

The Fed and the Macro Landscape

October 11, 2022

Stable Value Investment Association

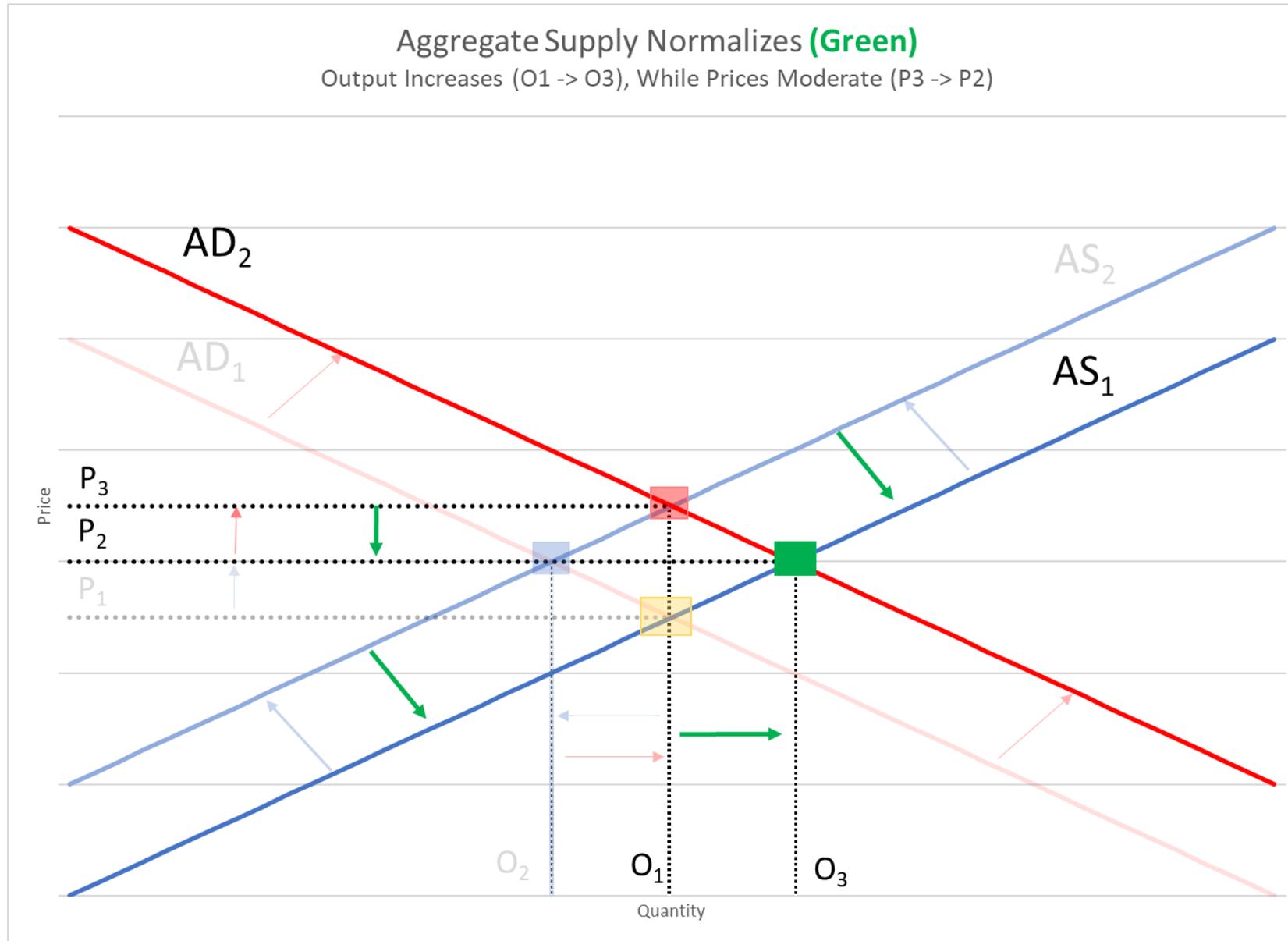
Agenda

- The “Volckerized” Fed: How far do they go?
- GDP: Economy is slowing below trend — real risk of recession in 2023.
- Inflation: Likely peaked ... but not rolling over fast enough to bring policy relief.
- Demand destruction: The snowball is starting to roll.
- Labor markets: The key to the equation.
- Risks to our forecasts: Inflation slows precipitously.
- Asset allocation: Still waving the caution flag.

AEGON AM Economic Forecasts					
	2019	2020	2021	2022e	2023e
GDP (Real %, YoY)	2.3	-3.4	5.7	1.5	0.5
Unemployment (%)	3.7	8.1	5.4	3.7	4.4
Core PCE (% YoY)	1.7	1.4	3.2	4.5	3.0
Fed Funds-Upper Bound (%)	1.75	0.25	0.25	4.25	4.50
Tsy10 (%)	1.92	0.92	1.51	3.75	3.25

Source: Aegon AM US. As of: October 3, 2022.

The “coup de graph”: To normalize or not to normalize, that is the question.



US outlook: Comparison

AEGON AM Economic Forecasts					
	2019	2020	2021	2022e	2023e
GDP (Real %, YoY)	2.3	-3.4	5.7	1.5	0.5
Unemployment (%)	3.7	8.1	5.4	3.7	4.4
Core PCE (% YoY)	1.7	1.4	3.2	4.5	3.0
Fed Funds-Upper Bound (%)	1.75	0.25	0.25	4.25	4.50
Tsy10 (%)	1.92	0.92	1.51	3.75	3.25

Source: Aegon AM US. As of: October 3, 2022.

