
WEISSHORN
ASSET MANAGEMENT SA

Investment Committee Q4

1. Market highlights

- The **global recession** so eagerly awaited by economists **never materialized** in 2023. The "fault" was **consumer resilience** and expansionary fiscal policies, which inevitably increased fiscal deficits of most of developed countries.
- Growth set to slow in 2024, but recession should be avoided. The **soft landing** scenario is favored by the consensus.
- Following a peak in mid-2022, the contraction in inflation continued throughout 2023, thanks to (ultra) **restrictive monetary policies**.
- After one of the fastest rate hike cycles in history, **central banks should pivot in 2024**…provided there are no nasty surprises on the inflation front.
- **In the last 3 months** of the year, yields gave back all the upside they had gained between January and September, allowing the **bond market to rebound strongly**.
- Risky assets took many investors by surprise, posting **outstanding performances**.
- The S&P500 gained 24.2%, while the Stoxx Europe 600 climbed 12.7%. The Dow Jones and Nasdaq printed **all-time highs**.
- Not all market segments benefited from this euphoria to the same extent. Without the **7 Magnificent**, the performance of the US indices would be less impressive.

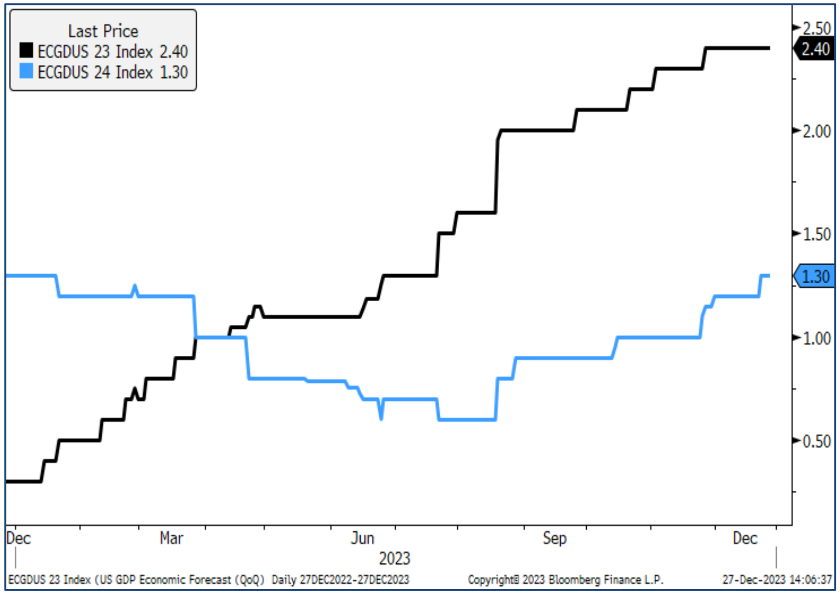
1. Market highlights

- The geopolitical environment remains a source of **concern for supply chains**.
- **Sanctions** against Russia following the invasion of Ukraine **have failed** to impoverish the country as hoped. Moscow has continued to sell its oil, while **Europe's energy bill** has risen.
- The reopening of China has not had the desired effect on the country's economic growth. Setbacks in the real estate sector continue to weigh on consumer confidence. **Risk premiums on Chinese equities** are at record highs.
- Despite disappointing performance in 2023, demand for **raw materials** should be sustained, particularly if China growth accelerates. **The secular trend** should resume sooner or later.
- Even if the USA would need a slimming down, with an already high budget deficit and debt at an all-time high, the **presidential elections in November** could encourage the Democrats currently in power to maintain an expansionary fiscal policy. If not, risky assets could pay the price.

2.1 2023 Review : GDP Growth and Expectations

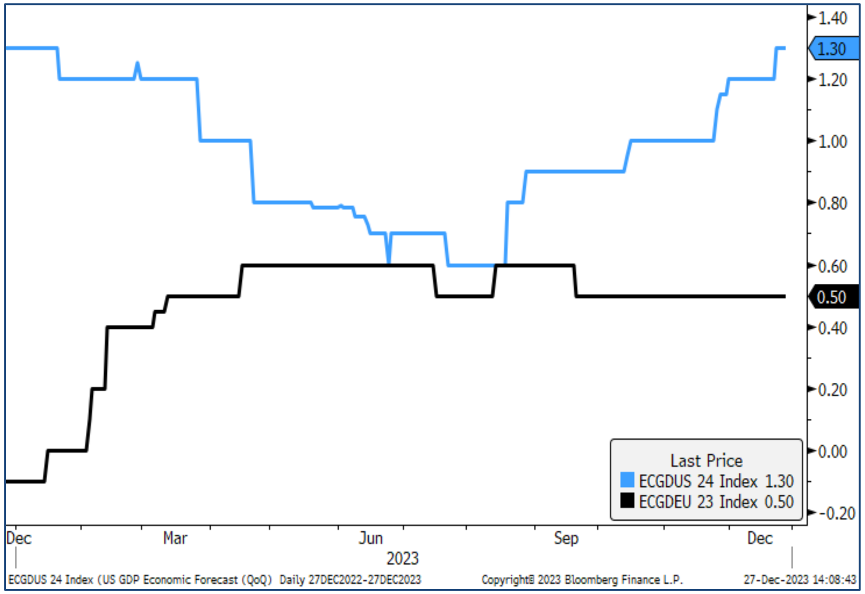
- One of the big surprises of 2023 was the **resilience of the US economy**. While economists were forecasting growth of around 0.5% at the start of the year, they had to adjust their forecasts upwards throughout the year.
- In Europe, the revisions came at the beginning of the year, but have hardly changed since. The European economy is suffering at half-mast, although 2024 should offer better figures.
- The **recession** that many investors were predicting for 2023 never came, at least in the US. It is therefore **postponed** until 2024 or much later, depending on the considered scenario.

US GDP Growth Expectations



Source: Bloomberg

EU GDP Growth Expectations

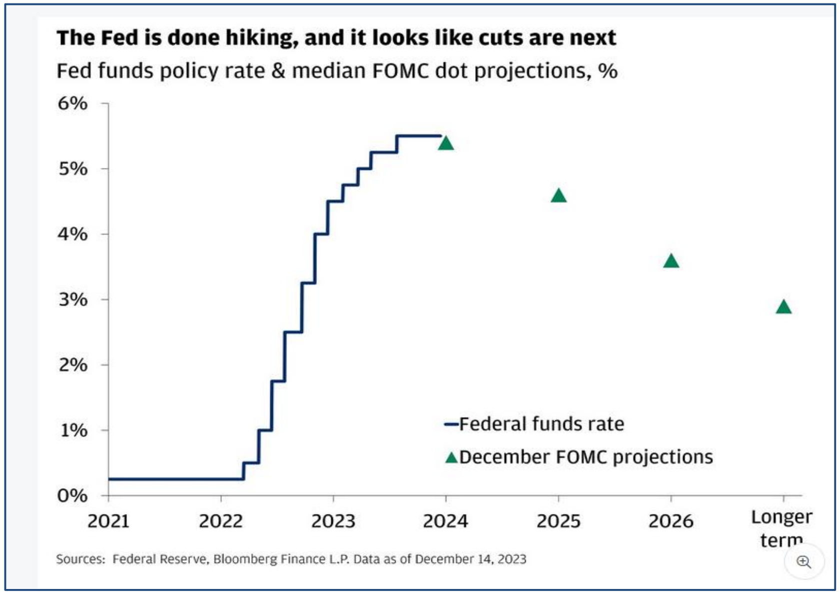


Source: Bloomberg

2.1 2023 Review : Interest Rates

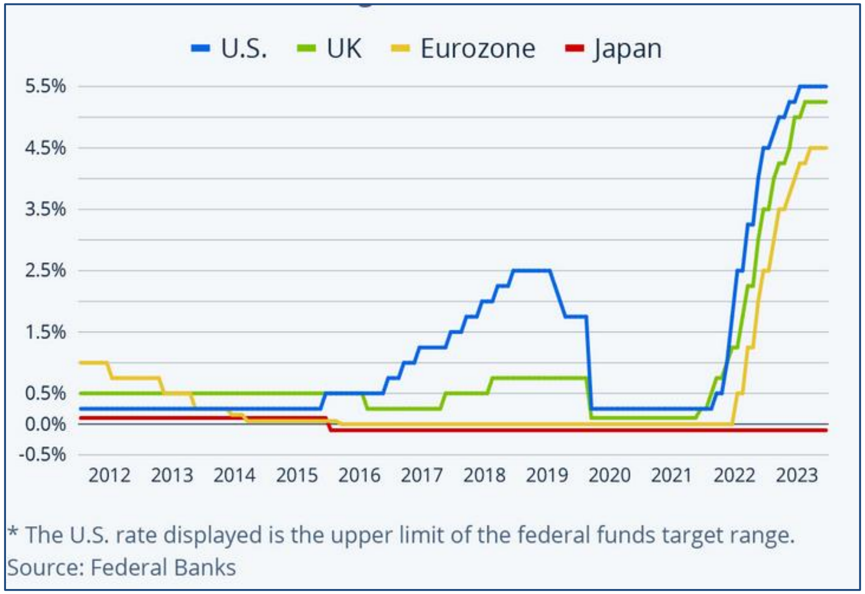
- Rate hikes continued in 2023, reaching levels not seen since the great financial crisis of 2008. However, these increases were more than anticipated by the market. What particularly impressed the markets was **the dovish tone of the FED and ECB at the end of the year.**
- The rate-tightening cycle finally seemed to have come to an end. This transition to a dovish outlook allowed the market to regain height, particularly for duration-sensitive assets since the end of October.
- The question that remains on economists' lips is **when will central banks start cutting rates**, and to what level?

FED Fund Policy Rate



Source: JP Morgan

Global Interest Rates



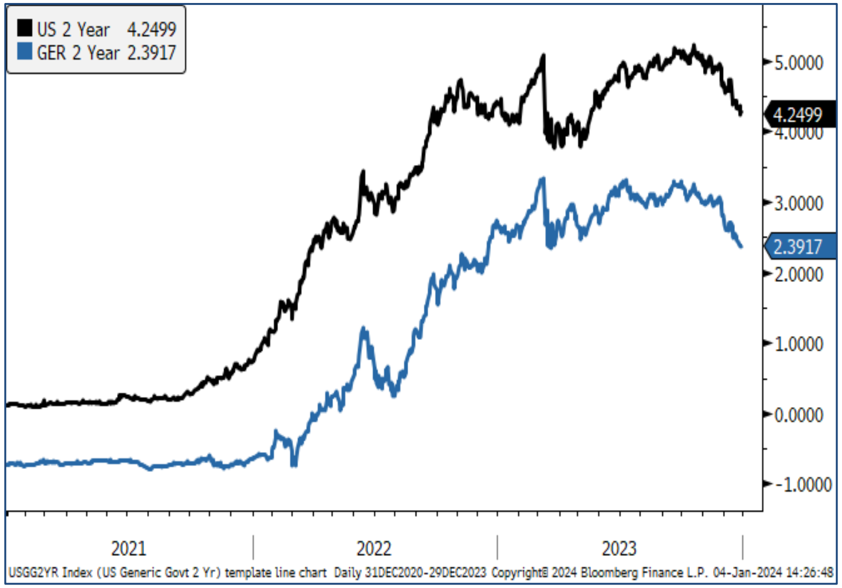
Source: Statista

2.1 2023 Review : Interest Rates

- As central bankers adopted a more dovish tone, rates finally began to correct from their historic highs at a faster pace than anticipated.

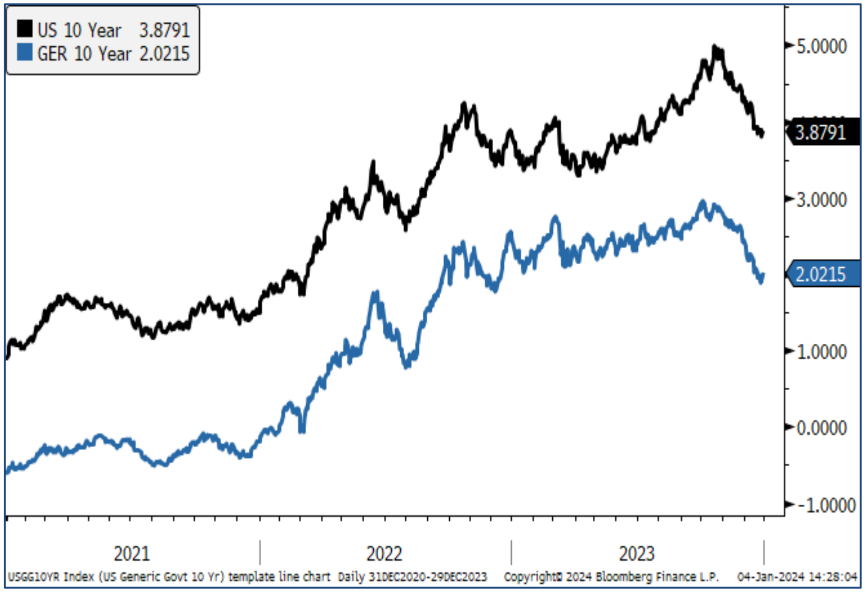
- Surprisingly, it was long rates that fell faster than short rates. German and US 2-year yield corrected by around 100bps, while 10-year yield fell by 120bps. This led to a more pronounced **inversion of the yield curve**.

2-Year Yields



Source: Bloomberg

10-Year Yields



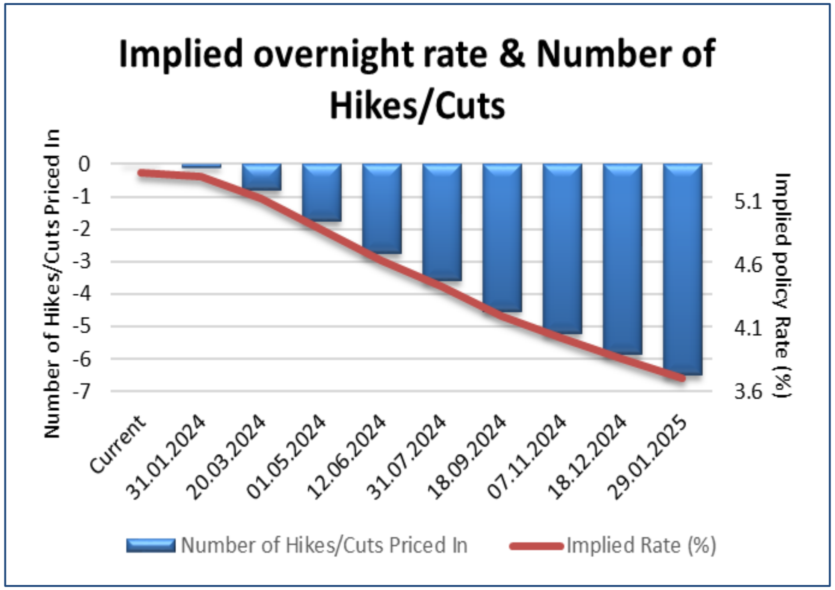
Source: Bloomberg

2.1 2023 Review : Interest Rates Expectations

- The market doesn't seem to agree with the central banks. Through its dots, the **FED** has shown us that it is **planning 3 rate cuts for 2024**. However, at current rates, the market seems to believe that it will be forced to cut rates 6 times.

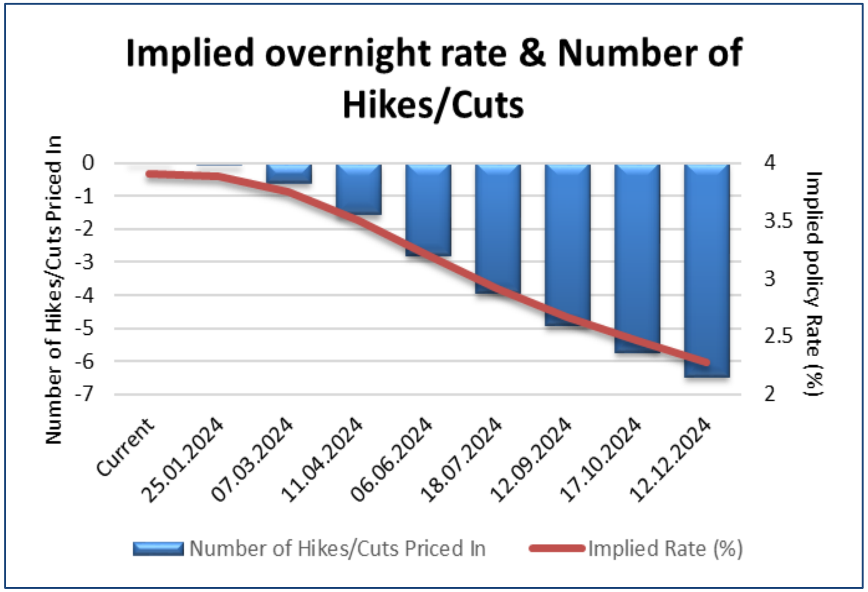
- In Europe, rates also indicate an expectation of 6 or even 7 rate cuts. However, since their respective meetings, the central bankers have been more hawkish than at their post-meeting press conferences. So it seems that they are trying **to calm the market verbally**.

US Interest Cuts Priced



Source: Bloomberg

EU Interest Cuts Priced



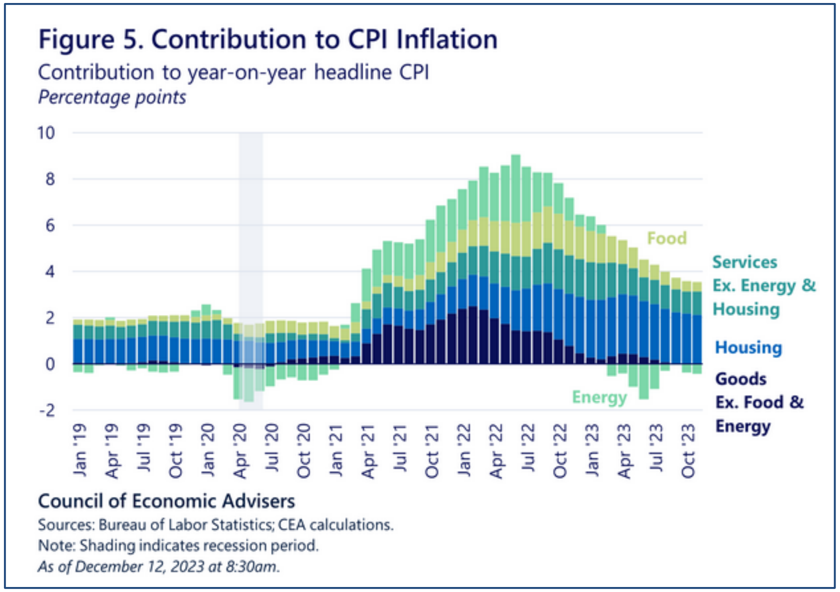
Source: Bloomberg

2.1 2023 Review : Inflation

- **Inflation** in both the US and Europe seems to have **peaked many months ago** and is continuing to fall towards target levels. **Core inflation**, however, seems **stickier** than expected and will take several more months to fall back below 2%.

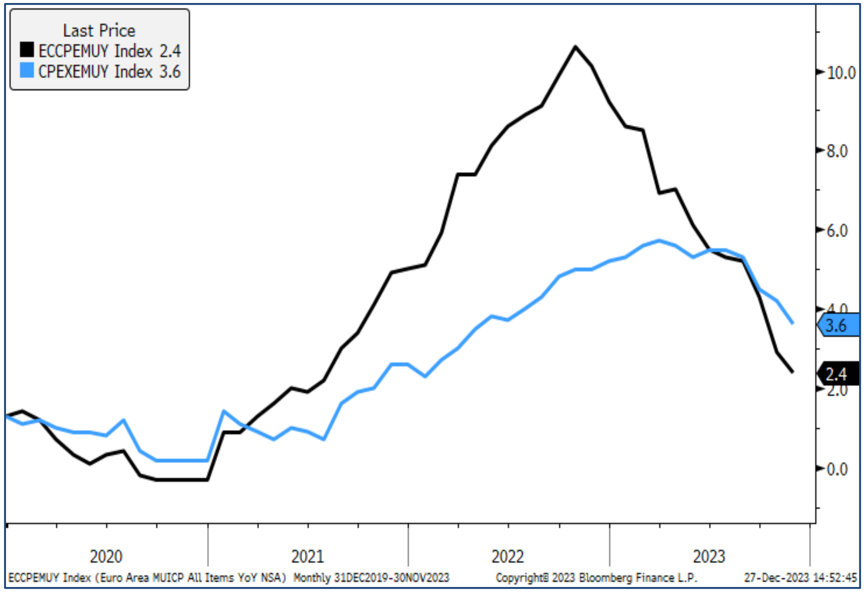
- Base effects such as energy prices, for example, will be felt less and less, and so the speed at which inflation is falling should reduce rapidly.

