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With growth and policy, which matters more: Level or change?

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Key points

The level of growth and the level of policy support remain supportive but have declined marginally, leaving us pro-risk still but less so

Within equities, we prefer Europe, where economic fundamentals are improving and German elections may pave the way for stronger fiscal stimulus

Inflation pressures are likely to persist and commodities may benefit

Interest rates are vulnerable to higher or more persistent inflation

Risks

- Downside risks include a spike in interest rates, COVID-related lockdowns, or a policy mistake
- Upside risks include a lift in inflation-capping productivity or a broader and more sustainable reopening than expected

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Multi-asset views

Asset class	View	Change from previous quarter
Developed market equities	**Moderately bullish**	–
US	Neutral	–
Europe	Moderately bullish	↓
Japan	Neutral	–
Emerging market equities	**Neutral**	↓
Commodities	**Moderately bullish**	–
10-year rates	**Moderately bearish**	–
US	Moderately bearish	↓
Europe	Moderately bearish	↑
Japan	Neutral	–
Credit	**Neutral**	–
Investment-grade credit	Moderately bearish	–
High yield	Moderately bearish	–
Bank loans	Moderately bullish	–
Emerging market debt	Moderately bullish	–
Securitized assets	Neutral	–

As of September 2021 | Views expressed have a 6 – 12 month horizon and are those of the presenter(s) and the Wellington Management's Investment Strategy team. Views are as of the date indicated, are based on available information, and are subject to change without notice. Individual portfolio management teams may hold different views and may make different investment decisions for different clients. This material is not intended to constitute investment advice or an offer to sell, or the solicitation of an offer to purchase shares or other securities | Source: Wellington Management

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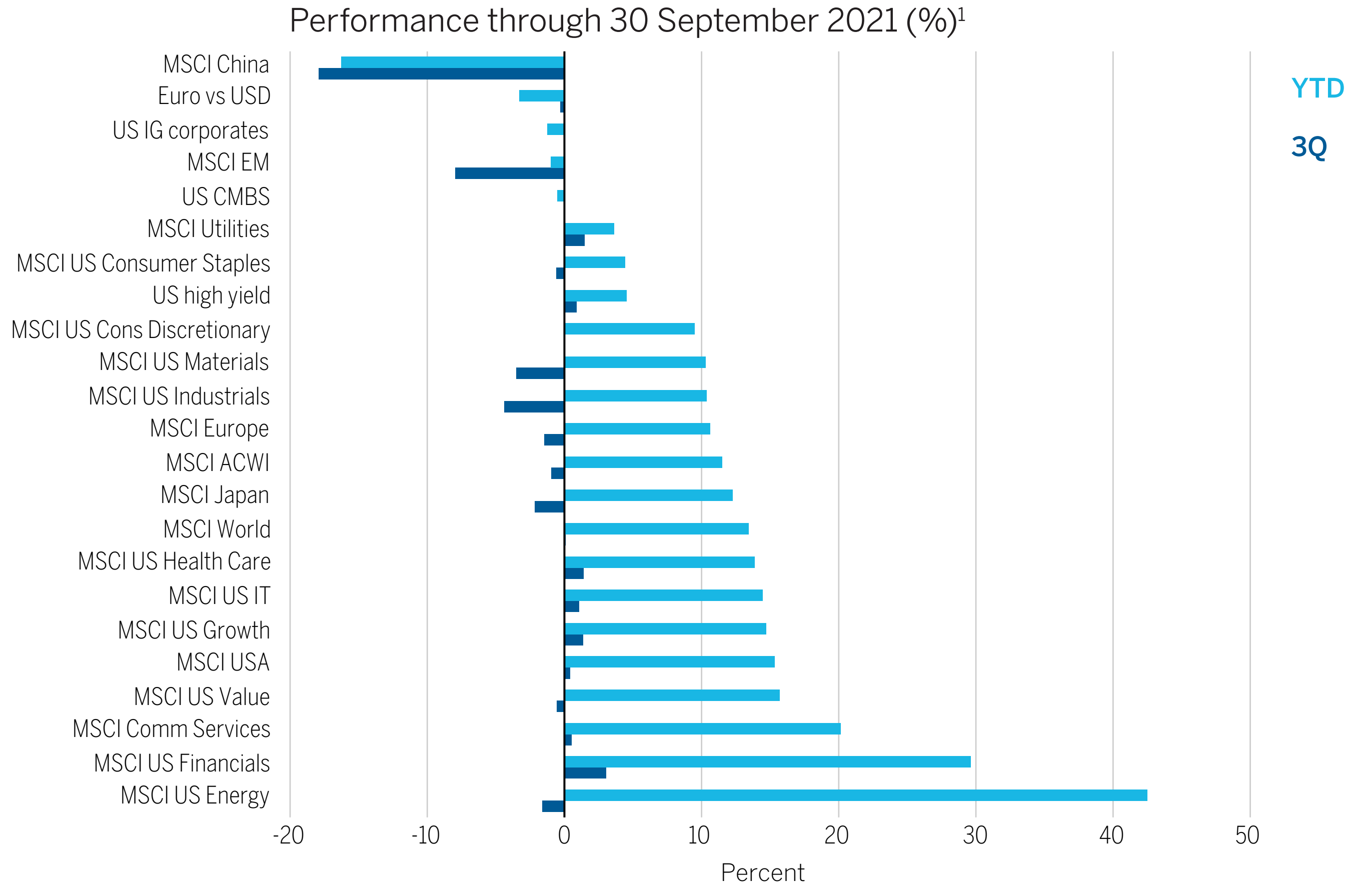
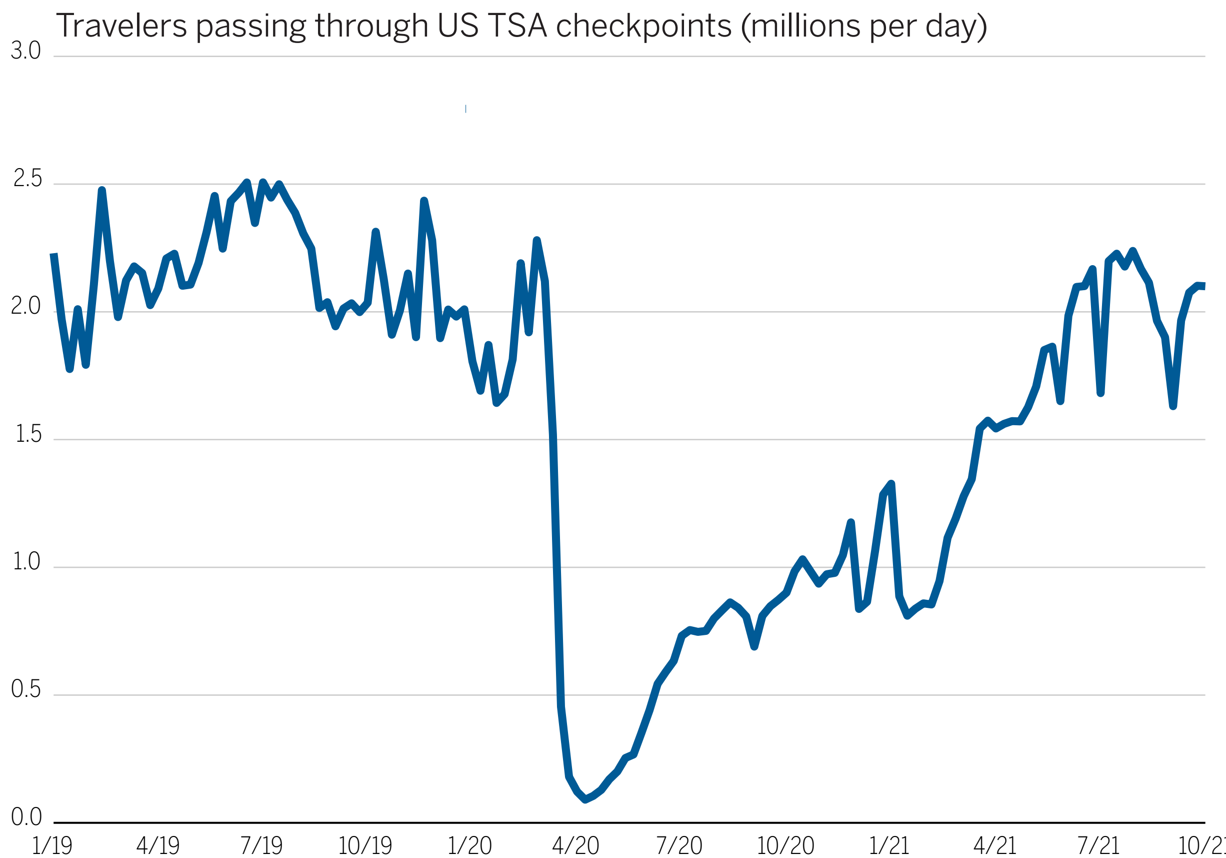
Is growth or value in the lead?



