IX-7 Asset Management SA

Q 01 / 2022

Quarterly Investment Review and Outlook

Mistakes are the portals of discovery

When we edited our previous report some 90 days ago, few expected that an armed conflict would soon take place in Europe.

However, that is exactly what is happening.

Quarterly Report – Q01/2022

At a glance

Review – 1st quarter of 2022

a) Macro

- Leading indicators have peaked. On the back of historic fiscal support and a cautious monetary policy, activity remains at relatively high level.
- The expansion phase is over and we have entered the consolidation phase.
- Inflation is high due to the persistence of bottlenecks. Its normalization will take time – we estimate 12 to 18 months.
- Stagflation or recession are to be the next economic scenario of concern.

b) Earnings

- Companies have continued to deliver strong topline figures! Margins may have peaked on the back of rising input costs, but due to strong demand, most companies have been able to pass price increases on to their final customers until now.
- Earnings should decelerate progressively, in line with a normalization in the pace of activity.

c) Monetary policy

- The Fed has started to taper as inflation has accelerated disproportionately. Current Fed hike expectations (8x 25bp between now and the start of 2023). However, the low level of real rates (~1%) is surprising. As of now, it appears that the Fed is late in taking action as the yield curve.
- The ECB reduces the pace of its asset purchases. The PEPP has ended as planned in Q1/2022. If needed, asset purchases will be possible under the Asset Purchase Programme.

d) Main risk:

- Moving from a COVID world … to a new era of Cold War.

  The Ukraine crisis is evolving rapidly, but we do not expect a ceasefire any time soon. Russian troops, while they have lost some ground, are entrenched in the eastern part of the territory and in areas close to the Black Sea/Gulf of Azov.

  At the time of writing, the outcome remains uncertain. Until a new stalemate is reached, the ongoing crisis will be source of continued market volatility, as reflected in current energy markets.

  We expect the barrel price to fluctuate between $90/bbl to $200/bbl; with COVID still flaring up in Asia, the barrel price will most likely stabilize at the lower end of the range. In consequence, the global economy is being exposed to a growth shock. Rising input prices impact inflation by about 15%, and labor costs account for 70%; the remaining 15% can be attributed to other factors. In this scenario, consumer confidence may decline, resulting in a period of stagflation (significant inflation, high unemployment, and slow-to-no economic growth).

  Crises do not prevent equities from climbing higher over a medium-term horizon, but typically, crises ***do*** create higher market volatility. Diversified asset allocations experience this kind of stress during a period of up to 12 months. However, risk premiums in markets may remain elevated for a prolonged period of time, as a number of secondary consequences could come into play:

  - A stalemate in the conflict could linger, resulting in an enduring geopolitical shift;
  - Sanctions could be taken as a pretext by other nations to dispute military territorial claims (China/Taiwan);
  - The economic impact of sanctions could result in the Central Banks being late with rising interest rates (to tame the expected rise in inflation).

Top-down view: April 2022

The first three months of the year have painted a mixed picture for investors, with global geopolitical concerns coloring the overall investment environment. To begin with, let's examine the fundamentals that we expect will come back into focus once the Ukrainian crisis abates.

As we head into the 3rd year of economic recovery, central policy is expected to shift towards reducing global liquidity and managing the inflation outlook. However, given the unprecedented conditions, central banks will struggle to find equilibrium. On one hand, if liquidity reduction and the hiking of interest rates occur too swiftly, the economy will slow down, resulting in job losses, a reduction in discretionary spending, increased loan defaults, and so on. On the other hand, if interest rates are not adjusted and liquidity is kept high, cheap and abundant funding will allow consumers to continue to spend while prices continue to increase over a given period of time. At the moment, this scenario seems quite distant, as the market has a well-developed sense of what is good over the long term.

As we head towards the 2nd quarter, the tightening of financial conditions may get delayed and the performance of risk-on assets may surprise – especially for long-duration stocks – as fourth quarter earnings reports were outstanding overall. Although some headlines have featured a few earnings misses, the overall earnings outlook is good, and the corporate world is healthier than it was back in 2020.

Areas of Opportunity

Despite lower expected returns for 2022, there are openings for all types of investors. Let's drill down into the most valuable opportunities in the market:

US Value Stocks: Although we continue to favor growth stories related to secular growth trends in the field of Next-Gen Connectivity, global value stocks offer a reasonable short-term opportunity. On the back of a prolonged period of higher-than-expected inflation, these companies could potentially offer value buckets providing outperformance for a given period of time.

U.S. Growth Stocks: Well-established mega-cap technology stocks have underperformed the broad market year-to-day. Currently, many of these technology companies – most of which are cash-rich and can endure a prolonged period of lower-than-expected revenues streams – are trading at attractive valuations. The most valuable opportunities are related to companies operating in the field of connected devices – from electric vehicles to smart-home devices and medical monitoring systems. All these enablers are still grappling with a shortage of semiconductor chips, a deficit expected to extend well into 2023. As a result, the pricing power will be relatively high.

Europe: It is true that European stocks are cheaper, and most have a strong value bias. Pending geopolitical developments, European equity markets may continue to remain cheap. Long-term investors may consider engaging with companies in the energy and materials sectors, which should be benefiting from the oncoming disrupted demand-offer conditions.

Asia ex-Japan: Because Asian governments have greater involvement in directing prices of prime products than elsewhere, inflation is perceived differently. In addition, consumer spending is still somewhat limited because of ongoing COVID restrictions. However, on the positive side, supply chain disruption is less of an issue in Asia than in Europe or the United States. While the broader region has underperformed the global market by about 30% since 2016, we nevertheless believe that Asian markets are currently a suitable opportunity for assets that don't need to be invested in Europe or in the US.

Credit: In the coming weeks, geopolitics are likely to impact credit spreads, but we do not expect this to last for a prolonged period of time. This occurs on the back of a largely positive credit momentum, reflecting favorable financing conditions and a powerful economic recovery. Longer-term credit risks include persistently high inflation and market volatility, which would undermine a regular market evolution, particularly for the more leveraged corporates and some emerging markets.

Consumer-Spending: Until now, the generation of consumers between 35 and 54 years of age did most of their spending on discretionary items such as apparel and travel. However, this consumer spending behavior is expected to shift, as millennials tend to have different priorities.

For example, experiential spending such as travel, apartment refurbishment, and healthy living are expected to stand out on the back of highly efficient e-commerce and direct-to-consumer channels. Despite inflationary trends, targeted investment opportunities appear valid. These opportunities are on companies with above-average sales growth and above EPS appreciation which they can achieve through subtle pricing power.

The bottom line: At this time, we do not have a strong view on the Russia/Ukraine situation as it relates to the equity markets. Even so, we believe that much of the bad news has already been priced in at this point, and that the market has made its correction sell-off. Therefore, we would consider re-entering the market at this time.

Subjects of interest:

Is it the end of globalization?

In his most recent book *The Changing World Order*, Ray Dalio (founder of Bridgewater Associates) argued that the peak of the American empire occurred somewhere between 1970 and 1980. More recently, Larry Fink (CEO of BlackRock) wrote in his annual shareholder letter that the Russian invasion of Ukraine has put an end to the globalization we have experienced over the last three decades. Lastly, Mr. Putin mentioned that Russia will seek payments for its commodity deliveries in rubles; Saudi Arabia did the same with China, who is requesting payments in CNY. This directly challenges USD supremacy for world trade.

What are the investment ramifications of this?

First, on the back of a disrupted supply chain, prices for commodities and other base materials are expected to remain elevated. In order for companies and nations to become less dependent on third parties, they will be expected to relocate and onshore their operations to regions closer to their key consumers. All this will drive up inflation and subsequently, interest rates.

And what about the USD as the world reserve currency? Until very recently, holding onto the US dollar was most likely an effective portfolio hedge. Given the present backdrop (war in Europe and interest rates rising faster in the US than in the EU), one might have expected the USD to appreciate massively against the euro. Yet, a mere 3% to 5% appreciation occurred in the weeks prior to the start of the war.

