Before the Bell

An Ameriprise Investment Research Group Publication

March 17, 2023

Starting the Day

- U.S. futures are pointing to a slightly lower open
- European markets are trading mixed at mid-day
- Asian markets ended mostly higher overnight
- Wall Street attempts to bail out itself
- Quantifying small banks' significance to the U.S. economy
- 10-year Treasury yield at 3.50%
- West Texas Intermediate (WTI) oil is trading at $68.69
- Gold is trading at $1,938.60

Market Perspectives

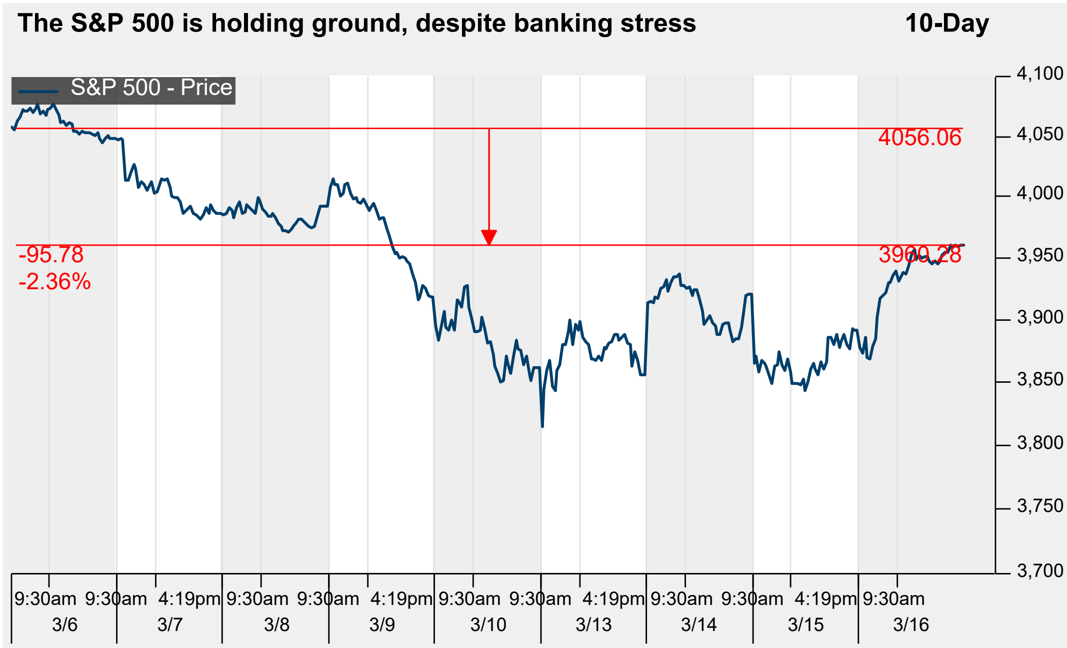
Anthony M. Saglimbene, Chief Market Strategist

Wall Street rides to the rescue. Will it be enough? Stocks jumped higher on Thursday in what has been a volatile week of back-and-forth trading and heightened anxiety. Traders took a more optimistic tone yesterday after it was announced a consortium of big banks would provide a liquidity injection of roughly $30 billion into First Republic Bank. The banks providing the deposit lifeline for FRC include JPMorgan Chase, Bank of America, Citigroup, and other well-capitalized industry heavyweights. Through Wednesday's close, First Republic Bank had seen its stock price tumble roughly 73% over the last week, even after the troubled lender said Sunday it had unused liquidity of up to $70 billion to meet deposit demands. In addition, the recent Silicon Valley and Signature Bank failures combined with Credit Suisse's $50 billion-plus loan from the Swiss National Bank had investors on high alert this week, and equity volatility elevated. But on Thursday, the S&P 500 Financials Index rebounded, rising +1.9%, slightly outperforming the +1.8% gain in the S&P 500 Index.

