BearBull
Global Investments Group Limited

Investment Strategy

January 2023

TABLE OF CONTENTS

INTRODUCTION

Letter to Investors - Investment Climate

- The last quarter of 2022 is finally a little more optimistic
- Inflationary risks gradually decrease
- Aggressive monetary policies expected to ease in 2023
- Weak but positive growth prospects in 2023
- More favourable environment for the evolution of interest rates
- Positive outlook for financial assets

After the first nine months of 2022 that were particularly difficult for the vast majority of financial markets and for almost all asset classes, which often set historical records for negative performance, the last quarter of 2022 ends on a fairly positive note. The stock market recovery seen mainly in October and November will thus have reduced some of the stock market losses of the first nine months and to offer a perhaps finally better outlook for the year 2023, contrasting with the general feeling of extreme anxiety among investors that still existed at the end of September.

The last quarter of 2022 was thus less affected by the fears of all kinds that had widely influenced ambient negative feeling in the previous months. Among these fears, the risks of major inflationary slippage, which had previously influenced the markets, began to decrease with the increasingly noticeable change in the pace of monthly increases and the emergence of a new inflation **"regime"** that was much more moderate than the one observed during the first half of the year, suggesting almost imperceptibly that this threat was diminishing. It was also during the last quarter that we began to see the end of the Fed's rapid and determined monetary tightening phase in 2023, which had plunged the financial markets and all asset classes into turmoil. The expectation in the third quarter that the Federal Reserve would slow down significantly as it approached its target for the maximum policy rate in 2023 thus allowed a certain return to calm. The main part of the expected adjustment in monetary policy therefore seemed to have already been achieved in December with the increase of 0.25% to 4.5% in its discount rate in only ten months, leaving only two potential increases of 0.25% in 2023, if the announced objective of 5% should be maintained. Finally, it should be noted that the risks of a sharp recession, which had largely worried observers, have also decreased, particularly with the feeling that the Federal Reserve's policy might be less dogmatic than initially estimated. Optimism is still not totally in place in economic terms, but growth expectations for 2023 remain significantly positive for the US, China and Japan, while the UK and Europe are likely to flirt with a moderate recession. Against this backdrop, only four asset classes and regions out of a sample of thirty-three in our investment universe still experienced slight declines in the fourth quarter.

The high correlation between all asset classes and regions already mentioned above was again observed. The +4.55% rebound in international bond markets in Q4 made it possible to limit the decline over the year to -16.25%, without any regional market being able to escape this negative trend. In Switzerland, the decline continued in Q4, pushing the fall to -12.1% for the year. The very significant rebound of the equity markets (+9.77%) in Q4 reduced by one third the drop over the year (-18.14%), which remains negative but less historic. The recovery was very strong in Europe (+14.9%) and in the emerging markets (+9.62%). The smaller rebounds in Switzerland (+4.32%) and the US (+7.55%) did not reduce the year's losses as much (-16.48% and -18.3%) as in Europe, which surprisingly proved to be one of the least negative with a decline of -8.55%.

Securitised real estate regained some color in Q4 with a rebound of +7.24% after having been the asset class most severely penalised by the sharp rise in interest rates. The collapse of the *overall EPRA Nareit* indices at the end of September was thus reduced and end the year with a fall of -24.24%, making international real estate as the year's second biggest loser, just after private equity (-26.58%). The improvement in the stock market climate in Q4 only slightly benefited commodities, which were up +3.44%, but they remain the only winners of the year with an increase of +25.99%.

On the monetary front, after having been the big winner of this wave of interest rate hikes, the dollar reacted strongly to the improvement in general sentiment and the prospect of an end to the Fed's monetary tightening soon. Within a few weeks, the dollar trade weighted index lost -7.4% erasing almost half of its gains of the first nine months.

At the end of the year, we can also see that all strategies diversified between a few asset classes, starting with the classic 60/40 or 40/60 strategies diversified between stocks and bonds which had one of the worst performances in their history in Q3, did not resist to the positive correlation over the whole year. Asset diversification including commodities was the only winning combination to control volatility and improve the overall result.

The Q4 stock market recovery still looks fragile, but 2023 should still prove to be a calmer year on the inflation and monetary policy fronts, which have been the two most important factors affecting the stock markets. The gradual decrease in inflation should be accompanied by a decrease in tensions on the capital markets and offer a more positive environment for financial assets, with securitised real estate, which is heavily affected, benefiting significantly. As far as the equity markets are concerned, deliverance will depend more clearly on the real risks of recession, but if, as we expect, 2023 will only see a moderate and temporary recession, then the outlook for corporate profits should prove sufficient to allow a significant recovery in the equity markets.

Alain Freymond
Partner & CEO
BearBull Group

BIG PICTURE

Main Convictions

- Global growth in sharp decline in 2023
- Falling inflation to an acceptable level in 2023
- The end of the monetary tightening cycle approaches
- Positive outlook for financial assets

Global growth in sharp decline in 2023

The year 2022 will certainly end with a notable economic slowdown in Q4 in most developed and emerging economies, which will reduce global GDP growth over one year to around +2.8%. The outlook for 2023 is also likely to be a continuation of the slowdown already underway in several economic zones. The inflationary shock related to the energy crisis had a strong impact in 2022, but will certainly not have the same implications in 2023, but the reorganisation of energy supply sources will maintain some pressure on prices. We estimate that global growth in 2023 will still be below its historical average and will not exceed +2%. However, if the risks of recession are now widely integrated in many economists' and strategists' forecasts, we consider that the United States in particular could surprise by avoiding a recession for the whole year of 2023 and by recording a +0.75% increase in GDP. Our outlook is also positive for Japan (+0.8%), China (+5.0%), and India (+5.5%), and contrasts with the less favourable outlook for the eurozone countries (-0.2%) and the United Kingdom (-1%).

The US recession is indeed one of the central elements of our forecast for the global economy in 2023, as we believe that a recession there is actually much less likely than forecasters think. The monetary tightening cycle has almost come to an end, with the expected increases in the first months of 2023 now widely anticipated. The reduction in inflationary pressures already visible will very gradually reduce the tensions on households' disposable income and their level of uncertainty. In Europe, the recession should be moderate, thanks to the gradual reduction in supply chain bottlenecks, the tax subsidies granted and the resilience of consumption supported by withdrawals from household savings. In China, the end of the zero-covid policy should lead to a faster-than-expected recovery in activity, with positive effects on global trade.

Falling inflation to an acceptable level in 2023

In 2021, we mentioned the probable persistence of inflation, stressing that it would be one of the main risk factors for the global economy and for the financial markets in 2022 through its negative effects on household disposable income and especially because of the radical changes that should be undertaken in response by central banks in terms of monetary policy. Today, we believe that a combination of factors has finally led inflation to reach a probable peak in June 2022, which is already, in some countries, followed by a real inflationary pressure. Taking the case of the US, the peak in CPI inflation was reached in June at +9.1% year-on-year. Over the past five months, this measure has fallen to +7.1% thanks to a new regime of average monthly increases of just +0.2%. The *PPI* index has also followed a similar downward path from its peak of +11.65% in March to +7.4% in November. In the U.S., we could estimate that if this new regime of price increases were to stabilise over the next few months, a *CPI* of +2.5 to +3% over one year would become possible by the end of June 2023. We believe that this probability has now been completely ruled out due to the discourse still too hawkish of the US Federal Reserve, but also due to the persistent discomfort feeling of economic agents, and even the Fed, in predicting the future evolution of inflation. However, demand has decreased and inventories are increasing. Both wage growth and job creation are declining, and job vacancies are also trending in the same direction, suggesting that the labour market is stabilising. In addition, there is also a clear normalisation in the production chains, marked by a correction in the number of months waiting to receive orders, which will now contribute to the disinflation in producer prices (PPI). Pressure is also easing on new rents, a key leading indicator of price trends in the sector. Statistics including older housing have also shown the beginning of a slowdown that will give way to disinflation in this segment of the CPI in a few months. The US cycle is certainly a little ahead of the predictable evolution in the Eurozone or the UK, but 2023 should be marked by an overall decrease in inflationary pressures and by a change in perception that is less and less negative of the action of central banks. Inflation should finally be lower than the targets announced by the CBs and should also be lower than the Fed's target of +3.5% (PCE) for the end of 2023.

While to date, the very sharp decline in the monthly inflation rate has not yet really changed investors' risk assessment, a continuation of the current trend in the beginning of 2023 should be one of the main improvements in risk parameters for the financial markets. The link between inflation and restrictive monetary policies has been the main factor driving the markets down. In 2023, it could prove to be the first positive factor supporting the recovery of risky assets in particular.

The end of the monetary tightening cycle approaches

The year 2023 begins with the first good news announced by the US Federal Reserve in mid-December, at its last monetary policy meeting, which led to a new +0.5% increase in its key rates. The Fed announced, as we had expected, a inflection in the amplitude of its rate hikes, suggesting that it was considering slowing down its action and also reducing the risks of overshooting in its policy. An initial decision allowing us to consider a potentially more responsible and less dogmatic strategy than the one followed in 2021 and until early 2022. The Federal Reserve thus seems to want to steer the soft landing of the US economy more closely, now that the observed trend of decreasing inflation reduces the need for a very aggressive policy. We expect that a continuation of this trend will have a positive effect on the Fed's comfort level with the effectiveness of its inflation control policy and will continue its policy with limited hikes to 0.25% starting in February.

The often announced objective of 5% to 5.25% for its key rates may be maintained, but it appears that the additional pressure of two new hikes in six months should no longer be a scarecrow for investors.

Overall, the monetary tightening cycle of central banks should follow a more moderate path in 2023 and reach its maximum point, in the case of the United States, already in the first semester. This parameter should thus lose its negative influence as the end of the rate hike cycle approaches.

In Europe, inflationary pressures are also diminishing but remain higher, justifying a more determined and sustained pursuit of action by the ECB and the BoE. In Switzerland, the SNB should instead give itself some time before seeing if inflation, which has already shown signs of decline with a CPI of -0.2% in September and a stabilisation for the last five months at just 0.05% on average per month, continues its trend in the first months of 2023. In Japan, the central bank is expected to maintain its ultra-accommodative monetary policy by maintaining its strategy of controlling the yield curve for at least the first part of the year. China still has excellent conditions on the inflation front to avoid policy changes. The November CPI (+1.6%) and the PPI (-1.3%) give it free rein to pursue an expansionary policy that will undoubtedly see further easing in the form of a cut in the bank reserve ratio and lowering its key interest rates to encourage an economic recovery with the abandonment of the Covid zero policy.

Relaxation on USD yield curves

US bond yields have quite logically adjusted to expectations of gradual rise in Fed policy rates to the most probable expected level of 5% at the end of the second quarter of 2023. The faster progression of the short end of the yield curves has caused a reversal of the slopes. At current levels, we estimate that expectations in the financial markets largely incorporate the next scheduled policy rate hikes. However, dollar bond yields still have a negative inflation expectation and are not projecting the already visible change in the inflation regime at all. While the Fed's ECP forecast for all of 2023 is +3.5%, one-year inflation expectations are +4.4% in the University of Michigan survey. If the current inflation regime continues over the next few months, downward revisions will accompany a very significant correction in bond yields, which will logically be considered excessive in a now stabilised inflation context.

We believe that the probability of a pickup in inflation in the first half of 2023 is much lower than the persistence of the new regime that has been put in place. The outlook for the bond markets seems positive to us and is supported by the progressive realisation that the inflation expectations contained in market yields are too high in some cases.

In June 2023, when inflation will have reached an annual rate of +2.5% (current regime) or even +3.75% if we are careful in the United States (50% higher than the current regime), the key rates will certainly seem too high. A real return of 2.5% to 1.25% will then not be necessary to continue the fight against declining inflation, especially if we are at that time in a probable period of cyclical slowdown. However, it is not certain that the correlation seen in the bond markets in 2022 will continue in 2023, as monetary policies and inflation prospects are sufficiently different to cause opposite movements in Europe, the UK and Japan in particular.

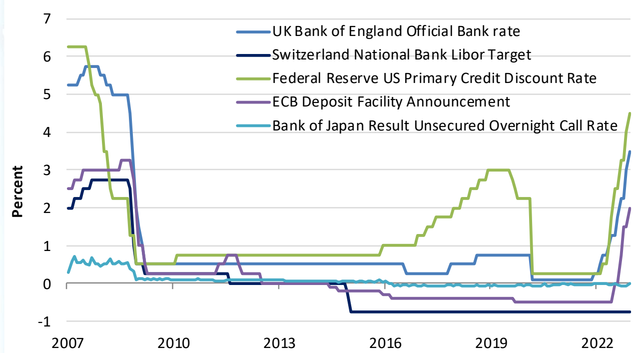
Positive outlook for financial assets

The year 2023 may well be marked by quite different financial conditions than those that prevailed in 2022. The significant tensions that caused the largest historical correlated declines in virtually all asset classes will no longer be present in the same way in 2023. Without disappearing completely, of course, inflationary risks are no longer as worrisome as in 2022. Inflation will continue to be a factor to watch, but stabilisation at a reasonable level will not have any additional effect on expectations of tightening monetary policies.

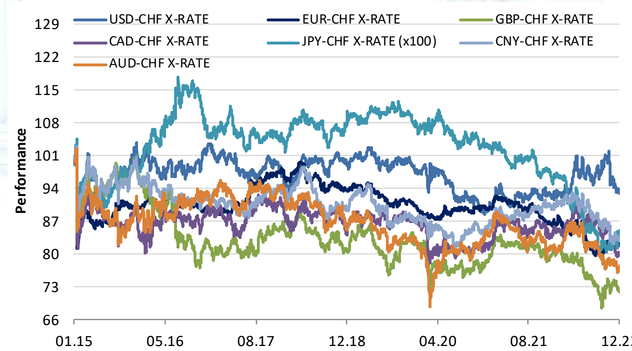
The macroeconomic environment of a global slowdown in 2023 should support expectations of an easing in some yield curves. Global liquidity may still be affected by the gradual reduction in the balance sheets of some central banks, but monetary conditions will prove less punishing. After having raised key rates sharply in 2022, the last expected increases marking the end of the tightening cycle will finally be minor and should not develop any further negative effects.

