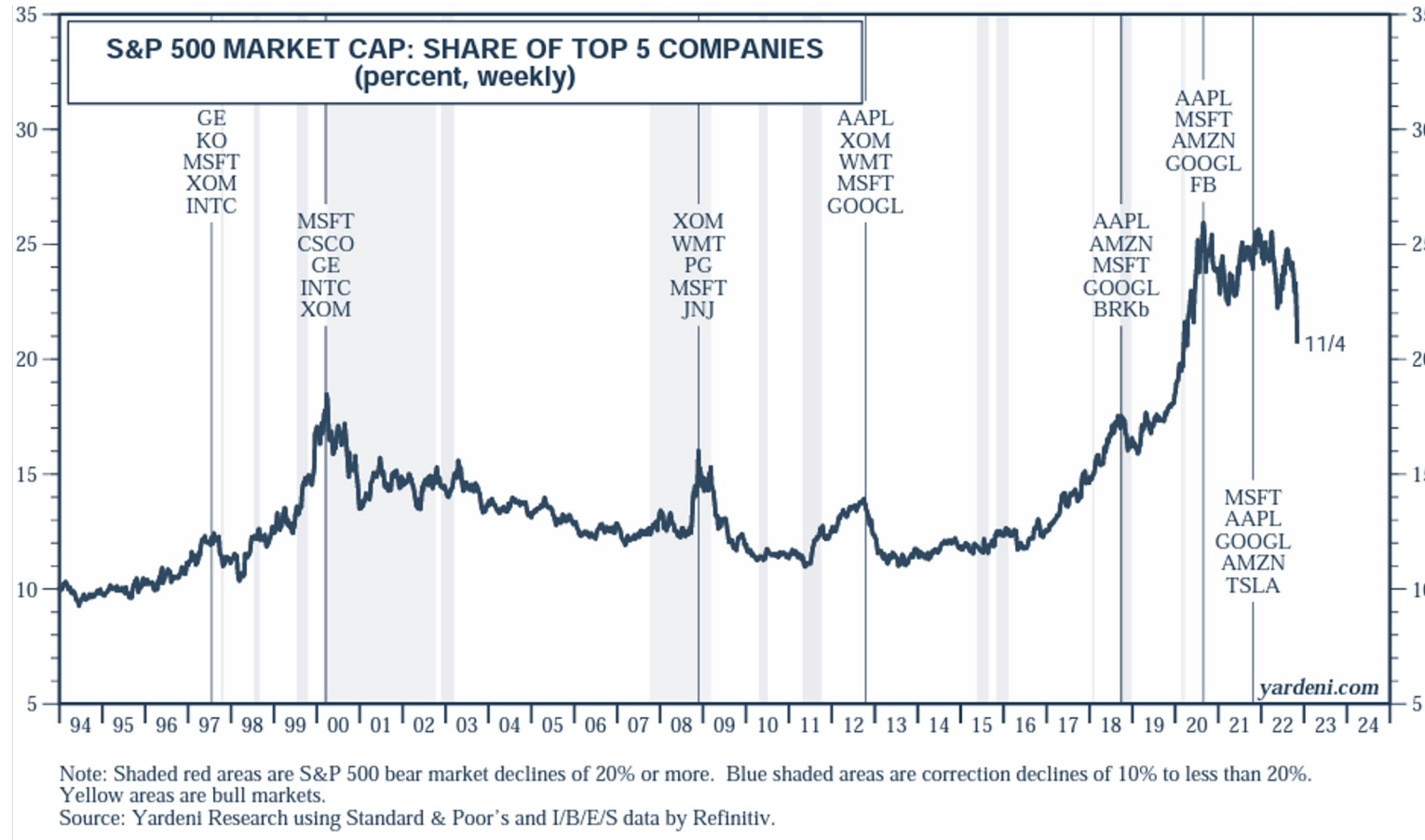
Last several years Apple has been an easy call.



This year? Not so much.

