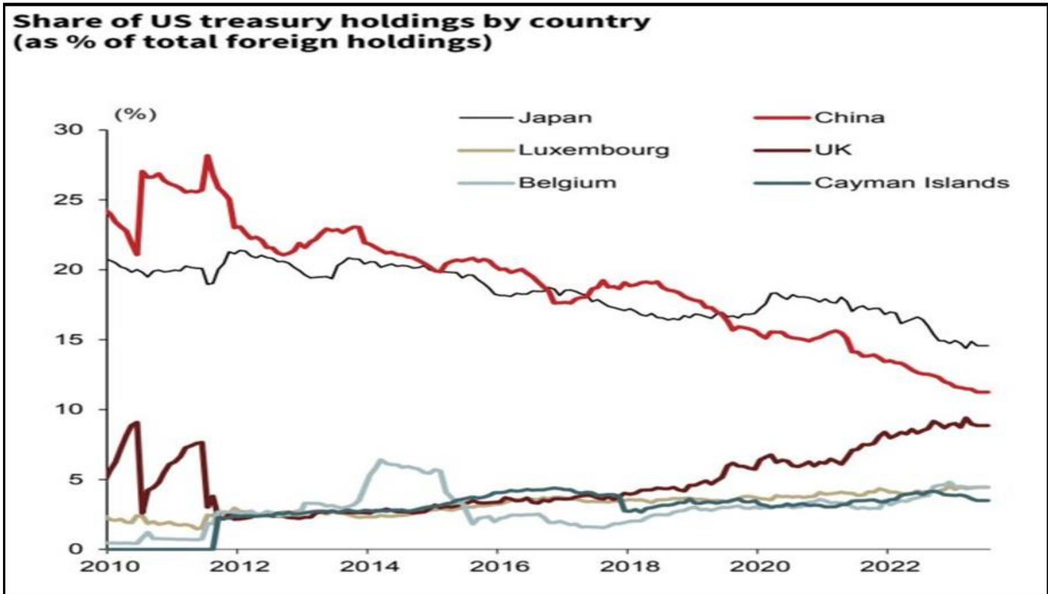
Market review November 2023

Given the seasonal adversity that characterizes the month of October and the lackluster news, it seemed unlikely that we would see a market rally. On the economic front, wage pressures and strong household consumption are not allowing inflation to fall as fast as investors would like (even if the latest figures published at the end of the month for the eurozone were reassuring), which justifies monetary policies that remain restrictive. On the geopolitical front, since the Hamas "surprise" attack on Israeli soil on October 7, the Middle East has once again been under high tension. Israel, shocked and humiliated by these despicable attacks, has set itself the goal of definitively wiping out the terrorist group, even if it means razing the Gaza Strip to the ground. Hezbollah, stationed in southern Lebanon, took the opportunity to "shower" the north of the Hebrew state with a few rockets. On the financial markets, the first asset to react was oil, which rose by 4% the day after the massacre, but quickly returned to its pre-attack levels, ending the month down by more than 10%. Gold's safe-haven status enabled it to gain 7.3% over the month. Gold is once again flirting with its $2,000-per-ounce resistance, and could well start a new uptrend. For diversification purposes, we are more convinced than ever of the usefulness of a yellow metal weighting in a portfolio. Against this anxious backdrop, most stock market indices fell by between 3% and 4% for the third consecutive month. In Europe, the cyclical automotive sector posted the worst monthly performance, followed by Consumer Discretionary. Defensive sectors such as Utilities and Consumer Staples were, as is often the case in these nervous times, the most resilient. The insurance sector also managed to hold its own, ending the month unchanged. On the interest-rate front, the yield-curve steepening trend initiated this summer continued.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Following a strong rally in the US 10-year yield (+35 basis points over the month to 4.90%), the spread between the latter and the 2-year yield narrowed to -16 basis points from -47 at the end of September and -107 at the end of June. Despite this, most yield curves remain inverted, a harbinger of an economy set to contract. One of the arguments put forward in recent weeks for the sharp rise in 10-year yields is that China is diversifying its foreign exchange reserves and selling US Treasuries. Japan, Uncle Sam's largest foreign debt holder, has also been cited as a reason. Although the Central Bank of Japan (BoJ) remains ultra-accommodative, it has tended to relax its control of the yield curve. This will allow yields to rise, making yen-denominated bond investments more attractive for domestic investors.



