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Quarterly Outlook – Global Equities

GLOBAL EQUITIES: HEADING TOWARD A MACROECONOMIC CROSSROAD

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KEY INSIGHTS

- The global economy is approaching a crossroad and we are looking to see how policy makers respond, in particular Chinese authorities and the U.S. Federal Reserve (Fed).
- In our view, the most powerful responses would be a U.S.-China trade deal and meaningful Chinese stimulus, which we think are realistically possible over the next six to nine months.
- As market participants continue to digest the dirsruptions to trade, if economic activity does not materially deteriorate, we should see some level of stabilisation in global economic data.

LACK OF A SIGNIFICANT RESPONSE TO THE CHALLENGES AT HAND

The world continues to pass through an ongoing cycle of Crisis, Response, Improvement, and Complacency (CRIC). Considering the significance of the challenges at hand, especially surrounding trade, we have been somewhat surprised by the lack of a significant response to resolve these challenges thus far, which has led to more uncertainty and volatility in equity markets. On the macro front, we have overhangs with trade, fading U.S. stimulus, and a slowdown in China that is suppressing growth in Europe. We are heading toward a macroeconomic crossroad and are looking to see how policymakers are going to respond.

> “We continue to take advantage of market volatility to move around better ideas.”

WATCHING FOR A U.S.-CHINA TRADE DEAL AND MEANINGFUL CHINESE STIMULUS

Even though rhetoric surrounding the U.S.-China trade dispute has abated, a substantive deal in the near term appears remote. It also seems likely that growth and inflation will continue to trend downward until policymakers respond. While the U.S. Federal Reserve (Fed) cut rates for the first time in more than a decade in July and followed up with another cut in September, mixed messages have weakened its credibility. Similarly, we are surprised that the Chinese government has not yet reacted in any significant manner to stimulate its economy despite weak economic data. The lack of response to these overhangs contributed to a low-growth world that is characterised by marked shifts in sentiment.

From our perspective, the most powerful responses would be a U.S.-China trade deal and meaningful Chinese stimulus, which we think are realistically possible over the next six to nine months.

SHIFTING EXPOSURE FROM DEFENSIVE TO OFFENSIVE STOCKS

We positioned the portfolio in preparation for such a scenario; we scaled back exposure to some of our more defensive names, while adding to stocks that are gaining market share in their respective end markets and are cyclically depressed, which we view as offensive in the current market environment.

> "With a longer-term investment horizon and willingness to be contrarian, we believe it is critical to look beyond today's near-term challenges in order to identify tomorrow's opportunities."

We added to several technology industrial names that participate in automation and robotics that are trading at increasingly attractive valuations. Our exposure in semiconductors favours secular growth companies, albeit with degrees of cyclical characteristics and earnings drivers that the market is discounting. We defended our Chinese internet names in prudent weights and they should perform well if some of the clouds around China lift, even if only partly. While our underweight to the U.S. is largely a result of our stock-picking, we think the U.S. is likely to lag during the next upcycle. As market participants continue to digest the disruptions to trade, if economic activity does not materially deteriorate, we should see some level of stabilisation in global economic data.

IDENTIFYING TOMORROW'S OPPORTUNITIES

Overall, we remain constructive on global equities and continue to take advantage of market volatility to move around better ideas. With a longer-term investment horizon and willingness to be contrarian, we believe it is critical to look beyond today's near-term challenges in order to identify tomorrow's opportunities – particularly in an environment that could look very different to the one that has prevailed in recent years.

RISKS

The following risks are materially relevant to the portfolio.

Country risk (China) – all investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licence or the Stock Connect program may be subject to additional risks.

Country risk (Russia and Ukraine) – in these countries, risks associated with custody, counterparties and market volatility are higher than in developed countries.

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

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

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**.**

General Portfolio Risks

Capital risk –the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

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

Geographic concentration risk –to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk –a portfolio' attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk –investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk –the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk – operational failures could lead to disruptions of portfolio operations or financial losses.

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