# Economic & Market Outlook: It All Depends On Your Time Horizon

Linda A. Duessel, CFA®, CPA, CFP® Senior Equity Strategist Senior Vice President

October 2022

10.78 AP.4

ALLEY BRANK HERE

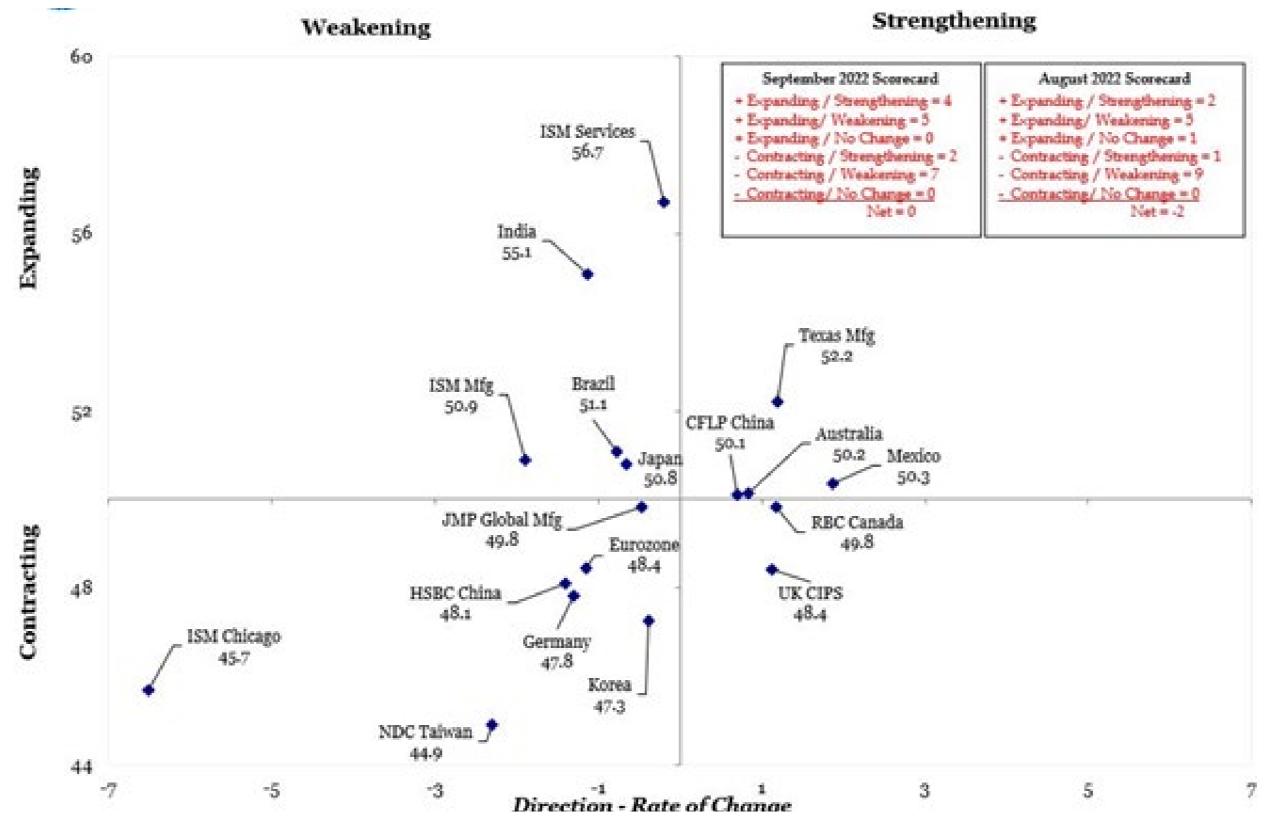
and the second -

Federated Equity Management Company of Pennsylvania



22-40575 (10/22)

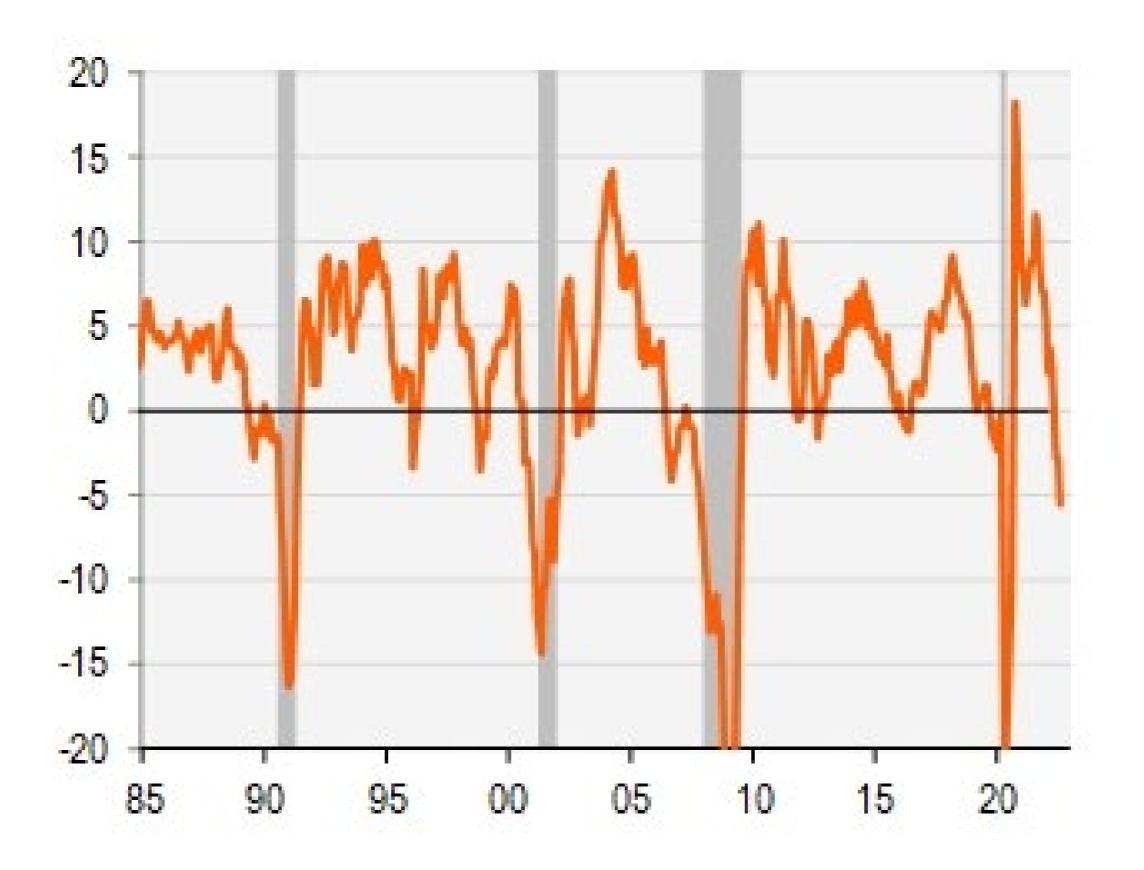
### Synchronous Global Recession. Can The U.S. Escape It?



### Global Economy Scorecard as of September 2022



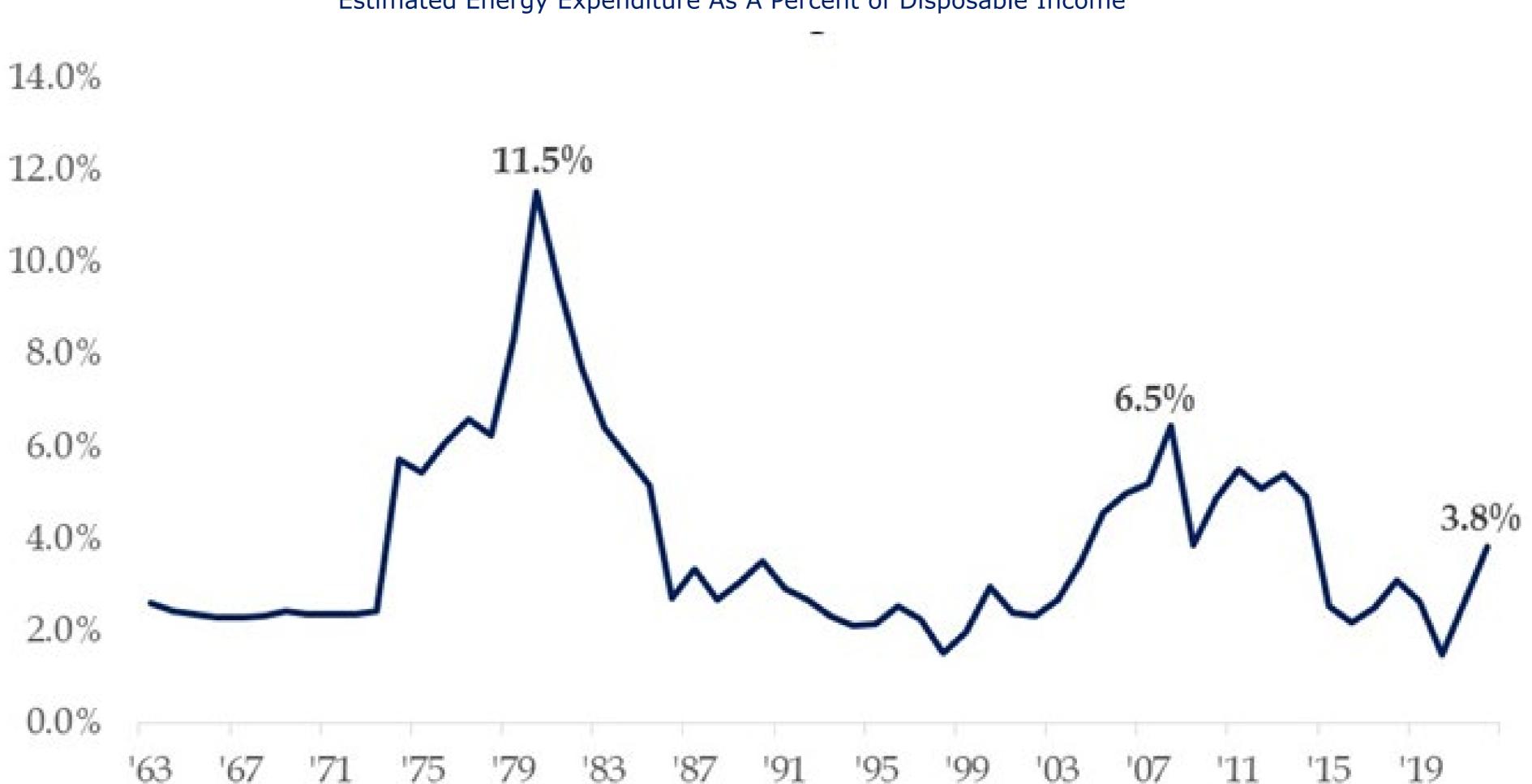
### Probably Not.



US Leading Economic Indicator 5 Month % A.R. July: -5.5%



# 1970s Redux? Not As Vulnerable To Energy Costs Now



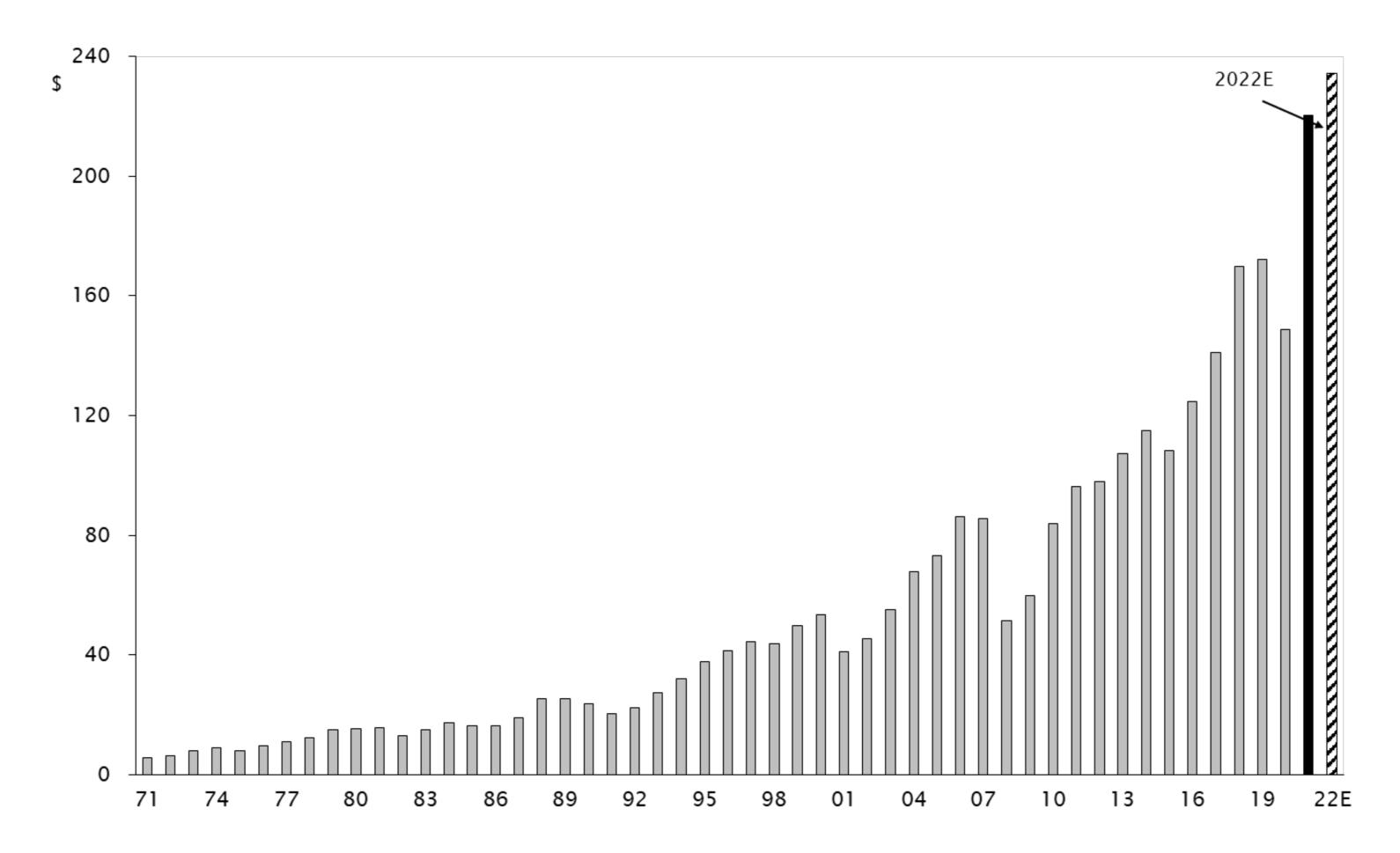
### Estimated Energy Expenditure As A Percent of Disposable Income

'95 '99 '19 '91 '03 '07 '15 '11



### The Earnings Have Been Extraordinary

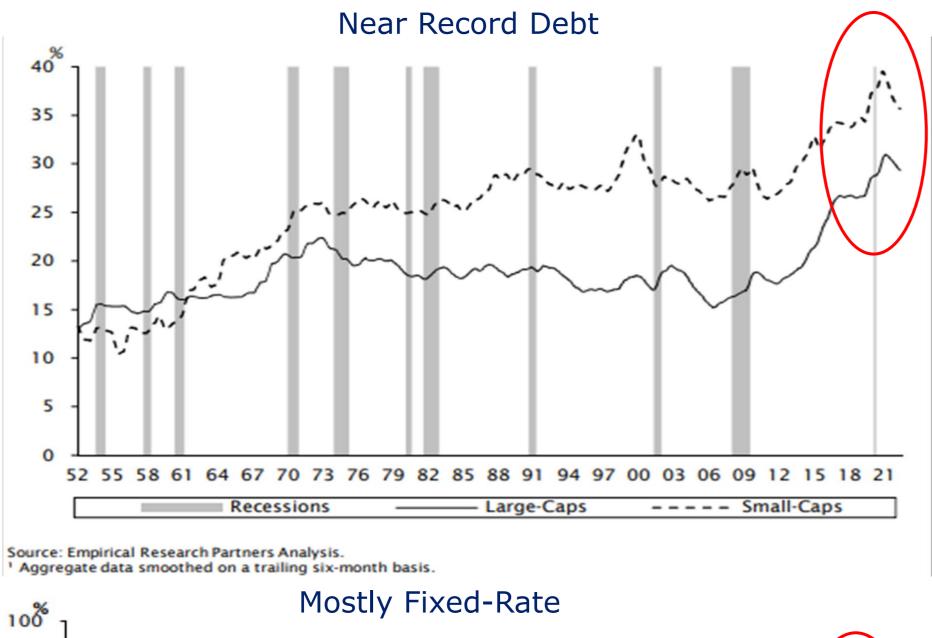
The S&P 500 Operating Earnings Per Share \* 1971 Through 2022E

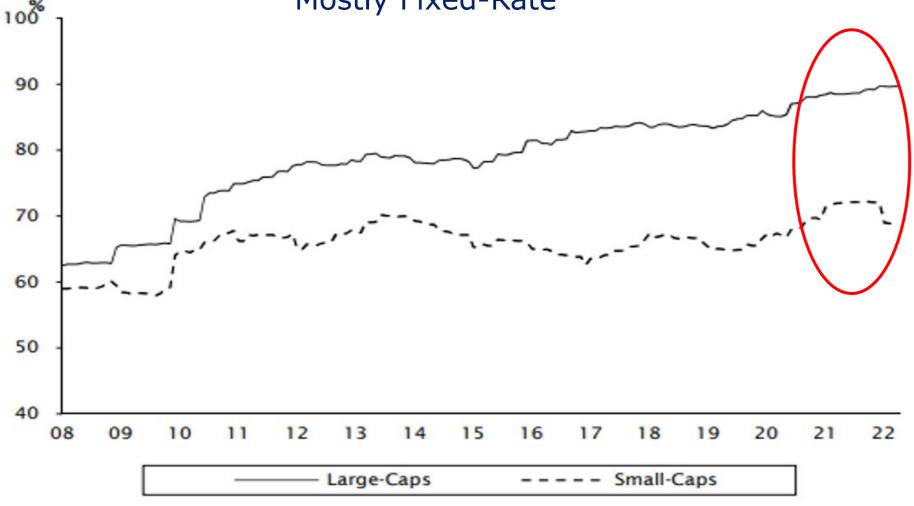


Source: Empirical Research Partners Analysis and Estimates, July 28, 2022 \*-Based on a roll-up of analyst estimates.



