

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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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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ED22-045