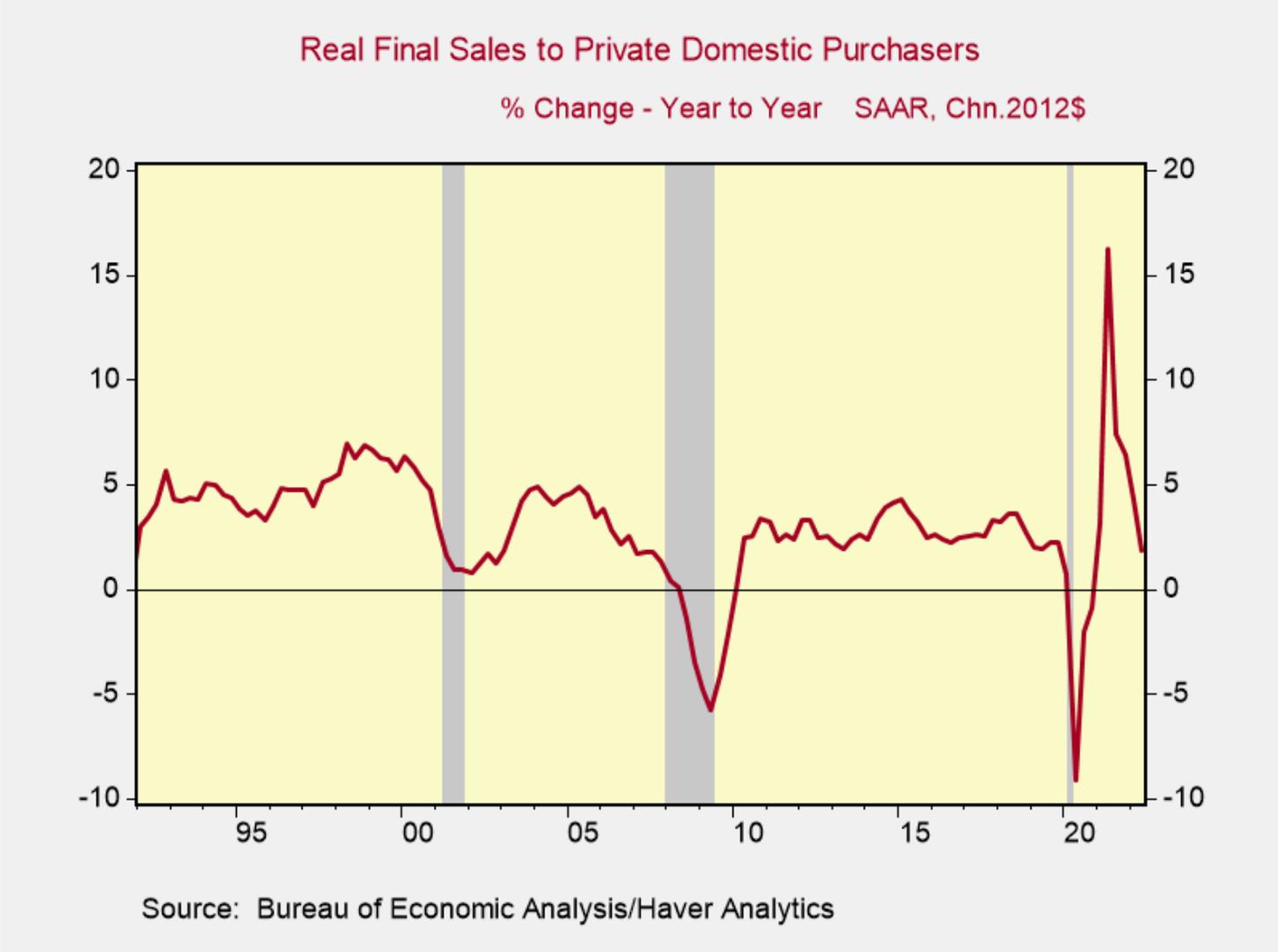
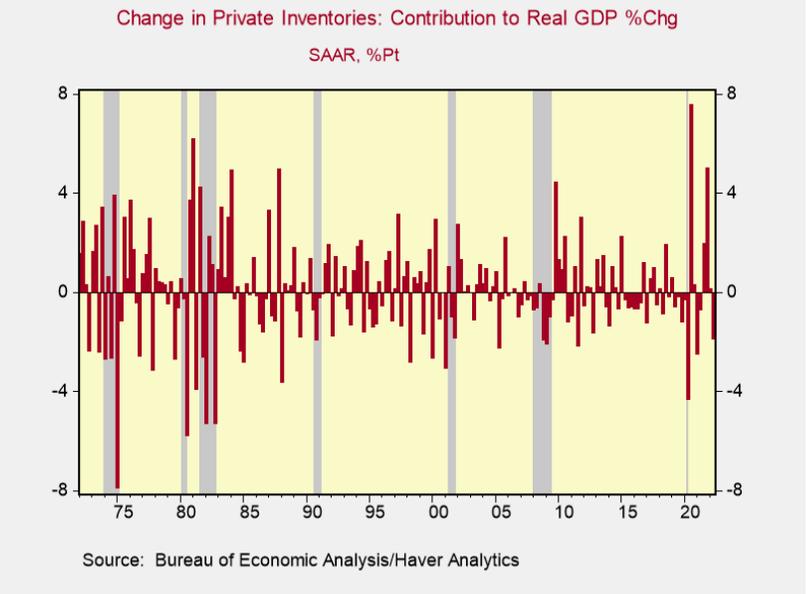
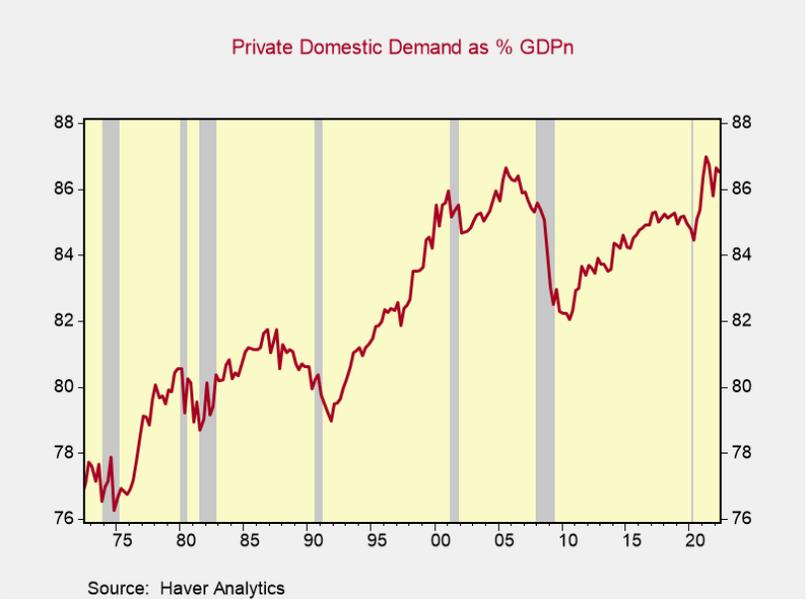
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2022

Variable	Median ¹					Central Tendency ²					Range ³					
	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	
	Percent															
Change in real GDP	0.2	1.2	1.7	1.8	1.8	0.1-0.3	0.5-1.5	1.4-2.0	1.6-2.0	1.7-2.0	0.0-0.5	-0.3-1.9	1.0-2.6	1.4-2.4	1.6-2.2	
June projection	1.7	1.7	1.9		1.8	1.5-1.9	1.3-2.0	1.5-2.0		1.8-2.0	1.0-2.0	0.8-2.5	1.0-2.2		1.6-2.2	
Unemployment rate	3.8	4.4	4.4	4.3	4.0	3.8-3.9	4.1-4.5	4.0-4.6	4.0-4.5	3.8-4.3	3.7-4.0	3.7-5.0	3.7-4.7	3.7-4.6	3.5-4.5	
June projection	3.7	3.9	4.1		4.0	3.6-3.8	3.8-4.1	3.9-4.1		3.5-4.2	3.2-4.0	3.2-4.5	3.2-4.3		3.5-4.3	
PCE inflation	5.4	2.8	2.3	2.0	2.0	5.3-5.7	2.6-3.5	2.1-2.6	2.0-2.2	2.0	5.0-6.2	2.4-4.1	2.0-3.0	2.0-2.5	2.0	
June projection	5.2	2.6	2.2		2.0	5.0-5.3	2.4-3.0	2.0-2.5		2.0	4.8-6.2	2.3-4.0	2.0-3.0		2.0	
Core PCE inflation ⁴	4.5	3.1	2.3	2.1		4.4-4.6	3.0-3.4	2.2-2.5	2.0-2.2		4.3-4.8	2.8-3.5	2.0-2.8	2.0-2.5		
June projection	4.3	2.7	2.3			4.2-4.5	2.5-3.2	2.1-2.5			4.1-5.0	2.5-3.5	2.0-2.8			
Memo: Projected appropriate policy path																
Federal funds rate	4.4	4.6	3.9	2.9	2.5	4.1-4.4	4.4-4.9	3.4-4.4	2.4-3.4	2.3-2.5	3.9-4.6	3.9-4.9	2.6-4.6	2.4-4.6	2.3-3.0	
June projection	3.4	3.8	3.4		2.5	3.1-3.6	3.6-4.1	2.9-3.6		2.3-2.5	3.1-3.9	2.9-4.4	2.1-4.1		2.0-3.0	

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 14-15, 2022. One participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate in conjunction with the June 14-15, 2022, meeting, and one participant did not submit such projections in conjunction with the September 20-21, 2022, meeting.

