

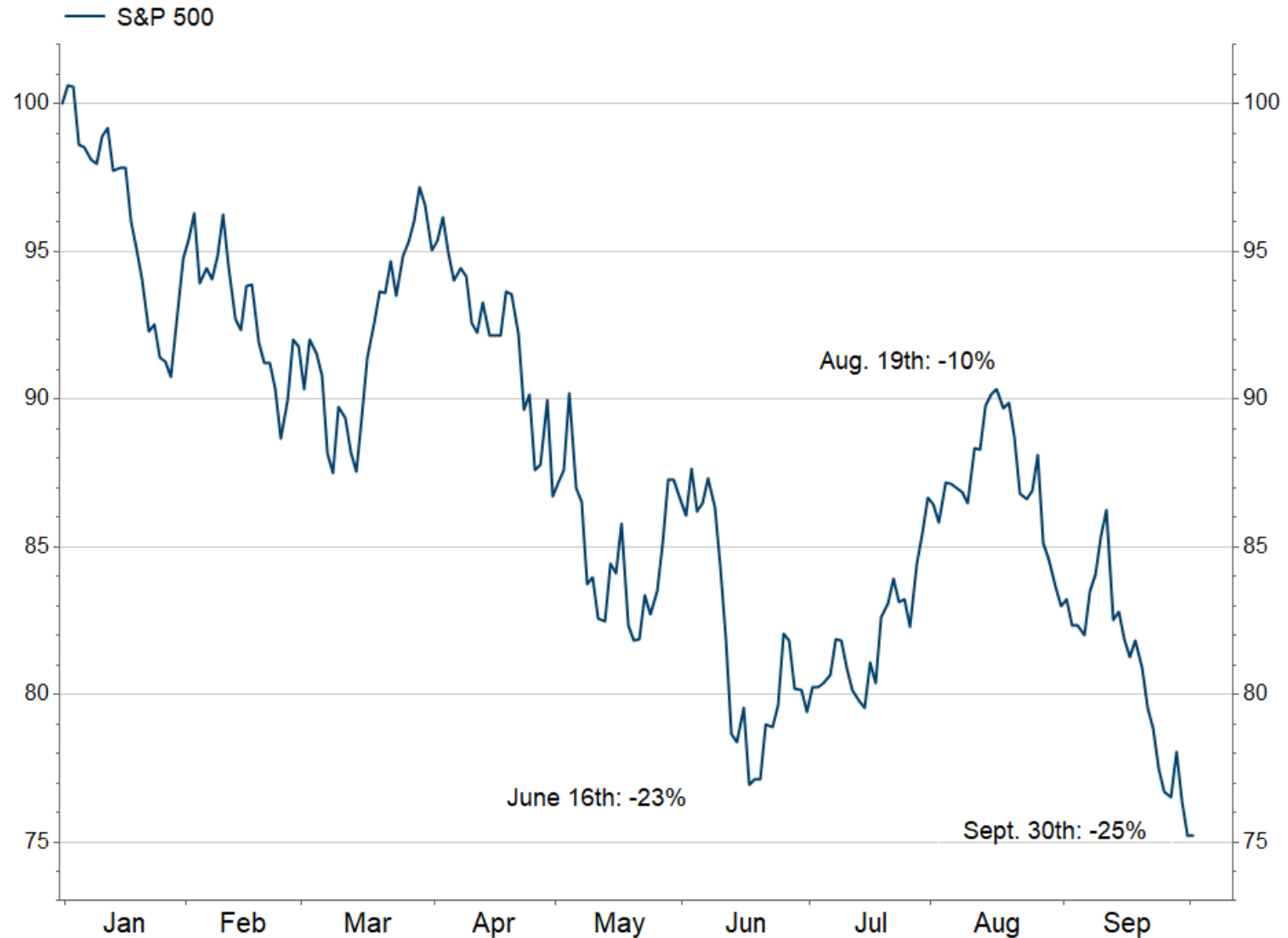
# Economic and Market Outlook

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**Ameriprise Financial**

October 6, 2022

# S&P 500: Year-to-Date

**S&P 500: Indexed to Jan. 1, 2022**



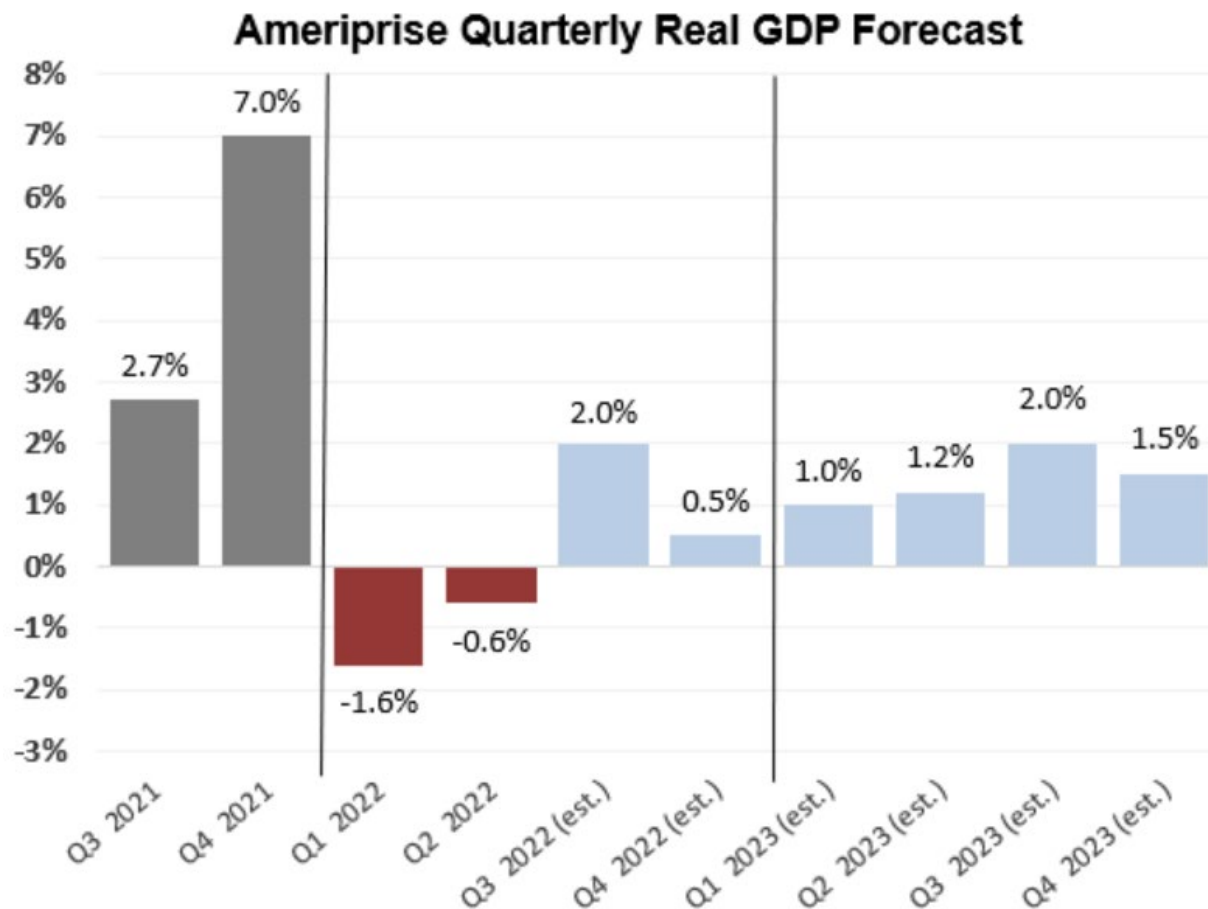
Source: FactSet through Sept. 30, 2022



# U.S. Gross Domestic Product (GDP)

The pace of economic growth has been constrained by inflation, rising interest rates and supply challenges.

