corbin

INSIDE THE Buy·Side®

Q3’22 Earnings Primer®

October 13, 2022

Letter from the Editor and a Retrospective

A Note from Editor-in-Chief, Rebecca Corbin

Reality is catching up to perception. It was in September 2021 that, after five consecutive quarters of increasingly bullish sentiment, our Q3'21 Earnings Primer® survey first identified a reversal in trend, as supply chain, inflation, and labor shortages collided with growing fears about interest rate hikes, continued China lock downs, and price-induced performance.

Investor sentiment soured well in advance of management concern. With sentiment a leading indicator, investors foreshadowed the impact of the culmination of these fierce and compounding headwinds 12 months ago. But, most companies would not see the effects for two to four quarters. To that end, the third quarter of 2021 was earmarked by continued record performance, expanding backlogs, positive executive messages, and bullish guidance for a podium finish. Despite pervasive growth and demand, as well as rosy executive outlooks, investor concerns over slowing demand percolated and capital deployment preferences indicated angst three quarters in advance of the meltdown, when those in favor of reinvestment materially decreased after four consecutive quarters of being on top.

With alarm bells sounded, the prophecy is in full effect. Entering 2022, companies largely delivered on the promise of a banner 2021 – it was, by many standards, the greatest of all time. Experiencing continued momentum while also beginning to recognize but not yet feel the affects of the ever-growing headwinds, companies set full year 2022 guides, which assumed some deceleration from 2021 highs but did not take into consideration a prolonged war, the ensuing energy crisis in Europe, continued rampant inflation, the magnitude and pace of U.S. Fed funds rate hikes, and the direct hit to the frothy U.S. housing market. Throughout it all, the consumer kept pace amidst a buoyant jobs market, low debt levels, high personal savings, and the euphoric feeling that comes with hypergrowth and the ability to spend freely. We hadn't been here since…well, before 2008.

Entering the next phase of this journey (what a wild strange trip it's been), investors are now placing more emphasis on margins than growth. Since September 2020, investors have reported placing greater emphasis on revenue growth over margin expansion as preference for reinvestment reached all-time highs and continued strong demand was experienced throughout 2021 and into 2022. Now, nearly 70% are prioritizing margins over growth, a stark shift and, as a result, two-thirds expect companies to moderate or reduce capex and more than 80% are focusing on cost-cutting actions, including layoffs. A sign that shows just how downbeat investors are on the economic outlook and corporate earnings? More investors now favor debt paydown than at the onset of COVID-19.

The spate of recent pre-announcements is just the beginning. Since September 1, at least 25 companies globally have pre-announced results, with 72% lowering at least one metric, largely revenue and/or EPS. Basic Materials, Consumer Discretionary, Industrials, and Consumer Staples have seen the greatest number of warnings, driven by decelerating demand, inflationary pressures, supply chain disruption, shifts in consumer behavior, energy costs in Europe, and FX headwinds.

Winter is coming. Prepare for continued volatility and opportunity. Geopolitical concerns have hardly abated – European companies are warning of shutdowns due to high energy costs, China appears to be normalizing military excursions across the Taiwan median line, and Vladimir Putin outlined his grievances (extending well beyond NATO) during an annexation speech in early October. And, we are seeing fresh layoffs announced daily, which are in addition to the workforce reductions that are happening quietly. The steadfast consumer is more and more at risk as we head into the holiday season. As the market continues its capitulation amid the downshifting caused by 2022 guides that did not take into consideration this set of assumptions, and as investor fears play out, prepare for continued volatility. But amid the scorched earth, so many stocks – *designer* stocks – on sale.

A torniquet to stop the bleeding? Conservative 2023 guides, which can serve to decouple the market from the economy. In January, when management teams enter the year with eyes wide open and reset the bar with reality-based 2023 outlooks, more certainty will be injected into earnings estimates, paving the way for companies to over deliver on under promises and begin to decouple share price from the economic malaise. Of course, the outcome also will depend on the effectiveness of monetary policy reigning in inflation and clarity that the interest rate cycle is approaching its peak.

A Retrospective: Perception is Reality and Sentiment is a Leading Indicator

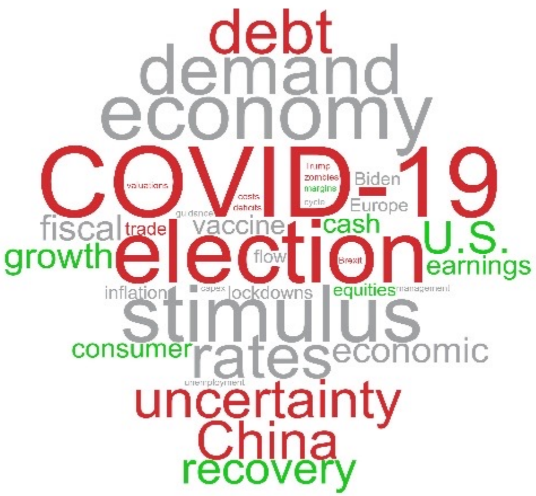
Q4'19	Q1'20	Q2'20	Q3'20

Positive Change in Sentiment Amid a Strong Consumer and Priced-in Slowing Growth

Trade Wars Continue to Loom Large

COVID-19 Creates a Sea of Red, with Hopes for China Green Shoots as It Emerges from Ground Zero

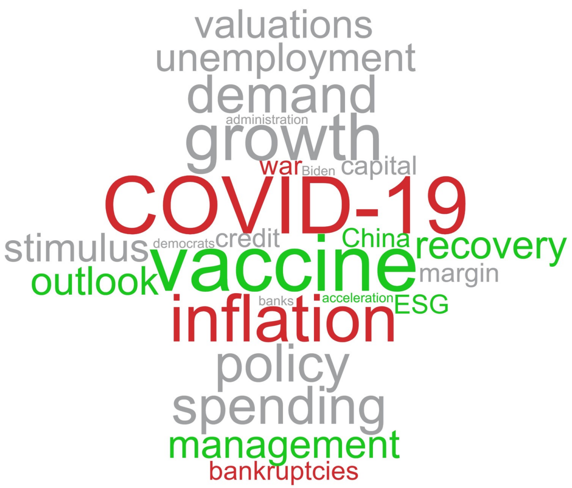
Downbeat Views Ebb Somewhat but Significant Concern Remains Amid an Expected Q2 Earnings Cratering



With Results Better Than Expected, Sentiment Warms Despite Continued COVID Concerns; the "Economy" and "Demand" Begin to Take Center Stage but Much Remains Uncertain

A Retrospective: Perception is Reality and Sentiment is a Leading Indicator

Q4'20	Q1'21	Q2'21	Q3'21



Promise of a COVID Vaccine Drives Green

Inflation Registers as a Concern for the First Time While More Investors Continue to Highlight Improving Growth and Demand

Positive Management Tone Around Growth and Demand Fuels Optimism, While Inflation and Supply Chain Concerns Loom Larger, and Labor Shortage is Now a Focus

Companies Raise FY 2021 Guidance in Q1, at Unprecedented Levels

With Hyper Growth In Full Effect, Inflation and Supply Chain Concerns Rise with Pricing Now in Focus

Companies Raise FY 2021 Guidance in Q2, at Unprecedented Levels

Concerns Escalate and After 5 Quarters of Increasingly Bullish Sentiment, Our Survey Registers a Reversal – Bearishness at Similar Levels to 2014-2016 Mini Recession and Onset of COVID

Sentiment Foreshadows Extreme Market Volatility / Sell-off

A Retrospective: Perception is Reality and Sentiment is a Leading Indicator

Q4'21	Q1'22	Q2'22	Q3'22

Q4'21

Interest Rates Now Top of Mind Amid Rampant Inflation; Supply Chain Concerns Ease Somewhat

Q1'22

Geopolitical and Macroeconomic Uncertainty Drive More Downbeat Sentiment QoQ

Q2'22

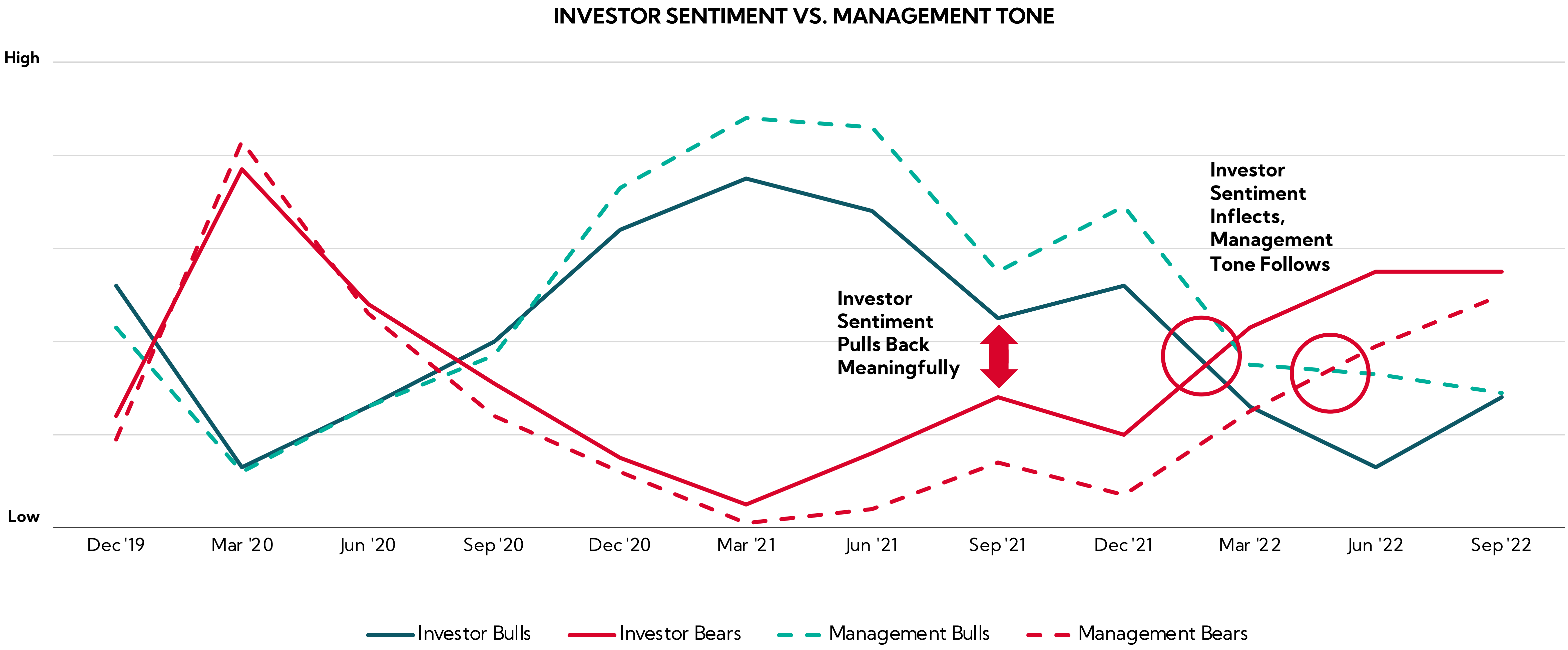
Escalating Inflation and Interest Rates Continue to Dominate Mindshare, while Recession Mentions Proliferate

