WHERE WE STAND

TRANSAMERICA MARKET OUTLOOK
SEPTEMBER 2022

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Transamerica Asset Management, Inc.

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Insurance / Investments / Retirement

THE WALL OF WORRY

War in Ukraine

Inflation

Rising Interest Rates

Recession Fears

Declining Earnings

WHERE WE STAND: SEPTEMBER 2022

U.S. ECONOMY: We see the US economy as being challenged to achieve positive gross domestic product (GDP) growth for CY 2022 following a first half of net economic contraction. We see the odds of a more widespread recession as better than 60% over the upcoming year with the probability of a prolonged and severe downturn approximately 20%.

INFLATION: We believe core (ex food and energy) rates of inflation are likely to moderate into the sub 4% range by year end as Federal Reserve rate hikes slow demand, supply chain bottlenecks loosen to some degree and the labor market begins to slacken.

U.S. STOCKS: We maintain our year-end price target of 4,050 on the S&P 500. We believe market volatility and price variability will remain high in 2H 2022 as key factors such as inflation, Fed policy, economic and earnings growth play out in the months ahead. Following more favorable developments regarding these uncertainties in the months ahead we believe stocks could be setting up well for 2023.

INTEREST RATES: We see the Fed continuing to be aggressive in their efforts to curb inflation in the months ahead and believe the Fed Funds Rate is likely to conclude the year at 3.75%. We believe the 10-year Treasury rate will likely finish at approximately 3.50% reflecting a fully inverted yield.

CREDIT AND INCOME: Though default rates are likely to pick up in the months ahead, we believe they will remain below long-term averages and that income-oriented investors may want to take advantage of current high yield and investment grade bond yields now at levels close to double those of a year ago.

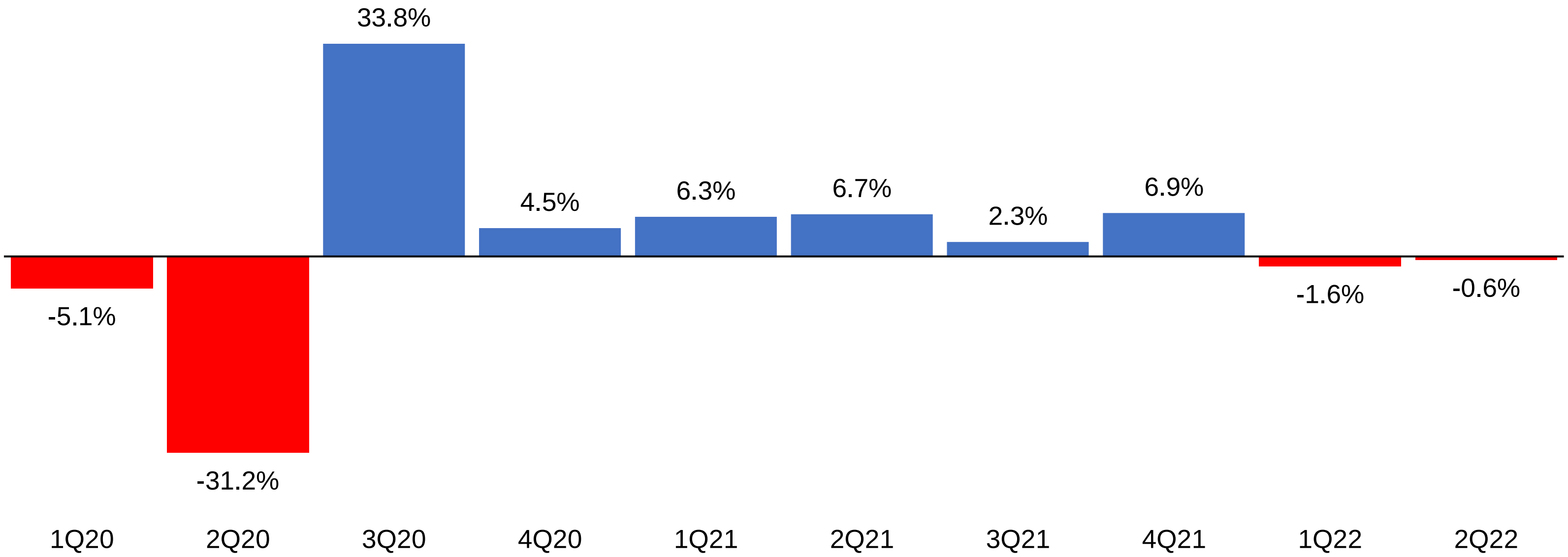
INTERNATIONAL STOCKS: While clearly patience and tolerance for volatility will be required, we believe investors should still consider international developed and emerging equities as strong long-term diversifiers to US stocks as their risk-return profiles could now be somewhat favorable based on discounted valuations and the premise most feared bad news is currently fully priced in.

WHERE WE STAND: U.S. ECONOMY

We see the US economy challenged to achieve positive GDP growth for CY 2022

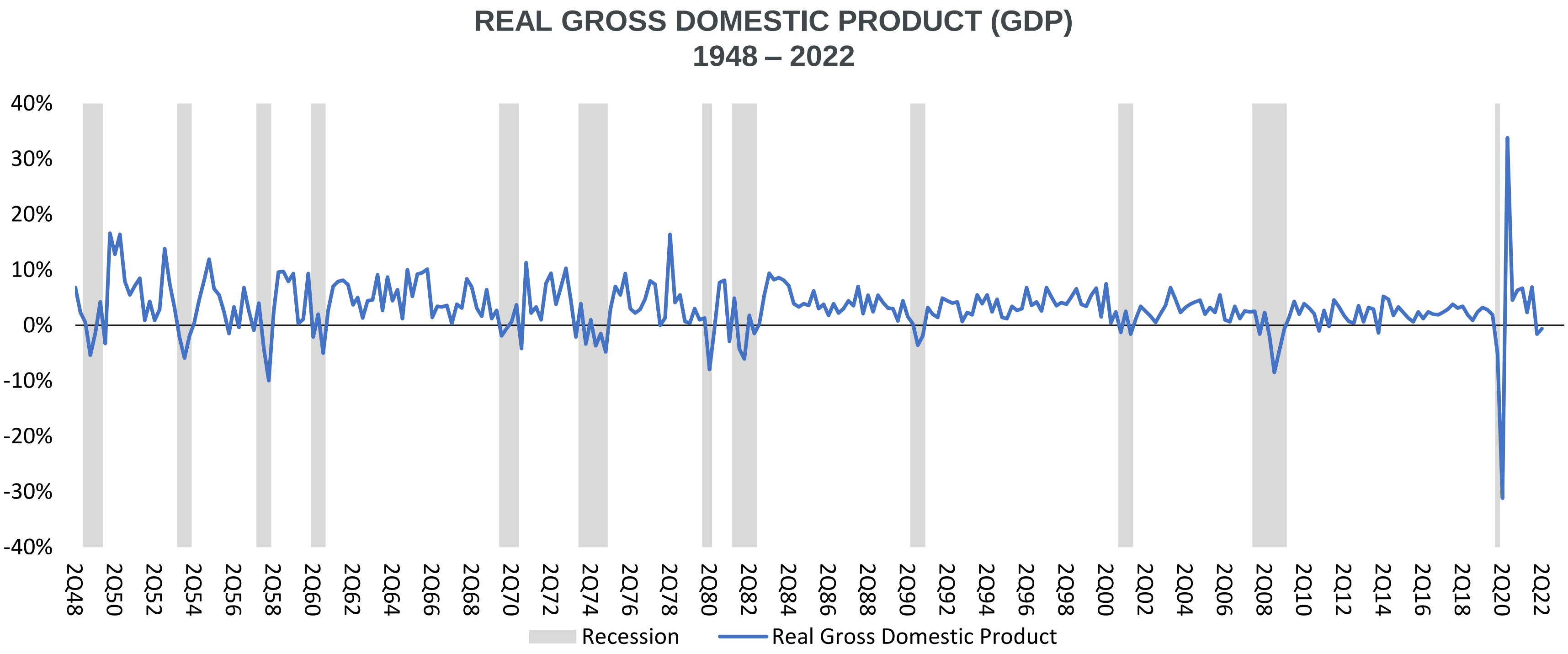
- We see the odds of a widespread recession as better than 60% over the upcoming year with the probability of a prolonged and severe downturn approximately 20%.
- We believe core (ex food and energy) rates of inflation are likely to moderate into the sub 4% range by year end as Federal Reserve rate hikes slow demand, supply chain bottlenecks loosen to some degree and the labor market begins to slacken.
- All considered we view a moderate recession in the year ahead as more likely than a prolonged and severe one

