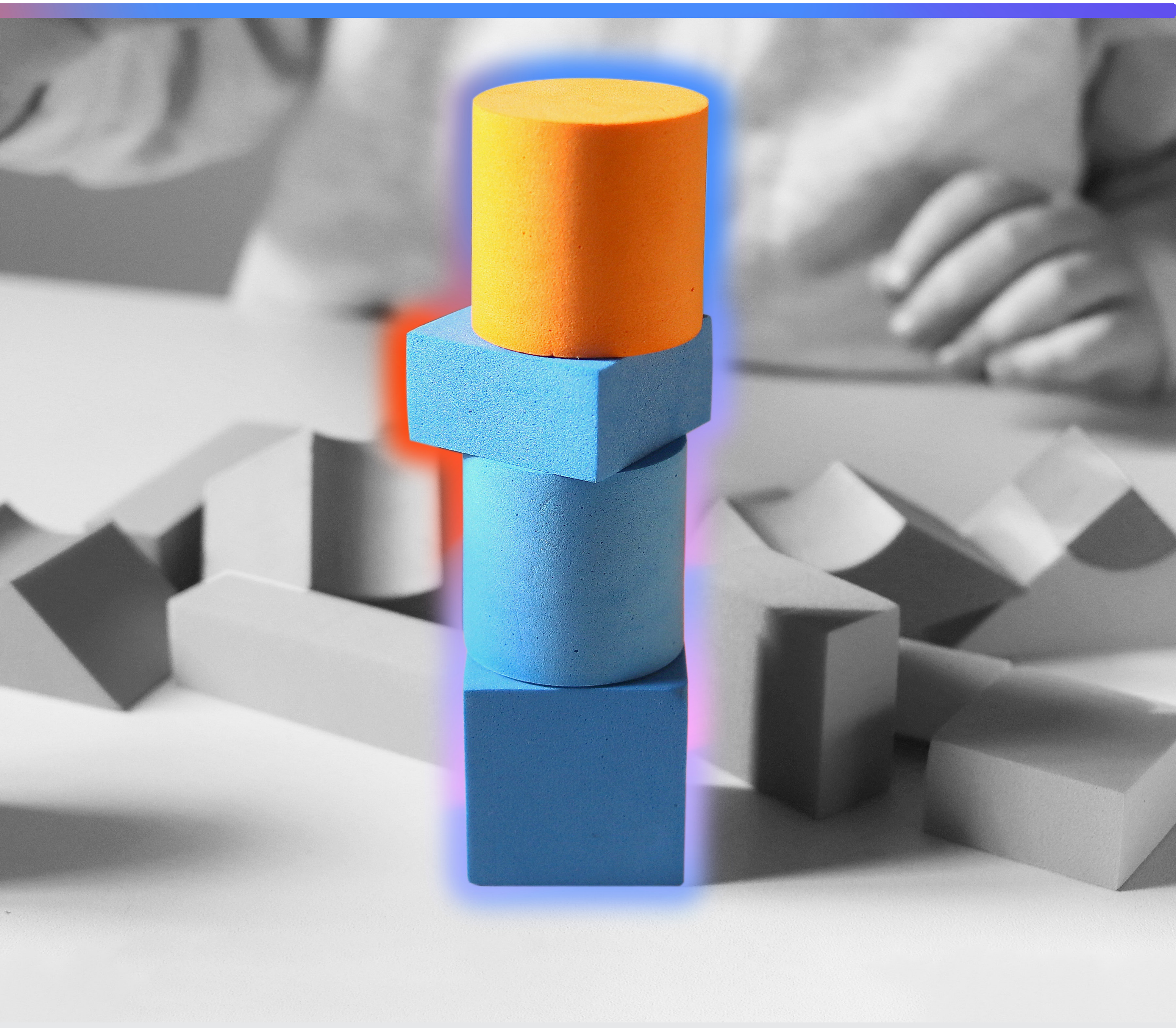
Franklin Templeton | Institute

June 2023

Franklin Templeton Investment Solutions

Allocation Views

Testing the upside



In this issue

The removal of an extreme tail risk event from the litany of concerns facing markets sees us refine our thoughts around the more optimistic end of our range of growth scenarios. Optimism is building around transformative new technologies, but we continue to expect corporate earnings to come under pressure.

If inflation remains more persistent, then data-dependent central banks will continue hiking as our Magical Mystery Tour unfolds. The prospect of an early pivot toward lower rates is less likely than markets hope and could act as a drag on investor sentiment. This helps to reinforce our preference for a cautious view of stocks.

Major themes driving our views

Growth is below trend with an uncertain outlook

Recession risks are high for most developed economies but increasingly bifurcated between East and West. Headwinds to economic activity persist, accentuated by tightening monetary policy and lending standards. Our forecasts are for a period of weak growth to come, even where current activity levels have held up reasonably well.

