CITY OF LONDON
Investment Management Company Limited

Cross-Asset Quarterly Outlook

June 2022*

Overview

The Narrow Path Around Stagflation

- *Inflation not only exceeded expectations globally, but it has also proven more persistent than anticipated.*
- *This has triggered a sharp monetary correction, but even though inflation rates will likely decelerate by year-end, achieving target rates could take much longer.*
- *While central banks are still hopeful they can slow inflation without impacting growth, avoiding either stagflation or recession will be difficult.*
- *We remain neutrally positioned towards equities underweight rates and credit, and overweight commodities and real estate.*

As we shift from one quarterly outlook to the next, so does the narrative that dominates financial markets. Previously, markets shifted focus from the spread of the Omicron variant to the rise of inflation and the attendant central bank response. Now, this has raised increasing fears of a recession or a prolonged period of stagflation. Since the beginning of the year, inflation readings generally exceeded expectations, defying expectations of an imminent peak. In turn, this also dimmed hopes that authorities might be able to navigate the narrow path that contains inflation, yet limits the negative impact on growth.

Why has inflation been both so persistent and so hard to control? The inflation dynamics witnessed in various advanced economies reflect a series of simultaneously occurring factors: 1) a rise in both food and energy prices, 2) pressure from strengthening demand, especially in the US where fiscal transfers bolstered household savings during the pandemic, 3) disruptions to supply chains as a result of the emergence of new COVID-19 variants and inadequate policy responses, just when rising demand shifted from services towards goods. In addition, an overheating housing market led to a sharp rise in shelter prices in the US. Finally, the structural trend of economic dissociation of China and the West reverses parts of the gains made previously due to a globally integrated production chain.

Our view last year was that the rise in inflation was a temporary phenomenon that would begin to abate in early 2022 with the help of only limited central bank tightening. This has not happened as the invasion of Ukraine added another unforeseen shock to the system and recurrent lockdowns under China's Zero-COVID policy added yet another complication. But we continue to think that inflation will be lower by year-end as energy price effects fizzle out, even if it remains more elevated (a multiple of target level) due to second round effects becoming entrenched. Only if demand were to weaken significantly, will inflation return near target levels.

Asset Allocation

	Chg	-3	-2	-1	0	+1	+2	+3
EQUITIES	-				■			
RATES	-			■				
CREDIT	-		■					
REAL ESTATE	-						■	
COMMODITIES	-					■		

	Chg	-3	-2	-1	0	+1	+2	+3
US equities	-					■		
Eurozone equities	-			■				
UK equities	-				■			
Japan equities	-			■				
EM equities	-				■			
USTs	↑				■			
TIPS	-					■		
Bunds	-	■						
JGBs	-	■						
EM local bonds	↓		■					
US IG credit	↑					■		
US HY credit	↓	■						
European IG credit	↑					■		
European HY credit	↓	■						
EM Sov $ credit	-				■			
EM Corp $ credit	-				■			
Energy	↓				■			
Industrial metals	↓				■			
Precious metals	-					■		
Agricultural	-						■	

Note: Up/down arrows indicate a positive or negative change in our asset allocation compared to the previous quarter. A dash indicates no change. *Source: CLIM*

The dynamics across countries vary of course: without question, the rise in Eurozone inflation is primarily about energy (and food) prices. Removing them from the headline rate lowers inflation

**The publication reflects asset performance up to May 31, 2022, and macro events and data releases up to June 17, 2022, unless indicated otherwise.*

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readings by 400bps. In the US, this difference only makes up to 200bps. By contrast, US inflation is primarily driven by demand, supported by high savings, low private debt ratios and tight labor markets. As a result, US household consumption is running far above the pre-pandemic level, whereas in the Eurozone, it remains below that level. In the UK, inflationary pressures are exacerbated by the effects of Brexit, which has led to labor shortages as fewer foreign workers seek jobs in the UK, driving up pay and prices charged for goods and services. In Japan, inflation has increased sharply, but, at 2.5%, remains moderate by comparison, in particular in the context of a 15% year-to-date depreciation of the yen against the US dollar. Partly, this reflects the fact that the price level in Japan remains above the OECD average, despite 30 years of much lower inflation rates and even deflation in Japan.