Financial assets should take advantage of this change in sentiment and the relief of an upcoming end to rate hikes and the beginning of a period of relatively contained inflation. After one of the worst years for all asset classes, 2023 should be the year that capital gains return. The dollar bond markets will benefit from an easing of yields, while the securitised real estate markets will regain some appeal in this more favourable context. Regarding the equity markets, the earnings outlook for 2023, based on the global consensus scenario of a recession in 2023, seems too pessimistic to us. Therefore, a resumption of the upward trend seems to us to be very likely as early as the first quarter.

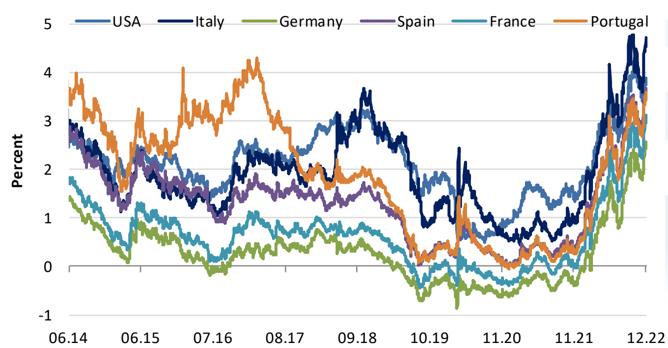
Policy Rates (EUR, CHF, GBP, USD, JPY)



7 Main Currencies against CHF (base 100)



10-year Government Rates



Graph sources : BearBull Group/ Bloomberg/ S&P Global

MACROECONOMIC SCENARIO

MACROECONOMIC SCENARIO

Global Outlook

- Global growth in sharp decline in 2023
- Is recession inevitable in 2023 in the US?
- Recession in Europe should materialise in Q1 2023
- Positive growth but less than +1% in 2023 for Switzerland
- Gloomy outlook in Japan for Q4 and early 2023

Global growth in sharp decline in 2023

The year 2022 will certainly end with a notable economic slowdown in Q4 in most developed and emerging economies, which will reduce global GDP growth over one year to around +2.8%. The outlook for 2023 is also likely to be a continuation of the slowdown already underway in several economic zones. The inflationary shock linked to the energy crisis had a strong impact for the year of 2022, but will certainly not have the same implications in 2023, but the reorganisation of energy supply sources will maintain some pressure on prices. We estimate that global growth in 2023 will still be below its historical average and will not exceed +2%. However, while the risks of a recession are now widely integrated in many economists' and strategists' forecasts, we consider that the United States in particular could well surprise by avoiding a recession over the whole of 2023 and by recording a +0.75% increase in GDP. Our outlook is also positive for Japan (+0.8%), China (+5.0%) and India (+5.5%), and contrasts with the less favourable outlook for the euro zone countries (-0.2%) and the United Kingdom (-1%).

The US recession is indeed a central element of our forecast for the global economy in 2023, as we believe that a recession is actually much less likely than forecasters think. The monetary tightening cycle is almost complete, with expected increases in the first few months of 2023 are now widely discounted. The reduction in inflationary pressures already visible will very gradually reduce the tensions on households' disposable income and on their level of uncertainty. In Europe, the recession should be moderate, thanks to the gradual reduction of bottlenecks in supply chains, the tax subsidies granted and the resilience of consumption supported by levies on household savings. In China, the end of the zero-covid policy is expected to trigger a faster-than-expected recovery in activity with positive effects for world trade.

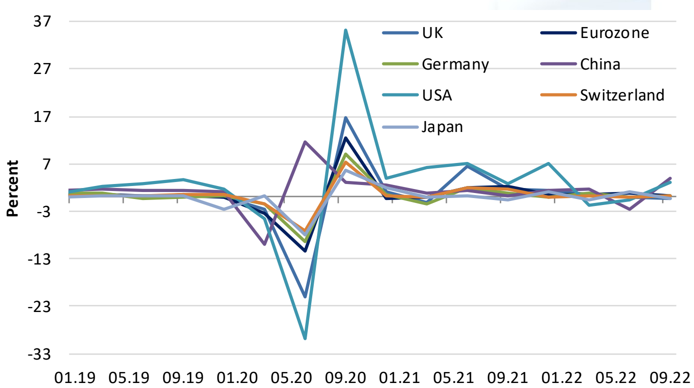
Is recession inevitable in 2023 in the US?

Since the start of the monetary tightening in March 2022, fears of a hard landing have hung like a sword of Damocles over investor sentiment at almost every turn. However, it has to be said that these risks are still far from being confirmed by the available economic data. The soft landing of the economy, which was our main scenario for 2022 and the beginning of 2023, seems to be the order of the day.

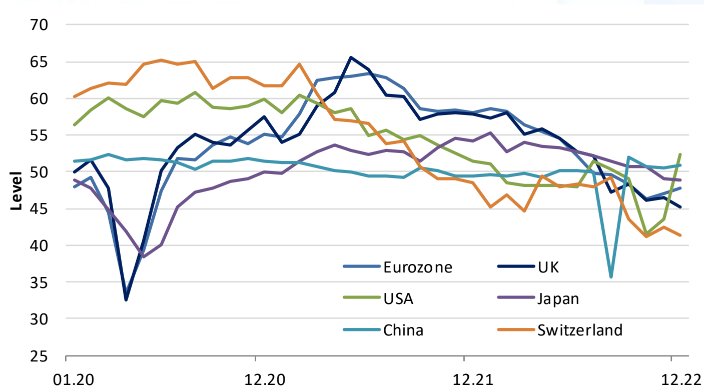
The Fed's monetary tightening in 2022 was one of the fastest and most aggressive in history. Could such a massive increase in policy rates not have a significant impact, even if delayed, on the economy? We saw in 2022 that rising inflation had caused a massive adjustment in bond yields and yield curves in anticipation of a likely tightening of monetary policies. A sharper rise in yields on the short end of the yield curves fairly quickly triggered yield curve inversions that are generally synonymous with future recessions. Nevertheless, this phenomenon has been amplified by the recent rate hikes and the expectation of further moves in early 2023, pushing Fed funds to 5%. A continuation of the Fed's monetary policy to 5% should then invert these curves more sharply in the first half of 2023. Estimates of recession risks based on yield curve models now suggest that these are very high for the second half of the year.

We doubt that the US consumer can cope with such a tightening of financing conditions for long before adjusting their consumption. The decline in purchasing power is now a fact and is beginning to bite on confidence and retail sales. The decline in monthly inflation since July and the new inflation regime that has since been put in place may be the determining factors in the upcoming evolution of the probability of recession in 2023. We believe that the Federal Reserve holds the key to future developments and that it may not be so difficult for it to gradually ease policy if conditions allow. Our outlook for the first quarter is +0% to +0.5% and +0.5% to +1% for the year 2023.

Quarterly GDP



Manufacturing PMI



Graph sources : BearBull Group/ Bloomberg/ S&P Global

BearBull Global Investments Group Limited

Recession in Europe should materialise in Q1 2023

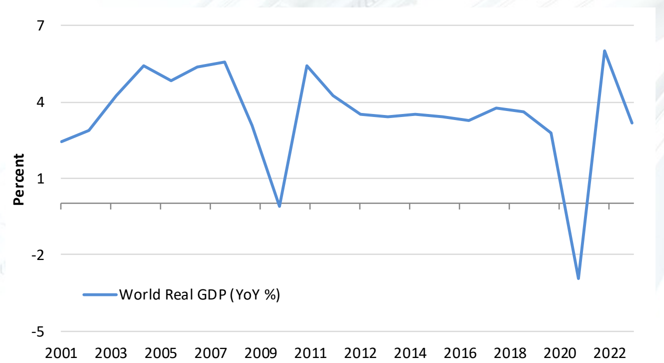
The leading manufacturing PMI indicators for the Eurozone continued the decline that began in July 2021 and have been below the 50 mark since July 2022. The slight recovery from the October low (46.4) seen in November and December (47.8) leaves little room for uncertainty, as the manufacturing sector has been suffering for almost six months now. The trend is also gloomy in the services sector; the PMI rebounds slightly in November (49.1) but remains below the growth threshold, still suggesting less positive conditions ahead. The composite PMI therefore logically stabilises at 48.18, slightly above its low for the year 2022. Overall, the PMI indices suggest a stabilisation of the economy without ruling out the probable risk of a cyclical slowdown during the winter. Industrial production for the month of October shows a further fall of -2% following a recovery of +1.5% in August, which reduces the year-on-year increase from +4.9% to +3.4% between September and October. Business sentiment in Germany appears to have improved however, suggesting that the low point may have been reached, but not enough to rule out the likelihood of a future recession.

The pressure on household purchasing power from rising inflation is likely to remain sufficiently worrying to affect consumption and investment at the end of the year. Germany and its industry remain particularly sensitive to difficulties in gas and wider energy supplies. The risks of a significant slowdown in the European economy are still growing at the end of the year. They are likely to materialise in the coming months. The outlook for Q4 is now more uncertain and probably suggests a decline in economic activity in the Eurozone countries. The growth forecast is -0.4% for the last quarter to the end of December 2022. Should this be the case, growth for the full year of 2022 will still be above +3%, which will be a pleasant surprise in the particularly uncertain context that has prevailed throughout 2022. The first quarter of 2023 is also likely to contract by -0.4%, reinforcing growing expectations of a recession and raising expectations for the whole of 2023 to +1.4% GDP growth. After an initial phase of weakness at the beginning of the year, this will be followed by a clearer recovery in the second half of the year, European GDP could be -0.2% in 2023.

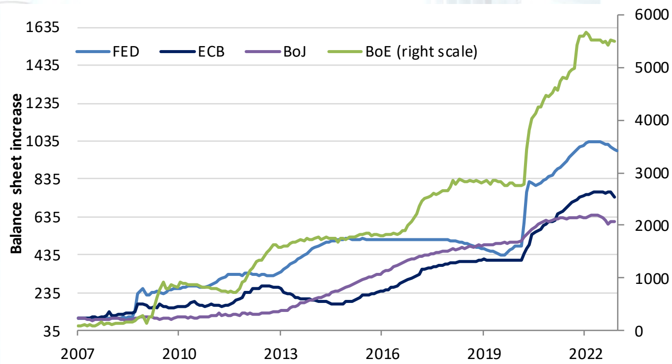
Positive growth but less than +1% in 2023 for Switzerland

Switzerland is resisting the difficult international economic situation, but is unable to escape the effects of declining external demand. This very slightly positive development of the quarterly growth sequences is thus logically insufficient to maintain a solid annual growth. The latter is in fact decreasing steadily to the point of falling to only +0.5% over one year at the end of September 2022. It should be remembered that real annual growth was still +2.8% in June and +4.4% in March. This performance fell short of economists' expectations for a slightly more dynamic behavior of the economy in the third quarter (+1%). As far as we are concerned, the economic slowdown announced for several quarters has therefore quite clearly materialised in our country. The domestic components have nevertheless remained relatively solid and have been little affected by the rise in inflation. The last quarter could still be particularly weak if the European and US economies together enter a phase of increasingly marked slowdown and, as expected, record significantly lower growth. The Swiss economy would then suffer from even weaker dynamics supported by domestic consumption. GDP growth could still be close to 0% in Q4 and significantly reduce the outlook for the following year. After a first quarter close to zero or even negative, the Swiss economy should then be able to return to positive and record an increase of +0.5% to +1% in 2023.

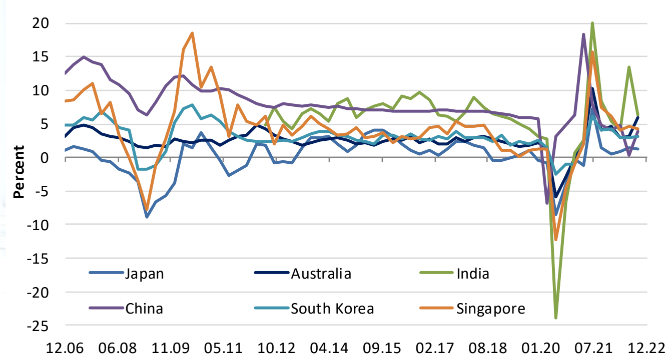
Real Growth in the World Economy



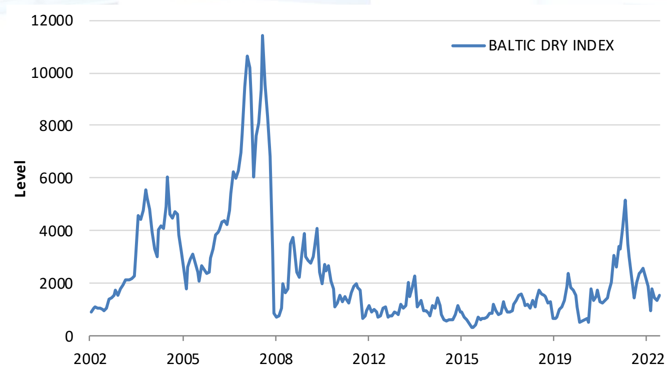
Global Liquidity



Growth Rates of Asian Economies (GDP)



Baltic Dry Index



 Graph sources : BearBull Group/ Bloomberg/ S&P Global

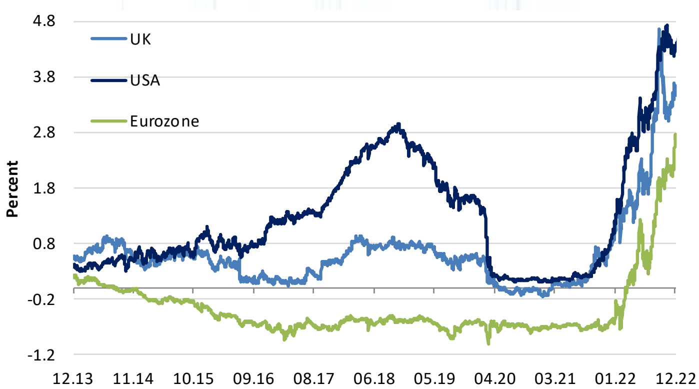
Recession expected in the first semester in the UK

The decline in leading indicators has continued in recent months, most notably in the manufacturing sector. The manufacturing PMI declined further in December 2022 from 46.5 to 44.7, marking its lowest level since May 2020. The manufacturing PMI has now been in decline for almost 20 months. The decline in the services PMI was more recent and less pronounced, but it has stabilised for the past three months at a level close to neutral 50 after having slipped to 48.8. The construction PMI dips again in November from 53.2 to 50.4 but still appears to be in growth territory. The composite PMI rises slightly to 49.0 without much conviction. Without being positive, the PMI leading indicators are close to 50, which suggests a surprisingly resilient and less pessimistic outlook for a relatively moderate slowdown in Q4 and at the beginning of 2023. The last quarter is likely to be the turning point for the economic trend in the UK. Persistently high inflation continues to reduce real disposable income of households, while interest rates are also expected to start to bite into the ability of households to maintain their consumption levels. A contraction of -0.3% in Q4 is expected to continue into the early part of the year and certainly into the first half. The probability of a recession is now 90% before a recovery in the second half of 2023. A monthly GDP increase of +0.5% in October should not be overestimated as it represents a recovery from the decline in September and the death of Queen Elizabeth II. On a quarterly basis, GDP fell by -0.3%. We believe that the UK economy will soon suffer from a much sharper decline in household spending. The announced strikes in various sectors will also contribute to a decline in activity in Q4. However, the expected recession is likely to be moderate in early 2023 and about -1% in 2023.