Inflation risks are now more balanced

Inflation remains well above target levels, but evidence of peak headline inflation is clear as goods deflation returns, and housing appears set to become a drag. Sticky services inflation is expected to be balanced by demand destruction as the lagged effects of slower economic growth are felt.

Policy to remain restrictive

Most central banks maintain a primary focus on inflation and are accepting the consequences to growth. Policymakers remain prepared to address evolving crises and maintain financial stability. Central banks are approaching peak rate hikes and becoming more data dependent but will continue to moderate negative real rates and sustain restrictive conditions, in our view.

Practical positioning

Nimble management still required

Having started the year with an allocation preference away from equities, we have moved to a more cautious view of stocks. The level of premium discounted in risk assets does not correspond with the still-elevated probability of recession that we foresee. We continue to believe that a nimble investment style remains appropriate.

Select opportunities in equity markets

We have eliminated our more constructive view of US equity markets and returned to a modestly cautious stance on European markets. In both cases, persistent headwinds to profits temper our optimism. In contrast, we find greater attractions in China, where the economy should benefit from the removal of zero-COVID restrictions.

Bond valuations have improved

Our longer-term analysis shows that the return potential from global bonds, including generally lower-risk government bonds, has improved. Once the current policy-tightening environment is completed, it is likely that government bonds will again exhibit more of a risk-dampening effect. Until then, we see attractions in the appeal of a currently higher yield from holding cash.

Major themes driving our views

Testing the upside

Looking for reasons to be cheerful is often the distinguishing feature of equity investors. The long list of reasons for caution that we, like many professional investors, have been highlighting all year just got a little shorter. In the early days of June, President Joe Biden signed off on legislation to suspend the United States' debt ceiling until January 2025. Although avoiding a US default appeared to be the most likely outcome all along, the removal of an extreme tail risk event from the litany of concerns facing markets may help to further the relief rally that appears to be well-established for risker assets.

Similarly, the strength of the stock market rebound has been bolstered by optimism about the transformative opportunities that artificial intelligence (AI) applications might present. We have been fascinated by these developments for many years, and the true ramifications may not be felt for many more to come. But the immediate prospects have captured the imagination of markets. We will continue to discuss the much longer-term implications, as part of our annual symposium agenda, which will help to inform our 10-year-ahead market expectations—it is over this kind of horizon that the true impact on economy-wide productivity will be felt. In the meantime, certain individual companies will continue to capture the attention of investors aiming to get ahead of the AI trend.

When we reviewed some of the scenarios against which we analyzed investments back in March, we refined our thoughts regarding the more optimistic "soft-landing" thesis. This saw us describe the uncertain path as the "Magical Mystery Tour" in *Allocation Views* for that quarter. We continue to see a growing case for a bifurcated description of outcomes in which any form of landing is delayed. This may happen in a benign way, if price pressures continue to ease, which would be the "goldilocks" outcome. Alternatively, the US economy may maintain momentum, with inflation slow to normalize and thus the central bank forced to hike rates further than anticipated to achieve its price stability mandate. After a period where it felt like pressures on the US banking sector might have a sharply negative impact on growth, the easing of tensions that we noted last month has seen us increase the probability of more optimistic outcomes. This is consistent with the move higher in the expected path of official interest rates in the United States and other major western economies in the recent past.