[1]3Q: 30 June 2021 – 30 September 2021; YTD: 31 December 2021 – 30 September 2021 | All fixed income indices from Bloomberg and all sector and equity indices are MSCI. All currencies are measured versus the US dollar unless otherwise noted. All returns in local currency unless otherwise stated. | The performance shown is index performance is not representative of a fund's performance. Indices are unmanaged and not available for direct investment. | **PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND AN INVESTMENT CAN LOSE VALUE** | Sources: MSCI, Bloomberg, Wellington Management

Delta variant causes services to dip



Source: Bloomberg | Chart data: 6 January 2019 – 3 October2021

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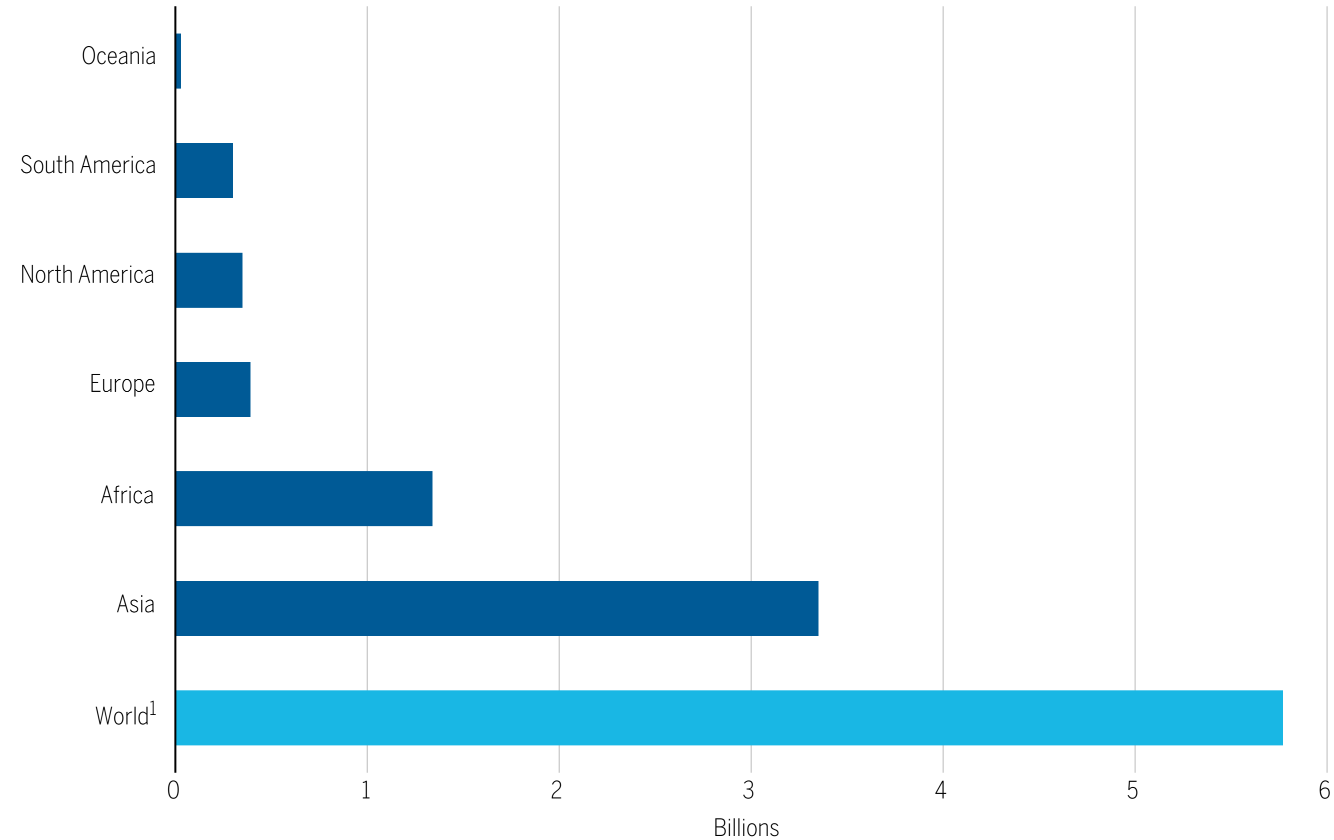
Large unvaccinated population means new variants are likely

Total number of people who did not receive all doses of COVID-19 vaccine prescribed by the vaccination protocol by continent, 30 August 2021



[1]The world figure is the sum of all regions presented. Australia is around 60% of Oceania's population. | Source: Our World Data https://ourworldindata.org/covid-vaccinations

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Inflation is likely to be stickier than market thinks

Labor

Commodities

Freight

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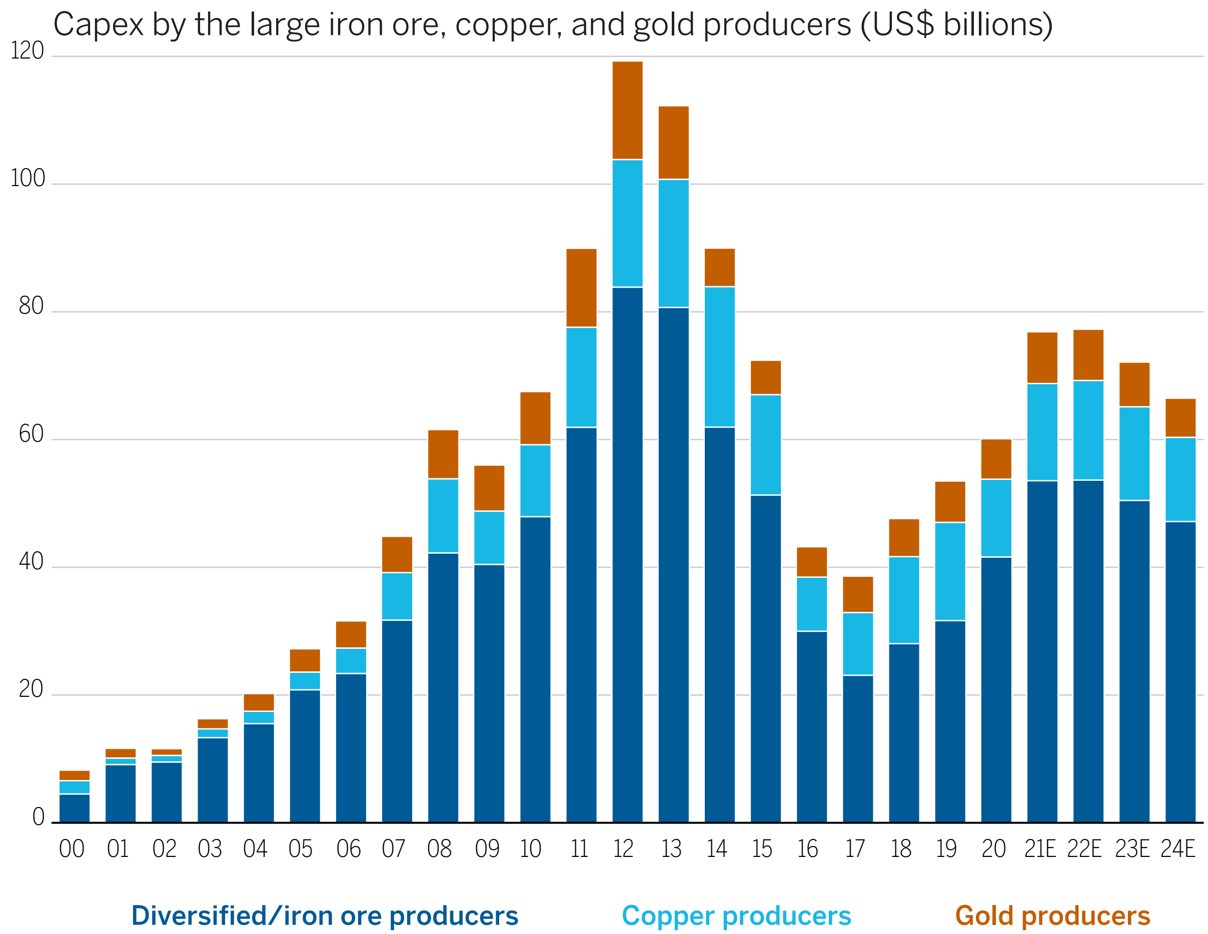
Commodities: Lack of capex may inhibit production



