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GLOBAL MACRO RESEARCH ASSET ALLOCATION IN FOCUS

THE INFLUENCE OF GROWTH, INFLATION AND REAL INTEREST RATES

JULY 2023



EXECUTIVE SUMMARY

REVISITING OUR ASSET-ALLOCATION FRAMEWORK

- Changes in monetary or financial conditions, and their lagged impact on the rate of growth, is the starting point for our thought process. It then follows that growth dynamics (either periods of excessively strong or unusually weak activity) may have implications for both inflation and/or real interest rates. These interactions are important in understanding economic cycles and these dynamics provide useful insights from an asset-allocation perspective.
- Our growth, inflation and real rate framework allows us to assess how asset class behaviours differ in various states of the world going back over 50 years. The clarity and consistency of our findings suggest that our framework is robust and can provide a solid starting point for making asset allocation decisions.
- The key drivers of asset class performance appear stable through time. For equity markets growth is a dominant force, for FX and bonds, real rates matter most. For commodities, inflation is key. The interaction of these forces is also important and can provide signals to the behaviour of a range of alternative investments as well as traditional asset classes.
- Combining growth, inflation and real rates regimes allows us to easily compare prevailing conditions with history and analyse how different asset classes performed over similar periods. Once the prevailing regime is established, our framework can provide important insights into how the regime is likely to evolve, using history as a guide, or whether the unique circumstances of the current environment suggest other periods of history may be more relevant when assessing likely investment performance.

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 - Case study: We demonstrate how recessions can be key to the length and depth of equity bear markets
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 - Combining growth, inflation and real rates regimes allows us to easily compare prevailing conditions with history, and analyse how different asset classes performed over similar periods
 - Once the prevailing regime is established, our framework provides important insights into how the regime is likely to evolve, allowing us to adapt our asset allocation appropriately
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1 FINANCIAL CONDITIONS THE STARTING POINT FOR OUR ASSET-ALLOCATION FRAMEWORK

The performance of any asset class is driven by a complex set of forces. Some are driven by 'top-down' or macroeconomic influences, and others are shaped by 'bottom-up' or security-specific issues, which collectively drive a market in a specific direction. Other influences can be captured by looking through the lens of factors (sector, style, and many other risk premia). Of course, valuations play a part – especially the price investors (the market) are willing to pay, at any point in time, for the range of attributes that make up an underlying investment. Taken together, this can be a bewildering list of variables to track and analyse. From an asset allocation standpoint, macroeconomic, or cyclical forces, appear to have a strong influence on returns, and this observation led us to build a simple transparent framework to help us understand how different macro regimes can influence the behaviour of individual asset classes.

FINANCIAL CONDITIONS ARE KEY TO SETTING THE BROADER BACKDROP

The starting point for our analysis stems from a simple economic transmission mechanism that we outline in Figure 1. The idea that monetary or financial conditions lead growth sits at the heart of central bank policy decisions. Historically at least, periods of excessive growth brought with them inflationary pressures and, whilst such pressures have largely been absent in recent years, the post-pandemic inflationary pulse brought that relationship back into sharp focus.

Figure 1: The transmission mechanisms from macroeconomic forces into asset class behaviours¹



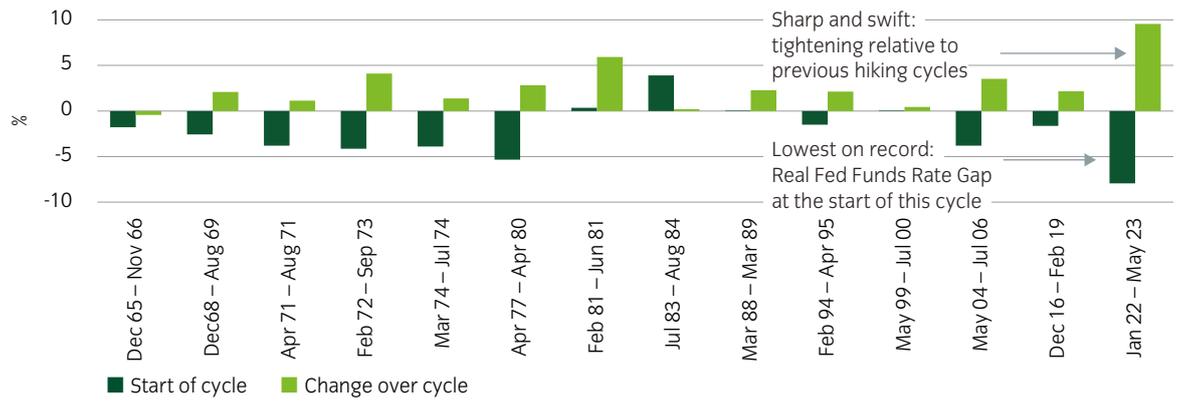
Monetary policy is the primary tool of central banks

While monetary policy has been the main lever used to fine tune growth, the transmission mechanism by which changes in monetary policy affect the real economy are complex. Estimates vary but it can take 18 months to two years for the full impact of changes in interest rates to be felt. These lags will be high in the minds of policymakers as they debate the length and scale of tightening cycles.

Following the 25bp move in early May, the US Federal Reserve have hiked interest rates by 5%, well above the 2.57% median cycle rate rise calculated by the San Francisco Fed. They assess the monetary tightening already enacted by looking at the Real Fed Funds Rate Gap and, relative to history, both the size and speed of tightening in the current cycle has been substantial. The impact of this is filtering into the economy via multiple routes with varying time lags. The collapse of a small number of US regional banks and the collapse of Credit Suisse are reminders that sharp rises in the cost of capital can cause unintended consequences.

¹ Source: For illustrative purposes only.

Figure 2: Monitoring monetary policy – The real Fed Funds rate gap²



Financial conditions are a way to incorporate a broader range of financial factors

There are many ways to monitor financial conditions in a broader sense. Some of these are ‘real-time’ indicators factoring a range of variables that are meant to influence the price of funding for the real economy. In our view, they are useful indicators as to whether the overall conditions within an economy are either conducive to, or a headwind for, growth. Our own financial conditions indices are calculated by using interest rates, corporate yields, exchange rates and equity markets across five regions (US, Europe, UK, Japan and Australia), weighted by GDP.

Figure 3: Insight global financial conditions - a good lead indicator of future growth³



In our view, financial conditions indices are useful indicators as to whether the overall conditions within an economy are either conducive to, or a headwind for, growth.

² Source: Laubach and Williams (2003), Bureau of Labor Statistics, Federal Reserve Board of Governors and authors' calculations. * RFRG = nominal fed funds – (inflation and the real 'neutral' rate). Note: Last cycle includes assumptions based on December 2022 SEP projections. FRBSF Economic Letter, February 2023.

³ Source: Insight and Bloomberg. Data to 30 June 2023.

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ASSET-ALLOCATION FRAMEWORK: GROWTH REGIMES

When assessing growth dynamics, we look at a wide range of indicators, some forward-looking, some co-incident. One of the best sets of timely indicators are the purchasing managers' indices (PMIs) which reflect the health of the manufacturing and service sectors, and we track 38 monthly country and regional releases. The weight that one attaches to different data points is to an extent a matter of judgement. For example, at the time of writing, the gap between services and manufacturing activity is unusually large (due in large part to the unique dynamics of the post pandemic recovery).

Our historical analysis focuses heavily on manufacturing. Despite its smaller contribution to GDP (manufacturing accounts for only 10% of US GDP) we view it as the most useful from a market perspective. It gives a greater insight into global trade dynamics, is more cyclical and has historically had a closer link with swings in corporate profitability. According to the McKinsey Institute⁴ US manufacturing drives 20% of capital investment, 35% of productivity growth, 60% of exports and 70% of business R&D expenditure. Interpreting PMIs is relatively simple, and any data point can be allocated to one of four regimes (see Figure 4).

From a multi-asset perspective, we can use this framework to examine historical asset-price returns and other performance characteristics (for example volatility and drawdowns) across these different regimes since the 1970s. This analysis then serves as a guide to our asset-allocation decisions.

Figure 4: A stylised view of PMI growth regimes⁵

Accelerating PMI > 50 and rising <div style="text-align: center;">A</div>	Moderating PMI > 50 but falling <div style="text-align: center;">B</div>
<div style="text-align: center;">D</div> Rising PMI < 50 but rising	<div style="text-align: center;">C</div> Falling PMI < 50 and falling

A basic guide to Purchasing Managers Indices (PMI)

- Each month, a carefully selected group of private sector companies are surveyed on the state of conditions within their industry
- This provides a valuable insight into the underlying trends that companies are experiencing, from the level of new orders to the ease, or difficulty, of finding new employees
- The data is aggregated into an overall score, which can be used to judge the health of the broader economy and whether growth is accelerating or decelerating
- A score above 50 indicates that activity is improving, with a score below 50 indicating contraction

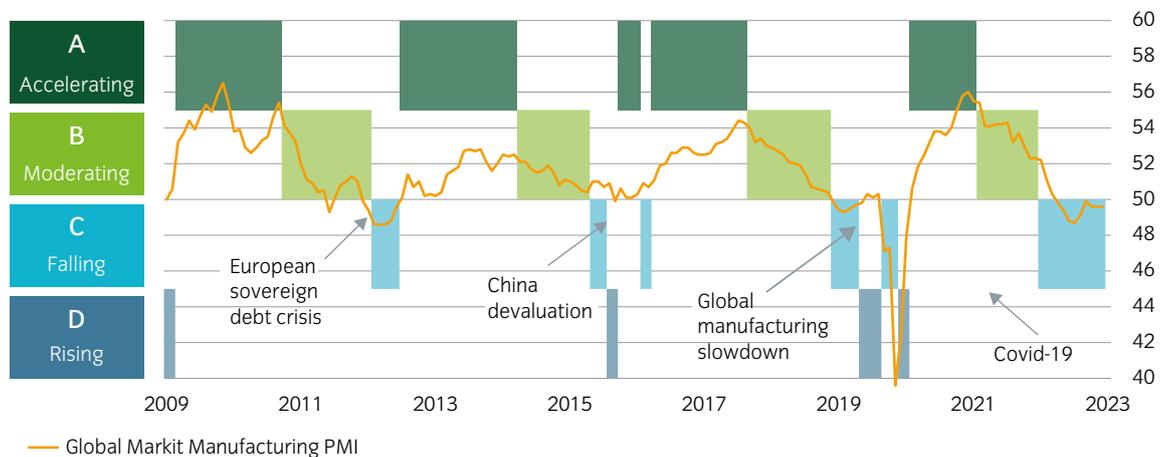
⁴ Source: <https://www.mckinsey.com/capabilities/operations/our-insights/delivering-the-us-manufacturing-renaissance>

⁵ Source: For illustrative purposes only.