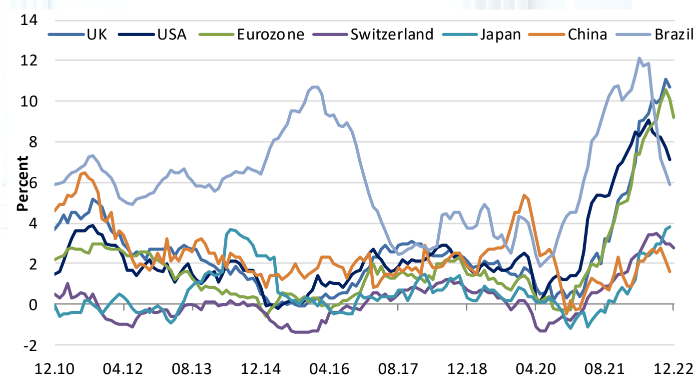
Gloomy outlook in Japan for Q4 and early 2023

The leading indicators published in December are in a relatively stable phase, although in relative decline compared to the end of Q3. The services PMI (50.3) stabilises slightly above 50, and the manufacturing PMI slips again in November from 49.4 to 49, continuing its decline observed since February 2022. Overall, the composite PMI stabilised at 48.9 after falling back below the growth threshold. The collapse of industrial production (-2.6%) in October follows a -1.7% fall in September, also highlighting the ongoing weakness in the manufacturing sector. The recovery is likely to be anemic in Q4, with semiconductor exports to China being notably weak. Japanese producer surveys are slightly more positive but do not indicate sufficient confidence to expect a significant recovery. Without a more visible recovery in Chinese activity, Japanese exporters will certainly not risk increasing production in Q4. While the fall in machine tool orders shows no sign of abating according to the latest figures published for October, down -5.5% year-on-year, it masks a strong disparity between regions that could perhaps offer some positive signs for Japan. The fall in European orders (-24.6%) and in Asian countries ex-China (-28.5%) contrasts with a recovery of orders from China, up by +28.8%. Some hope therefore still seems to be possible, even if uncertainty still prevails in this sector, which is extremely important for Japanese exports. The recovery of external demand and household consumption is therefore largely uncertain. While domestic demand for services may support growth during the quarter, the effects of the fall in the yen on imported prices and on consumer prices are likely to dampen household consumption. The latter will, however, be able to count on state subsidies to partially compensate for the rise in electricity prices. Nevertheless, the reduction in company margins will not allow an increase in wages likely to support household disposable incomes and private demand. The reopening of the borders will undoubtedly offer new prospects in terms of tourism which will also support growth. On the production side, the increase in inventories in Q3 should penalise industrial production at the end of the year. A revival of global demand for Japanese production, which is essential for GDP growth, is likely to be lacking again in Q4 and at the beginning of the year. The short-term economic outlook for Japan is once again bleak and stands at +1% for 2023.

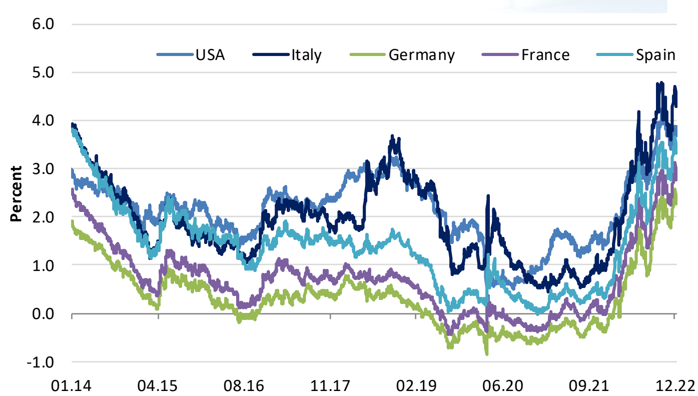
2-year Government Rates



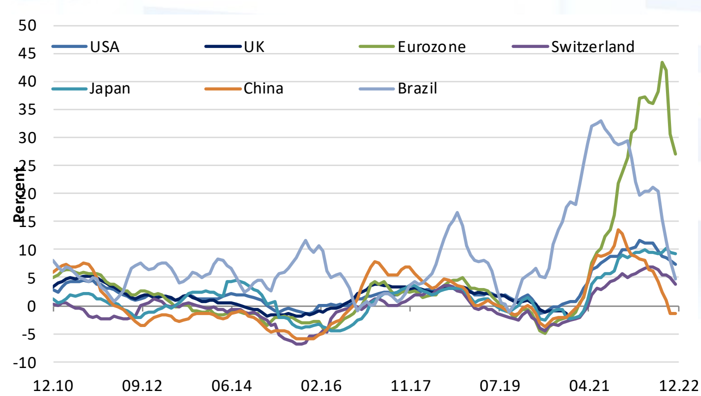
Inflation - CPI Indices



10-year Government Rates



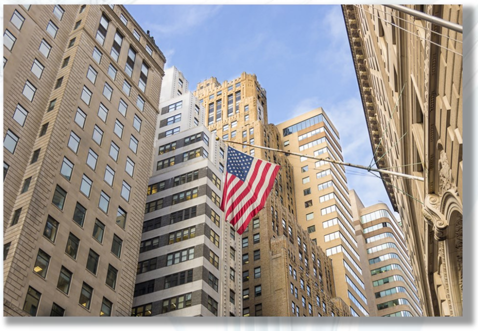
Inflation - PPI Indices



 Graph sources : BearBull Group/ Bloomberg/ S&P Global

MACROECONOMIC SCENARIO

United States



- Strong Q3 GDP before a year-end dip
- Is recession inevitable in 2023?
- Slowdown and moderate recession in H2
- The end of monetary tightening is in sight
- Is inflation finally under control ?

Strong Q3 GDP before a year-end dip

With a few days to go before the end of the year, the US economy seems to have experienced a technical recession between Q1 (-1.6%) and Q2 (-0.9%), but it could well end the year on a very positive note. Real growth in Q3 of +3.2% turned out to be stronger than initially expected (+2.9%), mainly due to a better performance of consumption and investment spending. Despite inflationary developments and interest rate hikes, personal consumption proved resilient, rising by +2.3% thanks to services. The state of the labour market remained strong in Q3 despite a rising Personal Consumption Expenditures (PCE) index up +4.7%. This development is, however, relatively consistent with our economic activity at the end of September, although it is expected to weaken in the final quarter. The outlook for GDP growth in Q4 has been revised and now suggests a further increase in the US economy of around +1%. If this forecast is confirmed, the US could finally enjoy growth of almost +2% for the year 2022 as a whole. This result will be enough to satisfy the Federal Reserve, which believed that the strength of the economy would easily allow it to support the monetary tightening implemented by the central bank in 2022.

While technically the US did enter a recession in the first half of the year, the debate on whether or not a recession will emerge in 2022 is likely to be concluded by experts on a different conclusion.

Since the start of the monetary tightening in March 2022, fears of a hard landing have hung like a sword of Damocles over investor sentiment at almost every turn. However, it has to be said that these risks are still far from being confirmed by the available economic data. The soft landing of the economy, which was our main scenario for 2022 and the beginning of 2023, seems to be the order of the day.

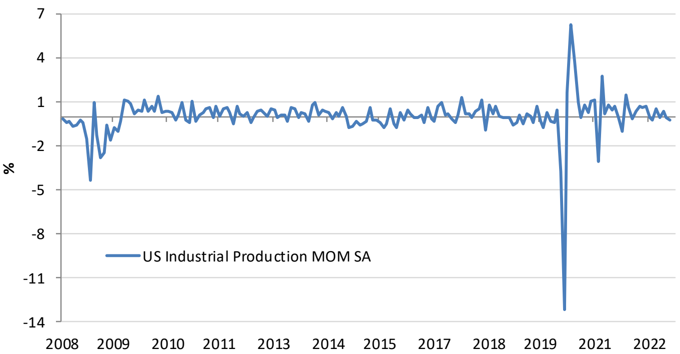
Is recession inevitable in 2023?

The Fed's monetary tightening in 2022 was one of the fastest and most aggressive in history. Could such a massive increase in policy rates not have a significant impact, even if delayed, on the economy? We saw in 2022 that rising inflation had caused a massive adjustment in bond yields and yield curves in anticipation of a likely tightening of monetary policies. A sharper rise in yields on the short end of the yield curves fairly quickly triggered yield curve inversions that are generally synonymous with future recessions. Nevertheless, this phenomenon has been amplified by the recent rate hikes and the expectation of further moves in early 2023, pushing Fed funds to 5%. A continuation of the Fed's monetary policy to 5% should then invert these curves more sharply in the first half of 2023. Estimates of recession risks based on yield curve models now suggest that these are very high for the second half of the year. The Fed's room for manoeuvre may be particularly small, but we will see below that the Fed may not be as dogmatic in the coming months as it was in 2021 in denying the sustainability of inflation. The risks of a hard landing cannot be ruled out, but we believe that there is still a path to a soft landing for the economy, that is ultimately the most likely scenario.

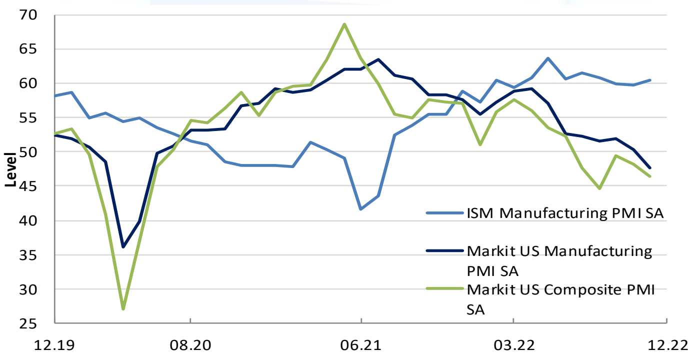
Slowdown and moderate recession in H2

The end of the year should finish with a phase of slower growth in the economy, marked by much more difficult financing conditions than at the beginning of the year. The US economy does indeed still seem to be growing, supported by a still very robust job market and still notable wage increases, despite the negative effects of rate hikes and persistent inflation.

Quarterly US Real GDP

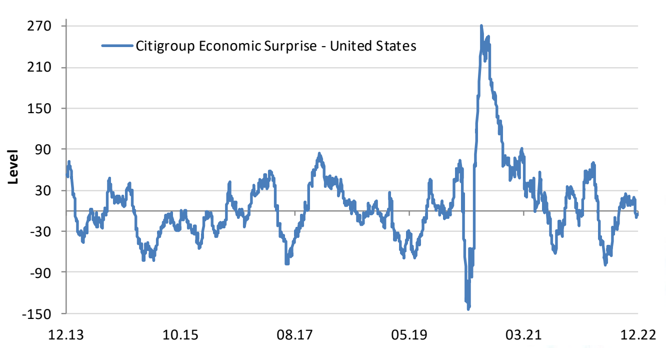


Leading Indicators PMI

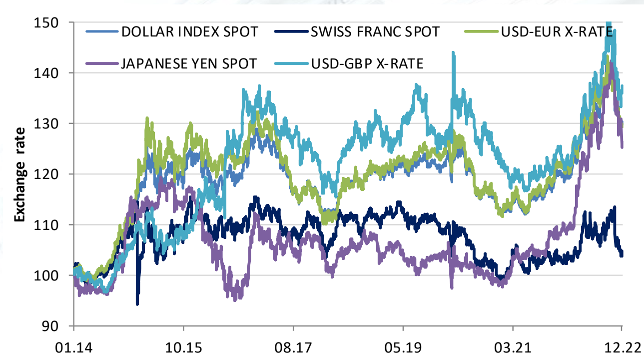


Graph sources : BearBull Group/ Bloomberg/ S&P Global

Citigroup Economic Surprise Index USA



Dollar Trade-Weighted Index and Currencies



Households have so far found ways to finance their consumption by relying more than ever on savings and credit cards. The rise in long-term financing costs in the first half of the year continued in the second half, but at a significantly lower rate. The doubling of ten-year Treasury rates, for example, from 1.5% to 3% in six months, then increased in September and October and fell back to 3.5% in mid-December, just 50 bps higher than at the end of June. Short-term funding costs have moved more dramatically, with the 12-month dollar rate jumping from 0.6% to 5.4% to date.

We doubt that the US consumer can cope with such a tightening of financing conditions for long before adjusting their consumption. The decline in purchasing power is now a fact and is beginning to bite on confidence and retail sales. The decline in monthly inflation since July and the new inflation regime that has since been put in place may be the determining factors in the upcoming evolution of the probability of recession in 2023. We believe that the Federal Reserve holds the key to future developments and that it may not be so difficult for it to gradually ease policy if conditions allow. We had already predicted that the Fed would reduce the magnitude of its policy rate hikes as early as December, which it has already agreed to do. The monthly inflation sequences will continue to decline in December and in the following months, providing the necessary justification for the central bank to temper its action. By deciding to reduce its next hikes from 0.5% to 0.25%, it could give itself time and avoid the risk of a hard landing.

