

Citi Global Wealth Investments

June 25, 2021

# Global Strategy | Quadrant

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## We Can Rebound. Can We Grow?

US Fed Chair Powell acknowledged that crisis-level monetary policy easing won't be appropriate beyond the near-term as the economy recovers. This catalyzed a repositioning in markets with "inflation trades" tumbling. The US dollar rebounded from a five-year low. Long-term rates fell and growth stocks rallied.

Powell and the Fed hardly stand in the way of recovery. The Fed hasn't even begun to phase out Quantitative Easing (QE). Under ideal economic conditions, a first rate hike is still 12-18 months away. Investors, however, are questioning an absence of further long-term US interest rate pressures at a time of rapid economic gains.

The early-stage rebound in US services activity has added to other sources of growth. This likely represents the *peak* pace of gains in overall economic activity. The Atlanta Fed's tracking estimate of US growth in the second quarter exceeds 10%. While there are risks from COVID variants, a widening of industry gains should spread to the world as COVID retreats.

Investors are looking beyond "one-off" stimulus and large distortions to the economy and see a moderate pace of underlying economic growth thereafter. Monetary policy will gradually be less accommodative, but won't force real interest rates sharply higher. Unfortunately for bond investors, current interest rates, below even the last decade's low inflation rate, provide poor returns even if valuations hold.

As we noted in our [Mid-Year Outlook](#), portfolios should seek to transition from a sole focus on "Mean Reversion" to position for potential growth opportunities beyond COVID. We are not certain if valuation pressures have fully unwound in the US and Chinese tech sectors. However, underweight positions have performance risks. True secular growth opportunities are clear in areas such as cyber-security, healthcare and green energy.

While not pessimistic about valuations, we see our REIT investments as having come full circle from COVID-led declines, with a 32% gain over 12 months. While some recovery opportunities remain, the dispersion of performance between different REIT groups is not likely to close between secular winners and losers. Mortgage REITS, with a 6% yield, still stand out as a solid (if volatile) alternative to fixed income.

Latin America shares are an overweight we've held since last April which has lagged behind other "recovery assets." Shares have gained 63% in USD terms since April 2020 and 8% in the year-to-date. We view the region as well positioned for cyclical recovery, but "strategically challenged."

# GIC | June 23

The Global Investment Committee (GIC) left our asset allocation unchanged at our June 23 meeting. Our overweight to Global Equities and REITS remains at +8%. Fixed Income and Cash remains at -8%.

As discussed in our [Mid-Year Outlook](#), we expect to transition allocations away from positions held to benefit from post-pandemic economic rebound, towards potential opportunities for potential sustained long-term returns. Our actions already taken include downward shifts in US Small and Mid-Cap equities and certain Emerging Markets in favor of Global Healthcare shares. We see the Healthcare sector providing the cheapest valuation for enduring, steady growth. We also see emerging pockets of opportunity in US and Chinese IT shares, but see valuation challenges not completely resolved.

Global markets have recently been challenged by the US Federal Reserve's acknowledgment that crisis-level easing steps should gradually be phased out. It may take months before the Fed actually slows the pace of bond purchases, now \$120 billion per month. A first rate hike could occur 12-18 months from now under ideal economic conditions.

After strong and sudden investor inflows into a variety of cyclical assets including commodities, nearly all "inflation trades" saw sharp, albeit discrete declines on the Fed's announcement (please see our latest [CIO bulletin](#)).

With Developed Market central banks other than the Bank of England likely to change monetary policies more slowly, the Fed's communications drove the US dollar to bounce higher after approaching a five-year low (please see our [monthly Foreign Exchange observations](#)).

The longest-term US Treasury yields also fell on the Fed's hints of moving away from peak monetary accommodation. Short-term yields climbed to price in one 25 basis point rate hike by the Fed before year-end 2022.

Bond markets have already been sanguine regarding sharp increases in consumer prices. These seem mostly related to the sudden reopening of sectors of the economy and emergency fiscal stimulus steps that have no prospects of being repeated. While US inflation readings should be well above pre-COVID trends in the near-term, the year/year pace of 5% in May likely marks a peak. Inflation readings in many other economies should follow a similar pattern.

US retail sales dropped in May after sharp early-year gains. However, services activity, including travel and hospitality, appears to be rebounding sharply. An all-time high in the combined assessment of US manufacturing and services growth was posted last month as services industries re-opened while producers are still filling goods orders on a lagged basis. With this, the Federal Reserve Bank of Atlanta's tracking estimate of annualized US GDP growth for the second quarter 2021 is currently +10.2%. Such a reading may mark the peak pace of US recovery with decelerating growth beyond. While this would ordinarily be a bullish sign for safer fixed income assets, their valuation presents a difficult challenge with yields below inflation and forward-looking central bank inflation targets.

In the US Treasury market, negative real yields suggest an 8% loss in purchasing power if 10-year US Treasuries are held to maturity. Non-US developed bond market yields are roughly a full point *lower* than the US, and we remain deeply underweight. We continue to overweight variable rate loans to take advantage of low volatility and solid yields. For the short-term at least, we also overweight US Treasury Inflation Protected Securities to receive inflation compensation in arrears.

In equities markets, we continue to overweight regions and particular assets that have not fully recovered from the COVID shock. However, we see these opportunities generally diminishing and moderated some allocations in April. Latin American equities have lagged about 27 percentage points behind US equities since end 2019 and about 42 percentage points in USD terms. Reflecting COVID trends, including still limited availability of vaccines, these remain among the deepest cyclical laggards on a global basis. Nonetheless, the shares have gained 63% since our overweight was added in April 2020 and we see limited prospects for long-term outperformance.

Equity REITS have also lagged behind broader US and Global Equities on a total return basis, but have now risen modestly above end-2019 levels. As discussed in our *Mid-Year Outlook* we see a wide dispersion of valuations persisting in REITS rather than "full mean reversion." This is the result of secular changes likely in real estate use stemming from technology and the COVID shock. Mortgage REITS, a small, volatile holding, have returned 54% over the past year. We remain overweight the asset class given a 6% forward-looking yield which is highly appealing to income-oriented investors in a low-yield world.

Looking forward, we are optimistic regarding a sustained economic recovery. In the US, post-World War II economic expansions have persisted more than 5X longer than contraction periods. (Full-year contractions in global economic activity have been even more rare than US recessions as regional contractions tend to be far more common than global shocks.) Nonetheless, given financial market and policy developments, we seek to raise portfolio quality as large rebounds have occurred in lower quality assets most impacted by last year's economic calamity. Consistent dividend growth is one appealing core portfolio strategy as we target particular value and growth assets for tactical weightings.

## ASSET CLASSES | Global USD with Alternatives Level 3

	-2	-1	0	1	2
<b>FIXED INCOME</b>					
Developed Sovereign					
Developed Investment Grade Corporates					
High Yield					
Emerging Market Sovereigns					
<b>EQUITIES</b>					
Developed Equities					
Large Cap					
US					
Europe					
Asia ex-Japan					
Japan					
Small and Mid Cap					
US SMID Cap					
Non-US SMID Cap					
Emerging Market Equity					
<b>CASH</b>					
<b>COMMODITIES</b>					

Please refer to the [Portfolio Allocations](#) for a comprehensive breakdown of the portfolios at each risk level.

-2 = very underweight | -1 = underweight | 0 = neutral |

1 = overweight | 2 = very overweight

Arrows indicate changes from previous GIC meeting

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## Is Cooling from 10% Growth a Bearish Sign?

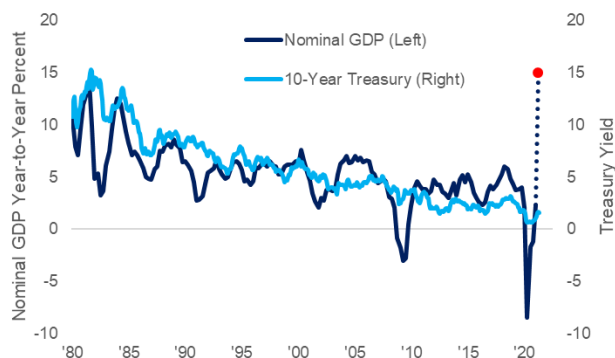
The US Treasury market has absorbed lots of bearish news: a possible 10% real GDP quarter, 5% trailing inflation, and a Fed about to slow QE.

The persistence of sub-2% yields does raise questions about the long-term rate path.

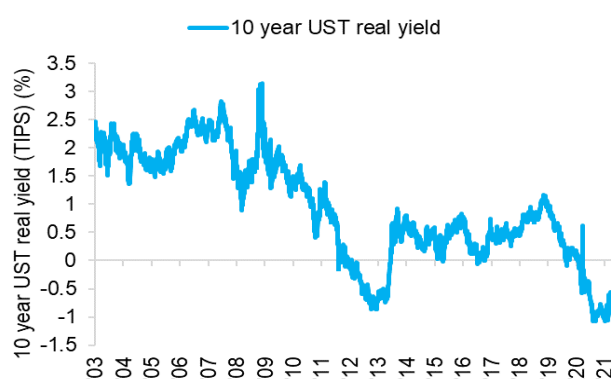
Last week's events again demonstrated that communication - mere words uttered apprehensively by Fed Chairman Powell - delivered the leading edge of monetary policy's impact. With the slightest acknowledgment from the Fed that it won't continue down a path of emergency stimulus indefinitely, the US dollar rose by the most in more than two years. The rise in intermediate-term US Treasury yields was also the largest in about two years. However, it was a *decline* in long-term US bond yields that has investors the most flummoxed.

Are we to expect that long-term US Treasury yields will ignore the sharpest economic rebound in history? (See figure 1). We share the skepticism of many. Present real yield levels are more consistent with an economic contraction than the strong recovery we've seen in economic growth, inflation, employment and job openings (see figures 2-3).

**Figure 1: 10-Year US Treasury Yield and US Nominal GDP Growth**

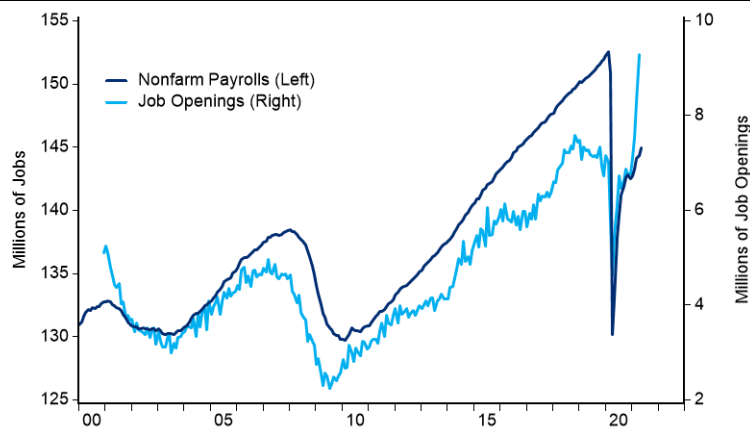


**Figure 2: 10-Year US Treasury Inflation Protected Security Yield**



Note: Red dot and dotted line depict estimated 2Q GDP. Source: Haver Analytics as of June 24, 2021. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. Grey areas represent recessions. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

**Figure 3: US Job Openings and Employment**



Source: Haver Analytics as of June 24, 2021.

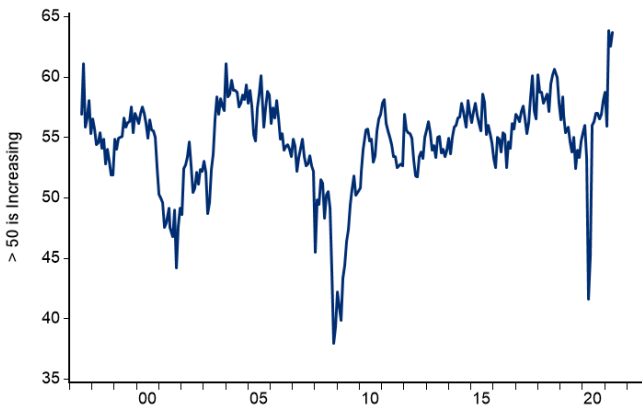
Bonds at these yields will destroy real wealth over time. What will they do to growth stock valuations?

With that said, there's some logic to markets "discarding" the performance of an economy wildly distorted by the pandemic's effects (shutdowns and reopening) and one-off stimulus measures. If not for the remarkably low level of interest rates – albeit higher than last year – an astute trader could easily argue that yields would tend to *peak* with the strongest growth rate of the economy.

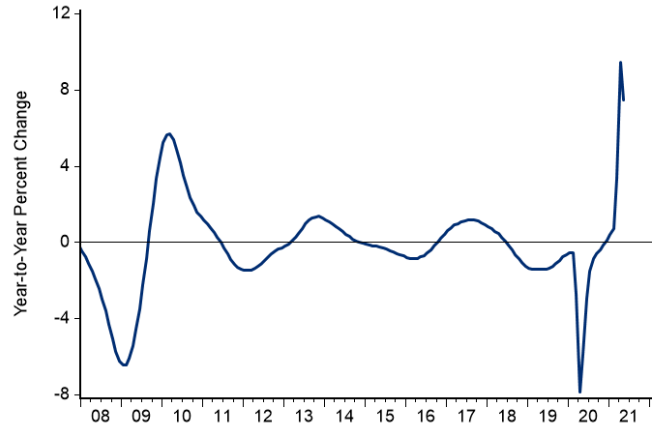
The pace of consumer goods spending is cooling from a stimulus rush. However, the world's factories are still in overdrive to replenish inventories. With the reopening of travel and leisure services, this combination has sent admittedly volatile tracking estimates for second quarter US real GDP to +10%.

As figure 4 shows, the combination of strong growth in manufacturing and new growth in services has sent the Institute for Supply Management's composite to a record high. Globally, Leading Indicators and purchasing managers surveys can't maintain such a strong growth momentum (see figure 5). This doesn't in any way suggest contraction, just less rapid growth.

**Figure 4: Institute for Supply Management Composite Activity Measure (Services + Manufacturing)**



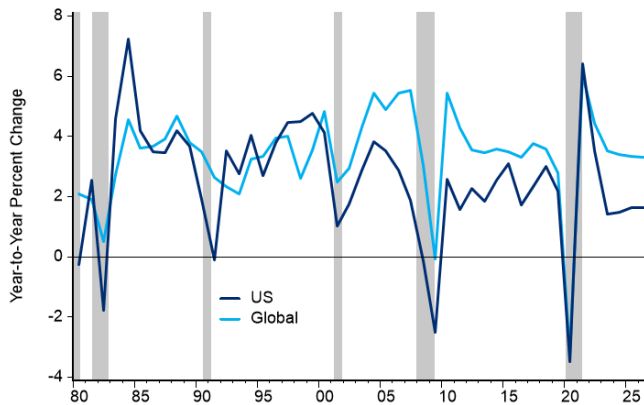
**Figure 5: Global Leading Indicator Y/Y%**



Source: Haver Analytics as of June 24, 2021.

Growth and economic progress is the norm. US economic expansion periods have exceeded contraction periods by more than 5-fold since World War II. Fully global economic contractions are even rarer as regional recessions are far more common than global recessions. Global shocks, including COVID, have sunk the world economy only three times since World War II (see figure 6).

**Figure 6: US and Global Real GDP (IMF Projections through 2025)**

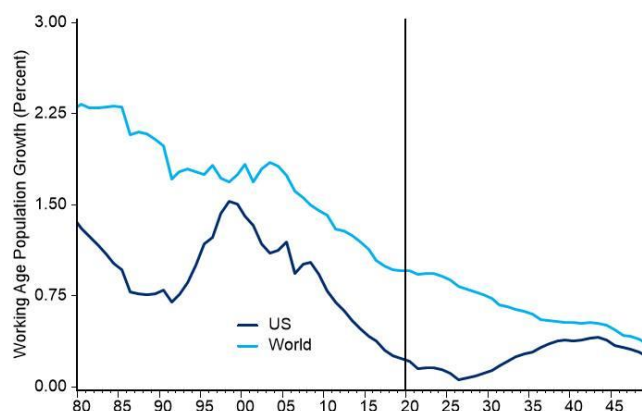


Note: Shaded regions are recessions. Source: Haver Analytics as of June 24, 2021. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

We see strong, persistent growth ahead, but all signs point to a slowing from peak growth rates in coming quarters.

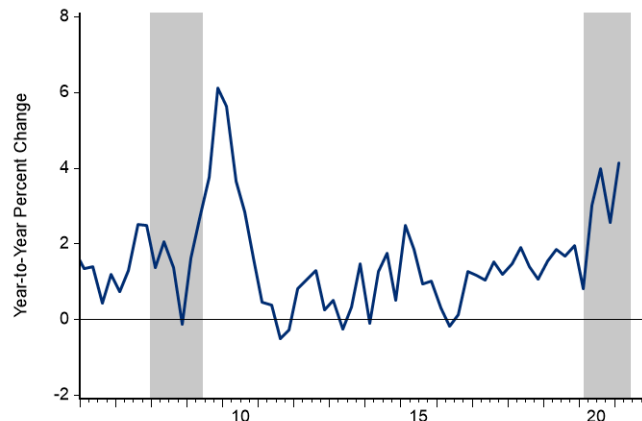
With that said, fundamentals such as capital per worker and demographic slowing point to a slower phase of growth beyond a 2021-2022 snap back (see figures 7-8). As figure 1 showed, 10-year US Treasury yields rose 125 basis points from 2020's low point. There have been back-to-back annual periods in which US bond yields rose. However, since 1981, all of these periods have seen yields rise no more than 50 basis points in the second year of recovery.

**Figure 7: Global and US Population Growth (With UN Forecasts)**



Note: Shaded regions are recessions. Source: Haver Analytics as of June 24, 2021. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

**Figure 8: US Productivity Growth and Periods of Recession**



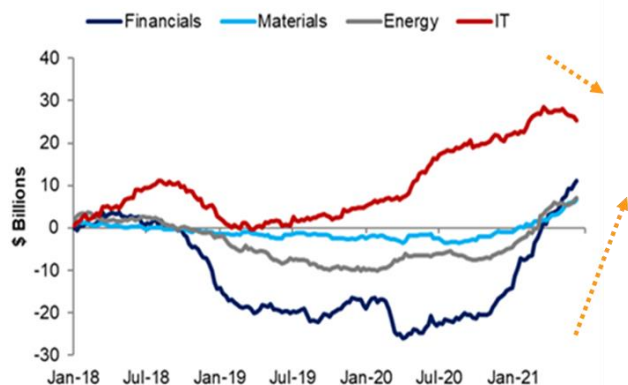
Trend inflation may indeed rise, but not as fast as investors recently feared.

### What if Bond and Growth Stock Valuations Remain Unsatisfyingly High?

News reports of COVID variants and “break through infections” of vaccinated populations are making the rounds. As we discussed in our [Mid-Year Outlook](#), these are not the only possible (if improbable) risks to consider.

However, we believe investor positioning is largely responsible for the large (if discrete) drop in “inflation trades” that followed Fed Chair Powell’s comments that the Fed was “talking” about when to time an announcement that it would slow the pace of bond purchases. As figures 9-10 show, the economic rebound has sent investors flooding into cyclical recovery sectors in equities and into commodities such as copper. They’ve recently slowed fund inflows into “COVID defensive” sectors such as Information Technology, setting the stages for “counter-trend” movements.

