INVESTMENT OUTLOOK

JANUARY 2022

RISKS AND UNCERTAINTY ARE CURRENTLY ON THE RISE. ANOTHER GLOBAL WAVE OF COVID-19 IS UPON US. CENTRAL BANKS APPEAR TO BE TURNING HAWKISH IN THE FACE OF PERSISTENT INFLATION PRESSURE. BUT WE STILL SEE REASON TO BELIEVE THE GLOBAL EXPANSION WILL STAY ON TRACK.

Consumer demand remains healthy. Corporate health appears strong and we anticipate solid fundamentals and profit growth in 2022. Wage growth will likely draw participants back into the workforce, improving labor market health. On balance, we think risk assets could offer opportunity in 2022 as long as investors can stomach potential volatility.

MACRO & MARKET COMMENTARY

INFLATION SPOTLIGHT

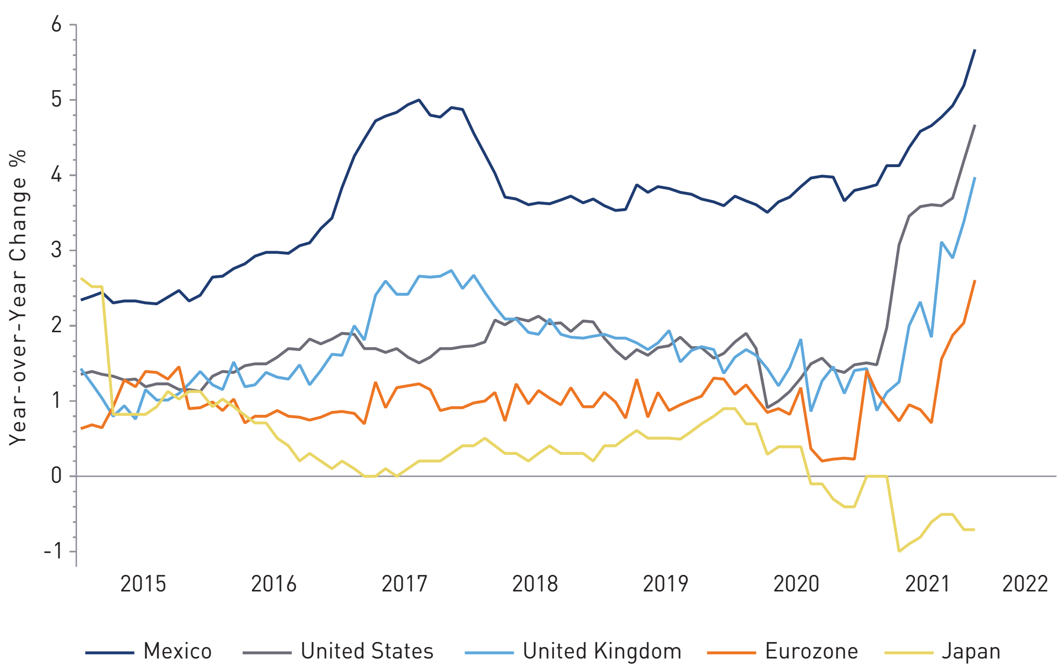
Inflation will likely govern the magnitude of central bank tightening next year.

- We believe cyclical forces and COVID-19-related distortions will help keep inflation elevated through the next four quarters while employment indicators continue to improve.
- In our view, supply chain disruptions are largely a function of demand for goods exceeding supply. We expect supply and demand to balance out later in 2022, which should lead to a moderation in goods prices.
- Companies will likely keep hiring and ramping up production to build back depleted inventories. We think demand for labor will remain elevated and we expect wage growth to run near 4.0%, hotter than the levels seen after the global financial crisis.
- Rising wages can lead to increased demand for goods, which can become a self-perpetuating cycle. However, we feel that relationship is unlikely to gain traction near term because wage growth in real terms is still negative. In other words, nominal wage gains have not kept pace with consumer price inflation.
- When supply chain disruptions clear, we would expect core PCE[1] to find a range between 2.0% and 2.5%.

