CITY OF LONDON
Investment Management Company Limited

Developed Markets Quarterly Outlook

May 2022*

Overview

Recession Fears Loom Large

Concerns about the pandemic have given way to growing angst over the sharp tightening of global financial conditions in response to the relentless rise in inflation. The war in Ukraine complicated the outlook further by putting additional upward pressure on commodity prices. A slowdown in Chinese demand and supply disruptions due to its zero-COVID policy add yet another drag on global growth. The decisive response required by central banks to tame inflation raises the risk of recession.

As the COVID-19 pandemic gradually recedes from the market's central focus, the spectre of inflation, sharp monetary tightening and the looming possibility of a recession have taken over as key concerns for investors. The rise in inflation has both supply and demand drivers, which means that it has become much more entrenched than originally anticipated. The initial impetus for inflation came from mounting and persistent supply chain disruptions due to the pandemic-related lockdowns. This was exacerbated by a shift in consumption from services to goods as consumers were restricted in their mobility. As mobility restrictions eased, the release of pent-up consumer demand on the back of excess savings accumulated from government support added additional pressure on prices. The invasion of Ukraine in February of this year provided yet another boost to commodity prices, notably energy and agricultural prices. Finally, wage growth has begun to gather pace given the prolonged increase in inflation.

The complex nature of these factors suggests that inflation is unlikely to peter out simply as a result of the pandemic fading. Instead, it requires decisive corrective action by central banks, especially as their monetary policies have remained extremely accommodative during a period of strong recovery, with real interest rates deeply negative and central bank balance sheets bloated. As some of these factors are outside the reach of central bank policy, there is thus a risk that central banks may choose to tighten even more aggressively than already priced in by markets in order to compensate for this lack of traction.

At the same time, bringing policy rates to zero or even into positive territory requires sharp increases in rates, even if inflation slows by year-end. The solid state of most labor markets generally allows central banks to act with determination (with the exception of the ECB, which fears an unsustainable rise in government borrowing costs). Yet, such a swift adjustment will make it difficult to avoid periods of stagnation and/or recession. On the other hand, a period of softening demand pressures also means that commodity prices and general inflation are likely to recede next year. In fact, the sooner a soft patch sets in, the sooner the tightening cycle can be brought to an end.

Market Strategy: The confluence of negative factors has weighed heavily on global equity markets this year: the MSCI ACWI lost 8.4% during the February to April period, with a notable underperformance of the US by 30bps, which suffered from a heavy tech sell-off (the Nasdaq recorded a 13% loss during the period). This mostly reflected the ramping up of US rate expectations, which affect companies with profits in the far future the most. However, the invasion of Ukraine led to an even greater underperformance of the Eurozone, which lagged the aggregate index by 480bps over the same period. DM commodity exporters generally did well, whereas emerging markets underperformed the ACWI Index by 200bps.

The effects of global monetary tightening and of the invasion of Ukraine do not a priori push in the same direction. In the wake of the invasion, we had 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 appears on track to face 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**. We also remain *underweight* **Switzerland** due to its high valuations.

Global Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
US	↑				■	
Canada	–				■	
Eurozone	↓		■			
Switzerland	–	■				
UK	–			■		
Japan	↑			■		
Australia	–				■	
EM	–			■		

International Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
Canada	–				■	
Eurozone	↓		■			
Switzerland	–		■			
UK	–			■		
Japan	↑			■		
Australia	–				■	
EM	–			■		

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

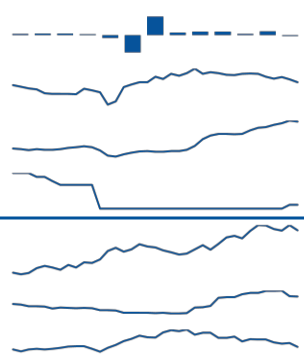
Source: CLIM

**This publication reflects asset performance up to 29 April, 2022, and macro events and data releases up to 11 May, 2022, unless indicated otherwise.*

United States

OW (Global Index) ↑

The Fed has shifted into aggressive tightening mode, contributing to a tech sell-off and risking a recession.



	3Y history	Latest	
GDP, % qoq saar		-1.4	Q1
PMI, index		55.4	Apr
CPI, % yoy		8.3	Apr
Policy rate, %		0.38	Apr
MSCI USA*		-0.3%	Apr
EPS, % yoy		34.9	Apr
Trailing P/E		21.3	Apr

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

The economic outlook for the US has morphed from an expected post-pandemic 'goldilocks' scenario to emerging fears of stagflation and, in recent months, rising concerns about a looming recession. At the heart of the changing narrative lies the rise in inflation, which has been buoyed by a series of factors that meant that it could no longer be dismissed as "temporary", having leapt to a peak of 8.5% yoy in March (with Core PCE at 5.2% yoy during the same month). Markets had thus begun to price in a total of over ten rate hikes this year, taking the Fed Funds rate to above 2.8% by year-end. Following a first rate hike by 25bps in January, the Fed duly followed up with its first 50bps hike in 20 years in May, while indicating that such hikes also remained on the table for the following months. Commentators have widely blamed the Fed for having misread and effectively missed the acceleration in inflation, a reason why it is now acting relatively aggressively.