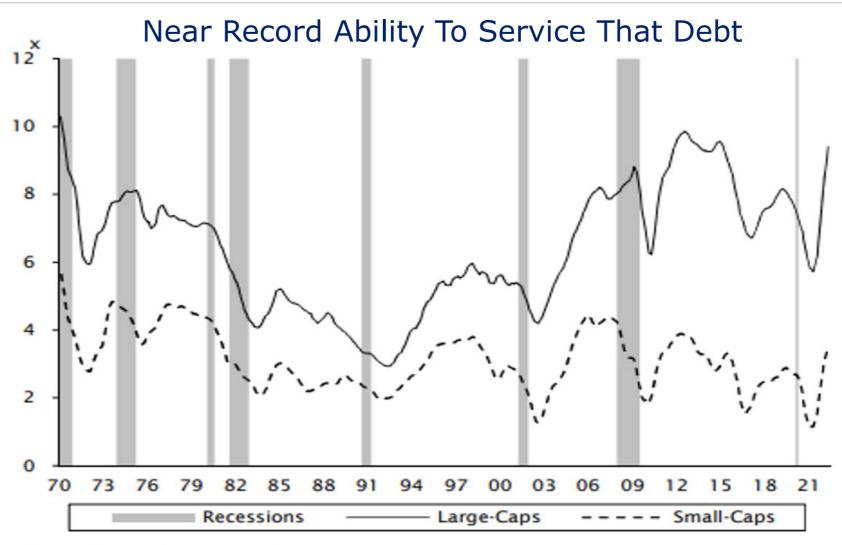
### Corporate Debt Is Manageable



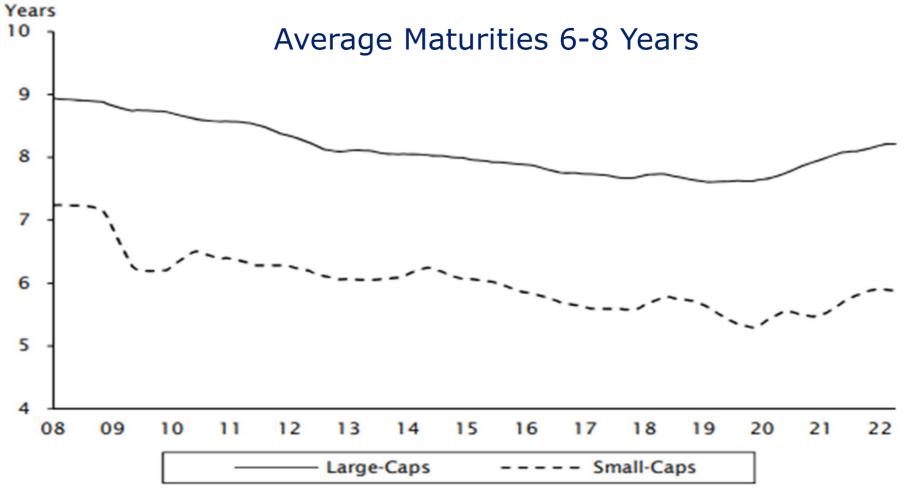


Source: FactSet Research Systems, Empirical Research Partners Analysis.

Source: Empirical Research Partners. April 28, 2022, Note: Shaded bars indicate recessions



ource: Empirical Research Partners Analysis. Aggregate data smoothed on a trailing six-month basis.



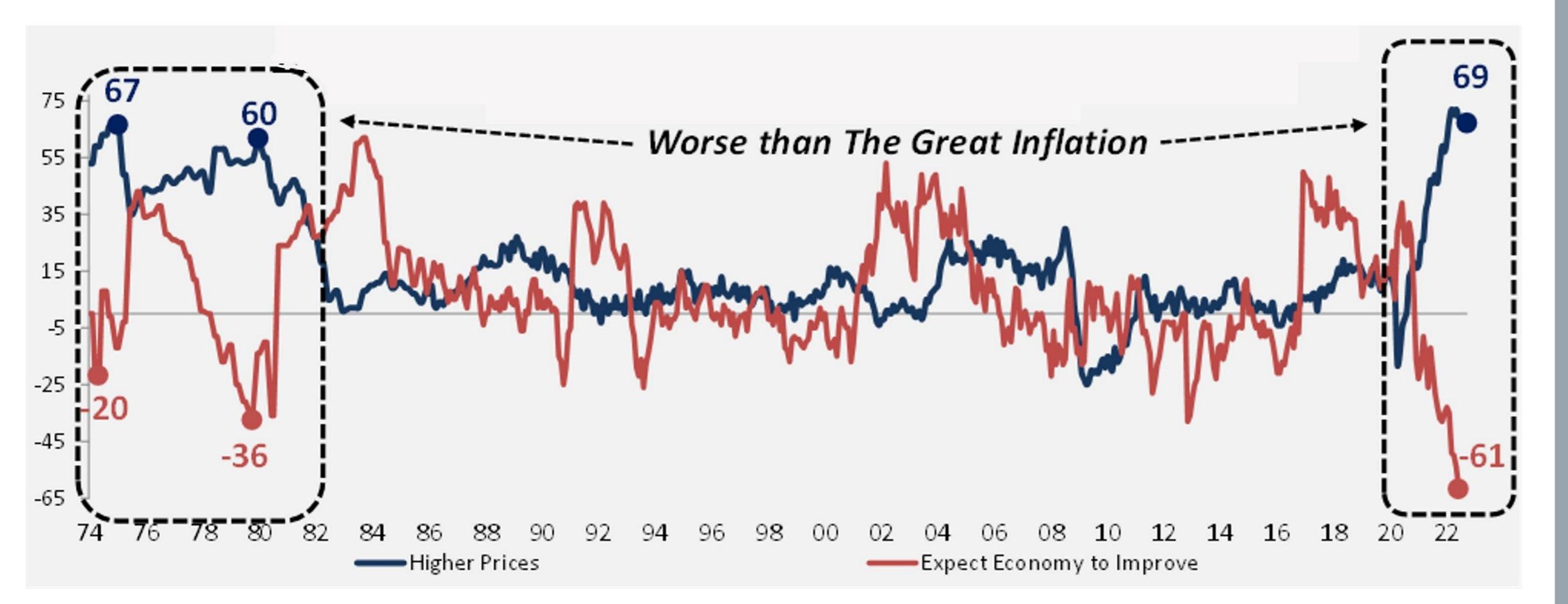
Source: Factset Research Systems, Empirical Research Partners Analysis.

<sup>1</sup> Excluding financials and REITs. <sup>2</sup> Smoothed on a six-month basis.



### 1970s Redux? Businesses Are Worried

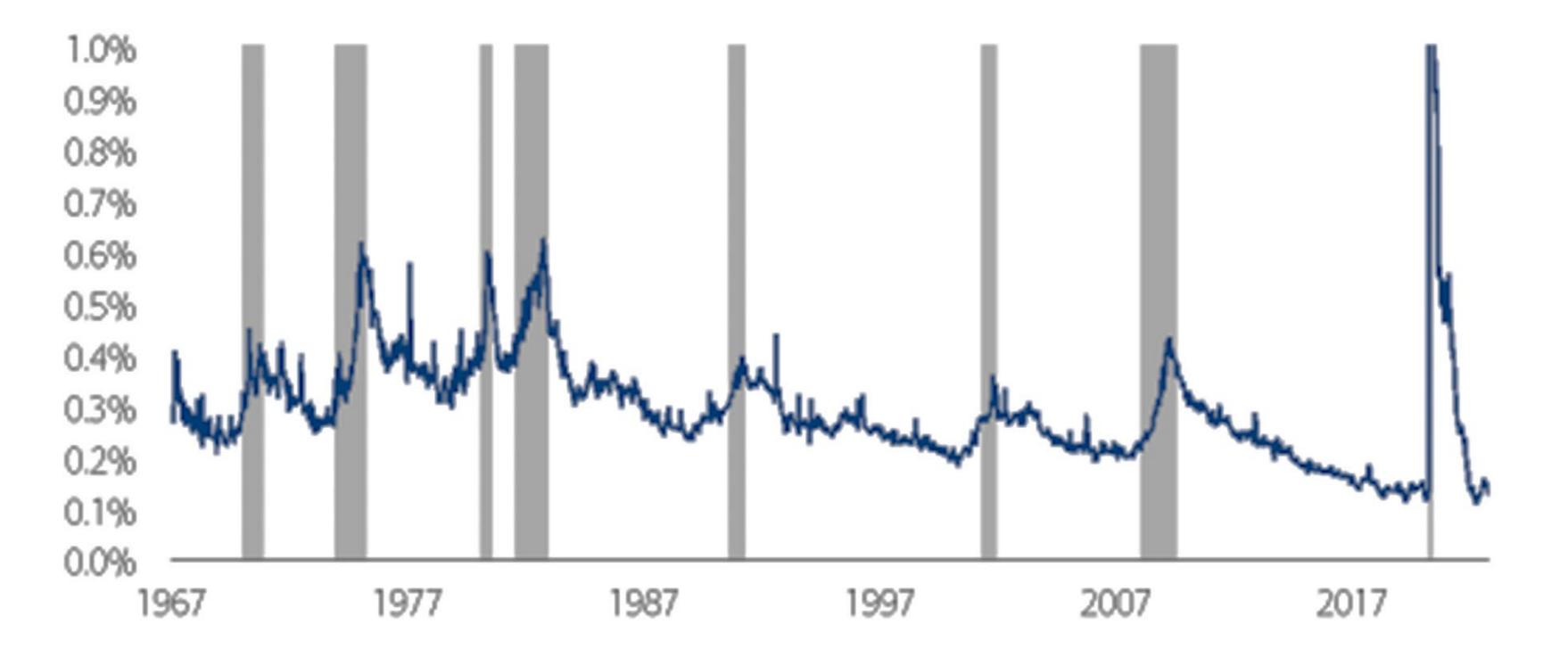
Higher Prices vs. Outlook For Business Conditions (NFIB Small Business Optimism Survey)





### 1970s Redux? Employees Quitting Their Jobs At Highest Rate Since The Late 1970s

Initial Jobless Claims As A Share of The Labor Force



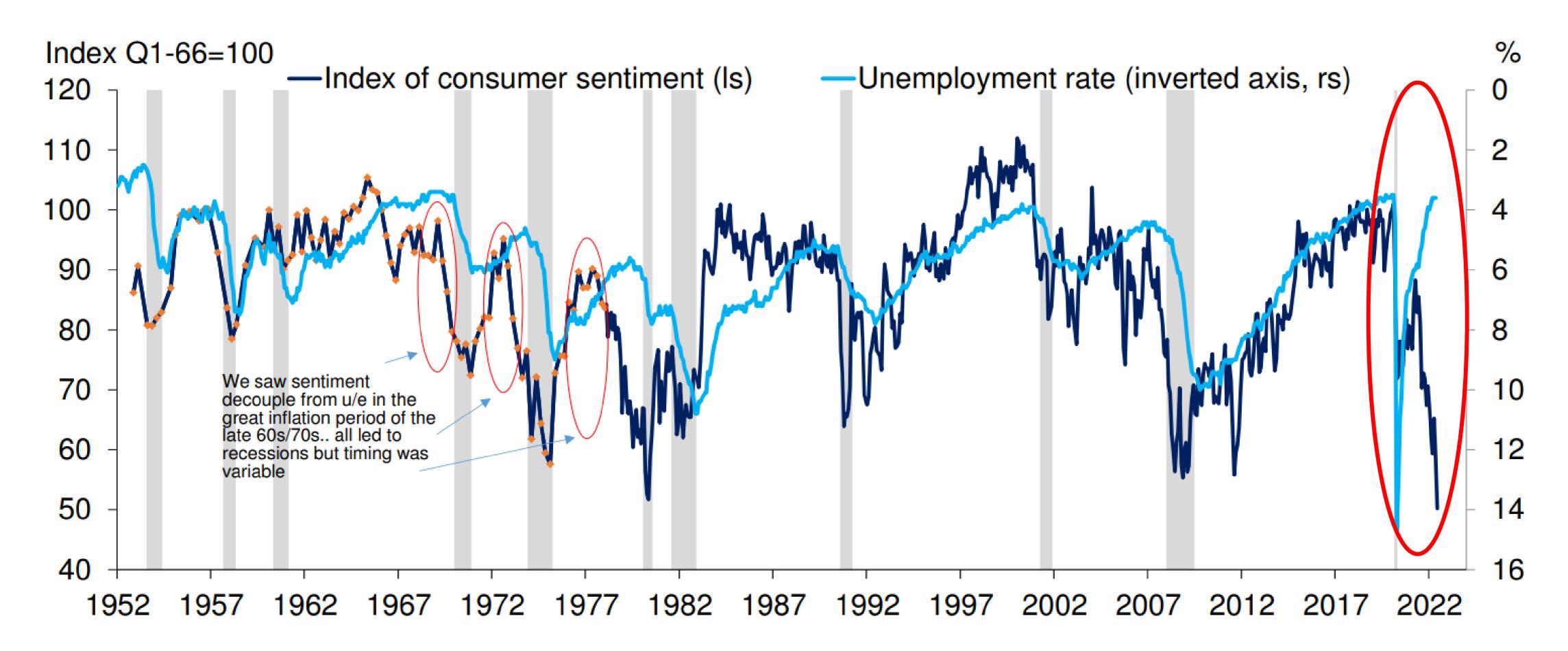
Source: Department of Labor, Bureau of Labor Statistics, Haver Analytics, BofA Global Research. September 23, 2022



