IX-7 Asset Management SA

Q 02 / 2023

Quarterly Investment Review and Outlook

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"Good decisions come from experience.
Experience comes from bad decisions."

Mark Twain – Storyteller & Entrepreneur

… and bad decisions make you progress more quickly.

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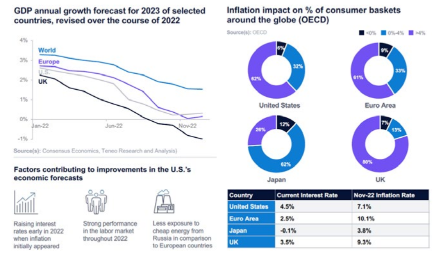
Quarterly Outlook– Q02/2023

At a glance

Review – 1st quarter of 2023

Growth has proved stronger than anticipated. The global economic outlook was underpinned by three main factors:

- Energy prices: Energy prices were lower – this is particularly important for Europe, which looks to escape from an energy-driven recession. Nevertheless, the continent must still face a structural energy challenge in the medium term.
- Reopening of China: China's reopening occurred earlier than expected; consequently, China's 5.6% growth forecast for 2023 is expected to generate positive spillover to the rest of the global economy.
- Banking crisis: Bank solvency has made headwinds, with several victims. First and foremost, the present crisis is not the result of credit concerns, but rather a loss of confidence in some establishments due to duration mismanagement. The overall impact to the global economic growth should be limited.

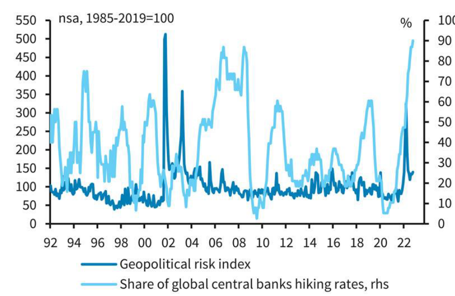


Country	Current Interest Rate	Nov-22 Inflation Rate
United States	4.5%	7.1%
Euro Area	2.5%	10.1%
Japan	-0.1%	3.8%
UK	3.5%	9.3%

Despite an improved economic backdrop, the fundamental story has changed, i.e., inflation is still unsustainably high and there is no indication economic activity is set to cool. A key consequence of the growth outlook is that peak interest rates are expected to occur later than initially anticipated, delaying the disinflationary process – or at least making it bumpier.

The present crisis on the back of troubled financial institutions is expected to soften the pace of interest rate increases, but does not settle the question of inflation expectations. Current terminal rate forecasts have decreased for both the US Federal Reserve (from 5.75% to 5.1%) and the European Central Bank (4.00% to 3.75%). The Bank of Japan is set to raise its yield-curve-control band before removing it, and the People's Bank of China to refrain from further cuts in its medium-term lending facility rate. Rate cuts are likely off the table for the rest of the year at least, with the exception of some emerging-market central banks.

Fig 1. Global growth to slow far below long-term averages in a world of synchronised monetary tightening and geopolitical discord



a) Macro/GDP

After a historic rally triggered by a surge in risk aversion, our view is that the government bond market should undergo a gradual normalization. With central banks – particularly the ECB – remaining focused on their inflation targets, rates should settle back to levels near those observed before the recent banking sector stress.

However, the banking sector's latest strains are an additional, new factor that is making for a tightening of financial conditions. In time, this could result in the first round of rate cuts. As of now, the market expects a rate projection for end-December to be revised downward to 2.45% for the 10-year Bund (down 45bp compared with our previous projection) and to 3.0% for the 10-year TNote (down 40bp).

The consensus view is that Emerging Asian economies will outperform thanks to China's reopening, whereas Latam economies will lag behind. On the other hand, Central and Eastern European central banks are likely starting an easing cycle in response to weaker growth due to Ukraine / Russian conflict.

Central banks' current course of action is subject to macroeconomic uncertainty:

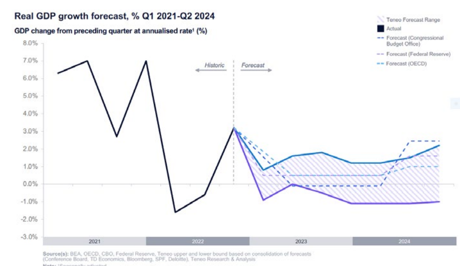
- **As a result of the SVB crisis, Central banks take a step back:** Central banks may be more sensitive to the risks of over-tightening than analysts assume, or inflation may prove stickier than in their base case, requiring a sharper adjustment down the line.

- **Central banks continue to act aggressively to combat inflation:** Central banks may be forced by resilient growth or – worse yet – by stickier-than-expected inflation to raise policy rates more than planned. This could trigger a deeper downturn in a second phase. In this case, rate cuts would follow sooner than currently expected.

In Q2/2023, we see a continued two-way risk: a) market sensitivity to financial stocks, and b) central bank policies as a predominant precursor for economic outlook for the years 2025 to 2030. For now, markets expect some recession risks starting at the end of 2023, with a new economic cycle starting toward 2025.

Given this, we expect the USD to be supported relatively well, followed by some weakness, mainly of the Euro and some Asian currencies. On the equity side, we continue to see global weakness ahead as the higher cost of capital takes its toll on corporate profits. With interest rates still skewed to the upside, bond prices will continue to adjust. However, we believe that we are near the top. We are also bearish on credit in the US, where corporations are highly leveraged. In Europe, corporations are historically less leveraged; therefore, credit default risk is less of an issue – at the moment, Investment Grade Europe offers one of the best historic trade opportunities.

Finally, with Chinese crude demand slowly recovering and limited production spare capacities, we expect crude prices to return to USD 90/PPB to USD 100/PPB. Similarly, the global gas market should remain relatively volatile, with prices skewed to the upside. This will particularly affect European consumers.



In summary:

- The global economy is projected to expand at the sluggish pace of around 2.2% in 2023. This occurs on the back of uncertain financial market conditions. Markets continue to try to get to the bottom of the present concerns. Additionally, while China's COVID policy and Europe's natural gas problems are no longer major risk concerns, their full impact is still to be measured.

- The global economy is not at imminent risk of sliding into recession, as the sharp decline in inflation helps promote growth, but the J.P. Morgan Research baseline view assumes a US recession to be likely before the end of 2023.

- In the first half of 2023, the S&P 500 is expected to re-test the lows of 2022, but a pivot from the Fed could drive asset recovery later in the year, pushing the S&P 500 to 4,000 by year-end.

Top-down view: April 2023

After a shocking 2022, markets were exposed to new concerns. First, some regional US banks got in trouble because of due date mismanagement. Then, broader concerns lead to a contagion of European-based banks such as BNPP, Deutsche Bank, and Société Générale. But the main victim of this spill-over was Credit Suisse which – while capital adequacy ratios were fine – suffered from asset outflows. Credit Suisse finally was taken over by UBS.

We expect the next quarters to be relatively turbulent. The global economy seeks a new point of reference as it is still reeling from the previous hits, i.e., supply and demand issues spilling into labor markets, residual elements of COVID-19, and Russia's invasion of Ukraine.

Turning towards the second part of 2023, the monetary policy tightening drag is building, and central banks remain on the lookout for potential concerns that would derail the economy. Of the 31 countries J.P. Morgan Research tracks, 28 have raised rates. Even with the banking crisis unfolding, there is likely more to come. Based on its current guidance, the Federal Reserve (Fed) will have delivered a cumulative adjustment of close to 500 basis points (bp) on rates through the first quarter of 2023. Central bank activity is clouding the outlook for next year somewhat as the Fed, followed by other major central banks, is expected to pause hikes by the end of the first quarter of 2023.

The substantial rise in borrowing costs is already depressing housing activity and the FX volatility is likely weighing on corporate profit margins. There are also increasing signs that credit conditions are tightening broadly. In terms of risk, US credit presently has the highest level of risk, followed by Europe and developing Asia. Tremors emanating from Emerging Market (EM) low-income commodity importers, U.K. pension funds, the crypto sector, and now the banking crisis are not unrelated: they signal that rapidly tightening financial conditions generate further stress that could spill over in ways that threaten the broader macroeconomic stability.

Global consumer price index (CPI) inflation is on track to slow toward 3.0% in early 2023 after approaching 10% in the second half of 2022.

Stock Market Outlook

After 12 months of macroeconomic and geopolitical shocks, investors responded by derating the S&P 500 price to earnings (P/E) ratio as many as seven times.

Although fundamentals have been resilient until recently, this year's constructive growth backdrop is no longer valid. Fundamentals will likely deteriorate as financial conditions continue to worsen and monetary policy becomes even more restrictive. The economy is also likely to enter a mild recession, with the labor market contracting and unemployment rate rising to around 5%.