The headwind from inflation should slowly subside over the quarters ahead.

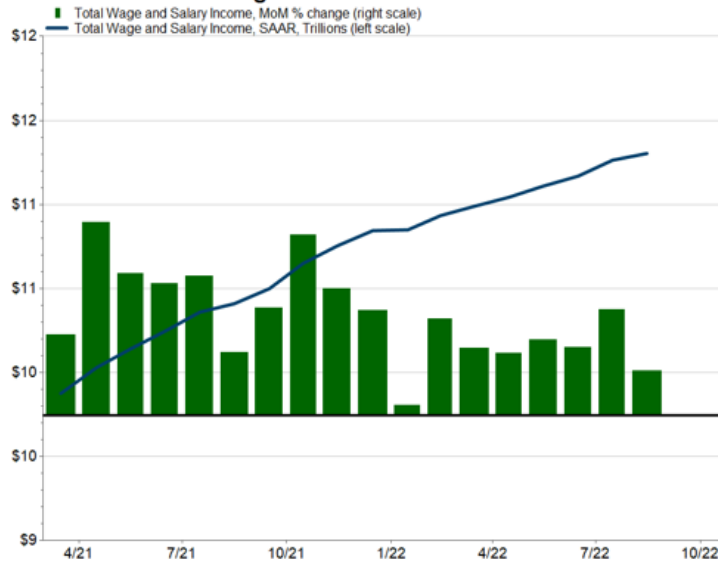


Source: Actuals (in grey and red) from the Commerce Dept., estimates (in blue) via American Enterprise Investment Services Inc.

