IX-7 Asset Management SA

Q 02 / 2022

Quarterly Investment Review and Outlook

IX-7 Asset Management SA

The Importance of Liberty

We assume that life tomorrow will provide us with the same liberties we enjoyed yesterday.

But when liberty is threatened, it's easier to rail against reality than to accept the need to expend whatever efforts are necessary to protect liberty…....even when the outcome of our sacrifice is not certain.

Liberty is priceless!

Quarterly Report – Q02/2022

At a glance

Review – 2nd quarter of 2022

a) Macro

The Fed's larger 75bp rate hike came as no surprise to the markets, following worse-than-expected May CPI data. Our view is that inflation will remain uncomfortably high; even so, the economy is expected to avoid recession if the Fed follows through on plans to continue tightening rapidly. We expect rates to peak at the upper end of the 3.5%-4.0% range by early next year.

In the same context, the Swiss National Bank surprised investors by raising its policy rate by 50bp. That rate rise – Switzerland's first in 15 years – was accompanied by hawkish rhetoric, along with significant upward revision to the central bank's inflation forecasts.

b) GDP and Monetary Policy

We do not believe the first-quarter decline in GDP is a sign of things to come, and we consider recession risks to be limited. However, we do expect real economic growth to remain consistently below its 2% potential pace over the next two-and-a-half years. Inflation is about to peak – we expect easing global supply shortages, a fall in commodity prices, and lackluster domestic demand growth to drive inflation lower from here, although core inflation will not revert to its 2% target until 2024. We expect one more 75bp rate hikes at the Fed's upcoming meetings, followed by a few 50bp hikes. These hikes will push rates to 2.75 – 3.0% by end-2022, with the Fed funds rate peaking at 3.5% to 4.0% by mid-2023.

c) Valuation

Despite the sharp fall in the US stock market this year so far, US equities still appear much more highly valued than their peers in the rest of the world. While that might not tell us much about the outlook for relative returns in the near term, comparatively high valuations in the US may give reason to suspect that other stock markets are considered too risky.

d) Recession / Stagflation

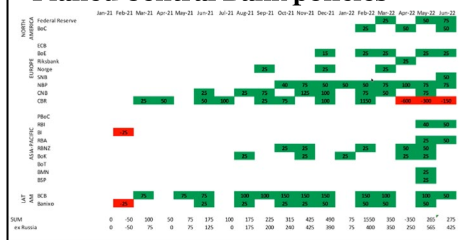
The Central Banks (CBs) are poised to step on the brakes to tackle the highest rate of inflation in four decades. Despite this, we don't expect yields of equities and Treasuries to rise anywhere near the historical peaks reached in 1982 after the CBs significantly increased rates. Rather, projections assume that returns from these asset classes for the rest of the decade will be poor by post-GFC era standards. In contrast to the 1980s, one should not now envisage periods of big bear markets being followed by secular bull markets. Once inflation is brought back under control, the world population and world trade configuration just won't allow for that.

The annual average real returns from US equities and Treasuries in the ten years after (and including) 1982 were ~13.0% and ~9.5%, respectively. Reflecting on these stunning outcomes, the equivalent return from a typical 60:40 US equity/Treasury portfolio was ~11.7%, the most in any rolling 10-year annual window in the past sixty years. A rally of US equities and Treasuries only began after their yields had soared in the wake of high inflation and the much tighter monetary policy that successfully turned inflation around.

We do not anticipate a recurrence of that historical situation. For one thing, we are not expecting inflation to stay high for as long or rise as much as it did back in the 1970s and early 1980s. By extension, we do not expect the Fed's response to be as draconian or tip the economy into a recession like the one that ended in 1982 – the deepest since the Great Depression. Instead, we foresee tighter monetary policy being more of a headwind.

Some market participants have been airing the possibility of a financial hurricane or similar event. However, none of them has brought forward data supportive of their claims.

Planed Central Bank policies



Economies are mostly on track

Level of real GDP (4Q19=100)

Top-down view: June 2022

The markets closed out the quarter mostly down on concerns of a) a lingering conflict on the border of eastern Europe, b) accelerating inflation, and c) recession. As we roll into the 3rd quarter, all major indexes have flirted with or succumbed to bear markets. A bear market is generally defined as when an index or an asset's price has declined more than 20% from a recent high.

Whether or not the S&P 500 is in a bear market is mostly a matter of semantics, observation periods, and calculation methods. On a closing basis, this benchmark entered into the bear market on June 16, 2022; however, when intraday prices are considered, the index slumped into a bear market about 2 weeks earlier. Finally, when considering market performance plus dividends, then only very the actual bear market started. Yet, surprisingly, the Dow Jones Industrial Average (DJIA) snapped an eight-week losing stretch, its longest downdraft in nearly a century.

The question now is whether or not the late May rally signals that the worst of the sell-off is over. Inflation could be plateauing, and the focus of market worries appears to be shifting to economic growth, particularly as the Federal Reserve is committed to keep raising interest rates at a fast pace.

Rumbling about inflation

Speaking of inflation, Wall Street banks have been trotting out predictions for when the next recession could start. For now, the general consensus is that an economic downturn is more likely to begin sometime in 2023 – which may explain why traders have punished stock prices in recent months. In general, market behavior foreshadows an event six months in advance.

Looking ahead, we will be watching what stocks and other asset classes are leading the way into a recovery. For now, we consider it too late to switch to value and too early to enter the sovereign corporate bond market world. There are some bond segments (such as GCC and Asia) in which we consider the corporate and sovereign market to be solid for the next three to four years.

Finally, we highlight that each and every economic cycle ends in some type of recession. The next one is expected to have a very different flavor than the Covid Recession or the Great Recession, but one thing we can say for sure is that we do not know when it will happen. Key indicators include the evolution of the housing market and the net personal savings rate, a ratio already at its lowest level since the Great Recession.

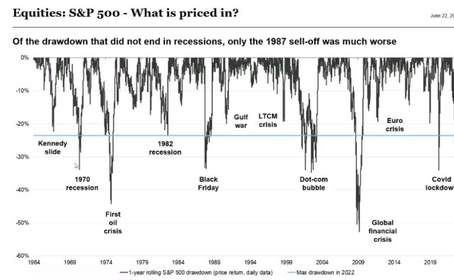
Areas of Opportunity

Despite lower expected returns for 2022 and 2023, there are still 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. Consider looking at companies that have corrected far below the historic price level, such as PM, MO, and WMT.

U.S. Growth Stocks: Year-to-date, well-established mega-cap technology stocks have underperformed the broad market. 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.

What is priced in?



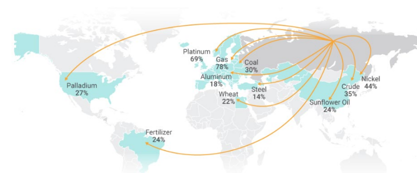
Europe: It is true that European stocks are cheaper – most of them have a strong value bias. Pending geopolitical developments, European equity markets may continue to remain cheap. Long-term investors may consider engaging with companies in the energy and materials sectors, which should be booming on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

We expect European markets to experience a challenging and dramatic future ahead. The Green Energy deal – launched in the aftermath of COVID – is by definition a good thing. However, its implementation will take time. Currently, with a series of politically driven measures such as the exit of all fossil-fueled car engines by 2035, it appears Europe could be "going green" even earlier than expected. With no alternative currently in place, R&D still needs at least 5 to 7 years to create a valuable and scalable solution. Any such solution would need to be ready as soon as 2030, in order to give the industry time to implement and build the whatever new facilities are needed.

