
WEISSHORN
ASSET MANAGEMENT SA

Investment Committee Q3

1. Market highlights
2. Macro View
3. Long term view
4. Market review
5. Allocation
6. Conclusion
7. Thematic
8. Appendix

1. Market highlights

- After a strong start to the year, **risky assets are losing ground**. The MSCI World lost 3.8% in Q3, while the Eurostoxx 50 gave back more than a third of its H1 gains.

- The 2nd quarter **earnings season** was very costly for companies that failed to convince investors. A few of them lost more than 40% since end of June.

- In recent weeks, most institutions, such as the OECD and the ECB, **lowered their growth forecasts and raise their inflation forecasts** for 2024.

- Although inflation continues to contract, it remains at levels of concern to central bankers. Even if we can hope for a lasting pause in the rate hike cycle, **monetary policies remain restrictive** (higher rates for longer).

- The ECB's key rates stand at 4% (+50 bps over the quarter), while the FED has only raised rates by 25 bps since June, bringing the range to 5.25-5.50%.

- According to Ms. Lagarde and Mr. Powell, **rates may have peaked**, unless macro data encourages them to continue their rate hike cycle (**data dependency**).

- In an economic slowdown context, oil (+28.5% in Q3) is clouding the picture and putting pressure back on inflation. Following voluntary production cuts by Saudi Arabia and Russia, **OPEC expects a shortfall of nearly 3 million barrels per day**.

1. Market highlights

- Unlike in the H1 2023, long rates have tended to rise faster than short ones. **The curves remain inverted**, but in smaller proportions. The German 10-year yield is flirting with the 3% mark, which it has revisited for the first time since 2011, while the US 10-year is hovering at its highest level since 2007 at 4.70%.

- Despite high interest rates weighing on heavily indebted households and corporates, **credit spread levels remain relatively stable**. Future refinancing in the HY segment could bring volatility in the months ahead.

- The United States narrowly avoided a **shutdown** of their institutions at the end of September, but the problem is far from over - it has simply been postponed for 45 days. This could bring volatility and dampen hopes of an end-of-year rally if a real agreement on the budget is not reached quickly between Democrats and Republicans. Mr. **McCarthy destitution** will not help to find a solution quickly.

- Mr. Biden's promise to cancel a portion of the **student debt** could not be kept. Will this backfire on the current president in the November 2024 elections?

- **China's economic recovery continues to disappoint**. The real estate market is still in an uncomfortable position, with major property developers in serious financial difficulty. Despite the PBOC's attempts to revive the economy, growth is well below target. The deglobalization initiated after Covid is also weighing on the Middle Kingdom.

- **The Equity Market remains tight**, only a few stocks participate to the performance and EPS growth.

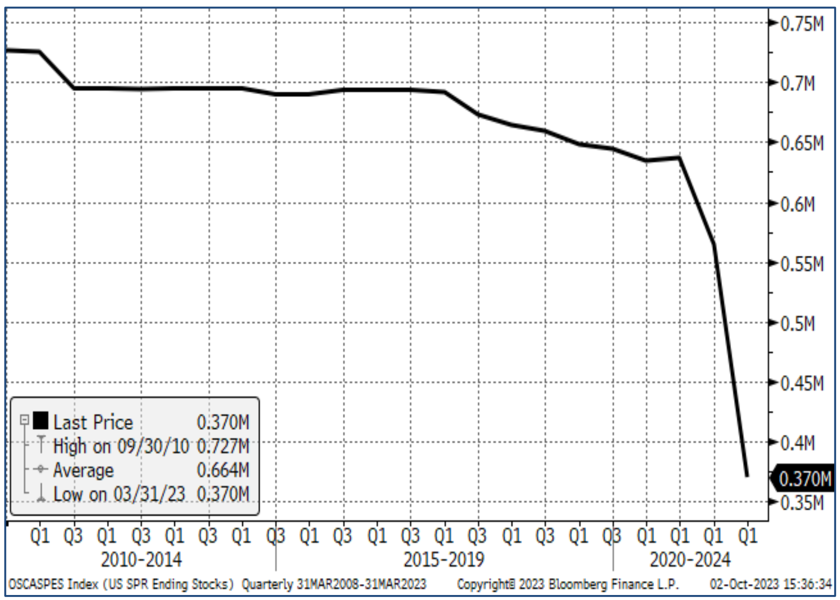
2.1 Crude oil

- **US oil reserves** are at their lowest in decades. In 2022, the government decided to inject part of its reserves into the market in order to bring down the price per barrel.

- They announced that they would rebuild their reserves when the price of oil would fall back below 80 USD per barrel. However, they have yet to do so.

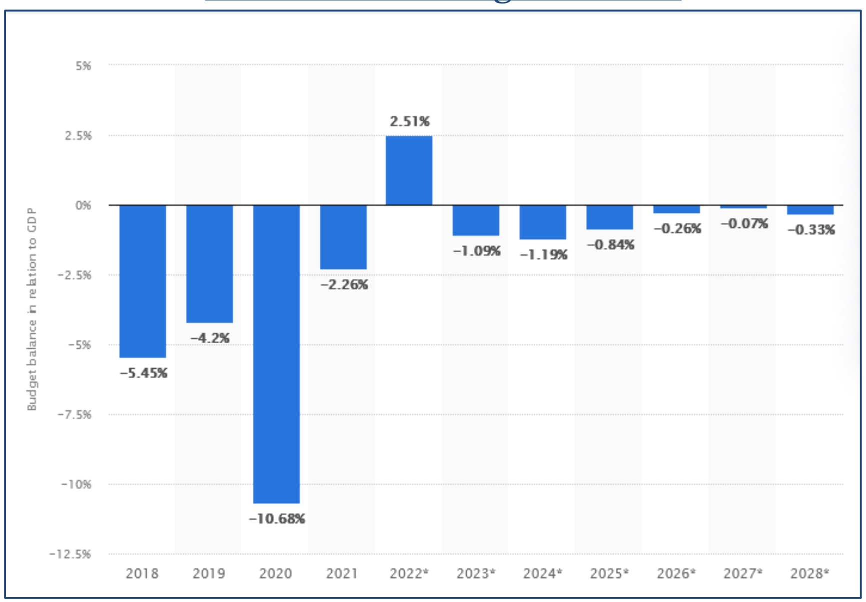
- In retaliation, **Saudi Arabia has decided to cut its oil production** in order to generate the revenues needed to make up the deficit expected following its massive investments in its cities of the future.

US Strategic Reserves



Source: Bloomberg

Saudi Arabia Budget Balance

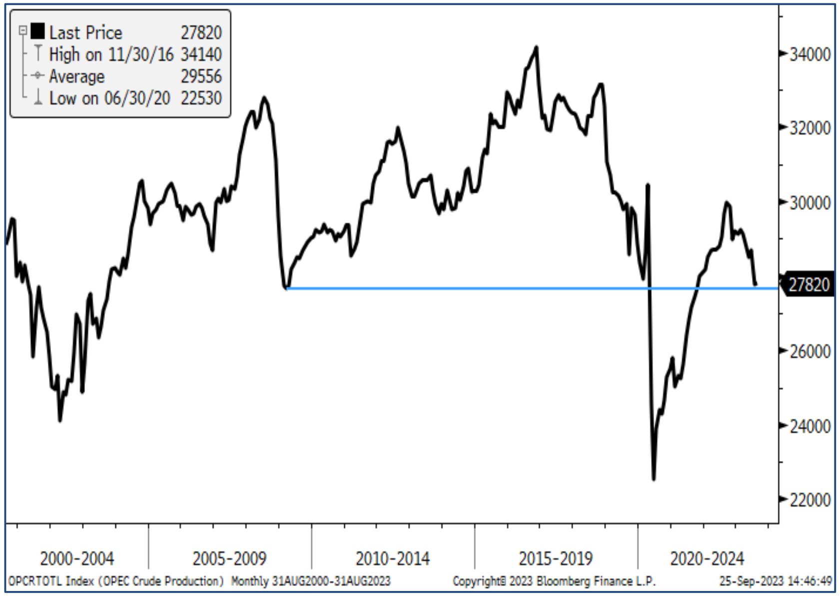


Source: Datastream

2.1 Crude oil

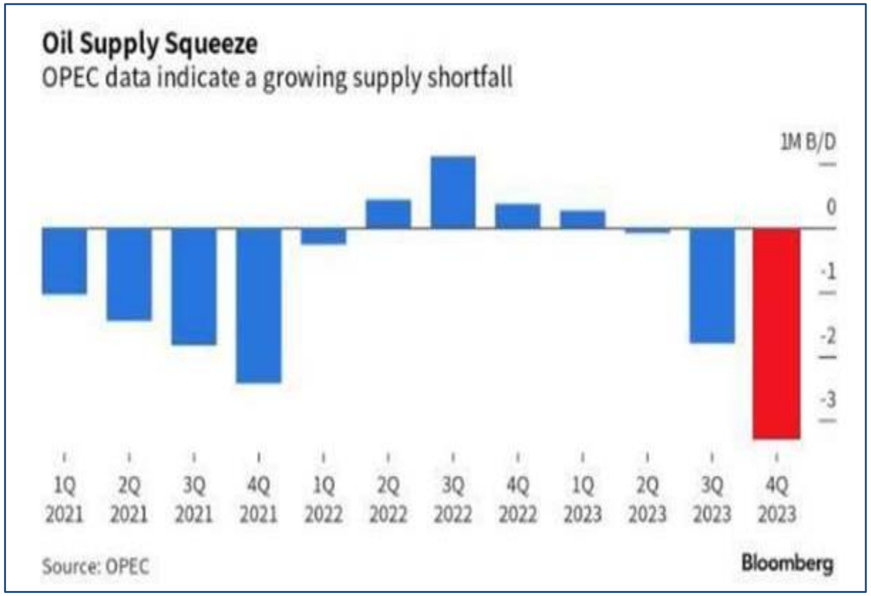
- Following announcements from the Saudi Arabia and Russia, the price of oil has risen sharply since August.
- The Saudi Arabia announced it was extending its production cut until December, while **Russia temporarily banned gasoline and diesel exports** to all countries outside a circle of four former Soviet states and extended their production cut as well.
- Although production is declining, the **resilience of the economy continues to support demand**, and prices are rising as a result.

Opec Oil Production



Source: Bloomberg

Oil Demand



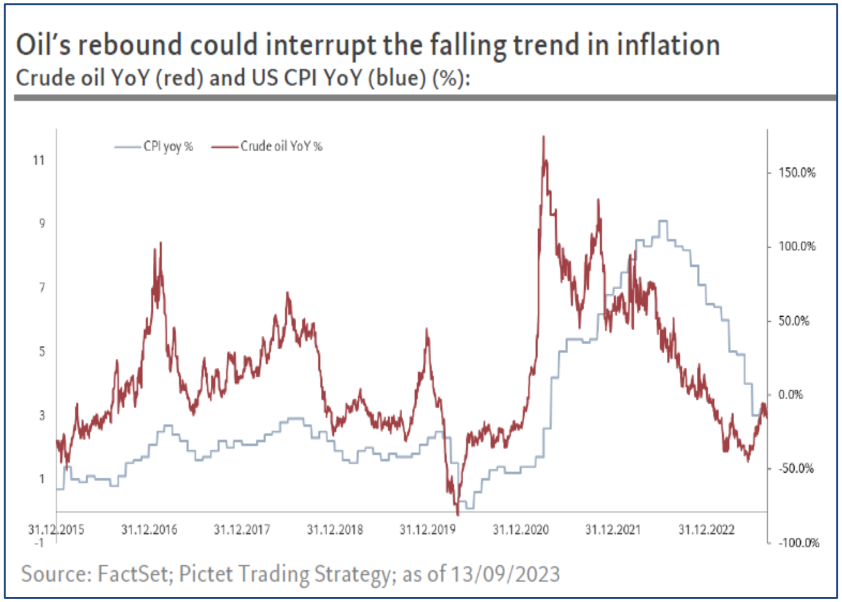
Source: Bloomberg

2.2 Inflation

- Energy prices have a direct impact on inflation. The recent rise in the price of oil will **challenge the central banks' battle against inflation**.

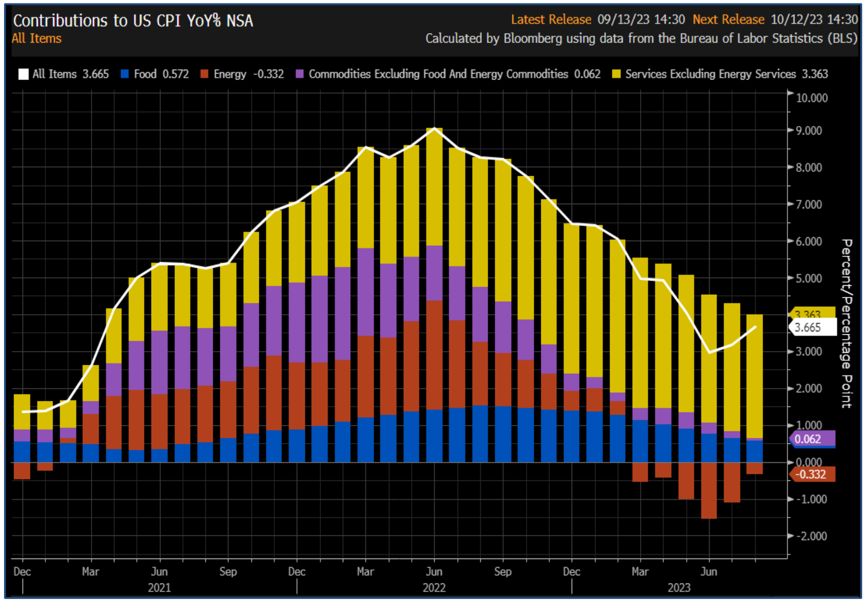
- Over the past few months, energy has made a negative contribution to inflation, allowing prices to rise more slowly. On the other hand, other inflation segments, such as services, continue to see their prices rise at a too high pace.

Crude performance vs CPI



Source: Pictet

CPI Component Contribution



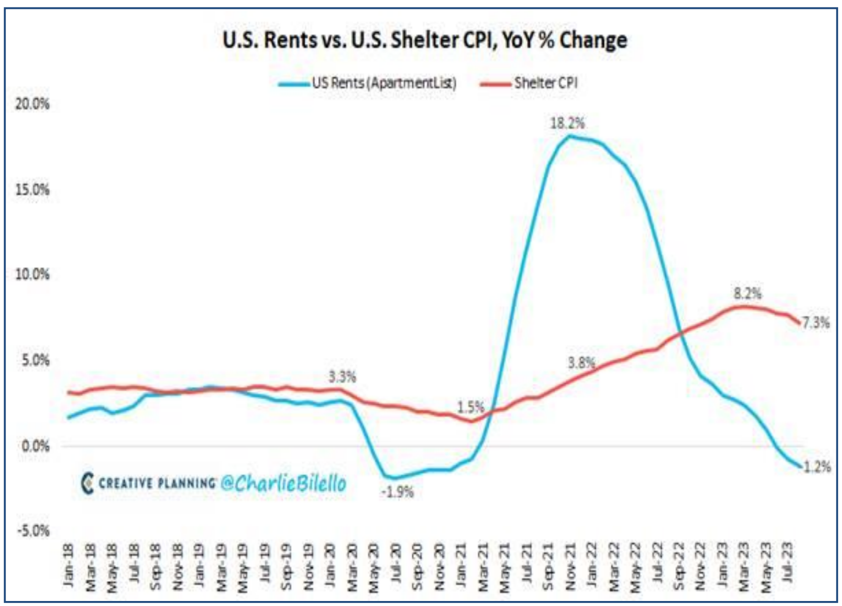
Source: Bloomberg

2.2 Inflation

- In services inflation, the main contributor to price rises is **the cost of housing**. These costs are strongly linked to interest rates, but now that we have certainly reached a plateau in terms of rates, these costs should stop rising.

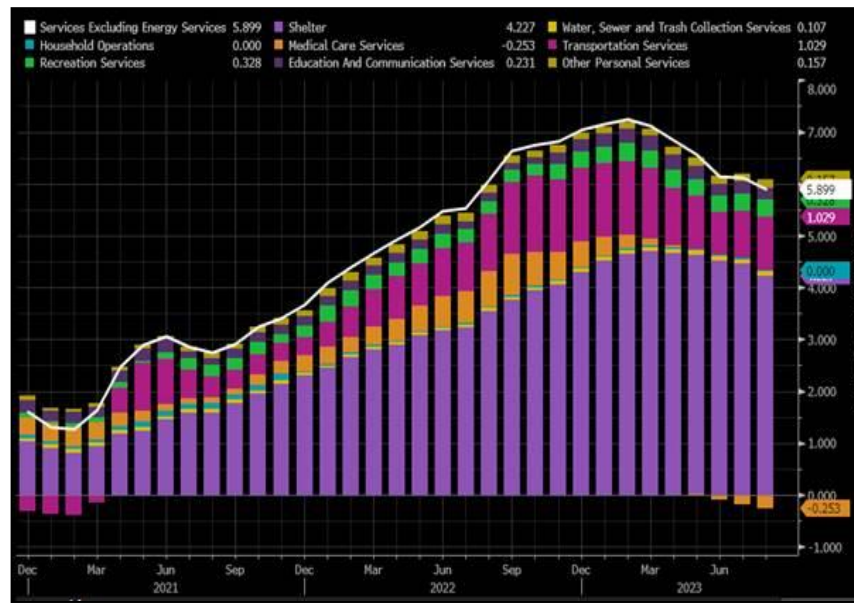
- Positive signals come from calculating the rise in new rents, which have been in negative territory for some time. This indicator seems to give the trend in shelter inflation, confirming that it should continue to fall.

US Rents vs US Shelter CPI



Source: Charlie Bilello

CPI Services Components



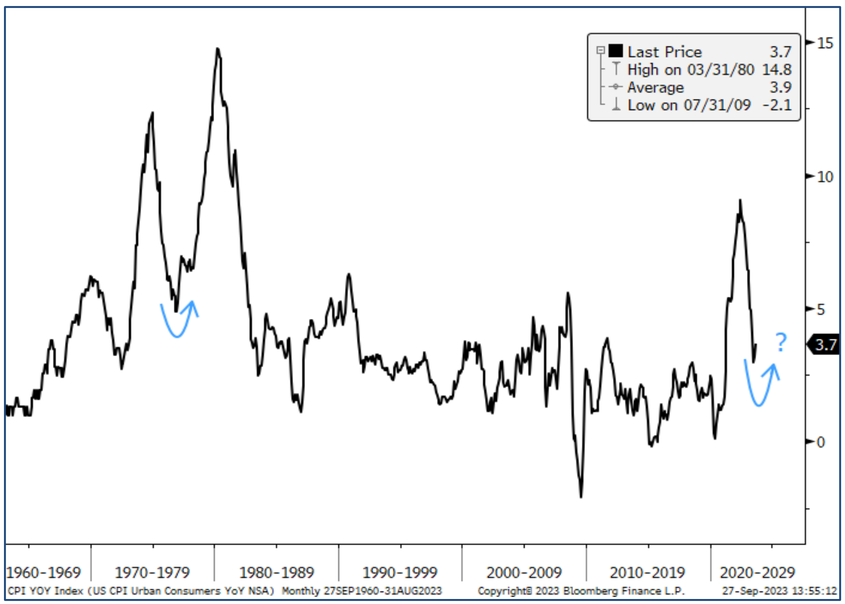
Source: Bloomberg

2.2 Inflation

- Although some analysts fear that rising energy prices could cause a **2nd wave of inflation**, it is also possible that they could play a regulating role. Consumers' purchasing power will be reduced, and they will therefore buy fewer goods and services, which will take the pressure off inflation.

