

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

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Federated Hermes Forecast

Views are as of January 13, 2023

	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Real GDP	1.70%	2.30%	3.00%	2.20%	(3.50)%	5.90%	2.00%	0.60%	N/A
Core CPI	2.20%	1.80%	2.20%	2.30%	1.60%	5.50%	5.70%	3.70%	2.50%
Core PCE	1.80%	1.60%	2.00%	1.60%	1.50%	4.90%	4.70%	3.30%	2.00%
Benchmark 10yr Treasury Yield	2.50%	2.40%	2.68%	1.92%	0.92%	1.51%	3.75%	3.25%	3.00%
Fed Funds Rate (upper band)	0.75%	1.50%	2.50%	1.75%	0.25%	0.25%	4.50%	5.25%	4.00%
S&P 500 EPS	\$119	\$133	\$163	\$167	\$137	\$209	\$220	\$200	\$240
Target Forward P/E	16.8x	16.4x	15.0x	23.6x	18.0x	21.7x	19.5x	17.9x	N/A
S&P 500 Target Price	2,239	2,674	2,507	3,231	3,756	4,766	3,900	4,300	N/A

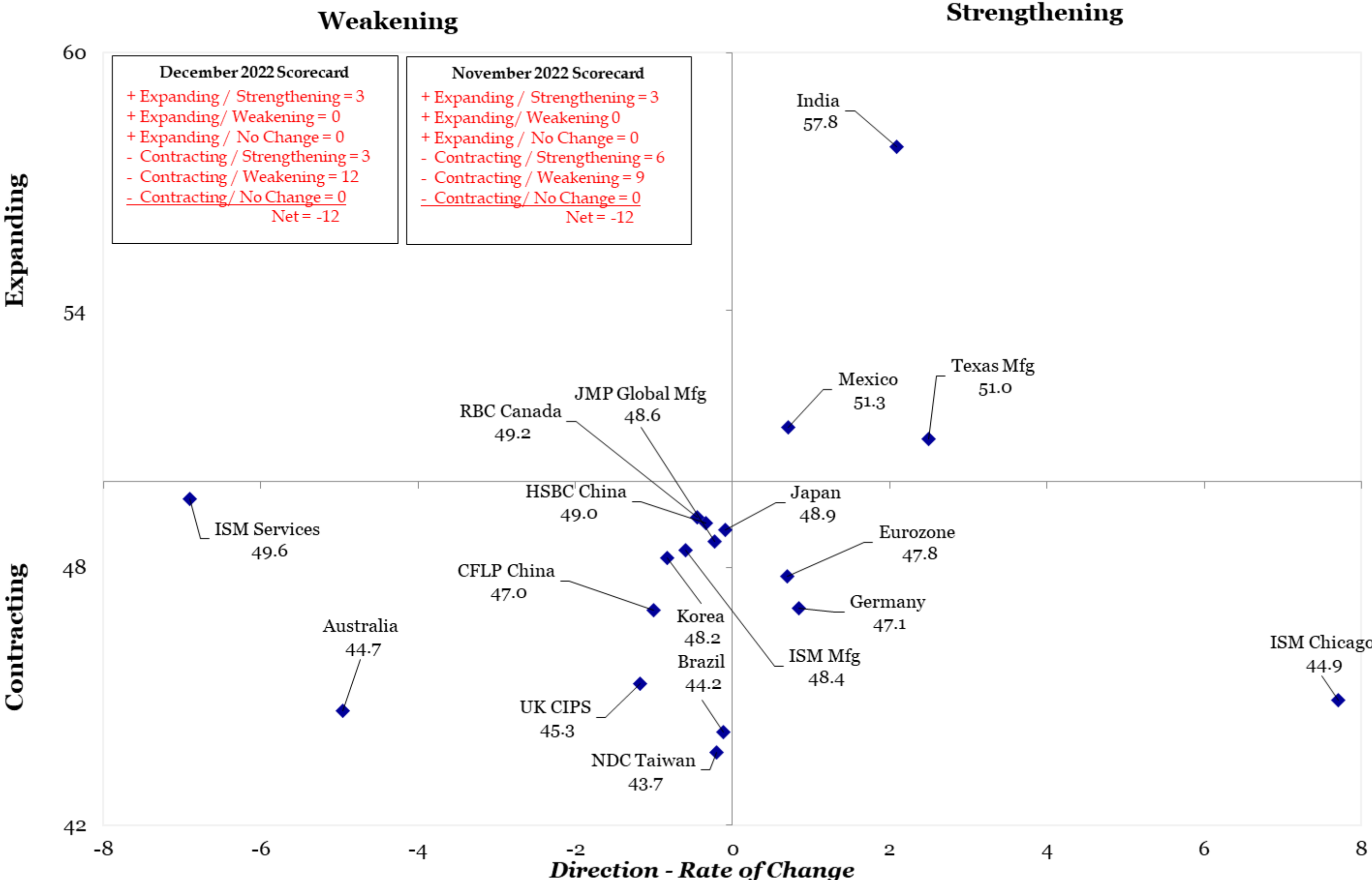
PCE = Personal Consumption Expenditures. 2016, 2017, 2018, 2019, 2020 and 2021 are actual.

Views are as of the date indicated and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Source: Federated Hermes and the Commerce Department.

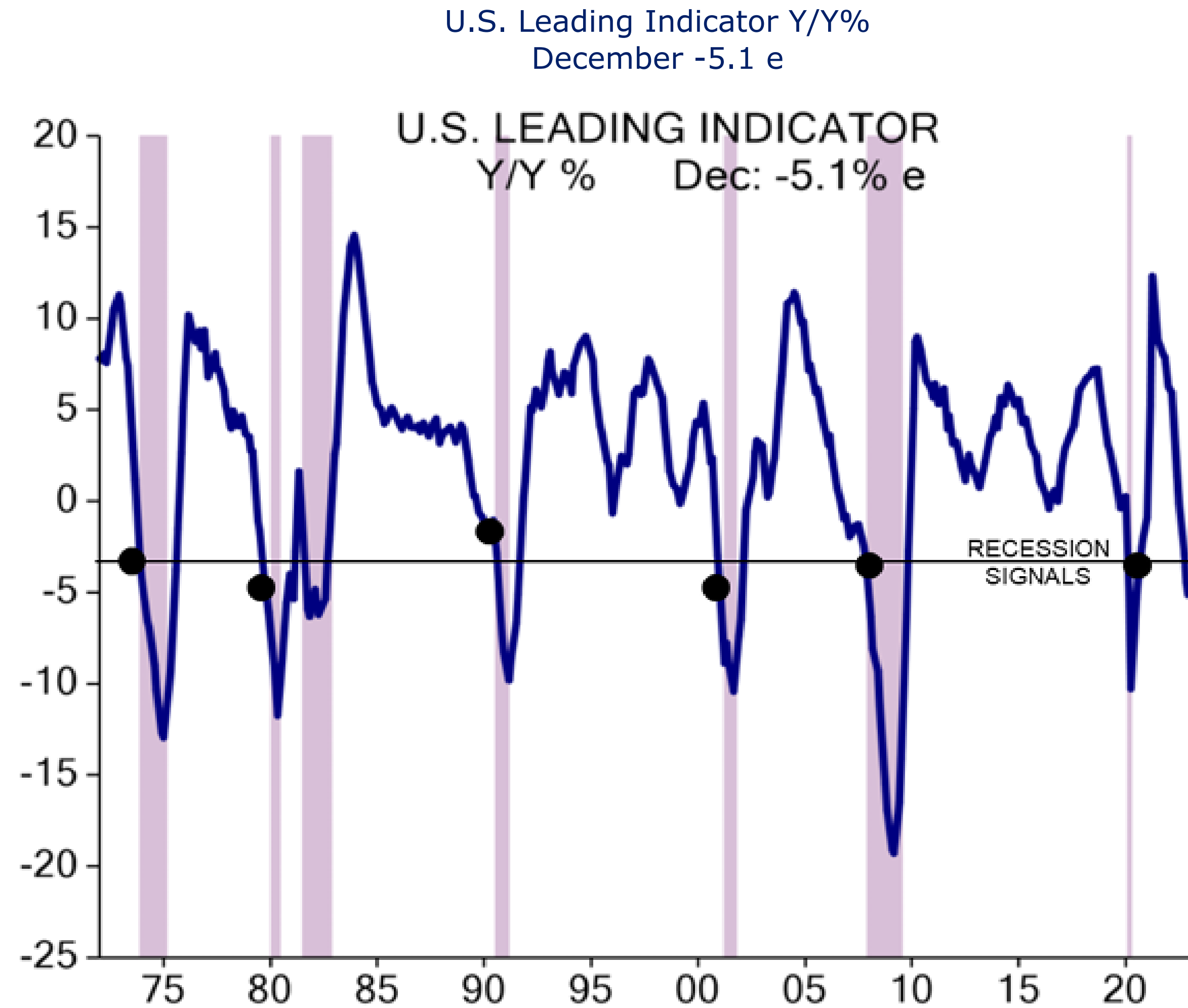
Synchronous Global Recession. Can The U.S. Escape It?

Global Economy Scorecard as of December 2022



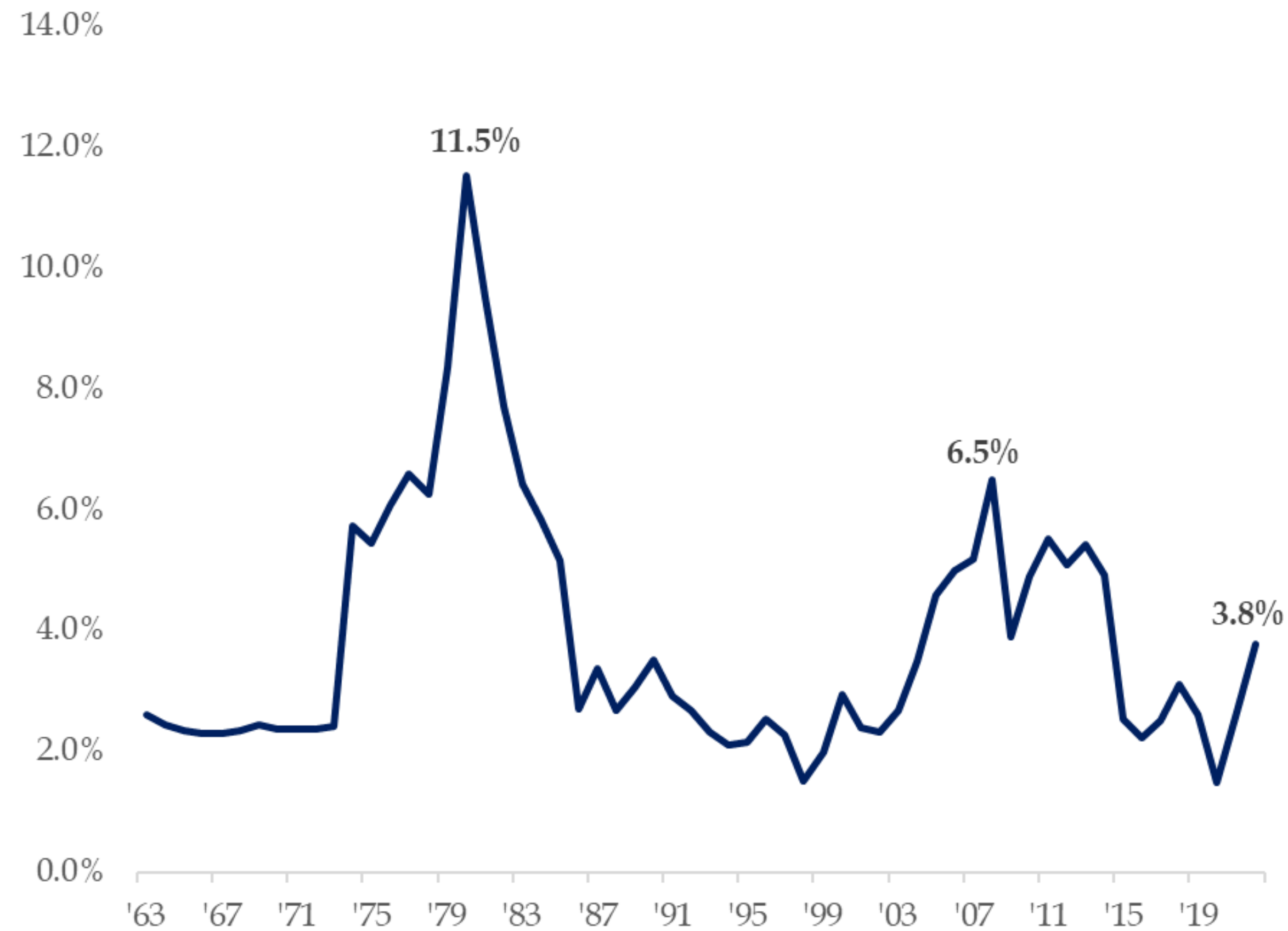
Source: Strategas Research Partners. Data as of December 9, 2022

Probably Not.

