2H2023 Outlook & Investment Playbook
Our outlook for the second half of 2023 remains largely consistent with what we highlighted at the beginning of the year. We continue to believe the following:

1. The market is underestimating the likelihood and impact of the Fed keeping interest rates higher for longer.
2. Given the strength of the consumer, fear of recession in 2023 may be premature.
3. Growth will continue to slow, weighing on earnings.

Overall, we continue to advocate for being risk aware and taking a diversified approach to growth, income, and risk management.
In our 2023 Outlook, we outlined our expectations for the Fed and the path of interest rates in 2023. Our view was that the Fed would take interest rates up to 5.25%, hold them there for the remainder of the year, and that the 10-year treasury would remain range bound, fluctuating between 3.5%-4.25%. This view was rooted in the premises that inflation would continue to gradually subside, and that rate cuts would come later than the market was and is still forecasting.

Our view has not changed and we believe investors need to learn how to invest in a world where interest rates are structurally higher for longer. We see two main drivers.

First: core inflation is moving in the right direction, but it continues to do so at a very slow rate. It has become clear that inflation is firmly ingrained in specific pockets of the economy, particularly within services, and will take time to unwind.

Second: the risks of the Fed cutting rates too early far outweigh the risks of a near term recession. As shown in the chart to the right, there were multiple instances in the ‘70s and ‘80s (purple circles), where the Fed cut rates prematurely, financial conditions eased, and inflation surged.

As Chair Powell continues to highlight in his press conferences, the economy doesn’t work for anyone unless prices are stable. The Fed is unlikely to make this mistake again and this likely means no cuts in 2023, and rates remaining higher for longer than the market is projecting.
All else equal, higher rates are likely to result in slower growth and lower equity returns. Until rates move lower, equities are unlikely to get a boost from an expansion of earnings multiples. As such, we find value in strategies that can help boost upside returns, without taking on additional risk.

Over the last 12 months, as markets have moved largely sideways, XDSQ has returned 10.33%, XDQQ returned 3.57%, while the S&P 500 Price Return Index has increased 1.15%.

### FEATURED ETFs

**Innovator U.S. Equity Accelerated ETF – Quarterly (XDSQ)**

**Innovator Growth Accelerated ETF – Quarterly (XDQQ)**

Over the last 12 months, as markets have moved largely sideways, XDSQ has returned 10.33%, XDQQ returned 3.57%, while the S&P 500 Price Return Index has increased 1.15%.

<table>
<thead>
<tr>
<th>10-year U.S. Treasury Range (%)</th>
<th>Forward P/E Ratio (Median)</th>
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</thead>
<tbody>
<tr>
<td>0</td>
<td>2</td>
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<tr>
<td>2</td>
<td>3</td>
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<tr>
<td>3</td>
<td>4</td>
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<td>4</td>
<td>5</td>
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<td>Above</td>
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**XDSQ**

XDSQ seeks 2X upside exposure on SPDR S&P 500 ETF Trust (SPY), up to a cap of 8.12%, over the 3-month outcome period. The strategy participates 1:1 on the downside and does not employ leverage.

**XDQQ**

XDQQ seeks 2X upside exposure on the Invesco QQQ Trust (QQQ), up to a cap of 10.1%, over the 3-month outcome period. The strategy participates 1:1 on the downside and does not employ leverage.

**FEATURED ETFs**

**Innovator U.S. Equity Accelerated ETF – Quarterly (XDSQ)**

**Innovator Growth Accelerated ETF – Quarterly (XDQQ)**

Over the last 12 months, as markets have moved largely sideways, XDSQ has returned 10.33%, XDQQ returned 3.57%, while the S&P 500 Price Return Index has increased 1.15%.

