IX-7 Asset Management SA

Q 01 / 2023

Quarterly Investment Outlook

To plan is more than just preparation – to plan is to design the desired outcome, to define the shape of your future.

Once your plan is fully realized, nothing and no one can stand in your way.

Quarterly Outlook– Q01/2023

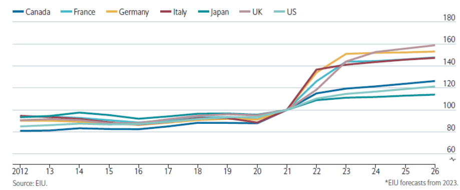
At a glance

Review – 4th quarter of 2023
Periods of stagflation are the toughest times for asset allocators to generate positive returns. This past year has been no exception, with very few places to hide for multi-asset investors. The bond-equity correlation turned positive due to inflation surging to well above 4% in developed markets; in real terms, even cash returns eroded wealth. During the quarter under review, markets have transitioned into more stable territory, as consensus assumes we are close to peak inflation, peak rates, and peak USD strength.

a) Macro/GDP
The consensus macro narrative has shifted from managing inflation to combating it. Ideally, western central banks should have started the tightening process in late 2021, but they did start late! To regain credibility, they are now forced to tighten excessively into 2023, with the unintended consequence of creating downside risks for the economy. We project the expected "soft landing" to be unlikely; instead, we may face a rather "hard landing" that may bring inflation somewhat under control.

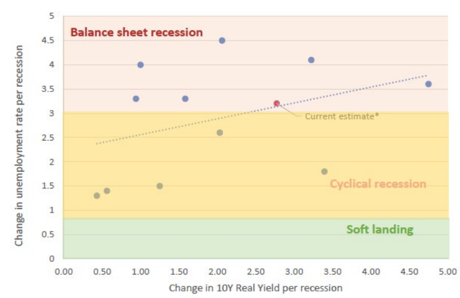
As of now, based on an inverted yield curve, the market believes that central banks can control inflation. The magnitude of the observed inversion suggests that the ISM could temporarily drop into the region of 45 during 2023, indicating an actual annual GDP growth of around 0.8% for the US.

Input costs have risen, particularly in Europe



b) Interest Rates / Inflation / Volatility
The new regime of greater economic and market volatility is playing out – weaker growth and persistent inflation across developed markets is resulting in larger and more frequent market fluctuations. We expect this market volatility to continue as a dominant force through the first half of the year.

The historical relationship between tightening financial conditions and the economy suggests a deep contraction is ahead, but..



c) Valuation
Central banks' singular focus on inflation deepens our conviction that they will overtighten policy in the near term – and this will cause economic damage that markets are underappreciating. We expect policymakers to stop hiking when the damage to growth becomes apparent, but not soon enough to stave off recession in both Europe and the US. Given the present central bank action, i.e., combating inflation, the expected result is an earnings recession in 2023. Given this scenario, EPS are expected to fall. The consensus view is a mere 5%, while other data suggest it could be as much as 20-25%; we believe the market has yet to fully anticipate this potential situation.

Growth outlook

Global economic forecasts, year on year (%)						
	Real GDP			CPI		
	2021	2022F	2023F	2021	2022F	2023F
Global	6.3	3.2	1.7	3.2	7.1	4.6
Advanced	5.3	2.5	-0.2	3.3	7.7	4.6
Emerging	7.1	3.7	3.1	2.9	6.3	4.6
US	5.9	1.8	-0.1	4.7	8.1	3.9
Eurozone	5.3	3.2	-0.8	2.6	8.6	5.7
UK	7.5	4.2	-1.0	2.6	8.8	8.7
China	8.1	3.3	3.8	0.9	2.2	2.0
Japan	1.7	1.4	1.0	-0.2	2.5	1.6
Brazil	4.6	2.7	1.0	8.3	9.3	4.5
India	8.3	7.0	5.1	5.1	6.7	4.9
Russia	4.7	-3.6	-3.2	6.7	13.9	9.3

d) Hope
Central banks are still battling to bring inflation back under control. If this battle persists, the USD will continue to reign as the strongest currency. At the same time, the bear market in sovereign bonds has further to go, as the tightening cycle is not yet complete. Analysis of historic bear market conditions suggest that the longer they continue, the longer the last countertrend rallies. We expect the last leg of the bear market to occur in the 1st half of 2023. This final dislocation of asset prices will deliver advised investors handsome above average long-term gains. The asymmetric risk-reward pay-off will not last long, so only well-prepared investors will be able to jump in.

The brightening of the return outlook for major asset classes also includes emerging market equities. We expect that USD strength will decline, which should further fuel the emerging market equity rally.

Top-down view: December 2022

We see five key themes driving global markets in the year ahead.

1. To get inflation under control, central banks stay the course and push the economy to the brink of a recession.

   Decades of low inflation conditioned investors to expect lasting economic expansions, short recession cycles, and short-lived asset price adjustment. The question now is whether the current cycle will upend these expectations. Will we revert back to inflation regimes when tight labor markets and persistent service inflation were slow to ease and rendering central banks were slow to pivot? Or are we set to simply experience a longer-than-expected (yet transitory) aberration in inflation trends?

   Either way, inflation's path throughout 2023 could determine when we'll see the "big pivot" in central bank policy that the markets are awaiting. The Fed has maintained its pace of telegraphed interest rate hikes; even in the face of rising recession fears, a clear deceleration in core inflation and tight labor markets is needed to usher in a pause or reversal. As of now, we believe that the rate of inflation peaked in November 2022, at least for the US market. Still, we await further confirmation of that opinion.

   The European Central Bank also seems intent on maintaining its record-speed rate increases to tame inflation as recession looms. Should the Fed "hike and hold" at 4.75%-5% for most of 2023, the impact of higher rates will be tighter financial conditions, ultimately resulting in the catch-up of non-US markets.

   Meanwhile, China and Japan are the only major economies currently easing monetary policy after several years of keeping it tight. Still, the impact is limited, especially in China where debt-to-equity ratios are disproportionately high.

2. The renewed US dollar spells trouble for everybody else, but it could peak soon.

   The dollar has reached multi-decade highs, and its outsized strength continues to weigh on other economies. On average, we calculate that the USD is overvalued by about 23%!

   The strong dollar is hitting both developed and emerging markets, feeding inflation and thus raising the cost of imported goods. It's also contributing to the need for some central banks to impose their own tightening of financial conditions, even if their economies can't take it. Spooked by fears of a global recession, investors have flocked to dollars as a safe haven, thereby accelerating the move. The Fed's aggressive interest rate hikes have added USD dominated assets as the key buying opportunity. All-in-all, we think the dollar is likely to peak in 2023, perhaps around the midyear mark.

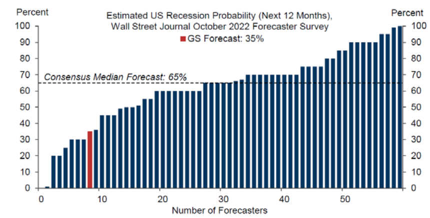
3. Stay defensive but prepare to become more opportunistic.

   Based on today's EPS assumptions, we believe markets trade at fair value. However, depending on the next course of action, these estimates might still be too elevated. In the event EPS estimates do disappoint, we would expect the market to experience one more "wash-out." A European recession is most likely inevitable, and even today's resilient US economy is increasingly reliant on supportive action by the Fed to ward off its own weaknesses. Remember, although the US market is highly self-sufficient, it can't maintain its pace without other economies picking up.

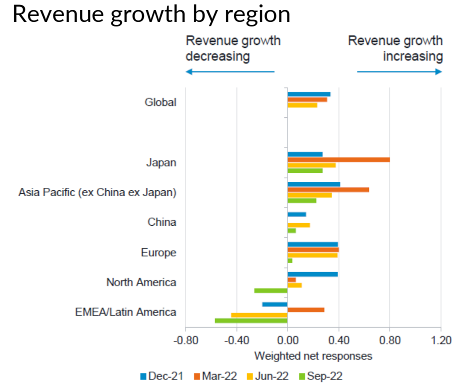
4. Emerging Markets: EM suffer from DM setbacks.

   For the last 40 years or so, EM were the boiler rooms for the wellbeing of developed markets. The transition to self-sustainability, if there is one to be, is long and requires further political and economic stability.

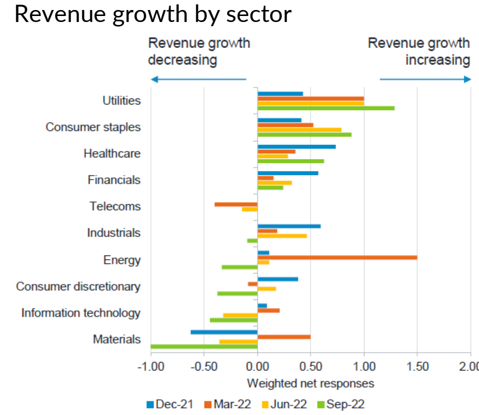
Recession probabilities



Revenue growth by region



Revenue growth by sector



The COP27 conference in Sharm El-Sheikh has given several charismatic EM leaders a taste of what their nations may expect in the future. Suggested growth-oriented policy pivots may not be to these leaders' benefit, but rather, may cause them pain. For example, developed market investors wish to see a move away from collective ownership, less centralized decision making, and a true democratic process. However, as present, exactly the opposite is taking place.