In our view, the consortium of banks willing to step into First Republic Bank and provide a needed lifeline highlights a few interesting points:

1. Liquidity at the major U.S. banks is not an issue. Their capital cushions and ability to lend in times of stress is a positive and welcomed sign that the U.S. financial system is strong and well-capitalized.
2. For now, Wall Street can bail out itself, which is precisely what regulators want to happen. Although investors should be careful not to assume the coast is all clear. Banks like SVB and Signature Bank, which served niche clients and needs, may not receive the same lifeline support as First Republic Bank. Moving forward, we suspect the bigger banks' willingness to inject capital into smaller/struggling banks will depend on the size of the need, the types of clients it serves, and embedded risks across its loan portfolios.
3. As we noted yesterday, the Financials industry has several levers it can pull to help itself as well as others across the industry. Large banks can help stem a crisis of confidence and, in turn, help themselves if they remain willing to aid smaller banks struggling against deposit outflows and/or a run on their stock prices. Banking is partly a confidence game. It is in the interest of larger banks to ensure medium and smaller banks remain solvent, strong, and able to serve the needs of smaller clients/businesses that would otherwise be less profitable if served by them.

Notably, the S&P 500 Index and NASDAQ Composite have climbed higher this week, indicating that the broader market has navigated the banking drama relatively well so far. For example, the *FactSet chart* on page 2 shows that the S&P 500 has taken a rollercoaster ride recently but has held relatively well, down just a little over 2% during the last ten days. In contrast, the KBW Bank Index has only finished higher in two of the last nine trading sessions, while the S&P 500 Banking Index is down 18.6% over the previous month.



Yesterday, the European Central Bank (ECB) somewhat surprised markets by hiking its key rate by 50 basis points, as the central bank had signaled frequently before the banking stress. However, the ECB threaded the needle very well in our view by dropping forward guidance and emphasizing that inflation remains too high. Here, ECB President Christine Lagarde said it was impossible to determine the future rate path but made clear inflation remains a concern. Bottom line: The ECB bought time to assess how financial conditions evolve while leaving their options open to keep pressing rates higher if needed.

Notably, U.S. Treasury Secretary Janet Yellen told Congress on Thursday that the banking system is sound and Treasury/Federal Reserve actions over the weekend haven't led to systemic issues. Interestingly, market pricing regarding what the Fed's FOMC will do at next week's policy meeting has been a periphery focus all week. This week's banking stress appears to have changed investors' calculus for forward rate policy despite still elevated inflation. Current consensus seems to be building around a 25-basis point fed funds hike on Wednesday, with the possibility of rate cuts in the summer. Here, we believe the market sees more fallout risk and stress in the banking sector, which may prompt the Fed to act with easing measures down the road. But we wouldn't get too comfortable with that assessment, as it will likely change following next week's policy statement, updated Summary of Economic Projections, and Fed Chair Powell's press conference. Look for markets next week to be highly sensitive to ongoing bank developments and Wednesday's Federal Reserve policy decision. The great thing about weekends? Markets are closed.

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

United States:

Here is a quick news rundown to start your morning:

- **Stocks are looking at a slightly lower open.** Despite the news regarding First Republic Bank, regional banks look like they will open lower at the time of this writing. For the week, the S&P 500 is higher by +2.6%, the NASDAQ is up +5.2%, and the Dow Jones Industrials Average has a gain of +1.1%.
- **Quantifying the significance of smaller banks to the U.S. economy.** According to *BCA Research*, U.S. banks with less than $250 billion in assets account for roughly half of the country's Commercial and Industrial (C&I) lending. These banks also account for roughly half of the mortgage and commercial real estate lending in the U.S. Ongoing stress in smaller regional banks should be expected to flow through to the real economy through reduced lending, higher customer attrition, and possibly more onerous regulations over time. The significance of smaller regional banks as a whole cannot be understated. This is why it is in the banking sector's and regulators' best interest to restore confidence as quickly as possible.

Europe:

Given that the ECB dropped providing forward rate guidance yesterday, some believe the indirect message to the market is that financial stability trumps inflation. While we would tend to agree with that overall assessment, investors shouldn't discount central bankers' desire/need to curb inflation. Thus, the ECB actually complicated investors' roadmap for policy, in our view. Moving forward, at least over the near term, rate policy could depend on two main factors, inflation, and financial stability. Each could send policy in opposite directions. We expect the Fed to provide a similar message next week. Recent developments have made pinning down where monetary policy is headed over the near term more complicated and uncertain. And we all know markets hate uncertainty.

