BARINGS INVESTMENT INSTITUTE

November 2022

Not a Pivot

MACRO DASHBOARD

BARINGS

22-2568614

Table of Contents

November Outlook – Not a Pivot

The bond market is on a rollercoaster ride. Since the pandemic ended and Russia started waging war in Ukraine, nothing has been working as before. Prices have been on a rip, desperately seeking the adjustment of supply and demand. With their economic models performing so poorly, central banks have preferred to remove the forward guidance investors rely on. Rarely have markets displayed so much volatility in their attempts to price in such unpredictability. Investors have been hoping against hope that central banks would signal some sort of policy pivot soon.

Is inflation here to stay? We give 100% odds that central banks will not wait to figure it out. The policy transmission lags are long and high inflation can perpetuate these elevated price pressures. The cost of waiting is higher than that of triggering a recession. In advanced economies, the strength of demand is fueled by high savings stocks, banks' willingness to lend, and post-lockdown appetites. Central banks have to offset these extraordinary drivers.

Our central scenario posits that the large number of rate hikes likely in just a few months will finally slow the economy. The resilience of U.S. demand means the 5% peak policy rate priced in seems likely. In Europe, energy price inflation and the Ukraine war will play the hand of the ECB in reducing demand. **A reduction in the size of rate hikes will indicate success rather than a pivot in central banks' resolve to bring inflation not just lower, but also back to target**. Since March, **our central "Stagflation Shock" scenario with persistent inflation and slower growth continues to play out,** and we keep its odds at 60%.

The dark horse in this environment is the continuing evidence that inflation may be more resistant to policy tightening. Expectations of rising prices and a tight labor market can lead to solid wage increases, reinforcing consumers' purchasing power. This enhances firms' ability to pass through high input costs. Strong growth coupled with high inflation would require even more policy tightening. Unless they raise their inflation target and risk a blow to credibility, central banks will be forced to keep hiking up to the eve of a recession. This raises the prospect of a much more prolonged downturn and its timing is impossible to predict and may well lie beyond the 12-18 months of our scenarios. **For now, with prices still coming in hot, we raise the odds to 30% of lingering inflation, resilient growth, and rising pressures in an economy best described as "Boiling Over."**

We have **reduced the odds of our "Steeper Slide" scenario to 10%.** Economic activity does not seem to bend quickly under the pressure of high inflation and tight financial conditions. Extraordinary circumstances require letting go of the old normal, but **we keep the door open to the risk of a financial accident triggering unexpected weakness in demand.**

These scenarios apply primarily to the Western world. Japan's growth remains weak and signs of mild inflation are seen as a gift. The zero-COVID policy and continuing property crisis keep the powerful Chinese consumer in limbo. Other emerging markets are focused on avoiding financial instability from the Fed's rapid hikes and the strong dollar. Rapid capital outflows would aggravate currency weakness, exacerbate domestic inflation, and exaggerate a growth downturn.

Potential economic outcomes for 2023

	Inflation slows down	Inflation persists
Resilient growth		Boiling Over (30%)
Weakening growth	Steeper Slide (10%)	Stagflation (60%)

- Agnès Belaisch

Barings Investment Institute Scenarios for the Next 12-18 Months

STAGFLATION SHOCK (60%)

- **Inflation trends down but only slowly**. With time, loss of purchasing power and central bank tightening manage to cool demand. Supply chain snags get solved.
- **Central banks continue hiking as the economy starts showing weakness**. The slow decline in inflation does not allow them to wait to assess the growth impact of their policies.
- **Growth suffers but does not collapse**. Its momentum alternates between positive and negative quarters in the U.S. but falls into a clearer recession in Europe. China struggles to exit from its zero-COVID policy and property market crisis.
- **With inflation well above target and policy tightening continuing, Europe risks a recession, the U.S. a sharp slowdown**.
- **Policy Hikes:** Fed Funds Rate tops out at 5% and holds there until inflation heads convincingly lower
- **10-Year U.S. Treasuries**: settle at **3.5%** in 12-18 months, with bull flattening

BOILING OVER (30%)

- **Energy shocks and supply chain disruptions** add to a tight labor market and a costly green transition. China re-opens faster than expected, adding to energy demand.
- **Household savings strength, wage growth, and fiscal support** make demand less sensitive to rising prices. This gives firms leverage to pass-through higher input costs. Banks have space to lend, helping the economy buffer inflation.
- **Monetary policy proves less effective and inflation expectations begin to de-anchor**. Central banks hike aggressively up to the eve of a recession, which proves deep, although it may not come until 2024.
- **Growth remains surprisingly healthy while inflation forces the Fed to engineer a hard landing**.
- **Policy Hikes:** Fed Funds Rate to **7%**
- **10-Year U.S. Treasuries**: **6%** as the curve shifts up then bear flattens

STEEPER SLIDE (10%)

- The loss of purchasing power, aggressive central bank tightening, plummeting confidence, and problems in China trigger **a slowdown much faster than planned** by policy makers and investors.
- **Growth slows globally** with Europe in deep recession, the U.S. in a mild one, and China barely expanding. Labor markets ease fast and unemployment rises.
- Inflation drops toward 2%, central bankers are caught wrong-footed and move **from aggressive tightening to loosening policies.**
- **A standard, demand-led recession forces a U-turn in monetary policy**.
- **Policy Hikes:** Fed Funds Rate peaks around Q1 2023 and settles at **3%**
- **10-Year U.S. Treasuries**: **2%** with curve bull steepening

Scenario Matrix—Market Implications

	Stagflation Shock	*Boiling Over*	*Steeper Slide*
U.S. Rates	10Y UST tops at 5% before settling down to 3.5% the curve bull flattens*	10Y UST settles at 6%, led by breakevens the curve flattens as more hikes are priced in*	10Y UST around 2% the curve bull steepens on cuts*
Corporate Credit	Duration may suffer when rates edge higher. There will be attractive entry points for credits with strong balance sheets, especially in IG*	Negative duration. Positive for credit, especially HY and floating rate credit, as long as growth remains solid*	Positive duration, but likely negative for HY given recession*
Equities	Quality to outperform Value. Positive for energy and firms with pricing power. U.S. looks better than Europe	Weaker returns on contracting multiples, but likely better outlook for financials and commodity-linked names	Negative risk assets, although Quality may be more resilient
FX	Supportive USD in flight to safety despite limited room for further appreciation. Negative for the euro and yen*	Bullish dollar as U.S. growth outperforms other regions and central banks lag Fed hikes	A more vulnerable U.S. economy will likely weaken the dollar at first, although losses may be limited as safe haven flows return
Commodities	Selective support amid USD strength; positive energy on persistent supply-demand imbalance	Healthy global activity should keep prices elevated	Negative as global growth slows

The above represent the views of Barings as of November 1, 2022, and are subject to change at any time. These predictions may not come to fruition. Asterisks indicate updated estimates from one month ago. 10Y UST projection is for end of period.

Scenario Matrix—Economy

		Stagflation Shock		*Boiling Over*		*Steeper Slide*		
	Annual Averages	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**Baseline scenario**
U.S.	Growth	2%	0.5%*	2.5%	2.5%	1.5%	0%	The commodity price shock from the war in Ukraine is expected to **add to already-elevated inflation**. The Fed has to keep hiking in response. Inflation weighs on consumers, and, without a fully offsetting rise in capex, **slows growth down**.
	Average inflation (end 23)	8%	5% (3.5%)	9%	7%* (5%)	8%*	3% (2%)	
	Unemployment	3.5%	4.5%	3%	4%*	4%	6%	
Euro Area	Growth	3%	-1%	3%	2.5%	3%	-1%	Uncertainty about the **energy shock** from Russia complicates the growth-inflation policy trade off. The recession is shallow but long, as governments avoid a larger downturn by capping energy bills.
	Average inflation (end 23)	9%*	6%* (2.5%)	9%*	7%* (4%)	8%	2% (1.7%)	
	Unemployment	7%	10%	7%*	8%	7%	10%	
Japan	Growth	1.5%*	1%	2%	2%	1%*	0%	A partial relaxation of pandemic-era restrictions in 2023, resumption of travel, and fiscal support provide a foundation for the recovery, **but slowing global growth is a significant drag.**
	Inflation	2.5%*	2%	2.5%*	2.5%	2%	1%	
	Unemployment	3%	3.5%	2.5%	2.5%	3%	4%	
China	Growth	3.5%	4%	4%	5%*	2%	3%	**Loose fiscal policy combined with a moderate easing of financial conditions**. But, more support will be needed to boost growth and regain confidence. The zero-COVID policy is unlikely to be abandoned until later in 2023.
	Inflation	2.5%*	2.5%*	3%*	3%*	2%	2%*	
	Unemployment	4%	4.5%	3.5%	3.5%	4.5%*	5%	

The above represent the views of Barings as of November 1, 2022, and are subject to change at any time. These predictions may not come to fruition.