Meanwhile, steps by the Chinese government to implement less-disruptive zero-Covid policies, including steps that will ultimately pave the way for a reopening, appear to be good. Still, the government's moves are not sufficient to unlock a downward-spiraling economy that is heavily exposed to lagging real estate development.

5. Geopolitical forces hasten an investment shift toward energy and responsible investing.

The war in Ukraine has once again called the sustainability of the EU into question. Can the EU sustain over time? According to Bridgewater founder Ray Dalio, the Eurozone appears to be a strong power (#3 among major countries today), but in gradual decline. The key strengths of Eurozone are its importance to global trade, its strong capital markets and financial center, its reserve currency status, and the fact that private households are net creditors. Its weaknesses center around low self-sufficiency and its relatively poor allocation of labor and capital.

What this analysis does not show is the fact that European companies are at the forefront of all major innovations, the present energy transition among them.

Given this, we believe Europe will manage through a winter without Russian energy resources, thereby producing a new energy autonomy and momentum for green energy and renewables. Multinationals and investors may also be warier about investing in countries under autocratic regimes, where the rules can change on a dime. Other markets such as the US and China will be affected by this, regardless of power struggles between the Democrats and the Republicans in the United States America or Xi's consolidation of power. The shift away from Russian and Chinese resources, burdens the economies of developed markets with issues they have been avoiding up to now. The ramifications will be vast, be it political (internal and external), economically, and societal. In particular, develop market countries are suggested to defend better own political framework and not to this an opportunity for self-glorification for the people in place.

Meanwhile, climate investments appear poised to rise substantially, offering long-term investors valuable opportunities across almost all industries.

The wolf is calling for help after spotting a sheep!

The great moderation orchestrated by Central Banks to kick-start economies is over. Heightened market volatility – a result of Central Banks combating stubbornly high inflation, has caused considerable damage to valuations.

Central banks are responding with aggressive rate hikes, but without fully acknowledging the scale of damage to growth. Expected policy rates have jumped further throughout the last half year, but at the same time, we don't believe market participants fully appreciate the lingering recession risks. We are highly selective with risk taking! From a tactical point of view, we prefer to focus on shorter-term fixed income opportunities and capital guaranteed structures over plain vanilla equity exposure.

In line with our last year's investment view, we continue to anticipate a mild recession in the US and a deeper one in Europe, given the energy crunch. We also anticipate that risk assets have come in line with the combination of deteriorating activity (lower EPS) and Central Banks pushing up rates more quickly, resulting in a higher WACC. Our relative tactical preference for high-quality credit and structured solutions over equities still holds because of two key aspects:

1. Expected returns and strong balance sheets suggest that investment grade (IG) credit could weather a recession better than stocks. We like IG credit, especially with short maturities, over high yield (HY). This reflects our preference to be up in quality amid a worsening macro backdrop.

2. Consumer resilience: Globally slowing growth, high inflation and monetary policy tightening are weighing on general discretionary spending, but high-end brands have the most immunity to lack of consumer appetite. Currently, Asian tourists are mostly absent; we expect pent up spending to hit the market once long-haul flights are fully reestablished.

   In contrast to general retail, most recent earnings reports for luxury companies are globally very positive. The easing of pandemic restrictions in Asia and the return of international travel is likely to be very supportive for luxury companies. In addition, US consumers benefit from a strong currency, which makes high-end shopping attractive. Luxury goods consumers are far less sensitive to rising energy prices. Given this fact, consumer discretionary companies, serving the high-end segment of the affluent market and above, are expected to perform well for the coming quarters.

   On the back of meaningful wage growth, stable employment and healthy consumer sentiment, increased discretionary spending is expected to follow. Current inventory levels at shop levels are low, but the inventory in stock is generally very fresh. This freshness signals a potentially unprecedented opportunity to sell at full price — a trend that could sustain itself for quite some time, even with further inflation pressure. We particularly like high-end consumer discretionary companies because their balance sheets are in strong financial shape.

Overall, we see long-term yields moving higher as investors demand greater term premiums – the extra return to compensate them for the risk of holding long duration assets amid persistent inflation and high debt loads. Potential financial stability risks are another consequence of the worsening trade-off and higher volatility that markets may be under-appreciating. In our opinion, traditional portfolio constructions, tail risk hedging and efficient frontier models will no longer be effective.

The bottom line: We look to stay agile in volatile markets. We are tactically overweight in IG credit and high-quality equities (luxury companies), which we expect to weather a recession better than the average market.

Difference between corporate IG and dividend yields are back to pre-GFC levels

Investment recommendations by type - Summary

1. Equities:

Short-term view:	-	EPS are probably overvalued by ~25%
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:	-	Negative
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 4% p.a. Also, we focus on sovereign issues of states benefiting from strong commodity flows.

3. Credit:

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

4. Metals:

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

5. Commodities:

Short-term view:	-	Neutral
Medium-term view:	-	Commodities are attractive in cases of prolonged periods 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.

Investment recommendations by theme - Summary

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, sleep technology, mental health, etc., are often overlooked by investors. Yet, these companies offer a CAAGR of 10%+.

Consumers around the globe have begun to acknowledge the importance of health and wellness. This rising awareness is expected to impact healthcare costs (-), obesity (-), and mental health (+). This shift has accelerated during the pandemic and is expected to translate into a long-term 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 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. Discretionary Spending – Luxury companies to stay ahead of the game

Short-term view: - **Attractive**

Medium-term view: - Global slowing growth, high inflation and monetary policy tightening are weighing on general discretionary spending. Yet high-end brands are more immune against a lack of consumer appetite.

For the detailed analysis, please refer to page 5.

Our capital guaranteed offering captures the upside of these companies.

Market-by-Market View

United States:

It is different this time around! In the past year, US growth has slowed to a below-potential pace of about 1% because of a diminished reopening boost, a decline in real disposable income (driven by fiscal normalization and high inflation), and aggressive monetary tightening. Growth is expected to remain at roughly this pace in 2023.

A recent Wall Street Journal survey suggests a 65% probability of a US recession. We believe the US will narrowly escape recession, but this will require incoming activity data to be nowhere close to recessionary. The advance GDP report shows 2.7% (annualized) growth in Q3, while nonfarm payrolls grew 261k in October and there were 225k initial jobless claims during the week of November 5.

Furthermore, tightening in financial conditions is weighing heavily on growth, currently to the tune of nearly 2pp. However, real disposable personal income is rebounding from the plunge seen in H1—when fiscal tightening and sharply higher inflation took their toll.

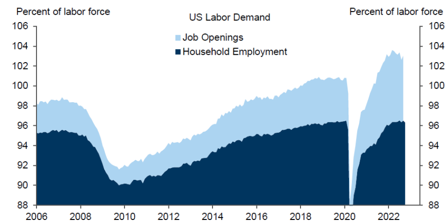
Hence, we expect the year-over-year core Personal Consumption Expenditures Price Index (PCE) to gradually decline from 5.1% in September 2022 to 2.9% in December 2023. This will occur on the back of supply constraints of durable goods, which will mean, for instance, that prices for used cars will remain high. With a resilient labor market and still elevated inflation, we don't expect any rate cuts in 2023, unless the economy enters recession after all. In a no-recession scenario, the Fed would implement a first gentle 25bp cut in 2024Q2.

This baseline of "high rates for longer" would again illustrate the uniqueness of this cycle; the first Fed cut in the median hiking cycle has historically come roughly six months after the last one.

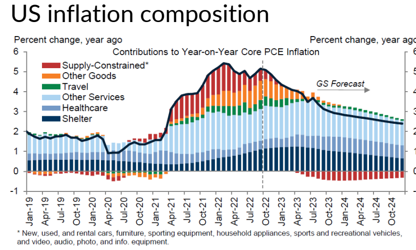
Key figures for the US:

US economic forecasts, year on year (%)			
	2021	2022F	2023F
Real GDP growth	5.9	1.8	-0.1
CPI inflation	4.7	8.1	3.9
Unemployment rate	5.4	3.7	4.5
Gross public debt (% of GDP)	127	122.3	123.6
Private consumption	7.9	3.5	0.4

US job opening still very high



US inflation composition



Europe:

In contrast to the US, the Euro area and the UK are probably in recession. The reason for this is the much bigger and more drawn-out increase in household energy bills. In turn, this increase should boost headline inflation to peaks of 12% in the Euro area and 14% in the UK, far higher than in the US. One of the obvious reasons for this is that the recession is not homemade, but rather a direct result of a strong USD while European companies' international trade is extremely high. In economic terms, European corporations import raw materials, manufacture goods, and then sell them abroad again. In reality, European companies suffer twice; first, they pay higher import prices when they import, and second, they are unable to pass higher input prices on to buyers when they sell, unless they want to risk losing follow-up sales.

