MARCH 2022

Uncertainty increases

INVESTMENT SOLUTIONS
FRANKLIN TEMPLETON THINKS™

ALLOCATION VIEWS

FRANKLIN TEMPLETON

In this issue

As events in Ukraine see geopolitical tensions mount, the lack of an easy route to a stable resolution suggests that the impact of energy prices may persist. At the very least it compounds the uncertainty from an already challenging growth, inflation and policy mix. Policymakers seem to be walking a tightrope.

In attempting to navigate the challenges that the global economy and markets face, we need to be aware of our visceral response to shocking geopolitical developments. We continue to take proper note of rising uncertainties but resist any temptation to trade on short-term news flow or emotions.

Major themes driving our views

- **Growth slowing towards trend**
  Growth is decelerating, and the risks are skewed to the downside, accentuated by the impact of geopolitics, Omicron and policy tightening. Broadly, consumers in developed economies remain in a strong financial position. A period of above-trend global expansion is still anticipated through the year.

- **A challenging inflation environment**
  Ongoing supply bottlenecks are boosting inflation and hopes of these pressures peaking is now being challenged by energy shocks. Global inflation continues to exceed expectations, pulled higher by demand for goods. Cyclical pressures are overwhelming secular disinflationary forces, such as technology and globalization.

- **Policy tightening away from highly accommodative conditions**
  For most central banks, the current geopolitical and economic situation increasingly feels like walking a tightrope. However, if growth disappoints, or geopolitical risks escalate further, policy may sway dovish. Even after the expected hikes, central bank rates will remain low or negative in real terms.

Practical positioning

- **Nimble management still required**
  Over a longer-term horizon, we believe global stocks still have greater performance potential than global bonds. Having tempered our equity preference to a more modest level, ahead of a sharp correction in global markets, we maintain our level of conviction but believe that a nimble investment style remains appropriate.

- **Opportunities across equity markets**
  We are drawn to a diversified set of opportunities across equity markets, which supports our continued allocation preference toward stocks. We hold moderate conviction on the relative merits between these markets and regions, but in none do the local idiosyncrasies offset the broad appeal of equities over the longer term, in our view.

- **Bonds still have a place**
  Our longer-term analysis shows that the return potential from global bonds, especially government bonds, remains depressed. However, the potential diversification attractions of lower-risk assets will remain evident for multi-asset investors. We believe strong growth supports the fundamental attractions of lower-rated fixed income sectors such as high-yield bonds and loans.

Major themes driving our views

Growth expectations are moderating

The conflict between Russia and Ukraine has escalated at a pace, and to a level, far greater than feared even a month ago. Our thoughts are firstly with the people directly caught up in this conflict, recognizing the unfolding humanitarian tragedy, and only then for the rest of us and markets impacted by it more broadly.

Analyzing events on the ground and the fast-moving economic sanctions that are being applied to Russia has added a new, highly unpredictable element to our investment discussions. The lack of an easy route to a stable resolution suggests that the impact of this factor on markets may persist. At the very least, it compounds the uncertainty from an already challenging growth, inflation and policy mix. Central bankers, who already had a challenging remit, are now confronted with a new and unpredictable variable as they steer economies away from historically easy monetary conditions.

This points to a worrying scenario in which rising energy prices are the key driver to supply-induced inflation. Concerns over supply interruptions, either as a direct result of the conflict or more likely due to a reluctance of buyers in the west, have already seen natural gas prices surge and oil rise to near decade highs. The moves we have seen thus far will act as a drag on economic activity, especially in Europe, but will be felt globally. However, for now we have not actually seen interruptions to supply, either intentional or as collateral damage from the conflict. Were sanctions to be extended to all of Russia's energy exports, the economic consequences would be much more severe.

As we have noted in *Allocation Views* over recent months, the pace of economic growth was already moderating prior to the rise in geopolitical tensions. In part this reflected the hit to real-term spending power that higher prices were already having. Consumer confidence had dipped, and leading indicators of broad activity had decelerated (see Exhibit 1). In addition, government spending plans were already starting to normalize after the extraordinary stimulus seen during the pandemic, and a period of fiscal drag was likely to be felt across developed economies. None of these drivers have gone away, and some will be exacerbated by higher energy prices, even if these prove to be relatively short lived. As a result, though growth is still robust and above trend today, we see the risks as skewed notably to the downside.

