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Schroder Investment Solutions

CII Sheffield

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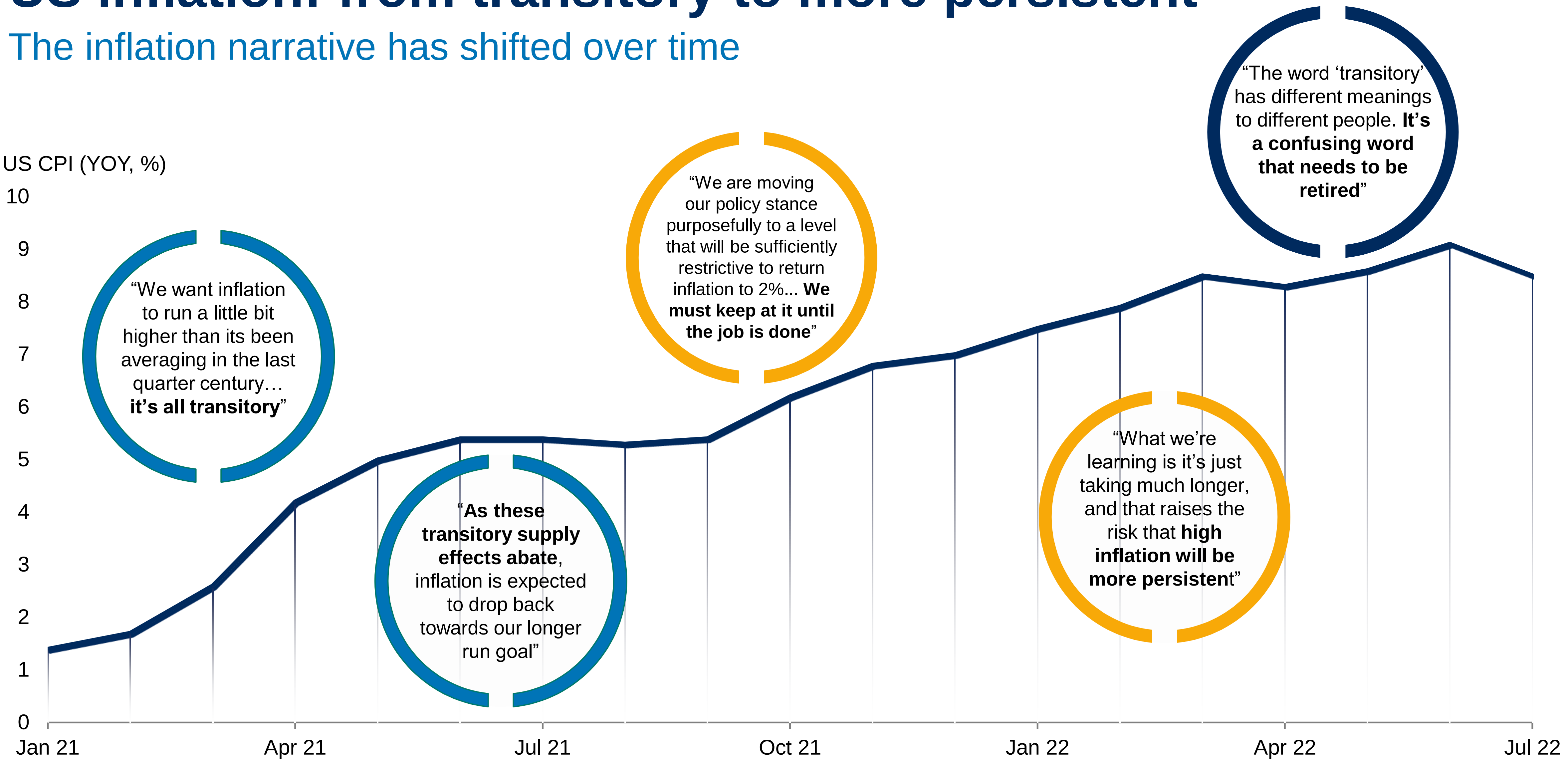
Macro Economic Drivers

US inflation: from transitory to more persistent

The inflation narrative has shifted over time



Source: Federal Reserve, Refinitiv, Cazenove. July 2022

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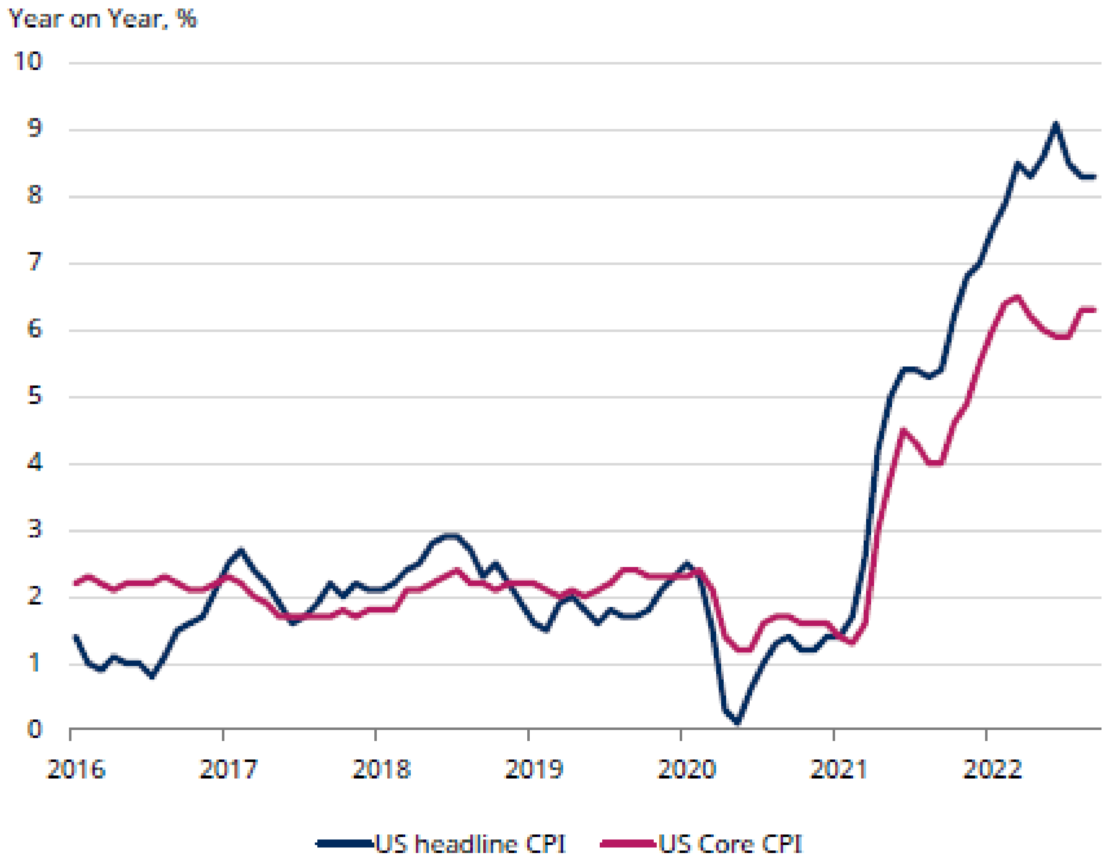
US core inflation remains stubbornly elevated

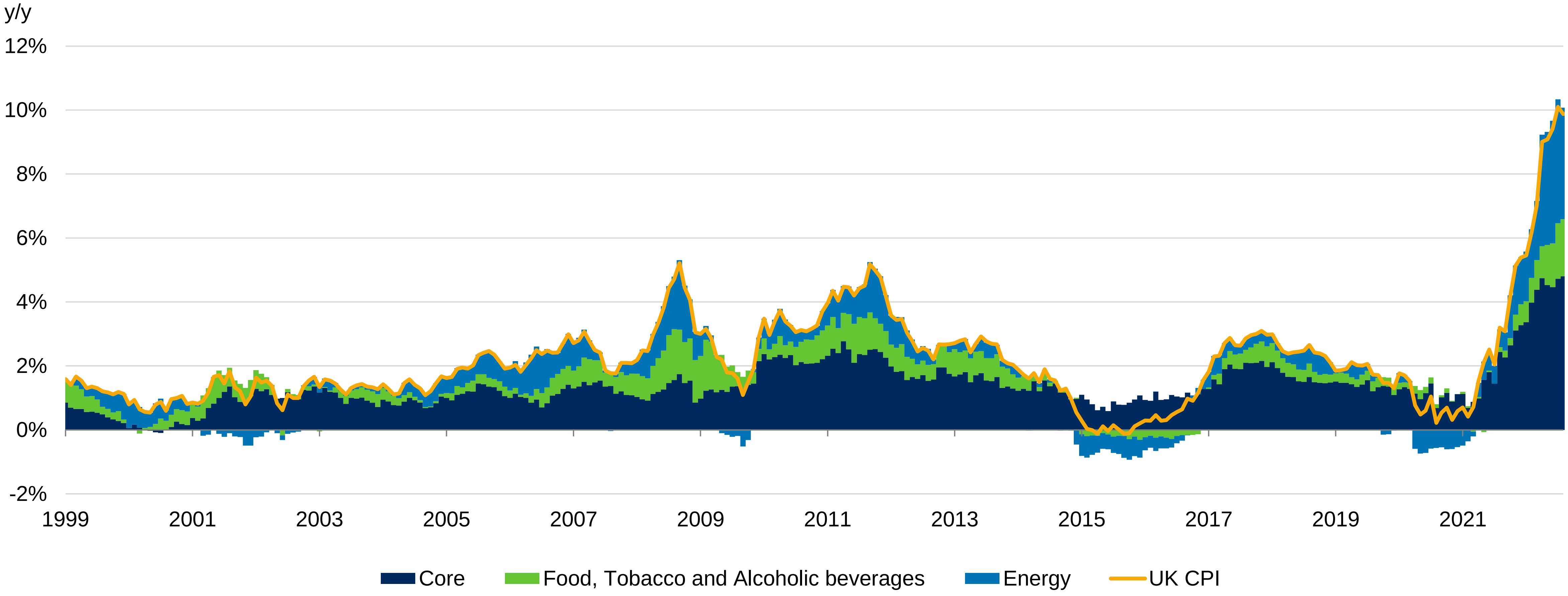
‘Sticky’ inflation continues to influence monetary policy



Source: Refinitiv, Bureau of Labour Statistics, Pantheon, Cazenove. 30 September 2022