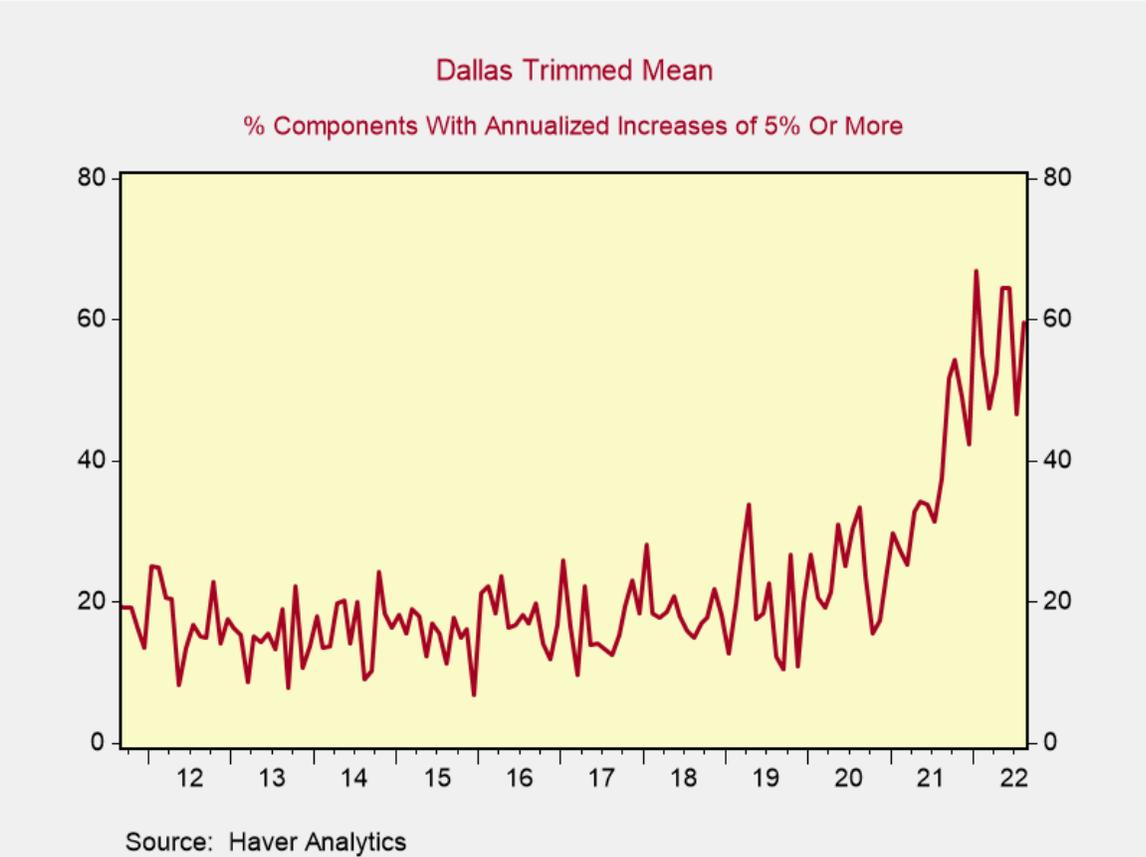
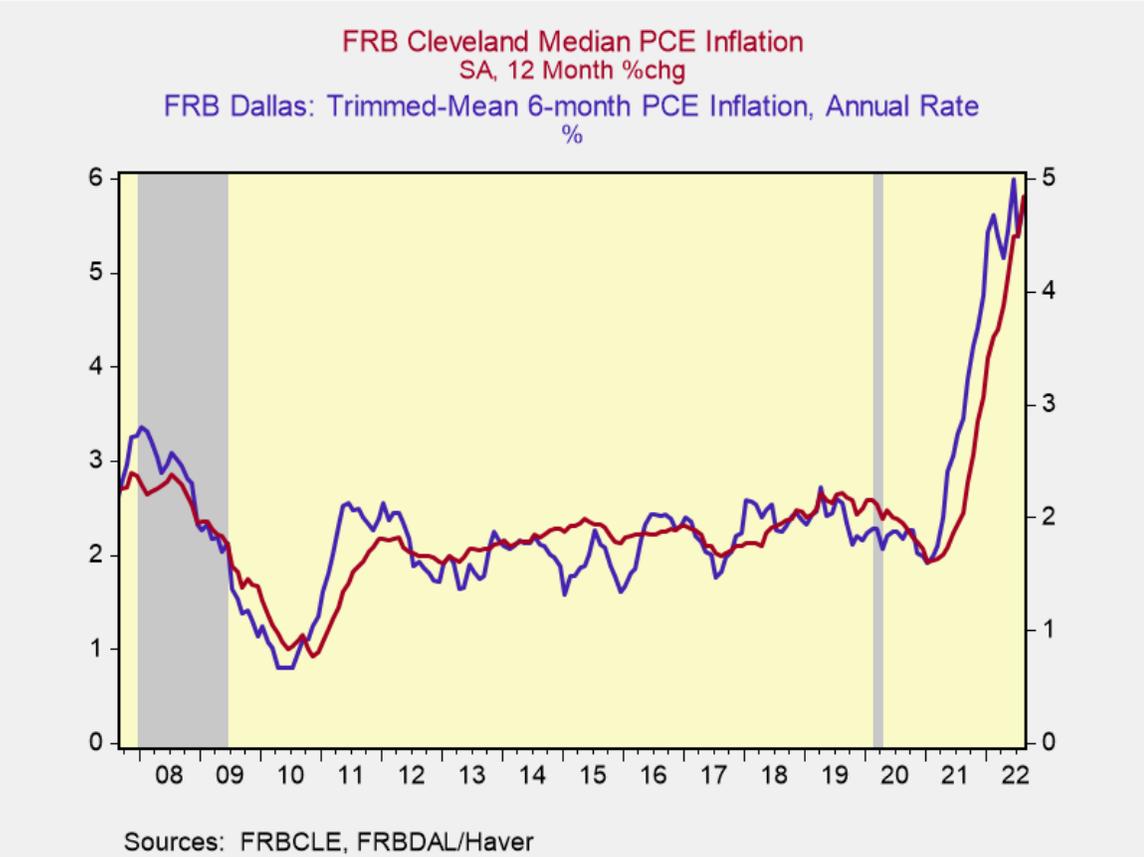
1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.
2. The central tendency excludes the three highest and three lowest projections for each variable in each year.
3. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
4. Longer-run projections for core PCE inflation are not collected.

US GDP: Technical recession, but real recession is likely coming



US Inflation

- Not only are trim means still robust ...
- ... But upward pressure hasn't really abated.



