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BlackRock

Ready for a new regime

2022 EMEA Implementation Guide

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Ring in the new.

We are entering a new market regime unlike any in the past half century: we see another year of positive equity returns coupled with a down year for bonds. It's rare for global stock returns to be positive and bonds negative in any one calendar year and two years in a row has never happened in nearly five decades. That's what signals that we have entered a new market regime and why it's important to cut through the confusion sparked by the powerful restart, new virus strains, supply-driven inflation, and new central bank frameworks. Our main scenario: virus strains delay but don't derail the restart, central banks start to raise rates but remain more tolerant of inflation, and inflation cools to settle above pre-Covid trends. Such a backdrop favours equities over fixed income, but we have dialled back our risk-taking, given the wide range of potential outcomes.

How can investors get ready for the new regime? In our 2022 Implementation Guide, we focus on the key investment themes laid out in the BlackRock Investment Institute's Global Outlook, with implementation ideas across alpha-seeking, index, alternative, and money market funds.

1

Living with inflation

Higher inflation has arrived, but we expect central banks to be more tolerant than they would have been in the past. We prefer a multi-asset approach to positioning portfolios for inflation, using inflation-sensitive equities and alternatives as well as inflation-linked bonds.

2

Cutting through confusion

A unique mix of events – the restart, new virus strains, supply-driven inflation and new central bank frameworks – could cause markets and policymakers to misread inflation. We trim risk, and lean into selectivity in high-conviction areas, such as DM, through precision exposures, as well as all-weather portfolio resilience.

3

Navigating net zero

The journey to net zero is not just a long-term story – it's a *now* story. Supply shocks are here, and the tectonic shift toward sustainable investing is already playing out. We like sustainable exposures, and quality equities well-positioned for the green transition, such as tech and healthcare.

Any opinions and/or forecasts represent an assessment of the market environment at a specific time and are not intended to be a forecast of future events or a guarantee of future results. There is no guarantee that any forecasts made will come to pass.

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Living with inflation

Higher inflation has arrived, but we expect central banks to be more tolerant than they would have been in the past.

Inflation jumped in 2021 on the back of supply and demand mismatches. We see inflation settling at levels higher than pre-Covid whenever these supply bottlenecks ease, and persisting for years to come.

One driver of this: Major central banks are living with more inflation than they would have in the past, showing a much more muted policy reaction – our core view.

The US Federal Reserve (Fed) has belatedly acknowledged meeting its inflation objective to make up for past misses – something we had long argued had already happened. We expect the Fed to kick off rate hikes in 2022 but don't see it reacting aggressively to inflation. We are watching how the Fed interprets its "broad and inclusive" employment objective to guide when and how quickly policy rates rise. The Fed's mandate means it will want to see further progress on the return of people to the workforce – and we expect rate hikes to be gradual.

We see the rate increases as removing some of the stimulus added during the 2020 shock as the labour market heals back near pre-Covid conditions.

