



AUGUST 2021

GLOBAL ASSET ALLOCATION VIEWPOINTS AND INVESTMENT ENVIRONMENT

1 MARKET PERSPECTIVE As of 31 July 2021

- Global economic growth remains strong but varied across regions, balancing progress on vaccination distribution with setbacks from growing delta variant cases.
- While still supportive, global monetary policy is expected to continue a gradual trend toward tightening as central banks weigh moderating growth and increased coronavirus risk against more persistent inflation.
- While global fiscal impulse continues to fade from crisis level highs, the European Union (EU) recovery fund, and potential U.S. infrastructure spending along with China's efforts to stabilize growth could offset the pullback.
- Longer-term interest rates could trend higher on the growth and inflation outlook, but upside may be limited as both factors move past peak levels. Short-term rates could begin to price in tighter central bank policy, leading to flatter yield curves.
- Key risks to global markets include: the path forward for the coronavirus, elevated inflation, central bank missteps, higher taxes, a stricter regulatory environment, and increasing geopolitical concerns.

2 PORTFOLIO POSITIONING As of 31 July 2021

- 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 fading policy support, higher rates, elevated inflation, and potential tax increases.
- Within equities, we continue to favor value-oriented equities globally, U.S. small-caps, and emerging markets (EM) stocks as we expect cyclically exposed companies to continue to benefit from strong economic growth and global reopening.
- Within fixed income, we continue to have a bias toward shorter duration and higher yielding sectors through overweights to high yield bonds and floating rate loans.
- Over the month, we shifted our modest overweight to short-term Treasury inflation protected securities to neutral as expectations for higher inflation have been largely priced into breakeven inflation rates.

3 MARKET THEMES As of 31 July 2021

Balancing Act

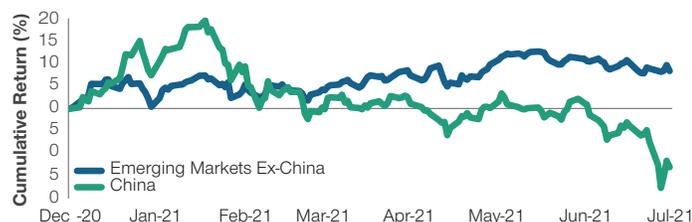
At the same time that China has taken steps to stabilize its slowing economy with measures such as a surprise reserve requirement ratio cut and pledge to increase fiscal support, policymakers continued to advance social policies through increased regulation, the latest of which rattled markets. These new regulations are tied to specific priorities around ensuring data security, improving the quality and sustainability of economic growth, reducing the wealth gap, and protecting the environment. Some of the enforcement measures, like forcing the education companies to transition to not-for-profit, were seen as severe and prompted concerns that additional stringent measures for other industries may be forthcoming. Recent comments from government officials seem to indicate that this is unlikely, but were sufficient enough to worry investors. As China moves forward, stabilizing its economy while pursuing its social agenda could prove to be a fine balancing act.

Double Reversal

After lagging growth stocks for over 15 years, value was finally positioned to outperform growth last fall on expectations of sharply rebounding economic growth, higher inflation, and the unleashing of pent-up demand as lockdowns eased. That was just how the story played out until late March when markets quickly reversed and rates moved lower as the narrative changed to "peaking" growth and inflation and concerns surrounding potential Fed tapering as well as increases in delta variant cases led to a more defensive tone across markets. However, the story for value may not be over just yet, as recent underperformance has led to more attractive relative valuations, global growth remains above trend, and supply/demand imbalances continue to keep inflation stubbornly high. With the hopeful containment of the delta variant and increasing regulatory pressure on growth stocks, investors may start betting on value pulling off a double reversal this cycle.

EM Ex-China vs. China Equity Index Returns¹

As of 31 July 2021



Past performance is not a reliable indicator of future performance.

¹ Emerging Markets Ex-China and China equity returns are represented by the MSCI Emerging Markets Ex-China and MSCI China Indices respectively. Total return in USD.

