
WEISSHORN
ASSET MANAGEMENT SA

Investment Committee Q2

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1. Market highlights

- Despite all the various sources of risk and Investors concerns at the start of the year, Equity markets rebounded strongly during the first half of the year.

- Beware: the performance of certain indices, such as the S&P500, is misleading... not all components contributed equally... Big Tech, which embodies the future of AI, was the big winner at the start of the year.

- Japan's Nikkei225 index rose to a level not seen for over 30 years. Thanks to the automation of the Economy and renewed interest in this market following positive comments by Warren Buffet, Japanese equities are soaring.

- The hopes that Investors had pinned on China's reopening to the World economy are already fading. The recovery is more complicated than expected.

- Inflation continue to contract, but at a slower pace than expected.

- The job market is still robust, which is keeping inflationary pressures, especially in services.

- In the US, long rates are trending sideways, while short rates are following the Fed's rate hikes, keeping yield curves inverted. Spreads 10y - 2y and 10y - 3months are at record levels.

- The failure of some US Commercial banks and the forced takeover of Credit Suisse by UBS, could have plunged the global Economy into a deep recession. The quick and effective reactions of Central Banks have prevented the worst, for the time being...

1. Market highlights

- Rising interest rates and recent bank failures have tightened credit conditions. This has inevitably had repercussions on the Real Estate market and on highly indebted companies/individuals. Despite this, credit spreads are not soaring for the time being.

- Western Central Banks are sticking to their roadmap and maintaining a restrictive monetary policy. Rate hikes should come to an end by the end of the year, but according to recent comments by Mr. Powell and Mrs. Lagarde, rates are likely to remain high for a long time.

- On their side, Asian central banks (BoJ and PBOC) remain accommodative.

- Risk premiums linked to the war between Ukraine and Russia have been significantly reduced, even though the conflict is far from over. Recent events could sparkl volatility in case of the fall of the "Tsar"…

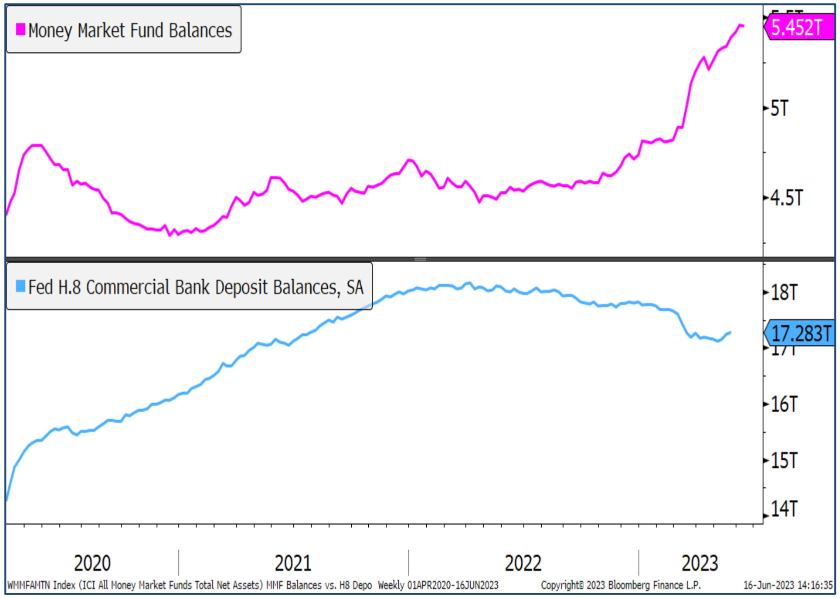
- The horizon for the Economic cycle has not really brightened. The risks of Recession have not disappeared. The negative effects of restrictive monetary policies are likely to be felt in the Economy in the 2nd half of the year and in 2024.

2.1 Banking Sector

- Following JP Morgan's takeover of First Republic Bank, the stress on the US banking sector eased somewhat.

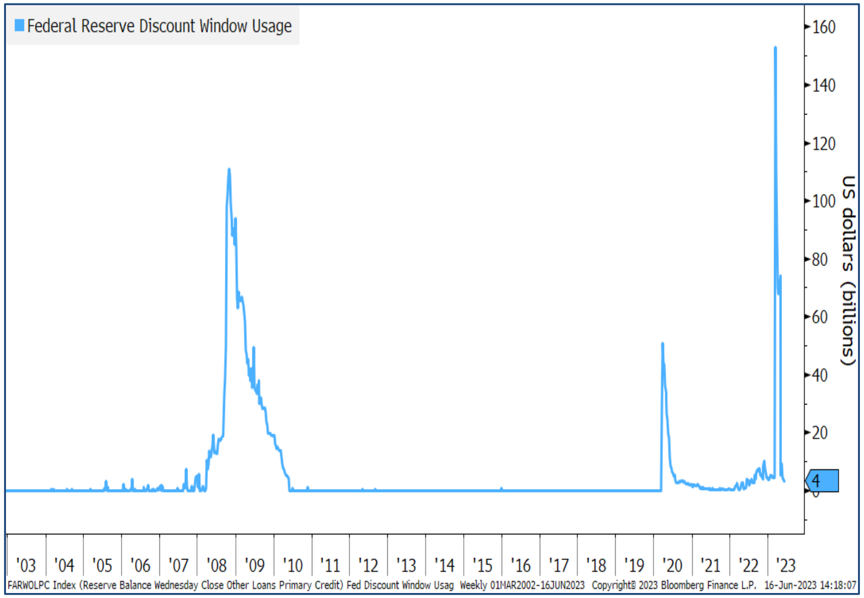
- Although deposits in Money Market funds are at an all-time high, withdrawals stopped and banks no longer need to use the emergency credit line set up by the FED.

Money Market vs Bank Deposit



Source: Bloomberg

FED Discount Window



Source: Bloomberg

2.1 Banking Sector

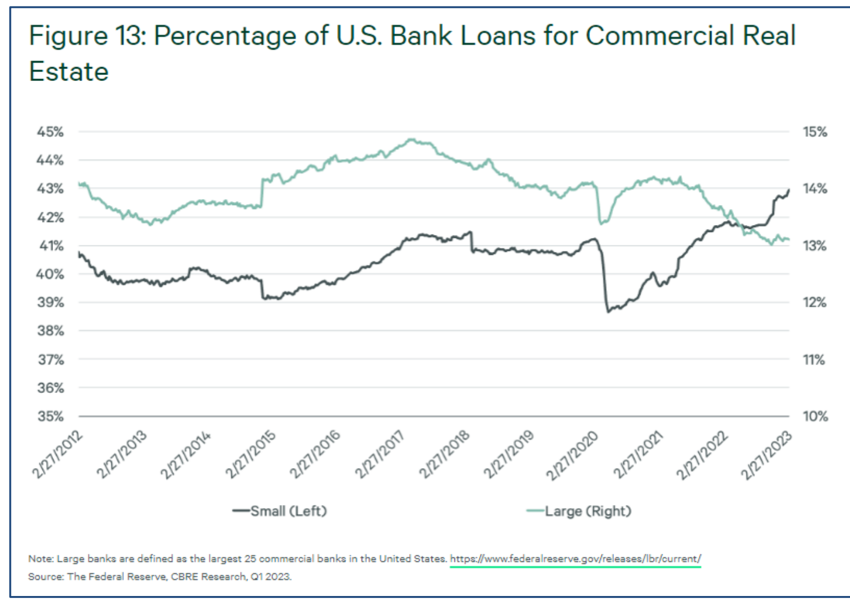
- As stress in the sector eased, regional banks saw their prices recover from their May lows.

- However, certain pockets of risk remain. One of the biggest fears for the sector stems from exposure to commercial real estate, which is predicted to be the next sector to go through a crisis. Small banks account for 43% of total commercial real estate loans in the US.

ETF US Regional Bank

Source: Bloomberg

US Bank Loan for CRE



Source: Bloomberg

2.1 Banking Sector

- Although fears persist about the relationship between banks and real estate, the exposure of regional banks remains very low compared to their total lending. On average, these loans represent only 2% of their total book.

- Their loan-to-value ratios are mostly below 60%, giving them a thick cushion in the event of a real estate slump.

US Bank CRE Loan Exposure

Balances in millions	Office CRE Exposure ($) Balance	As a % of Total Loans	Loan-to-Value	Comments
Bank OZK	1,932	9%	≤65%	Updated office appraisals in 1Q indicate LTV only increased 3%
Citizens	6,282	4%	~60%	Class 'A' office reflects 57% of exposure
Comerica	553	1%	~50%	Most of office exposure was to suburban geographies
East West	2,377	5%	52%	No property type comprises more than 10% of the CRE book
Fifth Third	1,607	1%	N/A	Class 'A' office represents 70% of non-owner occupied office exposure
First Citizens	2,837	2%	N/A	44% of office CRE book scheduled to mature in 2026 and beyond
Huntington	2,068	2%	N/A	Office exposure is predominately suburban and multi-tenant
KeyCorp	950	1%	N/A	Class 'B/C' office comprises 13% of total exposure
M&T	5,150	4%	56%	75% of portfolio matures in 2025 or later
NY Community	3,420	4%	56%	Primarily class 'A/B' with no delinquencies or NPLs as of 1Q23
PNC	8,880	3%	55% - 60%	44% of office exposure to suburban market types, followed by central business districts at 29%
Regions	1,792	2%	58%	Office consists of 85% class 'A' and 17% class 'B' in terms of secured loan commitments
Truist	5,151	2%	~60%	Class 'A' office comprises about 60% of exposure
U.S. Bancorp	7,171	2%	N/A	Adjusted NCO rate on CRE was 19 Bps in 1Q23
Western Alliance	2,514	5%	<55%	Largely suburban exposure in "Work from Home" MSAs
Zions	2,193	4%	56%	Excercised CRE discipline with loan growth lagging peers over the past five years
Median		2%	56%	

Note: FITB office exposure reflects just non-owner occupied CRE. MTB Office LTV reflects investor-owned CRE properties.
OZK Office LTV reflects RESG portfolio absent of one credit at 85% and another at 84%

Bloomberg

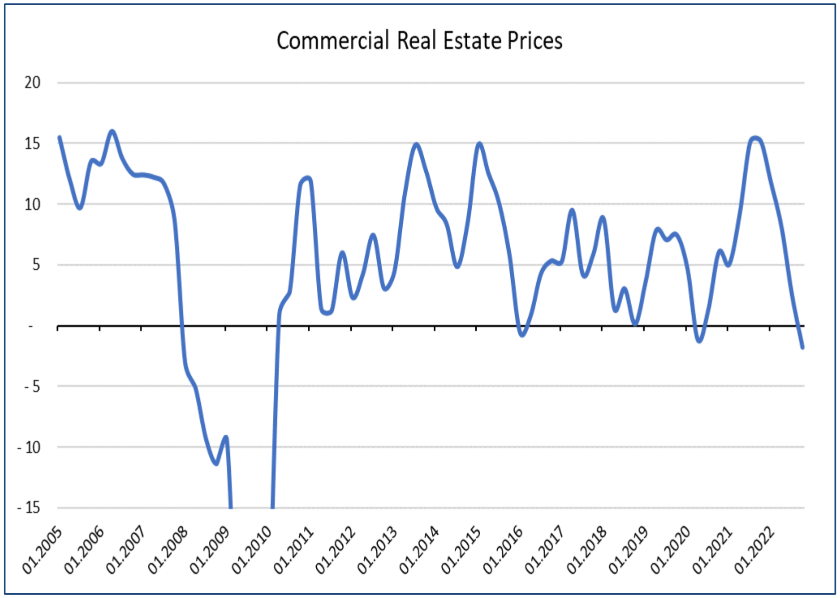
Source: Bloomberg

2.2 Real Estate Sector

- According to a number of indicators, real estate prices, both commercial and residential, began to fall several months ago. In cities such as San Francisco and Seattle, homes are trading more than 10% below their all-time highs.

- The rise in interest rates, which has been going on for over a year now, and changes in behavior due to COVID, are the main causes of this drop in prices.

CRE Price YoY



Source: FRED

Case-Shiller US Home Price

@CharlieBilello — Case-Shiller US Home Price Indices (as of March 2023) — Data: YCharts

City	1-Year %	3-Year %	5-Year %	10-Year %	15-Year %	20-Year %	All-Time High Date	Months From High	% Below All-Time High
Miami	7.7%	60.3%	72.7%	155.4%	90.7%	170.3%	7/31/2022	8	-1.2%
Tampa	4.8%	61.1%	78.8%	160.7%	99.3%	170.1%	7/31/2022	8	-2.9%
Charlotte	4.6%	50.4%	65.0%	114.0%	92.0%	136.8%	7/31/2022	8	-1.3%
Atlanta	4.5%	46.1%	59.7%	127.9%	80.6%	97.5%	7/31/2022	8	-0.7%
Chicago	4.0%	28.0%	31.7%	62.3%	20.3%	43.9%	3/31/2023	0	0.0%
New York	3.3%	33.6%	37.7%	67.2%	37.3%	81.6%	6/30/2022	9	-1.2%
Cleveland	2.0%	32.0%	43.4%	67.4%	57.1%	52.6%	8/31/2022	7	-0.8%
Detroit	1.1%	30.4%	40.0%	102.4%	73.9%	45.4%	5/31/2022	10	-0.9%
Boston	0.8%	32.8%	44.0%	90.6%	87.1%	100.1%	6/30/2022	9	-2.7%
Minneapolis	0.5%	25.0%	36.3%	80.2%	56.5%	62.6%	6/30/2022	9	-1.2%
Washington	-0.3%	25.3%	33.7%	55.3%	44.9%	100.7%	5/31/2022	10	-2.0%
Dallas	-1.2%	46.2%	54.7%	129.9%	134.9%	151.2%	6/30/2022	9	-5.9%
Los Angeles	-3.0%	35.0%	42.3%	109.9%	88.4%	163.6%	5/31/2022	10	-5.3%
Denver	-3.6%	34.7%	45.4%	122.5%	135.7%	143.9%	5/31/2022	10	-6.1%
Phoenix	-4.5%	51.7%	74.3%	136.4%	83.3%	159.5%	7/31/2022	8	-8.4%
Portland	-4.6%	28.7%	38.1%	114.1%	78.2%	172.6%	5/31/2022	10	-6.3%
Las Vegas	-5.1%	35.0%	52.3%	146.7%	57.7%	115.5%	6/30/2022	9	-9.0%
San Diego	-5.4%	45.0%	54.0%	130.6%	107.8%	142.5%	5/31/2022	10	-7.1%
San Francisco	-11.3%	22.6%	28.2%	113.7%	94.8%	132.9%	5/31/2022	10	-12.9%
Seattle	-12.5%	30.7%	41.1%	135.0%	91.2%	193.3%	5/31/2022	10	-13.6%
20-City Index	-1.2%	35.6%	44.1%	100.0%	72.5%	116.9%	6/30/2022	9	-4.2%

Source: Charlie Bilello

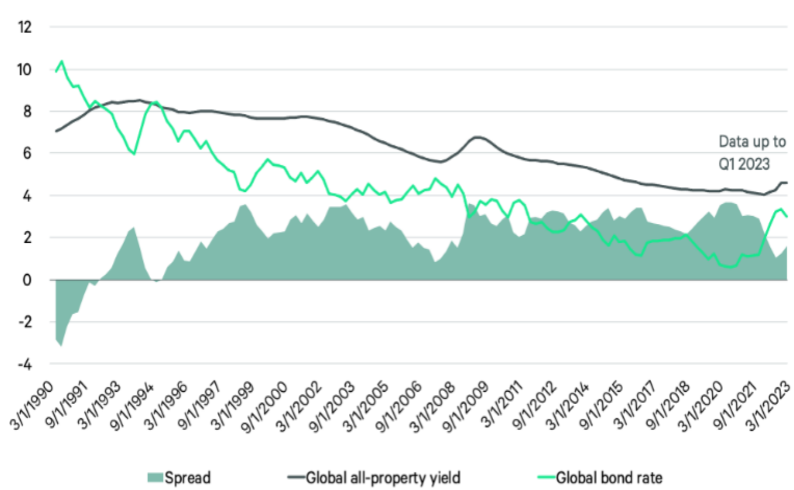
2.2 Real Estate Sector

- In the US and Europe, real estate investments for 2023 and 2024 are expected to be well below the levels seen between 2021 and 2022.

- This investment slowdown in the sector is explained by the lack of financial attractiveness of new real estate projects. With rates at 5.25% in the US and 3.50% in Europe, project yields have fallen drastically. Plus, risk-free yields have reached levels that call into question the opportunity cost between government bonds and real estate projects on a risk/return profile basis.

Property Yield vs Bond Yield

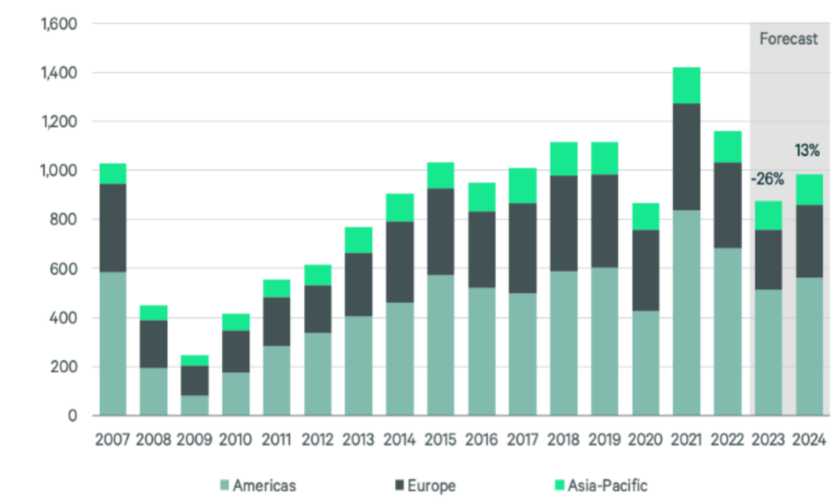
Figure 17: All-Property Yield & Global Bond Rate Spread



Source: CBRE.com

Real Estate Investments

Figure 16: Global Real Estate Investment Volume ($ Billions)

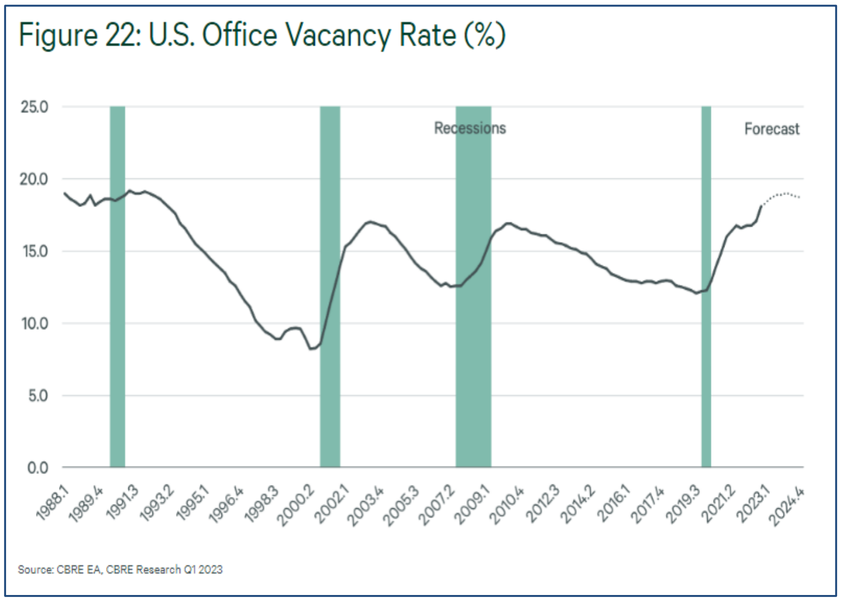


Source: CBRE.com

2.2 Real Estate Sector

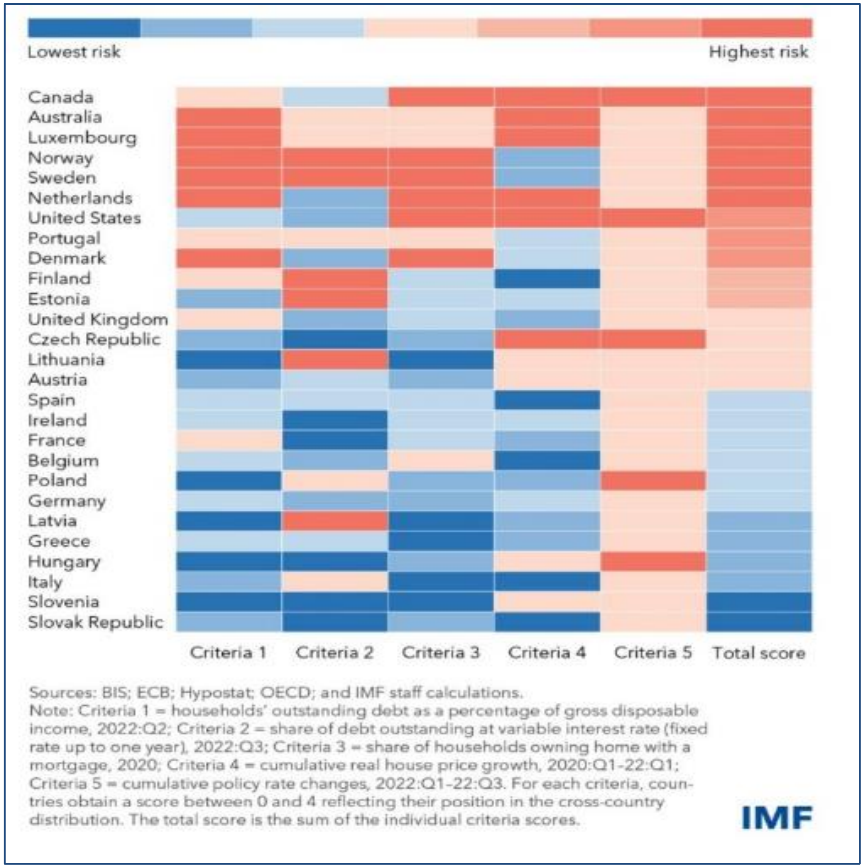
- Since COVID, many professionals have started working from home. This new habit means that office spaces are gradually emptying out. In the US, the vacancy rate has already reached higher levels than at the time of the GFC, and is set to continue rising over the coming months.
- The IMF also sees certain risk clusters that could lead to a crisis in residential real estate, mainly in North America and North Europe.

US Office Vacancy Rate



Source: CBRE.com

IMF Real Estate Crisis Risk



Source: IMF

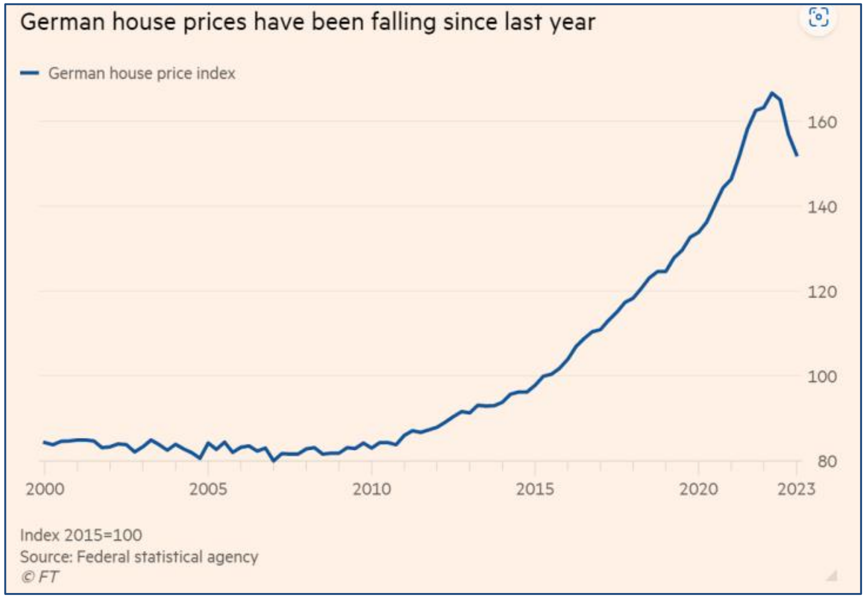
2.2 EU Real Estate Sector

- The European real estate market is also under pressure from higher interest rates. Property prices, which have been rising steadily in recent years, have finally begun to normalize in all sectors. According to the European Real Estate Market Value Indicator, after reaching record prices at the end of last year, the trend has reversed and commercial properties are trading at more reasonable prices.
- In Europe's largest economy, real estate has been correcting for several months now. Many of the companies active in the sector are suffering and selling off assets in order to stabilize their balance sheets and manage their debt. Since the start of the year, prices have fallen by almost 7%.