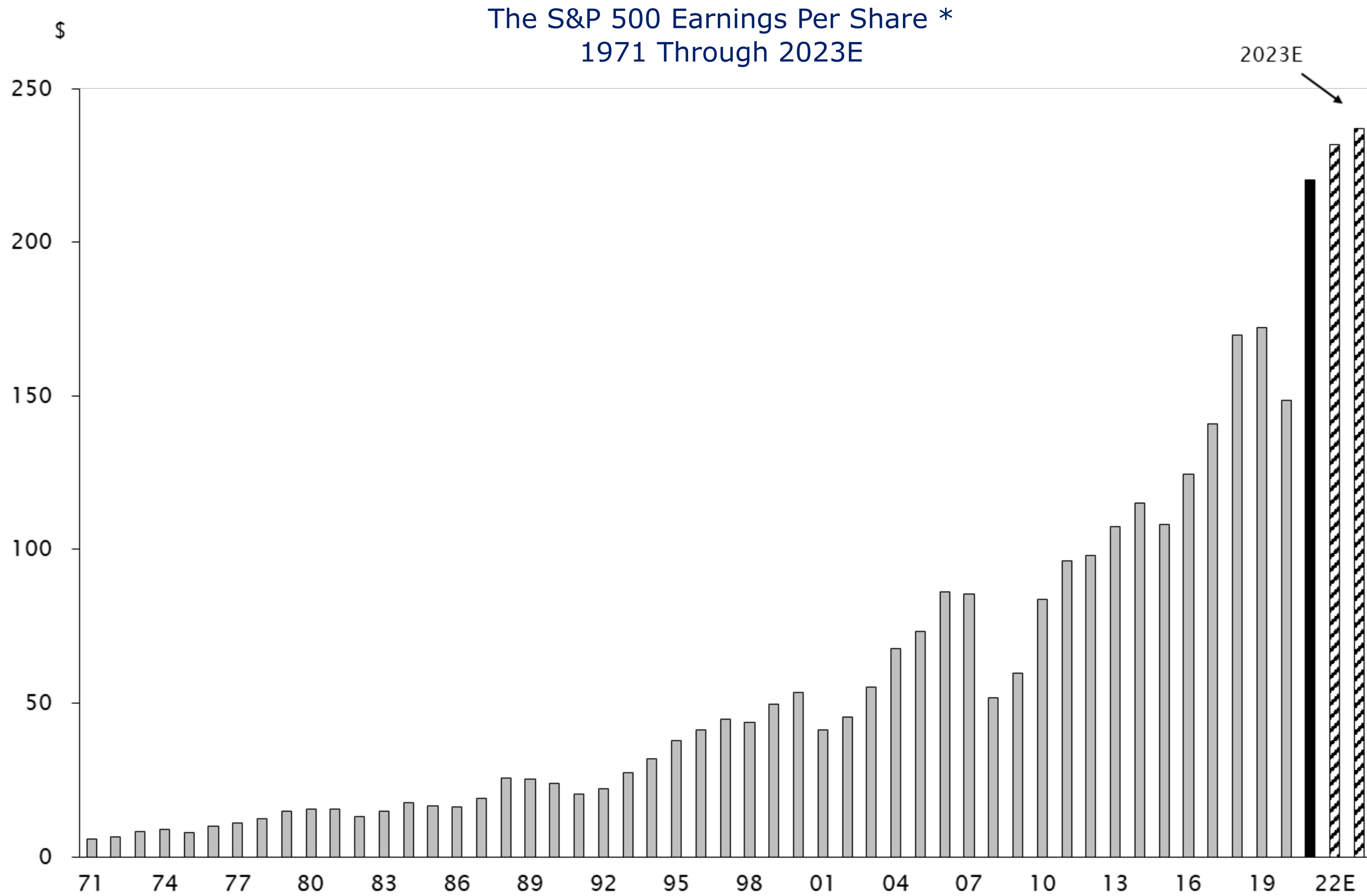


1970s Redux? Not As Vulnerable To Energy Costs Now

Estimated Energy Expenditure As A Percent of Disposable Income



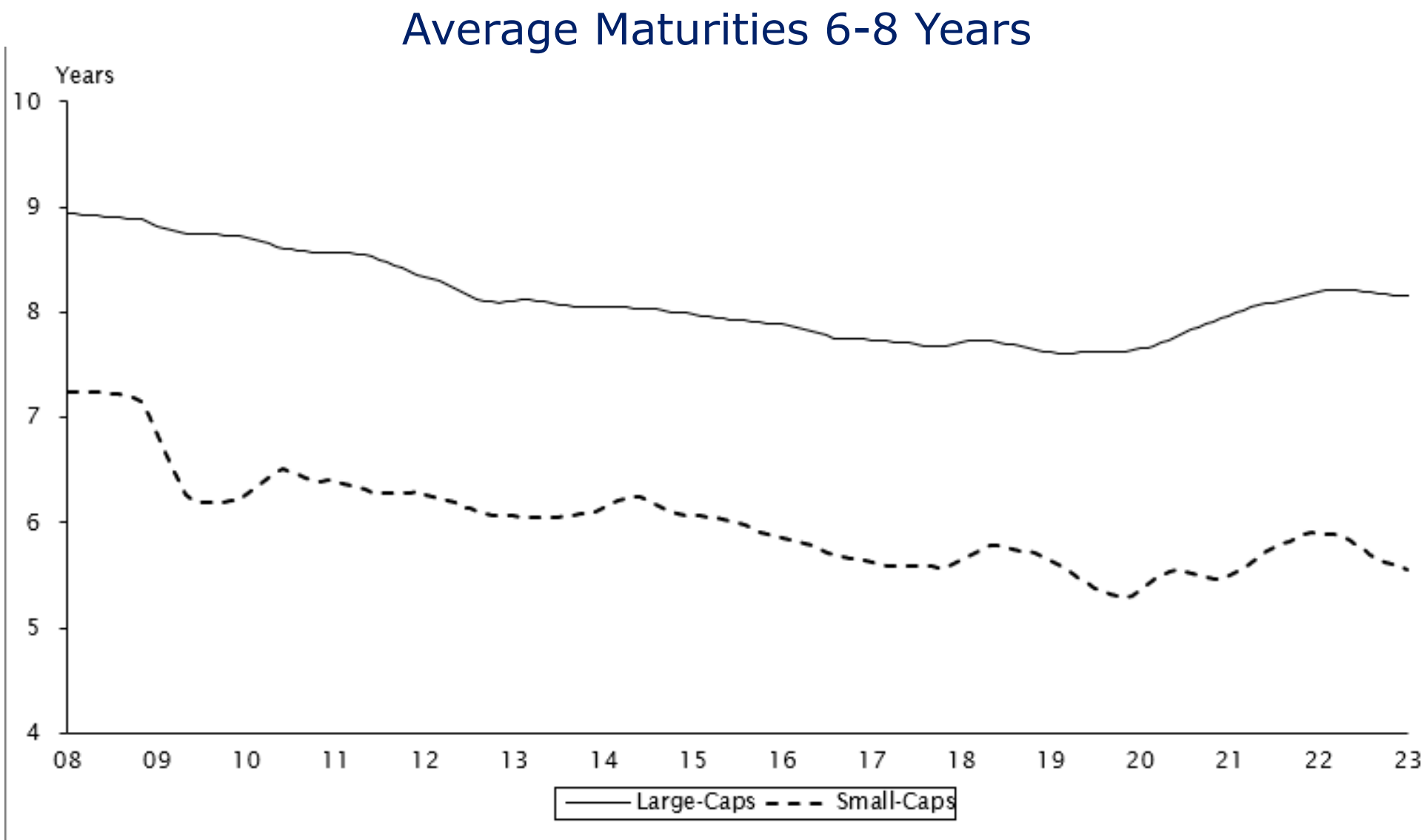
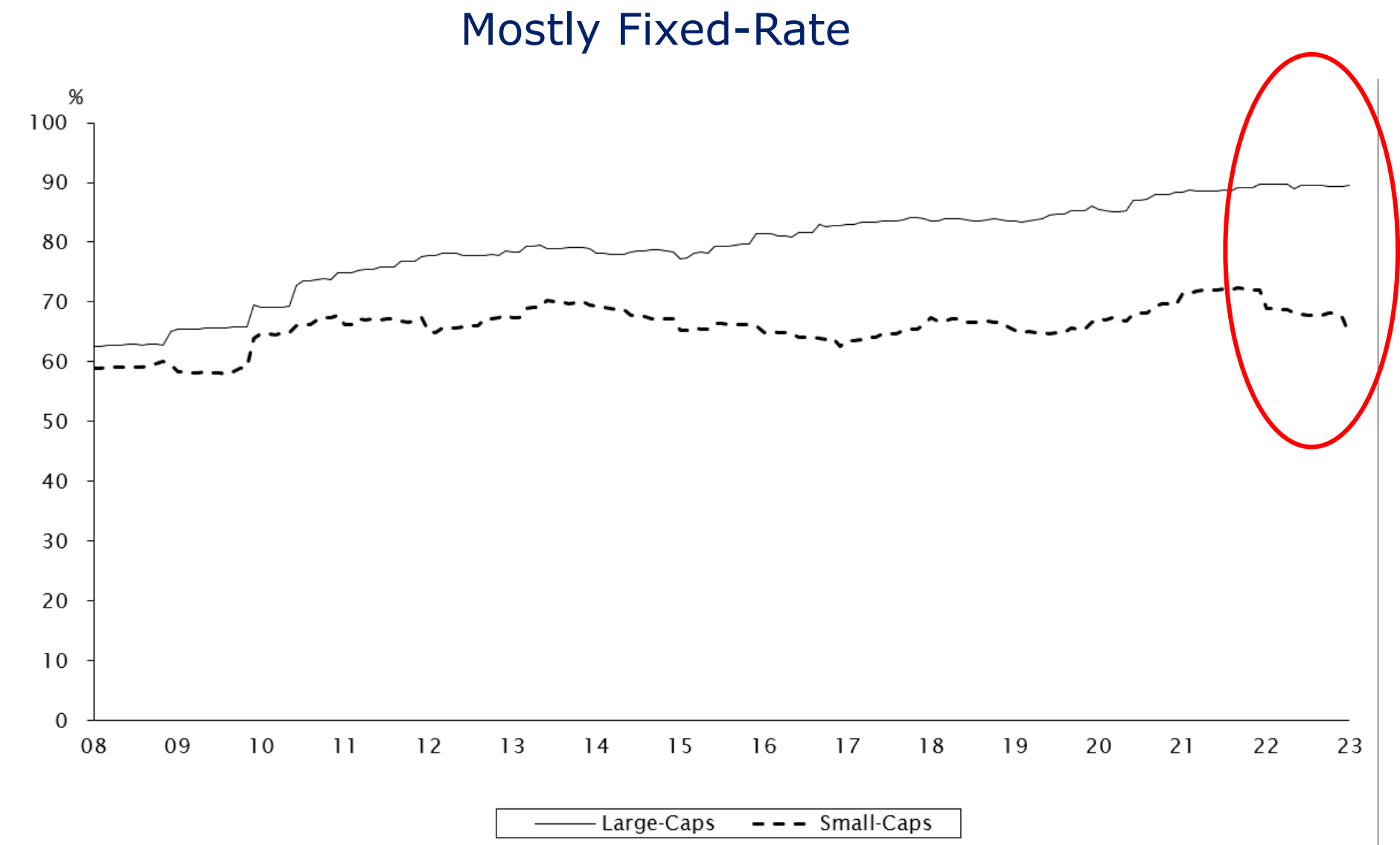
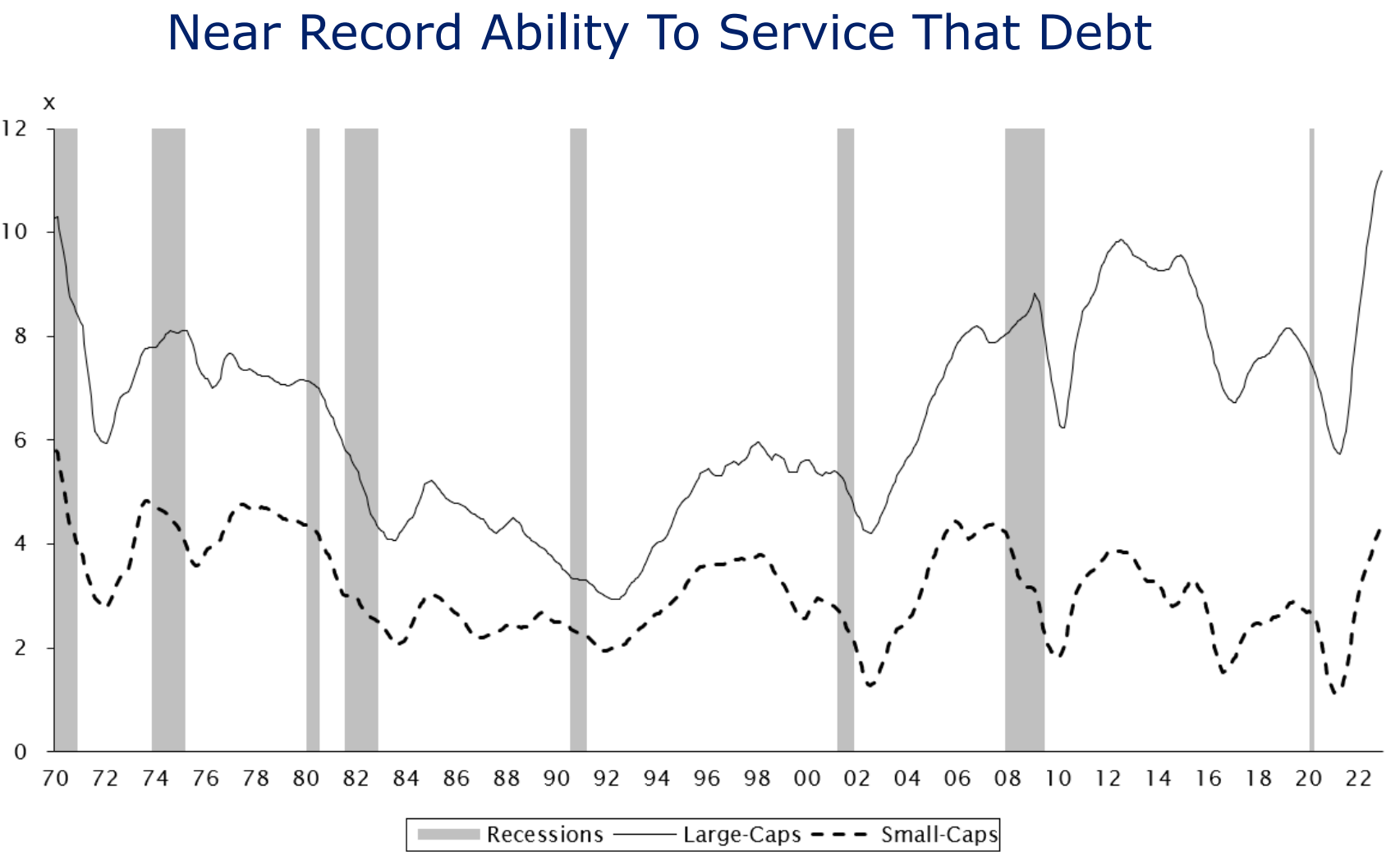
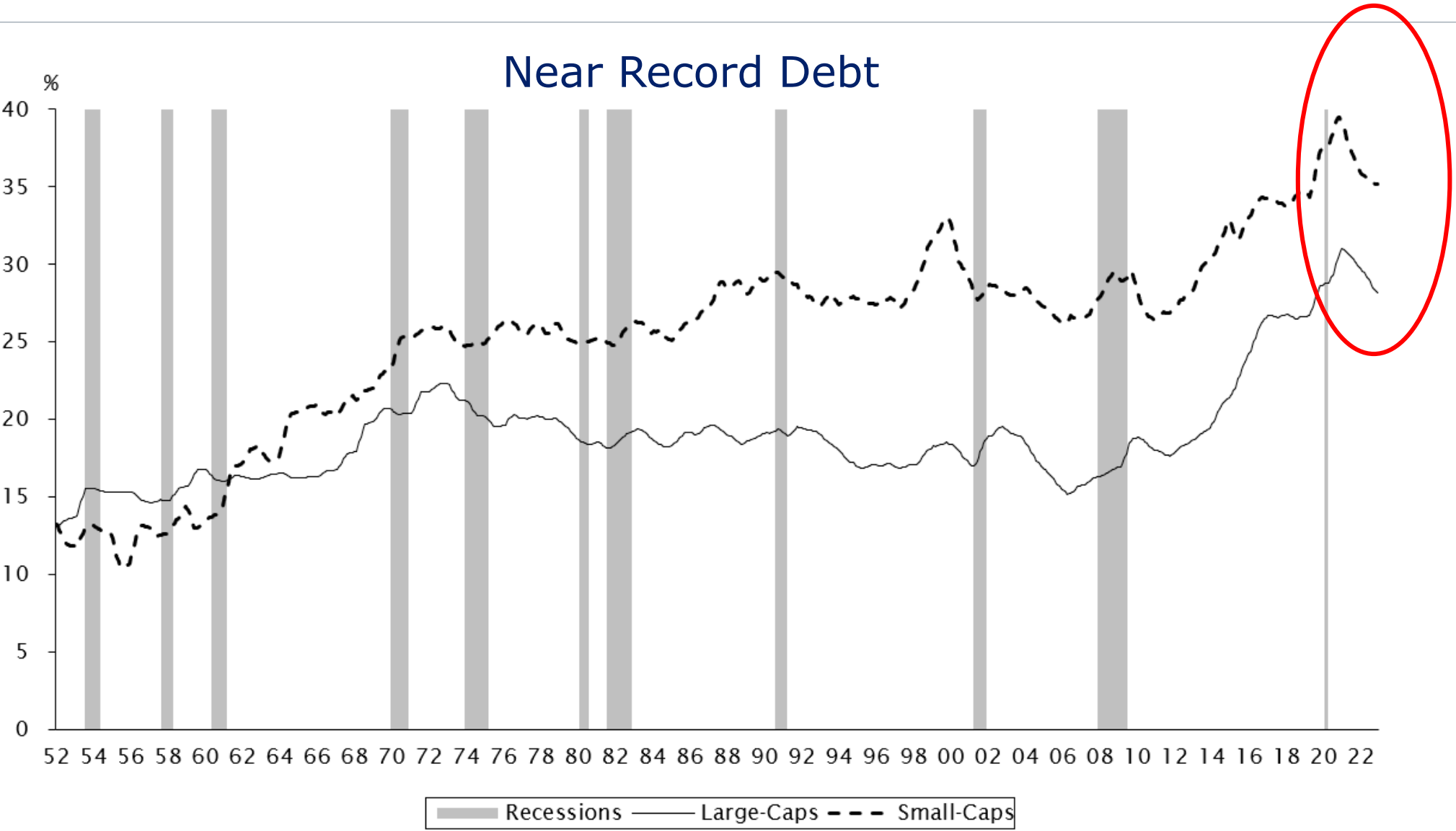
The Earnings Have Been Extraordinary



Source: Empirical Research Partners Analysis and Estimates, November 4, 2022

*-Based on a roll-up of analyst estimates.

Corporate Debt Is Manageable



Source: Empirical Research Partners. January 12, 2023. Note: Shaded bars indicate recessions

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

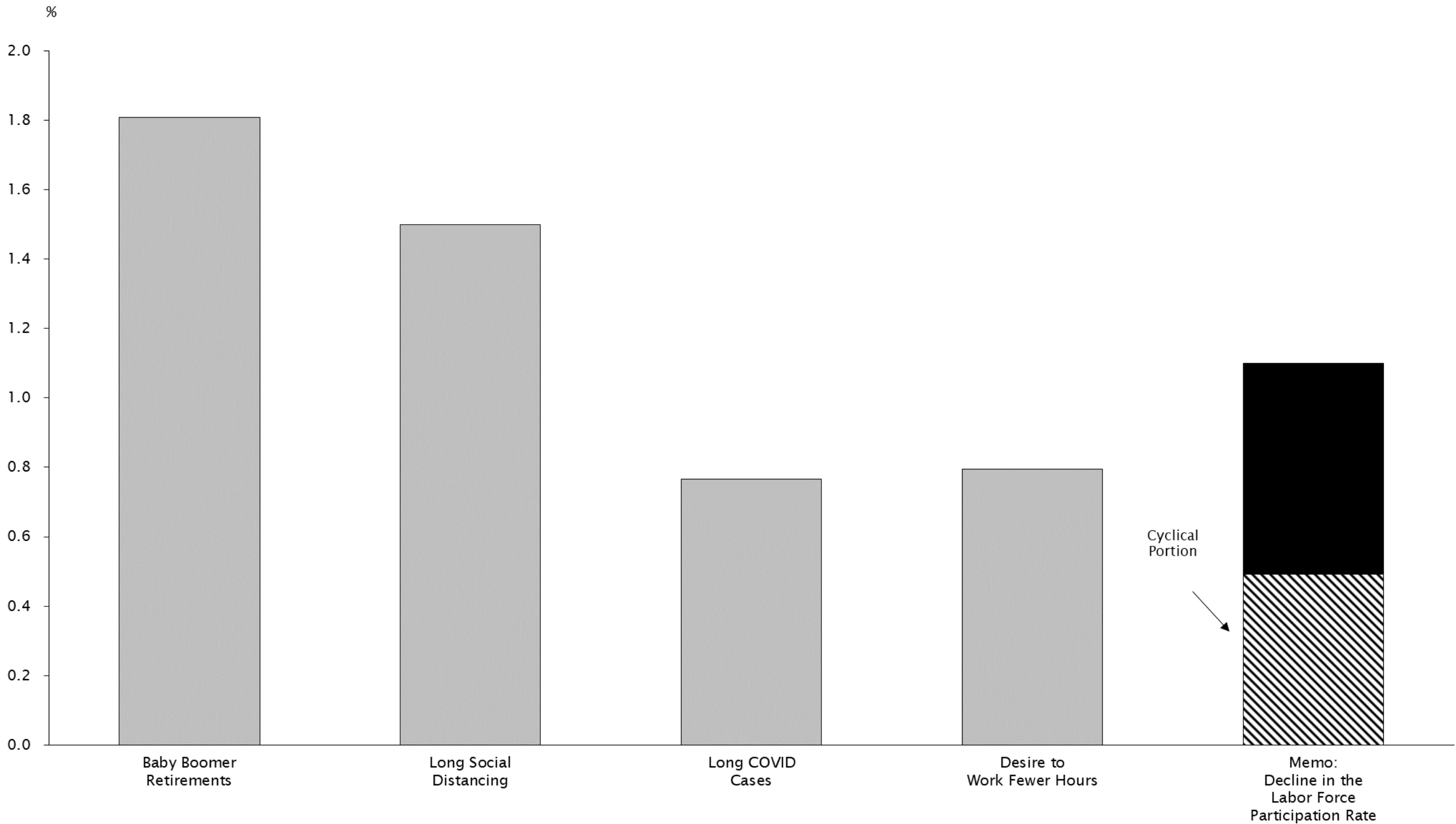


Source: Department of Labor, Bureau of Labor Statistics, Haver Analytics, BofA Global Research. January 6, 2023

Note: Shaded bars indicate recessions

Where Are All The Workers?