Several factors suggest that inflation will begin to decelerate in H2. First, central banks made an aggressive U-turn in their monetary stance, radically shifting from attempts to bolster inflation to attempts to contain it. As a result, financial conditions have tightened significantly everywhere; even where central banks have yet to deliver on their promises. Inventories across several US sectors have been pushed up for precautionary reasons (rising one percent of GDP over each of the past two quarters in the US), but now appear excessive, suggesting marked price cuts in H2. Third, price gains in the housing sector, which have been the primary driver of US inflation recently, are losing momentum. Fourth, inflation is now better discounted, causing smaller surprises according to the Citi Inflation Surprise index. In addition, inflation expectations remain well anchored across all horizons and have recently declined. Farther afield, weak Chinese demand - amid a structural slowdown and weighed down by COVID restrictions – is set to ease demand pressures on commodity prices. At the same time, supply chain disruptions are showing signs of easing too. Finally, if monthly US inflation rates stabilized at a rate of 0.3% mom (the rate of the past three months), Core PCE would decline below 4% by year-end, with the target headline PCE rate ca. 100bps higher (depending on developments of volatile prices).

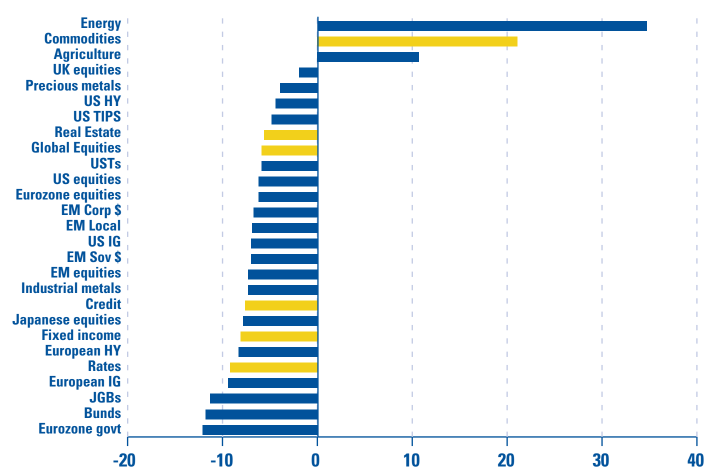
The outlook for China remains the wildcard in any scenario though. While advanced economies in the West are set to enter a slowdown or even recession, this is a question of degree. In China, the question is about direction. Expert opinion is sharply divided on whether China will continue its secular slowdown as it grows richer and underperform even its lowered growth target or whether a large-scale policy stimulus in H2 will reignite growth once more (not our base case). Aside from this, there is the broader question of China's position in the world after its declaration of a "no limits" partnership with Russia.

Market Strategy

After COVID-19 and the Russian invasion of Ukraine, the sharper-than-expected monetary tightening and the growing risk of a recession have taken over as the drivers of asset allocation. These factors complicate the outlook for equities, traditional beneficiaries of high inflation, whereas the time for a significant rates exposure has not yet come. The overall focus of our allocation is to reduce risk exposure:

- We remain *neutral* **Equities** which we downgraded last quarter;
- We maintain our reduced *underweight* in **Rates**, as markets have yet to price in credible tops for the cycle, but long term yields are set to decline in anticipation of a recession;
- We maintain our *underweight* in **Credit**, given the expected spread widening under adverse cyclical conditions;
- We keep our *overweight* allocation to **Real Estate**, given a persistently high inflation environment;
- We also maintain our *overweight* in **Commodities**, but reduce our allocation to energy and industrial metals to neutral.

Chart 1: Asset Returns, Mar-May, %



Source: Bloomberg

Equities

Neutral

> *The sharp sell-off in equities during 2022 was driven entirely by valuation adjustments, leaving stocks vulnerable to a further correction if earnings disappoint.*

	3Y history	Latest	
Global P/E		17.3	May
DM P/E		18.3	May
US P/E		21.2	May
Europe P/E		15.8	May
Japan P/E		13.9	May
EM P/E		12.1	May