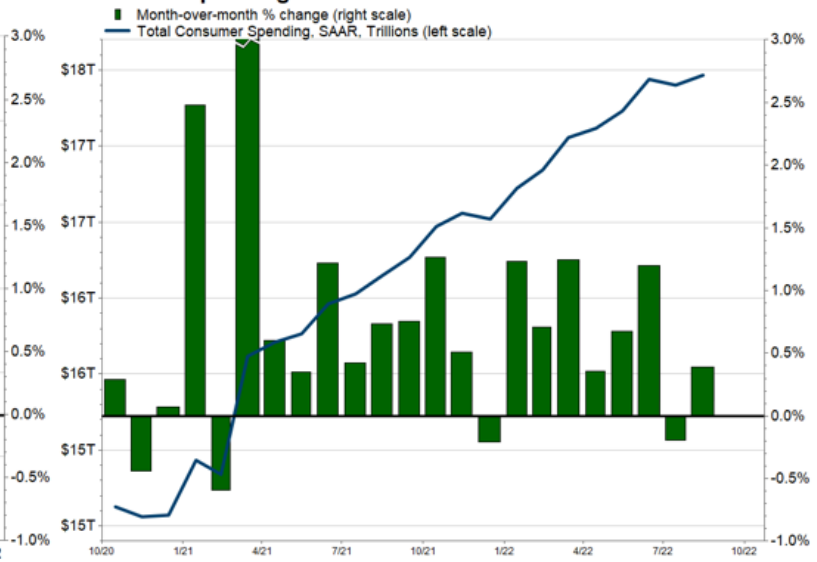


# Economic Snapshot:

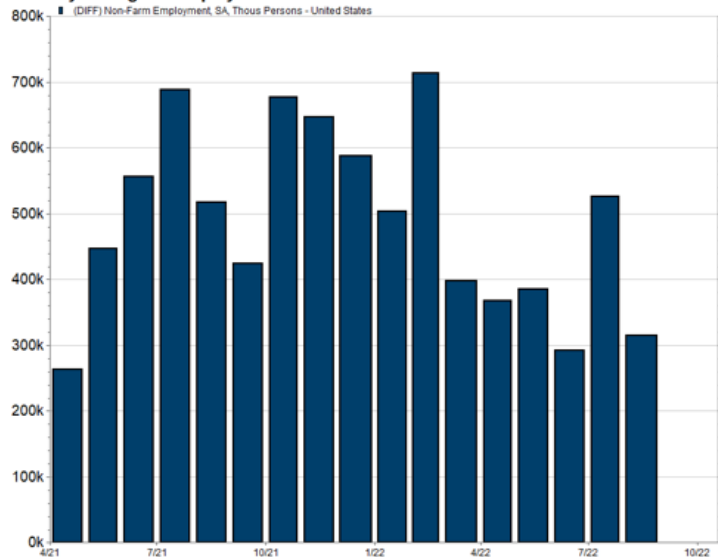
**Personal Income: Wages and Salaries**



**Consumer Spending**



**Monthly Change in Employment**



**Business Investment Spending on New Equipment**

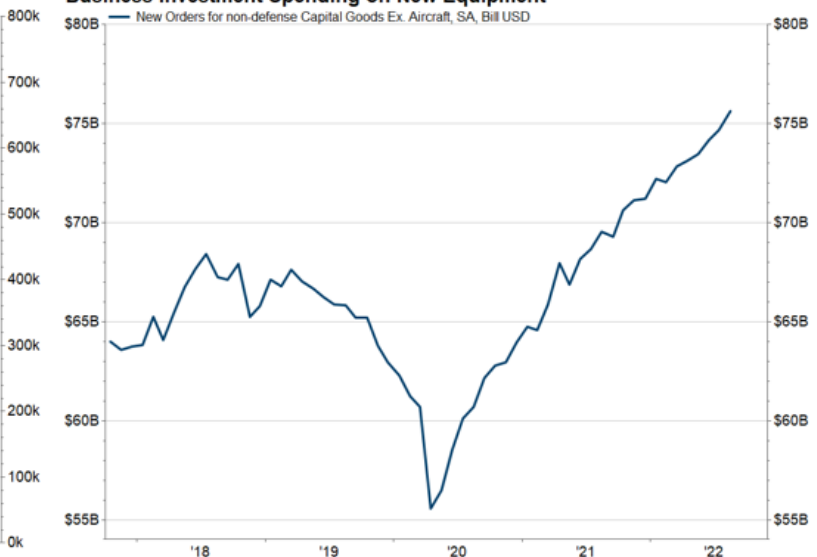


Chart Sources: FactSet



# Financially strong consumers offer support

**Consumers have been conservative with their finances.**

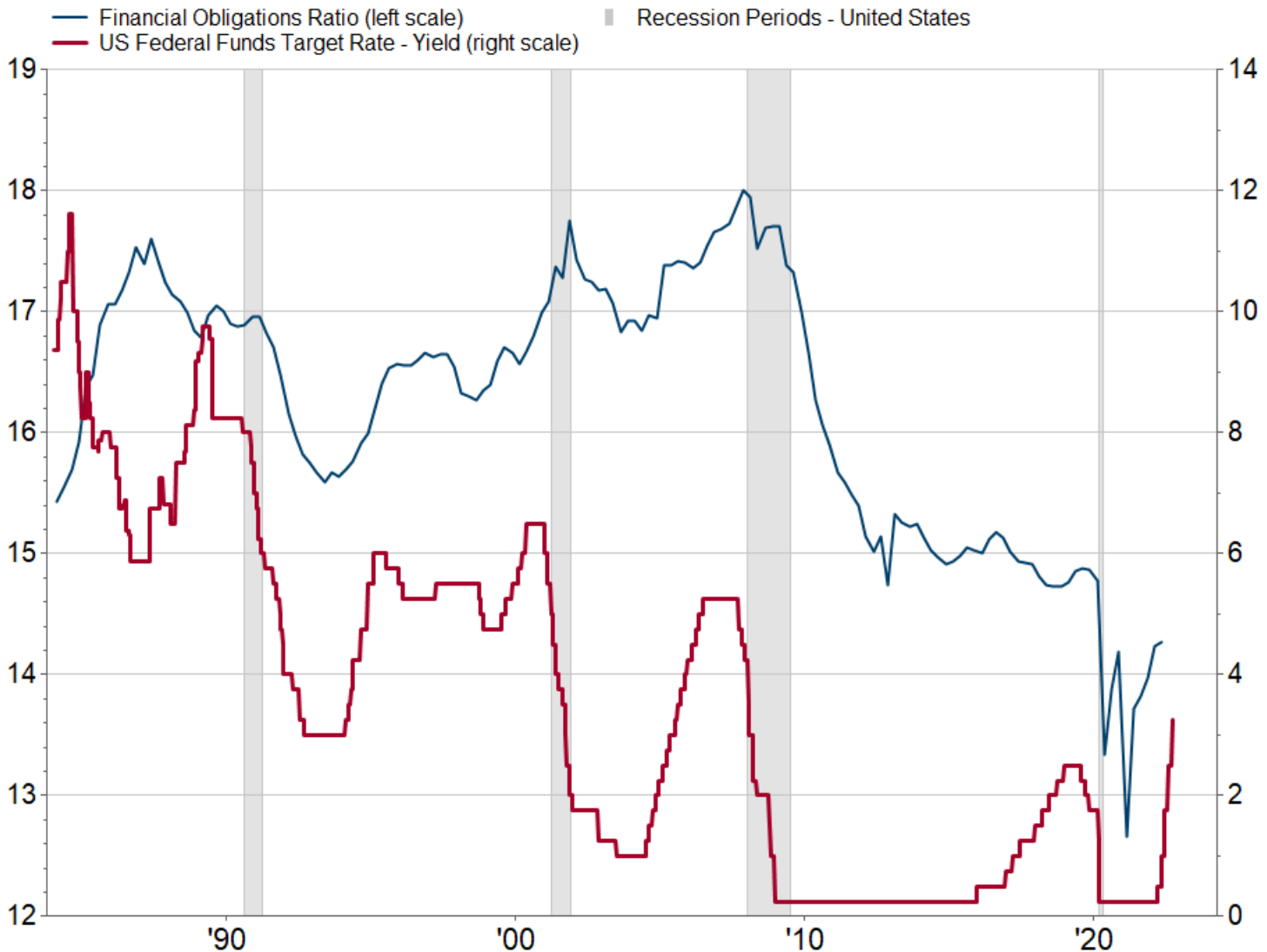
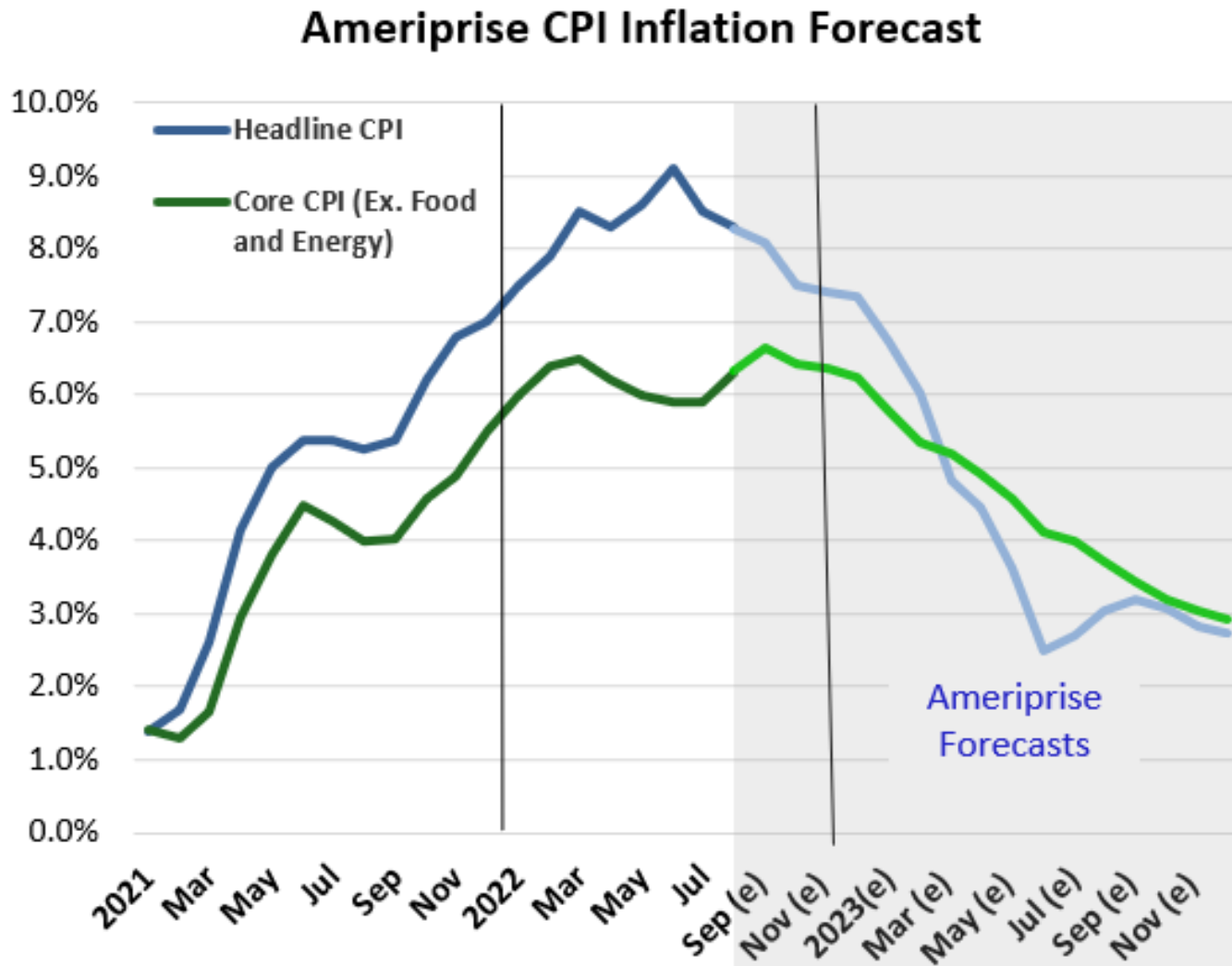


Chart Sources: FactSet

# Inflation is driving the bus



Source: Actuals through August: Labor Department, Forecasts: American Enterprise Investment Services Inc.

