Citi Global Wealth
Investments

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August 24, 2023

Global Strategy Quadrant

Steven Wieting
Chief Investment Strategist and Chief Economist, Citi Global Wealth

STRATEGY TEAM

Malcolm Spittler
Maya Issa
Chadd Cornilles
Jorge Amato
Ken Peng
Li-Gang Liu
Calvin Ha
Wang Shurong
Andrea Leung
Guillaume Menuet
Judiyah Amirthanathar
Charles Reinhard
Lorraine Schmitt
Joseph Fiorica
Cecilia Chen
Bruce Harris
Joseph Kaplan
Jaideep Tiwari
Melvin Lou

China vs US: One Stays Aloft. The Other Stays Depressed

Following 2020's COVID shock, China's economy leapt by 8.5% in 2021 on reopening and stimulus. We were wrong to assume a similar pattern would unfold this year. After making initial gains following a second shutdown and reopening, China's economy contracted in the second quarter of 2023. Policymakers have been highly gradualist in arresting a property market decline and weakness in domestic consumption. Consumer, producer, and export prices are falling, while real interest rates are rising in a way that is reminiscent of Japan in the early 1990s.

Investors may now be underestimating the lengths to which China will ultimately go to restore growth. However, it's clear that China's outlook is highly dependent on official steps to contain spillovers from property-sector financial troubles to other parts of the economy. China's gross goods exports are about three times larger than the US relative to GDP. With goods exports falling across most of the world to contain inventory build-ups, domestic consumption and investment gains are more important for China to fight an economic slowdown and high unemployment.

Due to the early year "bounce," China may come close to reaching its real GDP target of 5% in 2023. However, this may be deceptive. Only a decisive stimulus and reacceleration of business and consumer activity would absorb labor slack and generate a solid 2024. We have cut our real GDP forecasts for China by an average of 1.4 percentage points this year and next to +4.5% and +3.0%.

Compared to China, the US economy has been the mirror of resilience. Persistent employment gains and declining inflation are keeping the US consumer spending pace solid even as manufacturing and housing contract. We've raised our US real GDP forecast for 2023 by 1.3 percentage points to 2.6%.

Unfortunately, a longer period of restrictive Fed policy and moderating labor demand suggests a softer 2024 for the US. While still higher than our initial 2024 view, we see US growth slowing to 1.8% next year. This means global growth will likely slow further to 2.0% in 2024. With policy easing and reduced inflation next year, global growth will likely strengthen in 2025.

The combination of Fed pressures and a weaker China have sapped market confidence. As we noted last month (see July's Quadrant), rising confidence that a US recession will be avoided actually made markets more vulnerable to correction. US overconfidence can be a source of risk.

When Japan's equity market peaked in 1989, it was 45% of global traded equity market cap. Today, the MSCI China is just 2.5% of global indices. While there are similarities to Japan on the policy front, unlike 1989, confidence in China's outlook has already shriveled. China shares are off 52% from the 2021 high. Equity valuations in Japan were also roughly 8X higher than China's are today. However, China's economic importance to the world today is at least as material as Japan's was at its peak.

While much is "priced in," our reduced confidence in China's economy and policy approach has led us to shift down our allocation to Asian and Latin American equities by 2.5 percentage points. This includes China and Developed Markets (DM) Asia such as Hong Kong and Australia. We have shifted up US asset weightings as a result. The US bond market may be particularly poised to benefit from the impact of China's export price deflation. We would still expect to broaden our global equity overweights in time.

India Special: The world's largest national population is no longer China's, but India's. At a far earlier stage of economic development – but also a far higher equity valuation – **we see India's economy relatively insulated from China woes with lower trade linkages than Europe and Latam.**

INVESTMENT PRODUCTS: NOT FDIC INSURED · NOT CDIC INSURED · NOT GOVERNMENT INSURED · NO BANK GUARANTEE · MAY LOSE VALUE

GIC | August 23

With China's recovery faltering and highly dependent on central government policy measures, the Global Investment Committee (GIC) shifted its equity allocations from certain non-US markets to the US. We have made further reductions in China equities, but also eliminated overweights in closely impacted developed markets such as Hong Kong and Australia. We have also eliminated an overweight in Brazil.

We consequently raised our allocation to US equities by 2.5 percentage points. This leaves our allocation to Global Fixed Income overweight by 1 percentage point (highly concentrated in high quality US bonds), Global equities neutral and cash underweight by 1 percentage point.

In our reallocation, we added to an equally-weighted (rather than market cap-weighted) S&P 500 position. It can also be implemented through diversified active managers. This is to avoid any additional concentration in US mega cap shares that have led the rally in the year-to-date and now comprise a record 31% of S&P 500 index market cap in just the top 10 holdings. The equal weight S&P Index trades at a 16% valuation discount to the market cap weighted index, the largest gap since 2010.

We expect a broadening performance in global equities in time and the peak of the US dollar in 2022 to prove lasting. However, economic and financial developments in China suggest US dollar strength and US asset outperformance before contrary trends reassert. As we noted in last month's *Quadrant*, we believed the sharp rally in market sentiment and drop in hedging activity made global markets more susceptible to near-term weakness. We believed this was best addressed with short-term hedging strategies.

ASSET CLASSES | Global USD with Alternatives Level 3

	-2	-1	0	1	2
FIXED INCOME					
Developed Sovereign			■		
Developed Investment Grade Corporates					■
High Yield	■				
Emerging Market Sovereigns				■	
EQUITIES					
Developed Equities		■			
Large Cap			■		
US			■		
Europe			■		
Asia ex-Japan			■ ←		
Japan			■		
Small and Mid Cap		■			
US SMID Cap			■		
Non-US SMID Cap	■				
Emerging Market Equity			■ ←		
Thematic Equity*				■ →	
CASH		■			
COMMODITIES			■		

*Thematic equities include Cyber Security. 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

While a setback in markets was expected, since last month, our confidence in China's long-term economic outlook and policy course has weakened further. After making initial gains following a second shutdown and reopening, China's economy contracted in the second quarter of 2023. While investors may now be underestimating the lengths to which China will ultimately go to restore growth, to date, policymakers have been highly gradualist in arresting a property market decline and weakness in domestic consumption. Consumer, producer and export prices are falling, while real interest rates are rising in way that is reminiscent of Japan in the early 1990s.

China's outlook appears highly dependent on official steps to contain spillovers from property-sector financial troubles to other parts of its economy. In contrast, persistent employment gains and declining inflation are keeping the US consumer spending pace solid even as manufacturing and housing contract. This is pushing up US yields and views over the sustainability of tight US monetary policy.

We believe significant declines in China's export prices (with over a 30% share of US merchandise imports) will support future declines in US inflation. While bond prices have fallen, we continue to overweight US investment grade bonds, particularly Treasuries with increasingly attractive future real yields.

China's share prices have fallen 20% from their highs of this year and 52% from their 2021 peak. Forward valuations are a meager 11X expected EPS, suggesting investors expect downward estimate revisions. The traded market cap of China A-shares is just 2.5% of global equity benchmarks. This contrasts markedly with 45% for Japan at the peak of 1989. This performance suggests much of the China news – and US economic outperformance - has been priced in already.

China's financial linkages to world markets are comparatively small. However, its impact on the global economy is at least as large as Japan's at its peak. Noting this risk and the mild impact China's woes have had outside its borders to date, we've decided to err on the side of caution and shift equity allocations somewhat in a defensive manner while maintaining our overweight in quality fixed income. We continue to expect to reallocation toward equities from our large overweight in US high grade fixed income over the course of the full economic cycle to come.

China vs US: One Stays Aloft. The Other Stays Depressed

Steven Wieting
Chief Investment Strategist and Chief Economist

China's economy is not following the "shock, stimulus, boom" pattern.

In 2020, China was the first to suffer from COVID lockdowns and economic contraction. After reopening and stimulus steps, China's economy roared with a world-beating 8.5% real GDP gain in 2021. After new COVID lockdowns and a reopening in late 2022, we assumed a semblance of the same pattern would be repeated. We were wrong.

In 2023, China's economy is seeing a lack of "policy traction" after the public has suffered what might be analogous to "long COVID." Economic growth rebounded in the few months after COVID lockdowns ended in late 2022, but activity has since slowed or even contracted. Both industrial and consumer prices are beginning to fall slightly. Official policy interest rates have dropped, but not as much as consumer and wholesale prices. **Considering all the potential actions they can take, to date Chinese policymakers haven't moved faster than markets to sustain expectations of recovery.**

We believe parsimony or procrastination in stimulating the economy risks self-reinforcing negative effects.

China's leadership has surprised international investors for about three years now, seemingly willing to crush industry champions while seeking "common prosperity" with a much enhanced role for the state. Trade disputes with the US in 2018 have been followed with far more contentious security concerns on both sides. This is sharply impacting cross-border investment.

For China, we believe any parsimony or procrastination in stimulating the economy risks self-reinforcing negative economic effects. This would in turn take even stronger and more costly steps to overcome.

If individual actors seek to protect their balance sheet resources while central authorities seek "fiscal responsibility," the economy collectively can face insufficient demand and less serviceable debt burdens.

Like many others at different times and places, China's policymakers are seeking to avoid rewarding mistakes with "bailouts." They seek "higher quality growth" rather than rapid growth. However, the so-called "paradox of thrift" may come into play. If individual actors seek to protect themselves by cautiously protecting balance-sheet resources while central authorities seek "fiscal responsibility," the economy *collectively* can face insufficient demand and less serviceable debt burdens.

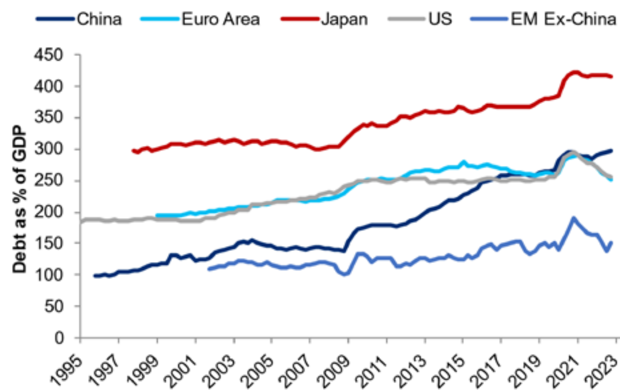
China's export price plunge may reinstate the global tradeable goods deflation that many believed was a thing of the past.

Servicing debt requires income, which is generated by economic output (see **Figures 1-2**). When an economy is overheating in an inflationary period, it can be helpful to "deleverage" and slow growth. But doing so in a period of slow inflation and high unemployment risks a self-reinforcing deflation (see **Figure 3**).

In the present setting, a Chinese export price plunge will likely also reinstate conditions of global tradeable goods deflation that many believed were a thing of the past (see **Figure 4**).

Figure 1: China nominal GDP and domestic debt

Figure 2: Non-financial debt as % of GDP: China, EM ex-China, Euro Area, Japan, US



Source: Haver Analytics and BIS as of August 22, 2023. Note: Gray areas are recessions.

Figure 3: CPI Y/Y%: China vs Japan

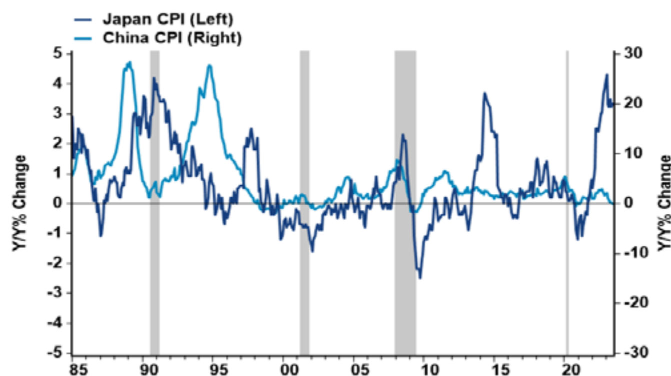
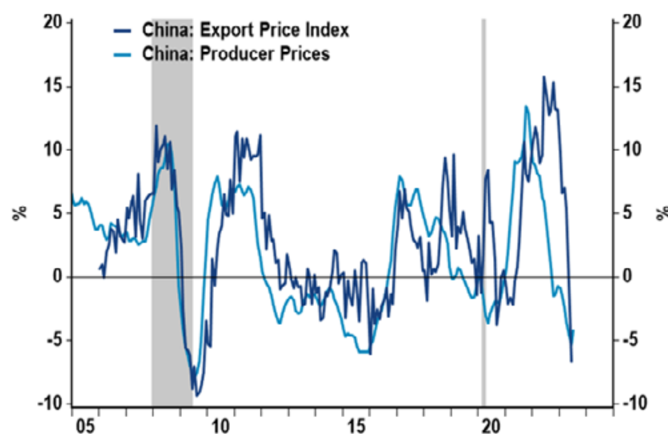


Figure 4: China producer and export prices Y/Y%



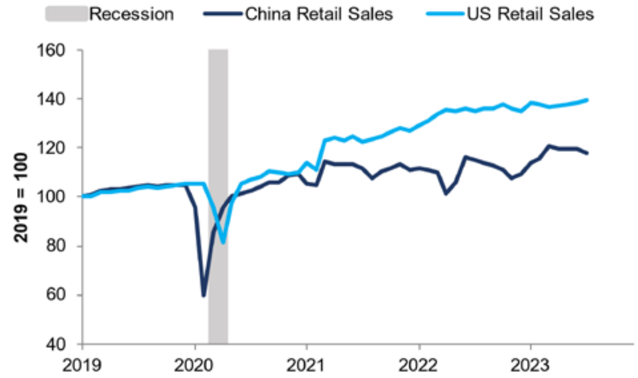
Source: Haver Analytics as of August 15, 2023. Note: gray areas are recessions.