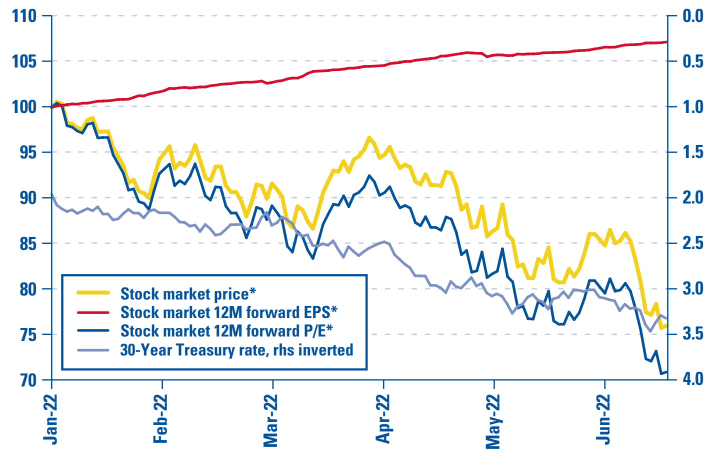
Source: Bloomberg, MSCI. Trailing P/E ratios are shown.

Global equities have firmly entered bear market territory as the US and Eurozone stock markets have shed more than 20% of their value since their peak, the UK some 16%, while emerging markets and Japan lost close to 30% (in US dollars). Does this suggest it is now time to buy? In the US, valuations certainly help: they have been brought back in line with (20 year) historical averages, not least thanks to a sharp correction in the overheated US tech market. But this only just unwound the red hot valuations of recent months, rather than offer a compelling opportunity to buy. What is more, with the risks of a recession looming on the horizon and Federal Reserve rates now expected at close to 4.0% by early 2023, plenty of downside risk remains.

A high inflation environment is bad for companies. It means they face higher costs and if they cannot pass them on to consumers - which central banks are determined to prevent - these will eat into profits. Yet, high inflation is now a reality. They way to end it is through sharp interest rate hikes (aside from the exogenous food and energy components). But this too is bad for corporates: it raises the bar for investment, increases debt service and discounts future earnings more.

So far, profits have held up well, evidence that the sell-off has been driven entirely by valuations (falling multiples). Despite the deteriorating economic environment, markets have remained optimistic and upgraded earnings expectations, following only a short-lived dip in the wake of Russia's invasion of Ukraine. If ending high inflation requires a sharp deceleration in growth, this will hurt profits. But even a 'soft landing' that avoids an outright recession can hurt stocks given the highly leveraged nature of the many corporates.

Chart 2: MSCI USA Forward Valuations



*Source: Bloomberg. As of June 20 2022. *Indexed, 31 Dec. 2021 = 100.*

A key difference to previous bear markets is that investors traditionally expected the central bank to ride to its rescue (the infamous Federal Reserve 'put'). This time, the BofA survey of investors indicates that nearly all respondents expect interest rates to be higher, rather than lower, one year from now, an important headwind. What is more, as this has also driven the US dollar to decade-highs, corporates earning the lion share of their revenues abroad suffer.

In terms of factor performance, this has paradoxically not translated into market support for companies with strong balance sheets. After years of outperformance, they have lagged since early 2021. Similarly, the most levered companies have outperformed the least levered since the start of 2021. While counter-intuitive, this represents yet another vulnerability in a rising rate environment.

Market Strategy: The case for equities has become ever more challenging as both the rate and the growth outlook have deteriorated. Valuations have become less challenging, but are not compelling either way. Naturally, a 20% drawdown raises the question whether equities are now sufficiently attractively priced. Indeed, there are sectoral and country pockets that offer value. But whereas multiples have significantly adjusted downwards, profit expectations have not incorporated the highly uncertain policy and growth outlook (see chart). As a result, we maintain our neutral allocation to the asset class.

In the wake of the invasion of Ukraine, we made several adjustments to our country allocation: we downgraded the **Eurozone** to *underweight* given its proximity to the warzone and its vulnerability to energy supply disruptions. But being more isolated from the direct effects of the conflict, we upgraded the **US** to *overweight* again. This consideration outweighed the fact that the US is on track for a much more pronounced tightening cycle than the Eurozone. Ultimately, bringing inflation under control swiftly will also pave the way for a sharper recovery. We maintained our previous *overweight* exposure to commodity-intensive economies such as **Canada** and **Australia**. **EM** will likely struggle with the expected rise in food prices and their effect on headline inflation, having to raise rates still further. We thus leave its allocation at *neutral*.

