

ClearBridge

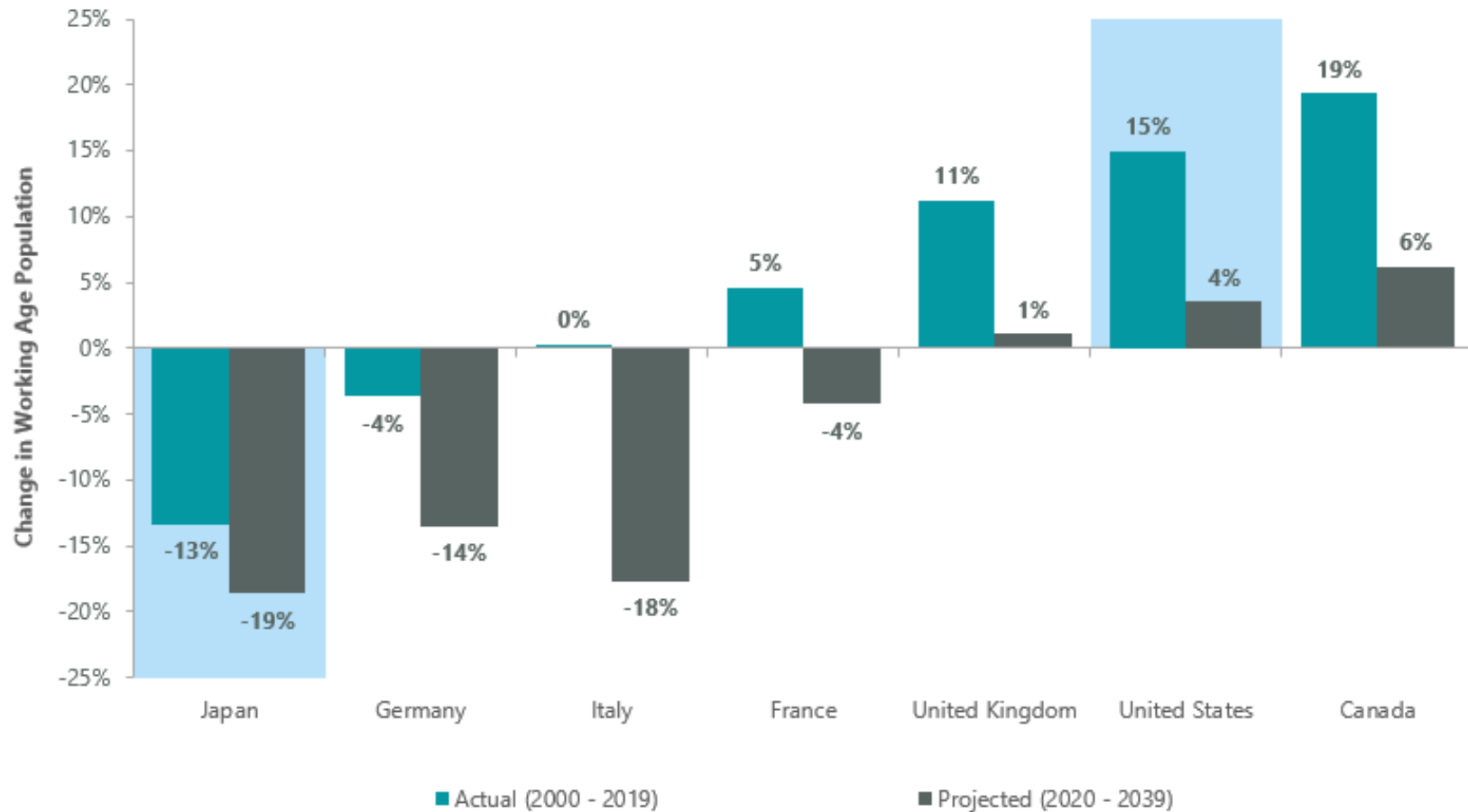
Investments

Demographics

Second Quarter 2021

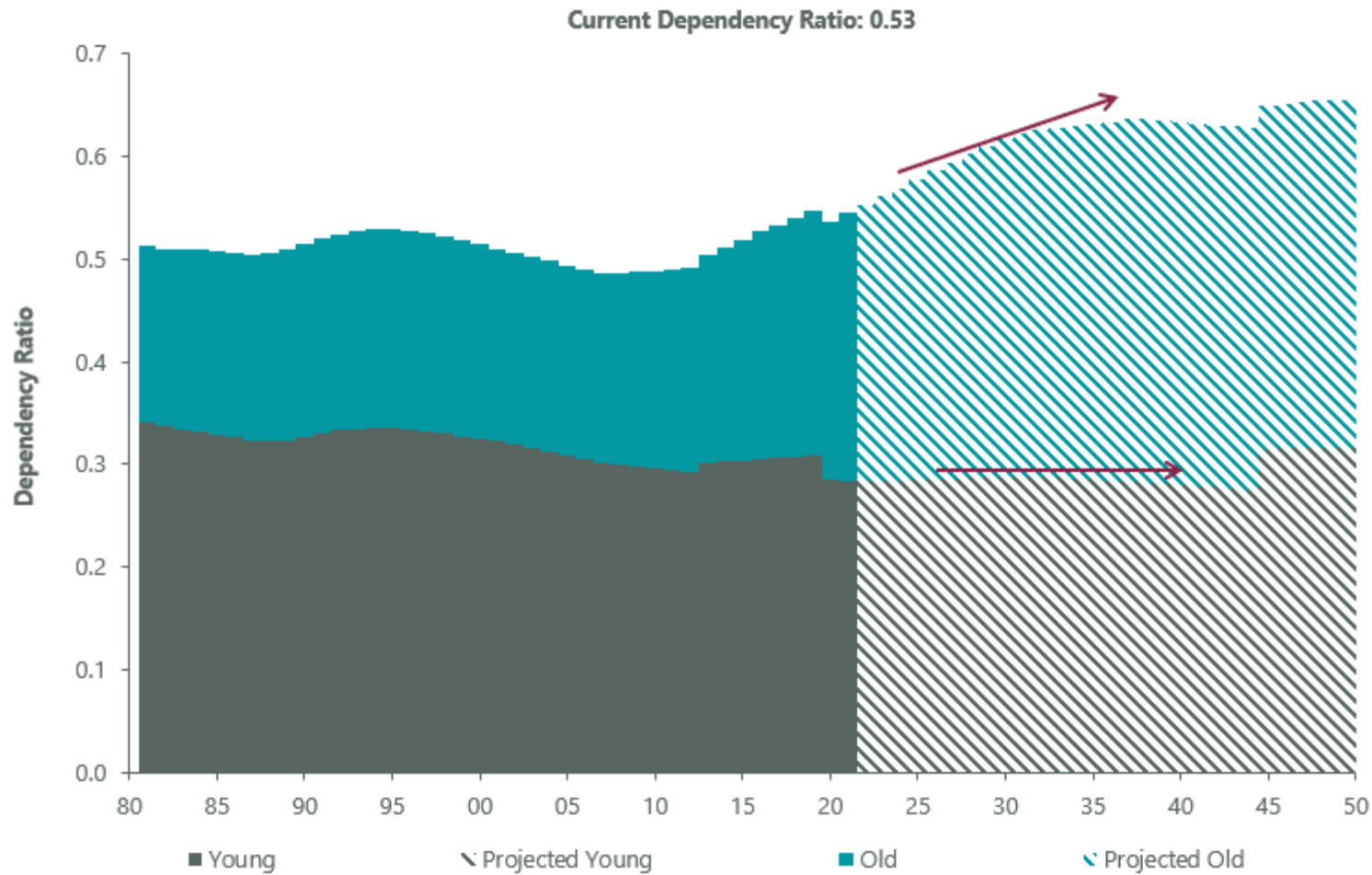
Past performance is no guarantee of future results. Financial term and index definitions are available in the appendix.

