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Capital Expenditures Outlook

As of December 7, 2021

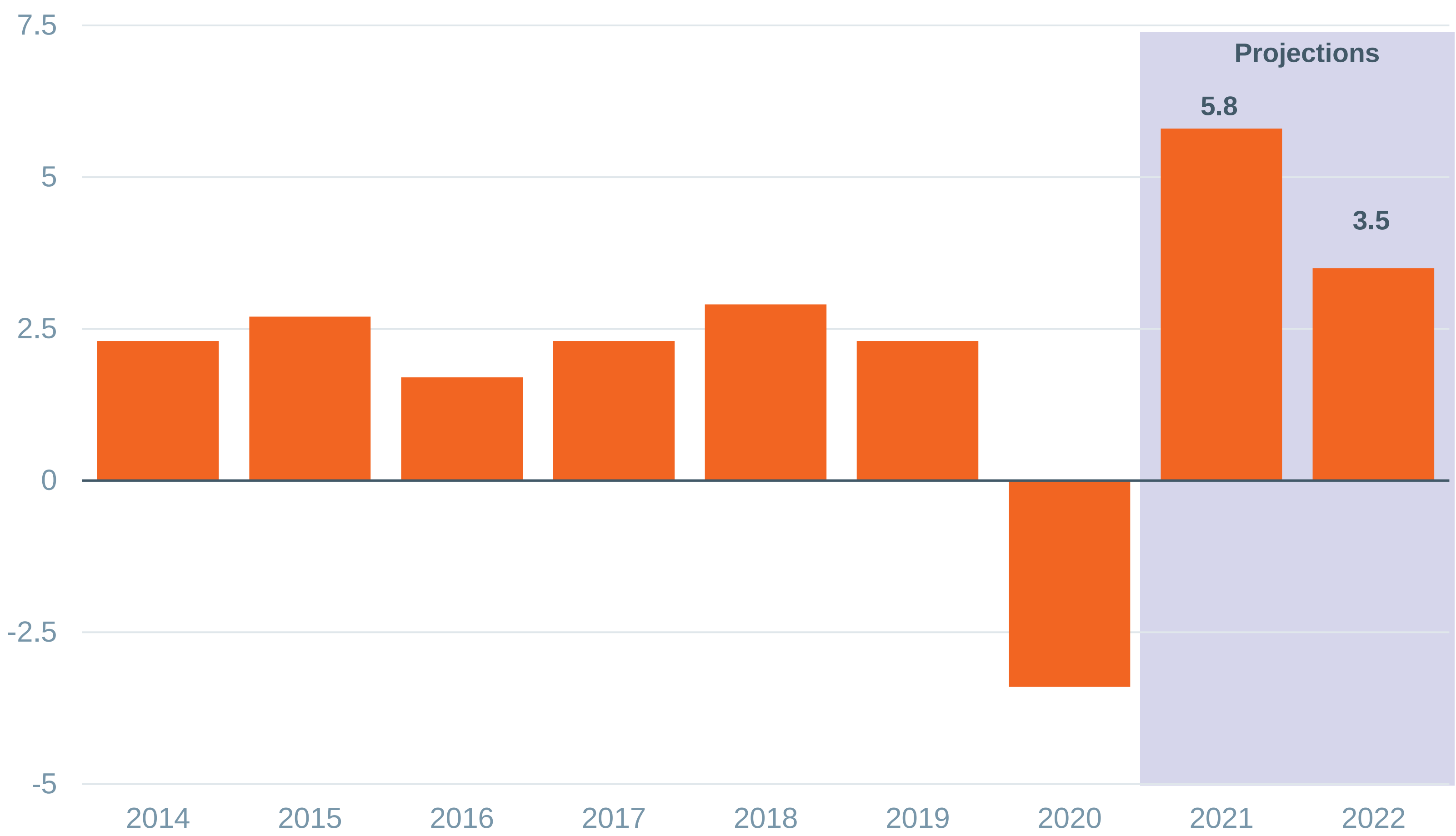
Key Takeaways

- We expect GDP growth to moderate from its rapid pace in 2021 but to remain above trend in 2022.
- A tech-led business capital expenditure (capex) recovery is underway and separates the overall performance of business spending in this cycle compared with previous cycles
- Conditions for further strength in capex remain in place: company bank balances remain elevated, credit conditions remain supportive, and our expectations are that the Federal Reserve (Fed) rate hike cycle will be gradual
- The bipartisan infrastructure bill, along with the potential for additional infrastructure stimulus, should be supportive of capex for several years
- Risks to the capex outlook include the potential for higher corporate taxes, a more-aggressive-than-expected rate hike cycle, and uncertainty around structural shifts in consumer behavior in the post-pandemic economy
- We expect solid capex to bolster GDP growth and productivity in the year ahead, though the pace may slow after a rapid run-up in 2021

Economic Growth Set to Slow as Fiscal Impact Fades

In the U.S., we expect slower economic growth in the second half of 2021 and overall growth of 5.8% for the year, then a deceleration in 2022. Consumer spending, rebuilding of inventories, and capex are all sources of growth. Our forecast includes a potential boost from additional infrastructure stimulus, which is also a driver of growth but not enough to offset the drag from the roll of pandemic fiscal stimulus.

Real gross domestic product (GDP, %)

