Global Asset Allocation Viewpoints

March 2020

1 Portfolio Positioning

As of 29 February 2020

Dislocation Creates Opportunities, Lower Rates Supportive

- Growing concerns over the spread of the coronavirus have triggered volatility, resulting in a rapid correction in equities from February's peak levels, driving U.S. Treasury yields to record low levels.
- While uncertainty may persist near-term, we took the opportunity to add to equities as the swift repricing has offered more attractive relative valuations for stocks as bonds have become increasingly expensive.
- Within U.S. equities, we trimmed exposure to growth stocks and added to value as cyclically oriented companies have sold off more, further expanding relative valuations in favor of value stocks which could see a more pronounced rebound.
- Within fixed income, we reduced our exposure to emerging market bonds as they may be vulnerable to further downside risk given current valuation levels and a growing list of idiosyncratic concerns.
- For U.S.-based fixed income investors, we added to U.S. dollar-hedged international bonds as they offer diversification among higher quality bonds with a comparable hedged yield to U.S. investment grade.

2 Market Themes

As of 29 February 2020

COVID-19: Shock to Supply and Demand

While last year's heightened trade tensions weighed on global supply chains, the worldwide spread of the coronavirus has nearly brought activity to a standstill, creating the potential for a global economic shock. The outbreak has not only disrupted supply chains and reduced access to goods, fears of the infection spreading, and associated work stoppages are weighing on consumer spending. This comes at a vulnerable time as growth in many developed markets had just started to recover from last year's lull, particularly across Europe, which is now at risk of deteriorating. Companies closely tied to the consumer—including retail, technology, and consumer goods—are already acknowledging the impacts to sales and earnings expectations. Economies reliant on tourism, particularly in Asia, have also taken a hit as consumers continue to pull back on travel plans as the virus spreads to new regions. Global economic growth will certainly take a hit; however, the full impact is likely to be felt over the course of several months.

Whatever It Takes 2.0?

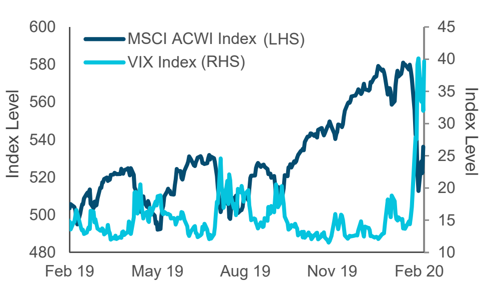
Expectations are heightened for central banks, including the U.S. Federal Reserve to take further policy action to avoid an economic collapse due to the coronavirus outbreak. G-7 central banks pledged to collaborate and take concerted action to provide ample liquidity to ensure stability in the global economy, despite limited room for monetary policy. So far, the Fed has delivered a 50-basis-point inter-meeting cut, and other countries, including Canada, Australia and Malaysia, have also cut rates. Apart from the Fed, many central banks within developed markets most impacted by the virus are starting from a position of weakness, with already low or negative policy rates and extended balance sheets. With limited tools in their arsenals and questionable ability to stave off the virus's economic impacts with monetary policy alone, "whatever it takes" may need some fiscal help this time around.

Biden' Time!

Equity markets rallied in response to the outcome of Super Tuesday primary elections after former Vice President Joe Biden, a perceived moderate, secured the lead among Democratic hopefuls to challenge President Donald Trump. Moderate democrats united in the days leading into Super Tuesday with other key candidates dropping out and pledging support for Biden. For now, Biden's strong performance has quelled investors' fears that had gained traction in February as Senator Bernie Sanders, who is viewed as a less market-friendly candidate, rose to the lead. Notably, managed health care companies, that would be most at risk of Sanders' Medicare for All, rallied on the news. With former Mayor Mike Bloomberg also dropping out, Biden looks more likely to take the nomination come July. Looking forward, markets will likely refocus on the potential threats to Trump's economy resulting from the spreading coronavirus and the real chance it could derail his reelection prospects.

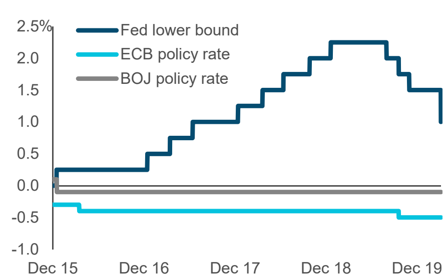
Global Equity Market vs. Volatility

As of 5 March 2020



Developed Market Policy Rates

As of 5 March 2020



S&P 500 Managed Health Care Index

As of 5 March 2020

Past performance is not a reliable indicator of future performance.

VIX Index is represented by the CBOE Market Volatility Index. Sources: MSCI, Standard & Poor's, Bloomberg Finance L.P., U.S. Federal Reserve, European Central Bank, and Bank of Japan.