U.S. Demographic Profile Among Developed World's Best



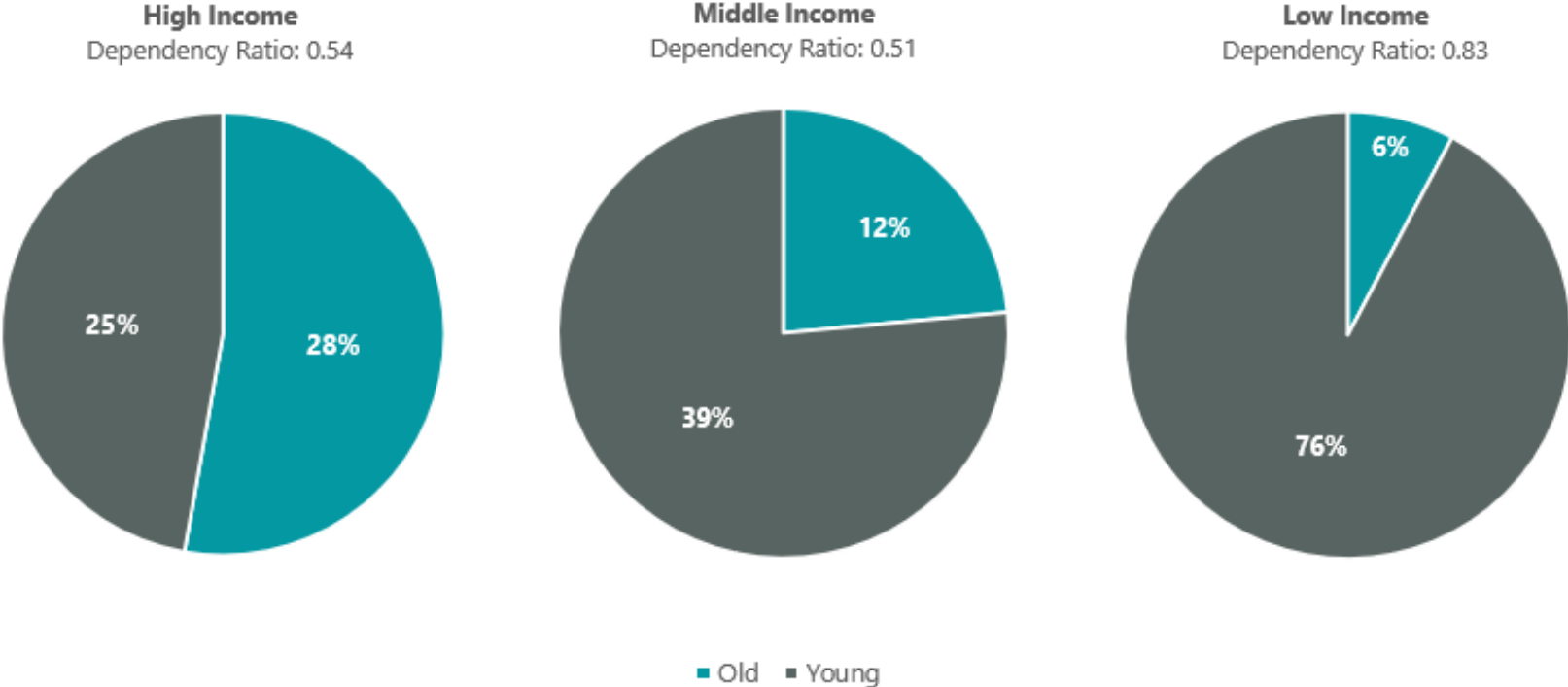
► **Fear of “Japanification” in the U.S. may be overblown due to a more favorable demographic profile.**

Young Dependency Ratio vs. Old Dependency Ratio



2019 Dependency Ratio Breakdown

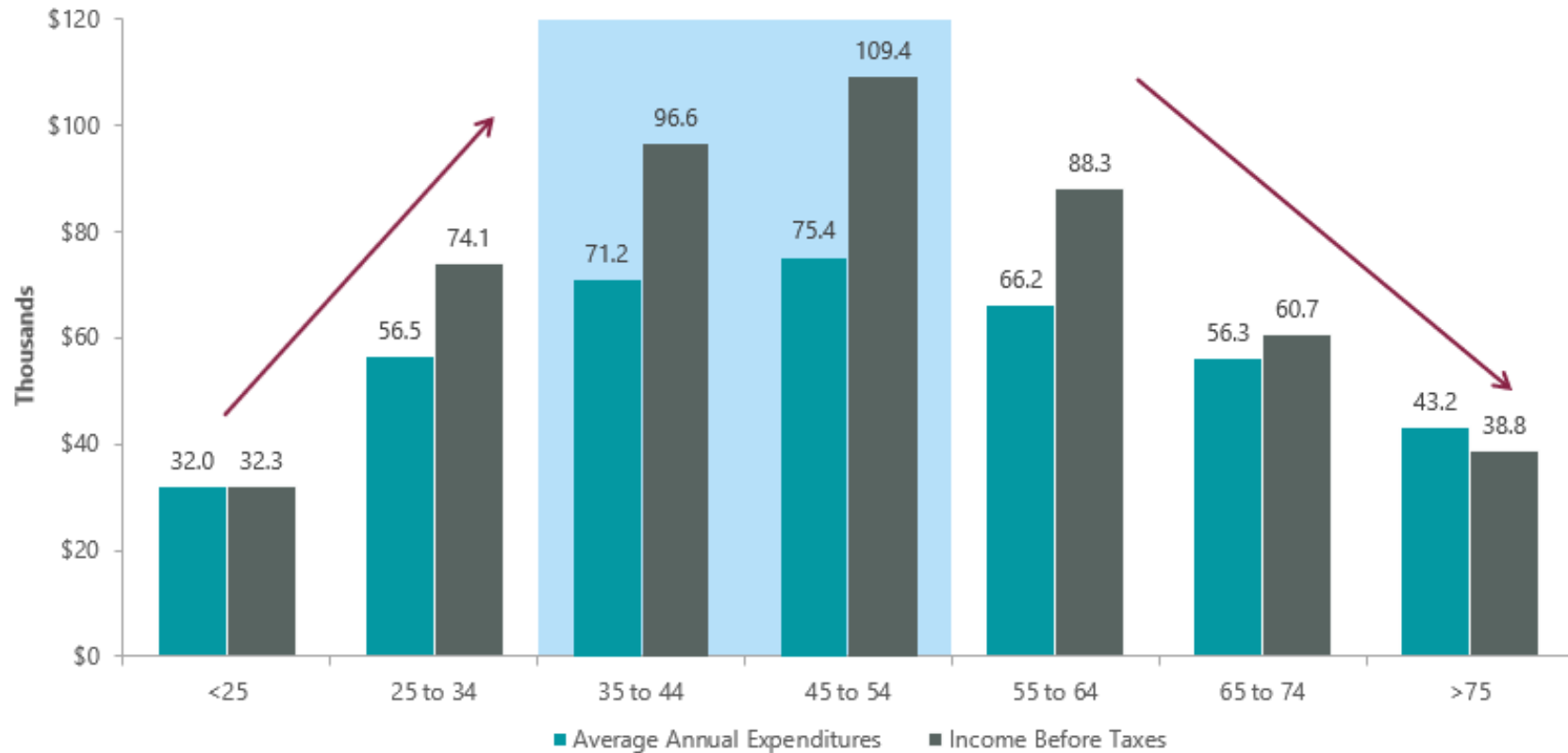
Old vs. Young for High/Middle/Low Income Economies



As of December 2019. Source: World Bank.