China's Immediate Challenge

Like most economies, China's exports have weakened sharply in 2023 (see **Figure 5**). This outcome was easily predicted as consumer goods inventories surged across the world in 2022. As gross merchandise exports are nearly 19% of China's GDP – nearly 3X the US's share – Chinese industry has been hard hit. This highlights the importance of domestic consumption and investment for China's economy (and others) to stay fully employed. Yet despite lockdowns that should have generated pent up demand this year, China's consumers are showing great caution in spending. In recent months, China's retail spending has fallen far short of the US's path, even as China's consumer demand was far weaker in 2020 and again 2022 (see **Figure 6**).

Figure 5: China and US: merchandise exports Y/Y%

Figure 6: US retail sales have risen faster than China's sales since Covid first struck



Source: Haver Analytics as of August 18, 2023. Note: grey areas are recessions.

China's near-term challenge is an export sector 3X the US and a property sector that may be 2X more important to its growth.

Overconfidence may be the US problem, but its immediate economic strength is helping to reduce recessionary imbalances.

In the US, by comparison, confidence in sustaining the recovery is rising (see **Figure 7**). The large rise in services consumption is boosting related employment. This in turn is helping goods producers and importers reduce inventories and "work down" a recessionary headwind (see **Figure 8**).

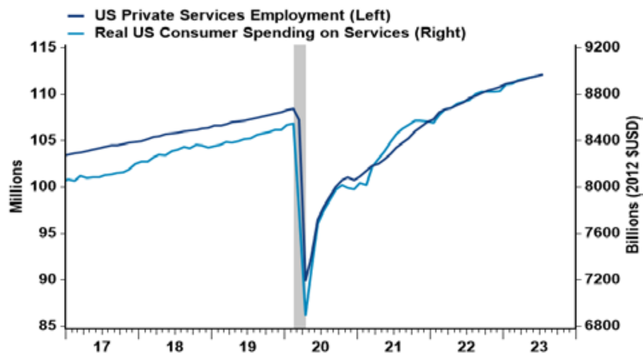
Stronger tracking data and financial conditions for the US are nearly the mirror opposite of China's (see **Figure 9**). However, we would caution against extrapolating this condition forever. Sustaining tighter monetary policy – which might be Fed Chairman Powell's message later this week – will weigh on the future even as markets relish in US growth today.

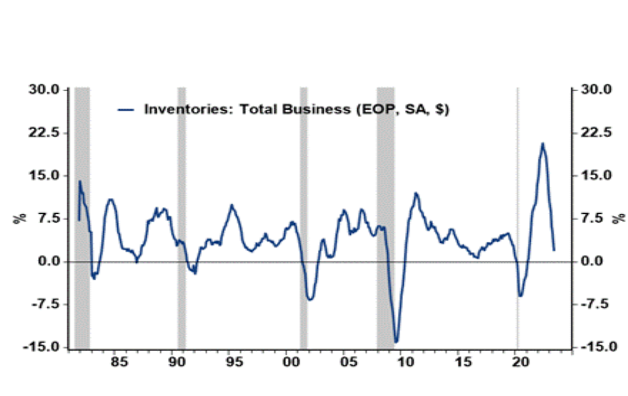
But today counts. As we show below in **Figure 10**, we have revised up our US real GDP forecast by 1.3 percentage points, the opposite of China's downward revision of the same magnitude. For 2024, our revision to the US is also upward, but the pace of economic growth on average should be slower next year.

China's exit point for 2023's GDP is critical to 2024. Its early year economic strength can be deceptive, even for policymakers. After a second quarter economic contraction from the 1Q pace, even a stalled Chinese economy would yield a 4% full-year average gain. However, only a dramatic turnaround would avoid a significantly slower economy in 2024. A range of scenarios for China real GDP average near 3% for 2024.

Figure 7: US real consumer spending on services vs employment

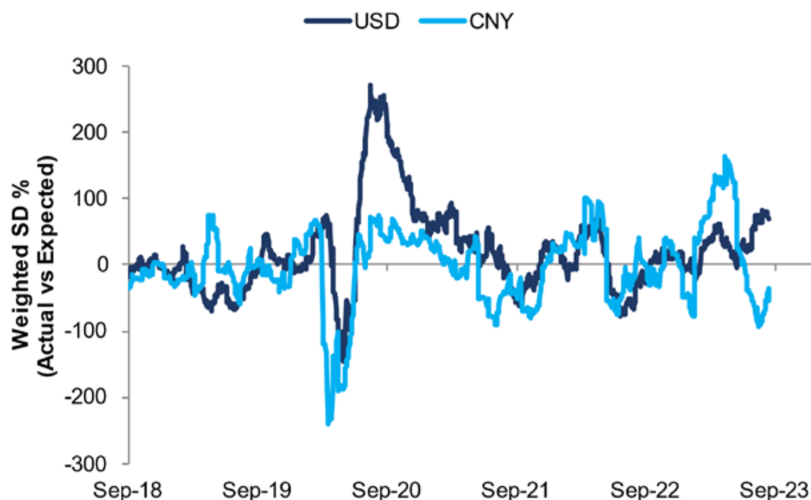
Figure 8: US business inventories Y/Y%





Source: Haver Analytics as of July 19, 2023. Note: gray areas are recessions.

Figure 9: Citi Economic Surprise Index for US vs China



Source: Haver Analytics as of August 15, 2023. Grey areas note recessions. 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. 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. Past performance is no guarantee of future results. Real results may vary.

Figure 10: CGWI revised real GDP forecasts and S&P 500 EPS estimates (%)

	2020	2021	2022	2023	Change from Previous	2024	Change from Previous
China	2.2	8.5	3.0	4.5	-1.3	3.0	-1.5
US	-2.8	6.0	2.1	2.3	1.3	1.8	0.4
EU	-6.2	5.4	3.4	0.7	0.1	0.6	-0.5
UK	-11.0	7.6	4.1	0.5	0.2	0.8	-0.3
Global	-3.2	5.9	3.3	2.4	-0.1	2.0	-0.4

	S&P 500 EPS	Y/Y%	Bottom-Up Consensus	Y/Y%
2020	142.3	-13.5		
2021	209.1	46.9		
2022	221.6	6.0		
2023	217.0	-2.1	220.5	1.1
2024	225.0	3.7	246.4	11.8
2025	243.0	8.0		

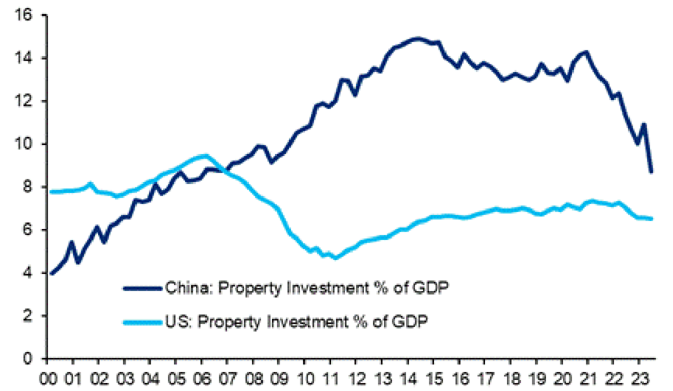
Source: CGWI and Haver Analytics as of August 22, 2023. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes 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. Past performance is no guarantee of future results. Real results may vary.

The Policy Lesson of Japan

China's highly indebted property developers seem certain to drive a wave of defaults. As was the case in the US post 2008, it is important for China's policymakers to contain the damage from causing self-reinforcing negative impact through *other* parts of the economy. Once again, China's property sector is larger than the US relative to the size of its economy (see **Figures 11-12**). The US had the lesson of the Japanese deflation following the bursting of its property bubble to help guide its policy. Even so, it took four years for US real estate investment to bottom following an over-construction binge.

Figure 11: The US and China are both going through a property investment slump

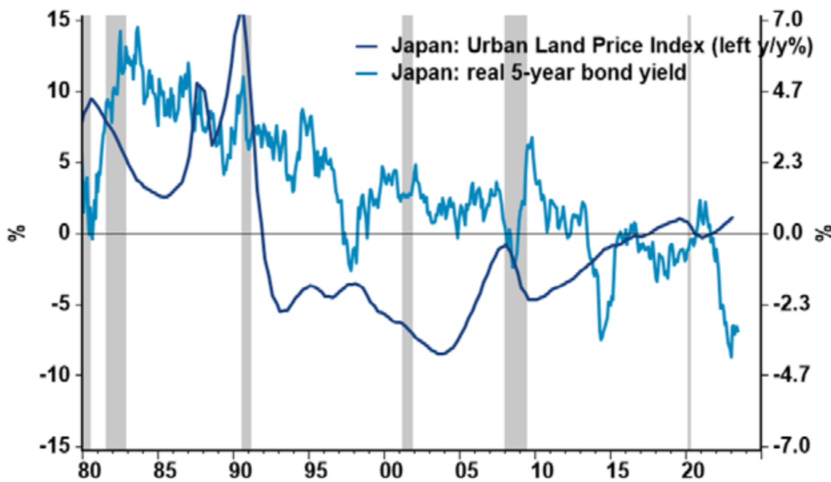
Figure 12: In China, the housing sector has a larger impact as it never posted a 2008/2009 contraction



Source: Haver Analytics as of August 15, 2023. Grey areas are recessions.

This brings us to the lessons of Japan itself. Following a misguided surge in growth expectations in the 1980s, Japan's real estate bubble peaked in 1989. While other factors played a role, the collapse was deflationary in nature. The initial view of Japanese officials was one of extraordinary caution to avoid boosting asset prices, "rewarding the guilty" and reflating the bubble. Over the next six years, rate cuts came slow. For many years, half-hearted small fiscal easing steps were taken and withdrawn. Japan suffered a mild deflation for most of two decades until far stronger easing steps were finally taken about 10 years ago (see **Figure 13**). Notably, Japan contributed to a "global savings glut" that helped lower bond yields even today. In the case of China, linkages to yields and inflation are more likely to be through trade impact. We also acknowledge there is little reason to believe these issues will unfold over the span of decades.

Figure 13: Japan property prices crashed in 1990, policy rates only fell to 1% in 1995, leading real yields high



Source: Haver Analytics as of August 15, 2023. Grey areas note recessions.

The lesson of Japan and the US in the 1930s is most clear – unless policymakers are aiming for a hard, painful deleveraging with healthy parts of the economy being dragged down by the sick parts, policymakers need to get ahead of deflationary expectations and ease quickly and forcefully.

China comparisons to Japan may be most off base when looking at asset prices. However, the economic consequences of China's economic challenges are at least as important.

One should not oversimplify the case for "Japanification" in China. While there are strong demographic similarities, there are large differences in banking, financial linkages to the world, and the country's relative state of economic development. Japan's property prices surged far more in the 1980s than China's in the last decade. The difference in equity markets is actually far more stark. At its 1990 peak, Japan's equity market was nearly 45% of the world's. In 2021, China's was 5% of the world (see **Figure 14**). When Japan's equity bubble burst, it was trading at roughly 8X the value of China's stock market which has already fallen 52% from its 2021 peak (see **Figures 15-16**).

Figure 14: China vs Japan equity market as % of world market cap

Source: MSCI and Bloomberg as of August 15, 2023. 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. 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. Past performance is no guarantee of future results. Real results may vary.

Figure 15: Japan vs China equity market: compare 1980s to 2010s

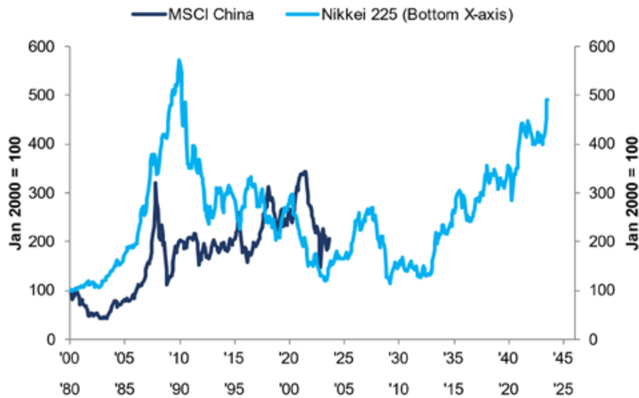
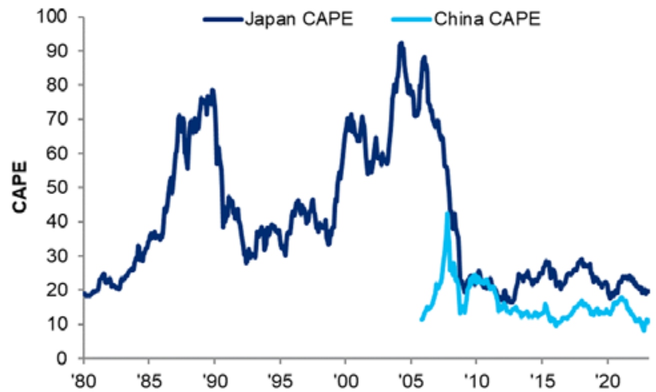


Figure 16: Japan vs China equity: cycle adjusted price/earnings



Source: MSCI and Haver Analytics as of August 15, 2023. 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. 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. Past performance is no guarantee of future results. Real results may vary.

Portfolio Changes

China growth challenges should weigh against rising US yields which are increasingly attractive.

China will either stimulate broadly again as it did in 2008 and 2020 or fall behind in a way that is reminiscent of Japan, at least from a macroeconomic policy perspective. If it's the latter, we would view consequent strength in the US dollar, weakness in Chinese demand, and falling export prices to be a global disinflationary force. Of course, there are many other issues between China and the West to consider far beyond the scope of this report. For one clear issue, however, with US bond yields at 16-year highs, inflation diminishing, and global demographics not dissimilar to China, we believe the case for high grade US bonds is increasingly compelling (see **Figures 17-19**).

