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Navigating the coming debt crisis

6th October 2022

Prior Months	Previous webinar
September	Secular inflation and other headwinds
August	Pockets of opportunity
July	Avoid Complacency
June	Are we in a Bear market?
May	Four ‘D’s’ weighing on the outlook
April	Beneficiaries of Geopolitical Divisions
March	Divisions & uncertainty
February	Ready for turbulence; Convergence of disruptive forces
January	The Great Transformation: Investing for 2022 and beyond

Geopolitics

A new geopolitical equilibrium evolving & a new era of secular inflation, higher rates, & slow growth in a backdrop of historic global debt.

Global Economy & Markets

Higher operating costs for governments & businesses, thus lower returns for both public & private markets.

Portfolio Implications

A wider investment universe & a more nuanced investment strategy/asset allocation is required to achieve needed returns.

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1) Webinar Welcome

2) Live, being recorded

3) Q&A - To remain anonymous, please avoid using your username. Type in your questions during the webinar.

4) Relationship Managers - Reach out to our RMs if your question requires a written response.

5) Feedback - Your feedback is essential. Let us know what you think of our webinars.

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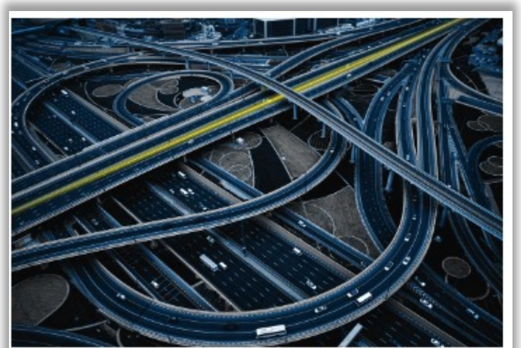
- **GMG Insights**
- Risks, Macro & Markets
- Key Take-Away Message
- Tactical Asset Allocation
- Q&A

September 30, 2022 · Market Insights

Whether by design or default, European peace may be near

The recent referendums held in the four regions in Ukraine are a critical and defining event.

Read more →



September 15, 2022 · Newsletters

Complex times, simple strategy

The greater the complexity, the greater the need for agility. This truism applies to everything, including, of course, asset allocation and portfolio strategy.

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September 5, 2022 · Market Insights

The SIX Swiss Exchange is an interesting opportunity for Chinese companies and investors

Four Chinese companies issued GDRs in the Swiss capital market through the China-Switzerland Stock Connect...

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August 18, 2022 · Market Insights

Secular inflation is the new normal — get ready

While the definition of secular inflation is simple, identifying the variables causing it and detecting the early signs of it are not...

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August 15, 2022 · Newsletters

Pockets of Opportunity – Asset Allocation in Challenging Times

The global macroeconomic backdrop and outlook have become tremendously complex. Economies are moving at different speeds, some contacting or slowing while others are expanding...

NATO 2.0 is disrupting markets worldwide, Eurozone investors should take note

07 July 2022
Newsletter by GMG Asset Management
Reading time: 4 minutes

Key takeaways

- The resurfacing of NATO — "NATO 2.0" — has broad and negative implications for markets as the alliance plans to expand its membership.
- From a global investor's perspective, the geopolitical risk variable needs to be repriced in general and particularly in the European area.
- See our latest asset class views.

Central banks are likely to kill prosperity, not inflation

23 June 2022
Market Insight by Belal Mohammed Khan
Reading time: 4.5 minutes

Image: Geneva Management Group © 2022

In the first half of 2022, formulating the investment view and asset allocation strategy became increasingly challenging as most central banks raced to undo the pandemic-related policy support and get inflation under control. As our previous publication stated:

> "...investors are well-advised not to underestimate policymakers' resolve to rein in inflation and inflation expectations ... In creating long-lasting prosperity, policymakers will likely make decisions that will put both the economy and financial markets at risk. There are no easy, painless solutions."

After completely getting the inflation forecast wrong, central banks are now apparently fully confident in getting it back down to target levels within predefined time frames. Forecasting inflation to move back towards 2% by 2024, as the case for the ECB, is likely a forecast just as off-the-mark as calling for 2% inflation when it is hovering comfortably over 5%. Getting inflation back down towards 2% by 2024 seems a daunting goal, and the statement "The Governing Council will make sure that inflation returns to its 2% target over the medium term" is beyond bold and ignores the reality of complex adaptive systems, as well as its forecasting track record.

The pursuit of lasting prosperity

02 June 2022
Newsletter by GMG Asset Management
Reading time: 3 minutes

Key takeaways

- Growth is likely to be hit as major central banks work to contain inflation
- Inflation will take considerable time to contain and control
- Investor portfolios need to be prepared for more turbulence
- See our latest asset class views.

In ancient and modern times, inflation has remained one of the policymakers' most undesirable economic problems. Once entrenched, inflation can have broad negative implications across the economy and all aspects of society, thus eroding prosperity.

Thus policymakers, in their pursuit of creating long-lasting prosperity, always fear inflation and do whatever it takes to control it. Getting inflation under control has almost always required policy actions that have short-term negative implications for the economy and markets. From a central banker's perspective, short-term pain is acceptable in the pursuit of lasting prosperity. Take, for example, Chair Powell's recent comments:

> "The process of getting inflation down to 2 percent will also include some pain, but ultimately the most painful thing would be if we were to fail to deal with it and inflation were to get entrenched."[1]

Similarly, Fed Chair Arthur F. Burns made a similar statement back in 1970.

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April 25, 2022 · Market Insights

The Fed put has expired — time to hedge

April 5, 2022 · Newsletters

Portfolios need to be 'ARMMD' for the future

March 17, 2022 · Market Insights

Is the Fed blinded by data?

Once dubbed 'transitory', the Fed's

December 15, 2021 · Market Insights

The Great Transformation

Discover GMG's investment outlook for

December 9, 2021 · Newsletters

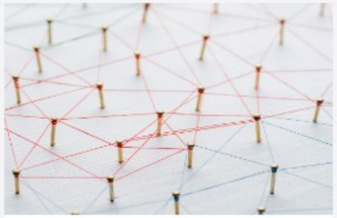
Forced, planned and unexpected

November 2, 2021 · Newsletters

The investment landscape is increasing in complexity

March 16, 2022 · Market Insights Publications

Policy normalization is in motion but the pace won't hold



March 8, 2022 · Market Insights

Solidarity's positive spillover

The recent developments in Ukraine are

March 4, 2022 · Market Insights

The euro currency's future has become less certain

The significance of the recent horrific

October 22, 2021 · Market Insights

Quality will prevail

Quality companies are likely to prevail in

October 11, 2021 · Newsletters

Geopolitical shifts, shifting portfolios

September 17, 2021 · Investment Briefing

Reflation convictions (video)

March 3, 2022 · Newsletters

Divisions & Uncertainty

Before the war broke out in Ukraine, our Investment Committee concluded that global growth would decelerate faster, and that monetary policy tightening expectations...

February 8, 2022 · Market Insights

Great power blocs

Great power blocs are being formed more clearly and overtly with broad and far-reaching implications for investment portfolios.

Read more →

February 4, 2022 · Newsletters

Ready Turbulence

Evidence of diverging economies and policies is becoming more apparent. Our four "Ds" concept in our 2022 outlook is materializing as global growth...

