ACTIVE INSIGHTS

Putnam INVESTMENTS

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This is Putnam's monthly market update from our Capital Market Strategies team. We monitor four critical building blocks as we think about our outlook: (click below to select a section)

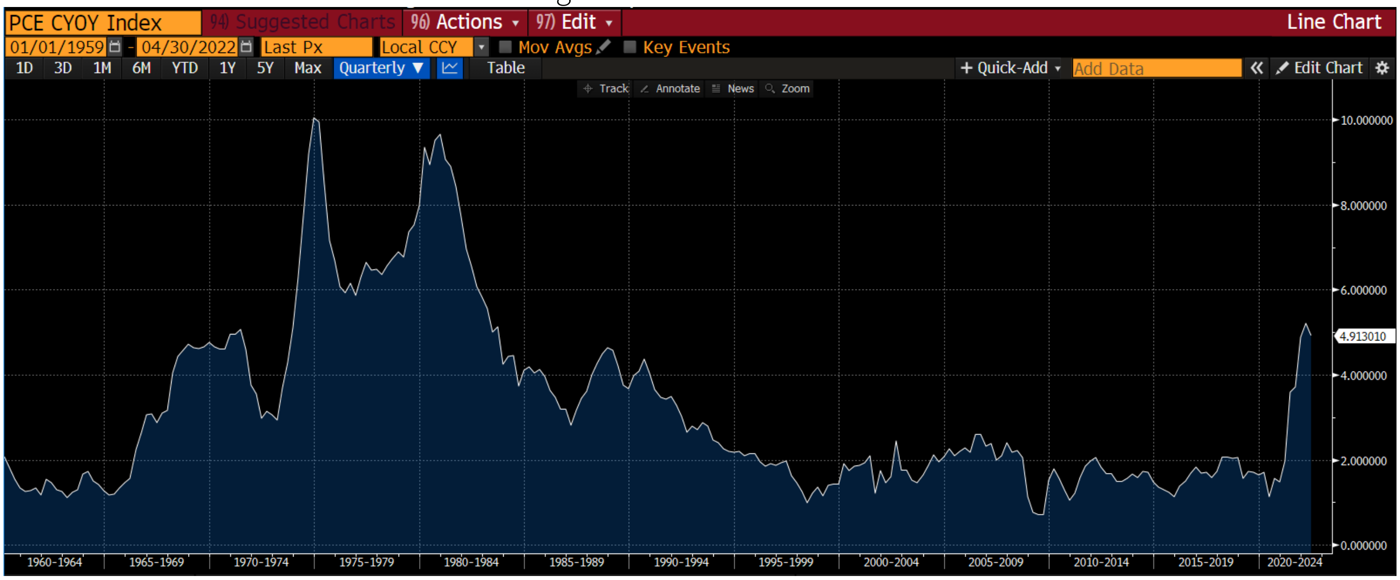
ECONOMY	MARKETS	RISKS	OPPORTUNITIES

In addition to this update, we have included a link below to a dealer approved piece which looks at asset class returns during prior Fed tightening cycles.

ECONOMY

- Our 2022 U.S. real GDP forecast is 3.00%. The situation in Europe and the increase in commodity prices may impact this forecast depending on how long the war in Ukraine continues. We favor the U.S. over ROW.
- Coming into 2022, we expected the U.S. economy to be stronger than the European economy, and we have more conviction now given the war in Ukraine.
- We expect Emerging Market economies to feel the brunt of higher commodity prices and a stronger U.S. dollar.

- Our 2022 core PCE forecast is 4.00%. We expect inflation data to stay elevated in the near term because of the conflict in Europe and the continued pressure on supply chains globally. The chart below illustrates the latest core PCE reading:



Source: Bloomberg Finance L.P. Used with permission from Bloomberg Finance L.P.