However, the Fed faces significant challenges. First, it cannot have a clear view on where inflation will end the year and 2023 as a multitude of factors influence current price developments. As the effects of the pandemic ease, consumption patterns are set to revert towards a greater share of spending on services than goods. However, the pace of personal consumption (hitherto strong given excess savings built on the back of federal assistance programs) might also slow. In turn, this shift will determine the extent to which supply chain disruptions weigh on US inflation as they affect goods prices, but not services.

The future extent of such disruptions is itself difficult to gauge given the recurrent nature of COVID-19 variants, in particular in the context of China's highly disruptive zero-Covid policy. Amidst these difficulties, the FOMC expects the Core PCE to end the year at 4.1% yoy and the PCE at 4.3% yoy. If this turns out to be correct (and CPI would likely be ca. 100bps higher), this would leave real policy rates still sharply negative, despite the multitude of rate hikes. Yet, if the Fed hikes further, it could even undershoot its target given that its March projections already forecast end-2023 Core PCE at 2.6%. What is more, it is likely to tip the economy into recession.

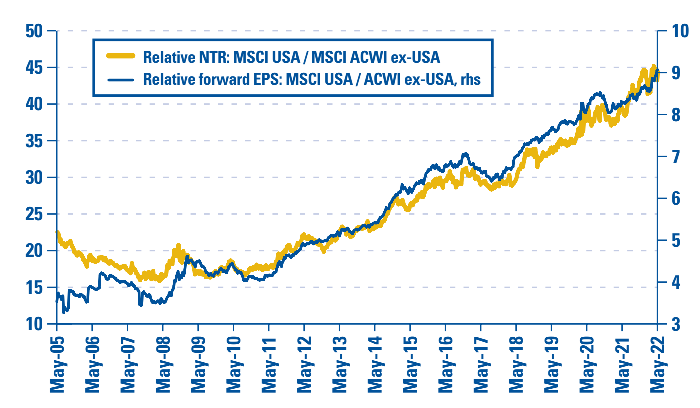
Indeed, since 1995, three out of four Fed tightening cycles have resulted in a recession. The circumstances this time will be less propitious given that the Fed is simultaneously embarking on a quantitative tightening program. At its May meeting, the Fed announced that it would stop reinvesting the proceeds 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 over three months to $60 bn and $35 bn, respectively. This implies a quicker balance sheet contraction than that last attempted in 2015: then, the Fed set a $10 bn monthly cap, which was gradually lifted to $50bn.

While a recession looms darkly over the outlook, a soft patch in the short term could ease the need for a more dramatic adjustment in the future. Indeed, in Q1, GDP defied expectations, contracting 1.4% saar after a 6.9% saar expansion in Q4 last year. Encouragingly, private consumption rose a solid 2.7% saar, but it was mostly met by foreign production and inventory de-stocking. Together with a decrease in government spending, these were the strongest factors slowing GDP growth down.

On the other hand, labor markets remain in rude health: initial jobless claims remain at low levels, continuing claims are trending lower, non-farm payrolls have grown strongly since the start of the year (428K in April) and the unemployment rate has dropped close to its pre-pandemic low (3.6% in April). In other data developments, durable goods orders continue to grow, albeit at a cooler pace than previously, whereas housing activity (sales) has been contracting for several months as 30yr mortgage rates surged beyond 5%.

Market Strategy: US valuations corrected significantly since the start of the year and the US market no longer appears particularly expensive. At the same time, the US exhibits stronger EPS momentum than its ACWI ex-US peers. Being more isolated from the risk of energy supply disruptions than the Eurozone, risks to US equities mainly stem from rising interest rates and the richly valued tech sector (Nasdaq P/E at 38). We thus upgraded the US to *overweight* in the wake of the Ukraine invasion.

Chart 1: MSCI USA vs MSCI ACWI ex. US Performance

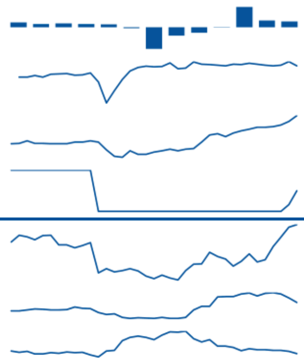


Source: Bloomberg

Canada

OW (Global and Global ex-US index)

Solid consumer spending and a commodity-driven export sector underpin a strong economic outlook for 2022.



	3Y history	Latest	
GDP, % yoy		3.3	Q4
PMI, index		56.2	Apr
CPI, % yoy		6.7	Mar
Policy rate, %		1.00	Apr
MSCI Canada*		6.2%	Apr
EPS, % yoy		35.2	Apr
Trailing P/E		15.5	Apr

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

The easing of mobility restrictions in February paved the way for a pick-up in economic activity. Preliminary estimates point to GDP growing by 5.6% qoq saar in Q1, stronger than consensus expectations. The April manufacturing PMI also suggests that the manufacturing sector started Q2 on a strong footing. What is more, the war in Ukraine has limited direct impact on Canada and benefits its energy sector directly. Slowing Chinese energy consumption also only has a limited impact on Canada's economy. Consensus expects GDP to grow by 4.1% yoy this year on the back of a strong consumer and commodity-driven export sector.