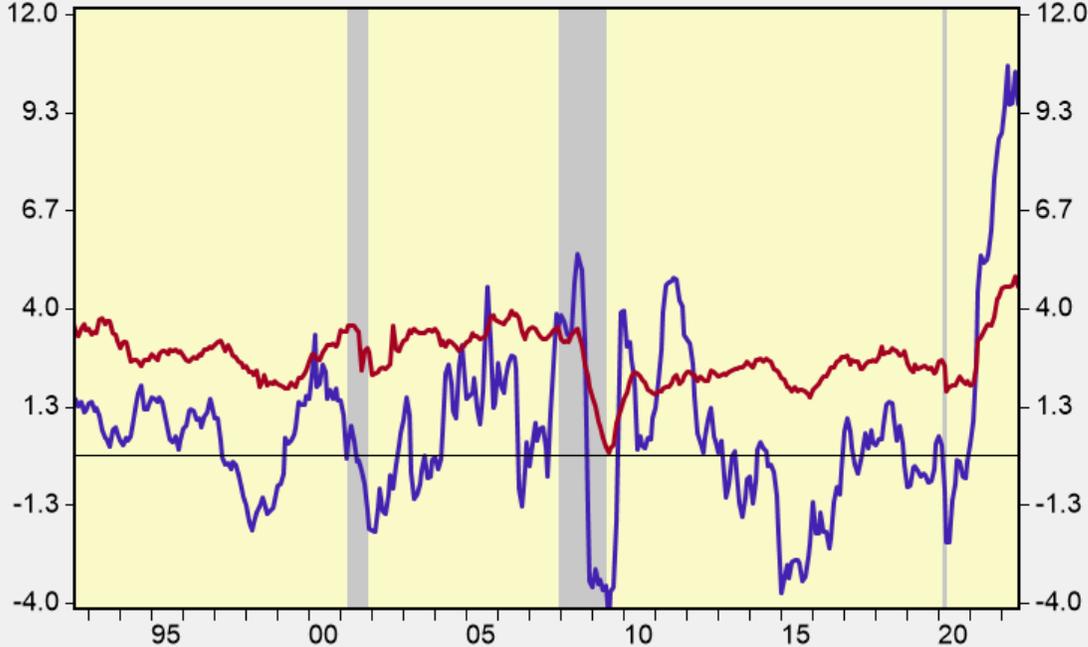
US: Demand destruction watch

Real Retail Sales & Food Services
 % Change - Year to Year SA, 1982-84\$



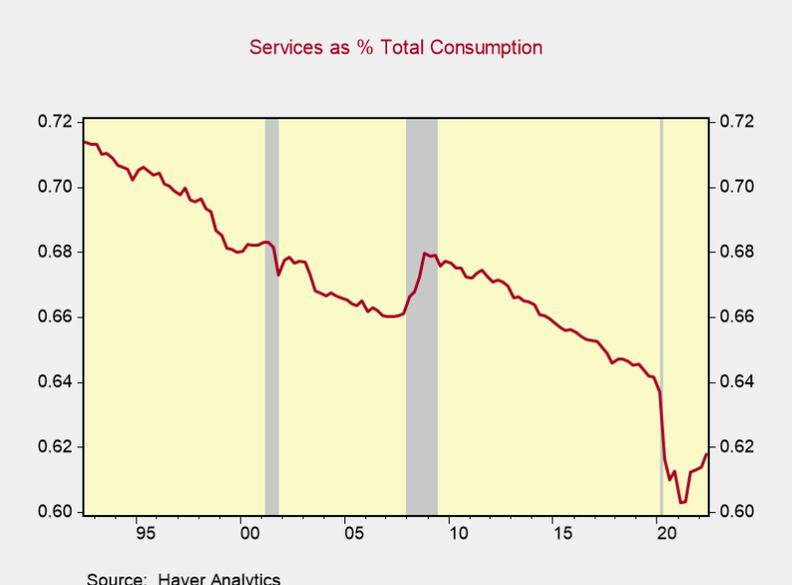
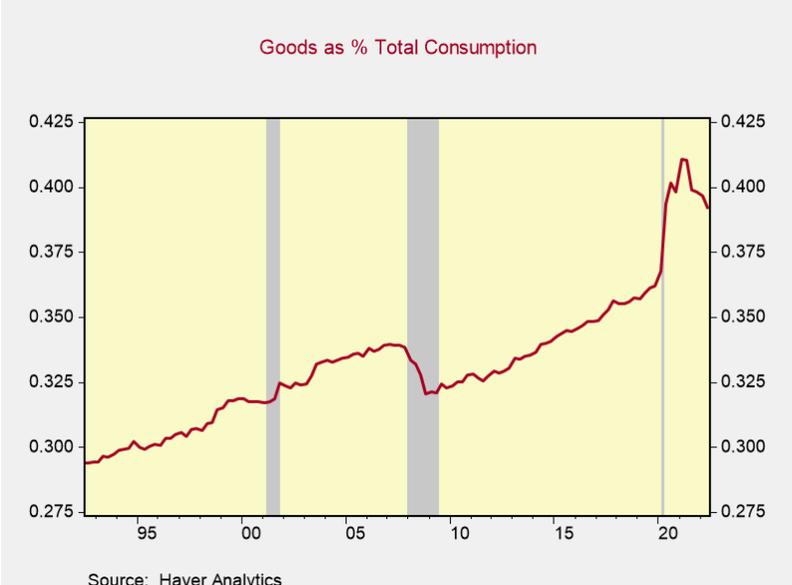
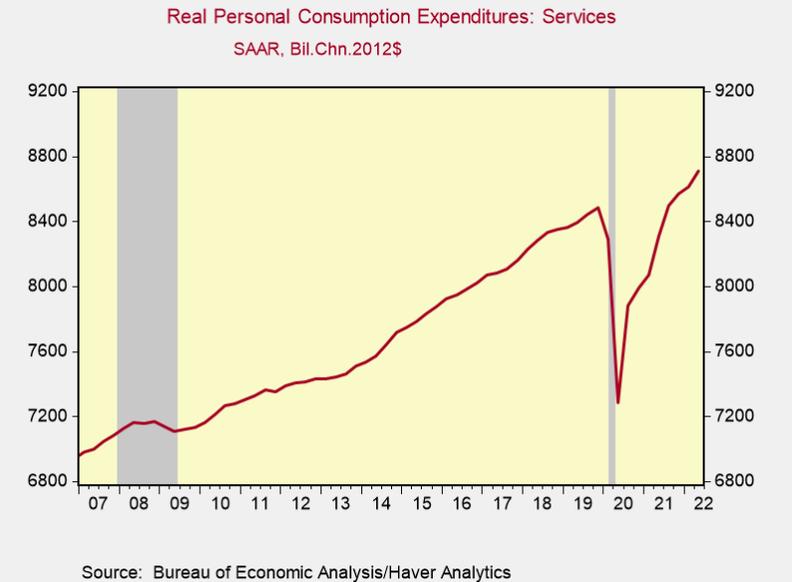
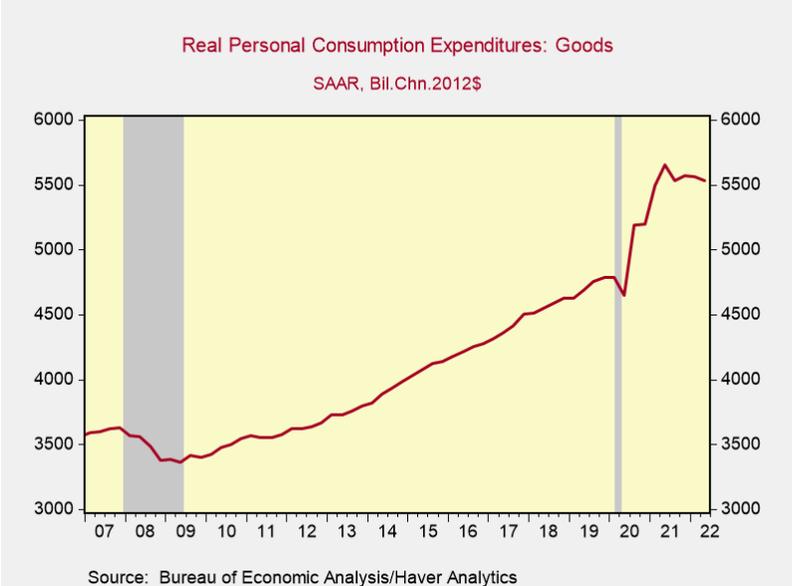
Source: Census Bureau/Bureau of Labor Statistics/Haver Analytics