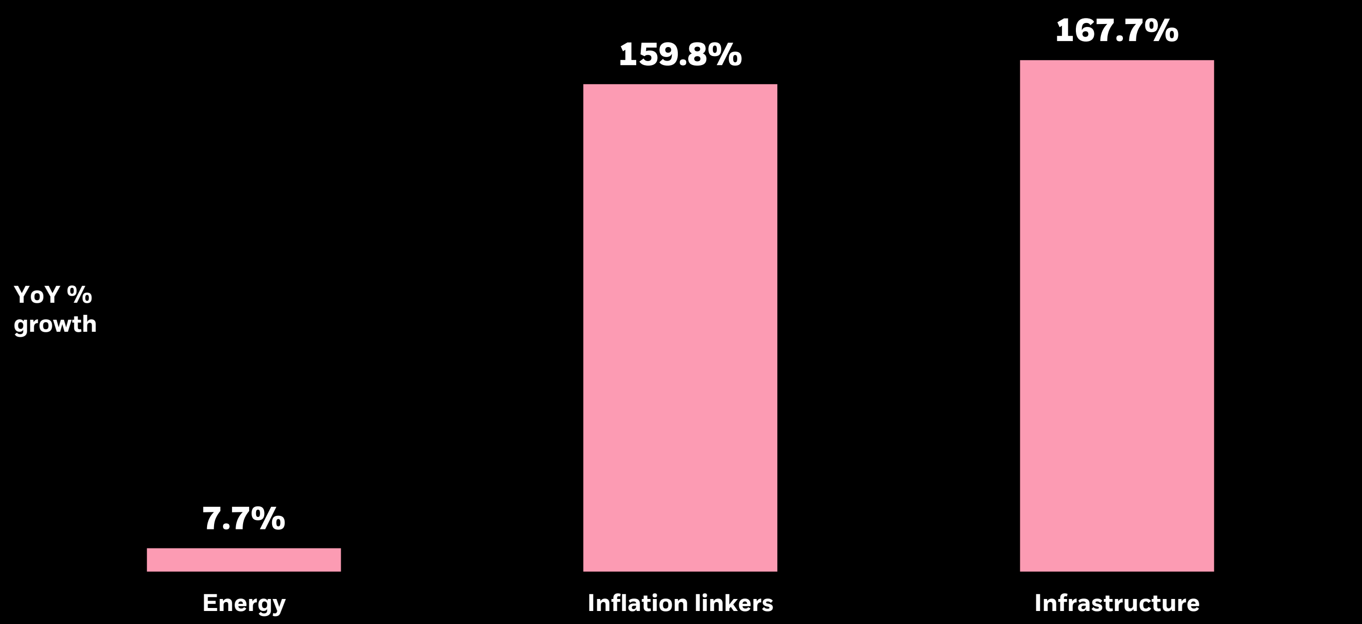
The European Central Bank (ECB) is in a different spot. It still wants to get inflation to settle at 2% rather than falling well short as it has for years. The ECB's medium-term inflation projections are likely to settle below its 2% target. That suggests ongoing policy stimulus. We don't see the ECB lifting rates for a few more years and think it will likely increase its regular asset purchases as the special pandemic program is set to end next year.

Climate change is part of the inflation story. A smooth transition to net zero is the least inflationary outcome compared with a disorderly one or business as usual, in our view. Climate change will likely mean a series of supply shocks playing out over decades (see page 13).

The bottom line: the muted policy response to inflation keeps us favouring equities over bonds. We prefer a multi-asset approach to preparing portfolios for inflation, using inflation-sensitive equities and alternatives as well as inflation-linked and floating rate bonds. This multi-asset approach is reflected in ETP flows YTD – as seen in the chart below.

Appetite for inflation-sensitive exposures is growing – across asset classes

Year-on-year growth, global flows into energy, inflation-linked bond, and infrastructure ETPs



Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

Figures are in US dollars, unless stated otherwise.

Inflation sensitivity in equities

Investors can position portfolios for inflation through equity sector exposures. The value factor, which is tilted towards sectors positioned for an inflationary environment and steepening yield curve, may provide an opportunity for inflation-hedging with an ESG tilt. Higher nominal growth may be supportive of more modestly-valued equities, particularly companies addressing industries with strong cyclical tailwinds such as construction or mining equipment. We also like the financials sector, which may benefit from rising rates and a still resilient global consumer – see p. 8 for more. Value's weighting towards more highly-leveraged companies may also look attractive in an inflationary environment.

Historically, both the energy and basic resources sectors have exhibited high beta to inflation expectations – and thus may look attractive in an environment where we expect medium-term inflation to run higher. Rising inflation expectations may also drive commodity prices higher through hedging activity. Investor sentiment towards oil has rebounded as activity has started to normalise – although we don't rule out the possibility of new variants impacting the restart, oil may further benefit from the return of international travel, alongside capital discipline from oil companies. Investors have taken note: energy ETPs are on track for a record inflow year, with $18.8B added YTD.[1]

Positioning for inflation may add exposure to increased volatility in equities. When considering allocations in the current environment, we continue to advocate a barbell approach, balancing cyclical and defensive exposures – see theme 3 for more on building ballast with quality-titled equities.

Higher inflation is real, and we see it persisting through 2022.