Notations: Asterisks indicate updated estimates from the last publication.

Scenario Matrix—Central Bank Policy

Central Bank	Stagflation Shock	Boiling Over	Steeper Slide
FED	Fed Funds Rate: Tops out at 5% The Fed will hold there until inflation heads convincingly lower*	Fed Funds Rate: 7% Higher, stickier inflation takes hold as demand proves resilient. The Fed therefore must engineer a hard landing*	Fed Funds Rate: Peaks in Q1 and settles at 3% The Fed winds down its balance sheet and front-loads rate hikes. However, as growth slows faster than expected, the Fed must pause and start easing*
ECB	The ECB hikes to 2.5% The ECB pauses to wait for pass-through in a recessionary environment*	Policy rate to 3.5% Better-than-expected growth allows the ECB to hike aggressively well into 2023*	Policy rate to 2% Growth and inflation fall fast, making the ECB pause at end-22
BOJ	Policy rate stays negative; Yield curve control (YCC) bands widen or the target maturity shifts lower in 2023*	Policy rate normalizes to 0 in 2023; YCC is unwound as inflation responds to the FX channel	Policy rate stays negative; YCC is kept in place until inflation target is reached
PBOC	Steady easing, focusing on window guidance to encourage bank lending and balance sheet action*	Neutral policy, with some focus on window guidance. Additional policy rate cuts unlikely*	Steady easing, focusing on window guidance and balance sheet action, with the addition of policy rate cuts

The above represent the views of Barings as of November 1, 2022, and are subject to change at any time. These predictions may not come to fruition. Asterisks indicate updated estimates from one month ago.

What Changed Since September

WHAT'S NEW

- **A perception that U.S. inflation has peaked**. How low it will fall (and how fast) remains a key topic of discussion. Markets are now pricing in a 5% terminal rate by the Fed.
- **The strong Q3 euro area growth**, including from investments, given the size of the shock the region is having to absorb.
- **The only gradual exit from zero-COVID policy** next year announced by China's National Party Congress. The long-term focus will be on an inward-looking growth model, based on sovereign independence and common prosperity.
- **The emergence of a new U.K. government**, led by Prime Minister Rishi Sunak, is now focused on fiscal stability and spending cuts.

WHAT WE LEARNED

- The ECB keeps frontloading policy tightening with out-sized rate hikes. Yet, its mention of weakening growth has been perceived by markets as **dovish**.
- The start of the **corporate reporting season** shows a large correction in big tech earnings but indicates solid demand and high margins in consumer-oriented sectors**.**
- Economic activity is **holding up better than expected** and inflation is not falling fast.

WHAT WE ARE HEARING FROM OUR TEAMS

- **European HY spreads** have widened to levels close to their levels during the 2012 sovereign debt crisis but the war in Ukraine keeps risk perceptions elevated.
- **U.S. IG spread** valuations are starting to look more attractive.
- Countries that make up about half of the **EM foreign currency debt** index are facing debt restructuring, keeping a downside bias on the returns outlook.
- **Earnings multiples** still need to adjust to weaker growth prospects.

WHAT WE ARE WATCHING

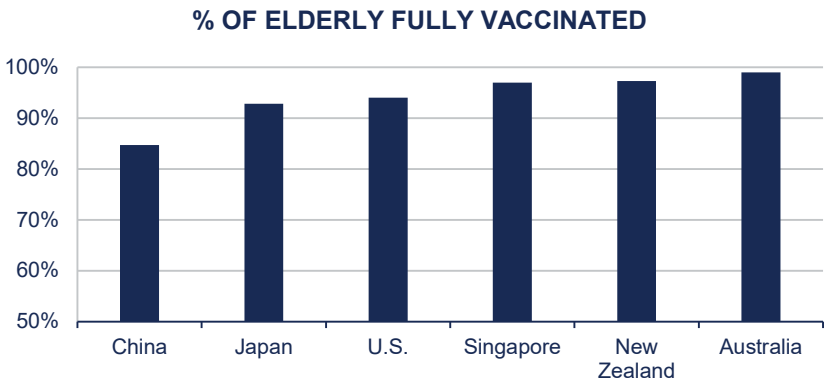
- The pressure from **commodity prices.**
- Any cooling in **U.S. wage and consumption** dynamics.
- The implications of **U.S. midterm elections** for fiscal policy.
- The **liquidity** impact of the volatility on fixed income market.
- The loss in dollar reserves from **FX interventions.**
- Rollover risk may start to rise in late 2023.

Monthly Spotlight: China's COVID Restrictions Likely To Last Well Into 2023

Together with the ongoing property sector slowdown, China's zero-COVID policy is weighing significantly on consumer confidence and economic activity, seriously weakening the effectiveness of stimulus measures authorities implement. If not meaningfully loosened, it means GDP growth could underperform in both 2022 and 2023.

Our investment colleagues in China believe that while the National People's Congress scheduled around March 2023 could provide the catalyst for change for the zero-COVID policy—particularly as its political effects fade—a more significant relaxation won't come until later in the coming year. Policymakers have potential off-ramps they can attempt, but there are significant difficulties fully implementing these on a national scale.

The zero-COVID policy is a keystone program for President Xi Jinping. It arguably enhanced the credibility of the Chinese Communist Party, delivering on its social contract: one-party rule in return for competent governance that promotes the safety and quality of life of the public. At the same time, with the number of reported deaths in China significantly lower than the rest of the world, the results compared favorably to the West



Source: Bloomberg. As of August 2, 2022.

The move away from pandemic-era restrictions may not be as smooth as in other economies that finally dropped restrictions. Limited health care resources—3.6 ICU beds per 100,000 inhabitants in China, versus 35 and 30 in the U.S. and Germany, respectively—relatively lower levels of immunoprotection given lower natural spread of the virus, and low vaccine take-up for the elderly population all make an outright and immediate abandonment of zero-COVID risky**.**

Thus, a primary challenge for policymakers is likely finding an appropriate off-ramp that could allow them to credibly move away from the policy without creating further disruptions:

1. **A nationwide vaccination mandate, targeting the elderly (aged 60+) population –** A vaccine mandate would be the most direct way to mitigate the risks around full reopening but could be difficult, as policymakers would need to address the public's view that any widespread vaccine mandates are unjust.

2. **Inhaled vaccines reducing person-to-person spread –** While it is less effective against severe disease versus injected vaccines, studies have shown inhaled vaccines could help reduce person-to-person spread, achieving what is called sterilizing immunity. This could help stop contagious variants like Omicron from spreading widely within any community.

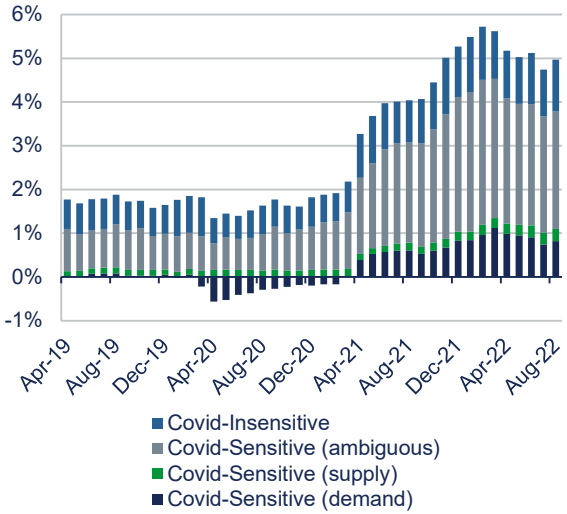
3. **Widespread deployment of antivirals –** If supplies are plentiful and distributed widely enough, Paxlovid could be used to help minimize severe negative outcomes during infection, which would ultimately mitigate the risks of widespread infections clogging the limited health care system.

For the unabridged discussion of this topic, see Christian Floro's Research Note, "COVID Restrictions in China Likely to Last Well Into 2023".

United States

Resilient demand continues to drive elevated and broad-based INFLATION.

