



# 4Q 2022 Investment outlook: More anticipated turbulence for a turbulent year

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## Quarterly Outlook

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### Executive summary

With capital markets experiencing year-to-date losses across most major asset classes, investors are wondering how much more downside risk exists in both economic trajectory and asset prices. Our team has incorporated a framework we call the “two repricings,” which centers on the two biggest investment drivers we are watching: Interest rates and economic growth. The first repricing represents how asset classes respond to central bank policy changes, which have moved from ultra-accommodative to restrictive. As the U.S. Federal Reserve (Fed), the European Central Bank, the Bank of England and other central banks have raised interest rates to thwart inflation, lower-risk and shorter maturity government bonds that carry higher compensation become more attractive to investors. The investment implication is riskier asset classes like equities and real estate sell off and reprice lower as investors demand more compensation for those categories relative to higher-yielding, safer alternatives.

The second repricing reflects how assets react should the global economy weaken. We anticipate slowing consumer activity due to higher prices, waning savings and still-underwhelming labor market participation. Governments have shifted from fiscal support to restraint, dollar strength and weak international demand may stifle exports, and businesses anticipating less consumer activity may withhold aggressive budgeting plans. These aggregate dynamics suggest

lower economic growth and weakening corporate revenue and earnings. Lower corporate sales and earnings typically translate into price pressure for both stocks and bonds.

While we must respect a wide range of outcomes, we anticipate a bias toward lower prices for stocks and bonds. Central banks raising interest rates into an economic downturn has traditionally posed challenges for riskier asset classes. If inflation remains sticky, central banks may need to continue raising interest rates and the first repricing may continue. Should the economic downturn gain steam, corporate cash flows may diminish and impact how much investors are willing to pay for those cash flows. In the sections that follow, our most senior investment professionals share our forward views. While we anticipate risks outweighing opportunities in the very near term, the investment pendulum can shift too far and present benefits to patient investors. As always, please do not hesitate to reach out if we can answer any questions pertinent to your unique situation.

### Global economic views

#### Global central banks are focused on inflation at the expense of growth.

Inflation continues to grip capital markets. While higher interest rates and lower commodity prices should ease price pressures in coming quarters, global inflation rates are unlikely to meet global central bank targets until well into 2023, if not later. Supply constraints and strong

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U.S. consumer balance sheets likely support higher underlying goods and services prices despite central banks' open commitment to restraining inflationary pressures. High prices reduce volumes of goods consumers and businesses can purchase, which likely reduces economic growth into next year. The International Monetary Fund forecasts a risk of a modest global recession in our future depending on the path of global central bank interest rate increases, a resolution to global supply constraints for key goods and how quickly price pressures ease.

### **A strong U.S. labor market is balancing inflation headwinds.**

Two quarters of U.S. economic contraction to start 2022 leaves many investors wondering if the economy faltered just as the Fed lifted interest rates to battle inflation. Real economic growth (with "real" defined as net of inflation) probably remains slow into 2023 but seems unlikely to repeat the economic contraction starting this year. The strong U.S. labor market, rising wages and robust consumer balance sheets should support domestic consumer spending into year end. Additionally, inventory destocking drove much of the first half contraction in the United States. Replenishing those inventories, especially if some supply constraints ease, should lift the economy.

Inflation remains a meaningful headwind for spending growth, though recent declines in commodity prices and the housing market slowdown should mean we have passed peak inflationary levels. However, inflation data is likely to remain well above long-term average levels as prior home price and rental

increases work through the system. Additionally, supply constraints remain a challenge to lower prices, such as the limited availability of autos and other goods. The path of Fed interest rate increases, inflation surprises and corporate margin pressures are key risks to the future economic story.

### **High energy costs are shifting developed economies into low gear.**

Europe and Japan both eked out positive economic growth over 2022's first half. Consumer budgets are under duress from high energy costs in the wake of the Russia/Ukraine crisis and supply chain constraints. The European Central Bank's (ECB) shift to more restrictive policies via interest rate increases should further dampen economic prospects. Recession risks are on the rise in Europe as the economy prepares for potential winter heating shortages. The Bank of Japan (BoJ) appears likely to hold fast to its easy monetary policy, willing to tolerate inflation to keep economic growth in positive territory. A resolution to the Russia/Ukraine crisis is a key swing factor in the economic narrative for developed global economies.