We don't think that the global world economy will stop growing, but interchanging one major piece of an engine can make it run less smoothly. It is a fact that developed countries run their debt/money flow/capital market allocations at highly optimized levels – any disruption may lead to redistribution of upcoming opportunities. The question of where those opportunities will appear is therefore warranted.

Positioning of portfolios

The war in Ukraine is likely to have meaningful longer-term consequences. With immediate effect, one can expect more governance and security; the cost of these will be less efficiency and higher prices. In turn, opportunities will emerge in areas such as cybersecurity, energy security, food security, automation and robotics, and semiconductors.

Food security
The food chain is a triangular relationship between customers, regulators, and food producers and transformers. The disruption caused by the Russia/Ukrainian conflict has impacted the entire relationship. Producers and transformers lack base products such as fertilizers and wheat, regulators need to prepare and adapt for new cross-border guidelines regarding food importation and distribution, and ultimately, consumers will pay the bill.

We think that reinventing the food chain, to bring it closer to the consumer, is likely to attract investments. Addressing requirements such as yield, food waste, and efficiency is probably the best response to disruptions impacting the prerequisites for optimal harvest results. The future opportunities include digital technologies that ensure safety, production transparency, and estimated consumer trends.

Energy security
Higher commodity prices are likely to put upward pressure on inflation. While such changes are highly visible for food and energy, they are also felt to a lesser extent across the entire discretionary segment. The current spike occurs on the back of Russia's invasion of Ukraine. This prompted a strategy shift on the part of Western Chancelleries away from purchasing commodities from Russia. This attitude change is accelerating the green-energy technology park; and in particular, we see opportunities in 1) clean energy, 2) energy efficiency and digitalization, 3) electrification and batteries, 4) bioenergy, 5) intermediaries

like financials, 6) hydrogen, and 7) carbon capture, utilization, and storage. The last two opportunities are particularly interesting as they are in an early stage, have a high-entry point in terms of technology, and are capital intensive to start with.

Cybersecurity
During the last two years, internet users, companies, and private users have experienced an ever-increasing degree of cyber threats. In response to these developments, companies, governments, and private individuals are allocating more resources to combat cyberattacks. This, in turn, will fuel both solid growth opportunities and M&A activity.

Key considerations:

Russia and China's idea of a "New Global Order" is a systemic threat to liberal democracies, as illustrated by the war in Ukraine. Cyber-threats are part of Russia's asymmetrical response to the sanctions taken by the West. Still, one can expect Russia to become mothballed and economically neutralized for a given number of years, which means that longer-term, geopolitical attention will shift back to the United States vs. China.

In this context, countries and companies will have no choice but to rethink their defense strategies and significantly beef up their defense capacities. This includes a wide-ranging cybersecurity strategy.

The present addressable market in 2022 is in excess of USD 50 billion; furthermore, it is expected that security-related investments will increase by 9.5% (on average between now and 2025), which is well above the 5% for standard software licenses.

Semiconductors
Based on an aggressive Fed interest rate cycle, slower growth, and now, some geopolitical issues, some high-quality information stocks have declined by more than 20%. At the same time, there is ongoing investment in enabling the roll-out of 5G in applications such as the metaverse, autonomous driving, and artificial intelligence.

While there is reason for caution, we believe there are valuable opportunities investors can grasp now. Enablers (particularly semiconductor, semiconductor equipment companies, and e-commerce) have led a broad-based price decline, partially reversing the out-performance of 2021. However, notwithstanding concerns of lower consumer demand, we believe fundamentals for these companies are still in place. The 2022 EPS growth is above market average and this should ultimately be recognized by the market.

Automation and robotics
Since 2016, automation and robotics have been one of our favorite secular growth trends. The theme consists of a mix of industrial and IT (semiconductor) firms, which tend to interact in tandem. Both sectors have undergone a lasting transformation since the start of the pandemic, mainly because of the global supply chain's vulnerability. Given the current crisis, we expect that relocating production facilities closer to the consumer will become a key initiative for most internationally oriented companies. The process of automation is far reaching; it stretches from mining, oil and gas, and manufacturing facilities to distribution of consumer-ready products.

Currencies
The dollar is currently overvalued against the euro and other currencies. However, given its predominant status und the current backdrop, we would only see moves below USD 1.08 per euro as an opportunity to buy the single currency.

Investment recommendations by type

1. Equities:

Short-term view: - Neutral to positive

Medium-term view: - With the market correction mostly behind us, we believe equity markets are now truly at their fair value! We remain strongly positive on strong secular trends; in particular, 5G, IT security, e-commerce, and payments.

2. Bonds:

Short-term view: - Neutral

Medium-term view: - With the market exposed to interest rises and inflation risks, we favor BBB and single A debtors from emerging markets, yielding in the range of 3% p.a. We recommend a focus on companies with strong historic cash-flows and government-related corporations that benefit from a quasi-government guarantee.

3. Credit:

Short-term view: - **Attractive**

Medium-term view: - With spreads for high grade, opportunities have reached new highs. While Central Banks aim to keep ample liquidity in place, the environment for key companies (as represented by the main index) is expected to be positive for corporations.

4. Metals:

Short-term view: - Neutral to positive

Medium-term view:
- Neutral to positive: Historically, metals are a refuge play; however, this has now materialized on the back of higher inflation world-wide.
- The demand for alternative energy sources should be supportive of metals.

5. Commodities:

Short-term view: - Neutral to positive

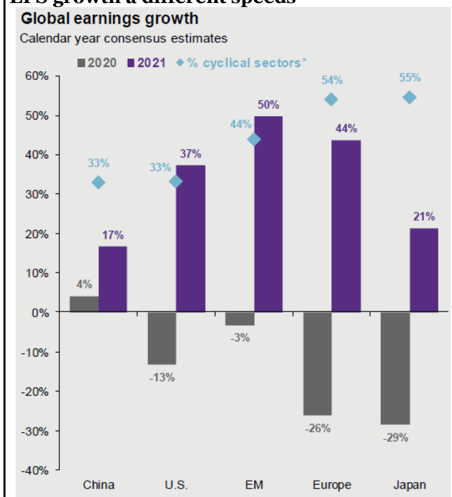
Medium-term view: - Commodities are attractive in case of a prolonged period of high inflation.

6. Structured solutions:

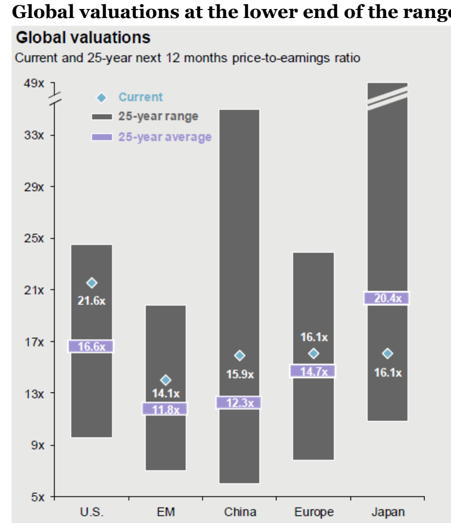
Short-term view: - Conditional capital guaranteed products offer an ideal risk/reward, as markets have corrected while volatility remains elevated.

Medium-term view: - Longer-term investors should consider capital guaranteed long-short strategies that benefit from the increased dispersion between technology-related business opportunities and traditional business models.

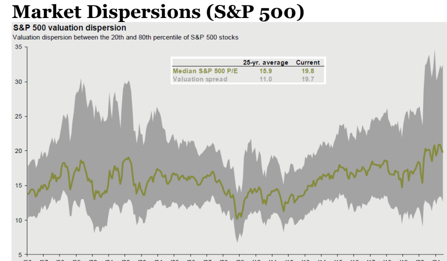
EPS growth a different speeds



Global valuations at the lower end of the range



Market Dispersions (S&P 500)



Investment recommendations by theme

1. Cybersecurity

Short-term view: - Positive

Medium-term view: - **With cybersecurity taking center stage for both corporations and governments, companies in this field are expected to perform well during all prolonged periods of turmoil.**

2. From monetary policy to fiscal policy

Short-term view: - Neutral

Medium-term view: - Fiscal and monetary policies are expected to be very accommodating for the quarters to come.

