After a strong start, global equities traded off in September, resulting in moderately negative returns for the third quarter. The MSCI All Country World Index was impacted by tighter regulations in China and the threat of failure for one of the country's largest property developers. Concerns about rising inflation, global supply shortages, and a resurgence of COVID-19 also weighed on investor sentiment.

The S&P 500® Index outperformed other major regional benchmarks, thanks to positive earnings statements and dovish comments from Federal Reserve Chair Jerome Powell. U.S. equity market sentiment turned in September on concerns over persistently high COVID-19 case numbers, decelerating economic growth, and rising inflation, with the consumer price index hitting 5.3% for August as supply constraints squeezed the economy. The Fed guided to start asset tapering as early as November. The S&P was slightly positive for the quarter overall, but September was the worst month for the benchmark since March 2020.

As rising vaccination rates in Europe brought COVID-19 under control and allowed economies to reopen over the summer, consumption indicators improved. The recovery led to an uptick in company performance. Markets marched on to new highs in August before succumbing to volatility in the second part of the quarter as concerns around shortages, inflation, and energy supply intensified.

China's deepening regulatory crackdown continued to make headlines as the government unveiled measures to promote common prosperity. Some steps targeted individual companies, while others addressed broader sectors, such as rules to limit gaming by children under age 18 to three hours a week or to shake up the private education system. The threat of default at one of China's largest real estate groups, Evergrande, caused further investor uncertainty in September.

Elsewhere, emerging markets diverged. India continued to bounce back as GDP growth rebounded despite spiking COVID-19 infection rates. As the country began to contain the virus, confidence in its recovery led stocks to record levels in September. In contrast, Brazil faced strong headwinds from an upsurge in COVID-19 and a spike in inflation to almost 10%, prompting its central bank to raise interest rates in September for the fifth consecutive time to 6.25%.

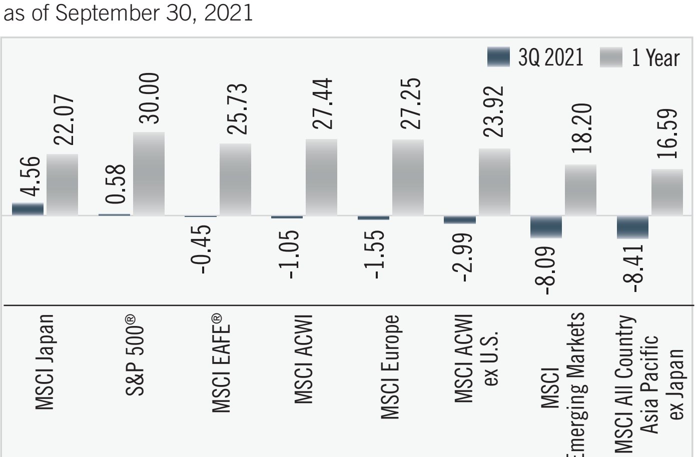
## FINDING GROWTH

Expectations for the direction of interest rates are the key driver of the markets today, and even weaker economic data are often interpreted by investors as positive since it may mean looser monetary policy for longer.

In our view, quality consumer staples companies are predictable, durable, and can deliver high-single-digit or low-double-digit returns driven by earnings growth. However, the market for consumer staples has become tougher due to changing consumer behavior. COVID-19 has added to the challenges for those companies, yet we feel they continue to play an important role in investor portfolios and show their real resilience in a downturn. Coca-Cola is an example of a consumer company that we think has a good product portfolio and pricing power. The company has also worked to restructure internally and become more asset light. And within the alcoholic beverages space, there are opportunities for brand premiumization that can benefit from consumption tailwinds.