Capex data is for top five diversified miners by market cap; top six copper producers by market cap, and top six gold producers by market cap with history as of 2000. | Source: Bloomberg | Actual results may differ, perhaps significantly, from estimates | Chart data: actual: 2000 – 2020; estimated: 2021 – 2024

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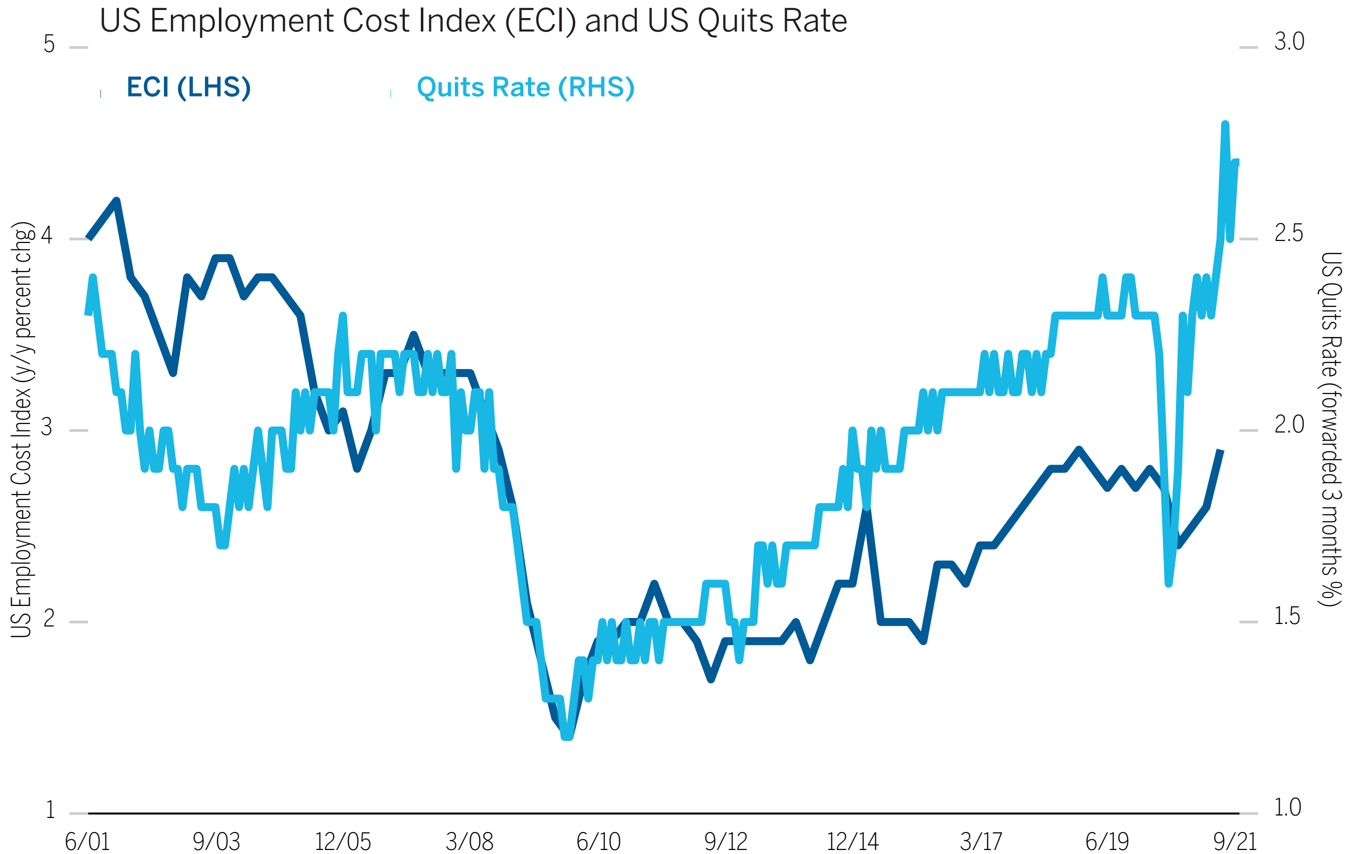
High quits rate pushing wages higher



Source: Bloomberg | Chart date: ECI: quarterly data June 2001 – June 2021; Quits Rate: March 2001 – July 2021 (x-axis range is June 2001 – October 2021 due to Quits Rate being forwarded 3 months)

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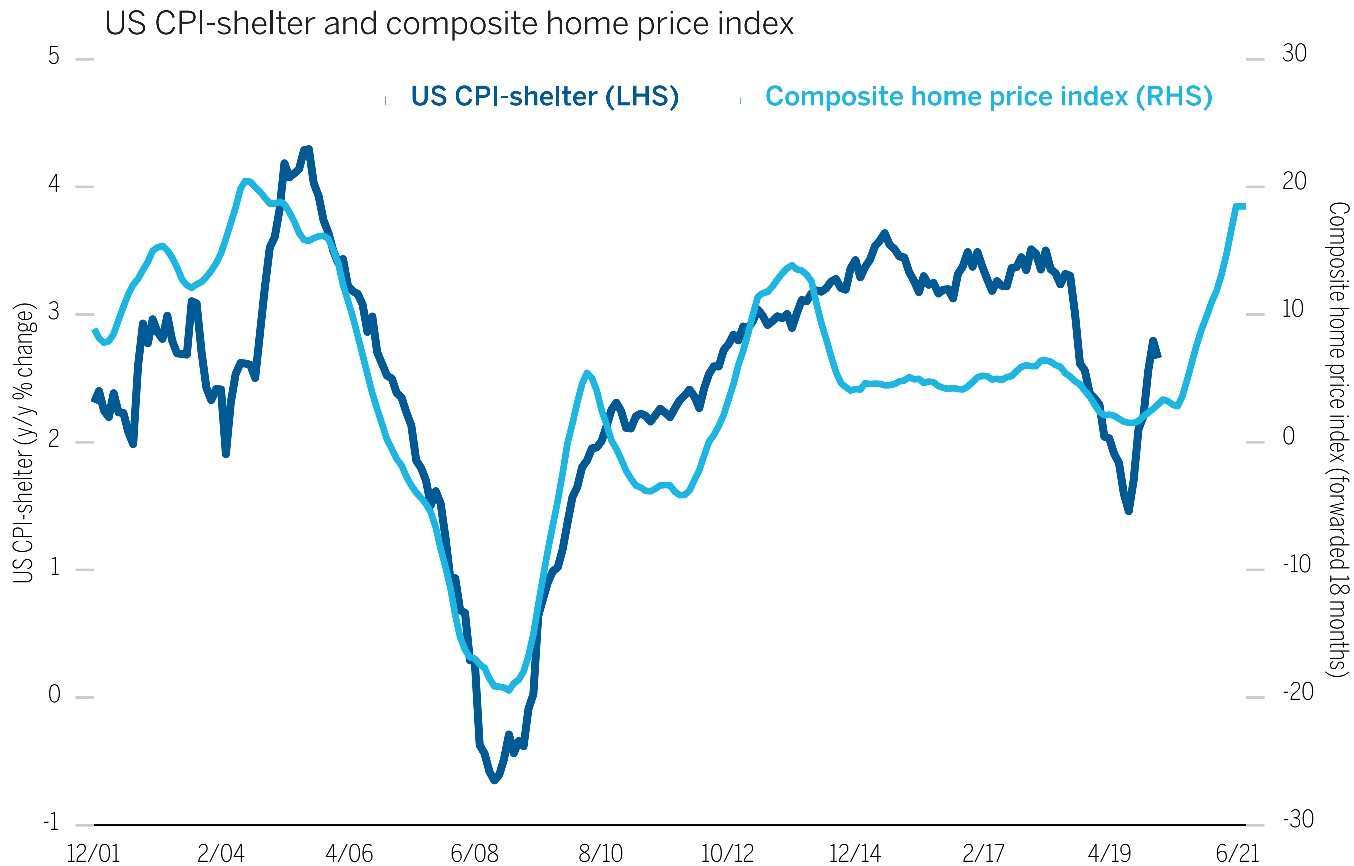
Persistent inflation could show up in rents



US CPI-shelter: US CPI Urban Consumers Shelter SA; Composite home price index: S&P Corelogic Case-Shiller 10-City Composite Home Price NSA Index | Source: Bloomberg | Chart data: December 2001 – August 2021