EU Real Estate Faire Value Index

Source: Wakefield Research

German House Prices



Source: FT

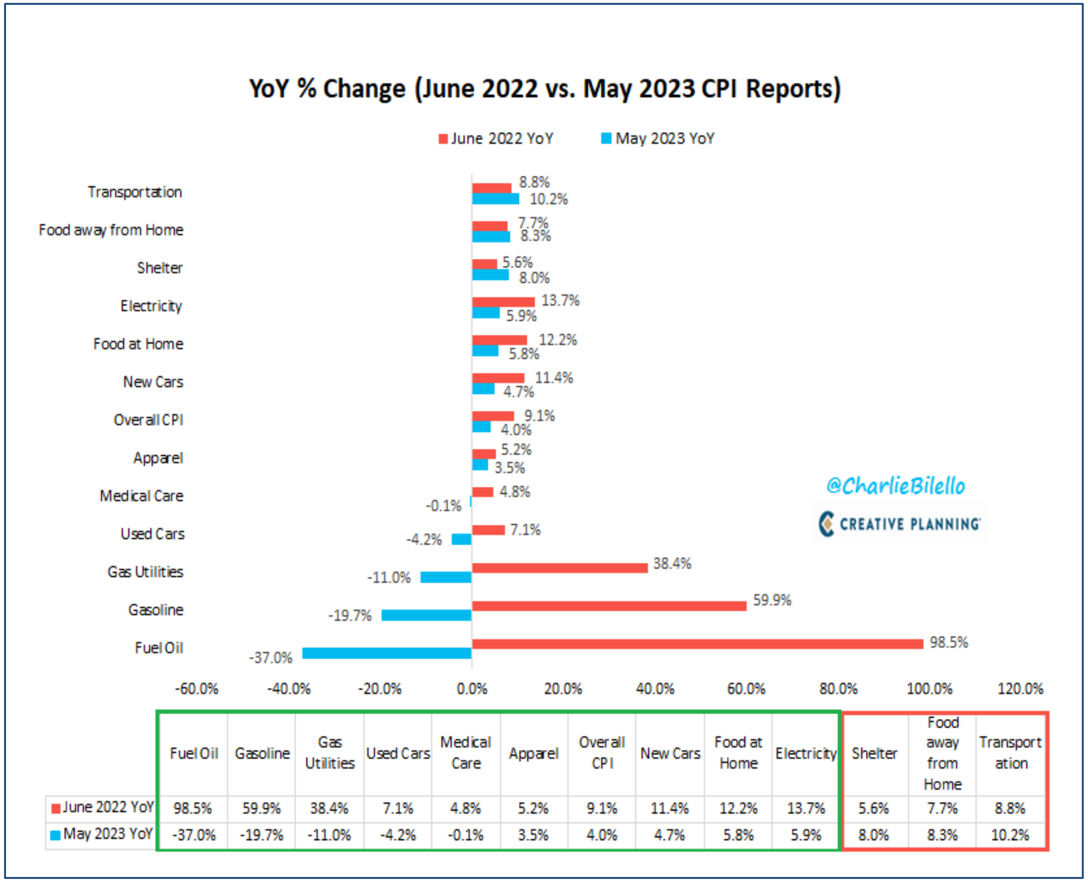
2.3 Inflation

- Real estate is also a problem in terms of inflation. The cost of housing, which accounts for around a third of the price basket in the US, is up 8% over the last 12 months. In June 2022, this figure stood at 5.6%. This increase in price is mainly due to the tightening of the monetary policy.

- Other products have also seen an acceleration in prices. Although energy prices have normalized and supply chain problems are less acute, inflation in the transport sector rose by 10.2%.

- Prices in the restaurant sector rose by 8.3% compared to 7.7% last year. This was due to higher food prices and the passing-on of wage increases in this sector.

Inflation Breakdown YoY



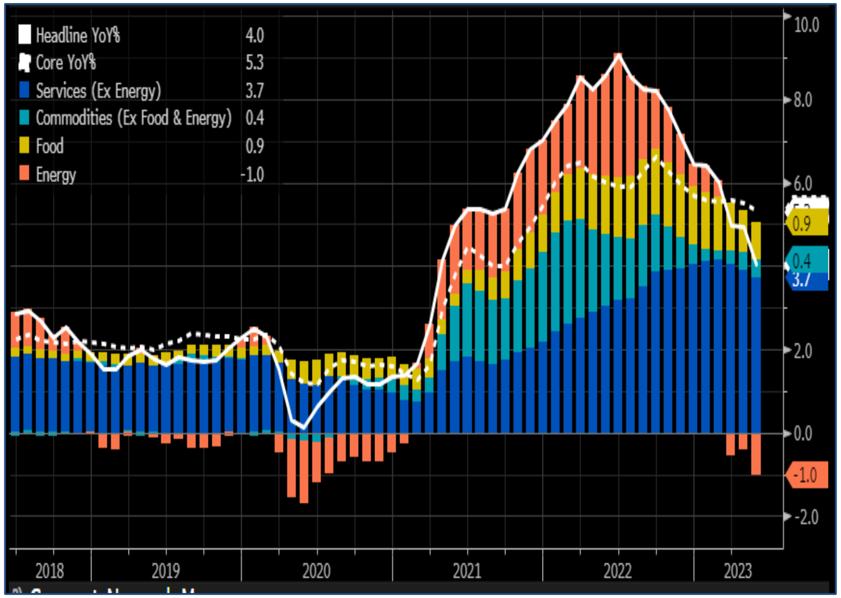
Source: Charlie Bilello

2.3 Inflation

- Last year, energy prices were one of the main factors driving up overall prices. Today, these prices have fallen drastically, helping to bring down inflation. The normalization of commodity prices in recent months has also helped to slow the pace of inflation.

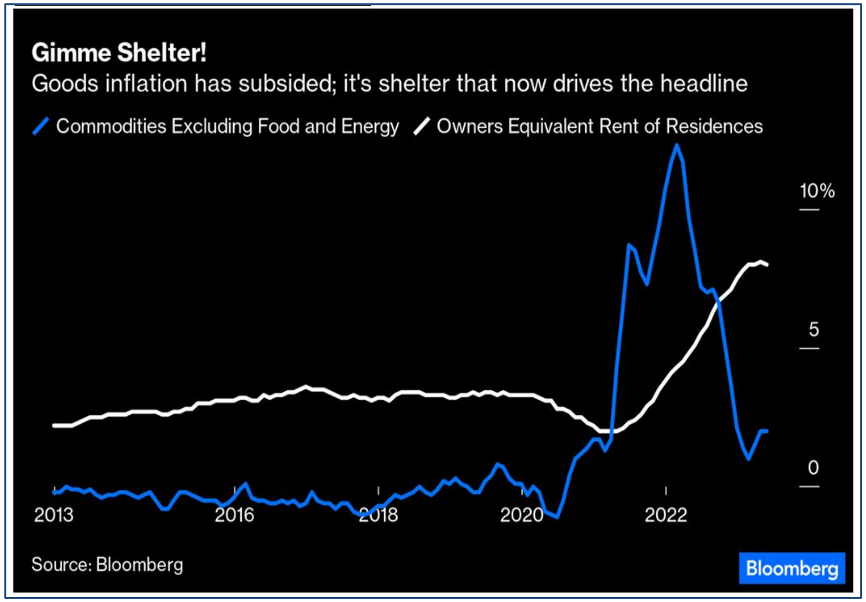
- However, Core inflation remains too high compared with the central banks' target. For a sustainable return to 2% levels, shelter costs must stop rising.

US Inflation



Source: Bloomberg

Core Inflation & Rent



Source: Bloomberg

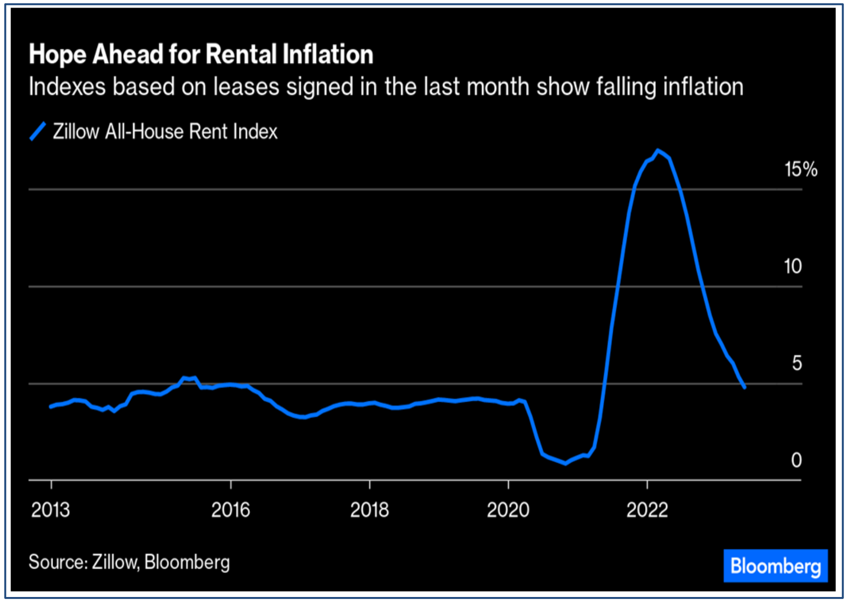
2.3 Inflation

- Some inflation indicators, which are less lagging than those used to calculate house prices, are already showing signs of returning to normal.

- The indicator for leases signed last month peaked several months ago and is now below 5%. This decline should continue over the next few months.

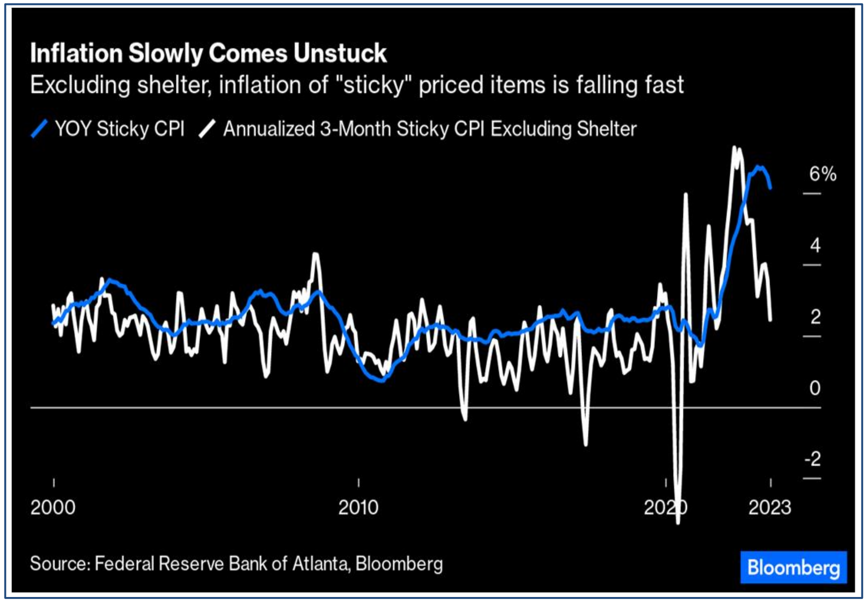
- The 3-month rolling sticky annualized price indicator is also falling, and will soon be back towards the central banks' target.

Last Month Rent Inflation



Source: Bloomberg

Sticky Inflation



Source: Bloomberg

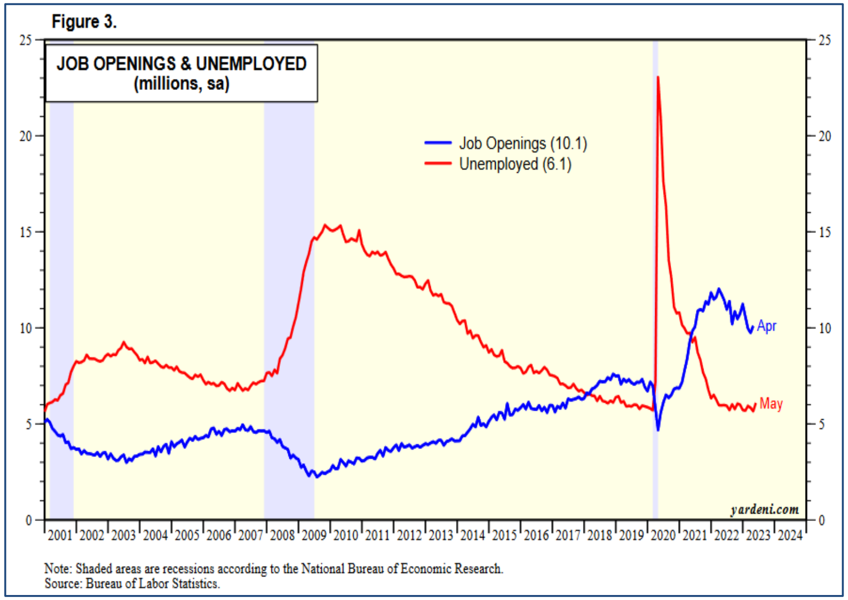
2.4 US Labor Market and Consumption

- The labor market remains extremely tight. The number of job openings still far exceeds the number of people looking for a job.

- However, the number of job offers has been falling for several months now, across all sectors. Although some sectors are finding it harder than others to reverse to their historical trend.

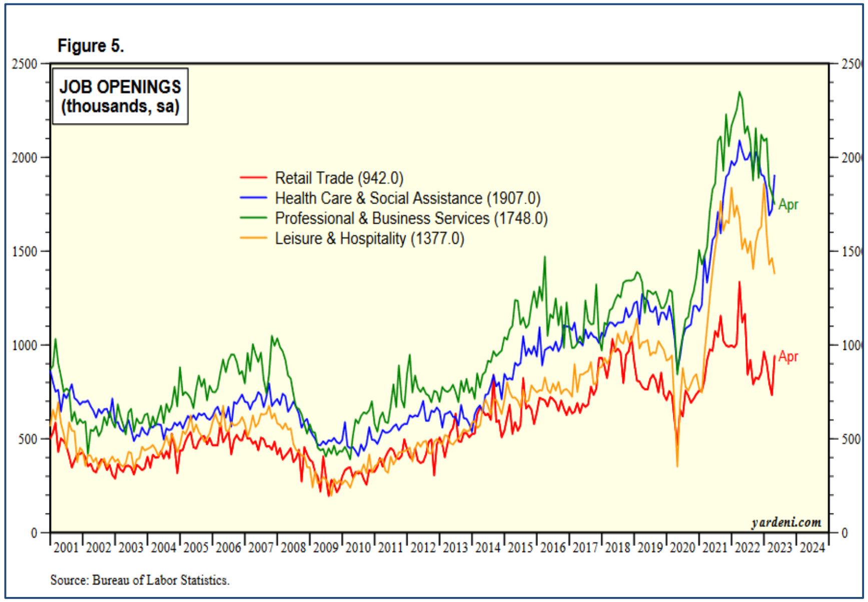
- We must also take into account the fact that it costs companies nothing to post job offers online, so these figures may be artificially high due to this factor.

Job Openings vs Unemployed



Source: Yardeni

Job Openings by Sector



Source: Yardeni

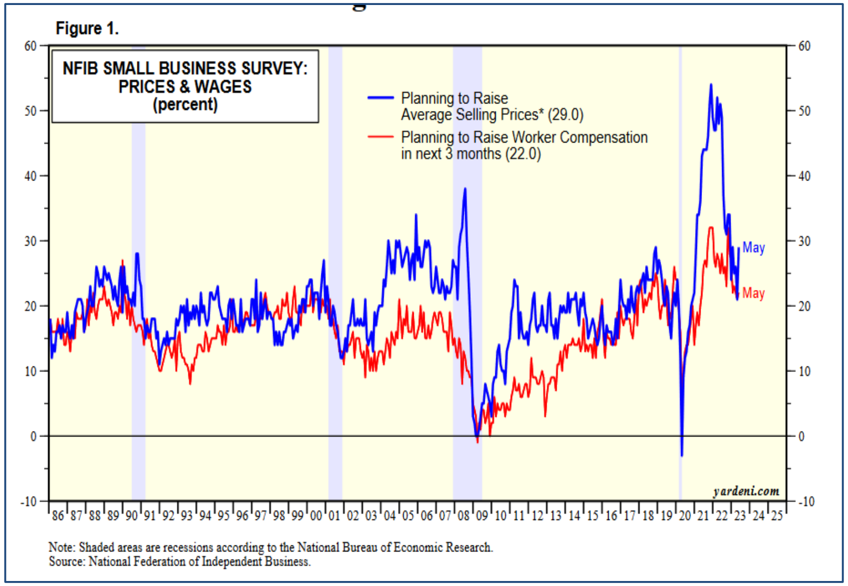
2.4 US Labor Market and Consumption

- Such a tight labor market is a source of concern for central banks. They fear that the economy will enter a downward spiral of higher wages, which in turn will lead to price rises.

- However, according to the latest surveys, fewer and fewer SMEs are planning to increase their employees' wages or raise the prices of their goods and services. If this trend continues, the economy should be able to avoid this spiral.

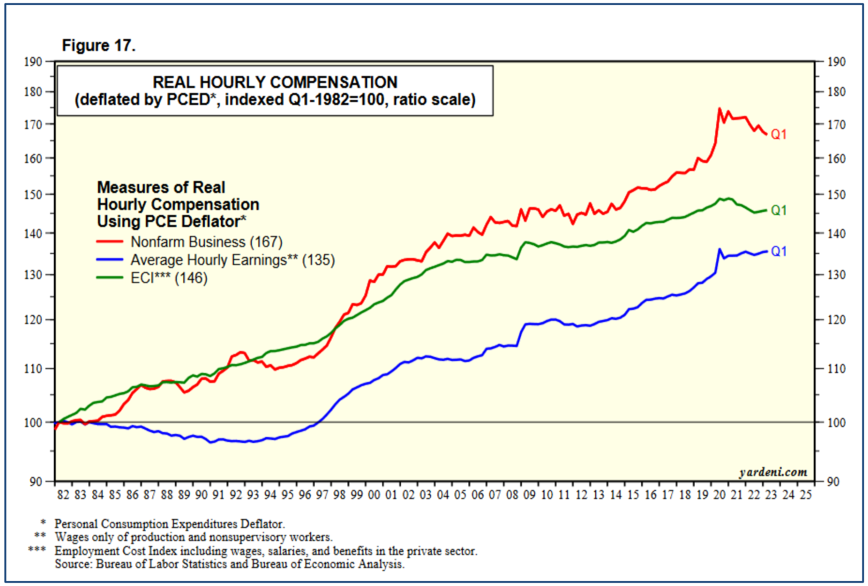
- Although wages are higher, the pace of price rises means that consumers' purchasing power has diminished. This trend therefore indicates that, once COVID's savings are exhausted, consumption should normalize and pressure on prices ease.

SME Planning to Raise Salary & Prices



Source: Yardeni

Real Hourly Compensation



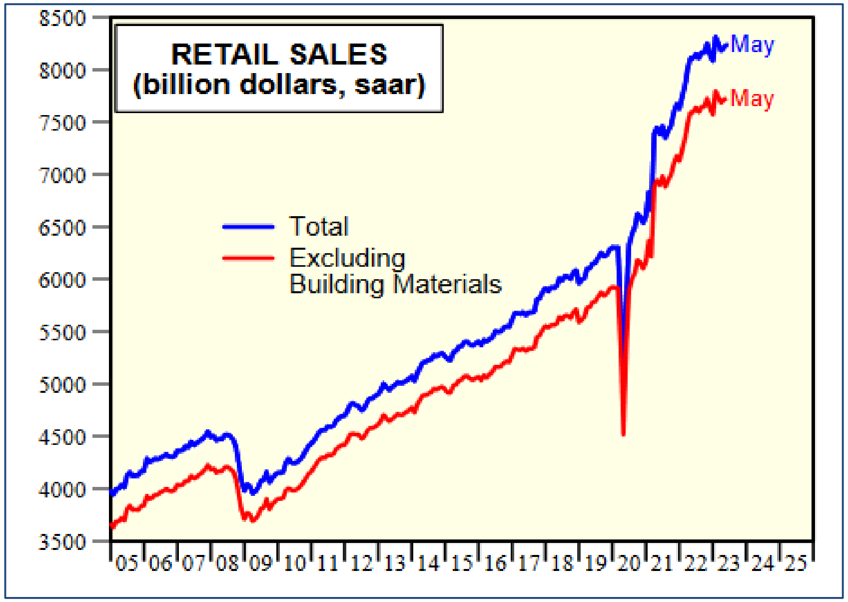
Source: Yardeni

2.4 US Labor Market and Consumption

- The catch-up effect after the health crisis very quickly enabled retail sales to return to their long-term trend and well beyond. This "new" trend is unsustainable and should begin to slow over the coming months.

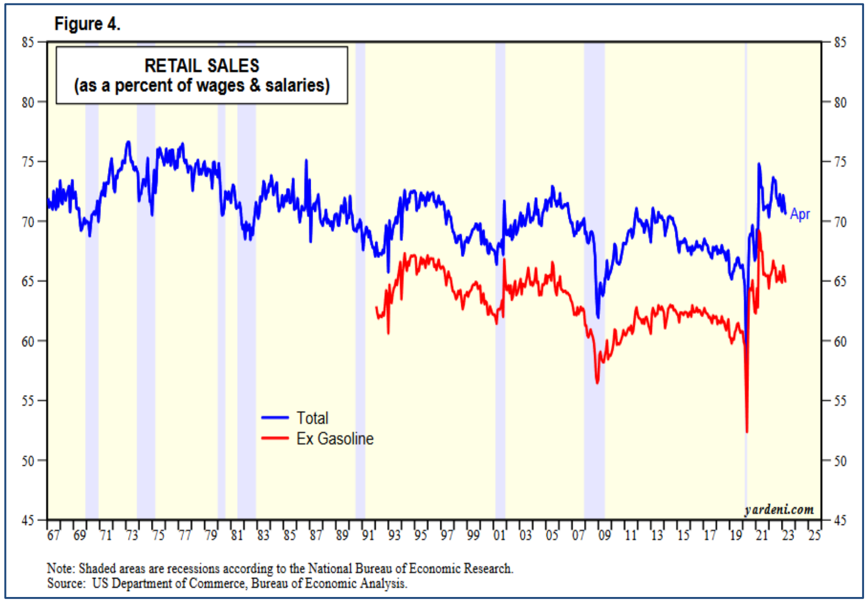
- Household spending as a proportion of income has risen sharply since the COVID, and is now well above the levels of the previous decade. When consumers will start saving again, this indicator and retail sales growth will fall, once again easing pressure on prices.

Retail Sales



Source: Yardeni

Retail Sales as % of Wages



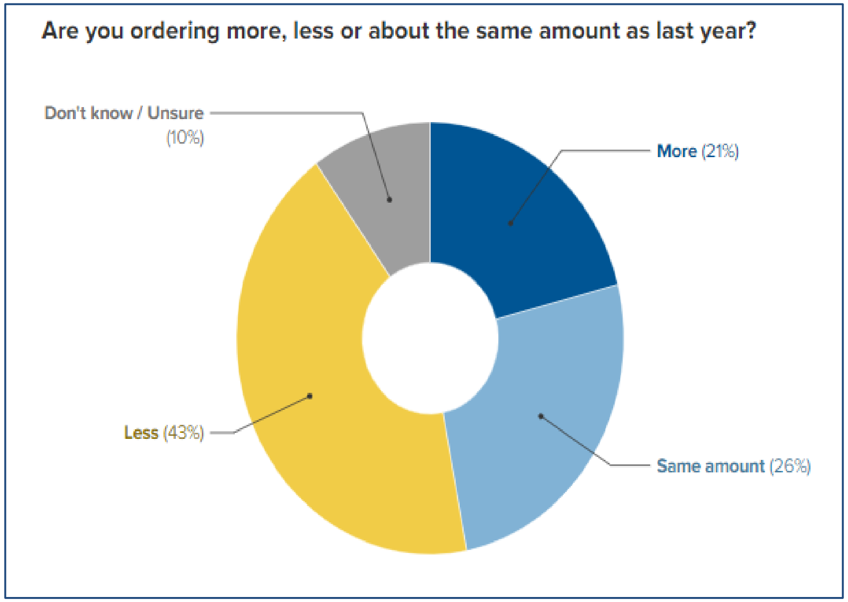
Source: Yardeni

2.4 US Labor Market and Consumption

- We can already see changes in household consumption habits. Over 43% of households say they are consuming less than last year. For 26%, they are consuming the same and only 21% say they are consuming more. This clearly demonstrates a slowdown.

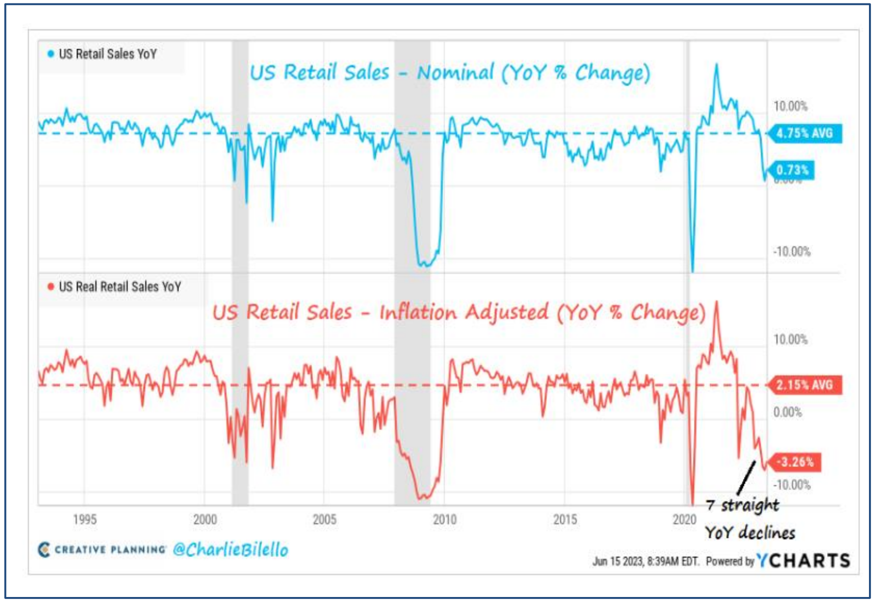
- These changes in habits are already reflected in the growth of retail sales in nominal and real terms. In real terms, growth has been slowing for over 7 consecutive months, with negative growth of around -3.2% YoY.