US CPI Contribution



Source: Bureau Of Labor Statistics

EU CPI & Core CPI



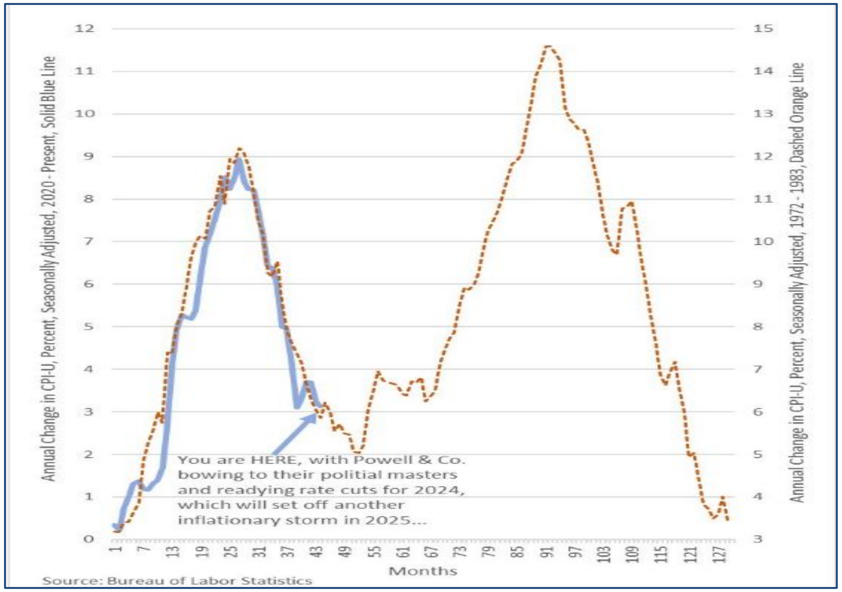
Source: Bloomberg

2.1 2023 Review : Inflation

- Although this cycle of high inflation seems to have come to an end, a **number of factors** could support prices in the medium to long term, thus **triggering a second cycle** as in the 1970s. This is the biggest risk faced by the economy today.

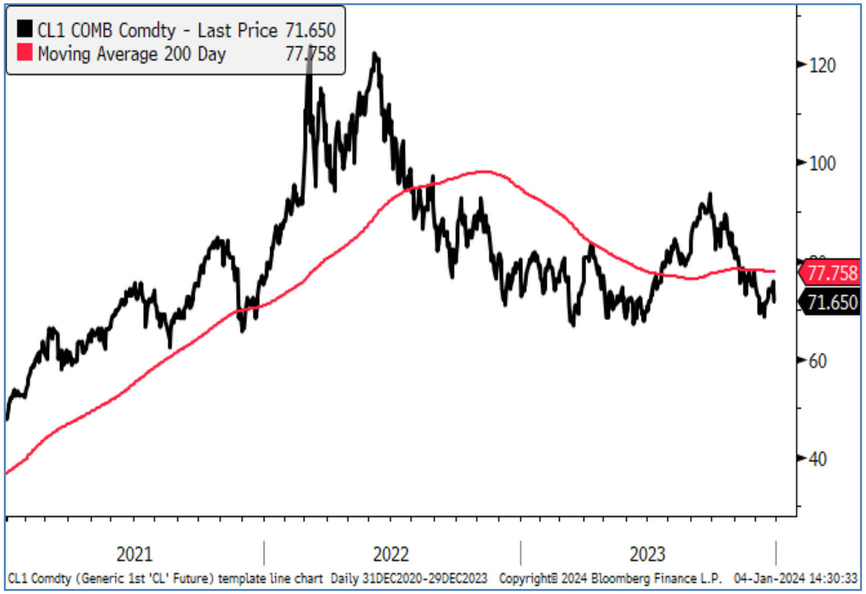
- If, as the market suggests that central banks should cut interest rates and a recession should be avoided, the combination of **energy demand, deglobalization, and the ongoing energy transition** could contribute to **inflationary pressures**.

US CPI Now vs in the 70's



Source: Bureau of Labor Statistics

Crude Oil Prices

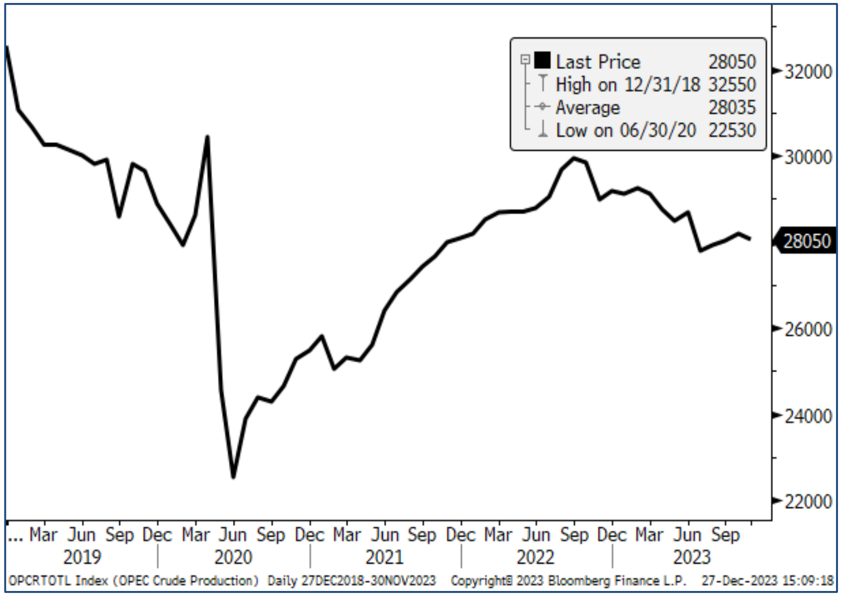


Source: Bloomberg

2.1 2023 Review : Oil Production

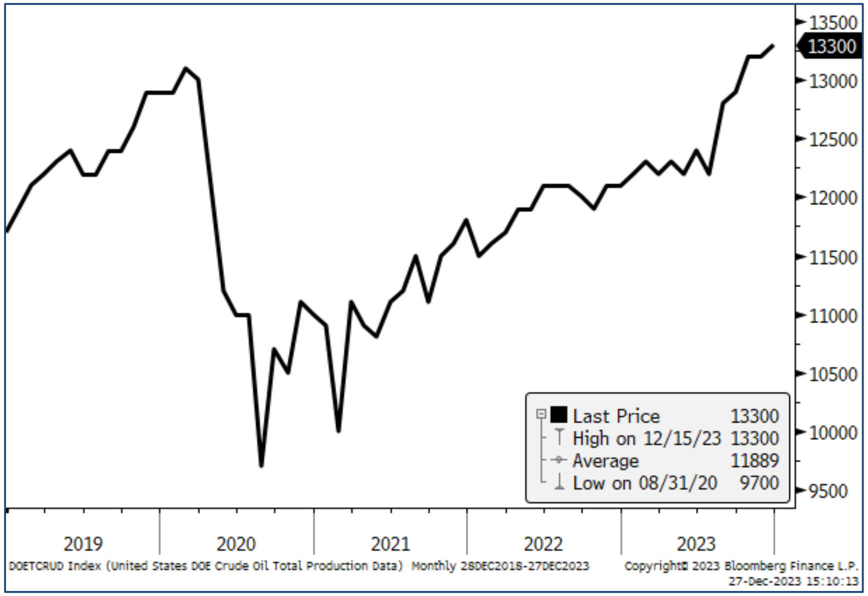
- Excluding the peak between July and September, oil prices have remained relatively stable in 2023.
- Although OPEC's announcements of production cuts put upward pressure on oil prices, **fears of recession** and **increased production in the US** took the pressure off.
- However, OPEC's ability to cut production is far greater than the US's ability to increase its own. If demand remains constant but production falls, prices will rise. **OPEC+ represents around 50% of global production**, even though they have a large control over oil supply, they are not all mighty. The other 50% are free to increase production if the OPEC decides otherwise.

OPEC Crude Oil Production



Source: Bloomberg

US Crude Oil Production

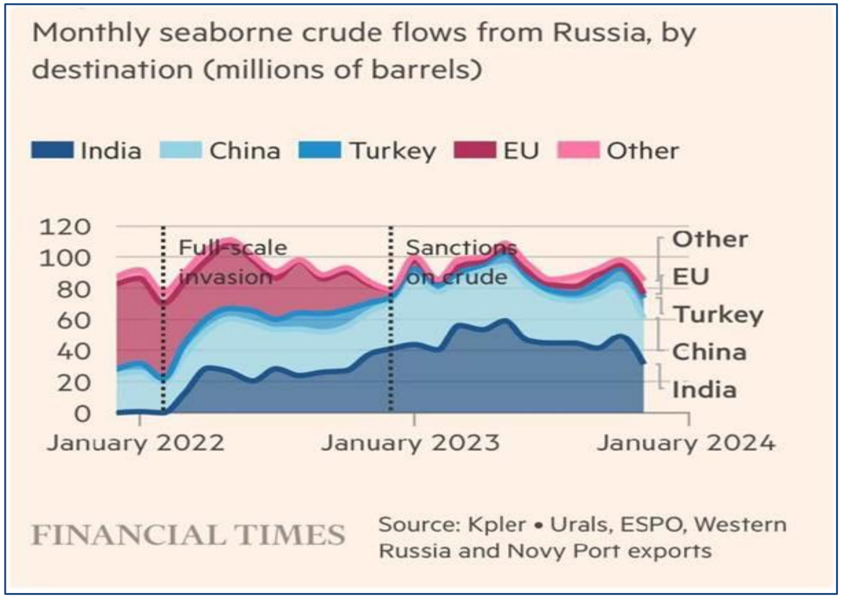


Source: Bloomberg

2.1 2023 Review : Russia Energy Sales

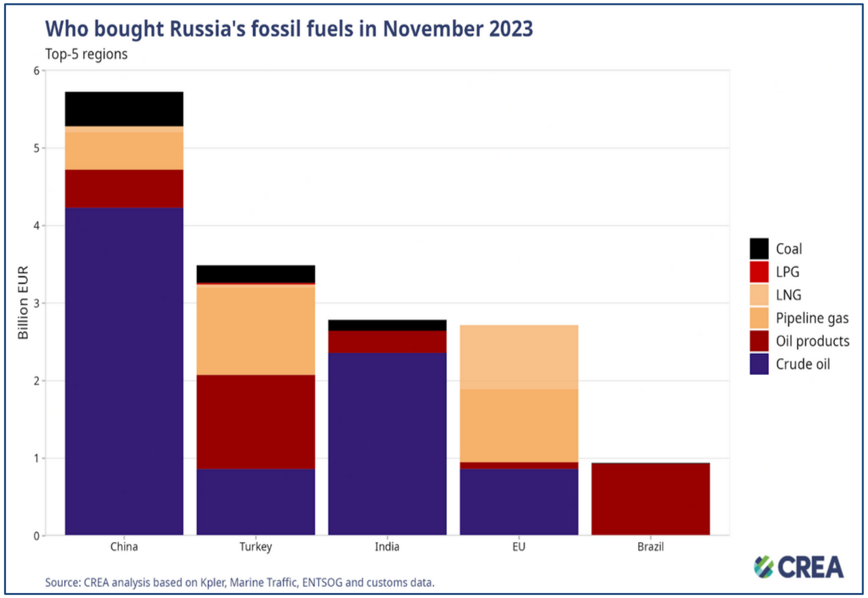
- Although it has lost media attention, the war in Ukraine is still raging. Sanctions against Russia are still firmly in place.
- However, these **sanctions seem to be hurting Europe much more than Russia**. Since the ban on Russian oil imports was imposed, Russia has managed to sell its stocks to other countries such as India and China, while Europe has had to find other sources of supply. It is, however, obliged to continue buying other energy sources such as LNG from Russia and probably at a higher price. Therefore the sanctions have probably only **increased the cost of energy in Europe**.
- Russia is now more than ever dependent on China as it has become its biggest trading partner.

Russia Crude Oil Flow



Source: FT

Russia Energy Trading Partners



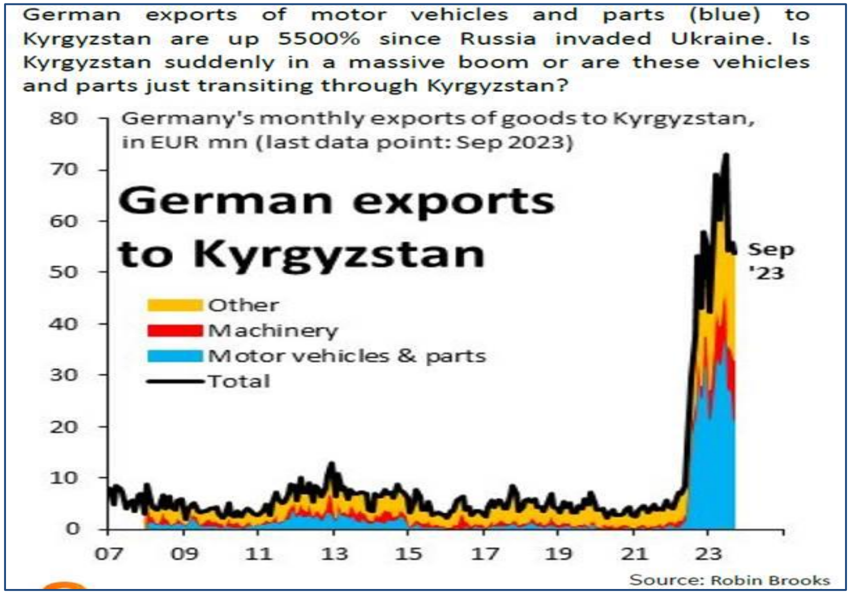
Source: CREA

2.1 2023 Review : Russia Trading Partners

- Europe's dependence on Russia is so high that it doesn't have even respected its own prohibitions. Since the imposition of sanctions against Russia, other trading partners have begun to emerge. Countries like **Kyrgyzstan and Kazakhstan** have seen their **business volume double** with European countries and Russia.

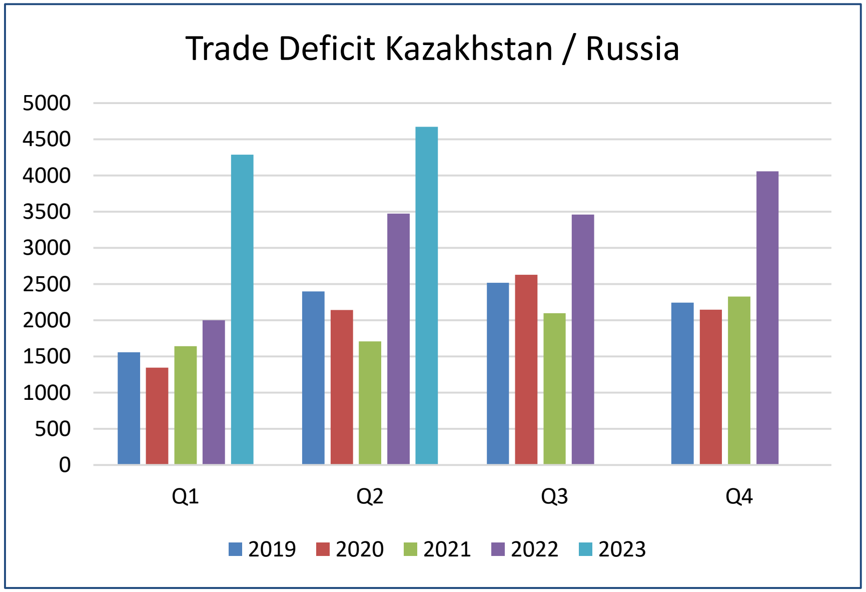
- In the end, these sanctions did not hurt Russia as much as expected, they simply added a middleman between Europe and Russia. However, the **Russian economy isn't doing as well as it should** as a large portion of its budget is dedicated to defense and hence hinders growth.

German Exports to Kyrgyzstan



Source: Robin Brooks

Kazkhstan/Russia Trade Deficit

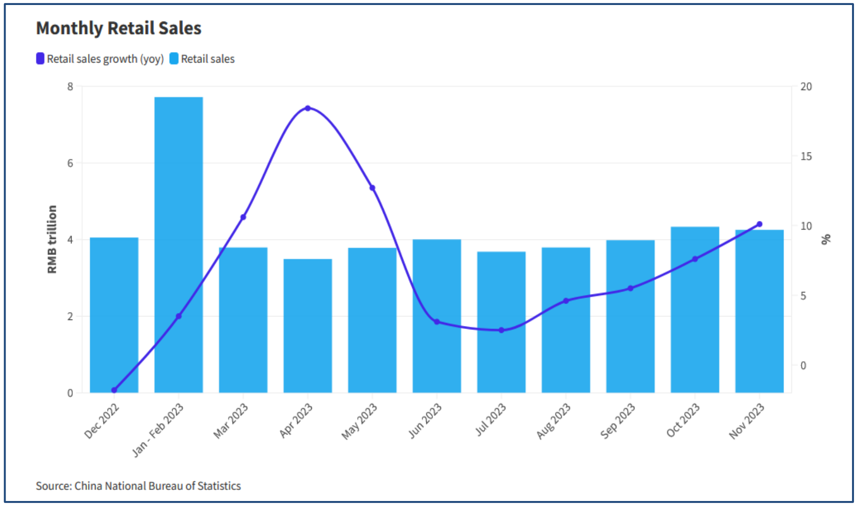


Source: Bloomberg

2.1 2023 Review : China

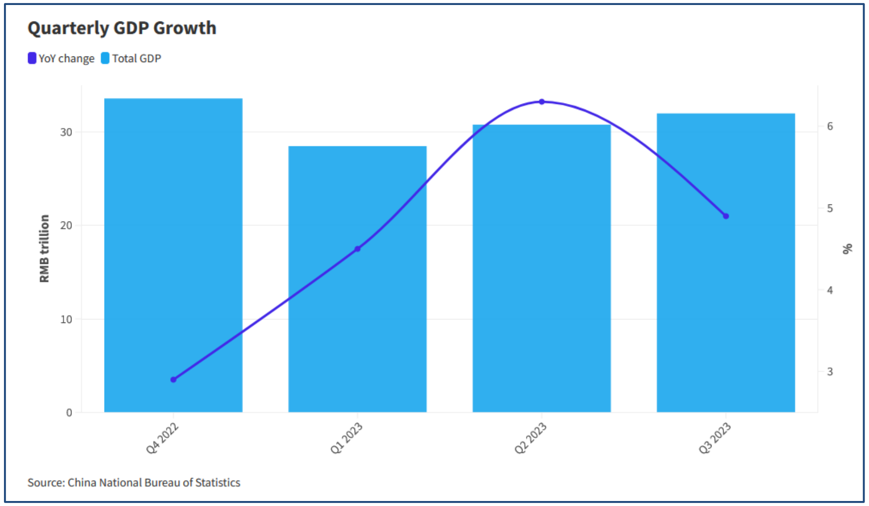
- Since the announcement of deconfinement at the end of 2022, the market has been expecting the Chinese economy to pick up again, as in the US and Europe. Unfortunately, **Chinese consumers**, having failed to regain confidence in their government, preferred to **keep their savings** rather than spend it as they were forced to use a large portion of their savings during the sanitary crisis due to a lack of support by the government.
- This decision resulted in a very disappointing year in terms of growth. Although China should return to its 5% growth target, this should be seen in the context of a **base effect** for the year 2022, which was more than favorable. For these reasons, foreign investors have left the Chinese markets. **If the flows return to China** it could mark the beginning of a new bull market. China is also going through a demographic crisis, its population is aging and it's now the second most populated country in the world.