No easy way to beat inflation

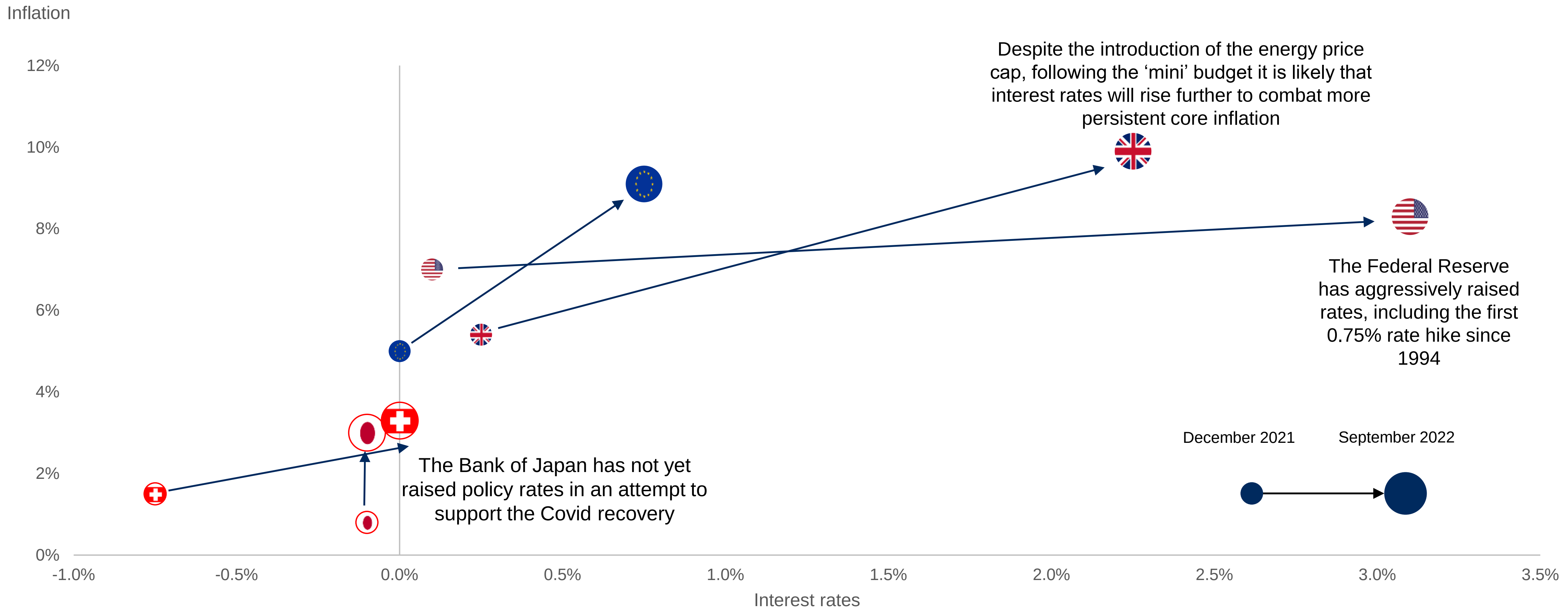
Contributions to UK CPI inflation



Source: Ofgem, Schroders Economics Group. 23 September 2022.

Interest rates have risen in response to higher inflation

UK rates could move higher in response to more challenging inflation outlook



Source: Visual Capitalist, Refinitiv, Cazenove 30 September 2022
Forecasts included are not guaranteed and should not be relied upon.

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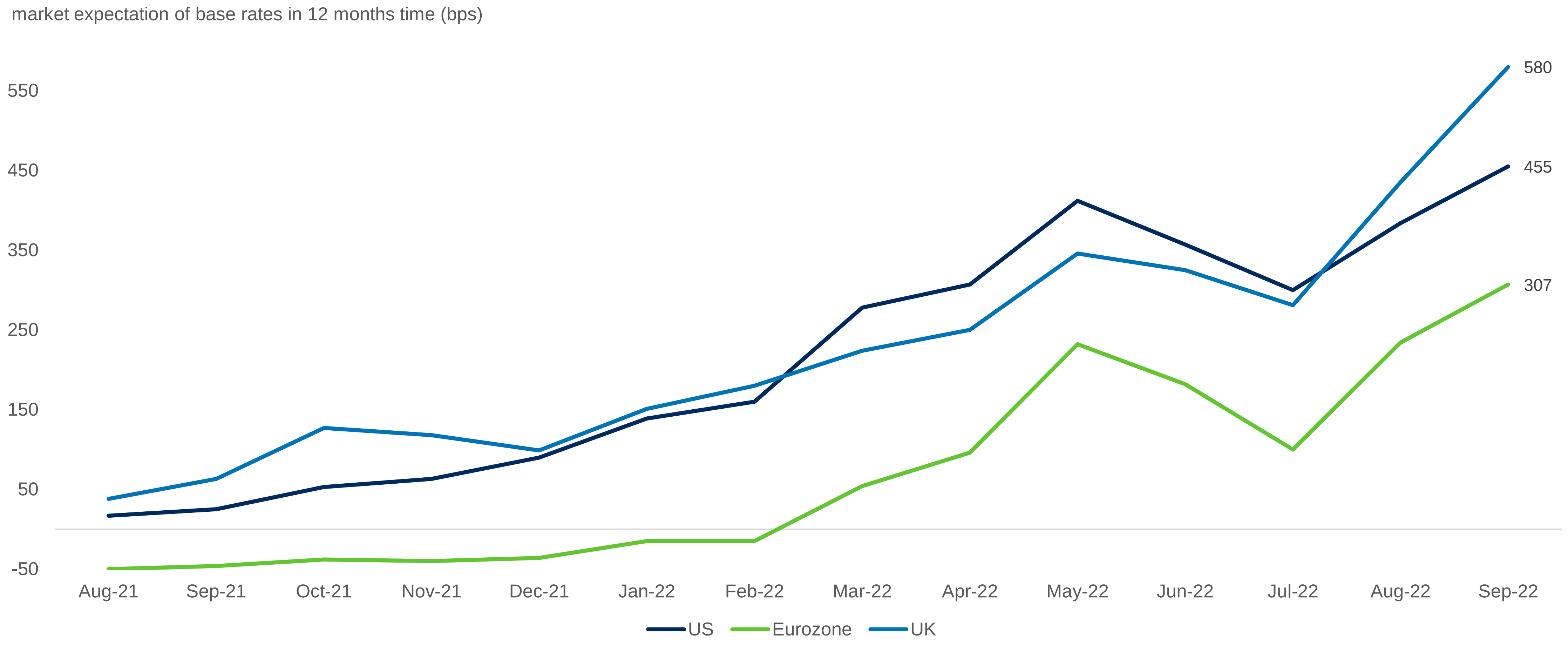
Market expectation of base rates in 12 months time

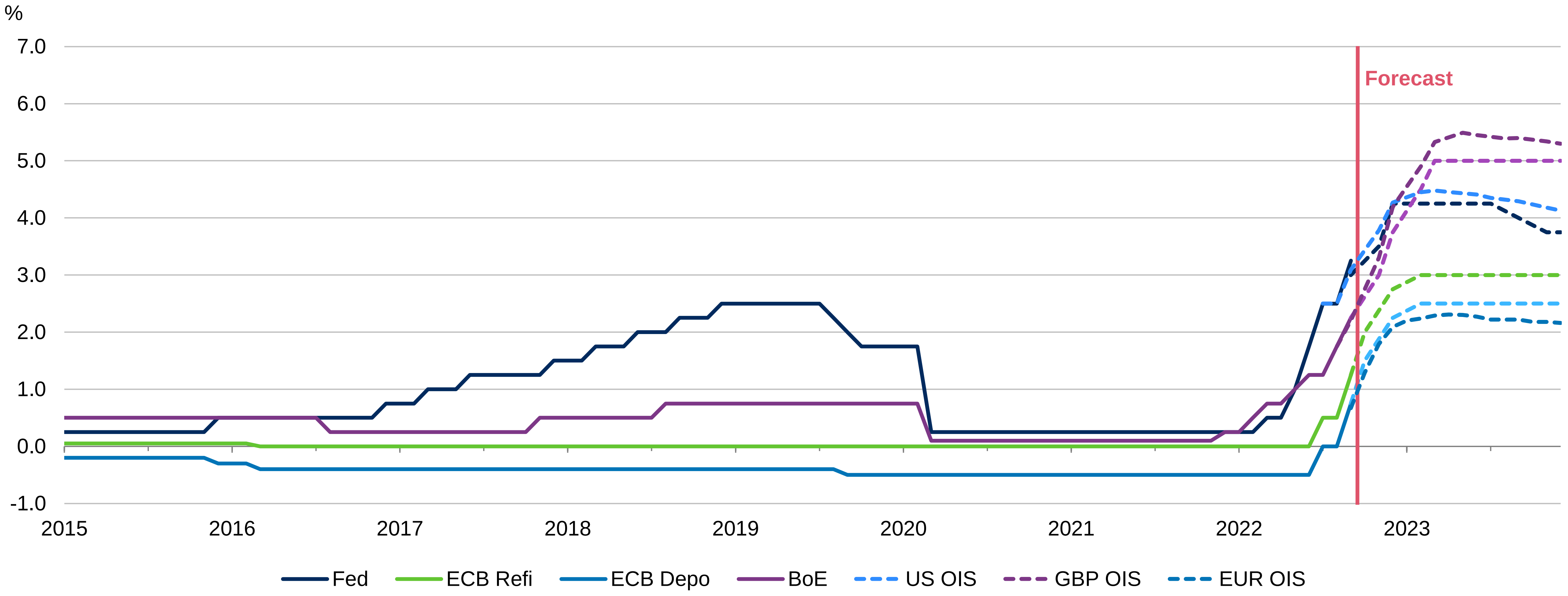
Hopes for a policy pivot fade as inflation continues to challenge central banks



Forecasts included are not guaranteed and should not be relied upon.
Source: Refinitiv

Regime shift in monetary policy

We forecast the Fed funds rate to peak just over 4%, before the Fed cuts rates H2 2023



Source: Schroders Economics Group 4 October 2022. Please note the forecast warning at the back of the document.