Companies Begin to Pre-announce, Announce Layoffs

Q3'22

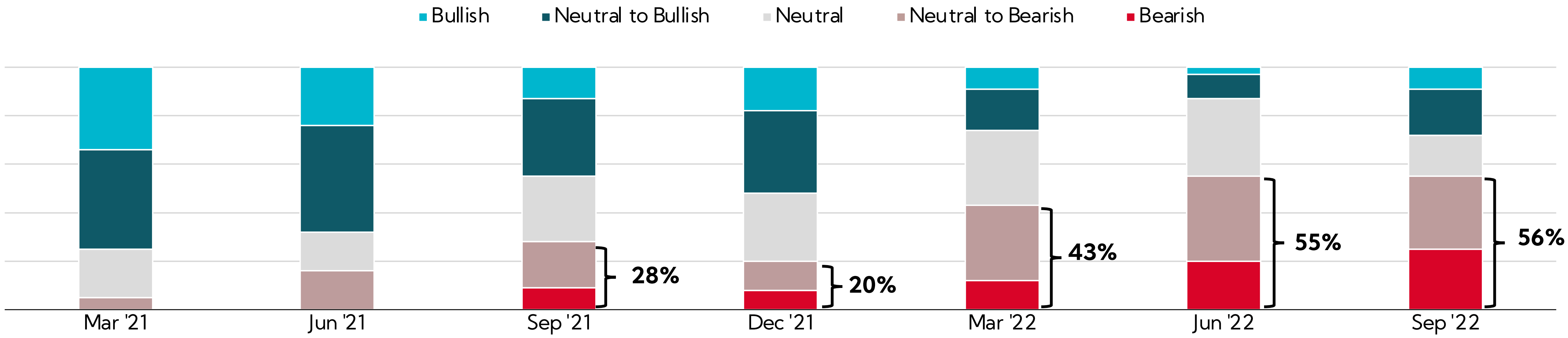
Hawkish Fed Continues to Send Chills through the Markets – Interest Rates, Inflation, and the Potential for a Recession all Remain Front and Center

After Five Consecutive Quarters of Increasingly Bullish Views, Positive Sentiment Reversed Course in Q3'21 and Inflected in Q1'22, with More Bears than Bulls

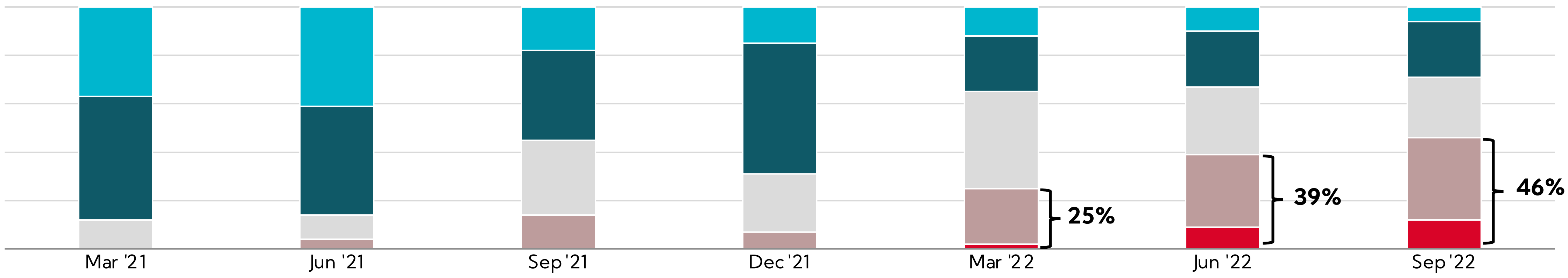


Investor Nervousness Began in Advance of Management Concern

INVESTOR SENTIMENT



MANAGEMENT TONE



Q3'22 Earnings Primer®

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Inside The Buy-side® Q3'22 Earnings Primer®

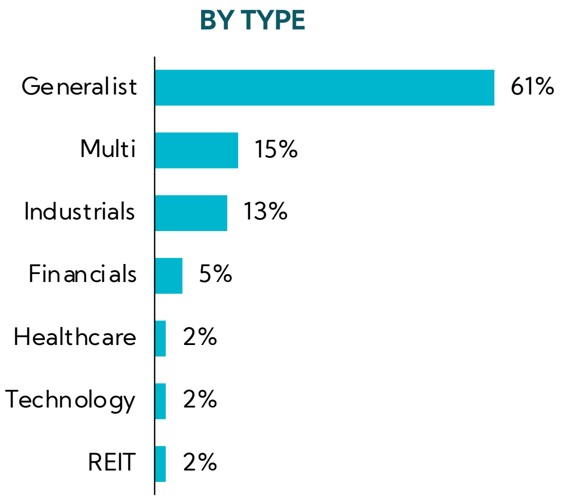
Since 2007, we have surveyed global investors quarterly on the equity markets, world economies, and business climate. At the start of every earnings season, we publish our global *Inside The Buy-side Earnings Primer®*, which captures real-time *Voice of Investor®* sentiment and trends.

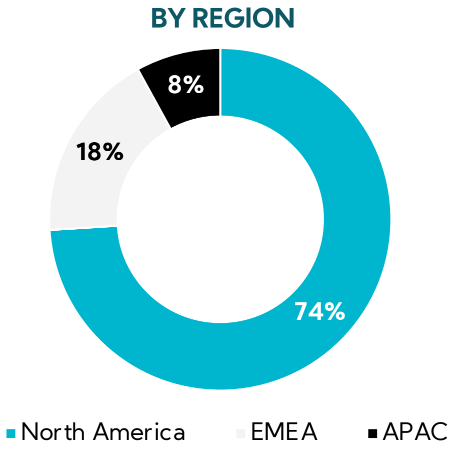
Leveraging our deep understanding of capital markets, cutting-edge technology and best practice knowledge, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment, and effective communication strategies.

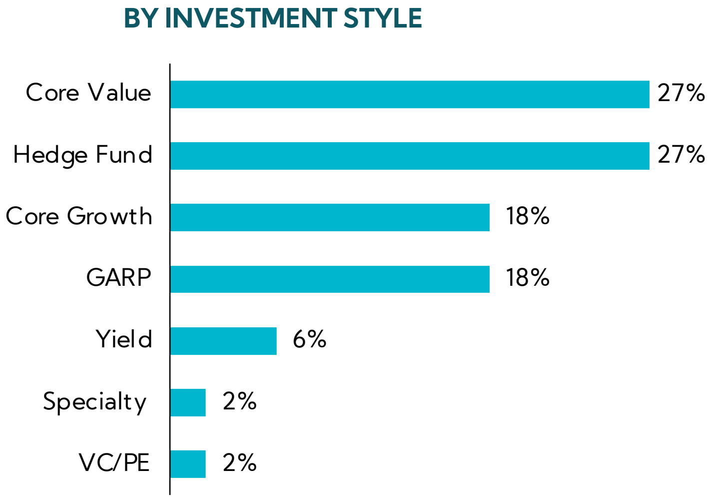
Survey Scope: 82 participants globally, comprising 79% buy side and 21% sell side; equity assets under management total ~$6.1 trillion

Survey Timeframe: September 6 – October 3, 2022

Market Performance	Q3'22	YTD[1]
U.S.		
DJIA	(7.6%)	(21.5%)
NASDAQ	(5.0%)	(33.2%)
S&P 500	(6.3%)	(25.2%)
Russell 2000	(3.6%)	(26.7%)
Europe		
FTSE 100	(3.8%)	(8.1%)
Stoxx 600	(4.7%)	(20.8%)
Asia		
Hang Seng	(21.1%)	(26.0%)
Shanghai	(10.7%)	(16.7%)







[1] As of 9'30'22

Outside of the Onset of COVID-19 Pandemic, Investor Sentiment and Perceived Management Tone the Most Downbeat in More Than a Decade

Compounding Effects of Known Headwinds and New Concerns Pound On Sentiment; Continued Expectations for Sequential Downshift

- **56%** of surveyed investors and analysts describe themselves as *Neutral to Bearish* or *Bearish,* the second-most downbeat level ever recorded, second only to the onset of COVID-19
- **46%** describe executive tone as *Neutral to Bearish* or *Bearish*, up from 39% last quarter, also the second-most downbeat level recorded
- **70%** continue to express a high level of concern with inflation and 63% with Fed policy, which register as the most significant concerns for the fifth consecutive quarter
  - New concerns include FX headwinds, inventory, and U.S. Midterm elections
  - Most expect the year-end target Fed funds rate to be >4.0%
- **68%** anticipate *Worsening* sequential earnings, up from 47%, though only 44% now expect consensus misses amid the largest cuts to EPS estimates for S&P 500 companies – an average of 6.6% – in more than two years[1]

Investors Brace for the Worst and in the Process, Shift Emphasis from Growth to Margins; Expect Equities to Contract in Q4

