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 cyclicality, 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

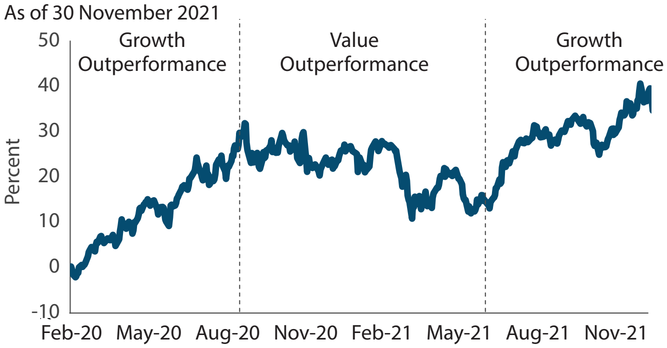
While stocks have broadly rallied nearly 80% off the lows of March 2020, leadership within has flip flopped between expensive, defensive growth names to cheaper cyclicals and back again. The roller coaster ride has been driven by rotations from COVID-on to COVID-off, China regulatory fears, and worries 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.

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.

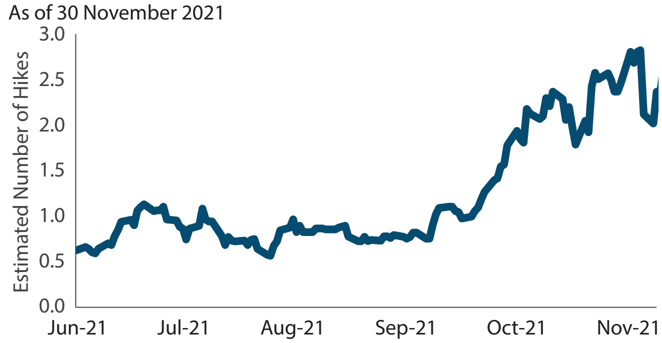
Large-Cap Growth vs. Value Performance[1]

As of 30 November 2021



Number of Rate Moves Priced In for December 2022[2]

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.

Source: Financial data and analytics provider FactSet. Copyright 2021 FactSet. All Rights Reserved.

Source: Bloomberg Finance L.P.

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4 Regional Backdrop

As of 30 November 2021

United States

Positives

- 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

Positives

- 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

Negatives

- 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

Positives

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

Negatives

- 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

Positives

- 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

Negatives

- 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

▼ 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			■				Valuations are elevated, but earnings strength has buoyed equities thus far. Decelerating economic growth, tightening central banks, and renewed pandemic uncertainty may create a more challenging economic environment ahead.
	Bonds					■		Yields biased higher on the back of elevated inflation as well as tightening global central bank policies, supportive of short duration posture. Credit sector fundamentals remain favorable; yield advantage should remain supportive, although limited upside to valuations.
EQUITIES	*Regions*							
	U.S.			■				Elevated valuations reflecting a strong recovery, earnings strength, and low interest rates. Slowing growth, fading liquidity, and the potential for higher interest rates could be headwinds.
	Global Ex-U.S.					■		Procyclical sector profile and easing of supply chain bottlenecks should prove beneficial amid continued recovery. Chinese growth concerns also appear to have bottomed. However, recent COVID developments make the outlook less certain.
	Europe			■				Potential for further lockdowns, elevated energy costs, and low-rate environment remain concerns. However, cyclical orientation, reasonable valuations, and improving stimulus expectations provide near-term support.
	Japan					■		Attractive valuations, strong global trade outlook, and improving corporate governance provide tailwinds, but new variant could pose a threat to domestic reopening.
	Emerging Markets (EM)					■		Valuations are very attractive and Chinese regulatory pressures may have peaked. Global trade likely to improve as supply chain concerns ease and vaccination levels continue to improve, however, virus uncertainty may delay progress.
	Style & Market Capitalization							
	U.S. Growth vs. Value[1]	▲		■				Value's cyclical orientation should benefit from pent-up consumer demand, elevated savings, and economic strength supported by potential capex and infrastructure spending. However, a higher quality bias within value is warranted.
	Global Ex-U.S. Growth vs. Value[1]			■				Deep cyclical orientation of value stocks combined with attractive relative valuations and supportive earnings outlook could be catalysts.
	U.S. Small vs. Large-Cap[1]					■		Small-caps should be supported by economic growth, attractive relative valuations, infrastructure spending, and strong earnings outlook. However, elevated input costs and wage pressures could weigh on margins.
	Global Ex-U.S. Small vs. Large-Cap[1]				■			Strong domestic growth trends remain supportive for small-caps, representing a favorable environment for idiosyncratic opportunities. Meanwhile, strong global economic outlook should benefit large-caps given cyclical orientation and exposure to international trade.
	Inflation-Sensitive							
	Real Assets Equities			■				Long-term outlook for commodities remains challenged by supply/demand imbalances driven by structural oversupply and fading industrial demand from China. Real estate remains attractive in the context of economic recovery, but rising rates could pose a headwind.
BONDS	U.S. Investment Grade (IG)			■				Longer rates continue to be biased higher on elevated inflation levels, while short rates react to expectations of Fed tightening. Corporate fundamentals and yield spread supportive for credit, but limited upside due to valuations.
	Developed Ex-U.S. IG (Hedged)					■		Patient central banks and higher inflation could lead to steeper yield curves. USD strength has been a tailwind for hedged exposure; USD likely biased higher on Fed tightening and more cautious environment related to COVID.
	U.S. Treasury Long		■					Above trend growth and persistent inflation could keep yields biased higher, impacting longer duration assets.
	Inflation-Linked	▲				■		Inflationary pressures expected to remain high as pent-up demand and supply bottlenecks are worked through. Inflation-linked bonds offer a hedge to upside risk on inflation.
	Global High Yield	▼				■		Credit fundamentals remain strong and demand for yield should persist amid low global rates. However, further upside is limited due to tight spreads.
	Floating Rate Loans	▲				■		Shorter-duration profile and rate resets provide a hedge from rising short rates. Solid fundamentals and demand for yield should provide tailwinds. Cautious on new issuance quality amid increased demand.
	EM Dollar Sovereigns				■			More attractive valuations on recent weakness; however, emerging markets remain at risk to path of Fed tightening, progress toward coronavirus vaccinations, and China-related uncertainty.
	EM Local Currency					■		Yields remain modestly attractive relative to other core bond sectors, with potential upside from cheap currencies. However, risk related to China, central bank tightening, and persistent inflation are near-term headwinds.