Consumption Trend



Source: CNBC / Charlie Bilello

Real Retail Sales



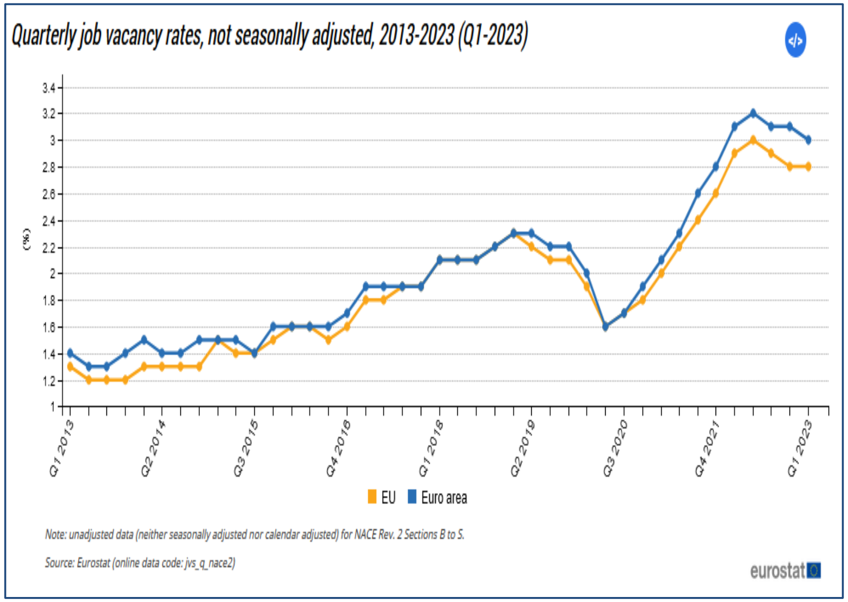
Source: Charlie Bilello

2.4 EU Labor Market and Consumption

- The situation is the same in Europe as in the US, unemployment is at an all-time low, while the number of job openings has remained at historically high levels for several months now.

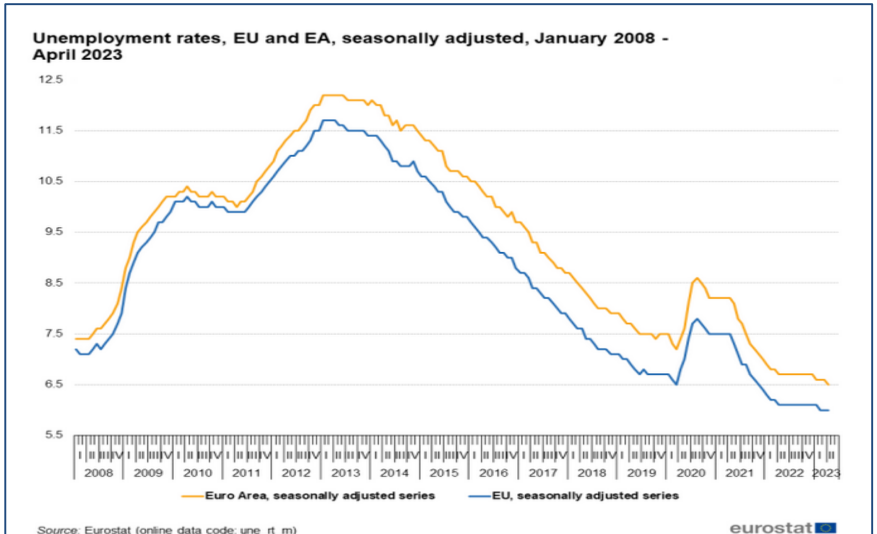
- This pressure on the job market is leading to wage increases, which could fuel inflation. However, the effects of the ECB's rate hikes are yet to be felt, and will certainly lead to an economic slowdown that will ease the pressure on wages.

EU Job Vacancy



Source: Eurostat

EU Unemployment



Unemployment rates, EU and EA, seasonally adjusted, January 2008 - April 2023

Source: Eurostat (une_rt_m)

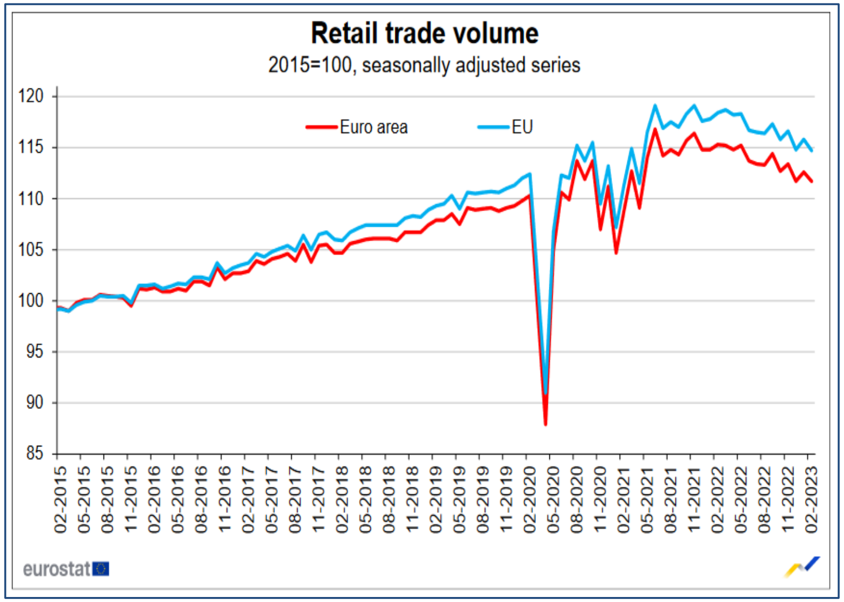
Source: Eurostat

2.4 EU Labor Market and Consumption

- Here too, rising wages are not enough to offset rising prices. Moreover, consumption in volume terms peaked in 2022 and has continued to fall almost every month since.

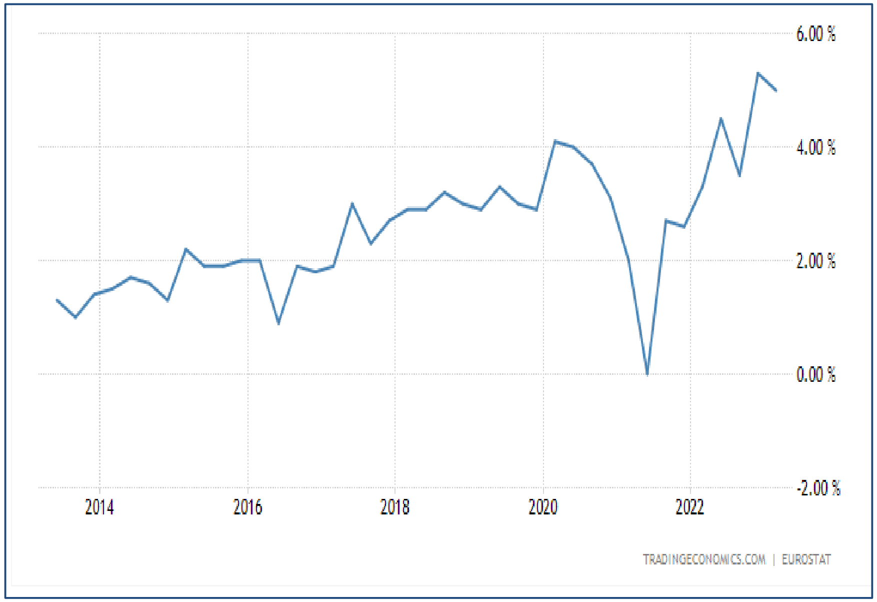
- This drop in consumption is evidence that signs of an economic slowdown are clearly beginning to show.

EU Retail Trade



Source: Eurostat

EU Wage Growth

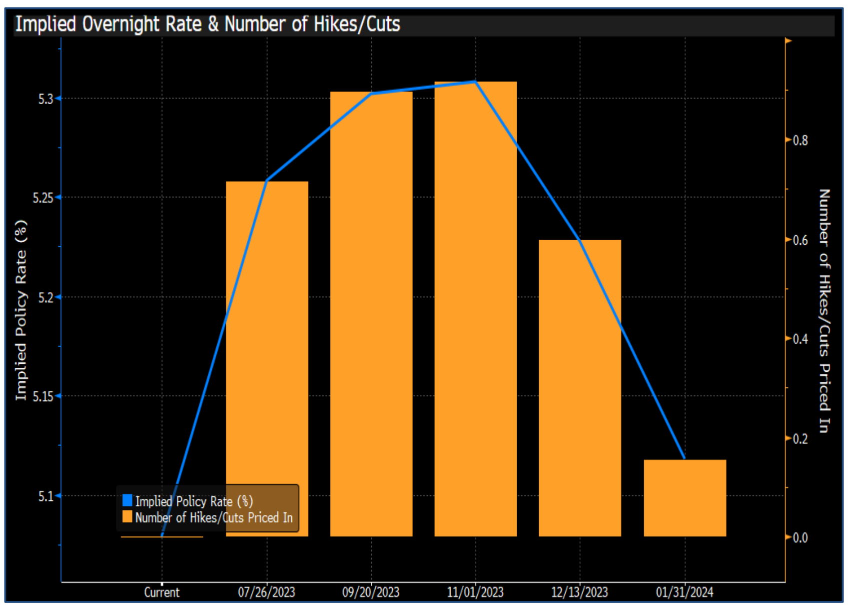


Source: Tradingeconomics

2.5 Central Banks : US

- Although many indicators are showing signs of a slowdown in inflation, the tone of central banks remains hawkish. Their message remains that, according to their forecasts, inflation will remain too high for too long, and so more tightening will certainly be needed.
- The Fed paused in June to allow time to assess the effects of its monetary policy. It did, however, announce that a rate hike was almost certain for July. Moreover, the June Dot Plot shows that FED members expect rates to be at 5.6% by the end of the year, i.e. 2 rate hikes higher than current levels. However, the market isn't buying it, and is pricing in just one more rate hike.

Implied US Rate Hike



Source: Bloomberg

FED Dot Plot

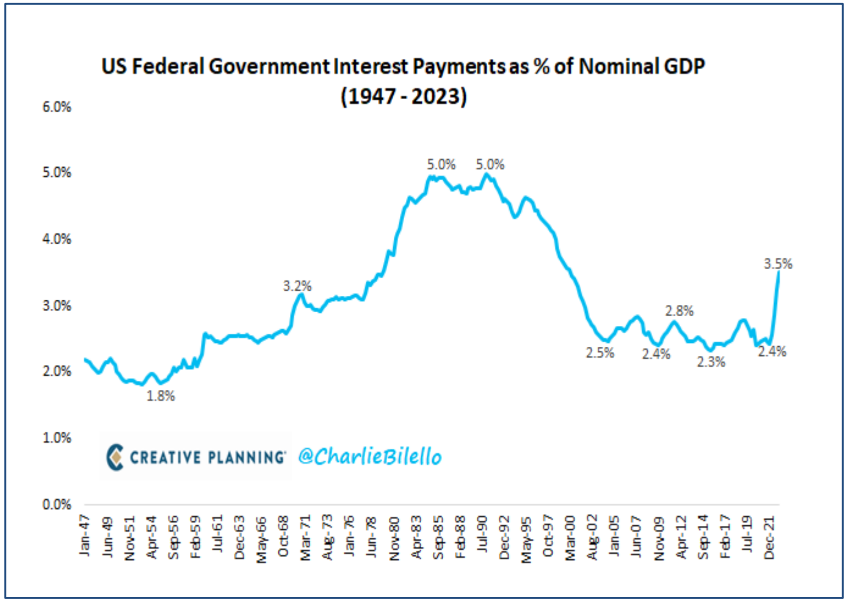
Source: Bloomberg

2.5 Central Banks : US

- Higher rates mean higher costs for the state. Indeed, since the beginning of the central bank's monetary tightening, government interest payments have risen from 2.4% of GDP to 3.5%, representing a 45% increase in charges relative to GDP.

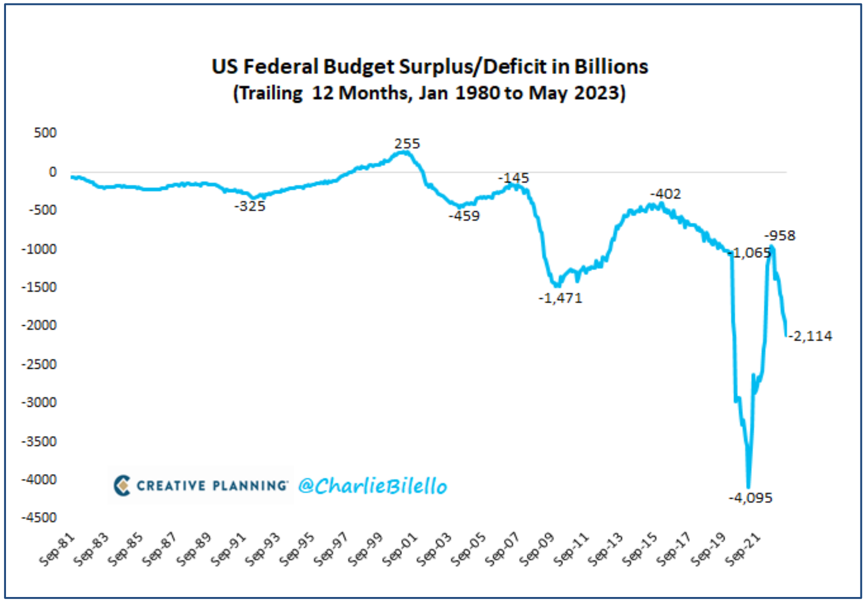
- The debt ceiling is a source of tension in the US. If, in addition to maintaining a deficit fiscal policy, the government sees its interest payments increase, it will have to cut spending in the medium term in order to maintain investor confidence in government debt management.

Interest Payment as % of GDP



Source: Charlie Bilello

US Deficit



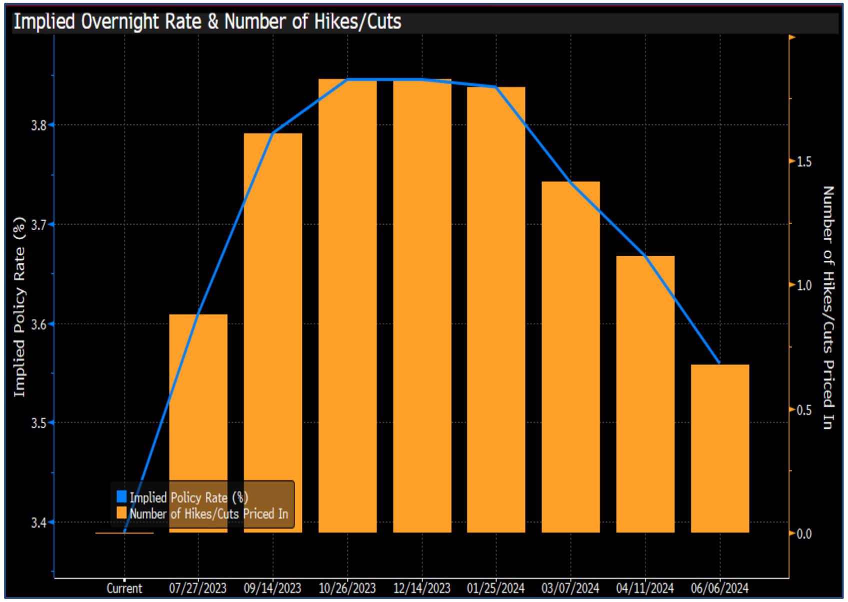
Source: Charlie Bilello

2.5 Central Banks : EU

- As for the ECB, it did what was expected of it, raising rates by 25bps in June to reach 3.5%. Although this hike was largely anticipated by the market, Lagarde's speech was more hawkish than expected and caused economists to revise their rate hike expectations.

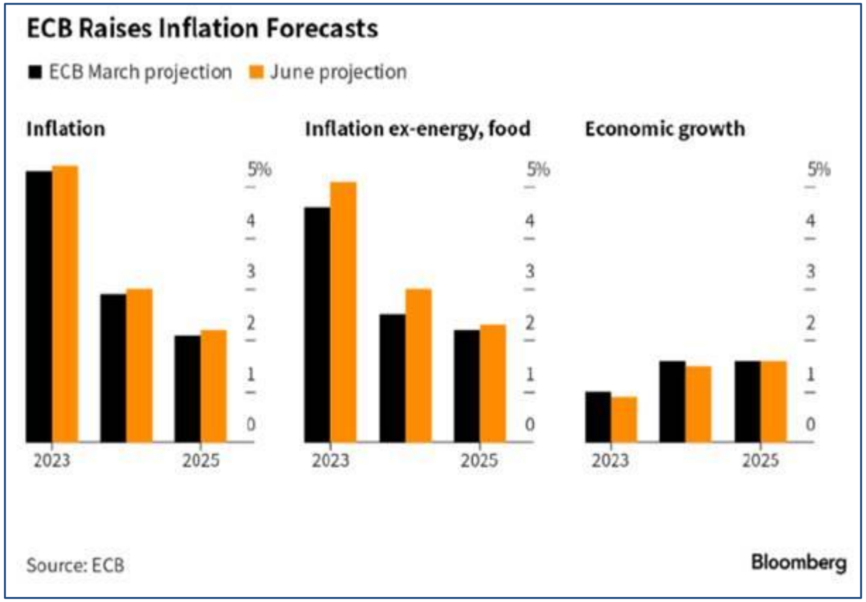
- The ECB's expectations are more pessimistic than at their previous meeting. They expect higher inflation by the end of the year, particularly Core inflation, and have revised their growth outlook downwards. Europe is expected to grow by less than 2%, at least until 2025.

EU Implied Rate Hike



Source: Bloomberg

ECB Inflation Forecasts



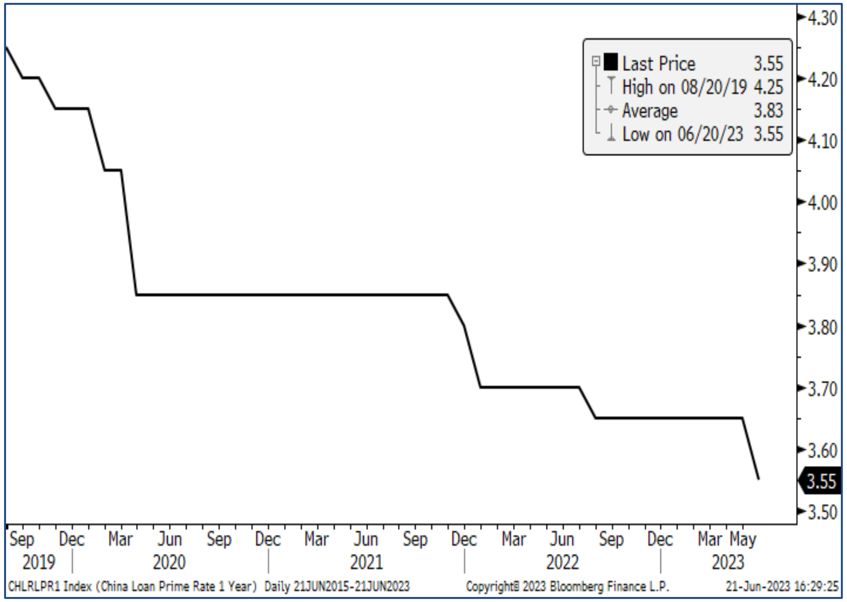
Source: Bloomberg

2.5 Central Banks : Asia

- In China, the reopening has not had the desired effect on the economy. Against a backdrop of global slowdown, Beijing is struggling to return to growth. The PBOC therefore decided to cut rates in an attempt to revive the economy.

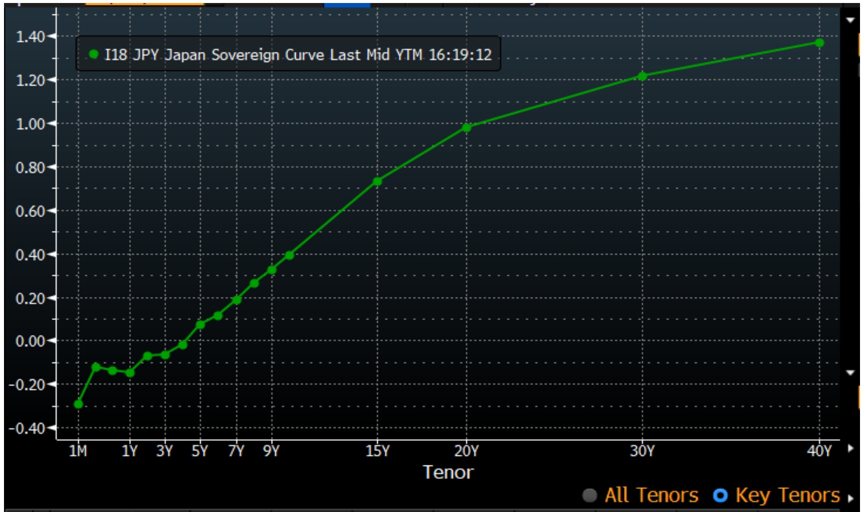
- In Japan, the new head of the BOJ, Mr. Ueda, decided to maintain the monetary policy bequeathed by his predecessor, Mr. Kuroda. The 10-year rate is below its upper limit, and the central bank believes there is still some way to go before it can sustainably achieve 2% inflation.

PBOC Repo Rate



Source: Bloomberg

Japan Yield Curve



	Curve Id	3M	1Y	2Y	3Y	5Y	10Y	15Y	30Y
11)	I18	-0.120	-0.148	-0.069	-0.064	0.073	0.391	0.732	1.217

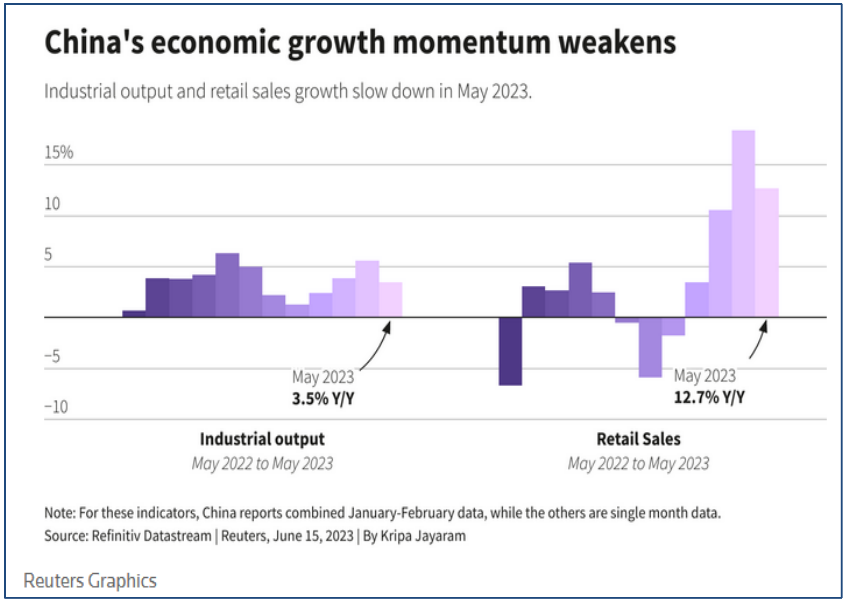
Source: Bloomberg

2.6 China Recovery

- China's economic recovery is already running out of steam. After more than 3 years of confinement and a crisis in the real estate sector, the Chinese consumer prefers to remain cautious about his budget. Plus, the global economic context is unfavorable for China, which is an export economy.

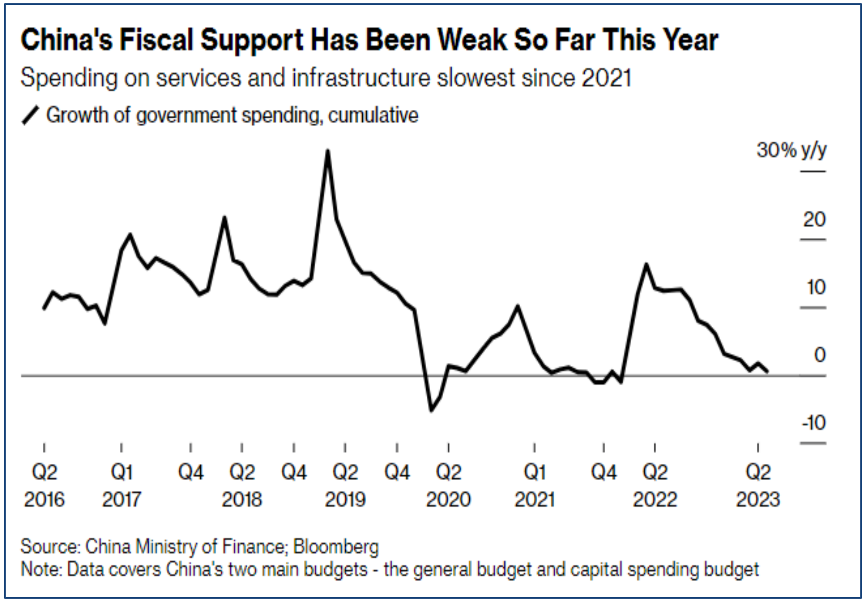
- The PBOC is already taking measures to boost the economy, but now it's up to the government to step up if it doesn't want to see its economy fall into recession.

