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Election 2024 Countdown: Economic, Market & Geopolitical Risks in the Year Ahead

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All data as of October 31, 2023, unless otherwise noted.



Key Takeaways

Our View

Economy

- Growth has surprised to the upside despite rate hikes and fears of recession, raising the odds of a “no landing” scenario.
 - Our base case is for a soft landing, as growth slows alongside continued disinflation.
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Interest rates

- The Fed hiked to the highest rate since 2001, and the 10-year yield reached 5%.
 - We expect rate cuts to begin by the middle of 2024, as headline inflation slows to 2%.
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Equities

- Large cap stocks have struggled in the second half but remain up 12% YTD, in large part due to strength of megacap tech.
 - Valuations do not look demanding, but the risk vs reward of stocks vs bonds is still unappealing
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Geopolitics

- War in the Middle East presents upside risk to energy prices, though oil remains contained for now.
- With one year until the U.S. presidential election, focus will start to shift toward candidates, policy, and market reaction.

Source: Bloomberg and S&P 500 Index. As of October 31, 2023.

Current Market Debate

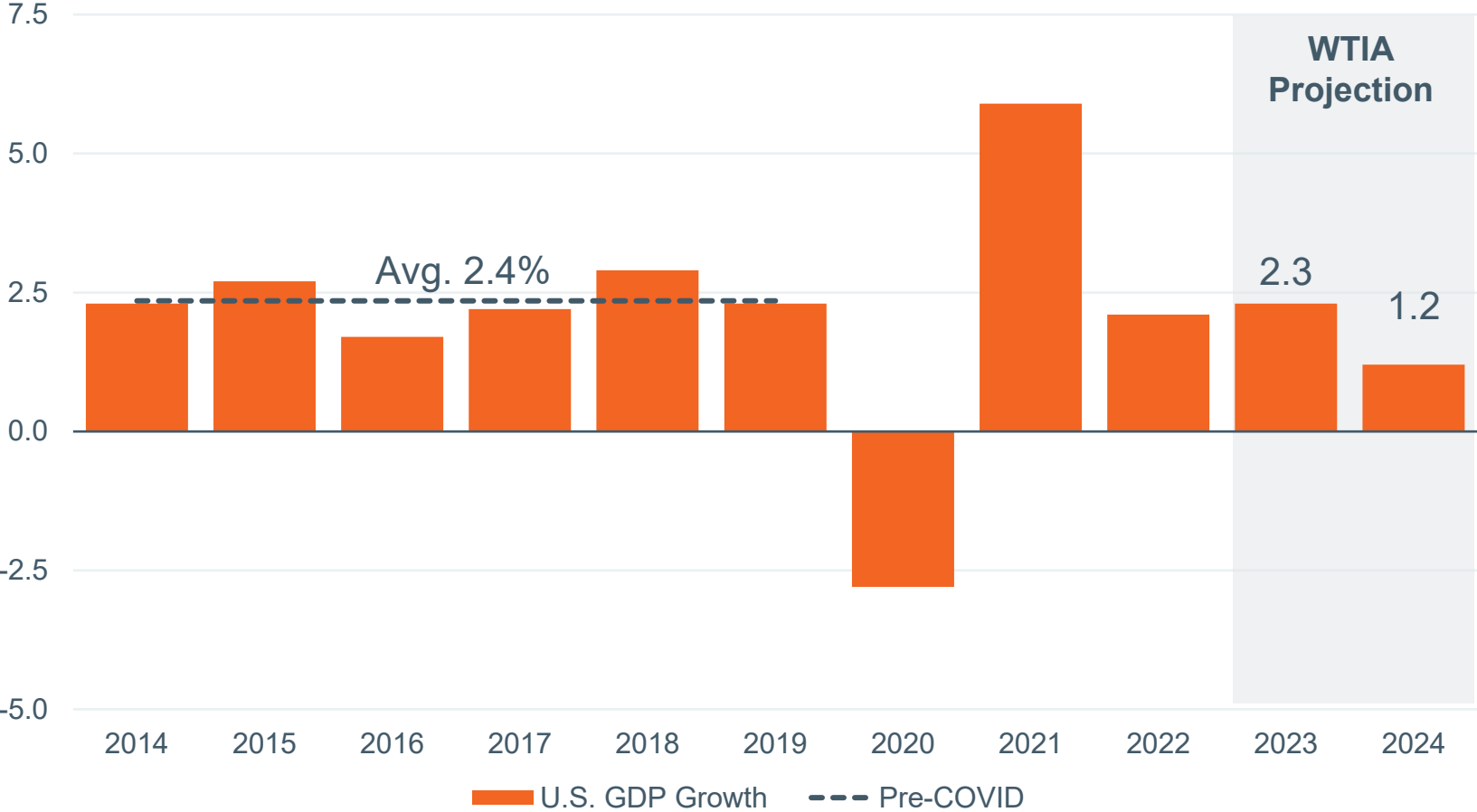
Consensus expectations and market narrative have shifted to stronger growth 2023



Hard Landing	Soft Landing	No Landing
<ul style="list-style-type: none"> • Economy enters mild recession • Consumers and firms cut spending • Inflation falls below 2% target • Fed cuts rates in 2024 but recession has already started 	<ul style="list-style-type: none"> • Economy slows to 1%–2% • Inflation continues to decelerate • Unemployment 4.5%–5.0% • No widespread job loss • Fed cuts rates in 2024 	<ul style="list-style-type: none"> • Economy grows above trend of 2% • Inflation stubbornly high • Labor market remains tight • Fed must raise rates above 6%

