

Global Convictions & Outlook

Asset Class Research with a Long-Term Perspective

Morningstar Wealth

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For Professional Clients

Asset-Class Convictions

The goal of assigning a conviction level to an asset class is to distill the attractiveness of an investment opportunity into a single rank. The term “conviction” derives from the Latin verb “convincere,” which means to argue.

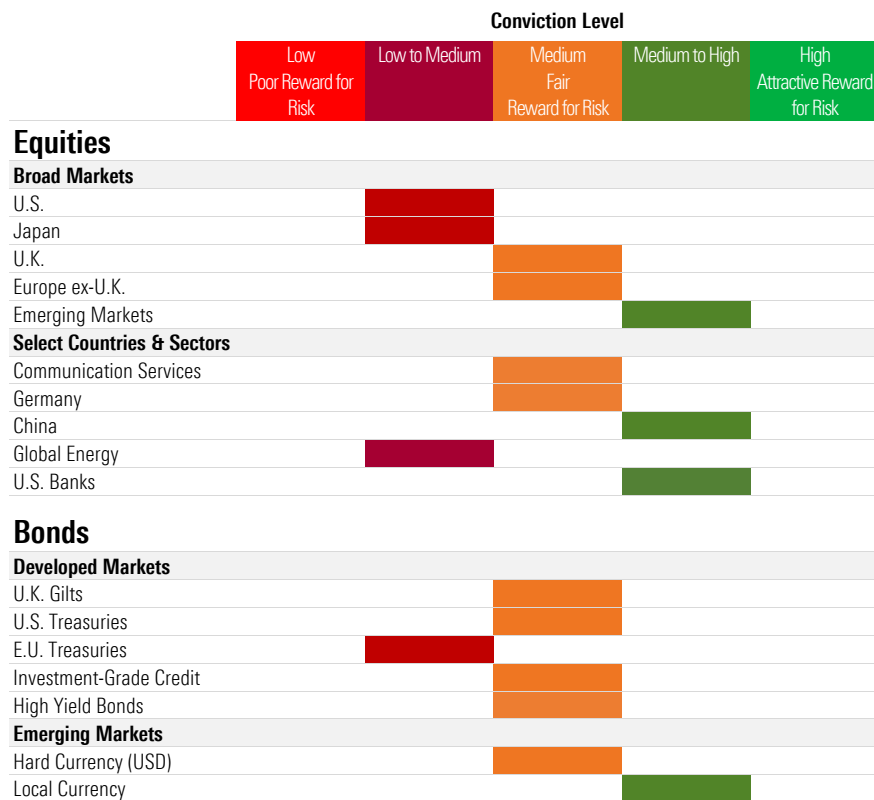
In assigning an asset-class conviction, an analyst trades off the aspects of an investment opportunity that argue for and against it, culminating in the expression of a conviction level. The conviction level is expressed on a five-point scale (Low, Low to Medium, Medium, Medium to High, and High).

Our conviction scoring system is based on four criteria: absolute valuation; relative valuation; contrarian indicators; and fundamental risk.

The first half of 2024 has delivered positive outcomes for many asset classes, with generally low volatility. The major equity markets continue to climb, with stocks related to artificial intelligence (AI) leading the way. Bonds are also broadly holding their ground, finding some stability after an extended period of uncertainty. As a result, many multi-asset portfolios are sitting on positive returns for the year to date — with the prospect of interest rate cuts fuelling investor expectations.

Zooming out to a longer-term perspective, we face an interesting period that requires careful positioning. The recent positive returns are always welcome, although risk management is playing an important role. With technology and AI-related sentiment continuing to run hot, inflationary pressures still vexing, political change in full swing, and a still-combustible atmosphere in the Middle East, it remains pivotal to balance the risk and return drivers in portfolios.

Exhibit 1. Our Convictions Continue to Evolve, with Selected Opportunities Evident¹



Source: Morningstar Investment Management. Views as of 15th July 2024 and subject to change. For illustrative purposes only.

¹ References to specific asset classes should not be viewed as a recommendation to buy or sell any specific security in those asset classes. Conviction is subject to change at any time without notice.

Broad Investment Backdrop

A few dominant forces are driving market sentiment. Perhaps the most prominent driver is activity among central banks, with rate cuts commencing in Europe and Canada, although the shifting rhetoric is that rate cuts will be later and shallower than previously expected. Elsewhere, political instability continues, with elections taking place across much of the world, resulting in a changing of the guard.