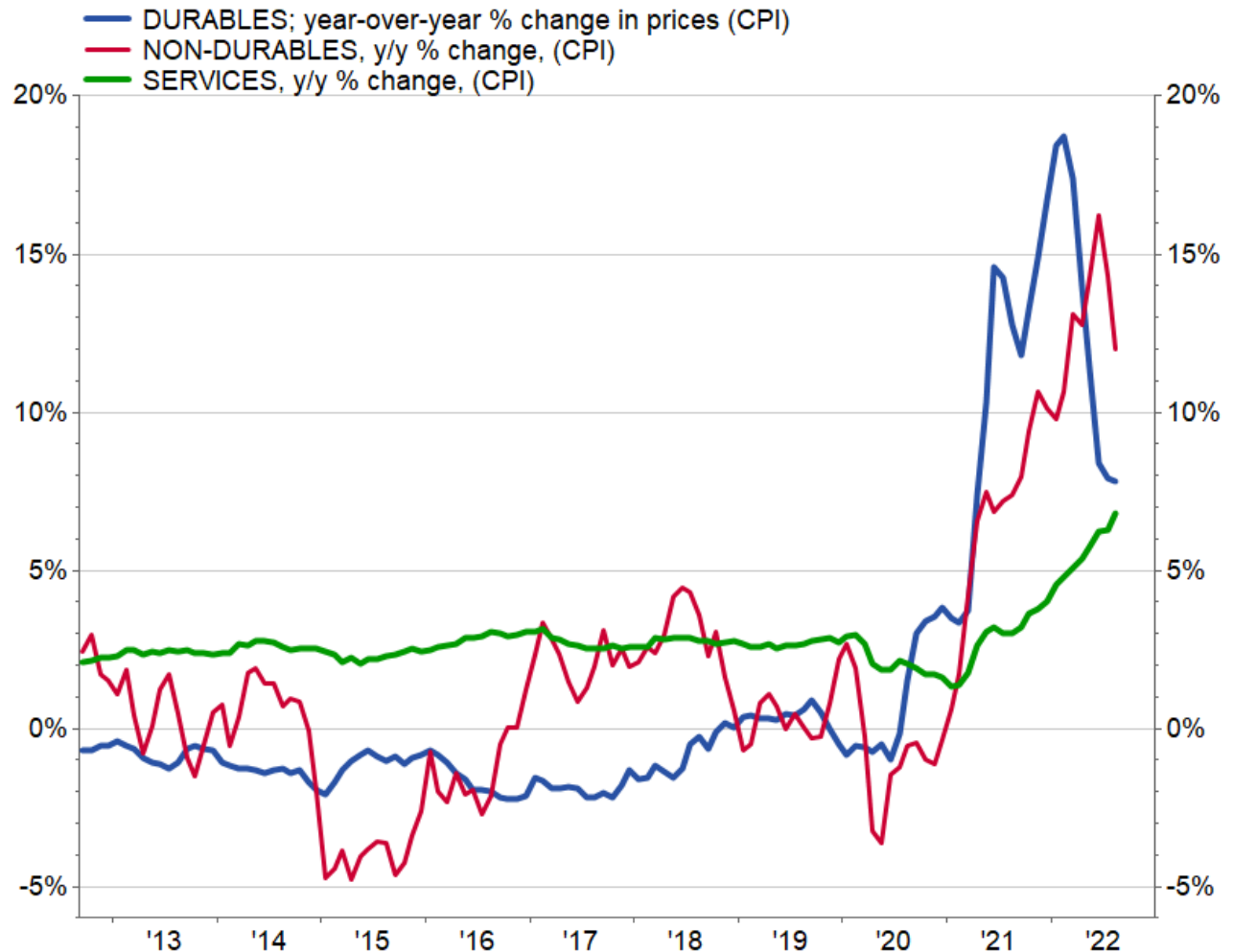


# Inflation:

The price of Goods is higher due to strong demand at a time of ongoing supply-chain problems.

The price of Services is higher due to growing demand at a time of labor shortages and supply constraints.

## Durable Goods Account for much of Inflation's Gain.



Source: FactSet. Data through August.

# Inflation Snapshot:

**"Working metals"**

— Copper (LME Cash \$/mt)(right scale) — Tin (LME Cash \$/mt)(left scale)  
— Nickel (LME Cash \$/mt)(left scale)



**Agricultural Commodity Prices**

— Corn (Cen III \$/bu)(right scale) — Ord Hard Red Wheat (Kansas City \$/bu)(left scale)  
— Soybeans (Cen III \$/bu)(left scale)



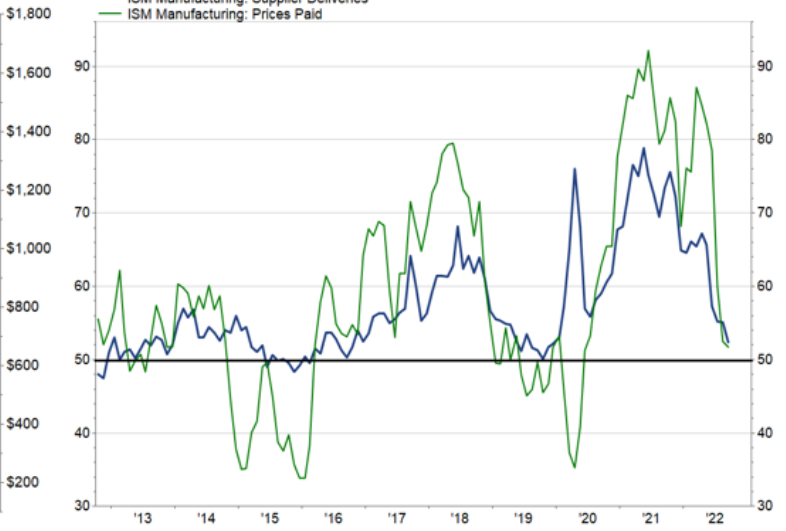
**Lumber prices ease as demand slows and supply improves**

— Price of lumber per board square ft.