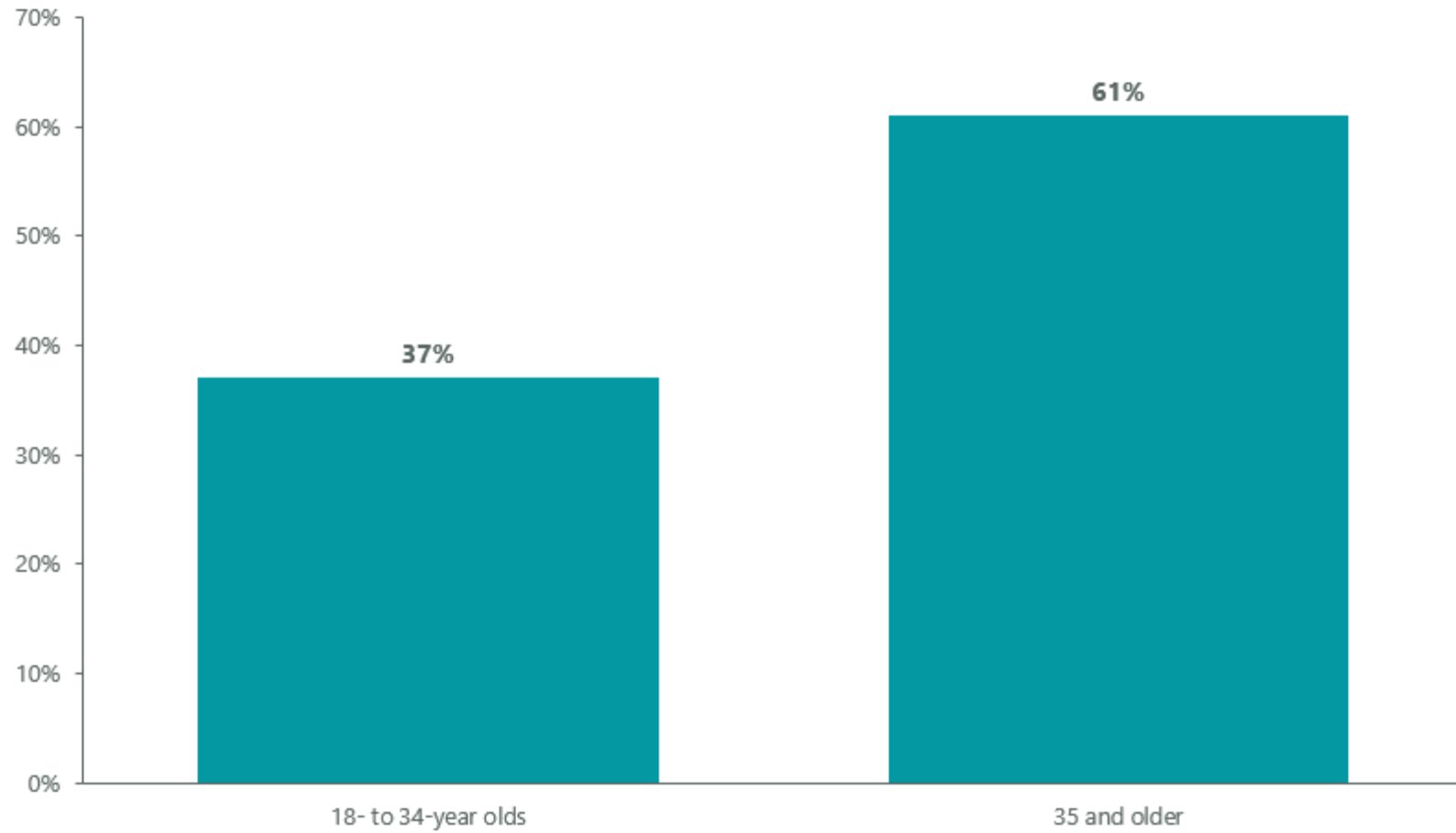
The Earnings and Spending Lifecycle

U.S. Consumption by Age (2018)

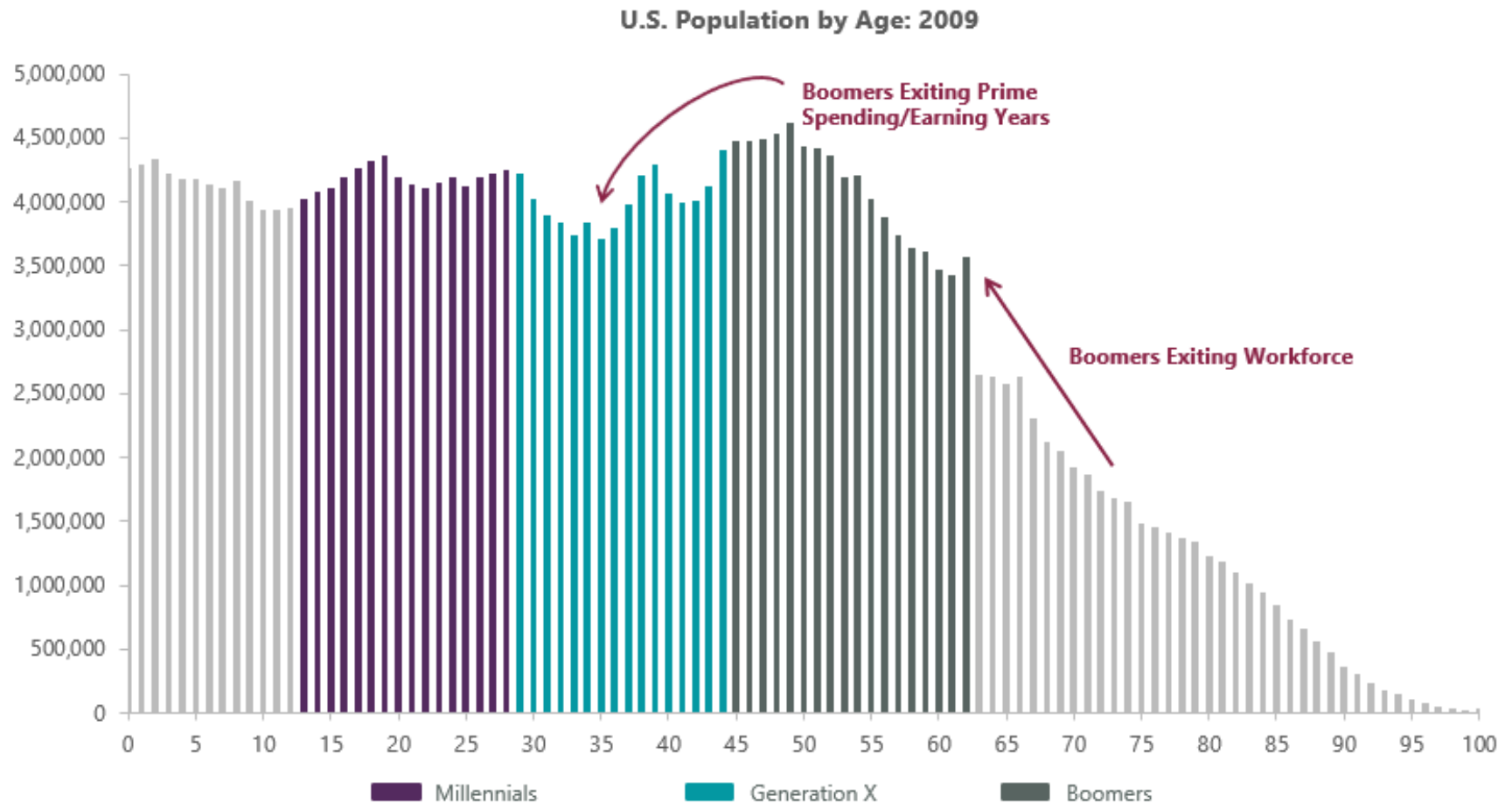


- ▶ **Individuals typically reach their peak earnings and spending years between the ages of 35 and 54.**
- ▶ **As a result, the share of the population in this age range has a strong influence on economic growth and financial markets.**