China Monthly Retail Sales



Source: China National Bureau of Statistics

China Quarterly GDP Growth

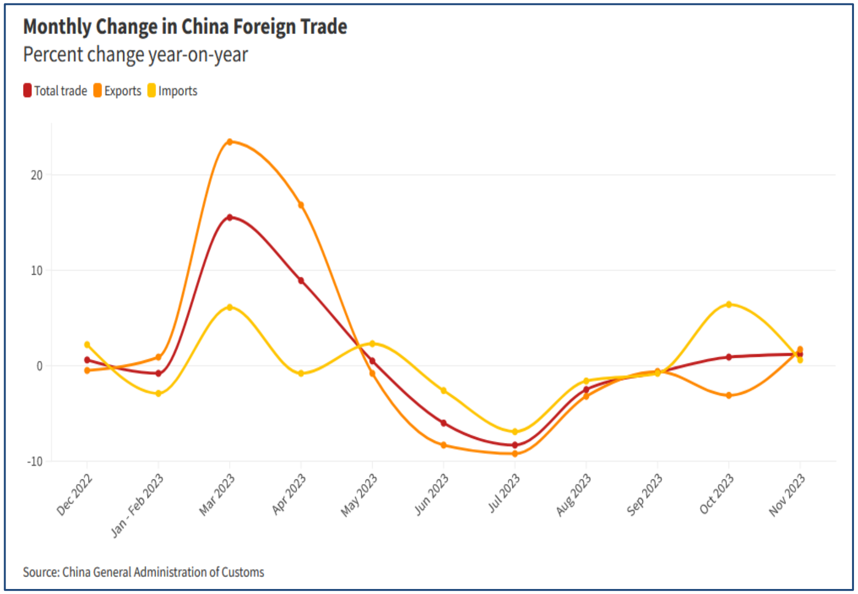


Source: China National Bureau of Statistics

2.1 2023 Review : China

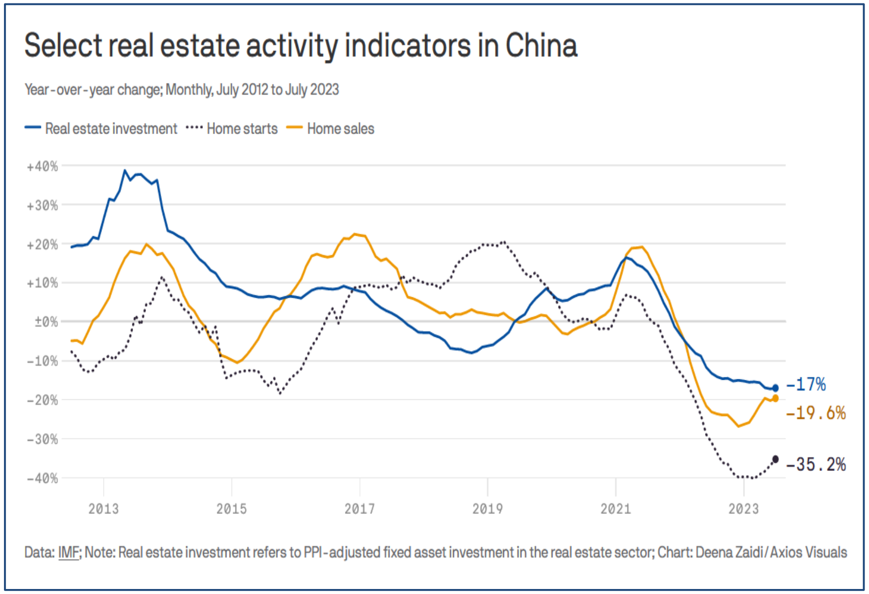
- The Chinese economy is going through several crises. A **crisis of consumer confidence**, with consumers seemingly unwilling to spend their money.
- A **geopolitical crisis**, with Western countries trying to reduce their exposure and dependence on China. As a result, more and more companies are relocating their factories from China to other emerging countries.
- And finally, a seemingly endless **real estate crisis** that will require far more substantial measures than those already taken by the government. For the economy to rebound, the **Chinese government needs its "Whatever it takes" moment**. As long as the measures taken are not massive, we should not see a turnaround in China.

China Foreign Trade



Source: China General Administration of Customs

China Real Estate Activity

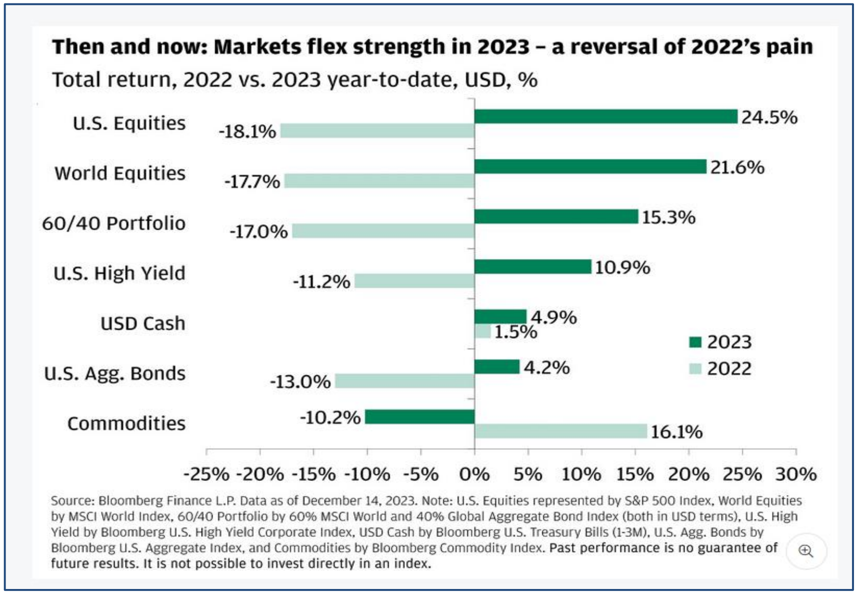


Source: IMF

2.1 2023 Review : Markets

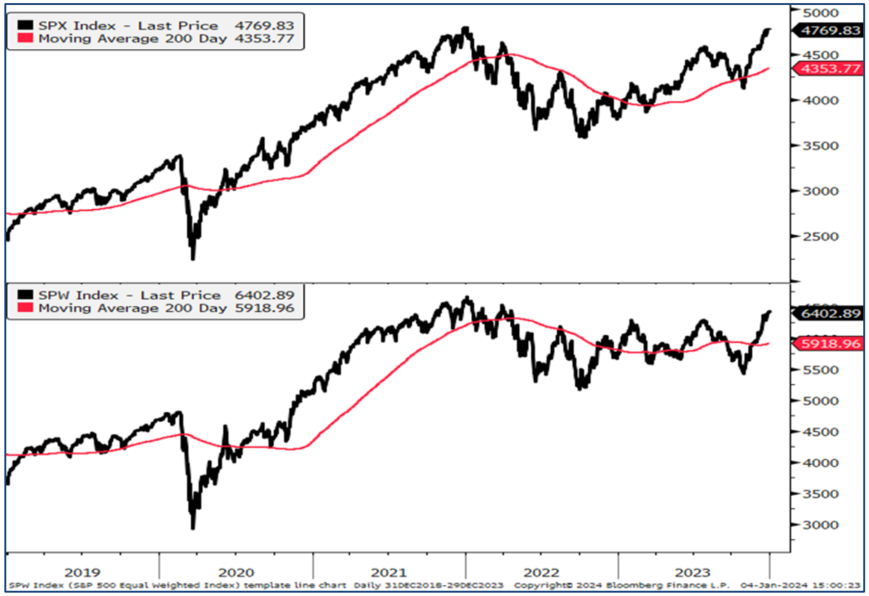
- In terms of performance, **2023 was a mirror** image of 2022. Equities rebounded strongly, and even balanced portfolios in USD posted double-digit returns.
- It was mainly thanks to the **end-of-year rally** that these performances were achieved. Some equity indices have already hit new all-time highs, even if the S&P 500 has yet to do so.

Market Performance 2022 vs 2023



Source: Bloomberg

S&P 500 et S&P 500 Equal Weight

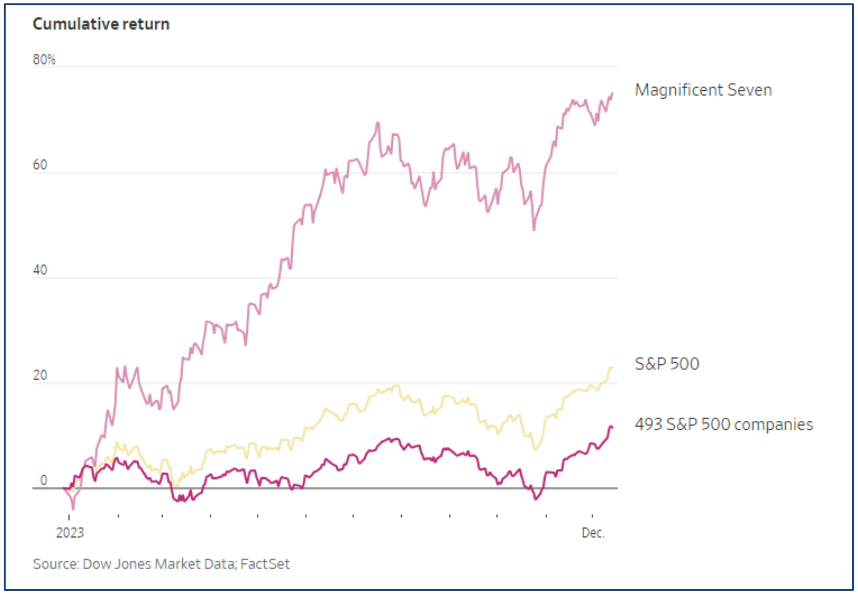


Source: Bloomberg

2.1 2023 Review : Markets

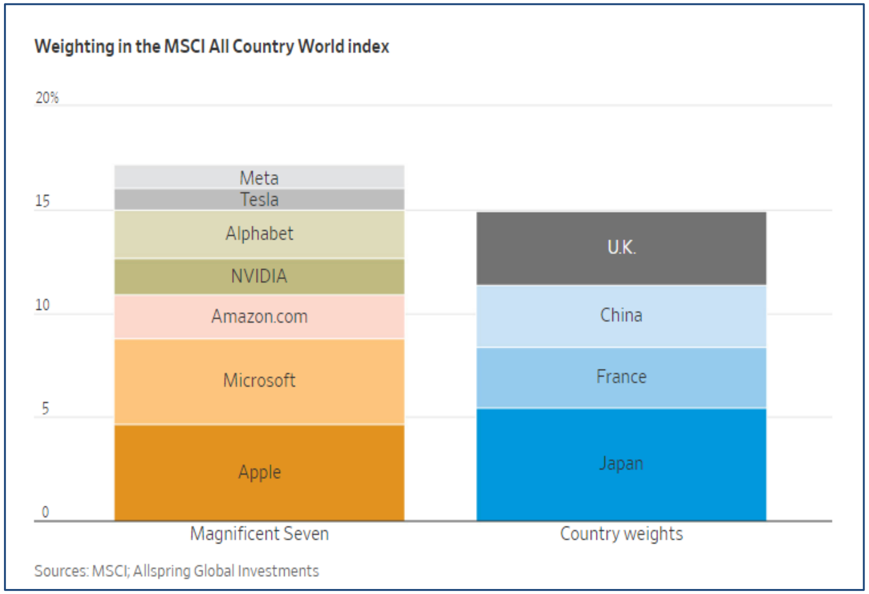
- The US market's performance was **mainly driven by the Magnificent 7s**. These 7 stocks had a spectacular year thanks to the artificial intelligence craze.
- Without these stocks, the **S&P 500 would be up by just 12%**, which is a rather weak rebound after a year like 2022.
- The market cap of these 7 stocks now represents more than the UK, China, France and Japan combined in the MSCI World.

S&P 500 vs MAG 7s



Source: Factset

MAG 7s vs RoW Market Cap



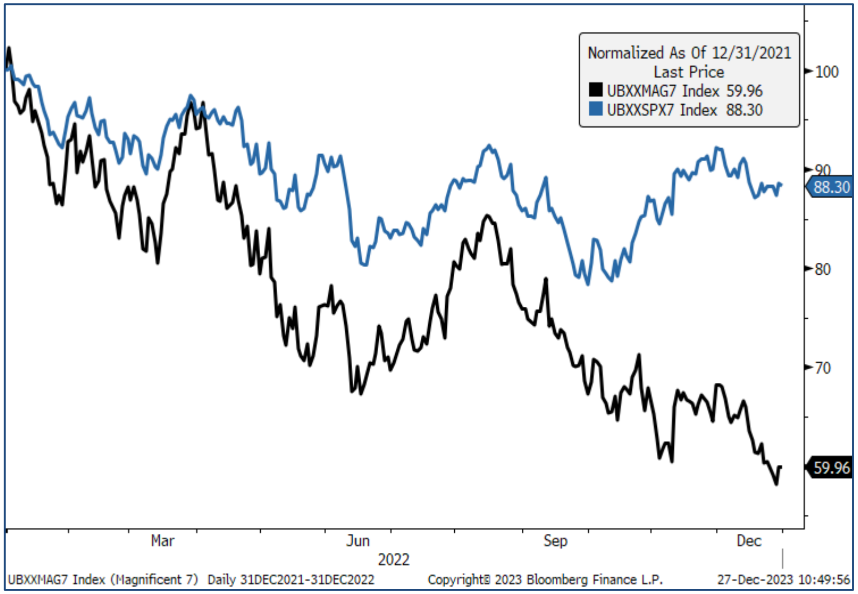
Source: MSCI

2.1 2023 Review : Markets

- Although the performance of these stocks is astronomical, we need to put things into perspective. In 2022, these same 7 **stocks were down by almost 40%**, while the S&P 500 without them was down by 12%.

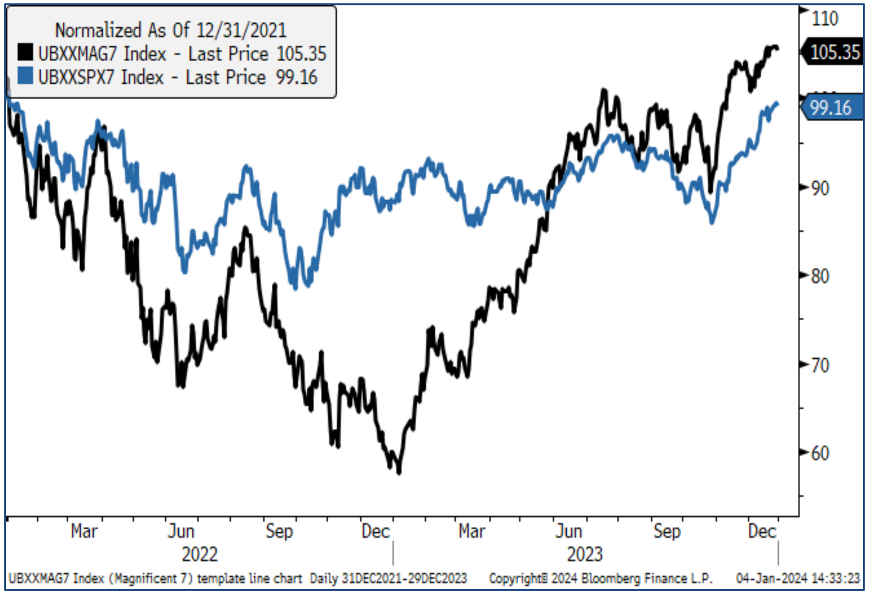
- So it's only natural that there should be some **catching up**. If we look at performance since 2022, we can see that over these 2 years, performance has been more or less in line, with a 1% drop for the S&P 493 versus a 5.4% rise for the Magnificent 7s.

S&P 500 vs MAG 7s 2022



Source: Bloomberg

S&P 500 vs MAG 7s 2022 - 2023

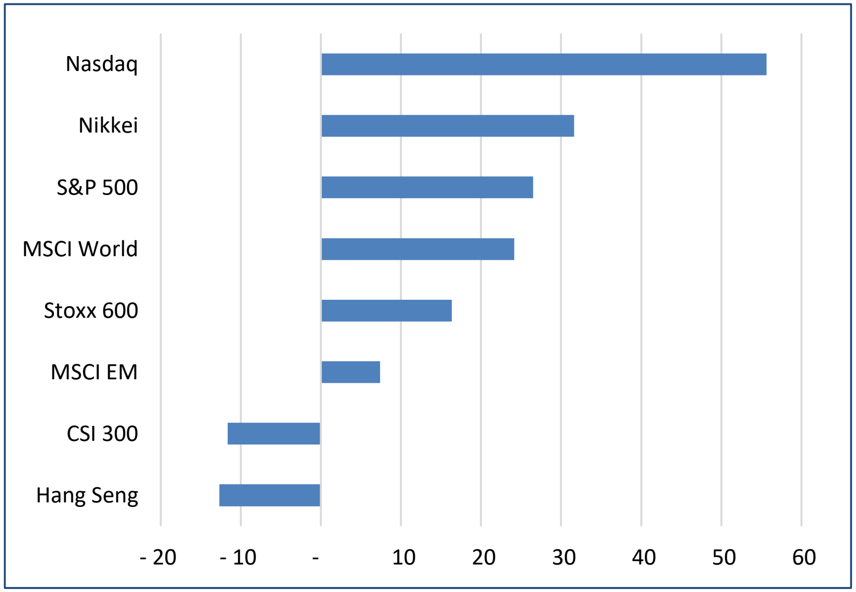


Source: Bloomberg

2.1 2023 Review : Markets

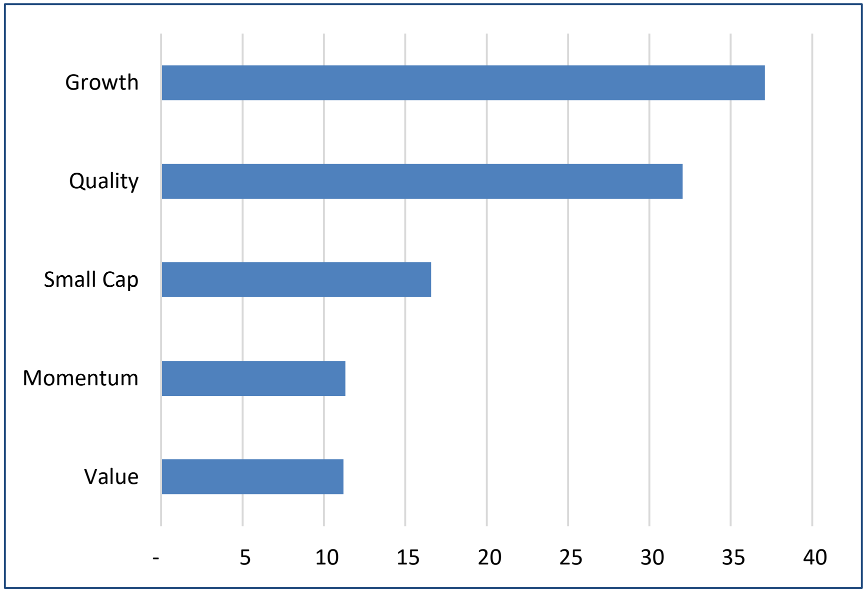
- In terms of indices, the Nasdaq 100 once again took the lead with a performance of over 55%. The Nikkei, representing **Japan, came in second** with a rise of over 30%, partly due to the devaluation of its currency, but also to renewed investor interest and an improving economic outlook.
- **China, still in the midst of a crisis**, closes the gap with a negative performance of around -10% for 2023.
- In terms of factors, this time it's growth and quality that have come out on top, while value and momentum stocks are 20% behind. Small caps have not yet rebounded as strongly as big caps, but this could change when central banks lower rates.

