Q3 23 SEEKING QUALITY AND RESILIENCE AS UNPREDICTABILITY RISES

MARKET REVIEW AND OUTLOOK

Vontobel

Global equity markets declined in the third quarter as concerns around an economic downturn and the potential for higher interest rates over an extended period weighed on investor sentiment. U.S. equities fell after the Federal Reserve (Fed) signaled there could be fewer rate cuts in 2024 than investors had expected. The lack of certainty around U.S. rates continues to be a dominant theme for investors, leading to increased volatility. We are concerned about the impact of higher rates on the housing sector and the strength of the consumer.

While it is difficult to predict the timing of a recession, data indicate the economy is heading towards a slowdown. Consumer confidence deteriorated over the quarter with credit card and loan delinquency levels rising. We expect consumer spending, which remained fairly resilient this year, to slow.

There were political concerns to digest over the quarter. As the House struggled to agree on a budget solution, a federal government shutdown was barely avoided at the end of the quarter, and auto worker strikes also threatened growth. Turmoil in Congress highlights the risk of unexpected shocks that may tip the U.S. into recession. In our view, a focus on quality can provide resilience as we enter a more unpredictable period.

EUPHORIA AROUND AI

Artificial intelligence (AI) has generated excitement and expectations of a burst of growth in hardware companies geared towards building out server capacity, although these tend to be more capital-intensive, cyclical businesses and thus more volatile. We tend to invest in predictable, sustainable, higher-quality businesses with long-term demand growth. Further, we believe the optimism around AI and some complacency around the notion of a lower interest rate environment in the future have fueled higher valuations for some technology stocks.

In our view, the future of AI is still relatively uncertain. There is a risk that some companies will de-rate as AI expectations are tempered. Further, most companies depend on the smartphone and PC segments, where demand is currently weak, and may miss recovery expectations.

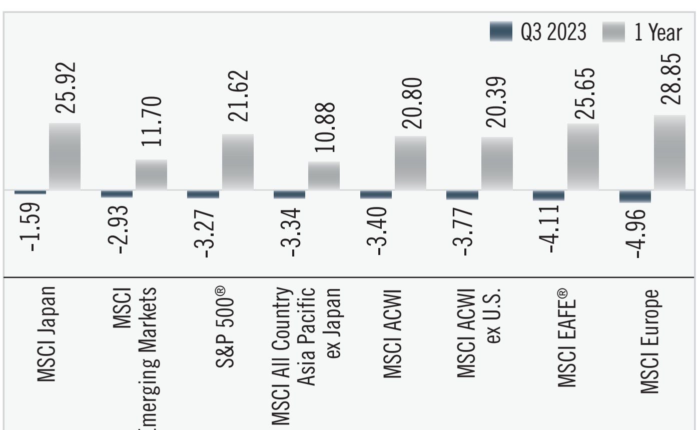
CHINA'S PATCHY ECONOMIC RECOVERY

On the international stage, geopolitical risks remained elevated as relations between the U.S. and China remained fractious. President Biden issued an executive order restricting U.S. investment in some Chinese technology, prompting calls for more clarity.

Economic signals from China were mixed. Factory output declined for the fifth straight month in August, although new orders and producer prices improved. Retail sales also picked up, signaling improving consumer appetite. People's Bank of China officials maintained that GDP should grow slightly more than 5% this year as it unleashed stimulus to boost the recovery.

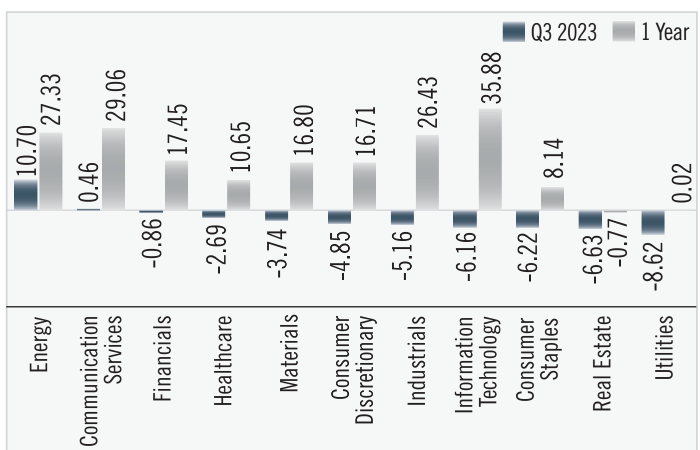
China's recovery from the effects of COVID has been difficult and disappointing compared to many other economies. We have conservative expectations about China's evolution and look for companies with good visibility that are also durable and predictable. Given policy actions in China, we scrutinize our holdings very closely and evaluate them against other businesses globally to ensure that we are invested in what we believe are the best companies regardless of location or sector.

GLOBAL MARKETS PERFORMANCE (%)
as of September 30, 2023



Source: Vontobel Asset Management, citing data obtained from FactSet, MSCI, and Standard & Poor's. Index definitions are found on page 3. Expressed in U.S. dollars. **Past performance is not indicative of future results.**

MSCI ALL COUNTRY WORLD SECTOR PERFORMANCE (%)
as of September 30, 2023



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.**

Targeted government stimulus has stabilized real estate sales in China's tier-one cities, although buyers remain wary. While many investors see the series of policy measures as piecemeal, we do not expect a return to expansive stimulus. Investors should remain cautious around China's banking and real estate sectors. However, there is steady recovery in consumer companies focused on lower-ticket consumption, such as Yum China in fast food, Alibaba in e-commerce, and Tencent and NetEase in gaming.

CHINA'S SLOW RECOVERY CASTS A SHADOW ON EUROPE

Germany's Bundesbank warned that the economy is likely to have shrunk in the third quarter, while PMI data pointed to worsening conditions across the eurozone. Stalling economic performance prompted the European Central Bank to signal the top for interest rates and argue that holding rates for a prolonged period could bring inflation further under control.

While policymakers are concentrated on economic de-risking from China, companies are focused on dual sourcing in their supply chains, except for the semiconductor space. Notwithstanding the political environment, China remains an important trading partner for Europe. Auto and chemical companies have been exposed to China's slowdown, as have luxury companies, although many have been able to offset sales declines with growth elsewhere.

As we enter the second full winter of the Russia-Ukraine war, Europe's gas supply is starting from a stronger position than last year, while the continent is also better prepared with replacement and energy use management strategies. The weather will be an important factor, but the risk of negative surprises is lower.

INDIA REMAINS A BRIGHT SPOT

India's economy continued to expand with growth of 7.8% in the quarter to June, while Indonesia registered expansion of 5.2%. Indian stocks recorded strong net international inflows before investors reduced holdings in September under pressure from rising oil prices. Indian Prime Minister Narendra Modi used G20 meetings to position the country as a trusted partner for international supply chains as businesses expand beyond China.

India's valuation premium to China appears justified given the strong growth prospects in India versus the lingering uncertainty in China. In our view, Indian large-cap stocks are trading at the lower end of historic ranges. We do see some excessive valuation levels in the mid-cap space, but also some potential opportunities.

Increased Indian government spending on infrastructure, combined with private sector investment and the "Made in India" strategy, is driving strong capital expenditure growth. Among a number of attractive themes, the infrastructure growth story looks promising and could generate investment opportunities.

India benefits from a 20-30% discount on Russian crude oil and we see no near-term reason for that advantage (or the current government fuel subsidies) to end. Moreover, we believe the country's inclusion in JPMorgan's Government Bond Index-Emerging Markets should drive more foreign capital inflows and help mitigate the impact of rising oil prices.

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 World (ACWI) 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 All Country World (ACWI) 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.