**ISM Manufacturing report signals slowing of prices and improved supply chain functioning**

— ISM Manufacturing: Supplier Deliveries  
— ISM Manufacturing: Prices Paid



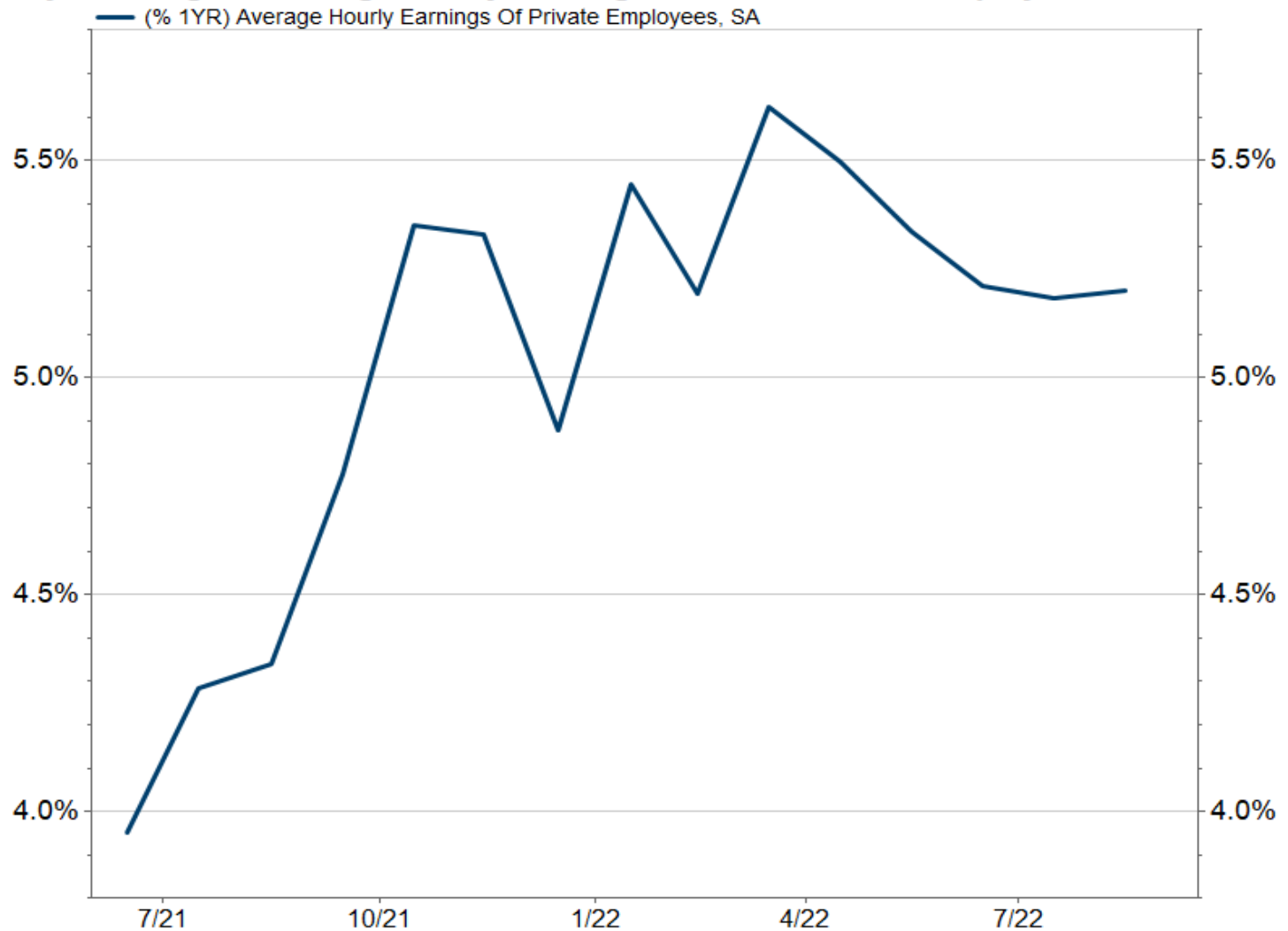
Source: FactSet





# Inflation:

## Y/y % change in Average Hourly Earnings of Private Sector Employees

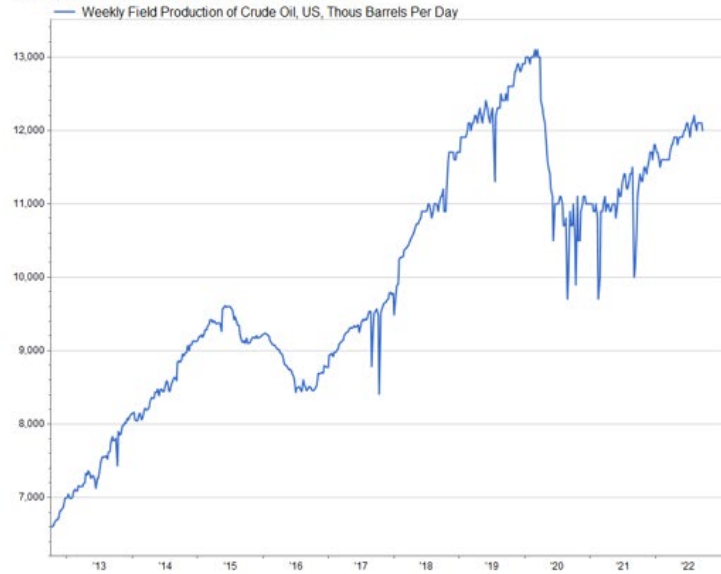


Source: FactSet, Data through August



# Energy Prices may be key to Inflation's path:

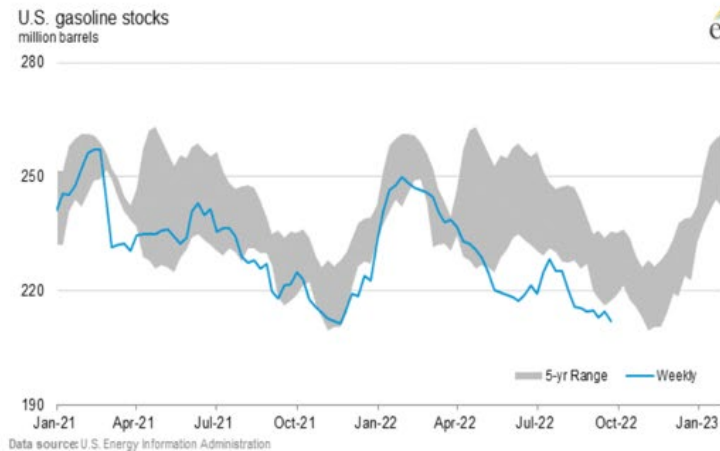
**US Domestic Crude Oil Production**



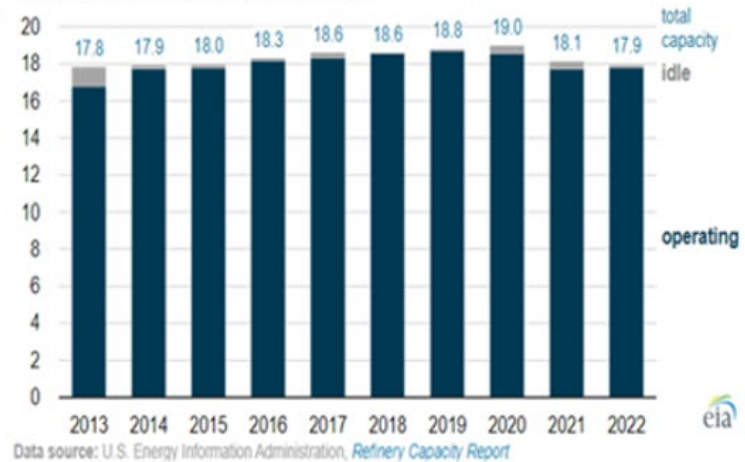
**Henry Hub Natural Gas Price**



**Gasoline stocks (million barrels) and days of supply**



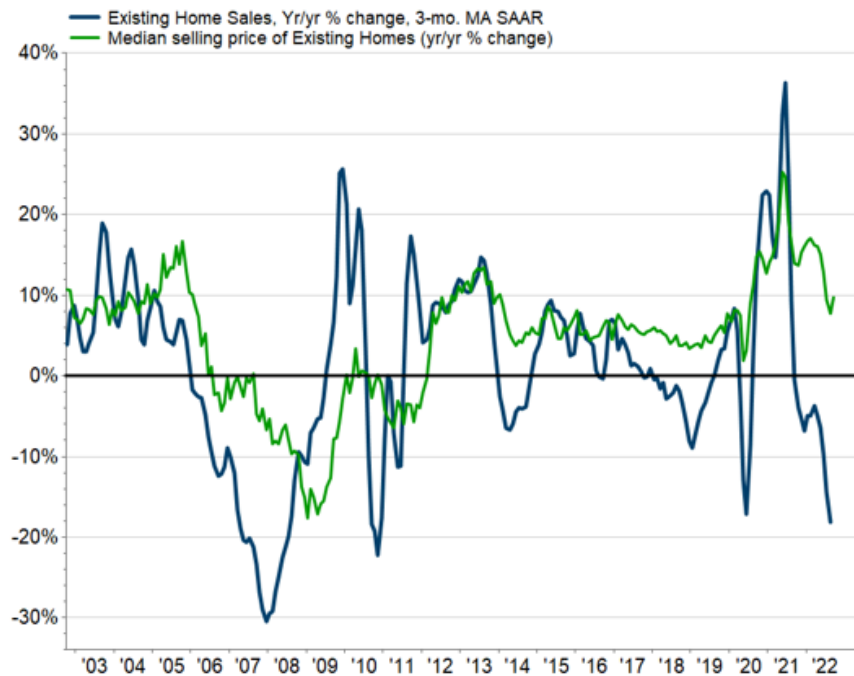
**Annual U.S. refinery atmospheric crude oil distillation capacity (2013–2022)**  
million barrels per calendar day as of January 1