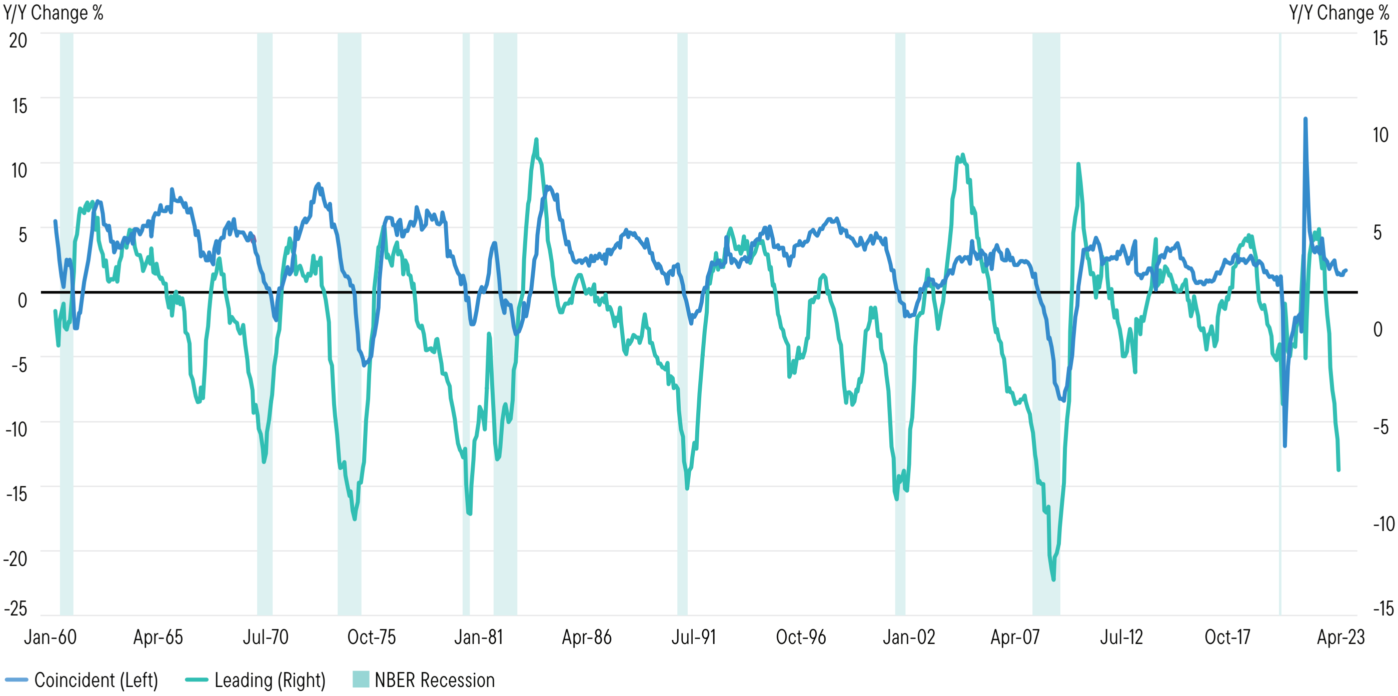
The events that have prompted the refinement of our scenarios comes mainly from the United States, but the forces at work are global in nature. Current economic conditions, and corporate earnings especially, have remained resilient. However, the accumulated tightening of monetary policy in the developed world is still feeding through the system. Leading indicators remain at levels that typically only occur in or ahead of recessions (see Exhibit 1 on the next page). If prices are slow to moderate, monetary policy will have to tighten further. This is especially true in Europe, and perhaps even in Japan. We continue to see a greater dispersion of outcomes across regions and economies in relation to activity. China should benefit from the broad economic reopening after changes to its zero-COVID policy, but this may support the tourism sectors of its near neighbors more than the global trade in goods.

We continue to see a growing case for a bifurcated description of outcomes in which any form of landing is delayed. This may happen in a benign way, if price pressures continue to ease, which would be the "goldilocks" outcome. Alternatively, the US economy may maintain momentum, with inflation slow to normalize and thus the central bank forced to hike rates further than anticipated to achieve its price stability mandate.

Leading Indicators Show Growth is Weakening and Below Trend

Exhibit 1: US Conference Board Composite Leading Economic Indicators

As of April 30, 2023



Sources: TCB, Macrobond. Important data provider notices and terms available at www.franklintempletondatasources.com.

We continue to believe the major western economies face a trough in economic activity that still lies ahead, even where current activity has held up reasonably well thus far. Our analysis remains more certain in the view that headwinds persist; whether this results in a recession now or later is probably less important than the direction of travel and its impact on corporate earnings. This is reflected in our primary theme that notes that **"Growth is below trend with an uncertain outlook"** and recession risks are high globally, but increasingly bifurcated between East and West.

Inflation risks for the West

One of the factors driving our "East versus West" preference is the divergence between levels of core Consumer Price Index inflation. As we have discussed regularly in *Allocation Views*, the move lower in energy prices and other globally traded goods has seen headline inflation peak in most economies. We continue to view goods price deflation as more likely than a return to supply-driven inflation. The resultant easing of inflation expectations has helped to improve the sentiment of financial markets. However, the complex after-effects of stimulus measures associated with the COVID-19 pandemic continue to be felt. Where labor markets remain tight, and wage gains are helping to offset the increased cost-of-living, service sector inflation has been slow to ease. These impacts are most pronounced in the developed western economies, and less so in the East (see Exhibit 2 on the next page).

