

ACTIVE INSIGHTS

March 2023

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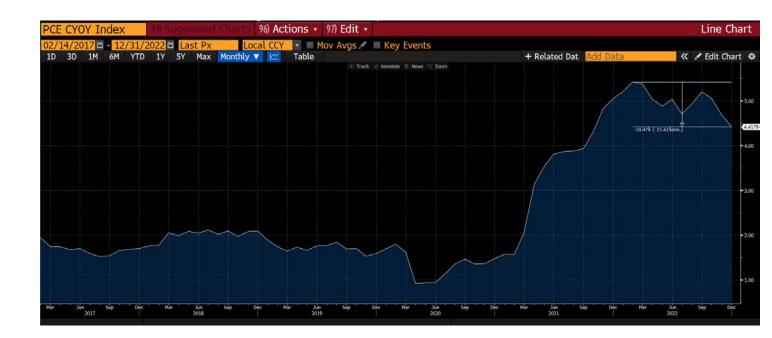
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This is Putnam's annual investment framework from our Capital Market Strategies team. We monitor four critical building blocks as we think about our outlook: (click below to select a section)

ECONOMY	MARKETS	RISKS	OPPORTUNITIES

ECONOMY

- Our 2023 U.S. real GDP 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.
- 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 weaken.
- We expect U.S. core PCE to moderate and finish the year around 3.25%. The chart below shows the latest core PCE reading of 4.41%:



Source: Bloomberg Finance L.P. Used with permission from Bloomberg Finance L.P.

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.
- 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 \$220.60. We expect earnings estimates to be reduced going forward. See the table below:

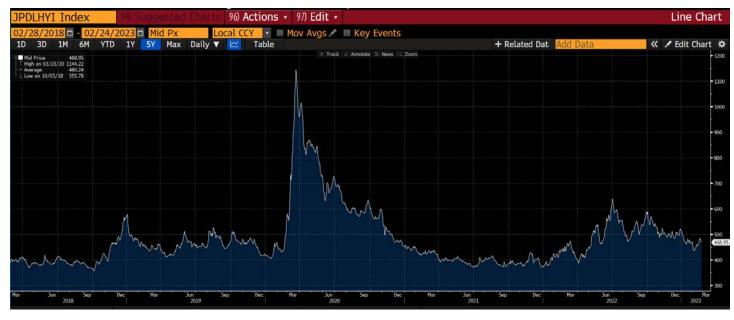
Periodicity A Flavor F12 Measure	Actual	 Currenc F12 Est 	Growth	Y+1 Est	Growth	Y+2 Est	Growt
1) Earnings Per Share	222.51	220.60	-0.86%	242.43	9.90%	264.20	8.98
2) EPS Positive	204.43	206.01	0.77%	226.32	9.86%	246.95	9.12
3) Cash Flow Per Share	286.38	308.02	7.55%	346.82	12.60%	405.65	16.96
4) Dividends Per Share	68.25	70.31	3.02%	74.95	6.61%	84.22	12.37
5) Book Value Per Share	1012.70	1109.60	9.57%	1232.32	11.06%	1506.09	22.22
6) Sales Per Share	1748.97	1775.59	1.52%	1858.49	4.67%	1948.99	4.87
7) EBITDA Per Share	339.27	370.63	9.24%	399.90	7.90%	433.06	8.29
8) Long Term Growth	0.00	7.68	0.00%	0.00	0.00%	0.00	0.00
9) Net Debt Per Share	444.72	479.26	7.77%	432.77	-9.70%	357.35	-17.43
0) Enterprise Value Per Share	4429.94	4464.43	0.78%	4417.94	-1.04%	4342.52	-1.71
Valuation Measure	A	ctual	F12 E	st	Y+1 Est		Y+2 Est
1) Price/EPS	1	17.91	18.0)6	16.44		15.08

Source: Bloomberg Finance L.P. Used with permission of Bloomberg Finance L.P.

• Our primary concerns are centered on earnings degradation and the pace of inflation moderation.

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 US dollar highs have likely been reached already and expect it to be range bound, as the Fed slows the pace of rate hikes during the first half of the year.
- Within corporate credit, we believe investment-grade spreads will be mostly stable in 2023 with a slight bias to tighten. Conversely, we believe high-yield spreads have a slight bias to widen during the year, as high inflation, geopolitical impacts on energy supplies and central bank tightening could be challenging for both fundamentals and technicals. The chart below shows the spread of the J.P. Morgan Developed High Yield Index over the past 5 years.



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• 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 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

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

The views and opinions expressed are those of the authors, are subject to change with market conditions and are not meant as investment advice.

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