Global Asset Allocation Viewpoints
July 2024

1 Market Perspective
As of 30 June 2024

- Global growth remains broadly resilient with some signs of cooling along with easing inflationary pressures.
- Recent data across consumer, labor, and businesses point to a moderation in U.S. growth. European growth stable helped largely by services. Improving growth outlook in Japan, albeit still muted, while stimulus measures in China targeted at the housing market help underpin growth outlook.
- U.S. Fed remains patient as recent data suggests tight policy may finally be weighing on growth. The European Central Bank (ECB) has taken the lead on easing policy, with more cuts likely. Despite weaker recent growth, Bank of Japan is still expected to take additional steps toward tightening.
- Key risks to global markets include a steeper decline in growth, stubborn inflation, election calendar, central bank policy divergence, geopolitical tensions, and trajectory of Chinese growth.

2 Portfolio Positioning
As of 30 June 2024

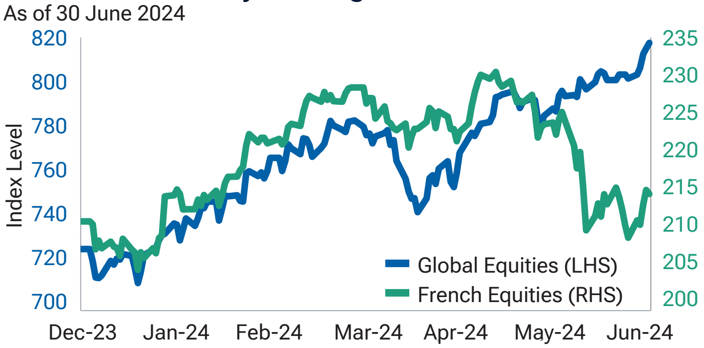
- We remain modestly overweight equities, as valuations beyond narrow leadership remain reasonable and economic growth, while slowing, still supportive for earnings.
- We maintain an overweight to cash relative to bonds. Cash yields remain attractive with less aggressive expectations for Fed cuts and provides liquidity should market opportunities arise.
- Within fixed income, we added to US Treasury Inflation Protected Securities (TIPS) on attractive valuations and to hedge against sticky inflation.
- Within fixed income, we continue to favor higher-yielding sectors including high yield, floating rate loans, and emerging markets bonds as fundamentals remain broadly supportive.

3 Market Themes
As of 30 June 2024

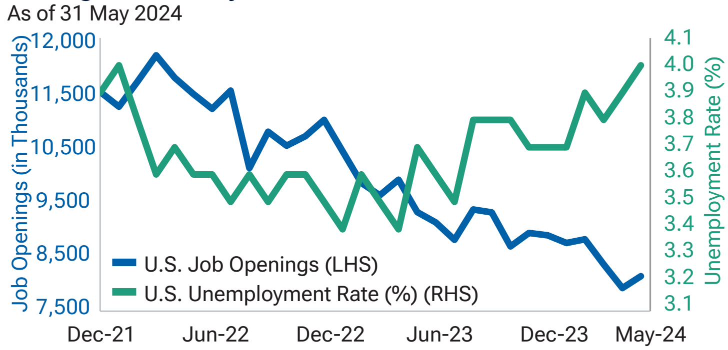
Oh Snap!
While investors were already expecting the possibility for heightened volatility around a packed global election calendar, those risks have only been amplified with the recent snap elections in France and the U.K. Discontent with incumbent leaders has been a common theme leading to several opposition party wins, with economic, trade, and immigration policies and corruption also contributing to voter dissatisfaction. The uncertainty associated with these elections could aggravate an already fragile global economic environment on the cusp of finally reigning in inflation and skirting a more severe downturn. With the potential for abrupt changes in fiscal policies, trade, and tariffs on the horizon, markets could become increasingly volatile as they weigh the impacts. Some of this is already playing out across European markets, which appeared to be turning the corner economically just weeks before recent snap elections were announced. With more elections to come and the increasing uncertainty around the U.S. elections that are still months out, the uncertainty itself could become an increasing downside risk to growth and one leading to central bankers regretting not snapping at the opportunity when they had it.