U.S. Stock Ownership by Age - 2018

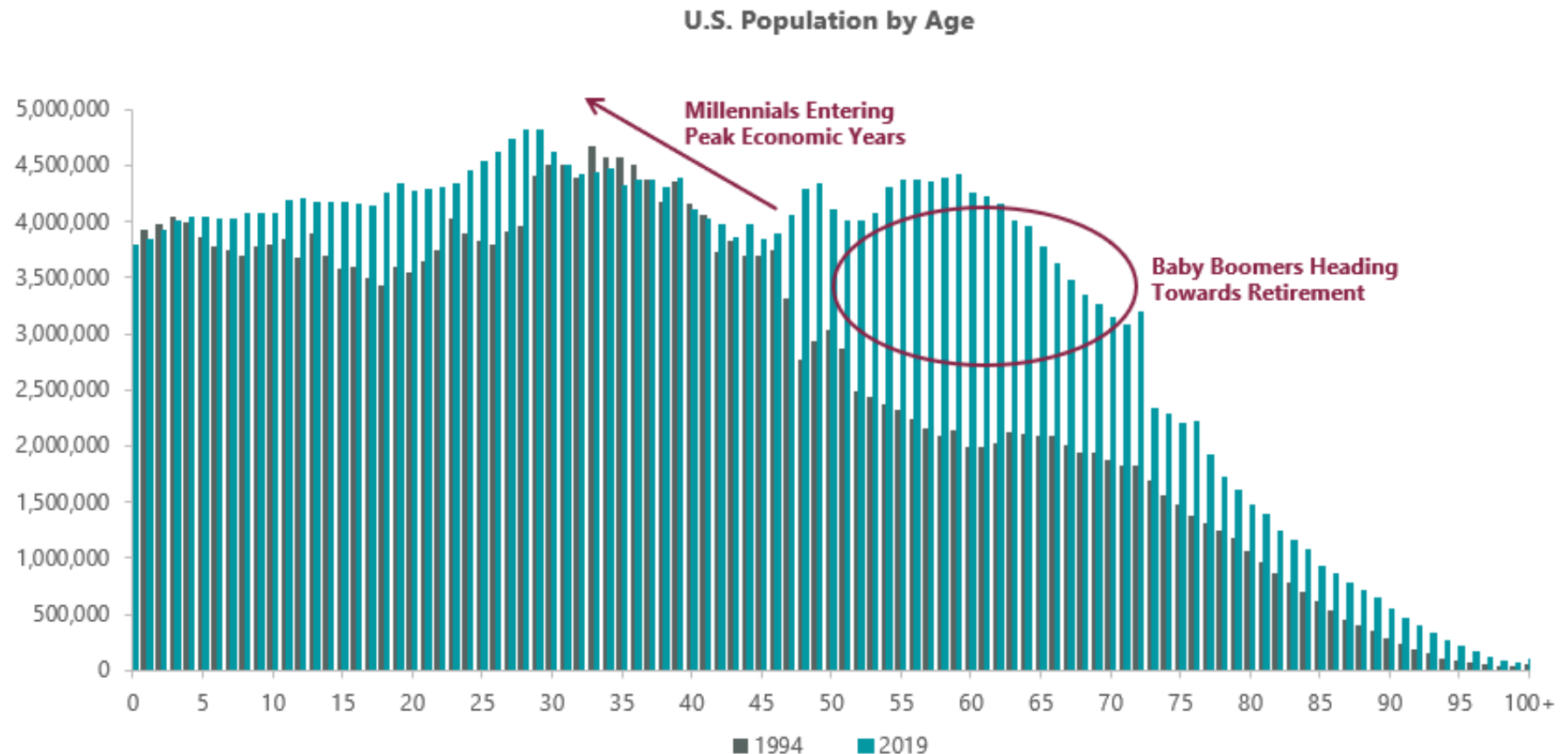


2009 Demographic Headwind



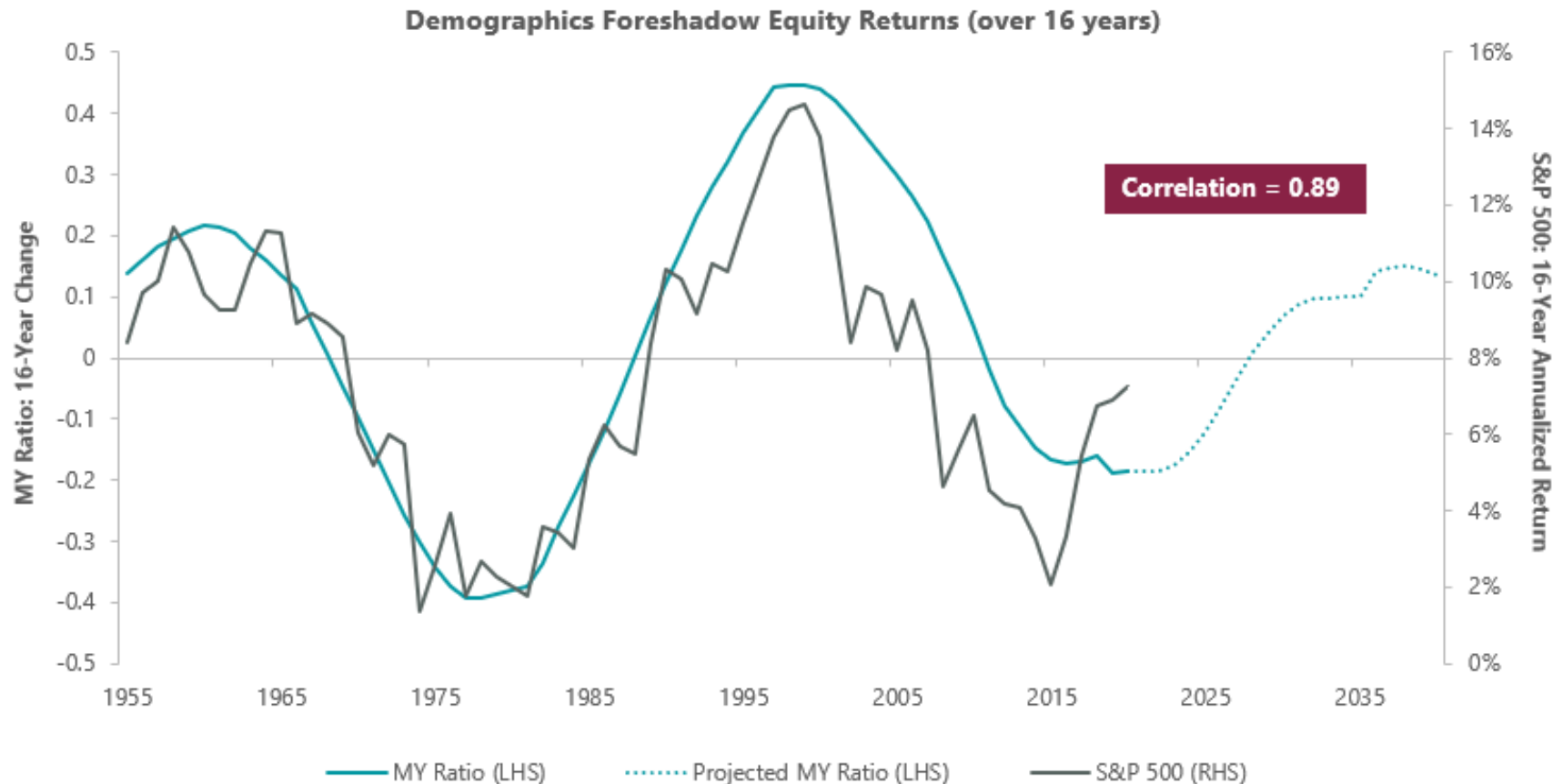
- ▶ **In the wake of the GFC, poor demographic trends were a headwind to economic growth as the Baby Boomers aged out of the workforce.**
- ▶ **The smaller size of Gen X meant fewer individuals in their prime spending and earning years.**

