Active Insights

2023 Investment Framework

Putnam Retail Management

Not FDIC Insured | May Lose Value | No Bank Guarantee

AD2879980 5/23

Agenda

- Global economies
- Equity markets
- Fixed Income markets
- Risks and opportunities

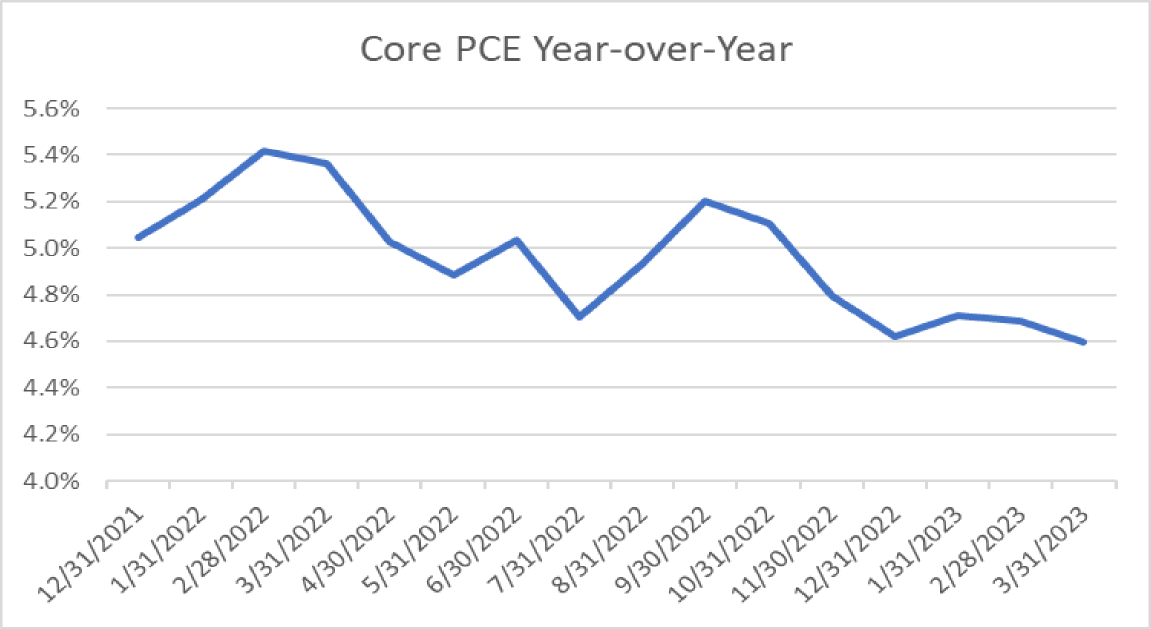
Economy

- Our 2023 U.S. real GDP (Gross Domestic Product)* forecast calls for economic growth in the range of 0% to 1%. We expect a mild recession in 2023.
- Our 2023 European real GDP forecast calls for economic growth in the range of 0% to -1%. We expect a recession in 2023.
- Our 2023 Emerging Market real GDP forecast calls for economic growth in the range of 3% to 4%. We are constructive here for long-term investors.

*Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country’s borders in a specific time period; changes in GDP are an indicator of a national’s overall health.

Economy

- We expect the terminal federal funds rate to finish 2023 in the range of 5.00% - 5.25%.
- We expect the U-3 Unemployment rate to move toward 4% throughout the year.
- We expect the U.S. dollar to be somewhat volatile, and overall, moderately weaker
- We expect U.S. core PCE (Personal Consumption Expenditures)** to moderate and finish the year around 3.25%. The core PCE reading as of 3/31/2023 was 4.60%.