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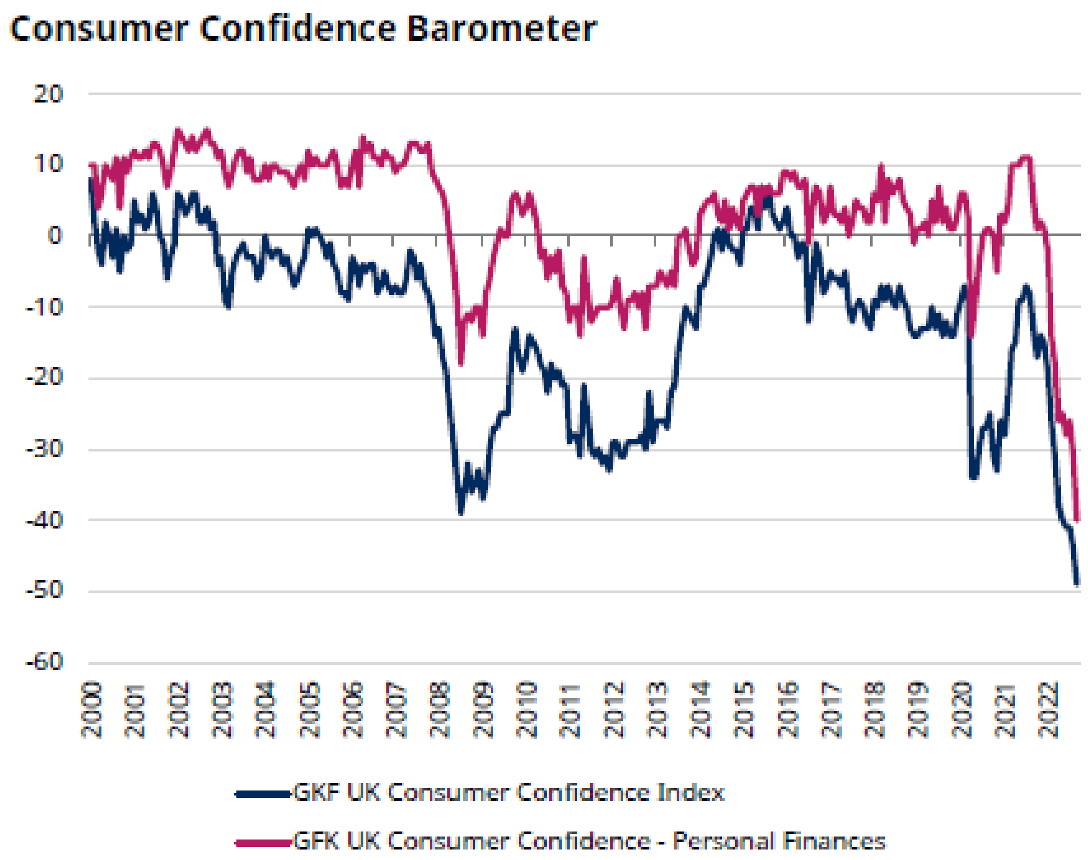
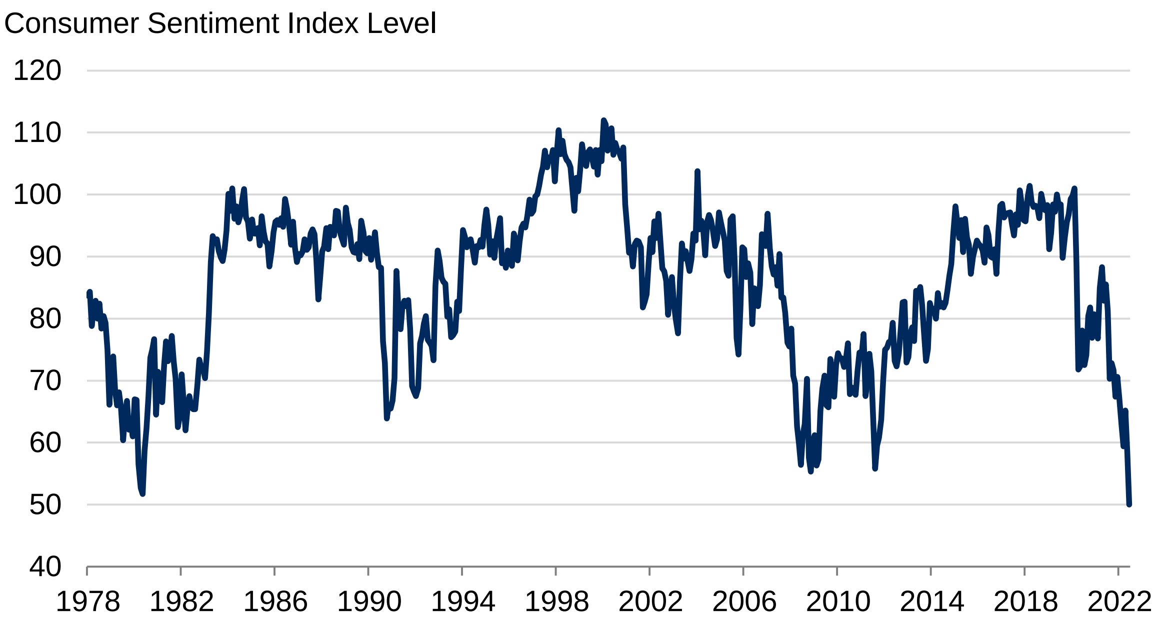
Weak consumer sentiment

Outlook for personal finances continues to worsen



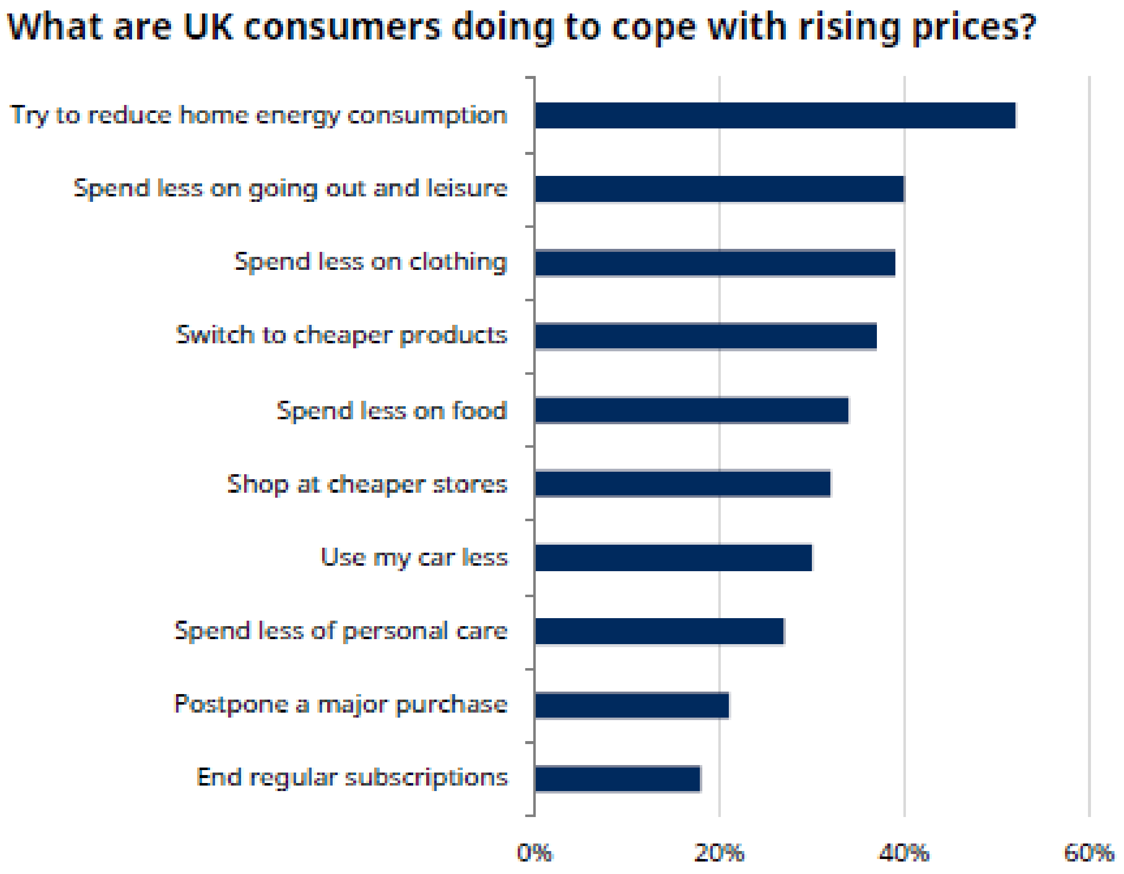
University of Michigan Consumer Sentiment Index



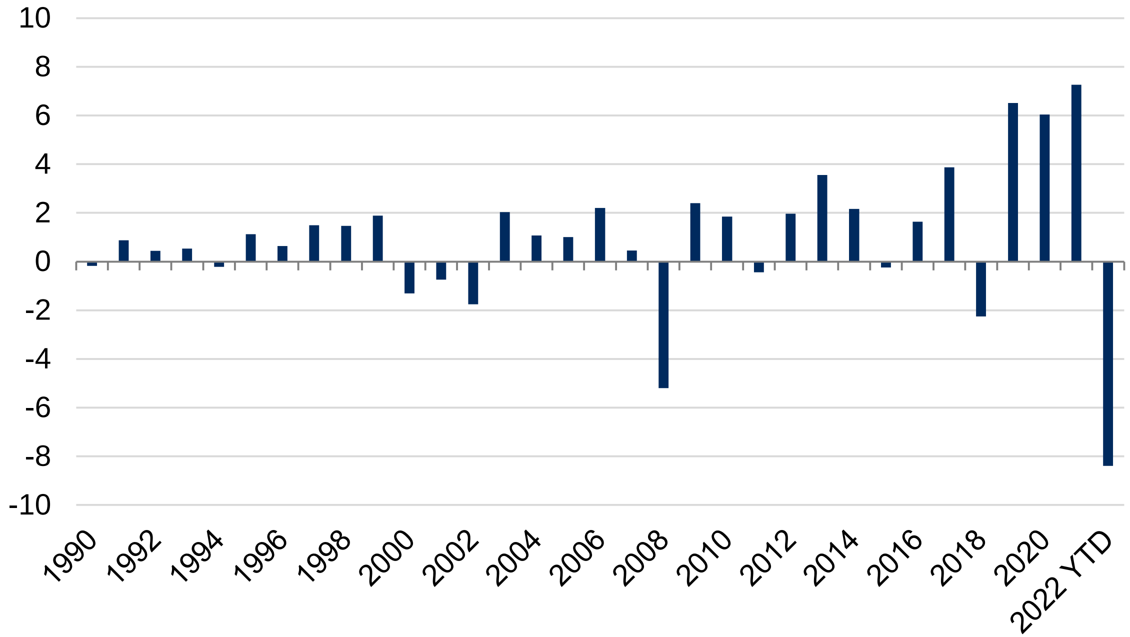
Source: GFK, Refinitiv, Deloitte Consumer Tracker Q2 2022.

Will we see demand destruction?