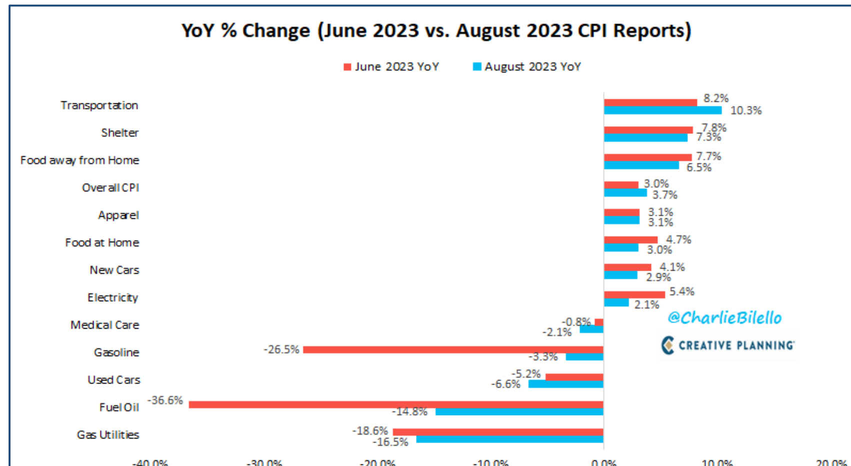
- Other inflation segments are already showing signs of resilience, and continue to fall month by month.

US CPI



Source: Bloomberg

Component Inflation



	Gas Utilities	Fuel Oil	Used Cars	Gasoline	Medical Care	Electricity	New Cars	Food at Home	Apparel	Overall CPI	Food away from Home	Shelter	Transportation
June 2023 YoY	-18.6%	-36.6%	-5.2%	-26.5%	-0.8%	5.4%	4.1%	4.7%	3.1%	3.0%	7.7%	7.8%	8.2%
August 2023 YoY	-16.5%	-14.8%	-6.6%	-3.3%	-2.1%	2.1%	2.9%	3.0%	3.1%	3.7%	6.5%	7.3%	10.3%

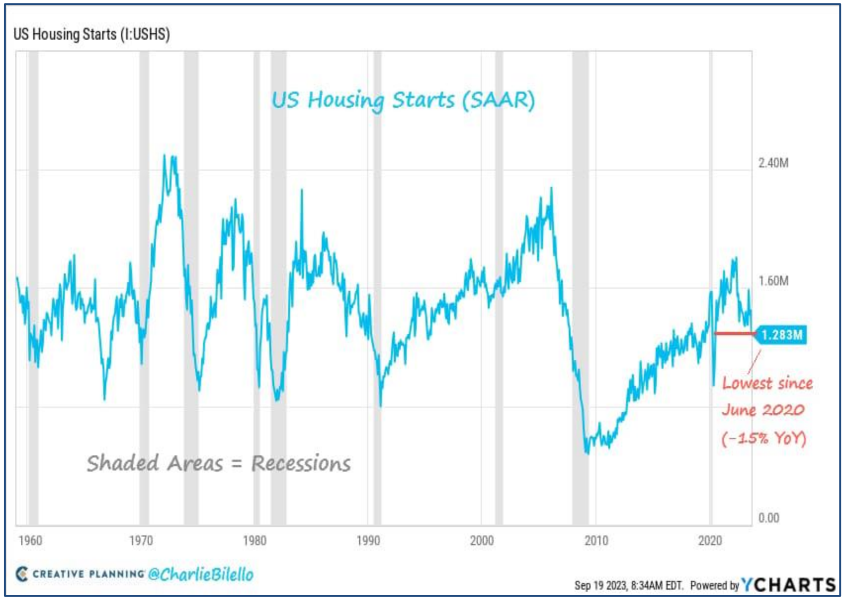
Source: Charlie Bilello

2.3 US Real Estate

- The US real estate sector continues to experience a marked slowdown. It is paralyzed by **rising interest rates**, which are forcing investors to wait for more advantageous credit conditions before buying or building a home. Very **few sellers are on the market**, as they are waiting for better conditions to buy another property.

- **US mortgage rates** reached over 7.75%. This is a level not seen since the 2000s. The cost of debt means that the majority of households cannot afford the luxury of buying real estate, and reduces expected returns for investors.

US Housing Starts



Source: Charlie Bilello

US Commercial Property Prices

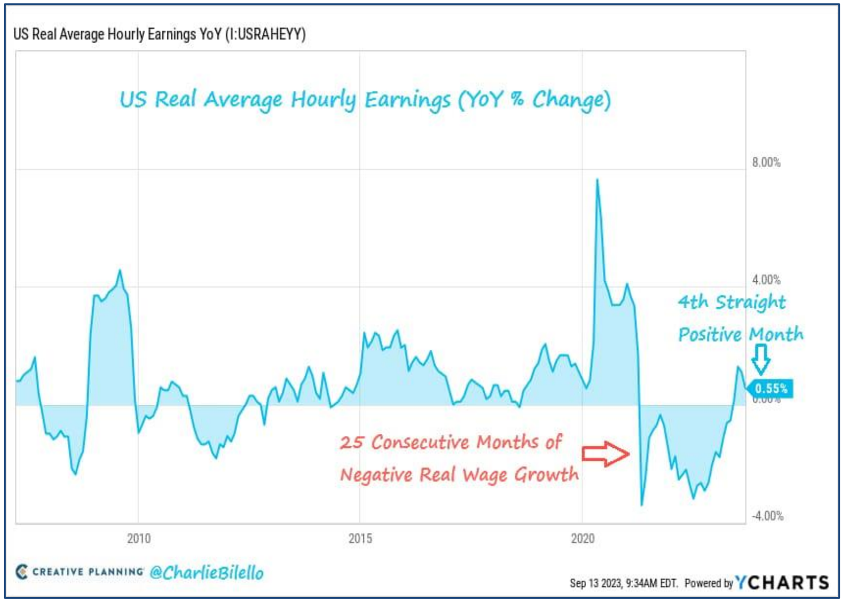
Source: Green Street

2.4 US Labor Market

- The job market continues to be tight. For 32 consecutive months, the US economy has continued to create jobs. After 25 consecutive months of negative real growth, wages have risen for 4 consecutive months, giving consumers greater purchasing power.

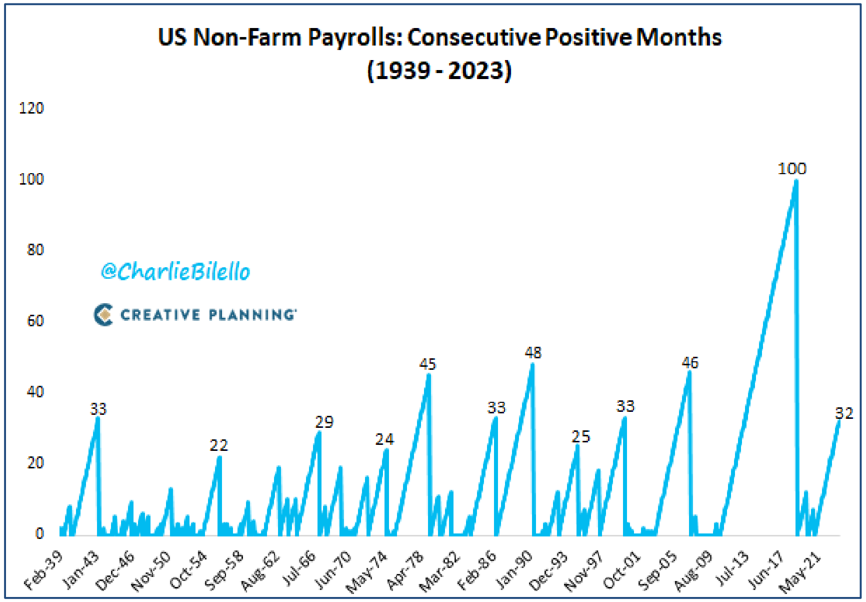
- **This greater purchasing power is likely to frighten the FED**, which is seeking to combat excess consumption that could fuel inflation. However, the recent rise in energy prices may already be eroding the wage growth.

US Real Wage Growth



Source: Charlie Bilello

Consecutive Months Positive Payrolls



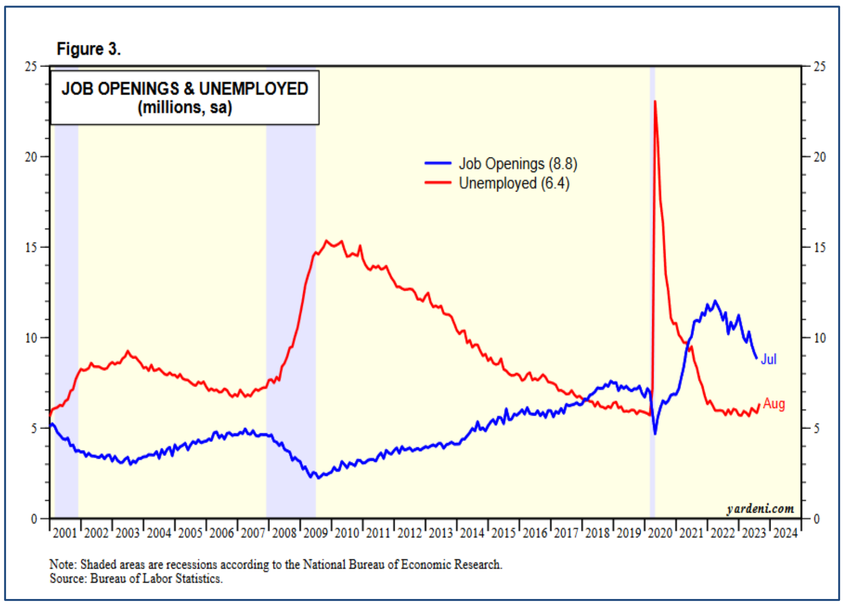
Source: Charlie Bilello

2.4 US Labor Market

- Although the job market remains tight, the trend is towards normalization. The **number of job vacancies** on the market is falling month by month, while the number of job seekers is barely budging.

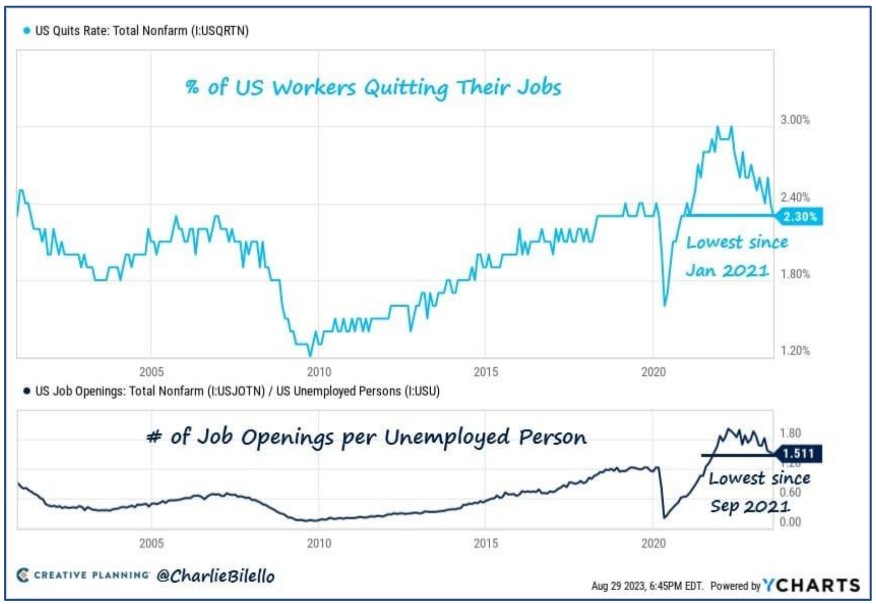
- This easing on the labor market has the effect of **pushing employees to stay** in their current jobs because they're afraid of not finding another one, or there simply aren't any better opportunities. Other signs of normalization are appearing, such as **unemployment**, which has risen to 3.8%, and the participation rate, which is almost back to pre-Covid levels.

US Job Openings vs Unemployed



Source: Yardeni Research

% Workers Quitting Their Jobs



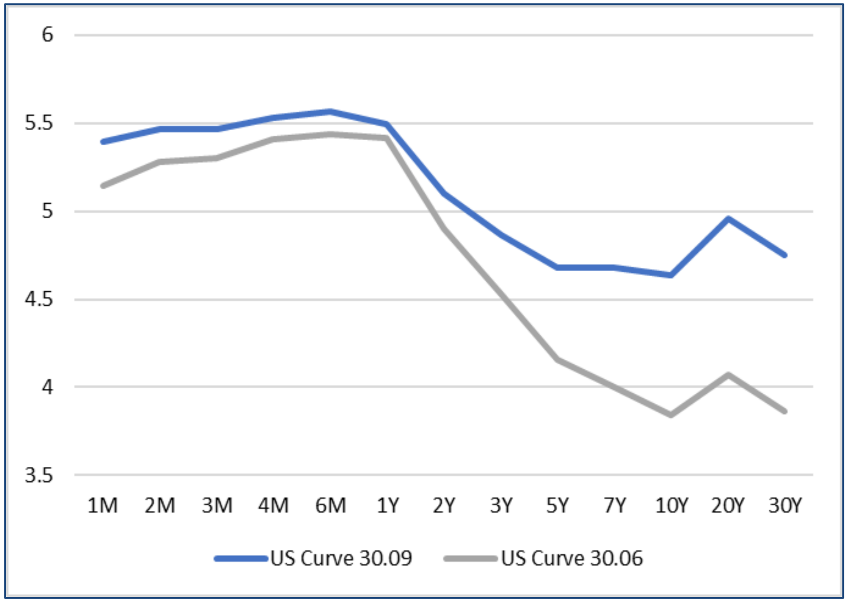
Source: Charlie Bilello

2.5 Interest Rates

- The **rate hike cycle appears to be coming to an end** on both sides of the Atlantic. Central banks continue to be guided by the macro data published each month. As long as there are no nasty surprises on the inflation front, rates should stay where they are now.

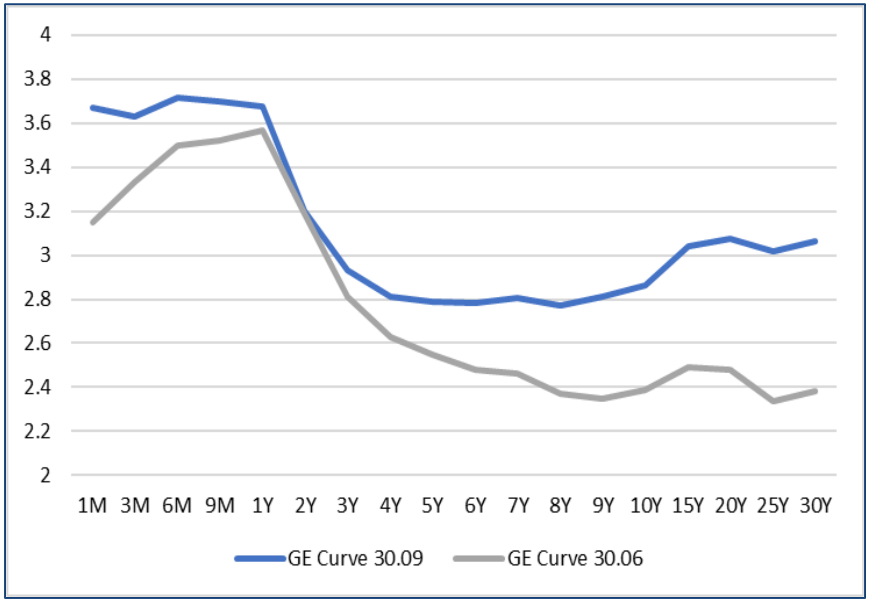
- Central bankers' talk of **higher rates for longer** has had an impact on long rates. Since the last quarter, we have witnessed a bearish steepening, with long rates rising sharply compared with short rates. Yet, the curve still remains inverted on both sides of the Atlantic.

US Yield Curve Now vs 3M Ago



Source: Bloomberg

Germany Yield Curve Now vs 3M Ago



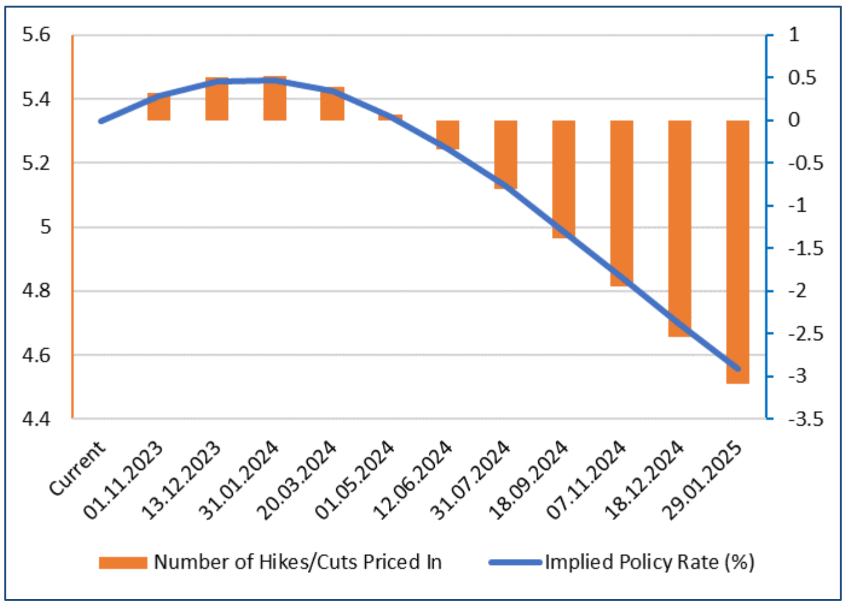
Source: Bloomberg

2.5 Interest Rates

- Americans and Europeans alike no longer expect central banks to raise rates.