As we look for the path to sustained lower inflation, we are starting to see tentative signs that the tightness of the labor market is easing, notably in the United Kingdom and possibly in the United States. Goods deflation and lower headline inflation may help to moderate wage demands and tame inflation more generally. We also still anticipate demand destruction from the lagged effects of slower economic growth to continue. Although other components of core services inflation may be slower to decline, this broad balance of forces saw us change the description of our inflation outlook three months ago to a seemingly more constructive one, as our second theme reflects **"Inflation risks are now more balanced."**

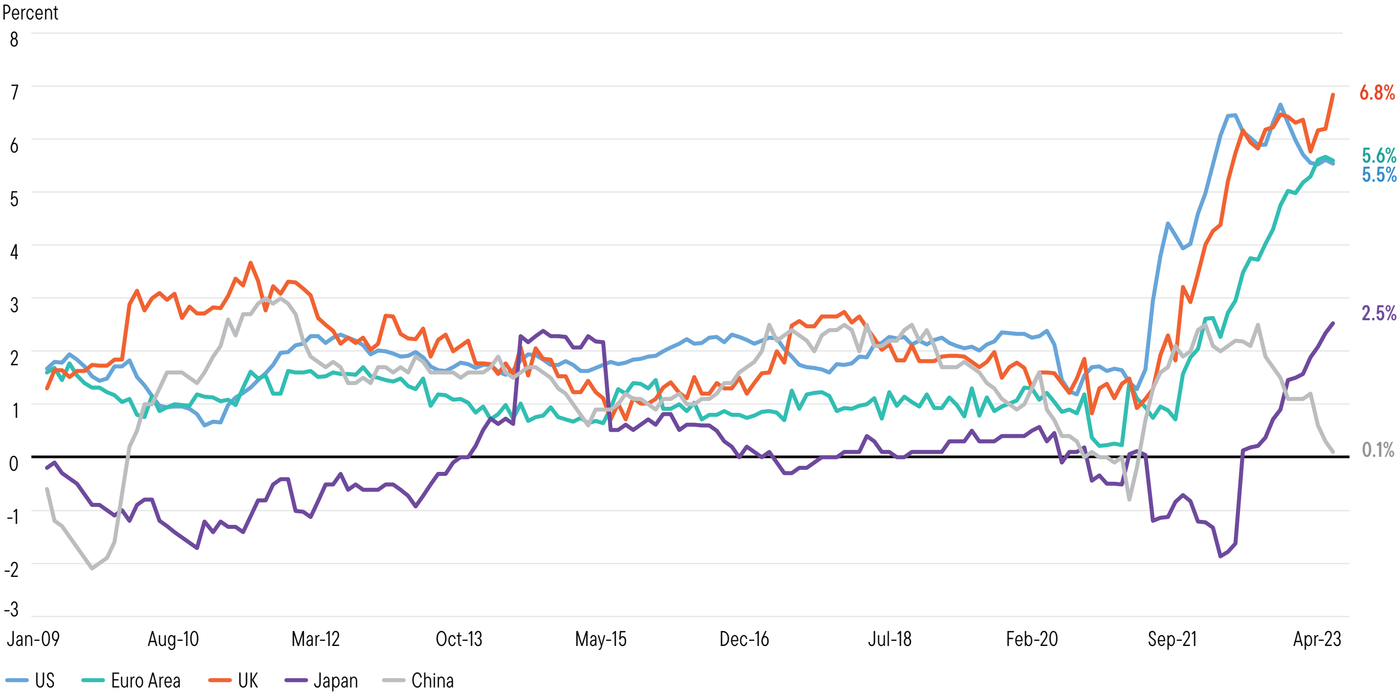
Monetary policy remains restrictive

The US Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England (BoE) have each switched to a more data-dependent approach, rather than giving clear forward guidance about the likely path of monetary policy.

Core Inflation Especially High in the West

Exhibit 2: Core CPI Inflation in Selected Economies

As of April 30, 2023



Sources: Bank of Canada, European Central Bank, NDRC, Reserve Bank of Australia, Bank of Japan, Bank of England, Federal Reserve, ABS, Eurostat, Statistics Canada, NBS, SBJ, ONS, BLS, Macrobond. Important data provider notices and terms available at www.franklintempletondatasources.com.

This is consistent with them believing that they are closer to the end of their respective tightening cycles than the beginning. It also allows them to persist with an unwavering determination to address inflation concerns and achieve their price stability mandates without committing to raising rates to levels that may prove excessive. However, in the absence of alternative direction, markets are exposed to higher levels of volatility reflecting the ebb and flow of inflation data releases. In contrast, the Bank of Japan (BoJ) has reiterated an unchanged policy stance, at least for now, and continues to guide markets using alternative forms of monetary policy, such as asset purchases and yield curve control measures.

In the case of the Fed, it seems more likely that it is approaching a pause in rate hikes, although the more optimistic growth outlook that we note above has led to the market largely eliminating the prospect for rate cuts before the end of this year. The BoE would probably like to join the Fed in calling time on hikes but continues to face inflation that is not falling as quickly as anticipated. It appears to have diminished confidence in its ability to forecast inflation, so it will wait for hard data to validate any pause. Only the ECB seems more inclined to raise rates at forthcoming meetings, but even here evolving data might change the predicted path.