In turn, high inflation is set to weigh on EPS and ultimately on real income, consumption, and industrial production. Declines in real income of 1.5% in the Euro area through 2023Q1 and of 3% in the UK through 2023Q2 are expected. It is only in 2024 that trade will rebalance itself. As a result, we expect a cumulative decline in real GDP of 0.7% in the Euro area (2022Q4-2023Q2) and 1.7% in the UK (2022Q3-2023Q2).

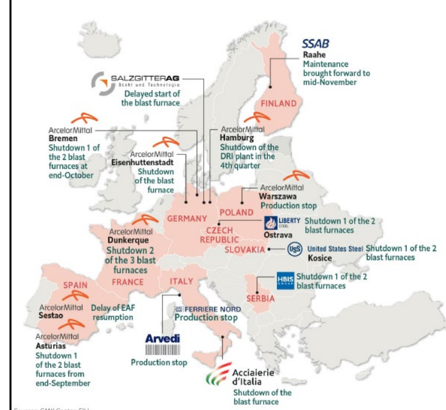
The reason for this relative high resilience is that household energy savings and the substitution of other energy sources have helped absorb the collapse of Russian energy imports. Along with mild weather, these savings have boosted gas storage and reduced the downside risks of a very cold winter.

An interesting fact can be observed for the German production of chip-intensive items and cars, where pandemic bottlenecks are still easing. As of the beginning of 2023, the industry sector has nearly offset the ongoing decline in energy-intensive production, which clearly indicates the sector's resilience.

Key figures for Europe

Eurozone economic forecasts, year on year (%)			
	2021	2022F	2023F
Real GDP growth	5.3	3.2	-0.8
CPI inflation	2.6	8.6	5.7
Unemployment rate	7.7	6.7	7.2
Gross public debt (% of GDP)	97.5	94.7	95.2
Private consumption	3.7	3.9	-0.1

Multiple steel plants on arret



Given reduced risks of a deep recession in Europe and persistent inflationary pressures, it may now be expected that the ECB will hike through May, with an additional 150bp of rate hikes to a peak deposit rate between 3% and 3.25%.

Along with the reduction in near-term headline inflation pressures from gas prices, the emphasis on substantial rate hikes diminishes. Forecasts suggest a second 50bp hike in February and another hike of 25bp in March and May. Given the tight labor market, high wage pressures, and firm inflation, we expect the BoE to hike bank rates by an additional 150bp to a terminal rate of 4.5%.

MENA

Inflation is trending up across regions and countries that relied heavily on food imports from Russia and Ukraine. Notably, Egypt and Lebanon are facing significant challenges. The surge in oil prices adds to the problem, although for the region's energy exporters it is obviously a tremendous boost to their fiscal position. The major question we explore in this issue is how these countries are likely to utilize the windfall. We do not expect the same kind of spending splurge that happened in 2008; instead, we anticipate that 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, which are 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 the 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:

Although China's leadership has clearly signaled that it aims to exit its Zero-Covid Policy (ZCP), we do not expect actual reopening to start until April. The reason for this is that medical and communication preparations will take time. Less than 70% of the 60+ age group in Mainland China is triple-vaccinated, and data from Hong Kong show that the unvaccinated elderly remain at serious risk of severe outcomes. Therefore, before reopening can safely begin, China will need to significantly ramp up its vaccination pace from the current 100k/day.

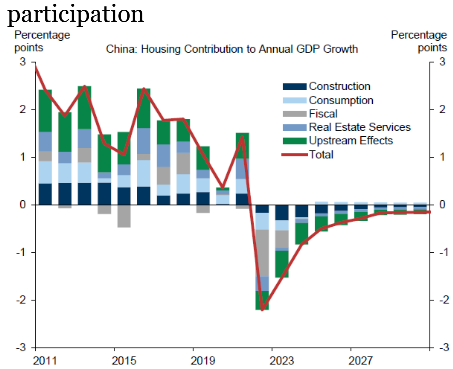
On the structural side, the contraction of the property sector and US chip export restrictions function as multi-year drags. The ongoing slide of the property sector will subtract an estimated -1.5pp from growth next year as the sector continues to deleverage and deal with demographic headwinds.

Bluntly speaking, the trend of slow growth – in the region of some 3% p.a. – will persist over the next decade, as weakness and industrial imbalances are deeply rooted issues. Both demographics and productivity, along with the slide in the property market, will take time to resolve.

Key figures for China

China economic forecasts, year on year (%)			
	2021	2022F	2023F
Real GDP growth	8.1	3.3	3.8
CPI inflation	0.9	2.2	2.0
Unemployment rate	5.1	5.4	5.1
Consumption	5.3	1.4	2.9

The housing market is losing in GDP participation



Other EMA: Brazil

For decades, the fortunes the world's fourth largest commodity exporter – Brazil – were closely tied to global commodity prices. Its economy, per capita income, value of the Brazilian currency and Brazilian stocks were positively correlated with the moves in the global commodity indexes. The arrival of right-wing populist President Jair Bolsonaro in 2019 and the COVID-19 pandemic created a break with the past context, preventing the country from fully benefiting from the rise of its main exports. Commodity prices have recovered from pandemic lows, but Brazilian stocks and currency have not yet returned to their pre-pandemic peaks. Back in April of 2021, it was suggested that Bolsonaro's policies would backfire. Another election may be needed for the country to benefit from the current boom in commodities exports.

The newly elected government could prove to be less disruptive than in previous cycles. After three years of Bolsonaro's chaotic rule, this vote is more of a referendum on the current president than a leftward political shift, similar to what took place in Chile and Colombia.

Research suggests that business leaders seem to be comfortable with a Lula government. Recent institutional reforms have empowered the National Congress, controlled by center-right parties, to play a larger role in checking the excesses of the executive branch.

The Central Bank of Brazil (CBB) continues to be a strong independent institution and maintains high credibility, as evidenced by its sharp raising of rates early last year in a bid to stanch inflation. This was at a time when the US Federal Reserve was not even talking about raising rates in the US, its thinking instead focused on inflation's transitory nature. In contrast, in a series of aggressive hikes, the CBB raised rates 12 times, by an aggregate 1'175 basis points, from a historic low of 2.0% to 13.75%. The central bank is now edging closer to ending its rate-hiking cycle and is likely to be the first in the world to ease rates. We expect rate cuts to be enacted in mid-2023 as inflation peaks.

Brazil's Achilles heel continues to be its fiscal situation. The benefits of the long-awaited pension reform passed by Bolsonaro is already diluted by pandemic and inflation spending. Confidence in the government's ability to maintain spending caps is low. Therefore, restoring the fiscal anchor will be the primary economic challenge of the new administration. For now, the market seems comfortable with movement in the right direction.

Lula inherits a much more positive structural economic situation than when he left. This will likely lead to further economic reform and some privatization. Once Brazil is past this inflation cycle, the economy should be ready to grow based on revitalized private sector investment, a thriving agricultural and commodity sector, a credible central bank, and a competitive currency.

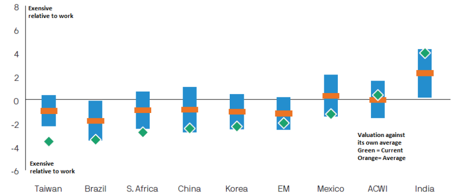
Switzerland:

Soaring inflation and drastic SNB response

For several months now, conflict in Eastern Europe and logistical bottlenecks have led to rising commodity prices and an increase in inflation due to the rise in import prices. Faced with this situation, the SNB has taken drastic measures. In his statement on 16 June, Thomas Jordan announced the imminent exit from unconventional monetary policy after seven years of negative interest rates, and raised the SNB's key interest rate by 50 basis points.

This combative attitude is intended to tackle a continuous rise in inflation, which is expected to subside by 2023, provided there is no transmission to domestic prices. If this scenario is confirmed, then the inflationary spiral should not last long enough to trigger a very rapid and widespread rise in wages. On the other hand, authorities could consider targeted measures to boost purchasing power in order to adapt to a new macroeconomic environment without deflation.

EMA Valuation



Fragile growth, but inflation does not mean recession
After a phase of accelerated growth corresponding to the post-COVID recovery and its catch-up effects, a phase of deceleration is now taking place. However, inflation is not necessarily synonymous with recession, and the current economic situation should be assessed with a certain degree of caution. Companies continue to be financially sound and competitive, as do private savings. The specialized sectors of the Swiss economies should not see an immediate slowdown. The labor market is also proving robust and efficient, which is why only a limited wage-price spiral is expected.