China Retail Sales & Industrial Output



Source: Reuters

China Fiscal Support



Source: Bloomberg

2.6 China Recovery

- Following the announcement of China's reopening at the end of last year, economists raised their expectations for the country's growth. However, disappointed by the latest macro figures, they are once again revising their forecasts, this time downwards.

- On the investor side, pessimism is becoming increasingly prevalent. The number of investors expecting a stronger Chinese economy is at its lowest since November 2022, and has been falling steadily since February. Unless the state does what is necessary to restore confidence, pessimism will prevail.

China Growth Forecasts

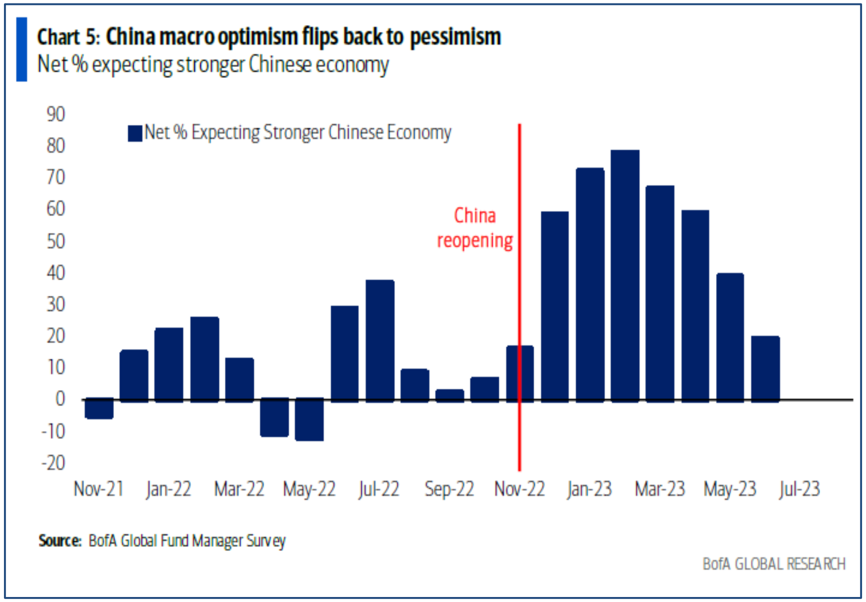
Wall Street cuts China's growth forecasts

Full-year growth estimates for 2023

Firm	Prev.	New
Goldman Sachs	6.0%	5.4%
UBS	5.7%	5.2%
Bank of America	6.3%	5.7%
JPMorgan	5.9%	5.5%
Nomura	5.5%	5.1%
Standard Chartered	5.8%	5.4%

Source: CNBC

Investors Optimism on China



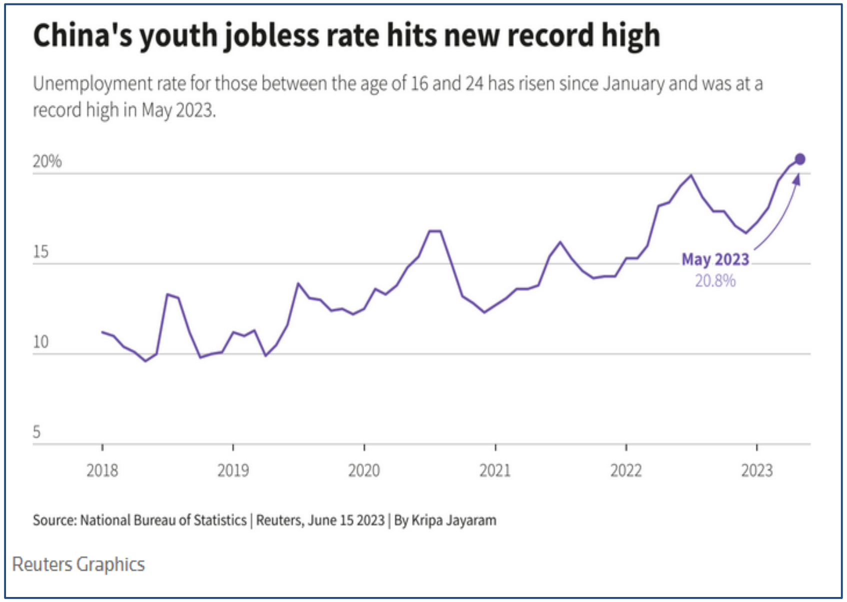
Source: BofA

2.6 China Recovery

- China's economic situation is complicated by multiple factors. Its population is aging, and now that a significant proportion of the population is reaching retirement age, the young people who are supposed to be taking over are unable to find work. According to a study by Goldman Sachs, this youth unemployment is due to the fact that young people have trained in sectors where there are not enough jobs.

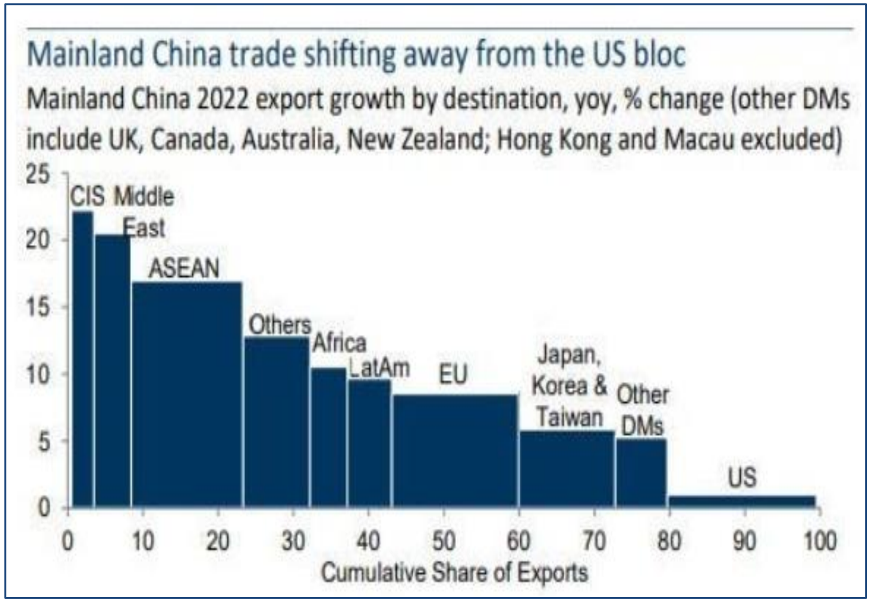
- China's trade war with the US is also weighing on its economy. Exports growth to the US is close to zero, so China is turning to other trading partners.

China Youth Unemployment



Source: Silicon Valley Bank

China Exports Growth



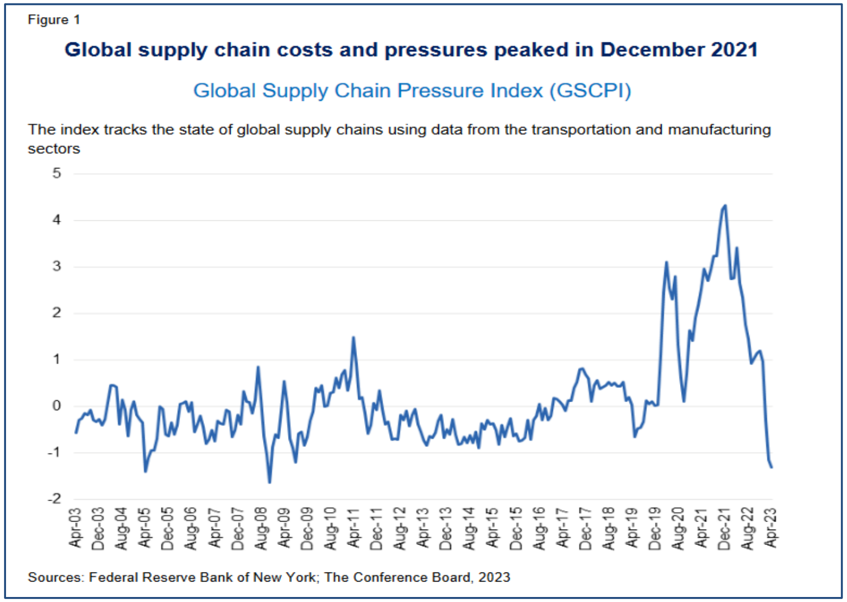
Source: Bloomberg

2.7 Reshoring

- Since China reopened its economy, pressures on the supply chain have eased. The index tracking these pressures is at its lowest level since the GFC.

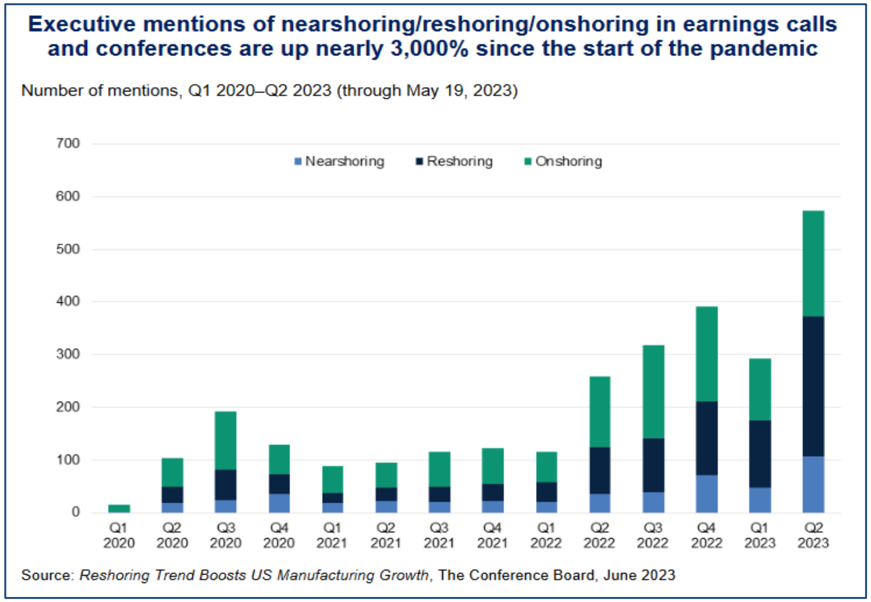
- Now that these problems have been resolved, CEOs are preparing to repatriate their manufacturing capacities closer to their customers. In a Conference Board study, CEOs mentioned reshoring more than ever, and are preparing for massive investment, mainly to reduce the risk associated with China.

Supply Chain Pressure Index



Source: Conference Board

Mentions of Reshoring



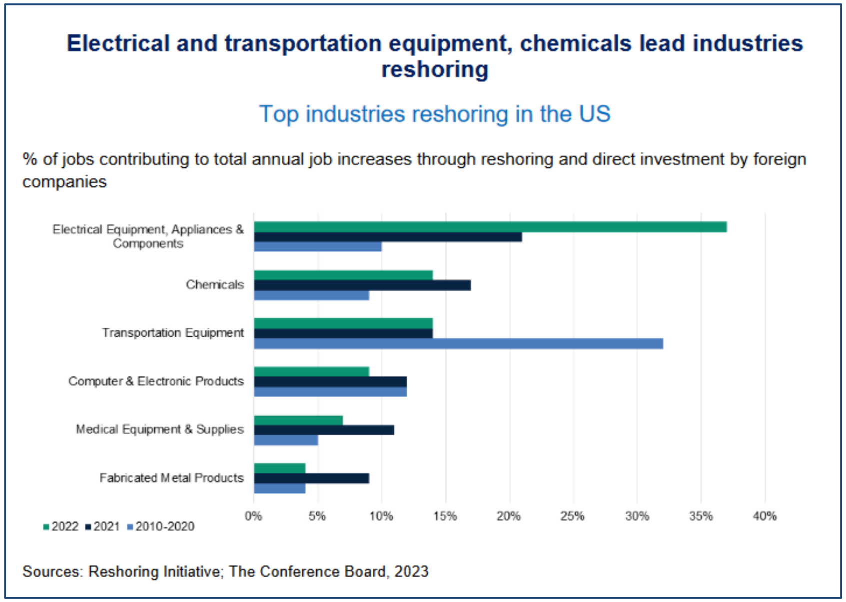
Source: Conference Board

2.7 Reshoring

- The sector most affected by reshoring is the hardware sector, especially semiconductors. There is no secret that the US is waging a war against China's technological development in order to maintain its leading position. In this context, the US has already banned certain companies from selling their technology to China.

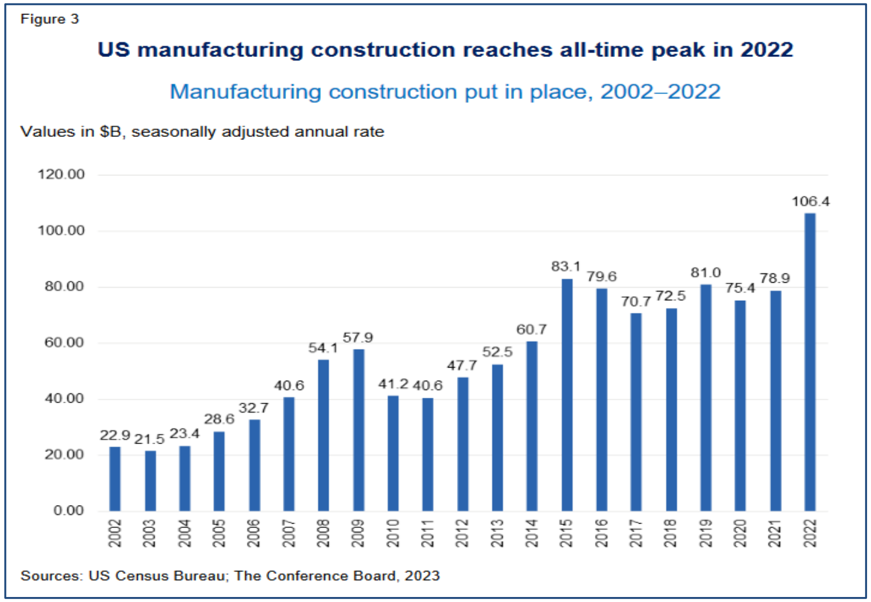
- To repatriate these industries, major investments are being made in Europe, and the US supported by the IRA. Figures for 2022 have already reached record levels, and forecasts for 2023 are even higher.

Reshoring Impact on Emplyoment by Sector



Source: Conference Board

US Manufacturing Investment



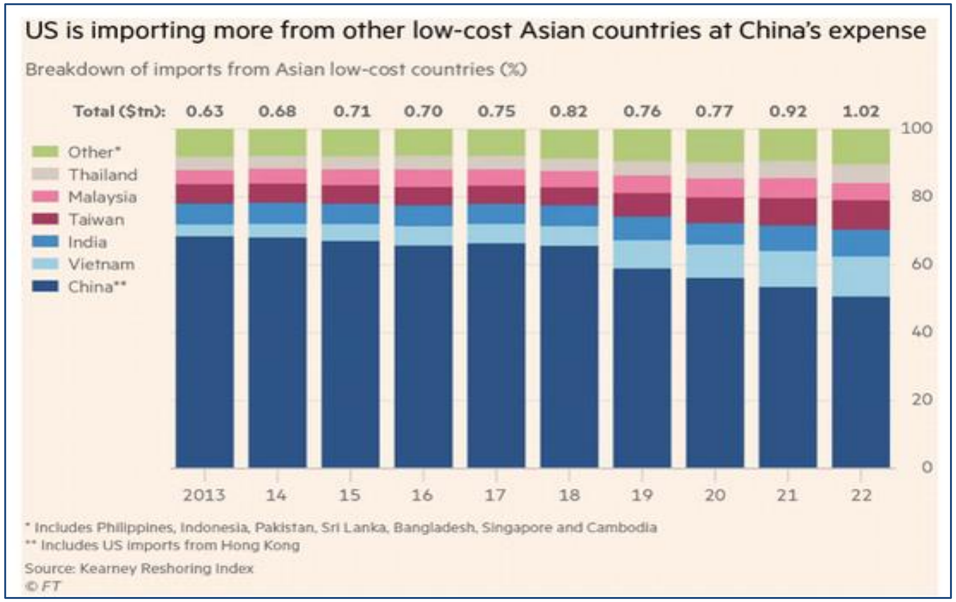
Source: Conference Board

2.7 Reshoring

- This reduction in Chinese geopolitical risk is already having an impact on the world's 2nd largest economy. China's exports to the US are declining sharply, to the benefit of other Asian countries, which are exporting more to the US at lower prices. Since the trade war started under Trump presidency, China has not fulfilled its promises on what it should import from the US.

- The countries likely to benefit most from this reshoring are India, Vietnam and certainly Japan. Several major companies have already announced massive investments in these 3 countries.

Share of US Imports by Asian Countries



Source: FT

China Imports from US

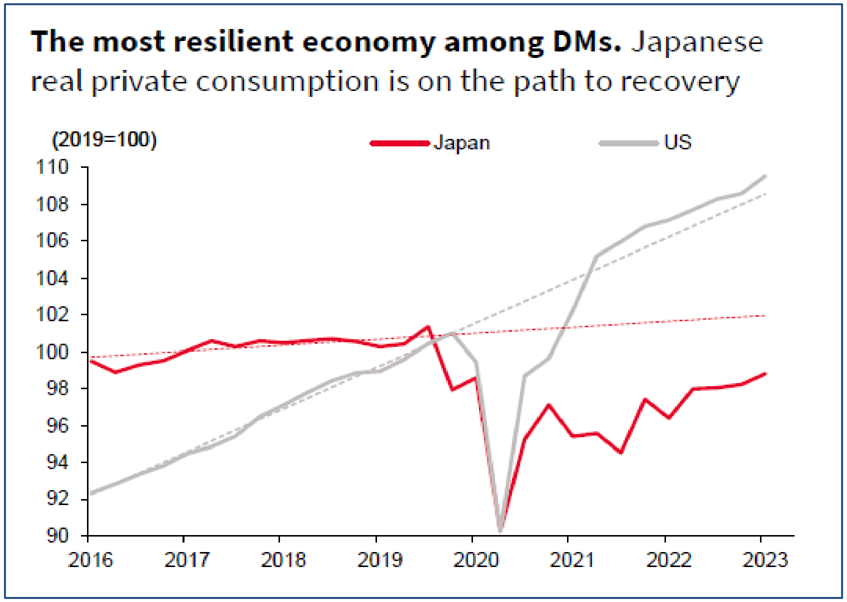
Source: Axios

2.8 Japan

- Unlike other developed countries, consumption in Japan has not yet returned to its long-term trend. An acceleration in consumption could therefore support the economy in the coming months.

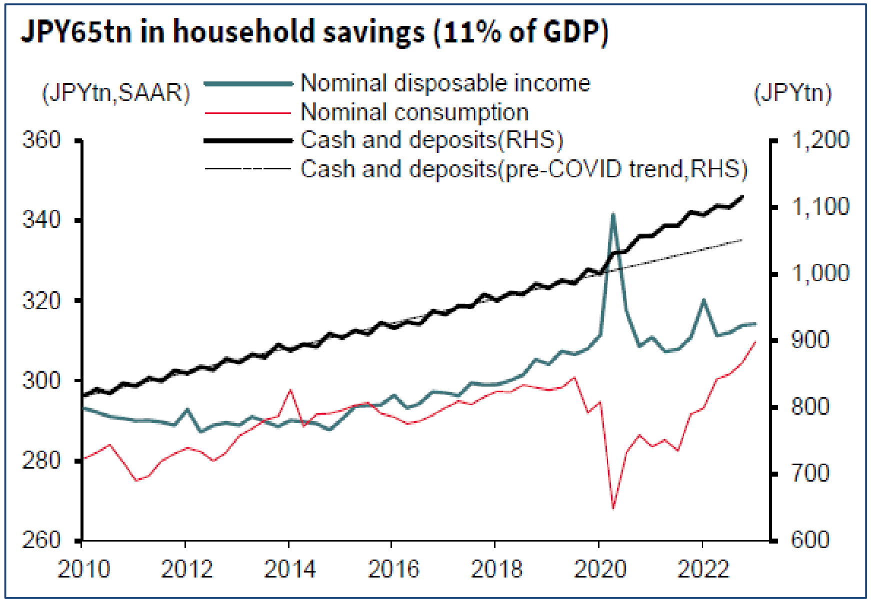
- Plus, with COVID, the Japanese have had time to save a lot of money. Today, their savings represent over 11% of GDP, giving them deep pockets to spend their money.

Real Consumption



Source: Société Générale

Household Savings as % of GDP



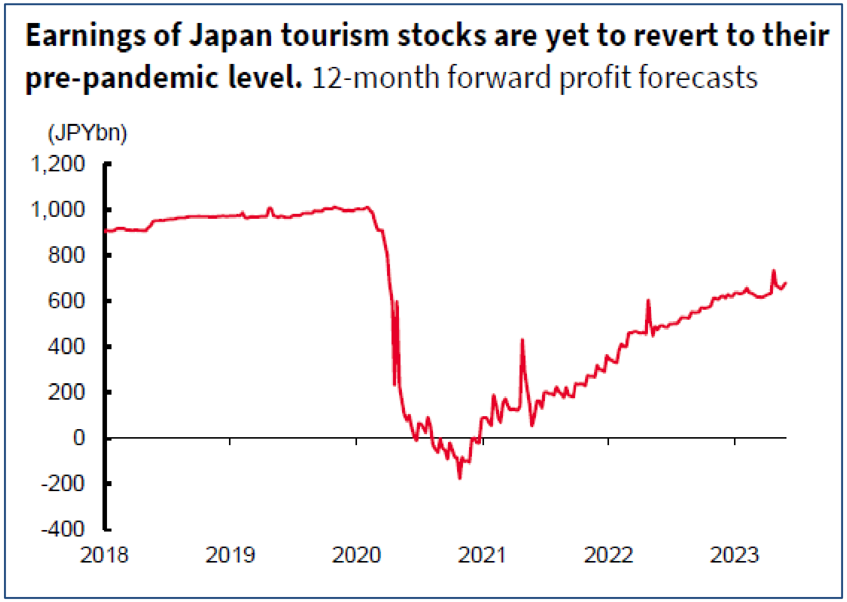
Source: Société Générale

2.8 Japan

- Japan reopened its borders late. This means that its tourism-related revenues are not yet back to pre-COVID levels. Here, too, there is considerable potential for catching up, which could work in Japan's favor.

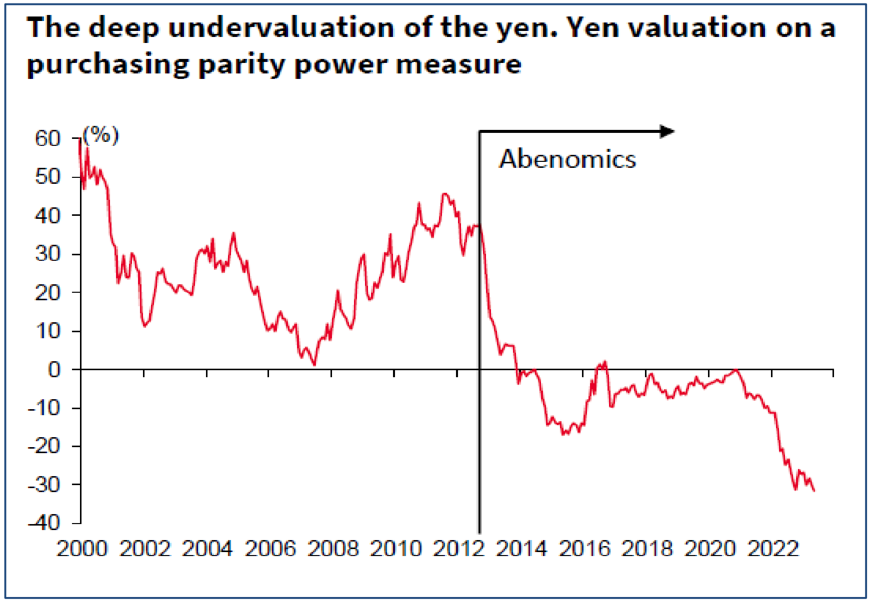
- Another point that could attract tourists and investors to Japan is the Yen. It is heavily undervalued in terms of Purchasing Power Parity, which could attract tourists because vacations there are cheaper, and investors because labor costs are also cheaper.

Japan Tourism Earnings



Source: Société Générale

Yen Valuation PPP



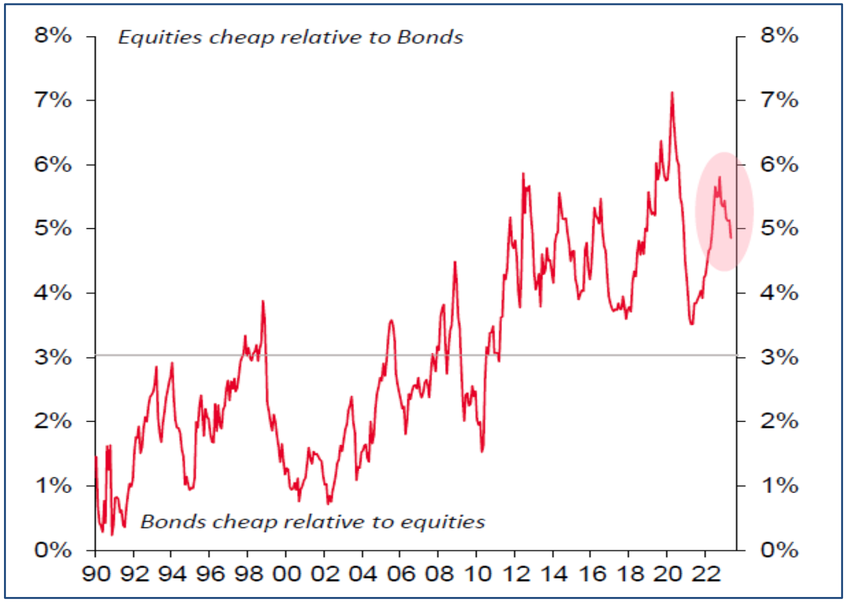
Source: Société Générale

2.8 Japan

- The Japanese market has rallied strongly since the beginning of the year. For all the reasons mentioned above, this rally could continue. Plus, the risk premium on Japanese equities is far more attractive than in other developed countries. As long as the BOJ does not tighten its monetary policy, this premium should remain high.

