INVIEW

GLOBAL HOUSE VIEW & INVESTMENT PERSPECTIVES

JUNE 2022

DISCIPLINED BY NATURE. FLEXIBLE BY DESIGN.
The icons alongside represent our investment process. Through a disciplined provision of investment policy and security selection at the global level, regional portfolio management teams have the flexibility to construct portfolios to meet the specific requirements of our clients.

HIGHLIGHTED IN THIS PUBLICATION:

GLOBAL STRATEGIC ASSET ALLOCATION

GLOBAL SECURITY SELECTION

REGIONAL ASSET ALLOCATION

REGIONAL PORTFOLIO CONSTRUCTION

Editorial

Welcome to the June edition of *Inview: Global House View*. In this publication we consider significant developments in the world's markets, and discuss our key convictions and themes for the coming months.

Moz Afzal
Chief Investment Officer

In recent weeks, market attention has been focused on three themes. The first is the lockdown in Shanghai, which was relaxed on 1 June after almost two months. While the lockdown had been successful in that the number of Covid infections was reduced very sharply, it was very unpopular. Furthermore, it had severe macroeconomic consequences, impacting a range of sectors, and exacerbated the downswing in the housing market. Just how severe these were will not be clear until the GDP data for the second quarter are published.

Despite the ending of the lockdown, China's overall "zero Covid" policy remains intact. Indeed, Shanghai reimposed some lockdown restrictions just a week after lifting. Many tight restrictions will remain in force, at least until the end of June. Notably, people catching the virus face quarantine, as do their close contacts. The policy was criticised by international health experts and the risk remains that China will be forced into repeated lockdowns, given the low vaccination rate.

The second theme is the dramatic shift in the monetary policy landscape. In response to surging inflation, central banks across the world have started raising interest rates with a vengeance. While many central banks in Latin America and Eastern Europe started doing so a year ago, the tightening process is gathering pace and broadening across countries.

For instance, on 1 June the Fed started to shrink its balance sheet and is expected to raise interest rates by cumulatively large amounts in the coming months and the ECB is to stop bond buying imminently and set to raise interest rates by as much as 0.75% between July and September.

Central banks are forced into a delicate balancing act. While higher interest rates will slow demand and lower inflationary pressures, too sharp a tightening could trigger a recession. While that is not the main scenario at the moment, risks are rising.

The third theme concerns the economic impact of high energy and food prices. To date, the impact has principally been seen in inflation, but over time growth and social stability will be affected. The OECD in its recently released Economic Outlook has lowered its growth projections. It reduced its growth forecast for 2022 for the global economy by 1.2% to 3% and by 1.7% to 2.6% for the euro area. These are large changes.

What are the implications for the asset allocation of a diversified portfolio? In view of the correction that took place since the beginning of the year, it appears that markets may have already priced in the worsened outlook. Hence, in our view a moderate overweight into risk assets should be considered looking at the second half of the year, with a preference for those markets less negatively affected by the effects of the Ukraine war. Increased government and investment grade bond yields mean that high quality fixed income assets may be relatively attractive again. A moderate exposure to safe-haven assets like gold, the Swiss franc and the Japanese yen should help reduce portfolio volatility in a still-uncertain environment.

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Global Asset Allocation: Summary

Equities

- We remain moderately overweight towards equities and stay focused on an equity rally in the coming months.

- We are downgrading US equities on a tactical basis to Neutral despite US having a short-term bounce potential. The downgrade is based on the possibility the Fed is unable to engineer a "soft landing" of the economy, the impending political uncertainty around mid-term elections and concerns that the dollar has made most of its gains already.

- The US dollar weakened against the euro and most other developed currencies in May, reducing the attractiveness of European stocks for the time being. We have a neutral view on European equities.

- With various announced Chinese stimulus measures and attempts at relaxing Covid restrictions we have a higher conviction on Chinese equities.

- Latin American equities have benefited from rising commodity prices and being less impacted by the Russia-Ukraine war, although there is large performance dispersion in the region

- The Energy sector currently signals a strong uptrend and momentum and given recent moves in the oil price we are upgrading the sector from underweight to neutral. Longer term, the sector remains affected by increased taxes on energy companies, ESG considerations and exploration costs.

Fixed Income

- The increase in government bond yields observed in April decelerated in May and even reversed in some parts of the bond market. Markets continue to expect further monetary tightening from central banks. Having upgraded US sovereign bonds to tactically neutral last month, we still remain underweight in the rest of the sovereign space.

- US corporate bonds and high yield saw positive performance in May and we are holding our tactically overweight position on both.