U.S. GDP SINCE PANDEMIC ONSET



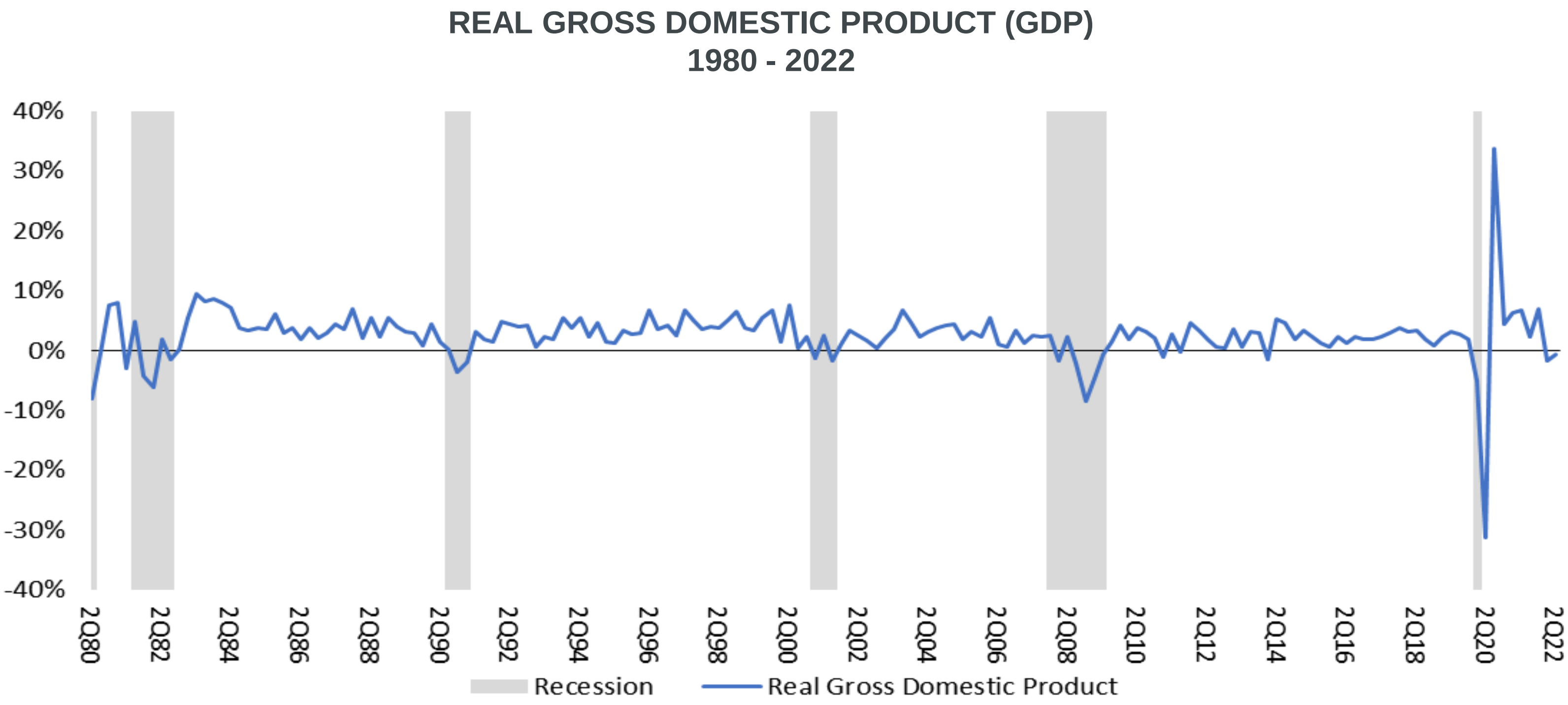
Source: Bureau of Economic Analysis. As of 6/30/22

U.S. ECONOMY RECESSIONS SINCE 1947



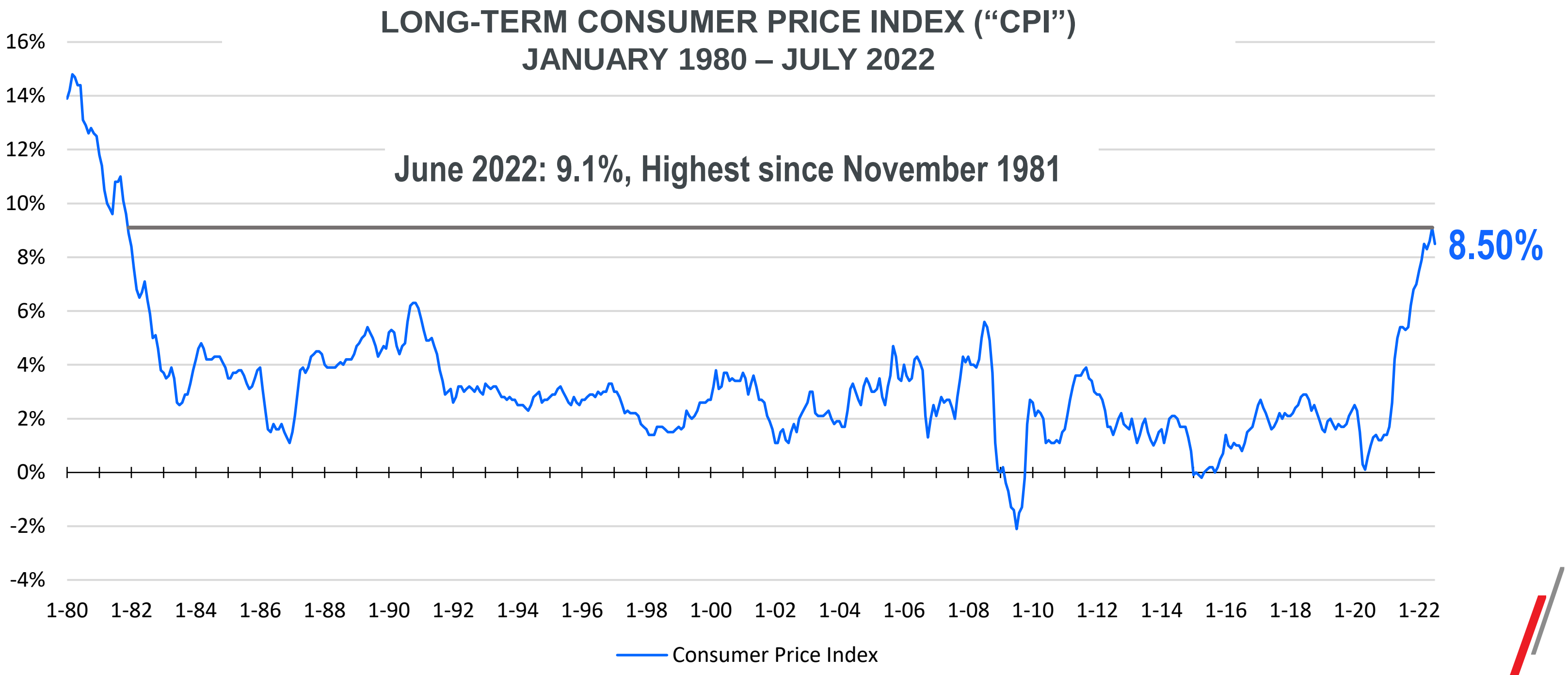
Source: Bureau of Economic Analysis, National Bureau of Economic Research. As of 6/30/22

U.S. ECONOMY RECESSIONS SINCE 1981



Source: Bureau of Economic Analysis, National Bureau of Economic Research. As of 6/30/22