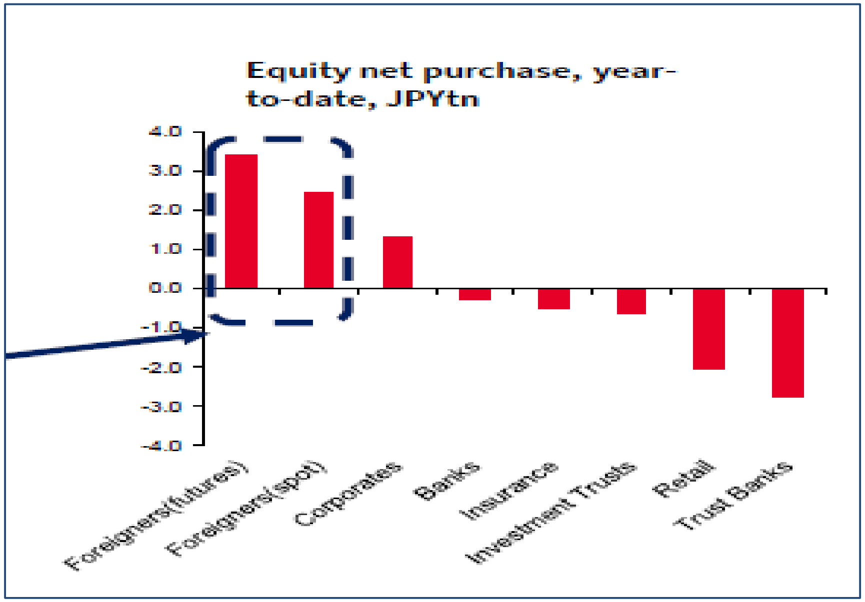
- Many foreign investors have already started to build up their exposure to the land of the rising sun. Warren Buffett's comments have drawn attention to the country, and many asset managers seem to believe that the outlook is positive.

Japan Equity Risk Premium



Source: Société Générale

Japanese Equity Purchaser

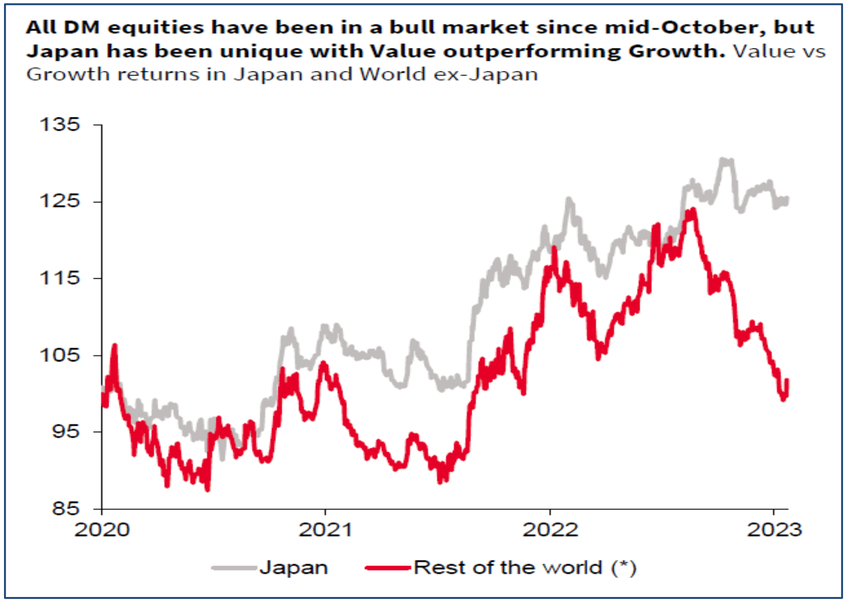


Source: Société Générale

2.8 Japan

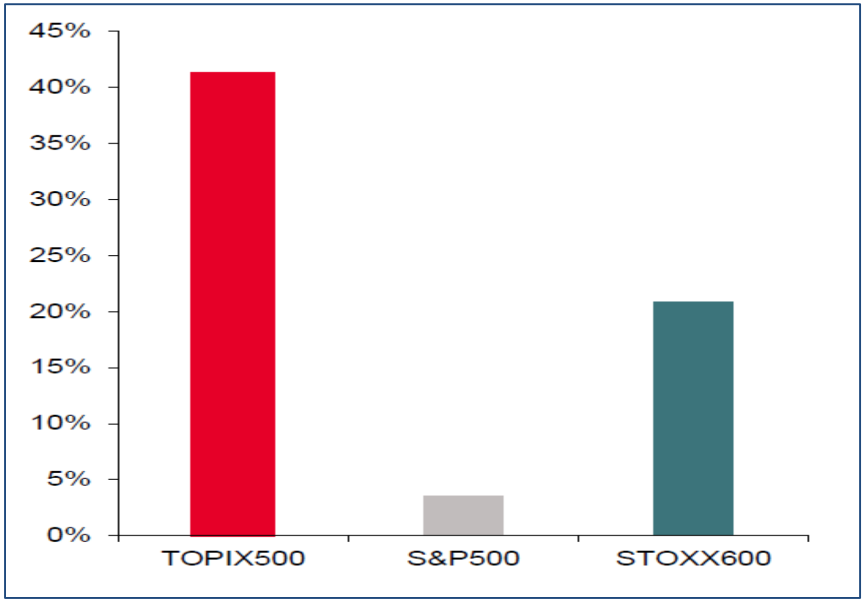
- Japan also offers diversity in terms of factor exposure. It is one of the few countries where the value factor still outperforms the growth sector. Given that the artificial intelligence trend has only recently arrived, and that it is mainly technology that is driving market performance as a result, Japan's diversification is a significant advantage.
- Finally, the Tokyo Exchange Group has introduced measures to encourage companies trading below a price-to-book ratio of one, to ensure that this ratio rises. The mandate of the companies concerned is therefore to attract investors to raise their share price in order to achieve a higher price-to-book ratio. If this mandate is not fulfilled, certain companies risk being delisted by 2026.

Value vs Growth



Source: Société Générale

Share of index trading below price to book of 1



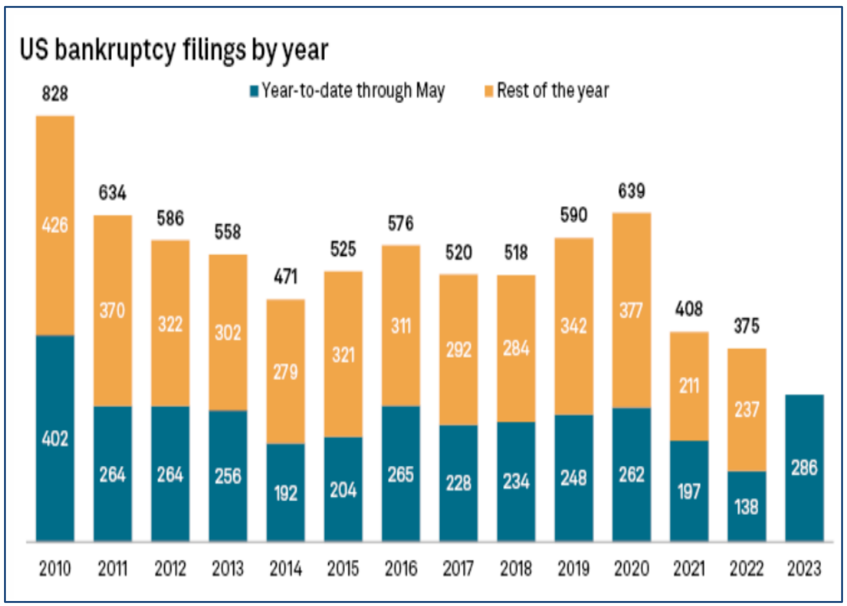
Source: Société Générale

2.9 Credit Market

- On the credit side, there are signs of stress. The number of bankruptcies has reached levels not seen since 2010. This reflects the fact that the economic slowdown and rising interest rates are having a real impact on the economy.

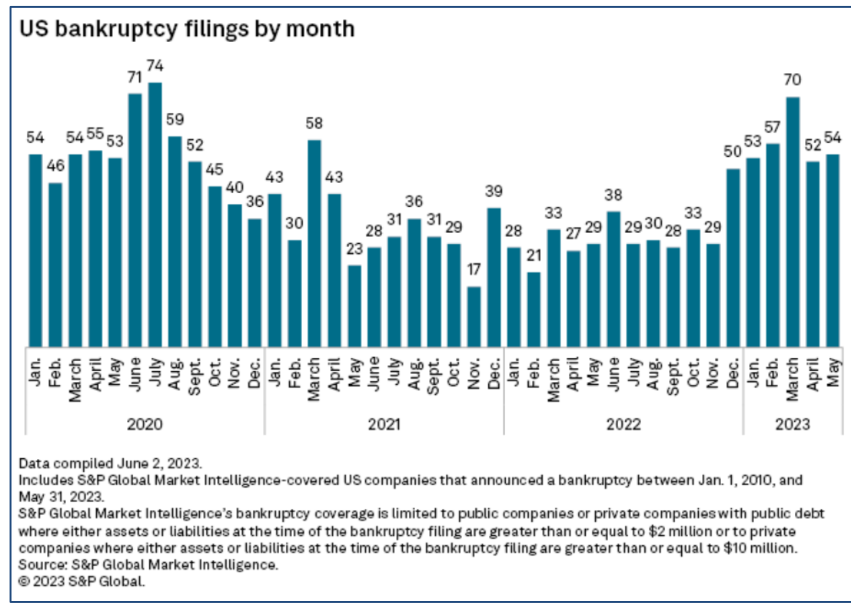
- On a monthly bankruptcy basis, we're also seeing record levels. In March alone, more than 70 companies with debts of over 10 million went bankrupt. Such a figure had not been reached since 2020, at the height of the COVID crisis.

US Bankruptcy Fillings



Source: S&P Global Market

Bankruptcy Fillings Monthly

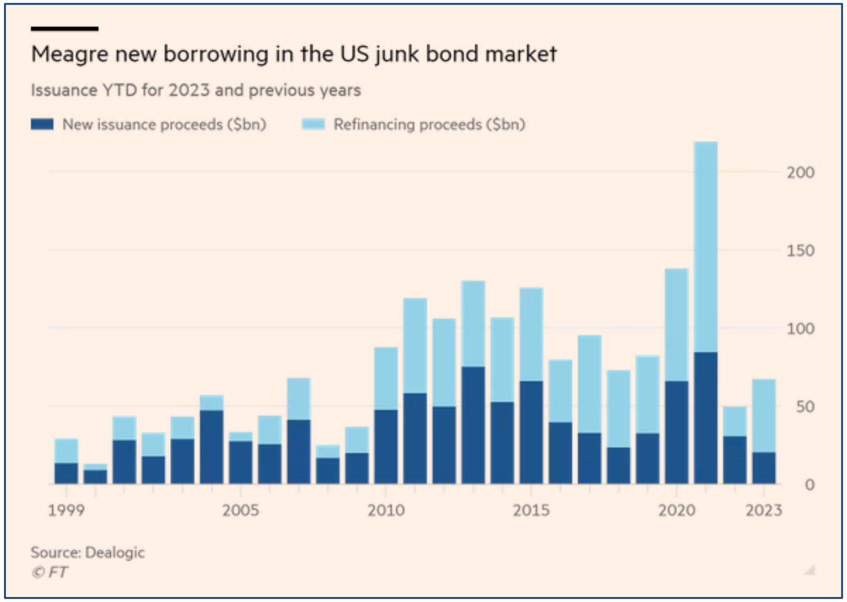


Source: S&P Global Market

2.9 Credit Market

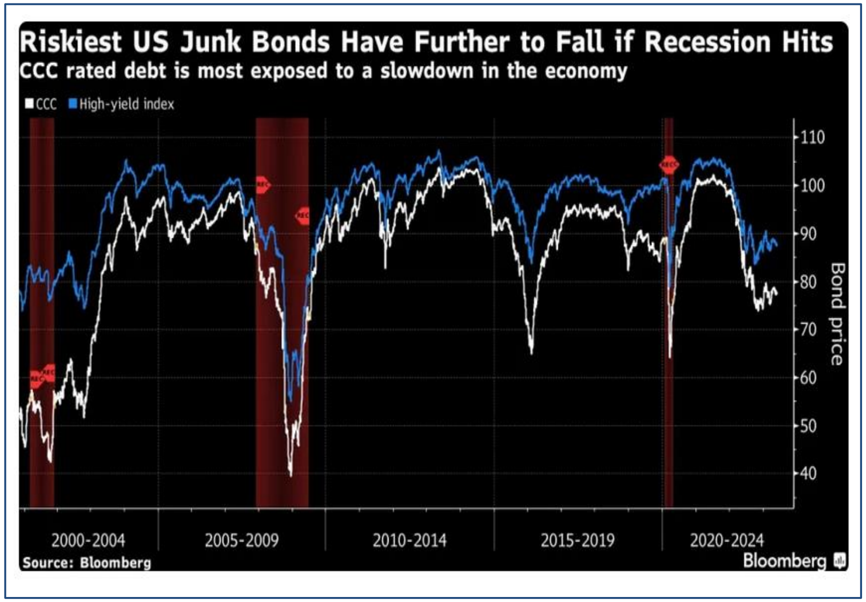
- New issues on the low-quality credit market also fell sharply. With market uncertainty, few investors are willing to take the risk of lending to companies in difficulty. These companies now have to borrow at such high rates that debt servicing may be too difficult to sustain.
- Since the start of central bank monetary tightening, CCC bonds have underperformed the rest of the High Yield sector. When economic conditions are unfavorable, the risk of default increases in this segment more than elsewhere, and so it underperforms. If we were to go through a recession, the number of defaults in this segment would certainly lead to a clear underperformance.

Junk Bond Issuance



Source: FT

CCC Performance

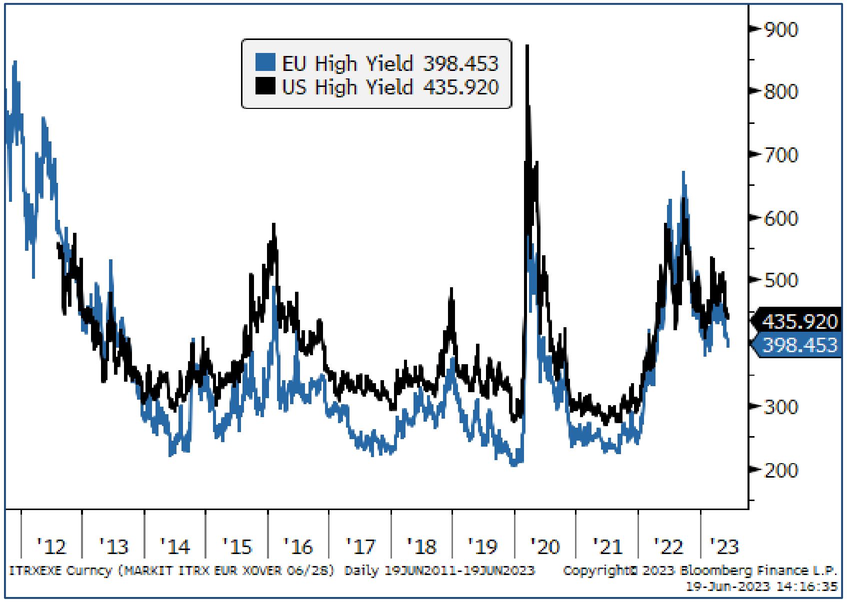


Source: Bloomberg

2.9 Credit Market

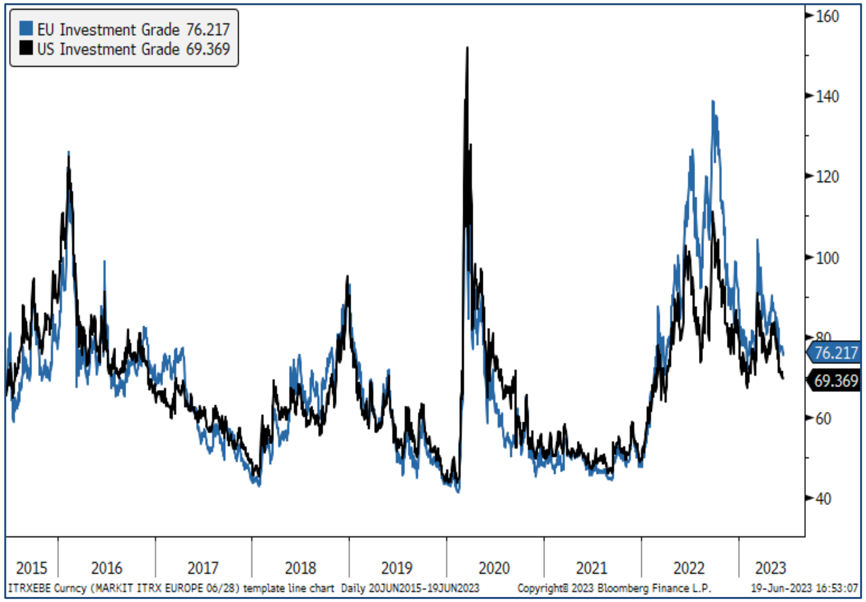
- Although several pockets of risk remain in the market, investors seem to have regained optimism about the economic situation.
- As a result, since the banking crisis seems to have passed, credit spreads have tended to tighten.
- On both sides of the Atlantic, as well as in the High Yield and Investment Grade pockets, spreads are lower than at the start of the year. Nevertheless, they remain above their historical averages.

HY Credit Spread



Source: Bloomberg

IG Credit Spread

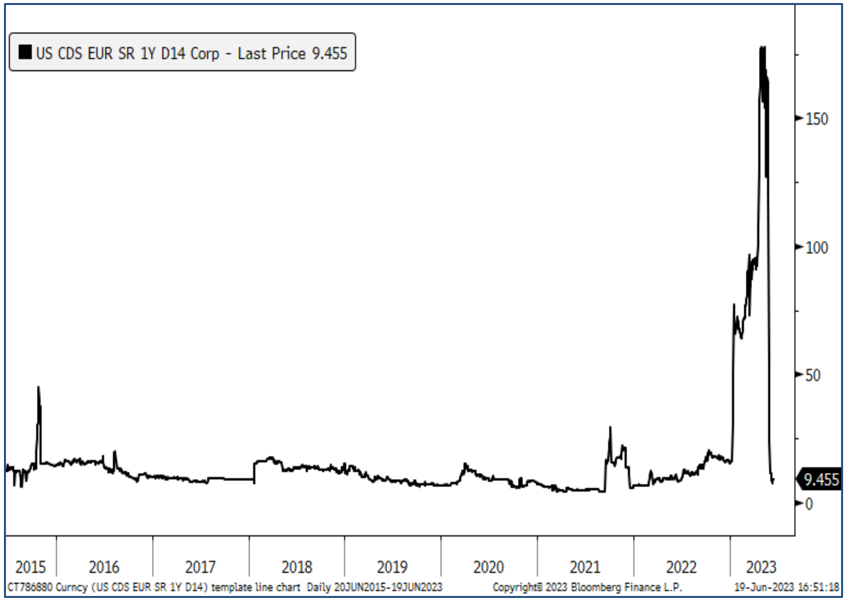


Source: Bloomberg

2.9 Credit Market

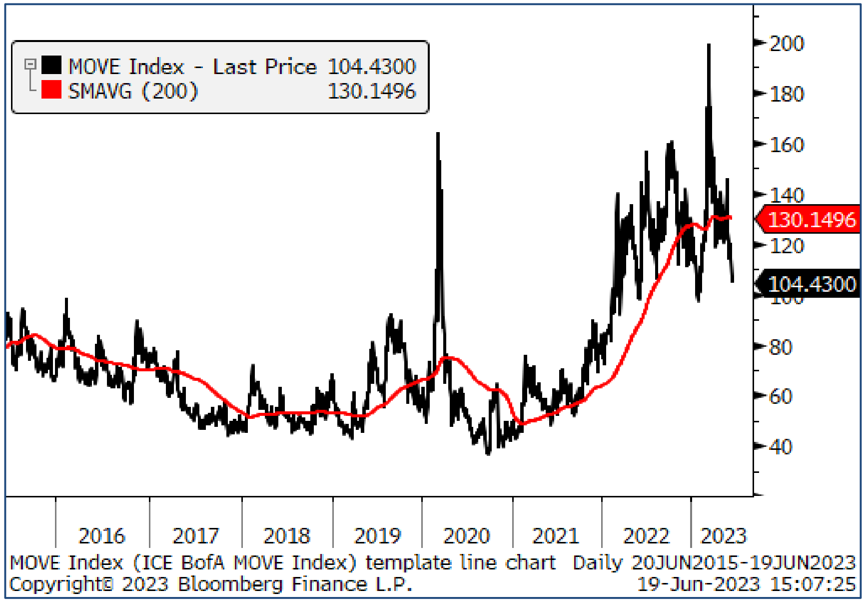
- Negotiations over the US debt ceiling also caused panic in the market. As bond investors feared that the government would default on its debt, they bought protection through CDS. Normally, these CDS trade below 20, but in the weeks leading up to the deadline for negotiations, this rate reached 170 basis points, only to fall back below 10 once an agreement had been signed.
- Between what central banks say and what the market prices, rates have tended to yo-yo for 2 years now. This volatility is reflected in the Move Index, which tracks interest-rate volatility. Although this index has fallen back slightly in recent weeks, it remains at levels reached only in 2020, when central banks cut rates to zero.

US Gov. 1Yr CDS



Source: Bloomberg

Move Index



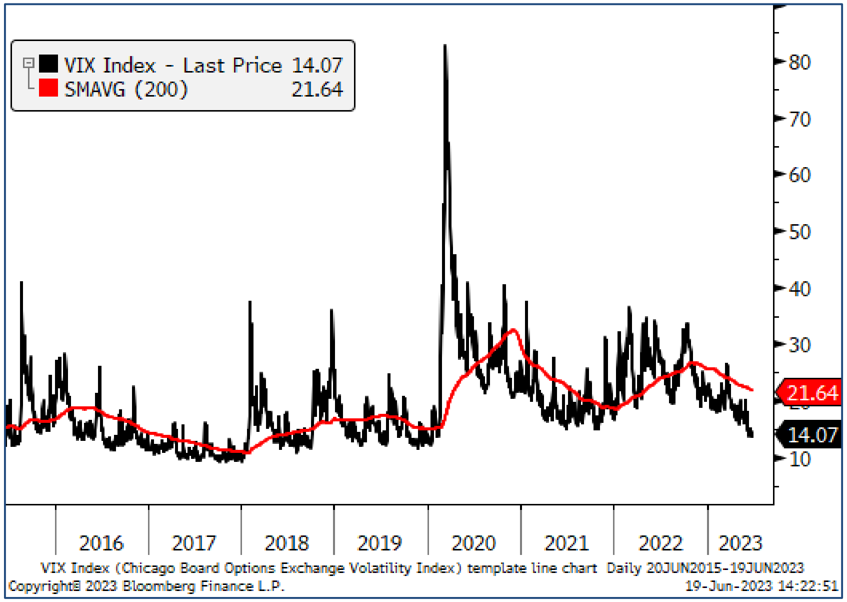
Source: Bloomberg

2.10 Market Review : Stress

- Equity market stress, for its part, has crashed lately. Since 2020, we have been in a regime with higher volatility than in the previous decade. But the coming end of the monetary tightening cycle together with the explosion in artificial intelligence, the "end" of the banking crisis and the end of the debt ceiling negotiations, seem to have calmed the market.

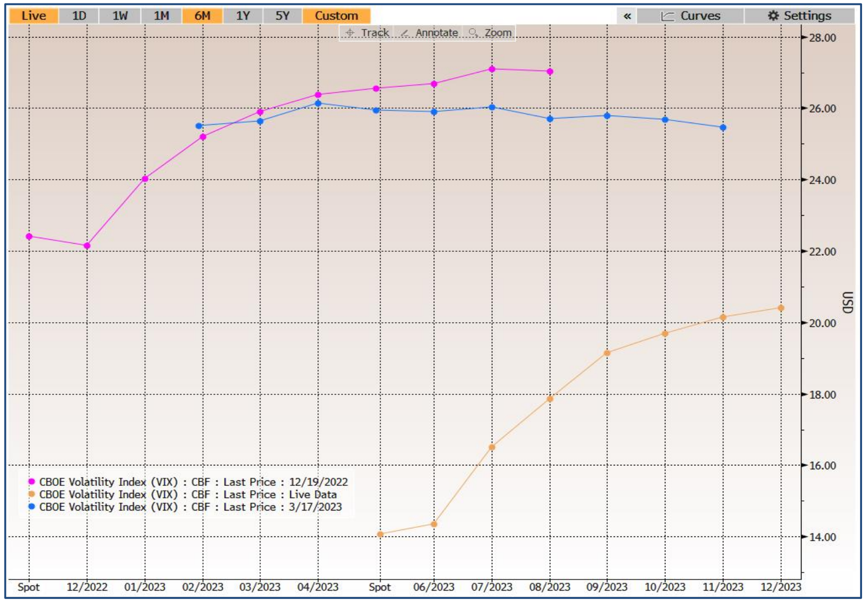
- The VIX forward curve clearly reflects this decline in market risk. When the SVB went bankrupt, spot volatility exploded. However, the forward curve has remained flat, only to flatten now that the uncertainties have been lifted.