Consumer: Services v. Good Inflation
 PCE Services: Chain Price Index (YoY %, SA)
 PCE Goods Chain Price Index (YoY %, SA)



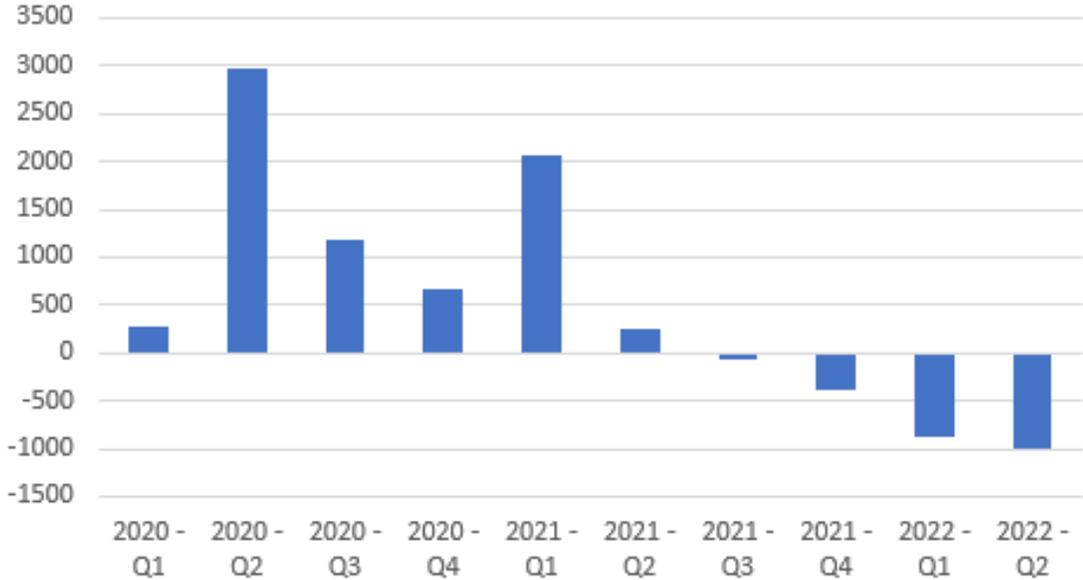
Source: Bureau of Economic Analysis/Haver Analytics

US: Demand destruction watch



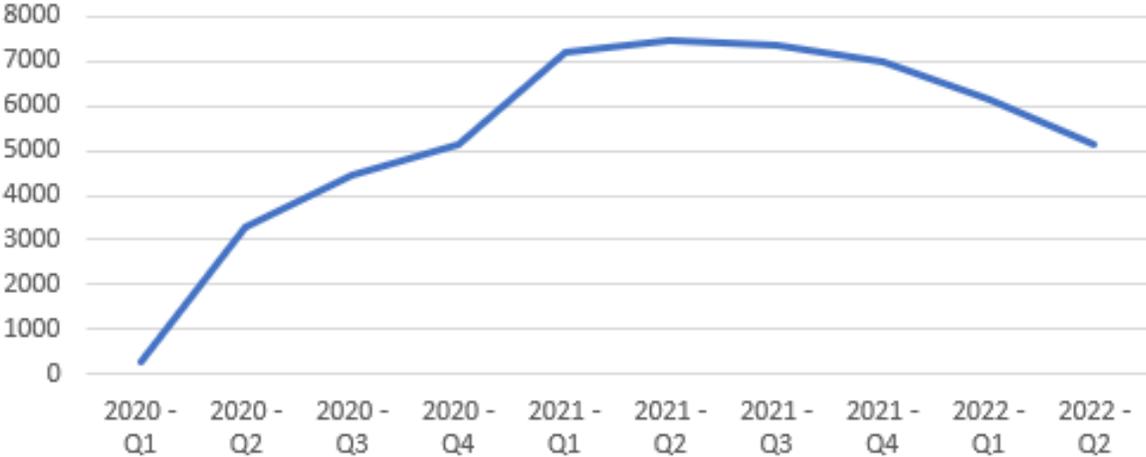
US: Demand destruction watch

Excess savings



Sources: Bureau of Economic Analysis, Haver Analytics

Cumulative excess savings
Baseline first quarter 2020
(in billions)