September 2, 2021 · Newsletters

Geopolitical shifts towards multipolarity

August 25, 2021 · Market Insights

Reflation Convictions

Reflation Convictions 25 August 2021

July 30, 2021 · Newsletters

Uneven Economies, Uneven Markets

- GMG Insights
- **Risks, Macro & Markets**
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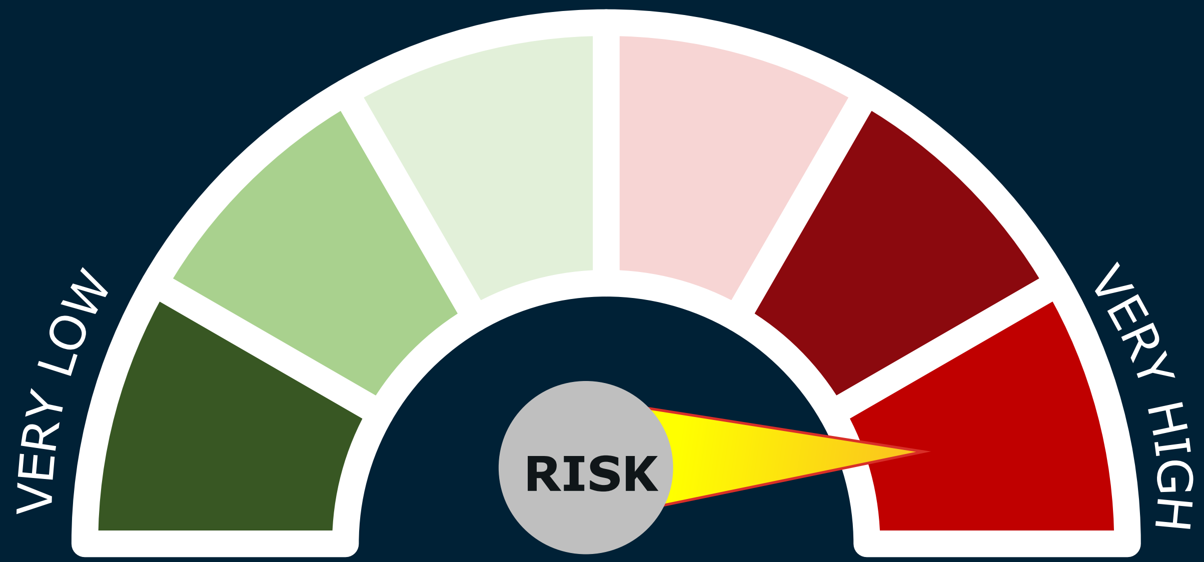


Elevated uncertainty; the market risk new normal

1) We expect higher uncertainty of the future path of growth, inflation, monetary policy, fiscal policy, trade policy, and geopolitics, in general, will be a permanent feature of the global economy for the foreseeable future. Greater or permanent higher levels of uncertainty will likely lead to permanent higher market volatility and more frequent bouts of volatility spikes.

2) Investment and asset allocation strategy can no longer be risk-on or risk-off but, instead, be much more nuanced.

The GMG Market Risk Barometer is a qualitative assessment of market risk in the one to six-month (short-term) horizon. The assessment considers market volatility across asset classes; volatility skews, financial condition indices and the general market narrative.

September 30, 2022 · Market Insights

Whether by design or default, European peace may be near

The recent referendums held in the four regions in Ukraine are a critical and defining event.

Read more ⟶

1) How Ukraine responds to major Russian announcements will be critical to how markets react, especially around the dates mentioned.

2) Putin's birthday is on October 7, and the Unity Day national holiday is on November 4.

3) While peace may not be agreed upon nor a peace agreement signed, it may nevertheless begin to surface as the year ends and Russia prepares for the New Year and the January 7 Christmas holiday.

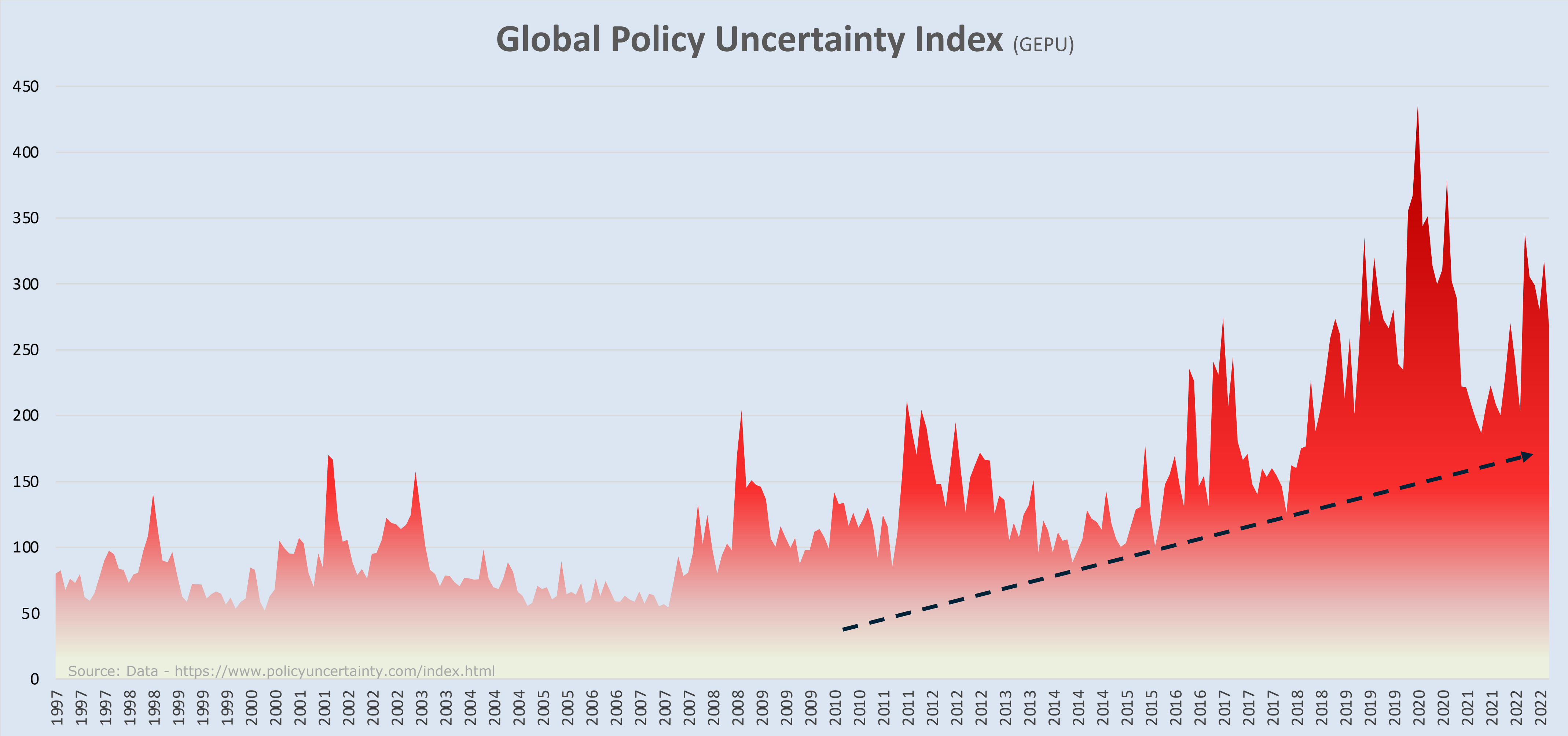
4) By the time the next Defender of the Fatherland holiday arrives on February 23, Putin may declare the annexation a success and 'mission accomplished.'