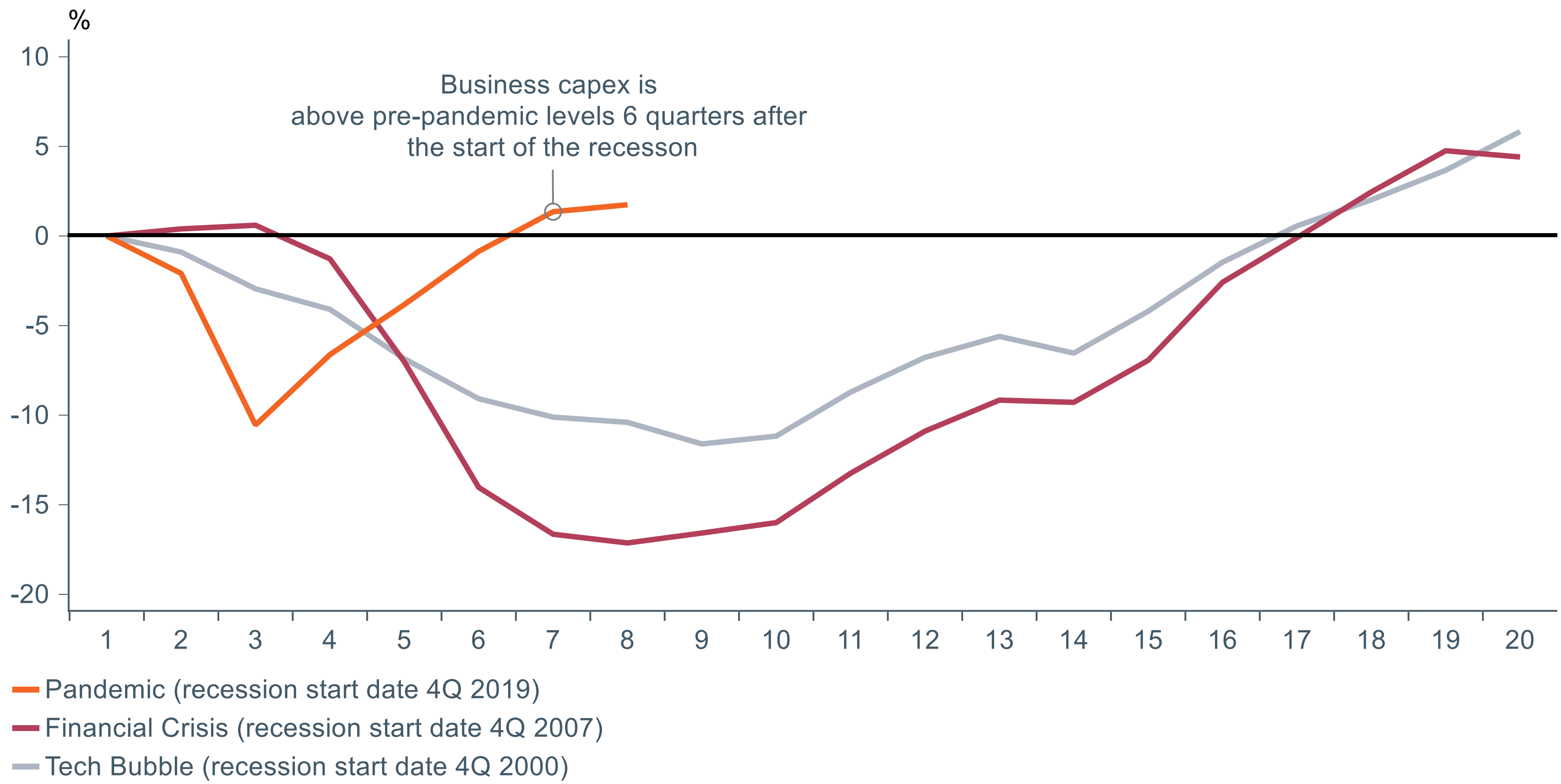


Data as of November 30, 2021. Sources: Bureau of Economic Analysis, WTIA.

Capex Rebound has been Swift

Business capex recovered to pre-COVID levels as of 2Q 2021, just six quarters after the start of the recession (compared to an average of 11 quarters in the recessions since 1957). In the two most recent recessions (below) capex did not recover the previous peak until 17 quarters later.

Business capex (cumulative % change in the quarters after the start of recessions)

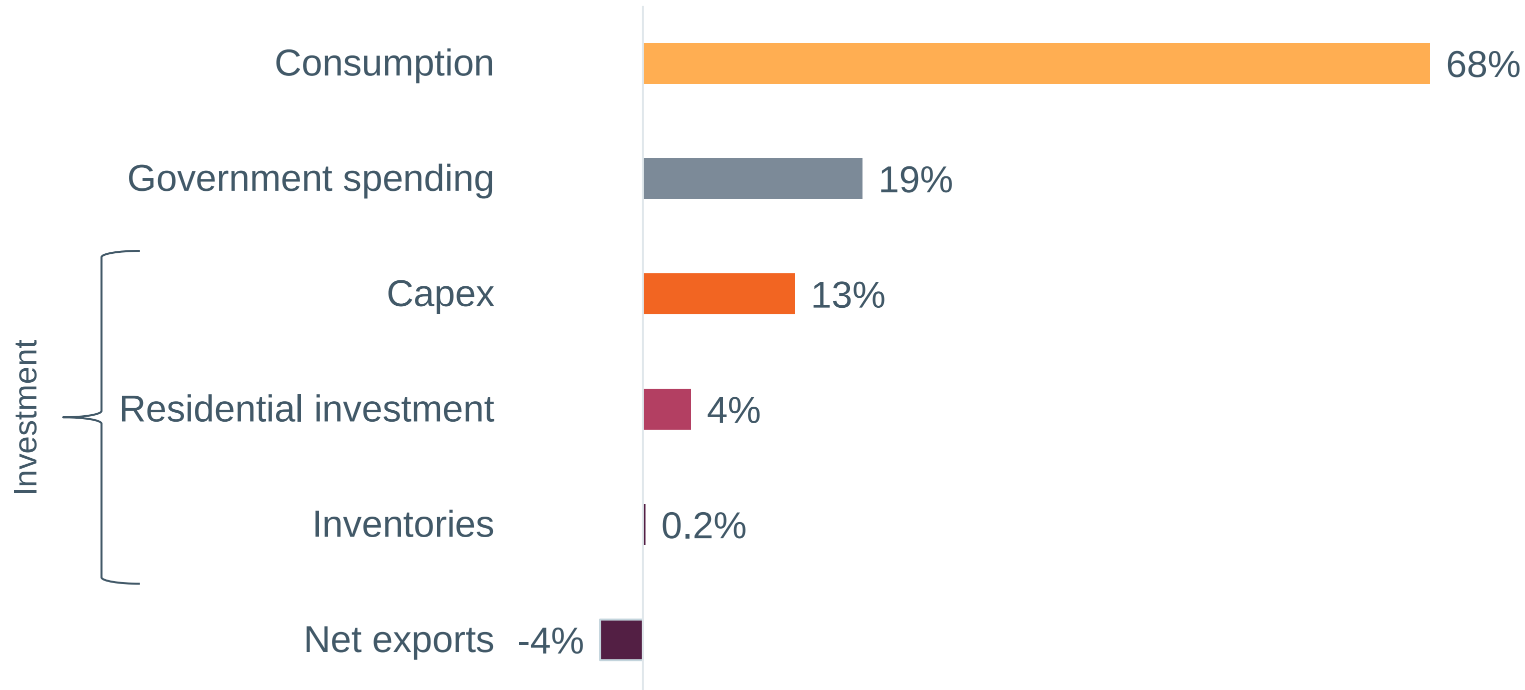


Data as of September 30, 2021. Sources: Macrobond, Bureau of Economic Analysis.

Business Capex: An Important Driver of GDP

Business capex accounts for a significant 13% of GDP. Along with consumption, it is a key driver of private demand in the U.S. economy.

Shares of GDP by component (%, average since 2000)

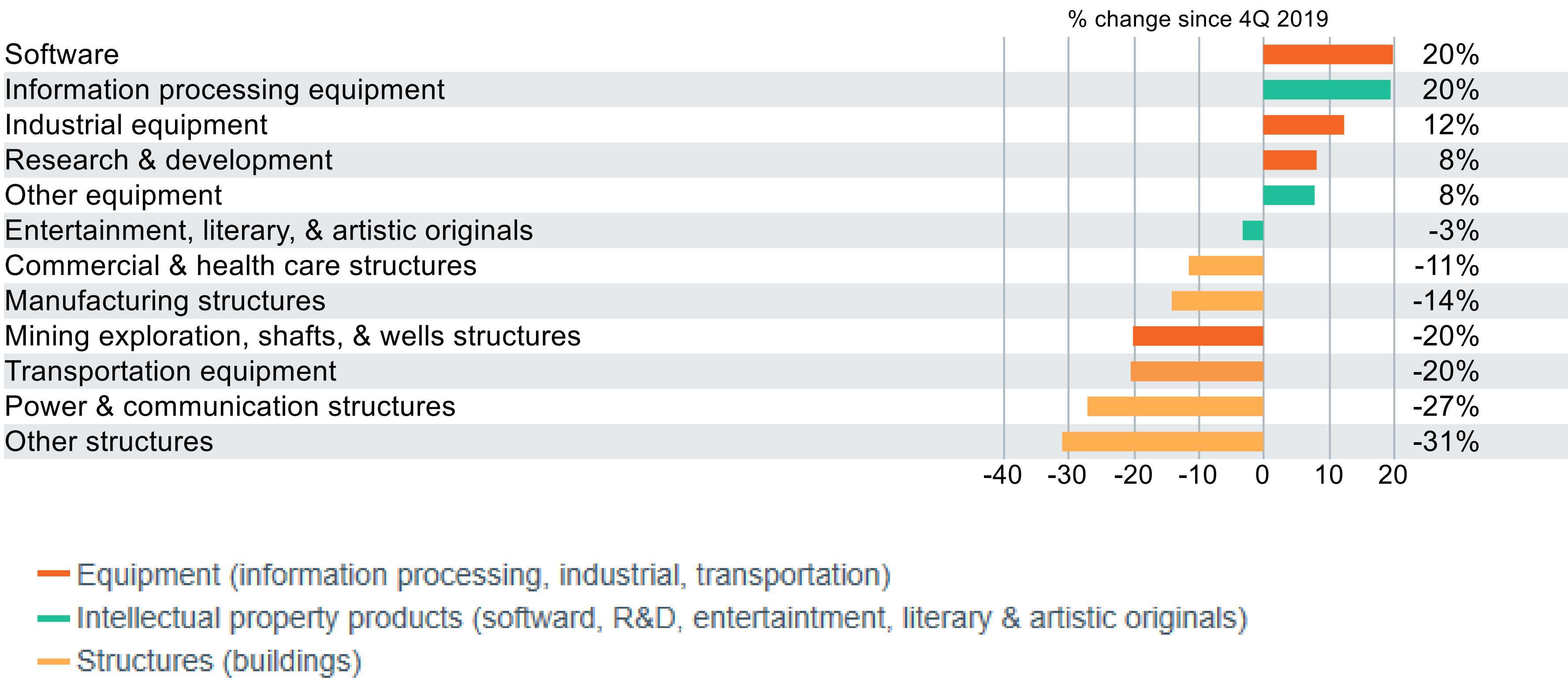


Data as of November 30, 2021. Sources: Macrobond, Bureau of Economic Analysis, WTIA.