Of course, there are other fundamental factors playing into proceedings. The global economy has been resilient and corporate profits remain robust in key markets, with record-high profit margins a feature of the US market rally. That said, valuations are starting to stretch beyond fair value, given the all-time high prices, requiring some caution.

A short list of our convictions include:

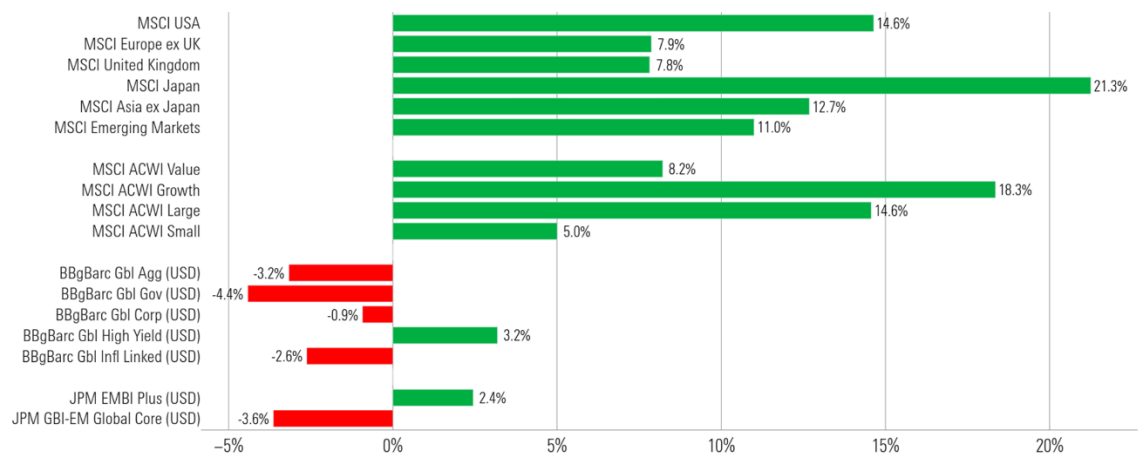
- Defensive equities, like healthcare and consumer staples
- Chinese tech stocks
- US banks
- Emerging-markets debt
- Government bonds and inflation-protected securities

For equities, volatility has been largely benign, nearing record-low levels. That said, there is wide dispersion beneath, offering the opportunity to think and act selectively. Large-cap stocks are running well ahead of small-cap stocks. The same can be said for growth versus value stocks, with growth outpacing value by a healthy margin in 2024.

Emerging markets have also been a mixed bag but contributed positively. For example, China (the largest index component) enjoyed a bit of a rebound from its recent travails, while Taiwan's chip-led market was boosted by its connection to the AI story.

For fixed-income investors, it has been a muted period. Government bonds and corporate bonds are both struggling, despite their attractive yields. Looking within, short-dated bonds have been outperforming longer-dated bonds by a reasonable margin. Credit-sensitive bonds also continue to benefit from strong equity market sentiment, but that leaves credit spreads even narrower than they already were, making their valuations look unusually rich by some metrics.

Exhibit 2. First-half 2024 Returns Were Positive for Equities, With Bonds Struggling



Source: Clearnomics, Morningstar, MSCI, Bloomberg, JPMorgan, as of 1st July 2024. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Reference to specific asset classes should not be viewed as a recommendation to buy or sell any specific security in those asset classes.

Asset-Allocation Research (as of July 2024)

EQUITY MARKETS

Asset Class	Conviction	Rationale
U.S. Equities <ul style="list-style-type: none"> • Consumer Staples • Healthcare • Energy Infrastructure • Banks • Communication Services 	Low to Medium Medium to High Medium Medium to High Medium	Backdrop US stocks continue to run with the wind at their back. The first half of the year saw US large-cap stocks make 31 new all-time highs while returning more than 15%. These returns were achieved without sacrificing much scar tissue. The largest drawdown for US stocks has been only 5%, no trading day in June saw a decline of more than 0.40%, and volatility has been hibernating, hitting multiyear lows in May. In short, it's been a pretty smooth ride.