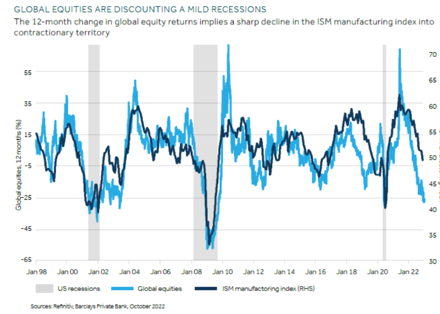
Real estate bubble or pause for breath?
The rapid rise in mortgage rates reflects the financial markets' nervousness in the face of central bank announcements. This is having an impact on mortgage lending in the country. In fact, the rise in interest rates now raises the question of whether a repetition of the real estate market correction of 1990 to 1995 will occur.

Faced with this problem, factors to analyze include the balance between supply and demand, the evolution of the employment market, and the continued attractiveness of the country, including demographic trends. In the past, these factors played in favor of property owners. As of now, residential prices have reached a peak, but there is little evidence to suggest a renewed real estate crisis. The rise in interest rates should not be a brake on access to real estate but should rather have an impact on the trade-off between investors' allocation between direct investment into real estate (to generate income) and traditional fixed income vehicles (bonds).

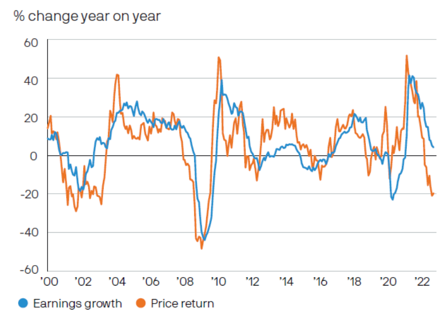
Granular Allocation View:

United States	We are underweighting on US equities. The Fed intends to raise rates into restrictive territory. The year-to-date sell-off partly reflects this. But valuations have not come down enough to reflect weaker earnings prospects.
Europe	We are underweighting on European equities as the fresh energy price shock in the aftermath of the tragic war in Ukraine puts the region at risk of stagflation.
Allocation to Luxury Companies	**We are overweight on luxury companies, even with a worsening macro picture. For these selections, risks to corporate profit margins from higher costs are limited.**
US Treasuries	We are underweight on US Treasuries, even with the yield surge. We see long-term yields moving up further as investors demand a greater term premium. Attractive carry spurs a preference for short-maturity bonds.
Global inflation-linked bonds	We are overweight on global inflation-linked bonds, and now prefer Europe. The pullback in euro area breakeven rates since May suggests markets are underappreciating the inflationary pressures from the energy shock.
European government bonds	We are neutral on European government bonds. We think market pricing of euro area rate hikes is too hawkish.
China government bonds	We are neutral on Chinese government bonds. Policymakers have been slow to loosen policy to offset the slowdown, and yields are no longer attractive relative to DM bonds.
Global investment grade	**We are overweight on investment grade credit on attractive valuations. Strong balance sheets among higher quality corporates suggest IG credit could weather a weaker growth outlook better than equities.**
Global high yield	We are neutral on high yield. We prefer up-in-quality credit exposures amid a worsening macro backdrop. We find parts of high yield to be offering attractive income.
Fixed Income ME	**The region has one of the best long-term outlooks. A highly attractive opportunity on the back of solid growth is expected to last for the years to come.** **ME debt benefits from attractive valuations and potential income increases. Higher yields already reflect EM monetary policy tightening, in our view, and offer compensation for inflation risk.**
Asia fixed income	We are neutral on Asia fixed income amid a worsening global macro-outlook. Valuations are not compelling enough yet to turn more positive on the asset class, in our view.

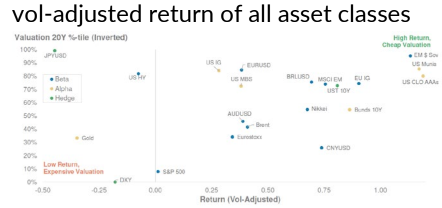
Global equity analyst view: mild recession



Markets are ahead of EPS Adjustments



High grade fixed income offers the best vol-adjusted return of all asset classes



Communications Services

The communication sector includes companies that provide wireless or diversified telecommunication services or operate in the media, entertainment, and interactive media and services sub-industries.

Advantages of Investing in Communication Stocks
Communications companies provide essential services in our everyday lives, such as web services and access to data, amongst others. These services generate consistent revenue and earnings and are unlikely to experience high customer churn. The media and entertainment side of the communications sector has shown remarkable resilience and flexibility, even in the face of macroeconomic headwinds and a global pandemic.

Risks of Investing in Communication Stocks
The communications sector tends to be capital-intensive because of content generation, data center costs, and network infrastructure investments on the wireless and telecom side. So as communications sector leaders grow larger and more dominant, they're also increasingly at risk of falling into the crosshairs of antitrust regulators. For instance, Alphabet has faced numerous multi-billion-dollar fines for alleged antitrust violations in recent years, and the mergers of T-Mobile/Sprint and Disney/Fox faced intense scrutiny from government regulators.

Going forward
Although the sector's exposure to content, connectivity, and advertising is underpinned by longer-term secular trends in digital advertising and streaming, there are near-term cyclical headwinds to be wary of. Additionally, we see structural challenges in linear TV advertising and wireless growth. Digital advertising spending decelerated sharply in the 3Q. In our assessment, there was a confluence of industry-specific, company-specific, and macro causes behind the sudden slowdown. For now, macro forces and the strong US dollar are ongoing headwinds. Rising rates, higher inflation, supply chain issues, and the shift from goods to services consumption by consumers has thrown ad buyers into a state of confusion and driven a slowdown. Globally speaking, roughly 60% all advertising is now digital. As a result, in the future, digital advertising will look much more cyclical than secular.

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

Deteriorating global macroeconomic conditions will persist into early 2023, *representing a downside risk to the metals and mining sector, as many commodity prices slide and equity market* support weakens. Producers will be impacted by narrowing margins, while the exploration sector will restrain activity amid tighter financing conditions. As the year progresses, we anticipate improving conditions once central banks gain the upper hand on inflation.

Lower activity levels in the second half of 2022 and through 2023 will reinforce the importance of the metals and mining industry's role in the global energy transition effort. Supply constraints across commodities deemed critical to the effort are forecast to emerge as early as 2024, with demand expanding noticeably on rising electric vehicles sales, the shift towards renewable energy technologies, and related transmission and distribution requirements. As government policies increasingly focus on meeting critical materials requirements through domestic and regional supply chains, the mining sector should see additional support for the development of projects in the near-to-medium term, buoyed by prices that are expected to remain relatively high through 2026, compared with pre-pandemic levels.

Long-term drivers

Global efforts to decarbonize are driving the rollout of technologies that are increasing the demand for raw materials, bringing about near-term challenges in the commodities sector. For many commodities whose supply and demand we cover through 2026, we now believe the increasing consumption will outstrip the mining industry's ability to ramp up supply, resulting in commodity deficits as early as 2024. Our assumptions and outlook for the energy transition and the resulting life-cycle opportunities can be downloaded here:
https://ix-7.ch/Community/Blog.aspx?blogid=16402&title=Energy-transition-Opportunitiy--Overview

Positives for the sector:

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

Negatives for the sector:

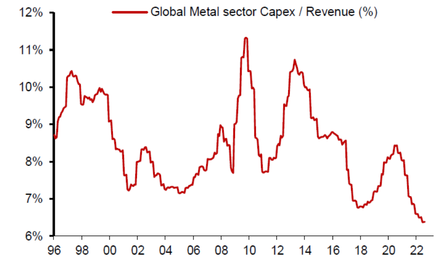
- The slow recovery of the oil rig count is a headwind for chemicals, and high energy prices have raised the cost of chemical production.
- Momentum has weakened recently.
- Significant supply chain bottlenecks may be constraining economic growth.

Risks for the sector:

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

Investment opportunities:
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.

Capex in the Sub-Sector "Metals" is a multi-year low



Source: C2ES, SG Cross Asset Research/Equity Strategy

Consumer Discretionaries

Consumer discretionary stocks tend to be somewhat cyclical and often reflect strength in the broader economy. When consumers have excess money to spend beyond the necessities, the highest-quality consumer discretionary stocks usually prove to be the greatest beneficiaries and can drive outsized value for long-term shareholders.

Risks of Investing in Consumer Discretionary Stocks
With some notable individual exceptions, consumer discretionary stocks tend to be more sensitive to weakness in consumer spending and broader economic turmoil. If consumer spending habits and trends take a turn for the worse — particularly as rising rates and inflation eat away at the power of existing household budgets — those consumers will have less discretionary money to spend on anything beyond the necessities. It follows, then, that many consumer discretionary stocks may suffer until the adverse economic conditions improve.

Going forward:
Slowing growth, high inflation, and monetary policy tightening are weighing on consumer sentiment and the outlook for consumption. Valuations are not especially attractive, particularly in the context of accelerating earnings downgrades that should continue in the coming months until policy turns more favorable or inflation pressures ease.