More importantly, member state finances will be impacted in one way or another. For instance, France collects about €42 billion annually in taxes on fossil oil sales. Besides the evaporation of future revenues represented by the shift to green energy, debit interest charges will increase again by around 2025/2026, adding additional pressure on already financially and economically weak members such as France, Italy, Spain, and Portugal. Can they really implement this policy on par with stronger members? We doubt that very much!

Long-term investors should immediately position themselves for these upcoming events. Sectors that may perform throughout this period include: energy (leaders in the energy transition), materials (building new infrastructures), and utilities (higher volume output); while red-flagged sectors include: financials (loan losses), low level consumer discretionary (lacking spending power), and healthcare (reduction of government subsidies).

Exhibit 2: Russia's Commodities Reach: Share of Exports That Go to Each Destination



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. Although the broader region has underperformed the global market by about 30% since 2016, we still believe Asian markets are currently a suitable opportunity for assets that do not need to be invested in Europe or the US.

Finally, we note that China is changing its COVID policy. Up to now, policy favored vaccination of the active population (20 to 55), while the older generation was put on hold. However, statistics have demonstrated that COVID cases occur mainly in the 55+ segment. Mainland China has, according to official figures, administered more than 3.39 billion vaccine doses so far. Assuming every person needs a minimum of 2 doses, the vaccination rate is technically above 120%. However, given that a single shot of SinaPharm vaccine has an efficacity of less than 45%, the vaccination ratio may be considered low when compared to others. Obviously, there is no one statistic that can conclusively demonstrate that China's zero-COVID policy is actually expediting a return to pre-COVID life.

Credit: In the coming weeks, geopolitics are likely to impact credit spreads, but we do not expect this to persist for a prolonged period of time. This impact 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, as well as some emerging markets.

We favor credit in regions which benefit from strong commodity price trends, such as Oman, Emirates, Saudi Arabia, and some Asian countries.

Subjects of interest:

Is the second largest European Country becoming unmanageable?

On Sunday 19.06.2022, the centrist coalition supporting President Emmanuel Macron of France was projected to come out ahead in crucial parliamentary elections. However, low voter turnout and a strong sentiment among voters of having been ignored by Macron's government provided an excellent tailwind for alliances on both the far left and right. Consequently, President Macron lost the absolute majority of seats, a setback that complicates both his second term and also future cooperation within Europe.

It is the first time in 20 years that an elected French president has failed to muster an absolute majority in the National Assembly. This will not necessarily grind Macron's domestic agenda to a halt, but it will certainly shift the lion's share of power back to Parliament. In contrast, during his first term, Macron's style of governance was rather top-down, which had marginalized many lawmakers.

In 2017, when President Macron was elected for the first time, his party and its allies clinched a commanding majority of 350 seats in the lower house of Parliament, most of which were compliant with his plans. This time, however, he will have to pay much closer attention to the balance of power in the National Assembly. Final figures show that Macron's centrist camp has won 245 seats – well below the 289 needed for an absolute majority – while the far-left clinched 131 seats, the far-right took 89 seats, and *Les Republicains* landed 61 seats.

President Macron's coalition, known as *Ensemble*, should still be able to pass some minor bills. But his party, *La République en Marche*, will be far more dependent on its centrist allies than it was during his first term, especially to pass contentious projects like his plan to raise legal retirement age from 62 to 65. In some cases, Macron may even have to "reach across the aisle" to opposing lawmakers, most likely on the right and far-right, to secure a bill's passage.

The troubling part of this election is not the coalition itself. When looking ahead, the opposition parties both air anti-establishment views. The far right is focused on exiting Europe, while the far-left is aiming for higher taxes, nationalization, minimum salary hikes, increased social benefits, and a nuclear power moratorium, along with reshuffling the constitution, and reducing presidential power, amongst other items. Additionally, both parties promote extreme hate speech – not surprisingly, that makes them progress fast: Le Pen's party had the best progress in terms of percentage values. The party won some 89 seats, up from just two in 2012 and eight in 2017, making it the second-largest party (on a self-promoted basis) in parliament.

In France, lawmakers are elected for a five years term, and Mr. Macron will most likely not face midterm elections over the next five years. This obviously holds true only if his party holds together and his coalition-based majority is not overturned. However, we have noted an ever-increasing shift to extreme factions, a shift which we do not feel is diminishing. More importantly, the recent election result reflects increasing polarization of the "haves" and "have-nots," with an ever-widening gap between. Both extremes wish to return to some kind of imagined "glory days," with the far right promoting full independence from Europe and the far-left touting Venezuela-style confiscation and re-distribution of wealth.

What is the remedy?

There is no immediate solution. First and foremost, democratic countries require the ongoing exercise of the democratic rights, for instance through referendums. In today's economic conditions, a one-size-fits-all approach will not work. Previous administrations have discussed regional power distribution, which Macron has not yet entertained, but he may well need to reconsider this concept.

Investment recommendations by type

1. Equities:

Short-term view: - The market is close to bear-market territory – a washout could happen at any time.

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 hikes and inflation risks, we favor single- and double-A debtors from emerging markets, yielding in the range of 3% p.a. Also, we focus on sovereign issues of states benefiting from strong commodity flows.

3. Credit:

Short-term view: - **Attractive**

Medium-term view: - With spreads for high grades, opportunities have reached new heights. 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: - Positive

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

5. Commodities:

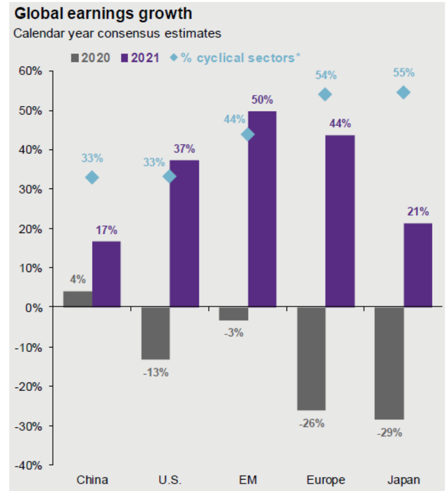
Short-term view: - Positive

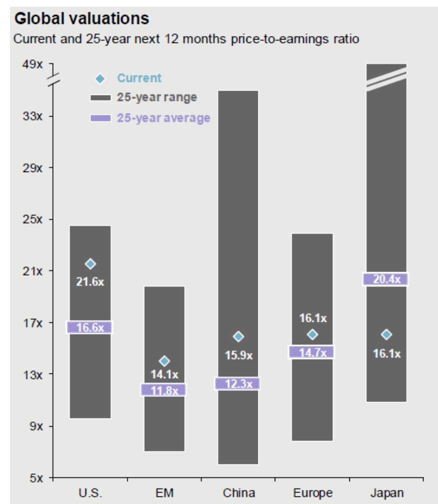
Medium-term view: - Commodities are attractive in cases of a prolonged period of high inflation.

