IX-7 Asset Management SA

Q 04 / 2022

Quarterly Investment Review and Outlook

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When the future is hopeless,

the present takes on an ignoble bitterness.

~ Emile Zola

We disagree; the future depends on one's **outlook** and **decisions** – and we are mastering both in a comprehensive and meticulous manner.

Quarterly Outlook– Q04/2022

At a glance

Review – 3rd quarter of 2022

The world economy was hit by three shocks over the past quarter:

1. A massive drop in Russian gas supplies to Europe,
2. Repeated lockdowns in China, and
3. Very aggressive policy tightening by Western central banks.

The stage is now set for a synchronous global slowdown. Nevertheless, research analysts note that things could have been worse.

a) Macro/GDP

Economies of advanced economies will most likely continue to contract in Q4, with virtually zero growth expected for next year. Europe will most likely face a deep recession starting in the fourth quarter, but other developed regions may escape recession. For the US, we expect a slightly negative growth rate as the Fed continues to hike rates. The USD is expected to remain strong against all other currencies. China should be flattish around 4.4 %. All-in-all, the global economy should grow about 2.2% in 2023, a significant drop from 6.3% in 2021

b) Interest Rates

Following the Federal Reserve's surprise 75 basis point interest rate increase in June – the first move of that size in several decades – investors hoped CBs might turn more dovish in Q3. But the Fed subsequently hiked rates by 75bp in July and September. The European Central Bank then hiked rates by 75bp in September and noted that further outsized moves were possible. As for the rest of 2022, DM central banks show no sign of hitting the brakes. Even the Swiss Central Bank started raising interest rates in an aggressive move – by 0.75% – moving away from the negative interest policy implemented a decade ago.

There is no pivot in sight because consumer prices are still too elevated for comfort. Even if CPI prints moderately in the next few months – and this is possible in the US, with oil prices dropping through the third quarter – the problem is still at its starting point. Annual US inflation of above 8% is simply too high, and the longer it stays there, the more the Fed will be concerned about high wage expectations becoming embedded.

Surging inflation, falling growth, and central banks on the war-path – the combo is an unprecedented combination, and could result in bleak macro-outlook.

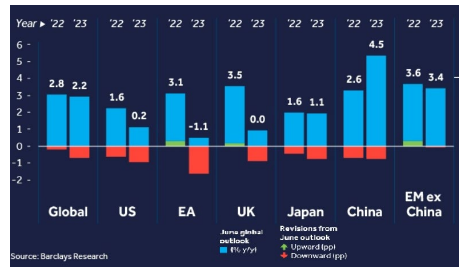
c) Valuation

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

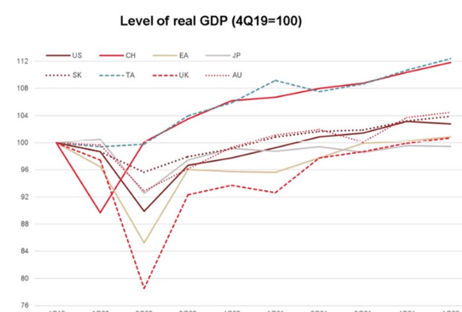
d) Hope

From a performance point of view, the next few quarters are expected to be challenging-to-painful, depending on the continent (Americas, Europe, or Asia). However, there is some good news: despite the global troubles of the past nine months, we observe a substantial degree of resilience. For example, jobless rates are still low in Developed Markets, while the excess savings accrued during the pandemic are cushioning consumption. In addition, services activity in the eurozone has been supported by the weaker currency, while governments

Expected GDP Growth Figures



Economies are mostly on track



across Europe are making concerted attempts to shield consumers from the worst of the energy shock. Plus, despite dire predictions and political upheavals, Italy has avoided a sovereign debt crisis, which means that the EU has learned from the 2011/2013 Greek disaster.

While most new research takes a negative stance on risk asset classes, we believe much of the adjustment was already made. It could therefore be opportune to consider stepping back into the market; the binary situation has evaporated and longer-term market narratives point towards a cloudy sky.

However, there is a wild card to consider.

Until now, the Russian regime has styled its actions as a special operation. With the invasion's stagnation, Russia has now decided to mobilize an estimated 300,000 reservists, – probably more, according to some sources – which will change the context of the war at the Eastern front.

At the same time, Russian has started organizing ballots in the Donetsk, Luhansk, Kherson and Zaporizhzhia regions, aiming at getting the local pro-Russian population to express the wish to join Russia. A similar process was used in 2014 when it annexed Crimea.

Assuming these ballots swing in Russia's favor, the plan to annex swaths of its neighbor could go a step further; ongoing military support by western nations provides grounds for Russia to claim that it is being aggressed on its own ground by Western States. While at this point of time the situation is unclear, the threat of nuclear weapons, even in a limited and preventative manner, is further fomenting global instability.

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Top-down view: September 2022

GPD – Economic Growth

Investors are obsessed with global growth. Fears of recession in the US and Europe are at the forefront of all discussions. As of now, it is assumed that Europe will fall into a recession in the course of 2023, while the US will most likely escape. However, on both continents, there are sufficient factors providing resilience against a prolonged, area-wide recession:

1. Colossal household excess savings in Europe,
2. Highly agile and highly responsive US consumers, and
3. Strong central bank commitment to support consumers via fiscal policy on both sides of the Atlantic.

The real risk is neither in Europe nor the US, but rather, in China. The state of the Chinese economy is not as brilliant as one might expect. As a result of some policy errors, the present downturn is not cyclical – it will last longer. In fact, China's growth model has imploded and there are no good solutions. That occurs on the commodity price shock, most visible in energy sector. China's Zero-Covid strategy is another issue, but with a mere 50k intensive care units countrywide, there is no alternative. In addition, the economic downturn is coupled with a huge wealth destruction – property prices have adjusted to much lower levels and crypto investors have taken the hit from speculation. The break in confidence in the financial market system is perhaps caused by central banks' tightening process.

CPI – Rate of Inflation

The peak rate of inflation is close – but the road back will be long and painful. Headline inflation – in terms of the CPI and the PCE deflator – has now most likely peaked in the US. Not so in Europe, where the occurrence happens with about a three to four months-delay. The main reasons for this long top-out?

1. Energy prices have dropped lower,
2. Commodity and food input prices have stabilized at higher levels but are now +/- 18% below the peak level, and
3. Wage growth is materializing with a clear tilt to stay in place for a prolonged period.

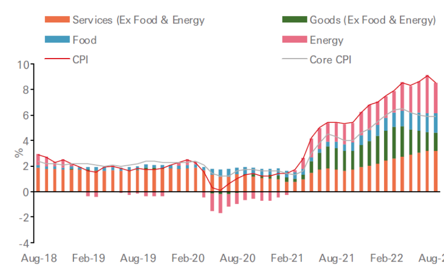
The way forward: A durable inflation driver is labor costs. Research suggests that wage growth will be the major inflation driver for 2024 and 2025 – hence the rate of inflation will stay high until the full wage growth cycle is complete. A more important, durable inflation driver – labor costs – is becoming increasingly powerful and will hinder disinflation. For the most part, our economists do not expect target consistent readings to be reached until 2024 or even 2025. This will be a long slog!

Central Bank Policies

CBs are moving away from the ultra-accommodative stances first adopted after the GFC and then augmented when the pandemic hit. This shift occurs at time when there is war on the Eastern front of Europe, implying economic sanctions against the aggressor. These sanctions result in idiosyncratic and local natural gas shortages, which in turn impact the entire range of economic activities.

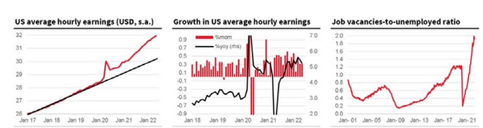
Under these circumstances, what are the Central Banks' possible measures? None, because the pace of monetary tightening, which tends to accelerate, is attempting to manage inflation rates not seen since the early 1980s in western advanced economies. Research suggests that this accelerated rate of active policy management will be in place for a prolonged period, whatever the cost!

Inflation is moving from commodities and goods to services



Source: US Bureau of Labor Statistics, HSBC Global Private Banking, as at 6th of September 2022.