Up-tight
While other major central banks have taken the leap in cutting rates, including the ECB and Canada this past month, the Fed remains patient despite mounting evidence of slowing U.S. economic growth. With cracks in the data starting to form across the ever-resilient U.S. consumer, particularly among lower incomes, and the large pandemic savings buffer now depleted, consumer spending that had helped underpin inflation may finally be waning. The business sector, too, is starting to show cracks with recent declines in new orders and shipments. This weakness among consumers and businesses could quickly turn on the tight labor market, that itself has shown recent signs of cooling, as quit rates and job openings have fallen. And while the Fed's preferred gauge of inflation, core personal consumption expenditures (PCE), remains above their 2% target, incoming data may soon become hard to ignore as it tilts the balance of risk away from sticky inflation and toward weaker growth. Let's hope the Fed isn't too "uptight" about getting it wrong on inflation for a second time and won't end up being the party crashers for the economy.

Election Uncertainty Causing Market Jitters[1]
As of 30 June 2024



Letting It Get Away?
As of 31 May 2024



Past performance is not a reliable indicator of future performance.

Source: Bloomberg Finance L.P.

[1] Global equities are represented by the MSCI ACWI index. French equities are represented by the MSCI France Index.

4 Regional Backdrop

As of 30 June 2024

	Views	Positives	Negatives
United States	N	▪ Strong corporate earnings driven by AI ▪ Wage growth is moderating to sustainable levels ▪ Recent inflation reports have been favorable	▪ Stock valuations have become challenging ▪ Inflation remains sticky ▪ Economic data has been surprising to the downside ▪ Political uncertainty is heightened
Canada	N	▪ Bank of Canada has started cutting rates ▪ Core inflation is remarkably benign	▪ Economic growth is fading ▪ Consumer savings balances have faded ▪ Labor market showing signs of weakness
Europe	U	▪ ECB has started cutting rates ▪ Inflation has been steadily declining ▪ Economic sentiment is improving	▪ Economic growth remains weak ▪ Geopolitical uncertainty further heightened by French Elections ▪ Earnings growth remains weak, with minimal tailwinds from innovative technologies
United Kingdom	N	▪ Monetary policy expected to ease ▪ Inflation has been steadily declining ▪ Economic growth outlook is improving	▪ Fiscal consolidation may need to be accelerated ▪ Tight labor markets could keep wage inflation stubbornly high
Japan	O	▪ Economic indicators point to a reflationary environment ▪ Weaker yen helps Japanese export companies ▪ Corporate governance improvements are resulting in stronger company fundamentals	▪ Political uncertainty is likely to increase ▪ Monetary policy remains accommodative ▪ Ongoing yen weakness creates uncertainty
Australia	U	▪ Fiscal policy remains supportive ▪ Housing market strength supports a strong wealth effect ▪ Commodity prices could rebound further	▪ Monetary policy may be more hawkish due to sticky inflation ▪ Consumer spending showing signs of weakness ▪ Earnings expectations are being revised lower
Emerging Markets	O	▪ Macro data are marginally improving ▪ Export led sectors benefiting from global economic recovery ▪ Investor-friendly regulation in China should provide support	▪ Chinese property deleveraging continues to weigh on activity ▪ Chinese consumer and business confidence remain fragile ▪ Meaningful fiscal stimulus measures appear unlikely

O Overweight N Neutral U Underweight

Views are informed by the Asset Allocation Committee and Regional Investment Committees (United Kingdom, Europe, Australia, Japan and Asia) and reflect the equity market.