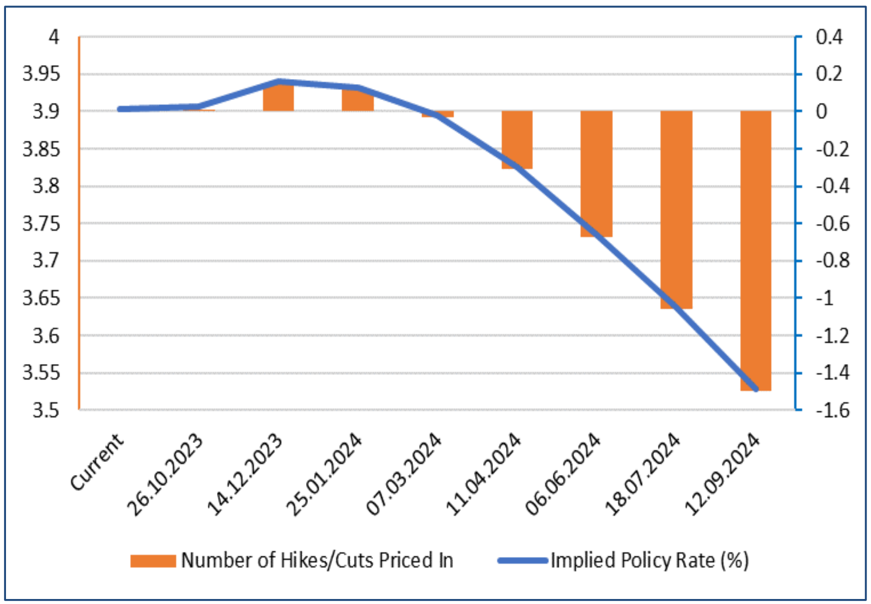
- The resilience of the economy has prompted analysts to revise their estimates of when the **first rate cuts** will take place. In the US, this should happen between the end of Q2 and the beginning of Q3, while in Europe we should see lower rates in Q3 2024.

US Implied Rate Hikes/Cuts



Source: Bloomberg

EU Implied Rate Hikes/Cuts



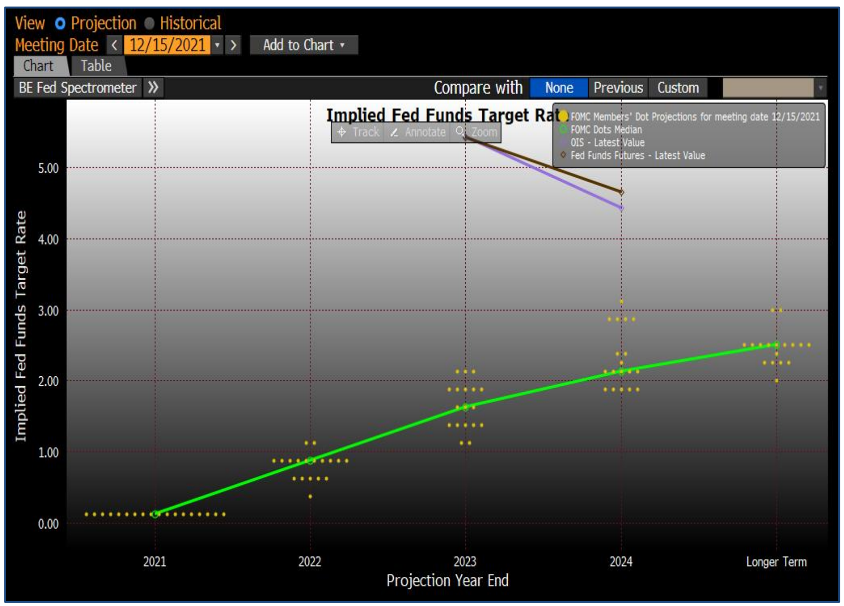
Source: Bloomberg

2.6 Interest Rates

- Sometimes, it's important to put things into perspective, the FED's latest dot plot took investors by surprise, with forecasts higher than those of the market.

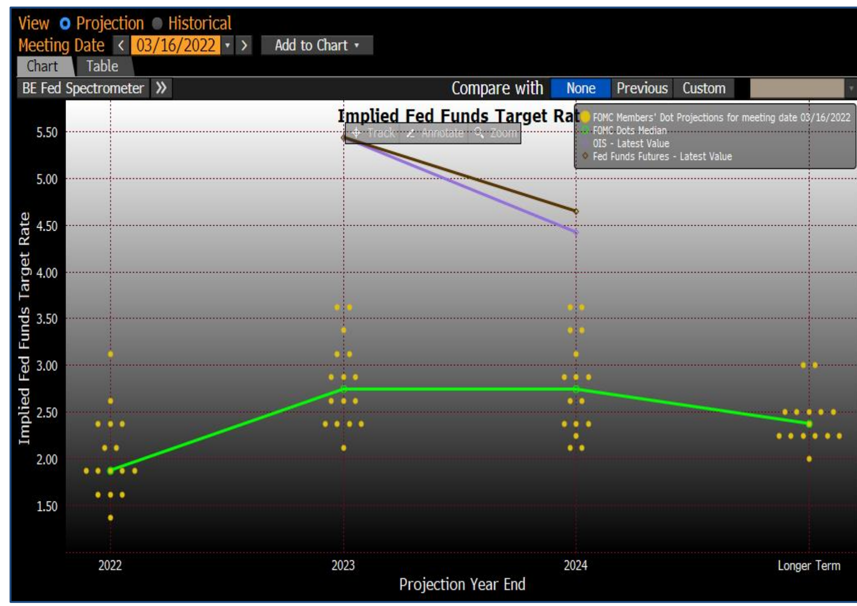
- **However, it should be remembered that at the end of 2021, the FED was forecasting rates of around 1.75% by the end of 2023. Only three months later, it had already revised its forecasts to 2.75%.** All this to say that the FED's forecasts can change very quickly and are highly dependent on macroeconomic data. Now the rates stand at 5.5% while the FED sees them at 5,625 by the end of the year and 5,25 for 2024.

FED Dot Plot 15.12.2021



Source: Bloomberg

Fed Dot Plot 16.03.2022



Source: Bloomberg

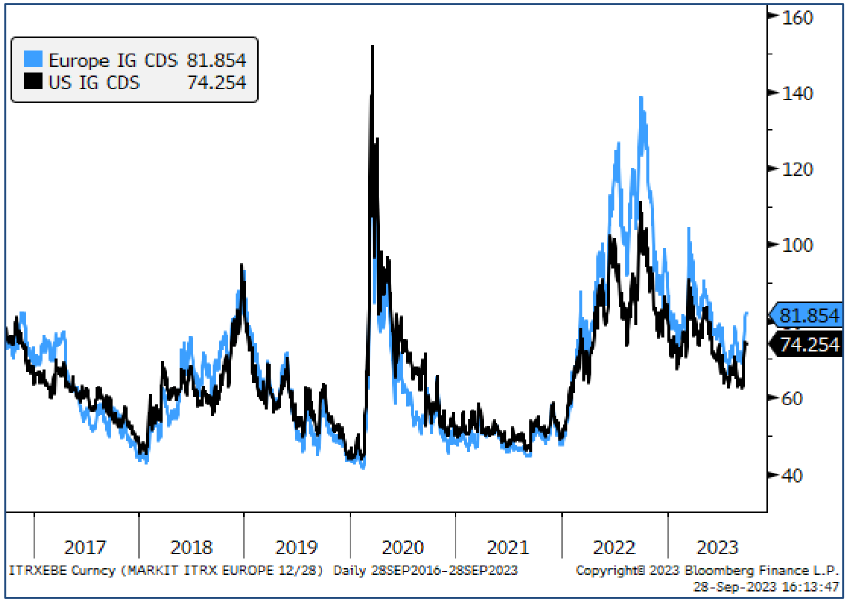
2.7 Credit Spreads

- The latest central bank decisions have put some stress on the credit market, leading to a **slight increase in spreads on both HY and IG**.

- However, this increase in spreads remains negligible, as the big question is whether a recession will actually occur or whether it can be avoided.

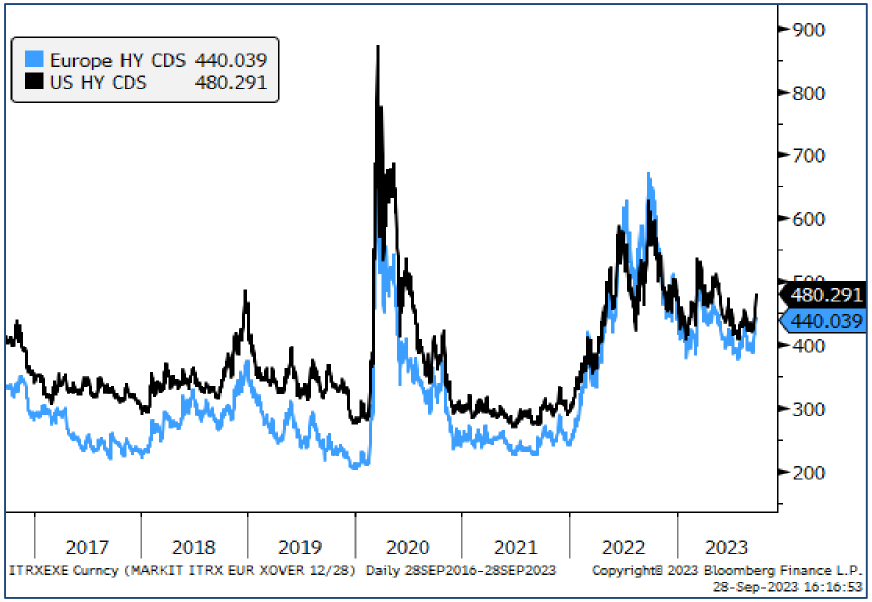
- So far, companies have hardly had to refinance at all. But as early as 2025, a **wall of debt** is looming, which could put a strain on credit.

US & EU IG Credit Spreads



Source: Bloomberg

US & EU HY Credit Spreads



Source: Bloomberg

2.8 Fixed Income Perf.

10 Year Treasury Performance

- Even after a year like 2022, which was one of the worst in terms of fixed income performance, **returns in this sector continue to weigh on investor mood.**

- Returns on 10-year US Treasuries continue to be **negative for the 3rd year** running, marking their widest drawdown ever. If, as the market expects, yields fall or at least remain stable over the next year, we could finally see a return to positive performance.

US 10-Year Treasury Bond: Total Returns (1928 - 2023)

Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	0.8%	1948	2.0%	1968	3.3%	1988	8.2%	2008	20.1%
1929	4.2%	1949	4.7%	1969	-5.0%	1989	17.7%	2009	-11.1%
1930	4.5%	1950	0.4%	1970	16.8%	1990	6.2%	2010	8.5%
1931	-2.6%	1951	-0.3%	1971	9.8%	1991	15.0%	2011	16.0%
1932	8.8%	1952	2.3%	1972	2.8%	1992	9.4%	2012	3.0%
1933	1.9%	1953	4.1%	1973	3.7%	1993	14.2%	2013	-9.1%
1934	8.0%	1954	3.3%	1974	2.0%	1994	-8.0%	2014	10.7%
1935	4.5%	1955	-1.3%	1975	3.6%	1995	23.5%	2015	1.3%
1936	5.0%	1956	-2.3%	1976	16.0%	1996	1.4%	2016	0.7%
1937	1.4%	1957	6.8%	1977	1.3%	1997	9.9%	2017	2.8%
1938	4.2%	1958	-2.1%	1978	-0.8%	1998	14.9%	2018	0.0%
1939	4.4%	1959	-2.6%	1979	0.7%	1999	-8.3%	2019	9.6%
1940	5.4%	1960	11.6%	1980	-3.0%	2000	16.7%	2020	11.3%
1941	-2.0%	1961	2.1%	1981	8.2%	2001	5.6%	2021	-4.4%
1942	2.3%	1962	5.7%	1982	32.8%	2002	15.1%	2022	-17.8%
1943	2.5%	1963	1.7%	1983	3.2%	2003	0.4%	2023	-2.5%
1944	2.6%	1964	3.7%	1984	13.7%	2004	4.5%		
1945	3.8%	1965	0.7%	1985	25.7%	2005	2.9%		
1946	3.1%	1966	2.9%	1986	24.3%	2006	2.0%		
1947	0.9%	1967	-1.6%	1987	-5.0%	2007	10.2%		

CREATIVE PLANNING @CharlieBilello As of 9/21/23

Source: Charlie Bilello

2.9 Macro : Global GDP

- There is still a great deal of uncertainty in the market, and it is **still too early to say whether or not a recession will actually occur**, and how deep it will be.
- However, we can already see that rate hikes have had an effect on the economy. **Growth** in almost all the world's major economies **has slowed** sharply compared with last year.
- European countries are the hardest hit, with some posting negative growth. It's important to keep in mind that **2022 was an outstanding year** and that comparison is difficult. The growth rates now are more in line with last decade growth. Except for Germany that has some issues with exportation and energy prices.

GDP Growth Rate

Global Growth Rates (Real GDP, YoY% Change)

Country	Q2 2022	Q2 2023	Difference
INDIA	13.1%	7.8%	-5.3%
CHINA	0.4%	6.3%	5.9%
INDONESIA	5.5%	5.2%	-0.3%
RUSSIA	-4.5%	4.9%	9.4%
PHILIPPINES	7.5%	4.3%	-3.2%
TURKEY	7.6%	3.8%	-3.8%
MEXICO	2.4%	3.6%	1.2%
BRAZIL	3.7%	3.4%	-0.3%
US	1.8%	2.6%	0.8%
PORTUGAL	7.4%	2.3%	-5.1%
AUSTRALIA	3.1%	2.1%	-1.0%
SPAIN	7.8%	1.8%	-6.0%
JAPAN	1.7%	1.6%	-0.1%
SOUTH AFRICA	0.2%	1.6%	1.4%
HONG KONG	-1.2%	1.5%	2.7%
SAUDI ARABIA	11.2%	1.2%	-10.0%
CANADA	4.7%	1.1%	-3.6%
FRANCE	3.9%	1.0%	-2.9%
SOUTH KOREA	2.9%	0.9%	-2.0%
SWITZERLAND	2.4%	0.5%	-1.9%
SINGAPORE	4.5%	0.5%	-4.0%
UK	3.8%	0.4%	-3.4%
ITALY	5.0%	0.4%	-4.6%
GERMANY	1.5%	-0.2%	-1.7%
FINLAND	2.6%	-0.4%	-3.0%
POLAND	6.1%	-0.6%	-6.7%
IRELAND	9.3%	-0.7%	-10.0%
SWEDEN	4.0%	-1.0%	-5.0%

CREATIVE PLANNING @CharlieBilello

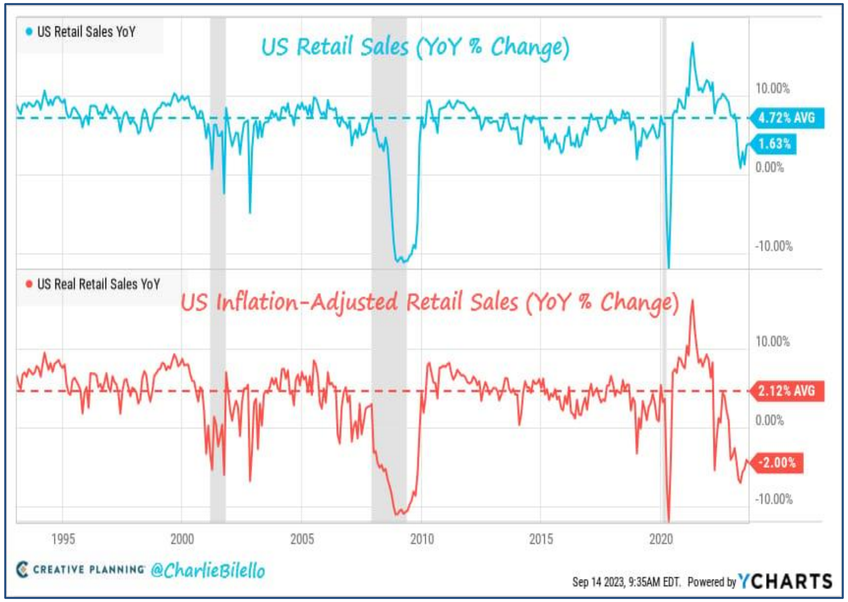
Source: Charlie Bilello

2.9 Macro : Retail Sales

- **Consumer spending is slowing** in the US and Europe. Growth in European retail sales has been negative for almost a year now. This is a good sign for inflation, but a bad one for the economy.

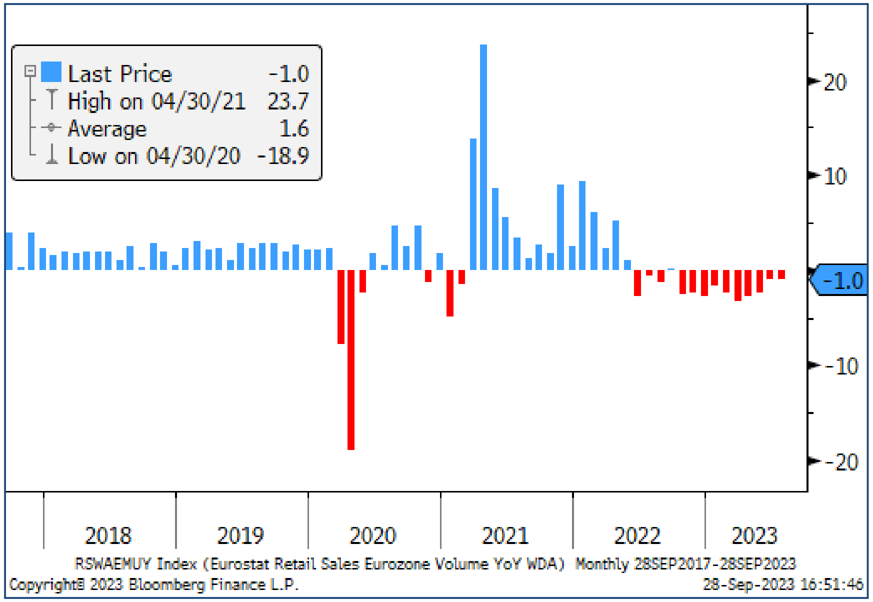
- In the US, growth remains positive, albeit at a slower pace. However, if this growth is adjusted for inflation, it has been negative for several months now.

US Retail Sales



Source: Charlie Bilello

EU Retail Sales



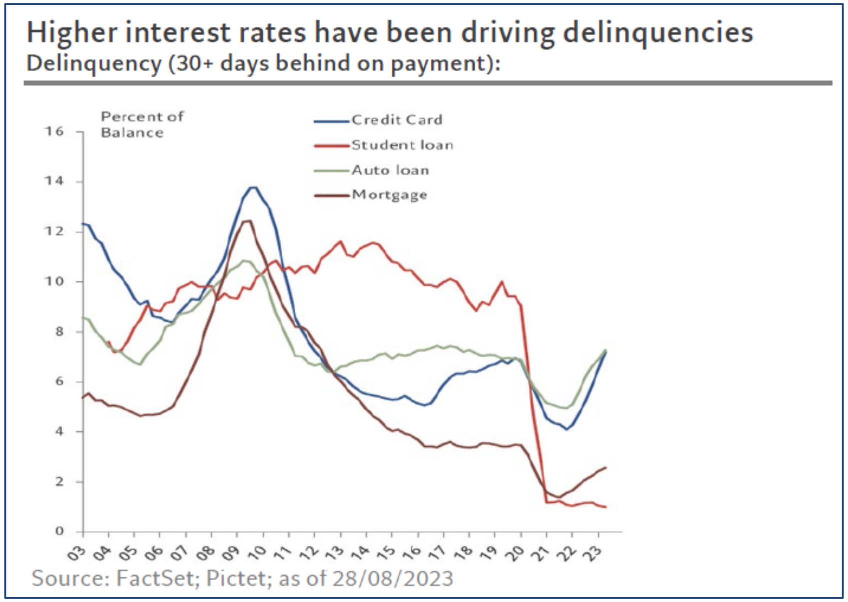
Source: Bloomberg

2.9 Macro : Consumer Savings

- The **cash reserves** that households built up during the Covid crisis are melting away. More specifically, the reserves of the American consumer.