Major Indices Performance 2023



Source: Bloomberg

Factor Performance 2023

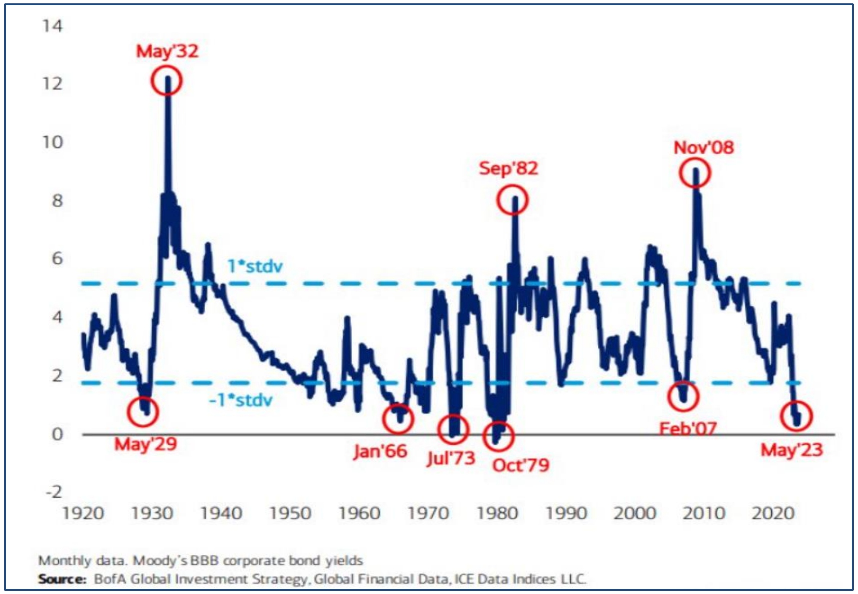


Source: Bloomberg

2.1 2023 Review : Markets

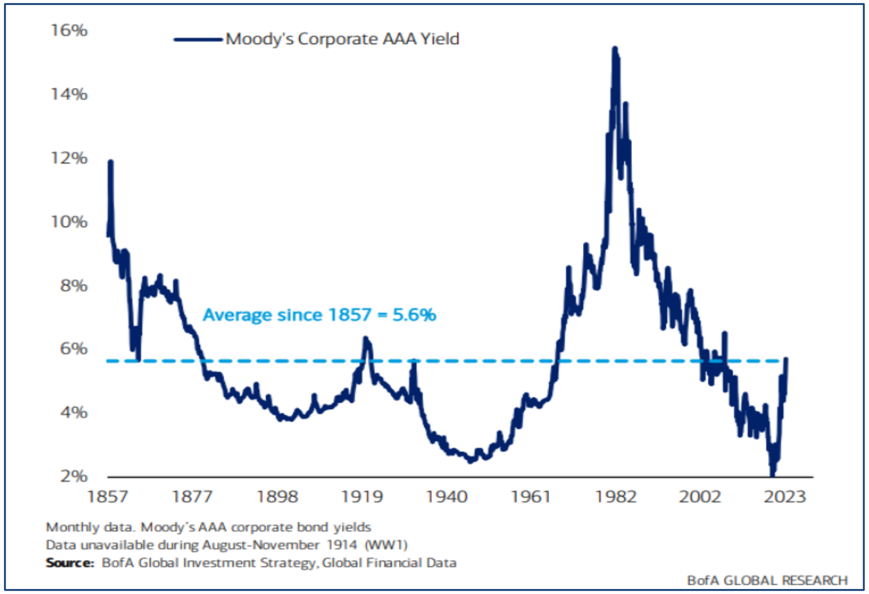
- The market seems to be untroubled about next year, and is not anticipating a recession. Credit **spreads are at historically low levels** and have shown very little volatility over the year.
- However, although spreads are extremely tight, benchmark rates are much higher than they used to be. As a result, **yields on good-quality corporate debt remain historically attractive**.
- However, should the macro picture deteriorate, spreads could widen, weighing on credit performance.

US Corporate Spreads since 1920



Source: BofA

US AAA Yield since 1857



Source: BofA

2.1 2023 Review : Markets

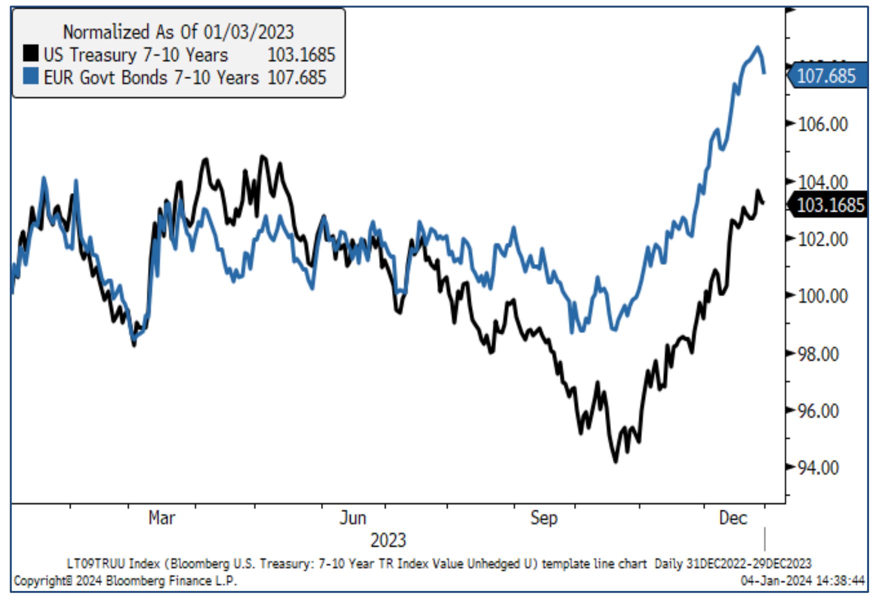
- On the bond side, almost **all performance was achieved at the end of the year**. With the probable pivot of the central banks, rates fell and spreads tightened.

- This end-of-year bond rally made up for some of last year's decline, but almost all bond indices are **still a long way from their peaks**. The fall in yields naturally favored strategies with the longest durations.

Global Aggregate 2023 Performance

Source: Bloomberg

7 – 10 Years Govt. Bonds



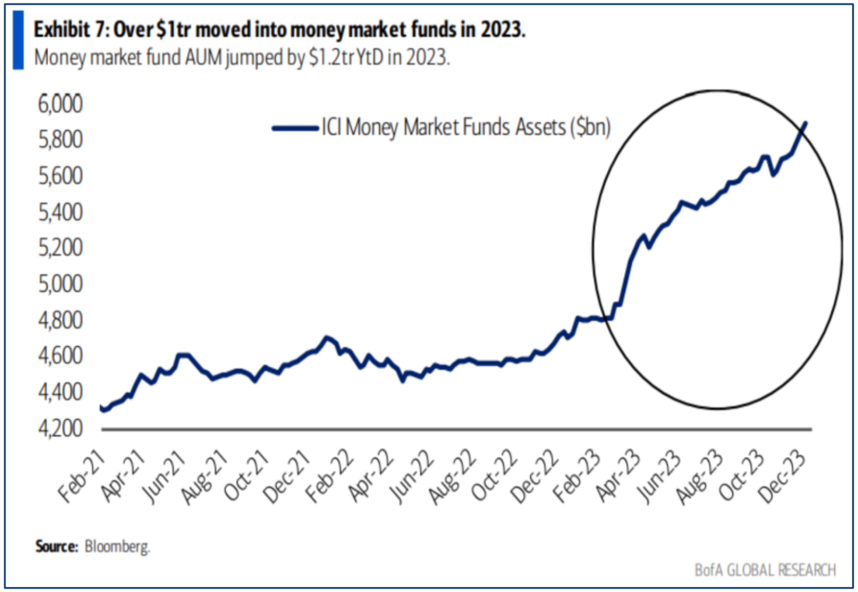
Source: Bloomberg

2.1 2023 Review : Markets

- As the tightening cycle comes to an end, we can see some damage in the market, such as the 100-year Austrian bonds, which fell to 3 during October. These bonds have such a long duration that a small contraction in yields allowed this particular bond to rebound by over 100%.

- Now that the market is pricing in rate cuts, duration should be favored in portfolios. However, investors remained cautious during 2023 and continued to invest heavily in money market funds, which set **new records in terms of AUM**. Almost 6 trillion in Money Market means that if investor choose to invest their cash, it could fuel a market rally.

Inflow into Money Market Fund



Source: BofA

Austria Zero-Coupon Bond 2120

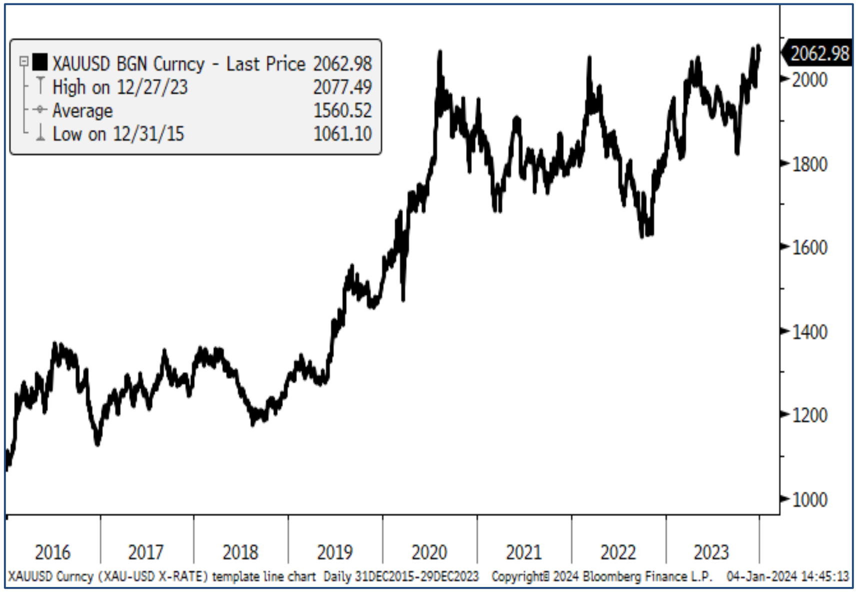
Source: Bloomberg

2.1 2023 Review : Markets

- Gold also had its 15 minutes of fame in 2023. **Falling interest rates and a falling dollar** have driven investors towards this safe-haven asset. Should the trend in rates and the dollar continue, gold could well extend above the 2,000 levels it has been trying to break through since 2020.

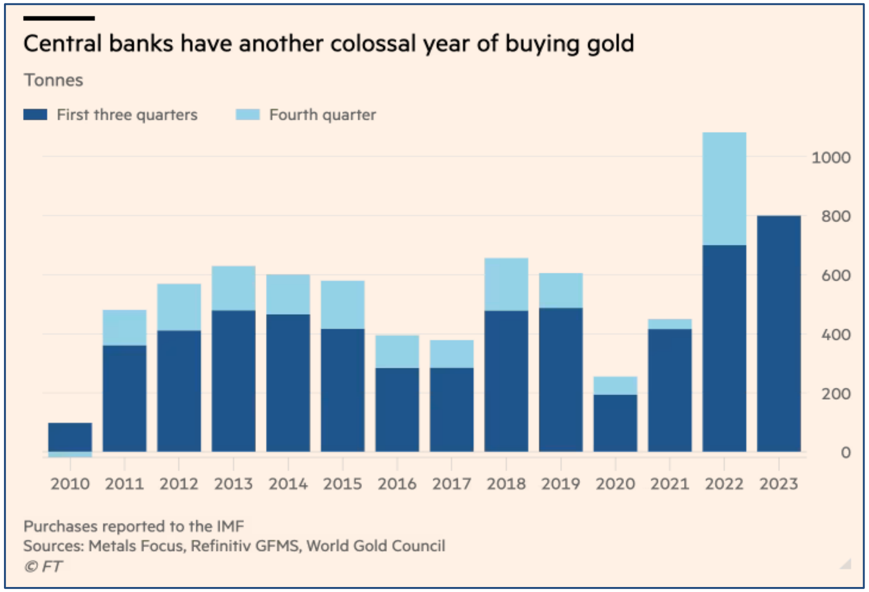
- Central banks also play a major role in gold's appreciation. In particular, **China's central bank is seeking to diversify** away from the dollar by selling its treasuries and USD and buying large volumes of gold.

Gold Price



Source: Bloomberg

Gold bought by Central Banks



Source: FT

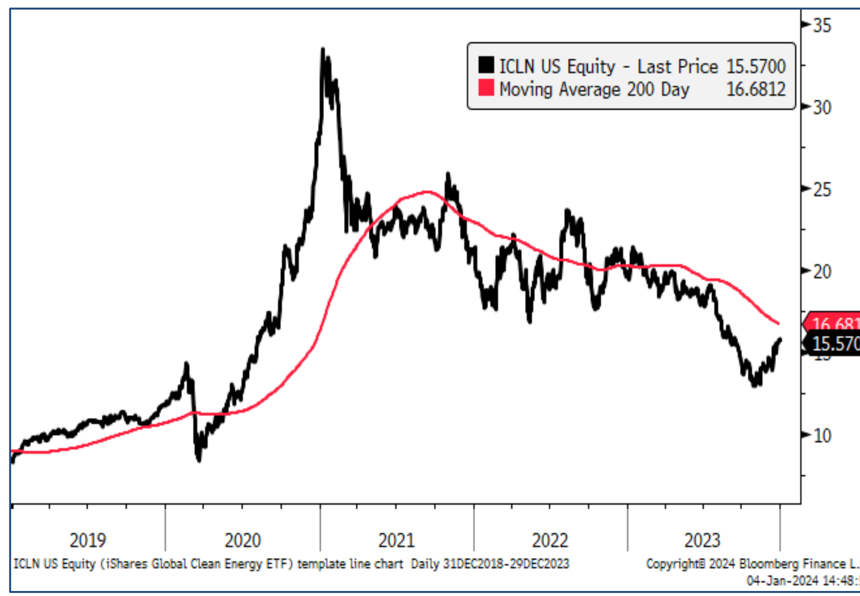
2.1 2023 Review : Markets

- Commodities in general did not have the wind in their sails during 2023. **Fears of recession and the crisis in China put pressure on energy prices**.
- Plus, as China is the world's biggest consumer of raw materials, its economic performance was not what commodity traders were expecting.
- The themes of energy transition and electric vehicles failed to attract market interest. These themes are at the heart of forecasts that we're going to have a shortage of raw materials in the next few years, but this year has proved that, **for the time being, this is not an issue** that the market is fixated on.

Bloomberg Commodity Index

Source: Bloomberg

ETF Global Clean Energy

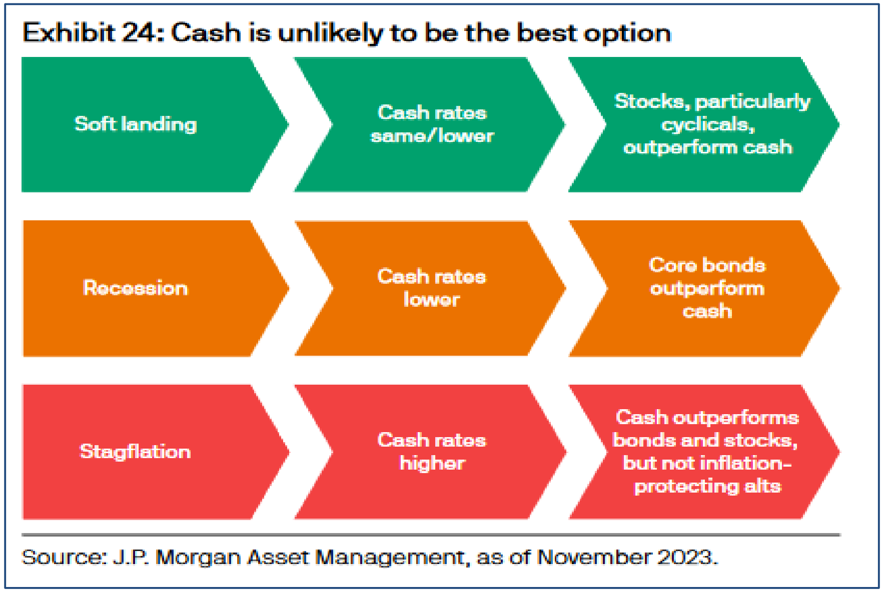


Source: Bloomberg

2.2 Which Scenario for 2024

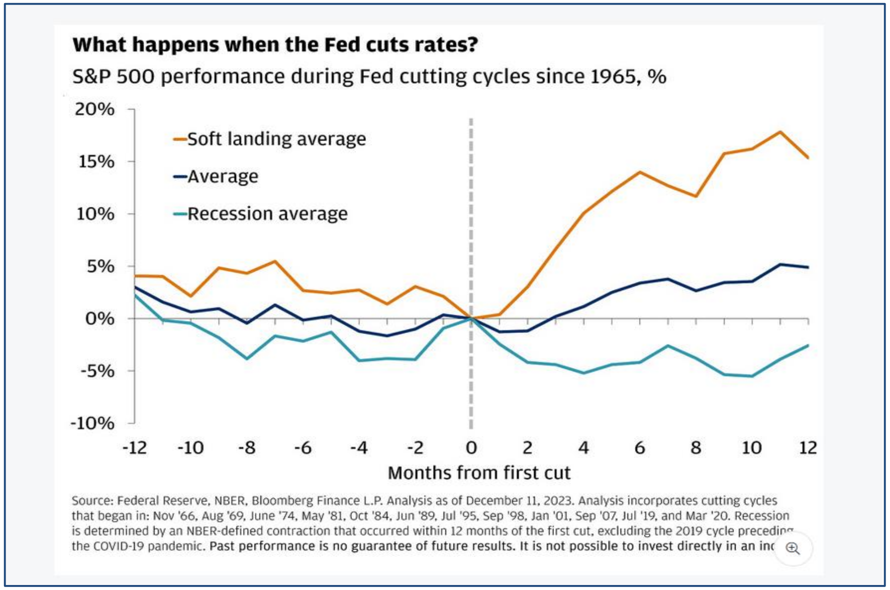
- Economists and investors are debating several scenarios for 2024. The first is a **soft landing**, in which we narrowly avoid a recession and return to growth. This is made possible by the central banks' monetary policy and expanding fiscal policies.
- The second is a **mild recession**, which would force central banks to cut interest rates more than they had planned, and thus get the economy moving again a little later.
- The third is a **deep recession**, in which the impact of the looming rise in interest rates would hit full force, causing fundamental problems for businesses, real estate and consumers.

Scenarios for 2024



Source: JP Morgan

S&P 500 Performance During Different Scenarios



Source: JP Morgan

2.3 Central Banks Last Move

- If we look beyond the FED and ECB, we can see that several banks, particularly in South America, have already started to cut rates. China has also lowered its rates in August in hope of boosting its economy , so far it didn't have much impact and thus needs to cut them lower.

- The other central banks, with a few exceptions, have also changed their tone and are adopting a more dovish stance towards the coming environment.

- If an inflationary second-best does not emerge, this unanimous trend should continue into 2024.