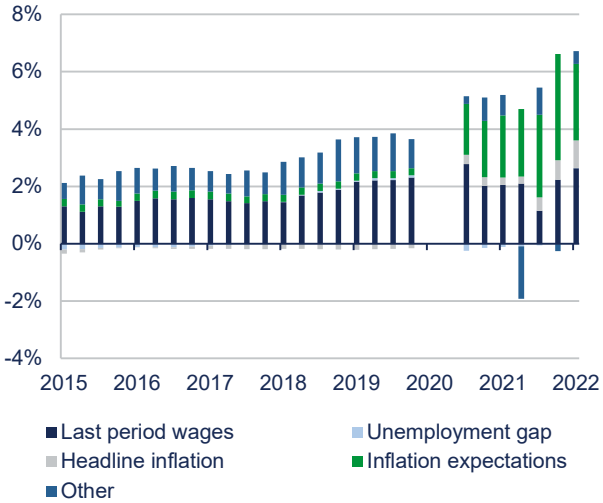
CONTRIBUTIONS TO CORE PCE, Y/Y%



- Pent-up demand continues to be a driving force of elevated and broad-based inflation and has supported better-than-feared Q3 earnings.
- This suggests there is still room for tighter monetary policy to cool inflation and should keep the Fed aggressive in the near-term.
- Separately, a study by the Boston Fed suggests that given the rise in market concentration over past two decades, the pass-through of cost shocks to producer prices is now about 25ppts greater than it would have been at the beginning of the century.

Higher near-term inflation expectations are a more important determinant of WAGE pressures than pre-COVID.

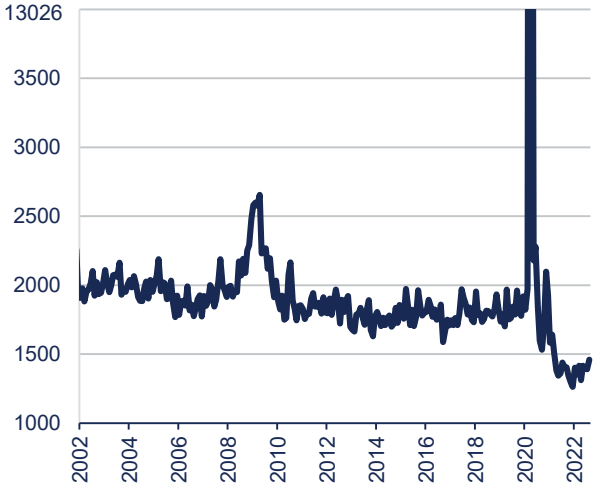
CONTRIBUTIONS TO WAGE GROWTH, Y/Y%



- Near-term consumer inflation expectations have risen notably. Research by the San Francisco Fed suggests short-term inflation expectations are a larger and longer-lasting driver of U.S. wage-setting dynamics than prior to COVID.
- Therefore, if short-term inflation expectations continue to remain elevated, this adds to risks of higher and longer-lasting wage pressures and could support higher inflation for longer.

Meanwhile, companies are holding onto WORKERS for now.

LAYOFFS AND DISCHARGES, THS



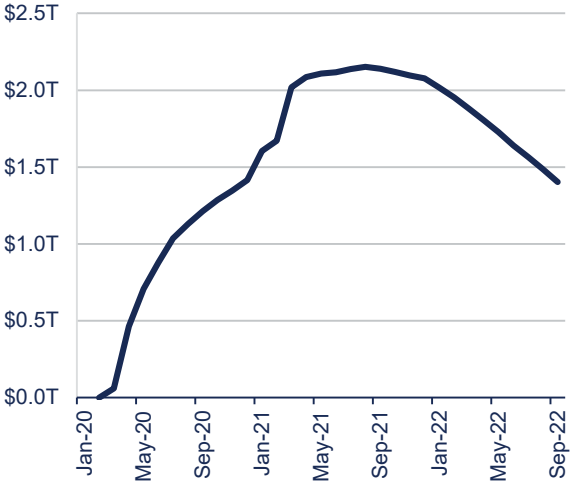
- Overall, layoffs remain very low historically and companies are still noting labor shortages.
- While anecdotes of hiring freezes have increased, given the difficulty hiring over the past two years, firms may be more reluctant to shed workers and may have fewer to shed given the limited ability to bring on new workers.
- The combination of demand-driven inflation, the structural shift in wage-setting dynamics, greater pass-through of cost shocks, and a tight labor market all increase the risk of our Boiling Over scenario.

Source: Federal Reserve Bank of San Francisco, Federal Reserve Bank of Boston, and Haver. As of October 25, 2022.

United States

CONSUMERS are now drawing from savings to fuel spending given higher prices and negative real wage growth.

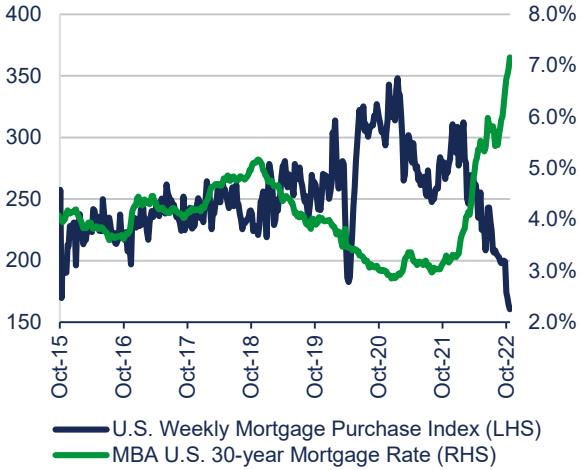
EXCESS PERSONAL SAVINGS



- However, consumers have started to tap into savings buffers and draw on credit to fuel pent-up demand given higher prices, rising interest rates, and negative real wage growth.
- With $1.4 trillion in excess savings as of September, this should provide a near-term buffer for consumers.
- However, this suggests consumers are feeling the impact of higher prices and so at some point consumption, and therefore inflation, should weaken, more in line with our Stagflation Shock scenario.

Meanwhile, the HOUSING MARKET is cooling quickly given the rapid rise in mortgage rates.

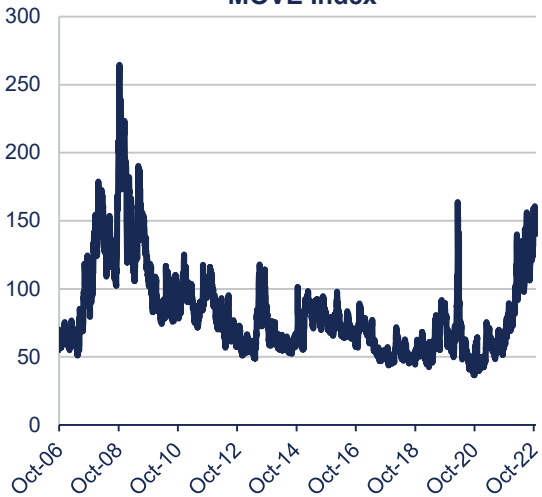
MORTGAGE PURCHASE APPLICATIONS VS. MORTGAGE RATE



- Mortgage rates have surged to more than 7%, which, combined with extremely high home prices, has led affordability to plummet as more Americans are priced out of the market. This is leading demand to cool more quickly than originally anticipated.
- While we do expect home prices to take a step back, tighter lending standards and limited supply should prevent a GFC-style collapse and keep foreclosures low.
- We expect this trend will continue to weigh on growth, in line with our central scenario.

The conflicting signals are leading to high market VOLATILITY given great uncertainty on the outlook.

MOVE Index



- Great uncertainty on the economic outlook, conflicting data, and light liquidity has led to a great deal of market volatility.
- The dramatic rise in the MOVE index, which measures bond market volatility, shows the elevated uncertainty on the outlook for interest rates. With the Fed fixated on lagging indicators, uncertainty and volatility are likely to remain.

Source: Bloomberg, Haver, and Barings calculations. As of October 28, 2022.

CONSENSUS FORECAST

- Consensus has downgraded growth closer to our baseline outlook for 2022 and 2023 and upgraded inflation closer to our baseline outlook for 2022. However, our central scenario continues to call for above-consensus inflation in 2023. This is because we see the energy and commodity price shock stemming from the war in Ukraine and strong nominal growth limiting the trend lower.
- Our baseline outlook sees a higher unemployment rate than consensus in 2023, given Fed rate hikes and slowing growth.

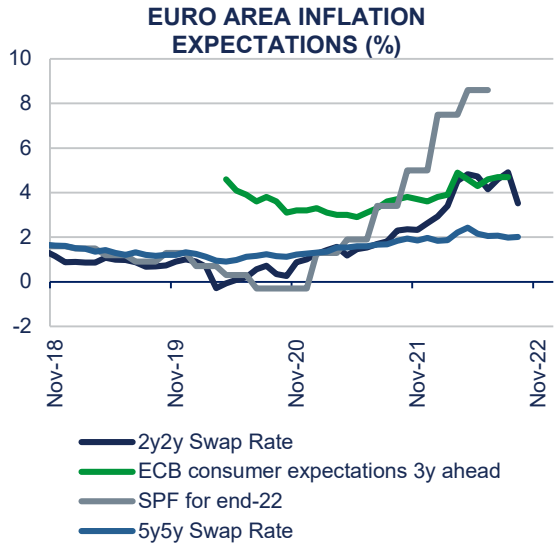
Economic Growth	10/31/2022	12/31/2019	12/31/2020	12/31/2021	2022 (E)	2023 (E)	2024 (E)
Real GDP (Y/Y %)	1.8	2.3	-3.4	5.7	1.7 ▲	0.4 ▼	1.4
Inflation							
CPI (Y/Y %)	8.2	1.8	1.2	4.7	8.0 --	4.1 ▲	2.5
Core PCE (Y/Y %)	5.1	1.7	1.4	3.3	5.0 ▲	3.4 ▲	2.3
Labor Market							
Unemployment (%)	3.5	3.7	8.1	5.4	3.7 --	4.3 ▲	4.6
Rates							
Fed Funds	3.13	1.63	0.13	0.13	4.45 ▲	4.30 ▲	3.05
2Y Treasury	4.49	1.57	0.12	0.73	4.41 ▲	3.63 ▲	3.04
10Y Treasury	4.04	1.92	0.92	1.51	3.86 ▲	3.44 ▲	3.19

Arrows indicate consensus estimate change compared to one month ago

Note: Unemployment figures are annual averages.
Source: Bloomberg. As of October 31, 2022. (E)—Bloomberg private market consensus estimates.