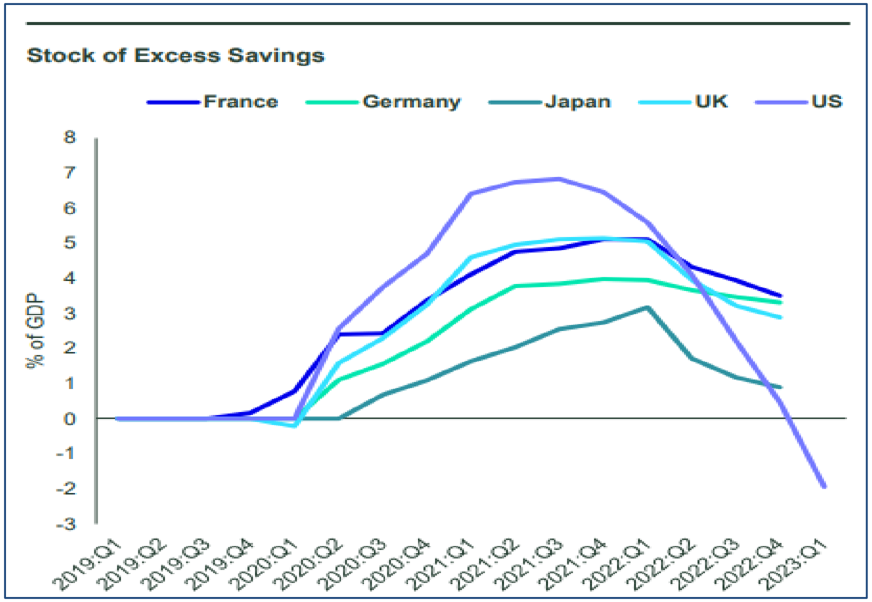
- **Spending excess savings** is certainly what has enabled the US economy to hold up so well this year. However, with these reserves almost empty, **consumption is set to decline in the future**. We can already see that the depletion of this cash is putting certain households in difficulty, as they are no longer able to repay their debts. Interest rates on Credit Cards have passed the 20% level now, this could put even more pressure on the consumer.

US Delinquency Rates



Source: Pictet

Houshold Excess Savings



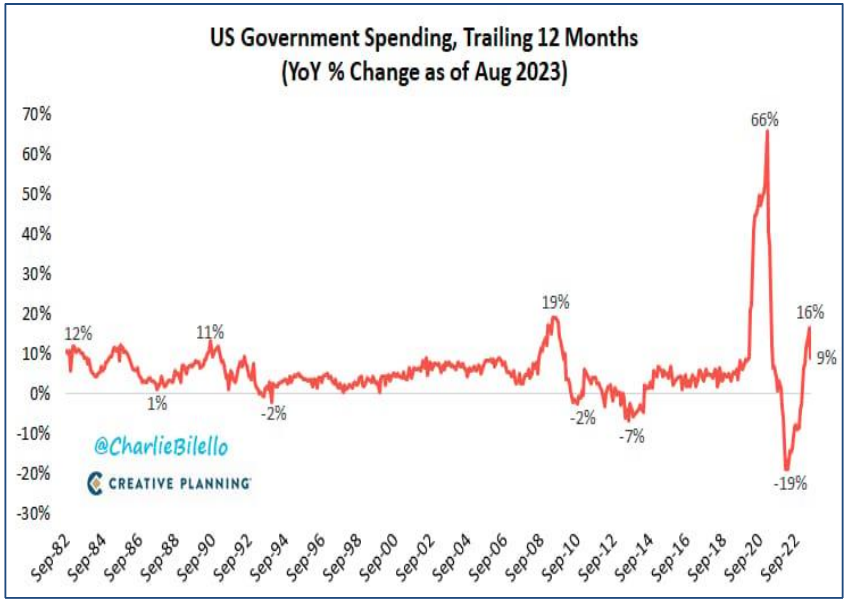
Source: State Street

2.9 Macro : Govt. Spending

- Inflation continues to rage and energy prices are on the rise. All this raises the question of **whether politicians will have to intervene** to help the most disadvantaged.

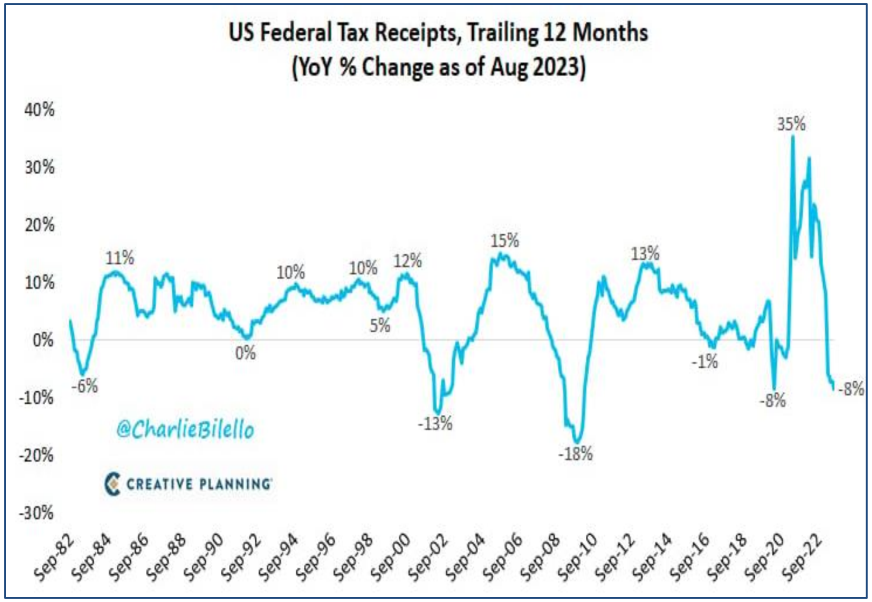
- The government's budget continues to be in deficit, and with interest rates having risen sharply, the floodgates may have to be turned off to limit debt growth and interest payments. If so, a **less accommodating fiscal policy** coupled with a restrictive monetary policy would certainly plunge the economy into recession. Plus, if governments need to cut costs, we will probably see a **rise in populism** and less help to foreign countries.

US Govt. Spending



Source: Charlie Bilello

US Federal Tax Receipts



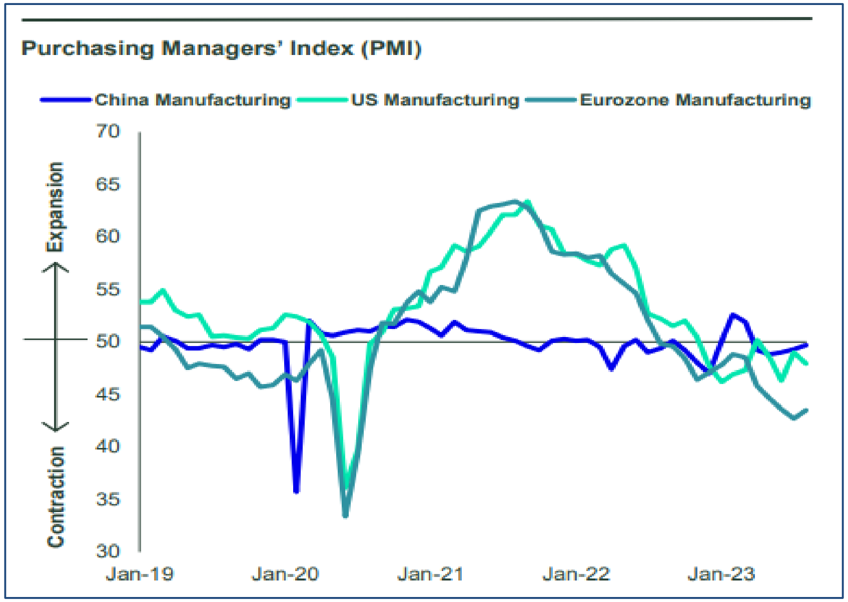
Source: Charlie Bilello

2.9 Macro : Macro Indicator

- Economic indicators are not very promising. Manufacturing PMIs have all been in contraction territory for several months. As PMIs are leading indicators, we can expect the economy to contract, if these surveys are anything to go by.

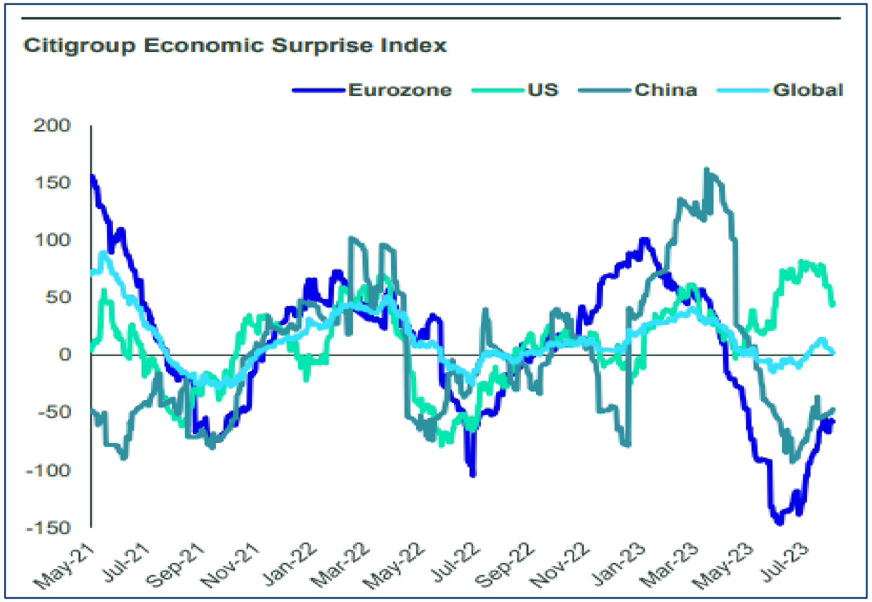
- The flow of macroeconomic data is more than negative in Europe and China. Only the US still seems to be showing resilience for the time being, albeit on a downward trend.

Global PMIs



Source: Charlie Bilello

Global Economic Surprise



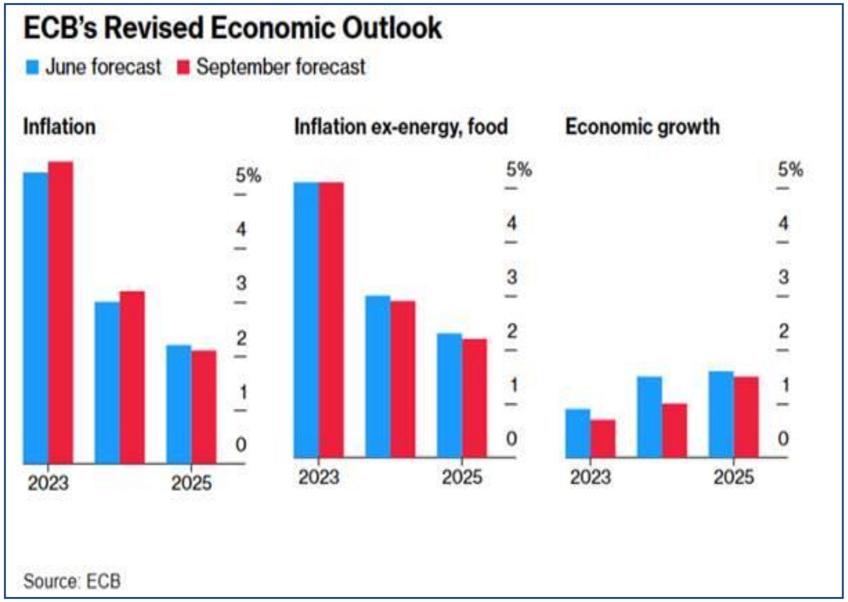
Source: Charlie Bilello

2.9 Macro : Inflation and GDP Expectations

- There was already talk of **stagflation** in 2022 and the new economic forecasts seem to point in that direction. Most major financial institutions are revising their forecasts for 2024. They believe that inflation will be higher than expected and growth lower.

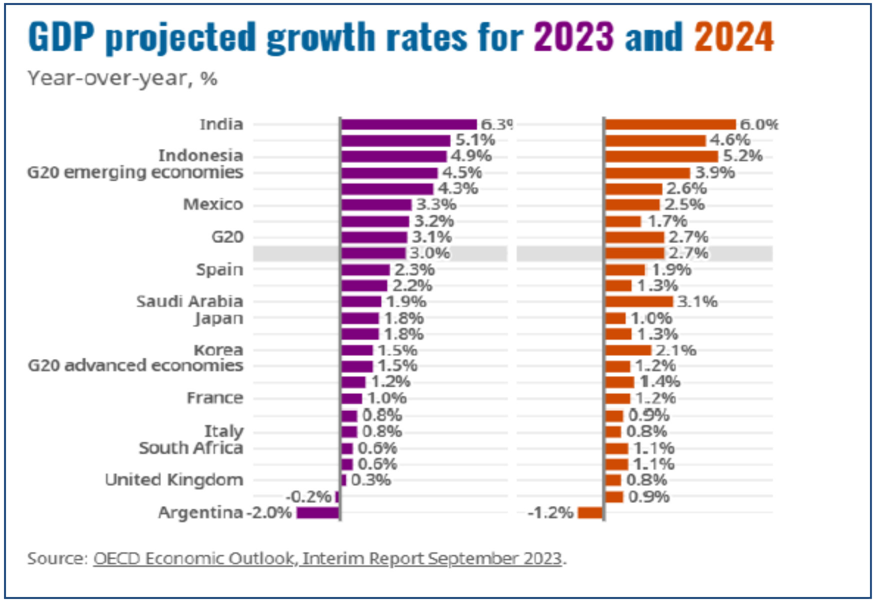
- Given that the long-awaited **recession has been postponed** until 2024. The majority of the world's major economies are also revising their growth forecasts downwards.

EU Inflation and GDP Growth



Source: ECB

GDP Growth Projected



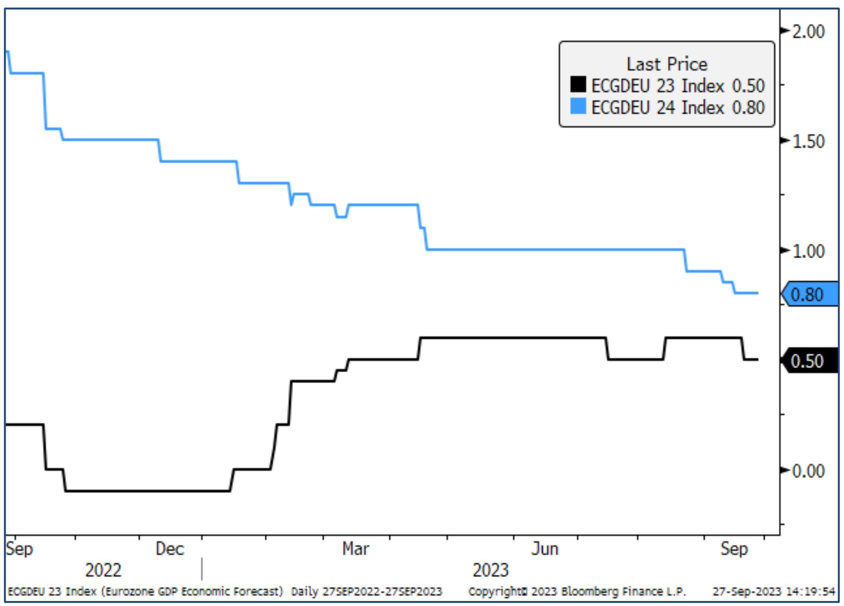
Source: Bloomberg

2.9 Macro : GDP Growth Expectations

- As economists are surprised by every GDP growth publication, they have tended to revise their forecasts upwards for 2023 but downwards for 2024. Those who were already seeing a recession in 2023 are now seeing none at all for this year, and none for next year either.

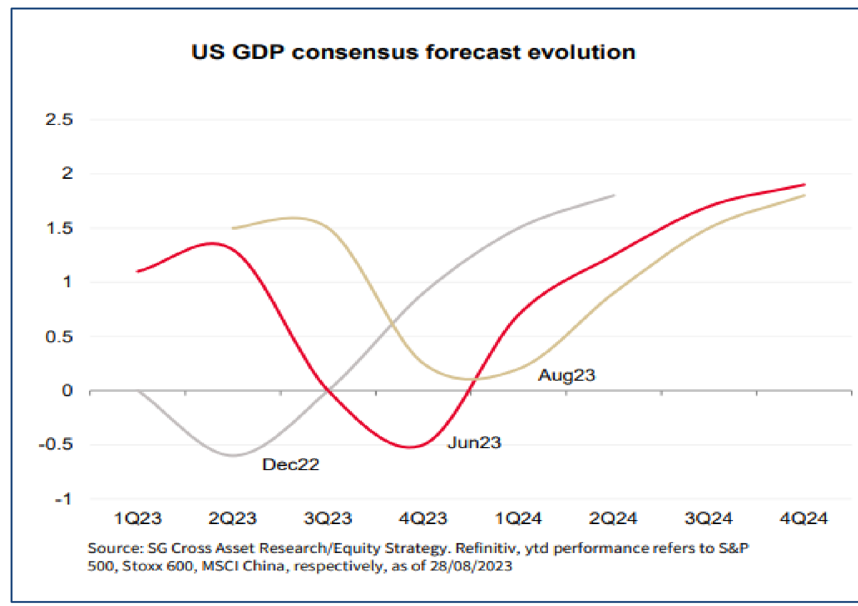
- The revision of these expectations confirms the **soft-landing** theories that are making more and more noise, and seems to be the consensus view today.

