
WEISSHORN
ASSET MANAGEMENT SA

Investment Committee Q1

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1. Market highlights

- The spectre of 2008 is back. The failures of Silicon Valley Bank, Signature bank and Credit Suisse caused panic in the banking sector. However, Banks have a much stronger balance sheets than at the time of the GFC and the risk of contagion remains low at this stage, although Deutsche Bank has also come under severe pressure after the Credit Suisse bailout.

- The "forced" takeover of Credit Suisse by UBS orchestrated by the Swiss authorities will be much talked about. The failure to respect the subordination hierarchy following the wipe-out of almost 17 billion in AT1 bonds (CoCo) is causing a wave of indignation among investors and the main central banks around the world (FED, BOE, ECB). Credit Suisse shareholders will receive 0.75 francs per share.

- Interest rates tended to fall on fears that the banking sector's woes would put the Economy into recession for good. Short rates have corrected more strongly than long rates, causing a reduction in the inversion of the yield curve.

- Inflation continues to slow down but remains at high levels. In this slump, Central Banks have stayed the course by continuing their monetary tightening as planned. The ECB raised rates by 50 bps to 3% while the FED raised rates by 25 bps to a range of 4.75%-5% The financial situation of the Banks will inevitably influence monetary policy in the coming weeks and Central Banks may find themselves having to do a perilous balancing act to avoid choking the Banks and letting inflation rise again.

- Geopolitical tensions are influencing military budgets around the world. This trend looks set to continue.

- Equity markets have held up rather well with Growth sectors clearly outperforming. The Nasdaq is up an "indecent" 20.5% in the first quarter of the year. The tech giants were the main contributors to this rise.

1. Market highlights

- Gold played its role as a defensive investment by appreciating by 7.96% in Q1. Digital assets, led by Bitcoin (+71.7% year to date), also benefited from the loss of confidence in the traditional banking system.

- The Energy transition will support the demand for various Commodities such as Lithium and Copper. The supply will certainly not be able to meet the demand, which may cause major imbalances in some markets.

- China's recovery is slower than expected but the government is trying to reassure foreign investor. The trip from Jack Ma to mainland China and the reorganization of Alibaba might be a sign that de government could be relaxing its scrutiny on Chinese Tech

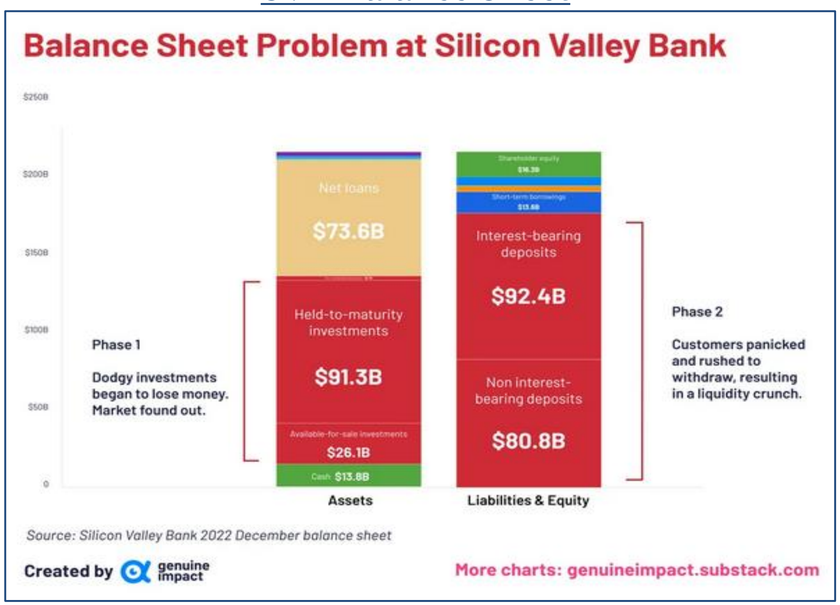
2.1 Bank Failure : Silicon Valley Bank

- In January, it was Silvergate that announced that it was going to cease operations, and then in March we were faced with the failures of two other regional banks, Silicon Valley Bank (SVB) and Signature Bank.

- After investors and savers had doubts about the solvency and liquidity of SVB, they rushed to transfer their deposits to other banks, mainly those classified as "Too Big to Fail".

- What had to happen happened and the SVB was forced to sell bonds booked in its "Held to Maturity" book, thus crystallizing losses higher than its equity.

SVB Balance Sheet



Source: Silicon Valley Bank

SVB Share Price

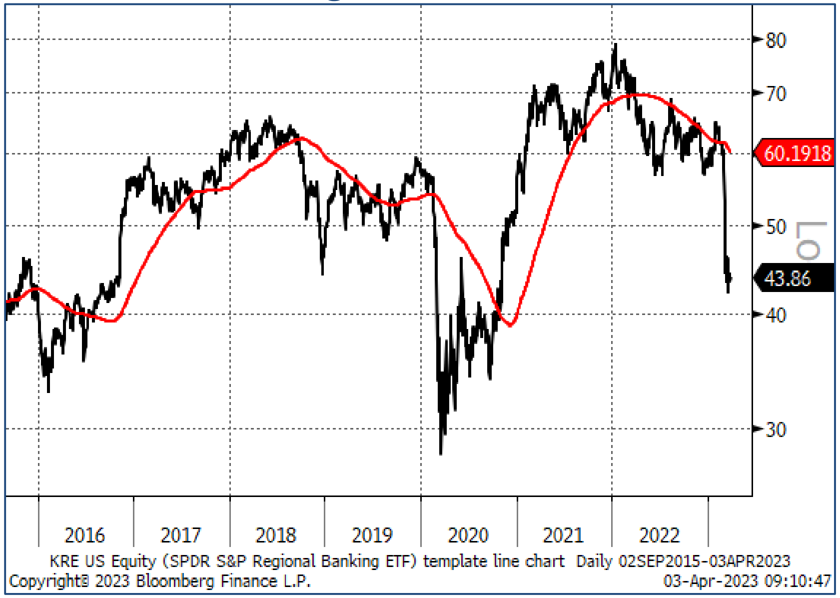
Source: Bloomberg

2.1 Bank Failure : Regional Banks

- As a result of this loss of confidence in the banking sector, households and companies with deposits in medium-sized banks took steps to secure their deposits above USD 250K.

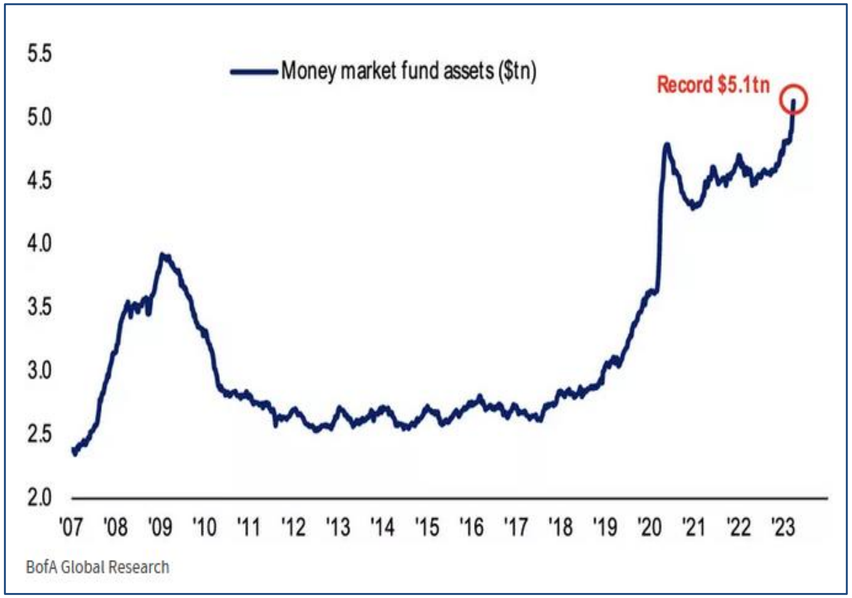
- They either transferred their funds to larger banks or invested their money in Money Market funds. Almost 300Bn USD were invested in this type of funds during this period of stress. The cumulative amount of these funds reached 5.1Tn for the first time.

US Regional Bank ETF



Source: Bloomberg

Money Market Fund Inflow

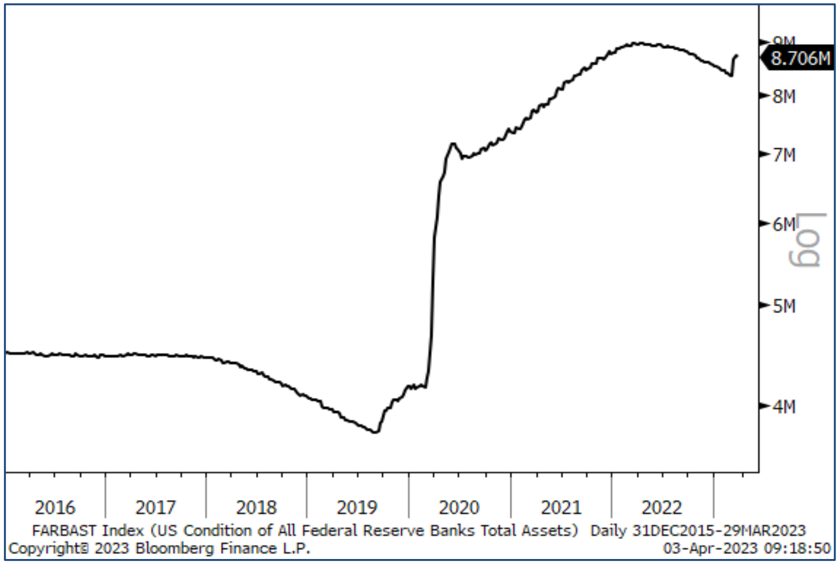


Source: Bank Of America

2.1 Bank Failure : Rescue Plan

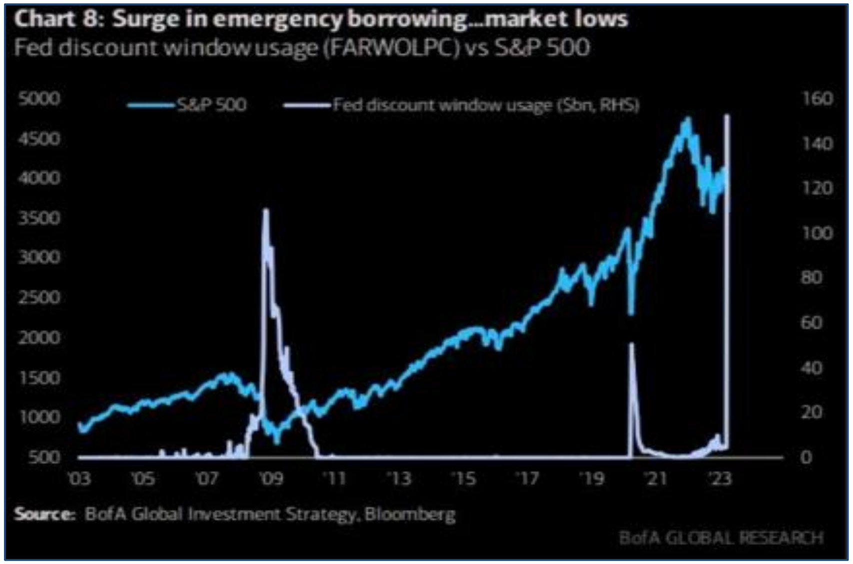
- The FED and the US government had to intervene in order to reassure the population and thus avoid a contagion that could be problematic for the American banking system.
- First, the government assured that deposits above 250K USD at the SVB would be guaranteed by the Federal Deposit Insurance Corporation.
- Then the FED announced that it had set up emergency credit lines to provide liquidity to banks if needed.
- After these announcements the outflows calmed down but the market remained fearful, other medium sized banks like First Republic Bank are still in trouble and remain under the market's radar.

FED Balance Sheet



Source: Bloomberg

Emergency Borrowing



Source: Bloomberg

2.1 Bank Failure : Credit Suisse

- The problem with a stressed market is that fear is contagious and perception often becomes reality. So it took nothing less than a loss of confidence in the US banks for the fear to spread to Europe for Credit Suisse, which was already in trouble.