Rates

Underweight

Rising recession risks will eventually provide opportunities for long term government bonds, but not yet.

	3Y history	Latest	
Global Govt Yield		2.0	May
UST 10Y Yield		2.8	May
TIPS 10Y Real		0.2	May
Bund 10Y Yield		1.1	May
Italy 10Y Yield		3.1	May
JGB 10Y Yield		0.2	May
EM Local Yield		4.3	May

Source: Bloomberg Barclays Indices. Yield in %.

Globally, rates were the worst performing asset class over the past three months. This reflected the relentless upside surprises in inflation and the ramping up of rate hike expectations by market participants. In turn, central banks followed suit, updating their rhetoric and, in several cases, delivering further, sometimes unexpectedly large, rate hikes (US 75bps, CH 50bps, AU 50 bps, UK 25bps). Central banks have thus revealed a clear preference to fight inflation, rather than continue to try to balance their actions against the impact on growth. It is a sign of how serious a threat they regard current inflation developments to be.

In addition to tightening interest rates, the Fed also announced its strategy to reduce its balance sheet in May, planning to stop reinvesting the proceeds of maturing securities from June. The run-off will initially be capped at $30 bn a month for Treasuries and $17.5 bn for agency MBS and will increase to $60 bn and $35 bn, respectively, over three months. This implies a much quicker balance sheet contraction than the one last attempted in 2015: then, the Fed set a $10 bn monthly cap, which was gradually lifted to $50bn. This could yet have destabilizing effects for the market as the dearth of liquidity and the seizing of overnight lending markets in 2017 illustrated. Other central banks proceed more gingerly: the ECB also announced that it would stop net asset purchases from July, but that would continue to reinvest proceeds past its first rate hike.

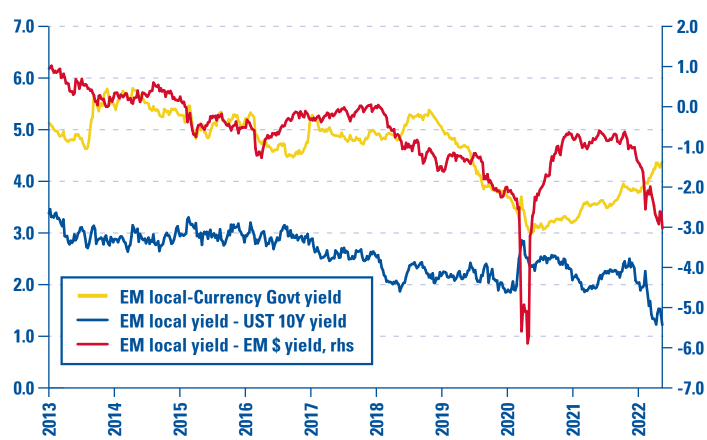
However, despite a sharp turn in 2yr yields, US 10yr rates have risen only little since the start of the year as the Fed's sharp monetary tightening has prompted fears of recession and an eventual reversion of its monetary stance. As a result, the US yield curve (2-10yr) is close to flat and at times slightly negative. By contrast, 10yr German Bunds have risen from negative territory at the start of the year to 1.7%. In Japan, 10yr JGB yields have remained steady at 0.2%, though markets appear increasingly inclined to test the BoJ's commitment to its Yield Curve Control Policy

Nominal bonds (increase US to NW, reduce EM to UW): Given the sharp rise in short term rates, the Fed has raised the odds of a US recession in the next 12-18 months. Indeed, as a result of the frontloaded policy move, markets have begun to price in a slightly lower terminal rate, of 3.8% in Q2 2023. Nevertheless, the yield curve is increasingly likely to invert, with 10yr yields likely beginning to decline. We thus move our US rates allocation to *neutral*.

However, in the Eurozone monetary tightening remains a more distant prospect even as inflation readings surprise to the upside. The ECB may feel constrained in its ability to hike rates given the risk of renewed 'fragmentation' (the divergence of government yields) as Italian spreads have widened to 230 bps over Bunds. As a result, we maintain our underweight to German Bunds, as well as to Japanese government bonds.

