Before the Bell

An Ameriprise Investment Research Group Publication

August 5, 2022

Starting the Day

- U.S. futures pointing to a lower open
- European markets are trading mixed mid-day
- Asian equity markets finished higher overnight
- July nonfarm payrolls surge to +528K
- July CPI in focus next week
- 10-year Treasury yield at 2.79%
- West Texas Intermediate (WTI) oil is trading at $88.92
- Gold is trading at $1,804.60

Market Perspectives

Anthony M. Saglimbene, Global Market Strategist

Is the bear market coming to an end? Given the S&P 500 has rallied more than +14% off its June 16th low, Q2 corporate earnings and outlooks have primarily come in better-than-feared, and the peak inflation theme gaining more steam, investors are beginning to ask if the bear market is finally coming to an end? While stock rallies can feel good following periods of elevated volatility or prolonged drown drafts in prices, bear market rallies and more sustainable recoveries look very similar in the early stages.

Thus, we believe it is nearly impossible to answer that question with any precision at the moment. On the one hand, stock valuations have come down to longer-term averages, a shallow recession is likely already priced into stocks (in our view), consumer/business fundamentals remain sound, equity positioning among professional money managers is very conservative, and investor sentiment remains at weak levels historically. Combined with the potential for some moderation in inflation pressures over the months ahead and a less aggressive Federal Reserve over the coming meetings, investors are right to shake off some of their worst-case fears from mid-June and push stock prices higher.

But on the other hand, inflation pressures remain historically high, the Federal Reserve is currently pushing back on the idea of a pivot to easier policy, and earnings estimates are coming <u>down</u> for the back half of the year. Also, stock valuations have not pierced through longer-term averages, and investors have not capitulated in mass. Notably, at least some of the recent stock rally can be attributed to a technical bounce after extreme defensive positioning in the market forced traders and some money managers to reenter the market. Moving forward, we expect the current stock rally to eventually lose some steam and the bears to reengage in testing the strength and durability of recent gains. **For us to become more convinced that the current rally is the real deal, we would like to see the following:**

- A pullback that sees the S&P 500 give back some or all of its recent gains but hold near or above its mid-June lows.
- Earnings growth that slows but remains positive, with companies maintaining their ability to protect profit margins.
- Inflation pressures that moderate over the coming months, with the Federal Reserve slowing rate increases.
- A stable job market, with the unemployment rate remaining <u>below</u> 4.0%.
- A "normalization" in demand and the economy avoiding a more sudden shift lower in consumer/business spending.
- Interest rate stabilization, with the 10-year U.S. Treasury yield holding <u>below</u> 3.5%.

Unfortunately, evidence of these factors will take time to develop and argues for a still cautious and balanced investment approach, despite the recent stock rally. But as the *Ameriprise chart* on the following page shows, bear markets eventually end, and stock returns tend to be quite positive in the months and years following.

Bear Markets Since 1950 (Total Return)

Market Peak	Market Trough	Market Drawdown	Next 3 Months	Next 6 Months	Next 12 Months	Next 3 Years	Next 5 Years	Next 10 Years	Return needed to Breakeven	Days Peak to Trough	Days Trough to Breakeven	Full Length of Time to Recovery	Recovery Date
12/12/1961	6/26/1962	-26.9	8.3	22.7	37.5	75.0	106.2	186.1	37%	196	293	489	4/15/1963
2/9/1966	10/7/1966	-20.2	13.4	24.2	37.3	39.9	61.2	100.7	25%	240	167	407	3/23/1967
12/1/1968	5/26/1970	-32.6	18.4	25.2	48.9	71.3	56.1	142.5	48%	541	293	834	3/15/1971
1/11/1973	10/3/1974	-44.8	15.1	34.1	44.4	76.8	122.9	326.4	81%	630	645	1275	7/9/1976
11/30/1980	8/12/1982	-20.2	38.1	47.9	66.1	110.3	299.1	495.0	25%	620	56	676	10/7/1982
8/25/1987	10/19/1987	-32.9	12.0	16.9	27.9	54.7	119.0	464.1	49%	55	574	629	5/15/1989
9/4/2000	10/9/2002	-47.4	20.0	12.5	36.1	62.4	120.6	127.0	90%	765	1475	2240	10/23/2006
10/9/2007	3/9/2009	-55.2	40.2	54.5	72.3	115.8	208.8	399.6	123%	517	1120	1637	4/2/2012
2/19/2020	3/23/2020	-33.8	40.7	46.0	77.8	??	??	??	51%	33	140	173	8/10/2020
1/3/2022	6/16/2022	-23.0	??	??	??	??	??	??	30%	164	??	??	??
Average		**-33.7**	**22.9**	**31.6**	**49.8**	**75.8**	**136.7**	**280.2**	**56%**	**376**	**529**	**929**	

Source: Bloomberg, S&P Dow Jones Indices, American Enterprise Investment Services, Inc.