Falling markets may impact spending



Change in US household wealth – corporate equities and mutual fund holdings
USD, Trillions

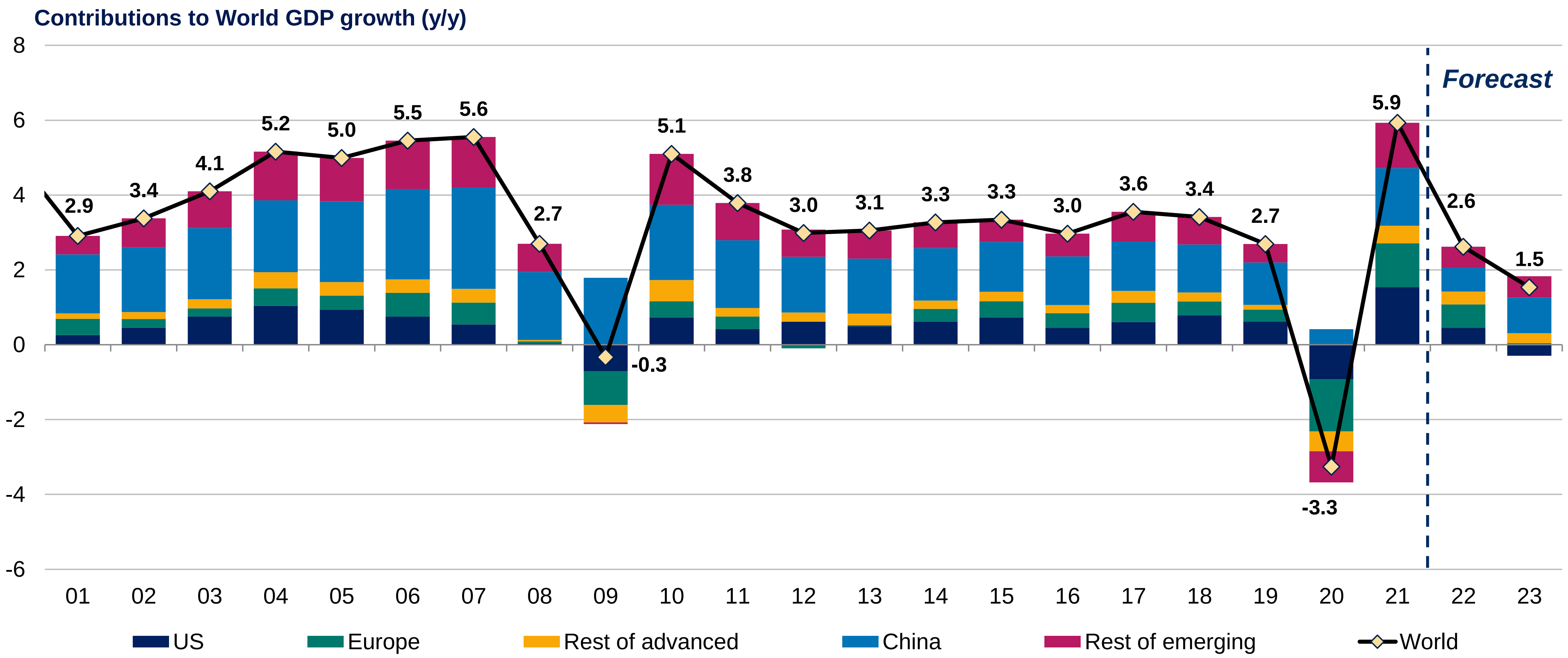


"Every dollar lost in markets translates to 3.5 cents of lost spending" – US Federal Reserve

Source: Federal Reserve, Bloomberg, Cazenove. June 2022.
GFK, Refinitiv, Deloitte Consumer Tracker Q2 2022.

Global economic growth outlook

We now expect major economies to enter recession in 2023



Forecasts included are not guaranteed and should not be relied upon.

Source: Schroders Economics Group. 16 August 2022.

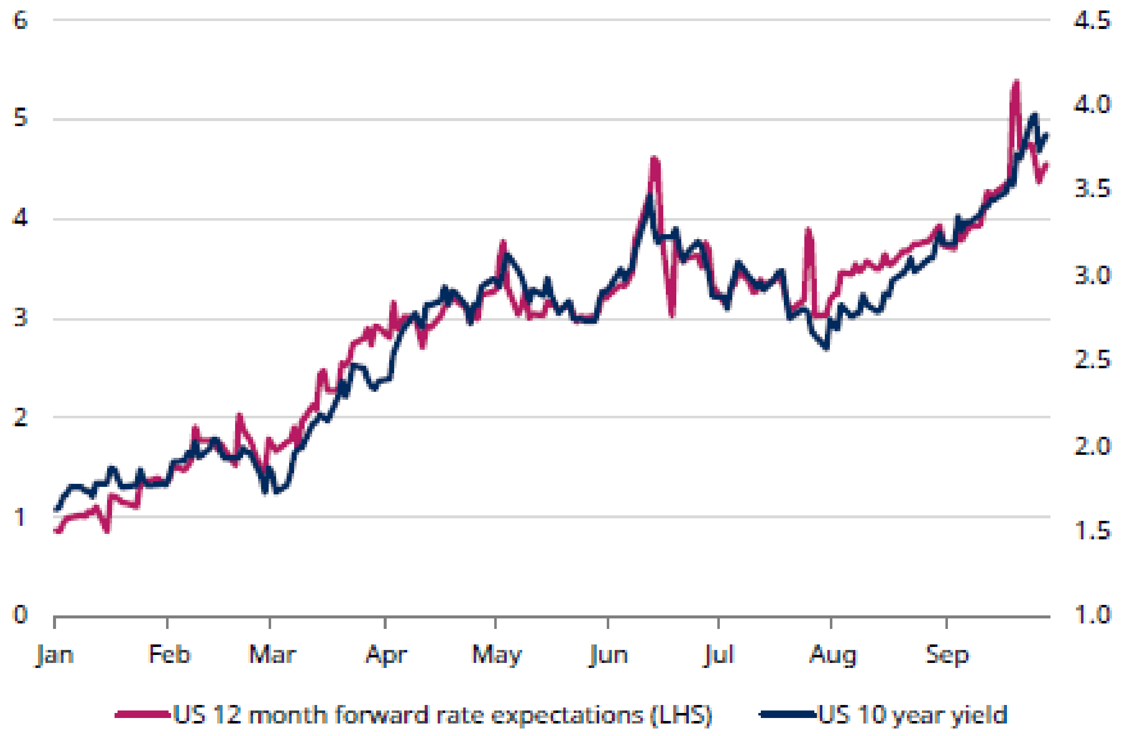
Market outlook

Market Performance

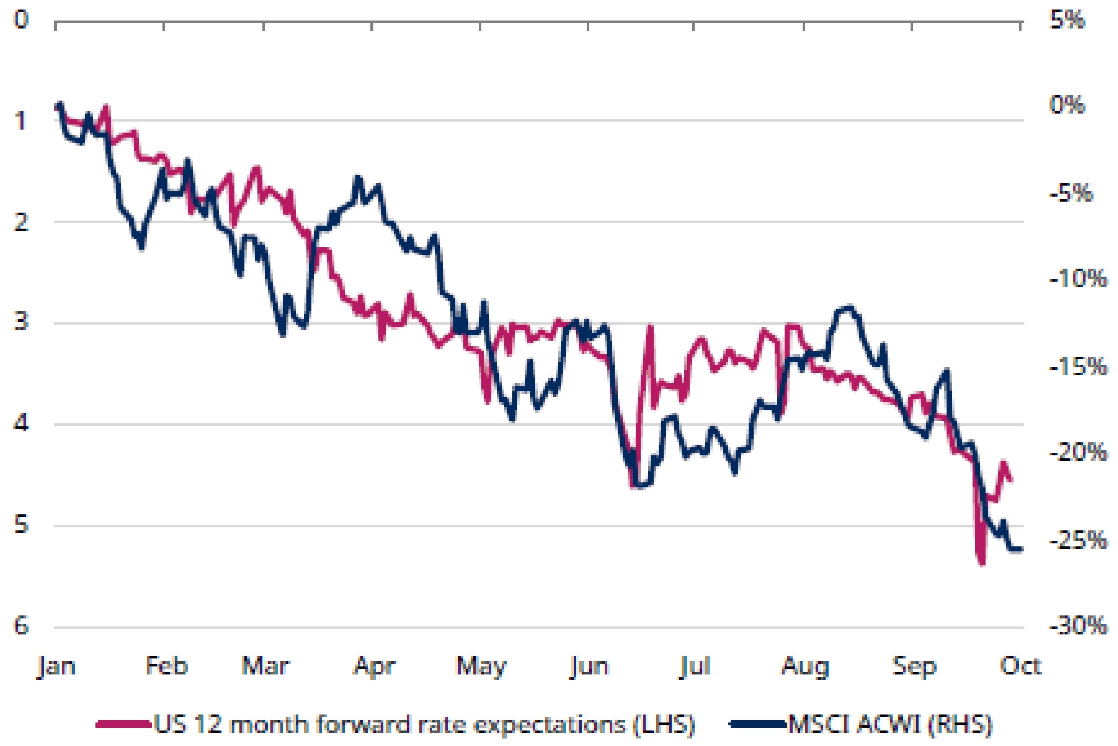
Rate expectations have been a key driver of returns this year

Both equity and bond markets have felt the pain

US 10yr treasury yields (%) vs. US 12m forward rate expectations (%)



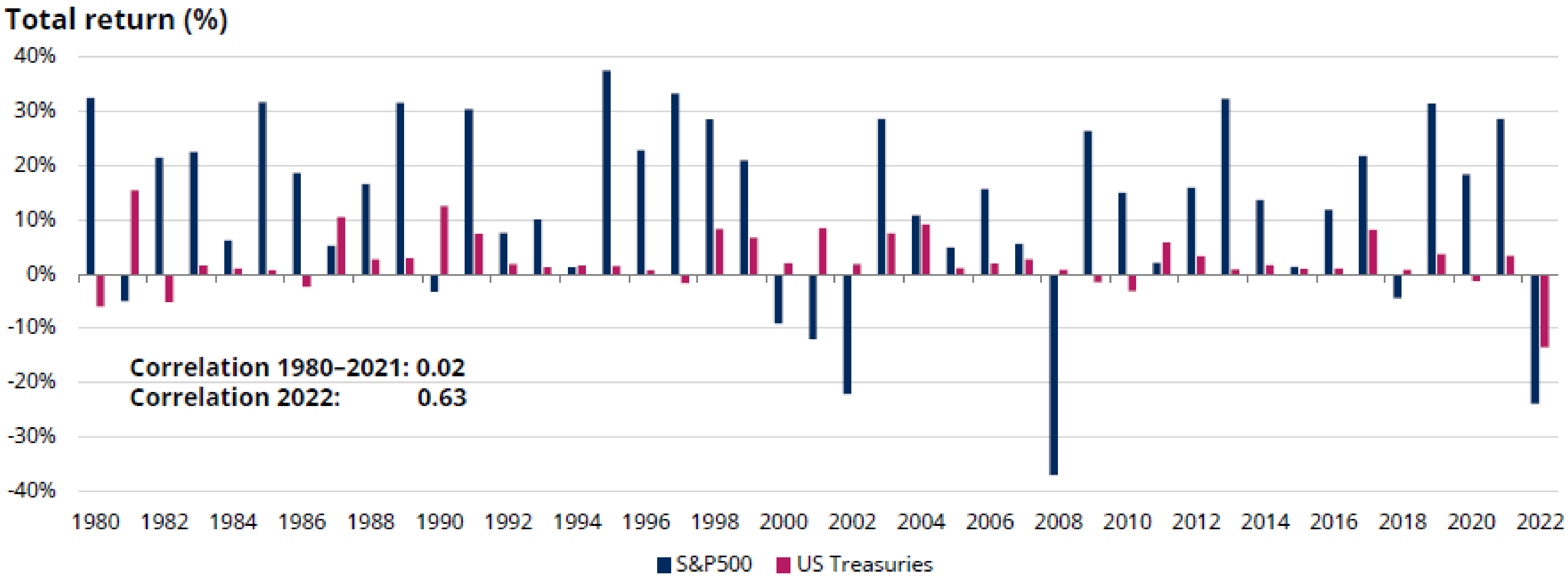
Global equities total return (USD) vs. US 12m forward rate expectations (%,inverted)



Past performance is not an indicator of future returns.
Source: Refinitiv. LHS = Left Hand Side RHS= Right Hand Side.

