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Outlook 2022

ROYAL LONDON
ASSET MANAGEMENT

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INTRODUCTION

2021 saw us all still locked in a global pandemic — but after the helplessness of 2020, we had vaccines, and then anti-virals, to help us fight back. The story of the pandemic is not finished: this doesn't seem a virus to defeat, so much as one we have to learn to live with. In a sense, the story of the human race is one of adaptation and innovation. In 2021 we've seen developments in key issues such as climate change as well as the pandemic. Are those improvements big enough and fast enough? 2022 may be too soon to get an answer, but markets, as ever, will look for clues.

In our 2022 outlook, we ask a number of RLAM's fund managers what they are focusing on and the potential opportunities and pitfalls in their asset classes, to help you make informed investment decisions.

As events change, to see our latest thinking through the year, follow us at @RLAM_UK on Twitter or on LinkedIn, or check the 'Our Views' section of www.rlam.co.uk which will be updated regularly.

Up, down and round and round

Piers Hillier
Chief Investment Officer

Piers joined RLAM in January 2015 as Chief Investment Officer, with responsibility for managing and developing RLAM's investment capabilities. Piers has over 25 years of investment experience, including roles as Head of International Equities and a member of the Strategic Policy Group responsible for setting asset allocation for multi asset portfolios at Kames Capital. Prior to this, Piers was CIO and Head of Asset Allocation for LV= Asset Management and previously CIO European Equities for WestLB Asset Management. He also previously held the position of Head of European Equities at Deutsche Bank and Schroders. In his current role, Piers is a director of Royal London Asset Management Ltd, Royal London Unit Trust Management, a member of the RLAM Executive Committee, and chairs the RLAM Investment Committee. Piers holds a Bachelor's degree from the University of Bristol and Masters degree from the University of Oxford.

> "You can't predict extreme events, but you can prepare your infrastructure and portfolios to give them the best chance of weathering the storms."

It's fair to say that 2021 has had its ups and downs: we started the year with the hope that vaccine roll-outs would create a pathway back to a 'normal' life, even as we all acknowledged that this normal would be different to the old one. 2021 was notable for an underlying trend of positivity – conditions did get better, economic growth recovered, people were able to not just go back to offices, but see loved ones and go on holidays. And markets reflected this, seeing gains through most of the year.

The emergence of the Omicron variant has showed that increased confidence and activity remains fragile. But as an investor who is fortunate enough to be married to a healthcare analyst, I do believe that the general direction of travel on Covid-19 will remain positive. Omicron will not be the last bump in the road, but the global resources being poured into vaccines, anti-virals and other measures point to us winning this fight.

As we pointed out last year, the lesson we take remains the same: you can't predict extreme events, but you can prepare your infrastructure and portfolios to give them the best chance of weathering the storms that will undoubtedly come your way. From my perspective as a long-term investor, Covid-19 is obviously one factor, but it is important not to let it dominate thinking. I see three issues that we should all be looking at in 2022.

1) Inflation: it's too soon to call it transitory

For much of 2021, the debate on inflation was whether it was transitory or something more worrying. The very fact that we are still debating this as we head into 2022 suggests that it may be more than a temporary factor. Inflation as it is commonly reported is prone to swings simply because it looks at price levels compared to 12 months earlier: at the best of times this can lead to odd base effects, but following an unprecedented global lockdown, the scope for surprisingly large numbers and swings has never been greater.

But it cannot be written off. If we look at the UK, as individuals almost all of us will see a higher cost of living: increased National Insurance contributions, rising heating and petrol costs, and rising mortgage rates all have a direct impact on consumers. These increases will come after most had little or no pay increase in 2020. The latter was a perfectly understandable course of action for government and business, and most of us understood why (and were generally happy to still have a job) but that lack of pay rise then, and the rising cost of living now, mean many are worse off in real terms than they were in 2020 and 2021, leading to pressure on wages.

The Government has already indicated that the public sector will see increases – typically in the 3-5% range. It has also increased the minimum wage by almost 7%. Will the private sector follow suit? This is the key metric to track as we head into spring. If private sector wage growth is of similar scale to that in the public sector, then I believe that inflation will be sticking around for longer than many hope.

The last great debate around inflation in the wake of a shock was the global financial crisis. Many of us thought that the slashing of interest rates and the start of quantitative easing would trigger a sharp rise in inflation. It didn't. But while monetary policy was undoubtedly inflationary, fiscal policy was almost the reverse. Austerity was the government's guiding light, and wage growth was limited in both public and private sectors – so we had a degree of balance which helped keep inflation low. In this pandemic, monetary policy has again been expansionary but the fiscal 'taps' have been turned on as well. The inflationary consequences will be a key focus in 2022.

2) Geopolitics: global pressures can lead to global tension

A year ago, we were focused on the fall-out from the US presidential election and Brexit talks. Sure enough, Biden was sworn in and the EU and UK came to an agreement on Brexit. Neither has been a resounding success as yet. Biden's approval ratings, with the perhaps unsurprising exception of Trump, are the lowest since Gerald Ford in the early 1970s, which seems extraordinary given the massive stimulus and infrastructure spending plans he has announced. This could mean Democrat losses in the 2022 mid-terms and even loss of control in Congress. With Brexit, although it may be technically 'done', we can all see that there is still much to do, with the UK and EU showing a propensity to fall out over a wide range of issues. Ultimately, I see this as the inevitable foibles at the start of a new political and economic relationship, particularly as neither side has a playbook or precedent to fall back on.

One factor impacting geopolitical risk in 2022 is commodity prices in general and energy in particular. Rising energy prices almost always lead to increased tensions – whether that is between supplier and consumer countries, or within countries where the population blames government for failing to protect them.

In addition, there are prior issues that have not been resolved – notably between Russia and Ukraine, and China and Taiwan. None of this is to say that I am worried that these are all imminent causes of disaster, but with 'risk premia' near historic lows any increase in geopolitical risks could easily have a significant impact on financial markets in 2022.

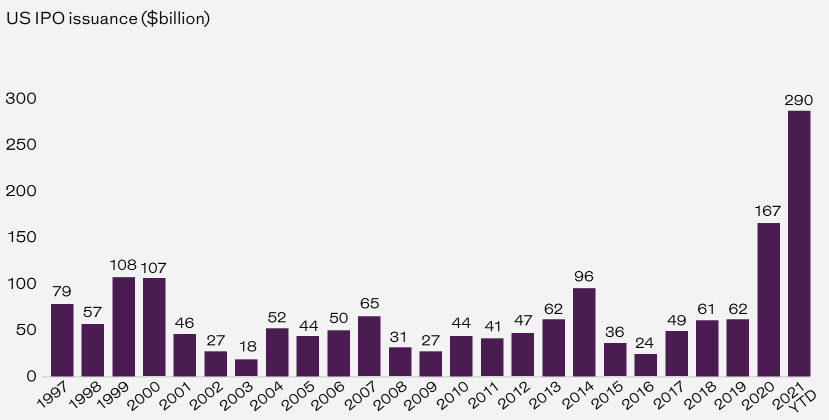
Finally, something that may not really manifest itself in 2022, but is undoubtedly a long-term issue, is the global north / south divide. This became more apparent at the COP26 conference: Northern countries are generally richer and larger polluters, while southern countries are likely to see greater negative impact from climate change. Solutions will have to be multi-faceted, but will almost certainly need both financial and technical support from north to south. We feel that there is a will to do this, but it won't be smooth sailing.

3) Asset prices: how much is in the price?

