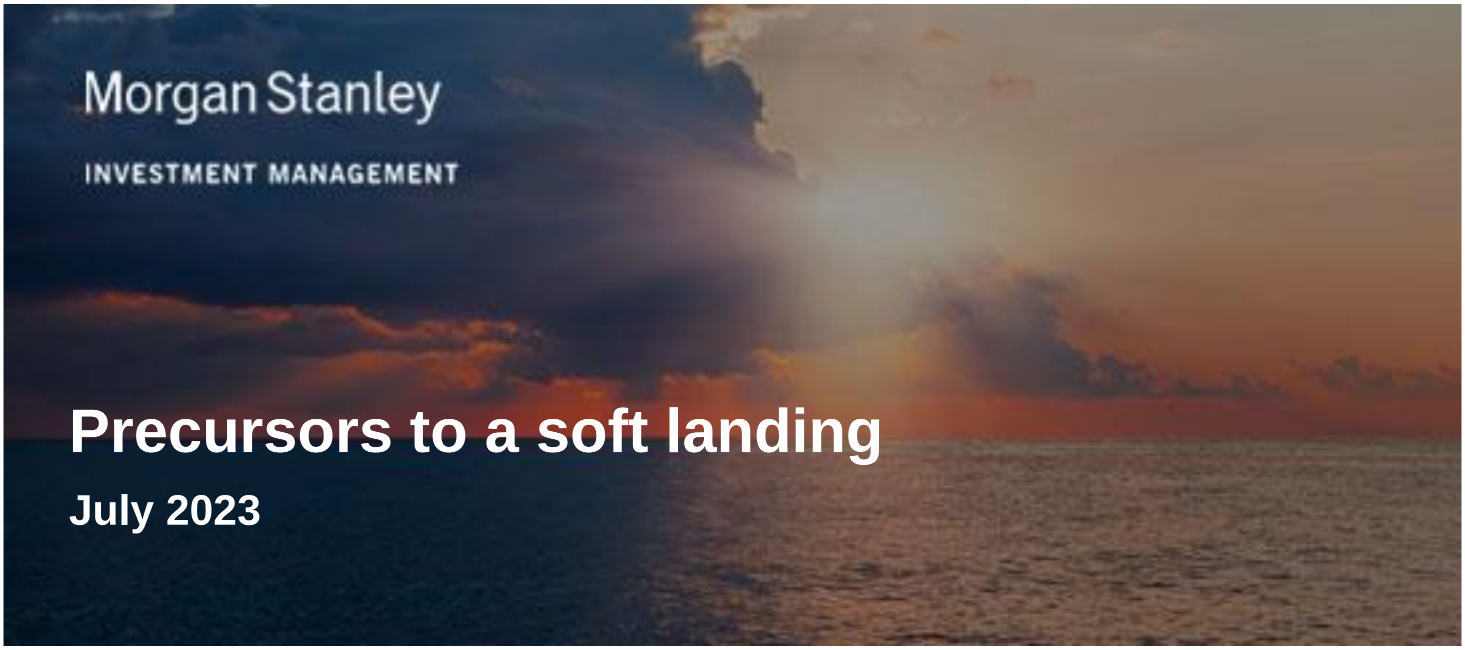

Precursors to a soft landing

July 2023

CUSTOMISED SOLUTIONS | GLOBAL BALANCED RISK CONTROL TEAM | PATH | 6 July 2023

June was a positive month for global equities, with the S&P 500 Index returning 6.6%[1] (USD) and the MSCI Europe (EUR) Index up 2.4%[1]. The US Federal Reserve held rates steady at the June FOMC meeting[2] which drove positive sentiments in the market. The first half of the month saw gains bolstered by technology-related names on the back of advances in Artificial Intelligence. Indeed, a small number of technology stocks have driven the US stock market for the first half of 2023. However, on an overall basis, Consumer Discretionary was the best performing sector this month as the breadth of the market continues to catch up. Japanese equities continue to perform exceptionally well, with the MSCI Japan (JPY) Index returning 7.7%[1]. The MSCI Emerging Markets (USD) Index also reported gains of 3.9%[1]. The US 10-Year Treasury yield remained range bound during the month, ending June at 3.81%[3]. The VIX index reached its lowest level of the year in June, ending the month at 13.6[3].