CORE INFLATION

Source: Refinitiv Datastream, National Sources, latest monthly data available at 31 December 2021.

IF SUPPLY CHAIN DISRUPTIONS CLEAR IN 2022, CORE INFLATION SHOULD MODERATE FROM VERY ELEVATED LEVELS



[1] *PCE: Personal Consumption Expenditures Price Index, a measure of inflation.*

MACRO DRIVERS

The global expansion is likely to remain on track.

- Global growth forecasts (and US growth forecasts) could soften if COVID-19-related disruptions escalate during the winter season.
- It appears vaccines will remain effective in preventing hospitalizations and deaths due to the omicron variant. The variant's spread appears likely to alter consumer behavior, but we don't anticipate material "demand destruction."
- Demand for goods and services remains robust despite higher price levels. Companies have been able to effectively pass through higher input costs to end users. We expect this trend to continue, which should help support corporate profit margins.
- Our aggregate credit market outlook is bright. We expect more credit rating upgrades than downgrades.
- We believe central banks are unlikely to overtighten policy, which would keep financial conditions from becoming too restrictive. The global economy could remain in the expansion phase of the credit cycle for a few years in such a regime.

MACROECONOMIC INDICATORS: BASE CASE EXPECTATIONS

Source: Loomis Sayles, as of 31 December 2021.

	EXPANSION (Base Case)
GLOBAL GROWTH	Not synchronized
SUPPLY/DEMAND IMBALANCE	Gradually reaches Fed's 2% target
REACH FULL EMPLOYMENT	End 2022/Improving participation
FED LIFTOFF	Q2 2022
YIELDS	Rise gradually
RISK APPETITE	Remains healthy
US DOLLAR VIEW	Range-bound

GOVERNMENT POLICY

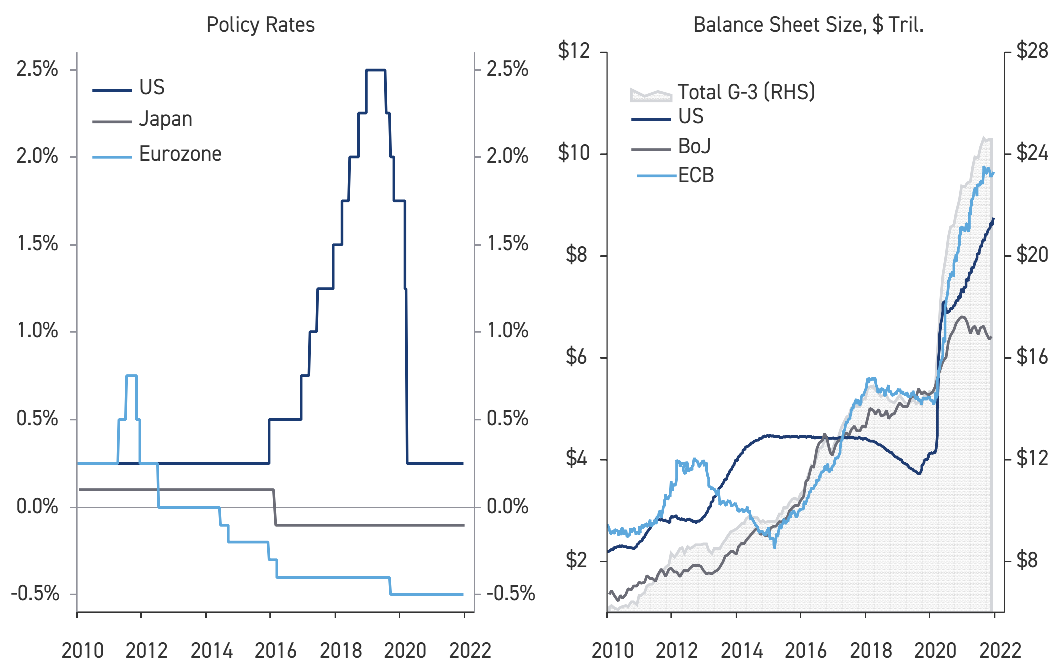
Monetary policy will likely become less accommodative, but remain far from restrictive.