Key Dates

Portfolio implications – Speeches and communication coming out of the UNGA last month suggest no one seems ready to work towards peace. The lack of any real positive signals suggests a very hard winter ahead for all countries that depend on food or fuel from the Ukraine and Russia regions. Economies reliant on resources from the war region will suffer until adequate alternative sources of key resources are secured. The real and psychological impact on the Euro area will be severe. We remain underweight in European assets and overweight in cash, select core government bonds, gold, and commodities. At the same time, we need to hope for peace and expect, by design or default, for it to surface in the months ahead.

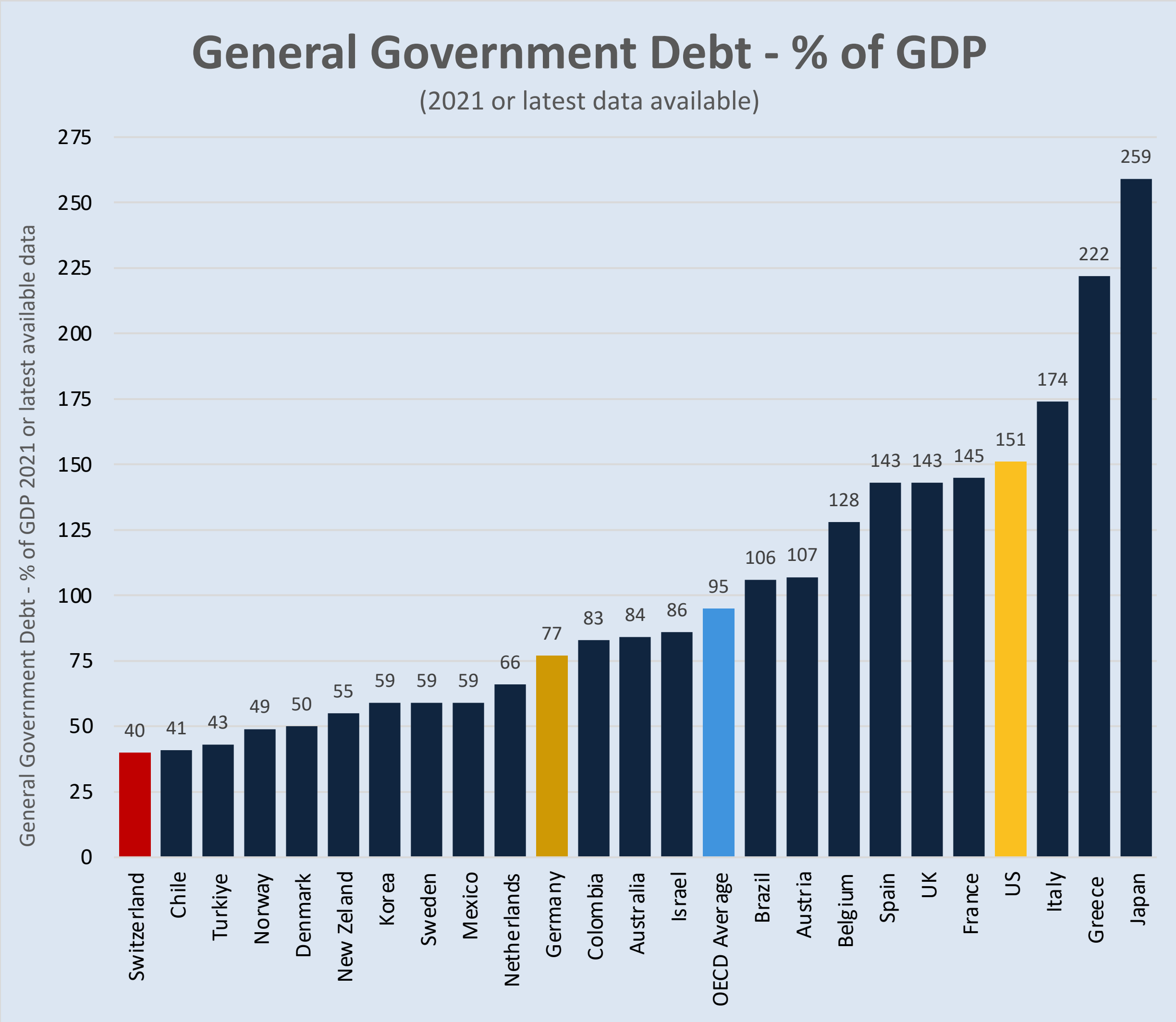
Risks	Hierarchy	Likelihood / Intensity		Current Positioning
Growth Deceleration	**1**		▪ High	▪ Overweight Fixed Income & Market Volatility, Equities Underweight
Inflation	**2**		▪ High	▪ Overweight, utilities, quality and value style factor, Gold, Commodities
Policy Error	**3**		▪ High	▪ Overweight medium – Medium duration US Treasuries
Geopolitics	**4**		▪ High	▪ Overweight Gold, US and China government bonds, Commodities
Climate Event	**5**		▪ Medium	▪ Agriculture Overweight

Portfolio Implications –Growth Deceleration remains our top risk. Therefore, we are generally defensive in our asset allocation strategy, favoring select core government bonds over stocks and finding opportunities across regions and asset classes. As we expect inflation to remain elevated, we continue to favor regions, sectors, and styles that benefit from persistent price pressures.



1) **Global Policy uncertainty** across foreign and economic policies has remained elevated. Each geographic region is faced with a complex set of internal and external forces making policy-making increasingly challenging.
2) **Higher policy uncertainty** is likely to impact markets in multiple ways, including pulling market volatilities higher and producing more frequent spikes in market volatility.
3) **Investment strategy and asset allocation** need to be conducted in this context; thus, portfolios need to have a more nuanced and diversified allocation, having the ability to capture both periods of risk-on and risk-off while also capturing pockets of opportunity being provided in global markets by a fracturing, trifurcating, rapidly changing world.

Past performance is not an Indicator of future performance.



1) **Debt and Growth?** Empirical evidence shows that large government debt has a negative impact on economic growth potential, and in most cases, as debt grows, the negative impact increases.

2) **Debt Thresholds?** Empirical evidence shows that the debt-growth relationship threshold sits between 75% - 100% of GDP.

3) **Debt Constraints?** High debt levels beyond the debt–growth thresholds begin to work as a constraint on countercyclical fiscal policy, which leads to greater policy uncertainty, increased volatility, and lower growth rates.

4) **Debt Outlook?** We do not foresee any, or any material, reduction in debt in most EM and DM economies over our investment horizon, except for select few net energy exporters.