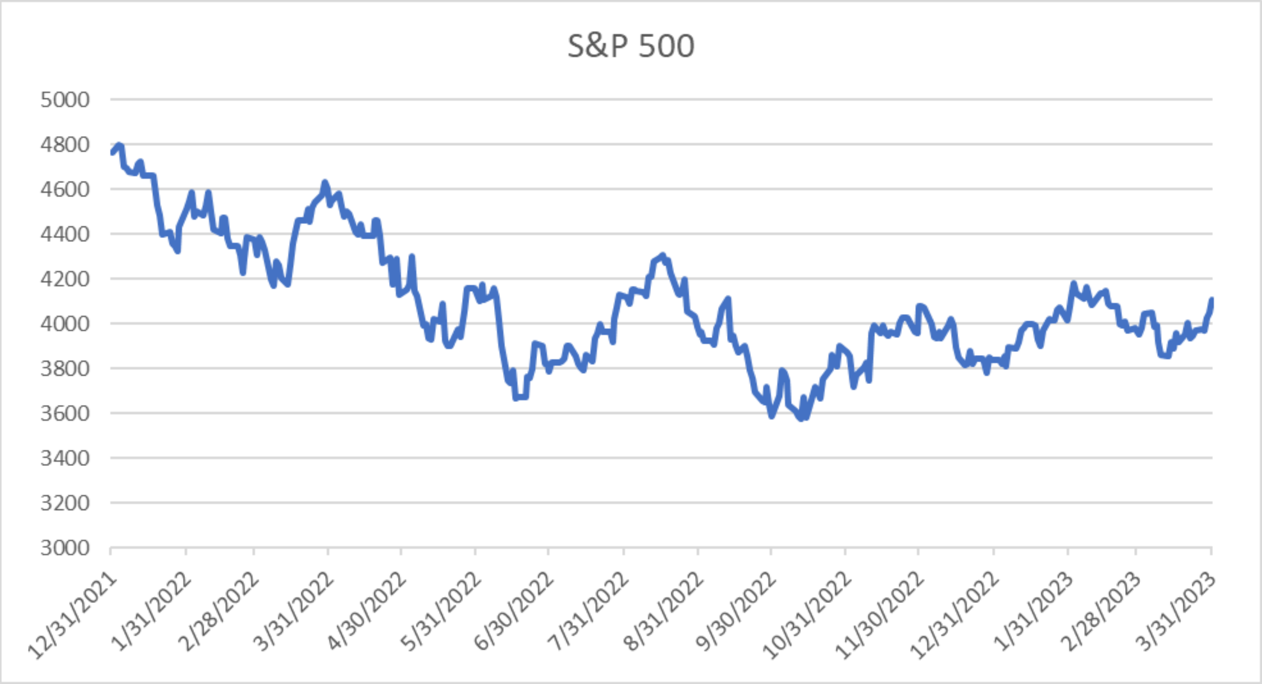


Source: Bloomberg, Putnam

** Personal Consumption Expenditures (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services.

Markets — Equities

- Our price target for the S&P 500 is 4100 by year end. We expect core inflation to moderate, economic growth to moderate, and earnings estimates to degrade further. We believe an earnings recession is possible.
- We believe that growth will generate alpha relative to value.
- We believe that large capitalization stocks will outperform small capitalization stocks.



