Chris Hyzy: This is Chris Hyzy, Chief Investment Officer, for the February Viewpoint Update titled Distortions are rebalancing and markets are applauding. We highlight a number of different interesting trends over the course of these last few weeks, but more importantly, there are new interesting trends already developing. When we take a step back and we think about the economic climate, it is a mixed bag. There's great debate on when the recession/if the recession, how big the recession might be this year. Some are saying it's delayed, others are saying it's not coming, others are saying it's already here depending upon the part of the economy you're looking at. When we look at earnings - also a mixed bag. In fact, the latest earnings announcements that were just getting through for the fourth quarter announced here at the early part of 2023 are suggesting that certain overbuilt areas during the pandemic have started to not only correct, show margin deterioration, revenue deterioration, and ultimately earnings deterioration. The question is, "How big is it throughout this year and when does the new profit cycle kick in?" Those are the overbuilt areas, but there's other areas that are going through pent up demand, i.e., hotel, leisure, and entertainment. Those are still experiencing higher wage costs as the labor market is rebalancing over there, but consumer spending has a significant pent up demand curve to it. What we're witnessing right now in consumer and business land is a lot of the excess savings that have done built up is beginning to roll off. Nonetheless, the consumer and the corporation are still healthy as evidenced by the job market and overall just margins at the S&P 500 level. So we look at the backdrop as a mixing bowl that we've discussed in the past. There's a number of different ingredients by themselves in a bowl that don't look particularly attractive. When you mix it all up and you come out on the other side, we could be witnessing a distortion that continues to rebalance itself within the economy led by spending, also led by the job market, and then ultimately how does that distortion rebalance itself in earnings, the Federal Reserve,

the geopolitical climate, and other big worries that are still out there? So, we highlight about seven different interesting trends to note. First and foremost, despite higher rates and quantitative tightening, financial conditions have actually been easy since October of ‘22 as the US dollar has been weaker, dollar liquidity has increased, inflation gauges are much lower, and a decline in long term rates and credit spreads continue to narrow. This has actually fueled a short-term equity rally in our opinion, particularly in the areas that underperformed the most in 2022, namely technology and communications as part of the broader equity market. Number two, the long awaited and great debated economic recession is delayed. Healthy consumer and corporate balance sheets are supporting spending at a much higher clip than expected. The manufacturing and housing segments of the economy however are contracting but services are balancing this out hence the mixed bag. Three. Strong jobs reports and specifically the employment data from January is due to goods-based spending is still shifting to services areas. Big job gains in hotel, leisure, restaurants etc. continue to confirm this. The labor market distortions from the pandemic cycle are still rebalancing themselves. Unemployment claims in the coming months are expected to rise as this rebalancing effect wanes and companies ultimately right size their business models for a slower growth environment. However, B of A Global Research still expects the unemployment rate overall to stay below what many believe is the predetermined recession rate of 6% from prior recessions. This is much higher than the current 3.4% as the supply of labor remains structurally below average. Four, corporate earnings revisions have been slightly negative, but not across the board or close to the bear market scenarios many have been discussing. Earnings announcements for the fourth quarter have so far been coming in basically flat all things considered. Revenues have been supported generally by the higher prices, but unit volumes and margins are now showing some weakness.

Consensus earnings estimates for the S&P 500 have been shaved recently down to 224, but still a little high in our opinion. Our B of A Global Research estimate remains as $200.00 for the S&P 500 for 2023. Five, technology stocks have had a recent resurgence in January and early February. In our view, this is due to investors applauding the move by large bellwether companies in the sector to finally cut costs aggressively and begin to right size their expenses. Significant short covering also can be contributed by hedge fund managers to this recent resurgence which helps support their share prices and semiconductor companies performing above expectations as supply chains have improved and most importantly, China has reopened its economy. However, we believe there's more room to go before the technology sector's long term workout is over. Tech will be needed in the coming profit cycle and the new economy to support automation, the internet of things, artificial intelligence, but we don't expect the sector to be the leader in the next bull cycle. Six, the energy sector has been weak on a relative basis as financial conditions have eased, but we believe this area is due for a resurgence in its own right. The long term supply demand dynamics are still in favor of higher energy prices while cost containment remains top of mind. This supports higher free cash flows for this sector in the future which potentially supports increases to dividends and stock buyback programs which is shareholder friendly in our opinion. Finally seven, the Federal Reserve should hike two more times in March and May at 25 basis points each. This move would push the so called terminal rate for the fed funds to 5% to 5.25% which has long been what the Federal Reserve has been targeting. We then expect the fed to pause and continue to assess the incoming data through the balance of the year. Now given our expectation that the money supply will likely continue to deflate and inflation continue to drop, the market may begin to debate the fed's next move, that is cutting rates by the end of the year. We will see, but for now the strong jobs data and healthy services spending are

delaying the much discussed recession and the fed will likely remain hawkish. We expect a grinded out equity market environment overall in the coming months. In February we expect more of a chop than a grind in the trend as January's 8% gain in the S&P 500 and about 13% for the Nasdaq composite has borrowed some of the return from February. Traditionally, strong market performance in January has led to a positive year overall, particularly after such a negative year like 2022. Overall, we are neutral equities and fixed income due to our base case of a grind for this year, but we do see opportunities in total return sectors, dividend payers, higher quality investments overall, and eventually better opportunities in small caps and non-US later in the year. In fixed income we favor short term bonds for cash flow and long term bonds for total return. We expect rates at the back end of the yield curve to come down later in the year and then the short end of the curve to follow eventually. Finally, we expect credit opportunities to develop later in the year after some potential spread widening. That'll do it for the February Viewpoint titled Distortions are rebalancing and markets are applauding. Thanks for listening.

Operator: Please see important information provided in this report.

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