ANDREW HARMSTONE

Managing Director,
Lead Global Portfolio Manager,
Global Balanced Risk Control Team

JIM CARON

Managing Director,
Co-Lead Global Portfolio Manager, Global Balanced Risk Control Team

We base our proposition of a soft landing on a slowing, but resilient labour market, as businesses in certain industries continue to fill vacant positions and maintain the existing workforce. Services industries were significantly more affected by the COVID-19 pandemic than goods industries, due to lockdowns and job losses and are still in the process of rebuilding their payrolls post-covid. Job opening rates remain higher than pre-covid levels and with robust consumer spending, employers are compelled to retain employees. Real wage growth is projected to pick up in the second half of the year and into 2024. However, this should

Notes:
[1] Bloomberg, 1-month returns, local currency unless otherwise stated, as of 30 June 2023.
[2] https://www.federalreserve.gov/newsevents/pressreleases/monetary20230614a.htm
[3] Bloomberg, 30 June 2023.

also help avert a sharp decline in consumption, particularly as the fiscal stimulus from COVID-19 dissipates and tighter financial conditions dampen demand, thereby indicating a soft landing. Furthermore, investors and analysts have started to revise their recession forecasts to either no or late recession this year and the expectation for a mild recession versus a hard landing has increased.

It's all relative

Chasing the elusive 2% inflation target, many developed market central banks, with the notable exceptions of the US Federal Reserve and Bank of Japan, hiked rates once again in June. Although headline inflation may be slowing, core inflation remains sticky. However, global central banks may choose to balance the risks of growth and inflation. Whilst they may remain hawkish and continue to raise rates, albeit in a gradual manner, this reflects our view that the policy stance is more accommodative than tight relative to inflation, which is stimulative for risky assets but with the inference that inflation could run hotter for longer.

In contrast, emerging market central banks are ahead with their aggressive policy stance, and already having established a good level of inflation control, are now signalling an end to their rate hikes and even a loosening in their policy stance, which is also supportive for risky assets.

The question of whether central banks are able to lower and anchor inflation successfully, or inflation becomes unanchored, is likely to continue to be a major focus for the remainder of the year.

Investment Implications

June has been the best month for equities since January this year and while technology-related names drove the gains, we believe that currently, the other cyclical sectors of the market are more stable and undervalued. Bearing this in mind, and the low volatility in markets, we slightly increased exposure to equities in June. We also made the following tactical changes during the month:

US equities

We upgraded our view on US equities from underweight to neutral, as fundamentals appear to be stabilising and headline valuations look expensive, this is driven by a handful of stocks. We expect other stocks, which are currently at average or below historical P/Es, to catch up as we move away from the prospect of a hard landing scenario.

Japanese equities

We also added to Japanese equities as Japan's economic recovery continues and returning inflation supports nominal sales growth. We believe there is room for profit margins to recover as production recovers, supply-chain bottlenecks ease and raw material prices normalise.

SOFR Rates

We closed the position in the Secured Overnight Financing Rate (SOFR) instrument, which we added in the first half of May, as it has already played out with a hawkish stance from the Federal Reserve.

Italian equities

We closed the FTSE MIB position, moving from overweight to neutral on Italian equities as country-specific risk premium has not fully played out for Italian equities, due to the presence of other value opportunities in the region and also as we shift to a more balanced view of the US and European economies.

Japanese Yen

We broadened out our overweight to the Japanese yen by adding a long position vs the euro. As the yen approaches levels of prior Bank of Japan intervention, we think that further losses are limited, making forward-looking outcomes asymmetric.

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	Previous view		Latest view		
US Small Cap				Latest view	
Eurozone			Latest view		
Eurozone Banks				Latest view	
EU Energy				Latest view	
UK			Latest view		
Japan			Previous view	Latest view	
Asia ex Japan			Latest view		
Emerging Markets			Latest view		
China			Latest view		
Global Infrastructure			Latest view		
Global Property			Latest view		
Commodities					
Gold			Latest view		
Oil				Latest view	
Copper			Latest view		

Asset Class	--	-	=	+	++
Fixed Income					
US IG Credit			Latest view		
European IG Credit				Latest view	
US High Yield			Latest view		
EU High Yield			Latest view		
EM HC Sov Debt				Latest 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		
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 May 2023 and current view is as of 30 June 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**

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INDEX DEFINITIONS

The indexes shown in this report are not meant to depict the performance of any specific investment, and the indexes shown do not include any expenses, fees or sales charges, which would lower performance. The indexes shown are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

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.

P/E: Price-Earnings (P/E) is the price of a stock divided by its earnings per share for the past 12 months. Sometimes called the multiple, P/E gives investors an idea of how much they are paying for a company's earning power. The higher the P/E, the more investors are paying, and therefore the more earnings growth they are expecting. Forward to price earnings (P/E) is a measure of the price-to-earnings ratio (P/E) using forecasted earnings for the P/E calculation.

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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A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular Strategy may include securities that may not necessarily track the performance of a particular index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.

For important information about the investment managers, please refer to Form ADV Part 2.

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