Diligent Institute | CORPORATE BOARD MEMBER

Directors Project Stronger Economy By 2024

DIRECTOR CONFIDENCE INDEX

JANUARY 2023

Board members predict a short-term recession in 2023 fueled mainly by uncertainty. Most expect recovery by the end of 2023, if not sooner, and look forward to more stability both domestically and globally

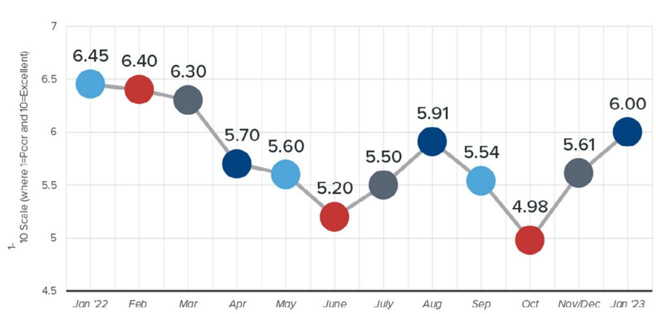
U.S. board members continue their streak of optimism in January fueled by recovering supply chains, continued consumer spending and healthy unemployment levels. Although many forecast a recession and economic slowdown, they say it will be mild and short-lived, passing through sometime in mid-2023. Most predict that business conditions will improve by this time next year.

Directors' forecast of business conditions 12 months from now stands at a 6.0 out of 10, according to the January Director Confidence Index, a monthly sentiment poll conducted in partnership with Diligent Institute and Corporate Board Member. Fielded between January 15-20, the data from responses by 124 U.S. public company board members is a signal that we may be on our way to better business conditions, more stable markets and a stronger economy.

This month's 7 percent forecast boost follows December's 13 percent climb out of a "weak" rating of future business conditions given by directors in October.

Directors' rating of current business conditions ticked up 1 percent in January to 5.9 from 5.8 in December, as measured on a 10-point scale where 1 is Poor and 10 is Excellent. This is the second consecutive gain on that measure, following a year of declines in 2022.

Directors' Outlook for Business 12 Months from Now



In a turn of events from last month, a higher proportion of directors are now forecasting that business conditions will improve over the course of the next 12 months for the first time since last January. At 45 percent, this is the highest proportion of directors forecasting improvement since we began tracking the measure in June of 2021.

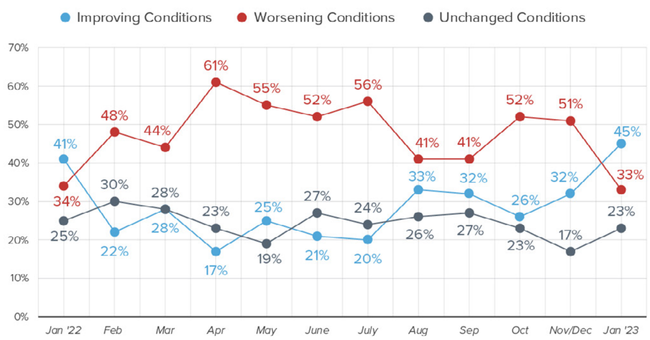
"The current stock market woes are due to uncertainty," says Barbara A Higgins, committee chair Employers, an insurance company. She expects conditions to improve from a 6 to a 7 stating, "Now that the mid-terms are over, the Supreme Court will have weighed in on its slate of cases through the spring into the fall, and the war in Ukraine will have progressed further, businesses can gain firmer footing on the "new normal" - even if the conditions are not perfect, they will be known."

S. A. Papoulias, outside director at United Guardian, Inc, a company in consumer discretionary, agrees that conditions will continue to improve, predicting the same 7 out of 10 12 months down the line as Higgins. He forecasts, "There will be a short recession in mid-2023 but labor markets remain resilient. I predict quick recovery by end 2023."

Despite the positive outlook of many, one-third of directors still forecast that business conditions will deteriorate over the next 12 months and 23 percent predict that conditions will remain unchanged.

John Schwarz, board chair at Visier Inc. a tech company, expects conditions to remain weak or a 4 out of 10 rating for some time, at least until this time next year. He explains, "There is still a labor shortage, ongoing trade war with China, a war in Europe, and the resulting inflation affecting my forecast."

Split in Director's Forecast of Business Conditions



These somewhat less optimistic perspectives align with data from Diligent Institute's Corporate Sentiment Tracker, an AI-based tool monitoring the issues corporate leaders are speaking about most frequently in the news, and whether they are speaking about those topics in a positive or a negative way. At the time this article is being written, sentiment is only at 46% positive, and "Economic Risk," and "Rate of Employment" are the top ESG-related topics being discussed.

The Year Ahead

A whopping 62 percent of directors expect to spend more time discussing financials in the year ahead, compared to 2022. Human capital strategy is the second most popular topic, which 44 percent of directors expecting to spend more time discussing it in board meetings.

Sustainability strategies is the topic which the highest proportion of directors expect to spend less time discussing in board meetings in 2023, at 47 percent. Mergers, divestitures and acquisitions and board/CEO refreshment and succession planning are also at the bottom of the board's priority list, according to 38 percent of directors.