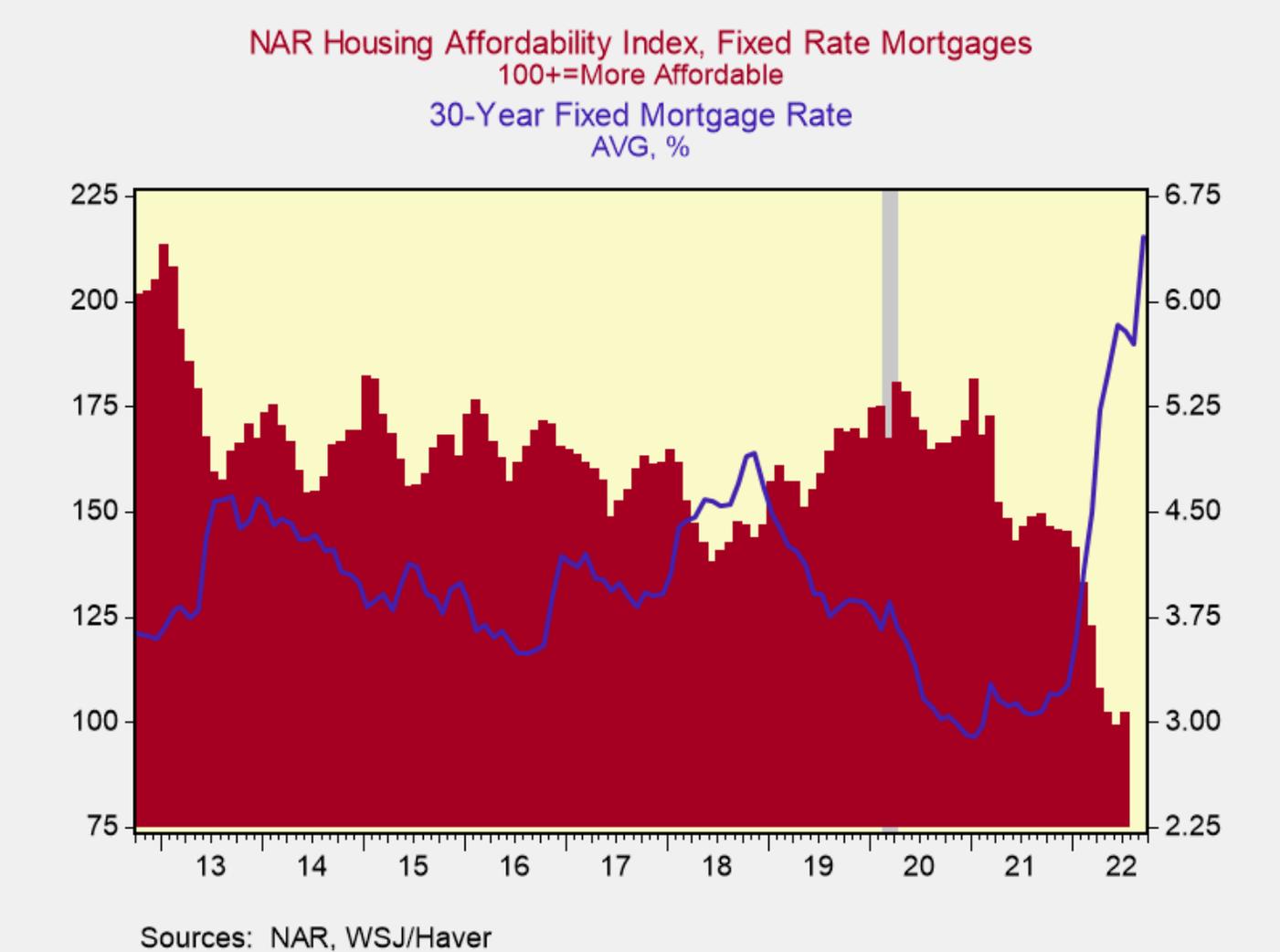
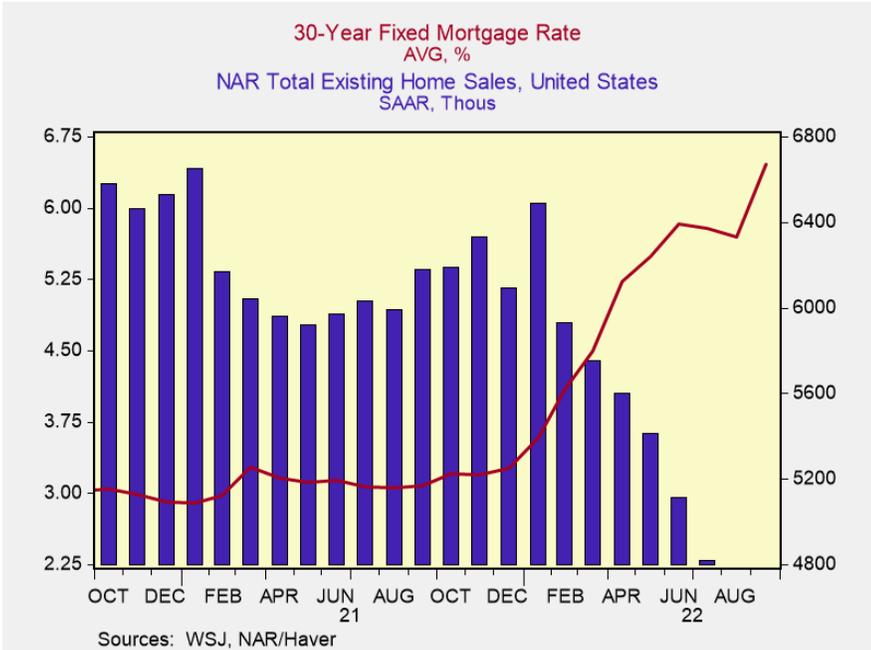


Sources: Bureau of Economic Analysis, Haver Analytics

US – Can the housing market withstand a surge in financing costs?