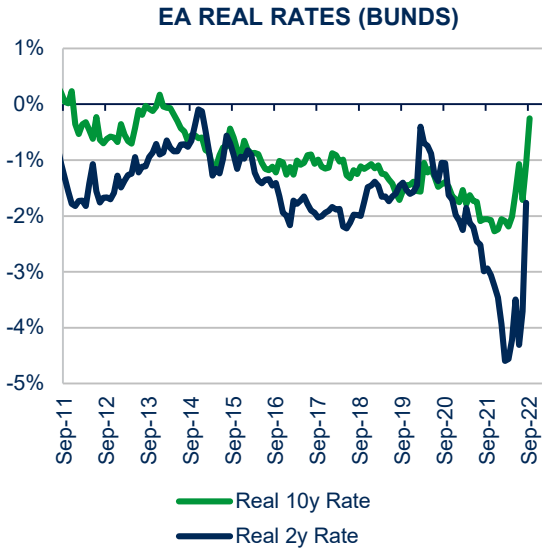
Europe

INFLATION EXPECTATIONS are still too elevated for the ECB to pause.



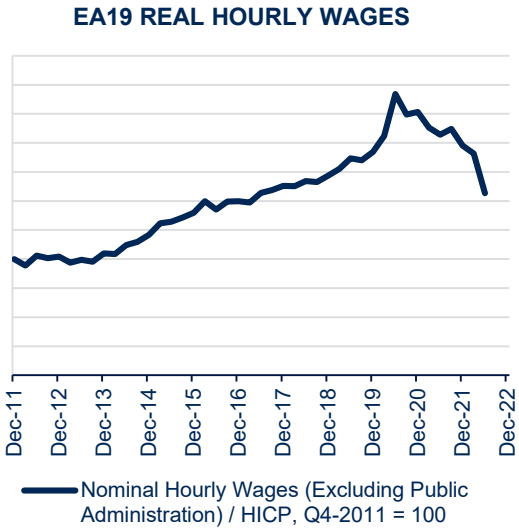
- Elevated inflation expectations remain a central concern of the ECB, motivating it to act aggressively for now.
- While the bank relented slightly, expectations are still too high to warrant a pause.
- The easier tone in October communications from the ECB may have gotten markets too excited, expecting a policy pivot too soon.

POLICY is still not restrictive enough.



- Despite repeated interest rate hikes, real rates remain negative in Europe. Financing conditions are still not particularly restrictive.
- If inflation continues to outpace nominal rates, harsher hikes might be necessary to bring inflation under control.
- Should real rates become positive, expect a stronger contractionary force on activity, as debt can no longer be “inflated away” by firms or governments.

And there are signs of a WEAKENING ECONOMY as purchasing power is hurting.



- As wages are not adjusting to elevated inflation, consumers see their purchasing power declining.
- We may see considerable demand contraction as consumers cease to insulate their consumption patterns with savings.

Source: Bloomberg and Haver. As of October 28, 2022.

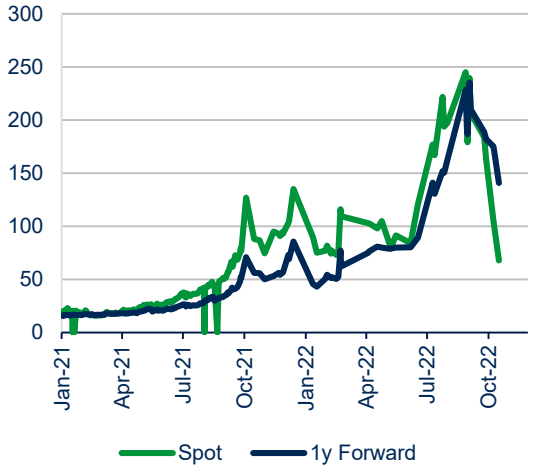
Europe

Energy prices are off their highs, but a WINTER OF DISCONTENT lies ahead.

GDP AND INFLATION MAY DETERIORATE if the energy shock worsens.

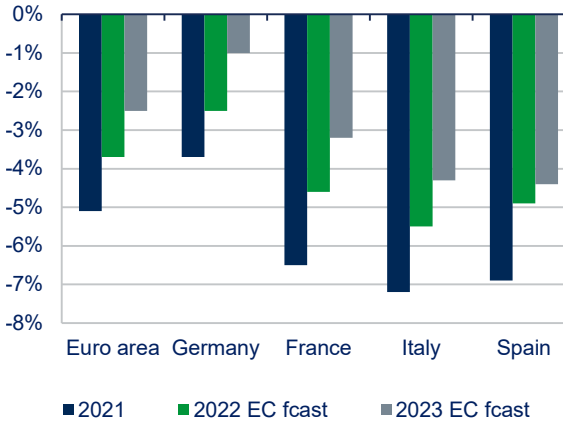
ECONOMIC UNCERTAINTY means extraordinary market volatility.

EUROPEAN NATURAL GAS PRICE



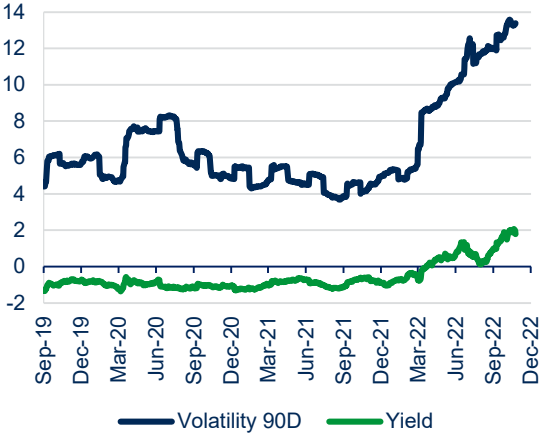
- A fortunate combination of a mild autumn and a slowing China have allowed Europe to fully replenish its gas storage with non-Russian gas. Gas prices are 70% below the August peak.
- Nonetheless, a trying winter, hybrid attacks on infrastructure, or a Chinese growth rebound could run down this storage fast, leaving Europe once again in a vulnerable negotiating position with Russia ahead of the winter of 2024.

FISCAL DEFICIT (% GDP)



- Well-targeted public measures protecting households and firms should allow Europe to avoid a deep recession.
- But higher energy prices could leave highly indebted countries vulnerable, unless the EU helps with common debt issuance.
- We would expect the EU to rely on common debt if threats to its social order and cohesiveness arise.

10Y BUND VOLATILITY AND YIELD



- Since the invasion of Ukraine, not only have sovereign bond yields risen considerably on the back of runaway inflation, their volatility has also jumped.
- As interest rates rise swiftly, the most leveraged agents in the corporate and financial world may run into trouble, exposing the financial system to illiquidity and instability risks.

Source: Bloomberg and Haver. As of October 28, 2022.

CONSENSUS FORECAST

- We remain more pessimistic than consensus about 2023 growth. Since Russia invaded Ukraine, our baseline has included a complete halt of Russian gas supplies. As this becomes more of a reality, consensus has converged toward our recessionary outlook. What happens next depends mostly on the weather, next steps in the war, and a China reopening that would pressure energy prices further.

- Our inflation forecast is largely in line with consensus, far too high to allow the ECB an immediate pause of its fast hiking cycle.