However, the high-end brand segment is mostly immune against lacking consumer appetite. At present, Asian tourists are mostly absent; we expect pent-up spending to hit the market once long-haul flights are fully reestablished.

In contrast to general retail, the most recent earnings reports are globally very positive for luxury companies. The easing of pandemic restrictions in Asia and the return of international travel is likely to be very supportive for luxury companies. Moreover, US consumers benefit from a strong currency, which makes high-end shopping attractive. Luxury goods consumers are far less sensitive to rising energy prices.

On the back of a meaningful wage growth, stable employment and healthy consumer sentiment, discretionary spending is expected to follow through. Current inventory levels at shop levels are low, but the inventory in stock is generally very fresh. This freshness signals a potentially unprecedented opportunity to sell at full prices — a trend that could sustain itself for quite some time, even with further inflation pressure. In particular, we like high-end consumer discretionary companies because their balance sheets are in strong financial shape.

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.
- Antitrust action is possible for the largest online retailers.

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

We favor companies that benefit from their own agile business models, such as Amazon, Nike, Deckers Outdoors, Adidas, LVMH, and Inditex.

Consumer Staples

Key drivers of the sector

- Inflation will push up global retail sales by a robust 5% in US-dollar terms in 2023, but the lower volume of sales and surging costs will weaken retailers' profits.
- The rollout of automation technologies will offer opportunities to limit wage growth, which means that retail employment is unlikely to return to 2019 levels.
- Online sales growth will slow, but the online share of retail will edge up to about 14% of global retail sales.
- Inflation-wary consumers will prefer to shop at discount stores, helping these retailers increase their market shares.

Subject of interest

2023 shows widening disparities between retail sales in nominal and real terms. Persistently high inflation will lead to 4.8% growth in global retail sales in nominal US dollar terms, but this headline rate is inflated by high prices. It masks slowing growth in real terms, lower purchasing power and lower margins for retailers. However, there will be some pockets of real-terms growth, mainly in middle-income countries in Asia and the Middle East.

Online retail sales will grow by 6.1%, slower than in 2020-22. However, online sales' share of the total retail market will continue to increase. High inflation will squeeze profits, with the consequences clear to every investor. With global inflation forecast at 6.4% in 2023 and demand flattening, retailers' profits will be squeezed in 2023. Profits will be challenged, not only by higher costs for raw materials and logistics, but also by labor and energy costs.

Retail wages have been rising faster than overall private-sector wages in many countries; wholesale electricity rates have also surged over the past year (especially in Europe). Some retailers will close stores, and the risk of retail bankruptcies will increase after a couple of years of respite. At maximum risk will be debt-laden non-food retailers, as lower consumer purchasing power will translate into lower discretionary spending.

High energy costs, particularly for refrigerators, will also put some food retailers in Europe at risk. Moody's, a rating agency, recently downgraded the credit rating for Iceland, a UK grocer. Finally, retail jobs are also at risk. One way retailers will try to protect their bottom lines in 2023 is by slashing labor costs! Retail wage growth, which has been outpacing that of other sectors, will slow.

Although we do not currently expect massive layoffs in the sector, increased pressures on retailers' margins will slow down new hires. Hopes of the sector's employment levels returning to pre-pandemic levels in 2023 are fading.

Structural shifts

Many retail chains have started to invest in automating their backend processes, reducing their need for workers. For instance, by March 2023, Australian department chain Myer will deploy 200 autonomous mobile robots with the capacity to process seven out of ten online orders. Japan's Aeon will collaborate with British retailer Ocado to build an automated warehouse in Japan by 2023 to manage stocks and basket goods for online deliveries. In the same vein, Swiss online retailer Galaxus/Digitec has already deployed a fully automated warehouse infrastructure with the capacity to serve up to 80k clients daily, and that with fewer than a few hundred full-time jobs!

The structural shift to online sales will likely continue and should shape corporate strategies. Overall, we expect the competitive landscape to remain challenging, while emerging markets should provide attractive growth.

Positives for the sector:

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

Negatives for the sector:

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

Risks for the sector:

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

Investment opportunities:

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

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

Information technology

The importance of technology in our modern world no longer needs explanation. The size of the industry makes it one of the global economy's dominant sectors, and its rapid growth and rate of change within the industry make it a central player in developing business standards.

However, the impact of technology goes far beyond the core tech industry. While there are myriad opportunities directly related to our day-to-day experiences, there are countless more opportunities opening up around the world as technology vertically influences every business and industry.

Example: In 2020, 18% of global growth output was due to technology; in Data processing, publishing, and services, the ratio made up a mere 47%.

The amount of IT spending in organizations demonstrates the rapidly changing nature of technology. Gartner estimates that 2023 global IT spending will reach $6.0 trillion in 2023, a jump of 5.1% over 2022 spending.

Area	$/M	%
Software	880	15%
Devices	735	12%
Data center systems	216	4%
IT Services	1'358	23%
New Technologies	1'362	23%
Communication Services	1'469	24%
Total	6'020	100%

In addition to traditional categories, emerging technology is driving additional spending. Data from International Data Corporation (IDC), shows roughly the same level of spending in the traditional categories. But IDC adds a category of "new technologies," which include technology such as internet of things (IoT), robotics and mixed reality.

Spending on new technologies is expected to hit $1.36 trillion in 2023, or about 23% of the expected spending on traditional items. One final note on spending projections: The current economic chaos, including inflation and the relative strength of global currencies, is impacting forecasting models as much as it is driving uncertainty for businesses. Actual spending may fluctuate more in 2023 than in previous years.

Priorities for new investment

For investors, one of the most useful questions to ask is how companies would spend additional money if new funds were to become available. The point of this question is relatively simple: budget expenses do not result into any EPS surprises, but additional money is most likely be funneled into the following areas.

Item	Rank	Expected EPS impact
Innovation	1	++
Endpoints	2	+++
Automation	3	+++
New Headcount	4	Nil
Web presence	5	Nil
Collaboration	6	Nil
Data analytics	7	++
Cybersecurity	8	++

It is no surprise to see innovation in the top slot. Whether it is investing in new products, bringing in third-party expertise or creating platforms for technology evaluation, IT professionals believe that accelerating the approach to technology will be the biggest differentiator for their organizations. Day-to-day maintenance and improvements are needed for operational progress, but the cutting edge is where potential is fully unlocked.

Case in point: Data analytics and cybersecurity rank very low in this scenario, whereas most organizations give automation high marks when automation is the only topic of discussion. One reason for this is that organizations tend to overbudget for data analytics and cybersecurity to begin with; new budget allocations will therefore be minimal. Furthermore, historic investments aiming at data analytics and cybersecurity result in the fact present standard are relatively high and over-allocation additional dollars may not result in the expected output while allocation to, for instance, automation, will drive productivity.

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 a lack of economic visibility, COVID-19, the lingering crisis around Island of Taiwan (where most micro-processors get built), and the war in Ukraine. Investors can find opportunity by focusing on technology companies that have attractive longer-term growth opportunities due to being established franchises in large and secularly growing addressable markets, such as software, cloud, and security. Secular trends remain strong, and tech profits will likely recover to peak 2019 levels more rapidly than any other sector. However, valuations are high, and the sector's defensive behavior during the pandemic gives us less conviction that it will outperform in the ensuing economic recovery.

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

Energy

While supply disruptions and price volatility are not new to the oil and gas industry, today's situation is unique. The confluence of economic, geopolitical, trade, policy, and financial factors have exacerbated the problem of underinvestment and triggered a readjustment in the broader energy market. As a result, all three components of a balanced energy equation — energy security, supply diversification, and a low-carbon transition — are now facing a "trilemma" of concerns.

Although the immediate impact of this imbalance is high energy prices and record cash flows for O&G companies, how and where the industry will invest in the future remains uncertain.

The O&G industry will likely enter 2023 with its healthiest balance sheet yet and with continued capital discipline. The positivity of this situation is reflected in our survey, in which 93% of O&G executives state they are positive about the industry in the coming year. This momentum could help companies overcome the energy underinvestment of recent years and enable an accelerated energy transition.

There are five trends that will likely influence the direction of the industry over the next 12 months.

1) **Upstream**: By practicing capital discipline and focusing on cash flow generation and payout, the global upstream industry is projected to generate its highest-ever free cash flows of $1.4 trillion by the end of 2022 (at an assumed annual Brent oil price of $106 per barrel). Now all eyes are on upstream companies to see if they will continue to prioritize shareholder payouts or increase their hydrocarbon reinvestment rate, driven by the urgency to provide affordable energy to the world.

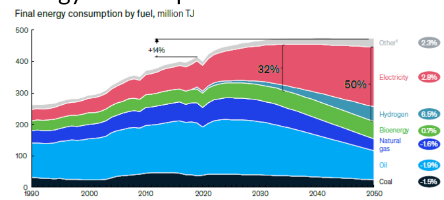
2) **Clean energy**: Supportive policies, in combination with higher O&G cash flows in 2022, have enabled O&G companies to increase investment in clean energy. While this investment is expected to continue increasing, several factors could influence the pace of investment or shift the clean energy focus over the next 12 months.

