STRATEGAS

insight

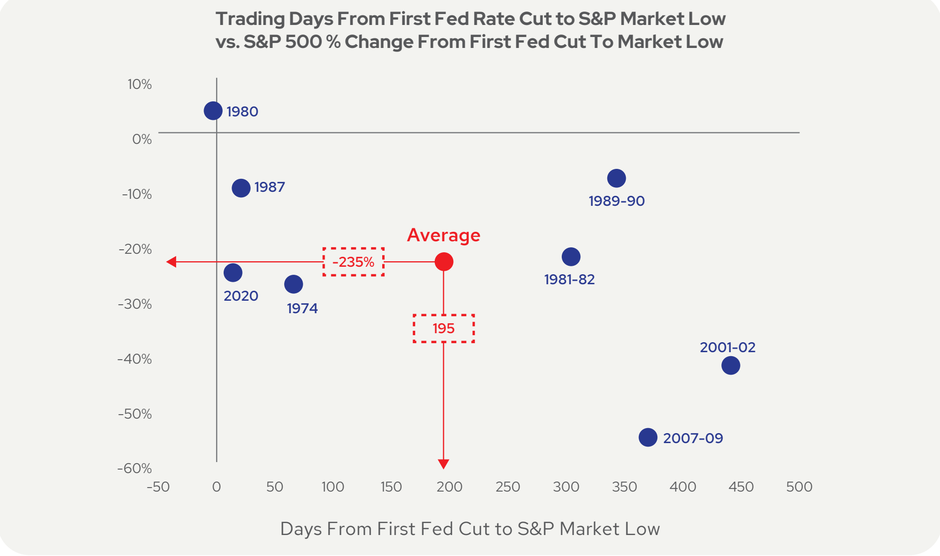
Brought to you by Envestnet

Far From Over

Is the equity market's advance off its October low durable? Or will it ultimately resemble the same tempting-then-disappointing arc as the transient rally we saw this past summer? We remain suspicious... and vigilant, mindful that the extended – duration and order of magnitude – bottoming process associated with financial deleveraging and broad asset price corrections are conducive to strong countertrend moves.

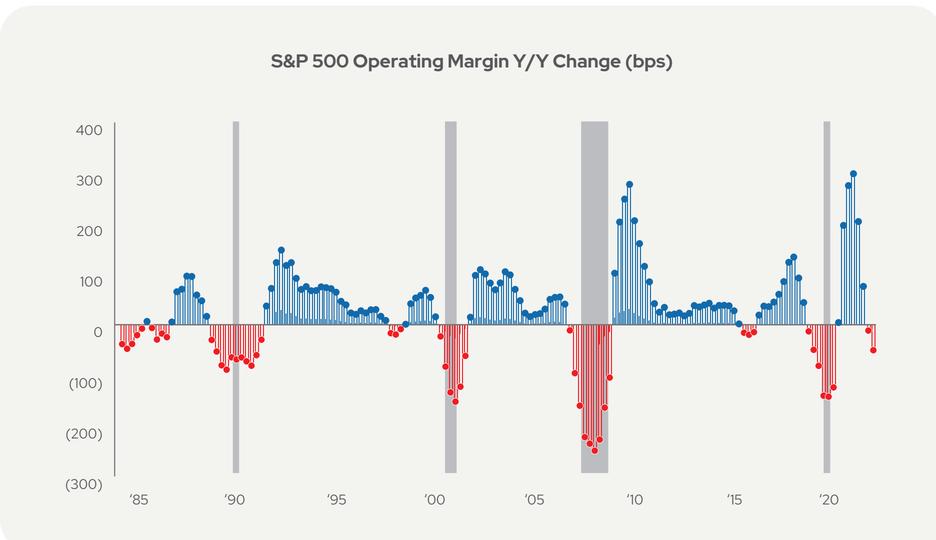
We continue to rely on the same framework for handicapping the market's progress toward finding intrinsic bedrock that we have all year: 1) anchor inflation expectations; 2) level set valuations; and, 3) identify organic drivers of growth that will pull private capital into the real economy. As our Economics team has highlighted, a reasonable case can be made that the Y/Y rates of change in the various inflation measures have peaked. The focus moving forward is just how quickly those rates of change will retreat to levels that make policymakers comfortable enough to: a) stop tightening financial conditions; and, b) layout a path toward easing monetary policy. If the past is prologue, we likely have a way to go. The Fed has signaled it is loath to repeat the adjudication of a "stop-and-go" '70s-style monetary policy, which it views as allowing inflation to become unanchored. Moreover, investors might consider that the Fed doesn't cut because the backdrop is improving, i.e. a pivot has not historically been associated with optimism. While the circumstances differ across the sample, when the Fed does pivot, equities have generally continued to sell off – on average, stocks have declined 23% in the six months following the Fed's first rate cut.

We expect tighter monetary conditions to exist for some time. The Fed has indicated it is open to slowing the pace of policy rate hikes. Strategas' Chief Economist Don Rissmiller is anticipating a +50bp hike at the December FOMC meeting, with the terminal Fed funds rate at 5.00% to 5.25% in early CY'23. At the same time, it has accelerated the pace of monthly asset sales, i.e. "quantitative tightening." This is likely to have a continued and negative impact on companies' ability to expand operating margins. While current economic data remains mixed, until the Fed declares victory, risks skew to the downside.