We continue to have a difference of opinion with market pricing on the likelihood of an early pivot toward lower rates. Even as inflation eases later in the year, it seems less likely that the Fed will cut rates before the impact of recession is felt, as it will be these forces that cement the return to target levels of inflation. We do not think that lower policy rates will save the day as corporate earnings come under pressure. Overall, this sees our final theme complete a set of three still quite negative drivers for markets, even as it has evolved to downplay the pace of rate hikes, while emphasizing **"Policy to remain restrictive"** as we move through 2023.

Practical positioning

Nimble management still required

The more optimistic outlook reflected in equity markets described above, and our diminished assessment of the probability of recession in the coming year, are thematically consistent with each other. The direction of travel ties in. However, the level of premium discounted in risk assets does not correspond with the still-elevated probability of recession that we foresee. Corporate earnings expectations have plateaued for the early part of this year but are then seen recovering. We doubt that this is likely as the economy slows and profit margin declines are compounded by weaker top-line growth.

We entered 2023 with an allocation preference away from stocks, which we have retained. Two months ago, we showed our nimble investment management style by moving to a more bearish stance on equities. The AI-driven rally in US equities has seen market indexes "test the upside" of recent ranges and made our allocation preference feel uncomfortable to sustain. It also resulted in a narrow range of stocks accounting for substantially all the gains and is indicative of a less healthy market than the broad index return would suggest. However, in our analysis, such periods of narrow market leadership do not provide clear guidance on the strength of subsequent returns. Despite this, we remain more attracted to the yields available in high-quality government bonds, especially now that they are not so overly optimistic about an imminent end to the rate-hike cycle. We retain a balance of cash and bonds to offset our cautious stance on equities. Although we still see attractive longer-term return potential for stocks and believe they should earn their equity risk premium over time (see Exhibit 3), this premium is not high enough to reflect the uncertain outlook markets currently face or support an equity preference at this time, in our assessment.

Select opportunities in equity markets

When we consider the relative merits of various regional equity markets, we start from an analysis of the growth, inflation and interest-rate outlooks, which we discussed in the

We Believe Global Equity Valuations Are Not Cheap Enough Relative to Current Higher Bond Yields

Exhibit 3: Global Equity Risk Premium

As of May 31, 2023

Sources: Bloomberg, Macrobond. Important data provider notices and terms available at www.franklintempletondatasources.com.

first part of this *Allocation Views*. These inputs help to inform our discussion of relative valuation metrics and investor sentiment. A range of quantitative models act as a complement and help us to come to a rounded view of what we think are the appropriate preferences between markets.

US economic activity is no longer leading its global peers, although accumulated savings from past fiscal stimulus have padded consumer balance sheets. Corporate fundamentals remain positive in comparison to other developed markets, and profitability remains cyclically high. However, we regard the reliance on a substantial technology exposure to sustain the market opportunity as a mixed blessing. At valuations which reflect higher growth, the prospects for this market have dimmed. However, generally, in periods when global risks are elevated, the US stock market tends to offer certain defensive characteristics, which may be appealing at this time. Accordingly, although we have fully eliminated our bullish stance, in stages, over recent months, we resist taking a cautious view of this market, relative to its global peers.

In contrast, we have returned to a modestly cautious stance on European equities, reflecting continued monetary policy restraint from the ECB and the ongoing Russia-Ukraine war, which has entered its second year and remains a drag on confidence in regional equities. Tighter bank lending conditions pose a headwind to business activity and may see corporate earnings disappoint. We retain a somewhat less cautious view on the UK equity market, as trade relations with the European Union have thawed with revisions to post-Brexit arrangements. Although equity valuations in the United Kingdom and Japan remains appealing to us, we prefer the attractions of similarly cheap stocks in China. Overall, we continue to focus our attention on eastern markets, as they appear well placed to benefit from domestic consumer strength and any rebound in global trade as China reopens.

China's economy should benefit from the removal of zero-COVID restrictions, although trade disputes remain unresolved in the longer term and are a symptom of broader tensions as heightened geopolitical stresses persist. The pursuit of a "common prosperity" objective led to a regulatory clampdown that dominated market sentiment last year. These concerns are slowly fading, and we have moved to a moderately bullish stance on this market as valuation attractions offset residual risks. We have also warmed slightly to the longer-term prospects of other emerging markets, having followed a more cautious stance last year. Local inflation pressures, especially for food-importing nations, have seen central banks approach peak interest rates. Valuations remain attractive to us relative to developed market peers, but broader headwinds persist.