Leading indicators deteriorate further

The US Empire State Manufacturing indicator remains weak, falling in December from 4.5 to -11.2, a situation similar to that of the Philadelphia Fed Manufacturing indicator (-13.8), both well below their long-term averages.

The six-month outlook has improved slightly, however, suggesting perhaps a moderate weakening. The manufacturing PMI (46.2) at its lowest since June 2020, the services PMI (44.4) and the composite PMI (44.6) slip further below the growth threshold.

The ISM services indices seem more resilient (56.5) and are recovering, particularly in the logistics segment, which seems to be suffering less from bottlenecks. The labour market is also beginning to show signs of slowing, but new jobless claims remain at their average for 2022, close to 220,000, and job creation is stabilising at around 260,000, which is still the lowest level since February 2021.

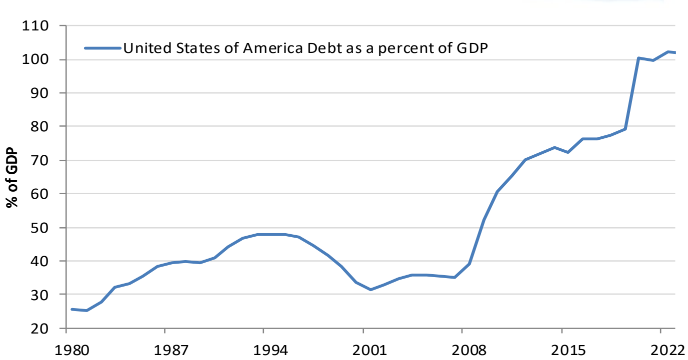
Inevitable slowdown in consumption

Household confidence is not at its best, but we note that sentiment as measured by the Conference Board and the University of Michigan has not deteriorated and has even improved since July in both cases. We do not think the labour market will be much help in supporting further improvement in sentiment. Average weekly earnings showed a weak monthly increase and a +5.1% year-on-year rise. This is still below CPI growth, household purchasing power is weak and households are still using credit cards to maintain their consumption levels.

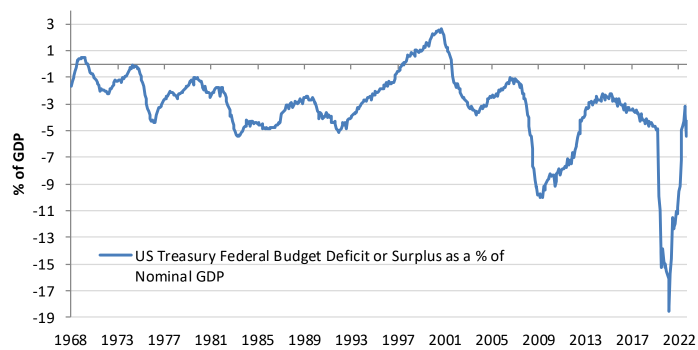
Overall, household borrowing increased by USD 27.1 billion in October. In this difficult environment, consumers have often had no choice but to dip into their savings and increase their debt levels by using credit cards more than usual. Revolving credit, including credit cards, increased by 10.1 billion. The use of credit is therefore increasing significantly and is becoming a necessity for some households to maintain their consumption levels.

Despite this, retail sales fell by a further -0.6% in November, demonstrating if proof were needed of the difficulties faced by households at the end of the year. This trend poses a clear threat to the ability of households to consume at the same pace, which will necessarily have an impact on GDP in the first few months of 2023.

Debt USA

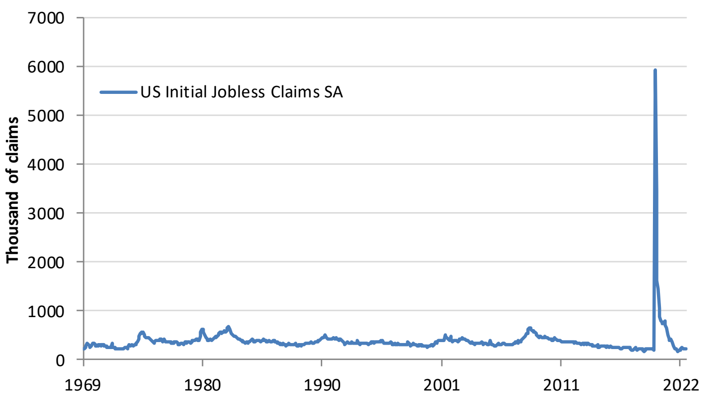


US Treasury Deficit/Surplus

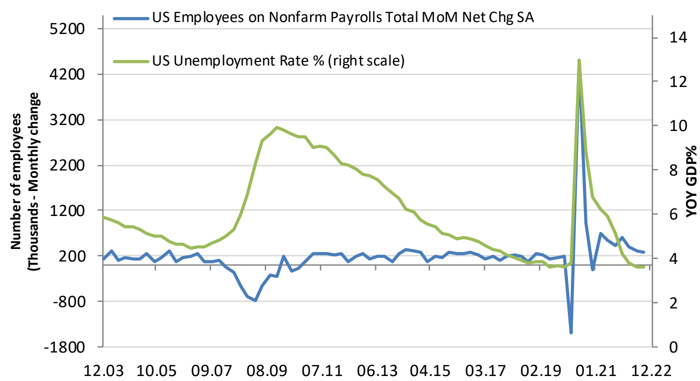


 Graph sources : BearBull Group/ Bloomberg/ S&P Global

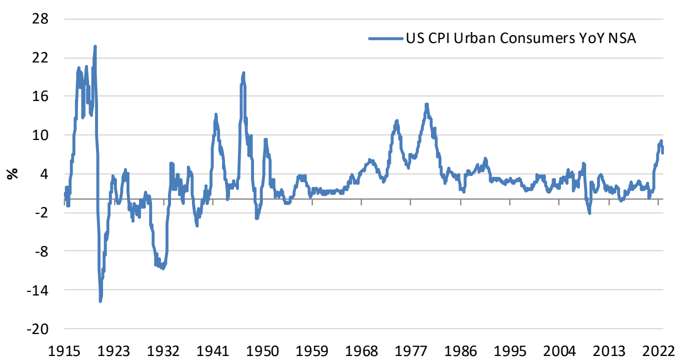
Unemployment Benefits in Thousands of Claims



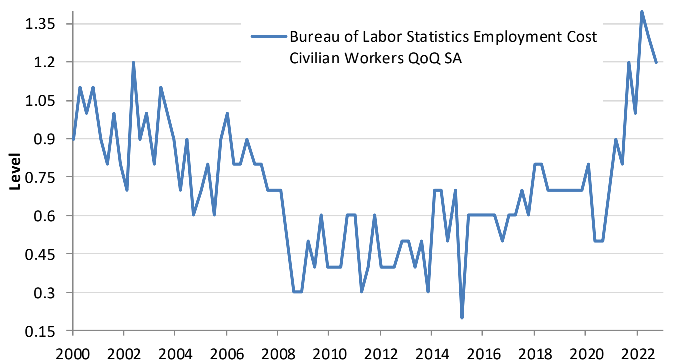
Job Creation Outside the Agricultural Sector (Net monthly var.)



Annual Inflation Rate USA 1914-2021



Unit Labour Cost (Employment Cost Index)



The end of monetary tightening is in sight

Until December, the Fed clearly wanted to show its unwavering determination in its fight against inflation. It will certainly continue to proclaim its determination for several months to come. However, its decision to raise rates by only 0.5% on December 13th, is already a way of announcing a change of course. If in September the risk was clearly that the Fed would continue its aggressive monetary tightening policy for too long at the risk of provoking a hard landing, we believe that this decision is already a sign of greater lucidity and of managing the balance between growth and inflation. The Fed was in search of credibility, and it may now be on the way to regaining it by hammering home the same message of responsibility and determination, but above all thanks to the emergence of a new inflation regime that is clearly less severe and will soon allow the central bank to claim victory in its fight against the inflationary spiral.

Despite the fact that the Fed keeps repeating that it could raise rates even higher than initially envisaged, the markets are now becoming convinced that Fed funds will not exceed 4.9% in June 2023. With the current high end of the Fed rate range at 4.5%, this leaves only two 0.25% hikes to be expected in the first half of 2023 in February and April. Again, it should be noted that since the 1920s, there have been several examples of Fed policy tightening that have had significant systemic consequences. The risk today is to believe that inflation will be persistent. But historically, periods of inflation have corrected on average a little over a year after their peak, falling back to around 2% fairly quickly. A recession usually occurred within six months of the inflation peak and finally the low point of inflation after a recession period was on average 0.1%. In a highly indebted economy such as the US today, the rise in policy rates and interest rates as a whole leads to a rapid destruction of demand in connection with the rise in debt servicing, in addition to the effects of inflation on falling purchasing power. A larger proportion of household and corporate income must be devoted to servicing the debt, leaving less disposable income.

The Fed seems to be aware of these risks and should soon consider a status quo if our expectations are confirmed and inflation is now already on a pace to approach 3.5% by the summer of 2023.

Is inflation finally under control ?

In 2022, energy prices were the most fluctuating variable, clearly influencing the CPI upwards in March (+1.21%) and June (+1.32%), then downwards in July (-0.02%) and August (+0.12%). In 2021, the key variable explaining the CPI fluctuations was not energy, but the consumer goods component (ex food & energy), up +0.88% in June 2021. Since the CPI top in June, all CPI components including the latter have recorded reduced contributions, thus jointly contributing to the decline in inflation. The services segment appears to be the most resilient to the overall trend, as it has now accounted for the bulk of inflation for several months. In November, the CPI of 0.1% was due to a +0.25% rise in services, +0.07% in food, a -0.13% fall in energy and -0.11% in consumer goods. The last component, up by +0.25%, has in fact been in decline for three months. It should also be noted that the new inflation regime initiated in July shows an average increase of barely +0.2%/month, i.e. barely +1% over the last five months. At this rate, inflation in June 2023 could be down to +2.4% over twelve months. The effects of an upcoming economic slowdown on inflation could contribute to this already observable trend.

Graph sources : BearBull Group/ Bloomberg/ S&P Global

Opportunities in the capital markets

US bond yields adjusted quite logically to expectations of a gradual rise in Fed policy rates to the most likely 5% level by the end of Q2 2023. The faster progression of the short end of the yield curves has caused a reversal of the slopes. At current levels, we believe that expectations in the capital markets largely incorporate the expected next rate hikes. However, dollar bond yields still have a negative inflation expectation and are not projecting the already visible change in the inflation regime at all. While the Fed's ECP forecast for 2023 as a whole is +3.5%, one-year inflation expectations are +4.4% in the University of Michigan survey. If the current inflation regime continues over the next few months, downward revisions will accompany a very significant correction in bond yields, which will logically be considered excessive in a context of now stabilised inflation.

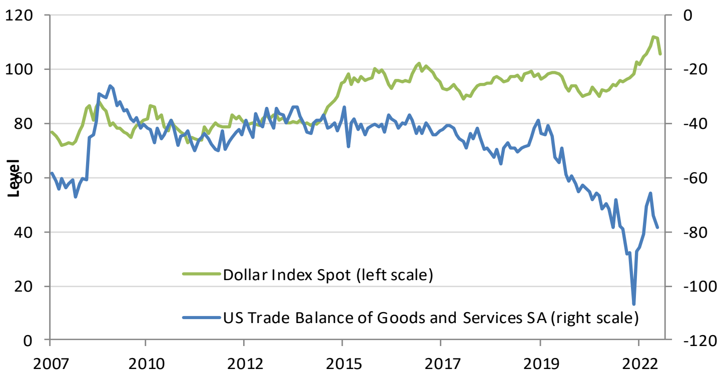
We believe that the likelihood of a pick-up in inflation in the first half of 2023 is much lower than the likelihood of the new regime continuing. The outlook for bond markets seems positive to us and is supported by the gradual realisation that the inflation expectations contained in market yields are too high. In June 2023, when inflation will have reached an annual rate of +2.5% (current regime) to +3.75% (50% higher than the current regime), policy rates will certainly seem too high with a real yield of 2.5% to 1.25%, especially if we are at that time in a likely economic slowdown.

Dollar set to weaken

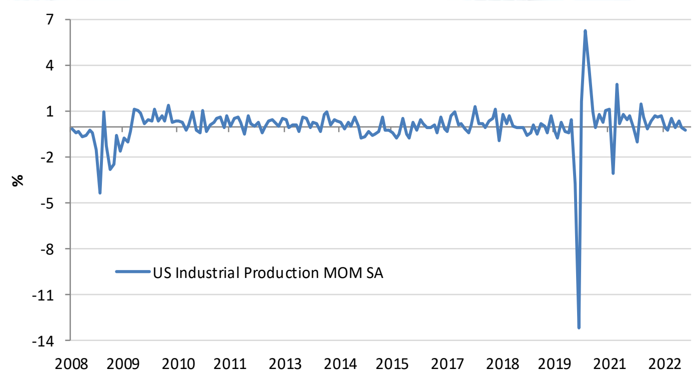
In monetary terms, the dollar was the big winner of this wave of interest rate hikes. The 19.5% increase in the trade weighted exchange rate reflects its strength against a range of currencies. Cash in dollars will have benefited greatly from this situation by imposing itself as one of the very few investment solutions.

In monetary terms, the dollar was the big winner of this wave of interest rate hikes. The 19.5% increase in the trade weighted exchange rate reflects its strength against a range of currencies. Cash in dollars will have benefited greatly from this situation by imposing itself as one of the very few investment solutions. However, if a new inflation regime becomes more evident in the coming months, suggesting a reduction in tensions, we believe that a different dynamic is likely to materialise in the fixed income markets. A lowering of the yield curves, also in connection with the increasing risks of a sharper slowdown in economic activity and the increase in investor bond buying, will have a negative impact on the dollar. This trend will be supported by a change in the dynamics of key interest rate increases, particularly between the dollar and the euro. Interest in US assets will certainly remain sufficient to curb a weakening trend in the dollar, which should gradually lose momentum.

