FINURA

YOUR MARKET REVIEW NOVEMBER 2022

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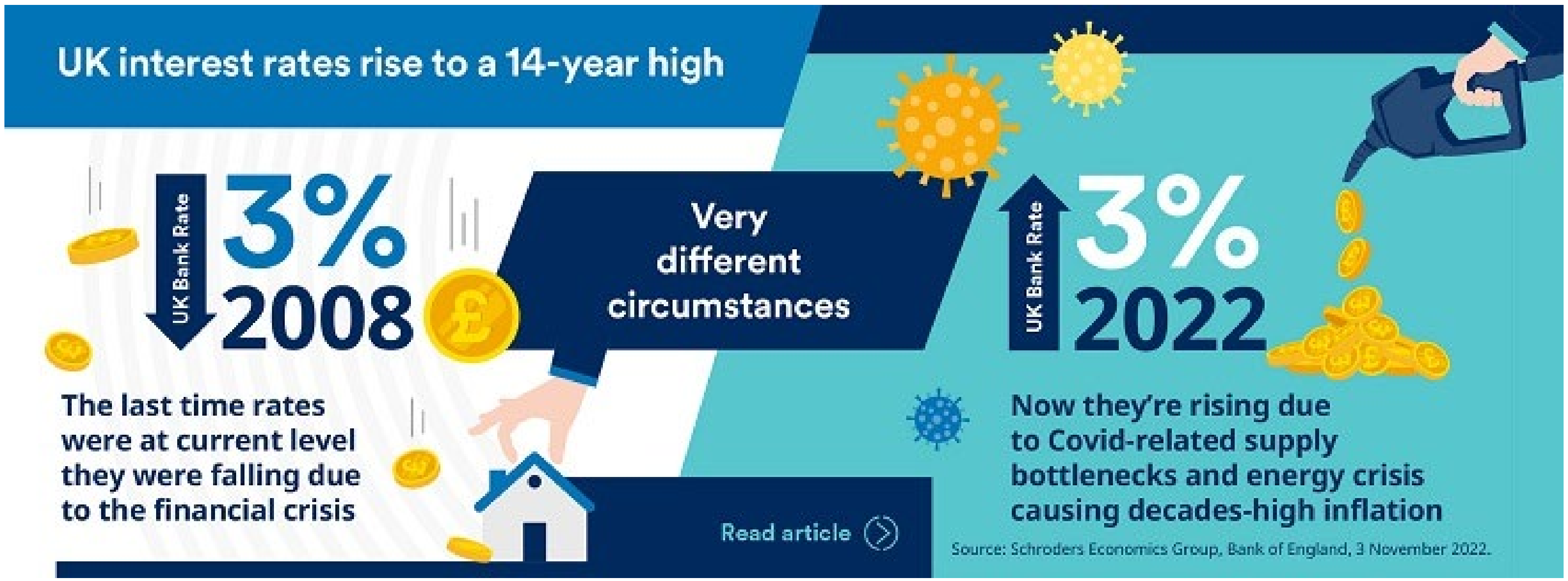
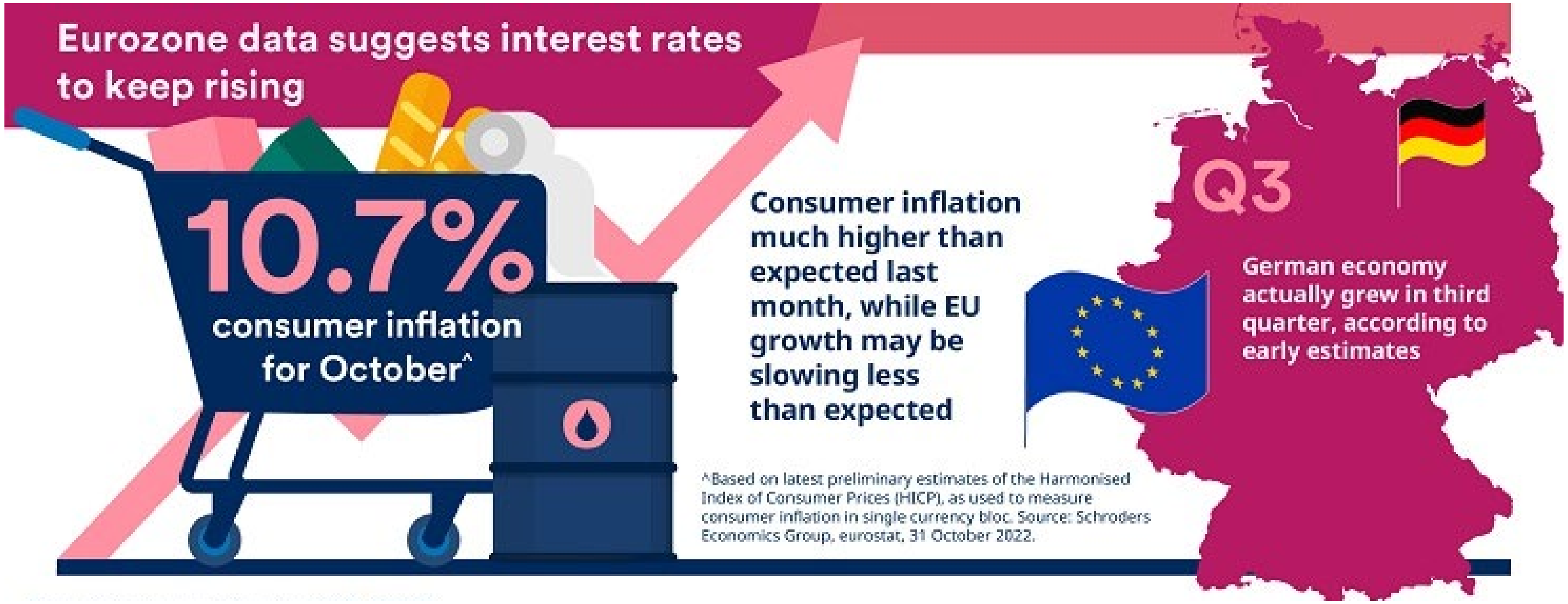
Pension TRANSFER Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY





Source: [Schroders as at November 2022.]

MULTI-ASSET INVESTMENT VIEWS

KEY ▲ Up from last month ▼ Down from last month

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

	Category	View	Comments
Main Asset Classes	Equities	Neutral ▲	We have tactically upgraded to neutral as we see a window where greater interest rate stability takes the pressure off equity valuations. However, we are cautious heading into 2023 given recessionary risks and over-optimistic corporate earnings expectations.
	Government Bonds	Neutral	We retain our neutral score as although we have seen tentative signs of the labour market softening, we prefer to wait for this trend to be more pronounced.
	Commodities	Positive	No change to our overall positive score. Although demand is slowing down, supply side factors are supportive for commodities, particularly in the energy and agricultural sectors.
	Credit	Positive ▲	We have upgraded credit to positive as valuations are very compelling and we believe there is a strong carry opportunity that will drive returns.
Equities	US	Neutral ▲	Valuations in the US market continue to be a challenge, but in the short term we believe the market will view interest rate stability and the recent dip in inflation as reasons to be less negative. We therefore tactically upgrade to neutral.
	UK	Neutral ▲	A new prime minister and chancellor have effectively removed the political tail risk in the country for the time being, leaving us with a neutral view of the UK.
	Europe	Neutral ▲	We have tempered our view as price levels suggest plenty of bad news has been priced in, while the weakness of the euro has been a tailwind for exporters.
	Japan	Neutral ▲	We upgrade to neutral as we recognise that a cheap yen and attractive valuations could provide medium-term support for the market, particularly relative to others in the region.
	Global Emerging Markets[1]	Neutral ▲	Emerging market (EM) equities tend to struggle when the US dollar is strong. Given we now have a neutral view on the dollar as we believe it is close to peaking, we upgrade our EM equity view to neutral.
	Asia ex-Japan & China	Neutral ▲	The 20th National Congress of the Chinese Communist Party saw President Xi cement his reign. As valuations appear attractive and the first tentative signs of an easing in Covid restrictions emerge, we upgrade our view to neutral.
	EM Asia ex China	Neutral ▲	Although South Korean exports have seen sharp falls, with demand for semiconductors declining, better valuations justify an upgrade to neutral.