It is clear that low rates and increased money supply has helped fuel asset prices. Yields that were low before the pandemic took a further lurch lower – and rates on cash and government bonds are still incredibly low, even after rebounding somewhat as investors started to price in limited rate increases in the later months of 2021.

Equity markets have definitely been a beneficiary. The combination of supportive policy, coupled with rebounding corporate profitability have fuelled a second year of strong gains. If we look just at the MSCI World index, we saw gains of around 70% in 2020 and over 40% in 2021 (both in US dollar returns). Unsurprisingly, valuations do look stretched in the US market, thanks to the size of their tech sector which has performed so strongly during the pandemic. There are other 'frothy' signs in the US such as the Initial Public Offering (IPO) market (Figure 1). Other markets are less stretched but the same risk remains: after two years of gains, and if economies continue to recover or inflation increase, then QE programmes will stop and interest rates start to rise.

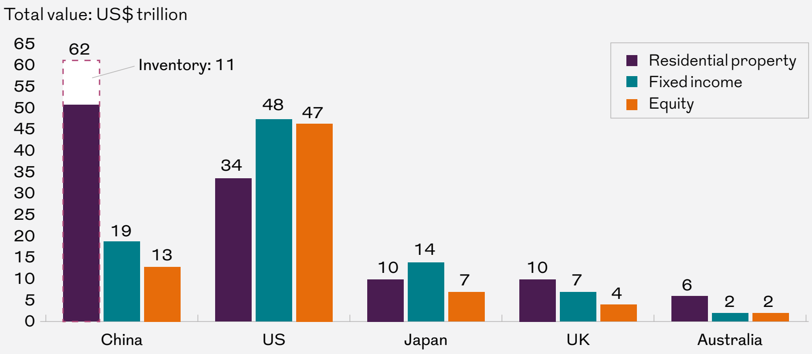
Figure 1: US IPO market has been buoyant



Source: WSJ, Dealogic, Renaissance Capital, SPAC Research as at September 2021

Again, this doesn't mean that a sell-off is imminent, just that the conditions for pullbacks have probably increased. Take Chinese property (Figure 2): residential Chinese property is possibly now the single largest asset class in the world. It is very domestic in terms of ownership – I doubt many of us have direct exposure in our portfolios – but the Evergrande issue was a reminder that stresses in one part of the system can be felt in many other places.

Figure 2: The Chinese property market is estimated to be the largest asset class in the world



Source: WFE, CEIC, Japan Cabinet Office, Halifax, Goldman Sachs Global Investment Research, as at September 2021

The ongoing evolution of responsible investing

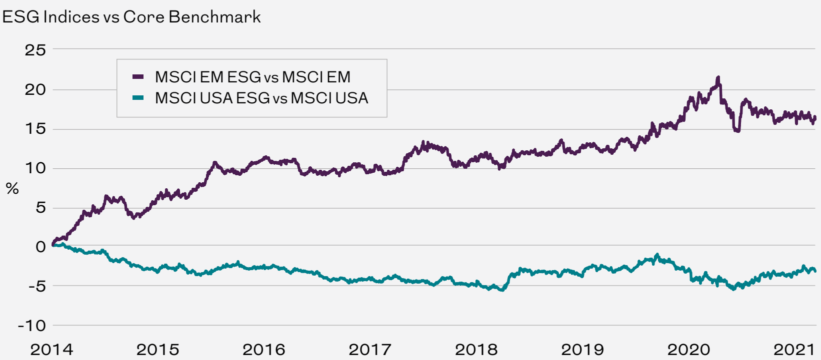
We know that responsible investing is an ever-increasing subject: clients are asking more of us, and we are asking more of the companies we invest in. We believe that companies that have stronger environmental, social and governance (ESG) credentials will perform better over the longer term. But behind that simple statement is the reality that understanding a firm's ESG credentials is not that easy.

Assessing these is not a case of distilling a range of factors into a single number or rating: it is nuanced and, in our view, it has to be bespoke. Integrating ESG into our investment processes has been going on for years and we continue to invest in this as successful ESG analysis isn't a task that will be 'complete' any time soon.

Applying a mechanistic index replication approach to ESG investing has underperformed traditional indices in developed markets for a number of years and more recently this has started to be the case in emerging markets (Figure 3). We believe it is critical to adopt an active management approach that focuses on engagement to support the allocation of capital to new leading ESG enterprises but also supports the transition of capital to improve ESG credentials as well as net zero carbon ambitions.

Our work in engaging with companies will also continue to develop. Yes we want to understand the ESG risks in any investment, but we have a duty to our clients and society as a whole to engage with companies about what they are doing and how they are doing it. We are keen to share what we do with clients – it is your assets we are looking after – and we'll continue to do this throughout the year, although I would recommend our annual **Stewardship Report** (the next report will be released in April 2022) as the most comprehensive source of information on how we do this and what we'll focus on in the future.

Figure 3: Mechanistic ESG investing gives mixed results



Past performance is not a reliable indicator of future results.

Source: RLAM as at 30 September 2021

Navigating 2022

In 2020, themes drove markets – if you avoided banks and energy you were probably okay. In 2021, energy was arguably one of the strongest performers. But we also started to see greater differentiation within sectors and regions, as investors started to realise which companies were well-placed to adapt and grow in a very different world.

As CIO of RLAM, I am very happy about this – we have diverse investment processes across our business, but all are underpinned by a central belief that we focus on stock selection and understanding what we invest in – which means assessing and pricing those ESG risks as well as the 'traditional' financial and operational considerations. We believe that this 'engaged asset management' is the next generation of active management.

Peter Rutter
Head of Equities

Peter is Head of Equities at RLAM as well as the Global Equities team, and a Senior Portfolio Manager with over 19 years of experience. Prior to joining Royal London Asset Management, Peter was Head of Global Equities at Waverton Investment Management, where he worked alongside Will Kenney and James Clarke under the same team construct. Prior to this, Peter was a partner and global equities fund manager at IronBridge Capital Management for six years, where he co-managed the £3bn IronBridge Global Select equity strategy.

Previously, he worked in the Global Equities team at Deutsche Asset Management. Peter graduated from Christ's College, Cambridge University, with a starred double first-class degree in Geography, is a CFA Charterholder and a chartered management accountant (CGMA). Peter has also achieved the CFA Institute Certificate in ESG Investing.

> "With bond yields, credit spreads and interest rates as low as they are, equities continue to be a relatively very attractively valued asset class."

Drivers of global equities in 2022

Peter Rutter, Head of Equities at Royal London Asset Management, discusses his market views for the year ahead, what themes we can expect to emerge and assesses the market performance of 2021.

What worked well in european and global equities in 2021?

Semiconductors, consumer cyclicals, energy and software companies have been particularly strong areas of the market. Weaker areas were those particularly reliant on resumption in international travel as well as the temporary beneficiaries of Covid-19 disruption/lockdowns in 2020 where that boost is not filtering through to 2021, such as auto insurance.

Discuss a stock you identified early

Old Dominion Freight Line (ODFL) is an example of a company we identified a few years ago. It's done well for our clients, but we were relatively early this year in recognising the potential pricing power of this business coming out of a Covid-19 recovery. ODFL has a national network of depots and trucks in the US, moving goods in pallet size units for a very diverse range of suppliers and customers across most industries. With capacity being tight in logistics and shipping, ODFL's superior physical network, exceptionally well managed logistics operations and leading customer service, have allowed it to be selective in the business it takes on and/or generate pricing power. This pricing power alongside rising volumes as the economy recovers has led to significant profit growth which is likely to be sustained given physical barriers to entry in less-than-truckload logistics and positive network effects embedded in ODFL's business model.