[Market performance during Fed tightening cycles]

MARKETS

Equities

- Our price target for the S&P 500 is 4400 by year end. We expect volatility to remain elevated. Earnings will be the dominant factor in forward performance.
- Putnam's equity portfolio managers continue to favor the Financials, Energy, Industrial, Materials, and Technology sectors. We believe these sectors will continue to see earnings growth.
- Considering the correction in the major equity indexes this year, we favor high quality earners across size and style. In our opinion, companies that report strong earnings, provide constructive forward guidance, and generate strong free cash flow should be the focus. Focus on "quality."
- At the individual stock level, significant multiple contraction has taken place. We continue to use corrective action to upgrade portfolio holdings. Earnings estimates for the S&P 500 continue to be revised higher. The consensus earnings estimate for the next 12 months stands at $235.93, up 18% over the prior 12 months. See the table below:

S&P 500 INDEX

Periodicity A | Flavor F12 | View Growth | Currency USD

Measure	Actual	F12 Est	Growth	Y+1 Est	Growth	Y+2 Est	Growth
1) Earnings Per Share	200.06	235.93	17.93%	248.91	5.50%	271.84	9.21%
2) EPS Positive	206.47	236.18	14.39%	248.91	5.39%	271.84	9.21%
3) Cash Flow Per Share	271.49	350.44	29.08%	340.06	-2.96%	378.82	11.40%
4) Dividends Per Share	63.56	67.20	5.74%	69.57	3.51%	74.21	6.68%
5) Book Value Per Share	1004.24	1076.56	7.20%	1199.12	11.38%	1346.46	12.29%
6) Sales Per Share	1617.64	1755.55	8.53%	1804.39	2.78%	1888.41	4.66%
7) EBITDA Per Share	338.93	389.47	14.91%	395.85	1.64%	421.53	6.49%
8) Long Term Growth	0.00	-28.73	0.00%	0.00	0.00%	0.00	0.00%
9) Net Debt Per Share	344.89	466.21	35.18%	415.95	-10.78%	325.92	-21.64%
10) Enterprise Value Per Share	4711.69	4711.87	0.00%	4661.60	-1.07%	4563.17	-2.11%

Valuation Measure	Actual	F12 Est	Y+1 Est	Y+2 Est
11) Price/EPS	20.56	17.43	16.52	15.13

Source: Bloomberg Finance L.P. Used with permission of Bloomberg Finance L.P.

- Our primary concerns are centered on above-trend core inflation and earnings degradation. This combination historically leads to multiple compression. Earnings growth is critical, and we expect idiosyncratic alpha generation going forward. Stock selection matters.

Fixed income

- Our median forecast for the yield on the 10-year U.S. Treasury is 2.75% by year end.
- Fed rate hikes are likely to be supportive of the U.S. dollar. We expect eight rate hikes in 2022 and the target for the federal funds rate to finish the year at 2.25% - 2.50%.
- Within corporate credit, investment-grade spreads and high-yield spreads have widened back to similar levels seen pre-Covid. We believe corporate fundamentals remain strong in the U.S. However, technicals have likely peaked, in our opinion. The chart below shows the spread of the J.P. Morgan Developed High Yield Index over the past 5 years.

Source: Bloomberg Finance L.P. Used with permission of Bloomberg Finance L.P.

- Within mortgage credit, we continue to find value in commercial mortgages as people return to offices, shopping, and travel. Within residential credit, we expect more modest price appreciation in 2022.
- Emerging market debt will most likely continue to be meaningfully impacted by geopolitical issues, particularly in the short-term. However, we continue to look for opportunities in countries with less direct exposure to geopolitical and domestic policy risks, where we believe global recovery should continue.
- Prepayment sensitive assets such as CMO IOs appear attractively valued as prepayment speeds should continue to slow, given higher mortgage rates and slower home price appreciation.
- We believe municipal bonds will continue to be a high-quality, diversifying investment option especially to equities, as both fundamentals and valuations continue to improve.

RISKS

- Putnam's investment division generally believes the biggest risks going forward are the pace of economic growth, inflation, and the potential for higher interest rates.

OPPORTUNITIES

- Putnam's investment division generally believes the biggest areas of opportunity going forward will be found in high-quality earners across size and style, and structured credit.

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