Overall, we are drawn to a diversified set of opportunities across emerging and developed equity markets, even as we continue to maintain an allocation preference away from stocks. We hold moderate conviction on the relative merits between these markets and regions, reflecting the local idiosyncrasies as well as our broad concerns about equities at this time.

Overall, we are drawn to a diversified set of opportunities across emerging and developed equity markets, even as we continue to maintain an allocation preference away from stocks. We hold moderate conviction on the relative merits between these markets and regions, reflecting the local idiosyncrasies as well as our broad concerns about equities at this time.

Bond valuations have improved

One of the notable features of our longer-term analysis is that the return potential from global bonds, especially lower-risk government bonds, has improved. Having seen policy rates rise sharply over the past year, the starting level for all government yields—with the notable exception of Japanese government bonds—is now more attractive to us. Given that the prospect of recession remains high across many of the different growth paths that we foresee, we anticipate that current yields incorporate an adequate risk premium for this range of eventualities. This supports our current view, which was established in stages around the turn of the year, to take a greater total interest-rate exposure and express a preference for longer duration assets. However, as with our top-level allocation preference, we think a nimble approach remains appropriate. With markets moving to price in a higher terminal level for the policy rates of leading central banks, we increased our conviction as yields rose in the first two months of the year. Then, more recently, as an early pivot to rate cuts was discounted, we trimmed, but retained our long-duration stance.

Corporate Bond Valuations Remain Tight

Exhibit 4: US Corporate High Yield Spreads

As of May 31, 2023

Sources: Bloomberg, Macrobond. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.** Important data provider notices and terms available at www.franklintempletondatasources.com.

Once the current policy-tightening environment is completed, it is likely that government bonds will again exhibit more of a risk-dampening effect on multi-asset portfolios. Until then, we believe bonds still make a more compelling case than they have for many years. We hold a constructive view of bonds at the asset allocation level, reflecting the accumulated rate hikes that have already occurred. Investment-grade corporate bonds continue to benefit from ample corporate liquidity and earnings levels that make high debt loads more sustainable. However, although overall yields have risen sharply, credit spreads may not fully reflect an anticipated increase from currently low default rates (see Exhibit 4). Following a rebound in the valuations of investment-grade and lower-rated corporate bonds, we have adopted a more cautious stance toward credit securities overall. This reflects our outlook for economic activity and comes despite the persistence of generally sound corporate debt fundamentals.

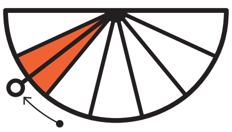
When looking for alternative assets that might offset "risk-on" exposure to stocks and corporate credit, we are often attracted to real assets. The level of anticipated inflation reflected in Treasury Inflation-Protected Securities (TIPS) has moderated from elevated levels seen early in 2022. We believe current pricing fairly reflects longer-term expectations, even as realized inflation is likely to remain elevated for a while. However, naturally diversifying assets such as TIPS retain a role in helping to provide protection against unanticipatedly stubborn inflation. In our base case, they are at best fairly valued. However, it is the combination of equity, bond and inflation "shocks" that could provide the environment where holding TIPS might notably enhance return potential and lower portfolio volatility.

If we are surprised by higher inflation and an unexpected turn to more sustained policy tightening, the attractions of holding cash are likely to prove more appealing. The defensive features of cash are complemented by higher current yields, as short-term US Treasury bills already reflect higher policy rates and no longer present a drag on portfolio yield. Cash has attractions as a means of diversification, and we hold a constructive view at this time, complementing longer-duration assets' prospective capital gains with the appeal of a currently higher yield from holding cash.

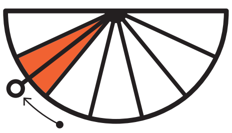
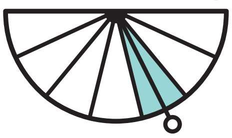
Allocation settings—June 2023

Pendulum settings reflect cross-asset class views

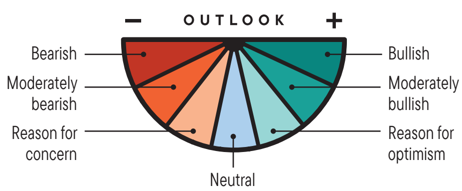
Risk tier

Asset class	Conviction	Our viewpoint
Risk off/on		Global growth has slowed to below trend with an uncertain outlook in the developed world. This is being driven by the impact of monetary policy tightening. Despite the ongoing Russia-Ukraine war, peak inflation likely has been passed as goods and commodity prices have declined. We maintain a moderately bearish stance toward riskier assets, with recession probabilities elevated as bank lending standards tighten.

