3Q22 Market Review and 4Q Outlook

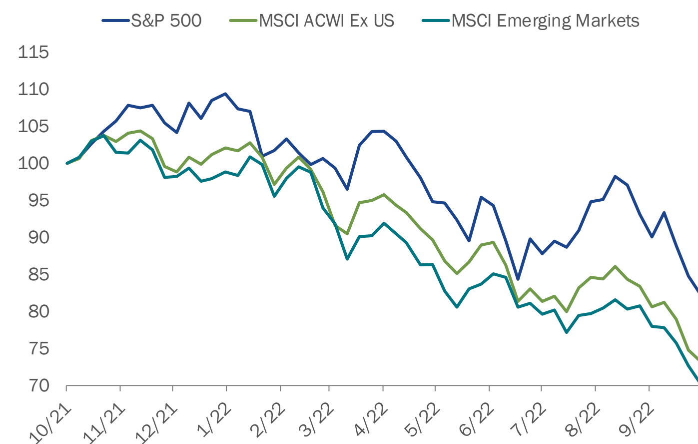
Market Backdrop

Major stock indices backtracked on their recoveries of the summer to close the third quarter at fresh lows, with declines in the S&P 500 Index of just over 25% and the Russell 1000 Growth Index more than 31% year-to-date. Interest rates continued their move higher following the third successive increase of the Federal Reserve Funds policy rate of 75 basis points (bps) in mid-September. The 10-year US Treasury bond yield closed at 3.83%, an increase of nearly 100 bps for the quarter, which, combined with declining growth outlooks across the globe, drove a further increase in the value of the US dollar against other major currencies.

US housing activity and prices, while moderating from their peaks in early 2022, were resilient in the face of a 30-year fixed mortgage rate that has doubled to over 6% since the start of the year. Goods prices, while still broadly elevated, eased somewhat, with oil declining further from its peak in February when Russia invaded Ukraine. Labor markets remained firm, ending September with a higher rate of employment and more people working since the start of 2022.

Russia raised the stakes in its war with Ukraine by formally annexing four territories in Eastern Ukraine as the quarter ended, following a summer of military setbacks at the hands of a Ukrainian army revitalized by a continuing inflow of arms from abroad.

Market Index Performance



As of September 30, 2022. Source: Jennison, FactSet, MSCI.

Style Performance

- All styles were negative in the quarter except for small cap growth, which managed to eke out a slight positive return. Large and midcap growth were the worst performing segments.
- For the trailing one year, value outperformed growth across capitalizations and large cap outperformed mid and small.
- In longer time periods, large-cap growth still leads.

Style Index Performance

3Q22	Value	Core	Growth
Large	-5.6	-4.6	-3.6
Mid	-4.9	-3.4	-0.7
Small	-4.6	-2.2	0.2

Trailing 1-year	Value	Core	Growth
Large	-11.4	-17.2	-22.6
Mid	-13.6	-19.4	-29.5
Small	-17.7	-23.5	-29.3

Trailing 3-Year	Value	Core	Growth
Large	4.4	7.9	10.7
Mid	4.5	5.2	4.3
Small	4.7	4.3	2.9

Trailing 10-Years	Value	Core	Growth
Large	9.2	11.6	13.7
Mid	9.4	10.3	10.9
Small	7.9	8.6	8.8

As of September 30, 2022. Source: Jennison, FactSet, MSCI.

Sector Performance

- In the third quarter, consumer discretionary and energy were the only positive sectors. Communication services and real estate were the weakest, both declining double-digits.
- For the trailing one year, energy significantly outperformed all other sectors. Utilities was the only other sector in positive territory.
- Information technology maintained its lead position for the trailing three-, five-, and ten-years.

GICS Sector Performance - S&P® 500 Index

	3Q	One Year	Three Years	Five Years	Ten Years
Consumer Discretionary	4	-21	7	11	13
Energy	2	46	13	6	4
Financials	-3	-18	5	5	11
Industrials	-5	-14	4	5	10
Health Care	-5	-3	12	10	14
Utilities	-6	6	4	8	10
Information Technology	-6	-20	15	17	17
Consumer Staples	-7	-0	6	8	10
Materials	-7	-12	8	6	9
Real Estate	-11	-16	0	6	8
Communication Services	-13	-39	-0	2	4
Total	-5	-15	8	9	12

As of September 30, 2022. Source: Jennison, FactSet, MSCI.