For the first time in a long history of positive evolving household equity, consumers are facing the opposite, with exhausted savings and little post-Covid excess cash. More importantly, the average net equity per household is slipping into negative territory faster than ever, as none of the traditional pillars is holding up. Speculative growth segments crashed 70-90% from highs, while some digital currencies simply disappeared. This type of trend could become a snowball that could damage meaningful discretionary spending and ultimately, corporate expenditure and capital investments.

Investors are advised to expect further margin compression, as well as reduced and lower share buyback activity. As of now, we would expect a further sell-off, with some elements of disinflation, rising unemployment, and declining consumer sentiment. Taken together, these should indicate a change in Central Bank Policies, i.e., from tightening to easing.

The economic convergence witnessed during the last 30 or so years has probably reached a plateau. This convergence benefited US corporations most, but currently the risk-reward ratio of the US market versus other regions remains negative. There were some benefits for US investors to engage with European equities – better fundamentals and some potential FX upside made the markets look attractive; however, the likelihood of a prolonged recession in Europe, along with the political and geopolitical tail risks, makes the market look cheap and unsolicited by international investors. From a performance point of view, Eurozone markets have never been able to outperform its major rivals for a prolonged period – this fact is certainly in the mind of every global investor.

Within the developed market, we focus on strong secular growth trends such as the as energy transition, which is sure to generate far-reaching ramifications.

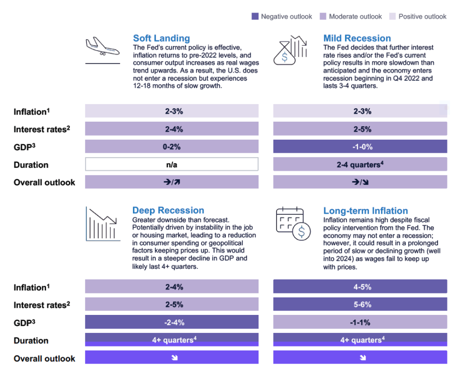
Developed Markets

Developed economies are currently experiencing levels of inflation not seen in 40 years. While there is evidence of growth against a backdrop of global uncertainty, there is a genuine risk that developed markets could be about to enter a prolonged period in a recessionary environment.

Central Banks are currently trying to navigate economies through a challenging inflationary period and orchestrate an outcome not previously achieved. In other words, they are attempting to manage the triple challenge of combating rising inflation, managing rising interest rates, and facing a banking liquidity crisis, all while avoiding a recession and achieving its fabled "soft landing."

Provided the banking liquidity crisis does not escalate further and inflation declines, the labor market should remain strong. Despite evidence of real wages growth, this has not yet translated into inflation and household consumption is relatively strong. The line between a soft landing and a recession is thin. Investor and consumer confidence are at record lows, which is partly responsible for the fast unfolding of the banking crisis. We now expect real wages to decline in the wealthiest income brackets, which compose the majority of consumption.

Although there are reasons to be optimistic about the developed economies, there is nevertheless significant macroeconomic uncertainty. In the absence of a self-sustained wage growth cycle, there is a real possibility that developed market economies could be about to enter a lengthy period of no growth. Since the expected rate of inflation is well above the historic average, none of the four scenarios point towards a strong and immediate growth cycle, as consumption is mothballed by higher prices (see graph in the right-hand column).



Emerging Market Outlook

With expected economic growth of 2.9% for 2023, emerging markets remain well below the pre-pandemic trend and below the numbers seen in 2022 The driving force for EM was and continues to be China, without which the average growth would be around 1.6%, with wide regional divergences. China is expected to grow by about 4% in 2023, with about a 1.5% loss of growth due to COVID restrictions.

Commodities Outlook

With Russian production either gone offline or products being sold via the grey market, one can now expect that the market has found itself a new equilibrium. Despite negative trends and some pessimistic expectations, the market now accepts a low-price band for the Brent benchmark, i.e., the price to average around $90/bbl. On the precious metal side, gold has regained some ground, but we would not expect further gains.

Demand for fossil products is expected to grow throughout 2023 and 2024. US shale producers will be able to cover most of this demand, as their production facilities are more responsive than traditional set-ups. In fact, the daily global oil production will be around 100 million barrels per day (up by 5 million from 2021), though the global economy is expected to expand at a sub-par 1.5% in 2023. The catch-up in demand is of a cyclical nature, driven by the continued normalization of demand for mobility fuels like gasoline, diesel, and jet fuel to pre-COVID levels.

Rates and Currencies

The frisson in capital markets is now palpable. Madame Lagarde assured the market that European banks are just fine and dandy when she raised the ECB policy rate by 0.50% following the March meeting. However, the market expected a different message and consequently, bank stock tanked. A similar event occurred in the States when Fed Chairman Powell asserted that any macroeconomic fallout from the current banking and credit market trauma will result in lower inflation, lower job growth, and less consumption. Yellen's testimony about the application of deposit insurance for all banks triggered a 500 point sell off in the Market.

In hindsight, neither speaker revealed any substantial news – their comments were within the scope of previous announcements. Any further steps would have required legal authority from the respective governing body – EU Parliament or US Congress. In essence, what they said was those events surrounding CS, SVB, SBNY, FRC and any other failures to come, should be considered outliers and do not represent a systemic risk to the overall banking system. So, it is more about the irrational negativity. The important point here is to understand that market participants can perform this longer than the institutions to stay solvent!

For now, central banks continue to combat inflation at a rarely seen pace. They haven't achieved much so far, but overall economic conditions warrant a cautious approach for the time being. More than ever, rate policies remain top-of-mind for investors – either action could result in an undesired outcome. With the current uncertainties, we expect the FED to raise interest rates by 25bp twice, and for the ECB to do the same four times.

Six key takeaways for the remainder of 2023

- Inflation to soften (compared **to 2022 figures), but the overall rate of inflation will be above average.** There is a real risk of inflation remaining at the **4-5%** level for the foreseeable future. This will impact wages, continued geopolitical turmoil and political issues, as retirement planning strategies become ineffective.
- **Interest rates to remain high throughout 2023.** While rates will help to manage inflation, they will also continue to impact borrowing and activity in the housing market. This is a risk to the long-term stability of developed economies.
- **Real wages to decline going forward.** Without a material softening of inflation towards the 2% level, we will see real wages to start falling in 2024. This is expected to impact more well-off homeowners the most, as their property prices decline more than the average market.
- Consumption and particularly discretionary spending is expected to decline on the back of lower real wages and lower consumer confidence.
- Unemployment is expected to stay put at its present levels; while economic activity will be lower, the number of outgoing workers, in particular baby-boomers, will be higher than incoming worker. Specific industry segments may experience a worker **supply-side shortage,** fueling further inflation as upward pressure on wages continues.
- **While inflation has fallen significantly over the past few months, further falls of this magnitude or even more will likely be required to avoid recession. But this is by no means guaranteed.**

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Investment recommendations by type - Summary

1. Equities:

Short-term view:	-	EPS are probably overvalued by ~20%
Medium-term view:	-	With the market correction mostly behind us, we believe equity markets are close to 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 most of the interest hikes processed as of now, investors can extend their average maturity. 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. We favor European credit over US Credit.

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, in particular for REE.

5. Commodities:

Short-term view:	-	Neutral
Medium-term view:	-	Commodities continue to be attractive within current market conditions. We particularly believe the market is underestimating the upside potential of fossil energy-related commodities.

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.

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. However, 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. IIoT

Short-term view: - **Attractive**

Medium-term view: - Companies are likely to accelerate attempts to reduce their dependence on China (a process they had begun before the pandemic). Building robust supply chains means building highly automated production facilities.

Reengineering supply chains will inevitably mean a rise in overall costs, which companies will try to keep under control by making use of modern capacities.

Globalization offered a comparatively painless way to improve many people's standard of living; deglobalization and IIoT will likely involve painful costs, limited real income growth during the set-up period, and fewer available jobs for middle-class workers.

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.

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Market-by-Market View

United States:

The likelihood of a "soft landing" has vanished with the unfolding banking crisis. The end-of-year decline in retail sales and industrial production were reminders that the economy is slowing. Although the month of January showed evidence that the economy was still growing, March produced a different configuration. For now, additional obstacles have appeared on the horizon. The overall economic forecast remains rather optimistic but takes into account significant risks for the next year.

When making longer-term investment decisions, three areas demand investors' attention:

1. **Labor markets** need to loosen up. January 2023 saw employment rise by over half a million. With the working-age population growing at a trend rate of about 50,000 per month, that rise in employment is unsustainable. If employment doesn't slow, wage growth could accelerate and the Fed would respond very strongly. However, continued interest rate hikes pose a clear danger for economic growth.
2. The **Fed raised** interest rates quickly in 2022; the negative impact of those interest rate hikes has started to show. The baseline assumes that this impact is not yet enough to push the economy into recession. But the combination of a loss in consumer confidence and discretionary spending might do so.
3. **Debt ceiling:** This ever-recurring issue is more of an issue than previously. If the government does not raise the debt ceiling, the US Treasury may be unable to pay its bills, which could lead to a drop in spending and more importantly, to severe financial market volatility.