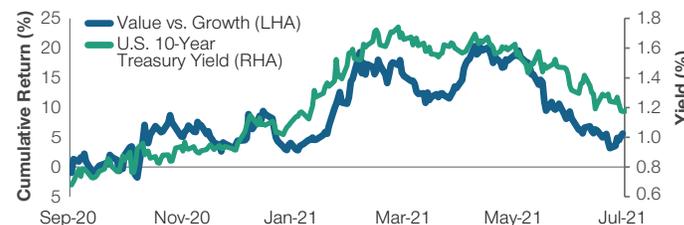
² Value vs. Growth returns are represented by the Russell 1000 Value and Russell 1000 Growth Indices respectively.

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Value vs. Growth & U.S. 10-Year Treasury Yield²

As of 31 July 2021

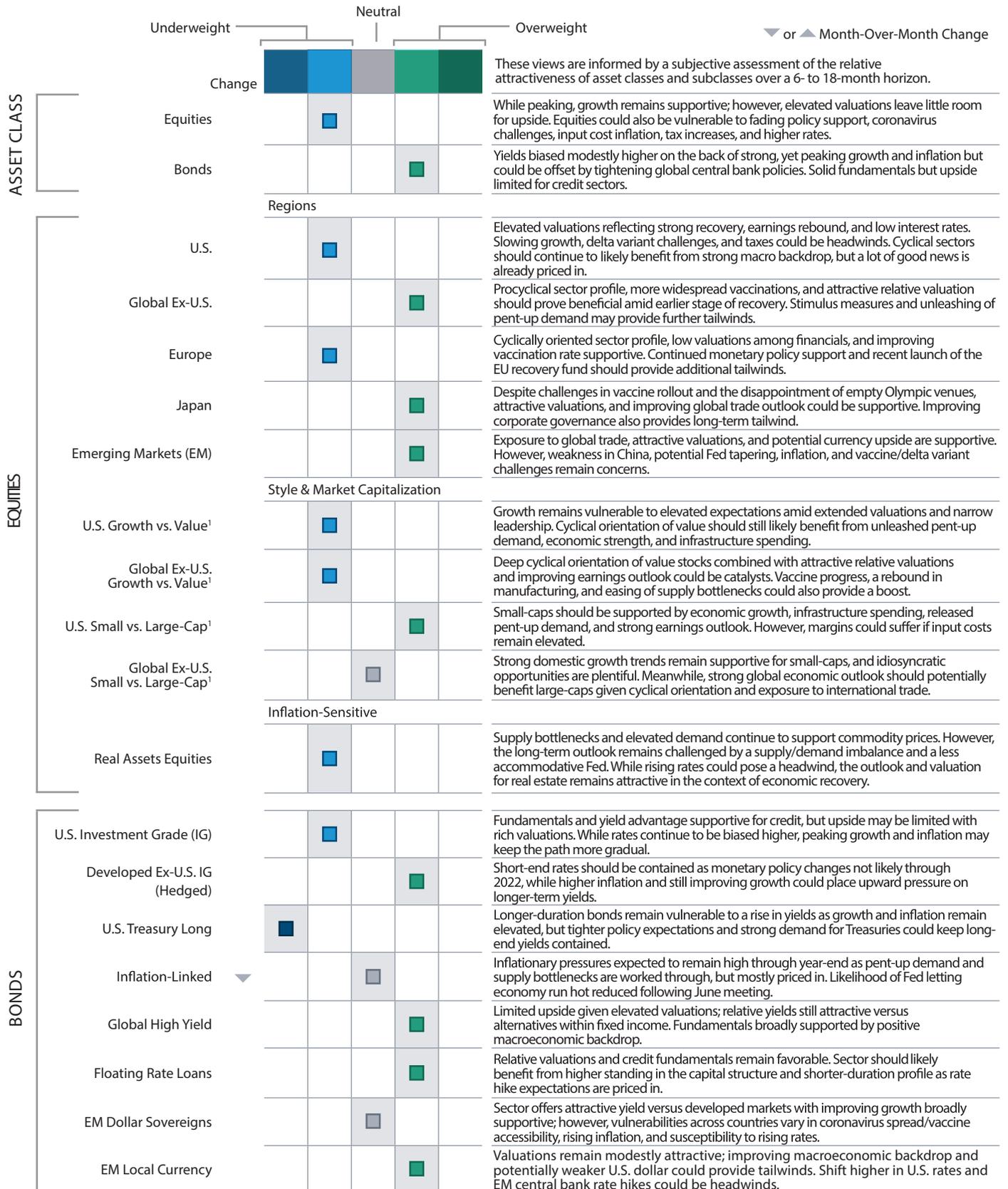


4 REGIONAL BACKDROP

As of 31 July 2021

	Positives	Negatives
United States	<ul style="list-style-type: none">■ Vaccinations widely distributed■ Infrastructure spending bill likely to be passed■ Healthy consumer balance sheets and high savings rate■ Strong earnings expectations	<ul style="list-style-type: none">■ Elevated stock and bond valuations■ High corporate and government debt levels■ Fed dovishness has peaked■ Corporate taxes likely to rise
Europe	<ul style="list-style-type: none">■ Higher exposure to more cyclically oriented sectors that should benefit from economic recovery■ Vaccination rates improving rapidly■ Monetary and fiscal policy remain accommodative■ Equity valuations remain attractive relative to the US	<ul style="list-style-type: none">■ Limited long-term catalysts for growth■ Limited scope for European Central Bank to stimulate further■ Brexit likely to negatively impact trade■ Demand from China fading■ Microchip shortage impacting manufacturing
China	<ul style="list-style-type: none">■ Economic activity should likely rebound in the second half on the back of monetary support and high level of vaccination.■ Chinese equity consolidation looks overdone on the back of supportive flow dynamics and past regulatory changes.■ Micro fine tuning of monetary and fiscal policies removes the risk of a broad policy misstep.	<ul style="list-style-type: none">■ Economic indicators are pointing to a likely slowdown due to a cautious domestic recovery.■ Consumer spending still lagging the recovery and below expectations. Local COVID outbreaks don't help sentiment.■ Inflationary pressures are mounting although they should prove transitory