INFLATION AT MULTI-DECADE HIGHS



Source: Bloomberg, as of 7/31/2022

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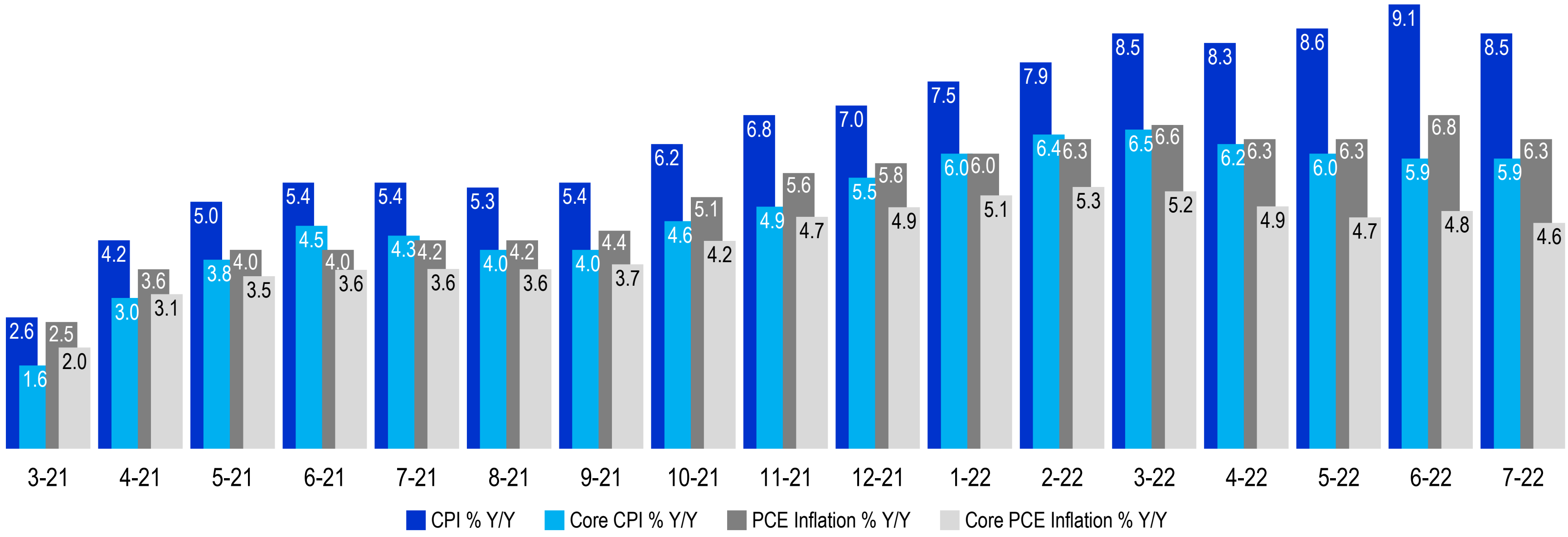
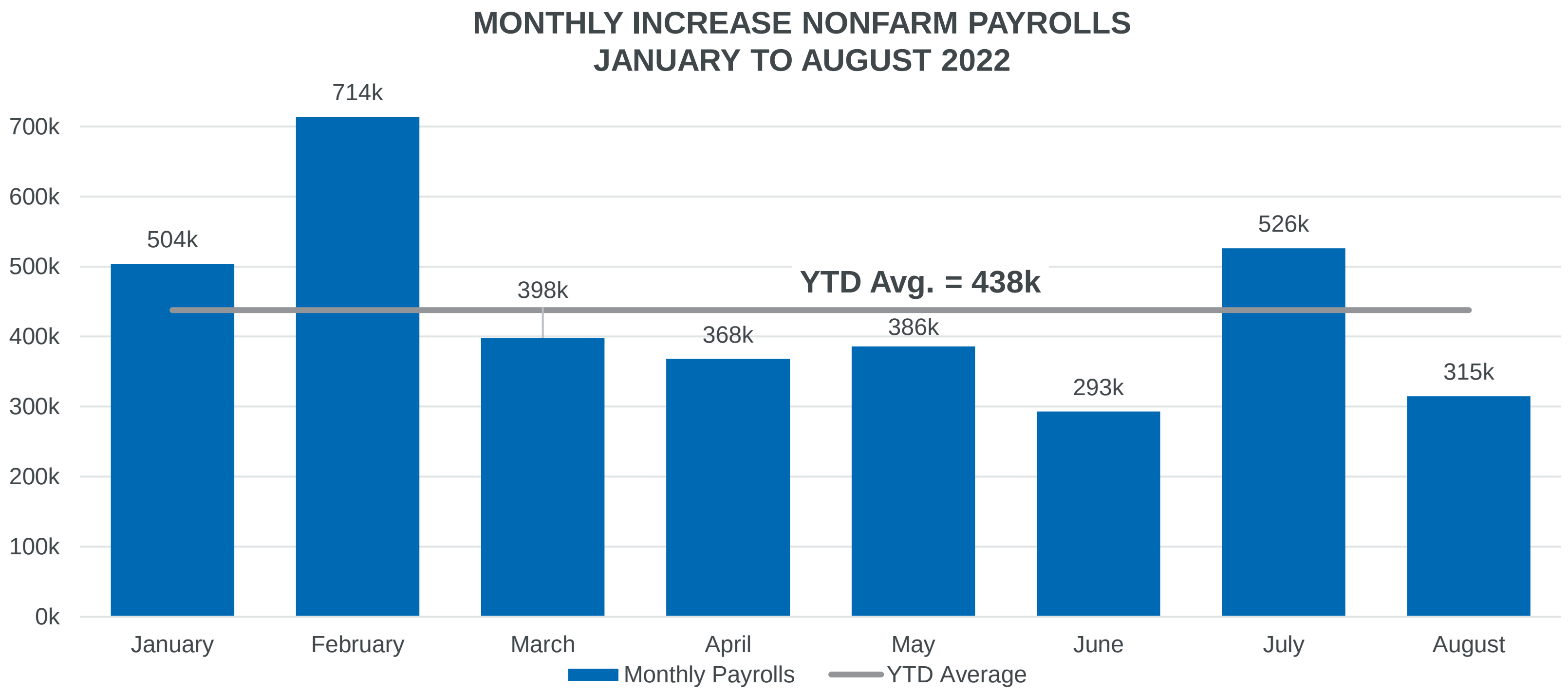
INFLATION MARCH 2021 – JULY 2022

CONSUMER PRICE INDEX (“CPI”)
PERSONAL CONSUMPTION EXPENDITURES PRICE DEFLATOR (“PCE”)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

JOB GROWTH REMAINS STRONG



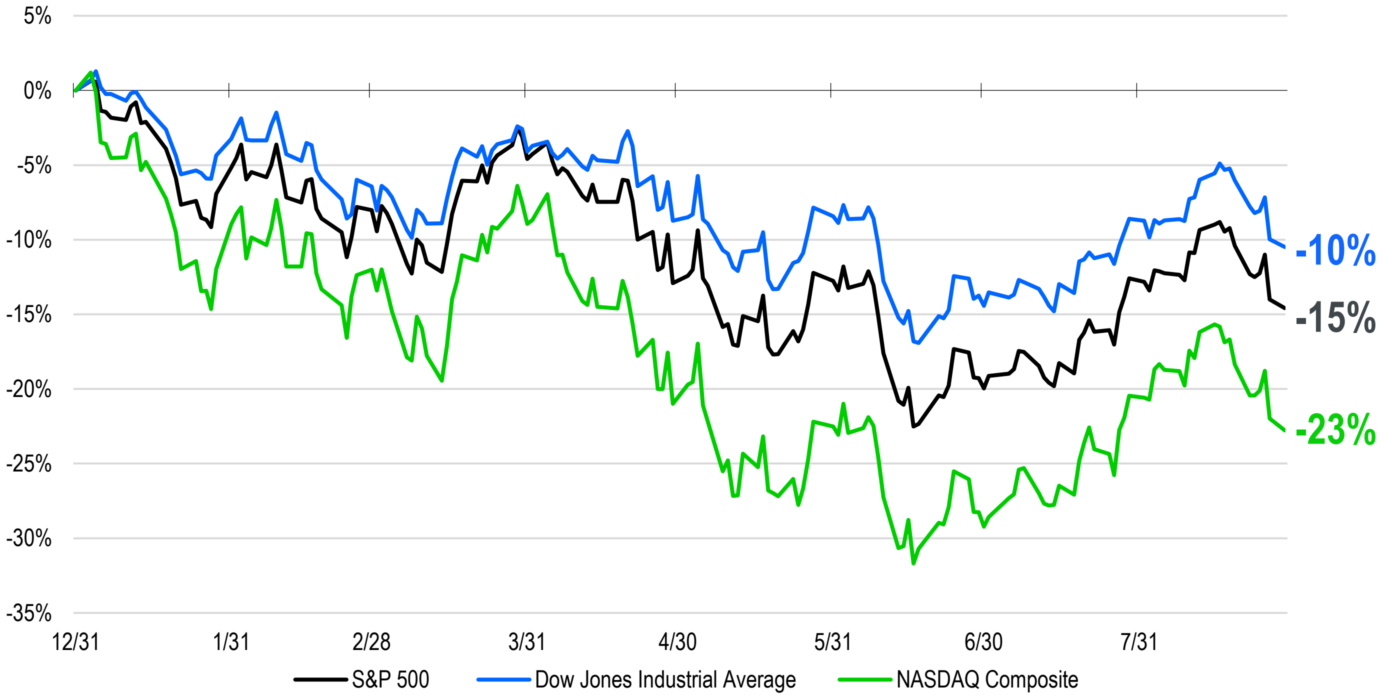
Source: U.S. Bureau of Labor Statistics, September 2, 2022.