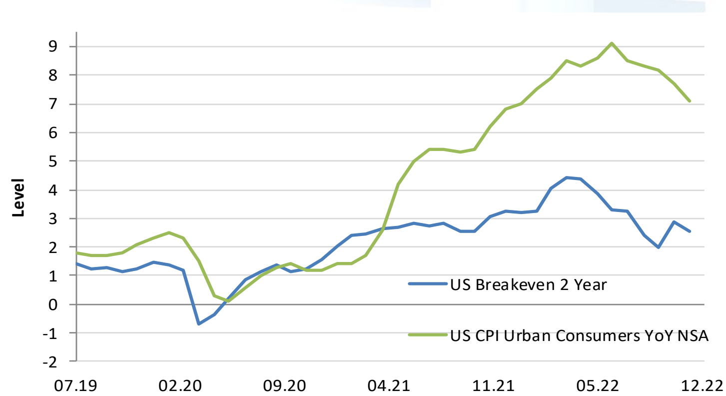
Trade Balance - Trade-weighted US



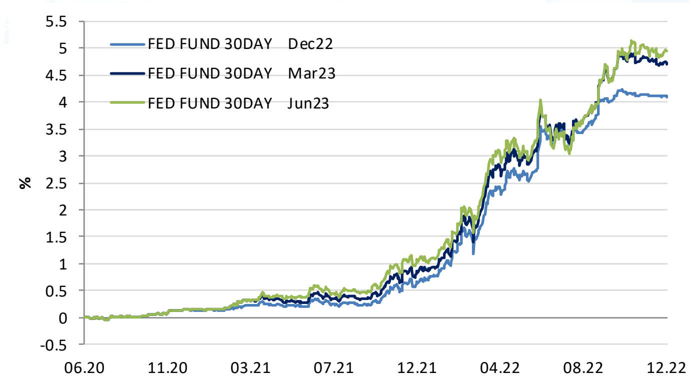
Industrial Production - US



Expected Inflation and CPI - USA

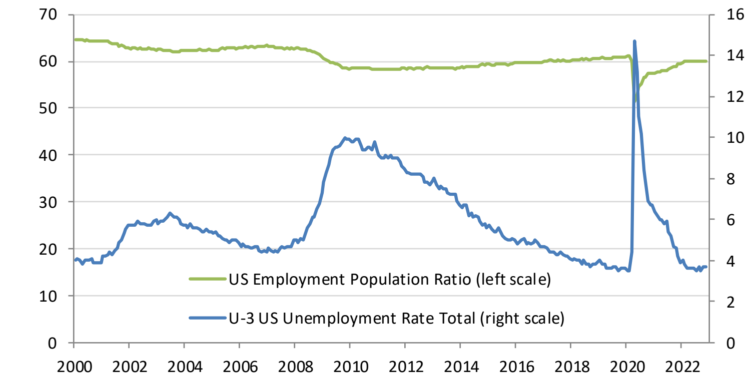


Fed Funds Futures

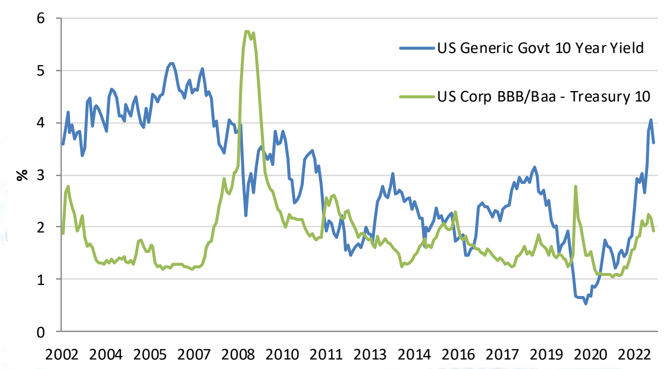


 Graph sources : BearBull Group/ Bloomberg/ S&P Global

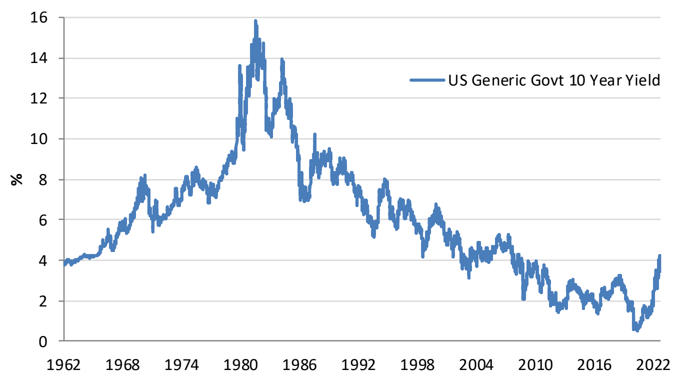
Unemployment Rate and Occupation Rate of the Population



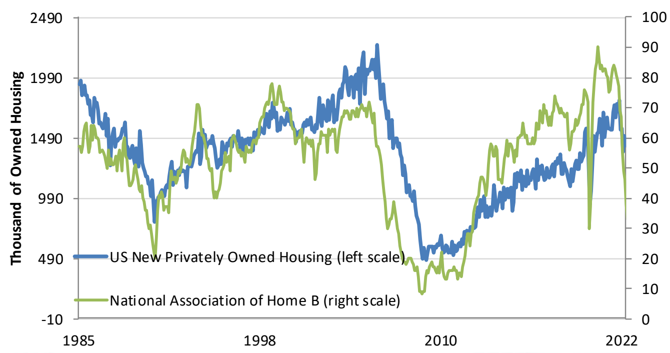
Yield Spread US Treasury-BBB 10 years



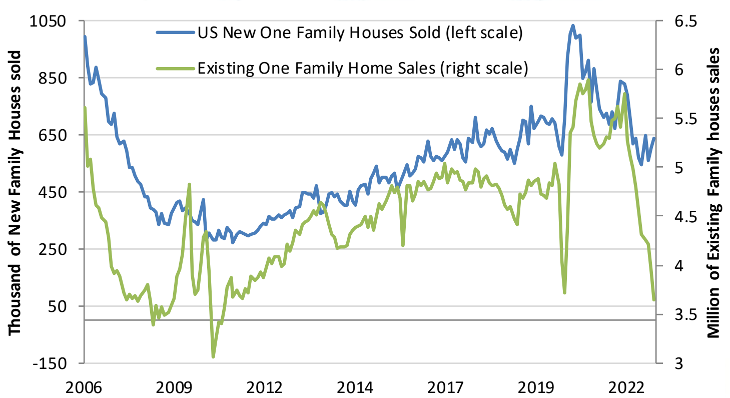
10-year US Treasury Bond Rate



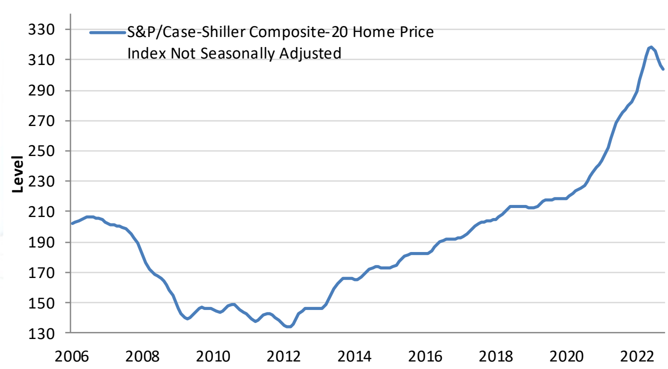
New Housing and NAHB US



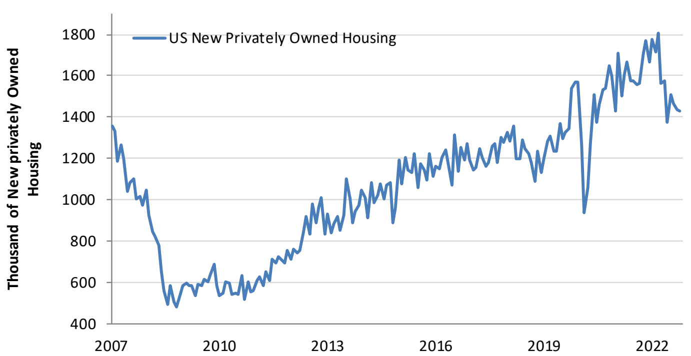
Sales of new and Existing Houses



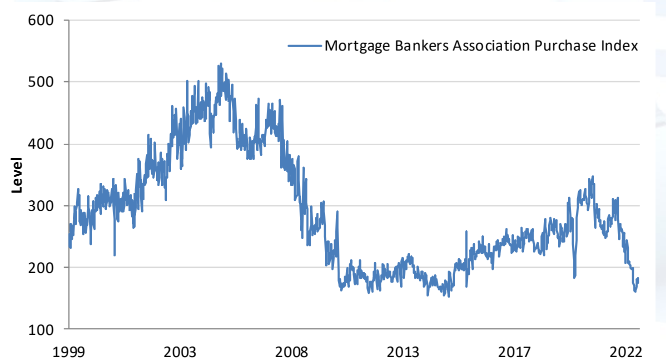
Property Prices S&P Case-Shiller Index



New Housing Starts



New Applications for MBA Funding



Graph sources : BearBull Group/ Bloomberg/ S&P Global

MACROECONOMIC SCENARIO

Switzerland

- Swiss economy slows down in Q3
- Domestic demand provides greater support to GDP
- Inflation stabilisation becomes a reality
- The SNB should gradually adjust its policy

Swiss economy slows down in Q3

Swiss gross domestic product grew by +0.2% in the third quarter, a very slight increase compared to the previous quarter, which was revised from +0.3% to only +0.1%. The Swiss economy has thus recorded four consecutive quarters of very weak growth between +0.1% and +0.3%. The economic situation in Switzerland thus appears to be more stable than that observed in most other regions and countries that have entered into recessions. In the particularly difficult context marked in Switzerland by the negative impact of the war in Ukraine, inflation, the rise in the Swiss franc and the strong increase in economic and political uncertainties, the Swiss economy may surprise by its stability.

In our country, the economy thus seems to be much more resistant to the turbulence of all kinds that is appearing and threatening global growth. Since September 2020, Swiss GDP has only experienced a negative quarterly period of barely -0.1% in March 2021. The strength of the franc against the European currency in particular is a significant brake on the development of Swiss exports to the euro zone, but this is offset by the weakening of the franc against the dollar in 2022.

Switzerland is resisting the difficult international economic situation, but is unable to escape the effects of declining external demand. This very slightly positive development of the quarterly growth sequences is thus logically insufficient to maintain a solid annual growth. The latter is in fact decreasing steadily to the point of falling to only +0.5% over one year at the end of September 2022. It should be remembered that real annual growth was still +2.8% in June and +4.4% in March.

This performance fell short of economists' expectations for a slightly more dynamic behaviour of the economy in the third quarter (+1%). As far as we are concerned, the economic slowdown announced for several quarters has therefore quite clearly materialised in our country. The domestic components have nevertheless remained relatively solid and have been little affected by the rise in inflation. We shall see below what the main components that have influenced the evolution of GDP in recent months have been and what the detailed outlook is for the coming quarters.

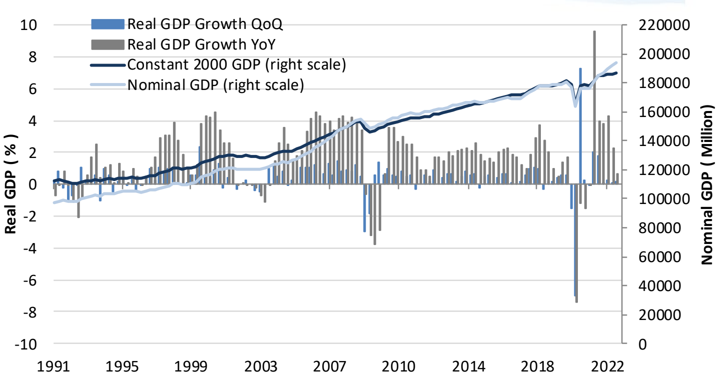
The last quarter could still be particularly weak if the European and US economies together enter a phase of increasingly marked slowdown and, as expected, record significantly lower growth. The Swiss economy would then suffer from even weaker dynamics supported by domestic consumption. GDP growth could still be close to 0% and significantly reduce the outlook for the full year.

Domestic demand provides greater support to GDP

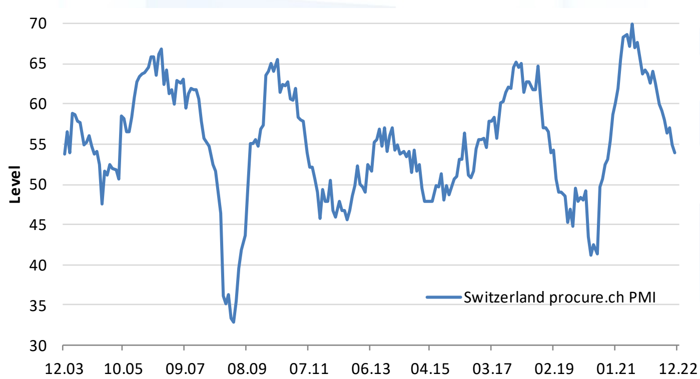
Domestic demand has indeed been rather resilient to inflation, especially in the services sector, where almost all segments have recorded positive developments. In industry, the situation was less favourable due to the greater sensitivity to the tighter international situation. The very modest GDP growth of +0.2% was supported by private consumption, which held up rather well in a context marked by inflation. The +0.7% increase in household consumption was significantly weaker than in the previous quarter (+1.4%), but still above average. Retail trade benefited from increased spending on housing, energy, travel and food. The trade sector thus recorded a further significant increase of +2.3% and emerged from a sequence of four consecutive negative quarters. The hotel and restaurant sector is finally doing better and saw its added value increase by +2.8%, thanks in particular to the return of foreign tourists during the period under review.

In the services sector, the health sector advanced by 0.7%, as did business services (+0.6%). Unlike the other sectors, financial services suffered a contraction of -4.4%. Overall, final domestic demand thus grew by +0.6%, thanks in particular to a significant recovery in investment in capital goods, up by +2.1%.