Firms' Capex on Technology Soared in Wake of Pandemic

Business capex has been led by spending on software and information processing equipment (such as computers) as firms turn to technology to adapt to the pandemic environment and increase efficiency. Investment in new structures is well below pre-recession peaks and continues to decline.

Subcomponents of business capex (% change from 4Q 2019 to 3Q 2021)

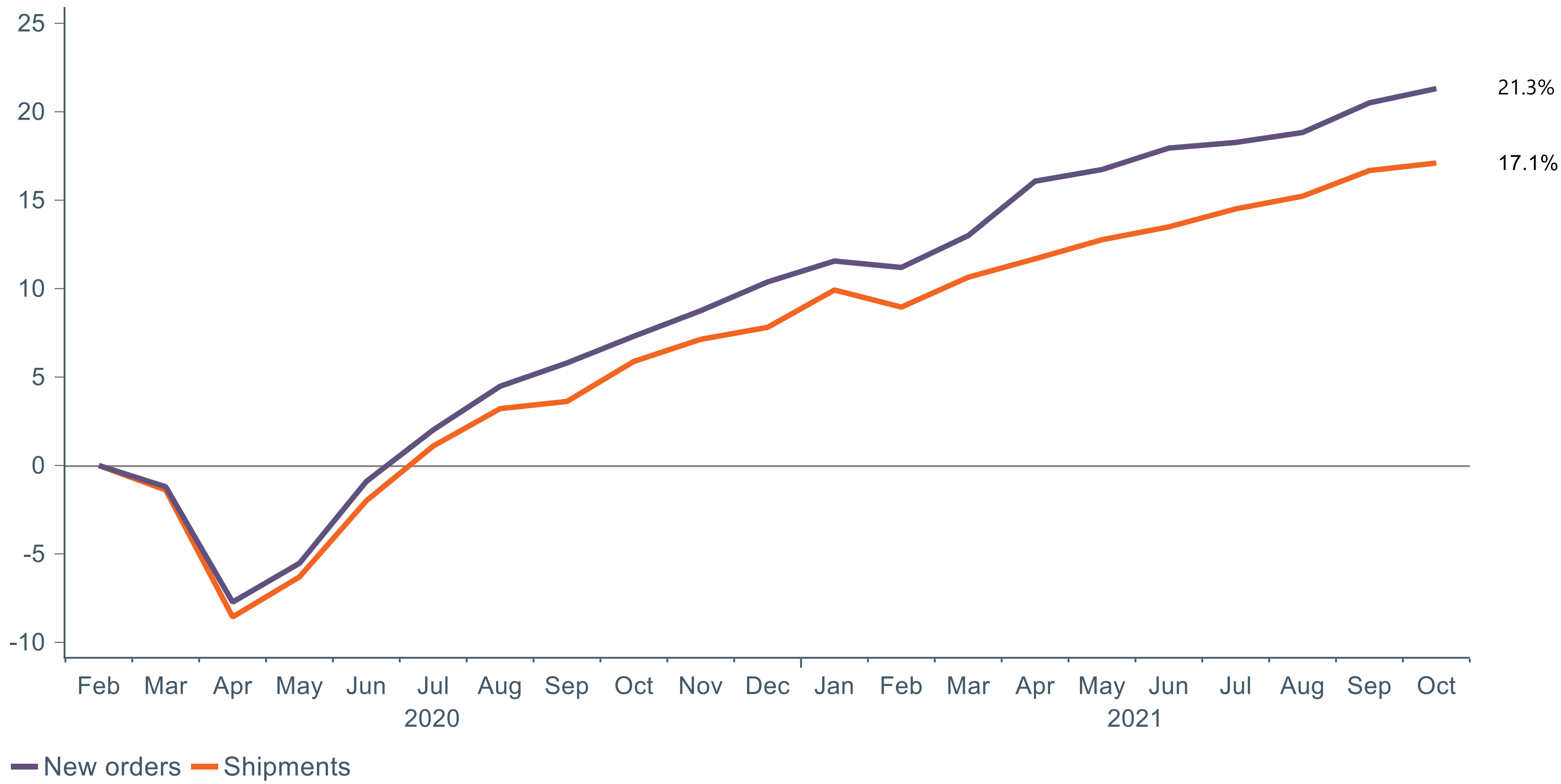


Data as of September 30, 2021. Sources: Macrobond, Bureau of Economic Analysis.

Indicators of Capex on Equipment Remain Elevated

Core durable goods shipments, an indicator for business equipment investment, and new orders, a forward-looking indicator, were solid in 3Q and continue to indicate strength at the start of 4Q.

Shipments and new orders for core durable goods (non-defense capital goods ex-aircraft, % change since February 2020)