2019 Demographic Tailwind Similar to 1994



- ▶ **Similar to the mid-1990s, demographics should be a tailwind for economic growth as the Millennials enter their prime earning and spending years.**
- ▶ **This impulse should be somewhat dampened compared to 1994 due to the larger cohort of retirees today.**

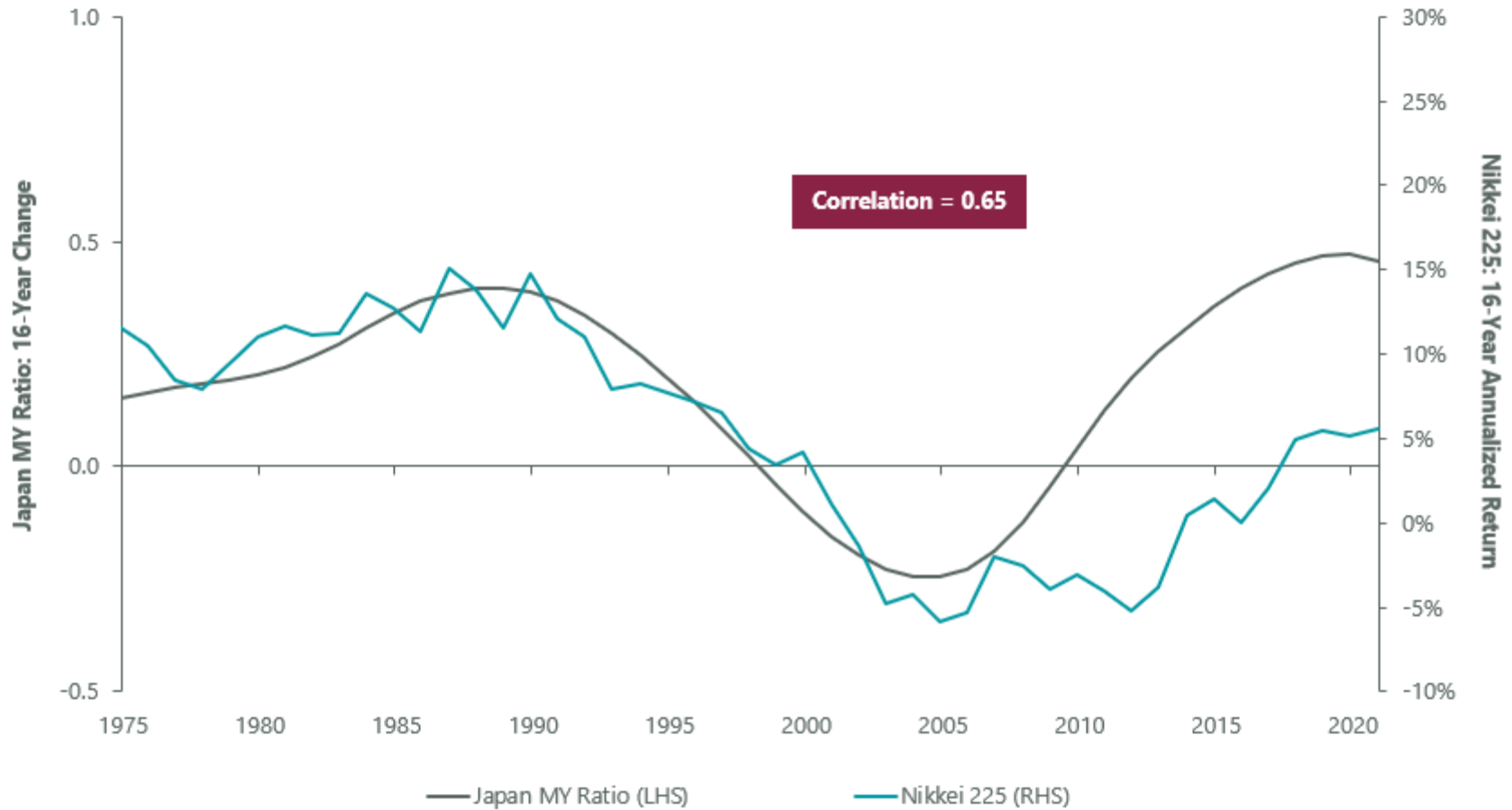
Middle vs. Young (MY) Ratio



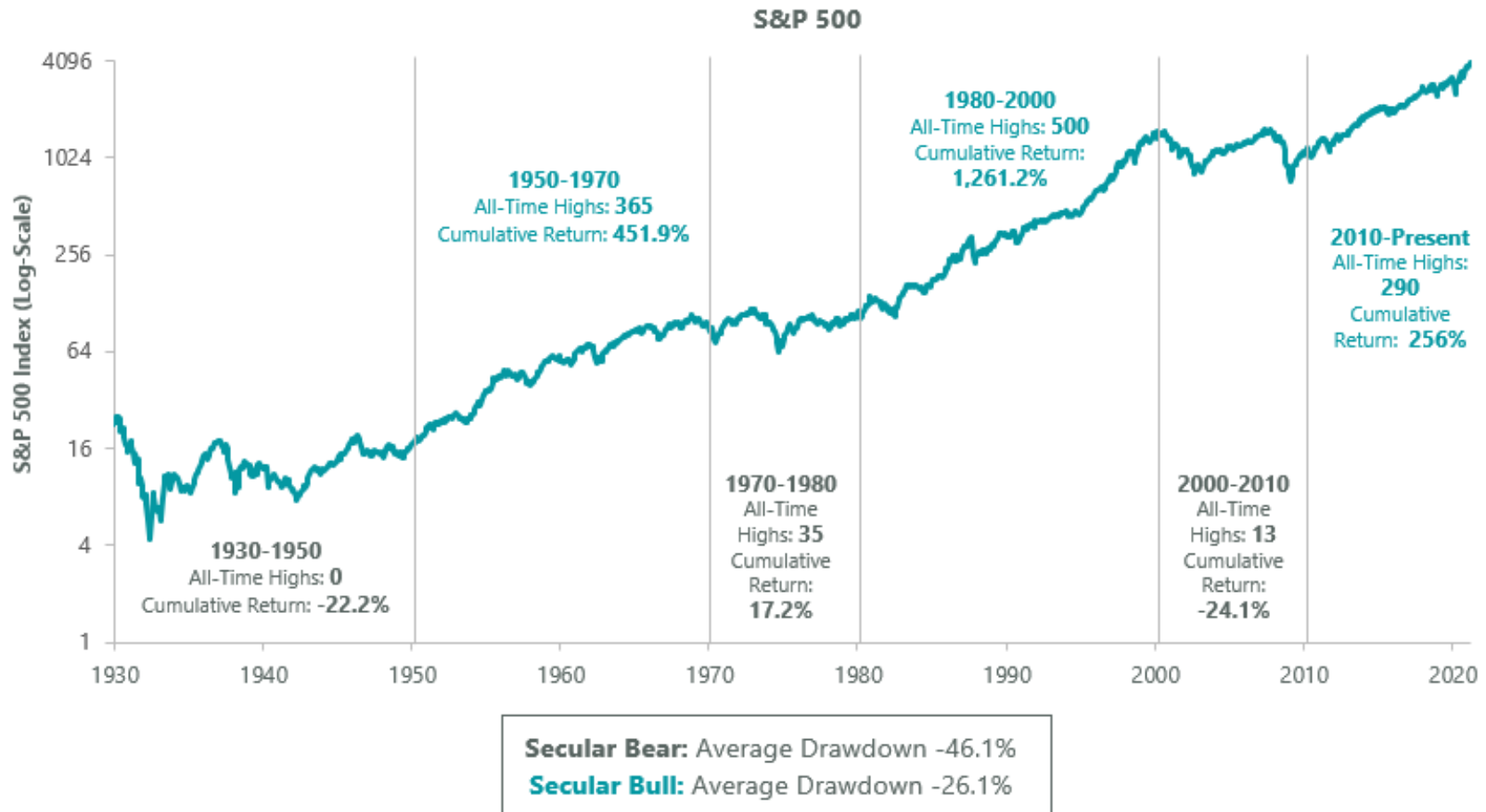
- ▶ **A growing share of middle-age (35-49), relative to younger (20-34), workers has historically coincided with stronger equity market returns.**
- ▶ **The demographic profile of the U.S. suggests a healthy environment for stocks well into the 2030s.**