US wages are on the rise with a low participation ratio

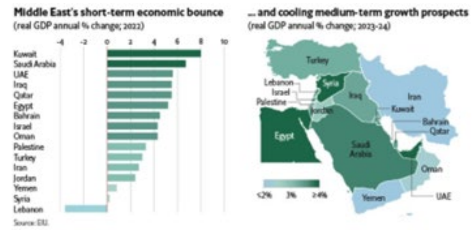


The time when Central Banks' approach was deemed to be in the vicinity of neutral, with rate hikes being accommodative, has gone. After about 35 years of decreasing interest rates, this stance is only natural and rational.

Middle East

GCC countries are leading GDP statistics for the better. Higher oil and gas prices will further support GCC economic growth during the rest of this year and into 2023, bolstering a steady recovery from the Covid-19 pandemic that began in the second half of last year.

GDP Development in GCC



Private sector activity in the GCC, particularly travel and hospitality, will improve further after eliminating the Covid-19-related restrictions. Business activity in the non-oil private sector economies (mainly construction) of Saudi Arabia and the UAE (the two biggest Arab economies) is outstanding. The IMF projects that the UAE economy (the Arab world's second largest) will grow 4.2% this year, while Emirates NBD forecasts growth of 5.7% and Abu Dhabi Commercial Bank estimates a 6% expansion, supported by a sharp rise in the oil sector.

Inflation risks in the GCC will be cushioned by regional governments' successful supply chain management strategies. Furthermore, as exchange rates are pegged against the USD, the relative stability of the US economy will help offset the impact of high commodity prices on domestic inflation.

Global Trade

Global trade defies the gloom! A slowdown of Chinese economic activities impacted many others, especially economies in the Southeast Asia region. This demonstrates their clear dependence on China and the Chinese local market.

Nevertheless, thanks to a strong carry-over effect, global trade still expanded by 0.6% qoq (2.4% saar) in 1Q22, strengthening in 2Q22 to 0.8% qoq (3.4% saar). Of course, year-on-year rates of expansion are slowing, but that is entirely explained by powerful base effects which boosted that measure to a peak of 24.6% in April of 2021. No one would expect such rates of growth to be maintained.

In short, despite slowing global growth and the gradual shift in household demand from goods to services, the global goods trade continues to expand. It should come as no surprise that it is doing so at a diminished rate and will ease back further. Meanwhile, global trade in services is making a belated but strong recovery.

Subject of interest:

The first nine months of this year have been turbulent for the tech sector. Here's what the 2nd half of 2022 might bring.

Just recently, the tech-focused index Nasdaq-100 has declined by more than 25%, entering bear market territory.

Regardless of the business model, every type of company has corrected; Apple by more than 15% and Alphabet (Google) by more than 25%, while e-commerce initiator Amazon and electric car manufacturer Tesla have dipped by more than 30% and payment providers such as Block and graphic card maker Nvidia are down by more than 50%. For the major players, losses between 0 and 50% are standard, while losses for less common names and start-ups range from 60-90%.

No-one has been immune!

Private markets haven't escaped to the broad-based downturn either. Many venture capitalists and private equity firms have become more sensitive toward valuations and selective about dealmaking. As a result, risk capital has become sparse, start-up valuations have taken a nosedive, and the IPO pipelines have nearly dried up. Although capital hasn't become rare, investors are no longer willing to finance growth-oriented business models. And lacking fresh capital, volume-driven technology companies are laying off staff in the thousands.

We believe that full correction of the Nasdaq-600 index is still to come. VCs and Private Equity may be forced to review their valuation models and consequently, deleverage much of their portfolios. As of now, most the Nasdaq-100 names have adjusted valuation, including some near-term disappointments, leaving room to cover for further uncertainties. As macro-economic conditions might start improving at some point in early 2023, these companies would be first the benefit.

Areas of opportunity

Market sectors such as healthcare (in particular, wellness and MedTech) and energy have been buoyed by recent tailwinds. We expect further positive developments, as CAAGR exceeds 10%. Defensive sectors like consumer staples might also do well, even as consumer spending and confidence continue to slide. We also like companies exposed to payment structures. While most of them have corrected in line with standard e-commerce models, we believe their business models are highly intertwined with day-to-day consumption; their pricing power will provide sufficient means to maintain or even expand their EPS margins.

A new paradigm for IT employees

In the US alone, an estimated 30,000 IT and e-commerce related staff have been laid off so far, many related to cryptocurrency exchange houses. One new key metric is the ratio: profit by employee and turnover by employee. Typically, employees at companies with an elusive growth model will be hit hardest by these two metrics.

Even larger companies that have yet to slow hiring or reduce headcount have grown uneasy about current economic conditions. Dara Khosrowshahi, CEO of ridesharing giant Uber, Satya Nadella, CEO of Microsoft, and Sundar Pichai, head of Google, aired concerns that people would have to "do more with less and better." In turn, this will hurt capital expenditures.

Defensive Sectors Offer Opportunities

Fortunately, such gloomy prospects for the technology sector do not necessarily signal similar difficulties for other industries. In fact, some sectors may even thrive in a recessionary environment.

For instance, industries supplying goods and services in constant demand regardless of consumers' purchasing power may stand to benefit. Specifically, staple categories like grocers, healthcare providers, energy, quick-service restaurants, or discount retailers may perform well, as may payments, DIY homebuilder material providers and certain commercial REITs.

This is largely because companies in these sectors may face less topline pressure even as overall spending declines. After all, people must still spend on necessities like food, shelter, healthcare, transportation, and utilities, even as they pare down spending on discretionary items like upscale dining, vacations, organic produce, and more.

Of course, the negative impact of inflation may be more difficult for these sectors to quell. As input costs rise, companies who are used to servicing price-conscious consumers may find it difficult to pass extra costs onto buyers, and firms may have to battle the pressures of margin compression instead.

That said, it's difficult to forecast macroeconomic conditions, and even more difficult to pinpoint the impact of specific conditions on business decisions or buyer behavior. In the end, the only thing we know for sure is that the outlook for at least the latter half of the year is highly uncertain. It is therefore wise for investors and workers alike to be more alert, agile, and attentive towards the potential pitfalls and opportunities that may lie ahead.

Investment recommendations by type

1. **Equities:**

Short-term view: - The market will likely re-enter bear-market territory; another 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. We also 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: - Neutral

Medium-term view: - The demand for alternative energy sources should be supportive of metals.

5. Commodities:

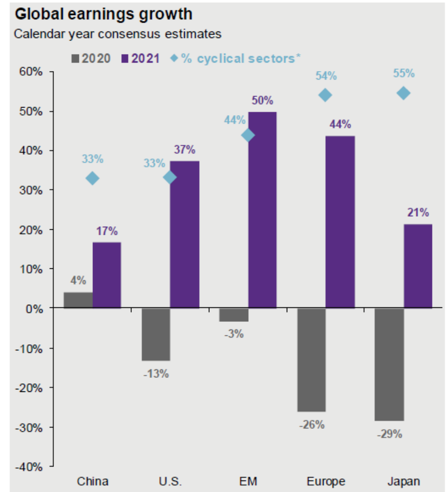
Short-term view: - Neutral

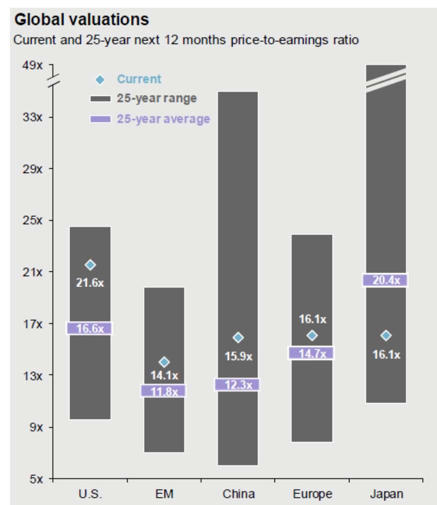
Medium-term view: - Commodities are attractive in the case of a prolonged period of high inflation.