- Many economies have begun the transition from pandemic to endemic conditions. In our view, fiscal stimulus will not be an economic growth driver in 2022. In many countries, less fiscal stimulus could represent a drag on 2022 growth rates.
- The global economy has made rapid progress through the current credit cycle. In our view, central banks are likely to follow suit, with a faster timeline for rate hikes compared to the last cycle.
- Now that inflation has surpassed the Fed's inflation target, we think the Fed will deliver four 25-basis-point rate hikes in 2022, starting near the end of the first quarter. The tapering of asset purchases should conclude in March, before the Fed's anticipated liftoff.
- We do not currently expect market dislocations due to Fed action because the central bank's communication has been targeted and clear.
- We believe the Bank of England will continue raising rates at a modest clip throughout the year. The European Central Bank may commence a rate-hiking cycle in 2023. We have much less conviction in the Bank of Japan's ability to lift off and begin hiking its policy rate.
- Several emerging market central banks have already hiked policy rates to fight inflation. We believe the emerging market tightening cycle may be closer to the end than the beginning.

PREPARE FOR FED LIFTOFF AND BALANCE SHEET STABILIZATION

G-3 CENTRAL BANK MONETARY POLICY

Source: Refinitiv Datastream, data as of 28 December 2021.



CREDIT

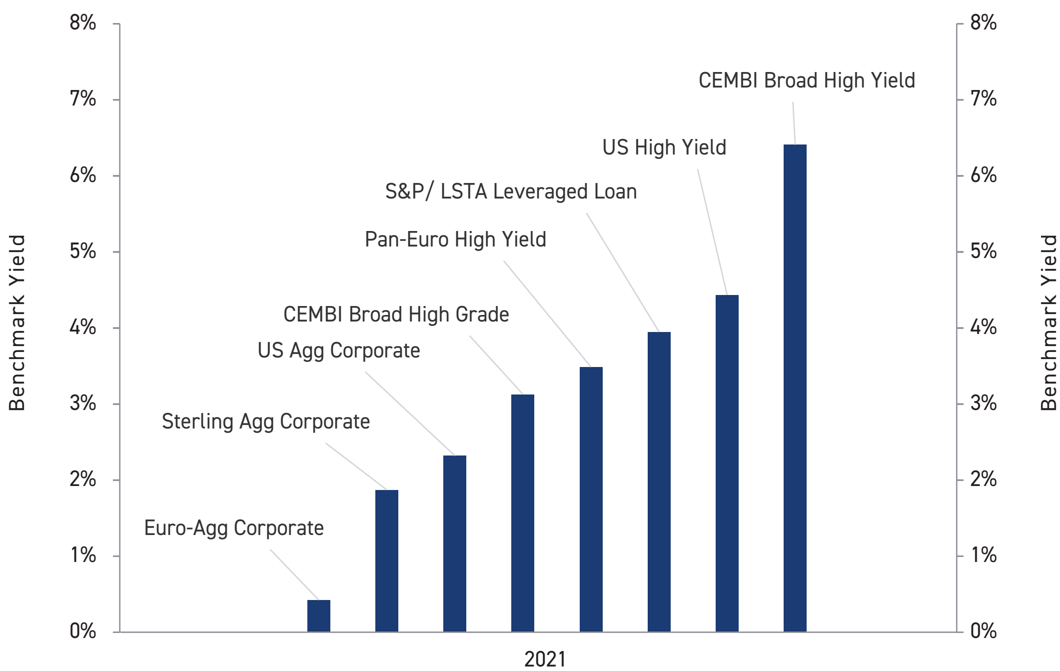
Credit investors can seek to harvest carry in this environment, though long-duration assets may face headwinds.