Asia-Pacific:

After markets closed on Friday, the People's Bank of China (PBoC) cut its reserve requirement ratio (RRR) by 25 basis points, effective March 27th. The move should help stimulate China's economy and apply to almost all banks. This follows the PBoC rate cut of 25 basis points in December. Given the two recent rate cuts, the PBoC actions should help give banks more lending capacity and support economic growth.

WORLD CAPITAL MARKETS

3/17/2023 As of: 8:30 AM ET

Americas	% chg.	% YTD	Value
S&P 500	1.8%	3.5%	3,960.3
Dow Jones	1.2%	-2.2%	32,246.6
NASDAQ Composite	2.5%	12.2%	11,717.3
Russell 2000	1.4%	0.9%	1,771.2
Brazil Bovespa	0.7%	-5.7%	103,435
S&P/TSX Comp. (Canada)	0.8%	1.5%	19,539.0
Mexico IPC	0.8%	8.5%	52,505.7

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	0.0%	8.9%	4,116.8
FTSE 100 (U.K.)	0.0%	0.4%	7,408.9
DAX Index (Germany)	-0.1%	7.4%	14,957.0
CAC 40 (France)	-0.2%	8.4%	7,010.6
FTSE MIB (Italy)	-0.2%	9.1%	25,866.0
IBEX 35 (Spain)	-0.6%	7.9%	8,838.8
MOEX Index (Russia)	2.5%	7.7%	2,314.7

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	1.2%	4.8%	27,333.8
Hang Seng (Hong Kong)	1.6%	-1.0%	19,518.6
Korea Kospi 100	0.7%	7.1%	2,395.7
Singapore STI	0.9%	-1.5%	3,183.3
Shanghai Comp. (China)	0.7%	5.2%	3,250.5
Bombay Sensex (India)	0.6%	-4.5%	57,989.9
S&P/ASX 200 (Australia)	0.4%	1.3%	6,994.8

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	1.3%	2.8%	619.9

Developed International	% chg.	%YTD	Value
MSCI EAFE	0.9%	2.8%	1,988.1

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	-0.6%	-1.3%	941.4

Note: International market returns shown on a local currency basis. The equity index data shown above is on a total return basis, inclusive of dividends.

S&P 500 Sectors	% chg.	% YTD	Value
Communication Services	2.8%	15.4%	183.4
Consumer Discretionary	1.9%	10.8%	1,111.5
Consumer Staples	-0.1%	-2.6%	755.2
Energy	0.9%	-10.9%	593.7
Financials	1.9%	-6.5%	530.5
Health Care	1.0%	-6.2%	1,481.5
Industrials	1.3%	0.0%	828.5
Materials	1.2%	-1.3%	481.4
Real Estate	-0.1%	0.3%	231.6
Technology	2.8%	15.5%	2,503.8
Utilities	0.7%	-4.1%	341.2

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	1.0%	-0.8%	215.8
FTSE NAREIT Comp. TR	-0.3%	-0.2%	21,432.3
DJ US Select Dividend	1.0%	-4.9%	2,812.5
DJ Global Select Dividend	0.2%	-1.0%	214.4
S&P Div. Aristocrats	0.7%	-1.6%	3,875.6

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	-0.5%	2.0%	2,090.7
Barclays HY Bond	0.4%	1.6%	2,220.6

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	0.0%	-2.9%	553.4
NYMEX WTI Crude (p/bbl.)	0.5%	-14.4%	68.7
ICE Brent Crude (p/bbl.)	0.1%	-13.0%	74.8
NYMEX Nat Gas (mmBtu)	-4.6%	-46.4%	2.4
Spot Gold (troy oz.)	1.1%	6.4%	1,940.4
Spot Silver (troy oz.)	1.1%	-8.4%	21.9
LME Copper (per ton)	0.3%	1.7%	8,508.8
LME Aluminum (per ton)	-0.3%	-5.7%	2,216.5
CBOT Corn (cents p/bushel)	0.6%	-6.1%	636.5
CBOT Wheat (cents p/bushel)	0.5%	-12.1%	702.3