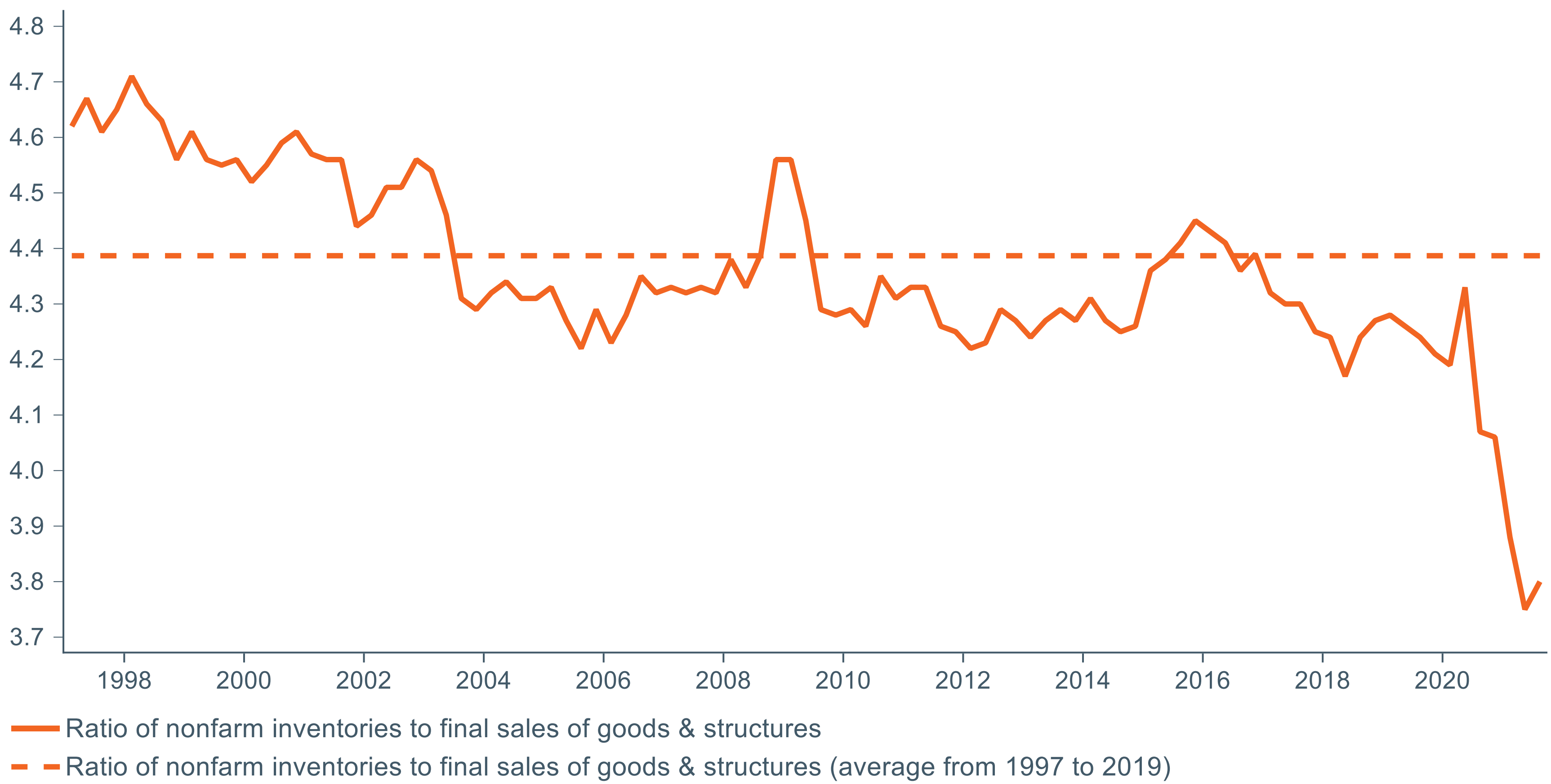


Data as of October 31, 2021. Sources: Macrobond, Census Bureau.

Low Inventory Levels Suggest Support for Further Capex

Strong demand for goods during the pandemic has pushed business inventories relative to sales down to near-record lows, and well below the long-term pre-pandemic average. Rebuilding of inventories should be supportive of further capex, particularly in areas like industrial equipment.

Inventory-to-sales ratio and long-term average

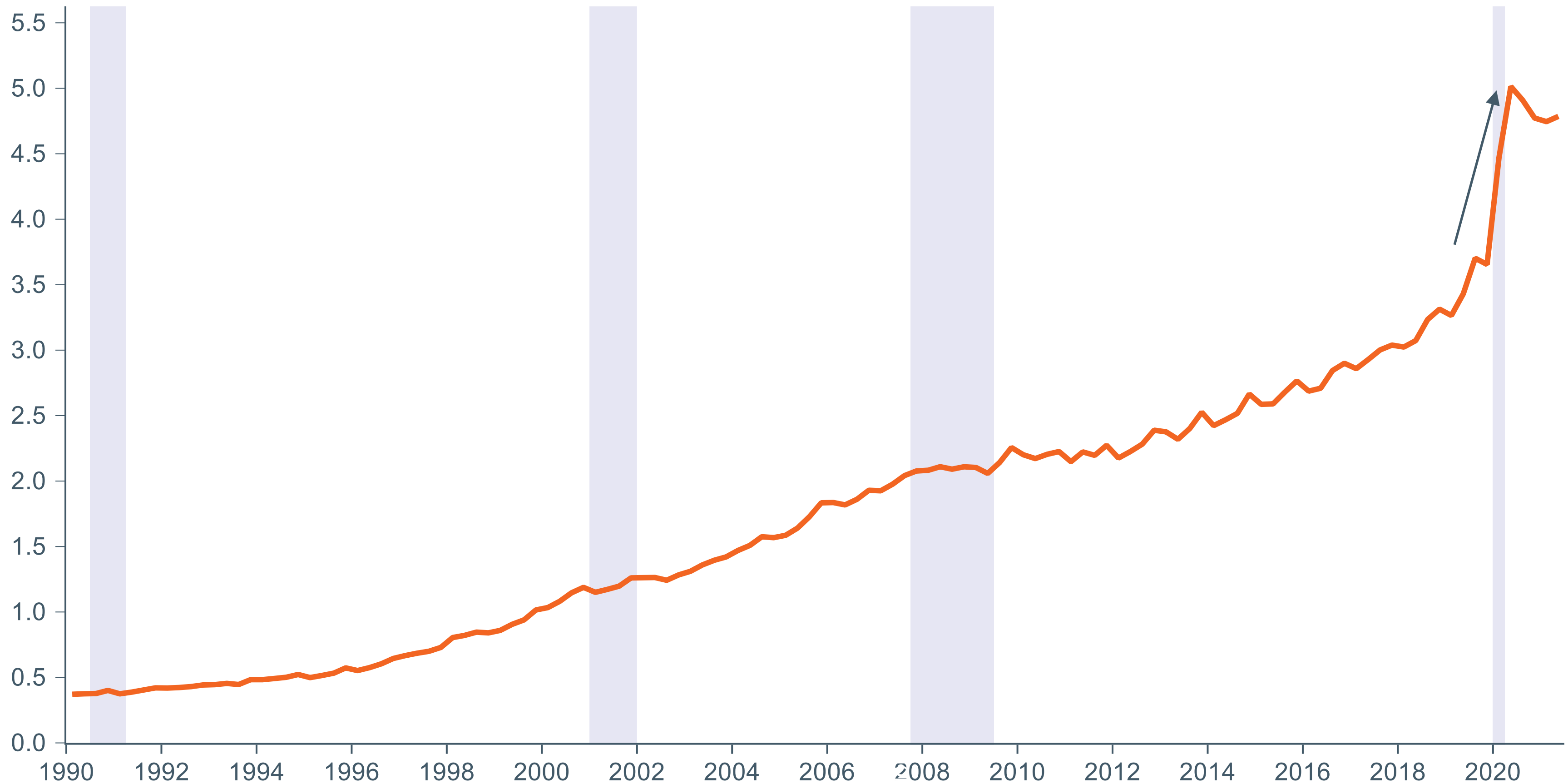


Data as of September 30, 2021. Sources: Macrobond, Bureau of Economic Analysis.

Elevated Liquidity On Hand

Firms are well situated to expand capex thanks to large balances amassed since the start of the pandemic thanks to stimulus funds (Paycheck Protection Program), supportive corporate credit issuance conditions (for larger firms that can access capital markets), and reduced spending on travel and other expenses.

Nonfinancial business balances* ($, billions)