**Figure 9: Sector Fund Inflows: IT, Financials, Materials, Energy**



**Figure 10: Copper vs Net Speculative Long Positions as % of Open Interest**



Source: Haver Analytics as of June 24, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

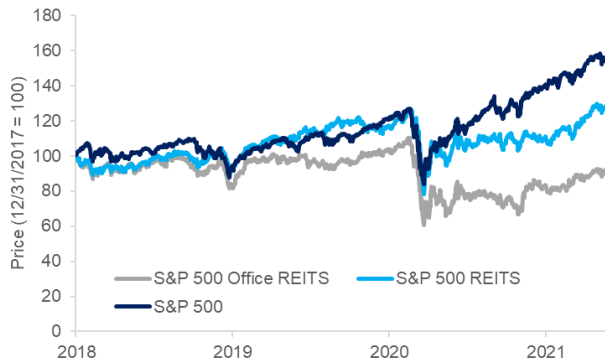
We don’t lack confidence in cyclical recovery from COVID. We’ve positioned in assets that will benefit from it since April 2020. However, like our view of small and mid-cap US equities, some of these recovery prospects have come nearly full circle. As discussed in essays just below, global equity REITS have rebounded to levels slightly above the pre-COVID period. Their return has trailed the S&P 500 by about 27 percentage points. However, we believe the wide dispersion of returns is unlikely to close in the sector as technology and COVID suggests lasting changes in the utilization of real estate (see figure 11).

Demand for commodities remains solid, and in some products, likely to see further gains from present levels. Unlike commodity futures contracts, Latin American commodity firms benefit



from both prices and rising sales volumes. Related equities have rebounded sharply, but still trail well behind US and Chinese equities. As discussed below, we see their relative lack of long-term growth prospects as limiting their returns beyond pricing in a fuller recovery.

**Figure 11: S&P 500, REITS and OFFICE REITS**



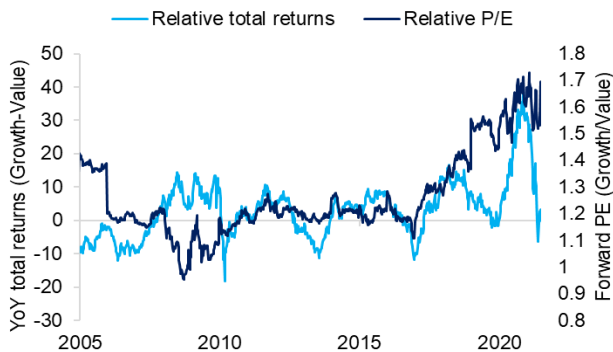
Source: Haver Analytics as of June 24, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

With a history of modest cyclical interest rate pressures to consider, we see portfolio risks for investors shunning US growth stocks completely.

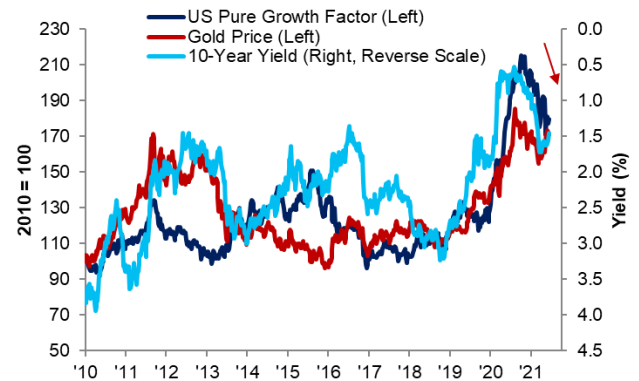
As discussed in detail in our [Mid-Year Outlook](#), the “digital economy’s” lasting, higher share of economic activity has to be acknowledged. The recent rebound in the relative performance of cyclical “value” equities compared to US growth shares has been significant. Vexing, however, is the fact that US growth stock valuations haven’t fallen sharply during this rotation (see figure 12).

To date, long-term interest rate pressure hasn’t been sufficient to drive a larger correction (see figure 13). We can’t be sure it will. Meanwhile, certain growth opportunities, such as cybersecurity software, look like highly secure, “staples” of the digital future (please see discussion below).

**Figure 12: US Value/Growth Relative Returns and Relative and Valuation**



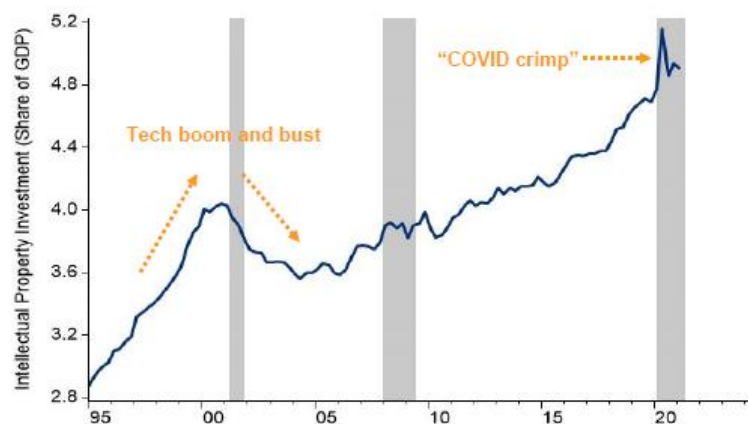
**Figure 13: US Treasury 10-Year Note Yield vs US Growth Stock Index and Gold**



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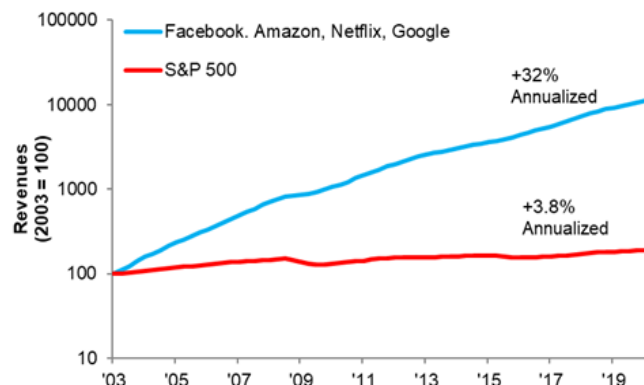
As discussed in our [Outlook for 2021](#), business cycle turning points – recessions and recoveries – are rare moments when “mean reversion” strategies outperform. The remainder of the time, enduring growth leaves “trend followers” to outperform. As the lows in the world economy and markets were seen a year ago now, we need to be careful not to ignore the *value* of enduring growth (see figures 14-16). We’ve made the first shifts in our tactical asset allocation to advance this two months ago. We expect our allocations to gravitate further from “rebound opportunities” to “enduring growth and income opportunities” in the future.

**Figure 14: US Investment in IP as a Share of GDP**

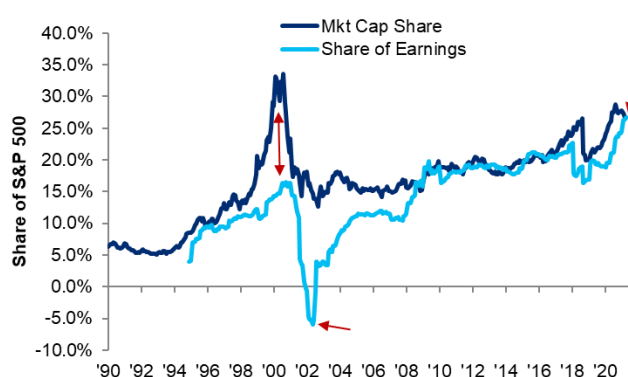


Note: Shaded regions are recessions. Source: Haver Analytics as of June 24, 2021 Source: Haver Analytics as of May 14, 2021. "COVID Crimp": March 2020-now. Annualized calculations from 2003-2020

**Figure 15: FANG vs S&P 500 Revenue Growth**



**Figure 16: Profits and Market Cap of Largest 5 US Firms.**



Notes: FANG references the largest tech growth shares, Facebook, Amazon, Netflix and Google. Annualized period is from Jan 1 2003, to June 19, 2021. Source: Factset as of June 24, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

## Cyber Security: The Internet's Critical Infrastructure

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Chief Investment Officer  
and Global Head of  
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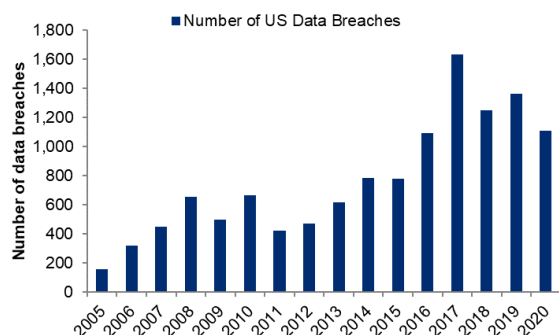
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**Joseph Fiorica**  
Head – Equity Strategy

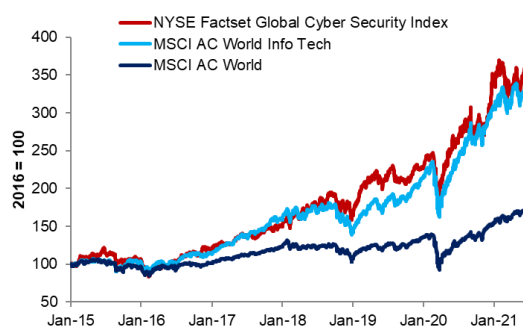
One doesn't need to have a PHD in computer science to understand the importance of cyber security as a linchpin to the modern economy. A simple survey of recent front-page media headlines drives home the importance of protecting the data and operations of every government, public company, and individual connected to the Internet (Figure 17). The SolarWinds malware attack, shortly followed by the ransomware that briefly shut down the Colonial Pipeline in the US, are just two high profile examples of data breaches that occur every day.

Outside the US, and especially in emerging and frontier markets, companies often operate in even less secure technology ecosystems, leaving their operations more vulnerable to attack. We therefore see an ongoing global opportunity to invest in companies that specialize in securing networks and the devices that connect to them (Figure 18). As hackers become more sophisticated and brazen in their attempts to compromise private data, constant security upgrades and investment in the latest encryption schemes is likely to be a staple for corporate and government budgets, as long as, humans access an open Internet.

**Figure 17: Number of US Data Breaches per Year**



**Figure 18: Global Cyber Security Equity Performance**

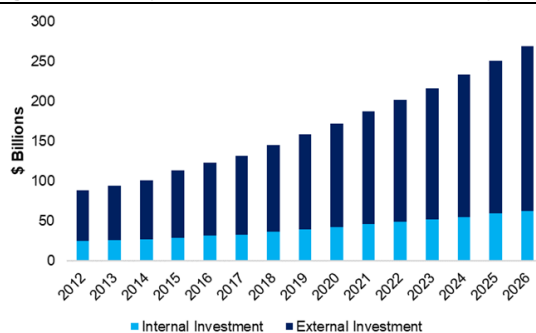


Source: Bloomberg as of June 17, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

## Inside the Cyber Security Investment Universe

The public equity universe is rich in global opportunities to invest in the cyber security theme. While US-based specialists make up roughly two-thirds of the global cyber security market cap, we see a global universe of potential corporate customers that are likely to increase their investment in data security in the coming years. While many large companies will hire full-time security experts to manage enterprise data and networks in-house, we believe that specialized cyber security providers are likely to grow much faster in the years ahead (Figure 19). Securing complex networks requires an expertise and state-of-the-art solutions that are both highly scalable and available off-the-shelf to a variety of different businesses.

**Figure 19: Projected Global Investment in Cyber Security**



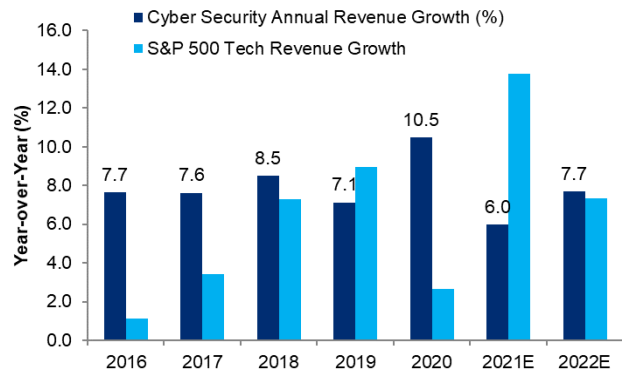
Source: Forbes as of June 18, 2021. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events

Cyber firms that specialize in cloud security are especially likely to benefit from significant growth in cloud-based computing. In addition, amid the rollout of 5G as more devices become connected to each other and the “cloud”, we view specialists in securing the “Internet of Things” (IoT) as other potential winners within the cyber space. For example, cyber security company Fortinet offers IoT services which monitors networks for new devices and alerts users when a new device is attempting to join or listen in on other devices (or humans!) nearby.

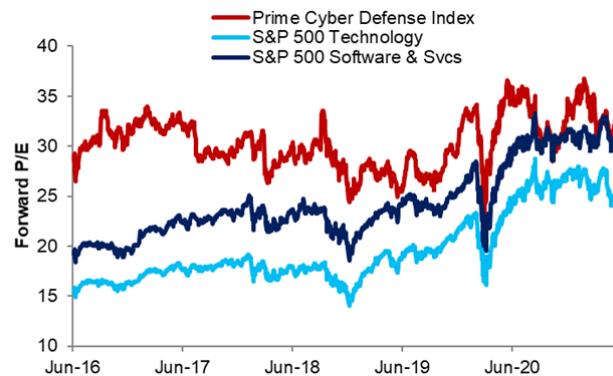
Cyber firms have delivered steady top and bottom line growth over the past 5 years, with that revenue only growing during the 2020 pandemic (Figure 20). Expectations are for that consistent growth to continue, with consensus penciling in 6% revenue growth this year and 7.7% next year. As Figure 13 shows, cyber security sales have been much more stable than the broader technology space, perhaps justifying a premium valuation relative to the tech sector (Figure 21).



**Figure 20: Cyber Security and S&P 500 Technology revenue growth (2016-2022E)**



**Figure 21: Cyber Security Valuations Relative to S&P 500 Tech and Software**

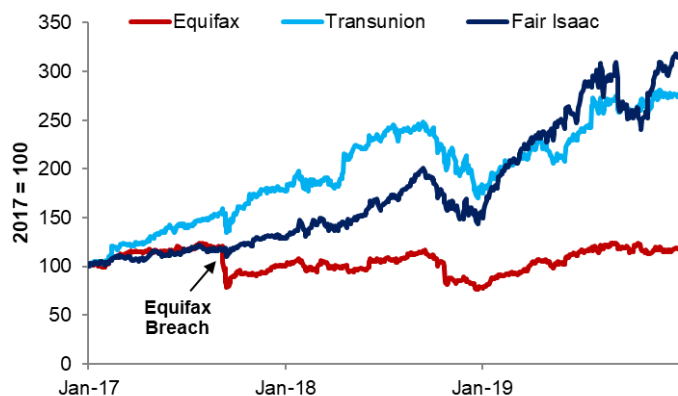


Source: Forbes, Accenture as of June 17, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

## Cyber Security Is a “Must Do” Industry

Poor security protocols pose material financial, reputational, regulatory and legal risks on companies and governments. Ransomware attacks can easily result in multi-million dollar payouts to hackers. Compromised firms often lose business amid a loss of client confidence. Regulators, particularly in Europe and more recently in California, have implemented laws that establish minimum levels of data protection, require the reporting of data breaches, and can even impose fines on firms that violate these standards. Compounding these issues, improper handling of personally identifiable data can often lead to lawsuits from affected users or clients. All of these risks can and have directly impacted companies' bottom lines, and can sometimes lead to a permanent loss in market share (Figure 22).

**Figure 22: Equifax and Its Competitors Following 2017 Data Breach**



Source: Bloomberg as of June 18, 2021. Past performance is no guarantee of future results. Real results may vary.

# Passing the baton back to secular growth

**Joseph Fiorica**  
Head – Equity Strategy

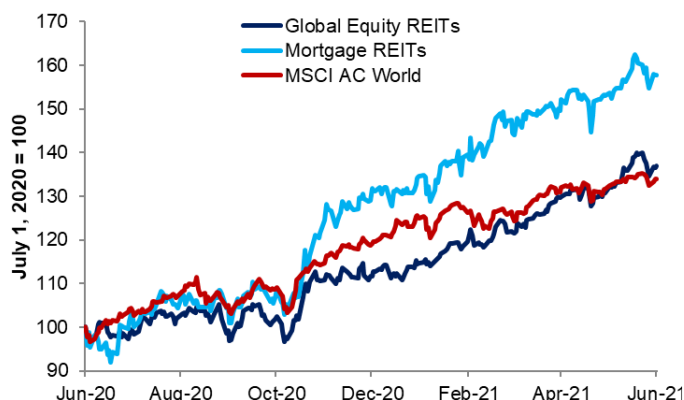
**Steven Wieting**  
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**Charlie Reinhard**  
Head – North America  
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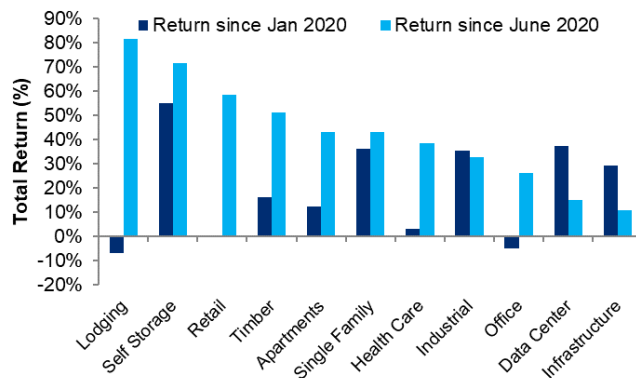
Amid the fallout from the pandemic lockdowns of last spring, it was conventional wisdom to assume that the real estate market would be forever changed by COVID. The future of restaurants, urban retail, nursing homes, and office were all simultaneously in question, leading investors in public real estate to flee the space last spring.

Despite consensus investor caution in REITs, [last June the Citi Private Bank Global Investment Committee went overweight global equity and mortgage REITs](#) as part of a series of tactical moves to position for a post-COVID world. The equity REIT sector has delivered 39% in total return since then, led by much more significant returns in COVID-impacted sectors like lodging and retail (Figures 23-24). Mortgage REITs, which were also deeply depressed a year ago, have returned over 60% including dividends. One year later, as investors look beyond COVID recovery, we revisit this tactical thematic overweight and its role in portfolios as a lingering reopening trade, an inflation hedge, and a yield enhancer. **We ultimately see the short-term recovery in COVID-impacted equity REITs as nearly complete, though we identify select areas like cell towers, data centers, industrial warehouses, residential, and health care that can continue as sources of long-run income in portfolios.**

**Figure 23: 1 Year REIT returns vs Global Equities**



**Figure 24: Equity REIT performance by sub-sector**



Source: Bloomberg as of June 23, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

## REITs: Bond Proxies or Inflation Hedge?

REITs as an asset class tend to trade like bonds in rising rate environments but as inflation hedges in rising price environments. Generalists often group REITs into the mix of bond proxies like staples and utilities, given they often have investor bases that are focused on the income provided by these structures more so than capital growth. As a result, REITs typically trade like bonds over the short-run, with a negative correlation to interest rates (Figure 25).

However, REITs are unique among bond proxies in that they also serve as a reliable inflation hedge. Because REITs are structured to take direct ownership of physical property, rent cash flows and underlying property values tend to rise along with the real economy. Given this dynamic, and unlike other bond proxies like consumer staples, REITs tend to act as attractive inflation hedges as their underlying collateral rises in value along with prevailing inflation. Therefore, while interest rate spikes are generally negative for REIT short-term performance, investors worried about inflation can find solace that real estate allocations are likely serve as strong inflation hedges in portfolios.