Global Central Bank Policy Rates

Country	Rate	Central Bank Rate (Today)	CPI YoY	Real Central Bank Rate	YoY CPI Trend vs. Prior Reading	Last Move	Last Move Month
Japan	Policy Rate Bal	-0.10%	3.3%	-3.4%	Higher	Cut	Jan-16
Switzerland	Target Rate	1.75%	1.4%	0.4%	Lower	Hike	Jun-23
Taiwan	Discount Rate	1.88%	2.9%	-1.0%	Lower	Hike	Mar-23
Thailand	Policy Rate	2.50%	-0.4%	2.9%	Lower	Hike	Sep-23
Malaysia	Policy Rate	3.00%	1.8%	1.2%	Lower	Hike	May-23
China	Loan Prime Rate	3.45%	-0.5%	4.0%	Lower	Cut	Aug-23
South Korea	Repo Rate	3.50%	3.3%	0.2%	Lower	Hike	Jan-23
Denmark	Deposit Rate	3.60%	0.6%	3.0%	Higher	Hike	Sep-23
Sweden	Repo Rate	4.00%	5.8%	-1.8%	Unchanged	Hike	Sep-23
Eurozone	Deposit Rate	4.00%	2.4%	1.6%	Lower	Hike	Sep-23
Australia	Cash Rate	4.35%	4.9%	-0.6%	Lower	Hike	Nov-23
Norway	Deposit Rate	4.50%	4.8%	-0.3%	Higher	Hike	Dec-23
Canada	Overnight	5.00%	3.1%	1.9%	Unchanged	Hike	Jul-23
UK	Bank Rate	5.25%	3.9%	1.4%	Lower	Hike	Aug-23
US	Fed Funds	5.38%	3.1%	2.3%	Lower	Hike	Jul-23
New Zealand	Cash Rate	5.50%	5.6%	-0.1%	Lower	Hike	May-23
Poland	Repo Rate	5.75%	6.6%	-0.9%	Unchanged	Cut	Oct-23
Hong Kong	Base Rate	5.75%	2.7%	3.1%	Higher	Hike	Jul-23
Indonesia	Repo Rate	6.00%	2.9%	3.1%	Higher	Hike	Oct-23
Saudi Arabia	Repo Rate	6.00%	1.7%	4.3%	Higher	Hike	Jul-23
Philippines	Key Policy Rate	6.25%	4.1%	2.2%	Lower	Hike	Mar-23
India	Repo Rate	6.50%	5.6%	1.0%	Higher	Hike	Feb-23
Peru	Policy Rate	6.75%	3.6%	3.1%	Lower	Cut	Dec-23
Czech Republic	Repo Rate	7.00%	7.3%	-0.3%	Lower	Hike	Jun-22
South Africa	Repo Rate	8.25%	5.5%	2.8%	Lower	Hike	May-23
Chile	Base Rate	8.25%	4.8%	3.5%	Lower	Cut	Dec-23
Mexico	Overnight Rate	11.25%	4.3%	6.9%	Higher	Hike	Mar-23
Brazil	Target Rate	11.75%	4.7%	7.1%	Lower	Cut	Dec-23
Colombia	Repo Rate	13.00%	10.2%	2.9%	Lower	Cut	Dec-23
Russia	Key Policy Rate	16.00%	7.5%	8.5%	Higher	Hike	Dec-23
Turkey	Repo Rate	40.00%	62.0%	-22.0%	Higher	Hike	Nov-23
Argentina	Overnight Repo	100.00%	160.9%	-60.9%	Higher	Cut	Dec-23

CREATIVE PLANNING @CharlieBilello Data as of 12/20/23

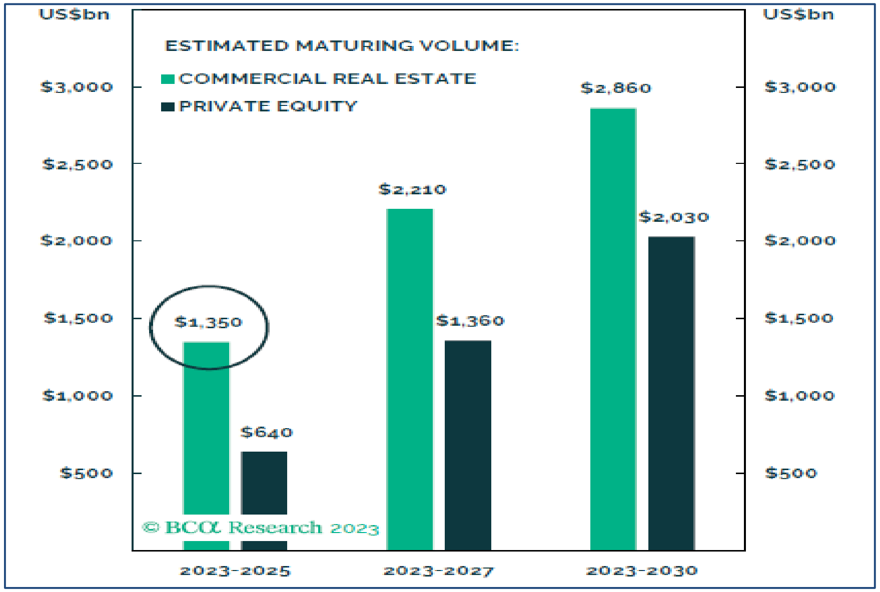
Source: Charlie Bilello

2.4 Commercial Real Estate

- Among the indicators to watch closely for 2024, real estate, and **commercial real estate** in particular, is a point of concern. Real estate companies have been somewhat spared by rising rates so far, as they **have not needed to renew their debt**. However, major maturities are coming up in 2024, and this refinancing should weigh on these companies, to the point of potentially rendering some of them insolvent.

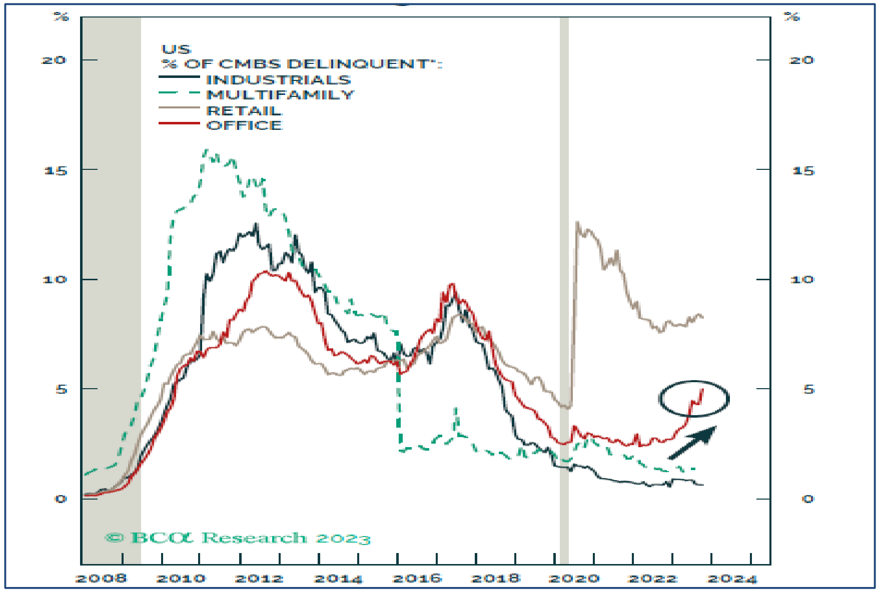
- Signs of this are already apparent in the office property segment, which has already seen a worrying rise in defaults over the past few months.

Commercial Real Estate Debt Maturity



Source: BCA

Office CMBS Delinquencies



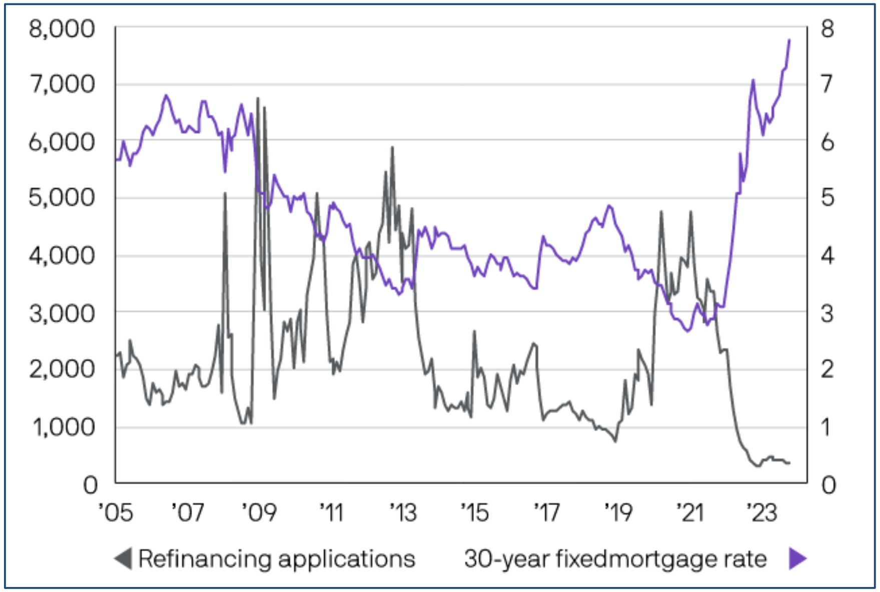
Source: BCA

2.4 Real Estate

- On the consumer side, the situation is similar. Refinancing requests are at historic lows, as homeowners have locked in very low interest rates in recent years and are therefore not looking to refinance at higher rates.

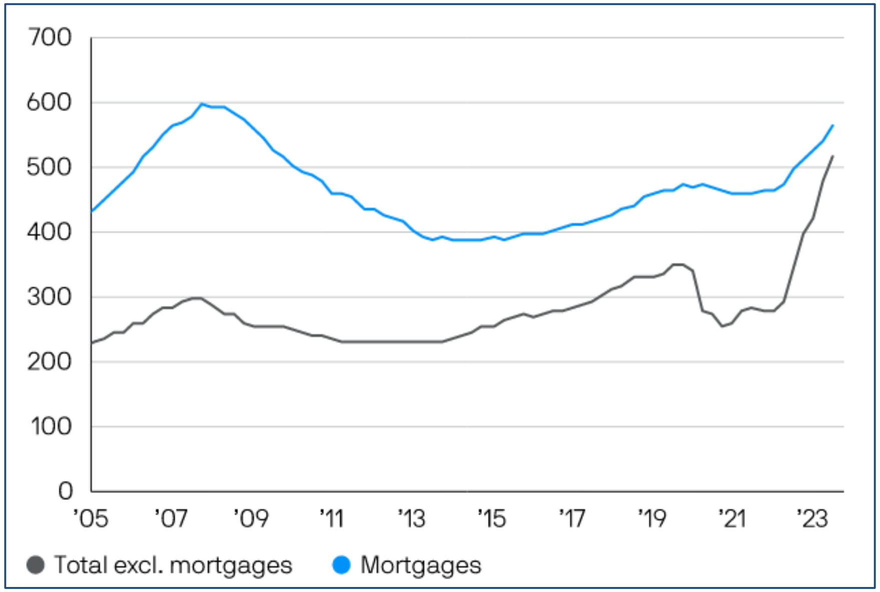
- Mortgage interest costs have therefore remained relatively stable since the start of the tightening cycle. However, interest rates on other forms of debt, such as **leasing, consumer credit and credit cards, have risen sharply**.

Refinancing Applications vs 30Y Mortgage rate



Source: JP Morgan

Personal Interest Payment



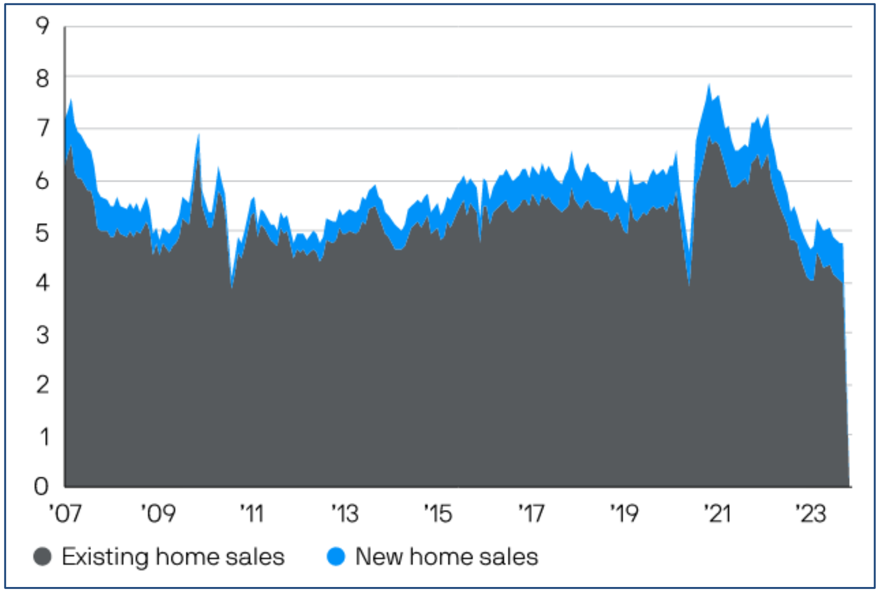
Source: JP Morgan

2.4 Real Estate

- The US housing market is at its lowest point since COVID. High interest rates are scaring off investors and preventing homeowners from selling because they don't want to take out new loans.

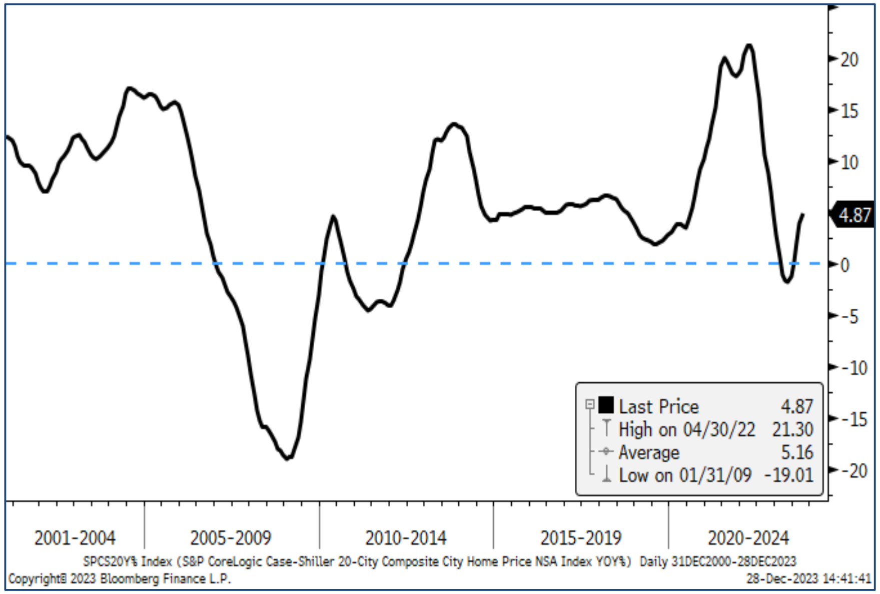
- The fact that the **market is frozen** means that the price of houses sold varies very little, although it has been rising again recently. It's also worth noting that there's a **housing shortage** in some U.S. cities, which logically pushes up prices. What's more, construction costs and the cost of debt have risen, all of which is pushing sellers to demand higher prices. As long as there are no forced sellers on the market, prices will not fall.

US Home Sales



Source: JP Morgan

US Case-Shiller House Price Index



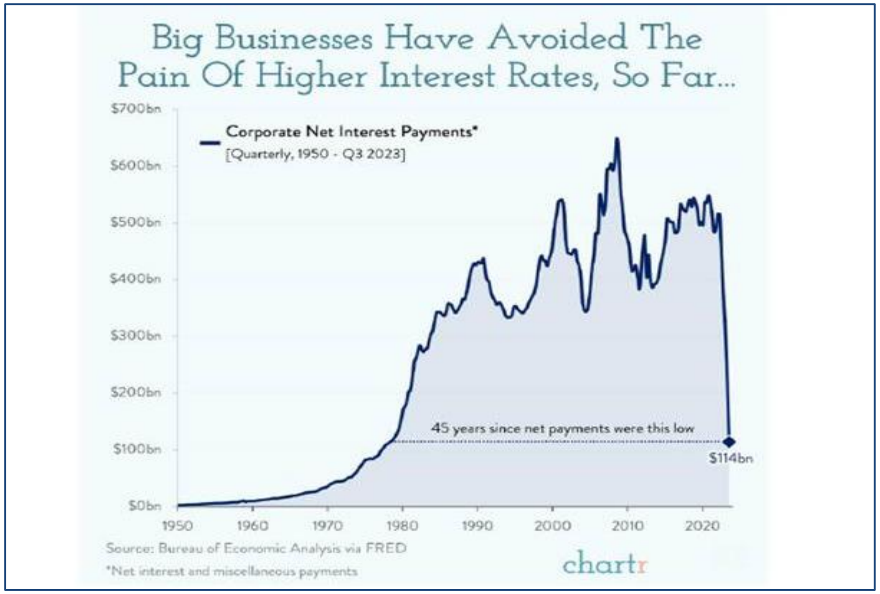
Source: Bloomberg

2.5 Interest impact

- As for companies, they too have yet to feel the shock of rising interest rates. CFOs were smart enough to issue a lot of debt at very low rates and very long maturities. As a result, many of these **companies have not yet had to refinance**, and are even earning higher interest on their cash than they have to pay on their debt.

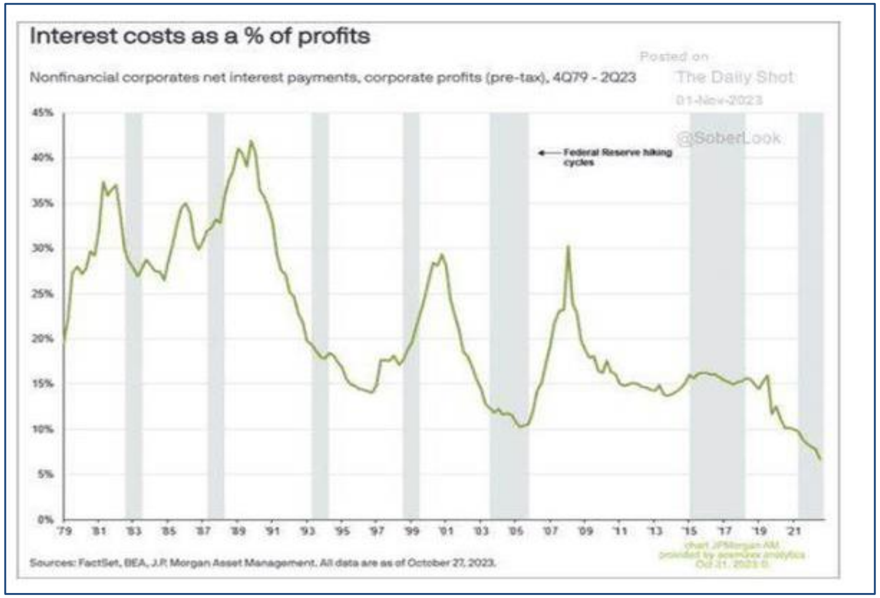
- The cost of debt relative to earnings has never been as low as it is now. It may take several quarters for the trend to turn around, but sooner or later **margins will be eroded by the higher cost of debt**.

Corporate Net Interest Payments



Source: FRED

Interest as % of Profit



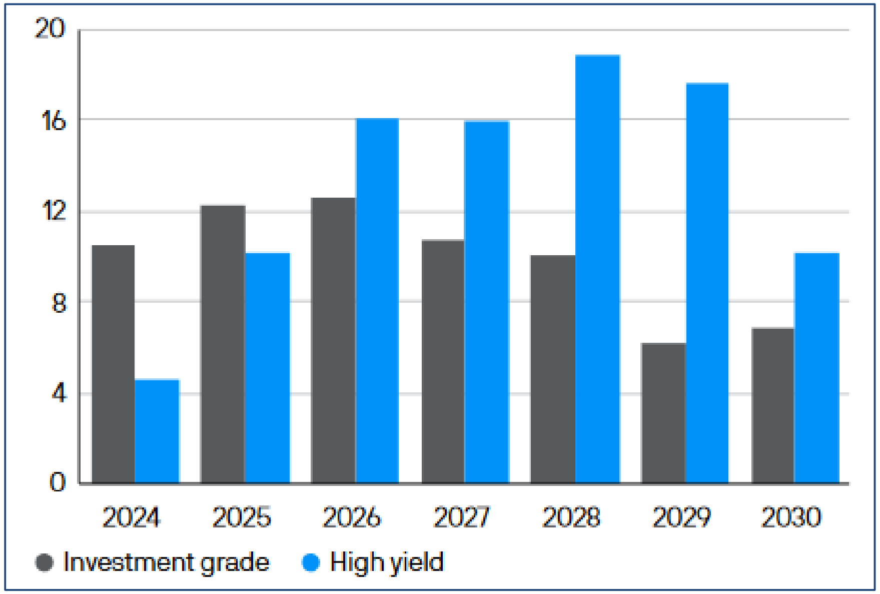
Source: Factset

2.5 Interest impact

- The next maturities for corporate refinancing are fast approaching. More than 10% of IG debt and 4% of HY debt will have to be rolled over by 2024. This rollover will not come without a cost for companies with cash, they will have to rely on it to avoid an adverse effect, but for those lacking cash, they will have to pay the piper.