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	0.2%	-0.7%	1.06
British Pound (£/$)	0.2%	0.4%	1.21
Japanese Yen ($/¥)	1.0%	-1.0%	132.44
Australian Dollar (A$/$)	0.6%	-1.7%	0.67
Canadian Dollar ($/C$)	0.0%	-1.2%	1.37
Swiss Franc ($/CHF)	0.2%	-0.3%	0.93

Data/Price Source: Bloomberg. Equity Index data is total return, inclusive of dividends, where applicable.

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
Information Technology	26.2%	Overweight	2.0%	28.2%
Health Care	15.7%	Overweight	2.0%	17.7%
Financials	11.5%	Overweight	2.0%	13.5%
Consumer Staples	7.2%	Overweight	2.0%	9.2%
Energy	5.1%	Equalweight	-	5.1%
Utilities	3.2%	Equalweight	-	3.2%
Materials	2.7%	Equalweight	-	2.7%
Real Estate	2.7%	Equalweight	-	2.7%
Industrials	8.6%	Underweight	-2.0%	6.6%
Consumer Discretionary	9.9%	Underweight	-3.0%	6.9%
Communication Services	7.2%	Underweight	-3.0%	4.2%

As of: December 31, 2022

Index weightings represent the respective market capitalization of each sector in the S&P 500 as of 12/21/2022. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views 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	59.0%	Overweight	6.5%	65.5%	Europe ex U.K.	13.8%	Underweight	-2.0%	11.8%
United Kingdom	4.2%	Equalweight	-	4.2%	Asia-Pacific ex Japan	11.8%	Underweight	-2.0%	9.8%
Canada	3.1%	Equalweight	-	3.1%	Japan	5.6%	Underweight	-1.0%	4.6%
Latin America	1.0%	Equalweight	-	1.0%	Middle East / Africa	1.5%	Underweight	-1.5%	0.0%

as of: December 31, 2022

Index weightings are based on the regional market capitalizations of the MSCI All-Country World Index as of 12/21/2022. The GAAC Tactical Overlay, as well as the Recommended Tactical Weights, are derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views 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

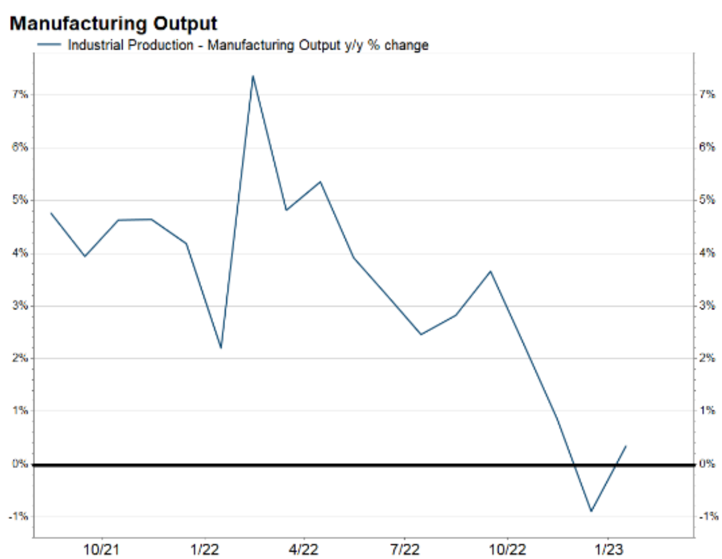
Releases for Friday March 17, 2023

All times Eastern. Consensus estimates via Bloomberg

Time	Period	Release	Consensus Est.	**Actual**	Prior	Revised to
9:15 AM	FEB	Industrial Production (MoM)	+0.2%		0.0%	
9:15 AM	FEB	Capacity Utilization	78.4%		78.3%	
9:15 AM	FEB	Manufacturing Output (MoM)	-0.3%		+1.0%	
10:00 AM	FEB	Leading Econ. Index	-0.2%		-0.3%	
10:00 AM	Mar. P	U. of M. Consumer Sentiment	67.0		67.0	