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There is no guarantee our objectives will be met. All investments contain risk, including possible loss of principal. The strategy may vary significantly from the benchmark in several ways including, but not limited to, sector and issuer weightings, portfolio characteristics, and security types.

Earnings Results

- Second-quarter earnings results overall improved quarter over quarter with 80% of the S&P 500's constituents meeting or beating expectations versus 69% last quarter.
- Utilities and information technology had the best results with 90% and 89% of companies meeting or beating consensus estimates. Industrials and energy companies also continue to post strong earnings, with only 14% missing expectations.
- Communication services and financials turned in the weakest results with less than 70% of companies beating or meeting expectations.

Sector Name	% of Companies Beating/Meeting	% of Companies Missing
S&P 500	80%	20%
Utilities	90%	10%
Information Technology	89%	11%
Industrials	86%	14%
Energy	86%	14%
Consumer Staples	82%	18%
Health Care	81%	19%
Materials	79%	21%
Real Estate	74%	26%
Consumer Discretionary	72%	28%
Financials	67%	33%
Communication Services	63%	38%

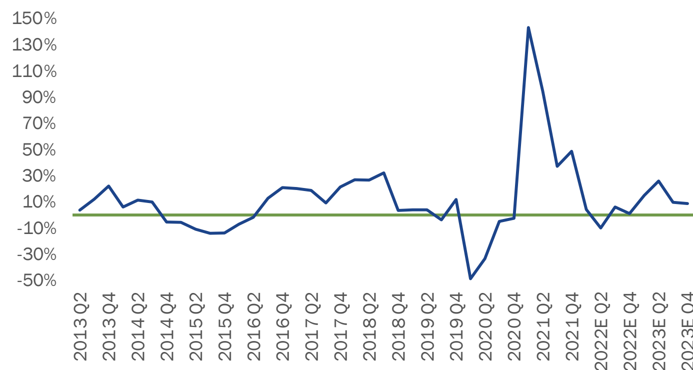
As of September 30, 2022 (most recent available) reflecting the end of the second quarter 2022 reporting season. Source: Standard & Poors

Sector Weights

	S&P 500	MSCI ACWI ex US	Russell 1000 Growth	Russell 10000 Value
Communication Services	8	6	7	8
Consumer Discretionary	12	11	17	6
Consumer Staples	7	9	6	7
Energy	5	6	2	8
Financials	11	21	3	20
Health Care	15	10	12	17
Industrials	8	12	7	10
Information Technology	26	11	43	9
Materials	3	8	1	4
Real Estate	3	2	2	5
Utilities	3	3	0	6

As of September 30, 2022. Source: Jennison, FactSet, MSCI.

S&P 500® Index - YoY EPS Growth



As of September 30, 2022. YoY = Year over Year. Source: FactSet. Forecasts may not be achieved and are not a guarantee or reliable indicator of future results.

S&P 500® Index - NTM P/E

As of September 30, 2022. Source: Jennison, FactSet, MSCI.

Outlook from Jennison's Growth Teams

The Federal Reserve's campaign against inflation continues, with rhetoric backed up by action. Hopes of near-term policy moderation have effectively been dashed, which may accelerate the restoration of a degree of market equilibrium. That said, uncertainty around the near-term path of the economy remains elevated, and tightening into a slowdown complicates the Fed's attempt to orchestrate a soft landing. However, Fed officials have reinforced the need to maintain credibility, so a marked economic slowdown may be a price policymakers are willing to pay.

The Fed's inflation fight has been joined by central banks around the world. Tighter domestic liquidity in many economies and the pain caused by the dollar's surge further cloud the global outlook.

Growth is set to decelerate across Europe heading into a winter that will likely feature industrial shutdowns, fuel rationing and lowered thermostats to offset the loss of Russian gas. Russia's move to formally annex Eastern Ukrainian territory leaves seemingly little room for a resolution of the conflict in the near term and continues to depress sentiment. China is still coming to terms with the impacts of its "COVID Zero" policy, and more lockdowns cannot be ruled out as a result. Policymakers have taken initial steps to alleviate the effects of a mortgage crisis that has embroiled the domestic real estate market, including interest rate reductions to alleviate interest burdens and resuscitate activity.