Bear markets defined by a drop of 20% or more from market peak to market trough based on S&P 500 Total Return Index. Index must have recovered completely (closed above previous peak) before a new bear market can begin.

*Represents the lowest point of the current bear market, subject to change if markets fall further.

U.S. Pre-Market Indicators / Overnight International Market Activity

United States:

Here is a quick news rundown to start your morning:

- **The July employment report.** *FactSet* estimates for nonfarm payrolls called for +250K new jobs last month, down from the +398K print in June (revised higher from +372K). In addition, the unemployment rate in July was expected to hold steady at 3.6% for the fifth straight month. **Following today's Bureau of Labor Statistics release, July jobs rose by an astoundingly strong +528K (the strongest pace since February), while the unemployment rate fell to 3.5%.**
- **Inflation is in focus next week.** On Wednesday, investors will receive another peek at how inflation trends are developing, which continued to move aggressively higher on a headline CPI basis in June. *FactSet* estimates call for the headline Consumer Price Index to rise +8.7% y/y in July, down from the high-water mark of +9.1% in June. July CPI (ex-food and energy) is expected to rise to +6.0% y/y from the +5.9% pace seen in the prior month. Declining gasoline prices in July should help bring the headline figure lower. Notably, U.S. gas prices fell for the 50th straight day on Wednesday, off nearly 20% from the mid-June peak and approaching $4.00 per gallon nationally. In addition, oil is on track for a big week of declines after losing almost 7.0% in July. WTI crude has fallen from a peak of over $130 per barrel in March to below $90 currently — a level not seen since before Russia invaded Ukraine.
- **Washington Update:** The Democratic Senator from Arizona, Krysten Sinema, expressed her support for the Inflation Reduction Act on Thursday night, which contains roughly $374 billion in climate funding. The revised tax and climate bill drops the provision for narrowing the carried interest tax break, alters the 15% corporate minimum tax, and adds a 1% excise tax on stock buybacks for large companies. The Senate has scheduled a vote on the bill for Saturday.
- **Q2 Earnings Update:** With roughly 86% of Q2'22 S&P 500 company reports complete, the blended earnings per share (EPS) growth rate is higher by +6.9% y/y on sales growth of +13.6%.

Europe:

After lifting rates by 50 basis points to 1.75% yesterday, Bank of England Governor Andrew Bailey defended the policy decision, saying the real economic risk is that inflation becomes embedded. However, the BOE's downbeat assessment for growth next year has some forecasters suggesting interest rates might need to fall at some point. Separately, industrial production unexpectedly rose in June for both Germany and France, the two largest economies in the Eurozone. *FactSet* noted that the data was supported by a backlog of orders but that output continues to be undermined by supply shortages.

Asia-Pacific:

According to the Semiconductor Industry Association, growth in global chip sales slowed for the sixth straight month in July. *Bloomberg* noted that's the longest streak since the U.S./China trade war in 2018. Notably, the data adds to concerns that global growth is slowing, with the three-month moving average of chip sales aligning with the global economy's performance over recent decades. In addition, according to *FactSet*, regional data shows the semiconductor backdrop in South Korea is deteriorating, with chip export growth slowing for the fourth straight month and inventories rising the most in over six years

Overnight International data is not available this morning due to technical difficulties.