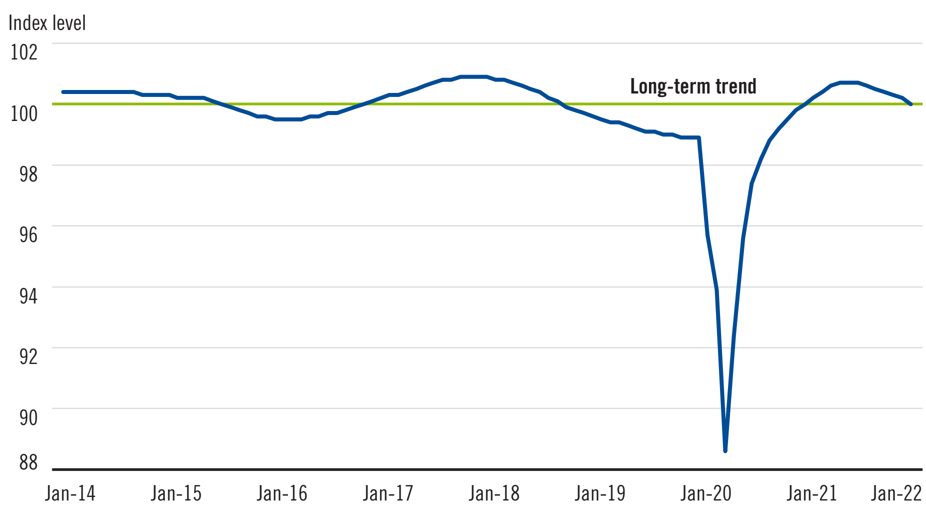
The change in focus by market participants toward geopolitics has, for now, diverted some attention away from the impact of the COVID-19 pandemic. The Omicron wave has had a short but sharp impact on consumers and business activity levels, depressed employment growth, and delayed the anticipated rotation from goods consumption toward services. As we hoped, these effects are now receding in North America and Europe but are further from conclusion in Asia. Once the remaining restrictions on mobility are relaxed, we anticipate a rebound in these measures, supporting growth in the coming quarters.

Globally, we anticipate continued above-trend growth over the next 12 months as consumers in developed economies broadly remain in a strong financial position. However, the momentum of growth is decelerating across regions, and the risks are skewed to the downside, accentuated by the impact of geopolitics and ongoing policy tightening. Even as the pace of growth decelerates, the probability of a recession over the foreseeable horizon remains low. Our analysis points to

GLOBAL LEADING INDICATORS POINT TO SLOWING GROWTH

Exhibit 1: OECD composite leading indicator

As of January 31, 2022



Sources: Organisation for Economic Co-operation and Development (OECD), Macrobond. Important data provider notices and terms available at www.franklintempletondatasources.com.

ongoing expansion that is broad and globally shared and is reflected in our core activity theme that sees **"Growth slowing towards trend."**

Inflation is still the big unknown

Inflation concerns remain elevated and form the largest part of central banks' internal policy discussions. And the flavor of inflation has shifted from demand- to supply-driven—a worrying change. Risks emanating from the energy market clearly complicate these discussions. However, the outcome that would really see monetary policy-makers become spooked is the fear of inflation expectations becoming unanchored—breaking free from the presumption that economies will naturally revert to target. For now, neither market implied rates of inflation nor broader survey measures have shifted to such worrying levels (see Exhibit 2).

A logical consequence of the conflict in Ukraine appears to be an acceleration of some of the longer-term themes that we discussed at our Annual Investment Symposium and commented on in *Allocation Views* late last year. Improved energy security for Europe will likely go hand in hand with lowering the consumption of hydrocarbons (imported or otherwise) and building a greener economy. This will require an accelerated investment program. The sharpening of geopolitical tensions has led to a pivot toward greater defense spending, notably in Germany. In both cases this will see a larger role for governments, elevated capital expenditure and likely persistent borrowing requirements—themes that were in place before these geopolitical events, but are likely accelerated by them. Whether these are inflationary in the longer term is up for debate, but they probably compound existing price pressures in the next few years.