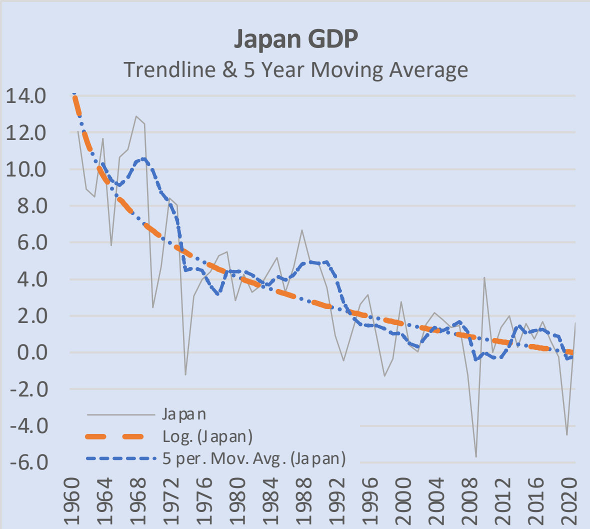
5) **Debt Risks?** Many risks surface when debt levels sustain levels above 75% of GDP. In a slowing economic environment with rising rates due to inflation-fighting efforts of central banks, debt servicing as a share of government spending will rise, creating a crowding-out negative feedback loop. Macroeconomic shocks, local or global, can have a disproportionately larger impact as debt-ladened countries may not be able to put in adequate countercyclical policy support. In addition, sovereign ratings could increasingly be at risk. Risks get more complicated when high government debt levels are accompanied by high private sector debt.

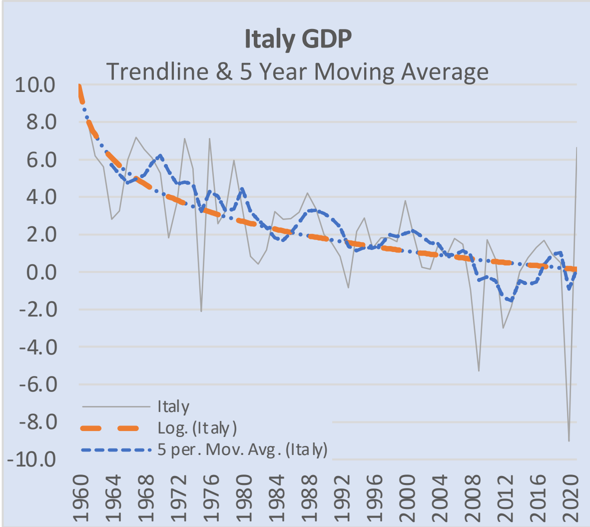
Portfolio Implications – Debt in an era of rising rates and slowing growth will eat into margins, but quality companies, especially in select sectors, will weather such headwinds better than others. We have had a quality bias in our equity allocation since October 2021 and mostly a defensive sector allocation since April 2022.

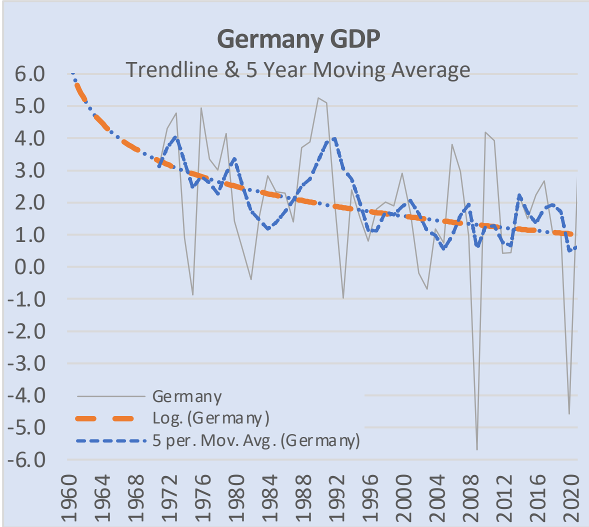
Data Source: BIS

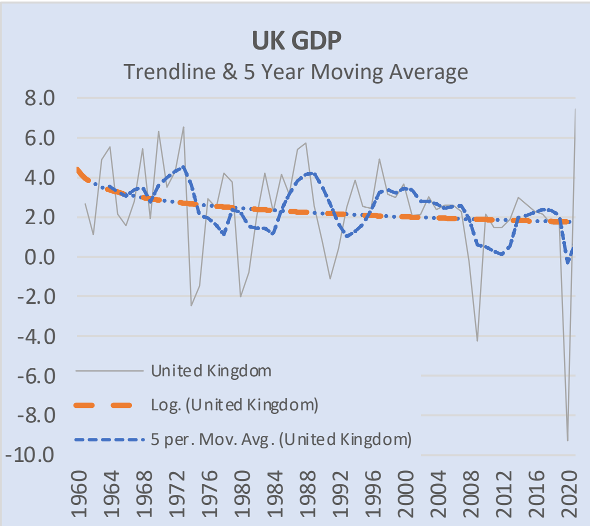
GDP Growth Downtrend

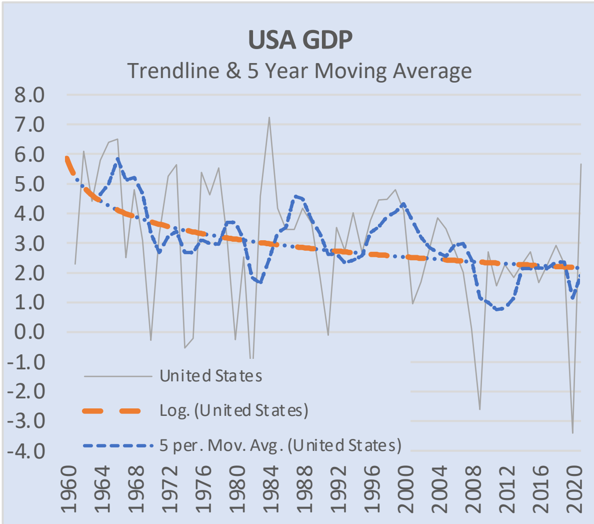
After decades of buildup, the debt burden has become a major headwind