6. Structured solutions:

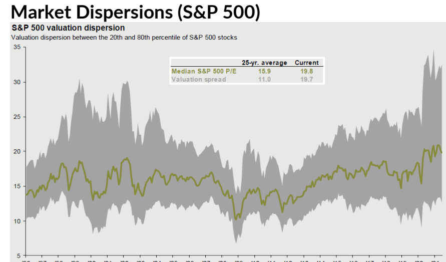
Short-term view: - Conditional capital guaranteed products offer an ideal risk/reward, as markets have corrected while volatility remains elevated. We favor exposure to luxury and payments.

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. Wellness & Health

Short-term view: - Positive

Medium-term view: - Healthy food, fitness, SleepTech, Mental Health, amongst others are overlooked by investors. Yet, these companies offer a CAAGR of plus 10%.

Consumers around the globe have acknowledged the importance of health and wellness. Rising awareness is expected to impact healthcare costs (-), obesity (-), and mental health (+). This change has accelerated during the pandemic and is expected to last and translate into a secular growth trend.

3. Carbon Credit

Short-term view: - **Attractive**

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

Capturing the flows of a carbon neutral policy is, as of now, fully decorrelated with the remaining market. Moreover, the strategies are highly attractive given the capital guaranteed concepts.

4. Global order – a quick shift

Short-term view: - Neutral

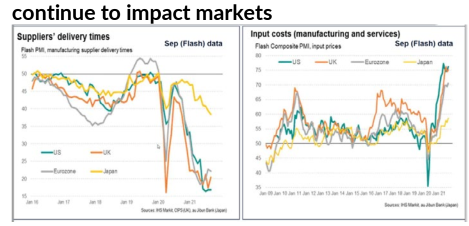
Medium-term view: - With the geopolitical picture having dramatically shifted in fewer than two quarters, industry sub-sectors such as Defense have regained our attention.

Pointed 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 allocations, investors are advised to look out for alternative and mixed system providers.

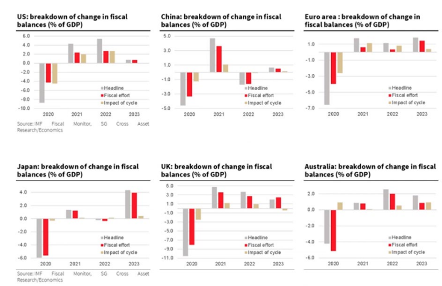
We expect re-armament to become a new multi-year investment trend.

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:

Compared to other economies and stock markets, the US looks resilient, though the market has also its challenges. US equities are expected to remain volatile, especially as we approach midterm elections and during interest rates hike periods. For investors, it will be difficult to recalibrate potential returns under the challenging environment. US economic activity has slowed noticeably, especially from last year's strong 5.7% gain. The combination of high inflation, rising interest rates, and some uncertainty has crimped consumers' wallets and mood. This contraction is likely to cause sectors such as housing, manufacturing and discretionary spending to slow noticeably. As inventory building and production activity slow, the materials sector could be adversely affected. And as global prices of raw materials slow, the materials sector may become less attractive.

While the US economy is slowing, the large US energy sector is benefiting from strong local and foreign demand. Given continued global supply constraints, a lack of investment in exploration in many countries, and the war in Ukraine, the supply/demand balance remains tenuous. Significantly, energy companies posted outsized returns in the second quarter as earnings rose more than 300% year-over-year. While those earnings growth rates are likely to slow, margins should remain healthy and valuations attractive. As for clean energy, the Inflation Reduction Act aims to increase its capacity, and should greatly benefit companies involved in this area. As a result, we now hold an outright overweight view on the energy sector, with a focus on clean energy, to capture the further potential upside.

US Earnings Growth looks solid

Index	EPS 2022% Growth	EPS 2023% Growth	EPS 2024% Growth
S&P 500	10.8%	7.6%	9.0%
Dow	3.3%	10.1%	9.6%
Nasdaq	50.0%	11.9%	18.3%
MSCI Europe	28.1%	2.4%	5.8%
MSCI EM Asia	-5.7%	8.3%	13.0%

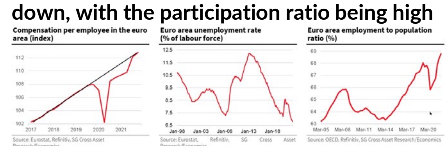
Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022.

Europe:

The Russia-Ukraine war and the resulting energy price increases and supply disruptions have led to pervasive problems for consumers and businesses alike. Risks of rolling blackouts, energy rationing, and potential periodic closure of some businesses due to extreme energy constraints are not sufficiently priced into Eurozone equity valuations, in our view. We have therefore continued to cut our allocation to Eurozone equities and maintain a defensive stance. EUR weakness should also be a negative contributor to total returns for foreign investors.

In the UK, a deep cost of living crisis will lead the country in recession, with the Bank of England expecting it to last at least 12 months. Markets will closely watch what fiscal support will be provided by the new government, but we do not think a recession can be avoided. That said, UK stocks are very global in nature; the high exposure to energy, as well as the gain in competitiveness stemming from a weak GBP, should support the index level. We therefore hold a neutral view on UK stocks, with a preference for global rather than local exposure.

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



With Germany being a well-balanced leader:

MENA:

Inflation is trending up across the region and in countries that relied heavily on food imports from Russia and Ukraine. Notably, Egypt and Lebanon face significant challenges. The surge in oil prices adds to the problem, but for the region's energy exporters, it is obviously a tremendous financial boost. The major question we explore in this issue is how these countries are likely to utilize this windfall. We do not expect a spending splurge as happened in 2008; instead, we expect much of the surplus will be used to pay down debt and drive investments at home and abroad.

Energy security concerns in Europe have transformed the Western approach to Middle East hydrocarbons – the main alternative to Russian energy in the short-to-medium term. However, the longer-term commitment to the energy transition remains and may even be accelerated by this crisis. We therefore also explore the outlook for hydrogen, which is expected to play an important role in the future circular carbon economy. Several countries in the Middle East – particularly Saudi Arabia, UAE and Oman – have developed aggressive plans to produce and export hydrogen. Meanwhile, although COVID-19 infection rates have been rising in recent weeks in the region, they are still very low by recent and international comparisons, and there have been very few recent deaths. As a result, most restrictions have been lifted and travel and tourism have begun to rebound. While we must be vigilant for new variants and waves, the broader outlook for the region's non-oil economy looks encouraging.

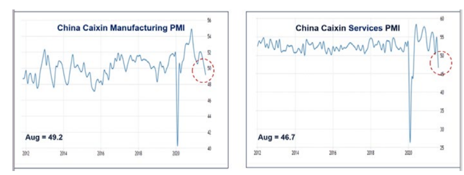
Emerging Markets/China:

China:

In EMA, China is presently the point of concern – specifically, China's Zero COVID policy. With each COVID flare-up, Chinese authorities shut down the affected region, which is impacting supply chains. Companies are starting to rethink their reliance on China as a manufacturing partner and are reconsidering their relationships with Chinese suppliers.

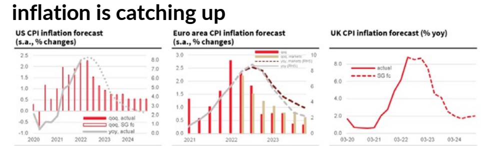
We maintain a neutral view on Chinese equities. While the path to growth remains rocky, we believe the worst point in the economy has passed and Chinese equities have largely priced in a longer and low-gradient rebound extending well into 2023. For onshore A-shares, we do not see the basis for a broad-based rally; the property sector is hurting many activities in its value chain and COVID restrictions continue to suppress consumption. For offshore Chinese equities, we think the recent escalation in US-China geopolitical tensions in the Taiwan Strait and the China ADR delisting mean investors will continue to require a risk premium. The markets will look closely at the 20th National Congress of the Chinese Communist Party this fall and any policy initiatives issuing from it.

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



Many countries in emerging Asia have been affected by slowing global demand, which has left inventory levels somewhat bloated, especially for consumer goods. On the positive side, bottlenecks have eased somewhat, which is visible in falling shipping costs and a price reduction of some semi-conductors. In turn, this puts less pressure on global inflation, at least for goods (while services, food and rent are typically still seeing high inflation). Inflation is much less elevated in Asia than in many Western countries, and we foresee fewer rate hikes and less pressure on valuations.