Elevated energy prices are already being felt in current levels of inflation, which sit at multi-decade highs. It is hard to ignore calls for tighter monetary policy. Hence central banks are walking a tightrope. The risk of a policy error, one way or the other, is rising. However, central banks are stressing that they aren't setting policy on autopilot, or to a pre-determined cadence, which might compound any error and drive us into a deeper correction than is needed.

Up until now, we viewed inflation as being primarily a demand-driven phenomenon, hence likely to moderate of its own accord as growth decelerates toward a more trend-like pace later in 2022, but the risks of this feeling more permanent are mounting. Energy price shocks and supply-chain disruptions may continue to slow the process of inflation normalization. They may also see the trend rate of price gains remain a little more elevated than we have seen in the past business cycle. Our final theme evolves to reflect **"A challenging inflation environment."**

Policymakers still walking a tightrope

In recent months, we have focused on central bankers and the tightrope they are walking, trying to normalize monetary policy and address inflation concerns but not slow the pace of growth unnecessarily. They are faced with the dilemma of needing to be seen as addressing their price-stability mandates, and at the same time manage a spiral higher in the number of rate hikes that market participants now see for this year. They know that they likely need to tighten financial conditions to have any impact on inflation, but run the risk of compounding the slowdown in growth that the supply-side energy price shock is producing.

We are starting to see some understandable differentiation in the response of policymakers. In Europe, the impact of energy prices makes up a larger share of the rise in broad inflation, and a more complete recovery in the supply of labor is blunting the feed-through into wage rises. Here the European Central Bank (ECB) has been able to emphasize a flexible approach to current events.

US INFLATION EXPECTATIONS REMAIN CONSISTENT WITH MAINTAINING PRICE STABILITY

Exhibit 2: US Index of common inflation expectations
December 31, 2021

Sources: US Federal Reserve, Macrobond. Important data provider notices and terms available at www.franklintempletondatasources.com.

Even as energy prices rise further, they may not feel compelled to increase interest rates. Similarly, the Bank of England has started to talk down the most extreme expectations for policy tightening. In contrast, the US Federal Reserve (Fed) appears to have set its course and will follow through with higher rates starting this month, joining the Bank of Canada in beginning the process of normalization. However, it is less certain in the current circumstances that they follow through with the entirety of the six or seven hikes that market pricing was recently discounting.

To summarize, central banks across the developed world have embarked on a policy tightening cycle. Taken together with the prospect for slimming their balance sheets, or at the very least ending new asset purchases, the anticipated shift in monetary policy is quite pronounced. Governments are also broadly shifting to less supportive stances, although this could sway in a more dovish direction if geopolitical risks escalate further. Similarly, even after the expected hikes, central bank rates will remain low or negative in real terms. This sees us refine our theme to show **"Policy tightening away from highly accommodative conditions."**

Practical positioning

Nimble management still required

A confluence of issues over the next several months persuaded us to seek some protection against a less favorable scenario late last year. Having tempered our equity preference to a more modest level, ahead of a sharp correction in global markets, we continue to believe that a nimble investment style remains appropriate. This is especially so as new risks are emerging that may exacerbate the market's established concerns over high inflation and ongoing policy tightening. As we discussed above, the conflict in Ukraine and the heavy sanctions being imposed on Russia are likely to skew the risks to our growth expectations more firmly to the downside, while inflaming inflationary pressures that were already troublesome.

In attempting to navigate the challenges that the global economy and markets face, we need to be aware of our visceral response to shocking geopolitical developments. We continue to take proper note of rising uncertainties but resist any temptation to trade on short-term news flow or emotions.

Having taken advantage of the ebbs and flows of market sentiment to add back modestly to our equity preference last month, we are maintaining our more constructive outlook for global equities. As we still see stronger medium-term return potential for stocks than bonds and believe they should earn their equity risk premium over time (see Exhibit 3). We hold an asset allocation tilt toward stocks over bonds that is only slightly less than the level of conviction we held over the past year. However, we continue to see the attractions of holding a small allocation to cash, as a means of dampening volatility. This reflects the observation that markets may not yet fully discount the risks associated with persistent inflation and ongoing monetary policy normalization.