Ameriprise Global Asset Allocation Committee (GAAC)

U.S. Equity Sector - Tactical Views

	S&P 500 Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight		S&P 500 Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
Information Technology	27.2%	Overweight	2.0%	29.2%	Industrials	7.7%	Equalweight	-	7.7%
Financials	10.8%	Overweight	2.0%	12.8%	Materials	2.6%	Equalweight	-	2.6%
Health Care	14.8%	Overweight	2.0%	16.8%	Real Estate	2.9%	Equalweight	-	2.9%
Consumer Staples	6.8%	Equalweight	-	6.8%	Utilities	3.0%	Equalweight	-	3.0%
Energy	4.2%	Equalweight	-	4.2%	Consumer Discretionary	10.9%	Underweight	-3.0%	7.9%
					Communication Services	9.1%	Underweight	-3.0%	6.1%

As of: June 30, 2022

Index w eightings represent the respective market capitalization of each sector in the S&P 500 as of 6/23/2022. The GAAC Tactical Overlay, as w ell as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC).View s are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

Global Equity Regions - Tactical Views

	MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight		MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
United States	59.6%	Overweight	6.5%	66.1%	Europe ex U.K.	13.0%	Underweight	-2.0%	11.0%
United Kingdom	4.1%	Equalweight	-	4.1%	Asia-Pacific ex Japan	12.2%	Underweight	-2.0%	10.2%
Canada	3.2%	Equalweight	-	3.2%	Japan	5.4%	Underweight	-1.0%	4.4%
Latin America	1.0%	Equalweight	-	1.0%	Middle East / Africa	1.5%	Underweight	-1.5%	0.0%

as of: June 30, 2022

Index w eightings are based on the regional market capitalizations of the MSCI All-Country World Index as of 6/23/2022. The GAAC Tactical Overlay, as w ell as the Recommended Tactical Weights, are derived from the Ameriprise Global Asset Allocation Committee (GAAC). View s are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

Economic News and Views:

Russell T. Price, CFA – Chief Economist

Releases for Friday August 5, 2022 — All times Eastern. Consensus estimates via Bloomberg

Time	Period	Release	Consensus Est.	**Actual**	Prior	Revised to
8:30 AM	JUL	Change in Nonfarm Payrolls	+250k		+372k	+384k
8:30 AM		Two-Month Payroll Net Revision				
8:30 AM	JUL	Change in Private Payrolls	+230k		+381k	+336k
8:30 AM	JUL	Change in Manufacturing Payrolls	+20k		+29k	
8:30 AM	JUL	Unemployment Rate (U3)	3.6%		3.6%	
8:30 AM	JUL	Underemployment Rate (U6)	N/A		6.7%	
8:30 AM	JUL	Average Hourly Earnings MoM	+0.3%		+0.3%	
8:30 AM	JUL	Average Hourly Earnings YoY	+5.0%		+5.1%	
8:30 AM	JUL	Average Weekly Hours All Employees	34.6		34.5	
8:30 AM	JUL	Labor Force Participation Rate	62.4%		62.2%	

Commentary:

- **Due to technical difficulties the actual Employment Report data was not available this morning.**

Ameriprise Economic Projections

Forecast:	Full-year				Quarterly						
	Actual 2020	Actual 2021	Est. 2022	Est. 2023	Actual Q2-2021	Actual Q3-2021	Actual Q4-2021	Actual Q1-2022	Est. Q2-2022	Est. Q3-2022	Est. Q4-2022
Real GDP (annualized)	-3.4%	5.7%	1.4%	1.8%	6.7%	2.3%	6.9%	-1.6%	-0.9%	0.8%	1.6%
Unemployment Rate	6.7%	3.9%	3.7%	3.8%	5.9%	4.8%	3.9%	3.6%	3.6%	3.5%	3.7%
CPI (YoY)	1.4%	7.0%	8.4%	3.6%	5.4%	5.4%	7.0%	8.5%	9.1%	9.0%	8.4%
Core PCE (YoY)	1.5%	4.9%	4.3%	3.0%	3.6%	3.7%	4.9%	5.2%	4.8%	4.8%	4.3%

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services Inc.

YoY = Year-over-year, Unemployment numbers are period ending. GDP: Gross Domestic Product; CPI: Consumer Price Index

PCE: Personal Consumption Expenditures Price Index. Core excludes food and energy.

All estimates other than GDP are period ending. **Last Updated: July 29, 2022**

Ameriprise Global Asset Allocation Committee Targets and Views

Targets

2022 Year-end Targets:	Favorable Scenario	Base-Case Scenario	Adverse Scenario
S&P 500 Index:	4,400	4,100	3,300
10-Year U.S. Treasury Yield:	3.00%	3.50%	2.50%
Fed Funds Target Range:	3.25% to 3.50%	3.50% to 3.75%	4.00% to 4.25%

Estimates (Est.) via American Enterprise Investment Services Inc.