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Share price declines year to date reflect a combination of an increase in risk aversion and lower price / earnings ratios in the face of higher interest rates. The presumption of slowing growth and possible recession are now challenging revenue estimates and profit margin assumptions. Our continued focus on the fundamental growth prospects for companies requires an understanding of the difficulties and uncertainty created by the macroeconomic environment. We have reduced earnings forecasts for a number securities in the past few months, largely due to US dollar strength.

Most economic slowdowns and recessions in the modern era occurred under circumstances that differed from those confronting investors today. But their aftermaths have generally seen large-cap growth companies generating fundamental outperformance for reasons of innovation, leadership in large and growing addressable markets, and financial stability. We see much to be optimistic about from this perspective and in the context of our multi-year investment horizon. Greater clarity on some of the macroeconomic and geopolitical challenges investors face may be required, before superior fundamentals reassert themselves and share price leadership is reestablished. We continue to feel well positioned for such an environment, given the durable growth opportunities that we seek.

Sector Views

Information Technology

The S&P 500 Index's information technology sector was down 6.3% in the third quarter of 2022, underperforming the broader market S&P 500 (-5.0% in the quarter). After a strong start to the quarter when earnings overall for technology came-in better than the generally pessimistic market expectations, the sector gave-back those gains as more negative news around inflation began to appear in late August.

The short-term difficult macro environment along with negative global economic sentiment expected through 2023 continued to drive stock prices. As a result, multiple compression continued to affect the technology sector's price return. Additionally, the lowering of forward guidance into 2023 for many companies in the secular growth basket is compounding the situation for these stocks. Nevertheless, the longer-term underlying strength in these business models and their secular trends remain solid.

Macro uncertainty is still present due to rising rates (occurring quickly); persistent inflation; the hawkish Fed; energy supply; China turbulence; and the war in Ukraine. These are factors responsible for the elevation of the discounting mechanism for equities. Accordingly, it is not surprising that the longest duration equities (areas such as secular growth and especially technology stocks) had the worst year-to-date performance, and the highest levels of multiple compression. It does not look like the current environment is expected to change in the short-run (risk levels will remain elevated), so on a go-forward basis we can expect continued volatility and consolidation for the technology sector, both relative and absolute.

Nevertheless, we believe the market over the long-term should continue to favor companies with asset-light business models, subscription model revenue streams, disruptive products, large total addressable markets (TAM), and faster organic growth with long runways of opportunity. This is especially true as the overall real economic growth is expected to slow back to its post GFC average. If this occurs, growth will become scarce again and the market will pivot towards the select few companies that can produce it organically.

It is important to recognize that technology is no longer a distinct sector. Rather, it is woven through every industry in which we invest, a backdrop that creates an attractive environment for long-term champions of innovation. For example, we expect continued accelerated CAPEX spend on tech, software, and R&D, especially since these expenditures have now become a "necessity for survival" for businesses instead of a way to reduce costs and a "nice to have." This can be seen across multiple fronts: technology-heavy capital expenditures; Ai/deep-learning, ecommerce strategies; the enterprise transition to the cloud; direct-to-consumer business models; and software applications that extend across businesses. The long-term implications of this change in CAPEX spend will likely be profound.

We also see continued acceleration and long duration technology demand from the massive global millennial population, given their early uptake of so many digital economy related products (many of which are driven through the smartphone) that are solving their real-world problems. We believe these large, global-oriented total addressable markets provide an ample runway for long-duration top- and bottom-line growth, with many disruptive trends expected to double over the next 4-5 years. Historically, earlier stages of mass adoption have spurred more innovation, greater ease of use, and an expansion of the ecosystem, which in turn has kept the virtuous cycle spinning with yet greater adoption.

Strong earnings growth isn't limited to "tech" companies grouped in the index's information technology sector. It extends to other businesses with technologically driven advantages in other sectors. This includes social media companies (classified as "communication services"); internet retailers and electric vehicles ("consumer discretionary"); communication tower companies ("real estate); and medical technology and biopharmaceutical companies ("health care").