Recession Likely Avoided but Slow Growth Ahead

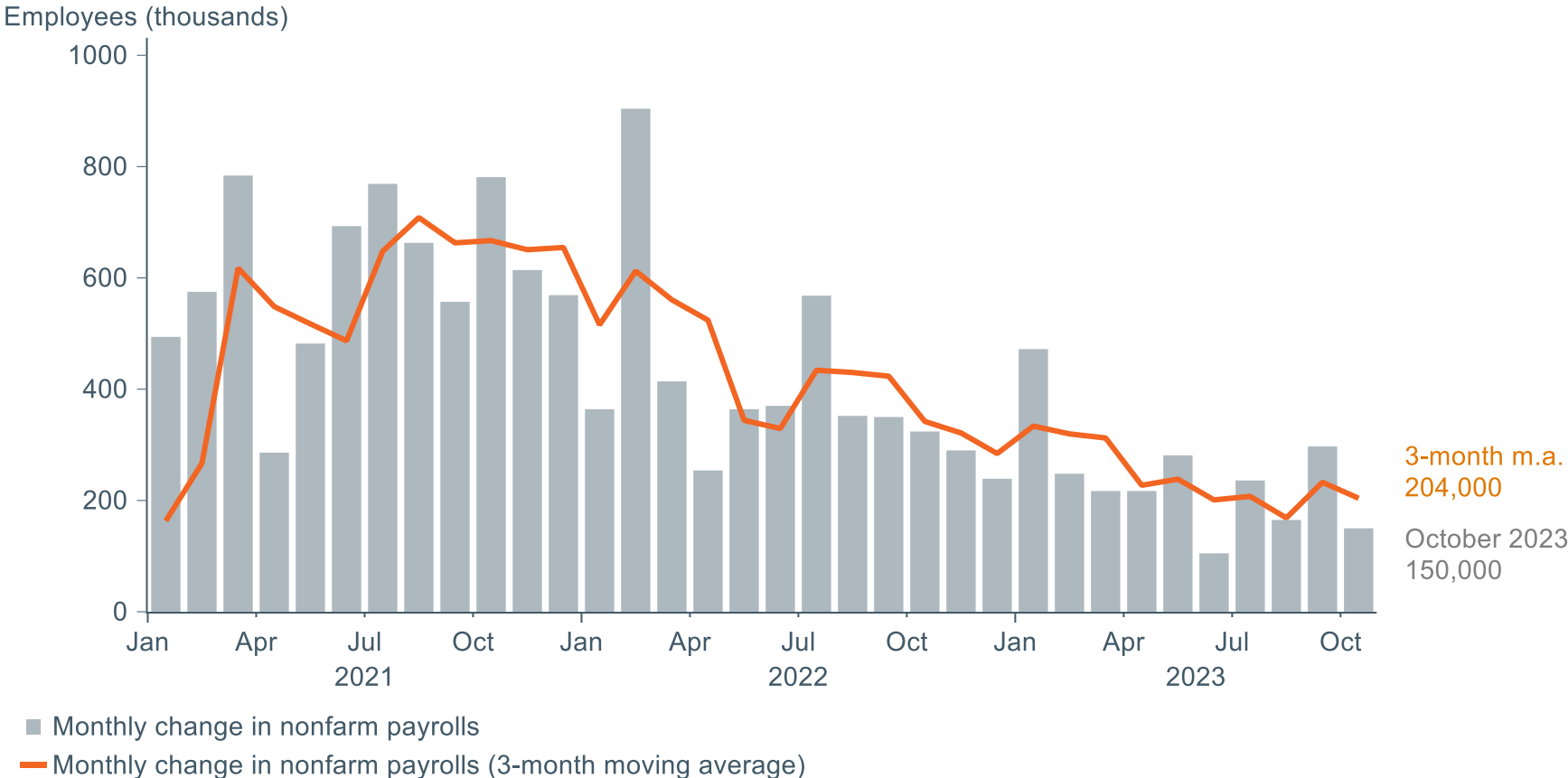
U.S. real gross domestic product (GDP, %)



Data as of October 31, 2023. Sources: Macrobond, Bureau of Economic Analysis, WTIA.

Job Growth Cools in October

Monthly change in nonfarm payrolls



Data as of November 3, 2023. Sources: Macrobond, Bureau of Labor Statistics.

U.S. Inflation Is Moderating

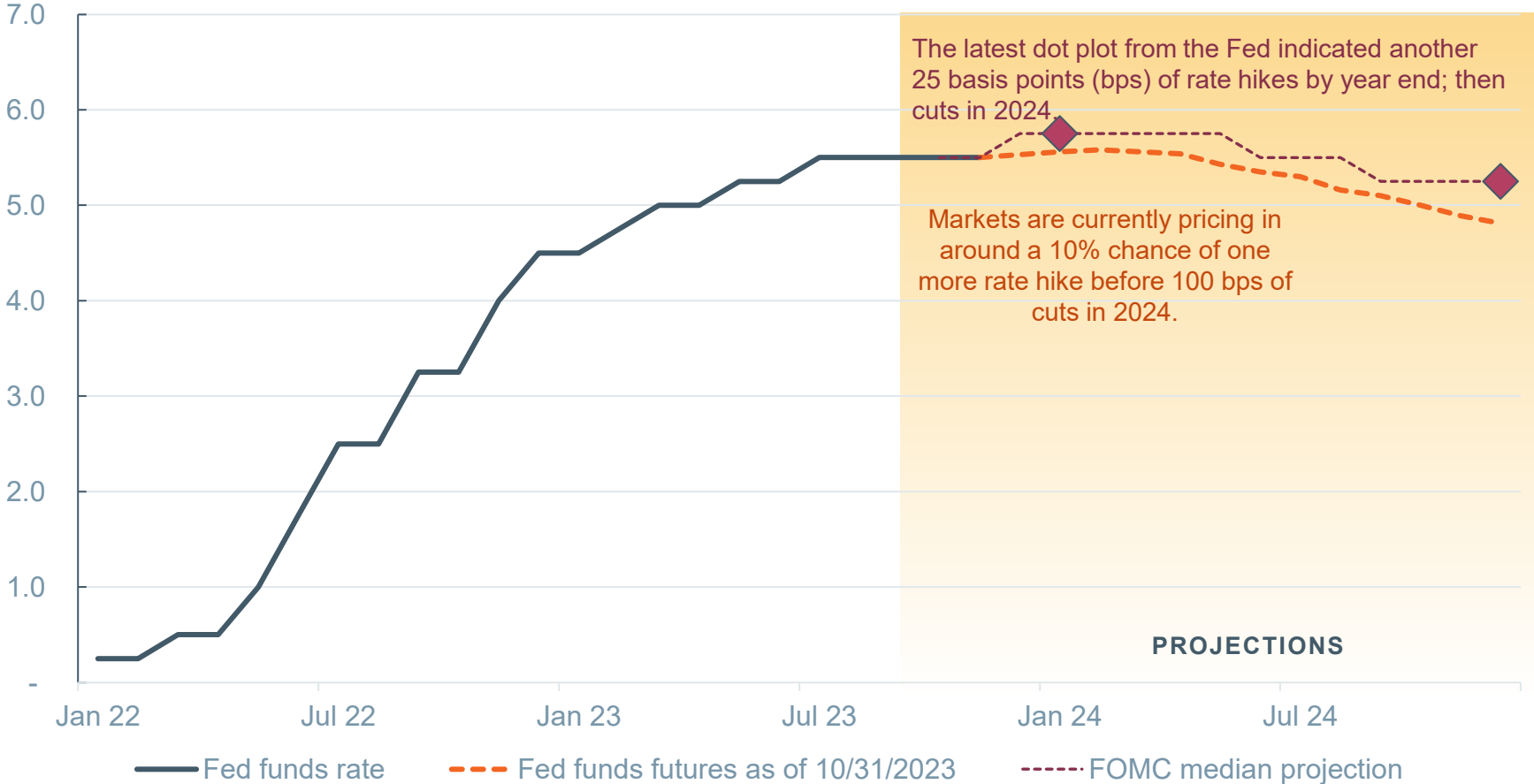
Consumer Price Index (CPI) inflation (% change)