On the other side of the Atlantic, German yields (used as the benchmark yield for Europe) tended to fall across the curve, but short-dated yields fell to a greater extent, causing the same phenomenon as in the United States, with a steepening of the curve.

It's interesting to note that, in the current climate of uncertainty, Bitcoin is posting a monthly performance of 28% (+109% since the start of the year) and is hovering at its highest since May 2022. Investors are rejoicing at the imminent arrival of a US ETF on the cryptocurrency. The U.S. financial regulator (SEC) is said to be on the verge of approving the launch of a product issued by BlackRock, the world's largest asset manager. This renewed interest could put an end to the 18-month-long wild goose chase for digital assets. Something worth keeping an eye on.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Market trends to end-October 2023

	Equities in Local Currencies							
End of October	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	-2.97%	-2.20%	-2.72%	-3.50%	-4.36%	-5.22%	-3.94%	-3.17%
Perf 3 Month	-9.65%	-8.61%	-9.17%	-8.16%	-6.47%	-8.12%	-12.58%	-11.01%
Perf YTD	6.38%	9.23%	7.05%	6.36%	9.58%	-3.15%	-4.31%	-7.73%

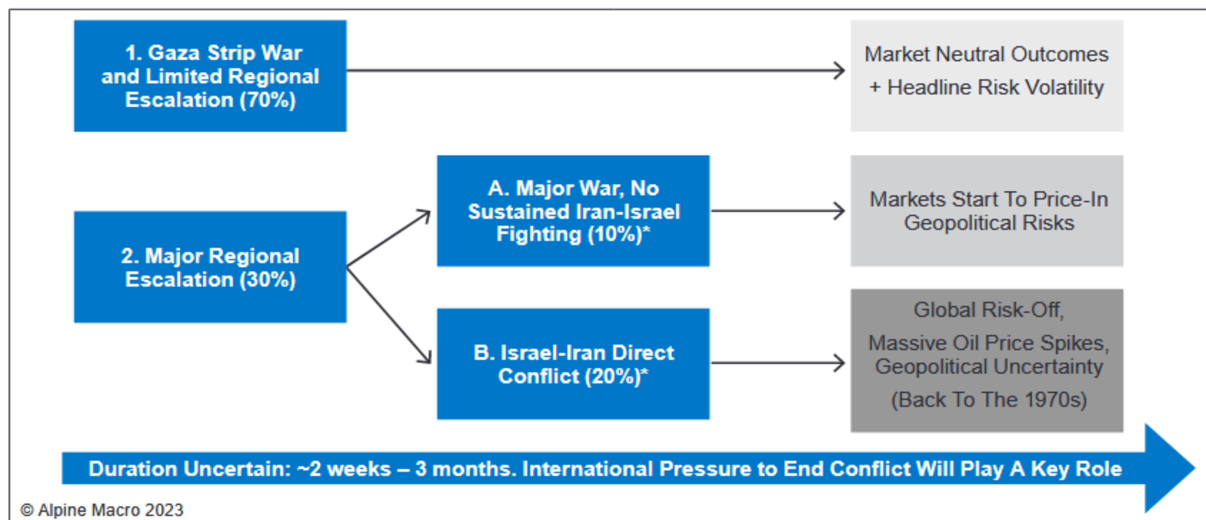
	Commodities				Currencies vs EUR			
End of October	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	-10.76%	-8.29%	7.32%	-1.93%	-0.02%	-1.53%	-0.42%	0.50%
Perf 3 Month	-0.95%	2.16%	0.96%	-8.16%	3.99%	-2.46%	-1.55%	-0.42%
Perf YTD	0.95%	1.75%	8.76%	-3.12%	1.23%	-12.47%	1.73%	2.78%