8

# What Will Happen To Consumer Sentiment When Unemployment Rises?

US Consumer Sentiment vs Unemployment Rate- A Huge Decoupling





9

### The Spending Spree Is Over...

US Real Retail Sales June: \$615.4 Billion



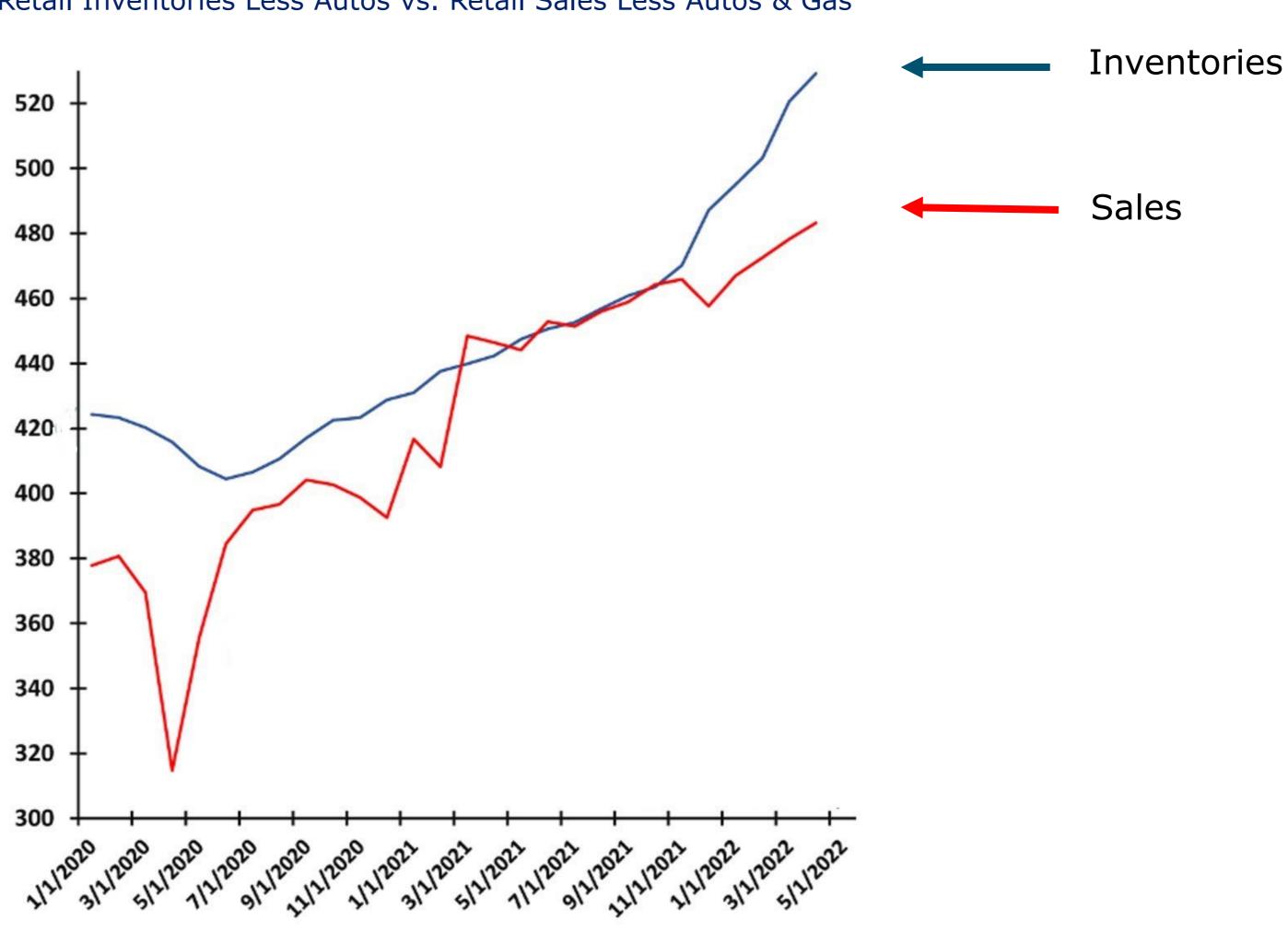






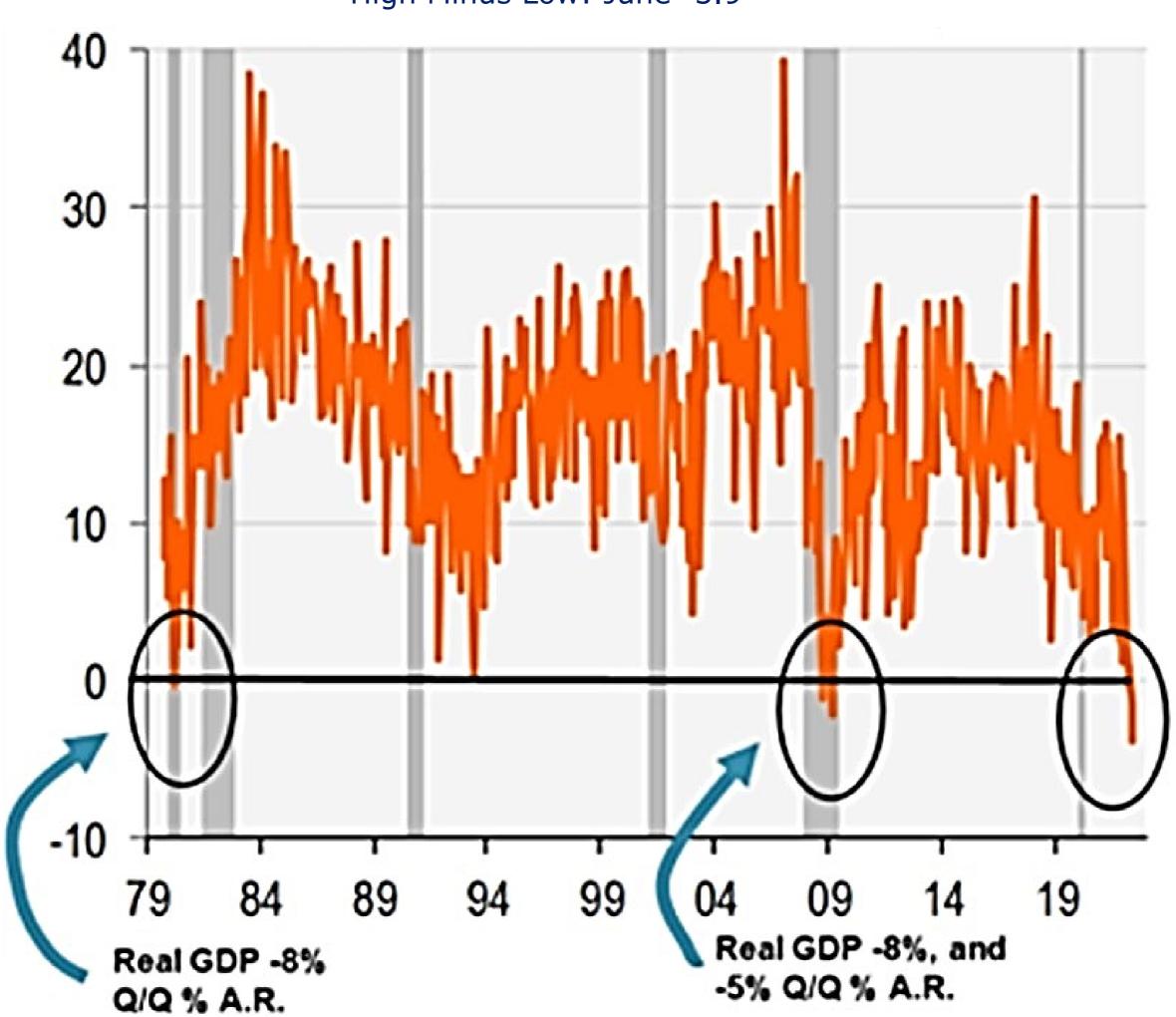
# ...Just As Inventories Are Surging

### Retail Inventories Less Autos vs. Retail Sales Less Autos & Gas





# High Income Confidence Worse Than Low Income Confidence Is Rare

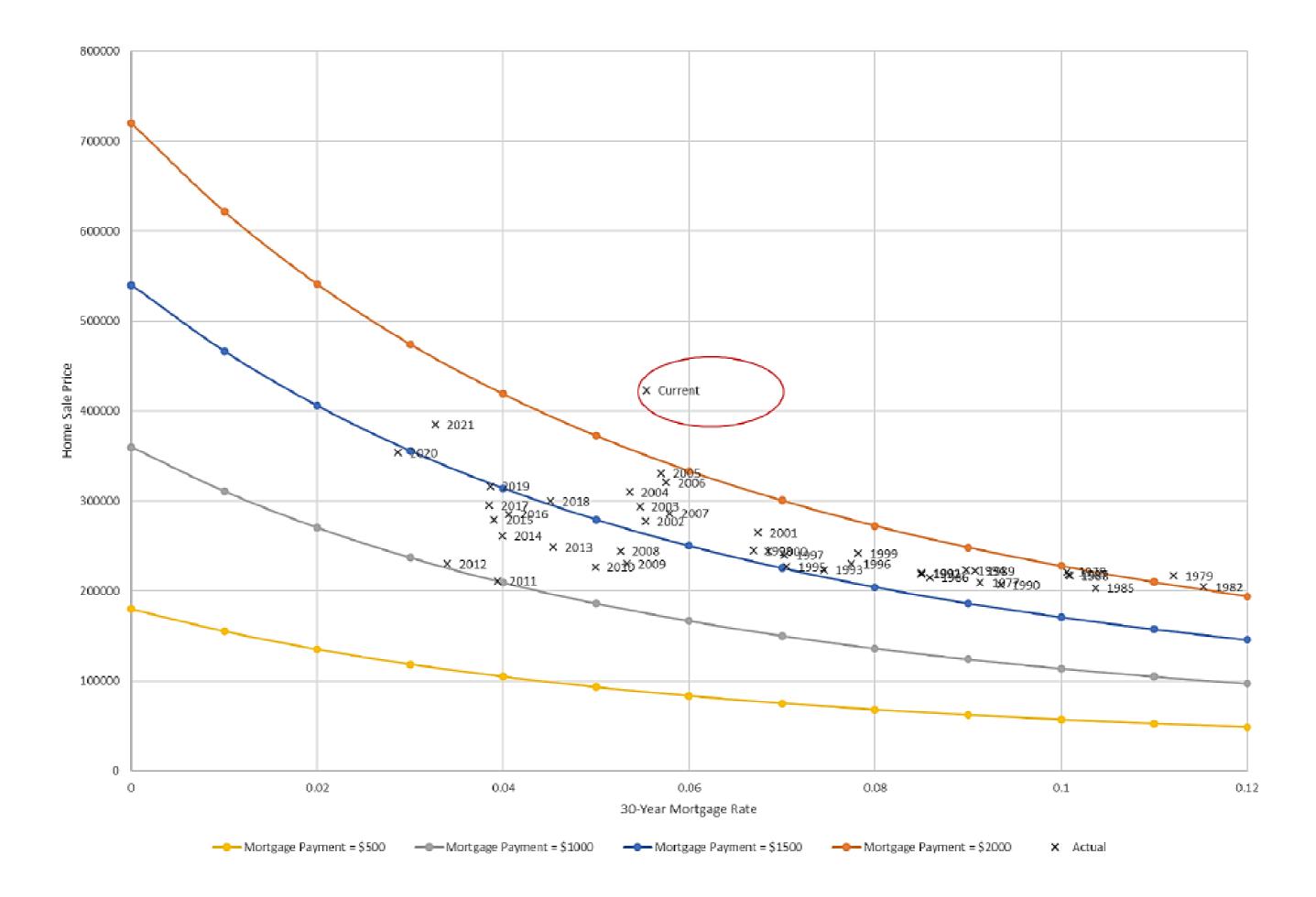


Us Consumer Sentiment (U of Mich) By Household Income High Minus Low: June -3.9



# Housing Affordability Has Never Been Worse

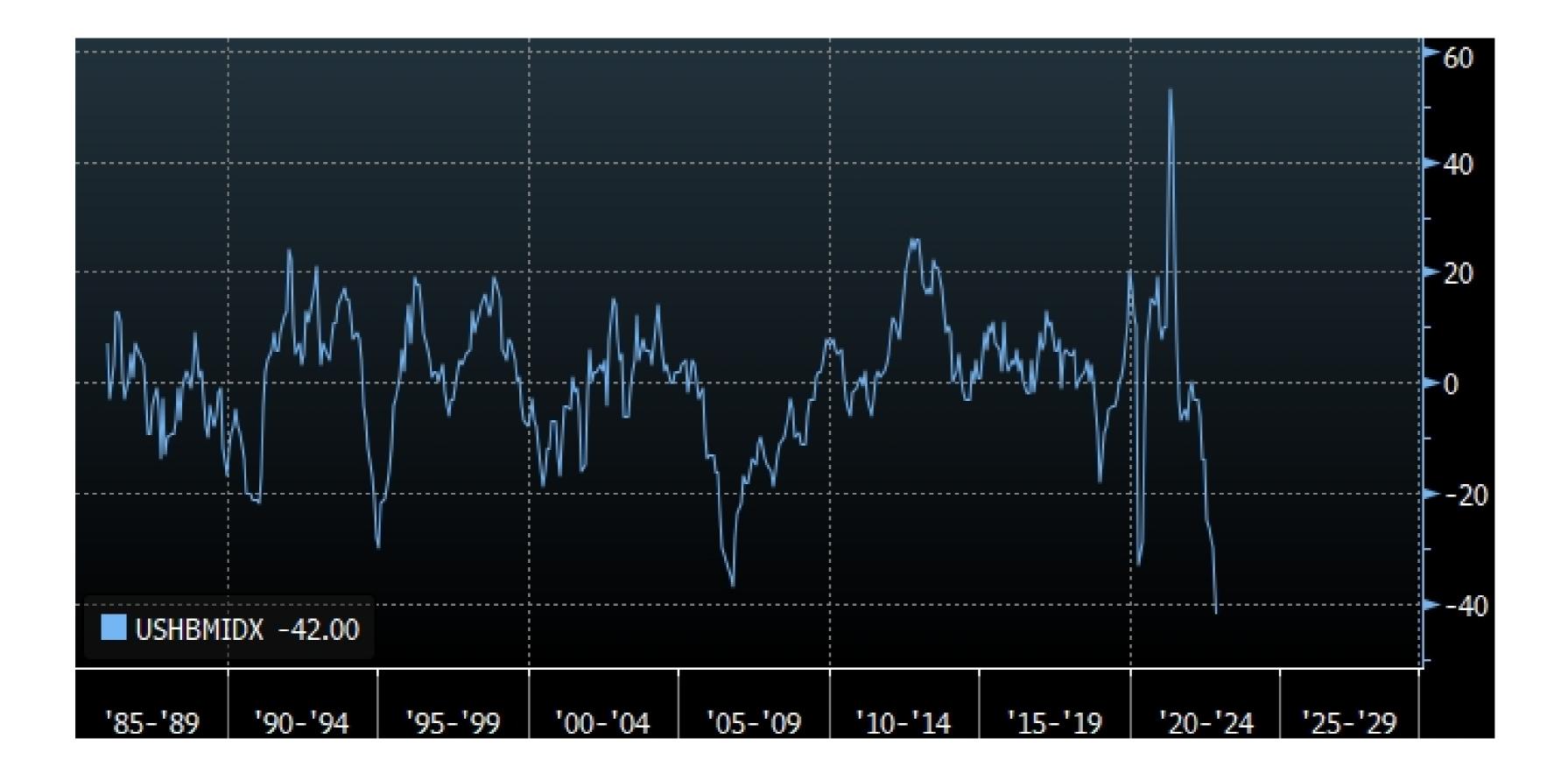
### Estimated Mortgage Payment Given Purchase Price and Rates-Priced in 2022 Dollars







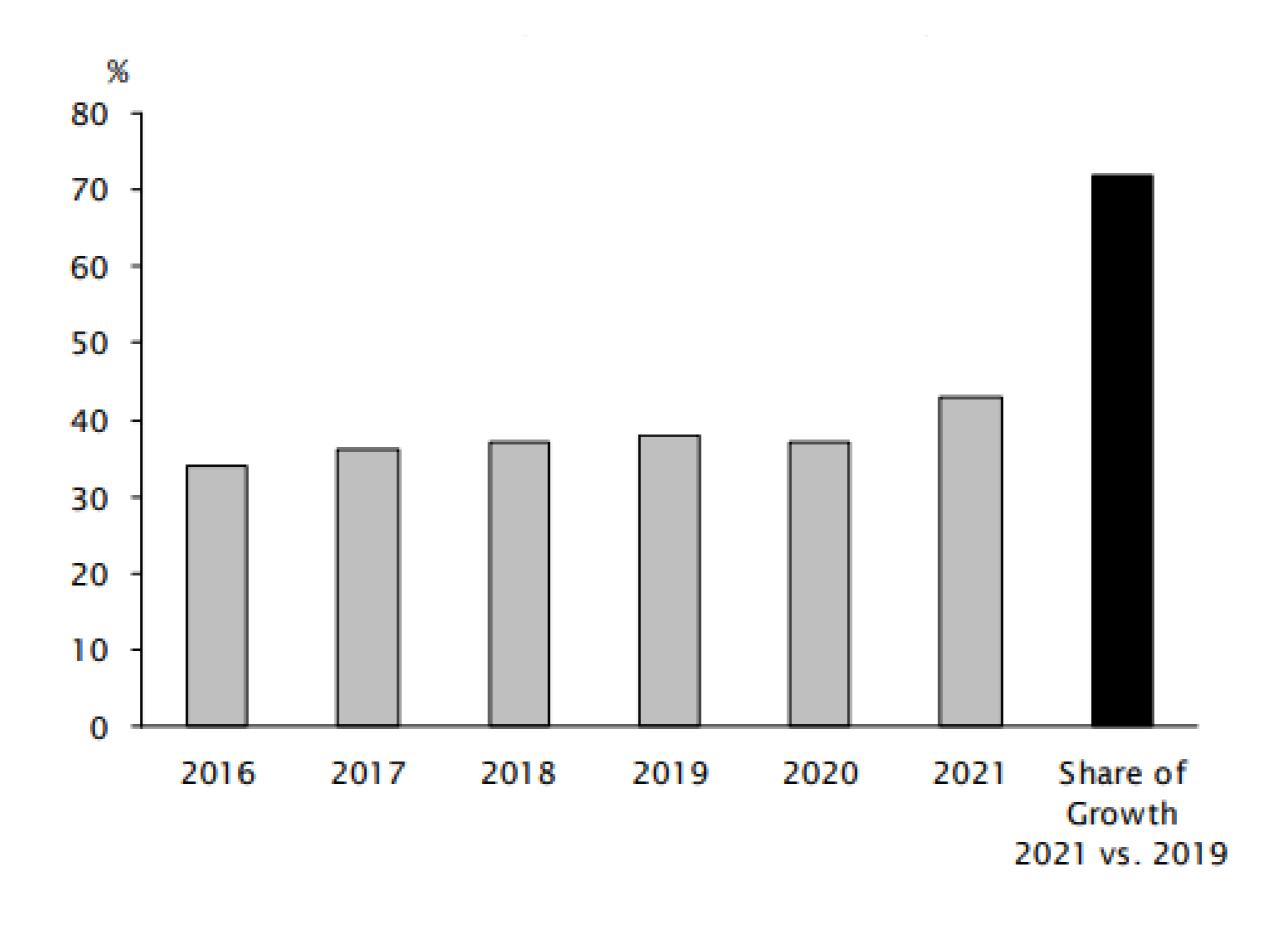
### Biggest Year Over Year Drop In The NAHB\* In History





