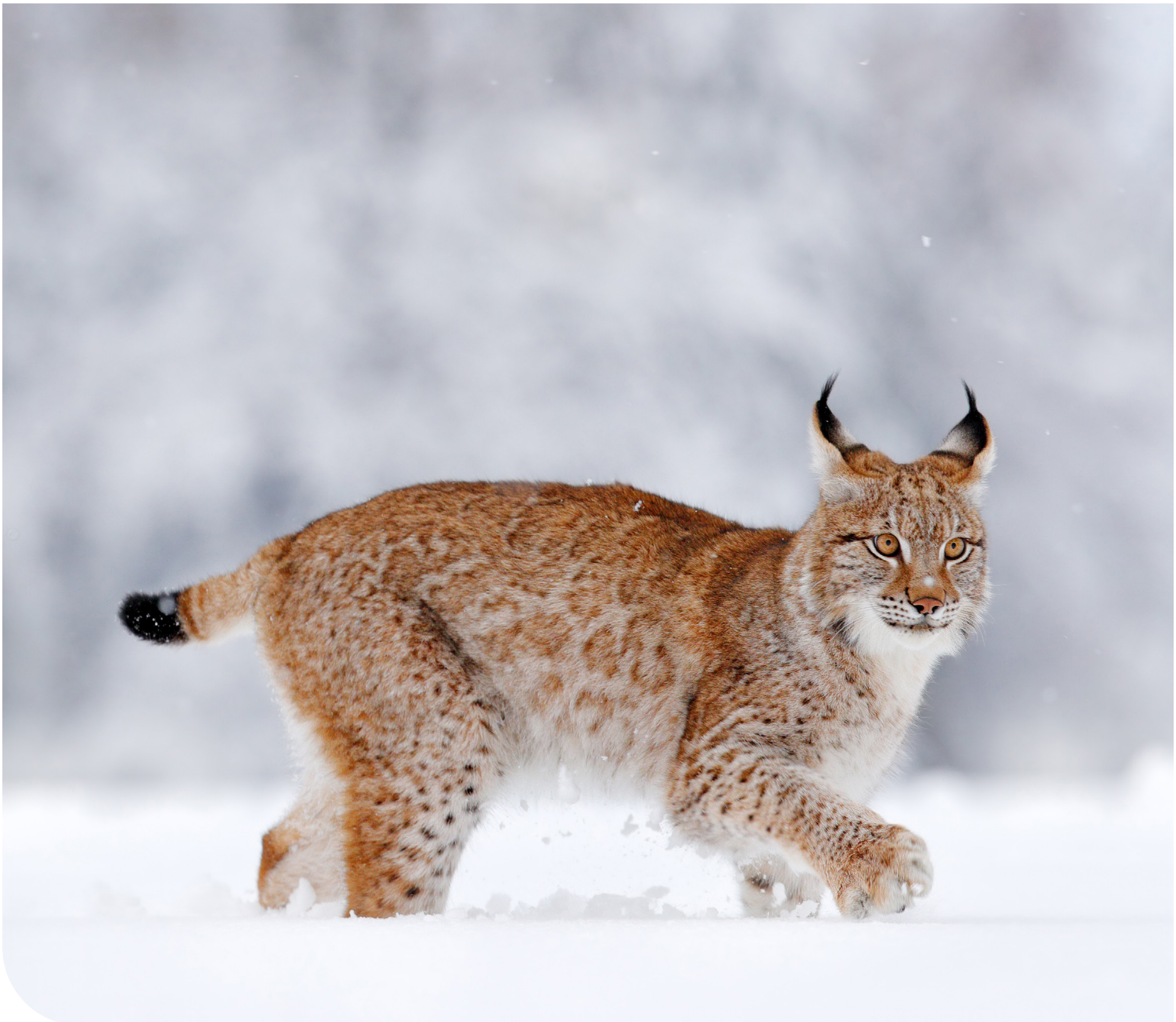
INVIEW

MONTHLY GLOBAL HOUSE VIEW & INVESTMENT PERSPECTIVES

MARCH 2023



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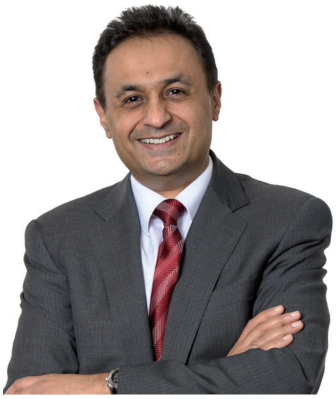
The icons alongside represent our investment process. Through a disciplined provision of investment policy and security selection at the global level, regional portfolio management teams have the flexibility to construct portfolios to meet the specific requirements of our clients.