EM bonds suffer not only from the dislocations wrought by COVID-19 induced supply chain disruptions (Latin America excepted) and the aftershocks of the war in Ukraine, but they are also painfully exposed to the sharp rise in US rates: as rates rise, so do spreads. What is more, local currency bonds struggle against the headwind of a strengthening US dollar, itself supported by rising US yields. This has compressed the traditional EM yield advantage (see chart) and we thus move EM bonds to *underweight*.

Chart 3: EM Bond Yield and Spreads, %



Source: Bloomberg. As of 10 June 2022.

US TIPS (OW): Inflation-protected bonds should outperform during periods of high inflation. However, given their long-duration nature, they have actually performed poorly, albeit better than nominal bonds. Most recently, TIPS witnessed rising real yields (from -1% in February to 0.7% currently), which further weighed on performance. However, as inflation may be approaching its peak, dynamics for inflation-protected bonds may again change as real yields change course and retrace. While we await this juncture, we maintain a reduced *overweight* allocation.

Credit

Underweight

Weaker growth prospects, higher inflation and tighter rates weigh on corporate bonds.

	3Y history	Latest	
Global IG OAS		1.4	May
US IG OAS		1.3	May
US HY OAS		4.1	May
Euro IG OAS		1.6	May
Euro HY OAS		4.7	May
EM Sov $ OAS		4.0	May
EM Corp $ OAS		3.9	May

Source: Bloomberg Barclays Indices. Yield in %.

There has been no shortage of negative shocks for corporate credit over the past two years, all impacting negatively: the pandemic, the war in Ukraine and the associated commodity price shock, as well as the sharp increase in interest rates and the rising risk of recession represent significant headwinds.

Naturally, credit spreads widened as a result, with US High Yield spreads topping 500bps. At the same time, they have outpaced higher graded credit, suggesting that the market anticipates a rise in default rates as the economy enters a slowdown. Nevertheless, spreads still remain well below levels indicating significant market dislocation, such as during the peak of the pandemic fears or the financial crisis.

The low default rates experienced over the past years had much to do with the low level of interest rates (backed by low inflation) and the proclivity of central banks to rescue lenders rather than risk a solvency crisis. Indeed, over the course of the dot-com bubble burst, the great financial crisis and the fallout of the pandemic, default rates have fallen. The risk now is that the virtuous cycle that had taken hold over the past decades will turn into a vicious one as central banks remove their 'put'.

An outlook characterised by weaker earnings, rising default rates and lower recovery rates reinforces our view to remain underweight credit. This is all the more true as credit markets have not gone nearly far enough in pricing in the more dire outlook, unlike equity markets.

US (OW IG, ↓UW HY): In line with the changing rate environment and the planned balance sheet reduction by the Fed, which could also alter the technical environment for credit (liquidity), we remain underweight US credit. With the rising risk of recession and a limited adjustment in pricing, we prefer investment grade bonds to high yield.

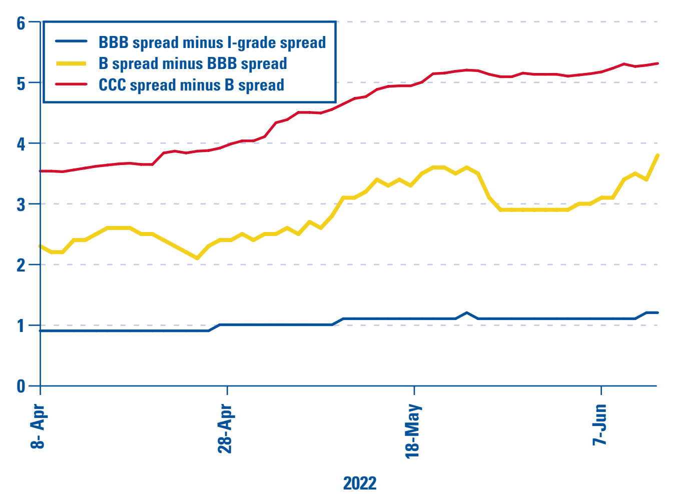
Eurozone (OW IG and ↓UW HY): A similar argument applies to the European market, even though the ECB remains more reluctant to pursue the path of monetary tightening given its well-founded fears of market 'fragmentation'. What is more, it intends to begin winding down its asset purchases only after having started to hike rates. The risk of stagflation or a worse outcome will likely weigh on corporate bonds nevertheless and we thus maintain our *underweight* allocation to the asset class.