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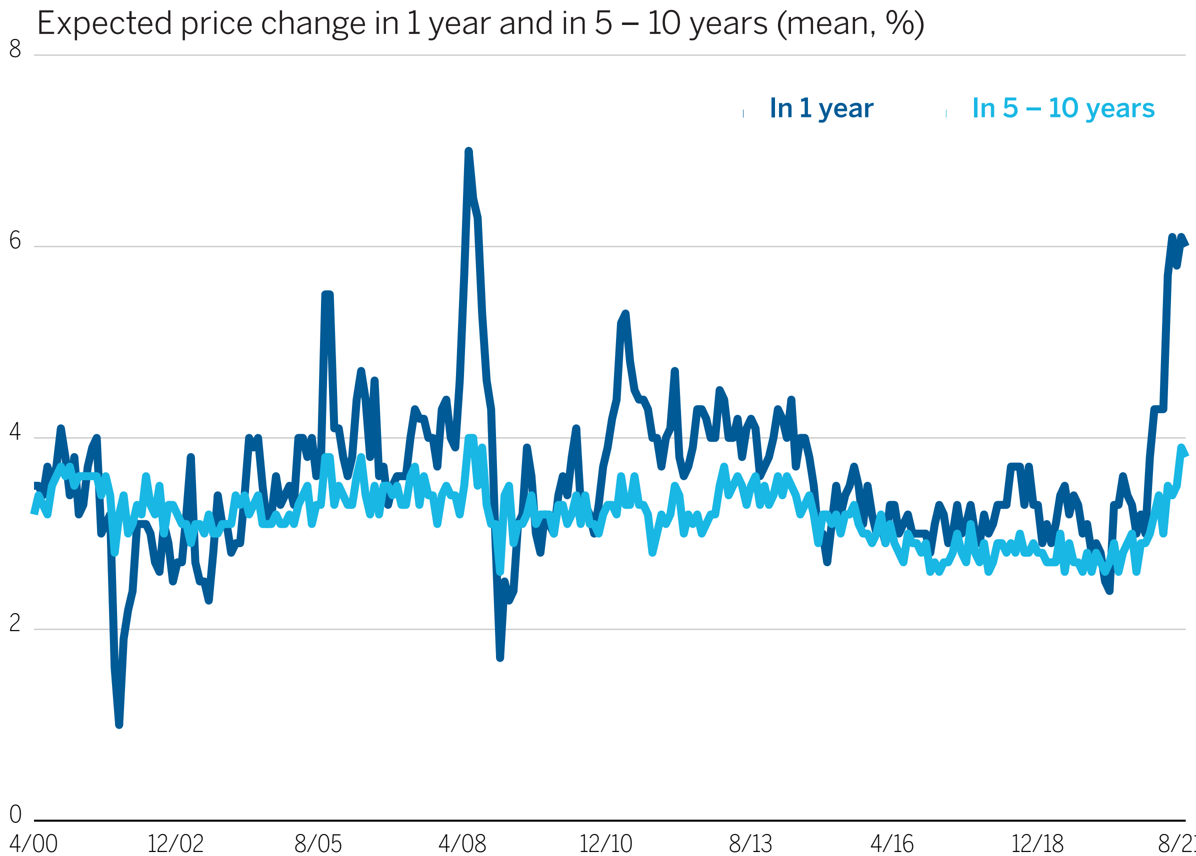
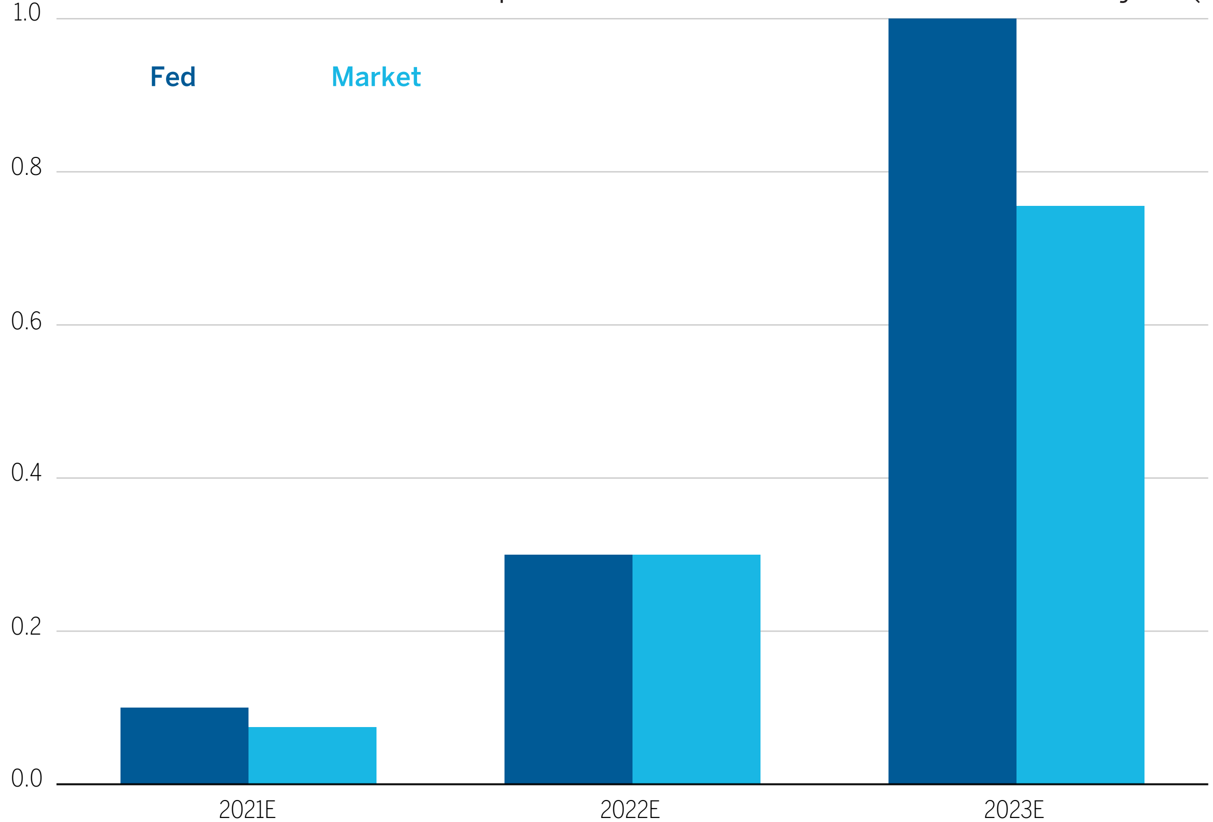
Could inflation expectations de-anchor?



Sources: Bloomberg, University of Michigan | Chart data: April 2000 – September 2021

Rate hikes are expected for 2022

Market and Federal Reserve expectations for Fed funds rate at end of each year (%)



Fed: as of 22 September 2021; market: as of 30 September 2021 | Market and Federal Reserve expectations for Fed funds rate at end of each year. | Actual results may vary, perhaps significantly, from the forecasts presented. | Sources: Federal Reserve, Bloomberg, Wellington Management

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Value and growth performance depends on yields

Sources: Russell, Bloomberg | Chart data: January 1997– August 2021

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Vaccination progress improving in Europe

Share of population who are fully vaccinated for COVID by country, 30 September 2021

Italy	68
France	66
United Kingdom	66
Germany	64
Japan	60
United States	55
South Korea	50
Vietnam	10

Sources: Our World in Data, Wellington Management

Earnings yield more attractive in Europe

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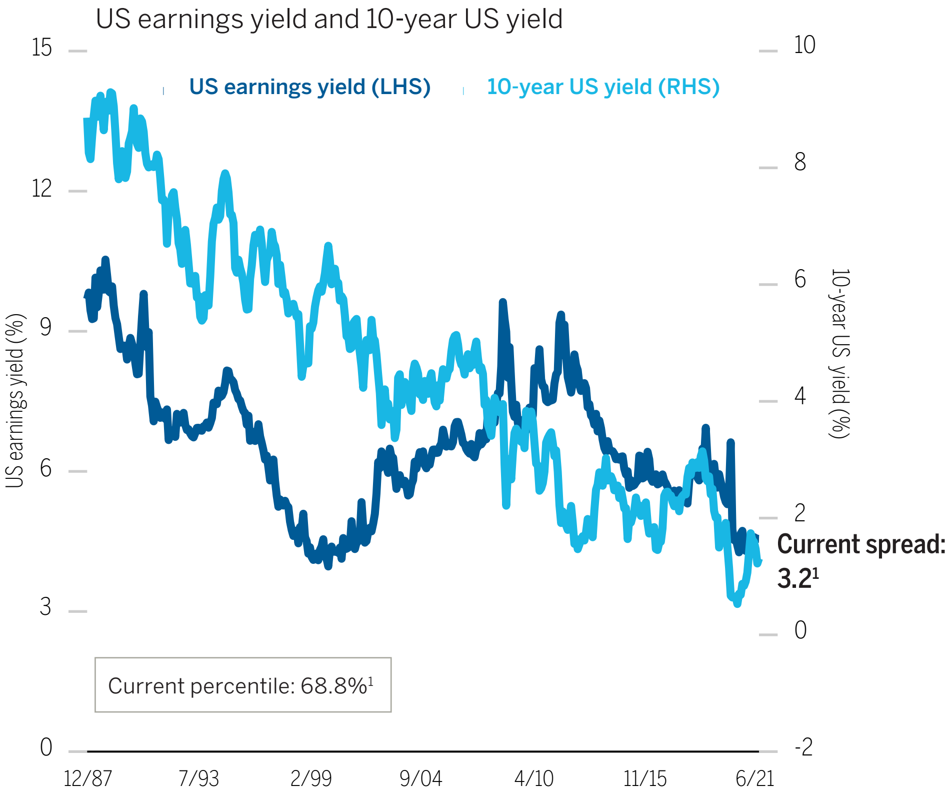

