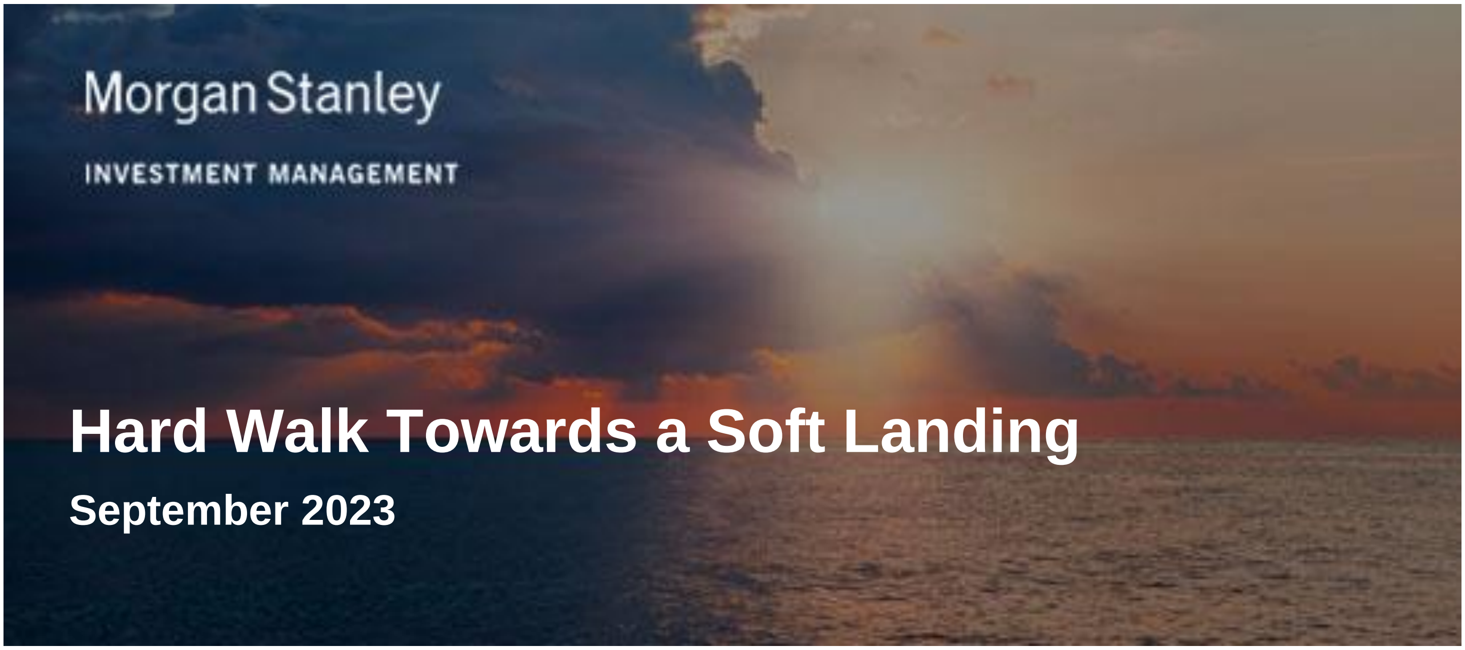
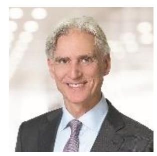


Hard Walk Towards a Soft Landing

September 2023

CUSTOMISED SOLUTIONS | GLOBAL BALANCED RISK CONTROL TEAM | PATH | 5 September 2023

August has been rough as global equities underwent a market correction. The last few days of the month helped markets recoup some of the losses suffered as labour markets appeared to be cooling after the pull back in U.S. job openings. The S&P 500 Index returned -1.6%[1] (USD) while the MSCI Europe (EUR) Index fell 2.4%[1] and MSCI Japan Index (JPY) remained flat at 0.0%[1]. Emerging markets were hit, with the MSCI EM (USD) Index down 6.1%[1]. China suffered given turmoil from the property market. Sector performance was negative across the board with only MSCI ACWI Energy (USD) Index generating positive returns. The US 10-Year Treasury yield has been hovering above 4% this month, reaching a peak of 4.35%[2], a level not seen since 2007 and closing the month at 4.1%[3]. As a result of the sell-off, the VIX Index rose to end August at 13.6[3], after peaking at 17.9%[4] mid-month.