Economic Growth	10/31/2022	12/31/2019	12/31/2020	12/31/2021	2022 (E)	2023 (E)	2024 (E)
EZ Real GDP (Y/Y %)	2.1	1.6	-6.1	5.2	3.0 ▲	-0.1 ▼	1.5
U.K. Real GDP (Y/Y %)	4.4	1.7	-9.3	7.5	4.2 ▲	-0.4 ▼	1.2
Inflation							
EZ CPI (Y/Y %)	10.7	1.2	0.3	2.6	8.2 ▲	5.5 ▲	2.1
U.K. CPI (Y/Y %)	10.1	1.8	0.9	2.6	9.0 ▼	6.3 ▼	2.6
Labor Market							
EZ Unemployment (%)	6.6	7.6	8.0	7.7	6.8 --	7.1 --	7.1
U.K. Unemployment (%)	3.5	3.8	4.5	4.6	3.8 ▼	4.4 --	4.8
Rates							
EZ Central Bank	2.00	0.00	0.00	0.00	2.45 ▲	2.75 ▲	2.50
EZ 2Y Note	1.93	-0.61	-0.72	-0.64	2.00 ▲	1.75 ▲	1.80
EZ 10Y Bond	2.14	-0.19	-0.57	-0.18	2.15 ▲	1.92 ▲	2.13
U.K. Central Bank	2.25	0.75	0.10	0.25	3.65 ▲	4.15 ▲	3.40
U.K. 2Y Gilts	3.25	0.53	-0.17	0.66	3.98 ▲	3.48 ▲	2.97
U.K. 10Y Gilts	3.51	0.82	0.19	0.97	4.08 ▲	3.69 ▲	3.67
Currencies							
EUR/USD	0.97	1.12	1.22	1.14	0.97 ▼	1.05 ▼	1.09
GBP/USD	1.15	1.33	1.37	1.35	1.09 ▼	1.17 ▼	1.22

Arrows indicate consensus estimate change compared to one month ago

Note: Unemployment figures are annual averages.
Source: Bloomberg. As of October 31, 2022. (E)—Bloomberg private market consensus estimates.

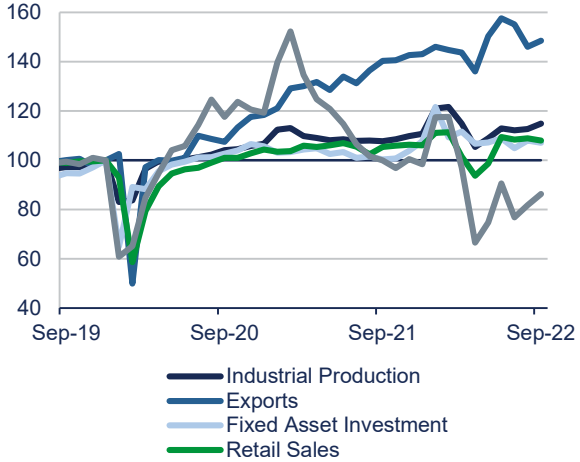
Asia Pacific

Headwinds from the zero-COVID policy and property downturn weigh on CHINA…

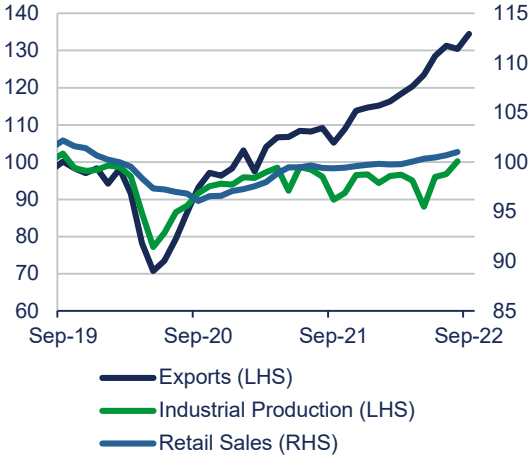
…while JAPAN'S REBOUND will depend on global growth, which is slowing.

INFLATION concerns are rising, but largely a function of external factors.

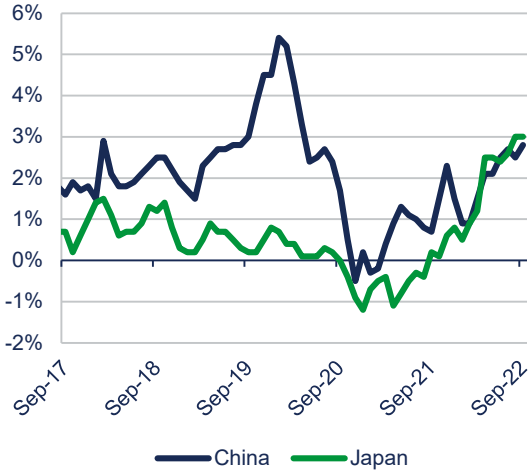
CHINA ACTIVITY INDICATORS (INDEX 2019=100)



JAPAN ACTIVITY INDICATORS (INDEX 2015=100)



HEADLINE INFLATION



- The zero-COVID policy is unlikely to be completely lifted until spring of 2023, at minimum.
- The property sector will stabilize at low levels, with spillovers to consumption and sentiment lasting through 2024.
- The 20th Party Congress' emphasis on "Common Prosperity" and national security imply the tolerance for more short-term pain to achieve longer-term goals.

- A relaxation of pandemic-era restrictions, including the resumption of international travel, together with fiscal support to households to offset higher inflation, should help provide a stable rebound.
- However, weakening global demand could create a larger negative drag, as it weighs on private capex and income.
- Any additional support will be limited, especially as monetary policy is constrained.

- Unlike other jurisdictions, inflation in both China and Japan has been a function of commodity prices and, to some extent, weak currency.
- In China, absent a strong recovery in domestic demand, which remains unlikely, underlying inflationary pressures should remain subdued.
- In Japan, core inflation is rising, but absent wage growth is likely to be seen as transient by the BOJ.

Source: Bloomberg, Haver. As of October 27, 2022.

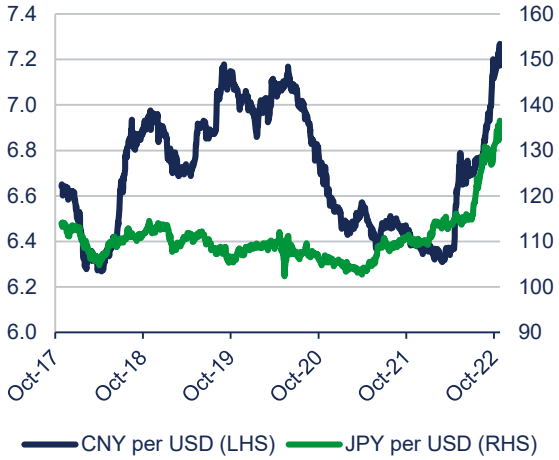
Asia Pacific

Rising risks of FINANCIAL INSTABILITY as a hawkish Fed means currency weakness.

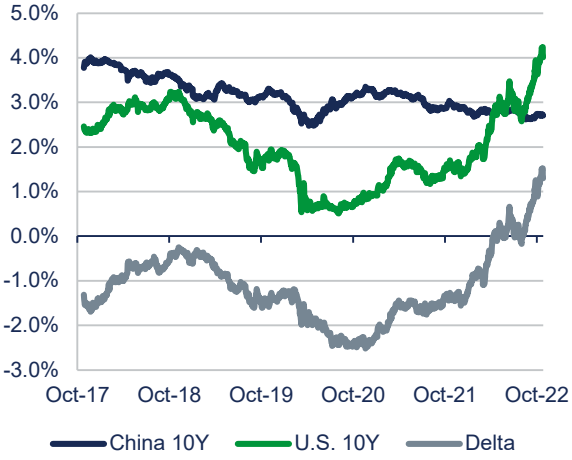
POLICY DIVERGENCE in China could exacerbate outflows, especially as the trade surplus deteriorates.

Markets are challenging the BOJ's resolve on YIELD CURVE CONTROL, but changes look unlikely before next year.

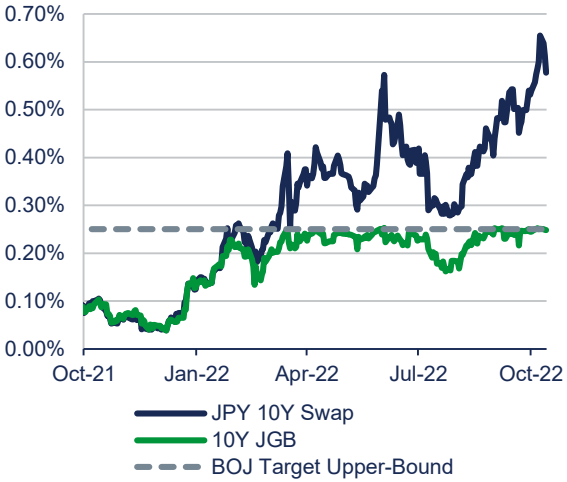
FOREIGN EXCHANGE RATES



10Y U.S.-CHINA RATE DIFFERENTIAL



JAPAN BOND YIELDS



- The sharp depreciation in both the CNY and JPY against the dollar predominantly reflect the effects of aggressive Fed tightening.
- Risks are that an even more hawkish Fed, as U.S. inflation remains stubbornly high, could further intensify currency weakness.
- FX intervention from Japan or China is likely only to soften rather than reverse the trend. It buys time until either the Fed pivots or domestic policymakers tighten.

