

Geopolitical shifts, shifting portfolios

Market update, October 2021

Many variables impact markets and investor behaviour. Unlike economic data and data trends that are easy to understand and interpret, we find that it is increasingly important to analyse the implication of geopolitical factors on client portfolios.

Geopolitical developments, shifts, and trends come in all shapes and sizes. Our focus is on the ones that can trigger seismic shifts in trade flow or impact the global or regional business cycles. For example, for close to five years, US-China relations have been deteriorating at a glacial pace, which has more recently accelerated, become more intense. **Indeed, this will increasingly impact economic trade and global investor capital flow in the coming months, quarters, and even years.**

Such a geopolitical backdrop tends to weigh on investor confidence. Our global economic outlook remains positive, although less robust than the post-pandemic bounce seen in prior quarters. **Regarding inflation, our view is unchanged that inflation risks remain to the upside and that higher inflation data are generally not transitory but the trend.**

It is our view that portfolios need to be adjusted accordingly and finely recalibrated. Consequently, over the past three to five months, our portfolio strategy has been recalibrated to focus more on opportunities stemming from US and EU growth and consumption trends than in emerging markets, especially emerging Asia.

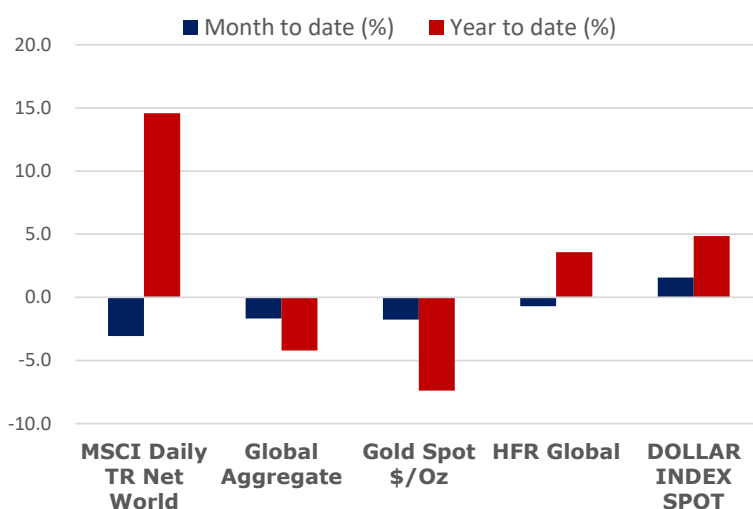
Portfolio Positioning:

Our macroeconomic and market outlook for major developed market economies remains constructive. However, as these major economies experience business cycle maturation, moving from early to late cycle and late cycle to expansion, sector and style allocation adjustments need to be made.

Regarding asset allocation, we are underweight cash, underweight fixed income, but we are overweight TIPS, quality high yield within fixed income.

In equities (US, EU, Swiss), we are overweight. For the US allocation, we continue to favour cyclical sectors, value over growth and small cap over large cap. For the EU, our sector and style weights are similar but more nuanced. On a relative basis, we remain cautious and concerned about the UK economic and equity market outlook. In currencies and commodities, we remain positive on both the USD and Gold price.

MARKET PERFORMANCE



GMG ASSET CLASS VIEWS

Cash		●
Fixed Income	Sovereign	●
	Sovereign Inflation Linked	●
	Investment Grade Corporate	●
	High Yield Corporate Bond	●
	Emerging Market Debt Local	●
	Emerging Market Debt Hard	●
	Equity	US
EU		●
Swiss		●
UK		●
China		●
Emerging Markets		●
Commodities		Gold
	Currencies USD	●

View circles: Green is overweight, Amber neutral, Red underweight relative to benchmark.

5-year Chinese CDS Recent History



source: GMG Financial, Bloomberg data as at 05/10/2021

Market concern and perception of China continues to deteriorate as evidenced by the China Five years credit default swap (CDS).

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