Our wealth and institutional clients across EMEA are positioning for it now. Recent flows have reflected this focus: across alpha-seeking and index exposures, we've seen $73.4B added to inflation-linked bonds YTD, vs. $25.8B in 2020, and at an increasing pace.[2] Investors have also shown a strong interest in infrastructure, in part due to its role as an inflation hedge, as well as private markets.

Ivan Pascual
Head of EMEA iShares & Wealth Client Business

1 Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

2 Source: EPFR, as at 31 October 2021.

Figures are in US dollars, unless stated otherwise.

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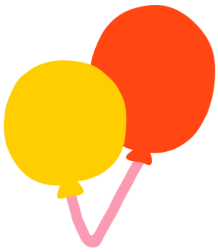
Inflation and rates



In a rising inflation environment, attention has turned to inflation-linked bonds and floating rate exposures. We remain overweight inflation-linked bonds, which offer a direct route to insulating portfolios from price pressures. We've seen demand from investors rise this year for shorter duration TIPS, which tend to be less sensitive than long-duration bonds during periods of rising rates, but our view of a structural shift to higher medium-term inflation means we prefer longer-dated inflation-linked bonds over their shorter-dated counterparts. This has been reflected in flows, with the vast majority of the $45.0B added to inflation-linked bond ETPs in 2021 going into longer duration and blended maturity products.[3]

As inflation helps push nominal yields upwards, shorter-maturity, interest-rate hedged or floating rate exposures can also help investors limit nominal duration risk. Floating rate bonds, which move in line with interest rates, may be a useful way to reduce rate volatility in fixed income allocations – particularly as we move into 2022, with the potential for a more volatile rate environment should central banks aggressively pare back ultra accommodative monetary policy.

Unconstrained funds step away from benchmark limitations in favour of a more flexible approach to portfolio composition, while maintaining the look and feel of a core fixed income allocation. Designed to perform in inflationary environments, these funds typically have the ability to go negative duration and take positions in floating rate assets, which may allow them to benefit from both heightened inflation expectations and subsequent central bank rate increases.

3 Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

Figures are in US dollars, unless stated otherwise..

Inflation sensitivity in alternatives

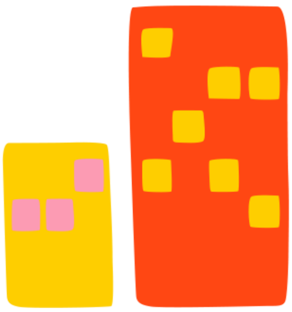
Exposure to alternative sources of return like real assets can help insulate portfolios for higher inflation, through indexed and alpha-seeking exposures, due to their potential as an inflation hedge. Appetite for real assets remains high, and we expect this to continue into 2022 – but selectivity and sourcing are key.

Infrastructure can serve as an effective hedge against price pressures, as well as a tool for portfolio diversification that may offer income in a still low-for-longer environment. On the equity infrastructure side, companies tend to offer a steady dividend yield. Infrastructure may also benefit from increased policy support in the US and Europe, following decades of underinvestment, growing populations and new investments required for the green transition.

We see real estate as a tool to address multiple portfolio challenges in the current environment. Firstly, as inflationary pressures persist, real estate can act as an inflation hedge, as rents tend to keep pace with inflation. Secondly, real estate may offer attractive, reliable income through dividends, which can help cushion against portfolio volatility. Real estate could also help investors diversify sources of returns, due to its low correlation to other asset classes. We continue to look to diversify diversifiers as low yields diminish the role of traditional sources of ballast, such as government bonds.

Inflation sensitivity in commodities

Gold has a role to play in a multi-asset approach to price pressures. Its relatively high resilience to inflation may help capital preservation over the longer term, and may be useful in the current environment if inflationary pressures prove more persistent. After a record 2020 for gold ETP flows, 2021 has been a muted year – registering -$9.6B of outflows YTD – driven by dollar strength.[4] Recently, we've seen outflows from gold begin to moderate, as some investors turn to the precious metal to help shield against volatility in rates and equities. Importantly, we see a bigger role for gold as a portfolio diversifier, given its sub 0.3 correlation to global equities – which draws closer to zero the longer it is held.[5]



4 Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

Figures are in US dollars, unless stated otherwise.