Commentary:

- **Manufacturing output declining:** The Federal Reserve will release its Industrial Production report for the month of February at 9:15 AM ET this morning. Overall, forecasters expect Industrial Production to have increased slightly as higher utility output (due to much colder weather in the month relative to January) is thought to have offset a decline in manufacturing output.
- There could be some downside risk to the report, in our view, given that manufacturing activity was reported to have surged in January by 0.9%. Although January's number could also be revised lower as Industrial Production numbers often are.
- As seen in the chart at right, U.S. manufacturing output has been sliding over the last year and a half. The declines have primarily been a function of lower output from a broad range of categories, including consumer durable goods (appliances, furniture, carpeting, etc.) which were down 1.7% y/y in January, and energy related equipment (down 6.3% in January). These declines have thus far been largely offset by higher output of autos and auto parts (up 2.0% y/y in January), aerospace and defense equipment (up 10.6%), and somewhat surprisingly, output of computer, video and audio equipment (up 15.2% y/y in January).

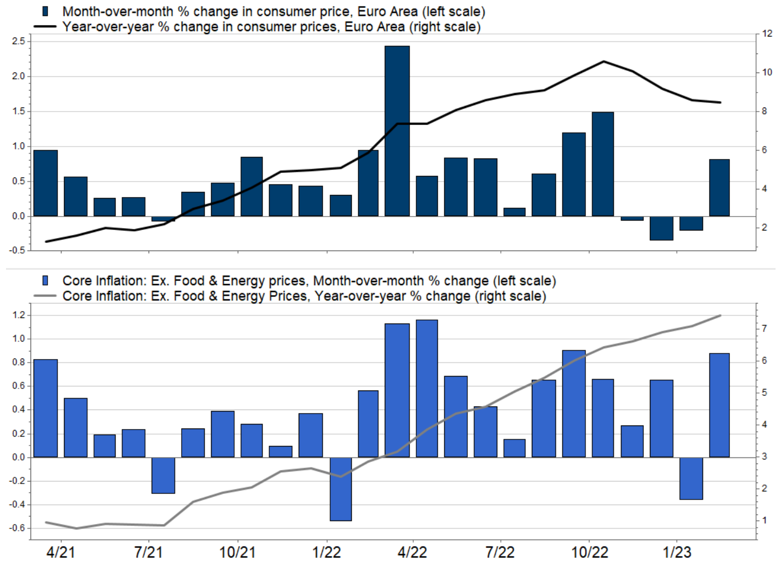


- The chart at right is sourced from FactSet.
- **ECB holds to plan despite recent banking system concerns.** Banking system concerns have emerged to complicate the work of global central bank officials as they continue their work to contain inflation. Such concerns, however, are likely to help central banks in their efforts to cool economic activity as financial institutions are thought likely to pull-back on lending, thus tightening financial conditions.
- Earlier today, Eurostat released its final read on February consumer inflation in the Eurozone. The numbers were in-line with preliminary estimates, offering little new information for markets. However, the measures clearly reflect ongoing

inflation challenges for the region as both headline and core inflation (excluding food and energy components) surged on a month-over-month basis.

- As seen in the graphic below, headline inflation jumped 0.8% in the month while the increase in core inflation was an even stronger +0.9%. On a year-over-year (y/y) basis, headline inflation, at +8.5% in February, is down notably from its October peak of 10.6%. Almost all of the improvement, however, has come from lower energy prices alone. Core inflation continued to rise, reaching +7.4% y/y in February, up from its January read of +7.1%.
- The inflation results come a day after the European Central Bank (ECB) stuck to its guidance and implemented a 0.5% hike in its overnight lending rate despite the recent banking system concerns. The policy announcement eliminated the Bank's typical guidance and noted that offici als were watching current market tensions closely. Given the inflation results, we believe officials made the right decision absent further banking system stress. The graphic at right is sourced from FactSet.