Investment Themes & Areas of Focus

- The use of digital technologies to create new (or alter existing) business processes, cultures, and customer experiences has become a strategic imperative as enterprises seek to meet changing business and market needs. This digital transformation has been driven by digital technologies such as social media, mobile devices, artificial intelligence, and cloud computing.
- Software as a service (SaaS), another of these transformative digital technologies, delivers mission-critical cloud applications and services that are disrupting the software industry. Initially adopted by internet- and cloud-native businesses, and still in the nascent stages of utility, SaaS has begun to penetrate the mother lode of large mainstream enterprise markets. As the strategic necessity of implementing software enhancements as they become available becomes increasingly apparent, businesses are being driven to adopt the SaaS model. With penetration rates remaining relatively low, SaaS expansion opportunities over the coming decade look substantial.
- We look for companies positioned to benefit from increased business spending on technology. This includes investing

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in industries such as 5G, SaaS, business intelligence (AI), semiconductors, cloud storage and software, and life sciences tools.

- We think the continued ramping-up of data/information/entertainment usage across a broad range of devices and applications, along with digital payments, are among the areas that offer long-duration opportunities and huge addressable markets for companies with the right technologies. Business and consumer behaviors have clearly changed, with adoption and uptake rates inflecting higher.

Health Care

In 2022's third quarter, the healthcare sector of the S&P 500® Index declined 5%, performing mostly in-line with the overall Index. Additionally, the Nasdaq Biotechnology Index rose 0.7%, outperforming both indices. Over the trailing 12-months, the healthcare sector held up much better than the broad market returning -3% compared to the Index's 15.5% decline.

While the healthcare sector has broadly outperformed year to date, it has largely been driven by larger market cap pharmaceutical, medical device and managed care companies that are able to fund their businesses with cash generated from operations. With that being said, the first half of the year was truly unprecedented for development stage companies as January and April of 2022 were two of the worst months for the S&P Biotechnology Select Index in the past 10 years. The sharp rise in the Federal Funds rate in Q3 2022 drove a trend reversal as large cap, dividend yielding pharmaceutical and device companies within the healthcare index were large negative contributors yielding to better returns from biotech and biopharma companies.

It is our view that the impact from COVID, coupled with many headwinds the sector faced in 2021, have subsided. We believe the sector has begun to show signs of leadership again as investors place more emphasis on stable company fundamentals and the significant alpha generating opportunity that broad healthcare innovation can provide. Furthermore, we believe the proposed drug pricing legislation will be manageable and have a limited impact on the sector. We ultimately believe that clarity on drug pricing removes a six year overhang and may be a long term positive for the sector, in particular, biotech. We are pleased to see the most negative elements of drug pricing reform are off the table. The combination of a "no news" stance out of Washington, coupled with the appointment of a FDA commissioner, should position healthcare well into 2023.

Investment Themes & Areas of Focus

Healthcare is one of the fastest growing sectors in the global economy, which is driving rapid scientific and technological advancements. The convergence of technology and consumerization is fueling an unprecedented flow of innovation to address unmet medical needs and reduce costs. This evolution will have a lasting impact on the patient experience as healthcare is switching to more preventive medicine and an outcome-based economic model. This backdrop presents unique opportunities to allocate capital to multiple healthcare industries.

- We expect that productive research and development activity will yield effective disease treatments that improve the quality of patients' lives. These characteristics historically have been the source of longer-term outperformance in the sector.
- We believe many bio-therapeutic companies have compelling fundamentals and innovative products and pipeline drugs.
- The number of drug candidates in biopharma pipelines continues to be high. Increased research and development investment by large global pharma companies, as well as advancements in drug screening and discovery, are driving the increase in drug candidates.
- Larger multinational pharmaceutical companies, especially those with patent-expiration pressures, will continue to make acquisitions of smaller cap companies with single products or promising pipeline assets.
- Many tools and diagnostic companies are engaged in improving the physician decision making process, accelerating the drug development & approval process and integrating biology faster.
- Medical device companies are improving the quality of life, offering less invasive procedures, increasing the ease of use for both doctor and patient, all of which reduces facility stays.
- The healthcare service companies we focus on are leading sources to improve access to care, increase patient engagement, improve disease management, shift treatments to lower cost, more convenient sites of care, and lower overall cost of care.