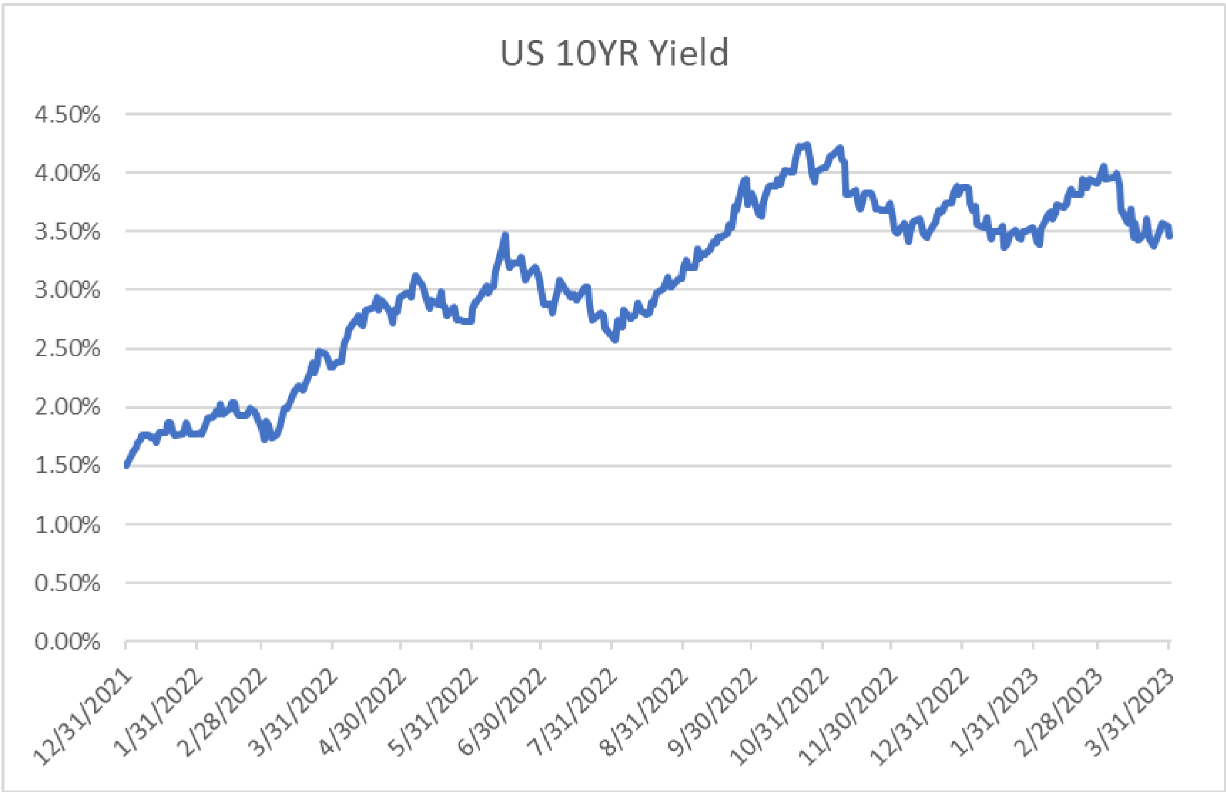
Source: Bloomberg, Putnam

Markets — Equities

- At the factor level, we favor quality, positive earnings estimate revision, growth at a reasonable price, and strong balance sheets.
- We favor the following industries: Financial, Healthcare, Energy, Technology, and Consumer Discretionary.
- The consensus earnings estimate for 2023 is $219 as of 3/31/2023. We expect earnings estimates to be reduced going forward.
- Our primary concerns are centered on earnings degradation and the pace of inflation moderation.