Vix Index



Source: Bloomberg

VIX Forward Curve



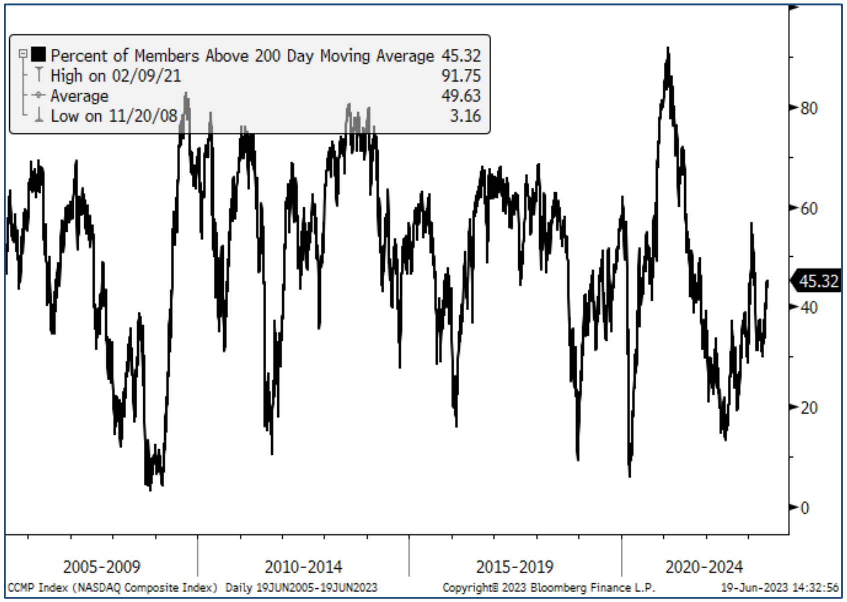
Source: Bloomberg

2.10 Market Review : Breadth

- The recent market rally was mainly driven by US technology stocks. This is well reflected in the market breadth indicators. Stock participation in this rally is very low, and although the S&P 500 Information Technology is up 41% YTD, only 45.3% of Nasdaq Composite stocks are trading above their 200-day averages.

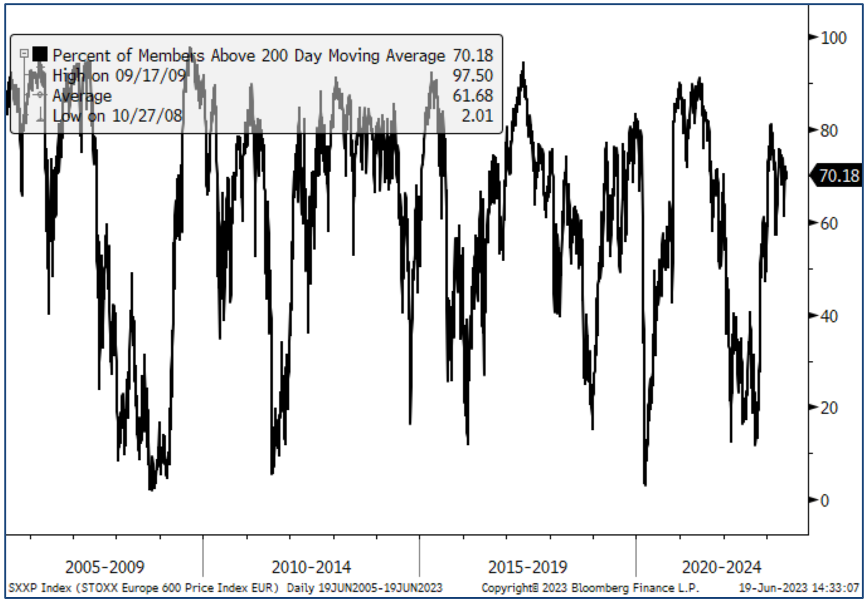
- In Europe, it's a different story, although the Stoxx 600 has a weaker performance, the quality of the performance is much stronger, as all stocks are participating in this rise. For several weeks now, over 70% of stocks have been trading above their 200-day averages.

Nasdaq Composite % of Stocks Above 200d SMA



Source: Bloomberg

Stoxx 600 % of Stocks Above 200d SMA



Source: Bloomberg

2.10 Market Review : Breadth

- The divergence between the performance of the S&P 500 and the S&P 500 Equal Weight reflects this lack of participation by stocks. Since March, there has been a 10% gap between the 2 indices. The performances of the Big 7, and Nvidia in particular, account for this significant difference.

- As a result, Mega Cap are becoming even bigger, and today the top 10 stocks in the S&P 500 represent just under 30% of the index. For several days now, Apple's market capitalization has exceeded that of the entire Russell 2000.

S&P 500 vs S&P 500 Equal Weight

Source: FT

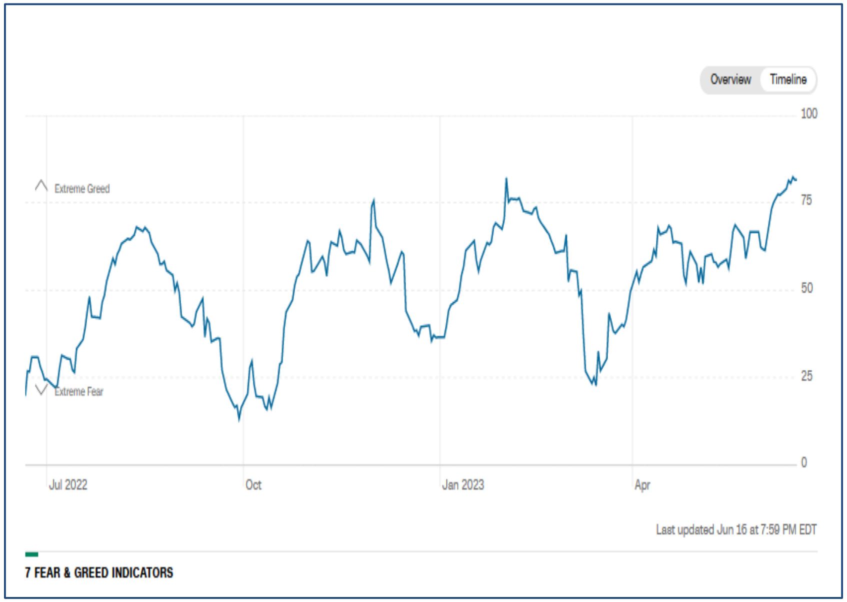
Apple vs Russell 2000 Market Cap

Source: FT

2.10 Market Review : Sentiment

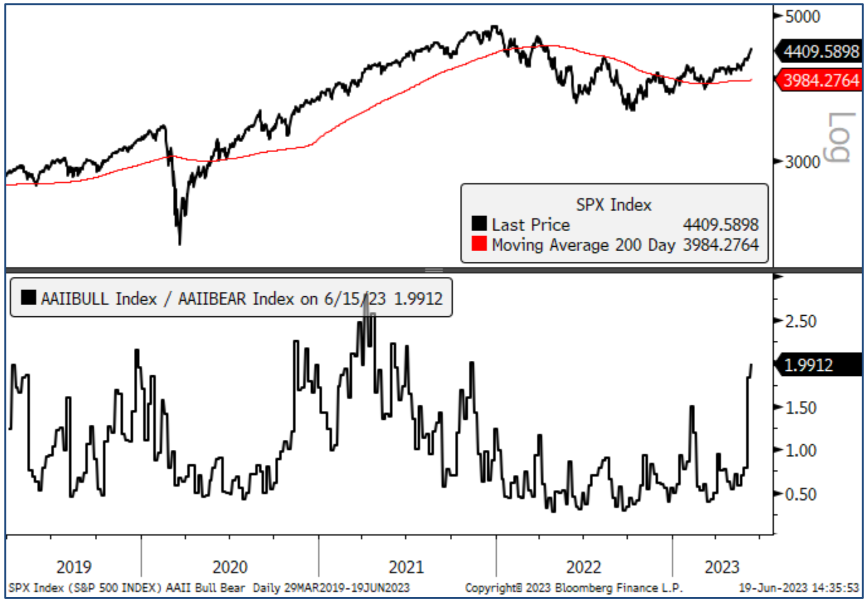
- Investor sentiment accurately reflects the decline in implied volatility expected by the market.
- The Fear & Greed Index has reached Extreme Greed levels, a contrarian indicator that could well signal an imminent market reversal.
- The same observation can be made of the AAII Bull/Baer Ratio. After spending 18 months at depressed levels, this indicator has bounced back surprisingly to reach levels last seen during the bull market of 2021.

Fear & Greed Index



Source: CNN

S&P 500 & AAII Bull / Bear Ratio



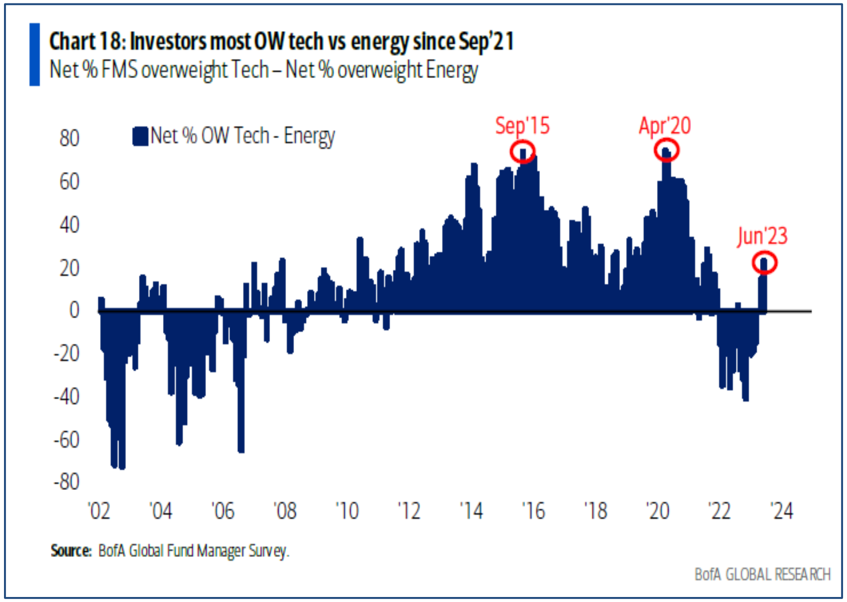
Source: Bloomberg

2.10 Market Review : Sentiment

- Investor positioning has also changed significantly in the space of a few weeks. Almost everyone has returned to tech because of the FOMO factor. Just two months ago, asset managers were underweight this sector, but now the majority are overweight.

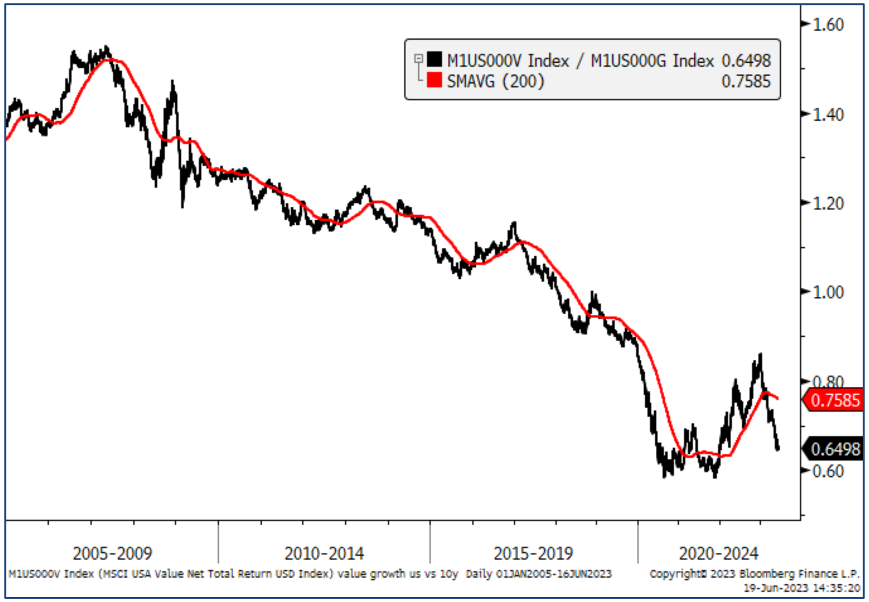
- 2022 marked the return of value. The relative performance of value had finally begun to catch up, but since the promise of artificial intelligence has taken the markets by storm, this trend has reversed again.

Exposure to Tech Sector



Source: BofA

US Value vs Growth



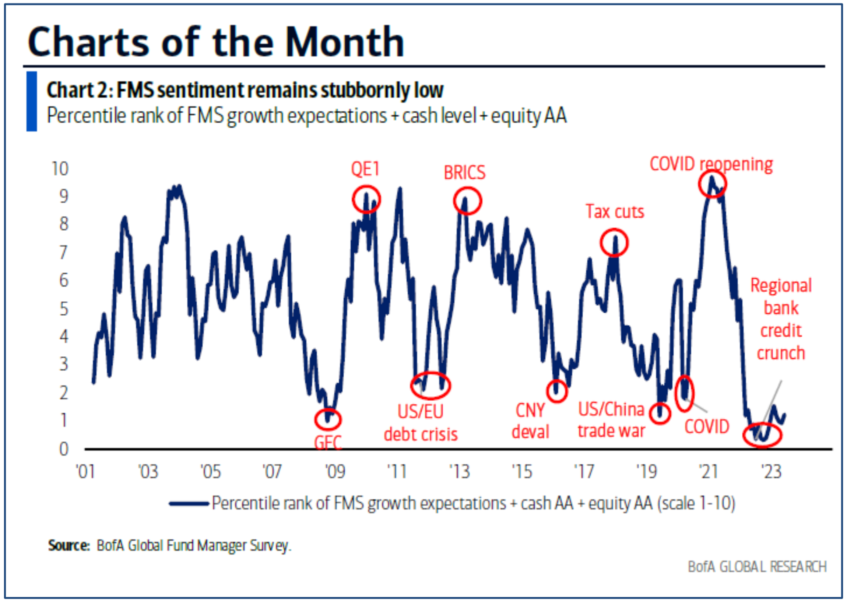
Source: Bloomberg

2.10 Market Review : Sentiment

- Although investors have been taking risks again in recent weeks, there is a dissonance with their expectations of economic growth and resilience over the coming months.

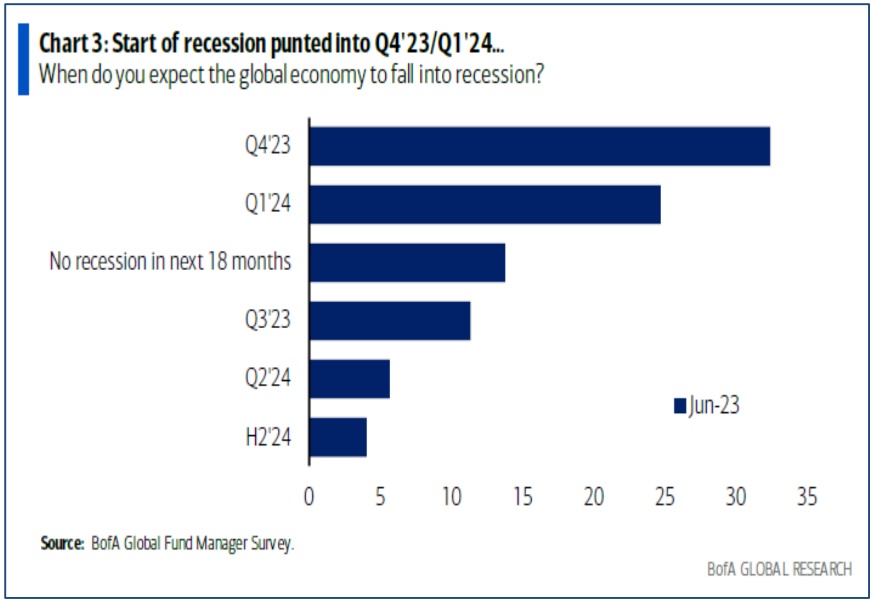
- Indeed, very few professionals expect the economy to improve. Many of them expect a recession to hit the global economy in the next 18 months. Only 15% of investors do not think there will be a recession.

Investor Sentiment



Source: BofA

Recession Expectations



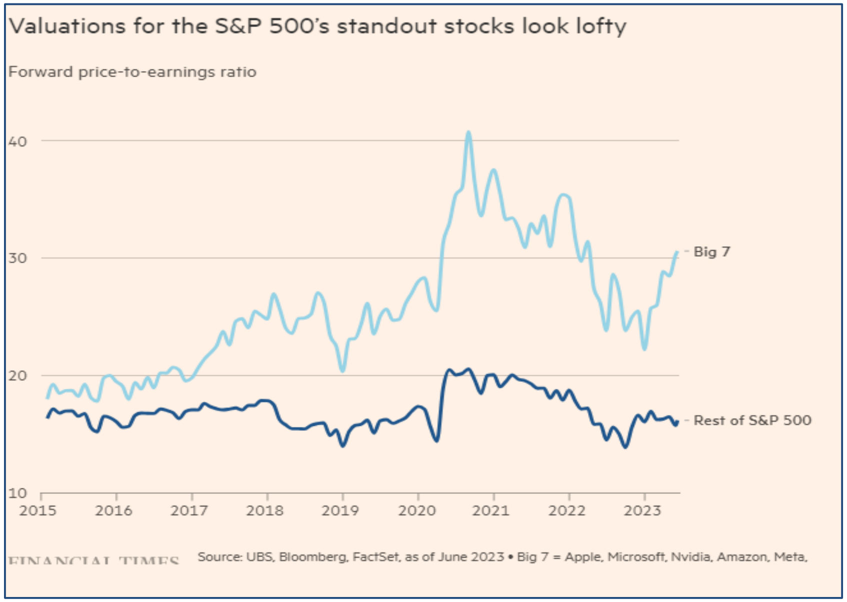
Source: BofA

2.10 Market Review : Valuation

- Although the future development of artificial intelligence looks very promising, it's still too early to see any real impact on corporate profits. The recent rally in tech has therefore been driven by an expansion in multiples. As for the rest of the market, valuation has changed very little since the beginning of the year.

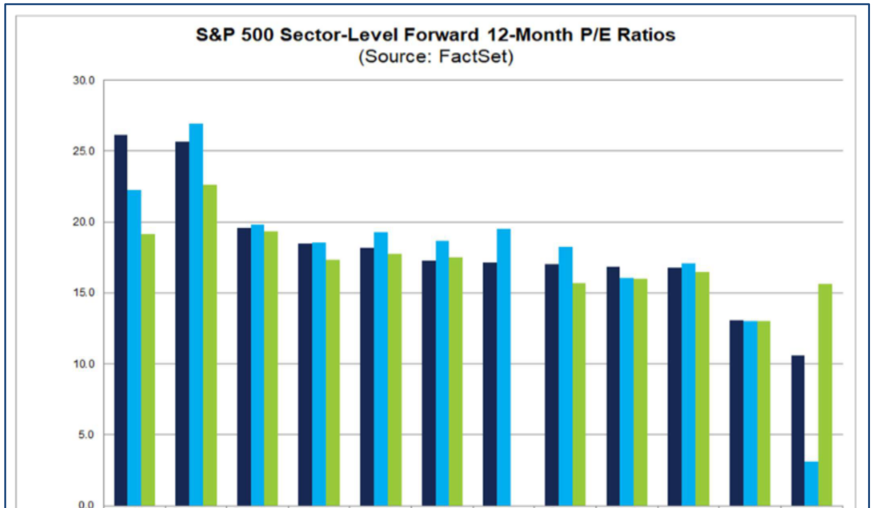
- Most sectors are trading in line with their historical 5 and 10 years averages, which doesn't make them very cheap. This is not the valuation one would expect when the market is anticipating a recession.

PE Big 7 vs Rest of S&P500



Source: FT

Fwd PE by Sector Compared to Average



	Info. Technology	Consumer Disc.	Consumer Staples	S&P 500	Industrials	Utilities	Real Estate	Comm. Services	Health Care	Materials	Financials	Energy
Fwd P/E	26.2	25.6	19.6	18.5	18.2	17.3	17.2	17.0	16.9	16.8	13.1	10.6
5-Yr Avg.	22.3	27.0	19.9	18.6	19.3	18.7	19.5	18.3	16.1	17.1	13.0	3.1
10-Yr Avg.	19.2	22.6	19.3	17.3	17.8	17.5		15.7	16.0	16.5	13.0	15.6

Source: Factset

2.10 Market Review : Valuation

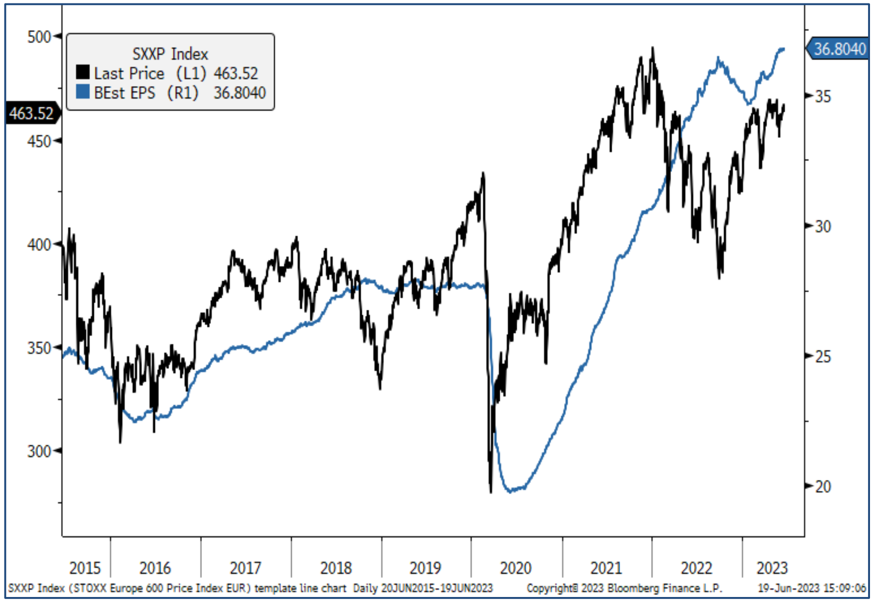
- Europe trades at a forward PE of 12.6, below its long historical average of 13.4. In terms of valuation, the European market is therefore far more attractive than the US market.

- In terms of earnings, analysts are forecasting record EPS, while the Stoxx 600 is trading 7.5% below its highs.

Stoxx 600 Fwd PE

Source: Bloomberg

Stoxx 600 EPS & Price



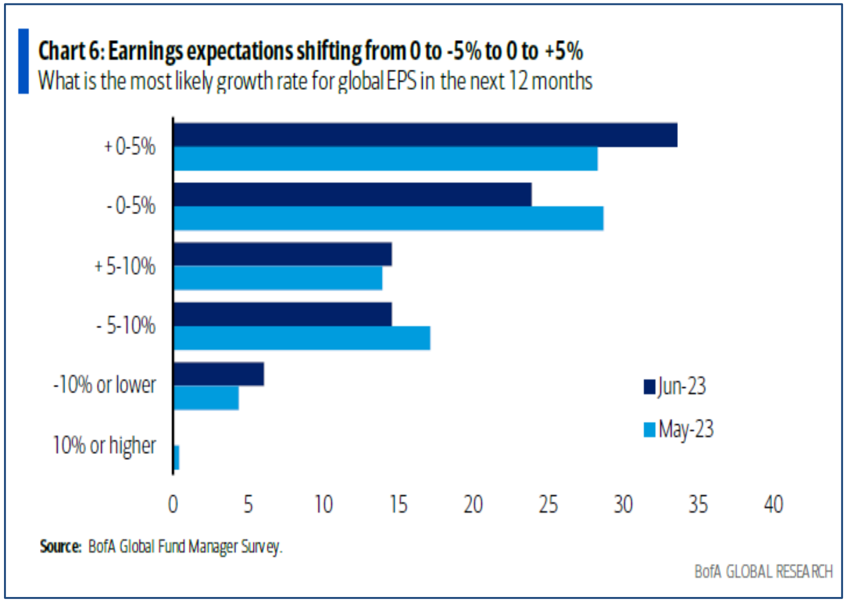
Source: Bloomberg

2.10 Market Review : Earnings

- Sentiment regarding earnings expectations for the year improved between May and June. The majority of asset managers believe that earnings growth will be between 0 and 5% over the next 12 months. In May, the majority was between -5% and 0%.