EM (NW $ Sovereign and $ Corporate): Rising rates bear on emerging market spreads and this at a time when EMs already feel the after burns of the pandemic and the brunt of the effects of the war on Ukraine. In addition, a deteriorating growth environment in DMs is set to weigh on export demand, as well as on commodity prices, thus worsening both balance sheet dynamics and the EM growth outlook.

Nevertheless, commodity-exporting countries in the Gulf, Latin America and Southeast Asia constitute the majority of the EM USD sovereign bond space, strengthening the correlation between EM sovereign bond performance and commodity prices. We thus maintain a *neutral* allocation there.

We also remain neutral EM USD corporate bonds as their spreads have surpassed the levels experienced during the 2013 taper tantrum, the 2014 oil price crash and the 2018 global slowdown. While they could widen further in case of a global recession and attain peaks reached in 2015 or during the pandemic, these levels provide some delimiters for the short term.

Chart 4: US Corporate Bond Spreads, %



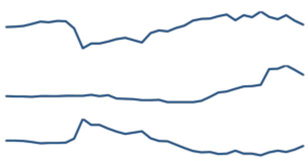
Source: Federal Reserve. As of 16 June 2022.

Real Estate

Overweight

Stagflationary outlook favours real estate over other asset classes due to its inflation hedge qualities.

	3Y history	Latest	
Net TR index*		-5.6%	May
EPS, % yoy		150.8	May
Dividend yield, %		3.6	May



*Source: Bloomberg. 3M return is shown in "Latest". *FTSE EPRA/NAREIT Global Index.*

While global listed real estate continued to outperform fixed income in the three months to end-May, it only outperformed global equities by a whisker. Nonetheless, the backdrop of elevated inflationary pressures and slowing growth is favourable for real estate given its qualities as an inflation hedge. Indeed, with the terminal rate for interest rates priced in by financial markets in most countries still lower than property yields, real estate valuations appear well insulated against rising bond yields. In addition, the prevalence of inflation-linked rental agreements in some DM and EM provide a further bulwark against inflation.

Meanwhile, although the outlook for global growth has deteriorated over the past six months, real estate demand will continue to benefit from the ongoing recovery in mobility and gradual normalisation of supply chains.

Office: The recovery in office space demand made further headway in Q1, with global gross leasing activity just shy of its Q1 2020 level. The global vacancy rate edged up to 14.7% in Q1, but net effective rents trended higher as occupiers seek quality space, particularly in the US. As a result, despite the large supply pipeline expected in Asia over the next two years, rental growth in these markets should hold up, particularly if rising costs and labour shortages hamper the development cycle. In Europe and the US, where rental growth is expected to stay robust this year, rents are more vulnerable longer term due to the secular shift to more remote working.

Retail: Retail rents in most markets appear to be bottoming out as mobility continues to improve, notably in Europe and Asia, although a sustained recovery has to await the normalisation of international tourism. Retail spending could be dragged down by a shift in spending back to services and a drop in consumer confidence due to elevated energy and food prices. Rents in China's Tier 1 cities fell in Q1 on the back of the country's stringent lockdowns. With no end in sight to China's Zero-COVID strategy, further weakness in the country's retail sector is likely.

The acceleration in the adoption of online shopping will continue to be a structural headwind for the sector. Retail markets in EM appear less exposed to the transition to e-commerce, however, given the greater obstacles to online shopping and the popularity of shopping centres.

Residential: The surge in residential property prices experienced since the onset of the pandemic is likely to come to an end as tighter monetary policy cools the housing market. Indeed, 30-year mortgage rates in the US are at their highest level since 2009, while mortgage purchase applications have fallen to their lowest level since 2018. While high savings rates and tight labour markets in DM should provide some offset, affordability is set to be eroded by rising rates. In addition, higher living costs mean that consumers are likely to be more cautious about big-ticket purchases.

Industrial: The logistic sector continues to go from strength to strength. Gross leasing activity rose by 28%, 22% and 6% yoy in US, Europe and Asia Pacific in Q1 2022 respectively. Combined with the dearth of new supply, global industrial rents grew by 9.5% yoy in Q1. While the shift back to spending on services could dampen the boost to industrial demand from the e-commerce sector, reshoring and the expansion of traditional retailers into e-platforms will keep demand strong. Meanwhile, new space will be limited by rising construction costs and a lack of zoned lands for logistics in DM.