Markets are made up of a collection of buyers and sellers. The “buyers” would tell you that earnings expectations continue to climb, and this supports the markets headline return. The “sellers” might say only a select few stocks are driving the returns, and markets are weakest when they are narrow.

As valuation driven investors, we think an important way to protect yourself from the “sellers” argument is through diversification. Specifically, we continue to believe some of the most compelling US equity opportunities exist outside of the technology sector and other *hot* areas of the market.

Outlook

It's important to note that our conviction for the US equity market has fallen to Low to Medium overall—which implies a cautious approach is warranted. The scores across two key “pillars”—absolute valuation and relative valuation—have fallen moderately, while scores for contrarian indicators and fundamental risk remained unchanged. This is not to say that we consider US equities to be an outright danger—we don't. But our process tells us that the situation requires a careful eye, which is reflected in our conviction.

At a deeper level, valuation spreads—the disparity in valuation levels between sectors—is where we see opportunity. In 2020–21, we identified opportunities clustered in more cyclical (or economically sensitive) areas of the market. Specifically, regarding energy stocks: Our valuation approach incorporates a mean-reversion framework for energy prices longer term, which leads us to conclude that energy producers in particular have become more fully valued. However, we acknowledge that a prolonged period of structurally higher commodity prices has not been fully priced into these shares and also that companies have shown fairly strong capital discipline even as pricing has firmed, which is a significant, positive departure from previous cycles. Energy infrastructure shares remain relatively appealing within the energy sector.

On financials, our research leads us to believe that large US banks are still relatively attractive, though not without risk. The last area on our radar is defensive sectors, most notably healthcare, which have improved in our relative rankings and could help offset equity risk as it is not highly correlated with economic cycles. Regarding technology stocks, we don't assess these stocks with a broad brush, though we are wary of the potential for a crowding situation in the sector, which, in aggregate, has been “over-earning” relative to its own history (meaning, profit margins of late have been elevated versus long-term averages). So, care is required in this space, especially with interest-rate rises and valuation multiple implications from those increases. We have recently updated our work on the Communication Services sector in the US. Despite excellent share returns—most notably Meta—our updated work suggests that while not as compelling as was the case at year end 2022, valuations in the sector are still reasonable on an absolute basis and, when compared to other equity asset classes (particularly those in more growth-oriented sectors), are relatively appealing.

All this to say—a long-term perspective remains a critical ingredient for investor success. This is perhaps even more relevant during periods where markets are trading near all-time highs.

Asset Class	Conviction	Rationale
Europe ex-U.K. Equities <ul style="list-style-type: none"> European Energy European Financials Germany 	Medium Medium Medium	<p>Backdrop</p> <p>Eurozone equities ex-UK have been positive in 2024, although trailing US stocks—a stubborn trend that continues to persist.</p> <p>But there are additional details worth highlighting. For example, the sector and industry composition in Europe is much different than the US. The weight in technology stocks is approximately 20% higher in the US, which has been a significant factor in US stocks outpacing European stocks. As highlighted in the US backdrop, if market leadership were to move away from technology, this could potentially tilt the performance scale back in favour of Europe.</p> <p>From an economic standpoint, Europe’s largest economy—Germany—has been dealing with an economic slowdown, and this problem has filtered through equity markets. But the <i>problem</i> also creates attractive valuations and potentially interesting investment opportunities.</p> <p>Thinking through investment opportunities, we believe the price you pay is often the single biggest determinant in the outcome. When US equities (specifically large cap) are discussed, it’s not uncommon to hear they’re “<i>priced for perfection.</i>” That’s not the case in Europe and one of the reasons we continue to pay close attention to the asset class.</p> <p>Outlook</p> <p>While we generally like European stocks, we find attractive opportunities when we dig into country and sector differentials. For example, we’ve reaffirmed our attraction to German stocks, which remain an appealing area despite continued macroeconomic concerns. In aggregate, we find German stocks offer solid balance sheets and potential upside to earnings—without eye-popping valuations. At a sector level, we hold positive views on European-integrated energy companies. European banks valuations, on the other hand, have started to moderate.</p>