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



Other EMA:

Looming recession risks in Europe and the sharp slowdown in global growth are posing mounting challenges to Asia's export-oriented economies and technology sector. Sharp deterioration in external demand adds strong pressure on Asian policymakers to accelerate structural transformation and provide policy support to build a more sustainable domestic-driven growth model. Against this macro backdrop, the themes under this trend focus on opportunities from the region's progressive adaptation, disruptive changes resulting from the pandemic, supply chain challenges, energy shock, and net zero transition.

Asian Quality Credit

Some positives for Asian credit are the recent PBoC rate cuts and rising market expectations of more monetary easing actions to diminish China's growth headwinds. In coming quarters, we expect more monetary and fiscal stimulus to backstop demand.

With the Chinese government now showing willingness to provide more liquidity and credit support to refinance top-tier private developers, the contagion risk of the property credit crisis moving up to IG (mainly SOEs) is relatively limited.

We have a strong preference for Supra-Nationals (Indonesia for instance) and IG bonds, the latter accounting for approximately 80% of the overall Asian credit market. The main driver is on quality and yield pick-up over developed markets' IG. We seek carry opportunities in the short-to-medium duration (3-5 years), as they are less exposed to rate volatility compared to long duration bonds.

With the Fed's front-loaded tightening, along with increasing recession fears in the markets, we have stronger conviction in Asian quality credit for its defensive merit. Technical factors are supportive for Asian credit. That I because we have seen an exodus of international capital from this asset class due to concerns about China's property slump, resulting in China IG credit spreads being oversold relative to fundamentals.

Switzerland:

The Swiss government significantly cut its economic growth forecasts in mid-September, citing growing risks from a "tense energy situation and sharp price increases." It now expects the country's economy to expand 2.0% this year, down from its June forecast of 2.6%.

After a positive first half of 2022, the Swiss economy now faces a deteriorating outlook. That comes on the back of a tense energy situation, with sharp price increases weighing on economic prospects, particularly in Europe. SECO increased its inflation forecast, saying it expected consumer prices to rise by 3% in 2022 and 2.3% in 2023. Previously it had expected inflation of 2.5% this year and 1.4% in 2023.

Earlier this month, three of Germany's leading economic institutes lowered their forecasts for Europe's largest economy next year, predicting that high energy prices caused by the Ukraine war would take their toll. Switzerland, which is less dependent on Russian gas and has seen significantly lower inflation than the neighboring eurozone, traditionally has one of Europe's more robust economies.

However, as the Swiss economy exports about 60% into the eurozone, foreign demand is expected to weaken, with less demand for Swiss products expected from the eurozone, the US and China than previously forecast. The Swiss economy's overall outlook largely depends on the global economy and how the energy supply situation develops. All-in-all, there are likely few escape markets for the agile Swiss industry this time round, as all its major trading partners are heading towards recession sooner or later.

Market-by-Market Allocation:

Credit:

Americas:

Year-to-date, both credit and equities have suffered. Looking ahead, we think credit is better positioned in both the US and Emerging Markets (EM), given the outlook for growth, policy and relative valuations. The exception to this is Credit in Europe, which we expect to suffer from lower consumer satisfaction, GDP, and profit margins.

Until two months ago, there was widespread concern that the US was already in a recession, given weak readings of the quarterly GDP and some of the lowest levels of consumer confidence since the 2009 financial crisis. That weakness drove hope, and markets performed well on the back of the Federal Reserve managing to curb inflation.

But data points generated between then and now point to global economies continuing to advance, particularly in the States. There, the labor market continues to look extremely healthy, with about 315,000 jobs added last month and over 3.5 million jobs added year-to-date. In addition, manufacturing activity has expanded every month this year. And besides, consumer spending remains solid, one of the reasons core inflation remains elevated.

Given this, the US economy does not appear to be slowing down: On the contrary, its pace remains brisk. If this proves true, core inflation will remain elevated for a prolonged period and the FED may need to rise interest more than expected, which will eventually result in a hard landing for the economy.

For investors, this is an excellent backdrop. This is a "late cycle" economic environment, in which activity is still solid but might slow in the future, inflation is high and the central bank is hiking, and the labor market is tight and the yield curve is inverted. The environment offers investors a solid 1-to-3-year outlook for investment class credit.

Regarding economic conditions, relative valuations have moved in favor of credit markets relative to equities. In the US, 1-to-5-year corporate bonds now yield about 4.9%, rapidly nearing the current earnings yield of the S&P 500 of about 5.9%. Despite just a 1% difference in yield, those short-dated bonds have about one fifth of the volatility of stocks over the last 30 days.

Asia:

Regarding EM, the sovereign debt index yields about 7.7%, just 1% less than the earnings yield of the MSCI Emerging Market Equity Index. Not only is EM sovereign debt less volatile than EM equities; it also has more exposure to the countries that provide a better risk reward.

Europe:

Within Developed Europe we are neutral on Global IG (i.e., USD, EUR, GBP), underweight on Global HY and overweight on sovereign debt. DM sovereign bond yields should be range-bound in the short-to-medium term; on the other hand, IG and HY are expected to become highly volatile in the coming months, reducing their attractiveness.

Sector Analysis

Communications Services

We expect these top five consumer trends to impact the sector in the coming quarters:

Trust-based Economy

Though 94% of surveyed individuals believe trust is even more important in uncertain times, trust in governments is spiraling. Contributors to this loss of trust include everything from the global pandemic and extreme weather caused by climate change to the government's failure to keep its promises.

As a result, consumers are increasingly looking for businesses that do the right thing and build great experiences based on trust. When it comes to building trust as an organization, customers are more likely to engage with companies who actively demonstrate good values and prioritize health and safety.

Brand Loyalty

Thanks to digitalization, the globe is accessible to everyone. While this is great news for consumers, it also means that developing brand loyalty is more crucial than ever – and customer relationships can be influenced by several factors.

Not surprisingly, 84% of buyers think about how you treat customers:

- 70% want to know you treat employees well
- 61% look at how you respond to racial injustice
- 50% scrutinize your environmental practices
- 47% consider action on economic injustice important
- 41% rate you on how involved you are in the community

Personalization with Privacy

Personalization requires data collection and analysis; however, data privacy requirements often put the brakes on a fully fledged roll-out of possible actions and measurements.

Today, personalization goes well beyond communications. Customers expect businesses to anticipate their expectations and desires at every touchpoint. Digital channels continue to dominate customer engagement, and consistent, personalized experiences across multiple channels are expected. But while most consumers feel that customer experience is just as important as products or services, not many companies provide consistent omnichannel experiences.

Although two-thirds of customers are willing to divulge personal information for a more tailored experience, the overwhelming majority still feel more data is collected than needed and companies aren't transparent about how data is used, while 67% don't think they benefit from sharing their data.

The promise of a better life and distrust in technology

Artificial intelligence has been a game-changer in terms of freeing up people's time. Even so, fewer than half of customers understand the role of artificial intelligence in business. Therefore, in order to put consumers more at ease and ultimately gain market share, companies should focus their AI policy and development on the following issues:

- Giving customers greater opportunities for feedback and control over how AI is used

- Providing access to the research behind the tech
- Soliciting input from human rights and ethics experts
- Including more diverse data sets

Omnichannel Experience

An omnichannel customer experience means a customer can interact with one business across multiple channels as part of one seamless customer journey. Marketing, sales, customer support and even in-store experiences are synced up so a customer can easily go from one customer channel to another to complete a purchase.

However, 84% of respondents revealed that a lack of consistency across touchpoints makes them lose trust in a company, and 58% lose faith when they receive irrelevant communications that don't match their experience.

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

Key trend in the global materials market: R&D is focusing on new advanced materials with the aim of improving existing products in terms of properties. The high quality of these materials encourages their end-usage in industries such as healthcare, construction, aerospace, and automotive. Moreover, the growing applications for advanced steel and aluminum alloys in various end-use industries is resulting in their increased demand worldwide.

New types of materials are high-quality, demonstrating function superior to other materials in diverse application areas, and can be used individually or in combination with other materials. They have improved physical and chemical properties, such as high stiffness, low-weight, superior strength with respect to fiber reinforcement, high resistance to chemicals and temperature, good dimensional stability, and high flexibility.