	Commodities				Currencies vs EUR			
End of October	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	-10.76%	-8.29%	7.32%	-1.93%	-0.02%	-1.53%	-0.42%	0.50%
Perf 3 Month	-0.95%	2.16%	0.96%	-8.16%	3.99%	-2.46%	-1.55%	-0.42%
Perf YTD	0.95%	1.75%	8.76%	-3.12%	1.23%	-12.47%	1.73%	2.78%

Despite the fact that the conflict between Ukraine and Russia is bogged down and that we can see no short-term solution, and that we cannot rule out a Chinese military intervention on Taiwanese soil, investors may have had the impression that the geopolitical context had been calm for some time. Indeed, with the exception of fossil fuel prices still impacted by the sanctions imposed on Russia, most financial assets were taking less and less account of geopolitics. Even Israel must have thought the situation with its neighbors was "under control". Yet on October 7, the armed Hamas group reminded the world that peace was relative. Israeli Prime Minister Benyamin Netanyahu announced it loud and clear. Israel has decided to annihilate Hamas and "cleanse the region" of all terrorist groups that could potentially harm the country's security. If the conflict does not spread beyond the Gaza Strip, the consequences for stock markets should be limited. But the risk of escalation does exist. Although no evidence of direct Iranian involvement has yet been found, Iran remains the "prime suspect" for having helped Hamas in orchestrating the massacre. Iranian officials have warned that the region could spiral out of control if the Gaza strikes continue. If Hezbollah goes to war, Lebanon could be the first country to be drawn into the conflict. Assuming Iran supports Hezbollah, all bets are off and the situation could become catastrophic, with major disruptions to energy supplies and the availability of supply lines in the region. As a reminder, the Strait of Hormuz is the most important international transit zone for hydrocarbons, with a daily flow of oil estimated at 21 million barrels, equivalent to 21% of the world's consumption of petroleum products. A closure of this strait by Iran could have serious consequences. This is not the most likely scenario, but the probability is far from negligible.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1

+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

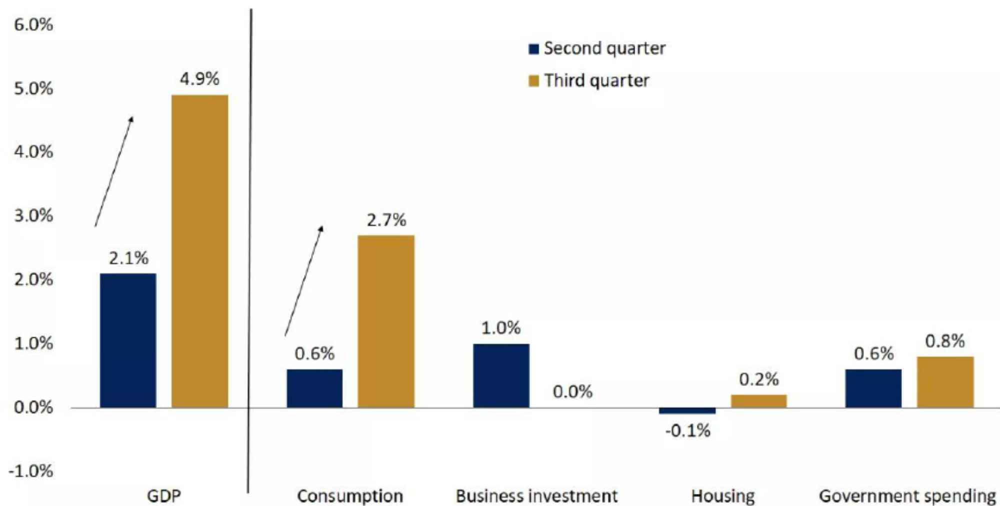


* Scenarios 2A and 2B shown as a percentage of the total 100% probability for all 3 scenarios. A major war escalation (Scenario 2) would have a 2-out-of-3 chances of becoming an Israel-Iran direct war (2B)