Europe:

GDP growth for 2023 should be slightly higher than we previously estimated, at 0.3% compared with 0.0%. However, this revision should not be taken as suggesting stronger demand, given that the growth carryover from 2022 is 0.4%, after a solid year-end for the European economy in the fourth quarter. The main scenario for 2023 is still one of a recession. The loss of consumer confidence is creating a negative economic backdrop. Additionally, the economy needs time to absorb shocks stemming from the war in Ukraine. The EU average **GDP for 2024** should be down to 1.0%.

Inflation: Most of EU inflation is imported via higher prices for food, general commodities, and energy. The worrying part is that these higher prices are more persistent than expected. This will force the European Central Bank (ECB) to raise rates more than originally expected, probably until the deposit facility rate reaches 3.50% by the summer. And this is barring further financial market turmoil that could jeopardize prospects for growth and inflation. We expect inflation to tamp back down to the target level only in 2025. In the meantime, monetary policy will clearly remain restrictive.

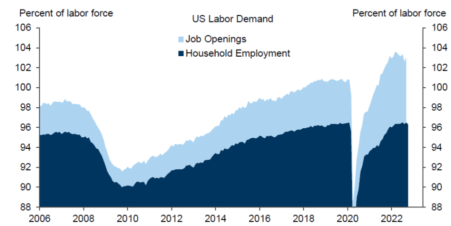
Overall: While conditions were favorable at the beginning of the year – in terms of production, demand, and employment – there are several reasons that 2023 and 2024 will likely prove *complicated* for the European economy. First, long-term interest rates are likely to exceed inflation in 2024 for the first time in several years. This will inexorably slow down domestic demand, weighing on its financing. Second, 2022's strong momentum in industrial production and the labor market is likely to wane somewhat as the recovery from COVID-19 begins to level out.

However, *complicated* does not mean dire: **fiscal measures, accelerating wages** and **disinflation** should bring some **relief to consumer spending**; China's reopening should help tourism demand to fully normalize; and public investment schemes will help cushion the cyclical slowdown and could enhance long-term GDP.

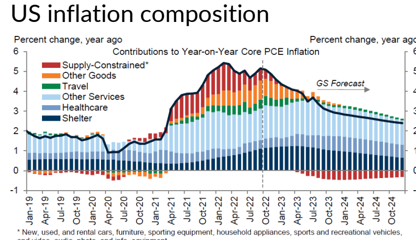
Key figures for the US:

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 openings still very high



US inflation composition



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 hold

MENA

Economies across the Middle East face mixed prospects for the remainder of 2023. Growth is driven by the energy-rich Gulf Co-operation Council (GCC) states, while other economic areas are in a wait-and-see position.

The region's travel and tourism industry shows strong signs of recovery and international visitor arrivals could return to pre-COVID levels by the end of 2023 – largely owing to effective promotional campaigns, major investments, and the release of pent-up demand.

Troubled states face a very uncertain and insecure future – especially internationally sanctioned Iran, war-torn Syria, and Yemen – where conditions are unlikely to improve and could easily deteriorate further. We also note that Egypt is suffering from a rampant devaluation process, with no end in sight for the time being.

Major players in the Middle East – including Saudi Arabia, the UAE and Iran – will continue to look eastwards. Having been disappointed by western ideals, they now turn towards Asia for trade, investment, and political ties, which could further strain relations with Europe and the US. Another year of difficult balancing acts is in store.

With the exception of internationally sanctioned and economically unstable Iran, major oil and gas producers in the Middle East have benefited substantially from strong global demand, rising output, and high prices for their energy exports in 2022. Syria has regained local diplomatic recognition, but the process of international re-integration will take a little longer.

The OPEC+ alliance will solely prioritize price levels, despite concerted diplomatic efforts by the US and European allies to persuade the cartel to increase production. The recent move by OPEC+ to cut output is a clear sign that they walk a different line for now. It can be expected that OPEC+ will maintain its solidarity; we therefore forecast that oil prices will remain above US$90/barrel well into 2024.

Emerging Markets/China:

China:

Asia will face difficult economic conditions for the remainder of 2023. Several years of strong export growth for the region will reverse, with the EU entering recession and the US economy expected to slow sharply. The outlook for domestic demand in Asia is also challenging as the inflation-curbing interest rate hikes of 2022 filter through local economies.

Additionally, geopolitical risks persist, with North Korea expected to resume nuclear testing and Taiwan preparing for elections. Regional growth should come at around 3.5% for 2023, marginally slower than last year, but well below the long-term growth trend of around 7%. Still, even with these growth figures, the region remains one of the strongest growth engines.

Now that COVID-19 restrictions were finally lifted in Q1/23, China's economy recovery can start. However, a smooth shift away from "dynamic zero-COVID" policies is tricky, since the rest of the world has adjusted for different avenues.

The new leadership team, among whom several – including incoming premier Li Qiang – problematically lack experience in managing the inner workings of China's central government. These challenging domestic circumstances could persuade China to adjust its international approach. We expect hardline diplomacy to continue under Mr. Xi's new set-up, involving combative responses to US political and economic pressure and a willingness to go further in pushing Chinese territorial claims in relation to the South and East China Seas, Taiwan, and China's border with India.

Other EMA:

Latin America had another big election year in 2022, with important implications for policymaking in 2023 and beyond. Policy shifts are on the cards as voters call for change, not only on issues with particular regional significance (like crime and corruption), but also on the economy.

The ongoing crises rocking Latin America in the several past years demonstrate an increasing demand for a big state that both spends and regulates more. Accordingly, over the past year voters have elected candidates on the left of the political spectrum who promise that kind of shift. It is no coincidence that tax reform – in order to ring-fence social spending – features among the top priorities of new left-wing governments in Brazil, Chile, and Colombia. Greater regulation and taxation of important commodity sectors which are perceived to be the "winners" of the 2022 commodity shock also look likely.

However, Latin America's new left-wing presidents will not find governing easy. The collapse of centrist parties across the region means that left-wing governments will need to operate in an environment with populist right-wing factions. Some of these movements have control of Congress and could easily block legislation. After all, most countries have an extremely fragmented, divided legislature, making the process of mustering support on a bill-by-bill basis fractious at best. While not altogether bad, from an economic point of view, disillusionment can set in quickly, resulting in continued lag in overall development.

Finally, we note that the US/China decoupling will force countries to choose sides on strategic issues and development plans. The bifurcated global economy, which Latin America provides with strategic resources, will impact geopolitics and geoeconomics for decades to come. For now, most LATAM countries have strong diplomatic ties with the US and to a lesser extent with Europe, but with China has been rolling out its Belt and Road Initiative (BRI) across Latin America, it is not entirely clear-cut which side they will choose.

More importantly, the US private sector lacks investment in some regions, partly because of historic disappointments. The most recent B3W (Build Back Better World) is a prime example of wasted efforts. Announced as the solution for an improved status quo by the US administration (in conjunction with European governments), it was supposed to focus on infrastructure in areas such as health, technology and climate. However, the plan has entirely failed to get off the ground.

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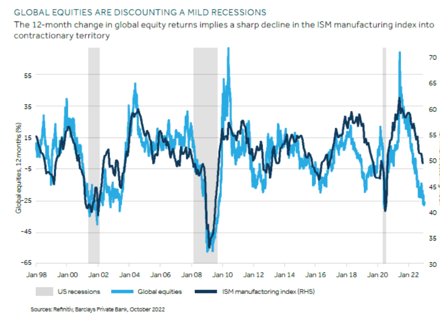
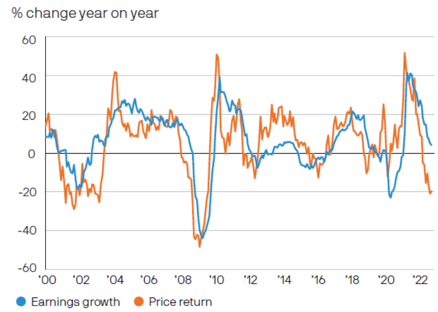
Granular Allocation View:

United States	We are underweighting on US equities. The Fed intends to raise rates into restrictive territory. The March 23 banking crisis partly reflects this. But valuations have not yet come down enough to reflect weaker earnings prospects.
Europe	We are underweighting on European equities, as the recent banking crisis and the war in Ukraine put the region at risk of stagflation or even recession.
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	For now, we are still underweighting on US Treasuries, even with the adjusted yields. We remain on the defensive, as the US originated banking crisis is not expected to be over yet. 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 the euro area suggests markets are underappreciating 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 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. In our view, valuations are not yet compelling enough to turn more positive on the asset class.