GLOBAL EQUITY VALUATIONS ARE NOT CHEAP, BUT ARE ATTRACTIVE, IN OUR OPINION, RELATIVE TO BONDS IN THE LONGER TERM

Exhibit 3: Global equity risk premium

As of February 28, 2022

Sources: Absolute Strategy Research, Macrobond. Important data provider notices and terms at www.franklintempletonresources.com

Overall, we are drawn to a diversified set of opportunities across emerging but predominantly developed equity markets, which together help to support our continued allocation preference toward stocks. We hold moderate conviction on the relative merits between these markets and regions, but in none do the local idiosyncrasies offset the broad appeal of equities over the longer term, in our view.

Opportunities across equity markets

When we consider the relative merits of various regional equity markets, we start from an analysis of the growth, inflation and interest-rate outlooks, as we discuss in the first part of Allocation Views. These inputs help to inform our discussion of relative valuation metrics and investor sentiment. A range of quantitative models act as a complement and help us to come to a rounded view of the appropriate preferences between markets.

We continue to view US growth as stronger than in other developed markets, fueled by past fiscal stimulus and healthy consumer balance sheets. The prospects for this market are more balanced as reliance on a substantial technology exposure to sustain the market opportunity has faded. However, it benefits from greater distance from shocks emanating from the conflict in Ukraine (both metaphorically and literally). Also, generally, in periods when global risks are elevated, the US stock market tends to offer certain defensive characteristics, which may be especially appealing at this time. We have maintained a moderately constructive view of this market in recent months.

In contrast, we have returned to a neutral stance on European equities, reflecting the direct impacts on energy supply that may flow from the conflict in Ukraine and the threat that would pose to regional equities. We retain similar caution in our view on the UK equity market, compounded by the prospect of notably tighter monetary policy. Although this market has benefited from its exposure to commodity producers and remains appealing from a valuation perspective, we prefer the attractions of similarly cheap stocks in Japan. We continue to focus our attention on this market as it appears well placed to benefit from a global sensitivity to global trade and a rebound in capital expenditure, without the complications that the post-Brexit trade adjustments pose to the UK market.

We have maintained a more cautious stance on both China and other emerging equity markets. Over the past year, growth has faded relative to the rest of the world, and the Chinese authorities were slow to offer support to the domestic economy as they faced challenges in the property sector and implemented a regulatory clampdown in pursuit of their "common prosperity" objective. Although policy has now pivoted to an easier stance, past contraction in the level of credit growth continues to act as an offsetting drag on the corporate sector. We would also note that trade disputes remain unresolved and are a symptom of broader tensions that will only be complicated further by broader geopolitical strains. We have warmed slightly to the longer-term prospects of other emerging markets. Local interest rates rose sharply in the past year and may be close to peak levels. Valuations remain attractive to us relative to developed market peers, but broader headwinds persist.

Overall, we are drawn to a diversified set of opportunities across emerging but predominantly developed equity markets, which together help to support our continued allocation preference toward stocks. We hold moderate conviction on the relative merits between these markets and regions, but in none do the local idiosyncrasies offset the broad appeal of equities over the longer term, in our view.

Bonds still have a place

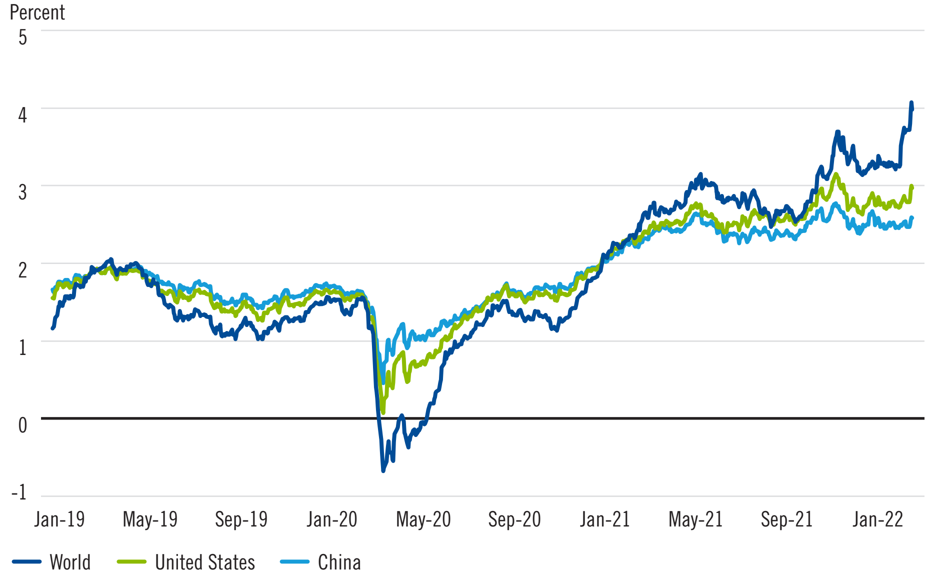
We continue to hold a moderately cautious view of government bonds in developed markets but have recently moved to moderate our overall interest-rate sensitivity (duration) stance. The maintenance of relatively more stimulative monetary policy in the eurozone and Japan goes some way to offsetting anticipated extensive rate hikes in the United States and other parts of the English-speaking world. Reductions in the rates of purchases of government bonds as part of quantitative easing programs and a shift toward cutting the size of central bank balance sheets may, in the near term, result in a rise in yields. However, the potential diversification attractions of lower-risk assets will remain evident for multi-asset investors.