Figure 25: 1 Year REIT returns vs Global Equities

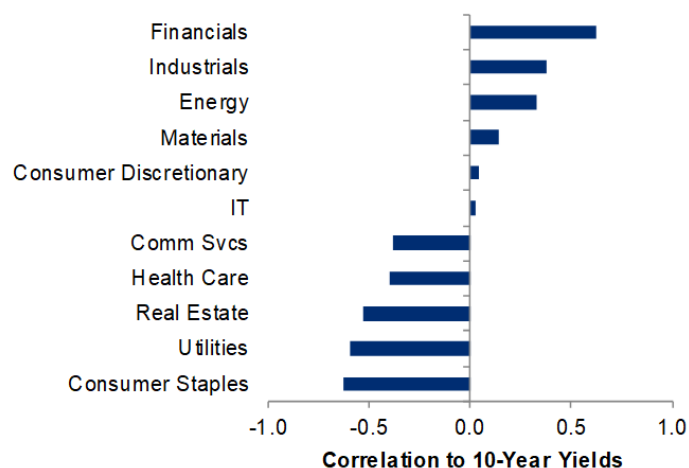


Figure 26: Equity REIT performance by sub-sector

	Average Annualized Returns during Periods of Accelerating Inflation			
	Sep 2003 to Aug 2006	Jul 2009 to Jan 2012	Oct 2015 to Jul 2018	Average
Real Estate	24%	38%	9%	24%
Energy	31%	17%	12%	20%
Industrials	12%	23%	18%	18%
Materials	14%	20%	17%	17%
Information Technology	4%	19%	27%	17%
Consumer Discretionary	5%	27%	17%	16%
Utilities	23%	13%	12%	16%
Financials	12%	8%	18%	13%
Communication Services	14%	14%	8%	12%
Health Care	7%	15%	13%	11%
Consumer Staples	10%	16%	7%	11%

Source: Bloomberg and Haver as of June 23, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

### Unstoppable Trends within Real Estate

Two decades ago, the public REIT space was largely composed of multifamily, office, and retail managers. Today, the global REIT sector is much more dynamic, with specialists touching every element of the physical economy. Specialized REITs, which include cell towers, data centers, and self-storage providers, make up nearly a quarter of the US Equity REIT index, while retail REITs have fallen to just 13% of market cap. We therefore view the REIT market is much more dynamic than it once was, and also an area where active management can identify secular growth while avoiding secular decline.

Figure 27: S&amp;P US REIT Index by sub-industry

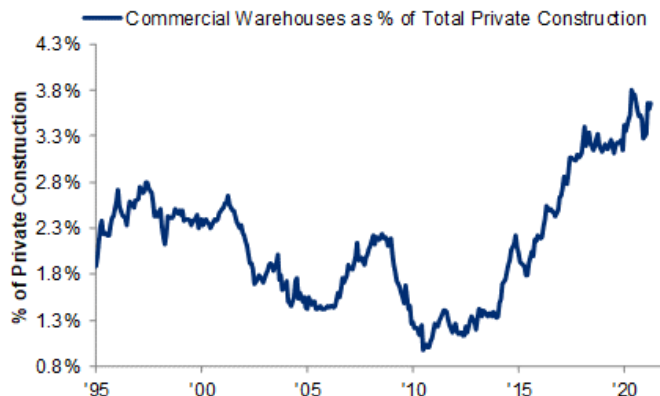
Sub-Industry	Index Weight	Forward Dividend Yield	Return Since Jan 2020	Return Since June 2020
Specialized REITs	25%	2.7%	40%	42%
Residential REITs	18%	2.5%	16%	41%
Industrial REITs	14%	2.3%	38%	36%
Retail REITs	13%	3.7%	(1%)	66%
Health Care REITs	11%	4.1%	2%	39%
Office REITs	10%	3.3%	(6%)	27%
Diversified REITs	5%	3.9%	6%	57%
Hotel & Resort REITs	4%	0.4%	(11%)	81%
<b>S&amp;P US REIT Index</b>		<b>2.9%</b>	<b>12.0%</b>	<b>37.0%</b>

Source: Bloomberg as of June 23, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

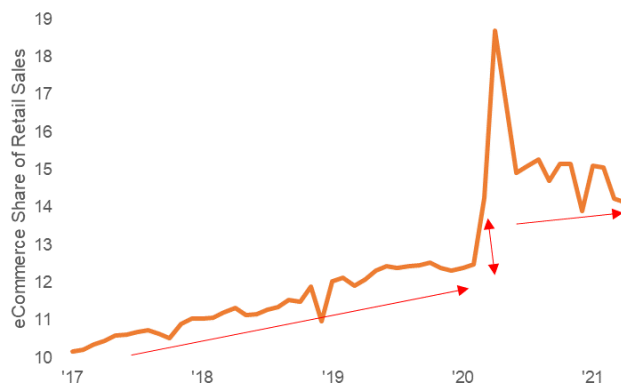
### Industrial REITs: the backbone of e-commerce and reshoring

While the growth of ecommerce has wreaked havoc on traditional retail over the last decade, it may be easy to ignore the complex supply chain that transports your package from the retail manufacturer to your front door. Industrial REITs play an important role in that process, with many of these firms focusing on development and management of distribution centers and warehouses. Such properties have seen robust growth in the last decade as demand for logistics centers and regional distribution networks has skyrocketed (Figure 28). The dramatic shift to online purchases and grocery delivery during the pandemic are unlikely to dissipate even as vaccinations ramp up globally (Figure 29). In addition, trends like manufacturing reshoring are an additional tailwind for growth in Industrial REITs in the years ahead.

**Figure 28: E-commerce-driven boom in distribution centers and warehouses**



**Figure 29: E-commerce as % of retail sales**



Source: Haver as of June 23, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

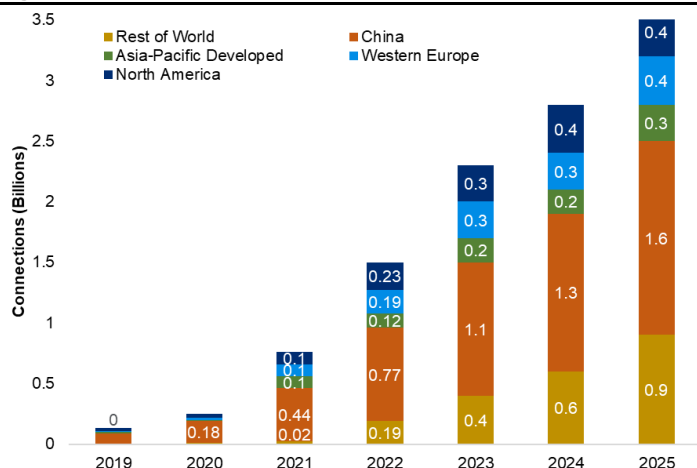
### Cell towers & data centers: 5G's biggest winners

5G can be broadly described as a significant upgrade to the digital experience, an expensive necessity for telecom providers, and a windfall for tower REITs. High-band 5G offers speeds 30-80 times faster than average 4G connections, but with the caveat that signal range is greatly reduced. Therefore, 5G networks in dense urban centers require millions of individual towers spaced much closer together than previous generation protocols required. Given telecom providers' need to install many more towers than were necessary with 4G, cell tower companies, which often operate as Real Estate Investment Trusts in the business of leasing out network tower locations, are key beneficiaries to the 5G rollout that we outlined in Outlook 2021.

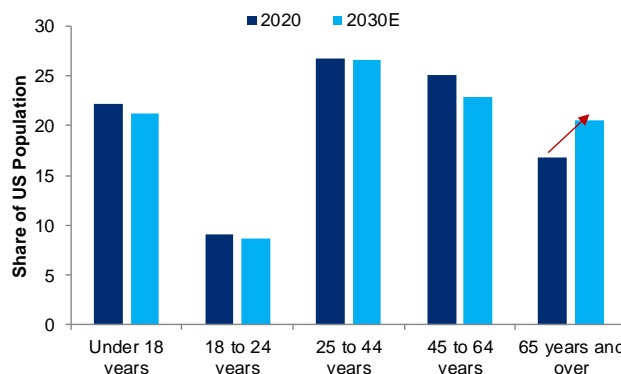
### Health Care REITs: COVID-impacted secular growers

Health Care REITs were met with the epicenter of the COVID-19 pandemic. Operators of nursing homes, hospitals, and skilled nursing facilities all faced considerable challenges in an environment that was particularly dire for older and more vulnerable populations. But unlike other COVID-impacted REITs like malls and office, we expect managers of health care properties to make a full recovery and continue to grow over the long-run. Our Longevity Unstoppable Trend underscores the economic implications of an aging global population, which is likely to drive an increased demand for nursing home services, hospital square footage, medical office, and lab research facilities in the decades to come (Figure 31).

**Figure 30: Estimates for Global 5G Connections**



**Figure 31: Expected US population by age**



Source: Haver as of June 23, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

## Residential REITs and the work from home economy

The residential REIT market was traditionally comprised of multi-family apartment operators, but a growing portion of the sub-sector is now made up of single family REITs. Single family REITs, as the name suggests, buy portfolios of single family homes, often in clustered locations, and operate each home as a rental unit. Amid a flight to the suburbs and a boom in the US housing market over the past year, single family REITs have benefitted from a surge in demand for suburban real estate – especially in Sun Belt cities – as well as from rising property values. Returns in the space have well outpaced apartment REITs, which often have apartment portfolios heavy in top-tier cities which bore the brunt of the pandemic lockdowns (Figure 32).

However, with vaccinations in the US picking up and with most cities lifting social distancing restrictions, early signs indicate a resurgence in demand for urban apartments once again, while rents may have stabilized (Figure 33). We therefore see a short-term opportunity to play the ongoing recovery in apartments over the coming months. Over the next few years, however, structural demand for homes as the millennial generation ages coupled with a shortage in housing stock should keep single family home prices elevated, supporting both rents and property values for single family REITs.

Figure 32: Residential REIT returns by segment

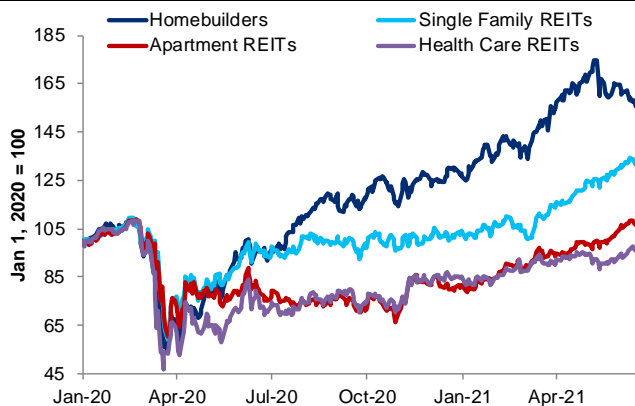
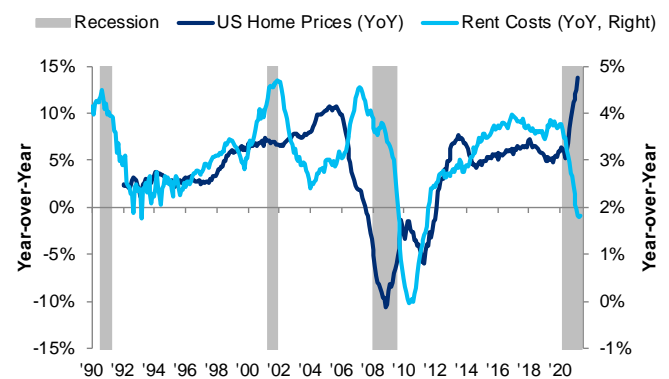


Figure 33: Home prices vs rent costs



Source: Factset as of June 17, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

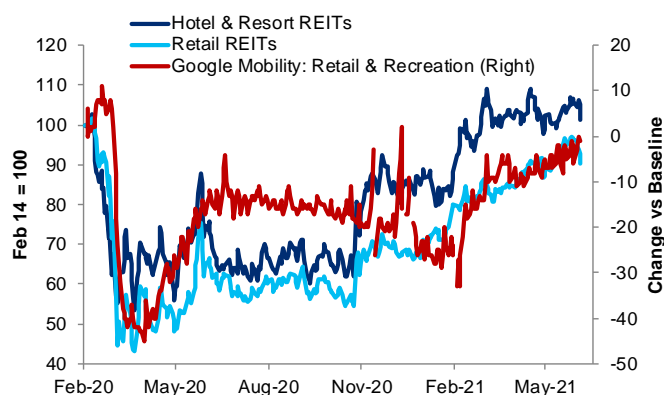
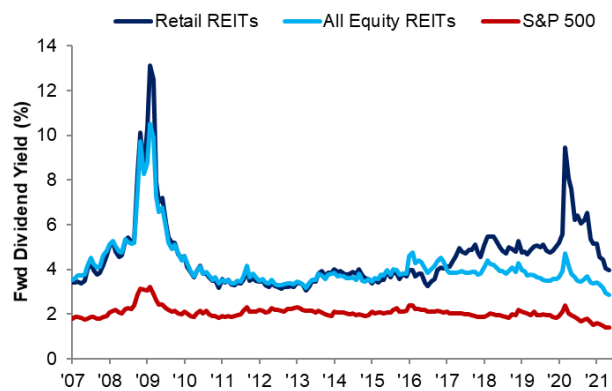
## Near Taking profits in the REIT mean reversion trade

### *Retail REITs are back to pre-COVID levels. Were you a buyer in January 2020?*

If brick and mortar was struggling before COVID, the pandemic certainly didn't help things. With that said, we viewed a 60-70% selloff in high quality retail property names last spring as excessive even for a structurally challenged sector. Unlike many retail chains which did not survive the pandemic, retailers' landlords still maintained control of the physical property once occupied by struggling shops, and with relatively limited overhead costs were able to wait out the storm. Some more savvy retail REITs have reinvented vacant mall properties by focusing on customer "experience", while others have fully converted big box stores into industrial warehouses for ecommerce processing. Such creativity by retail property managers (and the development of safe and effective vaccines) have enabled investors to weather the worst of the storm, and retail REIT shares have recovered back to near pre-COVID levels (Figure 34).

While this is a nice "war story" for retail REIT managers to tell their grandchildren, we now have to look at valuations in many of these names with fresh, forward-looking eyes. The growth of ecommerce, and the consumer shifts to buy more goods or watch more movies online are unlikely to fully reverse, presenting structural challenges to mall and movie theater operators. With expected retail REIT dividend yields back below 4% (down from 10% in March of last year), we see the risk-reward in the retail REIT space as much less compelling (Figure 35).

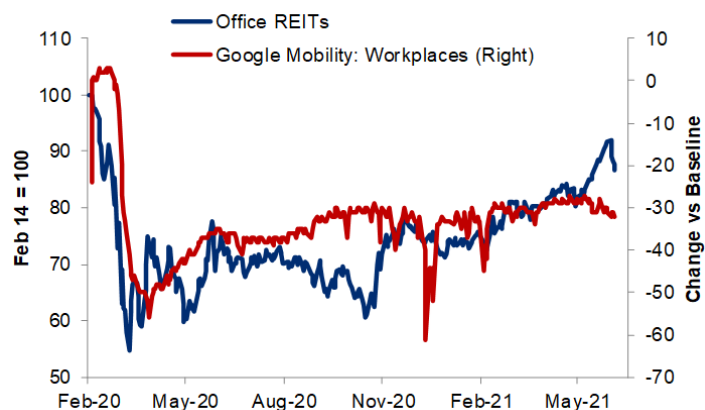
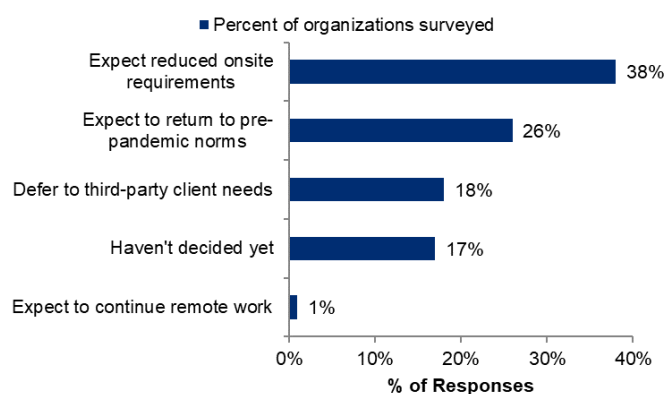


**Figure 34: Retail and Hotel REITs vs Google Mobility data**

**Figure 35: Retail REIT dividend yields**


Source: Bloomberg as of June 17, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

### ***Office may not be dead, but a full recovery is unlikely any time soon***

We believe office is among the real estate segments most permanently impacted by the COVID pandemic. While REITs with properties in suburban and second-tier US cities may see a faster recovery, we remain cautious on Office REITs concentrated in New York and other major cities as large companies experiment with hybrid or full remote work offerings. A Deloitte survey released in April 2021 found that 38% of organizations expect a permanent reduction in onsite requirements, versus just 26% that expect a return to pre-pandemic “normal”. Office REITs have seen a nearly 50% recovery since October and while their shares remain slightly below pre-COVID levels, we are skeptical that this sector’s fundamentals justify a full recovery this year.

**Figure 36: Office REITs vs activity at workplaces**

**Figure 37: 38% of companies expect reduced onsite capacity for the foreseeable future**


Source: Bloomberg and Deloitte as of June 23, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

# Latam Update

**Jorge Amato**  
Head – Latam Strategy

We engaged asset allocation portfolios into an overweight equity exposure to Brazil equities in 2Q20. We expect this market (up nearly 100% from the March 2020 low and +9.5% YTD) to continue to perform well in the coming months, as part of our tactical reversion to the mean theme and under the base case assumptions for our global market views. Future expected returns are, however, becoming less attractive on a risk/adjusted basis as is the case with many of our other mean reversion positions. The timing of the unwind will be challenging given the high volatility characteristic of Brazilian equities.

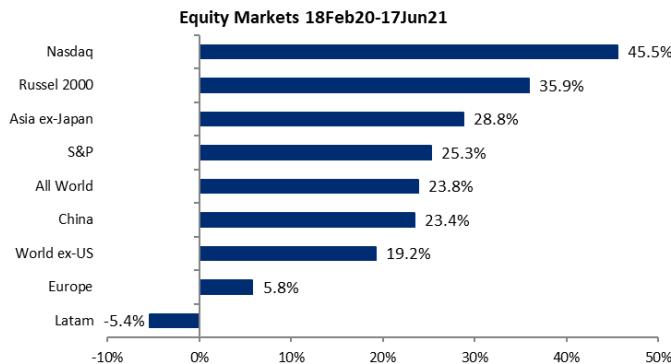
Beyond the gains that can be had from depressed valuations, firm commodity prices and supportive global financial conditions, we see challenges for long term strategic investment exposure.

From a long-term investment strategy perspective our concerns in the region lie with the dynamics between social and economic policies and the potential damage to investment incentives and frameworks for the private sector that can result from sharp political shifts.

For global asset allocators, for the time being, we recommend hold tactical overweight equity exposure to the region, and more specifically to Brazil. This exposure will have an expiration date when we find more attractive long-term opportunities.

Regionally, home biased investors should tread more opportunistically, taking advantage of the recovery to rebalance their naturally larger overweight exposure, diversifying into more global portfolios. In this respect we are partial to recommending looking towards China and Southeast Asia, regions where Latin American investors tend to carry very low exposure.