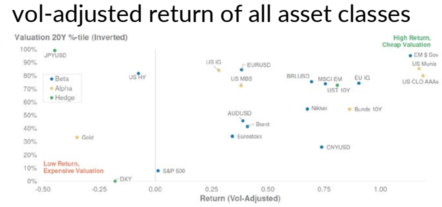
Global equity analyst view: mild recession



Markets are ahead of EPS Adjustments

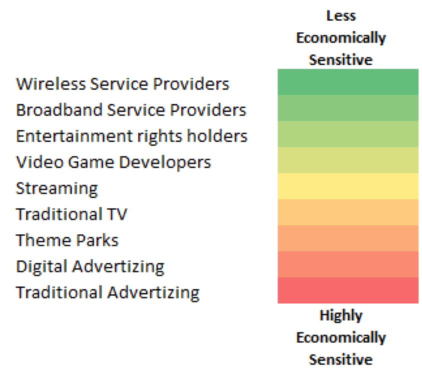


High grade fixed income offers the best vol-adjusted return of all asset classes



Communications Services

The communication services sector was created in 2018 by taking some of the so-called FANG stocks (namely, Facebook, Alphabet, and Netflix), and mixing them with certain entertainment, telecommunications, and technology companies.



The new sector created by this mash-up contains a wide variety of dissimilar companies – some of them more economically sensitive than others. These include high-growth, cyclical stocks of companies that sell digital advertising – a service that companies can easily stop purchasing in a downturn.

But the sector also includes some much less economically sensitive companies that provide utility-like services – including mobile phone and home broadband Internet services. These companies have offered slow, steady growth over time. And the sector includes many other companies between those two extremes. These include companies that are adjacent to discretionary spending, such as video game, television, and theme-park segments.

As we progress in 2023, investors in the communication services sector are worried about many of the same things that caused markets to turn volatile in the past year. Interest rates are rising, inflation is high, war continues in Ukraine, and recession risk has risen around the globe.

Diversity within the communication sector is high; the sector therefore offers investors a wide variety of opportunities, both now and when stronger economic growth eventually returns. However, since most of the companies are highly consumer sensitive, there are concerns that consumer spending may finally start to slow.

Looking beyond 2023, companies in the sector with the best long-term prospects are those that can control costs and maintain solid balance sheets, regardless of their level of economic sensitivity.

For example, sector heavyweights are often thought of as being cyclical stocks. Much of their revenue comes from digital advertising, and their absolute levels of growth tend to ebb and flow with advertiser demand – which rises and falls with the economy. However, as long as their management can control costs, such companies' business models could remain resilient through the economic cycle – and even see some attractive potential upside in an eventual recovery. Digital advertising has historically bounced back quickly in economic recoveries, and at very high incremental profit margins.

Communication services also contain the entertainment segment, a diverse and varied group of companies. This segment includes traditional TV broadcasters and cable companies, which are likely to continue their long-term declines. Many of these companies carry high levels of debt, which makes them vulnerable to rising interest rates. Some cable companies are raising prices in an effort to offset falling subscriptions, but this often makes subscriptions fall further. A recession may accelerate the shift to lower-cost streaming, and this could play to the long-term advantage of streamers, who are offering more options to attract and retain subscribers and thereby earn a better return on existing levels of content investment.

Wireless and broadband providers are among the least economically sensitive companies in the sector. While consumers may cut the cord to their television and cable subscriptions, they are less likely to cancel wireless and broadband subscriptions. These services have become more like utilities because consumers see them as "must-haves" – even in a recession.

One benefit of investing with a long-term view is the ability to look beyond a potential recession and focus on investing in stocks of companies that may be challenged in the short term but can emerge stronger following economic revival. The communication services sector can be part of an all-weather portfolio with downside protection in a recession, but enough cyclicality to also perform well as economic conditions eventually improve.

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

For the past five quarters, recession worries have been the driving force behind the materials sector. However, there are attractive pockets of potential long-term opportunity in the sector, particularly in firms that stand to benefit from the long-term transition to electric vehicles. For such long-term trends, the market's downturn has presented some of the best historic buying opportunities.

The materials sector encompasses industries such as chemical producers (including makers of fertilizers and industrial chemicals), metals producers (including gold and copper miners and steelmakers), makers of construction materials (such as cement, bricks, glass, and gravel), and producers of wood-based goods (such as lumber and paper packaging).

Demand for those goods tends to be highly dependent on the state of the broader economy. For that reason, materials are inherently a cyclical sector – meaning they tend to boom and bust in step with the broader economy.

In the past year, the confluence of global growth worries has weighed on the materials sector. While the US economy remained surprisingly resilient in 2021 and 2022, there's no question that growth has slowed and recession risks for 2023 have risen. China's repeated COVID-related lockdowns weighed on the country's growth, as has its weak property market. And parts of Europe seem already to be tipping into recession, as a result of rising food and energy prices due to the war in Ukraine.

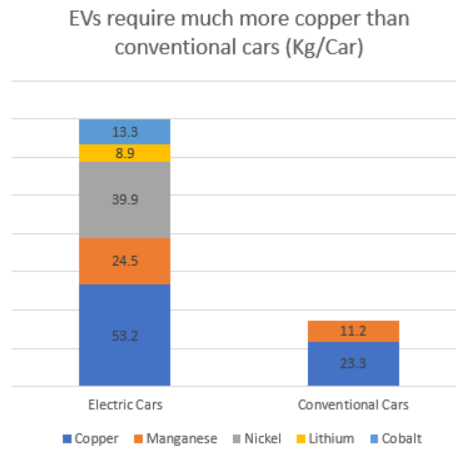
While these headwinds are likely to persist into the coming year, some specific materials segments have still been showing strong long-term fundamentals. Example: The price of EV related metals declined considerably in 2022 on growth concerns related to a potential global slowdown and China's COVID policies. Still, the long-term supply-demand picture for copper looks compelling, as this metal is a play on a powerful trend that is still in its early stages: "the electrification of everything." Notably, electric vehicles (EVs) use significantly more copper than vehicles with internal combustion engines.

Similarly, certain parts of the commodity chemicals group could have compelling long-term potential despite the short-term growth slowdown. This segment includes chemicals made on a large scale that act as intermediates to produce other chemicals – which are then used to produce an extensive range of end products, including construction materials, adhesives, plastics, apparel, and tires.

Demand within the group tends to be sensitive to broader economic trends. While the growth outlook for the remainder of 2023 is uncertain, the longer-term outlook – the next three to five years – looks more constructive. If the economy eventually normalizes, producers of commodity chemicals could see rising demand for their products.

Moreover, short-term supply constraints for these products could drive attractive pricing dynamics. The war in Ukraine has pushed up feedstock and energy costs for chemical producers in Europe, putting them at an increased disadvantage compared with competitors outside of Europe. Plus, capacity growth could decelerate in the US in coming years.

In addition to those broader themes, other unique opportunities could arise in the sector. Among the various industries and sub-industries within the materials sector, supply-demand dynamics can at times be thrown into stark imbalance – presenting potential opportunities for savvy investors.



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.

Consumer Discretionaries

Macroeconomic concerns will likely continue to be the main drivers for the sector. Moderating inflation and the start of a new interest easing cycle could be well received by investors, while a status quo on the field of interest rates might prolong uncertainty. Also important will be the supply/demand dynamic, as continuous widescale price promotions are likely to have a negative impact on retailers' margins.

Across all sectors, rising costs result in deferred demand. Consumer discretionary companies are sensitive to input costs and transport to sell their goods. However, tight inventories (due to supply-chain bottlenecks and labor shortages) plus surprisingly strong consumer demand allowed most firms to increase prices – in many cases in excess of inflation – and pass off higher costs to consumers.

Discretionary spending remained particularly strong among higher-income consumers who feel less squeezed by rising costs. This group holds more savings and spends a lower percentage of their income on basic living expenses like utilities, where prices are poised to significantly increase again in many areas the coming quarters.

Given economic uncertainties, stock valuations in the sector have reached attractive levels. This has created opportunities to invest in segments with strong long-term drivers, and at compelling prices.

For instance, home-improvement retail stocks fell in 2022, possibly due to investors' perception (or misperception) that high home prices and rising mortgage rates would negatively impact the segment. While those forces do clearly impact home sales and turnover, there's less evidence that they impact the repair and restoration of existing homes. In fact, the reverse may be true. High home prices and mortgage rates could mean more homeowners end up remaining in place longer, shifting their focus to improving and maintaining their current homes rather than moving.

Another long-term trend is that housing stock across the globe is getting older: The median age of US owner-occupied homes is around 43 years, with over half of the housing stock built before 1980. Older homes generally need more renovations than newer homes – both to keep up with replacement cycles for features like roofs and appliances, and to keep up with changing styles and consumer preferences.

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.

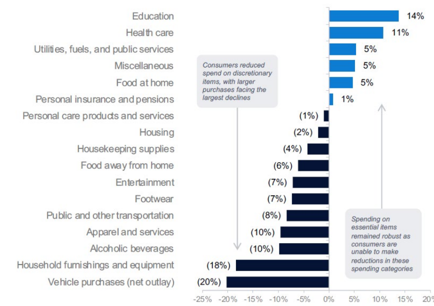
Negatives for the sector:

- 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.