Baby Boomer Retirements, Long Social Distancing, Long COVID and Working Hours Desired
As a Share of The Labor Force Late-2022 Compared to February 2020

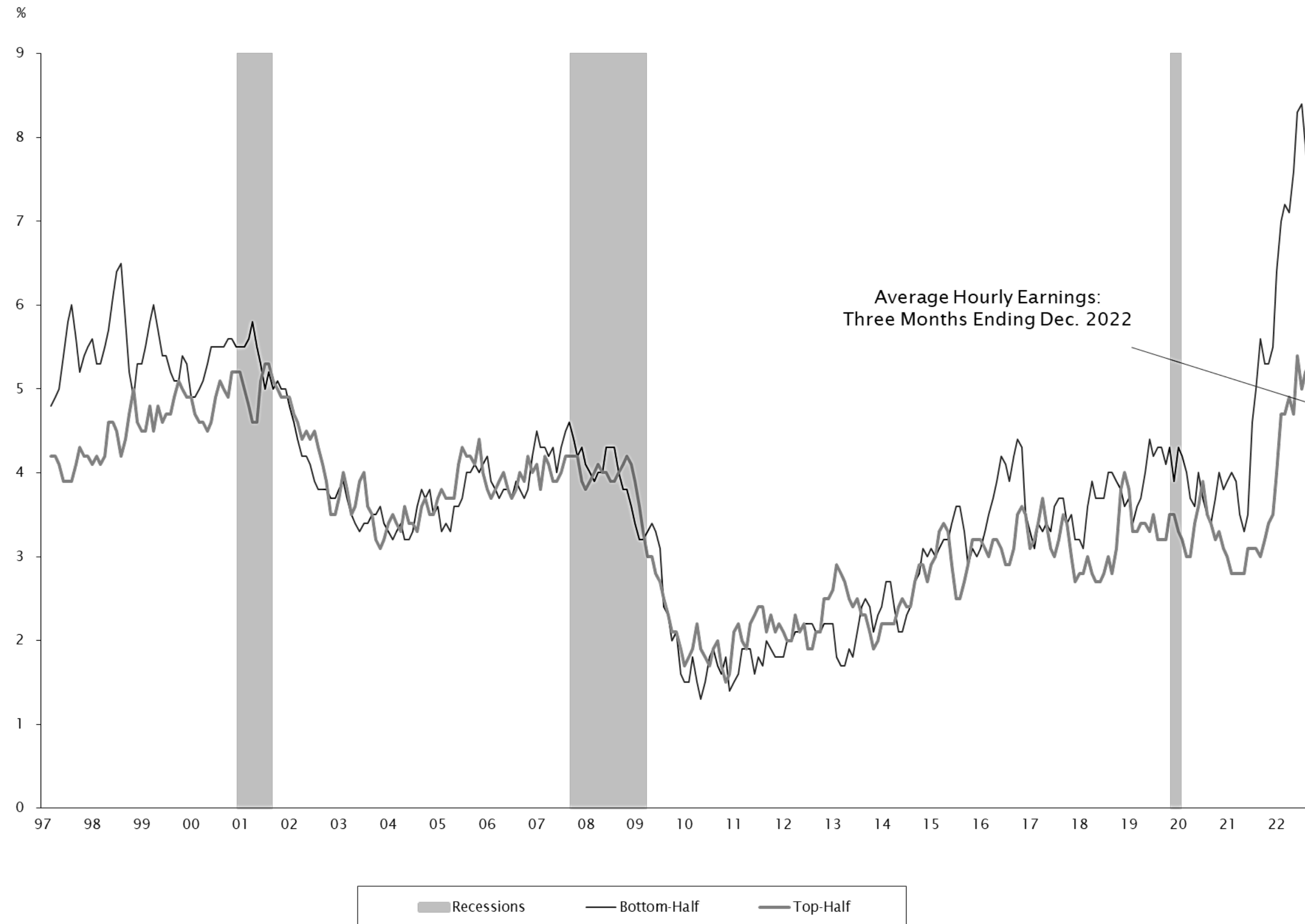


Source: Bureau of Labor Statistics, Brookings Institute, Federal Reserve Bank of Minneapolis, Federal Reserve Bank of Kansas City, Barrero, J. M., Bloom, N. and Steven J. Davis, 2022. "Long Social Distancing," Working Paper; Faberman R.J., Mueller, A.I. and Aysegul Sahin, 2022. Has the Willingness to Work Fallen During the COVID Pandemic?" Working Paper, Survey of Consumer Expectations, Empirical Research Partners Analysis.

Note: The number comes from taking the change in the labor force participation rate and applying it to the population.
Data as of December 31, 2022

Job Market Tight As A Drum...

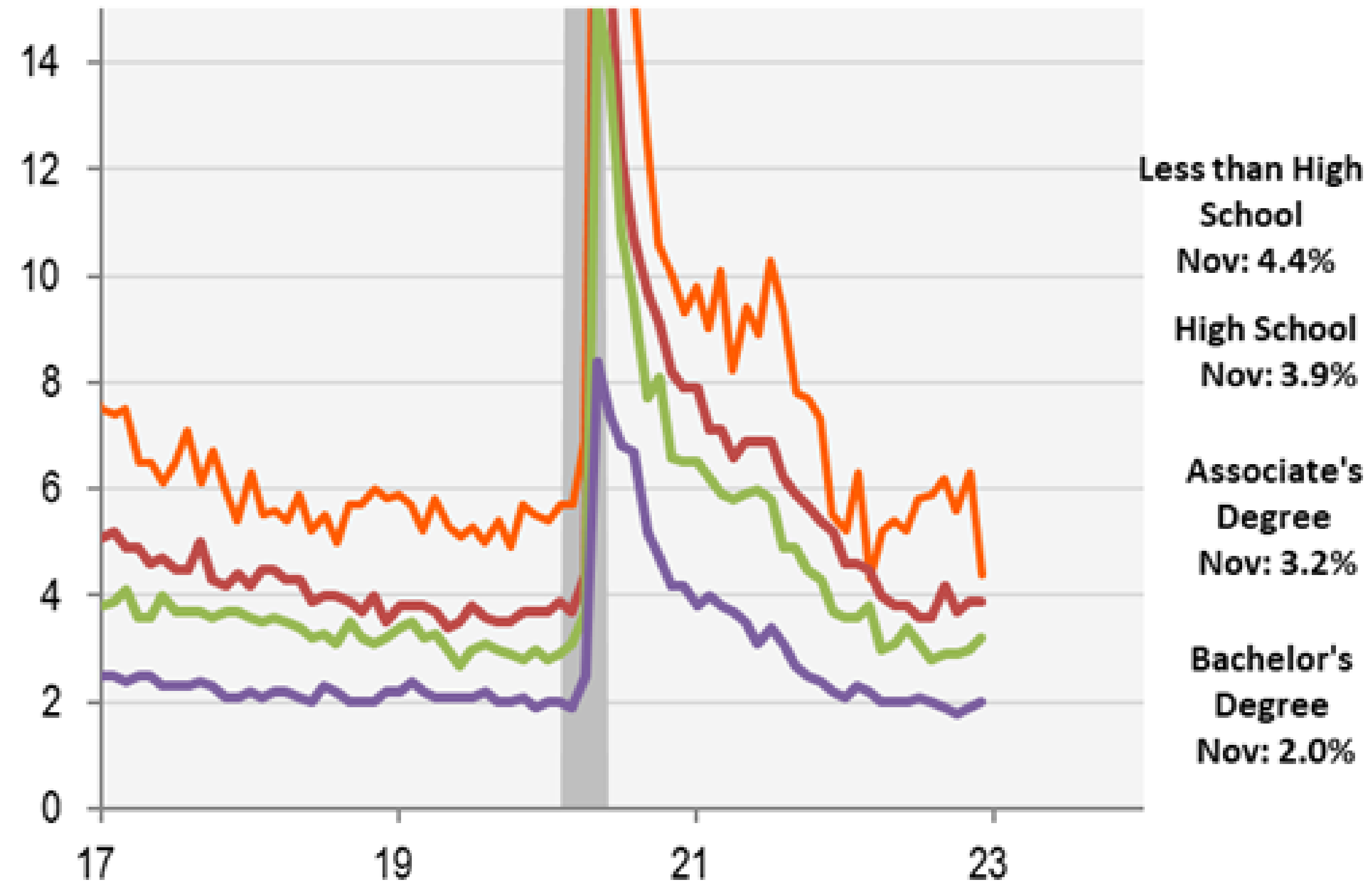
Top and Bottom Half of the Income Distribution Median Wage Growth Rates
1997 Through Mid-December 2022



Source: Federal Reserve Bank of Atlanta, National Bureau of Economic Research. Empirical Research Partners. Data as of December 16, 2022
Note: Shaded bars indicate recessions

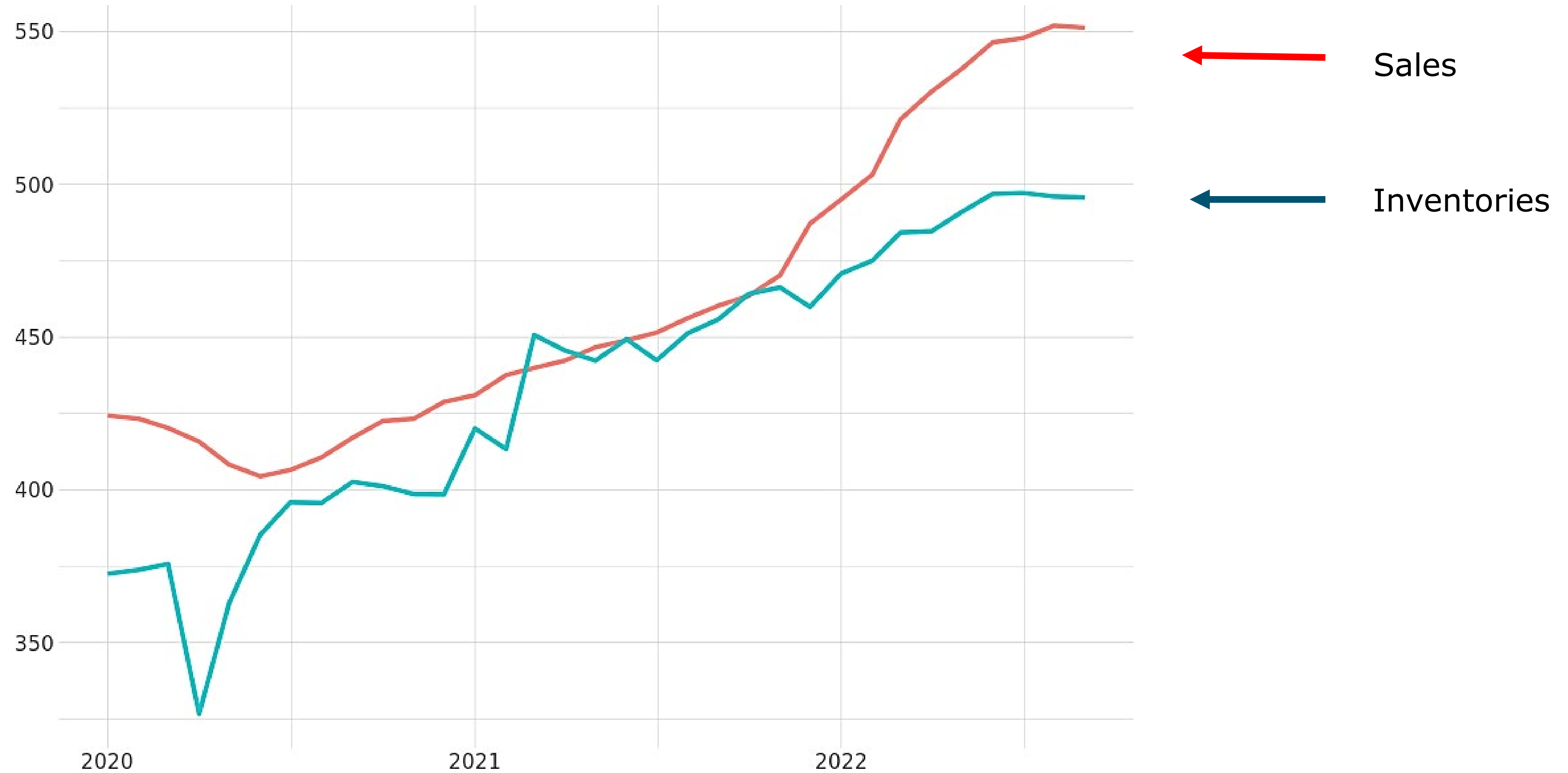
...Across All Skill-Set Levels

U.S. Unemployment Rate By Education



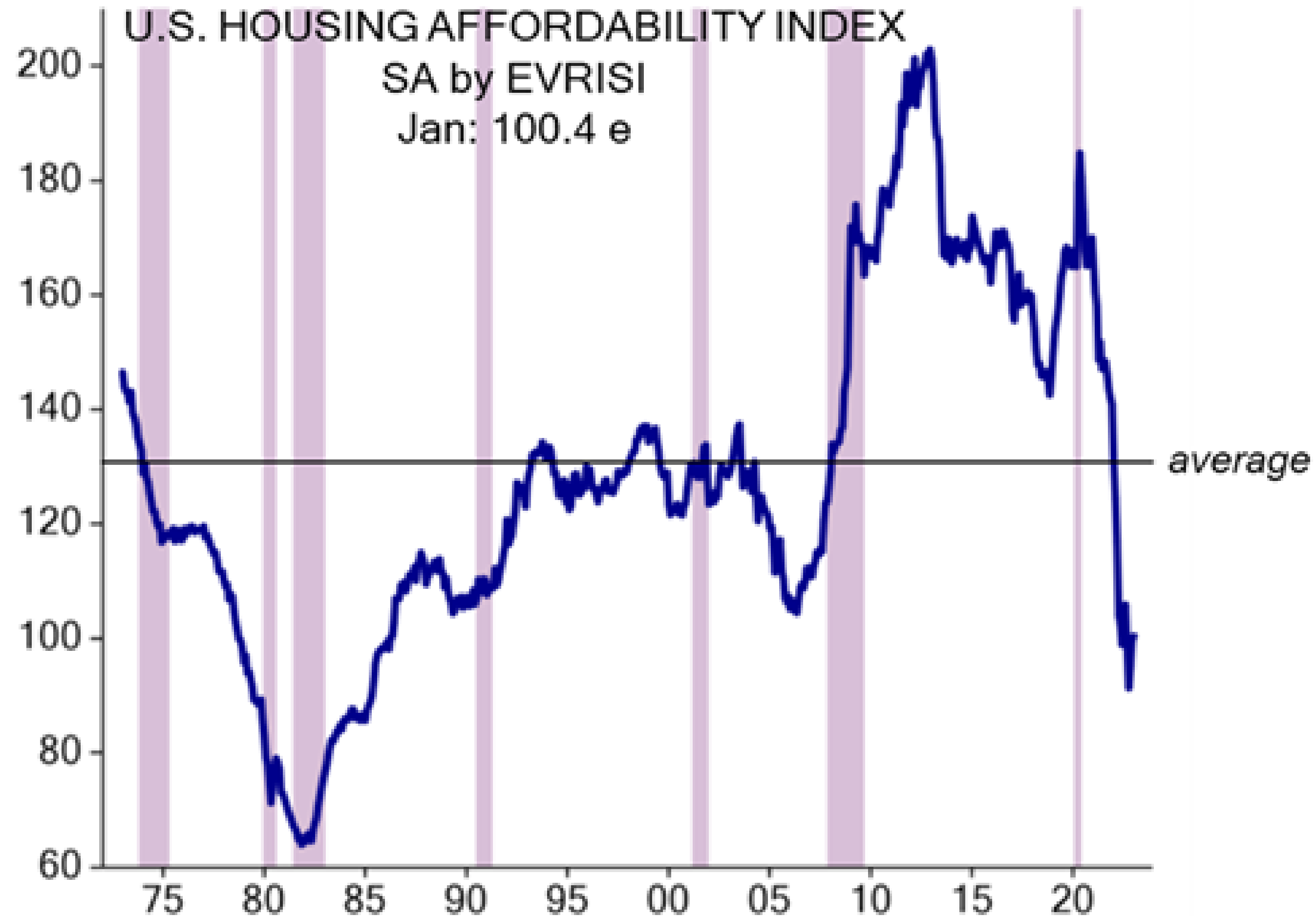
The Spending Spree Is Over Just As Inventories Are Surging