Please see "Additional Disclosures" on final page for information.

3 Regional Backdrop

As of 29 February 2020

United States

Positives

- Fed supportive
- Healthy consumer balance sheets
- Lower interest rates driving a modest rebound in housing
- Pause in trade war escalation
- Greater share of secularly advantaged companies (e.g., cloud computing, internet retail) than rest of the world

Negatives

- Virus concerns rising
- Political uncertainty elevated
- Modest economic growth, with virus impacts looming
- Weak capex spending and corporate confidence
- Late-cycle concerns: tight labor market, rising wages, and corporate margins under pressure
- Elevated corporate and government debt levels

Europe

Positives

- Monetary policy remains very accommodative
- Services sector of the economy has been resilient
- Dividend yields remain strong
- Political uncertainty waning

Negatives

- Weak economic growth, with virus impacts looming
- Limited scope for European Central Bank (ECB) to stimulate further
- Export weakness, vulnerable to trade and China growth
- Banking sector remains weak

Developed Asia/Pacific

Positives

- Potential beneficiary of China stimulus
- Improving corporate governance trends in Japan
- Fiscal stimulus enacted in Japan
- Australian housing market stabilizing

Negatives

- Weak economic growth, with virus impacts looming
- Impacts of the demand shock in China likely to be significant
- Highly sensitive to global industrial production and trade trends
- Earnings growth already weak

Emerging Markets

Positives

- Virus outbreak in China appears to be peaking
- Policy response from China has been significant
- Dovish Fed has given central banks flexibility to ease
- Easing trade tensions
- Equity valuations attractive relative to developed markets

Negatives

- Modest economic growth, with virus impacts looming
- Highly sensitive to global industrial production and trade trends
- Commodity prices under pressure
- Instability in several key markets could weigh on sentiment
- Long-term China growth trajectory remains a headwind

4 Asset Allocation Committee Positioning

As of 29 February 2020

▼ or ▲ Month-Over-Month Change

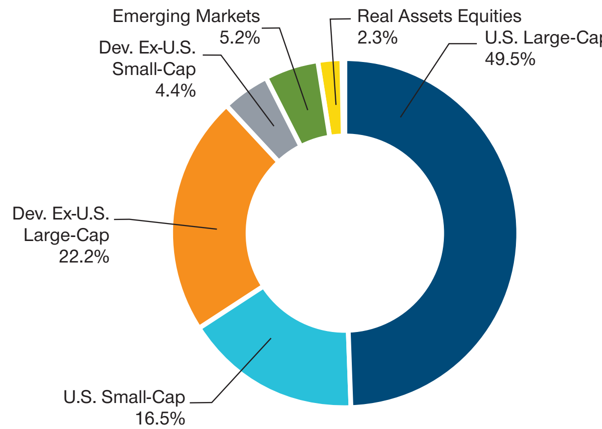
		Change	Underweight	Underweight	Neutral	Overweight	Overweight	**These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.**
ASSET CLASS	Equities	▲				■		Valuations more reasonable relative to extreme lows in bond yields amid market sell-off. Central bank policy supportive, outlook clouded by impacts of virus.
ASSET CLASS	Bonds	▼		■				Yields hitting record lows on risk-off sentiment. Credit spreads wider but not at extreme levels. Fundamentals broadly supportive, monitoring impacts of virus on vulnerable sectors.
ASSET CLASS	Cash				■			Cash yields retreat amid central banks' intervention; U.S. yields remain higher than other developed markets.
EQUITIES	*Regions*							
EQUITIES	U.S.			■				Valuations lower but remain elevated versus rest of the world. U.S. markets less exposed to global weakness, but earnings outlook muddied due to impacts of virus.
EQUITIES	Global Ex-U.S.					■		Valuations cheaper, but already fragile economies facing contraction amid virus outbreak. Central banks' tools limited; fiscal support will be vital.
EQUITIES	Europe					■		Key economies—Germany and Italy—facing contraction amid virus impacts. European Central Bank (ECB) continues to be supportive. Extent of corporate and consumer impact uncertain.
EQUITIES	Japan					■		Facing major fallout from virus outbreak. Additional monetary and fiscal support pledged to stabilize growth. Extent of economic and trade impacts uncertain, and yen strength a risk.
EQUITIES	Emerging Markets (EM)					■		Trade and supply chains threatened by virus. China containment and stimulus efforts supportive. Global central bank easing may provide needed stability. Valuations and currencies cheap.
EQUITIES	*Style*							
EQUITIES	U.S. Growth	▼				■		Secular growth companies less sensitive to macro environment. Growth-oriented equities held up in sell-off leading to less attractive relative valuations.
EQUITIES	U.S. Value	▲		■				Cyclically oriented equities hit hardest amid sell-off, leaving valuations more attractive should economic growth stabilize over the near-term.
EQUITIES	Global Ex-U.S. Growth			■				Valuations extended as durable growth companies have benefited from defensive characteristics. However, trade and supply chain impacts may prove significant.
EQUITIES	Global Ex-U.S. Value					■		Valuations significantly cheaper due to cyclical orientation and rate sensitivity. Potential upside if growth stabilizes and virus impacts abate.
EQUITIES	*Capitalization*							
EQUITIES	U.S. Large-Cap			■				Valuations lower but have fared better than small-caps amid sell-off. Vulnerable to further spread of virus, global supply chain disruption, and the potential impact on earnings.
EQUITIES	U.S. Small-Cap					■		Relative valuations more extreme as small-caps suffered the most amid sell-off. Remain vulnerable to wider outbreak and impacts on consumer spending.
EQUITIES	Global Ex-U.S. Large-Cap				■			Supply chain disruption and global contraction weighing on earnings outlook. Further impacts from virus outbreak remain uncertain.
EQUITIES	Global Ex-U.S. Small-Cap				■			Underperformed large caps amid sell-off. Vulnerable to consumer retrenchment in regional economies.
EQUITIES	*Inflation-Sensitive*							
EQUITIES	Real Assets Equities		■					Pressured by demand shock from virus outbreak. Stabilization in Chinese growth outlook could provide support; however, structural oversupply remains a concern.
BONDS	U.S. Investment Grade (IG)			■				Treasury yields setting record lows amid risk-off sentiment. IG corporate spreads wider, but not at extreme levels. Impact on fundamentals warrants caution.
BONDS	Developed Ex-U.S. IG (Hedged)	▲				■		Hedged U.S. dollar yields remain attractive on rate differential. Central banks pledged support, but tools limited and rates at extreme lows.
BONDS	Inflation-Linked				■			Inflation expectations lower on growth scare. Central banks remain supportive, but longer-term downward pressures persist.
BONDS	Global High Yield					■		Credit spreads wider on risk-off sentiment led by energy sector. Impacts of virus outbreak to weigh on consumer-related sectors in the near term.
BONDS	Floating Rate Loans					■		Fed easing, outflows, and liquidity concerns pressuring loan prices. Cyclically oriented loans showing the most vulnerability. Yields remain attractive relative to high yield bonds.
BONDS	EM Dollar Sovereigns	▼				■		Relative valuations somewhat expensive as EM bonds have fared well relative to other sectors amid sell-off. Idiosyncratic risks and trade implications are sources of uncertainty.
BONDS	EM Local Currency					■		EM currency valuation remains attractive; potential for stabilizing growth, lower developed market rates, and a weaker U.S. dollar could provide support.