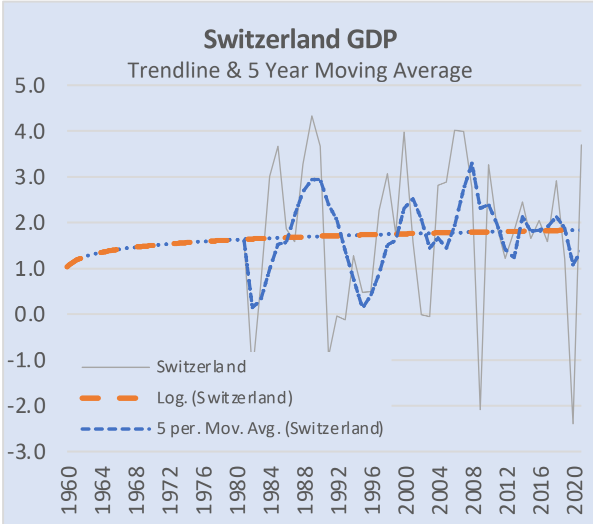








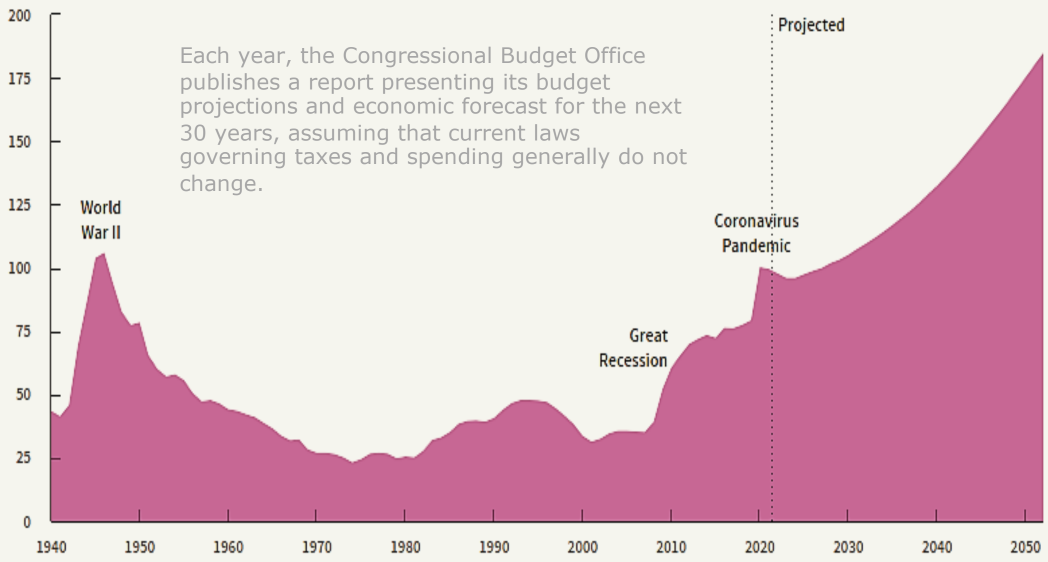




Debt Headwinds to persist indefinitely

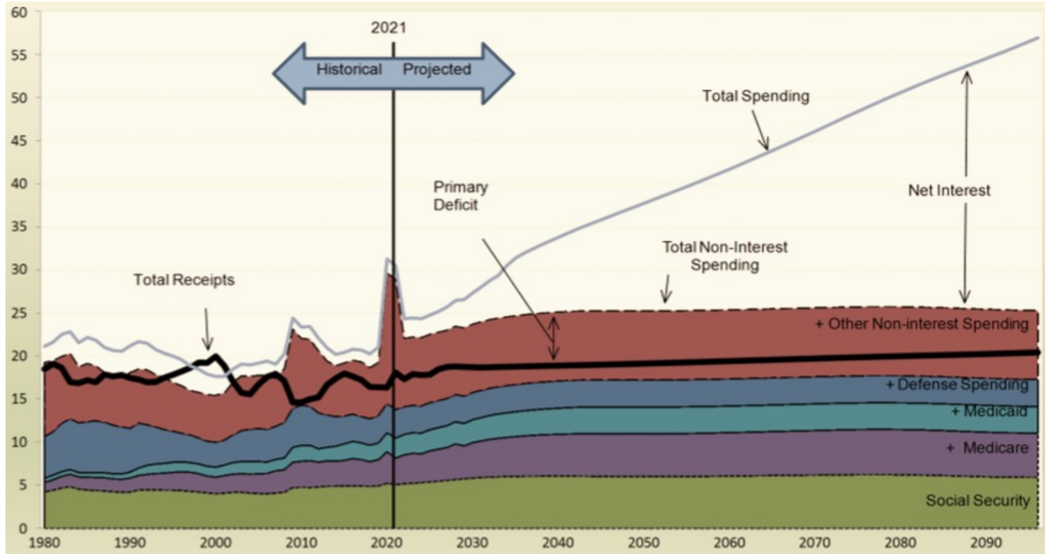
US Federal Debt Held by the Public – Projected as % of GDP

Percent of GDP



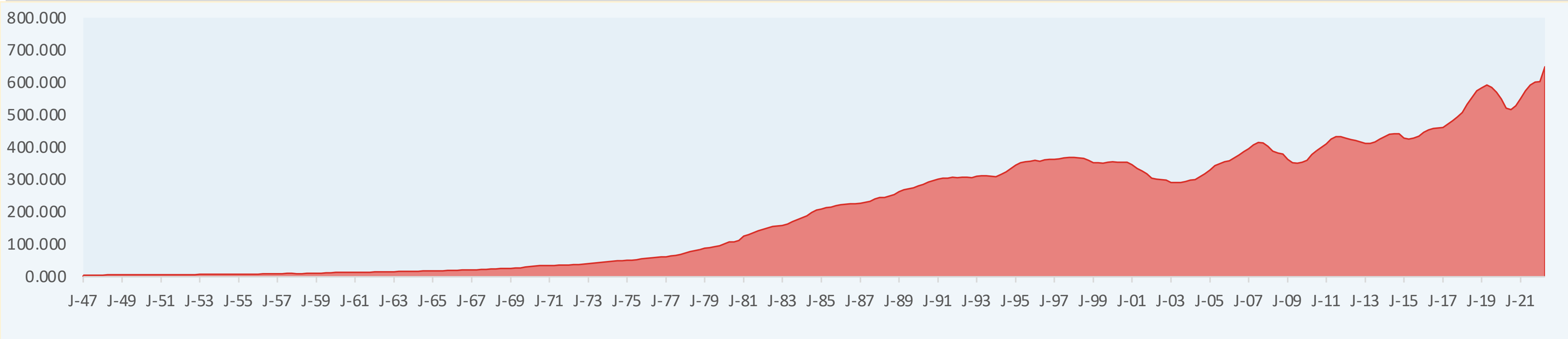
US Historical & Current Fiscal Policy Projections 1980 – 2096 Total Government Spending as % of GDP

