

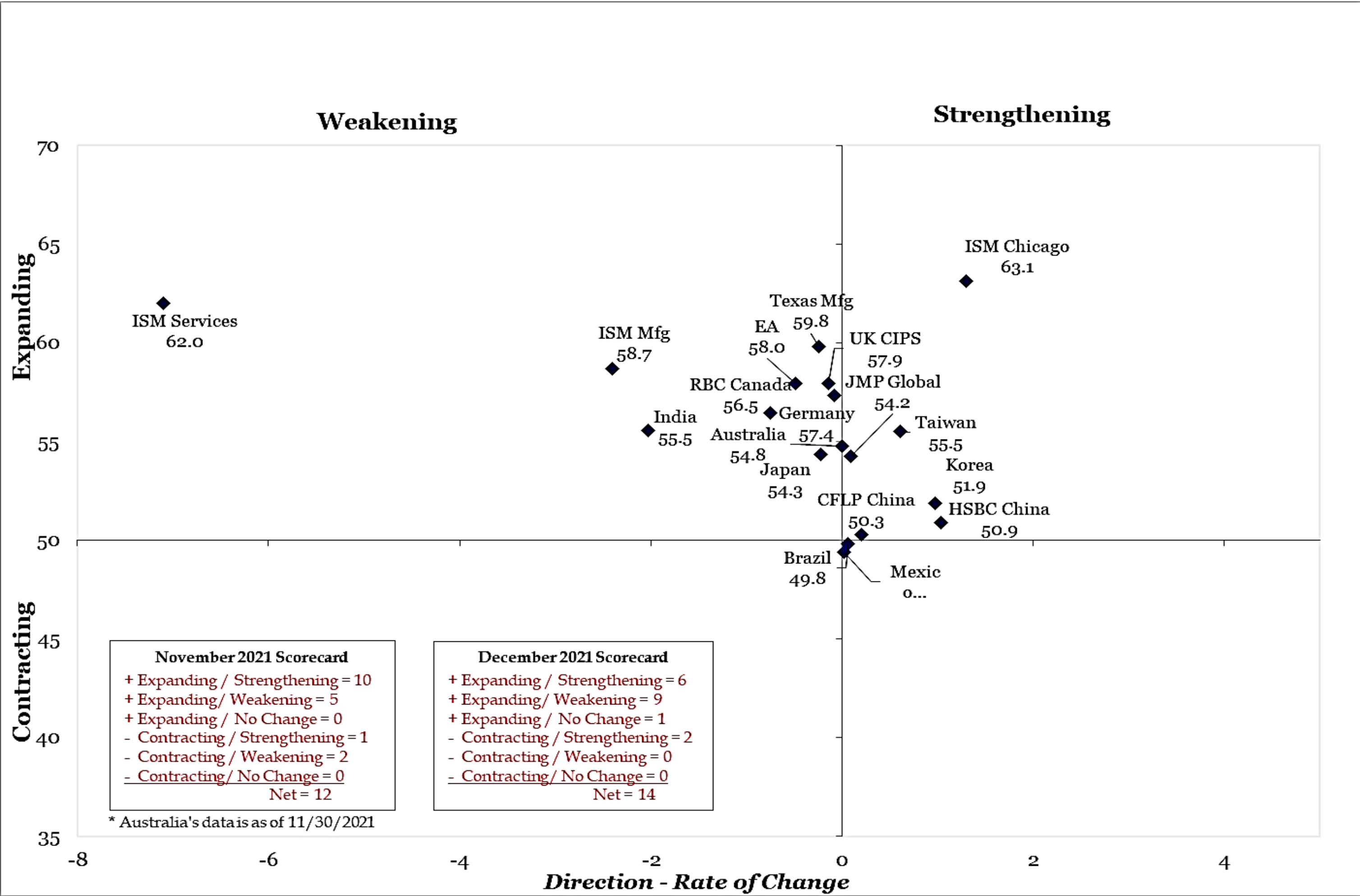
Economic & Market Outlook: It All Depends On Your Time Horizon

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January 2022

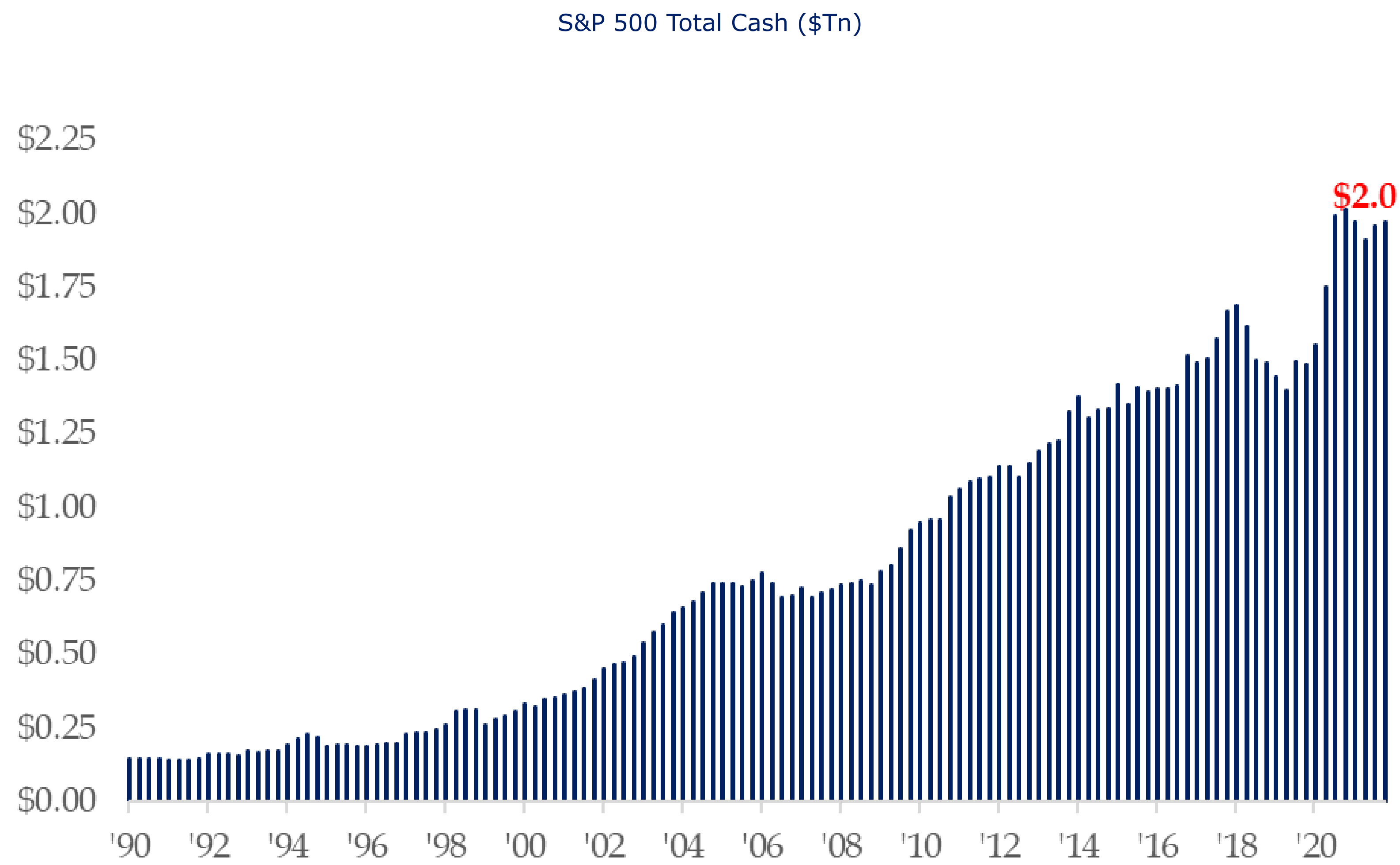
Economies Recovering All Around The World

Global Economy Scorecard as of December 2021



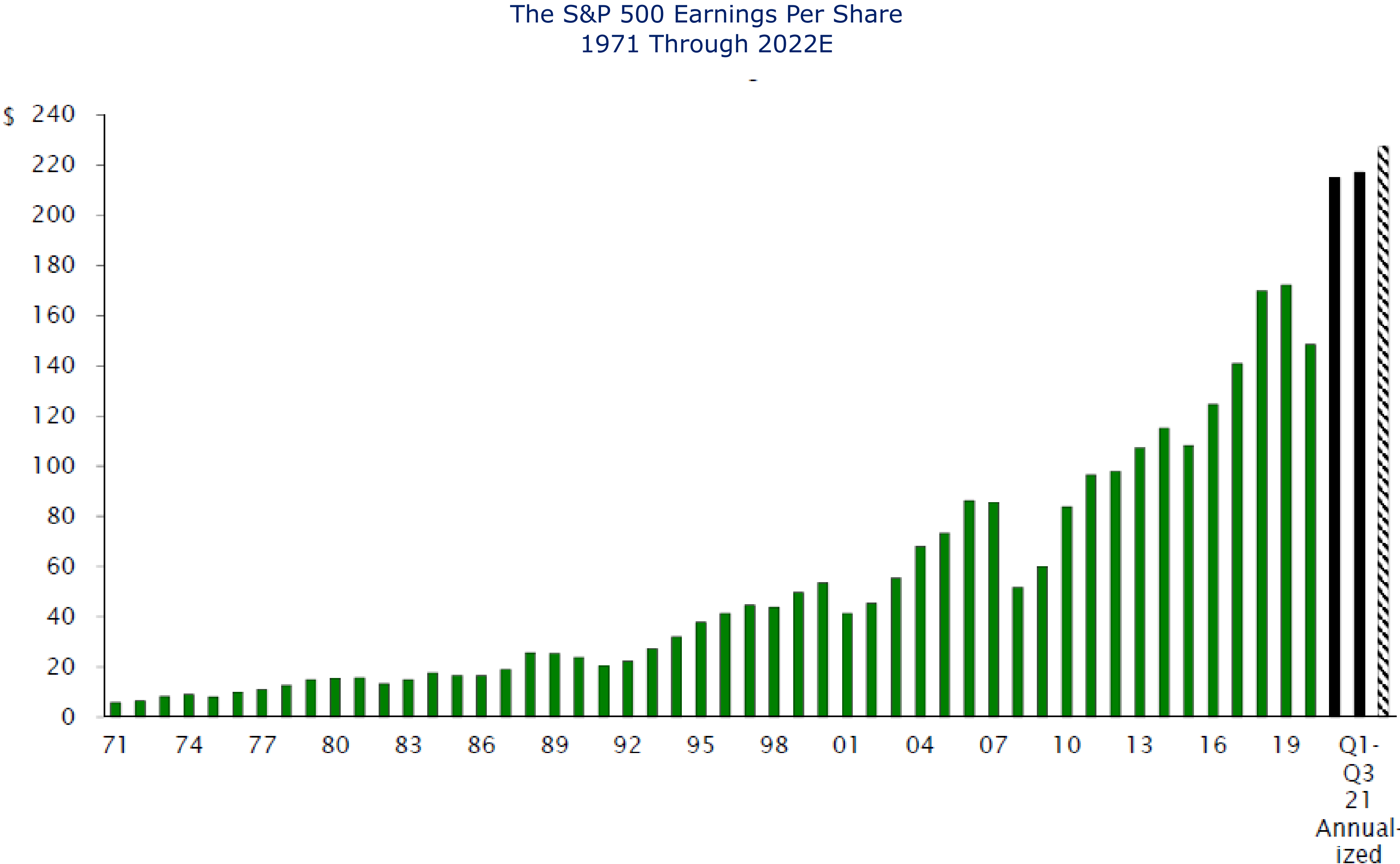
Source: Strategas Research Partners. Data as of January 7, 2022

Businesses Are Flush With Cash



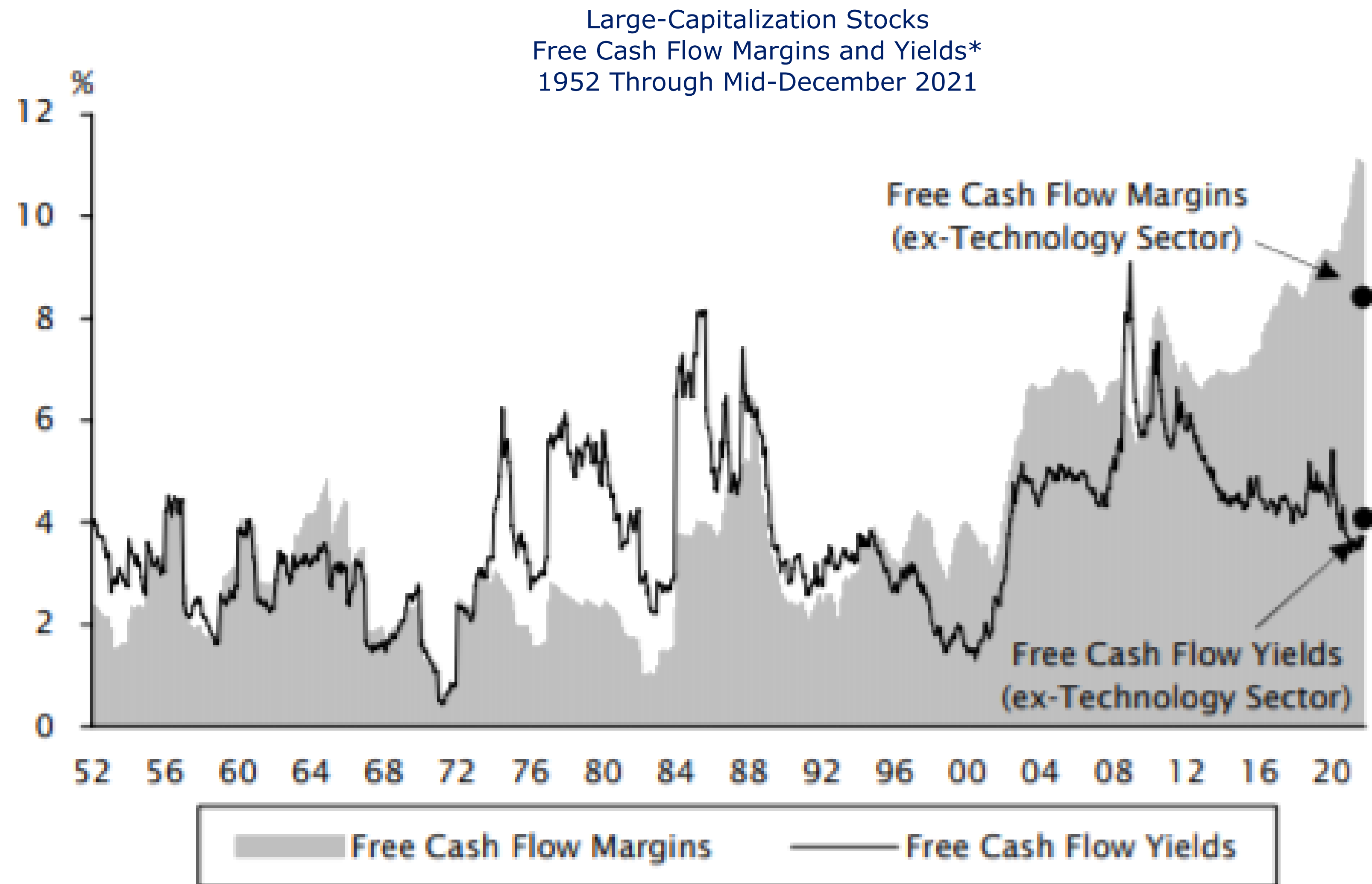
Source: Strategas Research. January 24, 2022