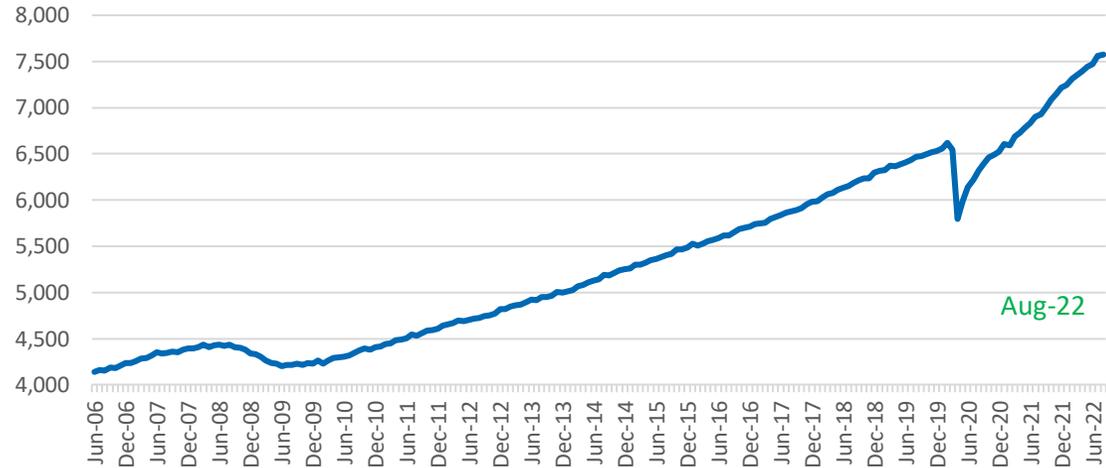


Source: Bloomberg, Aegon Asset Management

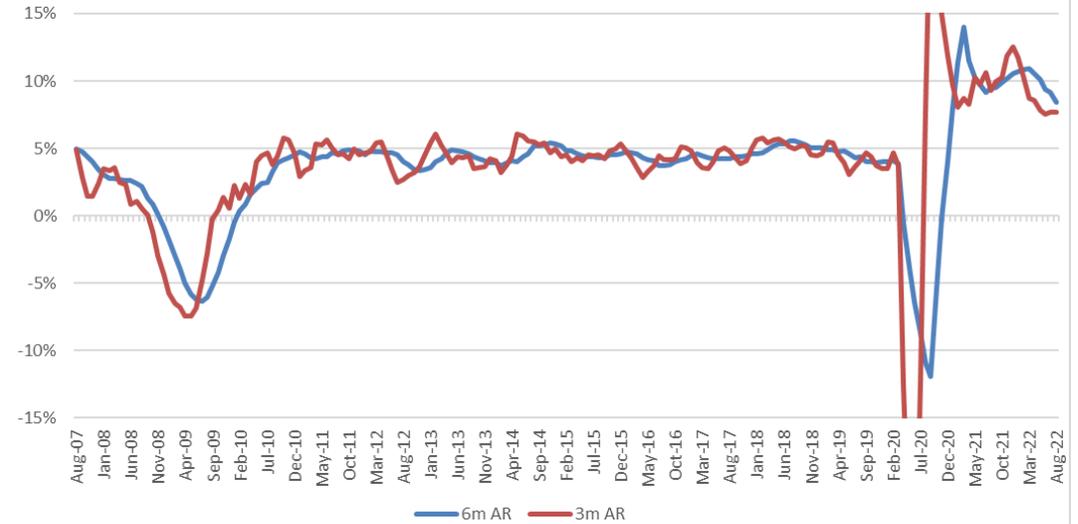


US Consumer: Aggregate income story is starting to lose momentum

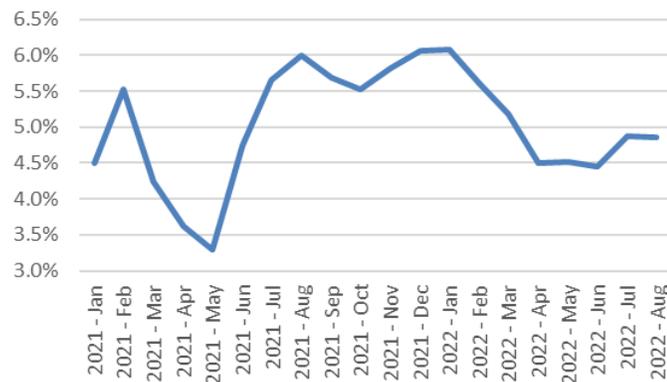
Annualized Labor Income Proxy
(in \$-tril)



Labor Income Proxy - Growth Rate



Avg Hourly Earnings - 3-m Ann.



Avg Hourly Earnings - 6-m Ann.



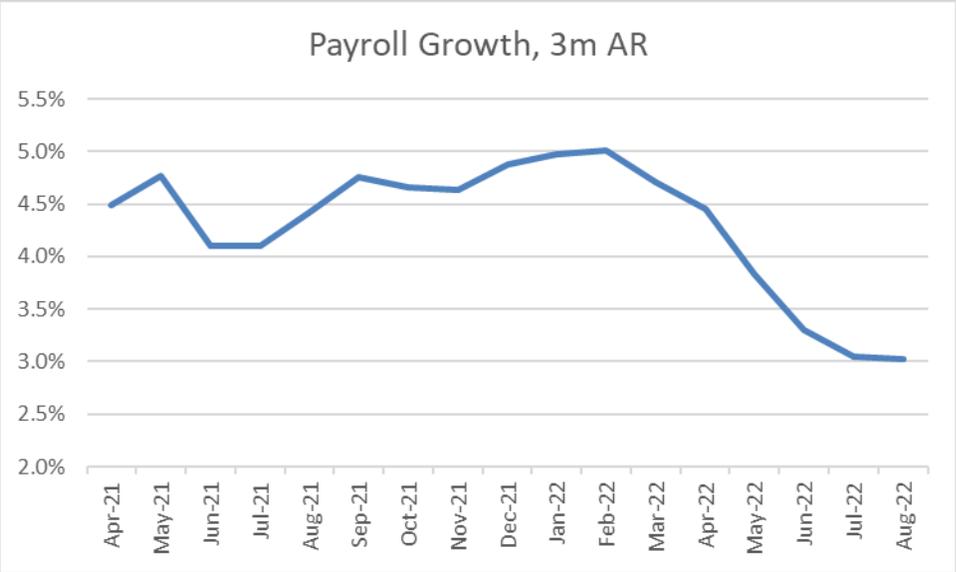
Avg Hourly Earnings - YoY.



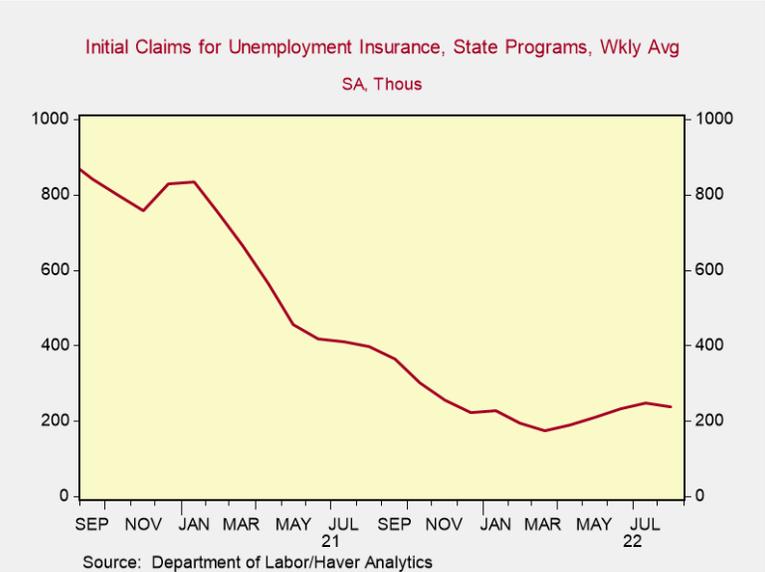
Source for all charts: Bureau of Labor Statistics

US labor market

Firms starting to take a more “wait-and-see” approach: Slower hiring, but not much firing