### **High food and energy prices are hitting emerging market economies hard, while China is also suffering from rolling coronavirus lockdowns.**

Ongoing COVID lockdowns in China, the Russia/Ukraine conflict and inflation pressures are dampening economic growth across emerging market economies. Economic sanctions against Russia for the conflict with Ukraine lifted global commodity prices, driving food and energy prices higher, hurting fragile emerging market consumers. Major emerging market central banks,

including Korea, Taiwan, India, Brazil and Mexico, are raising interest rates to dampen price pressures through slower demand growth. Inflation pressures around most emerging market economies are slowly easing as growth slows. A peaceful resolution to the Russia/Ukraine conflict could provide some input cost relief for these economies.

China has seen little inflation this year, with its regional lockdown practice around coronavirus infections dampening economic growth. The Central Committee of the Chinese Communist Party shifted priorities midyear to focus on limiting the spread of COVID, abandoning its 5.5% 2022 growth target. We have seen limited stimulus measures amid the ongoing challenges in the housing sector as debt concerns about Evergrande, a large Chinese real estate company, continue. Attention turns to the Party Congress, which kicks off October 16. The expected re-nomination of President Xi Jinping to an unprecedented third term sets the stage for potential transitions in coronavirus practices and economic growth policies. For now, slower growth appears to be the primary trend if stimulus measures remain modest and coronavirus lockdowns continue.

### **U.S. equity markets**

#### **Inflation's persistence and the path forward for interest rates are keys to equities' return potential as 2022 concludes and we look ahead to 2023.**

Inflation levels and interest rates influence equity valuations, or the price investors are willing to pay for anticipated earnings. Together, elevated inflation and rising interest

rates cause investors to demand higher compensation; higher inflation erodes the purchasing power of dividend payments and earnings streams while rising interest rates makes higher-yielding safer assets such as U.S. Treasuries more attractive. Investors' higher compensation demand causes the price-to-anticipated earnings ratio to compress, resulting in increased volatility and more subdued returns. This phenomenon describes investors' experience so far in 2022. The S&P 500, representing the broad domestic large-cap equity market, ended the third quarter down 24.8% for the year, with 10 of 11 S&P 500 sectors in negative territory. Similarly, the index was down 5.3% in the third quarter, with only two sectors (Consumer Discretionary and Energy) posting gains amid investors' shifting assessment whether the Fed may slow its interest rate hiking campaign. We expect this volatility to remain more the norm versus exception until the pace of inflation subsides.

**Analysts continue to project positive earnings growth in 2022 and 2023, but they have modestly adjusted forecasts lower in recent weeks.**

Corporate earnings remain both a bright spot and a wild card. Consensus analysts' S&P 500 earnings estimates for 2022 and 2023 are roughly \$223 and \$240 per share, respectively, according to Bloomberg, FactSet Research Systems and S&P Capital IQ, representing year-over-year growth of approximately 7.5%. While consensus earnings projections have held up reasonably well during 2022, higher input costs, wage pressures and supply chain shortages represent ongoing challenges to companies'

profit margins. Third quarter results and management guidance beginning this month will provide key insights into the magnitude of margin pressures and overall earnings visibility.

Valuation remains in "a zone of okay." The current S&P 500 price-earnings ratio is roughly 16 times forward-looking 2022 earnings estimates and 14.9 on 2023 estimates, both close to historical averages. To us, this implies current valuations are fair, neither at high nor low extremes.

**Cyclical and defensive sectors are of near-term appeal while inflation runs hot.**

The Energy, Materials and Industrials sectors tend to benefit from positive inflationary trends. Energy is a standout, benefiting from economic recovery and supply/demand disruptions, partially attributed to the Russia/Ukraine conflict's impact on hydrocarbon supplies. While energy companies' valuations have become somewhat high following the recent runup in prices, the sector remains attractive for investors looking to maintain exposure to companies that tend to benefit during periods of economic strength, with compelling dividend yields and dividend growth rates. These sectors will likely underperform during recessionary periods.

Healthcare and Utilities have defensive characteristics, both offering relatively stable growth profiles throughout varying economic environments, with many associated companies offering compelling dividend yields. Healthcare is favorably positioned to benefit from long-term demographic trends, while Utilities is the second-best performing sector year-to-date behind Energy.

We favor Utilities that have an overall diversified revenue stream, including a bias toward renewables.