5 Source: BlackRock and Bloomberg, as at 3 December 2021. Correlation over a 5Y, 10Y, 15Y, and 20Y period.

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Theme 2

Cutting through confusion

A unique mix of events – the restart, new virus strains, supply-driven inflation and new central bank frameworks – could cause markets and policymakers to misread inflation. We keep the big picture in mind but acknowledge risks – to the upside and downside – around our core view.

Our *cutting through confusion* theme is about keeping the big picture in mind – but also acknowledging the risks around our base case. We've never had an economic restart like this. Add repeated, outsized data surprises to the mix – both to the upside and downside – and confusion is natural among policymakers and markets adapting to a new reality.

At the same time, central banks are implementing new frameworks that change how they react to inflation. The risks arising from new Covid-19 strains only add to the confusion. We cut through many possibilities to ask: What would it take for us not to be in this new market regime?

We see two key ways our new market regime view could be wrong. First, central banks might react differently. They could – in the face of persistent inflation pressures, perhaps tied to new Covid-19 strains – revert to their old response to inflation.

Our view – and the market's – of future Fed rate hikes is different from how the Fed might have reacted historically to the current mix of slack and inflation. Under the Fed's old policy framework - linking the policy rate to the rate of inflation and level of the output gap – we estimate they would have already started raising rates, which again helps to confirm this is a new regime.

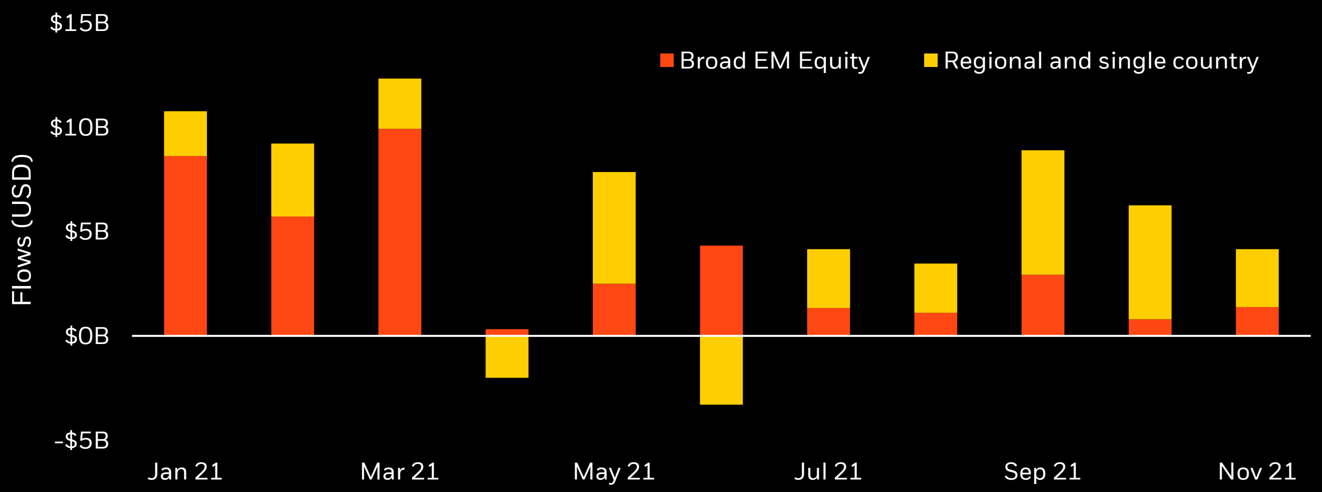
Central banks could also be forced to be more aggressive if inflation expectations become de-anchored. We would be faced with inflation significantly above target, rising interest rates, and falling growth: a classic stagflation scenario that is bad for both bonds and equities.

Second, we could be wrong about growth prospects. On the downside, perhaps a threat of repeated Covid-19 waves derails the restart – and leads to stagnation. Or on the upside, an investment and productivity boom could lift potential growth and keep the macro environment disinflationary.