5 Asset Allocation Committee Positioning

As of 30 June 2024

▼ or ▲ Month-Over-Month Change

		Change	Underweight		Neutral	Overweight		These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.
ASSET CLASS	Equities					O		Earnings continue to be driven by AI infrastructure spending, but face elevated expectations and moderating growth. Potential for market broadening if economy improves, however, elevated valuations may limit upside.
	Bonds			U				Despite recent shift downward, yields remain at attractive levels. However, volatility could persist due to global divergence in growth, inflation, and central bank expectations. Credit fundamentals remain supportive; however, spreads remain tight.
	Cash					O		Cash provides attractive yields as the yield curve remains inverted and offers liquidity should market opportunities arise.
	Regions							
EQUITIES	U.S.				N			Earnings growth expectations dependent on continued AI momentum, as economic activity has yet to broaden. Technology and pharmaceutical innovation remain key differentiators. However, valuations may limit upside from here.
	Global Ex-U.S.				N			Valuations are attractive on a relative basis. European equity outlook improving with falling inflation, industrial indicators bottoming, and easing monetary policy. Chinese economic growth appears to have stabilized.
	Emerging Markets (EM)					O		Valuations are attractive, but earnings delivery remains in question. Chinese equities finding some footing, and monetary policy easing across EMs could provide further support.
	Style & Market Capitalization							
	U.S. Growth vs. Value[1]			U				Continued economic resiliency and further broadening of equity market performance could be supportive for value. Meanwhile growth stocks face elevated expectations and challenging valuations.
	Global Ex-U.S. Growth vs. Value[1]			U				Value stocks are cheap and could benefit from recession concerns fading. Growth stocks' valuations are more expensive and they face headwinds from consumer weakness in China and Europe.
	U.S. Small vs. Large-Cap[1]				N			Small-caps offer attractive relative valuations but are more challenged by higher-for-longer interest rates. Profit margins and leverage are also becoming more of a concern, warranting a higher quality bias.
	Global Ex-U.S. Small vs. Large-Cap[1]					O		Small-caps offer very reasonable valuations and should benefit from monetary policy easing, cyclical tailwinds, and broadening growth. Ex-U.S. small-caps face fewer challenges from higher rates.
	Inflation-Sensitive							
	Real Assets Equities					O		Commodity-related equities are a good inflation hedge. Oil prices may ultimately be set for structural increases given trends in productivity and some industrial metals could benefit from demand due to AI and decarbonization.
BONDS	U.S. Investment Grade (IG)			U				Yields remain broadly attractive and could remain rangebound as the market contends with stickier inflation and slowing economic growth. Credit fundamentals remain supportive, but spreads remain tight.
	Developed Ex-U.S. IG (USD Hedged)				N			Global central banks diverging as BoJ eyes further hikes, the ECB begins its cutting cycle, and the Fed remains on hold. Yields attractive on a hedged basis.
	U.S. Treasury Long				N			Longer term yields biased higher on potential for further Treasury issuance, sticky inflationary backdrop, and low risk of recession.
	Inflation-Linked					O		Sector offers a hedge should inflation surprise higher, especially with potential for services and goods inflation to inflect higher.
	Global High Yield					O		Overall yield levels remain attractive, but spread compression is limited from here. Default rates likely to rise to historical long-term averages although much appears to be priced in.
	Floating Rate Loans					O		Sector attractive as Fed remains on hold, keeping short term rates elevated. Default rates are expected to rise, although only to historically average levels.
	Private Credit				N			Despite tight spreads, the sector continues to offer pockets of attractive yields. Higher rate environment and economic uncertainty highlight the importance of credit selection and underwriting.
	EM Dollar Sovereigns					O		Yields look modestly attractive, however, higher quality sovereign spreads look tight. Central banks embarking on easing cycles and inflation continuing to moderate supportive.
	EM Local Currency					O		Central bank easing and lower inflation could be tailwinds, but a higher-for-longer Fed could sustain dollar strength.

[1] For pairwise decisions in style & market capitalization, positioning within boxes represent positioning in the first mentioned asset class relative to the second asset class.

The asset classes across the equity and fixed income markets shown are represented in our Multi-Asset portfolios. Certain style & market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

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Certain numbers in this report may not equal stated totals due to rounding.
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Key risks - The following risks are materially relevant to the information highlighted in this material: Even if the asset allocation is exposed to different asset classes in order to diversify the risks, a part of these assets is exposed to specific key risks.
Equity risk - in general, equities involve higher risks than bonds or money market instruments.
ESG and Sustainability risk - May result in a material negative impact on the value of an investment and performance of the portfolio.
Credit risk - a bond or money market security could lose value if the issuer's financial health deteriorates.
Currency risk - changes in currency exchange rates could reduce investment gains or increase investment losses.
Default risk - the issuers of certain bonds could become unable to make payments on their bonds.
Emerging markets risk - emerging markets are less established than developed markets and, therefore, involve higher risks.
Foreign investing risk - investing in foreign countries other than the country of domicile can be riskier due to the adverse effects of currency exchange rates; differences in market structure and liquidity, as well as specific country, regional, and economic developments.
Interest rate risk - when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.
Real estate investments risk - real estate and related investments can be hurt by any factor that makes an area or individual property less valuable.
Small- and mid-cap risk - stocks of small and mid-size companies can be more volatile than stocks of larger companies.
Style risk - different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

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