Noting this, our Global Investment Committee is already overweight US high quality bonds at the "expense" of holding no Japanese bonds with their negligible yields. Across segments, our portfolio yield is 5.6% with a 5.5-year duration, a far higher yield than the Fed's estimate of policy rates over the same period.

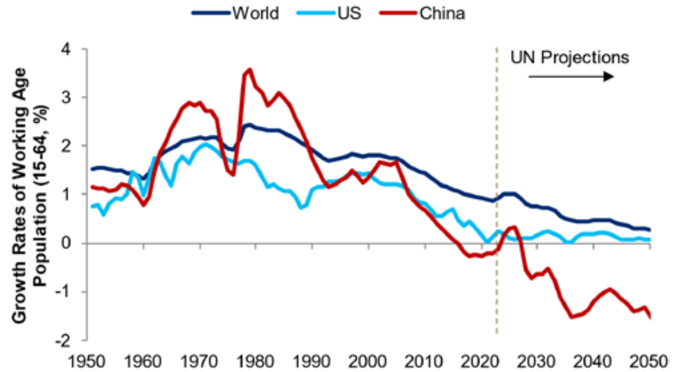
While it is tempting to add even more to our 7% US investment grade bond overweight, we decided to reallocate some of our non-US equity positions to the equal-weighted S&P 500**.** This is to avoid any additional concentration in US mega cap shares that have led the rally in the year-to-date and now comprise a record 31% of S&P 500 index market cap in just the top 10 holdings. This can also be implemented through diversified active managers.

The equal-weight S&P 500 Index trades at a 16% valuation discount to the market cap-weighted index, the largest gap since 2010 (see **Figure 20**). We don't seek to actively underweight the "Magnificent 7" large cap US tech stocks that have driven the majority of US share price gains this year. But we would also not want to overweight them (see **Figure 21**).

While the US might suffer from overconfidence with its strong market and economic outperformance this year, this is not true for the majority of even large cap US shares. The equal-weight S&P 500 has posted a mere 3.6% gain this year, and we continue to see a likely broadening in global equity performance in the year to come, once investors look beyond the near-term challenges we've highlighted.

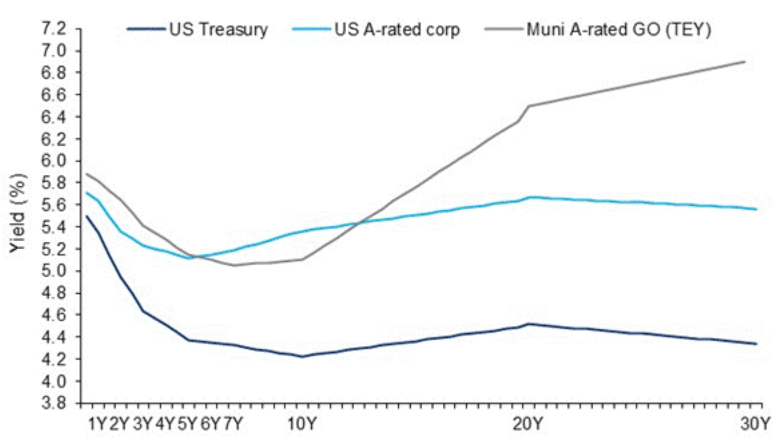
Figure 17: US Treasury 5-year note yield (%)

Figure 18: Population aged 15-64 and UN projections Y/Y%



Source: Haver Analytics as of August 15, 2023. Note: gray areas are recessions. 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 19: US Treasury, IG corporate, and tax-equivalent muni yield curve



Source: Bloomberg as of August 17, 2023. 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. 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. Past performance is no guarantee of future results. Real results may vary.

Figure 20: Forward P/E of S&P 500 market cap-weighted vs equal-weighted

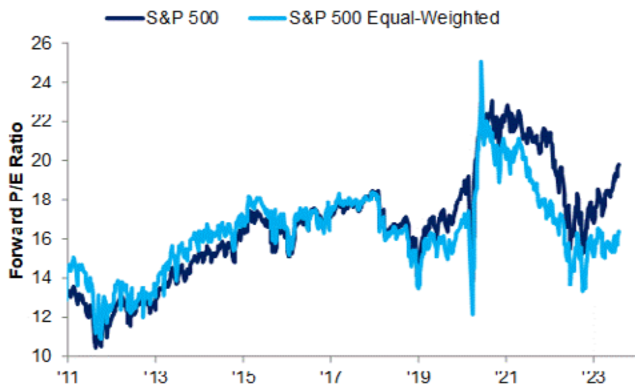
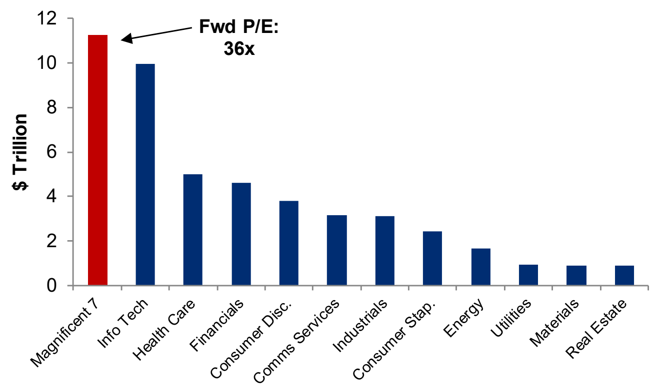


Figure 21: Seven large US tech-related shares are larger than all other S&P 500 sectors



Source: Bloomberg as of August 21, 2023. 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. 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. Past performance is no guarantee of future results. Real results may vary.

India: An Emerging Growth Engine in Asia

Cecilia Chen
Global Equity Investment Strategist

Joe Fiorica
Head, Global Equity Investment Strategist

Ken Peng
Head, Asia Pacific Investment Strategist

Jaideep Tiwari
Head, Global Foreign Exchange Investment Strategist

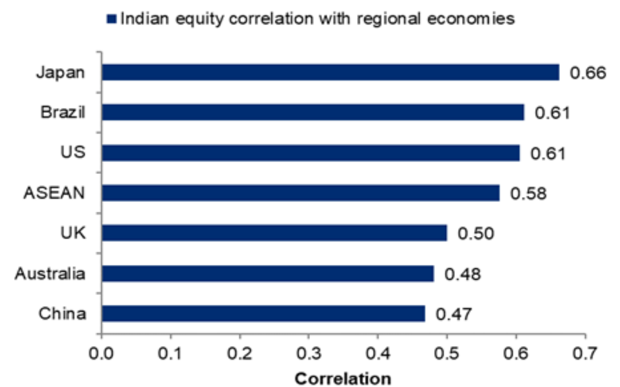
India has attracted increasing interest from international investors in recent years. The country is widely considered to be well positioned as an alternative growth engine and investment destination within Asia as China deals with a sluggish domestic economy and ongoing geopolitical challenges. India is also one of the few emerging markets that is likely to see meaningful population growth in the coming years and still enjoys high single-digit real GDP growth. Citi Research economists are projecting real GDP growth of 6.2% and 6.1% in FY23 and FY24 respectively (vs 5% and 4.6% for broader Emerging Asia).

Over the past decade, the Indian government has been proactive in promoting structural reforms, and it has doubled down on policy support for domestic manufacturing since 2020. We recommend a moderate overweight in India within Emerging Markets (EM) portfolios with the following considerations:

- Indian equities are perennially expensive, but the premium is supported by consistent earnings outperformance in emerging markets (**Figure 24**), as well as growing interest from foreign investors.
- Indian equities are less correlated with China, more linked to the global economy (**Figure 27**).
- Prefer sectors that enjoy direct benefits from macro tailwinds, like electronic manufacturing, fintech, e-commerce, industrials, healthcare, semiconductors and renewable energy.
- We see currency risks as well-contained.

Figure 26: Outperformance of earnings growth supports a valuation premium of India

Figure 29: Indian equities are more correlated to the rest of the world than to China

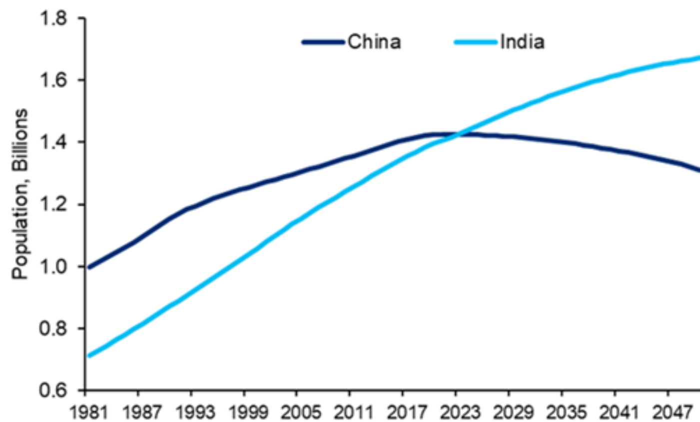


Source: Bloomberg as of August 11, 2023. Correlation is the extent to which the values of different types of investments move in tandem with one another in response to changing economic and market conditions. Correlation is measured on a scale of 1 to +1. Investments with a positive correlation tend to rise and fall in value at the same time, while investments with a negative correlation tend to move in opposite directions. An asset class has a correlation of 1 with itself. 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. Past performance is no guarantee of future results. Real results may vary.

Demographic dividends

With its large and young population, India's demographic dividends are likely to be fuel for economic growth in the years to come. In contrast, China's net birth rate dipped below zero in 2022 after enjoying decades of demographic tailwinds since the 1980s. According to U.N. projections, India surpassed China to become the most populous country in the world this April and is set to contribute more to the global working age population than China in the next two years (**Figure 22**). The median age in India today is 28, roughly on par with the age of an average Chinese person in 2000, when China was on the verge of a strong decade for growth and private investment returns. A young and rising working class is critical for bolstering not only a nation's productivity, but also its middle class which is key for growth in overall consumption.

Figure 22: India has taken over China as the most populous nation in the world



Source: Haver Analytics as of August 11, 2023. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

Structural reforms over the past decade are gaining momentum

2014/15: "Make in India" and "Digital India"

In an effort to capitalize on these demographic tailwinds, the Indian government has launched multiple reforms since President Modi took office in 2014, trying to follow China's export- and investment-driven playbook. Two of Modi's flagship programs include "Make in India" (promoting domestic manufacturing) and "Digital India" (promoting digitization across economy). As these initiatives build momentum, overall foreign direct investment in the last two years ($104.8bn) grew to 1.7 times of that in 2014-2015 ($60.8bn) when the "Make in India" was first introduced (**Figure 23**), though has moderated a bit recently.

Meanwhile, digital transactions in India have surged by 50% annually, which can be attributed to the rollout of "Digital India" in 2015 and further accelerated with the launch of the central bank-sponsored Unified Payment Interface (UPI), an open, free and instant transfer platform using fintech apps. In 2022, $1.5 trillion of digital transactions have been recorded, equivalent to one third of the nation's GDP. This rapid digital adoption in India is likely to unlock growth potential for broad industries, such as fintech, e-commerce, healthcare, education, etc.

2020: Production Linked Incentive (PLI) scheme

In April 2020, the government doubled down on its manufacturing push by introducing Production-Linked Incentive (PLI) scheme, a cornerstone of the "Make in India" program. The scheme provides incentives that link to investment and industrial production in certain areas, aiming to boost exports, reduce import reliance, encourage job creation, and enhance productivity for domestic manufacturing over the long run. The PLIs initially covered 3 sectors and are now available to 14 key manufacturing sectors (See Appendix A in the end). For illustration purposes, sectors could be categorized into Renewable energy & EVs, Industrials and Digitalization, Healthcare and Semiconductors. Supply chains of these industries are the primary beneficiaries. More sectors are still expected to be included as the scheme evolves.

These schemes in aggregate stand at $34bn in fiscal incentives (Citi Research: Three Years of PLI – Progress, Expectations and Challenges) with a time frame of four to six years. This would translate into a moderate annual fiscal outlay of around 1.3% of government expenditures in FY2022, with expected investment of $60bn, or 9% of 2022 fixed capital expenditures. So far, over 700 applications have been approved.

In its third year, the PLI schemes have been bearing some fruit. According to Citi Research, at least $6bn or 10% of the investment target has been achieved across sectors. So far, electronics manufacturing (largely mobile phones) and pharmaceuticals have seen the most visible progress. Exports of mobile phones have surged ~80% compound annual growth rate (CAGR) in the past 2 years whereas total Indian exports grew 22% CAGR (**Figure 24**). Although less impactful on exports, the investment in pharmaceuticals has achieved 85% of its entire target. The progress in these two sectors may be a result of the relatively mature ecosystems India has built over the past decade coupled with moderate technology capital expenditure (capex) requirements. We would expect related sectors to continue to benefit from ongoing PLI support, albeit at normalized growth rates.