Which of the Following Topics Do You Anticipate Spending More Time Discussing in Board Meetings This Year Relative to Time Spent in 2022?

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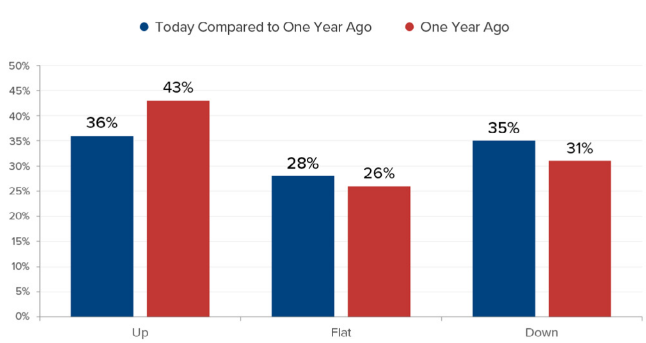
When directors were asked in which topics they want more training, education or guidance around in the coming year, their top pick was overseeing cyber risk, selected by 46 percent of directors. Following that is using technology to improve the business/digital transformation according to 44 percent of directors. Further behind is the topic of preparing for a recession, in which one-third of directors said they want more training, education or guidance around.

Which Topics Would You, as a Director, Want More Training, Education or Guidance Around in the Year Ahead?

The proportion of directors who say that consumer demand is up since one year ago today dropped in January, from 47 percent in December to only 36 percent now, signaling that consumers may be slowing the pace of their purchases. However, the proportion forecasting that demand will increase one year down the line grew this month, up 5 percent to 43 percent.

YoY Change in Consumer Demand

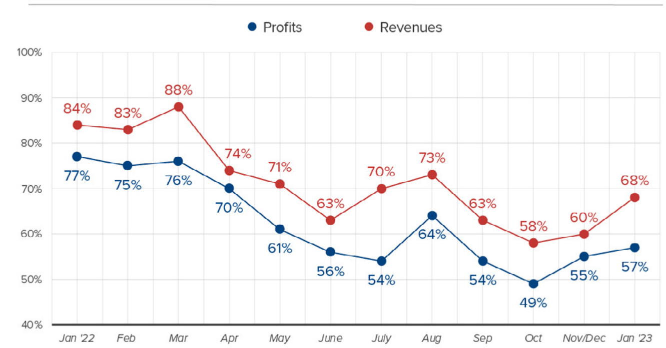


A growing proportion of directors project that revenues will increase over the next 12 months, up 14 percent since December. Now, a whopping 68 percent of directors forecast increasing revenues—closing in on the often more-optimistic CEOs of which 70 percent project increasing revenues over 2023.

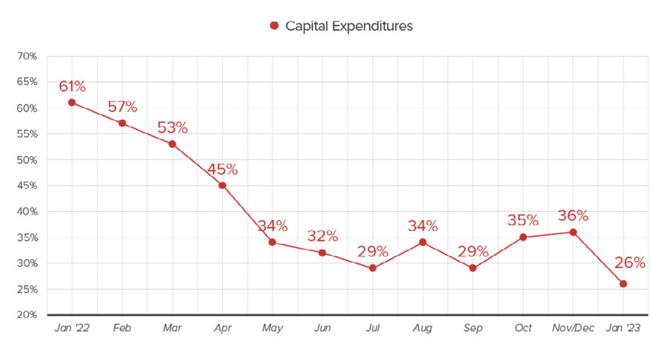
The proportion of directors forecasting increases in profits ticked up 4 percent in January to 57 percent, the highest proportion since August.

When it comes to capital expenditures however, far fewer directors expect increases. The proportion of director who say capex will increase over the next 12 months dropped by 29 percent since last month and now reads 26 percent—the lowest proportion on record.

Proportion of Directors Projecting Increases in Profits and Revenues Over the Next 12 Months



Proportion of Directors Projecting Increases in Capital Expenditures Over the Next 12 Months



About the Director Confidence Index

The Director Confidence Index is a monthly survey of public company board members on the state of the overall economy, the outlook for business and other topical issues impacting public companies. Conducted in collaboration between *Corporate Board Member* and Diligent Institute, the Index benchmarks confidence among the governance community and is a forward-looking indicator of market movements and corporate strategies.

About Corporate Board Member

Corporate Board Member, a division of Chief Executive Group, has been the market leader in board education for 20 years. The quarterly publication provides public company board members, CEOs, general counsel and corporate secretaries decision-making tools to address the wide range of corporate governance, risk oversight and shareholder engagement issues facing their boards. Corporate Board Member further extends its thought leadership through online resources, webinars, timely research, conferences and peer-driven roundtables. The company maintains the most comprehensive database of directors and officers of publicly traded companies listed with NYSE, NYSE Amex and Nasdaq.

About the Diligent Institute

Diligent Institute informs, educates, and connects leaders to champion modern governance. We provide original, cutting-edge research on the most pressing issues in corporate governance; certifications and educational programs that equip leaders with the knowledge and credentials needed to guide their organizations through existential challenges; networks that convene directors and corporate executives to share best practices and insights; and awards and recognition programs that celebrate the accomplishments of those who champion modern governance.
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