THE ECONOMIC ENVIRONMENT HAS GENERALLY BEEN POSITIVE SINCE THE GLOBAL FINANCIAL CRISIS

Looking back since the global financial crisis, we have spent more times in 'good' investment environments and less in bad, i.e., we have spent the majority of time in either regime A or B (Accelerating and Moderating), with only short and shallow dips into the sub-50 PMI regimes (C and D) which were often insufficient to tip the US (or other economies) into recession (see Figure 5).

Figure 5: Growth environments since the global financial crisis⁶



That in part explains the strong returns experienced by risk assets since 2009. On a cross-country basis, few other countries have seen such an impressive cycle as the US. The US economy has spent around 85% of this period in regimes A and B and only 15% in regimes C and D. This performance stands out amongst the 38 countries we follow, which have on average spent 70% in regimes A and B.

Looking at the very long term, the traditional causes of recession (industrial downturns or oil shocks) and policy errors (where interest rates are excessively tightened to cap rising inflation) have largely been absent in recent decades. Instead, recession risk has come via financial transmission mechanisms, for example inflated stock prices in the late 1990s or the real-estate bubbles which triggered the sub-prime mortgage crisis and ultimately led to the global financial crisis. In 2020, recession came in the form of an exogenous shock – the pandemic. That said, the post-pandemic policy response has arguably put us back into an economic policy-led cycle that we have not seen for multiple decades. By aggressively easing monetary (as well as fiscal) policy into a lock-down, monetary policy has contributed to the burst in demand and the inflationary pulse (clearly, exacerbated by Russia's invasion of Ukraine) which policymakers are now trying to get back under control with the fastest hiking cycle in almost a generation.

We believe that our growth framework is an effective indicator to assess a wide variety of shocks because, whatever their initial cause, they need to be big enough to have real economic consequences if they are to have significant medium-term asset-allocation implications.

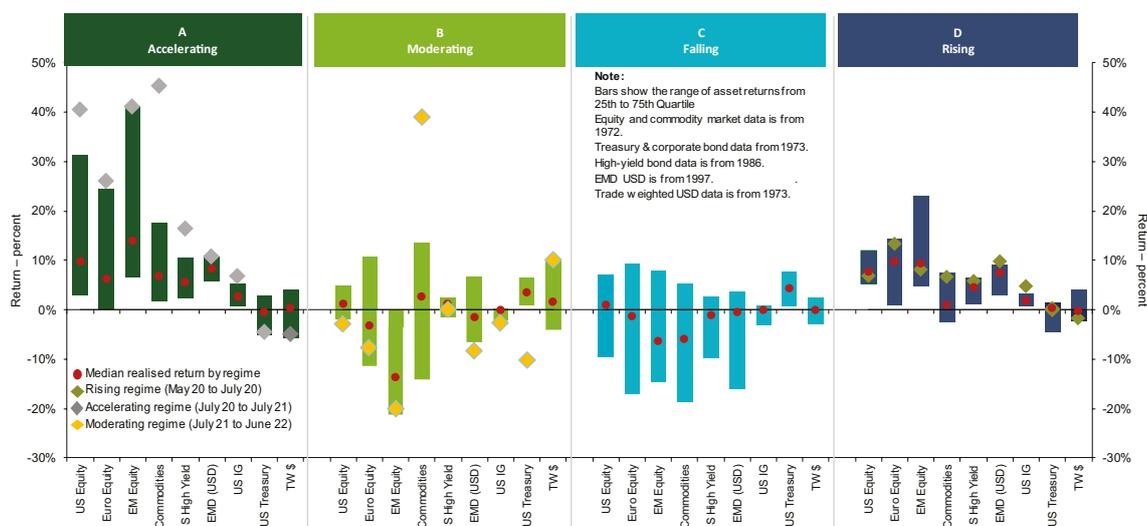
GROWTH IS KEY FOR ASSET PRICES, ESPECIALLY EQUITIES

When we analyse historical data, the sweet spot for risk assets tends to be an Accelerating growth regime (A), when growth is strong and getting stronger. During these times, the correct asset-allocation strategy has been to skew towards pro-cyclical exposures such as equities and away from government bonds which have historically been one of the worst performing assets when activity is accelerating (see Figure 6). As growth loses momentum and we enter a Moderating growth regime (B), more cyclical assets such as emerging market equities tend to perform poorly. The Falling growth regime (C) is the only one in which average equity market returns have historically been negative but is one in which government bonds tend to perform well. This environment has also been especially poor for commodity prices.

⁶ Source: Insight and Bloomberg. Data as at 30 June 2023.

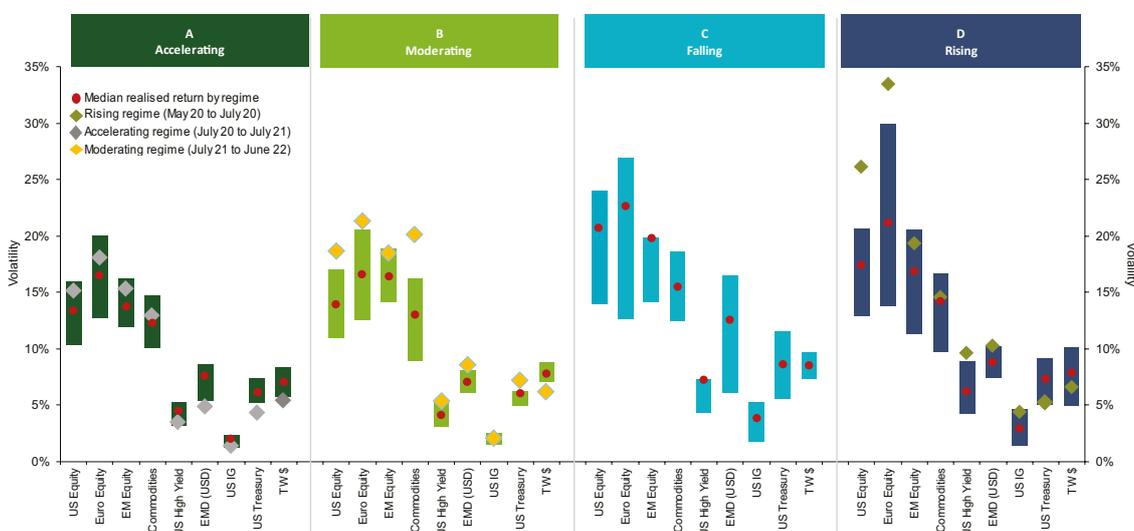
Historically, drawdown risks are greatest in a Falling growth regime (C), an environment where the economy and likely earnings are contracting (see Figure 8). For areas that are more leveraged into global growth such as emerging markets, they are also notable in a Moderating growth regime (B).

Figure 6: Risk assets perform well when growth is strong and getting stronger⁷



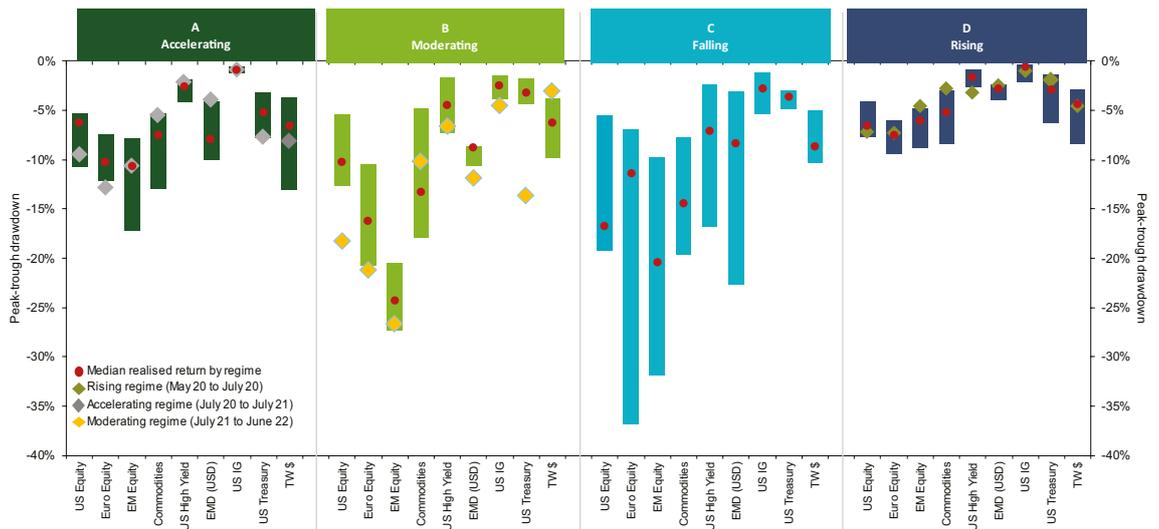
In Moderating growth regimes (B) risk-assets have generally experienced slightly higher volatility and a greater chance of meaningful drawdowns than in Accelerating growth regimes (A) – see Figure 7, regimes A and B. However, volatility tends to be much higher when PMIs are sub-50 (regimes C and D).

