



JULY 2022

GLOBAL ASSET ALLOCATION VIEWPOINTS AND INVESTMENT ENVIRONMENT

1 MARKET PERSPECTIVE As of 30 June 2022

- Inflation concerns remain at the forefront for central banks and investors as global growth continues to trend lower amid supply disruptions, geopolitical challenges and reduction of liquidity, setting the stage for a challenging macro backdrop.
- The U.S. Federal Reserve (Fed) remains committed to its tightening policy, hinting at a steady path forward to further combat inflation. 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.
- While most emerging market (EM) central banks continue to tighten policy in response to heightened inflation and weak currencies, China policies remain supportive following the easing of pandemic-related lockdowns to help bolster growth.
- Key risks to global markets include central bank missteps, persistent inflation, impacts of the Russia-Ukraine conflict, potential for a sharper slowdown in global growth and China's balance between containing COVID and growth.

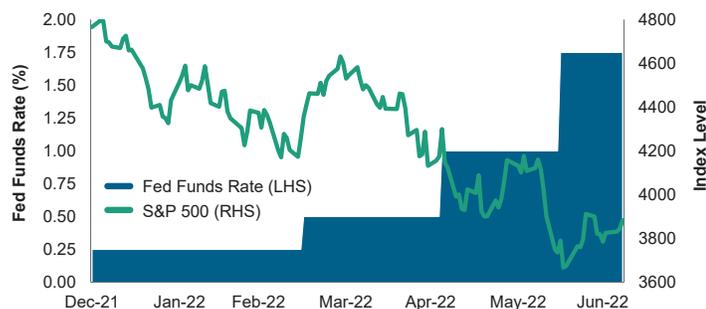
2 MARKET THEMES As of 30 June 2022

Kaput!

For the last several decades, the Fed has had the luxury of pursuing its dual mandate—maximum employment while maintaining price stability—amid anchored low inflation. Major shocks to the economy and markets, including the great financial crisis and outbreak of COVID, could be combatted with aggressive rate-cutting and trillions of dollars in quantitative easing with little fear of stoking inflation. This environment was beneficial for the Fed and investors who became complacent in expecting a Fed “put” would be there to provide a backstop when a crisis occurred. Unfortunately, the Fed's aggressive easing this time around came alongside unprecedented fiscal stimulus, flooding consumers and corporations with cash and the release of pent-up demand colliding with severe supply shortages related to COVID lockdowns. Add in the energy and agricultural shortages tied to the Russia-Ukraine conflict and you have the perfect storm for runaway inflation. Unfortunately for the Fed, they can't fix supply and will likely remain steadfast in tightening policy to combat inflation, even if it risks pushing the economy into recession—meaning for now that the Fed “put” is kaput.

Fed Funds Rate vs. U.S. Equities

As of 30 June 2022



Change of Tone

China's stock market had fallen by nearly 24% towards the end of April this year as strict lockdowns related to the country's zero-COVID policy weighed on the growth outlook. With evidence now showing COVID-19 infections are abating, lockdowns have been eased and inbound traveler quarantine requirements have been halved, allowing China's economy to gradually reopen. This shift in sentiment comes at a time when the People's Bank of China has pledged to maintain supportive monetary policy to aid the country's recovery, with a cautious eye on stability. Recent statements from President Xi Jinping pledging government support for parts of the technology sector, citing their larger role in the economy's future, also seemed to suggest an easing of regulatory crackdowns experienced last year. In a matter of months, the negative sentiment surrounding China has shifted to it being the “new bull market,” with Chinese stocks up close to 20% off April's lows. While still early in reopening and with China's economic data just starting to show signs of improvement, the tone inside and outside China suggests that the worst may be behind, at least for now.

Chinese Equities Rebounding Sharply since April

As of 30 June 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 information about this S&P information. Chinese equities are represented by the Shanghai Shenzhen CSI 300 Index. Figures shown in Chinese yuan.

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3 REGIONAL BACKDROP

As of 30 June 2022

United States

Positives

- Strong corporate and consumer balance sheets
- Pent-up demand for services and capex

Negatives

- Fed tightening at a rapid pace
- Inflation remains elevated
- Supply chain issues limiting economic activity

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 with upcoming elections reinforcing the supportive tone
- 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 pushing investors to question BOJ's commitment to its yield curve control policy
- The global slowdown is a concern for the export heavy stock market

Emerging Markets

- Chinese authorities are easing monetary, regulatory and credit conditions
- Equity valuations are attractive relative to the U.S.

