



Global Asset Allocation Viewpoints

December 2021

1 Market Perspective

As of 30 November 2021



- Although expected to moderate from current levels, global growth and inflation remain above trend. New threats from COVID variants and continued supply chain disruptions and energy shortages could pose headwinds to growth, while placing upward pressure on inflation.
- Global monetary policy to continue path towards tightening with U.S. Fed appearing more hawkish, while the European Central Bank and Bank of Japan maintain policy. Meanwhile, rate hikes continue to advance across emerging markets in response to higher inflation and to defend their currencies.
- Global short-term rates likely to trend higher with central bank tightening, while long-term rates react to lingering inflation pressures and renewed concerns about growth and policy missteps.
- Key risks to global markets include new variants, persistent inflation, supply chain disruption, energy shortages, central bank missteps, a downshift in China growth trajectory, and increasing geopolitical concerns.

2 Portfolio Positioning

As of 30 November 2021



- We remain modestly underweight equities relative to bonds and cash given stocks' less compelling risk/reward profile, balancing elevated valuations against decent but moderating growth and potentially persistent inflation. Higher rates, rising input costs related to supply chain bottlenecks and fading monetary and fiscal policy could pose challenges to near-term earnings outlook.
- Within equities, we continue to tilt toward cyclical, maintaining overweights to value-oriented equities globally, U.S. small-caps, and emerging market stocks, where valuations are more reasonable and which should benefit from a continued path of recovery.
- We shifted a portion of our U.S. value exposure into core equities where we find more attractively valued companies which have the potential to do well in a moderate growth environment.
- Within fixed income, we continue to favor shorter duration and higher yielding sectors through overweights to floating rate loans and high yield supported by our constructive credit outlook. This month we rotated some of our high yield exposure into floating rate as we believe the sector should benefit from higher short-term rates.

3 Market Themes

As of 30 November 2021

Not Too Hot, Not Too Cold

While stocks have broadly rallied nearly 80% off the lows of March 2020, leadership within has flip flopped between expensive, defensive growth names to cheaper cyclicals and back again. The roller coaster ride has been driven by rotations from COVID-on to COVID-off, China regulatory fears, and worries over Fed tapering. As we move into 2022, expectations are for moderating growth—yet still above potential—and easing inflationary pressures. Companies offering growth-at-a-reasonable price could be in vogue—where growth is not hot enough to drive the deepest cyclicals and not cold enough to need the defensiveness of high-flying growth companies. Reasonably priced, higher quality companies that find themselves in the “core” of the market are looking more attractive, particularly those paying dividends as forward return expectations are well below the more-than-15% annualized returns we’ve seen over the last decade.

Large-Cap Growth vs. Value Performance¹

As of 30 November 2021



Past performance is not a reliable indicator of future performance.

¹ Large-Cap Growth vs Value returns are represented by the Russell 1000 Growth and Russell 1000 Value Indices respectively. Figures are shown in USD.

² Data represents the estimated number of Fed moves priced into the current forward-curve structure for December 2022. Actual outcomes may differ materially from estimates. Estimates are subject to change.

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Source: Bloomberg Finance L.P.

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Fed Up!

The Federal Reserve looks likely to accelerate its tapering of asset purchases when it meets later this month as it faces the risk that inflation does not recede as quickly as policymakers had hoped. With inflation at levels not seen in three decades, a tightening labor market, and strong consumer spending, conditions seem to warrant tighter policy. Fed Chairman Powell and other committee members have increasingly hinted at accelerating the process, admitting that elevated inflation could persist longer than initially anticipated. Ending asset purchases earlier would give the Fed more flexibility to pull rate hikes forward; although, Powell said the market should not link the two. While the Fed finally seems fed up with lingering inflation, the emergence of the Omicron variant is a wildcard that could weigh on growth, slow the nascent recovery in supply chains, and add to inflation worries. Already a challenge unwinding policy at a pace not to destabilize growth, things have gotten a bit more tricky for the Fed.

Number of Rate Moves Priced In for December 2022²

As of 30 November 2021





4 Regional Backdrop

As of 30 November 2021

Positives

United States

- Healthy consumer balance sheets and high savings rate
- Strong earnings growth
- Infrastructure spending likely to increase

Negatives

- Supply chain issues are weighing on economic growth
- Significantly elevated inflation
- Elevated stock and bond valuations
- Fed accommodation has peaked
- Fiscal stimulus has peaked

Europe

- Higher exposure to more cyclically oriented sectors that should benefit from economic recovery
- Monetary policy remains accommodative
- Fiscal stimulus likely to increase further
- Equity valuations remain attractive relative to the US

- Elevated energy prices and supply chain issues are weighing on economic growth
- Rapidly rising COVID concerns
- Limited long-term catalysts for growth
- Demand from China fading

Developed Asia/Pacific

- Cyclical orientation should benefit from economic rebound
- Strong fiscal and monetary support
- Improving corporate governance
- Vaccination rates have improved significantly
- Attractive equity valuations

- Weak economic growth going into crisis, driven by long term demographic headwind
- Demand from China fading
- Limited long-term catalysts for growth
- Elevated energy prices and supply chain issues are weighing on economic growth