WHERE WE STAND: U.S. STOCKS

We maintain our year-end price target of 4,050 on the S&P 500 though market volatility and price variability could remain high in the months ahead

- We believe market volatility will remain high as key factors such as inflation, Fed policy, economic and earnings growth play out in the months ahead.
- Following more favorable developments regarding these uncertainties in the months ahead we believe stocks could be setting up well for 2023.
- We continue to favor value stocks rather than growth as the ongoing inflationary and interest rate environment further plays out.

BEAR MARKET: MAJOR STOCK INDEXES



The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

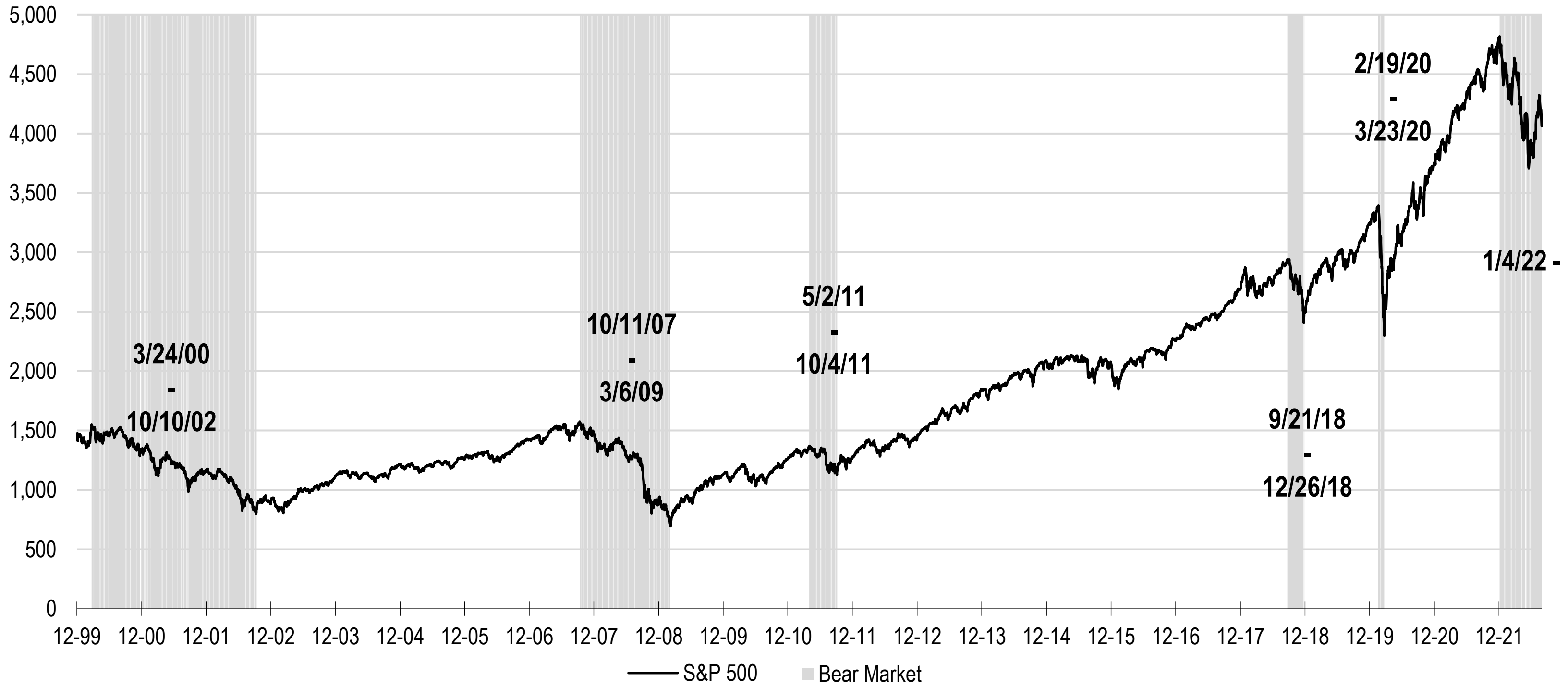
S&P 500®: A market-capitalization weighted index of 500 large U.S. companies with common stock listed on the New York Stock Exchange or NASDAQ Stock Market.

Dow Jones Industrial Average: a market that shows how 30 large, publicly owned companies based in the U.S. have traded during a standard trading session in the stock market.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and considered a broad indicator of the performance of stocks of technology and growth companies.

Source: Bloomberg. As of: 8/29/2022.

BEAR MARKETS SINCE 2000



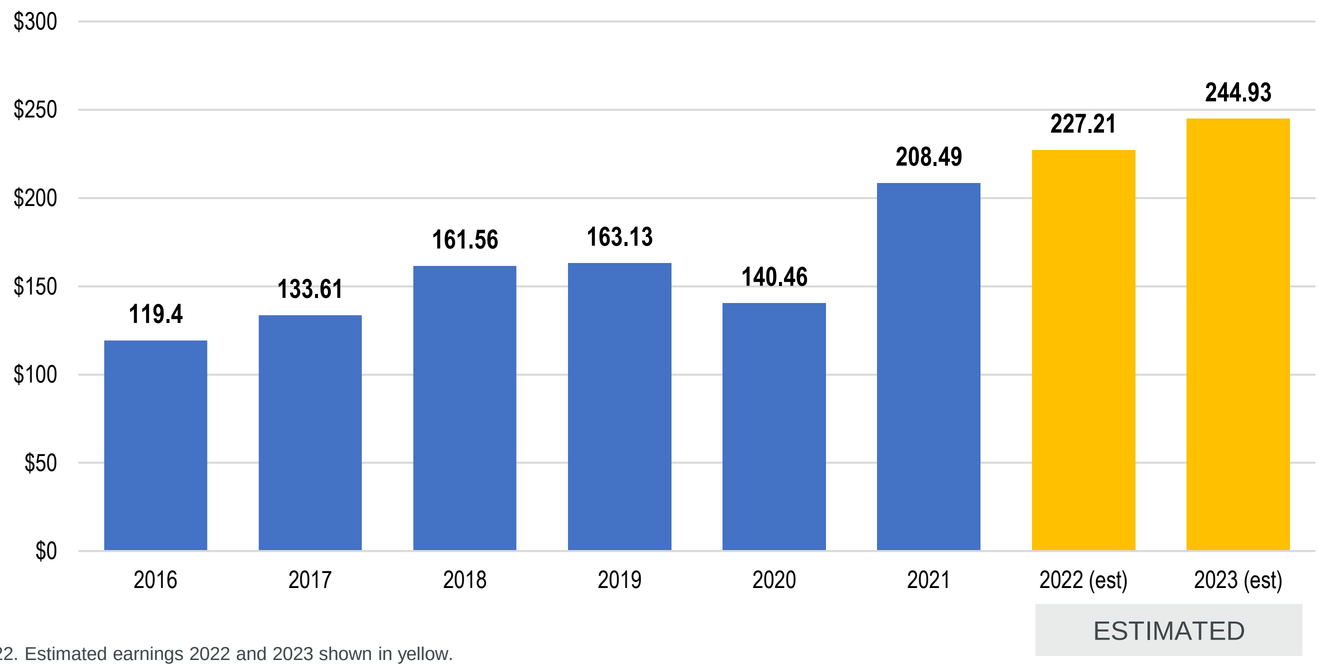
Source: Bloomberg. As of: 8/29/2022

ACTUAL AND ESTIMATED CORPORATE EARNINGS GROWTH

S&P 500 NET OPERATING INCOME
CALENDAR YEARS 2016 – 2023

- **S&P 500 Bottom-Up Earnings Per Share 2016 – 2021**
- **Estimated Earnings 2022 – 2023**