Data as of October 31, 2023. Sources: Bureau of Labor Statistics, WTIA.

Fed's Rate-Hike Cycle Most Likely Over

Federal Funds Rate (% top of target range)



Data as of October 31, 2023. Sources: Macrobond, Federal Reserve, WTIA. A basis point is one hundredth of 1 percentage point.

Risks to the Near-Term Outlook

Hard Landing risks

- Consumer retrenches
- Dwindling savings
- Credit delinquencies rising
- Yield curve inversion
- Commercial real estate

No Landing risks

- Robust consumer spending
- Job growth, wage gains
- Above-trend GDP growth
- Bottoming of housing, manufacturing

Current Positioning

High-net-worth portfolios with private markets*

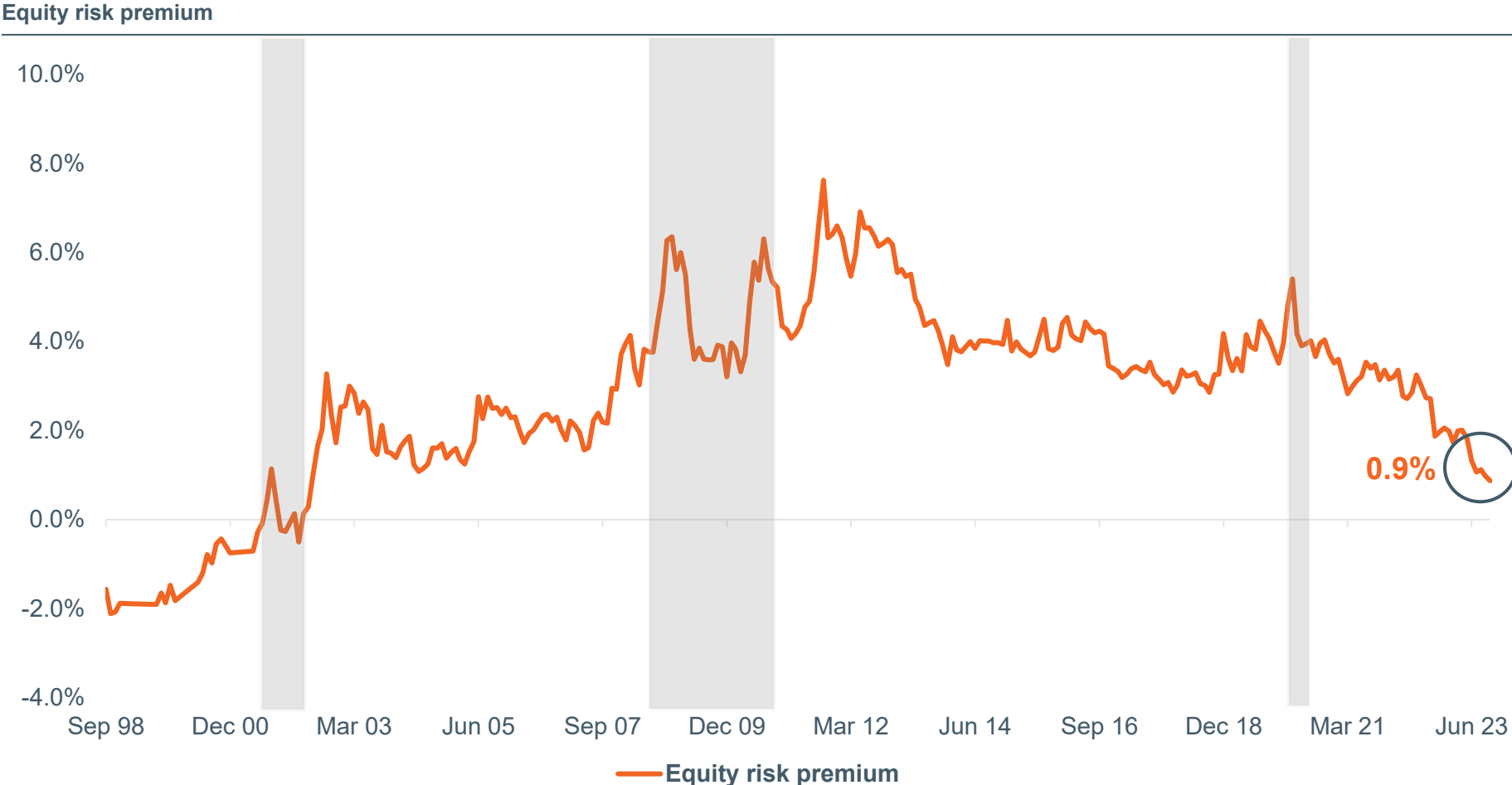
		← - Neutral + →	
			Positioning
Equities	U.S. Large Cap	○ ○ ○ ● ○ ○ ○	Underweight
	U.S. Small Cap	○ ○ ● ○ ○ ○ ○	
	International Developed	○ ○ ● ○ ○ ○ ○	
	Emerging Markets	○ ○ ○ ● ○ ○ ○	
Fixed Income	Investment Grade	○ ○ ○ ○ ● ○ ○	Overweight
	Tax-Exempt High Yield	○ ○ ○ ● ○ ○ ○	
Real Assets	Global REITs	○ ○ ○ ● ○ ○ ○	Neutral
	Other/Commodities	○ ○ ○ ● ○ ○ ○	
Alternatives	Equity Long/Short Hedge	○ ○ ○ ● ○ ○ ○	Neutral
Private Markets*	Equity/Debt/Real Estate	○ ○ ○ ● ○ ○ ○	Neutral
Cash		○ ○ ○ ○ ● ○ ○	Overweight