- Convertible bonds have continued to lag, but we believe that in the medium-to-long term their asymmetrical nature means they are well suited to manage headwinds such as geopolitical uncertainty, high inflation and a gloomier growth outlook.

Alternative Investments

- Within commodity markets, the gold price is down from the highs seen earlier this year but remains at the top-end of the range implied by fundamentals, reflecting a high degree of risk aversion. Industrial metals have stabilised in recent weeks, after a correction attributed to fears of lower demand from China. However, fundamentals remain supportive of prices, and we keep our preference for copper investments.

Currencies

- The euro has strengthened against the US dollar over the last month. Our valuation models reflect the fact that the EUR/USD rate remains in line with fundamentals, based on PPP estimates.

- The British pound has strengthened recently against the US dollar, in line with other developed market currencies. However, there are reasons to retain a degree of caution regarding the pound and we remain strategically neutral, given negative sentiment in the economy and increased political uncertainty.

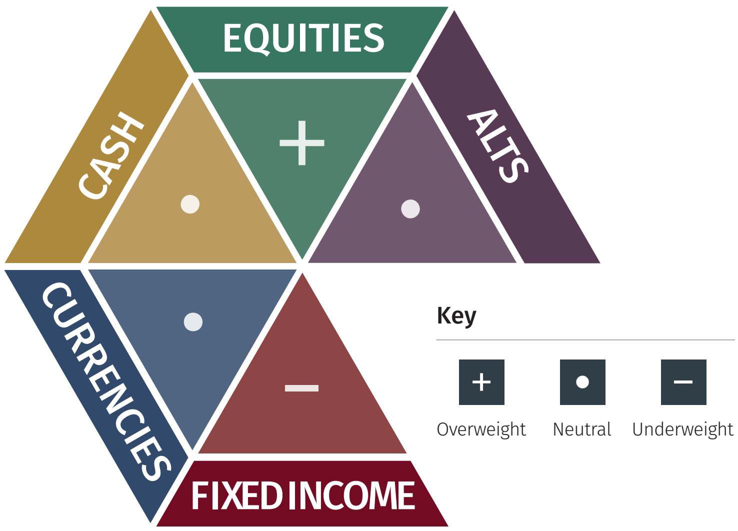
Sector allocation (+ overweight, − underweight, ● neutral)

Sector	May. 2022 Weight	Change	June 2022 Weight
Consumer Discretionary	+	↔	+
Consumer Staples	+	↔	+
Energy	−	↑	●
Financials	●	↔	●
Healthcare	+	↔	+
Industrials	−	↔	−
Information Technology	+	↔	+
Materials	−	↔	−
Real Estate	●	↔	●
Telecoms	●	↔	●
Utilities	−	↔	−

Global Asset Allocation: 12-Month Strategic Outlook

Based on a balanced mandate, the matrix below shows our long-term house view on investment strategy.

Overall Asset Allocation Views



Asset Class Breakdown

	EQUITIES	FIXED INCOME	ALTS	CURRENCIES	CASH
+ Overweight	North America Japan Asia Pacific ex-Japan	Convertible Preferred & Hybrid	Hedge Funds Equity-Linked Hedge Funds Macro Infrastructure		
• Neutral	Europe Europe ex-UK ex-Switzerland United Kingdom Switzerland E. Europe, ME & Africa Latin America	Investment Grade Corporate High Yield Emerging Markets Other	Hedge Funds Relative Value Commodities / Mining Equity Property / REITS Insurance-linked Securites Other Volatility	USD EUR GBP AUD JPY RMB CHF	Money Market
– Underweight		Sovereign (US) Sovereign (Other)			Cash

Global Asset Allocation: 3-Month Tactical Outlook

Based on a balanced mandate, the matrix below shows our short-term house view on investment strategy.

Asset Class Breakdown

Note: The highlighted boxes indicate a difference from our 12-month strategic outlook.

	EQUITIES	FIXED INCOME	ALTS	CURRENCIES	CASH
+ Overweight	Japan Asia Pacific ex-Japan E. Europe, ME & Africa Latin America	Investment Grade Corporate Convertible High Yield Preferred & Hybrid	Hedge Funds Macro Property / REITS Other Volatility Infrastructure	GBP AUD RMB	
• Neutral	North America Europe Europe ex-UK ex-Switzerland Switzerland	Sovereign (US) Emerging Markets	Hedge Funds Equity-Linked Commodities / Mining Equity Insurance-linked Securites	USD EUR JPY	Money Market Cash
− Underweight	United Kingdom	Sovereign (Other) Other	Hedge Funds Relative Value	CHF	

Equity Allocation Grid

Based on a balanced mandate, the table below provides our long-term (strategic) and short-term (tactical) house view on investment strategy.