Utilities

It was a roller coaster quarter for utilities and the group saw its quarterly relative outperformance that began in December 2021 come to an end. While year-to-date the sector continues to hold its own, the group was whipsawed throughout the last three months. Despite the volatility, quarterly performance was essentially in-line with the S&P 500 heading into the last weeks of September, until the 10-year gapped up and sent the group down more than 12.5% in the last ten days. The group finished the period down 6%, underperforming the negative 5% return of the S&P 500. Late September aside, utilities have largely benefitted from being a "safe haven" sector in 2022, which has helped drive relative outperformance year-to-date.

Despite recent performance, Utilities have seen a meaningful recovery in 2022. The group had been the worst-performing sector on a trailing 2-year basis prior to 2Q22, in spite of strong fundamentals. Even during this period of economic volatility, the companies have continued to execute operationally and deliver strong earnings while also de-risking their portfolios. The gap in performance has closed, with utilities now outperforming the S&P500 by more than 7% over the last 24 months. Continued solid execution, along with the potential growth opportunities from renewable energy investments, should help to drive the sector's earnings going forward. In addition, geopolitical concerns as well as a flattening yield curve, remain macro tailwinds. Strong fundamentals and macro tailwinds underscore the opportunity in the sector, especially given what remains a lower-than-average interest rate environment.

Utilities represents a compelling defensive growth proposition for investors for several reasons, both sector-specific and macro-related:

- The Renewables Opportunity: improving economics in wind and solar power continue to remain a growth driver for the overall sector; companies are only now beginning to incorporate renewables into their capex plans, allowing them to earn a regulated rate of return on their renewable investments.

- Predictable cash flow and earnings: Utilities are by nature a defensive sector and those companies with regulated or quasi-regulated (renewables) businesses generate long-duration cash flows and predictable rate base earnings; in addition to providing stable dividends even in periods of uncertainty, growth in renewables should help drive earnings above the sector's historical 3%-5% growth rate.
- Continued low interest rate environment: even with recent Fed moves, rates remain low from a historical perspective; in a "lower for longer" interest rate environment, utilities should continue to benefit from the lower cost of capital – savings that eventually should flow directly to the bottom-line.
- Policy tailwinds: the Inflation Reduction Act (IRA) contains many provisions that are supportive of renewables development over the next decade as the US aims to lower carbon emissions, and should help to sustain dividend growth.

Investment Themes & Areas of Focus

- Regulated Utilities - companies operating in favorable regulatory environments and geographies, with above-average projected earnings and/or dividend growth driven by regulatory rate-base investment.
- Renewable Electricity – the energy transition is driving ongoing investment and usage of renewables and should continue to provide unique investment opportunities over the long-term.
- Water Utilities – a focus on improving water quality, as well as pipeline replacement and maintenance, provides 10-years of transparency into spending and income plans.
- Midstream Energy - specifically companies with exposure to natural gas, a critical bridge fuel.
- Communications Infrastructure - tower operators provide critical infrastructure and strong free cash-flow generation due to multi-year contracts.

Midstream Infrastructure

Despite bumpy performance in the third quarter, midstream infrastructure continues to be a strong performer in the almost two years since the COVID vaccine announcement. While midstream – and energy broadly – outperformed the S&P500 once again in the third quarter, most of that relative outperformance came in the first two months. Energy was one of the worst-performing sectors of the market for most of September, before recovering slightly in the last week of the month. Despite the fact that fundamentals and cyclical tailwinds remain intact, broader macro concerns heightened heading into the fall and weighed on the group. Midstream held up better than all other energy sub-sectors except the refiners in September and was the best-performing segment for the quarter. For the full 3-month period, the Alerian MLP Index gained 7.97%, outperforming the S&P500 index by more than 1200bps.

Midstream energy has been a sector in transition for several years. Most of the larger companies took decisive measures to conserve cash and "right-the-ship" during the pandemic, and we believe this disciplined behavior will continue. Cash-flow metrics have improved across the board after companies reduced capex and growth spending over the last two years. Many larger companies are now free cash flow positive for the first time, an important inflection point reached in 2021. Added cost reductions and increased asset optimization should continue to fortify balance sheets, while offering management teams further opportunities to reduce debt levels as well as return cash to shareholders.