**Secular growth sectors remain well-positioned for longer-term growth.**

Strong secular growth sectors, where technological advancements and demographic trends drive longer-term demand, have largely underperformed in 2022, with higher interest rates increasing borrowing costs and driving economically sensitive equity prices lower due to concerns associated with reduced demand, supply chain challenges and overall slowing in the pace of revenue and earnings growth. While the near-term outlook for secular-growing sectors remains unclear, we continue to like the longer-term prospects for companies in several growth sectors, particularly for investors looking toward 2023 and beyond, taking advantage of lower valuations following year-to-date price declines.

Information Technology is a longer-term favorite. Fast is getting faster, and speed, scale and efficiencies do not occur without technology. Additionally, the interaction of artificial intelligence, machine learning, e-commerce, cloud computing, data security and analytics provide a platform for new tools and outcomes that favorably position companies within the Technology sector.

Consumer Discretionary is composed of companies with varying outlooks. We favor companies that have an internet presence, require or encourage in-store traffic and rank high on experiential metrics. Near-term, big-box retailers seem to be in the process of right-sizing their inventory levels following pandemic-related disruptions. Additionally, yet

to be determined are impacts from higher food, energy and interest rate costs on the all-important upcoming holiday sales period.

Communication Services is a bifurcated sector, split between telecommunications and media related companies. We favor the growth-oriented media companies that are moving to online platforms where customer targeting and analytics, in many cases, provide better returns compared to traditional media sources.

### Foreign equity markets

**Uncertain supplies, surging energy prices and rising interest rates present a challenging backdrop for Europe's near-term growth prospects, supporting our cautious overall outlook for foreign equities.**

The ongoing Russia/Ukraine conflict, elevated food and energy prices and central banks tightening monetary policy amid growth slowdown concerns continue to weigh on investors' sentiment toward equities globally, with foreign developed markets suffering the largest sentiment declines. Since the beginning of the year, the price investors are willing to pay for anticipated 2022 earnings (known as the price/earnings ratio) for the MSCI EAFE Index (representing 21 developed market countries across the world, excluding the United States and Canada) has declined 28%, versus a 23% decrease for U.S. equities (measured by the S&P 500 Index) and a 16% drop across emerging market equities.

Non-U.S. equities' relative underperformance reflects investors' demand for higher compensation (paying lower prices for anticipated

earnings) in order to take on European equity price risk. Foreign developed corporate profits remained resilient in 2022's first two quarters, with companies proving generally successful in passing on rising costs to consumers and weaker domestic currencies relative to the U.S. dollar providing a competitive price advantage for Europe and Japan's multi-national firms. However, analysts' earnings estimates for the remainder of 2022 and into 2023 remain at risk for downward revisions with third quarter reporting season set to begin. High energy prices due to Europe's tenuous hydrocarbon supply along with elevated food prices continue to erode European consumers' confidence and discretionary spending ability, evidenced by declining retail sales volumes compared to a year ago. The combination of higher interest rates, higher energy prices and more constrained consumers may ultimately impair companies' sales growth and profit margins, potentially leading to downgraded earnings growth expectations and further weakness in asset prices.

**The Russia/Ukraine conflict has resulted in disparate consumer inflationary experiences around the globe, reinforcing our view that return opportunities exist despite the challenges facing foreign developed markets.**

Foreign developed markets encompass a geographically diverse country set, including 21 economies across three continents (Asia, Europe and Australia). While continental Europe faces material headwinds described above, the outlook and investment opportunities across the full region are more mixed. Norway

and Australia, for example, benefit from high commodity prices such as oil, natural gas, coal, industrial metals and foods. Most notably, Japan is much less dependent on Russian oil and gas imports than Europe. In 2020, Japan imported 8% of its natural gas from Russia, according to the Japan Ministry of Economy, Trade and Investment, while Russia provided 40% of Europe's natural gas needs, according to Eurostat.

Japan is experiencing much lower inflationary pressures than the U.S. and Europe, leading to differentiated policy outcomes. While U.S. inflation surged to a 40-year high of 9.1% in June, (and Europe's July inflation rose to the highest level since the introduction of the single currency in 1999), Japanese inflation remains a relatively subdued 2.6%. Wages are growing modestly in Japan, rising 1.8%, while consumer inflation expectations remain low due to decades of experiencing little price inflation or outright deflation. Due to relatively contained inflation, the Bank of Japan remains highly supportive of the economy via negative interest rates and ongoing asset purchases, sharply contrasting with aggressive monetary policy tightening by the Fed and other major central banks. Finally, a weakening currency continues to provide a tailwind for Japanese export earnings; as a result, analysts have revised Japanese equities' full year 2022 earnings estimates upward by 14% and 2023 by 9% since the start of this year.