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The U.S. labour market appeared to be losing steam in August, as the JOLTS[5] data reported a decline in job openings to a low not seen since 2021. However, the Jackson Hole Symposium saw a hawkish tone from the U.S. Federal Reserve. Fed Chair Jerome Powell commented on inflation still being too high for comfort, despite labour market cooling and indicated policy may need to be kept restrictive for longer to reach the elusive 2% target, thereby dampening any expectations of a rate cut in 2023.

Notes:
[1] Bloomberg, 1-month returns, local currency unless otherwise stated, as of 31 August 2023.
[2] Bloomberg, 21 August 2023.
[3] Bloomberg, 31 August 2023.
[4] Bloomberg, 17 August 2023.
[5] Job Openings and Labor Turnover Summary, https://www.bls.gov/news.release/jolts.nr0.htm

The Fed appears more concerned about bringing inflation down, than the prospect of a recession – rather emboldened that a soft landing may be within their reach. This supports the argument that policy rates are likely to remain elevated for longer and decline only marginally when the Fed does eventually begin to ease. As a result of this, bond yields have been on the rise, despite the fact that the Fed is nearing the end of its rate hiking cycle. Factors such as higher-for-longer rates, the shift towards a soft landing scenario and the fact that lower-yielding, long duration bonds are an expensive hedge against recession, seem to have been priced in by investors. Given that backdrop, we have conviction in our barbell strategy to own high-quality, short-duration assets alongside higher-yielding, high-yield credit, asset-backed securities and emerging markets for our bond allocation.

Investment Implications

Over the first half of August, we took advantage of softening prices and added risk to the portfolios, as we believe real interest rates are still not restrictively high, consumers are not stretched in terms of income or debt and business balance sheets are not leveraged. We still see many investors have yet to reposition from a very pessimistic low risk portfolio allocation and when they do, this will likely further support market prices. However, we reduced overall portfolio duration as recession uncertainty balances potential upside from inflation. We made the following tactical changes in August:

Brent Oil

Post the recent rally, we closed out the position in Brent as we believe that it has limited upside potential in the absence of a fresh catalyst. As Chinese and European growth remain under pressure, global demand might struggle to surprise to the upside after the summer travel boom.

USD Investment Grade

We moved from neutral to underweight USD Investment Grade credit, on lingering duration and spread concerns. The prospect of a soft landing and attractive all-in yields should further support risk appetite for IG credit. However, compared with EUR IG credit, the high duration of USD IG is likely to result in less attractive total returns in the future, if we see a further rise in yields. That said, USD IG spreads tightened considerably throughout the summer and we see limited potential for further aggressive tightening.

EUR Investment Grade

We moved from positive to neutral EUR IG, as we prefer its shorter duration compared with USD IG. Spreads remain well above the longer-term median, which reflects the more muted growth environment and recession concerns. This, together with the spread tightening observed in July, makes the total return outlook more balanced.

Emerging Markets Hard Currency Sovereign Debt

We moved from overweight to neutral Emerging Markets HC Sovereign Debt, to take profit. We prefer EM Local Currency Sovereign Debt, which can provide diversification* benefits and potentially less interest rate sensitivity, along with higher yields than traditional safe fixed income IG allocations in the current environment.

***Diversification does not eliminate the risk of loss.**

China equities

We moved from neutral to underweight on Chinese equities as structural issues make a stimulus-led rebound harder to achieve this time. Earnings trend has been stagnant since 2013 and structurally declining since 2018, which is hard to reverse with macro headwinds intensifying. Additionally, deflating of the housing bubble could lead to wealth destruction and growth drag for years.