Percent

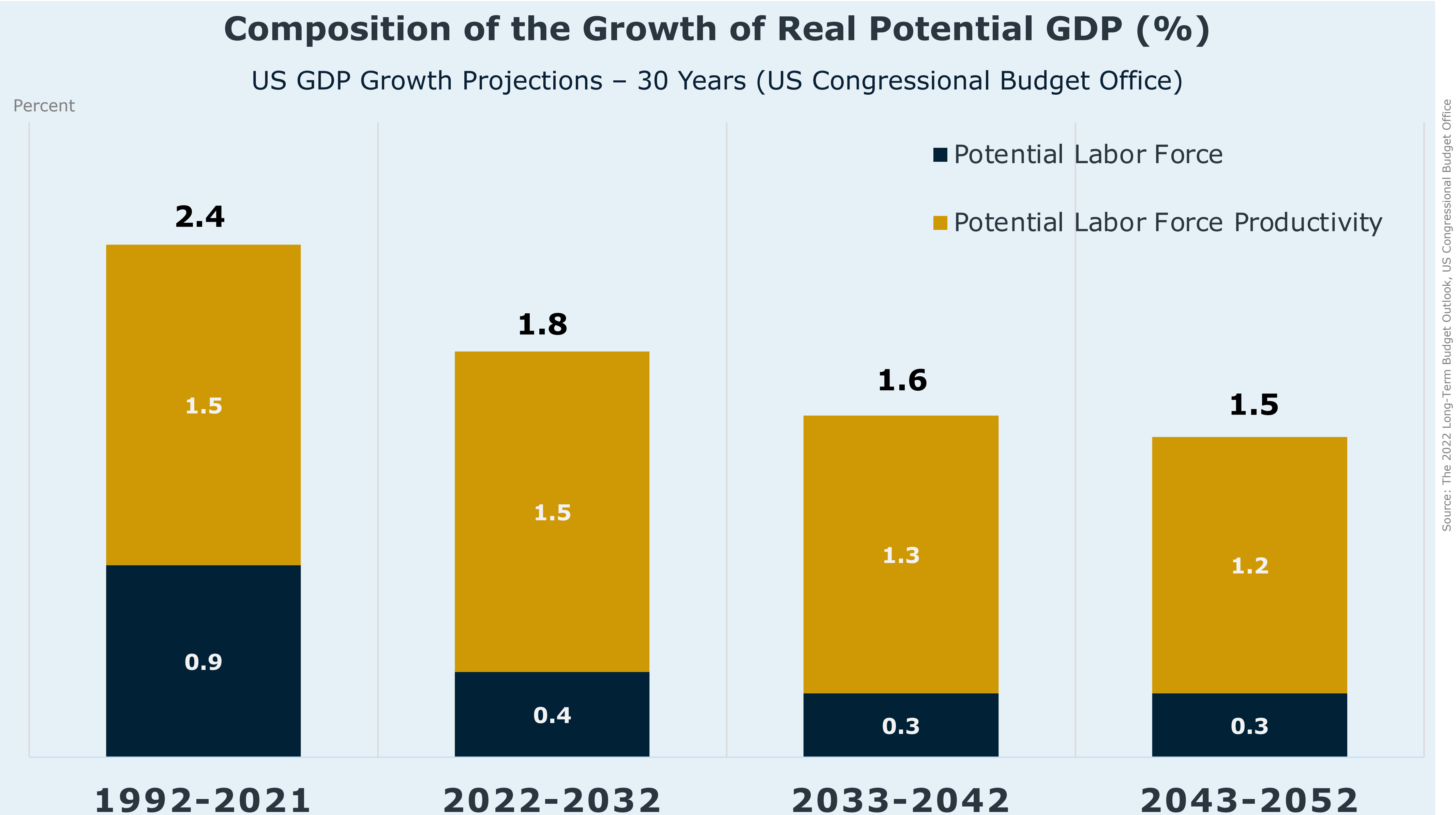


US Government Interest payments

Billions of Dollars, Quarterly, Seasonally Adjusted Annual Rate



Source: The 2022 Long-Term Budget Outlook, US Congressional Budget Office

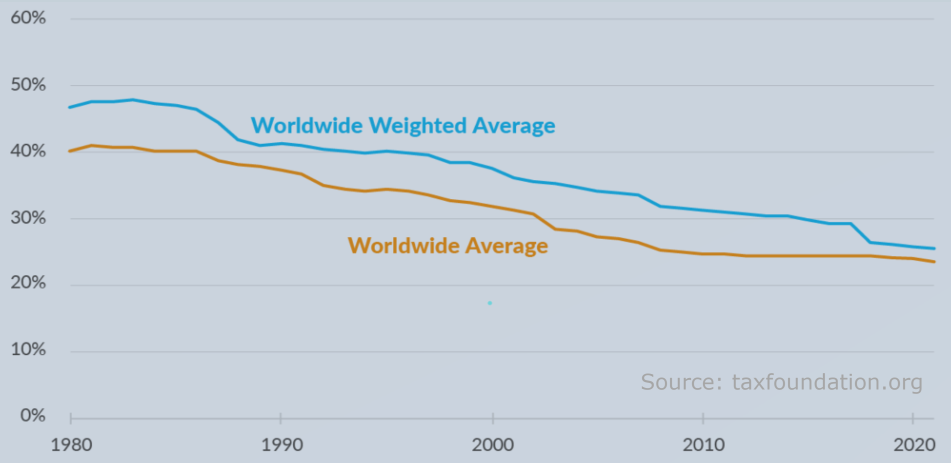


The growth of real potential GDP is determined by the growth of the potential labor force (the labor force adjusted for fluctuations in the business cycle) and the growth of potential labor force productivity (potential output per member of the potential labor force).

Corporate Tax Rates – End of Trend?

40-Year Down Trend

Statutory Weighted and unweighted Corporate Income Tax Rates



Note: The number of countries included in calculated averages varies by year due to missing corporate tax rates for years prior to 2021; that is, the 1980 average includes statutory corporate income tax rates of 74 jurisdictions representing roughly 60 percent of 1980 world GDP, compared to 180 jurisdictions representing above 95 percent of world GDP in 2021.

Sources: Statutory corporate income tax rates were compiled from various sources. GDP calculations are from the U.S. Department of Agriculture, "International Macroeconomics Data Set."

Global Monetary Policy Rates - Start of a Trend?

Monetary Policy Tracker (2021-Current)

The table below shows a history of monetary policy rate adjustments

Country/Region	Policy Rate YE 2019	Policy Rate - Current	Number of Hikes Since Dec 2020	Total % Change	1/21	2/21	3/21	4/21	5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21	1/22	2/22	3/22	4/22	5/22	6/22	7/22	8/22	9/22	10/22
Brazil	5.00	13.75	12	11.75	0	0	0.75	0	0.75	0.75	0	1	1	1.5	0	1.5	0	1.5	1	0	1	0.5	0	0.5	0.00	0
Chile	1.75	10.75	10	10.25	0	0	0	0	0	0	0.25	0	0.75	1.25	0	1.25	1.5	0	1.5	0	1.25	0.75	0.75	0	1.00	0
Colombia	4.25	9.00	8	7.25	0	0	0	0	0	0	0	0	0	0.25	0.5	0.5	1	0	0	1	1	0	1.5	1.5	0	0
Poland	1.50	6.75	11	6.65	0	0	0	0	0	0	0	0	0	0.4	0.75	0.5	0.5	0.5	0.75	1	0.75	0.75	0.5	0	0.25	0
Peru	2.25	6.75	14	6.50	0	0	0	0	0	0	0	0.25	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.25	0
Mexico	7.50	9.25	12	5.00	0	-0.3	0	0	0	0.25	0	0.25	0	0.25	0.25	0.5	0	0.5	0.5	0	0.5	0.75	0	0.75	0.75	0
New Zealand	1.00	3.50	8	3.25	0	0	0	0	0	0	0	0	0	0.25	0.25	0	0	0.25	0	0.5	0.5	0	0.5	0	0.50	0.5
US	1.63	3.25	5	3.13	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.25	0	0.5	0.75	0.75	0	0.88	0
Canada	1.75	3.25	5	3.00	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.25	0.5	0	0.5	1	0	0.75	0
Saudi Arabia	2.25	3.75	5	2.75	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.25	0	0.5	0.5	0.75	0	0.75	0
South Africa	6.50	6.25	6	2.75	0	0	0	0	0	0	0	0	0	0	0.25	0	0.25	0	0.25	0	0.5	0	0.75	0	0.75	0
Israel	0.25	2.75	5	2.65	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.25	0.4	0	0.5	0	0.75	0.75
Australia	0.75	2.60	6	2.50	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.25	0.5	0.5	0.5	0.50	0.25
Norway	1.50	2.25	6	2.25	0	0	0	0	0	0	0	0	0.25	0	0	0.25	0	0	0.25	0	0	0.5	0	0.5	0.50	0
Philippines	4.00	4.25	4	2.25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.25	0.25	0.75	0	1	0
UK	0.75	2.25	7	2.15	0	0	0	0	0	0	0	0	0	0	0	0.15	0	0.25	0.25	0	0.25	0.25	0	0.5	0.5	0
South Korea	1.25	2.50	7	2.00	0	0	0	0	0	0	0	0.25	0	0	0.25	0	0.25	0	0	0.25	0.25	0	0.5	0	0.25	0
India	5.15	5.90	4	1.90	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.4	0.5	0	0.5	0.50	0
Sweden	-0.25	1.75	3	1.75	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.25	0	0.5	0	1.00	0
Euro area	0.00	1.25	2	1.25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.5	0	0.75	0
Switzerland	-0.75	0.50	2	1.25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.5	0	0	0.75	0
Malaysia	3.00	2.50	3	0.75	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.25	0	0.25	0	0.25	0
Indonesia	5.00	4.25	3	0.50	0	-0.3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.25	0.5	0
Thailand	0.50	0.75	1	0.50	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.5	0	0	0.00	0
Japan	-0.10	-0.10	0	0.00	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00	0
China	4.15	3.65	3	-0.20	0	0	0	0	0	0	0	0	0	0	0	-0.1	-0.1	0	0	0	0	0	0	0	-0.1	0