Market Strategy: Reflecting appetite for the asset class, global direct investment in the private market rose by 47% yoy in Q1. In the public market, earnings momentum for real estate has softened, with consensus expecting earnings-before-interest-and-tax for global listed real estate to grow by just under 5% in 2022, slower than the 12% expected for broad equity markets (as measured by the MSCI ACWI Index). Nevertheless, real estate valuations appear attractive, with the gap between listed real estate and equities still wide on a forward dividend yield basis. Additionally, real estate stands to benefit from a stagflationary environment. Thus, we maintain our *overweight* allocation to listed real estate in a cross-asset portfolio.

Commodities

Overweight

Constrained supply in certain sub-sectors should compensate for the weaker global demand picture, supporting current high prices.

	3Y history	Latest	
Commodities*		21.1%	May
Brent Oil		21.6%	May
Copper		-4.4%	May
Aluminum		-17.3%	May
Gold		-3.8%	May
Corn		8.0%	May
Soybeans		2.4%	May

*Source: Bloomberg. 3M return is shown in "Latest". *S&P GSCI Total Return Index.*

Commodities strongly outperformed other major asset classes in the three-months to end-May, even though there was a significant divergence within the commodity complex as both precious and base metals prices fell. With tight supply in most commodities providing an offset to the weaker global demand backdrop, we maintain our overweight allocation.

Energy (NW↓): Following the spike in prices in the immediate aftermath of Russia's invasion of Ukraine, both Brent and WTI crude oil prices have continued to trend higher. The EU's phase out of Russian waterborne oil imports, delays to Iran sanctions relief and the slow increase in OPEC+ production targets is likely to leave the oil market in a deficit over the coming months. However, the EIA forecast global liquid fuel production to increase from Q1 by 2.6% by end-22, outstripping the 1.8% rise in consumption.

Elsewhere, increased LNG exports, rising gas inventory and the absence of EU sanctions on Russian natural gas has meant that natural gas prices in Europe have come down from their post-invasion highs. Nevertheless, elevated US natural gas prices on the back of tight inventory means that global natural gas prices are unlikely to fall sharply in the near term.

The energy supply picture has become less favourable as the outlook for global growth has deteriorated. Therefore, at this juncture, we take profit on outperformance and reduce energy to *neutral*.

Industrial metals (NW↓): The sell-off in risky assets, a stronger US dollar and concerns about the economic impact of China's Zero-COVID strategy weighed on base metals prices over the past three months. Given China's role as significant consumer of metals, the uncertainty over its timeline for exiting its Zero-COVID strategy is one of the biggest drivers of the near-term price outlook.

Nonetheless, with inventory of industrial metals still at very low levels, a swift recovery in Chinese demand, especially in the form of infrastructure pledges, would lead to a sharp reversal in prices. Indeed, according to the world's largest miners, production of metals fell in annual terms in Q1. As a result, while we downgrade industrial metals to *neutral*, the risks are skewed to the upside.

Precious metals (OW): Although 10yr UST yields breached 3% and the US dollar strengthened, gold prices have held steady over the past quarter on the back of safe-haven demand, dipping by just 2%. Despite expectations for aggressive monetary policy tightening, gold stands to benefit from a macro backdrop of elevated inflation and soft economic growth. Therefore, while the recent drop in precious metals open interest still leaves the gold price above its 10-year average, suggesting further unwinding, we think that gold has value as a hedge in a cross-asset portfolio in the current stagflation environment. Thus, we maintain our *overweight* allocation.

Agricultural commodities (OW): The rally in soft commodity prices shows no sign of stopping, with the Bloomberg Agriculture Index up by 7% since the end of February. The combination of elevated fertiliser prices, adverse weather and the closure of Ukraine's ports has led to a global grain shortage. In addition, faced with the prospect of social unrest, countries have started to restrict food exports, further curtailing supply. What's more, with energy and fertiliser prices high, the supply response to elevated grains prices from farmers is likely to be limited due to squeezed margins. As a result, agricultural prices are set to remain high, underpinning our *overweight* allocation to the agricultural complex.