		← - N + →
Value	○ ○ ○ ● ○ ○ ○	
Growth	○ ○ ○ ● ○ ○ ○	
Momentum	○ ○ ○ ● ○ ○ ○	
Low volatility	○ ○ ● ○ ○ ○ ○	
Quality	○ ○ ○ ○ ● ○ ○	
Size	○ ○ ● ○ ○ ○ ○	

Data as of October 31, 2023. Positioning reflects our monthly tactical asset allocation (TAA) versus the long-term strategic asset allocation (SAA) benchmark. For an overview of our asset allocation strategies, please see the disclosures.

*Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited. We recommend a strategic allocation to private markets we do not tactically adjust this asset class.

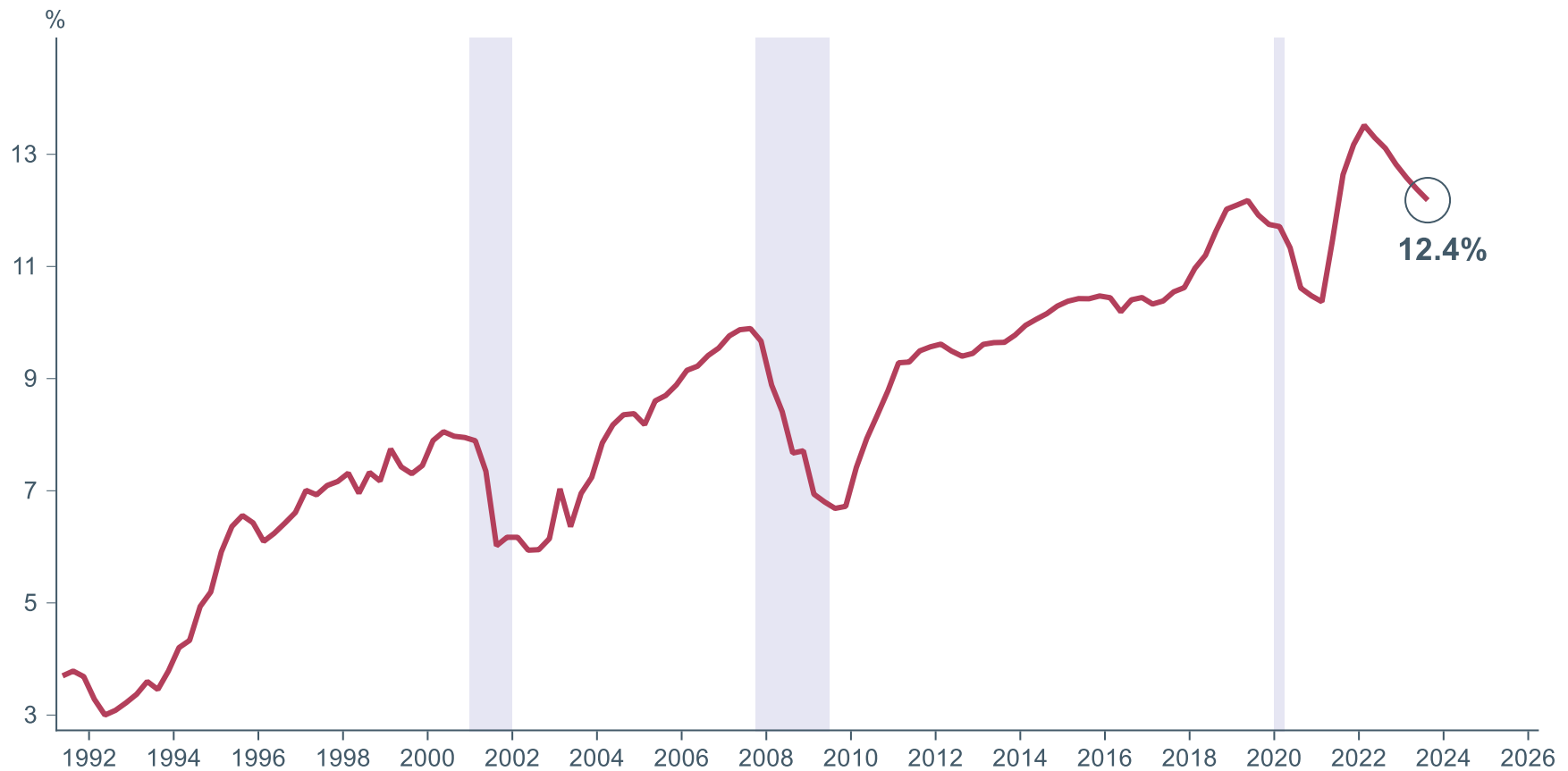
Equity Risk Premium Trends Lower



Data as of October 31, 2023. Source: Bloomberg, WTIA. Equity risk premium is defined as the earnings yield (inverse of the P/E ratio minus the 10-year yield).