Figure 7: Volatility increased notably when PMIs are sub-50 (regimes C and D)⁸



^{7,8} Source: Insight, Bloomberg. Data between December 1976 and June 2023.

Figure 8: The Falling growth regime (C) has by far the most extreme peak-to-trough drawdowns historically⁹

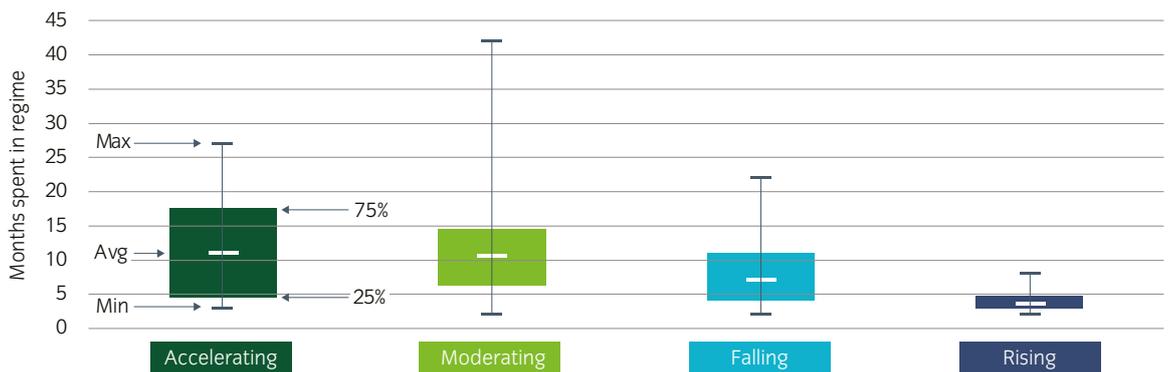


ASSESSING CYCLE LONGEVITY

When we analyse the persistence of growth regimes over the longer term, some interesting observations can be made. The regime with the greatest average longevity is regime A, where PMIs are above 50 and growth is accelerating. Once growth starts to moderate, regime B, there is generally a prolonged period where PMIs remain above 50 and, as our analysis has shown, this is not an unattractive environment for some risk assets, although not as attractive as regime A.

By comparison, the length of time typically spent in the sub-50 PMI regimes (C and D) is relatively short. Regime C, where PMIs are below 50 but growth is still falling is the only regime in which average equity markets returns have historically been negative, and the historic range of drawdowns has been more extreme in regime C than in other regimes. This analysis can provide important context as we assess how regimes are evolving and how best to adapt our asset-allocation decisions in anticipation of a shift to a new regime.

Figure 9: The most persistent regimes are those where PMIs are above 50¹⁰



^{9,10} Source: Insight, Bloomberg. Data between December 1976 and June 2023.

CASE STUDY: THE IMPORTANCE OF RECESSIONS TO EQUITY BEAR MARKETS

Our analysis on the interaction of economic data with asset-class behaviour across history shows us that periods of strong or weak growth are significantly influential for equity markets. This is unsurprising; the intrinsic relationship between economic growth, corporate profitability and share prices is clear. However, it is worth noting just how pronounced these linkages are, particularly in more extreme periods of economic contraction where equity downside risks are dominant. To demonstrate this, we can analyse the various bear markets¹¹ that have occurred for the S&P 500 Index over the past 100 years. We have split these into three categories: normal bear markets (declines of -20% to -30%), large bear markets (declines of -30% to -50%) and mega bear markets (declines of more than -50%). Once defined, we can then look at the growth indicators across those periods (see Figure 10).

Figure 10: Historical US economic environment during S&P 500 Index bear markets¹²

Dates	Bear market characteristics			Growth environment		
	Drawdown	Length (months)	Realised Vol. (High 22d)	Earnings Decline (Nominal)	Real GDP Decline (peak to trough)	ISM Manufacturing Fall (Pts.)
Normal Bear Markets						
Jun 46 to Apr 48	-28%	22	43	-29%	-13.0%	
Aug 56 to Oct 57	-22%	15	24	-22%	-3.7%	-12.4
Dec 61 to Jun 62	-27%	6	37	-12%	-1.6%	-12.0
Feb 66 to Oct 66	-22%	9	20	-5%	0%	-8.0
Nov 80 to Aug 82	-27%	21	20	-5%	-2.6%	-22.7
Jul 90 to Oct 90	-20%	4	25	-37%	0%	-2.1
Average	-24%	13	28	-18%	-3.5%	-11.4
Big Bear Markets						
Jan 73 to Oct 74	-48%	22	35	-15%	-3.2%	-25.9
Nov 68 to May 70	-36%	19	32	-13%	-0.6%	-13.1
Aug 87 to Dec 87	-34%	5	92	-13%	0%	-1.9
Mar 00 to Oct 02	-49%	31	46	-54%	-0.4%	-14.1
Feb 20 to Mar 20	-32%	1	86	-33%	-19.2%	-9.6
Average	-40%	16	58	-26%	-4.7%	-12.9
Mega Bear Markets						
Sep 29 to Jun 32	-86%	33	101	-75%	-27.0%	
Mar 37 to Apr 42	-60%	62	56	-49%	-18.0%	
Oct 07 to Mar 09	-57%	18	88	-92%	-5.1%	-18.3
Average	-68%	38	82	-72%	-16.7%	-18.3
2022 Bear Market	-25%	?	34	-2.5%		-15.0

Key observation: A key observation is that each and every bear market has been historically associated with a growth decline, most notably in earnings and the ISM manufacturing, with the size of the bear market tending to reflect the severity of the growth decline.

Implication: As an asset allocator, a timely understanding of when the growth backdrop is deteriorating should always be a key component of an investment framework.

It is notable how unique the pandemic-driven bear market was in terms of the rapidity of the market drawdown and scale of recession. Each period in history has its own unique facets, but the link between big drawdowns in stock markets and growth holds, even if the causality can work both ways.

It is also interesting to note that the bear market seen in 2022 has not yet coincided with a material corporate earnings decline. This is in striking contrast to the 16 point fall in the ISM Manufacturing Index and a historic precedent. This highlights the unique nature of the post-pandemic growth environment. The strength of consumer balance sheets combined with a surge in re-opening demand, has allowed companies to raise prices without materially hurting volumes, helping maintain corporate profitability despite a huge tightening in financial conditions and sharp manufacturing decline.

¹¹ A bear market is defined as a peak-to-trough decline of more than 20%.

¹² Source: Insight, Bloomberg. Data between December 1976 and June 2023.

3

ASSET-ALLOCATION FRAMEWORK: INFLATION AND REAL RATES REGIMES

Once we have established the growth regime, the next step is to establish the inflation and real rates regimes. The logic goes that growth dynamics (either periods of excessively strong or unusually weak activity) may have implications for both inflation and/or real interest rates. In turn, these dynamics provide useful insights from an asset-allocation perspective.

We consider both current and expected future inflation using consumer price indices and breakeven inflation rates. Our analysis on the relationship between inflation and asset-class price behaviour shows that, much like in our growth framework, both the level and rate of change matter. For example, an environment in which inflation is rising but below central bank targets has historically been very good for equities. However, when inflation is rising, but above central bank targets, this has historically been a bad environment for equities, given the implications for corrective monetary policy to cool inflation down.

For real interest rates, our analysis shows that what really matters is whether they are rising or falling. The level of real interest rates tends to trend over long periods of time and hence the absolute level is less important than the direction of travel. Real yields indicate how cheap or expensive it is for companies to borrow, invest and ultimately grow, and can also be a key indicator of margin pressure as real cost rises may be more difficult to pass onto customers.

Figure 11: A stylised view of inflation / real rates regimes¹³

Inflation and real rate regime		
Inflation rising: above CB target E	Inflation falling: above CB target F	Real rates rising I
H Inflation rising: below CB target	G Inflation falling: below CB target	J Real rates falling

A basic guide to inflation and real rates

- For the current inflation rate we use a country's CPI index. This measures the rate of change in prices for a basket of goods and services that are typically purchased by households.
- For the expected future rate of inflation, we use a country's breakeven inflation rate. This is the rate of inflation at which a country's nominal government bonds would generate the same return as inflation-linked government bonds. This gives us the level of future inflation that markets are currently pricing in.
- Real interest rates are the nominal level of yields adjusted for expected inflation. For the US this is the yield derived from Treasury Inflation-Protected Securities (TIPS) bonds. This gives the real cost of financing for a borrower.

REGIMES WHERE INFLATION IS SLOWING ARE GENERALLY GOOD FOR EQUITIES AND BONDS

When we analyse the historical data, one finding that seems relatively clear is that the best regimes for equities and government bonds are generally those where the pace of inflation is decelerating, regardless of whether inflation is above or below central bank targets (regimes F and G). If real rates are falling as well, this has tended to be especially beneficial for US equity markets.