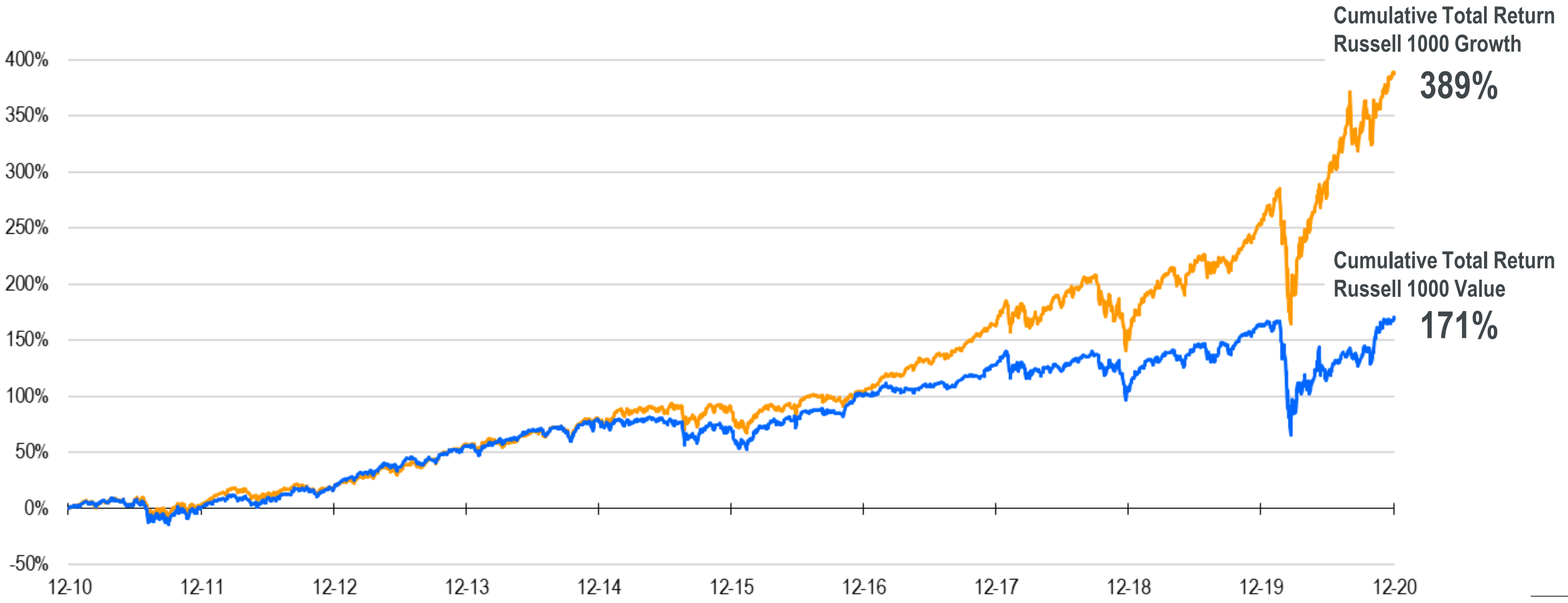
  (FactSet Earnings Insight, August 5, 2022)



Source: FactSet Earnings Insight, August 5, 2022. Estimated earnings 2022 and 2023 shown in yellow.

VALUE VS. GROWTH

GROWTH STOCK OUTPERFORMANCE 2011 – 2021



Source: Bloomberg.

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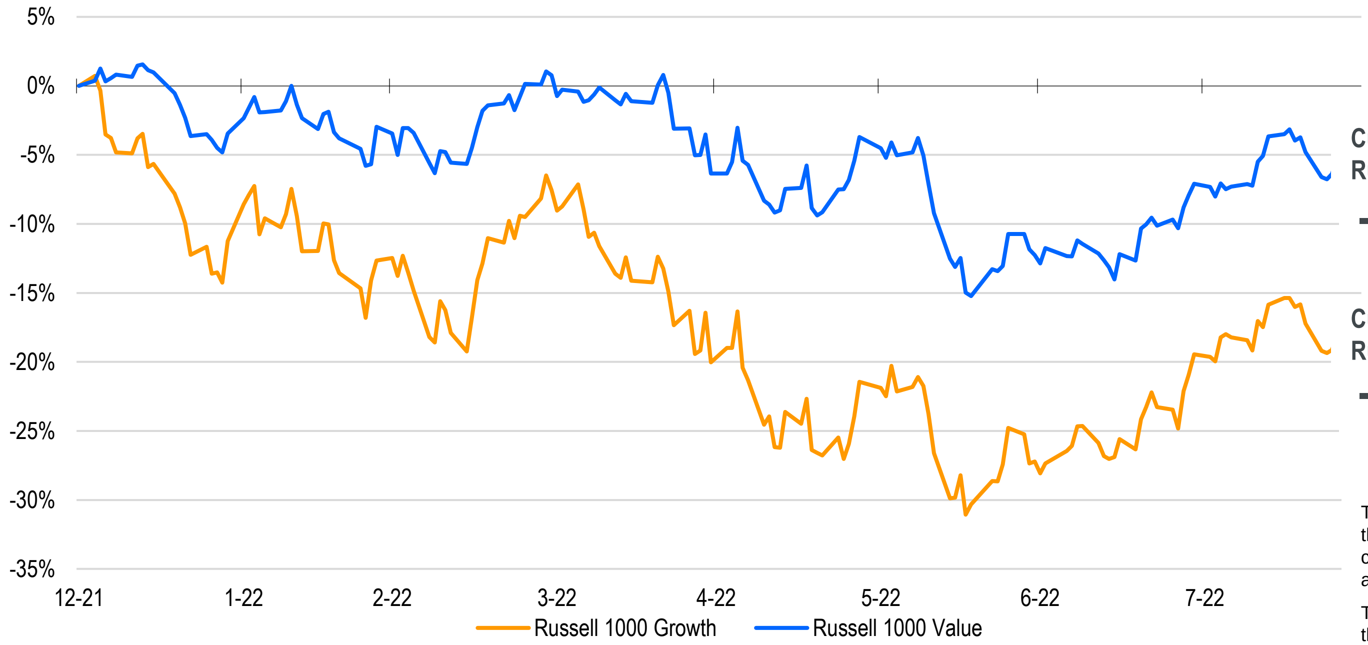
VALUE VS. GROWTH

VALUE STOCK OUTPERFORMANCE YEAR TO DATE



Cumulative Total Return Russell 1000 Value

-8.2%

Cumulative Total Return Russell 1000 Growth

-21.7%

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.

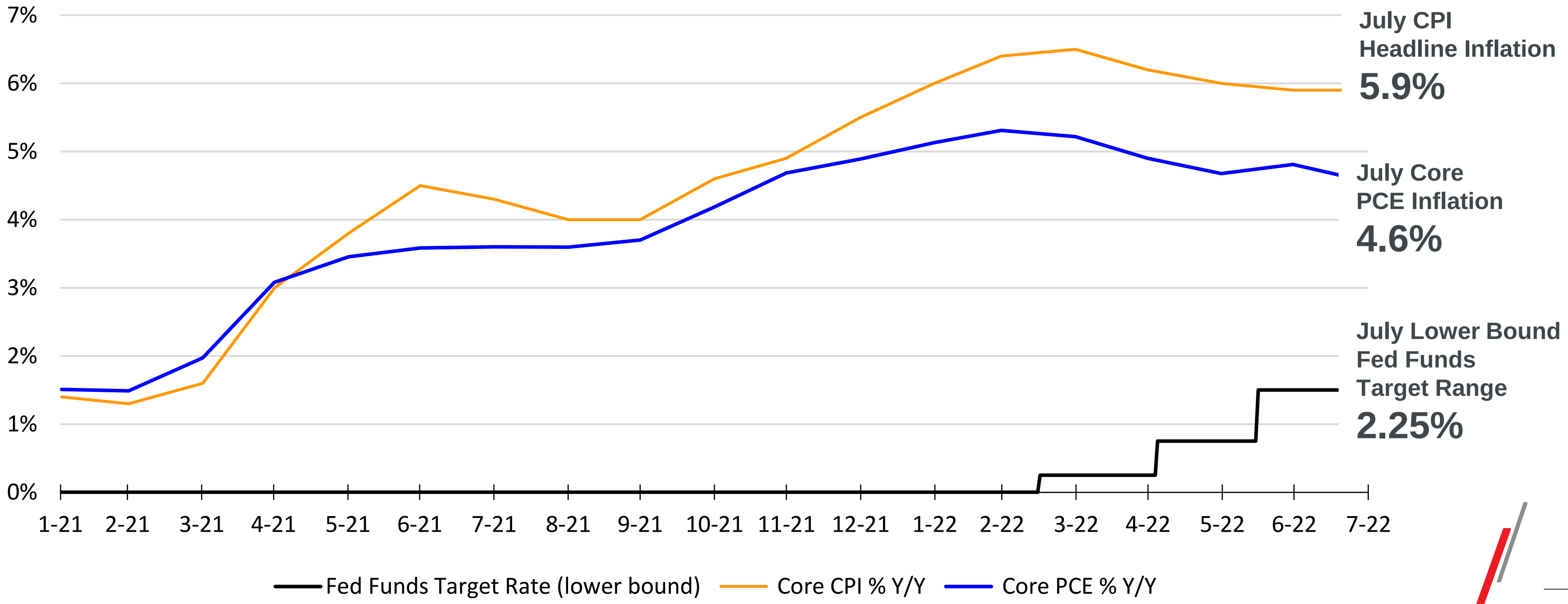
Source: Bloomberg. As of 6/17/2022

WHERE WE STAND: INTEREST RATES

We see the Fed continuing to be aggressive in their efforts to curb inflation between now and year-end