The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results. See Disclosure section for index definitions.**

Tactical Positioning

We have provided our tactical views below:

Asset Class	--	-	=	+	++
Equity					
US				Latest view	
US Small Cap					Latest view
Eurozone		Latest view			
EU Energy				Latest view	
UK			Latest view		
Japan				Latest view	
Asia ex Japan			Latest view		
Emerging Markets			Latest view		
China		Latest view	Previous view		
Global Infrastructure			Latest view		
Global Property			Latest view		
Commodities					
Gold			Latest view		
Oil			Latest view	Previous view	
Copper			Latest view		

Asset Class	--	-	=	+	++
Fixed Income					
US IG Credit		Latest view	Previous view		
European IG Credit			Latest view	Previous view	
US High Yield			Latest view		
EU High Yield			Latest view		
EM HC Sov Debt			Latest view	Previous view	
EM LC Sov Debt				Latest view	
Mexican LC Sov Debt				Latest view	
EM Corporate Debt			Latest view		
US Treasuries			Latest view		
EU Core Gov. Bonds		Latest view			
EU Peripheral Gov. Bonds			Latest view		
Greek Gov. Bonds				Latest view	
UK Gilts		Latest view			
JGBs		Latest view			
Asset Backed Securities					Latest view
Currencies					
Euro					Latest view
GBP			Latest view		
JPY					Latest view

Latest view   Previous view

Source: MSIM GBaR team. Previous view is as of 31 July 2023 and current view is as of 31 August 2023. For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The tactical views expressed above are a broad reflection of our team's views and implementations, expressed for client communication purposes. The information herein does not contend to address the financial objectives, situation or specific needs of any individual investor. The signals represent the GBaR team's view on each asset class. A negative signal indicates a negative or underweight relative view, a positive signal indicates a positive or overweight relative view.

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There is no assurance that the Strategy will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this strategy may be subject to certain additional risks. There is the risk that the Adviser's **asset allocation methodology and assumptions** regarding the Underlying Portfolios may be incorrect in light of actual market conditions and the Portfolio may not achieve its investment objective. Share prices also tend to be volatile and there is a significant possibility of loss. The portfolio's investments in **commodity-linked notes** involve substantial risks, including risk of loss of a significant portion of their principal value. In addition to commodity risk, they may be subject to additional special risks, such as risk of loss of interest and principal, lack of secondary market and risk of greater volatility, that do not affect traditional equity and debt securities. **Currency fluctuations** could erase investment gains or add to investment losses. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. **Equity and foreign securities** are generally more volatile than fixed income securities and are subject to currency, political, economic and market risks. Equity values fluctuate in response to activities specific to a company. Stocks of **small-capitalization companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market** countries are greater than risks associated with investments in foreign developed markets. **Exchange traded funds (ETFs)** shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds ETFs and other **Investment Funds**, the portfolio absorbs both its own expenses and those of the ETFs and Investment Funds it invests in. Supply and demand for ETFs and Investment Funds may not be correlated to that of the underlying securities. **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance. A **currency forward** is a hedging tool that does not involve any upfront payment. The use of **leverage** may increase volatility in the Portfolio.

INDEX DEFINITIONS

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Consumer Price Index: The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

JOLTS (Job Openings and Labor Turnover Survey): This monthly survey, conducted by the Bureau of Labor Statistics, collects data on job openings, hires and separations from some 16,000 US businesses. It covers all nonagricultural industries in the public and private sectors for the 50 states and the District of Columbia.

MSCI Europe Index: The **MSCI Europe Index** captures large and mid-cap representation across 15 Developed Markets (DM) countries in Europe.

MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries. With 1,417 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Japan Index: The MSCI Japan Index is designed to measure the performance of the large and mid-cap segments of the Japanese market.

S&P 500 Index: The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalisation US stocks.

VIX ©: This is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 Index options. Often referred to as the fear index or the fear gauge, it represents one measure of the market's expectation of stock market volatility over the next 30-day period.

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