Key

+	•	—	▲	↔	▼
Overweight	Neutral	Underweight	Upgrade	No Change	Downgrade

Sub-Asset Class	Strategic 12-month		Tactical 3-month		Sub-Asset Class Additional Guidance
	View	Change	View	Change	
North America	+	↔	•	▼	US stocks experienced a pick-up in May, although they continue to be the worst performers among developed markets on a year-to-date basis. Small cap stocks have outperformed large cap stocks by over 1% in May, while growth stocks underperformed value by 3% in the month, continuing a trend observed so far in 2022. We are downgrading US equities on a tactical basis to Neutral despite US having a short-term bounce potential. The downgrade is based on the possibility the Fed is unable to engineer a "soft landing" of the economy, the impending political uncertainty around mid-term elections and concerns that the dollar has made most of its gains already. We are balanced between growth and dividend yield equities.
Europe	•	↔	•	↔	We continue to closely monitor our allocation into European equities given a more favourable rate environment and attractive valuations. However, its exposure to the Russia-Ukraine war and the spike in energy prices remain a concern, and we are not yet ready to upgrade. The US dollar weakened against the euro and most other developed currencies in May, reducing the attractiveness of European stocks for the time being. We still have a bias towards quality growth companies as, in our view, they will continue to be the long term winners and in the past month this has started to come through as economic uncertainty persists.
Europe ex- UK ex- Switz.	•	↔	•	↔	We continue to closely monitor our allocation into European equities given a more favourable rate environment and attractive valuations. However, its exposure to the Russia-Ukraine war and the spike in energy prices remain a concern, and we are not yet ready to upgrade. The US dollar weakened against the euro and most other developed currencies in May, reducing the attractiveness of European stocks for the time being. We still have a bias towards quality growth companies as, in our view, they will continue to be the long term winners and in the past month this has started to come through as economic uncertainty persists.
United Kingdom	•	↔	—	↔	UK equities continue to outperform in 2022, with a performance of almost 3% YTD, consistent with the strength of value stocks. Valuations have improved slightly although the UK market still look more expensive in relation to other regions, although still far from previous history. Monetary tightening is already underway as inflation remains high and could hamper consumer spending. We previously downgraded UK from overweight to underweight to profit from this outperformance and fund an increase in equity allocations in emerging markets. We maintain a neutral position on a strategic basis.

Source: Refinitiv. Data for year to date as at 31 May 2022. **Past performance is not necessarily a guide to the future.**

Equity Allocation Grid

Based on a balanced mandate, the table below provides our long-term (strategic) and short-term (tactical) house view on investment strategy.

Key

+	●	−	▲	↔	▼
Overweight	Neutral	Underweight	Upgrade	No Change	Downgrade

Sub-Asset Class	Strategic 12-month		Tactical 3-month		Sub-Asset Class Additional Guidance
	View	Change	View	Change	
Switzerland	●	↔	●	↔	Swiss equities have a growth bias relative to European equities due to their defensive characteristics i.e. large index weights in consumer staples and pharma. This has been reflected in their relative outperformance versus other developed markets YTD. We would proactively re-balance into mid-caps right now as we expect continued economic improvement and also due to the stretched valuation in the larger companies.
Japan	+	↔	+	↔	Stock selection in Japan has been quite critical with growth names previously leading, but there had been a clear leadership flip more to value companies. We would not necessarily chase this move, but it does warrant a more balanced profile going forward. We continue to gain confidence in Japanese equities as strong earnings, attractive valuations, and a competitive yen reinforce our overweight positioning. Policy in Japan remains supportive and could become a tailwind for markets.
Asia Pacific ex-Japan	+	↔	+	↔	We maintain the view that stimulus policies will be maintained in China for the time being and only be eased gradually. Additionally, we favour equity markets where policy will be stimulative in the coming months. Earnings revisions continue to trend upward and support a rotation towards the cyclical parts of the market. Stock valuations reflect China remains as one of the cheapest markets at the moment, consistent with recent underperformance and a fast recovery in earnings. The rest of the ASEAN markets remain underweight for us. We maintain our concern on India as a net importer of oil, given recent rise in oil prices and dependency on trade with Russia.
Eastern Europe, Middle East and Africa	●	↔	+	↔	Valuations in emerging markets have become attractive relative to other parts of the market, in our view. As we move more into a mid-cycle positioning EEMEA markets could benefit from positive momentum. This does not include holdings from Russia which continue to be subject to sanctions given the recent invasion of Ukraine.
Latin America	●	↔	+	↔	Latin American stocks were among the best performing markets in May, with performance of over 4% across the region. However, there is still large dispersion within the region. Brazilian stocks continue to benefit from a positive economic environment and rising commodity prices, with stocks up almost 6% YTD. Latin American economies have benefitted from rising commodity prices, and should be relatively less impacted by the war in Ukraine. Valuations still provide good entry point relative to other markets.