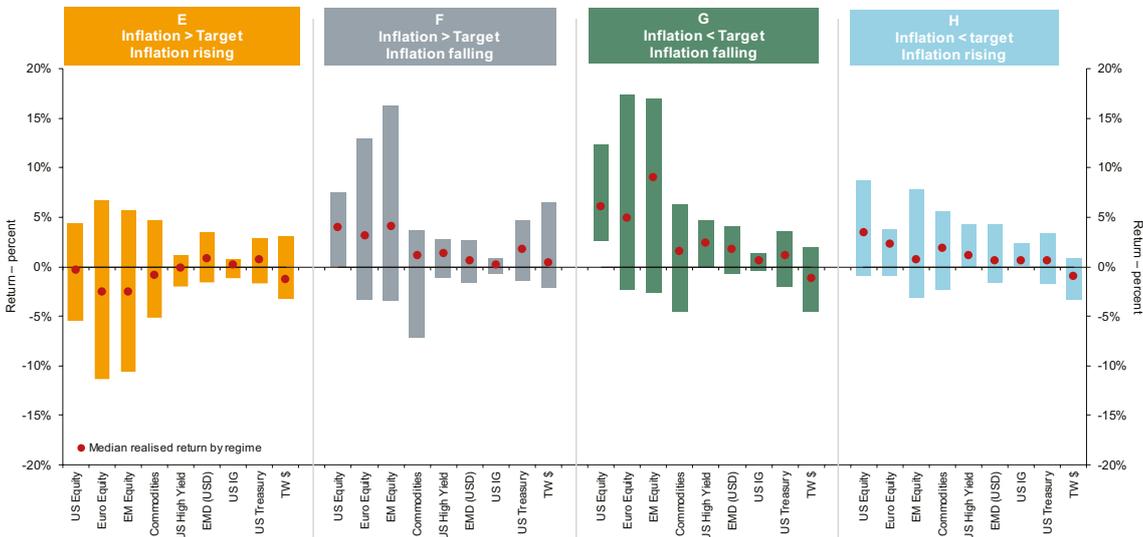
¹³Source: For illustrative purposes only.

Broadly speaking, it is also clear that assets generally perform positively when inflation is below central bank targets, regardless of whether inflation is rising or falling (regimes G and H). The exception to this is the US dollar, which performs poorly in those regimes, but here real rates are key, as the dollar has historically performed far better during environments where real rates are rising than falling.

For commodities, a reflationary regime is optimal, where inflation is rising but still below central bank targets (regime H).

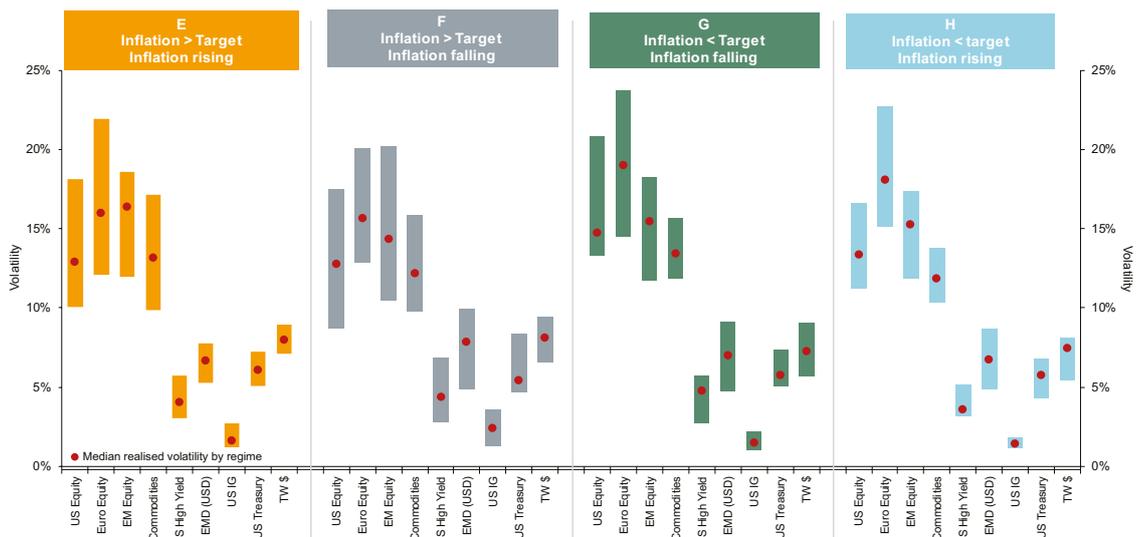
By far the worst regime for broad asset returns is E, where inflation is above target and rising, and this is an environment in which, perhaps unsurprisingly, most assets struggle, including commodities.

Figure 12: Returns across historical inflation regimes¹⁴



Surprisingly, divergences in volatility are more nuanced across inflation regimes, but volatility tends to be slightly lower during periods when inflation is converging with central bank targets in either direction (regimes F and H). In these periods, central banks will generally be returning to a more neutral policy position. For investment grade credit, reflationary environments (regime H) where inflation is below target but rising, have historically been periods where volatility is particularly subdued.

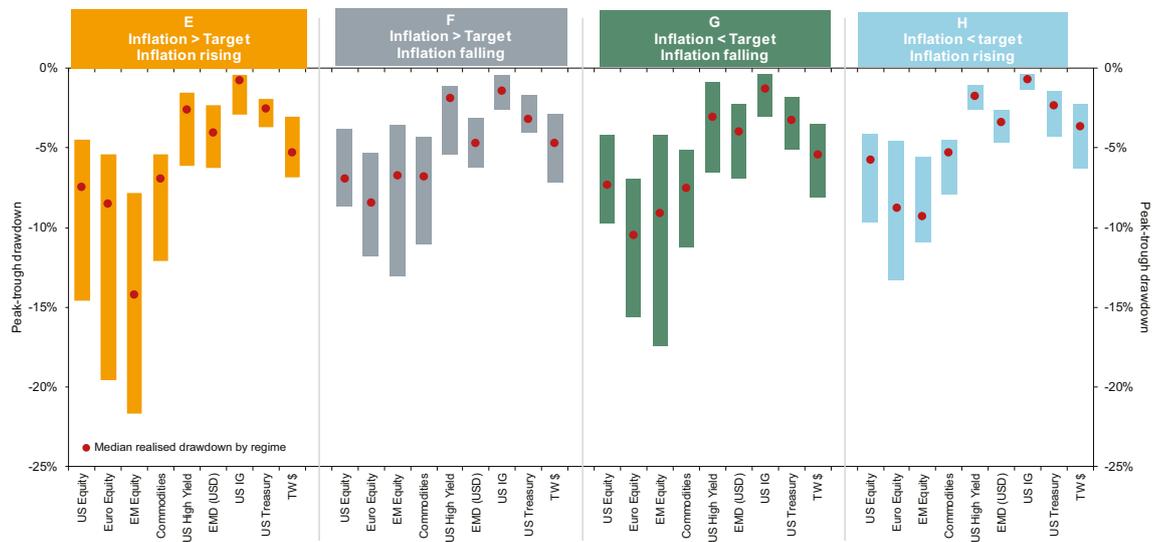
Figure 13: Volatility across historical inflation regimes¹⁵



^{14, 15} Source: Insight, Bloomberg. Data between December 1976 and June 2023.

Perhaps unsurprisingly, for more cyclical assets such as emerging markets, drawdowns have been significantly worse when inflation is above central bank targets but still rising (regime E). This makes sense as it implies an environment where major central banks are likely to react most aggressively to bring inflation back under control, and investors are likely to be returning to core markets in that scenario.

Figure 14: Drawdowns across historical inflation regimes¹⁶



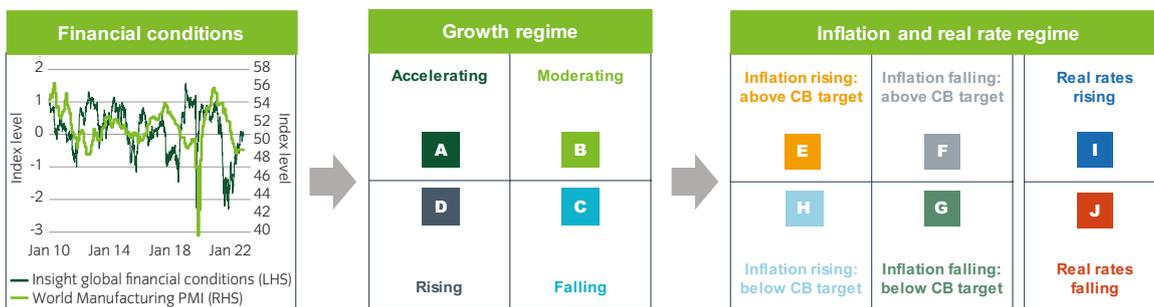
¹⁶ Source: Insight, Bloomberg. Data between December 1976 and June 2023.

4

ASSET-ALLOCATION FRAMEWORK: BRINGING EVERYTHING TOGETHER

Viewed within the context of broader financial conditions, the combined growth, inflation and real rates regime allows us to categorise the prevailing investment environment, and to view the outlook for asset price performance within a historical context. Once the current environment is established, we are able to utilise both our macro-economic models, and our fundamental understanding of the particular forces at play at the time, to understand how a given environment is most likely to evolve going forward. We can then compare our most likely scenarios to the historical patterns, or regime sequences, that we have witnessed in the past. This allows us to use our rich data set to provide insights into how we believe different asset classes should be expected to perform, allowing us to adapt our asset allocation to best take advantage of the prevailing and likely future environments.

Figure 15: A clear framework for our assessment of the macro environment¹⁷



SINGLE ASSET CLASS EXAMPLE OF A COMBINED REGIME FRAMEWORK

Let us illustrate how this framework looks when assessing the prospect for a single asset class – (US) equity. At the time of writing, we have recently been in a regime environment that can best be described as :

- Falling growth (C)
- Inflation is coming down – but remains well above central bank targets (F)
- Real rates have been edging lower (J)

In Figure 16, we rank the performance of US equity in the various combinations of these regimes. The first three columns show different combinations of growth, inflation and real interest rates. We then show the average excess return, Sharpe ratio, drawdown and 'hit rate' (percentage of time we recorded a positive return) for each. To the right, these regimes are ranked according to their combined behaviours. What this ranking shows clearly is the historical dominance of the growth factor for US equities. The best environments for equity performance have been when growth is rising or accelerating while the worst environments have been when growth is moderating and falling. Similar return profiles can be built for a broad range of asset classes. The current environment (CFJ) is a regime that is moderately positive for both risk assets and bond markets, but negative for the US dollar.

