Latest Asset Allocation View

February 2024[1]

Multi-Asset Solutions Team

[1]Asset allocation views are updated every three months. The last update was issued in December 2023.

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Key Global Themes

There were a number of key economic and market themes in flux in 2023; Global growth remains variable across geographic regions. Most notably a global economic environment that held up stronger than most market participants predicted. As 2024 gets underway, we look at some of the themes driving our asset allocation outlook.

1. Past peak rates and growth, but timing on rate cuts will vary

- Globally, the tightening cycle is over and global easing has begun. Major central banks have indicated rate cuts as their next likely move, provided inflation continues to moderate.
- Markets have already re-priced the first U.S. rate cut from March to June 2024, which has been our expectations for some time . We have seen yields move higher as markets anticipate a higher for longer period, whilst the magnitude in rate cuts has been pared back for 2024.
- Within our portfolios, we remain cautious on high yield with a preference for high grade whilst being mindful of the potential to add to duration should yields spike higher.
- We are also monitoring inflation trends given the recent pickup which may further delay a Fed pivot

2. A broader set of investment opportunities

- We still like the US given its relatively better macro prospects whilst outside of the US we like Japan, India and parts of Latin America equities. Select EM Debt we also prefer.
- In 2024, the expanding breadth of U.S. corporate earnings strength could benefit undervalued areas of the market, including small-cap and high dividend stocks, as well as traditional value sectors.
- Globally, desynchronization in economic growth could present an opportunity as economies such as Japan, the UK and Europe enter negative growth, whilst the US remains relative resilient albeit growth is slowing. Within emerging markets, nimbleness will be key in navigating an ever-changing investment landscape.

Source: Multi-Asset Solutions Team (MAST), as of 31 January 2024. Projections or other forward-looking statements regarding future events, targets, management discipline or other expectations are only current as of the date indicated. There is no assurance that such events will occur, and if they were to occur, the result may be significantly different than that shown here.

Key Global Themes

3. Economic growth expected to slow

- In regards economic growth, importantly, should a soft landing materialize, we caution that this may be less ‘bullish’ for the medium-term outlook than it initially appears –
  a) absent a recession, inflation may re-accelerate;
  b) it keeps us in ‘higher for longer’ territory so you lose the support of lower rates for risk trades and;
  c) the longer we have rates elevated/the longer the economic cycle extends, the more likely we are to get a steeper/more problematic recession in 2025+.
  In other words, a soft landing may also prove problematic.

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Views on Key Asset Classes

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Asset Class Overview

Broad Asset Class Outlook

Current outlook
• Represents previous quarter

		Underweight	Neutral	Overweight
Broad Asset Classes	Equities			•
	Fixed Income	•		

Expect some market volatility in the first half

- We maintain our overweight stance towards **equities**. We expect the market to experience some volatility in the first half of 2024, particularly as investors reprice interest-rate and potentially inflation expectations. The second half of the year should see a more favourable environment for equities with corporate earnings strength broadening beyond large-cap technology names. However, recessionary pressures, and stickier inflation remain a risk to this view.

A focus on duration

- On the **fixed-income** front, we remain underweight. We expect interest rates to come down across the entire yield curve and we are positioning portfolios for more duration rather than increasing credit exposures.

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2 Asset Allocation View

Active Asset Allocation Views

• Represents previous quarter

Asset class: Equities	Underweight	Neutral	Overweight
United States			■ •
Canada	■ •		
Non-U.S. developed markets		■ •	
Europe	•	■	
Emerging Markets		■ •	
U.S. small cap		•	■
United Kingdom	•	■	
Japan			■ •
Emerging Latin America			■ •
APAC ex-Japan		■ •	
Mainland China		■ •	
Hong Kong		■ •	
Real estate investment trusts		■ •	
Infrastructure			■ •
Commodities		■ •	
Asset Class: Fixed Income			
U.S. investment grade		■ •	
Canadian investment grade		■ •	
Asia investment grade		■ •	
U.S. high yield	■ •		
Asia high yield		■ •	
Leveraged loans	■ •		
Emerging-market debt			■ •

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Equity View

Broad Equity:

- The United States continues to be the most resilient global market supported by a robust labor market and continued consumer strength. That said, global desynchronization could see other economies simultaneously enter and, ultimately, emerge from recessionary conditions ahead of the United States, **presenting an opportunity for other markets to lead later in the year**.
- **Small-cap U.S. equities** could benefit from a broadening of market participation and the expected U.S. Federal Reserve rate cuts should the United States manage to avoid a recession.
- Our view on **European equities** has moved from negative to neutral as earnings remain resilient and valuations stay on the inexpensive side of the equation; however, from a macro perspective, longer-term structural challenges exist.

Regional/Sector-specific Equity:

- Dovish monetary policy relative to the rest of the developed world, a favorable fundamental picture, and a renewed corporate focus on shareholder value are all supportive of an overweight stance in **Japanese equities**.
- **India** also remains a preference market given growth prospects and investor sentiment towards India in relation to a challenged China macro.
- In the **United Kingdom**, valuations appear very attractive but also reflect the macro challenges at hand. The stagflationary impulse in the U.K. economy remains elevated relative to other developed markets.

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3 Fixed Income

Fixed Income:

- We have an overweight stance in **emerging-market debt** driven by strong foreign currency reserves, positive sovereign-debt trends, and elevated spreads relative to U.S. corporate high-yield debt.

- In our view, the best returns for the **high-yield market** are likely in the rearview mirror amid a weaker economic growth environment, particularly since spreads over government bonds are tight from a historical perspective, thereby limiting upside opportunity. Our view on high yield bonds remains largely unchanged, but perhaps a little less favorable than in the previous quarter.

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