Earnings Have Vastly Exceeded Expectations



Source: Empirical Research Partners. November 22, 2021

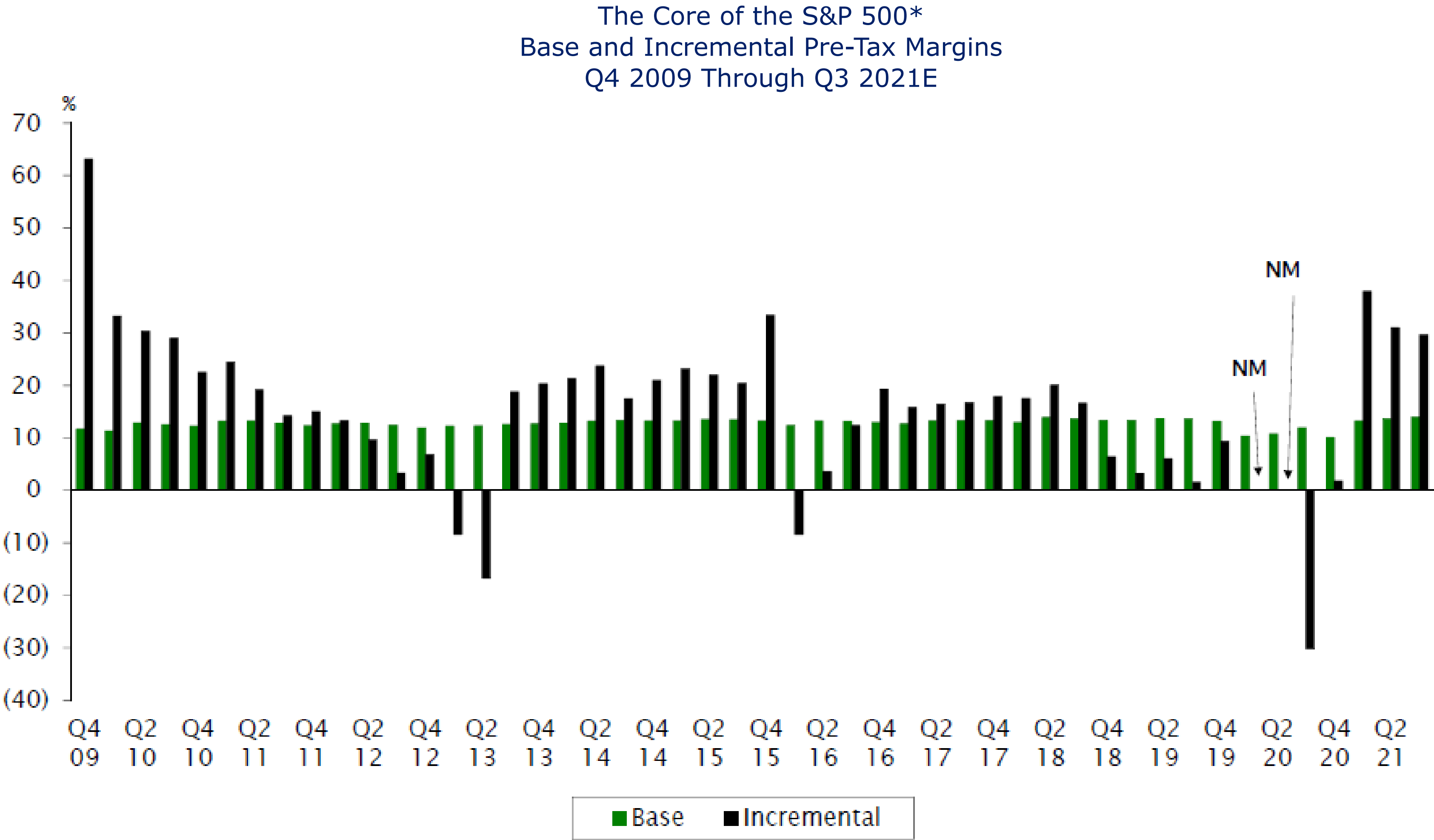
US Corporations Are Superbly Profitable



Source: Empirical Research Partners. December 22, 2021

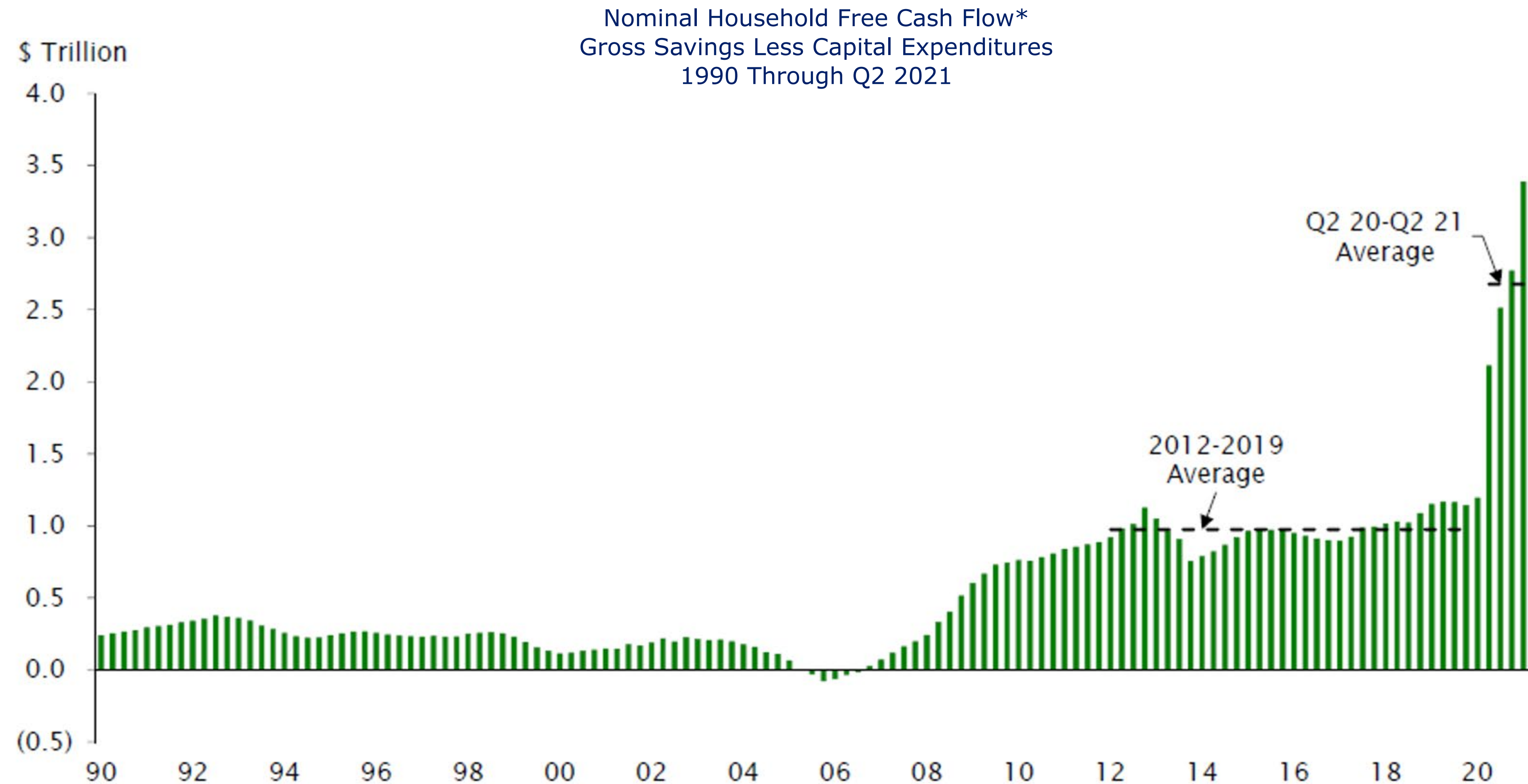
*Free cash flow margins are based on aggregated trailing four-quarter data, smoothed on a trailing three-month basis, and the yields are cap-weighted.

Post Pandemic, The Top Line Created Strong Operating Leverage



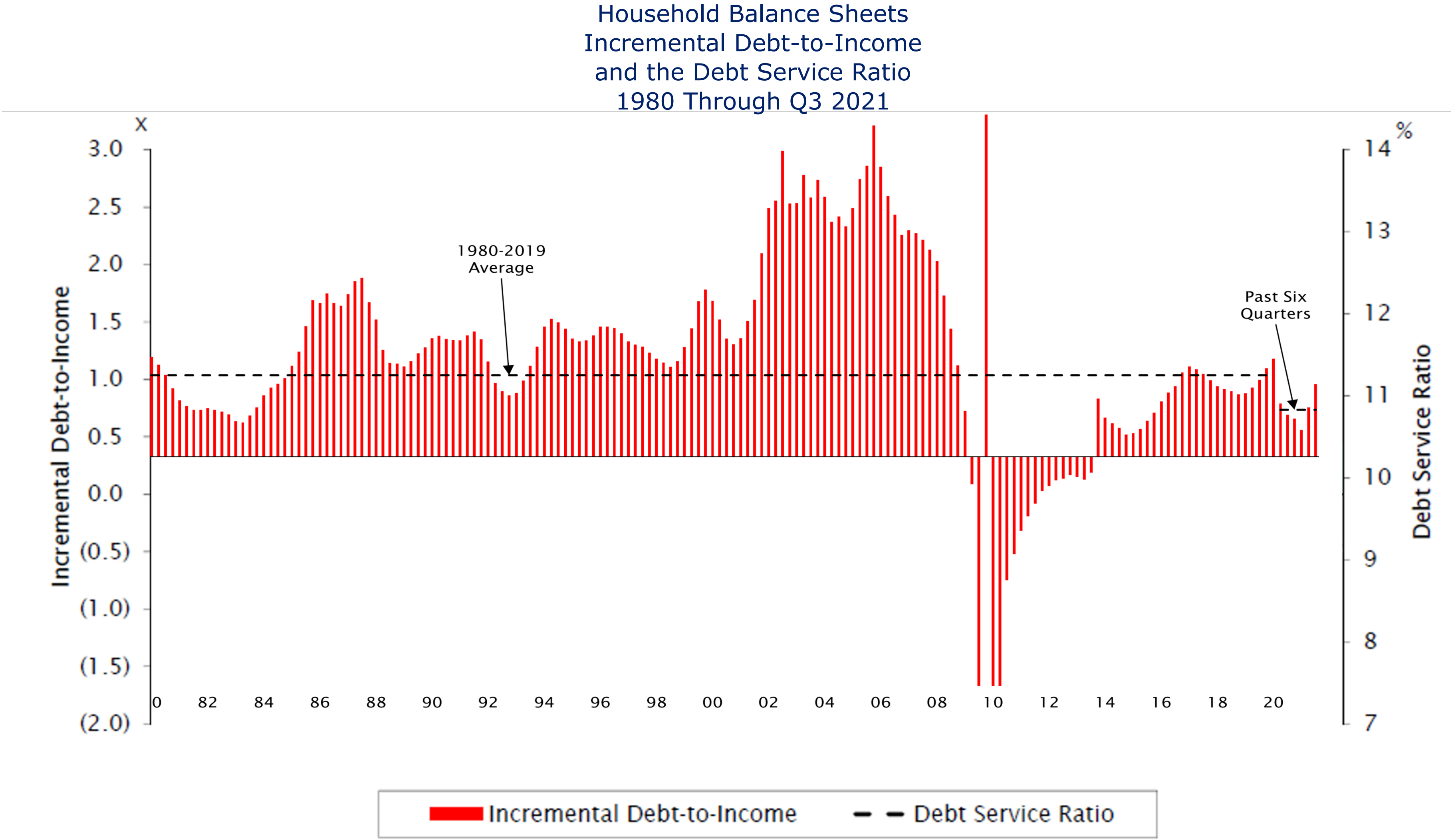
Source: Empirical Research Partners. November 22, 2021
*The core excludes financials, REITs, Utilities and energy
NM=Not Meaningful

Household Free Cash Flow is Nearly \$2 Trillion Above Pre-Pandemic Levels



Source: Empirical Research Partners, November 22, 2021
*Capital expenditures on housing and durable goods. Data smoothed on a trailing four-quarter basis

Household Balance Sheets Have Been De-levered, Providing Additional Borrowing Power



Source: Empirical Research Partners. January 26, 2022

Housing Pent-Up Demand

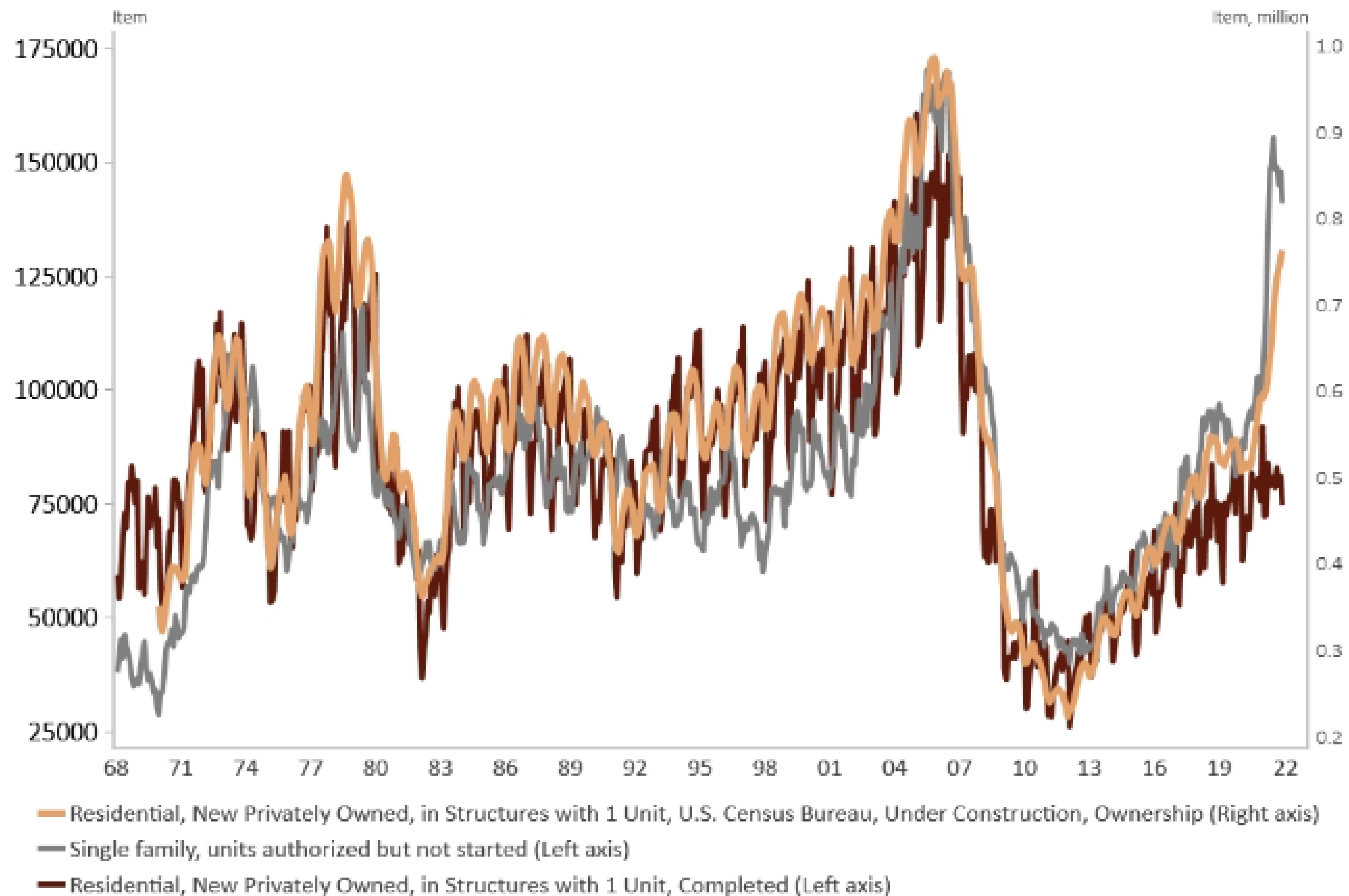
US Household Formations: Owners
4 Qtr. Avg. 2021:3Q: -0.6 Million