Figure 23: Foreign Direct Investment has taken off since 2014

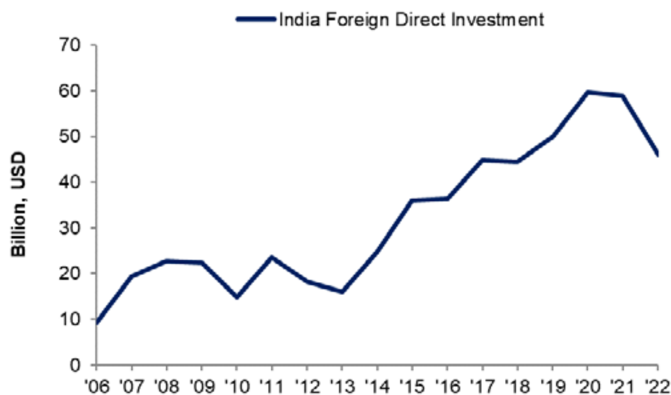
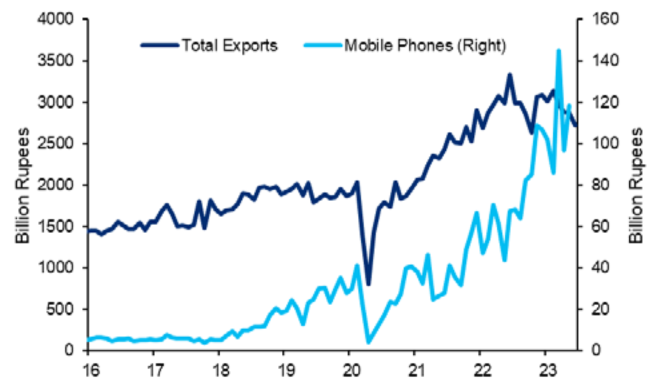


Figure 24: Exports of mobile phones surged 80% CAGR since 2021



Source: Haver Analytics as of August 11, 2023. 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. Past performance is no guarantee of future results. Real results may vary.

By contrast, semiconductors and EVs in India are still in their infancy stages as they still require heavy technology input and infrastructure capex. The lack of infrastructure for high-tech industries is often cited as a key hurdle for India to improve its manufacturing standing within Asia. Foxconn's exit from India's first semiconductor fabrications factory contract in July was the latest setback for India's plan to boost its position in semi supply chains.

In any case, large fiscal incentives distributed to develop a local ecosystem for Semis ($10bn) and Renewable energy ($8bn) amid intensified US-China geopolitical tensions may attract foreign customers seeking an alternative manufacturing base. India has indeed become a popular candidate for multinational companies implementing a "China+1" production strategies in recent years. Several high-profile global tech giants have already announced plans to build factories and increase investment in India. We expect India's partnership with foreign companies in strategically important industries to accelerate in the years to come.

Market timing: Is the hefty valuation worth all the hype?

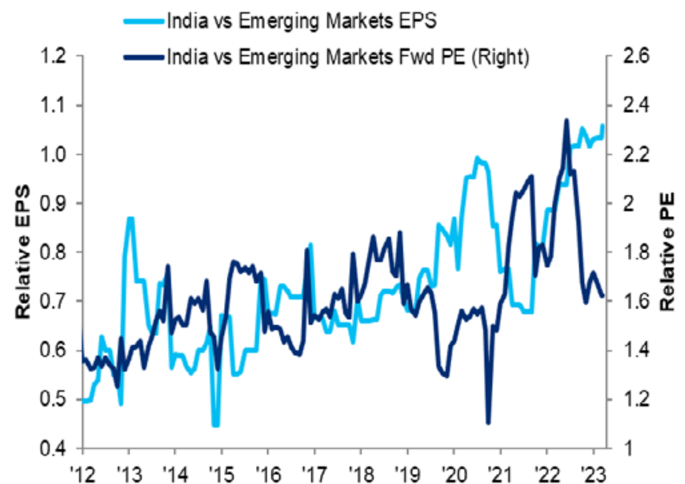
Valuation appears perennially expensive…

Markets have clearly taken note of India's demographic tailwinds and structural reforms in recent years. The MSCI India Index has returned 73% in USD terms since April 2020 (vs 9% for MSCI EM), with 12% annualized earnings growth over the past three years (vs 4% for MSCI EM). Those sectors benefitting from structural tailwinds like Industrials, consumer discretionary, materials and IT have been the top gainers during this period (**Figure 25**).

The MSCI India Index has consistently trading at a premium to the broad emerging markets after bottoming out in 2020. Though valuations have improved meaningfully from their peak in October 2022 and now appear less stretched following the Adani crisis earlier this year, India is still trading at a 63% premium to emerging markets (**Figure 26**). Even compared to its own history, Indian valuations are close to one standard deviation above long-term average (**Figure 27**). Hefty valuations have been a consistent concern preventing international investors from raising exposure to India.

Figure 25: Sector price performance and earnings revision since Apr'20

Figure 26: Outperformance of earnings growth supports a valuation premium of India



Source: Bloomberg as of August 11, 2023. 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. Past performance is no guarantee of future results. Real results may vary.

…But the premium is supported by consistent earnings outperformance and foreign inflows

In the same way that US large caps justify a valuation premium with consistent earnings growth, Indian equities have consistently outperformed broad emerging markets over for the same reason. India's earnings relative to broad emerging markets have reached new highs in recent quarters (**Figure 27**). Markets now expect India's earnings to grow 22% and 18% in FY23 and FY24, much more robust than that of broader EM (-6% in FY23, 18% in FY24, MSCI consensus)

International allocations to India have yet to fully recognize the market's potential. Current positioning in India among Asian funds remains relatively low compared to China. That figure is even lower in global funds. But this trend seems to be reversing since 2020 (**Figure 28**). Consistent with India's recent outperformance, allocations to India in Asia ex-Japan funds have doubled since 2020 April to 14% today, while that to China has declined from 36% to 29% during the same period. In our view, India has the potential to attract more inflows in the coming years given favorable secular trends and lower geopolitical risk.

Figure 27: MSCI India forward (fwd) PE & EPS

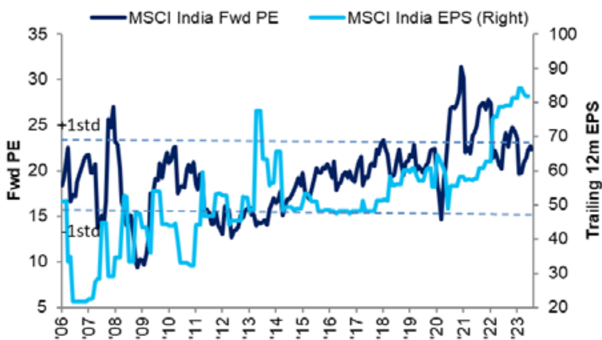
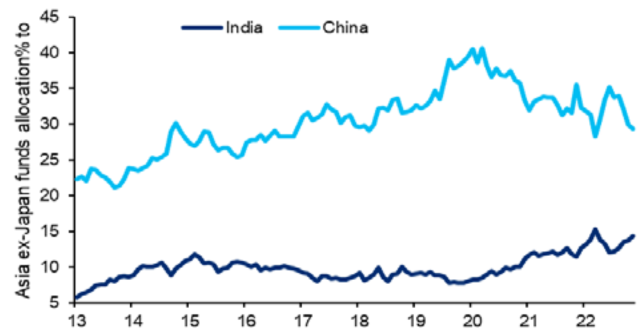


Figure 28: Allocation to India remains low, but has doubled since 2020



Source: Bloomberg and EPFR, as of August 11, 2023. 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. Past performance is no guarantee of future results. Real results may vary. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

Less correlated with China, more linked to the global economy

For international investors wary of China but still in need of diversification within Asia, India might fit the bill. Unlike the rest of Asia, Indian equities have historically showed a relatively low correlation with China and are more correlated with economies in the rest of the world (**Figure 29**). Since April, a stabilized US banking crisis, softening inflation and more-resilient-than-expected economic growth in developed markets have all played to India's favor. The market has since rebounded over 17% from March lows, outperforming emerging markets notably.

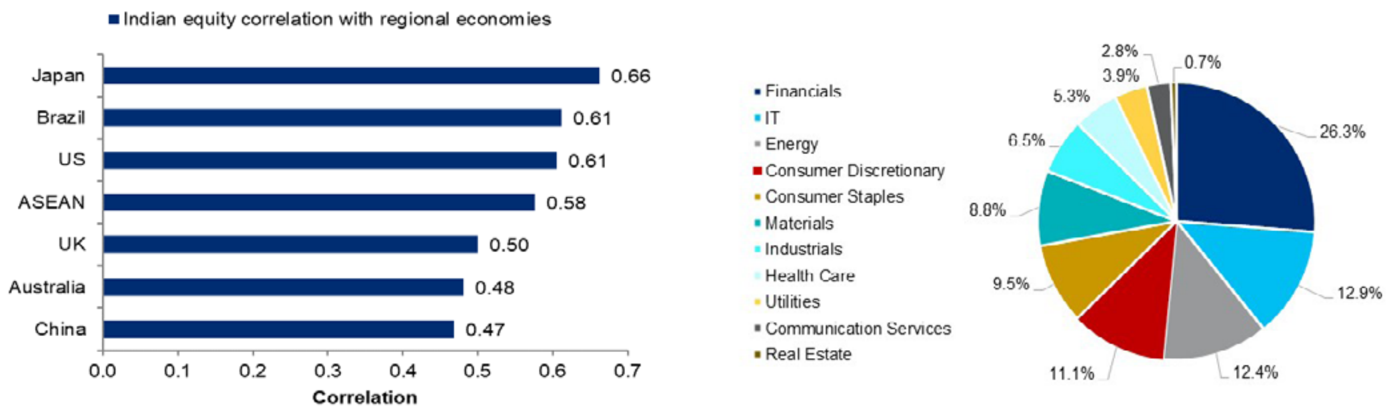
Falling oil prices since May 2022 were another global factor that contributing to India's outperformance. India is the third largest importer of crude oil globally. Falling energy-related input costs have boosted profit margins for industries relying on external energy supply. The relative performance of MSCI India vs MSCI ACWI has a mild negative correlation of -0.13 with oil prices since 2010 when the government de-controlled petroleum prices. This negative relationship intensified during recent episodes of oil price declines (-0.44 from Jun 2014 to Jan 2016 and -0.54 from May 2022 till today). Going forward, further energy price downside could continue to benefit Indian consumers, industrials, etc. In the meantime, however, headwinds from a potential rolling recession in the US and tight financial conditions globally could still put pressure on profit margins for companies with weak balance sheets, as well as those with demanding valuations.

Prefer sectors that enjoy direct benefits from macro tailwinds

Even for passive investors who tend to invest in benchmark indices, broad India offers great balance in sector allocations. MSCI India is well diversified across sectors, with weightings tilted towards major beneficiaries of structural reforms and demographic dividends (**Figure 30**). While the largest sector – financials -- may not appear to be a direct beneficiary, the rapid rise in Fintech within the sector thanks to accelerating digitalization is likely to enhance its earnings outlook. Similarly, high-tech manufacturing reforms, growth in renewable energy, digitalization and middle class consumption growth are likely to boost growth in major sectors like IT, Energy, Consumer Discretionary and Staples, etc. More broadly, productivity increases induced by "Make in India" and "Digital India" are likely to fundamentally improve the earnings profile for various sectors in the economy.

Figure 29: Indian equities are more correlated to the rest of the world than to China

Figure 30: Sector weights of MSCI India Index



Source: Bloomberg, Haver Analytics, and MSCI as of August 11, 2023. Correlation is the extent to which the values of different types of investments move in tandem with one another in response to changing economic and market conditions. Correlation is measured on a scale of 1 to +1. Investments with a positive correlation tend to rise and fall in value at the same time, while investments with a negative correlation tend to move in opposite directions. An asset class has a correlation of 1 with itself. 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. Past performance is no guarantee of future results. Real results may vary.

Currency risks well-contained

As for currency risks, we think Indian Rupee (INR) should remain range-bound given the RBI's priority of maintaining stability, though risks are tilted towards upside if a soft-landing setup in the US plays out. INR depreciated 15% during the pandemic but has stabilized between 81 to 83 for the past year, largely because of the RBI's currency management. Economic tailwinds and policy support are likely to narrow the current account deficit in certain industries. This would set the currency in a favorable position relative to other emerging markets and provide confidence for international investors.

Overall, we believe India will continue to benefit from structural tailwinds, but as always would caution against chasing companies with stretched valuations in the near term. We prefer to implement our moderate overweight to Indian equities via quality names in favorable sectors and look to any corrections as an opportunity to accumulate positions for medium to long term portfolios.

Appendix A. Production Linked Incentive (PLI) schemes and related programs

Sector	**Fiscal outlay (USD bn)**	**Investment expectation (USD bn)**
Renewable Energy and EVs	*8.21*	*24.77*
Auto & Auto components for EVs	3.13	8.17
Solar panels modules	2.90	13.34
Advance Chemistry Cell (ACC) battery storage	2.19	3.26
Industrials and Digitalization	*9.99*	*6.50*
Telecom and Networking products	1.47	0.43
Large-scale electronic manufacturing (mobile phones & elec components)	4.94	1.40
IT hardware (Laptops, PCs, etc)	2.05	0.30
Drones and drone components	0.01	N.A.
White Goods (Air conditioners & LED)	0.75	0.80
Specialty steel	0.76	3.56
Healthcare	*3.05*	*2.72*
Pharmaceuticals	2.64	2.60
Manufacturing of medical devices	0.41	0.13
Semiconductors	*10.03*	*23.41*
Others	*2.61*	*3.13*
Textile	1.29	2.39
Food processing	1.32	0.74
Total (USD bn)	**33.9**	**60.5**
Total (INR bn)	**2808**	**5014**

Source: Citi Global Wealth, Citi Research, PIB, Government Ministries. As of August 8, 2023. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

Portfolio allocations

This section shows the strategic and tactical asset allocations. The Global Asset Allocation (GAA) team creates strategic asset allocations (SAAs) 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 1 through Level 5 portfolios. GAA team then creates tactical allocations for all other profiles or subprofiles such as Global USD with Hedge Funds and Illiquids PE & RE Level 2 through Level 5 portfolios. These sample portfolios included below reflect 2023 SAAs and the tactical over/under weights expressed at the August 23, 2023 GIC meeting.