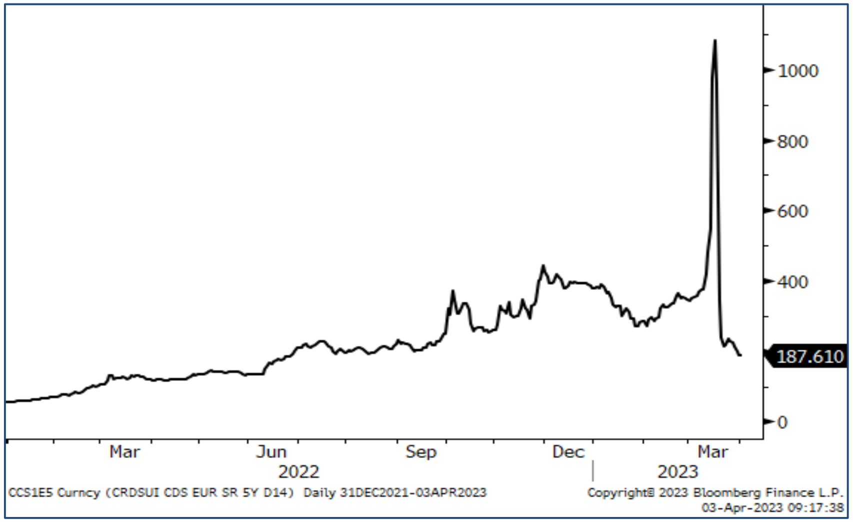
- The "awkward" announcement by the Chairman of Saudi National Bank, a recent shareholder who had participated in a capital increase in November 2022 for an amount of 4.2 billion dollars, did not help. The latter (who had to resign a few days later) firmly announced in an interview that the bank was not considering recapitalizing Credit Suisse at all.

- Credit Suisse's share price was in free fall until the SNB announced a credit line of 50Bn CHF to support it. But even this help was not enough to calm the markets. The government had no choice but to force UBS to buy Credit Suisse for CHF 3Bn.

Credit Suisse Share Price

Source: Bloomberg

Credit Suisse 5Yr CDS



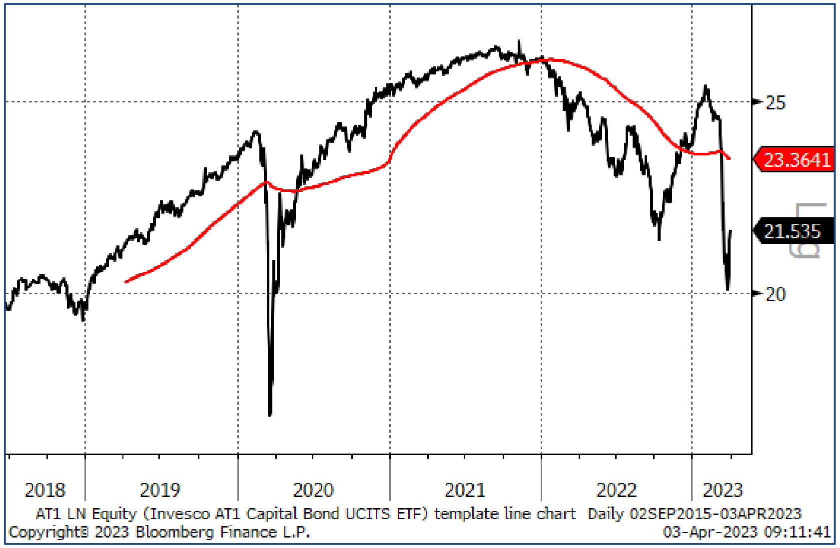
Source: Bloomberg

2.1 Bank Failure : AT1 Issue

- The terms of this takeover have made more than one investor cringe. First of all, the shareholders of UBS and Credit Suisse did not have a say in the deal.

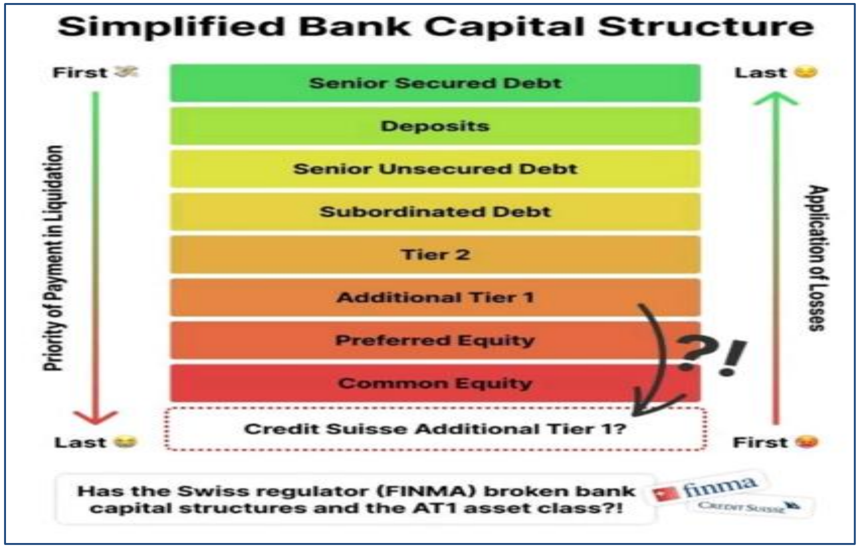
- But what we heard the most about was the treatment of Credit Suisse's 17Bn AT1 Bonds which were written off to zero while shareholders will get about 75ct per share. The capital structure has not been respected, normally the shares are reduced to zero before the AT1s which come in second line. This decision therefore provoked a massive sale of these bonds, as the market now fears that these bonds will have no value in the event of a bank failure. So far, the ECB has reassured market participant by saying that if a bank were to go bankrupt the capital structure would be respected.

Invesco AT1 ETF



Source: Bloomberg

Capital Structure



Source: Syz

2.1 Bank Failure : Who's Next ?

- So now it's the turn of the European banks to be stressed and the question on everyone's mind is which bank will be the next to fail.

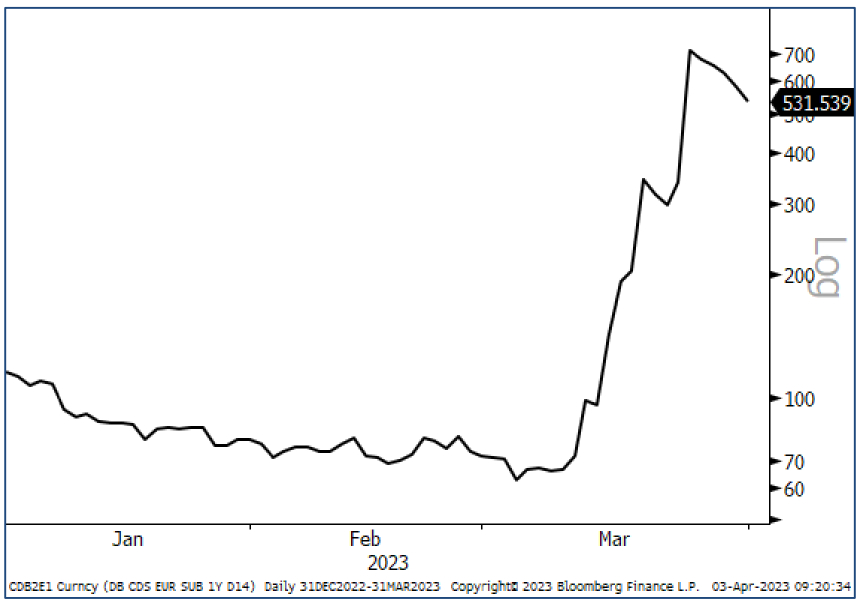
- The market seems to already have an idea. CDS on Deutsche Bank have risen much faster than those of its European peers, and its stock saw its value drop by more than 15% intraday on March 24.

- However, there is no need to panic for nothing, since its restructuring, Deutsche Bank has shown that it is profitable and that its balance sheet is healthy. Moreover, many of its deposits are accounts that fall under the protection of up to EUR 100K, so savers have no reason to take their money out even if the bank is stressed.

Deutsche Bank Share Price

Source: Bloomberg

Deutsche Bank CDS 1Yr SUB



Source: Bloomberg

2.2 Global Macro : Credit Spreads

- This fear about the banking sector has not only spread between banks but also to the rest of the market. Memories of 2008 have surfaced, and this fear of a second financial crisis has led to a widening of credit spreads on both the high yield and investment grade sides.

- However, it is important to put this into perspective, as there does not seem to be any systemic risk involved in what is happening. Spreads have therefore widened slightly, but they remain at levels well below the peaks of 2022 or during the COVID era.

High Yield CDS EU and US

Source: Bloomberg

IG CDS EU and US

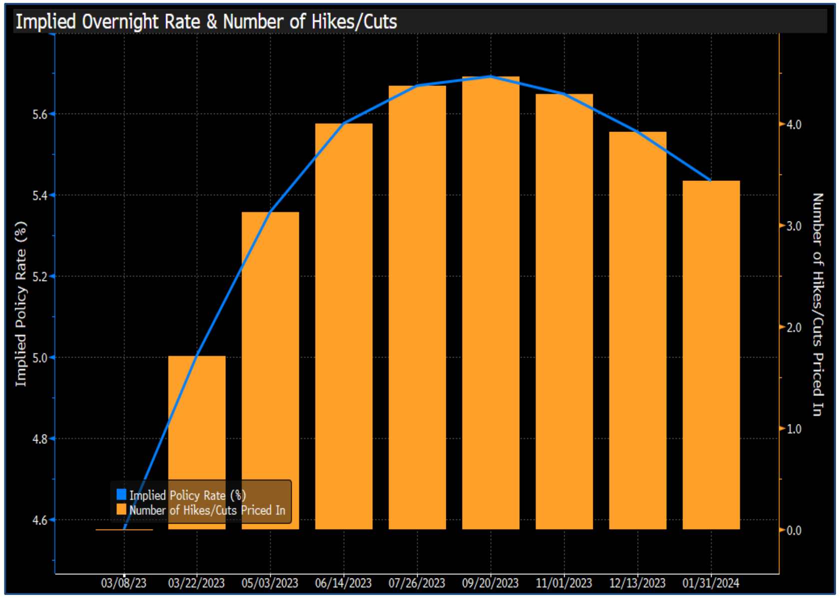
Source: Bloomberg

2.2 Global Macro : Hike Expectations

- However, this banking crisis has had an impact on the outlook for 2023. As Jerome Powell himself said, the loss of confidence could restrict the credit market and thus encourage a fall in inflation. Moreover, the FED chairman even added that this crisis could be considered as a rate hike.

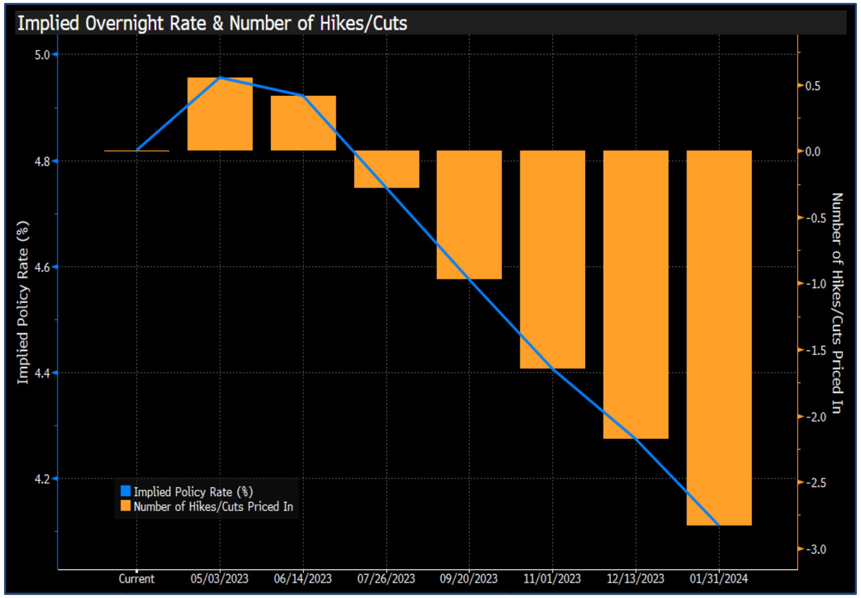
- Expectations of rate hikes changed dramatically during the month, at the beginning of March the terminal rate peaked at 5.6% and analysts were not expecting a rate cut this year. Now the market is pricing in a terminal rate of 5% with at least 2 rate cuts by the end of the year.

US Hikes / Cuts Anticipation 08/03/23



Source: Bloomberg

US Hikes / Cuts Anticipation 28/03/23



Source: Bloomberg

2.2 Global Macro : Long Term Inflation Expectation

- Long-term inflation expectations have also corrected somewhat. We are at 2.3% on the German 10Yr Breakeven after reaching 2.7% at the beginning of the month, and we are at 2.25% on the US 10Yr Breakeven after a peak of 2.50%.

- This should reassure Central Banks. These long-term inflation expectations show that the market is still convinced that inflation will come down to the 2% target zone. It is important that these expectations remain anchored at these levels, otherwise too high expectations could lead to self-fulfilling prophecy.

