MAY 2022

GLOBAL ASSET ALLOCATION VIEWPOINTS AND INVESTMENT ENVIRONMENT

1 MARKET PERSPECTIVE As of 30 April 2022

- Global growth are estimates trending lower on heightened geopolitical risk and COVID lockdowns in China are weighing on supply chains and potentially exacerbating already elevated inflation.
- Despite moderating growth expectations, developed market central banks are expected to advance tightening policies to combat decades-high inflation, with the US Federal Reserve leading with the most aggressive plans. The European Central Bank (ECB) accelerates ending asset purchases and considers future rate hikes, while the Bank of Japan remains steadfast on its policy of yield curve control.
- Emerging market central banks remain biased towards tightening to fend off inflation and defend currencies, while China policies continue moving in the opposite direction to stimulate growth to help catch up to growth targets following COVID-related lockdowns.
- Key risks to global markets include central bank missteps, commodity impact of Russia-Ukraine conflict, lingering inflation, and China balancing growth amid COVID-related lockdowns.

2 MARKET THEMES As of 30 April 2022

Where to Hide?

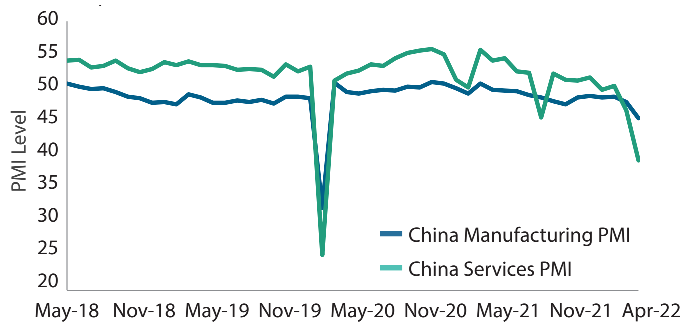
War, inflation, and lingering COVID impacts have set the stage for a challenging start to 2022 for investors, with both stocks and bonds down over 9% in response. While dynamic, stocks and bonds on average have a low correlation with each other and their correlation can move sharply negative during risk-off periods. However, this time is quite unique with runaway inflation sparking aggressive central bank tightening all while growth is moderating amid a world full of rising risks. These concerns of rising rates and inflation are contributing to a retreat in bonds. At the same time, rising rates and slowing growth are weighing on equity markets in a period where valuations are already above average. This unfortunate rise in stock-to-bond correlation is weighing on even the most conservative of investors. While it's hard to gauge the path forward given the unprecedented confluence of issues facing global markets, a cautious approach is warranted, especially to mitigate more extreme tail events, including more persistent inflation or a hard landing in the economy.

Walking a Tightrope

As the rest of the world is seeing fewer outbreaks and learning to cope with COVID, China, on the other hand, has faced a new wave of outbreaks forcing it to enact "zero-COVID" lockdown policies, which are taking a toll on the nation's growth and potentially spilling over to the rest of the world. The stringent lockdowns in Shanghai, an export hub, and most recently in Beijing are weighing on the ability to transport goods, further impacting already fractured global supply chains. The market increasingly expects China to further ease monetary and fiscal policy in response to the recent weakness. However, as they do, they will not want to reflate speculative bubbles that they burst last year, most notably the housing sector. With the presidential election approaching, and President Xi Jinping up for an unprecedented third term, he seems determined to reach China's lofty 5.5% gross domestic product target that is severely challenged by COVID lockdowns. This leaves policymakers walking a tightrope should they seek to maintain the aggressive lockdowns and reach growth targets, while providing just enough stimulus not to overheat some sectors of the market.

Stock & Bond Correlations on the Rise[1]
As of 30 April 2022

China's Manufacturing & Services Data Taking a Hit[2]
As of 30 April 2022



Past performance is not a reliable indicator of future performance.

Sources: Bloomberg Finance L.P. and S&P. Please see the last page for more information about this S&P information.

[1] Chart represents rolling 2-year correlation of monthly price changes of the S&P 500 Index and U.S. 10-Year Treasury Futures.

[2] Chart shows China Manufacturing PMI Index and China Non-Manufacturing PMI Index (representing Services PMI).

