



Global Asset Allocation Viewpoints

April 2023

1 Market Perspective

As of March 31, 2023



- Lagged impacts of central banks' tightening to weigh on growth and earnings outlook in the back half of the year with expectations of lower inflation, but still above central bank targets.
- Recent banking crisis and unexpected oil supply cuts complicate inflation and financial stability puzzle for central banks, which could keep interest rate volatility elevated.
- While consensus builds for slower growth outlook, China reopening and resilient growth in Europe offer balance to otherwise negative sentiment.
- Key risks to global markets include central bank missteps, resilient inflation, steeper growth decline, broadening banking crisis, and geopolitical tensions.

2 Portfolio Positioning

As of March 31, 2023



- We remain underweight equities and bonds in favor of cash. Equities vulnerable to weaker growth and earnings backdrop, and still aggressive central banks could weigh on bonds as they continue to battle inflation, while cash continues to offer safety and attractive yields.
- Within equities, we remain overweight areas with more attractive valuation support including small/mid-caps, global ex-U.S. and emerging markets.
- Within fixed income, we added to long-term U.S. Treasuries. While rate volatility to remain elevated, rates have likely peaked and duration offers ballast within our Multi-Asset portfolios amid a potentially choppy back half of the year.
- We also trimmed our overweight to floating rate loans as the Fed nears end of tightening cycle, making their adjustable rate feature and lower duration profile less compelling.

3 Market Themes

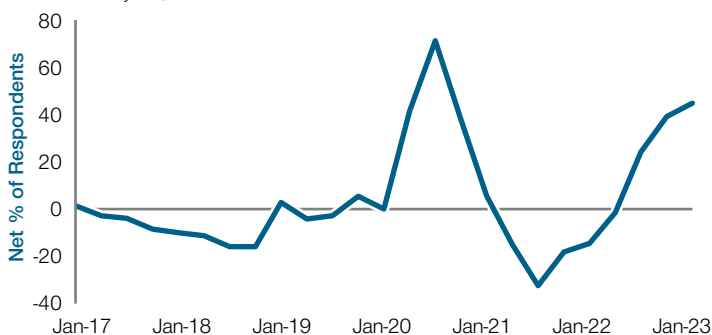
As of March 31, 2023

It's Complicated

In light of the recent banking crisis, global central banks' narrow focus on combating inflation has gotten more complicated as they are now faced with the added task of maintaining financial stability. In an effort to thread the needle in reinstating price stability while shoring up confidence in the banking system, the U.S. Fed announced a 25bps increase at its March meeting—an apparent compromise between a 50bps hike and no move at all, while at the same time swiftly launching a new emergency lending facility, the Bank Term Funding Program. This move is not unlike the Bank of England's hurried rescue of the gilts market back in October while still pursuing a tighter monetary policy. While rescue measures have seemed to quell a broader contagion for now, the immediate impact may be a further tightening of credit within the banking industry, which was already occurring prior to the crisis. This added dimension has only made central banks' mandates more complex, given the already limited visibility into the lagged impacts of their own tightening measures.

Banks Have Already Been Tightening Standards¹

As of January 31, 2023



Past performance is not a reliable indicator of future performance.

¹Source: Bloomberg L.P. Fed Lending Conditions Survey is represented by the Net % of Respondents Tightening Standards for Commercial & Industrial Loans (Large & Middle-Market Firms)

²Sources: Bloomberg L.P. and MSCI. China Services PMI represented by China Non-Manufacturing PMI Diffusion Index. Please see Additional Disclosures for more information about this sourcing information.

Finding the Sweet Spot

With consensus calling for an economic slowdown in the back half of the year as tighter financial conditions take hold, it is increasingly challenging to find areas of optimism amid the impending gloom. However, emerging markets are one area that has done well recently—up over 17% off October's bottom—that could continue to benefit from a lessening of headwinds. The recent outperformance was largely triggered by China's surprise reopening from COVID lockdowns last fall, and while some of the euphoria has faded, recent data continues to show momentum and China policy makers are committed to stable growth, potentially providing a further boost. And while global growth is expected to slow, this should come with an easing of inflation pressures, lower rates, and further weakening of the U.S. dollar, all of which could be supportive for Emerging Markets. So unless global growth surprises significantly to the downside, emerging markets could find themselves in a sweet spot as we enter a period of slower, but not "off the rails" growth.