Was there a stock in the portfolio which underperformed this year?

A stock that has underperformed this year has been Ocado. This company is in two parts: the first, Ocado's UK online grocery and home delivery segment may be well known to many readers; the second is Ocado selling its technology, robotics and expertise in automated grocery fulfilment centres and home delivery on a global basis. Our long-term thesis is that the cost and capital that Ocado may be able to remove from what is a very large global grocery market, alongside potentially improved customer service (more choice, home delivery, time savings) could drive structural demand and gains for this business and technology. This year has seen a relative slowdown in growth post lockdowns and the sale of technology internationally has been hampered by the lack of executives, customers and salespeople being able to travel.

Why are you positive on global equities in 2022?

We are generally positive on global equities at this juncture because we are pragmatic. An acronym currently well used by financial market commentators is 'TINA' (There Is No Alternative) and we have a lot of sympathy with this viewpoint. With bond yields, credit spreads and interest rates as low as they are, equities continue to be a relatively very attractively valued asset class. This is somewhat anomalous as absolute basis valuations are at or close to record highs, but it is the lack of any real yield on most alternative assets that leaves us what one might call 'pragmatically bullish' at this juncture. The main risk to this view would be rising interest rates and discount rates which would impact nearly all asset prices negatively, and in the equity sphere 'growth' equities would be particularly vulnerable to such a development.

There are other reasons for us to be optimistic on equities. First, we see unparalleled levels of innovation and improvement occurring in the corporate economy in areas such as software, technology, healthcare breakthroughs, green and sustainability investments, climate transition and significant efficiency improvements. This is driving corporate profit growth as companies create significant wealth for society with disproportionate levels of wealth creation. Second, inflation is likely in our view, to be a bit higher structurally (but not out of control) in part due to the Covid-19 supply chain after effects but also due to elements of deglobalisation and cost pressures from climate transition. Equities and real estate have tended to be strong inflation hedges in environments of moderate inflation, as companies can over time pass on cost increases, retaining and growing profits in real terms as a result.

How important is it that ESG continues to be embedded in your investment process?

It's always been important, but we are witnessing ever more 'ESG anomalies' in markets where either over bullishness on an ESG theme at the stock level is causing a stock to become overpriced, or there are stocks with 'hidden' ESG credentials that the market is missing which are potentially valuable.

As such, the investment value and alpha potential of genuinely insightful ESG analysis has actually risen over the last 12-24 months, in our view. An example in our portfolio is Steel Dynamics (US), which has historically rated poorly with third-party ESG ratings agencies as a result of being a steel company with relatively poor ESG disclosures. In reality, Steel Dynamics makes steel in a very different way to the majority of the industry. It uses electric arc furnaces (not coal) to melt scrap steel (not iron ore) to make high quality steel. This is the circular economy in practice and increasingly Steel Dynamics is able to source renewable electricity to power its production. So, in this case, understanding this dynamic ahead of the 'off-the-shelf' data providers is potentially to our clients' advantage, especially as the longer term rewards for such a company being part of the solution, rather than the problem, have arguably never been higher.

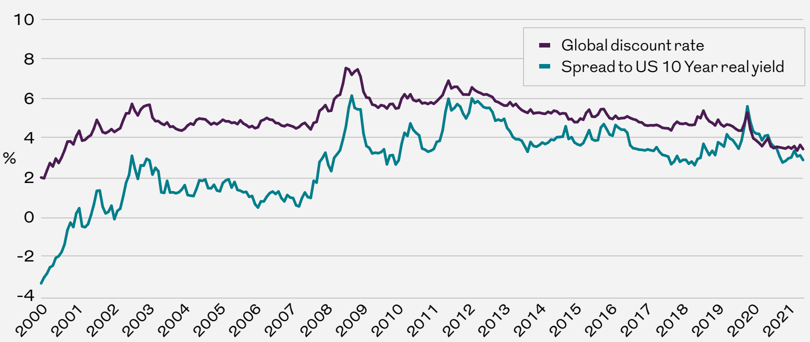
What themes will be prominent next year?

We think that interest rates and inflation will dominate the market discourse for the near future given the impact on discount rates. This will manifest itself in markets in two ways: asset prices in general and style performance within asset classes. On asset prices in general, we see a lot of evidence that the key determinant of nearly all asset prices and volatility in them is less to do with variances in the fundamentals and expected change in fundamentals for securities and asset classes but rather changing investor discount rate expectations. That makes sense to us given how low discount rates are and how sensitive asset prices have become to them (see chart on following page).

When it comes to style, there are groups of stocks in equity markets that react very differently to changing assumptions and realities for growth, inflation and discount rates. Examples might include 'quality', 'growth' or 'value' companies – depending how investors want to define them – but the reality is should we see volatility in expectations around interest rates, bond yields and inflation then we believe we are likely to see significant volatility in the performance differentials between different styles of stocks.

We therefore expect discount rates to be the dominant mover of markets and constituents going into 2022. Within that we see four themes of particular interest as we seek to understand the wealth creation and valuation of companies: First, will innovative disruptors keep delivering sales growth and surprises in innovation and disruption? There is much excitement about the potential of early-stage growth companies. However, given current valuations and expectations they need to deliver. Second, what are the credible responses to climate transition in the industrial, materials and energy economy? Third, in the event of wage inflation globally, how does that ripple through the profit structures of different companies? Fourth, what are the true long-term impacts on activity from Covid-19?

Global discount rate and spread to US 10 Year real yield



Source: RLAM, as at October 2021

What will be different in 2022?

The starting point when it comes to valuations is different. 2021 started with cautious optimism after the announcement of vaccines in November 2020. The world economy is much healed, less disrupted by Covid-19 and the outlook significantly more positive. It didn't take much to be delivered to support markets in 2021, whereas now given price appreciation stocks and markets will need to deliver much more to sustain investor optimism.

2021 was also very much a year of recovery and 'normalisation' of the global economy and corporate economy. What will be different about 2022 will be investors coming to grips with what a post-Covid-19 world actually looks like. The complexity in this is partly cyclical and related to Covid-19 – how has the pandemic, lockdowns and disruption changed the world? It is also partly related to structural issues and challenges that were in development even before Covid-19. The structural impacts of ageing populations, potential deglobalisation, China-US economic relations and technological conflict, climate change, the long-term impact of low interest rates, significant debt burden in parts of the world economy and so on. In 2020 and 2021, many of these structural issues took a 'back-seat' as Covid-19 and policy responses dominated financial markets. 2022 is likely to see the re-emergence of investor focus on some of these significant and longer-term challenges and opportunities.

Searching for dividends in UK equities

Richard Marwood, Senior Fund Manager at Royal London Asset Management, discusses the prospects for UK equities in 2022, reflects on an eventful 2021 and shares his longer-term views on dividends.

Richard Marwood
Senior Fund Manager

Richard joined RLAM in 2016 as part of the Income team and manages the RL UK Equity Income Fund and RL UK Dividend Growth Fund. He previously worked at AXA Investment Managers for 19 years where he ran a wide range of UK Equity and multi-asset class portfolios, most notably AXA's Distribution Fund franchise. Prior to working in the City, Richard had an engineering background, having served an apprenticeship with British Aerospace. He holds a Mechanical Engineering Degree from Sheffield University and a PhD in Aerodynamics from Oxford University.

> "Dividends are back at more sustainable levels and we should see many companies able to grow dividends rather than reducing them."

What important lessons did you learn from 2021?

Each year the markets teach us something new and while this equips us for the future to some extent, every year finds something entirely unique to throw at us. It very much feels like 'known unknowns' and then 'unknown unknowns'.