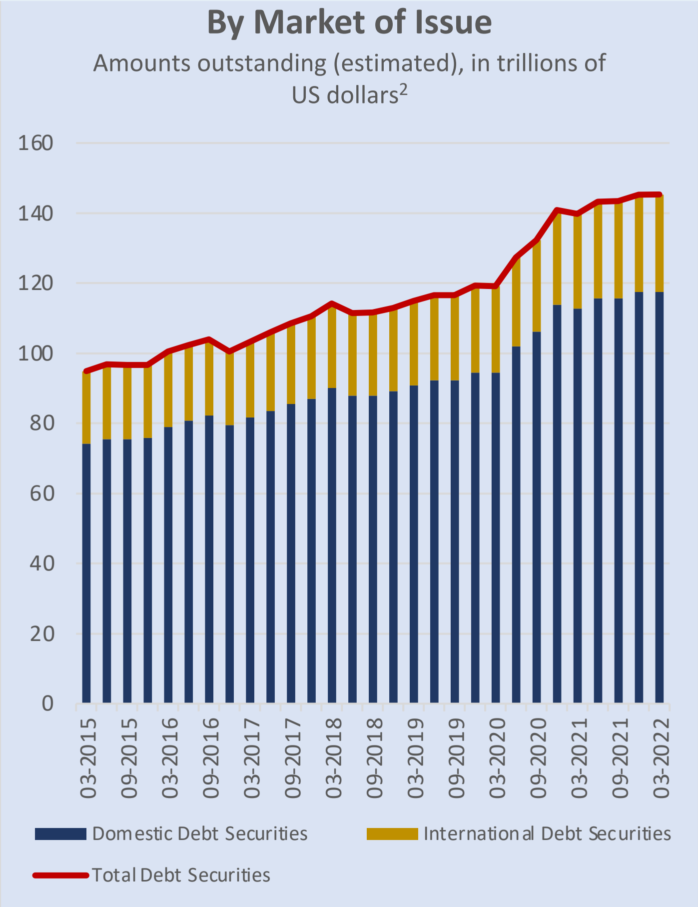
❖ **Fading of Positive Variables –** The era of declining corporate tax and interest rates has likely ended. According to Fed Notes[1], the "reduction in interest and tax expenses is responsible for a full one-third of all profit growth for S&500 nonfinancial firms over the prior two-decade period." Since it is unlikely for corporate taxes to decline further and for rates to fall, lower profit growth and, thus, lower stock market returns should be expected. Lower profit growth will also negatively impact credit markets.

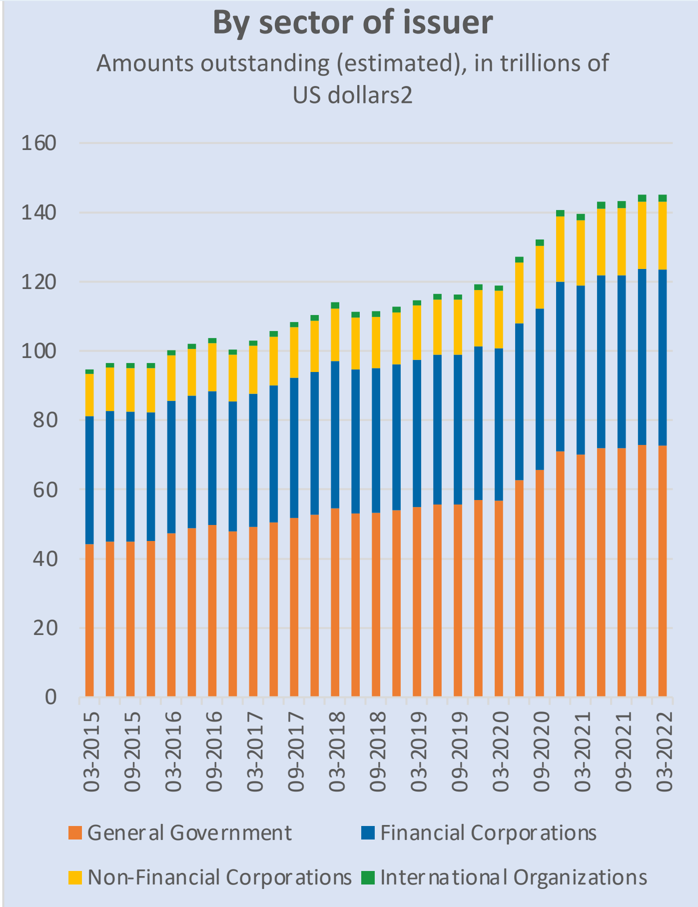
Portfolio Implications – As corporate earnings declining, market returns will also. Both stocks and bonds will carry more risk, as volatility is expected to remain elevated. Risk-adjusted returns and expectations will warrant a re-think. There is a growing risk of greater market cleansing as weak companies will not be able to survive such challenging times ahead. Credit markets, therefore, are riskier than currently being priced in markets. bias in our equity allocation since October 2021 and mostly a defensive sector allocation since April 2022.

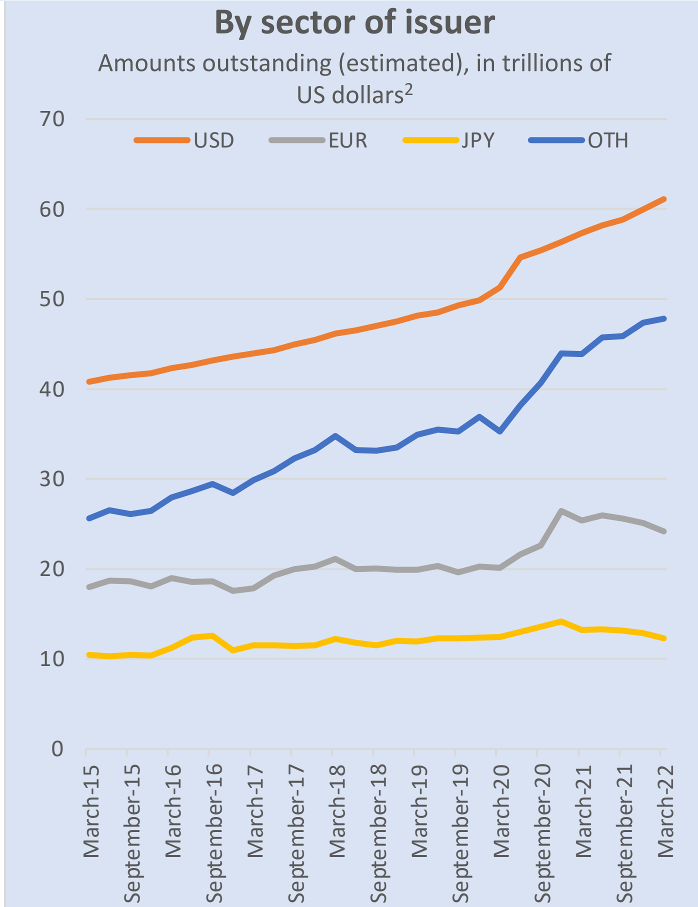
1. Smolyansky, Michael (2022). "The coming long-run slowdown in corporate profit growth and stock returns," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 06, 2022, https://doi.org/10.17016/2380-7172.3167.

