



JUNE 2021

GLOBAL ASSET ALLOCATION VIEWPOINTS AND INVESTMENT ENVIRONMENT

1 MARKET PERSPECTIVE As of 31 May 2021

- Global economic growth to remain above trend this year but nearing peak levels as major economies make progress on vaccinations and reopen over the summer.
- Global monetary policy outlook broadly supportive with most major central banks expected to remain on hold well into next year, although beginning to see a gradual trend toward tightening by some central banks, notably within emerging markets (EM), facing rising inflation.
- Asian and European economies that have trailed in pace of vaccinations should see improved growth trajectory over coming quarters as they advance reopening and benefit from their more cyclically oriented economies.
- Key risks to global markets include the path forward for the coronavirus, rising inflation, higher taxes, central bank missteps, and increasing geopolitical concerns.

2 PORTFOLIO POSITIONING As of 31 May 2021

- No changes in positioning over the period.
- We remain modestly underweight equities relative to bonds and cash as the risk/reward profile looks less compelling for equities and could be vulnerable to potential setbacks in the recovery, fading policy support, rising inflation, and higher taxes.
- Within equities, we favor value-oriented equities globally, U.S. small-caps, and EM stocks as we expect cyclically exposed companies to continue to benefit from the improvement in growth throughout the year.
- Within fixed income we continue to have a bias toward lowering duration risk and overweighting credit and inflation sensitive sectors such as high yield bonds, floating rate loans, and short-term TIPS.

3 MARKET THEMES As of 31 May 2021

Just Passing Through?

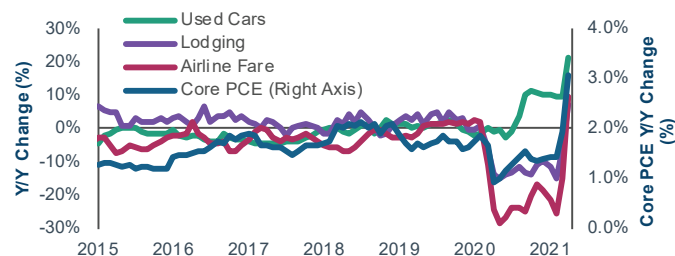
The Federal Reserve has been consistent in its messaging that a near-term spike in inflation pressures will be transitory and recede once COVID-related impacts fade. The latest inflation print showed prices, as measured by core personal consumption expenditures (PCE), jumped 3.1% year-over-year, the highest level in three decades due to supply chain and labor shortages, unleashed pent up demand, and base effects. While the data showed consumers are facing steep price increases across a range of areas including used cars, hotel prices, and air fare, these are expected to fade as pent-up demand subsides. So far, the bond market seems to believe the Fed's transitory view; however, the risk may be that the transition takes a bit longer than markets anticipate. Labor shortages and unconstrained fiscal spending in the U.S. could keep inflation elevated for longer, forcing the Fed and bond market to react faster than anticipated.

Easy Come, Easy Go

Global central banks were quick to act last year in response to the coronavirus pandemic, unleashing ultra-easy monetary policies, helping countries weather the economic impacts and aiding in the current growth rebound. Now on the back of more stable growth, some central banks have more recently announced plans to start pulling back on policy, including Canada and South Korea. Meanwhile, some EM central banks have already started raising rates this year, such as Russia, Turkey, and Brazil; however, the motivation has been more to fend off rising inflation compounded by COVID-related shortages. While the trend in global easing appears to be behind us, the major central banks are still pledging to maintain current support well beyond next year. Despite their intentions, markets have pulled forward expectations of when they'll act on recent data showing higher inflation. The months ahead could see more volatility as investors reevaluate how fast "easy" may go.