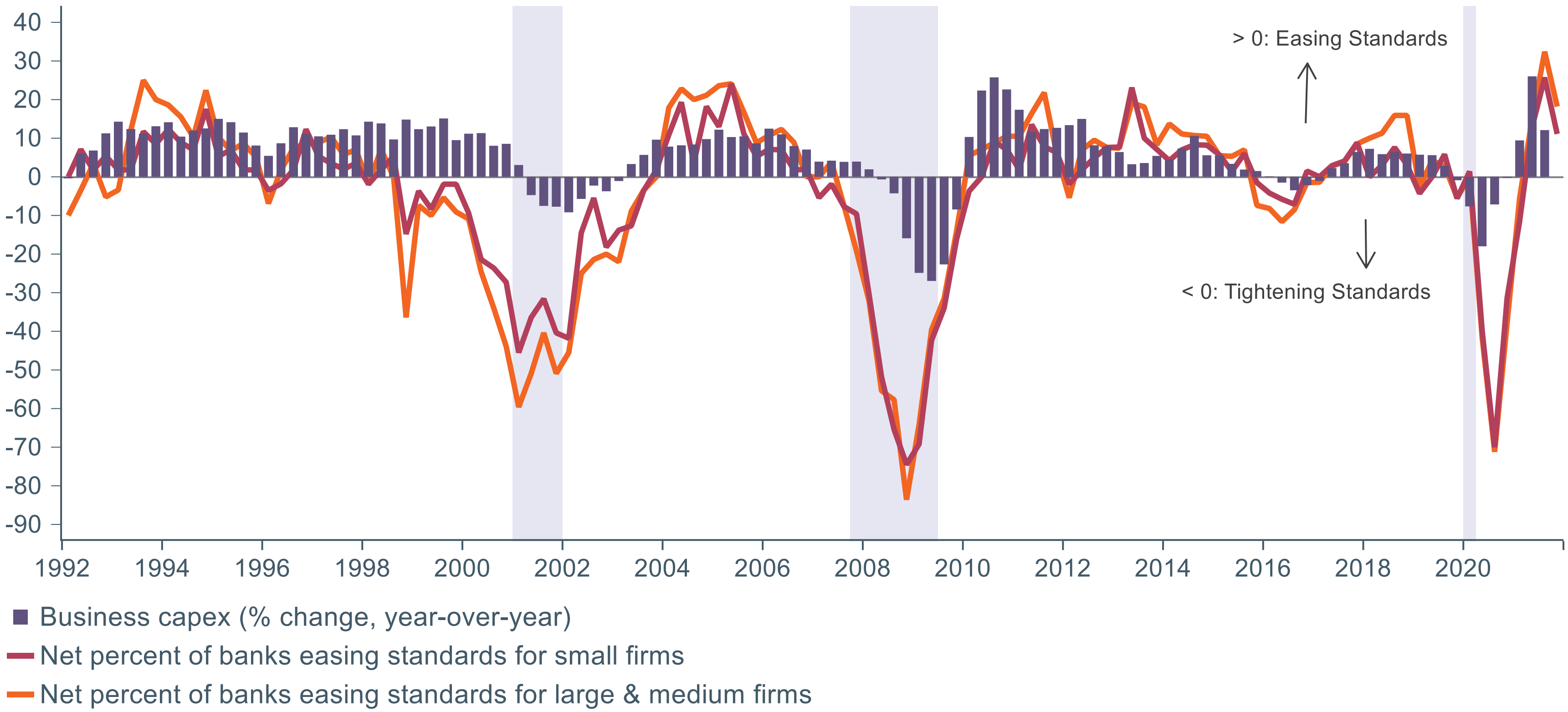
**Nonfinancial balances are calculated as the sum of checking, currency, savings, time, and money market deposits*

Data as of 2Q 2021. Sources: Federal Reserve, Macrobond.

Loan Standards Easing

The Fed’s bank loan officer survey show that on net, banks are easing standards for commercial and industrial loans, which has historically been supportive of increased capital expenditures.

Net percent of banks easing standards for C&I loans and business capex (% change, year over year)

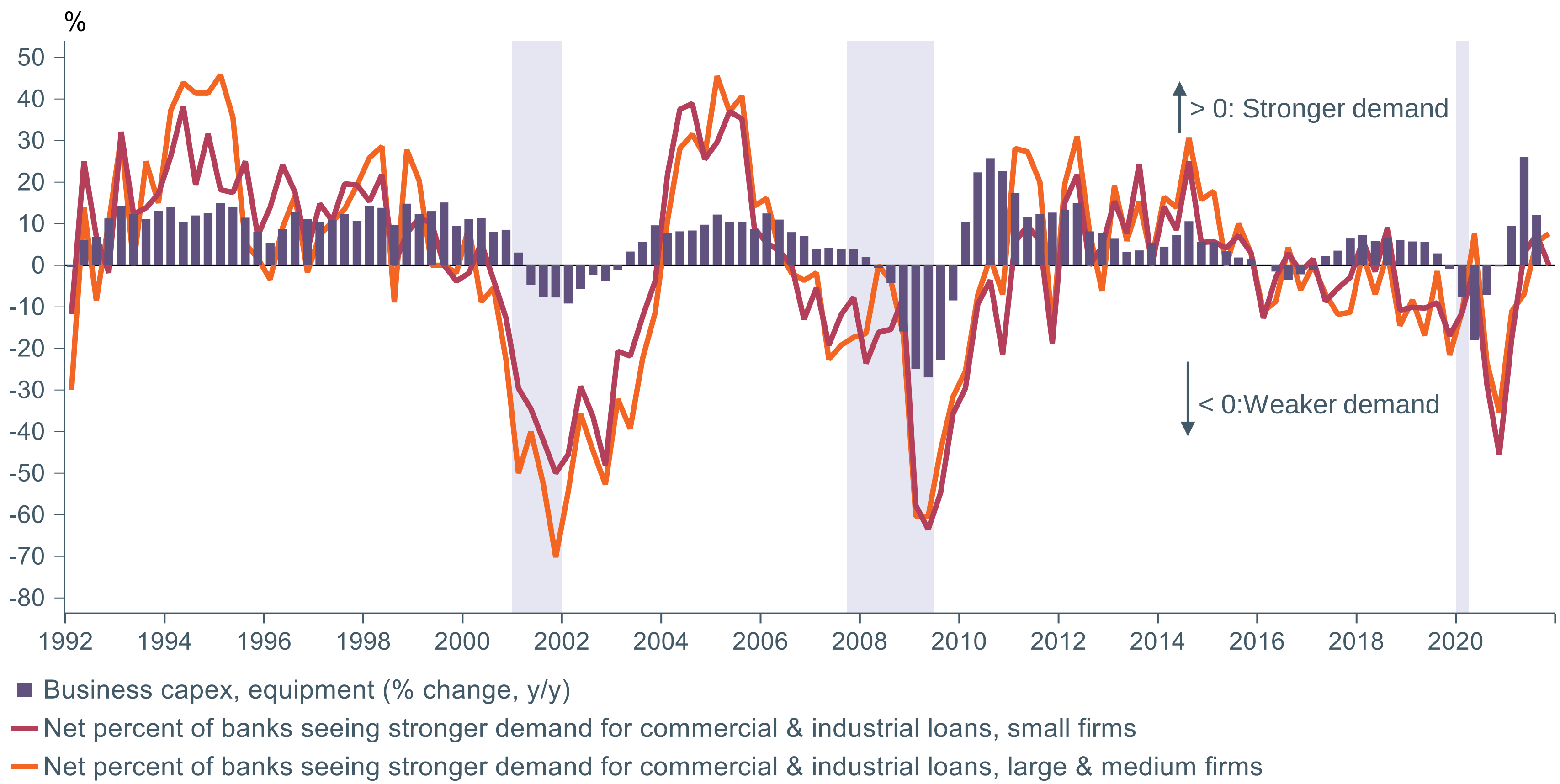


Data as of 4Q 2021. Sources: Macrobond, Bureau of Economic Analysis, Federal Reserve.

Loan Demand Improving for Larger Firms

Banks report improving demand for commercial and industrial loans from large and medium-size firms. Demand for loans from small firms softened slightly in 4Q 2021. Softer loan demand may not be a sign of slower capex to come though, as pandemic boosted cash balances noted earlier may allow some firms to fund capex projects directly.

Net percent of firms reporting strengthening demand for C&I loans and business capex (% y/y)