We maintain a higher level of conviction toward corporate bonds. Ongoing above-trend growth supports the fundamental attractions of lower-rated fixed income sectors such as high-yield bonds and loans. However, the additional yield or spread that corporate bonds provide remains modest, even after recent rebounds, and is reflective of strong fundamentals and low default rates. The risk premium contained within corporate bond yields seems to be at least adequate compensation for the likely level of default risk.

When looking for alternative assets that might offset "risk-on" exposure to stocks and corporate credit, we are attracted to real assets. The level of anticipated inflation reflected in Treasury Inflation-Protected Securities (TIPS) has risen sharply over the next few years but drops off when we look out five years and beyond (see Exhibit 4). We believe inflation expectations are fully valued and have moderated our conviction toward these markets. However, naturally diversifying assets such as TIPS retain a role in helping to provide protection against further increases in inflation. In our base case, they are at best modestly cheap. However, it is the combination of equity, bond and inflation "shocks" that could provide the environment where holding TIPS might notably enhance return potential and lower portfolio volatility.

INFLATION EXPECTATIONS HAVE ACCELERATED, BUT EXPECTED TO MODERATE

Exhibit 4: United States: Breakeven inflation rates
As of February 28, 2022



Sources: US Federal Reserve, Macrobond. Important data provider notices and terms at www.franklintempletonresources.com

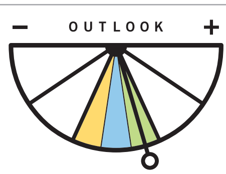
Allocation settings—March 2022

Pendulum settings reflect cross-asset class views

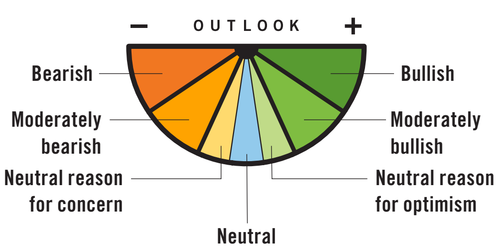
RISK TIER

Asset class	Conviction	Our viewpoint
Risk off/on		Global growth is slowing towards trend and with geopolitical tensions escalating, risks are skewed to the downside. This is complicated further by continuing concerns over inflationary pressures emanating from the supply side and tightening financial conditions. However, focusing on the medium-term growth outlook, we maintain a more optimistic stance toward riskier assets.

HIGH LEVEL ALLOCATION TIER

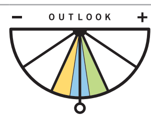
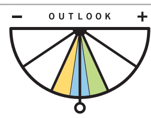
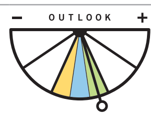
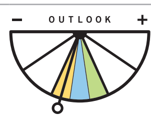
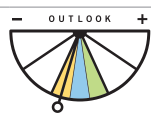
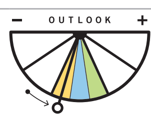
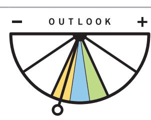
Equities		In broad terms, global equities require sustained earnings growth to offset a continued normalization of valuations. Tightening monetary policy has led to a rise in volatility, which may persist, but longer-term equity fundamentals remain supportive. We retain a moderately bullish stance toward global equities over bonds but remain nimble in our level of conviction.
Bonds		Ongoing global expansion and long-term valuations that remain expensive contrast with still easy monetary policy, though we now expect this to normalize further and faster. Corporate bond spreads remain modest, reflecting strong fundamentals and low default rates. We retain a moderately bearish view of bonds at the asset allocation level, reflecting the pace of rate hikes and valuation concerns.
Alternatives		We see structural attractions in naturally diversifying alternatives such as private assets. Strong economic growth supports demand for real estate, and the gradual normalization of work and activities has materially reduced risk for this asset class. The benefits that commodities may afford through inflation protection are balanced by the risk of higher interest rates to private credit. We maintain a neutral view overall, consistent with our longer-term structural allocation.
Cash		The defensive features of cash broadly balance its drag on portfolio yield. Short-term US Treasury bill yields reflect current depressed policy rates and continued high levels of liquidity. Cash has attractions as a means of diversification from low-yielding government bonds and as a complement to the attraction of higher-risk asset markets.