Global USD with Hedge Funds and 15% Illiquids (PE & RE): Risk Level 2

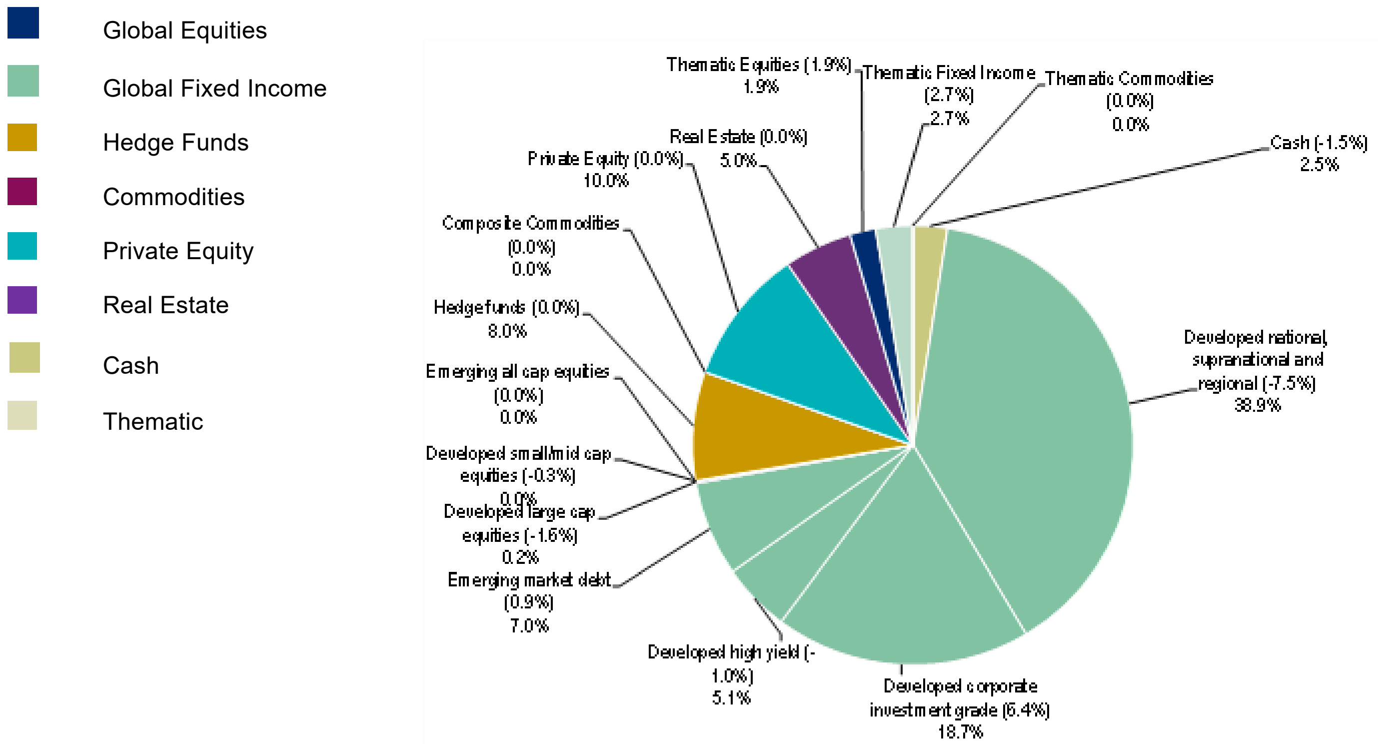
Risk Level 2 is designed for investors who emphasize capital preservation over return on investment, but who are willing to subject some portion of their principal to increased risk in order to generate a potentially greater rate of return on investment.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**4.0**	**2.5**	**-1.5**
Fixed Income	**70.9**	**72.4**	**1.5**
Developed Investment Grade	**58.7**	**57.7**	**-1.0**
US	36.4	46.9	10.5
Government	16.3	18.5	2.2
Inflation-Linked	2.2	2.4	0.2
Short	4.7	5.0	0.3
Intermediate	6.8	6.9	0.2
Long	2.5	4.1	1.6
Securitized	11.7	12.8	1.2
Credit	8.5	15.7	7.1
Short	1.5	2.7	1.3
Intermediate	4.7	10.6	5.9
Long	2.3	2.3	0.0
Europe	17.0	9.0	-8.0
Government	13.2	5.9	-7.3
Credit	3.8	3.1	-0.7
Australia	0.4	0.4	0.0
Government	0.4	0.4	0.0
Japan	4.9	1.4	-3.5
Government	4.9	1.4	-3.5
Developed High Yield	**6.1**	**5.1**	**-1.0**
US	4.6	4.1	-0.5
Europe	1.5	0.9	-0.5
Emerging Market Debt	**6.1**	**7.0**	**0.9**
Asia	1.0	1.7	0.7
Local currency	0.5	0.5	-0.0
Foreign currency	0.5	1.2	0.7
EMEA	3.1	2.4	-0.7
Local currency	1.5	0.7	-0.8
Foreign currency	1.5	1.7	0.2
LatAm	2.0	2.8	0.8
Local currency	1.0	1.0	-0.0
Foreign currency	1.0	1.8	0.8
Thematic Fixed Income	**0.0**	**2.7**	**2.7**
US Bank Loans	0.0	0.0	0.0
Preferreds	0.0	2.7	2.7
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	**2.1**	**2.1**	**0.0**
Developed Equities	**2.1**	**0.2**	**-1.9**
Developed Large Cap Equities	**1.8**	**0.2**	**-1.6**
US	1.3	0.1	-1.2
Canada	0.1	0.0	-0.1
UK	0.1	0.0	-0.1
Switzerland	0.1	0.0	-0.0
Europe ex UK ex Switzerland	0.2	0.0	-0.1
Asia ex Japan	0.1	0.0	-0.1
Japan	0.1	0.0	-0.1
Developed Small/ Mid Cap Equities	**0.3**	**0.0**	**-0.3**
US	0.2	0.0	-0.1
Non-US	0.1	0.0	-0.1
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**	**1.9**	**1.9**
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
Global Pharma	0.0	0.0	0.0
Cyber Security	0.0	0.0	0.0
Fintech	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0
Oil Services	0.0	0.0	0.0
Equal-Weighted S&P 500	0.0	0.0	0.0
Commodities	**0.0**	**1.9**	**1.9**
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	**8.0**	**8.0**	**0.0**
Private Equity	**10.0**	**10.0**	**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 15% 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 a neutral position, global fixed income has an overweight of +1.5%, cash has an underweight of -1.5%.

Within equities, developed large cap equities have an underweight of -1.6% and developed small/mid cap equities have an overweight of -0.3%. Emerging market equities have neutral positions and Thematic equities have an overweight of +1.9%.

Within fixed income, developed investment grade has an underweight position of -1.0%; developed high yield has an underweight position of -1.0% and emerging market debt has an overweight position of +0.9%. Thematic fixed income has an overweight of +2.7%.

Hedge Fund allocation in the tactial portfolio is 8%. Private Equity and Real Estate allocations are 10% and 5%, respectively. All these three asset classes positionings are neutral.

Global USD with Hedge Funds and 15% Illiquids (PE & RE): Risk Level 3

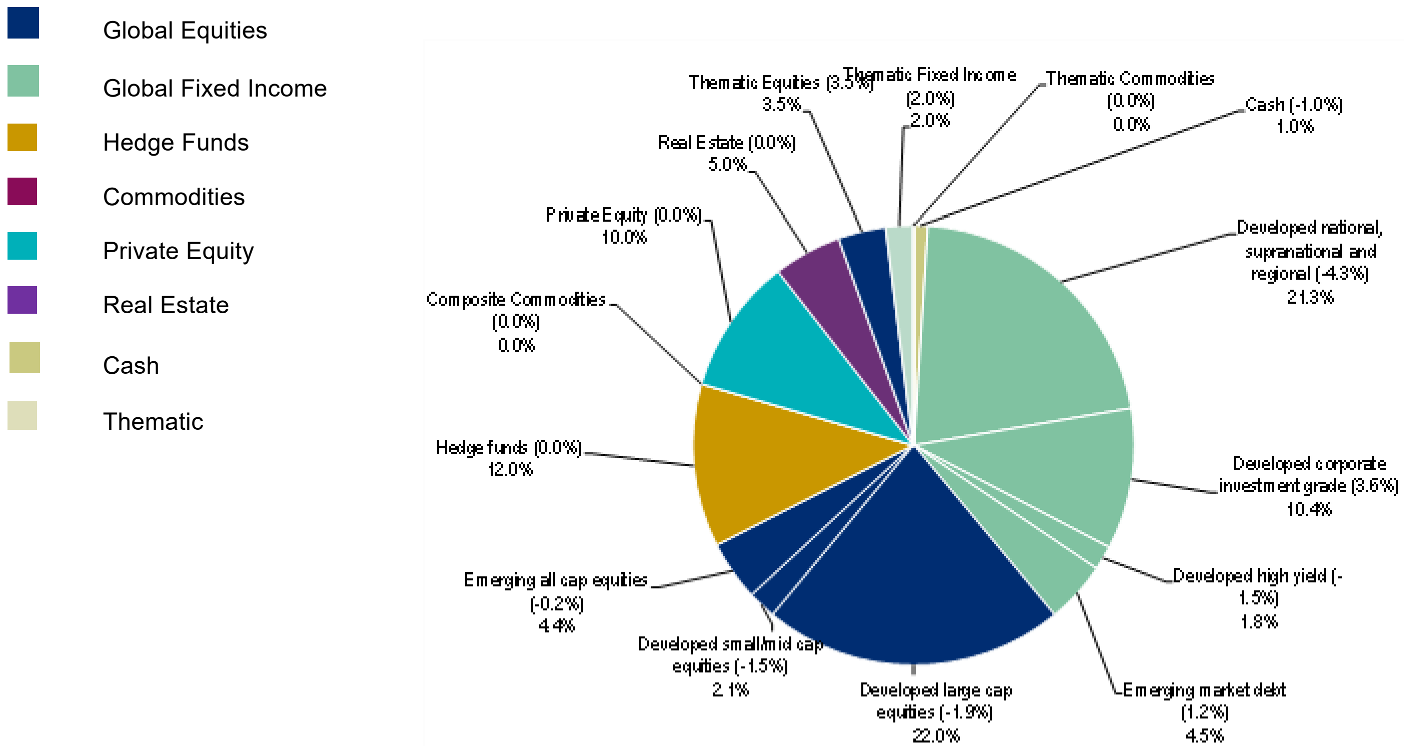
Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to 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	**39.0**	**40.0**	**1.0**
Developed Investment Grade	**32.4**	**31.7**	**-0.7**
US	20.1	30.0	9.9
Government	9.0	14.6	5.6
Inflation-Linked	1.2	2.3	1.0
Short	2.6	3.6	1.0
Intermediate	3.7	5.8	2.0
Long	1.4	2.9	1.5
Securitized	6.4	6.1	-0.3
Credit	4.7	9.3	4.6
Short	0.8	1.8	1.0
Intermediate	2.6	6.2	3.6
Long	1.3	1.3	0.0
Europe	9.4	1.5	-7.9
Government	7.3	0.4	-6.9
Credit	2.1	1.1	-1.0
Australia	0.2	0.2	0.0
Government	0.2	0.2	0.0
Japan	2.7	0.0	-2.7
Government	2.7	0.0	-2.7
Developed High Yield	**3.3**	**1.8**	**-1.5**
US	2.5	1.5	-1.0
Europe	0.8	0.3	-0.5
Emerging Market Debt	**3.3**	**4.5**	**1.2**
Asia	0.6	0.8	0.3
Local currency	0.3	0.0	-0.3
Foreign currency	0.3	0.8	0.5
EMEA	1.7	1.8	0.1
Local currency	0.8	0.1	-0.8
Foreign currency	0.8	1.8	0.9
LatAm	1.1	1.9	0.8
Local currency	0.5	0.5	0.0
Foreign currency	0.5	1.4	0.8
Thematic Fixed Income	**0.0**	**2.0**	**2.0**
US Bank Loans	0.0	0.0	0.0
Preferreds	0.0	2.0	2.0
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	**32.0**	**32.0**	**0.0**
Developed Equities	**27.4**	**24.1**	**-3.3**
Developed Large Cap Equities	**23.9**	**22.0**	**-1.9**
US	16.8	15.1	-1.7
Canada	0.9	0.9	-0.0
UK	1.0	1.0	-0.1
Switzerland	0.7	0.6	-0.0
Europe ex UK ex Switzerland	2.1	2.2	0.1
Asia ex Japan	0.8	0.8	-0.0
Japan	1.5	1.4	-0.1
Developed Small/ Mid Cap Equities	**3.5**	**2.1**	**-1.5**
US	2.1	2.0	-0.1
Non-US	1.5	0.1	-1.3
Emerging All Cap Equities	**4.6**	**4.4**	**-0.2**
Asia	3.8	3.8	0.0
China	1.3	1.2	-0.1
Asia (ex China)	2.5	2.6	0.1
EMEA	0.3	0.1	-0.2
LatAm	0.5	0.5	-0.0
Brazil	0.3	0.3	-0.0
LatAm ex Brazil	0.2	0.2	-0.0
Thematic Equities	**0.0**	**3.5**	**3.5**
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
Global Pharma	0.0	0.0	0.0
Cyber Security	0.0	1.0	1.0
Fintech	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0
Oil Services	0.0	0.0	0.0
Equal-Weighted S&P 500	0.0	2.5	2.5
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	**10.0**	**10.0**	**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 15% 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 a neutral position, global fixed income has an overweight of +1.0%, cash has an underweight of -1.0%.