Driver

The materials market is primarily driven by the increasing adoption of new materials in the automotive and electronics industries, representing close to 60% the global GDP.

According to US periodical *Scientific American*, a car's fuel economy increases by 6-8% by reducing one-tenth of its weight. In view of this, the automotive industry is increasingly focusing on the development of lightweight, energy-efficient vehicles. For example, to increase fuel efficiency, automotive manufacturer Nissan has reduced the weight of several of its fleet, including Altima, Frontier, and Juke.

Furthermore, the adoption of electro-ceramics in semiconductors and electronics is increasing globally, owing to their superior damage tolerance, toughness, temperature resistance, and corrosion resistance. Plus, electro-ceramics reduce the overall weight and size of electronic devices. This has propelled the demand for these materials in the electronics industry and positively impacted the growth of the advanced materials market.

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.

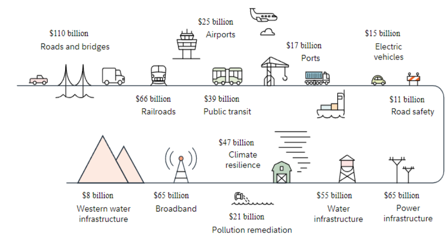
Negatives for the sector:

- 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:

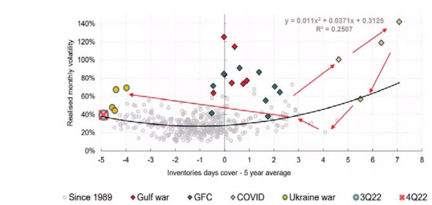
- An increase in global COVID-19 cases
- Potential stringent environmental regulations
- Strong US dollar and/or weaker-than-expected economic growth

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

Investment opportunities:

Some of the major players operating in the global advanced materials market are Akzo Nobel N.V., 3M Company, BASF SE, DowDuPont Inc., Momentive Performance Materials Inc., Morgan Advanced Materials, Hanwha Group, Pyro-Genesis Canada Inc., Cytech Products Inc., and Hexcel Corporation.

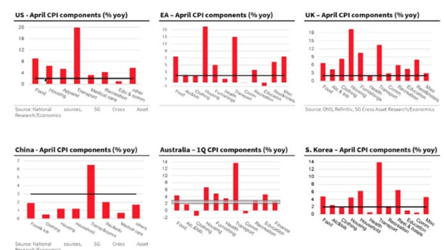
Consumer Discretionaries

There are three areas where potential changes the consumer discretionary industry are taking place. We expect the time frame to be relatively short, i.e., within the next three years. While short-term, the consumer discretionary sector is suffering due multiple geopolitical reasons, we look for potential sector-related game changes on the horizon:

Digital goods:

Some argue that the metaverse isn't so much a place as it is a point in time when consumers start to value large components of their digital lives more than their physical ones. What happens to traditional CD sales when consumers are willing to pay as much or more to dress, equip, consume, and experience digital offerings as they are to pay for analog experiences? Technologies such as blockchain and nonfungible tokens (NFTs) are opening new paths to digital scarcity and ownership, and some see a trillion-dollar market. Currently, companies capitalizing on this opportunity are experienced in software economics and running platforms. However, if digital becomes a major source of revenues, it remains unclear if CD companies can adapt. Timing and approach might be the key. Some CDs have exited the fully fledged e-commerce opportunity – probably it is a bit too early for affluent and plus consumers.

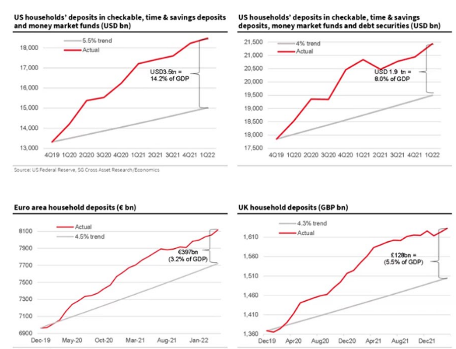
Inflation has broadened – combating it will take more time



Edge manufacturing:

Renewed interest in shorter supply chains – as well as additive manufacturing technologies like 3D printers – could move production closer to consumers. But currently, very few CDs excel in the field. Short and tailor-made supply lines allow these CDs to customize products and co-create with consumers. For example, the Spanish retailer Inditex (Zara, Massimo Dutti, Pull and Bear, Bershka, Stradivarius, Oysho, Zara home, etc.) is one of few retailers to have mastered the process, in a business model that may be stand apart as a true benchmark. Furthermore, the power to customize will be important to the brand moving forward. There is a clear call for computer-aided design (CAD) with decentralized autonomous organizations (DAOs), including blockchain-based governance structures.

But consumers still have plenty of cash at hand:



Post consumption:

Buying less translates to buying better. Consumers are expected to make more purchasing decisions influenced by sustainability. They will want fewer but more sustainable new items and will reuse them whenever possible. Others will be compelled to buy less as rising costs force them to dedicate more of their wallet to nondiscretionary spending. The question here is how CDs will address this challenge, since their business model is based on one-way and single use for each product.

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.

IX-7 Asset Management SA

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 their own agile business model, such as Amazon, Nike, Deckers Outdoors, Adidas, LVMH, and Inditex.

Consumer Staples

After a year-long dip, household cash flow will begin growing again right after Christmas, and will accelerate through the new year, according to new research by Goldman Sachs.

"This year, we're looking at negative discretionary cash flow for the first time since the 2008-09 financial crisis," Goldman consumer goods analyst Jason English said in a recent press webinar. The biggest driver of cash flow improvement next year, he said, will be wages.

After a year-long struggle to keep up with inflation, that's good news for retail sales and for the economy's ability to avoid a recession, according to Mark Zandi, chief economist at Moody's Analytics, which has a similar forecast of improving consumer finances. Year-on-year, retail sales have risen by about 12%, but most of that reflects the surging dollar value of gasoline and other goods sold at this year's inflated prices. Other sales, such as cars, have risen just 1.5 percent, far below the pace of inflation.

The surge in capital goods spending during the brief Covid recession was due to consumers snapping up furniture and other home-related goods as they spent more time at home. This past excessive buying mood pulled demand forward, contributing to retail's slump this year. However, Goldman's estimates show the numbers are more positive through next year. Consumer staples are expected to rise by 2% in the first quarter, and 6%+ in the second half of 2023. Large-scale players like Amazon and Walmart, and to a lesser degree Target, will be the winners and take the market share.

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.
- Rising 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 companies 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): 360
E12 months value (DJStoxx600): 390
Upside potential: +8.3%

Key economic ratios:

GDP Growth 22 (E)	2.8
GDP Growth 23 (E)	0.0
CPI 22 (E)	9.0
CPI 23 (E)	4.8
P/E 2022 (E):	18.5
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

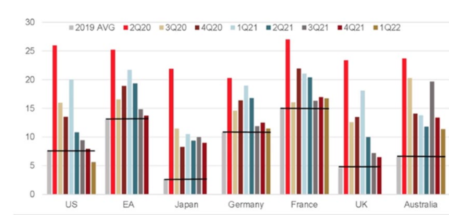
Key names to look at:

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 keeping up



And consumers are still going to the malls

Information Technology

The tech sector is struggling, but not all participants are equally impacted. That occurs on the back of a weak economy, which is technically in a recession (two consecutive quarters of negative GDP growth).

Long-duration assets and the technology sector in particular have been hit hard by the ongoing economic slowdown. Both startups and tech giants have declined in value as public and private-market valuations have decreased from all-time highs, all between October and November of 2021.

Despite turbulence in the tech sector as a whole, tech firms aren't monolithic, and some have fared better than others. While small and unprofitable companies with legacy software and poor balance sheets have strongly felt the downturn, some contenders occupying specialized niches within the broader sector have thrived. Here are a few highlights.

Cloud Computing and IaaS Providers

Cloud computing vendors form the backbone of nearly half of modern-day tech companies' tech stacks with infrastructure as a service (IaaS) provider at the ground level. These companies offer on-demand access to the digital equivalent of raw materials in manufacturing – networking, computing, and data storage resources.