3. Volatility

Short-term view: - Neutral

Medium-term view: - Volatility has moved from historically low levels to above average. Further temporary spikes may occur.

At present, there are few triggers left that could further disrupt the market.

4. Global order – a quick shift

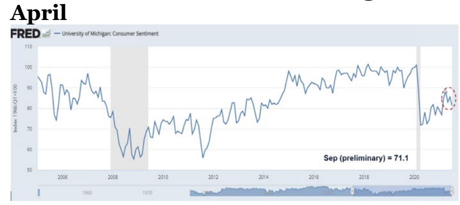
Short-term view: - Neutral

Medium-term view: - With the geopolitical picture having dramatically shifted in less than quarter, industry sub-sectors such as "Defense" have regained our attention.

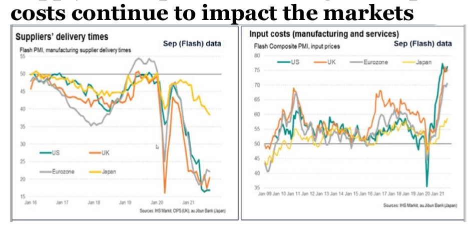
In particular, our key attention goes to European nations which, by definition, are under-equipped militarily in many areas. While providers of traditional systems may not be able to take up major allocation, investors are advised to look out for alternative and mixed system providers.

We expect re-armament to become a new multi-year investment trend.

Consumer confidence declining since April



Supply disruptions and higher input costs continue to impact the markets



Market-by-Market View

United States:

Even prior to the Ukrainian crisis, equity markets had a volatile start to the year. Even so, profit reports remain strong but toppish. In fact, higher interest rates are putting pressure on valuations, particularly on long-duration assets. The speculative mood of 2020 and 2021 has quickly pivoted to an exaggerated value approach. Keep in mind that value companies often rely on outdated technologies; as a result, they may fail to capture new business once sentiment shifts.

U.S. stocks continue to trade at a premium. We expect the market to remain volatile, with wider-than-usual premiums for faster-growing companies. On the back of the present crisis, we continue to prefer information technology and the energy sector. IT provides the best possible growth opportunity, even as most companies generate free cash flows. Despite its higher degree of volatility, IT offers a relatively safe trip.

As mentioned above, we are also keen on energy companies. During the early stages of the pandemic, oil prices turned negative as demand collapsed. On the back of the supply-demand imbalance, the energy sector's valuation shrank to a multi-decade low.

However, with energy prices rising, energy stocks have bounced back with outperformance. This time, the outperformance is based on better capital allocation and a true capital allocation discipline. Unlike in the past, energy companies are now providing strong cashflows, resulting in increased share buybacks and higher dividends.

Europe:

Another speed bump for Europe!

The backdrop of European equity markets has changed considerably. As the continent gets its house in order, new priorities include accommodating war refugees, addressing higher-than-expected inflation, and handling the downward spiraling GDP and EPS figures. On the back of these critical factors, stagflationary conditions are expected to build up across a number of EU countries, and these may become the predominant subject of interest.

YTD, European stocks markets are down by about 20%; the market is therefore pricing in much of the bad news to come. While valuations offer an attractive entry point for longer-term investors, any new exposure into the European markets will remain highly tricky, as sentiment can quickly shift between hope and fear. Statistically, the EU market takes about one full quarter to digest bad news flows prior to reaching a tentative turning point.

Should a stagflationary scenario become the reality, we would consider exposure to commodity-related businesses, as well as defense-oriented companies which should benefit from the re-armament of Europe. Alternatively, one might consider companies with strong pricing power. In the European context, sectors that are currently raising prices to expand their margins, even in the face of rising input costs, include airlines, brands, hotels, telecoms, and tobacco.

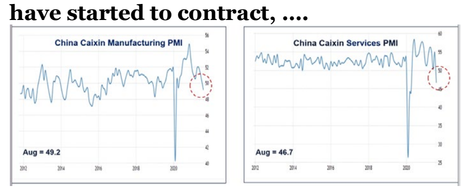
Switzerland:

Investors in Swiss equities should focus on companies with global industry leadership, innovative business concepts, and solid balance sheets. The Swiss market has shown its resilience during the pandemic, and most of the referenced companies harbor significant upside opportunities.

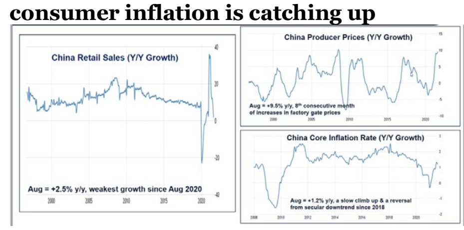
The Swiss market is an export market; therefore, most companies have a heavy export taint. Because of the high-tech products provided by Swiss companies, this export dependency is indirectly related to the wellbeing of EMA. Example: Europe is still the most important trading partner, alongside the US and China. Exports to the neighboring state of Baden-Württemberg alone amounted to the same volume as exports to China in 2019. And yet, Baden-Württemberg is a key exporter to EMA.

Against the current economic backdrop, stock selection is important. Swiss companies are normally valued above average because of their quality and reliability. Given elevated valuations and a relative high valuation dispersion, we recommend a good portfolio mix of defensive underlying assets and cyclically sensitive supplementary securities. Also, tactical allocation should a key driver, given the disparate macro trends observed.

Chinese Manufacturing and Services have started to contract, ….



…retail sales remain weak, and consumer inflation is catching up



Emerging Markets/China:

China:

Emerging assets fell in the face of a stronger US dollar and renewed lockdowns in China. Uncertainty over China's economy – which is grappling with slowing private investment, property-sector debt and regulatory crackdowns – also weighed on broader emerging markets. This comes at a time when other emerging central banks – such as Korea and South Africa – have started raising interest rates.

Emerging markets are facing a number of challenges near-term, but these obstacles are not insurmountable. Given the year-to-date correction and the overall negative sentiment in the market, we believe that EM offer one of the best risk-reward opportunities at the moment. Valuations have been driven below the long-term trends, offering patient investors handsome compensation for any risk they undertake.

Other EM:

At first glance, there seems to be very little room for optimism in LATAM. After all, late last year, a combination of bad weather, supply chain disruptions, and inflation fears caused most of the region's countries to slip into a recession

Even so, as a result of the pandemic, many countries enacted important reforms, including privatizing some state-owned assets, thereby attracting more foreign investors. In addition, many markets experienced deep sell-offs, creating valuable opportunities to invest in undervalued companies that benefit from higher raw material output prices.

Communications Services

The sector is heavily exposed to new technologies that drive brand new secular growth trends. As time advances, structural changes in advertising and streaming will go beyond what we can even imagine at present. In particular, the metaverse blurs the lines between our physical and digital lives, potentially transforming day-to-day activities such as advertising, e-commerce, entertainment and education.

While the sector offers an attractive long-term opportunity, it is experiencing slowing subscriber growth due to demand, pull forward, market saturation, and competition. However, we believe that any fears and subsequent valuation adjustments are overplayed. Based on long-term average ratios such as PE and EV/EBITDA, valuations look attractive now, as significant scaling benefits should enable healthy growth in the future. Regulatory issues such as data protection are key, and we believe the industry will be equipped to meet the challenge.

Longer term, we believe the ongoing expansion of 5G could further increase growth within the Communications sector, with continually increasing demand for equipment and services. Upgrading networks will require substantial capital investment, but federal government infrastructure initiatives could result in subsidies and investment.