5 Portfolio Implementation

As of 29 February 2020

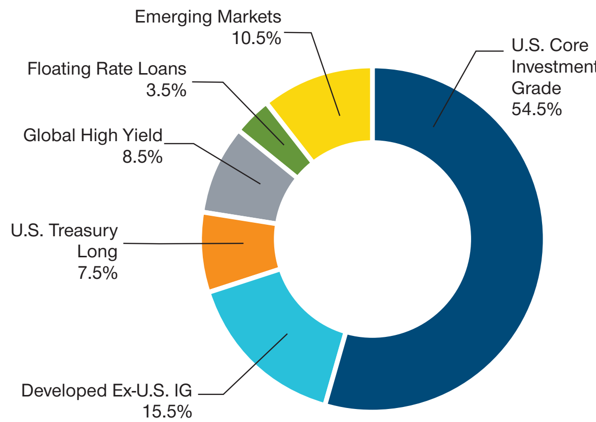
Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	51.0%	49.5%	-1.5%
U.S. Small-Cap[1]	15.0	16.5	+1.5
Dev. Ex-U.S. Large-Cap	21.0	22.2	+1.2
Dev. Ex-U.S. Small-Cap	4.0	4.4	+0.4
Emerging Markets	4.0	5.2	+1.2
Real Assets Equities	5.0	2.3	-2.7
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	54.5%	-0.5%
Developed Ex-U.S. IG (Hedged)	15.0	15.5	+0.5
U.S. Treasury Long	10.0	7.5	-2.5
Global High Yield	8.0	8.5	+0.5
Floating Rate Loans	2.0	3.5	+1.5
Emerging Markets - (Local/Hard Currency)	10.0	10.5	+0.5
Total Fixed Income:	**100.0%**	**100.0%**	

Tactical Allocation Weights



[1] U.S. small-cap includes both small- and mid-cap allocations.

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Neutral equity portfolio weights representative of a U.S.-biased portfolio with a 70% U.S. and 30% international allocation; includes allocation to real assets equities.
Core fixed income allocation representative of U.S.-biased portfolio with 55% allocation to U.S. investment grade.

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