% change in average consumer expenditure towards each expenditure category, 2007-2010, U.S.



Source(s): Consumer Expenditure Survey (US Bureau of Labor Statistics)

Consumer Staples

The consumer staples sector encompasses makers of everyday items like packaged food, toothpaste, and dish detergent. Although the sector tends to hold up better than many others during market downturns (because consumers tend to buy these products even when times are tight), it hasn't been immune to the challenges of inflation and a slowing economy.

Consumer staples is considered to be a "defensive" sector for its historical ability to remain fairly stable during a market rout. And it earned this defensive reputation in 2022 by outperforming the broad market despite rising input costs.

The companies best positioned to navigate these headwinds may include those that can raise prices without losing sales volumes, i.e., those with strong pricing power. A few factors aided the sector. Unemployment was low throughout the year and consumers generally maintained high levels of savings, making them better able to afford higher prices at the grocery store. Plus, price hikes were everywhere – making consumers more accustomed to seeing them and less likely to "trade down" to cheaper products. As a result, many companies were able to raise prices without losing customers. Those that responded quickly with aggressive price hikes fared best.

However, 2023 will be a challenging year for the sector, and while its stocks performed well relative to other sectors, consumer staples is still on track for a poor year in absolute terms. High oil costs – a key input in many household products and packaging – is proving to be a challenge. For companies with sales overseas, a strong US dollar pinches profits. And a good number of companies are expected to lose sales as customers trade down to cheaper private-label products.

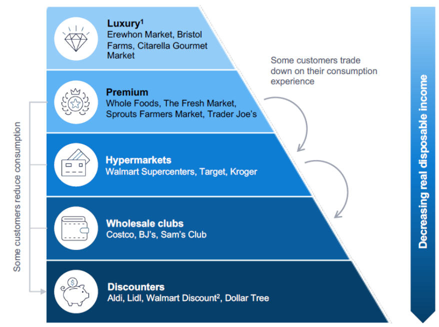
However, we expect consumers to become more sensitive to further price hikes than to past ones – particularly if the economy softens further and the unemployment rate rises.

Those best positioned against this backdrop may include companies that can further raise prices without losing sales volumes. The soda industry, for example, is very consolidated, with high barriers to entry and only three main players of scale. Their dominance gives these companies pricing power to help offset cost inflation. Plus, a lack of private-label alternatives for brand-name sodas means consumers can't readily trade down to cheaper products. Finally, these companies have plenty of experience introducing products at lower price points, often by resizing their packages to hit a price point the consumer is willing to pay.

Consumer staples companies with exposure to emerging markets could also be well positioned to weather any further economic storms in 2023. Many of these countries have a fast-growing middle class, leading to higher per-capita growth than in developed markets. Plus, many emerging-market nations have been battling inflation for decades, which means consumers are used to seeing prices rise and are less likely to change their purchasing decisions in reaction to price hikes.

Many consumer staples companies are already preparing for headwinds in 2024; for example, by being nimble on package sizes and smart about spending on promotion and advertising. Should demand slow further, many businesses could also lean in to cost-savings programs, potentially including layoffs and efficiency upgrades. While the remainder of 2023 may be a year with some challenges for the sector, some companies are still likely to thrive.

Indicative 'trade-down' behavior for major U.S. supermarkets



Key discounters have reported greater-than-expected earnings as consumers aim to save money – Walmart reported 8.2% growth in Q3 2022

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 sector has not yet recovered from the so-called "tech wreck" of 2022; some may even be wondering if the information technology sector's best days are now behind it. We don't believe that to be the case. Despite challenging headlines, there are powerful long-term themes creating potential value for investors – like, for example, the shift to hybrid work and continued adoption of cloud computing.

Last year, the sector suffered from the same challenges as the broader market, including investor anxiety related to high inflation and rising interest rates. And with consumers and businesses increasingly worrying about growing recession risk, some buyers reduced spending on technology. However, the macroeconomic and geopolitical anxieties of the past few quarters have merely distracted short-term investors from the powerful long-term trends that will continue to create opportunities for information technology companies.

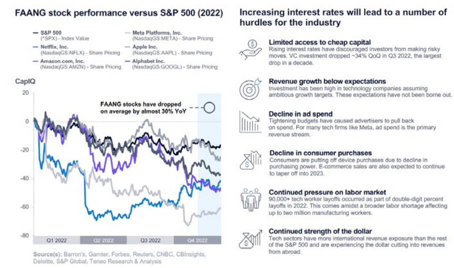
For example, virtually every company in every industry is now looking to use technology to get closer to its customers, innovate more quickly, and operate more efficiently. Many firms are embarking on multi-year digital transformation projects, and this may only accelerate as companies adapt to hybrid work environments. Companies that provide the technology to aid in these transitions could be potential beneficiaries of this trend.

In particular, increasing adoption of cloud computing continues to be a disruptive influence. For instance, many enterprises have shed their in-house hardware-based architecture in favor of cloud-based systems. Roughly 60% of corporate workloads have already moved to the cloud, and that figure is projected to rise to roughly 70% by 2025.1 One of the key advantages of cloud computing is the ability to tap into artificial intelligence and machine learning (AI/ML). Our modern digital economy throws off vast quantities of data every day, and AI/ML helps businesses organize and make sense of that data – a need that will only grow in the years ahead.

IT hardware and software requirements should be considered in a broader environment. For instance, most telecommunication services could not run without IT, and modern 5G wireless networks could not run without the support of top-notch IT services. Going further, as more bandwidth becomes available, industries such as healthcare, media, manufacturing, housing, energy, agriculture, and transportation may find ways to make use of it. That increased bandwidth could help support industry shifts toward more autonomous systems (such as eventual self-driving rideshares). Large cloud platforms are also working on designing architectures that can essentially serve as extensions of mobile networks, effectively merging these networks with their clouds.

Key to bringing all of these technologies to life are semiconductors, and demand for them could remain high for the remainder of 2023. The pandemic disrupted chip supply for many industries, particularly in automotive production. In response to those disruptions, new chip factories are being planned and built in multiple regions, ensuring more certainty of domestic supplies in the years ahead.

We expect that 2024 may be more interesting and hopeful for the technology sector. While a recession, should one occur, could slow the pace of the long-term changes pushing the sector forward, best-in-class companies benefiting from these themes could nonetheless present long-term opportunities, as well as attractive valuations.



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 Taiwan (where most micro-processors are 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.

IX-7 Asset Management SA

Energy

Supply chain disruptions, rising global commodity and energy prices, volatility in major economies and underlying demographic factors have all contributed to rising prices. Except in the case of a severe global recession and without output management, energy prices will stay high, and the sector's outperformance could continue. The forces that propelled the stocks in 2022 are expected to persist. Oil and gas demand continues to grow by more than 1.5% p.a., which is more than the average capacity that comes online. Additionally, existing supply is likely to remain constrained due to disruptions related to the Russian war in Ukraine, as well as years of low investment in exploration.

The past year also saw tight conditions for refined products (i.e., for consumable fuels like gasoline and diesel, as opposed to raw inputs like crude oil). Profit margins at refineries shot to record levels over the summer of 2022, when consumers were hitting the road for summer travel. That's partly because of disruptions of exports of refined products from Russia, but also due to a trend of refineries closing in recent years, as the world has begun to shift toward renewables.

While these dynamics led to pain at the pump for consumers, they fueled a year of outstanding performance for energy-sector stocks. Recognizing the sector's tight supply-and-demand profile, US oil and gas producers boosted production spending during 2022, up more than 50% from the lows in 2021. However, their capacity to boost further appears limited, for now. These tight conditions led to more business for services firms—meaning the companies that provide the essential equipment and services to produce oil and gas, such as the rigs, crews, and technology needed to drill and complete a well.

Looking forward to 2023, supply-and-demand dynamics will likely continue to be the main forces driving business results and stock performance across the various segments of the energy sector – including oil, gas, refining, and services.

Despite recessionary risks, demand for oil and gas is expected to grow throughout 2023 as economies continue to recover from the pandemic. Though investment in oil and gas production has been increasing, it will likely take at least several years for global supply to catch up with demand, supporting high oil and gas prices for some time.

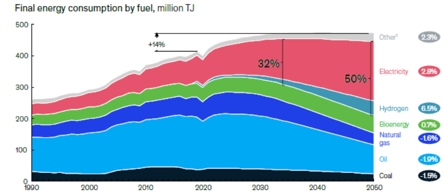
Refining capacity also continues to look tight, given current production capacities and the long lead time it takes to bring new capacity online. This is likely to result in another strong year of profits for companies with refining operations. Additionally, energy services companies could experience strong earnings growth, as spending on exploration and production increases.

Of course, no sector is ever without risk. The greatest risk here may be that demand could weaken substantially. For example, if a severe global recession were to take place, a broad-based reduction in economic activity and mobility would dampen demand, and therefore overall company profitability.