Germany 10Yr Breakeven

Source: Bloomberg

US 10Yr Breakeven

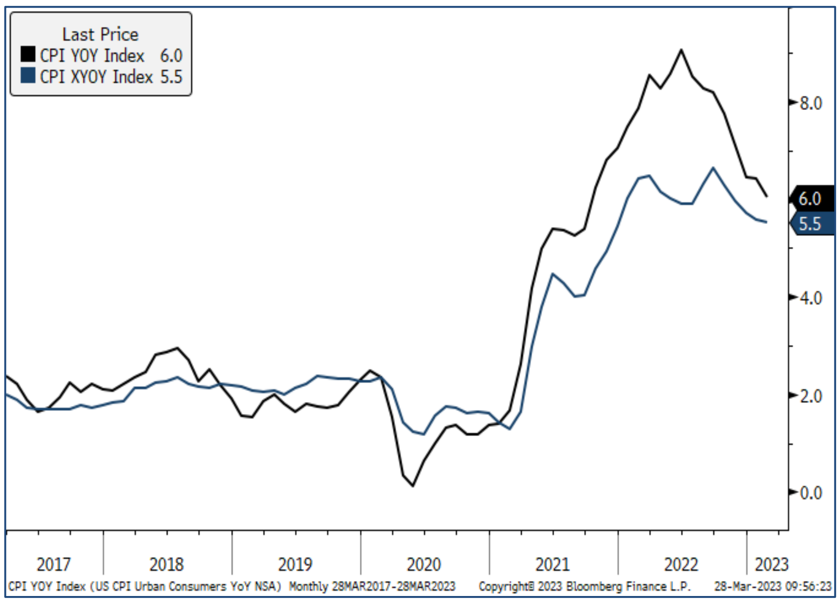
Source: Bloomberg

2.2 Global Macro : Inflation

- Inflation headlines look like they peaked a few months ago. With energy prices continuing their correction, it is normal for a base effect to come into play and for inflation to fall year-on-year.

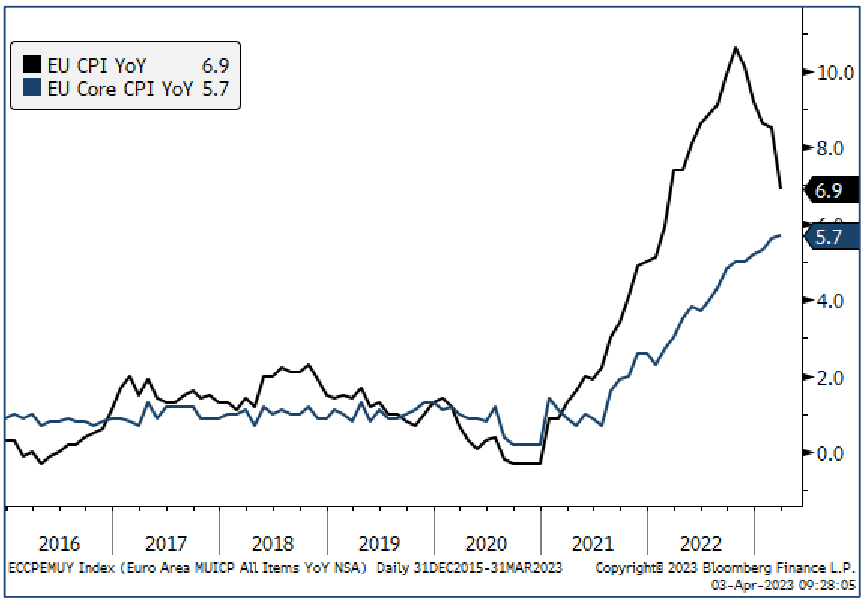
- However, when we exclude food and energy, a different picture emerges. Core CPI is still accelerating in Europe, while it is struggling to fall in the US. The problem is in services, where demand is still very strong, and in real estate costs due to rising rents from higher interest rates. There is still a long way to go before we can be convinced of a return to 2% inflation.

US CPI & Core CPI



Source: Bloomberg

EU CPI & Core CPI



Source: Bloomberg

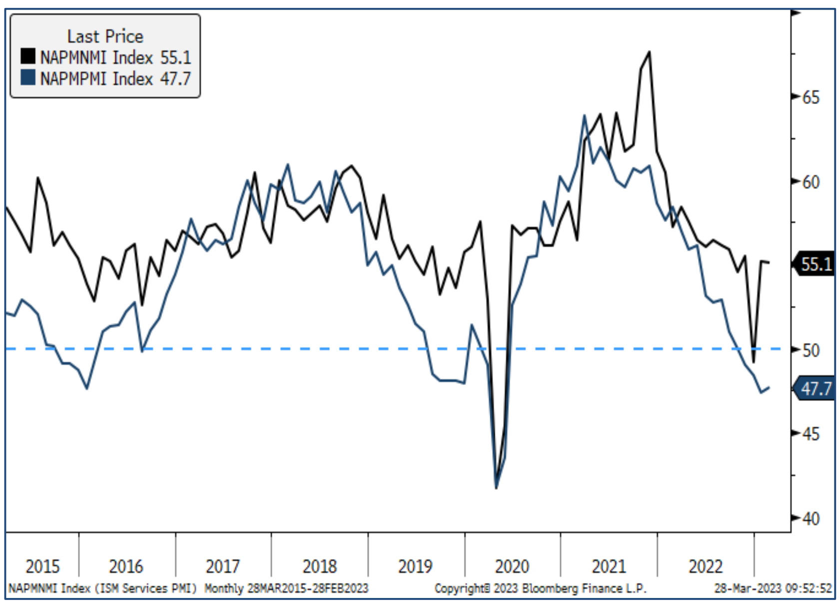
2.2 Global Macro : PMIs

- The PMIs also tell us two different stories. On the one hand, manufacturing PMIs are in a contraction zone in both Europe and the US, while services PMIs remain above expansion levels.

- This proves once again that one part of the inflation problem has been solved but that the other still needs to slow down before reaching the levels that the Central Banks are targeting.

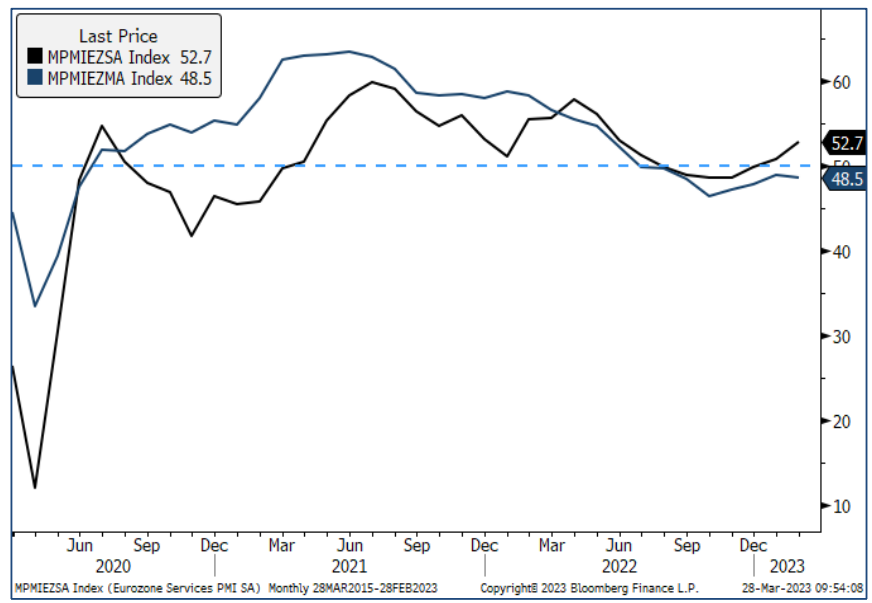
- If these levels are not reached, there is no choice but to continue to raise rates.

US Manufacturing & Services PMI



Source: Bloomberg

EU Manufacturing & Services PMI



Source: Bloomberg

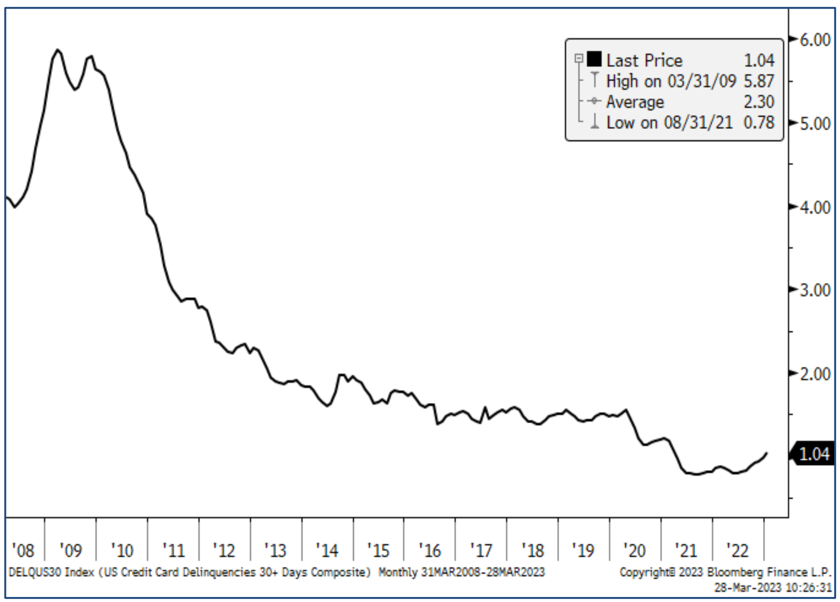
2.2 Global Macro : Spending

- Although the inverted yield curve shows us that the market is anticipating a recession, there are not many indicators that tell us the same story.

- Credit card delinquency rates remain at extremely low levels, although they are beginning to rise slightly.

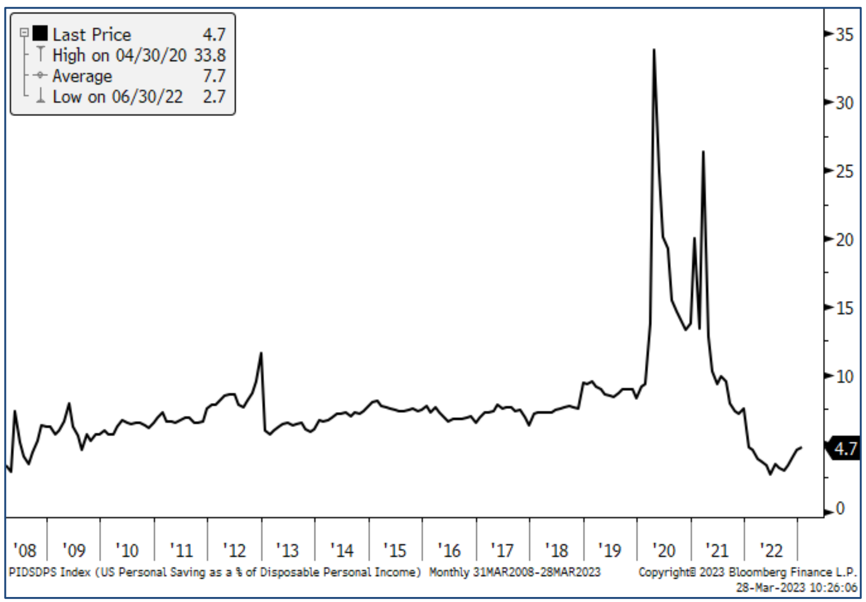
- As for savings rates, they are beginning to normalize but are still far from their pre-COVID pace.

US Credit Card Delinquency 30+D



Source: Bloomberg

US Savings as % of Disposable Income



Source: Bloomberg

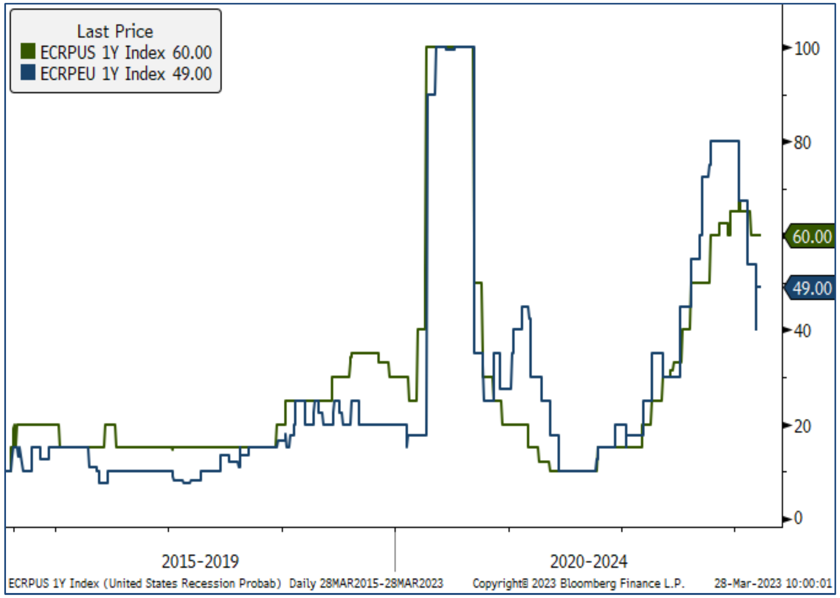
2.2 Global Macro: Recession

- Since the beginning of the year, economists have revised the probability of a recession in the next 12 months downwards. We are at 50% in Europe and 60% in the US.