Source: Refinitiv. Data for year to date as at 31 May 2022. **Past performance is not necessarily a guide to the future.**

Fixed Income Allocation Grid

Based on a balanced mandate, the table below provides our long-term (strategic) and short-term (tactical) house view on investment strategy.

Key

+	●	–	▲	↔	▼
Overweight	Neutral	Underweight	Upgrade	No Change	Downgrade

Sub-Asset Class	Strategic 12-month		Tactical 3-month		Sub-Asset Class Additional Guidance
	View	Change	View	Change	
Sovereign (US)	–	↔	●	↔	The allocation to sovereign fixed income has been split to reflect a more positive view on US Treasuries and benefit from rising yields as markets anticipate further rate hikes from the Federal Reserve. We maintain a preference for the 3 to 5 year part of the US curve. Positioning in this part of the curve would still reflect an UW duration versus the 7-year average of the market.
Sovereign (Other)	–	↔	–	↔	Fixed income markets had a disappointing performance at the start of 2022. The increase in yields observed in April has decelerated in May and even reversed in some parts of the bond market. Markets continue to expect further monetary tightening from central banks. For the time being we have only upgraded the view on US, while remaining underweight in the rest of the sovereigns space.
Investment Grade Corporate	●	↔	+	↔	Credit yields have moved higher, although by less than Treasuries, possibly reflecting improved market sentiment. We have upgraded IG credit from neutral to overweight on a tactical basis, reflecting the attractiveness of BBB-rated spreads over US Treasuries and better nominal yields.
Convertible	+	↔	+	↔	We stay overweight in Convertibles despite the weak start to the year for this asset class. The Converts space has generally performed well on a relative basis in the current environment, given the continued undervaluation of implied volatility and as investors look for equity sensitivity with a floor. We expect a decent risk / reward trade off for Converts in the current environment.
High Yield	●	↔	+	↔	We maintain the overweight position in high yield bonds. There are a number of issues to consider in HY: BB+ now has greater rate sensitivity, zombie companies may have been formed due to the rate environment and finally when the economy opens we will start to see the skeletons in the closet. Over the next 3-6 months good alpha opportunities might be created, so selectivity will be key.
Preferred & Hybrid	+	↔	+	↔	Preferred and Hybrid debt is higher beta. However as much of it is related to the financial sector and bank debt - AT1 and Cocos for example - we feel that the asset class is more attractive than high yield. Recent bank earnings have shown that loan losses so far are not as high as expected and regulators are limiting dividend and buy-backs. So we are overweight the sector.
Emerging Markets	●	↔	●	↔	We previously had a strong bias for China 10-year government bonds, however these are no longer as attractive compared to 12 months ago, so we would not add to exposure. We are warming up to the Emerging Market trade, both in hard and local currencies, for 2022 given higher rates and weaker currencies. Selectivity will be key in this space.

Alternatives Allocation Grid

Based on a balanced mandate, the table below provides our long-term (strategic) and short-term (tactical) house view on investment strategy.