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



First-Time Home Buyers Priced Out

Housing Affordability Index
1981 Through January 2023e



Source: Evercore ISI Research. Data as of January 13, 2023
Note: Shaded bars represent recessions

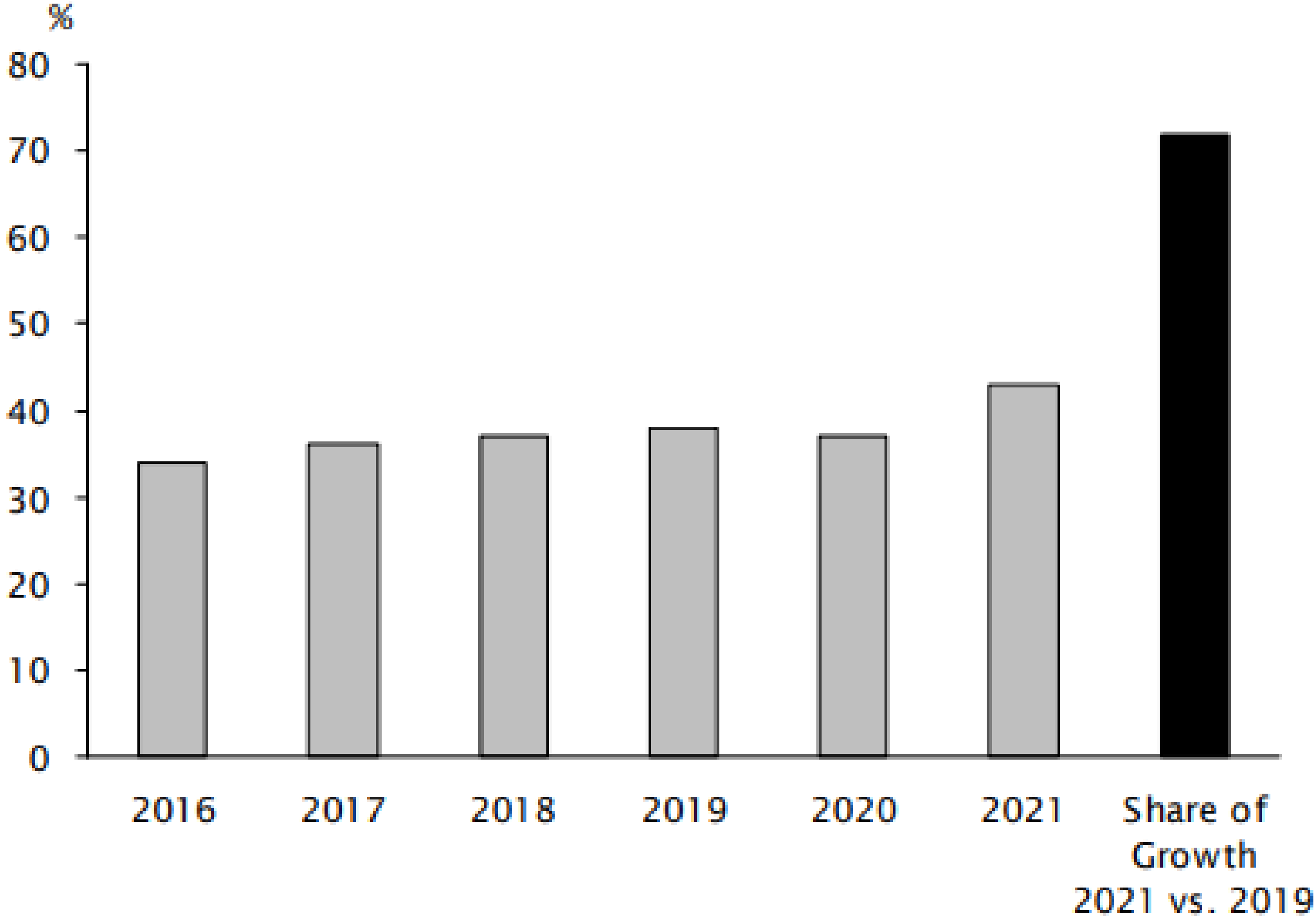
Biggest Year Over Year Drop In The NAHB* In History



Source: Piper Sandler Research, Bloomberg Finance, January 13, 2023
*NAHB=National Association of Home Builders
Data as of December 31, 2022

Plenty Of Demand For Homes Down The Road

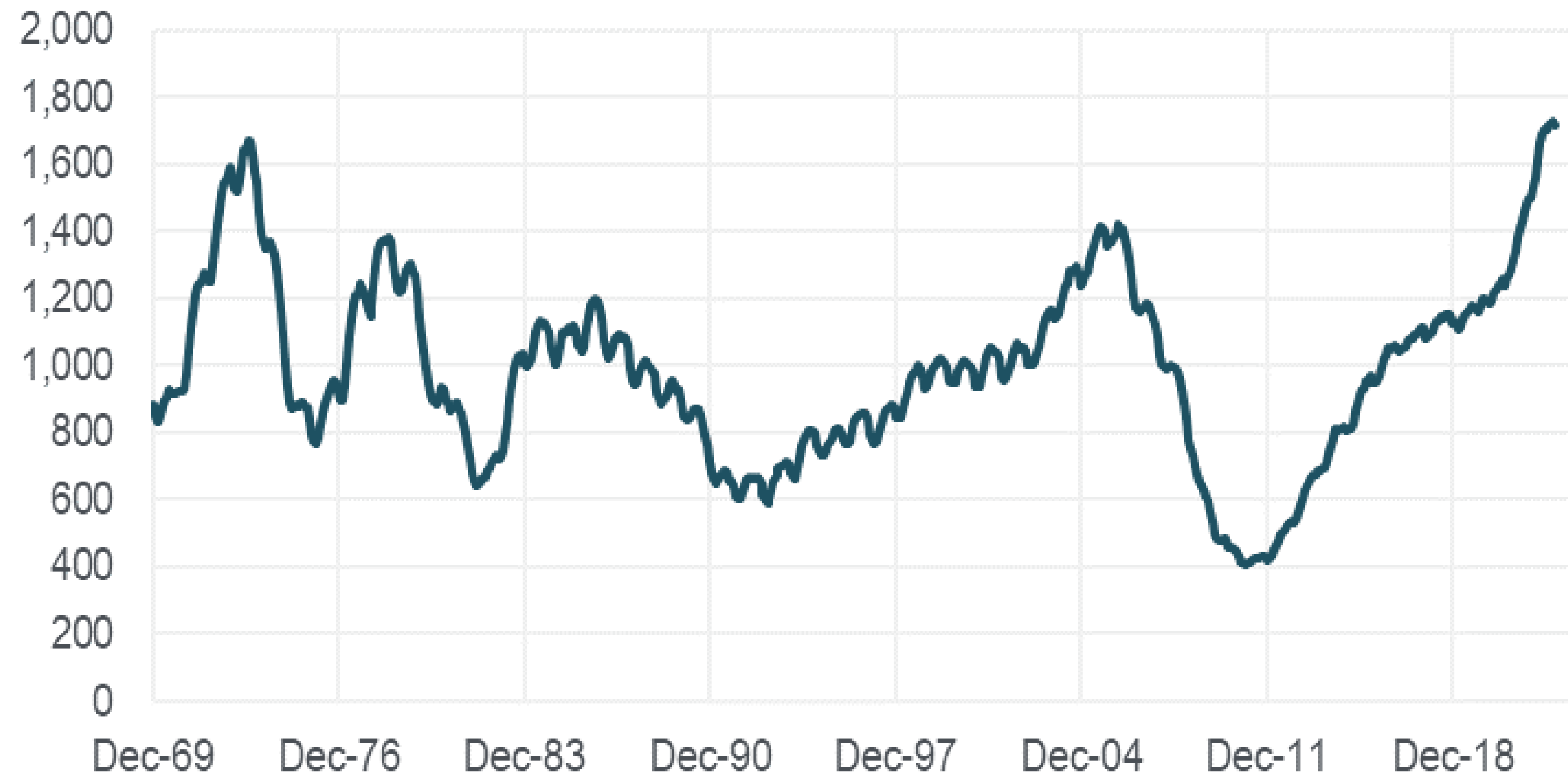
Millennials* Share of Home Purchases
Years Ending June: 2016 Through 2021



Source: National Association of Realtors, Empirical Research, June 7, 2022
*Those born from 1980 to 1998

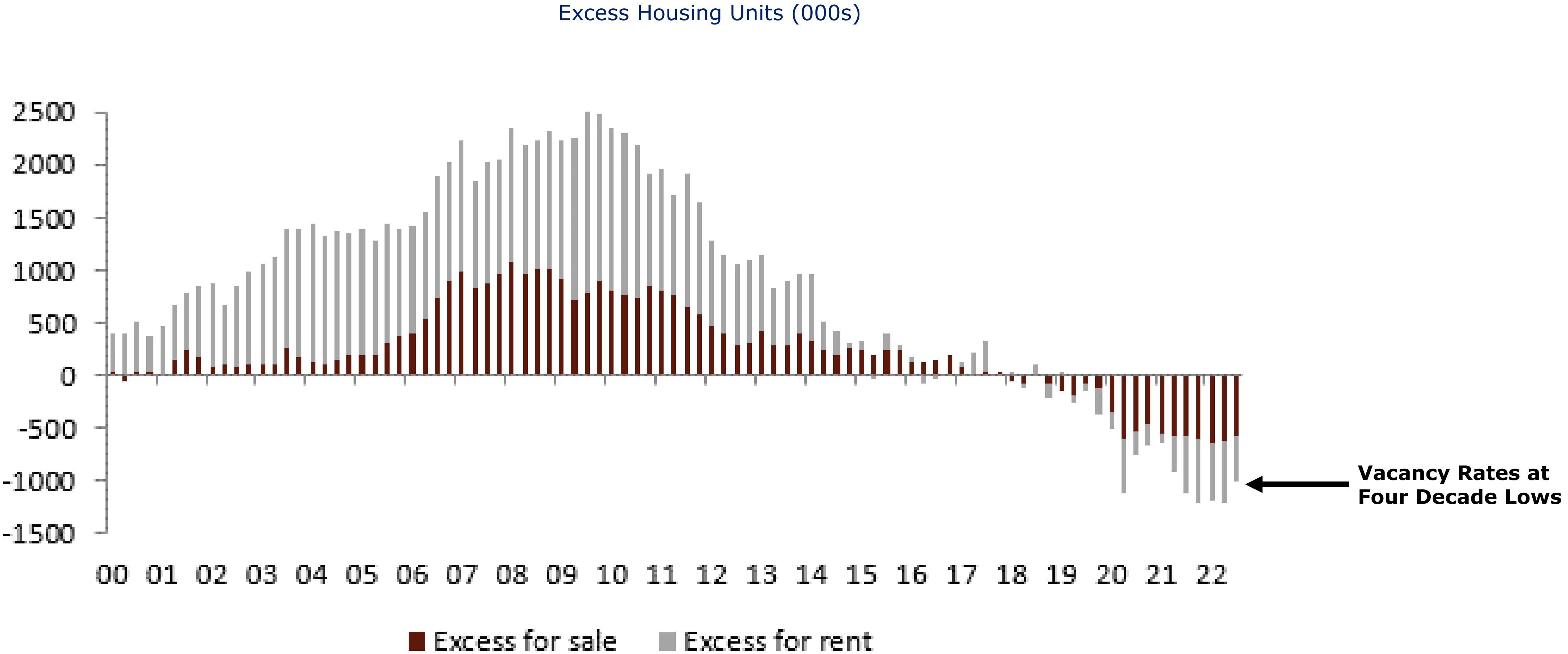
Home Builders Still Working On A Big Backlog

New Privately-Owned Housing Units Under Construction: Total Units*



Source: Piper Sandler Research, January 13, 2023
*Total Units, Thousands of Units, Monthly, Not Seasonally Adjusted
Data as of November 30, 2022

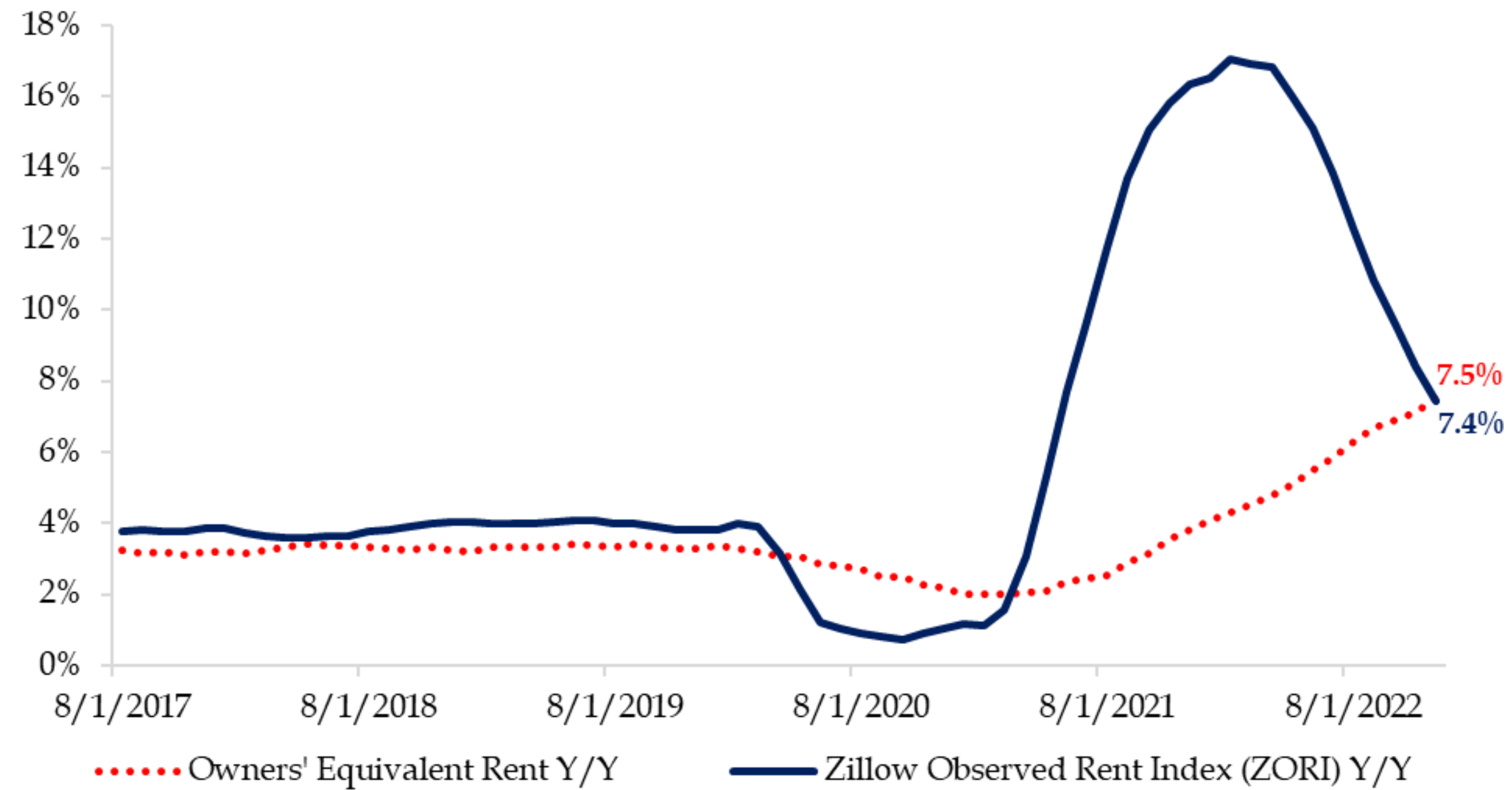
US Housing Remains In An Excess Demand Position



Source: Renaissance Macro Research, Bloomberg, Haver Analytics. Data as of September 30, 2022