About the Metaverse:
The metaverse evokes a virtual world where avatars drive digital cars and use non-fungible tokens (NFTs) to buy items for their day-to-day *imaginary* lives.

While such virtual commerce may seem irrelevant, the immediate applications of the metaverse are more tangible. The metaverse is expected to primarily operate as an advertising and e-commerce platform for offline products and purchases to meet our day-to-day *real-life* needs.

Consider the fact that in the US alone, advertising and e-commerce represent an estimated $8 trillion opportunity to monetize consumer spending. This spending includes everything from games and music to apparel, automobiles and real estate. Some of the proposed metaverse applications are already part of our day-to-day aspirations. Example: Imagine walking through your new home with the architect who explains the benefits of the blueprint, most homeowner discover their house only when they moved in. This and similar opportunities will not only push the technology further, but also unlock 6G availability even sooner.

Positives for the sector:
- Social media has a competitive advantage.
- 5G rollout should boost growth potential, but companies face near-term high capital expenditures; government subsidies and investment may help.
- Social distancing has accelerated demand for streaming content.

Negatives for the sector:
- The antitrust regulatory trend is negative for search engine and social media companies.
- There is potential for increased social media regulation (for example, the Section 230 legal shield is under scrutiny).
- Streaming services risk market saturation.

Investment opportunities:
The sector should continue to benefit from the shift of ad dollars to digital platforms. However, due to the defensive nature of telecom companies (around 20% of the sector) – combined with uncertainty related to antitrust issues – the sector is likely to perform in line with the market.

Short-term, we believe many Communication Services companies currently face risks that outweigh their potential rewards, which is why we have a “hold” rating on most of the sector’s companies (GOOG, DI, NFLX, FB, AMZN).

Basic Materials

The Materials sector is sensitive to fluctuations in the global economy, the US dollar, and inflationary pressures. Accommodative monetary and fiscal policies are underpinning global economic growth and pricing power.

Since the outbreak of COVID-19, the US has experienced its fastest economic growth in the last 40 years. This growth was a result of massive policy measures, which are now translating into a higher rate of inflation and interest rate increases. In turn, these economic trends boosted the value of the US dollar against global currencies such as the EUR and GBP, amongst others. The strength of the USD is reducing the cost of imports, which tends to curb inflation.

While the Materials sector has experienced a strong performance YTD, it may face some headwinds moving forward. Still, given the current geopolitical shift, the Materials sector's relative and absolute attractiveness looks promising as one of the main opportunities consists of rebuilding infrastructure to meet electric vehicle (EV) requirements.

One of the main requirements of the EV project is copper. Typical EVs contain four times as much copper as a vehicle running on an internal combustion engine. Increased demand for EV batteries could also provide a long-term benefit for miners of the lithium, cobalt, and nickel needed to make those batteries.

Another segment of the materials sector that stands to benefit are producers of aggregates, such as crushed stone, gravel, and sand. Aggregates are some of the most basic construction materials and are primary ingredients for roads, bridges, and buildings. Aggregates comprise more than 90% of asphalt pavement and up to 80% of concrete mix. Highway construction will boost demand for aggregates and should directly benefit some companies that supply construction materials. All told, the ramifications of implementing EV are far reaching; one may expect the balance sheet of many companies to be well in the black.

Positives for the sector:

- Improving global economic growth has supported industrial metals and chemical prices – though this appears to be moderating in China.
- Cyclical-value sector characteristics tend to be favored in the expansion phase.
- US clean energy and infrastructure spending could spur demand.
- Recent sector performance weakness has improved valuations.

Negatives for the sector:

- The slow recovery of the oil rig count is a headwind for chemicals, and high energy prices have raised the cost of chemical production.
- Momentum has weakened recently.
- Significant supply chain bottlenecks may be constraining economic growth.

Risks for the sector:

- An increase in global COVID-19 cases
- Potential stringent environmental regulations
- Strong US dollar and/or weaker-than-expected economic growth

Investment opportunities:
This sector is one of the most correlated to global industrial production; that is, as economic data strengthens, sentiment should improve and be a positive driver. However, higher materials pricing (e.g., steel) is likely unsustainable at current levels, and could lead to future stock underperformance.

Earnings momentum has continued to improve, supported by accelerating industrial production and rising commodity prices. Valuations have re-rated and are now relatively expensive versus history, but still remain reasonable relative to other cyclical sectors. We also expect that the chemicals and construction materials sub-sectors will benefit from the EU's sustainable investment plans.

At present, we favor the following companies to consider: Air Liquide, BASF, DSM, and Linde Plc.

Consumer Discretionaries

The Consumer Discretionary sector, typically sensitive to swings in the economy, had both its winners and losers with the onset of the pandemic. It continues to be underpinned by ongoing economic expansion, but has slowed recently. In 2020, massive stimulus efforts and stay-at-home orders spurred a surge in spending on home improvement and e-commerce sales. Even though that pace has slowed, higher wages and a boom in house prices continue to support demand.

However, another supply chain distortion is expected to hit the consumer discretionary sector. Shifting consumer activities made items such as semi-conductors or construction wood rare articles. Sectors that benefit from both cyclical and strong secular growth such as e-commerce opportunities are impacting the results of consumer discretionary companies, which are highly tilted towards to a small handful of companies such as Amazon and Tesla.

The full impact on the sector of the Russian invasion of Ukraine in late February is for now unclear. Our best-case scenario anticipates a lingering conflict with no medium-term resolution. Therefore, input prices for raw materials are expected to rise, financial conditions are set to tighten, and interest rates to rise faster than expected, driving the relative performance of the sector.

Positives for the sector:

- Vaccine distribution and ongoing economic recovery are positives for many of the more traditional discretionary industries.
- The shift away from brick-and-mortar is likely to continue to support fundamentals for online retailers.

Negatives for the sector:

- The sector is overly concentrated in internet retail and automobiles.
- Valuations and investor enthusiasm appear stretched; higher interest rates may weigh on both.

Risks for the sector:

- Antitrust action is possible for the largest online retailers.

Investment opportunities:

Consumer Discretionaries are key beneficiaries of reopening the economy. Nearly USD 2 trillion in excess consumer savings looks poised to be unleashed as the pandemic winds down. The sector is also benefiting from strong secular growth in e-commerce. Low mortgage rates bolster the outlook for housing-leveraged segments.

We favor companies that benefit from "stay-at-home," such as Amazon, Nike, Deckers Outdoors, Adidas, LVMH, and Inditex.

Consumer Staples

Consumer Staples is a classic defensive sector that did its job protecting portfolios during 2020; the same applies now during the Russian/Ukrainian crisis. The sector is attractive given the relative appeal of the more defensive and larger-cap stocks within the sector. On balance, we think the macroeconomic impact on the Consumer Staples sector is neutral relative to the other sectors.

Europe: Robust growth and rising yields are relative headwinds for this defensive sector. As of now, the sector is dealing at a forward P/E of over 20, which indicates that it is expensive when compared with historic valuations. More importantly, forward EPS guidance and earnings revisions continue below market average.

USA: The sector tends to underperform in a time of recovery, as profits rebound more quickly in cyclical sectors. We expect that profit growth within the sector will likely lag the overall market starting in the second half of this year.

Positives for the sector:

- It typically has a stable earnings profile.
- Companies have engaged in aggressive cost-cutting.
- During periods of strong economic growth, Consumer Staples can leverage strong pricing power (as of now: positive in the USA, negative in Europe)

Negatives for the sector:

- Historically, an improving economy and strong stock market have typically made this defensive sector relatively less attractive to investors.
- Companies tend to have limited pricing power in a low-inflation environment.

Risks for the sector:

- Additional government stimuli and successful distribution of COVID-19 vaccines could further support the economy and reduce stay-at-home food and staples demand.
- A rise in interest rates, combined with stronger-than-expected economic growth, could result in underperformance.
- Inflation pressure is limiting a broad-based upside swing of the sector.

