

2023 Global Outlook



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Recoveries and opportunities

**A Special Report by
Ned Davis Research**

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DECEMBER 14, 2022

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NDR 2023 Global Outlook

Special Report

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Executive summary

Entering 2022, we anticipated “a year of reversals,” with rising equity volatility and double-digit weakness. We expect 2023 to include recoveries and present opportunities, with most central banks ending their tightening cycles.

The increased probability of a severe global recession adds an element of risk to the outlook. And while inflation has peaked globally,

it is likely to stay higher for longer.

Yield curve steepening can be expected. And with interest rate volatility subsiding, MBS and long-term corporate spreads should narrow, leading to outperformance. EM bonds should also be supported. And EM equities are likely to recover as EM currencies strengthen and the U.S. dollar weakens, consistent with a

continuing recovery in gold.

We are watching for better Technology stock performance to support global breadth and U.S. relative strength. While a risk for Europe is that too much good news has been discounted too early, a choppy uptrend is likely for European equities. Cyclical sectors should outperform defensive sectors.

Toplines for NDR’s 2022 Global Outlook

Global Allocation

- Cyclical bull market potential supported by pessimism extreme, rally confirmation and Global Balanced Account Model.
- Continuation of secular bull makes it likely that cyclical bear has ended.
- Watching for improved Tech sector performance to support U.S. relative strength, emerging markets to benefit from dollar weakness, and continuing dollar downtrend, gold uptrend.

Global Fixed Income

- Except for Japan, tightening cycles to end in the first half of 2023.
- We see opportunities building in bonds, spread product, and cash. Once again, bonds should provide an effective hedge against equity risks in balanced portfolios.
- Yield curves should steepen later in the year.

Global Economy

- We estimate 2.4% real global GDP growth in 2023 and assign a 65% chance of severe global recession.
- Recession in developed economies and a Chinese reopening present offsetting risks.
- Global inflation has peaked but will stay higher for longer.

Europe

- Bullish technical indicators suggest risk appetite could continue into the start of 2023.
- But the full impact of central bank tightening on the European economy and falling earnings could result in choppy markets as 2023 progresses.
- Falling inflation and yields and an improvement in the outlook for economic growth, could pave the way to a strong year end.



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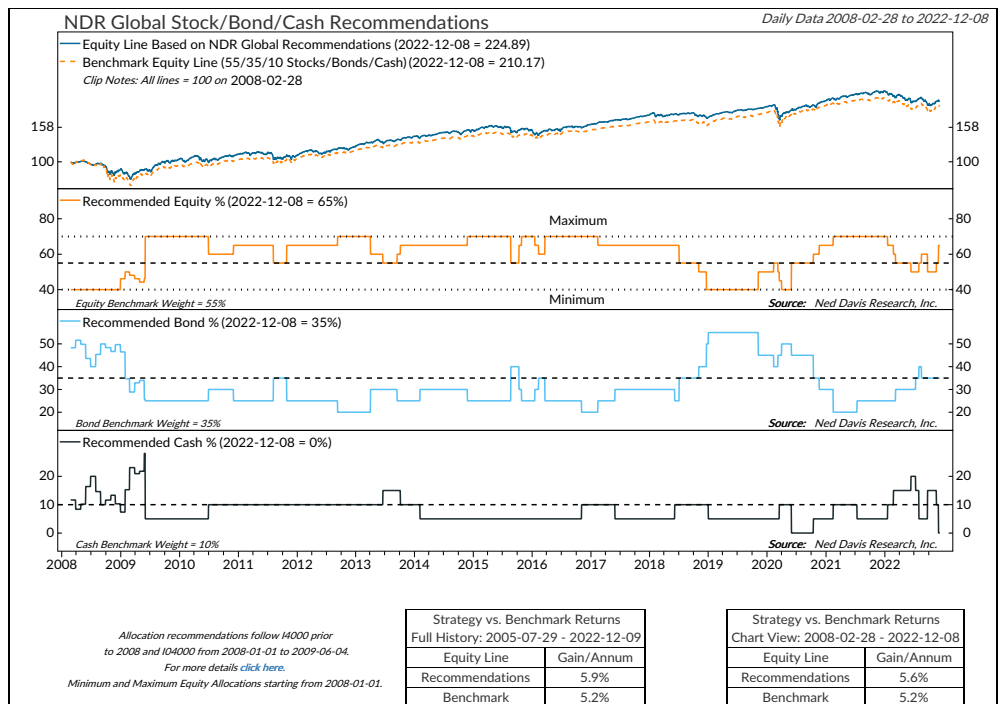
An equity uptrend

Expect cyclical bull confirmation within ongoing secular bull

Key Takeaways

- Cyclical bull market potential supported by pessimism extreme, rally confirmation and Global Balanced Account Model.
- Continuation of secular bull makes it likely that cyclical bear has ended.
- Watching for improved Tech sector performance to support U.S. relative strength, emerging markets to benefit from dollar weakness, and continuing dollar downtrend, gold uptrend.

Overweight equities, marketweight bonds, underweight cash



A choppy uptrend is likely in 2023. And a severe global recession would increase the correction risk and elevate the volatility.

But our base case is that 2023 will include increasing confirmation that global equities have entered a cyclical bull market that started with the October lows, reconfirming the continuation of the secular bull market that started in 2009. Even after the current year's decline, the ACWI is maintaining a per annum gain of 10% per annum since the secular bull started.

Reversing from sentiment extreme

As the strongest secular bull gains have tended to occur early in an advance when sentiment is still pessimistic, a 10% gain

for the year is a conservative expectation. When [pessimism](#) has been excessive during the secular bull periods since 1995, the S&P 500 has gained 32% per annum, while rising at a 13% per annum rate after entering the neutral mode. A rise into that mode can be expected as the uptrend gains strength in 2023.

We have already gotten positioned for a better year in 2023, having **increased our global equity allocation** to an overweight of 65% versus the benchmark allocation of 55% (above). The first hopeful sign was the extreme panic indicated when our DSI

Global Sentiment Composite dropped below 10 on September 23, as shown at the top of the next page.

While those excessive fear signals have almost always been followed by rallying over the subsequent three, six and 12-month periods, the tendency has been especially strong after a cyclical bear market has been followed by two consecutive signals. As indicated by the highlighted sections of the chart, the four second signals have been **followed by double-digit gains** over the subsequent six months and returns of close to 20% or more over the 12-month periods.

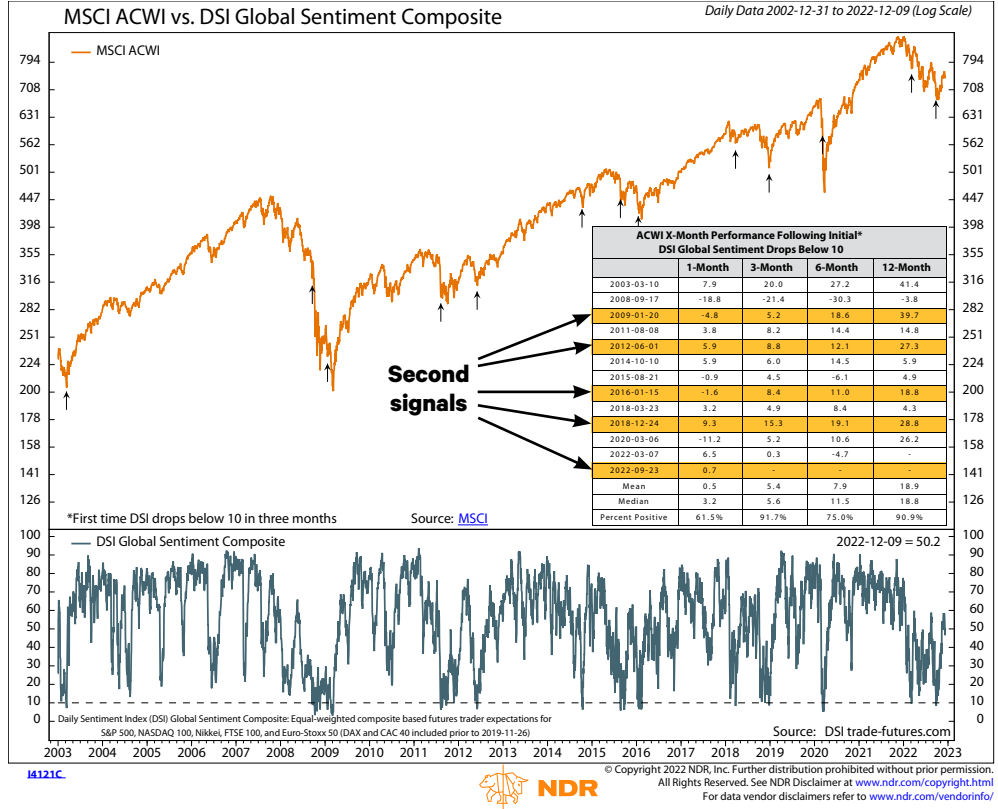
Strengthening uptrend

We would never increase exposure based on sentiment alone. Broad-based trend improvement is needed for assurance that the lows are in place. And that's what has been indicated by our [Rally Watch](#) report. After the aggregate has first risen above 50%, as it did on November 15, **a rally has ensued** in 81% of the cases since 1981, as shown in the chart below. The rallies have been followed by a median advance of 21% over the next 335 days.