High level allocation tier

Equities		In broad terms, global equities face continued earnings declines but have been supported by higher valuations in recent months, even as the outlook has become foggier. Earnings expectations remain vulnerable to ongoing margin pressures. Tightening monetary policy offsets longer-term equity fundamentals that are still relatively supportive. We remain nimble in our level of conviction but hold a more defensive stance in global equities relative to bonds.
Bonds		Long-term valuations are fair, in our assessment, and monetary policy is still expected to tighten a little further. However, decelerating growth and persistent financial uncertainties balance this view. High-quality corporate bond spreads are closer to fully reflecting an anticipated increase from currently low default rates. We maintain a more constructive view of bonds at the asset allocation level but favor government bonds.
Alternatives		We see structural attractions in naturally diversifying alternatives such as private assets. High recession probabilities present headwinds to real estate. Also, among alternatives, the benefits commodities may afford through tightness of supply are balanced by the risk of higher interest rates increasing the prospect of higher default rates to private credit. We have maintained a neutral view overall, consistent with our longer-term structural allocation.
Cash		The defensive features of cash are complemented by attractive yields as short-term US Treasury bills now reflect peak policy rates and no longer present a drag on portfolio yield. Cash has appeal as a means of diversification and as a complement to the potential attractions of fixed income markets, and we favor a moderately constructive view at this time.

Understanding the pendulum graphic



Arrows represent any change since the last quarter end.

Allocation tier

Asset class	Conviction	Our viewpoint

Equity regions: Pendulum settings relative to equity asset class broadly

United States

The outlook for US equities is less optimistic as company profit margins may remain under pressure in the coming quarters. The stock market's attention will likely focus on whether prospective earnings can support current valuations, which remain elevated, as any further interest-rate hikes are delivered and as a recession becomes a more likely outcome. We eliminated our modestly constructive view of this market in recent months and retain a truly neutral outlook relative to global peers.

Canada

Growth in Canada faces headwinds from accumulated aggressive central bank action prompted by elevated inflation. However, high interest rates support Canadian banks. Energy producers have faded as a support for the market even as ESG (environmental, social and governance) concerns ease. We moderated our conviction in recent months, even with continuing valuation attractions, and maintain a neutral view of this market.

Europe ex United Kingdom

Europe faces headwinds to consumer and business activity as ECB interest-rate rises continue, while the Russia-Ukraine war, which has entered its second year, remains a drag on confidence. Corporate earnings results may disappoint, and geopolitics pose an ongoing threat to regional equities. As a result, we extended our cautious stance in recent months despite a lower risk of recession, as energy supply concerns for this region and elevated natural gas prices have eased.

United Kingdom

UK economic prospects remain uncertain, dimmed by monetary tightening, persistent inflation and subdued business investment. A low weight to technology and significant foreign currency earnings offset the attractions of a generally high dividend yield. On balance, we have retained a neutral view of this market, reflecting some caution over anticipated profit margin headwinds.

Japan

Japan faces crosscurrents from weaker foreign demand hitting manufacturing, from its own domestic consumer strength and from sensitivity to China's reopening. Corporate earnings may be pressured by any yen appreciation as financing conditions tighten. This offsets equity valuations that remain attractive relative to other markets, in our view. We have eliminated our constructive view of this market to pursue opportunities in other countries in the region more directly.

Pacific ex Japan

Commodity exposure has been supportive for this region overall. However, it remains vulnerable due to tensions in relations with China more broadly. Strong inflation in Australia and higher interest rates are likely to impact consumers. We maintain a neutral stance on these markets broadly, even as we are less cautious on Hong Kong and Singapore, which reflect valuations we regard as somewhat supportive.

Allocation tier

Asset class	Conviction	Our viewpoint
Emerging ex China		Stronger long-term growth opportunities are being offset by emerging markets' idiosyncratic risks and exposure to slowing demand from developed market consumers. Local inflation pressures, especially for food-importing nations, have largely passed their peak, easing pressure on interest rates. Prospects for currency recovery across emerging markets may help offset residual concerns, but we maintain a cautious view of these markets.
China		China's economy should benefit from the removal of zero-COVID restrictions. However, the reopening is compounded by remaining property market risks, which have led to an easier policy environment. Trade disputes remain unresolved in the longer term and are a symptom of broader tensions as heightened geopolitical stresses persist. However, regulatory concerns that previously dominated market sentiment are fading. We maintain a moderately bullish stance on this market as the earnings outlook improves and valuation attractions offset residual risks.