Global Debt Securities markets

Amounts outstanding (estimated), in trillions of US dollars







Portfolio Implications – Headwinds from higher rates, cyclical and secular inflationary pressures, and the redrawing of the geopolitical map will weigh on government fiscal positions and business. Stock market valuations have improved, but there is still room for more valuation adjustments. Credit markets also need to undergo further adjustments, given the more challenging business environment. We remain underweight credit but find there is good value in select emerging markets.

Source: BIS debt securities statistics; BIS estimations. As at 15 September 2022

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- Q&A

Geopolitics

A new geopolitical equilibrium evolving & a new era of secular inflation, higher rates, & slow growth in a backdrop of historic global debt.

Global Economy & Markets

Higher operating costs for governments & businesses, thus lower returns for both public & private markets.

Portfolio Implications

A wider investment universe & a more nuanced investment strategy/asset allocation is required to achieve needed returns.

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Thank You

See you next month

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Asset Class View Summary

October View 2022 (6–12-month horizon)

View Summary: Multiple headwinds (elevated inflation, higher policy rates, higher market rates coupled with a slowing global economy and geopolitical fragmentation) support a conservative and defensive investment strategy while at the same time allocating to pockets of opportunity across regions and markets.

Cash - Liquidity products		**Overweight:** We remain overweight cash and will look to deploy it as more pockets of opportunities surface across all regions and all asset classes. The investable universe needs to be broad and deep.
Fixed Income		**Overweight:** Allocation to select safe parts of fixed income; US intermediate government bonds and China local currency government bonds. Volatility is high in bond markets and will likely remain high in the foreseeable future. We expect US 5–10-year attract investors as growth slows in the weeks and months ahead. China government bonds remain attractive given the growth slowdown and policy actions.
Equities		**Underweight:** Given our cautious outlook, we remain underweight. Within the equity allocation, we continue to favor defensive markets and sectors. We favor quality and value factors. Additionally, we find pockets of opportunities in select commodity-exporting countries, especially the GCC.
Commodities	1	**Overweight:** While many commodities have moved lower to weaker levels since late June, we expect price stabilization and a mild price recovery due to continuing supply disruptions. While demand will decline as the economic outlook softens further, we believe the sell-off already seen coupled with supply issues, and the end of broad USD strength to all contribute to positive price activity for commodities.
Alternatives (Hedge Funds & Volatility)	1	**Underweight HF/Overweight Volatility:** Very complex markets are creating significant performance divergence across strategies. For most of this year, we have favored Global Macro and Systematic/CTA strategies. We hold a long equity market volatility allocation given our expectation of a higher frequency of volatility spikes.
Currencies	0	**Neutral USD**: It has been our view since August that USD strength has reached levels that will trigger a reaction by some countries for which the currency weakness has resulted in a plethora of sharp headwinds ranging from higher inflationary pressures, sharp losses, and higher costs related to hard currency debt – rate and currency mix. We continue to expect USD to gradually soften on a grade-weighted basis but exhibit strength vs. currencies of countries or regions where monetary policy is either less aggressive or outright dovish. The EUR currency will likely continue to face multiple serious headwinds, including geopolitical risk, negative spillovers of war nearby, and likely slower monetary policy tightening than in most other major and emerging market economies.

View circles: Green is overweight, Yellow is neutral weight and Red is underweight relative to the benchmark.

Geopolitics	**A new geopolitical equilibrium evolving.**
Global Economy	**A new era of secular inflation, higher rates & slow growth.**
Markets	**Higher operating costs for governments and businesses, thus lower market returns for both public & private, w**

Global Macro	View	Market Impact
Geopolitics	1) For the foreseeable future geopolitical uncertainty and stress will likely remain elevated. 2) The Great Power Identity Problem - Each "great" power, i.e., US, Russia, China, is all facing, what we call, an Identity Crisis and trying to find their footing and place in a rapidly fracturing world.	1) Headwind for most risk-on assets, but positive for market volatility, select commodities, and sectors. 2) Portfolio allocation needs to be well diversified with allocation to pockets of global opportunities surfacing from our changing world.
Global Economy	1) Growth deceleration to continue and may now accelerate as both the Fed and ECB have committed to price stability objectives. 2) Expect continued broad-based divergence in economic performance, inflation, and policy response. 3) Inflation will likely remain above long-term averages and problematic as secular inflation surfaces more prominently.	1) Negative for risk-on assets, but all regions and markets have pockets of opportunities. Owning market volatility helps to act as a buffer and diversifier in such challenging and changing times. 2) Intelligent and nuanced regional, sector and style allocation can help shield portfolios. 3) Allocation to select core bonds, and commodities is essential if growth slows, and the USD has peaked.
Risks	1) Elevated risks across key policy fronts; foreign, trade, and monetary policy. 2) Risk of sharper growth and earnings decline. 3) Peace for design or default can not be ruled out and would be a massive positive market event.	1) General higher market volatility and more frequent volatility spikes across asset classes and currencies. We hold overweight positions in cash, vol and have hedged equity market exposure back in April 2022. 2) Broadly diversified portfolios and active strategies will help create outperformance over the medium and long term. 3) Commodity allocation should benefit from the surfacing of a peace initiative.
Markets	1) Markets should experience reoccurring bouts of high volatility given the complex macro and market environment.	1) Defensive allocation is appropriate with also an allocation to pockets of opportunities such as in commodities, regional allocations, and select hedge fund strategies.

GEOPOLITICS	**A new geopolitical equilibrium evolving.**
GLOBAL ECONOMY	**A new era of secular inflation, higher rates, & slow growth.**
MARKETS	**Higher operating costs for governments & businesses, thus lower returns for both public & private markets.**
Investment Strategy	**A wider investment universe is required to achieve needed returns.**

THE FOCUS	THE MESSAGE
Geopolitics	1) The “Great Power” identity crisis & The “Great Transformation”; a secular phenomenon.
Global Economy	A new era of: 1) Slow growth 2) Higher interest rates & secular inflation 3) Lower corporate earnings & rising default rates
Markets	1) Volatility - Higher market volatility – is the new normal. 2) Returns - Lower market returns – nominal and real. 3) Diversification = Alpha

Geopolitics

Peace seems illusive

Foreign Minister of Russia Sergey Lavrov addresses the 77th session of the United Nations General Assembly Saturday, Sept. 24, 2022, at U.N, NY.

Source: United Nations

Portfolio implications – Speeches and communication coming out of the UNGA last month suggest no one seems ready to work towards peace. The lack of any real positive signals suggests a very hard winter ahead for all countries that depend on food or fuel from the Ukraine and Russia regions. Economies reliant on resources from the war region will suffer until adequate alternative sources of key resources are secured. The real and psychological impact on the Euro area will be severe. We remain underweight European assets and overweight in cash, select core government bonds, gold, and commodities.