- This will likely entail an additional 1.5% of rate hikes at the upcoming three Federal Reserve Meetings between now and year end
- As the Fed increases the pace of reducing its $9 trillion balance sheet to more than $1 trillion annually this will likely continue to put upward pressure on longer-term interest rates.
- When taking these factors and others into account we believe CY 2022 will likely conclude with a lower bound on the Fed Funds target range of 3.75% and the 10-year Treasury yield will likely finish at approximately 3.50% reflecting a fully inverted yield.

FED STILL BEHIND IN FIGHTING INFLATION



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve. As of 7/31/22

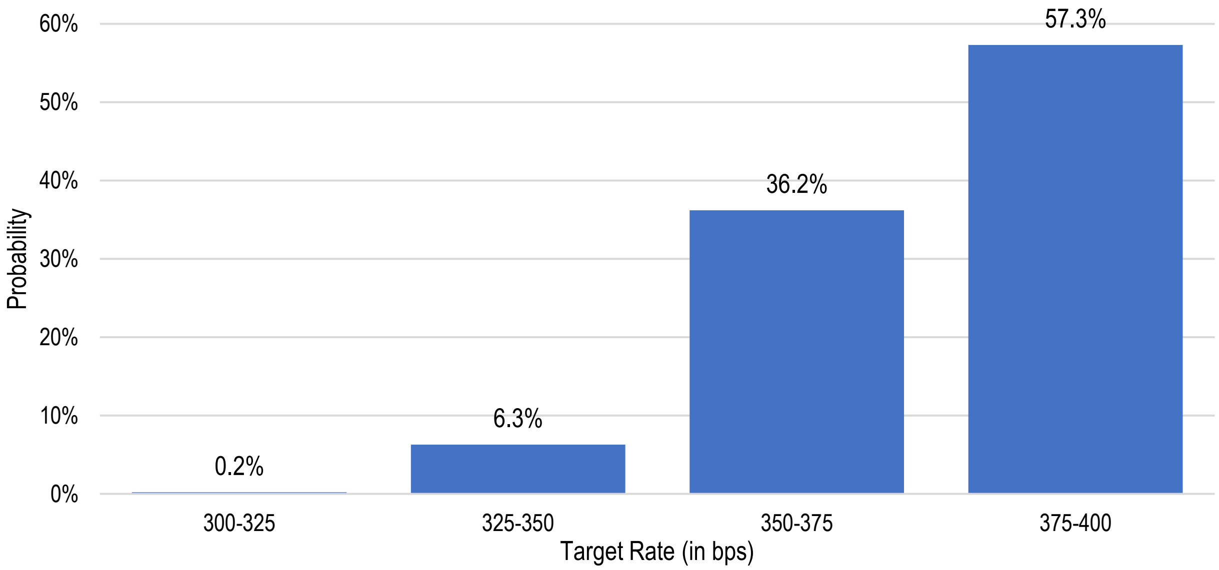
FED FUNDS RATE EXPECTATIONS

FED FUNDS FUTURES MARKET

Expected December 2022 Fed Funds Rate

Weighted Average 3.63%

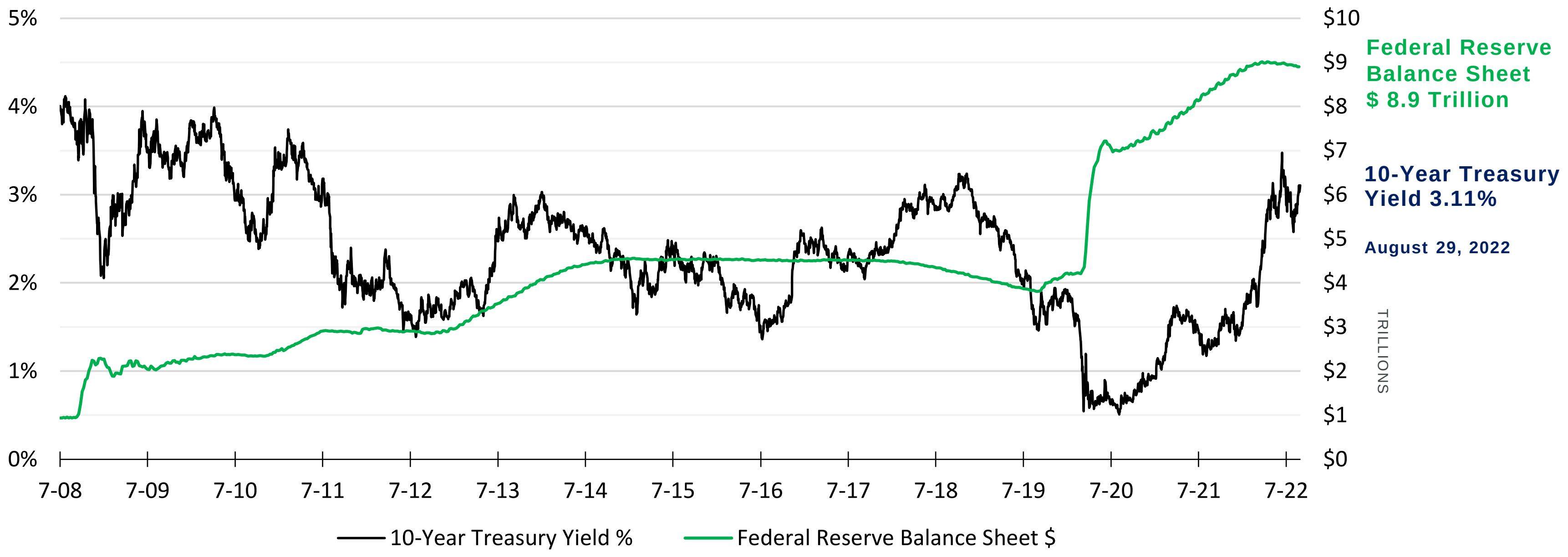
As of August 29, 2022



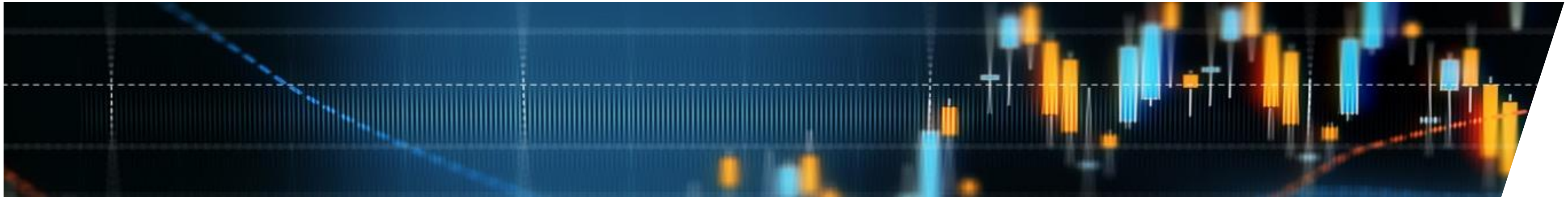
Source: CME. As of 8/29/2022

FED BALANCE SHEET AND LONGER-TERM RATES

10-YEAR TREASURY RISES AS FED BEGINS REDUCTION



Source: Bloomberg. As of 8/29/2022. The 10-Year US Treasury Bond is a U.S. Treasury debt obligation that has a maturity of 10 years.