One theme I would take from this year is about just how interconnected the global economy has become and how small glitches in one area can give rise to unexpected impacts. For example, car production in Europe is suffering because of production issues surrounding semiconductors in the Far East, while people were sitting in long queues outside UK petrol stations, not because there was a shortage of petrol, but because there was a lack of lorry drivers to get that fuel to the right places.

In what way will 2022 be different from 2021?

As ever, that is very difficult to predict. One potentially profound difference could be if inflationary forces persist and we find ourselves in a world where monetary policy needs to tighten. While this is not a given, it is not beyond the realms of possibility. There are many investors out there who have only ever seen inflation being well behaved and the cost of money get ever cheaper. Such a shift would be a strong test for businesses, to see who can exhibit cost control and pricing power and which companies are not dependent on the oxygen of cheap money to support themselves.

What is your view on UK equities?

In my opinion, the UK market does remain an interesting place to invest. It has many strong companies and a good mix of sector exposures. Furthermore, it is attractively priced on a relative basis to other markets and offers a good dividend yield. There are good reasons why the UK may have struggled to keep pace with other markets, not least of which are the uncertainties of Brexit and the lower weighting that the UK market now has in global indices. Additionally, the UK market was arguably less well placed for the 2020 lockdowns, having a lower exposure to technology stocks and a greater exposure to sectors reliant on mobility and physical activity (e.g. oil and leisure) but as the world now hopefully normalises, that allows greater prospects for recovery.

As valuations languished, the attraction of UK companies was well illustrated in 2021 by the number of UK companies that found themselves on the receiving end of takeover bids from either private equity firms or industrial buyers. It would be unsurprising if we continued to see similar takeover activity into 2022.

What are your expectations for inflation and interest rates next year?

Personally, I am in the camp that sees the current inflationary forces as being less transitory than some might hope. The issues of higher commodity prices, supply chain constraints and lack of labour in certain areas will take time to be resolved, even if some of the pent-up demand that we saw unleashed after the Covid-19 lockdown eases back. A more structural issue is around climate change. Action to tackle climate change is a necessity, but we should be under no illusions that this action will be cost free. The vast amount of investment required will have to be funded from somewhere and at least some of that is likely to be seen in higher energy or transport costs for consumers.

What areas of UK equities do you expect to perform well next year?

As ever, I think that stock picking will be a crucial driver of returns. Some well-run stocks in apparently tough sectors will thrive, while other stocks will fare poorly, despite being in what appear to be attractive industries. Businesses able to deal with inflationary pressures, be it through pricing power, cost cutting or better harnessing data and technology to drive revenue or manage costs, should be at an advantage. A great example of this is Dunelm, who operate in the tough retail sector, specifically in homewares. Despite their stores being shut during some of the lockdown period, the company did well as they were still able to satisfy strong consumer demand through their multi-channel business that they have built up (stores, online click and collect, and home delivery). This was something many of Dunelm's smaller competitors could not do. They have also seen an improvement in their competitive position as some of the department stores have left the market.

What does the landscape for UK equity dividends look like?

After a torrid 2020, when dividends collapsed, we have already seen a fair degree of recovery in 2021, although we are still not back at the levels we were at in 2019. Dividends are back at more sustainable levels and we should see many companies able to grow dividends rather than reducing them. The yield on the UK market is currently around 3.5%, even with dividends still behind 2019 levels. This seems an attractive level given the relatively low yields available in bonds and near zero yields available on cash.

Mike Fox
Head of Sustainable Investments

Mike is Head of Sustainable Investments and co-fund manager of the Sustainable Leaders, World and Diversified trusts as well as the Global Sustainable Equity fund. He has managed the Sustainable Leaders Fund since November 2003. Prior to this, Mike worked as a Deputy fund manager at the Co-operative employee pension fund for two years and as an investment analyst covering the utility, support services and media sectors. Mike originally trained and qualified as a Chartered Accountant with Ernst & Young in Manchester. Mike has won five Fund Manager of the Year awards, in 2015, 2017, 2019, 2020 and 2021. Mike has spent the majority of his career assessing environmental, social and governance issues and how they influence investment decisions. He is a specialist in sustainable investing and one of the few fund managers in this area with such long tenure.

> "I remain firmly convinced that sustainable investing offers the best potential of doing good for society, while deriving reasonable investment returns."

Growing pains in sustainable investing

While retaining a very positive longer-term view on sustainable investing, we expected 2021 to be a challenging year – as presaged by the performance of our sustainable funds during November 2020 as the 'Covid-19 reopening' trade played out. However, as of early December, the funds have had a strong 2021, although this masks periods of strong out and underperformance, rather than a consistent trend.

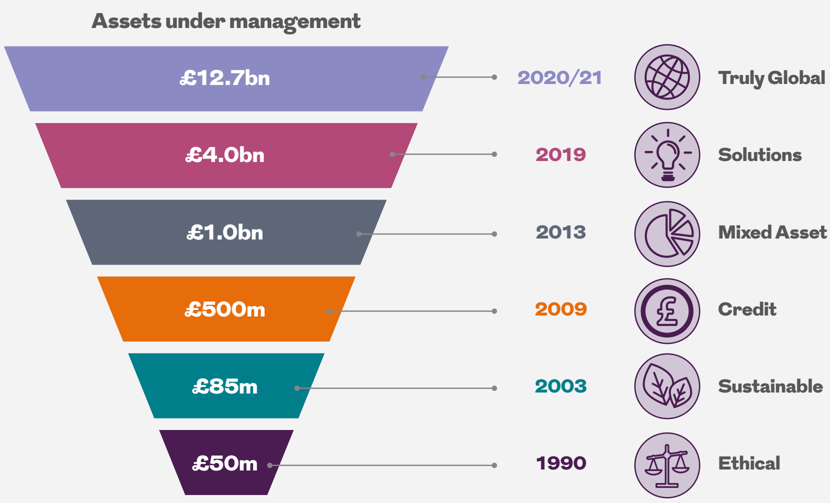
There are several reasons for this, but in summary we tend to favour more growth-oriented sectors and stocks (such as technology, healthcare and high-end engineering); and the long-term prospects for those companies and industries badged as 'growth' have accelerated due to the pandemic. Conversely, many companies and sectors regarded as value (leisure, retail, oil, etc.) have seen their prospects worsen.

We retain our long-term positive view of the prospects for sustainable investing: while we don't invest thematically, our conviction in the broad themes that we see across most of our investments has only strengthened, such as technology (specifically digitisation, cloud computing and ecommerce) and healthcare. However, we believe that 2022 could be a more challenging year for sustainable investing. As I will explain, this is partly market-related (valuations are much higher), but also reflects the 'growing-up' process that sustainable investing is going through.

There are three broad areas of concern for us:

1. **Regulation:** we see the regulatory burden increasing for sustainable funds – some of this is already in place, but we see it gaining traction in 2022.

Sustainable investing at RLAM
Product evolution



Source: RLAM as at 31 October 2021. AUM covers the sustainable fund range and segregated mandates.

Of course, we're in favour of well-conceived regulation that is beneficial for end-clients – for example, the regulations introduced recently by the UK's Investment Association that requires sustainable fund managers to be able to demonstrate and report on sustainable effects. We're more concerned about the taxonomies introduced by the European Union – the definitions of what is 'sustainable' are very narrow and this could create asset bubbles, which would certainly not be beneficial for end-clients. Managers should be able to operate within parameters, but these are narrowing and that will make sustainable investing harder.