Inflation Spiking Across Various Segments¹

(Fig. 1) As of 31 May 2021

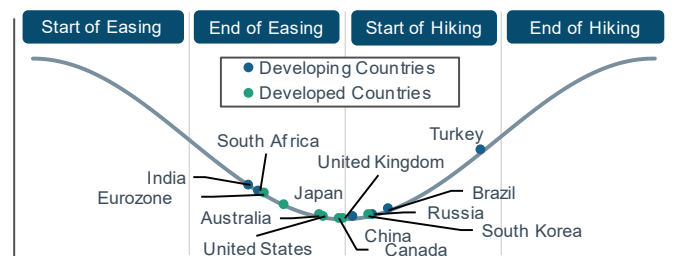


¹ Used Cars, Lodging, and Airline Fare represented by Consumer Price Index (CPI). All rights reserved.

² Country classifications in the chart are in line with IMF groupings as of reporting date. Sources: Haver Analytics, Bureau of Labor Statistics, IMF.

Divergence in Monetary Policies Across the Globe²

(Fig. 2) As of 31 March 2021

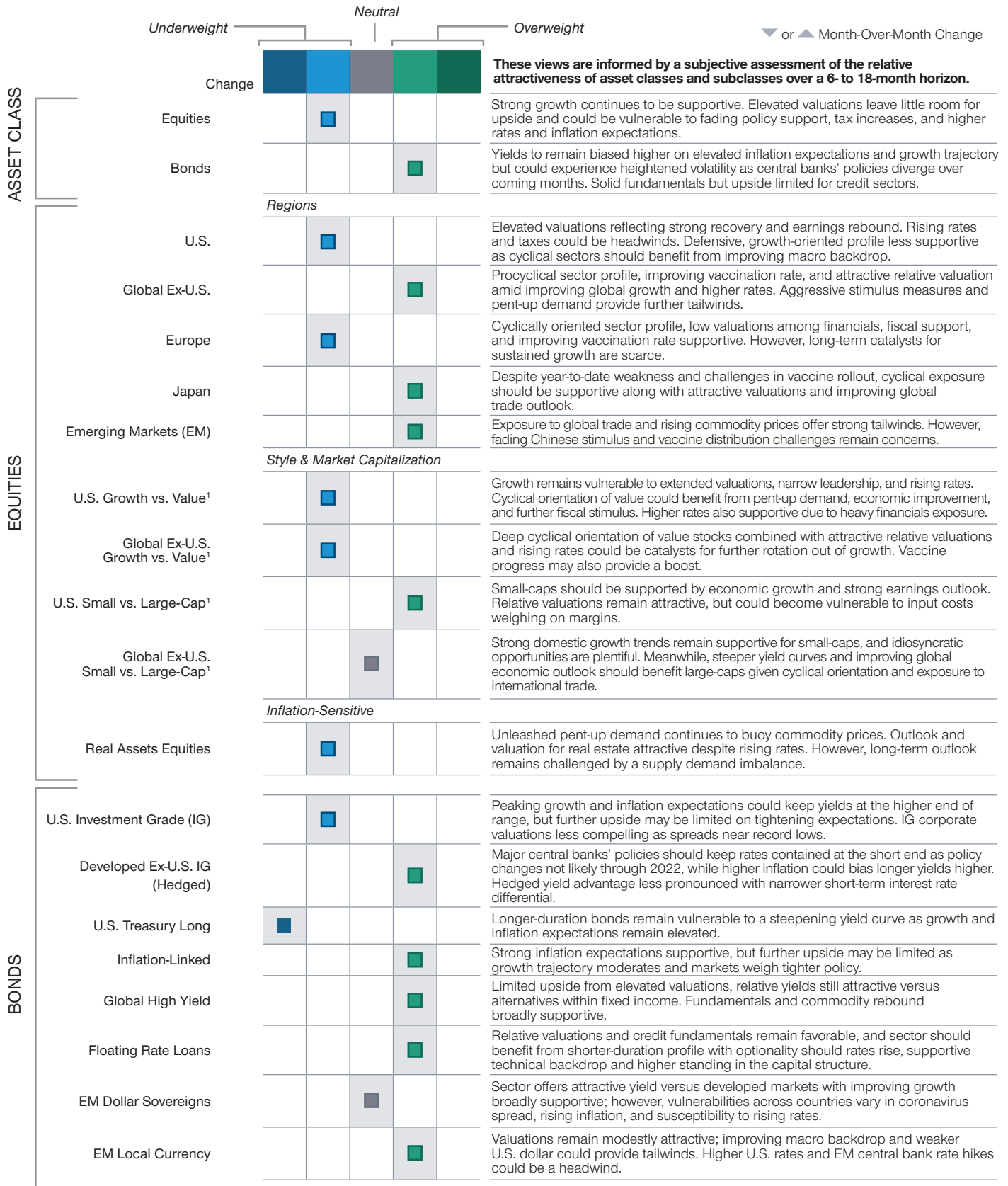


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4 REGIONAL BACKDROP

As of 31 May 2021

	Positives	Negatives
United States	<ul style="list-style-type: none">■ Vaccinations widely distributed, case count near lows■ Monetary policy remains very accommodative■ More fiscal support on the way■ Healthy consumer balance sheets and high savings rate	<ul style="list-style-type: none">■ Elevated stock and bond valuations■ High corporate and government debt levels■ Corporate taxes likely to rise■ Unemployment remains elevated
Europe	<ul style="list-style-type: none">■ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery■ Pace of vaccinations has significantly improved■ Monetary and fiscal policy remain accommodative■ Equity valuations remain attractive relative to the U.S.■ Stronger long-term euro outlook	<ul style="list-style-type: none">■ Spread of new variants leading to continued outbreaks■ Limited long-term catalysts for growth■ Limited scope for European Central Bank to stimulate further■ Brexit likely to negatively impact trade
China	<ul style="list-style-type: none">■ Economic growth remains solid exceeding pre-COVID levels on many front. Domestic drivers now need to take over exports and industrial production as the main engine of future growth.■ Ample liquidity, record Northbound inflows and solid earnings are all supportive of the local stock market.■ Micro fine tuning of monetary and fiscal policies removes the risk of a broad policy misstep.	<ul style="list-style-type: none">■ Supply bottlenecks and rising input prices are concerning for future manufacturing activities. Economic momentum might have already peaked.■ Consumer spending still lagging the recovery. Local COVID outbreaks don't help sentiment.■ Mixed messages from policy markers on the RMB create uncertainties on the future path of travel after the recent sharp appreciation.