While the "money illusion" can result in higher levels of nominal earnings and make recession-related percentage declines appear less severe than they would in low inflation regimes, contracting operating leverage in combination with tighter financial conditions has historically led to lowered expectations for earnings and earnings growth. Though estimates for aggregate S&P earnings for CY'23 have seen notable downward revision – to ~$230 from $250-$255 as recently as July – it is important to note that recession-related earnings declines have averaged -30% from their **actual** peak (i.e. ~$225 in 3Q'22) not their **estimated** peak. The Street's estimates imply profit **growth** for CY'23. This is inconsistent with the near universally held view that the U.S. economy will contract next year.

savings may be enough for investors to believe in the possibility of a "soft-landing" in the economy, but it may not be enough, in our view, to justify the market trading at 18x trailing earnings. We continue to recommend investors underweight Equities relative to their benchmark exposure. We have been leery of leaning into what we see as countertrend rallies, but acknowledge that "bottoming" is a process and price action is likely to remain volatile in the interim. We continue to favor a more defensive, income-focused allocation among equities, i.e. Value over Growth, and U.S. shares vs. non-U.S. Persistently higher rates have created "alternatives" to stocks and we have continued to add duration as we increased credit quality within an underweight to benchmark Fixed Income allocation.



We remain of the view that the next durable advance in equities will be underpinned by improving fundamental conditions. If there is one consistently held view that we struggle to find sympathy with, it is investors' preoccupation with policy-fed "V-shaped" recoveries. We do not think that road lays ahead of us. Unfilled job openings and excess

About Strategas

Strategas is a global institutional brokerage and advisory firm. The Firm provides macro research, capital market and corporate advisory services, and investment management solutions to institutional investors and corporate executives in more than twenty countries around the world.

Founded in 2006 by Jason DeSena Trennert, Nicholas Bohnsack, and Don Rissmiller, the Firm was acquired by Baird Financial Group in 2018. Strategas operates independently as a wholly-owned subsidiary of Baird and offers institutional securities services through Strategas Securities, LLC, a broker-dealer, and investment management solutions, including this commentary, through Strategas Asset Management, LLC, a registered investment advisor.

About Envestnet

Envestnet refers to the family of operating subsidiaries of the public holding company, Envestnet, Inc. (NYSE: ENV). Envestnet is Fully Vested™ in empowering advisors and financial service providers with innovative technology, solutions, and intelligence to help make financial wellness a reality for their clients through an intelligently connected financial life. Over 108,000 advisors and more than 6,000 companies—including 18 of the 20 largest U.S. banks, 47 of the 50 largest wealth management and brokerage firms, over 500 of the largest RIAs, and hundreds of FinTech companies—leverage Envestnet technology and services that help drive better outcomes for enterprises, advisors, and their clients.

For more information, please visit www.envestnet.com, subscribe to our blog, and follow us on Twitter (@ENVintel) and LinkedIn.

Index Overview & Key Definitions

Fed, The Fed or FED refers to the Federal Reserve System, the central bank of the United States. Fed Funds Rate, the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The Gross Domestic Product (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States. Real Gross Domestic Product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year. Nominal Gross Domestic Product is gross domestic product (GDP) evaluated at current market prices. The S&P 500 Index is an unmanaged index comprised of 500 widely held securities considered to be representative of the stock market in general. The Russell 1000 Index is a market capitalization weighted benchmark index made up of the 1000 largest U.S. companies in the Russell 3000 Index. The Russell 2000 Index is an unmanaged index considered representative of small-cap stocks. The PCE (Personal Consumption Expenditure) Index of Prices is a US-wide indicator of the average increase in prices for all domestic personal consumption. Using a variety of data including U.S. Consumer Price Index and Producer Price Index prices, it is derived from personal consumption expenditures; essentially a measure of goods and services targeted towards individuals and consumed by individuals. The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. FAANG is an acronym for the five of the market's most popular tech stocks, namely Facebook, Apple, Amazon, Netflix and Alphabet's Google. The North American Free Trade Agreement (NAFTA) is an agreement signed by Canada, Mexico, and the United States, creating a trilateral trade bloc in North America. The Seasonally Adjusted Annual Rate (SAAR) is a rate that is adjusted to take into account typical seasonal fluctuations in data and is expressed as an annual total. SAARs are used for data affected by seasonality, when it could be misleading to directly compare different times of the year. The Atlanta Fed GDPNow forecasting model provides a "nowcast" of the official estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis. GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available data for the current measured quarter.

Disclosures

This communication was jointly prepared by Envestnet, Inc. and Strategas Asset Management, LLC ("we" or "us" or "our"). This communication represents our views as of 12/2/2022, which are subject to change. The information contained herein has been obtained from sources we believe to be reliable, but no guarantee of accuracy can be made. This communication is provided for informational purposes only and should not be construed as an offer, recommendation, nor solicitation to buy or sell any specific security, strategy, or investment product. This communication does not constitute, nor should it be regarded as, investment research or a research report or securities recommendation and it does not provide information reasonably sufficient upon which to base an investment decision. This is not a complete analysis of every material fact regarding any company, industry, or security. Additional analysis would be required to make an investment decision. This communication is not based on the investment objectives, strategies, goals, financial circumstances, needs or risk tolerance of any particular client and is not presented as suitable to any other particular client. Past performance does not guarantee future results. All investments carry some level of risk, including loss of principal.

Strategas Asset Management, LLC and Envestnet, Inc. are separate and unaffiliated firms. This material should not be construed as a recommendation or endorsement of any particular product, service, or firm.

Strategas Asset Management, LLC is an SEC Registered Investment Adviser affiliated with Strategas Securities, LLC, a broker-dealer and FINRA member firm, and an SEC Registered Investment Adviser. Both Strategas Asset Management, LLC and Strategas Securities, LLC are affiliated with Robert W. Baird & Co. Incorporated ("Baird"), a broker-dealer and FINRA member firm, and an SEC Registered Investment Adviser, although the firms conduct separate and distinct businesses.

 ENV-STRA-1122