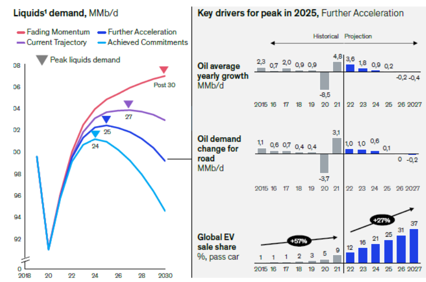
Upstream energy producers – those engaged in locating and extracting energy resources – are expected to continue to benefit from high oil and gas prices. However, these E & P companies are also ranked highest on the investment risk scale. In particular, these companies are exposed to multiple levels of uncertainties, ranging from low success ratios to geopolitical risks.

After years of reduced spending, international investment in drilling and production is set to increase significantly going forward. For that reason, within the energy-services segment, there may be potential upside for companies with exposure to international and offshore production.

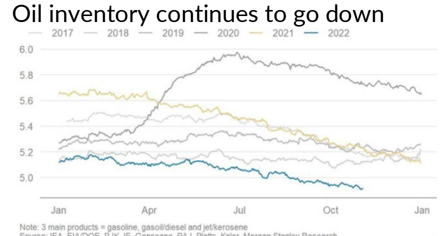
Energy Consumption



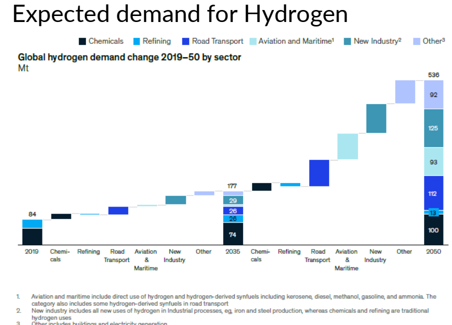
Fossil energy demand to peak within the next 5 years



Oil inventory continues to go down



Expected demand for Hydrogen



The macroeconomic outlook is a bit of a wild card for the next few years. Demand from developing markets and from the post-pandemic recovery is expected to remain high, which should boost oil and natural gas demand for at least another five years. With almost no major discoveries announced in the past years and about a three-to-five-year lead time for a newly discovered reservoir to come online, oil and gas supply will remain constrained in the coming years, supporting high commodity prices. These dynamics bode well for a profitable few years in oil- and gas-related companies.

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

A crisis of confidence led to the failure of two mid-sized regional banks – SVB and SBNY. Their collapse is expected to have reverberations outside the banking sector. For instance, it will likely lead to a tightening of lending conditions, resulting in slower economic growth. A low-growth environment tends to be a negative for cyclical stocks and positive for quality and secular-growth stocks which are expected to benefit from their earnings persistence.

We believe that banks have now shored up sufficient capital to withstand major capital movements. For the time being, the situation in capital markets remains very fluid, but uncertainties about potential further bank failures remain top-of-mind at the investor level.

The banking crisis occurred during a critical period for the market. Interest rates are about to peak, with economic activities at high levels as well. The new conditions, i.e., stricter compliance requirements, will impact weaker players in the race for growth and profitability. We don't think the painful ordeal is over just yet for financial sector stocks. Rising interest rates tend to boost bank profitability by widening the differential between what banks earn on loans made and what they must pay on deposits held. However, this equation only works well in an environment where global growth is accelerating, which we don't expect to happen for the quarters to come.

While credit performance was recently strong, the rising risk of recession has called into question whether that will continue into 2024. With the updated conditions, we believe banks will be more reluctant to allocate new credit lines and simultaneously, closing out existing business will be more difficult. Evidence of TTA (tougher times ahead) is seen in some banks setting aside capital to cover potential losses for future credit defaults, signs they are preparing for the possibility of a weakening economy.

Ever since the great financial crisis of more than a decade ago, we have not favored banks as an ideal investment opportunity. There are multiple reasons for this. Although banks have successfully navigated stress tests, indicating better risk management than in the past, such stress tests do not reflect the broader level of pressure that the sector represents. In fact, the sector is the backbone for any industrial activity; while the latter was running with crutches of all sorts, the financial sector has been undergoing restructuring and changes of economic and political nature. After all, the banking sector is the second most supervised industry activity after running nuclear plants!

Given these factors and the lasting changes within the sector, investors have shied away from the sector, and financial stocks were amongst the cheapest sector members of all major indices. And with the financial sector crisis currently unfolding, we doubt that this will change any time soon.

Pending economic developments, i.e., an outright recession or a soft landing, and irrespective of the bank's customer base, bank managers are between a rock and a hard place. They can either be prudent and lose out on volume or they can be more dynamic than the competition and ride out capital losses at a later stage.

Apart from investments in insurance providers, we have previously favored investments in financial service providers such as credit card providers. These service providers tend to be less affected than some other segments because their business is by definition a pure payment facilitator.

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

No matter where markets are headed next, the healthcare sector offers a combination of defensive and growth characteristics that may be attractive in a variety of scenarios. However, investors are advised to focus on the long term – investing in the most innovative areas of health care, including managed care and MedTech, where one can find multiple growth drivers.

Unlike much of the rest of the sector, managed care firms (i.e., health insurance networks) and MedTech (instrument providers) give us good visibility into their future earnings. That's because they have the ability and scale to push through premium increases to customers every year, which also enables them to pass through inflationary pressures. Another potential positive for the near term: Utilization of healthcare services by consumers is slowly recovering from pandemic lows. Finally, we note that there is some catch-up volume for MedTech providers following the COVID-19 service interruption.

Managed Care also stands to significantly benefit from the long-term trend toward "value-based care." This subsector is undergoing a transition from a traditional fee-for-service model – in which providers are compensated based on the volume of visits and services they provide – to a value-based model, in which physicians are compensated based on patient outcomes rather than on service volumes. This model emphasizes quality of care through preventive and proactive treatments – realigning incentives among payer, provider, and patient.

Another industry segment that may show resilience in the face of further inflationary pressures is the so-called life sciences segment, which includes companies that make specific tools or ingredients used in manufacturing biotech and other drugs. These companies often have strong pricing power due to the highly specialized nature of their products.

On a broader note, we typically consider healthcare stocks to be defensive, since people generally go to the doctor and take their medications regardless of what's going on in the economy. The sector lived up to that reputation in the past year, performing substantially better than the broader market.

The sector's performance is led by segments that promise relative safety and continuity, and relatively steady businesses models with limited cost pressures, which could help them weather weakening growth and rising costs.

There are a few tailwinds for parts of the sector. The US Inflation Reduction Act, which was signed into law in August of 2022, included a three-year extension of enhanced subsidies for consumers who purchase health coverage on Affordable Care Act marketplaces – a benefit to health insurers offering Medicare and/or Medicaid plans.

Another tailwind was drug development: 2022 saw strong launches for diabetes treatments, accelerated US Food and Drug Administration approval for several promising gene therapies, and the long-awaited clinical trial results for an Alzheimer's disease drug. Beyond those specific examples, drug innovations continue to be pushed to the market, thereby benefiting patients with an increased average life expectation.

A lot of negative sentiment has already been priced into the market, so it is unlikely we will see an accelerated shift into defensive shares in 2023 like we experienced in 2022. While anything is possible, we would expect the trend to be of short-term nature only.

Given this, we expect fundamentals are becoming more important to investors again. While we can't know for certain how long this dynamic will continue, it bodes well for companies in the sector that can grow their earnings; in particular, Managed Care and MedTech should benefit most.

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

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Industrials

For investors with a long-term view, the present configuration in the industrial sector offers one of the most interesting opportunities.

The Industrial sector offers some of the best secular growth opportunities. They are related to the direct impact of economic sustainability, digitization, and onshoring, i.e., the revival of domestic production instead of globe-spanning supply chains. Near-term concerns such as inflation, higher wages, and a possible prolonged recession in Europe and short-lived dip in the States are the negatives for this highly cyclical sector.

Harnessing the opportunities of the production transition will require sizable investments by the companies over the next decade and beyond. It can be expected that corporations will be leaner, more productive and less dependent on international flow and just-in-time deliveries. All these are expected to improve the earnings outlook and ultimately, profitability.

In the meantime, the industrials sector is largely driven by the same concerns as the broader market – high inflation – and the implications of high inflation and the higher cost of capital. The sector has largely tracked the broader market's performance for much of the first quarter and we would not expect any different for the remainder of 2023.

Manufacturing in Developed Markets has suffered from nearly four decades of underinvestment in plants, people, and equipment. The past few years have only highlighted vulnerabilities in the sector, with rising trade and geopolitical tensions between China and the West, as well as pandemic-related supply problems causing unprecedented disruption for manufacturers.

Even so, there is a silver lining to that raincloud. First and foremost, consumers have become highly sensitive to how and where products are engineered and manufactured. In summary, these concerns are expected to be addressed as follows by the sector:

1) Sustainability: Ever since the first industrial revolution, manufacturing has relied on fossil-fuel energy. Now, governments and investors are demanding that the sector change its sources of energy, while also remaining cost competitive.