¹⁷ Source: For illustrative purposes only.

Figure 16: Equity market regime ranking¹⁸

Falling		Inflation > Target & Falling		Real Rates Falling		CFJ									
Growth Regime	Inflation Regime	Real Rate Regime	Combined Regime	Excess Return	Sharpe	Drawdown (3rd quartile)	Hit Ratio	Return Ranking	Sharpe Ranking	Drawdown (3rd quartile) Ranking	Hit Ratio Ranking	Weighted Ranking	Time Spent In Regime	Regime count	
				40%	20%	20%	20%								
Rising	Inflation > Target & Falling	Real Rates Rising	DFI	6.8%	1.9	-6%	100%	2	4	5	1	2.80	3%	5.0	
Accelerating	Inflation > Target & Falling	Real Rates Falling	AFJ	4.1%	3.1	-2%	83%	8	1	1	4	4.40	6%	6.0	
Rising	Inflation > Target & Falling	Real Rates Falling	DFJ	6.5%	2.5	-7%	80%	3	2	9	7	4.80	3%	5.0	
Accelerating	Inflation < Target & Falling	Real Rates Rising	AGI	6.3%	2.0	-6%	78%	5	3	3	9	5.00	11%	9.0	
Rising	Inflation < Target & Falling	Real Rates Falling	DGJ	9.6%	1.5	-12%	100%	1	6	19	1	5.60	3%	4.0	
Accelerating	Inflation < Target & Rising	Real Rates Rising	AHJ	4.0%	1.6	-4%	69%	9	5	2	12	7.40	11%	13.0	
Accelerating	Inflation < Target & Falling	Real Rates Falling	AGJ	5.8%	1.0	-6%	100%	6	10	15	1	7.60	8%	6.0	
Moderating	Inflation > Target & Falling	Real Rates Falling	BFJ	3.8%	1.3	-6%	80%	10	7	7	7	8.20	8%	10.0	
Accelerating	Inflation < Target & Rising	Real Rates Falling	AHJ	6.3%	1.2	-9%	67%	4	8	16	13	9.00	6%	6.0	
Falling	Inflation < Target & Falling	Real Rates Falling	CGJ	4.1%	0.8	-9%	83%	7	12	17	4	9.40	8%	6.0	
Accelerating	Inflation > Target & Rising	Real Rates Rising	AEI	2.9%	1.0	-7%	82%	11	11	13	6	10.40	11%	11.0	
Accelerating	Inflation > Target & Falling	Real Rates Rising	AFI	2.7%	1.0	-6%	62%	12	9	6	16	11.00	11%	13.0	
Moderating	Inflation < Target & Falling	Real Rates Falling	BGJ	2.2%	0.7	-6%	56%	14	13	4	18	12.60	11%	9.0	
Falling	Inflation > Target & Falling	Real Rates Falling	CFJ	2.2%	0.6	-8%	75%	13	14	14	10	12.80	6%	12.0	
Accelerating	Inflation > Target & Rising	Real Rates Falling	AEJ	0.0%	0.0	-6%	75%	16	16	8	10	13.20	8%	8.0	
Moderating	Inflation < Target & Falling	Real Rates Rising	BGI	1.1%	0.4	-7%	67%	15	15	10	13	13.60	9%	6.0	
Moderating	Inflation > Target & Falling	Real Rates Rising	BFI	-0.3%	-0.1	-7%	67%	17	17	11	13	15.00	7%	9.0	
Moderating	Inflation > Target & Rising	Real Rates Rising	BEI	-1.5%	-0.4	-7%	62%	20	20	12	16	17.60	9%	13.0	
Moderating	Inflation > Target & Rising	Real Rates Falling	BEJ	-0.9%	-0.1	-11%	53%	19	18	18	19	18.60	11%	15.0	
Falling	Inflation > Target & Rising	Real Rates Falling	CEJ	-0.8%	-0.2	-14%	53%	18	19	21	19	19.00	8%	15.0	
Falling	Inflation < Target & Rising	Real Rates Falling	CHJ	-4.3%	-0.9	-18%	33%	21	21	23	21	21.40	6%	6.0	
Falling	Inflation > Target & Rising	Real Rates Rising	CEI	-4.9%	-1.4	-13%	0%	22	23	20	23	22.00	3%	6.0	
Falling	Inflation > Target & Falling	Real Rates Rising	CFI	-6.3%	-1.3	-15%	13%	23	22	22	22	22.40	5%	8.0	

Figure 17 is an alternative way to show the data. On the left-hand side we show the current prevailing regime backdrop, and a summary of cross asset class behaviours. We can look back at our historical data set to see, using history as a guide, when environments have historically followed one another. For example, from the current state, the most common next-phase is one in which real interest rates move higher again while growth and inflation dynamics remain the same (regime CFI). However, when we access some of our more forward-looking growth indicators, there are tentative signs that manufacturing growth could be bottoming. The extended length of the current growth regime is also supportive that we could have arrived at a turning point. This would leave us on a path towards:

1. (DFI) – Growth is rising, inflation is falling but above target and real rates are rising

When we analyse our more forward-looking growth indicators, including the ratio of new orders to inventories contained within the PMIs, we see tentative signs we could be at a turning point. As long as inflation continues its downward trajectory, manufacturing growth should begin rising again. In this environment we would likely see real rates grind higher again, but at a much slower pace than seen in 2022. This combination has historically presented some of the best environments for strong equity returns.

An alternative scenario is presented in the bottom right of Figure 17. Here, an economic recovery starts to take hold while falling inflation allows real rates to move lower as well. This path is defined as:

2. (DFJ) – Growth is rising, inflation is falling but above target and real rates are falling

An alternative scenario is similar to that above, where growth activity moves into rising and inflation continues to fall. However if the decline inflation is sharp enough, we could see real yields falling as central banks are able to ease off on policy tightening. Again, historical data would suggest this could present an opportunity to participate in very strong equity returns, highlighting the importance of growth rebounding for positive equity performance.

Our data set goes back to the 1970s and we have 29 observations of a rising (D) growth environment. In 69% of those cases, the economic journey moved from Rising to Accelerating (A), which would be consistent with an upswing or the start of a new cycle. Around 31% of the time we have seen growth dynamics regress from Rising back into Falling (C) growth periods. Some of these ‘false dawns’ were in the early 1980s when inflation was uncomfortably high and the parallels with today suggest that the likelihood of such a reversal is far higher than the odds inferred by history.

¹⁸ Source: Insight, Bloomberg. Data between December 1976 and June 2023.

Figure 17: Regime pathway – two very different risk scenarios remain possible¹⁹

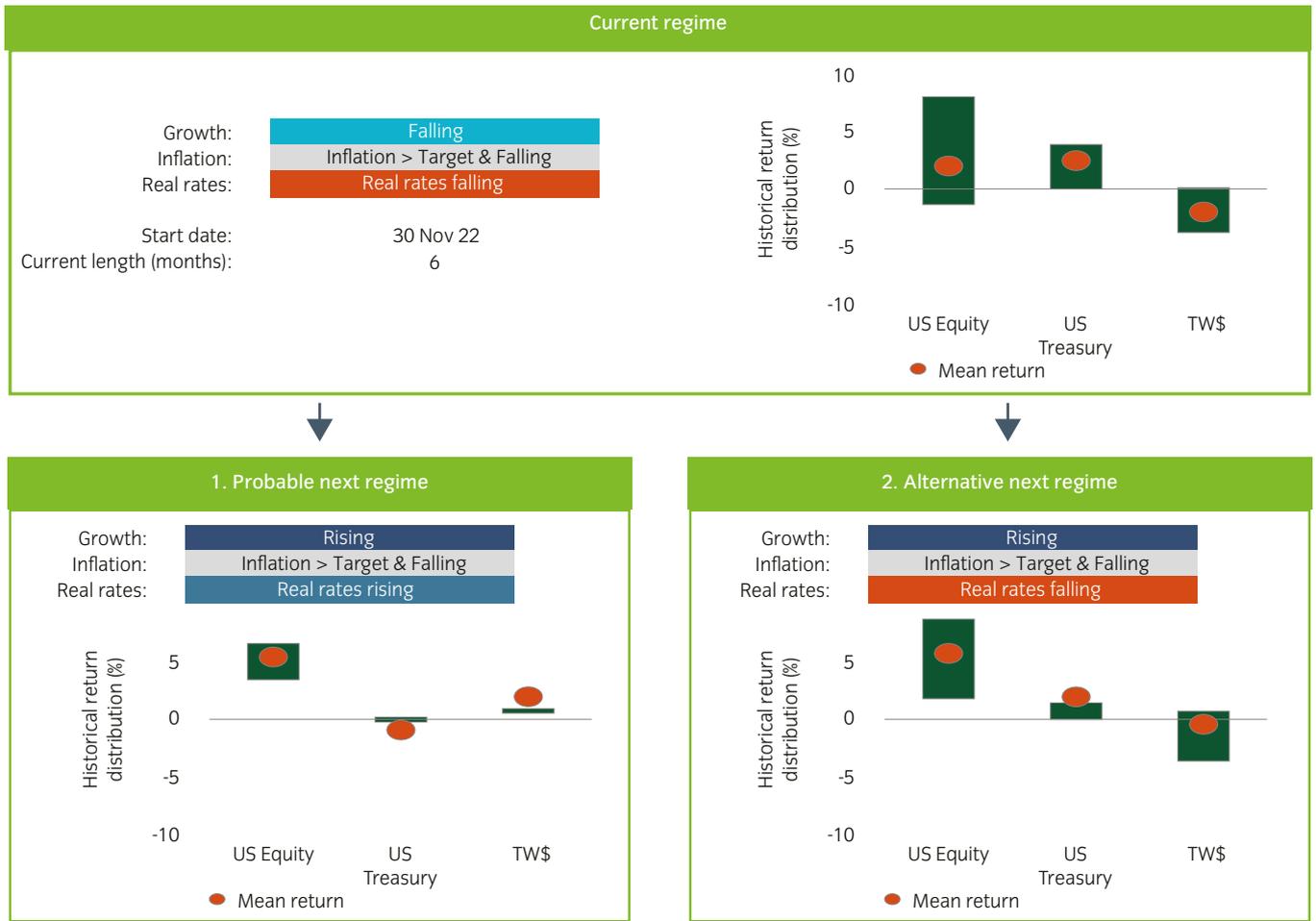


Figure 18: The outlook for risk assets would look attractive if growth has moved to rising²⁰