Asset Class	Conviction	Rationale
U.K. Equities	Medium	<p>Backdrop</p> <p>UK equities have also been positive, broadly in line with Europe in 2024 year to date.</p> <p>The discourse on the sector and industry differences between the US and Europe holds true for the UK as well, meaning valuable diversification opportunities exist for owning this market. As an example, the UK equity market has one of the highest dividend yields in the developed world. While this has mostly been a function of weaker share prices, there are unique equity income opportunities.</p> <p>With that in mind, investors should prioritise future prospects over past performance. Looking ahead, between attractive valuations and different industry composition, the UK remains an interesting equity market for investors.</p> <p>Outlook</p> <p>Our overall conviction score for the UK remains at Medium. While relative valuations remain at Medium to High, absolute valuations is Medium. This means our long-standing belief that investors were being well compensated for the risk of investing in UK stocks has softened, coming more in line with international peers.</p> <p>That said, UK equities remain a solid dividend play, where we have seen many companies reinstate their dividends at more sensible and sustainable levels. Revenue is cyclical given the underlying key sectors of financials, energy, and materials—and we don’t expect any material changes to this going forward. Both operating and financial leverage are also stable. From a fundamental standpoint, we note that most UK corporates are high-quality businesses, although certain scenarios pose a risk to corporate profitability.</p>

Asset Class	Conviction	Rationale
Australian Equities	Medium	<p>Backdrop</p> <p>Australian equities have delivered positive returns year to date, although relative to other equity markets, this was an average result.</p> <p>Importantly, Australia has not benefitted from the “tech tailwind,” as its largest industries are the financials and materials sectors. Australian equities trade on lower price-to-equity (PE) multiples compared to US equities but earnings growth has also been less impressive. Notably, given the large exposure to materials, China has historically been a large buyer of Australia’s natural resources (iron ore, coal, metals, etc.). As China’s economy has slowed, Australia’s equity market fortunes have slowed in unison.</p> <p>Outlook</p> <p>Headwinds exist, but performance in the last year relative to the major global indexes was subdued. Australian shares retain a Medium conviction, in line with many major global peers according to our analysis. While opportunities do exist at a more granular level—especially for those willing to invest differently to the index—we continue to see greater merit in global exposure, including Chinese Equities on valuation grounds, and other select markets.</p>
Japan Equities	Low to Medium	<p>Backdrop</p> <p>Japan’s equity markets hit their highest levels in more than 30 years last year, and it was only a matter of time before they needed the proverbial “breather”. The second quarter was a realisation of that—Japanese stocks finished down nearly 4% in USD, making them one of the worst-performing equity markets across the globe.</p> <p>The history of Japanese equities has mostly been defined by booms and busts—there haven’t been many <i>relaxing</i> periods of moderate growth, meaning volatility is nothing new. And while one bad quarter doesn’t imply a doom scenario, it’s also true Japanese equities have become less attractive as prices have run up in recent years.</p> <p>From an investment perspective, Japan continues to enforce reforms to their equity markets to entice global investors. To date, they’ve already captured one big investor: Warren Buffett, who mentioned last year, “<i>we’ll keep looking for more opportunities in Japan</i>” while referencing Berkshire’s significant investments in five Japanese trading companies.</p> <p>Outlook</p> <p>The strong returns from Japan resulted in a downgrade to Low-Medium. While much of the structural tailwind is now behind us, we still see scope for a continuation of improving shareholder interests, rising dividend payouts, and board independence.</p> <p>Japanese stocks also carry attractive diversifying properties that can help in broad market setbacks. Sentiment toward Japanese financials has improved significantly over recent months as the Bank of Japan has adjusted its prolonged quantitative-easing program, a step toward interest-rate normalisation.</p>

Asset Class	Conviction	Rationale
Emerging-Markets Equities <ul style="list-style-type: none"> China Equities 	Medium to High Medium to High	<p>Backdrop</p> <p>Emerging markets were positive in the second quarter, up approximately 5%, which means they outperformed US stocks. It has often felt like investors could set their watch to US outperformance making this a welcome change in performance fortunes.</p> <p>China makes up around a quarter of the emerging-market index and plays a heavy hand in determining the fate of broader emerging-market equities. China currently faces many economic challenges, but valuations have reflected this sentiment. It's not uncommon for valuations to often reflect too much negativity, and we may be reaching that point. China equities were up nearly 7% in the quarter — outpacing broader emerging-markets — which made them one of the top-performing global markets.</p> <p>Stepping back, the structural story around emerging markets remains intact. Collectively, these countries represent approximately 80% of the world's population and nearly 70% of the world's GDP growth, but less than 10% of the total global equity market cap. A burgeoning middle class continues to develop and should present interesting opportunities for investors, albeit with higher volatility.</p> <p>As a nod to Charlie Munger's old investing quote, "<i>fish where the fish are</i>" we should keep in mind <i>plenty of fish</i> exist in emerging markets.</p> <p>Outlook</p> <p>We retain our conviction at Medium to High. We consider emerging-markets equities to be among our preferred equity regions (alongside selected European equities). Emerging markets continue to offer attractive valuations, with a forward price/earnings ratio of 12.1x, well below developed world peers.</p>