Bonds and equities have been more closely correlated

Little diversification across traditional asset classes



Past performance is not an indicator of future returns.
Source: Refinitiv

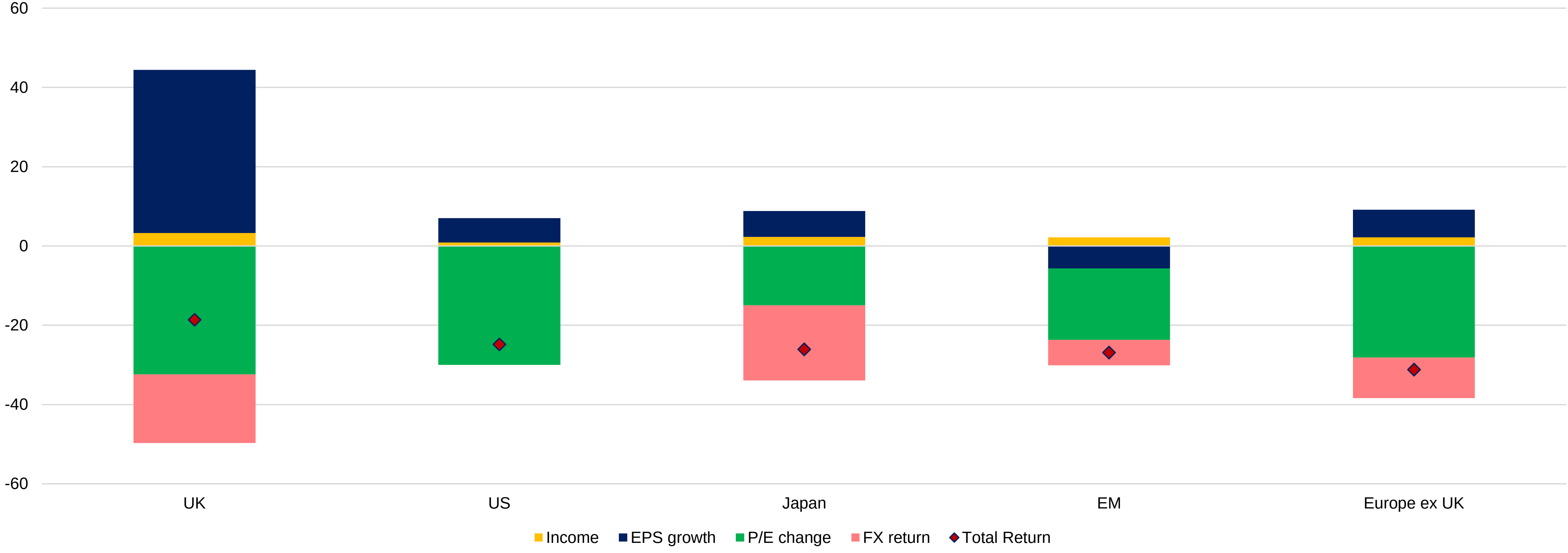
Market outlook

Equity

Drivers of global equity returns

Strong dollar has weighed heavily on non-US equity returns when expressed in USD terms

YTD return by source, %

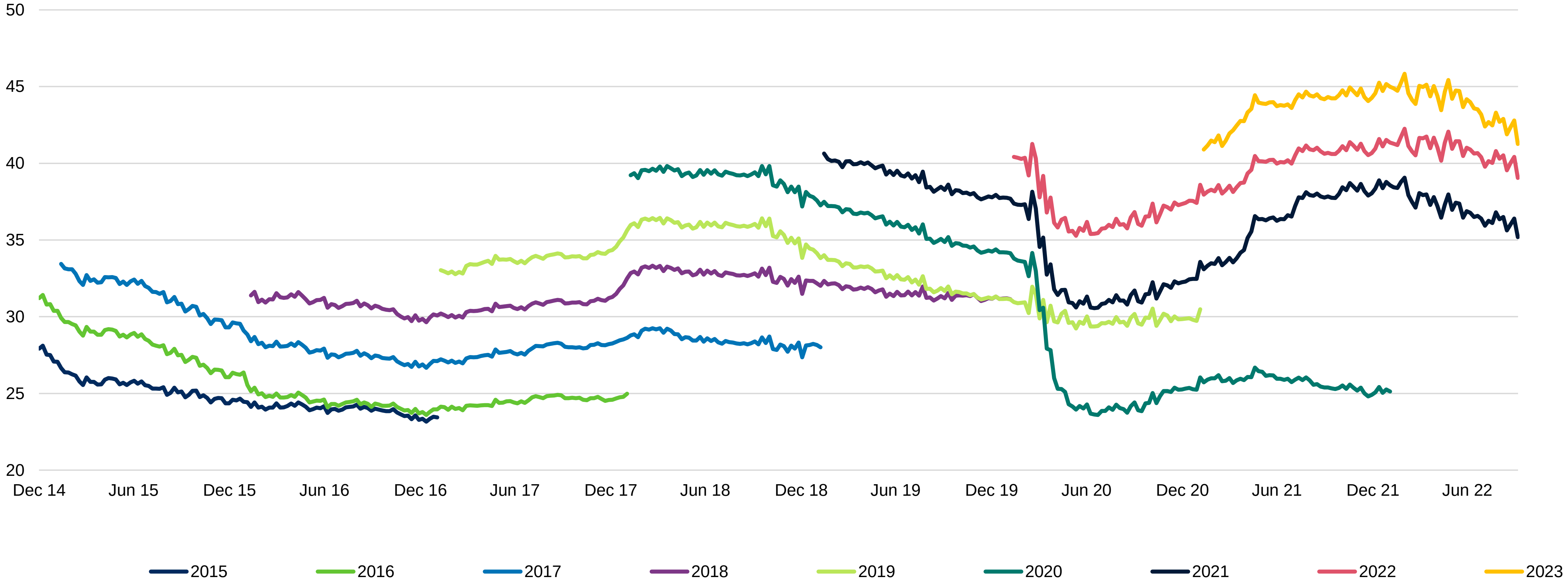


Past performance is not a guide to future performance and may not be repeated.
Source: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 30 September 2022 in US dollars.