### Plenty Of Demand For Homes Down The Road

Millennials\* Share of Home Purchases Years Ending June: 2016 Through 2021

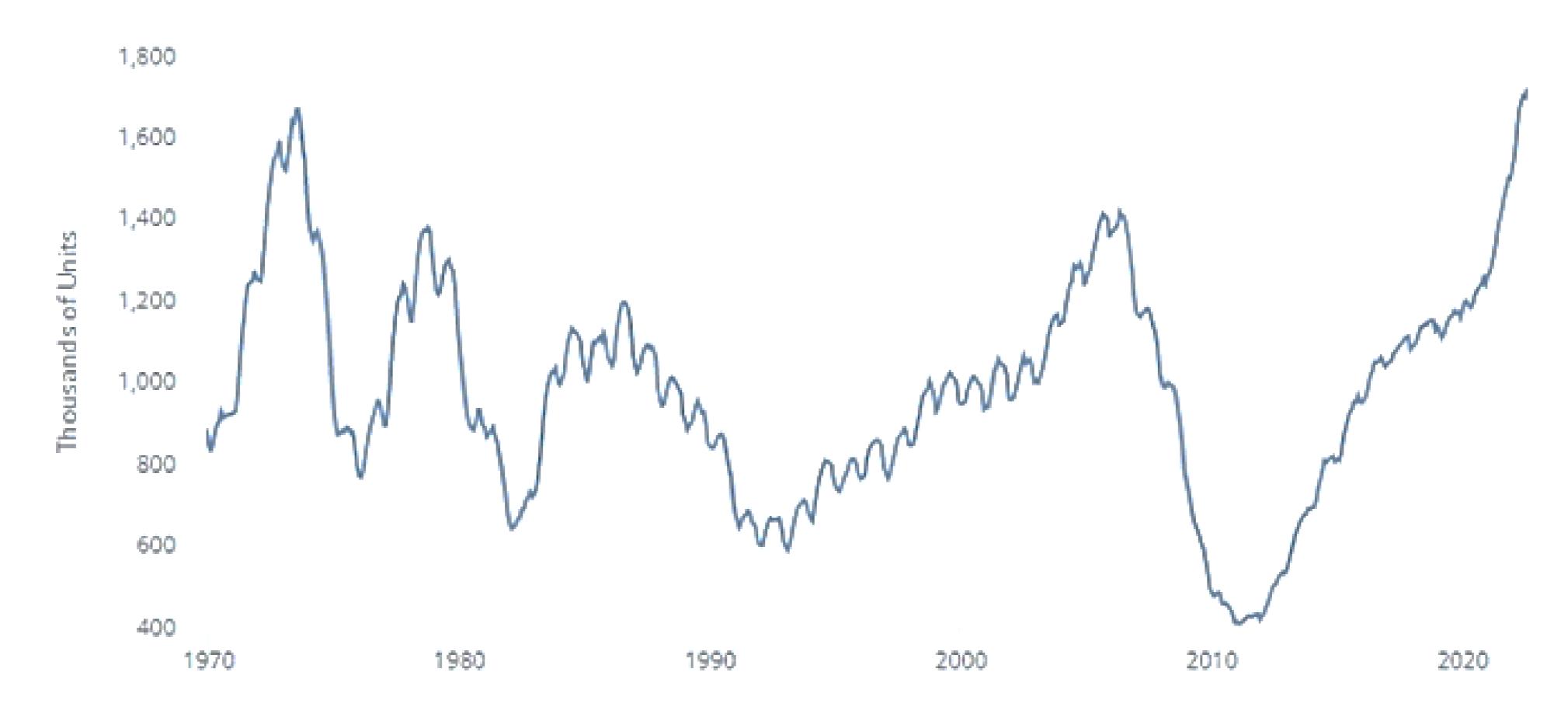






### Home Builders Still Working On A Big Backlog





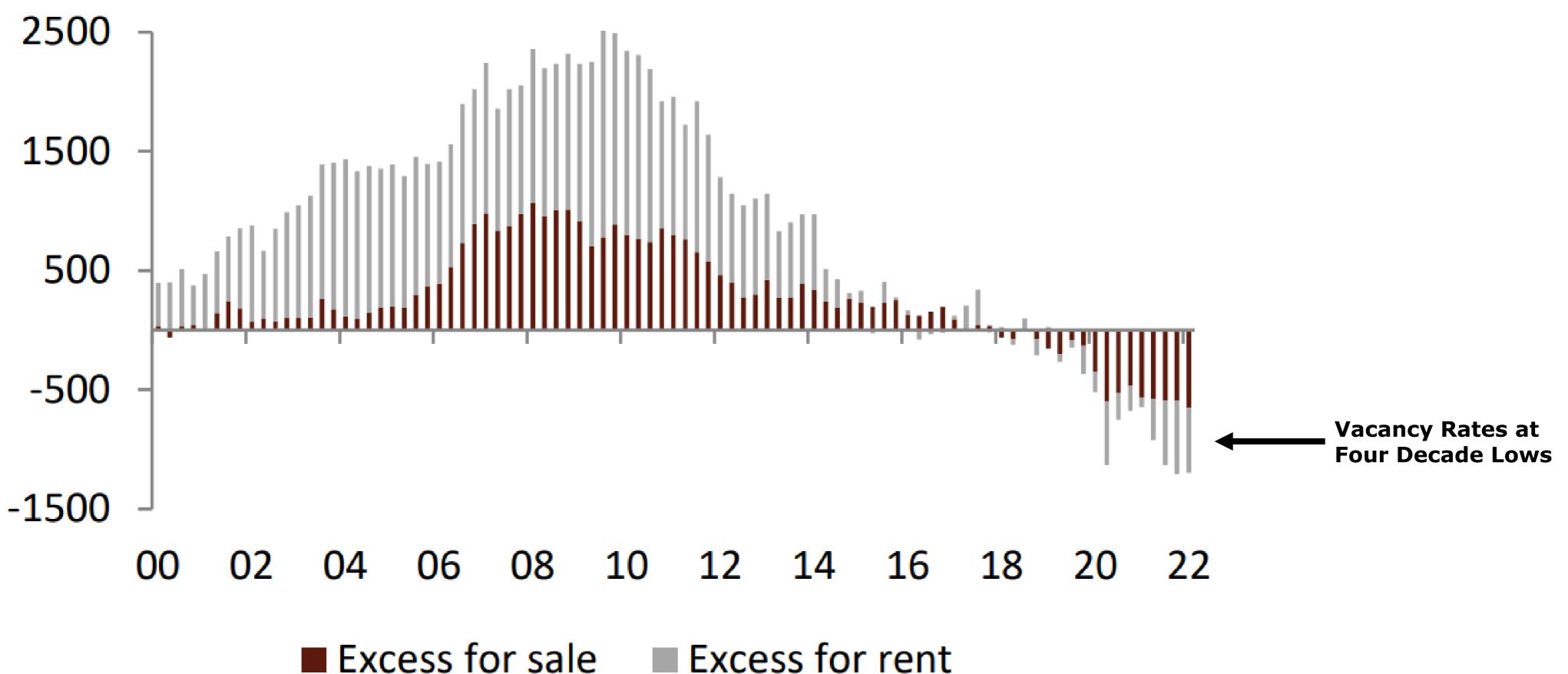
Source: Piper Sandler Research, October 18, 2022 Data as of September 20, 2022





### **US Housing Remains In An Excess Demand Position**

Excess Housing Units (000s)

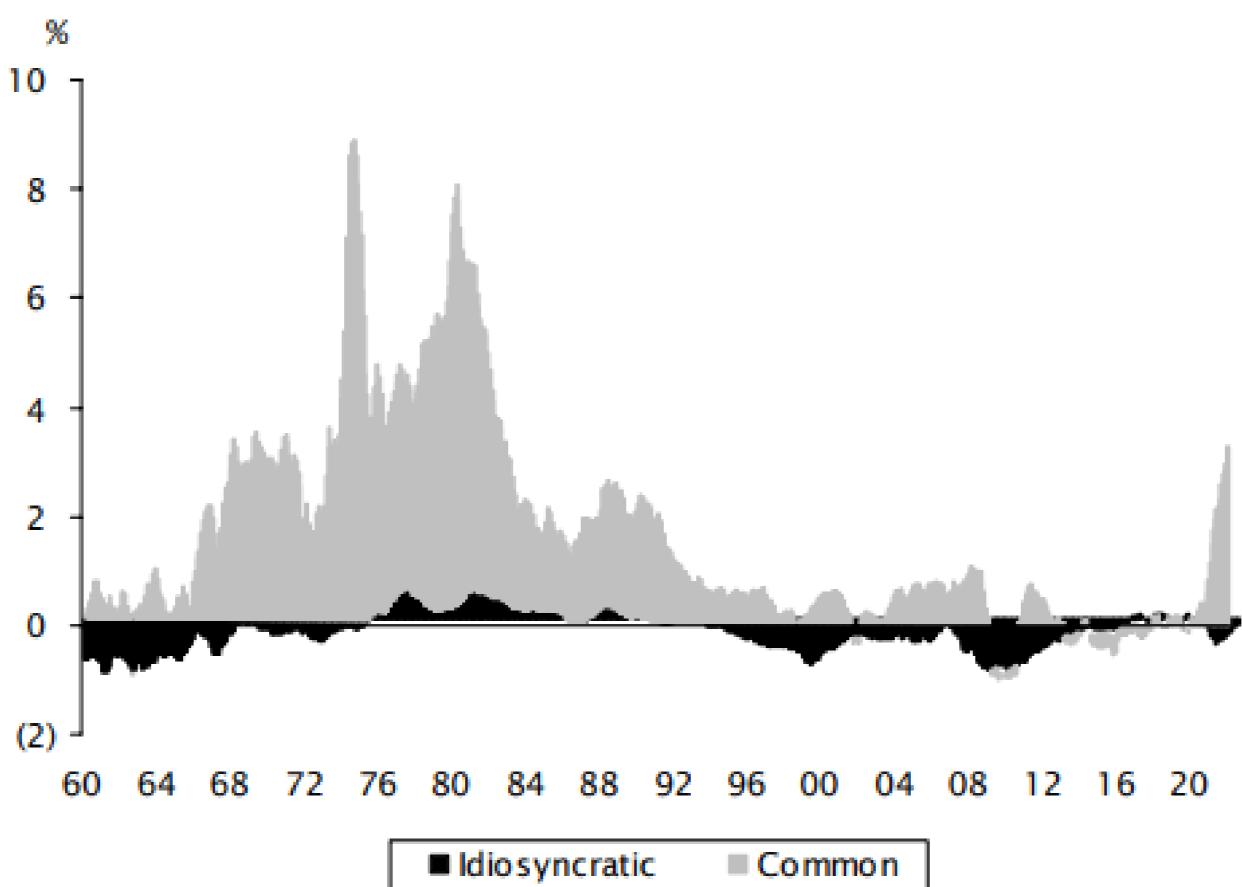






### 1970's Redux? Inflation Not "Transitory"

Inflation Trend Decomposition Idiosyncratic and Common Components 1960 Through February 2022

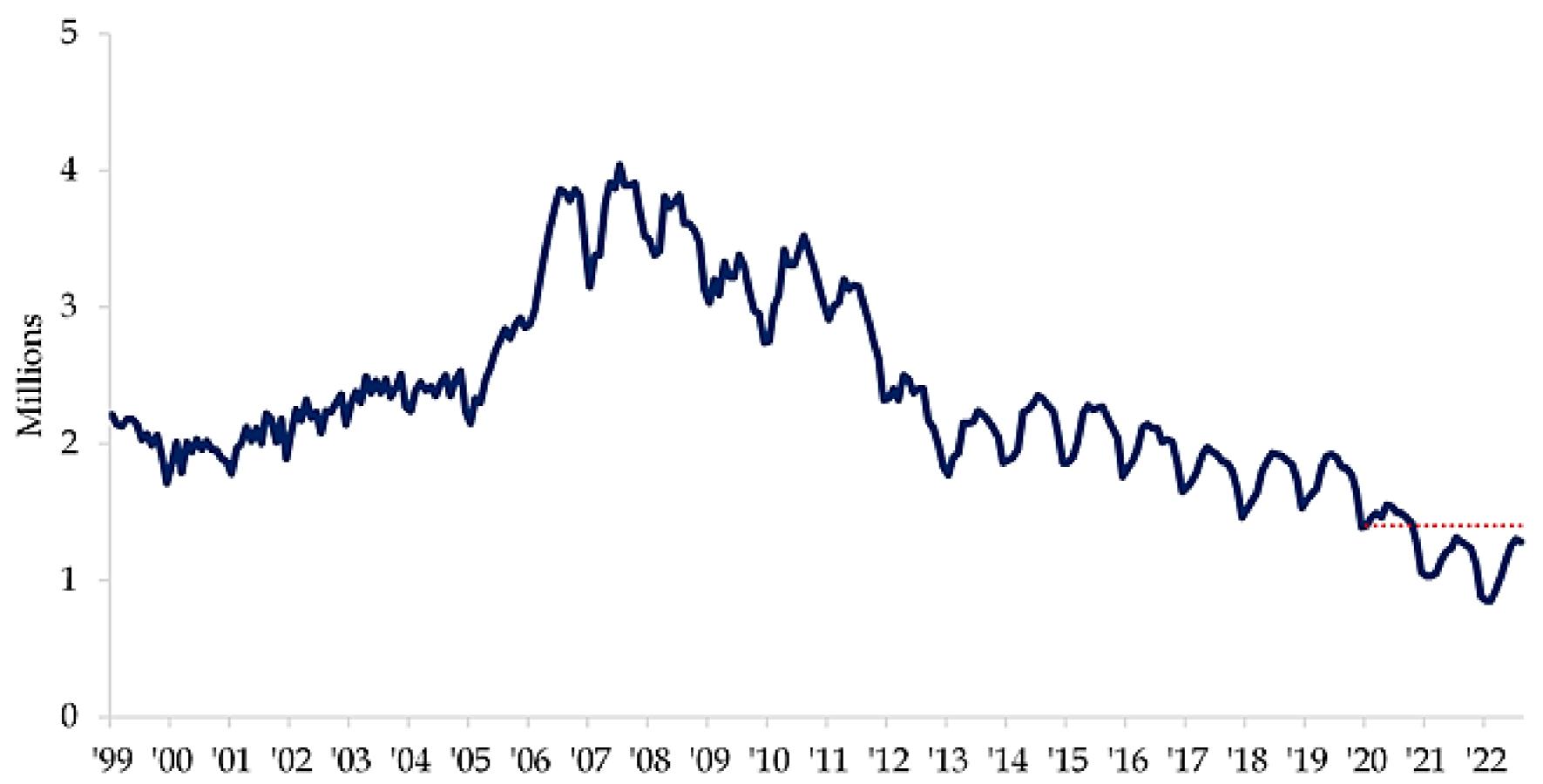






# Housing Is Reflected In CPI With a Lag









## 1970s Redux? Inflation "Peaked" Three Times In The '70s

U.S. GDP Deflator Y/Y%



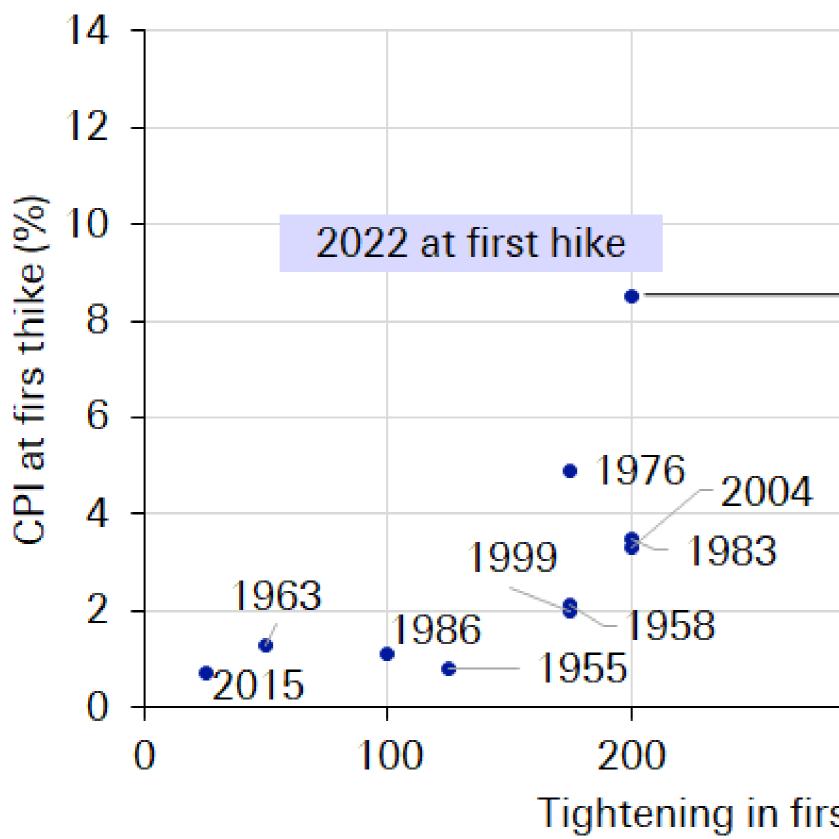
- Implicit Price Deflator, GDP, SA, Index [c.o.p. 1 year]