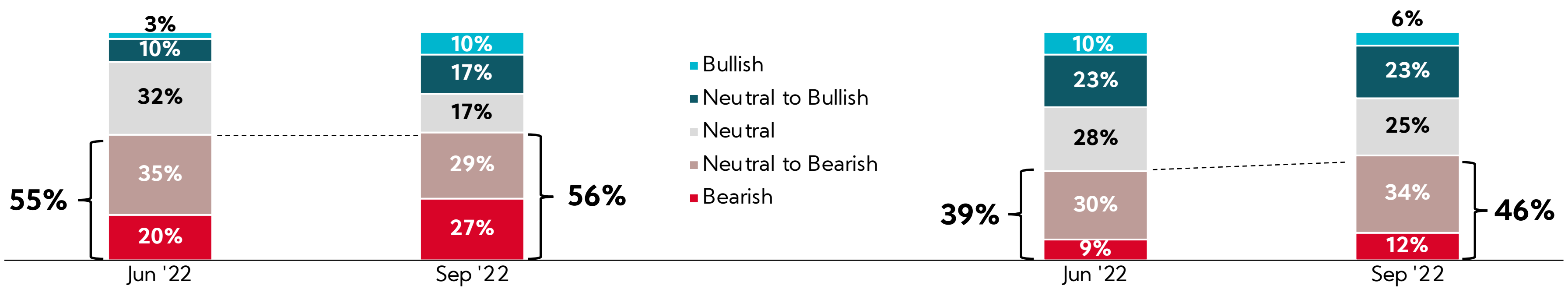
- **52%** believe we are currently in a recession or will be by the end of the year, with the remainder largely expecting a broad-based contraction in the first half of 2023
- **65%+** expect Global Capex, Consumer Confidence, U.S. Unemployment, and Resi Construction to *Worsen* over the next six months
- **69%** are now prioritizing margins over growth, a stark shift from one year ago, with two-thirds now expecting companies to moderate or reduce capex
  - Nearly **60%** expect companies to lower 2022 EPS and margin guidance, while nearly the same percentage expect lower 2023 guides versus 2022
  - However, 2022 guidance expectations for organic growth and FCF are more divided, with both measures expected to be *Maintained* or *Lowered;* still, **67%** expect lower organic growth guidance relative to 2022
- U.S. and Europe equity valuations are expected to continue to contract in Q4, with the highest level of Net Sellers since December 2018 (late cycle concerns)

Investors Looking for Companies to Take Decisive Actions, Focusing on Cash Conversion, Including Capex and Cost-Cutting

- Outside of demand and the consumer, inflation/ pricing power (50%) is cited as the leading area to address on upcoming earnings calls, followed by margins (35%) and hiring/layoffs and labor costs (24%)
- Capital deployment preferences are overwhelmingly for debt paydown and dry powder
  - **58%** favor debt reduction as a top use of cash, up from 50% last quarter and the highest level recorded since September 2020
  - **44%** encourage companies to hold dry powder/hoard cash, up from 40% last quarter and the highest level recorded since March 2020
  - Only **28%** now favor reinvestment, the lowest level ever recorded
- **48%** encourage companies to moderate capex with significant support for cost-cutting actions

[1] Source: FactSet

Excluding COVID-19 Onset, Investor Sentiment and Perceived Management Tone the Most Downbeat in More Than a Decade



Bullish

"Long-term, I am bullish. Valuations have come down to where we see lower risk in select areas." **Buy Side, Generalist, N. America**

"Most of the companies I spoke to recently do not see any reason to change their outlook and some of them even raised their outlook for the year. Over the short-term, their sentiment is bullish." **Buy Side, Financials, N. America**

"Valuations." **Buy Side, Generalist, Europe**

Neutral to Bullish

"Market feels oversold vs. Q3'22 fundamentals." **Buy Side, Generalist, N. America**

"Price dislocation, overly sold individual positions, and leading inflation indicators improving." **Buy Side, Generalist, N. America**

"News and historical data." **Buy Side, Generalist, Europe**

"Conservative contrarianism." **Buy Side, Generalist, Australia**

Neutral

"I would be more bearish except for the fact that everyone already seems to be bearish, and positioning is very conservative." **Buy Side, Generalist, N. America**

"The tone for executives and for me is neutral. There are a lot of risks." **Buy Side, Financials, N. America**

"Valuations." **Buy Side, Multi, Europe**

Neutral to Bearish

"Softening economy." **Buy Side, Generalist, N. America**

"Recession coming." **Buy Side, Multi, N. America**

"Economic environment." **Buy Side, Generalist, N. America**

"Macro data prints; forward-looking measures of liquidity; company commentary." **Buy Side, Generalist, N. America**

"Rapid increase in interest rates, which likely will continue." **Buy Side, Generalist, N. America**

"Market already down a lot." **Buy Side, Multi, N. America**

"Current trading (Sept) has improved. There's caution from management on what's to come, but underlying trading is subdued rather than disastrous. Our concerns are for Q4/Q1." **Sell Side, Generalist, Europe**

Bearish

"My market sentiment is bearish because of demand pull forward on goods combined with non-discretionary inflation." **Buy Side, Generalist, N. America**

"We have come a long way and companies are going to give some of that up. We are not going to break through the lows we saw in June, but we are going to be in the trading range for a while until the Fed is done hiking rates. The tone of the executives leans more to bearish. It is mixed. With some people, everything is fine, but everybody recognizes there is a lot of uncertainty out there and everybody is trying to be more cautious." **Buy Side, Generalist, N. America**

"High seas, inflation, interest rates, geopolitics." **Buy Side, Information Technology, N. America**

"Bearish long-term." **Buy Side, Information Technology, N. America**

"A combination of USD +20% YoY should yield ~10% SPX earnings headwind. Unabated wage pressure. Weakening consumer met with excess supply at retailers. All exacerbated by QT, which is really just getting started and likely higher rates." **Buy Side, Multi, N. America**

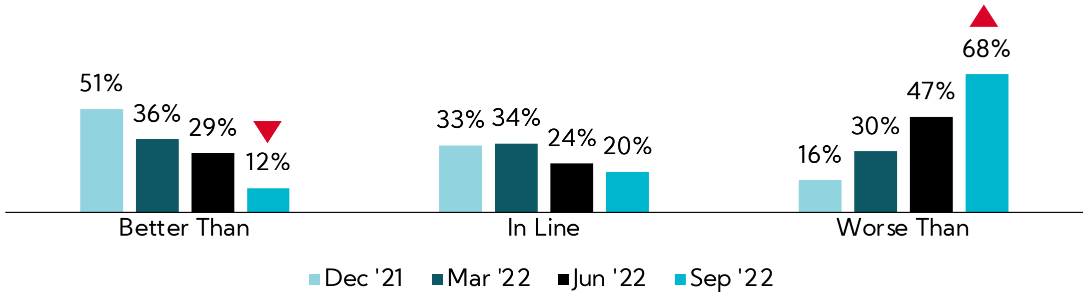
"Energy prices, inflation, gas supply, war in Ukraine, slowdown in China." **Sell Side, Industrials, Europe**

"Sharp drop in orders being seen in what were 'bullet proof' sectors." **Sell Side, Multi, Asia**

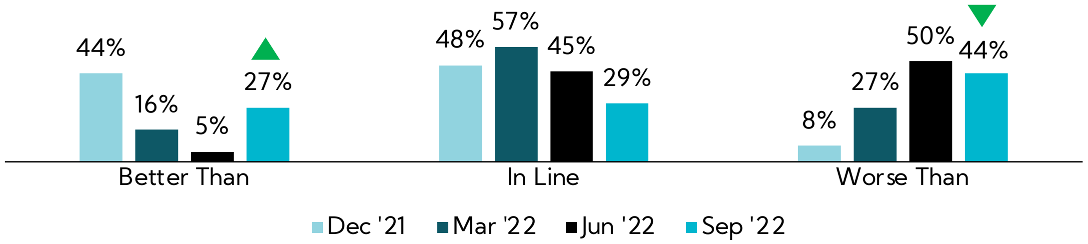
Sequential Earnings Deceleration Baked In But with Mixed Views on Performance Relative to Consensus…Have Analyst Expectations Come Down Enough?

Q3 2022 saw the largest cuts to EPS estimates, 6.6%, for S&P 500 companies in more than two years[1]

Q3'22 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Q3'22 EARNINGS EXPECTATIONS VS. CONSENSUS



Better Than

"Market is pricing in a rapid recession, which has near-term expectations too draconian." **Buy Side, Generalist, N. America**

"Lower gas prices." **Buy Side, Multi, N. America**

"Volume of mortgages in industry, progression on NIM." **Buy Side, Financials, N. America**

"News." **Buy Side, Generalist, Europe**

In Line

"It's no surprise that inflation is affecting consumers worldwide but companies have been able to pass along costs…so far." **Buy Side, Generalist, N. America**

"Revenue outperformance through better-than-expected demand and price." **Buy Side, Generalist, N. America**

"Cost pressures offset by price increases." **Buy Side, Multi, N. America**

"Pretty stable environment." **Buy Side, Multi, N. America**

"Rates not hitting business yet." **Buy Side, Multi, N. America**

"Order backlog." **Sell Side, Industrials, Europe**

Worse Than

"Company commentary, big data." **Buy Side, Generalist, N. America**

"Weakening economy and declining margins." **Buy Side, Generalist, N. America**

"Softening economy." **Buy Side, Generalist, N. America**

"Much caution heading into earnings reports." **Buy Side, Generalist, N. America**

"Declining consumer wealth/spending due to inflation & rates." **Buy Side, Generalist, N. America**

"Gradually weakening global economy and a strong U.S. dollar." **Buy Side, Generalist, N. America**

"Economic slowdown." **Buy Side, Multi, N. America**

"Exceedingly strong USD; sharp wage pressure; requisite discounting from excess inventory." **Buy Side, Multi, N. America**

"If Nike and Carnival are any indication, I have a feeling that numbers are going to continue to move lower for the rest of the year, unfortunately." **Buy Side, Multi, N. America**

"Analysts have brought down their expectations for most companies but I do not know if it was enough." **Buy Side, Healthcare, N. America**

"Better volumes, supply chain issues." **Buy Side, Industrials, N. America**

"Biden, costs, slowing stats." **Buy Side, Tech, N. America**

"Consumer spending, lower disposable income." **Sell Side, Generalist, N. America**

"Interest rate moves leading to reduction in spending." **Sell Side, Health Care, N. America**

"Tough comps, adverse weather, restrained consumer." **Sell Side, Generalist, Europe**