Asset Class	Conviction	Rationale
Global Sectors <ul style="list-style-type: none"> Energy Financials Communication Services 	Low to Medium Medium Medium	<p>Backdrop</p> <p>The sector story in global equities has been a two-pronged story. On one hand, technology is getting larger, and everything else is getting smaller by comparison. Admittedly, that's a bit of a generalisation, but it holds much truth. The counter would be other sectors have become much more reasonably priced from a valuation perspective as technology ascended.</p> <p>As valuation-driven investors, we are always peeling back the layers, attempting to identify sectors that hold some combination of factors (depressed valuations, upward earnings revisions, catalyst, etc.) that might indicate opportunity lies ahead. We often tend to think of this as <i>The Three U's: unloved, underappreciated, and undervalued</i>. And right now, the opportunities that fit this description exist outside of technology.</p> <p>Of course, bells never ring to inform us when a market inflection point has been reached, which means we approach each situation cautiously.</p> <p>Outlook</p> <p>We continue to see opportunities at the defensive end, as well as financials. Defensive value-oriented areas of the market have struggled, despite generally robust earnings. Sectors include healthcare, utilities and consumer staples, all of which provide services that are required in both good and bad times. Generally, stocks in these categories should be less volatile and less affected by the ups and downs of long-term market cycles. Yet, following weakness, they now present decent valuation opportunities.</p>

FIXED INCOME

Asset Class	Conviction	Rationale
Developed-Markets Sovereign <ul style="list-style-type: none"> • U.S. Treasuries • Euro Government • U.K. Gilts • Japan • Australia 	<p>Medium</p> <p>Low-to-Medium</p> <p>Medium</p> <p>Low to Medium</p> <p>Medium</p>	<p>Backdrop</p> <p>The bond market has not provided the defensive features over the past few years that investors had come accustomed to. Using the Bloomberg Aggregate Bond Index (the Agg), bonds have been in a drawdown for more than 47 months, the longest drought in history.</p> <p>That said, the Agg did post positive returns in the quarter. Though the return was only 13 basis points, which hardly forgives the hardship the asset class has presented to investors in recent years.</p> <p>The good news? Given where yields sit today, it's not unreasonable to believe the worst could be behind us. A key aspect of the bond market is that interest rates adjusting higher from zero hurts most at the beginning, like we saw in the past few years. Any increase in rates from where we sit today will likely be much less dramatic than what already happened (i.e., going from 0% to 5%) for the simple fact that you're getting paid a coupon now that isn't replicated with 1%–2% yields. In short, higher yields will ultimately translate to higher future expected returns.</p> <p>Outlook</p> <p>The material increase in bond yields has improved forward-looking prospects, which applies positively to the US, UK, and Australia. Europe is also rising from a very low base, although absolute yields remain broadly unattractive. Yields now cover inflation in many instances, offering positive "real" yields.</p> <p>Going slightly deeper, the ability to add income to portfolios while mitigating duration/default risk looks attractive to us currently. Healthy government bond yields are a positive for future return generation and we expect this asset class to continue playing a role for investors. That said, overall, we feel that managing duration risk makes sense in most scenarios. We are cognisant of the potentially sizeable drawdown risk from longer duration assets and adjusting our bond allocations higher at a moderate pace. Adding materially to duration might make sense at some point, but any changes should be measured and deliberate, given the fast-changing response from central banks and the threat of stickier inflation. The key risk for fixed income is that interest rates fail to sufficiently slow economic growth and inflation.</p> <p>For corporates, many firms are using free cash flow to fund capex, not debt, and service-oriented firms are less reliant on debt financing than industrials. At the consumer level, most mortgages have locked in lower rates and while we are seeing signs of slowing housing activity, the risk of a collapse is relatively contained. In this sense, government bonds are in an odd spot. On the one hand, the global macro environment is widely uncertain with a range of outcomes. The global economy is challenged with slowing growth and persistent inflation that has the potential to reduce aggregate demand. To complicate matters, central banks have been late to make decisions to address inflation that could ultimately lead them to a tough bridge—balancing between a hard and soft landing. Further, given the delicate nature of both the domestic and global economy, long-term sovereign bonds seem appropriate to hedge against risks, whether that is aggressive central bank action, a weakening of demand, or both.</p>
Investment-Grade Credit <ul style="list-style-type: none"> • U.S. • European Corporates • U.K. Corporates • Australian Corporates 	<p>Medium</p> <p>Medium</p> <p>Medium</p> <p>Medium</p>	<p>Backdrop</p> <p>Much of the discussion around developed-markets sovereign bonds are applicable to investment-grade bonds as well. For the quarter, investment-grade bonds were negative and continue to be a thorn in investors side.</p> <p>Obviously, one quarter does not change our views on what this asset class represents, still believing investment-grade bonds continue to be an extremely valuable part of investor portfolios. The combination of 1) potentially declining interest rates in the near future, and/or 2) higher yields that exist today should serve as a benefit going forward.</p> <p>Outlook</p> <p>Both locally and globally, the higher yields have improved the attractiveness of this asset class over the long run, albeit from a low base. A key element is credit spreads—the difference between corporate-bond yields and government-bond yields—which remain below where they should be, in our analysis, and not enough to be deemed attractive. In this regard, one should be careful of lower-rated companies with high debt levels, as a heightened default cycle can't be ruled out.</p> <p>In summary, this space has improved, but the inherent appeal remains muted relative to government bonds. We see some attraction as a middle ground—providing some extra yield versus government bonds and a duration profile that can help in portfolio construction.</p>