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KEY ASSET ALLOCATION INDICATORS *(All data shown are as at end-May 2022 unless otherwise stated)*

	ASSET ALLOCATION							PERFORMANCE						BENCHMARK INDEX & WEIGHTS	
	-3	-2	-1	0	+1	+2	+3	5Y	3Y	1Y	2021	Ytd	Mar-May		
EQUITIES				■				**53.9**	**39.4**	**-6.8**	**18.5**	**-12.8**	**-5.9**	**MSCI ACWI**	**50%**
US					■			81.8	54.9	-2.7	26.5	-14.1	-6.2	MSCI USA	25%
Eurozone			■					14.5	18.0	-15.8	13.8	-15.6	-6.2	MSCI EMU	7%
UK				■				19.9	19.1	2.5	18.5	-0.2	-1.9	MSCI UK	3%
Japan			■					19.7	16.1	-13.3	1.7	-13.4	-7.8	MSCI Japan	5%
EM				■				20.5	15.7	-19.8	-2.5	-11.8	-7.3	MSCI EM	10%
RATES			■					**-2.9**	**-7.2**	**-14.6**	**-6.6**	**-11.7**	**-9.2**	**Bloomberg Barclays Global Treasury Total Return Index Value Unhedged**	**27%**
USTs				■				4.5	-0.9	-7.5	-2.3	-8.3	-5.9	Bloomberg Barclays US Treasury Total Return Unhedged USD	10%
US TIPS					■			19.8	14.0	-1.4	6.0	-5.9	-4.8	Bloomberg Barclays US Treasury Inflation-Linked Bond Index	3%
Bunds	■							-9.5	-13.3	-21.2	-9.6	-15.1	-11.8	Bloomberg Barclays Euro Aggregate Treasury Germany TR Index Unhedged USD	3%
JGBs	■							-14.1	-18.9	-16.8	-10.4	-12.6	-11.3	Bloomberg Barclays Asian-Pacific Japan Treasury TR Index Unhedged USD	5%
EM Local		■						-0.8	-3.8	-13.8	-7.8	-8.9	-6.9	Bloomberg Barclays EM Local Currency Liquid Govt TR Index Unhedged USD	6%
CREDIT		■						**5.2**	**-0.5**	**-13.3**	**-2.9**	**-12.3**	**-7.6**	**Bloomberg Barclays Global Aggregate Credit Total Return Index Value Unhedged USD**	**13%**
US IG					■			10.0	2.3	-10.3	-1.0	-11.9	-7.0	Bloomberg Barclays US Corporate Statistics Index	4%
US HY	■							19.1	10.3	-5.3	5.3	-8.0	-4.4	Bloomberg Barclays US Corporate High Yield Statistics Index	3%
European IG					■			-5.9	-8.8	-21.1	-7.9	-14.3	-9.4	Bloomberg Barclays EuroAgg Corporate Statistics Index	2%
European HY	■							2.6	-1.0	-19.5	-3.5	-13.7	-8.3	Bloomberg Barclays Pan-European High Yield (Euro) Index Statistics	1%
EM Sov $				■				-2.3	-7.0	-14.9	-2.3	-14.8	-7.0	Bloomberg Barclays Emerging Markets Sovereign TR Index Value Unhedged USD	2%
EM Corp $				■				4.5	-3.1	-15.9	-3.0	-13.1	-6.7	Bloomberg Barclays Emerging Markets Corporates TR Index Value Unhedged USD	1%
REAL ESTATE						■		**18.7**	**4.8**	**-5.9**	**22.0**	**-12.5**	**-5.6**	**FTSE EPRA/NAREIT Global Index Net TRI USD**	**5%**
COMMODITIES					■			**84.4**	**70.6**	**63.8**	**40.4**	**47.0**	**21.1**	**S&P GSCI Total Return Index**	**5%**
Energy				■				103.5	70.1	107.8	60.7	75.0	34.7	S&P GSCI Energy Total Return Index	2%
Industrial metals				■				57.3	57.3	6.6	29.6	1.9	-7.3	S&P GSCI Industrial Metals Total Return Index	1%
Precious metals					■			34.5	35.5	-6.0	-5.1	-0.2	-3.9	S&P GSCI Precious Metals Index Total Return Index	1%
Agricultural						■		55.5	79.5	33.6	24.7	27.3	10.7	S&P GSCI Agriculture Index Total Return Index	1%

Source: Bloomberg, CLIM

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