"Economic reality: rising rates, CPI." **Buy Side, Generalist, Australia**

"Cost." **Buy Side, Generalist, Asia**

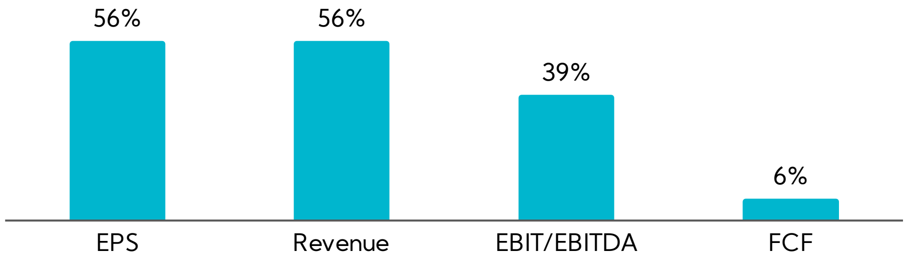
"Inventory build in tech." **Sell Side, Multi, Asia**

[1] Source: FactSet

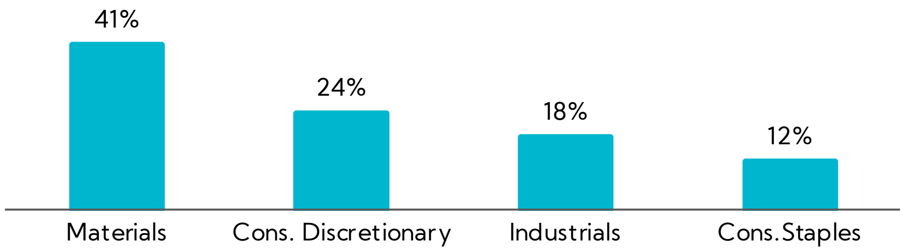
Spotlight: Pre-announcements See an Uptick Due to Slowing Demand and Ongoing Macro Uncertainty

At least **25** pre-announcements since the beginning of September

METRICS LOWERED IN PRE-ANNOUNCEMENT



TOP SECTORS ISSUING PRE-ANNOUNCEMENTS



72% Lowered at least one guidance metric

Top Factors

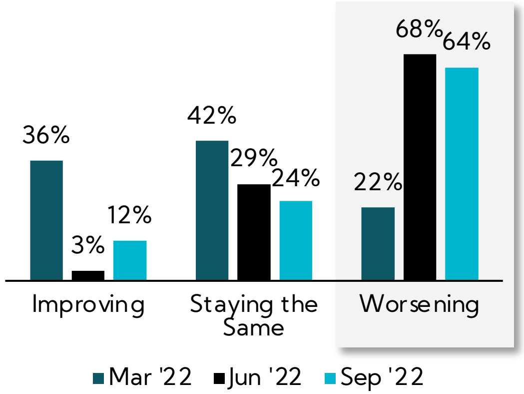
71%	Decelerating demand
59%	Inflationary pressures
29%	Supply chain disruption
29%	Inventory management
24%	Shifts in consumer behaviors
18%	Operational issues
18%	Energy costs in Europe
18%	FX headwinds

Majority of Quarterly KPIs Expected to Worsen, Led by Margins, As Investors Question the Ability to Continue to Pass on Cost

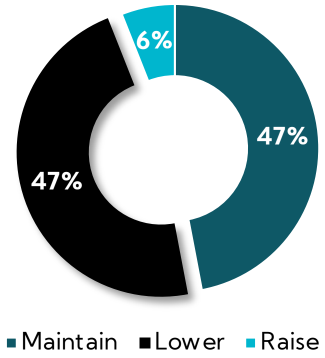
More expecting 2022 guidance to be lowered for margins, EPS and FCF, with mixed views on organic growth; early reads on 2023 are for lower guidance across the board relative to 2022, particularly on organic growth

ORGANIC GROWTH

PERFORMANCE EXPECTATIONS

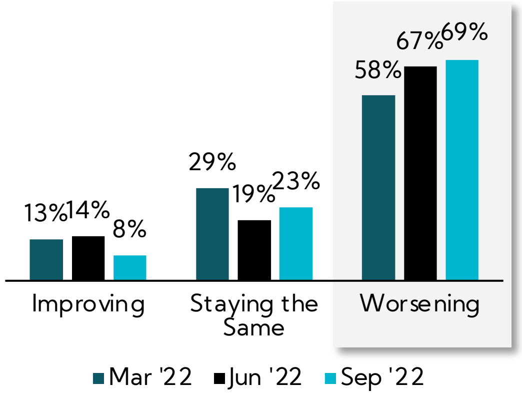


GUIDANCE EXPECTATIONS
(Full Year 2022)

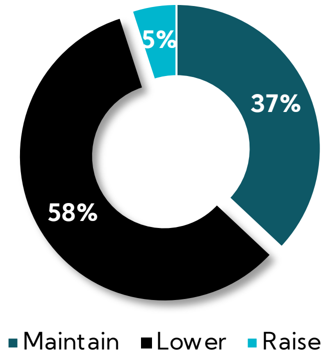


MARGINS

PERFORMANCE EXPECTATIONS

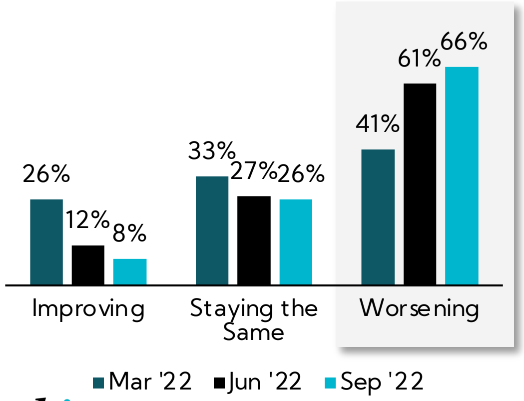


GUIDANCE EXPECTATIONS
(Full Year 2022)

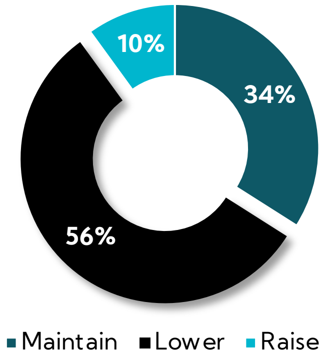


EPS

PERFORMANCE EXPECTATIONS

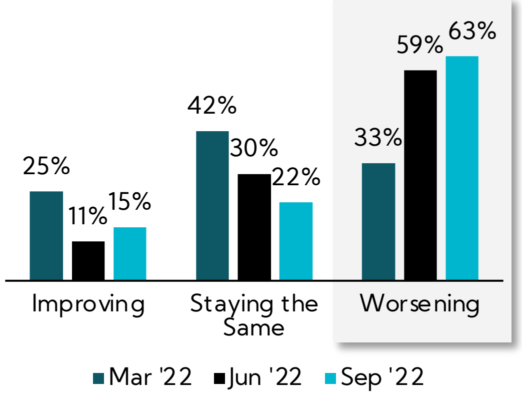


GUIDANCE EXPECTATIONS
(Full Year 2022)

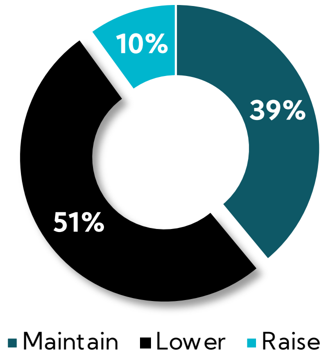


FCF

PERFORMANCE EXPECTATIONS



GUIDANCE EXPECTATIONS
(Full Year 2022)



64% (↑ 25pts)
Demand, consumer trends

50% (↓ 23pts)
Inflation, pricing power

35% (↓ 3pts)
Margins

24% (↓ 4pts)
Labor outlook, costs

23% (↓ 7pts)
Supply chain

Topics of Interest for Upcoming Earnings Calls

"Demand" shoots to the top as investors try to triangulate the timing of a slowdown; inflation falls to the number two spot after remaining top of mind for five consecutive quarters

Views from N. America

"Margin compression, foreign exposure, fiscal policy." **Buy Side, Generalist**

"Inflation/cost pressures, supply chain issues, status of demand backdrop." **Buy Side, Generalist**

"Company specific results/outlook, capital use/preservation." **Buy Side, Generalist**

"Cost containment measures, plans for capital spending in 2023." **Buy Side, Generalist**

"Expected corporate earnings for next 3-6 months, expected impact of rising rates on profits/earnings, anticipation of layoffs." **Buy Side, Generalist**

"Inflation harming margins + price pass-through, share repurchases or selloffs, Europe/Asia weakness versus expectations." **Buy Side, Generalist**

"Are companies getting the employees they need, have the supply chain problems improved, what does demand look like for the next 6 months?" **Buy Side, Generalist**

"Expense management levers in a recession, demand outlook for Q4'22, business model and balance sheet sensitivity to rising interest rates." **Buy Side, Generalist**

"Margin expectations, inventory dynamics, USD impact." **Buy Side, Generalist**

"Dollar impact, energy price forecasts." **Buy Side, Multi**

"NIM approach to funding sourcing/pricing, competitive landscape, customer behavior, mortgage conditions." **Buy Side, Financials**

"Recession, supply chain, hiring plans." **Buy Side, Multi,**

"How they've updated guidance in light of new macro pressures – or are they ignoring them and maintaining guidance, incremental/decremental EBIT margins." **Buy Side, Multi**

"Cost increases, revenue growth including dollar impact, customer sentiment." **Buy Side, Multi**

"Orders, margins, capital plan." **Buy Side, Multi**

"I want to hear how they can protect and, in some cases, expand their margins." **Buy Side, Financials**

"The business evolving and making sure they are still keeping an eye on the long-term and the prospect and how to improve the business despite the uncertainty in the short-term. In the past, most of the good companies we owned and followed during a downturn came out of it much stronger, so management needs to be proactive." **Buy Side, Financials,**

"Softening sales/indicators, supply chain, inflation." **Buy Side, Tech**

"Supply chain developments, volume outlooks, pricing outlook." **Buy Side, Industrials**

"Growth outlook, employment outlook, drivers/suppliers." **Sell Side, Generalist**

"Labor." **Sell Side, Industrials**

"Patterns in customer behavior, supply chain constraints, inflation." **Sell Side, Health Care**