2. **Ability of thematic sustainable funds to outperform:** we believe that the 'low-hanging fruit' has been picked in the rush to sustainable investing that we've seen over the last few years and some of the newer entrants will struggle to outperform. In particular, those funds that have adopted a low-intensity sustainable investment process by adopting broad themes (such as low carbon or following the UN's Sustainable Development Goals (SDGs)) may struggle, as the short-cuts have been arbitraged away. I believe that we're entering the period of sustainable investing 2.0, which will require more heavily resourced and granular investment processes. Clients will benefit from asking managers detailed questions about their investment processes and how much in-house resource is available – in my view, those who rely mainly on external data will likely find the going tougher from here.

3. **Sustainable stocks are more expensive now:** perhaps all equity managers feel like this after 18+ months of stocks recovering from the initial impact of Covid-19, but trends such as digitisation and ecommerce have driven up the valuations of the biggest stocks in the world and sustainable funds are more expensive than at any time that I can remember.

   The year ahead will be a good test of the theory that 'prospects for sustainable businesses have been enhanced by the pandemic, but this will more than compensate you for the higher valuations that you have to pay to own them'. Without going into detailed investment maths, we will need to be comfortable that these higher-valued stocks will grow for longer – say for five or more years, rather than three or four. I'm not particularly uncomfortable about this, but companies will have to deliver to justify their high valuations. I anticipate that companies that don't hit investors' expectations (even for understandable reasons) will face a backlash and extended period in the doghouse. Such situations really test fund managers as we have to recalibrate our thinking on a stock, yet not overreact – it's usually right to hold and take the short-term pain, but where there is a clear break with our investment thesis, we have to face the facts.

So, 2022 looks like a year for regulation, wider dispersion in the performance of sustainable funds and volatility. I'm generally an optimistic person, but you wouldn't necessarily be able to guess from this outlook!

In my view, most people don't realise how early we still are in the adoption of sustainable investing. The Investment Association believes the scale of assets that is managed sustainably is still well under 10%. So while investors may feel that the sustainable ship has sailed and that they don't want to be last to the party, this is not the case. I remain firmly convinced that sustainable investing offers the best potential of doing good for society, while deriving reasonable investment returns.

Trevor Greetham
Head of Multi Asset

Trevor Greetham is an investment strategist and fund manager with 24 years of experience. Prior to joining Royal London Asset Management in 2015, Trevor was Asset Allocation Director for Fidelity Worldwide Investment, where he was responsible for implementing tactical investment decisions across a wide range of institutional and retail funds. From 1995 to 2005, Trevor was Director of Asset Allocation for Merrill Lynch, advising fund manager clients on their multi asset investment strategy. Trevor qualified as an actuary with UK life assurer Provident Mutual and has a Master of Arts in Mathematics from Cambridge University.

> “Broad diversification across asset classes and active management, both between them and within them, will be key to navigating the challenges ahead.”

Activity has recovered – what next for markets?

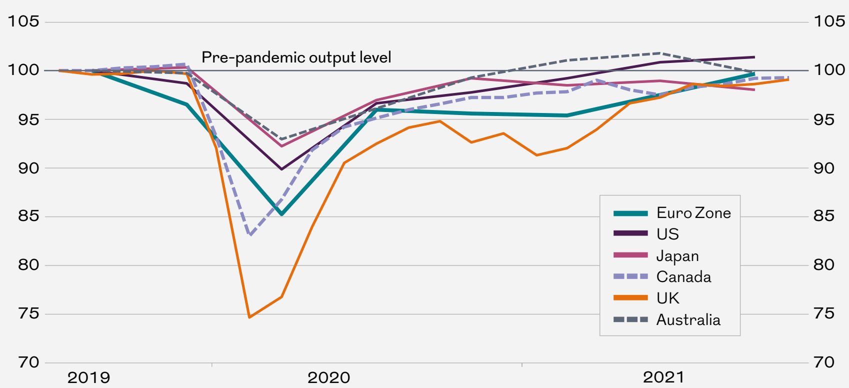
Two years have passed since Covid-19 emerged on the world scene. The appearance of the more transmissible Omicron variant reminds us that the pandemic is, sadly, not over. High vaccination rates make a return to a deep and prolonged lockdown unlikely, though, and global activity measures have made the round trip back to their pre-pandemic levels. What's different are policy settings and inflation dynamics. Our base case is that loose policy keeps global growth strong in 2022, while inflation drops from its highs as supply chain disruption eases. This backdrop should be positive for stocks, despite a gradual tightening of policy. We see clear two-way risks to growth and to financial markets, however. Broad diversification across asset classes and active management, both between them and within them, will be key to navigating the challenges ahead.

The longest US business expansion on record was followed by its shortest and most unexpected recession as the pandemic hit, with global activity plummeting and stocks suffering their worst crash since 1929. Massive policy support and the rapid development of vaccines have turned things around remarkably quickly, with economies broadly back to pre-pandemic levels (Figure 1) and global stock market indices significantly higher.

When thinking about what may happen next, we find it useful to compare the pandemic-induced interruption to activity before and after a weekend. The collapse in early 2020 was like the sudden drop in activity that happens every Friday night when most people knock off work for the week. The re-opening from summer 2020 to summer 2021 was like the revivial that happens every Monday morning. Tuesdays aren't so different

Figure 1: Global activity levels near pre-pandemic highs

Real GDP, level (rebased), Q4 2019 = 100



Source: Refinitiv Datastream as at 15/08/2021 from Mondays and that is why the last few months have felt like a slowdown. The critical question for investors now is the underlying trend of growth and it is going to be hard to separate signal from noise for several months, especially with Omicron in the mix.

We use an Investment Clock approach to guide our asset allocation decisions, identifying different stages of the global business cycle by analysing growth and inflation trends. We have spent the last few months in 'Stagflation', with growth slowing from its breakneck re-opening pace and inflation rising. Our base case is that a drop in inflation and a pick-up in growth will see the Clock move steadily back into the 'Recovery' quadrant in 2022, which would be supportive for an overweight position in stocks (Figure 2).

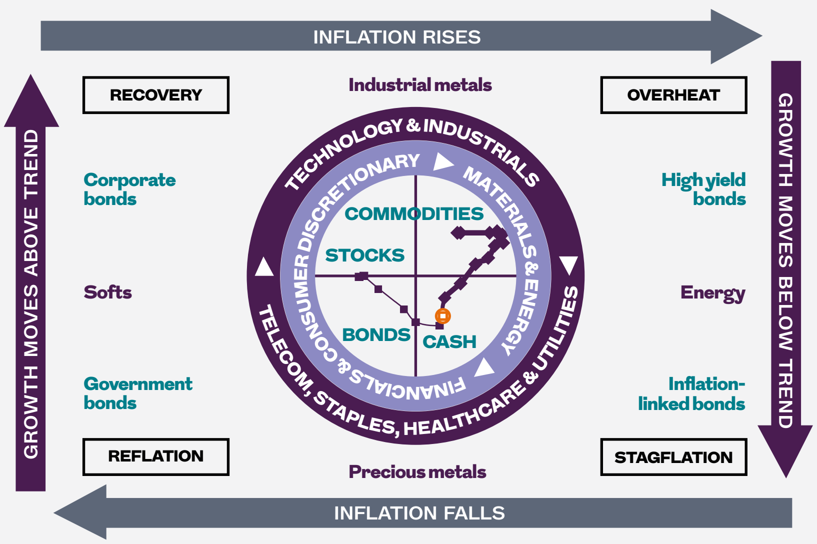
While economic activity is back where it started in December 2019, policy settings are still substantially looser. Growth prospects are rosiest in the US, where the Federal Reserve is still printing money and fiscal policy is focused on 'building back better' and helping the transition to a net zero carbon future. China is in a very different place. With its zero Covid-19 policy, there was no prolonged lockdown but there was no major stimulus programme. A wobbly property market points to slower growth. The UK sits somewhere in between. Interest rates are likely to rise, but from ultra-low levels, and fiscal policy is likely to be tightened, though with real interest rates sharply negative it is hard to believe it will be done with great conviction.