Falling Inflation > Target & Falling Real Rates Falling CFJ															
Growth Regime	Inflation Regime	Real Rate Regime	Combined Regime	Excess Return	Sharpe	Drawdown (3rd quartile)	Hit Ratio	Return Ranking 40%	Sharpe Ranking 20%	Drawdown (3rd quartile) Ranking 20%	Hit Ratio Ranking 20%	Weighted Ranking	Time Spent In Regime	Regime count	
Rising	Inflation > Target & Falling	Real Rates Rising	DFI	6.8%	1.9	-6%	100%	2	4	5	1	2.80	3%	5.0	
Accelerating	Inflation > Target & Falling	Real Rates Falling	AFJ	4.1%	3.1	-2%	83%	8	1	1	4	4.40	6%	6.0	
Rising	Inflation > Target & Falling	Real Rates Falling	DFJ	6.5%	2.5	-7%	80%	3	2	9	7	4.80	3%	5.0	
Accelerating	Inflation < Target & Falling	Real Rates Rising	AGI	6.3%	2.0	-6%	78%	5	3	3	9	5.00	11%	9.0	
Rising	Inflation > Target & Falling	Real Rates Falling	DGJ	9.6%	1.5	-12%	100%	1	6	19	1	5.60	3%	4.0	
Accelerating	Inflation < Target & Rising	Real Rates Rising	AHI	4.0%	1.6	-4%	69%	9	5	2	12	7.40	11%	13.0	
Accelerating	Inflation < Target & Falling	Real Rates Falling	AGJ	5.8%	1.0	-8%	100%	6	10	15	1	7.60	8%	6.0	
Moderating	Inflation > Target & Falling	Real Rates Falling	BFJ	3.8%	1.3	-6%	80%	10	7	7	7	8.20	8%	10.0	
Accelerating	Inflation < Target & Rising	Real Rates Falling	AHU	6.3%	1.2	-9%	67%	4	8	16	13	9.00	6%	6.0	
Falling	Inflation < Target & Falling	Real Rates Falling	CGJ	4.1%	0.8	-9%	83%	7	12	17	4	9.40	8%	6.0	
Accelerating	Inflation > Target & Rising	Real Rates Rising	AEI	2.9%	1.0	-7%	82%	11	11	13	6	10.40	11%	11.0	
Accelerating	Inflation > Target & Falling	Real Rates Rising	AFI	2.7%	1.0	-6%	62%	12	9	6	16	11.00	11%	13.0	
Moderating	Inflation < Target & Falling	Real Rates Falling	BGJ	2.2%	0.7	-6%	56%	14	13	4	18	12.60	11%	9.0	
Falling	Inflation > Target & Falling	Real Rates Falling	CFJ	2.2%	0.6	-8%	75%	13	14	14	10	12.80	6%	12.0	
Accelerating	Inflation > Target & Rising	Real Rates Falling	AEJ	0.0%	0.0	-6%	75%	16	16	8	10	13.20	8%	8.0	
Moderating	Inflation < Target & Falling	Real Rates Rising	BGI	1.1%	0.4	-7%	67%	15	15	10	13	13.60	9%	6.0	
Moderating	Inflation > Target & Falling	Real Rates Rising	BFI	-0.3%	-0.1	-7%	67%	17	17	11	13	15.00	7%	9.0	
Moderating	Inflation > Target & Rising	Real Rates Rising	BEI	-1.5%	-0.4	-7%	62%	20	20	12	16	17.60	9%	13.0	
Moderating	Inflation > Target & Rising	Real Rates Falling	BEJ	-0.9%	-0.1	-11%	53%	19	18	18	19	18.60	11%	15.0	
Falling	Inflation > Target & Rising	Real Rates Falling	CEJ	-0.8%	-0.2	-14%	53%	18	19	21	19	19.00	8%	15.0	
Falling	Inflation < Target & Rising	Real Rates Falling	CHJ	-4.3%	-0.9	-18%	33%	21	21	23	21	21.40	6%	6.0	
Falling	Inflation > Target & Rising	Real Rates Rising	CEI	-4.9%	-1.4	-13%	0%	22	23	20	23	22.00	3%	6.0	
Falling	Inflation > Target & Falling	Real Rates Rising	CFI	-6.3%	-1.3	-15%	13%	23	22	22	22	22.40	5%	8.0	

²³ Source: Insight, Bloomberg. Data between December 1976 and June 2023.

This table also shows that if the growth rebound was not to materialise (i.e. remain in falling) and real rates moved higher (remain CFI) this represents the worst historical environment for equities. In such an environment, equity investors would not be the only ones at risk; history would also suggest that bond investors may also experience negative returns. For those with a traditional 60% equity, 40% bond allocation, this could represent a very poor environment, as we witnessed in 2022.

Figure 19: Bond investors would not be immune to a shift to regime CFI²¹

Falling	Inflation > Target & Falling	Real Rates Falling	CFJ												
Growth Regime	Inflation Regime	Real Rate Regime	Combined Regime	Excess Return	Sharpe	Drawdown (3rd quartile)	Hit Ratio	Return Ranking	Sharpe Ranking	Drawdown (3rd quartile) Ranking	Hit Ratio Ranking	Weighted Ranking	Time Spent In Regime	Regime count	
								40%	20%	20%	20%				
Accelerating	Inflation > Target & Falling	Real Rates Falling	AFJ	3.1%	2.5	-2%	100%	2	1	3	1	1.80	6%	6.0	
Falling	Inflation < Target & Rising	Real Rates Falling	CHJ	3.1%	2.4	-2%	83%	1	2	6	3	2.60	6%	6.0	
Rising	Inflation > Target & Falling	Real Rates Falling	DFJ	1.9%	1.4	-1%	80%	10	5	1	5	6.20	3%	5.0	
Falling	Inflation < Target & Falling	Real Rates Falling	CGJ	2.4%	2.0	-4%	100%	5	3	19	1	6.60	8%	6.0	
Falling	Inflation > Target & Falling	Real Rates Falling	CFJ	2.5%	1.2	-3%	75%	4	7	12	7	6.80	6%	12.0	
Moderating	Inflation < Target & Falling	Real Rates Falling	BGJ	1.5%	1.3	-2%	78%	11	6	2	6	7.20	11%	9.0	
Accelerating	Inflation < Target & Falling	Real Rates Falling	AGJ	2.8%	1.0	-3%	83%	3	11	16	3	7.20	8%	6.0	
Moderating	Inflation > Target & Falling	Real Rates Falling	BFJ	2.2%	1.7	-3%	70%	7	4	10	10	7.60	8%	10.0	
Moderating	Inflation > Target & Rising	Real Rates Falling	BEJ	2.3%	1.1	-2%	60%	6	9	8	13	8.40	11%	15.0	
Accelerating	Inflation < Target & Rising	Real Rates Falling	AHJ	2.0%	1.2	-2%	67%	9	8	7	11	8.80	6%	6.0	
Falling	Inflation > Target & Rising	Real Rates Falling	CEJ	2.2%	1.0	-3%	73%	8	10	13	9	9.60	8%	15.0	
Moderating	Inflation < Target & Falling	Real Rates Rising	BGI	0.6%	0.6	-2%	67%	13	13	5	11	11.00	9%	6.0	
Accelerating	Inflation > Target & Rising	Real Rates Falling	AEJ	1.2%	0.7	-3%	75%	12	12	14	7	11.40	8%	8.0	
Rising	Inflation > Target & Falling	Real Rates Rising	DFI	-0.9%	-0.4	-3%	60%	14	14	9	13	12.80	3%	5.0	
Moderating	Inflation > Target & Rising	Real Rates Rising	BEI	-1.3%	-1.0	-3%	38%	16	19	15	18	16.80	9%	11.0	
Accelerating	Inflation > Target & Falling	Real Rates Rising	AFI	-1.4%	-1.0	-2%	15%	19	20	4	23	17.00	11%	12.0	
Rising	Inflation < Target & Falling	Real Rates Falling	DGJ	-1.4%	-0.7	-5%	50%	18	15	20	15	17.20	3%	4.0	
Accelerating	Inflation < Target & Falling	Real Rates Rising	AGI	-1.2%	-0.8	-6%	44%	15	17	23	17	17.40	11%	9.0	
Falling	Inflation > Target & Falling	Real Rates Rising	CFI	-1.3%	-0.7	-4%	25%	17	16	18	21	17.80	5%	8.0	
Accelerating	Inflation > Target & Rising	Real Rates Rising	AEI	-1.8%	-1.3	-3%	27%	21	23	11	20	19.20	11%	10.0	
Accelerating	Inflation < Target & Rising	Real Rates Rising	AHI	-1.4%	-1.2	-5%	38%	20	21	21	18	20.00	11%	13.0	
Falling	Inflation > Target & Rising	Real Rates Rising	CEI	-2.2%	-0.9	-5%	50%	23	18	22	15	20.20	3%	6.0	
Moderating	Inflation > Target & Falling	Real Rates Rising	BFI	-2.0%	-1.2	-3%	22%	22	22	17	22	21.00	7%	7.0	

For those with greater flexibility, there are asset classes that would be expected to generate positive returns in environments which are historically unattractive for both equities and bonds. One such example would be in currency markets (see Figure 20), which can provide an important additional source of diversification for those that have the flexibility to access currency-based strategies.