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3 REGIONAL BACKDROP

As of 30 April 2022

	Positives	Negatives
United States	■ Strong corporate and consumer balance sheets ■ Pent-up demand for services and capex	■ Fed tightening at a rapid pace ■ Elevated inflation ■ Supply chain issues limiting economic activity
Europe	■ Fiscal spending is increasing ■ Equity valuations attractive relative to the US ■ European Union unity is strengthening	■ Ukraine conflict has driven energy prices sharply higher ■ Industrial production dampened by supply chain challenges ■ Limited long-term catalysts for earnings growth
Japan	■ Earning expectations remain solid ■ Domestic fiscal support and easy monetary policy support the economic recovery ■ A weak Yen has historically been positive for equity markets, assuming contained commodity prices	■ Leading economic indicators continue to be weak due to supply shortages and rising input prices. ■ The Japanese Yen is at levels that may prove a headwind to domestic activity. ■ The changing correlation between currency, bonds and equity contributes to greater uncertainties.
Emerging Markets	■ Chinese authorities are easing policies ■ Equity valuations attractive relative to the US	■ COVID-related lockdowns have impacted economic activity ■ Chinese regulatory actions have impacted investor confidence ■ Global trade remains impacted by supply chain issues, geopolitical uncertainty, and COVID ■ Central bank accommodation is fading
China	■ Policy makers will have to implement larger stimulus measures to hit their set growth target ■ Depressed sentiment and positioning make Chinese stocks an interesting contrarian, medium term investment, amidst appealing valuation ■ A clear acknowledgement from policy makers of the current issues suggests that we are past the peak regulatory pressure point	■ The COVID outbreaks are challenging the Dynamic Clearance policy, severely impacting mobility indicators. ■ Investors and consumers alike are waiting for more decisive policies to re-ignite local sentiment and risk appetite ■ Earnings momentum hasn't yet bottomed given the uncertain environment

4 PORTFOLIO POSITIONING

As of 30 April 2022

- Despite lower valuations amid recent declines, we remain underweight equities given a moderating growth and earnings outlook amid a hawkish Fed battling high inflation.
- Within equities, we reduced our moderate overweight position on China to neutral due to short-term headwinds, including the lack of credit demand and COVID lockdowns. We also moved Japan to neutral given the slow down in global recovery. Finally, we added modestly to Asia ex-Japan as the re-opening thesis is playing out and inflation is less of a concerns compared to other regions.
- Within fixed income, we continue to favor shorter-duration and higher-yielding sectors through overweights to short-term TIPS and high yield bonds supported by still solid fundamentals while keeping a cautious eye on liquidity and volatility.

▼ or ▲ Month-Over-Month Change

		Change	Underweight		Neutral	Overweight		**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASS	Equities			■				Stocks are vulnerable to potential for economic weakness, tightening Fed policy and lingering in˜ation concerns. Earnings have held up reasonably well in 2022, but face pressure from a slowing economy.
ASSET CLASS	Bonds					■		Tighter global central bank policies and elevated in˜ation could continue to pressure yields higher, although the US rates market has already priced in an aggressive Fed tightening path. Credit spreads could remain volatile given continued risk-o° sentiment.
EQUITIES	*Regions*							
EQUITIES	U.S.			■				Growth orientation and narrow leadership of the US market makes it more susceptible should rates rise further. However, lower representation of more cyclical sectors could be beneÿcial if recession concerns increase further.
EQUITIES	Europe			■				Valuations are attractive, but the Russia-Ukraine con˜ict poses a signiÿcant risk, due to rising energy costs and the impact of ÿnancial sanctions. ECB support may be waning over the coming months.
EQUITIES	Japan	▼			■			Yen weakness has been a signiÿcant headwind to performance but may stabilize from here. Attractive valuations, supportive monetary policy and improving corporate governance should provide tailwinds.
EQUITIES	China	▼			■			Short-term uncertainties around COVID and lack of credit demands prevail while recovery takes longer than anticipated.
EQUITIES	Emerging Markets (EM) ex-China				■			In˜ationary pressure on food and energy price runs high, while the re-opening thesis still holds.
EQUITIES	Asia ex-Japan	▲				■		Re-opening thesis plays out and In˜ation less of a concern compared to other regions.
EQUITIES	*Style & Market Capitalization*							
EQUITIES	U.S. Small vs. Large-Cap[1]					■		Small-cap stocks o°er attractive relative valuations and still strong earnings growth. However, elevated input costs, wage pressures and heightened market volatility could challenge performance. Higher quality bias is warranted.
EQUITIES	Global Growth vs. Value[1]			■				Relative valuations for value stocks remain attractive, but the gap has narrowed, and the cyclical outlook has weakened. Meanwhile, growth stocks face higher relative valuations and more pressure from rising rates and slowing earnings
EQUITIES	*Inflation-Sensitive*							
EQUITIES	Real Assets Equities				■			Although slowing growth and in˜ation are headwinds, if in˜ation settles in at a higher level the sector could o°er an attractive hedge. Commodity valuations are elevated, but supply shortages are likely to endure over the near to medium term. Real estate remains attractive but could be somewhat vulnerable to rising rates.
BONDS	Global Investment Grade (IG)			■				Central bank tightening tightening is pushing short rates higher, while longer rates balance impacts of moderating growth, stickiness of in˜ation and geopolitical con˜ict. Spreads have retreated from recent lows, re˜ecting risk-o° sentiment.
BONDS	Global High Yield					■		Credit fundamentals remain strong, default risk remains low and elevated commodity prices remain supportive. However, spread volatility is expected to continue due to geopolitical, in˜ationary and growth concerns.
BONDS	Asia Credit					■		Sentiment remains fragile with a more cautious outlook for growth and tighter ÿnancial conditions while the technical backdrop is turning more supportive
BONDS	In˜ation-Linked					■		US TIPS should o°er a hedge if commodities continue to be pressured higher as supply chain issues persist and Fed tightening fails to bring in˜ation down.

[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.
The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

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