- These revisions in the probability of recession have gone hand in hand with expectations of GDP growth, which have been revised upwards.

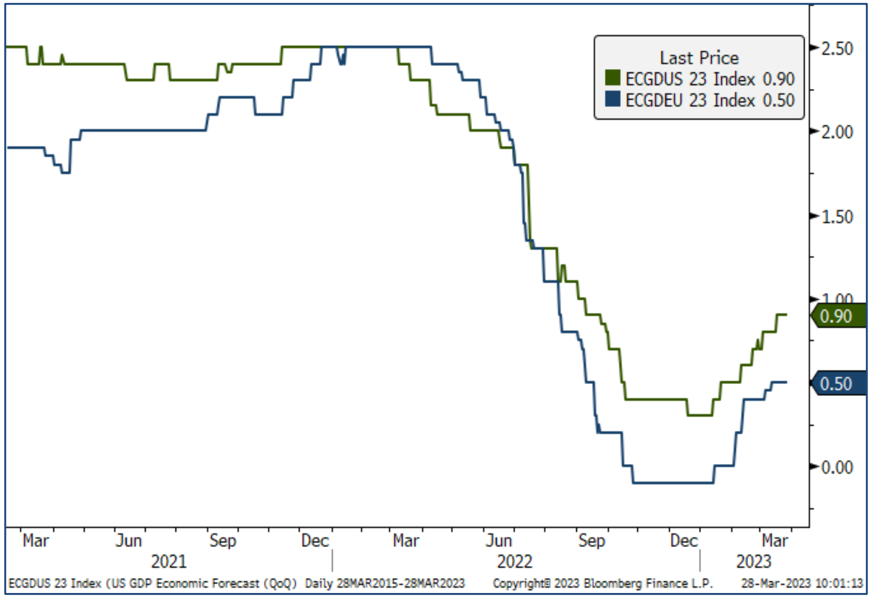
- While we were expecting negative growth in Europe, we are now at 0.5% and almost 1% in the US.

Recession Probability



Source: Bloomberg

EU & US GDP Forecast for 2023



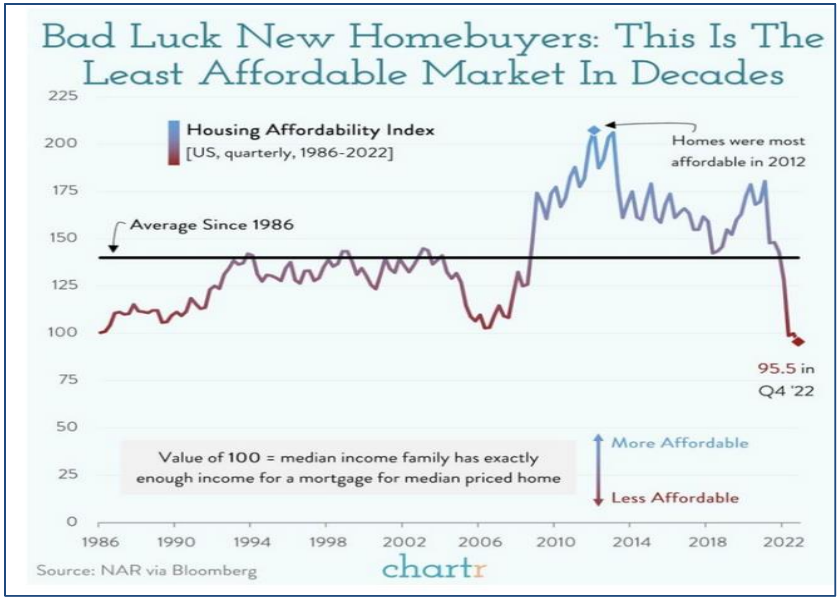
Source: Bloomberg

2.3 Real Estate : Affordability

- Real estate is the next source of concern in the market. In Europe, as well as in America, real estate prices continue to fall and once again the bad memories of 2008 are surfacing.

- Real estate has never been so inaccessible. Firstly because of its price, it has never been so high although there has been a small correction in recent months. In addition, the loan rate has not stopped increasing over the last 12 months. As a result, it is becoming increasingly difficult to repay mortgages and therefore increasingly difficult to access home ownership.

Real Estate Affordability



Source: NAR

30Yr Mortgage Rate

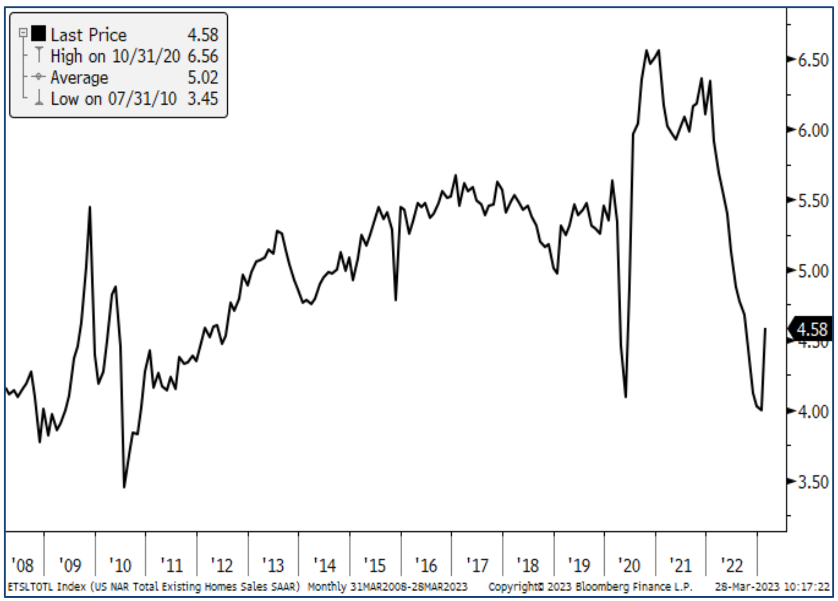
Source: Bloomberg

2.3 Real Estate : Supply / Demand

- Although there has been a rebound in home sales recently, the housing market is still suffering from a liquidity problem.

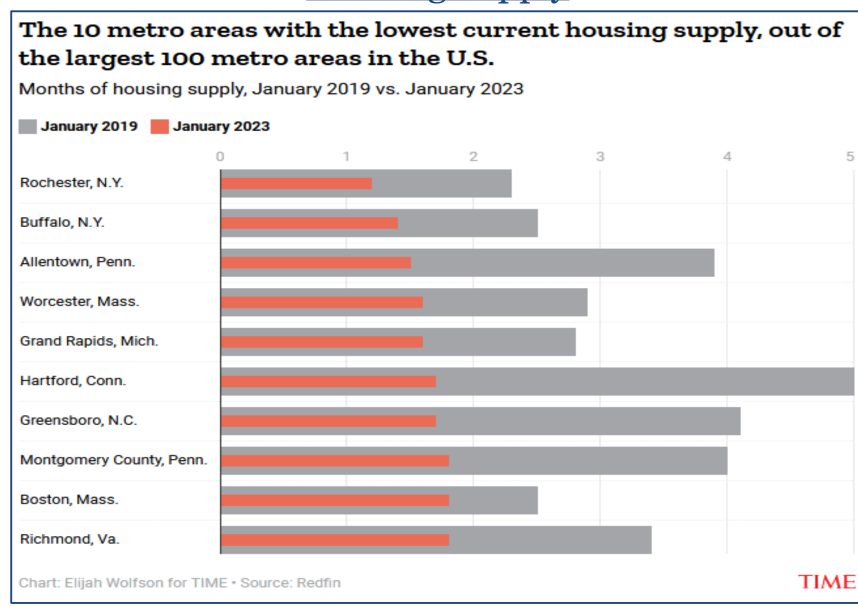
- Households that bought their homes at an extremely low rate do not want to move and are therefore asking a very high price. While households wishing to buy want to find cheap properties in order not to have to pay too much interest on them. So even if the price drops are reasonable for the moment, a lack of liquidity in the market will certainly result in lower prices.

New Home Sales YoY



Source: Bloomberg

Housing Supply

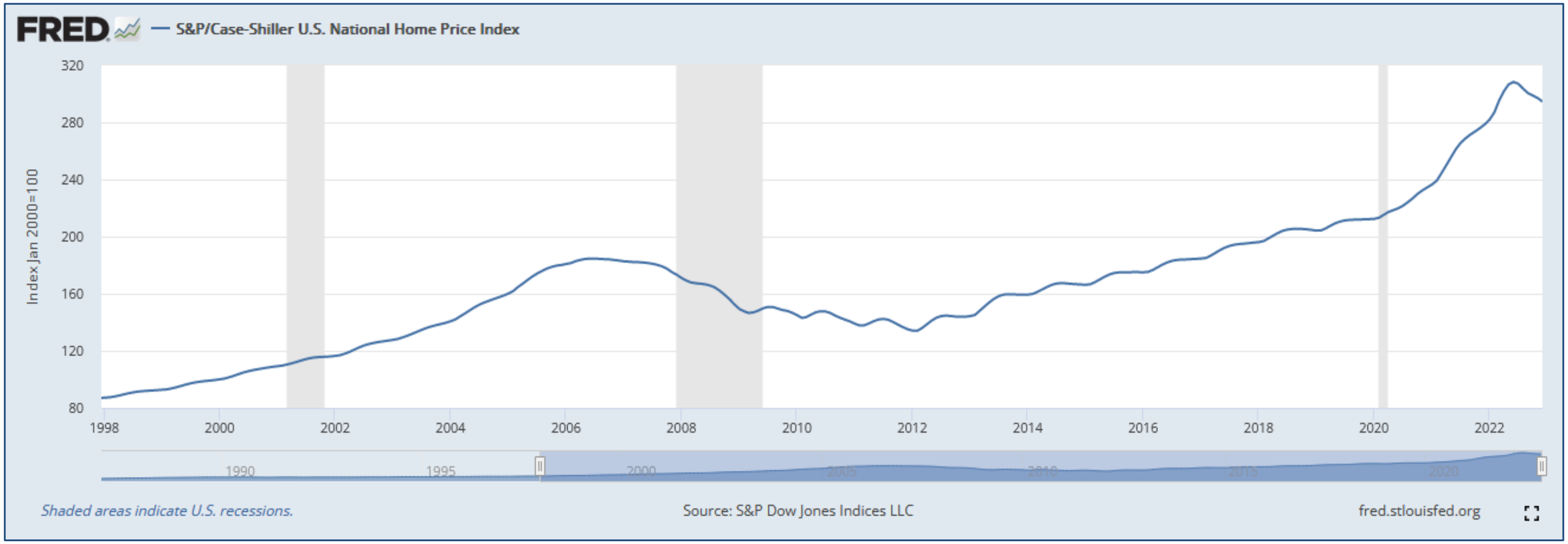


Source: Time

2.3 Real Estate : Prices

- Apart from the financial crisis, real estate prices have been rising for more than 30 years.
- However, the current price level is not sustainable if we take into account the amount of interest that must be paid to acquire a new home.
- As a result, the main indices tracking real estate prices are expected to continue to deteriorate in the coming months.

US Home Price Index



Source: FRED

2.3 Real Estate : Europe

- In Europe, in recent months, the trend has been the same as in the US. The real estate market is in the midst of a correction, and the European real estate index has already lost more than 50% since its peak.

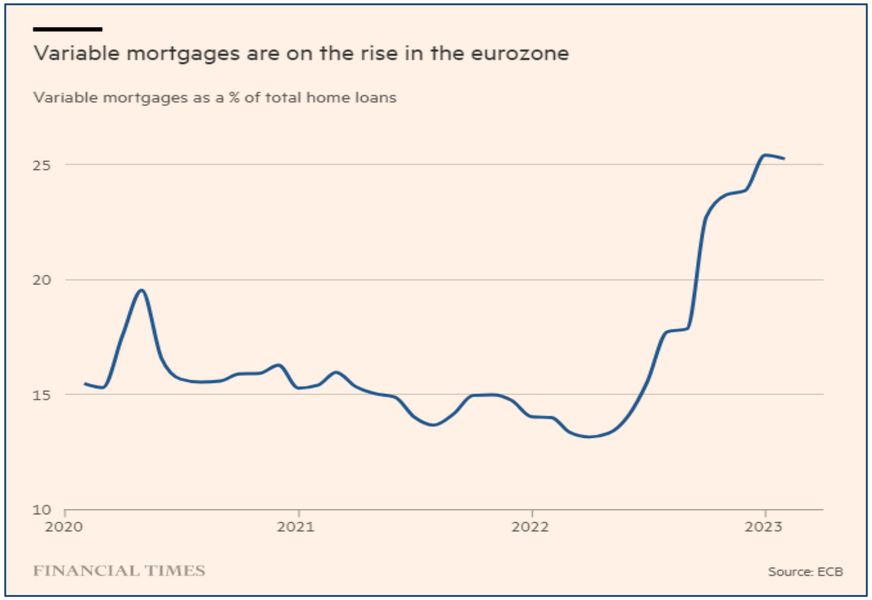
- Between the accounting frauds of real estate companies in Germany and the house prices that keep falling in Sweden and the UK for example, investors are panicking about a potential investment in this sector.