## The Most Aggressive Pace Of Rate Hikes In Decades

Market Expenditures of Fed 2022 Rate Increases March-September



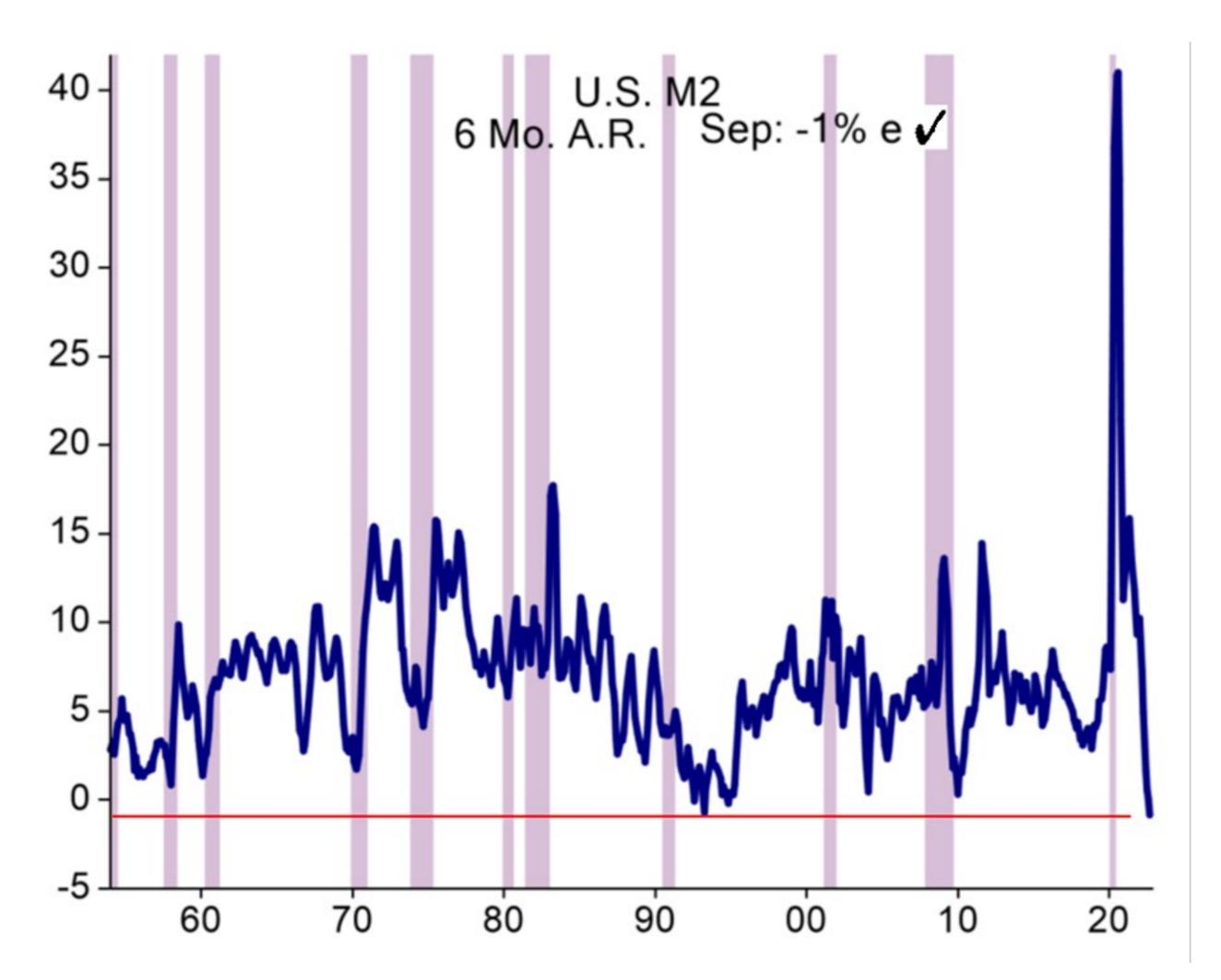
1980 1980 1980 1976 1976 2004 1988 1972 1983 1972 1994 1972 1994 1972 1994 1955 200 300 400 500 600 Tightening in first year of hiking cycle (bps)						
• 1976 2004 1988 99 • 1983 • 1972 99 • 1983 • 1994 1955 • 1958 1955 • 0 600					1980	•
• 1976 2004 1988 99 • 1983 • 1972 99 • 1983 • 1994 1955 • 1958 1955 • 0 600						
99 1983 1972   1958 1955 1955   200 300 400 500 600	t hike			2022 now		
99 1983 1972   1958 1955 1955   200 300 400 500 600				<b>→</b> •		
99 1983 1972   1958 1955 1955   200 300 400 500 600						
99 1983 1972   1958 1955 1955   200 300 400 500 600						
99 1983 1972   1958 1955 1955   200 300 400 500 600	• 19	076 _2004	1988			
• 1994 1958 1955 200 300 400 500 600			<b>1972</b>			
1955 200 300 400 500 600	_		1994			
Tightening in first year of hiking cycle (bps)	20	)0 3(	)0 4(	)0 5(	0 60	00
	Tight	ening in first	year of hiking	j cycle (bps)		





### Negative Money Growth Is Rare, And QT\* Is A Mystery

### Core PCE Inflation Rate vs. Annual M2 Money-Supply Growth



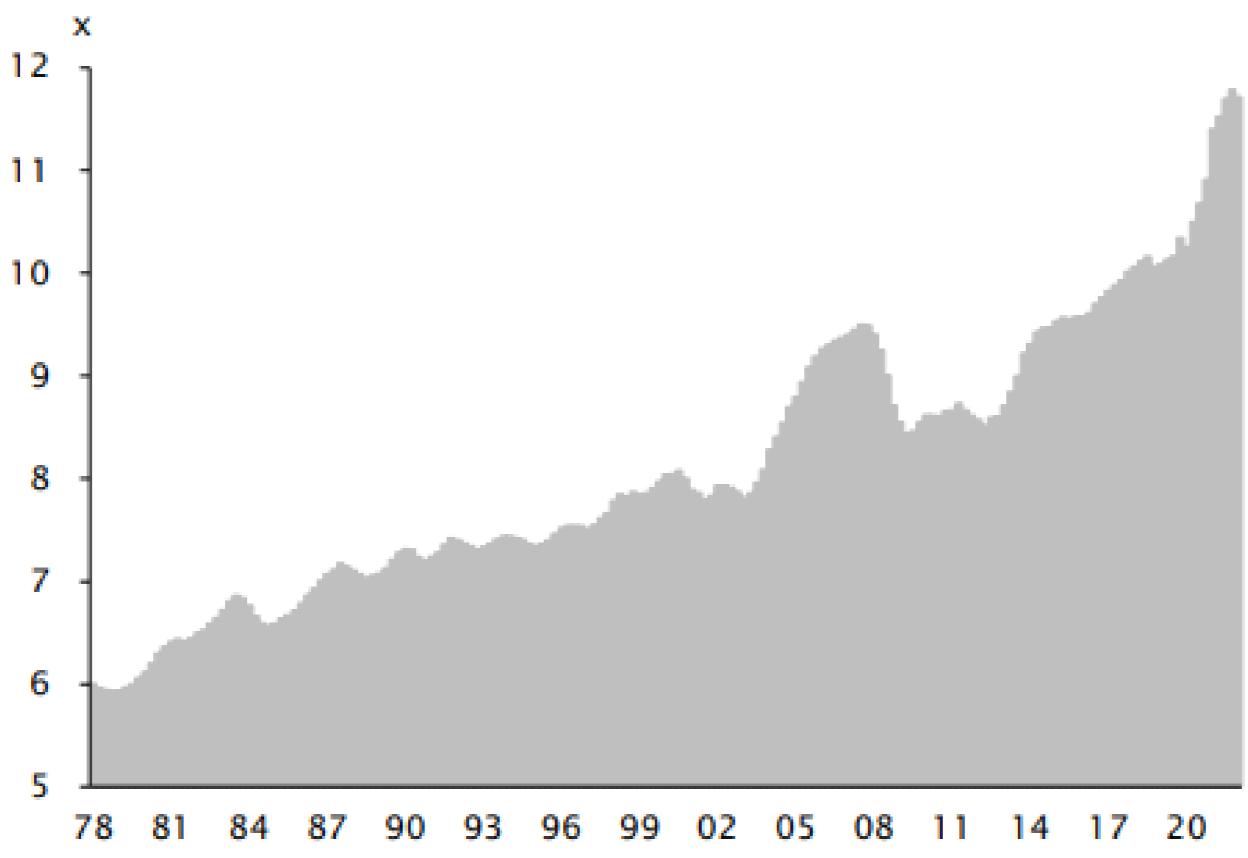
Source: Evercore Research. September 2022 \*QT=Quantitative Tightening Note: Shaded bars indicate recessions





### Consumers In Great Shape–Particularly Those Ages 55+

US Consumers Net Worth Relative to Income 1978 Through Q1 2022

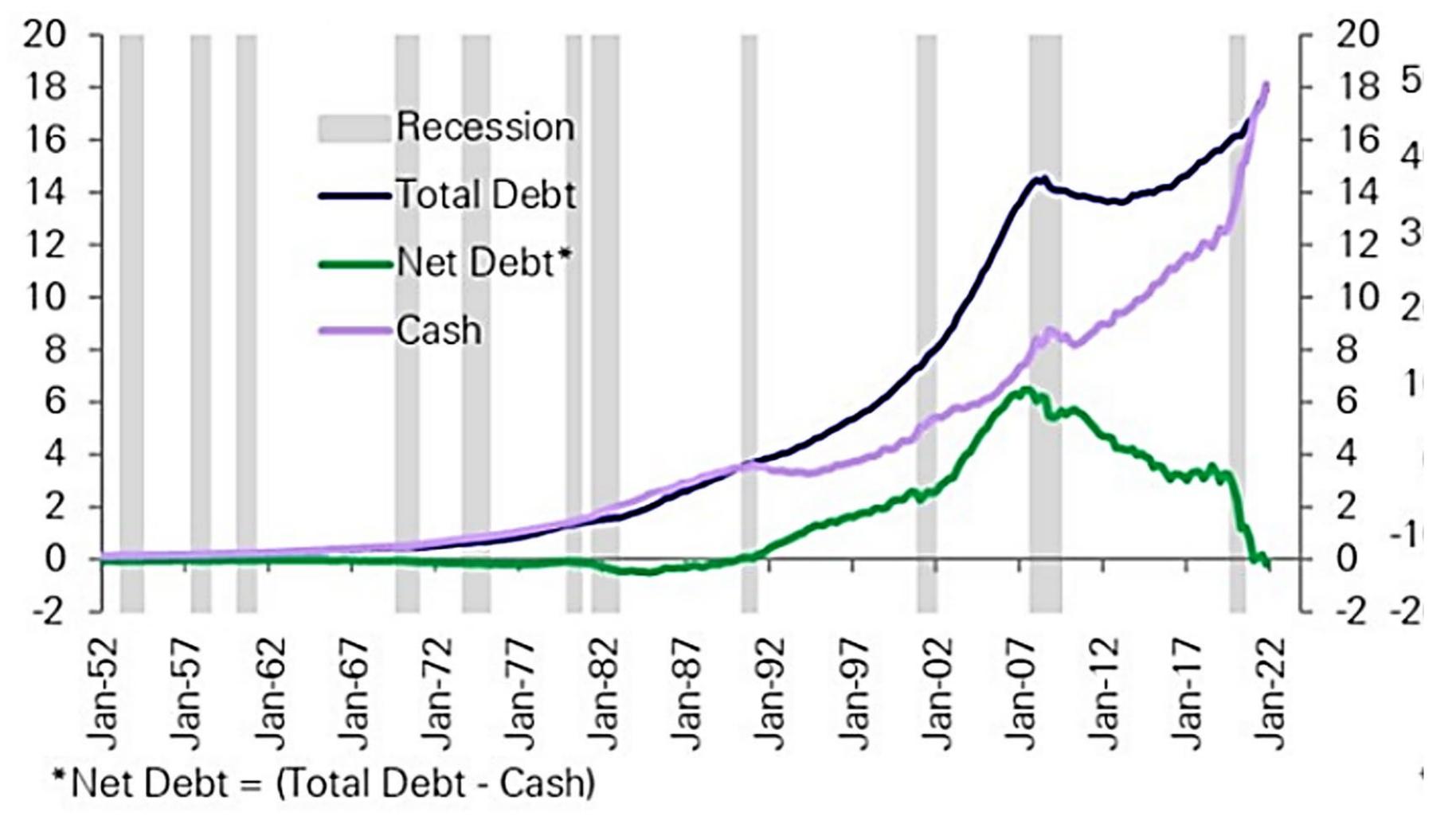


Source: Federal Reserve Board of Governors, Bureau of Economic Analysis, Empirical Research Partners Analysis August 1, 2022 \*Labor Income includes wages, salaries, and proprietor's income



### US Household Cash Exceeds Debt For The First Time In Three Decades





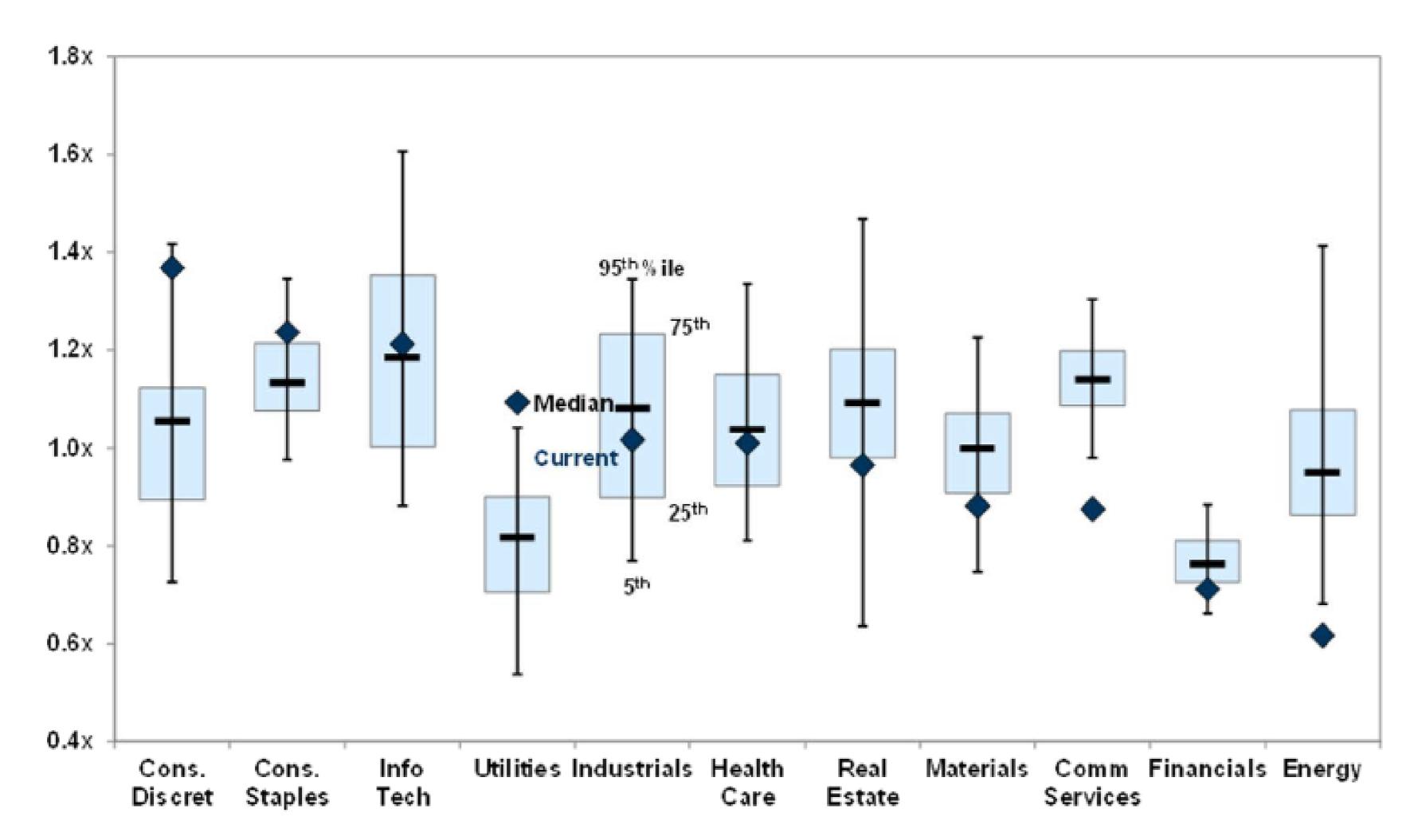
Source: Deutsche Bank Research. April 20, 2022 Note: Shaded bars indicate recessions