6. Structured solutions:

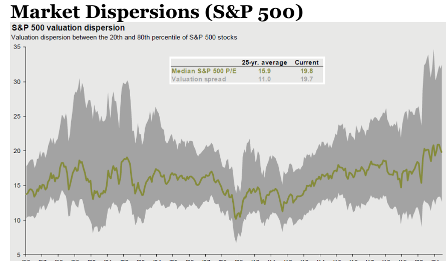
Short-term view: - Conditional capital guaranteed products offer an ideal risk/reward, as markets have corrected while volatility remains elevated.

Medium-term view: - Longer-term investors should consider capital protected credit solutions (CLN) with sovereign risk as the underlying instrument.





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 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**

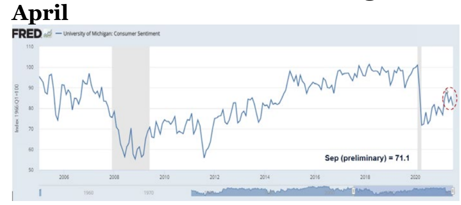
   Short-term view: - Neutral

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

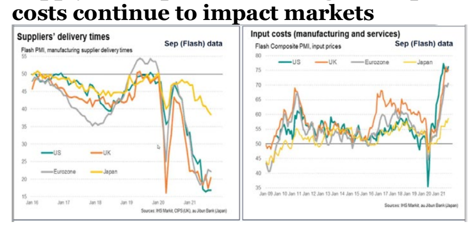
   In particular, key attention goes to European nations which are under-equipped militarily in many areas. While providers of traditional systems may not be able to take up major allocation, investors are advised to look out for alternative and mixed system providers.

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

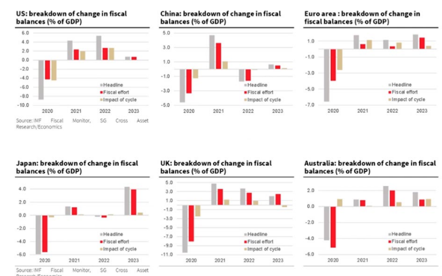
Consumer confidence declining since April



Supply disruptions and higher input costs continue to impact markets



Fiscal pain to come?



Market-by-Market View

United States:

Productivity growth has surged from last year's level. However, this growth is principally due to disproportionate job losses in low-productivity sectors such as leisure and hospitality, which raised the economy-wide average level. The pandemic also accelerated structural changes, such as the switch to working from home and online sales. Still, neither of these changes is significant enough to provide any lasting boost to economy-wide productivity growth over the medium term. Additionally, the pandemic-related surge in IT investment will not lead to a "dot com"-style boom in productivity, since it has not ignited gains in multifactor productivity such as those seen in the late 1990s and early 2000s. Even though the acute labor shortages developing in some sectors would normally herald an acceleration in growth, the return of low-productivity workers means that productivity growth is expected to slow from 2.6% in 2020-2021 to 0.8% in 2022-2023.

Investment in IT equipment soared during 2020 and 2021, and now accounts for 4.3% of the GDP – the highest share since the dot com boom. However, the corresponding surge in productivity in the late 1990s and early 2000s was as much due to a temporary surge in multifactor productivity growth as it was owing to the integration of general-purpose technologies like desktop computers or the internet-generated efficiency gains that went well beyond the direct impact of capital deepening. Since the early 2000s, however, multifactor productivity growth has been unusually muted. Even as the resurgence in capital deepening contributed 3.3% points to productivity growth last year, it was partly offset by a 1.7% decline in multifactor productivity.

Europe:

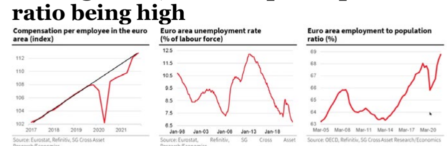
Running into troubled waters!

Supply chain problems will slow recovery and keep inflation above target levels until around the middle of next year. However, the economy should then get back on track, with inflation dropping back below 2%, unless the conflict in its Eastern regions escalates further.

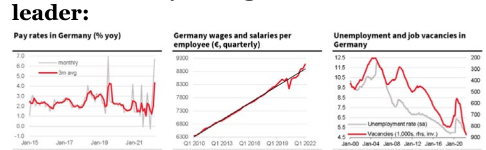
There is little risk of a labor market "cliff edge," because few people are now engaged in short-term working schemes. Unemployment rates are expected to continue to trend downward. In addition, there does not seem to be a permanent reduction in the labor supply, as was seen in the US.

The increase in inflation is likely to be persistent over a longer period of time. Producer price inflation in April and May was consistent with CPI inflation of around 7%. Electricity prices are likely to rise a greatly deal next year because of cuts to the renewable energy surcharge and other input shortages.

Europe: Unemployment is finally coming down, with the participation ratio being high



With Germany being a well-balanced leader:



MENA

Let's look at the flip side of the coin!

Most of the Gulf economies are not vulnerable to tightening global financing conditions. The economic principle of the "impossible trinity" dictates that since Gulf economies peg their currencies to the dollar and allow capital to flow freely across borders, monetary policy cannot be independent and must move in lockstep with the Fed. Only on very rare occasions is this coalition not followed. The last time it happened was two weeks ago, when Kingdom increased by just 0.5%, and that on the back of an already important current account surplus.

Even with tighter monetary policy, credit growth in the Gulf has strengthened and is running at its fastest pace since 2016. Swings in oil prices tend to be a bigger driver of credit than interest rates. This is probably because there is greater scope for looser fiscal policy and stronger economic confidence to drive demand for credit.

Another positive element was initiated June when Egypt and the European Union signed a tripartite gas deal with Israel. This deal is expected to boost the outlook for Egypt's domestic sector. How does the deal work? Egypt's own LNG exports flowing into the EU will be combined with Israeli natural gas that will be piped to Egypt for liquification before being shipped into the bloc. Operations are expected to start in 2023. Egypt's gas sector has been on the up since key infrastructure was brought back online last year, and the deal suggest that the EU will encourage investment into natural gas exploration and production in Egypt. It is expected that Egypt will become one of the major beneficiaries of the EU's shift away from a reliance on Russian energy.

Emerging Markets/China:

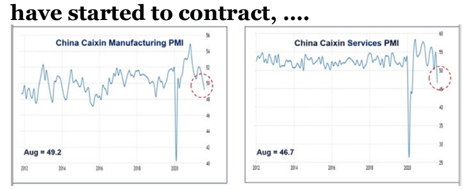
China:
Though the Russia-Ukraine conflict received most of the attention over the past quarter, investors looking to the next quarter must also keep a close eye on developments in China. During the first half of 2022, the US Securities and Exchange Commission (SEC) identified six Chinese companies that trade in the United States as American depository receipts as failing to adhere to the 2020 Holding Foreign Companies Accountable Act (HFCAA), which permits the SEC to ban companies from trading and order them delisted from US exchanges if they are found to be in violation of foreign ownership laws or audit requirements. The SEC's list is expected to grow, although potential delistings would not occur until 2023 at the earliest. The companies named as noncompliant included BeiGene, Yum China, Zai Lab, ACM Research, HUTCHMED, and, most recently, Weibo.

