INVESTMENT TRUST COMPANY

VIEWPOINTS April 2024

REDUCED HEADWINDS TO RISK ASSETS

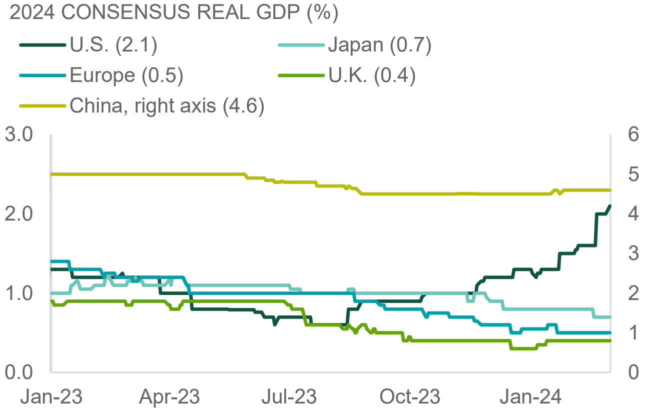
The U.S. economy remains resilient. We expect growth to be close to trend and inflation to come down slowly. In this environment, we expect the Federal Reserve to cut rates around the second half of the year. A similar picture is emerging in some of the key developed markets outside of the U.S. The probability of a prolonged downturn in Europe has declined with credit conditions improving, strength in labor markets and the European Central Bank expected to cut rates later this year. We are not expecting strong Eurozone growth in 2024, but an environment of sluggish growth. The U.K. experienced a technical recession late last year, but strength in employment and expectations of a pick-up in housing activity suggest that risks of a further leg down in activity have fallen. Similarly, Japan is benefiting from continued resiliency of the global economy. Slowdown in Chinese growth remains a source of risk. However, this may be already reflected in the underperformance of their stocks.

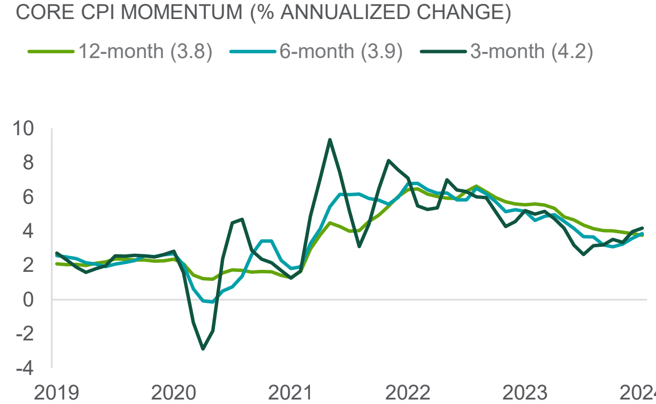
Fourth quarter earnings season in the U.S. has reflected this economic resiliency. Except for pockets of U.S. equities, valuations are not a source of concern in major developed regions. Global policy easing, with the exception of Japan, will be a tailwind to global growth.

Inflation remaining above central banks' targets is a key risk but we continue to see scope for inflation to come down as rental costs abate and wage increases moderate. We also see lingering concern surrounding commercial real estate and more opaque areas of consumer lending, as well as another leg down in the Chinese economy as potential sources of broader financial market risk.

BETTER GROWTH EXPECTATIONS

U.S. economic growth expectations have continued to improve, but stubborn inflation remains a risk.





Source: Northern Trust Asset Management, Bloomberg (BBG). Left chart: BBG consensus data. Consensus Gross Domestic Product (GDP) is the average level of the y/y change during the year (i.e., it uses 8 quarters of data). *Inflation measures vary by region: core Personal Consumption Expenditures (U.S.), core Consumer Price Index (Europe and Japan) and headline Consumer Price Index (U.K., China). Data as of 3/4/2024. Right chart: CPI = Consumer Price Index. Data as of 2/29/2024.

BASE CASE EXPECTATIONS

Sticking the Landing

Global growth will move below trend but remain positive, supported by ongoing U.S. economic strength as labor market/consumer momentum has continued. Inflation will remain above target but continue to proceed toward 2%. Despite the constructive economic backdrop, high valuations temper risk-taking appetite.

Central Bank Transitions

We expect U.S. and European central banks to transition to rate cuts this year. Economic resilience may afford monetary policymakers more time to confirm that inflation is moving down sustainably.

RISK CASE SCENARIOS

Stubborn Inflation

Inflation does not move lower as a result of several potential factors: economic resurgence, tight labor markets keeping pressure on services, and/or goods and commodity disruptions from conflict in the Middle East.

Lagged Impacts

The market's enthusiasm for a soft landing proves to be misplaced as the cumulative effect of 5%+ rate hikes in two years starts showing up in economic functioning.

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