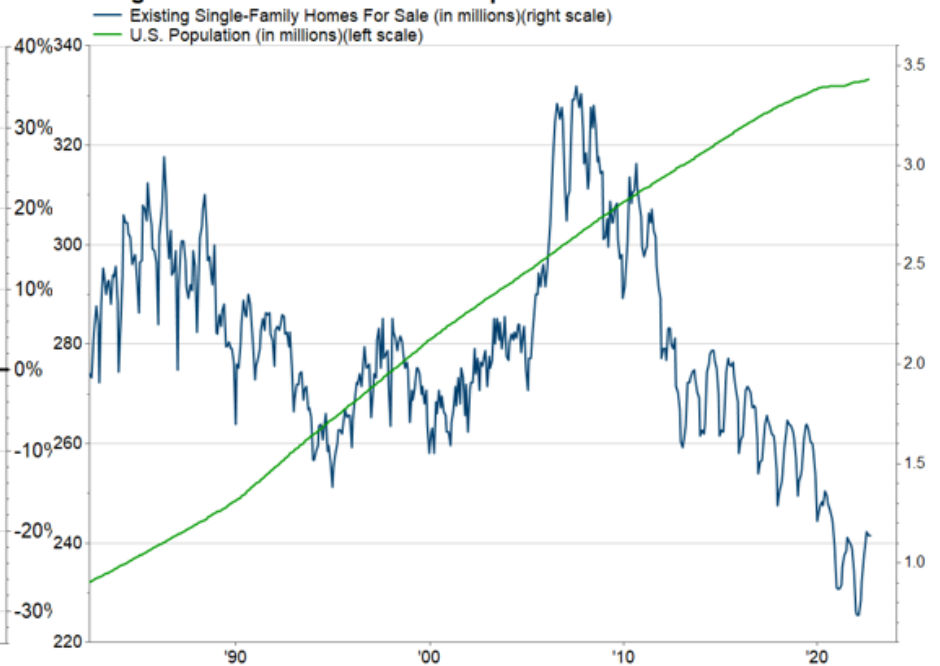
Source: FactSet, EIA

# Housing Snapshot: Sales down but prices resilient

## Existing Home Sales and Prices



## Existing Homes for Sale versus U.S. Population



Source: FactSet

# Markets:

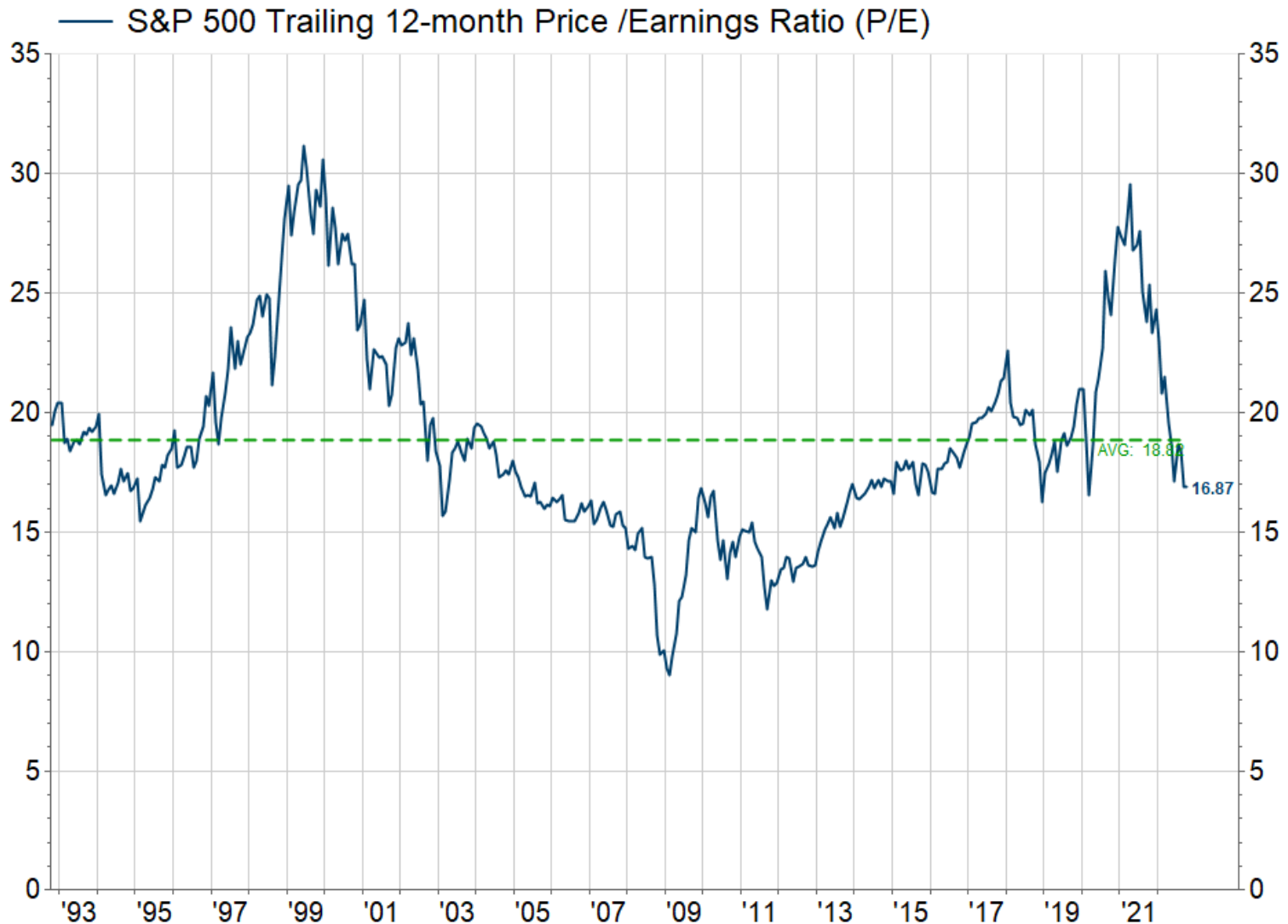
- The S&P 500 closed the first half of 2022 down 20% (on a total return basis).
  - That was the worst first half of any year since 1971. In 1971, the S&P 500 rallied by ~26% in the second-half of the year.
  - Since 1980, the average inter-year drawdown has been 14%.
- The stock market decline thus far represents a valuation correction.
  - The trailing Price/Earnings multiple for the S&P 500 started the year at 27.8 and ended June at 17.1
  - In Q1, S&P 500 earnings were 9.2% higher (year-over-year) on sales growth of +13.7%.
  - In Q2, S&P 500 earnings were 6.2% higher on sales growth of +13.9%.