Understanding the pendulum graphic

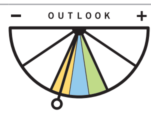
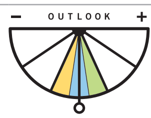
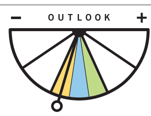
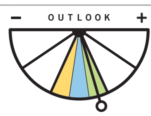
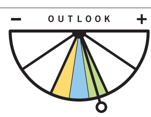


Arrows represent any change since the last quarter end.

ALLOCATION TIER

Asset class	Conviction	Our viewpoint
Equity regions Pendulum settings relative to equity asset class broadly		
United States		US growth has led that of other developed markets, fueled by past fiscal stimulus and healthy consumer balance sheets. We believe the prospects for this market are more balanced as reliance on a substantial technology exposure to sustain the market opportunity has faded. The stock market's attention will likely focus on elevated valuations and the extent to which interest-rate hikes cause these to decline. We hold a moderately constructive view of this market.
Canada		Growth in Canada continues to benefit from economic proximity to the United States. Anticipated interest-rate increases may support Canadian banks. Similar valuation attractions in energy producers provide support to the market despite ESG (environmental, social and governance) concerns. Valuation attractions have led us to maintain a modestly more constructive view of this market.
Europe ex UK		Europe has been well placed, in our view, to benefit from improved consumer and business activity. Earnings growth in the financials sector is now a positive for the equity market. However, conflict in Ukraine presents a rising risk and may pose a threat to regional equities. As interest-rate rises move onto the agenda, we are adopting a more cautious stance and return to a truly neutral view of this region.
United Kingdom		UK economic prospects remain uncertain as a foggy post-Brexit trade adjustment plays against first-mover vaccination advantage. The market appears historically cheap to us and may benefit from renewed economic recovery. On balance, we retain a neutral view on this market, reflecting some caution over persistent headwinds.
Japan		Japan appears well placed to benefit from its own cyclical economic rebound and from sensitivity to global trade and capital expenditure. Corporate earnings are growing strongly, and equity valuations, particularly on a price-to-book-value basis, remain attractive relative to other markets, in our view. We maintain a modestly more constructive view of this market.
Pacific ex Japan		With banks and related financial companies representing heavier weights in the region, concerns about bank dividends persist. The region remains vulnerable due to tensions in relations with China more broadly, and especially for Australia at this time. Despite valuations we regard as supportive, we retain a more cautious stance on these markets.
Emerging ex China		Stronger long-term growth is being offset by emerging markets' idiosyncratic risks and continued vulnerabilities to COVID-19. Local inflation pressures may see central banks continue to increase interest rates. Prospects for currency appreciation and the longer-term structural attractions of emerging markets are insufficient to fully offset these other factors, and we retain a less notably cautious view of these markets.
China		China's economy has slowed relative to the rest of the world, prompting a pivot to easier monetary policy. Trade disputes remain unresolved in the longer term and are a symptom of broader tensions as heightened geopolitical stresses persist. Regulatory risks have grown to dominate market sentiment, but valuation attractions have seen us moderate our cautious stance on this market somewhat.
Fixed income sectors Pendulum settings relative to fixed income asset class broadly		
US Treasuries		The Fed's flexible inflation targeting regime has complicated its response to elevated inflation and may prompt further periods of volatility in US Treasuries. With progress toward its employment goal achieved, we believe the Fed will soon raise rates and move sharply toward more normal levels. Modest valuations saw us hold a still cautious view even after past moves higher in yields.
Inflation-Linked Bonds		The level of inflation discounted in inflation-linked securities remains moderate. We believe that these expectations may rise a little, even as current realized inflation is likely to normalize over the medium term. We retain a more constructive view of assets that benefit directly from rising prices, such as inflation-linked bonds, but as policy is tightened the potential risk-mitigating role within a portfolio is less valuable.