Japan	<ul style="list-style-type: none">■ Economic data are finally surprising on the upside.■ Domestic stocks are a global reflation play with positive correlation to global PMIs and bond yields.■ Light positioning, oversold conditions, and earning optimism are all supportive for stocks in the short term.	<ul style="list-style-type: none">■ The pandemic is not yet under control with states of emergency being pushed back and slow vaccine roll-out■ Valuation de-rating remains a headwind despite strong earning growth.■ Uncertainty regarding the leadership of Prime Minister Suga with elections in the fall.
Australia	<ul style="list-style-type: none">■ Economic data continue to roar, boosted by strong commodity prices.■ Business capex expected to rebound to support future earning growth.■ The RBA remains extremely dovish, indicating any policy normalization is a long way off.	<ul style="list-style-type: none">■ Early signs of inflationary pressures seen in the housing and construction markets. Mentions of a housing bubble in some reports.■ RBA might change its policy guidance abruptly as it upgrades the economic forecasts. Beware of a U-turn for financial conditions.■ Policy accommodation has already peaked while economic conditions are not yet back to normal (slow vaccine, border shut down until mid-2022)
Emerging Markets	<ul style="list-style-type: none">■ Exposure to cyclical areas of economy should benefit from broad global recovery■ Commodity prices rising■ Chinese economy remains strong■ Equity valuations attractive relative to developed markets	<ul style="list-style-type: none">■ COVID-19 risk remains high in Central Asia and Latin America■ Vaccine supply and distribution infrastructure are well behind developed markets■ Stimulus from China is fading■ Limited ability to enact fiscal stimulus (excluding China)



¹For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class.



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