INVESTMENT TRUST COMPANY

VIEWPOINTS *January 2023*

A PIVOTAL YEAR

2023 will likely be a turbulent year as inflation and monetary policy fears pivot to a weak global economy, but also to lower inflation and central bank pauses. We see some fundamental downside risk but sentiment upside.

Central banks in the developed world have simultaneously hiked interest rates by roughly 2-4% each — at the fastest pace in the past 40 years. Such a move is a firm headwind to economic growth, and the full economic consequences of this massive tightening of financial conditions are still to come. Our base case is for Europe to slip into recession given its greater exposure to elevated energy prices, for the U.S. to slow down meaningfully and for emerging markets to remain troubled by China's struggles.

The combination of interest rate hikes and slower growth have started to push down inflation trends. And central banks are, by their own admission, close to interest rate levels where policy is considered tight. As the rate cycle nears an end, and as monetary policy uncertainty and inflation risk dissipate, investor sentiment might turn more positive. The labor market will be closely watched as evidence of inflation's ability to approach central bank targets. In light of these cross-currents, we have a neutral position in developed equities as downside earnings risk to a disappointing economy is balanced against a likely improvement in sentiment as conditions trough in 2023. We acknowledge the potential for a China "re-opening" trade to take hold, but see the process as uneven and muddied by other structural challenges. In the meantime, natural resources should benefit from any improvement in China growth.

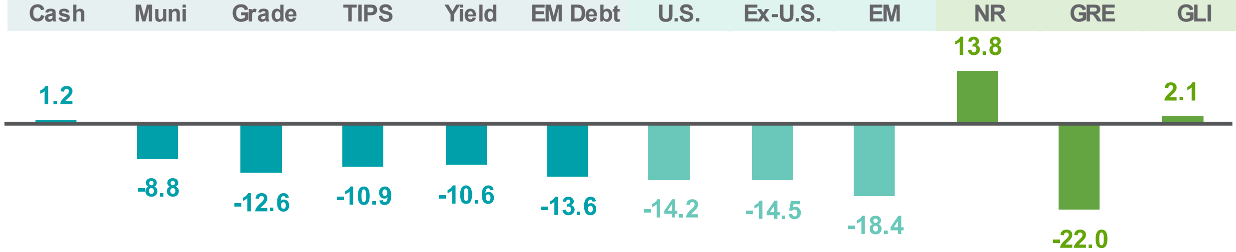
Looking ahead, the full weight of the cumulative effect of higher rates has yet to be felt in the economy, but health of consumer, corporate and financial institution balance sheets provide reason to believe a recession should be shallow and short-lived. Therefore, financial markets will likely have to balance the immediacy of disappointing global growth against the backdrop of greater certainty on central bank policy, a reduction in interest-rate volatility and the potential of a return to growth later in the year.

This balancing act won't be easy as investors are likely to be repeatedly reminded of the economic headwinds and continued struggles in emerging markets. Even more, we think inflation will struggle to get back to central bank targets, keeping some or perhaps several at their plateau longer than market expectations. Nonetheless, it is important to respect the forward-looking nature of financial markets and clear and decisive signs that inflation has been tamed could trigger a positive turn in sentiment even when growth is still weak. Investors should pay special attention to the labor markets, as we expect they will act as the main battleground for the debate around the outlook for inflation.

FEW PLACES TO HIDE - YEAR-TO-DATE TOTAL RETURNS (%)

It was a difficult year for stocks, and in atypical fashion bonds failed to provide much protection.

	RISK CONTROL						RISK ASSETS					
	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI



YTD	1.2	-8.8	-12.6	-10.9	-10.6	-13.6	-14.2	-14.5	-18.4	13.8	-22.0	2.1

Source: Northern Trust Asset Management, Bloomberg. Year-to-date returns through 11/30/22. Past performance is no guarantee of future results. Indexes are gross of fees. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Muni=municipal bonds; Inv. Grade=Investment Grade Bonds; TIPS=Treasury Inflation Protected Securities; EM=Emerging Markets; Ex-US=not including the US; NR=Natural Resources; GRE=Global Real Estate; GLI=Global Listed Infrastructure. Indexes used: Bloomberg (BBG) 1-3 Month UST (Cash); BBG Municipal (Muni); BBG Aggregate (Inv. Grade); BBG TIPS (TIPS); BBG High Yield 2% Capped (High Yield); JP Morgan GBI-EM Global Diversified (Em. Markets Fixed Income); MSCI U.S. Equities IMI (U.S. Equities); MSCI World ex-U.S. IMI (Dev. ex-U.S. Equities); MSCI Emerging Market Equities IMI (Em. Markets Equities); S&P Global Natural Resources (Natural Resources); MSCI ACWI IMI Core Real Estate (Global Real Estate); S&P Global Infrastructure (Global Listed Infrastructure).

BASE CASE EXPECTATIONS

Fundamental Downside, Sentiment Upside

Economic risks remain skewed to the downside from cumulative central bank tightening, but sentiment should start to shift more favorably in 2023 on a "plateau" in policy rates and lower inflation. Non-U.S. valuations and central banks (more dovish than the Fed) limit the U.S. advantage.

Watching Inflation

Central banks have communicated a slowing in rate increases to a plateau in early 2023, preferring to hold a sufficiently tight policy rate as opposed to continuing to hike. This reduces the risk of a policy mistake, and recenters attention more specifically on the path of inflation.

RISK CASE SCENARIOS

Labor Market Durability

More persistent tightness in the labor market leads to more stubborn core inflation, necessitating an unexpected monetary policy response that is negative for financial markets.

Eastern Threats

Ukraine war produces knock-on effects (food/energy shortages) that disrupt the global economy; China struggles to deal with (in order of importance) pandemic pressures, bad debt contagion and Taiwan tensions.

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