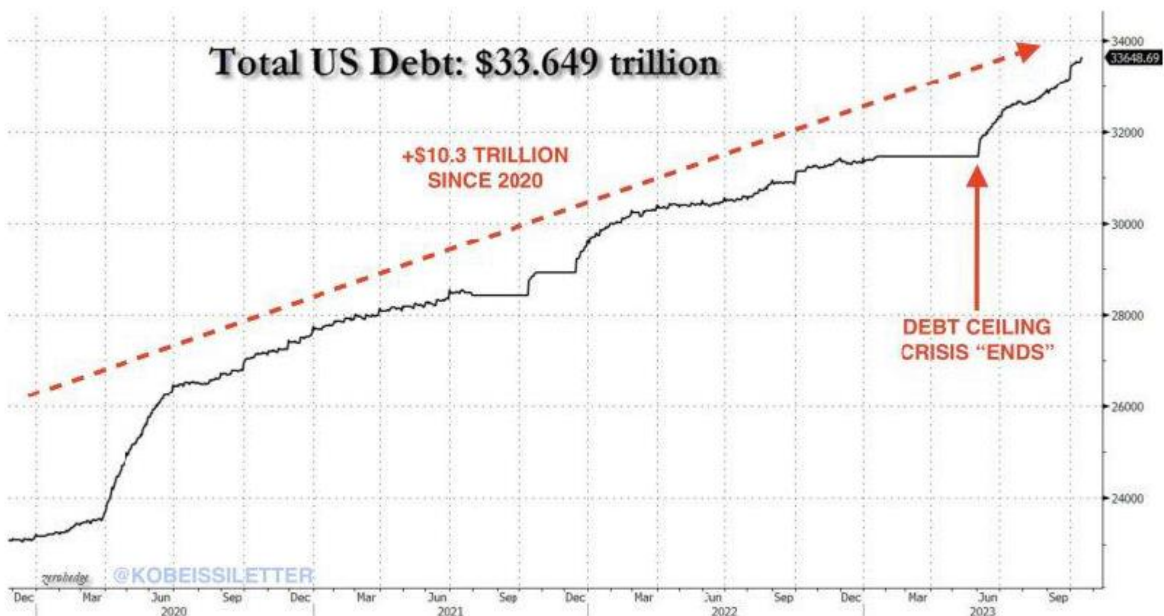
Source: Alpine Macro

Not much new from the central banks. The two main central banks (FED and ECB) left their rates unchanged at 5.50% and 4% respectively, as expected. Unlike the FED, which had already paused its rate hike cycle at its September meeting, the ECB did not move its key rate for the first time after 10 consecutive rate hikes, i.e. since July 2022. The rhetoric remains unchanged: "rates will remain high for as long as necessary", and on Uncle Sam's side, a final hike by the end of the year is not out of the question, even if most market participants don't really believe in it. The consensus expects the first US rate cuts by mid-2024. These forecasts will of course be refined over time, in line with future economic statistics. Even though this is happening gradually, we can see a slowdown in several indicators of economic activity, both in Europe and the USA. Savings accumulated during the confinements have returned to pre-Covid levels, which should dampen household consumer spending, especially if we add that mortgage and credit card rates are at their highest in over 20 years. This should lead to an economic slowdown or even a mild recession in some parts of the world by 2024. It is still the "soft landing" scenario that is favored by the consensus at present. That said, this has not really been borne out by the first estimate of US economic growth for the 3rd quarter. Indeed, the latter was published at 4.9%, i.e. the strongest increase since the 4th quarter 2021, which benefited from a post-confinement base effect. The main contributors were personal consumption, government spending and a positive inventory effect. According to forecasts, while the inventory effect is "mechanical" and should contribute negatively to the next quarter, both private consumption and government spending are expected to weaken in the months ahead.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com