# Inflation Hedge Equities Relatively Inexpensive

### Distribution Of Sector FY2 P/E Ratios Relative To S&P 500 During Last 30 Years

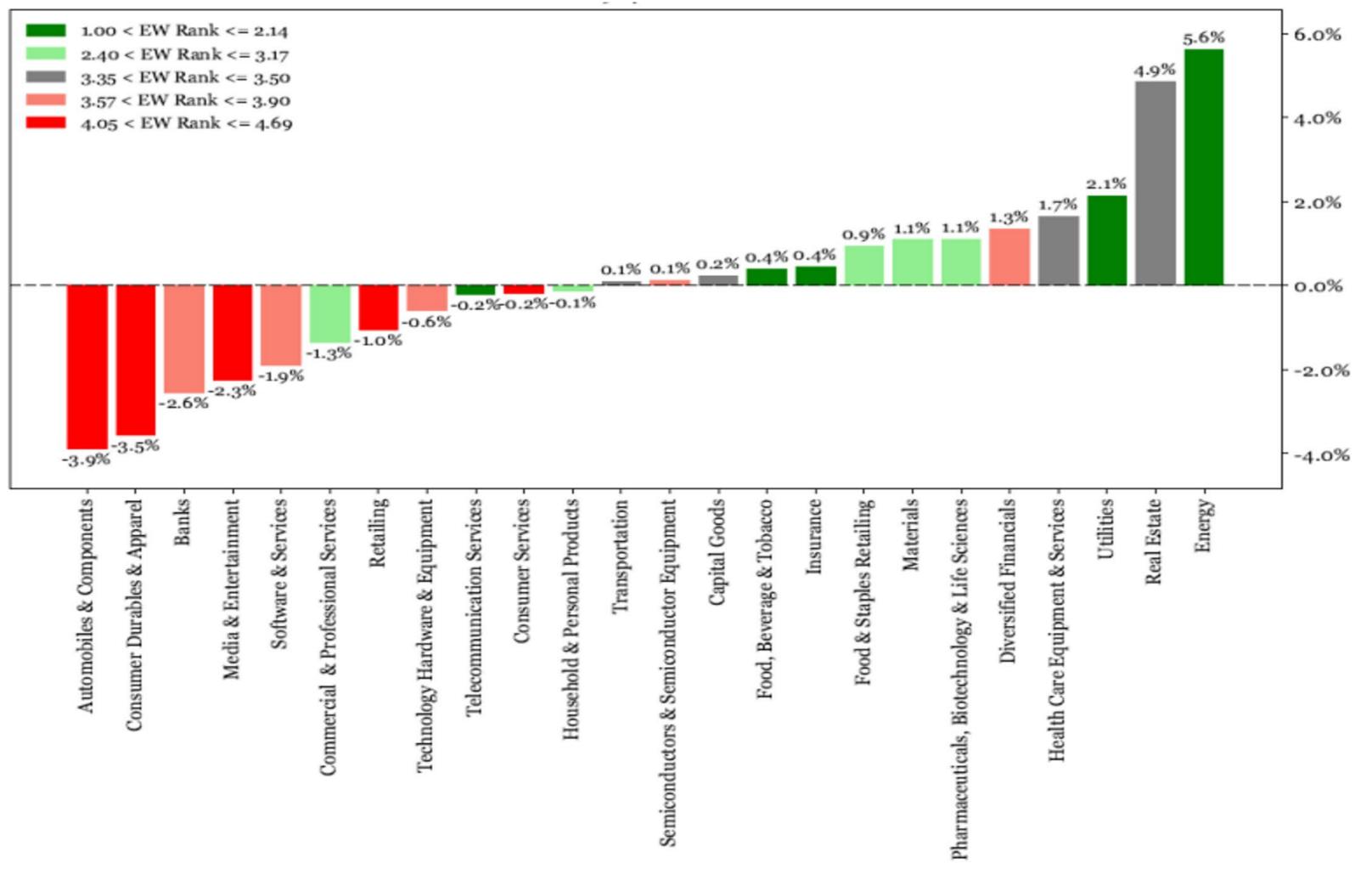






### Industry Performance in Inflationary Boom

### 6-Month Forward Excess Returns During Inflationary Periods (1964-2022)



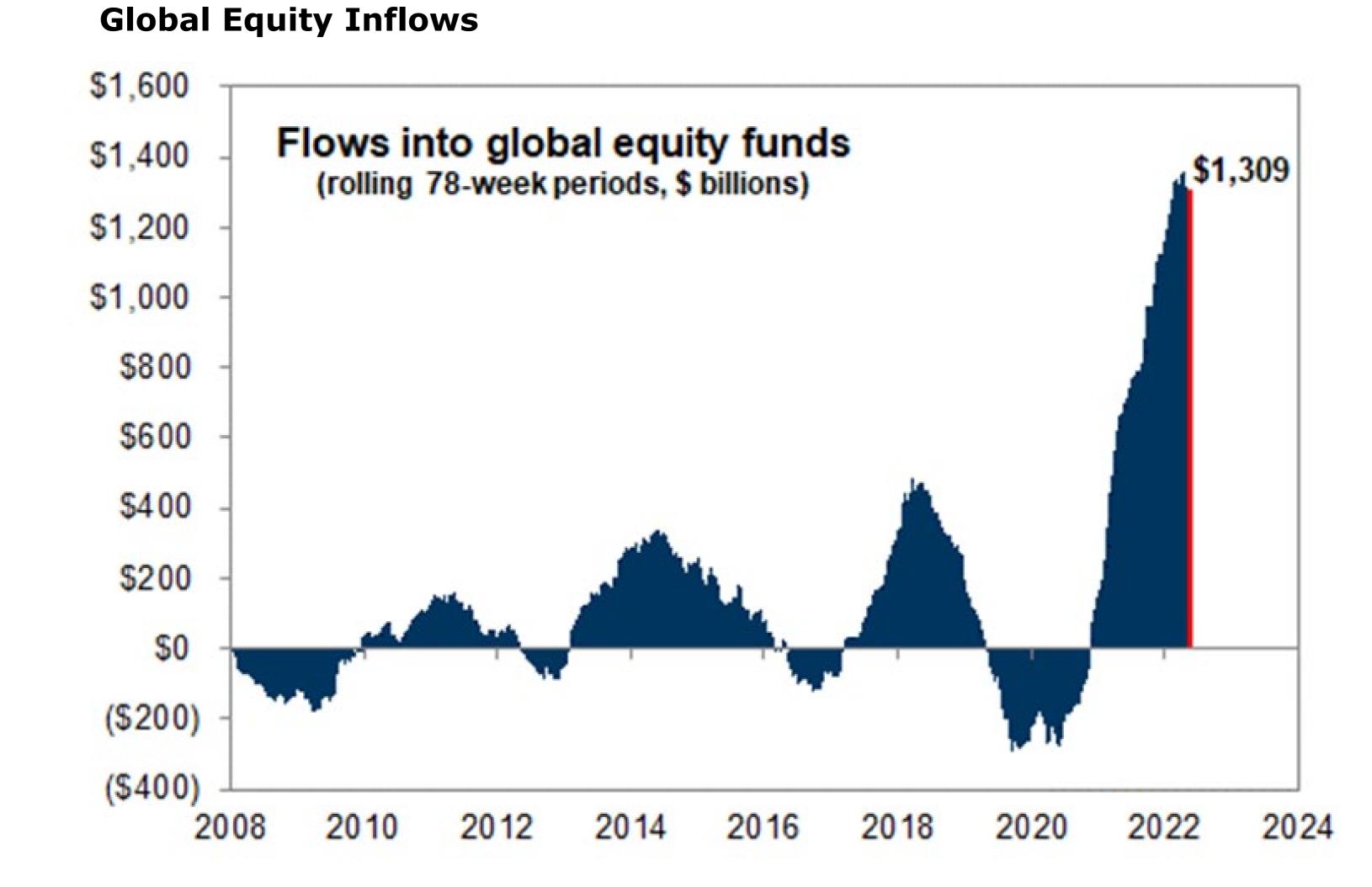
Source: Renaissance Macro Research, June 4, 2022

Note: Renmac Econ/Market Cycle, S&P 500 Industry Groups 6 Month Fwd Excess Returns on Current Growth-Inflation Cell. Growth: >65.5<sup>th</sup>, Inflation: >68.4<sup>th</sup> (1964-2022)





# Investors Still "Buying The Dip"

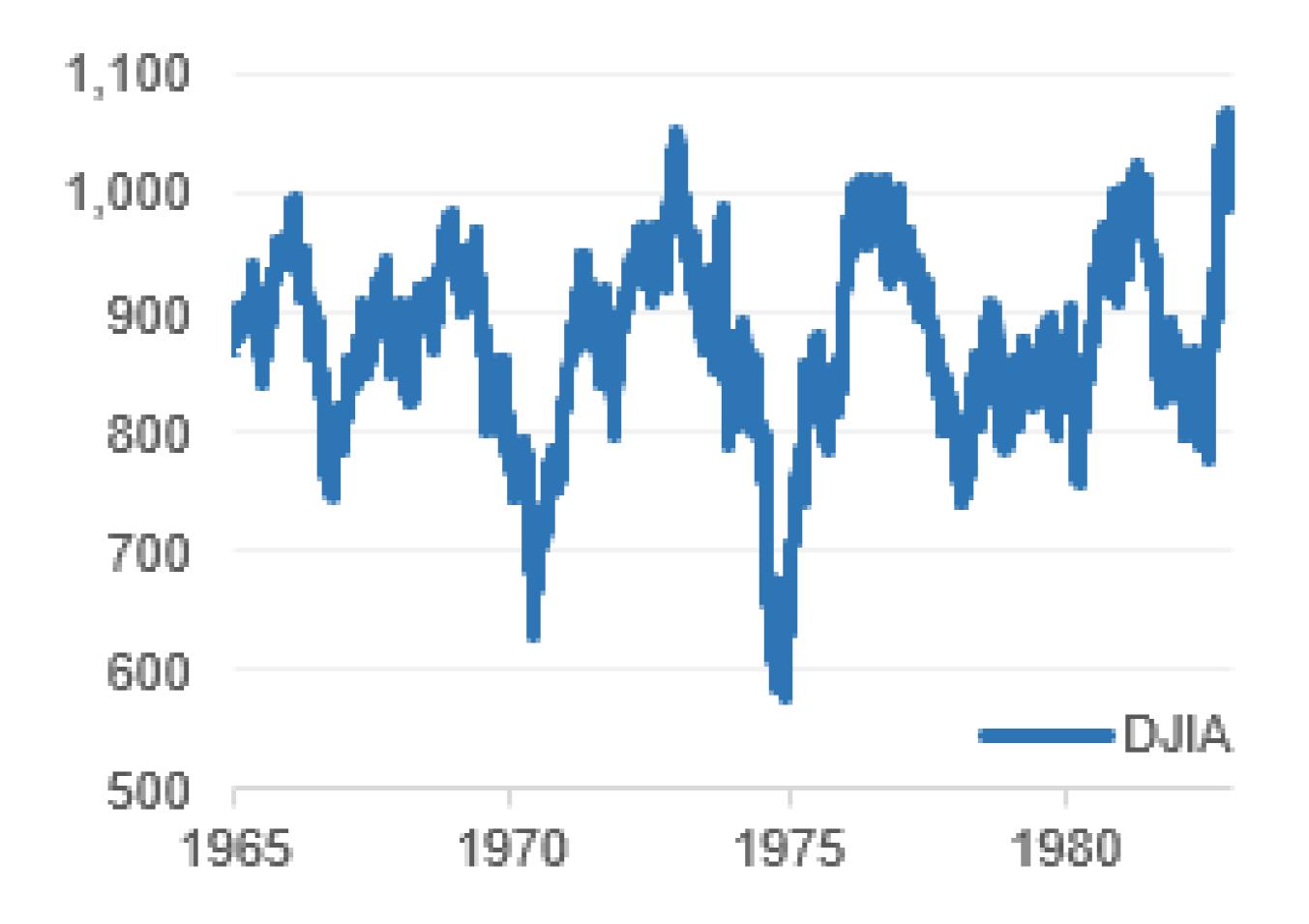






### 1970s Redux? "The" Bottom vs "A" Bottom

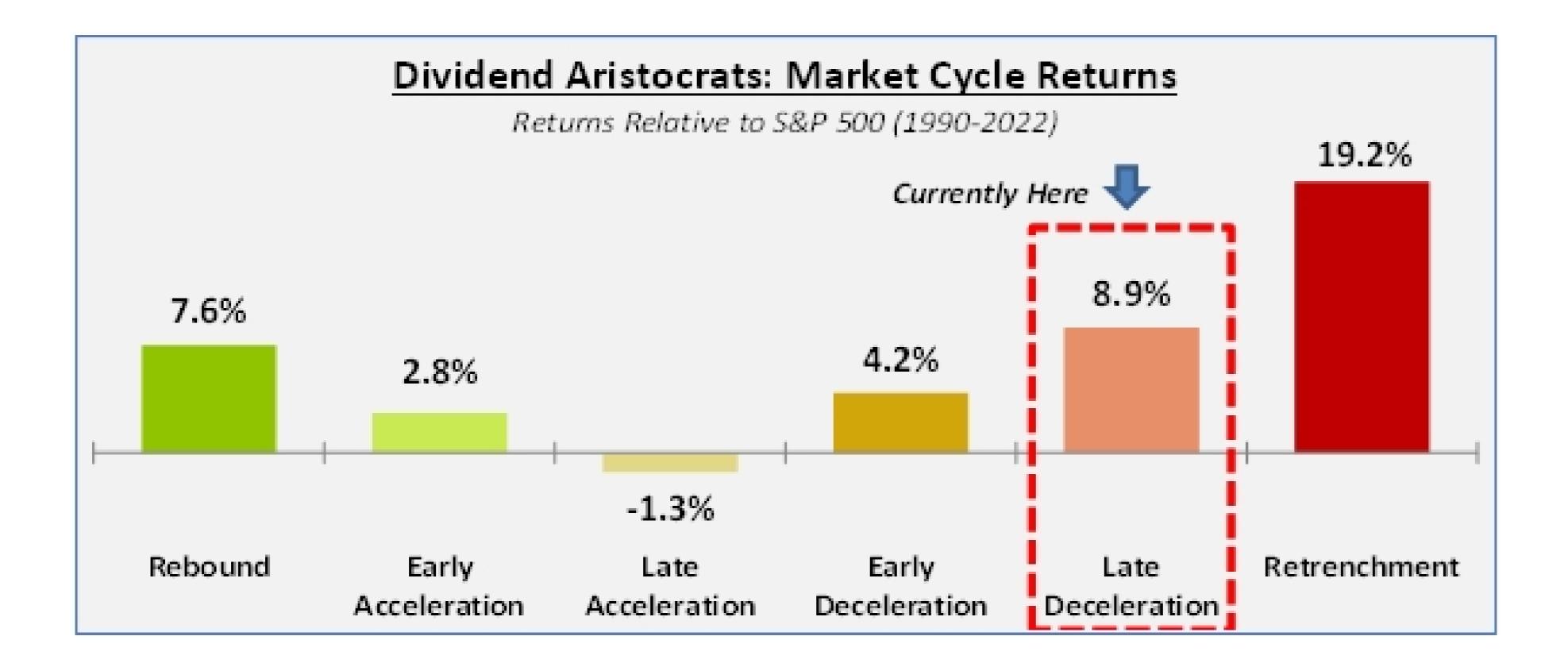
Numerous Bear Market Rallies In The '70s







