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JUNE 2022

GLOBAL ASSET ALLOCATION VIEWPOINTS AND INVESTMENT ENVIRONMENT

1 MARKET PERSPECTIVE As of 31 May 2022

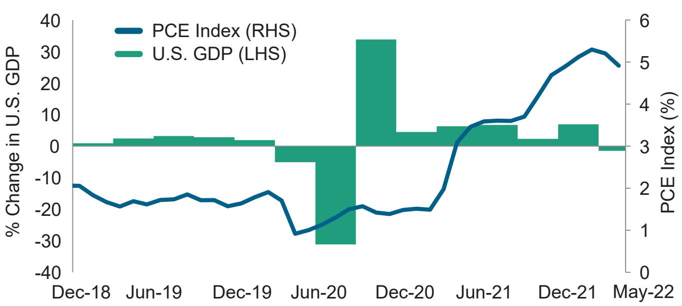
- While global growth is trending lower, recent economic data, especially pertaining to the labor market, has shown resilience amid geopolitical challenges, supply disruption, and reduction of liquidity.
- The U.S. Federal Reserve remains committed to its tightening policy, hinting at a frontloaded path of rate hikes. The European Central Bank (ECB) has telegraphed its plan to end asset purchases and begin raising rates despite a fragile macro backdrop, while the Bank of Japan remains steadfast on its policy of yield curve control.
- Emerging market central banks continue to tighten policy in response to heightened inflation and weak currencies, while China's policies continue moving in the opposite direction to counter weakening growth caused by zero-COVID policy.
- Key risks to global markets include central bank missteps, lingering inflation, commodity impact of Russia-Ukraine conflict, sharp slowdown in economic data and China balancing growth amid COVID-related lockdowns.

2 MARKET THEMES As of 31 May 2022

So Far, So Good...

With inflation at multi-decade highs and growth already slowing, investors were rightfully skeptical about the Fed's ability to aggressively tackle inflation without sending the economy into recession having waited too long. Now two hikes in and messaging frontloading future hikes with 50 basis point moves, recent data suggests the broader economy is largely holding up. Although first-quarter gross domestic product showed the economy surprisingly contracted by 1.5%, it appeared an anomaly due to temporary disruptions in trade and inventories, masking underlying support from consumer and capex spending. And while expected to slow, full year 2022 growth estimates still expect a 2.6% expansion, near pre-covid averages. Inflation too is showing some early signs of cooperating, with recent data suggesting easing in producer prices and wages, giving Fed officials a sigh of relief. While far from out of the woods, with top-line CPI still expected to be near 6% levels at year-end, so far it seems like maybe, just maybe a Fed-driven recession or stagflation are not inevitable.

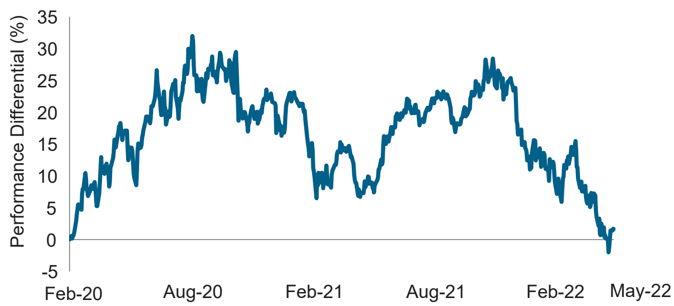
U.S. GDP & Inflation[1]
As of 31 May 2022



Growth Spurt?

After more than a decade of outperformance versus value amid years of low economic growth, growth stocks went nearly parabolic during COVID lockdowns as many large-cap technology companies disproportionately benefitted from stay-at-home trends, sending valuations to record levels. That trend abruptly ended at the end of last year and has continued amid a spike higher in interest rates and threats of aggressive Fed tightening to battle multi-decade high inflation. The sharp drawdown in growth stocks has led to more reasonable valuations and the move higher in rates appears to be largely priced in as expectations for economic growth are moderating—historically a time when growth stocks have tended to outperform. While time will tell if this is a pivotal inflection in style back toward growth stocks, they still face near-term challenges on upcoming earnings comparisons and uncertainty around the path of Fed policy. But, for now growth could be due for a spurt higher as many of the tailwinds for value—higher energy prices and rates—may be peaking.

Growth vs. Value[2]
As of 31 May 2022



Past performance is not a reliable indicator of future performance.
Sources: Bloomberg Finance L.P. and London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). Please see the last page for information about this FTSE Russell information.

[1] U.S. GDP is represented by the U.S. Gross Domestic Product Index quarter over quarter. The PCE Index is represented by the Personal Consumption Expenditure Core Price Index year over year.

[2] Chart represents the difference between Growth and Value indices. Growth is represented by Russell 1000 Growth Index and Value is represented by Russell 1000 Value Index.