- In addition, since rates have started to rise, more and more borrowers have decided to take out variable rate mortgages. If rates continue to rise, interest costs could lead to forced sales.

Stoxx 600 Real Estate

Source: Bloomberg

EU Variable Mortgage as % of Total Loans

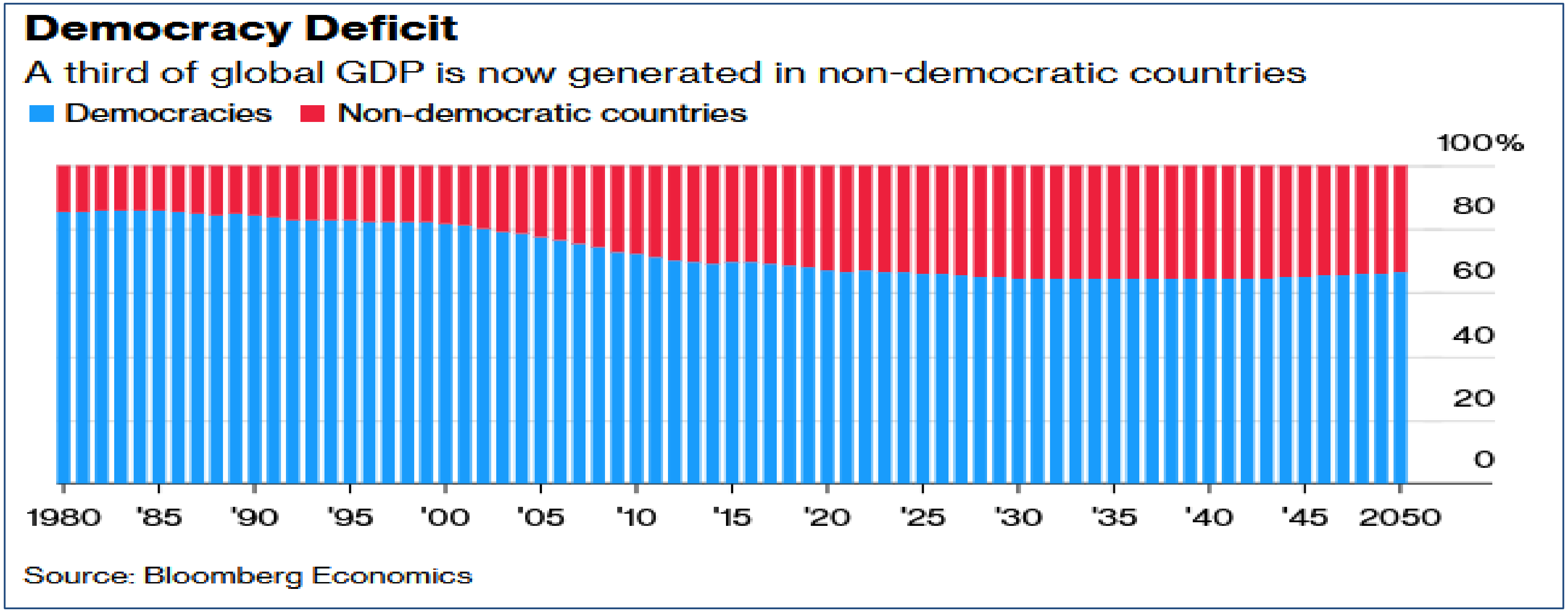


Source: Financial Times

2.4 Geopolitical Tensions : Democracies

- Geopolitical tensions are becoming more and more apparent since the Russian invasion of Ukraine. Old tensions persist like China and the US, while others are being resolved to form new "curious" alliances like Saudi Arabia and Iran.

- The block of democracies which is mainly composed of the US and Europe is losing ground in terms of economic power which implies that the cards are being redistributed. If they represented 20% of the world GDP in the 80's, the non-democratic countries should represent 35% of the world economy in the next few years.



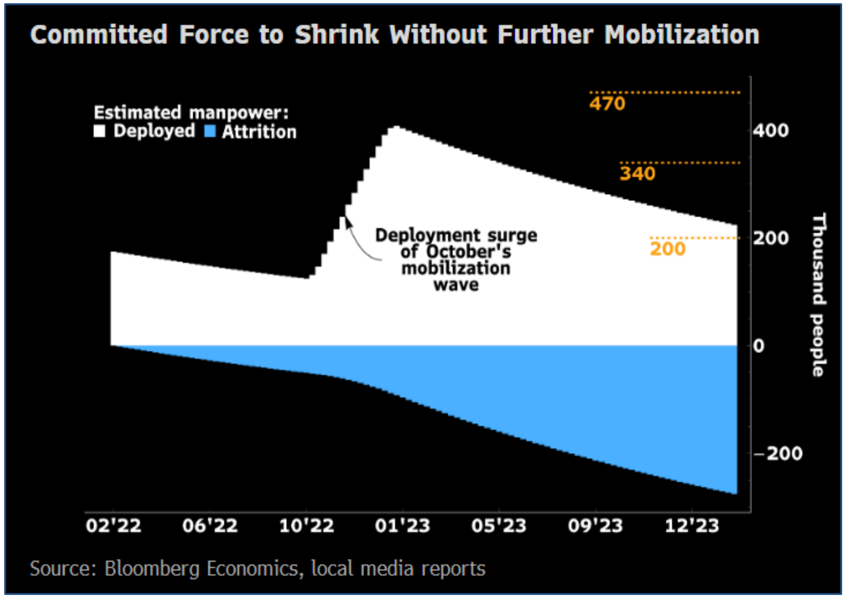
Source: Bloomberg Economics

2.4 Geopolitical Tensions : Russian / Ukraine

- The war in Ukraine is in full swing and is not expected to end anytime soon. Russian troops are steadily decreasing but Mr. Putin is planning to call in 400,000 new fighters very soon in order to have enough troops to keep the war going until one side is declared the winner.

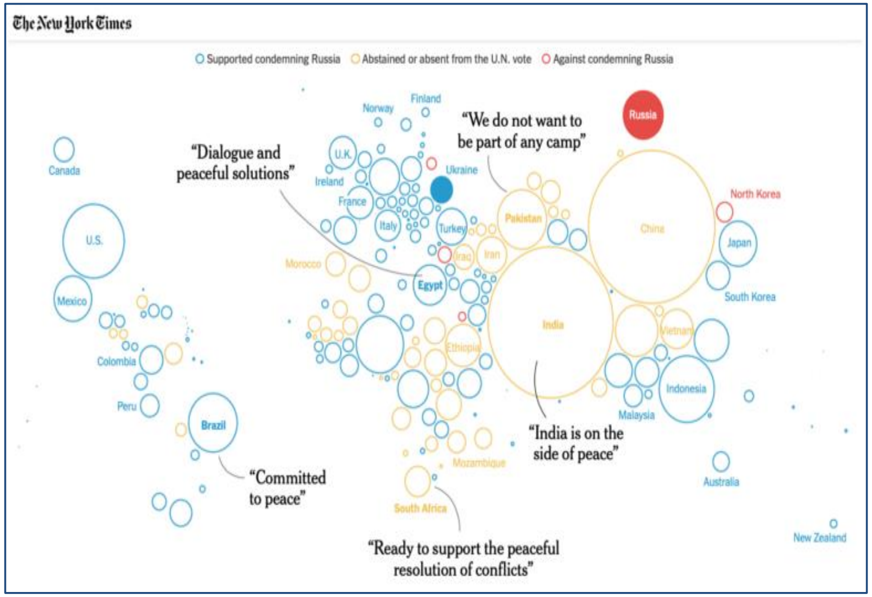
- Many countries, mainly democratic ones, do not support this war. But rather than giving direct support, other major economic powers prefer to abstain and not take a stand. However, the relations between China and Russia have strengthened since the beginning of this war.

Russian Forces



Source: Bloomberg

Position on Russia / Ukraine War



Source: New York Times

2.4 Geopolitical Tensions : US / China

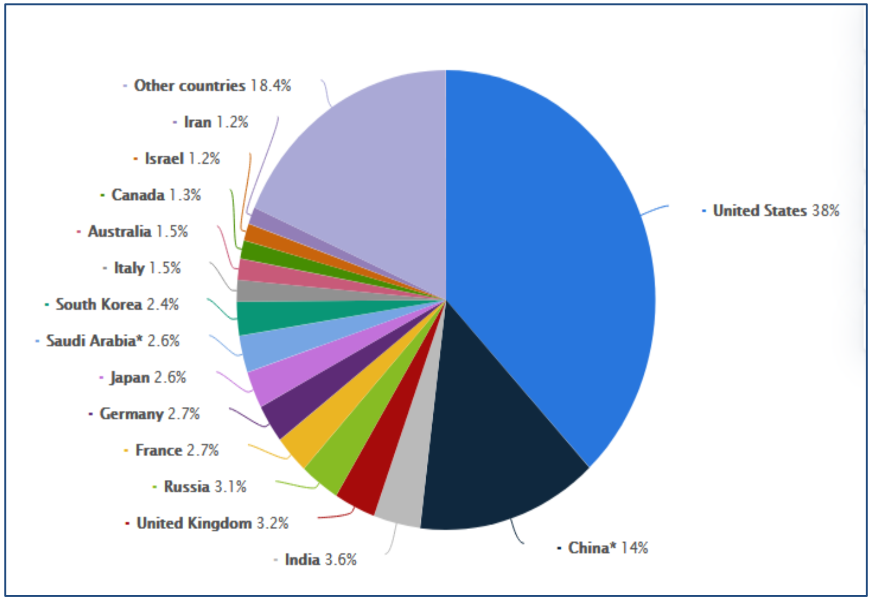
- The current conflicts are played out on two levels. The first level is the oldest and consists of the arms race. In this sector, the US remains the best by far. It represents 38% of global spending on arms. China is just behind with 14%.

- The second plan is technological. The US is putting in place laws prohibiting the export of certain technologies to China. These bans mainly concern semiconductors, which represent an essential element for the technological progress of a country. The protection of information is also a source of conflict, that's why the US is planning to ban Tik Tok in their country.

US – China Tensions

Source: Financial Times

Share of Defense Spending 2021



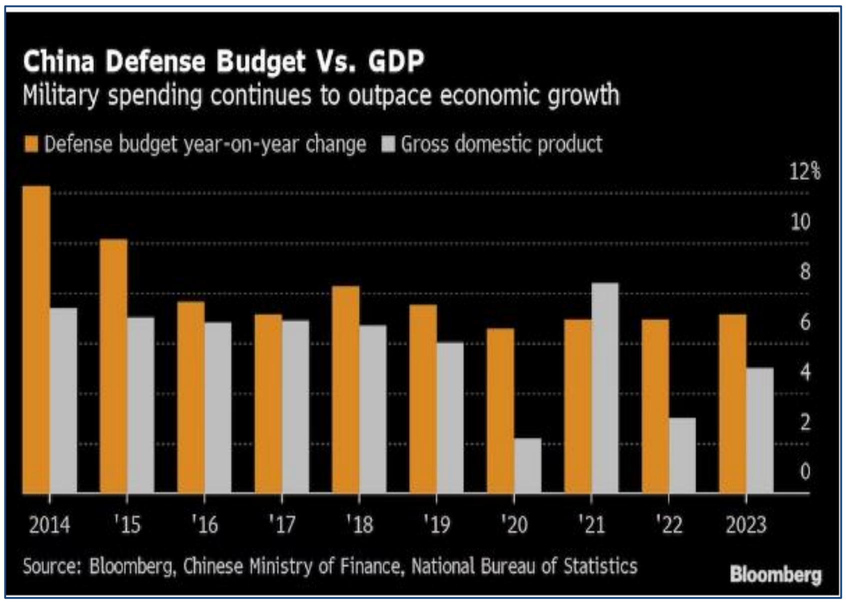
Source: Statista

2.4 Geopolitical Tensions : Defense Spending

- In the arms race, China and the US are the 2 largest investors. In 2022 more than 750Bn were invested in defense in America and this figure is expected to continue to grow in the coming years.