Views from EMEA and APAC

"Cost inflation, energy, consumer spending." **Buy Side, Generalist**

"Margins." **Buy Side, Generalist**

"Inflation, interest rates, politics." **Buy Side, Generalist**

"Cost pressure, margin squeeze." **Buy Side, Multi**

"FX, trading trends/consumer strength, margin headwinds/tailwinds." **Sell Side, Generalist**

"2023 outlook, wage inflation, NextGen EU fund deployment." **Sell Side, Multi**

"Margins, operating environment." **Sell Side, Financials**

"Impact of inflation, order entry, slowdown in China." **Sell Side, Industrials**

"Rising rates, rising CPI, risk of recession." **Buy Side, Generalist**

"End demand, cost, monetary policies, and FX volatilities." **Buy Side, Generalist**

"Input costs and margins, transaction market." **Buy Side, REIT**

"Capex plans/delays, planned/unplanned inventory build, labor costs." **Sell Side, Multi**

Top Concerns from Around the Globe *(unaided)*

Inflation remains the leading concern, though geopolitical angst continues to linger amid war in Ukraine and heightened tensions with China; the European energy crisis builds momentum as a top concern this quarter

Rank	% (change)	Concern
1	57% (↓ 14pts)	Inflation
2	43% (↑ 26pts)	Geopolitical conflicts/war
3	45% (↑ 2pts)	Monetary policy
4	36% (↑ 14pts)	Recession
5	24% (↑ 2pts)	Demand
6	22% (↑ 6pts)	Energy crisis New

Views from N. America

"Fiscal policy, monetary policy, war." **Buy Side, Generalist**

"Leverage to global industrial slowdown, interest rate sensitivity, geopolitics." **Buy Side, Generalist**

"Geopolitical, inflation, FX." **Buy Side, Generalist**

"Can the Fed lower inflation without sparking a recession?" **Buy Side, Generalist**

"Rising interest rates, pending demand destruction, stickier inflation for longer." **Buy Side, Generalist**

"Inflation, economy, earnings." **Buy Side, Generalist**

"Ukraine, recession deeper than I project, China." **Buy Side, Generalist**

"Macro deterioration, China, continued rolling lockdowns, stagflation in the U.S., energy crisis in Europe, inflation in Europe." **Buy Side, Generalist**

"Labor and inflation. We need to see stable home prices. With interest rates moving higher, there is a concern it will ultimately put pressure on home prices and could drive a bigger slowdown in the economy." **Buy Side, Generalist**

"Inflation, energy cuts/Europe specific." **Buy Side, Generalist**

"The Fed not understanding they are driving the dollar to unhelpful levels and that we are in recession and higher rates may slow inflation but cause a deeper recession." **Buy Side, Generalist**

"Recession, inflation, currency." **Buy Side, Generalist**

"Inflation, supply chain, Europe, and China." **Buy Side, Generalist**

"Political and geopolitical, economic implications from COVID-19, Ukraine." **Buy Side, Generalist**

"Energy crunch, recession in Europe." **Buy Side, Generalist**

"Quantitative tightening (liquidity), wage pressure, higher rates, higher discount rates." **Buy Side, Multi**

"Inflation increasing, energy shortages in Europe and U.S., rapid decline in growth." **Buy Side, Multi**

"Equity returns will be too high, tough to keep up, too many jobs." **Buy Side, Multi**

"My top concerns are more expensive funding, slowing economic growth, margin pressure coming from higher input costs and high inflation." **Buy Side, Financials**

"Policy regulation and administration – the government's anti-business and anti-common-sense stance, inflation, recession." **Buy Side, Tech**

"Interest rates, European power crisis, war over Taiwan." **Buy Side, Financials**

"Macro, central bank policy, political environment." **Sell Side, Generalist**

"Stagflation, high unemployment, dropping consumer sentiment." **Sell Side, Generalist**

"Economic growth, inflation, geopolitical." **Sell Side, Generalist**

"Geopolitical tension, unfriendly global policy, recession." **Sell Side, Healthcare**

"Inflation, leverage, labor." **Sell Side, Industrials**

"The consumer, inventories, fed policy." **Sell Side, Industrials**

"Recession, interest rates, housing." **Sell Side, Industrials**

Views from EMEA/APAC

"War in Ukraine, energy crises, inflation." **Buy Side, Generalist**

"Energy costs." **Buy Side, Generalist**

"Weakening in demand, inflationary pressure, recession." **Sell Side, Multi**

"Demand, inflation, interest rates." **Sell Side, Multi**

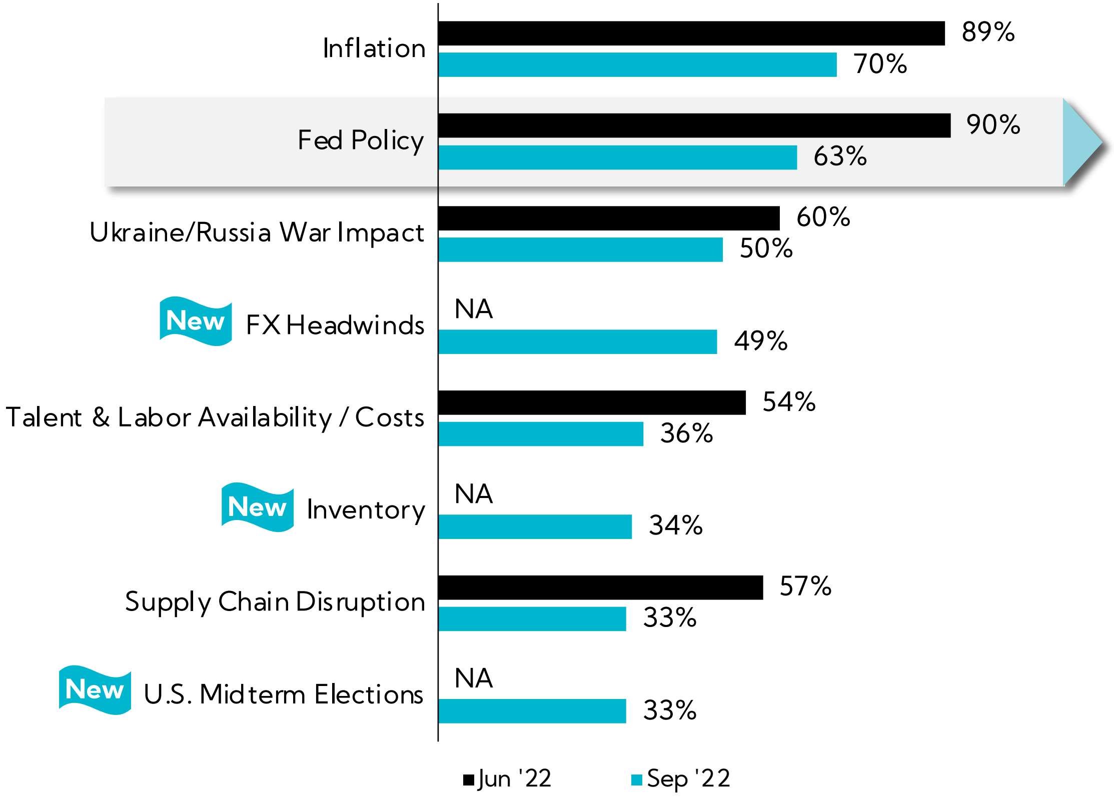
"Inflation, inventory build, Russia/China." **Sell Side, Multi**

Several New Concerns – FX, Inventory, and U.S. Midterm Elections – Add to the Mix *(Aided)*

Most investors expect the target Fed funds rate to be >4.0% by year-end

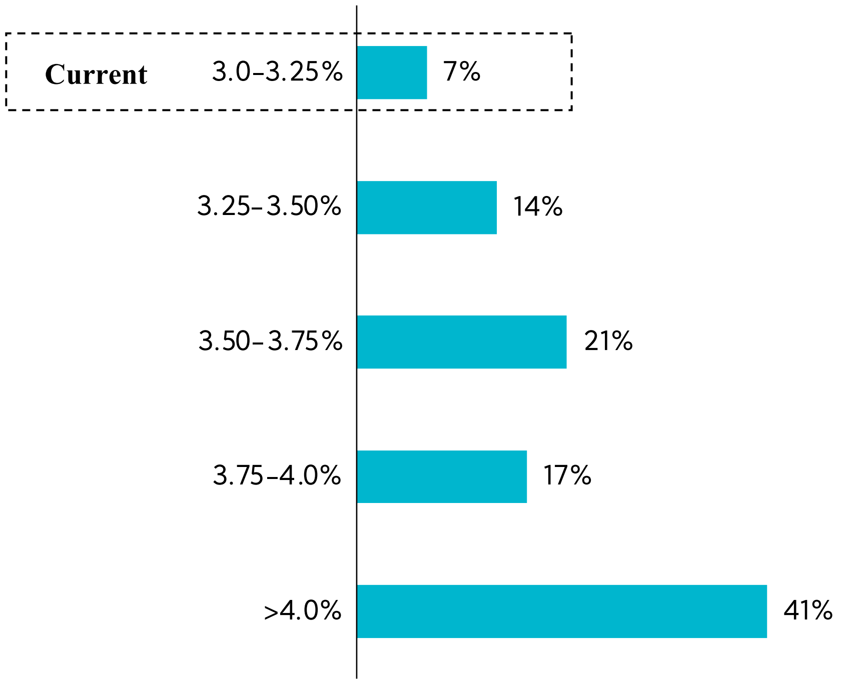
LEVEL OF CONCERN RELATIVE TO LAST QUARTER (AIDED)