Fixed income sectors: Pendulum settings relative to fixed income asset class broadly

US Treasuries		The Fed has slowed the pace of rate hikes and signaled that it will likely now pause. Its ongoing fight against inflation is expected to be data-dependent from here. US Treasury yields reflect policy rates likely easing quickly as a recession unfolds. Even if Fed cuts are delayed, as credit conditions tighten, we anticipate lower yields in a year's time. Having reduced interest-rate sensitivity at more attractive levels last month, we retain our modestly optimistic view of US government bonds relative to those of other developed markets.
Inflation-Linked Bonds		The level of inflation discounted in inflation-linked securities has moderated from elevated levels early in 2022. We believe these expectations fairly reflect anticipated longer-term inflation, even as current realized inflation is likely to remain elevated for a while. We have maintained a neutral view of assets that benefit directly from rising prices, such as inflation-linked bonds, as policy tightening reduces the value of their potential risk-mitigating role within a portfolio.
Eurozone Government Bonds		The ECB remains concerned by persistently high core inflation, and some further hikes still seem likely even with rates in restrictive territory. However, given ongoing risks to demand growth in the European economy, accentuated by weak bank lending, the extent of future rate rises is likely to be less than the market has currently discounted. We have added marginally to this region in recent months but have maintained a broadly neutral stance.
UK Government Bonds		The country's economy has dodged recession for now, but structural issues persist. Gilts have decoupled from global equivalents at times, reflecting pension fund liquidity issues. Inflation risks are elevated and have moved the BoE to tighten policy sharply, but ongoing rate-hike expectations are unlikely to be delivered in full. We have extended our more constructive stance on this market as the risks of a policy error remain elevated, in our assessment.

Allocation tier

Asset class	Conviction	Our viewpoint
Canada Government Bonds		The Bank of Canada has moved aggressively amid high inflation and a tight labor market but is now on hold. The interest rate-sensitive nature of the economy may start to be felt, skewing rates lower than for developed market peers. We eliminated our cautious stance in recent months and remain neutral, in line with other global markets.
Japan Government Bonds		The BoJ has maintained its easy monetary policy stance under the new leadership of BoJ Governor Kazuo Ueda, and this has weakened the Japanese yen. Further adjustments to the band used to target low 10-year government bond yields remain likely. Should inflation remain at target, monetary policy may tighten in the next 12 months. We maintain a significantly more cautious stance on this market as the divergence from other developed markets could be quite notable.
Investment Grade		The investment-grade sector has benefited from ample corporate liquidity and earnings levels that make high debt loads more sustainable. Investor confidence was hit by monetary policy tightening, and spreads widened alongside rising Treasury yields during 2022. However, at current elevated yield levels, this market is becoming more attractive to some investors. In recent months we have maintained a somewhat more cautious view of higher-quality credit.
High Yield		Corporate earnings have supported the fundamental attractions of lower-rated fixed income sectors such as loans and high-yield bonds, despite the impact of policy rate rises. We tempered our conviction toward high-yield credit last year following a period of rising volatility and wider spreads. Following a sharp recovery, even as recession risks persist, we have progressively built a more definitively cautious stance toward high-yield bonds as financial conditions tighten.
Emerging Market Debt		Emerging market fundamentals remain challenging as weak foreign and domestic demand compound each other. We remain cautious on emerging market hard-currency bonds, as valuations don't appear to fully reflect weak credit quality. Local-currency bonds are more compelling to us as domestic monetary policy is closer to pivoting toward easier conditions. We have increased conviction on other local-currency bonds but have become more cautious on China's local bonds as selective positioning is especially important in these markets.

Allocation Views

Our research process monitors a consistent set of objective indicators and screens them to identify signals that help our analysts to make better recommendations. By doing this we aim to filter out the daily noise to reveal the underlying trend.

Our macro-economic research group aims to challenge the consensus forecasts for growth and inflation by digging deeper into the data. Just as important, we aim not to be swayed unduly by topics that are dominating current market debate.

Editorial review

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Notes

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. The positioning of a specific portfolio may differ from the information presented herein due to various factors, including, but not limited to, allocations from the core portfolio and specific investment objectives, guidelines, strategy and restrictions of a portfolio. There is no assurance any forecast, projection or estimate will be realized. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in an investment portfolio adjust to a rise in interest rates, the value of the portfolio may decline. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with emerging markets are magnified in frontier markets. Derivatives, including currency management strategies, involve costs and can create economic leverage in a portfolio which may result in significant volatility and cause the portfolio to participate in losses (as well as enable gains) on an amount that exceeds the portfolio's initial investment. A strategy may not achieve the anticipated benefits, and may realize losses, when a counterparty fails to perform as promised. Currency rates may fluctuate significantly over short periods of time and can reduce returns. Investing in the natural resources sector involves special risks, including increased susceptibility to adverse economic and regulatory developments affecting the sector—prices of such securities can be volatile, particularly over the short term. Investment in the commercial real estate sector, including in multifamily, involves special risks, such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments affecting the sector.

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