

Prime Time for Bonds

The global economic outlook along with market valuations and asset class fundamentals all lead us to favor fixed income. Relative to equities, bonds have rarely been as attractive as they appear today. After a turbulent couple of years of high inflation and rising rates that challenged portfolios, investors may see a return to more conventional behavior in both stock and bond markets in 2024 – even as growth is hindered in many regions.

Here is a summary of how we are positioning multi-asset portfolios in light of our global economic outlook.

OVERALL RISK

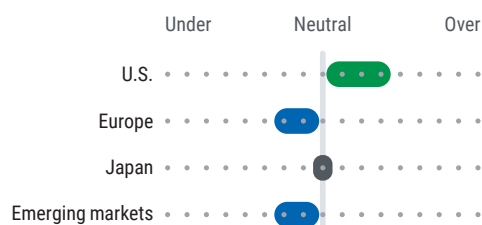
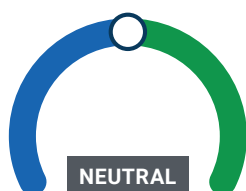


We are slightly overweight risk amid near-term growth resiliency, but we expect economic weakness over the cyclical horizon. Our base case includes slowing growth and inflation alongside a mild recession. However, we are positioned for a broad set of macroeconomic and market outcomes given heightened uncertainty. We believe markets are currently late-cycle, and we look to diversify our exposures, emphasize caution, and focus on quality.

POSITIONING

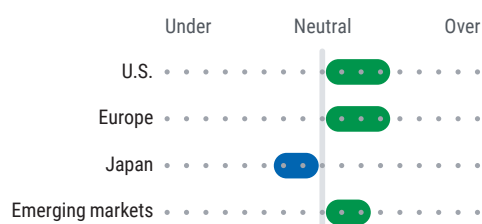
OPPORTUNITIES

EQUITIES



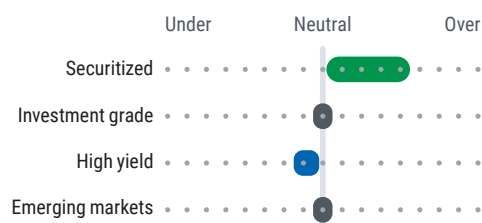
Amid the possibilities of recession and overheating, we are neutral equities as we believe earnings expectations and elevated valuations will return to more reasonable levels. Despite rich U.S. valuations, we are overweight U.S. and underweight Europe as we expect the U.S.'s quality feature to provide greater resiliency in a recessionary environment. We are neutral Japanese equities given rising inflation and underweight emerging markets amid instability in the Chinese economy.

RATES



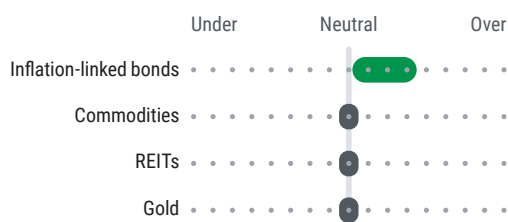
We are highly constructive on duration given elevated yields and diversification benefits in a recession. We are overweight developed market duration in the U.S. and Europe amid attractive all-in rates and expectations for slowing growth. We are underweight Japan as monetary policy may shift to contractionary as inflation heats up. In emerging markets, we are overweight high-quality countries with attractive valuations, high total carry, and high real rates.

CREDIT



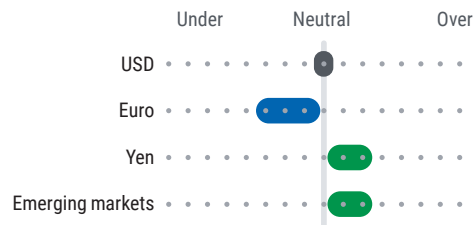
We are modestly overweight credit with a preference for higher quality. We are constructive on securitized credit, non-agency MBS in particular, given attractive spreads and resilient borrower fundamentals. Within corporate credit, we are neutral investment grade as all-in-yields appear compelling, but spreads appear tight. We are underweight high yield given expectations for spread widening in a recession and a potential increase in downgrades and defaults.

REAL ASSETS



We are slightly overweight real assets, driven by a constructive view on inflation-linked bonds. We like U.S. TIPS as a hedge against potentially re-heating inflation. We are neutral commodities amid expectations for elevated dispersion in global growth trajectories. We are neutral gold as high interest rates create more attractive opportunities in interest-bearing real assets can. We are neutral REITs given their cyclical orientation and pressure from "higher-for-longer" rates.

CURRENCIES



We are neutral the U.S. Dollar, balancing more attractive interest rates with overvaluation concerns. We are underweight the Euro given expectations for divergent monetary policy paths and contracting economic activity. We are overweight the Japanese Yen as a "safe haven" alternative to the U.S. Dollar given a cheaper relative valuation. We are overweight select emerging market currencies with attractive valuation profiles and high carry in our view.

Past performance is not a guarantee or a reliable indicator of future results.

Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Inflation-linked bonds (ILBs)** issued by a government are fixed income securities whose principal value is periodically adjusted according to the rate of inflation; ILBs decline in value when real interest rates rise. Investing in **foreign-denominated and/or -domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Currency rates** may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. **Mortgage- and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee, there is no assurance that private guarantors will meet their obligations. References to Agency and non-agency mortgage-backed securities refer to mortgages issued in the United States. **High yield, lower-rated securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Commodities** contain heightened risk, including market, political, regulatory and natural conditions, and may not be appropriate for all investors. **REITs** are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. **The credit quality** of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. **Diversification** does not ensure against loss.

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