More Concerned or Continued High Level of Concern



EXPECTED TARGET U.S. FED FUNDS RATE BY YEAR-END 2022

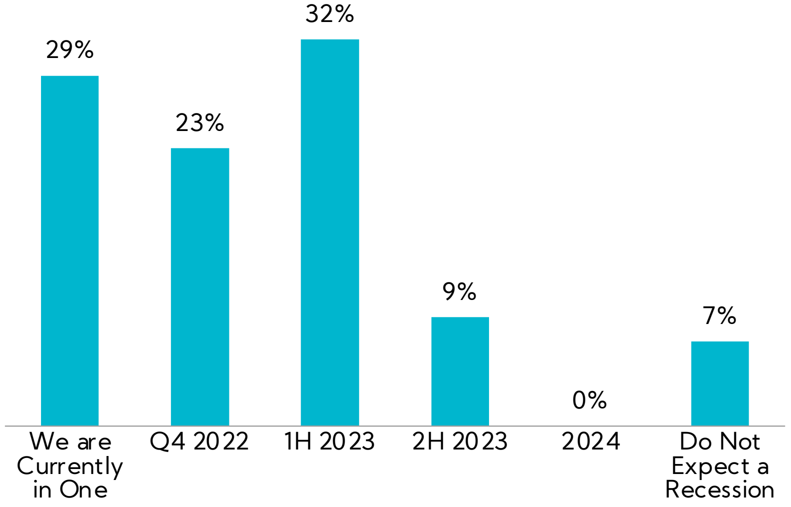
(Includes respondents post-9'22'22)



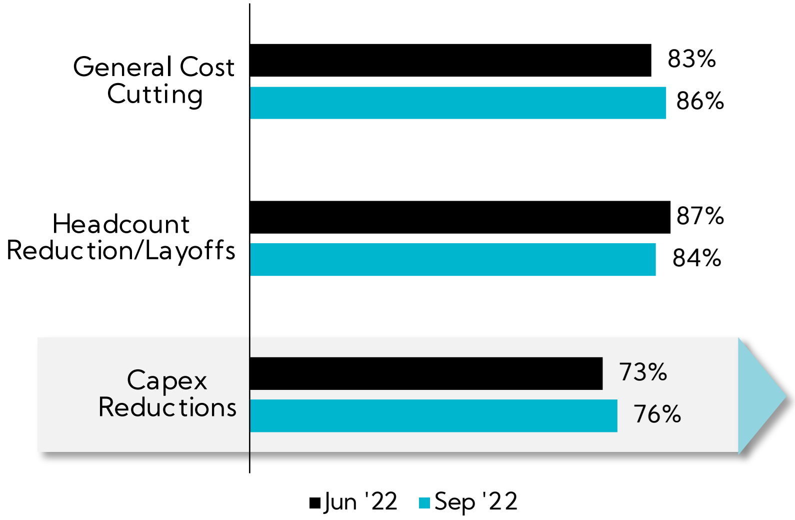
More Than Half of Investors Bracing for a Recession Before Year End With Remainder Largely Predicting 1H 2023 Landing

With 69% now prioritizing margins over growth, a stark shift from one year ago, two-thirds expect companies to moderate or reduce capex

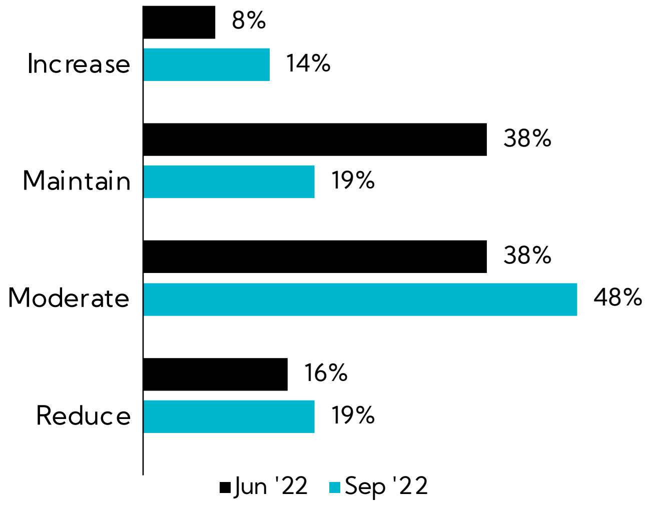
LIKELIHOOD OF A RECESSION



EXPECTED COMPANY ACTIONS IN A RECESSIONARY ENVIRONMENT



GROWTH CAPEX EXPECTATIONS



"Based on what metric you use, we are technically already in one but when it is going to be called a recession, we are not going to hit it until the second or third quarter of next year. It is going to be a long and very slow recovery." **Buy Side, Generalist, N. America**

"Certain industries are already in a recession and for the broader economy, it will hit late this year or early next. I am betting on more of a shallow recession and the market is, too. The consumer still has a lot of cash, and their employment picture is still very good. We are trying to slow the economy and create some slack in the labor force and once we can do that, the biggest part of the Fed's job will be done." **Buy Side, Generalist, N. America**

"For apparel retailers, this is the worst recession of all time. For hotel operators, it is the ultimate boom time. It depends and restaurants are in between. They may see a softening in consumer spend but it is harder to have a top-down view on things these days." **Buy Side, Generalist, N. America**

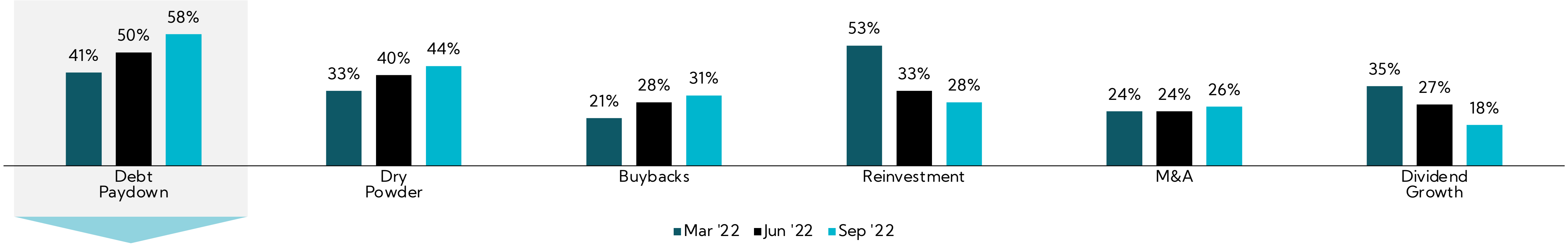
"We're probably in a mild one. At least, it feels like it. Whether or not it's the textbook definition of one, I'm not entirely sure. The labor market remains strong. Consumer has not yet rolled over, but we're starting to see signs of that, especially for bigger ticket items like homes and automobiles, as evidenced by CarMax's report which took the entire auto sector down, including Tesla. Do I expect a recession? The answer is yes." **Buy Side, Multi, N. America**

"I do not believe in the soft landing the Fed is trying to come up with at the end of their hiking cycle. It will provoke a recession." **Buy Side, Generalist, Europe**

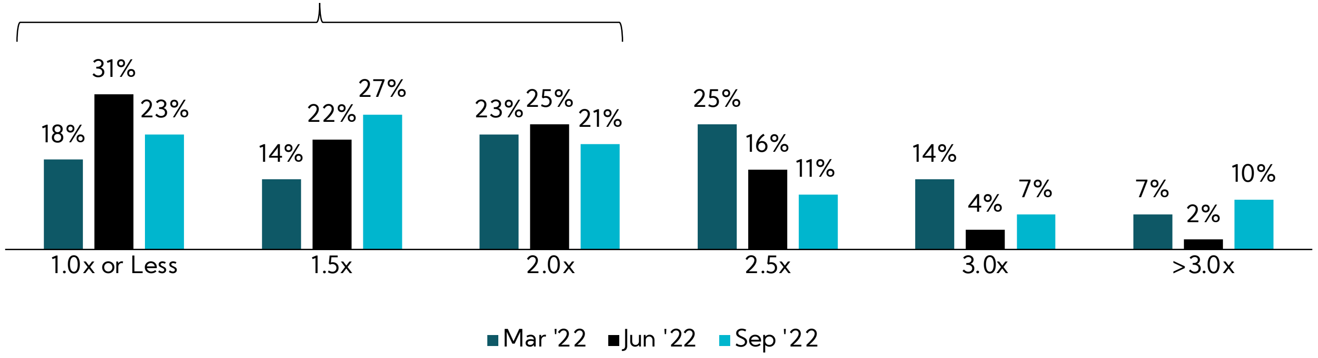
Deleveraging and Holding Dry Powder Continue to Climb as Investors Anticipate a Global Economic Downturn; Reinvestment Falls to Lowest Level Ever Recorded

Over three-quarters prefer a net debt-to-EBITDA level of 2.0x or less, while views on buybacks are divided

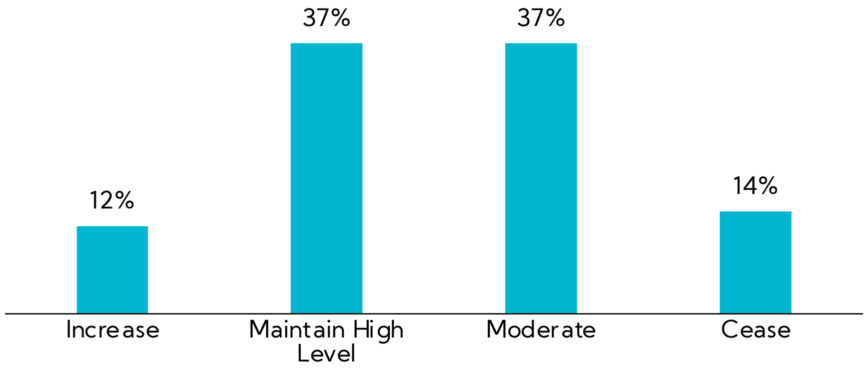
PREFERRED USES OF CASH
In Descending Order of Top Two Preferences