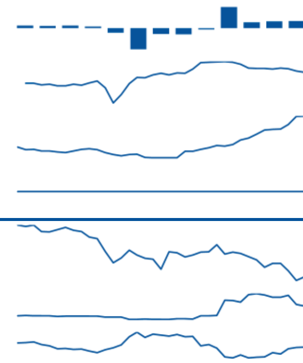
Meanwhile, the labour market remains tight, with the unemployment rate falling to an all-time low of 5.2% in April, even as wages have failed to keep up with inflation. Like other DMs, price pressures have been building in Canada, as headline inflation edged up to 6.7% yoy in March, significantly above the central bank's 2% target. In response, the Bank of Canada has raised rates by 75bps since the start of the year, and consensus expects the tightening cycle to continue into at least early 2023. Rising rates have already started to cool the hot housing market, as house prices in Toronto fell for the second consecutive month in April. Nevertheless, national house prices are still 20% above their pre-pandemic level.

Market Strategy: Canadian equities are attractively priced, with MSCI Canada's forward P/E ratio at an 18% discount to MSCI ACWI, cheaper than its five-year average of 10%. In addition, Canada's stock market has favourable earnings momentum, as forward earnings have risen by 16% over the past six months. Canada's stock market may also be able to withstand the aggressive monetary tightening, as the earning yield gap to 10-year local government bond yields is on par with its five-year average. Overall, we stay *overweight*.

Eurozone

UW (Global and Global ex-US index) ↓

The economy faces a rising risk of recession as a result of the war in Ukraine and disruptions to energy supply.



	3Y history	Latest	
GDP, % yoy		5.0	Q1
PMI, index		55.5	Apr
CPI, % yoy		7.5	Apr
Policy rate, %		0.00	Apr
MSCI Eurozone*		-4.8%	Apr
EPS, % yoy		114.4	Apr
Trailing P/E		18.9	Apr

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

The outlook for Europe's growth trajectory was altered fundamentally by Russia's invasion of Ukraine on February 24. This primarily reflects the threat the invasion poses to the supply of energy to Europe: over the past 20 years, EU oil and gas production has almost halved, whereas imports from Russia remained roughly steady, implying a rising share of imports. While several small countries in the region depend almost entirely on Russia for their energy needs, a few large countries also import large quantities: for example, Germany and Italy import ca. 50% and 40% of their natural gas consumption from Russia respectively, with gas accounting for almost a third of total energy consumption. The provision of gas to Europe could be up-ended either because Europe decides not to renew import contracts in order to penalize Russia, because of a decision by Russia to retaliate against sanctions imposed by the West or because essential infrastructure is disrupted in the course of the war (about one third of Russian gas pipelines to Europe pass through Ukraine).

Russia is also a provider of crude oil to many European countries. But Europe's dependence on oil from Russia is more limited given a greater diversification of suppliers as well as domestic European production, such as in the UK and Norway. In large Eurozone countries, around 30% of oil imports stem from Russia, although the Baltics, Poland, Hungary and Slovakia have considerably higher exposures. At the same time, oil intensity in overall production (GDP) has halved since the 1970s.

As a result, European countries will find it easier to wean themselves off from Russian oil than from the gas it supplies. The EU is currently considering to phase out Russian crude oil imports within six months and refined oil imports by end-2022. The ban would likely be delayed until end-2024 for Hungary and Slovakia and to June 2024 for the Czech Republic. The ban also affects all shipping, brokerage and insurance services offered by EU companies for Russian oil transports. The plan to reduce European imports of Russian gas is more vague: so far the EU has only announced that it aims to reduce its demand for Russian gas by two thirds before the end of the year. By contrast, the EU has already banned imports of Russian coal.

Beyond the risk of physical disruption, the Eurozone also faces the reality of higher import prices for gas and crude oil, adding substantially to household bills and curtailing spending power. With metals and agricultural prices rising as well, this adds yet further upward pressure on inflation: Eurozone CPI, which had been at its 2% target level in June 2021, has since risen to a high of 7.5% yoy in April, with price pressures having broadened to core prices.

Finally, the new conflict and its wider repercussions also bring an end to the ‘peace dividend’ that was to have accrued as a result of the dissolution of the Soviet Union and its socialist satellite regimes in Eastern Europe. In the future, key Eurozone countries plan to ramp up defense expenditures significantly, diverting resources from areas with potentially higher social returns.

Despite the relentless rise in inflation, until very recently the ECB had been reluctant to contemplate an increase in interest rates, focussing instead on the end of its asset purchase program. However, markets have begun to price in slightly over three 25bps hikes before year-end, taking the deposit rate from -0.5% to 0.25%, a still very modest level that implies deeply negative real rates.