S&P 500 Profit Margins Rolling Over

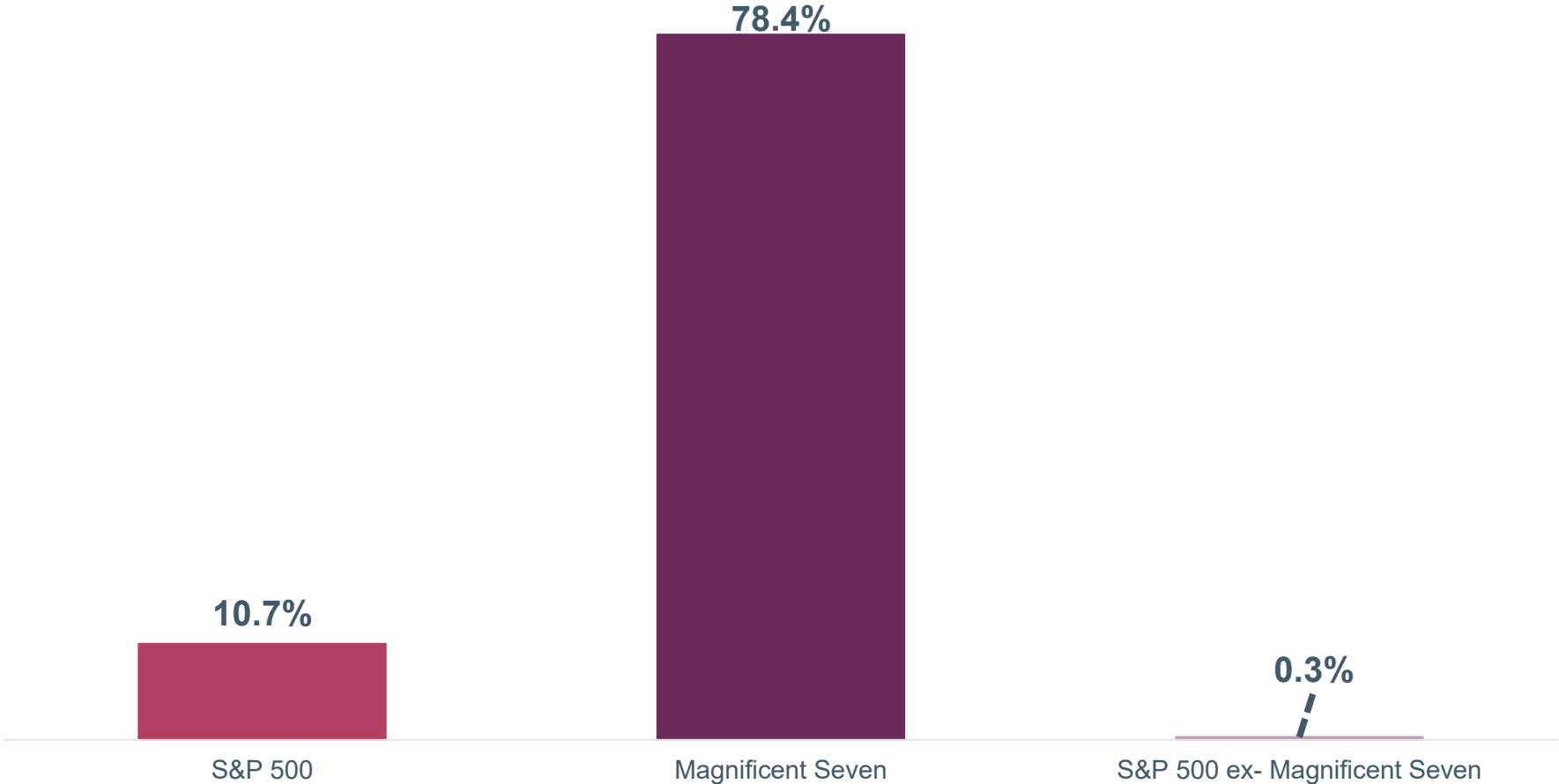
S&P 500, trailing 12m profit margin



Data as of October 31, 2023. Source: Bloomberg. Past performance cannot guarantee future results. Indices are not available for direct investment.

Market's Gains Driven by a Handful of Stocks

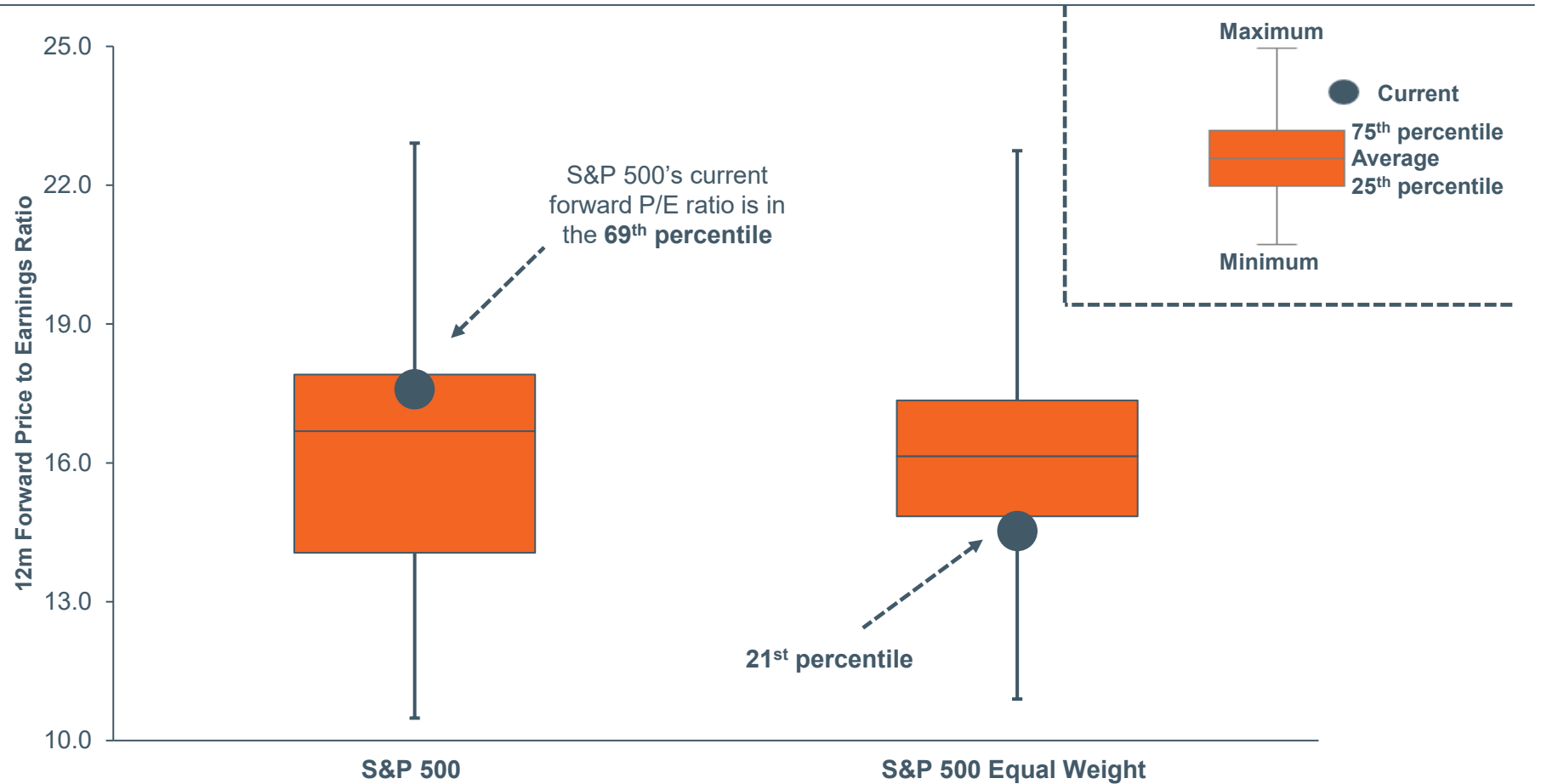
Year-to-date returns (%)