ALLOCATION TIER

Asset class	Conviction	Our viewpoint
Fixed income sectors *continued* Eurozone Government Bonds		Valuations remain full in the eurozone, where real yields remain the lowest among government bonds, reflecting structural factors. The ECB appears spooked by higher inflation levels and an early rate rise is now more likely. The Next Generation EU recovery fund remains a support for peripheral markets. We maintain a more neutral stance on this region as we see yield rises lagging US equivalents.
UK Government Bonds		The country's economic rebound is fading, and structural issues persist. Gilts have decoupled from global equivalents more recently, reflecting local policy action. Inflation risks are elevated and have moved the Bank of England to tighten policy sharply, but further rate-hike expectations may already be fully discounted. We have returned to a neutral stance as risks of a policy error have increased.
Canada Government Bonds		Canada has benefited from commodity price rises, and expectations for rate hikes from the Bank of Canada have moved ahead of those for the Fed. Canadian bond yields may still match the moves in the United States but shorter maturity bonds may now largely discount likely rate moves. We remain somewhat cautious overall, in line with other developed markets.
Japan Government Bonds		The Bank of Japan has reiterated its monetary policy stance, which targets low 10-year government bond yields, and policy remains supportive. We believe low sensitivity to global yields is likely to continue, making this market somewhat more attractive in the case of a stronger global economic recovery. We maintain a relatively more constructive view, but an overall neutral position.
Investment Grade		The investment-grade sector has benefited from ample corporate liquidity and sustained economic growth that make high debt levels more sustainable. Investor confidence led to elevated valuations that did not offer significant protection against rising Treasury yields. After a move higher in yields and spreads, we moderated our defensive stance but remain cautious overall.
High Yield		Strong growth supports the fundamental attractions of lower-rated fixed income sectors such as high-yield bonds and loans. Ample liquidity had led to elevated valuations, even as credit quality has deteriorated for some of the recent new issuance. At somewhat wider spreads, we maintain a constructive view on this market, despite the prospect for continued near-term uncertainty as policy rates start to rise.
Emerging Market Debt		Emerging market fundamentals remain challenging even as foreign demand offsets relative domestic weakness. We regard emerging market hard-currency bond valuations as supportive, offsetting debt servicing concerns. Despite slightly higher yield spreads, local-currency bonds are less compelling on fears of higher global policy rates. We have moderated our constructive view on China's local bonds and continue to think selective positioning is important.

Franklin Templeton Thinks: Allocation Views

Our research process monitors a consistent set of objective indicators and screens them to identify signals that help our analysts to make better recommendations. By doing this we aim to filter out the daily noise to reveal the underlying trend.

Our macro-economic research group aims to challenge the consensus forecasts for growth and inflation by digging deeper into the data. Just as important, we aim not to be swayed unduly by topics that are dominating current market debate.

Editorial review

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Participation in this committee may change periodically and without notice.

Notes

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Notes

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. The positioning of a specific portfolio may differ from the information presented herein due to various factors, including, but not limited to, allocations from the core portfolio and specific investment objectives, guidelines, strategy and restrictions of a portfolio. There is no assurance any forecast, projection or estimate will be realized. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in an investment portfolio adjust to a rise in interest rates, the value of the portfolio may decline. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with emerging markets are magnified in frontier markets. Derivatives, including currency management strategies, involve costs and can create economic leverage in a portfolio which may result in significant volatility and cause the portfolio to participate in losses (as well as enable gains) on an amount that exceeds the portfolio's initial investment. A strategy may not achieve the anticipated benefits, and may realize losses, when a counterparty fails to perform as promised. Currency rates may fluctuate significantly over short periods of time and can reduce returns. Investing in the natural resources sector involves special risks, including increased susceptibility to adverse economic and regulatory developments affecting the sector—prices of such securities can be volatile, particularly over the short term. Investment in the commercial real estate sector, including in multifamily, involves special risks, such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments affecting the sector.

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