[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.

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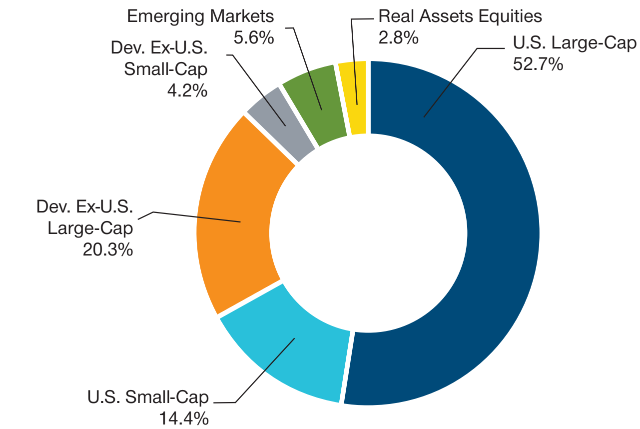
6 Portfolio Implementation

As of 30 November 2021

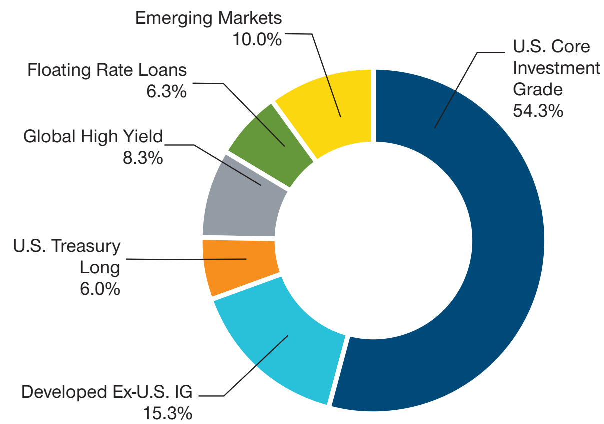
Equity	Neutral Weight	Tactical Weight	Relative Weight
U.S. Large-Cap	52.5%	52.7%	+0.2%
U.S. Small-Cap[1]	13.5	14.4	+0.9
Dev. Ex-U.S. Large-Cap	21.0	20.3	-0.7
Dev. Ex-U.S. Small-Cap	4.0	4.2	+0.2
Emerging Markets	4.0	5.6	+1.6
Real Assets Equities	5.0	2.8	-2.3
Total Equity:	**100.0%**	**100.0%**	

Tactical Allocation Weights



Fixed Income	Neutral Weight	Tactical Weight	Relative Weight
U.S. Core Investment Grade	55.0%	54.3%	-0.8%
Developed Ex-U.S. IG (Hedged)	15.0	15.3	+0.3
U.S. Treasury Long	10.0	6.0	-4.0
Global High Yield	8.0	8.3	+0.3
Floating Rate Loans	2.0	6.3	+4.3
Emerging Markets - (Local/Hard Currency)	10.0	10.0	0.0
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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These are subject to change without further notice. Figures may not total due to rounding.

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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