**Figure 38: Latam equities lagging global markets**



**Figure 39: GDP recovery with mixed time frames within the region...**

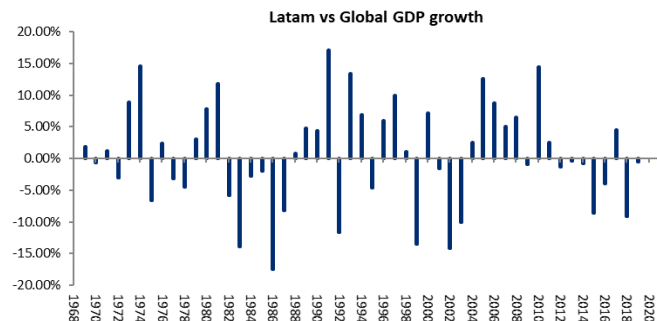
GDP Growth Forecasts			
	2020	2021	2022
Global	-4.0%	5.0%	4.5%
United States	-3.5%	6.0%	3.5%
Eurozone	-6.8%	3.4%	4.6%
China	2.3%	8.0%	6.0%
Latin America	-6.7%	4.7%	2.7%
Argentina	-9.9%	6.5%	3.0%
Brazil	-4.1%	3.6%	1.8%
Chile	-5.8%	6.7%	3.5%
Colombia	-6.8%	6.5%	3.8%
Mexico	-8.2%	5.1%	2.7%
Peru	-11.1%	10.3%	4.2%

Source: Bloomberg and Citi Research as of June 24, 2021. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. Grey areas represent recessions. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

Latin American equities, driven mainly by Brazil and Mexico index exposure, are up 6.64% YTD (Latam MSCI as of 17 June 2021), lagging global equities by around 3%. When compared to pre-pandemic levels, however, the return dispersion is significantly larger, around 29%.

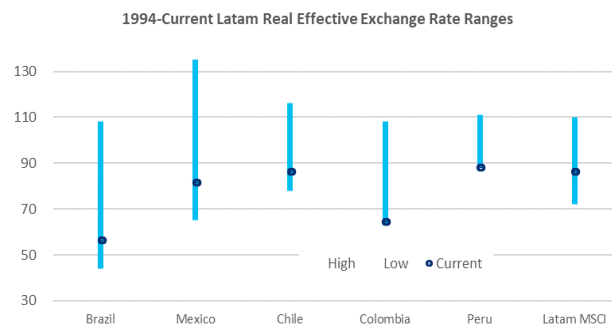
While we are not dismissive of the many challenges ahead for the region, our expectation for tactical returns in its equity markets is a positive one, albeit at the margin smaller than 6 months ago. Covid new cases should begin to stabilize in the region as vaccines are secured and the pace of shots administered accelerated over the coming months. This process should broaden the reopening of the economies as mobility increases and consumption patterns normalize. Economic normalization could improve investor expectations of financial and market variables, allowing for a more positive cycle. As with many of our reversion to the mean themes however, we are not convinced that Latam equities can fully catch up to the current performance of global equities. For now, the gap is large enough that in our view suggests an attractive risk/reward tactical play. As this gap continues to narrow and as domestic country dynamics, both economic and political, play out we will likely redirect capital towards longer term growth prospects in other EM regions.

**Figure 40: Latam growth has underperformed over the last decade**



Nominal GDP Measures in current USD. Source: Bloomberg as of June 23, 2021.

**Figure 41: Investors requiring a higher premium via deeply depreciated REER...**

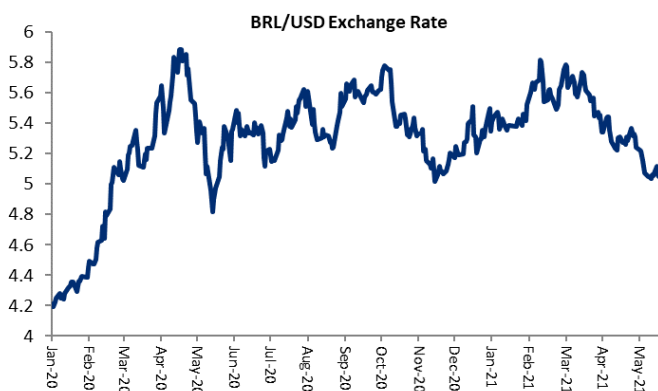


On average, Latin America has kept up with nominal global economic growth in the last 50 years. Since 2011, however, while nominal global growth averaged close to 2.30%, Latin America's growth showed an average annual contraction of around 0.40%. The lack of growth experienced after the 2012 commodity collapse has had a negative impact on income inequality, poverty, security and corruption.

Populations are discouraged about future prospects and in recent years they have shown their discontent with political and economic frameworks through their votes, and in some cases through physical and violent protests. Mexico, Brazil, Argentina, Peru have all voted populist in presidential elections. Chile, later this year, and Colombia next year could follow.

Populism in the region is coming in different flavors, however. From Lopez Obrador's fiscally conservative left, to Bolsonaro's more fiscally lax right, to Argentina's old school indiscipline in both fiscal and monetary policies. **Our positive expectations for the tactical recovery in Latam markets, Brazil in particular, for the coming months is based on deep valuation discounts and, most importantly, the relative lag coming out the pandemic. From a long-term investment strategy perspective, however, our concerns lie with the dynamics between social and economic policies and the potential damage to investment incentives and frameworks for the private sector and the consequent impact on long term growth and asset valuations.**

**Figure 42: BRL could test 4.80-5.00 range, supported by hawkish monetary policy and attractive carry...watch for overcrowded positioning to challenge further upside**



**Figure 43: Brazil equities are showing good momentum ...we could see further upside ahead, but some risk management after the large gains from the 2020 lows could be prudent as we approach pre-pandemic levels...**



Source: Bloomberg as of June 23, 2021. Indices are unmanaged. An investor cannot invest directly in an index. Grey areas represent recessions. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

# Market rallies transitioning to long-term bull markets

**Jeffrey Sacks**  
Head – EMEA Investment  
Strategy

**Maya Issa**  
Global Investment Strategy

## UK and European equities in early stages of bull markets

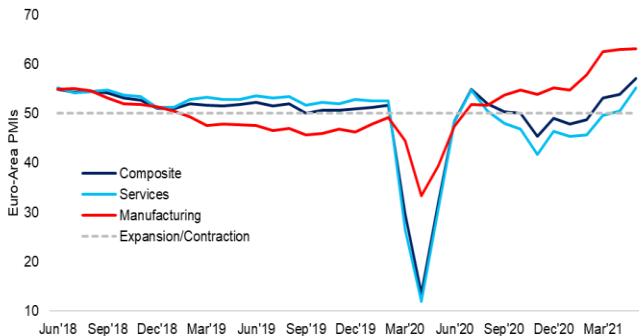
Our Global Investment Committee (GIC) raised European and UK equities to overweight in November 2020. That was before the confirmation of the UK-EU trade deal and before the first vaccine approval. It came at a time when the GIC was seeking to broaden its global equity exposures. The GIC then trebled the size of the UK overweight in March 2021. Both markets now offer more potential than just trading rallies, with both in the early stages of prolonged bull markets. While European markets are undergoing a perception change in the eyes of global investors, and the UK is benefiting from pent-up demand, both have four similar underlying drivers.

There are four reasons to keep accumulating UK and European equities:

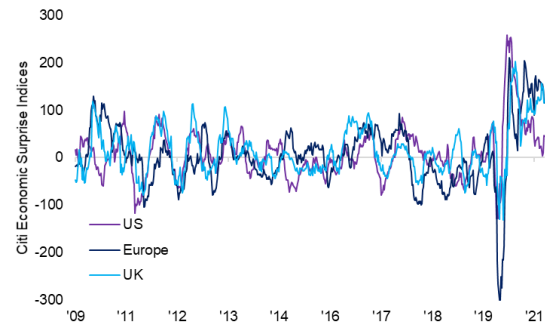
### 1) **Growth**

The UK's 1.5% GDP growth in the first quarter included a March rise of 2.1%. Consensus for UK GDP growth in the current quarter is 5% year-on-year. For the full year, the UK economy could grow by more than 7%. European growth is expected to at least match the global average of 5%. PMI indicators are not only in positive territory but are also still rising and led increasingly by services (Figure 38). The Citi Economic Surprise index is strong (Figure 39). Sentiment is rising strongly amongst consumers and businesses (Figure 40).

**Figure 44: Euro-Area Manufacturing and Services PMIs positive and rising**



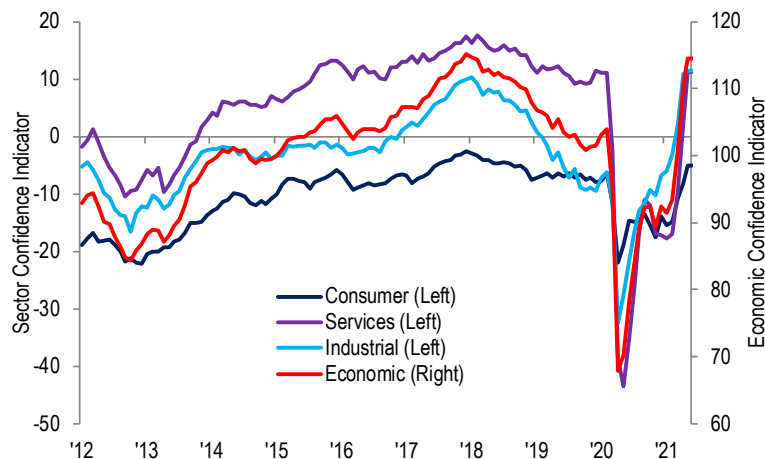
**Figure 45: Citi Economic Surprise Indices – Europe and UK stronger than US**



Source: Bloomberg as of June 22, 2021.

Source: Bloomberg as of June 22, 2021. The Citigroup Economic Surprise Index, or CESI, tracks how the economic data fare compared with expectations. The index rises when economic data exceeds economists' consensus estimates and falls when data is below forecasts.

**Figure 46: Sentiment Indicators back at pre-COVID levels**



Source: Bloomberg as of June 22, 2021. These measures are household survey-based confidence indicators by the European Commission across various sectors (consumer, services and industrial) and economy.

## Growth is being driven by several factors:

**Vaccine rollout progress has been great in the UK and is now significantly picking up in Europe.** Infection and hospitalization rates are falling, while average vaccination levels have reached around 50%. If the Delta variant becomes more widespread it should be manageable, assuming ongoing vaccine progress. This is boosting mobility, which is starting to support the depressed services sectors, which dominates 80% of UK output. Services picked up across Europe in May, led by particularly depressed close-contact service areas. June saw a pickup in high frequency services data points, which should show up in the hard data after more of a lag. In Europe, the travel sector contributes over 10% of GDP in many countries and is picking up from low levels.

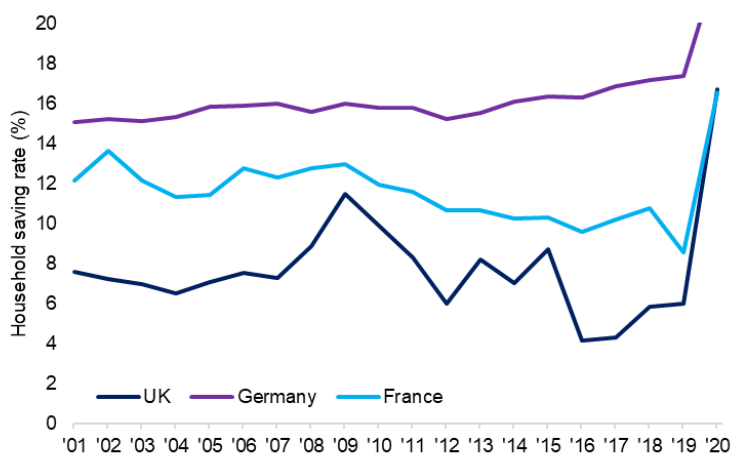
**There is ongoing policy support from governments and the central banks.** Even as fiscal measures start to have impact, we expect ongoing monetary accommodation for a prolonged period. In Europe, the distribution and spending of the €750 billion EU Recovery Fund will gather momentum throughout the rest of the year. This should be particular benefit to Spain and Italy, which each gain grants and loans equating to 12% of their respective GDP. In addition, there are ongoing significant national fiscal expansions.

In total during the pandemic, the UK's BOE has committed £875 billion and the government has committed £400 billion (17% of GDP). European emergency commitments are €1.85 trillion (17% of EU GDP) from the ECB as well as the €750 billion EU Recovery Fund (7% GDP). The key point regarding national fiscal expansions is that lessons have been learnt from the austerity imposed soon after the Global Financial Crisis. This time, the consolidations and normalization will occur much more slowly. There are two key points regarding the EU Recovery Fund. Firstly, a broad intention exists to spend the funds on areas which will have high multipliers through the EU economies. Secondly, the spending will be persistent through to 2026, starting with a fiscal impact this year of around 1.5%.

**The manufacturing rebound is gathering strength.** This is driven by inventory rebuilding and particularly Asian import demand and is occurring despite supply chain bottlenecks in some areas. Some 14% of UK exports go to Asia. China and developing Asia combined account for 11% of European exports. Germany has particularly significant exposure to Asia with approximately 15% of exports. Industrial production levels have normalized, having not been impacted by the COVID third-wave restrictions. Forward-looking indicators such as new orders and business expectations suggest further upside ahead.

**Falling unemployment and high levels of accumulated savings during the pandemic** are resulting in high pent-up demand and supporting consumer confidence (Figure 41). In the UK, there has been around £150 billion incremental savings since the onset of the pandemic.

**Figure 47: Household savings rates have risen significantly during the pandemic**



Source: Bloomberg as of June 22, 2021. Annual data through 31/12/2020. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only. Past performance is no guarantee of future results. Real results may vary.

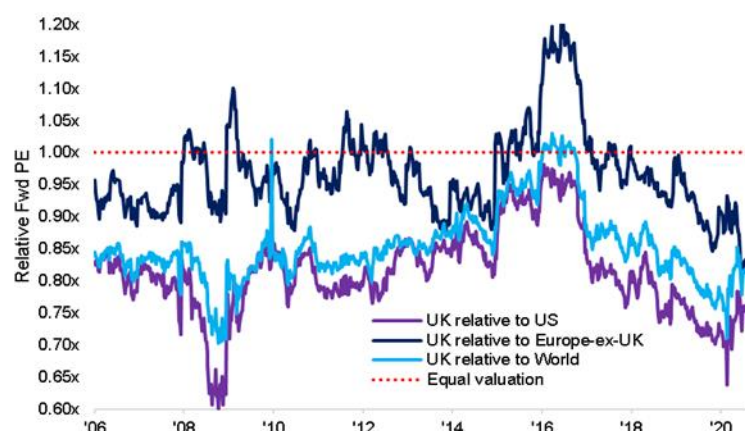


**Brexit has caused less upheaval than had been expected.** This is starting to show up in UK-EU trade data. On both sides of the channel, initial logistics and administration issues after the left the EU in January 2021 are gradually being resolved. The key medium-term post-Brexit issue is in Northern Ireland, where there are challenges in implementing the Northern Ireland protocol. This part of the EU Withdrawal Agreement states that all goods entering Northern Ireland from Great Britain must follow EU customs rules, leading to a trade border in the Irish Sea. Both sides are working towards a more flexible solution, supported by President Biden who has stressed the vital importance of preserving the Good Friday Agreement.

## 2) Value

The UK market is cheap in absolute terms, cheap relative to other developed market equity markets, and cheap relative to UK fixed income. The FTSE 100 is 27.5% up from its November 2020 low. While it is up 10% so far this year, it remains 7% below its pre-COVID peak. The valuation multiple of 14 is cheaper than any developed market and is well-supported by forecast EPS growth this year of more than 50%. The average dividend yield of over 3.5% enhances the quality of the potential total return and is particularly attractive versus fixed income. At a global level, we favor cyclicals and value, and each of these areas make up around 60% of UK market capitalization.

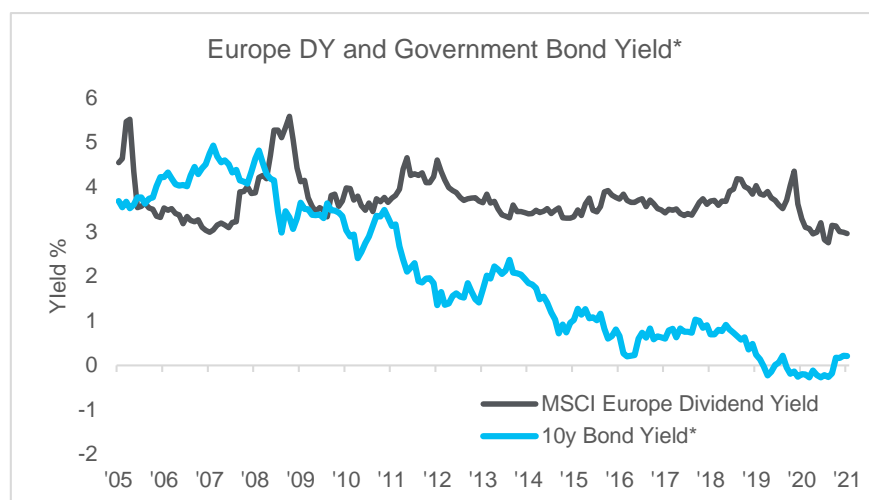
**Figure 48: UK market in terms of its relative PER**



Source: Bloomberg as of June 22 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only. Past performance is no guarantee of future results. Real results may vary.

**European equities are one of the strongest global performers so far this year**, up 15%, yet global investors' change in perception of Europe is only in its early stages. The perception change is being prompted by upside growth surprises being reflected in a very strong year for EPS growth this year of around 42% and another good year for earnings in 2022 starting to be discounted. European markets offer over 55% of market capitalization in the areas we favor at a global level: cyclicals and value. The average dividend yield of around 2.9% is very attractive versus deposit rates, versus other markets, and versus European fixed income (Figure 43). The Swiss yield gap of around 300 basis points is the highest in the world. The valuation multiple is at a 6% discount to the global average, and in absolute terms the high teens multiple is in line with Europe's historic average at a time when the discount rate is historically low.

**Figure 49: European Yield Gap – strongly supportive for inflows into equity from fixed income**



Source: Bloomberg, Citi Research as of June 18, 2021. \*60% Bunds & \*40% Gilt yields.

### 3) *Liquidity*

**There are early signs of global equity allocations to UK and European equities rising from low levels, with rising net inflows.** The region's equity markets have seen net inflows in 11 of the last 12 weeks. Global ETF flows are now seeing the greatest demand in Europe and the UK. In the first half of this year, ETF inflows into the region are up 40% compared with the first half last year. The UK ETF demand is broadening from large-cap to mid-cap. In addition, some of the huge emergency government and central funds are supporting market liquidity. Finally, inflows from fixed income are ongoing, driven by particularly wide yield gaps in favor of equities.

### 4) *Technicals*

The technical backdrop is very strong. With typical ownership levels still low, consolidations are on light volumes. Indices are trending higher with higher highs and higher lows, with increasing breadth of buying support. Upward trend lines are firmly intact.

### **Equity investment opportunities**

Following the underperformance in 2020, COVID cyclical equities<sup>1</sup> have rebounded strongly in 2021. We believe there is further to go. In terms of index weighting, COVID cyclicals make up over 55% of European and over 60% of UK market capitalization. COVID cyclical sectors include industrials, energy, financials, materials, and consumer discretionary.

