2023 Tactical Allocation Views

■ 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	Stocks	Underweight	Outlook remains uncertain due to tight financial conditions, a slowing economy, and elevated valuations. However, a resilient labor market, services sector strength, and positive sentiment around AI are providing support.
	Bonds	Underweight	Interest rate volatility could remain elevated as central banks continue to balance persistent inflation and growth concerns. Credit sectors continue to offer attractive valuations with broadly supportive fundamentals.
	Cash	Overweight	Cash currently offers attractive yields and a shorter-duration profile if interest rates drift higher, and provides liquidity should market opportunities arise.
STOCKS			*Equity Regions*
	U.S.	Underweight	Despite a resilient economy, the outlook remains clouded by Fed uncertainty, manufacturing sector weakness, and narrow market breadth. Elevated valuations make large-cap U.S. equities unappealing given this backdrop.
	Global Ex-U.S.	Overweight	Valuations are attractive on a relative basis and local currencies have room to appreciate. However, the impact of China's economic reopening has been disappointing thus far. Global monetary policy remains a headwind.
	Europe	Underweight	Valuations are attractive on a relative basis and the euro has room to appreciate; however, restrictive monetary policy remains a headwind.
	Japan	Overweight	Japan has historically cheap valuations and, despite cyclical concerns, should continue to benefit from better corporate governance and improved pricing power.
	Emerging Markets	Overweight	Valuations and currencies are attractive. Central bank tightening may have peaked. Meanwhile, Chinese growth momentum has stalled pending further stimulus.
			Style and Market Capitalization
	U.S. Growth vs. Value*	Neutral	While relative valuations for value stocks remain attractive, a tilt toward higher-quality businesses is important given the weakening macroeconomic backdrop. AI could also provide a structural tailwind for growth.
	Global Ex-U.S. Growth vs. Value*	Neutral	Value stocks offer attractive valuations. Cyclical and geopolitical risks remain a concern, but persistently higher rates may benefit financial stocks.
	U.S. Small- vs. Large-Cap*	Overweight	Small-caps offer attractive upside potential, having already priced in a dire economic scenario with historically attractive relative valuations. A bias towards quality and selective exposure to regional banks is warranted.
	Global Ex-U.S. Small- vs. Large-Cap*	Neutral	Small-caps offer attractive valuations and could benefit from any further U.S. dollar weakening. However, caution is warranted due to a potential flight to quality that could favor large-caps.
			Inflation Sensitive
	Real Assets Equities	Neutral	Commodities offer a hedge if inflation remains elevated; however, commodity prices may face pressure due to economic concerns. Real estate investment trusts face pressure from higher rates and commercial property weakness.
BONDS	U.S. Investment Grade	Underweight	Despite resilient fundamentals, lagged effects of rapid Fed hikes and tighter lending standards warrant caution.
	Developed Ex-U.S. IG (Hedged)	Underweight	Developed ex-U.S. yields could remain volatile as global central banks balance elevated inflation versus slower growth.
	U.S. Treasury Long	Overweight	While yield volatility could persist in the near term, longer-duration Treasury bonds may have peaked and offer ballast amid a deteriorating macroeconomic backdrop.
	Inflation Linked	Neutral	Core inflation is proving to be stubbornly high, but upward price pressures are easing. However, slower inflation rates already are priced into current breakeven yields.
	Global High Yield	Overweight	Credit fundamentals and attractive yields remain supportive. Although default rates are rising from historically low levels, they are not expected to rise significantly above long-term averages.
	Floating Rate Loans	Overweight	Valuations remain attractive, but as the Fed moderates its tightening path, the benefits of the rate resetting feature and the lower-duration profile become less compelling.
	EM Dollar Sovereigns	Overweight	Yields are still attractive, and a potential peak in EM central bank tightening and moderating inflation both should also support the sector.
	EM Local Currency	Overweight	EM currencies and local currency yields remain at attractive levels but reflect cautious sentiment. A further weakening of the U.S. dollar would be supportive of EM currencies.

*For pairwise decisions in style and market capitalization, boxes represent positioning in the first 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 and market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

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