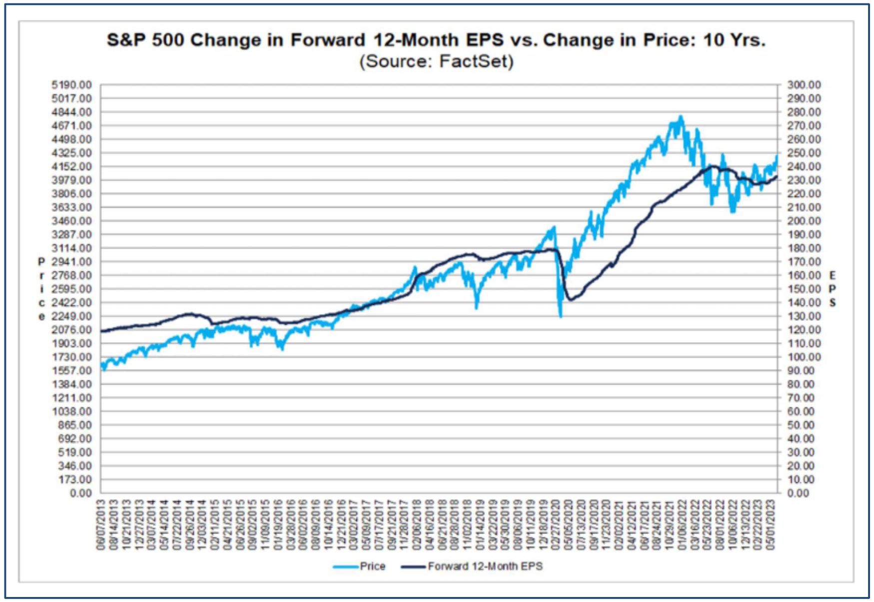
- EPS expectations for the S&P 500 seem to have reached an inflection point and are now being revised upwards. Thanks to Nvidia, which has revised its guidance upwards by over 40% thanks to the sale of its graphics cards.

EPS Growth Expectations



Source: BofA

S&P 500 EPS & Price



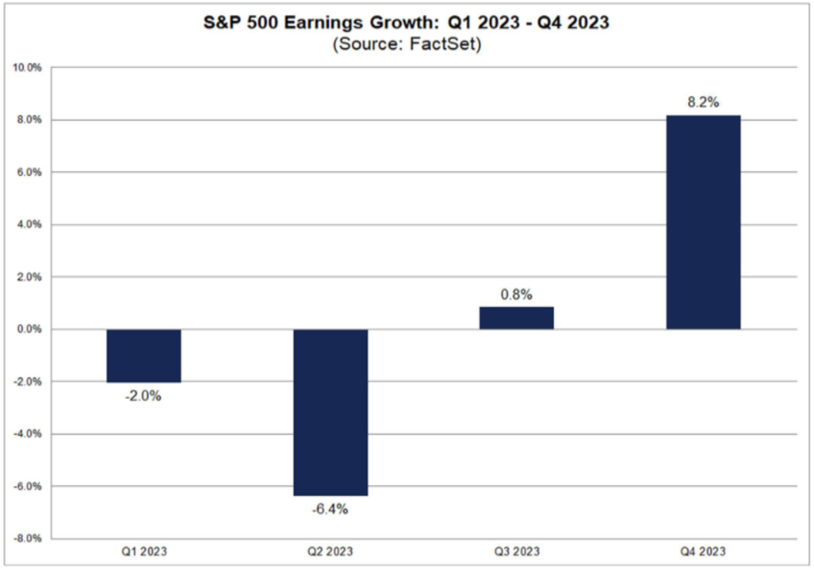
Source: Factset

2.10 Market Review : Earnings

- The 2nd quarter should see further negative EPS growth. It is in the second half of the year that companies should return to positive growth, reaching 8.2% in the last quarter of the year.

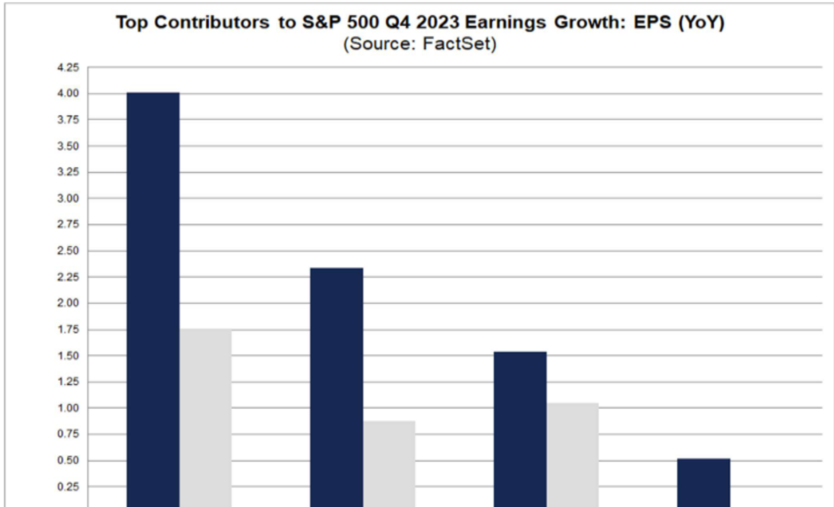
- Meta, Nvidia, Alphabet and Amazon are the main contributors to this expected EPS growth in the final quarter. Q4 2022 was a difficult quarter for these companies, so the basis for comparison is favorable.

S&P 500 Earning Growth by Quarter



Source: Factset

S&P 500 Contributor to EPS Growth Q4



	Meta Platforms	NVIDIA	Alphabet	Amazon.com
Q4 2023	4.01	2.34	1.54	0.52
Q4 2022	1.76	0.88	1.05	0.03

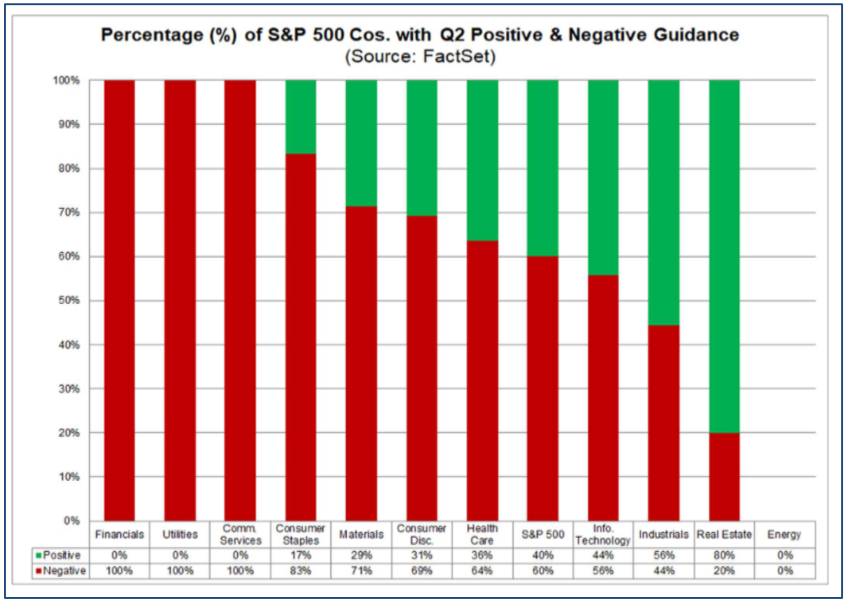
Source: Factset

2.10 Market Review : Earnings

- A large proportion of companies have communicated negative guidance for Q2. These are mainly due to the economic slowdown, monetary tightening and the reopening of China, which is taking longer than expected.

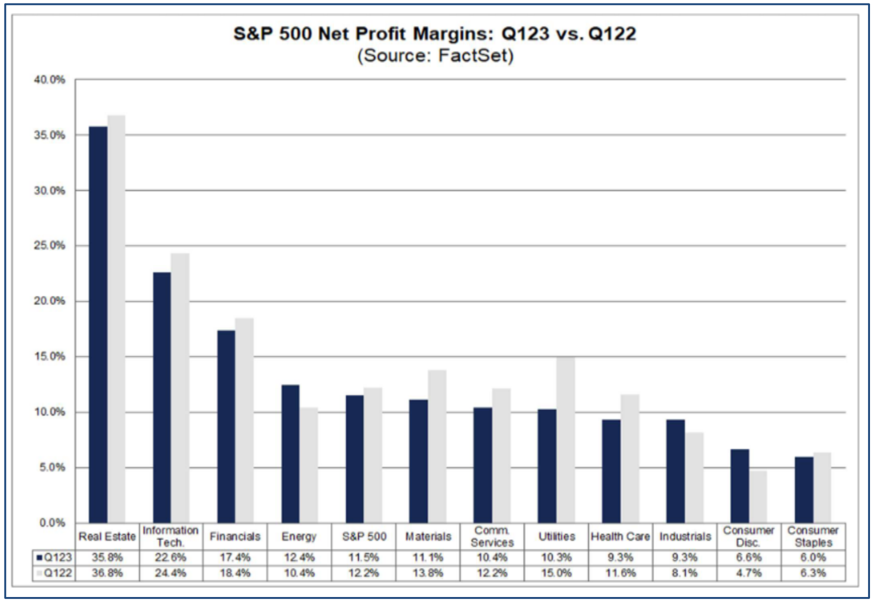
- Margins remain high, but are beginning to erode. Much of the inflation has been passed on to the consumer, but once the acceptable level of cost pass-through has been reached, margins start to shrink.

S&P 500 Q2 Guidance



Source: Factset

Profit Margin by Sector



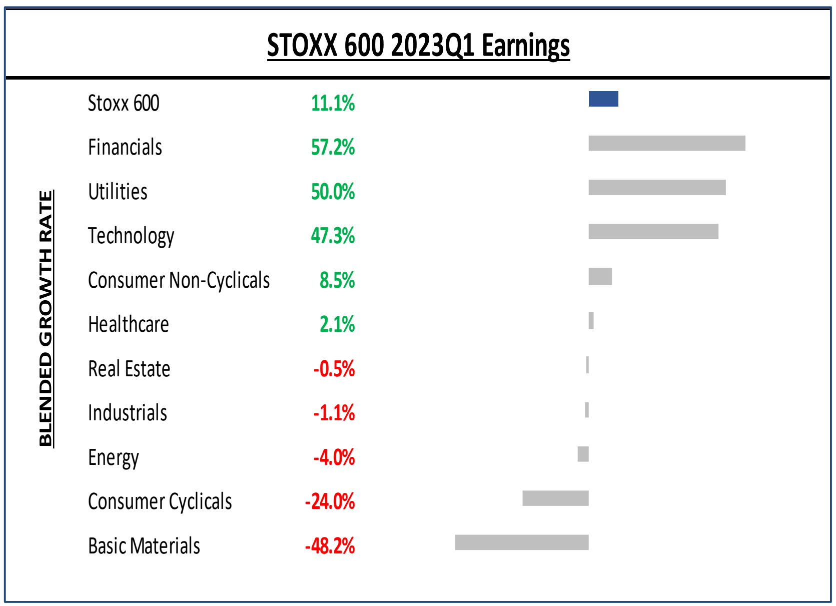
Source: Factset

2.10 Market Review : Earnings

- In Europe, growth was present in the first quarter, and expectations for the coming quarters continue to be revised upwards despite all the uncertainties in the market.

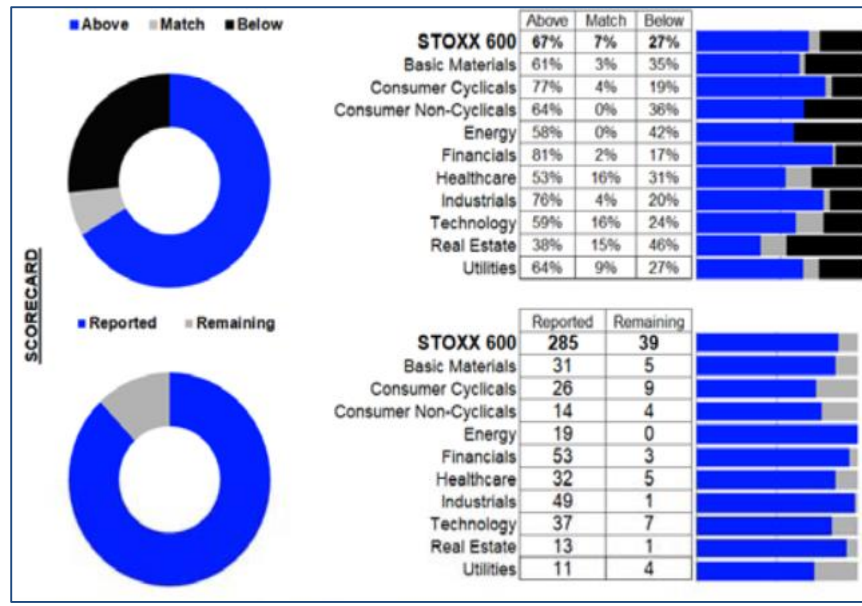
- Over 67% of companies beat analysts' expectations. This figure, although below the historical average, should continue to support European equities.

Stoxx 600 Q1 Earnings



Source: Refinitiv

Stoxx 600 Earning Surprise



Source: Refinitiv

3. Long term views

- We thought the FED was coming to the end of its aggressive hiking campaign. We would have never thought it would be so fast and quick; nevertheless, after a pause, rates will increase again. The cracks in regional banks and Credit Suisse were idiosyncratic failures. Big banks have correct balance sheets unless the regulator asks for a more significant capital base. Bank lending is tighter, but consumption remains healthy.

- Between financial stability and inflation, if central banks must choose one side, financial stability will always prevail. The mistrust in the banking system could have cornered Central banks. We expect real interest rates (nominal rates-CPI) to remain negative in 2023. Macrocycles will be volatile; the era of great moderation is behind us.

- Central Banks remain credible but walk on a tightrope, so they repeat that they will fight inflation.

- Most economists work with pre covid levels models. It won't deliver good forecasts in the current economic environment. The end of the 40s, the beginning of the 50s period last century, closely resembles what we are going through currently; interest rates should be way higher than they now are.

- Fiscal and tax policies are now a significant component of recovery scenarios. Governments will subsidize the middle class if needed; they also need to spend on defence and infrastructure for the fight against climate change.

3. Long term views

- In Europe, there is a high probability that the stability pact could be abandoned or tricked; Maastricht rules are suspended till the end of 2023. There is room to spend money at the European level and monetize it.

- The commercial and political tensions between the USA and China (and, incidentally, Russia) will remain. China is behaving more aggressively on domestic and international matters. The Taiwan issue is a source of instability. The US is trying to de-escalate the situation.

- The world must deal with two technological, military, and economic powers (Asia-China-Russia, and Occidental-US). Asia remains an engine of global economic growth.

- China's reopening is disappointing. Domestic consumption remains weak. Lowering rates won't help, but lower taxes could.

- The fight against global warming remains a mega theme. Thanks to new regulations and government spending, demand will be strong for low carbon-emitting infrastructure and green energy. The Russian aggression will force Europe to act quicker and bolder and invest massively to cut European reliance on Russia's fossil energy. "Greener" capitalism is underway, but ESG constraints could lower the fossil energy supply when we need it the most, driving higher prices. This trend is a boon for commodity producers. Middle East countries will not help the Occident to transition toward a world without oil (still a distant dream).

3. Long term views

- Gold remains a diversification tool in the portfolios. We expect the Chinese to use it as an anchor for the alternative payment system (to Swift) they are preparing with Russia, India, and Saudi Arabia. Therefore, demand should remain important for the physical, like in 2022. We remain with a positive view of the yellow metal.

- Low economic visibility and uncertainties about the path of inflation should require a term premium. This is why inverted yield curves highlight investors' belief that we will quickly return to the pre-covid economic environment. Otherwise, nobody would accept a negative premium, even if a recession is likely. The long end of the yield curves is not attractive, but the front end is, especially for corporate and high-yield bonds. Short-term TIPS remain investable as well.

- Equities will deliver better (real) returns than bonds over the next ten years.

- European and Emerging equity markets are cheap, on an absolute basis, and relative to the "star" US market. The coming five years could see a reversal, especially if the general level of nominal rates remains high relative to the last ten years.

- AI, data management, and the Metaverse are themes that have many years to go. These evolutions will lead to massive investments and productivity gains. The infrastructure is rapidly coming into place. Low-priced, cyclical corporations could benefit tremendously.

3. Long term views

- Favor companies with high entry barriers, generating strong cash flows, can raise prices.

- Blockchain is a technology for the future. It will drain much money in the coming years. Finance will not be the same in ten years. Find a way to have exposure.

- Thanks to the normalized interest rates environment, UCIT hedge fund strategies are becoming attractive. They also allow us to build up more robust portfolios.

4. Market review: Equity Performance

- Over the past 3 months, US markets have continued their rally, while European markets have taken a breather. It was mainly the technology sector that drove US equities higher, while recession risks kept European markets flat.

- The disappointing outlook for China's economy pushed down its equity markets. In addition, the risks inherent in the current geopolitical situation are pushing investors away from this country.

Equity Indices	% YTD in USD	% YTD in EURO	% 3M in USD	% 3M in EURO
MSCI WORLD	11.5%	9.8%	4.0%	3.5%
S&P 500	13.3%	11.5%	5.8%	5.3%
NASDAQ	28.9%	27.2%	10.4%	9.9%
BRAZIL	17.9%	16.3%	22.3%	21.9%
Euro Stoxx 50	14.4%	12.6%	-0.5%	-1.0%
Stoxx Europe 600	8.4%	6.6%	-0.5%	-1.0%
FTSE 100	5.4%	3.4%	0.8%	0.3%
CAC 40	12.4%	10.7%	-1.7%	-2.2%
DAX	15.5%	13.7%	1.8%	1.3%
IBEX	14.4%	12.6%	0.9%	0.4%
MIB	16.5%	14.8%	0.9%	0.4%
SMI	7.6%	5.8%	3.0%	2.5%
NIKKEI 225	16.0%	14.1%	8.7%	8.2%
HANG SENG	-4.9%	-6.6%	-7.1%	-7.6%
SHANGHAI	-0.6%	-2.7%	-6.7%	-7.1%
RUSSIA RTS	7.1%	5.4%	4.3%	3.8%
VIX	-38.0%	-39.7%	-28.1%	-28.6%

Source: Bloomberg 23/06/23.

4. Market review : Sector Performance Review

- Technology, buoyed by advances in artificial intelligence and Nvidia's results, continues to recover from last year's slump, posting a year-to-date performance of over 38% in the US.

- On the contrary, energy is suffering the most, with fears of a slowdown leading to a repricing of raw materials.

Sector performance	Europe % YTD	Europe % 3M	USA % YTD	USA % 3M	World % YTD	World % 3M
Consumer Discretionary	19.5%	0.0%	29.1%	11.5%	25.4%	7.7%
Consumer Staples	4.9%	-1.4%	-0.6%	-0.8%	3.2%	-0.3%
Energy	-3.3%	-2.0%	-11.5%	-6.3%	-7.5%	-4.2%
Financials	7.1%	2.3%	-4.3%	1.8%	0.3%	1.9%
Health Care	7.5%	2.9%	-2.9%	1.9%	0.5%	2.1%
Industrials	14.7%	1.5%	5.2%	2.1%	11.0%	3.7%
Information Technology	22.1%	1.3%	38.0%	13.6%	34.9%	11.4%
Materials	-0.6%	-3.9%	2.6%	-1.2%	3.0%	-2.9%
Telecommunication Services	7.2%	-7.0%	35.1%	12.4%	28.5%	8.9%
Utilities	9.6%	1.4%	-7.8%	-3.9%	-1.1%	-1.6%

Source: Bloomberg 23/06/23.

4. Market review : FX and commodities performance

	Currencies	
	Against USD	
	YTD	3M
EURO	1.8%	0.5%
JPY	-9.6%	-8.2%
GBP	5.2%	3.1%
CHF	3.0%	2.0%
CNY	-4.1%	-4.4%
HKD	-0.4%	0.3%
CAD	2.7%	2.5%
AUD	-2.0%	-0.1%
	Against Euro	
	YTD	3M
USD	-1.7%	-0.5%
JPY	-11.6%	-8.7%
GBP	3.2%	2.5%
CHF	1.2%	1.5%
CNY	-6.2%	-4.8%
HKD	-2.1%	-0.2%
CAD	1.0%	2.0%
AUD	-3.7%	-0.5%
	Against CHF	
	YTD	3M
EURO	-1.3%	-1.5%
USD	-3.1%	-2.0%
JPY	-13.0%	-10.3%
GBP	1.9%	1.0%
CAD	-0.3%	0.5%
AUD	-5.2%	-2.1%
HKD	-3.4%	-1.8%

- On the currency front, with the BOJ's monetary policy unchanged, the JPY continued to fall against all currencies. The CHF, on the other hand, continues to play its role as a safe-haven asset, and continues to strengthen.

- Since the end of Q1, commodity prices have continued to correct, and it is thanks to this fall that inflation is now falling every month.

	% YTD in USD	% 3M in USD
WTI Crude Oil	-13.8%	-8.6%
Brent Crude Oil	-14.0%	-7.4%
Gasoline	2.3%	-6.8%
Natural Gas	-34.4%	-0.1%
Gold	5.3%	-2.4%
Silver	-6.4%	-6.9%
Platinum	-14.2%	-7.4%
Palladium	-28.1%	-12.0%
Aluminum (LME)	-8.6%	-9.9%
Copper (LME)	0.2%	-6.7%
Corn	-7.0%	-4.5%
Wheat	-7.4%	5.9%
Soybean	-1.6%	-0.7%
Coffee	0.4%	-1.4%
Sugar	20.7%	8.7%
Cotton	-6.4%	-5.7%

Source: Bloomberg 23/06/23.

4. Market review : Fixed Income Performance

- In Q2, bond yields fell, mainly due to renewed expectations of rate hikes, as inflation is still too high according to central bankers.

- During the crisis in the banking sector, spreads widened, only to return to much lower levels once the stress was over. This added volatility to the credit market.

- In emerging markets, central banks are beginning to change their mood, and most have stopped their tightening cycle. This has contributed to positive performance over the last 3 months.

	Perf June	Perf YTD	Perf last 3 months	Yield	Duration	Spread
Global						
Global Aggregate	0.3%	1.7%	-1.3%	3.8	6.9	51
Treasuries	0.1%	0.9%	-2.1%	3.1	7.7	13
Credit	0.8%	3.4%	0.1%	5.0	6.3	130
USA						
U.S. Universal	0.0%	2.5%	-0.4%	5.1	6.3	89
U.S. Aggregate	-0.1%	2.4%	-0.6%	4.7	6.5	52
U.S. Gov/Credit	-0.1%	2.4%	-0.7%	4.7	6.7	50
U.S. Treasury	-0.4%	2.0%	-1.0%	4.2	6.4	1
Government-Related	-0.1%	2.7%	-0.2%	4.8	5.5	52
Corporate	0.3%	3.0%	-0.4%	5.4	7.4	132
U.S. MBS	0.0%	2.3%	-0.2%	4.7	6.4	52
Pan Europe						
Pan-Euro Aggregate	0.0%	2.3%	0.1%	3.7	6.9	75
Euro-Aggregate	0.0%	2.5%	0.4%	3.4	6.7	85
Asia Pacific						
Asian-Pacific Aggregate	1.5%	5.7%	2.9%	1.8	7.8	7
High Yield						
Global High Yield	1.9%	4.6%	1.4%	9.3	4.3	518
U.S. Corporate High Yield	0.8%	4.5%	0.9%	8.7	4.1	429
Pan-European High Yield	0.6%	4.9%	2.0%	8.3	3.3	469
Other						
Global Inflation-Linked	1.8%	2.8%	-1.6%			
Municipal Bond Index	1.0%	2.7%	-0.1%	3.5	5.9	
Emerging Markets						
EM USD Aggregate	1.4%	3.2%	1.1%	7.5	6.4	333
Sovereign	2.0%	3.6%	1.4%	7.9	7.6	391
Corporate	1.0%	2.8%	0.7%	7.8	5.2	351
High Yield	3.2%	3.1%	1.7%	11.2	5.3	701

Source: Bloomberg 23/06/23.

5. Long-term Investment Strategy

- We think diversification into long term themes will provide real benefits to traditional sector allocation in the current investment landscape. Many sectors (such as the car market) are disrupted and challenged by technological developments. Moreover diversified approaches (style, sector, geographic) have proven to be an effective hedging against tail risk with durable long term performance.

- Short term noise may bring volatility up but we focus on secular trends: implementation of our Innovation societal impact environmental footprint 3 dimensional approach.

- Our equity exposure is centered around: Technology (Robots, Cybersecurity, Artificial Intelligence), Biotechnology, Societal as well as Environmental impacts, mixed with strong balance sheet companies that generate recurring cash flow over time and rewards investors through share buyback programs and high dividend distribution.

- In a context of interest rates normalization, we now believe that government bonds look attractive.

- L ook for decorrelated asset.

5.1 Current Asset Allocation

➢ Our current allocation is 53.29% Risky Assets*, 19,3% Investment Grade Bonds in our Balanced EUR model.