EU GDP Expectations



Source: Bloomberg

US GDP Growth Estimates



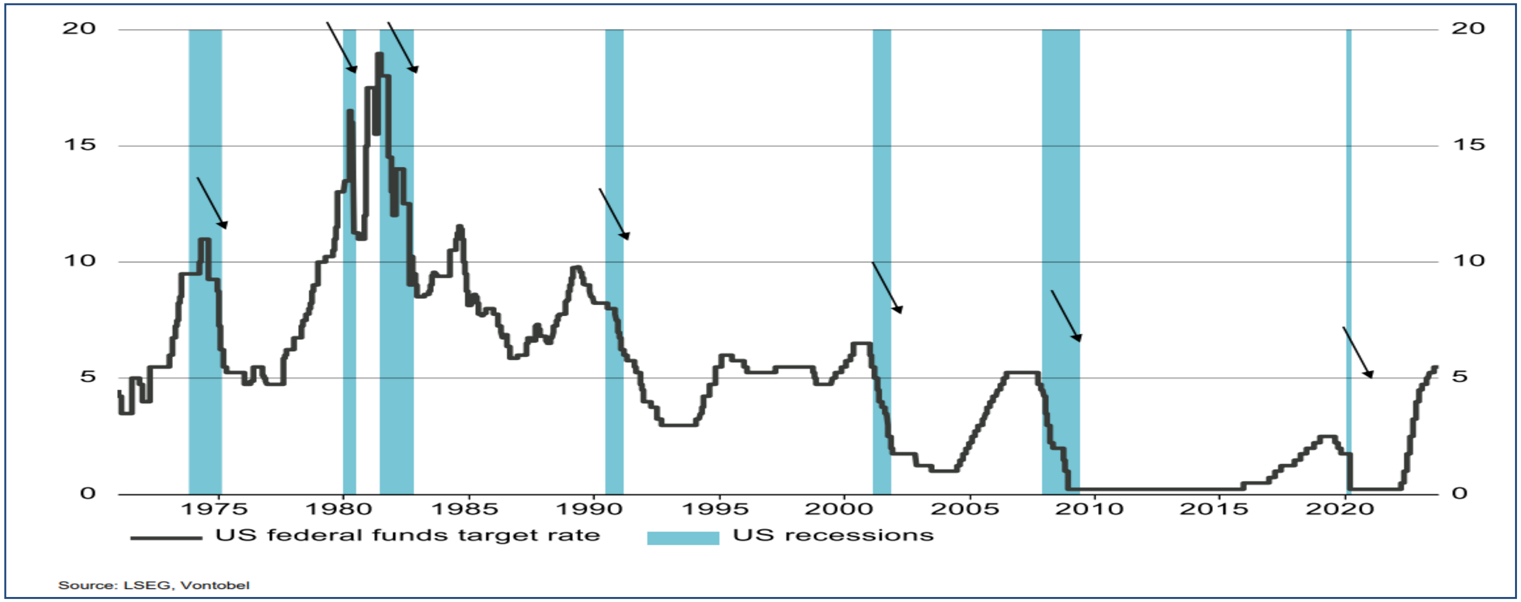
Source: Société Générale

2.9 Macro : Rate Cycle

- If, as the market expects, the US finds themselves in a **small recession** next year, the FED's next step is to cut rates. How far it cuts rates will depend on the extent of the recession.

- If the soft-landing theory becomes a reality, the FED would not be forced to become too accommodating again. If, on the other hand, we're facing a hard landing, rates will return to much lower levels. **But we certainly won't see the rates where we saw them over the last decade**.

Fed Rates and Recessions



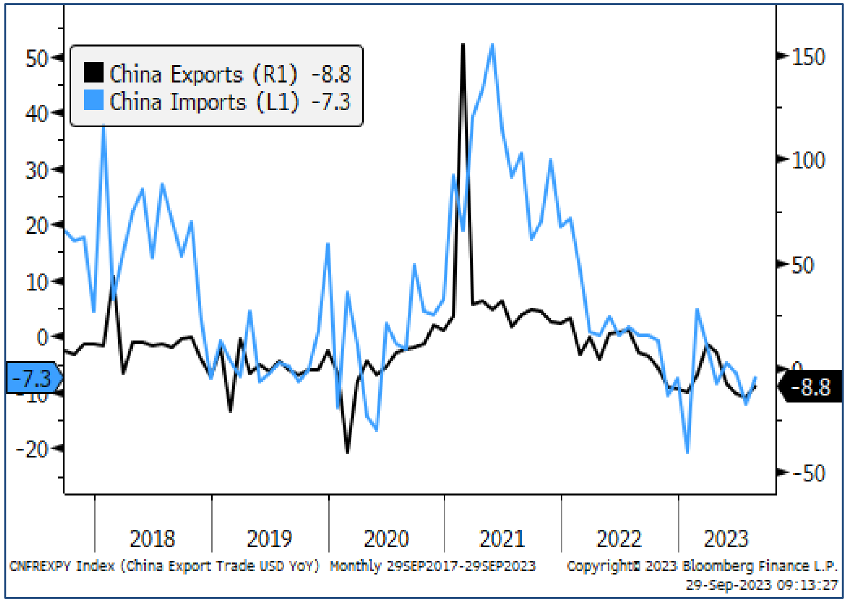
Source: Vontobel

2.10 China

- China is feeling the full force of the economic slowdown, and the reopening after Covid still doesn't seem to have had the desired effect. **Both exports and imports are down year-on-year and domestic consumption is struggling to pick up the slack.**

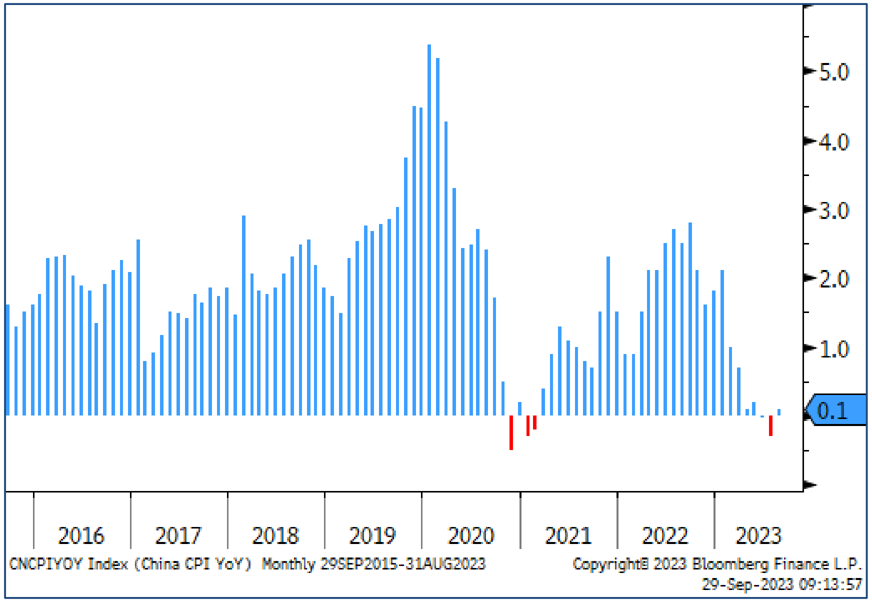
- China is also one of the few countries struggling to maintain positive inflation as its economy struggles to recover. This is a good sign for Western countries, **as China exports its low inflation**.

Chinese Exports and Imports



Source: Bloomberg

China CPI

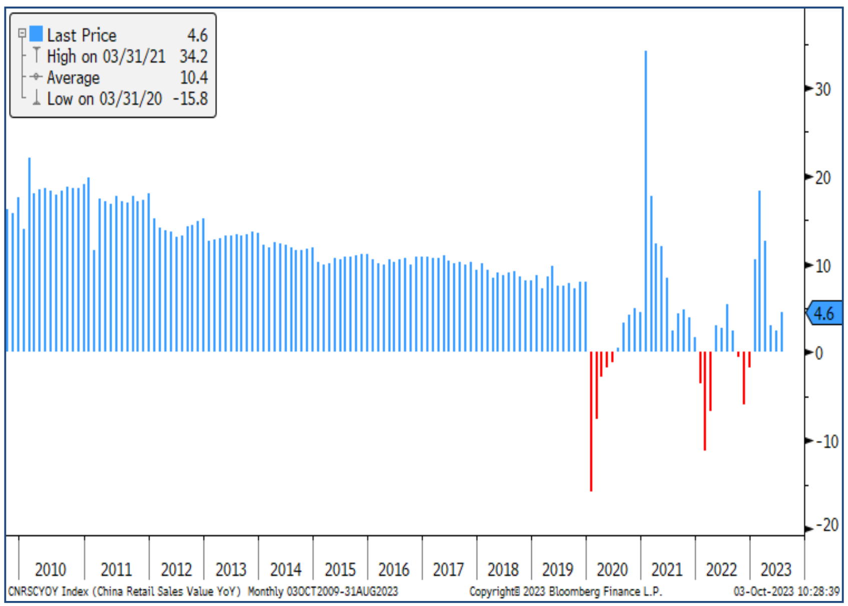


Source: Bloomberg

2.10 China

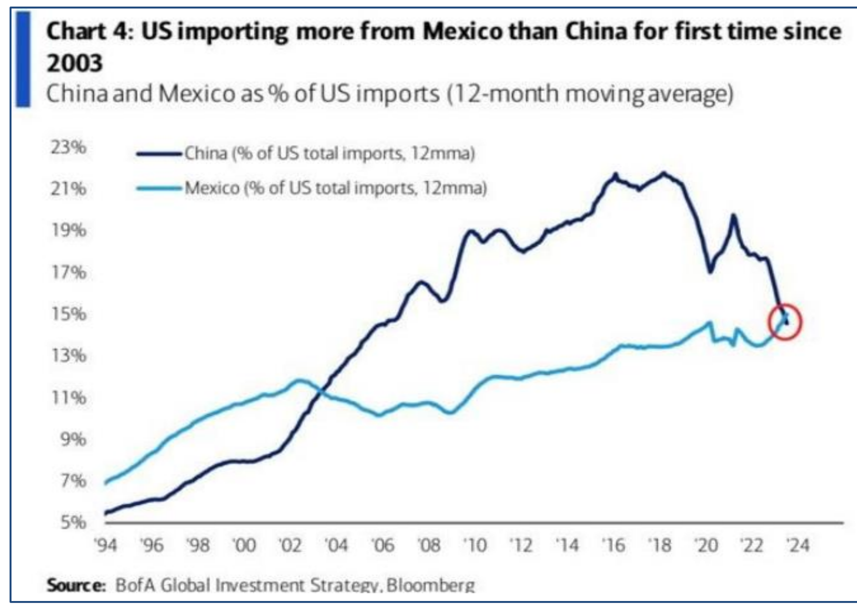
- The trend towards **deglobalization** also seems to be contributing to the slowdown in the Chinese economy. Western countries are reducing their dependency on China. The trades between Mexico and the US continue to grow, while trades between China and the US have been in negative territory for several months now. Europe is also diversifying its risks, and is beginning a trade war against China, starting with electric vehicles.
- China therefore has no choice but to find new trading partners and boost its internal growth. However, since the end of the confinements, consumer confidence has struggled to return, and internal growth has suffered.

China Retail Sales YoY



Source: Bloomberg

US Import from China and Mexico



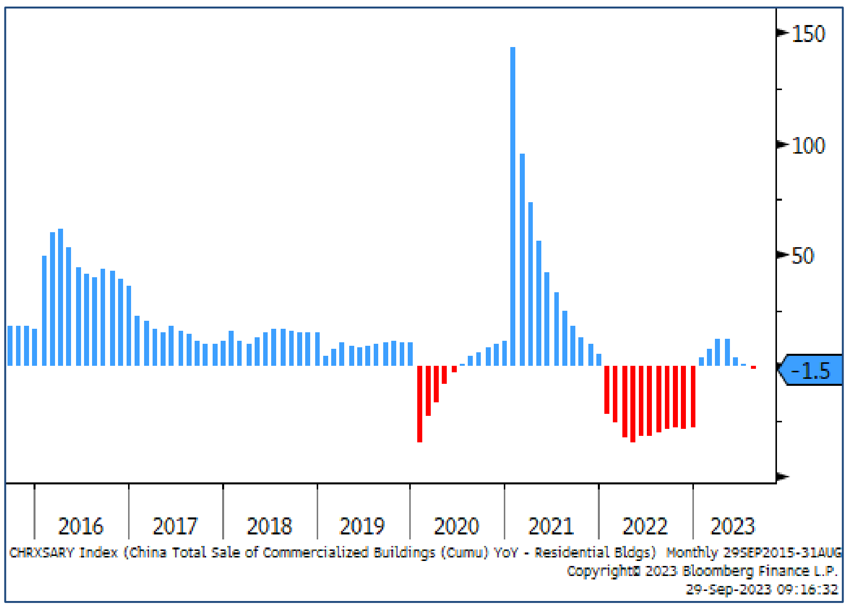
Source: Bloomberg, BofA, Gobal Strategy

2.10 China

- China's real estate sector has been in sharp decline recently. **Property developers** such as Evergrande and Country Garden continue to default on their debt and face troubles to raise funds on the market, as investors no longer have confidence in these groups.

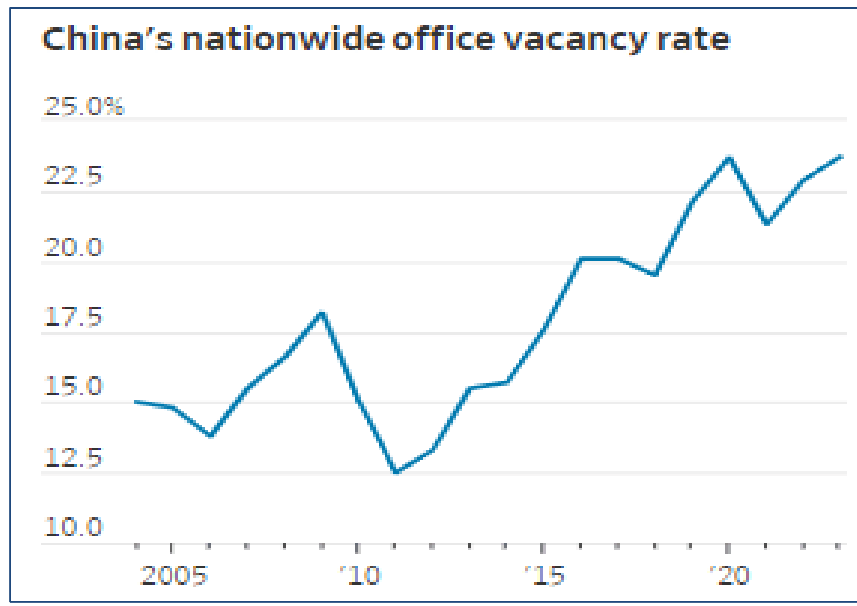
- Both residential and commercial real estate are contracting, with **office vacancy rates at their highest level since the 2000s**.

China Investment in Resid. Buildings



Source: Bloomberg

China Office Vacancy Rate



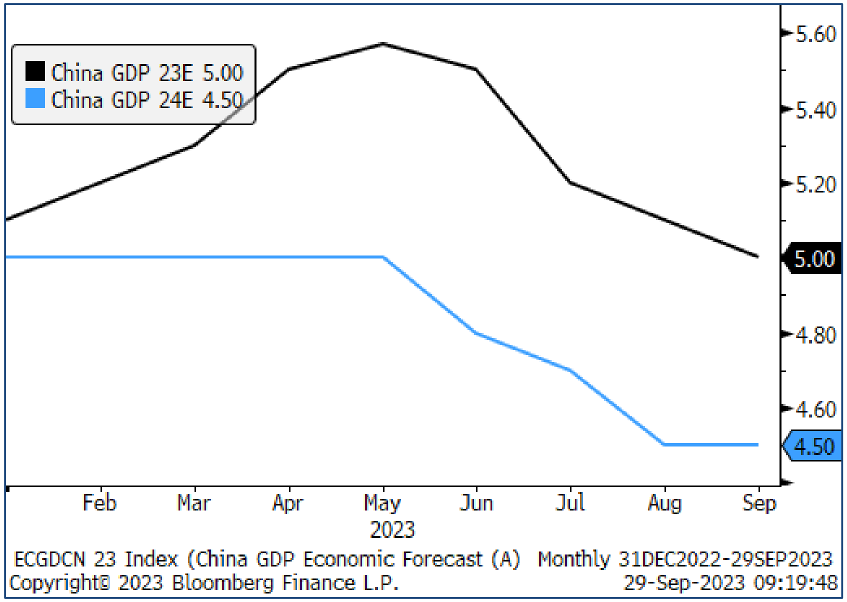
Source: Charlie Bilello

2.10 China

- Although the Chinese economy is struggling to recover, a recession does not appear to be the likely scenario. However, **the outlook for GDP growth has been revised downwards**, and the target of 5% annual growth seems unreachable.

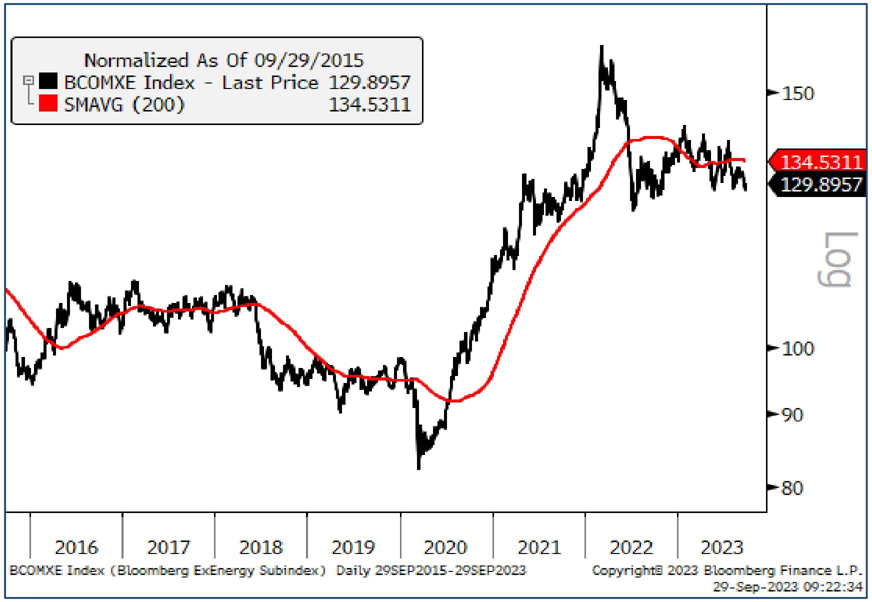
- China is the main consumer of **raw materials**. The fact that its economy is slowing is weighing on commodity prices. The Bloomberg Commodity Index ex-Energy bears witness to this.