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3 REGIONAL BACKDROP

As of 31 May 2022

	Positives	Negatives
United States	▪ Strong corporate and consumer balance sheets ▪ Pent-up demand for services and capex	▪ Fed tightening at a rapid pace ▪ Significantly elevated inflation ▪ Supply chain issues limiting economic activity ▪ Fiscal stimulus has peaked
Europe	▪ Fiscal spending likely to increase ▪ Equity valuations attractive relative to the U.S. ▪ European Union unity is strengthening	▪ Russia-Ukraine conflict has driven energy prices sharply higher ▪ Industrial production is dampened by supply chain challenges ▪ Limited long-term catalysts for earnings growth ▪ ECB support is likely to fade in the near term
Japan	▪ Earnings remain healthy. With buybacks at record levels, shareholders should be rewarded ▪ The policy setting remains accommodative ▪ The Japanese Yen is cheap. With interest rate differentials stabilizing, the currency should appreciate	▪ Leading economic indicators continue to be weak due to supply shortages and rising input prices ▪ Inflation is back and may encourage the BOJ to change its policy guidance ▪ The global slowdown, especially in China, is impacting the export sector
Emerging Markets	▪ Chinese authorities are easing monetary, regulatory and credit conditions ▪ Equity valuations are attractive relative to the U.S.	▪ COVID outbreak significantly weighing on economic activity ▪ Global trade remains impacted by supply chain issues, geopolitical uncertainty and COVID restrictions
China	▪ Policy makers are becoming more forceful in their stimulus measures, suggesting that the worst may be behind us already ▪ Depressed sentiment and positioning make Chinese stocks an interesting contrarian, medium term investment, amidst appealing valuation ▪ Earning reports suggested that companies are looking at cost cutting and efficiency gains to preserve margins and profits in this downturn	▪ Mobility indicators are still significantly below normal levels, indicating that the reopening story will take time to develop ▪ The economic slowdown appears to be even greater than in Q1 2020 ▪ Geopolitical tensions are making the balancing act between the zero covid policy and economic stimulus extremely difficult

4 PORTFOLIO POSITIONING

As of 31 May 2022

- While equity valuations are more reasonable after recent declines, we remain cautious on the earnings growth outlook and inflationary impacts on margins supporting our modest underweight.
- Within equities, we added to real assets-related equities, bringing the position to overweight, to provide a hedge should inflationary pressures persist longer, or settle higher, than expected. The overweight was funded from European Equities, as Europe faces the highest risk of recession among all major regions with the tail risk skewed to the downside.
- Within fixed income, we increased overweight to Asia Credit as its yield spread is at the widest it has been in 10 years. This was funded by short-term Treasury inflation protected securities and cash.

As of 31 May 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			■				Despite sell-off, stocks remain vulnerable to further weakness. Earnings expectations have held up reasonably well thus far, but could face considerable pressure from rising input costs and slowing economic growth.
ASSET CLASS	Bonds					■		Tighter global central bank policies and still elevated inflation could keep upward pressure on yields, although U.S. rates appear to have peaked for now. Credit spreads look more attractive following risk-off sentiment.
EQUITIES	**Regions**							
EQUITIES	U.S.			■				Growth orientation and narrow leadership of the U.S. market makes it more susceptible to rising rates. However, lower representation of more cyclical sectors could be beneficial if recession concerns increase 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. The path for ECB support remains uncertain over the coming months.
EQUITIES	Japan				■			Yen weakness and cyclical orientation have been significant headwinds to performance. Attractive valuations, supportive monetary policy and improving corporate governance should provide long-term tailwinds.
EQUITIES	China				■			Brighter outlook beyond continued weakness expected in Q2 data on the back of more forceful stimulus measures
EQUITIES	Emerging Markets (EM) ex-China				■			Inflationary 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 Inflation less of a concern compared to other regions.
EQUITIES	**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]			■				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	▲				■		Commodity prices are elevated, but supply shortages are likely to endure over the near to medium term. Commodities can offer an attractive hedge to a sustained period of elevated inflation.
BONDS	Global Investment Grade (IG)			■				Central banks, such as the ECB, are expected to turn more aggressive, which could pressure rates higher. Wider spreads reflect risk-off sentiment. The U.S. dollar remains supported by Fed tightening and safe-haven trade.
BONDS	Global High Yield					■		Credit fundamentals remain strong, default risk remains low and wider spreads following risk-off sentiment are supportive. However, spread volatility is expected to continue due to geopolitical, inflationary and growth concerns.
BONDS	Asia Credit					■		Given attractive yield, today is as good of an entry point as ever. While China's property developers remain under pressure, other markets such as Indonesia and India are expected to stand out.
BONDS	Inflation-Linked	▼			■			While inflationary environment remains supportive, valuation less attractive than before.

[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.

MULTI-ASSET

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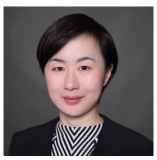

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