US New & Existing House Inventories
3 Mo. Avg: October 1.6

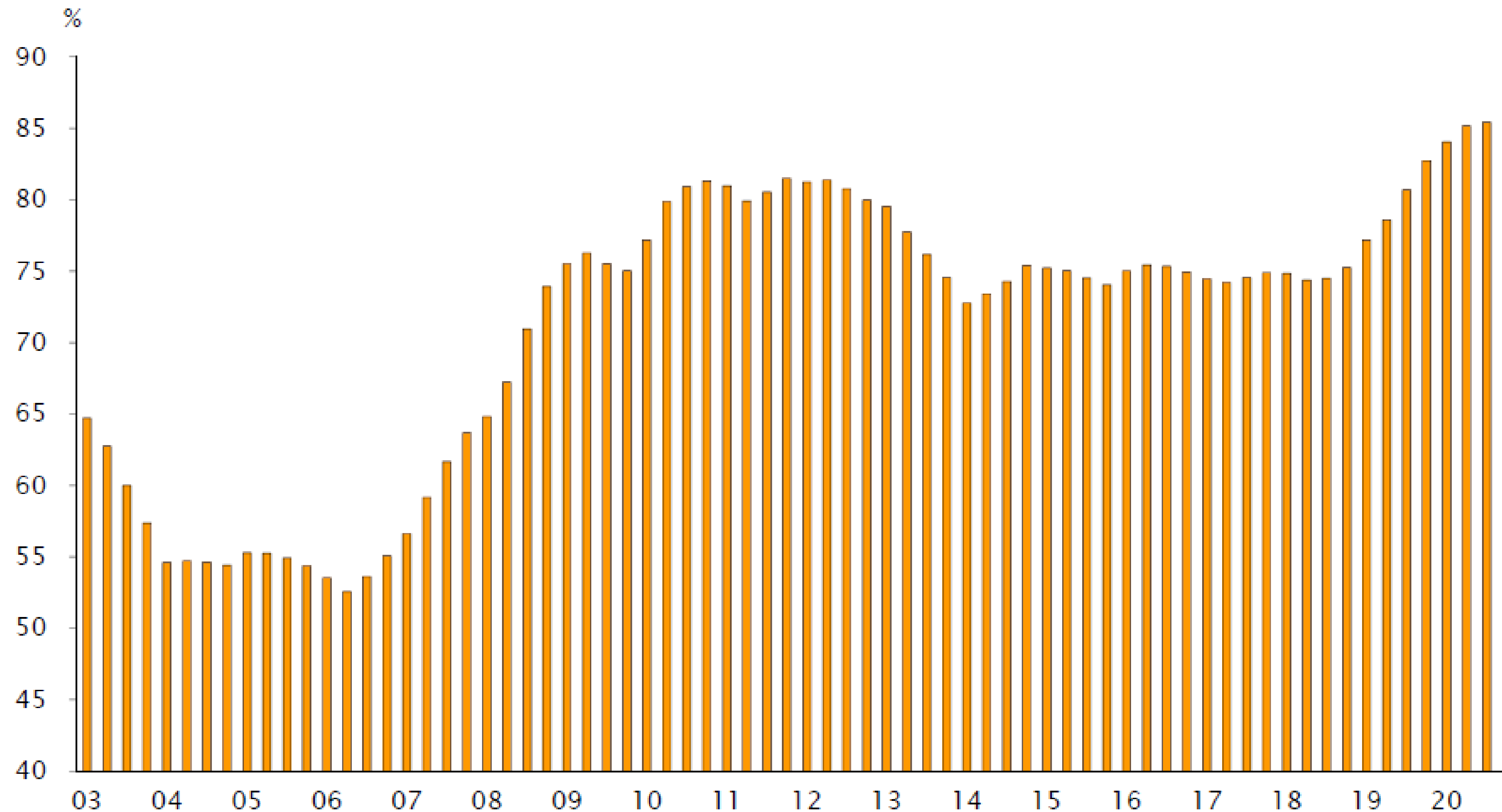


There Is A Lot of Housing Activity in The Pipeline



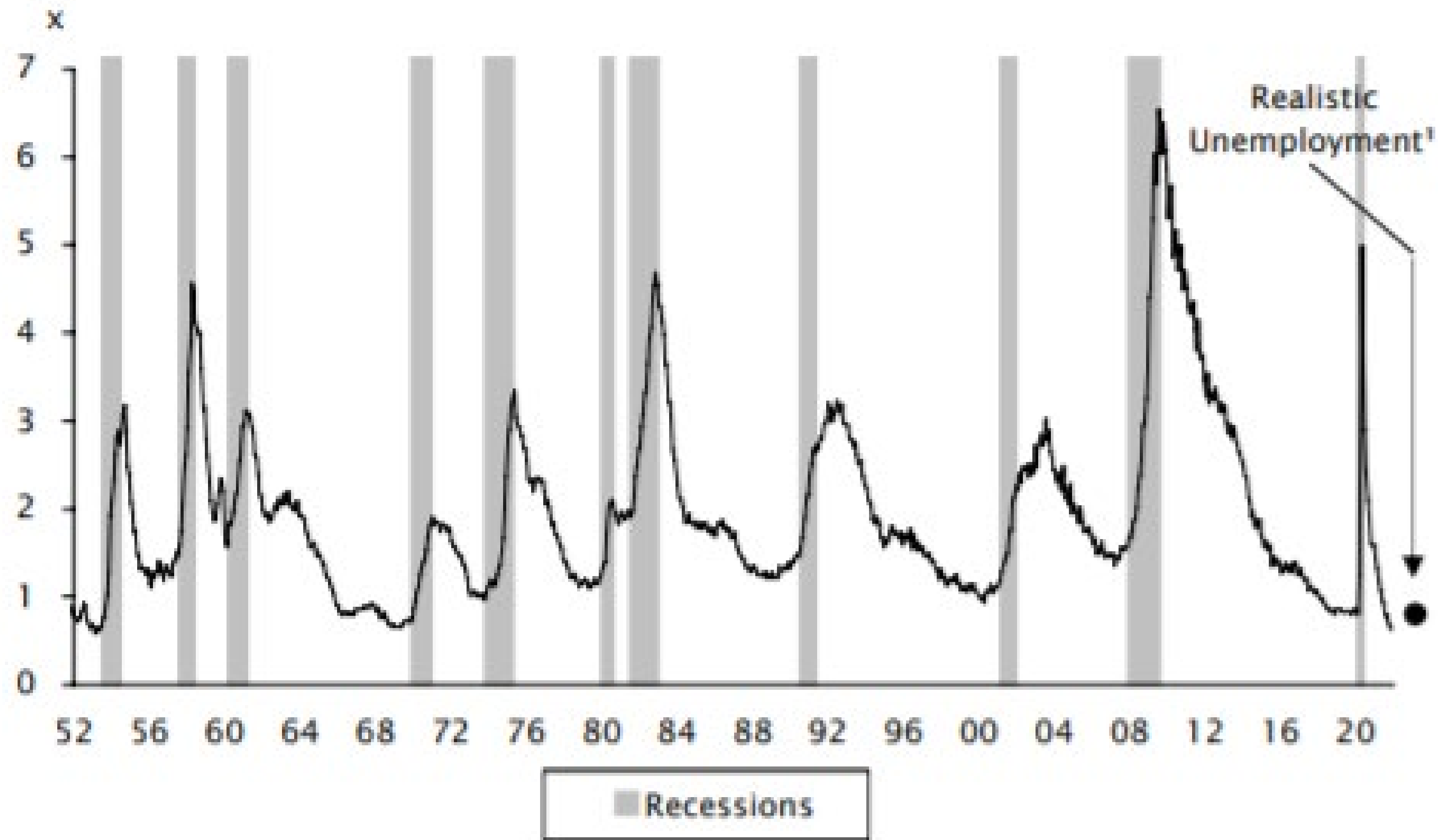
Mortgage Lending Standards Have Been Strict

Mortgage Lending Share of Originations Made to Credit Scores of 720 or Higher
2003 Through Q3 2021

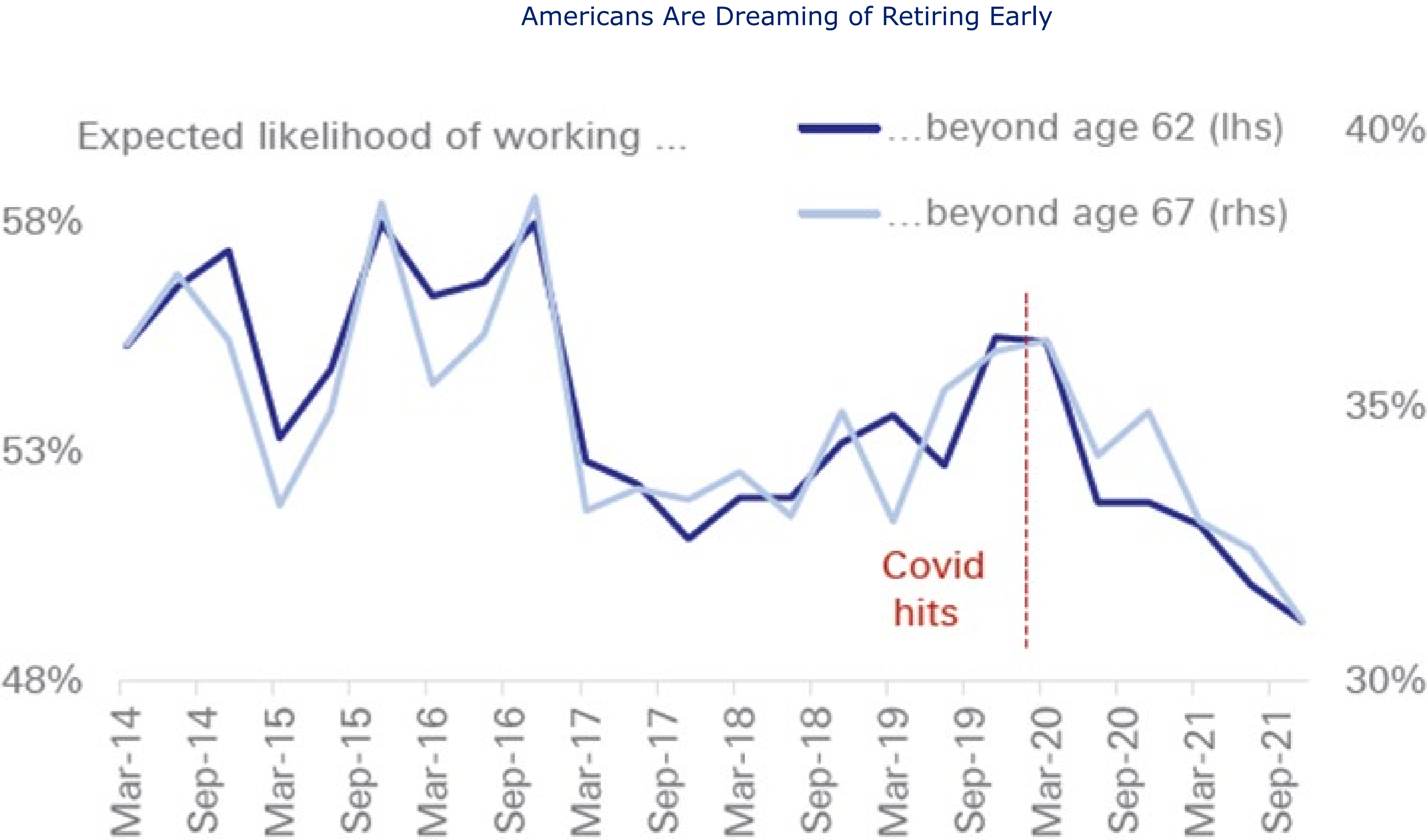


The Labor Market Is Legitimately Tight

Number of The Unemployed Per Job Opening Officially Reported and Realistic
1952 Through November 2021

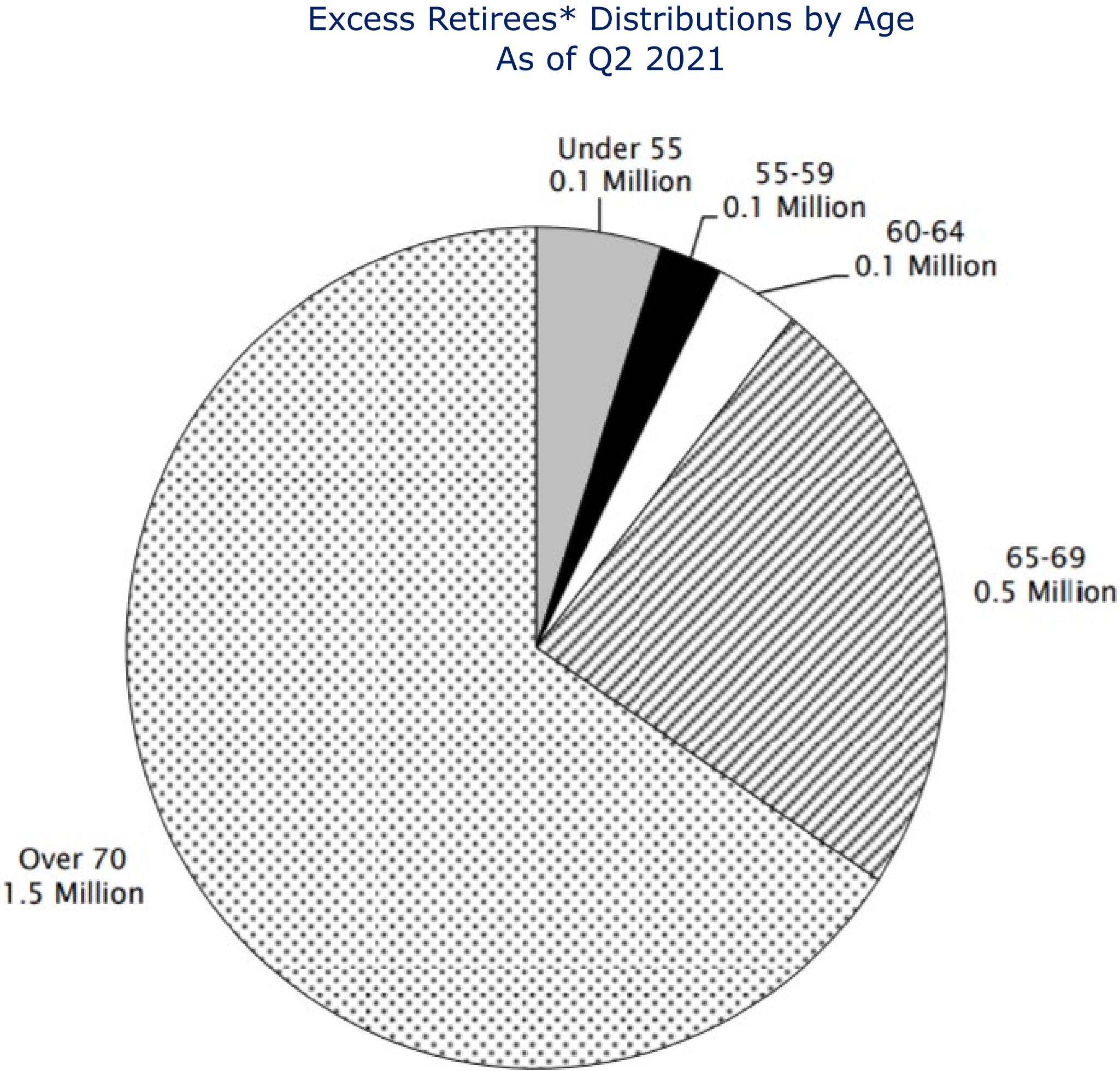


Where Are All The Workers?



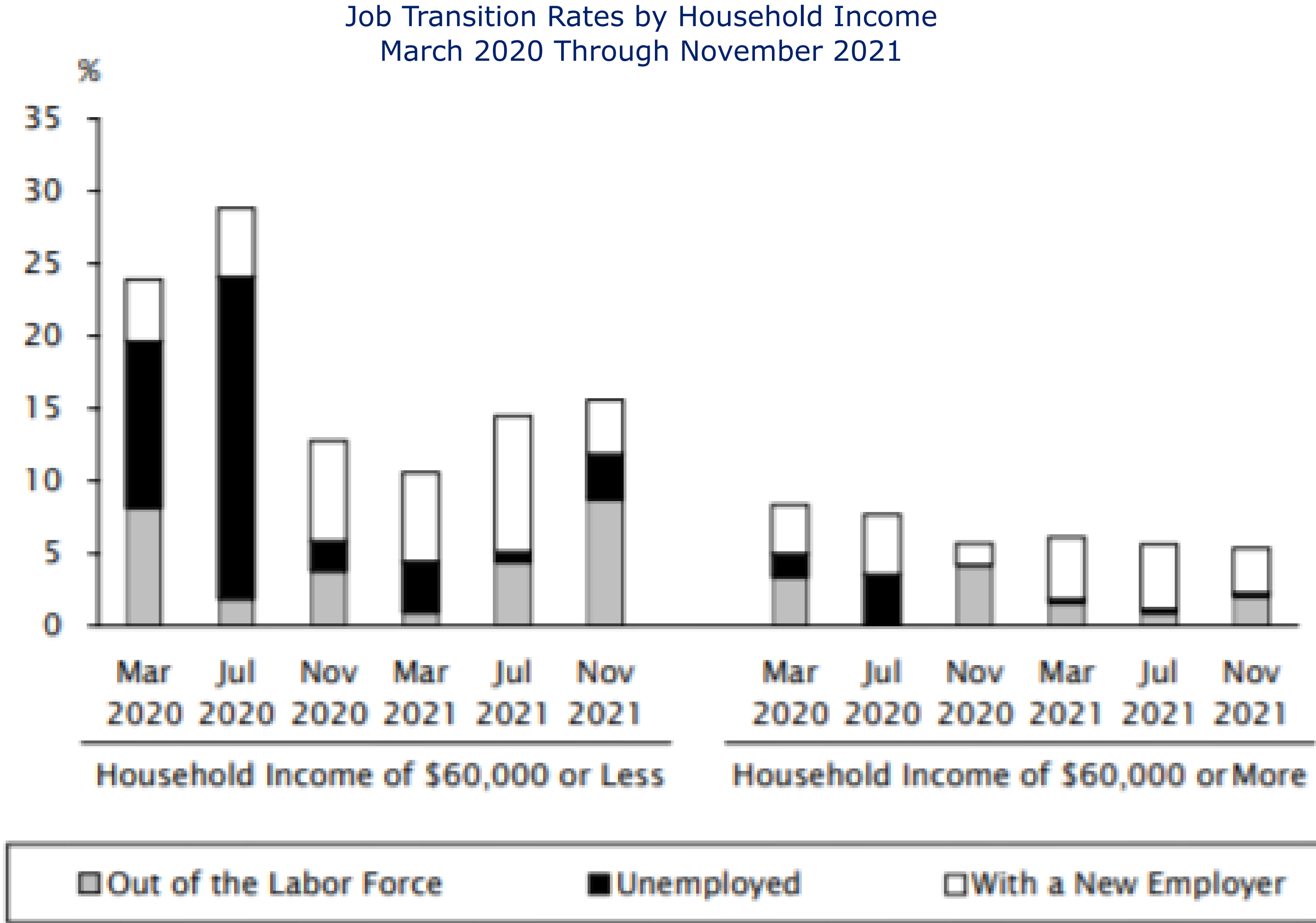
Source: Deutsche Bank, Haver Analytics, NY Fed's Labor Market Survey. January 17, 2022.