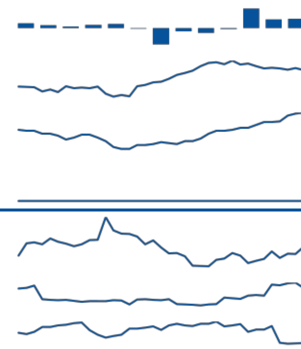
The strong growth outlook due to the post-pandemic recovery is being tempered by the outlook for energy supply disruptions, higher energy prices and inflation in general and, eventually, higher Eurozone interest rates and tighter financial conditions. Shocks to sentiment and disruptions in the automotive sector represent further adverse factors. Nevertheless, the economy settled into a more manageable, yet solid, 0.3% and 0.2% qoq pace in Q4 and 22Q1 (equivalent to 4.7% and 5.0% yoy respectively), following the strong 2.2% qoq (4.1% yoy) rebound in Q3. Labor markets remain solid, with rising shortages in the manufacturing sector in several large countries. PMI has so far remained resilient, with the composite measure close to 56. Retail sales softened slightly but have not (yet) dropped off as precipitously as consumer confidence.

Market Strategy: Although the Eurozone was on the way to a solid recovery, Russia’s invasion of Ukraine has upended this scenario. The Eurozone benefits from easier financial conditions than other G3 economies, but the risk of a disruption to its supply of energy (partially self-imposed) casts a shadow over the growth outlook. As a result, we reversed our allocation and moved the Eurozone back to *underweight*.

Switzerland

UW (Global and Global ex-US index)

Expensive valuations leave Swiss equities exposed to the global monetary policy tightening underway.



	3Y history	Latest	
GDP, % yoy		3.9	Q4
PMI, index		62.5	Apr
CPI, % yoy		2.5	Apr
Policy rate, %		-0.75	Apr
MSCI Switzerland*		5.0%	Apr
EPS, % yoy		44.7	Apr
Trailing P/E		17.2	Apr

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

The favourable April reading of the KOF Economic Barometer, a leading indicator of economic activity, suggests that the lifting of the remaining mobility restrictions in the same month paved the way for a rebound in growth. In addition, the manufacturing PMI remained in expansionary territory in April. The labour market is also tight, with the unemployment rate steady at a 20-year low of 2.2% in April, which should support household consumption. Consensus projects GDP to grow by 2.5% this year, a touch above its pre-pandemic five-year average.

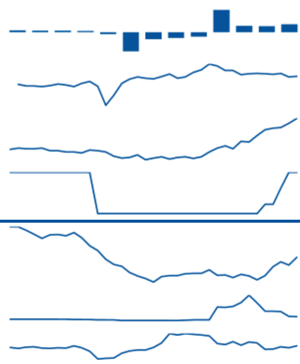
Following years of depressed inflation, Switzerland has not been immune to the inflationary pressures plaguing other DM. Headline inflation reached 2.5% yoy in April, exceeding the 2% inflation target of the Swiss National Bank (SNB). However, inflation is still far more muted than in the US and the Eurozone. As a result, coupled with a focus on preventing an appreciation of the franc, the SNB is expected to hike by just 25bps in H2, slower than what markets expect for the European Central Bank. Indeed, FX intervention by the SNB over the past month has led to a near 4% depreciation against the euro.

Market Strategy: MSCI Switzerland outperformed MSCI ACWI by 5% points over the past three-months. But earnings momentum has softened, with forward earnings contracting on a six-month basis, albeit partly driven by franc weakness against the US dollar. Meanwhile, valuations have deteriorated, with the MSCI Switzerland forward P/E premium to MSCI ACWI at 13%, higher than its five-year average of 5%. As a result, we remain *underweight* Switzerland.

United Kingdom

NW (Global and Global ex-US index)

Monetary tightening seeks to avoid tipping the economy into recession, but will not immediately tame inflation.



	3Y history	Latest	
GDP, % yoy		8.7	Q1
PMI, index		55.8	Apr
CPI, % yoy		7.0	Mar
Policy rate, %		0.75	Apr
MSCI UK*		5.7%	Apr
EPS, % yoy		153.8	Apr
Trailing P/E		17.7	Apr

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

The UK headline inflation rate has risen dramatically since mid-2021, similar to developments in other G7 countries. Yet, the most recent reading shows a lower level of 7.0% yoy in March than either the Eurozone or the US. Nevertheless, the central bank (BoE) responded aggressively, perhaps because of a history of high inflation volatility. In May, it delivered its fourth consecutive rate hike, bringing the base rate to 1.0%, equivalent to the current Fed Funds rate and far above the ECB's negative deposit rate. With resilience in the labor market as a backdrop, the BoE hinted that further rate hikes were to come.

The flipside of such aggressive action against the inflation surge is a dent in economic activity. The BoE clearly believes that bearing some economic pain is necessary to bring inflation down. It now projects growth in the four quarters from 22Q2 to be flat on average, but with only one quarter of contraction in Q4. Beyond then annualized quarterly growth is projected to average just 0.4% over the two years of 2023 and 2024. Nevertheless, avoiding recession could turn out to be challenging.