Asset Class	Conviction	Rationale
High-Yield Credit <ul style="list-style-type: none"> U.S. High Yield European High Yield 	Medium Medium	<p>Backdrop</p> <p>High-yield bonds were among the best performing fixed-income asset class in the quarter.</p> <p>Generally, the high-yield bond market in the US and Europe offers yields in the high single digits, and in some cases, low double digits. While these bonds carry higher risks, their advantages become more apparent when managed with a diversified portfolio that includes high-quality bonds.</p> <p>Outlook</p> <p>Our overall conviction is Medium. In our view, this bears watching. While headline default risks are still deemed to be low, this could change with central banks tightening conditions and recessionary preconditions festering. A shorter duration profile relative to other bonds is also a potential positive in this environment.</p>
Emerging-Markets Bonds <ul style="list-style-type: none"> Local Currency Hard Currency 	Medium to High Medium	<p>Backdrop</p> <p>While the risks of emerging-market bonds are discussed frequently, they also provide meaningful diversification benefits, especially considering the higher yields compared to other parts of the bond market.</p> <p>Like high-yield bonds, headline yields in emerging-markets bonds remain at enticing levels, in the high single-digit range. While emerging-market bonds carry more risk than other parts of the bond market, there is a substantial yield cushion in place. This reflects the reality that many emerging-markets central banks have raised interest rates far more than their developed market counterparts to combat inflation pressures.</p> <p>As the inflation outlook in most emerging-markets countries continues to improve, so has the resilience of the asset class.</p> <p>Outlook</p> <p>Emerging-markets debt in local currency, which we still prefer over hard currency, continues to offer healthy absolute yields, accounting for the added risk. Our view remains that many emerging-markets sovereigns, though with notable exceptions, have improved their fundamental strength compared to history. This includes improved current account balances, enhanced reserves, movement to orthodox monetary policy, and a build-out of a local investor base allowing for a shift to local currency funding. In addition, the aggregation of emerging-markets currencies also looks undervalued overall and could offer a tailwind over time.</p> <p>The area can be volatile, yet even allowing for some pessimistic assumptions, our research suggests that investors could see upside if they're willing to risk short-term volatility. In other words, we think investors can expect to be compensated for this risk over time, especially for local-currency bonds.</p>
Global Inflation-Linked Bonds <ul style="list-style-type: none"> U.S. TIPS 	Medium	<p>Backdrop</p> <p>Inflation data has been moving in the right direction (lower) but it remains a very real concern. And a key point to remember is that inflation-linked bonds generally protect against <i>unexpected</i> inflation, meaning if there was an inflationary event this asset class would be a potential winner.</p> <p>In the US, Treasury Inflation-Protected Securities (TIPS) were positive, up approximately 1% for the quarter. Compared to other areas of the bond market, this was a fine result as they outpaced every other fixed-income asset class besides high-yield.</p> <p>Outlook</p> <p>Inflation-linked bonds should eventually benefit from higher interest rates, and it wouldn't take much for markets to reprice inflation, which could offer upside. One important consideration is duration risk, where inflation-linked bonds are often longer-dated securities with meaningful interest-rate sensitivity.</p>