*Source: FactSet*

# S&P 500 Price to Earnings ratio:

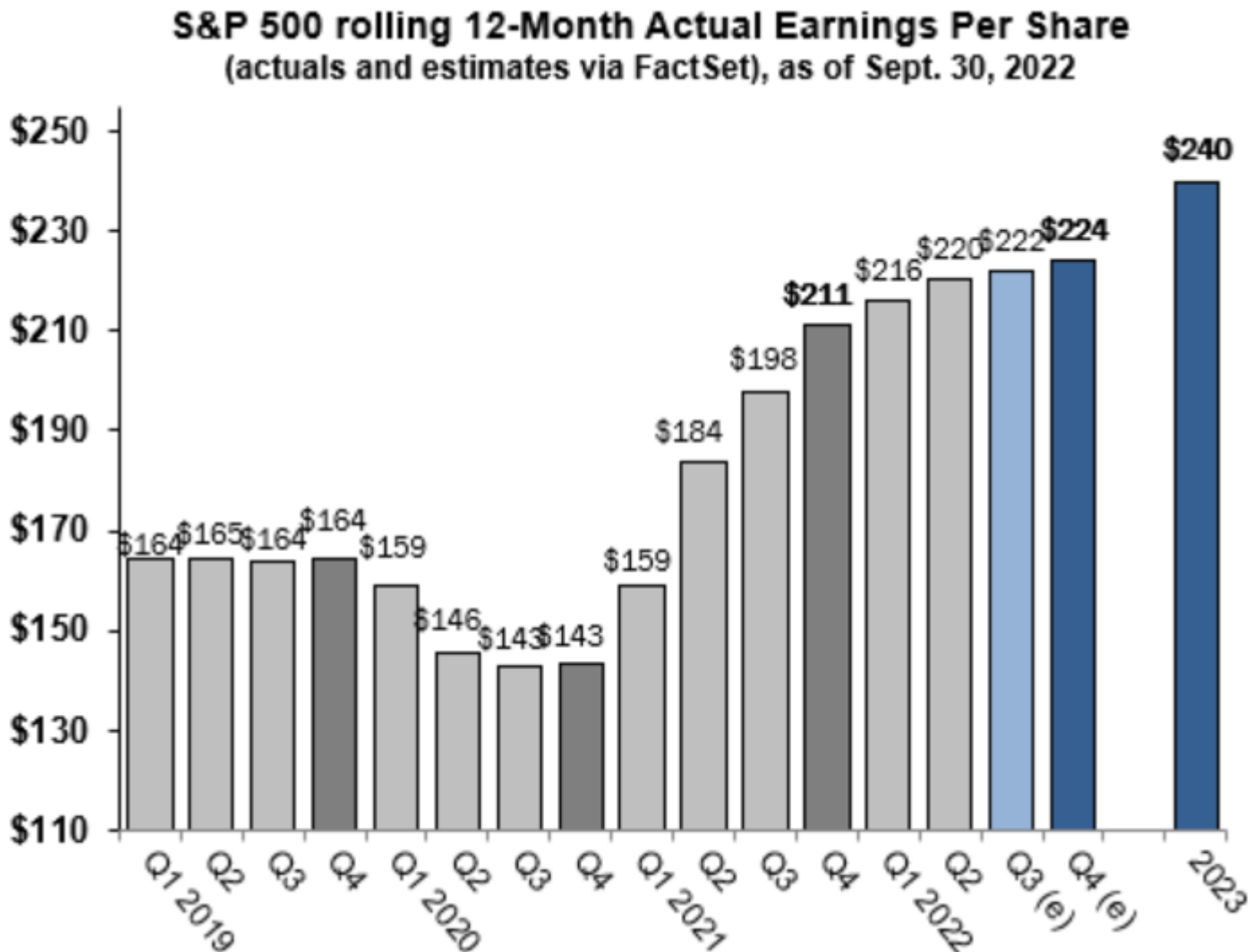
## S&P 500 Valuation: Price to Earnings Ratio