Data as of October 31, 2023. Source: Bloomberg, WTIA.

Valuations Elevated, But Not For All Stocks

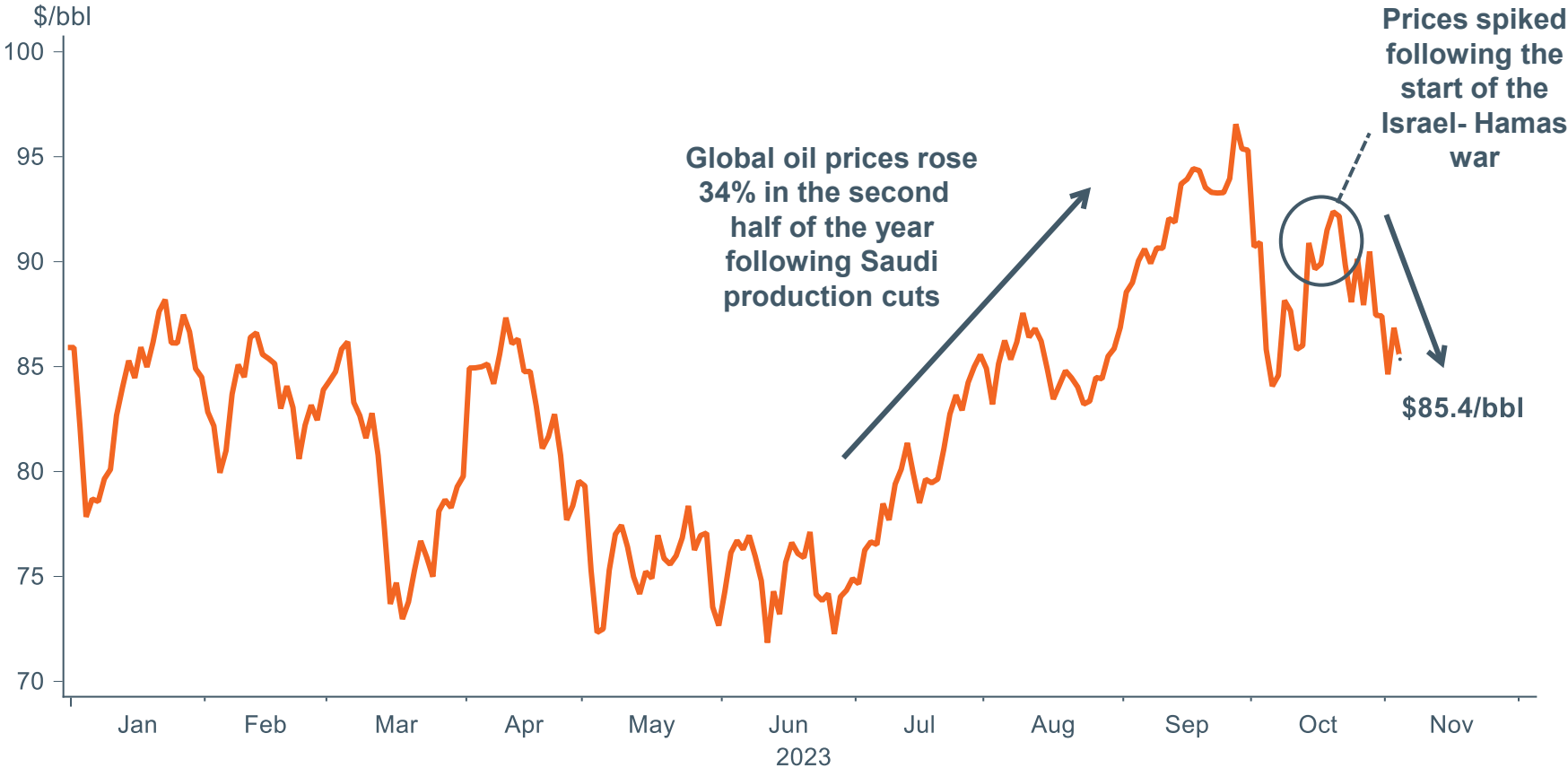
Blended forward price-to-earnings-ratio (since 2010)



Data as of October 31, 2023. Source: Bloomberg, WTIA. Based on monthly data since 2010.