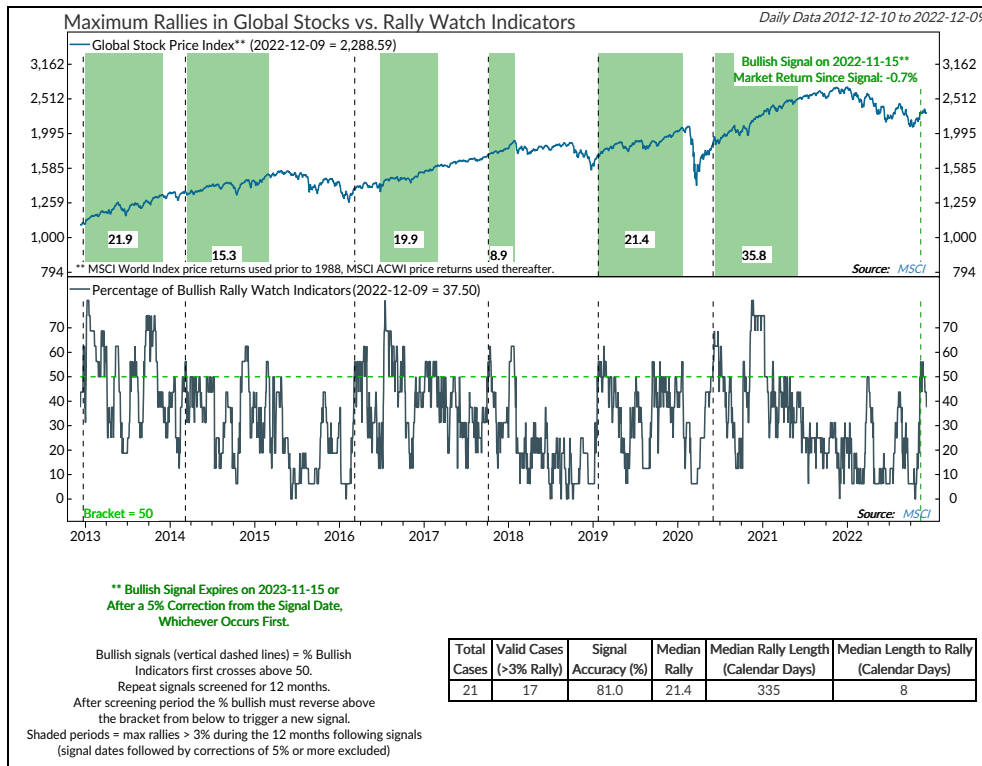
Model shift to equities

Along with the bullish implications of the sentiment extreme and trend improvement, our equity upgrade was a response to the more favorable implications of our [Global Balanced Account Model](#). The model not only includes sentiment and price-based indicators, but also macro factors related to earnings and economic influences.

Pessimism extremes followed by rallying



Rally Watch signals followed by rallying



Consistent with the Rally Watch report, the internal components of the model's stock/bond composite model have shifted to equities, with the composite ending November at 75%. And following a buy signal from its [credit spread](#) factor, the model's external composite ended the month in its neutral mode at 43%. As a result, the model's recommended allocation moved from an October allocation of 47% stocks, 40% bonds and 13% cash to a November allocation of 58% stocks, 40% bonds and 2% cash.

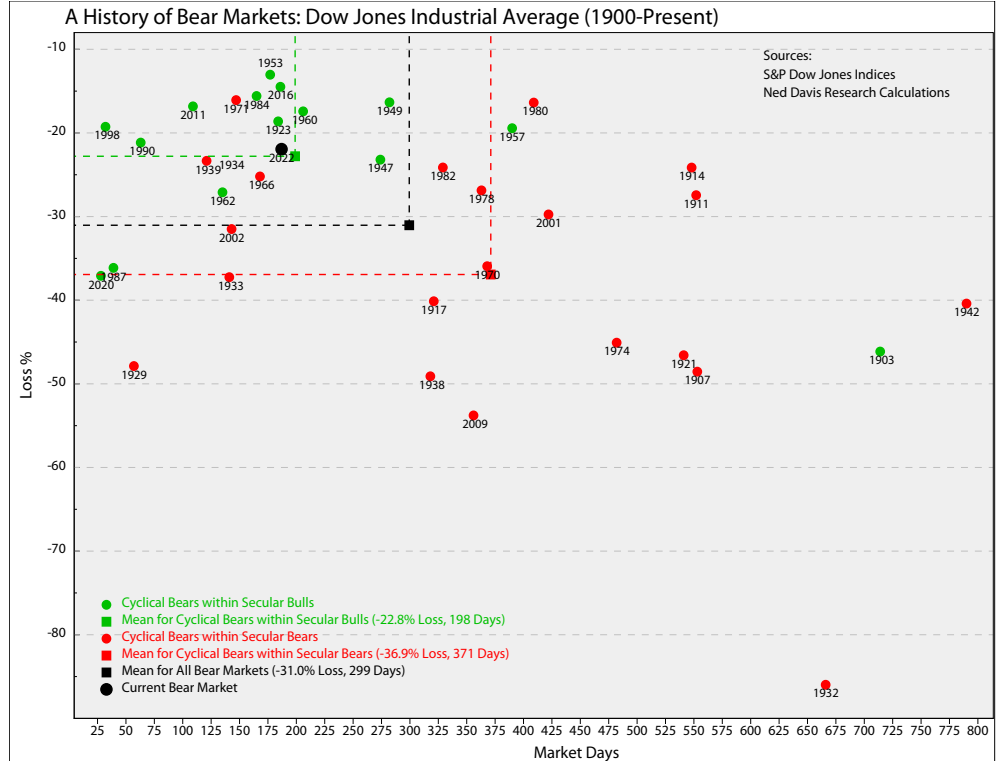
The model's **decisive reallocation from cash to stocks** was the primary reason for the upgrade, with the sentiment extreme and Rally Watch implications supporting a more aggressive upgrade than the model has called for.

Receding rate hike fears

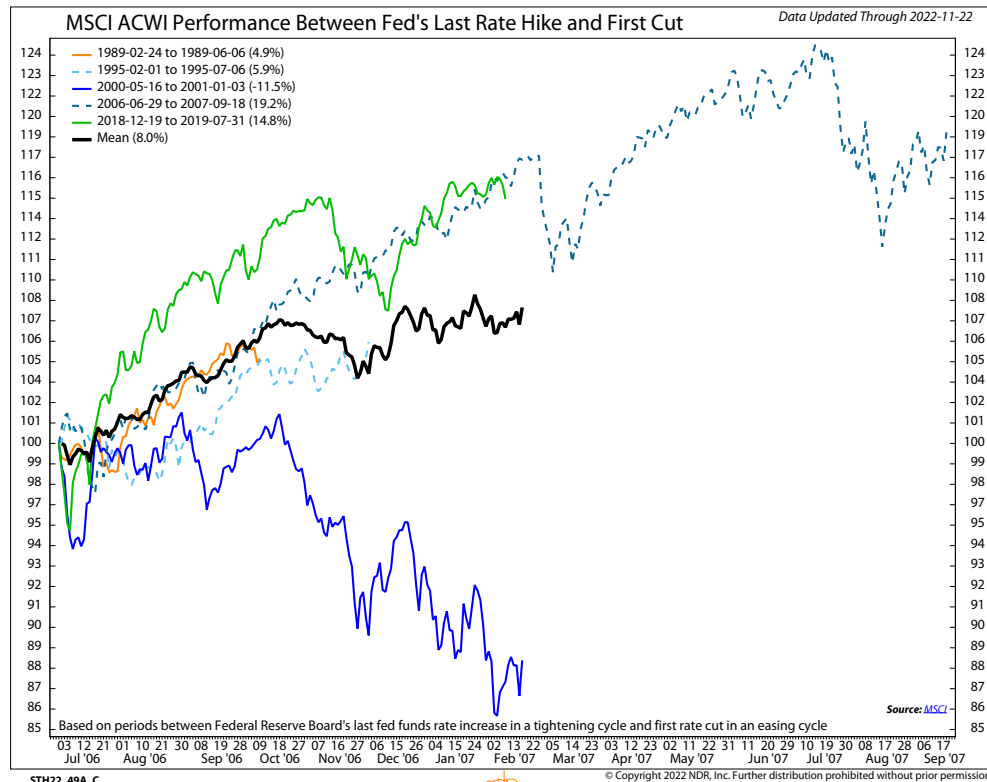
It was the **fear of inflation and its influence on central bank policy** that drove the stock and bond downtrends this year, culminating in the sentiment extreme. Stocks and bonds have since trended higher on the increasing evidence that inflation is receding, which means that central banks will be able to slow and eventually stop their rate hiking initiatives.

Recognizing that the inflation of 2023 has been driven by supply disruptions rather than a wage-price spiral, we have made the case that the secular bear years of the stagflationary 1970s, which were fueled by oil price shocks, are less comparable than the late 1940s, when the post-war reopening produced a short-lived [inflation spike](#) driven by supply shortages, pent-up demand and the removal of price controls.

2022 decline consistent with cyclical bears within secular bulls



Equities have usually advanced from last rate hike to first cut



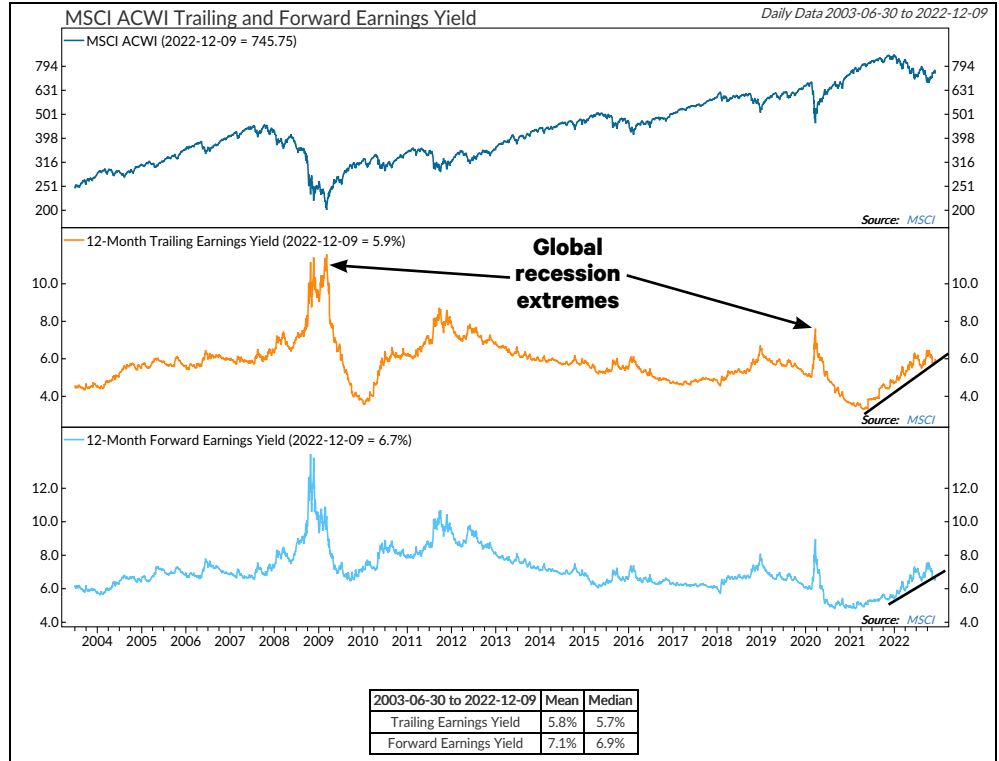
The earlier spike produced a [cyclical bear market](#) of -23% on the DJIA in 1946 and 1947, within an ongoing secular bull. That bear market low is therefore one of the green dots in the chart above, indicating that the cyclical bears within secular bulls have tended to be shorter and more shallow than the cyclical bears within secular bears (red dots). The black dot identifies the 2022 drop of -22%, **more consistent with a secular bull than a secular bear.**

Considering that the U.S. accounts for 61% of the ACWI's weight, it would be especially influential if the Fed would end its tightening cycle, with the markets expecting an eventual cut. The chart at left shows that in four of the last five cases, the **ACWI has moved higher during the period between the last hike and first cut.** The exception followed the final hike in 2000, during the early stages of the secular bear.