<table>
<thead>
<tr>
<th></th>
<th>XDSQ</th>
<th>XDQQ</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Return</td>
<td>10.33%</td>
<td>3.57%</td>
<td>1.15%</td>
</tr>
<tr>
<td>Volatility</td>
<td>17.36%</td>
<td>22.47%</td>
<td>21.60%</td>
</tr>
<tr>
<td>Return / Risk</td>
<td>0.60</td>
<td>0.16</td>
<td>0.05</td>
</tr>
</tbody>
</table>

Source: Bloomberg L.P. Data from 5/31/2022 - 5/31/2023. XDQQ and XDSQ incepted on 3/31/2021. 0.79% expense ratio. Performance quoted represents past performance, which is no guarantee of future results. Investment returns and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit innovatoretfs.com/performance for current month-end performance. One cannot invest directly in an index.

The outcomes that a Defined Outcome Fund seeks to provide may only be realized if you are holding shares on the first day of the Outcome Period and continue to hold them on the last day of the Outcome Period, approximately one quarter. There is no guarantee that the Outcomes for an Outcome Period will be realized or that the Fund will achieve its investment objective.

Defined Outcome ETFs have characteristics unlike many other traditional investment products and may not be suitable for all investors. For more information regarding whether an investment in the Fund is right for you, please see “Investor Suitability” in the prospectus.
We continue to believe a recession is likely, but that it won’t arrive until next year. Our 2023 outlook indicated an elevated probability of a recession late in the year as we expected restrictive monetary policy to weigh on economic growth. In the near term, there are admittedly some segments of the economy that on their own give the appearance that a recession lurks around the corner. Layoffs from companies like Morgan Stanley, Meta, McDonald’s, Deloitte, Disney, and others feel like regular news headlines.

Through the end of April, 236 U.S. corporations filed for bankruptcy, putting 2023 on pace for the largest year of bankruptcies since 2011. Three of the largest U.S. banks have failed. Despite the increased risks and negative headlines, however, we believe the strength of the consumer and labor market can push the recession debate out to 2024.
Since the release of our outlook, the Fed raised rates four more times to 5.25%. Over that period, initial jobless claims and continuing claims have trended higher, indicating a softening in the labor market. Despite these developments, the unemployment rate sits at a historic low of 3.4%, a rate not seen since 1969. Looking at recessions historically, more than 70% have begun when the unemployment rate exceeded 4%. Overall, we believe the long and variable lags of monetary policy will require more time to drive unemployment higher and the US into a recession.

Another reason we believe a recession is more likely in 2024 than 2023 is the health of the consumer. Higher wages and excess savings accumulated during the pandemic have enabled the consumer to cover the elevated costs of goods and services and we believe this will continue to hold true in the near term. In addition to higher wages and greater savings, households’ ability to service their debt should comfort investors worried about a 2023 recession. The ratio of credit card balances to limit fell well below the post-2000 mean after Covid-19 and shows little signs of acceleration.

As for the stock market, this could mean that equities continue to tick higher in the short term. Looking at the S&P 500 Index throughout the last 10 recessions, returns have been positive, on average, in the 3, 6, and 12 months, leading up to a recession, but have fallen in the 3-, 6-, and 12-months post-recession onset.

<table>
<thead>
<tr>
<th>Recession Onset</th>
<th>12M Pre-Recession Onset</th>
<th>6M Pre-Recession Onset</th>
<th>3M Pre-Recession Onset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug-57</td>
<td>0.39%</td>
<td>9.14%</td>
<td>4.92%</td>
</tr>
<tr>
<td>Apr-60</td>
<td>2.93%</td>
<td>-0.95%</td>
<td>-6.66%</td>
</tr>
<tr>
<td>Dec-69</td>
<td>-11.00%</td>
<td>-7.96%</td>
<td>-1.62%</td>
</tr>
<tr>
<td>Nov-73</td>
<td>-1.50%</td>
<td>2.17%</td>
<td>1.63%</td>
</tr>
<tr>
<td>Jan-80</td>
<td>17.85%</td>
<td>8.78%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Jul-81</td>
<td>18.57%</td>
<td>-2.45%</td>
<td>-3.77%</td>
</tr>
<tr>
<td>Jul-90</td>
<td>15.97%</td>
<td>1.26%</td>
<td>6.64%</td>
</tr>
<tr>
<td>Mar-01</td>
<td>-8.97%</td>
<td>-17.92%</td>
<td>-5.35%</td>
</tr>
<tr>
<td>Dec-07</td>
<td>9.02%</td>
<td>1.99%</td>
<td>4.11%</td>
</tr>
<tr>
<td>Feb-20</td>
<td>23.53%</td>
<td>17.40%</td>
<td>9.02%</td>
</tr>
<tr>
<td>Average</td>
<td>6.68%</td>
<td>11.4%</td>
<td>0.98%</td>
</tr>
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</table>