3) **LNG**: Increases in natural gas investment are expected in 2023, including investments to reduce the greenhouse gas intensity of natural gas and its related infrastructure. In the United States, more natural gas is being produced with a view to reducing carbon and methane emissions and exporting incremental supplies, especially to Europe. Certified natural gas and carbon-neutral LNG are expected to continue increasing momentum in 2023.

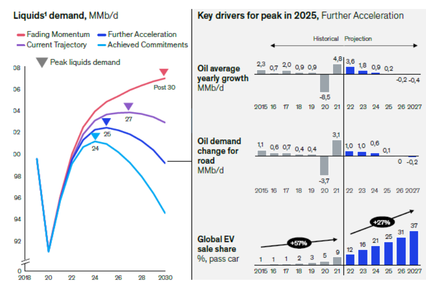
4) **Downstream**: In the coming year, refineries could grapple with weakening demand, recession worries, and a projected 1.6 mbpd increase in global refining capacity. Notably, US-headquartered refiners are not expected to increase core refining capacity as they prioritize financial health, optimize operations, and convert refineries to produce renewable fuels.

5) **M&A**: While projected record cash flows and renewed interest in resource industries bode very well for O&G M&A, capital discipline and an uncertain economic environment will likely keep M&A in check in 2023. According to our survey, 27% of executives highlight high and stable energy prices as key to sustaining the M&A momentum in 2023.

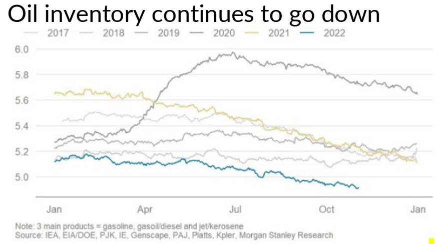
Energy Consumption



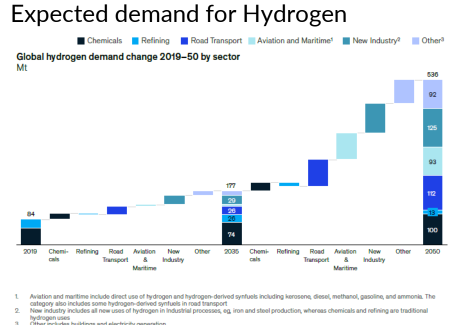
Fossil energy demand to peak within the next 5 years



Oil inventory continues to go down



Expected demand for Hydrogen



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 lasting price volatility.

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

Financial Services

The global economy remains fragile going into 2023. Uncertainties exist due to an unprecedented confluence of factors—Russia's invasion of Ukraine, supply chain disruptions, the meteoric rise in inflation, and tightening monetary policy across the world. The potential for a mild recession or stagflation in certain economies is high.

The ripple effects from a more fragile and fractious global economy will be felt disparately across the global banking industry. For example, large, well-capitalized and diversified banks should weather the storms reasonably well.

Some key developments we expect in the next quarters:

1) **Retail banking**: Retail banks will have to deal with higher rates, inflation, and lower growth. Net interest income should grow at many banks globally, although housing market stress could temper earnings in Asia Pacific. In the United States, challenges in the mortgage and auto loan markets, along with increased scrutiny of "junk fees" could also dent banks' balance sheets.

   Longer-term, the segment is expected to develop inventive new applications for ESG, embedded finance and digital assets. These efforts should prioritize empowering customers with initiatives targeting racial equity, decarbonization, and data security. However, these developments will be time and capital intensive.

2) **Payments:** The macroeconomic picture for 2023 means mixed fortunes for consumer payment players. Higher rates should boost banks' net interest margins for card portfolios. Nevertheless, persistent inflation, depletion of savings, and a potential economic slowdown could weigh on consumers' appetite for spending.

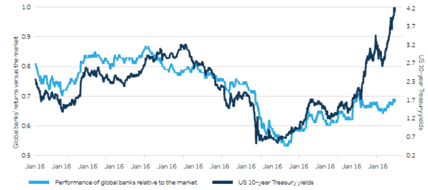
   Digital selection: Issuers, card networks, acquirers, and FinTechs across the value chain need to demonstrate an unwavering commitment to elevate their roles and become the top-of-mind choice among consumers and merchants.

3) **Wealth Management:** The wealth management industry is at an inflection point. Market dynamics are being shaped by multiple forces, in addition to macroeconomic conditions. Such trends as the democratization of advice and demographic shifts which include generational wealth transfer are also upending established business models and existing ways of serving customers. Customers increasingly expect holistic advice, prompting a shift from a product focus to client-centricity.

4) **Commercial Banking:** Inflation, higher rates, persistent supply chain shocks, and a potential recession portend a more stressful environment for corporates. While commercial bank net interest income should improve as central banks raise rates, banks may also be forced to raise rates on deposit products to retain clients seeking higher interest–earning opportunities.

5) **Investment Banking:** While "Digital-All" is the current buzzword, investment banks should preserve their role as capital market intermediaries in the wake of deglobalization, the rush toward a green economy, and the rise of private capital. As client demands evolve, investment banks should also bolster customer experience by enabling front-to-back modernization. Accelerating digitization will remain key to unlocking future sources of value. Investment banks are also expected to be agile and decisive in responding to new talent dynamics and rising cost pressures. These challenges are likely to test most investment banks' patience and ingenuity.

Banks underperform vs. TB



6) **Infrastructure and Exchange houses:** Market infrastructure providers are increasingly being asked to provide more than the best execution, low latency, and competitive costs. In addition, buy-side and sell-side customers now also demand a bundle of services across the product life cycle to simplify workflows and provide a competitive edge.

   The most urgent priorities for large exchanges include bringing new technologies to scale, such as cloud-enabled microservices, market data tools and analytics, and digitized trading processes. In the near term, exchanges should work to differentiate their offerings from specialist providers through mergers and acquisitions or by developing new capabilities internally. Exchanges also need to address heightened calls for fee transparency from global regulators and prepare for the transition to a faster securities settlement cycle.

   Exchanges should also seize medium- to long-term opportunities in carbon trading, crypto markets, and the mass tokenization of financial assets.

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 support earnings growth).

Negatives for the sector:

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

Investment opportunities:

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

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

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

Healthcare

Within the next decade or so, healthcare as we know it today will no longer exist. There will be a fundamental shift from "health care" to simply "health." And while disease will never be entirely eliminated, with the aid of science, data, and technology, we will be able to identify it earlier, intervene proactively, and better understand its progression to help consumers more effectively and actively sustain their well-being. The future will be focused on wellness and managed by companies that assume new roles to drive value in the transformed health ecosystem.

Driven by greater data connectivity; interoperable and open, secure platforms; and increasing consumer engagement, several models are likely to emerge. These will replace and redefine today's traditional life sciences and healthcare roles to power the future of health. The categories will fall under three distinct but interconnected overarching roles:

1) **Data and platforms:** Categories within this role include the foundational infrastructure that forms the backbone of tomorrow's health ecosystem, and will generate the insights for decision making. Everything else will build from the data and platforms that underpin consumer-driven health.
2) **Well-being and care delivery:** The most health-focused of the three, categories within this role will be composed of both virtual and physical care facilities and health communities, and will provide consumer-centric delivery of products, care, wellness and well-being.
3) **Care enablement**: This role will include the connectors, financers, and regulators that help make the industry's "engine" run.

All three components need to be fully functioning and integrated for the future of health to come to life.

Life sciences and healthcare organizations need to make choices now to decide which role(s) they want to play in the future. Critical to this decision is understanding how multiple roles could fit together into a cohesive strategy and new business models required for future success.

Specific categories in the future healthcare ecosystem:

1. Data convener: Data-gathering organizations will have an economic model built around aggregating and storing individual, population, institutional, and environmental data. They will also promote interoperability and help ensure privacy/security. Data will be used to drive the future of health.

2. Science and insights engine: Some organizations will likely have an economic model driven by their ability to derive insights and define the algorithms that power the future of health. These organizations will conduct research, develop analytical tools, and generate data insights that go far beyond human capabilities in care delivery.

3. Data and platform infrastructure builder: This new world of health will need infrastructure and platforms that can serve highly empowered and engaged individuals in real time, and these will have to be built. Data and platform infrastructure builders will develop and manage siteless health infrastructure to link consumers and health stakeholders and will set the standards for platform components.

4. Health product developer: Health product developers will power the consumer health ecosystem by developing and manufacturing wellness and care products – from applications to drugs and devices. The economic model of these organizations is driven by their ability to enable well-being and care delivery. Product development will not be limited to pharmaceuticals and medical devices, but will also include software, applications, and wellness products.

5. Consumer-centric health community: Along with companies that develop health products, other organizations will provide the structure that supports virtual communities. Consumer-centric health players will provide virtual, personalized wellness and care to consumers, leverage community to encourage behavior change, and drive consumer and caregiver education.