Severe recession scenario

A similar failure to respond would reflect the onset of a severe global recession. With earnings estimates proving to be overly optimistic, the disappointments would send equities back to new lows. Instead of considering valuations reasonable at current levels, seeing equities as a far better value than a year ago, **investors would require much better valuations**, as they did around the bottoms in 2009 and 2020.

Valuations have improved

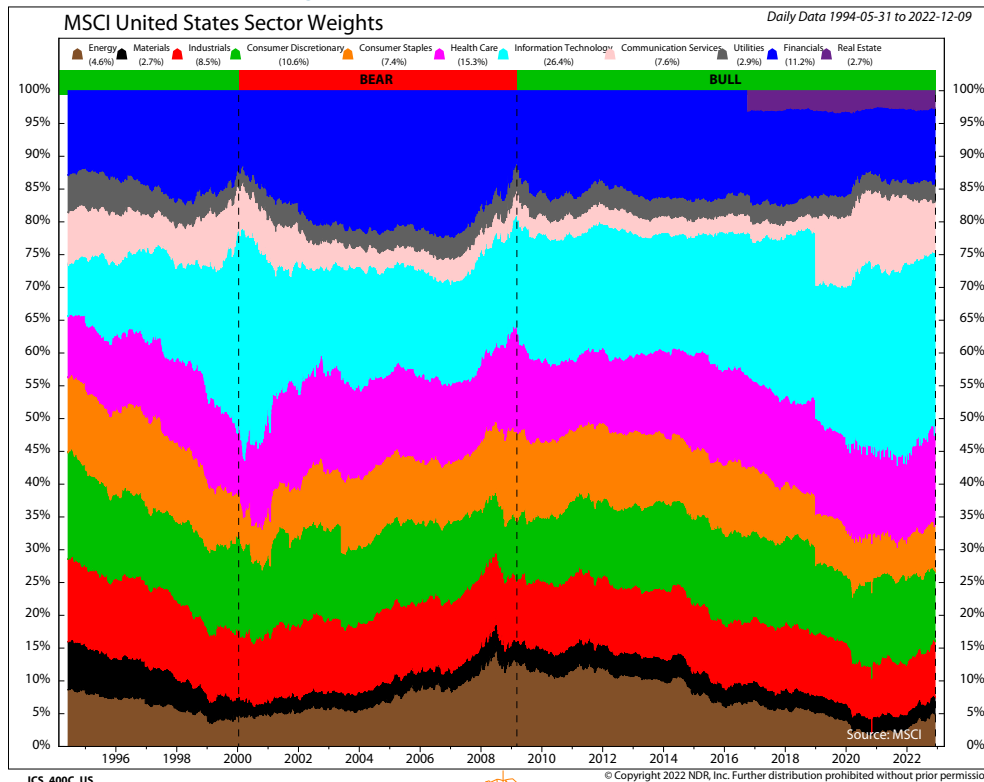


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Tech has most weight in U.S.



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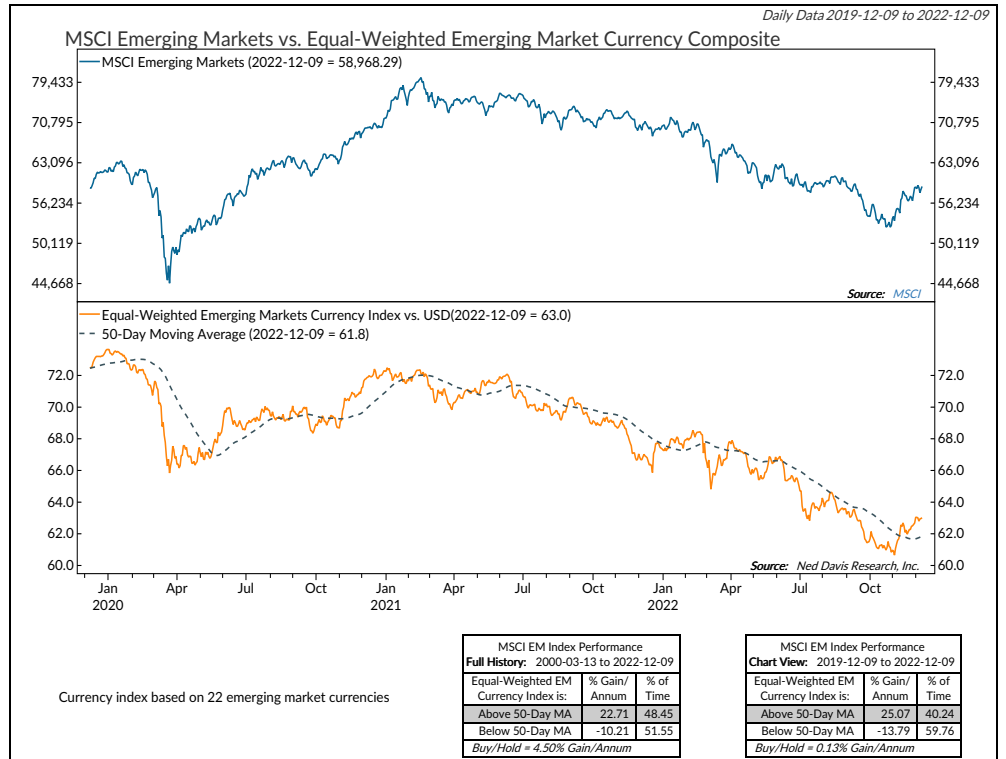
Otherwise in the absence of a severe recession, with interest rate pressures abating, the Information Technology sector would be better positioned to participate in a global market advance, potentially leading it.

As the sector's weight is 26% of the MSCI U.S. Index, (left) **better Tech performance** would increase the chances that after weighing down the global benchmark with its [underperformance](#) for most of the year, the U.S. would outperform during a 2023 market advance. Continuing Tech sector [breadth](#) improvement would be an encouraging development for the sector and in turn the relative strength prospects for the U.S. index.

We are also watching for **improved relative strength in the MSCI Emerging Markets Index** now that the U.S. dollar is weakening (below, top clip), helping our equal-weighted Emerging Market Currency Composite rise above its 50-day moving average (right). When the composite has been above the smoothing, the EM Index has gained more than 20% per annum since 2000 and during the three years shown in the chart.

The **U.S. Dollar Index downtrend** can be expected to continue as long as [nominal](#) and [real](#) U.S. bond yields continue to fall relative to non-U.S. yields. The widening spreads underpinned the dollar this year until it became clear that the Fed would be tightening less aggressively.

Strengthening emerging market currencies support EM equities

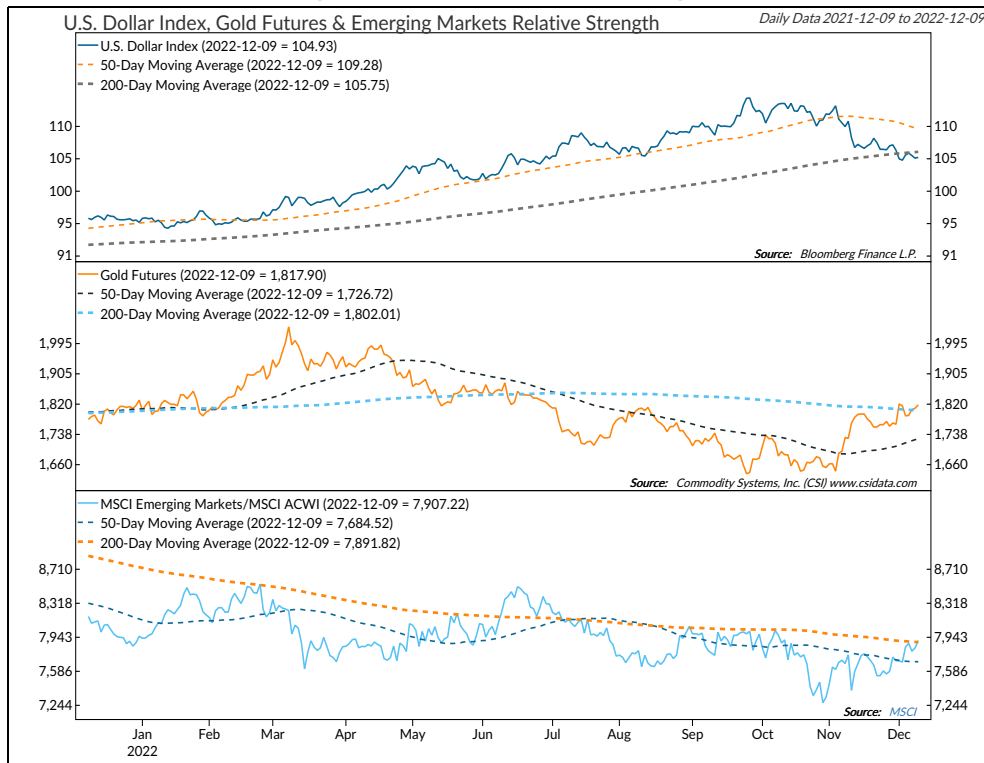


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As dollar weakens, gold and EM performing better



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Aligned with our models, we are entering 2023 with the **bearish dollar position** assumed in November. And in recognizing the dollar's inverse correlation with gold (middle clip), the positive influence of declining [yields](#), and the recent buy signal from the aggregate indicators in our [Gold Watch](#) report, we [moved](#) to **bullish on gold** last week.

