

Changes to the Market Forecast (8 March 2022)

In this letter, we discuss recent developments behind the latest changes to our team's market forecast. Our multi-asset portfolios reflect our assessment of the global economy and the investment landscape 6–12 months into the future.

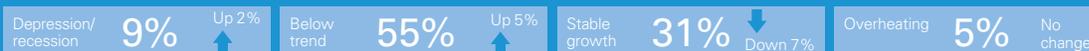
Current Market Forecast (Probabilities)



Our Market Forecast is based on an evaluation of returns and risks across four subject areas: the macro Economy, factors impacting asset Valuation, market Liquidity, and investor Sentiment. Our process assesses the future state of each area and assigns probabilities on a forward-looking 6–12 month basis to potential outcomes ranging from bearish to bullish.

We rarely change our 6–12 month forecast so soon after the last shift. Our last change anticipated a higher probability of armed conflict in Ukraine. That has since become an all-out invasion by Russia, with global economic implications: for commodity prices, supply chains, and inflation; for growth and sentiment; for the pace at which central banks can tighten policy; and for the prospects that some inflation could become embedded. Global reactions to the Russian attack on Ukraine were swift and substantial. Although an incremental ratcheting-up of sanctions provided some near-term relief from fear of a NATO military response, an already deeply troubling situation could get uglier. Market volatility is likely to remain elevated for an extended period.

Economy *What stage of the global business cycle are we likely to be in over the next 6–12 months?*



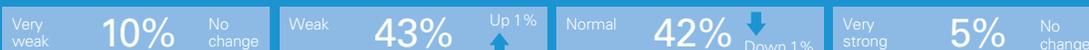
The impact of the invasion of Ukraine on commodity prices and supply chains will not be felt evenly in all regions. Some areas (EU, Japan) are highly dependent on imports while others are more self-sufficient (or even net exporters).

Valuation *What is the outlook for business costs, profit margins, and returns over the next 6–12 months?*



Energy is a direct input to many components of producer and consumer prices, which will drive inflation forecasts even higher and over a longer period than previously anticipated.

Liquidity *How are credit markets likely to be characterized over the next 6–12 months?*



Central bank policy actions to raise interest rates in response to inflation will likely reflect differing impacts on consumer prices and output. Central banks in directly affected economies and major commodity importers will have greater concerns about output.

Sentiment *How supportive will politics and/or public opinion be to capital markets over the next 6–12 months?*



Markets have reflected significant uncertainty about the trajectory and impact of the war. However, with few off-ramps in sight and signs that conflict is intensifying, worse outcomes—from sanctions, retaliation, and the war itself—remain a distinct possibility.

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Important Information

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All probabilities reflect rounding.

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