Source: Census Bureau, S&P, and Bloomberg. Note: Census Bureau Forecast is based on 2017 National Population Projections. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Japan MY Ratio vs. Nikkei 225



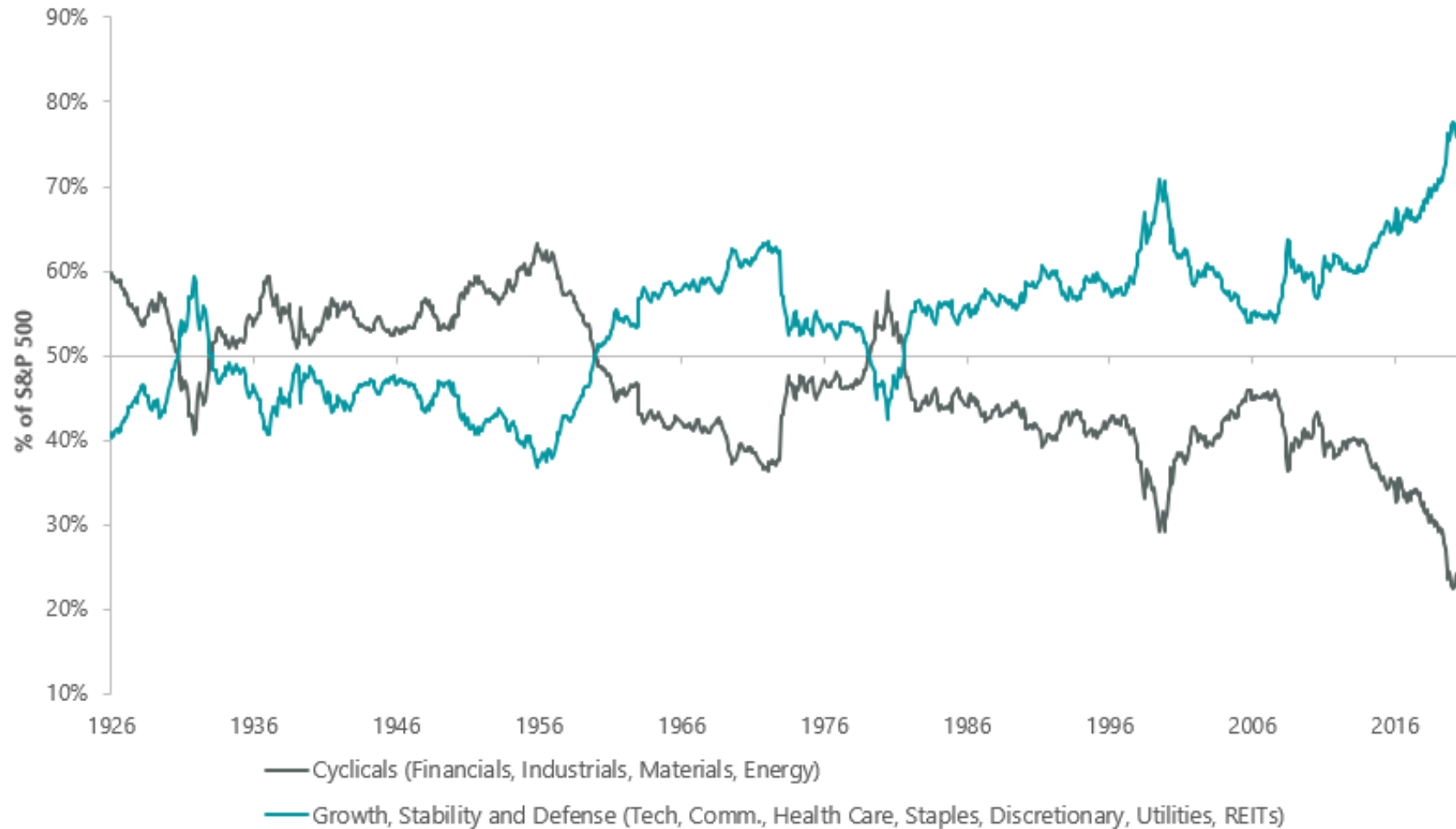
New Secular Bull Market?



- ▶ **In the 12 months following an all-time high, stocks have historically been up 8.6% on average with positive returns 71% of the time.**