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

	Category	View	Comments
Government Bonds	US	Neutral	Based on our valuation models, valuations for US 10-year bonds are fair. History suggests that core inflation will not come down fast and therefore a “higher for longer” approach will be needed for most of 2023.
	UK	Strong Negative	We believe the Bank of England needs to be more aggressive with rate hikes. We remain negative while we wait to see how the bank responds to the high level of inflation.
	Germany	Strong Negative	We remain negative. The European Central Bank remains dovish which could lead to a steepening yield curve given inflationary pressures. The yield curve is the difference between the interest rate on a longer-dated bond and a shorter-dated bond.
	Japan	Strong Negative	Yields remain unattractive compared to other markets and slowing global growth is still a risk.
	US Inflation Linked	Neutral	Break-evens, or inflation linked bonds, have risen due to rising commodity prices. Our view that break-evens will stay elevated leads us to believe that valuations are fair, leaving us neutral.
	Emerging Markets Local	Neutral	We remain neutral with a preference for Latin America which is showing signs of peaking inflation. We particularly like the front end of the yield curve in Brazil where inflation expectations are coming down and there is room for yields to continue to fall.

	Category	View	Comments
Investment Grade Credit	US	🟢	Valuations remain attractive and companies are cutting back on capital expenditure and share buy-backs. This, alongside lower earnings, indicates cautious behaviour that is supportive for US investment grade (IG) credit.
	Europe	🟢	We maintain our positive score, with credit spreads looking particularly compelling at current levels and moderating gas prices are also supportive. The credit spread is the margin that a company issuing a bond has to pay an investor in excess of yields on government bonds and is a measure of how risky the market perceives the borrower.
	Emerging Markets USD	🟢	We retain a positive score. Although tighter global liquidity presents a near-term risk for emerging markets, current valuations and yield levels are attractive.
High Yield Bonds (Non-IG)	US	🟡 ▼	We have downgraded US high yield as aggressive credit spread contraction, driven by large inflows combined with tight supply, have resulted in valuations becoming less cheap.
	Europe	🟢 ▲	We have upgraded as refinancing risks are low in Europe and we have seen a reduction in tail risks associated with European gas storage, which is above historical levels due to warmer weather.
Commodities	Energy	🟢	We retain our positive score. Demand remains robust and the supply picture looks increasingly stretched as OPEC+ has curbed supply in an already tight market.
	Gold	🟡	We remain neutral as a strong dollar is not supportive for gold. While gold has been resilient despite the current headwinds, a lack of carry makes it less attractive in an environment of high real rates.
	Industrial Metals	🟡	This is the most cyclical commodity sector where supply-side factors have less influence on prices. Instead, levels of demand are more important and we remain neutral given the risks to economic growth.
	Agriculture	🟢	Very tight supplies and low inventory keep us positive, but we acknowledge a strong US dollar can be a headwind. The sector can be a less volatile hedge against geopolitical risk.
Currencies	US $	🟡	We remain neutral, noting that the dollar can be an effective hedge when sentiment is negative, but the October US consumer prices index (CPI) print suggests inflation could be peaking.
	UK £	🔴	We struggle to see a positive story for sterling. The short-term relief rally we have seen is likely to be curtailed by a deteriorating growth outlook.
	EU €	🟡	As concerns over energy supplies in Europe abate, we expect volatility in the euro to subside and for fundamentals and rate differentials to drive the exchange rate. For this reason, we remain neutral.
	CNH ¥	🟡	We remain neutral as the authorities have shown more intent to lean against depreciation.
	JAP ¥	🔴	We remain negative. While billions are being spent in Japan to defend the currency, the fall in yen is unlikely to stop if other central banks continue to raise rates.
	Swiss F	🔴 ▼	The inflation differential versus Europe supports a weaker Swiss Franc. The need for a safe haven also looks to be diminishing given high European gas storage levels, milder weather so far and a stabilisation in geopolitical risks.