- We expect US and global credit to help deliver positive excess return potential over like-duration government bonds in 2022.
- With its long-duration profile, investment grade credit may struggle to produce positive total returns in a rising rate environment. However, we see scope for modest spread tightening once COVID-19-related risk aversion fades.
- We believe high yield credit can offer value given the sector's current nominal yield and shorter-duration profile relative to investment grade. In our view, defaults and downgrades should detract little from potential returns.
- Floating-rate high yield bank loans could benefit from rising rates in 2022. We believe the credit market continues to offer solid credit quality.
- Emerging market credit valuations have improved relative to other asset classes. However, we have less confidence in emerging market corporate health relative to the US and Europe due to political instability.
- We would view sporadic corrections in US and euro zone credit opportunistically, as we expect macroeconomic conditions and bottom-up fundamentals to remain supportive of credit markets.

GLOBAL CREDIT BENCHMARK YIELDS

Source: Refinitiv Datastream, Bloomberg Barclays, JP Morgan, data as of 28 December 2021.

WE PREFER HIGH-YIELDING DEVELOPED MARKET SECTORS



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Past market performance is no guarantee of future results.

CURRENCIES

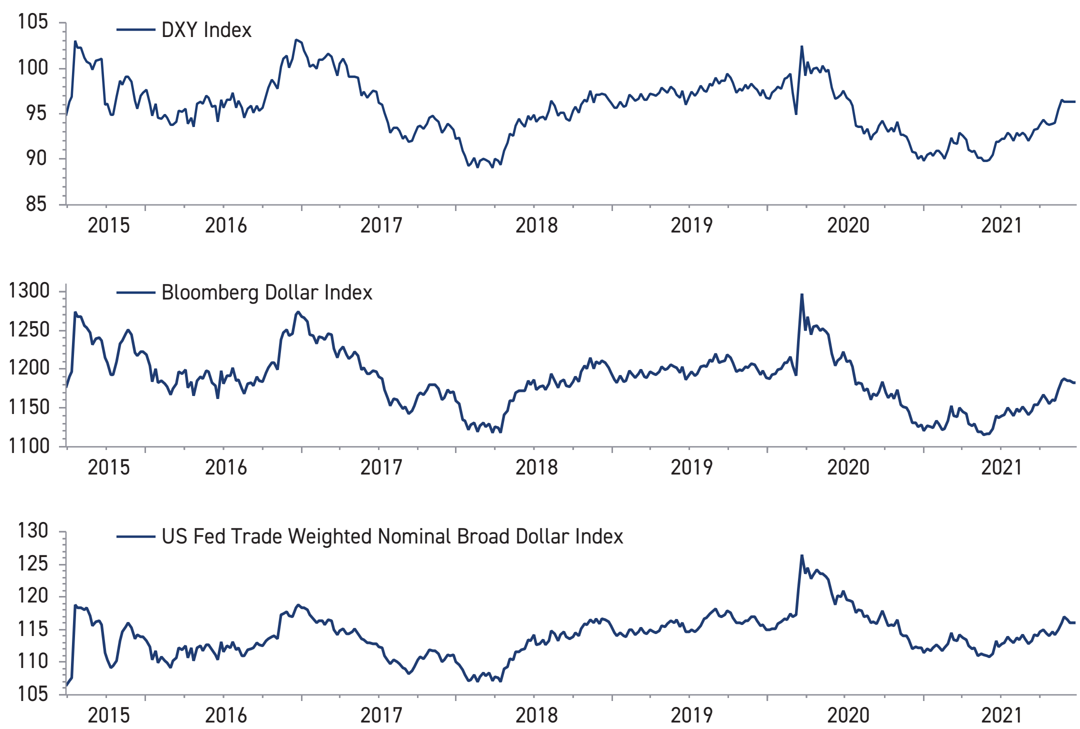
Non-US-dollar currencies may appear cheap, but risks remain.

- We anticipate uneven but positive growth in most major countries. We expect the broad dollar indices to trade in a range near term.
- We believe strong risk appetite and cyclical improvement in the global economy will eventually encourage investors to move into non-dollar assets and contribute to broad dollar weakness. For now, we are taking a selective approach to foreign currency exposure.
- We currently see opportunities to add non-dollar exposure in developed Europe and some emerging markets within Latin America and Asia.
- We believe country selection within emerging markets remains critical. The fundamental backdrop for each country will likely progress or decline at a different rate. In our view, political risk remains a key consideration for many emerging markets, but most notably for China.
- We think high-yielding non-dollar asset valuations have reached favorable levels in absolute and relative terms, but broad dollar weakness is needed for a sustainable rally.