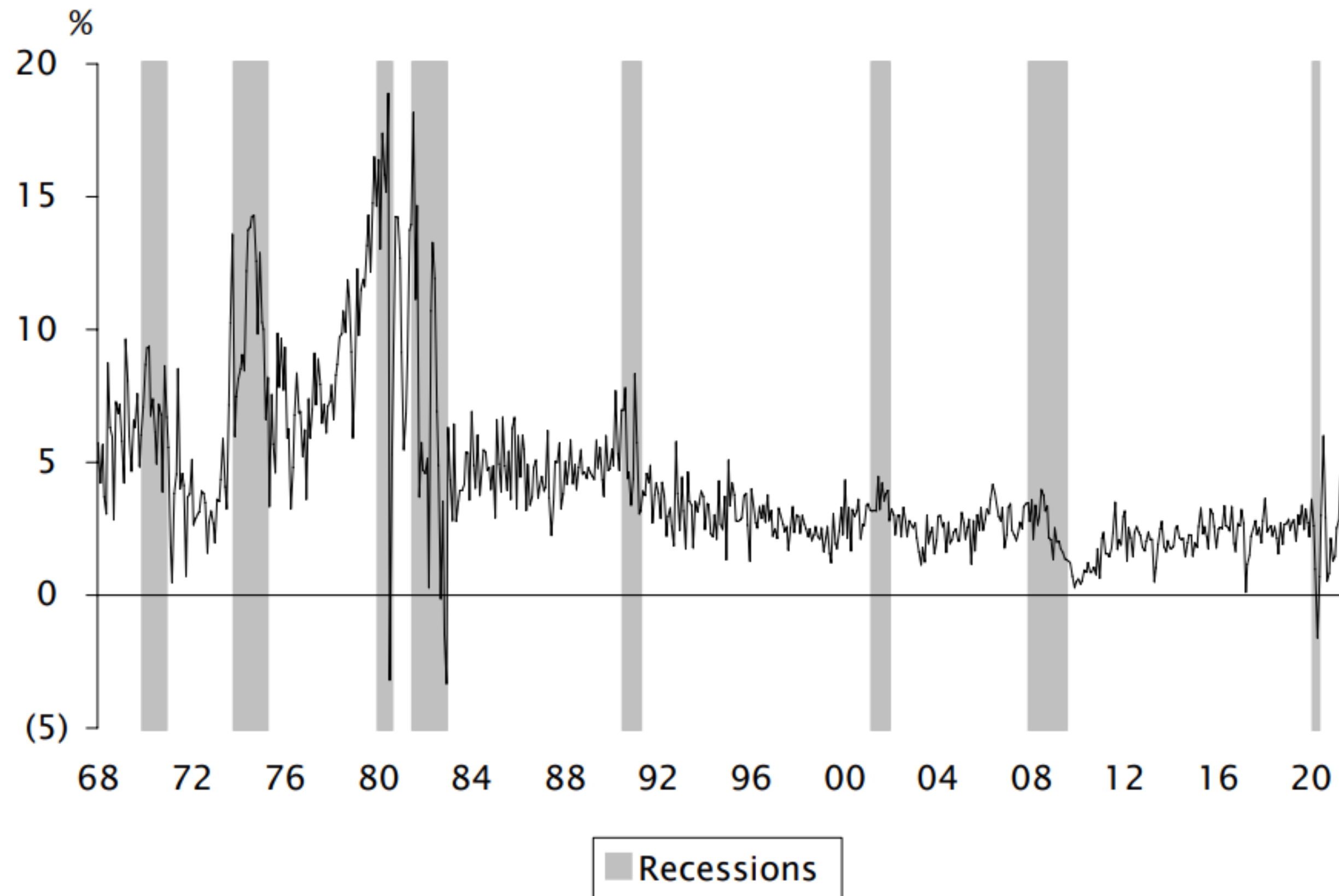
Housing Is Reflected In CPI With a Lag

The Zillow Rent Index and the Owner's Equivalent Rent Index*
Year over Year Changes 2017 Through December 2022



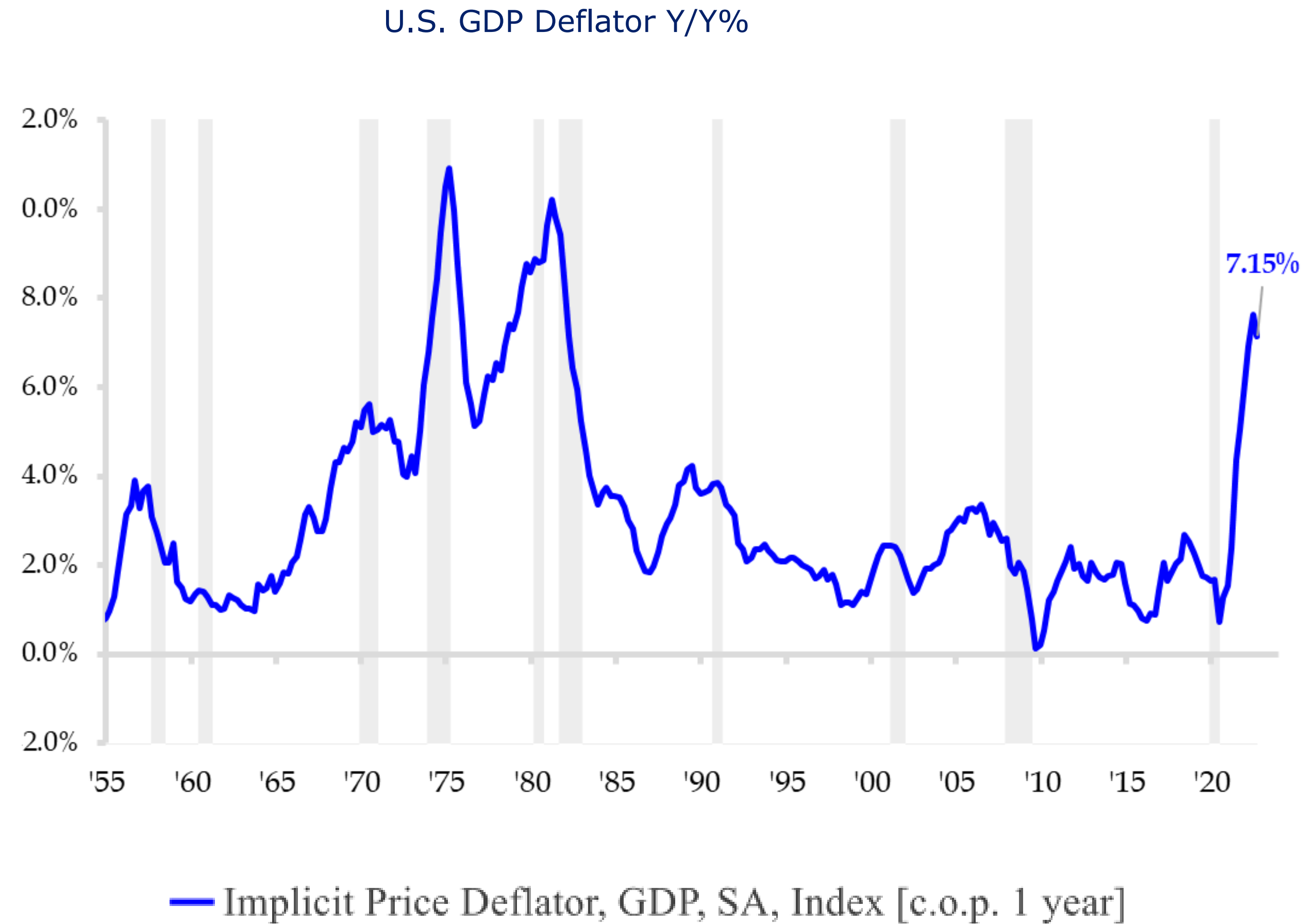
1970's Redux? Inflation Not "Transitory"

Sticky-Price CPI
Month over Month Annualized Changes
1968 Through November 2022



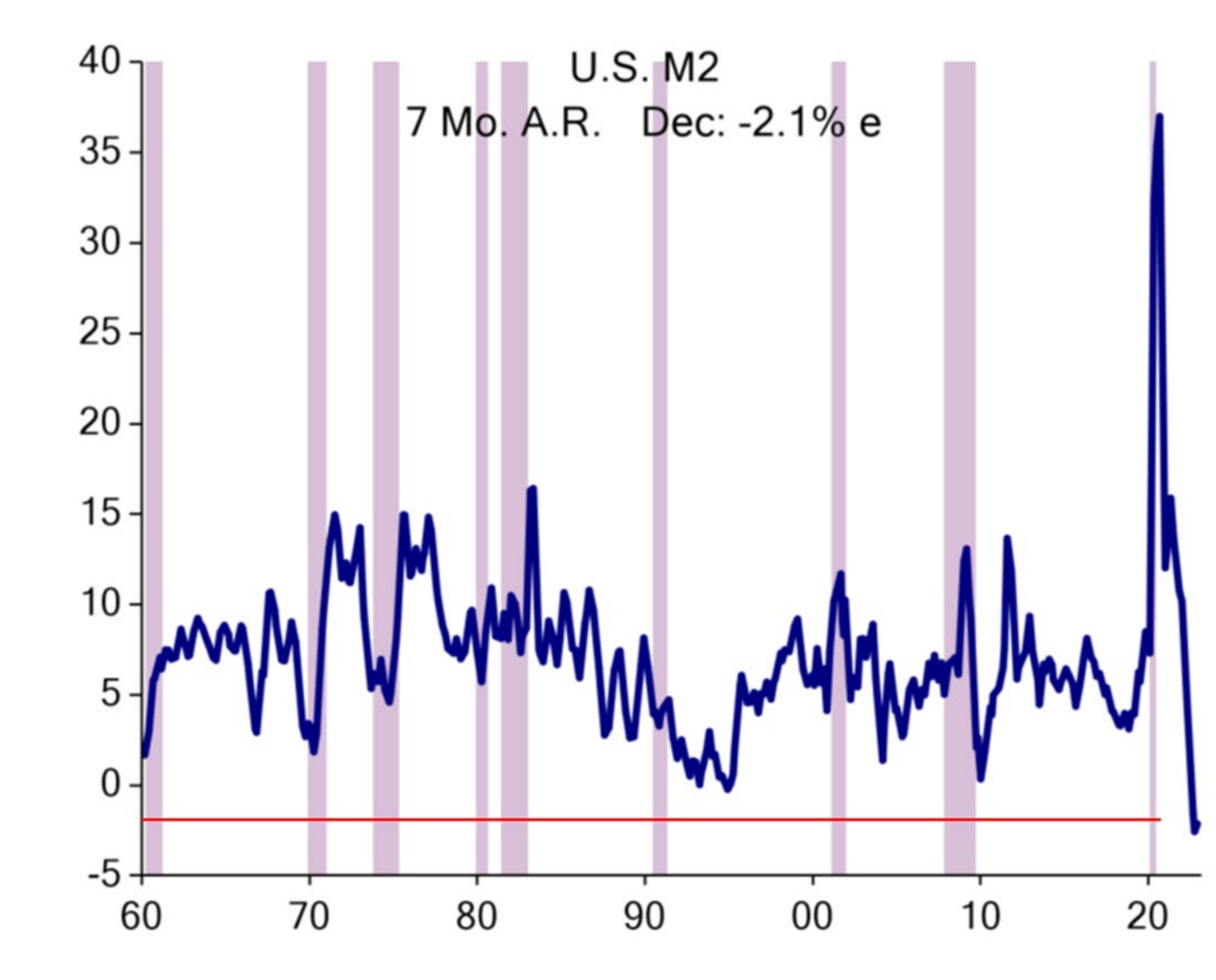
Source: Federal Reserve Bank of Atlanta, National Bureau of Economic Research. Empirical Research Partners. Data as of December 16, 2022
Note: Shaded bars represent recessions

1970s Redux? Inflation “Peaked” Three Times In The ‘70s



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

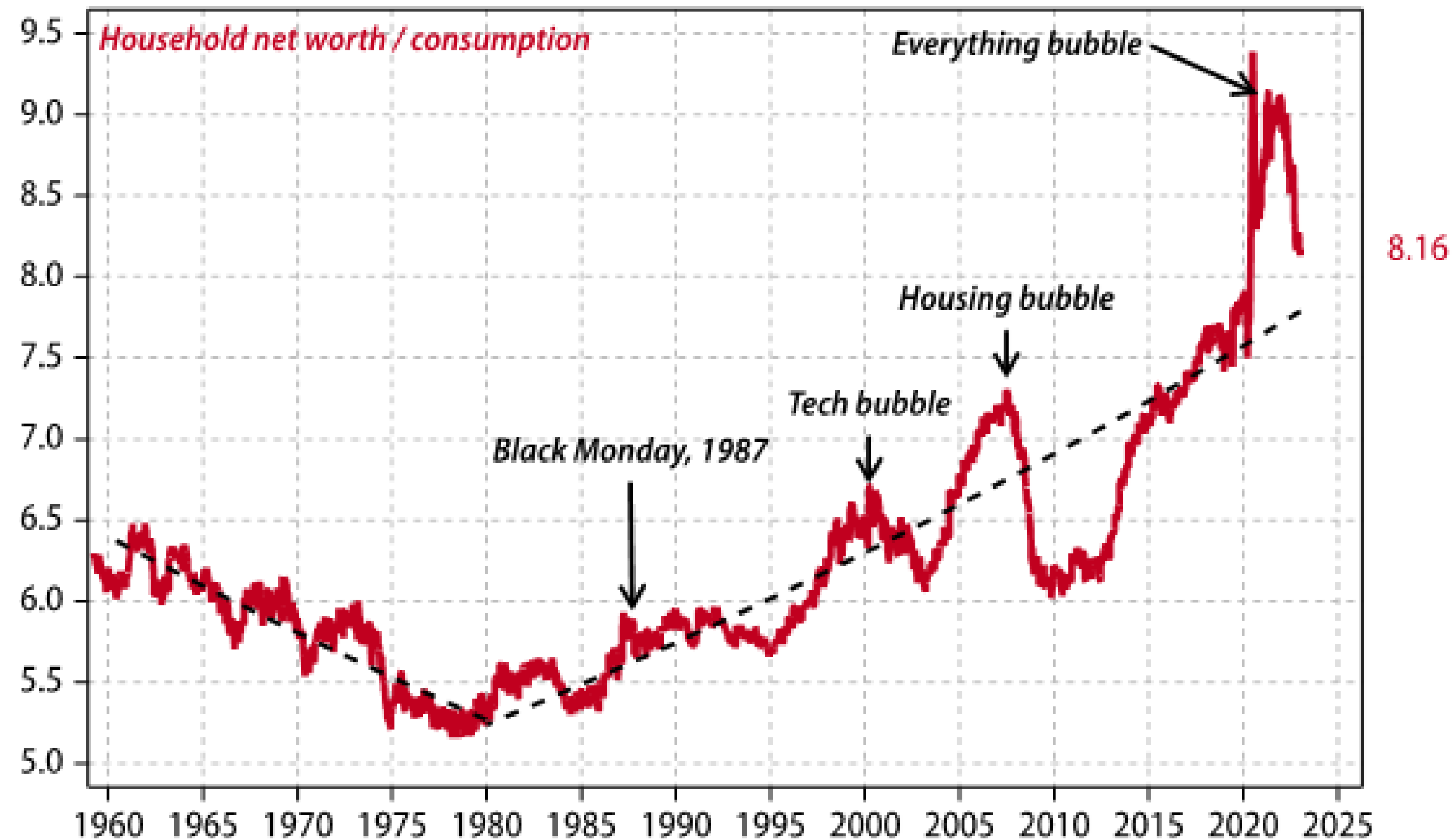
Annual M2 Money-Supply Growth



Source: Evercore ISI Research. Data as of December 31, 2022
*QT=Quantitative Tightening
Note: Shaded bars indicate recessions

Consumers In Great Shape—Particularly Those Ages 55+

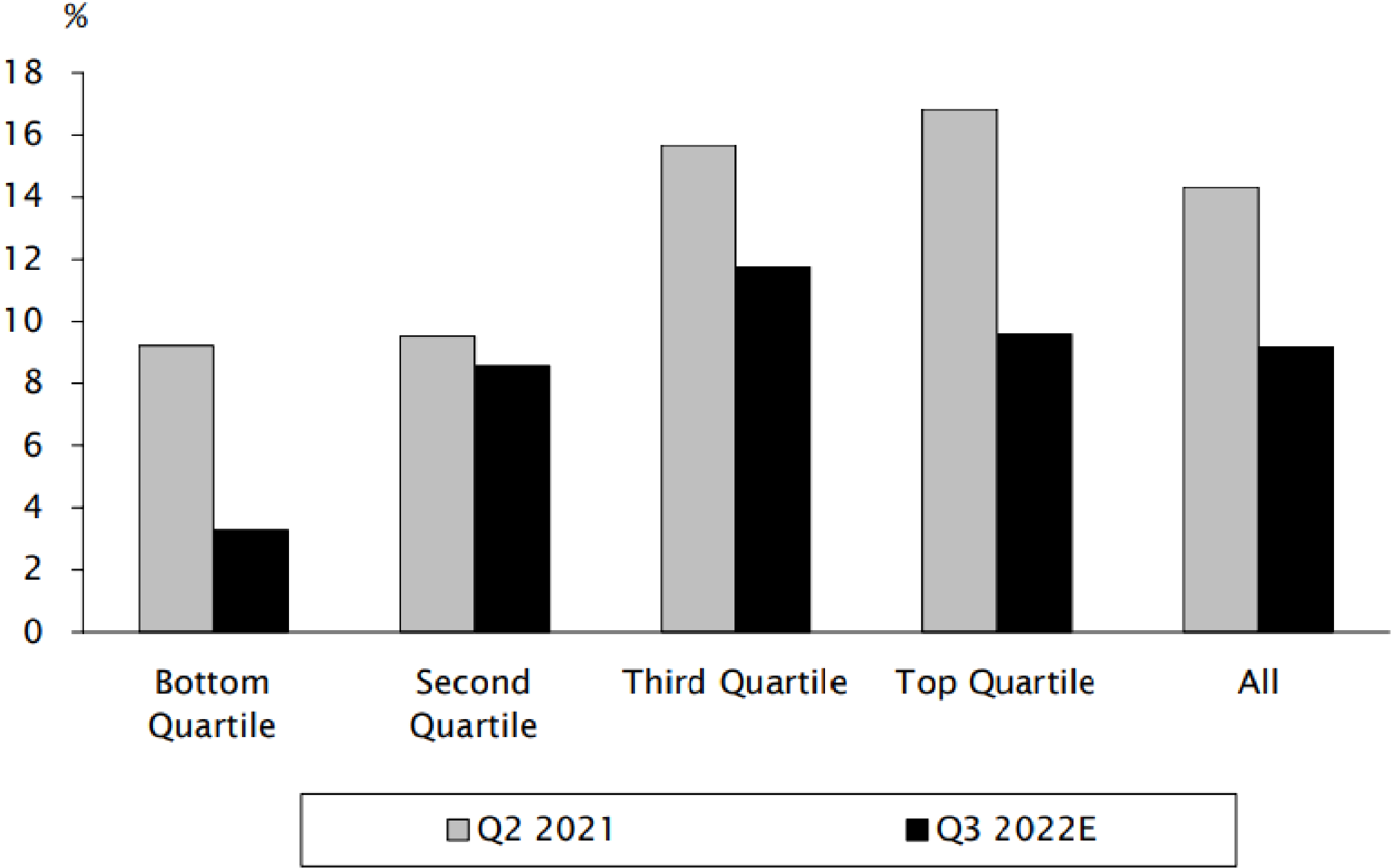
US Household Net Worth, In Years Of Consumption*