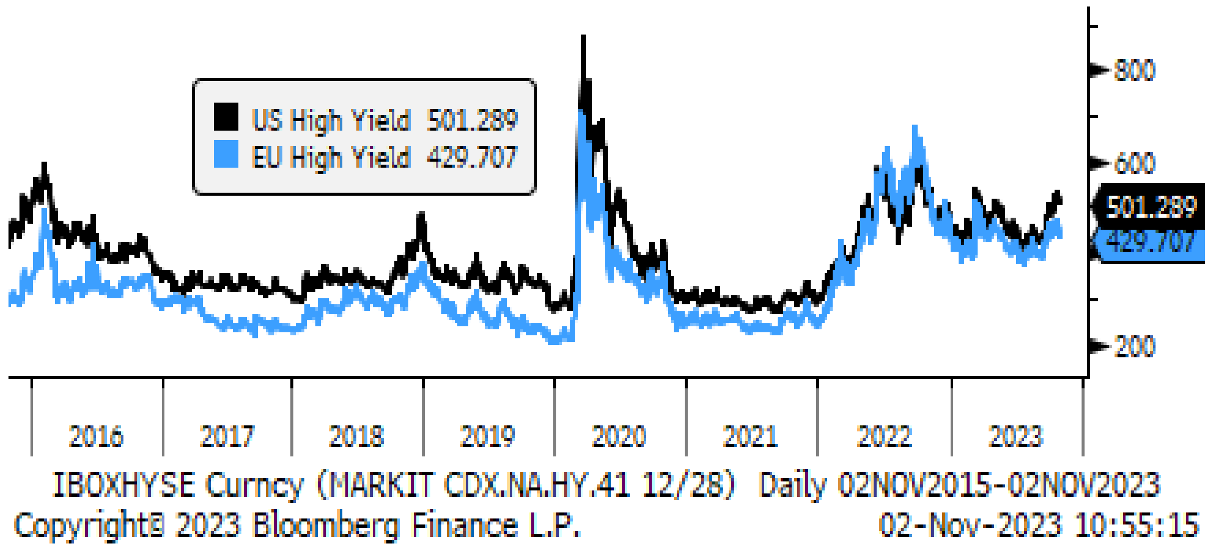
US fiscal policy has remained generous since Covid. Given the increase in debt over the past three years and the heated debates on the budget in Parliament, we can imagine that the contribution of public spending to GDP growth will fade next year. A new speaker has finally been appointed to the House of Representatives, but this does not guarantee that a shutdown can be avoided after the November 17 deadline.
Let's not forget that 2024 will be an election year in the USA, and that pressure from the Democratic Party could intensify for the government to maintain its level of support for the economy so that Americans feel comfortable re-electing the incumbent president.



Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

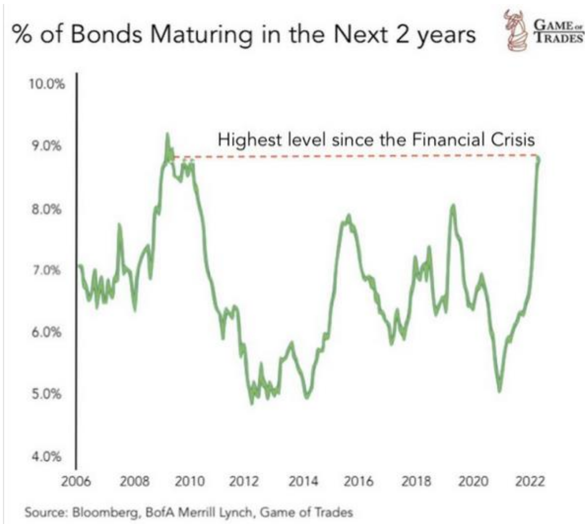
With interest rates in the Western world at their highest since 2007, corporate debt could become a problem. Like many investors, we were surprised by the stability of yield spreads between government bonds and high-yield corporate bonds. Here, we're not talking about companies like Microsoft, which benefit from rising rates as their tons of cash generate more revenue than their debt (locked in at 3 years or more) costs them, but rather companies with high leverage on their balance sheet. In previous phases of rising interest rates, credit spreads have tended to widen. It's logical that during periods of rising corporate debt costs, investors demand higher returns from companies with riskier balance sheets. However, since the beginning of the rate hike cycle, these yield spreads have remained relatively stable.