Corporate earnings

Revisions to 2022 and 2023 earnings expectations have turned lower

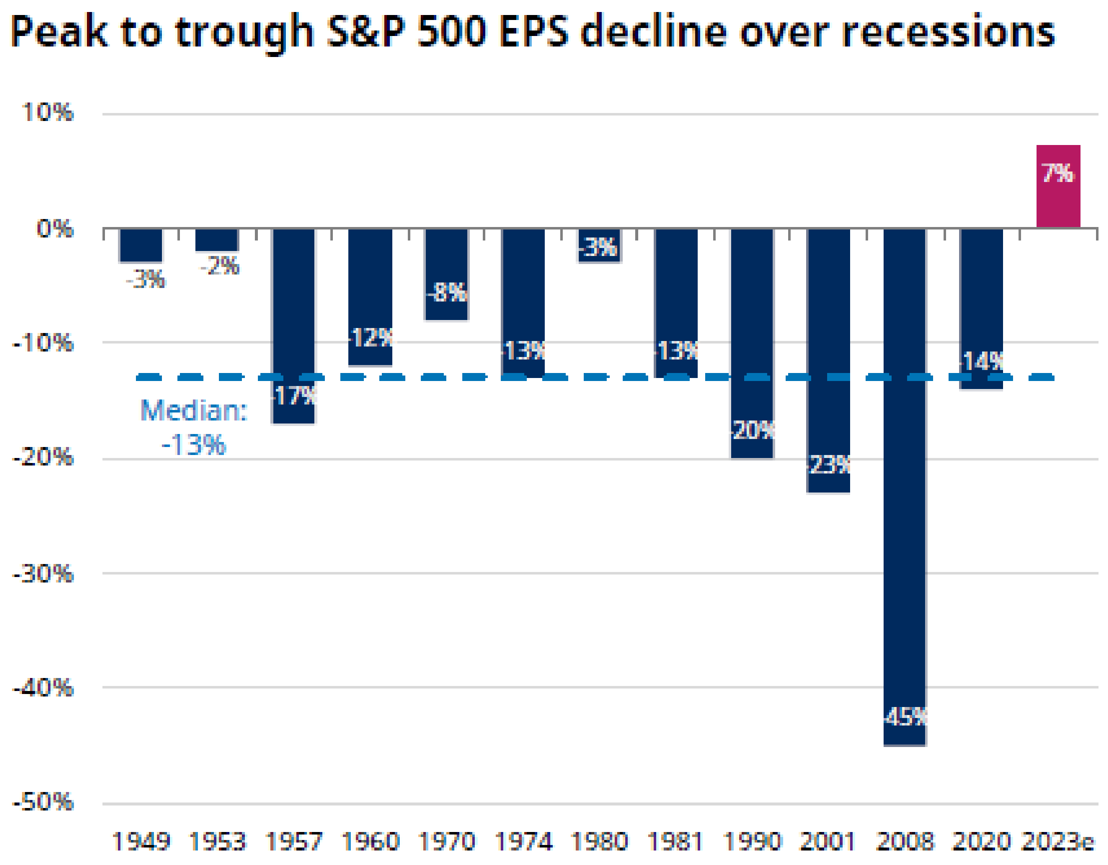
Global equities EPS forecast

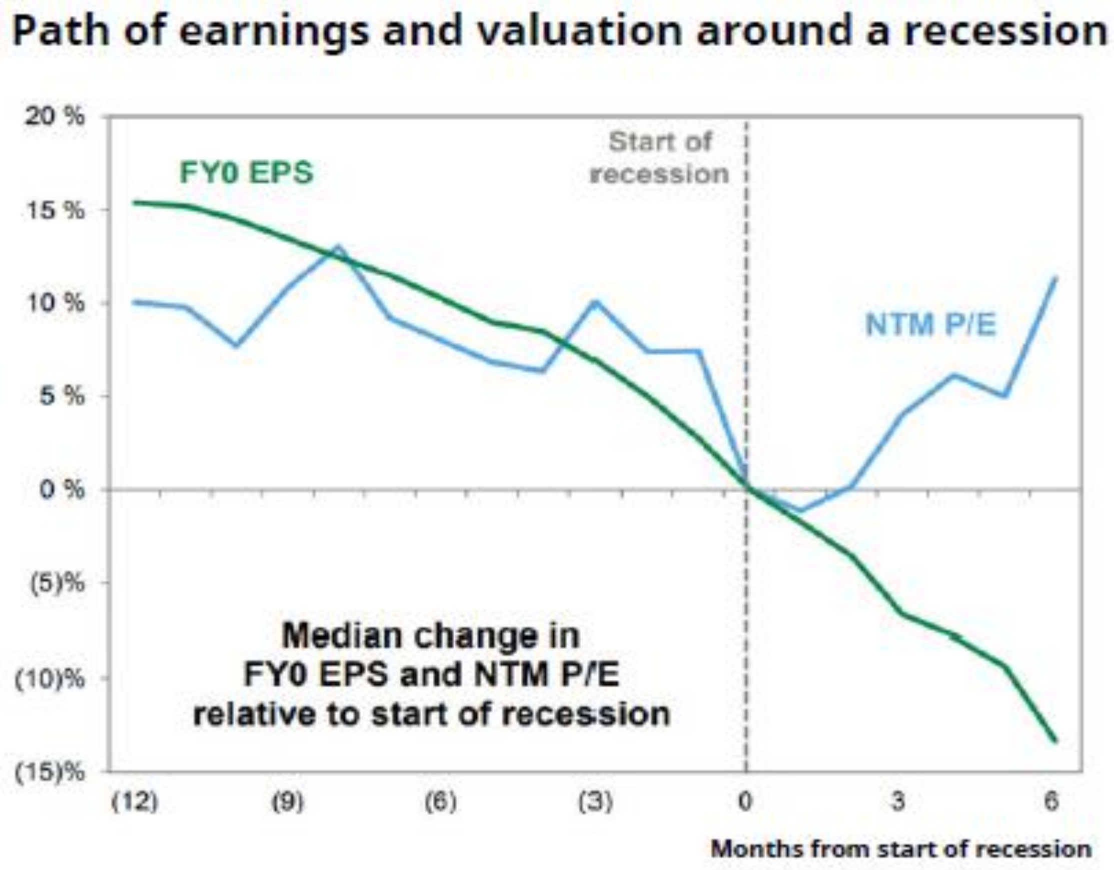


Forecasts included are not guaranteed and should not be relied upon.
Source: Datastream Refinitiv, IBES, MSCI and Schroders Strategic Research Unit. Data to 5 October 2022.
Notes: % change is the expected growth in EPS for that calendar year

Earnings

Analysts still aren't factoring in a recession, but valuations tend to bottom in advance





Source: Goldman Sachs, IBES, DataStream, Cazenove. Data to 30 September 2022. Path of earnings and 12m FWD PE based on average of last 12 recessions since 1948.

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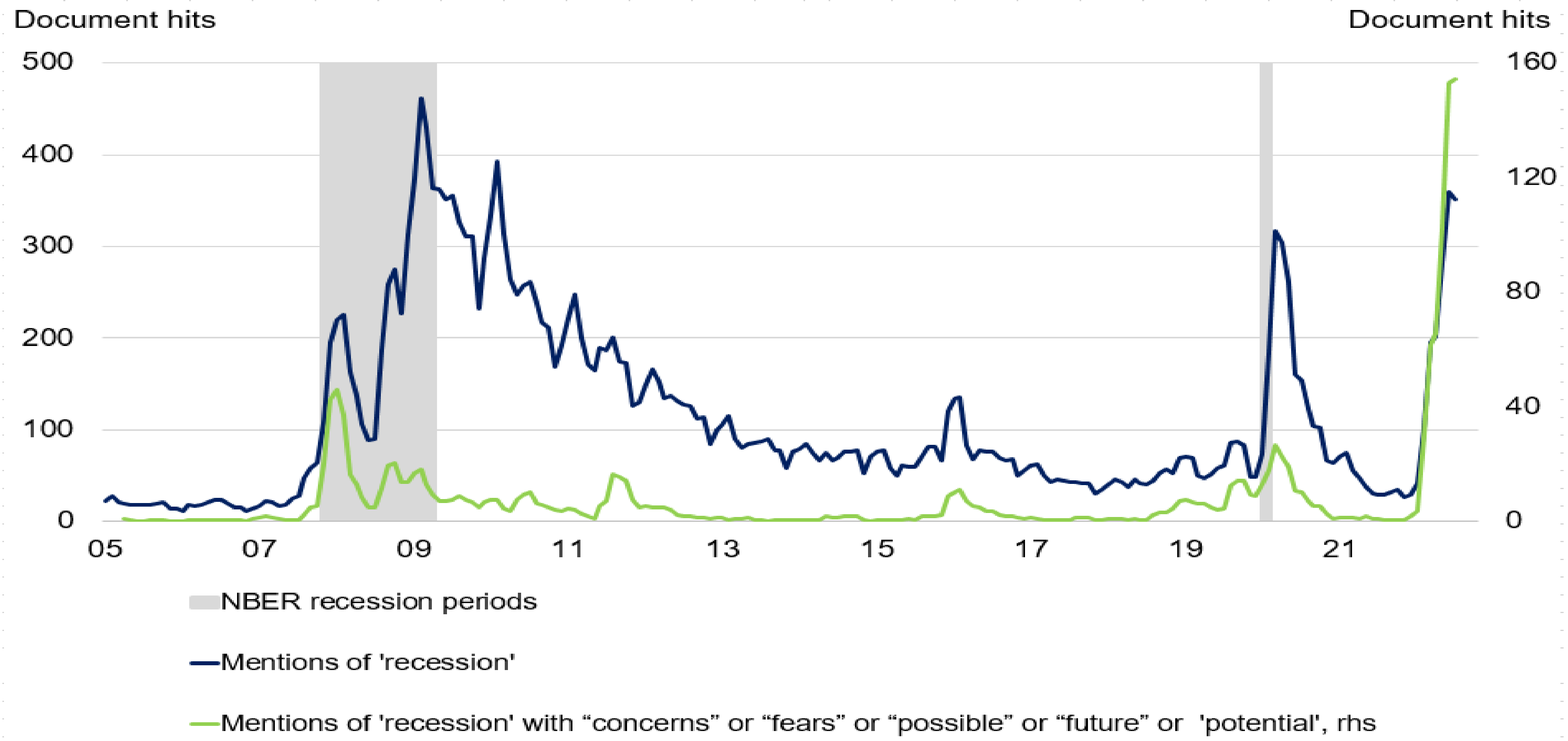
What are companies saying about recession risk?

Natural language processing can discover how many company transcripts mention “recession” alongside words like “concern” or “fears”



Source: Schroders Economics Group, Schroders Data Insights Unit, Sentieo, 30 September 2022. Note: The data is smoothed using a three-month moving average.

Recession Scenarios

S&P 500 implied forward earnings and index level

Recession Scenarios	Decline in 12m Forward Earnings	Implied 12m Forward Earnings *	Implied S&P 500 Level**
Mild	15%	$204	3670
Regular	25%	$180	3239
Severe	35%	$156	2807

Past performance is not a guide to future performance. The value of an investment and the income from it may go down as well as up and investors may not get back the amount originally invested. Forecasts included are not guaranteed and should not be relied upon. *At the trough **This is assuming 18x trough earnings

Source: MRB Partners September 2022

Regional equity valuations

Heat Map

Valuations vs. Median since February 2006

Equity market	World	UK	US	Europe ex UK	Japan	Asia ex Japan	Emerging Markets
CAPE	21.3 *21.2*	15.8 *15.2*	29.4 *26.1*	16.5 *18.0*	19.1 *23.4*	12.9 *18.7*	12.0 *16.4*
FWD P/E	14.3 *14.9*	8.5 *12.3*	16.2 *15.6*	11.4 *13.7*	11.9 *14.1*	11.5 *12.4*	10.5 *11.6*
Trailing P/E	16.3 *17.9*	10.6 *14.2*	18.3 *19.2*	13.5 *16.5*	14.6 *16.2*	12.9 *14.3*	11.5 *14.0*
FWD P/B	2.4 *2.0*	1.6 *1.7*	3.3 *2.6*	1.6 *1.7*	1.1 *1.2*	1.3 *1.5*	1.3 *1.5*
Dividend yield	2.32 *2.45*	4.13 *3.77*	1.78 *1.98*	3.42 *3.20*	2.71 *1.99*	2.94 *2.43*	3.63 *2.57*

Key: >20% | 10–20% | 0–10% (Expensive) | 0–10% | 10–20% | +20% (Cheap)