6. Specialty care operator: Two decades from now, we will still need specialty care providers and highly specialized facilities where patients can receive care. Specialty care operators will provide essential specialty care and interventions when in-home wellness and care efforts are insufficient.

7. Localized health hub: While there will be some specialty care, most healthcare will likely be delivered in localized health hubs. Localized health hubs will serve as centers for education, prevention, and treatment in a retail setting. Additionally, local hubs will connect consumers to virtual, home, and auxiliary wellness providers.

8. Connectors and intermediaries: These are the logistics providers who will run the just-in-time supply chain, facilitate device and medication procurement operations, and deliver products to consumers.

9. Individualized financier: Unlike today's health insurers, these organizations will create the financial products that individuals will use to navigate care. These organizations will offer tailored modular and catastrophic care coverage packages. They will also drive reductions in care costs by leveraging advanced risk models, consumer incentives and market power.

10. Regulator: While we will still have regulators, they will not likely be viewed as governmental traffic cops. Rather, they will set the standards for how business is transacted. The regulators of the future will influence policy to catalyze the future of health and drive innovation, while promoting consumer and public safety.

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 is now normalizing 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

Industrials

Manufacturing has demonstrated continued strength in 2022, building on the momentum it gained emerging from the pandemic and surpassing expectations from the prior two years. While overall demand and production capacity have hit recent highs, there are indications that the near-term outlook may not be as bright.

The industry is currently experiencing concerns related to inflation and economic uncertainty. Manufacturers continue to grapple with competent manpower challenges that may limit the industry's growth momentum. Supply chain issues including sourcing bottlenecks, global logistics backlogs, cost pressures, and cyberattacks will likely remain critical challenges in 2023. As leaders look beyond leading amid disruption and revamp their approach, our 2023 manufacturing industry outlook examines five important trends to consider for manufacturing playbooks in the year ahead.

Manufacturing industry trends to watch:

Technology: Manufacturers have increased their digital investment over the past few years and accelerated the adoption of emerging technologies. Companies with higher digital maturity have shown greater resilience, as did those that accelerated digitalization during the pandemic.

Manpower: Despite a record level of new hires, job openings in the industry are still hovering near all-time highs. The workforce churn is relatively high, generating a workforce shortage. This is amplified by supply chain limitations which in turn reduces operational efficiency and margins.

Supply chain: According to research by Deloitte, 72% of interviewed CIOs believe the persistent shortage of critical materials and ongoing supply chain disruptions present the biggest uncertainty for the industry, even in the coming year.

Smart factories: One in five manufacturers is already experimenting with underlying solutions or actively developing a metaverse platform for their products and services. This trend will accelerate even more in 2023.

Sustainability: The requirement to comply with ESG is becoming more and more important. Manufacturers are progressing toward their ESG commitments by making operational changes across their value chains. In addition, regulators globally are moving toward requiring more disclosures for nonfinancial metrics.

Positives for the sector:

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

Negatives for the sector:

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

Investment opportunities:

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

Improving aerospace activities and a renewed interest in defense and supply chains, as well as factory re-equipment, benefit the sector. Medium-term investors may look at the following: Boeing, CSX, Siemens, Lockheed Martin, Raytheon Technologies, and Stanley Black & Decker

Real Estate

Following a pandemic-fueled course correction, the global real estate industry faces transformational shifts in how buildings will be used, valued, and transacted in 2023 and beyond. Ongoing uncertainty in the global economy could impact the industry even more. In the near term, the potential for regional or global recession or stagnation looms—and these impacts would be felt across financial services sectors.

Market research conducted by Deloitte uncovers priorities that commercial real estate (CRE) leaders can focus on to help their firms traverse this period of uncertainty and emerge stronger. Real estate firms should make informed, innovative plans to meet the evolving needs of investors, tenants, and regulators. Strategic portfolio execution, prioritizing environmental, social and governance (ESG) to meet regulatory and stakeholder demands, understanding recent and pending changes to tax structures, rethinking talent approaches, and using technology to innovate and improve efficiency stood out as top priorities when planning for a year that is currently difficult to predict. Other key findings:

1) Looking to 2023, concerns about the economy are top of mind for most global real estate leaders. Revenue expectations for 2023 are mixed among those surveyed – 40% say revenues should increase, 48% see revenues decreasing, and 12% expect no change.
2) When it comes to real estate fundamentals – cost of capital, capital availability, property prices, vacancy levels, leasing activity, transaction activity, and rental rates – most respondents (66%) expect improving or stable conditions for next year. Respondents point to leasing activity, tightening vacancies, and rental growth as having the strongest potential for improvement.
3) The survey shows that real estate firms are still in the early stages of managing their ESG compliance requirements. Only 12% of respondents say they're prepared to immediately implement changes to meet new regulatory requirements, and only 7% use ESG data and analytics in their investment strategy decision-making. Most plan to start incorporating ESG data over the next year to two years.

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:

- Data center providers and telecom towers are benefiting from technology trends.
- Valuations are still relatively attractive.
- Long-term demographics support the recovery of extended-care and assisted-living facilities.

Negatives for the sector:

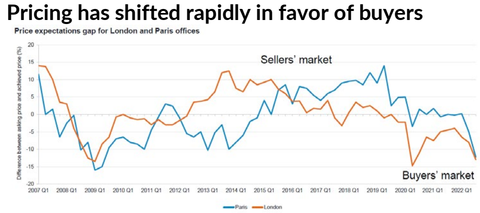
- High unemployment can lead to multi-family lease defaults.
- De-urbanization is negative for multi-family housing.
- Short-term uncertainty about workers returning to the office.

Investment opportunities:

Depending on investor appetite for risk, one can find opportunities in areas which were downtrodden in 2020 and have not fully recovered: A) gaming and casino, B) senior housing, C) lodging, and D) commercial real estate brokers

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

Pricing has shifted rapidly in favor of buyers



Utilities

Tackling a tall order

In 2021, the power and utilities industry tackled tough challenges, made measurable progress, and received clean energy encouragement from the administrations then in place. Example: As the US economy began to emerge from its pandemic-induced recession, electricity sales rose 3.8% through August 2021 over the prior year. At the same time, unprecedented and unpredictable extreme weather events on both sides of the Atlantic Ocean challenged the grid's reliability and resiliency and cyberattacks on critical infrastructure increasingly made headlines.

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

In our power and utilities industry outlook, we explore five trends that will likely impact the industry in the future from enhancing decarbonization and resiliency strategies, to deploying 5G and cloud technologies, to harnessing flexible load and supporting building electrification. In the policy arena, while state mandates such as Renewable Portfolio Standards and federal renewable tax credits have underpinned the clean energy transition to date and will likely evolve further, we will also be watching the potential impact of additional federal policy, investment, and regulatory support.

Some industry trends to watch out in 2023:

1) **Sustainability:** In the coming year, more utilities will likely announce decarbonization goals and interim targets, increase existing targets, and flesh out their decarbonization strategies with strategic plans for implementation as stakeholder interest grows. Overall utility ESG reporting will likely become more detailed and consistent as well. Policies will likely become clearer, as well as the impact they may have on the transition. And technological advances are a wild card worth watching.
2) **Resiliency:** For electric utilities, resiliency planning is key, because extreme events such as wildfires can impact both electricity supply and demand—a costly double whammy. In addition to wildfires, events may also include heat waves, deep freezes, sea-level rise, floods, and more intense storms. Experts have made it clear that global weather patterns are in uncharted territory and planners can no longer use the past to predict the future. In 2023, utilities are expected to continue proactively preparing for that uncertain future.
3) **Digital Transformation:** In the year ahead, many utilities will likely prepare to benefit from 5G technologies by planning for the services they can provide. According to a 2021 Deloitte survey of networking executives across industries globally, 58% of respondents are already deploying 5G or running pilots. Twenty-six percent of our power and utilities industry survey respondents report that 5G communications technologies are incorporated into their company's strategy, while 36% plan to incorporate it.
4) **Smart Grid**: Legislators and regulators are supporting energy efficiency programs at unprecedented levels, and programs are growing rapidly. However, dynamic load flexibility programs are not growing as fast as they could. Growth may be hampered by the need for improved distribution system control technologies, communications standards, and incentives for stakeholders. Some have suggested that the cost savings and grid benefit these programs provide could justify utility cost recovery for grid modernization and required customer incentives.
5) **Electrification**: While we know building electrification has enormous potential to boost electricity demand, many see the impact as far in the future. But building stock, building codes, and related policies vary widely across the country—and as with electric vehicles, the future is arriving sooner in some areas. In the US, only in California and the Northeast are some utilities already adjusting operations to support growing building electrification, but more will likely follow in the coming year. In Europe, Utilities are much more advanced with electrification projects, i.e., all are mostly complete in Germany, France, Switzerland, Holland, Belgium, and the Nordics.