Please see latest Quarterly Capital Market Digest for more information. **Last Updated: June 30, 2022**

For further information on the Global Asset Allocation Committee's year-end targets, please refer to the following Committee Perspective reports, *Stocks Search for Support — Year-end Scenario Analysis & S&P 500 Target* and *New, Higher Year-End Fixed Income Targets.*

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AMERIPRISE GLOBAL ASSET ALLOCATION COMMITTEE TACTICAL ASSET CLASS VIEWS

2022 Year-end S&P 500 Target: 4,100
2022 Year-End 10-year Treasury Target: 3.50% *as of 06/29/2022*

	Overweight	Equalweight	Underweight
Equity	• U.S. Large Cap Value • U.S. Mid Cap Value	• U.S. Mid Cap Growth • U.S. Small Cap Growth • U.S. Small Cap Value • Emerging Foreign Equity	• U.S. Large Cap Growth • Developed Foreign Equity
S&P 500 Sectors	• Financials • Health Care • Information Technology	• Consumer Staples • Energy • Industrials • Materials • Real Estate • Utilities	• Communication Services • Consumer Discretionary
Global Equity Regions	• United States	• Canada • Latin America • United Kingdom	• Asia Pacific ex-Japan • Europe ex U.K. • Japan • Middle East/Africa
Fixed Income	• U.S. Government Bonds • U.S. Investment Grade Corp. • Municipal Bonds	• Developed Foreign Bonds	• U.S. High Yield Corporate • Emerging Foreign Bonds
Alternatives	• Alternative Strategies	• Real Assets	
Cash		• Cash	

Note: Our Tactical Allocations are designed to augment a Strategic portfolio over a 6-12-month time horizon. **Asset Allocation and diversification do not ensure or guarantee better performance and do not eliminate the risk of investment losses. Investors should note that rising interest rates could have a detrimental effect on bond prices. Please consult with your financial advisor.** Cash generally refers to assets, securities and/or products low in risk and highly liquid. For asset allocation purposes, instruments can include Treasury bills, certificates of deposit, money market funds and high quality bonds whose maturities are less than 3 months. Outside of asset allocation purposes, cash investments can also include illiquid cash held in a mutual fund or pledged as collateral for derivatives. You can only access this cash by redeeming the fund using it, subject to fees or time constraints associated with redemptions.

	Rolling Returns			
Major Market Indices	**Q1'22**	**1-year**	**3-years**	**5-years**
Russell 3000® Index (U.S. Equity)	-5.28%	11.92%	18.24%	15.40%
MSCI ACWI Ex USA Index – net (Foreign Equity)	-5.44%	-1.48%	7.51%	6.76%
Bloomberg U.S. Universal Bond Index (Fixed Income)	-6.11%	-4.23%	1.85%	2.31%
Wilshire Liquid Alternative Index (Alternatives)	-1.81%	0.60%	3.11%	2.34%
FTSE Three-Month Treasury Bill Index (Cash)	0.03%	0.06%	0.76%	1.09%

Past performance is not a guarantee of future performance. Performance calculations use FactSet data and are as of 03/31/2022.

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Income Risk: We note that dividends are declared solely at the discretion of the companies' boards of directors. Dividend cuts or eliminations will likely negatively impact underlying company valuations. Published dividend yields are calculated before fees and taxes. Dividends paid by foreign companies to ADR holders may be subject to a withholding tax which could adversely affect the realized dividend yield. In certain circumstances, investors in ADR shares have the option to receive dividends in the form of cash payments, rights shares or ADR shares. Each form of dividend payment will have different tax consequences and therefore generate a different yield. In some instances, ADR holders are eligible to reclaim a portion of the withholding tax.

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Security Recommendation Risk: The research team may not be successful in selecting securities that collectively perform better than the benchmark. When viewing return comparisons investors should keep in mind the following information. Our model portfolio generally maintains less than 50 securities, whereas benchmark indices contain several times that amount. The benchmark index is market capitalization weighted, providing greater weight to the larger company movements, whereas our model portfolio is designed to be equally dollar weighted. Furthermore, the model portfolio may deviate significantly, at times, from the sector allocation of the benchmark due to our interpretation of economic conditions and market factors as well as our security selection process.

The benchmark index returns are taken from Bloomberg Financial Markets and reflect dividends reinvested. Additionally, there is no fee or cost assumption in the index comparison return.

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