WHERE WE STAND: INCOME AND CREDIT

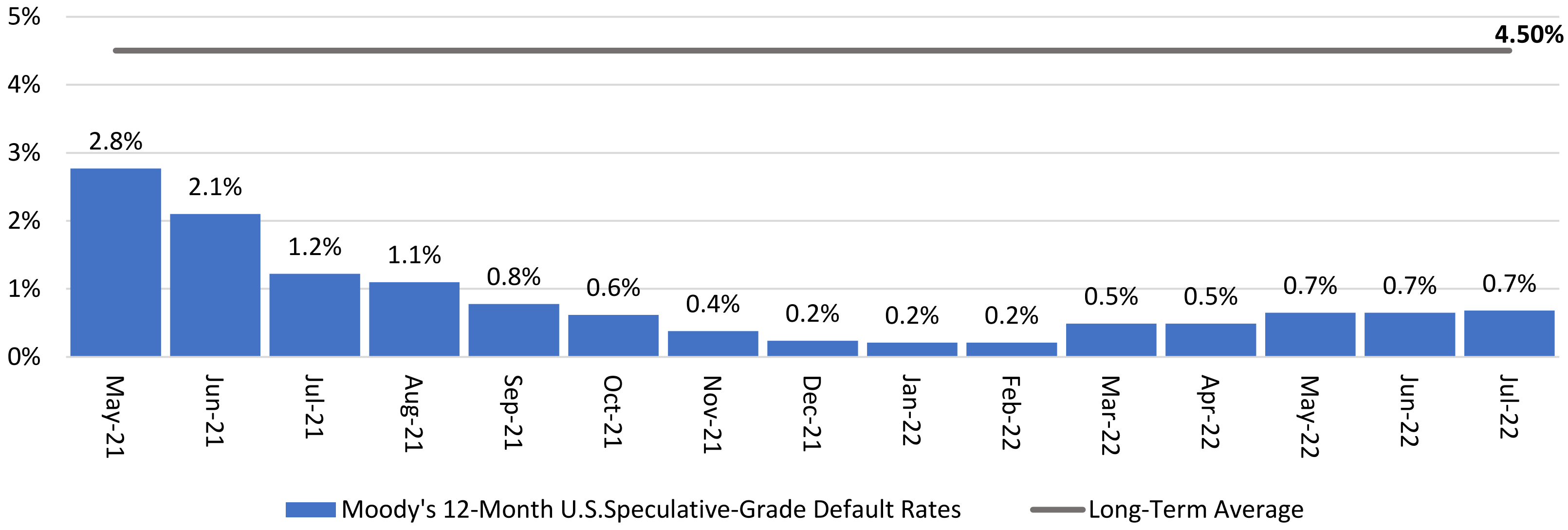
When combining recently widening credit spreads with the overall rise of interest rates since last year we would view both high yield and investment grade bonds as representing attractive yields and favorable income opportunities for bond investors.

- We would view these yield opportunities as attractive and even more so in the event core inflation rates potentially mitigate below 4% range and a prolonged and severe recession is avoided during the year ahead.
- While default rates are likely to pick up in the months ahead, we believe they will remain below long-term averages
- In taking advantage of these newer and higher yield opportunities investors may want to highly consider diversification of holdings and professionally managed portfolios.

FIXED INCOME CREDIT MARKETS

DEFAULT RATES HAVE LIKELY BOTTOMED

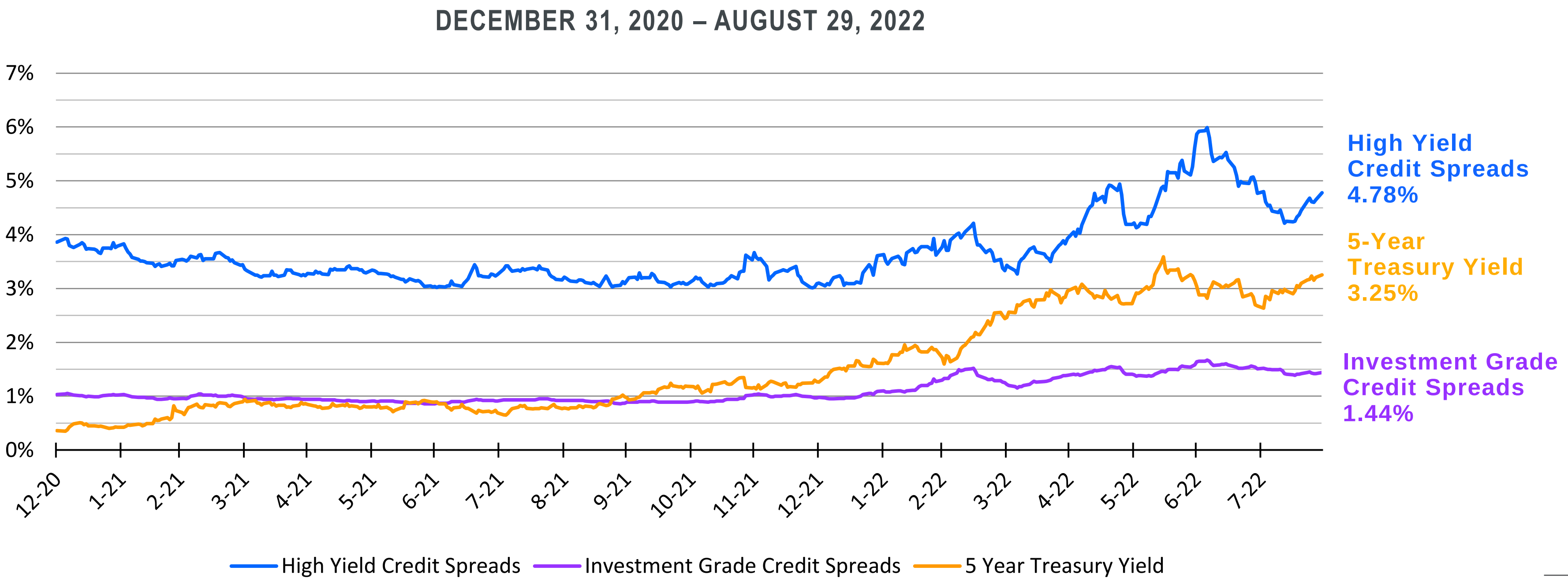
HIGH YIELD DEFAULT RATES
MAY 2021 – JULY 2022