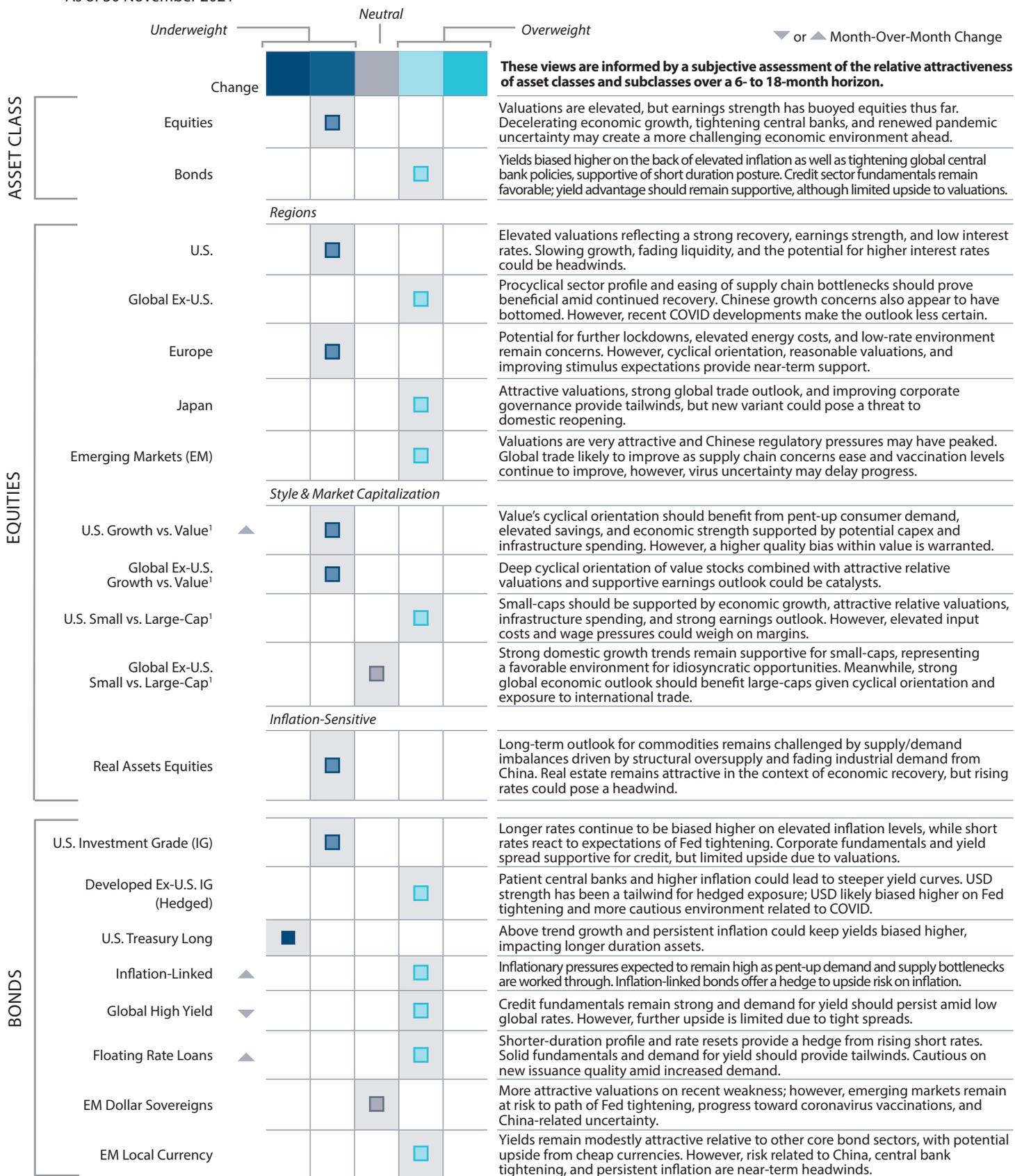
Emerging Markets

- Attractive equity valuations
- Exposure to cyclical areas of economy should benefit from broad global recovery
- Chinese regulatory actions likely to have peaked
- Vaccination rates are improving

- New coronavirus variant remains a notable threat
- Heightened political and regulatory risk
- Accommodation from central banks is fading

5 Asset Allocation Committee Positioning

As of 30 November 2021



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.

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ADDITIONAL DISCLOSURES:

Certain numbers in this report may not equal stated totals due to rounding.

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Key risks – The following risks are materially relevant to the information highlighted in this material:

Even if the asset allocation is exposed to different asset classes in order to diversify the risks, a part of these assets is exposed to specific key risks.

Equity risk – in general, equities involve higher risks than bonds or money market instruments.

ESG and Sustainability risk – May result in a material negative impact on the value of an investment and performance of the portfolio.

Credit risk – a bond or money market security could lose value if the issuer's financial health deteriorates.

Currency risk – changes in currency exchange rates could reduce investment gains or increase investment losses.

Default risk – the issuers of certain bonds could become unable to make payments on their bonds.

Emerging markets risk – emerging markets are less established than developed markets and, therefore, involve higher risks.

Foreign investing risk – investing in foreign countries other than the country of domicile can be riskier due to the adverse effects of currency exchange rates; differences in market structure and liquidity, as well as specific country, regional, and economic developments.

Interest rate risk – when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.

Real estate investments risk – real estate and related investments can be hurt by any factor that makes an area or individual property less valuable.

Small- and mid-cap risk – stocks of small and mid-size companies can be more volatile than stocks of larger companies.

Style risk – different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

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