

# Quarterly Asset Allocation View

Q4 2023

Multi-Asset Solutions Team

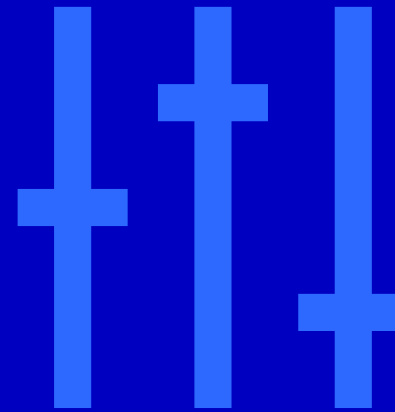
# 1

## Asset Class Overview



# 2

## Active Asset Allocation Views



# 3

## Views on Key Asset Classes



# 1 Asset Class Overview



## Broad Asset Class Outlook

### Current outlook

• Represents previous quarter

Underweight ——— Neutral ——— Overweight

Broad Asset Classes	Equities		•	
	Fixed Income		•	

### Recession postponed, not canceled

As of this writing, the majority of developed economies have avoided entering the most anticipated recession in recent memory. Positive economic growth has been supported by an easing of financial conditions, the continued drawdown in excess savings, and a rotation of consumer spending from goods to services. We expect these tailwinds to dissipate as the lagged effects of monetary policy filter through and savings are run down, leading to an official recession in late 2023 or early 2024.

### Which side wins, market or macro?

Key leading economic indicators we’re monitoring—such as the shape of the yield curve, mortgage rates, and the Purchasing Managers’ Index—are flashing amber. Equity markets, however, particularly in the United States, continue to push higher supported by earnings and price momentum. We’re tactically overweight in equity but remain cautious as the equity risk premium remains low and we’re about to head into what’s traditionally the worst seasonal period for equity markets.

### Mainland China’s failed resurgence – what next?

An economic breakout following the country’s post-COVID-19 reopening and its associated positive knock-on effects was a key investment theme for many entering 2023. So far, the reopening’s effect on global growth has been more muted than hoped for while the country’s economic data continues to surprise to the downside, indicating the rebound is already fading. This could dampen expectations for not only Mainland China, but much of Asia and Europe.