Source: Gavekal Research, Macrobond. January 5, 2023
*Net Worth based on flow of funds data, adjusted for recent equity and house price changes

Excess Savings Across All Income Cohorts

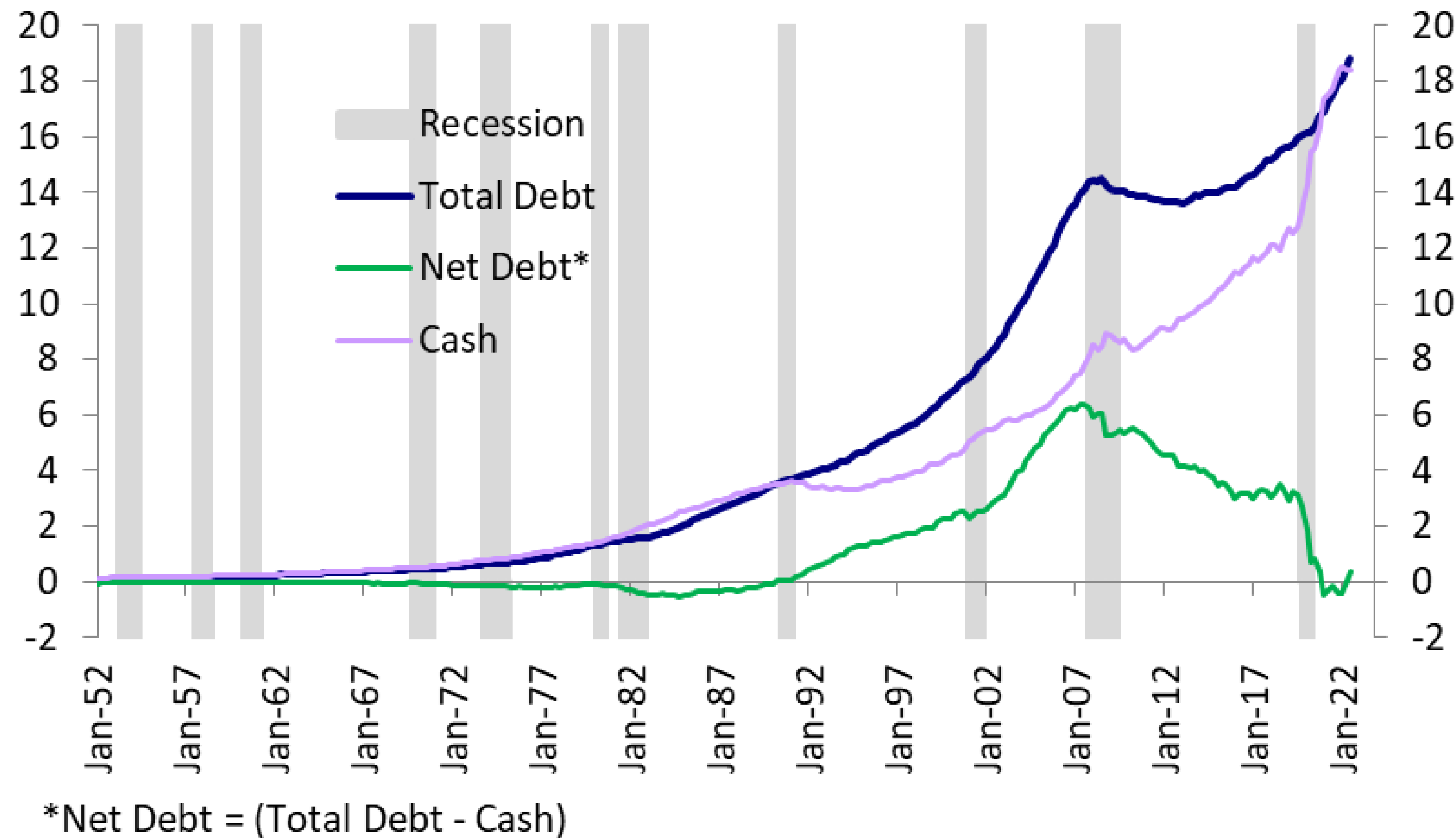
Us Consumers Excess Savings by Income Level
Measured Relative To 2021 Spending*
Q2 2021 and Q3 2022E



Source: Empirical Research. October 2022. Data as of December 16, 2022
*Excesses in checking accounts, bank accounts and money market funds

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

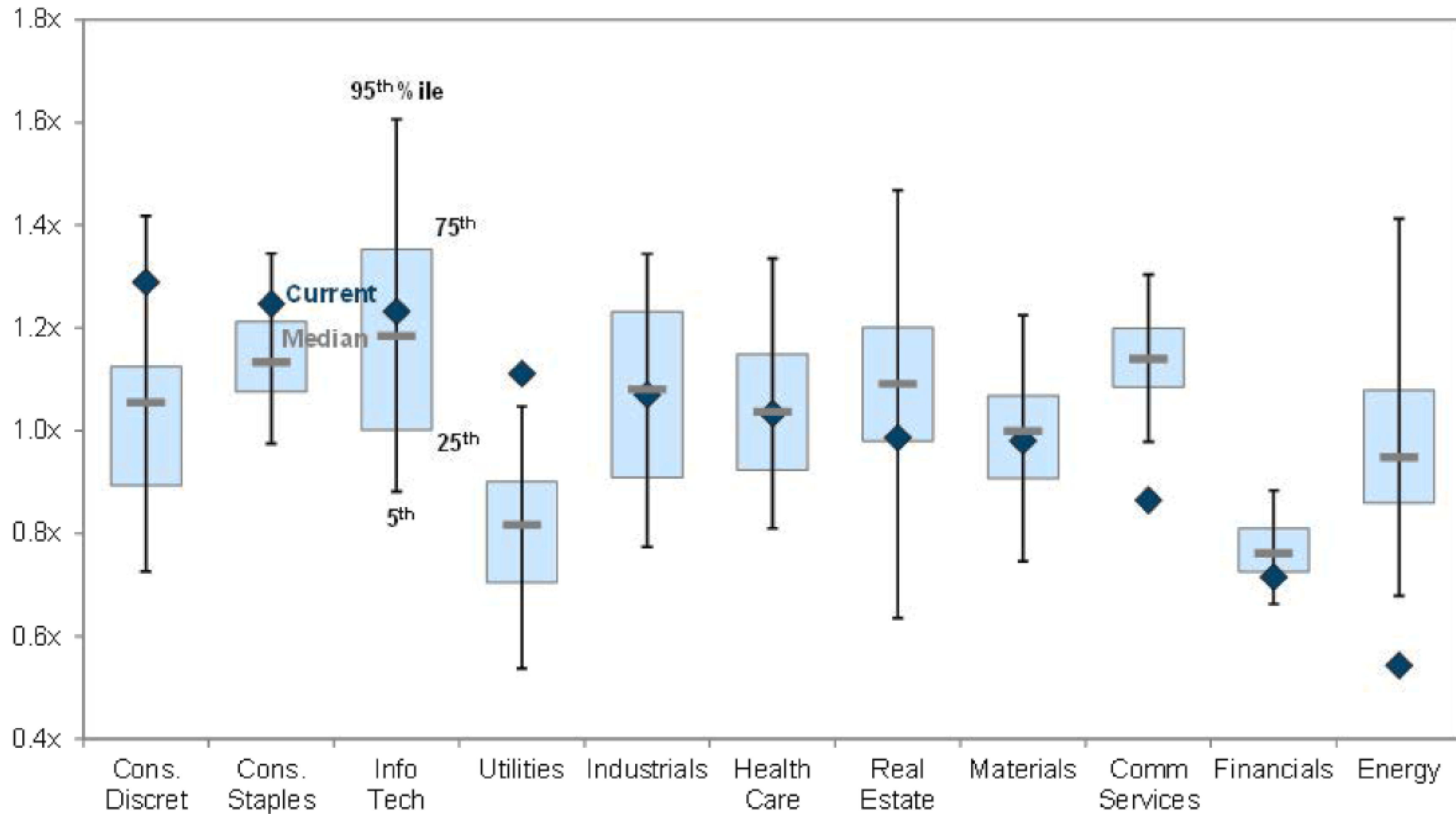
Households Debt And Cash (\$tn)



Source: Deutsche Bank Research. January 12, 2023
 Data as of September 30, 2022
 Note: Shaded bars indicate recessions. Net Debt=(Total Debt-Cash)

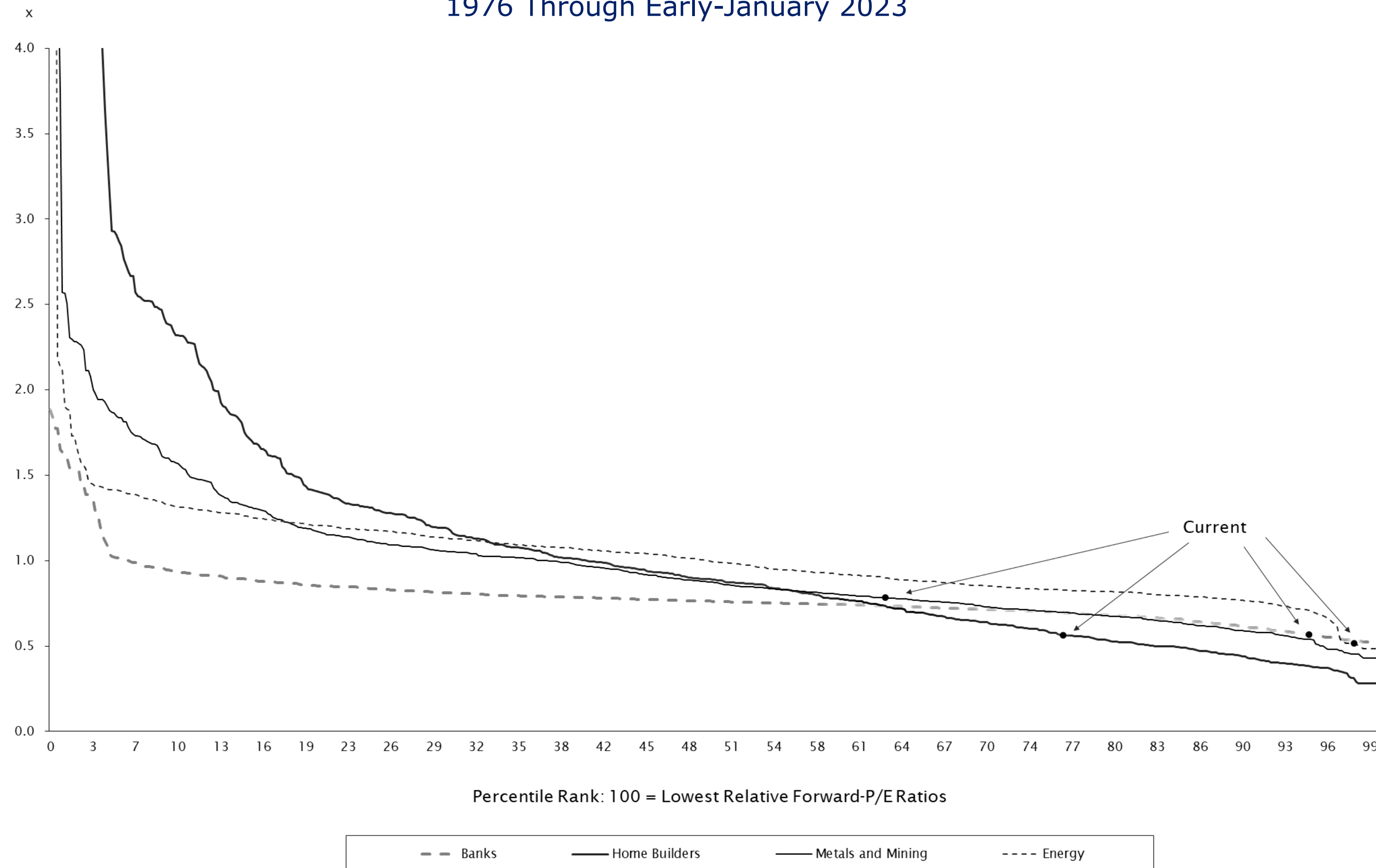
Inflation Hedge Equities Relatively Inexpensive

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



Pockets Of Value Beginning To Emerge

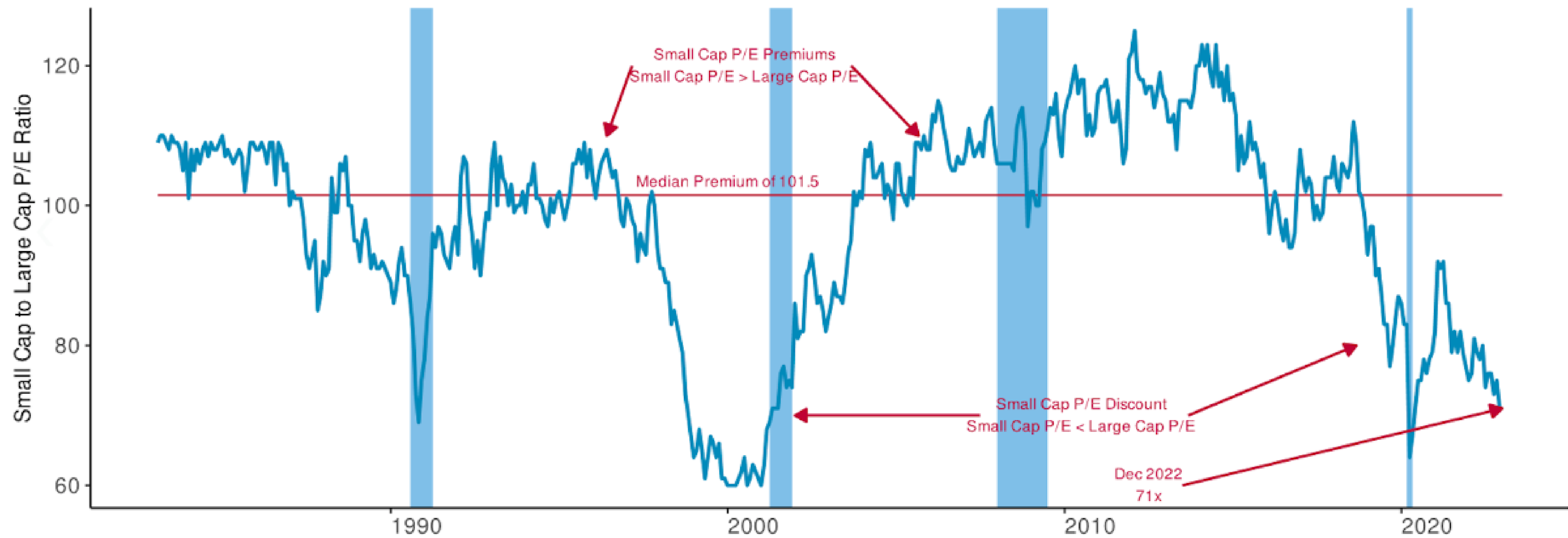
Large-Capitalization Bank, Home Builder, Metal and Mining and Energy Stocks
Relative Forward- P/E Ratios*
1976 Through Early-January 2023



Source: Empirical Research. Data as of January 11, 2023
*Capitalization-weighted data