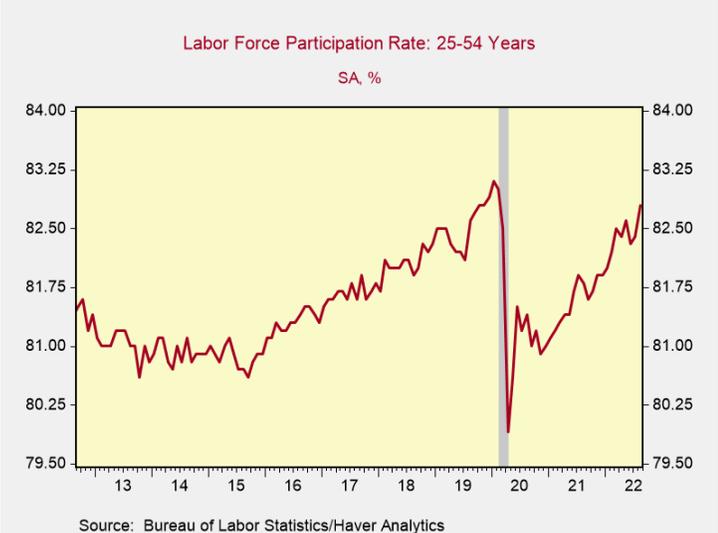
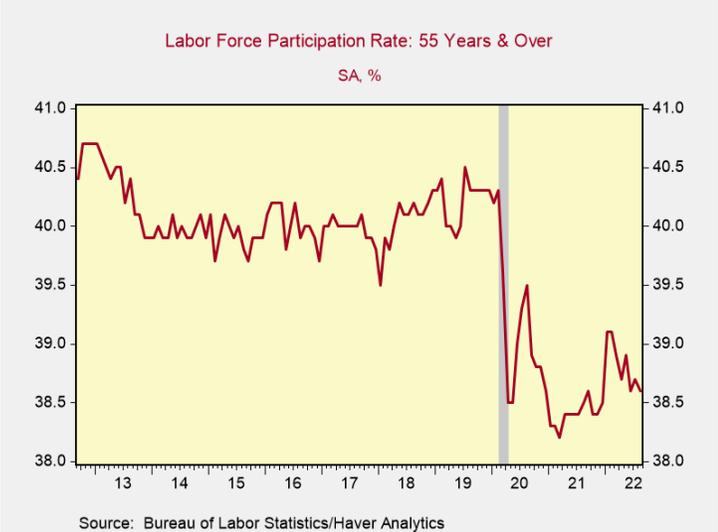
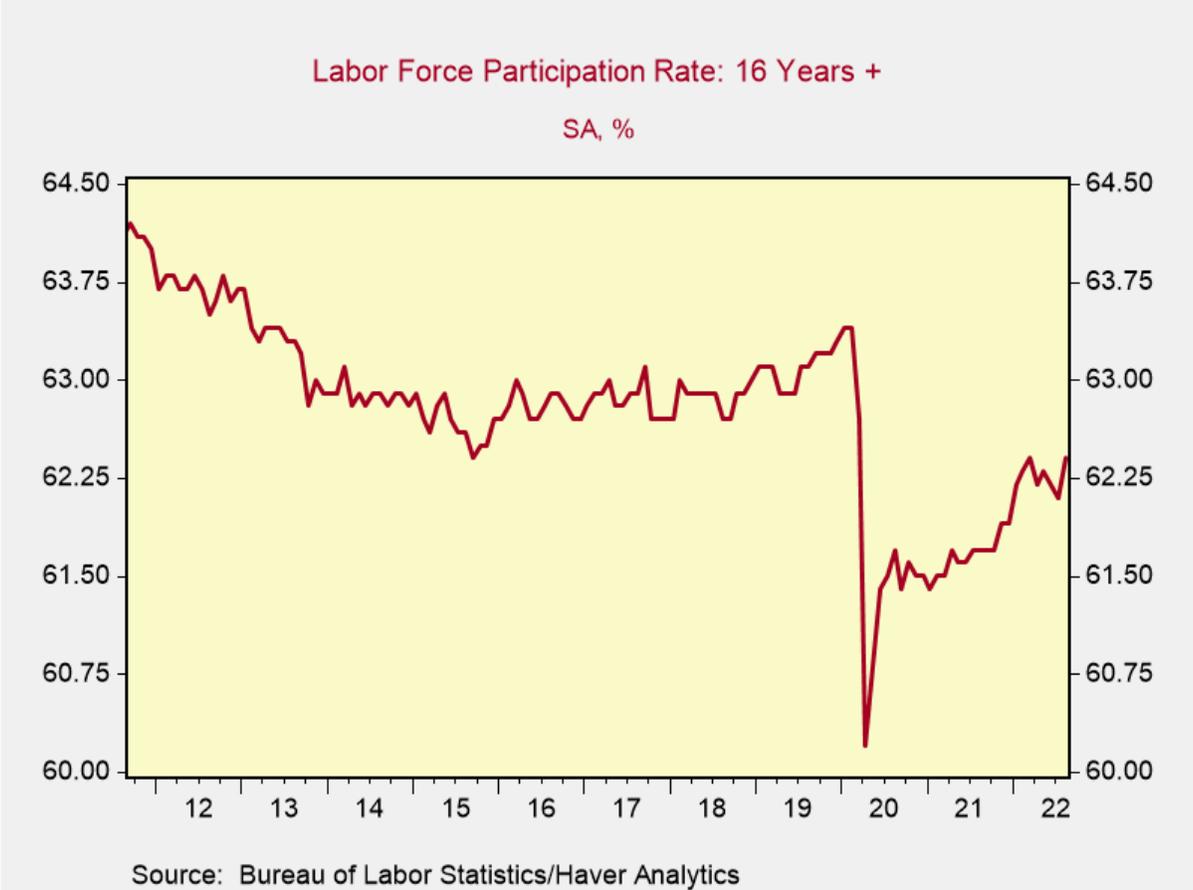
Source: Bureau of Labor Statistics



Source: Department of Labor/Haver Analytics

US – Labor Market

Demographic Influence



USD Strength: Unintended consequences

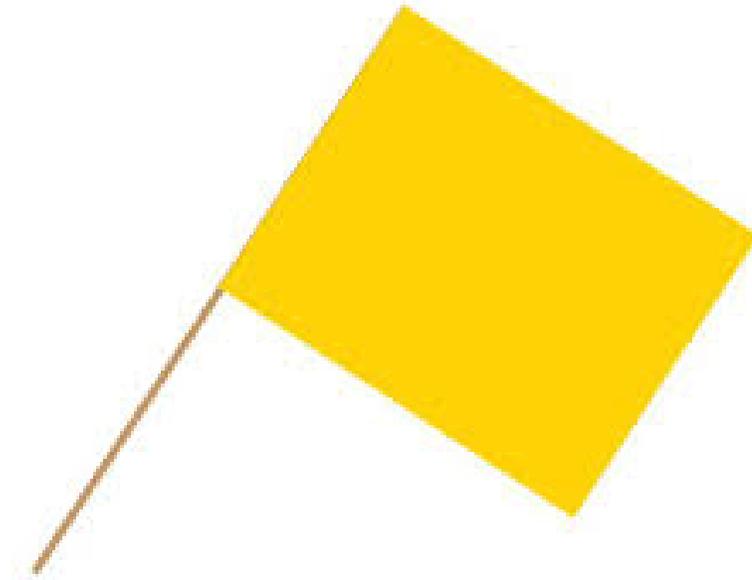
Dollar strength poses a risk to the global economy



Sources: Bloomberg, Aegon Asset Management

Until the Fed pivots:

- Continue to wave the caution flag
- Favor fixed income over equities
- Favor up-in-quality



Disclosures

This material is to be used for institutional investors and not for any other purpose. This communication is being provided for informational purposes only. This material contains current opinions of the manager and such opinions are subject to change without notice. Aegon AM US is under no obligation, expressed or implied, to update the material contained herein. This material contains general information only on investment matters; it should not be considered a comprehensive statement on any matter and should not be relied upon as such. If there is any conflict between the enclosed information and Aegon AM US' ADV, the Form ADV controls. The information contained does not take into account any investor's investment objectives, particular needs, or financial situation. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to you. The value of any investment may fluctuate. Investors should consult their investment professional prior to making an investment decision. Aegon AM US is not undertaking to provide impartial investment advice or give advice in a fiduciary capacity for purposes of any applicable federal or state law or regulation. By receiving this communication, you agree with the intended purpose described above. Past performance is not a guide to future performance. All investments contain risk and may lose value. This document contains "forward-looking statements" which are based on Aegon AM's beliefs, as well as on a number of assumptions concerning future events, based on information currently available. These statements involve certain risks, uncertainties and assumptions which are difficult to predict. Consequently, such statements cannot be guarantees of future performance, and actual outcomes and returns may differ materially from statements set forth herein.

Past performance is not a guide to future performance. All investments contain risk and may lose value. This document contains "forward-looking statements" which are based on Aegon AM's beliefs, as well as on a number of assumptions concerning future events, based on information currently available. These statements involve certain risks, uncertainties and assumptions which are difficult to predict. Consequently, such statements cannot be guarantees of future performance, and actual outcomes and returns may differ materially from statements set forth herein.

The following Aegon affiliates are collectively referred to herein as Aegon Asset Management: Aegon USA Investment Management, LLC (Aegon AM US), Aegon USA Realty Advisors, LLC (Aegon RA), Aegon Asset Management UK plc (Aegon AM UK), and Aegon Investment Management B.V. (Aegon AM NL). Each of these Aegon Asset Management entities is a wholly owned subsidiary of Aegon N.V.

Aegon Asset Management US is a US-based SEC registered investment adviser.

©2022 Aegon Asset Management or its affiliates. All rights reserved.

AdTrax: 4980788.1
Exp Date: 10/31/23