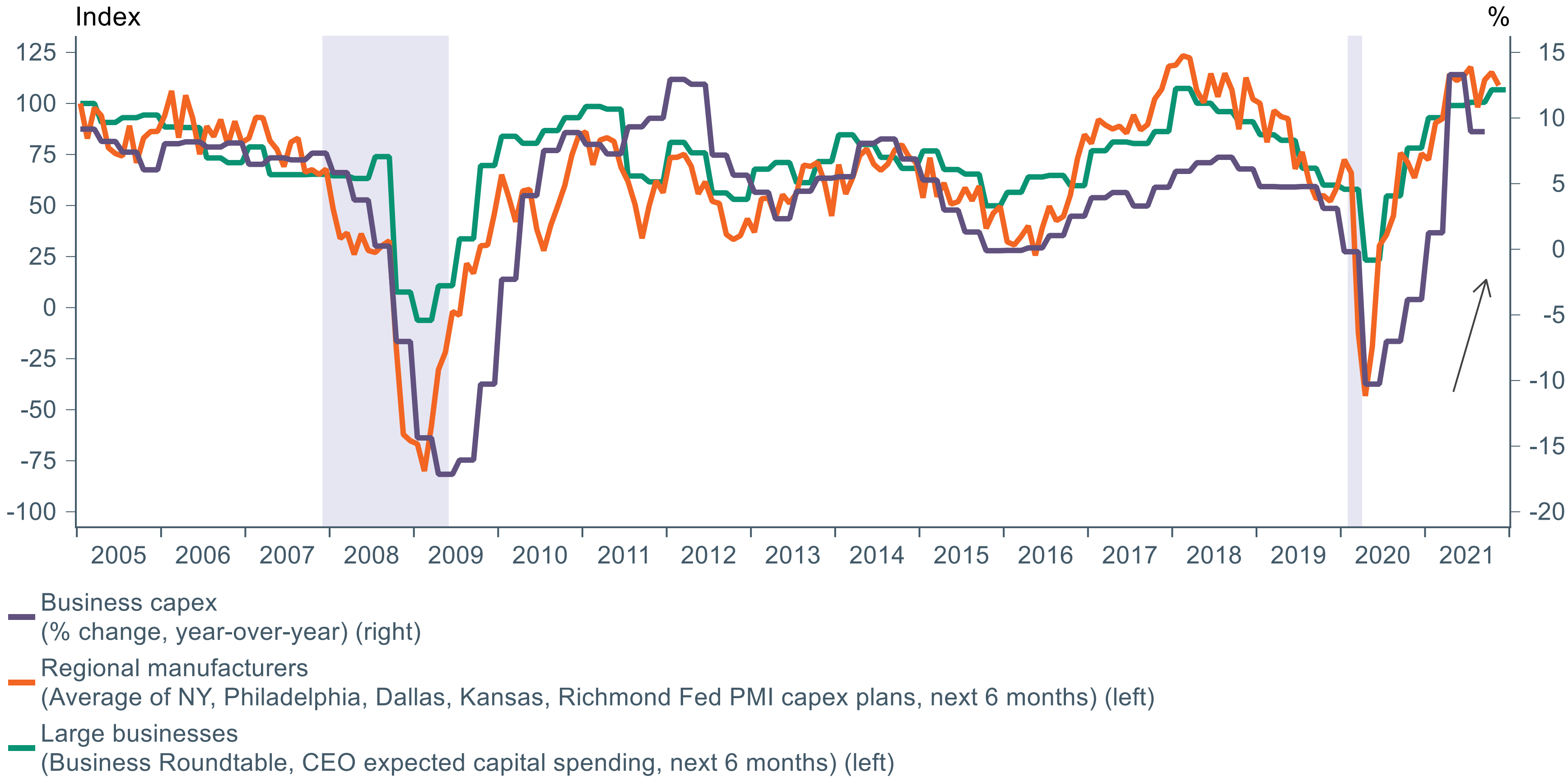


Data as of 2Q 2021. Sources: Macrobond, Bureau of Economic Analysis, Federal Reserve.

Capex Plans Solid for Large Firms and Manufacturers

Surveys of manufacturing firms in several Federal Reserve districts and a national survey of large firms (Business Roundtable) show plans for future capex at elevated levels.

Large business and regional manufacturer capex plans (index)

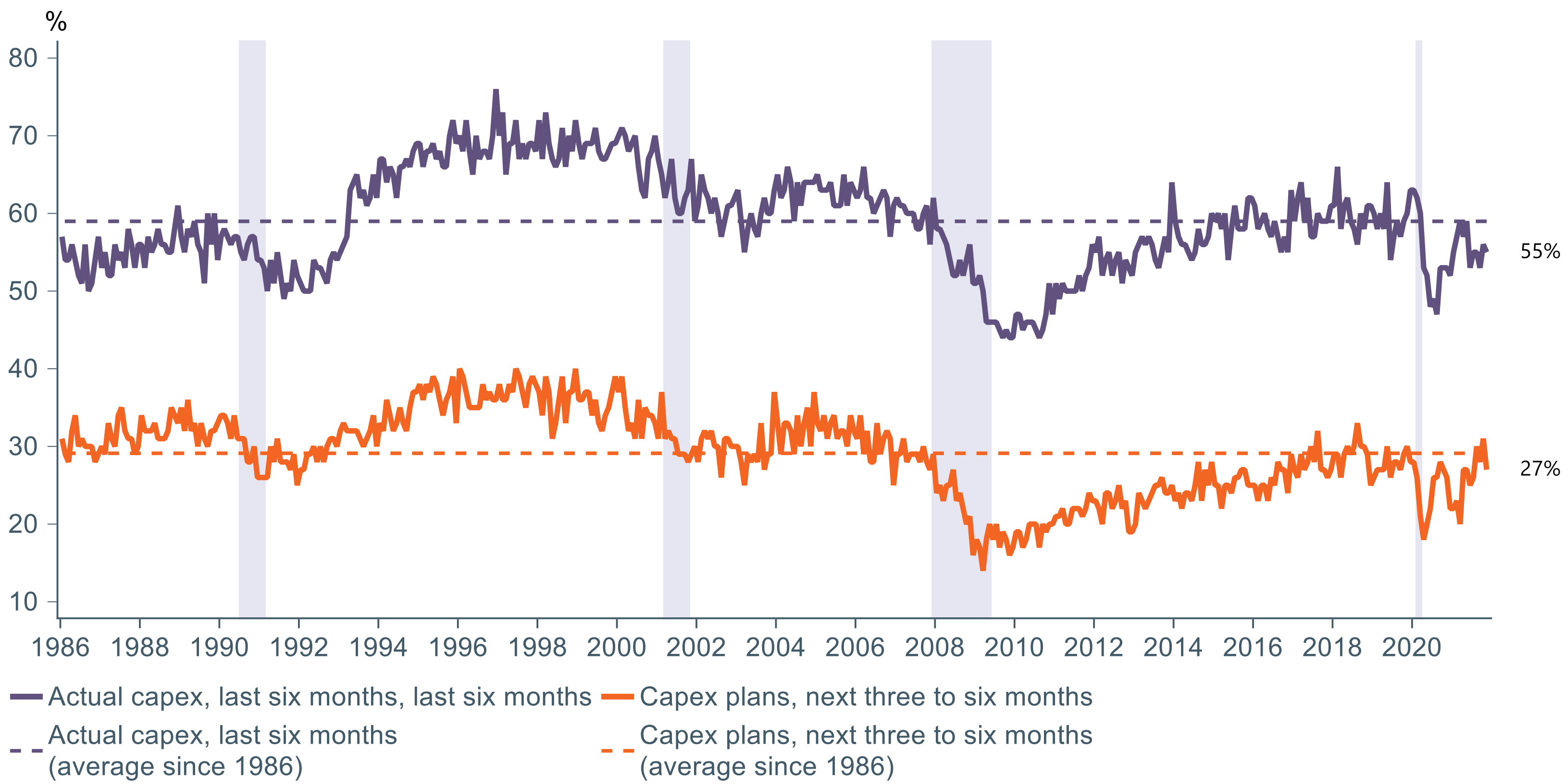


Data as of 4Q 2021 for large businesses, 3Q 2021 for business capex, November 30, 2021, for regional manufacturers. Sources: Macrobond, Business Roundtable, Federal Reserve Banks of New York, Philadelphia, Dallas, Richmond, Kansas.

Small Businesses More Cautious on Capex

Small businesses have been harder hit by the pandemic and capex spending has been muted relative to February 2021, though plans for future capex have recovered and are back near their long-term average.