Past performance is not a guide to future performance and may not be repeated. 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. Source: Schroders, November 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 November when shares posted strong gains.

THE MONTH IN SUMMARY

Shares gained in November with emerging market equities outperforming their developed market counterparts. Gains came amid hopes US inflation may have already peaked, paving the way for the pace of interest rate rises to slow. Further support for shares came from signs of China loosening its strict Covid rules which have weighed on economic activity. In fixed income, government bond yields were lower, meaning prices rose.

THE US

US equities rose in November. Investors responded positively to data showing inflation had pulled back slightly, and on the expectation it will cool from here. The Federal Reserve (Fed) is expected to continue to tighten its key policy rate. Indeed, the central bank's chair, Jerome Powell, said the inflation rate remains far too high, and the policy stance will need to be "at a restrictive level for some time". Even so, Powell did indicate that the pace of rate hikes will likely be less aggressive going forward.

Inflation, as measured by the consumer price index (CPI), increased 7.7% from a year ago, with the core components of food and energy advancing at a slower pace and pulling back from a multi-decade high. Industrial activity slowed in November, with the flash composite purchasing manager's index (PMI) – an indicator of business activity - retracting to 46.3. A figure below 50 indicates slowing activity. Employment data looks robust overall with slowing momentum. Non-farm payrolls showed 263,000 jobs were added to the US economy in November. This is higher than market forecasts but lower than in October. It was the lowest job gain since April 2021.

The equity market response was positive overall. The rally in materials and industrials was among the strongest over the month, although all sub-sectors gained. Energy and consumer discretionary stocks made more muted gains.

EUROZONE

Eurozone shares advanced in November, extending the gains made in October. Shares were supported by hopes that inflation may be moderating in the eurozone as well as in the US. Eurozone inflation, as measured by the consumer price index, eased to 10.0% year-on-year in November, after 10.6% in October. Warmer autumn weather resulted in reduced energy demand, allaying fears of shortages, although energy costs remain the biggest component driving higher inflation.

All sectors registered positive returns in November. The top performers were more economically-sensitive parts of the market like consumer discretionary and information technology. Within consumer discretionary, hopes that China would relax strict lockdown rules helped support luxury goods stocks. The weakest sectors were more defensive parts of the market like healthcare (notably pharmaceuticals) and communication services.

Forward-looking economic data continued to point towards recession in Europe. The flash composite purchasing managers' index (PMI) rose to 47.8 from 47.3 in October. For the PMI surveys, a reading below 50 denotes economic contraction. However, in a sign of easing inflationary pressure, the survey showed that firms' costs rose at the slowest rate for 14 months.

UK

UK equities performed well over the month with most areas making positive contributions. Larger companies were driven higher by basic materials, financials and the healthcare sector. Meanwhile, consumer discretionary stocks were also an important driver of broad market returns as well as a strong performance from UK small and mid cap equities. The latter occurred partly amid signs the UK economy is holding up better than expected, fuelling hopes for a milder recession.

Recent macroeconomic data suggested underlying UK growth has been more resilient than previously thought. In its first quarterly estimate for Q3 GDP the Office for National Statistics revealed that the economy had shrunk by 0.2% in Q3, which was a much better performance than consensus expectations. This followed positive growth in Q2, a period where output was lost due to an unscheduled extra bank holiday.

While the UK economy is likely to already be in recession, the new chancellor Jeremy Hunt provided near-term fiscal support in his autumn statement. This statement came with a promise for the country to tighten its belt in the future, and was supported by fiscal and economic forecasts from the independent Office for Budgetary Responsibility.