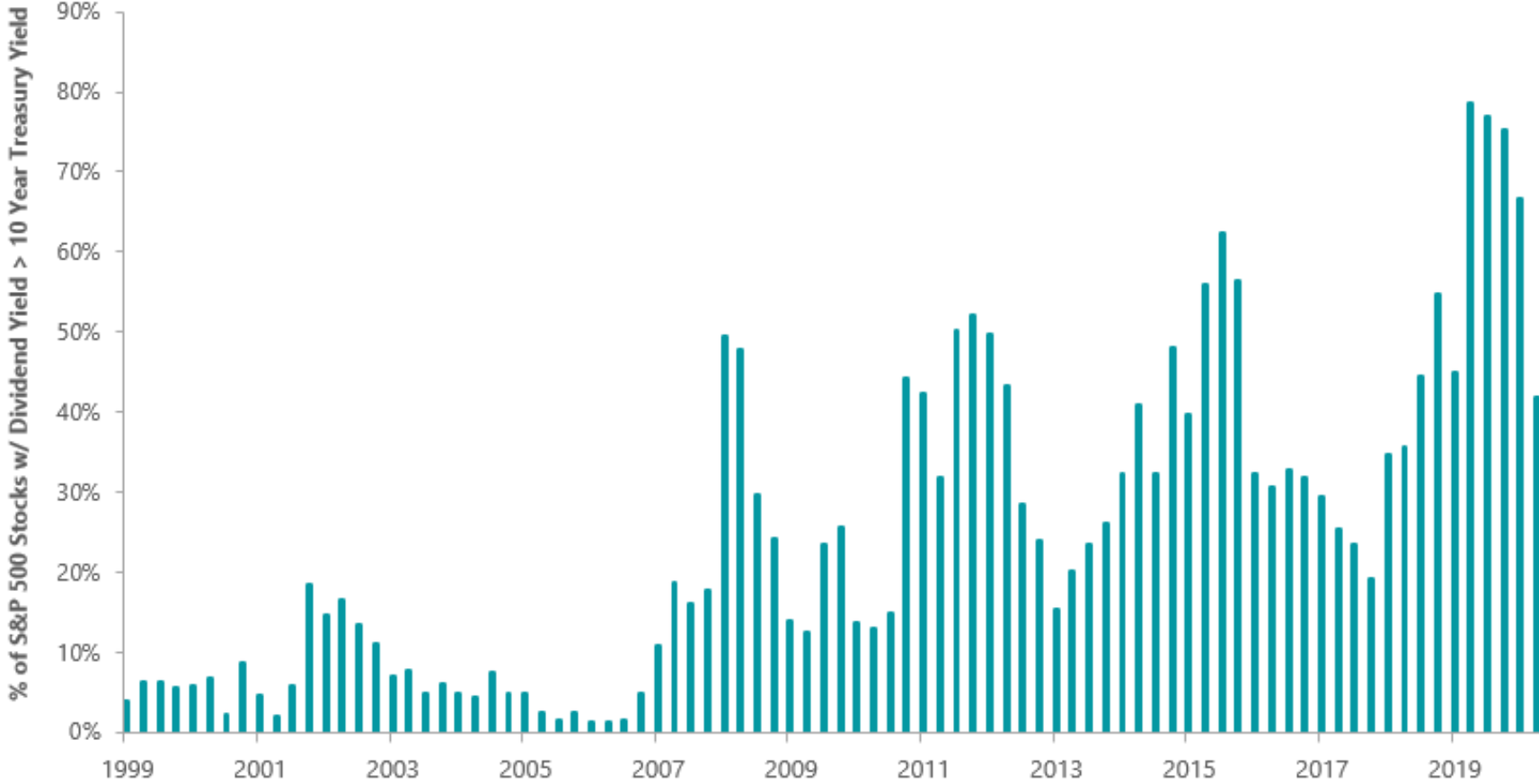
Index Composition Supports Higher P/Es

Cyclical Sector Representation is Near a 100-Year Low



▶ **Less-volatile sectors are typically rewarded with higher multiples. These groups make up a near-record share of the S&P 500 today.**

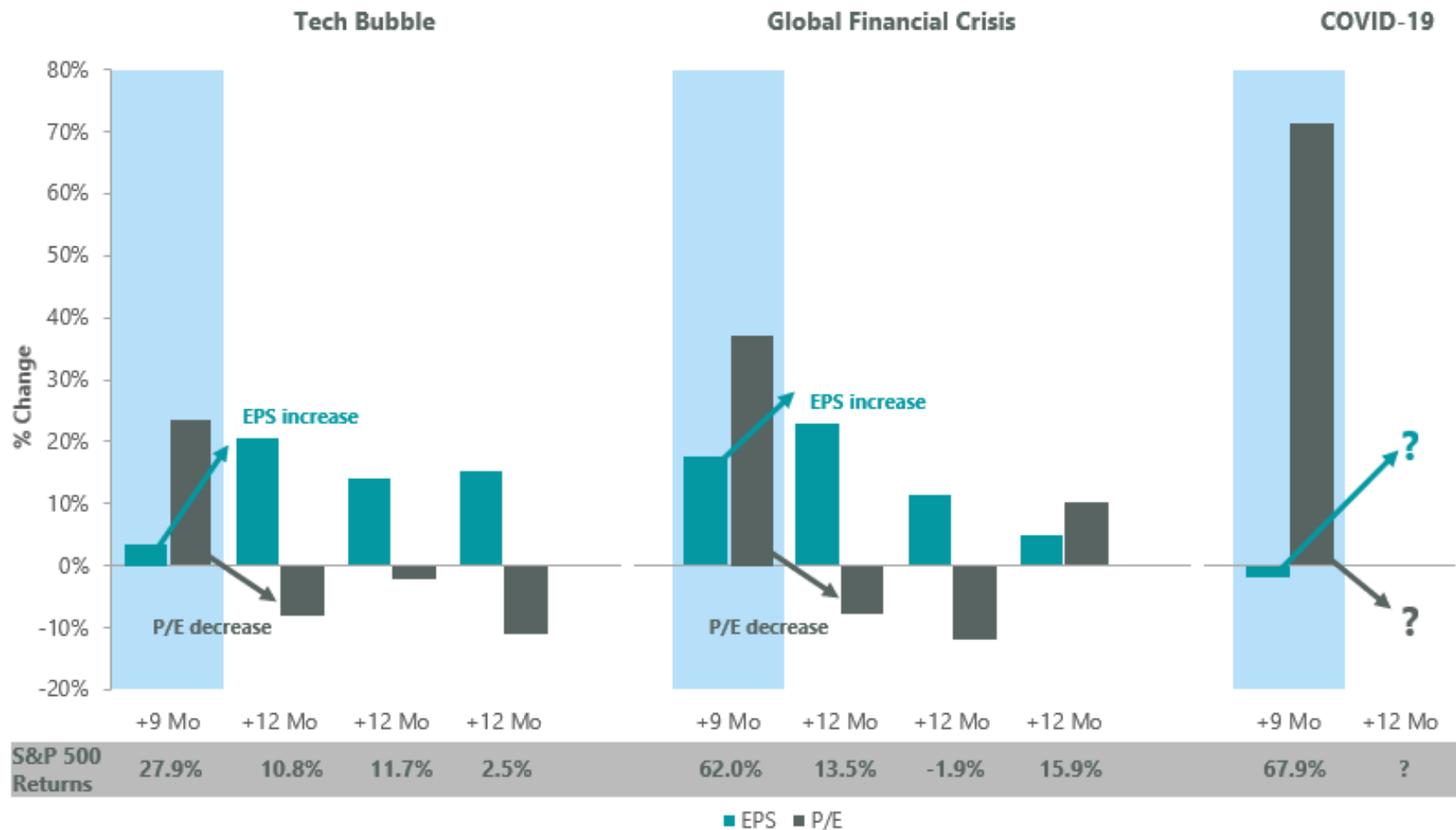
Dividend-Paying Equities Attractive



► **42% of S&P stocks now have a dividend yield greater than the 10-year Treasury.**

As of March 31, 2021. Source: FactSet. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