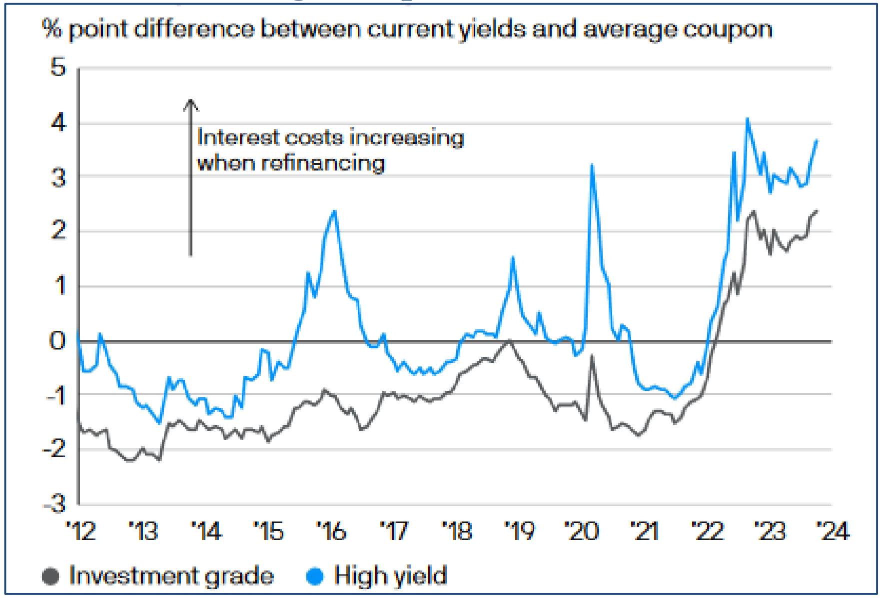
- It turns out that the **difference between average coupons and average yield has reached over 2% on the IG side and 3.5% on the HY** side. We can therefore already have an idea of the additional costs that companies will have to face.

Global Credit Maturities (% of index)



Source: JP Morgan

Average Coupon vs Current Yield



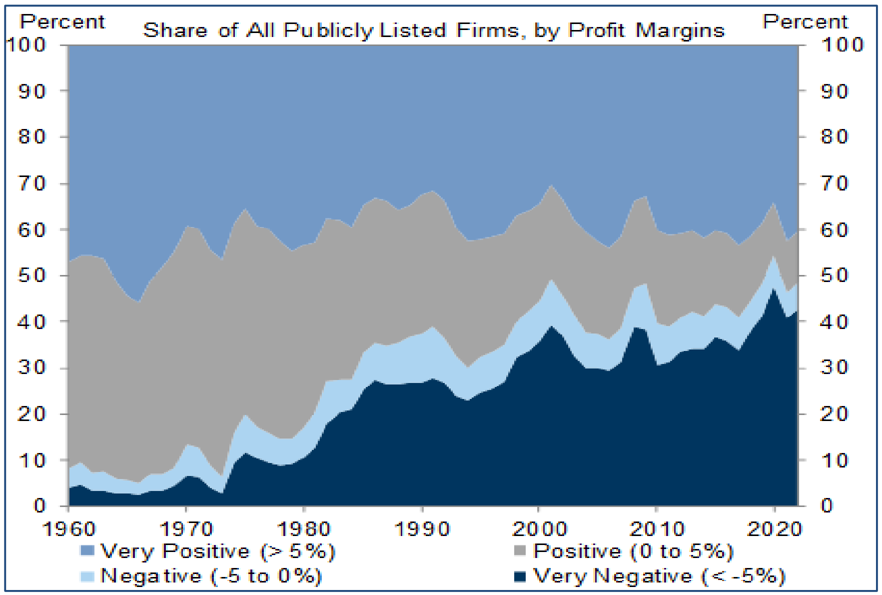
Source: JP Morgan

2.5 Interest impact

- The refinancing cycle that is about to take place will therefore jeopardize the **zombie companies** we've been talking about for several years now. The proportion of public companies with largely negative profit margins is greater than ever, and in the current environment, if these companies can no longer refinance themselves with almost "free" money, they are doomed to disappear.

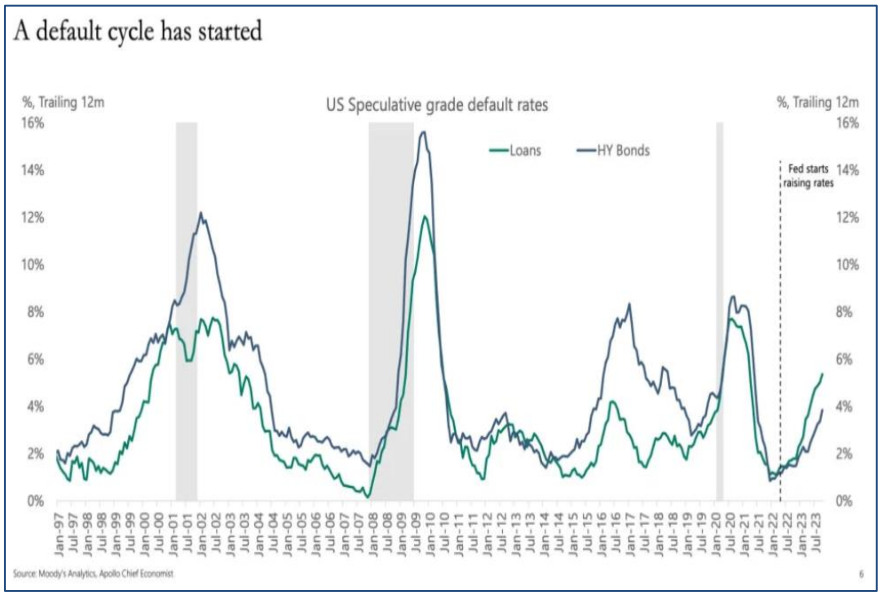
- This trend can already be seen in high-yield debt, where **default rates have been rising** steadily since the end of last year, and are set to continue to do so in 2024.

Share of Profitable Public Companies



Source: Goldman Sachs

US Speculative Grade Default Rates



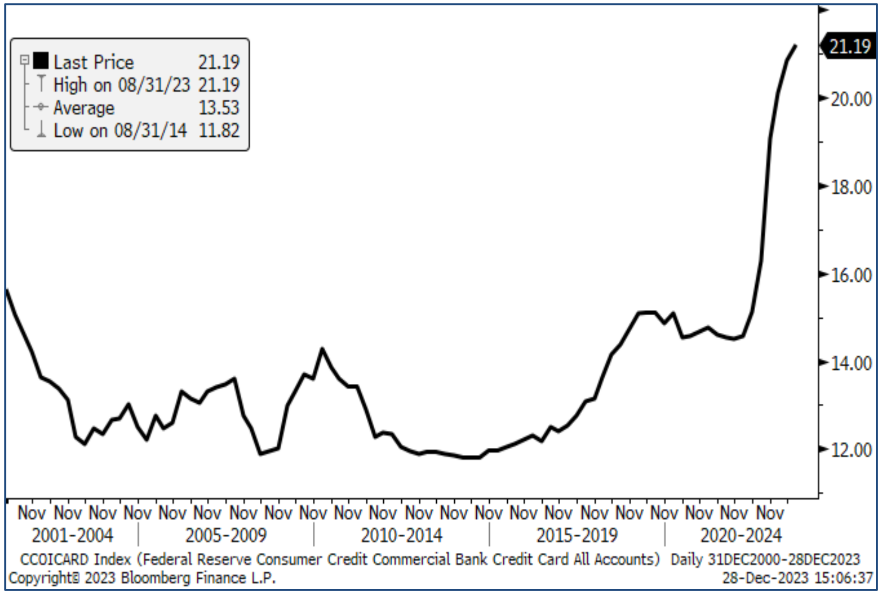
Source: Apollo

2.5 Interest impact

- At consumer level, **delinquency rates** of 30 days or more are also on the rise. For some products, such as credit cards, the delinquency rate has been at its highest since 2011 and shows no signs of abating.

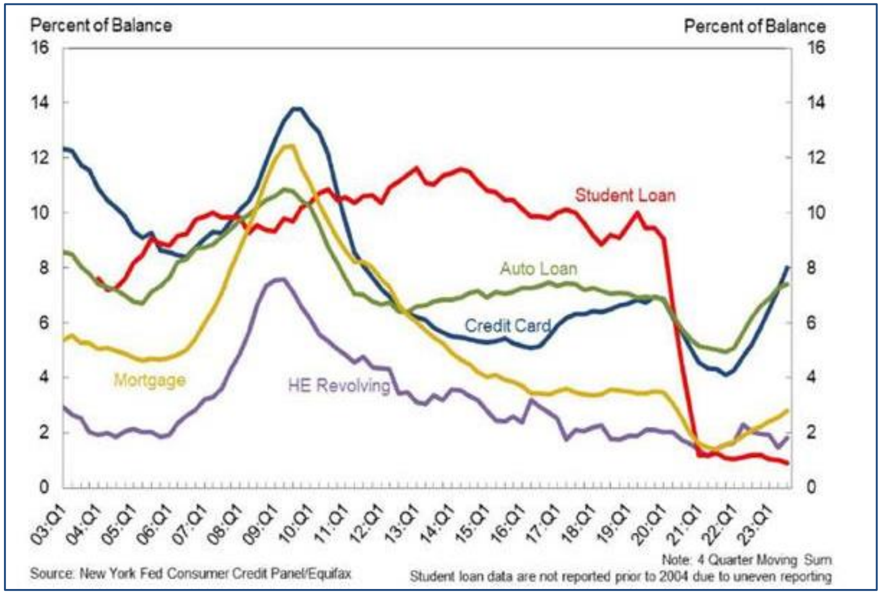
- Plus, interest **rates on credit cards** have passed the 20% mark. This creates a vicious circle, as unpaid debt swells exponentially, making it increasingly difficult to make payments.

Credit Card Interest Rates



Source: Bloomberg

30+ Days Delinquency Rate



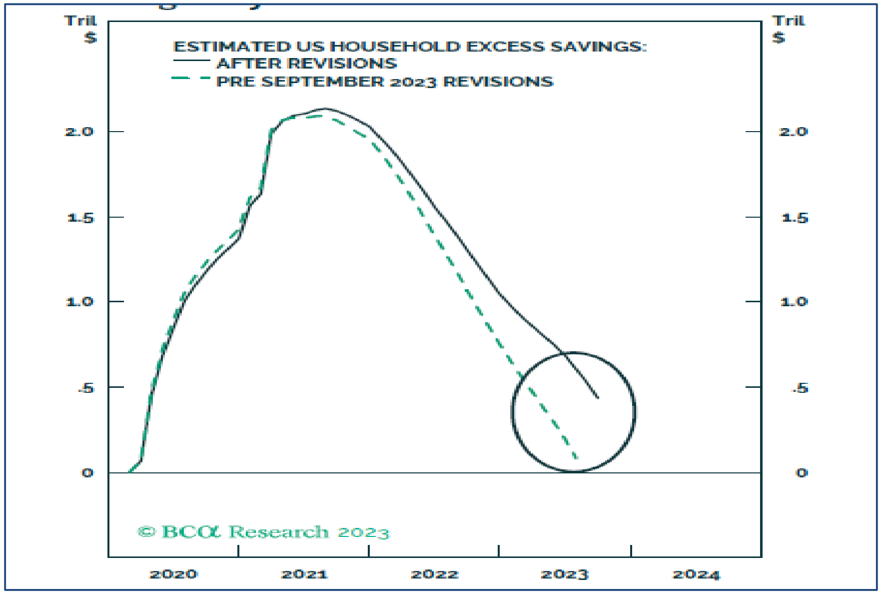
Source: New York Fed

2.6 Consumer

- On the positive side, consumers have emerged from the health crisis financially stronger than before. In fact, between the various government subsidies and the fact that they were unable to spend money due to confinement, **households were able to save large sums of money**.

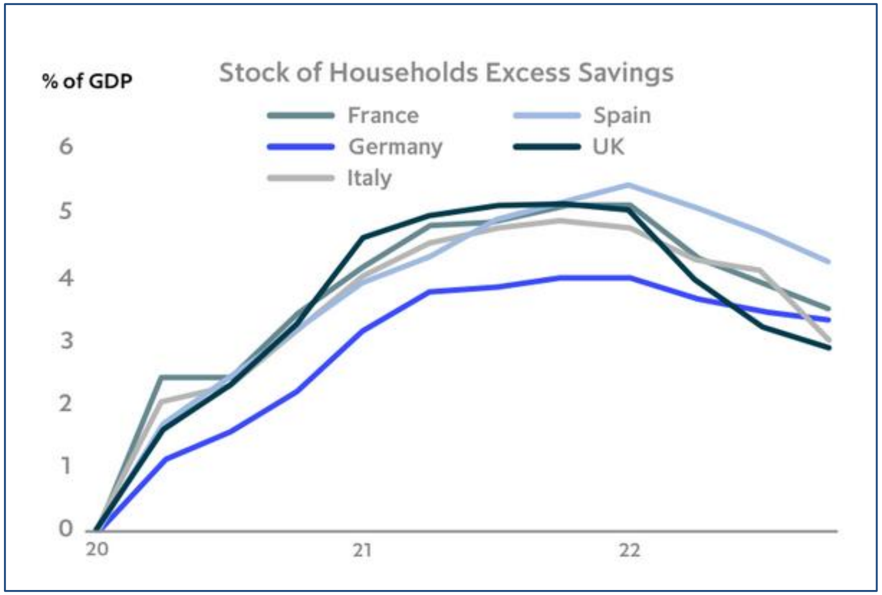
- This surplus reserve is far from exhausted among Europeans, who can still hold out for several months in the face of a flagging economy. As for the Americans, who have spent lavishly since deconfinement, it would appear that the amount of their **reserve was underestimated**, and that they too still have sufficient funds to prove robust.

US Household Excess Savings



Source: BCA

EU Household Excess Savings

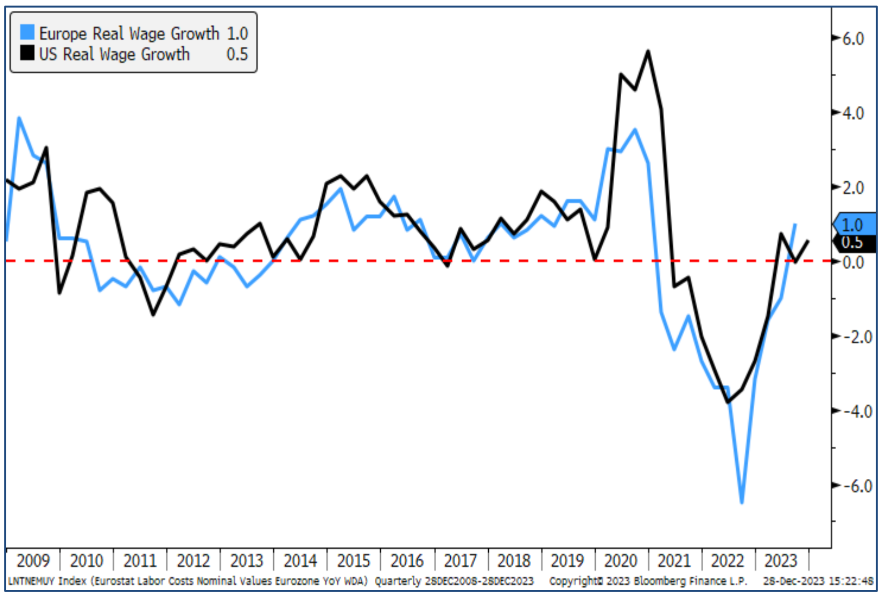


Source: ICG AM

2.6 Consumer

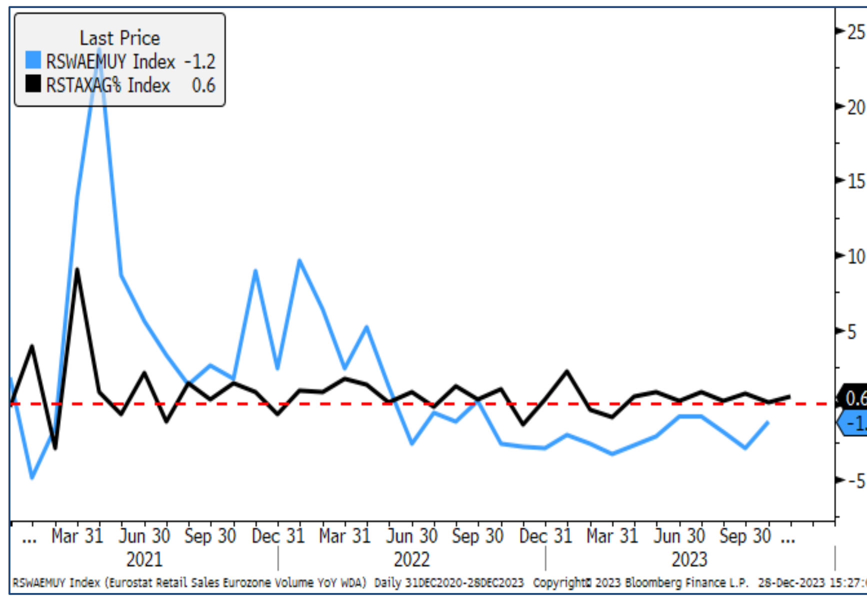
- Although inflation has had an impact on consumers' purchasing power, it turns out that they have not been slow to ask for increases and that today, in real terms, **workers are gaining purchasing power**. Plus, the **unemployment rate**, despite a slight pick up, is still hovering **near historically low level**, this means that the consumer does not have to fear for its source of revenue for the time being. Given that domestic consumption accounts for 70% of US GDP and over 55% of European GDP, we may well avoid a recession.
- Plus, retail sales have been lagging for some time now, mainly in Europe. If central banks were to cut rates, consumers might well regain confidence and draw on their last reserves to get the economy moving again.

EU & US Real Wage Growth YoY



Source: Bloomberg

EU & US Retail Sales YoY



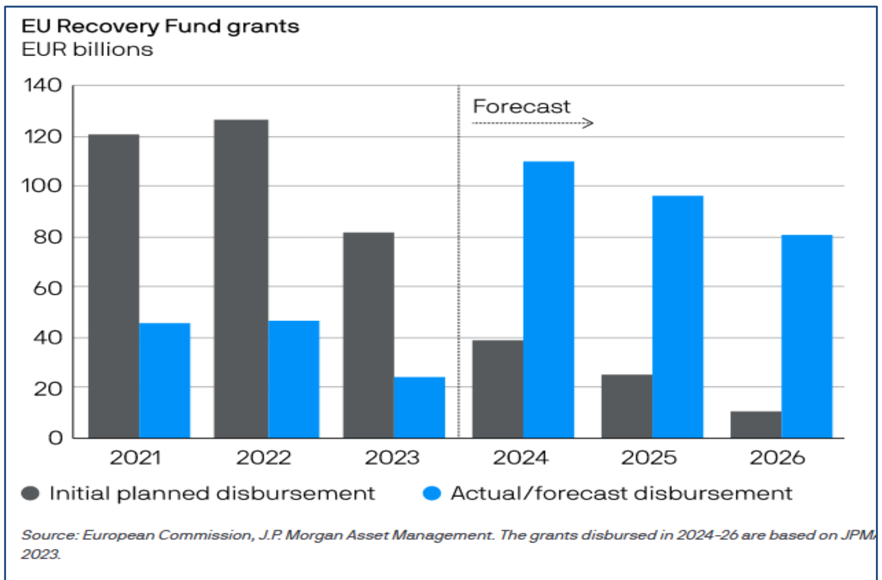
Source: Bloomberg

2.7 Government

- Governments, too, still have money to spend, at least on paper. The problem is that they are already running large deficits and the cost of servicing the debt has risen. Many governments already have a debt/GDP ratio over 100%, therefore it is advisable for them to take on as little debt as possible.

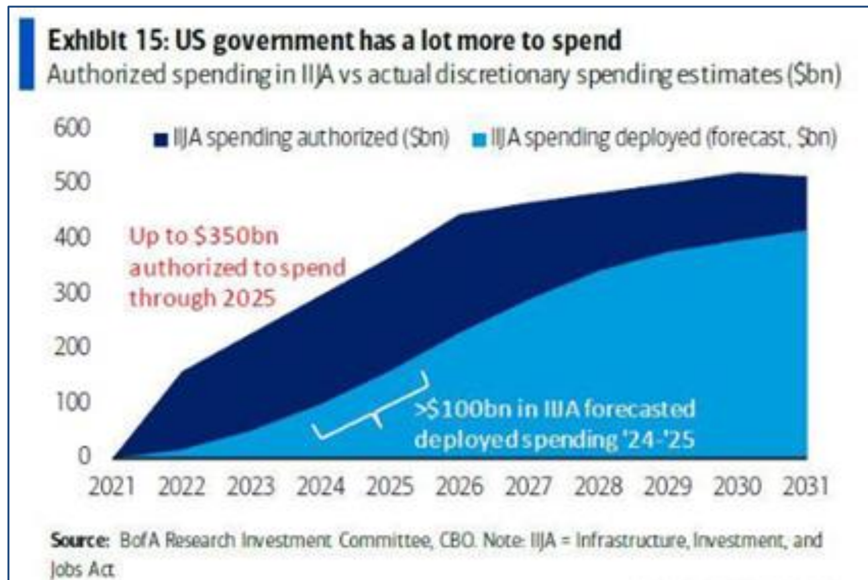
- However, both the US and the EU have signed up to plans over the past few years to spend several hundred billion on energy transition and new infrastructure. As it turns out, this money is still **far from being fully spent**, and could therefore be a source of growth for years to come.

