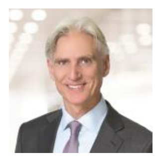
November 2021
Winds are changing?

CUSTOMISED SOLUTIONS GROUP | GLOBAL BALANCED RISK CONTROL TEAM | PATH | 1 NOVEMBER 2021



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Markets bounced back strongly in October with the S&P 500 and MSCI Europe Index up 7.0% (USD) and 4.7% (EUR) respectively[1]. The MSCI Emerging Markets Index was also up 1.0% (USD)[1]. In contrast, the MSCI Japan Index was down over the month at -1.2% (JPY)[1]. Energy continued to be the best performing sector, with the MSCI ACWI Energy Index up 6.4% (USD)[1], on the back of rising prices and persistent supply bottlenecks. As markets recovered, the VIX moved down to 16[2] by month end.

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.

1. Bloomberg, 1-month performance as of 31 October 2021.
2. Bloomberg, as of 31 October 2021.

Rising Energy prices…cause of worry?

The origin of recent rises in gas prices in Europe can be traced back to higher than average consumption last winter, leading to depleted storage inventories across Europe. Additionally, inadequate supply from Russia in 2021 has exacerbated the situation. With winter approaching, further strain on supply from a colder than average winter could keep gas prices at elevated levels. However, the impact of higher gas prices on consumer spending and growth should be limited due to the lagged and partial pass-through to energy bills across European countries, along with notably elevated pent-up savings level of consumers. Moreover, we expect that additional supply from Russia will ease the squeeze in the coming months, further suggesting that the impact on inflation and growth should be limited.

Central Banks start to scale back accommodation

US 10-Year Treasury rates continued to move up from 1.5%[2] at the end of September to close the month at 1.55%[2]. The FOMC's slight hawkish tilt in September indicated a desire for a somewhat quicker pace towards policy normalisation as inflation upside risks persist. If supply bottlenecks and rising energy prices continue to feed through to higher costs of living and eventually wage inflation, we may be nearing the end of the Fed's wait-and-see approach. Although we expect the Fed to announce tapering in November and to conclude it by the middle of 2022, the overall policy will likely continue to remain accommodative. We expect rates to likely continue to grind modestly higher, but believe they will settle at lower levels than in previous cycles. There are indications that fixed income investors are becoming more concerned about inflation risk, however, which could increase the pace of central bank normalisation.

China Property Risks: Systemic or idiosyncratic?

Although some of the highly indebted Chinese property companies have continued to make global headlines throughout October, the risk of a global systemic shock remains remote in our view. While China is currently suffering from multiple headwinds, we think the government possesses the willingness and appropriate policy tools (e.g. cutting the required reserves ratio, increased fiscal spending, quicker loan approvals and lowering the down payment ratio and mortgage costs) to lend strong support to the property sector and stabilise the wider economy at this stage. We should expect some power rationing to continue during Q4, but aggressive reforms already introduced by some key ministries offer the opportunity of easing supply chain pressures and more stable prices in key commodities over the coming months.

Investment implications

As a result of the recent low realised market volatility, we fine-tuned our portfolios, increasing equity exposure mid-month to ensure that our portfolios continue to be in line with their respective risk-targets. The abatement of risk from near-term events like the FOMC meeting in September and the subsequent minutes published in mid-October, also provided support. That said, we are keeping an eye on the expected Fed tapering plan and announcement next month. We remain underweight duration as fixed income valuations still appear rich given the constructive macro backdrop and the potential reversal of the support provided to duration by some technical factors in Q3.

Tactical positioning

We have provided our tactical views below:

Asset Class	--	-	=	+	++
Equity					
US			■		
US Value				■	
US Growth		■			
Eurozone			■		
UK			■		
Japan			■		
Asia ex Japan			■		
China Internet				■	
Emerging Markets			■		
LatAm			■		
Global Infrastructure			■		
Global Property			■		
Global Financials				■	
Global Energy				■	

Asset Class	--	-	=	+	++
Fixed Income					
IG Credit		■			
US High Yield			■		
European High Yield			■		
EM Sovereign Debt HC			■		
EM Sovereign Debt LC			■		
US Treasuries		■			
US Inflation			■		
German Bunds		■			
EU Peripheral Bonds			■		
JGBs			■		
Commodities					
Gold			■		
Industrial Metals			■		

Source: MSIM GBaR team, as of 31 October 2021. 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.

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MSCI ACWI Energy Index includes large and mid cap securities across 23 Developed Markets (DM) and 27 Emerging Markets (EM) countries*. All securities in the index are classified in the Energy as per the Global Industry Classification Standard (GICS®).

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: The MSCI Emerging Markets Index (MSCI EM) is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets.

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-capitalization 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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