Recent weakness aside, improvements in fundamentals were finally starting to be reflected in stock prices. While a recovery is clearly underway, it will likely continue to be non-linear, as the world is still dealing with COVID and intermittent lockdowns in China, an ongoing war in Eastern Europe, and recessionary concerns. While it is likely that we have seen the last of severe global economic shocks due to the pandemic, hiccups along the way – whether pandemic- or geopolitically-induced – should be expected. However, as economic activity normalizes, stocks should increasingly price in the long-term positive benefits from the significant transformational corporate reform that has occurred over the past few years. The group is well-positioned for performance beyond the cyclical recovery.

The global energy transition will require multiple sources of energy to be successful. Hydrocarbons will continue to have a role, driving future demand not just for the commodities but for the essential logistical systems that move them. With physical steel in the ground, midstream infrastructure companies have difficult-to-replicate asset networks with high barriers to entry, and whose adaptability to transport other energy sources is underappreciated. Management teams are increasingly aware of the role they will play in our energy future, focusing not just on the environmental impact of their operations but also on how their asset bases can and will be part of a greener future.

Investment Themes & Areas of Focus

- "Reformed" companies – those companies exhibiting greater capital discipline, and healthier, more conservative balance sheets that can withstand a downturn, along with improving ESG metrics such as solid corporate governance.
- Integrated business models – the larger, more integrated companies with multiple touch points along the energy value chain, higher barriers-to-entry, and steady cash-flows.
- Firms with exposure to the natural gas liquid (NGL), liquefied natural gas (LNG), and natural gas demand export themes.
- Companies with liquids exposure that will benefit from the re-opening of the economy.
- Renewable energy companies to get exposure to an area of significant growth as part of the global energy transition.

Financials

In what was another difficult environment in the third quarter, the financials sector of the S&P 500 returned -3.3% and outperformed the broader S&P 500 index, which declined 5%. While the expectation of Fed hikes was a tailwind for Financials earlier in the year, this has since been offset by geopolitical conflict and inflationary pressure which have given rise to increased concerns that we may be headed toward a hard-landing recession. The sector would be negatively impacted if this would occur, specifically around higher credit losses and slowing consumer/business activity. This concern has showed-up across all risk assets, for example high yield spreads remained at elevated levels throughout the quarter.

While the sector's fundamentals are experiencing some labor cost pressures, this has been offset by improved tech driven efficiencies and generally better overall operation of the businesses by management. Nevertheless, the market is less concerned with

** MLP-structured investment may have different tax outcomes for investors in different jurisdictions.*

these dynamics and is solely focused on the expectation of a future economic slowdown and the course of Fed tightening. For the quarter within the sector, capital markets did the best at only down slightly (perhaps stabilizing in price return after a very difficult first half) with the rest of the industry groups generally down 2-3%.

Equity returns today have now been hampered by the evolving difficult forward macro environment. The drivers behind this are rising rates beyond expectations (occurring quickly); persistent inflation; the hawkish Fed; energy supply; China turbulence; and the Ukraine invasion. We now have much higher uncertainty, thus the resulting a sharply higher discounting mechanism for equities. With market expectations coalescing around a possible recession (mainly induced by the Fed having to over-tighten to control inflation), Financials would be negatively impacted by potential falling consumer and business confidence and eroding credit conditions.

Despite the gathering storm clouds, from a relative basis the current environment is supportive of banks given modest loan growth, improving interest income from rising rates, ample loan loss reserves, and credit conditions that remain solid enough to absorb some expected deterioration. Property and casualty insurance remains a safe haven given its defensive nature and strong pricing dynamics. Additionally, both of these industries have attractive valuations and reasonable earnings floors to support the stocks under a more difficult macro environment.

Investment Themes & Areas of Focus

Overall, banks are significantly better-positioned today than they were in 2008-2009 financial crisis across a broad range of balance sheet, capital, and risk management metrics.

With the rapid rise in rates since the summer of 2021, valuations in the sector have normalized. Tailwinds for future bank earnings growth will be primarily driven by solid loan demand and credit conditions from strong economic growth; ongoing expansion of their fee based business opportunities; and continued efficiency improvements through better use of technology.

Fundamentals for P&C insurance companies are solid (driven by favorable pricing dynamics) and valuations remain attractive.

As a return to normalized growth plays out over time, secular growth companies with defensive attributes (low leverage rates, asset light models, sustainable, high margin, and high free cash flow businesses) should fare better. Several digital payment and financial technology companies meet these criteria.

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