

2022
Midyear Market
Outlook
Transitioning to a
New Paradigm

Four Themes to Follow

1

Navigating
Challenging
Currents

2

Fundamentals
Matter

3

Flexible
Fixed Income

4

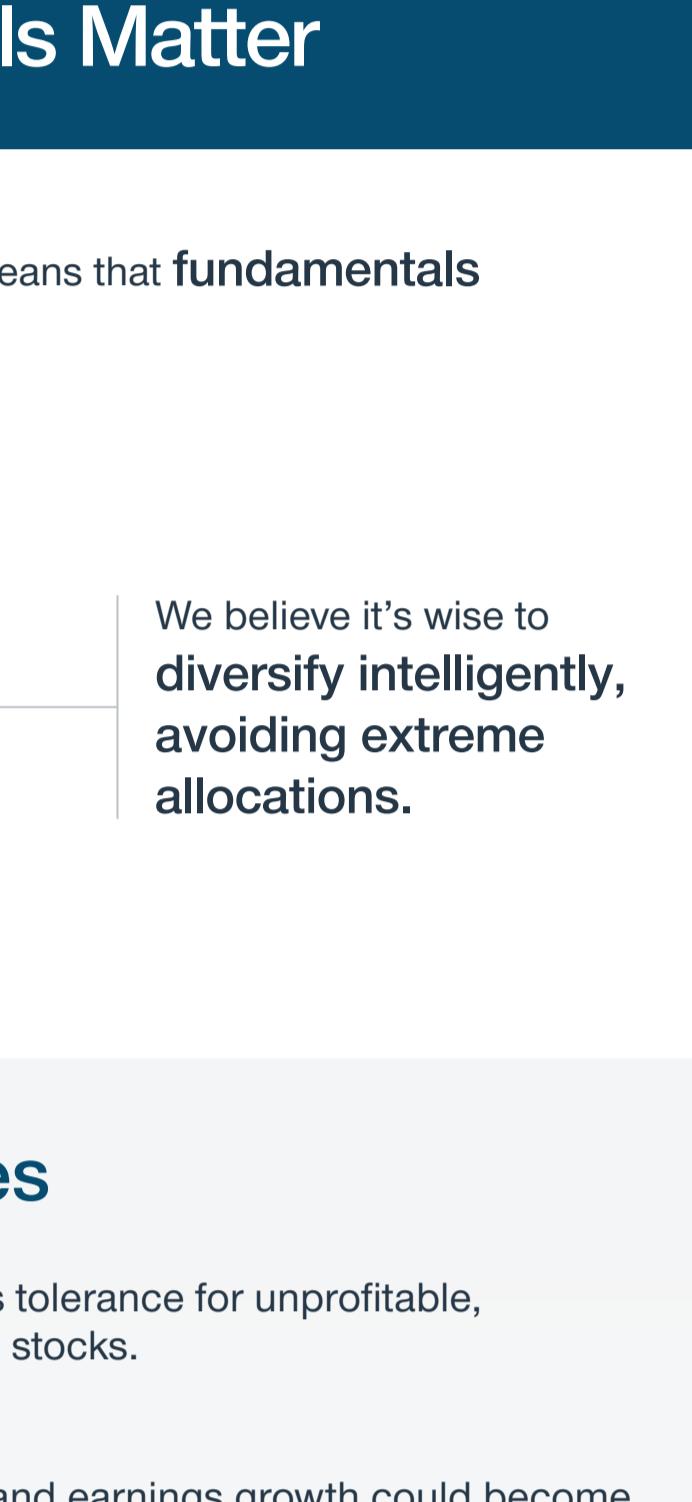
Managing Through
Geopolitical Risks

1

Navigating Challenging Currents

For years markets have experienced historically low volatility and ample liquidity.

In 2022, that's changed: **Inflation is now a central factor** determining where markets might go from here.



3 ways inflation can threaten economic growth:



Less consumer spending due to higher prices



Forced interest rate hikes



Lower corporate earnings due to higher input costs

Key Takeaway

Understanding your risk tolerance, staying active, and remaining diversified could be critical to navigating these challenging currents.

We're going through a regime shift from low growth, low inflation, and low rates to something that looks different. Fortunes can be made and lost during regime shifts.

— Sébastien Page
Head of Multi-Asset
and Chief Investment Officer

2

Fundamentals Matter

A potential shift in market leadership means that **fundamentals are likely to matter more**.



We believe it's wise to diversify intelligently, avoiding extreme allocations.

Tactical Opportunities



Expect less tolerance for unprofitable, speculative stocks.



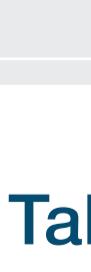
Dividends and earnings growth could become more critical to equity performance.



A deep understanding of companies and industries could be key to consistently strong performance.



A risk to watch: Rising interest rates have already punished equity valuations. The question now is whether an earnings slowdown may be the next shoe to drop.



Key Takeaway

Cap-weighted indexes may be poorly positioned for structural change, making skilled active management a critical tool for identifying risks and opportunities.

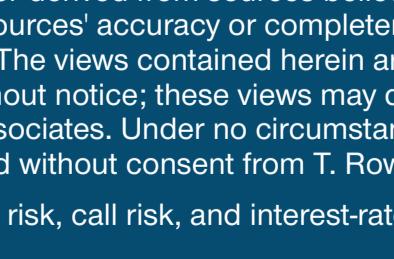
In volatile markets, active management can be your friend.

— Justin Thomson
Head of International Equity
and Chief Investment Officer

3

Flexible Fixed Income

U.S. Treasuries and other sovereign bonds have been a poor diversifier of equity risk, suggesting investors may need a more **flexible approach to fixed income** allocations.



Actively manage duration.

Utilize liquidity to stay nimble.

Consider your time horizon and your position on the yield curve. (For example, two-year yields have performed very differently than 10-year yields.)

Globally diversify to mitigate interest rate risk.

Consider opportunities within credit sectors, particularly high yield bonds.

The Ukraine Conflict: Potential global fallout

Shorter-term

Profound humanitarian tragedy

Higher food prices

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This may be the best point to buy bonds that we've seen for several years. Valuation is much more attractive than it has been.

— Arif Husain
Head of International Fixed Income
and Chief Investment Officer

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