The bottom line: we trim risk, and see two key ways to position for the wide range of potential outcomes beyond the restart: getting selective in high-conviction areas through precision exposures, and bolstering all-weather portfolio resilience. We've already seen a move towards greater granularity come through in ETP flows – as seen in the chart below.

Investors are taking a more granular approach

Global flows into emerging market (EM) equity ETPs, 2021 YTD



Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

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Selectivity in DM equities

While high valuations have weakened our conviction towards broad equity gains, we still favour stocks relative to fixed income. We are overweight developed market (DM) equities, which we prefer to their emerging market (EM) peers. However, heightened macroeconomic uncertainty underpins our more cautious risk outlook on DM equities, with selectivity key to generating returns. We have collapsed our preference for European over US stocks seen since midyear, and now prefer to diversify our DM equity exposure over both regions and Japan. However, it is worth noting that we've seen investor sentiment towards Europe strengthen this year, with inflows of $26.3B into global European equity ETPs YTD – nearly quadruple the $7.1B added across the whole of 2020.[6]

While risks remain around new Covid variants and rising cases, inflation uncertainty, and subsequent central bank action, we expect policymakers to lean into inflation. The persistence of low interest rates against elevated price pressures tilts our preference towards sectors that may be more resilient to inflation, including energy and financials.

Our constructive view on US and European financials is underpinned by strong fundamentals. We also expect to see a steeper yield curve in 2022 than markets are currently pricing, as rising inflation and continued fiscal spending in DM economies drive a revival in term premia. An ongoing reflationary backdrop is likely to offer tailwinds to economically sensitive businesses where investors may find idiosyncratic opportunities across a variety of consumer and industrial facing end markets. From an index perspective, banks may be a beneficiary if yield curves steepen and the default cycle remains benign. In the US, a muted central bank response to rising price pressures is evident, and a gradual rise in nominal yields continues to support our positive outlook.

Today, we're seeing investors take a whole portfolio approach to ETFs, with more uses than ever.

Investors have long been 'active' with index products, but today's whole portfolio approach to achieving investment outcomes has put selectivity at the centre. While broad exposures remain most popular, over a quarter of all equity ETP flows this year have gone into precision exposures. Levels are even higher in areas like EM equities, where differentiation is key: after a flat 2020, more than $28.3B has been added to single country and regional EM exposures in 2021 – some 41% of all flows into EM ETPs YTD.[7]

Jane Sloan
Head of EMEA ETF & Index Investments

6, 7 Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

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Selectivity in EM equities

Selectivity is key in emerging markets, where existing idiosyncrasies have been compounded by the pandemic and an uneven activity restart. We remain neutral EM equities, given more challenged restart dynamics and tighter policies vs. DM, and advocate selectivity through single equity market exposures. While geopolitical risks remain at play in EM Asia, we see opportunities in the region, which is further ahead in the pandemic restart, and looks better placed to support growth in 2022 versus global peers. There is a high level of dispersion across the continent, however, with valuations in China – which we advocate as a standalone allocation in portfolios – looking relatively attractive after coming under pressure across 2021, while Indian equities are at the opposite end of the valuations spectrum. Investors may express a view on China as a standalone allocation through a building block approach, allocating to EM ex-China and China separately. EM ex-China exposure also provides access to EM commodity exporters, which may continue to benefit from increased demand due to the structural shift to a greener economy.

Chinese assets

China's increasing regulatory clampdown in 2021 has spooked global investors – and put pressure on growth momentum. We believe stricter regulation will persist but is unlikely to intensify in the politically significant year of 2022, given slowing growth. We see Beijing gradually loosening monetary and fiscal policies – which remain tighter than in many DMs – to shore up growth, and view current market pricing as overly pessimistic. All this brightens the backdrop for Chinese assets modestly, in our view.

The US-China relationship remains confrontational, with seemingly little interest on either side to make any concessions. Yet we see the two countries seeking to lower the temperature in 2022 as both focus on domestic priorities.

We maintain our modest overweight to Chinese equities into 2022, as we continue to see the significant repricing and rise in risk premia in Chinese equities as overdone – leaving room for upside surprise – and believe investors are likely to be compensated for risk at current valuations. China is a distinct pole of global growth, and the Chinese consumer's role in driving that growth is set to increase over the medium term.