In turn, IaaS vendors power both Platforms as a Service (PaaS) and Software as a Service (SaaS) companies, effectively providing the inputs for most other software services on the market. For this reason, they can be seen as critical service providers – vendors offering basic needs and staple services that will see demand from other businesses, regardless of the macroeconomic environment. Typically, in this field we have Google, Amazon, and Microsoft.

Ecosystem-Enhanced, Subscription-Based Services

Even though software as a service (SaaS) companies are users (rather than providers) of critical infrastructure, their recurring revenue streams and lengthy customer tenures may allow them to exhibit greater resilience against deteriorating economic conditions.

Software services that display high switching costs or ecosystem "lock-ins" may be particularly successful at retaining customers. For instance, graphic designers who are familiar with Adobe Creative Cloud, which offers subscription access to cloud-hosted versions of applications like Adobe Photoshop, Illustrator, and After Effects, may be hesitant to switch software providers, even if a superior alternative exists.

Additionally, these applications have integrated themselves so deeply into a designer's workflow that it would be difficult to use another software provider due to compatibility issues, data transfer concerns, and other problems.

The most prominent company in the field is Apple. By means of its ecosystem effects, combined with subscription-based revenue streams (like revenue derived from Apple's services), the company creates multiple sub-revenue streams from the same service. In fact, a consumer that owns iPhone makes multiple payments to the company on an ongoing basis. This strategy has proved to be effective for the company. Its shares are down just 8.7% in 2022, while the NASDAQ-100, a collection of 102 tech sector names, is down nearly 20% for the year.

Other sub-sectors the benefit form superior technologies are

- Select Biotech Companies
- Online Travel Agencies
- Data warehousing (most accessible via REIT)

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 lack of economic visibility, COVID-19, the lingering crisis around Taiwan (where most micro-processors are built), 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 in 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

The global energy mix is projected to shift rapidly towards alternative power generators such hydrogen, amongst others. The share of electricity and hydrogen in final consumption may grow to 32% by 2035 and 50% by 2050.

At the same time, global energy consumption is projected to flatten in the coming decades. Despite rapid growth of the global economy and population growth to two billion people, energy consumption is projected to grow by only 14%. Continued reductions in the energy intensity of GDP are a key driver, triggered by greater end-use efficiency in buildings, transport, and industry.

COVID-19 resulted in a significant drop in liquids demand. Although regional demand has largely bounced back, pre-pandemic levels are not projected until 2023, mainly due to low international aviation traffic.

Globally, liquids demand is expected to peak around 102 MMb/d in the next two to five years, despite a near-term recovery of demand from the impacts of the pandemic. This peak will be driven primarily by electrification and efficiencies across sectors. Liquids demand in 2050 could be 35-50% lower than it is today; however, reaching the target set by the 1.5° pathway would require an even steeper decline.

Regionally, liquids demand in major oil markets such as the US and the EU has already peaked; all markets, including developing regions like India and Southeast Asia, are likely to peak before 2040.

Influenced by slowing growth in the number of cars on the road, increased efficiency, and an uptick in adoption of alternative vehicles (electric and hydrogen), the demand for diesel oil and other road transport liquids is projected to decline 75% by 2050, after peaking in the early 2020s. At the same time, bio- and synfuels demand should further decrease demand for crude oil. Aviation liquids demand is projected to continue growing, but uptake of bio- and synfuels may result in a decreased demand for fossil kerosene. Indeed, the demand for fossil kerosene is projected to peak by the mid-2030s, while sustainable aviation fuels may grow to 40% of aviation liquids demand by 2050.

Chemicals remain one of the few growth avenues for liquids demand; demand is projected to grow 50% by 2050, despite increasing downward pressure from demand reduction, recycling, and pyrolysis.

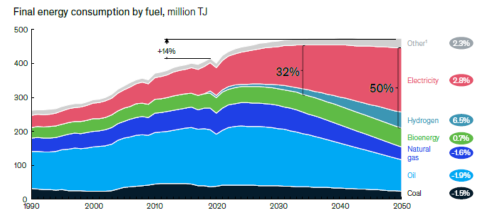
Crude oil used for combustion is expected to decline from 80%-45% of total liquids by 2050, as growth in nonenergy use of oil continues and bio- and synfuels increase their share, especially in transport applications.

Hydrogen

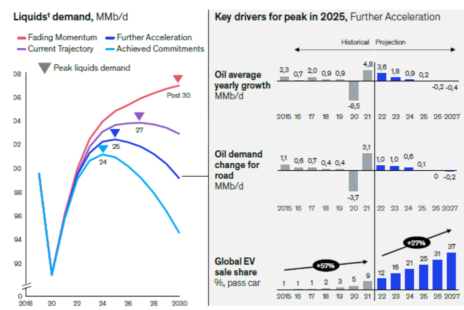
Hydrogen demand is projected to grow fivefold by 2050, driven primarily by road, maritime, and aviation transport. Growth to 2035 is driven by sectors with favorable economics versus alternatives; for example, fuel cell electric vehicles (FCEVs) will likely displace conventional diesel trucks for road transport. Beyond 2035, private and public sector commitments could drive the adoption of hydrogen in sectors with unfavorable economics, such as the aviation and maritime sectors, which are likely to adopt hydrogen-derivative fuels like synthetic kerosene and ammonia. This growth is not without precedent; the EU's rapid switch to natural gas proves that it is possible to quickly change the energy system.

Three fundamental enablers may be needed to support the development of the hydrogen economy:

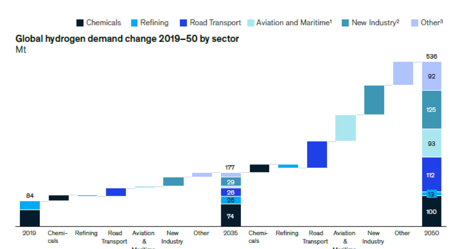
Long-term energy supply development



Fossil energy demand to peak within the next 5 years



Expected demand for Hydrogen



1. Aviation and maritime include direct use of hydrogen and hydrogen-derived synfuels including kerosene, diesel, methanol, gasoline, and ammonia. The category also includes some hydrogen-derived synfuels in road transport
2. New industry includes all new uses of hydrogen in Industrial processes, eg, iron and steel production, whereas chemicals and refining are traditional hydrogen uses
3. Other includes buildings and electricity generation

1) **Infrastructure and supply chain:** Timely deployment of infrastructure across the whole supply chain is likely required to meet hydrogen demand. Transport and storage infrastructure may be key to enabling a global hydrogen value chain.

2) **Technology advancement and manufacturing scale-up:** Cost reduction and increased scale-up in renewable energy production, electrolyzers, and carbon capture, utilization, and storage will likely be needed to make clean technologies cost competitive against conventional high-carbon production routes.

3) **Government support:** Government support and targeted actions, such as an increase in CO_2 prices, could be key. Such moves are particularly relevant in segments where hydrogen will not be cost competitive compared to the high-carbon alternative, such as in the aviation sector. Around 40 countries already have dedicated hydrogen strategies in place.

New trade flows could emerge to connect demand centers with resource-rich regions. Regions with cost-optimal production resources – such ME with its natural gas or renewable energy sources – could become major hydrogen export hubs at the forefront of a new global hydrogen trade.

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 many 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 several 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

Over the past two years, the financial services industry has demonstrated its ability to successfully navigate unprecedented levels of uncertainty. From real estate to insurance, investment management to banking and capital markets, financial services organizations across the globe faced the pandemic with remarkable resilience and adaptivity, helping people, companies, and governments get back on their feet.

But it's still an upward climb. Faced with a combination of near-term geopolitical and economic challenges – the war in Ukraine, inflation, supply chain disruptions, and possible regional or global recession – 2023 promises to be another year where more regulation and requirements around transparency become marketplace realities.

How can financial services leaders navigate the path ahead? They can apply the lessons learned since 2020 to address challenges and find opportunities: leaning in on smart strategies and execution, and focusing on talent, technology, risk, regulation, and purpose.

While some organizations may choose the cost-cutting route, others will point toward smarter execution, finding ways technology can be deployed to add value and create superior customer experiences. While some firms may respond to ESG requirements defensively, focusing on doing only what's required, others will step up and lead, finding opportunities to invest in people and the planet.