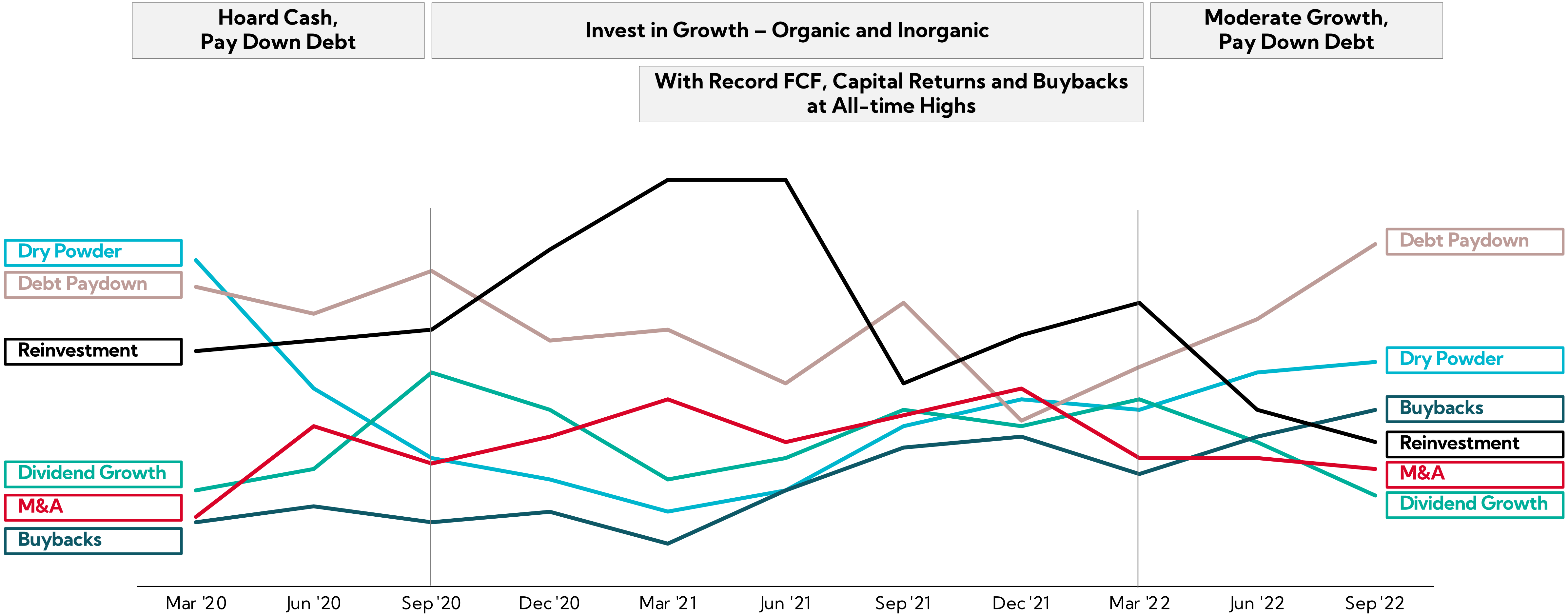
IDEAL NET DEBT-TO-EBITDA LEVEL



EXPECTATIONS FOR BUYBACKS THIS QUARTER



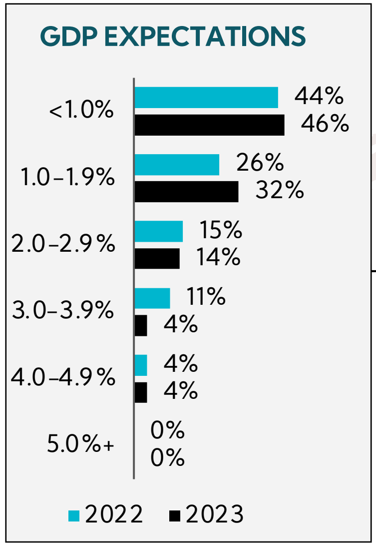
A Retrospective: Prolific Shifts in Investor Capital Deployment Preferences Since COVID-19



Represents % of investors selecting each as top two choice

Nearly All Countries Expected to Worsen Over the Next Six Months, Led By Europe, UK, and U.S.

U.S. 2022 GDP expectations are for 1.0% on average, down from 1.4% last quarter; investors anticipating 2023 GDP contraction



70%+ assigning **Very High** or **High Risk** to companies with exposure to **China and Europe**

1 EUROZONE

Improve:	5%	+2pts
Worsen:	**92%**	+4pts

2 U.K.

Improve:	6%	+2pts
Worsen:	**88%**	+6pts

3 U.S.

Improve:	9%	UCH
Worsen:	**76%**	+5pts

CANADA

Improve:	16%	-4pts
Worsen:	**59%**	+19pts

MEXICO

Improve:	19%	+6pts
Worsen:	**34%**	-1pt

LATIN AMERICA

Improve:	13%	+13pts
Worsen:	**48%**	UCH

BRAZIL

Improve:	26%	+20pts
Worsen:	**48%**	+10pts

INDIA

Improve:	**26%**	+8pts
Worsen:	21%	-15pts

CHINA

Improve:	26%	-11pts
Worsen:	**37%**	+3pts

JAPAN

Improve:	27%	+24pts
Worsen:	**40%**	-1pt

SOUTHEAST ASIA

Improve:	28%	+5pts
Worsen:	**44%**	+9pts

AUSTRALIA

Improve:	16%	+3pts
Worsen:	**50%**	+13pts

TOP 3 – IMPROVING (NEXT SIX MONTHS)

SOUTHEAST ASIA	28%
JAPAN	27%
INDIA/CHINA/BRAZIL	26%

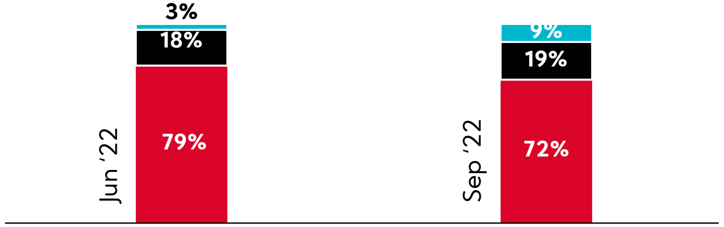
TOP 3 – WORSENING (NEXT SIX MONTHS)

EUROZONE	92%
U.K.	88%
U.S.	76%

Improving
Staying the Same
Worsening

Views on Key Economic Indicators over the Next Six Months Remain Downbeat

GLOBAL CAPEX



Improving: "Automation." **Buy Side, Industrials, N. America**

Worsening: "Cautious planning by management." **Buy Side, Generalist, N. America**

Worsening: "Demand weakness, higher costs of capital." **Buy Side, Generalist, N. America**

GLOBAL PMI

Improving: "Inflation has peaked." **Buy Side, Multi, N. America**

Staying the same: "Will wait for more robust signs of improvement." **Sell Side, Healthcare, N. America**

Worsening: "Cautious use of capital on concerns of global slowdown." **Buy Side, Generalist, N. America**

CONSUMER CONFIDENCE

Improving: "Too low now." **Buy Side, Multi, N. America**

Staying the same: "Employment is not declining, so people have some money." **Buy Side, Generalist, N. America**

Worsening: "Economic weakness from rising rates, food inflation, gas prices turning higher." **Buy Side, Generalist, N. America**

OIL & GAS MARKETS

Improving: "Lack of global supply, disciplined capex from energy firms." **Buy Side, Generalist, N. America**

Staying the Same: "Supply still constrained, but recession limits demand." **Buy Side, Multi, N. America**

Staying the Same: "Ongoing geopolitical issues will keep prices at elevated levels." **Buy Side, Generalist, N. America**

U.S. UNEMPLOYMENT

Staying the Same: "The demand for workers should continue, even during the recession we are in now." **Buy Side, Generalist, N. America**

Worsening: "Higher due to fed tightening and cautious planning by management." **Buy Side, Generalist, N. America**

Worsening: "Demand destruction, higher rates will lead to layoffs." **Buy Side, Generalist, N. America**

Worsening: "Rising unemployment as cost cutting accelerates into global slowdown." **Buy Side, Generalist, N. America**

Worsening: "5M people with 10M open jobs; we need higher labor participation." **Buy Side, Multi, N. America**

RESI CONSTRUCTION

Improving: "Input costs." **Buy Side, REIT, Asia**

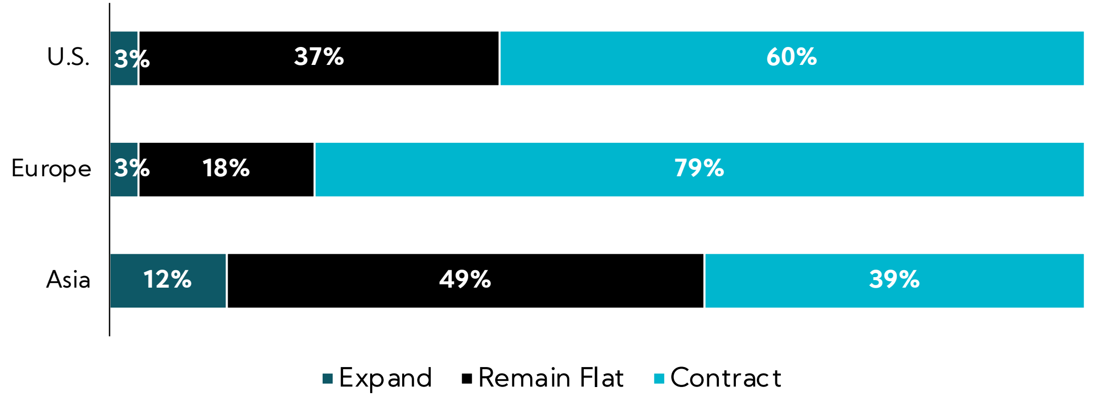
Staying the Same: "Mortgage rates!" **Buy Side, Generalist, N. America**

Worsening: "Rising interest rates will pressure new construction volumes." **Buy Side, Generalist, N. America**

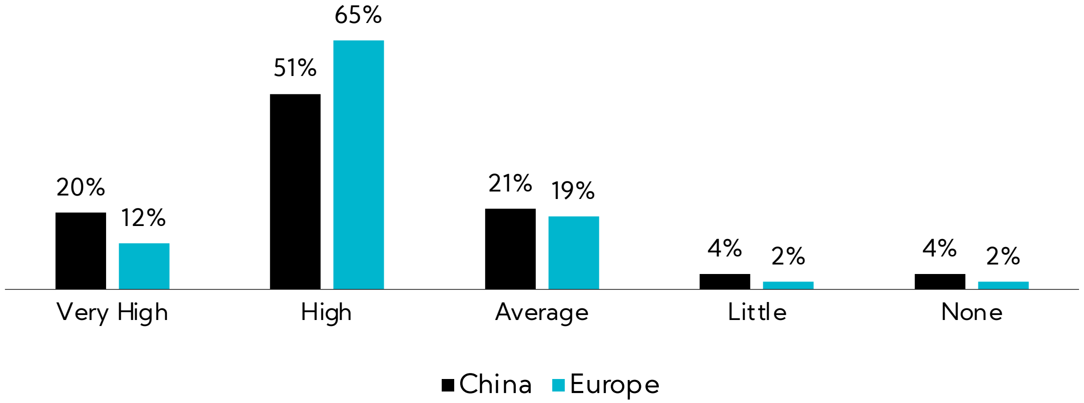
Worsening: "Higher rates, slowing demand." **Buy Side, Generalist, N. America**