Chinese bonds continue to look attractive in a lower-for-longer income environment, and may boost portfolio diversification through exposure to the world's second-largest bond market. The exposure has also been a relative bright spot for EMEA investors in 2021: $9.2B has been allocated to EMEA-listed Chinese bond ETPs –surpassing the previous record of $6.2B set in 2020.[8]

8 Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

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Relative value in spread assets

We expect fixed income to remain under pressure from persistent inflation in 2022. Although we prefer to take risk in equities in the current environment, we see a more attractive investment case for high yield (HY) vs. investment grade (IG) credit: while we see limited scope for compression in HY spreads, we still find the carry attractive relative to IG, with EUR HY looking particularly well positioned. On a macro level, the ECB is likely to continue asset purchases for several years, while at a fundamental level, EUR HY may also be attractive when positioning for a changing rate environment. The exposure offers a lower duration profile vs. USD HY and IG credit, and may therefore be better suited should policymakers turn more hawkish, resulting in a sharp rate repricing.

We also see attractive relative value opportunities coming from local currency EM debt (LC EMD), and maintain a modest overweight into 2022. At the macro level, central banks across the emerging world have gotten a head start on the hiking cycle amid inflationary pressures – providing an opportunity for carry, and therefore further income. LC EMD may also benefit from its relatively short duration compared to hard currency EMD exposures, and may boost portfolio resilience as DM rates reprice. Inflows into EMD ETPs have been strong in 2021 YTD, with investors allocating \$15.2B globally, pushing 2021 ahead of 2020's total inflows (\$15.1B).[9] While China bond ETPs have dominated buying, outflows from broad EM LC EMD indicate light position, which could be beneficial for valuations.

EM corporates also tend to exhibit lower duration than hard currency sovereign exposures. We are overweight Asian fixed income: investors looking for credit exposure to China and Asia with a shorter duration, or to capture Asia's growth through an alternative building block to China bond strategies, may consider Asia ex-Japan IG corporate bonds, which could also provide an attractive source of yield.

EM FX in focus

Elevated uncertainty around the global economic outlook and central bank responses to inflation risks have kept the US dollar firm. Yet with market expectations for US policy rate increases looking fairly priced, chances of a renewed upside breakout for the dollar appear limited. Instead, a favourable nominal carry backdrop can continue to support LC EMD with the USD unlikely to act as a material headwind. The level of nominal EM FX carry is above the longer-term average, with inflation-adjusted rate differentials between EM and the US at similarly historically elevated levels. While developed market central banks can afford to stay behind the curve owing to ample reserve currencies, emerging markets cannot afford the same.

As a result, as emerging market central banks extend tightening cycles, high yielding FX should remain attractive. Positioning across EM local currency debt remains light, with bullish sentiment in the dollar at risk of unwind on a less-hawkish Fed. While a rise in the front-end of the US curve could yet dent risk sentiment, we remain of the view that the Federal Reserve is unlikely to turn materially hawkish, underpinning our expectation that more value can be unlocked in EM local currency debt.

9 Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

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Liquid alternatives

Alternatives may be well positioned for the expanded range of potential outcomes – and opportunities – created by current market trends. As we move past peak global restart, we expect the dispersion between winners and losers to increase. The core attributes of a successful alternatives allocation include the ability to seize durable sources of idiosyncratic returns, diversification across market regimes, and access to new markets and strategies tailored to investor needs.

Cash & short duration solutions

As investors look to build resilience in portfolios, we believe it makes sense to hold cash for operating purposes, to be ready to allocate to risk on any market turbulence, or as part of a core cash allocation holding off balance sheet.

Investors willing to take on slightly higher risk levels from their cash allocation in pursuit of higher yields may consider short duration bonds, including sustainable solutions.

Diversification may not fully protect you from market risk.

Navigating net zero

The journey to net zero is not just a long-term story – it's a now story. Supply shocks are here, and the tectonic shift toward sustainable investing is already playing out.