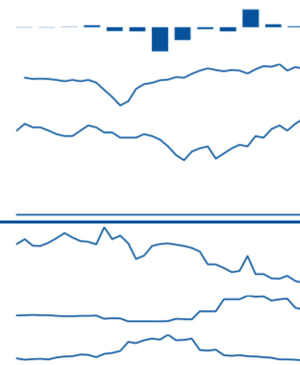
While the BoE scenario would avoid a recession, it would not tame inflation immediately. Indeed, the BoE raised its near-term inflation forecast, reaching a peak of 10% in Q4 on the back of a rise in regulated energy bills in October by 40% and higher wage growth. Nevertheless, the assumption of significant excess capacity arising leads it to forecast inflation below its 2% target on a 2-3 year horizon.

Market Strategy: UK equities outperformed the MSCI ACWI by 567bps in February-to-April as its large cap companies benefited from a surge in commodity prices and a weak exchange rate. However, the commodity price surge may have run its course and the UK economy faces a significantly more challenging outlook as the BoE attempts to quench inflation. Valuations for the equity market place the UK between the US and the Eurozone. As a result, we maintain our *neutral* allocation.

Japan

NW (Global and Global ex-US index) ↑

Muted inflation, the absence of rate hikes and a weakening yen support the economic expansion.



	3Y history	Latest	
GDP, % yoy		0.4	Q4
PMI, index		53.5	Apr
CPI, % yoy		1.2	Mar
Policy rate, %		-0.10	Apr
MSCI Japan*		-1.8%	Apr
EPS, % yoy		29.6	Apr
Trailing P/E		12.7	Apr

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

GDP growth is expected to accelerate this year following last year's 1.8% expansion. The country ended its quasi-emergency measures in March on the back of falling COVID-19 cases and deaths, which bodes well for activity. The composite PMI rose for the second consecutive month in April, signalling a modest expansion in Japan's private sector output. That said, the Tankan survey revealed that confidence of large manufacturers dipped in Q1 due to supply chain problems and rising costs. Consensus projects GDP growth of 2.1% this year, double its pre-virus five-year average pace of 1%.

Overall consumer prices in Japan rose at their fastest pace in two years to 1.2% yoy in March, still much slower than elsewhere in DM. This is partly due to the drag from the cut in mobile phone fees last year, which is due to drop out from the calculations from April onwards. Nonetheless, the government announced a further fiscal-stimulus package in April to help consumers with higher energy and food costs.

With inflation below the 2% target set by the Bank of Japan (BoJ), the central bank has maintained its accommodative stance, triggering a plunge in the yen to a 20-year low. And given Governor Kuroda's reiteration that a weak yen is positive for growth and inflation, the market is not pricing in any change in monetary policy in the near term.

Market Strategy: Japanese equities appear attractive, with MSCI Japan trading at a 19% discount to MSCI ACWI, lower than its five-year average. Moreover, the BoJ's reluctance to tighten policy suggests further yen weakness, which should provide a lift to large exporters, who feature in the top 10 constituents of the MSCI Japan. Furthermore, yen weakness tends to coincide with MSCI Japan outperformance of MSCI ACWI ex US. As a result, we upgrade our allocation to *neutral.*

Australia

OW (Global and Global ex-US index)

High commodity prices and a tight labour market suggest a solid economy, but China's lockdowns are a risk.

	3Y history	Latest	
GDP, % yoy		4.2	Q4
PMI, index		58.8	Apr
CPI, % yoy		5.1	Mar
Policy rate, %		0.35	Apr
MSCI Australia*		19.1%	Apr
EPS, % yoy		157.0	Apr
Trailing P/E		17.1	Apr

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Economic growth is expected to hold up this year as the easing of restrictions at the start of Q2 supports service sector activity. In addition, the removal of testing requirements for vaccinated travellers in April should support the tourism sector. In turn, the composite PMI edged up to 55.9 in April, firmly in expansionary territory. Meanwhile, the unemployment rate remains at a 48-year low of 4%, and consensus expects the rate to end the year a touch lower.

Meanwhile, higher commodity prices are set to boost Australia's exports, with resources accounting for nearly 70% of the country's exports. However, as a significant buyer of Australia's commodities, China's lockdowns and the subsequent economic slowdown are a key headwind. Consensus projects GDP growth to ease from 4.8% yoy in 2021 to 4.4% this year.

Inflation pressures have mounted, with consumer prices growing by 5.1% yoy in Q1, the quickest pace in 20 years. As inflation breached its 2-3% target, the Reserve Bank of Australia (RBA) kicked off its tightening cycle in May with a 25bps rate hike to 0.35%. Consensus expects the RBA to continue hiking rates into 2023. Higher rates suggest less supportive housing market conditions, with analysts expecting house prices to end 2022 lower after rising by 30% since the pandemic.

Market Strategy: Australian equities demonstrate robust earnings momentum, as forward earnings rose by 13% over the past six months. Moreover, valuations are attractive, with MSCI Australia's forward P/E at a 4% discount to MSCI ACWI, cheaper than the historical average (0%). As a result, we maintain our *overweight* allocation.

Emerging Markets

NW (Global and Global ex-US index)

Despite rising commodity prices, tighter financial conditions and a slowing China weigh on the EM outlook.