Nominal GDP - Nominal and Real Growth Rates

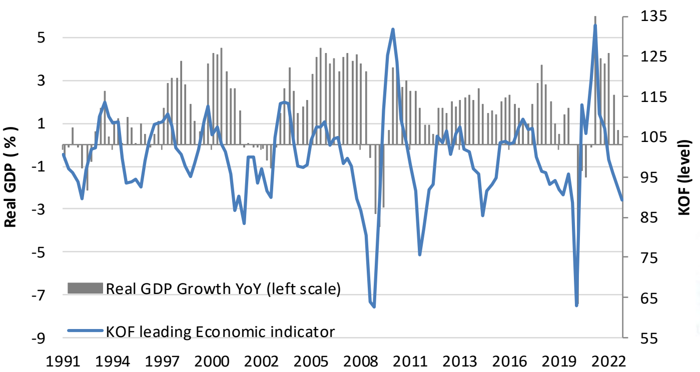


Swiss PMI Leading Indicator (Purchasing Managers)

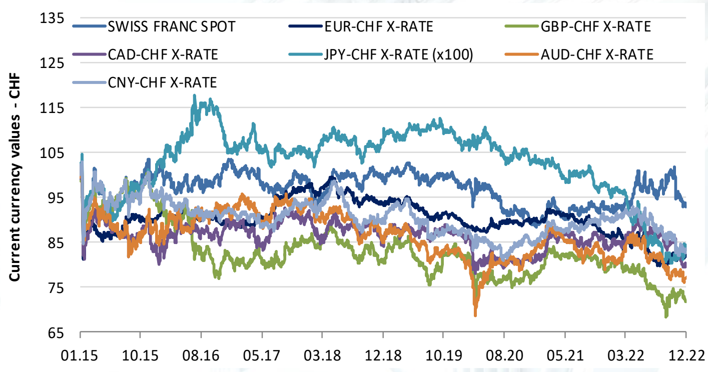


 Graph sources : BearBull Group/ Bloomberg/ S&P Global

Real GDP - Annualised Growth - KOF Leading Indicator



CHF Exchange Rate (base 100)



Nonetheless, there has been a decline in construction investment, which is reflected in a decrease in value added in the construction sector of -2.2%. The contraction observed concerns building, civil engineering and other works.

In the manufacturing industry, the evolution is hardly perceptible but a decline of -0.2% was noted. Despite the good performance of the chemical-pharmaceutical industry, which is regaining strength after two halcyon quarters, the other sectors were still affected by the difficult international context. This situation was reflected in a -5.9% drop in exports, while imports benefited from investment demand, rising by +4.9%. In October, the trend for Swiss exports remained gloomy. The -1.8% decline is in line with the third quarter and reflects the difficulties caused by a strong franc and a difficult international economic situation, that is reducing the level of external demand. At the same time, Swiss imports decreased by -0.8%, which allowed the Swiss trade balance to remain relatively unchanged with a surplus of 4.14 billion francs.

Leading indicators still falling

The KOF Economic Barometer fell again in November and dropped below 90 points (89.5). This is the fifth consecutive drop and continues the long decline that began in the spring of 2021, reaching its lowest level since 2015, excluding the pandemic, in the second quarter of 2020. The decline in the KOF leading indicator has accelerated further, once again negatively surprising economists. Activity in the manufacturing sector seems to be slowing significantly, particularly in the consumer goods sector. The volume of order books is shrinking and inventories are rising to a high level before the end-of-year holidays. The situation is therefore not yet stabilising and improving. The Swiss economy is therefore expected to weaken further at the end of the year.

The manufacturing industry continues to be negatively impacted by the drop in international activity and by the decrease in external demand. However, supply difficulties seem to be diminishing, but the outlook remains uncertain. The decline continues in the manufacturing PMI, with the latest publication for November at the lowest level in 24 months, but still in a clear growth zone at 53.9.

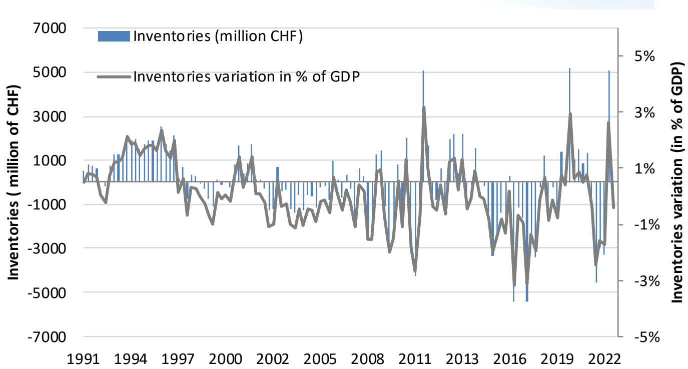
Overall, the leading indicators continue to point to a downturn in the Swiss economy in the wake of that seen in most developed countries. Swiss industrial production was nevertheless resilient, recording an increase of 5.2% in the third quarter, but it is also being impacted by the rise in raw material costs and by supply difficulties.

Inflation stabilisation becomes a reality

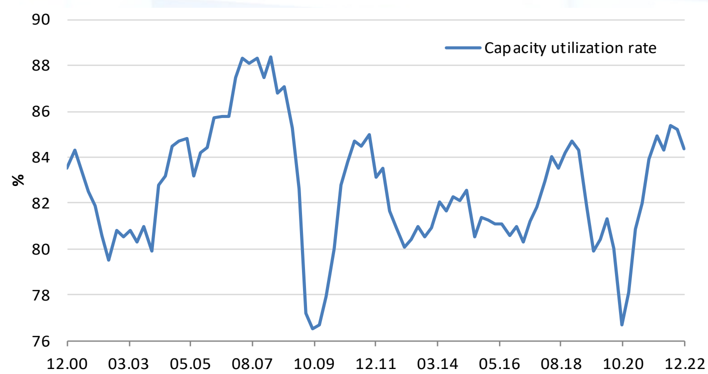
The strength of the Swiss franc against the euro in particular has again been a favourable factor in containing price trends in our country in recent months by slowing down the developments observed in most industrialised countries, particularly in terms of producer prices. Since the June peak of +6.9%, producer prices have in fact slipped each month in annual comparison to fall to +4.9% at the end of October. The monthly inflation regime of around +0.7% until June has now fallen to 0% per month for the past four months, which explains the year-on-year decline in the data and seems to bode well for cost control by companies and their margins. The stabilisation of producer prices makes it possible to project a more positive expectation for the next evolution of consumer prices. A similar behaviour can already be observed in the consumer price indices, which have also changed their growth pattern since June. The average monthly inflation rate was +0.5%/month during the first six months, before dropping significantly to only +0.04% during the last four months.

On an annual basis, the decline is already noticeable, as the CPI index fell from +3.5% to +3%. Excluding food and energy, consumer price inflation was again below +2% at the end of November (+1.9%). In national comparisons, Swiss inflation remains well below the figure for the United Kingdom (+11.1%), which is still rising, the euro zone (+8.8%) and the United States (+7.7%), which are also following a similar trend to Switzerland in terms of inflation rate.

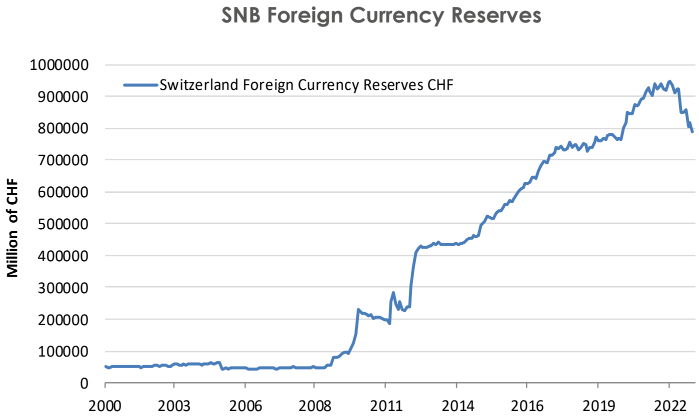
Inventories - Change in Stocks

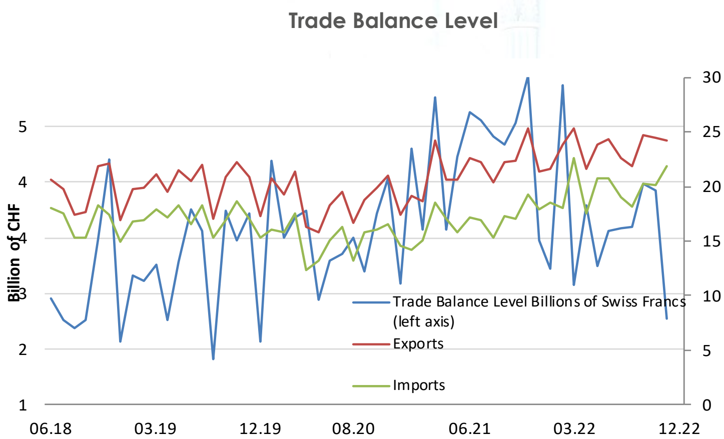


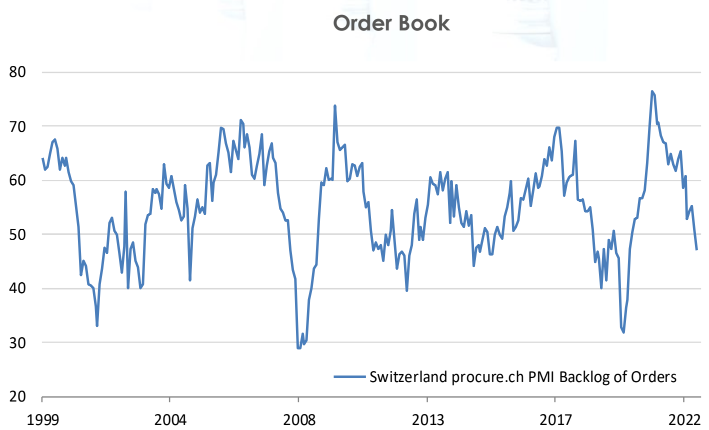
Capacity Utilisation Rate



 Graph sources : BearBull Group/ Bloomberg/ S&P Global







In national comparisons, Swiss inflation remains well below the figure for the United Kingdom (+11.1%), which is still rising, the euro zone (+8.8%) and the United States (+7.7%), which are also following a similar trend to Switzerland in terms of inflation rate. Rising transport costs, logistical problems and persistent tensions in the labour market remain serious. With an unemployment rate of 1.9% now below 2%, the Swiss economy may also have to adjust to increasing risks of wage increases. However, the upward momentum of energy and commodity costs is likely to slow considerably in the coming weeks and contribute to the loss of inflation momentum in Switzerland.

The SNB should gradually adjust its policy

Since the SNB's change in monetary policy on June 15th, the Swiss central bank has become more focused on its historical primary objective of ensuring price stability in Switzerland. It has since taken a firm stance by raising its key interest rates for a second time in September, from -0.75% to 0.5%. If the level of annual inflation growth still seems to be above its 2% target, which in all likelihood implies a continuation of its policy, it should proceed on December 15th, with a further increase of 0.75%. Nevertheless, we have already mentioned that the inflation regime in Switzerland is showing signs of stabilisation on a monthly basis, which could already provide the SNB with reasons to reduce the amplitude of its adjustments at the very moment when the Swiss economy is entering into virtually zero growth. In December, the SNB could already consider that a 0.50% increase would be more appropriate in this context, especially if the US Federal Reserve were to show a willingness to slow down the pace of its own increases at that time.

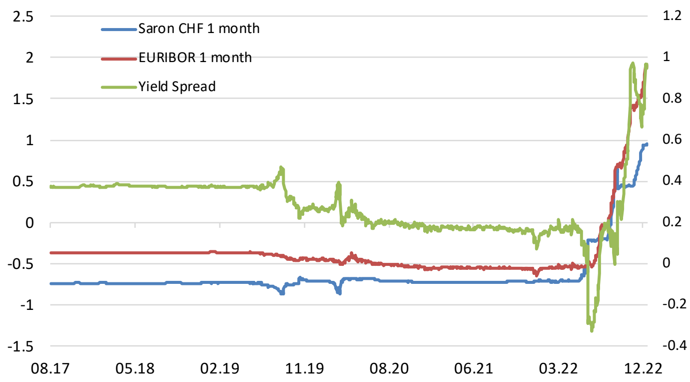
Regardless of the decision taken in December, we believe that the beginning of 2023 will be characterised by a weakening of the SNB's action, which could lead to further, significantly lower hikes in successive steps of 0.25%.

Spreads increasingly unfavourable to the Swiss franc

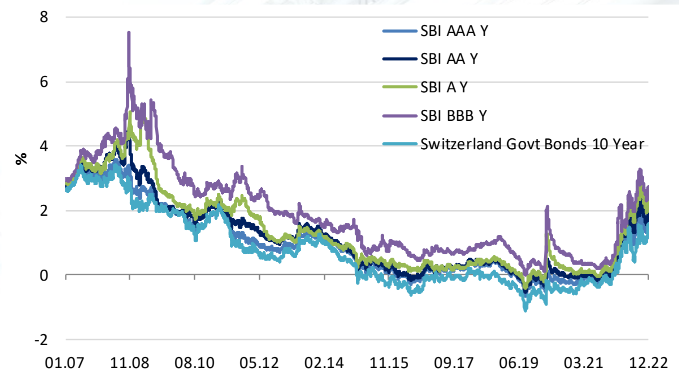
The SNB will then have raised its key interest rates to around 1%-1.25% by the end of December, while the ECB is also expected to raise rates by 75 basis points to 2.5%-2.75% on December 15th. We believe that the SNB will not follow the same path of rate hikes as the ECB, which is facing a more dramatic inflation situation than Switzerland, with CPI rising three times as much as in Switzerland. The policy rate differential between the two currencies should therefore increase durably in favour of the euro. Today, the yield spread between the two-year federal government bond and the German Bund is already 110 basis points, whereas it was still close to zero at the beginning of the year. This observation is similar at the various points of the relative yield curve. It should also be noted that, compared to the situation in 2015, the current level is even higher than the one that allowed the euro to rise from 0.97 to 1.20 in three years. The franc is thus likely to weaken again against the euro.