IF MARKET EXPECTATIONS FOR FED RATE HIKES INCREASE, FURTHER NEAR-TERM DOLLAR GAINS ARE POSSIBLE

US DOLLAR INDEX LEVELS

Source: Bloomberg, Federal Reserve, JP Morgan, data as of 28 December 2021.



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EQUITIES

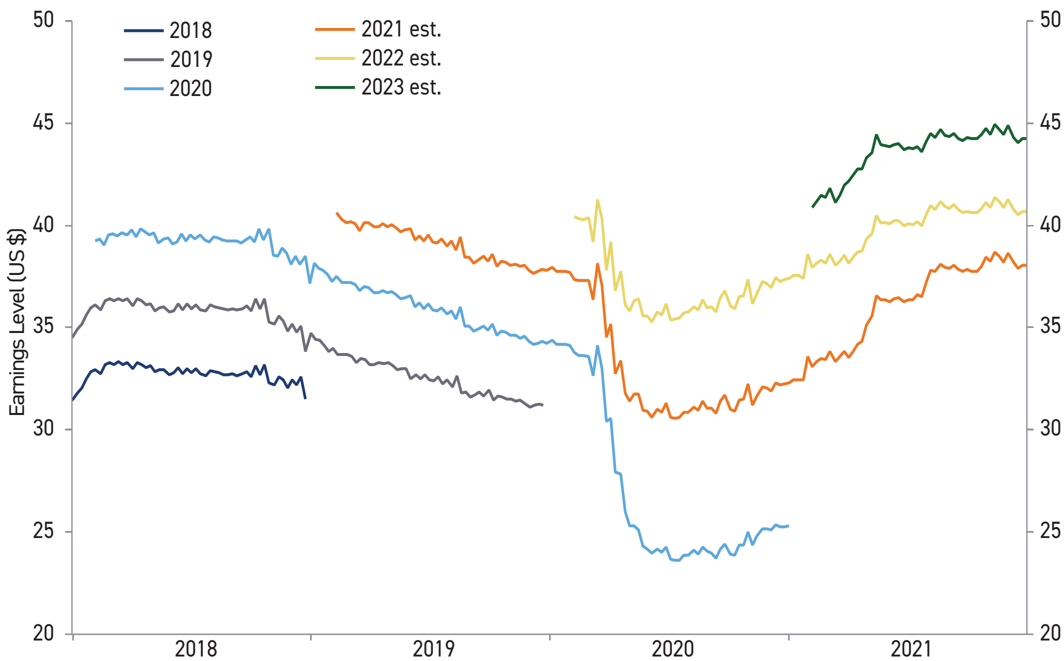
Earnings growth will likely propel global equity markets higher.

- We think US equity markets have upside potential based on earnings growth. Less accommodative monetary policy and higher discount rates will likely drive price-to-earnings multiple compression.
- Solid nominal GDP growth could help domestic large-cap earnings growth exceed 10% in 2022. In our view, consensus earnings growth expectations are probably too conservative and we expect upward revisions.
- Equity markets generally offer stronger absolute return potential than fixed income. A rising rate environment is not likely to derail this dynamic, especially versus long-duration fixed income assets.
- We expect high-growth equities that trade at historically elevated price-to-earnings multiples to stay under pressure if interest rates rise. Growth and value styles may deliver similar returns after growth's multi-year stretch of outperformance.
- With a notable expansion underway, we currently prefer cyclical exposure in financials, industrials and energy over defensive sectors such as staples and utilities.

EARNINGS GROWTH COULD HELP DRIVE PERFORMANCE
AS THE GLOBAL EXPANSION CONTINUES

CONSENSUS ESTIMATES FOR MSCI ALL COUNTRY WORLD EARNINGS PER SHARE BY CALENDAR YEAR

Source: Refinitiv Datastream, IBES, data as of 28 December 2021.