Investment opportunities:
The sector has been one of the best performers since equities began to plummet after the February 19 peak. Demand should remain relatively resilient for products that satisfy everyday needs, despite disruption to the economy. However, other sectors of the market appear better positioned if markets begin to bottom.

Given the overall competitive outlook for the sector, investors should seek companies with strong balance sheets, low financing costs, and a strong focus on products and services. Because of high absolute valuation and limited upside potential, high yield dividend stocks are at risk; companies to consider include AD, ABI, BAT, NESN, EL, MO, and PM.

Key figures for Europe:

Target values:
Present fair value (DJStoxx600): 456 (31.03.22)
E12 months value (DJStoxx600): 450
Upside potential: flat

Key economic ratios:

GDP Growth 22 (E)	1.8
GDP Growth 23 (E)	2.0
CPI 22 (E)	7.5
CPI 23 (E)	4-5
P/E 2022 (E):	18.5
P/E 2023 (E):	15.7
Div. Yield 2022:	3.3
Div. Yield 2023:	3.4

Most likely next short-term move:

DJStoxx600	flat/down
DJStoxx50	flat/down
SMI	flat/down
DAX	flat/down

Key names to look at:

Strong intellectual property:
- Roche
- Novartis
- Amadeus

High competitiveness:
- Siemens
- Daimler
- Gemalto
- Richemont
- Swatch

Sustainable dividends:
- ABN-Amro
- Imperial Tobacco
- Altria
- Philip Morris

Information technology

Rarely does a sector have everything going either for or against it, and that is certainly true of today's Information Technology sector. The sector boasts impressive profitability – the best across all 11 S&P sectors. More importantly, it is well positioned in the context of economic growth – even at a slower pace. Finally, we like its compelling fundamental and strategic outlook; inflating input and labor costs are spurring businesses to accelerate.

Near-term, secular trends in cloud computing – leading to enhanced use of VR, AR, AI, robotics, and 5G, amongst others – remain strong. In addition, enterprise IT spending – mainly around IT security – should be well-supported by strong corporate profit growth. However, the outlook for higher interest rates will likely be a headwind for valuations, especially considering that for a good number of companies, the market has applied long-duration valuation models.

According to an MS research paper, some 40% of surveyed CIOs reported IT budget increases since the beginning of the year, versus 26% indicating decreases. This is one of the highest positive ratios since 2018. The report also shows some of the expected allocations:

- Spending priorities: Cloud Computing, Digital Transformation, and IT Security. While IT Security is not top ranking in terms budget allocation, it is the segment that will not suffer cuts due to eventual budget constraints.
- Structural trends are driving spending decisions: Software related spending is outpacing hardware related spending.
- US related spending outnumbers EU related spending

Positives for the sector:

- Companies generally have strong balance sheets and earnings growth potential, with low funding costs.
- Home office, financial services technology, and surging online retail are supportive of cloud-computing infrastructure and software.
- Long-term growth tailwinds are expected as businesses enhance productivity with tech investment.
- Companies in the technology sector tend to outperform the larger market for a long period of time

Negatives for the sector:

- Valuations are very stretched relative to the historical average, making higher interest rates a significant headwind.
- Capital expenditures are weak, albeit improving.
- Semiconductor prices are rising amid low supply and hoarding.
- The sector is highly concentrated in a few stocks.
- For the most highly regarded companies, valuations have expanded dramatically.

Investment opportunities:

The near-term is highly uncertain due to COVID-19 and the war in Ukraine. It should be opportune for investors to focus on technology companies that have attractive longer-term growth opportunities due to being established franchises in large and secularly growing addressable markets, such as software, cloud, and security.

Secular trends remain strong, and tech profits will likely recover to peak 2019 levels more rapidly than any other sector. However, valuations are high, and the sector's defensive behavior during the pandemic gives us less conviction that it will outperform in the ensuing economic recovery.

In this vein, we highlight Microsoft, Palo Alto Networks, Salesforce.com, Splunk, Fortinet, and Accenture. Investors looking for small cap exposure may look at Okta, Twilio, Block, Zuora, and Etsy.

Energy

As the conflict between Russia and Ukraine drags on, ramifications for the energy and raw material sectors are becoming evident. In particular, Germany depends on Russian gas for as much as 42% of its needs. Secondly, in the initial phase of sanctions, deliveries from Russia continued as they had previously; however, it appears that trade patterns are now starting to shift. According to research data, buyers of Russian oil deliveries are more and more reluctant to do so. As of now, almost all Russian registered tankers stand idle with no destination to unload.

With the supply-demand chain disrupted, the risk of oil and gas prices holding at their skewed high point is becoming a reality, at least in the short term. Prior to the crisis, petroleum companies budgeted an oil price of around USD 70/bbl. With prices now hovering above USD 100/bbl, the sector generates ample free cash flows that can be allocated in the following three ways:

a) Debt reduction: Normally this would be done, but oil-majors are not over-leveraged as of now.
b) Capex: With the energy transitions at full speed, capex favoring rigs are not politically welcome.
c) Share buybacks: Current dividend yields and share buyback yield around 8%; we expect this to double in the coming year.

Investment implications, US:

- We maintain a focus on high-quality energy companies that embrace capital discipline and increasing shareholder returns. The focus on energy security and the energy transition over the next two decades should create attractive opportunities for energy companies.
- We prefer the exploration, production and integrated oil subsectors with direct exposure to rising commodity prices and modest growth in production over the refiners and oil field service subsectors.

Investment implications, EU:

- The energy transition opportunity, which is sector negative, is a predominantly longer-term concern for the European energy sector.
- We prefer integrated operators that manage the full value chain, thereby positioning themselves to benefit from full form rising prices.

Positives for the sector:

- Oil is priced above the level at which the average company can cover expenses.
- Supply has declined with lower production and OPEC compliance requirements.
- Diversified energy companies have strong balance sheets and access to capital.
- The ongoing recovery of the global economy bodes well for the return in demand for oil.

Negatives for the sector:

- Oil demand is still down significantly.
- Valuations are opaque.
- There is weak long-term stock price momentum.

Investment opportunities:

The current barrel price recovery occurs on the back of lower production capacities, since a large number of E&Ps have gone bankrupt or closed low-capacity rigs.

Relative to oil prices, the sector looks cheap. Free cash flow yields are very attractive, capital discipline has improved, and the sector should benefit as demand recovers. With the Russian/Ukrainian crisis, it will take a number of years before the shift away from fossil fuels begins to crimp industry cash flows. In terms of sector approach, we favor global upstream and downstream operators as most likely the only players who will be able to endure a lasting price volatility.

We favor names such as BP, RDSA, BKR, CVX, COP, XOM, SLB, and PBR

Financial Services

The Financials sector has many favorable attributes, but uncertainties about the path of the economy, interest rates, and the overall market raise the level of risk for the sector. Although macroeconomic conditions remain strong, we have likely seen a peak in the rate of growth. Historically, the relative performance of the sector is positive in the expansion phase. Even as Central Banks embark on the process of unwinding accommodative policy (as inflation remains somewhat less transitory than previously expected) we think that this interest-rate-sensitive sector will gain a tailwind from rising interest rates in the coming months.

EU: With the onset of the war in Ukraine, European financials have lost much of their attractiveness, which was based on the economic recovery and higher bond yields. As for now, we question normalizing earnings and strong capital levels (on the back of potential losses in Russia and Ukraine). We estimate that when the European economy recovers, the rotation into economically sensitive sectors like financials should occur at a later stage. We think sector valuation remains attractive.

US: Fundamentals are healthy and earnings growth and profitability should benefit from an improving economic growth environment and higher long-term rates. Profitability is expected to be boosted by the Fed rate hikes. As the economic recovery progresses, margins and loan growth may be anticipated. As of now, institutions have large levels of excess capital, which they are expected to return to shareholders via dividend payments and share buy backs.