	3Y history	Latest	
GDP, % yoy		4.4	Q4
PMI, index		48.1	Apr
CPI, % yoy		3.7	Apr
Policy rate, %		5.62	Apr
MSCI EM*		-2.0%	Apr
EPS, % yoy		28.4	Apr
Trailing P/E		12.1	Apr

**US$ total return relative to MSCI ACWI. Latest is three-month return. Economic indicators are GDP-weighted with the exception of PMI, which is value-added-weighted.*

Source: Bloomberg

Emerging markets have been bolstered and buffeted by a multitude of factors over the past 12 months. The pandemic delivered a serious blow to many countries who had only limited fiscal and monetary resources to counter its economic impact. Nevertheless, EMs have been much quicker in returning to pre-pandemic mobility levels, partly out of choice, partly out of necessity. However, their recovery is generally expected to be shallower than in DMs.

The war in Ukraine paradoxically brought some benefits to EMs not directly involved in the conflict as it raised prices for various commodity exports. But at the same time, inflation had begun to take off in EM and, given weaker central bank credibility, the tightening cycle there kicked off ahead of G10 economies. In addition to domestic tightening, EMs now also face a tightening of global financial conditions (not least due to the Federal Reserve) and a strengthening US dollar, rendering their imports and foreign debt payments more expensive.

In addition, slowing growth in China and a growing trend towards de-globalization further dim the outlook for developing economies. The draconian lockdown measures due to China's zero-Covid policy weigh on a crucial source of demand for EM countries. Further ahead, the risk of recessions in the UK, US and Eurozone could add further headwinds to the EM growth outlook.

Market Strategy: Emerging markets as a whole underperformed the MSCI ACWI by 200bps during the February-April period. EM valuations appear attractive relative to the MSCI ACWI, yet the strong USD and a rising global yield environment diminish that attractiveness, in particular in combination with a slower growth outlook in China. We thus maintain our *neutral* allocation. ◆

INTERNATIONAL EQUITY - KEY ECONOMIC AND FINANCIAL INDICATORS

		Macroeconomic Data													Market Performance				Forecast†	
		% change on year ago				Latest 12 months														
	Developed Market	Annual GDP Growth	Quarterly GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Budget Balance % of GDP 2022F**	Trade Balance	Current Account Balance	Foreign Reserves 2022 Latest	Foreign Reserves 2021 Year Ago	Currency vs $ 2022 Latest	Currency vs $ 2021 Year ago	Short-Term Interest Rates	Sovereign Rating S&P	% MSCI ACWI Net***	Stock Market Index (MSCI ACWI Net) US$	Change since 12/31/21 US$	Change since 12/31/21 Local	2022 P/E Forecast	3 month Currency vs $ +/-