- The widening yield gap between the U.S. and China could spur capital outflows and worsen weakness in the CNY.
- As global demand wanes, it'll also reduce favorable balance of payment dynamics from buffering further downside risks to the currency.
- Given underperforming domestic demand, delivery of additional policy rate cuts could worsen the divergence and add to depreciation pressure.

- Swap markets are pricing in higher 10Y yields while forward markets are expecting an end to negative rates by 2023.
- Inflation expectations have also increased sharply, with market- and survey-based measures the highest since 2015.
- With the BOJ unlikely to change its stance until the end of Governor Haruhiko Kuroda's term, continued JPY weakness and market instability will remain in focus.

Source: Bloomberg, Haver. As of October 27, 2022.

CONSENSUS FORECAST

- We expect below-consensus 2023 growth in Japan amid the commodity price shock hurting an already-delayed consumption recovery, together with weakening global growth reducing the export tailwind. Cost-pushed inflation is also likely to remain relatively sticky.
- We remain cautious on 2022 and 2023 growth in China as ongoing headwinds from the zero-COVID policy and the property downturn will continue to undermine the domestic recovery. Weakening global growth also adds downside risks.

Economic Growth	10/31/2022	12/31/2019	12/31/2020	12/31/2021	2022 (E)	2023 (E)	2024 (E)
Japan Real GDP (Y/Y %)	1.6	-0.4	-4.7	1.8	1.6 --	1.4 ▼	1.1
China Real GDP (Y/Y %)	3.9	6.0	2.2	8.1	3.3 --	5.0 ▼	4.9
Inflation							
Japan CPI (Y/Y %)	3	0.5	0.0	-0.3	2.3 ▲	1.5 ▲	0.8
China CPI (Y/Y %)	2.8	2.9	2.5	0.9	2.2 ▼	2.4 ▲	2.2
Labor Market							
Japan Unemployment (%)	2.6	2.4	2.8	2.8	2.6 --	2.5 --	2.4
China Unemployment (%)	4.0	3.6	4.2	4.0	4.1 --	4.0 ▲	4.0
Rates							
Japan Central Bank	-0.10	-0.10	-0.10	-0.10	0.00 --	0.00 --	0.00
Japan 2Y Note	-0.05	-0.13	-0.13	-0.09	-0.06 --	-0.03 ▲	0.01
Japan 10Y Bond	0.24	-0.02	0.02	0.07	0.22 ▼	0.22 --	0.24
China Central Bank	4.35	4.35	4.35	4.35	4.30 --	4.30 --	
China 2Y Note	2.05	2.63	2.71	2.36	2.12 ▼	2.21 ▼	2.17
China 10Y Bond	2.64	3.13	3.14	2.77	2.75 ▲	2.86 ▲	2.83
Currencies							
USD/JPY	148.74	108.61	103.25	115.08	145.00 ▲	132.00 ▲	123.00
USD/CNY	7.18	6.98	6.52	6.38	7.17 ▲	6.92 ▲	6.80

Arrows indicate consensus estimate change compared to one month ago

Note: Unemployment figures are annual averages.
Source: Bloomberg. As of October 31, 2022. (E)—Bloomberg private market consensus estimates.

Central Scenario: Stagflation Shock (60% odds)

The loss of purchasing power and aggressive central bank tightening manage to cool demand, but it takes time. Supply chain snags are gradually solved. The commodities shock persists as Russian sanctions disrupt energy supplies.

Inflation trends down, but slowly: at the end of 2022, inflation is still around 7% in the U.S. and above 10% in Europe. By end of 2023, it declines to around 3-4%. **Such a slow descent does not afford central banks the luxury of waiting to see the impact of tightening on growth**: they focus on inflation and continue hiking even as the economy starts showing weakness.

With inflation above-target and aggressive policy tightening, Europe risks a recession while the U.S. faces a serious slowdown.

As the Ukraine war drags on, **a widening embargo of Russian energy exports** by European, U.S., and allied countries takes shape as harsh financial sanctions are implemented. Russia may cut export of other key commodities, too.

This comes at a dear cost, with energy prices surging to unseen levels. This may plunge the overexposed European economies into a recession with elevated inflation. The U.S. is not as exposed thanks to energy quasi-independence but it slows down too, as inflation hits purchasing power and confidence. The Fed hikes repeatedly to maintain credibility and manage inflation expectations.

Yet, central banks tighten less than double-digit inflation rates might otherwise require. They see through some of the energy-induced acceleration of prices, given uncertain transmission lags and the war. However, in the U.S., where pre-war inflation was already broad-based, policy rates are raised gradually to the 5% currently priced in.

Slowing global growth, surging inflation, and rising policy rates prove difficult for emerging markets to digest. Big commodity exporters see the blows to their economies softened by improving trade terms, current account balances, and appreciating currencies. For other EMs, the going gets tough and financial instability could rise in the most-vulnerable regions. Social unrest could easily flare-up in countries where food and energy represent a major portion of daily expenditures.

U.S. Treasuries: 10Y settling at 3.5% over 12-18 months with bull flattening.

Conditions
- Full embargo on Russian energy exports
- Prolonged war in Ukraine

Indicators
- Dwindling consumer confidence and expenditures
- Further inflation acceleration globally
- Falling PMIs

Scenario risks
- Rapid deterioration of demand
- Complete change of the policy toolbox

Alternative Scenario: Boiling Over (30% odds)

On the back of persistently constrained supply chains and surprisingly resilient demand, U.S. inflation does not decline meaningfully. **Inflation expectations begin to de-anchor, keeping inflation from falling until unemployment moves up meaningfully, which does not happen soon.** Inflation remains close to current levels and volatile throughout 2023.

Growth holds up in the U.S., maintaining positive Q/Q momentum throughout 2023. It is the post-COVID expansion swan song. The Fed fights for its credibility and is forced to raise rates past 7% and reduce its balance sheet. It continues to do so right up to the eve of recession, which may prove deep once it arrives.

Similar dynamics develop in Europe, but at a lower growth rate as the energy shock hitting the old continent's economies is of a different magnitude than in the U.S. In Europe, inflation is kept high by high energy prices rather than resilient demand.

Growth remains surprisingly healthy while persistent inflation raises the risks of a much harder landing.

After the initial impact, the Ukraine invasion continues to deliver an inflationary shock globally. Energy prices and headline inflation stabilize but don't fall much in 2023.

Central banks tighten financial conditions but their tools prove ineffective in reducing demand enough to match a Still-constrained supply. Supply-side disruptions related to COVID and the war continue to exert meaningful inflation pressures that central banks are not equipped to control.
A strong dollar increases commodity inflation for commodity-importing jurisdictions, complicating central banks' already difficult task.

The risk of a hard landing into a much more severe recession looms, beyond the scope of this 12-18 month scenario, as central banks will be forced to tighten policy for longer and fiscal authorities must consolidate their finances.

U.S. Treasuries: 10Y rises above 6% over 12-18 months, as the curve bear flattens.

Conditions
- Mixed results from energy embargo on Russia
- Stronger recovery in China
- Substantial fiscal support for energy-poor households
- Central banks surprised by consumption strength

Indicators
- Fiscal spending
- Central bank signalling
- Inflation expectations and wages
- Solid consumer confidence and expenditures

Scenario risks
- Confidence hit from the war and/or energy shock

The above represent the views of Barings as of October 31, 2022, and are subject to change at any time. These predictions may not come to fruition.

Alternative Scenario: Steeper Slide (10% odds)

This is a standard demand-led recession. High inflation cuts into purchasing power and savings buffers for middle-income households. Uncertainty about central banks' ability to fight a price shock driven by commodity scarcity aggravates concerns about tightening financial conditions, and hikes prove too much given underlying weakness in demand. Inventories that companies accumulated for the post-pandemic boom prove to be excessive. China's battle against the virus contributes to a sharp global slowdown. Financial accidents may trigger a sharper deceleration.

A classic recession ensues as disinflation dynamics take hold, wrong-footing central banks.

The rise in commodities prices from the war in Ukraine and sanctions on Russia are a supply shock that central banks are not well-equipped to fight. Raising credit costs reduce consumers' ability to borrow in an effort to smooth the impact of lost purchasing power. **In the absence of commensurate wage growth, demand naturally falls.**

Firms find themselves with excess supply relative to restrained demand. As sanctions on Russia escalate to a full embargo on oil and gas imports in Europe (and, possibly, indirect sanctions on countries still trading with Russia) energy prices stay high. **Firms adjust supply down as higher energy costs lead to a decrease in demand.** Unemployment rises.