Geopolitical Stress: Volatile Year for Oil Prices

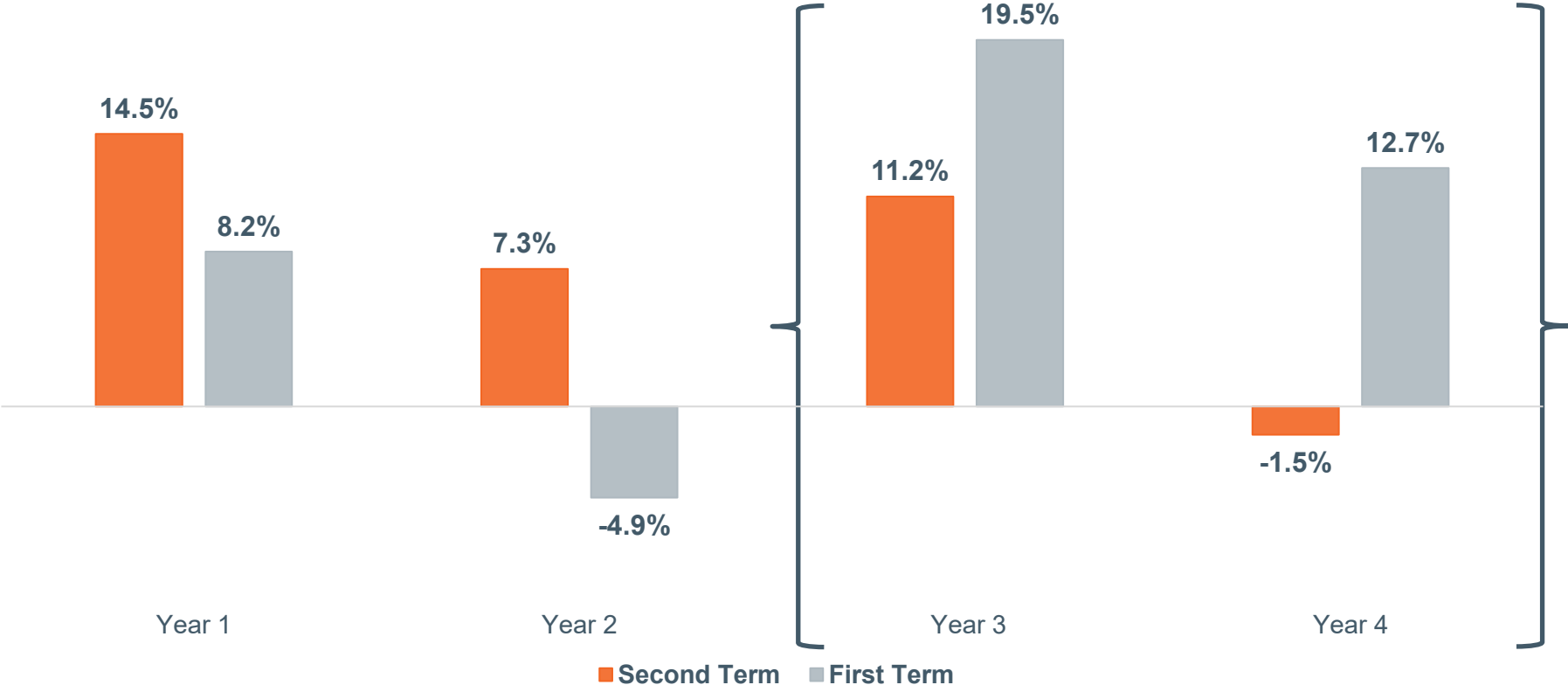
Brent Crude price



Data as of October 31, 2023. Source: Bloomberg..

First Term Presidents Average Better Equity Market Returns in Back Half of Presidential Cycle

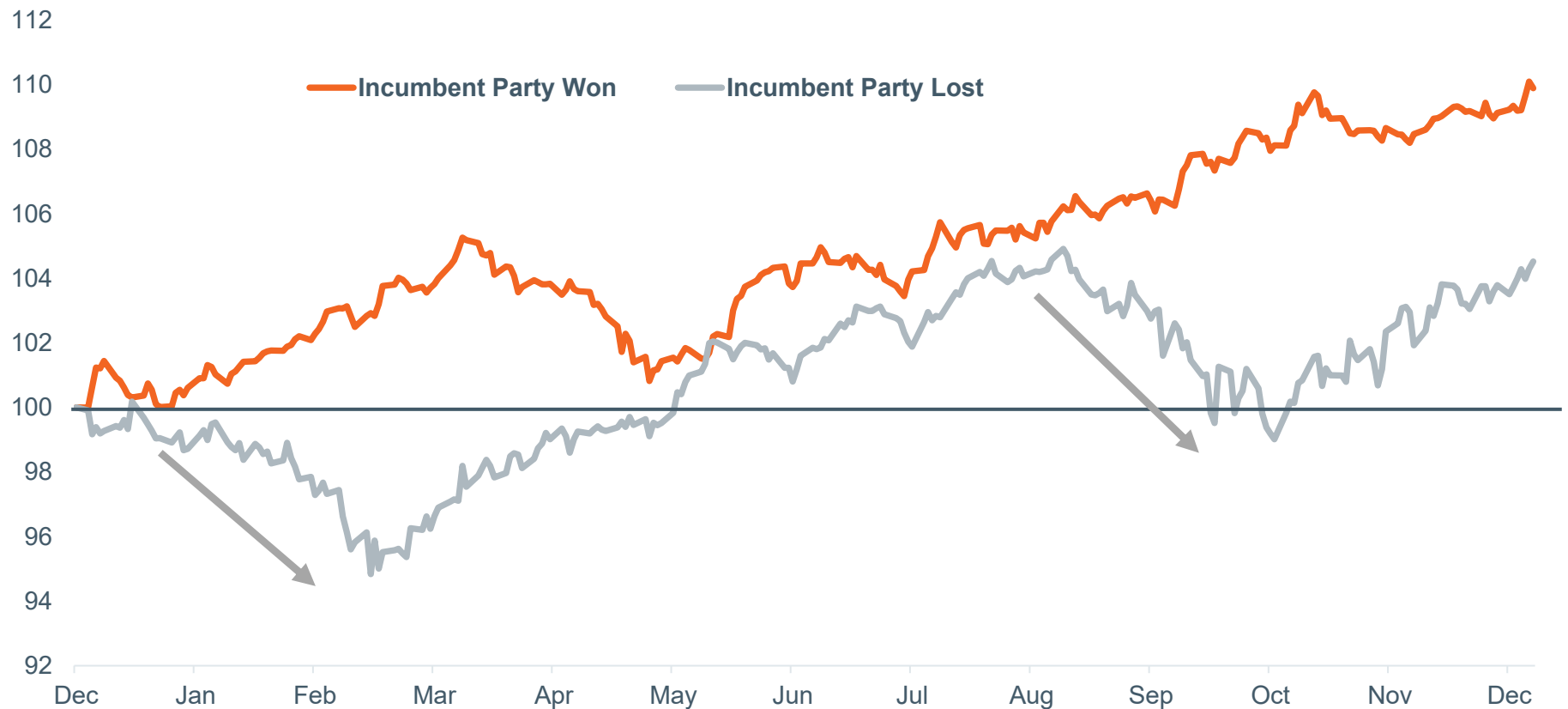
Average S&P 500 returns: incumbent vs. new president (CY 1961-2022)



Data as of December 2022. Source: Strategas. 1965-1968 (Johnson) treated as cycle of first-time elected president.