Figure 20: Currency markets may be one way to diversify²²

Growth Regime	Inflation Regime	Real Rate Regime	Combined Regime	Excess Return	Sharpe	Drawdown (3rd quartile)	Hit Ratio	Return Ranking	Sharpe Ranking	Drawdown (3rd quartile) Ranking	Hit Ratio Ranking	Weighted Ranking	Time Spent In Regime	Regime count
								40%	20%	20%	20%			
Moderating	Inflation > Target & Falling	Real Rates Rising	BFI	2.9%	2.0	-3%	56%	1	1	2	7	2.40	7%	9.0
Accelerating	Inflation > Target & Falling	Real Rates Rising	AFI	2.7%	1.8	-3%	77%	3	2	4	2	2.80	11%	13.0
Rising	Inflation > Target & Falling	Real Rates Rising	DFI	2.4%	1.4	-4%	100%	4	4	5	1	3.60	3%	5.0
Falling	Inflation > Target & Rising	Real Rates Rising	CEI	2.7%	1.5	-5%	67%	2	3	8	3	3.60	3%	6.0
Moderating	Inflation < Target & Falling	Real Rates Rising	BGI	1.2%	0.8	-3%	67%	6	6	1	3	4.40	9%	6.0
Falling	Inflation > Target & Falling	Real Rates Rising	CFI	2.3%	0.9	-7%	63%	5	5	18	6	7.80	5%	8.0
Moderating	Inflation > Target & Rising	Real Rates Rising	BEI	0.5%	0.3	-3%	54%	9	9	3	10	8.00	9%	13.0
Moderating	Inflation > Target & Falling	Real Rates Falling	BFJ	0.7%	0.4	-4%	50%	7	8	6	12	8.00	8%	10.0
Moderating	Inflation < Target & Falling	Real Rates Falling	BGJ	0.6%	0.4	-5%	56%	8	7	12	7	8.40	11%	9.0
Accelerating	Inflation < Target & Rising	Real Rates Rising	AHI	0.3%	0.2	-5%	54%	10	10	13	10	10.60	11%	13.0
Accelerating	Inflation > Target & Rising	Real Rates Rising	AEI	-0.7%	-0.4	-5%	55%	13	14	7	9	11.20	11%	11.0
Falling	Inflation < Target & Falling	Real Rates Falling	CGJ	-0.5%	-0.4	-7%	67%	12	12	17	3	11.20	8%	6.0
Accelerating	Inflation > Target & Rising	Real Rates Falling	AEJ	-0.7%	-0.4	-5%	50%	15	15	9	12	13.20	8%	8.0
Moderating	Inflation > Target & Rising	Real Rates Falling	BEJ	-0.4%	-0.1	-9%	47%	11	11	21	15	13.80	11%	15.0
Falling	Inflation > Target & Rising	Real Rates Falling	CEJ	-0.7%	-0.4	-5%	33%	14	13	15	17	14.60	8%	15.0
Accelerating	Inflation > Target & Falling	Real Rates Falling	AFJ	-0.8%	-0.7	-5%	50%	16	18	14	12	15.20	6%	6.0
Rising	Inflation > Target & Falling	Real Rates Falling	DFJ	-1.0%	-0.7	-5%	40%	17	17	10	16	15.40	3%	5.0
Falling	Inflation < Target & Rising	Real Rates Falling	CHJ	-1.3%	-0.9	-5%	17%	18	19	11	21	17.40	6%	6.0
Accelerating	Inflation < Target & Falling	Real Rates Falling	AGJ	-1.6%	-0.5	-12%	33%	19	16	23	17	18.80	8%	6.0
Falling	Inflation > Target & Falling	Real Rates Falling	CFJ	-1.7%	-0.9	-7%	33%	20	20	19	17	19.20	6%	12.0
Accelerating	Inflation < Target & Falling	Real Rates Rising	AGI	-2.2%	-1.3	-5%	33%	21	22	16	17	19.40	11%	9.0
Accelerating	Inflation < Target & Rising	Real Rates Falling	AHJ	-3.8%	-1.7	-8%	17%	23	23	20	21	22.00	6%	6.0
Rising	Inflation < Target & Falling	Real Rates Falling	DGJ	-2.6%	-1.2	-9%	0%	22	21	22	23	22.00	3%	4.0

^{21, 22} Source: Insight, Bloomberg. Data between December 1976 and June 2023. US Treasury and trade weighted US Dollar

5

LOOKING BEYOND TRADITIONAL ASSET CLASSES INCREASES THE POTENTIAL FOR DIVERSIFICATION AND RETURNS

To be able to position for all possible environments, we believe that a multi-asset strategy must take a flexible approach that gives access to both traditional assets and alternative assets. The ability to access such a broad opportunity set offers different ways to add diversification at a time when traditional sources of diversification may prove less reliable than in the past and our asset-allocation framework can be just as applicable to these alternative strategies.

To illustrate this, we can compare a range of alternative assets across two of the regimes in our growth framework (see Figure 21). These include alternative assets (convertible bonds, fallen angels and dividend futures), alternative alpha trades (commodity carry and quantitative currency returns (QCR)) as well as alternative hedges (equity dispersion and equity quality long/short). Although higher government bond yields have once again increased their attractiveness as a diversifying asset, alternative strategies such as relative value or defensive currency trades can offer ways to enhance diversification. **In environments where both bond and equity markets may generate negative returns, we believe multi-asset strategies need all available tools to mitigate against downside risks.**

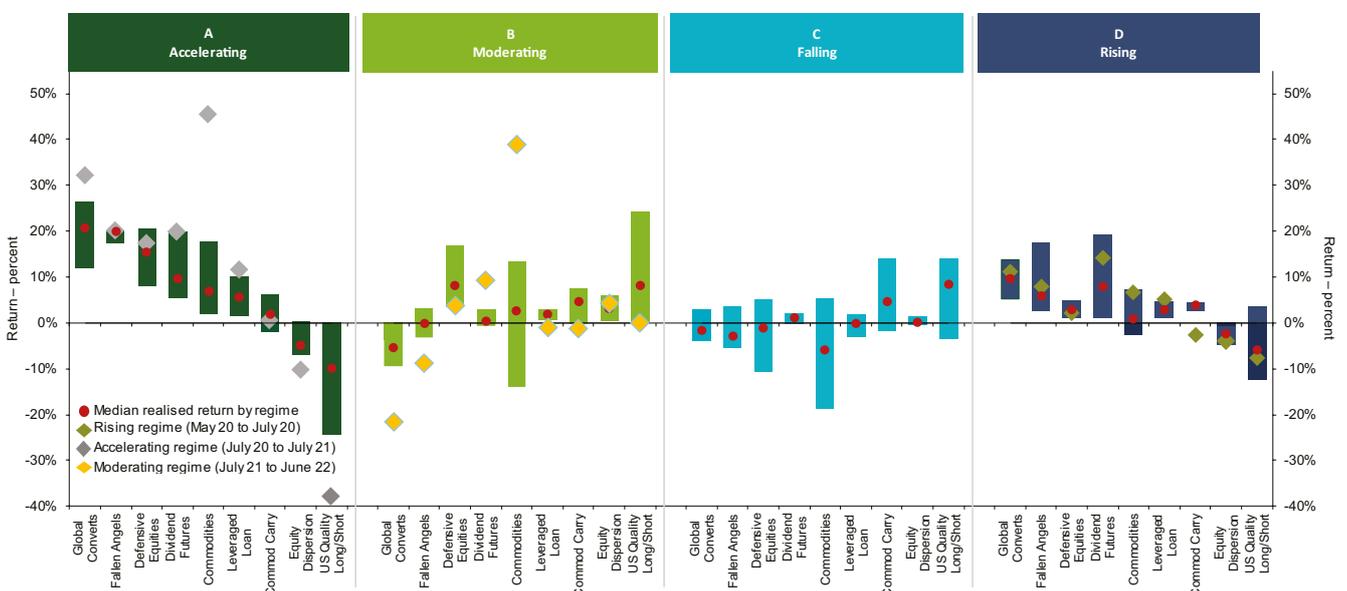
While the regime framework, was primarily built as an asset-allocation tool for traditional assets, we have also found it a useful tool when allocating between alternative assets. For example, Figure 22 shows the performance characteristics of equity dispersion across all growth, inflation and real rate regimes. What is striking is how the economic environments which tend to be the worst for equities that we discussed earlier, are actually some of the best for equity dispersion, highlighting its appeal as a hedge. Figure 23 applies the same analysis to a commodity carry strategy (explained below). What is notable here is that there is no clear pattern, either from a growth or inflation perspective for the environments this strategy has historically performed poorly or well. This highlights its attraction as a potentially more alpha-generative strategy, less dependent on broad market direction, where a risk-based framework for allocation would be more appropriate.

COMMODITY CARRY STRATEGIES EXPLAINED

Commodities markets cover a large spectrum of raw materials (including energy, metals and agriculture) that investors can trade through futures contracts. Generally, the price at which futures contracts are traded will be higher (known as contango) or lower than prevailing spot prices (known as backwardation).

The shape of the futures is mainly dependent upon the fundamental supply & demand dynamics of the underlying markets, the levels of inventories and the costs of storage and delivery of the physical assets. Commodity carry strategies are designed to harvest the yield available from the futures curve, without relying on the direction of movements in spot price.