While the S&P GSCI Energy Index has continued to trend lower, the Precious Metals Index has reversed higher, as has the Industrial Metals Index. The metals recovery would not be likely to continue with a severe global recession developing.



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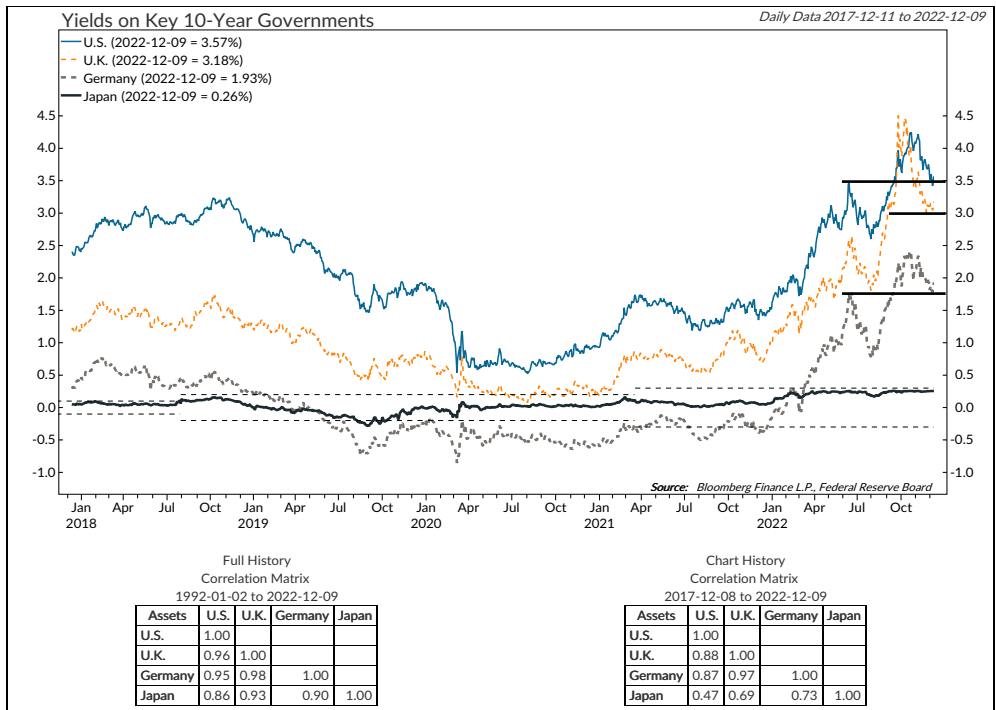
A better year for fixed income!

Look for steeper curves and more opportunities

Key Takeaways

- Except for Japan, tightening cycles to end in the first half of 2023.
- We see opportunities building in bonds, spread product, and cash. Once again, bonds should provide an effective hedge against equity risks in balanced portfolios.
- Yield curves should steepen later in the year.

Yields should break to the downside on recession fears



With most developed economies expected to flirt with, or fall into, recession in 2023, **central banks are also expected to slow, and then end, their tightening cycles** sometime in the first half of next year. The market expects the Fed's terminal rate to be around 5.00%, while the ECB's should peak below 3.00%. A 4.50% terminal rate is anticipated for the Bank of England.

Bonds could easily rally through yield support levels shown on the chart on evidence of recession, slowing inflation, and shifting policy. Once again, bonds could provide an effective hedge for equities against growth and earnings concerns.

With most central banks on hold, **rate volatility should subside**, allowing agency

MBS and long-term corporate spreads to ease, leading to outperformance. Lower volatility will also be appealing for EM bonds.

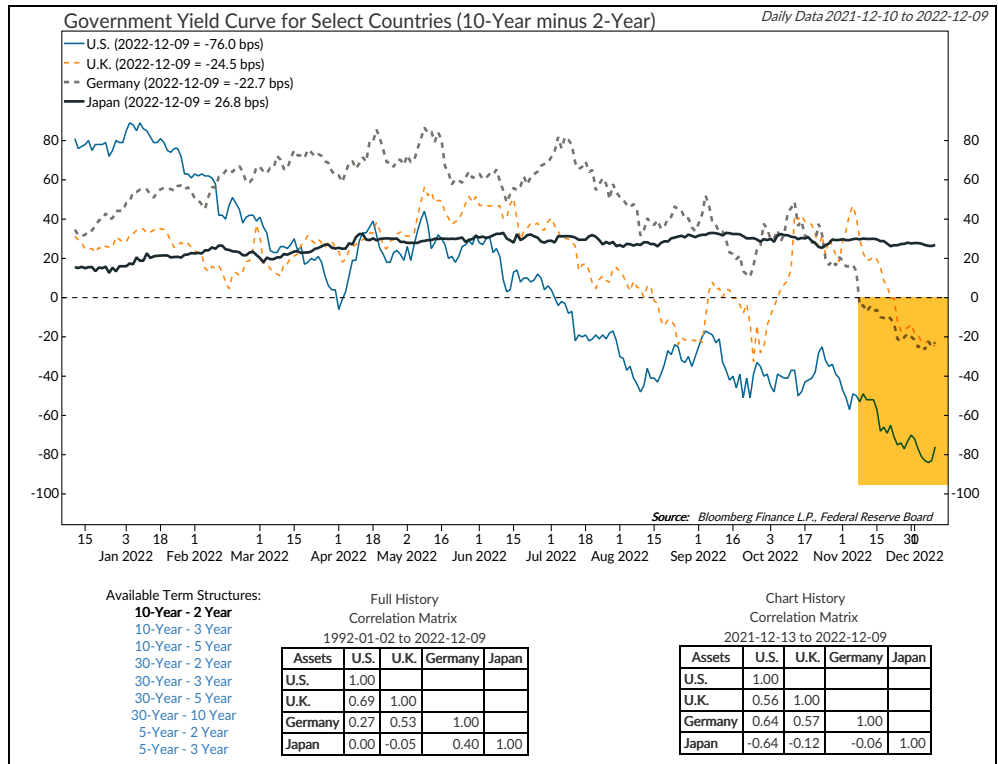
For the first time in years, **discounted bonds** will be attractive for those investors who favor capital gains over interest income.

Cash will also earn a positive nominal return and maybe a positive real return, and be a viable alternative for conservative investors.

Japan remains the exception. The BOJ remains on hold with yield curve control firmly in place through Q1. But at that point, an expected policy assessment coinciding with the end of Governor Kuroda's term could result in a policy shift should inflation continue to run above the BOJ's 2% target. Core inflation excluding fresh food is current running at 3.6% y/y. **In a new regime, JGB yields would likely rise**, putting upward pressure on global bond yields. Japan is already favored on a currency-hedged basis compared to the U.S. and Europe. That could stifle any Q1 bond rally.

Prepare for a steeper in 2023

Except for Japan, developed market yield curves are inverted. With recessions likely and policy tightening to end, we anticipate that **yield curves will start to produce a bull steepener.**

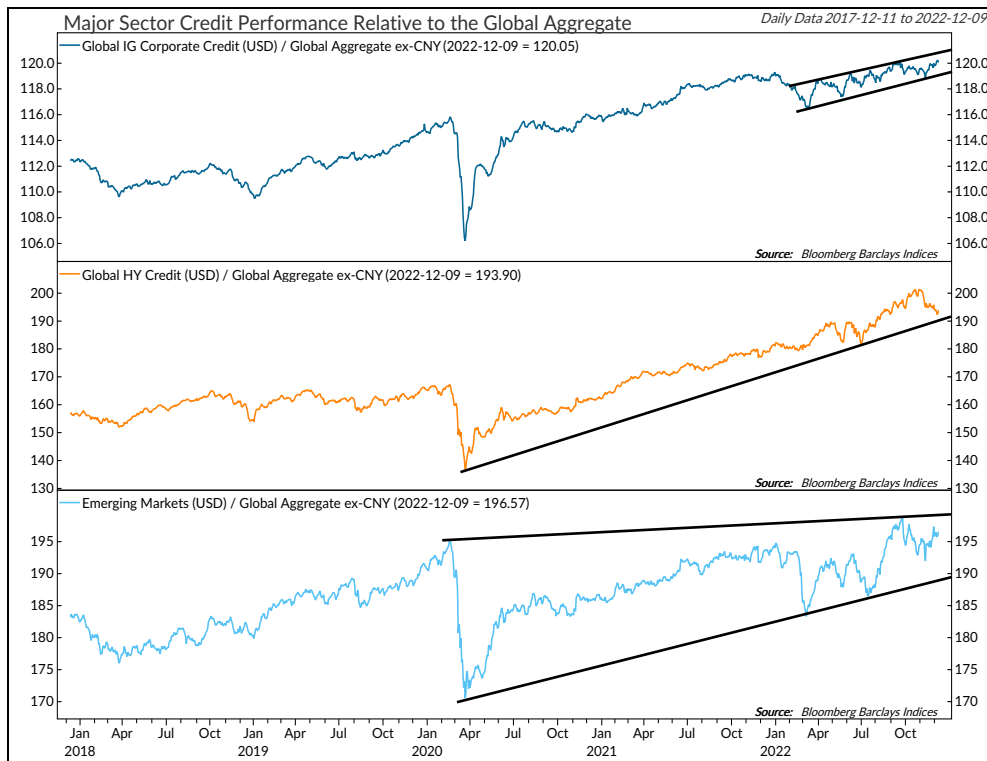


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Global credit unlikely to continue its outperformance



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Global credit has had a remarkable year relative to the Global Agg, particularly for Europe. But this had more to do with the shorter duration of European credit compared to the broader indexes, as credit spreads widened modestly over the course of the year. We're looking for credit to underperform in the first half of next year, creating a better opportunity for **credit outperformance later in the year.**