There are obvious two ways risks to growth, however, that mean we're starting the year with relatively neutral positioning at the broad asset class level. On the downside, we are already seeing the return of lockdown conditions in some European countries and these could be broadened and extended as the more transmissible Omicron variant spreads. This may not be such a pessimistic case for global equity markets beyond the initial reaction, as a further period of economic weakness would keep bond yields low as central banks push out their planned policy tightening. This in turn would probably work in favour of the US market and growth sectors like technology which dominate global indices.

It's also quite plausible that growth comes in significantly stronger than expected. The current ultra-accommodative policy environment seems out of sync with a business cycle that has already bounced back strongly. In some ways, Covid-19 merely interrupted and then supercharged a business cycle that was becoming mature. Perhaps the Omicron variant will turn out to be extremely mild, making Covid-19 more like its common cold cousins. In this sort of scenario, excessive liquidity and a return of animal spirits could trigger a 1970s style boom-bust cycle with strong growth and sustained upward inflation pressures leading to faster than expected interest rates rises. The upswing could be good while it lasted – particularly for property markets, value sectors, commodities, and resource-heavy regional equity markets like the UK – but rapidly rising interest rates would most likely hurt growth sectors and bond markets and could raise the spectre of a recession in 2023 or 2024.

With such a high level of uncertainty about the future, general investment principles are more important than ever. In the multi asset world this means ensuring you are running the right level of risk, diversifying broadly across asset classes, and employing a flexible and active tactical asset allocation approach that can adjust exposures to keep them appropriate for what could be a fast-moving macro backdrop.

Figure 2: The Investment Clock is in Stagflation



Source: RLAM. For illustrative purposes only. Trails shows monthly readings based on global growth and inflation indicators. Yellow dot is the current reading as at December 2021. The fainter trail is the RLAM base case projection for the next six months.

Paola Binns
Head of Sterling Credit

Paola is responsible for the management of corporate bond portfolios. She brings some 20 years' experience in bond markets to RLAM, having joined in August 2007 from Credit Suisse Asset Management where she was responsible for managing sterling credit assets. Paola has developed a wide range of bond asset classes having held a number of roles specialising in European corporate bonds, government bonds and emerging market debt. Paola has a MA degree in History and Spanish Literature from Oxford University.

“Although rising yields will provide a headwind for absolute returns for the market broadly, the outlook for corporates is far from weak.”

Navigating sterling credit

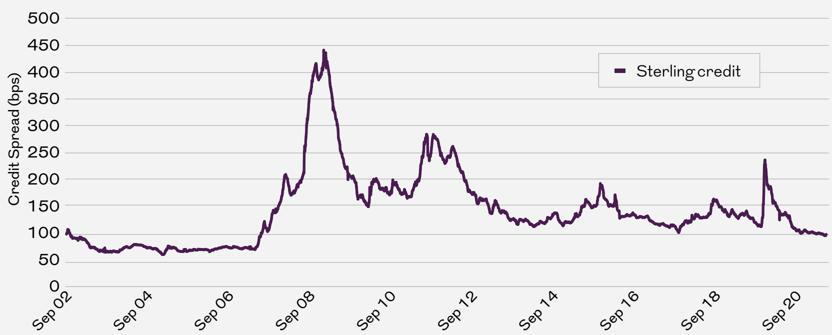
Last year, sterling investment grade credit spreads hit their lowest levels since 2007. With a quantitative easing (QE) programme in place that included the purchase of corporate bonds, and with fiscal programmes including the furlough scheme and bounce-back loans, corporates garnered extremely strong support from policy makers, quelling the likelihood of default. Although we saw sterling investment grade markets trade at the upper limit of the price range we might usually expect, they continued to pay investors incrementally over the levels we believe are required to be fairly compensated for the risk of default. With this in mind, we do not expect overall returns in 2022 to be driven by improvements in corporate pricing. With support for markets rolling back – the Bank of England drew its QE programme to an end in December – we expect bond yields to rise (and prices to fall) in the sterling market this year.

Risk in the absence of traditional credit drivers

We still believe the risk of default is low and will remain low through the year – corporates in the UK have built strong balance sheets with the help of monetary and fiscal policy makers, and many have large cash balances. However, this support has restricted the risks which traditionally drive markets, leading their prices to be more closely tied at present to the underlying gilts of the same maturity. This led to significant volatility into the end of 2021, as investors in UK markets mistakenly priced in a high certainty of a November Bank of England rate rise , and reacted to the emergence of the new Omicron variant of Covid-19 in the same month. We expect sterling markets will continue to take their lead from gilts through 2022.

Although rising yields will provide a headwind for absolute returns for the market broadly, the outlook for

Sterling credit spreads



Sterling credit: Bloomberg Sterling Aggregate ex Government Statistics Index

Source: Bloomberg, RLAM as at 30 September 2021.

corporates is far from weak. Against a backdrop of soaring equity markets, growing consumer demand, and high levels of cash balances, corporates are looking strong going into 2022 and we feel the sterling market is well positioned to cope with the roll back of support. Furthermore, having experienced a number of full lockdowns and partial closures to the economy over the last two years, businesses are better adapted to cope with Covid-19 related shocks. However, while businesses have learnt to deal with coronavirus shocks, financial markets have not – while coronavirus risks remain in play it is likely that animal spirits will drive significant and sudden changes in investor sentiment, raising the risk of the abrupt and material re-pricing of bond assets.

November's market reaction to the emergence of the Omicron variant provides a good example, as investors switched from bulls to bears, with the entire market pulling in the same, single direction during each phase of the market. This put pressure on liquidity in sterling credit, as those wanting to buy into bull market action struggled to find sellers, and investors wanting out during bear markets struggled to find buyers.

Takeovers and recoveries could affect credit ratings

There are other short-term risks to sterling corporate prices in 2022 too, mainly driven by the potential for changes in credit ratings. This could potentially benefit investors, as corporates whose creditworthiness was downgraded to sub-investment status during the pandemic may regain their investment grade standing after a period of strong recovery – investors holding issues that switch from 'fallen angel' to a 'rising star' could see bumper returns this year, although we expect this trend to be more prevalent in the US. Perhaps more pertinent to UK investors is the risk that aggressive mergers and acquisitions (M&A) and leveraged buyouts (LBOs) pose to the creditworthiness of issuers on sterling indices – takeovers from cash rich corporates, private equity firms and private debt firms could lead to the downgrading of credit ratings, risking capital losses.

Another key set of risks for investors to consider in 2022, which can be prevalent across the short, medium and long term, are environmental, social, and governance (ESG) risks. Last year we took the opportunity to sell high carbon intensity names and fossil fuel-related names at relatively low credit spreads across our sterling credit funds, as we believe they do not compensate for long-term risks. This reduces the carbon output of the funds on average, while maintaining our credit spread premium at the portfolio level. We also further reduced our exposure to regulated gas distribution in favour of regulated water or electricity holdings – the former being more exposed to stranded asset risk – which helped performance in 2021 and will maintain this bias through 2022. This should give us a more robust utilities exposure in a net-zero world.