EU Recover Fund Spending



Source: JP Morgan

US Government Spending Plan



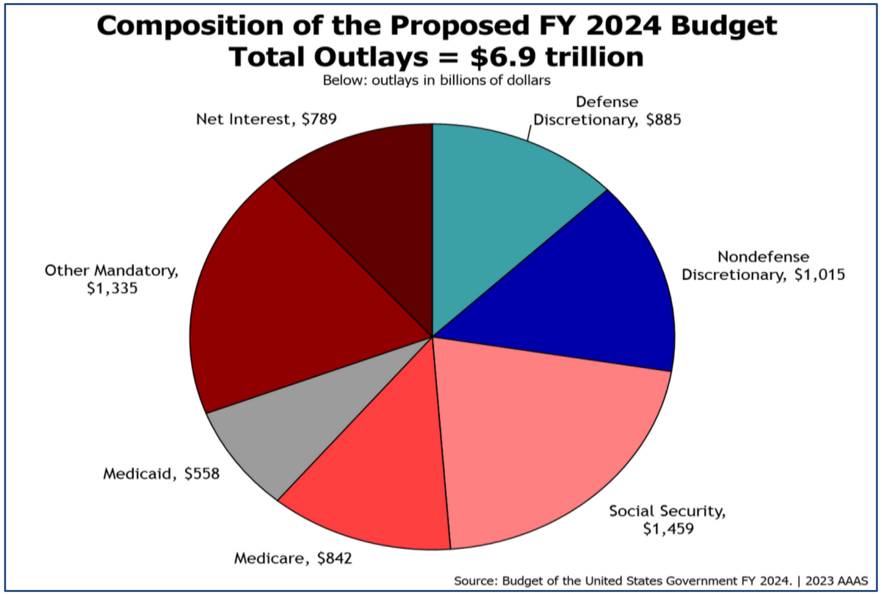
Source: BofA

2.7 Government

- In the US, interest rates have risen more than elsewhere in the developed world, making debt prohibitively expensive. The **cost of interest in the government budget** is almost as high as the budget allocated to defense.

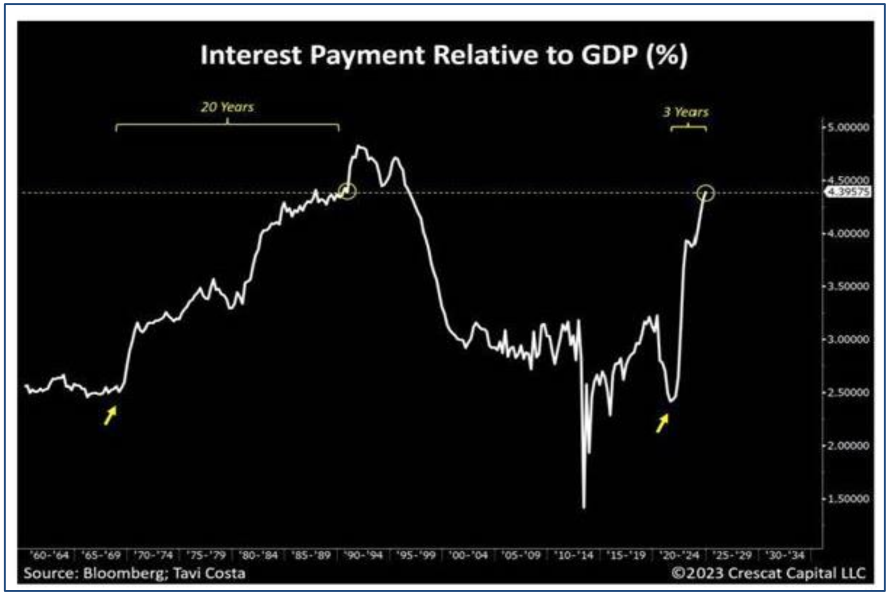
- The US is going to have to increase its tax revenues if it wants to keep running on the same budget over the next few years. If they can't, they'll have to cut costs. However, 2024 is an election year, so Biden may continue to **spend** lavishly in order **to rally votes behind him**.

US Government Budget



Source: United States Budget

US Interest Payment to GDP



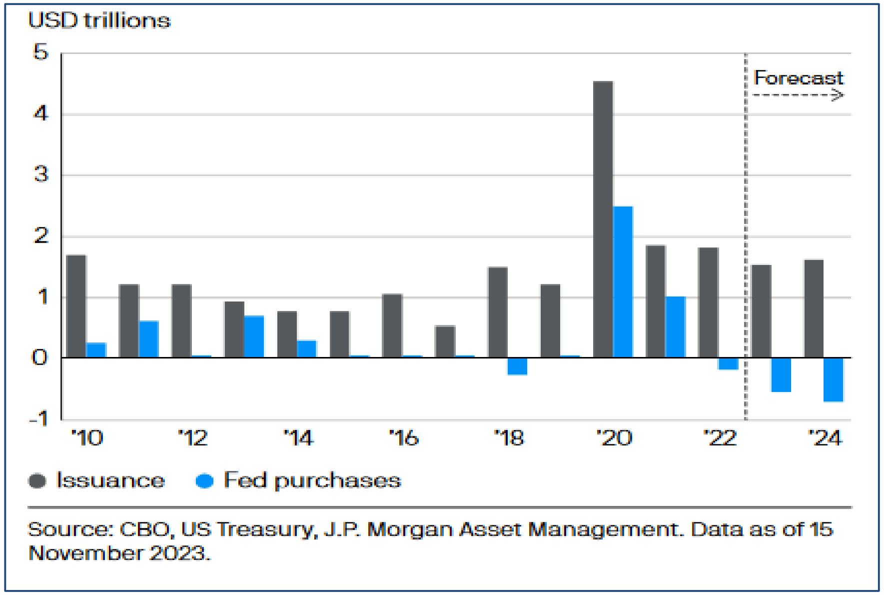
Source: Bloomberg, Travi Costa

2.7 Government

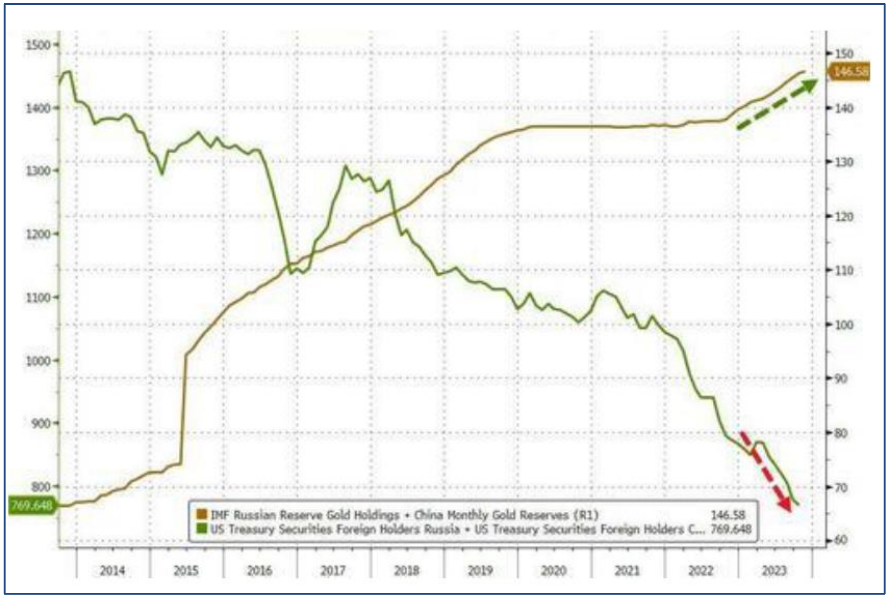
- The large pile of US debt is a problem for the government. If the **FED stops buying** treasuries, it will be harder to find buyers. Foreign countries such as **Russia and China are already reducing their treasuries purchase in favor of gold** in order to diversify away from the USD. Japan might also reduce its purchase as it might have to increase rates in 2024 and therefore its domestic debt will become more attractive.

- If the government needs to keep borrowing but there are no more lenders, we might see some pressure on rates which will have to **offer a premium in order to attract buyers**.

US Govt. Debt Issuance and Fed Purchase



China and Russia Gold Reserve vs Treasury Reserve



Source: JP Morgan

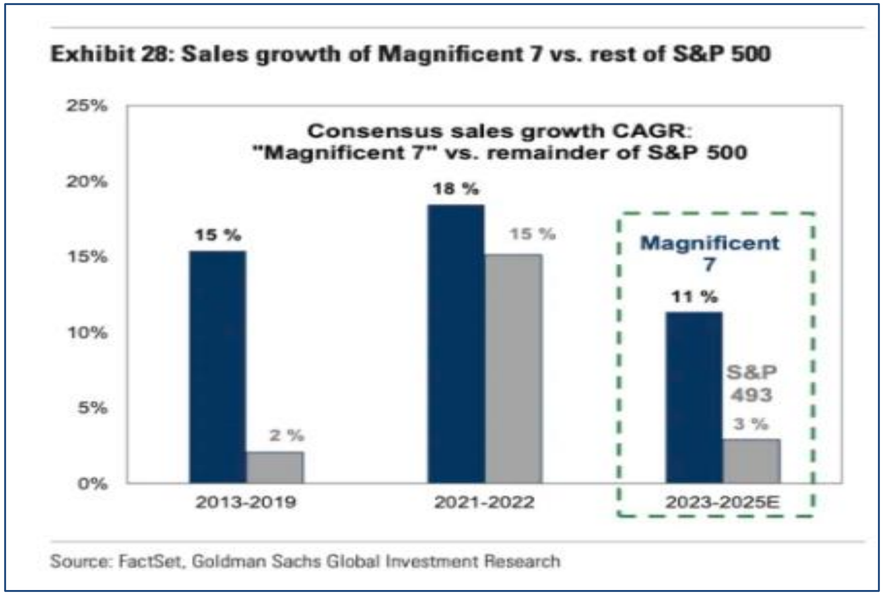
Source: Apollo

2.8 Earnings Growth

- Expectations for the stock market are fairly positive, with **growth in sales and profits forecast** on both sides of the Atlantic. The markets are therefore not anticipating a recession.

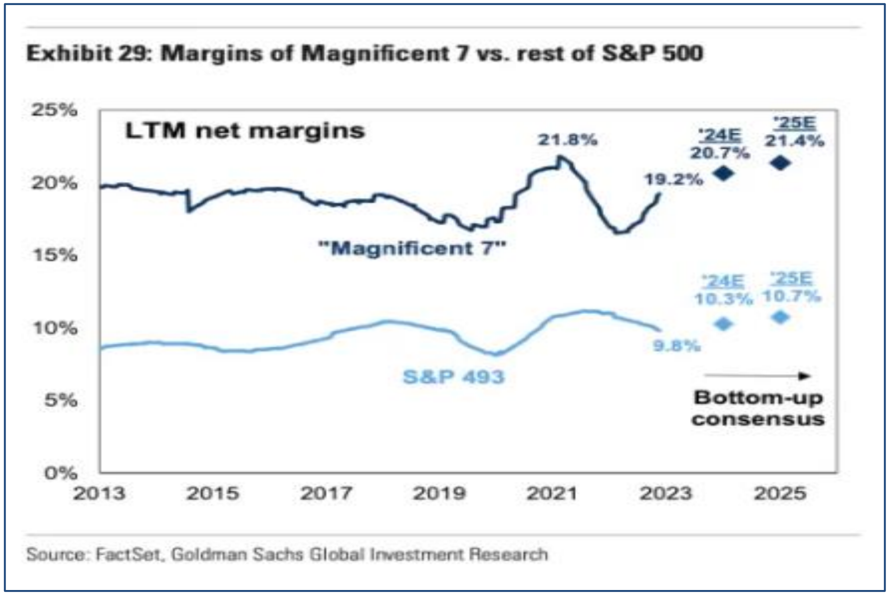
- Perhaps the **Magnificent 7s** will continue to outperform the market because these companies have the **highest growth rates and margins**. However, looking at the valuation, it seems that the market has **already priced most of this growth** so any earnings disappointment would certainly trigger a correction.

Revenue Growth Mag 7s vs S&P 500



Source: Goldman Sachs

Margin Mag 7s vs S&P



Source: Goldman Sachs

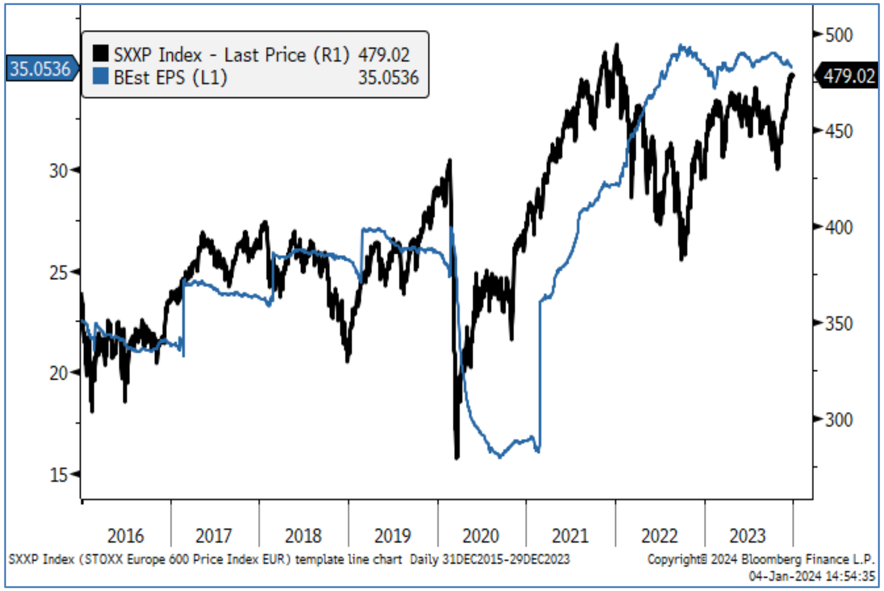
2.8 Earnings Growth

- In Europe, EPS expectations hit all-time highs a few months ago, while the Stoxx 600 has yet to beat its 2021 highs.

- Needless to say, as a result, **the market is** less expensive than before, and is even **trading below its historical average**. Other parts of the market are also very cheap, both in absolute and relative terms, such as automobiles and European small caps.

- **Value stocks in Europe are also particularly attractive** compared to their US peers, if the market flows go towards value stocks, Europe might outperform the US.

Stoxx 600 EPS 12m Forward



Source: Bloomberg

Stoxx 600 PE 12m Forward

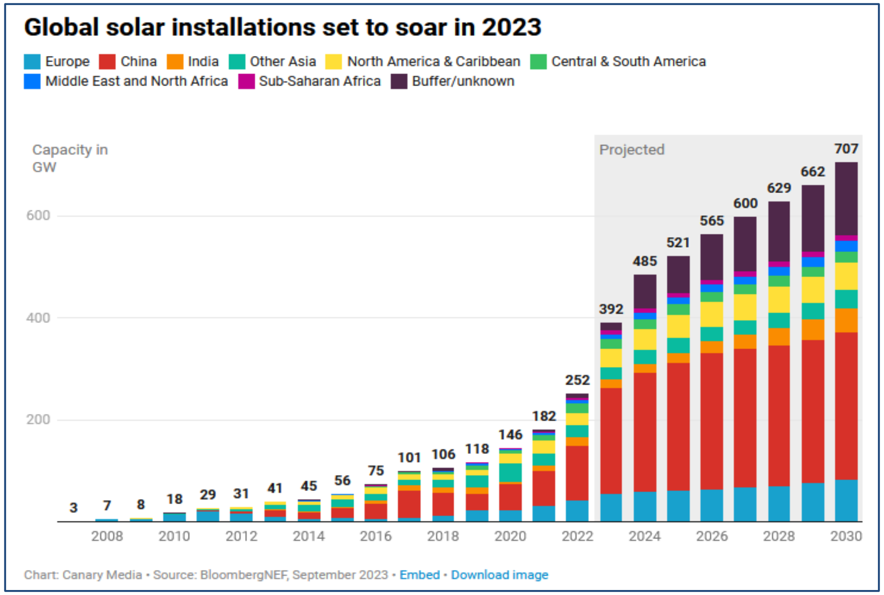
Source: Factset

2.9 Commodities Secular Trend

- Should secular trends finally pick up? We thought they would not be affected by the cycle, but they have proved us wrong. The installation of new solar panels has reached new records and is forecast to continue throughout this decade. So **2024 may well mark the resumption of these trends** in terms of market performance.

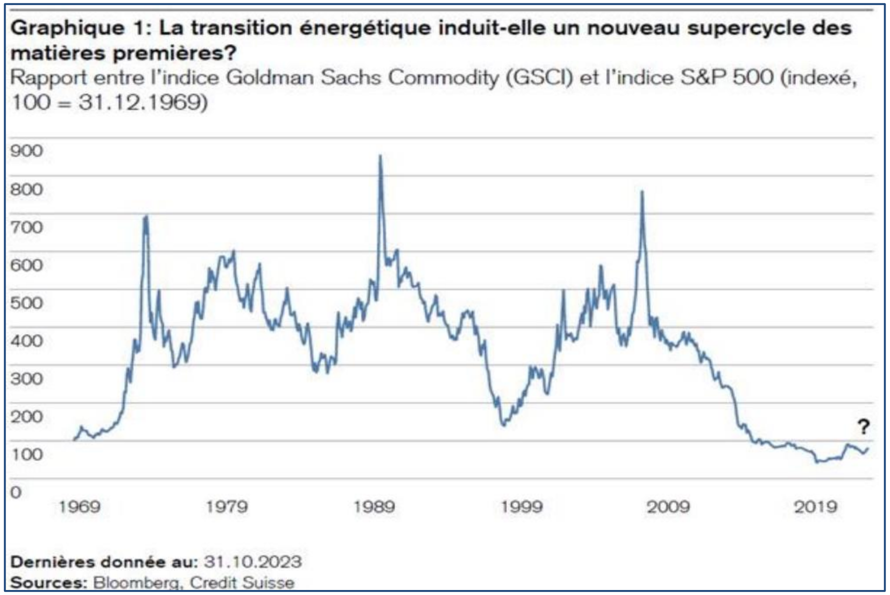
- The commodities super cycle we've talked about several times could also return if the market focuses on **shortage forecasts for certain commodities**. However, this is yet further proof that these trends sometimes need to breathe before they take off again.

Solar Installations Projections



Source: Bloomberg

Goldman Commodity Index vs S&P 500



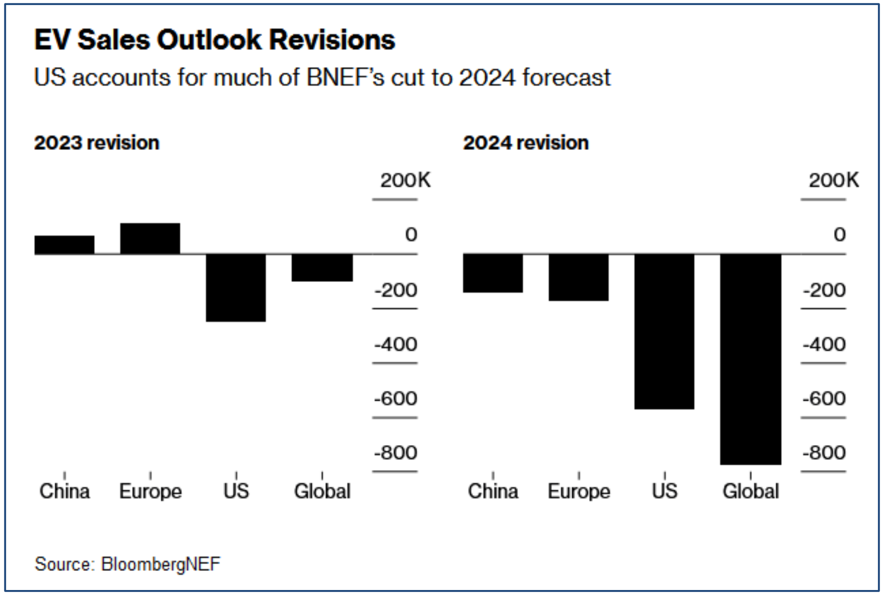
Source: Credit Suisse

2.9 Commodities Secular Trend

- Electric vehicles also disappointed somewhat this year. **Analysts were too optimistic** with their forecasts and had to revise them downwards at the end of the year. This weighed on automotive stocks, as well as on certain raw materials such as lithium.