Within equities, developed large cap equities have an underweight of -1.9% and developed small/mid cap equities have an underweight of -1.5%. Emerging market equities have an underweight of -0.2%. Thematic equities have an overweight position +3.5%.

Within fixed income, developed investment grade has an underweight position of -0.7%; developed high yield has an underweight position of -1.5% and emerging market debt has an overweight position of +1.2%. Thematic fixed income has an overweight of +2.0%.

Hedge Fund allocation in the tactial portfolio is 12%. Private Equity and Real Estate allocations are 10% and 5%, respectively. All these three asset classes positionings are neutral.

Global USD with Hedge Funds and 15% Illiquids (PE & RE): Risk Level 4

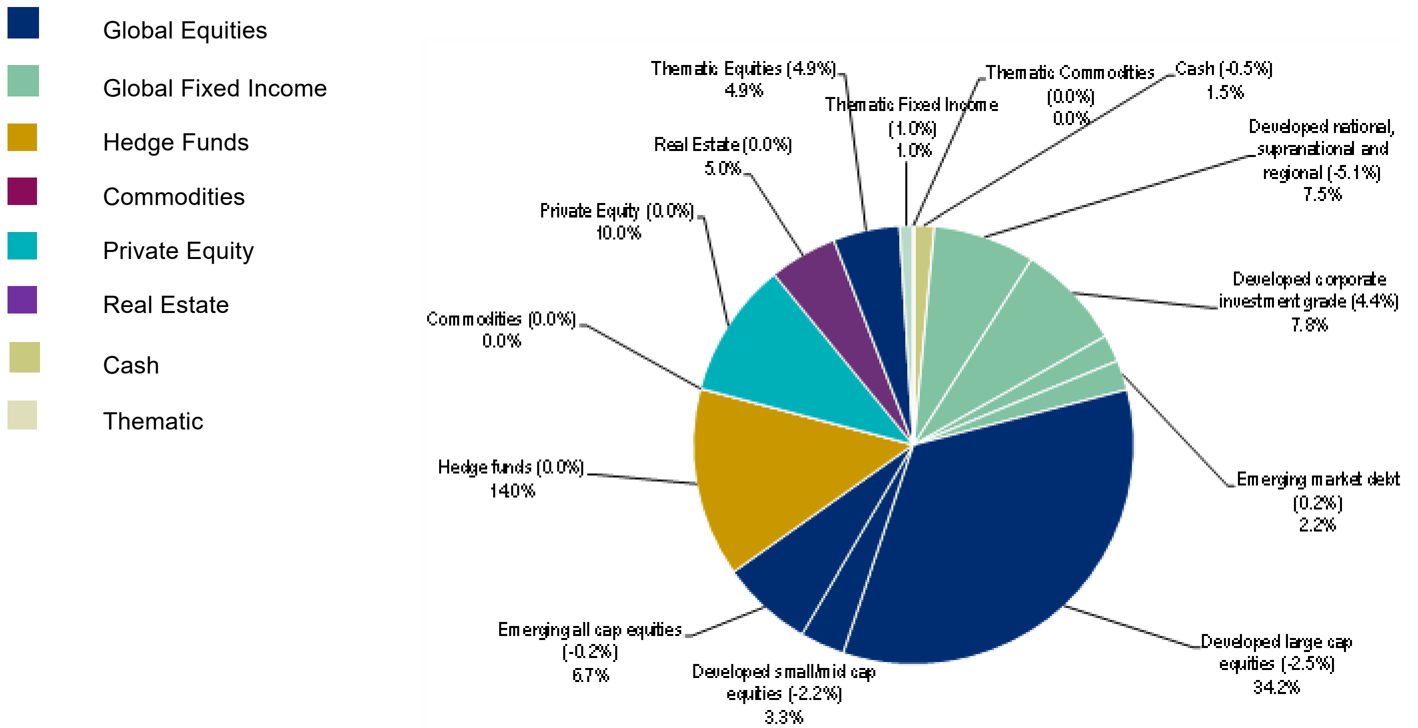
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market 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	**20.0**	**20.5**	**0.5**
Developed Investment Grade	**16.0**	**15.3**	**-0.7**
US	9.9	15.2	5.3
Government	4.4	7.2	2.8
Inflation-Linked	0.6	0.6	-0.0
Short	1.3	1.7	0.4
Intermediate	1.8	2.8	0.9
Long	0.7	2.2	1.5
Securitized	3.2	0.3	-2.9
Credit	2.3	7.7	5.4
Short	0.4	2.1	1.7
Intermediate	1.3	5.5	4.2
Long	0.6	0.1	-0.5
Europe	4.6	0.0	-4.6
Government	3.6	0.0	-3.6
Credit	1.0	0.0	-1.0
Australia	0.1	0.0	-0.1
Government	0.1	0.0	-0.1
Japan	1.3	0.0	-1.3
Government	1.3	0.0	-1.3
Developed High Yield	**2.0**	**2.0**	**-0.0**
US	1.5	1.5	-0.0
Europe	0.5	0.5	-0.0
Emerging Market Debt	**2.0**	**2.2**	**0.2**
Asia	0.3	0.6	0.3
Local currency	0.2	0.2	0.1
Foreign currency	0.2	0.4	0.2
EMEA	1.0	0.7	-0.3
Local currency	0.5	0.0	-0.5
Foreign currency	0.5	0.7	0.2
LatAm	0.6	0.9	0.3
Local currency	0.3	0.0	-0.3
Foreign currency	0.3	0.9	0.5
Thematic Fixed Income	**0.0**	**1.0**	**1.0**
US Bank Loans	0.0	0.0	0.0
Preferreds	0.0	1.0	1.0
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	**49.1**	**49.1**	**0.0**
Developed Equities	**42.2**	**37.5**	**-4.7**
Developed Large Cap Equities	**36.8**	**34.2**	**-2.5**
US	25.9	23.5	-2.4
Canada	1.4	1.3	-0.1
UK	1.6	1.5	-0.1
Switzerland	1.0	1.0	-0.0
Europe ex UK ex Switzerland	3.3	3.4	0.1
Asia ex Japan	1.3	1.2	-0.1
Japan	2.3	2.2	-0.1
Developed Small/ Mid Cap Equities	**5.5**	**3.3**	**-2.2**
US	3.2	3.1	-0.1
Non-US	2.3	0.2	-2.1
Emerging All Cap Equities	**6.9**	**6.7**	**-0.2**
Asia	5.7	5.9	0.2
China	2.0	1.9	-0.1
Asia (ex China)	3.7	4.0	0.3
EMEA	0.4	0.1	-0.3
LatAm	0.8	0.7	-0.0
Brazil	0.5	0.5	-0.0
LatAm ex Brazil	0.3	0.3	-0.0
Thematic Equities	**0.0**	**4.9**	**4.9**
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
Global Pharma	0.0	0.0	0.0
Cyber Security	0.0	1.4	1.4
Fintech	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0
Oil Services	0.0	0.0	0.0
Equal-Weighted S&P 500	0.0	3.5	3.5
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	**10.0**	**10.0**	**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 15% 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 a neutral position, global fixed income has an overweight of 0.5%, cash has an underweight of -0.5%.

Within equities, developed large cap equities have an underweight of -2.5% and developed small/mid cap equities have an underweight of -2.2%. Emerging market equities have an underweight of -0.2%. Thematic equities have an overweight position +4.9%.

Within fixed income, developed investment grade has an underweight position of -0.7%; developed high yield has a neutral position and emerging market debt has an overweight position of +0.2%. Thematic fixed income has an overweight of +1.0%.

Hedge Fund allocation in the tactial portfolio is 14%. Private Equity and Real Estate allocations are 10% and 5%, respectively. All these three asset classes positionings are neutral

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Global USD with Hedge Funds and 15% Illiquids (PE & RE): Risk Level 5

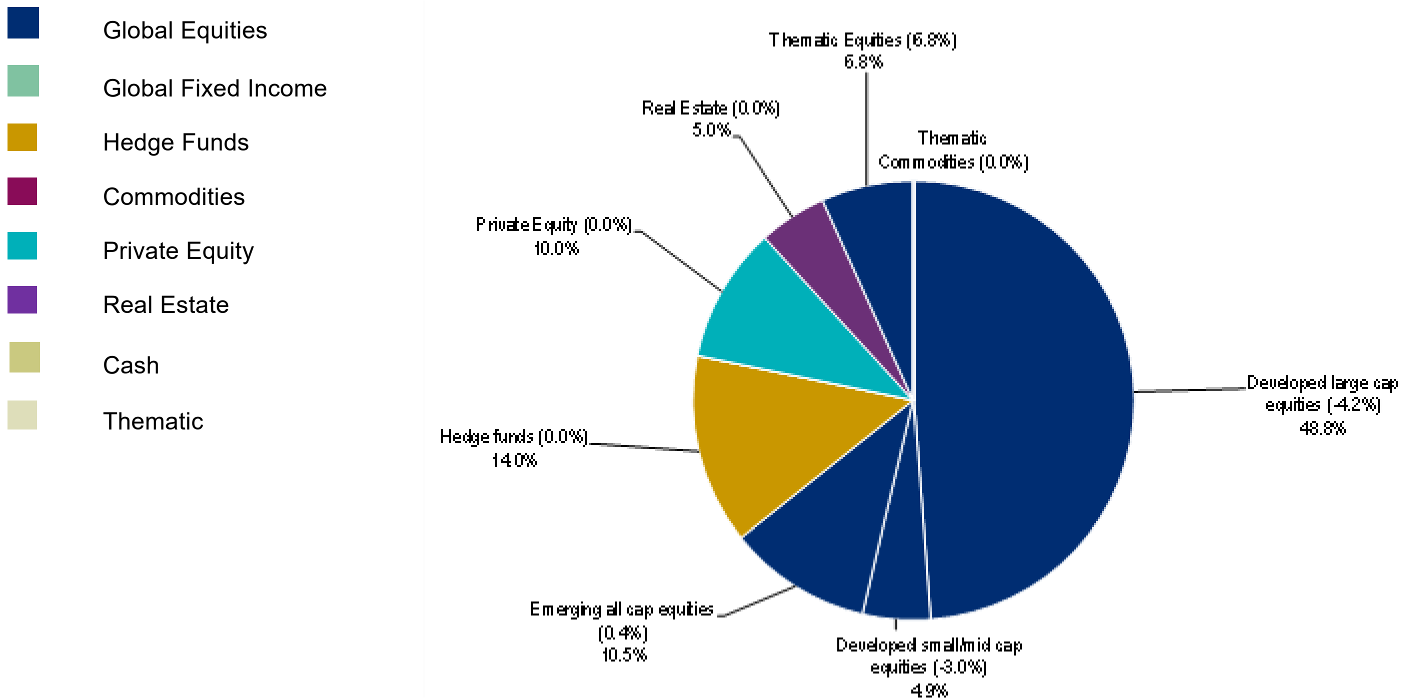
Risk Level 5 is designed for investors who emphasize return on investment. They are willing to subject their entire portfolio to greater risk and market value fluctuations in anticipation of a potentially greater return on investments. Investors may have a preference for investments or trading strategies 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
Preferreds	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	**71.0**	**71.0**	**-0.0**
Developed Equities	**60.8**	**53.7**	**-7.1**
Developed Large Cap Equities	**53.0**	**48.8**	**-4.2**
US	37.3	33.1	-4.2
Canada	2.0	2.0	-0.1
UK	2.3	2.2	-0.1
Switzerland	1.5	1.4	-0.0
Europe ex UK ex Switzerland	4.7	5.0	0.3
Asia ex Japan	1.8	1.8	-0.1
Japan	3.3	3.2	-0.1
Developed Small/ Mid Cap Equities	**7.9**	**4.9**	**-3.0**
US	4.6	4.4	-0.1
Non-US	3.3	0.5	-2.8
Emerging All Cap Equities	**10.2**	**10.5**	**0.4**
Asia	8.4	9.2	0.8
China	2.9	2.8	-0.1
Asia (ex China)	5.5	6.4	0.9
EMEA	0.6	0.2	-0.4
LatAm	1.1	1.1	-0.0
Brazil	0.7	0.7	-0.0
LatAm ex Brazil	0.4	0.4	-0.0
Thematic Equities	**0.0**	**6.8**	**6.8**
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
Global Pharma	0.0	0.0	0.0
Cyber Security	0.0	1.5	1.5
Fintech	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0
Oil Services	0.0	0.0	0.0
Equal-Weighted S&P 500	0.0	5.3	5.3
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	**10.0**	**10.0**	**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 15% 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 as well as cash are all at an overall neutral position.

Within equities, developed large cap equities have an underweight of -4.2% and developed small/mid cap equities have an underweight of -3.0%. Emerging market equities have an overweight of +0.4%. Thematic equities have an overweight position +6.8%.

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

Hedge Fund allocation in the tactial portfolio is 14%. Private Equity and Real Estate allocations are 10% and 5%, respectively. All these three asset classes positionings are neutral.