Navigating the sterling credit market

Regardless of the conditions in markets and the broader economy, RLAM's approach remains consistent. As long-term investors, we act as lenders in our participation in sterling credit markets rather than as speculators of short-term price volatility. As such, through bottom-up research, we focus on credit fundamentals to uncover pockets of value which can be found outside of market benchmarks. Our preference for secured bonds with strong covenants underpins the stable returns profiles of our products, most of which have outperformed their broad market benchmarks over three- and five-year periods.

With this in mind, the positions we take are far less tactical, meaning that the composition of our funds is only likely to change incrementally as the broader sterling credit environment moves through any period of economic recovery and change. In 2021, for example, our portfolios benefited from their bias towards the subordinated financials sector, placing emphasis on a sector with a strong income capability and reduced negative sensitivity to interest rate rises. It is unlikely that we will unwind our exposures to subordinated financials in response to a change in the credit environment, as the positions we hold are not broad market bets. Instead, we hold targeted positions based on the strengths of each issuer and the protections underlying each bond.

Both bank and insurance sectors saw credit spreads widen following the emergence of the Omicron variant. While we remain in favour of both sectors, the move highlighted the importance of sector diversification in credit. We sometimes hear that RLAM's sterling credit portfolios are too diversified – naturally we disagree. Our strategies have high active risk, meaning we diverge from index composition. But we spread this active risk over multiple opportunities, helping us to avoid exposure to broad economic factors.

Diversification beyond the UK

As part of our diversification strategy, we also seek to run geographically diverse portfolios within the sterling credit market. Global credit is often touted as a better investment than sterling credit, with more diverse geographic profiles reducing any portfolio's concentrated market risk. However, we can still add geographic diversification to our sterling credit funds by investing in UK headquartered firms with a global footprint, or by holding bonds from non-UK headquartered firms issuing sterling denominated debt. Sterling credit doesn't necessarily have to mean UK credit.

Our National Express holding is a good example of the types of debt that we look for. The company is a diversified public transport firm headquartered in the UK but with a global footprint, operating in the UK, Spain and the US, and maintaining a strong balance sheet with stable cashflows. Finding strong and favourable issuers such as this through our processes of bottom-up research also helps us to pick up extra yield across our funds by adding risk to our funds in very selective ways. For example, while the senior bond tranches offered by National Express traded at 50bps above gilts at the time of writing, providing an all-in yield of 1%, the pick-up in yield available through lending on a junior basis was very attractive. We therefore built holdings via the junior tranche, taking slightly more risk but in in a business with a solid and stable credit profile.

Mitigating inflation and interest rate risk

With a cycle of rising interest rates impending there are steps that investors should consider to protect their holdings from unnecessary capital losses. And while many of our clients have asked us whether they should be investing in index-linked corporates, the obvious safe haven is short duration strategies – we are already seeing a lack of appetite for the long end of the investment grade sterling market as a result, which led to liquidity issues at the ultra-long end at points during 2021.

Regarding index-linked corporate bonds, investors holding these assets will still gain an incremental income over the gilt equivalent but at a risk of a price correction – the underlying index-linked gilt is very expensive at present. However, whether buying index-linked or nominal bonds, I believe that moving short duration is key, as these strategies carry far less exposure to interest rate risk.

High yield markets: Looking good for 2022 after August reboot

Azhar Hussain
Head of Global Credit

Azhar has 20 years direct experience of investing in an array of strategies across the global fixed income and leveraged finance arenas. He trained as a chartered accountant with Deloitte before starting his investment career as a high yield credit analyst at Gulf International Bank in London. He subsequently became Head of Corporate Debt responsible for IG & HY absolute and relative return strategies. He left to join Insight as Head of HY & Leveraged Loans before joining RLAM initially as Head of Global High Yield where he has successfully launched strategies across the global credit spectrum. Azhar holds a BA in Economics & Law from SOAS, University of London and obtained a MSc in Behavioural Science from the London School of Economics in 2018.

> “We anticipate a good year ahead for global high yield markets – following the market turbulence in the summer”

We've been very positive on global high yield since central banks stepped in so promptly to support markets on an unprecedented scale following the initial impact of Covid-19 in March 2020. It was hard to be anything else, particularly once the Federal Reserve (Fed) committed to buying corporate bonds as well as government debt, and that position has served our clients well over most of the period since then.

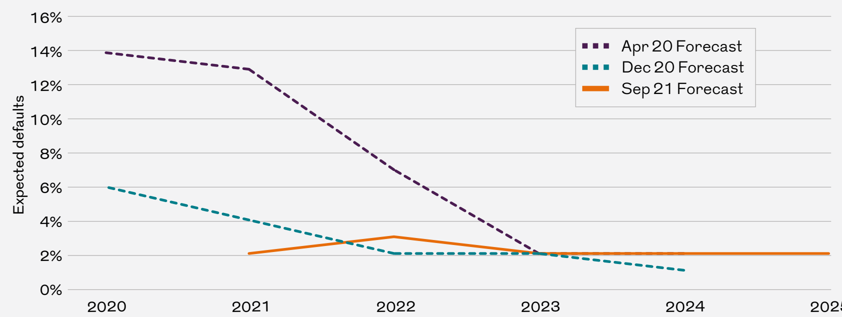
While it may not be a surprise that we remain bullish on global high yield going into 2022, a lot has changed under the surface for us to retain this positive view. I would certainly have given a very different answer if I'd been asked at the beginning of August 2021. At that time, the yield on the global high yield market was down at around 3.8%, having started the year at 4.2% – at that level, it was difficult to see significant upside for the market as a whole, although particular credits still had potential.

Since then, however, the impact of Evergrande's very public travails in the Chinese real estate sector, and the subsequent broader shift in sentiment on government bond markets, have rebooted global high yield. With the market yield now around 4.8% (a 20% premium to the start of 2021), we see good potential for the year ahead.

Defaults are at the lowest level for over 20 years – at around 0.5% in the US and 1% globally, because of China – and the distress ratio is also very low, so defaults will remain low over the foreseeable future. Issuers have refinanced their debt at record levels (c. $300-400b in the nine months of 2020 and $500b in 2021) and half the market has been extended, so the default climate should be more positive.

High yield markets are clearly supported at current levels and there is now a much stronger buffer against higher

Market expectations of defaults



Source: S&P Global Ratings Research and S&P Global Market Intelligence's CreditPro as at 30 September 2021.

defaults or a change in approach by the Fed. At the time of writing, the market is discounting three rate hikes in 2022 – we can say with confidence that if interest rates were to rise faster than that, high yield would outperform the fixed income market as a whole; yet, if rates were to increase by less than the anticipated amount, this would also probably be positive for global high yield. This is quite a sweet spot.

While our overall position is clear, it's harder to anticipate which areas of the market will outperform. With less economic stress, sector dispersion is lower than it was 12 months ago – energy has roared back over 2021 as oil prices have risen, and Covid-19 reopening trades have materially played out.

Instead, the dispersion in returns may be driven by regional factors. In particular, I would highlight emerging market debt (EMD) as an area of weakness:

- Dollar strength tends to be negative for EMD.
- The economic slowdown in China is likely to have a greater effect on the region than is currently suggested by consensus – given the sheer scale of the Chinese economy, it will take time to adjust to growth of 3-4%, rather than 7%.
- Contrary to many people's belief, EMD is higher quality with a greater share in the BB rated band, so will be more sensitive to interest rates.

Otherwise, I would have expected European high yield to outperform the US, but the US has pulled back so much since August that I no longer see the scope for European outperformance.

What might we expect from the different strategies?