Positive Signals Across Emerging Markets²

Two Years Ended March 31, 2023



4 Regional Backdrop

As of March 31, 2023



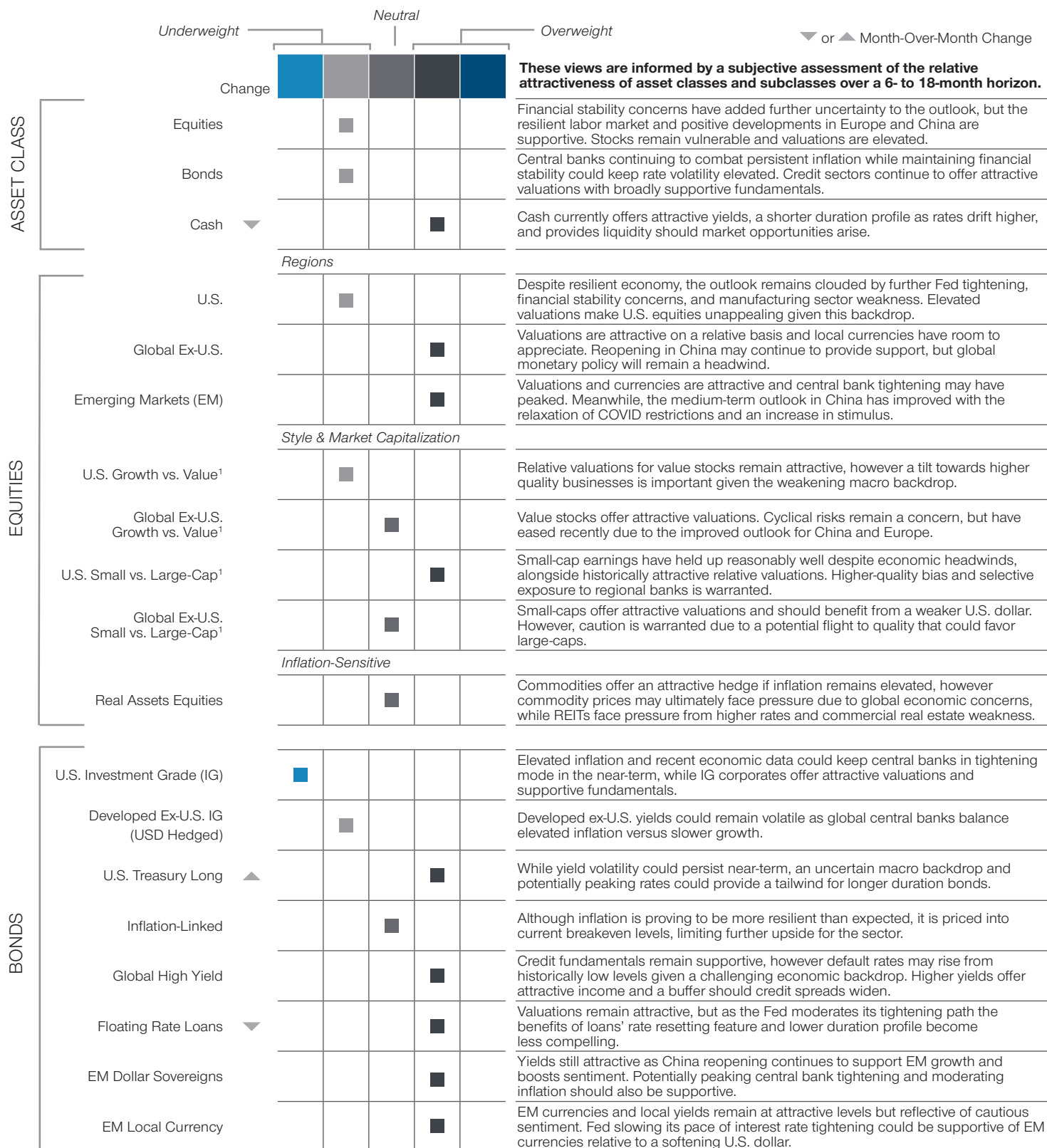
	Views	Positives	Negatives
United States	U	<ul style="list-style-type: none"> Consumer spending remains strong Labor market has been extremely resilient Services sector remains remarkably strong 	<ul style="list-style-type: none"> Recession risk remains elevated Inflation has proven more persistent than expected Labor supply remains scarce
Canada	N	<ul style="list-style-type: none"> China re-opening providing boost for commodities Monetary tightening may have peaked Equity market valuations are attractive 	<ul style="list-style-type: none"> Recession risk remains elevated Housing market continues to weaken rapidly Consumer savings balances are fading sharply
Europe	U	<ul style="list-style-type: none"> Unusually warm winter has driven energy costs lower Fiscal spending is rising Equity valuations remain attractive 	<ul style="list-style-type: none"> Inflation remains elevated, particularly core inflation Monetary policy remains restrictive Geopolitical uncertainty is heightened due to the war in Ukraine
United Kingdom	N	<ul style="list-style-type: none"> Energy price caps continue to benefit household finances Inflation expectations have reverted to normal levels Labor market remains resilient 	<ul style="list-style-type: none"> A recession and house price declines in 2023 appear likely Bank of England limited by financial stability concerns Brexit adjustments continue to weigh on the economy
Japan	O	<ul style="list-style-type: none"> Equity valuations remain very attractive Benefiting from uptick in inflation, particularly wages Corporate governance continues to gradually improve 	<ul style="list-style-type: none"> Earnings expectations prone for disappointment Monetary policy normalization may surprise the market Stronger yen may weigh on the export sector
Australia	N	<ul style="list-style-type: none"> Uptick in immigration has kept wage pressures stable Home prices are showing signs of bottoming RBA is likely to lean dovish to extend cycle further 	<ul style="list-style-type: none"> Consumer spending is at risk with higher mortgage rates Corporate margins are deteriorating Equity valuations do not reflect recession concerns
Emerging Markets	O	<ul style="list-style-type: none"> China re-opening has been slow but supportive Economic data is surprising to the upside Equity valuations are attractive relative to the U.S. 	<ul style="list-style-type: none"> Global trade challenged with tighter monetary conditions Geopolitical risks remain elevated Credit formation in China remains weak

O	Overweight
N	Neutral
U	Underweight

Views are informed by the Asset Allocation Committee and Regional Investment Committees (United Kingdom, Europe, Australia, Japan and Asia) and reflect the equity market.

5 Asset Allocation Committee Positioning

As of March 31, 2023



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 AND market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

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