JAPAN

The Japanese stock market rose for most of November, ending the month with a total return of 3.0% in local terms. The change in expectations for US interest rate rises led to a reversal of the sharp weakening of the yen which has been seen throughout 2022 to date. The 7.2% strengthening of the yen against the US dollar returned the exchange rate to the levels seen in July and August.

By mid-November, most companies had reported quarterly earnings for the July to September period. This proved to be another strong set of results, particularly for larger companies benefiting from yen weakness. Inevitably there is some evidence of margin pressure within some domestic-oriented sectors, as the weak yen has pushed up input costs but, even here, there was more resilience than might have been expected. The level of confidence among company managements is highlighted by the record level of share buybacks that have been announced so far this fiscal year.

Japan's consumer prices continued to pick up, with data released in November showing the headline inflation rate had jumped to 3.7% in October, while the core rate, excluding fresh food and energy, reached 2.5%. On any measure, Japan's inflation is reaching levels not seen since the early 1980s.

ASIA (EX JAPAN)

Asia ex Japan equities were stronger in November, driven by robust share price growth in China, Hong Kong and Taiwan. The rally in Asian shares came after US President Joe Biden and Chinese leader Xi Jinping signalled a desire to improve US-China relations at a meeting ahead of the G20 summit in Indonesia. Sentiment was also boosted by signs that Beijing was preparing to relax some of its strict Covid rules and offering support to the property market. However, data released by China showed slower factory output growth and a fall in retail sales last month.

In Malaysia, stock prices gained after Anwar Ibrahim was named as the country's new prime minister. Asian markets also reacted positively to the announcement by the US Federal Reserve during the month that it expects to switch to smaller rate hikes soon. Stocks in South Korea also gained after the country's central bank

raised the benchmark interest rate by 25 basis points to 3.25%. All index markets achieved a positive performance, with strong growth also seen in the Philippines and Singapore. Price gains in India and Indonesia were more muted during the month.

EMERGING MARKETS

Emerging market (EM) equities rebounded in November, outperforming developed market equities. Softer US inflation, a weaker US dollar and a signal from the US Federal Reserve (Fed) that interest rates rises may be slower from December all contributed to risk-on sentiment. Expectations that Chinese demand will recover next year, as the authorities re-open the economy and provide further economic stimulus, was also helpful for returns.

In a reversal of October's performance, China was the strongest index market by some margin. Investors welcomed a relaxation in some Covid regulations that came against a backdrop of rising social unrest as a result of discontent with current regulations. The 16-point rescue plan implemented to support the housing sector was also beneficial for market sentiment. Meanwhile, geopolitical tension appeared to ease after a much-anticipated face-to-face meeting between US President Biden and Chinese President Xi suggested the superpowers value 'competition over conflict'.

Turkey posted a strong performance once again, boosted by lira strength, even as the central bank cut the policy rate to 9%, despite inflation that is over 80%. Taiwan was one of the top-performing index markets after the US inflation release and the Fed's dovish rhetoric.

South Africa, Poland and Hungary outperformed the broader index, with the latter two markets rallying after months of underperformance as the war in Ukraine continues.

GLOBAL BONDS

November saw a robust recovery in bond markets in general. Government bond yields were broadly lower, and credit spreads tightened across global markets. This came as investors sensed that inflation may be peaking in the US, and that the Federal Reserve (Fed) can afford to ease back on its tightening policy.

As a result, very positive credit market returns were observed, led by emerging markets high yield, US and sterling investment grade. 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.

The US October headline CPI landed at 7.7% year-on-year, easing from the previous month. Core prices, which exclude food and energy reduced from a 40-year high and came to 6.3%. US 10-year yields fell from 4.05% to 3.61%, with the two-year dropping from 4.49% to 4.34%.

In the UK, market sentiment over the country's new prime minister appeared to hold, with the fiscal announcement on tax rises and spending cuts coming in line with expectations. The Bank of England (BoE) raised interest rates to 3% following a further 25 bps increase at the end of the month. This brings the rate to its highest level since November 2008.