Early Retirement



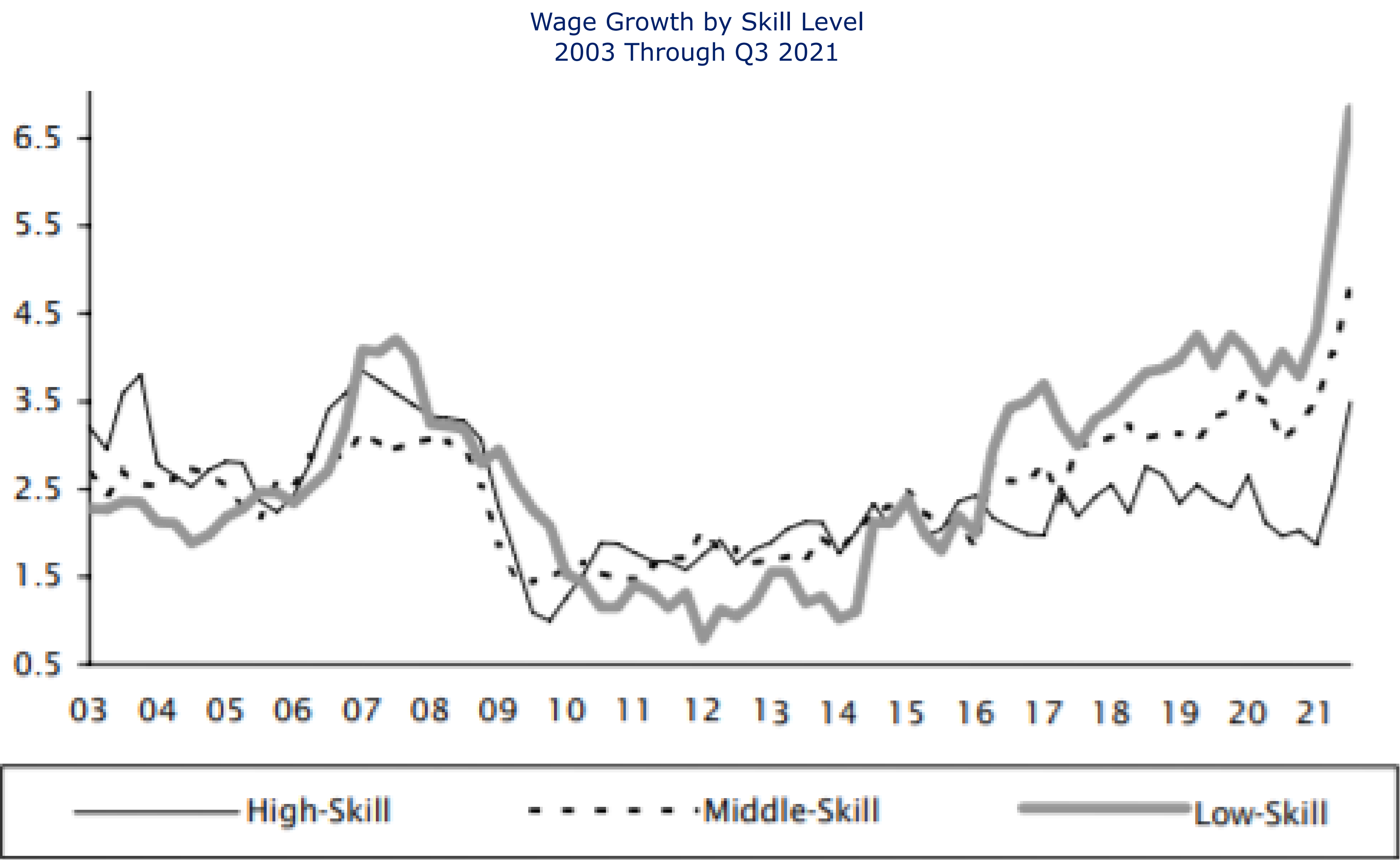
Source: Federal Reserve Bank of Atlanta, Bureau of Labor Statistics, Empirical Research Partners Analysis. November 9, 2021
*Number of retirees above the 2019 trend line.

Lower-Paid Workers Are Job Hopping and Some Are Leaving the Labor Force Altogether



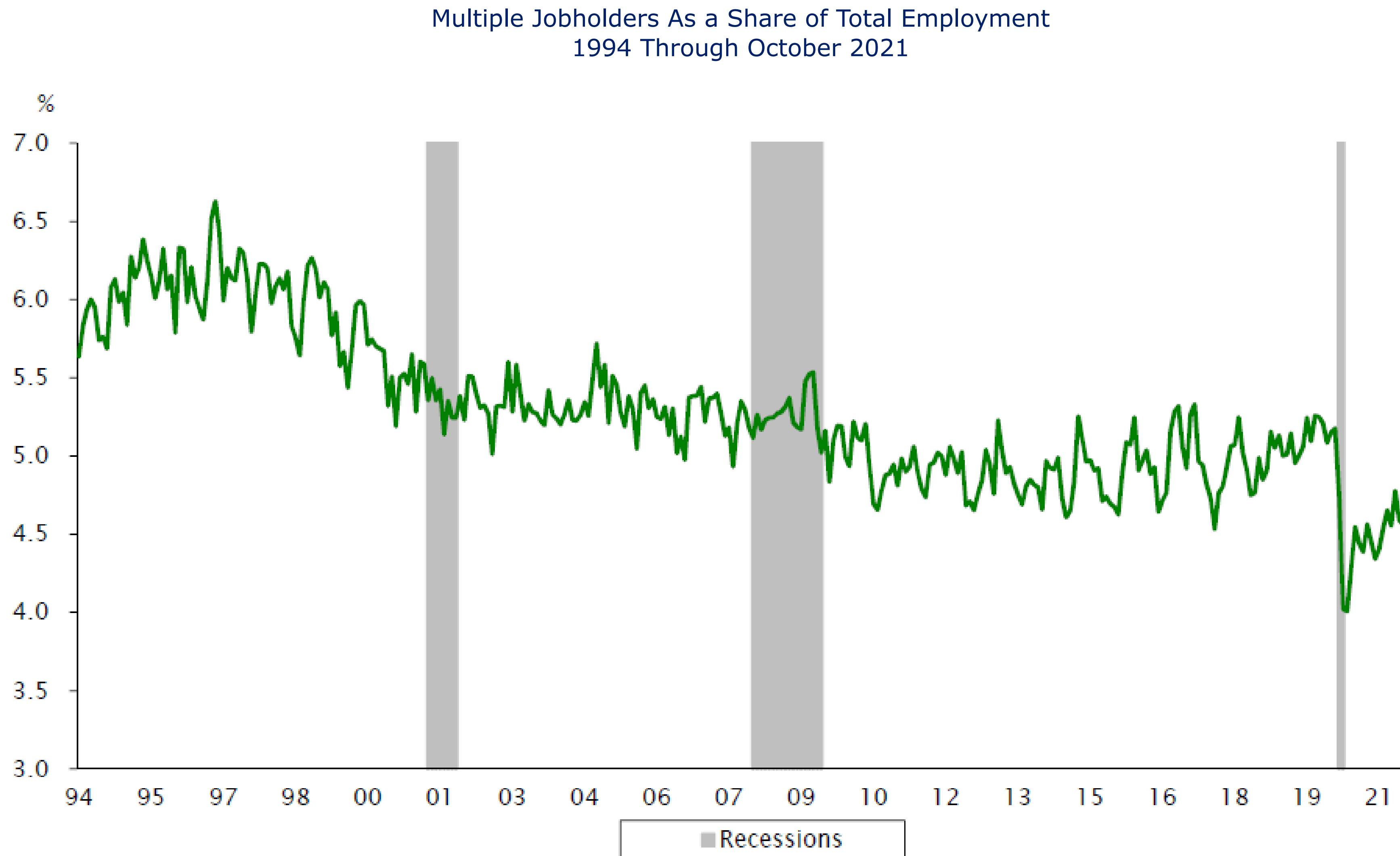
Source: Survey of Consumer Expectations 2013-2021, Federal Reserve Bank of New York, Empirical Research Partners Analysis. January 6, 2022

As a Result, Wage Growth is Strong

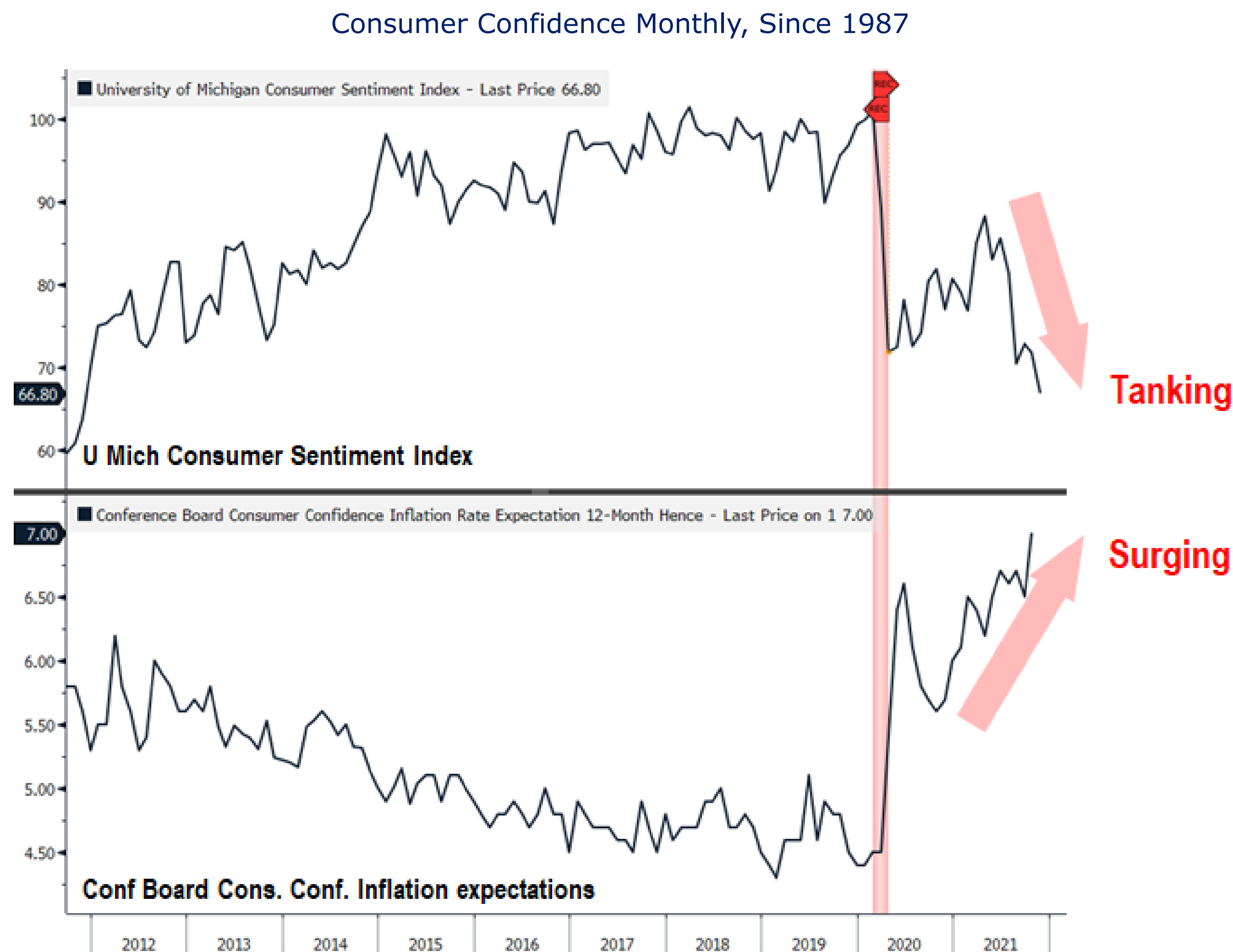


Source: US Bureau of Labor Statistics, Empirical Research Partners Analysis. January 6, 2022.

