APRIL 2022

GLOBAL ASSET ALLOCATION VIEWPOINTS AND INVESTMENT ENVIRONMENT

1 MARKET PERSPECTIVE As of 31 March 2022

- Geopolitical risks and lingering pandemic impacts are weighing on global economic growth expectations while putting upward pressure on already elevated inflation.
- Despite moderating growth expectations, developed market central banks are expected to advance tightening policies to fend off decades-high inflation, with the US Federal Reserve leading with the most aggressive plans. The European Central Bank signaled an accelerated timeline to ending asset purchases and beginning rate hikes, while the Bank of Japan remains steadfast to policy, taking recent action to keep rates anchored.
- Emerging market central banks remain biased towards tightening to fend off inflation and defend currencies, while China policy continues moving in the opposite direction to stimulate growth.
- Key risks to global markets include escalating geopolitical concerns, persistent inflation near already high levels, central bank missteps and the impact of a COVID-19 outbreak in China on global growth and supply chains.

2 MARKET THEMES As of 31 March 2022

Beginning of the End?

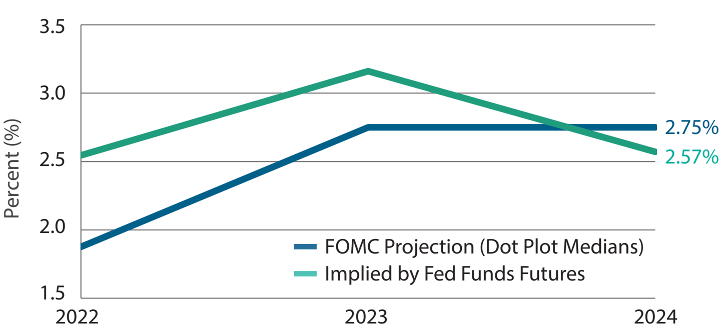
The more than four-decade bull market for bonds, supported by low inflation and declining rates, that provided a tailwind of price appreciation on top of income, may finally be coming to an end. For bond investors, this is a particularly precarious time given heightened rate sensitivity through extended duration levels and still low yields, providing little income to offset capital losses as rates rise. For the US Federal Reserve, which had enjoyed the luxury of acting aggressively when needed amid multiple crises while not stoking inflation, the tables have turned. Now due to exogenous factors impacting supply—the pandemic and the conflict in Ukraine—inflation has spiked higher, forcing the Fed into a battle that it hasn't had to fight in decades. The market seems to agree that the Fed will remain steadfast, for now, in its battle against inflation over the course of the year. However, the market is saying the Fed could be lowering rates as soon as the end of next year, meaning bonds may not be out of favor for long.

History Lessons

While the world has been battling to overcome the impacts of a global pandemic not seen in decades, we now face new, heightened challenges that may similarly have precedence with other periods in history. While coronavirus variants have extended supply chain issues and stoked higher inflation, expectations just a few months ago were that these issues would be transient. Unfortunately, the invasion of Ukraine in Europe, the likes not seen since the start of World War II in 1939, have exacerbated inflation risks and economic uncertainty. The narrative today has quickly turned to fears of "stagflation" with comparisons being made to the oil embargo of 1973 in the US that served as a catalyst for runaway inflation, unprecedented rate hikes and a recession. While the world is very different today and some of the challenges are distinct, history can repeat itself. So while stagflation is not our base case, the potential for tail risk events is heightened and warrants caution.

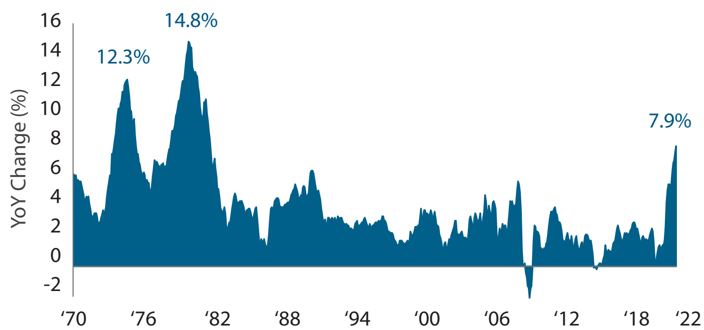
Fed Funds Rate Projections

As of 31 March 2022



US Consumer Price Index (CPI) YoY

As of 31 March 2022



Source: Bloomberg Finance L.P.

For illustrative purposes only. Actual future outcomes may differ materially.