Switching to low-carbon energy sources will be technologically and economically challenging, especially for energy-intensive, heavy-industrial groups. However, the energy transition also offers significant opportunities for some US manufacturers. For example, electric vehicles require far fewer workers for building and maintenance, which will likely reduce labor costs for those manufacturers.

2) Digitization: Around the world, manufacturers are investing in technologies they believe will enhance their competitiveness. Many companies are investing heavily in advanced robotics in an effort to take advantage of smarter, more flexible, and more cost-effective equipment in order to automate more of their activities.

Digital investments – including artificial intelligence, cloud computing, and the so-called "internet of things" (networks of physical devices that connect with one another) – are enabling meaningful improvements along multiple fronts for the industrials sector, including greenhouse-gas emissions, factory output, order-to-delivery lead times, speed to market, and customization.

3: Onshoring: Coming into the pandemic, many US companies relied on just-in-time delivery of components that often came from China and other faraway places. The pandemic completely disrupted this system. Across many industries – most notably automobile manufacturing – companies were forced to curb production due to a lack of essential parts. The upshot of this disruption is that companies are increasingly making plans to diversify and

Expanding Contracting

PMI components	Dec Index	Nov Index	Ppt. Change	Direction
New orders	45.2	47.2	-2.0	↘
Production	48.5	51.5	-3.0	↘
Employment	51.4	48.4	+3.0	↗
Supplier deliveries	45.1	47.2	-2.1	↘
Inventories	51.8	50.9	+0.9	↗

Additional indicators	Dec Index	Nov Index	Ppt. Change	Direction
Pricing	39.4	43.0	-3.6	↓
Order backlog	41.4	40.0	+1.4	↗

reinforce their supply bases and bring supply chains closer to home, likely meaning more manufacturing facilities built across Europe and North America. There could be significant potential opportunities for industrial companies aiding these efforts.

Looking beyond near-term worries

Regardless of whether a recession materializes for the US, Europe or globally, steps to transition towards more meaningful manufacturing processes are already underway and unlikely to stop. Taking a long-term perspective on this process is important; investors who can look beyond the short-term pain will stand to gain.

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

The Real Estate sector has some rocky times behind it. After benefiting from the property run in 2020/2021, the sector faced headwinds in 2022. Now, for the remainder of 2023, we expect the sector to see some stabilization as the interest increase cycle nears its end. Given this, REITs that rent out residential apartments and homes, in particular, could fare strongest given current dynamics in the housing market.

The dynamic triggered by higher interest rates is quite vicious for the sector: Rising financing costs led to lower valuations, which led to still-higher financing costs. On the other hand, higher interest charges make individual properties less accessible, making renting the only valid option for an ever-larger percentage of the population.

Despite the challenging market backdrop, REITs are still showing strong fundamentals – such as occupancy rates and net operating income – even though those fundamentals have somewhat weakened since the peak of the pandemic. But as Central Banks have taken aggressive steps to try to tame inflation, investors have become more fearful about a slowdown in the asset class.

The bright spot: We continue to believe that Industrial Properties offer one of the best opportunities. Unlike for individuals, companies reside at a given location for decades and commercial infrastructure has an average utilization period of about 50 years. More importantly, when compared with residential properties, industrial properties require fewer upgrades and are therefore less cost intensive to run over time.

What is coming next? The probability that the interest increase cycle is nearing an end should allow the sector to regain its defensive characteristics on the back of solid fundamentals that are expected to hold up.

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:

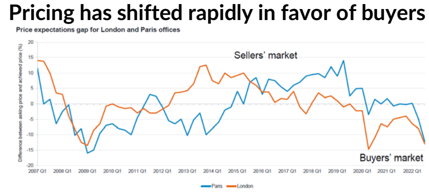
- High unemployment can lead to multi-family lease defaults.
- De-urbanization is negative for multi-family housing.
- Short-term uncertainty about workers returning to the office.

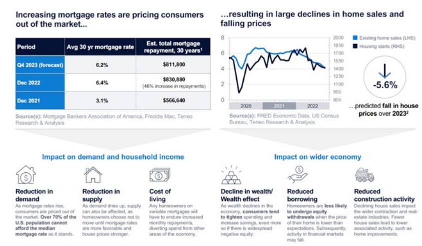
Investment opportunities:

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.

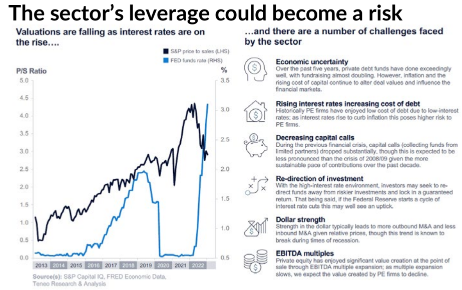
As the economy changes, data centers (cloud capacities) are required. This shift has significant ramifications for the global economy across all industry segments. Some real estate companies will experience higher growth rates than others. Names to look at: Sergo, Goodman Group, GLP, Nippon Prologis,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

Pricing has shifted rapidly in favor of buyers





The sector's leverage could become a risk



Utilities

Riding the transition to renewables

The sector's defensive characteristics continue to look attractive to investors seeking shelter during market and economic choppiness. But the long-term growth story is perhaps even more compelling: Developed Markets economies are gradually shifting from petro-state to electro-state consumption, and utilities are poised to be the primary beneficiaries of that shift.

The year 2022 brought an about-face in market leadership, which benefited utilities. The sector came into the year relatively undervalued – particularly in comparison to the high-flying technology and growth segments that performed so well during the market's pandemic surge.

Looking to 2023, the economy and markets may continue to face the onslaught of the headwinds already encountered this year—including rising interest rates, persistently high inflation, political unrest, and slowing growth worldwide. Amid this environment, utilities could remain in favor for their defensive characteristics, which include durable cash flows and dividends.

But again, the long-term story could be even more compelling. Utilities are at the epicenter of the transition to renewable energy sources. Generating power from renewable resources is now more economical than generating power from fossil fuels, thanks to technology improvements and increased economies of scale among renewables. Meanwhile, consumers, businesses, and governments are actively seeking to reduce their carbon footprints. These primary factors are propelling accelerated earnings growth for utilities, with average earnings growth in the sector recently rising to its highest levels in decades.

As this energy transition continues, companies that are investing to expand their renewable-energy fleets could benefit. There could also be advantages for companies focused on nuclear energy, as mini nuclear stations could be a beneficiary as they help to bridge the energy balance when generation from renewables is lacking.

As developed markets and emerging economies worldwide march toward carbon neutrality, the utilities sector is at the center of the energy-generation transition from fossil fuels to renewables. The combination of a challenging economic environment and long-term tailwinds from the shift to renewables provides an optimistic backdrop for performance in the utilities sector.

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 is 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

Exchange rates: Interest rates are the main drivers for the short-term!

In September of 2022, following months of rapid appreciation, the US dollar reached a two-decade high against other major currencies. As of 8 February 2023, the greenback had declined again markedly, but it still remains about 8% higher compared to a year earlier, based on the US Dollar Index. As the most used currency across the globe, fluctuations in the US dollar exchange rate have important implications for the global economy, businesses, and consumers, given its impacts on investment, debt servicing and inflation.

The US dollar is used in international trade, finances local businesses, and serves as the dominant reserve currency for central banks around the world. This global status of the dollar is primarily driven by the historic strength of the US economy, acquired during and after WWII. This global influence became particularly apparent in 1997/1998, 2002/2001, 2007/2008, and 20012/2013 when rare combinations of distinct factors triggered a rapid surge of the US dollar.

Central to the rise of the US dollar in 2022 was a growing interest rate differential between the federal funds rate set by the US Federal Reserve (the Fed) and other major central banks globally. In the fight against soaring inflation, the Fed started to increase its interest rate earlier, leading to consistently tighter monetary policy. In turn, this interest rate differential increased yields on US debt, which attracted investment and thereby strengthened the dollar.

Moreover, the relative strength of the US economy globally attracted investment that contributed to the dollar surge. That is because economic spill-over effects from the war in Ukraine significantly worsened Europe's economic outlook, with substantial increases in energy prices plunging the region into a trade deficit, thereby reducing the value of the euro and sterling. At the same time, China's economy struggled with the fallout from its restrictive zero-COVID policy.

Emerging and developing countries are particularly vulnerable to a strong US dollar, as higher import prices and rising costs for payments to service dollar-denominated debt led to quickly depleting US dollar reserves.

With an appreciating dollar, businesses outside of the US with dollar-denominated debt need more local currency to convert into US dollars when making loan payments, resulting in higher borrowing costs and lower growth potential. Plus, international companies see a reduced relative value of sales made in foreign currencies when they are converted back into dollars for financial reports.

In Q4 2022, the driving trends behind the dollar surge started to reverse, thereby setting in motion a gradual decline compared to other major currencies. Most importantly, after months of slowing inflation in the US, the Fed significantly decelerated its pace of interest rate increases, fueling expectations that borrowing costs will not rise significantly higher in 2023.