Chinese stocks have also had to contend with market volatility due to COVID-19 lockdowns and investor concerns over the potential ripple effects of the Russian war – both in terms of global growth and the potential for sanctions if China is perceived to be supportive of Russia. China is set to relax its zero-COVID policy in an effort to jump-start its economy, but close to half of the country's exports are produced in areas that are now experiencing COVID lockdowns.

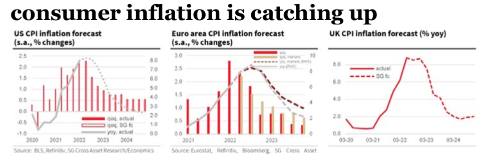
Other EM:
It's difficult to overstate how dramatic the invasion was for Russian markets. Shares of Russian companies collapsed, local capital markets shut down, and major providers removed Russian equities from their emerging markets, and global and international indices. The Russian exchange reopened under heavily restricted trading at the end of March, with foreign asset owners unable to sell shares and short-selling banned.

In other emerging markets countries, however, the overall decline has been relatively modest. With Russia no longer part of the MSCI Emerging Markets Index, Latin American markets have benefited from higher commodity prices. The two natural resource-heavy sectors, energy and materials, constitute a substantial portion (20%-45%) of these countries' market capitalizations.

Chinese Manufacturing and Services have started to contract, ...



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



Switzerland:

Switzerland, like the Nordic economies, will not be immune to slower global growth and supply shortages, but as during the pandemic, they are well-placed to ride these shortages out. The Swiss economy, while not immune to supply shortages, will nevertheless benefit from a reasonably diverse industrial base.

Retail sales volumes have fallen back since March as the re-opening sugar-rush has faded, and sales likely dropped by about 5% q/q. However, surveys suggest that the services sector overall remains in good health and we still think that total household spending grew in the quarter, albeit at a slower pace than in Q1.

Meanwhile, some Swiss firms – particularly those with strong supply-chain links with the Germany auto sector – are exposed to supply shortages and will struggle in the near term. However, the sizeable pharmaceutical sector should be less affected, besides typically being less dependent on the economic cycle.

While global financial markets are obsessing over the resurgence of inflation, strong price hikes remain mostly invisible in Switzerland. Energy prices drove the headline rate to its highest level since mid-2018 during Q2, but it will barely breach (on average) 2% this year. In addition, given the weakness of underlying price pressures and the fact that the inflationary effect of previous falls in the franc have run their course, inflation will fall back next year. Against the backdrop of a possible inflation escalation, the SNB is raised interest rates by 0.50% mid-June 2022.

Communications Services

In an increasingly crowded market, capturing consumer attention on content is time-consuming and expensive. Customer loyalty and renewal ratios are obviously key to success.

The biggest companies in this space – Netflix, Amazon and Apple, amongst others – are willing to price premium content below market price-point by forgoing advertising and windowing. At the same time, consumers increasingly expect fewer commercial interruptions and gravitate toward ad-free platforms. Streaming video-on-demand (SVOD) platforms continue to garner the majority of subscribers among direct-to-consumer services, with downloads trending approximately three times more than their advertising-based video-on-demand peers.

The success of a streaming services company depends primarily on subscriber growth, which in turn translates into profitability by user. To jumpstart business, media companies are consolidating to gain scale, allowing them to remain competitive as stand-alone streaming services. With the joining of Disney/Fox/Hulu, CBS/Viacom, Discovery/Warner Media, and Amazon/MGM Studios, there have been over $150 billion of mergers announced or completed over the past few years. The next wave of mergers may come in the form of tuck-in acquisitions of some of the few remaining companies with exclusive content, such as Formula One, Lionsgate, and World Wrestling Entertainment.

Given the broad range of consumer preferences, there is room for multiple winners who offer their own niches of perceived value. For now, the biggest beneficiaries appear to be content creators (and consumers), with companies still competing to find the right mix of growth and profits.

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 development of electric vehicles (EV) is creating an entire new eco-system, and one of the most impacted sectors is materials. The wide range of impacts include roads, bridges, railroads, public transportation, port infrastructure, broadband emitters, and water infrastructure, amongst others.

Solely in the United States of America, funds allocated to zero- and low-emission buses account for $5 billion. Combined with improved product features, such as a wider range per charge and better charging availability, all these plans could contribute to continued momentum behind sales of EVs, turning related activities into a multi-year secular growth trend.

In addition, this boom is expected to increase demand for copper, as the typical EV contains four times as much copper as a vehicle with an internal combustion engine. Increased demand for EV batteries could also provide long-term benefits for miners of the requisite lithium, cobalt, and nickel needed to make those batteries.

Also poised to benefit are producers of aggregates, such as crushed stone, gravel, and sand. Aggregates are one of the most basic construction materials – a primary component of roads, bridges, and buildings. They comprise more than 90% of asphalt pavement and up to 80% of concrete mixtures. IIJA's support for highways will boost demand for aggregates and should directly benefit some US companies that supply construction materials.

Road and bridge construction is also steel-intensive, given the widespread use of rebars, the steel bars typically used to reinforce concrete. Consequently, steel producers may also have their balance sheets buttressed by IIJA.

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:

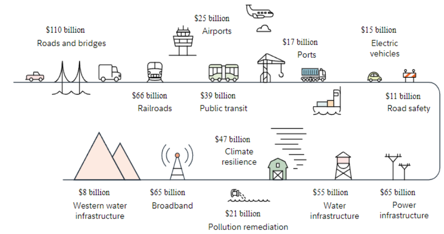
- An increase in global COVID-19 cases
- Potential stringent environmental regulations
- Strong US dollar and/or weaker-than-expected economic growth

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 the chemicals and construction materials sub-sectors to benefit from the EU's sustainable investment plans.

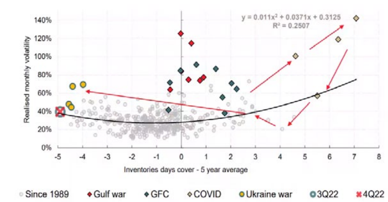
At present, we favor the following companies to consider: Air Liquide, BASF, DSM, and Linde Plc.

Infrastructure and Job Act Spending



Source: Whitehouse.gov, as of December 5, 2021.

UKRAINE VOLATILITY UP TO 70%: "NORMAL LEVELS" WITH THESE INVENTORY LEVELS ARE 40%



Source: SG Cross Asset Research

Consumer Discretionaries

Compared with the early 2020s — when many people were stuck at home and had fewer dress code requirements — consumer spending on apparel and accessories has recently rebounded in a big way.

Indeed, consumer spending is likely to continue to grow over the next few years, supported by higher levels of employment and meaningful wage growth. Obviously, inflation is a concern, but we expect the population segment targeted by high end consumer discretionaries will be less impacted by price increases.

Moreover, consumer balance sheets remain strong. The U.S. household debt service ratio (which measures debt payments as a percentage of disposable income) recently hit its lowest level on record.

Many consumers are still hesitant to spend on travel and entertainment — given the lingering threat of COVID variants. Instead, wealthier consumers are spending some of that cash on high-end fashion and accessories.

Equally important, consumer discretionary companies or companies that sell nonessential goods and services are generally in strong financial shape. The pandemic prompted many global luxury retailers to improve efficiency by significantly cutting costs, closing less-profitable retail locations, focusing on digital sales, reducing the variety of inventory, and cutting the number of promotions and sales. As a result, the slowdown of the first half of 2022 and decreased spending shouldn't impact the leaders, while smaller operators may be targeted for takeover if the drag in consumer sentiment persists.