People are Working Fewer Jobs, Making It Difficult to Fill Part-Time Roles

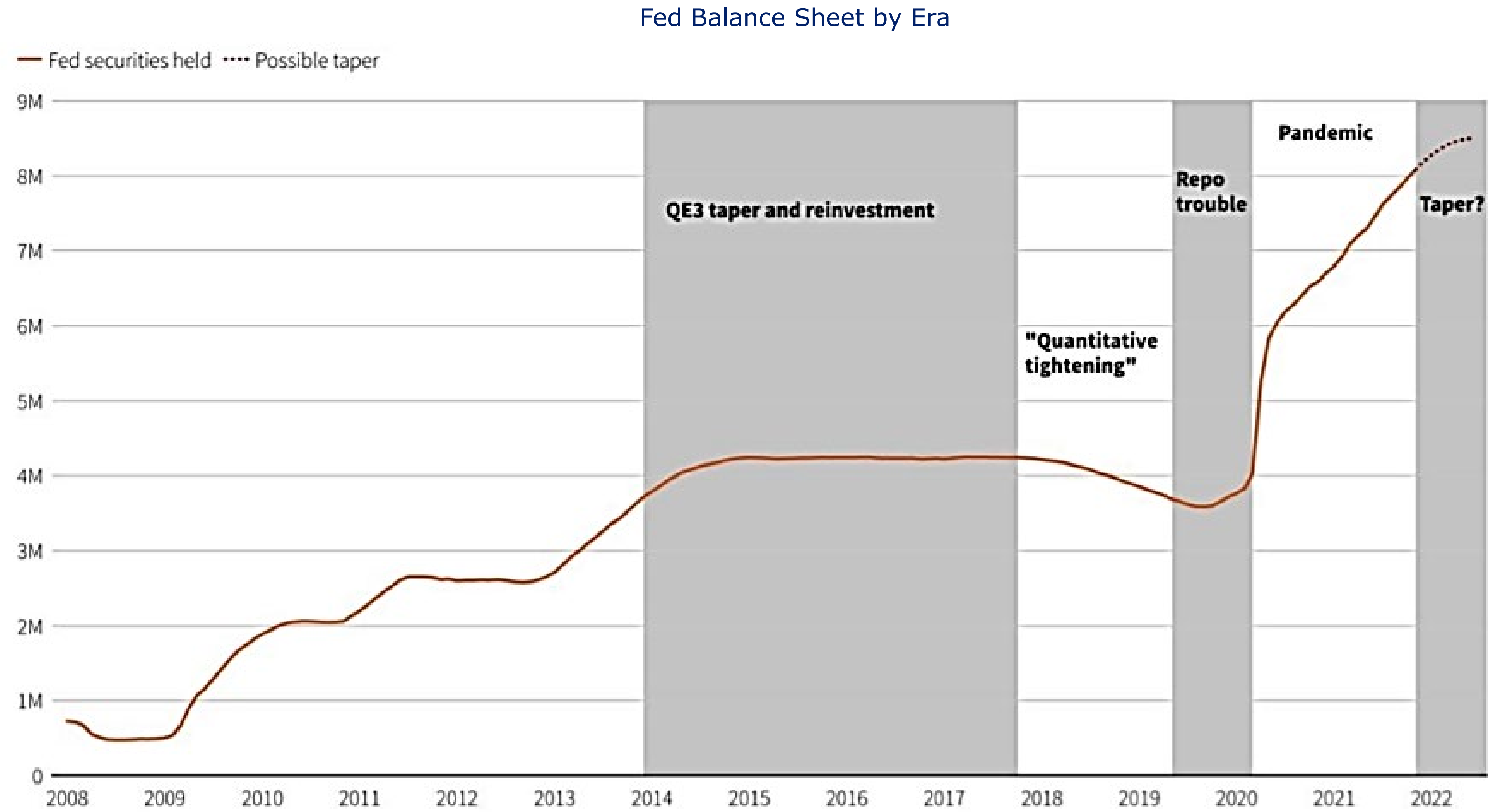


A Booming Economy, But The Consumer is Miserable



Source: Fundstrat, Bloomberg. November 21, 2021

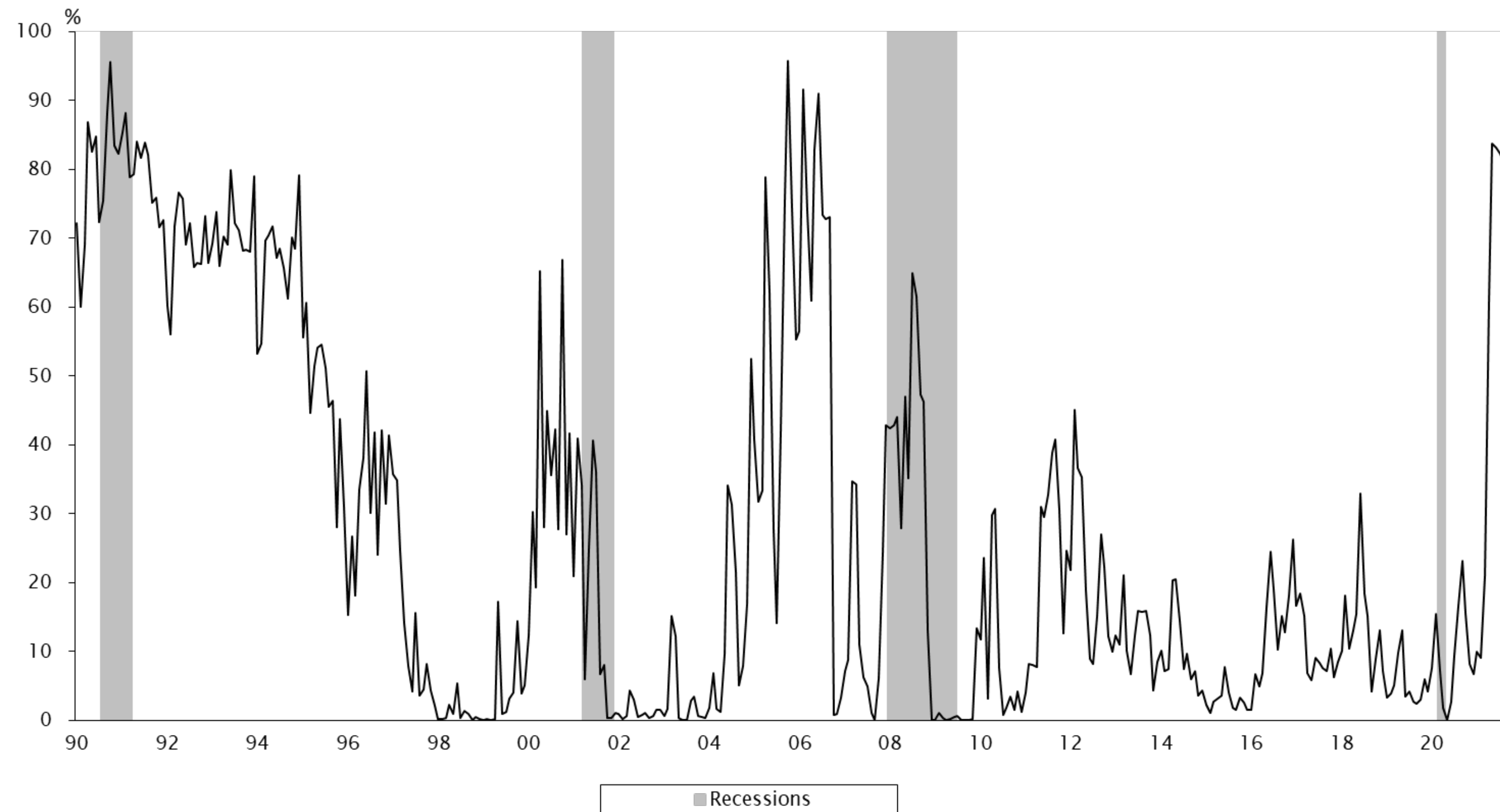
Fed Policy Mistake?



Note: Dotted line assumes \$120 billion in monthly purchases through November and a \$15 billion per month reduction in purchases from them.
Source: US Federal Reserve. Renaissance Macro Research. January 13, 2022

Fed Policy Mistake?

Price Pressure Probability that Headline PCE Inflation Will Exceed 2.5% in The Next Year
1990 Through November 2021



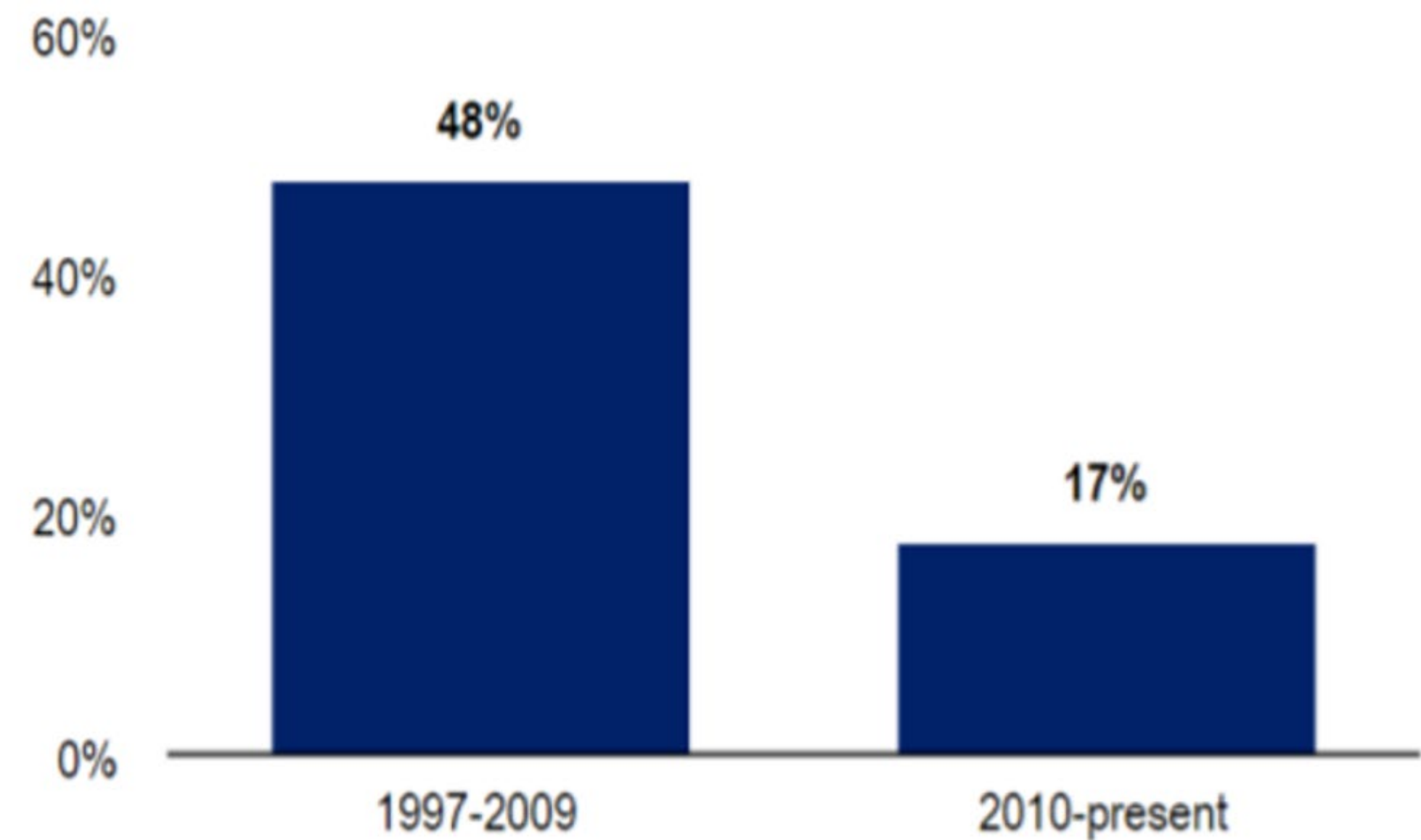
Source: Federal Reserve bank of St. Louis, National Bureau of Economic Research; Empirical Research Partners. Data as of December 6, 2021

The Market Loves Easy Monetary Policy

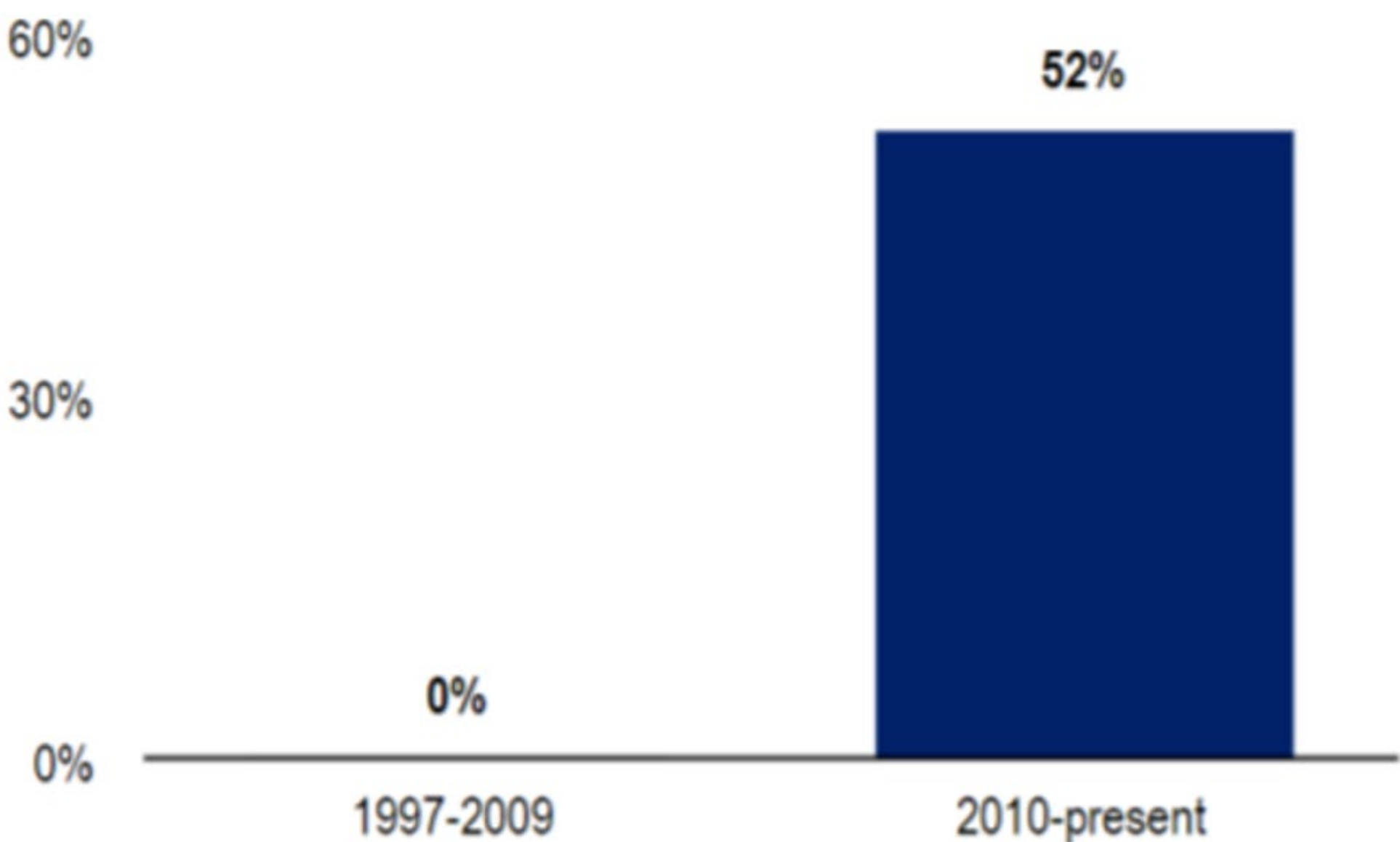
EPS Used to Matter Most

Earnings Explained Nearly 50% of Market Returns Pre-GFC,
Only 17% Post-GFC

Of The Non-Earnings Portion of S&P 500 Changes, More Than
Half Explained By Fed Balance Sheet Changes Post-GFC



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)

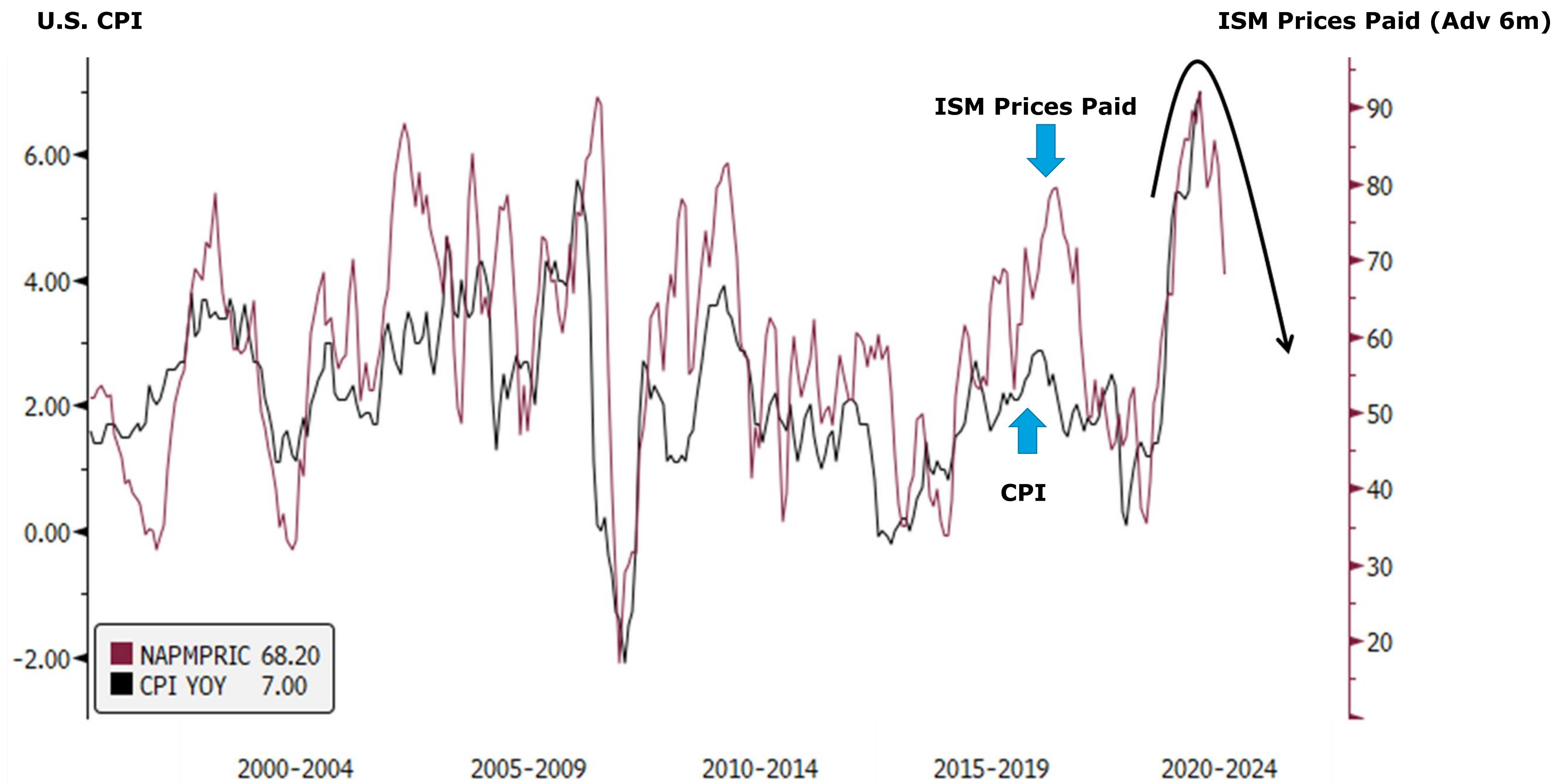
Is 1970's-Style Inflation Back?



Source: Evercore ISI. November 10, 2021

Peak Inflation?