At the same time, the central banks of the Eurozone and the UK have remained firm on rapid hikes which has created a reversed differential in monetary policy that has strengthened their currencies. Furthermore, unexpectedly, the economic outlooks in Europe and China have improved substantially due to falling energy prices and the abrupt exit from zero-COVID, thereby reducing the relative strength of the US economy.

Yet near-term, the market expects another interest rate hike of 25bps in May. More importantly, the committee comments that tight credit conditions are showing their first impact on the economy. In central bank language this indicates that the hiking cycle is nearly done and combating inflation is no longer a key concern. In turn, this should weaken the USD, which is partly anticipated by the market. Only surprisingly strong macro prints could pull off that trick, with the Fed maintaining its data-dependent stance.

As markets continued to digest the banking sector turmoil and recouped some of the recent losses, so did emerging market currencies. Central and Eastern European currencies are leading the scoreboard against the US dollar.

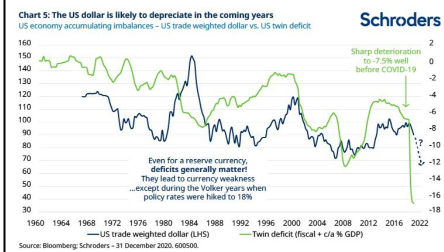
EUR/USD cause and impact table

		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 Politburo, which tries to rescue itself by invading Taiwan	Further risk-off, Dollar is king, EPS are down, investors lose confidence	0.90 / 0.80

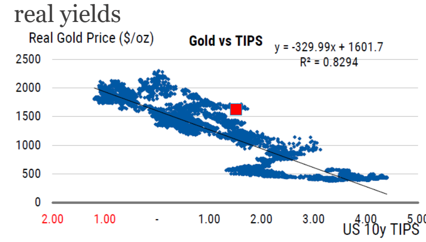
Investment considerations:

The dollar is currently overvalued against the euro and other currencies by about 20%. But given its predominant status and the current backdrop, we would only see moves below EUR/USD 1.00 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.

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Summary of forecasts and assumptions – April 2023

EQUITIES	Present (31.03.2022)	Bear	Base	Bull
S&P 500	4109	3500	4200	4400
EuroStoxx	456	360	480	530
Topix	2016	1650	2150	2450
MXAPJ	640	480	680	810

FOREX / COMMODITIES	Present (31.03.2022)	Bear	Base	Bull
EUR/USD	1.0840	1.00	1.12	1.18
GBP/USD	1.2320	1.08	1.25	1.30
USD/CHF	0.9120	0.91	0.95	0.98
Gold	1975	1600	1900	2100
Brent	85	65	90	135

CREDIT (excess return)	Present (31.03.2022)	Bear	Base	Bull
US Investment Grade	150	-2%	1.5%	3.4%
US High Yield	480	-5.2%	0.0%	7.4%
EUR Investment 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	17.3	18.2	19.1
MSCI Europe	14.1	12.4	15.2
Topix	13.0	12.1	13.9
MSCI EM	11.0	10.8	11.8

EPS (Consensus)	Present	2023	2024
S&P 500	190	210	250
EuroStoxx	34	36	37.5
Topix	140	160	170
MSCI EM	75	83	93

Key Economic Forecasts	Present	2023	2024
GDP - Global	1.1	1.2	2.7
GDP - USA	1.5	0.5	2.7
GDP - Euro Area	1.2	-0.9	1.5
GDP - EM	3.4	3.5	4.2
CPI - Global	6.7	4.4	3.5
CPI - USA	6.0	5.1	2.2
CPI – Euro Area	7.5	5.5	3.1
CPI – EM	8.1	5.8	1.3

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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.

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Asset Allocation Preferences – April 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. Current slow economic growth could result in significant upside in the future. Amid the Russia/Ukraine war, the US dollar has risen, and tighter financial conditions have historically been a headwind for the sector. On the other hand, activities around EV are expected to stimulate new demand, leading into a broad-based secular trend. This is clearly sector supportive and an opportune foundation for long-term investors.
	Europe	○○○●○	■■■■□	
	EM	○○●○○	■■□□□	
Consumer Staples	Americas	○○●○○	■■■□□	Consumer confidence has deteriorated against a backdrop of declining real disposable income. Consumer confidence is currently lower than at any point during the COVID-19 and GFC. On balance, we think the macroeconomic impact on the sector is strong, 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	○○○●○	■■■□□	Together, AMZN and TSLA 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 not recovered. Some exceptions can be found in the 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. Business inventories have been rising throughout 2022 and were 16.5% higher in October 2022, compared to 12 months earlier.
	Europe	○○●○○	■■■□□	
	EM	○○○●○	■■■□□	
Energy	Americas	○○●○○	■■■□□	Some believe the energy shortage will accelerate the transition to net-zero emissions, while others hold the view that elevated prices may drive the use of more fossil fuels. We believe meeting the current needs of society while staying on the path to a net-zero future will require a delicate balance. History tells us to expect volatility in times of significant change, and the energy transition is no different. Volatility does not mean that investors need to jump ship; it just requires greater focus on the pace of the transition.
	Europe	○●○○○	■■■■□	
	EM	○○○●○	■■□□□	
Healthcare	Americas	○○●○○	■■■□□	In developed markets, the healthcare industry faces demanding conditions in 2023 and beyond, including recessionary pressure, continuing high inflation rates, labor shortages, and endemic COVID-19. But players are not standing still. We expect accelerated improvement efforts to help the industry address these challenges in 2024 and beyond, leading to an eventual return to historical average profit margins.
	Europe	○○○●○	■■■■□	
	EM	○○○●○	■■■□□	
Financial Services	Americas	○○○●○	■■■□□	Weakening economic output, rising interest rates, and international political tensions will worsen conditions for banks, insurers, and fund managers in 2023. In the follow-up of the US-led banking crisis, one can expect even higher compliance requirements. However, the outlook for new financial challengers, including fintech and cryptocurrency sellers, is likely to be even tougher. As the sector starts to respond to ESG requirements defensively, focusing on doing only what's required, the sector may invest in people after years of restructuring.
	Europe	○○○●○	■■■□□	
	EM	○○●○○	■■■□□	
Industrials	Americas	○○●○○	■■■□□	The lasting effects of the pandemic, along with the war in Ukraine and high inflation have forced many companies to scale back their 2022 growth forecasts. Are global conditions set to improve in 2023? We are not so sure. Example: The automotive industry will remain vulnerable to global headwinds in 2023, including the energy crisis, slower global demand, and continued supply-chain disruptions. The only bright spot will be the electric vehicles market, with sales of fossil-fuel cars and commercial vehicles falling.
	Europe	○○○●○	■■■■□	
	EM	○○○●○	■■□□□	
IT	Americas	○○○○●	■■■■■	The technology industry has not just weathered the pandemic-driven disruptions of the past few years; it has flourished. The crisis thrust many organizations into the future, accelerating digital transformation and changing work models dramatically. But in 2023, the tech industry will likely continue to grapple with issues around supply chains, workforce, and innovation – now exacerbated by considerable macroeconomic and global uncertainties. The potential recession in developed markets in lower capex spending is another hurdle to overcome in 2024.
	Europe	○○○○●	■■■■■	
	EM	○○○○●	■■■■□	
Com. Services	Americas	○○●○○	■■■□□	The sector reflects the evolution of media and telecom company business models and the emergence of online search, social media, and video, which are pulling subscribers away from traditional media such as newspapers, magazines, and broadcast television. As people spend increasing portions of their time on internet-sourced media, advertisers have shifted their ad dollars to online and mobile sources of content. These forms of online advertising are broadly labeled the digital advertising market. Sector revenues are projected to reach US$1.42tn in 2023.
	Europe	○●○○○	■■■■□	
	EM	○○○●○	■■□□□	
Real Estate	Americas	○○●○○	■■■□□	The real estate industry is moving beyond what it perceives as cyclical headwinds – rising interest rates, declining gross domestic product (GDP), and sinking deal flows – and taking a long-term approach to real estate assets. The mood among real estate professionals and investors is cautious optimism. Their plan: Ride out the current slump and reposition their firms for another period of sustained growth and strong returns.
	Europe	○●○○○	■■■□□	
	EM	○○○●○	■■■□□	
Utilities	Americas	●○○○○	■□□□□	In 2023, supply chain snags, rising costs, and extreme weather are likely to continue plaguing the power and utilities sector. But promising trends in innovation and investment, buoyed by recent legislation and subsidies, can help the sector fulfill its mission to provide increasingly secure, reliable, clean, and affordable electricity. Recognizing the diverse challenges, some utilities are moving quickly to leverage technology – both digital capabilities and data – to propel them toward a new future.
	Europe	●○○○○	■□□□□	
	EM	●○○○○	■□□□□	

Expected costs of running investment strategies with our company

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

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

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

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