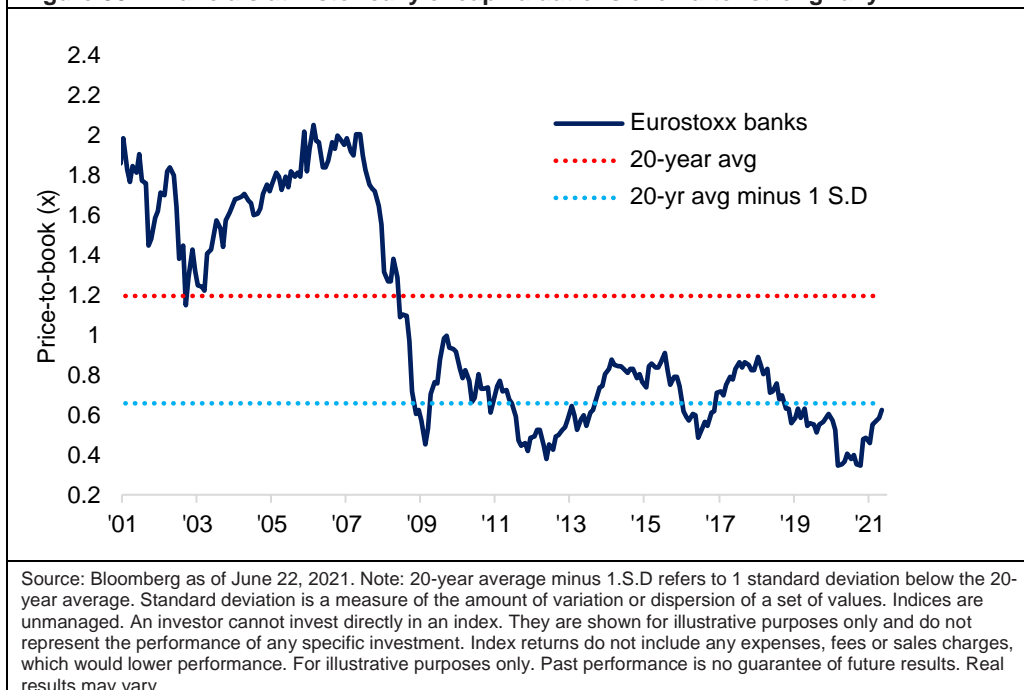
Rebounding economic growth should help this outperformance continue. The biggest EPS rebounds in 2021 as well as upward revisions for 2022 are concentrated in COVID cyclical sectors.

**Value in both Europe and the UK remain compelling.** Value sectors tend to benefit in an environment with steepening yield curves and rising yields. Since the beginning of the year, German 10-year yields have risen from -0.55% to -0.182% currently, while UK 10-year yields have risen from 0.2% to 0.78%. Since the beginning of the year, the best two performing sectors, financials and cars, can both be defined as "value." Both are up 30% year-to-date.

We continue to recommend the bank sector, which is up over 90% since our recommendation in November 2020, but is still on a cheap average price/book valuation of 0.7 times. Returns on equity is benefiting from slightly steeper yield curves supporting net interest margins, fee income from M&A is likely to rise, and strong balance sheets (average CETI of 13%) make provision write backs likely next year.

<sup>1</sup> COVID cyclicals: Financials, industrials, materials, real estate, consumer discretionary. COVID defensives: IT, healthcare, communication services, consumer staples, utilities.

**Figure 50: Financials at historically cheap valuations even after strong rally**



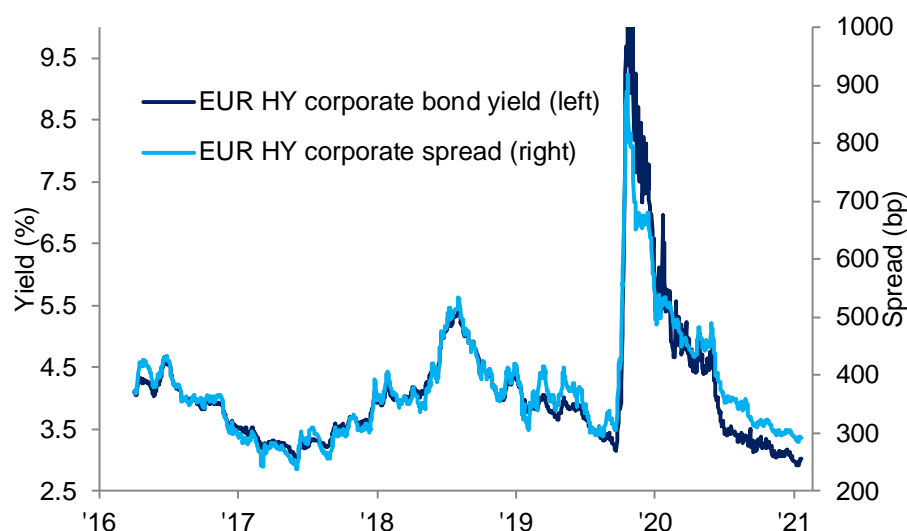
**The “green” story remains attractive.** This follows the EU Green Policy, which targets 32% of its energy needs from renewable sources by 2030. It also comes after the EU Green Deal, targeting a fall in carbon emissions to 55% of 1990 levels by 2030, with likely enforcement tariffs for countries that don’t comply. The EU Recovery Fund will raise 30% of the debt needed through green bonds, and the spending of the loans and grant money will have a significant focus on green initiatives. The next decade is projected to see approximately €1 trillion worth of green investment across Europe.

**Europe and UK are attractive markets for dividend yield.** The absolute average dividend yields of around 3.5% in the UK and 2.9% in Europe are high by global standards. Furthermore dividend-orientated strategies are heavily biased towards COVID cyclicals, with weightings in Europe and the UK of 74% and 65% respectively.

## Fixed Income

**We continue to remain underweight sovereign bonds, while seeking selective opportunities in corporate bonds.** We anticipate continued “trickle-down” demand into high yield (HY) to stay supportive, potentially driving average high yields down another 50 basis points (bp) to around 2.6%. Since the March 2020 price lows, European HY has rallied 30% compared to the 10% rally in investment grade (IG). However, the average HY yield of 3.1% and the average spread of 280 bp remains attractive as investors are increasingly challenged in finding compelling yield opportunities. We expect defaults to remain contained, given ongoing monetary and fiscal support, and many company debt maturity walls being pushed further out through new issuance. We prefer the risk-reward in the “fallen angels” area, which are HY bonds that were recently classified as IG.

Figure 51: Financials at historically cheap valuations



Source: Bloomberg as of June 23, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only. Past performance is no guarantee of future results. Real results may vary.

**The focus will soon turn to the EU's launch of a €800 billion bond vehicle**, to be raised by 2026. Some €20 billion of EU bonds have been successfully issued over the past fortnight and there is €60 billion further EU issuance to follow by year-end. In addition to financing the €750 billion EU Recovery Fund, which is making significant loans and grants to the periphery, the EU bonds will substantially enhance European bond market liquidity and provide a reliable curve for more rational pricing of existing and future sovereign and corporate bonds. Finally, if the EU bonds sell easily, even with slightly higher coupons than envisaged a few months ago, that would be powerful endorsement for the European investment outlook more broadly.

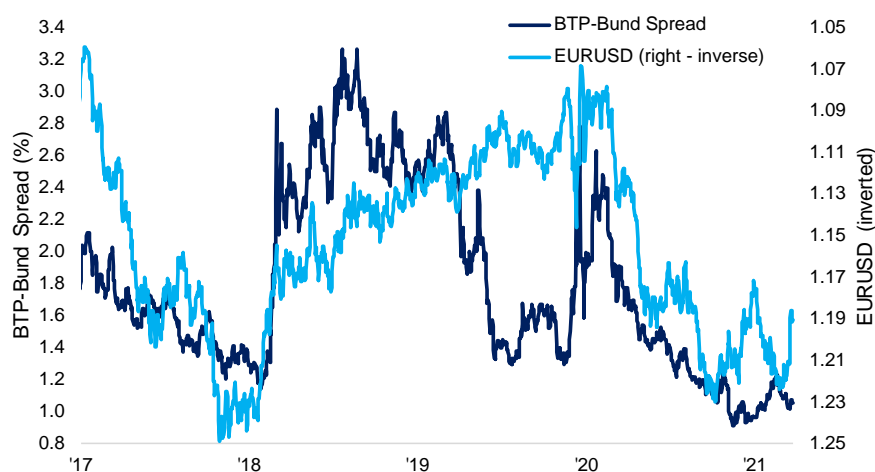
## Currencies

**Sterling remains 10-15% cheap** based on its CPI and PPI deflated real effective exchange rate. Inflows are well-supported by pent-up demand for all UK assets, and Sterling should continue to be accumulated below \$1.40. The next resistance level is \$1.4250. Once the long-term roadmap for the UK is clarified, post-Brexit and post-COVID, there is a strong likelihood of further sterling strength to \$1.45.

**The euro could face downward pressure in the coming months.** While the strength earlier this quarter was driven by relative vaccine momentum, looking forward the euro could face pressure as the driver turns to relative growth and relative rate momentum. The next support level is \$1.1850.

**However, euro downside should be limited, mainly because Eurozone periphery risks are low.** For several years prior to the pandemic, the periphery was perceived as an area of weakness. Now, despite the huge healthcare and economic impact of COVID-19, the peripheral countries are benefiting from improved European solidarity and support. The appointment of Mr. Draghi as the Italian PM has been a further positive factor as he has announced significant new plans to revive the Italian economy – a new electricity grid upgrade, hydrogen power projects, and structural reforms like reducing legal system bottlenecks. This is reflected in recent strong support for a €5 billion 50-year Italian sovereign bond issue which was 13 times oversubscribed, as well as in wider periphery sovereign bond issuance. For example, a Greece issue of €30 billion 10-year sovereign bonds was 12 times oversubscribed.

**Figure 52: BTP-Bund spreads remained at their lows**



Source: Bloomberg as of June 23, 2021. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. For illustrative purposes only. Past performance is no guarantee of future results. Real results may vary.

## Other topics

### 1) **UK inflation rising faster than Eurozone inflation**

UK inflation rose by 2.1% in May, above the Bank of England's forecast of 1.8% and above its target of 2%. The rate of inflation has trebled over three months and is up seven-fold since November 2020. The main drivers were recreational goods and services, clothing, petrol, restaurants, and car prices. While producer output prices rose at the fastest pace since 2012, the bigger driver was producer input prices which saw a 10.7% increase due to surges in material costs. Other UK data points have also been very strong, indicating further inflation pressures are likely into the autumn: residential property prices rose 8.9% year-on-year in April; unemployment in May showed a sixth consecutive monthly improvement.

European core inflation only rose by 1% year-on-year in May, up from 0.7% in April. Even with greater mobility in most countries, there are few signs of broad normalization in COVID-depressed prices. This is supportive of the ECB's conclusion last week that it would be premature to begin the process of monetary policy normalization.

### 2) **Central banks taking slightly different approaches**

**At its recent meeting, the BoE slightly reduced its pace of bond buying. However, it emphasized that this was "smoothing" rather than tapering. To raise interest rates, the BoE is seeking "significant progress" particularly in "eliminating spare capacity." It continues to think that the UK economic outlook is uncertain due to the pandemic. No substantial monetary policy changes are likely until there is visible strength after the end of the fiscal emergency support measures in the summer. The November BoE meeting will likely be critical. If the growth rebound disappoints, a further £50 billion quantitative easing extension may occur. But if the rebound is strengthening into a firm 2022 recovery, the BoE may signal monetary tightening to come**

**The ECB remains accommodative while raising its growth forecasts.** Its real GDP growth projections were upgraded to 4.6% (2021) and 4.7% (2022), from 4.0% and 4.1% respectively. Its inflation projections were upgraded to 1.9% (2021) and 1.5% (2022). However, it was deemed "premature" and "unnecessary" to start tapering, and the ECB's focus remains on maintaining "favorable financial conditions."

The ECB left rates unchanged, with its deposit rate at -0.5%, its marginal rate at 0.25%, and its refinancing rate at 0.0%. The ECB will continue with its Pandemic Emergency Purchase Programme (PEPP). The program's size is €1.85 trillion, and the ECB reaffirmed that this quarter will continue to see a higher pace of PEPP purchases compared with the first months of 2021. The ECB has no current plans to phase the program out before at least March 2022.



Maturing PEPP bonds will be reinvested until at least 2023. A flexible approach is being taken with the PEPP, with the total envelope being recalibrated if necessary and will not be fully utilized if conditions justify. Net purchases of the regular Asset Purchase Programme (APP) will remain at €20 billion per month, for as long as necessary and won't end before rates start to rise. Bank lending is still encouraged through the Targeted Long-Term Refinancing Operations (TLTROs).

**The Swiss National Bank (SNB) left its policy rate at -0.75%**, driven mainly by its forecast of only very moderate inflation in the medium-term. It expects surplus capacity in many areas “for some time yet.” It revised its inflation forecast up slightly by 0.2% to 0.4% for this year and by 0.2% to 0.6% for 2022. The growth forecast for this year was increased from 2.5% to 3%. A rate hike is unlikely anytime soon, and not before the ECB raises its deposit rate. The SNB continues to believe that the Swiss franc is “highly valued”, and we expect them to defend the 1.10 level versus the euro.

### **3) *Improving European and UK trade outlooks***

The US and the EU have agreed to end their 17-year aviation subsidy dispute. The previous referral to the World Trade Organization for arbitration led to tariffs being imposed on both sides due to their respective subsidies for Boeing and Airbus. This agreement paves an amicable path towards a likely reversing of the steel and aluminum tariffs imposed by both sides during the Trump administration. In addition, a new EU-US Trade and Technology Council has been created, which will work on new rules for a wide range of areas including semiconductors, and make it easier to deepen digital trade and data transfers between the two economies. There will also be more collaboration on standard-setting in areas like the internet.

Since leaving the EU, the UK has rolled over free trade deals with seven EU member countries. Last week the UK reached a trade agreement in principal with Australia. Bilateral tariffs will be eliminated with a 15-year transition period which will include quotas. The economic significance is small, likely to boost the UK economy by £500 million, which is equivalent to only 0.02% of GDP. However, the agreement is important in three other respects. Firstly, it paves the way for the UK to join the 11-nation Comprehensive and Progressive Trans-Pacific Partnership, the worlds' third largest free trade zone. Secondly, it is an early demonstration that the post-Brexit approach will be outward looking. Thirdly, concessions granted with Australia will be key baselines for other negotiations with other countries.

### **4) *Delta variant could slow COVID re-openings***

The Delta coronavirus strain emerged in India and is the dominant strain in the UK. Its spread prompted a one-month delay to the government's lifting of most remaining COVID restrictions. The strain increases the risk of hospitalization by 2.2 times. Now it is dominant in Portugal and is appearing in clusters across Germany, France, Italy and Spain. The fear amongst scientists is that the Delta variant may already have spread further but has gone undetected because less of the genomic sequencing needed to identify variants has been completed in Europe. Research from the UK shows that the Delta variant causes first vaccine doses to be less effective than other variants, putting increasing pressure on governments across the UK and Europe to give more second vaccine doses to more people more quickly.

### **5) *Mergers and acquisitions (M&A) picking up strongly***

M&A typically rises around six months after markets bottom, driven by rising company confidence and cheap financing costs, and this up-cycle is no different. Confidence numbers have been rebounding for 3 to 4 months. Debt finance is very attractive, with companies able to borrow at around 1.4% in the bond market which can typically be used to buy earnings yielding over 4% in the equity markets. In the UK, private equity deals announced for UK-listed companies have risen in the last six months at the fastest pace in over two decades. £21 billion has been bid for 345 UK companies, 13 of which are in the FTSE 100 index. The latest of these bids is by private equity firm Clayton, Dubilier and Rice for supermarket chain Wm Morrison.

### **6) *Elections upcoming in Germany and France***

Europe has had a benign political backdrop for many months, which has supported the COVID recovery as well as financial assets. In the coming months, Germany and France go to the polls, with the latter posing the greater risk.

Armin Laschet is the frontrunner to become the next German chancellor in the September federal election. Laschet's CDU party and its Bavarian sister party the Christian Social Union are favorites to win, with around 100 days to go. If elected, he is expected to continue Angela Merkel's policies towards supporting the economy, with a proposed 25% cap on corporate taxes and income tax relief for people on low and middle incomes, while seeking "as soon as possible" to bring Germany into compliance with the Maastricht treaty by bringing the debt-to-GDP ratio below 60% and rejecting attempts to remove Germany's "debt brake" to limit the budget deficit. The CDU would be very committed to ongoing EU integration, which should be supportive for the euro. In addition, Laschet would seek to maintain strong economic ties with China. Another possible outcome is a CDU coalition with the Green Party, which is much keener to challenge China on its human rights record and its environmental commitments.

The French regional elections in the PACA region (Provence-Alpes-Cote d'Azur) are important as they are the last elections before the presidential election next year. Overall, the left and center right parties did better than expected, while Le Pen's far-right Rassemblement National (RN) saw its share of the vote fall to 19% (down 8% from the first round in 2015) and President Macron's La Republique en Marche (LREM) won only 11% in fifth place. However, the big surprise was that turnout was very low. In the second round this coming weekend, with the announcement of the withdrawal of the Green candidate that finished third, voters will choose between the RN party of Le Pen (candidate Mariani) and the LR candidate Mudelier. Whatever the final result of the regional election, the second half of this year will see increasing focus on the 2022 national election. Given Macron's poor current polling, this is likely to impact on French market sentiment and start to have a broader impact on the euro.