HIGHLIGHTED IN THIS PUBLICATION:

- GLOBAL STRATEGIC ASSET ALLOCATION
- GLOBAL SECURITY SELECTION
- REGIONAL ASSET ALLOCATION
- REGIONAL PORTFOLIO CONSTRUCTION

Editorial


Moz Afzal
Chief Investment Officer

Welcome to the March edition of *Inview: Monthly 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.

After a strong start to the year for markets, the February consolidation was not a total surprise. As is often the case, a catalyst was required to justify some profit taking following the sizeable gains recorded since the October lows. That came in the form of stronger-than-expected data on the US economy, leading investors to reassess their assumptions about the future path of monetary policy.

In January, the US economy created many more jobs than expected, highlighting the ongoing strength of labour markets despite the lagged impact of last year's monetary tightening. Furthermore, revisions to past inflation data and higher-than-expected prices in the services sector have made the path back to central banks' targets more uncertain. Markets raised expectations regarding the level at which interest rates will peak and also the length of time they will stay there, pushing bond yields higher across the term structure. As has often been the case recently, the sell-off in bonds was associated with a correction in equity prices.

However, despite the negative market reaction, several factors continue to support a more favourable investment environment than last year. First, the improved economic data and the expectation that China's reopening will support global growth means that the risk of a recession in the next few quarters has diminished. An improved growth outlook means fewer headwinds for corporate profits.

In addition, it is worth remembering that monthly data are volatile and we should not place too much emphasis on a single data point. Extrapolating from one inflation report misses the broader point that underlying inflation trends remain consistent with a progressive moderation in the remainder of 2023.

This means that, in terms of portfolio allocation, a moderate overweight in equities and bonds remains warranted in our view. Within equities, the UK market lagged other developed markets in January, reflecting expectations of a recession and ongoing challenges associated with Brexit. However, most of the bad news seems now priced in, including tighter monetary policy. This justifies a reduction in the underweight in UK equities, financed with the trimming of exposures to US and Swiss equities.

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ASSET ALLOCATION

Global Allocation

Based on a balanced mandate, the matrix below shows our 6-12 month view on investment strategy

After January's strong performance across equity markets it was not surprising to see a consolidation in February. Emerging market stocks lagged, while European equities have continued to outperform within developed markets. There has been a pullback in fixed income assets, which remain particularly sensitive to any new economic data releases. The dollar index strengthened in February, reversing the trend of the previous four months, consistent with a more risk-adverse environment. However, the trade-weighted US dollar is still weaker in comparison to levels seen in most of the second half of 2022.

Uncertainty remains high in financial markets, with elevated levels of volatility, especially in fixed income. This is likely to persist for the time being until there is greater visibility regarding terminal central bank rates. As a result, we have decided not to make any changes to the broad asset allocation this month. We remain positioned with a slight overweight allocation in equities and fixed income versus the neutral benchmark allocation balanced by small underweights to alternatives and cash.

	Positioning relative to neutral benchmark	Weighting change from last month*
FIXED INCOME	+	↔
EQUITIES	+	↔
ALTERNATIVES	–	↔
CASH & MONEY MARKET	–	↔
FX	●	↔

– Underweight + Overweight ● Neutral
↔ No change ↑ Increase ↓ Decrease

*Note that arrows reflect any adjustment to allocation weighting and is not necessarily a full upgrade or downgrade.

Fixed Income

Fixed income assets have been unusually volatile this month, with sharp swings seen in response to various economic data points. Volatility is likely to persist for the time being until it becomes clearer where and when central banks will stop hiking rates. Against this background, no changes were made to our fixed income positioning, maintaining our modest overweight.

However, with yields having backed up sharply within a relatively short space of time, sovereign bonds are starting to look more appealing. For now, we remain underweight euro, Swiss franc and sterling sovereigns but neutral on US dollar rates.

		Positioning	Weighting change from last month
	Rates	+	↔
USD	Investment Grade	+	↔
USD	Sovereign	●	↔
EUR	Investment Grade	+	↔
EUR	Sovereign	–	↔
GBP	Investment Grade	+	↔
GBP	Sovereign	–	↔
CHF	Investment Grade	+	↔
CHF	Sovereign	–	↔
	Credit	–	↔
USD	High Yield	●	↔
EUR	High Yield	●	↔
	Hybrids	–	↔
	Asset-backed Securities	–	↔
	Convertibles	+	↔
	EM Local Currency	–	↔
	EM Hard Currency	●	↔

– Underweight + Overweight ● Neutral
↔ No change ↑ Increase ↓ Decrease

Equities

We added to our UK exposure although remain marginally underweight. The upward revision comes as technical trends appear strong alongside an improvement in economic data and the recent strength in the pound. To fund this our exposure to both Swiss and US equities was slightly reduced. While the move in US equities is small this builds upon previous moves to cut our exposure given the slowdown in the economy.