NFIB Survey: net percent of small businesses making or planning capital expenditures (%)

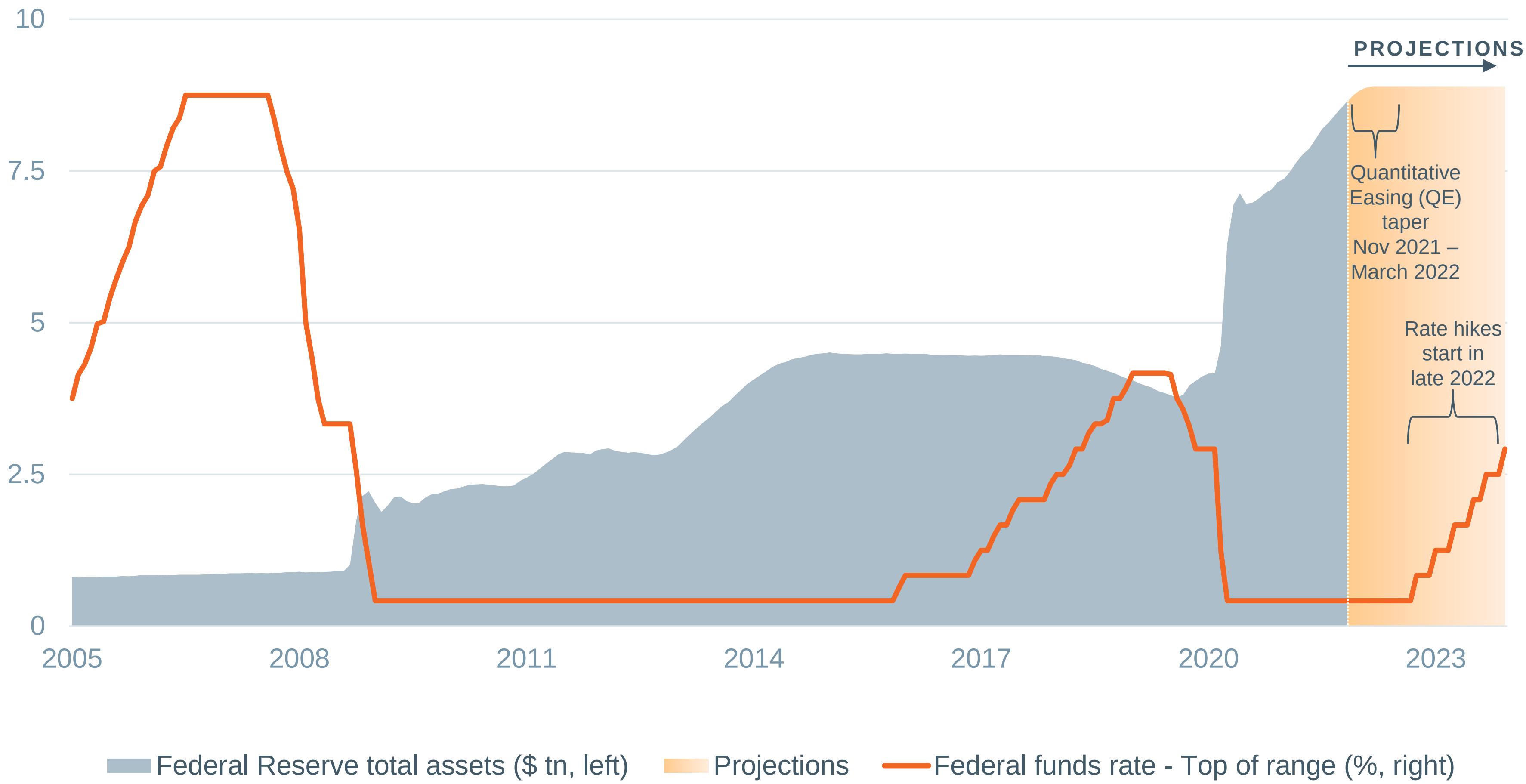


Data as of October 31, 2021. Sources: Macrobond, National Federation of Independent Business.

Monetary Policy in 2022

The Fed began to taper asset purchases in November 2021 by $15 billion per month and we expect them to accelerate that to $30 billion per month at the December meeting. QE purchases would conclude in March 2022. We anticipate the first increase in the fed funds rate to occur in the second half of 2022 and the economy to be healthy enough to withstand a gradual tightening of policy (expecting four hikes per year).

Federal Reserve balance sheet (in $ trillions)

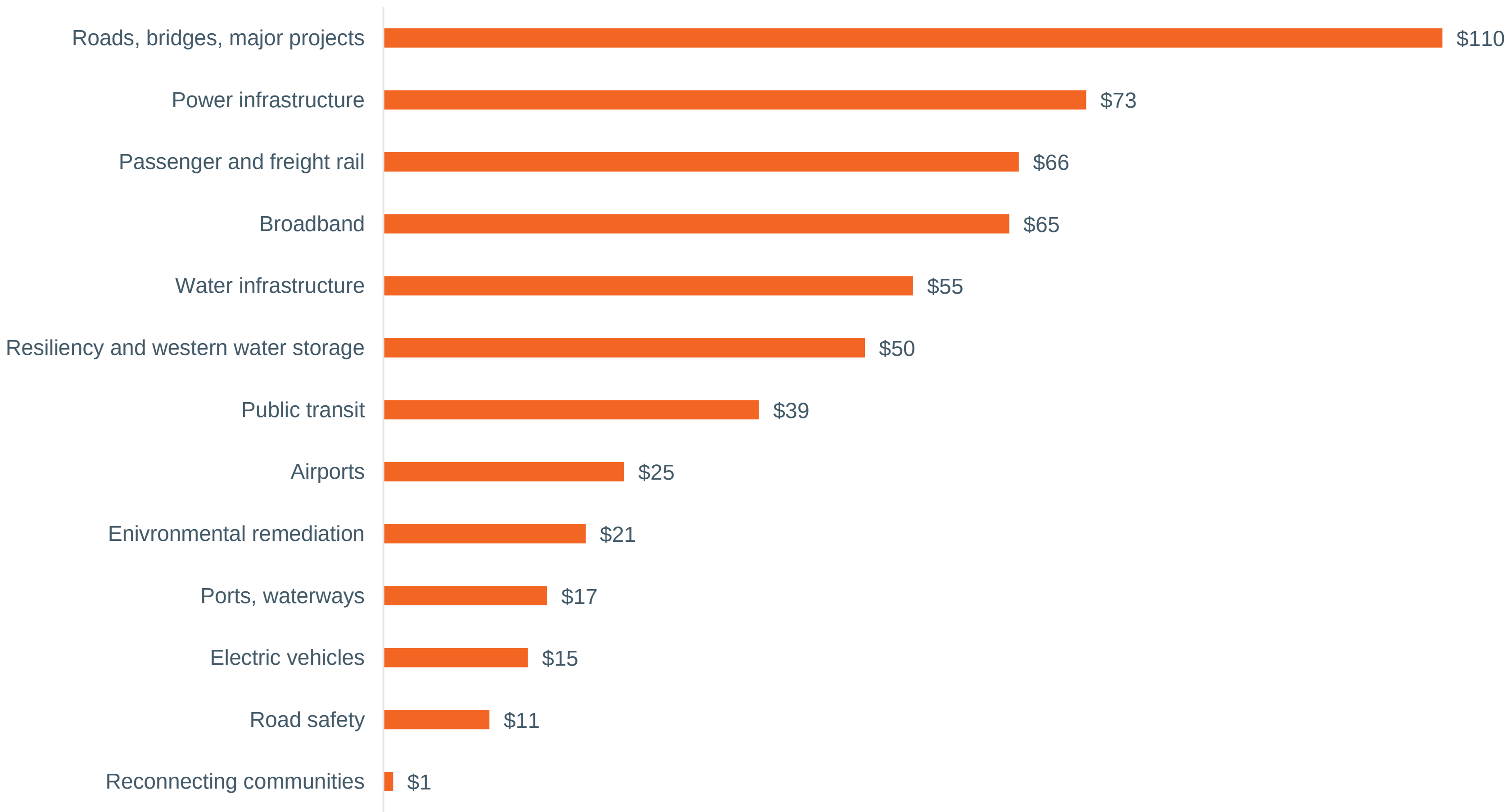


Data as of December 3, 2021. Sources: Macrobond, Federal Reserve, Morgan Stanley.