		%	%	%	%		$ Bns	$ Bns	$ Bns	$ Bns			%		Apr. 29, 2022	Apr. 29, 2022	%	%		
Overweight	CANADA	4.5	6.7	23.1	6.7	-2.3	10.2	1.2	78.06	71.11	1.30	1.21	1.61	AAA	8.20	7516.60	-3.06	-1.92	12.7	+
	AUSTRALIA	4.2	14.3	-1.0	5.1	-3.1	91.1	57.0	34.61	36.23	0.69	0.77	0.05	AAA	5.18	5060.02	0.96	3.27	15.0	+
Neutral	DENMARK	6.8	12.6	13.1	6.7	0.5	2.8	33.1	68.60	64.64	7.14	6.16	-0.60	AAA	1.75	44271.73	-9.41	-2.33	18.2	+
	EM****	4.4	n.a.	7.4	3.7	-4.3	749.3	457.9	7783.36	7763.27	1665.67	1734.20	5.62	n.a.	28.83	534.36	-12.15	-9.41	11.6	n.a.
	ISRAEL	9.6	17.8	13.2	3.5	-3.1	-37.5	55.7	201.59	183.66	3.45	3.29	0.73	AA-	0.45	156.64	-14.36	-10.45	11.3	+
	JAPAN	0.4	4.6	-1.7	1.2	-6.5	-46.9	112.0	1230.52	1288.35	128.10	109.63	-0.18	A+	13.75	6757.98	-14.83	-4.17	12.4	-
	NEW ZEALAND	3.2	10.4	15.6	6.9	-4.5	-6.3	-14.0	12.79	11.23	0.63	0.72	1.12	AA+	0.12	545.66	-17.30	-12.76	37.7	-
	NORWAY	4.8	5.7	-2.2	5.4	0.4	89.1	73.0	71.50	73.05	9.84	8.34	1.30	AAA	0.48	10618.30	2.48	8.27	9.2	+
	SINGAPORE	3.4	0.4	3.4	5.4	-0.5	124.0	71.6	371.43	376.90	1.39	1.33	1.06	AAA	0.91	1114.43	-9.05	-7.11	18.4	+
	SWEDEN	5.2	7.8	1.8	6.4	-0.5	1.8	33.9	40.30	43.82	10.10	8.43	0.48	AAA	2.20	28398.23	-21.87	-15.49	16.9	+
	UK	8.7	3.2	0.7	7.0	-4.0	-75.7	-81.6	123.11	133.26	1.22	1.41	1.23	AA	9.89	7143.28	-1.93	5.79	10.9	+
Underweight	SWITZERLAND	3.9	1.2	7.3	2.5	-0.5	61.2	74.3	985.08	988.39	1.00	0.91	-0.75	AAA	6.64	17049.66	-11.00	-5.18	18.3	+
	FRANCE	5.3	0.0	0.1	4.8	-5.3	-115.2	-20.5	52.12	53.21	1.04	1.21	2.00	AA	7.17	7453.39	-14.54	-7.87	13.1	+
	GERMANY	3.7	0.8	-3.3	7.4	-3.3	165.1	281.0	37.71	37.22	1.04	1.21	0.07	AAA	5.09	5723.51	-20.02	-13.78	11.3	+
	HONG KONG	-4.0	-11.1	5.8	1.7	-2.0	-43.5	86.7	490.95	495.58	7.85	7.77	0.71	AA+	1.85	64821.94	-6.72	-6.15	15.0	-
	NETHERLANDS	6.5	4.1	7.2	9.6	-2.7	66.1	81.4	4.80	5.91	1.04	1.21	-0.45	AAA	2.64	20889.24	-25.76	-20.11	19.9	+
	ITALY	5.8	-0.7	3.0	6.2	-5.6	37.3	37.6	47.59	45.56	1.04	1.21	1.47	BBB	1.48	844.99	-16.31	-9.79	9.0	+
	SPAIN	6.4	1.2	1.1	8.4	-5.7	-21.8	0.4	53.77	55.45	1.04	1.21	-0.45	A	1.50	2924.50	-6.66	0.62	11.8	+
	BELGIUM	4.6	1.2	11.7	8.3	-5.1	-11.5	-2.2	10.88	10.38	1.04	1.21	-0.45	AA	0.60	8272.39	-10.14	-3.13	18.7	+
	FINLAND	3.4	2.8	3.1	5.8	-2.2	-6.9	0.7	7.85	7.98	1.04	1.21	0.00	AA+	0.62	1171.79	-15.64	-9.07	16.0	+
	IRELAND	9.6	-19.9	-6.6	7.0	-1.9	73.1	-19.6	1.03	0.96	1.04	1.21	-0.44	AA-	0.38	389.29	-23.42	-17.45	17.3	+
	AUSTRIA	5.5	10.4	3.7	7.2	-2.9	-17.1	-2.5	8.91	8.85	1.04	1.21	-0.45	AA+	0.13	3434.10	-25.17	-19.33	6.9	+
	PORTUGAL	11.9	10.8	-4.1	7.2	-3.0	-26.6	-3.7	3.35	4.50	1.04	1.21	-0.45	BBB	0.13	186.36	-4.03	3.45	19.2	+
	EUROZONE	5.0	0.8	2.0	7.5	-4.2	2.7	4.5	294.94	317.53	1.04	1.21	0.07	n.a.	19.81	352.10	-17.37	-10.95	12.5	+