**China's Party Congress may unlock major policy catalysts for emerging markets.**

The Chinese Communist Party will hold its 20th Congress beginning October 16. The Party Congress elects



China's central governing committee, which then selects a smaller decision-making body known as the Politburo and ultimately chooses the General Secretary to lead the party (and the country) for a five-year term. Policy analysts widely anticipate the Congress will elect President Xi Jinping to an unprecedented third five-year term and, absent a surprise outcome, the Party Congress does not set up to be a major capital market-moving event. Rather, investors' attention will focus on two key policy outcomes that will drive emerging market equity fortunes through the end of 2022 and into 2023: COVID and inflation.

First, after ensuring leadership continuity by re-nominating President Xi to a third term, a key investor consideration is whether Chinese authorities make any changes to the strict virus containment policies, known colloquially as "zero-COVID," that continue to constrain domestic activity and disrupt global supply chain linkages. Recent lockdowns of major hubs such as Shanghai, Chengdu and Shenzhen impaired consumer and business sentiment, highlighting policymakers' challenges in balancing COVID spread while supporting economic growth and prosperity. An easing of zero-COVID restrictions (similar to Japan) or a successful rollout of a new, domestically developed COVID vaccine represent potential positive post-Party Congress catalysts that would improve Chinese as well as global demand and supply prospects.

Second, like Japan, Chinese inflation remains subdued relative to the U.S. and developed economies, with August consumer prices rising 2.5% versus a year ago. Meanwhile, youth

unemployment rose to a record high of 20% in July. Addressing contained inflation and painfully high youth joblessness, post-Party Congress monetary and fiscal policy will likely remain highly accommodative, contrasting with continued policy tightening evidenced in other major economies. Strong fiscal and monetary policy support leading to accelerating money supply and credit growth, improving consumer and business sentiment, and renewed infrastructure investment would provide strong positive drivers for improved investor sentiment and earnings growth across the Asia-Pacific region.

### Fixed income markets

#### **High-quality bonds can help bolster portfolios during volatile capital market periods.**

Rising Treasury yields (which move in the opposite direction of bond prices) and higher yields for corporate and municipal bonds compared to Treasuries mean improving high-quality fixed income return opportunities. Decelerating economic growth, elevated but decelerating inflation and restrictive monetary policy support the defensive characteristics of investment-grade bonds.

Two-year Treasury yields rose by 3.5% to 4.26 and 10-year maturities rose 2.5% to 3.81, reflecting investor expectations the Fed will raise its short-term funding rate to around 4% by year-end and to 4.3% in the first half of 2023, from just 0.25% to start the year, to combat high inflation. However, investors may generate significant volatility in yields as they digest the Fed's challenging policy initiative to slow inflation without

significantly damaging economic growth. Furthermore, the Fed doubled the net amount of bond maturities from its balance sheet in September, now foregoing reinvestment of up to \$95 billion in maturing Treasury and mortgage bonds each month. This may eventually strain market liquidity conditions as other investors must absorb the new supplies of Treasuries and mortgage-backed securities. Short-term (meaning the bonds mature more quickly) Treasury bonds can help investors mitigate interest rate sensitivity, since their prices fluctuate less when Treasury yields change. We believe high-quality core bond exposure remains a critical component of diversified portfolios, particularly during times of heightened stock market volatility like now.

#### **High-quality corporate bonds offer attractive yields and are less susceptible to slowing growth, tightening financial conditions and deteriorating investor sentiment.**

Improving earnings growth paired with cheap borrowing costs in recent years strengthened corporate finances and should help limit defaults in a slower growth environment. However, riskier bond prices remain vulnerable to marginal deterioration in credit fundamentals if earnings weaken. The recent increase in downgraded issuers' credit ratings also poses a risk if investor risk appetite worsens. A tilt toward higher-quality bonds, which typically generate stable cash flow from healthier issuers, offer opportunities to collect meaningful income relative to recent history while defensively positioning portfolios.