- Short duration funds: we believe that the front end will remain a relative safe haven, and we believe that we could see potential returns of 3.5-4%.
- Global High Yield: we believe that this has a potential return range of 4-6% – with market defaults low, we expect excess spreads to be more than robust for any expected volatility coming from the interest rate environment. However, the long end is a real puzzle and there will be volatility here if inflation remains sticky. Nonetheless, in my view, spreads are wider than they should be given equity cushions, the amount of debt being used to service interest and the quality of the market (i.e. percentage in BB rated credits).
- The Multi Asset Credit Fund (MAC) is two-thirds invested in floating rates and I believe that this has also has a prospective returns range of 4-6%. In my view, this strategy benefits from its starting yield point and its relative rate immunity should provide some protection for the year ahead if we start to see rate rises.

Interest rates will probably be negative for returns overall, but may not be as bad as some fear.

In summary, we anticipate a good year ahead for global high yield markets – following the market turbulence in the summer, the safety cushion should be big enough to cope with most foreseeable scenarios. Those who are less familiar with global high yield may be less aware of the significant improvement in the quality of the asset class. We've written about this in detail, but the key point is that the high yield market is much higher in quality than it was several years ago and broad analyses over the longer term tend to miss this.

As an aside, I note that at the time of writing, cryptocurrencies have a market capitalisation of c $2.5tn – which is very similar to global high yield markets. At the current ratings for high yield, I know which one I would rather be in!

Craig Inches
Head of Rates and Cash

Craig Inches is Head of Rates and Cash at RLAM, responsible for the management and oversight of RLAM's rates and cash business. Craig works closely with Paul Rayner (Head of Alpha Strategies) and the rates team to manage a suite of solutions ranging from enhanced cash through sovereign and global bonds culminating in absolute return. Prior to RLAM, Craig was an Investment Director with Scottish Widows Investment Partnership, where he gained extensive cash and fixed income experience. Craig has an MSc in Investment Analysis from Stirling University, a BSc (Hons) in Actuarial Mathematics and Statistics from Heriot-Watt University and is an associate of the UK Society of Investment professionals.

> "The key metric we are monitoring is wage inflation – particularly increased real average earnings."

Is this the year to decrease interest rate risk?

The recovery and inflation trades were the dominant themes of 2021 – a tough environment for global government bonds which provided negative absolute returns for the year, as yields trended upwards from low levels. However, with inflation expectations growing and nominal yields on the rise, real yields reached all-time lows. This saw global index-linked government bond funds perform very strongly and significantly outperform traditional government bonds last year. Looking into 2022, we expect nominal yields to continue creeping higher, as central banks begin to remove support from markets. We also expect buoyant global inflation markets to cool somewhat, pulling real yields higher from their all-time lows.

Waning monetary policy support will see yields trend upwards

Nominal yields are likely to rise in 2022 as central banks begin to remove monetary support, including rolling back vast quantitative easing (QE) programmes that have been in place since the beginning of the pandemic, and rising interest rates from record low levels. Most global government bond markets are well priced for rate rises at the short end at present – i.e. bonds between 0 and 10-years in maturity – so we expect the most significant yield rises to come from longer-maturity bonds, causing curves to steepen globally.

In the UK, quantitative easing ended in December, and the Bank of England (BoE) increased interest rates to 0.25%. However, the big debate is when rates will reach 0.5% – at this point the BoE will no-longer reinvest the proceeds of maturing bonds purchased as part of QE. The first of these bonds matures in March, so a move to increase rates to 0.5% at any point next year would be a strong tightening signal to the market. And considering that we will see the greatest net issuance of gilts in 2022 for over ten years, there is potential for softness in the gilt market next year.

The US is running a little behind the UK with the Federal Reserve (Fed) only beginning to taper QE in November 2021 and planning to remain supportive into 2022. Nonetheless, government bond yields are higher in the US than in the UK, as investors are more confident that the US market can reach a 2% Fed Funds rate sooner, likely towards the end of 2023. This is due to the US being the only major market to have generated a cycle of rate increases post the Global Financial Crisis. In comparison, the UK bank rate has stayed below 1% ever since. With US treasuries probably more fairly priced than UK gilts we feel there is less room for upwards movement in US yields, although a little movement is probable – we expect the US to perform well versus the UK on a cross-market basis.

In Europe, the European Central Bank (ECB) is not expected to raise interest rates until late in 2023, but the Pandemic Emergency Purchasing Programme (PEPP) is coming to a close in March. In December, the ECB extended the reinvestment period of maturing PEPP bonds until 2024, and announced an increase in purchasing power of the Asset Purchase Programme (APP) for the second and third quarters of 2022. We believe European periphery markets in particular are set for less monetary support this year, as many of these markets garner limited support from the APP. Government bond yields in periphery markets such as Greece, Italy and Spain all rose towards the end of 2021 in anticipation of less support, and we expect yields to continue to rise. The ECB maintained throughout 2021 that high levels of inflation are transitory – we believe that any upside surprises in inflation that bring forward tapering by the ECB could lead to a material repricing of longer-dated EU bonds.

Diversify and shed interest rate risk to protect from capital losses

At present, global inflation prints are still running high, and although the BoE has moved, other major global central banks are yet to raise rates having sustained their view throughout 2021 that inflationary pressures are transitory, and not persistent. Although central banks will likely want to remain supportive of markets during periods of coronavirus-related stress – highlighted by the global reaction to the emergence of the Omicron variant – they will have to act if inflation looks set to become persistent. This saw Fed Chair Powell drop the transitory tag on inflation in November last year and signal that the tapering of asset purchases will be brought forward from June to March this year. It also raised the potential of an earlier than expected US rate rise.

The key metric we are monitoring to this end is wage inflation – particularly increased real average earnings. With labour markets already tight and with strong growth in real average earnings during 2021 compared to historical standards – especially in the US and the UK – bumper pay rises through the first quarter of 2022 could see increases to real average earnings surpass the rate of inflation. At this point, we believe central banks would be forced to guard against inflation and raise interest rates.

While any funds that correctly predict the nature of inflation and timing of interest rate rises will reap rewards, markets can read signals incorrectly – we need only look back to November last year, when as alluded to earlier, gilt markets were surprised after hawkish comments by BoE Governor Bailey in September did not bear fruit to a rate rise. With this in mind, we believe investors should consider steps now to protect themselves from capital losses, for example by moving to shorter duration investment products and by diversifying globally.

Moving into short duration funds is an effective way to shed exposure to interest rate risk, and short-dated funds have outperformed in 2021 as a result. Global diversification, on the other hand, can help to shield portfolios from concentrated risk in specific markets. This is particularly pertinent for gilt investors, as the UK may experience incremental increases in interest rates through 2022. Moving from UK to globally focussed funds will provide access to markets that we expect to outperform the UK on a cross-market basis during 2022. Furthermore, global funds are usually shorter in duration, as the UK has one of the longest debt profiles in the world.

For investors expecting inflation to be more persistent, and therefore wanting to retain some element of inflation protection via index-linked funds in 2022, we stress that index-linked funds are also real yield funds and so also carry an element of interest rate risk. For these fund strategies, and for the same reasons, we believe that short duration and global diversification is best. However, considering the extremely strong performance of short-dated global index-linked funds relative to traditional short-dated global government bond funds in 2021, we would not expect the same level of strength and outperformance in 2022. All inflation markets have performed strongly in 2021 and we expect to see inflation expectations drift lower around the second and third quarter of 2022, with base effects beginning to roll off from April onwards.

Investment risks

Past performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested. Changes in currency exchange rates may affect the value of these investments. Portfolio holdings are subject to change, for information only and are not investment recommendations.

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