Eurozone: Consumer Inflation



Ameriprise Economic Projections

Forecast:	Full-year				Quarterly						
	Actual 2021	Actual 2022	Est. 2023	Est. 2024	Actual Q2-2022	Actual Q3-2022	Actual Q4-2022	Est. Q1-2023	Est. Q2-2023	Est. Q3-2023	Est. Q4-2023
Real GDP (annualized)	5.9%	2.1%	0.6%	1.4%	-0.6%	3.2%	2.9%	2.1%	-0.4%	0.0%	0.8%
Unemployment Rate	3.9%	3.5%	4.0%	4.2%	3.6%	3.5%	3.5%	3.5%	3.6%	3.8%	4.0%
CPI (YoY)	7.0%	6.4%	4.0%	2.5%	9.1%	8.2%	6.4%	4.8%	3.0%	3.4%	4.0%
Core PCE (YoY)	4.9%	4.4%	3.3%	2.5%	5.0%	5.2%	4.4%	4.6%	4.0%	3.5%	3.3%

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: March 2, 2023**

Ameriprise Global Asset Allocation Committee Targets and Views

Targets

2023 Year-end Targets:	**Favorable Scenario**	**Base-Case Scenario**	**Adverse Scenario**
S&P 500 Index:	4,600	4,300	3,300
10-Year U.S. Treasury Yield:	2.50%	3.00%	4.50%
Fed Funds Target Range:	4.00% to 4.25%	5.00% to 5.25%	5.75% to 6.00%

Estimates (Est.) via American Enterprise Investment Services Inc.
Please see latest *Quarterly Capital Market Digest* for more information. **Last Updated: January 2, 2023**

Ameriprise Global Asset Allocation Committee Targets and Views

2023 Year-end S&P 500 Target: 4300

2023 Year-end 10-year Treasury Target: 3.00% *as of 12/31/2022*

	Overweight	Equalweight	Underweight
Equity	• U.S. Large Cap Value • U.S. Mid Cap Value	• U.S. Mid Cap Growth • U.S. Small Cap Value • U.S. Small Cap Growth	• U.S. Large Cap Growth • Emerging Foreign Equity • Developed Foreign Equity
S&P 500 Sectors	• Consumer Staples • Financials • Health Care • Information Technology	• Energy • Materials • Real Estate • Utilities	• Communication Services • Consumer Discretionary • Industrials
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 • U.S. Inv. Grd Corporate • Municipals	• Developed Foreign Bond	• Emerging Foreign Bond • High Yield Bond
Alternatives		• Alternative Strategies	
Cash		• Cash	

Note: Our Tactical Allocations are designed to augment a Strategic portfolio over a 6 to 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 high in liquidity. 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 redemtions.

		Rolling Returns			
Major Market Indices	**Q4'22**	**Year-to-date**	**1-year**	**3-years**	**5-years**
Russell 3000® Index (U.S. Equity)	7.18%	-19.21%	-19.21%	7.07%	8.79%
MSCI ACWI Ex USA Index – net (Foreign Equity)	14.28%	-16.00%	-16.00%	0.07%	0.88%
Bloomberg U.S. Universal Bond Index (Fixed Income)	2.24%	-12.99%	-12.99%	-2.54%	0.18%
Wilshire Liquid Alternative Index (Alternatives)	1.70%	-5.65%	-5.65%	0.64%	0.81%
FTSE Three-Month Treasury Bill Index (Cash)	0.87%	1.50%	1.50%	0.71%	1.25%

Past performance is not a guarantee of future performance. Performance calculations use FactSet data and are as of 12/31/2022.

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The Ameriprise Investment Research Group

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As of December 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.

International investing involves increased risk and volatility due to political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are particularly significant in **emerging markets**.

Market Risk: Model portfolios and markets in general could sustain significant volatility due to several factors. As we have seen recently, both economic and geopolitical issues could have a material impact on this model portfolio and the equity market as a whole.

Sector Risk: The Ameriprise Global Asset Allocation Committee and managers of this model portfolio can elect to overweight or underweight (or completely avoid) certain economic sectors. This could lead to substantial underperformance versus a more diversified or balanced weighting.

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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Growth securities, at times, may not perform as well as value securities or the stock market in general and may be out of favor with investors.

International investing involves increased risk and volatility due to political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are enhanced for **emerging market** issuers.

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