Key themes and their investment implications for Q4 2022

	Asset Allocation	Equities	Fixed income	Private markets	Real estate
Soft, hard or crash landing?	▪ Defensively positioned, underweight in equities and credit; maximum allocation to cash. ▪ Despite appreciation, dollar remains key safe haven. Higher terminal rates, stubborn inflation and weak sentiment still support the dollar strength. ▪ Within credit, we prefer IG for its higher quality, defensive characteristics.	▪ Equity volatility likely to remain high due given policy volatility, geopolitics, inflation, central bank hawkishness and high chances of a recession. ▪ Earnings were relatively robust in Q2. However, inflation and dollar strength may be masking the real earnings picture. Some parts of the economy appear to be running hot and others cracking. Very careful selection is key.	▪ A time to be defensive - US HY is not yet pricing in recession risks. We prefer IG, which offers better quality and valuations. ▪ Risk of a hard landing makes US duration relatively attractive, although the Fed pivot has been pushed well into 2023. ▪ The extreme hawkishness of central banks makes breakevens unattractive for now, although we do see long-term value in US breakevens.	▪ Underlying credit metrics remain robust as we head into a downturn. Exposure to CCC-rated credits as a percentage of the index remains moderate. ▪ Floating rate instruments offer a form of protection against rising rates and widening spreads. They provide consistent income generation, while leveraged loans provide structural protection given their senior position in the capital structure.	▪ High inflation and falling growth has not been good for real estate historically. ▪ Asset selection and adding value through asset management will be much more critical drivers of performance this cycle compared to the last. ▪ We have already seen pricing shift by 40-50bps at a market level, and we expect to see a similar yield shift by the end of Q4, as more investment activity provides evidence for where valuations truly lie.
China – all eyes on the Party Congress	▪ Remaining cautious on China assets given the uncertain growth outlook. Neutral on EM equities overall. ▪ However, we are more positive on other parts of EM equities, especially Latin America. ▪ China's weak growth is putting pressure on EMD, which along with the strong dollar leads us to be underweight.	▪ We remain cautious on Chinese equities, given the zero-Covid policy impact, policy uncertainty and property sector instability. However, indiscriminate selling is creating significant opportunities. ▪ With the exception of the advertising and renewable energy sectors, our analysts are lowering earnings expectations. ▪ The mortgage boycott situation and the new lockdowns are delaying recovery. However, we still expect recovery over the next 12 months.	▪ Our short term view on China rates is neutral - PBOC easing is limited from diverging too far from DM central banks. We have a long-term underweight to China rates on expectation of economic recovery. ▪ Cautious on credit given policy uncertainty, the stilted recovery and continued woes of the property sector. The market is betting on improvement in policy implementation after the Party Congress, but our analyst is less optimistic.	▪ The zero-Covid policies continue to have an impact on global supply chains, therefore we are looking for signals of supply chain challenges easing as China starts to open up.	
From monetisation to fiscalisation	▪ Neutral on UK equities - while the outlook looks grim, the FTSE 100 is cheap and is positively correlated with commodity prices. Recent volatility in the wake of UK fiscal policy will be important to monitor over the coming months. ▪ Underweight European equities, as earnings will deteriorate further even with fiscal support for consumers. ▪ We prefer the safety of US equities where data has been more resilient.	▪ EU and UK households will struggle this winter, but worst-case scenarios should be avoided thanks to excess savings and fiscal support. ▪ How fiscal support is articulated is critical, however, with UK episode leading to a flight out of equities on macroeconomic concerns. ▪ Volatility in DM equities is likely to remain high unless and until confidence in policymaking is regained.	▪ EU duration is attractive – given the challenging outlook for Europe, we believe the market is pricing in an excessive level of ECB hikes. This means core ECB debt should find support and offer some protection. ▪ However, we would urge caution on periphery debt at this stage given diminishing central bank support and greater political uncertainty. ▪ Disruption to UK fixed income markets from the "mini-budget" offers potential value in sterling credit. Cautious on volatility in sterling rates.	▪ Loan markets continue to exhibit lower volatility than other risk assets due to floating rate nature and seniority in capital structure. ▪ Security selection remains of paramount importance. Prefer higher quality, strong balance sheets in defensive sectors. ▪ Focus on refinancing risk as the 2024 maturity wall approaches. ▪ Attractive new deployment opportunities at lower leverage levels, stronger security and better pricing.	▪ Even though "green" offices may command higher rents, such are the savings to be made on energy bills compared to older buildings, occupiers may still find them to be the cheaper option. ▪ With occupancy costs rising rapidly, we expect there to be more pressure among occupiers to rationalise their portfolios. ▪ Focus is on supply constrained markets where rental values look more resilient.

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