ELEVATED EARNINGS, COVID-19 SAVINGS ALLOW FOR GREATER SPENDING

PORTFOLIO SOLUTIONS

With recession risks potentially further out than many think, we favor a posture of being risk aware rather than risk off. Many investors are moving to cash, which could be costly in the short term. We believe investors will do well to seek strategies with built-in risk management that can help cautiously maintain equity market exposure.

Innovator Equity Managed Floor ETF (SFLR)

Innovator U.S. Equity Power Buffer ETF – June (PJUN)

SFLR is subadvised by Parametric and seeks exposure to U.S. Equity upside while seeking to limit maximum losses to 10% on a rolling 1-year basis. It is the only equity ETF that targets a maximum loss level through a built-in floor.

To implement its strategy, SFLR:
• Owns a basket of equities providing dividend income
• Maintains a portfolio of rolling 12-month puts
• Leverages Parametric’s proprietary short-dated call selling strategy

For investors looking to achieve a defined outcome, PJUN seeks to offer investors upside to the SPY, to a 14.83% cap, while buffering investors against the first 15% of losses, over a one year outcome period ending May 31st, 2024.
LIFE AFTER THE FED: DISINFLATION TO WEIGH ON EARNINGS

While we believe May’s 0.25% hike marked the end of the tightening cycle, we acknowledge the Fed may have to take rates further into restrictive territory, especially if upcoming data comes in strong. Regardless, we are entering a critical time in the cycle where the disinflation process (hopefully) continues across the U.S. economy, and the implications of falling inflation are assessed.

Additionally, earnings have historically seen a very consistent pattern after the last hike of a tightening cycle. As shown in the chart below, S&P 500 EPS have bottomed anywhere from 13 months to 38 months after the last Fed hike, and never before. The average drop in EPS from the cycle’s final hike to the trough in earnings has been 36%.

As has been the case historically, the disinflation process has weighed heavily on earnings. In addition to signaling stalling economic growth and slowing topline growth, it also suggests that margins will likely continue to face pressure.

As shown in the chart below, margins tend to move up with inflation, as they have this time around to an extreme, and they also move down with inflation, as they have since mid-2022. As the recent rate hikes continue to put downward pressure on inflation, margins are likely to continue falling from their record levels. Pairing this dynamic with slowing sales growth, we believe earnings estimates for later this year and into 2024 are too optimistic and need to come down.

CORPORATE MARGINS: UP WITH INFLATION, DOWN WITH INFLATION

EARNINGS TYPICALLY BOTTOM · 2 YEARS AFTER THE LAST FED HIKE


Earnings headwinds may mean slow or negative growth in the short term. Additionally, risks of the Fed having to take rates further into restrictive territory should be managed. Seek strategies that can help accelerate returns with built-in risk management. Diversify income sources to hedge additional rate hikes.

**Innovator U.S. Equity Accelerated 9 Buffer ETF™ – April (XBAP)**

XBAP seeks 2X Upside Exposure on SPY, up to a 14.5% cap, with a 9% buffer against downside losses over the outcome period.

**Innovator Premium Income 30 Barrier ETF – April (APRJ)**

APRJ seeks a high level of income (starting distribution rate of 7.3%) with a built-in barrier against losses.

As an example of the potential value add of APRJ, since launching at the beginning of April, APRJ has posted a positive total return of 1.17%, while the Bloomberg US Aggregate Bond Index is down 0.5%.