Asset allocation	**Equity allocation:** neutral. **Bonds:** underweighted. **Cash:** neutral.		
		Core allocation	**Tactical allocation**
Equities	**Regions/ sectors**	• Developed Markets (USA and Europe). • Emerging Markets, China & Vietnam.	
	Investment style, stock selection	• Global growth themes. • Quality dividend selection. • Sustainable finance strategies. • Decorrelated strategies.	
Bonds & currencies	**Duration**	• Short duration (short-term HY and medium-term IG in Europe). • Short duration in USD.	
	Bond segments	• Investment Grade USD and Euro, High Yield corporates EURO.	• Sustainable Convertible bonds. • CAT Bonds.
	Currencies	• Neutral.	• Crypto basket.
Commodities		• Gold. • Commodity Basket Energy Transition	

* Risky Assets = Equities + (High Yield Bonds * 0.6 factor)

Conclusions

- Earnings companies are resilient.
- Reshoring should keep up pressure on inflation.
- Interest rate should stay at high level for a while. Real Estate might suffer from that.
- Probability of recession is falling on Investor expectations. Wishful thinking ?
- Geopolitical tensions are set to remain. This will impact military budget in the long run.
- More than ever, look for decorrelated asset.

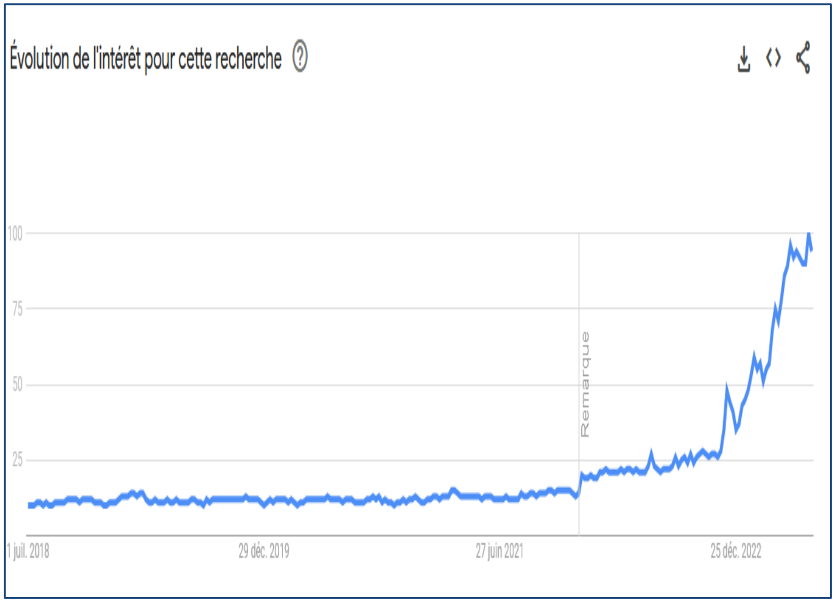
AI Impact on Economy

7. AI Impact on Economy

- The public release of ChatGPT (owned at 49% by Microsoft) at the end of 2022 gave rise to a new craze for artificial intelligence. Since December 2022, the number of research in this sector has grown steadily, and is set to continue to attract attention over the next few years.

- One of the first companies to benefit directly from the development of AI is Nvidia. The company's graphics cards are now the best for training artificial intelligence. It was after releasing their Q1 results and revising their sales forecasts for the year that investors began to realize the impact that AI can have on corporate profits.

Google Trend : «AI»



Source: Mckinsey

Nvidia

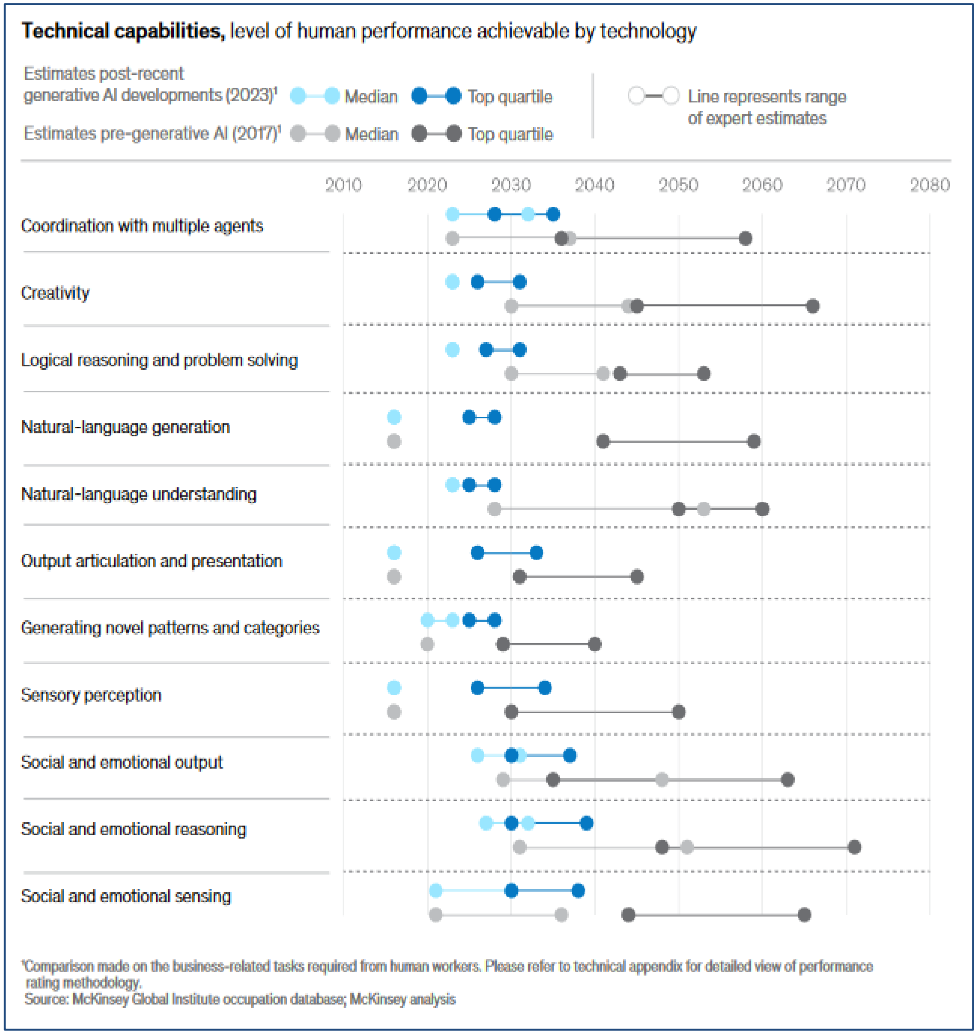
Source: Mckinsey

7. AI Impact on Economy

- Since ChatGPT was launched last November, its user base has grown exponentially. While it took Instagram 30 months to reach the 100 million user mark, it took ChatGPT just 2.

- ChatGPT's revolution has prompted all analysts to revise their forecasts for the adoption and performance of artificial intelligence over the coming years. For most of the fields in which AI has a place, analysts have brought forward by one to two decades the date at which they think AI will be able to replicate human capabilities.

Date Estimates where AI is as good as Humans



Source: Mckinsey

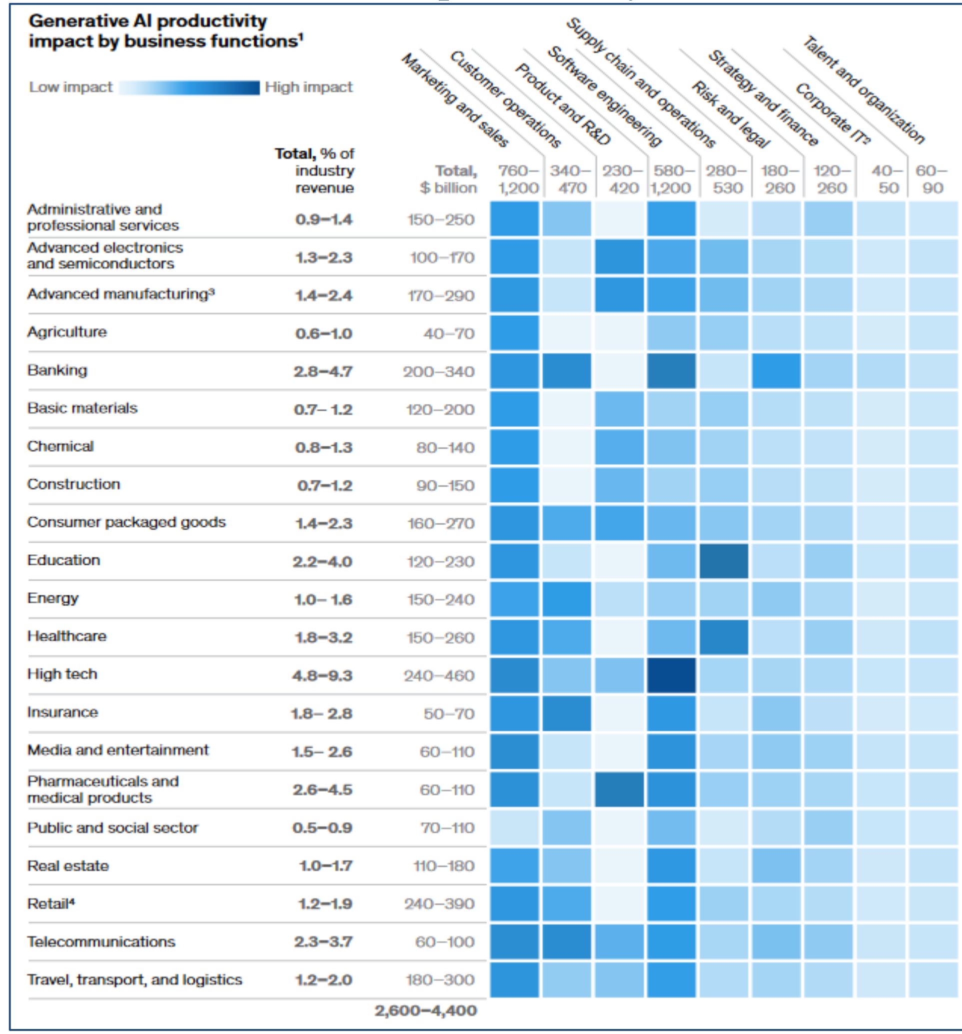
7. AI Impact on Economy

- The impact of AI will be felt in all sectors, although some will be more affected than others. In technology companies, for example, software development will be much faster with the help of AI.

- The banking sector is also likely to be one of the hardest hit, whether it's financial analysts whose analyses can be carried out in a matter of seconds by AI, or customer service, which may one day be delegated entirely to artificial intelligence.

- Although these artificial intelligences are not free to develop and train, this cost should be more than offset by the productivity gains in all the sectors in which they will be present, generating several trillions in added value.

Economic impact of AI by Sector



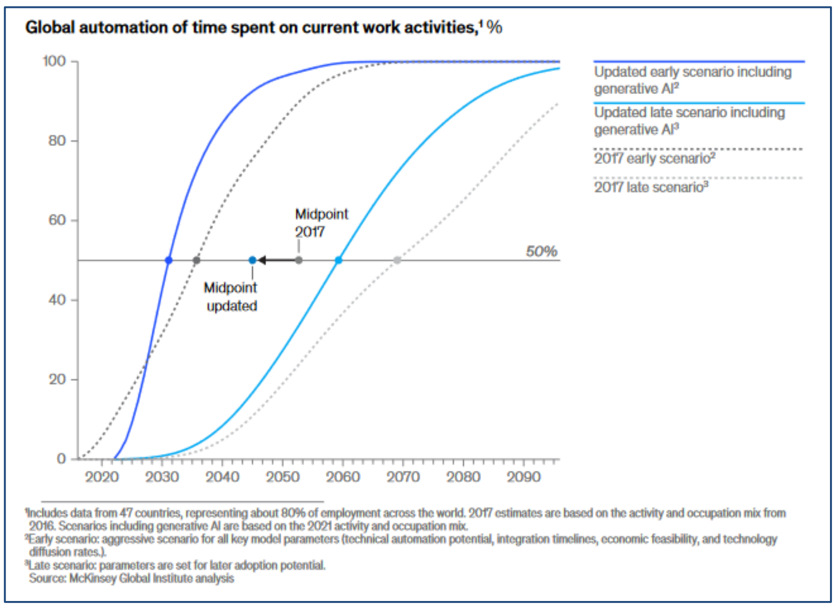
Source: Mckinsey

7. AI Impact on Economy

- According to a Mckinsey study, the direct impact of generative AI could be between 2.6 and 4.4 trillion dollars. On top of this, the indirect impact and future developments expected to increase employee productivity could add between 6.1 and 7.9 trillion in economic value globally.

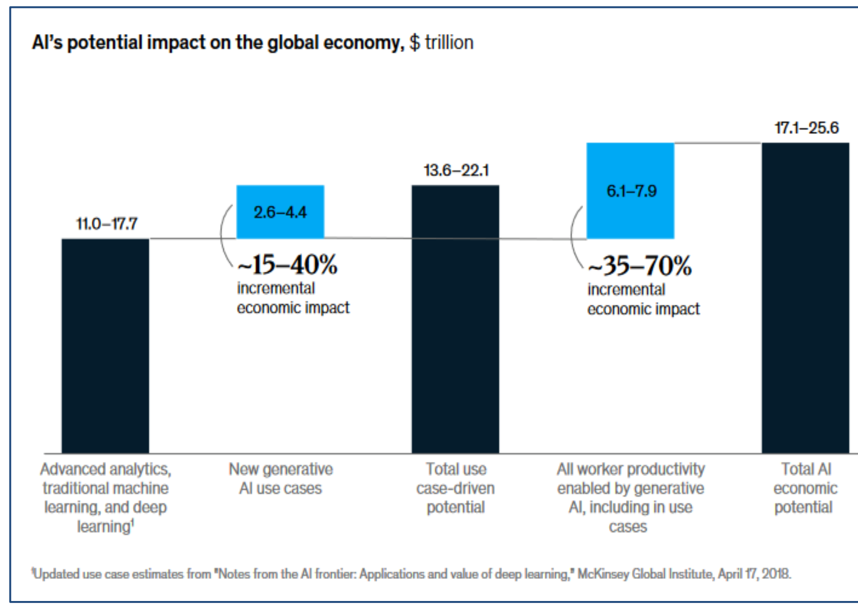
- The speed at which this value creation is deployed in the economy will obviously depend on the speed of AI adoption in companies. In a scenario where most companies start developing and using these resources tomorrow, we could automate 50% of tasks by 2030.

% Task Automation



Source: Mckinsey

Economic Impact on global Economy

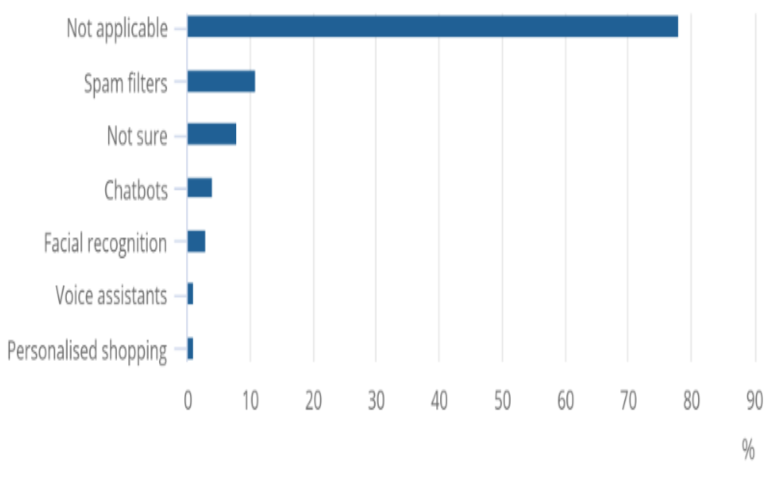


Source: Mckinsey

7. AI Impact on Economy

- There's already a lot of talks about this revolution, but it's legitimate to ask whether these expectations are realistic, and whether productivity gains can be felt when using artificial intelligence.
- A study in the UK showed that over 78% of companies today do not believe that AI can be used in their business. This proves that we'll have to wait several more years of development before this technology can be used by everyone.
- However, in Belgium, according to a study by the National Bank of Belgium, there is a correlation between the use of AI and productivity.

UK Business Using AI



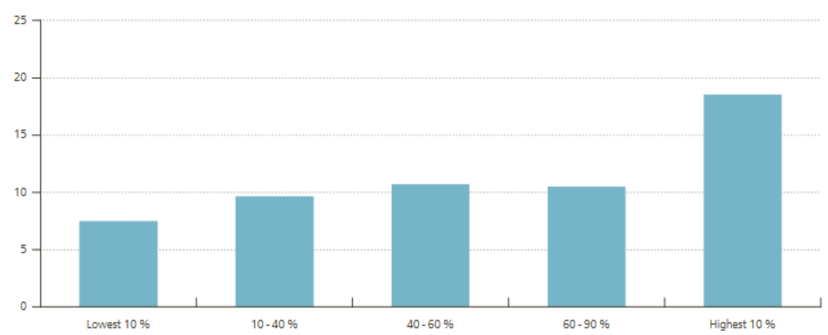
Source: UK Office for National Statistics

Productivity of Belgian Business using AI

Figure 5

Firms using at least one AI technology[1], sorted by level of productivity[2] in Belgium

(in %)



Source: Federal Planning Bureau.

1 AI technologies include text mining, speech recognition, natural language generation, image recognition and processing, machine learning, AI based software robotic process automation, autonomous robots, self-driving vehicles and autonomous drones.

2 Labour productivity measured by turnover per employee.

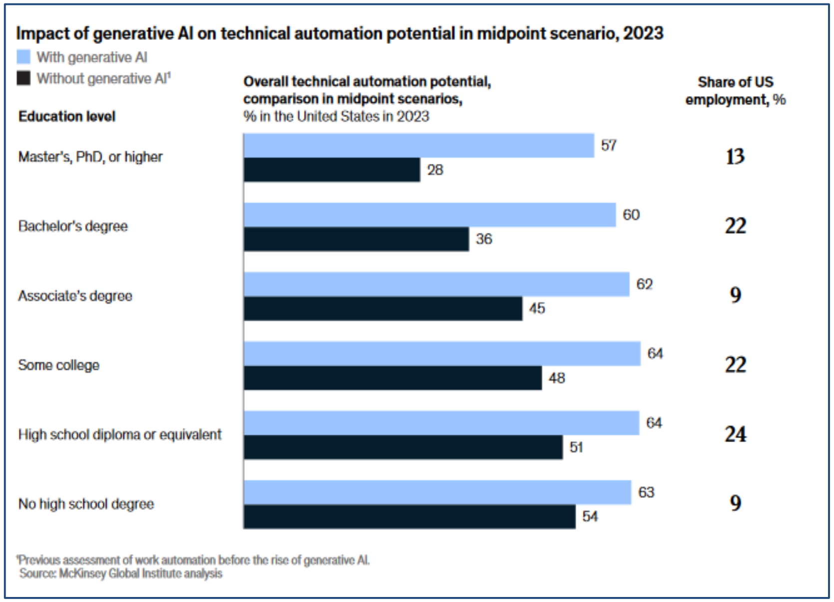
Source: National Bank of Belgium

7. AI Impact on Economy

- The jobs most impacted by this technological advance will be those that require reflection. The education sector, for example, is likely to be turned upside down by the arrival of ChatGPT, which will be able to take on the role of a teacher.

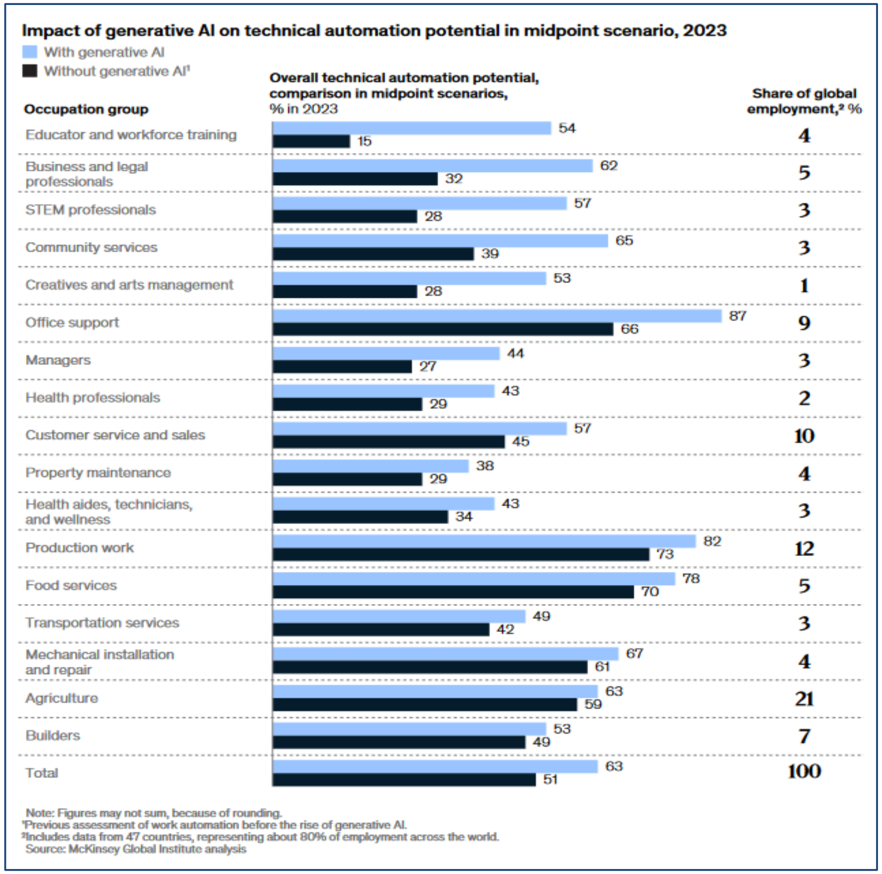
- It's the most highly-trained people who will be most affected, bearing in mind that in jobs requiring little training, much of the automation has already been done.

Impact of AI by Degree of Education



Source: Mckinsey

Impact of AI by Field



Source: Mckinsey

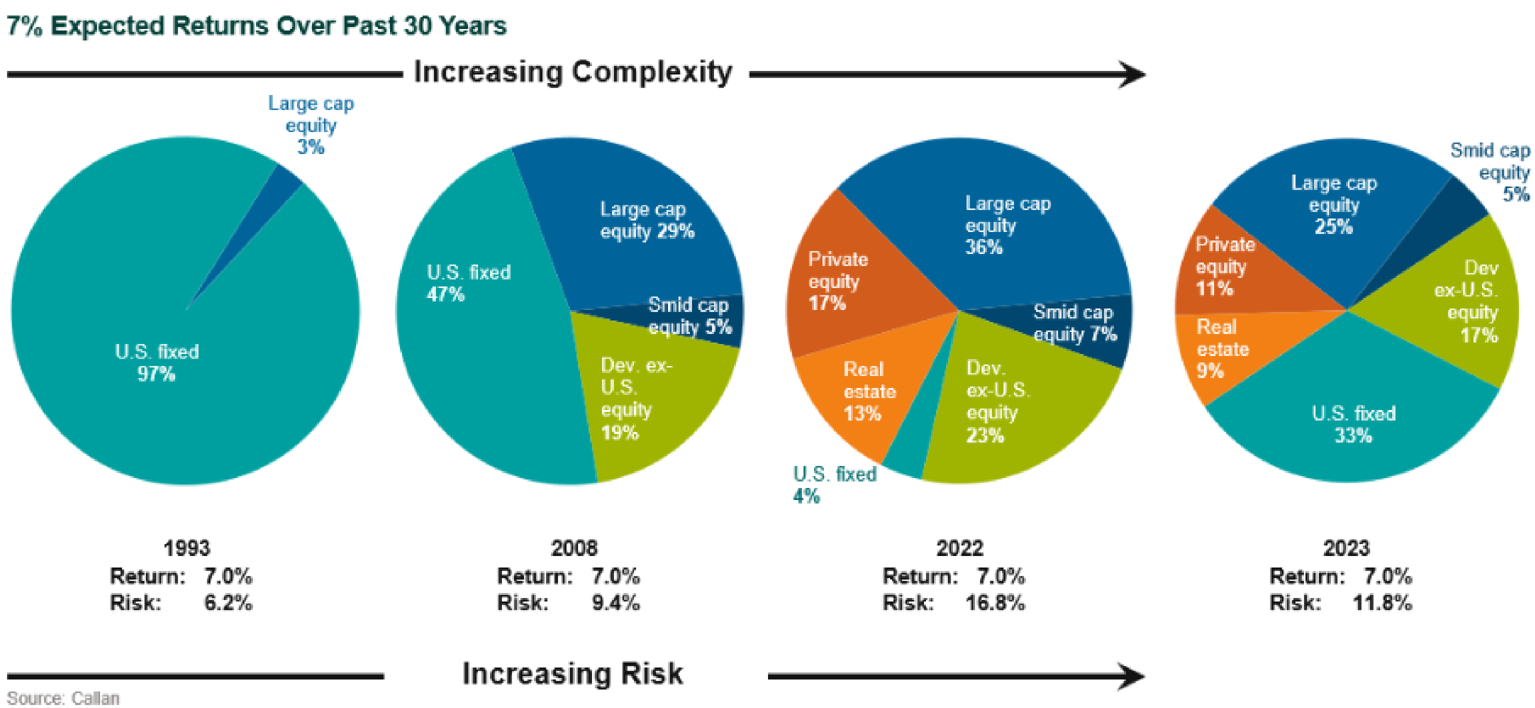
Appendix

1. Rolling the Dice

Appendix 3: Rolling the Dice

➢ Investors grabbling with lower interest rates have to take larger risks to reach the same returns as three decades ago.

Estimates of what investors needed to earn 7.0%



Source: Callan Associates

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