OTHER ASSETS

Asset Class	Conviction	Rationale
Global Infrastructure <ul style="list-style-type: none"> U.S. Energy Infra & MLPs 	Medium Medium	Backdrop Global infrastructure represents a wide collection of income-producing assets, which includes utilities, airports, rail, and energy-related holdings. Global infrastructure indexes delivered negative returns over the quarter, lagging the broader equity market.
		Outlook As an income-focused asset class, we continue to see the outlook for infrastructure as being strongly influenced by the outlook for interest rates. Utilities comprise a significant weight within infrastructure. We see utilities as presenting better relative value today, particularly when compared to more cyclical and higher growth areas of the market which have done well over the past year. That said, we still see an uncertain road ahead for utilities as companies balance up their renewable energy infrastructure spending plans against ensuring they receive attractive returns on these new investments in the face of higher interest rates, construction costs, and electricity bills for customers.
Asset Class	Conviction	Rationale
Listed Property <ul style="list-style-type: none"> U.S. REITs Global REITs 	Medium Medium	Backdrop Real estate was once again negative in the second quarter of 2024, as higher interest rates continue to punish the sector.
		Real estate rallied late last year on the expectation of rate cuts early in 2024, but the market's expectations regarding rate cuts have shifted drastically in terms of timing (now expected to be later) and magnitude (less cuts). Good news is potentially lurking as the market expects rate cuts in the near term, which would be welcome news for the asset class.
		Outlook Global Real Estate Investment Trusts (GREITs) have been an underweight across our portfolios for several years, but recent negative sentiment with a potential near-term catalyst makes this asset class much more interesting.
		REITs continue to remain dually exposed to economic conditions—both from a top-line rental growth perspective and from a funding conditions perspective. As trusts that pay out high levels of earnings as dividends, REITs rely heavily on debt (and equity) markets to fund their highly capital-intensive operations. While we see better relative value in listed property, investors need to tread carefully. With debt funding costs and construction costs on the rise, investors need to be wary of trusts exhibiting highly leveraged balance sheets and/or large property development exposure increasing the chances of dilutive and discounted equity raisings taking place.

Alternatives

Alternatives continue to provide a nice ballast, though the impact is less pronounced when strong equity returns are present. Of course, this depends on the strategy being adopted. Our view remains that alternative offerings should exhibit genuinely diversifying characteristics (i.e., low correlations to stocks and bonds) with reasonable costs and liquidity. More specifically, with rising bond yields implicating both stocks and bonds in similar ways, alternative assets can appeal given that returns from this asset class tend to have a lower direct relationship with the performance of traditional asset classes such as equities and bonds.

Currency

While currencies are notoriously volatile, we tend to think of currency positioning via the lens of portfolio robustness (focusing on those currencies with defensive characteristics where sensible), but also as a potential source of upside at extremes. Looking ahead, we continue to see merit in currencies outside the US dollar. The yen has the potential to provide diversification qualities and potentially help preserve capital in times of extreme economic and market stress, as well as provide potential upside.

Cash

Cash rates have improved, offering positive real yields in many developed markets. In the current environment, we see cash serving three purposes. First, cash helps reduce the sensitivity to interest-rate rises, especially relative to long-dated bonds, which is still an important risk to manage. Second, cash should help buffer from any future volatility resulting from a fall in equity markets. And third, cash provides ample liquidity to take advantage of investment opportunities as they arise. That said, we see opportunities to keep money at work.

Since its original publication, this piece may have been edited to reflect the regulatory requirements of regions outside of the country it was originally published in.

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