# Portfolio allocations

This section shows the strategic and tactical asset allocations. The Quant Research & Global Asset Allocation (QRGAA) team creates strategic asset allocations using the [CPB Adaptive Valuations Strategy](#) (AVS) methodology on an annual basis. Global Investment Committee (GIC) provides underweight and overweight decisions to AVS's Global USD without Hedge Funds Risk Level 3 portfolio. QRGAA then creates tactical allocations for risk levels 1,2,4 and 5. These are included below. Also included below are Global USD with Hedge Funds and 10% illiquids PE & RE (Private Equity and Real Estate) for risk levels 2,3,4 and 5. The below strategic/tactical allocations are reflective of the June 23, 2021 GIC meeting.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 2

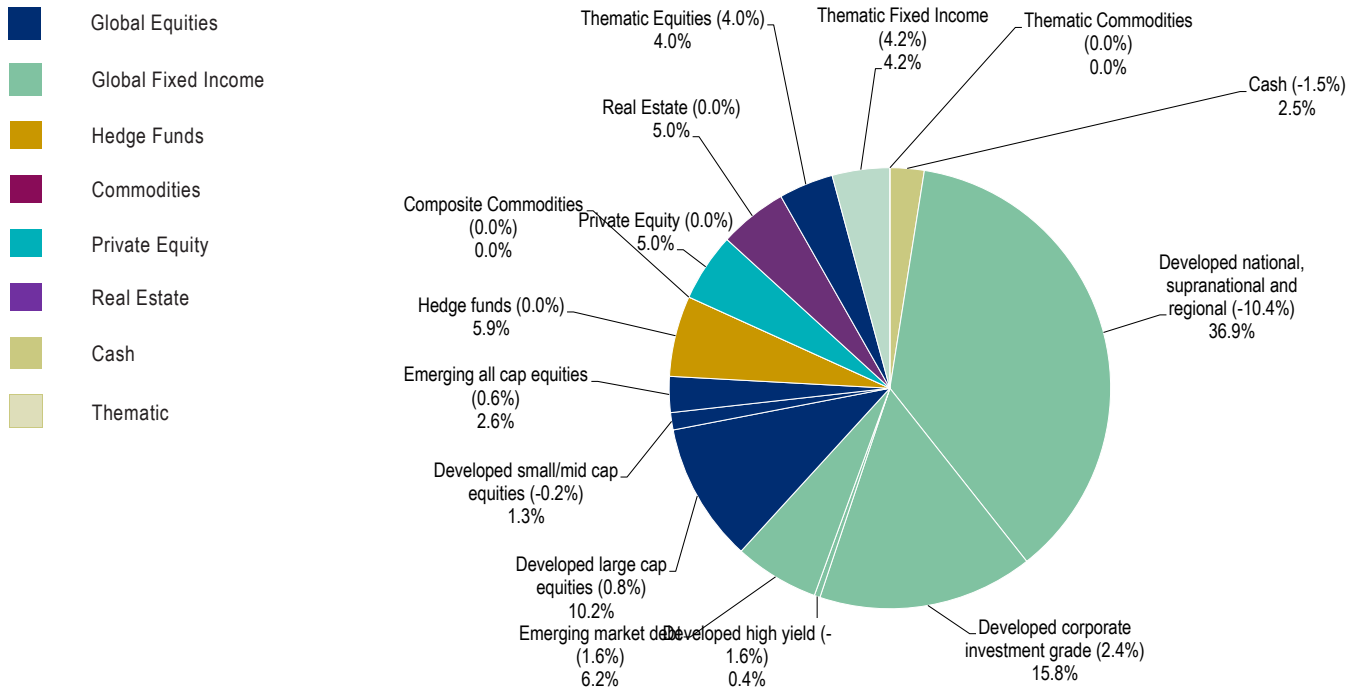
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	4.0	2.5	-1.5
Fixed Income	67.2	63.5	-3.8
Developed Investment Grade	60.6	52.6	-8.0
US	33.7	36.6	2.9
Government	14.1	13.3	-0.8
Inflation-Linked	2.0	3.3	1.3
Short	3.8	2.2	-1.6
Intermediate	5.8	5.3	-0.5
Long	2.5	2.5	0.0
Securitized	10.8	12.1	1.2
Credit	8.9	11.2	2.4
Short	1.2	1.4	0.2
Intermediate	4.7	6.9	2.1
Long	2.9	2.9	0.0
Europe	20.4	13.1	-7.3
Government	15.8	8.5	-7.3
Credit	4.5	4.5	0.0
Australia	0.4	0.4	0.0
Government	0.4	0.4	0.0
Japan	6.1	2.6	-3.6
Government	6.1	2.6	-3.6
Developed High Yield	2.0	0.4	-1.6
US	1.5	0.0	-1.5
Europe	0.5	0.4	-0.1
Emerging Market Debt	4.6	6.2	1.6
Asia	0.8	1.9	1.1
Local currency	0.4	1.0	0.6
Foreign currency	0.4	0.9	0.5
EMEA	2.6	2.6	0.0
Local currency	1.3	1.3	0.0
Foreign currency	1.3	1.3	0.0
LatAm	1.3	1.7	0.4
Local currency	0.6	0.7	0.0
Foreign currency	0.6	1.1	0.4
Thematic Fixed Income	0.0	4.2	4.2
US Bank Loans	0.0	4.2	4.2
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	12.8	18.1	5.2
Developed Equities	10.8	11.5	0.6
Developed Large Cap Equities	9.4	10.2	0.8
US	6.4	6.6	0.2
Canada	0.3	0.3	0.0
UK	0.4	0.7	0.4
Switzerland	0.3	0.3	0.0
Europe ex UK ex Switzerland	0.9	1.0	0.1
Asia ex Japan	0.3	0.4	0.1
Japan	0.8	0.8	0.0
Developed Small/Mid Cap Equities	1.4	1.3	-0.2
US	0.8	0.5	-0.3
Non-US	0.7	0.8	0.1
Emerging All Cap Equities	2.0	2.6	0.6
Asia	1.8	2.1	0.3
China	1.1	1.2	0.0
Asia (ex China)	0.6	0.9	0.3
EMEA	0.1	0.0	-0.1
LatAm	0.1	0.6	0.5
Brazil	0.1	0.4	0.3
LatAm ex Brazil	0.0	0.2	0.1
Thematic Equities	0.0	4.0	4.0
Global Equity REITs	0.0	0.5	0.5
US Mortgage REITs	0.0	0.5	0.5
Global Healthcare	0.0	3.0	3.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Hedge Funds	5.9	5.9	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0
Total	100.0	100.0	-0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

# Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 2 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +5.2%, global fixed income has an underweight of -3.8%, cash has an underweight of -1.5%.

Within equities, developed large cap equities are at an overweight position of +0.8% while developed small/mid cap equities are at underweight positions of -0.2%. Emerging market equities have an overweight of +0.6%. Thematic equities have an overweight of +4.0%.

Within fixed income, developed investment grade has an underweight position of -8.0%; developed high yield has an underweight position of -1.6% and emerging market debt has an overweight position of +1.6%. Thematic fixed income has an overweight of +4.2%.

Private Equity and Real Estate are both neutral, each with 5% allocation.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 3

Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

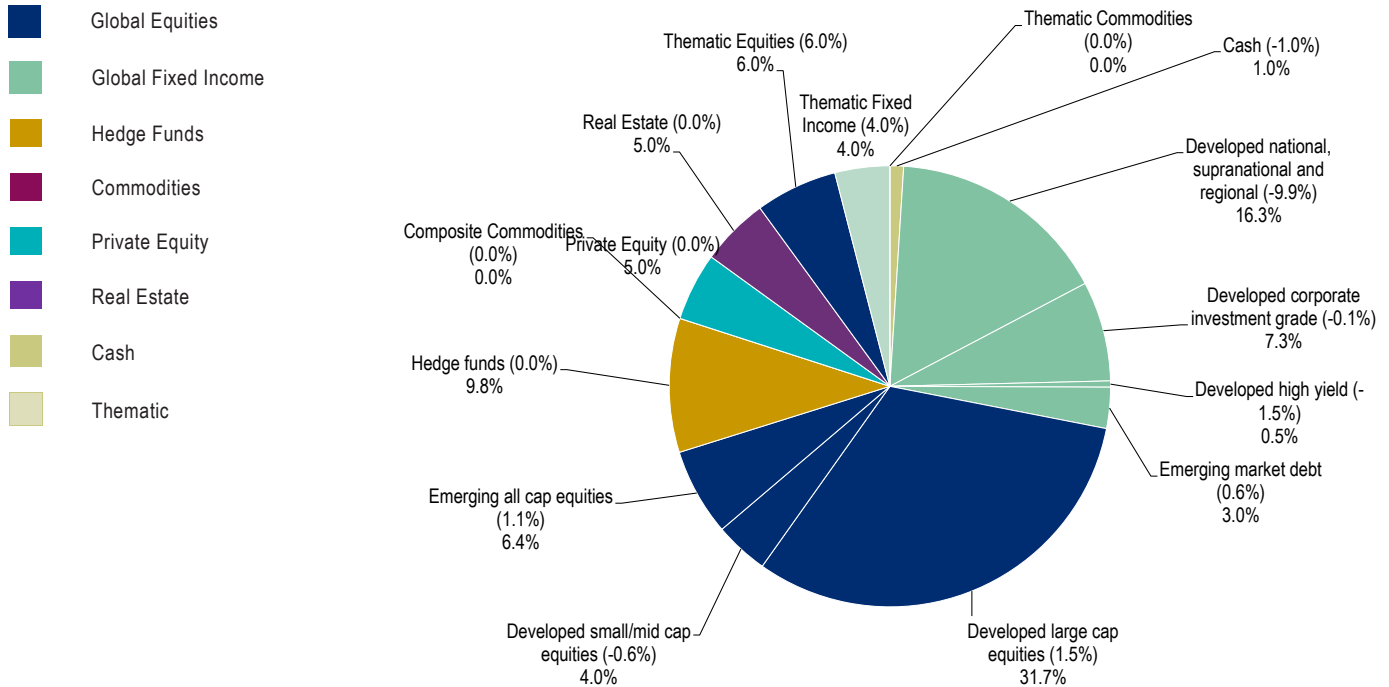
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	1.0	-1.0
Fixed Income	38.1	31.1	-7.0
Developed Investment Grade	33.6	23.6	-10.0
US	18.7	18.9	0.2
Government	7.8	8.1	0.2
Inflation-Linked	1.1	3.3	2.1
Short	2.1	0.1	-2.0
Intermediate	3.2	3.3	0.1
Long	1.4	1.4	0.0
Securitized	6.0	5.9	-0.1
Credit	4.9	5.0	0.1
Short	0.7	0.7	0.0
Intermediate	2.6	2.7	0.0
Long	1.6	1.6	0.0
Europe	11.3	4.4	-6.9
Government	8.8	2.1	-6.7
Credit	2.5	2.3	-0.2
Australia	0.2	0.2	0.0
Government	0.2	0.2	0.0
Japan	3.4	0.1	-3.3
Government	3.4	0.1	-3.3
Developed High Yield	2.0	0.5	-1.5
US	1.5	0.0	-1.5
Europe	0.5	0.5	-0.0
Emerging Market Debt	2.4	3.0	0.6
Asia	0.4	1.0	0.5
Local currency	0.2	0.5	0.3
Foreign currency	0.2	0.4	0.2
EMEA	1.3	1.4	0.0
Local currency	0.7	0.7	0.0
Foreign currency	0.7	0.7	0.0
LatAm	0.7	0.7	0.0
Local currency	0.3	0.3	0.0
Foreign currency	0.3	0.3	0.0
Thematic Fixed Income	0.0	4.0	4.0
US Bank Loans	0.0	4.0	4.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	40.1	48.1	8.0
Developed Equities	34.8	35.7	0.9
Developed Large Cap Equities	30.2	31.7	1.5
US	20.6	20.6	0.0
Canada	1.0	1.0	0.0
UK	1.2	2.2	1.0
Switzerland	0.9	1.0	0.0
Europe ex UK ex Switzerland	2.9	3.1	0.2
Asia ex Japan	1.1	1.3	0.2
Japan	2.5	2.6	0.0
Developed Small/ Mid Cap Equities	4.5	4.0	-0.6
US	2.4	1.8	-0.6
Non-US	2.1	2.1	0.0
Emerging All Cap Equities	5.3	6.4	1.1
Asia	4.7	5.1	0.4
China	3.0	3.1	0.1
Asia (ex China)	1.6	2.0	0.4
EMEA	0.3	0.0	-0.3
LatAm	0.3	1.3	1.0
Brazil	0.2	0.9	0.7
LatAm ex Brazil	0.1	0.4	0.3
Thematic Equities	0.0	6.0	6.0
Global Equity REITs	0.0	1.0	1.0
US Mortgage REITs	0.0	1.0	1.0
Global Healthcare	0.0	4.0	4.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Hedge Funds	9.8	9.8	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.



## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 3 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +8.0%, global fixed income has an underweight of -7.0%, cash has an underweight of -1.0%.

Within equities, developed large cap equities have an overweight position of +1.5% while developed small/mid cap equities have an underweight position of -0.6%. Emerging market equities have an overweight of +1.1%. Thematic equities have an overweight position of +6.0%.

Within fixed income, developed investment grade debt has an underweight position of -10.0%; developed high yield has an underweight position of -1.5%; emerging market debt has an overweight position of +0.6%. Thematic fixed income has an overweight position of +4.0%.

Private Equity and Real Estate are both neutral, each with 5% allocation.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 4

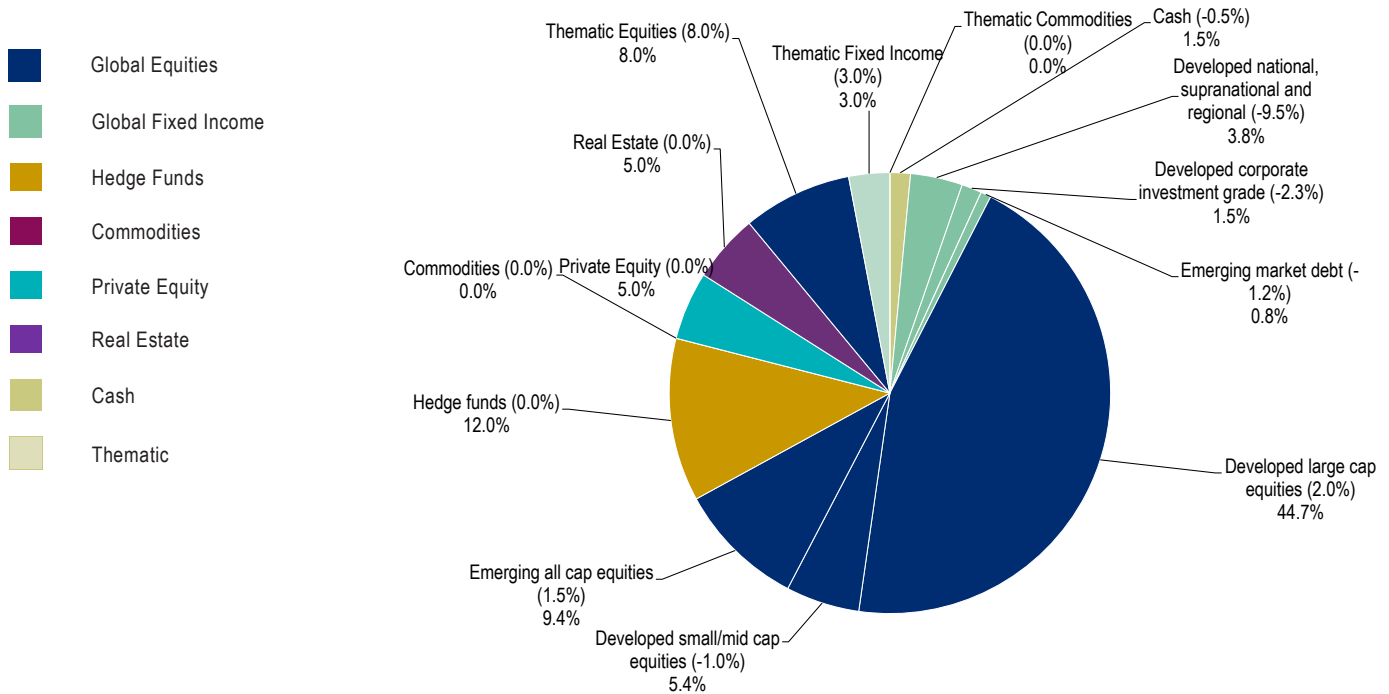
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investment. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	1.5	-0.5
Fixed Income	19.0	9.0	-10.0
Developed Investment Grade	17.0	5.3	-11.8
US	9.5	4.7	-4.8
Government	4.0	3.0	-1.0
Inflation-Linked	0.6	1.7	1.1
Short	1.1	0.0	-1.1
Intermediate	1.6	0.5	-1.1
Long	0.7	0.7	0.0
Securitized	3.0	0.5	-2.5
Credit	2.5	1.2	-1.3
Short	0.3	0.0	-0.3
Intermediate	1.3	0.9	-0.5
Long	0.8	0.3	-0.5
Europe	5.7	0.6	-5.1
Government	4.5	0.3	-4.1
Credit	1.3	0.2	-1.0
Australia	0.1	0.0	-0.1
Government	0.1	0.0	-0.1
Japan	1.7	0.0	-1.7
Government	1.7	0.0	-1.7
Developed High Yield	0.0	0.0	0.0
US	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Emerging Market Debt	2.0	0.8	-1.2
Asia	0.3	0.5	0.1
Local currency	0.2	0.3	0.1
Foreign currency	0.2	0.2	0.0
EMEA	1.1	0.0	-1.1
Local currency	0.5	0.0	-0.5
Foreign currency	0.5	0.0	-0.5
LatAm	0.6	0.3	-0.3
Local currency	0.3	0.0	-0.3
Foreign currency	0.3	0.3	0.0
Thematic Fixed Income	0.0	3.0	3.0
US Bank Loans	0.0	3.0	3.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	57.0	67.5	10.5
Developed Equities	49.1	50.1	1.0
Developed Large Cap Equities	42.7	44.7	2.0
US	29.0	29.0	-0.1
Canada	1.4	1.4	0.0
UK	1.7	3.1	1.4
Switzerland	1.3	1.3	0.0
Europe ex UK ex Switzerland	4.1	4.4	0.3
Asia ex Japan	1.6	1.9	0.3
Japan	3.6	3.7	0.1
Developed Small/Mid Cap Equities	6.4	5.4	-1.0
US	3.4	2.6	-0.9
Non-US	3.0	2.8	-0.1
Emerging All Cap Equities	7.9	9.4	1.5
Asia	6.9	7.4	0.5
China	4.5	4.5	0.1
Asia (ex China)	2.4	2.8	0.4
EMEA	0.5	0.0	-0.5
LatAm	0.5	2.0	1.5
Brazil	0.3	1.3	1.0
LatAm ex Brazil	0.2	0.7	0.5
Thematic Equities	0.0	8.0	8.0
Global Equity REITs	0.0	1.5	1.5
US Mortgage REITs	0.0	1.5	1.5
Global Healthcare	0.0	5.0	5.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Hedge Funds	12.0	12.0	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 4 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +10.5%, global fixed income has an underweight of -10.0%, cash has an underweight of -0.5%.

Within equities, developed large cap equities have an overweight position of +2.0% while developed small/mid cap equities have an underweight position of -1.0%. Emerging market equities have an overweight of +1.5%. Thematic equities have an overweight of +8.0%.

Within fixed income, developed investment grade has an underweight position of -11.8%; developed high yield has a neutral position and emerging market debt has an underweight position of -1.2%. Thematic fixed income has an overweight of +3.0%.

Private Equity and Real Estate are both neutral, each with 5% allocation.

# Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 5

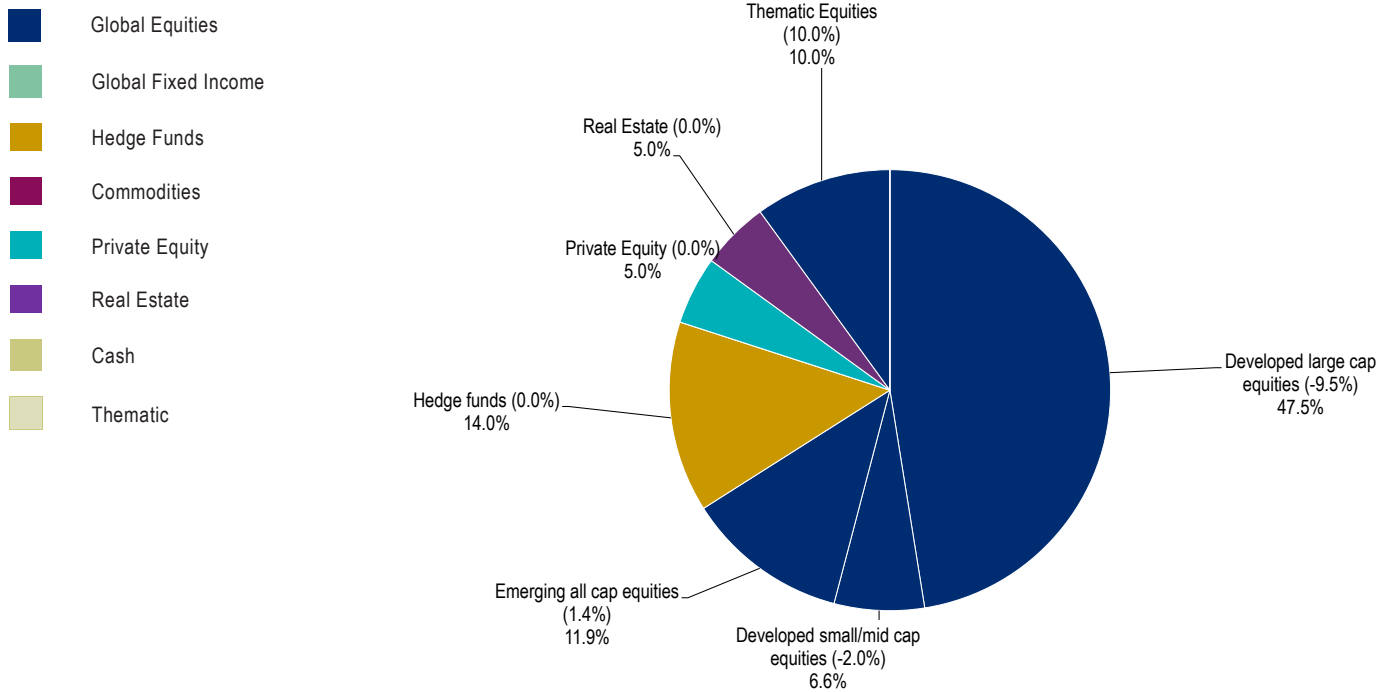
Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies that may assume higher than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains. Clients may engage in tactical or opportunistic trading, which may involve higher volatility and variability of returns.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	0.0	0.0	0.0
Fixed income	0.0	0.0	0.0
Developed Investment Grade	0.0	0.0	0.0
US	0.0	0.0	0.0
Government	0.0	0.0	0.0
Inflation-Linked	0.0	0.0	0.0
Short	0.0	0.0	0.0
Intermediate	0.0	0.0	0.0
Long	0.0	0.0	0.0
Securitized	0.0	0.0	0.0
Credit	0.0	0.0	0.0
Short	0.0	0.0	0.0
Intermediate	0.0	0.0	0.0
Long	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Government	0.0	0.0	0.0
Credit	0.0	0.0	0.0
Australia	0.0	0.0	0.0
Government	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Government	0.0	0.0	0.0
Developed High Yield	0.0	0.0	0.0
US	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Emerging Market Debt	0.0	0.0	0.0
Asia	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
LatAm	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
Thematic Fixed Income	0.0	0.0	0.0
US Bank Loans	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	76.0	76.0	0.0
Developed Equities	65.5	54.1	-11.4
Developed Large Cap Equities	57.0	47.5	-9.5
US	38.7	34.0	-4.7
Canada	1.9	0.0	-1.9
UK	2.3	3.1	0.9
Switzerland	1.8	0.6	-1.2
Europe ex UK ex Switzerland	5.5	4.5	-1.0
Asia ex Japan	2.1	1.6	-0.5
Japan	4.8	3.6	-1.1
Developed Small/Mid Cap Equities	8.6	6.6	-2.0
US	4.6	3.3	-1.3
Non-US	4.0	3.3	-0.7
Emerging All Cap Equities	10.5	11.9	1.4
Asia	9.2	9.2	0.0
China	6.0	5.5	-0.5
Asia (ex China)	3.2	3.7	0.5
EMEA	0.6	0.4	-0.2
LatAm	0.7	2.3	1.7
Brazil	0.4	1.6	1.2
LatAm ex Brazil	0.2	0.7	0.5
Thematic Equities	0.0	10.0	10.0
Global Equity REITs	0.0	3.0	3.0
US Mortgage REITs	0.0	1.0	1.0
Global Healthcare	0.0	6.0	6.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Hedge Funds	14.0	14.0	0.0
Private Equity	5.0	5.0	0.0
Real Estate	5.0	5.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD with Hedge Funds and 10% illiquids (PE & RE): Risk Level 5 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities, global fixed income, cash and gold all have an overall neutral position.

Within equities, developed large cap equities have an underweight position of -9.5% and developed small/mid cap equities have an underweight position of -2.0%. Emerging market equities have an overweight of +1.4%. Thematic equities have an overweight of +10.0%.

Within fixed income, developed government debt, developed corporate investment grade, developed high yield and emerging market debt are all at neutral position.

Private Equity and Real Estate are both neutral, each with 5% allocation.

# Global USD without Hedge Funds: Risk Level 1

Risk Level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

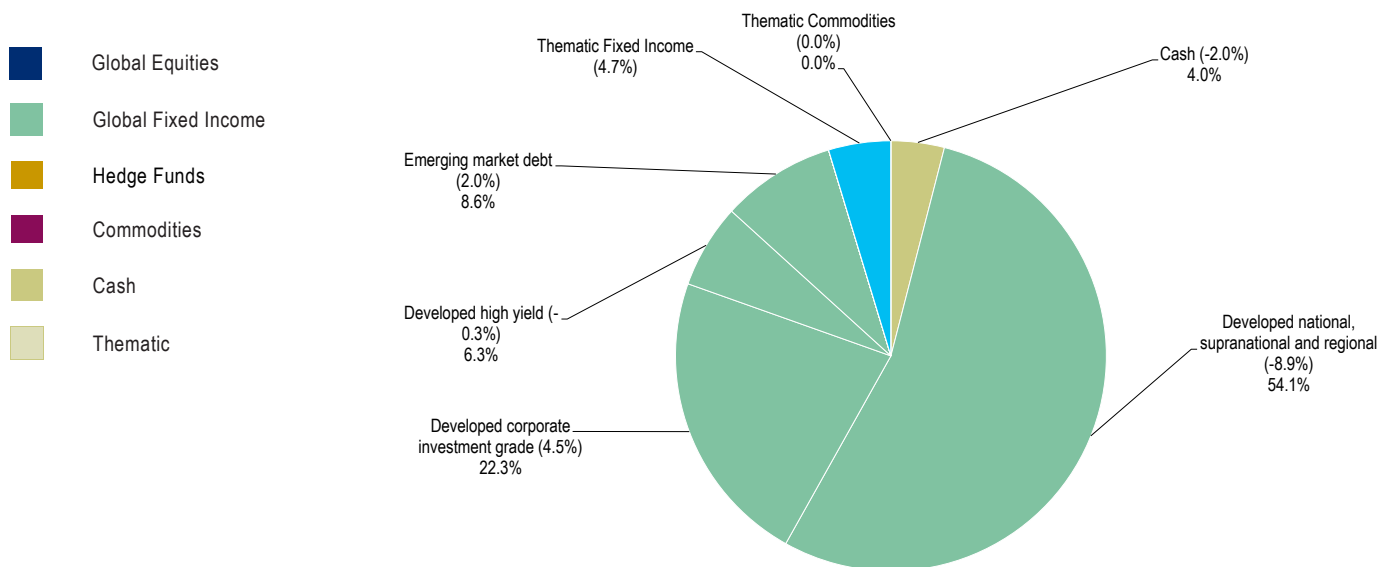
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	6.0	4.0	-2.0
Fixed Income	94.0	96.0	2.0
Developed Investment Grade	80.8	76.4	-4.4
US	45.0	51.1	6.1
Government	18.8	19.4	0.6
Inflation-Linked	2.7	3.5	0.8
Short	5.0	4.8	-0.2
Intermediate	7.8	7.8	0.0
Long	3.3	3.3	0.0
Securitized	14.4	15.9	1.5
Credit	11.8	15.8	4.0
Short	1.6	2.6	1.0
Intermediate	6.3	9.3	3.0
Long	3.9	3.9	0.0
Europe	27.2	20.2	-7.0
Government	21.1	13.6	-7.5
Credit	6.0	6.5	0.5
Australia	0.5	0.5	0.0
Government	0.5	0.5	0.0
Japan	8.2	4.7	-3.5
Government	8.2	4.7	-3.5
Developed High Yield	6.6	6.3	-0.3
US	5.0	3.1	-1.9
Europe	1.6	3.2	1.6
Emerging Market Debt	6.6	8.6	2.0
Asia	1.1	2.4	1.3
Local currency	0.6	1.1	0.5
Foreign currency	0.6	1.4	0.8
EMEA	3.6	3.6	0.0
Local currency	1.8	1.8	0.0
Foreign currency	1.8	1.8	0.0
LatAm	1.8	2.5	0.7
Local currency	0.9	0.9	0.0
Foreign currency	0.9	1.6	0.7
Thematic Fixed Income	0.0	4.7	4.7
US Bank Loans	0.0	4.7	4.7
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	0.0	0.0	0.0
Developed Equities	0.0	0.0	0.0
Developed Large Cap Equities	0.0	0.0	0.0
US	0.0	0.0	0.0
Canada	0.0	0.0	0.0
UK	0.0	0.0	0.0
Switzerland	0.0	0.0	0.0
Europe ex UK ex Switzerland	0.0	0.0	0.0
Asia ex Japan	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Developed Small/Mid Cap Equities	0.0	0.0	0.0
US	0.0	0.0	0.0
Non-US	0.0	0.0	0.0
Emerging All Cap Equities	0.0	0.0	0.0
Asia	0.0	0.0	0.0
China	0.0	0.0	0.0
Asia (ex China)	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
LatAm	0.0	0.0	0.0
Brazil	0.0	0.0	0.0
LatAm ex Brazil	0.0	0.0	0.0
Thematic Equities	0.0	0.0	0.0
Global Equity REITs	0.0	0.0	0.0
US Mortgage REITs	0.0	0.0	0.0
Global Healthcare	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Total	100.0	100.0	0.0



Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 1 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overall neutral position, global fixed income has an overweight of +2.0%, cash has an underweight of -2.0%.

Within equities, developed large cap equities, developed small/mid cap equities and emerging market equities are all at neutral positions.

Within fixed income, developed investment grade debt has an underweight position of -4.4%; developed high yield has an underweight position of -0.3% and emerging market debt has an overweight position of +2.0%. Thematic fixed income has an overweight position of +4.7%.

## Global USD without Hedge Funds: Risk Level 2

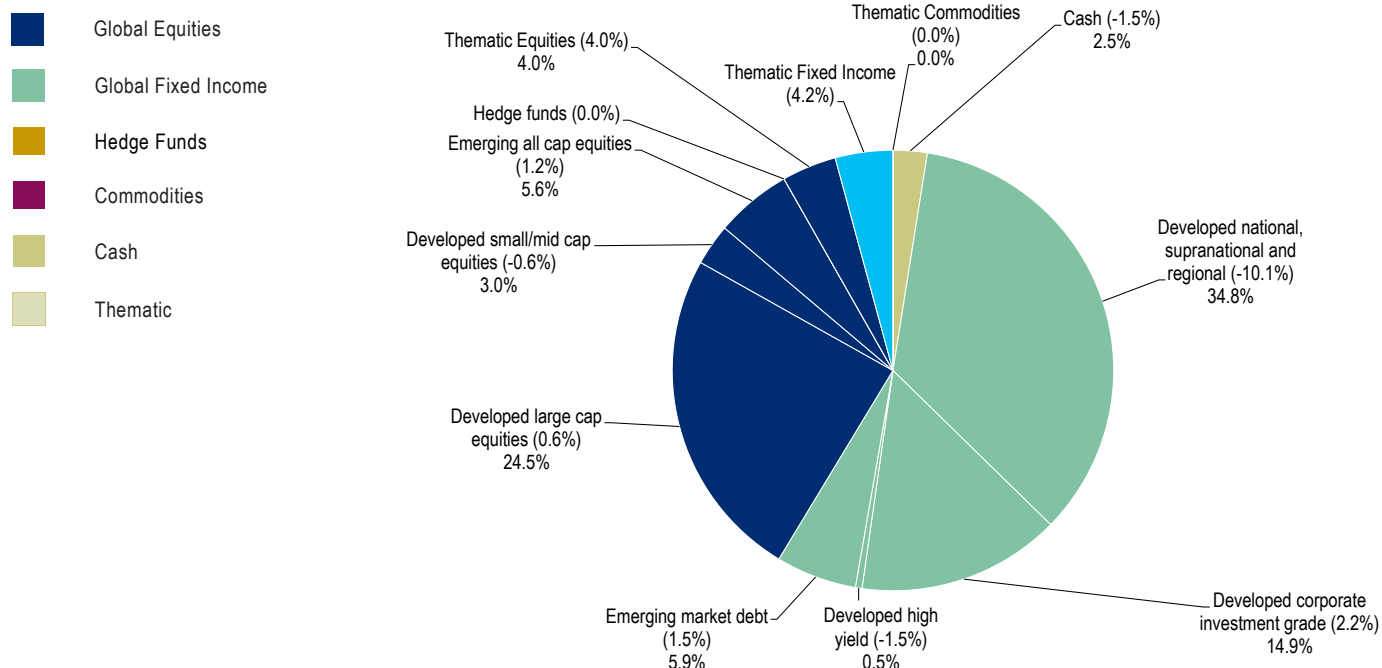
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	4.0	2.5	-1.5
Fixed Income	64.1	60.4	-3.8
Developed Investment Grade	57.6	49.7	-7.9
US	32.1	34.6	2.5
Government	13.4	12.6	-0.8
Inflation-Linked	1.9	3.1	1.2
Short	3.6	2.1	-1.5
Intermediate	5.5	5.0	-0.5
Long	2.4	2.4	0.0
Securitized	10.3	11.4	1.1
Credit	8.4	10.6	2.2
Short	1.2	1.4	0.2
Intermediate	4.5	6.5	2.0
Long	2.8	2.8	0.0
Europe	19.4	12.4	-7.0
Government	15.1	8.1	-7.0
Credit	4.3	4.3	0.0
Australia	0.3	0.3	0.0
Government	0.3	0.3	0.0
Japan	5.8	2.4	-3.4
Government	5.8	2.4	-3.4
Developed High Yield	2.0	0.5	-1.5
US	1.5	0.0	-1.5
Europe	0.5	0.5	0.0
Emerging Market Debt	4.5	5.9	1.5
Asia	0.8	1.8	1.1
Local currency	0.4	0.9	0.6
Foreign currency	0.4	0.9	0.5
EMEA	2.5	2.5	0.0
Local currency	1.2	1.2	0.0
Foreign currency	1.2	1.2	0.0
LatAm	1.2	1.6	0.4
Local currency	0.6	0.6	0.0
Foreign currency	0.6	1.0	0.4
Thematic Fixed Income	0.0	4.2	4.2
US Bank Loans	0.0	4.2	4.2
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	31.9	37.1	5.2
Developed Equities	27.5	27.5	0.0
Developed Large Cap Equities	23.9	24.5	0.6
US	16.3	15.9	-0.4
Canada	0.8	0.8	0.0
UK	0.9	1.8	0.9
Switzerland	0.7	0.7	0.0
Europe ex UK ex Switzerland	2.3	2.4	0.1
Asia ex Japan	0.9	1.0	0.2
Japan	2.0	2.0	-0.1
Developed Small/Mid Cap Equities	3.6	3.0	-0.6
US	1.9	1.2	-0.8
Non-US	1.7	1.9	0.2
Emerging All Cap Equities	4.4	5.6	1.2
Asia	3.9	4.4	0.5
China	2.5	2.5	0.0
Asia (ex China)	1.4	1.9	0.5
EMEA	0.3	0.0	-0.3
LatAm	0.3	1.2	1.0
Brazil	0.2	0.8	0.7
LatAm ex Brazil	0.1	0.4	0.3
Thematic Equities	0.0	4.0	4.0
Global Equity REITs	0.0	0.5	0.5
US Mortgage REITs	0.0	0.5	0.5
Global Healthcare	0.0	3.0	3.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

# Global USD without Hedge Funds: Risk Level 2 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +5.2%, global fixed income has an underweight of -3.8%, cash has an underweight of -1.5%.

Within equities, developed large cap equities have an overweight position of +0.6% while developed small/mid cap equities have an underweight of -0.6%. Emerging market equities have an overweight of +1.2%. Thematic equities have an overweight of +4.0%.

Within fixed income, developed investment grade has an underweight position of -7.9%; developed high yield has an underweight position of -1.5% and emerging market debt has an overweight position of +1.5%. Thematic fixed income has an overweight position of +4.2%.

## Global USD without Hedge Funds: Risk Level 3

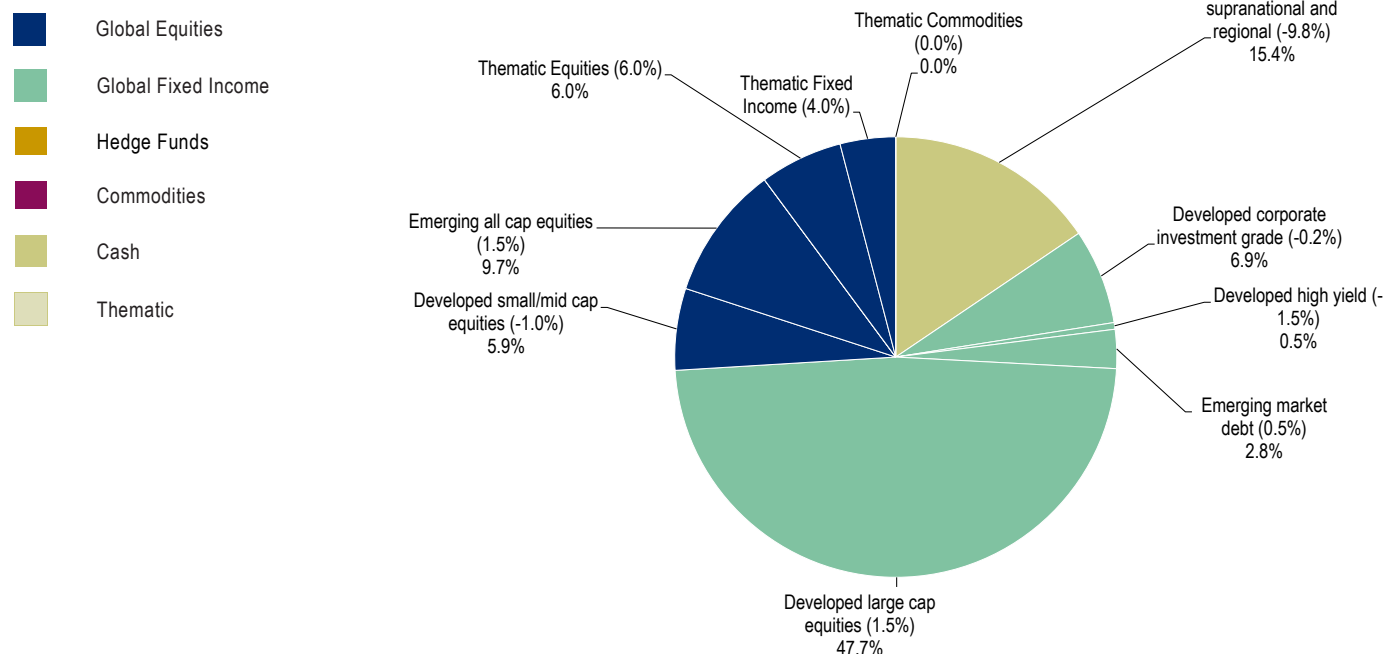
Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	1.0	-1.0
Fixed Income	36.6	29.6	-7.0
Developed Investment Grade	32.3	22.3	-10.0
US	18.0	17.9	-0.1
Government	7.5	7.6	0.1
Inflation-Linked	1.1	3.1	2.0
Short	2.0	0.1	-1.9
Intermediate	3.1	3.1	0.0
Long	1.3	1.3	0.0
Securitized	5.8	5.6	-0.2
Credit	4.7	4.7	0.0
Short	0.6	0.6	0.0
Intermediate	2.5	2.5	0.0
Long	1.5	1.5	0.0
Europe	10.8	4.1	-6.7
Government	8.4	1.9	-6.5
Credit	2.4	2.2	-0.2
Australia	0.2	0.2	0.0
Government	0.2	0.2	0.0
Japan	3.3	0.1	-3.2
Government	3.3	0.1	-3.2
Developed High Yield	2.0	0.5	-1.5
US	1.5	0.0	-1.5
Europe	0.5	0.5	0.0
Emerging Market Debt	2.3	2.8	0.5
Asia	0.4	0.9	0.5
Local currency	0.2	0.5	0.3
Foreign currency	0.2	0.4	0.2
EMEA	1.3	1.3	0.0
Local currency	0.6	0.6	0.0
Foreign currency	0.6	0.6	0.0
LatAm	0.6	0.6	0.0
Local currency	0.3	0.3	0.0
Foreign currency	0.3	0.3	0.0
Thematic Fixed Income	0.0	4.0	4.0
US Bank Loans	0.0	4.0	4.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	61.4	69.4	8.0
Developed Equities	53.2	53.7	0.5
Developed Large Cap Equities	46.2	47.7	1.5
US	31.4	30.9	-0.5
Canada	1.5	1.5	0.0
UK	1.8	3.3	1.5
Switzerland	1.4	1.4	0.0
Europe ex UK ex Switzerland	4.5	4.6	0.2
Asia ex Japan	1.7	2.0	0.3
Japan	3.9	3.9	0.0
Developed Small/Mid Cap Equities	6.9	5.9	-1.0
US	3.7	2.7	-1.0
Non-US	3.2	3.2	0.0
Emerging All Cap Equities	8.2	9.7	1.5
Asia	7.2	7.7	0.5
China	4.7	4.7	0.0
Asia (ex China)	2.5	3.0	0.5
EMEA	0.5	0.0	-0.5
LatAm	0.5	2.0	1.5
Brazil	0.3	1.3	1.0
LatAm ex Brazil	0.2	0.7	0.5
Thematic Equities	0.0	6.0	6.0
Global Equity REITs	0.0	1.0	1.0
US Mortgage REITs	0.0	1.0	1.0
Global Healthcare	0.0	4.0	4.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Total	100.0	100.0	-0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 3 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +8.0%, global fixed income has an underweight of -7.0%, cash has an underweight of -1.0%.