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Global USD without Hedge Funds: Risk Level 1

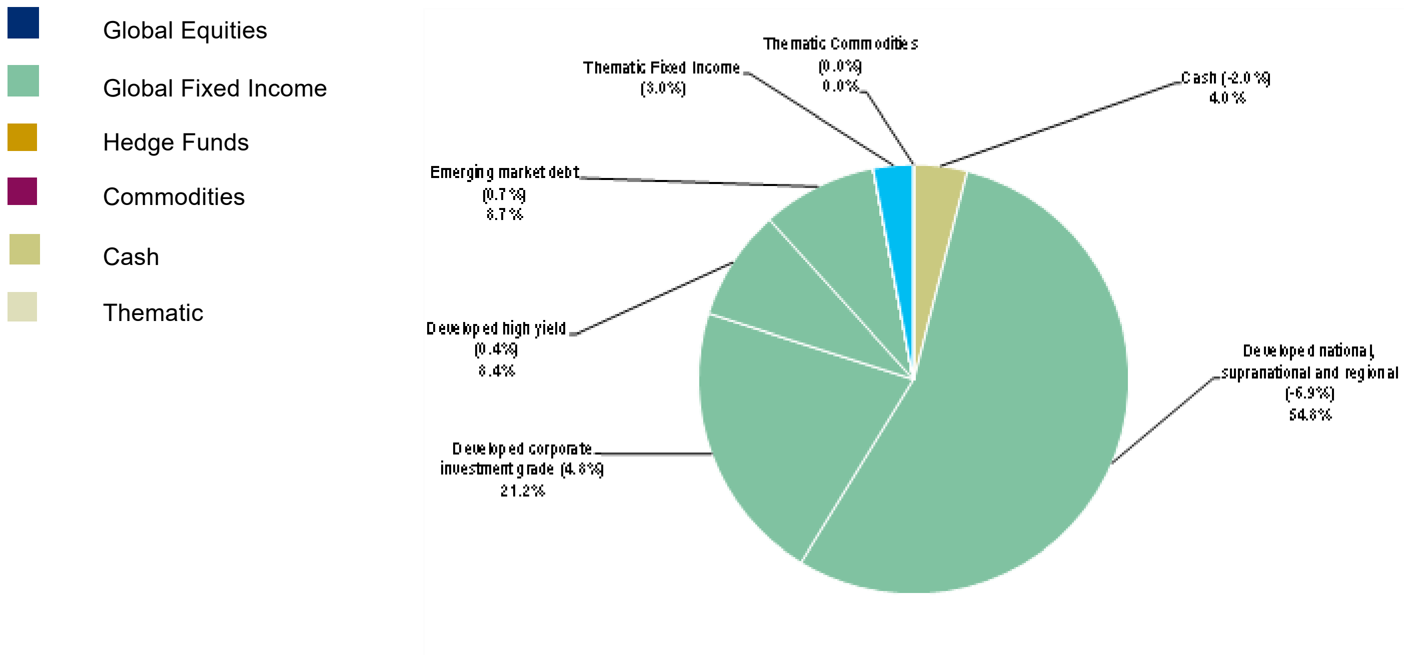
Risk Level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**6.0**	**4.0**	**-2.0**
Fixed Income	**94.0**	**96.0**	**2.0**
Developed Investment Grade	**78.0**	**75.9**	**-2.1**
US	48.4	57.5	9.1
Government	21.6	24.2	2.6
Inflation-Linked	3.0	2.8	-0.2
Short	6.3	8.1	1.8
Intermediate	9.0	8.0	-1.0
Long	3.4	5.4	2.0
Securitized	15.5	17.0	1.5
Credit	11.3	16.3	5.0
Short	1.9	2.9	1.0
Intermediate	6.3	10.3	4.0
Long	3.1	3.1	0.0
Europe	22.6	14.9	-7.7
Government	17.5	10.0	-7.5
Credit	5.1	4.9	-0.2
Australia	0.5	0.5	0.0
Government	0.5	0.5	0.0
Japan	6.5	3.0	-3.5
Government	6.5	3.0	-3.5
Developed High Yield	**8.0**	**8.4**	**0.4**
US	6.1	5.4	-0.7
Europe	1.9	3.0	1.1
Emerging Market Debt	**8.0**	**8.7**	**0.7**
Asia	1.4	2.1	0.7
Local currency	0.7	0.6	-0.1
Foreign currency	0.7	1.5	0.8
EMEA	4.0	3.3	-0.8
Local currency	2.0	1.3	-0.8
Foreign currency	2.0	2.0	0.0
LatAm	2.6	3.3	0.7
Local currency	1.3	1.3	0.0
Foreign currency	1.3	2.0	0.7
Thematic Fixed Income	**0.0**	**3.0**	**3.0**
US Bank Loans	0.0	0.0	0.0
Preferreds	0.0	3.0	3.0
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
Global Pharma	0.0	0.0	0.0
Cyber Security	0.0	0.0	0.0
Fintech	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0
Oil Services	0.0	0.0	0.0
Equal-Weighted S&P 500	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% and 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 -2.1%; developed high yield has a slight overweight position of +0.4% and emerging market debt has an overweight position of +0.7%. Thematic fixed income has an overweight position of +3.0%.

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.

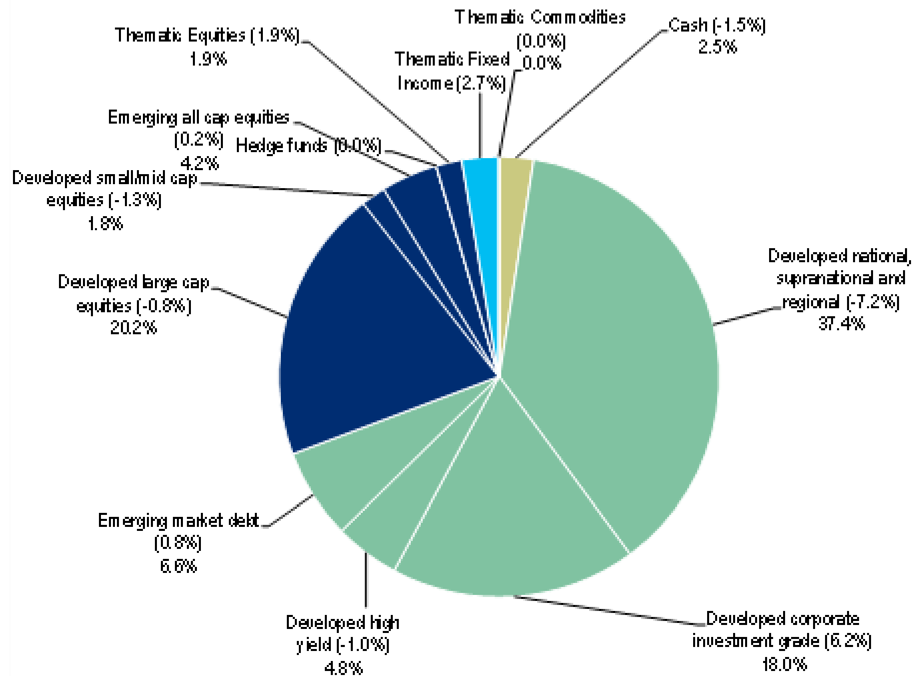
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**4.0**	**2.5**	**-1.5**
Fixed Income	**68.0**	**69.5**	**1.5**
Developed Investment Grade	**56.4**	**55.4**	**-1.0**
US	35.0	45.0	10.1
Government	15.6	17.7	2.1
Inflation-Linked	2.1	2.3	0.2
Short	4.6	4.8	0.3
Intermediate	6.5	6.6	0.2
Long	2.4	3.9	1.5
Securitized	11.2	12.3	1.1
Credit	8.2	15.0	6.9
Short	1.4	2.6	1.2
Intermediate	4.5	10.2	5.7
Long	2.3	2.3	0.0
Europe	16.3	8.7	-7.7
Government	12.7	5.7	-7.0
Credit	3.7	3.0	-0.7
Australia	0.4	0.4	0.0
Government	0.4	0.4	0.0
Japan	4.7	1.3	-3.4
Government	4.7	1.3	-3.4
Developed High Yield	**5.8**	**4.8**	**-1.0**
US	4.4	3.9	-0.5
Europe	1.4	0.9	-0.5
Emerging Market Debt	**5.8**	**6.6**	**0.8**
Asia	1.0	1.6	0.6
Local currency	0.5	0.5	-0.0
Foreign currency	0.5	1.1	0.6
EMEA	2.9	2.3	-0.6
Local currency	1.5	0.7	-0.8
Foreign currency	1.5	1.6	0.1
LatAm	1.9	2.7	0.8
Local currency	0.9	0.9	-0.0
Foreign currency	0.9	1.7	0.8
Thematic Fixed Income	**0.0**	**2.7**	**2.7**
US Bank Loans	0.0	0.0	0.0
Preferreds	0.0	2.7	2.7
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	**28.0**	**28.0**	**0.0**
Developed Equities	**24.0**	**22.0**	**-2.0**
Developed Large Cap Equities	**20.9**	**20.2**	**-0.8**
US	14.7	13.7	-1.0
Canada	0.8	0.8	0.0
UK	0.9	0.9	0.0
Switzerland	0.6	0.6	0.0
Europe ex UK ex Switzerland	1.9	2.1	0.2
Asia ex Japan	0.7	0.7	0.0
Japan	1.3	1.3	0.0
Developed Small/ Mid Cap Equities	**3.1**	**1.8**	**-1.3**
US	1.8	1.8	0.0
Non-US	1.3	0.0	-1.3
Emerging All Cap Equities	**4.0**	**4.2**	**0.2**
Asia	3.3	3.7	0.4
China	1.1	1.1	-0.0
Asia (ex China)	2.2	2.6	0.4
EMEA	0.2	0.0	-0.2
LatAm	0.5	0.5	0.0
Brazil	0.3	0.3	0.0
LatAm ex Brazil	0.2	0.2	0.0
Thematic Equities	**0.0**	**1.9**	**1.9**
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
Global Pharma	0.0	0.0	0.0
Cyber Security	0.0	0.0	0.0
Fintech	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0
Oil Services	0.0	0.0	0.0
Equal-Weighted S&P 500	0.0	1.9	1.9
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

Global Equities
Global Fixed Income
Hedge Funds
Commodities
Cash
Thematic



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 +1.5% and cash has an underweight of -1.5%.

Within equities, developed large cap equities have an underweight position of -0.8% and developed small/mid cap equities have an underweight of -1.3%. Emerging market equities have an overweight of +0.2%. Thematic equities have an overweight of +1.9%.

Within fixed income, developed investment grade has an underweight position of -1.0%; developed high yield has an underweight position of -1.0% and emerging market debt has a overweight position of +0.8%. Thematic fixed income has an overweight position of +2.7%

Global USD without Hedge Funds: Risk Level 3

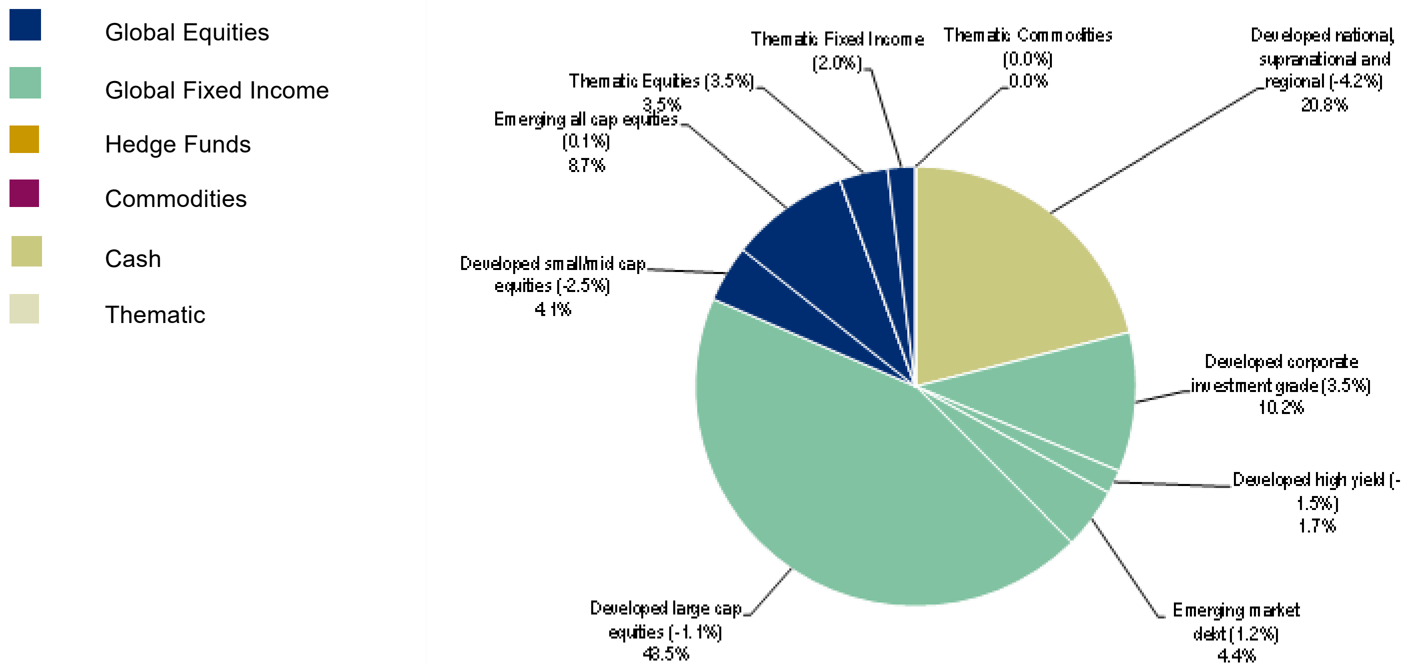
Risk Level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk Level 3 may be appropriate for investors willing to subject their portfolio to 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	**38.1**	**39.1**	**1.0**
Developed Investment Grade	**31.7**	**31.0**	**-0.7**
US	19.6	29.3	9.7
Government	8.8	14.3	5.5
Inflation-Linked	1.2	2.2	1.0
Short	2.6	3.6	1.0
Intermediate	3.6	5.6	2.0
Long	1.4	2.9	1.5
Securitized	6.3	6.0	-0.3
Credit	4.6	9.1	4.5
Short	0.8	1.8	1.0
Intermediate	2.5	6.0	3.5
Long	1.3	1.3	0.0
Europe	9.2	1.5	-7.7
Government	7.1	0.4	-6.7
Credit	2.1	1.1	-1.0
Australia	0.2	0.2	0.0
Government	0.2	0.2	0.0
Japan	2.7	0.0	-2.7
Government	2.7	0.0	-2.7
Developed High Yield	**3.2**	**1.7**	**-1.5**
US	2.5	1.5	-1.0
Europe	0.8	0.3	-0.5
Emerging Market Debt	**3.2**	**4.4**	**1.2**
Asia	0.6	0.8	0.2
Local currency	0.3	0.0	-0.3
Foreign currency	0.3	0.8	0.5
EMEA	1.6	1.8	0.1
Local currency	0.8	0.1	-0.8
Foreign currency	0.8	1.7	0.9
LatAm	1.0	1.8	0.8
Local currency	0.5	0.5	-0.0
Foreign currency	0.5	1.3	0.8
Thematic Fixed Income	**0.0**	**2.0**	**2.0**
US Bank Loans	0.0	0.0	0.0
Preferreds	0.0	2.0	2.0
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	**59.9**	**59.9**	**0.0**
Developed Equities	**51.3**	**47.7**	**-3.6**
Developed Large Cap Equities	**44.7**	**43.5**	**-1.1**
US	31.5	30.0	-1.5
Canada	1.7	1.7	0.0
UK	1.9	1.9	0.0
Switzerland	1.3	1.3	0.0
Europe ex UK ex Switzerland	4.0	4.3	0.4
Asia ex Japan	1.5	1.5	0.0
Japan	2.8	2.8	0.0
Developed Small/ Mid Cap Equities	**6.6**	**4.1**	**-2.5**
US	3.9	3.9	0.0
Non-US	2.8	0.3	-2.5
Emerging All Cap Equities	**8.6**	**8.7**	**0.1**
Asia	7.1	7.6	0.5
China	2.5	2.5	-0.0
Asia (ex China)	4.6	5.1	0.5
EMEA	0.5	0.1	-0.4
LatAm	1.0	1.0	-0.0
Brazil	0.6	0.6	-0.0
LatAm ex Brazil	0.3	0.3	-0.0
Thematic Equities	**0.0**	**3.5**	**3.5**
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
Global Pharma	0.0	0.0	0.0
Cyber Security	0.0	1.0	1.0
Fintech	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0
Oil Services	0.0	0.0	0.0
Equal-Weighted S&P 500	0.0	2.5	2.5
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 overall neutral position, global fixed income has an overweight position of +1.0% and cash has an underweight position of -1.0%.