Source: Moody's. Long-term average from Federal Reserve Bank of New York

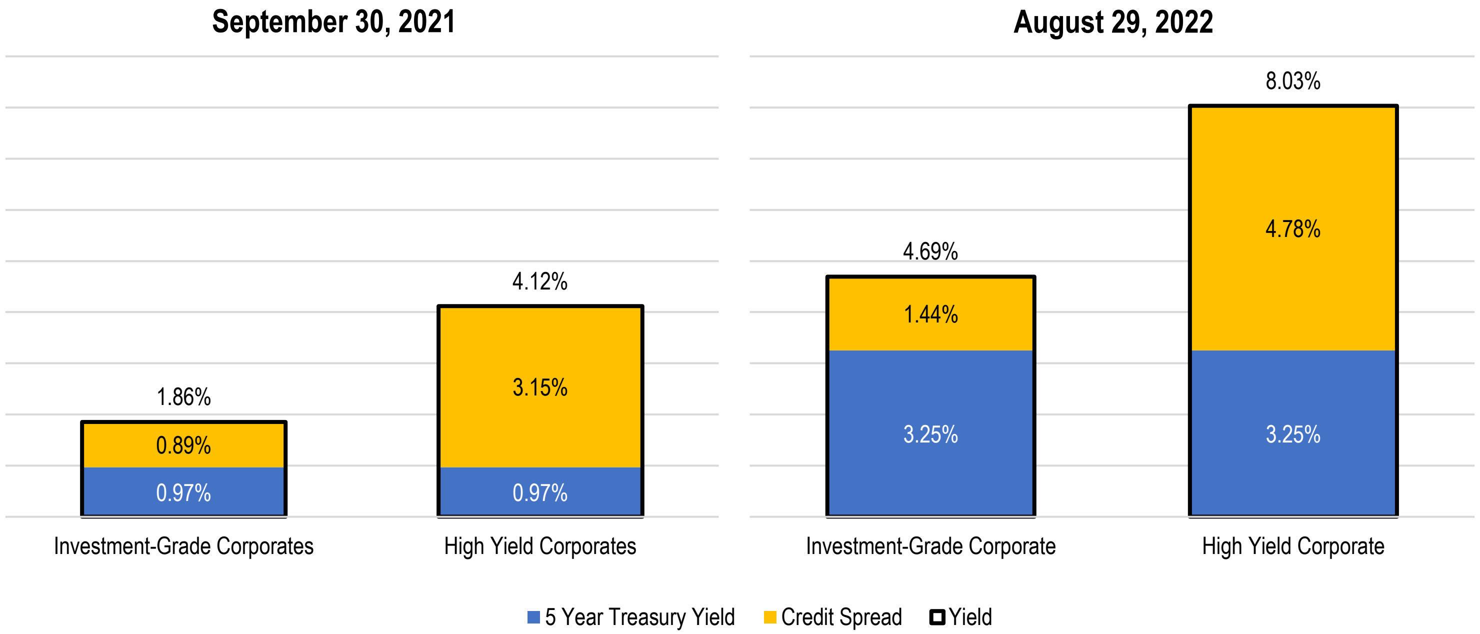
FIXED INCOME MARKETS

HIGHER INTEREST RATES AND CREDIT SPREADS



12/31/20 to 8/29/22. Source: Bloomberg

HIGHER CORPORATE BOND YIELDS



Data as of 9/30/21 and 8/29/2022. Source: Bloomberg, Ice Data Indices, LLC

WHERE WE STAND: INTERNATIONAL STOCKS

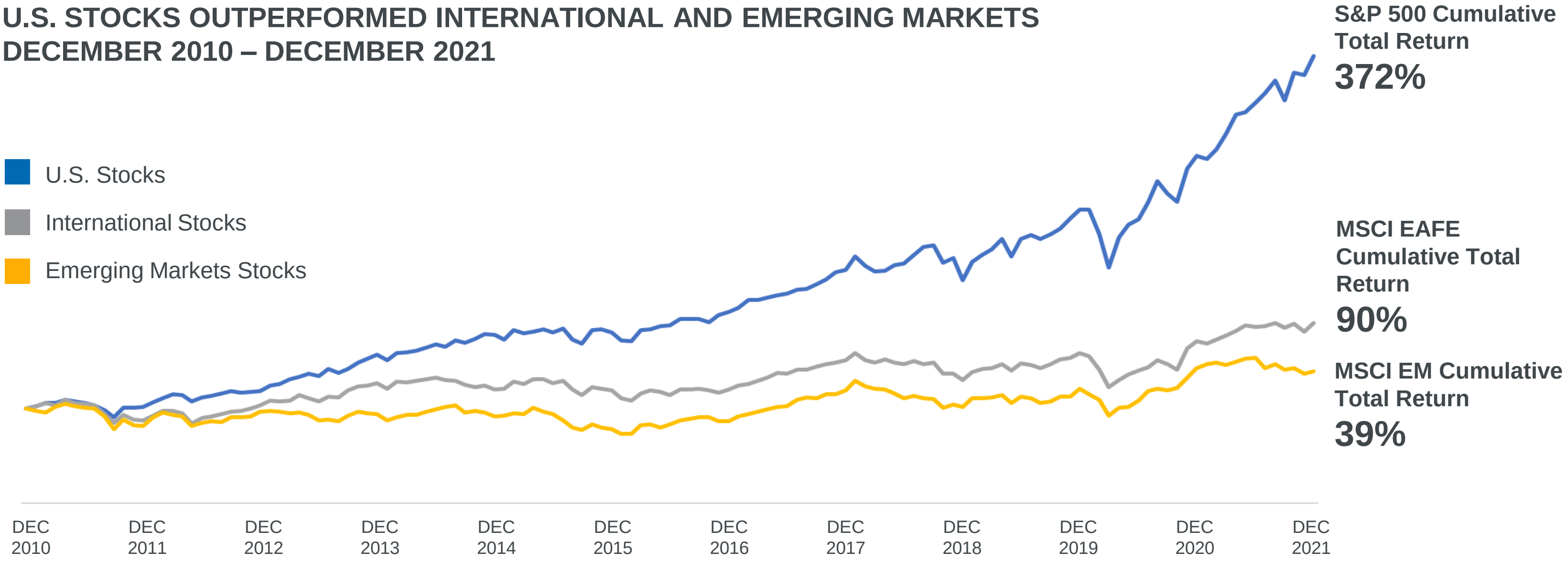
In the months ahead developed and emerging market equities will continue to face challenges

- These include the war in Ukraine, global inflation, potential recession in Europe and slowing growth in China.
- While clearly patience and tolerance for volatility will be required, we believe investors should still consider international developed and emerging equities as strong long-term diversifiers to US stocks
- Rationale for this include somewhat favorable risk reward profiles for international developed and emerging market stocks based on meaningfully discounted valuations and the premise that most feared bad news is now likely fully priced in.

INTERNATIONAL STOCKS

LOST DECADE 2011 - 2021

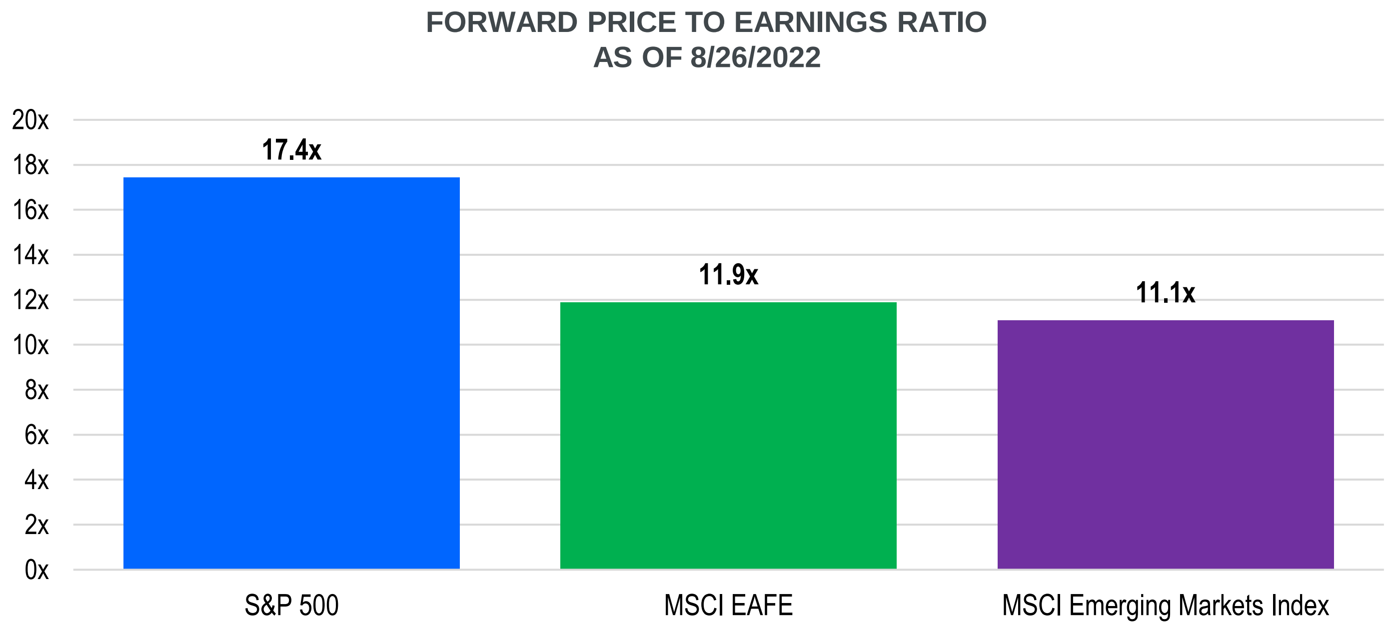
U.S. STOCKS OUTPERFORMED INTERNATIONAL AND EMERGING MARKETS DECEMBER 2010 – DECEMBER 2021



Source: Morningstar. US Stocks represented by S&P 500®. International Stocks represented by MSCI EAFE. Emerging Markets Stocks represented by MSCI Emerging Markets.

COMPARATIVE VALUATIONS

INTERNATIONAL VS U.S. STOCKS



Source: Bloomberg. As of 8/26/2022

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WHERE WE STAND PORTFOLIO POSITIONING: SEPTEMBER 2022

EQUITY

- Favor Stocks versus Bonds in Discretionary Balanced and Asset Allocation Accounts
- Favor Value Stocks versus Growth in Inflationary and Higher Interest Rate Environment
- Proportional Market Cap weighted allocation Large Cap, Mid Cap and Small Cap

FIXED INCOME

- Remain short on the curve and below benchmark durations
- Lean into Investment Grade and High Yield Bonds in higher yielding and wider credit spread environment

INTERNATIONAL

- International Developed and Emerging Market Stocks positioned for longer term opportunities
- Patience may be required as international markets work through challenges

WILD CARDS

- War in Ukraine
- Post COVID World
- Corporate Earnings
- November Elections
- Bad news already priced into markets

THANK YOU

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.

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

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.

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.

IMPORTANT INFORMATION

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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