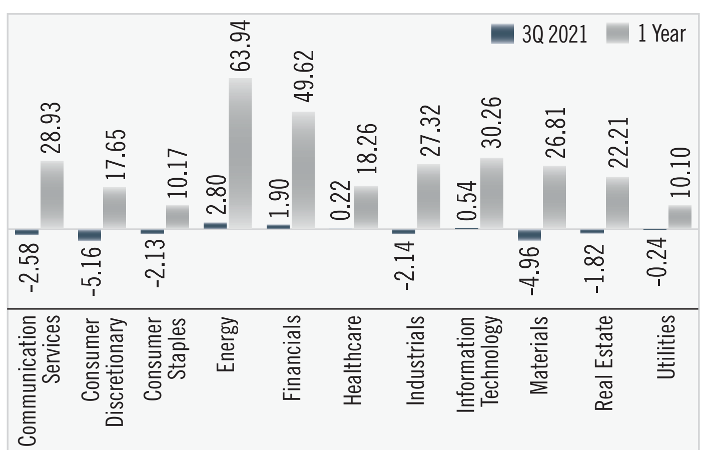
Broad-based inflation has a greater negative impact on companies that do not have pricing power. With respect to wage inflation, the resulting labor shortages are also disproportionally impacting certain industries, such as hospitality, and staffing shortages in some manufacturing firms can lead to production disruption. We continue to invest in businesses we believe are resilient and have pricing power.

**GLOBAL MARKETS PERFORMANCE (%)**
as of September 30, 2021




Source: Vontobel Asset Management, citing data obtained from FactSet, MSCI, and Standard & Poor's. Index definitions are found on page 2. Expressed in U.S. dollars. **Past performance is not indicative of future results.**

**MSCI ALL COUNTRY WORLD SECTOR PERFORMANCE (%)**
as of September 30, 2021




Source: Vontobel Asset Management, citing data obtained from FactSet and MSCI. Net returns, expressed in U.S. dollars. **Past performance is not indicative of future results.**

## OPPORTUNITIES IN EMERGING MARKETS

While emerging markets struggled in the third quarter, the growth potential of many companies is not fully appreciated by the markets. We believe opportunities exist for many quality businesses in the emerging markets to increase market share at a faster rate than those in developed markets. For example, Shanghai M&G has 18% of China's stationery business and is developing new categories such as business-to-business, and Voltas in India, a leader in air conditioning, is taking market share in the recently entered white goods space.

EM economies have not provided the same level of COVID-related stimulus as developed economies, which has resulted in their relatively healthier balance sheets and more sustainable fiscal positions. But we have seen sufficient stimulus, particularly in India, where its central bank has provided liquidity that has allowed credit growth to resume. And China still has capacity to loosen monetary policy, though it will be targeted given its longer-term deleveraging policy.

In China, the gaming, real estate, education, and healthcare sectors are likely to remain under a cloud of regulation for the medium to long term and unlikely to resume the growth trajectories they had prior to the crackdown. However, the consumer sector has been less impacted by regulatory risk, and there should be relative winners in the internet space, automation, electric vehicles, and battery technology.

Evergrande's impact is spread across several regional banks. We don't expect a systemic default scenario, although we do anticipate an increase in non-performing loans. The Chinese government is focused on reducing leverage within the more highly leveraged developers, which could result in defaults. Further, we anticipate investment in the property sector to decline by roughly 10% over the next 12 months, which has implications for commodities, such as iron ore and steel.

In our view, India's economy is well positioned for recovery after having endured strong macro headwinds. We believe there is a large set of quality businesses in India with strong, underlying idiosyncratic drivers across the consumer, financials, and internet spaces.

We believe stable and predictable businesses are important in a portfolio during down market periods, while offensive companies are helpful when markets are growing strongly. In our view, it is possible to find quality companies with good visibility across a range of sectors today.

**Authored by:**
The Vontobel Quality Growth Investment Team

Vontobel Asset Management believes that long-term, stable and superior earnings growth drives investment returns over time. They pursue this by seeking sensibly priced high quality companies that can grow earnings faster than the market on a sustainable basis.

**Index definitions: MSCI All Country (AC) World** measures equity performance of developed and emerging markets. **MSCI EAFE®** measures developed foreign market equity performance, excluding the U.S. and Canada. **MSCI Europe** measures equity market performance of Europe's developed markets. **MSCI Japan** measures performance of the Japanese market's large and mid-cap segments. **MSCI AC Asia Pacific ex Japan** measures equity market performance of Asia's developed and emerging markets (excluding Japan), Australia and New Zealand. **MSCI Emerging Markets** measures equity market performance in global emerging markets. **MSCI AC World ex US** measures equity performance of developed and emerging markets, excluding the U.S. **S&P 500®** measures performance of 500 of the largest U.S. companies. All indexes are free float-adjusted market cap-weighted and calculated on a total return basis with dividends reinvested.