Within equities, developed large cap equities have an underweight position of -0.6% while developed small/mid cap equities have an underweight position of -2.5%. Emerging market equities have an overweight of +2.1%. Thematic equities have an overweight of +1.0%.

Within fixed income, developed investment grade debt has an underweight position of -0.7%; developed high yield has an underweight position of -1.5%; emerging market debt has an overweight position of +1.2%. Thematic fixed income has an overweight of +2.0%.

Global USD without Hedge Funds: Risk Level 4

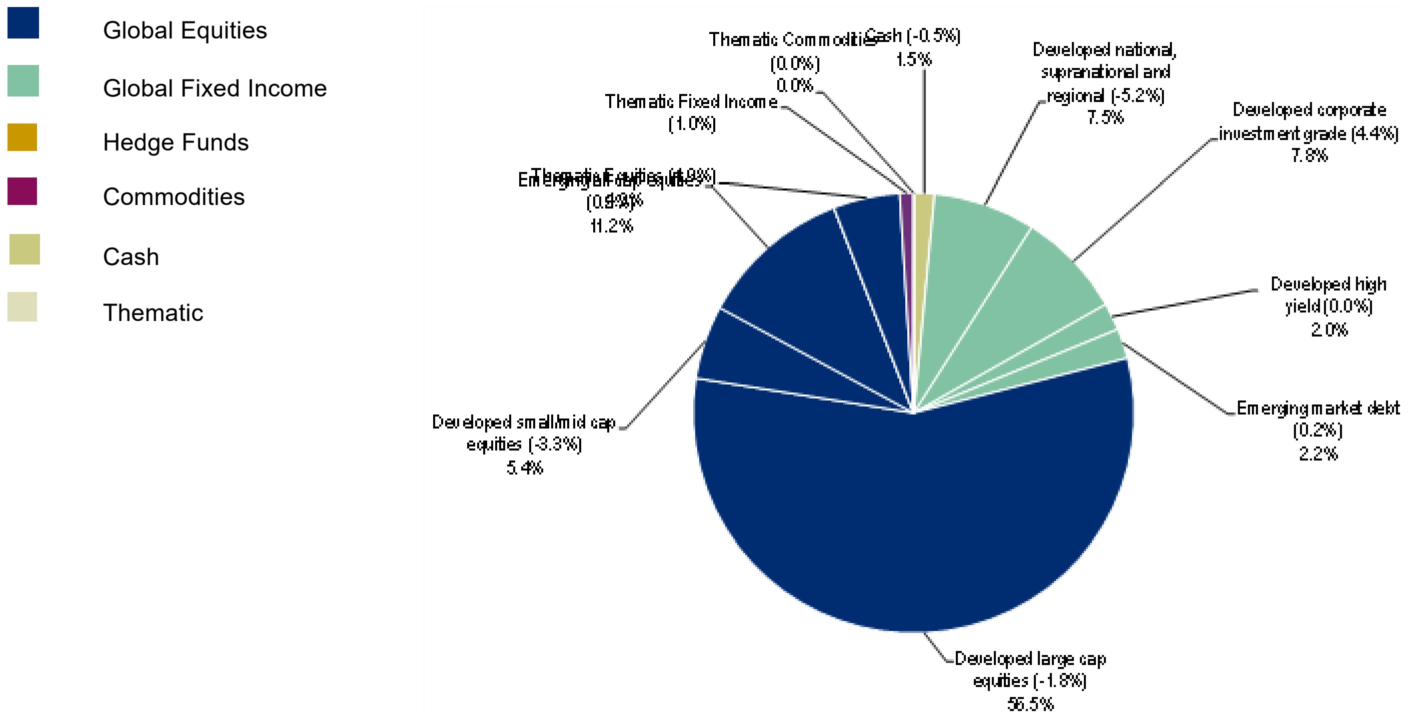
Risk Level 4 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. They are willing to subject a large portion of their portfolio to greater risk and market 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	**20.0**	**20.5**	**0.5**
Developed Investment Grade	**16.0**	**15.3**	**-0.7**
US	9.9	15.2	5.3
Government	4.4	7.2	2.8
Inflation-Linked	0.6	0.6	-0.0
Short	1.3	1.7	0.4
Intermediate	1.8	2.8	1.0
Long	0.7	2.2	1.5
Securitized	3.2	0.3	-2.9
Credit	2.3	7.8	5.4
Short	0.4	2.1	1.7
Intermediate	1.3	5.5	4.2
Long	0.6	0.1	-0.5
Europe	4.6	0.0	-4.6
Government	3.6	0.0	-3.6
Credit	1.0	0.0	-1.0
Australia	0.1	0.0	-0.1
Government	0.1	0.0	-0.1
Japan	1.3	0.0	-1.3
Government	1.3	0.0	-1.3
Developed High Yield	**2.0**	**2.0**	**0.0**
US	1.5	1.5	0.0
Europe	0.5	0.5	0.0
Emerging Market Debt	**2.0**	**2.2**	**0.2**
Asia	0.3	0.6	0.3
Local currency	0.2	0.2	0.1
Foreign currency	0.2	0.4	0.2
EMEA	1.0	0.7	-0.3
Local currency	0.5	0.0	-0.5
Foreign currency	0.5	0.7	0.2
LatAm	0.6	0.9	0.3
Local currency	0.3	0.0	-0.3
Foreign currency	0.3	0.9	0.5
Thematic Fixed Income	**0.0**	**1.0**	**1.0**
US Bank Loans	0.0	0.0	0.0
Preferreds	0.0	1.0	1.0
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	**78.0**	**78.0**	**0.0**
Developed Equities	**67.0**	**61.9**	**-5.1**
Developed Large Cap Equities	**58.3**	**56.5**	**-1.8**
US	41.1	38.8	-2.3
Canada	2.2	2.2	-0.0
UK	2.5	2.5	-0.0
Switzerland	1.6	1.6	-0.0
Europe ex UK ex Switzerland	5.2	5.6	0.4
Asia ex Japan	2.0	2.0	-0.0
Japan	3.7	3.7	-0.0
Developed Small/ Mid Cap Equities	**8.7**	**5.4**	**-3.3**
US	5.0	5.0	-0.0
Non-US	3.6	0.4	-3.3
Emerging All Cap Equities	**11.0**	**11.2**	**0.2**
Asia	9.1	9.8	0.7
China	3.2	3.2	0.0
Asia (ex China)	6.0	6.7	0.7
EMEA	0.7	0.1	-0.5
LatAm	1.2	1.2	0.0
Brazil	0.8	0.8	0.0
LatAm ex Brazil	0.4	0.4	0.0
Thematic Equities	**0.0**	**4.9**	**4.9**
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
Global Pharma	0.0	0.0	0.0
Cyber Security	0.0	1.4	1.4
Fintech	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0
Oil Services	0.0	0.0	0.0
Equal-Weighted S&P 500	0.0	3.5	3.5
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 overall neutral position, global fixed income has an overweight of +0.5% and cash has an underweight of -0.5%.

Within equities, developed large cap equities have an underweight position of -1.1% and developed small/mid cap equities have an underweight position of -3.3%. Emerging market equities have an overweight of +2.9%. Thematic equities have an overweight position of +1.4%.

Within fixed income, developed investment grade debt has an underweight position of -0.7%; developed high yield has a neutral position and emerging market debt has an overweight position of 0.2%. Thematic fixed income has an overweight position of +1.0%.

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.

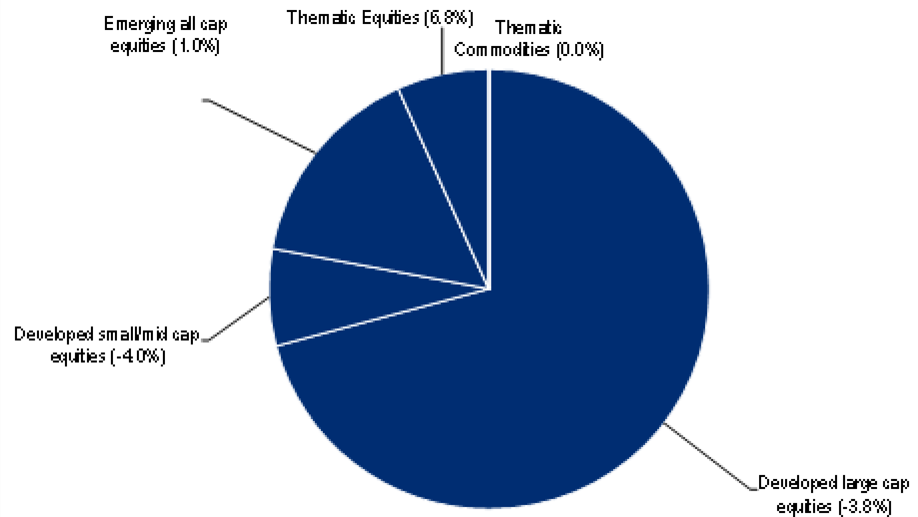
Classification	Strategic (%)	Tactical* (%)	Active (%)
Cash	**0.0**	**0.0**	**0.0**
Fixed Income	**0.0**	**0.0**	**0.0**
Developed Investment Grade	**0.0**	**0.0**	**0.0**
US	0.0	0.0	0.0
Government	0.0	0.0	0.0
Inflation-Linked	0.0	0.0	0.0
Short	0.0	0.0	0.0
Intermediate	0.0	0.0	0.0
Long	0.0	0.0	0.0
Securitized	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
Preferreds	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	**85.7**	**77.9**	**-7.8**
Developed Large Cap Equities	**74.6**	**70.8**	**-3.8**
US	52.6	48.0	-4.5
Canada	2.8	2.8	0.0
UK	3.3	3.3	0.0
Switzerland	2.1	2.1	0.0
Europe ex UK ex Switzerland	6.6	7.3	0.7
Asia ex Japan	2.6	2.6	0.0
Japan	4.7	4.7	0.0
Developed Small/ Mid Cap Equities	**11.1**	**7.1**	**-4.0**
US	6.5	6.5	0.0
Non-US	4.6	0.7	-4.0
Emerging All Cap Equities	**14.3**	**15.3**	**1.0**
Asia	11.8	13.3	1.5
China	4.1	4.1	0.0
Asia (ex China)	7.7	9.2	1.5
EMEA	0.9	0.4	-0.5
LatAm	1.6	1.6	0.0
Brazil	1.0	1.0	0.0
LatAm ex Brazil	0.6	0.6	0.0
Thematic Equities	**0.0**	**6.8**	**6.8**
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
Global Pharma	0.0	0.0	0.0
Cyber Security	0.0	1.5	1.5
Fintech	0.0	0.0	0.0
Natural Resources	0.0	0.0	0.0
Oil Services	0.0	0.0	0.0
Equal-Weighted S&P 500	0.0	5.3	5.3
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

- Global Equities
- Global Fixed Income
- Hedge Funds
- Commodities
- Cash
- Thematic



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 as well as cash are all at an overall neutral position.

Within equities, developed large cap equities have an underweight position of -2.3% and developed small/mid cap equities have an underweight position of -4.0%. Emerging market equities have an overweight of +4.8%. Thematic equities have an overweight position of +1.5%.

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

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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		
Credit risk	**Moody's[1]**	**Standard and Poor's[2]**	**Fitch Ratings[2]**
Investment Grade			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
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

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