2023 could be the year the "new normal" fully comes into view. There will be opportunities to help define the future – one in which profits and purpose are inextricably linked. Financial services leaders can be poised and ready to move the industry forward.

Some additional forces at play:

- By 2025, the technology-led digital transformation will hyper-connect banking and financial services companies across the front, middle and back offices.
- Artificial intelligence, machine learning, blockchain and conversational analytics will drive innovation for better resilience and responsiveness.
- The banking sector is expected balance profit with purpose through next-generation platforms and services that empower people to use their wealth for positive environmental and social impacts.

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, although it has improved recently.

Investment opportunities:

Focus on selectivity

Although 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:	3'700
E12 months value S&P 500:	4'150
Upside potential:	+12.2%

Key economic ratios:

GDP Growth 22 (E):	1.5
GDP Growth 23 (E):	0.5
CPI 22 (E):	9.3
CPI 23 (E):	3.9
P/E 2022 (E):	24
P/E 2023 (E):	18
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

Healthcare

MedTech and the IoMT are crucial drivers of value-based care

Prediction: By 2025, MedTech companies will actively drive the future of health, focusing on the use of transformative technology to enhance products and services and enable 4P medicine. Companies will have access to sophisticated data analytics capabilities through in-house skills development and partnering with pairs and research institutes alike. They will work closely with end-users, leveraging new cognitive and robotic technologies to improve outcomes. MedTech companies will also partner with consumer-focused technology companies to benefit from their experience of brand development, customer engagement and advanced analytics.

While MedTech companies traditionally focused on developing hardware (surgical equipment, joint replacements, diagnostic equipment, etc.), many more now use software and sensors and deploy advanced analytics to become Software as a Service (SaaS) providers. Moreover, they are more and more specialized, targeting preventative care at specific patient segments. Companion diagnostics have become a crucial tool for personalizing patient therapy, with MedTech playing a major role in driving VBHC, helping to reduce medical costs, optimize surgical performance, and improve patient outcomes. Connected medical devices have helped close the loop between patients and HCPs by augmenting HCP skills.

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:

Omicron had relatively little impact on the economic recovery of the MedTech sub-sector but caused major disruption in hospitals through cancelled procedures. This disruption is now subsiding as cases decline in Developed Markets. We expect earnings upgrades for stocks leveraged to higher procedure volumes, particularly for select MedTech and healthcare services companies. These stocks are also relatively defensive, with little earnings risk from a slowing economy.

As of today, we consider the following:

a) General Pharma: Pfizer, GSK, Roche, Novartis, Bayer, AbbVie, Thermo Fisher, Lonza, Scientific Inc., and by extension, Amazon, Microsoft, Alphabet, Salesforce
b) MedTech: Alcon, Becton Dickinson & Co, Boston Scientific Corp., CSL Limited, Edwards Lifesciences Corp, Encompass Health, Medtronic, Inc., Stryker Corporation, Terumo Corporation, Zimmer Corp.

Industrials

Manufacturing is a critical contributor to national prosperity and a key driver of economic growth. In the face of disruptive innovation and government regulations, manufacturers must embrace technological advancements, anticipate economic risks, and manage complex global supply chains to increase productivity and maintain competitiveness. A recent study crystalized major industry leaders' concerns:

1) **War for talent:** Many traditional skills will become redundant, but company leaders remain confident that the shift will happen gradually and be managed organically, without having to resort of greater restructuring efforts. The most common concern was insufficient access to certain skills, especially digital skills (for example, data scientists, AI, or cybersecurity experts).

2) **Global supply chain dilemma:** Supply-chain disruptions are a key driver of revenue loss in more than 50% of the firms, especially at the beginning of a crisis, i.e., until the results of a BCP become effective. This holds true even though supply chains of B2B manufacturing firms are typically less global and less complex than those of, for example, automotive OEMs. The expected way forward: Depending on the business model, either more “local-for-local” (e.g., for component manufacturers) or more “centralization,” including near-shoring of low-cost sourcing from Asia to Eastern Europe (e.g., for complex machine OEMs). In addition, a shift from a single to a multiple sourcing strategy can be expected wherever economically feasible.

3) **True value of digital:** There is general consensus that “digital” has high potential for manufacturing companies and that only a fraction of this potential has been realized so far. Our hypothesis regarding the true value of digital includes: 1. Huge unexploited potential for internal efficiency gains, and 2. Limited external revenue potential. According to the CEO of a leading provider of intralogistics systems who currently invests heavily in digitally enabled end-to-end processes, digital gains can increase efficiency by about 25%. Similarly, the chief technology officer (CTO) of second company notes that the true value of digital services is not in selling software or apps, but rather in selling traditional services, e.g., consulting, in a different way.

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.

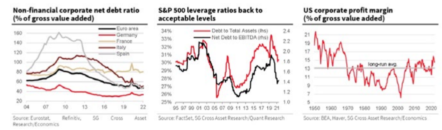
Investment opportunities:

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 should be re-examined.

Benefits to the sector: Improving aerospace activities, a renewed interest in defense, supply chains, and factory re-equipping.

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

Corporate balance sheets are in a good shape

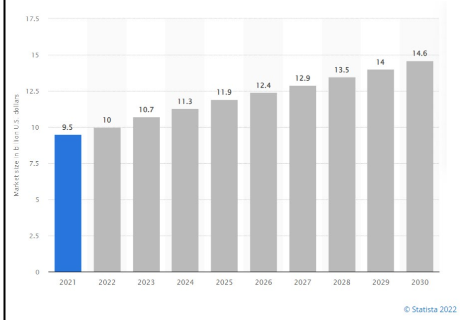


Real Estate

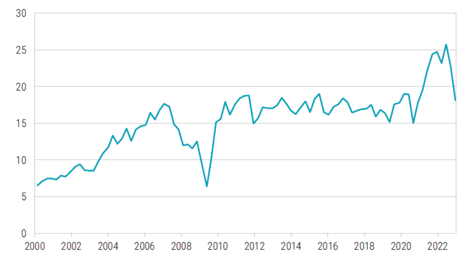
Worldwide real estate companies' revenue was valued at 9.5 billion USD in 2021 and is predicted to increase in terms of CAGR by 4.8% between 2021 and 2030. With a growing demand for industrial and commercial infrastructure and the recovery of the global economy from the pandemic, the real estate market is expected to reach 14.6 billion USD by 2030. Other factors likely to impact market development are the saturation of the residential real estate market in certain countries and cities, as well as increased government spending on infrastructure development.

Based on valuation ratios, the market has entered a correction that is absorbing some Covid-related excesses. In the first quarter of 2022 valuation ratios fell from a record high of 25.8 (end of 2021) to 22.7, continuing to drop in the second quarter to 18.2. This is still above the historical median of 16.4. However, since this measure has only been available since 2000, it is difficult to determine what a "normal" ratio is. Considering the limited data, real estate appears expensive compared with past levels. Based on real estate's relatively low CAPE (suggesting that it is cheap) and elevated price-to-FFO ratio (suggesting it is expensive), we assess real estate to be neutrally valued.

Revenues of the Real Estate Market



US REIT Valuation Ratios



Source: S&P Global Market Intelligence, Nareit T-Tracker, Robeco. The valuation ratio specific to US Real Estate Investment Trusts is the price (P) divided by the funds from operation (FFO).

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.
- Valuations are still relatively attractive.
- Long-term demographics support extended-care and assisted-living facilities.

Negatives for the sector:

- High unemployment may 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:

Depending on an investor's appetite for risk, one can find opportunities areas which were downtrodden in 2020 and have not fully recovered: 1) gaming and casino, 2) senior housing, 3) lodging, and 4) 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: Prologis, Sergo, Goodman Group, GLP, Nippon Prologis, A-Reit, Mapletree Logistics, Equinix.