Figure 21: Alternative strategies across growth regimes²³



²³ Source: Insight, Bloomberg. Data between December 1976 and June 2023.

Figure 22: Equity dispersion characteristics across the combined regimes²⁴

Growth Regime	Inflation Regime	Real Rate Regime	Combined Regime	Excess Return	Sharpe	Drawdown (3rd quartile)	Hit Ratio	Return Ranking	Sharpe Ranking	Drawdown (3rd quartile) Ranking	Hit Ratio Ranking	Weighted Ranking	Time Spent In Regime	Regime count
								40%	20%	20%	20%			
Falling	Inflation > Target & Falling	Real Rates Rising	CFI	9.4%	2.7	-2%	38%	1	1	8	5	3.20	4%	3.0
Falling	Inflation > Target & Rising	Real Rates Rising	CEI	3.4%	2.2	-1%	17%	2	2	6	10	4.40	2%	2.0
Moderating	Inflation > Target & Rising	Real Rates Rising	BEI	2.4%	1.3	-2%	15%	4	4	7	12	6.20	6%	3.0
Moderating	Inflation < Target & Falling	Real Rates Rising	BGI	2.2%	1.4	-4%	50%	6	3	16	1	6.40	2%	3.0
Falling	Inflation < Target & Rising	Real Rates Falling	CHU	1.3%	0.6	-3%	50%	7	7	13	1	7.00	3%	4.0
Moderating	Inflation < Target & Rising	Real Rates Rising	BHI	2.3%	0.7	-5%	50%	5	6	19	1	7.20	1%	2.0
Falling	Inflation < Target & Rising	Real Rates Rising	CHI	0.4%	0.4	-2%	50%	10	9	9	1	7.80	1%	1.0
Falling	Inflation > Target & Falling	Real Rates Falling	CFJ	0.6%	0.5	0%	8%	8	8	3	13	8.00	4%	1.0
Falling	Inflation < Target & Falling	Real Rates Falling	CGJ	2.4%	0.9	-8%	17%	3	5	21	10	8.40	2%	4.0
Accelerating	Inflation < Target & Rising	Real Rates Rising	AGI	0.5%	0.3	-2%	33%	9	10	10	6	8.80	4%	4.0
Accelerating	Inflation < Target & Rising	Real Rates Rising	AHI	0.0%	0.0	-3%	23%	12	12	14	8	11.60	5%	7.0
Moderating	Inflation < Target & Falling	Real Rates Falling	BGJ	0.2%	0.2	-4%	22%	11	11	18	9	12.00	4%	3.0
Moderating	Inflation > Target & Rising	Real Rates Falling	BEJ	-0.5%	-0.1	-2%	7%	13	13	12	14	13.00	11%	2.0
Moderating	Inflation < Target & Rising	Real Rates Falling	BHU	-0.6%	-0.8	-1%	0%	14	19	4	15	13.20	1%	1.0
Accelerating	Inflation > Target & Rising	Real Rates Falling	AEJ	-0.7%	-0.5	-1%	0%	16	15	5	15	13.40	4%	2.0
Moderating	Inflation > Target & Falling	Real Rates Rising	BFI	-1.0%	-0.8	0%	0%	17	18	1	15	13.60	5%	1.0
Moderating	Inflation > Target & Falling	Real Rates Falling	BFJ	-1.2%	-0.7	0%	0%	19	16	1	15	14.00	5%	1.0
Accelerating	Inflation < Target & Falling	Real Rates Falling	AGJ	-0.6%	-0.3	-4%	0%	15	14	15	15	14.80	4%	2.0
Accelerating	Inflation < Target & Rising	Real Rates Falling	AHU	-2.0%	-1.0	-5%	33%	20	21	20	6	17.40	4%	5.0
Rising	Inflation < Target & Rising	Real Rates Falling	DHU	-1.0%	-0.9	-4%	0%	18	20	17	15	17.60	1%	2.0
Accelerating	Inflation > Target & Rising	Real Rates Rising	AEI	-3.6%	-2.3	-2%	0%	22	22	11	15	18.40	6%	2.0
Rising	Inflation < Target & Falling	Real Rates Falling	DGJ	-2.2%	-0.8	-9%	0%	21	17	22	15	19.20	2%	3.0

Figure 23: Commodity carry return characteristics across the combined regimes²⁵

Growth Regime	Inflation Regime	Real Rate Regime	Combined Regime	Excess Return	Sharpe	Drawdown (3rd quartile)	Hit Ratio	Return Ranking	Sharpe Ranking	Drawdown (3rd quartile) Ranking	Hit Ratio Ranking	Weighted Ranking	Time Spent In Regime	Regime count
								40%	20%	20%	20%			
Falling	Inflation > Target & Falling	Real Rates Rising	CFI	9.4%	2.7	-2%	38%	1	1	8	5	3.20	4%	3.0
Falling	Inflation > Target & Rising	Real Rates Rising	CEI	3.4%	2.2	-1%	17%	2	2	6	10	4.40	2%	2.0
Moderating	Inflation > Target & Rising	Real Rates Rising	BEI	2.4%	1.3	-2%	15%	4	4	7	12	6.20	6%	3.0
Moderating	Inflation < Target & Falling	Real Rates Rising	BGI	2.2%	1.4	-4%	50%	6	3	16	1	6.40	2%	3.0
Falling	Inflation < Target & Rising	Real Rates Falling	CHU	1.3%	0.6	-3%	50%	7	7	13	1	7.00	3%	4.0
Moderating	Inflation < Target & Rising	Real Rates Rising	BHI	2.3%	0.7	-5%	50%	5	6	19	1	7.20	1%	2.0
Falling	Inflation < Target & Rising	Real Rates Rising	CHI	0.4%	0.4	-2%	50%	10	9	9	1	7.80	1%	1.0
Falling	Inflation > Target & Falling	Real Rates Falling	CFJ	0.6%	0.5	0%	8%	8	8	3	13	8.00	4%	1.0
Falling	Inflation < Target & Falling	Real Rates Falling	CGJ	2.4%	0.9	-8%	17%	3	5	21	10	8.40	2%	4.0
Accelerating	Inflation < Target & Falling	Real Rates Rising	AGI	0.5%	0.3	-2%	33%	9	10	10	6	8.80	4%	4.0
Accelerating	Inflation < Target & Rising	Real Rates Rising	AHI	0.0%	0.0	-3%	23%	12	12	14	8	11.60	5%	7.0
Moderating	Inflation < Target & Falling	Real Rates Falling	BGJ	0.2%	0.2	-4%	22%	11	11	18	9	12.00	4%	3.0
Moderating	Inflation > Target & Rising	Real Rates Falling	BEJ	-0.5%	-0.1	-2%	7%	13	13	12	14	13.00	11%	2.0
Moderating	Inflation < Target & Rising	Real Rates Falling	BHU	-0.6%	-0.8	-1%	0%	14	19	4	15	13.20	1%	1.0
Accelerating	Inflation > Target & Rising	Real Rates Falling	AEJ	-0.7%	-0.5	-1%	0%	16	15	5	15	13.40	4%	2.0
Moderating	Inflation > Target & Falling	Real Rates Rising	BFI	-1.0%	-0.8	0%	0%	17	18	1	15	13.60	5%	1.0
Moderating	Inflation > Target & Falling	Real Rates Falling	BFJ	-1.2%	-0.7	0%	0%	19	16	1	15	14.00	5%	1.0
Accelerating	Inflation < Target & Falling	Real Rates Falling	AGJ	-0.6%	-0.3	-4%	0%	15	14	15	15	14.80	4%	2.0
Accelerating	Inflation < Target & Rising	Real Rates Falling	AHU	-2.0%	-1.0	-5%	33%	20	21	20	6	17.40	4%	5.0
Rising	Inflation < Target & Rising	Real Rates Falling	DHU	-1.0%	-0.9	-4%	0%	18	20	17	15	17.60	1%	2.0
Accelerating	Inflation > Target & Rising	Real Rates Rising	AEI	-3.6%	-2.3	-2%	0%	22	22	11	15	18.40	6%	2.0
Rising	Inflation < Target & Falling	Real Rates Falling	DGJ	-2.2%	-0.8	-9%	0%	21	17	22	15	19.20	2%	3.0

IMPORTANT INFORMATION

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Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees and charges and these can have a material detrimental effect on the performance of an investment.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

^{24, 25} Source: Insight, Bloomberg. Data between December 1976 and June 2023.

ASSOCIATED INVESTMENT RISKS

Multi-asset

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

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The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

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CONTRIBUTORS



Matthew Merritt
Head of Multi-Asset Strategy Group



Steve Waddington
Co-Deputy Head
Multi-Asset Strategy Group



Michael Ford
Co-Deputy Head
Multi-Asset Strategy Group



Colin Bennett
Portfolio Manager
Multi-Asset Strategy Group



Jonathan Crone
Portfolio Manager
Multi-Asset Strategy Group



Jenny Pham
Portfolio Manager
Multi-Asset Strategy Group



Shantanu Tandon
Portfolio Manager
Multi-Asset Strategy Group



Stephanie Chan
Portfolio Manager
Multi-Asset Strategy Group



Christopher Broadley
Portfolio Analyst
Multi-Asset Strategy Group



Andy Burgess
Investment Specialist
Multi-Asset Strategy Group

FIND OUT MORE

Institutional Business Development
businessdevelopment@insightinvestment.com
+44 20 7321 1552

European Business Development
europe@insightinvestment.com
+49 69 12014 2650
+44 20 7321 1928

Consultant Relationship Management
consultantrelations@insightinvestment.com
+44 20 7321 1023



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15861-06-23