Although we recently closed out our local currency Chinese bond trade, dollar-denominated emerging market debt has a mixed outlook. Although a declining dollar is bullish for EM debt, falling commodity prices and weak growth tend to result in wider spreads. We are currently neutral and stuck in a trading range, but are **looking to establish bullish EM positions sometime in 2023.**



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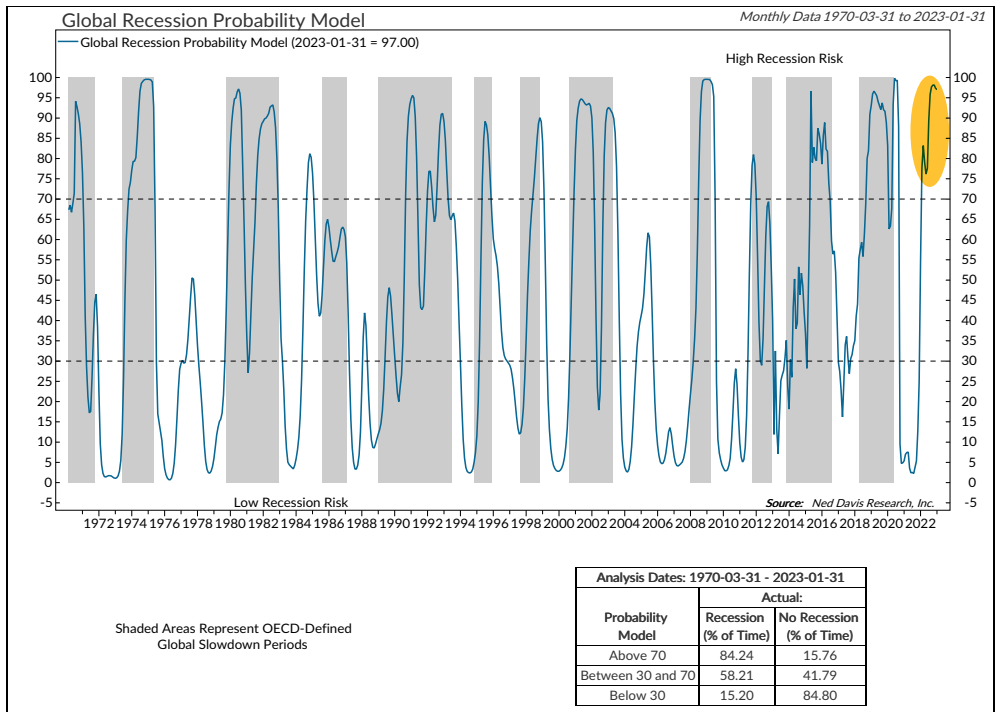
Severe global recession risk rising for 2023

U.S. and China present offsetting risks

Key Takeaways

- We estimate 2.4% real global GDP growth in 2023 and assign a 65% chance of severe global recession.
- Recession in developed economies and a Chinese reopening present offsetting risks.
- Global inflation has peaked but will stay higher for longer.

We've been in a global slowdown since early 2022



2022 saw global growth slow markedly, albeit from extremely elevated levels, amid waning monetary and fiscal support, stubbornly high inflation eating into incomes, and supply shocks emanating from the Russia's war in Ukraine and China's zero-COVID policy. Indeed, we began to see evidence of this slowdown in early 2022, as our Global Recession Probability Model, which is designed to identify OECD-defined global slowdowns, jumped into the high-risk zone in February (see chart).

Global recession risk for 2023

For most of the year, we have characterized the global slowdown as being moderate, given insufficient evidence from our Severe Global Recession Watch report. However, **going into 2023, the risks are to the**

downside, and we assign a 65% chance of severe global recession.

Most of the downside risks that plagued 2022 will likely continue in 2023, but from a much lower starting point. Global savings have been depleted, while labor markets are starting to show signs of slowing. Moreover, given the lagged impact of monetary policy on the economy, the indicators, many of which are already on the cusp of levels associated with global recession, are likely to worsen in the coming months.

We estimate **2.4% real GDP growth** in the

global economy in 2023. Historically, global growth rates under 2.5% have been associated with severe global recession. [Based on historical norms](#), the peak-to-trough decline in global equities we've seen this year has already priced in a moderate global slowdown. However, a severe global recession has not. This would suggest that if severe global recession develops, there will be more global equity volatility in 2023.

Our Severe Global Recession Watch report is showing that four out of the eleven indicators are at severe recession levels. We'd like to see a firm majority

before making the call. Many, including the composite PMI and PMI breadth, are extremely close to generating negative signals. Although the sample size is limited to just two severe recessions (GFC and COVID recessions), we haven't seen more than four indicators giving negative signals without imminent recession.

Global central banks have engaged in the broadest and fastest monetary tightening since at least the late 1990s, when our data begins. As shown in the chart below, since monetary policy happens with a lag, the global economy has yet to see the full economic impact derived from this aggressive global tightening.

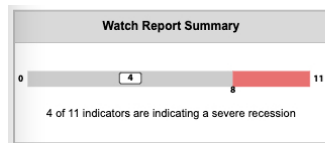
U.S. recession risk rising

Like the global economy, the risk of recession weighs on the outlook for U.S. economic growth in 2023. We project real GDP growth

Four out of 11 indicators are at severe recession levels



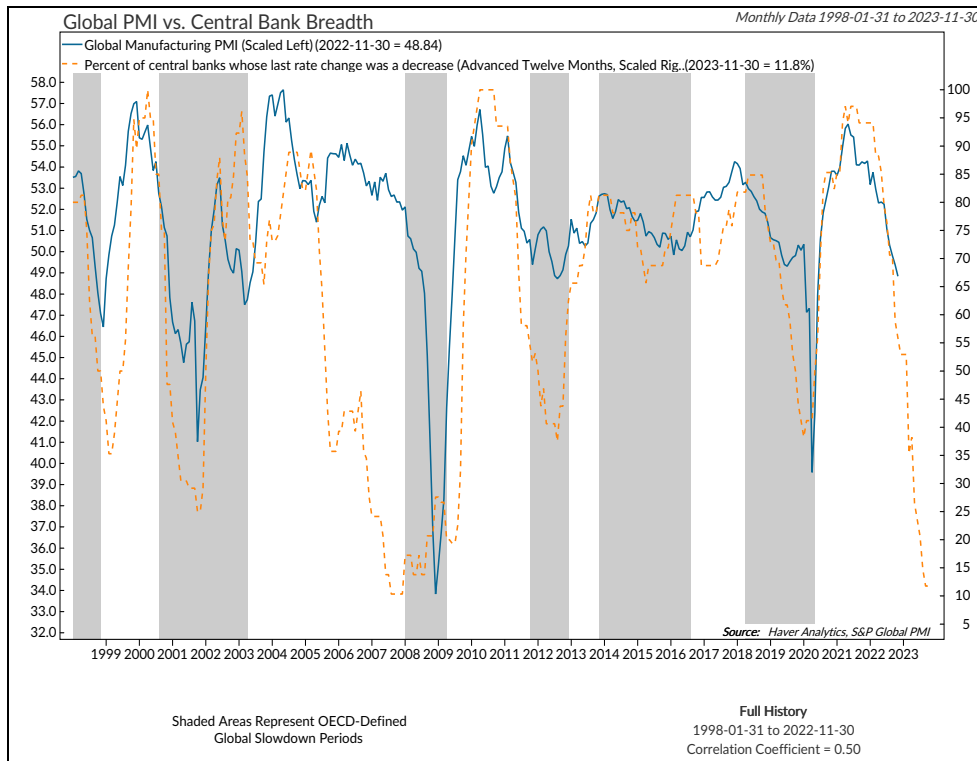
Global Severe Recession Watch Report



Source: Haver Analytics, Ned Davis Research, Inc., OECD, Main Economic Indicators (MEI), www.oecd.org, S&P Global PMI
 Indicators which have fallen below their key severe recession level are highlighted red.
 1 A rise in this indicator indicates an increased probability of recession.
 2 This indicator must be past the key recession level for three consecutive months to indicate an increased probability of recession

Indicator	Reading
Global Recession Probability Model ¹	0.7 (97.0, 99.8)
OECD Plus Non-Member Economies Composite Leading Indicator	89.9 (98.1, 104.8)
Share of OECD CLIs Above 100 ²	0.0 (11.8, 28.0)
Global Manufacturing PMI	33.8 (48.8, 57.6)
Share of Manufacturing PMIs Above 50 ²	0.0 (28.0, 33.0)
World Trade Volume (Smoothed Year-to-Year % Change)	-18.4 (0.0, 5.4)
Sentix Economic Expectations Index	-36.2 (-10.0, 37.7)
Misery Breadth Index II ¹	0.0 (57.0, 97.2)
Global PMI Bullwhip	-17.1 (-3.1, -0.5)
U.S. Recession Probability Model ¹	0.0 (10.4, 50.0)
Global CISS ¹	0.01 (0.30, 0.55)

Tight global monetary policy hasn't fully fed into the economy



will end the year in a range of -0.5% to 0.5%. We see a 75% chance that the economy contracts for part of 2023 and give 25% odds to a soft-landing scenario. Historically, severe global recessions have always been accompanied by U.S. recession. A soft landing depends on continued resilience of the labor market, smooth domestic policy, and diminishing geopolitical tensions. For more details, see our [2023 U.S. Outlook publication](#).

China's COVID crisis

China's economy presents the greatest uncertainty to the global outlook. In response to protests and unrest, the government has dramatically pared back its extremely restrictive COVID protocols. As we wrote in our [November publication](#), a clean reopening could see a boost of 2.0-2.5 points to real GDP growth, which could bring growth to over 6%.