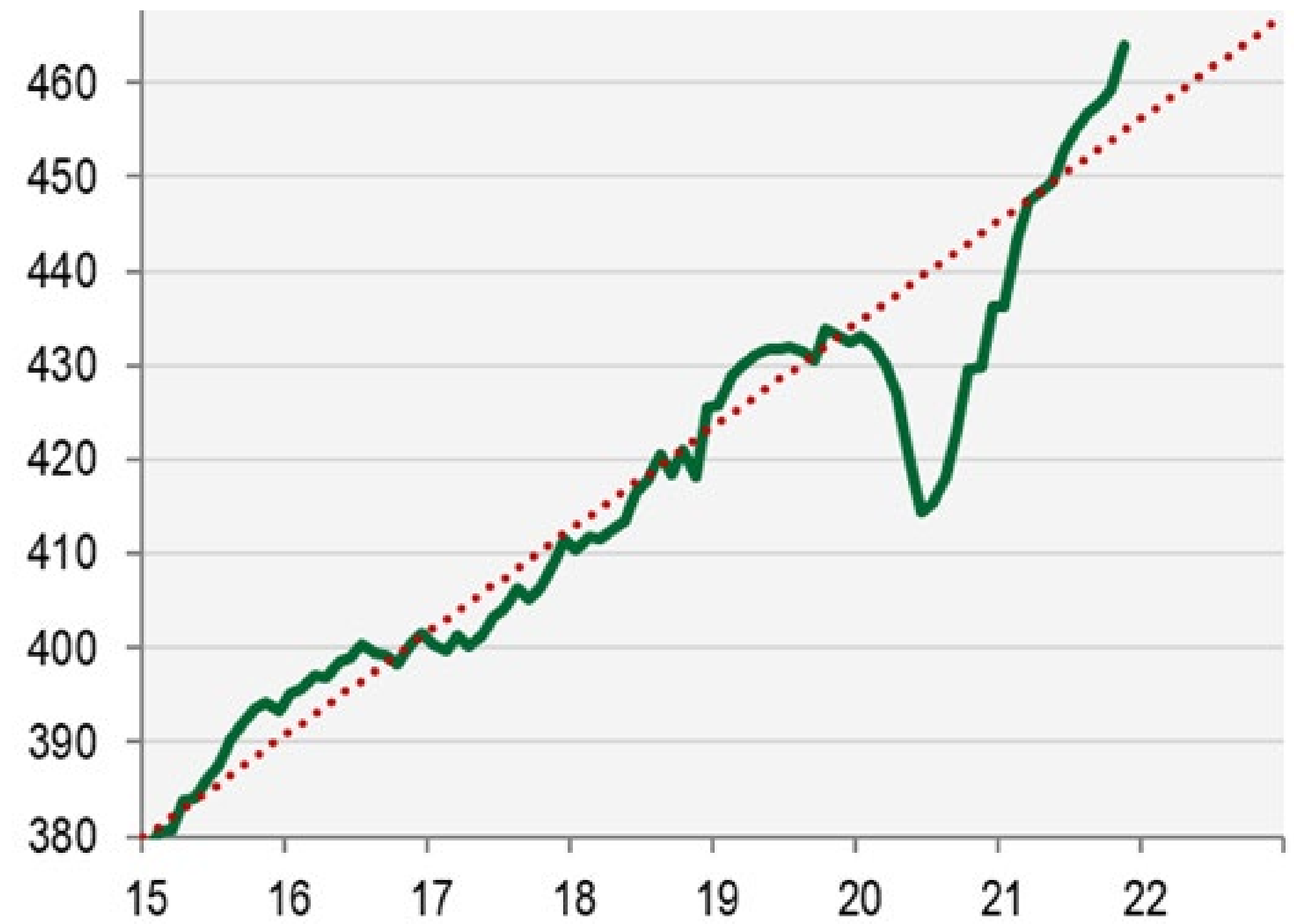
ISM Prices Paid Inflation Leads Lagging COP Inflation by 6 Months



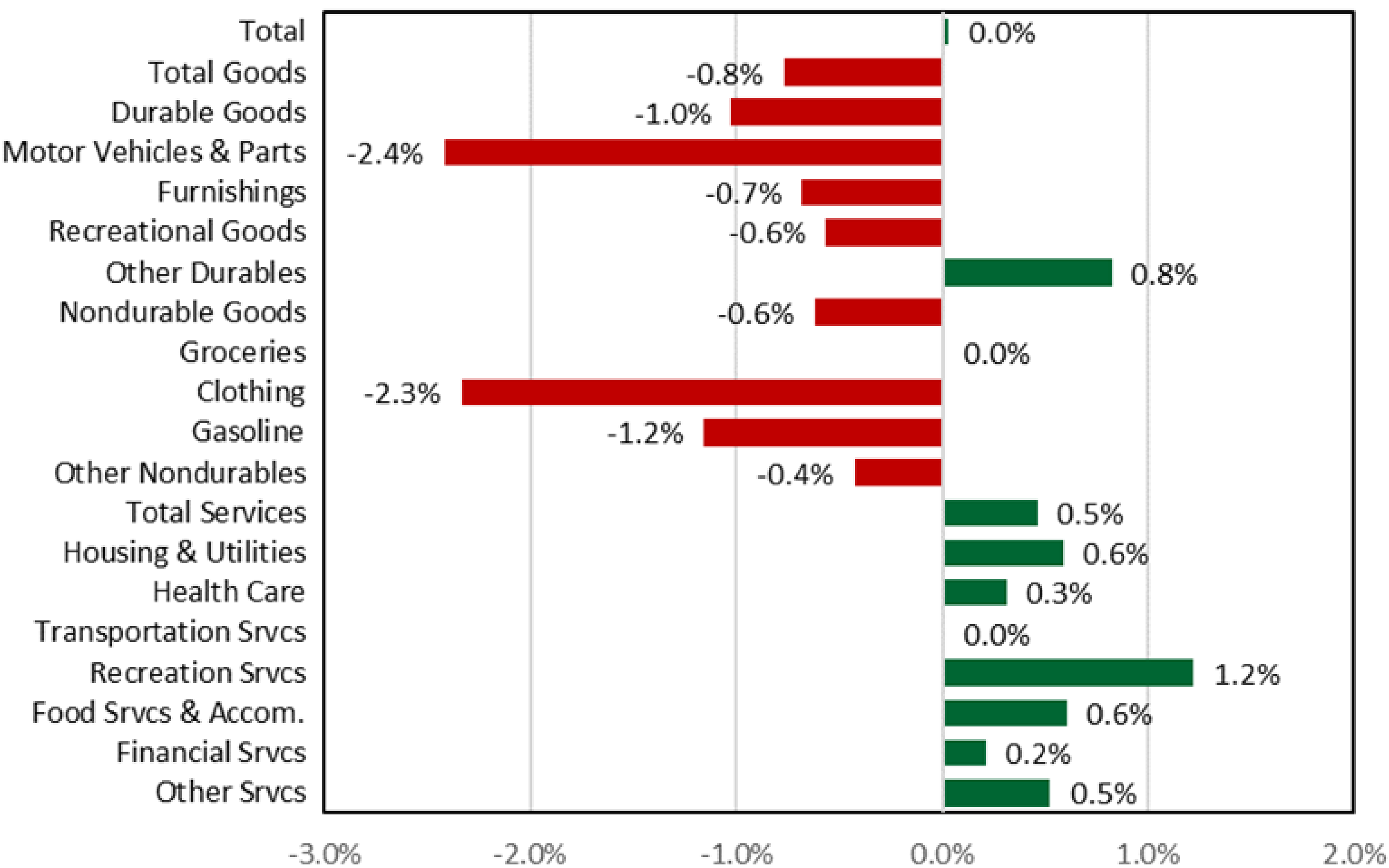
Source: Cornerstone Macro Research. January 13, 2022

Goods Supply Is Coming As Consumers Shift To Services

Real Retail Inventories Ex Motor Vehicles
Deflated by CPI Nov: \$464.1b



Real Consumer Spending: November M/M%



Source: Cornerstone Macro. January 6, 2022

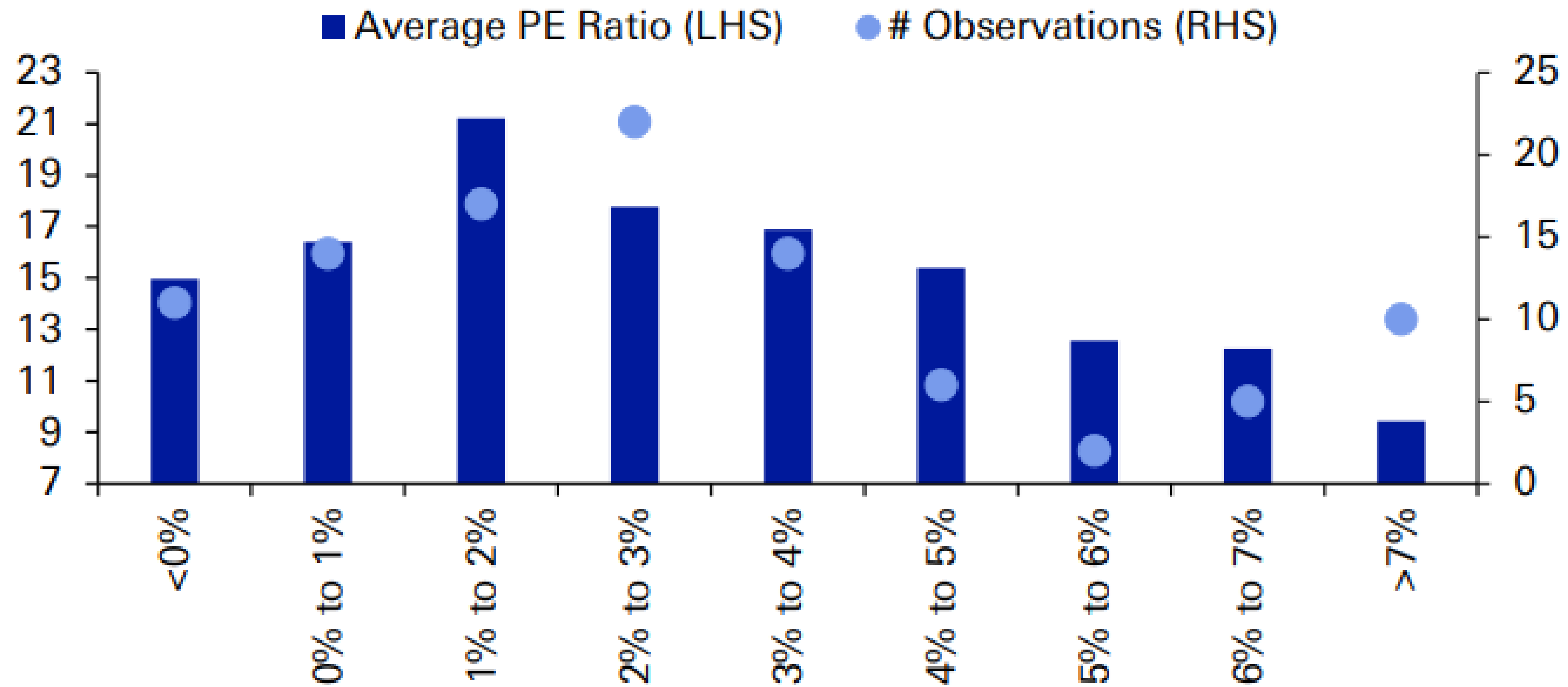
The S&P 500 P/E Has Declined Alongside The Recent Move Higher In Interest Rates



Source: Factset, Goldman Sachs Global Investment Research. January 13, 2022

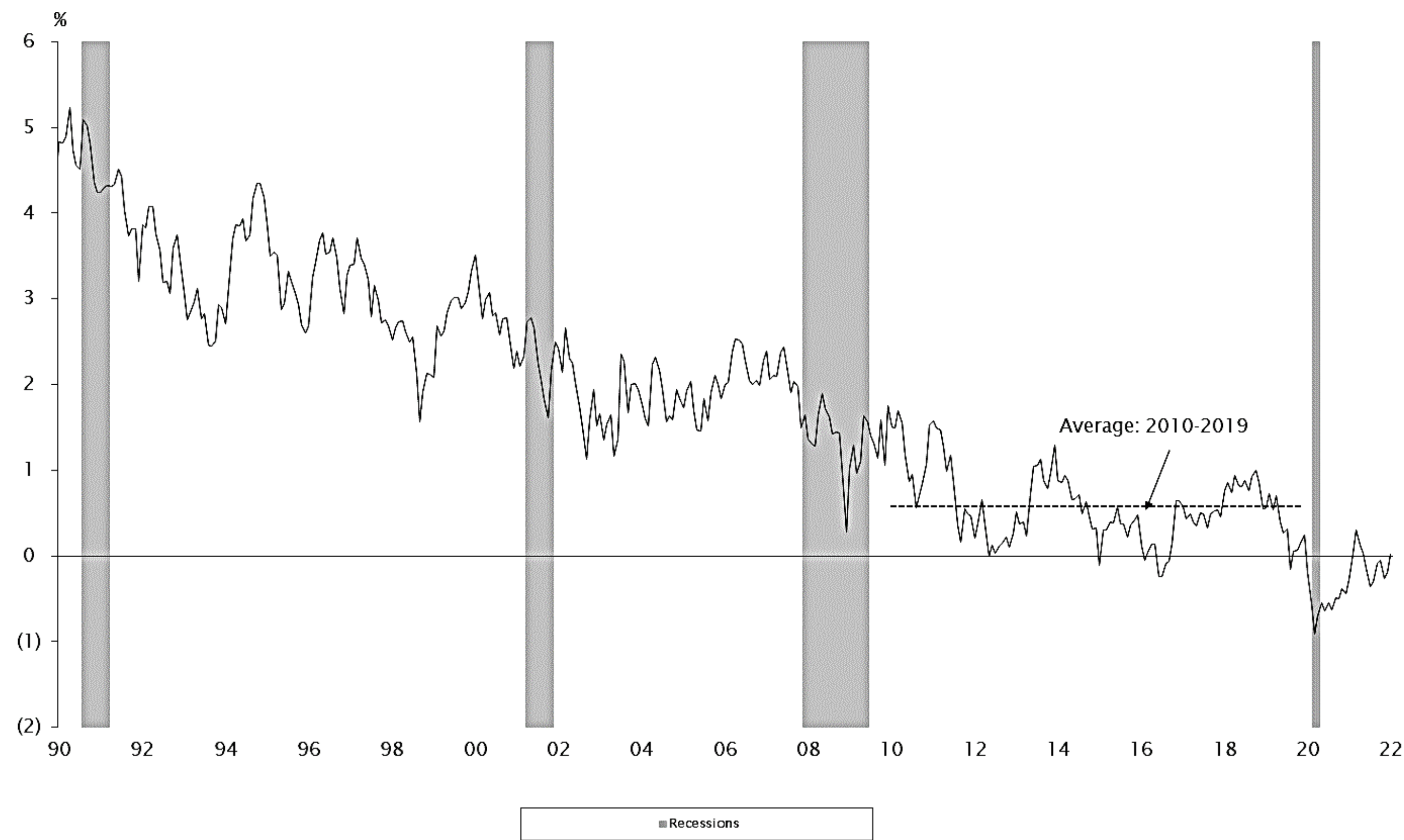
P/E Multiples At Risk As Inflation Rises

US PE Ratio Since 1920 By Different Inflation Buckets



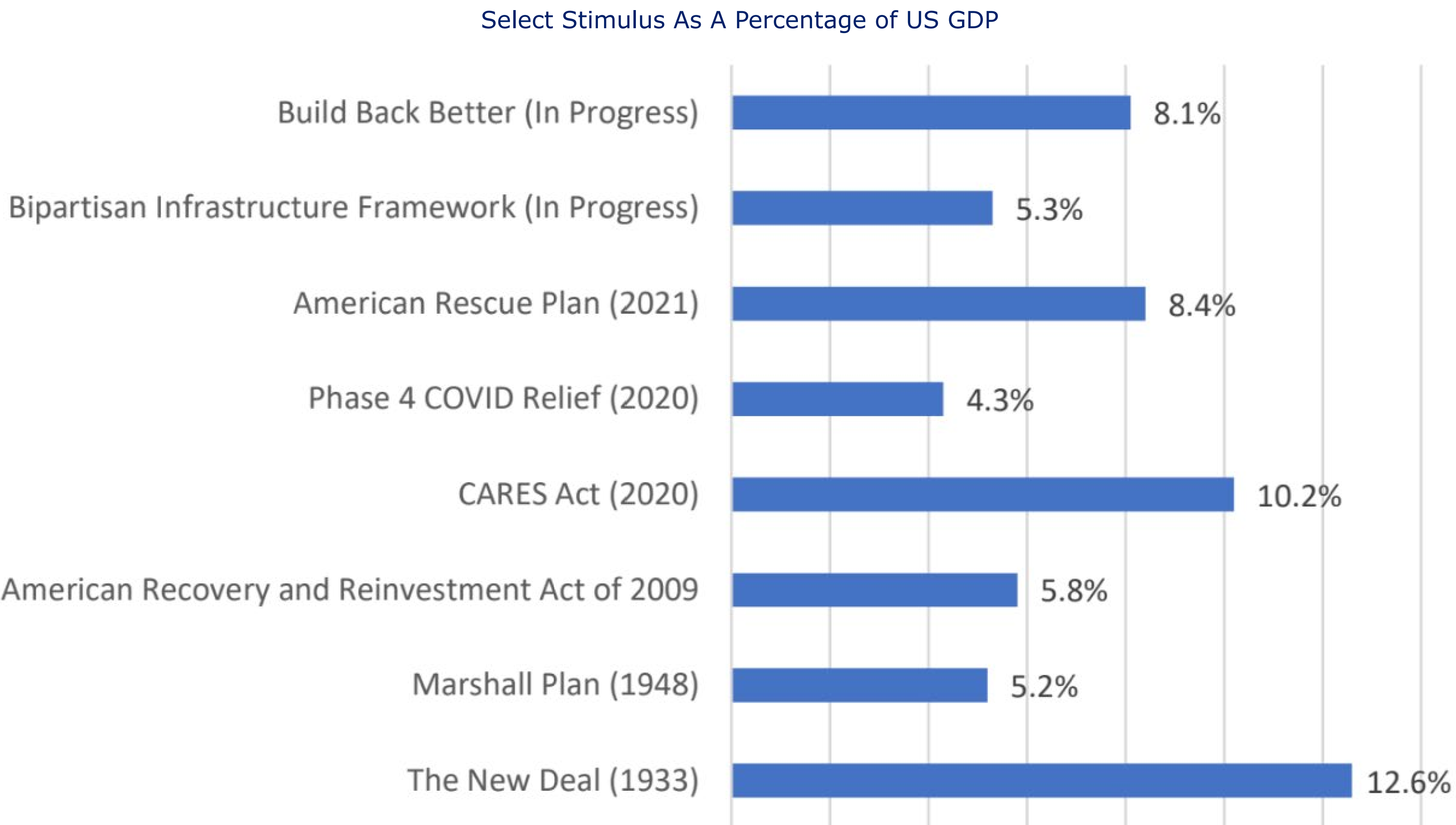
Real Rates Are Zero

Ten-Year Treasury Bond Yields
Less the Ten-Year Inflation Expectations*
2000 Through Late-January 2022



Source: Federal Reserve Board, Federal Reserve Bank of Cleveland. Empirical Research Partners. January 26, 2022
*Less the trailing three-month average of the ten-year inflation expectations.