## Entering Part Of The Cycle When Dividends Typically Shine

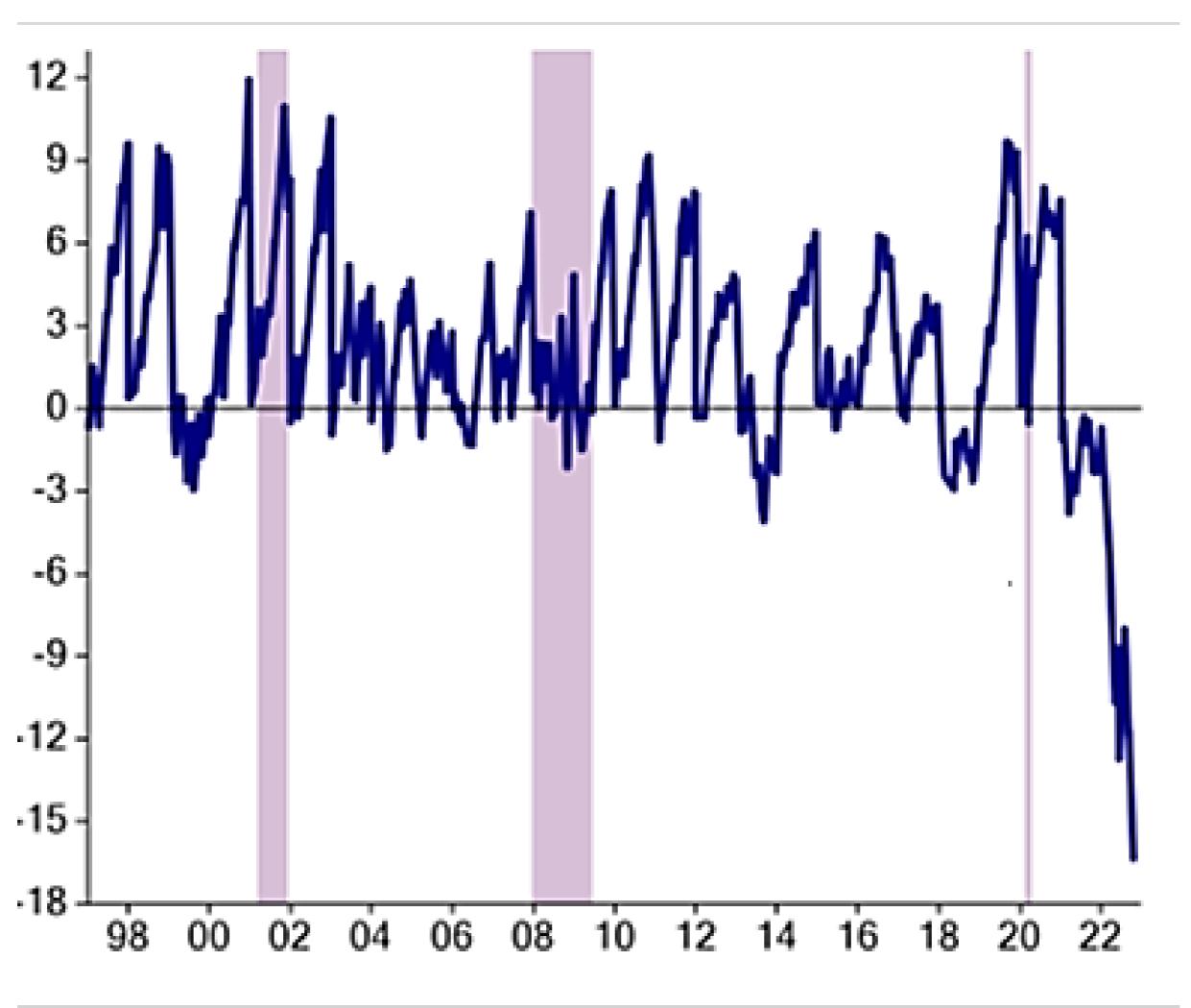






# Bond Investors Have Just Experienced A Record Decline and QT Is Coming

US Bond Market Total Return YTD October 19, 2022: -16.3%



Source: Evercore Research October 19, 2022 Note: Shaded bars indicate recessions





### Dividends Likely To Play A Larger Role In Returns

### Dividend Contribution To Total Return

Decade	Price Pct. Change	Dividend Contribution	Total Return	Dividends Pct of TR	Avg Payout Ratio
1930s	-41.9%	56.0%	14.1%	100.0	90.1
1940s	34.5%	100.1%	134.6%	74.4	<u>59.4</u>
1950s	257.3%	180.3%	437.7%	4 <mark>1.</mark> 2	54.6
1960s	53.7%	54.2%	107.9%	50.2	56.0
1970s	17.2%	59.1%	76.4%	77.4	45.5
1980s	227.4%	143.1%	370.5%	38.6	48.6
1990s	315.7%	115.7%	431.5%	26.8	47.6
2000s	-24.1%	15.0%	-9.1%	100.0	35.3
2010s	189.7%	66.9%	256.7%	26.1	35.2
2020s	45.4%	4.8%	50.2%	9.6	<mark>39.5</mark>
Average	114.4%	87.8%	202.2%	59.4	52.5

Source: Strategas Research. January 26, 2022 Past Performance is no guarantee of future results





## **Diversified Income For A Smoother Ride**

### Annual Returns Ranked In Order Of Performance (2002-YTD 2022)

Global ex U.S. Fixed Income 22.1	Emerging Mkts Equity 55.8	Emerging Mkts Equity 25.6	Emerging Mkts Equity 34.0	Emerging Mkts Equity 32.1	Emerging Mkts Equity 39.4	Global ex U.S. Fixed Income 11 4	Emerging Mkts Equity 78.5	Small Cap Equity 26.9	U.S. Fixed Income 7.8	Real Estate (REITs) 22.9	Small Cap Equity 38.8	Real Estate (REITs) 23.3	Large Cap Equity 1.4	Small Cap Equity 21.3	Emerging Mkts Equity 37.3	Cash Equiv 1.9	Large Cap Equity 31.5	Small Cap Equity 20.0	Real Estate (REITs) 33.1	Casl Equi 0.7
U.S. Fixed Income 10.3	Small Cap Equity 47.3	Devel- oped ex U.S. Equity 20.4	Devel- oped ex U.S. Equity 14.5	Devel- oped ex U.S. Equity 25.7	Devel- oped ex U.S. Equity 12.4	U.S. Fixed Income 5.2	High Yield 58.2	Real Estate (REITs) 22.8	Global ex U.S. Fixed Income 5.9	Emerging Mkts Equity 18.2	Large Cap Equity 32.4	Large Cap Equity 13.7	60 40 Portfolio 1.3	High Yield 17.1	Devel- oped ex U.S. Equity 24.2	U.S. Fixed Income 0.0	Small Cap Equity 25.5	Large Cap Equity 18.4	Large Cap Equity 28.7	U.S. Fixe Inco -10.
Cash Equiv 1.6	Devel- oped ex U.S. Equity 39 4	Small Cap Equity 18.3	Large Cap Equity 4.9	Small Cap Equity 18.4	Global ex U.S. Fixed Income 11 3	Cash Equiv 1.4	Devel- oped ex U.S. Equity 33 7	Emerging Mkts Equity 18.9	High Yield 5.0	Devel- oped ex U.S. Equity 16 4	Devel- oped ex U.S. Equity 21 0	60 40 Portfolio 10.6	Real Estate (REITs) 1.3	Large Cap Equity 12.0	Large Cap Equity 21.8	Global ex U.S. Fixed Income -1 7	Real Estate (REITs) 24.6	Emerging Mkts Equity 18.3	60 40 Portfolio 15.9	Hig Yiel -11.
High Yield -1.4	High Yield 29.0	Global ex U.S. Fixed Income 12 0	Small Cap Equity 4.6	Large Cap Equity 15.8	U.S. Fixed Income 7.0	60 40 Portfolio -22.1	Real Estate (REITs) 32.5	High Yield 15.1	60 40 Portfolio 4.7	Small Cap Equity 16.3	60 40 Portfolio 17.6	U.S. Fixed Income 6.0	U.S. Fixed Income 0.5	Emerging Mkts Equity 11.2	Small Cap Equity 14.6	High Yield -2.1	Devel- oped ex U.S. Equity 22 5	60 40 Portfolio 14.7	Small Cap Equity 14.8	60 - Por -13
Emerging Mkts Equity -6.2	Large Cap Equity 28.7	High Yield 11.1	60 40 Portfolio 4.0	High Yield 11.8	60 40 Portfolio 6.2	High Yield -26.2	Small Cap Equity 27.2	Large Cap Equity 15.1	Real Estate (REITs) 2.5	Large Cap Equity 16.0	High Yield 7.4	Small Cap Equity 4.9	Cash Equiv 0.1	60 40 Portfolio 8.3	60 40 Portfolio 14.2	60 40 Portfolio -2.3	60 40 Portfolio 22.2	Global ex U.S. Fixed Income 10 5	Devel- oped ex U.S. Equity 12 6	Lai Ca Eq -16
60 40 Portfolio -9.8	Global ex U.S. Fixed Income 18.6	Large Cap Equity 10.9	Cash Equiv 3.1	60 40 Portfolio 11.1	Large Cap Equity 5.5	Small Cap Equity -33.8	Large Cap Equity 26.5	60 40 Portfolio 12.1	Large Cap Equity 2.1	High Yield 15.8	Real Estate (REITs) 2.7	High Yield 2.5	Devel- oped ex U.S. Equity -3.0	Real Estate (REITs) 6.4	Global ex U.S. Fixed Income 9 9	Large Cap Equity -4.4	Emerging Mkts Equity 18.4	Devel- oped ex U.S. Equity 7.6	High Yield 5.3	Srr Ca Eq -17
Devel- oped ex U.S. Equity -15 8	60 40 Portfolio 18.5	60 40 Portfolio 8.3	High Yield 2.7	Global ex U.S. Fixed Income 6 8	Cash Equiv 4.4	Large Cap Equity -37.0	60 40 Portfolio 18.4	Devel- oped ex U.S. Equity 8.9	Cash Equiv 0.1	60 40 Portfolio 11.3	Cash Equiv 0.1	Cash Equiv 0.0	Small Cap Equity -4.4	Devel- oped ex U.S. Equity 2 7	Real Estate (REITs) 7.7	Real Estate (REITs) -4.5	High Yield 14.3	U.S. Fixed Income 7.5	Cash Equiv 0.0	En ing Eq -17
Small Cap Equity -20.5	U.S. Fixed Income 4.1	U.S. Fixed Income 4.3	U.S. Fixed Income 2.4	Cash Equiv 4.7	High Yield 1.9	Devel- oped ex U.S. Equity -43 6	U.S. Fixed Income 5.9	Global ex U.S. Fixed Income 6 8	Small Cap Equity -4.2	U.S. Fixed Income 4.2	U.S. Fixed Income -2.0	Emerging Mkts Equity -2.2	High Yield -4.5	U.S. Fixed Income 2.6	High Yield 7.5	Small Cap Equity -11.0	U.S. Fixed Income 8.7	High Yield 7.1	U.S. Fixed Income -1.5	De op U. Eq
Large Cap Equity -22.1	Cash Equiv 1.0	Cash Equiv 1.4	Global ex U.S. Fixed Income -9 2	U.S. Fixed Income 4.3	Small Cap Equity -1.6	Real Estate (REITs) -44.6	Global ex U.S. Fixed Income 3 9	U.S. Fixed Income 6.5	Devel- oped ex U.S. Equity -12 2	Global ex U.S. Fixed Income 0 8	Emerging Mkts Equity -2.6	Global ex U.S. Fixed Income -2 5	Global ex U.S. Fixed Income -4 8	Global ex U.S. Fixed Income 1 9	U.S. Fixed Income 3.5	Devel- oped ex U.S. Equity -14 1	Global ex U.S. Fixed Income 5 2	Cash Equiv 0.4	Emerging Mkts Equity -2.5	Re Es (Rl -18
					Real Estate (REITs) -12.4	Emerging Mkts Equity -53.3	Cash Equiv 0.1	Cash Equiv 0.1	Emerging Mkts Equity -18.4	Cash Equiv 0.1	Global ex U.S. Fixed Income -5 1	Devel- oped ex U.S. Equity -4 3	Emerging Mkts Equity -14.9	Cash Equiv 0.3	Cash Equiv 0.9	Emerging Mkts Equity -14.6	Cash Equiv 2.1	Real Estate (REITs) -10.1	Global ex U.S. Fixed Income -9 5	Gia ex Fix Inc -21
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Y 8/31
0 40 Pc	rtfolio						U.S. Fiz	xed Incom	ne					— High `	Yield					
Real Estate (REITs)							Global ex U.S. Fixed Income						Emerging Mkts Equity							
Developed ex U.S. Equity						_	Small Cap Equity						Large Cap Equity							

Source: Federated Hermes. September 26, 2022 This is for illustrative purposes only and does not represent any specific investment. Past performance is no guarantee of future results. See Disclosure page at the end of presentation for underlying sources (indexes) and definitions





## Historic Fiscal Policy

Build Back Better (In Progress)

Bipartisan Infrastructure Framework (In Progress)

American Rescue Plan (2021)

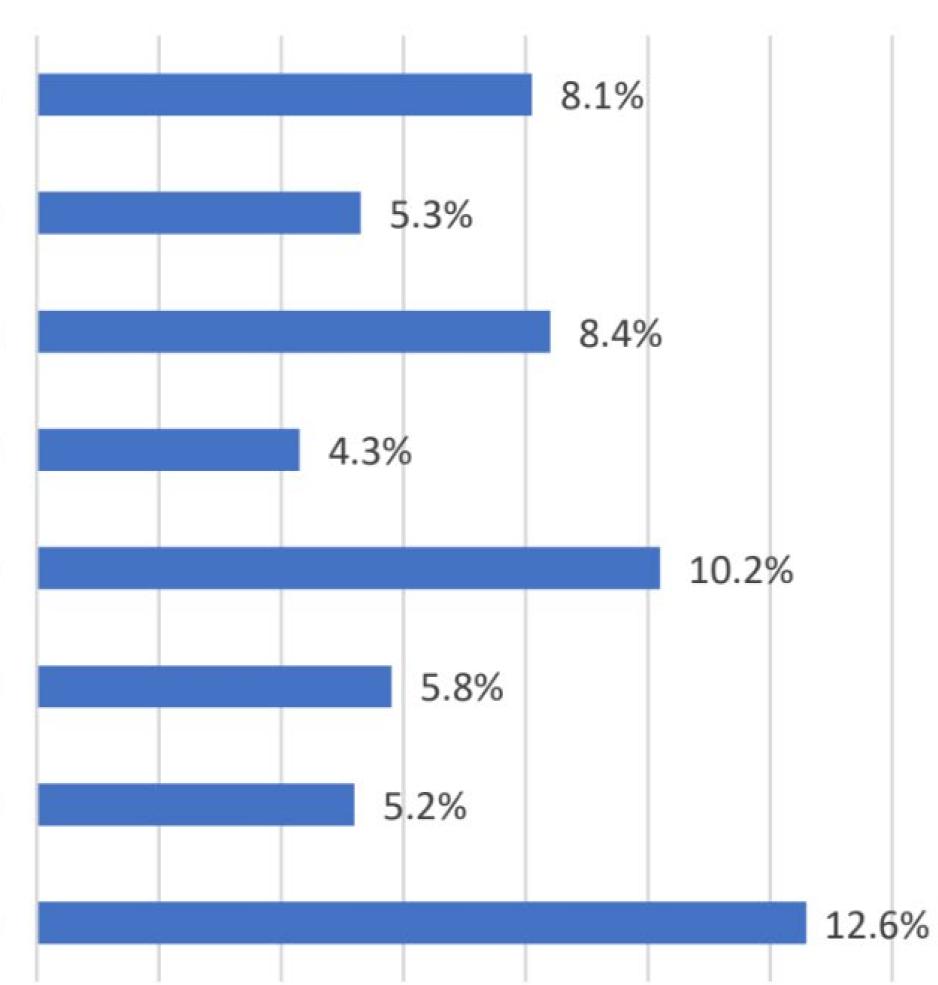
Phase 4 COVID Relief (2020)

CARES Act (2020)

American Recovery and Reinvestment Act of 2009

Marshall Plan (1948)

The New Deal (1933)



Select Stimulus As A Percentage of US GDP



## And The Debt Champion Is....

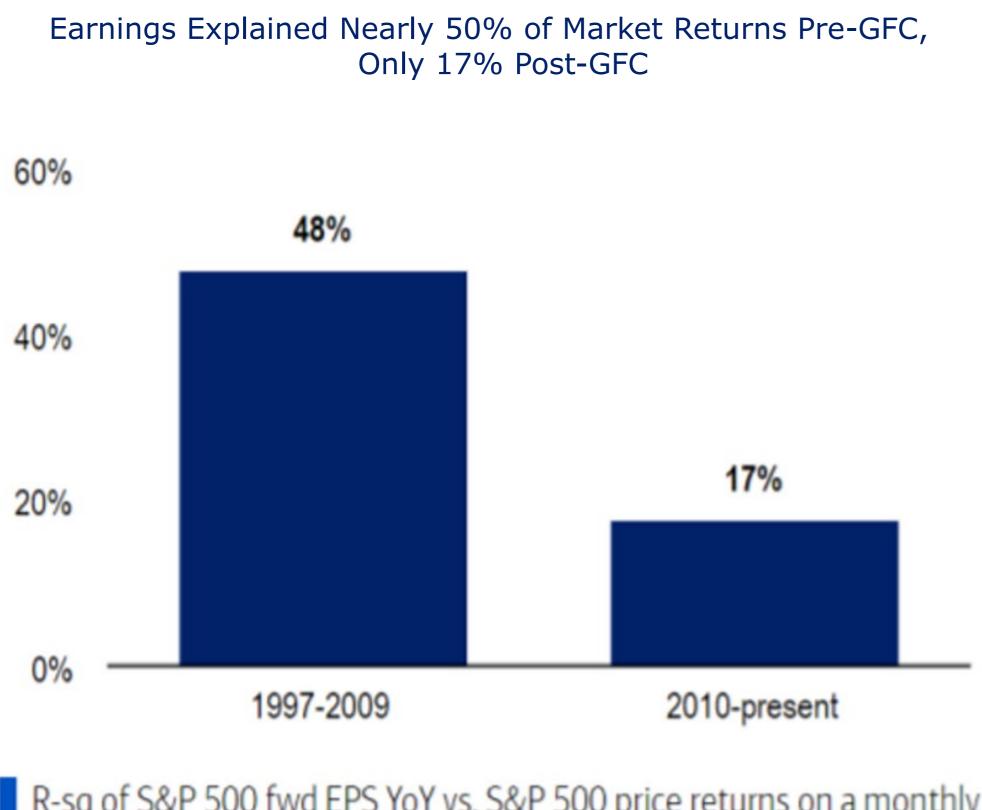
	2020 gov't debt (US\$ trn)	2020 rise in gov't debt (US\$trn)	Population (mn)	2020 gov't debt per capita (US\$)	2020 rise in gov't debt per capita (US\$)
USA	22.21	4.20	328.2	67,672	12,797
Canada	0.76	0.31	37.6	20,300	8,202
UK	2.68	0.46	66.6	40,176	6,961
Japan	9.01	0.72	126.5	71,192	5,690
Germany	2.12	0.44	83	25,571	5,286
France	2.92	0.34	66.9	43,552	5,063
Italy	2.85	0.24	60.3	47,157	4,048
China	9.65	1.66	1,393.00	6,931	1,191