Looking to 2023 and beyond, many expect that the grid will be able to handle increased electricity demand, but additional investment may be needed in home weatherization and grid-responsive appliances to help manage energy use and shape load. Additional energy storage will likely be needed as well, both in front of and behind the meter.

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.

Negatives for the sector:

- The sector as 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

The dollar is tumbling from multi-decade highs. Calling the FX market in 2023 requires taking a view on the Federal Reserve, the war in Ukraine, China, and the overall investment environment. We suspect that the dollar can stay stronger for a little longer. But the main message in our 2023 FX Outlook is to expect fewer FX trends and more volatility.

As we enter 2023, the world economy is decelerating. The US is still in expansion, but higher interest rates, tighter financial conditions, and weakening property and labor markets ultimately take their toll on the economy, which is decelerating. The Eurozone and the UK are likely already in contraction, given the combined impact of the energy crisis, inflation, and monetary tightening. And China's recovery continues to be delayed by issues relating to COVID-19 and the property market.

Given the likelihood of near-term deterioration in economic growth, we would expect the USD to remain strong against all other major currencies. But mid-term, things are expected to change.

In Europe, growth should start to improve mid-year as the continent's energy crisis begins to ease after winter, even if next winter may also pose challenges. In China, contingent upon a reopening in the middle of the year, economic growth should also improve, potentially with the help of higher infrastructure spending.

While most of economies will experience some more pain, we would expect the major economies to evolve in a mixed scenario starting the second half of 2023. For now, there are no facts supportive of a blue-sky scenario taking place. At the same time, the probability of further escalation of the Taiwan crisis is relatively low – the stake at play is probably not (yet) worthwhile for China to push any further.

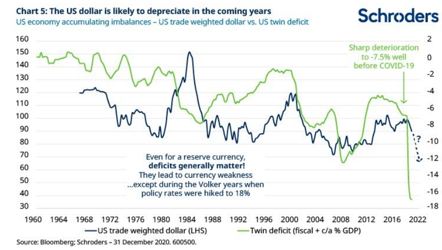
EUR/USD cause and impact table

		Event				FX Impact
	Macro top-down assumption	**CB tightening**	**EU Energy crisis**	**China economic issues**	**Global risk**	**EUR/USD Outlook (Q123 / Q1/24)**
Scenario	**Blue-Sky**	Fed rates to peak at 4.5%, start cutting	Peace in Ukraine	China is done with Covid	Risk-on	1.08 / 1.18
	Mixed	Fed rates to peak at 4.5%, stay put	Gas flows again for winter 23/24	PBC to implement fiscal stimulus	Investors see the light at the end of the tunnel	1.00 / 1.08
	Some more pain	Fed rates to peak at 5%, stay put	Energy shortage in Europe	Covid restrictions to continue, real estate market to impact growth	EM in trouble, USD to stay strong	0.95 / 1.00
	Geopolitics still hard at play	Fed rates to peak at 6%, stay put	UA-RU conflict to extend into Eastern Europe	Covid, real estate, and exports issues hit the Polit Büro, which tries to rescue itself by invading Taiwan	Further risk-off, Dollar is king, EPS are down, investor lose confidence	0.90 / 0.80

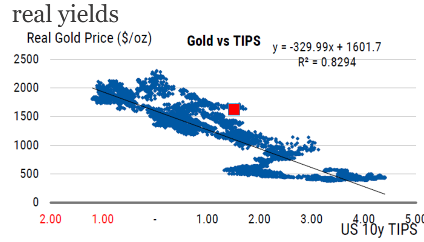
Investment considerations:

The dollar is currently overvalued against the euro and other currencies by about 25%. But given its predominant status and the current backdrop, we would only see moves below EUR/USD 0.95 per euro as an opportunity to buy the single currency.

USD depreciation to come:



Gold continues to look overvalued versus real yields



Source: Bloomberg, US BLS, Morgan Stanley Research

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.

Summary of forecasts and assumptions – January 2023

EQUITIES	Present (12.12.2022)	Bear	Base	Bull
S&P 500	3935	3500	4000	4300
EuroStoxx	440	360	480	530
Topix	1690	1650	2150	2450
MXAPJ	635	480	680	810

FOREX / COMMODITIES	Present (12.12.2022)	Bear	Base	Bull
EUR/USD	1.0525	1.00	1.0750	1.12
GBP/USD	1.2235	1.08	1.25	1.30
USD/CHF	0.9320	0.91	0.95	0.98
Gold	1790	1500	1650	2000
Brent	77	65	90	135

CREDIT (excess return)	Present (12.12.2022)	Bear	Base	Bull
US Invstment Grade	150	-2%	1.5%	3.4%
US High Yield	480	-5.2%	0.0%	7.4%
EUR Invstment Grade	210	-2.1%	3.1%	5.1%
EUR High Yield	570	-4.8%	2.5%	9.7%
Asia Investment Grade	198	-1%	3.7%	5.2%

PE (Consensus)	Present	2023	2024
S&P 500	16.1	17.1	17.3
MSCI Europe	13.3	11.5	14.3
Topix	13.0	12.1	13.9
MSCI EM	11.0	10.8	11.8

EPS (Consensus)	Present	2023	2024
S&P 500	220	232	253
EuroStoxx	36.6	37.2	39.4
Topix	151	160	170
MSCI EM	81	83	93

Key Economic Forecasts	Present	2023	2024
GDP - Global	1.8	2.5	2.7
GDP - USA	0.3-01	0.2	1.4
GDP - Euro Area	1.4	-0.5	1.0
GDP - EM	2.4	4.2	3.6
CPI - Global	8.7	4.4	3.5
CPI - USA	7.4	1.9	2.2
CPI – Euro Area	10.7	3.5	3.1
CPI – EM	9.0	5.8	1.3

Overview of Capital market assumptions

Return forecasts

Forecasts are based on long-term averages (+15 years) in local currency (except EM equities); all figures are annualized

Cash

CCY	Expect Returns p.a.	Expect Volatility p.a.
USD/EUR/CHF	2.5% / 1.5% / 0.5%	1% / 1 % / 1%

Bonds

Instrument	Expect Returns p.a.	Expect Volatility p.a.
USD High IG 5–10 years	**4.25%**	**5.25%**
EUR High IG 5–10 years	2.25%	4.5%
USD Inflation linked Bonds	**3.4%**	**4.5%**
USD / EUR Corp Bonds	4.5 % / 3.5 %	4.75% / 4.15%
USD / EUR HY Bonds	**6.3% / 5.25%**	**9.6% / 10.1%**
EM Supras – USD	6.2 %	9.5%

Equity

Instrument	Expect Returns p.a.	Expect Volatility p.a.
United States	7.7%	15.9%
Emerging markets (USD)	9.3%	19.7%
Eurozone	7.9%	17.6%
United Kingdom	7.6%	16.0%
Japan	6.9%	18.5%
Switzerland	7.3%	13.8%

Others

Instrument	Expect Returns p.a.	Expect Volatility p.a.
Commodities	7.1%	17.4%
Hedge funds (FoF; USD)	**5.0%**	**5.7%**
Other / Risk parity (USD)	7.3%	10.1%
Private markets – Private real estate (USD)*	**9.3%**	**10.5%**
Private markets – Global private eq. (USD)*	10.8%	13.8%
Private debt (USD)*	**8.6%**	**5.9%**

'* returns assume no specific risk issues.

Asset Allocation Preferences – January 2023

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. The present slow economic growth, could result in significant upside on the future. Amid the Russian/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., those 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 is 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 the 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 use 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. Slow economic growth and the potential for higher volatility are usually headwinds for this sector, yet fundamentals are still favorable for now.
	Europe	○○○●○	■■■□□	
	EM	○○●○○	■■■□□	
Industrials	Americas	○○●○○	■■■□□	Amid signs of slow economic growth, stocks have been trading in line with the present stage of economic cycle. The present CB policies, which are trying to address inflation, could be negative (on a relative basis) for the historically cyclical Industrials sector. While prospects for an increase in infrastructure and clean-energy investment are likely to support the machinery and building materials industries, the pace of spending is uncertain.
	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. Weak fundamentals and investor pessimism about future growth potential have pushed many valuation measures to well below 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 and this is capital intensive, but government infrastructure initiatives could result in subsidies and investment. On the SU side, traditional broadcast and cable TV advertisers have struggled, but are quickly pivoting toward online mediums. Wireless service revenues and equipment sales are supported by the initial rollout of 5G cellular technology.
	Europe	○●○○○	■■■■□	
	EM	○○○●○	■■□□□	
Real Estate	Americas	○○●○○	■■■□□	Warehouse/distribution center demand remains strong, resulting in rising rents. High home prices and higher interest rates outweigh de-urbanization benefits. REITs specializing in single-family home rentals and manufactured homes are expected to consolidate. 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 the developments around EV and alternative energy generation and distribution, which will be the sector's next move.
	Europe	●○○○○	■□□□□	
	EM	●○○○○	■□□□□	

IX-7 Asset Management SA

Expected costs of running investment strategies with our company

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

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

Disclaimer

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

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