Positives for the sector:

- Generally, companies are in a strong financial position, due to stringent post-2008 regulations.
- Economic recovery and fiscal stimulus are tailwinds for loan demand, and will likely limit defaults.
- Cautious central banks, along with improving growth prospects, have started to steepen the yield curve.
- The sector has attractive valuations relative to its historical average and other sectors.
- High loan-loss reserves are being released (which supports earnings growth).

Negatives for the sector:

- Despite long-term interest rates trending higher, in general, rates are expected to remain low by historical standards.
- Longer-term price momentum has been weak, though it has improved recently.

Investment opportunities:

A recent stress-test shows that banks are well-capitalized and should see a sharp rebound when market volatility subsides.

Bank earnings are recovering swiftly, as provisions for expected loan losses wind down. Banks are also the key beneficiaries of higher interest rates, which drive an improvement in profitability and signal a potential pickup in loan growth. The Fed has given a green light to share repurchases, which should help boost earnings per share and return on equity. The sector remains attractively valued.

We continue to have a particular interest in secular growth companies that should emerge from the crisis with strong long-term growth prospects. Our preference goes to American Express, Intercontinental Exchange, MasterCard, and Visa.

Moreover, investors seeking deeply discounted valuations with strong expense leverage and robust capital should consider an engagement in Ameriprise, Capital One, and State Street.

Key figures for USA:

Target values:

Present fair value S&P 500:	4530 (31.03.22)
E12 months value S&P 500:	4'600
Upside potential:	flat

Key economic ratios:

GDP Growth 22 (E)	4.7
GDP Growth 23 (E)	4.4
CPI 22 (E)	5.0
CPI 23 (E)	3.7
P/E 2022 (E):	25
P/E 2023 (E):	22
Div. Yield 2022:	1.3
Div. Yield 2023:	2.4

Most likely next short-term move:

S&P 500	down
Nasdaq	down

Key names to look at:

Strong intellectual property
- VISA
- Mastercard

Technology:
- Microsoft
- Micron Technology
- Nvidia
- Apple
- IBM

Financials:
- VISA

From a technical point of view, still a valid entry point, with short-term downside limited to +/10%

Healthcare

The healthcare sector is, by definition, a defensive and slow-moving sector. The sector shows expensive valuations and good fundamentals that may help outweigh poor relative strength.

Given this, healthcare has outperformed during the global market correction we have witnessed since November of last year. However, we believe that healthcare's large-cap defensiveness is not offering sufficient upside potential for growth-oriented investors. Nevertheless, the latter can outperform on a relative basis. The COVID-19 tailwind that propelled some start-ups and testing names is slowly dying down.

COVID-19 was an eye-opener for the healthcare sector, as we saw that time-to-market can be reduced substantially. We therefore expect an acceleration in investment, leading to an increased number of innovative products being pushed to the market. This is not yet reflected in the price of many stocks. Longer-term investors should seek the following investment opportunities:

a) Genomics: Advances in computing power and machine learning have contributed to material gains. Scientists now have detailed information about the nature of human genes and how human bodies are built. This will lead to faster turn-around and fast go-to-market times.
b) Diagnostics and Beyond: New blood test methods can detect early-stage cancers and may lead to better patient outcomes, not to mention lower treatment costs.
c) Telemedicine: Telehealth and virtual care models have provided evidence of the healthcare benefits that can be delivered to patients. External providers such MSFT, GOOG, CRM, and AMZN will be key enablers in this field.

The macro environment is favorable to the healthcare sector as we transition into the next phase of the economic cycle. The sector has a good number of companies with strong balance sheets, outstanding profitability, and a sustainable outlook.

Companies from sub-sectors such as big-pharma and medtech services have characteristics equal to value companies, yet their outlook is bright. Undoubtedly, we have growth-style healthcare companies trading at a premium to the sector but at a discount when compared to pure technology companies where valuations are toppish.

Positives for the sector:

- Balance sheets are strong, with ample cash for dividends and M&A.
- Positive long-term demographic trends may support the sector, including an aging global population and a growing middle class in emerging markets.
- Demand is returning for elective procedures, drug sales, medical equipment and diagnostics.
- Valuations are attractive relative to the sector's historical average.

Negatives for the sector:

- High unemployment reduces healthcare insurance enrollment.
- Extended-care facilities have seen a decline in enrollments and are likely to see higher costs related to virus-mitigation requirements.

Investment opportunities:

The healthcare market is fragmented as its players strive to increase their market share through such strategies as improvements to existing solutions and software platforms, development of new platforms, and strategic alliances with other market players. Therefore, several players account for significant individual shares in the market.

While political risks for the sector have improved as the prospect of Medicare fades, there is still uncertainty about the outlook for drug price regulation.

As of today, we look at: Pfizer, GSK, Roche, Novartis, Bayer, AbbVie, Thermo Fisher Scientific Inc., and in an extended manner: Amazon, Microsoft, Alphabet, Salesforce.

Industrials

With the recent economic growth, stocks have been trading in ways typical of the expansion stages of the business cycle – this could prove positive for the historically cyclical Industrials sector. Additionally, prospects for an increase in infrastructure and clean-energy investment will likely support the machinery and building materials industries.

Concerns around supply chain issues have reappeared as a consequence of the turmoil in Eastern Europe. Example: Around 40% of the world's neon-gas production took place in facilities around Mariupol, and these were partially or fully destroyed by the conflict. Neon is a key element for the production of microprocessors (CPU/GPU), production of which was already distorted prior to the war.

As of yet, the ramifications of the crisis are limited. However, we would expect longer-term themes such as factory automation and greentech to experience some delays, with costs expected to increase at the expense of profitability, as industrials have a relative weak pricing power.

Finally, we note that the sector provides exposure to a segment that has underperformed but should now benefit from increased defense spending.

Given the present context, valuations are rather expensive, and higher input prices pose a real risk for profit forecasts.

Positives for the sector:

- Capital expenditures are likely to increase if global growth continues to improve.
- The sector tends to outperform early in the business cycle.
- Many companies in the sector have cash-heavy balance sheets.

Negatives for the sector:

- Capital expenditures have been tepid.
- Aircraft demand is likely to be weak until business and leisure travel resume.

Investment opportunities:

The sector has favorable company-specific catalysts such as restructurings, acquisitions and new products. A slowdown in the global economy is expected to hit this sector again. As lockdowns have ceased, economic data has improved, but all that should be questioned again.

Improving aerospace activities, a renewed interest in defense, and supply chains, as well as factory re-equipment, benefit the sector.

Medium-term investors may look at the following: Boeing, CSX, Siemens, Lockheed Martin, Raytheon Technologies, and Stanley Black & Decker.

Real Estate

Fallout from the COVID-19 pandemic continues to be a source of uncertainty for the Real Estate sector, but mass vaccinations and relaxed restrictions on public gatherings have reduced investor pessimism.

With the global economy experiencing its fastest year of economic growth in 2021 (5.9%) since the IMF began calculating global GDP, it was a year in which both property and infrastructure delivered strong returns for investors.

Infrastructure and real-estate projects have provided outstanding performance in 2021; looking ahead into 2023, macroeconomic conditions are likely to be supportive of further healthy return performance. For both asset classes, GDP growth and inflation are key drivers of returns, and with the IMF expecting 4.9% global GDP growth this year and 3.8% inflation, these two key variables are likely to remain a tailwind for both asset classes.

The rise in inflation is likely to be particularly beneficial for infrastructure assets at the lower end of the risk-return spectrum. The reason is that for many of these assets, the link between returns and inflation is tighter than for those higher up the risk spectrum. Digital infrastructure has grown in popularity in recent years, and COVID-19 has both accelerated demand levels in this sector by a number of years and reinforced to investors just how critical these assets are to our daily lives. In a generally still low interest rate environment (and combined with renewed demand for office and retail space) investors' search for yield and moderate valuations could be a strong tailwind for the sector.