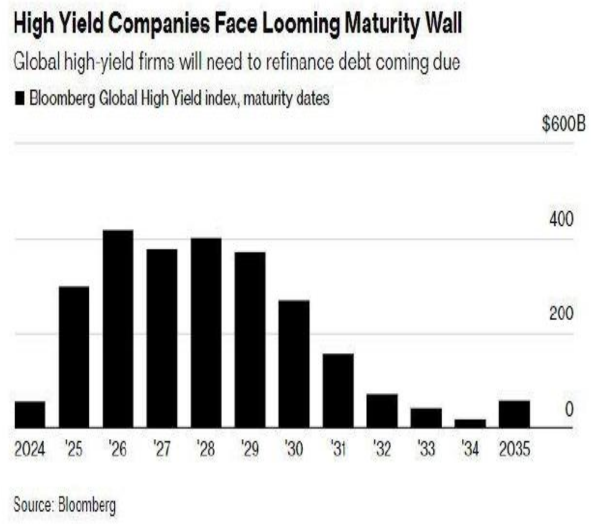
Yield spread between high yield companies and government bonds



The answer probably lies in the maturities of these debts. It would appear that between 2022 and 2023, few companies have needed to refinance their balance sheet liabilities, which has meant that they have been spared rate rises until now. However, a large inventory of debt will need to be refinanced over the next 4 years. This could be a source of stress for some companies, such as those in cyclical sectors, which are bearing the full brunt of the economic slowdown. Real estate companies, which have illiquid assets, could also face refinancing difficulties. This could lead to capital increases for some companies and bankruptcies for others. This could also have repercussions for commercial banks, which also offer credit lines to SMEs. An increase in defaults could weigh on their balance sheets and reduce their liquidity to critical levels, as happened this spring in the USA. The era of easy money is well and truly over, and it would seem that the time has come to pay the piper, especially for those companies that have "abused" this exceptionally easy access to liquidity over the past 10 years. Far be it from us to paint the devil on the wall: most companies will have no trouble refinancing and have solid balance sheets. Even so, it is more important than ever to be selective in your choice of debtors when building a portfolio's bond pocket.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com





Admittedly, the outlook is not all rosy. The global economy is probably on the cusp of a slowdown cycle. While this is unlikely to be too deep ("soft landing"), it could create imbalances in certain segments, causing stress and hence volatility in asset classes. With interest rates at their highest since the 2008 financial crisis, we believe it is wise to be cautious about credit risk and to start gradually increasing the duration of the bond portfolio, given that central banks should start adopting less restrictive monetary policies in the first half of 2024. A further acceleration in inflation would obviously undermine this scenario, but it's not the one we're favoring at the moment, unless the conflict in the Middle East spreads and therefore impacts oil supplies, which could push black gold above $100 per barrel. The US budget deficit and debt levels may also be a cause for concern, even if the FED has the means to prevent any crisis by printing money...but would this really be the right solution?

This context should offer some interesting opportunities in the months ahead. Let's not forget that, with the exception of the technology giants, there are quite a few companies trading at attractive low valuation multiples. As we often emphasize, innovation should enable us to revitalize the economic cycle and return to growth quickly. In periods of lower visibility, such as the present, we tend to favor decorrelated investment strategies. We remain at your disposal for further details on these aspects, and we wish you a pleasant month of November.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1

+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Legal Notice :
These documents are intended exclusively for clients of Weisshorn Asset Management who have signed a management mandate and have expressed their wish to receive such information and documents (such as financial analyses, research notes, market reports and commentaries and/or factsheets). These documents may not be communicated to third parties. The information and opinions (including positions) they contain are for information purposes only and may not be considered as a solicitation, offer or recommendation to sell or buy securities, to influence a transaction or to enter into any contractual relationship. In particular, no information, document or opinion (including positioning) indicated on this Web site concerning services or products may constitute or be considered as an offer or solicitation to sell or buy securities or any other financial instrument in any jurisdiction where such offer or solicitation is prohibited by law or where the person making the offer or solicitation does not possess a license or regulatory authorization to do so or where any offer or solicitation contravenes local regulations. Any such prohibited offer or solicitation will be considered null and void, and Weisshorn Asset Management will disregard any communication received in this regard. Past performance should not be taken as an indication or guarantee of current or future performance, and no representation or warranty, expressed or implied, is made regarding future performance. Clients are advised to seek professional advice to assess the opportunities and risks associated with any financial operation before committing to any investment or transaction.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com