Chart data: December 1987 – August 2021

Chart data: June 2003 – August 2021

[1]31 August 2021 | Earnings yield is based on 12-month forward P/E ratio | Sources: Bloomberg, Datastream

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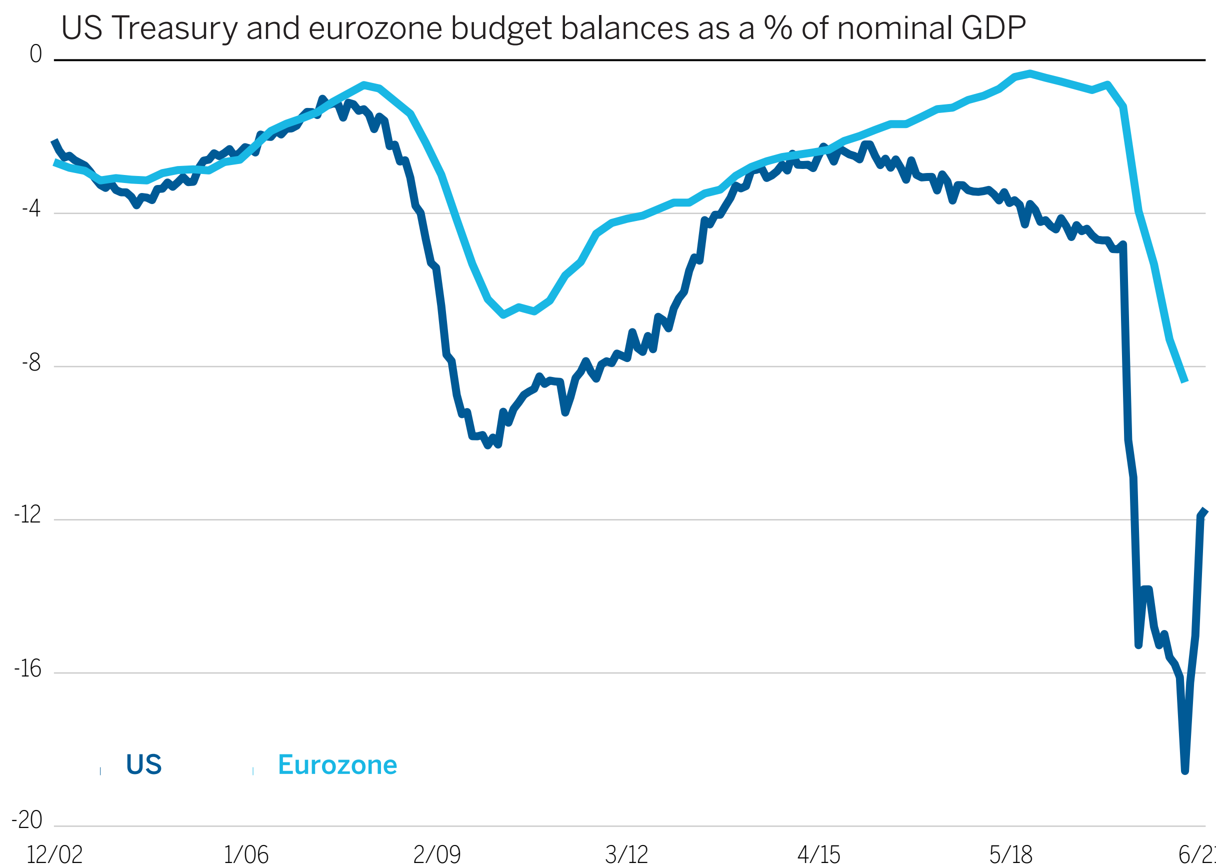
Eurozone has more room for fiscal



Source: Bloomberg | Chart data: US (monthly data): December 2002 – July 2021; eurozone (quarterly data): December 2002 – March 2021

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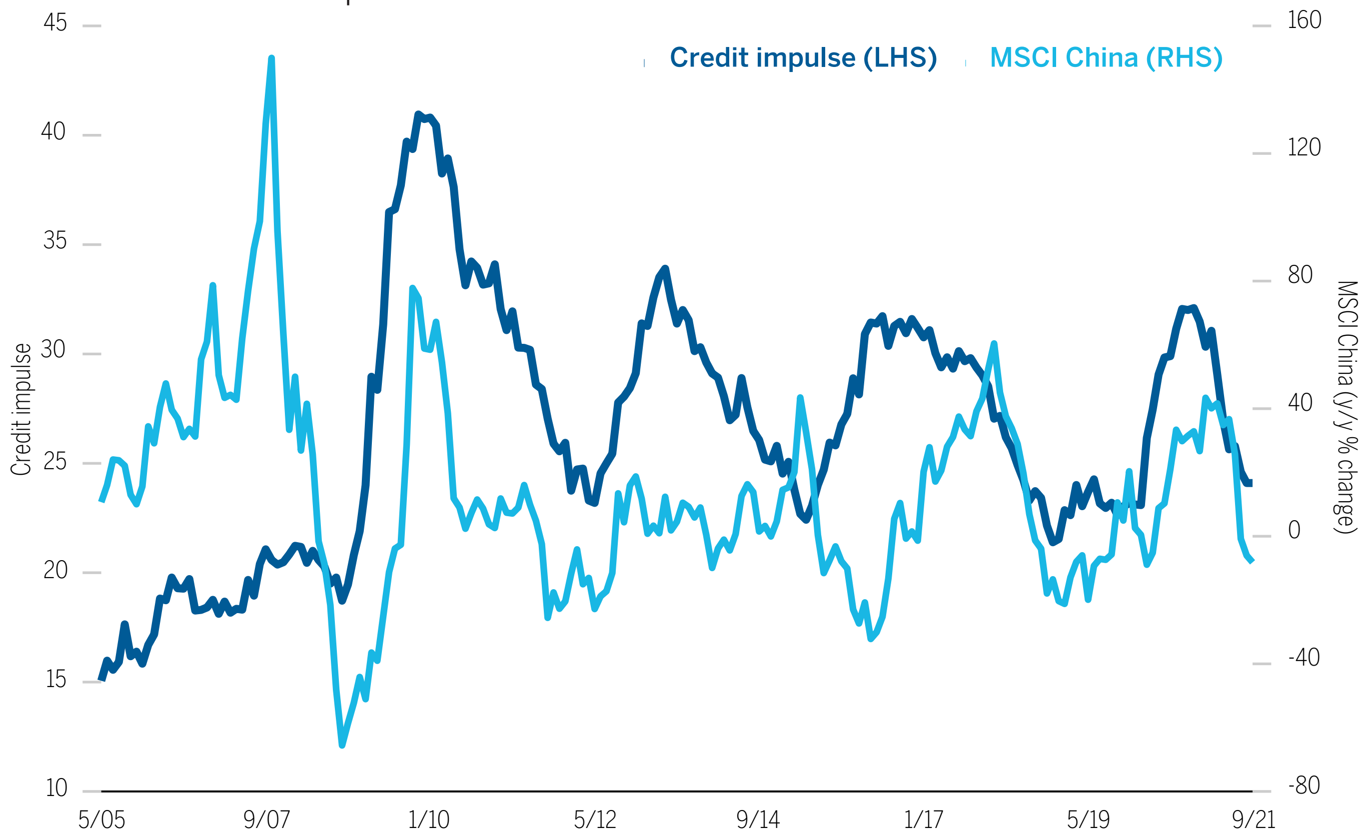
Credit clampdown is slowing China