There is a popular notion that tackling climate change may lead to higher economic costs and inflation. We don't agree. Yes, the outlook would be better if climate change didn't exist. But that's not an option; climate change is real. A smooth net-zero transition, therefore, has to imply higher growth and lower inflation than any alternative, in our view. No climate action or a disorderly transition suggest lower growth and even higher inflation.

We believe the transition will be an ongoing driver of asset returns over coming years, thanks to the tectonic shift of capital to retool economies. Sudden divestment from carbon-heavy companies and sectors could be disruptive, adding to inflation pressures. Carbon-heavy companies changing business models to reduce emissions will also require capital. This – plus the huge investment needed in new technologies and clean energy infrastructure – may provide opportunities for investors.

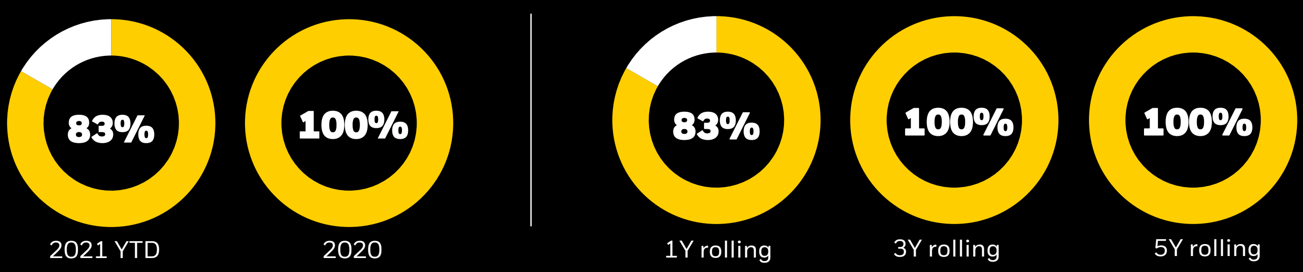
EM countries excluding China account for around a third of global emissions, making them essential to a successful global transition. But they lack the finance to pay for it.

We estimate EMs will need at least US$1T per year – more than six times current investment, as detailed in our recent publication. We believe the only way to mobilise the required private capital is through greater public sector financing by DM governments that can afford it. We see this as essential in the global transition.

The bottom line: looking to the green transition, we favour sustainable exposures across asset classes, and see quality-tilted equities like the tech and healthcare sectors as well-positioned. As investors increasingly build sustainable exposures into the core of their portfolios, they may not have to sacrifice in terms of performance – as seen in the chart below.

Sustainable outperformance transcends the business cycle

Percentage of ESG Enhanced indices that have outperformed vs. the parent benchmark



Index	Oct '16 - '17	Oct '17 – '18	Oct '18 – '19	Oct '19 – '20	Oct '20 – '21
MSCI World ESG Enhanced	17.61	11.55	0.49	13.69	29.54
MSCI EM ESG Enhanced	22.32	-0.33	-1.23	11.23	18.71
MSCI USA ESG Enhanced	17.19	18.01	2.06	20.40	30.82
MSCI Japan ESG Enhanced	15.12	10.55	-2.33	6.35	20.13
MSCI Europe ESG Enhanced	15.67	1.17	4.42	-4.64	28.05
MSCI EMU ESG Enhanced	22.25	-0.85	2.84	-4.74	29.77

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: BlackRock, Bloomberg, data as at 29 October 2021.

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Sustainability

An orderly net-zero transition may foster inflation – but not as much as a disorderly transition or no climate action at all. The journey to net zero is underway, and investors have taken note.

Interest in sustainable investing has been buoyed this year by strong societal and policy tailwinds. At the close of 2021, investors are also digesting the outcomes of the COP26 climate summit in Glasgow, with a crucial role to play for governments, corporates, and the financial sector.

Yet we must not underestimate the scale of the transformation: massive investments, changes to business models, and innovation will be required through 2022 and beyond. With $122.2B added to sustainable ETPs YTD, inflows in 2021 are already at 1.4x the record levels seen in 2020.[10] There is plenty of room to run, in our view, as the long journey to a net-zero economy is just getting started. We still see markets under-pricing the impact of these changes on asset prices, creating attractive longer-term opportunities.