 Graph sources : BearBull Group/ Bloomberg/ S&P Global

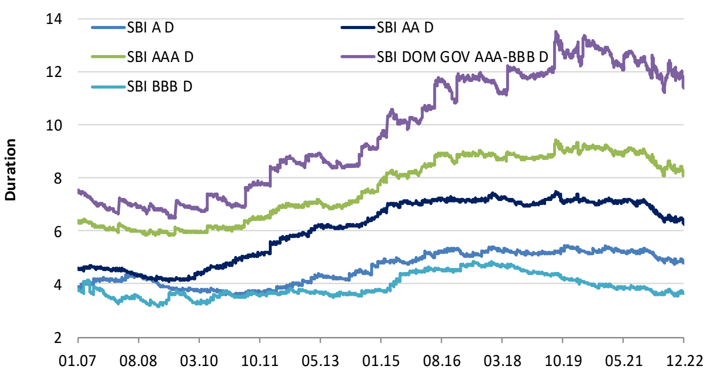
Saron/Euribor 1 Month Rate Differential



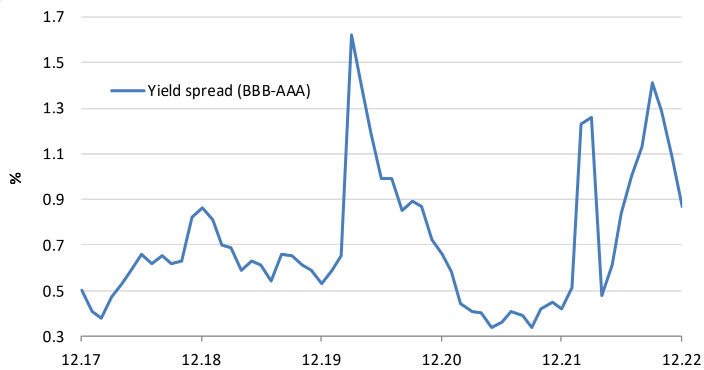
Interest Rate (Confederation, AAA, AA, A, BBB)



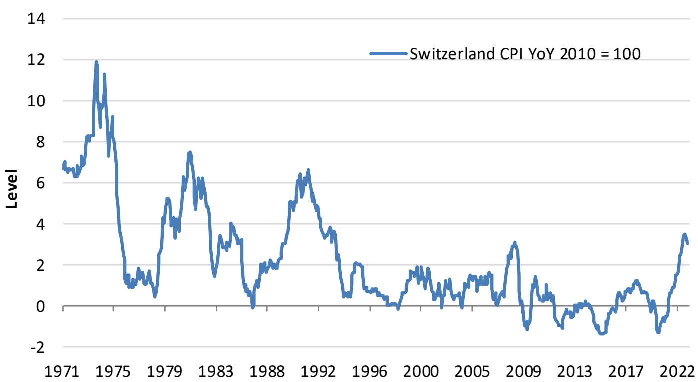
Duration of Swiss Bonds



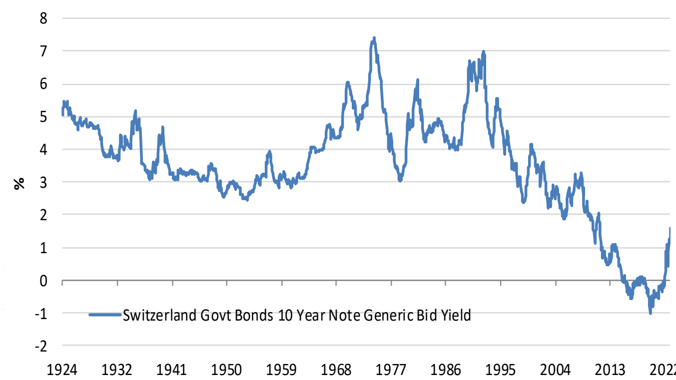
Yield Spread



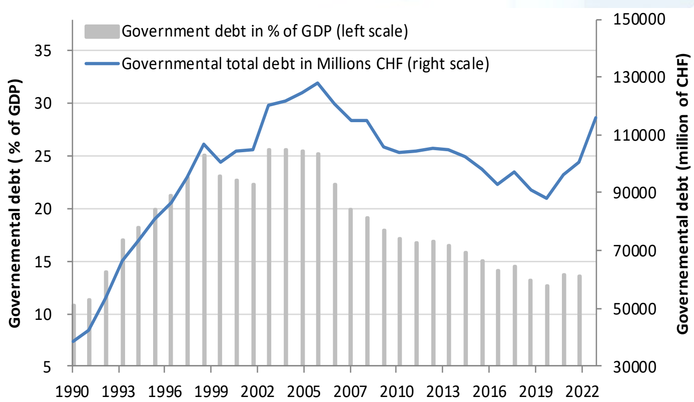
CPI Inflation



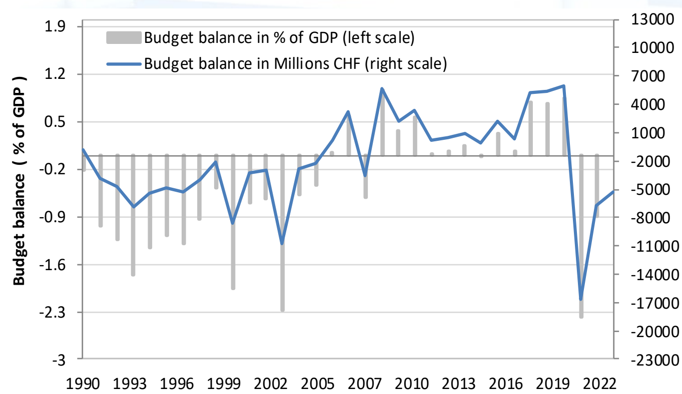
Federal Long Rates since 1924



Switzerland Government Total Debt



Switzerland Budget Balance



Graph sources : BearBull Group/ Bloomberg/ S&P Global

MACROECONOMIC SCENARIO

Eurozone

- The European economy is resilient and still not sliding into the predicted recession
- Still uncertain outlook for Q4
- No lasting respite for European inflation yet
- More flexible and progressive ECB policy

The European economy is resilient and still not sliding into the predicted recession

A few months ago we already highlighted the rather surprising resilience of the European economy in a context that is still particularly difficult and marked by historic inflation. Positive economic growth in Q2 (+0.8%) had largely surprised economists by significantly exceeding their more moderate growth estimates (+0.2%), as was already the case in Q1, which had surprised by its resistance. The third quarter of 2022 follows the same logic and surprises again by the resilience of the economy of the euro zone countries. The GDP of the euro zone has indeed grown again by +0.3% in the 3rd quarter, slightly better than the forecast of a likely increase of only +0.1%. Over a twelve-month period, European GDP finally grew by +2.3% at the end of September 2022.

Household consumption has held up rather well to the rise in inflation, as indicated by its +0.9% increase over three months (+1.7% yoy). Government spending, on the other hand, stalled in Q3 (+0.1%), while investment spending jumped by 3.6% to record a very clear increase of 7.4% over the year. Growth for the EU as a whole was similar in Q3 (+0.4%). Among the major countries, only the Netherlands recorded a limited decline (-0.2%), as the major euro-zone members were able to withstand the headwinds. Italy (+0.5%) and Germany (+0.4%) were ultimately among the best contributors to overall GDP, while France (+0.2%) and Spain (+0.2%) recorded more limited increases.

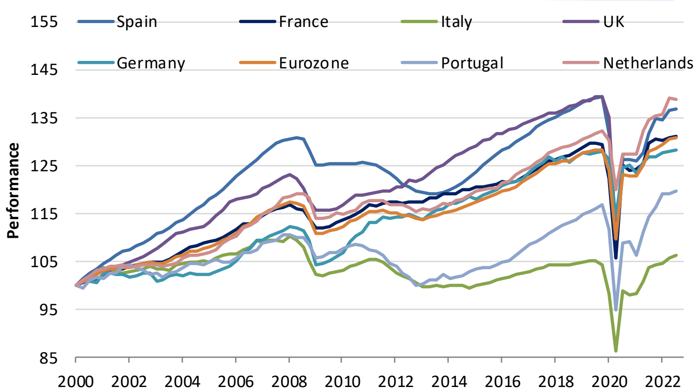
Germany, which is particularly affected by the energy problem, proved to be stronger and more resilient than expected, thanks in particular to sustained consumer spending. Household consumption actually rose by 1% in the quarter despite significant increases in energy prices and costs. The German economy has thus recorded a sequence of six consecutive quarters of positive growth after the decline observed in Q1 2021. Nevertheless, the end of the year is likely to be more difficult for the continent's largest economy, although the energy crisis may finally be contained thanks to a particularly mild autumn. Government measures and subsidies to limit the effects of rising gas and electricity prices will reduce the inflationary and recessionary effects on the German economy. However, the European economic slowdown is still widely perceived as inevitable at the end of the year.

The recession is expected to materialise between Q4 2022 and Q1 2023

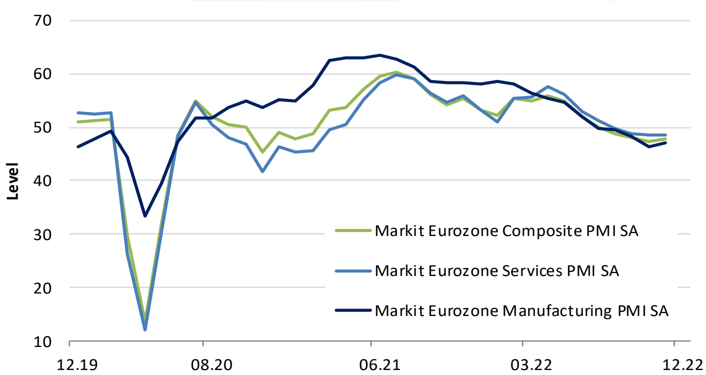
The pressure on household purchasing power from rising inflation is likely to remain sufficiently worrying to affect consumption and investment at the end of the year. Germany and its industry remain particularly sensitive to difficulties in gas and wider energy supplies. The risks of a significant slowdown in the European economy are still growing at the end of the year. They are likely to materialise in the coming months. The outlook for Q4 is now more uncertain and probably suggests a decline in economic activity in the Eurozone countries. The growth forecast is -0.4% for the last quarter to the end of December 2022.

Should this be the case, growth for the full year of 2022 will still be above +3%, which will be a pleasant surprise in the particularly uncertain context that has prevailed throughout 2022. The first quarter of 2023 is also likely to contract by -0.4%, reinforcing growing expectations of a recession and raising expectations for the whole of 2023 to +1.4% GDP growth. After an initial phase of weakness at the beginning of the year, this will be followed by a clearer recovery in the second half of the year.

GDP Growth —Eurozone

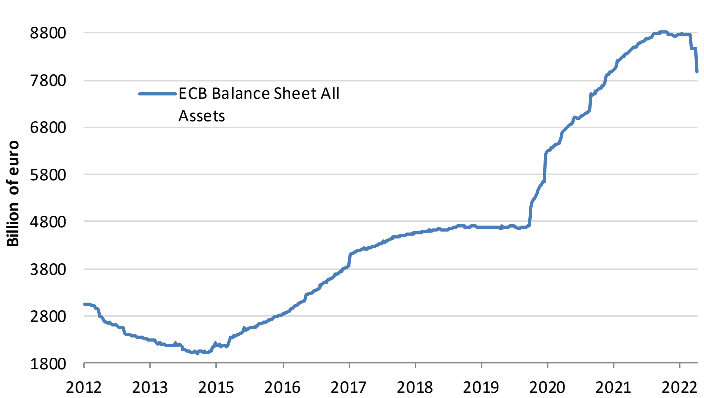


Manufacturing, Service and Composite PMI

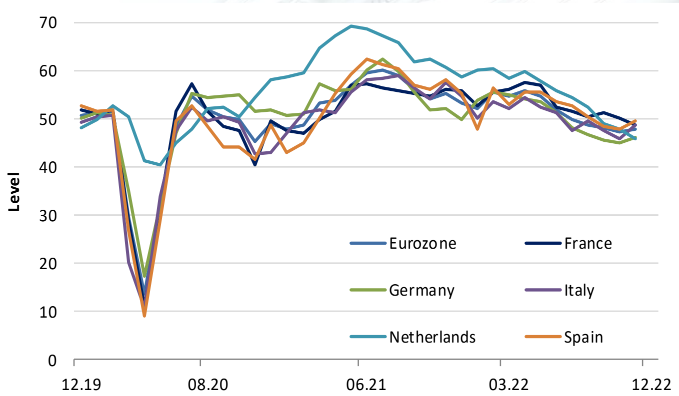


Graph sources : BearBull Group/ Bloomberg/ S&P Global
BearBull
Global Investments Group Limited

ECB Balance Sheet



PMI Composite - Country



Leading indicators in negative territory

The leading manufacturing PMI indicators for the Eurozone continued the decline that began in July 2021 and have been below the 50 mark since July 2022. The slight recovery from the October low (46.4) seen in November and December (47.8) leaves little room for uncertainty, as the manufacturing sector has been suffering for almost six months now. The trend is also gloomy in the services sector; the PMI rebounds slightly in November (49.1) but remains below the growth threshold, still suggesting less positive conditions ahead. The composite PMI therefore logically stabilises at 48.18, slightly above its low for the year 2022.

Overall, the PMI indices suggest a stabilisation of the economy without ruling out the probable risk of a cyclical slowdown during the winter. Industrial production for the month of October shows a further fall of -2% following a recovery of +1.5% in August, which reduces the year-on-year increase from +4.9% to +3.4% between September and October. Business sentiment in Germany appears to have improved however, suggesting that the low point may have been reached, but not enough to rule out the likelihood of a future recession.

European households remain worried

Household confidence in November was slightly better than in previous months. But despite a slight recovery, the European Commission's indicator remains particularly gloomy (-22.2) and still below the lowest levels recorded in 2020 and 2012. The main concern remains the evolution of prices and in particular of energy costs, which dramatically affect the purchasing power of households. The latter are logically still more concerned about the evolution of the European CPI, which has now exceeded +10% over one year. After a significant contribution to the positive evolution of GDP in Q3, consumers seem to be more concerned at the end of the year, with retail sales slipping by -1.8% in October in the Eurozone and by -4.9% in Germany. Beyond consumers, these concerns are shared in economic circles. Confidence in industry and services remains largely depressed. These persistently low levels of confidence are already likely to influence economic performance in Q4 and develop negative effects in early 2023.