Italics denote 16 year median

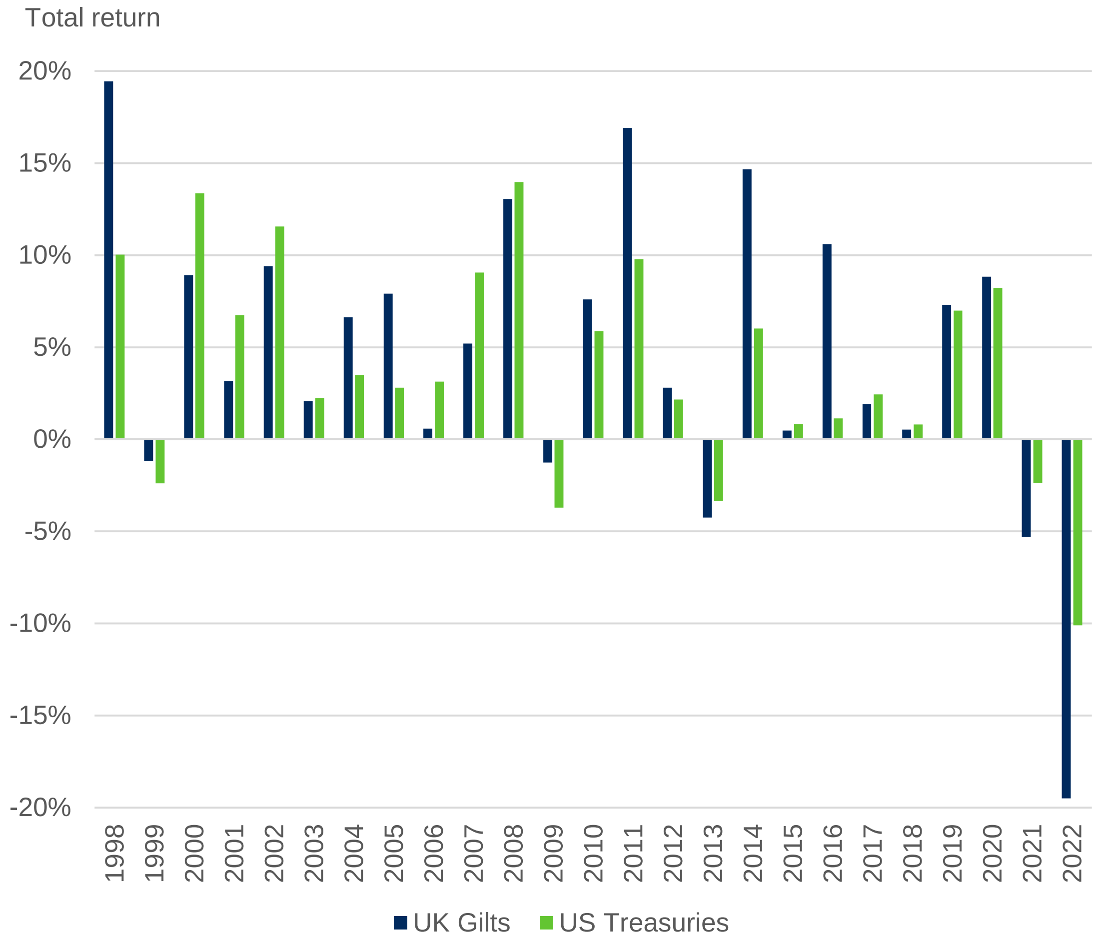
Source: Refinitiv DataStream, MSCI and Cazenove Capital. Data to 30 Sept 2022.
Figures are shown on a rounded basis. Assessment of cheap/expensive is relative to long term median in Italics.

Market outlook

Fixed Income

Better value in nominal government bonds

This year's sell off has seen government bond yields move to more than decade highs

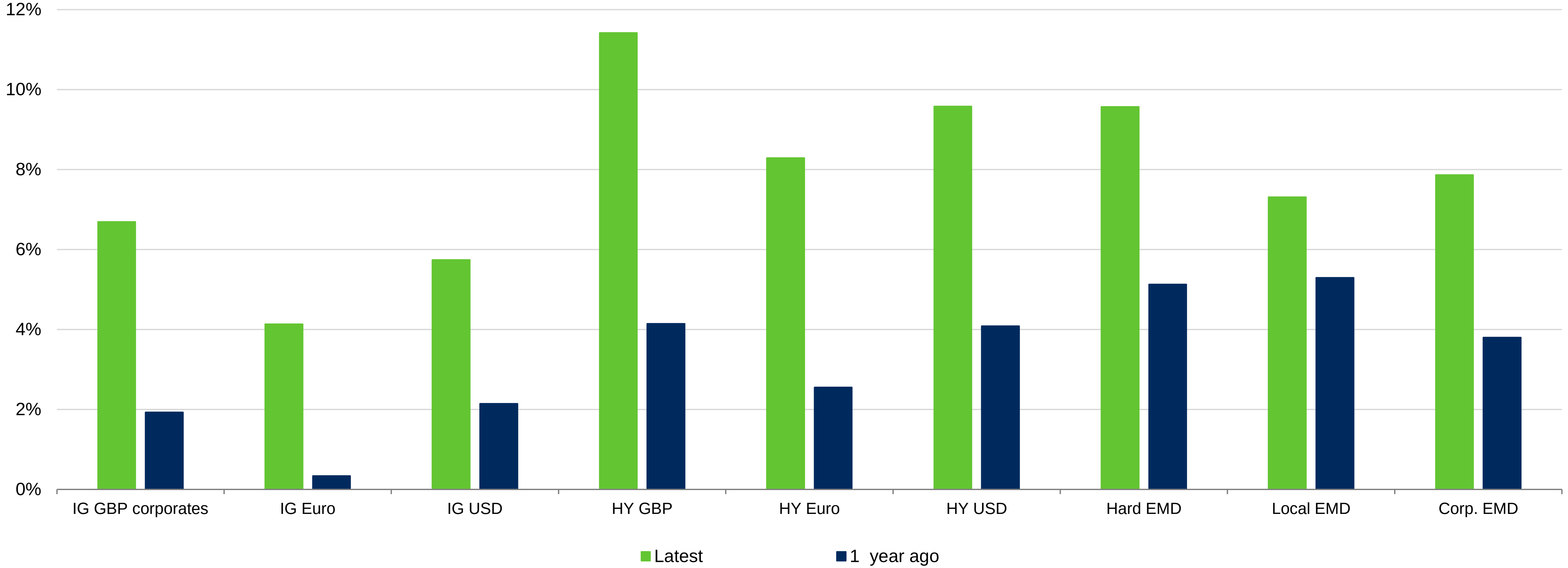


Past performance is not an indicator of future returns

Source: Refinitiv, ICE BofA, Cazenove. 30 September 2022

Global credit yields have shot higher on rising risk-free yields and wider spreads

Yield to worst



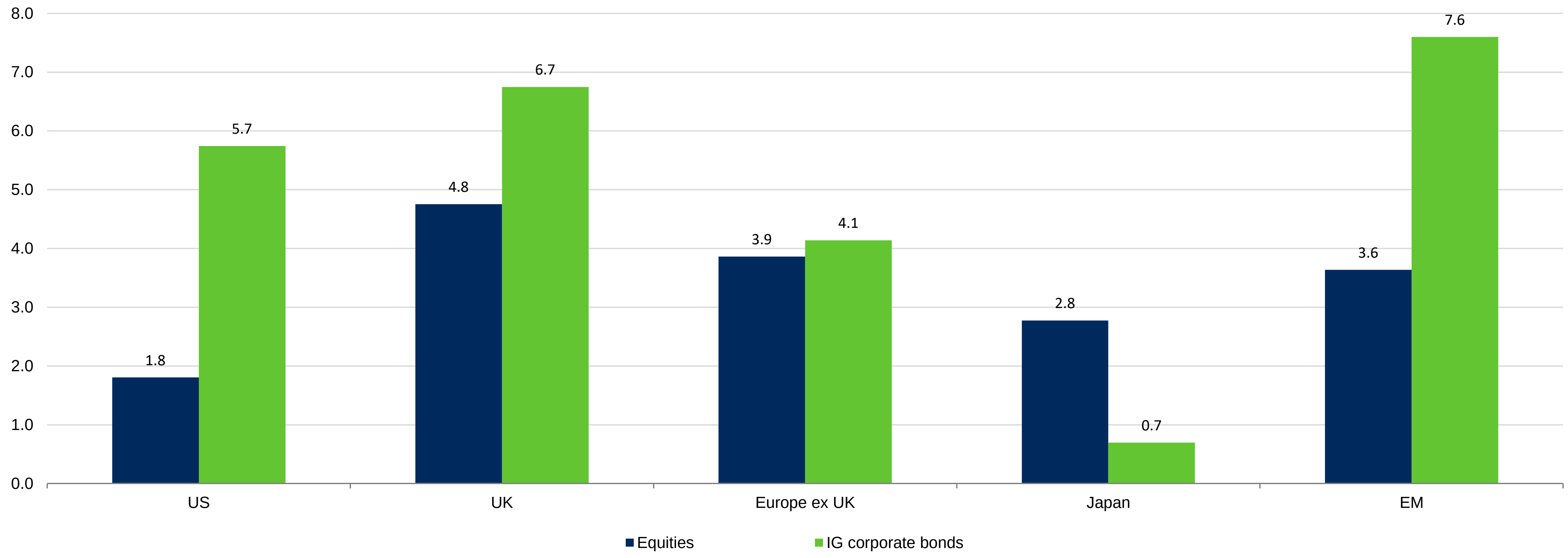
Euro IG yield was 0.4% a year ago, now it is above 4%

Source: Schroders, Refinitiv Datastream, ICE Data Indices, J.P. Morgan. Data as at 30 September 2022.

Dividend vs. bond yields by region

Rise in bond yields has taken them above dividend yields in most markets

Forward 12-month equity dividend vs. bond yield, %



Forecasts included are not guaranteed and should not be relied upon.
Source: IBES, Datastream Refinitiv, MSCI, ICE and Schroders Strategic Research Unit. Data to 31 August 2022. Corporate bond yield = unhedged local currency yield, except for EM which is in USD.

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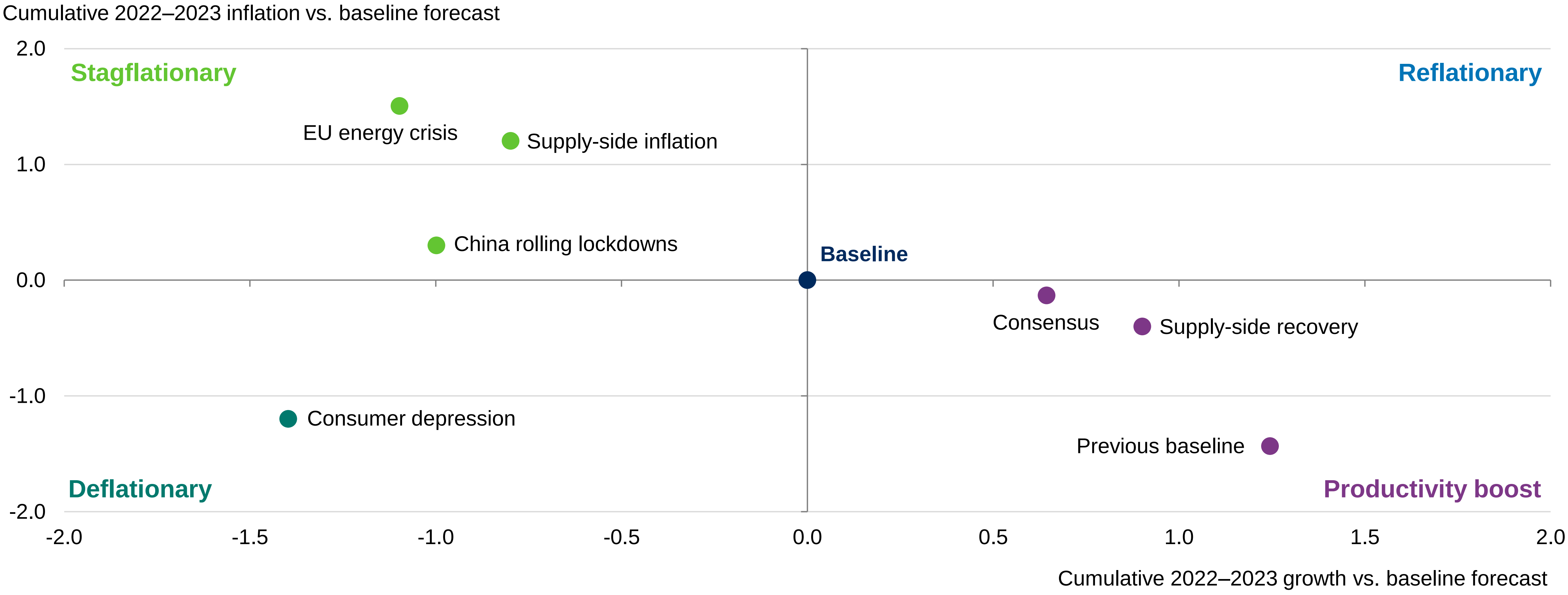
Market outlook

Investment Roadmap

Balance of risks continue to be tilted towards stagflation

Scenario grid – growth and inflation deviations from baseline



Source: Schroders Economics Group 22 August 2022.