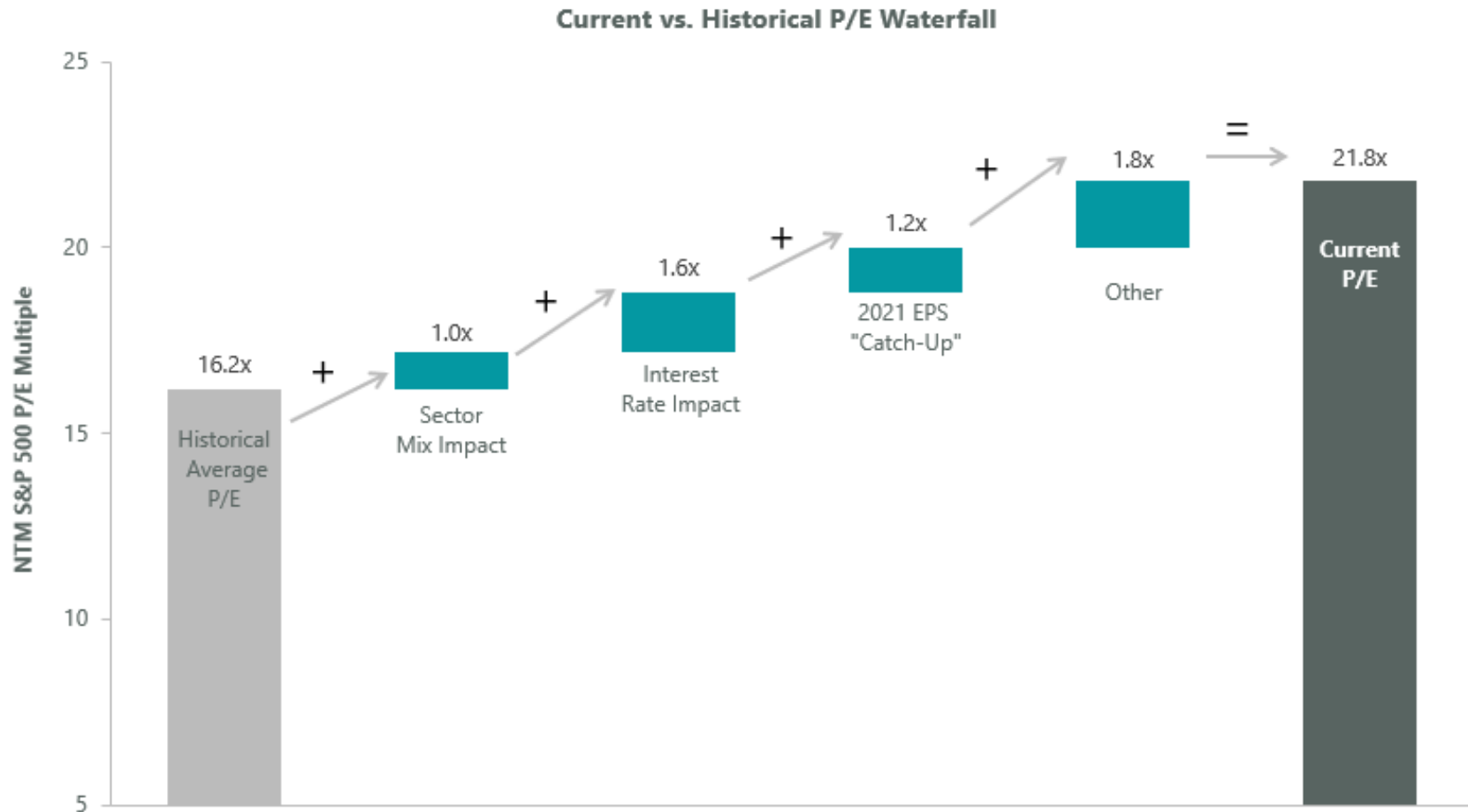
Earnings to Take the Baton



- ▶ **In the nine months following recessionary troughs, multiple expansion has been an outsized contributor to returns.**
- ▶ **As the recovery matures, earnings typically drive stock upside as multiples contract.**

Data as of Dec. 31, 2020, latest available as of March 31, 2021. Source: FactSet, S&P. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Just How Stretched are Valuations?



- ▶ **Current valuations appear rich relative to history. Much of this can be explained by sector mix differences, lower interest rates, and an expected earnings "catch-up" in 2021.**

Glossary of Terms

BEA: Bureau of Economic Analysis

Black Swan: An unlikely and unpredictable event with potentially extreme consequences for markets.

Bloomberg Barclays US Aggregate Bond Index: an unmanaged index of U.S. investment-grade fixed-income securities.

Bloomberg Barclays US Corporate Investment Grade Bond Index an unmanaged index of U.S. investment-grade corporate bond securities.

Capex (Capital expenditures): corporate spending on productive assets (such as buildings, machinery and equipment, vehicles) intended to increase capacity or efficiency for more than one accounting period.

CPI (Consumer Price Index): measure of the average change in U.S. consumer prices over time in a fixed market basket of goods and services as determined by U.S. Bureau of Labor Statistics.

EPS (Earnings per Share): the portion of a company's profit allocated to each outstanding share of common stock.

ERP (Equity Risk Premium): the excess return that an individual stock or the overall stock market provides over a risk-free rate. **ERP tranche** refers to statistical segments of ERP data used for relative comparison.

FAANGM: Shorthand term for a group of leading technology stocks including Facebook, Apple, Amazon, Netflix, Google/Alphabet, and Microsoft.

GDP: Gross Domestic Product

GFC (Great Financial Crisis): the severe economic and market downturn experienced in 2007-2008.

DAX: Blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Fed (Federal Reserve Board): the U.S. central bank, responsible for policies designed to promote full economic growth, full employment, and price stability.

IFO: The Ifo Institute for Economic Research is a Munich-based research institution.

Mortgage Bankers Association (MBA) Purchase Index: measure of relative change over time in mortgage applications for property purchases

MSCI All Country World Index: unmanaged index of large- and mid-cap stocks in developed and emerging markets.

MSCI EM Index: unmanaged index of large- and mid-cap stocks in 27 emerging market countries.

MSCI EAFE Index: unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia.

MSCI USA Index: unmanaged index of US large- and mid-cap equity securities.

NAREIT All-Equity REITS Total Return Index: free-float-adjusted market capitalization weighted index that includes all tax qualified REITS listed in the NYSE, AMEX and NASDAQ National Markets.

NFIB (National Federation of Independent Business): a U.S. small business advocacy association, representing over 350,000 small and independent business owners.

Glossary of Terms

NFIB Small Business Optimism Index: measure of small business sentiment produced by the National Federation of Independent Business based on its monthly survey of small business owners.

P/E Ratio: Price/Earnings ratio

PMI: Purchasing Manager's Index

Quantitative easing (QE): Monetary policy implemented by a central bank in which it increases the excess reserves of the banking system through the direct purchase of debt securities.

Russell 1000 Growth Index: unmanaged index of large-cap stocks chosen for their growth orientation.

Russell 1000 Value Index: unmanaged index of large-cap stocks chosen for their value orientation.

Shibor: Shanghai Interbank Offered Rate

S&P MidCap 400 Index: unmanaged index of 400 US mid-cap stocks

S&P 400 Growth Index: unmanaged index of mid-cap stocks having higher price-to-book ratios relative to the S&P 400 MidCap as a whole.

S&P 400 Value Index: unmanaged index of mid-cap stocks having lower price-to-book ratios relative to the S&P 400 MidCap as a whole.

S&P 500 Growth Index: unmanaged index of large-cap stocks selected based on sales growth, the ratio of earnings change to price and momentum.

S&P 500 Value Index: unmanaged index of large-cap stocks selected based on the ratios of book value, earnings, and sales to price.

S&P 600 Index: unmanaged index of 600 US small-cap stocks

S&P 600 Growth Index: unmanaged index of US small-cap growth stocks, selected based on sales growth, the ratio of earnings change to price, and momentum.

S&P 600 Value Index: unmanaged index of US small-cap value stocks, selected based on ratios of book value, earnings, and sales to price.

S&P 500 Index: Unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.

VIX: VIX is the ticker symbol and the popular name for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Yield Curve: Comparison of interest rates at a point in time of bonds with equal credit quality but different maturity dates.

YoY: Year Over Year

U.S. Treasurys: Direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasurys when the securities are held to maturity. Unlike U.S. Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

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Past performance is no guarantee of future results.

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