UK inflation (CPI) hit a fresh 41-year high in October as it reached 11.1%, driven largely by energy and food prices. UK PMIs came in ahead of consensus expectations, but both services and manufacturing remain in contractionary territory. The UK 10-year yield decreased from 3.51% to 3.16% and 2-year fell very slightly from 3.27% to 3.26%.

Eurozone inflation for October edged down to 10%, easing from the previous month's all-time high. Germany's CPI hit 11.3%, also dropping from the previous month and driven by decelerating energy prices. Germany's 10-year yield dropped from 2.14% to 1.93%.

The US dollar's rally continued to slow. All G-10 currencies showed gains against the greenback during November, with the New Zealand dollar doing best and the Canadian dollar showing the mildest rise. Asian currencies also did well, particularly the Japanese yen and Korean won.

The MSCI World index finished November with a gain of 7.0% (in US dollars) but the Refinitiv Global Focus Convertible Bond index advanced by just 3.5%. The general upside participation of convertibles against broad stock benchmarks is still lagging. Against the Nasdaq, however, convertibles were back to their traditional levels of around 75% upside participation for this month.

The primary market for convertible bonds seems to be coming back to life. In November, $7.8 billion of new convertibles were launched.

COMMODITIES

The S&P GSCI Index recorded a negative performance in November, with price gains in industrial metals and precious metals failing to offset weaker prices for energy and agriculture. Energy was the worst-performing component of the index. In agriculture, prices for wheat, Kansas wheat and corn were all lower, while cotton, sugar and cocoa all achieved robust price growth. In industrial metals, all sectors achieved growth, with nickel achieving the strongest price rise. In precious metals, silver prices rose significantly in November, while prices gains for gold were more muted.

TOTAL RETURNS (NET) % – TO END NOVEMBER 2022

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	7.0	2.7	3.4	-10.9	-2.6	-1.0
MSCI World Value	7.2	2.9	3.7	2.1	11.7	13.5
MSCI World Growth	6.7	2.4	3.1	-23.0	-15.9	-14.5
MSCI World Smaller Companies	6.2	1.9	2.6	-12.8	-4.6	-3.1
MSCI Emerging Markets	14.8	10.2	11.0	-17.4	-9.7	-8.3
MSCI AC Asia ex Japan	18.8	14.0	14.9	-18.4	-10.8	-9.4
S&P500	5.6	1.4	2.1	-9.2	-0.8	0.9
MSCI EMU	12.9	8.3	9.1	-12.8	-4.7	-3.2
FTSE Europe ex UK	11.7	7.2	8.0	-12.6	-4.4	-2.9
FTSE All-Share	10.8	6.4	7.1	-4.1	4.8	6.5
TOPIX*	9.7	5.3	6.0	-14.0	-5.9	-4.4

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	2.6	-1.5	-0.8	-12.1	-3.9	-2.3
JPM GBI UK All Mats	6.3	2.1	2.8	-31.3	-24.7	-23.4
JPM GBI Japan All Mats**	6.0	1.7	2.5	-22.4	-15.2	-13.8
JPM GBI Germany All Traded	6.2	1.9	2.7	-22.4	-15.1	-13.8
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	5.4	1.2	1.9	-16.8	-9.1	-7.6
BofA ML US Corporate Master	4.9	0.7	1.4	-15.4	-7.5	-6.0
BofA ML EMU Corporate ex T1 (5-10Y)	8.3	4.0	4.7	-23.6	-16.5	-15.1
BofA ML £ Non-Gilts	6.9	2.7	3.4	-25.6	-18.6	-17.3
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	4.1	-0.0	0.7	-12.3	-4.1	-2.6
BofA ML Euro High Yield	4.2	0.0	0.7	-8.5	0.0	1.6

Source: Thomson Reuters DataStream.
Local currency returns in November 2022: *3.0%, **-0.5%.
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Source: Schroders, November 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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