Debt Levels and Increases in Major Economies

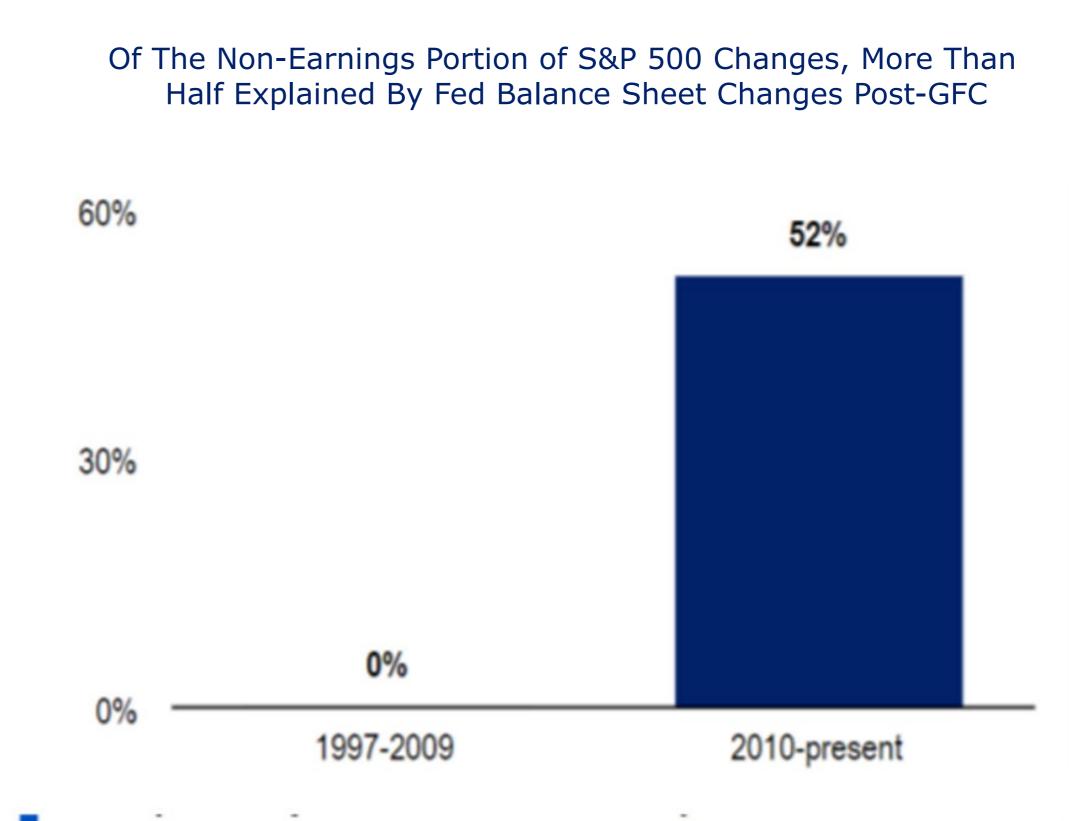


### Don't Shoot The Messenger: The Market Loves Easy Monetary Policy

EPS Used to Matter Most



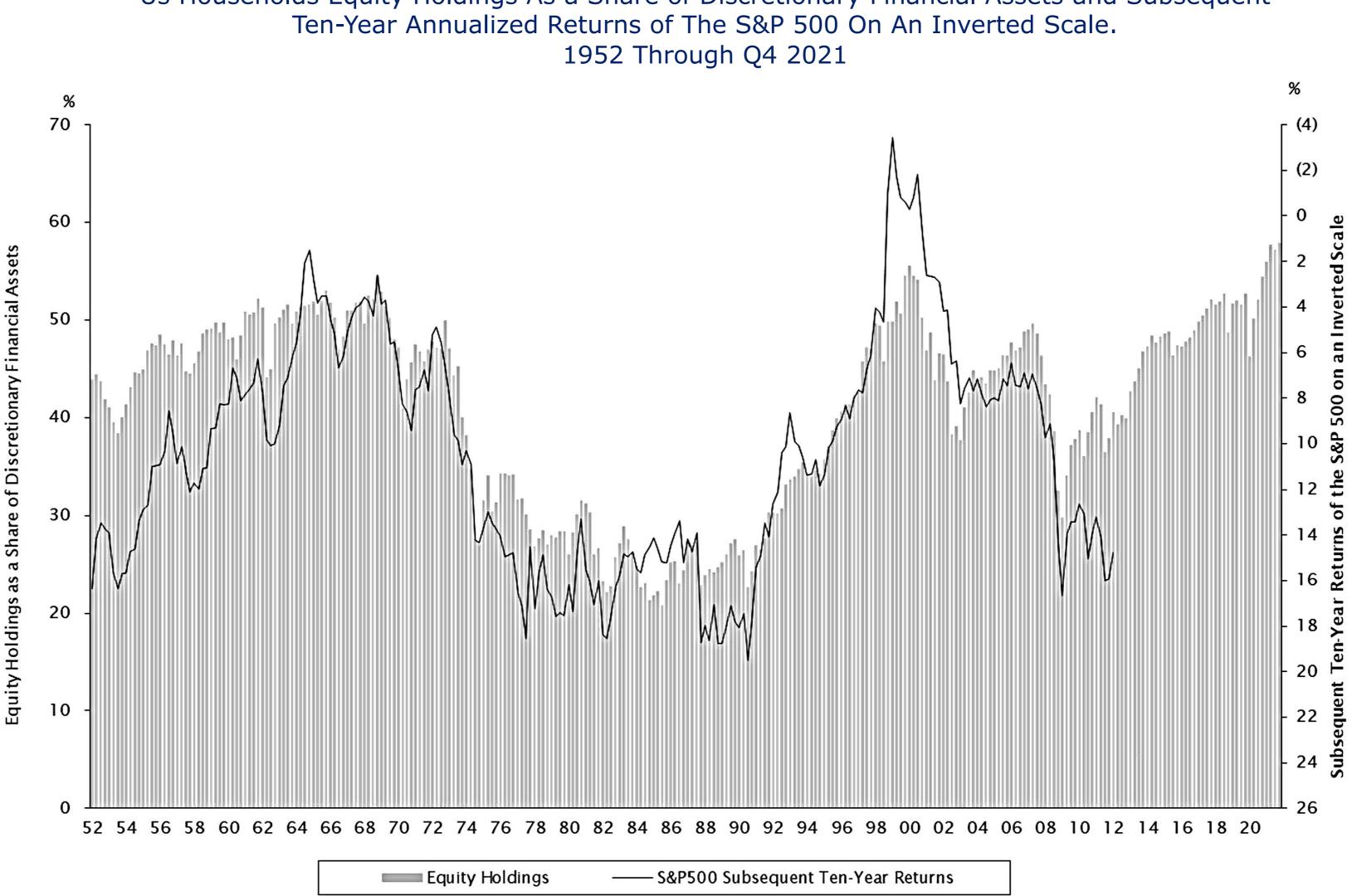
R-sq of S&P 500 fwd EPS YoY vs. S&P 500 price returns on a monthly basis (May 1997-present)



R-sq of Fed balance sheet YoY vs. YoY change in S&P 500 market cap that is not driven by earnings (May 1997-present)



### Don't Shoot The Messenger: Future Equity Returns May Be Modest



Source: Federal Reserve Board, Bloomberg, Empirical Research, June 7, 2022

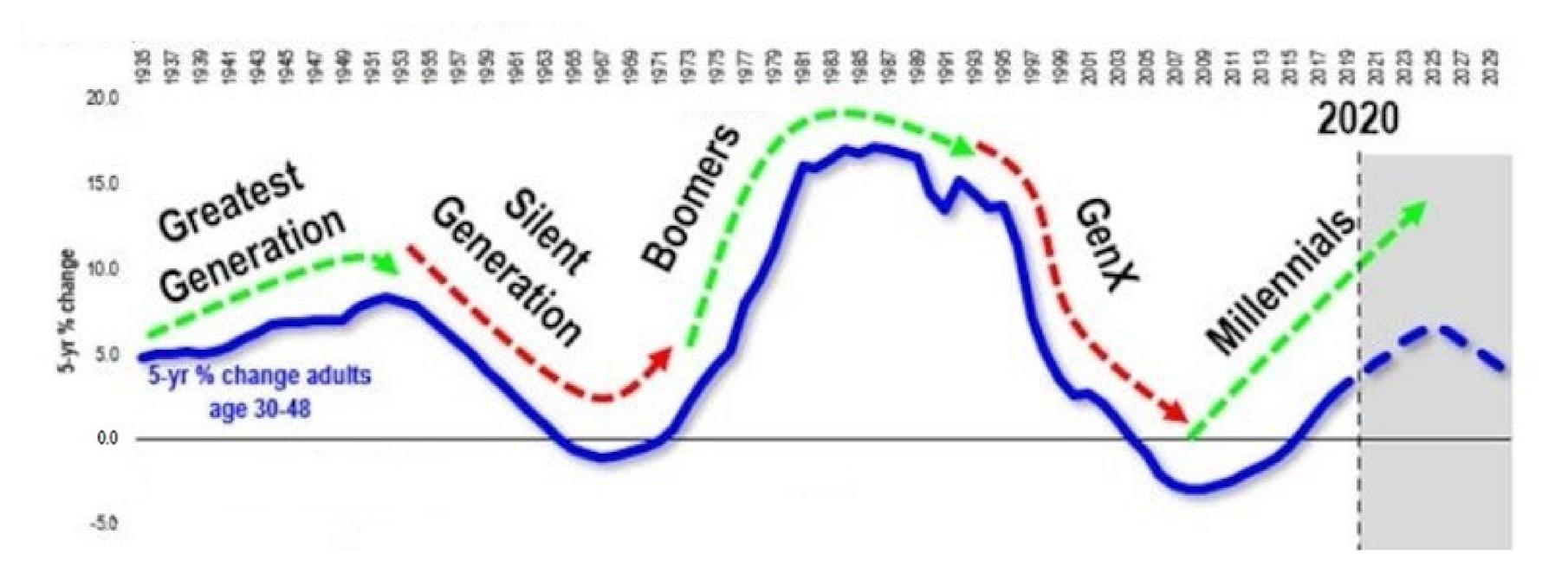
Us Households Equity Holdings As a Share of Discretionary Financial Assets and Subsequent





# *It All Depends On Your Time Horizon:* In The Long Term, Prime Skilled Adults Age 30-48 Are Surging

Prime Leverage Years: # Adults Age 30-48 Since 1935 per the US Census Bureau



Generation	Birth years					
Greatest Generation	1910	1927				
Silent Generation	1928	1945				
Baby Boomers	1946	1964				
GenX	1965	1980				
Millennials	<mark>1981</mark>	2000				
Generation Z	2001	2018				



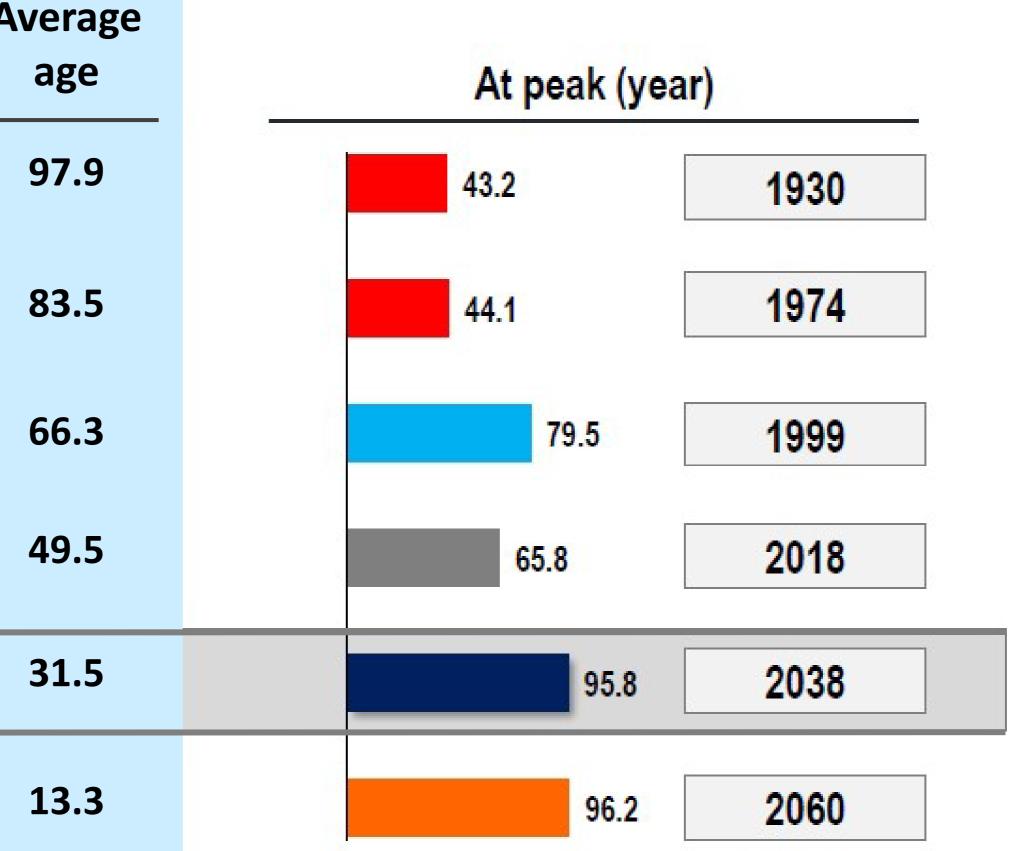


### The Largest Generation Ever, Millennials Are Just Entering Their Prime Income Years

Total US Population Divided by Age Groups

Generation	Years of birth	A\ 
<b>Greatest Generation</b>	1910 1927	
Silent Generation	1928 1945	
Baby Boomers	1946 1964	
GenX	1965 1980	
Millennials	1981 2000	
Generation Z	2001 2018	

Peak population figures above include immigration. Reduced immigration will lead to a smaller overall size of Gen Z. Source: DESA UN Data sets, Fundstrat; Federated Hermes. Updated December 8, 2021





### Slide 33 Disclosures and Definitions

Large Cap Equity - S&P 500 Index measures the performance of large capitalization U.S. stocks. It is a market-value-weighted index of 500 stocks that are traded on the NYSE, NYSE MKT, and Nasdaq

Small Cap Equity - Russell 2000 Index measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market value-weighted index of the 2,000 smallest stocks (#1,001–3,000) in the broad-market Russell 3000 Index.

Developed ex U.S. Equity - MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 developed market countries (excluding the U.S.) and 26 emerging market countries covering approximately 85% of the global equity opportunity set outside the U.S.

Emerging Markets Equity - MSCI Emerging Markets Index is a free float-adjusted market-capitalization-weighted index that is designed to measure equity market performance of 26 emerging market countries.

U.S. Fixed Income - Bloomberg US Aggregate Bond Index includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.

High Yield - Bloomberg Corporate High Yield Index measures the market of USD-denominated, noninvestment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

Global ex U.S. Fixed Income - The GBI Global Index currently tracks a fixed list of 12 core developed markets, namely Australia, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, United Kingdom.

60/40 Portfolio – represents a portfolio consisting of 60% Equities (S&P 500 Index) and 40% Fixed Income (Bloomberg US Aggregate Bond Index)

Real Estate - The FTSE EPRA Nareit Developed Index is designed to measure the stock performance of companies engaged in specific real estate activities of the North American, European, and Asian real estate markets. Relevant real estate activities are defined as the ownership, trading, and development of income producing real estate.

Cash - Cash Equivalent (90-day T-bill) is a short-term debt obligation backed by the Treasury Department of the U.S. government.





### **Interested In Hearing More?**

### Visit **federatedinvestors.com/LindaDuessel** to sign up for email updates, watch YouTube videos, connect on LinkedIn and more.

## LINDA DUESSEL



### Mind on the Market

With more than 30 years of experience, Linda Duessel is nationally recognized for her expertise in analyzing equity market conditions. Linda discusses personal finance with investor groups across the country on topics of interest ranging from the impact of the alternative minimum tax to investing for retirement. Additionally, Linda has been extensively quoted by Associated Press, The Wall Street Journal and Barron's, as well as featured in the annual roundtable for USA Today.

As senior equity market strategist, Linda is part of the equity income team, which is responsible for formulating Federated's views about the market and the firm's positioning strategies within the equity income team. As senior client portfolio manager, she is responsible for articulating the strategy, process, positioning and performance of Federated's equity income products.

Interested in hearing more from Linda? Here are two ways:

1. Read her weekly market views Look for them on our site and in our weekly email.

2. Connect with her on LinkedIn