Valuations Expected to Contract in Q4, with Net Sellers at the Highest Level Since Q4'18, in which There Were Significant Late-cycle Concerns

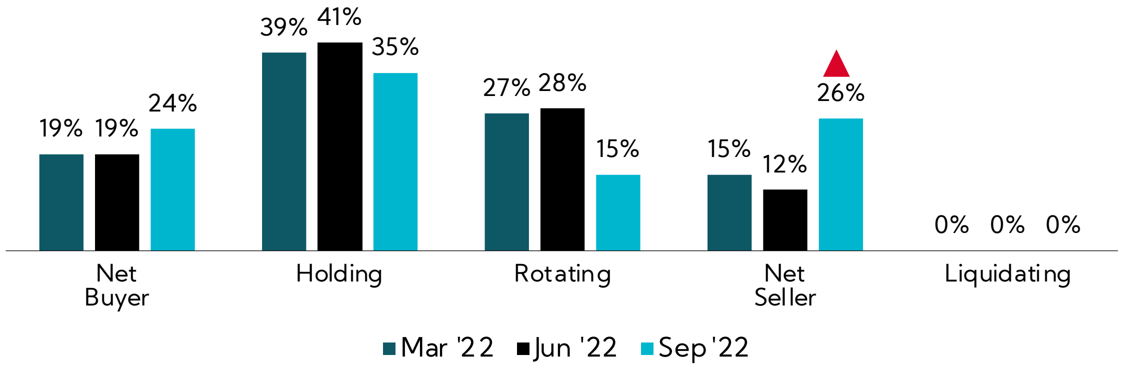
EXPECTATIONS FOR EQUITY VALUATIONS IN 2022



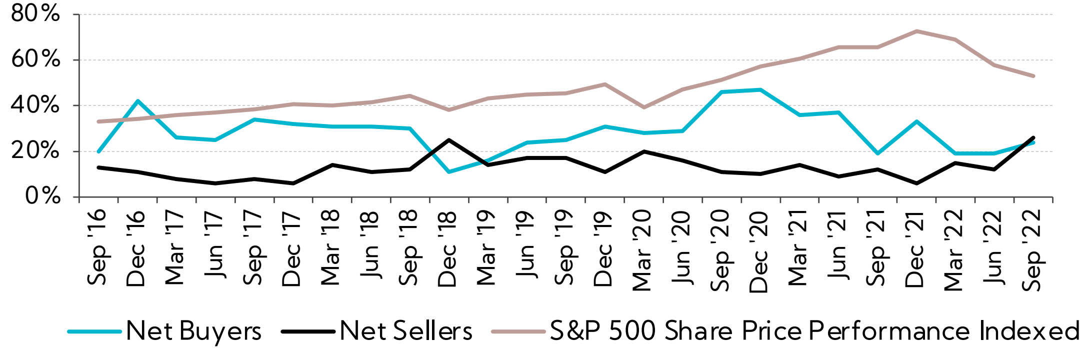
LEVEL OF RISK ASSIGNED TO COMPANIES WITH BUSINESS/OPERATIONAL EXPOSURE IN CHINA AND EUROPE



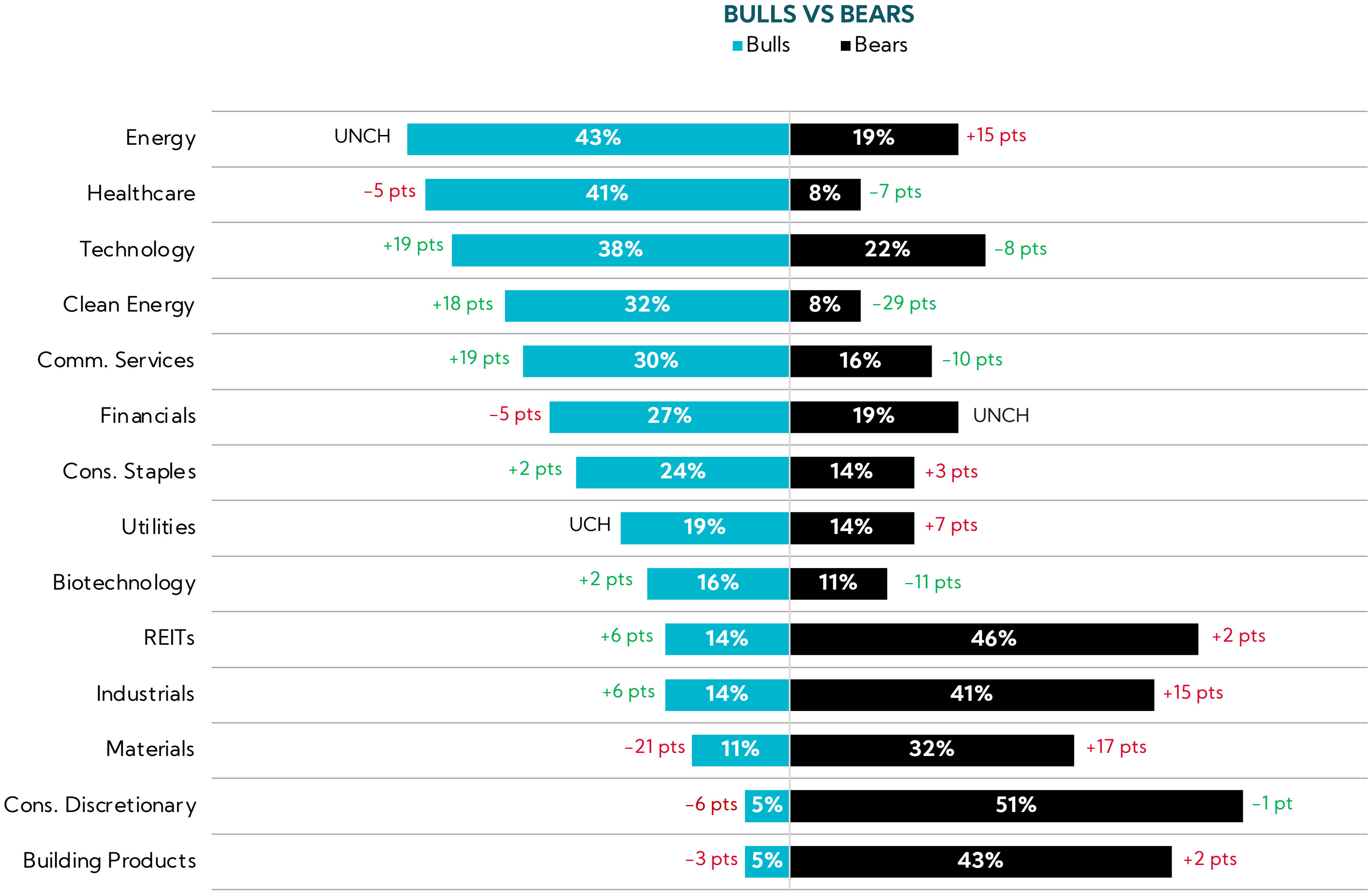
QoQ INVESTMENT TRENDS

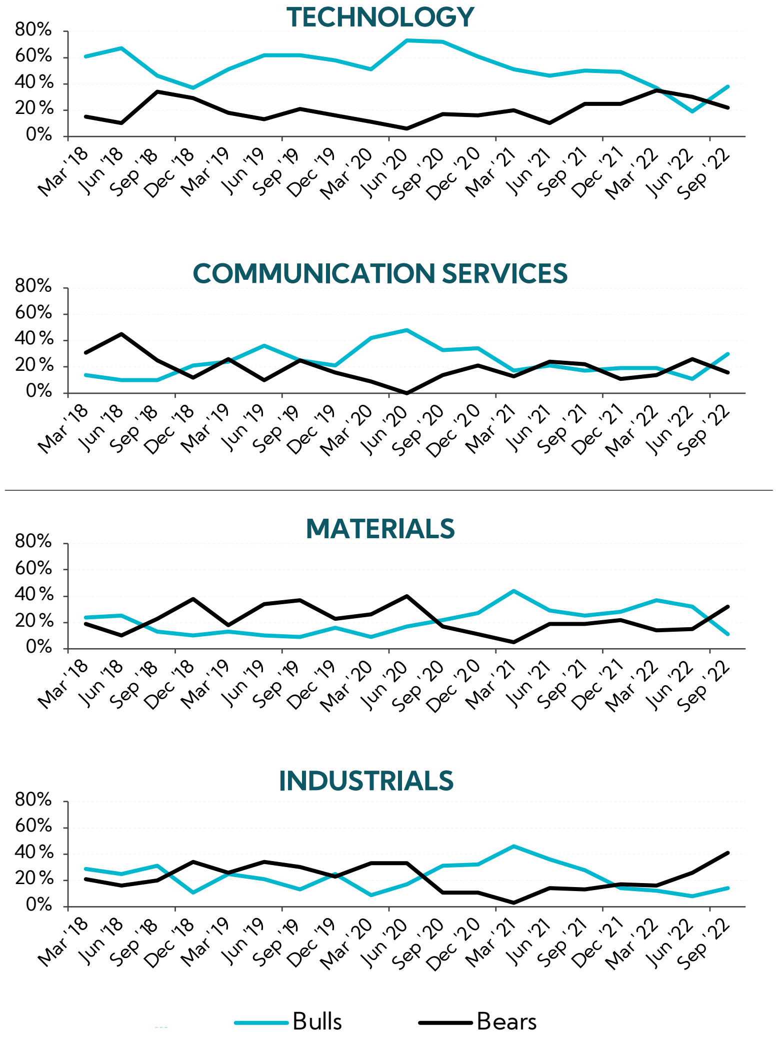


NET BUYERS VS. NET SELLERS



Tech and Communications Among Largest Bull-Gainers; Following a Flurry of Pre-announcements, Bears Move Into Materials and Industrials





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