Markets — Fixed Income

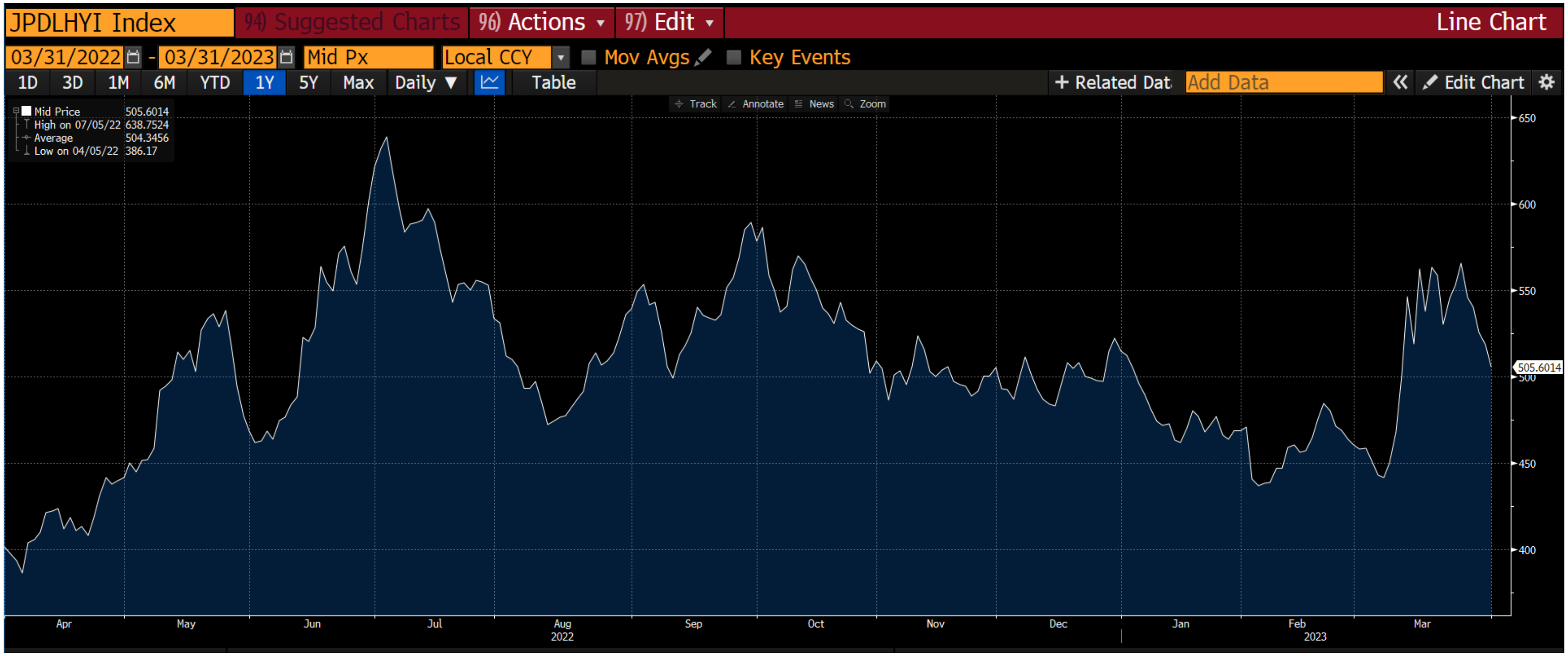
- Our median forecast for the yield on the 10-year U.S. Treasury is 3.75% by year end.
- We expect the federal funds rate to finish 2023 in the range of 5.00% - 5.25%.
- We believe the U.S. dollar highs have likely been already reached. We expect the dollar to weaken modestly and be somewhat volatile, as the Fed ends rate hikes by mid-year



Source: Bloomberg, Putnam

Markets — Fixed Income

- Within corporate credit, we believe volatility is likely to remain elevated. We believe investment-grade spreads and high-yield spreads will be affected by macro forces during the year. High inflation, bank stresses, geopolitical impacts on energy supplies, and central bank tightening amid slowing growth could be challenging for both fundamentals and technicals. However, valuations are more attractive relative to early 2022. The chart below shows the spread of the J.P. Morgan Developed High Yield Index over the past five years.



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Markets — Fixed Income

- Within mortgage credit, we continue to find value in commercial mortgages as the U.S. economy continues to open for travel, office use and retail spending. Within residential credit, we believe it's likely that we begin to see modest price depreciation in 2023, in the face of affordability pressures on the demand side amid a gradual increase in supply.
- Emerging market debt will most likely continue to be meaningfully impacted by challenging economic conditions. However, there have been some positive developments including easing restrictions in China and resilient growth broadly, and valuations overall appear attractive particularly in countries that are less directly affected by geopolitical turmoil and policy risks.
- Prepayment sensitive assets such as CMO IOs (Collateralized Mortgage Obligation Interest Only) appear attractively valued as prepayment speeds should continue to slow, given elevated mortgage rates and softening home prices.
- We believe municipal bonds continue to be a high-quality, diversifying investment option especially to equities, and spreads are poised to tighten as fundamentals remain strong and valuations continue to look attractive.

Risks and opportunities

Putnam's investment division generally believes that in 2023:

- The biggest risks will be centered around the rate of inflation moderation, the magnitude of earnings degradation, as well as the pace of economic growth.
- The best opportunities will be found in U.S. large capitalization, high quality companies with a growth bias. We are also constructive on Emerging Market equities as well as municipal bonds.

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The S&P 500® Index is an unmanaged index of common stock performance. You cannot directly invest in an index.

The JPMorgan Developed High Yield Index is an unmanaged index of high-yield fixed income securities issued in developed countries.

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