Key themes and their investment implications for Q2 2022

	Solutions & Multi Asset	Equities	Fixed income	Private markets	Real estate
Timeline of the Ukraine war will influence economic outcomes	▪ The Ukraine war has added significant near-term uncertainty to global growth through commodity supply chain disruption, leading us to move both equities and credit to underweight. ▪ We expect at least a mild recession in Europe and are most cautious on European equities and the euro as a result. ▪ We are neutral on duration as upside risks to yields from inflationary pressures are countered by downside risks to global growth stemming from the war.	▪ The war in Ukraine has caused high volatility and extreme rotations. We are positioning for the return of risk and a stagflationary environment. ▪ Investing in quality companies is more critical at this stage than sector selection. ▪ We remain cautious on Europe but see opportunities in EM, in countries benefitting from the commodity price surge.	▪ Starting conditions for credit have been strong, but geopolitical uncertainty and exacerbation of stagflationary risks are now key concerns. ▪ We take a positive view of breakevens on the premise that inflation expectations will rise further. ▪ We moved to neutral on global HY, but are more constructive on Euro IG based on more defensive characteristics and improved valuations. We are mindful of room for further weakness.	▪ The direct impacts of the war on our portfolios are limited and sticky capital has provided resilience in our loans. ▪ However, hidden supply chain disruptions bear more analysis – credit selection and active investing should add significant alpha.	▪ The main risk to real estate from the conflict is slower economic growth. This is a time for caution. ▪ Markets have been slow to react. We are monitoring our existing tenant base for increased risk, and carefully scrutinising new tenants.
The return of Volckerism	▪ We expect DM central banks to reinforce a hawkish tone in H1 as they try to regain control over inflation, but the ECB and BOE may pivot to a dovish stance sooner on the coming European growth shock. ▪ A long USD position should be supported by interest rate differentials and defensive characteristics if geopolitical risks worsen. ▪ Select EMFX and hard currency markets may benefit from commodity tailwinds, higher carry, and an easing China.	▪ Equities are a good hedge against expected high inflation, a reason for strong inflows YTD. TINA* is still alive. ▪ We expect companies with pricing power and ability to protect margins to outperform in stagflation. ▪ Equities still provide robust income in this environment. Balance sheets have been repaired after Covid and dividend yields have grown as markets have corrected.	▪ Fixed income investors should not fear duration. The upside for nominal yields will likely be capped by debt refinancing constraints, central bank actions and demand for safe havens. ▪ There is value in core European duration versus other markets. We agree that ECB rate hikes are unlikely in 2022. ▪ US treasuries and UK gilts remain driven by risk sentiment.	▪ Private credit offers high current income with low volatility, while senior secured nature and floating rate coupons protect against stagflation. ▪ We are focusing on companies that can withstand cashflow and margin pressure.	▪ Short periods of inflation are typically good for real estate, but prolonged stagflation is negative for the asset class. ▪ Long-term macro themes provide opportunities, specifically healthcare, residential buildings and data centres. Index-linked leases provide inflation protection as well.
Conditions support China outperformance, but this is not 2008	▪ China, further removed from the war, should provide some diversification; the government's capacity for more stimulus and attractive valuations are also key. ▪ That said, policy objectives targeting sustainability and internal reform will constrain easing – we see a 2008-style fiscal push as unlikely. Covid resurgence is also a risk. ▪ We are positioned with an overweight in select EM markets in FX, equities and hard currency credit, as likely beneficiaries.	▪ Some parts of China equities look cheap, but volatility is very high at the moment and tail risks have become fatter. ▪ Onshore: more pro-growth policy should support even as earnings growth slows. Valuations are reasonable. ▪ Offshore: the regulatory cycle is troughing and earnings have been revised upwards, although Fed tightening will weigh on global sentiment. Valuations are well below average.	▪ We are modestly underweight CGBs on an absolute basis, but overweight vs other government bonds on yield and diversification benefits. ▪ China property remains a worry and we expect more volatility pending concrete indications of recovery. ▪ In the rest of Asia high yield, valuations are not quite as compelling, but we do see selective opportunities emerging.		

*TINA – There is no alternative

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Important Information

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