Bipartisan Infrastructure Deal: $550 Billion of New Spending

The Senate passed a $1tn bipartisan bill in August 2021 with the House approving the deal and President Biden signing the bill into law in November 2021. The bill would provide $550bn in new spending, mostly focused on traditional infrastructure, which should be supportive of capex in coming years.

Bipartisan Infrastructure Bill key provisions ($, billions)



Data as of November 9, 2021. Source: Committee for a Responsible Federal Budget.

Build Back Better Act: $2.4 Trillion in Proposed Spending

The Senate is debating the Build Back Better Act passed by the House in November. Details are still being hashed out, so the final agreement may be different than current spending and offset estimates. The White House's initial spending estimate came in at $1.75 trillion, but additional changes to the bill the House passed has raised spending estimates.

Key Components of Build Back Better Act

Spending and tax breaks	Amount ($, bn)
Family benefits • Childcare • Paid medical leave • Universal pre-K for three- and four-year-olds	**$585**
Climate and infrastructure • Clean energy and climate investment • Clean energy and electric tax credits • Clean fuel and vehicle tax credits • Infrastructure and related tax breaks	**$570**
Individual tax credits and cuts • Extend Child Tax Credit increase • Extend expanded Earned Income Tax Credit • Other individual tax changes	**$215**
Health care • Strengthen Medicaid services • Extend expanded ACA tax credits • Medicaid hearing benefit • Invest in health care workforce	**$340**
Other spending and tax cuts • Affordable housing • Higher education and workforce spending	**$325**
Reduce/Delay 2017 Tax Cut & Jobs Act base broadening • Increase SALT deduction cap through 2025 • Delay amortization of R&D expenses until 2026	**$280**
Enact immigration reform	**$110**

Offsets	Amount ($, bn)
Increase corporate taxes • 15% minimum tax on large corporations • 15% global minimum tax & international tax reform • 1% surcharge on corporate stock buybacks	**-$830**
Increase individual taxes on high earners • Expand 3.8% net investment income tax • 5% surtax in income > $10 million, 8% on income >$25 million • Extend and expand limits on deductibility of business losses	**-$640**
Health care • Repeal drug rebate rule • Reform Part D formula, cap drug price growth, allow targeted drug price negotiations • Reduce Medicaid Disproportionate Share Hospital (DSH) payments beyond 2025	**-$325**
Establish $80,000 SALT deduction cap from 2026-2030, $10,000 cap in 2031	**-$290**
Other revenue • Reduce tax gap by funding IRS • Superfund taxes on oil, methane fee • Expand nicotine taxes • Reform tax treatment of retirement accounts • Other	**-$180**

Data as of November 18, 2021. Source: Committee for a Responsible Federal Budget.

Disclosures

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Investment products are not insured by the FDIC or any other governmental agency, are not deposits of or other obligations of or guaranteed by Wilmington Trust, M&T, or any other bank or entity, and are subject to risks, including a possible loss of the principal amount invested.

Some investment products may be available only to certain "qualified investors"—that is, investors who meet certain income and/or investable assets thresholds. Any offer will be made only in connection with the delivery of the appropriate offering documents, which are available to pre-qualified persons upon request.

An Overview of Our Asset Allocation Strategies

Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High Net Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income. On a quarterly basis we publish the results of all of these strategy models versus benchmarks representing strategic implementation without tactical tilts.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Disclosures

continued

Allocations

Each strategy is constructed with target weights for each asset class. Wilmington Trust periodically adjusts the target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are: large–cap U.S. stocks: Russell 1000® Index; small–cap U.S. stocks: Russell 2000® Index; developed international stocks: MSCI EAFE® (Net) Index; emerging market stocks: MSCI Emerging Markets Index; U.S. inflation-linked bonds: Bloomberg/Barclays US Government ILB Index; international inflation-linked bonds: Bloomberg/Barclays World exUS ILB (Hedged) Index; commodity-related securities: Bloomberg Commodity Index; U.S. REITs: S&P US REIT Index; international REITs: Dow Jones Global exUS Select RESI Index; private markets: S&P Listed Private Equity Index; hedge funds: HFRI Fund of Funds Composite Index; U.S. taxable, investment-grade bonds: Bloomberg/Barclays U.S. Aggregate Index; U.S. high-yield corporate bonds: Bloomberg/Barclays U.S. Corporate High Yield Index; U.S. municipal, investment-grade bonds: S&P Municipal Bond Index; U.S. municipal high-yield bonds: Bloomberg/Barclays 60% High Yield Municipal Bond Index / 40% Municipal Bond Index; international taxable, investment-grade bonds: Bloomberg/Barclays Global Aggregate exUS; emerging bond markets: Bloomberg/Barclays EM USD Aggregate; and cash equivalents: 30-day U.S. Treasury bill rate.

Risk Assumptions

All investments carry some degree of risk. The volatility, or uncertainty, of future returns is a key concept of investment risk. Standard deviation is a measure of volatility and represents the variability of individual returns around the mean, or average annual, return. A higher standard deviation indicates more return volatility. This measure serves as a collective, quantitative estimate of risks present in an asset class or investment (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Disclosures

continued

Index Descriptions

The Bloomberg U.S. Aggregate Index measures the performance of the entire U.S. market of taxable, fixed-rate, investment-grade bonds. Each issue in the index has at least one year left until maturity and an outstanding par value of at least $250 million.

The Bloomberg U.S. High Yield Corporate Index, formerly known as Lehman Brothers U.S. High Yield Corporate Index, measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade. Each issue in the index has at least one year left until maturity and an outstanding par value of at least $150 million.

The Bloomberg World Government Inflation-Linked Bond (WGILB) Index measures the performance of investment grade, government inflation-linked debt from 12 different developed market countries.

The BofAML 3-Month T-Bill Index is an unmanaged index that measures returns of three-month Treasury Bills.

The Dow Jones Global ex-U.S. Index is an equal-weighted stock index composed of the stocks of 150 top companies from around the world (excluding the U.S.) as selected by Dow Jones editors and based on the companies' long history of success and popularity among investors. The Global Dow is designed to reflect the global stock market and gives preferences to companies with global reach.

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is composed of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The MSCI All-Country World Index ex USA measures the performance of large- and mid-capitalization stocks in approximately 50 developed and emerging equity markets, excluding the United States.

The MSCI EAFE® (net) Index measures the performance of approximately 20 developed equity markets, excluding those of the United States and Canada. The total returns of the index are net of the maximum tax withholding rates that apply in many countries to dividends paid to nonresident investors.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. With 1,198 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of its latest reconstitution, the index had a total market capitalization range of approximately $128 million to $1.3 billion.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of its latest reconstitution, the index had a total market capitalization range of approximately $128 million to $309 billion.

The S&P 500 Index measures the performance of approximately 500 widely held common stocks listed on U.S. exchanges. Most of the stocks in the index are large-capitalization U.S. issues. The index accounts for roughly 75% of the total market capitalization of all U.S. equities.

The S&P Composite Stock Price Index (noted on slide 8) refers to the data series made popular in recent years by Yale Professor Robert Shiller, not to be confused with the S&P Composite 1500, an index that combines the S&P 500, the S&P Mid Cap 400, and the S&P Small Cap 600. Investing involves risks and you may incur a profit or a loss.

The S&P Municipal Bond High-Yield Index consists of bonds in the S&P Municipal Bond Index that are not rated or are rated below investment grade.

The S&P Municipal Bond Index is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market.

The S&P United States REIT Index measures the investable U.S. real estate investment trust market and maintains a constituency that reflects the market's overall composition.

Strategas Research Partners LLC, (noted on slide 35) is an institutional brokerage and advisory firm that provides macro research and capital markets & corporate advisory services to institutional managers and corporate executives.

Ibbotson Associates acquired by Morningstar on March 1, 2006. Ibbotson Associates, Inc. offers asset allocation research and services to mutual fund firms, banks, broker-dealers, insurance companies, asset managers, and retirement plan providers in the United States and internationally.

Diversification cannot ensure a profit or guarantee against a loss.

There is no assurance that any investment strategy will be successful.

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