Within equities, developed large cap equities have an overweight position of +1.5% while developed small/mid cap equities have an underweight position of -1.0%. Emerging market equities have an overweight of +1.5%. Thematic equities have an overweight of +6.0%.

Within fixed income, developed investment grade debt has an underweight position of -10.0%; developed high yield has an underweight position of -1.5%; emerging market debt has an overweight position of +0.5%. Thematic fixed income has an overweight of +4.0%.

## Global USD without Hedge Funds: Risk Level 4

Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investment. Investors may have a preference for investments or trading strategies that may assume higher-than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains.

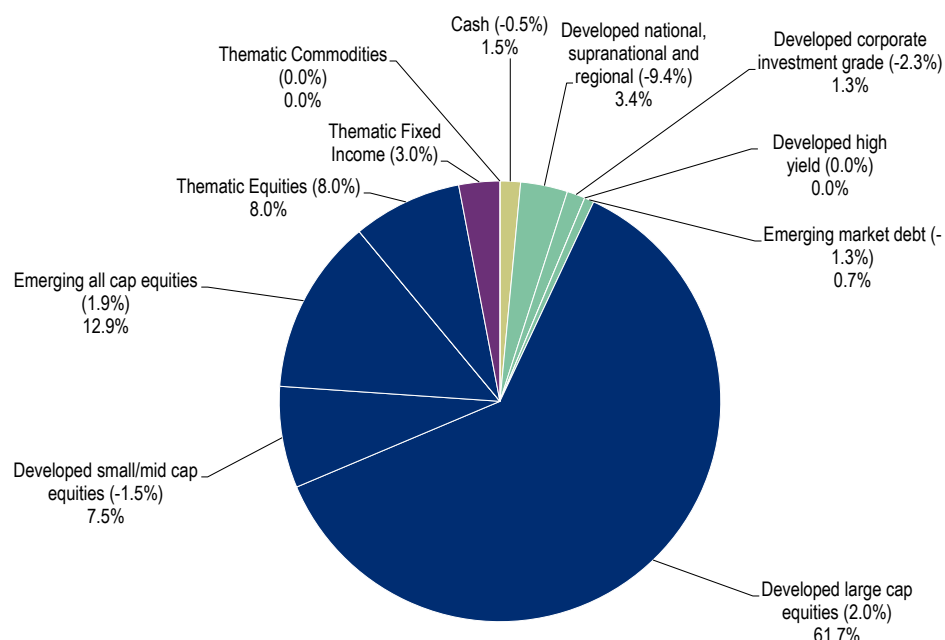
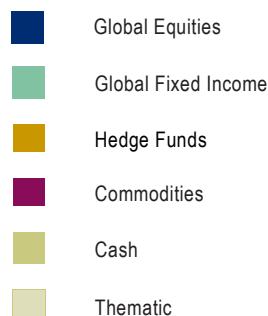
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	2.0	1.5	-0.5
Fixed Income	18.5	8.5	-10.0
Developed Investment Grade	16.5	4.8	-11.7
US	9.2	4.2	-4.9
Government	3.8	2.7	-1.2
Inflation-Linked	0.5	1.5	1.0
Short	1.0	0.0	-1.0
Intermediate	1.6	0.5	-1.1
Long	0.7	0.7	0.0
Securitized	2.9	0.5	-2.5
Credit	2.4	1.1	-1.3
Short	0.3	0.0	-0.3
Intermediate	1.3	0.8	-0.5
Long	0.8	0.3	-0.5
Europe	5.5	0.5	-5.0
Government	4.3	0.3	-4.0
Credit	1.2	0.2	-1.0
Australia	0.1	0.0	-0.1
Government	0.1	0.0	-0.1
Japan	1.7	0.0	-1.7
Government	1.7	0.0	-1.7
Developed High Yield	0.0	0.0	0.0
US	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Emerging Market Debt	2.0	0.7	-1.3
Asia	0.3	0.4	0.1
Local currency	0.2	0.3	0.1
Foreign currency	0.2	0.2	-0.0
EMEA	1.1	0.0	-1.1
Local currency	0.5	0.0	-0.5
Foreign currency	0.5	0.0	-0.5
LatAm	0.6	0.3	-0.3
Local currency	0.3	0.0	-0.3
Foreign currency	0.3	0.3	-0.0
Thematic Fixed Income	0.0	3.0	3.0
US Bank Loans	0.0	3.0	3.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	79.5	90.0	10.5
Developed Equities	68.6	69.1	0.5
Developed Large Cap Equities	59.6	61.7	2.0
US	40.5	39.9	-0.6
Canada	2.0	2.0	0.0
UK	2.4	4.3	1.9
Switzerland	1.9	1.9	0.0
Europe ex UK ex Switzerland	5.7	6.0	0.3
Asia ex Japan	2.2	2.6	0.4
Japan	5.0	5.0	0.1
Developed Small/Mid Cap Equities	9.0	7.5	-1.5
US	4.8	3.6	-1.3
Non-US	4.1	3.9	-0.3
Emerging All Cap Equities	11.0	12.9	1.9
Asia	9.6	10.2	0.5
China	6.3	6.3	0.0
Asia (ex China)	3.4	3.9	0.5
EMEA	0.7	0.0	-0.7
LatAm	0.7	2.7	2.1
Brazil	0.4	1.8	1.4
LatAm ex Brazil	0.2	0.9	0.7
Thematic Equities	0.0	8.0	8.0
Global Equity REITs	0.0	1.5	1.5
US Mortgage REITs	0.0	1.5	1.5
Global Healthcare	0.0	5.0	5.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Total	100.0	100.0	-0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.



## Global USD without Hedge Funds: Risk Level 4 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities have an overweight position of +10.5%, global fixed income has an underweight of -10%, cash has an underweight of -0.5%.

Within equities, developed large cap equities have an overweight position of +2.0% while developed small/mid cap equities have an underweight position of -1.5%. Emerging market equities have an overweight of +1.9%. Thematic equities have an overweight position of +8.0%.

Within fixed income, developed investment grade debt has an underweight position of -11.7%; developed high yield has a neutral position and emerging market debt has an underweight position of -1.3%. Thematic fixed income has an overweight position of +3.0%.

## Global USD without Hedge Funds: Risk Level 5

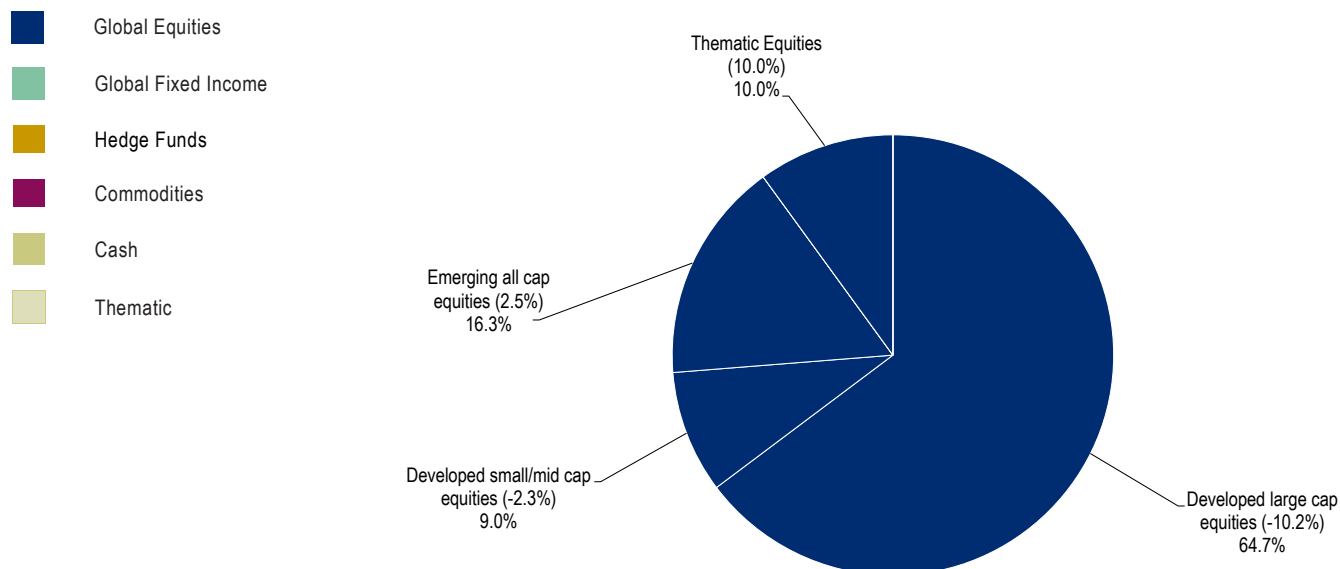
Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies that may assume higher than-normal market risks and/or potentially less liquidity with the goal (but not guarantee) of commensurate gains. Clients may engage in tactical or opportunistic trading, which may involve higher volatility and variability of returns.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	0.0	0.0	0.0
Fixed income	0.0	0.0	0.0
Developed Investment Grade	0.0	0.0	0.0
US	0.0	0.0	0.0
Government	0.0	0.0	0.0
Inflation-Linked	0.0	0.0	0.0
Short	0.0	0.0	0.0
Intermediate	0.0	0.0	0.0
Long	0.0	0.0	0.0
Securitized	0.0	0.0	0.0
Credit	0.0	0.0	0.0
Short	0.0	0.0	0.0
Intermediate	0.0	0.0	0.0
Long	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Government	0.0	0.0	0.0
Credit	0.0	0.0	0.0
Australia	0.0	0.0	0.0
Government	0.0	0.0	0.0
Japan	0.0	0.0	0.0
Government	0.0	0.0	0.0
Developed High Yield	0.0	0.0	0.0
US	0.0	0.0	0.0
Europe	0.0	0.0	0.0
Emerging Market Debt	0.0	0.0	0.0
Asia	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
EMEA	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
LatAm	0.0	0.0	0.0
Local currency	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0
Thematic Fixed Income	0.0	0.0	0.0
US Bank Loans	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0

Classification	Strategic (%)	Tactical* (%)	Active (%)
Equities	100.0	100.0	0.0
Developed Equities	86.2	73.7	-12.5
Developed Large Cap Equities	74.9	64.7	-10.2
US	51.0	46.4	-4.5
Canada	2.5	0.0	-2.5
UK	3.0	4.3	1.3
Switzerland	2.3	0.8	-1.5
Europe ex UK ex Switzerland	7.2	6.1	-1.1
Asia ex Japan	2.7	2.1	-0.6
Japan	6.3	5.0	-1.3
Developed Small/Mid Cap Equities	11.3	9.0	-2.3
US	6.0	4.5	-1.5
Non-US	5.2	4.5	-0.8
Emerging All Cap Equities	13.8	16.3	2.5
Asia	12.1	12.6	0.5
China	7.9	7.5	-0.3
Asia (ex China)	4.2	5.0	0.8
EMEA	0.8	0.5	-0.3
LatAm	0.9	3.2	2.3
Brazil	0.5	2.1	1.6
LatAm ex Brazil	0.3	1.0	0.7
Thematic Equities	0.0	10.0	10.0
Global Equity REITs	0.0	3.0	3.0
US Mortgage REITs	0.0	1.0	1.0
Global Healthcare	0.0	6.0	6.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Commodities	0.0	0.0	0.0
Composite Commodities	0.0	0.0	0.0
Thematic Commodities	0.0	0.0	0.0
Gold	0.0	0.0	0.0
Thematic 2	0.0	0.0	0.0
Thematic 3	0.0	0.0	0.0
Thematic 4	0.0	0.0	0.0
Thematic 5	0.0	0.0	0.0
Total	100.0	100.0	0.0

Active = the difference between tactical and strategic allocations. Minor differences may result due to rounding.

## Global USD without Hedge Funds: Risk Level 5 - Tactical Allocations



Figures in brackets are active allocations. All allocations are subject to change at discretion of the GIC of the Citi Private Bank.

## Core Positions

Global equities, global fixed income, cash and gold are all at neutral position.

Within equities, developed large cap equities have an underweight position of -10.2% and developed small/mid cap equities have an underweight position of -2.3%. Emerging market equities have an overweight of +2.5%. Thematic equities have an overweight position of +10.0%.

Within fixed income, developed government debt, developed corporate investment grade, developed high yield and emerging market debt are all at neutral position.

# Asset Allocation Definitions

ASSET CLASSES	Benchmarked against
<b>Global equities</b>	MSCI All Country World Index, which represents 48 developed and emerging equity markets. Index components are weighted by market capitalization.
<b>Global bonds</b>	Bloomberg Barclays Capital Multiverse (Hedged) Index, which contains the government -related portion of the Multiverse Index, and accounts for approximately 14% of the larger index.
<b>Hedge funds</b>	HFRX Global Hedge Fund Index, which is designed to be representative of the overall composition of the hedge fund universe. It comprises all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage and relative value arbitrage. The strategies are asset-weighted based on the distribution of assets in the hedge fund industry.
<b>Commodities</b>	Dow Jones-UBS Commodity Index, which is composed of futures contracts on physical commodities traded on US exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The major commodity sectors are represented including energy, petroleum, precious metals, industrial metals, grains, livestock, softs, agriculture and ex-energy. The Thomson Reuters / Core Commodity Index is designed to provide timely and accurate representation of a long-only, broadly diversified investment in commodities through a transparent and disciplined calculation methodology.
<b>Cash</b>	Three-month LIBOR, which is the interest rates that banks charge each other in the international inter-bank market for three-month loans (usually denominated in Eurodollars).
<b>Equities</b>	
<b>Developed market large cap</b>	MSCI World Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in 23 developed markets. Large cap is defined as stocks representing roughly 70% of each market's capitalization.
<b>All Country Ex US</b>	MSCI All Country ex US, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in all countries excluding the US.
<b>US</b>	Standard & Poor's 500 Index, which is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.
<b>Europe ex UK</b>	MSCI Europe ex UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in each of Europe's developed markets, except for the UK
<b>UK</b>	MSCI UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in the UK
<b>Japan</b>	MSCI Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in Japan.
<b>Asia Pacific ex Japan</b>	MSCI Asia Pacific ex Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the performance of large cap stocks in Australia, Hong Kong, New Zealand and Singapore.
<b>Developed market small and mid-cap (SMID)</b>	MSCI World Small Cap Index, which is a capitalization-weighted index that measures small cap stock performance in 23 developed equity markets.
<b>Emerging market</b>	MSCI Emerging Markets Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure equity market performance of 22 emerging markets.
<b>Bonds</b>	
<b>Developed sovereign</b>	Citi World Government Bond Index (WGBI), which consists of the major global investment grade government bond markets and is composed of sovereign debt, denominated in the domestic currency. To join the WGBI, the market must satisfy size, credit and barriers-to-entry requirements. In order to ensure that the WGBI remains an investment grade benchmark, a minimum credit quality of BBB-/Baa3 by either S&P or Moody's is imposed. The index is rebalanced monthly.
<b>Emerging sovereign</b>	Citi Emerging Market Sovereign Bond Index (ESBI), which includes Brady bonds and US dollar -denominated emerging market sovereign debt issued in the global, Yankee and Eurodollar markets, excluding loans. It is composed of debt in Africa, Asia, Europe and Latin America. We classify an emerging market as a sovereign with a maximum foreign debt rating of BBB+/Baa1 by S&P or Moody's. Defaulted issues are excluded.
<b>Supranationals</b>	Citi World Broad Investment Grade Index (WBIG)—Government Related, which is a subsector of the WBIG. The index includes fixed rate investment grade agency, supranational and regional government debt, denominated in the domestic currency. The index is rebalanced monthly.
<b>Corporate investment grade</b>	Citi World Broad Investment Grade Index (WBIG)—Corporate, which is a subsector of the WBIG. The index includes fixed rate global investment grade corporate debt within the finance, industrial and utility sectors, denominated in the domestic currency. The index is rebalanced monthly.
<b>Corporate high yield</b>	Bloomberg Barclays Global High Yield Corporate Index. Provides a broad-based measure of the global high yield fixed income markets. It is also a component of the Multiverse Index and the Global Aggregate Index.
<b>Securitized</b>	Citi World Broad Investment Grade Index (WBIG)—Securitized, which is a subsector of the WBIG. The index includes global investment grade collateralized debt denominated in the domestic currency, including mortgage -backed securities, covered bonds (Pfandbriefe) and asset-backed securities. The index is rebalanced monthly. Moody's Baa Corporate Bond Index is an investment bond index that tracks the performance of all bonds given a Baa rating by Moody's Investors Service.

BAML US Corporate index (Bank of America Merrill Lynch) tracks the performance of US dollar denominated investment grade rated corporate debt publically issued in the US domestic market.

## Other miscellaneous definitions

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**Asset Backed Securities (ABS)** A security whose income payments and hence value are derived from and collateralized (or "backed") by a specified pool of underlying assets such as consumer credit card debt or auto loans.

**Commercial Mortgage Backed Securities (CMBS)** Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security that is secured by mortgages on commercial properties, instead of residential real estate.

**High Yield Corporate Bonds (HY)** High yield corporate bonds are bonds with a credit rating less than BBB- (S&P) or Baa3 (Moody's), and are debt securities issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations.

**Investment Grade Corporate Bonds (IG)** Investment grade corporate bonds are bonds with a credit rating equal to or above BBB- (S&P) or Baa3 (Moody's), and are debt securities issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations.

**COVID-Cyclicals** Financials, Industrials, Energy, Materials, Real Estate, Consumer Discretionary ex-Amazon.

**COVID-Defensives** IT, Health Care, Communication Services, Consumer Staples, Utilities, Amazon.

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#### Bond rating equivalence

Alpha and/or numeric symbols used to give indications of relative credit quality. In the municipal market, these designations are published by the rating services. Internal ratings are also used by other market participants to indicate credit quality.

Bond credit quality ratings	Rating agencies		
	Moody's <sup>1</sup>	Standard and Poor's <sup>2</sup>	Fitch Ratings <sup>2</sup>
<b>Investment Grade</b>			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
<b>Not Investment Grade</b>			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

<sup>1</sup> The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3 to show relative standing within the category.

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(MLP's) - Energy Related MLPs May Exhibit High Volatility. While not historically very volatile, in certain market environments Energy Related MLPS may exhibit high volatility.

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Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk).

Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of

a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

Alternative investments referenced in this report are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk.

Asset allocation does not assure a profit or protect against a loss in declining financial markets.

The indexes are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

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