Points of interest within the sector:

- Industrial: Companies are demonstrating a near-insatiable appetite for warehouse and logistics properties to accommodate the surge in e-commerce.
- Storage: Pandemic-fueled lifestyle changes support the need for storage space.
- Communication towers: With more people working from home, plus telecom providers rolling out 5G wireless service, these service providers have a key function.
- Data centers: Businesses rely heavily on vital infrastructure for e-commerce, increased data consumption, and virtual meetings.

Positives for the sector:

- Low interest rates are positive for funding and make REIT dividends more attractive.
- Data center providers and telecom towers are benefiting from technology trends.
- Single-family residential REITs are seeing strong demand and rising rents.
- Valuations are still relatively attractive.
- Long-term demographics support the recovery of extended-care and assisted-living facilities.

Negatives for the sector:

- High unemployment can lead to multi-family lease defaults.
- A sharp upward turn in the rates of home ownership and de-urbanization is a negative for multi-family housing.
- Short-term uncertainty about workers returning to the office.

Investment opportunities:

The sharp slowdown in the global economy hit the sector particularly hard, with the exception of valuations, which have merely shifted. While valuations are attractive, it may take time to assess the long-term impact of the pandemic.

Even so, there are sub-segments that are less exposed to the sharp downturn. In fact, we have two distinctive eco-spheres: the digital world and the tangible physical world. The difference is important – it results in one global economy built on the back of bytes and another composed of bricks and mortar.

As the economy changes, data centers (cloud capacities) are required. This shift has significant ramifications for the global economy across all industry segments. Some real estate companies will experience higher growth rates than others. Names to look at: Sergo, Goodman Group, GLP, Nippon Prologis, A-Reit, Mapletree Logistics, Equinix.

Key figures for Asia:

Target values:

Present fair value MXAPJ:	726 (31.03.21)
E12 months value MXAPJ:	785
Upside potential:	+8.1%

Key economic ratios:

GDP Growth 22 (E)	6.1
GDP Growth 23 (E)	5.4
CPI 22 (E)	3.2
CPI 23 (E)	3.7
P/E 2022 (E):	20.5
P/E 2023 (E):	12.7
Div. Yield 2022:	2.1
Div. Yield 2023:	2.4

Most likely next short-term move:

MXAPJ down

Key names to look at:

- Tencent
- Alibaba

Hang Seng approaches oversold territory

Utilities

Tackling a tall order

In 2021, the power and utilities industry tackled tough challenges, made measurable progress, and received clean energy encouragement from different directions – new administrations in the US and Germany, and the COP26, amongst others. As the world economy began to emerge from its pandemic-induced recession, electricity sales rose 3.6% through August 2021 over the prior year. At the same time, unprecedented and unpredictable extreme weather events challenged the grid's reliability and resiliency, and cyberattacks on critical infrastructure increasingly made headlines.

In 2022, the tough challenges remain – boosting clean energy, ensuring reliability and resiliency, and maintaining security, all while keeping costs down. To tackle this tall order, the electric power industry will likely continue to advance in its "3D" transformation: decarbonization, digitalization, and decentralization. We will be watching for technology deployments to advance and markets to evolve. Industry spending will likely remain high, and renewable penetration could accelerate further.

For our investment universe, we explore four trends that will likely impact the industry in 2022 and beyond. These include 1) enhancement of decarbonization and resiliency strategies, 2) deployment of 5G and cloud technologies, 3) flexible load management of the grid, and 4) support of building electrification. In the policy arena, while renewable tax credits have supported the clean energy transition to date and will likely evolve further in the future, we will also be on the lookout for potential regulatory changes supportive of the energy transition into the future.

Positives for the sector:

- Revenues are generally stable.
- Investors often turn to utilities for dividend income when prevailing interest rates are low.
- Low yields provide low funding costs for this capital-intensive sector.

Negatives for the sector:

- During recent periods of market weakness, the sector has not acted as defensively as it has in the past.
- Valuations are high relative to the sector's historical average.
- Economic recovery makes the sector less attractive relative to other sectors.

Risks for the sector:

- Uncertainty remains regarding potential clean-energy legislative funding.
- Interest rates could rise due to an unexpected rise in inflation.

Investment opportunities:

The sector is likely to continue to lag as investors focus on more cyclical areas of the market that have much greater leverage to strong economic trends. Higher interest rates would likely be a headwind.

For those who still wish to seek exposure to the sector, it may be opportune to consider the following names: in Europe, Centrica, Fortum, E.On, and RWE; in the US, American Water Works, DTE Energy, Excelon, and Nextera Energy.

Foreign exchange

Currencies

Stay structurally bearish on the USD

And what about the USD as the world reserve currency? Up to very recently, holding onto the US dollar was most likely an effective portfolio hedge. Given the present backdrop (war in Europe and interest rates rising faster in the US than in the EU, amongst others), one could have expected the USD to appreciate massively against the euro. Yet, a mere 3% to 5% appreciation occurred during the weeks before the start of the war.

After the events of the first quarter, few fresh catalysts for change are expected in the coming quarter. With the general direction already set, only second-tier data is on the agenda.

Fighting inflation has now become the top priority, and the larger discussion centers around how fast it can be done, a reasonable target for the federal funds rate, and orchestration of the balance sheet reduction. Our first impression is that the faster the reduction in the balance sheet, the less urgent the need to hike rates. In our view, both policy actions – reducing the amount of cash in the system and lifting the price of cash – should be positive for the greenback.

The euro mounted a surprise resistance after the start of the Ukrainian crisis. The fundamental long-term reasons for a stronger EUR are well known: Purchasing power signals undervaluation, and the current account balance is in a permanent surplus, as state finances are more conservative than in the US. Still, we expect a sustainable rally only after a clear signal that the negative rate policy regime is nearing its end. So far, we have seen sharp spread widening for Italian bonds in response to the geopolitical tensions, and we are also lacking the robust exports needed to support a stronger EUR.

Investment considerations:

The dollar is currently overvalued against the euro and other currencies. But given its predominant status and the current backdrop, we would only see moves below USD 1.08 per euro as an opportunity to buy the single currency.

Target values in 3 months:

EUR/USD:	1.0800 - 1.1500
GBP/USD:	1.3250 - 1.3750
USD/CHF:	0.9000 – 0.9500

Target values in 12 months:

EUR/USD:	1.10 - 1.15
GBP/USD:	1.35 - 1.40
USD/CHF:	0.95 - 1.00

Purchase power parities:

EUR/USD:	1.32
GBP/USD:	1.63
USD/CHF:	0.83
EUR/CHF:	1.15

Most likely next move:

EUR/USD	down
GBP/USD	down
USD/CHF	down

Target values in 3 months:

Oil:	$95 - $120
Gold:	$1,750

Target values in 12 months:

Oil:	$80 - $150
Gold:	$1,900

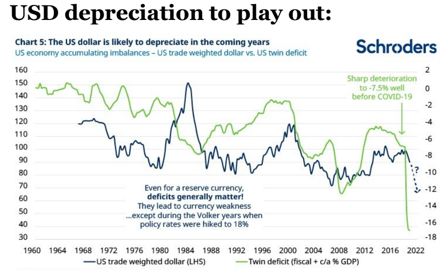
Upside potentials:

S&P GSCI	up
Oil	up
Gold	up

Next most likely move:

S&P GSCI	up
Oil	up
Gold	up

USD depreciation to play out:



Capital market assumptions

Return forecasts

Forecasts are in local currency (except EM equities); all figures are annualized

	Forecasts for the next 7Y			Average returns over the past 10Y	
	Return	Vol		Return	Vol
Cash USD	2.50%	0.00%		0.80%	0.40%
Cash EUR	0.30%	0.00%		0.10%	0.50%
Fixed income					
USD High grade bonds 5-10Y	2.60%	5.00%		5.00%	4.10%
EUR High grade bonds 5-10Y	-0.20%	4.20%		4.40%	3.90%
USD Inflation linked bonds	2.40%	4.70%		3.00%	3.30%
USD Corp bonds (IG)	3.30%	4.40%		4.80%	2.90%
USD High yield bonds	4.70%	9.70%		8.40%	6.10%
EUR High yield bonds	2.30%	8.70%		8.70%	7.30%
USD Senior loans	5.70%	6.90%		5.50%	3.50%
EUR Senior loans	3.50%	6.30%		6.00%	3.10%
EM Sovereign bonds (USD)	4.90%	8.60%		7.40%	6.30%
Equities					
US	5.70%	15.20%		13.50%	12.70%
EM (USD)	9.20%	20.70%		3.70%	17.00%
Eurozone	5.10%	17.30%		7.30%	14.40%
UK	6.00%	16.30%		7.30%	11.50%
Japan	4.60%	19.30%		7.80%	17.20%
Switzerland	4.50%	14.00%		8.40%	11.00%
Alternative Solutions					
HF (FOF, USD)	3.50%	5.20%		2.90%	3.90%
Alternative, other risks (USD)	7.20%	10.00%		7.80%	7.20%
Alternative, Private Estate (USD)	7.90%	9.20%		9.40%	5.10%
Alternative, Private Equity (USD)	10.20%	14.50%		13.90%	8.10%
Alternative, Private debt (USD)	8.20%	4.50%		10.20%	4.70%

Bloomberg, JPMorgan, MSCI, HFRL, BAML, UBS, IRISOS

Base-Case Allocation – Preferences

Asset Allocation View	--	-	Neutral	+	++
Cash	●				
Bonds		●			
Government Bonds		●			
Investment Grade USA			●		
Investment Grade EU		●			
High Yield			●		
Emerging Markets				●	
Equities					
USA				●	
Europe		●			
Switzerland				●	
Asia/China			●		
Latam		●			
Alternatives			●		
Gold				●	
Commodities				●	
Proxy Strategies					●
Credit HY US			●		
Credit HY EU		●			
Hedge Funds	●				
Private Equity		●			
Market View			●		

Disclaimer: Allocation may change as a result of the risk optimization. Past performance is no guarantee of future returns.

Asset Allocation Preferences – April, 2022

Sector	Region	Fundamental	Risk/Reward	Investment case
Basic Materials	Americas	○●○○○	■■■□□	The Materials sector has been sensitive to fluctuations in the global economy, as well as to concerns about US-China trade and COVID-19. Accommodative monetary and fiscal policies may eventually support global economic growth. After a sharp contraction in 2020, earnings have recovered on the back of higher rates of inflation, and are expected to grow moderately. While profit margins are valuable, wage costs are expected to rise as skilled-labor shortages occur in certain segments of the market.
	Europe	○○○●○	■■■■□	
	EM	○○●○○	■■□□□	
Consumer Staples	Americas	○○●○○	■■■□□	The sector has been one of the best performers since equities began to plummet after the February 19 peak. Demand should remain relatively resilient for products that satisfy everyday needs, despite disruption to the economy. Given the overall competitive outlook for the sector, investors should seek companies with strong balance sheets, low financing costs, and a strong focus on products and services. Because of high absolute valuation and limited upside potential, high yield dividend stocks are at risk.
	Europe	○●○○○	■■■□□	
	EM	○○○●○	■■■□□	
Consumer Disc.	Americas	○○○●○	■■■□□	The sector has a number of industries with a fair amount of exposure to China – such as hotels and leisure, autos and auto components, and apparel. Consumer Discretionaries are key beneficiaries of reopening the economy. Nearly USD 2 trillion in excess consumer savings look poised to be unleashed as the pandemic winds down. The sector is also benefiting from strong secular growth in e-commerce. Low mortgage rates bolster the outlook for housing-leveraged segments.
	Europe	○○●○○	■■■□□	
	EM	○○○●○	■■■□□	
Energy	Americas	○○●○○	■■■□□	The current barrel price appreciation occurs on the back of lower production capacities, since a large number of E&Ps have gone bankrupt or closed low-capacity rigs. Relative to oil prices, the sector looks cheap. Free cash flow yields are very attractive, capital discipline has improved, and the sector should benefit as demand recovers. With the Russian/Ukrainian crisis, it will take a number of years before the shift away from fossil fuels begins to crimp industry cash flows. In terms of sector approach, we favor global upstream and downstream operators as most likely the only players who will be able to endure a lasting price volatility.
	Europe	○●○○○	■■■■□	
	EM	○○○●○	■■□□□	
Healthcare	Americas	○○●○○	■■■□□	The healthcare market is fragmented as its players strive to increase their market share through such strategies as improvements to existing solutions and software platforms, development of new platforms, and strategic alliances with other market players. Therefore, several players account for significant individual shares in the market. While political risks for the sector have improved as the prospect of Medicare fades, there is still uncertainty about the outlook on drug price regulation.
	Europe	○○○●○	■■■■□	
	EM	○○○●○	■■■□□	
Financial Services	Americas	○○○●○	■■■□□	Financials are among the biggest beneficiaries of the economic recovery and higher bond yields. Normalizing earnings and strong capital levels, paired with an easing regulatory are leading the way. As the economy recovery is expected to continue, the rotation into economically sensitive sectors like financials should last. Subsectors related e-commerce opportunities remain attractively valued.v
	Europe	○○○●○	■■■□□	
	EM	○○●○○	■■■□□	
Industrials	Americas	○○●○○	■■■□□	The sector has favorable company-specific catalysts such as restructurings, acquisitions and new products. A slowdown in the global economy is expected to hit this sector again. As lockdowns have ceased, economic data has improved, but all that should be questioned again. Improving aerospace activities, renewed interest for defense, and supply chains, as well as factory re-equipment, benefit the sector.
	Europe	○○○●○	■■■■□	
	EM	○○○●○	■■□□□	
IT	Americas	○○○○●	■■■■■	The near-term is highly uncertain given the conflict in Ukraine and rising inflation. It should be opportune for investors to focus on technology companies that have attractive longer-term growth opportunities, due to being established franchises in large and secularly growing addressable markets, such as software, cloud, and security. Secular trends remain strong and profits based on higher interest income should increase. Valuations are high and the sector's defensive behavior during the pandemic makes us believe that it will outperform in the present cycle.
	Europe	○○○○●	■■■■■	
	EM	○○○○●	■■■■□	
Com. Services	Americas	○○●○○	■■■□□	The sector should benefit from the shift of ad dollars to digital platforms. Yet, due to the defensive nature of telecom companies and uncertainty related to antitrust issues, the sector is more likely to perform in line with the market. Short-term, many Communication Services companies face risks that outweigh their potential rewards. The rollout of 5G cellular wireless technology could increase demand, as 5G is expected to increase content delivery and allow for more exposure to the IIoT and automated car technologies, thereby increasing growth potential.
	Europe	○●○○○	■■■■□	
	EM	○○○●○	■■□□□	
Utilities	Americas	●○○○○	■□□□□	The sector is likely to continue to lag as investors focus on more cyclical areas of the market that have much greater leverage to strong economic trends. Higher interest rates are likely be a headwind. While defensiveness can be attractive in uncertain times, valuations are not. In fact, they have risen to well above historical levels, both on an absolute basis and relative to the other sectors.
	Europe	●○○○○	■□□□□	
	EM	●○○○○	■□□□□	

Expected costs of running investment strategies with our company

Estimates based on yearly activities (in % of total AUM)	Conservative	Balanced	Dynamic	Custom
Year with low activity *	1.20	1.49	1.78	2.03
Year with average activity *	1.39	1.68	2.15	2.55
Year with high activity *	1.78	2.86	3.53	3.63

*Subject to change according to market conditions, product strategies, currency diversification, and product turnover. Figures are indicative only and not binding by any means.

Disclaimer

Sources:
Analysis and comments: Bloomberg, Reuters, Natixis, UBS, BNP-Parisbas
Data and graphics: Bloomberg, Reuters

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