Historic Fiscal Policy



Source: Axios and Crown and Company. November 1, 2021

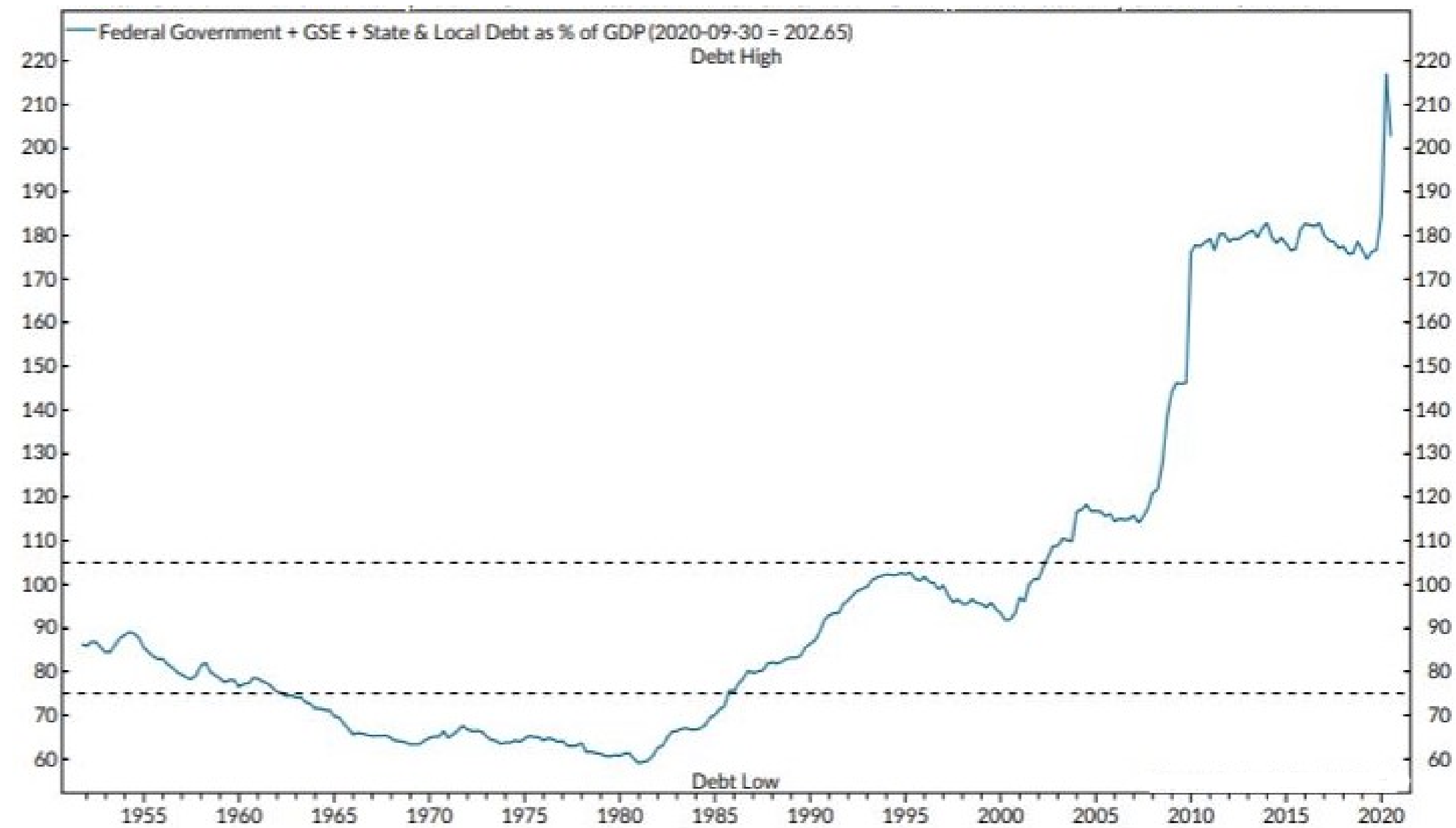
And The Debt Champion Is....

Debt Levels and Increases in Major Economies

	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

But Long Term, High Debt Slows Growth

Total Government Debt's (Fed + GSE + State & Local as a % of GDP) Potential Impact On Growth

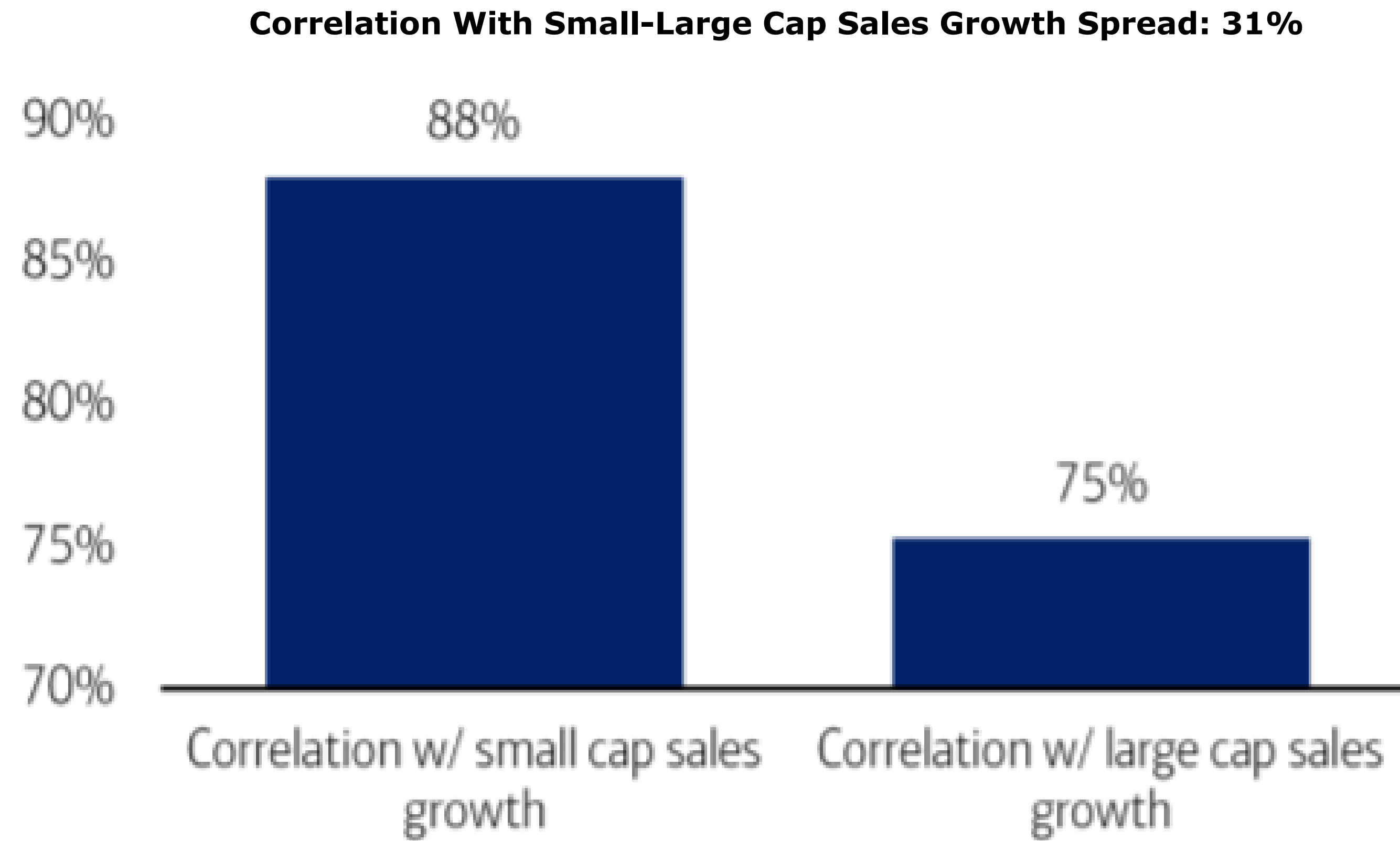


Multi-Factor Mode Analysis (1951-12-31 - 2020-09-30)						
Government Debt/GDP is:	Nominal GDP Gain/Annum	Real GDP Gain/Annum	Nonfarm Payrolls Gain/Annum	CPI Inflation Gain/Annum	Real Non-Residential Investment Gain/Annum	% Time In Mode
Above 105%	3.7	1.8	0.5	2.0	3.3	26.2
75% to 105%	5.4	3.2	1.6	2.4	4.7	40.0
75% and Below	8.9	3.6	2.5	5.7	10.4	33.8

Source: Federal Reserve Board, Ned Davis Research as of December 24, 2020

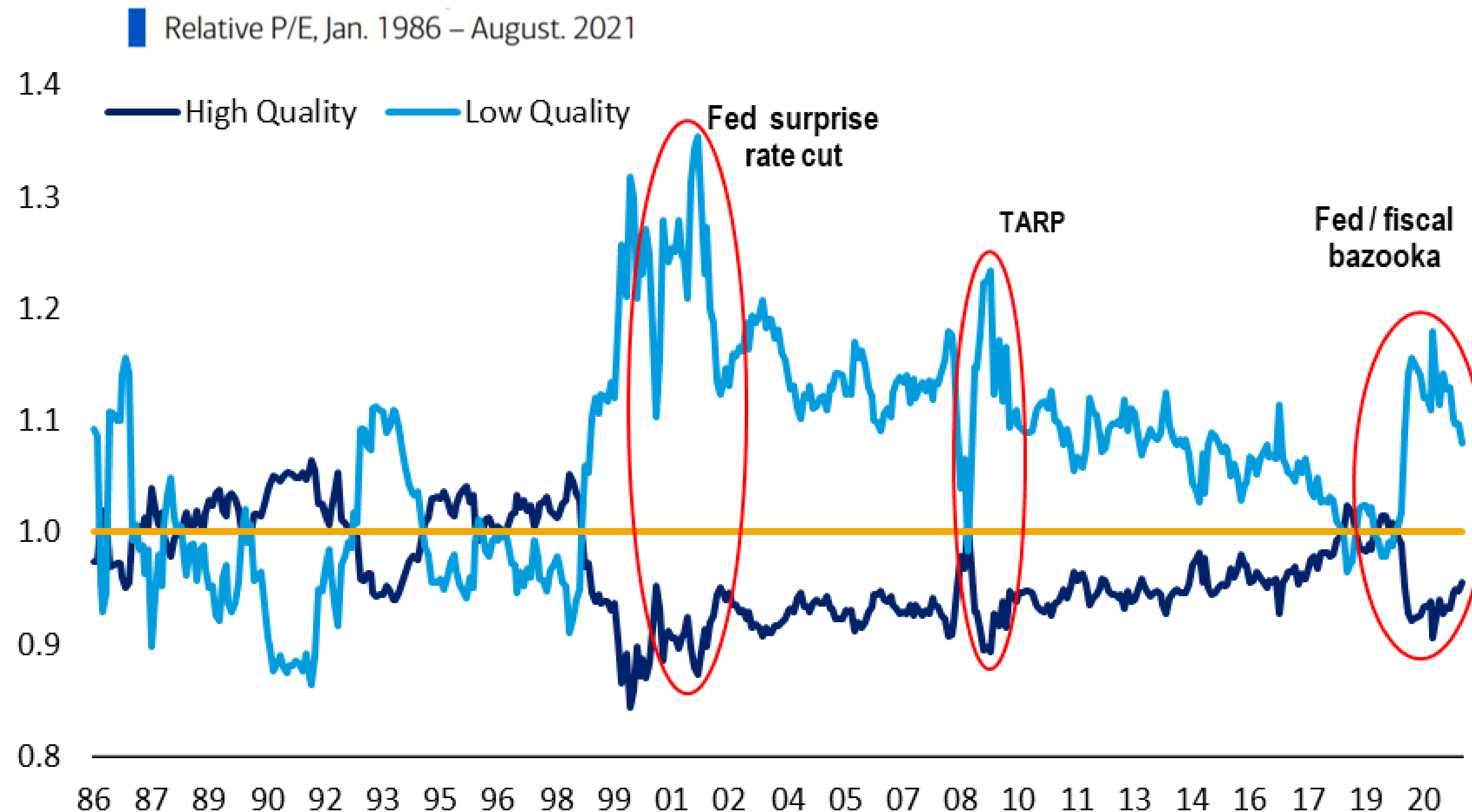
Small Caps Benefit More From Capex Cycles

Correlation of US Capex Growth With Small Cap (Russell 2000) and Large Cap (S&P 500) Sales Growth, 1985-present