Japan	<ul style="list-style-type: none">■ Economic data are slowly improving, especially in services and consumer related sectors.■ Domestic stocks are overdue to catch up with the expected recovery in Capex.■ Policy setting remains extremely accommodative with unspent fiscal spending expected to offer further boost to the economic recovery.	<ul style="list-style-type: none">■ The pandemic is not yet under control with states of emergency being pushed back■ Valuation de-rating remains a headwind despite strong earnings growth.■ Capital spending outside of IT is disappointing and could be a risk for future earnings growth.
Australia	<ul style="list-style-type: none">■ Economic data might have already peaked, albeit at solid levels.■ Business capex expected to rebound to support future earnings growth, assuming the COVID outlook clears out.■ The Australian Dollar should likely catch a bid from higher commodity prices, rising long term yields and a policy shift from the RBA in the coming months.	<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.■ Earnings outlook could be revised lower due to renewed lockdowns.■ Uncertainties over the COVID exit strategy would prove to be a serious headwind in the future.
Emerging Markets	<ul style="list-style-type: none">■ Exposure to cyclical areas of economy should potentially benefit from broad global recovery■ Commodity prices are elevated■ Equity valuations attractive relative to developed markets	<ul style="list-style-type: none">■ Vaccine supply and distribution infrastructure are well behind developed markets (excluding China)■ Stimulus from China is fading■ Accommodation from central banks is fading■ Limited ability to enact fiscal stimulus (excluding China)

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¹ For 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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ADDITIONAL DISCLOSURES

Certain numbers in this report may not equal stated totals due to rounding.

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