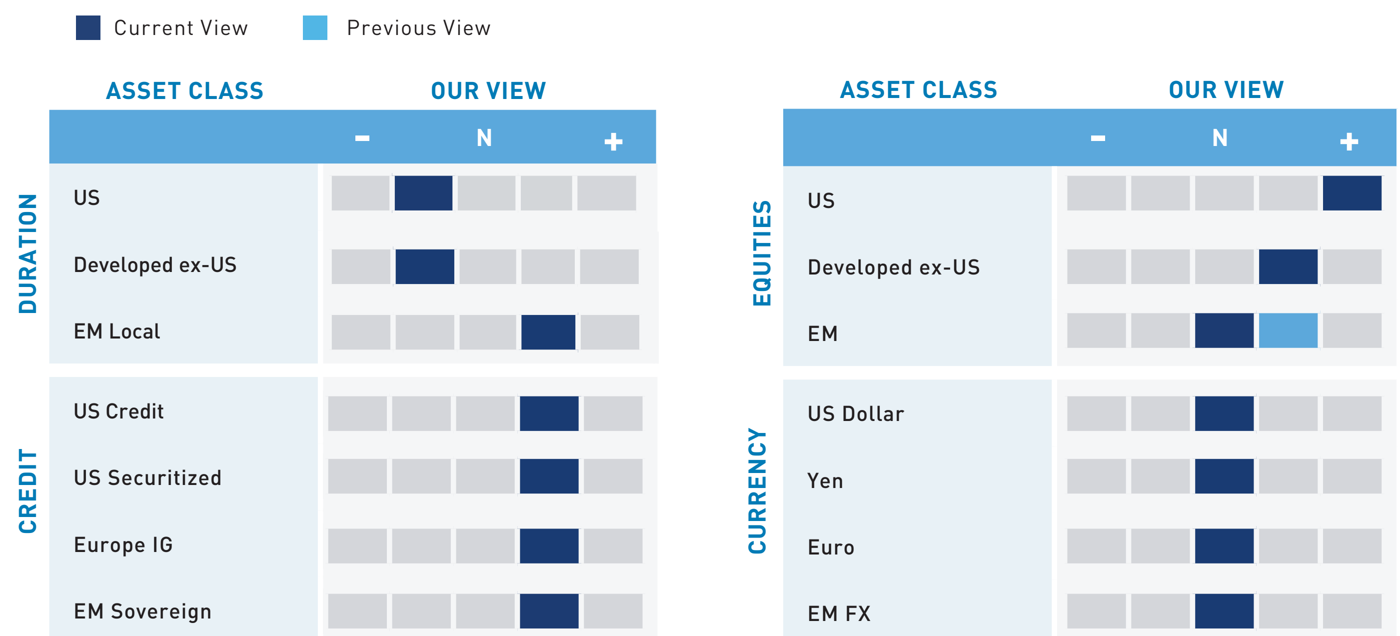


POTENTIAL RISKS

Ongoing COVID-19 spread, excessive inflation pressure and policy errors present increasing downside risks to growth and risk assets.

- Upticks in COVID-19 cases can dent consumer confidence and alter consumption patterns. We expect those critical growth drivers to remain on track, but new variants present a downside risk to the outlook if the spread and hospitalizations can't be contained.
- Inflation risk appears two-sided currently. On the one side, if supply chain disruptions subside and reduce inflation pressure, central banks could be hiking in a slowing economy. In that case, monetary policy could become too tight and put the expansion at risk. On the other hand, if supply chain disruptions subside and inflation does not ease toward central bank targets, central banks might tighten at a much faster pace than markets are currently expecting.
- We are watching for hawkish shifts in monetary policy or central bank rhetoric, which often lead to risk asset corrections as valuations adjust to tighter policy expectations.
- While most economies can function effectively if emergency policy measures are removed, we believe an aggressive pivot toward fiscal austerity in 2022 could derail the expansion.

ASSET CLASS OUTLOOK



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