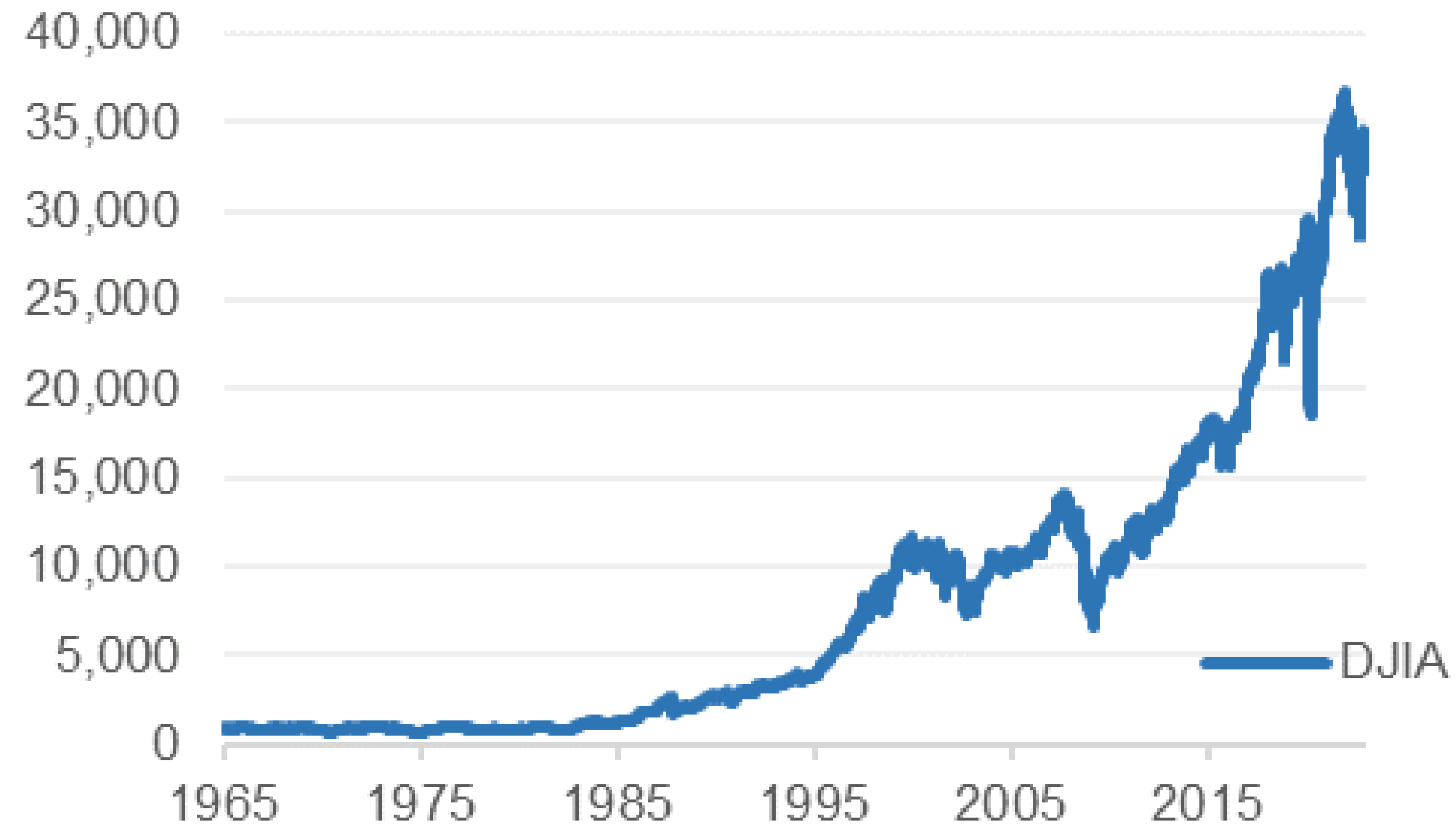
Small Cap Stocks Relatively Inexpensive

Small Cap to Large Cap Historical P/E Ratio (x100)

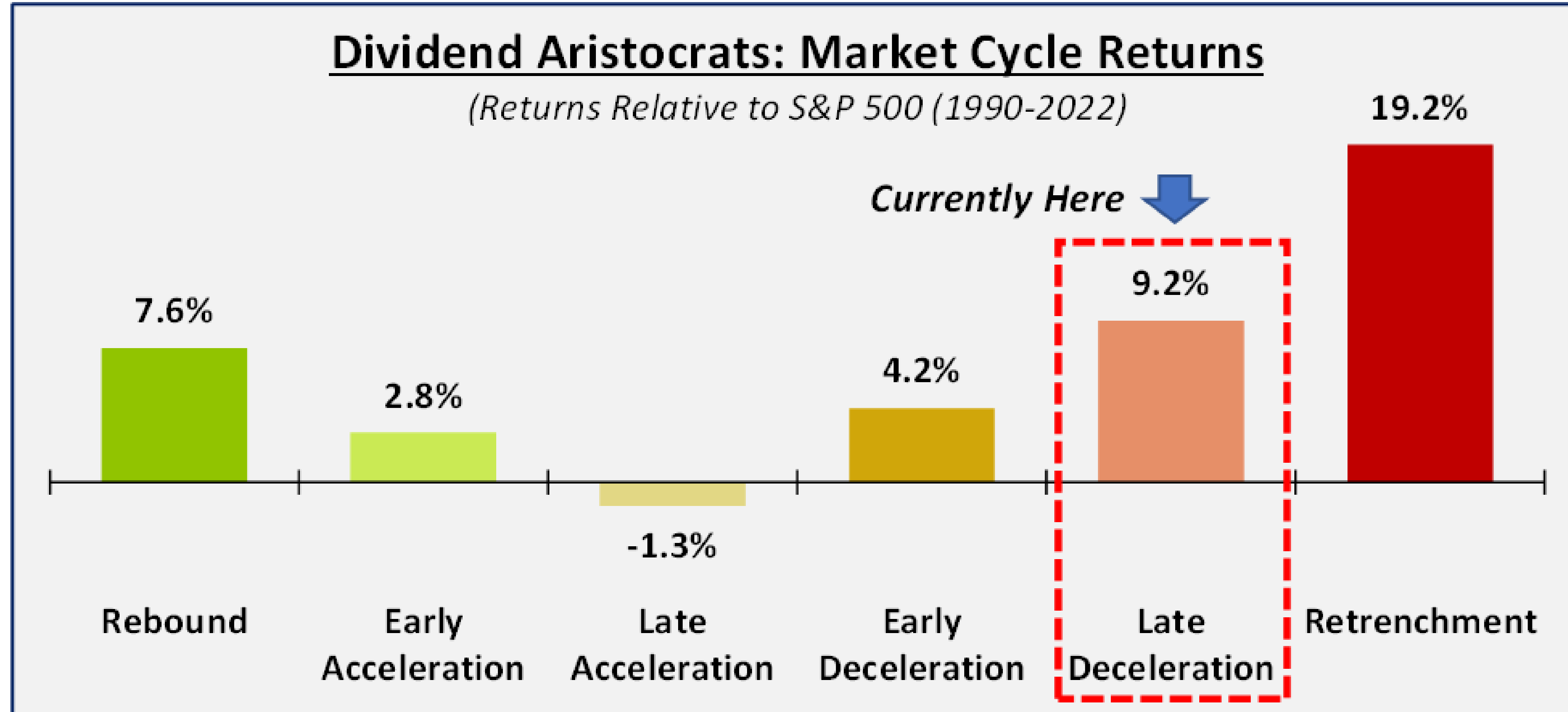


1970s Redux? "The" Bottom vs "A" Bottom

Numerous Bear Market Rallies In The '70s



Entering Part Of The Cycle When Dividends Typically Shine



Dividends Likely To Play A Larger Role In Returns

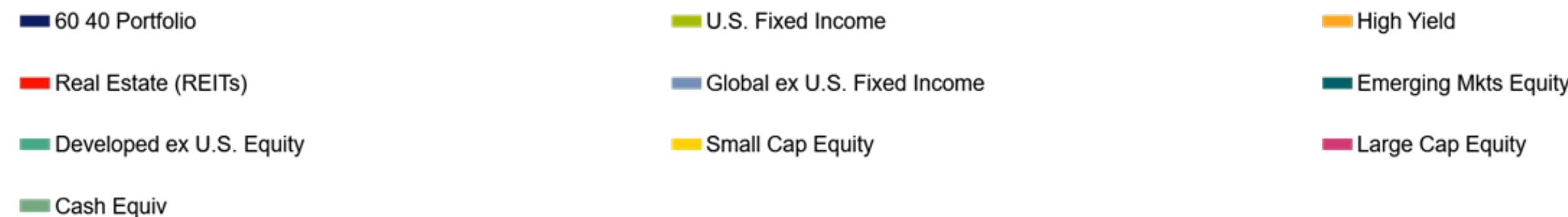
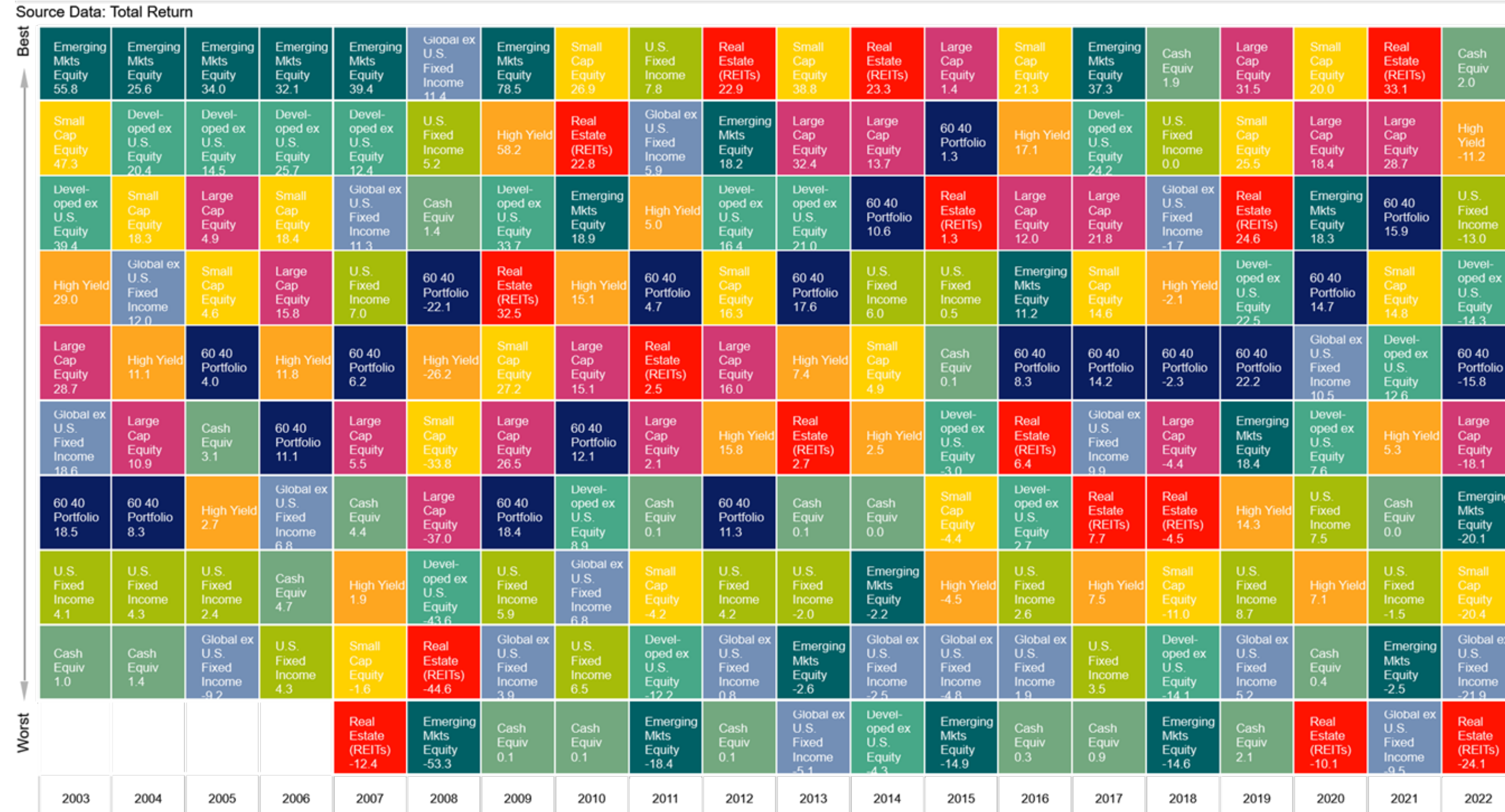
Dividend Contribution To Total Return

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	19.8%	5.6%	25.4%	21.9	36.7
Average	114.4%	87.8%	202.2%	59.4	52.5

Source: Strategas Research. January 13, 2023
Past Performance is no guarantee of future results

Diversified Income For A Smoother Ride

Annual Returns Ranked In Order Of Performance (2003-2022)

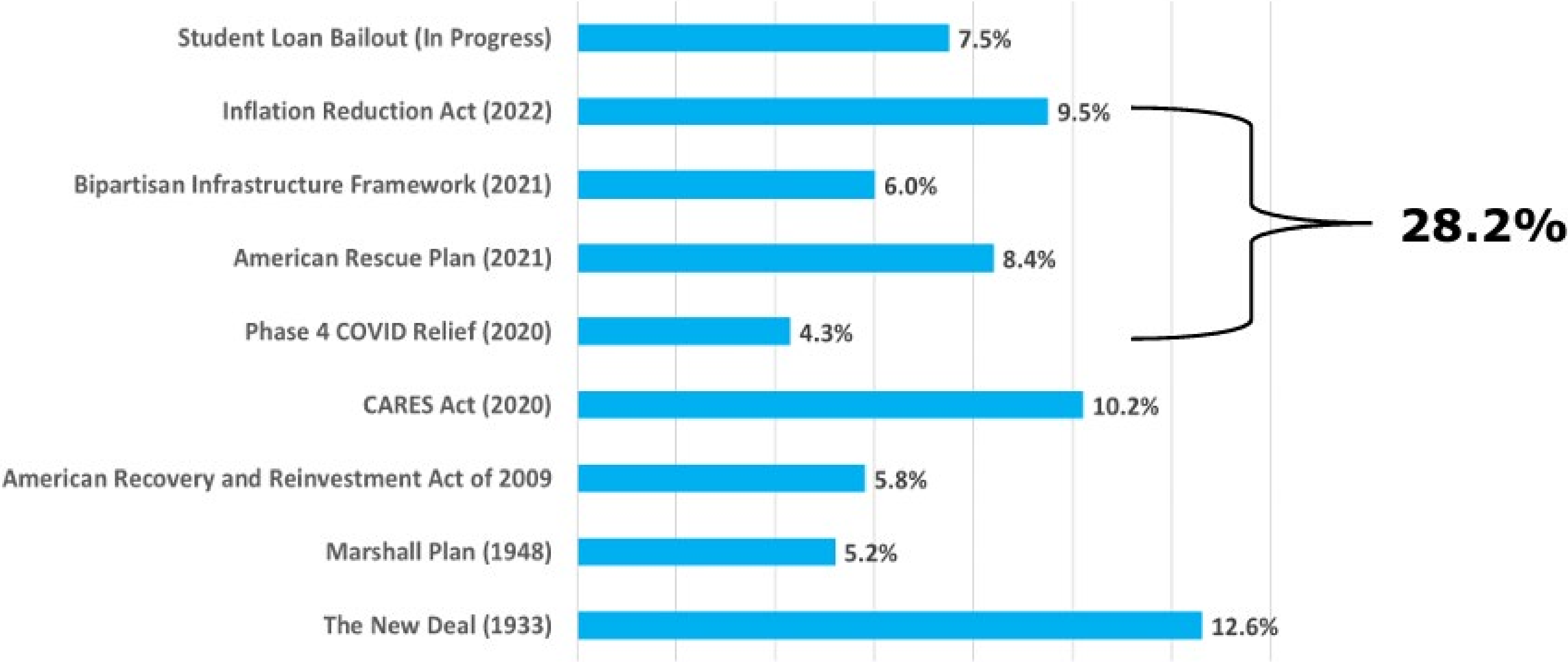


Source: Federated Hermes. January 23, 2023

This is for illustrative purposes only and does not represent any specific investment. Past performance is no guarantee of future results. Diversification does not assure a profit nor protect against loss. See Disclosure page at the end of presentation for underlying sources (indexes) and definitions

Historic Fiscal Policy

Select Stimulus As A Percentage of US GDP



Source: Axios and Crown and Company. November 1, 2021. Federated Hermes as of January 6, 2023

And The Debt Champion Is....

