Q1 2022 Review and Q2 2022 Outlook

14th April 2022

Q1 2022 Review:

Fixed Income and Equity markets have had a turbulent start to the year as investors de-risk their portfolios in response to (1) central banks' broad-based shift to raise rates and withdraw policy support to combat high inflation; and (2) Russia's war on Ukraine. These developments have roiled markets and sparked a sell off across both fixed income and global equities. Commodities and safe haven currencies have rallied driven by investors flocking to quality and the current conflict creating a global commodity supply shock pushing up energy and agriculture prices.

We remain cautious over risks surrounding:

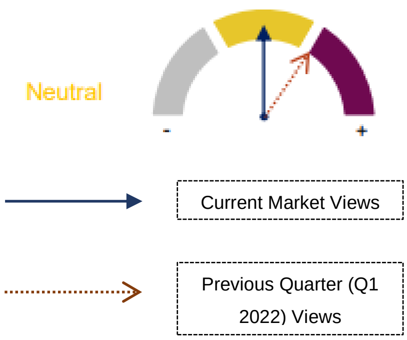
(1) Escalating Russia and Ukraine crisis and its economic impact across regions; and

(2) Inflation remaining elevated for longer due to global supply shocks hence complicating policy response.

Q2 2022 Views: The overall views on risk and asset classes for Q2 2022

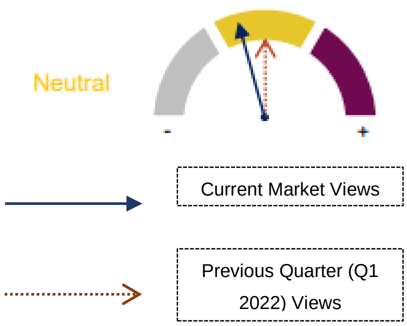
Overall Risk Position

- We have a heightened view of risk in the near term and will focus on mitigating the downside. We will maintain exposures in equity and fixed income, and within each bucket, will overweight segments where valuation and exposure to rate risks are lower.
- We expect most central banks to prioritise controlling inflation at the expense of supporting growth and maintain the view that yields are expected to rise year end as central banks continues to tighten.
- We expect for there to be continued room for growth in selected markets and sectors as the global economy remains supported by post pandemic market reopening dynamics.



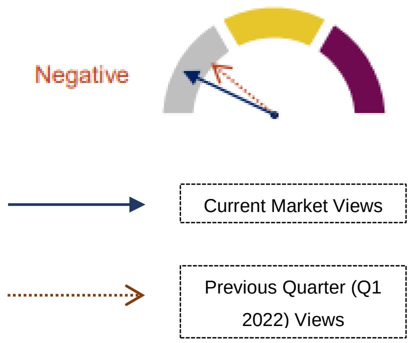
Equities

- We expect positive but limited equity gains given a number of downside risks to growth such as (1) late-stage cycle dynamics; (2) global tightening cycle as central banks combat high inflation; (3) elevated inflation and high input costs putting pressure on margins; and (4) broad based risk-off sentiment.
- Despite these headwinds, we have a favourable view of US equities relative to other regions as its economy remains intact and insulated from the Russia's war on Ukraine.
- We underweight Europe and Asia given its resilience on commodity and agriculture imports from Russia and Ukraine causing higher inflationary pressures and dampening of growth prospects



Fixed Income

- We expect a challenging year for fixed income as central banks push ahead with monetary tightening and the combination of inflation and cyclical pressures to put upward pressure on yields.
- We expect UST 10Y yields will reach 2.25-2.50% by end-Q2-2022.
- We believe the Russian-Ukraine conflict will weigh on risk assets in the short term and will be the main driver of credit spread widening. Despite this, fundamentals remain solid for corporates (especially for GCC issuers) given (1) continued economic normalization post-Covid era; and (2) elevated oil prices and higher oil production is expected to be supportive of the economic backdrop for GCC issuers.



Q2 2022 Asset Allocation

Asset Allocation by Investor Profile

Conservative

75% Sukuk

25% Equity

Balanced

50% Sukuk

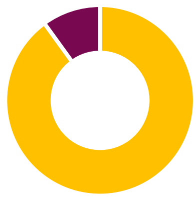
50% Equity

Aggressive

75% Equity

25% Sukuk

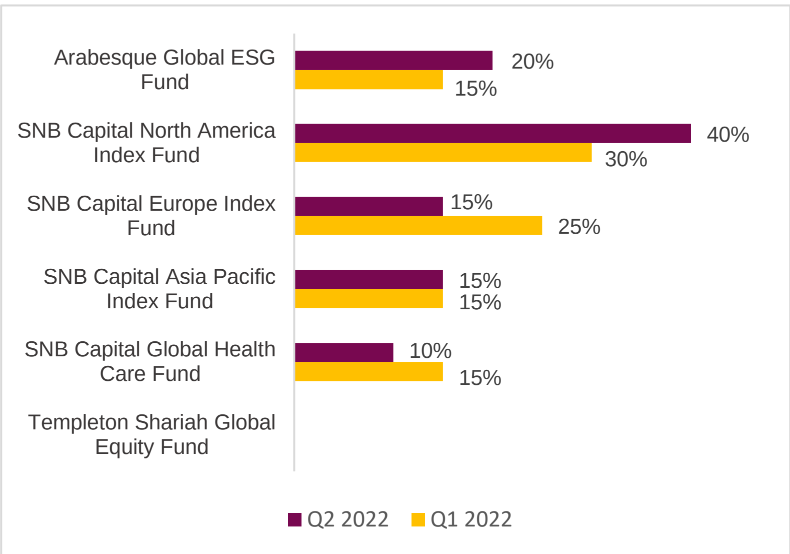
Very Aggressive



95% Equity

5% Sukuk

Equity Fund Allocation



Justifications

- Increased allocation into Equity for Conservative Risk Profile on the back a challenging fixed income environment.
- Overweight allocation into North America on the back of relative insulation of the region to the war in Ukraine when compared to Europe and Asia.
- For the same reason, underweight allocation into Europe and Asia Pacific.
- Increase allocation into Arabesque due to its dynamic cash allocation allowing for downside risk protection.
- Decrease allocation into SNB Capital Global Health Care Fund slightly due to broad risk-off sentiment.