- Global trade remains impacted by supply chain issues and geopolitical uncertainty
- Fiscal pressures remain a challenge

China

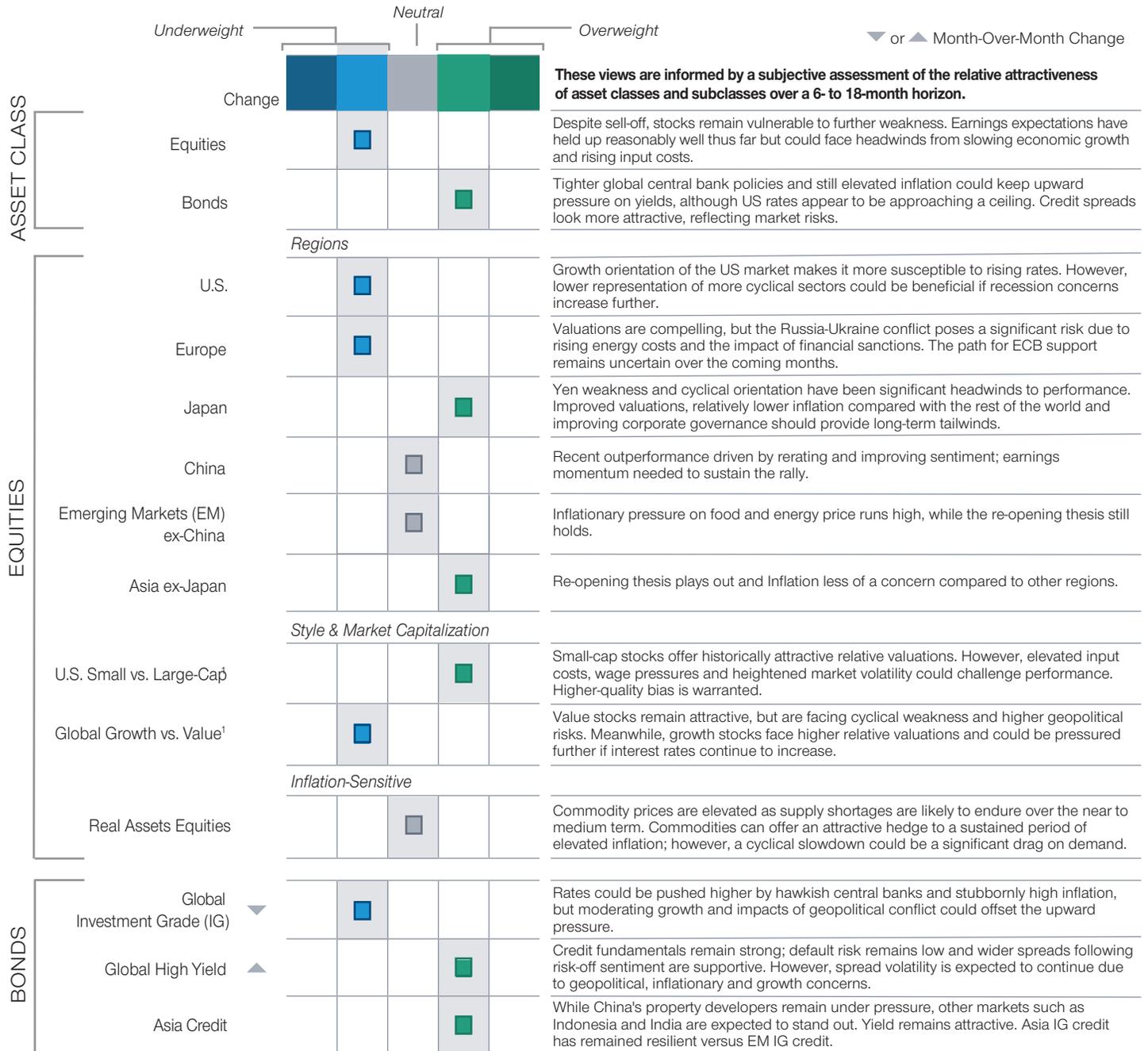
- The long awaited policy-driven rebound seems finally underway
- Local sentiment is turning towards the stock market, reinforcing the appeal to this contrarian and diversifying trade for foreign investors
- Earnings are revised higher, thanks to greater clarity from the regulatory front and an expected recovery in consumer spending

- Risks of renewed mobility restrictions remain
- The unemployment rate rose in big cities, explaining why consumers are cautious
- Record levels of defaults for offshore bond obligations keep foreign investors worried

4 PORTFOLIO POSITIONING

As of 30 June 2022

- Despite more attractive valuations following recent declines, we remain cautious on equities given more challenging earnings environment into slowing growth and tighter financial conditions.
- Within fixed income, we moderated our exposure to global aggregate bonds in favor of high yield bonds given the latter's yield advantage. This move will add to the portfolio's risk profile marginally.



¹For 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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Additional Disclosures

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