GMO
EVENT HIGHLIGHTS

DEPLOYING CAPITAL IN A BEAR MARKET

New Opportunities Created by Recent Market Volatility

Joe Auth, Ben Inker, John Thorndike, and Lucas White | July 20, 2022

OVERVIEW

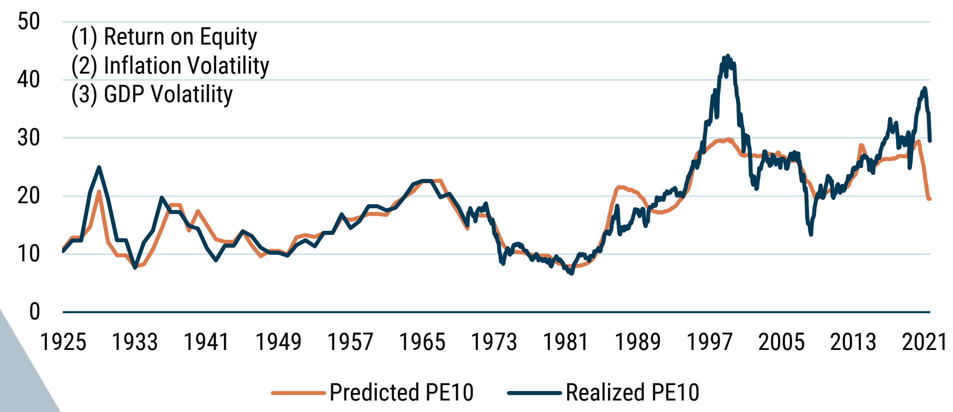
The first half of 2022 took investors on a wild ride as equities swooned and bonds got off to their worst year on record. Inflation, rising rates, hawkish central banks, and the possibility of recession led to an environment in which valuations once again mattered. In this webcast, we discuss these issues with GMO portfolio managers and their impact across multi-asset, bonds, and stocks. We provide an update of our top-down Asset Allocation views and positioning while also delving into the most compelling opportunities we see today, including High Yield and Resource equities.

KEY POINTS

- Investors prize high profits, stable economic growth, and inflation around 2%, paying higher multiples for equities when these conditions are met. A significant rise in inflation and economic uncertainty have weighed on valuations, but equities are certainly not cheap, and valuations have historically been cheaper when discomfort has been this high.

INVESTORS STILL SEEM TOO COMFORTABLE

Today we see the biggest deviation in GMO's Comfort Model since the internet bubble



As of 6/13/2022 | Source: GMO

- The range of outcomes remains wide for economic growth, earnings, and equilibrium interest rates. As such, we recommend building portfolios that are robust across potential outcomes rather than optimized for a specific set of assumptions.

Joe Auth
Mr. Auth is engaged in portfolio management for GMO's Structured Products team. Prior to joining GMO in 2014, he was a Portfolio Manager for the Harvard Management Company. Previously, he was a Research Director at Standish Mellon Asset Management. Mr. Auth earned his B.A. in government and history from the Connecticut College and his M.B.A. from the University of Connecticut. He is a CFA Charterholder.

Ben Inker
Mr. Inker is co-head of GMO's Asset Allocation team and a member of the GMO Board of Directors. He joined GMO in 1992 following the completion of his B.A. in Economics from Yale University. In his years at GMO, Mr. Inker has served as an analyst for the Quantitative Equity and Asset Allocation teams, as a portfolio manager of several equity and asset allocation portfolios, as co-head of International Quantitative Equities, and as CIO of Quantitative Developed Equities. He is a CFA charterholder.

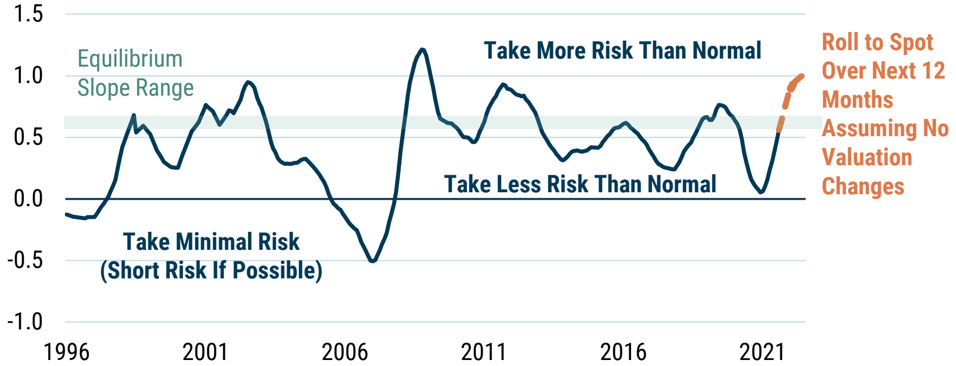
John Thorndike
Mr. Thorndike is co-head of GMO's Asset Allocation team. Prior to joining GMO in 2015, he was a managing director and Deputy CIO at The Investment Fund for Foundations. Previously, he was an analyst with TIFF. Mr. Thorndike earned his AB in Physics from Bowdoin College.

Lucas White
Mr. White is the portfolio manager for the Resources and Climate Change Strategies. He is a member of GMO's Focused Equity team and a partner of the firm. Previously at GMO, he was engaged in portfolio management for the Global Equity team, including responsibilities for the Quality, Tactical Opportunities, and U.S. Growth Strategies. Prior to joining GMO in 2006, he worked at Standish Mellon Asset Management and MFS. Mr. White earned his B.A. in Economics and Psychology from Duke University. He is a CFA charterholder.

- Significant declines in asset prices have, however, created a more compelling environment to take risk. We are judiciously adding to risk assets because we know value signals are most efficacious on a lagged basis. Should valuations stay constant from this point, we would expect to continue adding to attractively priced risk assets.

GETTING PAID CLOSER TO NORMAL TO TAKE RISK

Slope of the Risk/Return line - 12 month moving average returns of blended scenarios



As of 6/30/2022 | Source: GMO
The expectations provided above are based upon the reasonable beliefs of the Asset Allocation team and are not a guarantee. Expectations speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update such expectations. Expectations are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in the expectations above.

- We like Resources equities, which are cheap versus history and provide inflation sensitivity, and High Yield, which provides attractive yields over 8% and thus the potential to defend against higher rates and wider spreads. Furthermore, alpha opportunities are attractive within both asset classes.

RELATED STRATEGIES

Please click on the links below to access strategies related to this event.

- GMO Benchmark Free Allocation Strategy
- GMO Global Asset Allocation Strategy
- GMO High Yield Strategy
- GMO Resources Strategy

RELATED RESEARCH

Please click on the links below to access research related to this event.

- Investors Still Seem Too Comfortable...And That Makes Us Nervous
- Update on the Growing Bubble in Growth Stocks
- What Does 8% Yield Pay For?
- GMO Q1 22 Quarterly Letter