#### **Mortgage bonds not backed by the government and reinsurance can supplement portfolio income with**

### **less sensitivity to investor sentiment and typical business cycle risk.**

Despite higher mortgage rates slowing the housing market, recent home price increases bolstered collateral values backing mortgages. Low debt servicing costs from cheap fixed rate refinancing in 2020 and 2021 paired with a strong labor market have also limited mortgage delinquencies. The reinsurance category, also referred to as insurance-linked securities, offer attractive yield and can aid in portfolio diversification given their limited relationship with the broader economic cycle.

### **Real asset markets**

#### **Rising borrowing costs may offset positive income in the real estate market, pressuring property prices and hampering returns.**

Publicly traded real estate securities trailed the S&P 500 during the third quarter, generating returns of -10.8%. Property market fundamentals, such as tenant vacancy rates and property income, continue to be net positive. However, rising interest rates hurt underlying property values and raised borrowing costs, especially in the secular growth sectors of data centers and industrial properties, leading to substantial underperformance in those sectors.

Nationally, vacancy rates are still declining across most property types and income growth is rising, but at a slowing rate. We expect income growth to remain above average in 2022 before tapering off to more average levels in 2023 and beyond. However, accelerating interest rate increases could threaten property prices. Income relative to property values has risen from all-time

low levels, improving Real Estate valuations. Additionally, lenders continue to provide reasonable credit terms for property investment. For example, commercial mortgage interest rates—borrowing costs—are below the average earnings yield on Class A property (typically highest-quality buildings in a location). The increase in interest rates is compressing the spread between mortgage rates and property earnings yields, shrinking the buffer protecting property prices.

#### **Economic uncertainty creates an opportunity for stable infrastructure assets paying consistent dividends, but rising interest rates will continue to impact returns.**

Global infrastructure investments comprise the vital backbone of business, trade and transportation. Industries include electric- and gas-generating utilities, energy storage and transportation, toll roads, airports, railroads and even communications assets, such as cellular phone towers. Infrastructure trailed the broader market by 2.7% in the third quarter. High energy costs hit global transportation assets, while energy infrastructure benefited from higher prices and more limited supplies. Utilities also benefited as investors sought more stable cash flows amid fears of profit margin compression in the equity market. Entering the fourth quarter, stock market volatility and challenging total returns for fixed income imply investor demand for quality assets paying large and stable dividends remains high.

#### **Decelerating global economic growth should provoke downside pressure to commodity prices.**

Energy and precious metals led broad commodity markets lower in the third quarter. Gasoline fell 32.3%, crude oil dropped 24.8%, and gold slipped 8%, while the Bloomberg Commodity Index was down only 4.1%. While Russian sanctions reduced the oil and natural gas supply, decelerating economic growth is normally a headwind for prices — slower growth typically equals less demand. Energy prices balance between tight supplies, slowing growth and potential relief from a conclusion to the Russia/Ukraine conflict. Gold, in the meantime, remains under pressure from rising global interest rates and the rising U.S. dollar. Typically, gold is considered a safe haven asset in times of conflict and uncertainty, but the battle against inflation by global central banks flattened investor demand and may drive prices lower into year end.

### **Alternative investments**

#### **Hedge funds are protecting the downside better than in recent market corrections.**

Hedge funds are delivering a wide range of returns this year but on balance are navigating the current market volatility well. As a group, they are capturing more upside and protecting against the downside better than in recent market corrections. The current environment remains conducive for hedge fund strategies such as long-short investing (buying some stocks long and selling some stocks short) with individual stock prices moving significantly and not always in the same direction. However, hedge fund managers must navigate similar macroeconomic challenges facing investors: Concerns about inflation, interest rates and the

potential for recession. We noted last quarter that we anticipate more active trading and defensive positioning in the second half of the year. Hedge fund managers reacted to this summer's market volatility by further reducing leverage and net market exposure (the difference between long and short positions) compared to the start of the year. Hedge funds with lower net exposures comprised some of the best-performing strategies this year. We anticipate this defensive posturing will continue as long as the Fed remains committed to raising interest rates to fight inflation.