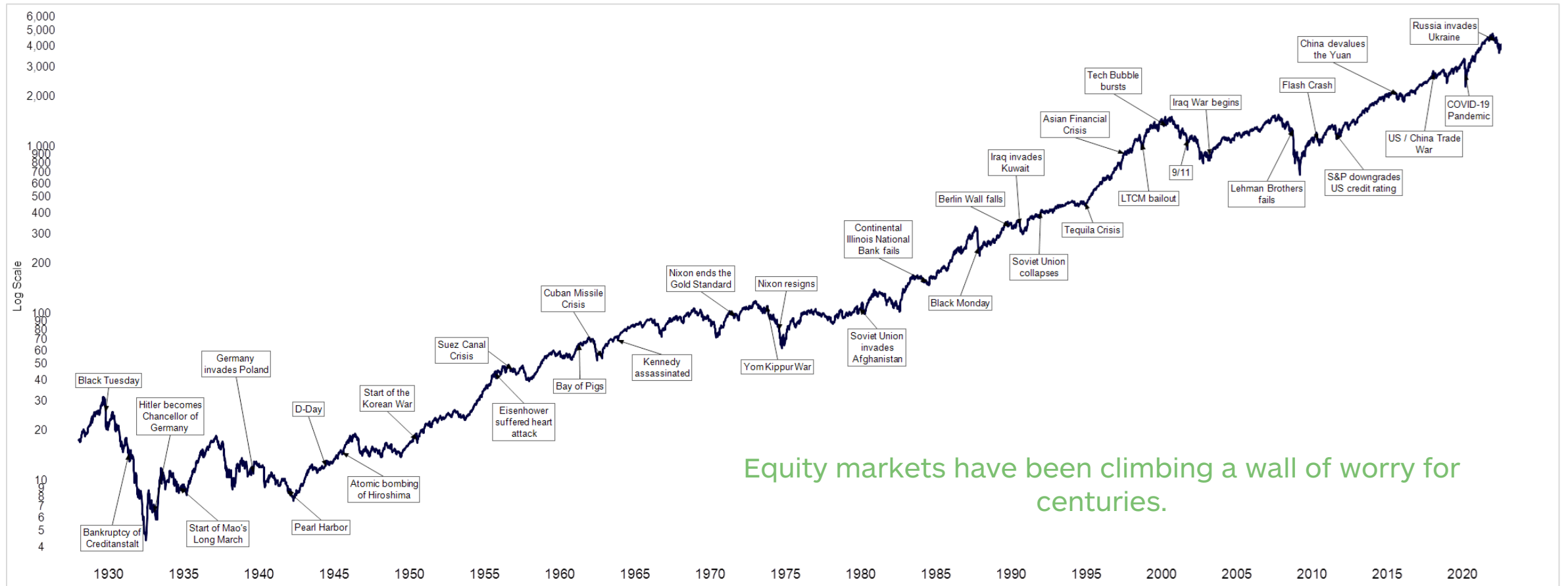
Leadership Changes Over Time

What seems obvious today is only so in hindsight . . .



So, What Do You Do?

In investing, a tie goes to the bulls

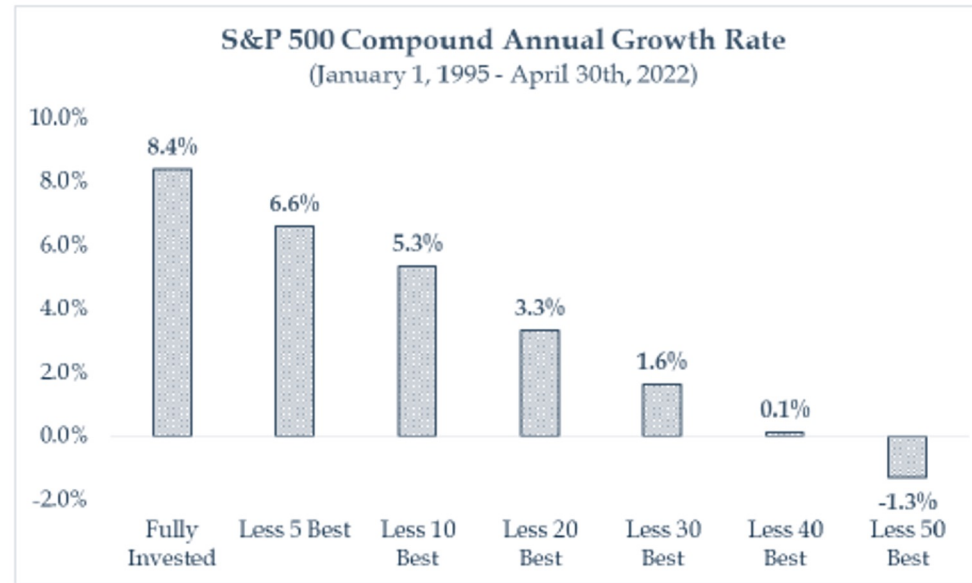


So, What Do You Do?

Balance the positives and the negatives

Time In The Market More Important Than Timing The Market

The daily swings in the equity markets can be uncomfortable to stomach, but staying the course is often the best approach. With the best and worst performing days often clustered near one another, trading in and out of the market can create missed opportunities. After all, compounding over time is the most powerful tool many investors have when it comes to markets.





THANK YOU

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