There has been an increase in risk in Latin America, related in particular to political noise in Brazil. While there has been negative news around the collapse of a Brazilian retailer, so far there has been no evidence of contagion to other Brazilian corporates. For now, we see no action required and therefore maintain a modest overweight to Latin America.

We continue to hold an Asia ex-Japan overweight, primarily due to our preference for Chinese equities. Stabilisation of Chinese equity performance was anticipated given the seasonality around Chinese New Year. The China re-opening should continue to provide positive support to European equities.

	Positioning	Weighting change from last month
North America	–	↓
Europe	+	↔
UK	–	↑
Switzerland	–	↓
Asia ex-Japan	+	↔
China	+	↑
India	–	↓
Indonesia	+	↔
Korea	●	↑
Malaysia	–	↔
Philippines	–	↔
Taiwan	●	↑
Thailand	–	↔
Other	–	↓
Japan	+	↔
Latin America	+	↔
EMEA	●	↔
Thematic/Global	●	↔

– Underweight + Overweight ● Neutral

↔ No change ↑ Increase ↓ Decrease

Equity Sector Views

UK

Industrials is the largest sector overweight in UK stocks, taking advantage of the de-rating seen across the sector to pick up quality companies. We favour more internationally exposed companies in the sector over those more reliant on domestic UK business.

Energy is also a preferred sector as we continue to see support for the sector as the Chinese economy reopens and demand for aviation fuel recovers to pre-pandemic levels.

High levels of cash generation will allow energy companies to invest in their renewables business, while also supporting large scale buybacks and dividend increases. Recent results from the oil majors supported this thesis and saw the sector perform well.

There is more caution on consumer staples as we expect companies in the sector to be tested as consumer purchasing behaviour changes, downtrading increases, and volumes weaken. This is likely to affect margins in a sector where valuations look expensive given investor moves into defensive assets last year.

Equity Sector Views *(cont.)*

US

We remain defensively positioned given the macro backdrop. The lagged effect on demand of financial tightening, the erosion of consumer purchasing power and the pressure on margins are a downside risk to corporate earnings. We are overweight in defensive sectors, including healthcare and consumer staples. Within cyclical sectors, we remain overweight consumer discretionary, but this is largely driven by our position in an online retailer which is more of a technology company than a consumer company. So far US consumers are still holding up thanks to pandemic savings, low unemployment rates and limited energy price shocks compared to Europe. This strength will be tested by ongoing tightening of financial conditions. It is uncertain at this point to what extent, and the possibility of a soft landing is non-negligible. We are also overweight technology – due to our quality growth bias and the concentration of such stocks within tech.

Asia ex Japan

We maintain our overweight position in Asia ex-Japan. We expect the consumer sector in Hong Kong and China to do well over the next six months given the accelerated re-opening whereby mobility is recovering. Within our small underweight in India, we see a weakening of consumer discretionary trends although we like industrials driven by the strong public and private capital expenditure. We remain underweight in Korea and Taiwan as fourth quarter IT trends were worse than expected, with no improvement in end demand. Therefore, we are turning more cautious in our exposure to these economies.

Europe

Following a more hawkish rhetoric from the European Central Bank at its December meeting, we added to our exposure to banks and insurance names last month. We have maintained our overweight to financials during this month. We also moved into an overweight position in the consumer discretionary sector as we believe that the earnings downgrade cycle in the sector has now largely run its course. Technology remains as one of our largest overweights in European stocks. We remain underweight in industrials but have increased our exposure last month, by adding specifically to capital goods, taking advantage of the market rally. Typically, short-cycle capital goods perform well in the early innings of an economic recovery.

Alternatives

No changes were made to our alternatives exposure this month. We remain cautious on the real estate sector owing to liquidity concerns. Commodity positioning is neutral, noting that oil continues to trend lower, as demand from China is still not yet materialising into the energy sector.

Within hedge funds, heightened volatility stemming from uncertainty in inflation and rates should be supportive for equity market neutral managers. Similarly, commodity trading advisor strategies are preferred in the context of more market volatility.

	Positioning	Weighting change from last month
Hedge Fund	●	↔
Private Markets	●	↔
Real Assets	●	↔
Commodity	●	↔
Insurance	●	↔

− Underweight + Overweight ● Neutral

↔ No change ↑ Increase ↓ Decrease

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