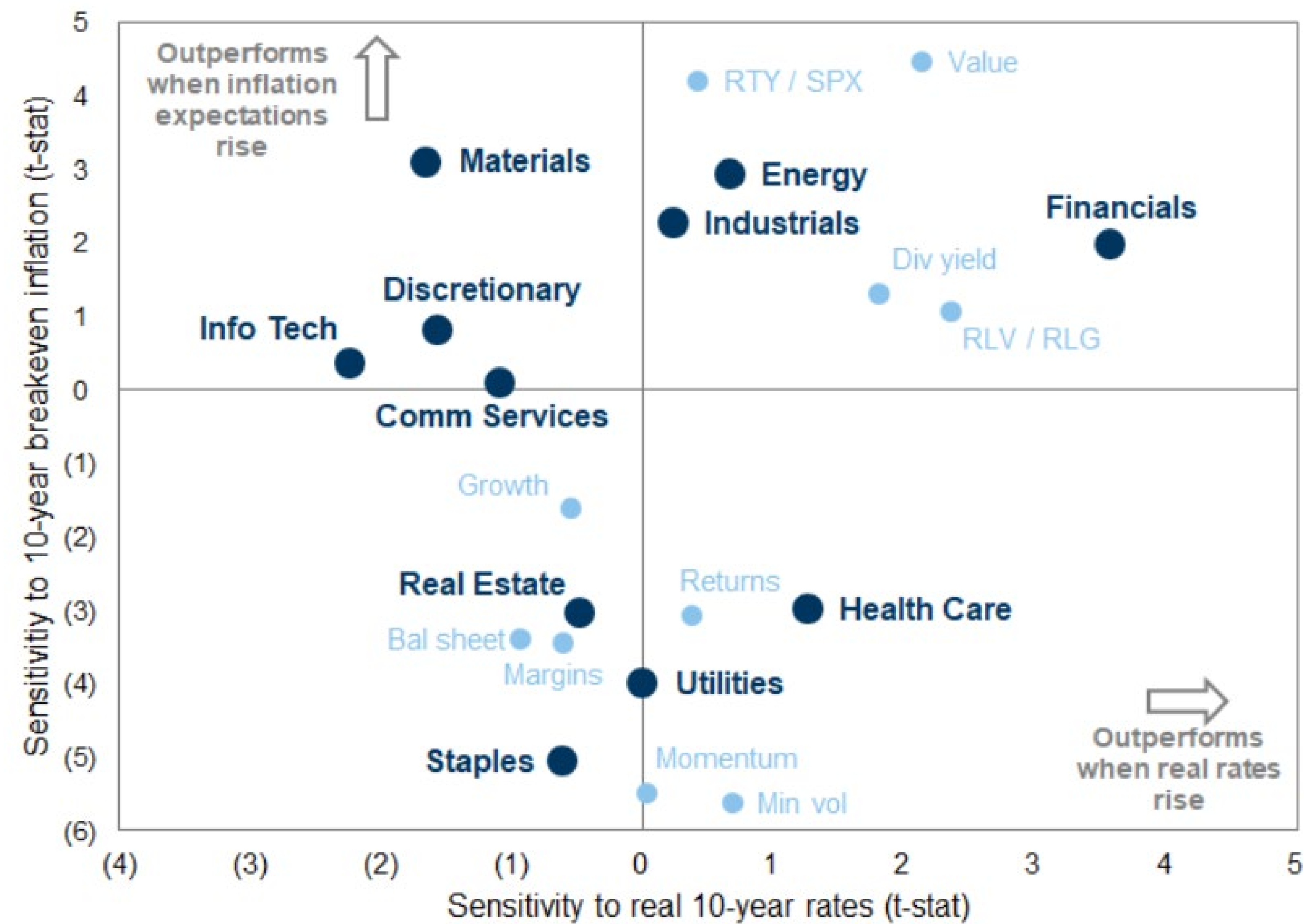
With Easy Money, Investors Are Paying A Premium For Risk

Low Quality Stocks Have Risen Each Time Easy Money Flowed



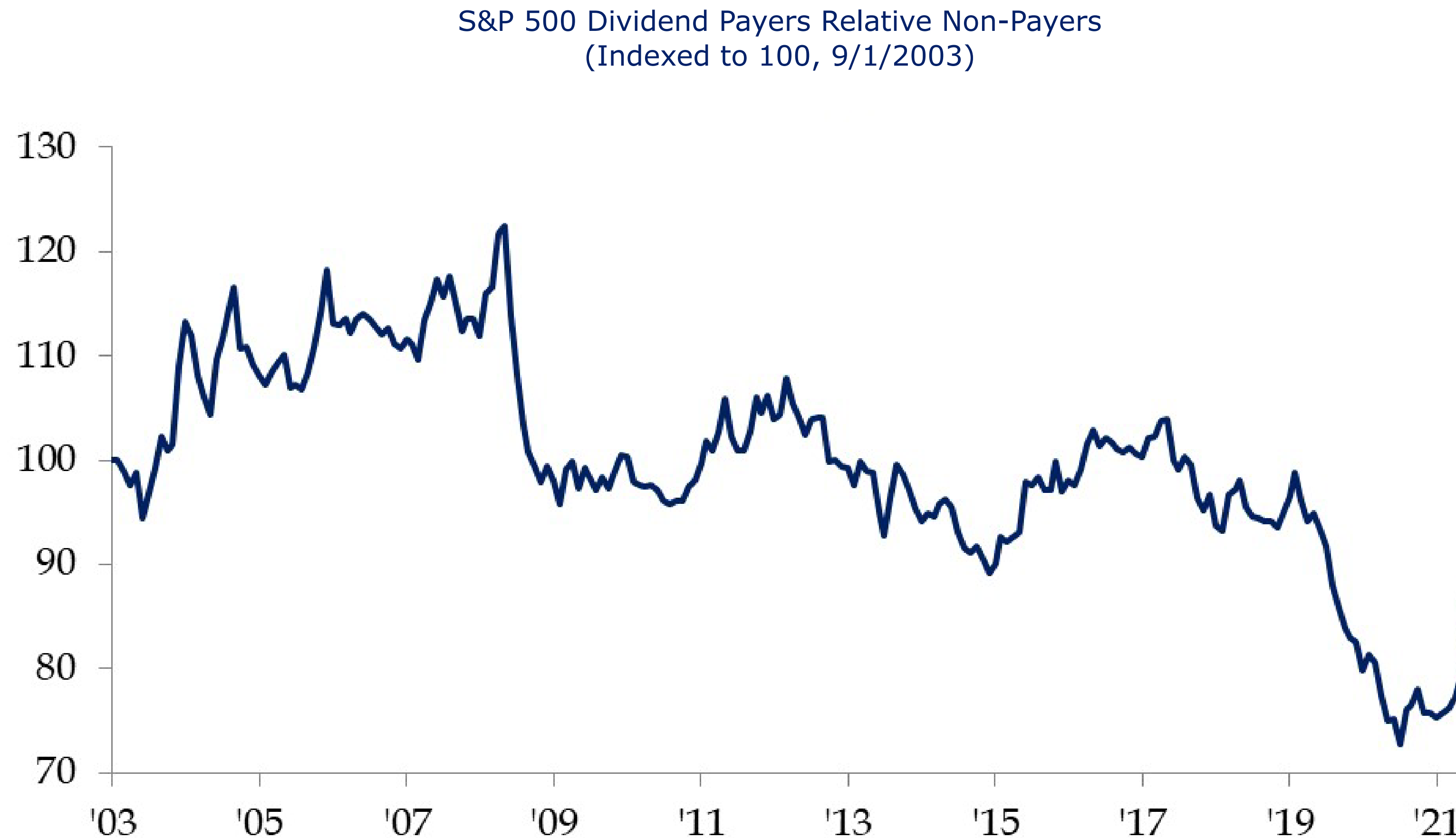
But Now, The Fed Is Taking Away The Punchbowl

Sector and Factor Correlations With Real Interest Rates and Breakeven Inflation



Source: Goldman Sachs Global Investment Research. January 13, 2022

Dividend Payers Are Surging Relative To Non-Payers



Source: Strategas Research. January 26, 2022

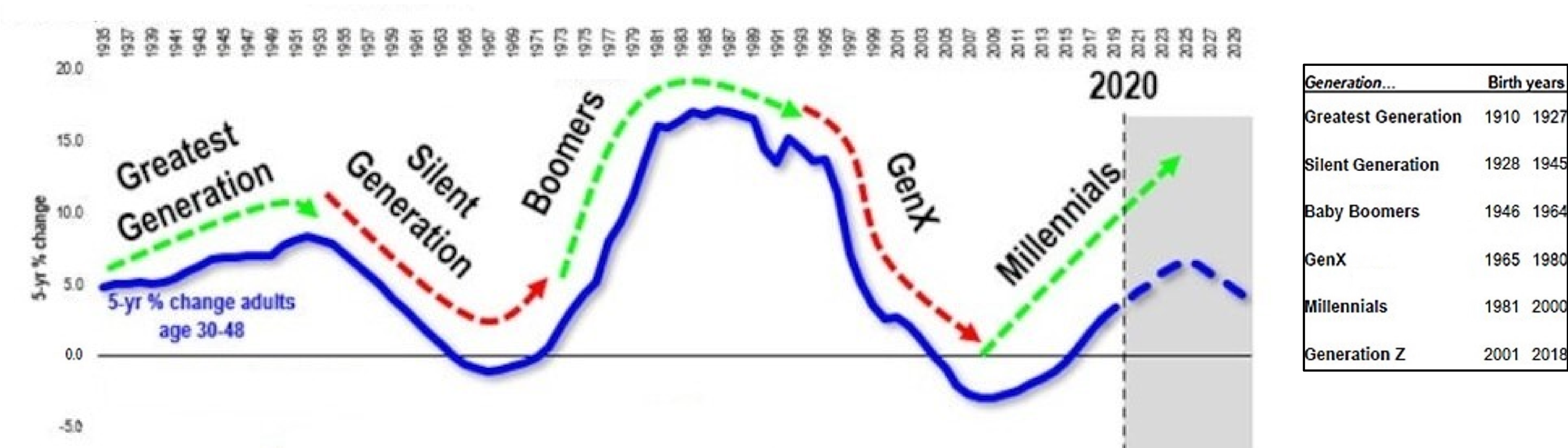
Dividends Likely To Play A Larger Role In Returns

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	59.4
1950s	257.3%	180.3%	437.7%	41.2	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	39.5
Average	114.4%	87.8%	202.2%	59.4	52.5

Source: Strategas Research. January 26, 2022

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

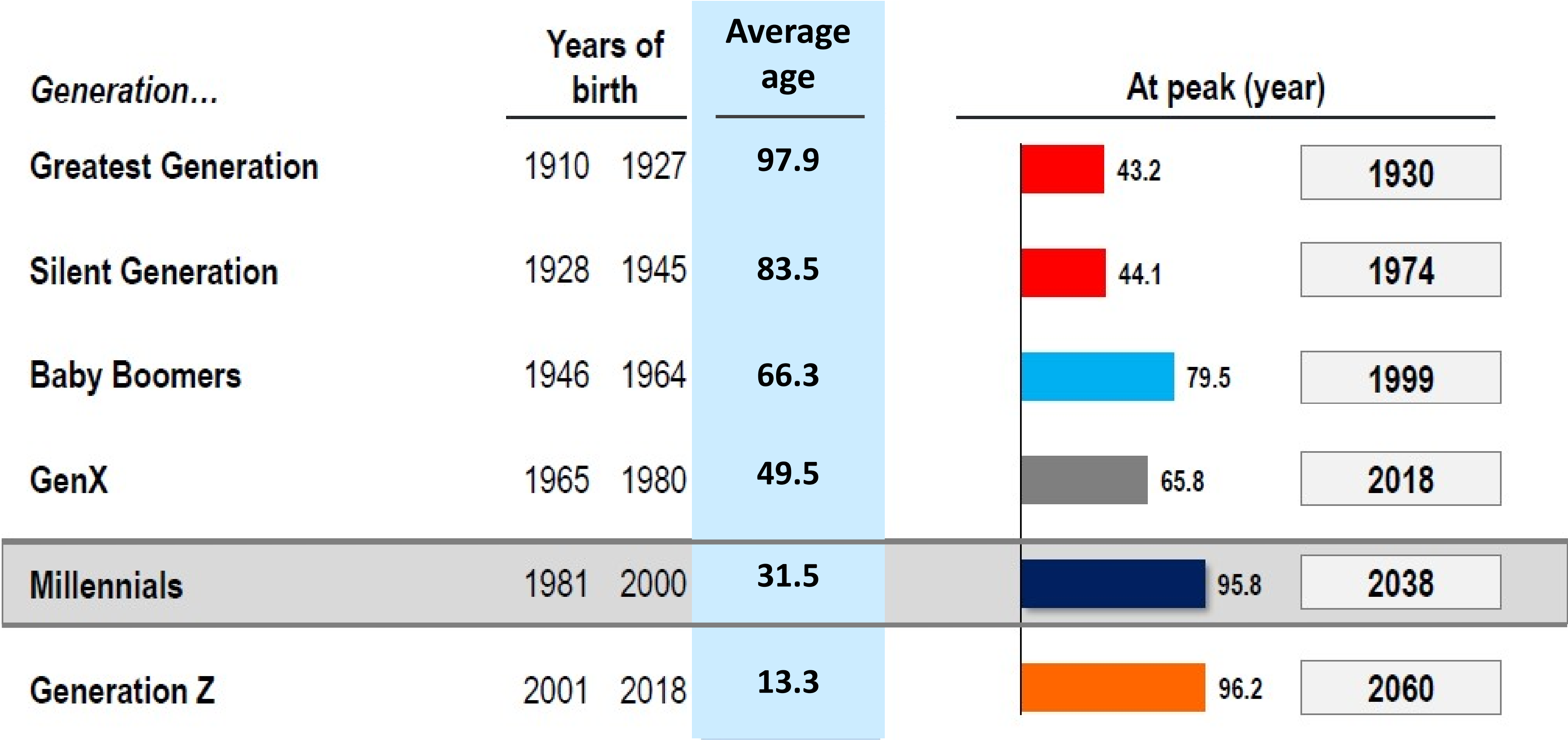
Prime Leverage Years: # Adults Age 30-48 Since 1935 per the US Census Bureau



Source: Fundstrat, Bloomberg, BEA, National Association of Realtors, US Census Bureau. Report as of July 30, 2020.

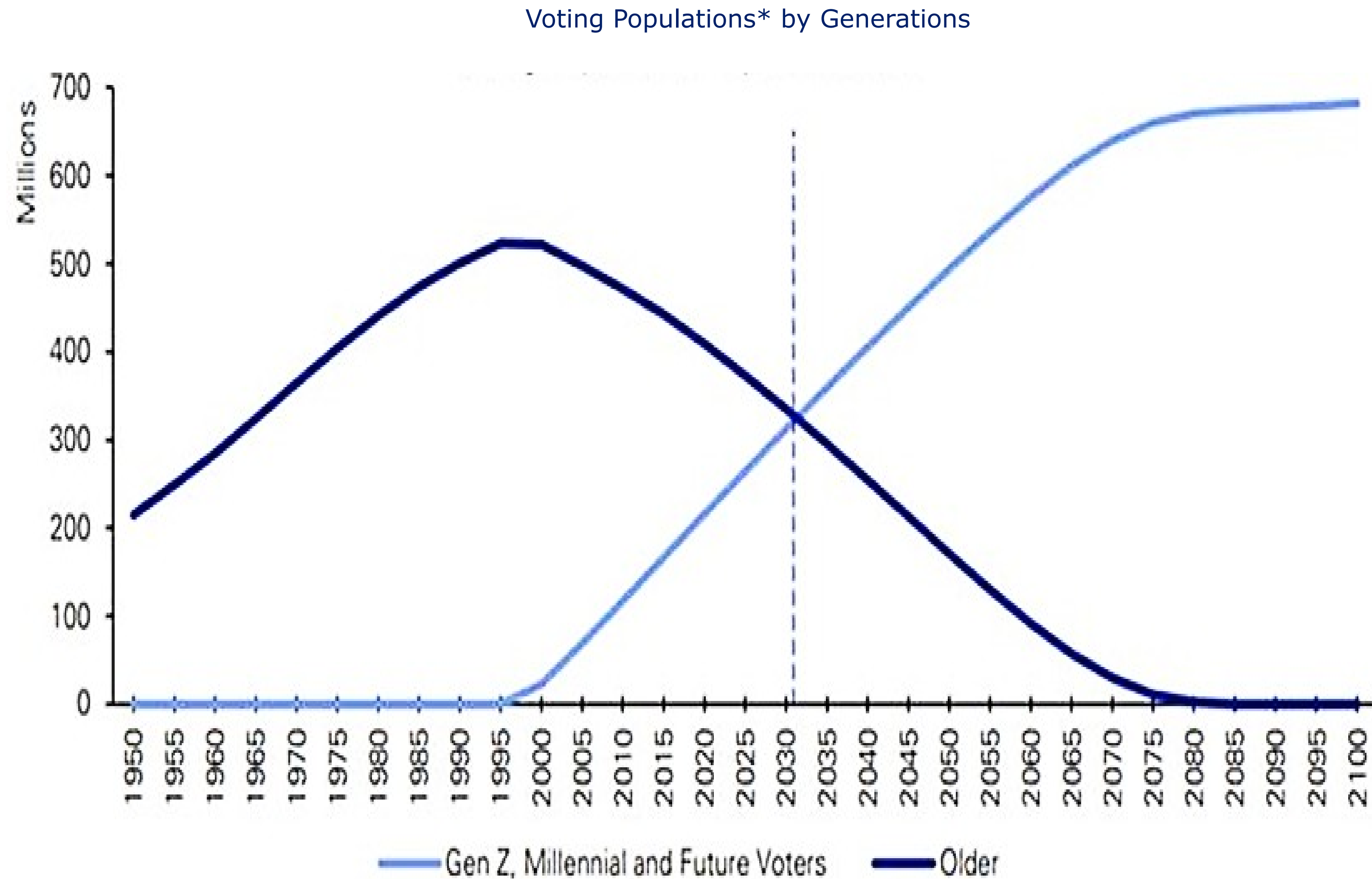
The Largest Generation Ever, Millennials Are Just Entering Their Prime Income Years

Total US Population Divided by Age Groups



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

For Your Consideration-Millennials & Gen Z Will Have More Voters Than Older Generations By The End Of This Decade



*Voting population estimated from 17.5 years and older.
Source: United Nations, Haver, Deutsche Bank, as of September 9, 2020.

Interested In Hearing More?

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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](#)**