Companies are telling us that E, S, and G issues are vital to their purpose, strategy, and financial resilience.

As a long-term investor on behalf of our clients, we're engaging with companies in sectors where sustainability factors pose the greatest risk to their investments. We're convinced that companies that act early to anticipate these risks will also be best positioned to capture associated growth opportunities at a time of significant transition.

Amra Balic
Head of BlackRock EMEA Investment Stewardship

10 Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**

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A quality tilt in equities

Quality-tilted equities may be well positioned to benefit from continuing structural trends in 2022, including the green transition. In equity style factors, sentiment has remained somewhat muted, with $6.0B allocated to quality ETPs YTD – well below the $24.1B allocated to value ETPs.[11] However, we've seen a stronger focus from investors on quality sector allocations. Investors continue to favour a barbell approach in equities, balancing cyclical sectors, particularly those with higher sensitivity to inflation (see theme 1 for more), with an almost equal focus on quality exposures such as technology.

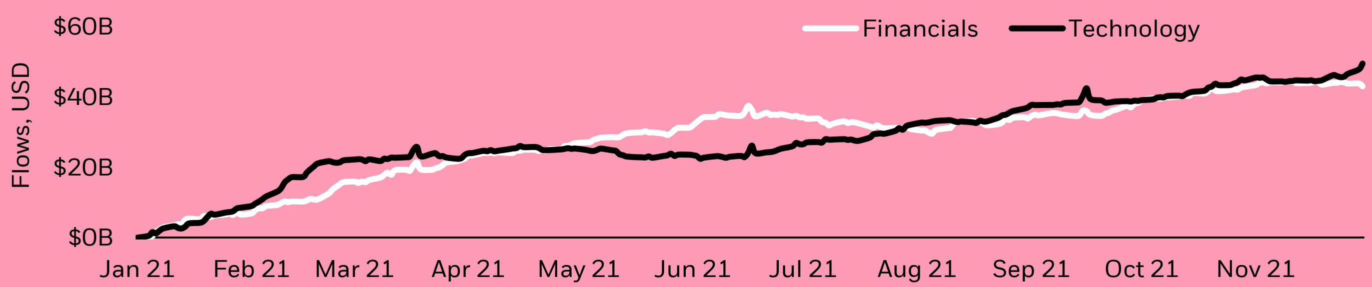
Technology ETPs have gathered $49.7B YTD, surpassing the $46.9B added in 2020.[12] We like the tech sector for its strong fundamentals, such as high free cash flow yield and return on equity, supported by structural tailwinds like increasing digitalisation – despite repricing of rate hikes and stickier inflationary pressures. Q3 earnings have also been supportive: the tech sector registered 41% YoY EPS growth in the US and 26% in Europe.[13] Investors may also consider further granularity in the tech sector; here, we prefer semiconductor exposure, due to structural demand from a diverse range of industries and increased policy focus from governments in strengthening manufacturing.

Among quality sectors, healthcare could also present opportunities. US healthcare bucked the trend of lower earnings growth among quality-tilted sectors in Q3, with higher EPS growth vs. Q2. This was largely due to pharmaceutical companies capturing revenue from the vaccine rollout, and pent-up demand for US medical devices. We see opportunities in medical device companies with exposure to elective procedures, which may continue to benefit as hospitals address the backlog accrued over the pandemic.

Balancing the barbell

We maintain our preference for selectivity in cyclicals as we move past peak growth, while adding balance to equity allocations through exposure to higher quality sectors at the other end of the barbell. Global ETP sector flows show this barbell approach in action: flows into financials ($43.0B) and tech ($49.7B) ETPs have been neck and neck over 2021, and more than double the levels for the next most popular sector.[14]

Cumulative global flows into tech and financials sector ETPs, 2021 YTD



Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.** Figures are in US dollars, unless stated otherwise.

11, 12, 14 Source: BlackRock and Markit, as at 3 December 2021. **Past flows into global ETPs are not a guide to current or future flows and should not be the sole factor of consideration when selecting a product.**
Figures are in US dollars, unless stated otherwise.
13 Source: Source: JPM research, as of 12 November 2021.

Risk warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

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