Key

+	●	–	▲	↔	▼
Overweight	Neutral	Underweight	Upgrade	No Change	Downgrade

Sub-Asset Class	Strategic 12-month View	Strategic 12-month Change	Tactical 3-month View	Tactical 3-month Change	Sub-Asset Class Additional Guidance
Hedge: Equity-linked	+	↔	●	↔	While volatility has increased, the M&A market has repriced making the opportunity set more attractive in our view. Competitive bidding tensions, particularly in rapidly consolidating industries, makes Event Driven equity managers a fluid strategy in 2022. For Equity Market Neutral managers performance dispersion across funds remains high. We recommend a diversified style approach thereby avoiding style and factor rotations.
Hedge: Relative Value	●	↔	–	↔	Reduction of Covid-related QE programs will have indirect impacts on corporate bond demand, which will lead to an increase of dispersion. Credit L/S managers with experience in shorting single names and navigating through that type of cycle will be well positioned to do well. Convertible arbitrage strategies should be well equipped to maintain the risk reward characteristics of recent years. Although the prospects for arbitrageurs have improved in light of changes in central bank monetary policy, we continue sit on the sidelines until there is more concrete evidence of a new, sustained and elevated volatility regime.
Hedge: Macro	+	↔	+	↔	We have a preference for select Macro and shorter-term focused Systematic Trading strategies as counterbalances to pro-cyclical strategies and expect them to provide portfolio diversification benefits during any pockets of market volatility. Trend CTAs are positioned flat in equities and long in bonds – i.e. more akin to a risk-off hedge – for this reason we enter the year bullish and continue to believe some powerful trends in bonds and equities will develop as the year progresses in key markets.
Commodities / Mining Equity	●	↔	●	↔	We previously downgraded Commodities and Mining Equity to neutral on a tactical basis. Valuations on mining equities look expensive and we maintain our neutral view on gold given its already elevated price in relation to fundamentals, reflecting high degree of risk aversion. We also remain underweight in energy. Structurally we still prefer Copper and Copper-related investments within the context of EV growth over the coming years.
Property / REITS	●	↔	+	↔	We previously upgraded Property/REITS from Neutral to overweight on a tactical basis. Interest rates are low and improvements in employment and economic activity provide a positive backdrop for the sector. We maintain a preference for residential property and logistics. We are underweight on commercial and retail real estate.
Insurance-linked Securities	●	↔	●	↔	Cat yield spreads and the asset class generally has been un-loved for many years and we are becoming more interested in the asset class, given its diversification properties.
Other (Volatility)	●	↔	+	↔	Implied volatilities in equities, FX and commodities have been rising recently given recent geopolitical events, allowing for interesting yield opportunities. We previously upgraded volatility on a tactical basis to overweight to reflect the possibilities for portfolio hedging.
Infrastructure	+	↔	+	↔	We moved to overweight in infrastructure a couple of months ago as both Europe and the US start to develop long term infrastructure policies. The EU Recovery Fund and the Biden infrastructure plans are positive for the asset class. The infrastructure space can also offer protection for portfolios over rising inflation.

Currency and Cash Allocation Grids

Based on a balanced mandate, the table below provides our long-term (strategic) and short-term (tactical) house view on investment strategy.

Key

+	●	–	▲	↔	▼
Overweight	Neutral	Underweight	Upgrade	No Change	Downgrade

Sub-Asset Class	Strategic 12-month		Tactical 3-month		Sub-Asset Class Additional Guidance
	View	Change	View	Change	
USD	●	↔	●	↔	After a strong 2021, the US dollar had strengthened as expectations of Fed tightening firmed. In May the US dollar has weakened against other developed currencies, prompting a strengthening of the euro, which is consistent with the outlook for monetary policy. Over a longer time frame, the curve has flattened which will continue to re-enforce the dollar strength.
EUR	●	↔	●	↔	Valuation of the EUR against the USD has strengthened over the last month. Our valuation models reflect that the EUR/USD remains in line with fundamentals, based on PPP estimates. We have adjusted our target downward to 1.10 to 1.15. This is consistent with our expectation that although the ECB will start hiking rates in the next month, it will do so at a slower pace than the Fed. Market positioning remains fairly neutral, consistent with our view.
GBP	●	↔	+	↔	The GBP has strengthened recently against the US dollar, in line with other developed market currencies. We expect the BoE to hike as aggressively as the Fed in the coming months. With the Fed peaking rates earlier than other central banks, we expect this will weaken the USD. We maintain a target of 1.30 for the GBP/USD.
AUD	●	↔	+	↔	Fundamentals remain supportive of commodity-sensitive currencies, reflecting a better scenario for the AUD, however the slow-down in China is a headwind. The recent increase by the RBA and the continued rate increase guidance is positive.
JPY	●	↔	●	↔	Different to previous episodes of rising geopolitical risk, this time the JPY did not behave as a safe haven currency in recent weeks. Given the recent weakness of the JPY, we are now adjusting our target to levels close to 125.
RMB	●	↔	●	↔	The RMB remains one of our favourite currencies given the backdrop of announced further policy support. However, we have turned more cautious on the short-term over the weakness of the Chinese economy and how much has been delivered by the government.
CHF	●	↔	+	↔	We anticipate that current conditions could warrant further weakening of the CHF towards 1.00 against the USD. Therefore we remain cautiously underweight. However, versus the EUR, we are constructive on the CHF.

Sub-Asset Class	Strategic 12-month		Tactical 3-month		Sub-Asset Class Additional Guidance
	View	Change	View	Change	
Money market	●	↔	●	↔	We have elevated cash levels for now, and looking for opportunities in fixed income.
Cash	–	↔	●	↔	We have elevated cash levels for now, and looking for opportunities in fixed income.

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