Source: FactSet through Sept. 30, 2022



# S&P 500 Earnings Forecast:



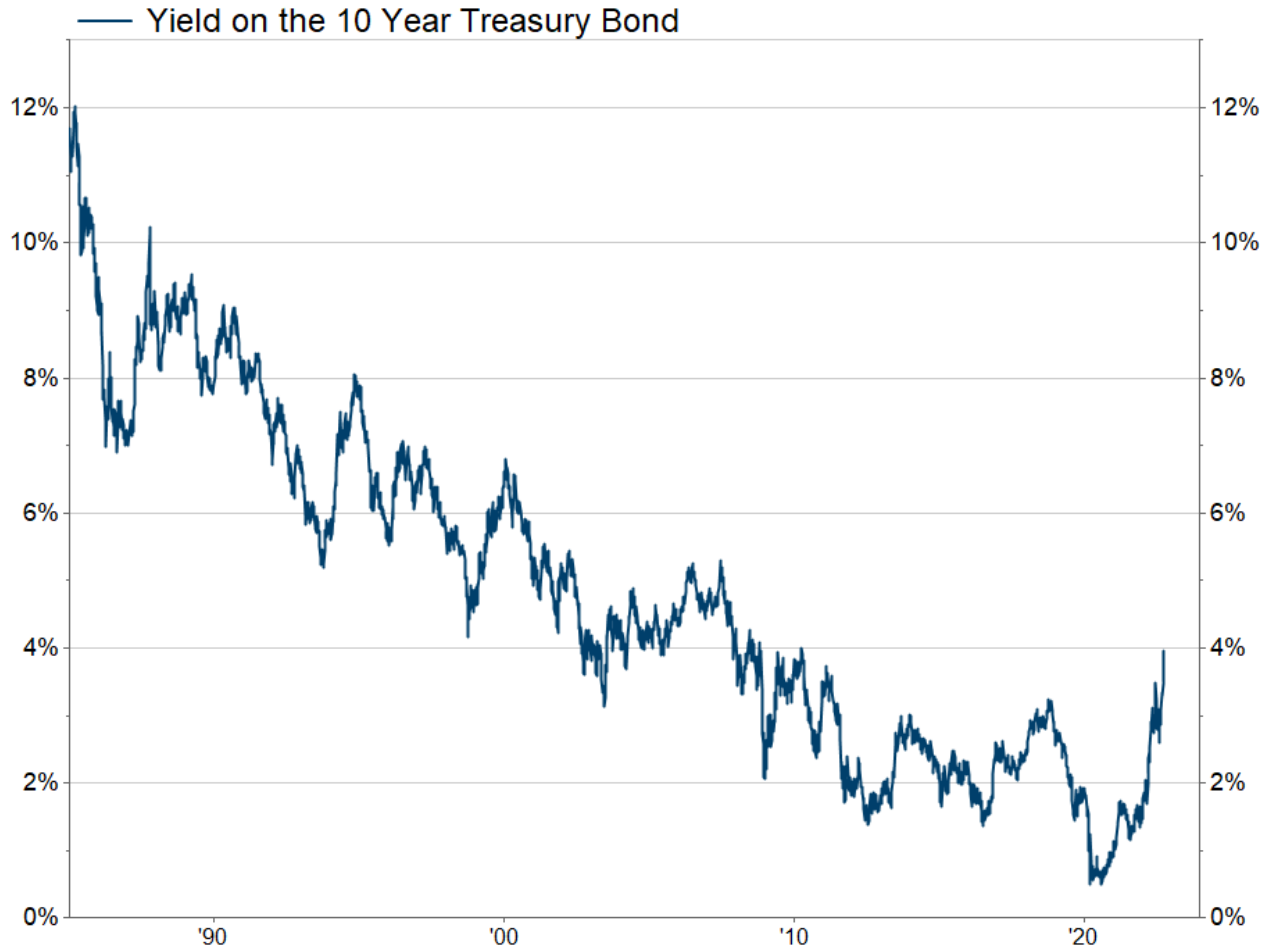
Source: FactSet as of Sept. 30, 2022



# Valuation influenced by Interest Rates:

We project a year-ending **10-year Treasury rate** of ~3.50%. We project a year-ending **fed funds rate** (the Federal Reserve's overnight rate) of 4.00% to 4.25% with the pace of hikes slowing in the second half.

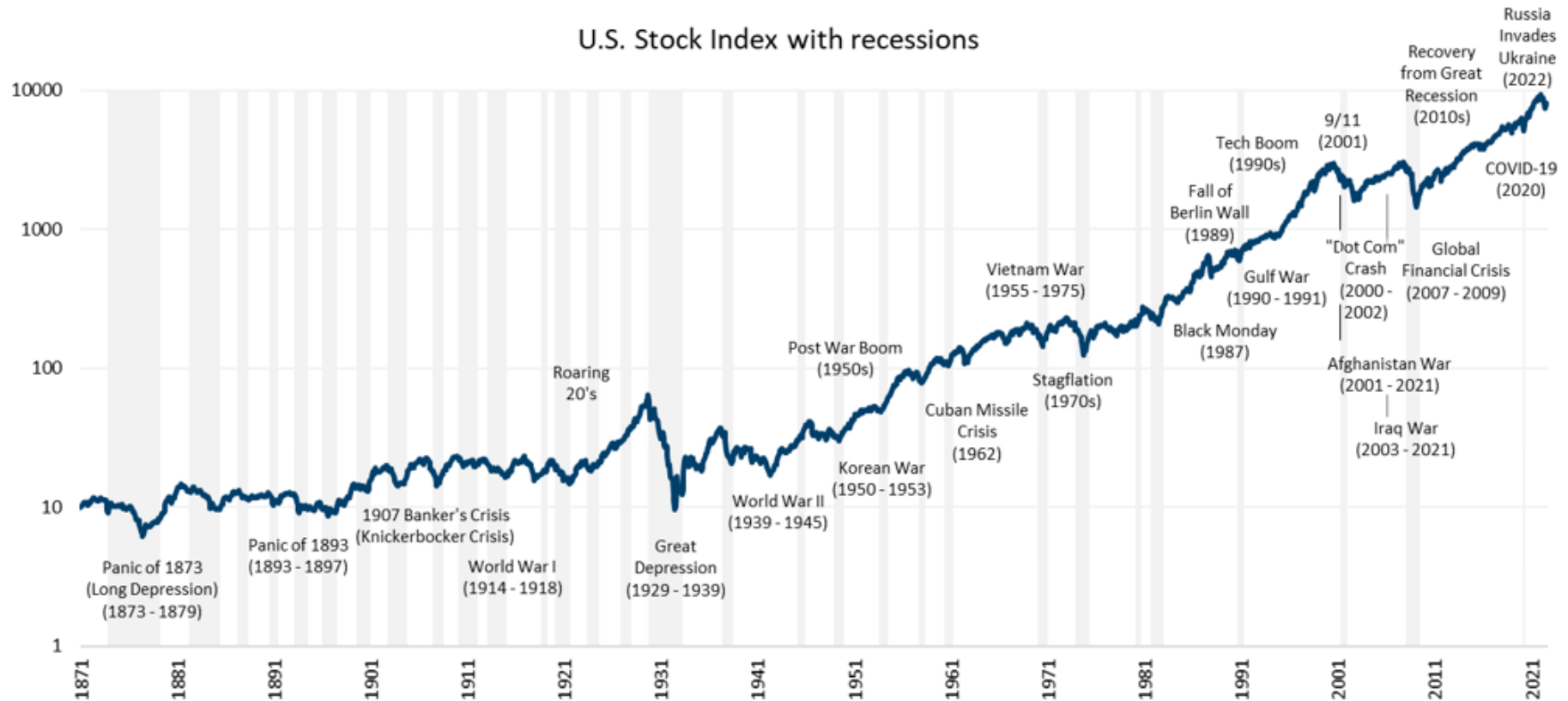
## Interest Rates:



Source: FactSet. As of Sept. 30, 2022



# The Long-Term...



Source: NBER, Bloomberg, American Enterprise Investment Services, Inc.

Data shown is based on the following: 1871 - 1917, Cowles Commission Index as converted by the Standard & Poors Corporation and available through the National Bureau of Economic Research (NBER). 1918 - 1956, monthly average of the weekly Standard and Poor's weekly composite price index based on Wednesday's close and as available by the NBER. 1957 through current, monthly closing price of the Standard and Poor's 500 Price Index. Recessions are as defined by the NBER and highlighted by the vertical gray bars. Data presented in log scale.





# Key Risks: Many

- Russia /Ukraine
- COVID-19 conditions have improved but remain uncertain.
- China – relations on practically all fronts have deteriorated with the U.S. and most other western nations
- Higher than expected inflation
- Government debt – Not just here in the U.S.
- Trade turmoil – between the U.S. /China primarily, but other challenges as well
- Wildcards: Russia, N. Korea, Venezuela, Iran, etc.
- Dysfunction in Washington could remain an unfortunate circumstance
- Emerging market pressures – particularly from currency fluctuations



# Disclosures

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Continued on next page...



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