Investors may have good reason to continue to be bullish on luxury apparel and accessory retailers. As the world reopens (albeit with inflation concerns) and people gradually head back to more pre-pandemic activities, consumers may be looking to refresh their wardrobes. While some stocks have experienced recent weakness on concerns over manufacturing and supply-chain disruptions, these periods of weakness could prove to represent buying opportunities.

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:

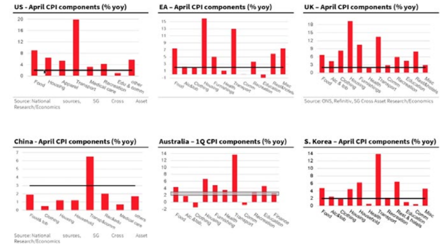
- Antitrust action is possible for the largest online retailers.

Investment opportunities:

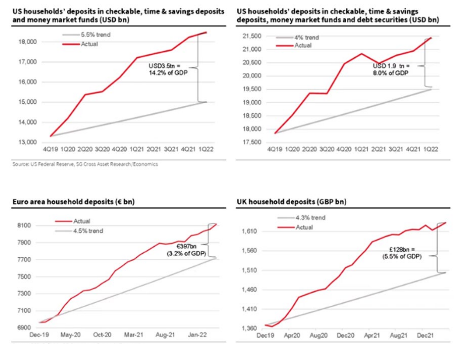
Consumer Discretionaries are key beneficiaries of reopening the economy. Nearly 2 trillion USD in excess consumer savings looks poised to be unleashed as the pandemic winds down. The sector is also benefiting from strong secular growth in e-commerce. Low mortgage rates bolster the outlook for housing-leveraged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

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

Inflation has broadened – combating it will take more time.



But consumers have still plenty of cash at hand:



Consumer Staples

The COVID-19 global e-commerce surge was initially born out of necessity. Online shopping provided a practical alternative as retail locations closed and people stayed in to avoid the virus. In fact, global e-commerce rose from 15% of total retail sales in 2019 to 21% in 2021. It now sits at an estimated 22% of sales.

Many factors are driving growth, including logistics, mobile device ownership and marketplace expansion. For investors, this means that the e-commerce boom will likely continue, offering opportunities for gains across multiple businesses, regions and verticals – and at a time when recent stock valuations do not necessarily reflect that growth. The e-commerce market has plenty of room to grow and could increase from $3.3 trillion today to $5.4 trillion in 2026.

Earlier-stage e-commerce markets and new segments are also poised for significant growth. In parts of Southeast Asia and Latin America, for example, e-commerce could grow 17% and 20% respectively over the next five years and compound annually.

Turning to specific segments, electronics – which leads all the categories of e-commerce activity—is slated to grow from 38% of retail sales to 45% of global retail sales. Digital sales are also growing across newer verticals, including beauty, apparel and grocery.

Behind the scenes, improvements in everything from digital payments to supply chain and fulfillment capabilities are improving the customer experience. In turn, these enhancements are driving further changes in consumer behavior. One of the top differentiating factors for e-commerce platforms could be supply chain and fulfillment capabilities, which could empower better customer service.

Internet use and increased connectivity are also significant drivers, particularly in emerging markets, where populations skew younger and spend more time online than their counterparts in developed markets. Consumers in Colombia and Brazil, for instance, spend more than five hours on average online each day, creating a significant opportunity for retailers to reach a new market.

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 the 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:
Pricing power: Within consumer staples, beverage and tobacco companies generally have some of the best gross profit margins and pricing power. Conversely, highly competitive industries, companies without strong brand loyalty, and ones with lower gross profit margins could have less success.

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): 390
E12 months value (DJStoxx600): 420
Upside potential: +7.6%

Key economic ratios:

GDP Growth 22 (E)	2.7
GDP Growth 23 (E)	1.2
CPI 22 (E)	7.7
CPI 23 (E)	3.7
P/E 2022 (E):	20.5
P/E 2023 (E):	15.7
Div. Yield 2022:	3.1
Div. Yield 2023:	3.4

Most likely next short-term move:

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

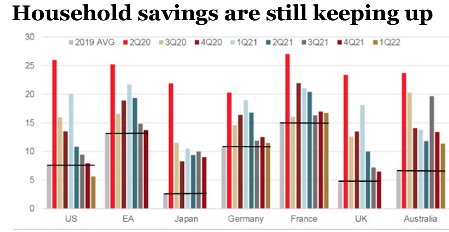
Key names to look at:

Strong intellectual property:
- Roche
- Novartis
- Amadeus

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

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

Household savings are still keeping up



And the consumers are still going to the malls

Information technology

Investors seeking long-term growth are advised to look for investment opportunities related to the next big thing – the technological innovation poised to change our habits and disrupt existing industries in ways we would never have dreamed possible. For investors looking to 2023 and beyond, that next big thing is still artificial intelligence (AI).

Think of AI-powered devices as super-smart computers that can make human-like decisions far more quickly than any human brain. While you might not notice major impacts of AI on your day-to-day routines anytime soon, its increasing adoption could create ripple effects throughout the tech sector – from semiconductors to software, internet, hardware, and services.

AI is most often used to accomplish eight business objectives. In order of importance, these objectives include the following: 1) disrupt an existing service, 2) reduce operational costs, 3) improve a medical device, 4) improve a decision-making process, 5) detect fraud and/or implement cybersecurity, 6) improve customer experience, 7) add new products and services, and 8) boost EPS.

All these AI activities require major computing power. We expect this demand to benefit cloud computing providers, which can quickly scale capacity to meet increasing needs. The world is generating increasing amounts of data for AI to analyze, and more and more businesses are shifting from internal infrastructure to the cloud in order to store and process this data.

Again, the largest companies may be best positioned. Building a cloud ecosystem takes significant investment in servers, software, and other infrastructure, which creates a barrier to new entrants and affords competitive advantages to established players.

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 long periods 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

In the short and long-term, favorable supply and demand dynamics bode well for oil and gas producers.

Energy stocks had a slow 2021 – the opposite is true for 2022. The sector is among the best-performing by operational margins, and future developments look rosy on the back of rising oil prices.

If global economic growth and mobility (air travel, trucking, and other forms of transportation) continue to improve, while global crude oil supplies remain constrained, high oil prices may be here to stay for a prolonged period of time. For energy stock investors, higher crude oil prices likely mean increased profits – and potentially higher stock prices – for energy exploration and production companies in particular. Global crude oil prices, as measured by North Sea Brent Crude, continue to hit fresh multiyear highs since last summer.

Demand for crude oil has recovered faster than expected as economies have rebounded from the COVID-19 pandemic, along with the auto and trucking industries. Robust economic growth and continued recovery in air transportation in 2022 could drive global oil demand above pre-pandemic levels. There is little impact from the Russian-Ukrainian conflict on air travel – even with higher ticket prices, people continue to travel.

In terms of who might benefit from sustained high prices, investors may want to look toward E&Ps. In particular, Canadian oil and gas producers may have strong upside exposure to high oil prices and long-duration oil and gas reserve bases, and may also trade at discounted valuations to many large US competitors. Some US-based E&Ps may also be able to return large amounts of capital to investors via dividends and/or share buybacks.