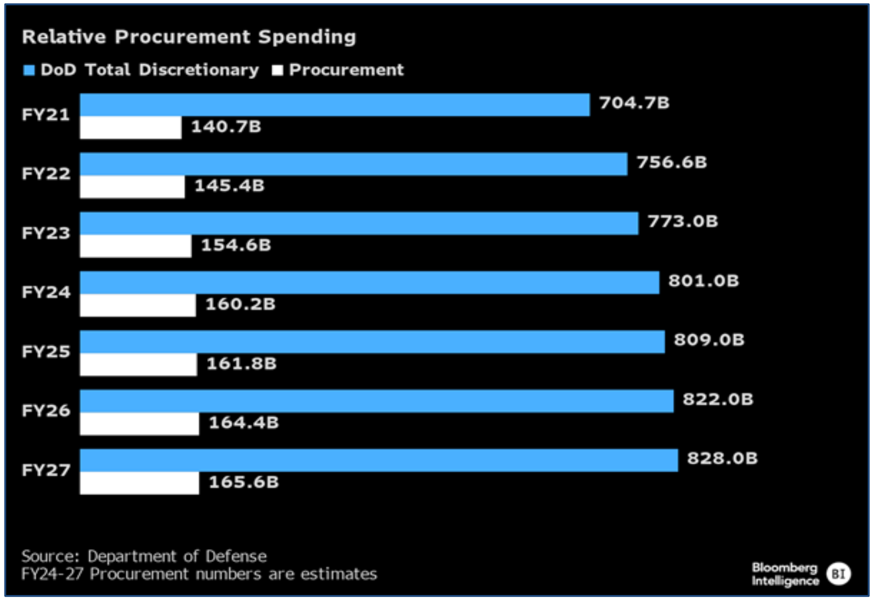
- On the Chinese side, the growth of defense spending has outpaced the growth of its GDP over the last ten years. This proves once again the will of China to catch up with the US on the military level. This raises the question of Taiwan's security if China can catch up.

China Defense Spending



Source: Bloomberg

US Defense Spending



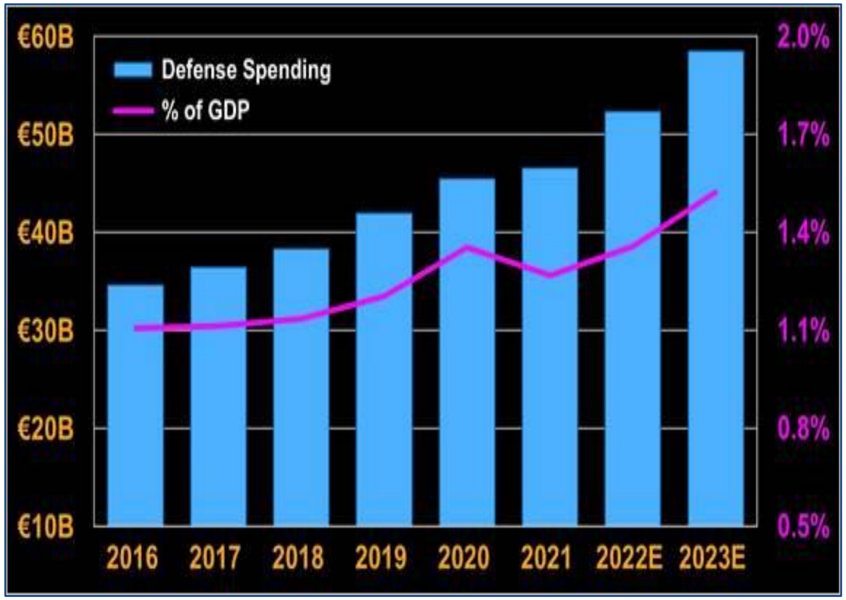
Source: Bloomberg

2.4 Geopolitical Tensions : Defense Spending

- On the European side, the various governments saw the war knocking at their door. They decided in unison to increase their arms budgets. Germany, which was at the bottom of the class in terms of defense budget, has already released more than 100Bn last year and should in the future devote 2% of its GDP to improve its defensive resources.

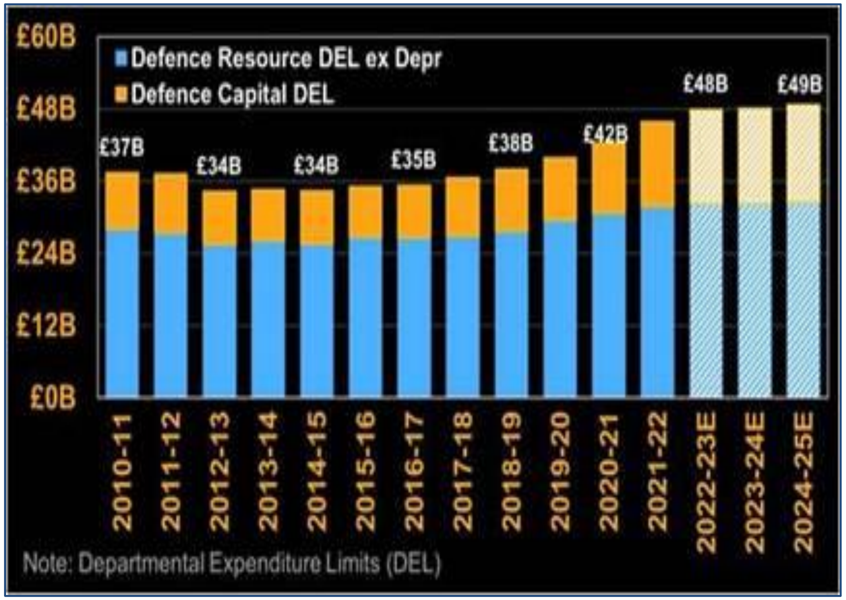
- The UK, being a close ally of the US and Europe, has decided to follow suit and increase its budget, which is expected to reach about 50Bn in 2023, compared to only 35Bn in 2017.

Germany Defense Spending



Source: Bloomberg

UK Defense spending



Source: Bloomberg

3. Long term views

- The FED is coming to the end of its aggressive hiking campaign. We would have never thought that it would be so fast and quick. This process went smoothly, but eventually, something had to crack. Inadequate risk management and colossal deposit variation provided a recipe for failure. It cast doubt on the health of regional banks, but more generally on our financial system, especially after the fall of Credit Suisse. Nevertheless, big banks are better off unless the regulator asks for a more significant capital base. Central banks were quick to react; it remains to be seen if borrowing will be more challenging for the private sector.

- Between financial stability and inflation, if Central Banks have to choose one side, financial stability will always prevail. The mistrust in the banking system now corners 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.

- 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 four to five percent 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 defense and infrastructure for the fight against climate change. In 2023, a recession could occur toward the end of this year if government spending is restrictive.

Source: Premyss.

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 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 big news for the world economy. It will help the world economy but potentially disrupt already tight supply chains, which could push commodity prices higher. Therefore, this comeback is, at the same time, a threat and a blessing.

- 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).

Source: Premyss.

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. 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. There are substantial investments to be made, like starting a new economy. This is comparable with the beginning of industrialization in the 18th century. Corporations involved will continue to flourish. Nevertheless, valuations are under pressure for companies with low free cash flow yields.

Source: Premyss.

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 a lot of money in the coming years. Finance will not be the same in ten years. Find a way to have exposure.

- What if the BOJ abandoned its Yield Curve Control (YCC)? And restructuring its debt (who can reasonably think it will be repaid in full)?

Source: Premyss.

4. Market review: Equity Performance

- After the correction of 2022, the markets showed resilience in the first three months of the year. Almost all global indices ended the quarter in the green, except for Brazil, which had held up well last year, as the fall in Commodity prices did not support the country's economy.
- Europe, with a performance of more than 13%, largely outperformed the US with the S&P 500 at 7%. The rebound from last year's correction and lower expectations of rate hikes enabled tech and the Nasdaq to outperform the other indices.

Equity Indices	% YTD in USD	% YTD in EURO	% 3M in USD	% 3M in EURO
MSCI WORLD	7.3%	6.0%	7.3%	6.0%
S&P 500	7.0%	5.8%	7.0%	5.8%
NASDAQ	16.8%	15.5%	16.8%	15.5%
BRAZIL	-3.0%	-4.2%	-3.0%	-4.2%
Euro Stoxx 50	15.0%	13.7%	15.0%	13.7%
Stoxx Europe 600	9.0%	7.8%	9.0%	7.8%
FTSE 100	4.5%	3.1%	4.5%	3.1%
CAC 40	14.4%	13.1%	14.4%	13.1%
DAX	13.5%	12.2%	13.5%	12.2%
IBEX	13.4%	12.2%	13.4%	12.2%
MIB	15.6%	14.4%	15.6%	14.4%
SMI	4.5%	3.2%	4.5%	3.2%
NIKKEI 225	6.1%	4.8%	6.1%	4.8%
HANG SENG	2.5%	1.3%	2.5%	1.3%
SHANGHAI	6.3%	4.6%	6.3%	4.6%
RUSSIA RTS	2.7%	1.5%	2.7%	1.5%
VIX	-13.7%	-14.9%	-13.7%	-14.9%

Source: Bloomberg 31/03/23.

4. Market review : Sector Performance Review

- During this first quarter, the performance picture is the perfect opposite of 2022. Technology and Consumer Discretionary led the way with returns close to 20%.
- Defensive sectors such as Healthcare and Consumer Staples lagged, while Commodities and Energy suffered from the normalization of commodity prices. And of course, Financials suffered from the banking crisis.

Sector performance	Europe % YTD	Europe % 3M	USA % YTD	USA % 3M	World % YTD	World % 3M
Consumer Discretionary	19.5%	19.5%	15.8%	15.8%	16.5%	16.5%
Consumer Staples	6.4%	6.4%	0.2%	0.2%	3.5%	3.5%
Energy	-1.3%	-1.3%	-5.6%	-5.6%	-3.4%	-3.4%
Financials	4.7%	4.7%	-6.0%	-6.0%	-1.6%	-1.6%
Health Care	4.5%	4.5%	-4.7%	-4.7%	-1.6%	-1.6%
Industrials	13.0%	13.0%	3.0%	3.0%	7.1%	7.1%
Information Technology	20.6%	20.6%	21.5%	21.5%	21.1%	21.1%
Materials	3.4%	3.4%	3.8%	3.8%	6.1%	6.1%
Telecommunication Services	15.3%	15.3%	20.2%	20.2%	18.0%	18.0%
Utilities	8.1%	8.1%	-4.0%	-4.0%	0.5%	0.5%

Source: Bloomberg 31/03/23.

4. Market review : FX and commodities performance

Currencies		
	Against USD	
	YTD	3M
EURO	1.3%	1.3%
JPY	-1.3%	-1.3%
GBP	2.1%	2.1%
CHF	1.0%	1.0%
CNY	0.4%	0.4%
HKD	-0.6%	-0.6%
CAD	0.3%	0.3%
AUD	-1.9%	-1.9%
	Against Euro	
	YTD	3M
USD	-1.2%	-1.2%
JPY	-2.6%	-2.6%
GBP	0.7%	0.7%
CHF	-0.3%	-0.3%
CNY	-1.3%	-1.3%
HKD	-1.9%	-1.9%
CAD	-1.0%	-1.0%
AUD	-3.2%	-3.2%
	Against CHF	
	YTD	3M
EURO	0.2%	0.2%
USD	-1.0%	-1.0%
JPY	-2.4%	-2.4%
GBP	0.9%	0.9%
CAD	-0.8%	-0.8%
AUD	-3.0%	-3.0%
HKD	-1.6%	-1.6%

- The performance of the dollar has been rather mixed since the beginning of the year, with the EUR in particular continuing to strengthen against all other currencies. And although a banking crisis has occurred in Switzerland, the CHF has not lost its Safe Haven status and has strengthened despite the setbacks of Credit Suisse.
- Commodities continued to normalize, particularly energy, with oil down 6% and Natural Gas down more than 40%.

	% YTD in USD	% 3M in USD
WTI Crude Oil	-5.7%	-5.7%
Brent Crude Oil	-7.1%	-7.1%
Gasoline	9.8%	9.8%
Natural Gas	-43.4%	-43.6%
Gold	8.0%	8.0%
Silver	0.6%	0.6%
Platinum	-7.4%	-7.4%
Palladium	-18.3%	-18.3%
Aluminum (LME)	1.5%	1.5%
Copper (LME)	7.4%	7.4%
Corn	-2.7%	-2.7%
Wheat	-12.6%	-12.6%
Soybean	-0.9%	-0.9%
Coffee	1.9%	1.9%
Sugar	11.0%	11.0%
Cotton	-0.7%	-0.7%

Source: Bloomberg 31/03/23.

4. Market review : Fixed Income Performance

- Rates have been particularly volatile during this first part of the year. After the various indicators showed us that the economy was particularly resilient, expectations of a rise took off and the US 2Yr closed above 5%.

- Shortly thereafter, when the banking crisis began, not knowing what the FED's actions would be, the 2Yr dropped to 3.6% and is now stabilizing around 4%.

- This panic in the financial market also impacted credit spreads, which widened to reflect investor fear.