But this goal is highly elusive. First, the easing

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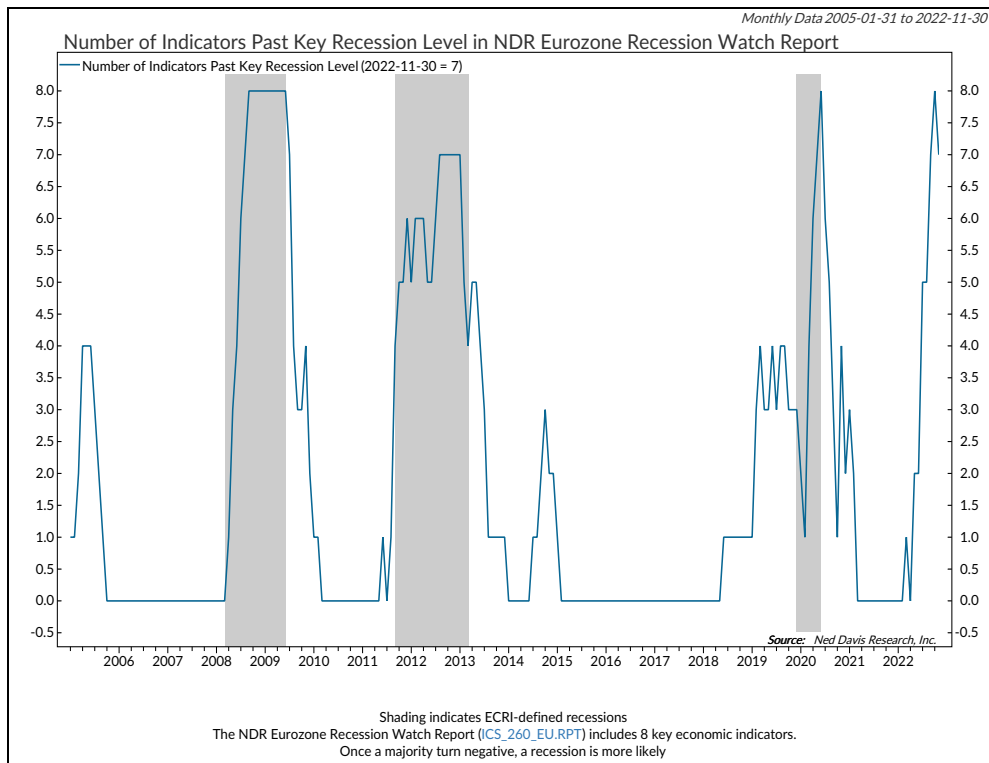
of measures must actually happen and go smoothly. Given the abrupt and premature nature of the reopening, there's no guarantee. Large swaths of the population could choose to disengage from the economy given the rising risk of infection and death. Also, other elements of the economy, such as external demand and real estate remain fragile. As a result, we project the Chinese economy will grow 4.25% to 4.75% in 2023.

Eurozone's mild recession

Based on the weight of evidence presented in our [Eurozone Recession Watch report](#), it's highly likely that the economy fell into recession in Q4 2022 due to the energy shock brought by Russia's war and tighter monetary policy. We forecast a 0.0% to 0.5% growth rate for the eurozone in 2023, as the recession continues into next year.

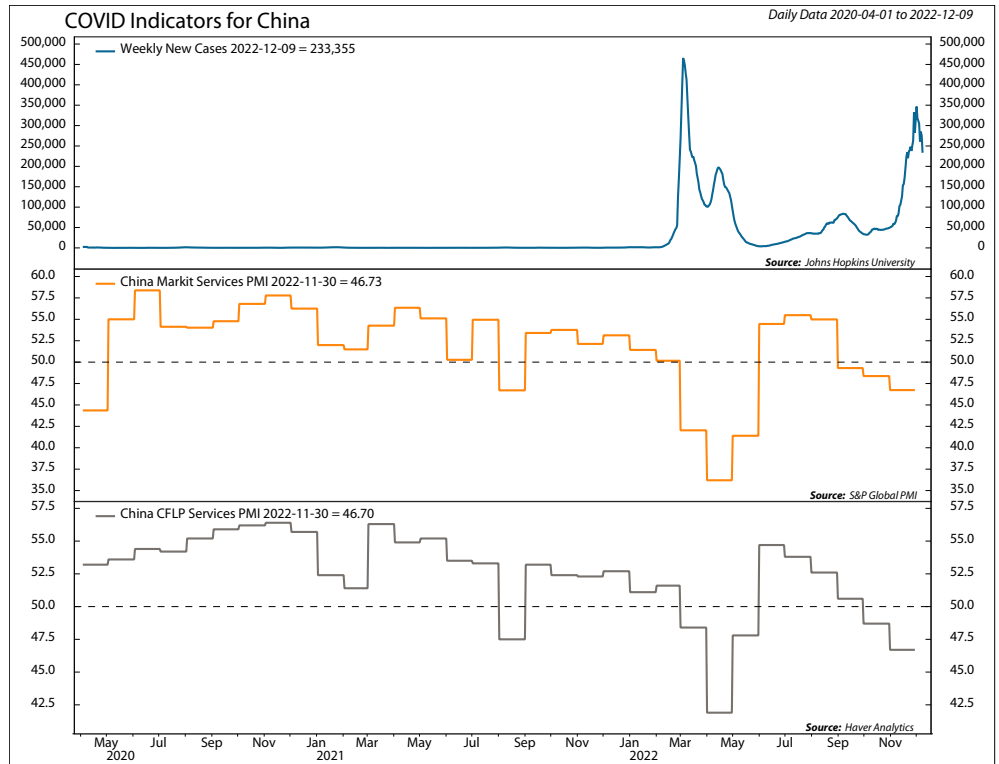
But given a starting point of low unem-

Eurozone likely already in recession



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An end to zero-COVID could be a boon for Chinese economy



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ployment, a cushion of savings due to the pandemic, and fiscal support to households to help combat the cost of higher food and energy prices, we expect the recession to be mild. The outlook, however, is uncertain and is almost entirely driven by energy. Colder-than-normal weather and an escalation in geopolitical tensions could easily see energy prices spike again, posing risks to the economy and inflation.

Peak inflation behind us

The global inflation rate has likely carved out a top due to waning demand and global supply chain pressures and peak oil and food prices. As shown in the top chart on Page 12, global supply chain pressures have eased significantly, which should continue to put downside pressure on inflation.

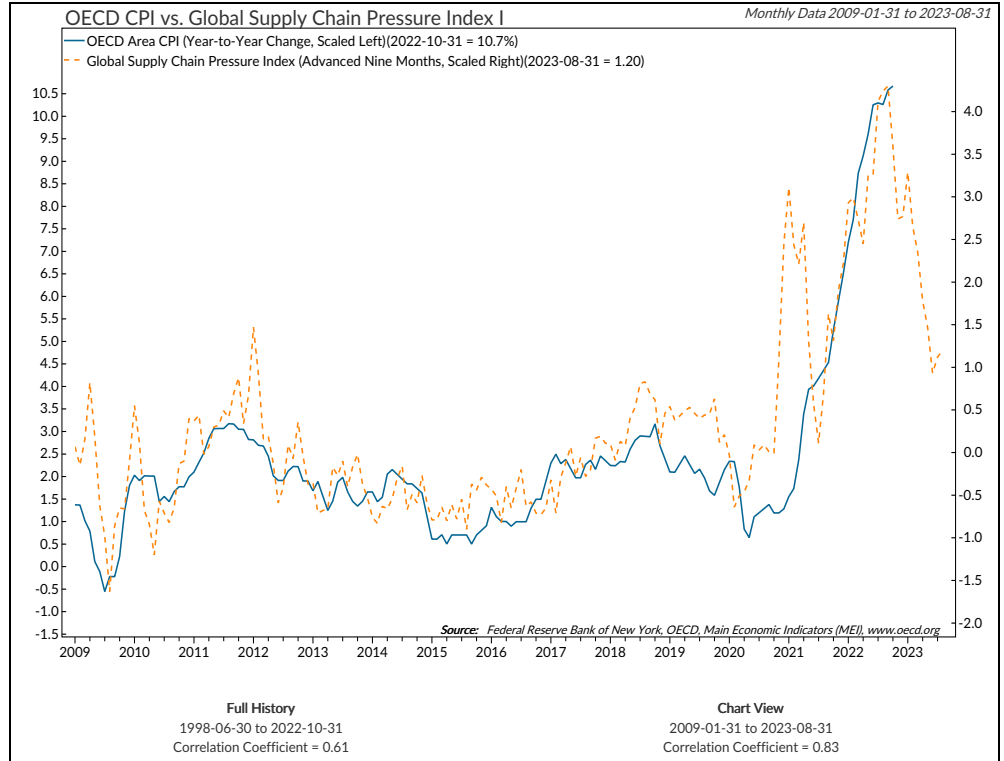
However, inflation is likely to stay higher for longer. Continued adjustment to pandemic

imbalances, tight labor markets, and the risk of further supply shocks (either geopolitical or weather related) will likely see inflation rates remain above central bank targets through the end of 2023, indicating pivots are unlikely in the near-term.

A quick reopening of the Chinese economy provides upside risk to global inflation, but likely not in the traditional consumer goods sense. The potential upside could come from energy prices, as consumers see an increase in domestic mobility.