External factors such as weather, conflict, and the pandemic will continue to play a factor in the oil and gas markets. Even so, we believe that underlying demand for oil and gas should continue to grow as economic growth continues, while supplies are very likely to remain relatively restrained. As a result, oil and gas producers may continue to enjoy strong profitability and stock performance in 2023 and beyond.

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 financial sector may exhibit uneven development moving into 2023.

Financial stocks generally enjoyed a strong start into 2022. Higher interest rates are supportive for margins – we note that the inflation impact (higher rate of credit delinquencies and loan defaults) is expected to be visible only in the 2nd half of 2023.

Revenues and profits at the largest U.S. banks have also been buoyed by strong merger and acquisition activity, which has helped generate robust fees on advisory and equity-underwriting services. These positive trends could continue over the near term. We also expect some merger activity elsewhere in the world. For instance, in Europe, it is rumored that BNPP is about approach the Dutch financial group ABN AMRO Group NV for a takeover.

However, going forward, the sector faces a challenge from a negative loan growth. While economic growth as measured by GDP is still positive, loan growth is expected to be negative on the back of low consumer sentiment. We also note that the net savings rate is at historic lows, reflecting the fact that people do tend to raid their savings to maintain their standard of life.

Beneficiaries within the present economic cycle

If the economic situation stabilizes, investors may also find opportunities in consumer finance and mortgage-related businesses. Consumer spending, credit performance, and home prices have all been recovering and even improving. While the new housing market is expected to slow down, existing units will continue to be high in demand and therefore, the mortgage ecosystem should be impacted, even with higher refinancing costs.

Securities based businesses – trust banks, brokerage companies, asset managers, and exchanges – have benefited from higher rebalancing activities in the wake of the conflict. This revenue generation should be considered a one-off; customers seeking safe-haven investment opportunities are not expected to return to the market any time soon.

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:

Focus on selectivity

While the early stages of economic recovery brought broad benefits for financials, the next stages could be more nuanced. Investors in financial stocks may need to place increased focus on security selection over the coming years.

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:	3'820
E12 months value S&P 500:	4'100
Upside potential:	+7.3%

Key economic ratios:

GDP Growth 22 (E):	2.4
GDP Growth 23 (E):	1.7
CPI 22 (E):	8.1
CPI 23 (E):	7.3
P/E 2022 (E):	31
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

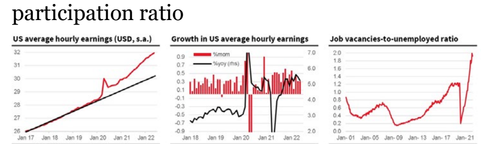
Key names to look at:

Strong intellectual property
- VISA
- Mastercard

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

Financials:
- VISA

US wages are on the rise with a low participation ratio



Healthcare
Biotechs seek the next blockbuster drug

Many would believe that the healthcare sector would have had the best two years ever, given how COVID has thrust healthcare companies into the global spotlight. Instead, healthcare stocks have broadly underperformed the S&P 500.

Still, a small number of healthcare companies have benefited from developing innovative technologies to combat COVID, while others are well positioned to take advantage of long-term positive trends within the sector. One group that could benefit from both of these trends? Bioprocessing firms that make the tools (e.g., bioreactors, fluid bags, and cell-culture media) used to produce complex drugs such as monoclonal antibodies (mAbs) and cell and gene therapy.

A bioprocessing boom?
As the biopharma pipeline increases in terms of volume and complexity, so does demand for bioprocessing tools. Notably, compared with five years ago, there are twice as many mAbs approved by the FDA and in development today, and 10 times the number of cell and gene therapy drugs in development.

Consider that 2020 and 2021 were banner years for biotech fundraising, both in number of initial public offerings (IPOs) and in total dollars raised. Fundraising is particularly prevalent among companies providing cell and gene therapy treatments. And while not all these companies will ultimately succeed, most – if not all –will need to purchase bioprocessing tools in order to develop drugs. Finally, we note that with the development processes in place, time-to-market may be considerably reduced, thereby reducing the time-out period for investors. Having seen above average activity in IPOs in 2020/2021, we expect to see the first product launches by 2024/2026 – practically "overnight" in the medical world.

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:

Investing implications for the health care sector

Bioprocessing stocks could offer an appealing investment opportunity, given their relatively stable business model and the multiple long-term tailwinds that could drive sales growth over the long run. There are also a number of positive shorter-term trends that could elevate demand for the industry, including the sustained need for COVID-19 vaccines, therapeutics, and the FDA approval of a key Alzheimer's drug – which could soon open the door for approval of similar treatments.

As of today, we consider the following: Pfizer, GSK, Roche, Novartis, Bayer, AbbVie, Thermo Fisher, Lonza, Scientific Inc., and by extension: Amazon, Microsoft, Alphabet, Salesforce.

Industrials

More and more, companies are incorporating environmental, social, and governance (ESG) standards into their business models. Most often, this is achieved by increasing the use of sustainability-management software.

Given the short- and long-term trends toward increased focus on ESG practices, these software providers could continue to see robust demand. Across the industrial sector, two predominant commodities may demand investor attention in the future – plastic and water.

A new approach to recycling

In late 2017, China decided to stop accepting many kinds of solid waste from abroad, including most recyclable plastic. The closure of that pipeline for used plastics has exposed an urgent need for more efficient methods of recycling in developed market countries.

Currently, the primary method of recycling plastic waste is mechanical recycling, in which used plastics are ground down and melted into pellets. However, mechanical recycling is typically high cost and comes with the added downside that plastic degrades with each processing cycle. To address this issue, some companies have turned to chemical recycling, in which plastics are essentially broken down at the molecular level, after which they can be reconstituted into new plastic. Although chemical recycling has its own challenges, it may be poised to lunge forward, both short- and long-term, giving meaningful potential boosts to revenue and earnings growth of chemical recycling providers.

Water, the base for everything and for everyone:

Clean water is in critically short supply for a large portion of the world's population. Demand for products and services to help solve these shortages may only increase in the coming years, as inadequate water infrastructure, booming population growth, and climate change continue to put pressure on water systems.

One valuable group of solutions to this problem are efforts to reduce so-called non-revenue water, which is water lost due to leaking infrastructure, broken meters, and unauthorized use. Companies that provide digitized water metering, automation, and water-management software could be poised to benefit from increased demand. Global Spending on water is projected to increase by about 4-6% per year for the foreseeable future, and companies that innovate in this area could see revenues grow at multiples of this rate.

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.

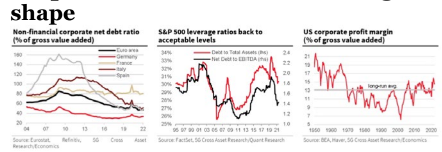
Investment opportunities:

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.

Corporate balance sheets are in a good shape



Real Estate

The pandemic has upended the way we use space, how we use our living and working spaces and how we use recreation activities and spaces.

By definition, the real-estate sector is capital intensive; its performance depends largely on projected cashflows, which drives the NPV of the project. That terminal value is influenced by many external factors, two of which are consumers' living and working habits.