	Perf March	Perf YTD End March	Perf last 3 months	Yield	Duration	Spread
Global						
Global Aggregate	3.2%	3.0%	3.0%	3.5	6.9	54
Treasuries	3.7%	3.1%	3.1%	2.8	7.7	13
Credit	2.8%	3.3%	3.3%	4.8	6.4	138
USA						
U.S. Universal	2.3%	2.9%	2.9%	4.8	6.3	97
U.S. Aggregate	2.5%	3.0%	3.0%	4.4	6.5	57
U.S. Gov/Credit	2.8%	3.2%	3.2%	4.3	6.7	52
U.S. Treasury	2.9%	3.0%	3.0%	3.8	6.4	0
Government-Related	2.3%	2.9%	2.9%	4.4	5.5	59
Corporate	2.8%	3.5%	3.5%	5.2	7.5	138
U.S. MBS	1.9%	2.5%	2.5%	4.5	6.1	63
Pan Europe						
Pan-Euro Aggregate	2.0%	2.2%	2.2%	3.5	6.9	78
Euro-Aggregate	2.0%	2.1%	2.1%	3.3	6.6	87
Asia Pacific						
Asian-Pacific Aggregate	0.6%	2.7%	2.7%	1.8	7.8	8
High Yield						
Global High Yield	0.9%	3.1%	3.1%	9.2	4.4	547
U.S. Corporate High Yiel	1.1%	3.6%	3.6%	8.5	4.2	455
Pan-European High Yiel	-0.4%	2.9%	2.9%	8.2	3.3	497
Other						
Global Inflation-Linked	4.5%	4.5%	4.5%			
Municipal Bond Index	2.2%	2.8%	2.8%	3.3	5.8	
Emerging Markets						
EM USD Aggregate	1.2%	2.1%	2.1%	7.4	6.4	358
Sovereign	1.3%	2.1%	2.1%	7.9	7.7	424
Corporate	1.1%	2.0%	2.0%	7.6	5.1	378
High Yield	-0.1%	1.4%	1.4%	11.2	5.3	739

Source: Bloomberg 31/03/2023.

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 53.97% Risky Assets*, 17.2% 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. • “Bond proxy” 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.	

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

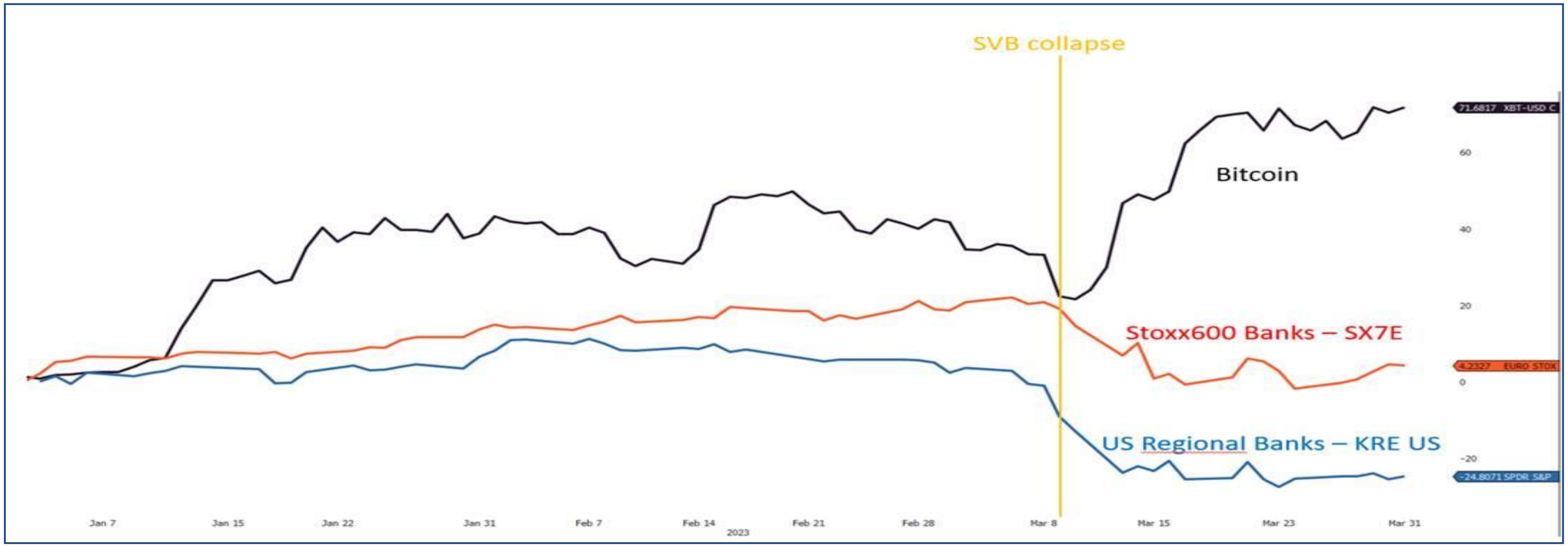
6. Cross Asset : Bitcoin

- During this mini banking crisis, digital assets and Bitcoin in particular have held up particularly well.

- The loss of confidence in regulated institutions has allowed various market participants to gain confidence that Bitcoin and its pairs can act as a store of value when the traditional system is under pressure.

- The positive performance of Bitcoin is therefore explained by the fact that some savers have decided to secure a portion of their savings by placing them in a decentralized system.

Bitcoin vs Bank YTD



Source: Bloomberg

Conclusions

- Investor concerns continue to focus on the risks of inflation and economic slowdown.
- Liquidity problems at some banks have caused panic in the sector. Contagion risks remain low.
- Central banks may pause in the rate hike cycle.
- Geopolitical tensions are set to remain. This will impact military budget in the long run.
- More than ever, look for decorrelated asset.

Commodity Supercycle

1. Why industrial metals now?

- In order to reach the goal of being CO_2 neutral in 2050, all countries are implementing policies to invest in renewable energy. In addition, Europe is trying to reduce its energy dependency on other regions. The need for new infrastructure is therefore naturally increasing.

- In line with the energy transition, there is also transition from combustion engines to battery-electric vehicles. The need for raw materials is significantly higher for the latter. Batteries require large quantities of certain metals such as Lithium. Even today it is difficult to meet the existing demand, and from exploration of new mines to the production, many years will pass.

- China is just recovering from its zero-Covid policy and although growth has slowed in 2022 and the target is "only" 5% for 2023, the economic recovery of the Middle Kingdom should increase the demand for raw materials.

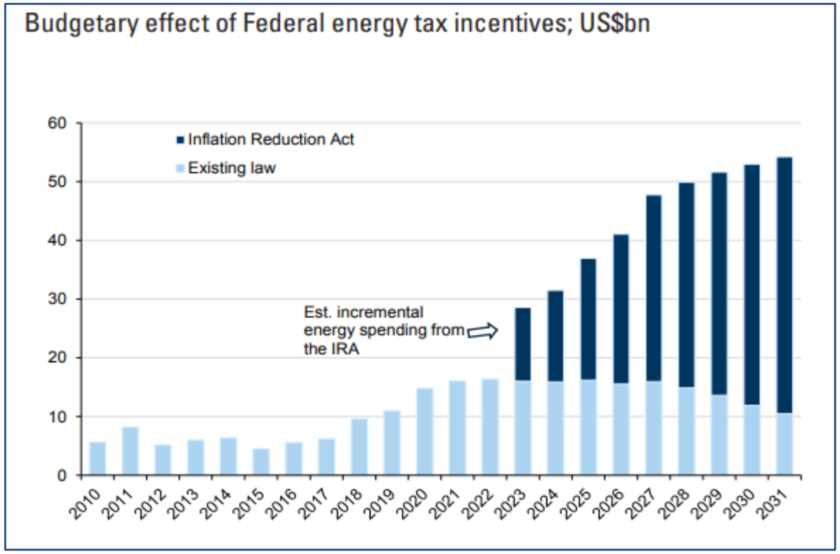
- More and more metals are being used in the design of the various electronic products we use. For example, in 1990 it took only 16 elements of the periodic table to make a semiconductor, today the technology has advanced and it takes more than 60 elements. In the future, the demand for various electronic products will continue to grow as the population grows and emerging countries develop themselves.

2. Renewable Energy

- The Inflation Reduction Act (IRA) in the USA is encouraging companies to develop clean energy and electric vehicles. This package of several hundred billion dollars will greatly accelerate innovation in this sector. For its part, Europe has already released funds through the European Green Deal and is in discussion to release even more funds to compete with the IRA.

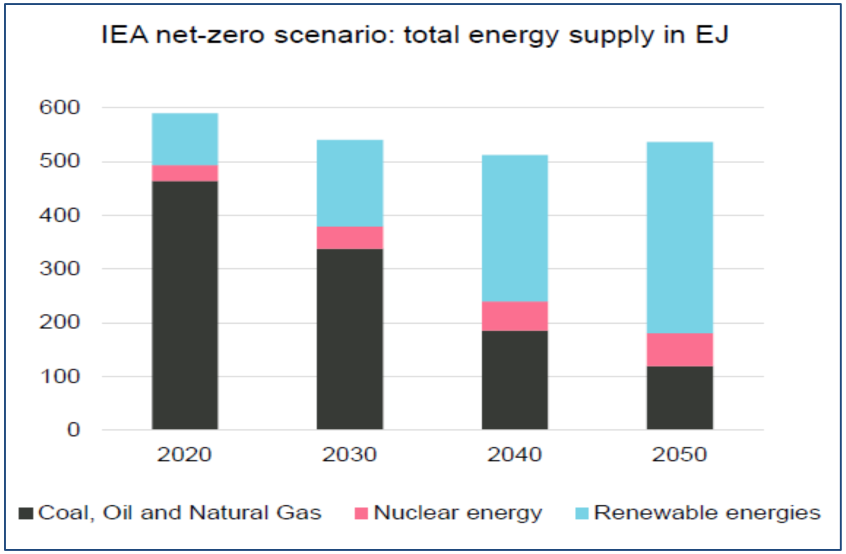
- According to the International Energy Agency (IEA) forecasts, if we follow the scenario of being CO2 neutral by 2050, more than 70% of the energy produced would come from renewable sources, 10% from nuclear power, which is now being on the verge of being considered as clean energy, and only 20% from fossil fuels compared to 67% now.

Incentives from IRA



Source: Goldman Sachs

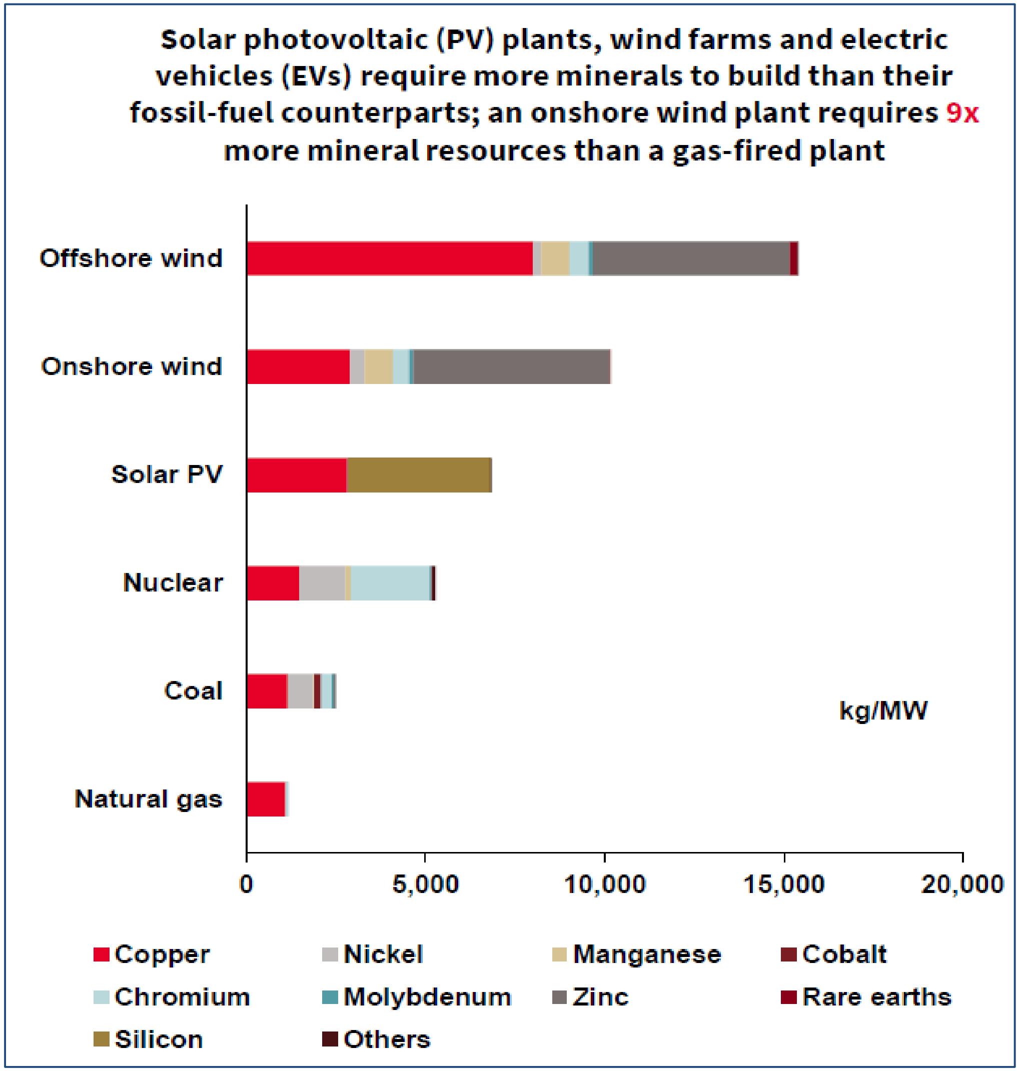
Forecasted Energy supply



Source: Vontobel

2. Renewable Energy

- In order to build the necessary infrastructure for renewable energy, many industrial metals will be needed.
- Copper, Zinc and Manganese are among these metals in which the growth in demand will outpace the growth in supply in the coming years.
- Moreover, as nuclear energy is becoming considered clean, uranium will certainly be in short supply.