China GDP Estimates



Source: Bloomberg

Bloomberg Commo Index ex-Energy

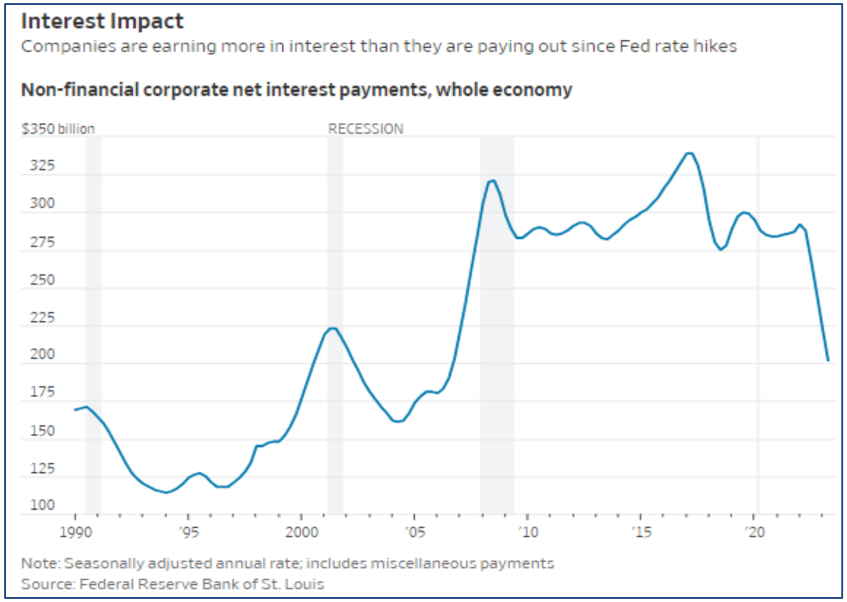


Source: Bloomberg

2.11 Market Review

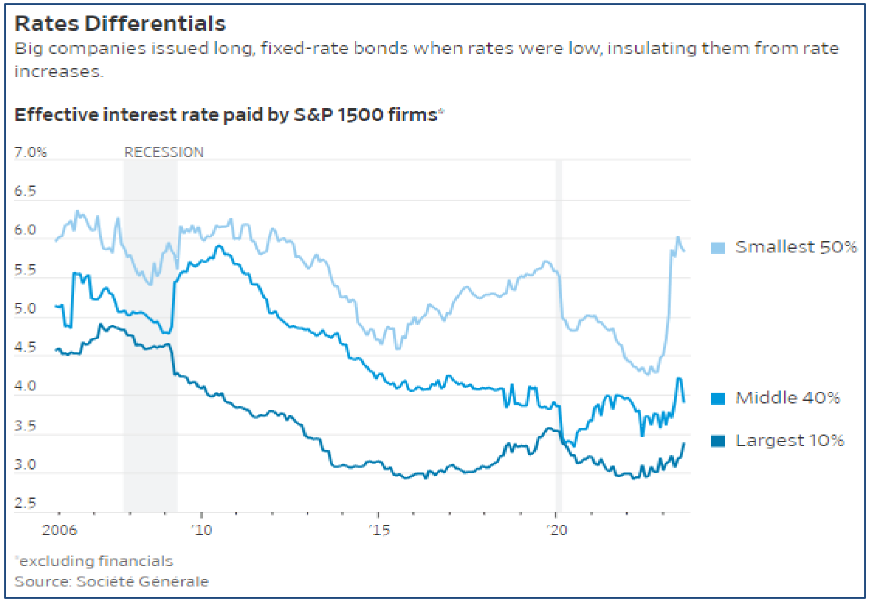
- The impact of interest rates on companies **is not yet being felt.**
- As we have just come out of a period of rates close to 0%, companies have taken advantage of the opportunity to **borrow money on a long-term basis**, and will therefore not be impacted until they have to roll over their debt.
- Smaller companies are more affected than larger ones, as a much larger proportion of their debt is at variable rates. **30% of the Russell 2000's debt is variable-rate, compared with 6% for the S&P 500.**

Corp. Interest Payments



Source: Charlie Bilello

S&P 1500 Interest Paid

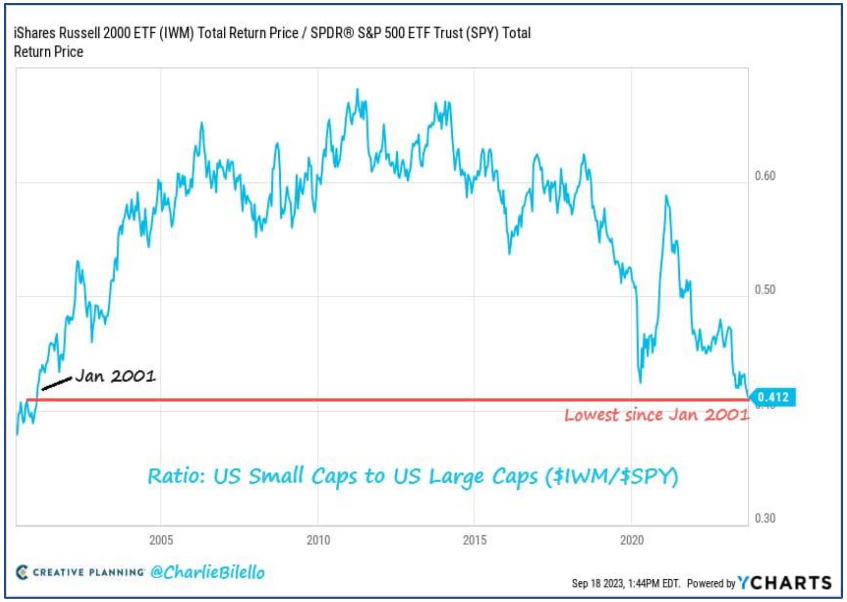


Source: Charlie Bilello

2.11 Market Review

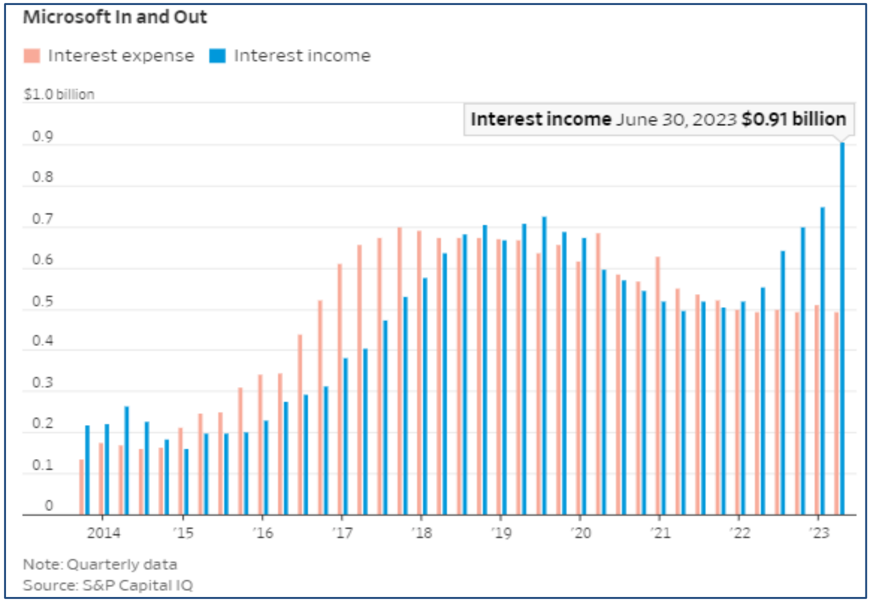
- **For cash-rich companies**, the rise in interest rates even has **a positive effect**. They still pay the same on their long-term borrowings, but receive a much higher return on their cash. Microsoft, for example, pays 500 million in interest on its debt and receives 900 million in interest on its cash per quarter.
- The fact that smaller companies are more affected by interest **rates explains the Russell 2000's underperformance** relative to the S&P 500. However, the level of underperformance is at its lowest since 2001, and the trend should be reversed when the economy picks up again.

Russell 2000 vs S&P 500



Source: Charlie Bilello

Microsoft Interest Income vs Expense



Source: Charlie Bilello

2.11 Market Review

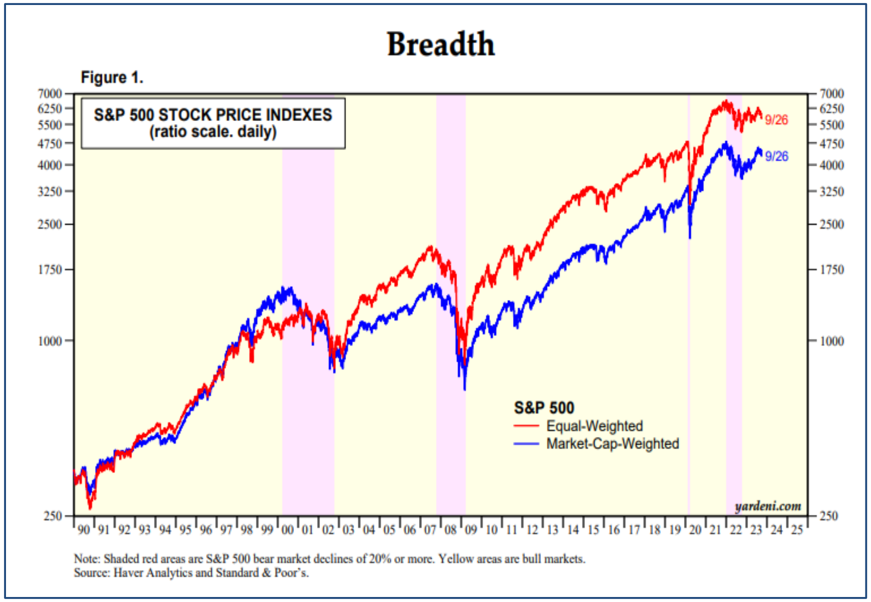
- ➢ The long-term trend is for **smaller caps to outperform larger ones**. However, when markets are under stress, mega caps hold up better and therefore have periods of outperformance.

- ➢ These periods of outperformance are **not sustainable** over the long term. The performance of the S&P 500 Equal Weight against the S&P 500 bears witnesses to this.

S&P 500 Top 50 vs Bottom 450

Source: Fidelity

S&P 500 vs S&P 500 Equal Weight



Source: Yardeni

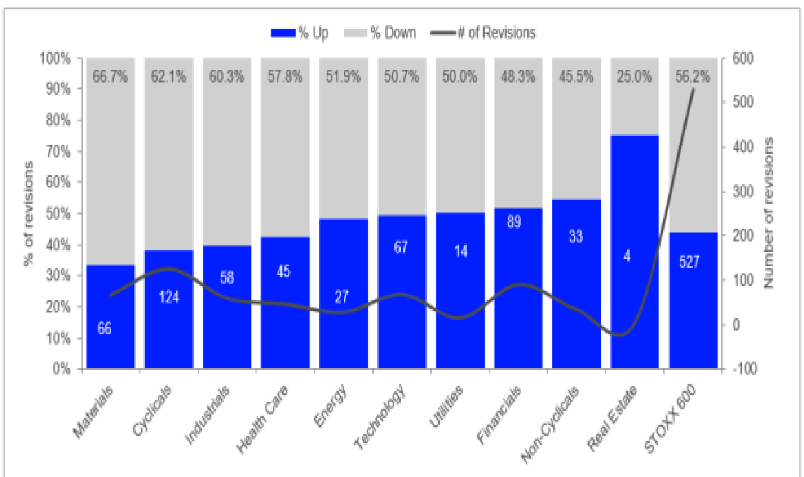
2.11 Market Review

- In terms of earnings expectations, the **US seems to have reached an inflection point** since EPS were revised upwards for AI companies. In Europe, on the other hand, expectations seem to have reached a plateau.

- This difference in expectations has prompted investors to **move towards markets with positive earnings momentum**, which explains the outperformance of the US market.

EU EPS Revision

Exhibit 16A. STOXX 600: Weekly Earnings Estimate Revisions by Sector



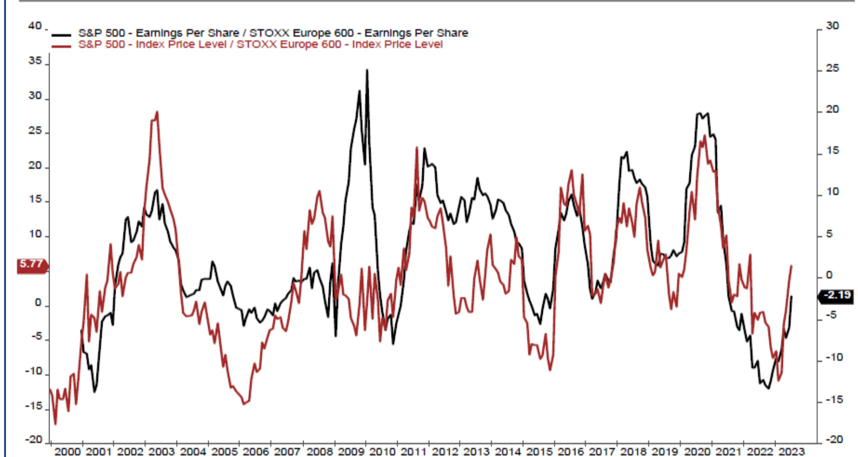
Source: LSEG I/B/E/S

Source: Pictet

S&P 500 & Stoxx 600 Perf vs EPS

US equities have been pulling ahead, supported by the EPS differential

S&P 500 vs STOXX Europe 600 EPS (black; right) and price (red; lhs) relative, YoY change (%):



Source: FactSet; Pictet Trading Strategy as of 15/09/2023;

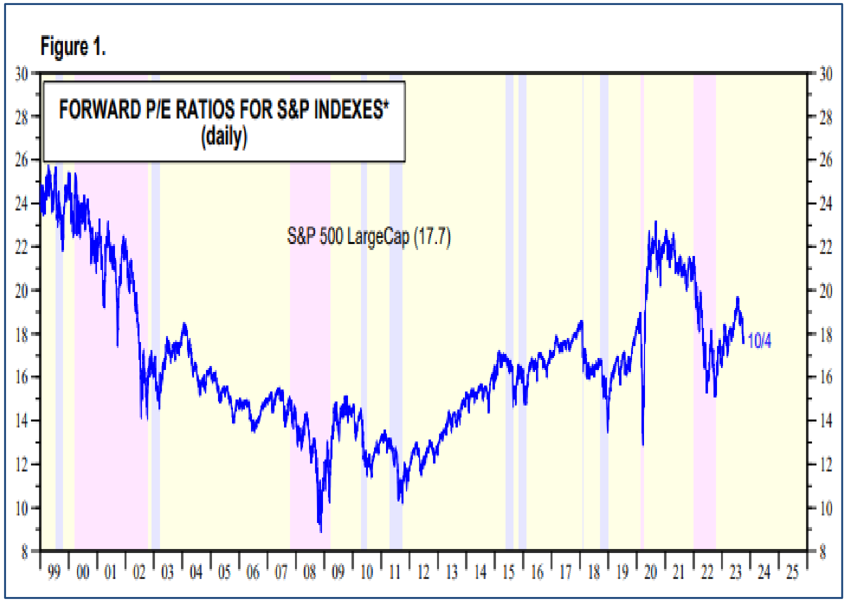
Source: Pictet

2.11 Market Review

- In terms of valuation, the S&P 500 remains expensive. This year's rise was due to **the expansion of multiples**, not to EPS growth. However, it is mainly the magnificent 7 that are driving this valuation upwards.

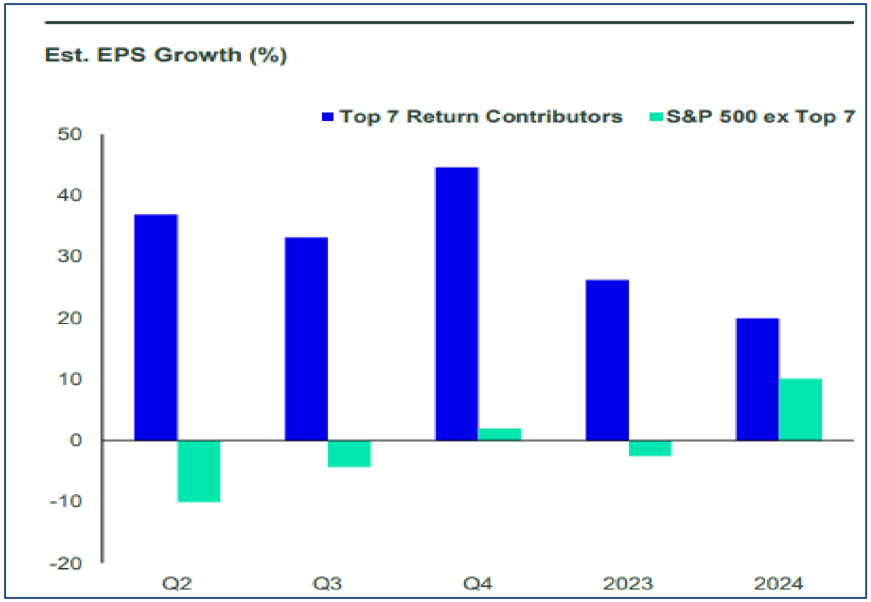
- The performance of these 7 stocks can also be explained by the fact that it is these companies that are driving up US earnings expectations.

S&P 500 PE



Source: Yardeni

S&P 500 EPS Growth Contribution



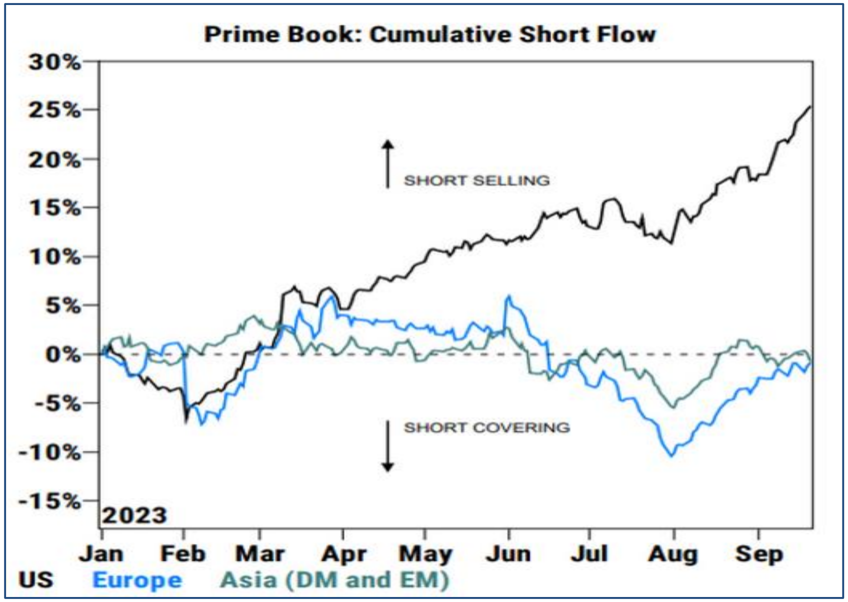
Source: State Street

2.11 Market Review

- If a recession were to occur, the market could still stall in the same way as it did in 2022. In times of recession**, the S&P 500's PE averages 11.7**, and the S&P's current PE is 10 points above that level…

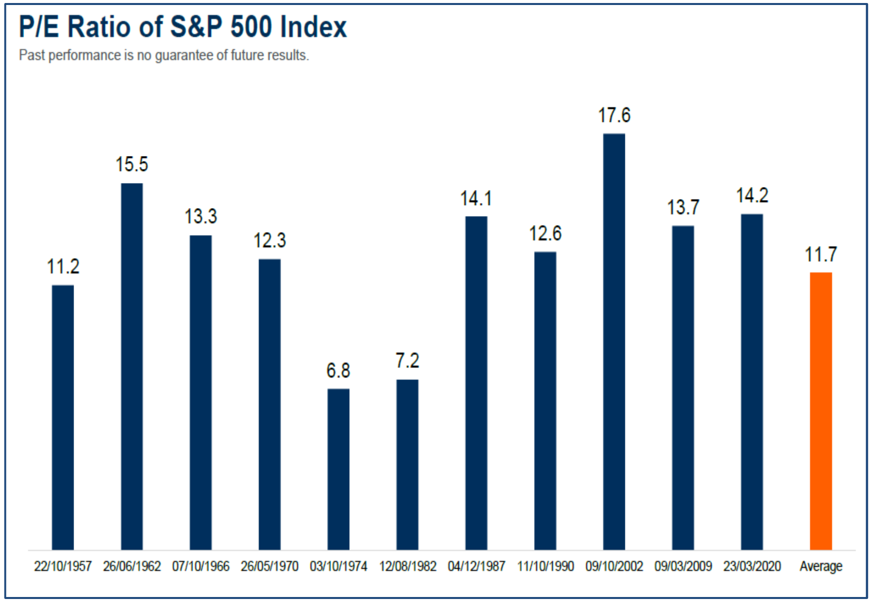
- However, the good news is that some investors have already positioned themselves for this correction. If they **cover their short position** during a market correction, the market could **suffer less** than expected.