Investment roadmap and investment implications

How to position for stagflation

Deflation

Positive:
- Nominal government bonds
- Cash (USD, JPY, CHF)
- Gold

Neutral:
- Absolute return
- Defensive equity
- Inflation linked bonds

Negative:
- Small cap / cyclical equity
- Commodities

Stagflation

Positive:
- Gold
- Commodities
- Inflation linked bonds

Neutral:
- Real assets
- High quality equity

Negative:
- Low quality equity
- Nominal fixed income

Reflation

Positive:
- Commodities
- Small cap / cyclical equity
- High yield / EM bonds

Neutral:
- Small cap growth equity
- Cyclical equity

Negative:
- Nominal government bonds
- Gold

For illustrative purposes only and should not be viewed as a recommendation to buy or sell.
Source: Cazenove Capital

How to position in the current environment

Defensive equity sectors have historically outperformed in stagflation environments

Annualised average sector return vs. MSCI World Index (since 1995), %

Sector	Beta	Cyclical/defensive	Stagflation
Utilities	0.4	Defensive	16.0
Cons stap	0.7	Defensive	14.2
Real estate	0.8	Defensive	11.8
Energy	1.4	Cyclical	8.4
Health care	0.8	Defensive	6.7
Cons disc	1.2	Cyclical	1.0
Materials	1.1	Cyclical	0.4
Financials	1.1	Cyclical	-0.5
Industrials	1.2	Cyclical	-3.3
Comms Svcs	1.0	Neutral	-3.9
IT	1.1	Cyclical	-6.7

Past performance is not a guide to future performance and may not be repeated. For illustrative purposes only and not a recommendation to buy or sell
Source: Schroders Economics and Strategic Research Unit. Data from January 1995 to December 2021.
Stagflation is calculated as the months where US CPI inflation is above its 10-year average and our global business cycle Indicator is in the slowdown phase.

Recession

Maybe already priced in?

How Do Stocks Perform Around Recessions?

On average, stocks performed worse 1 year before a recession than during a recession. In the 2 years following a recession, price returns were positive 82% of the time.

Recession Start	Length (Years)	During Recession	6M Before	12M Before	6M After	12M After	2Y After
7/31/1953	0.83	18%	-6%	-3%	17%	30%	55%
8/31/1957	0.67	-4%	5%	-5%	18%	33%	25%
4/30/1960	0.83	17%	-5%	-6%	7%	10%	1%
12/31/1969	0.92	-5%	-6%	-11%	14%	8%	34%
11/30/1973	1.33	-13%	-9%	-18%	1%	23%	18%
1/31/1980	0.50	7%	10%	14%	6%	8%	-12%
7/31/1981	1.33	6%	1%	8%	-19%	20%	18%
7/31/1990	0.67	5%	8%	3%	3%	8%	20%
3/31/2001	0.67	-2%	-19%	-23%	-6%	-18%	-7%
12/31/2007	1.50	-37%	-2%	4%	21%	12%	44%
2/29/2020	0.17	-1%	1%	6%	12%	44%	?
Average Return		**-1%**	**-2%**	**-3%**	**7%**	**16%**	**20%**
% Positive Return Periods		**45%**	**45%**	**45%**	**82%**	**91%**	**82%**

Cumulative price return of the S&P 500 during past recessions. Past performance is not indicative of future returns.

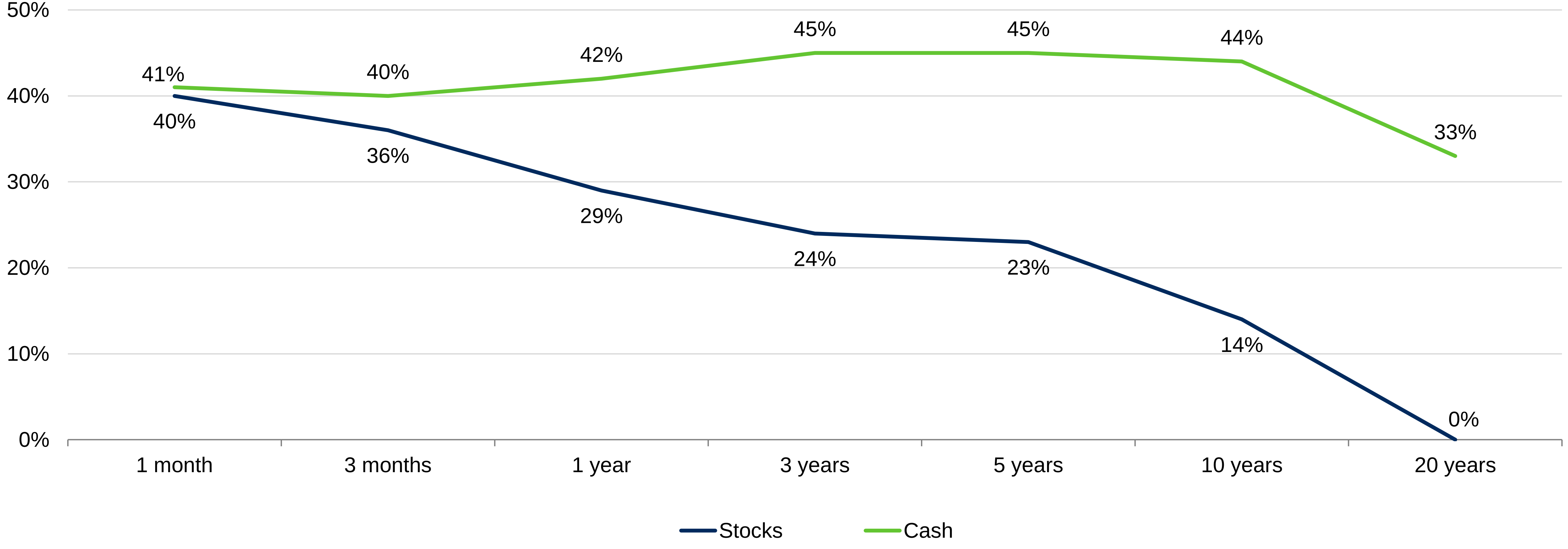
Table: Darrow Wealth Management • Source: YCharts; Nber • Created with Datawrapper

Source: Ycharts; Darrow Wealth Management.

Equity investing remains less risky over the long-run

For investors with a long term time horizon equity remains attractive

Percentage of time where investors would have lost money in inflation adjusted terms



Past performance is not a guide to future performance. The value of an investment and the income from it may go down as well as up and investors may not get back the amount originally invested
Source: Schroders, Morningstar Direct, CFA Institute. Stocks represented by Ibbotson SBBI US Large-Cap Stocks, cash by Ibbotson SBBI US (30-Day) Treasury Bills. Data from January 1926–January 2022.

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Combining your strengths and ours

Introducing Schroder Investment Solutions

The Schroder Investment Solution Proposition

Leveraging the best of Schroders at a competitive fee

Schroder Active Model Portfolios

- 9 actively managed model portfolios
- Investing in actively managed funds

Schroder Strategic Index Model Portfolios

- 9 actively managed model portfolios
- Investing predominantly in passive funds

Schroder Blended Portfolios

- 6 fully diversified multi-asset funds
- Combines passive and active underlying investments

Schroder Sustainable Model Portfolios

- 6 actively managed model portfolios
- Aligned to sustainable values

Strategic Asset Allocation

Schroder Tactical Portfolios

- 5 fully diversified multi-asset funds
- Tactical asset allocation approach

Schroder Income Portfolio

- An actively managed, multi-asset income fund

Schroder Managed Defensive Fund

- A total return fund with systematic downside risk management

Schroder Blended Portfolios use active and passive investments, while Schroder Tactical Portfolios invest only in Schroder Funds and Indices.

Get in touch

For any further information on **Schroder Investment Solutions**, please contact your usual Schroders representative or call our **Business Development Desk** on **0207 658 3894.**

Email solutions@schroders.com

Website www.schroders.com/investment-solutions

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Thank you
Questions?

Risk considerations (1/2)

Prior to making an investment decision, please consider the following risks:

ALL: Model Portfolios & Multi-Asset Funds invest in underlying funds that may have some or all of these risks present.

Capital risk/negative yields: When interest rates are very low or negative, the funds' yields may be zero or negative, and you may not get back all of your investment.

Counterparty risk: The funds may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the funds may be lost in part or in whole.

Counterparty risk/money market & deposit: A failure of a deposit institution or an issuer of a money market instrument could create losses.

Credit risk: A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.

Currency risk: The funds may lose value as a result of movements in foreign exchange rates.

Derivatives risk: A derivative may not perform as expected, and may create losses greater than the cost of the derivative.

Derivatives risk – efficient portfolio management and investment purposes: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund. The funds may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

Equity risk: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news.

High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

Risk considerations (2/2)

IBOR risk: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the portfolios.

Interest rate risk: The portfolios may lose value as a direct result of interest rate changes.

Investments in other collective investment schemes risk: The portfolios will invest mainly in other collective investment schemes.

Leverage risk: The portfolios use derivatives for leverage, which makes them more sensitive to certain market or interest rate movements and may cause above-average volatility and
risk of loss.

Liquidity risk: In difficult market conditions, the portfolios may not be able to sell a security for full value or at all.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

Money market & deposit risk: A failure of a deposit institution or an issuer of a money market instrument could have a negative impact on the performance of the portfolios.

Negative yields risk: If interest rates are very low or negative, this may have a negative impact on the performance of the portfolios.

Operational risk: Failures at service providers could lead to disruptions of fund operations or losses.

Performance risk: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

Important information

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