Source: Vontobel

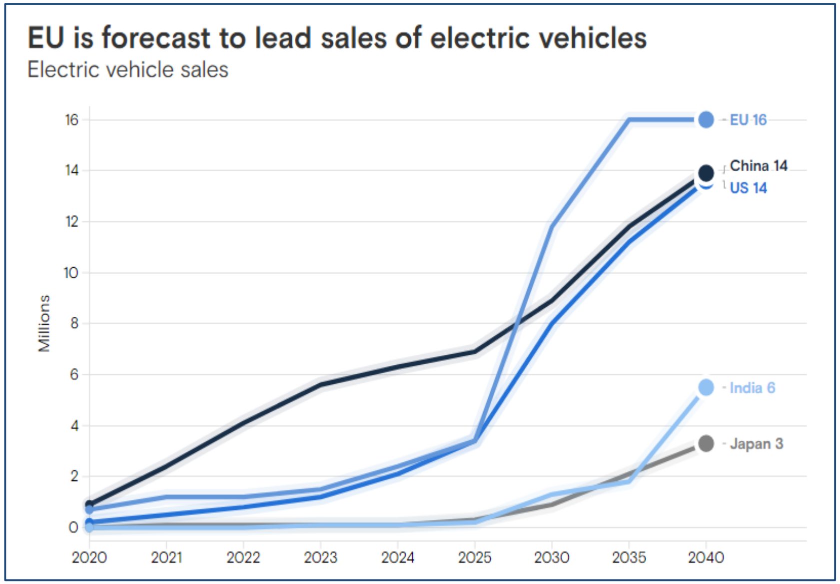
3. Electric Vehicules

- Although we are already hearing a lot about electric vehicles, the replacement of combustion vehicles is only just beginning.

- In Europe, electric vehicles represent only 10% of new sales. By 2040, 16 million vehicles are expected to be sold annually, followed by 14 million in the US and China each. In addition, the regulation banning combustion vehicles from cities by 2035 should accelerate the adoption of clean vehicles.

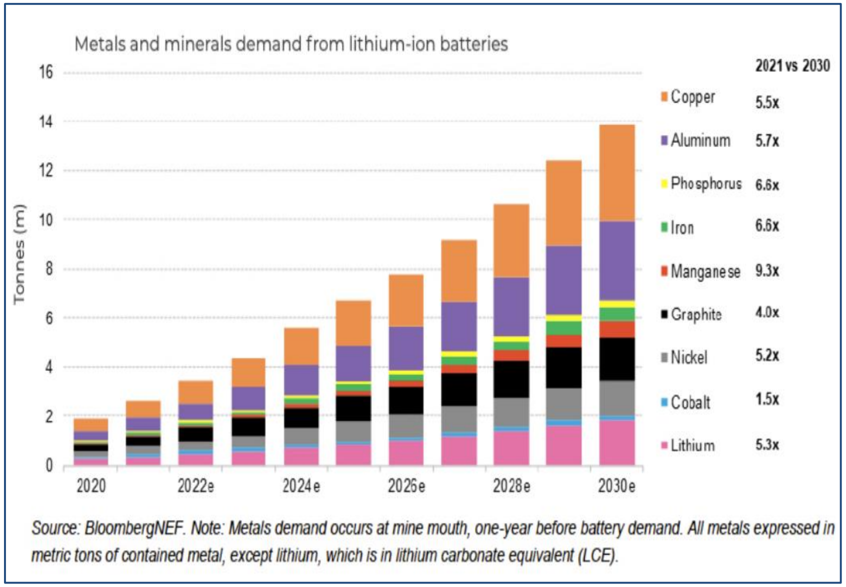
- Again, many metals are needed to build this new generation of cars. Lithium, which is used to store energy in batteries, has already seen its demand explode in recent years, and this trend is expected to continue.

EV Sales Forecast



Source: Goldman Sachs

Forecasted Energy supply



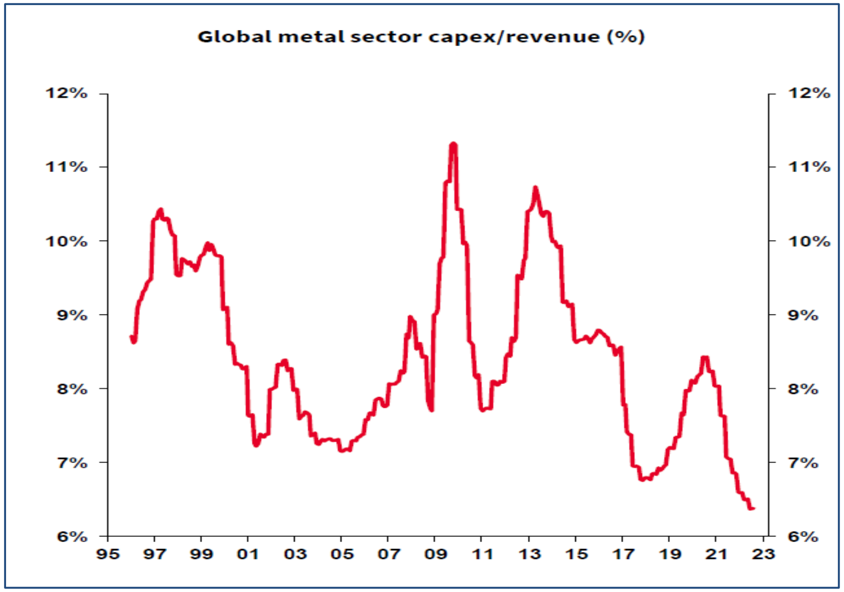
Source: Mining.com

4. Commodity Shortage

- Whether in production or exploration, too little money has been invested in the mining sector in recent years.

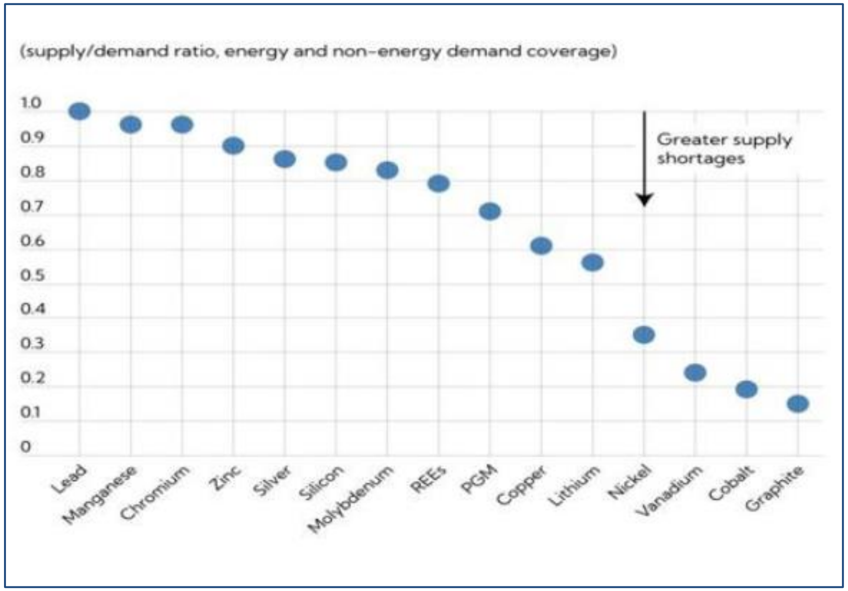
- The main consequence of this under-investment is that many metals will be in short supply and that this shortage is likely to last for a long time. From exploration to production, more than a decade may pass. If demand is too strong, the price of these raw materials will naturally rise until it reaches demand-supply equilibrium.

Capex in metal sector



Source: Société Générale

Metals Shortage



Source: Société Générale

5. Inflation Cycle

- According to Goldman Sachs, we are in the first phase of the inflation cycle. In this phase, commodities become scarce, their prices rise push inflation higher. High inflation pushes central banks to raise rates, and as a result, investors lose their appetite for long-duration investments.

- We are already moving into the second phase, where investors are looking to invest in tangible assets to protect themselves from inflation. Mining companies are benefiting from rising commodity prices and generating huge cash flows, which naturally attracts investors.

- We are considering investing in a tailor made product in order to benefit from this Commodity supercycle.

Source: Goldman Sachs

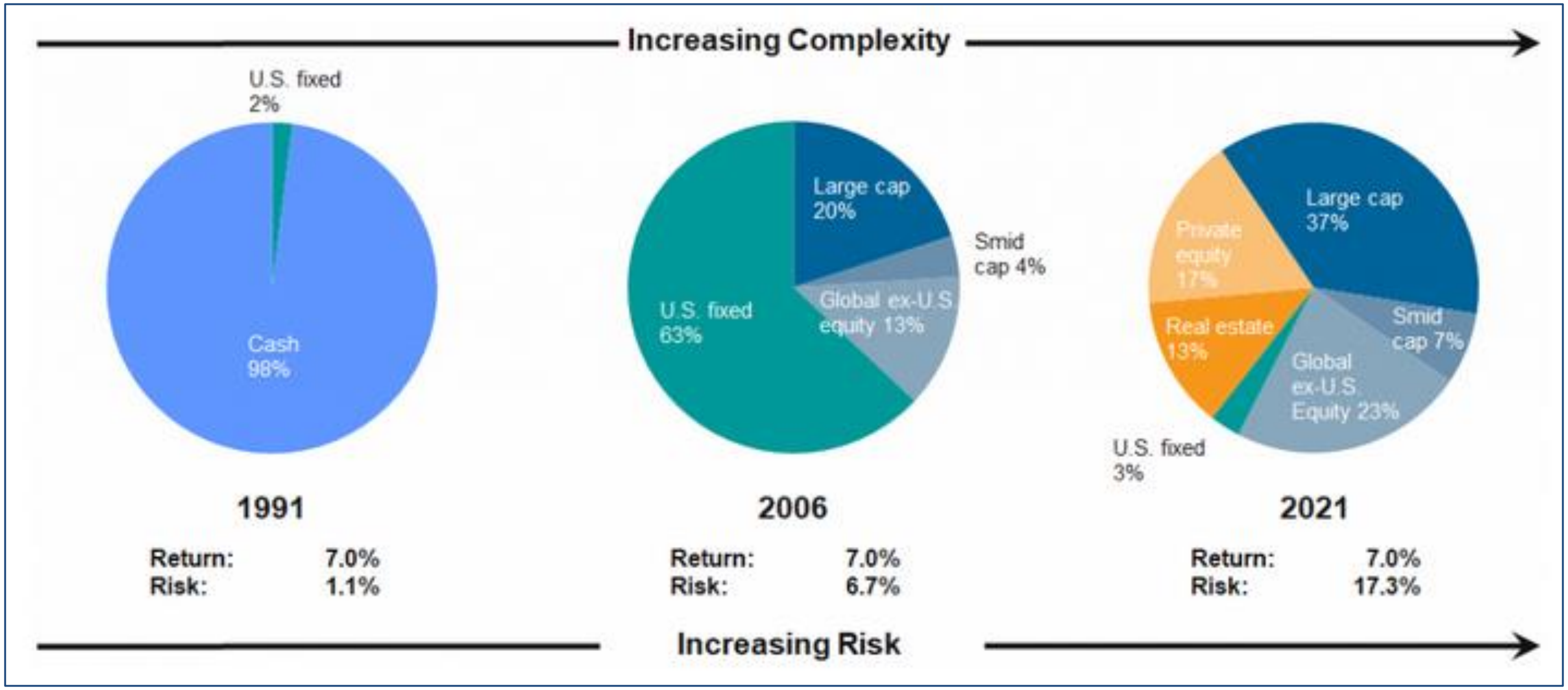
Appendix

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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