While hedge fund managers may continue to keep their overall market exposure low, that stance does not mean they will avoid taking risks. We anticipate more funds will pursue targeted opportunities rather than broad market allocations such as identifying specific stocks to sell short or increasing their portfolio concentration in an individual long position. These strategies require managers to monitor liquidity (the ability to find a party to take the other side of a securities trade), popular or overly crowded trades and appropriate position sizing. We also see hedge fund managers revisiting underperforming sectors with a discerning eye; for example, managers have recently eschewed semiconductor stocks in favor of payment and software companies within the Technology sector. Managers have also increased their exposure to Chinese-domiciled companies through securities issued in the United States, positions that were unprofitable for many managers last year, while additional market pullbacks may encourage some managers to position portfolios broadly for

potential upside volatility. While we retain our positive sentiment for hedge funds in this environment, managers' nimbleness and agility will continue to be critical for navigating the markets for the remainder of the year.

### Private markets

#### **Private markets are diverse and so are their outcomes thus far in 2022, similar to divergences seen in other capital market asset classes.**

Last quarter we discussed how private markets showed resilience through the two most recent major market downturns, the technology-led crash of 2000-2002 and the global financial crisis of 2007-2009. To date, private markets are exhibiting similar resilience despite public market volatility and economic uncertainty regarding global central banks' resolve in fighting inflation. The rapid rise in short-term interest rates kicked off the first leg of this market repricing, causing a repricing in all other asset classes. In this first repricing phase, private market business fundamentals across our portfolios remained resilient. However, as market sentiment turned bearish and investors moved capital away from riskier and more growth-oriented businesses, consumer internet and late-stage software companies felt the most immediate impact. These growth-oriented businesses experienced the biggest price gains when central bank and fiscal policies were more accommodative and ample liquidity was seeking sources of higher investment returns. Not surprisingly, with the Fed and other central banks pursuing restrictive policies at an accelerating rate to combat rampant inflation, these companies are bearing the brunt of price declines.

#### **Business fundamentals should drive private market outcomes.**

Performance is ultimately a function of how efficiently a company converts investment capital to revenue and free cash flow. This comes down to business fundamentals and execution. During the first half of the year, business fundamentals remained resilient despite public stock market volatility. However, business executives' priorities have shifted from generating growth at any cost to efficient growth, making us cautious in our outlook for the upcoming quarters. As companies chose to preserve cash and extend the time before the next round of funding from investors, they invested in fewer opportunities, leading to slowing (but more efficient) growth. According to Wiss, an accounting and growth advisory firm, company founders are taking several measures to adapt to the new environment. The most common measures included raising prices (40%), freezing hiring (38%), reducing marketing (34%), scaling back product development (33%), lowering headcounts (25%) and paring salaries (21%).

Private equity firms are also taking steps to prepare their portfolio companies for the anticipated economic slowdown. These measures include hiring specialized consulting firms to design product pricing strategies to keep up with inflation, recruiting specialists to help with sourcing of goods to bring down input costs and engaging other professionals to make operations more efficient. These value creation activities rose to 74% in the first half of 2022, up from 65% in first half of 2021, according to BluWave (a marketplace

for third-party resources for private equity firms).

We continue to monitor how private markets are adjusting to the rapidly changing investment landscape and reflect on prior downturns to inform our forward expectations. Tightening monetary and fiscal policy during a period of decelerating economic growth creates the potential for

elevated market volatility. Volatility does not ensure riskier asset prices will fall and we take comfort in our investment process and expertise that in a diverse private market, the quality and execution capabilities of our investment partners can help our clients.

This commentary was prepared September 2022 and represents the opinion of U.S. Bank Wealth Management. The views are subject to change at any time based on market or other conditions and are not intended to be a forecast of future events or guarantee of future results and is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness. Any organizations mentioned in this commentary are not affiliated or associated with U.S. Bank or U.S. Bancorp Investments in any way.





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**Past performance is no guarantee of future results.** All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. **The S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. **The MSCI EAFE Index** includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). **The MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. The Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is one of the most frequently used statistics for identifying periods of inflation or deflation. **The Bloomberg Commodity Index** tracks prices of futures contracts on physical commodities in the commodity markets and is designed to minimize concentration in any one commodity or sector.

**Equity securities** are subject to stock market fluctuations that occur in response to economic and business developments. The value of **large-capitalization stocks** will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions. **Stocks of small-capitalization companies** involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies and may be expected to do so in the future. **Growth investments** focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends, which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. **Value investments** focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. Private capital investment funds are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund's most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. **Private equity investments** provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt investments** may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies.