FINURA

YOUR MARKET COMMENTARY SEPTEMBER 2022

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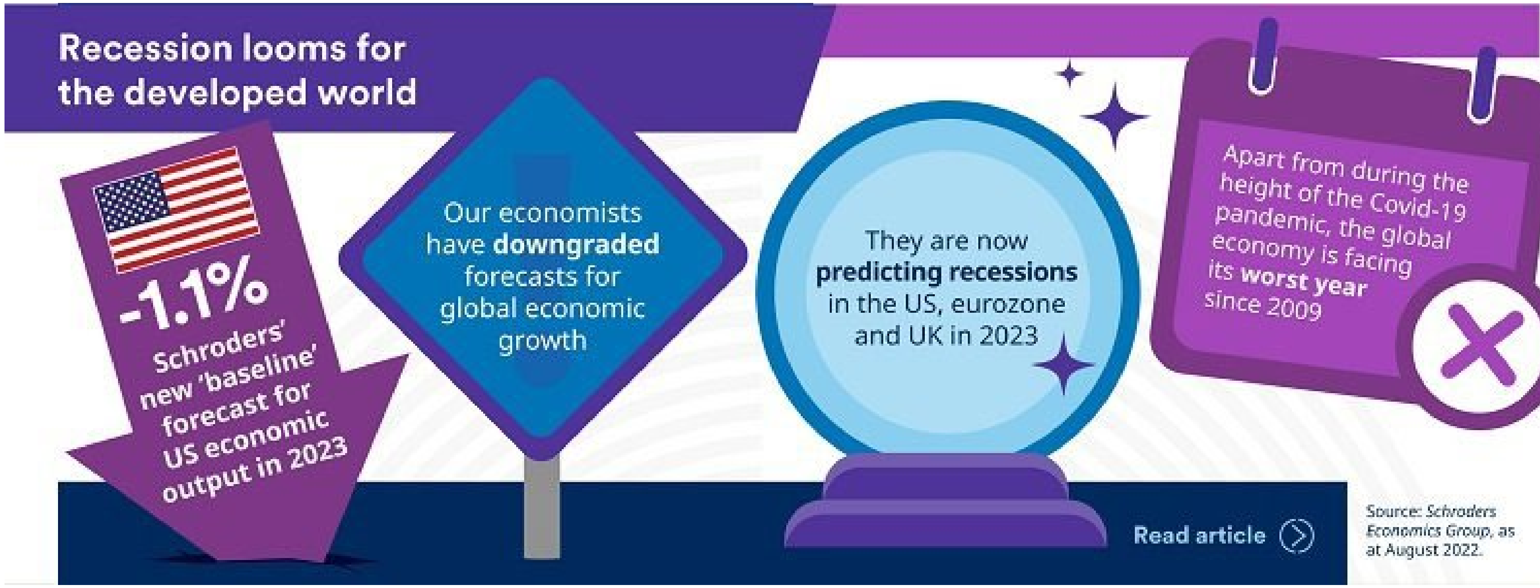
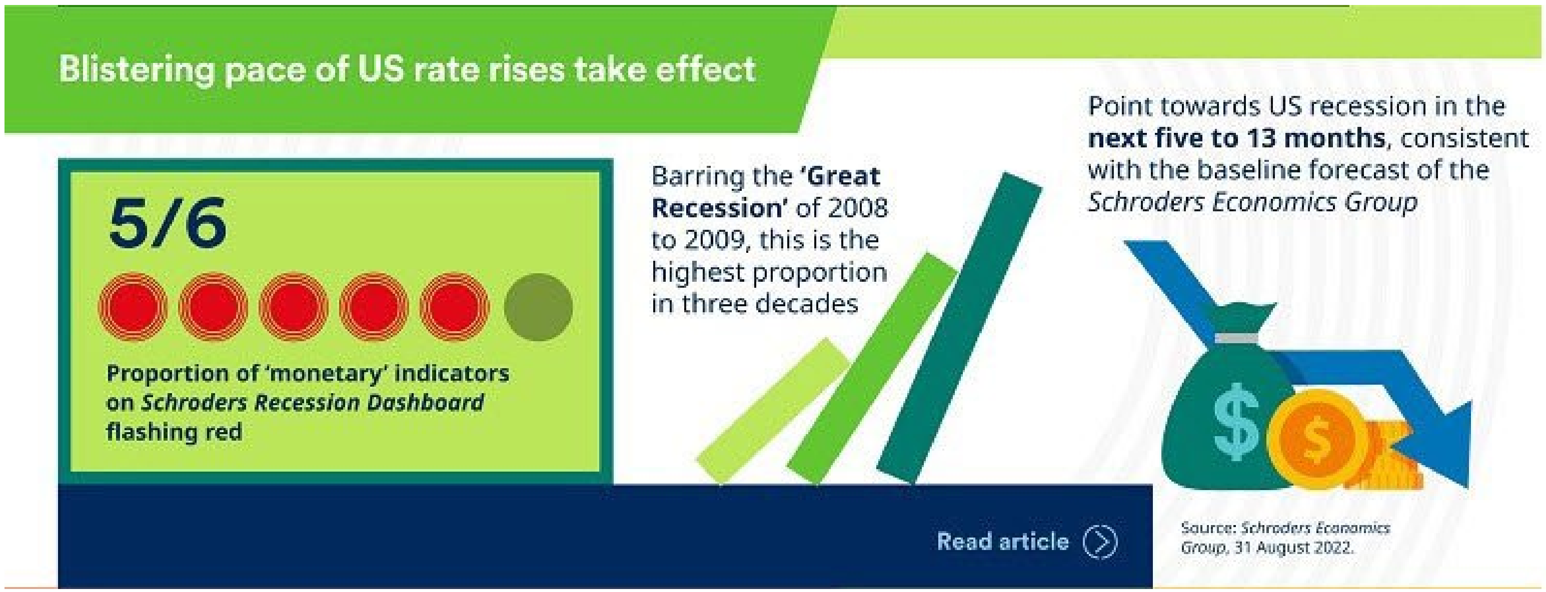
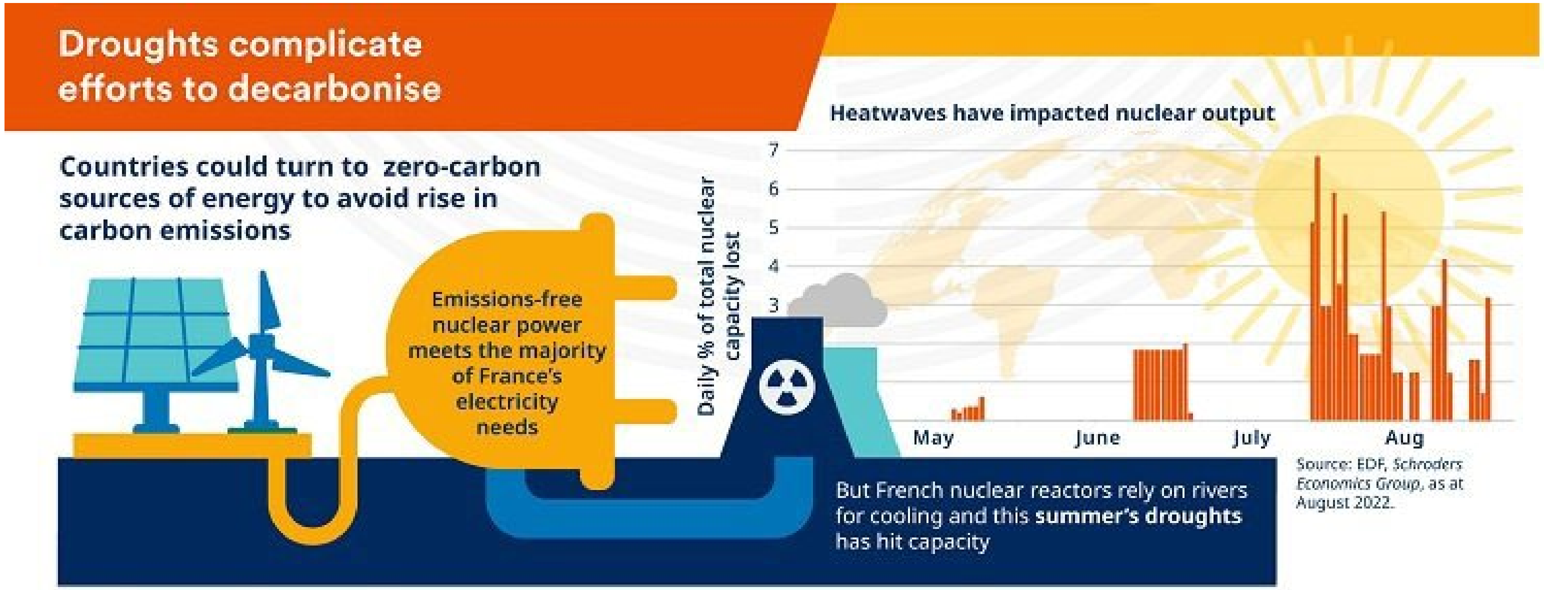
Pension TRANSFER Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY







Source: [Schroders as at September 2022.]

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

● Positive ● Positive/ Neutral ● Neutral ● Neutral/ Negative ● Negative

	Category	View	Comments
Main Asset Classes	Equities	● Negative	We remain negative on equities as we expect further weakness in company earnings.
	Government Bonds	● Neutral ▲	As expected, US Federal Reserve (Fed) chairman Jerome Powell reiterated the US central bank's commitment to bringing inflation under control. We have moved to a neutral stance as valuations and market expectations are now more realistic.
	Commodities	● Positive/ Neutral ▲	We have upgraded our view, as supply in the energy and agriculture markets remains tight.
	Credit	● Neutral	We maintain our neutral stance as credit will be less affected by a potential recession than equities.
Equities	US	● Neutral	We continue to prefer the US, driven by the search for high quality companies. We believe that US companies should hold up better than their global counterparts.
	UK	● Negative	We maintain our negative stance despite the recent rebound in energy as we believe lower demand going forward will weigh on the index.
	Europe	● Negative	The region has seen a record rise in interest rates to curb inflation. We believe the window for further rate rises is now limited and this, coupled with the natural gas crisis, is an unfavourable mix.
	Japan	● Negative	Recession fears are building, and Japanese equities are likely to be weaker due to the cyclical nature of the index.
	Global Emerging Markets[1]	● Negative	Recessionary risks are traditionally not supportive for EM equities and the region also continues to be affected by the strong US dollar.
	Asia ex-Japan & China	● Negative	Although share price valuations have fallen back, they are not yet at levels where they are attractive.
	EM Asia ex China	● Negative	We maintain our negative stance due to ongoing geopolitical tensions in the region. This is particularly the case for Taiwan.

[1] Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.

	Category	View	Comments
Government Bonds	US	● Neutral ▲	We have upgraded our view to neutral as market expectations for interest rate rises by the Fed are now better aligned with our own expectations and valuations are no longer expensive.
	UK	● Neutral ▲	We have upgraded our view to neutral as we feel the market is now oversold, presenting an opportunity to benefit from higher yields.
	Germany	● Negative	We remain negative on German bunds as we believe that the market is still underestimating the desire by the European Central Bank (ECB) to raise interest rates.
	Japan	● Negative	Yields remain unattractive compared to other markets. Slowing global growth also remains a risk.
	US Inflation Linked	● Neutral ▼	We have downgraded our view to neutral. With US 10-year real rates above 1%, we believe that inflation expectations are now more realistic.
	Emerging Markets Local	● Neutral ▲	We have upgraded to neutral. Latin America shows signs of peaking inflation, helped by an early rate hiking cycle. Real yields compared to developed markets, especially the US, present an attractive valuation opportunity.

	Category	View	Comments
Investment Grade Credit	US	🟢	Our long-term view remains positive as spreads are attractive. However, we need more clarity on the extent of recession risks before adding.
	Europe	🟢 ▲	Similar to the US, our long-term view is that corporate debt spreads (the difference in returns due to different credit quality) are attractive. However, uncertainties around the European energy situation and its impact on corporate activity keep us on the side-lines for the moment.
	Emerging Markets USD	🟢	We remain positive as emerging market fundamentals look relatively strong, and the region has priced in the recent rise in geopolitical tension.
High Yield Bonds (Non-IG)	US	🟢 ▲	We upgraded to positive as valuations have improved meaningfully.
	Europe	🟡 ▲	We have upgraded this month based on significant value and on the assumption that there will be a coordinated fiscal package.
Commodities	Energy	🟢 ▲	We have upgraded to positive as prices do not appear to reflect underlying fundamentals. Even though demand has shown signs of slowing, we believe markets have priced in excessive levels of pessimism.
	Gold	🟡	Gold tends to perform well when fears of recession are looming. However, in the face of tightening money supply, the outlook for gold appears balanced.
	Industrial Metals	🟡	Ex-China demand remains uncertain, production remains muted, and inventories are low, which could limit the downside risk.
	Agriculture	🟢 ▲	We have upgraded to positive as key agricultural commodities, such as corn and soybeans, appear to be cheaply priced. This presents an opportunity in a market where supply-side concerns have not alleviated, and inventory levels are very low.
Currencies	US $	🟢	We believe that market expectations for Fed rate hikes are now better aligned with our own expectations, so we have downgraded the US dollar to neutral.
	UK £	🔴 ▼	The turn in the cycle and the worsening stagflationary environment, coupled with political instability have weighed on the currency. We remain neutral as the pound appears to have priced these factors in appropriately.
	EU €	🟡 ▲	While the outlook for growth is not positive, we believe that current extreme levels of negative sentiment mean there is an opportunity for a tactical rebound in the currency.
	CNH ¥	🔴	The depreciation in the renminbi (offshore) is likely to continue, which should cushion the impact of reduced demand for Chinese exports.
	JAP ¥	🔴 ▼	The Japanese yen is very sensitive to the pricing of other developed markets, we expect further weakness in the near term for the currency.
	Swiss F	🟡	We remain neutral as the Swiss franc is better shielded from the energy crisis than the rest of Europe. As a result, the Swiss National Bank may not raise interest rates as aggressively as the ECB or Fed.

Source: Schroders, September 2022. The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

MARKETS REVIEW

A look back on markets in Q3, when central banks made clear that their priority is fighting inflation.

THE QUARTER IN SUMMARY

After a rally in July, both shares and bonds turned lower and registered negative returns for Q3. Any hopes of interest rate cuts were dashed as central banks reaffirmed their commitment to fighting inflation. The Federal Reserve, European Central Bank and Bank of England all raised interest rates in the quarter. Emerging markets underperformed their developed counterparts. Commodities generally declined.

THE US

US equities fell in Q3. The communication services sector, including both telecoms and media stocks, was among the weakest sectors over the quarter, along with real estate. The consumer discretionary and energy sectors proved the most resilient.

In July, the market had started to focus on the possibility of interest rate cuts from the US Federal Reserve (Fed) in 2023, given concerns about slowing growth. However, such hopes were dashed at August's Jackson Hole summit of central bankers, where the Fed reaffirmed its commitment to fighting inflation. This sent stocks lower in the second half of the quarter. The Fed raised the federal funds rate by 75 basis points (bps) to 3.25% in September; the third consecutive 75bps increase.

The Fed's preferred measure of inflation (the core personal consumption expenditure index) ticked up again in August - on a year-on-year (y/y) basis - from 4.7% to 4.9%. GDP data confirmed that the US economy is in a technical recession with GDP falling by -0.6% y/y in Q2 after a -1.6% contraction in Q1. However, other data showed resilience, such as the August non-farm payrolls report that showed 315,000 new jobs added that month.

EUROZONE

Eurozone shares experienced further sharp falls in Q3 amid the ongoing energy crisis, rising inflation, and consequent fears about the outlook for economic growth. Every sector posted negative returns, with the steepest falls for communication services, real estate and healthcare. Some pharmaceutical stocks were hit by worries over potential liabilities related to US litigation around heartburn drug Zantac. The real estate sector has been pressured by rising bond yields.

The European Central Bank raised interest rates in July and September, taking the deposit rate to 0.75% and refinancing rate to 1.25%. Annual inflation for the eurozone was estimated at 10.0% in September, up from 9.1% in August.

Energy costs continued to be the largest contributor to inflation. Nord Stream 1, the main pipeline supplying gas to Europe from Russia, was closed for maintenance in July. It came back onstream temporarily before Russia shut it down again in early September. This put further pressure on power generators, many of whom need to buy natural gas from higher cost sources, and intensified worries over potential energy shortages this winter. The news also sent the euro to a 20-year low versus the US dollar.

GDP figures showed the eurozone economy grew by 0.7% quarter-on-quarter in Q2. However, forward-looking indicators signalled a weakening economy. The flash composite purchasing managers' index (PMI) for September came in at 48.2, representing a third consecutive month below 50. (The PMI indices are based on survey data from companies in the manufacturing and services sectors. A reading below 50 indicates contraction, while above 50 signals expansion.)

UK

UK equities fell in Q3. A key event in the quarter was the election of Liz Truss as new Conservative Party leader and hence as prime minister. The new government announced a fiscal package in September which was poorly received by markets and sent sterling to an all-time low versus the US dollar.

Sterling weakness had already been a feature of the quarter, especially after the US Fed warned it would 'keep at it' in relation to raising interest rates. After expectations in July that the peak in US rates might be close, this moved the market's focus back towards near term cash flows, such as those offered by the UK's large cap constituents.

Large multi-national consumer staples and energy companies outperformed. These areas are seen as better placed to cope with a 'stagflationary' economic environment, where growth is low or slowing while inflation is high or rising. The very strong dollar was also positive for sentiment in these areas of the market given that such companies derive a large part of their revenues from overseas.

In contrast, fears around the impact of rising energy bills on consumer discretionary spend weighed heavily on retailers, travel and leisure, home construction and other domestically focused companies. The same concerns which contributed to a bout of extreme sterling weakness at the period end exacerbated some of these trends.

JAPAN

After rising through July and August, the Japanese stock market followed global equity markets lower in September to end the quarter down 0.8%. Other than a brief period in late July, the yen weakened almost continuously against the US dollar, easily breaking the 140 level for the first time since 1998.

Early in the quarter, market events were overshadowed by the shocking assassination of former prime minister Shinzo Abe on 8 July. Mr Abe, who resigned in August 2020 as Japan's longest serving prime minister, was shot while delivering a campaign speech in Nara, two days ahead of nationwide Upper House elections.

Meanwhile, the first estimate of GDP showed a quarter-on-quarter annualised growth rate of 2.2%, which was slightly below consensus expectations. The detailed breakdown was interpreted more positively with some resilience in consumption and capital expenditure.

The Bank of Japan left policy unchanged and the interest rate differential with the US therefore widened sharply after the successive decisions by the US Fed to raise rates. This differential has been a significant factor in the consistent weakening of the yen so far in 2022. On 22 September the Ministry of Finance did intervene directly in currency markets when the yen was seen depreciating rapidly intra-day, towards 146 against the US dollar. This was the first such direct intervention in support of the yen since 1998. By the end of September the yen had already weakened again, closing the month at 144.6 to the dollar.

Data showed Japan's inflation continuing to edge up with the headline rate reaching 3.0%, while the core rate, excluding fresh food and energy, reached 1.6%. Aside from political events and macro data, the main influence on individual stocks came from the results announcements for the March to June quarter, which were completed in August. Although profit momentum slowed from the previous quarter, overall results were again ahead of expectations and profit margins appear to have remained resilient so far, despite increasing cost pressures.

ASIA (EX JAPAN)

Asia ex Japan equities were weaker in the third quarter on investor concerns over rising inflation, higher interest rates and fears over a global slowdown. The war in Ukraine and ongoing tensions between China and Taiwan also weighed on sentiment during the quarter.

China was the weakest index market in the quarter on concerns over rising interest rates, as countries around the world battle soaring inflation. This was despite data released in September which showed that Chinese factory activity unexpectedly expanded during August. The alarming spread of Covid-19 throughout China also weakened sentiment, prompting fears of further lockdowns as the country continues to pursue a policy of zero-Covid.

Share prices in Taiwan and South Korea were also weaker. In Hong Kong, share prices were sharply lower as investors continued to sell riskier assets, such as shares, for the safety of government bonds amid the threat of more interest rate hikes and economic recession.

India ended the quarter in positive territory, although concerns over the pace of interest rate hikes by the US Federal Reserve weakened sentiment towards the end of the quarter. Share prices in Thailand, Singapore and Malaysia were weaker in the third quarter, while Indonesia ended the period in positive territory.

EMERGING MARKETS

Emerging market (EM) equities posted negative returns in Q3, against a backdrop of slowing global growth, heightened inflationary pressure and rising interest rates.

Poland was the weakest index market, with Hungary and Czech Republic also among the biggest decliners, as the Russian war in Ukraine escalated and led to an energy crisis in Europe, which in turn has contributed to accelerating inflation. China also underperformed by a significant margin. Not only has a slump in the property market weighed on investor sentiment, the imposition of Covid-related lockdowns in various major cities has had a negative impact on domestic demand.

Growth-sensitive north Asian markets, such as South Korea and Taiwan, suffered as the outlook for global trade deteriorated. Colombia also performed poorly as commodity prices fell, while the Philippines and South Africa, where concerns about the power situation weighed on sentiment, also lagged the index.

Turkey was the best performing market. Despite inflation that is over 80%, the central bank cut interest rates twice during the quarter and the economy continues to grow strongly. India and Indonesia also posted positive returns which were ahead of the broader index. Brazil performed well as investors took comfort from a narrowing in opinion polls ahead of October's presidential election, and as growth and inflation improved. Data showed the economy growing strongly in the second quarter while the CPI inflation rate has been easing for two consecutive months.

GLOBAL BONDS

The heightened market volatility during third quarter continued as central banks and investors continued to grapple with persistent inflation amid a slowing growth backdrop.

The Federal Reserve (Fed) tagged on another 75 bps increase onto existing rates in September which brought the rate to between 3.0% and 3.25%. This is the fifth interest rate in the year so far, following rate hikes to 1.75% in June and 2.5% in July. Chair Jerome Powell stated that the Fed's outlook remains unchanged since the Jackson Hole meeting. The US 10-year yield rose from 2.97% to 3.83% and the 2-year yield from 2.93% to 4.23% in Q3.

The UK's budgetary announcement accelerated the sell-off as investors questioned the credibility of the government's fiscal framework. With the gilt market suffering significant losses, the Bank of England intervened by temporarily buying long dated gilts. Sterling hit an all-time low of $1.03 in the closing days of the month before recouping some of its losses.

In a statement, Governor Andrew Bailey noted that the BoE was monitoring developments in the financial markets "very closely". The UK 10-year yield increased from 2.24% to 4.15% and 2-year rose from 1.88% to 3.92%.

The ECB raised interest rates by 75 bps in September, following a rise of 50 bps in July. Eurozone CPI landed at a record high of 10% year-on-year. The German 10-year yield increased from 1.34% to 2.11%.

Government bond yields were generally higher and credit spreads wider across the global market, weighing heavily on market returns. The credit spread is the difference in yield between bonds of a similar maturity but with different credit quality. Credit spreads widened amid fears that tighter monetary policy may undermine further economic growth prospects.

Across global credit, returns were poor as the market drawdown continued. Sterling investment grade and high yield were the worst performers. European investment grade and high yield, as well as emerging markets credit, fared better but only on a relative basis as returns remained negative. Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.

Emerging market currencies weakened as investors fled to the US dollar on recession fears. Central and eastern European currencies were mixed against the euro.

Convertible bonds protected well against the gale-force equity market headwinds. The Refinitiv Global Focus Index shed just -1.7% for the three months which translates into a very low 25% downside participation. After a better month for primary markets in August, September was yet another lacklustre month for new issues. For Q3 as a whole, there were only US$14 billion of new convertibles coming to the market.

COMMODITIES

The S&P GSCI Index recorded a negative performance in the third quarter, driven lower by weaker prices for energy, industrial metals and precious metals. Energy was the worst-performing component of the index in the quarter, with sharply lower prices

for crude oil, Brent crude and unleaded gasoline offsetting higher prices for natural gas.

Within industrial metals, prices for aluminium, copper and nickel were all lower. Price declines for zinc were more muted in the quarter, while lead achieved a small price gain. Within the precious metals component, the price of both gold and silver declined in the quarter. Within agriculture, higher prices for wheat and corn helped to offset price falls for cotton, sugar, coffee and cocoa.

TOTAL RETURNS (NET) % – TO END SEPTEMBER 2022

	3 MONTHS			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	-6.2	0.1	2.1	-19.6	-4.9	-2.9
MSCI World Value	-7.2	-1.0	0.9	-12.7	3.3	5.5
MSCI World Growth	-5.1	1.3	3.3	-26.9	-13.5	-11.7
MSCI World Smaller Companies	-5.3	1.1	3.1	-25.0	-11.3	-9.4
MSCI Emerging Markets	-11.6	-5.6	-3.8	-28.1	-15.0	-13.2
MSCI AC Asia ex Japan	-13.8	-8.1	-6.3	-28.7	-15.7	-13.9
S&P500	-4.9	1.5	3.5	-15.5	-0.0	2.1
MSCI EMU	-10.5	-4.5	-2.7	-30.7	-18.0	-16.2
FTSE Europe ex UK	-10.2	-4.1	-2.3	-27.8	-14.6	-12.8
FTSE All-Share	-11.3	-5.3	-3.5	-20.5	-6.0	-4.0
TOPIX*	-6.9	-0.6	1.3	-28.4	-15.3	-13.5

	3 MONTHS			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-4.1	2.3	4.3	-12.5	3.5	5.7
JPM GBI UK All Mats	-20.2	-14.9	-13.2	-37.1	-25.6	-24.0
JPM GBI Japan All Mats**	-6.8	-0.5	1.4	-25.9	-12.4	-10.5
JPM GBI Germany All Traded	-10.5	-4.5	-2.6	-27.9	-14.7	-12.9
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	6.6	-0.3	1.6	-21.4	-7.0	-5.0
BofA ML US Corporate Master	-5.1	1.3	3.2	-18.2	-3.2	-1.2
BofA ML EMU Corporate ex T1 (5-10Y)	-10.6	-4.5	-2.7	-32.9	-20.6	-18.9
BofA ML £ Non-Gilts	-18.7	-13.3	-11.6	-35.6	-23.8	-22.2
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	-2.6	3.9	6.0	-19.5	-4.8	-2.8
BofA ML Euro High Yield	-6.3	0.0	2.0	-15.5	0.0	2.1

Source: Thomson Reuters DataStream.
Local currency returns in Q3 2022: *-0.8%, **-0.7%.
Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, September 2022: The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

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