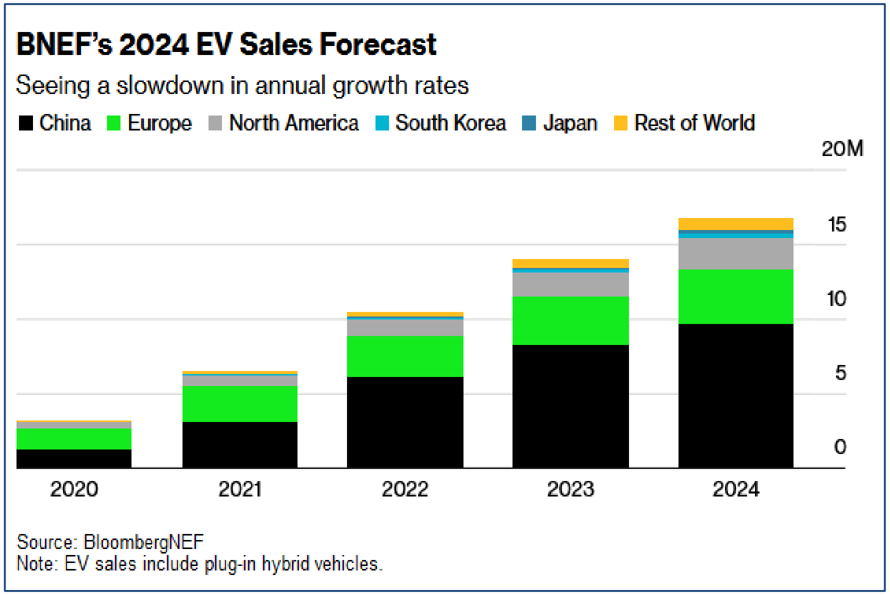
- However, **market penetration may take longer than expected**, especially with some governments moving backwards, such as Germany, which has **cut aid to the sector**. However, the transition is in place and will happen, so this **does not call into question** our long-term convictions.

EV Sales Revisions



Source: Bloomberg

EV Sales 2024 Forecast



Source: Bloomberg

3. Long term views

- Inflation is coming down. Central European and US bankers can relax. Following a surprisingly dovish FED, markets expect numerous rate cuts in the next 12 months. The potential for disappointment is elevated.

- Central banks remain credible but walk on a tightrope. Will they dare to be hawkish if inflation doesn't follow the expected path? In a post-COVID environment, prices are sticky.

- Despite the US regional banks' stress in March last year, the banking system is sound and well-capitalized.

- Most 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, especially in the US.

- In Europe, Germany officially wants a return to sound fiscal policies. There is a high probability that the stability pact could be tricked; Maastricht rules were 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 at a much slower pace than before Covid. Domestic consumption remains weak. Lowering rates won't help, but lower taxes could. The government's focus is to support its industry.

- 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 fossil energy supply when needed, driving fossil prices to the upside. This trend is a boon for commodity producers. Middle Eastern countries will not help the Occident transition toward a world without oil.

- Geopolitical tension and the fight against global warming lead to a capital reallocation worldwide. There is a need for 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

- On the bond markets, low economic visibility and uncertainties about the path of inflation should require a term premium. Inverted yield curves highlight investors' belief that we will quickly return to the pre-Covid economic environment. We like TIPS.

- 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.

- The magnificent seven are priced for perfection; it may be different this time, but we believe that these unrealistic expectations will be disappointed in 2024.

- There are a lot of cheap, double-digit cash-flow yielding companies to be bought.

- Favor companies with high entry barriers, generating strong cash flows and who 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.

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 working on with BRIC countries. It is better to accumulate the yellow metal than US dollars that can be weaponized. Therefore, central bank demand for gold should remain strong.

- 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, we have experienced one of the most powerful rallies in the equity market we have seen in recent years.

- Near the end of October, the stock market plummeted as investor sentiment and confidence took a hit. However, the tide started to turn with the release of encouraging third-quarter economic data and business activity reports, along with corporate earnings results that surpassed expectations.

Equity Indices	% YTD in USD	% YTD in EURO	% 3M in USD	% 3M in EURO
MSCI WORLD	21.8%	18.7%	11.1%	6.9%
S&P 500	24.2%	21.2%	11.2%	7.0%
NASDAQ	43.4%	40.4%	13.6%	9.3%
BRAZIL	30.5%	27.6%	18.7%	14.4%
Euro Stoxx 50	22.3%	19.2%	12.7%	8.3%
Stoxx Europe 600	15.9%	12.7%	10.8%	6.4%
FTSE 100	9.1%	5.9%	6.0%	1.6%
CAC 40	19.6%	16.5%	10.1%	5.7%
DAX	23.4%	20.3%	13.3%	8.9%
IBEX	25.9%	22.8%	11.6%	7.1%
MIB	31.1%	28.0%	11.9%	7.5%
SMI	12.8%	9.9%	9.7%	5.6%
NIKKEI 225	20.7%	17.3%	10.6%	6.5%
HANG SENG	-13.9%	-17.0%	-4.0%	-8.4%
SHANGHAI	-6.6%	-10.3%	-1.6%	-6.8%
RUSSIA RTS	11.6%	8.6%	7.5%	3.3%
VIX	-42.5%	-45.6%	-28.9%	-33.2%

Source: Bloomberg 29/12/23.

4. Market review : Sector Performance Review

- In 2023, the U.S. stock market rebounded strongly. The recovery was driven by robust returns in technology, particularly AI stocks, with major players leading the way. The communication services and consumer discretionary sectors also thrived, contributing to the market's overall impressive performance.

- Overall defensive sectors struggled in 2023, with utilities declining partly due to high interest rates. Consumer staples had mixed returns, with packaged food declining amid pricing competition. Energy sector was rather flat mainly as a result of the drop in oil price in recent months.

Sector performance	Europe % YTD	Europe % 3M	USA % YTD	USA % 3M	World % YTD	World % 3M
Consumer Discretionary	15.9%	5.6%	41.0%	12.2%	35.1%	11.2%
Consumer Staples	1.5%	0.8%	-2.2%	4.8%	2.3%	5.3%
Energy	9.0%	-3.1%	-4.8%	-7.8%	2.5%	-4.1%
Financials	21.5%	7.3%	9.9%	13.4%	16.2%	13.2%
Health Care	8.4%	-0.3%	0.3%	5.9%	3.8%	5.9%
Industrials	27.1%	13.2%	16.0%	12.5%	23.2%	13.8%
Information Technology	34.4%	18.8%	56.4%	16.9%	53.3%	17.5%
Materials	12.4%	10.2%	10.2%	9.1%	14.8%	12.7%
Telecommunication Services	15.1%	4.9%	54.4%	10.7%	45.6%	10.8%
Utilities	13.5%	10.4%	-10.2%	7.6%	0.3%	10.5%

Source: Bloomberg 29/12/23.

4. Market review : FX and commodities performance

	Currencies	
	Against USD	
	YTD	3M
EURO	3.1%	4.4%
JPY	-7.6%	5.6%
GBP	5.4%	4.4%
CHF	9.0%	8.1%
CNY	-2.9%	2.7%
HKD	-0.1%	0.2%
CAD	2.3%	2.5%
AUD	0.0%	5.9%
	Against Euro	
	YTD	3M
USD	-3.0%	-4.2%
JPY	-10.9%	1.4%
GBP	2.1%	0.0%
CHF	6.1%	4.0%
CNY	-6.6%	-2.4%
HKD	-3.2%	-4.1%
CAD	-0.7%	-1.7%
AUD	-3.1%	1.4%
	Against CHF	
	YTD	3M
EURO	-6.6%	-4.2%
USD	-9.9%	-8.8%
JPY	-18.3%	-2.7%
GBP	-4.4%	-4.2%
CAD	-7.4%	-6.1%
AUD	-10.0%	-2.7%
HKD	-10.0%	-8.5%

- Over Q4, US dollar slipped against major currencies on expectations the FED could soon cut interest rates. Meanwhile, EUR is supported by positive sentiment and a falling US dollar.

- On the commodities front, gold followed by coffee outperformed on a YTD basis.

	% YTD in USD	% 3M in USD
WTI Crude Oil	-10.7%	-21.1%
Brent Crude Oil	-10.3%	-19.2%
Gasoline	-14.5%	-13.8%
Natural Gas	-39.5%	-28.1%
Gold	13.1%	11.6%
Silver	-0.7%	7.3%
Platinum	-7.7%	9.3%
Palladium	-38.6%	-11.9%
Aluminum (LME)	0.3%	1.6%
Copper (LME)	2.2%	3.5%
Corn	-30.5%	-1.2%
Wheat	-20.7%	16.0%
Soybean	-14.9%	1.5%
Coffee	12.6%	28.8%
Sugar	2.7%	-21.7%
Cotton	-2.8%	-6.7%

Source: Bloomberg 29/12/23.

4. Market review : Fixed Income Performance

- Bond markets hit lows in late October.
- Softened inflation data and neutral FED policy further contributed to a positive performance across bond markets.
- Following a challenging first 10 months, both bond prices and long-term interest rates reversed direction, resulting in a strong rally.
- Credit spreads tightened and contributed positively to the end of year rally.

	Perf December	Perf YTD	Perf last 3 months	Yield	Duration	Spread
Global						
Global Aggregate	4.2%	5.7%	8.1%	3.6	6.8	50
Treasuries	4.3%	4.2%	8.1%	3.0	7.6	13
Credit	4.2%	9.2%	8.7%	4.6	6.3	106
USA						
U.S. Universal	3.8%	6.2%	6.8%	4.9	6.1	108
U.S. Aggregate	3.8%	5.5%	6.8%	4.6	6.3	43
U.S. Gov/Credit	3.7%	5.7%	6.6%	4.5	6.6	39
U.S. Treasury	3.4%	4.1%	5.7%	4.1	6.3	0
Government-Related	3.0%	5.8%	5.5%	4.7	5.6	49
Corporate	4.3%	8.5%	8.5%	5.2	7.3	101
U.S. MBS	4.3%	5.0%	7.5%	4.8	5.8	49
Pan Europe						
Pan-Euro Aggregate	3.6%	7.5%	6.9%	3.1	6.8	67
Euro-Aggregate	3.3%	7.2%	6.6%	2.9	6.6	76
Asia Pacific						
Asian-Pacific Aggregate	-1.1%	5.9%	0.5%	1.9	7.7	6
High Yield						
Global High Yield	4.0%	14.0%	8.6%	8.3	4.1	417
U.S. Corporate High Yield	3.7%	13.4%	7.2%	7.7	3.8	333
Pan-European High Yield	2.8%	12.8%	5.6%	7.3	3.1	396
Other						
Global Inflation-Linked	4.4%	5.8%	8.6%			
Municipal Bond Index	2.3%	6.4%	7.9%	3.2	5.6	
Emerging Markets						
EM USD Aggregate	4.2%	9.1%	8.1%	7.1	6.4	296
Sovereign	5.0%	11.0%	10.2%	7.8	7.4	365
Corporate	3.1%	6.7%	5.7%	7.0	5.1	277
High Yield	4.4%	13.1%	9.7%	10.2	5.3	606

Source: Bloomberg 29/12/23.

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 56.2% Risky Assets*, 20.4% Investment Grade Bonds in our Balanced EUR model.

Asset allocation	**Equity allocation:** neutral. **Bonds:** underweight. **Cash:** neutral. **Alternative:** Overweight.		
		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**	• Neutral Duration(short-term HY and medium- term IG in Europe).	
	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.	

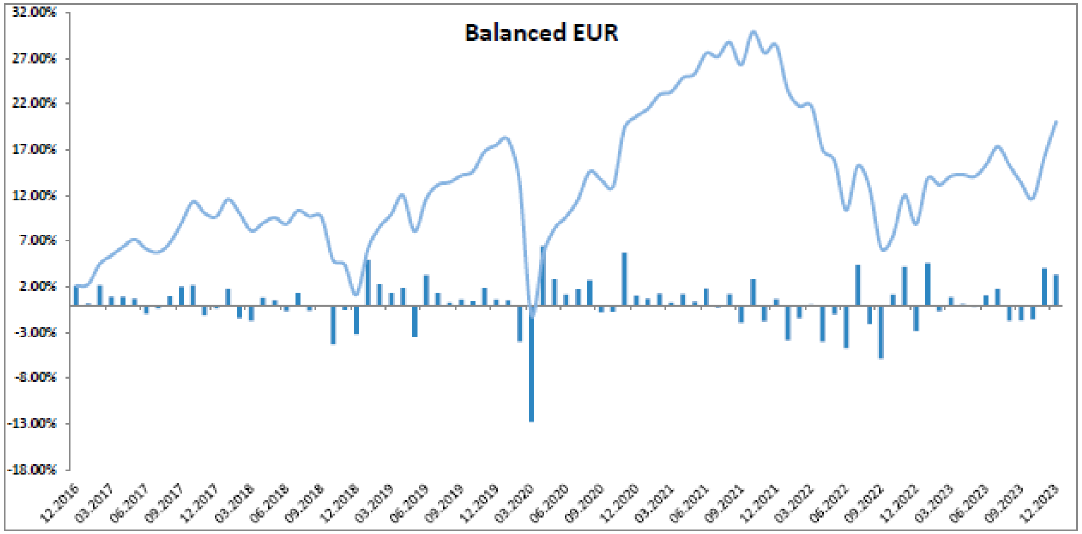
* Risky Assets = Equities + (High Yield Bonds * 0.6 factor)

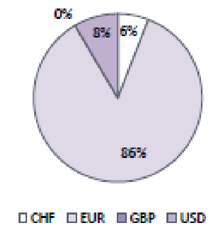
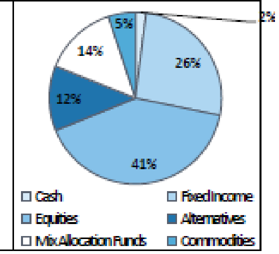
5.2 EUR Balanced Model

Balanced EUR	Current Portfolio Allocation	Benchmark Composite	Model Portfolio
Asset classes	**Current**	**Neutral**	**Range**
Cash	**2.0%**	**5**	**0/20**
Fixed Income	**26.2%**	**45**	**15/50**
Investment Grade	18.2%	45	0/50
High Yield	4.4%	0	0/20
Convertible bonds	0.0%	0	0/20
Other	3.6%	0	0/20
Equities	**40.7%**	**50**	**20/60**
Switzerland	5.9%	0	0/60
Europe	14.8%	30	0/60
UK	0.0%	0	0/60
USA	3.8%	20	0/60
Japan	0.0%	0	0/20
Emerging Markets	4.2%	0	0/20
Equity themes	11.8%	0	0/60
Commodities	**5.1%**	**0**	**0/10**
Alternatives	**12.2%**	**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	13.83%	Mix Allocation F	EUR
Weisshorn Funds Global Bonds EUR	8.56%	Fixed Income	EUR
Silex Flexible Bond Fund - I - EUR	5.24%	Fixed Income	EUR
Weisshorn Humanity Challenges Equity-A (EUR	4.79%	Equities	EUR
Mirabaud Global Strategic Bond Fund I Hedged	4.45%	Fixed Income	EUR
M&G EM Bond Fund (class C - EUR - Hedged -	4.39%	Fixed Income	EUR
Total SA	3.93%	Equities	EUR
Airbus Group SE	3.87%	Equities	EUR
Alphabet Inc A	3.83%	Equities	USD
CS (Lux) Cat Bond Fund EBH EUR	3.60%	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%	-1.66%	-1.52%	4.04%	3.35%	10.31%

Conclusions

- Consensus is expecting a **soft landing**, wishful thinking?
- Thanks to a bearish trend on inflation, central banks should start to **pivot in H1**.
- **Geopolitical tensions** are set to remain. This will impact **supply chains** and military budget in the long run.
- Highly leveraged companies may face **refinancing difficulties**.
- More than ever, look for **decorrelated** and long duration assets.

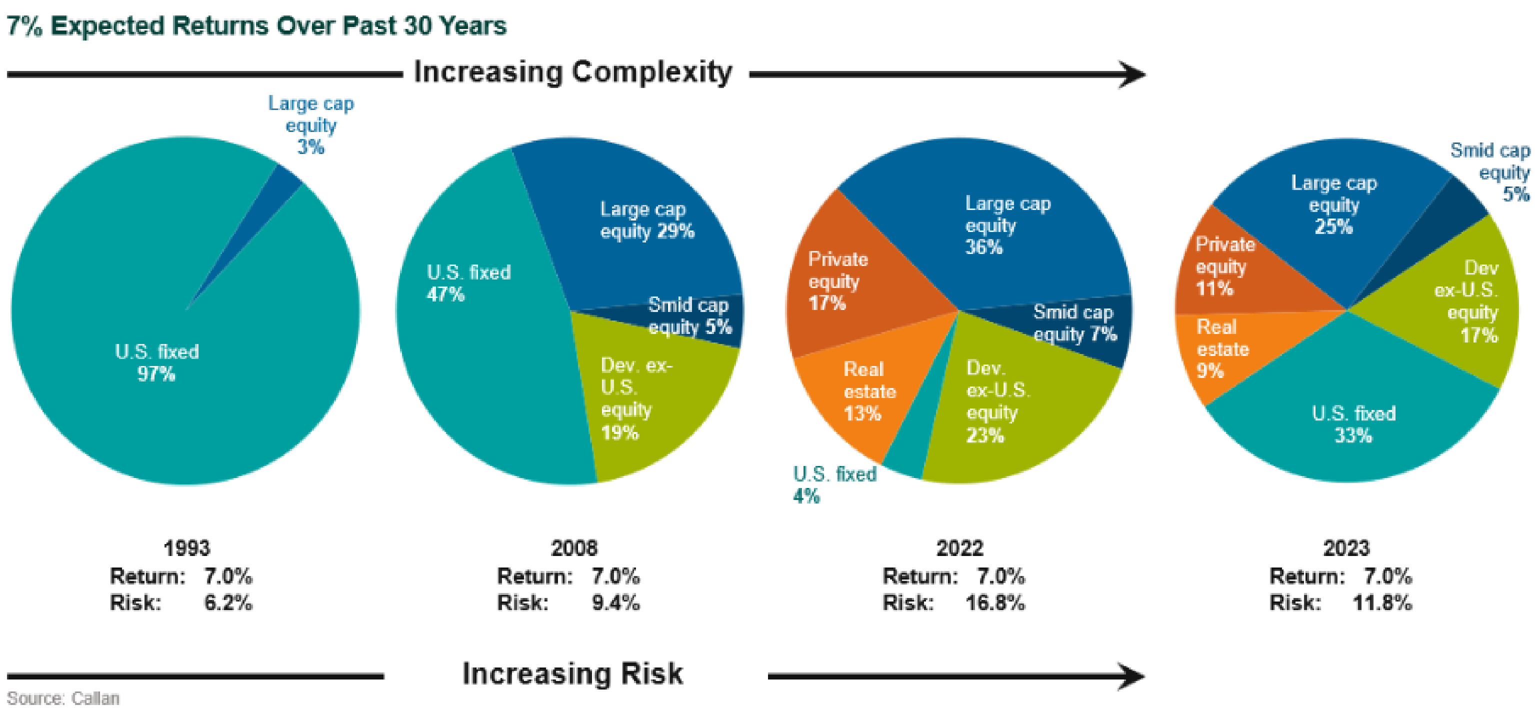
Appendix

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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