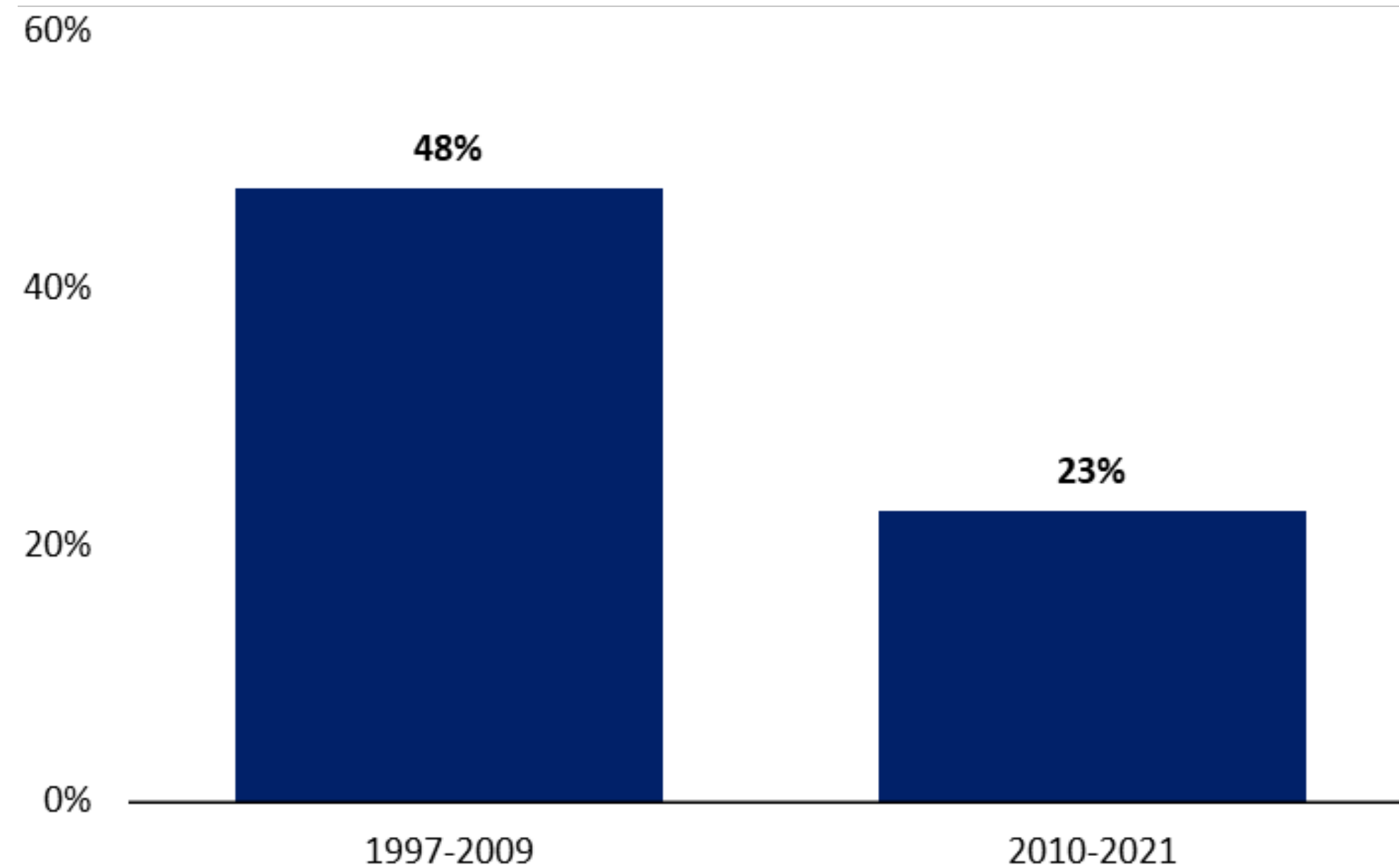
Debt Levels and Increases in Major Economies

	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

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

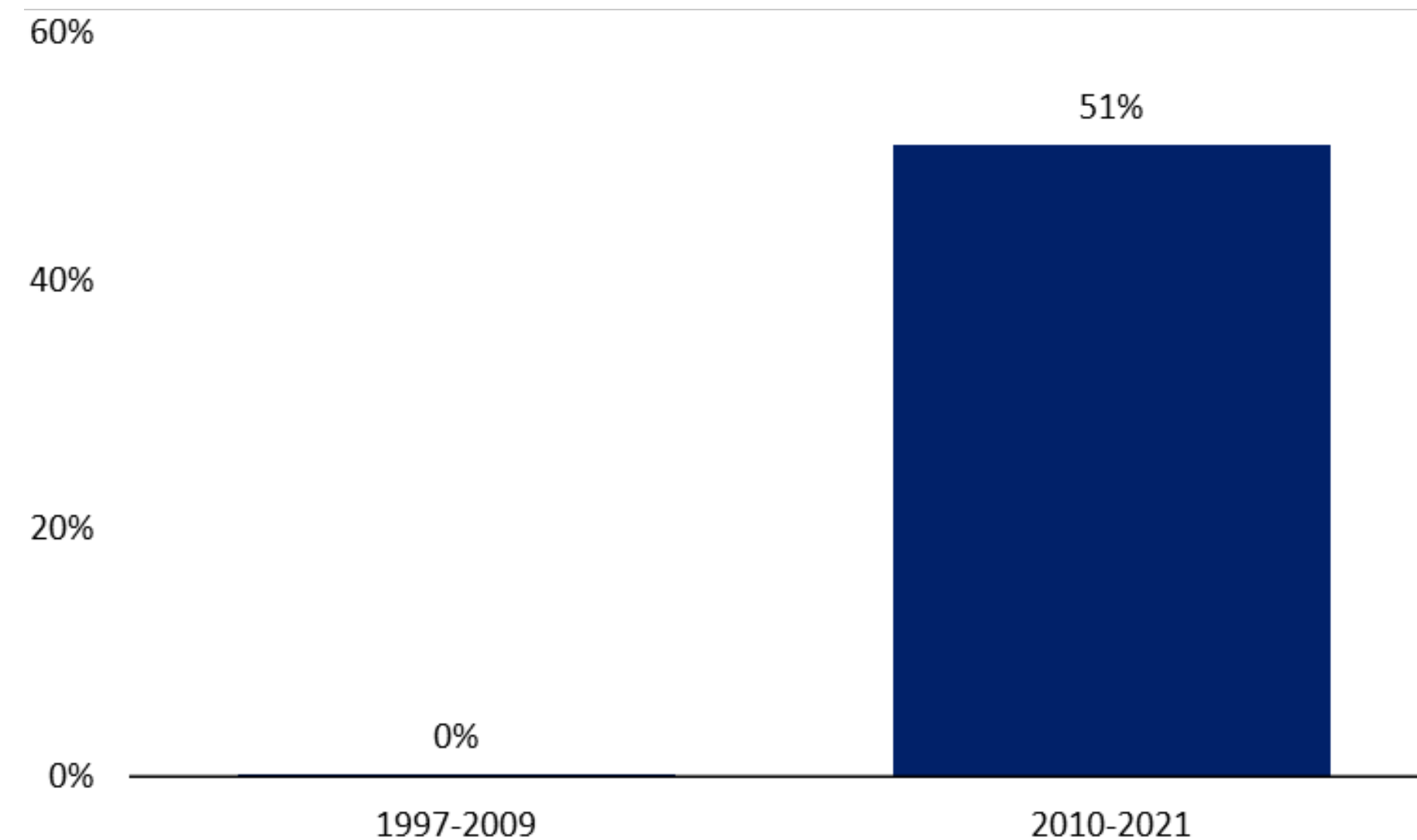
EPS Used to Matter Most

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



**R-sq of S&P 500 fwd EPS YoY vs. S&P 500 price returns
on a monthly basis (May 1997-December 2021)**

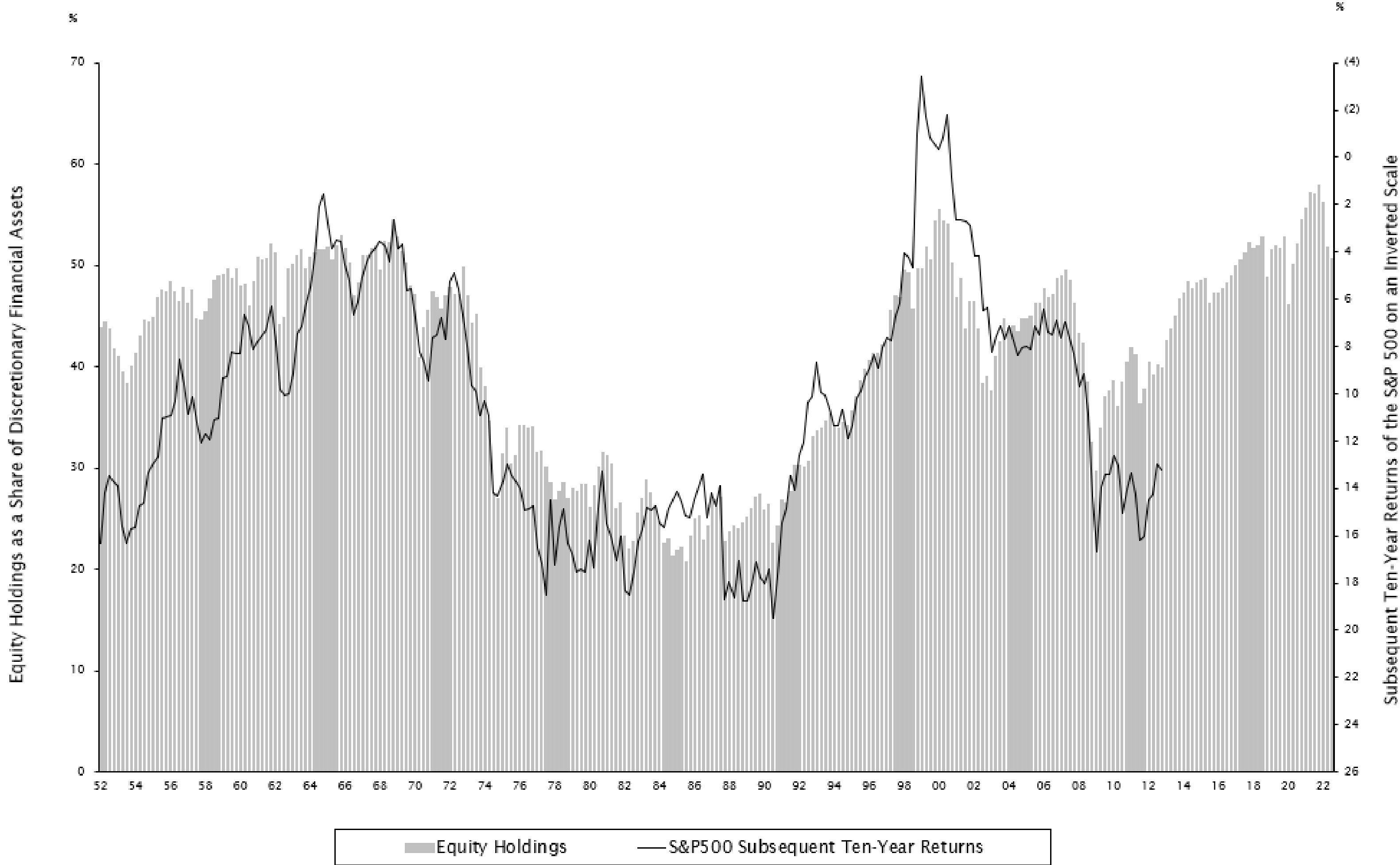
Of The Non-Earnings Portion of S&P 500 Changes, More Than
Half Explained By Fed Balance Sheet Changes Post-GFC



**R-sq of Fed Balance Sheet YoY vs. YoY change in S&P
500 market cap that is not driven by earnings (May
1997-December 2021)**

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

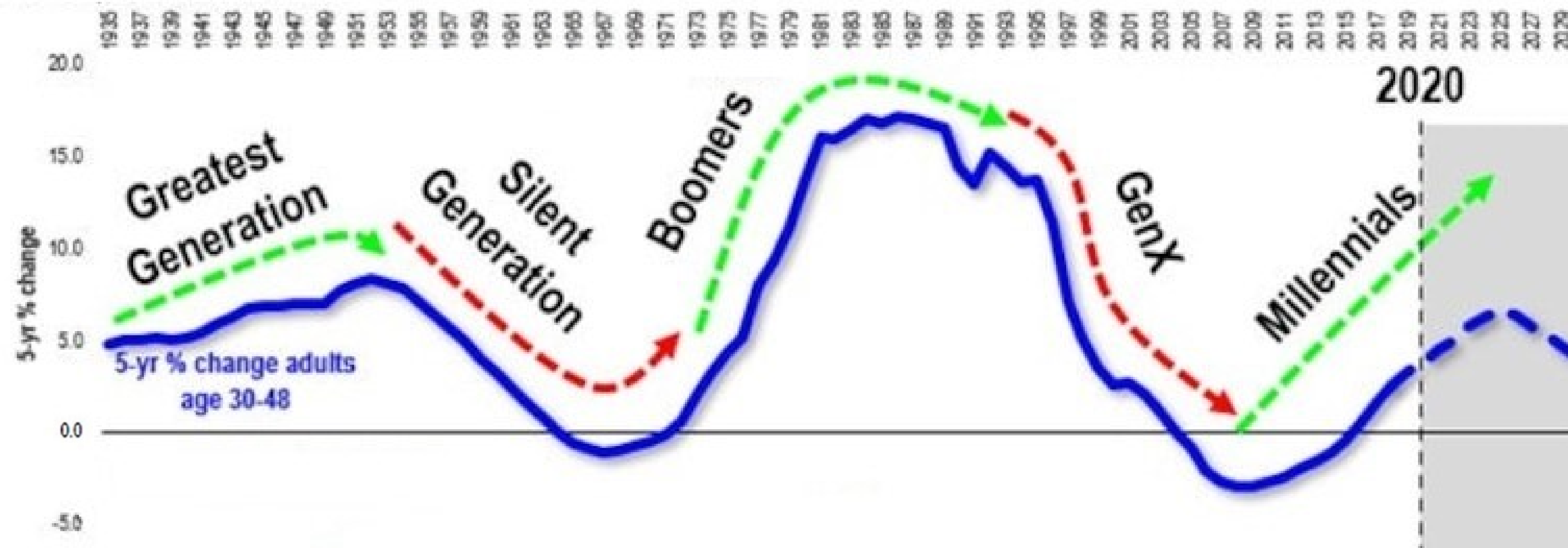
US Households Equity Holdings As a Share of Discretionary Financial Assets and Subsequent Ten-Year Annualized Returns of The S&P 500 On An Inverted Scale 1952 Through Q3 2022



Source: Federal Reserve Board, Bloomberg, Empirical Research, January 17, 2023. Data through September 2022

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

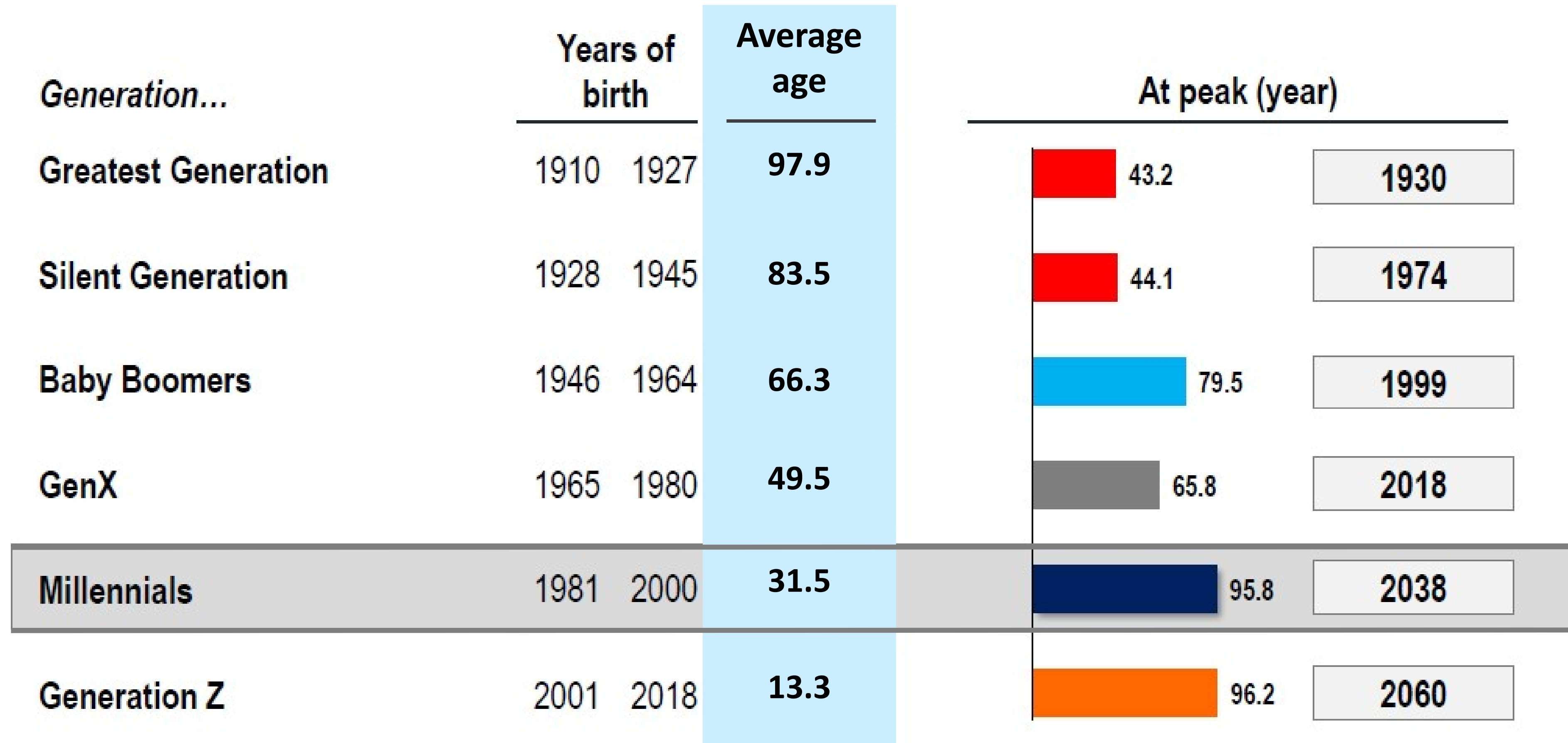
Prime Leverage Years: # Adults Age 30-48 Since 1935 per the US Census Bureau



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

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

Slide 31 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.

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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**