China's credit impulse and MSCI China



Credit impulse: the change in new credit issued (the flow of credit) as a percentage of GDP. | Source: Bloomberg | Chart data: May 2005 – September 2021

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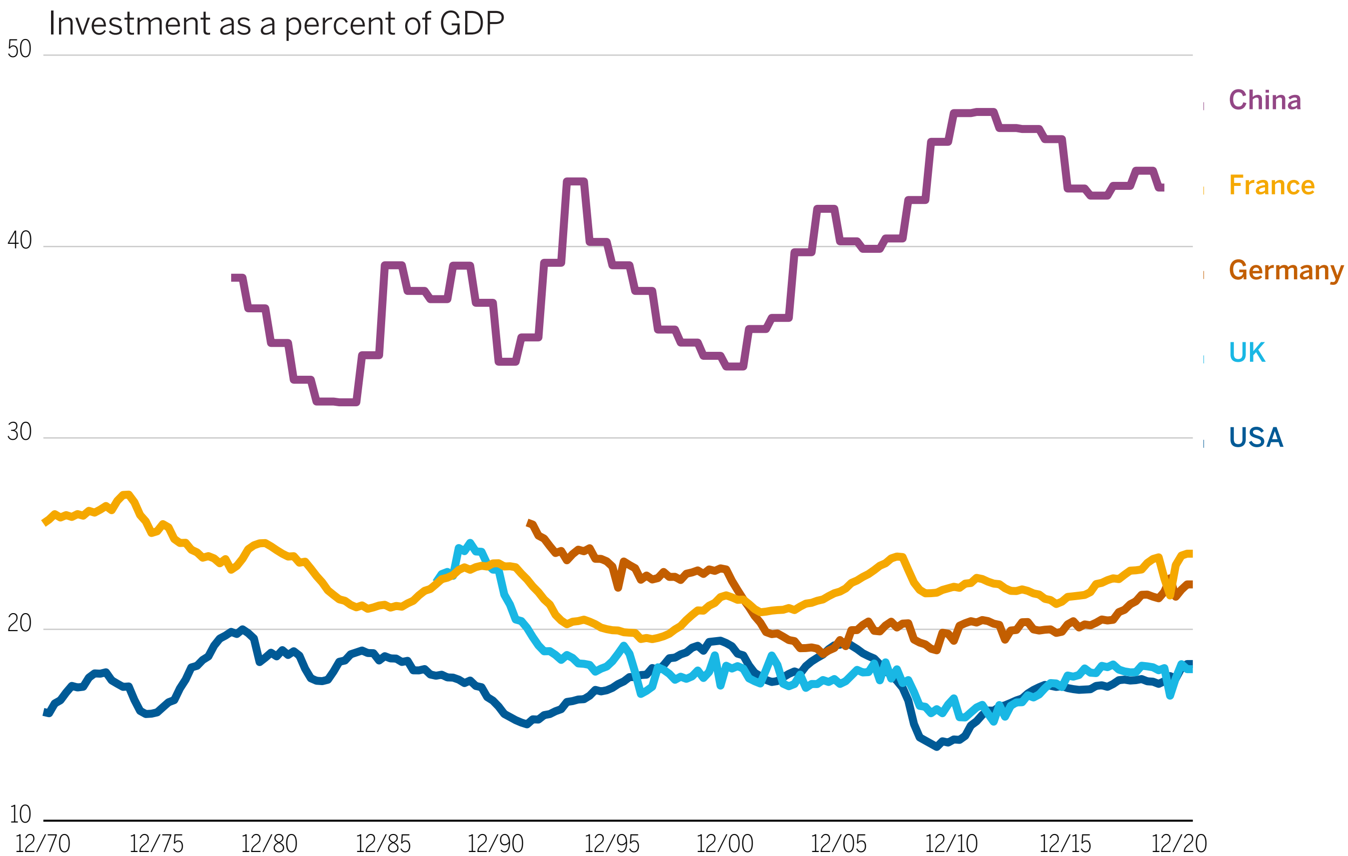
Investment could be the antidote for inflation



Source: Bloomberg | Chart data: US, France: December 1970 – June 2021;UK: March 1988 – June 2021; Germany: March 1992 – June 2021; China: March 1979 – March 2020

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Better value outside US

20-year percentile rankings

	US	Europe	Japan	EM
Trailing price-to-book (%)	98	74	72	68
Shiller P/E ratio (%)	98	82	42	NA

20-year percentile rankings

	US – Europe	US – Japan	US – EM
Trailing price-to-book (%)	98	98	99
Shiller P/E ratio (%)	98	98	NA

As of 30 September 2021 | **PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND AN INVESTMENT CAN LOSE VALUE.** | Sources: MSCI, Datastream, Wellington Management

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Most credit spreads are rich

Option-adjusted spreads, 4 October 2021 (bps)

	Current	Percentile since inception (%)	Median	Low	Inception date
US corporates	84	20	112	51	30 June 1989
US high yield	293	9	438	233	31 January 1994
Emerging market debt	379	48	385	149	31 December 1994
US CMBS	61	3	103	13	30 June 1999

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND AN INVESTMENT CAN LOSE VALUE. | Sources: Bloomberg, Wellington Management

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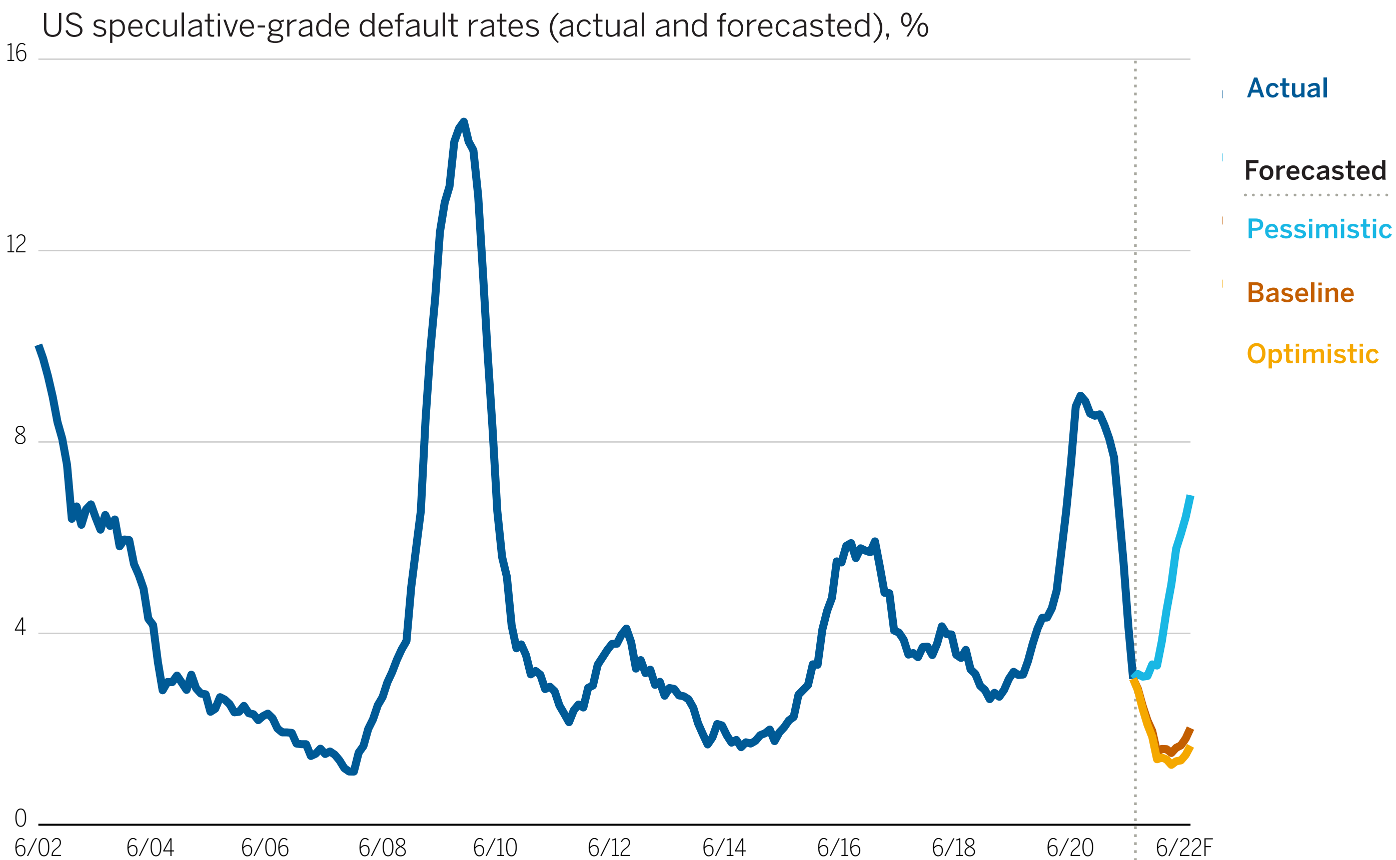
Defaults continue to decline