For real estate investors, it is therefore of paramount importance to understand a project's value, usage, and constraints. Example, REITs that were investing in Hotel projects suffered disproportionally during and after the pandemic, due to lower occupancy ratios that pressured cash-flows. In contrast, REITs that developed and maintained telecommunication towers benefited from the increased data volume transmitted through the infrastructure.

Short-term view: In Developed Markets, with the high rate of inflation and rising interest rates, the housing market is slowing down; real estate brokers are laying off employees, and mortgage applications are hitting some of the lowest levels since 1990. For homebuilders, the situation is even worse, as the much higher input and financing costs are not being offset by higher prices. Lennar, the second largest US homebuilder, has just reported that new orders increased by only 4%, partially reflecting the coming market dynamics, while the backlog rose by 16% y/y, mainly due to supply chain constraints. In particular markets, such as metropolitan regions, the demand actually never stops and so does the offer. Over-supply into the market is accounted for and hence is not really issue as long as external factors play in synch.

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 services, 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:

Pending investors' appetite for risk, one can find opportunities areas which were down-trodden in 2020 and have not fully recovered: A) gaming and casino, B) senior housing, C) lodging, and D) commercial real estate brokers

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:	660
E12 months value MXAPJ:	700
Upside potential:	+6.1%

Key economic ratios:

GDP Growth 22 (E):	4.2
GDP Growth 23 (E):	5.3
CPI 22 (E):	6.3
CPI 23 (E):	4.1
P/E 2022 (E):	22.5
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

Utilities riding the renewables wave could transform investor returns

The Utilities sector has tended to perform relatively better when concerns about slowing economic growth resurface, and to underperform when those worries fade. That's partly because of the sector's traditional defensive nature and steady revenues – after all, people need water, gas and electric services during all phases of the business cycle.

Corporate investors stay loyal with utility investment opportunities because of their low volatility, yet many private investors dislike the capital-intensive sector because of its lack of excitement. With so much upheaval around the world and a pervasively lower sense of security, many investors may reconsider this sector, as it is set to deploy and benefit from growth of renewable energy sources.

Recent signs of peaking economic growth provide a relative tailwind for this defensive sector – particularly as market volatility rises. However, expectations for higher short- and long-term interest rates somewhat counterbalance the defensive attributes. It typically takes sharply slower economic growth for this sector to sustainably outperform – which is precisely when low interest rates typically provide cheap funding for the large capital expenditures required in this industry.

Clean-energy initiatives could mean significant government funding to Utilities. That would benefit the sector's profit outlook, depending on the extent of new regulations, which also could increase costs.

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:

Turning green into green: In many places around the world, renewable energy is now one of the cheapest forms of energy generation. As many utility companies close costly coal-fired plants in favor of renewable resources, these companies may earn incrementally wider margins from customers and drive higher earnings-per-share growth.

Declining costs, combined with supportive regulatory and legislative environments, have some utility companies poised to ride the renewables wave. This trend could translate into a long, multiyear runway of growth for utility stocks.

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 – but very strong for now!

Among the flurry of central bank announcements, the continued plunge in equity markets, and the wild gyrations across core government bond markets, currencies have been pulled in several directions for the first half of this year. While the US dollar is slightly down recently, it is the major currencies that appreciated recently. USD closes the quarter at its strongest level since 2002; our view is it will rise further over the second half of the year, as global growth continues to struggle and the Fed keeps outgunning other central banks in the race to bring inflation back to target. Indeed, given the worsening outlook for "risky" assets in general, we are reviewing our forecasts for a range of G10 and EM currencies.

Since FX rates are directly impacted by global government bond yields, for once, we are taking a broader view on these instruments as well. Government bond yields typically peak right before the end of central bank tightening cycles, and we expect most major central banks to continue hiking rates over the next 12 months or so. We think the increase in government bond yields, as well as the threat of slowing global economic growth, will keep risky assets such as equities and corporate bonds under pressure. We also expect the worsening risk environment – as well as particularly aggressive tightening by the Fed – to result in a further strengthening of the US dollar. We suspect markets will only start to turn a corner around the middle of next year as tightening cycles draw to a close.

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.

Commodities

Commodity prices have already risen globally and are likely to continue rising as war and sanctions continue to take Ukrainian and Russian goods offline. However, the impact on countries worldwide will likely be uneven.

Since the start of the conflict, the emerging European (Hungary, Poland, Czech Republic, Greece, Turkey) and Egyptian equity markets have been some of the worst performers, given their dependence on Russian products. While we believe Russian energy dependence will likely kill growth for these economies, higher food prices may also jeopardize inflation and current account positions, particularly in Egypt and Turkey. Half of Egypt's wheat imports are sourced from Russia, and 30% from Ukraine, while Turkey sources 70% of its wheat from Russia and 15% from Ukraine. Tourism revenue may be at risk for these countries, too – consider that 20% of Turkey's tourists come from Russia – potentially negatively impacting growth and external balances.

Target values in 3 months:

EUR/USD:	1.00 - 1.0750
GBP/USD:	1.2150 - 1.2750
USD/CHF:	0.900 – 1.0000

Target values in 12 months:

EUR/USD:	1.12 - 1.12
GBP/USD:	1.27 - 1.32
USD/CHF:	0.87 – 0.92

Purchase power parities:

EUR/USD:	1.30
GBP/USD:	1.64
USD/CHF:	0.84
EUR/CHF:	1.15

Most likely next move:

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

Target values in 3 months:

Oil:	\$75 - \$82
Gold:	\$1,750

Target values in 12 months:

Oil:	\$80 - \$90
Gold:	\$1,900

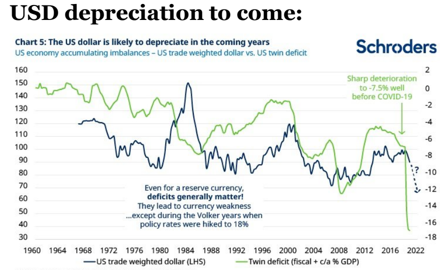
Upside potentials:

S&P GSCI	up
Oil	up
Gold	up

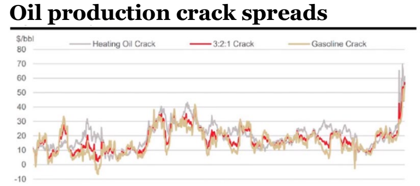
Next most likely move:

S&P GSCI	up
Oil	up
Gold	up

USD depreciation to come:



Oil production crack spreads



IX-7 Asset Management SA

Capital market assumptions

Return forecasts

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

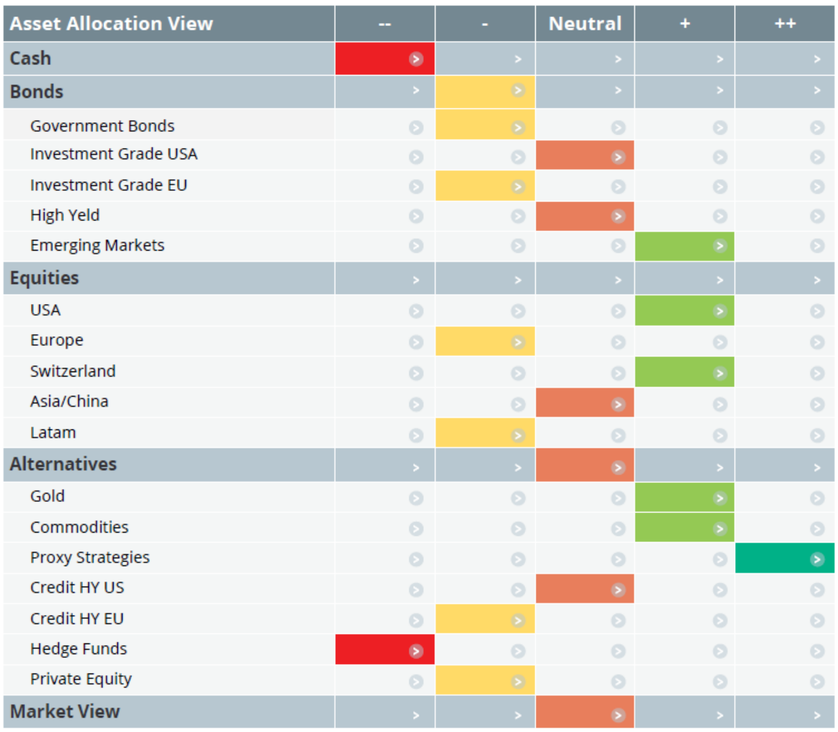
	Forecasts for the next 7Y			Average returns over the past 10Y	
	Return	Vol		Return	Vol
Cash USD	2.50%	0.00%		0.80%	0.40%
Cash EUR	0.30%	0.00%		0.10%	0.50%
Fixed income					
USD High grade bonds 5-10Y	2.60%	5.00%		5.00%	4.10%
EUR High grade bonds 5-10Y	-0.20%	4.20%		4.40%	3.90%
USD Inflation linked bonds	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

IX-7 Asset Management SA

Base-Case Allocation – Preferences

Please check-out the real-time asset allocation by investment type here:
https://www.ix-7.com/



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

Asset Allocation Preferences – June, 2022

Sector	Region	Fundamental	Risk/Reward	Investment case
Basic Materials	Americas Europe EM			The Materials sector is very sensitive to fluctuations in the global economy, the U.S. dollar, and inflationary pressures. Combined with signs of peaking economic growth, this cyclical sector could face significant headwinds. Amid the Russian/Ukraine war, the U.S. dollar has risen, and tighter financial conditions have historically been a headwind for the sector. On the other hand, activities around EV are expected to stimulate new demand, leading into a broad-based secular trend. This is clearly sector supportive and an opportune foundation for long-term investors.
Consumer Staples	Americas Europe EM			The sector is typically a cyclical sector, boosting the relative attractiveness of the more defensive and larger-cap stocks within the segment. On balance, we think the macroeconomic impact on the sector is improving, relative to other sectors. The ongoing rise in transportation and commodity costs have weighed on earnings, but many of the companies in the Consumer Staples sector have been able to pass some of those higher costs on to consumers, i.e., the ones that have a strong pricing power.
Consumer Disc.	Americas Europe EM			The sector is often overshadowed by two companies, i.e., Amazon and Tesla, which together constitute almost 50% of the sector's market cap. With much of the activities now back to pre-COVID level, many down-beaten growth stocks have started to recover. Still, there are some exceptions, such as hotels and the cruise industry. The sector is deeply engaged in the trend towards e-commerce and electric vehicles. Yet, the severe semiconductor shortage which is expected to last well into 2024 and the high valuation reinforces a selective approach.
Energy	Americas Europe EM			Clearly, the broad-based picture in the energy sector is anything but clear. There are numerous scenarios that could result in much higher or lower oil prices. Until there is more clarity on how the Russian oil and gas supplies impact the world economies and what way energy producers respond in terms of production volumes, and how the CB policies manage the inflation combat through rate hikes, it is prudent to have a focused approach on the sector. We prefer R&P as well as servicing companies.
Healthcare	Americas Europe EM			Elective care has resumed, high expenses related to COVID-19 patient care have subsided, and medical equipment and pharmaceutical stocks have followed the market higher – in short, operations in medical centers are back to normal. With an aging global population and ever-increasing medical demands, the sector is exposed favorable long-term trends which addressing with the use of enhanced technologies such as AI and robotics. Valuations are attractive, as supported by higher dividend payments, stock buybacks and M&A.
Financial Services	Americas Europe EM			Valuations are still attractive relative to other sectors. Forward earnings expectations have recently flattened out. Unless forward estimates turn higher, the current attractiveness of the sector's valuation will erode. Provided CBs can tame inflation without slowing growth significantly, higher short- and long-term interest rates will likely translate into renewed increases in earnings expectations. Peaking economic growth and the potential for higher volatility are usually headwinds for this sector, yet fundamentals are still favorable right now.
Industrials	Americas Europe EM			Amid signs of peaking economic growth, stocks have been trading in ways typical for this stage of economic cycle. The present CB policy, which is trying to address inflation, could be negative (on a relative basis) for the historically cyclical Industrials sector. While prospects for an increase in infrastructure and clean-energy investment are likely to support the machinery and building materials industries, the pace of spending is uncertain.
IT	Americas Europe EM			Information technology is a highly concentrated sector, with a handful of companies representing more than 50% of the sector's weight, including the two behemoths Apple and Microsoft. Strong fundamentals and investor optimism about future growth potential have pushed many valuation measures to well above their historical averages. Higher interest rates may weigh on investors' perceived value of future earnings, though there is little evidence of a direct relationship between Technology's relative performance and interest rates.
Com. Services	Americas Europe EM			Longer term, we believe the continued expansion of fifth generation (5G) technology is sector positive. Upgrading networks is required; this is capital intensive, but government infrastructure initiatives could result in subsidies and investment. On the SU side, traditional broadcast and cable TV advertisers have struggled, but are quickly pivoting toward online mediums. Wireless service revenues and equipment sales are supported by the initial rollout of 5G cellular technology
Real Estate	Americas Europe EM			Warehouse/distribution center demand remains strong, resulting in rising rents. And with the rapid rise in home prices amid ongoing low interest rates and de-urbanization, REITs specializing in single-family home rentals and manufactured homes have benefited. In a generally still-low interest rate environment, combined with renewed demand for office and retail space, selective opportunities with a strong upside are available. However, this sector is very sensitive to interest rates, and historically underperforms most other sectors when DBs are raising rates.
Utilities	Americas Europe EM			The Utilities sector has tended to perform relatively better during periods of stress. That's partly because of the sector's traditional defensive nature and steady revenues – people need water, gas and electric services during all phases of the business cycle. Expectations for higher short- and long-term interest rates are expected to be a drag to the capital-intensive sector. This is counterbalanced by the developments around EV and alternative energy generation and distribution which is going to be the sector's next move.

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

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes; it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. **IX-7 Asset Management SA** does not assume that investor will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks, and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgment.

IX-7 Asset Management SA will closely monitor investments; it may, however, decide to cease doing so at its own discretion and without any previous notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products, and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report.

Neither **IX-7 Asset Management SA** nor any of its directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments. There is no representation that any transaction can or could have been performed at those prices, and any prices do not necessarily reflect a theoretical model-based valuation and may be based on certain assumptions. Different assumptions, by any other source, may yield substantially different results.

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

IX-7 Asset Management SA