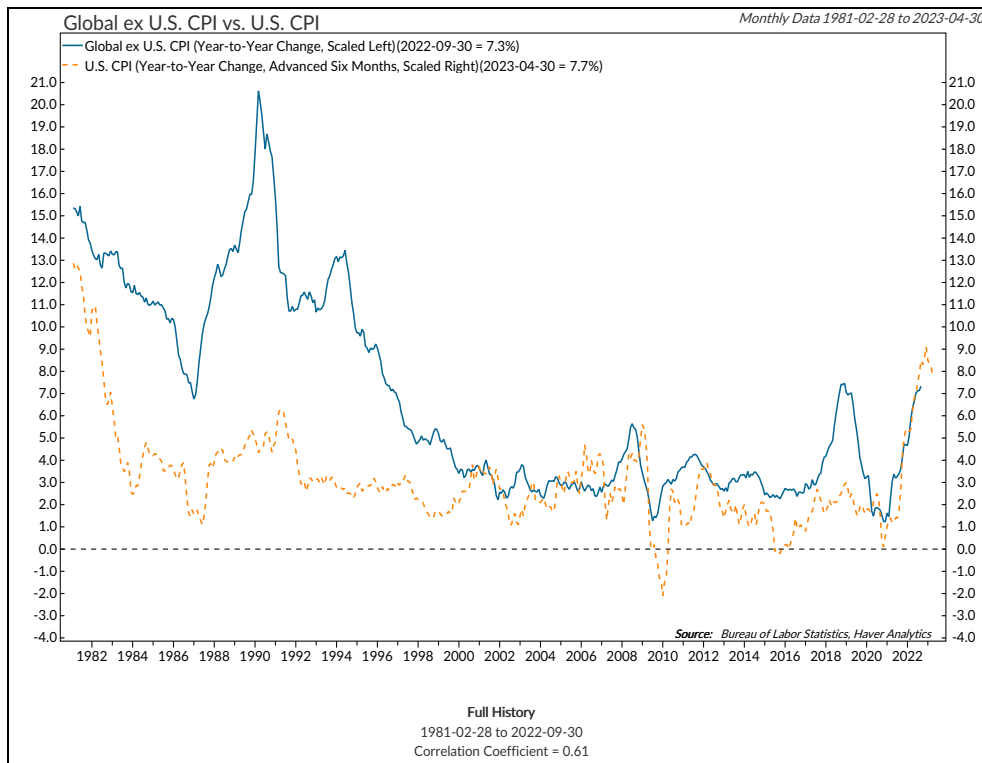
The U.S., however, as the world's largest consumer, is a much bigger player in the global economy and inflation. Indeed, as shown in the chart at below, the U.S. CPI tends to lead the rest of the world by around six months. Although we expect U.S. inflation to ease, it too is likely to remain above the Fed's target by the end of 2023.

Global inflation is peaking



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U.S. inflation usually leads the rest of the world



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The jury is still out as to whether we're entering a new high-inflation regime in the long-term. Prior to pandemic, most developed economies were experiencing strong disinflationary trends. Many of those secular disinflationary factors, including technology, demographics, and high private debt and inequality, remain intact.

Other influences that were disinflationary prior to the pandemic are at risk of disintegrating. Globalization is one factor. Removing Russia as an energy source to the West is an obvious change. The rise of tariffs, protectionist policies, and onshoring may also contribute to long-term inflation. The biggest risk, however, is inflation expectations becoming unanchored. If inflation stays higher for longer, inflation expectations could turn permanently higher, becoming a self-fulfilling prophecy.



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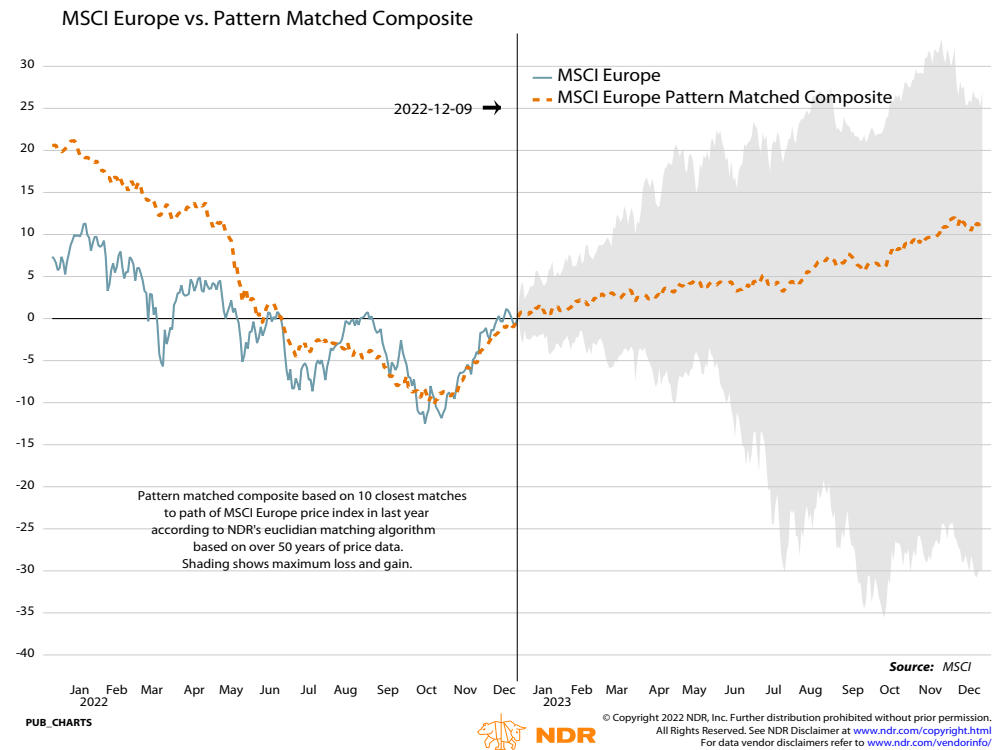
European equities

A better year, but risks remain

Key Takeaways

- Bullish technical indicators suggest risk appetite could continue into the start of 2023.
- But the full impact of central bank tightening on the European economy and falling earnings could result in choppy markets as 2023 progresses.
- Falling inflation and yields, and an improvement in the outlook for economic growth, could pave the way to a strong year end.

Technical indicators positive



Inflation and growth shocks

As this year draws to a close, many investors will be happy to see the back of 2022. It is fair to say that European economic growth and inflation have been worse than most economists predicted at the end of 2021.

At the end of 2021 the average economist surveyed in the ECB's Survey of Professional Forecasters was predicting eurozone growth of 4.5% and inflation at 1.9% for 2022. And ECB president Christine Lagarde stated that the bank was very unlikely to raise interest rates in 2022, keeping the main refinancing operations (MRO) rate at 0%.

Fast forward one year, and eurozone

inflation stands at 10%. The MRO rate has been raised to 2% and the futures market is pricing another 75 bps in rate rises by the first quarter of 2023. Lagarde last month stated that the bank was still in "highly accommodative territory".

Moreover, the ECB will continue to tighten even as the eurozone has most likely entered a recession this quarter, as the Russian invasion of Ukraine has resulted in spiralling energy and food costs on top of the inflationary pressures which followed the lockdowns and unprecedented fiscal and monetary stimulus.

An inflation shock, a sharp deterioration in the outlook for economic growth, and rapidly tightening monetary policy has provided a confluence of factors driving down asset prices across European equities and fixed income this year. The MSCI Europe index fell 21% from January to September and is down 10% year-to-date. In inflation-adjusted terms, these numbers are significantly worse at 27% and 17%.

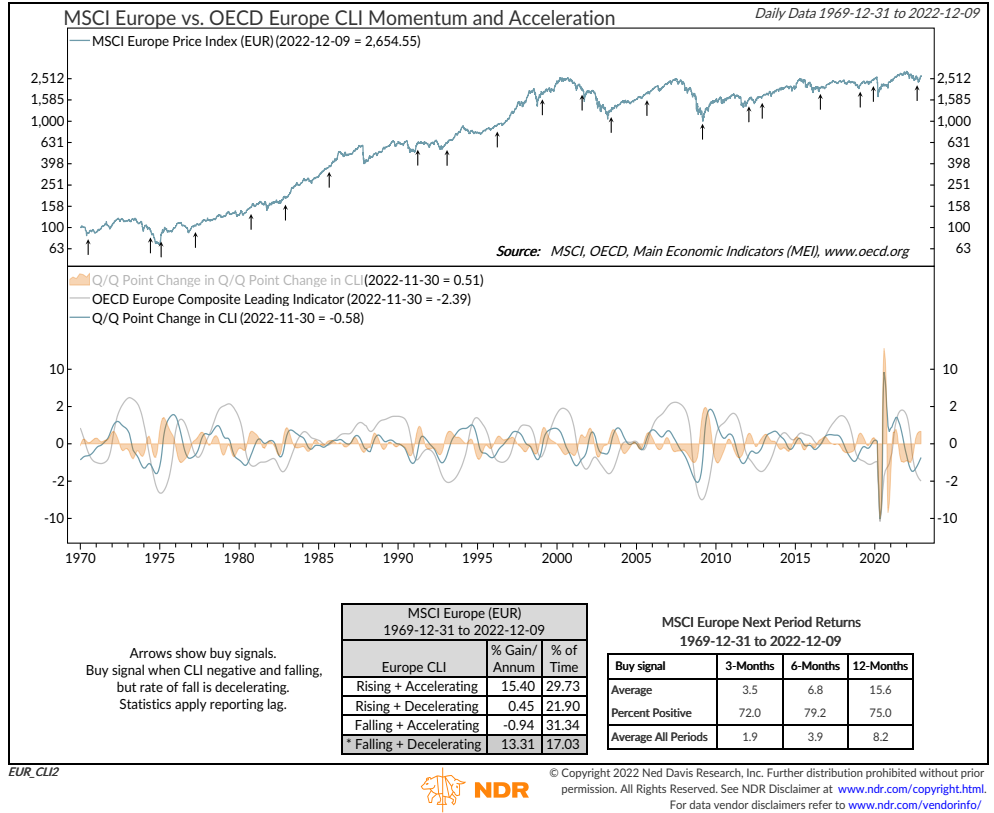
Early signs of hope

With leading economic indicators still deteriorating and the ECB set to tighten into the first quarter of next year, the macro-economic regime remains challenging for equities as we move into 2023.