Actual results may vary, perhaps significantly, from the forecasted data presented | Source: Moody's | Chart data: actual June 2002 – July 2021, forecasted August 2021 – July 2022

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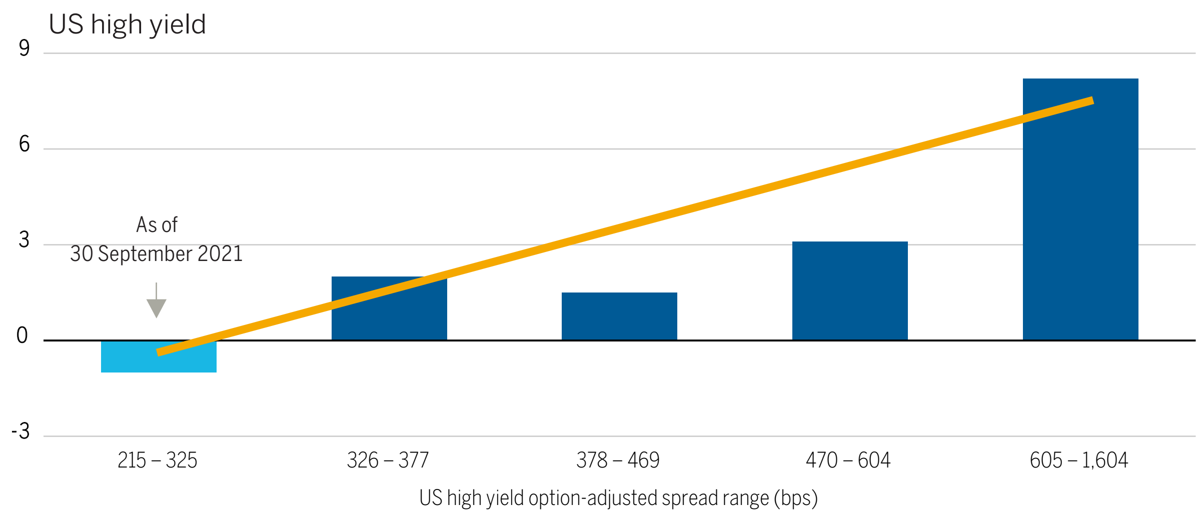
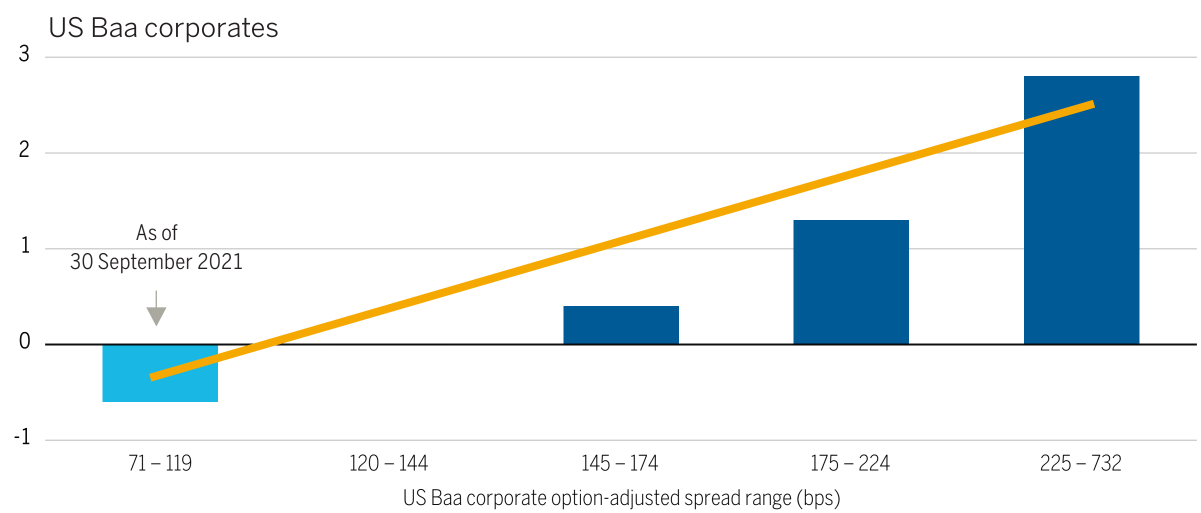
Current spreads indicate negative excess returns

Average forward three-year excess return by option-adjusted spread quintiles, 1987 – 30 Sep 2021 (%)





PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND AN INVESTMENT CAN LOSE VALUE. | Sources: Barclays, Wellington Management

Bank loan valuations look attractive

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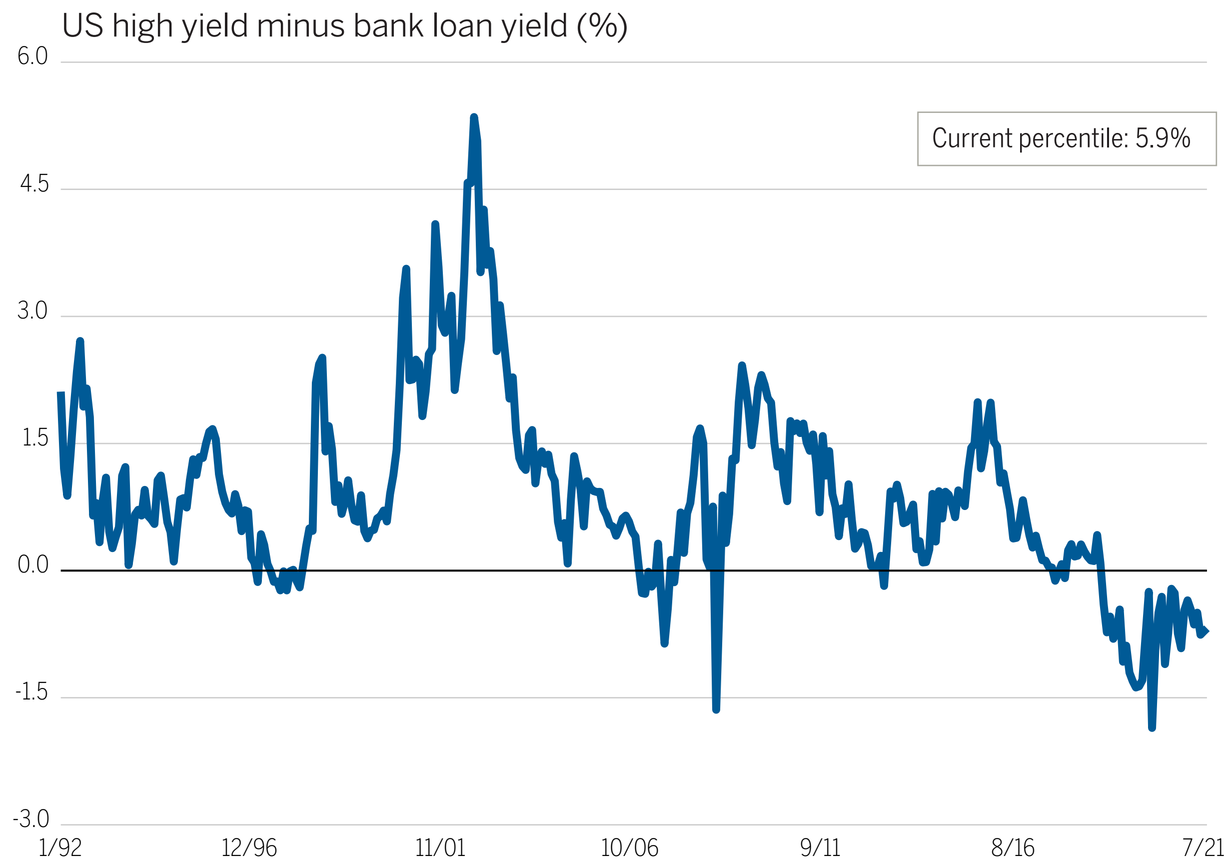

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND AN INVESTMENT CAN LOSE VALUE. | Sources: Barclays, JPMorgan, Wellington Management | Chart data: January 1992 – August 2021