Goldman Sachs Prime Book Short Flow



Source: Goldman Sachs

S&P 500 PE During Recession



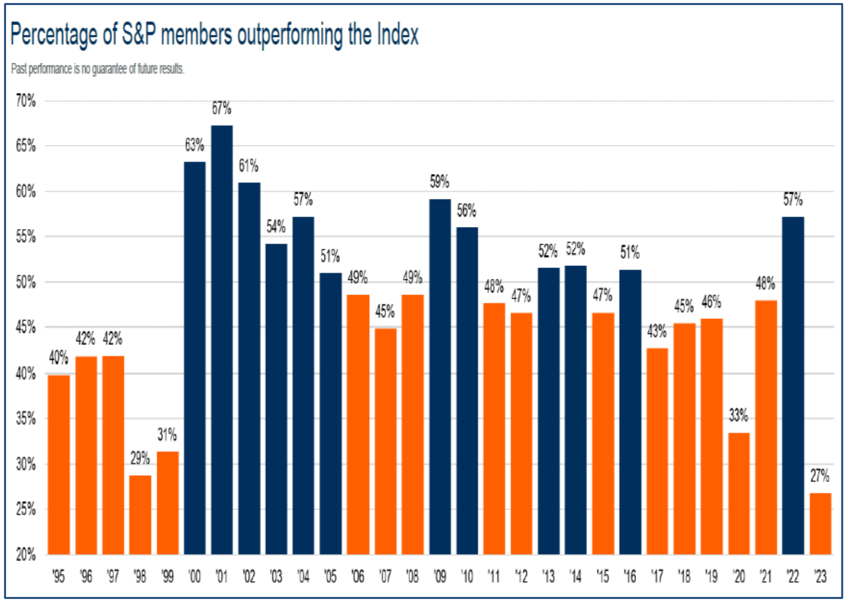
Source: First Trust

2.11 Market Review

- The market breadth remains **extremely tight**, with very few stocks contributing positively to performance. The % of stocks outperforming the S&P 500 hasn't been this **low since just before the dotcom bubble burst**.

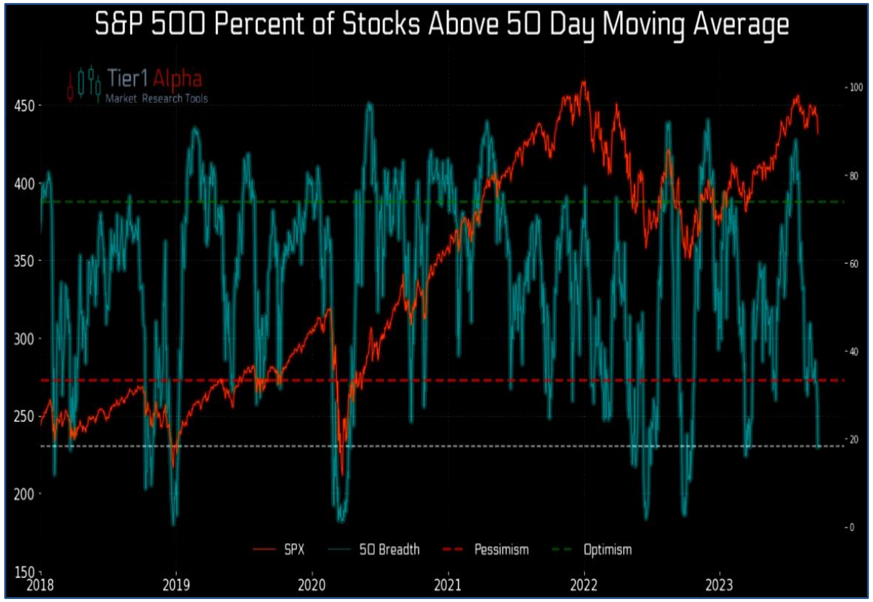
- Only 20% of S&P 500 stocks are above their 50d MA, which clearly shows that without the big 7, the market would be depressed.

S&P 500 Members Outperforming Index



Source: First Trust

S&P 500 Memb. Above 50D MA



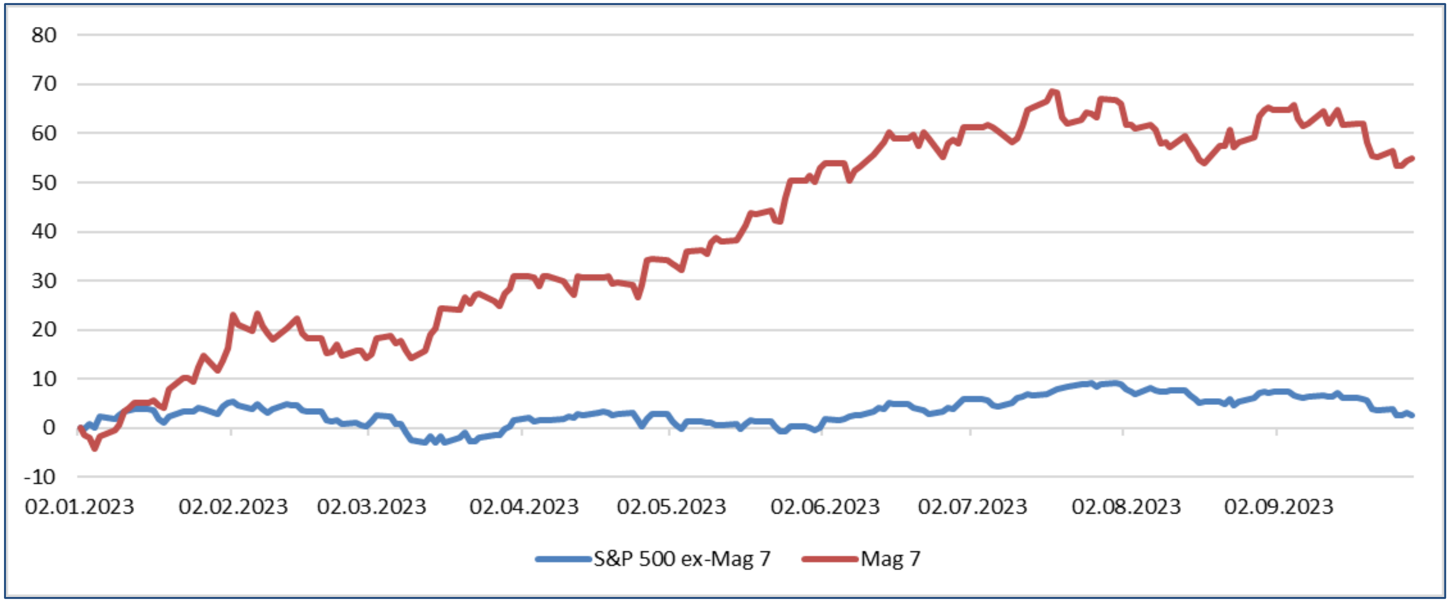
Source: The Market Ear

2.11 Market Review

- The magnificent 7 show just how tight the market is. A basket of just these 7 stocks, according to their weighting in the S&P 500, would be up 55% year-to-date.

- The rest of the 493 stocks in the index, on the other hand, would have done next to nothing, with a performance of 2%. It's going to be a tough year to beat the equity indices, **and stock picking will make all the difference**.

S&P 500 ex Magnificient 7 vs Magnificient 7



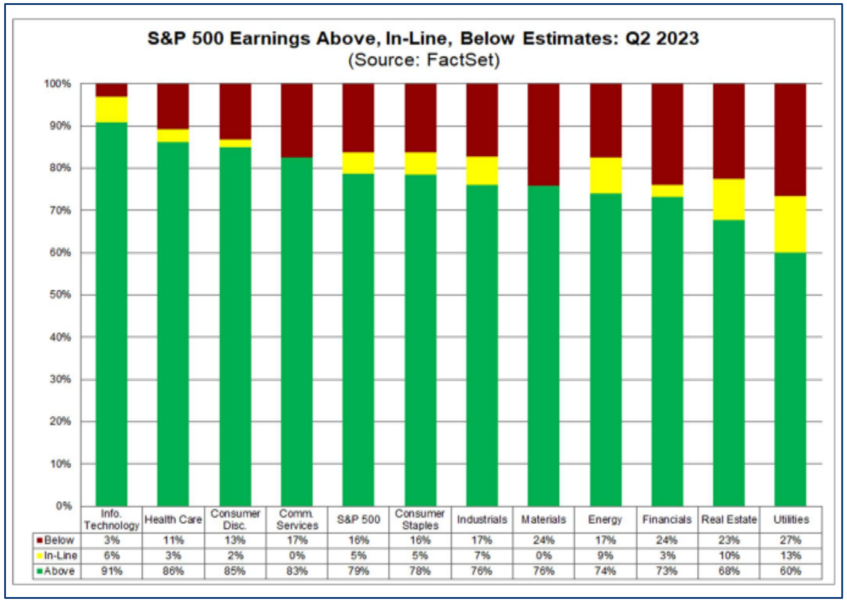
Source: Bloomberg

2.11 Market Review

- Results for Q2 were good and, for the most part, **better than expected**, particularly in the technology sector.

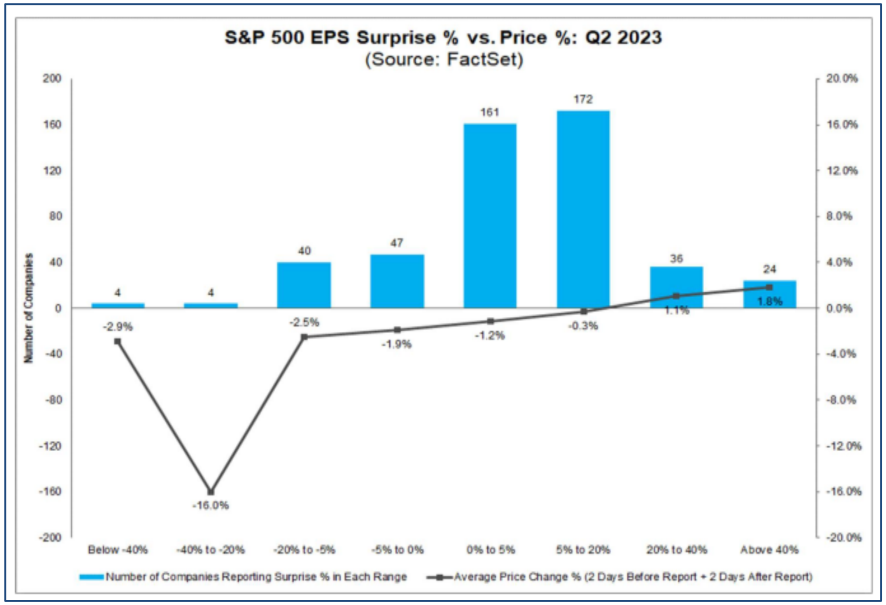
- However, **the market is looking beyond the past and focuses on the future**. Indeed, although the results were good, even when the surprise was positive, stocks tended to fall. This was due to disappointing guidance.

S&P 500 Earning Surprise Q2



Source: Factset

S&P 500 Perf. On Results



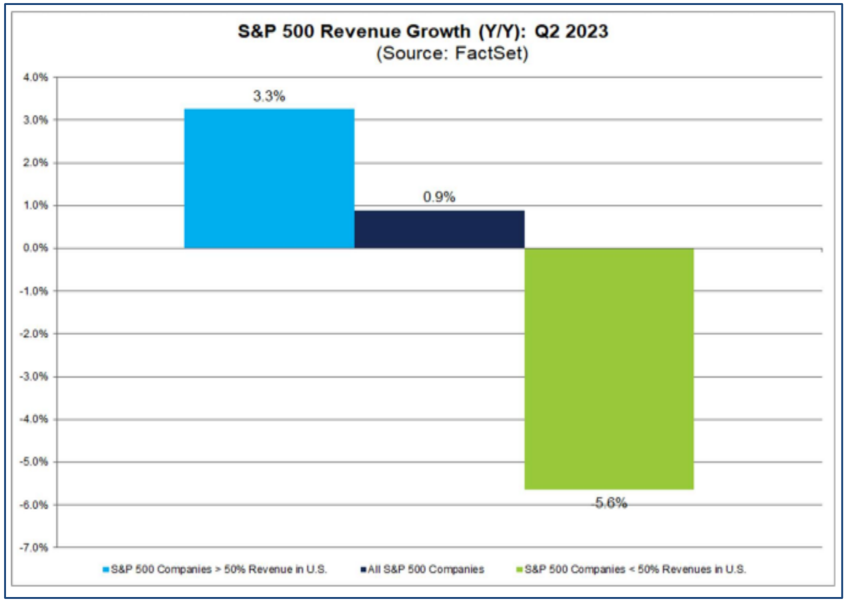
Source:Factset

2.11 Market Review

- Revenue growth for S&P 500 companies shows just how **resilient the US economy has been**. Indeed, for companies with more than 50% of their revenues in the US, year-on-year growth was 3.3%, while those with less exposure to the US saw their sales contract by 5.6%.

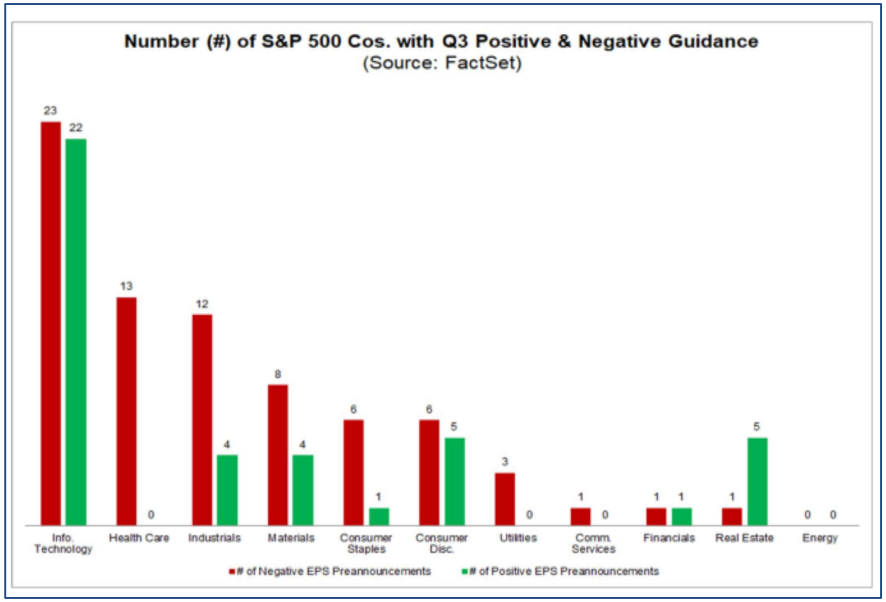
- It is now the Q3 results that will drive index performance. In Q2, the majority of guidance given was negative. Expectations are therefore pessimistic, and **companies that fail to beat analysts' forecasts will certainly be heavily penalized.**

S&P 500 Revenu Growth



Source: Factset

S&P 500 Guidance for Q3



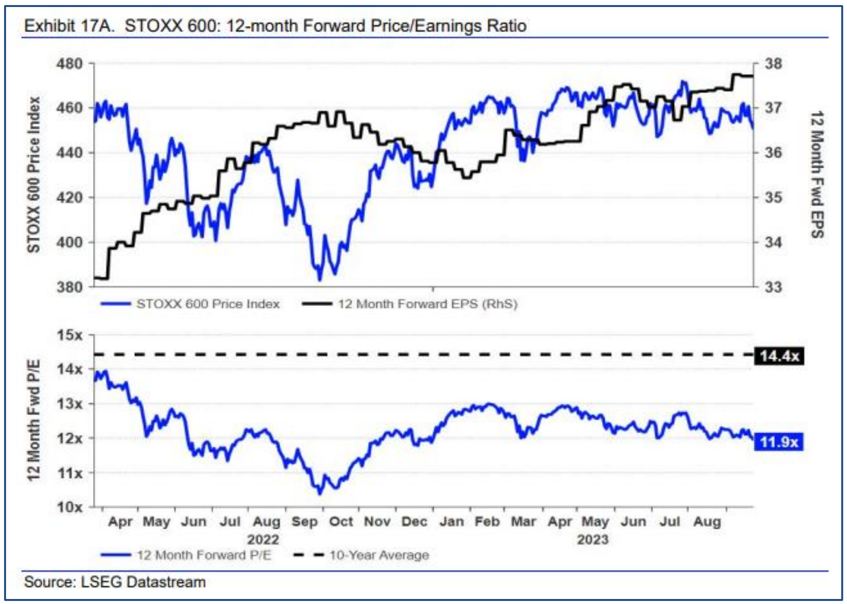
Source:Factset

2.11 Market Review

- In Europe, **Q2 results were not exciting**, with only 51% of companies beating expectations. The trend in earnings revisions is also negative, with more downward than upward revisions.

- However, the European market **is trading at a discount** to its historical valuation, which should provide a safety cushion in the event of an earnings surprise.

Stoxx 600 Valuation



Source: Datastream

Stoxx 600 Q2 Earnings Surprise

Exhibit 4A. STOXX 600: Q2 2023 Earnings vs. Expectations

Sector	Above %	Match %	Below %	Surprise Factor %	Reported Total #	Cos. w/ Ests. Total #
Basic Materials	38%	3%	59%	1%	32	35
Consumer Cyclicals	50%	4%	46%	-2%	24	34
Consumer Non-Cyclicals	47%	7%	47%	-1%	15	19
Energy	45%	10%	45%	-9%	20	20
Financials	66%	8%	26%	11%	53	56
Healthcare	53%	0%	47%	2%	32	35
Industrials	61%	13%	26%	13%	54	62
Technology	41%	12%	46%	14%	41	43
Real Estate	45%	0%	55%	-2%	11	11
Utilities	33%	25%	42%	11%	12	14
STOXX 600	**51.4%**	**8.2%**	**40.5%**	**5.6%**	**294**	**329**

Source: LSEG I/B/E/S

Source:Datastream

3. Long term views

- Inflation is coming down. Central European and US bankers can relax. Nevertheless, they are not pivoting. Short-term rates will remain elevated for most of next year except if we enter a recession soon.

- Nevertheless, central banks remain credible but walk on a tightrope. In Europe, economic growth is close to zero, with elevated inflation. It is a harbinger of what is coming.

- The March banking stress is not a concern anymore. US regional banks are under scrutiny. The most significant “too big to fail” institutions are in good shape; there is no hint of stress somewhere.

- Governments will subsidize the middle class if needed; they also need to spend on defense and infrastructure for the fight against climate change. Elevated budget deficits will persist.

- 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. France & Italy will not reach the 3% target deficit before 2025.

- 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.

3. Long term views

- 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 economy is growing but much slower than before Covid. 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 prices to the upside. This trend is a boon for commodity producers. Middle East countries will not help the Occident to transition toward a world without oil.

- Geopolitical tension and the fight against global warming lead to a worldwide capital reallocation. We need new factories supplied with green or greener energy. Capital will flow toward industries and sectors starved of it because China provided the same stuff at a much lower price.

3. Long term views

- Low economic visibility and uncertainties about the path of inflation should require a term premium. It is why inverted yield curves highlight investors' belief that we will quickly return to the pre-covid economic environment. The long end of the yield curves is not yet attractive, but the front end is, especially for corporate and high-yield bonds. We like US short-term TIPS.