*Note: All data shown are as at May 12, 2022 unless otherwise stated. S&P credit rating shown is long-term foreign currency rating. * % change in GDP on previous quarter, annual rate. **Bloomberg consensus forecast.*
****MSCI All Country World ex USA Index Daily Total Return Net. ****IP data from CPB; Currency level from MSCI EM Currency Index; GDP, CPI, budget and interest rate data from Bloomberg.*
†Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.

Source: Bloomberg, CLIM

GLOBAL EQUITY - KEY ECONOMIC AND FINANCIAL INDICATORS

	Developed Market	Macroeconomic Data													Market Performance				Forecast†	
		% change on year ago				Latest 12 months														
		Annual GDP Growth	Quarterly GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Budget Balance % of GDP 2022F**	Trade Balance	Current Account Balance	Foreign Reserves 2022 Latest	Foreign Reserves 2021 Year Ago	Currency vs $ 2022 Latest	Currency vs $ 2021 Year ago	Short-Term Interest Rates	Sovereign Rating S&P	% MSCI ACWI Net***	Stock Market Index (MSCI ACWI Net) US$	Change since 12/31/21 US$	Change since 12/31/21 Local	2022 P/E Forecast	3 month Currency vs $ +/-
		%	%	%	%		$ Bns	$ Bns	$ Bns	$ Bns			%		Apr. 29, 2022	Apr. 29, 2022	%	%		
Overweight	UNITED STATES	3.6	-1.4	5.5	8.3	-4.8	-946.1	-821.6	39.25	42.25	1.00	1.00	2.03	AA+	60.70	11453.18	-13.91	-13.91	18.6	uc
	CANADA	4.5	6.7	23.1	6.7	-2.3	10.2	1.2	78.06	71.11	1.30	1.21	1.61	AAA	3.22	7516.60	-3.06	-1.92	12.7	+
	AUSTRALIA	4.2	14.3	-1.0	5.1	-3.1	91.1	57.0	34.61	36.23	0.69	0.77	0.05	AAA	2.04	5060.02	0.96	3.27	15.0	+
Neutral	DENMARK	6.8	12.6	13.1	6.7	0.5	2.8	33.1	68.60	64.64	7.14	6.16	-0.60	AAA	0.69	44271.73	-9.41	-2.33	18.2	+
	EM****	4.4	n.a.	7.4	3.7	-4.3	749.3	457.9	7783.36	7763.27	1665.67	1734.20	5.62	n.a.	11.33	534.36	-12.15	-9.41	11.6	n.a.
	ISRAEL	9.6	17.8	13.2	3.5	-3.1	-37.5	55.7	201.59	183.66	3.45	3.29	0.73	AA-	0.18	156.64	-14.36	-10.45	11.3	+
	JAPAN	0.4	4.6	-1.7	1.2	-6.5	-46.9	112.0	1230.52	1288.35	128.10	109.63	-0.18	A+	5.40	6757.98	-14.83	-4.17	12.4	-
	NEW ZEALAND	3.2	10.4	15.6	6.9	-4.5	-6.3	-14.0	12.79	11.23	0.63	0.72	1.12	AA+	0.05	545.66	-17.30	-12.76	37.7	-
	NORWAY	4.8	5.7	-2.2	5.4	0.4	89.1	73.0	71.50	73.05	9.84	8.34	1.30	AAA	0.19	10618.30	2.48	8.27	9.2	+
	SINGAPORE	3.4	0.4	3.4	5.4	-0.5	124.0	71.6	371.43	376.90	1.39	1.33	1.06	AAA	0.36	1114.43	-9.05	-7.11	18.4	+
	SWEDEN	5.2	7.8	1.8	6.4	-0.5	1.8	33.9	40.30	43.82	10.10	8.43	0.48	AAA	0.86	28398.23	-21.87	-15.49	16.9	+
	UK	8.7	3.2	0.7	7.0	-4.0	-75.7	-81.6	123.11	133.26	1.22	1.41	1.23	AA	3.89	7143.28	-1.93	5.79	10.9	+
Underweight	SWITZERLAND	3.9	1.2	7.3	2.5	-0.5	61.2	74.3	985.08	988.39	1.00	0.91	-0.75	AAA	2.61	17049.66	-11.00	-5.18	18.3	+
	FRANCE	5.3	0.0	0.1	4.8	-5.3	-115.2	-20.5	52.12	53.21	1.04	1.21	2.00	AA	2.82	7453.39	-14.54	-7.87	13.1	+
	GERMANY	3.7	0.8	-3.3	7.4	-3.3	165.1	281.0	37.71	37.22	1.04	1.21	0.07	AAA	2.00	5723.51	-20.02	-13.78	11.3	+
	NETHERLANDS	6.5	4.1	7.2	9.6	-2.7	66.1	81.4	4.80	5.91	1.04	1.21	-0.45	AAA	1.04	20889.24	-25.76	-20.11	19.9	+
	ITALY	5.8	-0.7	3.0	6.2	-5.6	37.3	37.6	47.59	45.56	1.04	1.21	1.47	BBB	0.58	844.99	-16.31	-9.79	9.0	+
	SPAIN	6.4	1.2	1.1	8.4	-5.7	-21.8	0.4	53.77	55.45	1.04	1.21	-0.45	A	0.59	2924.50	-6.66	0.62	11.8	+
	HONG KONG	-4.0	-11.1	5.8	1.7	-2.0	-43.5	86.7	490.95	495.58	7.85	7.77	0.71	AA+	0.73	64821.94	-6.72	-6.15	15.0	-
	FINLAND	3.4	2.8	3.1	5.8	-2.2	-6.9	0.7	7.85	7.98	1.04	1.21	0.00	AA+	0.24	1171.79	-15.64	-9.07	16.0	+
	BELGIUM	4.6	1.2	11.7	8.3	-5.1	-11.5	-2.2	10.88	10.38	1.04	1.21	-0.45	AA	0.24	8272.39	-10.14	-3.13	18.7	+
	IRELAND	9.6	-19.9	-6.6	7.0	-1.9	73.1	-19.6	1.03	0.96	1.04	1.21	-0.44	AA-	0.15	389.29	-23.42	-17.45	17.3	+
	PORTUGAL	11.9	10.8	-4.1	7.2	-3.0	-26.6	-3.7	3.35	4.50	1.04	1.21	-0.45	BBB	0.05	186.36	-4.03	3.45	19.2	+
	AUSTRIA	5.5	10.4	3.7	7.2	-2.9	-17.1	-2.5	8.91	8.85	1.04	1.21	-0.45	AA+	0.05	3434.10	-25.17	-19.33	6.9	+
	EUROZONE	5.0	0.8	2.0	7.5	-4.2	2.7	4.5	294.94	317.53	1.04	1.21	0.07	n.a.	7.79	352.10	-17.37	-10.95	12.5	+

*Note: All data shown are as at May 12, 2022 unless otherwise stated. S&P credit rating shown is long-term foreign currency rating. * % change in GDP on previous quarter, annual rate. **Bloomberg consensus forecast.*
****MSCI All Country World Index Daily Total Return Net. ****IP data from CPB; Currency level from MSCI EM Currency Index; GDP, CPI, budget and interest rate data from Bloomberg.*
†Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.

Source: Bloomberg, CLIM

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