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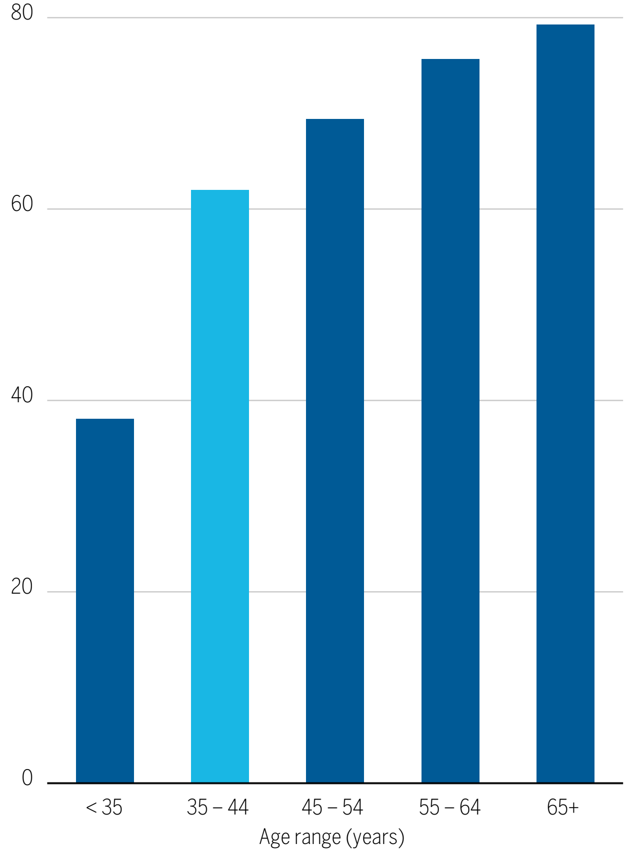
EM debt looks cheap to high yield

[1] Bloomberg Barclays EMD Index option-adjusted spread (OAS) to Treasury, Bloomberg Barclays US High Yield Corporate Index OAS to Treasury | Source: Bloomberg | Chart data: 19 November 2010 – 3 September 2021

Millennials to support US housing

US homeownership by age range (%)



Change in homeownership of 35 – 44 year olds by five-year periods (millions)

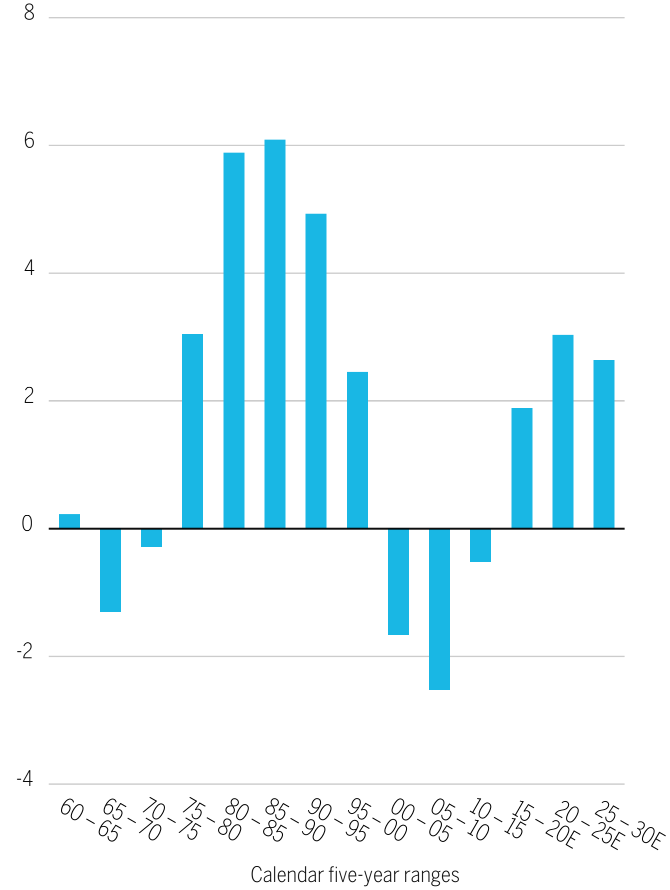
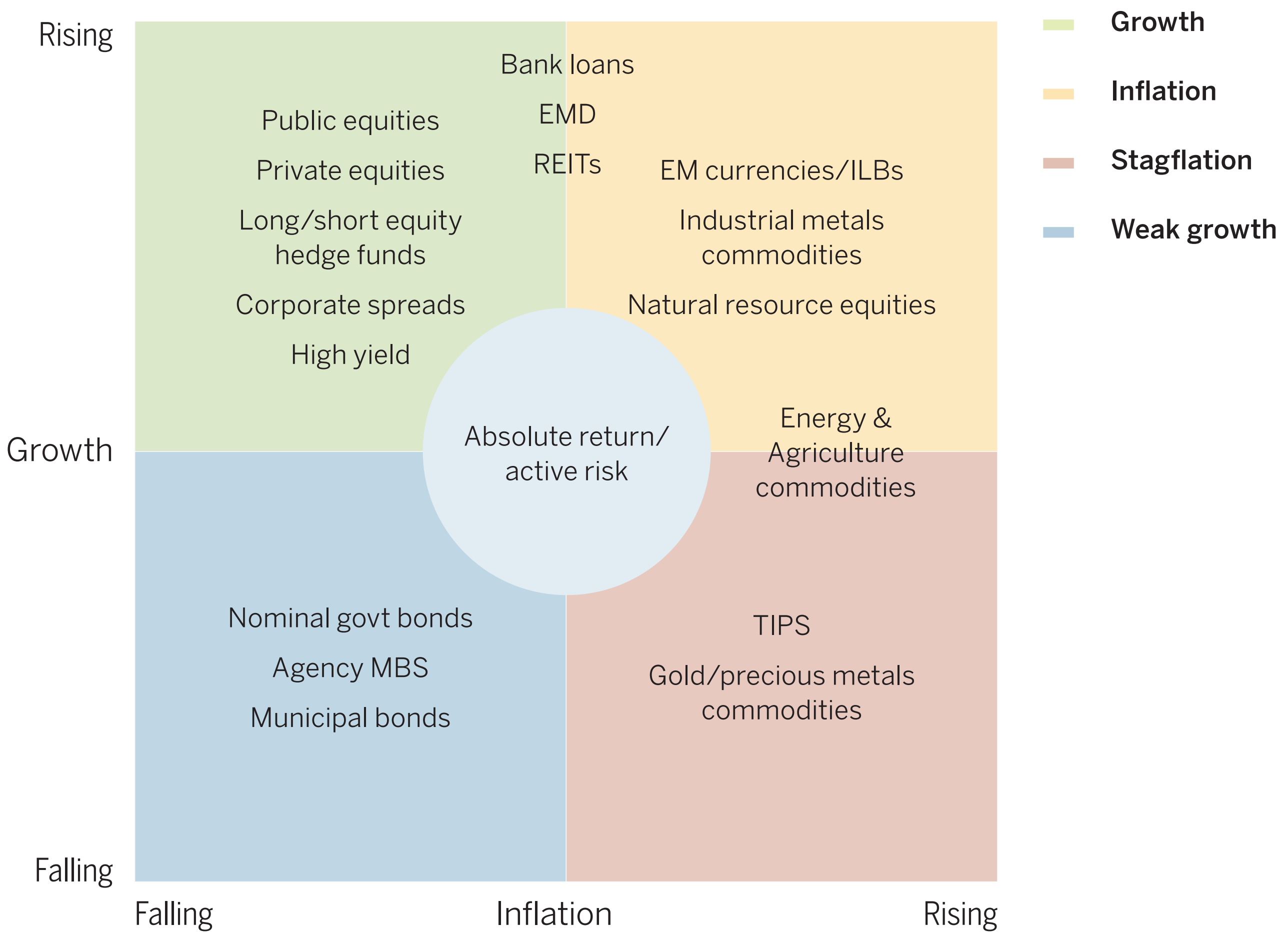


Chart data: five-year periods: actual 1960 – 2015, estimated: 2015 – 2030

Data as of 1Q2021 | Future estimates may differ significantly from actual results. | Source: Bloomberg

Diversify exposure across economic environments

Relative performance by economic environment



The example presented is for illustrative purposes and reflects the current opinions of Wellington Management's Investment Strategy team as of the date appearing in this material only. This is based on historical assumptions and is not intended to be a prediction of how any asset class will perform in the future. | Economic environments are defined by year-over-year changes in GDP growth and inflation. Growth: + GDP growth, – inflation. Weak growth: – GDP growth, – inflation. Inflation: + GDP growth, + inflation. Stagflation: – GDP growth, + inflation.

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Putting it all together

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