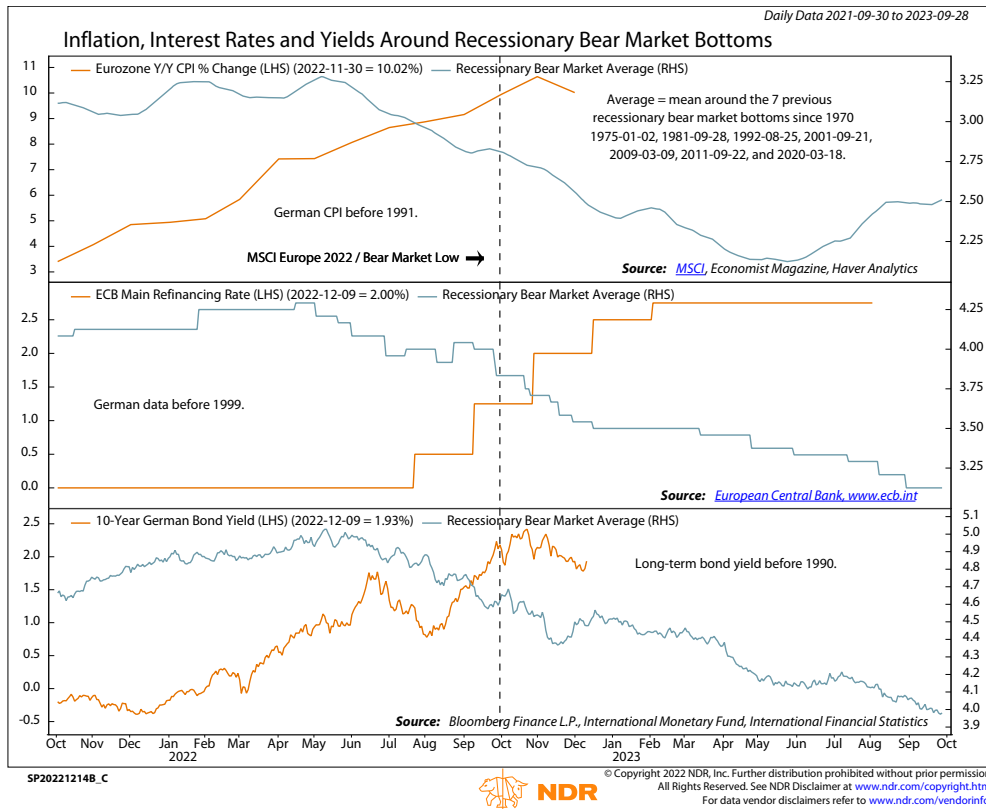
But since September, European equities have staged a strong rally, triggering several bullish technical signals. The chart on Page 14 illustrates that similar recoveries have tended to be followed by a year of robust equity returns. Confirmation of returning risk appetite has also come from other sources, such as cyclical industry relative strength, small-cap relative strength, and falling risk indicators.

Further, economic data has been surprising to the upside as economists became too pessimistic as to the outlook for the eurozone economy, and surveys of

Economic nadir in sight



Market ahead of itself?



economic sentiment have improved from record lows.

Leading indicators also point to an economic outlook that while deteriorating, is doing so at a slower pace, pointing to a potential upturn in leading indicators early in 2023 (above), in line with a growing consensus that the eurozone economy will experience a relatively short and shallow recession and return to growth later in 2023.

Risks remain

On balance, we expect 2023 to be a choppy year, not least because the market may be discounting too much good news too early. In the past, inflation, interest rates and yields have tended to fall before a sustained recovery in equities has gotten underway (left). And while there are some signs that yields and inflation have peaked, never has a European recessionary bear market

bottomed before the central bank has finished raising rates.

As Chief Economist Alejandra Grindal notes, Europe could easily see energy prices spike again, posing risks to both the economy and inflation, pressuring the ECB to keep monetary policy tight.

Secondly, analysis of past recessions shows earnings on average fall around 20% per annum for nearly two years (below). With analysts forecasting 3% earnings growth for the MSCI Europe index over the next year, a potential fall in earnings is a major risk to European equities.

Therefore, equities could be volatile until we see clear evidence that interest rates have peaked, and that inflation and yields are falling. Potentially this could occur later in the year and pave the way to a strong equity

market in the second half of 2023.

Sectors

Our broad market outlook also informs our allocation to equity sectors. In line with our broad market indicators, our sector indicators point to a moderate tactical tilt toward Cyclical over Defensive sectors.

However, given the intermediate term risks we would caution against becoming overly aggressive in allocating to Cyclical sectors. Therefore, a more nuanced approach will make sense in 2023.

We still see value and positive underlying trends in the Energy and Materials sectors with our commodity-based indicators supportive.

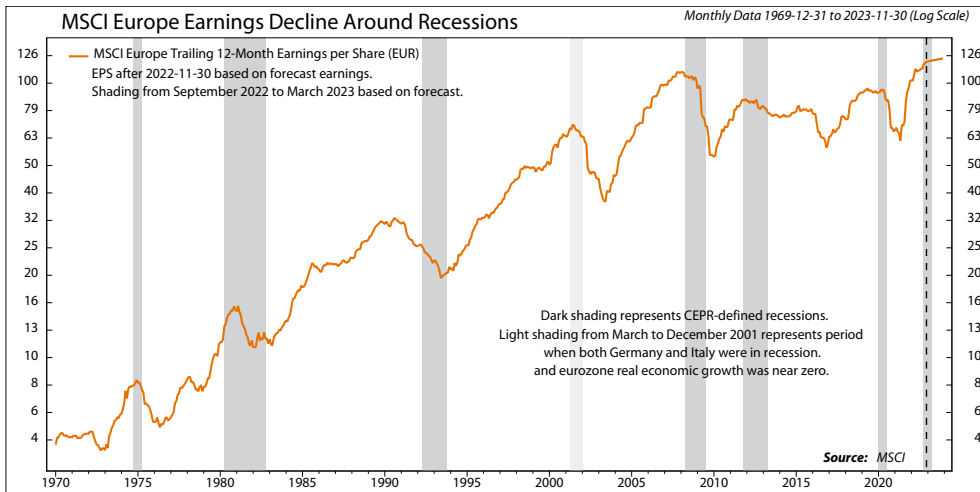
We also see potential for further outperformance by Consumer Discretionary

stocks since the sector became excessively oversold in May. European consumer confidence has improved from record lows, and with disinflation likely in 2023 this could provide a further tailwind.

A reopening of the Chinese economy during 2023 could also provide a positive boost to the sector which derives a high percentage of sales from Asia and Asian tourism.

Among the Defensive sectors, we prefer the Consumer Staples and Health Care sectors, due to a history of higher profitability and stronger returns on invested capital. Conversely, we would underweight the Communication Services sector, which has seen a long-term decline in relative earnings due to competition, regulation, and high capex requirements.

Earnings risk



Recession Start	Recession End	Earnings Peak	Earnings Trough	# Months	Total Decline (%)	Annualized Decline (%)
1974-09-30	1975-03-31	1974-11-29	1976-04-30	17.0	-37.2	-28.0
1980-03-31	1982-09-30	1981-01-30	1982-01-29	12.0	-29.3	-29.4
1992-03-31	1993-09-30	1990-07-31	1993-05-31	34.0	-39.7	-16.4
2001-03-31	2001-12-31	2001-05-31	2003-05-30	24.0	-47.4	-27.5
2008-03-31	2009-06-30	2008-01-31	2009-12-31	23.0	-50.9	-31.0
2011-09-30	2013-03-31	2011-11-30	2013-12-31	25.0	-14.4	-7.2
2019-12-31	2020-06-30	2019-04-30	2021-04-30	24.0	-35.5	-19.7
Average				22.7	-36.4	-22.7

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NDR HOUSE VIEWS (Updated December 9, 2022)

For global asset allocation, NDR recommends an overweight allocation to stocks, marketweight allocation to bonds, and an underweight allocation to cash. Our overweight equity allocation is in response to improving model readings and a shift in Fed rate hike expectations.

Equity Allocation

U.S. | We are neutral on stocks on an absolute basis and relative to bonds and cash. Macro and earnings concerns are offset by extreme pessimism and technical improvements. We favor small-caps over large-caps and Value over Growth.

INTERNATIONAL | We are overweight Europe ex. U.K. and marketweight on all other regions.

Macro

ECONOMY | The global economy is in a sustained slowdown due to waning monetary and fiscal support, stubbornly high inflation, and rising geopolitical risk. While the slowdown remains moderate, the risk of severe recession increases in 2023. Global inflation pressures are easing but will remain historically elevated in the foreseeable future.

FIXED INCOME | We raised our bond exposure to 100% of benchmark duration and are neutral on the yield curve. We are overweight Treasuries and MBS and underweight high yield, ABS and TIPS. We are marketweight everything else.

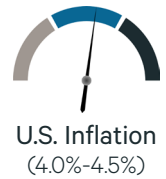
GOLD | We are currently bullish. The majority of our Gold Watch report indicators are now bullish and gold stands to benefit from seasonality and declining bond yields.

DOLLAR | We are bearish due to worsening momentum and model readings.

Economic Summary

December 12, 2022

Near term activity: ● Accelerating ● Neutral ● Decelerating



Economic gauges reflect changes in near-term economic activity. Numbers in parenthesis refer to NDR 2022 forecasts.

Global Asset Allocation

● Overweight ● Marketweight ● Underweight

- Stocks (65%)
- Bonds (35%)
- Cash (0%)

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

Equities — Regional Relative Allocation

- Europe ex. U.K. (14%)
- U.S. (61%) | Emerging Markets (11%) | Japan (5%) | U.K. (4%) | Pacific ex. Japan (2%) | Canada (3%)
-

Benchmark – U.S. (61.5%), Europe ex. U.K. (12%), Emerging Markets (11.2%), Japan (5.4%), U.K. (3.8%), Pacific ex. Japan (3%), Canada (3.1%)

Global Bond Allocation

- Europe (28%)
- U.S. (55%) | Japan (14%)
- U.K. (3%)

Benchmark: U.S. (55%), Europe (26%), Japan (14%), U.K. (5%)

U.S. Allocation

- Small-Cap | Value
- Stocks (55%) | Bonds (35%) | Cash (10%) | Mid-Cap
- Large-Cap | Growth

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

Sectors

- Health Care (17%) | Energy (5%) | Materials (4%)
- Consumer Discretionary (8%)

Benchmark: Technology (27.4%), Health Care (13.8%), Financials (10.7%), Communication Services (9.3%), Consumer Discretionary (12.1%), Consumer Staples (7.0%), Industrials (7.9%), Energy (4.0%), Utilities (2.7%), Real Estate (2.7%), Materials (2.5%)

U.S. Bonds — 100% of Benchmark Duration

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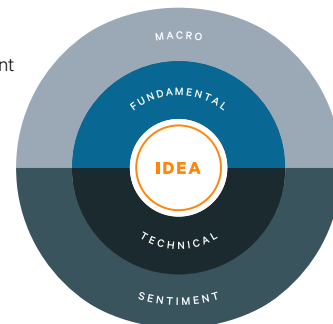
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