Stock's Choppy When Incumbent Lost; Look for Relief Rally in Either Case

Average S&P 500 performance: presidential election years – open vs. re-election year (1960-2020)



Data as of December 2020. Source: Strategas. 1964 and 1976 treated as open elections

Disclosures

Advisory Service Providers

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Investment products are not insured by the FDIC or any other governmental agency, are not deposits of or other obligations of or guaranteed by Wilmington Trust, M&T, or any other bank or entity, and are subject to risks, including a possible loss of the principal amount invested.

Some investment products may be available only to certain “qualified investors”—that is, investors who meet certain income and/or investable assets thresholds. Any offer will be made only in connection with the delivery of the appropriate offering documents, which are available to pre-qualified persons upon request.

An Overview of Our Asset Allocation Strategies

Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High Net Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income. On a quarterly basis we publish the results of all of these strategy models versus benchmarks representing strategic implementation without tactical tilts.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Disclosures

continued

Allocations

Each strategy group is constructed with target policy weights for each asset class. Wilmington Trust periodically adjusts the policy weights target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are:

- Large-cap U.S. stocks: Russell 1000[®] Index
- Small-cap U.S. stocks: Russell 2000[®] Index
- Developed international stocks: MSCI EAFE[®] (Net) Index
- Emerging market stocks: MSCI Emerging Markets Index
- U.S. inflation-linked bonds: Bloomberg US Treasury Inflation Notes TR Index Value Unhedged USD (took effect 8/1/22)
- International inflation-linked bonds: Bloomberg World ex US ILB (Hedged) Index
- Commodity-related securities: Bloomberg Commodity Index
- U.S. REITs: S&P US REIT Index
- International REITs: Dow Jones Global ex US Select RESI Index
- Private markets: S&P Listed Private Equity Index
- Hedge funds: HFRX Global Hedge Fund Index (took effect 8/1/22)
- U.S. taxable, investment-grade bonds: Bloomberg U.S. Aggregate Index
- U.S. high-yield corporate bonds: Bloomberg U.S. Corporate High Yield Index
- U.S. municipal, investment-grade bonds: S&P Municipal Bond Index

Risk Assumptions

All investments carry some degree of risk. The volatility, or uncertainty, of future returns is a key concept of investment risk. Standard deviation is a measure of volatility and represents the variability of individual returns around the mean, or average annual, return. A higher standard deviation indicates more return volatility. This measure serves as a collective, quantitative estimate of risks present in an asset class or investment (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Diversification cannot ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will be successful.

The names of actual companies and products mentioned herein may be the trademarks of their respective owners.

Reference to the company names mentioned in this presentation is merely for explaining the market view and should not be construed as investment advice or investment recommendations of those companies.

Disclosures

continued

Index Descriptions

The Bloomberg U.S. Aggregate Index measures the performance of the entire U.S. market of taxable, fixed-rate, investment-grade bonds. Each issue in the index has at least one year left until maturity and an outstanding par value of at least \$250 million.

The Bloomberg U.S. High Yield Corporate Index, formerly known as Lehman Brothers U.S. High Yield Corporate Index, measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade. Each issue in the index has at least one year left until maturity and an outstanding par value of at least \$150 million.

The Bloomberg World Government Inflation-Linked Bond (WGILB) Index measures the performance of investment grade, government inflation-linked debt from 12 different developed market countries.

Bloomberg Commodity Index measures the performance of 19 futures contracts on physical commodities. As of the annual reweighting of the components, no related group of commodities (for example, energy, precious metals, livestock, and grains) may constitute more than 33% of the index and no single commodity may constitute less than 2% or more than 15% of the index.

The Dow Jones Global ex-U.S. Index is an equal-weighted stock index composed of the stocks of 150 top companies from around the world (excluding the U.S.) as selected by Dow Jones editors and based on the companies' long history of success and popularity among investors. The Global Dow is designed to reflect the global stock market and gives preferences to companies with global reach.

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is composed of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The MSCI All-Country World Index ex USA measures the performance of large- and mid-capitalization stocks in approximately 50 developed and emerging equity markets, excluding the United States.

The MSCI EAFE® (net) Index measures the performance of approximately 20 developed equity markets, excluding those of the United States and Canada. The total returns of the index are net of the maximum tax withholding rates that apply in many countries to dividends paid to nonresident investors.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. With 1,198 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country.

Russell 1000® Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of its latest reconstitution, the index had a total market capitalization range of approximately \$128 million to \$1.3 billion.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of its latest reconstitution, the index had a total market capitalization range of approximately \$128 million to \$309 billion.

The S&P 500 Index measures the performance of approximately 500 widely held common stocks listed on U.S. exchanges. Most of the stocks in the index are large-capitalization U.S. issues. The index accounts for roughly 75% of the total market capitalization of all U.S. equities.

The S&P Composite Stock Price Index (noted on slide 8) refers to the data series made popular in recent years by Yale Professor Robert Shiller, not to be confused with the S&P Composite 1500, an index that combines the S&P 500, the S&P Mid Cap 400, and the S&P Small Cap 600. Investing involves risks and you may incur a profit or a loss.

The S&P Developed Property defines and measures the investable universe of publicly traded **property** companies domiciled in developed markets.

The S&P Municipal Bond High-Yield Index consists of bonds in the S&P Municipal Bond Index that are not rated or are rated below investment grade.

The S&P Municipal Bond Index is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market.

The S&P United States REIT Index measures the investable U.S. real estate investment trust market and maintains a constituency that reflects the market's overall composition.