Central banks raise rates to tame inflation, but this proves too much and they are eventually forced to reverse course. Some central banks may not have had time to go very far from the lower bound of monetary policy. In addition, the fiscal room to maneuver is limited by an already-high debt burden, making it difficult to fight the downturn. When it becomes obvious that policy easing is necessary, toward the second half of 2023, a recession toolbox is designed. Yields may be controlled and quantitative easing reactivated.

U.S. Treasuries: 10Y falls to 2% in 18 months and curve may invert.

Conditions

- Harsh sanctions constrain global commodity supplies
- Wages grow below inflation average
- Zero-COVID is the main pandemic-control tool in China

Indicators to watch

- Household balance sheets
- Wage negotiations

Scenario risks

- Resilient consumer demand

Important Information

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed. Past performance is no indication of current or future performance. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments. Prospective investors should read the offering documents, if applicable, for the details and specific risk factors of any Fund/Strategy discussed in this document.

For Professional Investors / Institutional Investors only. This document should not be distributed to or relied on by Retail / Individual Investors.

Barings LLC, Barings Securities LLC, Barings (U.K.) Limited, Barings Global Advisers Limited, Barings Australia Pty Ltd, Barings Japan Limited, Baring Asset Management Limited, Baring International Investment Limited, Baring Fund Managers Limited, Baring International Fund Managers (Ireland) Limited, Baring Asset Management (Asia) Limited, Baring SICE (Taiwan) Limited, Baring Asset Management Switzerland Sàrl, Baring Asset Management Korea Limited, and Barings Singapore Pte. Ltd. each are affiliated financial service companies owned by Barings LLC (each, individually, an "Affiliate"), together known as "Barings." Some Affiliates may act as an introducer or distributor of the products and services of some others and may be paid a fee for doing so.

NO OFFER:
The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of any financial instrument or service in any jurisdiction. The material herein was prepared without any consideration of the investment objectives, financial situation or particular needs of anyone who may receive it. This document is not, and must not be treated as, investment advice, an investment recommendation, investment research, or a recommendation about the suitability or appropriateness of any security, commodity, investment, or particular investment strategy, and must not be construed as a projection or prediction.

In making an investment decision, prospective investors must rely on their own examination of the merits and risks involved and before making any investment decision, it is recommended that prospective investors seek independent investment, legal, tax, accounting or other professional advice as appropriate.

Unless otherwise mentioned, the views contained in this document are those of Barings. These views are made in good faith in relation to the facts known at the time of preparation and are subject to change without notice. Individual portfolio management teams may hold different views than the views expressed herein and may make different investment decisions for different clients. Parts of this document may be based on information received from sources we believe to be reliable. Although every effort is taken to ensure that the information contained in this document is accurate, Barings makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information.

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause Barings to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any retirement plan, IRA investor, individual retirement account or individual retirement annuity as the recipients are fully aware that Barings (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to Barings' business objectives, and which has been disclosed to the recipient.
.

OTHER RESTRICTIONS:
The distribution of this document is restricted by law. No action has been or will be taken by Barings to permit the possession or distribution of the document in any jurisdiction, where action for that purpose may be required. Accordingly, the document may not be used in any jurisdiction except under circumstances that will result in compliance with all applicable laws and regulations.

Any service, security, investment or product outlined in this document may not be suitable for a prospective investor or available in their jurisdiction.

Any information with respect to UCITS Funds is not intended for U.S. Persons, as defined in Regulation S under the U.S. Securities Act of 1933, or persons in any other jurisdictions where such use or distribution would be contrary to law or local regulation.

INFORMATION:
Barings is the brand name for the worldwide asset management or associated businesses of Barings. This document is issued by one or more of the following entities:

Barings LLC, which is a registered investment adviser with the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, as amended (Barings LLC also relies on section 8.26 of NI 31-103 (international adviser exemption) and has filed the Form 31-103F2 in Ontario, Quebec, British Columbia, Alberta, Nova Scotia, Manitoba, New Brunswick, Newfoundland and Labrador, Prince Edward Island and Saskatchewan);

Barings Securities LLC, which is a registered limited purpose broker-dealer with the Financial Industry Regulatory Authority (Baring Securities LLC also relies on section 8.18 of NI 31-103 (international dealer exemption) and has filed the Form 31-103F2 in Ontario, Quebec, British Columbia, Alberta, Nova Scotia, Manitoba, New Brunswick, Newfoundland and Labrador, Prince Edward Island and Saskatchewan);

Barings (U.K.) Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 194662) and is a Company registered in England and Wales (No. 03005774) whose registered address is 20 Old Bailey, London, EC4M 7BF.

Barings Global Advisers Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 552931) and is a Company registered in England and Wales (No. 07622519) whose registered address is 20 Old Bailey, London, EC4M 7BF and is a registered investment adviser with the SEC; Baring Asset Management Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 170601) and is a Company registered in England and Wales (No. 02915887) whose registered address is 20 Old Bailey, London, EC4M 7BF; Baring International Investment Limited, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom (Ref No. 122628), and is a Company registered in England and Wales (No. 01426546) whose registered address is 20 Old Bailey, London, EC4M 7BF, is a registered investment

As of June 30, 2022.

Important Information

adviser with the SEC (Baring International Investment Limited also relies on section 8.26 of NI 31-103 (international adviser exemption) and has filed the Form 31-103F2 in Quebec and Manitoba;

Baring Fund Managers Limited, which is authorized as a manager of collective investment schemes with the Financial Conduct Authority in the United Kingdom and is authorized as an Alternative Investment Fund Manager in several European Union jurisdictions under the Alternative Investment Fund Managers Directive (AIFMD) passport regime;

Baring International Fund Managers (Ireland) Limited), which is authorized as an Alternative Investment Fund Manager in several European Union jurisdictions under the Alternative Investment Fund Managers Directive (AIFMD) passport regime and, since April 28, 2006, as a UCITS management company with the Central Bank of Ireland;

Baring Asset Management Switzerland Sàrl, which is authorized by the Switzerland Financial Market Supervisory Authority to offer and/or distribute collective capital investments;

Barings Australia Pty Ltd (ACN 140 045 656), which is authorized to offer financial services in Australia under its Australian Financial Services License (No: 342787) issued by the Australian Securities and Investments Commission;

Baring Asset Management (Asia) Limited, which is licensed by the Securities and Futures Commission of Hong Kong to carry on regulated activities Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) in Hong Kong in accordance with the requirements set out in the Securities and Futures Ordinance (Cap 571);

Barings Japan Limited, which is registered as a Financial Business Operator (Registration No. 396-KLFB) for Type II Financial Instruments Business, Investment Advisory and Agency Business, and Investment Management Business with the Financial Services Agency in Japan under the Financial Instruments and Exchange Act (Act No. 25 of 1948);

Baring SICE (Taiwan) Limited, an independently operated business (Business license number: 2017 FSC-SICE- Xin- 002; Address: 21 F, No.333, Sec. 1 Keelung Road, Taipei 11012; Taiwan Contact telephone number: 0800 062 068); or

Baring Asset Management Korea Limited, which is authorized by the Korean Financial Services Commission to engage in collective investment business and is registered with the Korean Financial Services Commission to engage in privately placed collective investment business for professional investors, discretionary investment business and advisory business.

Barings Singapore Pte. Ltd. ("BSG"), a private company incorporated in Singapore, is an indirect, wholly-owned subsidiary of Barings. BSG is licensed by the Monetary Authority of Singapore on the 26 June 2021, for Capital Markets Service License under the Securities and Futures Act to conduct fund management activities.

FOR PERSONS DOMICILED IN THE US:
This document is not an offer to sell, nor a solicitation of an offer to buy, limited partnership interests, shares or any other security, nor does it purport to be a description of the terms of or the risks inherent in an investment in any private investment fund ("Fund") described therein. The offer and sale of interests in any such Fund is restricted by law, and is not intended to be conducted except in accordance with those restrictions. In particular, no interest in or security of any of the Fund has been or will be registered under the Securities Act of 1933 (the "Act"). All offers and sales thereof are intended to be non-public, such that interests in and securities of any such Fund will be and remain exempt from having to be so registered. By accepting delivery of this document, the person to whom it is delivered (a) agrees to keep the information contained in the attached document confidential and (b) represents that they are an "accredited investor" as defined in Regulation D promulgated by the Securities and Exchange Commission under the Securities Act of 1933.

FOR PERSONS DOMICILED IN THE UNITED KINGDOM
This document is directed at and intended for "Professional Investors" or any other category of person to which such marketing is permitted under the national laws of the United Kingdom. A "Professional Investor" is an investor who is considered to be a professional client or which may, on request, be treated as a professional client within the relevant national implementation of Annex II of European Directive 2014/65/EU (Markets in Financial Instruments Directive or "MiFID II") and the Alternative Investment Fund Managers Regulations, 2013, as amended by the Alternative Investment Managers (Amendment, etc.) (EU Exit) Regulations 2019 ("UK AIFM Regulations").