<table>
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<tbody>
<tr>
<td>Return</td>
<td>1.17%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Volatility</td>
<td>3.9%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Drawdown</td>
<td>-0.6%</td>
<td>-2.8%</td>
</tr>
</tbody>
</table>

APRJ incepted on 3/31/2023. 0.79% expense ratio. Performance quoted represents past performance, which is no guarantee of future results. Investment returns and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit innovatoretfs.com/performance for current month-end performance. One cannot invest directly in an index.
conclusion. Investors who purchase Shares after the Outcome Period has begun or sell Shares prior to the Outcome Period’s conclusion may not experience investment returns very different from those that the Fund seeks to provide. The Funds, websites, www.innovatorest.com, provides important Fund information as well as information relating to the potential outcomes of an investment in a Fund on a daily basis. The Fund’s net assets (including the premiums received by selling Barrier Options) to purchase U.S. Treasuries that expire at the end of the Outcome Period. U.S. Treasuries are entitled to an interest rate, which when added to the premiums received for selling Barrier Options, produce the Distribution Rate. The Distribution Rate is distributed to shareholders in Fund Distributions. The amount of the Fund Distributions is dependent, in part, upon the income received from the U.S. Treasuries, which is not guaranteed. If the U.S. Treasuries fail to pay income or pay less income than anticipated, the Distribution Rate will not be realized, and a Fund Distribution will be less than anticipated.

Buffer & Accelerated ETFs Information

The Funds face numerous market trading risks, including active markets risk, authorized participation concentration risk, buffered loss risk, cap change risk, capped upside participation risk, correlation risk, liquidity risk, management risk, market maker risk, market risk, non-diversification risk, operation risks, option risks, trading issues risk, upside participation risk and valuation risk. There are no guarantees that the Funds will be successful in implementing their investment strategies. Additionally, the Buffer Option, the Cap, the Fund’s position relative to the Cap, the Buffer and the U.S. Treausuries are entitled to an interest rate, which when added to the premiums received for selling Barrier Options, produce the Distribution Rate for the remainder of the Outcome Period and may have diminished or no ability to experience further accelerated return, therefore exposing the investor to greater downside risks.

Technology Sector Risk: Companies in the technology sector are often smaller and can be characterized by relatively higher volatility in price performance when compared to other economic sectors. They can face intense competition which may have an adverse effect on profit margins.

In a market environment where the Solactive GBS United States 500 Index is generally appreciating, the Fund may underperform the Solactive GBS United States 500 Index by as much as 2% to 3% per month,

In order to achieve the Fund’s objective it may purchase put option contracts with terms that will allow the Fund to purchase put option contracts that expire approximately three months from the date that the put option contracts expire, the Fund will enter into new put option contracts with one-year expiration dates that are staggered every three months.

As the Fund’s buffered loss risk is significant, the Fund seeks to provide capital appreciation while seeking to limit the amount of losses experienced by investors. The Fund’s position relative to the Cap, the Buffer and the U.S. Treausuries are entitled to an interest rate, which when added to the premiums received for selling Barrier Options, produce the Distribution Rate for the remainder of the Outcome Period and may have diminished or no ability to experience further accelerated return, therefore exposing the investor to greater downside risks.

The Funds face numerous market trading risks, including active markets risk, authorized participation concentration risk, buffered loss risk, cap change risk, capped upside participation risk, correlation risk, liquidity risk, management risk, market maker risk, market risk, non-diversification risk, operation risks, option risks, trading issues risk, upside participation risk and valuation risk. There are no guarantees that the Funds will be successful in implementing their investment strategies. Additionally, the Buffer Option, the Cap, the Fund’s position relative to the Cap, the Buffer and the U.S. Treausuries are entitled to an interest rate, which when added to the premiums received for selling Barrier Options, produce the Distribution Rate for the remainder of the Outcome Period and may have diminished or no ability to experience further accelerated return, therefore exposing the investor to greater downside risks.

The Funds’ investment objectives, risks, charges and expenses should be considered carefully before investing. The prospectus contains this and other important information, and it may be obtained at www.innovatorest.com. Read it carefully before investing.