Utilities

The USD 10 trillion investment opportunity

Previously, Utilities were mainly the business of the public sector, but the private sector is now expected to play a critical role in meeting the UN's Sustainable Development Goals (SDGs) over the next decade. Not only private investors expected to contribute their share, but also there is a clear business case for doing so. Increasingly, investors build environmental, social and governance risk into their decision-making and seek to act in the interests of a broader range of stakeholders. While there is a potential Catch-22 (if a project is badly executed or impacted by corruption), private-sector investments will help many nations improve the quality and quantity of "utilities." Three of the most tangible and infrastructure-focused investments:

1. **Clean Water and Sanitation**

Globally, 3 in 10 people lack access to safe drinking water and 6 in 10 people do not have access to safe and clean sanitation facilities, severely affecting their health and livelihoods. Access levels remain relatively low, varying from 34% (Uganda) to 55% (Nigeria) in Africa, and somewhat higher in Asia, between 73% (Bangladesh) and 99% (Thailand). These shortcomings represent a significant opportunity for the private sector to help achieve and maintain universal access.

2. **Affordable and Clean Energy**

Clean, renewable energy sources are crucial for combating climate change, while universal access to electricity is fundamental for providing people with a basic standard of living. Research suggests that more than 10% of people worldwide still lack a safe, reliable power supply (McK). DM markets studied have already achieved this goal (100 % of the population have access to all in full). While a good number of countries in EM countries are very close (with at least 90% access), but majority still have major caps. These are substantial opportunities for the private sector.

3. **Industry, Innovation and Infrastructure**

- **Transport infrastructure** is vital for a country to achieve sustainable and inclusive economic growth, and essential for boosting trade and productivity. While most transport infrastructure is publicly funded, there is a great opportunity for private investors to become involved.
- **Digital access:** An estimated 3.8 billion people globally (including 80% of the population of the least developed economies) do not have access to the internet, and 16% lack access to mobile broadband networks. Among 15 markets analyzed, digital access rates vary between 27% (Pakistan) and 85% (Malaysia) and achieving and maintaining universal access will take significant investment, with the majority likely needing to come from private sources.

Positives for the sector:

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

Key figures for Asia:

Target values:

Present fair value MXAPJ:	560
E12 months value MXAPJ:	670
Upside potential:	+15.5%

Key economic ratios:

GDP Growth 22 (E):	3.9
GDP Growth 23 (E):	4.4
CPI 22 (E):	3.7
CPI 23 (E):	2.9
P/E 2022 (E):	21.5
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

Negatives for the sector:

- The sector is defensive as it has been in the past.
- Valuations are high relative to the sector's historical average.
- Economic recovery makes the sector less attractive relative to other sectors.

Investment opportunities:

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

Some of the most aggressive actions seen in central banks around the world are currently unfolding. They deal with the current inflationary environment, which seems more and more likely to be leading into recession.

As a result, the USD as a safe haven currency continues to strengthen, having broken parity recently against the euro. The GBP/USD pair is at a near 35-year low.

On September 21, 2022, the Federal Open Market Committee (FOMC) hiked the federal funds rate by 75 basis points, as expected. With a less favorable growth and inflation outlook, the committee's own expectations for future rate hikes were slightly stronger than implicit market expectations of the Fed.

The overall impact on currency markets was quite balanced, and we believe the EUR/USD remains on the path toward our year-end target of 0.94.

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 0.94 per euro as an opportunity to buy the single currency.

Commodities

Commodities have experienced shocks like never before, starting with the conflict between Russia and Ukraine. Even now, more than six months into the war, the situation continues to appear stressed.

Additionally, we've seen unprecedented temperatures in parts of Europe, California and elsewhere. These record highs have hugely impacted the grid and the price paid for electricity. Affected countries are rapidly rethinking their energy infrastructure, their budgets blown by a single event. Forecasted or not, the damage is real and mitigation plans need to be developed and implemented.

Short term, the rapid rise in energy prices has an impact on the cost of goods. Central banks must take this into account, even though they have zero control over it.

The current scenario of energy prices and input costs has several causes, one of which is massive under-investment. In the past, companies had some reserve capacities because developing new resources was part of their long-term capex. However, since the COP21 Agreement in December of 2015, industries have downsized R&D as well as capex. The result is that no new discoveries were accessible. Since older facilities render less energy, in times of uncertainty and unexpected loss of production facilities, a shortage will inevitably occur.

There is a clear gap between political will, requirements, and industrial capacities to bring about **follow through**, which is what the world needs right now.

Target values in 3 months:

EUR/USD:	0.8750 – 0.9750
GBP/USD:	1.0000 - 1.1000
USD/CHF:	0.900 – 1.0000

Target values in 12 months:

EUR/USD:	0.95 - 1.05
GBP/USD:	1.10 - 1.1750
USD/CHF:	0.90 – 0.95

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:	$85 - $95
Gold:	$1,700

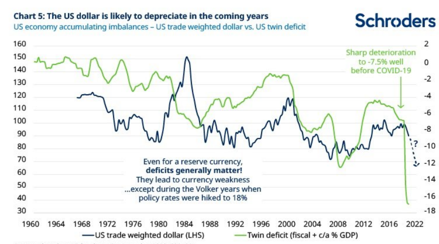
Target values in 12 months:

Oil:	$75 - $100
Gold:	$1,650

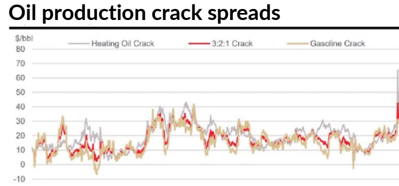
Next most likely move:

S&P GSCI	up
Oil	up
Gold	up

USD depreciation to come:



Oil production crack spreads



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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

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

Asset Allocation View	--	-	Neutral	+	++
Cash	●				
Bonds		●			
Government Bonds		●			
Investment Grade USA			●		
Investment Grade EU		●			
High Yeld			●		
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.

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Asset Allocation Preferences – September 2022

Sector	Region	Fundamental	Risk/Reward	Investment case
Basic Materials	Americas	○●○○○	●●●○○	The Materials sector is very sensitive to fluctuations in the global economy, the US dollar, and inflationary pressures. Combined with signs of peaking economic growth, this cyclical sector could face significant headwinds. Amid the Russia-Ukraine war, the US 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.
	Europe	○○○●○	●●●●○	
	EM	○○●○○	●●○○○	
Consumer Staples	Americas	○○●○○	●●●○○	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., companies with strong pricing power.
	Europe	○●○○○	●●●○○	
	EM	○○○●○	●●●○○	
Consumer Disc.	Americas	○○○●○	●●●○○	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 levels, 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. However, the severe semiconductor shortage – expected to last well into 2024 – and the high valuation reinforces a selective approach.
	Europe	○○●○○	●●●○○	
	EM	○○○●○	●●●○○	
Energy	Americas	○○●○○	●●●○○	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 Russian oil and gas supplies impact world economies and how energy producers respond in terms of production volumes, as well as how CB policies manage inflation through rate hikes, it is prudent to have a focused approach on the sector. We prefer R&P, as well as servicing companies.
	Europe	○●○○○	●●●●○	
	EM	○○○●○	●●○○○	
Healthcare	Americas	○○●○○	●●●○○	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 to favorable long-term trends which address healthcare 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.
	Europe	○○○●○	●●●●○	
	EM	○○○●○	●●●○○	
Financial Services	Americas	○○○●○	●●●○○	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.
	Europe	○○○●○	●●●○○	
	EM	○○●○○	●●●○○	
Industrials	Americas	○○●○○	●●●○○	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 attempting 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.
	Europe	○○○●○	●●●●○	
	EM	○○○●○	●●○○○	
IT	Americas	○○○○●	●●●●●	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.
	Europe	○○○○●	●●●●●	
	EM	○○○○●	●●●●○	
Com. Services	Americas	○○●○○	●●●○○	Longer term, we believe the continued expansion of fifth generation (5G) technology is sector positive. Upgrading networks is required, which 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
	Europe	○●○○○	●●●●○	
	EM	○○○●○	●●○○○	
Real Estate	Americas	○○●○○	●●●○○	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.
	Europe	○●○○○	●●●○○	
	EM	○○○●○	●●●○○	
Utilities	Americas	●○○○○	●○○○○	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 on the capital-intensive sector. This is counterbalanced by developments around EV and alternative energy generation and distribution, which will be the sector's next move.
	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.

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

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