FOR PERSONS DOMICILED IN THE EUROPEAN UNION and the EUROPEAN ECONOMIC AREA (EEA):
This information is only made available to Professional Investors, as defined by the Markets in Financial Instruments Directive.

FOR PERSONS DOMICILED IN AUSTRALIA:
This publication is only made available to persons who are wholesale clients within the meaning of section 761G of the Corporations Act 2001. This publication is supplied on the condition that it is not passed on to any person who is a retail client within the meaning of section 761G of the Corporations Act 2001.

FOR PERSONS DOMICILED IN CANADA:
This confidential marketing brochure pertains to the offering of a product only in those jurisdictions and to those persons in Canada where and to whom they may be lawfully offered for sale, and only by persons permitted to sell such interests. This material is not, and under no circumstances is to be construed as, an advertisement or a public offering of a product. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the product or its marketing materials, and any representation to the contrary is an offence.

FOR PERSONS DOMICILED IN SWITZERLAND:
This is an advertising document.
This material will be exclusively made to, and directed at, Qualified Investors, as defined in Article 10(3) and (3ter) of the Swiss Collective Investment Schemes Act ("CISA") and its implementing ordinance, at the exclusion of Qualified Investors with an opting-out pursuant to Art. 5(1) of the Swiss Federal Law on Financial Services ("FinSA") and without any portfolio management or advisory relationship with a financial intermediary pursuant to Article 10(3ter) CISA.

FOR PERSONS DOMICILED IN HONG KONG:
Distribution of this document, and placement of shares in Hong Kong, are restricted for funds not authorized under Section 104 of the Securities and Futures Ordinance of Hong Kong by the Securities and Futures Commission of Hong Kong.

As of June 30, 2022.

Important Information

This document may only be distributed, circulated or issued to persons who are professional investors under the Securities and Futures Ordinance and any rules made under that Ordinance or as otherwise permitted by the Securities and Futures Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

FOR PERSONS DOMICILED IN SOUTH KOREA:
Neither this document nor Barings is making any representation with respect to the eligibility of any recipients of this document to acquire interests in the Fund under the laws of Korea, including but without limitation the Foreign Exchange Transaction Act and Regulations thereunder. The Fund may only be offered to Qualified Professional Investors, as such term is defined under the Financial Investment Services and Capital Markets Act, and this Fund may not be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

FOR PERSONS DOMICILED IN SINGAPORE:
This document has been prepared for informational purposes only, and should not be considered to be an advertisement or an offer for the sale or purchase or invitation for subscription or purchase of interests in the Fund. This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. This document or any other material in connection with the offer or sale, or invitation for subscription or purchase of interests in the Fund, may not be circulated or distributed to persons in Singapore other than (i) to an institutional investor pursuant to Section 304 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Barings Singapore Pte. Ltd. (Registration no: 202036975R)

FOR PERSONS DOMICILED IN TAIWAN:
The Shares of in the nature of securities investment trust funds are being made available in Taiwan only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, “Qualified Institutions”) pursuant to the relevant provisions of the Taiwan Rules Governing Offshore Funds (the “Rules”) or as otherwise permitted by the Rules. No other offer or sale of the Shares in Taiwan is permitted. Taiwan’s qualified Institutions which purchase the Shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution, transfer by operation of law or other means approved by Taiwan Financial Supervisory Commission. Investors should note that if the Shares are not in the nature of securities investment trust funds, they are not approved or reported for effectiveness for offering, sales, issuance or consultation by Taiwan Financial Supervisory Commission. The information relating to the shares in this document is for information only and does not constitute an offer, recommendation or solicitation in Taiwan.

FOR PERSONS DOMICILED IN JAPAN:
This material is being provided for information purposes only. It is not an offer to buy or sell any Fund interest or any other security. The Fund has not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948) and, accordingly, it may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit, of any Japanese person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For this purpose, a “Japanese person” means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

FOR PERSONS DOMICILED IN THAILAND:
This document is only made available to qualified institutional investors/high-net-worth individuals according to Notification of the Capital Market Supervisory Board No. Tor Thor. 1/2560. It is for information only and is not an advertisement, investment recommendation, research or advice. It does not have regard to the specific investment objectives, financial situation or needs of any specific person. You should seek advice from a financial adviser if you are in any doubt about any of the content of this document. None of the funds has been registered with the Office of the Securities and Exchange Commission. Barings is not licensed to carry out fund management activities in Thailand and has no intention to solicit your investment or subscription in the fund directly in Thailand.

FOR PERSONS DOMICILED IN PERU:
The Fund is not registered before the Superintendencia del Mercado de Valores (SMV) and it is placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is only for the exclusive use of institutional investors in Peru and is not for public distribution.

FOR PERSONS DOMICILED IN CHILE:
Esta oferta privada se acoge a las disposiciones de la norma de carácter general nº 336 de la superintendencia de valores y seguros, hoy comisión para el mercado financiero. Esta oferta versa sobre valores no inscritos en el registro de valores o en el registro de valores extranjeros que lleva la comisión para el mercado financiero, por lo que tales valores no están sujetos a la fiscalización de ésta; Por tratar de valores no inscritos no existe la obligación por parte del emisor de entregar en chile información pública respecto de los valores sobre los que versa esta oferta; Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el registro de valores correspondiente.

FOR PERSONS DOMICILED IN ARGENTINA:
This document includes a private invitation to invest in securities. It is addressed only to you on an individual, exclusive, and confidential basis, and its unauthorized copying, disclosure, or transfer by any means whatsoever is absolutely and strictly forbidden. Barings will not provide copies of this document or provide any kind of advice or clarification, or accept any offer or commitment to purchase the securities herein referred to from persons other than the intended recipient. The offer herein contained is not a public offering, and as such it is not and will not be registered with, or authorized by, the applicable enforcement authority. The information contained herein has been compiled by Barings, who assumes the sole responsibility for the accuracy of the data herein disclosed.

FOR PERSONS DOMICILED IN BRAZIL:
The fund may not be offered or sold to the public in Brazil. Accordingly, the fund has not been nor will be registered with the Brazilian Securities Commission – CVM nor have they been submitted to the foregoing agency for approval. Documents relating to the fund, as well as the information contained therein, may not be supplied to the public in Brazil, as the offering of fund is not a public offering of securities in Brazil, nor used in connection with any offer for subscription or sale of securities to the public in Brazil.

FOR PERSONS DOMICILED IN COLOMBIA:
The material herein does not constitute a public offer in the Republic of Colombia. This document does not constitute a public offer in the Republic of Colombia. The offer of the fund is addressed to less than one hundred specifically identified investors. The fund may not be promoted or marketed in Colombia or to Colombian residents, unless such promotion and marketing is made in compliance with Decree 2555 of 2010 and other applicable rules and regulations related to the promotion of foreign funds in Colombia. The distribution of this document and the offering of shares may be restricted in certain jurisdictions. The information contained in this document is for general guidance only, and it is the responsibility of any person or persons in possession of this document and wishing to make application for shares to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for shares should inform themselves of any applicable legal requirements, exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

As of June 30, 2022.

Important Information

FOR PERSONS DOMICILED IN MEXICO:
The securities offered hereby are not and will not be registered in the national securities registry (Registro Nacional De Valores) maintained by the Mexican Banking and Securities Commission (Comision Nacional Bancaria y De Valores "CNBV"). These securities may not be publicly offered or sold in Mexico without the applicability of an exemption for the private placement of securities pursuant to the Mexican Securities law. In making an investment decision, you should rely on your own review and examination of the fund / security. These securities are not being offered and may not be offered nor acquired within the territory of the United Mexican States. The information contained herein has not been reviewed or authorized by the CNBV. Any Mexican investor who acquires the securities does so at his or her own risk.

FOR PERSONS DOMICILED IN PANAMA:
This is not a public offering. This document is only for the exclusive use of institutional investors. The securities mentioned in this document have not been registered with nor fall under the supervision of the Superintendence of the Securities Market of Panama. The distribution of this document and the offering of shares may be restricted in certain jurisdictions. The above information is for general guidance only, and it is the responsibility of any person or persons in possession of this document and wishing to make application for shares to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for shares should inform themselves as to legal requirements also applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile. This document does not constitute an offer or solicitation to any person in any jurisdiction in which such offer, or solicitation is not authorized or to any person to whom it would be unlawful to make such offer or solicitation.

FOR PERSONS DOMICILED IN URUGUAY:
The sale of the product qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The product must not be offered or sold to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The product is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The product corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated September 27, 1996, as amended.

As of June 30, 2022.