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3 REGIONAL BACKDROP

As of 31 March 2022

	Positives	Negatives
United States	▪ Strong corporate and consumer balance sheets ▪ Pent-up demand for services and capex	▪ Significantly elevated inflation ▪ Fed tightening at a rapid pace ▪ Supply chain issues constraining economic activity ▪ Elevated stock valuations
Europe	▪ Fiscal stimulus increasing ▪ Equity valuations attractive relative to the US	▪ Russia-Ukraine conflict likely to continue to exacerbate energy shortages ▪ Industrial production dampened by supply chain challenges and energy shortages ▪ Limited long-term catalysts for earnings growth ▪ US dollar strength likely to remain a headwind
Japan	▪ Local stock markets continue to be attractive due to favorable relative valuation and healthy earning expectations. ▪ Domestic fiscal support and easy monetary policy should prolong the economic recovery. ▪ A weak Japanese Yen may offset the negative impact of oil prices for the exporting sector.	▪ Leading economic indicators continue to be weak due to supply shortages and rising input prices. ▪ The Japanese Yen is reaching levels that may prove a headwind to domestic activity. ▪ Inflationary pressures may be under appreciated due to rising commodity prices, a weak Japanese Yen, communication costs increases and hopeful wage negotiations.
Emerging Markets	▪ Affirmation of China GDP growth targets suggests more supportive policy environment ▪ Equity valuations attractive relative to the US	▪ COVID-19 outbreak in Asia weighing on economic activity ▪ Chinese regulatory actions have impacted investor confidence ▪ Global trade remains impacted by supply chain issues, geopolitical uncertainty and COVID-19 restrictions ▪ 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. ▪ Issues around the property sector, the foreign listing of stocks, regulatory uncertainties and geopolitical risks have all been identified and will likely be addressed in the near future.	▪ The COVID outbreaks are challenging the Dynamic Clearance policy, severely impacting mobility indicators. ▪ Investors and consumers alike are waiting for more actions and fewer talks to re-ignite local sentiment and risk appetite. ▪ Earnings momentum hasn't yet bottomed given the uncertain environment.

4 PORTFOLIO POSITIONING

As of 31 March 2022

- While valuations are off recent peaks, we remain underweight equities given a moderating growth and earnings outlook amid an active Fed and lingering inflation concerns. Within fixed income, we remain overweight cash.
- Within equities, we added to real assets-related equities from global equities to provide a hedge should inflationary pressures persist longer than expected given heightened uncertainty.
- Within fixed income, we moderated our underweight to long-term US Treasuries following recent moves higher in rates to provide portfolio ballast in a risk-off scenario.
- We continue to favor shorter-duration and higher-yielding sectors through overweights to short-term TIPS, floating rate loans and high yield bonds supported by our still supportive outlook on fundamentals while keeping a cautious eye on liquidity amid higher volatility.

5 ASSET ALLOCATION POSITIONING

As of 31 March 2022

▼ or ▲ Month-Over-Month Change

These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

		Change	Underweight	Underweight	Neutral	Overweight	Overweight	
ASSET CLASS	Equities			■				Valuations off recent peaks but remain vulnerable to further rerating amid Fed tightening policy, potential for economic weakness and lingering inflation concerns.
ASSET CLASS	Bonds					■		Rates biased higher amid central bank tightening and elevated inflation. Further upside may be limited on growth outlook favoring short duration. Credit fundamentals supportive but could remain volatile.
	Regions							
EQUITIES	U.S.			■				Elevated valuations are off recent peaks but remain challenged by Fed tightening, persistent inflation and geopolitical risks. Growth orientation of the US market makes it more susceptible should rates rise further.
EQUITIES	Europe			■				Valuations are attractive, but the Russia-Ukraine conflict poses a significant risk, due to rising energy costs and the impact of financial sanctions.
EQUITIES	Japan					■		Attractive valuations, recent fiscal stimulus, supportive monetary policy and improving corporate governance should provide tailwinds. Japanese Yen weakness has been a headwind to performance but may stabilize from here.
EQUITIES	China					■		More stimulus policies expected to support the ambitious GDP growth target; valuation remains attractive.
EQUITIES	Emerging Markets (EM) ex-China				■			Escalation of the Russia-Ukraine conflict adds inflationary pressure on food and energy price, while the re-opening thesis still holds.
EQUITIES	Asia ex-Japan				■			Pent-up demand, particularly in leisure and travel, provides short-term tailwind as most Asian countries relaxing border controls and social distancing measures. Inflation less of a concern compared to other regions.
	Style & Market Capitalization							
EQUITIES	U.S. Small vs. Large-Cap[1]					■		Small-cap stocks offer 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]			■				Value stocks remain attractive but are facing weaker cyclical tailwinds and higher geopolitical risks. While growth stocks' valuations have become less challenging, they will continue to be pressured by potentially rising rates and slowing earnings.
	Inflation-Sensitive							
EQUITIES	Real Assets Equities	▲			■			Real assets offer an attractive hedge against rising inflation. Commodity valuations are elevated, but supply shortages are likely to endure over the near to medium term. Real estate remains attractive in the context of rising wages but could be somewhat vulnerable to rising rates.
BONDS	Global Investment Grade (IG)	▲		■				Shorter rates to move higher with central bank tightening as longer rates balance the impact of high but slowing growth, sticky inflation, and geopolitical conflict. Ukraine conflict has created growth concerns which may weigh on rates. USD supported by Fed tightening and safe haven trade.
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, inflationary and growth concerns.
BONDS	Asia Credit					■		Relatively solid fiscal and external buffers in a period of tighter financial conditions compared to the rest of EM. In China signs of further easing continue to gather pace against the headwinds of still weak housing markets and potential spread of Omicron.
BONDS	Inflation-Linked					■		TIPS should offer a hedge if geopolitical risks and supply chain issues persist and Fed tightening fails to bring inflation 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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