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

- AI, data management, and the Metaverse will significantly impact our societies. These evolutions will lead to massive investments and productivity gains. It is not the IT sector that will benefit the most.

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

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

- 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 essential for the physical.

3. Long term views

- European and especially 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 higher than the period 2009-2021 average. The end of the Nasdaq-like stock dominance is in sight.

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

4. Market review: Equity Performance

- Over the past 3 months, all equity markets have posted negative returns. Central banks' "higher for longer" rhetoric seems to be having a negative impact on macro and micro growth forecasts.
- Earnings season is about to begin, and expectations are very low. If analysts have once again been too pessimistic, the results could give the market a boost. Plus, seasonality dictates that the last quarter is generally the best in terms of performance.

Equity Indices	% YTD in USD	% YTD in EURO	% 3M in USD	% 3M in EURO
MSCI WORLD	9.6%	10.9%	-3.8%	-0.7%
S&P 500	11.7%	12.9%	-3.6%	-0.5%
NASDAQ	26.3%	27.6%	-4.1%	-0.9%
BRAZIL	11.0%	12.2%	-6.4%	-3.2%
Euro Stoxx 50	8.8%	10.0%	-8.2%	-5.1%
Stoxx Europe 600	4.7%	6.0%	-5.6%	-2.5%
FTSE 100	3.1%	4.2%	-3.0%	0.2%
CAC 40	9.0%	10.2%	-6.7%	-3.6%
DAX	9.3%	10.5%	-7.8%	-4.7%
IBEX	13.3%	14.6%	-4.8%	-1.7%
MIB	17.9%	19.1%	-3.0%	0.0%
SMI	3.2%	4.4%	-5.0%	-1.9%
NIKKEI 225	8.2%	9.6%	-7.5%	-4.3%
HANG SENG	-10.3%	-9.1%	-5.8%	-2.7%
SHANGHAI	-5.1%	-3.4%	-3.5%	0.3%
RUSSIA RTS	3.8%	5.1%	2.5%	5.7%
VIX	-19.2%	-17.9%	28.9%	32.1%

Source: Bloomberg 30/09/23.

4. Market review : Sector Performance Review

- The best sectors since the start of the year are those that suffered the most in Q3. Technology and Consumer Discretionary gave back much of their performance.

- In contrast, the energy sector was boosted by soaring oil prices, with all stocks in the sector posting positive returns.

Sector performance	Europe % YTD	Europe % 3M	USA % YTD	USA % 3M	World % YTD	World % 3M
Consumer Discretionary	9.8%	-11.3%	25.7%	-5.0%	21.5%	-5.6%
Consumer Staples	0.7%	-4.5%	-6.6%	-6.6%	-2.8%	-6.4%
Energy	12.6%	15.0%	3.2%	11.3%	6.9%	11.3%
Financials	13.3%	2.5%	-3.1%	-1.6%	2.6%	-0.7%
Health Care	8.8%	1.3%	-5.3%	-3.1%	-2.0%	-2.8%
Industrials	12.2%	-4.2%	3.1%	-5.6%	8.2%	-5.2%
Information Technology	13.1%	-10.5%	33.8%	-5.8%	30.4%	-6.1%
Materials	2.0%	0.4%	1.0%	-5.2%	1.9%	-3.9%
Telecommunication Services	9.7%	0.6%	39.4%	2.8%	31.4%	1.5%
Utilities	2.8%	-7.8%	-16.5%	-10.1%	-9.3%	-9.2%

Source: Bloomberg 30/09/23.

4. Market review : FX and commodities performance

	Currencies Against USD	
	YTD	3M
EURO	-1.2%	-3.1%
JPY	-13.9%	-3.5%
GBP	1.0%	-4.0%
CHF	1.0%	-2.2%
CNY	-5.8%	-0.6%
HKD	-0.4%	0.1%
CAD	-0.2%	-2.5%
AUD	-5.5%	-3.4%
	Against Euro	
	YTD	3M
USD	1.3%	3.2%
JPY	-12.5%	-0.3%
GBP	2.1%	-0.9%
CHF	2.2%	1.0%
CNY	-4.0%	3.2%
HKD	0.9%	3.2%
CAD	1.0%	0.6%
AUD	-4.5%	-0.3%
	Against CHF	
	YTD	3M
EURO	-2.3%	-1.0%
USD	-1.0%	2.1%
JPY	-15.1%	-1.3%
GBP	-0.2%	-1.8%
CAD	-1.3%	-0.3%
AUD	-7.1%	-1.3%
HKD	-1.4%	2.2%

- The resilience of the U.S. economy and rising interest rates enabled the dollar to appreciate against all currencies. Conversely, the weakness of Europe pushed the euro south.

- On the commodities front, oil outperformed during the quarter. Following cut announcements from Saudi Arabia and Russia, Crude gained 28%.

	% YTD in USD	% 3M in USD
WTI Crude Oil	13.1%	28.5%
Brent Crude Oil	10.9%	27.2%
Gasoline	-0.8%	-7.4%
Natural Gas	-29.5%	-8.8%
Gold	1.3%	-3.7%
Silver	-7.4%	-2.6%
Platinum	-15.5%	0.2%
Palladium	-30.4%	1.4%
Aluminum (LME)	-1.3%	9.1%
Copper (LME)	-1.2%	-0.5%
Corn	-29.7%	-14.0%
Wheat	-31.6%	-14.9%
Soybean	-16.1%	-18.1%
Coffee	-12.6%	-9.2%
Sugar	31.1%	14.8%
Cotton	4.2%	4.9%

Source: Bloomberg 30/09/23.

4. Market review : Fixed Income Performance

- Although the market believes that the Central Banks are nearing the end of their rate hike cycle, they have left the door open for further tightening. Plus, the "higher for longer" rhetoric and higher inflation expectations have pushed rates higher.

- This prolonged rise in yields has resulted in negative returns across all bond markets.

- Credit spreads continue to hold up well, and do not seem to be predicting a recession next year, even if the stress of September allowed spreads to diverge slightly.

	Perf September	Perf YTD	Perf last 3 months	Yield	Duration	Spread
Global						
Global Aggregate	-2.9%	-2.2%	-3.6%	4.2	6.6	49
Treasuries	-3.2%	-3.6%	-4.2%	3.5	7.3	14
Credit	-2.7%	0.5%	-2.8%	5.5	6.0	120
USA						
U.S. Universal	-2.4%	-0.6%	-2.9%	5.7	6.0	103
U.S. Aggregate	-2.5%	-1.2%	-3.2%	5.4	6.2	52
U.S. Gov/Credit	-2.3%	-0.9%	-3.0%	5.3	6.3	45
U.S. Treasury	-2.2%	-1.5%	-3.1%	4.9	6.0	-1
Government-Related	-1.8%	0.4%	-2.0%	5.4	5.2	47
Corporate	-2.7%	0.0%	-3.1%	6.0	7.0	121
U.S. MBS	-3.2%	-2.3%	-4.1%	5.6	6.3	66
Pan Europe						
Pan-Euro Aggregate	-2.0%	0.6%	-1.4%	4.0	6.6	76
Euro-Aggregate	-2.1%	0.6%	-1.6%	3.8	6.4	85
Asia Pacific						
Asian-Pacific Aggregate	0.3%	5.3%	-0.3%	2.1	7.6	6
High Yield						
Global High Yield	-1.6%	5.0%	-0.2%	9.5	4.2	309
U.S. Corporate High Yield	-1.2%	5.9%	0.5%	8.9	4.0	394
Pan-European High Yield	0.3%	6.8%	1.9%	8.4	3.2	447
Other						
Global Inflation-Linked	-4.0%	-2.6%	-5.1%			
Municipal Bond Index	-2.9%	-1.4%	-3.9%	4.3	6.7	
Emerging Markets						
EM USD Aggregate	-2.3%	0.9%	-2.3%	8.0	6.1	316
Sovereign	-3.3%	0.7%	-3.1%	8.6	7.2	387
Corporate	-1.2%	0.9%	-1.6%	8.0	5.0	308
High Yield	-1.9%	3.1%	-0.6%	11.4	5.1	651

Source: Bloomberg 30/09/23.

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.

- Look for decorrelated asset.

5.1 Current Asset Allocation

➢ Our current allocation is 59.7% Risky Assets*, 19% 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 Investments.	
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.	• CAT Bonds.
	Currencies	• Neutral.	• Crypto basket.
Commodities & Alternatives		• Gold & Commodity Basket Energy Transition. • Decorrelated Strategies.	

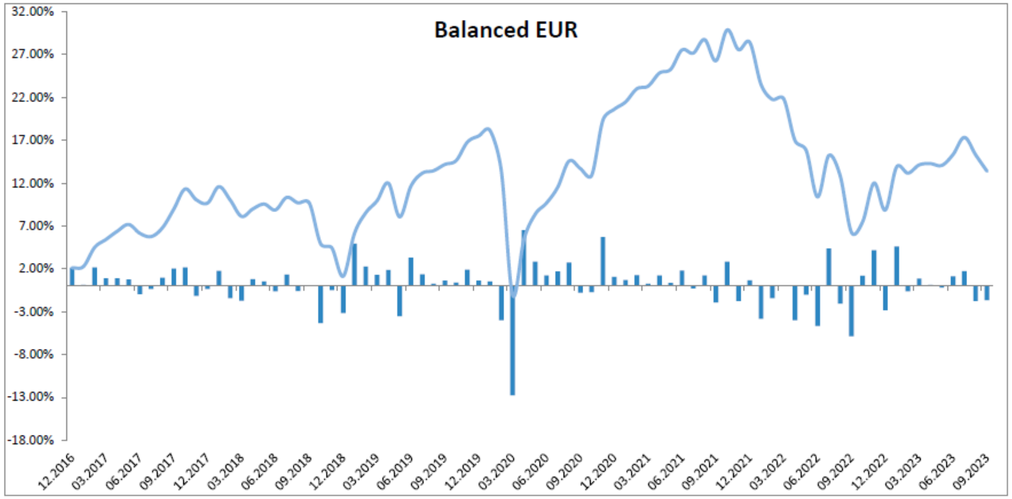
* Risky Assets = Equities + (High Yield Bonds * 0.6 factor)

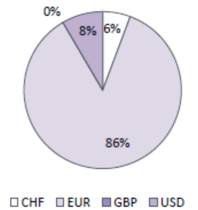
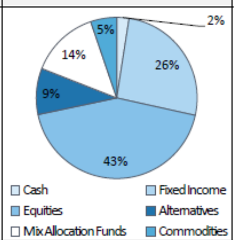
5.2 EUR Balanced Model

Balanced EUR	Current Portfolio Allocation	Benchmark Composite	Model Portfolio
Asset classes	**Current**	**Neutral**	**Range**
Cash	2.5%	5	0/20
Fixed Income	26.0%	45	15/50
Investment Grade	18.1%	45	0/50
High Yield	4.3%	0	0/20
Convertible bonds	0.0%	0	0/20
Other	3.7%	0	0/20
Equities	43.2%	50	20/60
Switzerland	5.7%	0	0/60
Europe	17.4%	30	0/60
UK	0.0%	0	0/60
USA	4.0%	20	0/60
Japan	0.0%	0	0/20
Emerging Markets	4.6%	0	0/20
Equity themes	11.6%	0	0/60
Commodities	5.2%	0	0/10
Alternatives	9.3%	0	0/20
Real estate	0.0%	0	0/10
Private Equity	0.0%	0	0/10
Mix Allocation Funds	13.8%	0	0/100
Tactical Hedge	0.0%	0	0
Total	100%	100	-

Currency allocation	Current	Neutral	Range
CHF	6%	0	0/25
EUR	86%	80	60/100
GBP	0%	0	0/15
JPY	0%	0	0/15
USD	8%	20	0/35
Other	0%	0	0/15
Total currencies	100%	100	

Top 10 Positions	Weight	Asset Class	Geography
Weisshorn Funds Balanced EUR	13.81%	Mix Allocation F	EUR
Weisshorn Funds Global Bonds EUR	8.57%	Fixed Income	EUR
Silex Flexible Bond Fund - I - EUR	5.08%	Fixed Income	EUR
Weisshorn Humanity Challenges Equity-A (EUR)	4.54%	Equities	EUR
Mirabaud Global Strategic Bond Fund I Hedged E	4.43%	Fixed Income	EUR
M&G EM Bond Fund (class C - EUR - Hedged - A	4.25%	Fixed Income	EUR
Total SA	4.21%	Equities	EUR
Alphabet Inc A	3.97%	Equities	USD
Airbus Group SE	3.73%	Equities	EUR
CS (Lux) Cat Bond Fund EBH EUR	3.67%	Fixed Income	EUR



Balanced Portfolio		Risk/Return	Currency breakdown	Asset breakdown
Characteristics	Who is it for?	includes 1% annual mgnt fee		
Time Horizon: 5 to 10 years By investing in funds, securities or bonds, this portfolio may invest in all asset classes. The equity percentage of the portfolio must lie of between 15% and 65% of the total assets.	Balanced portfolios are designed to fit the client's need for a mid to long term investment horizon. The structural risk profile is equally balanced between equities and fixed income instrument.	Disclaimer: Past Performance is not a guarantee of future results		

Annual Performance

	January	February	March	April	May	June	July	August	September	October	November	December	YTD
2016												2.12%	2.12%
2017	0.15%	2.18%	0.89%	0.91%	0.74%	-0.96%	-0.36%	0.97%	2.03%	2.16%	-1.13%	-0.34%	7.41%
2018	1.74%	-1.40%	-1.73%	0.80%	0.52%	-0.62%	1.34%	-0.58%	-0.01%	-4.32%	-0.49%	-3.16%	-7.79%
2019	4.94%	2.27%	1.30%	1.87%	-3.51%	3.31%	1.35%	0.26%	0.64%	0.40%	1.88%	0.62%	16.20%
2020	0.62%	-3.98%	-12.76%	6.49%	2.82%	1.21%	1.70%	2.73%	-0.77%	-0.70%	5.71%	1.06%	2.73%
2021	0.71%	1.26%	0.26%	1.23%	0.36%	1.80%	-0.29%	1.24%	-1.92%	2.85%	-1.77%	0.66%	6.46%
2022	-3.83%	-1.41%	0.07%	-3.99%	-1.02%	-4.66%	4.38%	-2.04%	-5.86%	1.18%	4.18%	-2.81%	-15.24%
2023	4.61%	-0.63%	0.85%	0.13%	-0.18%	1.12%	1.73%	-1.74%	-1.65%				4.17%

Conclusions

- Earnings and margin companies are resilient.
- Reshoring should keep up pressure on inflation.
- Interest rate should stay at high level for a while. Real Estate and leveraged companies 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.

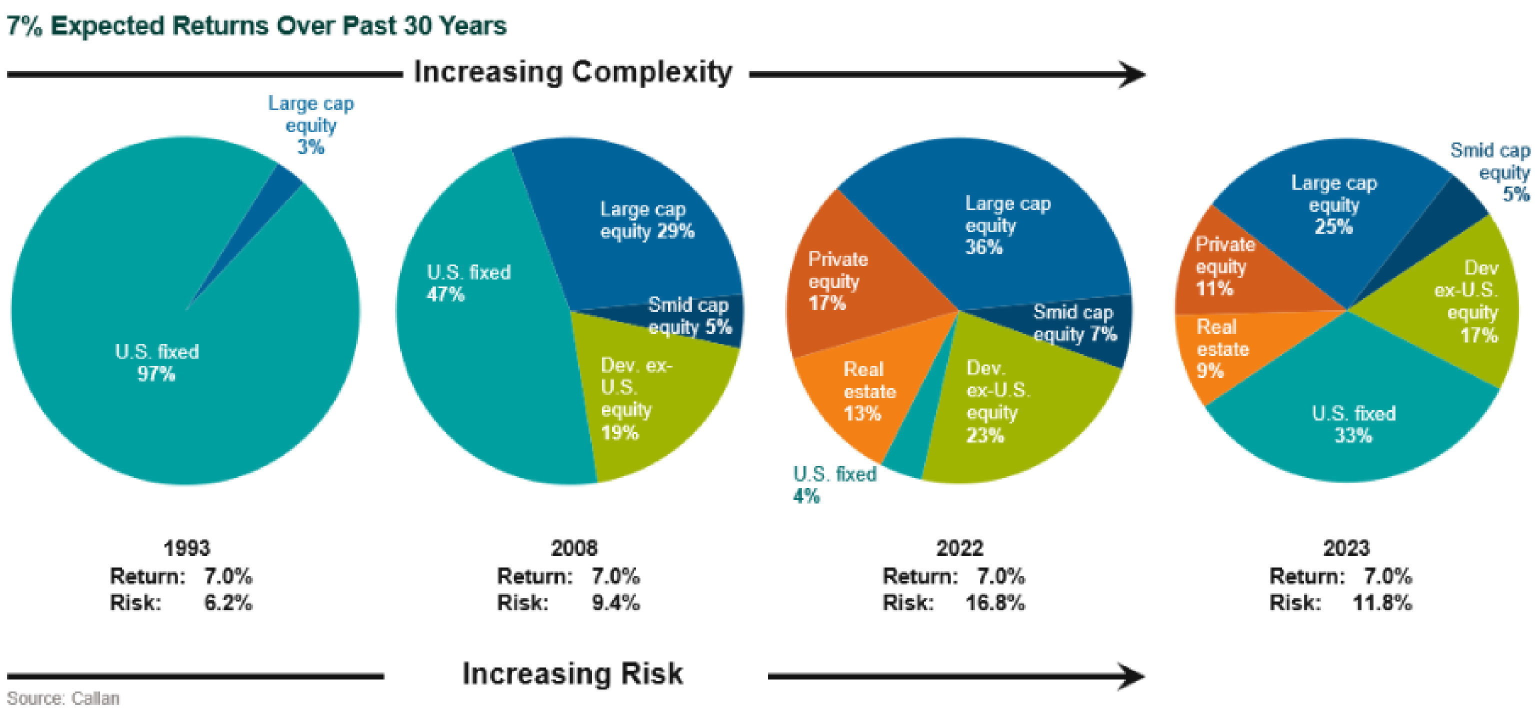
Appendix

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

Disclaimer :
This document is made available exclusively to clients of Weisshorn Asset Management under discretionary portfolio management who has expressly requested to receive such information and documents (such as analysis, research, report, commentary and/or fact sheet). It shall not be communicated to any third party.
The information and opinions (including positioning) contained on this document are for information purposes only and is not a solicitation, offer or recommendation to sell or acquire any securities, effect any transaction or to enter into any legal relations. More particularly, no information, document or opinions (including positioning) provided on this website regarding services or products shall constitute or be construed as an offer or solicitation to sell or acquire securities or other instruments in any jurisdiction where such offer or solicitation is prohibited by law or in which the person making an offer or solicitation is not licensed or registered to do so or to any person to whom such offer or solicitation is contradictory to local law or regulation. Any such prohibited offer or solicitation is void and Weisshorn Asset Management will disregard any communication received in respect thereof.
Past performance should not be taken as an indication or guarantee of current or future performance, and no representation or warranty, express or implied, is made regarding future performance. Clients are urged to be assisted by professionals to assess the possibilities and risks associated with any financial operation before making any investment or other decisions.