### Overweight equities

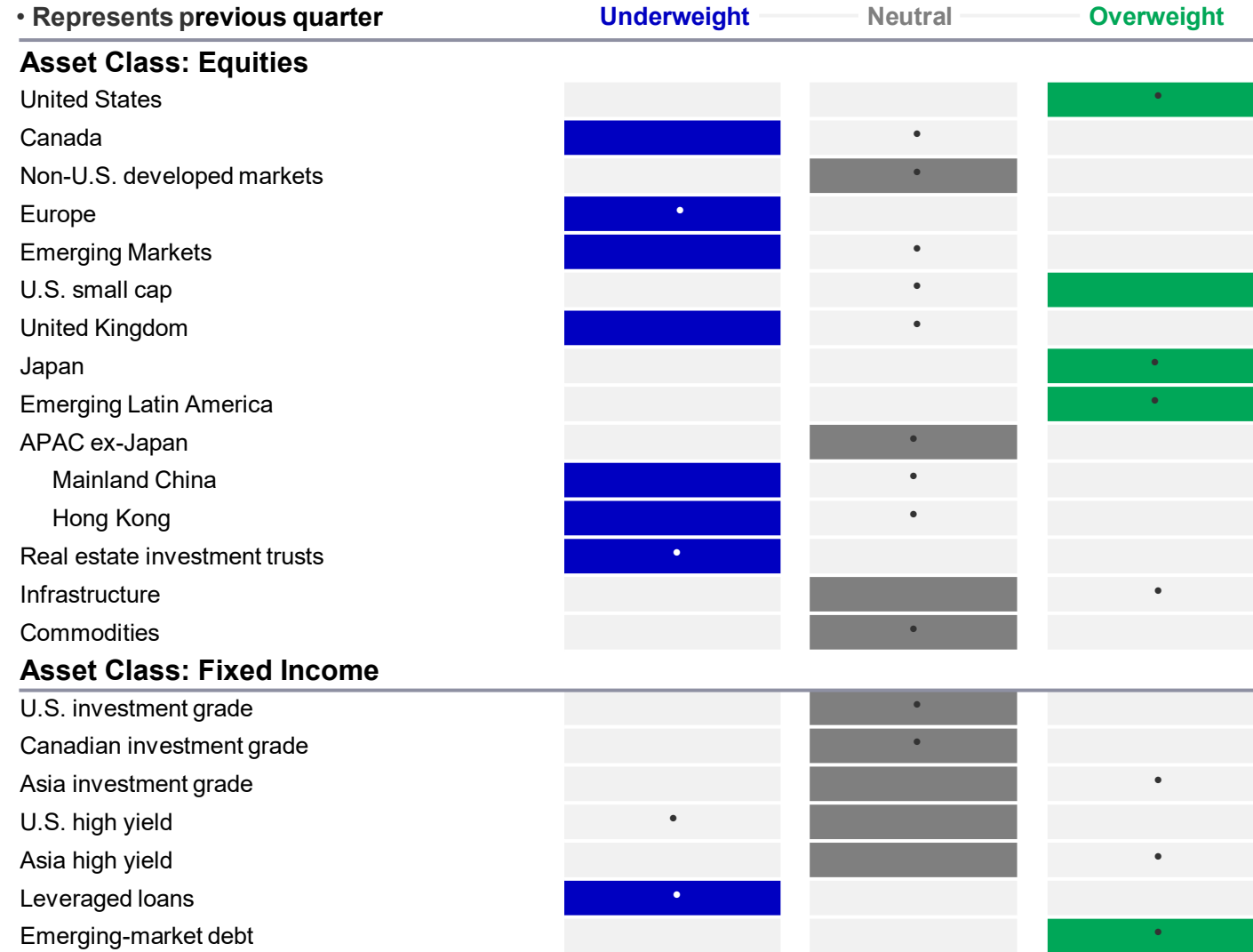
We have an overweight stance to equities, driven by consumer strength, outperformance from corporate earnings, and strong price momentum. Recessionary pressures and unfavorable valuations relative to fixed income, however, are the key risks to this view.

Source: Multi-Asset Solutions Team (MAST), as of 24 August 2023. 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.

# 2 Asset Allocation View

## Active Asset Allocation Views<sup>1</sup>

• Represents previous quarter



Source: Multi-Asset Solutions Team (MAST), as of 24 August 2023. 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. Information about asset allocation view is as of issue date and may vary.<sup>1</sup>Active asset allocation views will be updated on a quarterly basis.

# 3 Equity View



## Broad Equity:

- Easing inflation and a resilient labor market have supported strong consumption in the United States. This asset class is also benefiting from favorable price momentum relative to global equities. In terms of sectors, we have a preference for growth stocks over defensive stocks.
- We're **underweight in non-U.S. assets** as a result of ongoing strength in the United States. We believe **emerging-market economies and Europe could face headwinds** due to Mainland China's lackluster reopening and its associated impact on global trade.

## Regional/Sector-specific Equity, Alternatives:

- We continue to be **overweight in Japanese equities**. The Bank of Japan's dovish monetary policy relative to the rest of the developed world, a favorable fundamental picture, and a renewed corporate focus on shareholder value, are factors that are supportive of the asset class.
- We have an **underweight stance to Chinese equities** because the economic recovery on the back of Mainland China's reopening has lost momentum and we expect growth to be subdued for the remainder of the year. Insufficient policy support and further regulatory reform are two key risks that we'll continue to monitor in this market.
- In our view, **emerging Latin American equities present an attractive alternative to emerging Asian equities** because they're largely driven by favorable fundamentals such as valuations and earnings.

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# 3

## Fixed Income / Alternatives



### Fixed Income:

- We're **overweight in emerging-market debt**, driven by strong foreign exchange reserves, positive sovereign debt trends, and elevated spreads relative to U.S. corporate high yield.
- In light of the weaker-than-expected reopening in Mainland China and an uneven property market recovery, **we've moved Asian bonds from overweight to neutral**.

Source: Multi-Asset Solutions Team (MAST), as of June 2023. 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.

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