First sign that inflation is losing momentum

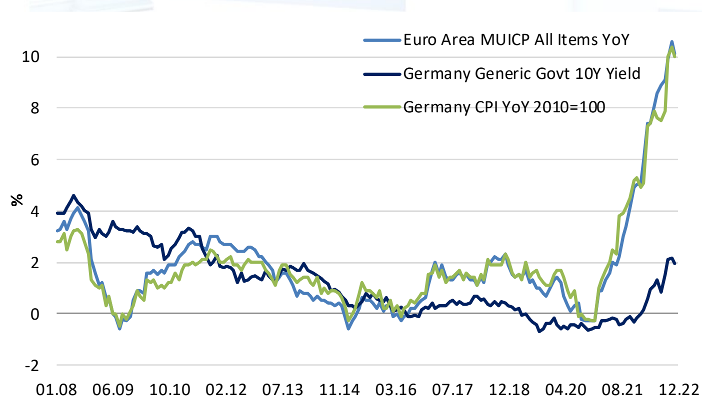
The latest inflation figures published for the euro zone on a monthly basis (-0.1%) finally showed a shift away from the figures published in October (+1.5%). Headline inflation in the euro area thus recorded its first negative monthly result, without however being able to significantly reduce the year-on-year measure from +10.6% to +10.1%. While the monthly result for November is encouraging, it should be noted that it is not yet a trend. Inflation excluding food and energy remains above +5% year-on-year. Nonetheless, we believe that the next data should finally point to a reduction in inflationary pressure in Europe as well. Germany could contribute to this forthcoming reduction thanks to the measures taken to counter the rise in energy prices in the country. A fall in energy prices is proving to be the main determinant of a reduction in tensions for both price indices.

ECB becomes the most aggressive central bank

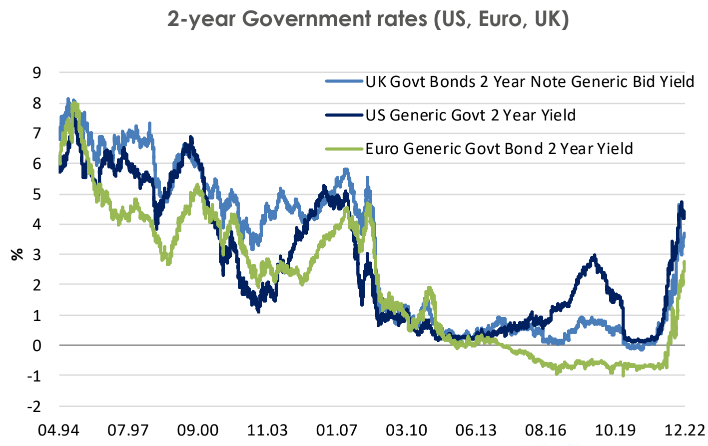
Europe's inflation resistance leaves the ECB no choice. The persistence of price data still above +10% at the end of October puts Europe more and more clearly at the forefront of developed countries, facing still uncontrolled inflation. The ECB's inflation forecast of +8.4% for the end of 2022 is now unlikely to prove accurate, unless there is a rapid fall in price indices in December.

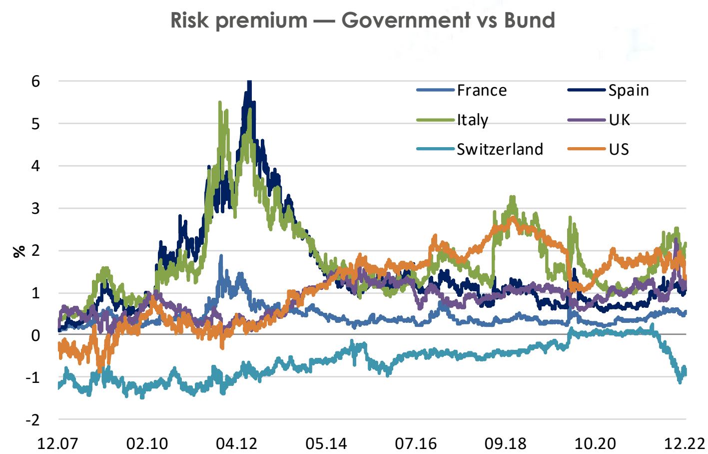
Citigroup Economic Surprise Index - Eurozone

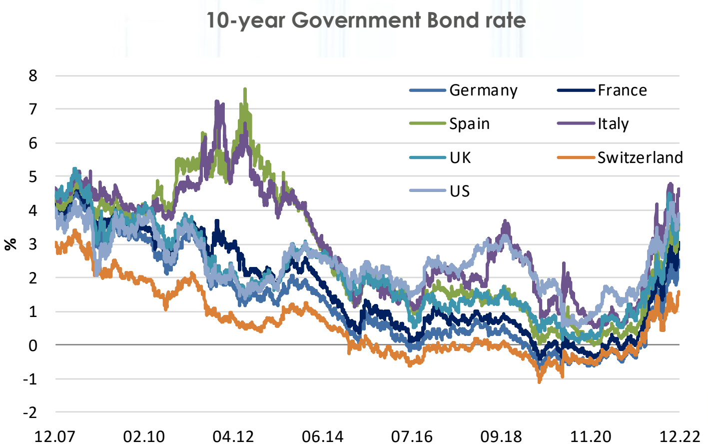
10 year Government Bond Yield - CPI

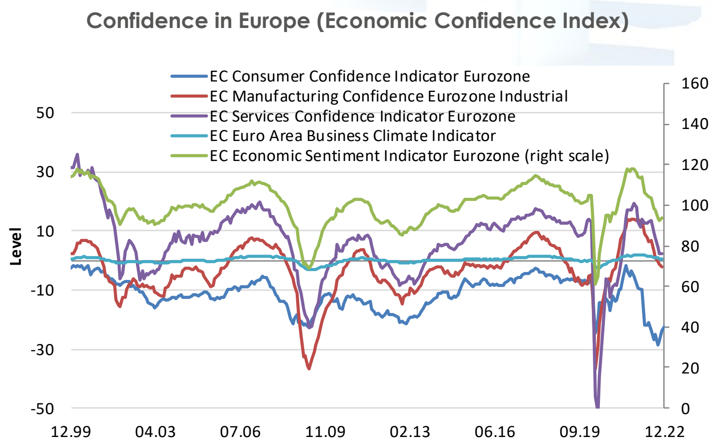


Graph sources : BearBull Group/ Bloomberg/ S&P Global









Its forecast for 2023 of a lowered inflation rate of +6.3% is also at the high end of the range of comparisons with the US, Canada, Japan or Switzerland. The ECB must therefore face up to the inflation trend in 2023 with more determination than other central banks. The ECB is expected to maintain what will appear to be an increasingly restrictive stance in the coming months. This was particularly apparent at the last policy review on December 15th, when ECB President Lagarde mentioned that the next rate hikes would logically be 50 bps in a harsher tone than before. We believe that the ECB is now more determined to tighten its monetary policy by adopting a more readable discourse for the financial markets. However, while the initial reaction seems to have pushed the maximum policy rate target towards 3.4% during the current tightening cycle, the forecast of inflation for 2023 well above this level should be puzzling. If the ECB really wants to raise policy rates above the inflation rate, then it should admit that this target only has a chance of being reached in 2024, if inflation declines by then to approach its forecast of 3.4% by the end of 2024. The ECB is behind the inflation cycle and despite its more hawkish rhetoric, it is likely to remain so in 2023. This more gradual policy stance may be appropriate as the inevitable cyclical slowdown takes hold in the coming months and energy and commodity price driven inflation shows its first signs of softening.

Decorrelation of rates and yields?

In recent months, international bond markets have remained relatively correlated. Movements in the euro capital markets have followed similar trends, although the magnitudes observed have been different. Most recently, two-year German Bund yields jumped from 1.8% to 2.6%, while two-year Treasury yields stabilised at 4.25%. The yield differential on the short end of the curve has thus fallen from 260 points to only 169 points in a few weeks. On the long end of the curve, the yield spread contracted from 195 bps to 130 bps over the same period. This development in the USD and euro capital markets was accompanied by a decline in the dollar, whose exchange rate rose from 0.96 to 1.06, corresponding to a +10.5% appreciation of the euro.

In our "Investment Strategy" at the end of September, we said that a reversal of the trend in favour of the euro would materialise when it would have become clearer that the ECB's monetary policy had tightened. This is now the case and the euro is benefiting from this change and now likely more aggressive pace of rate hikes that will be conducted by the ECB. For its part, the euro/franc exchange rate can also finally rely on a significant change in the yield differential observed on all the yield curves since May. The yield differential, which was still very slightly in favour of two-year Swiss government bonds (+20 bp) in February, has gradually contracted, thus offering a growing yield differential in favour of the euro. At the end of June, it was 60 bps in favour of the euro, but it has since widened considerably and now stands at 136 bps and 86 bps on ten-year maturities. The current yield spread is thus higher than that observed when the SNB introduced negative rates.

The faster progression of euro yield curves is expected to continue and support further increases in the euro.

Graph sources : BearBull Group/ Bloomberg/ S&P Global

Notwithstanding the actions of the ECB and the SNB, euro yield curves rose faster than Swiss rates. Against both the franc and the dollar, the euro could now benefit from a change in perception about the forthcoming evolution of interest rate differentials, which are now probably more inclined to adjust to the faster and more dramatic evolution of inflation in Europe over the next few months than in the US and Switzerland.

The euro could thus regain favour with investors tempted to reposition to one of the major international reserve currencies after a notable weakening in recent quarters.

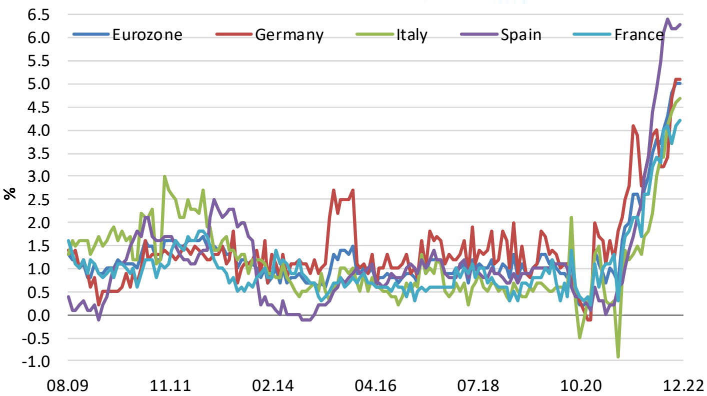
Yield curves still positive

European yield curves have already exceeded the ECB's end-March target rate of 2.5% for most maturities, with the exception of the German government yield curve, where ten-year yields are still 2.3%. The lower yields on the shorter end still indicate a positive and therefore non-inverted slope, unlike those observed in the US. In recent months, the inflation factor has been the main determinant influencing interest rates and remains today a central element. The recession scenario is not yet sufficiently developed to replace it in the near future.

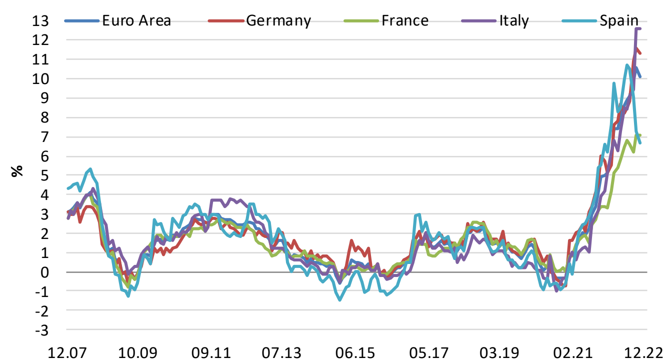
Our outlook for the next quarter is again negative for European bond markets, where ten-year government yields have still reached levels significantly higher than yields in France (2.91%) , Spain (3.48%) and Italy (4.76%) were still significantly higher than German yields and sometimes comparable to dollar yields.

We are maintaining our policy of prudence both in terms of overall exposure to European bonds and in terms of maturity. Short maturities are still preferred.

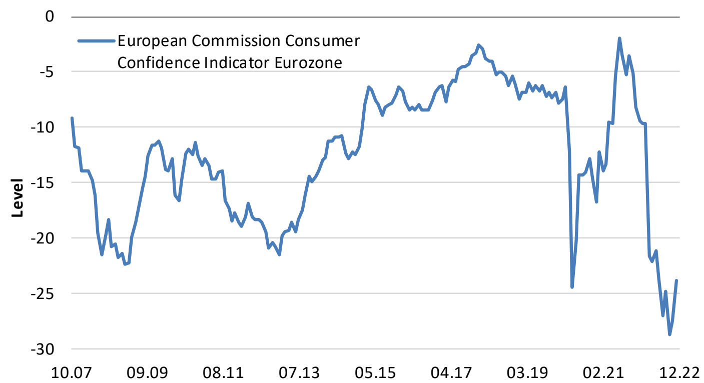
Eurostat CPI - Core Inflation (Eurozone, YoY)



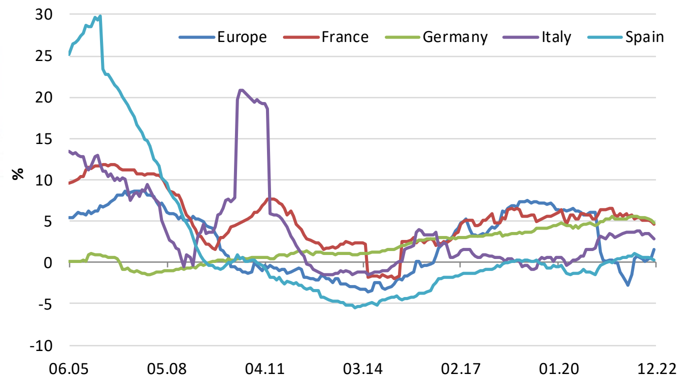
Eurostat CPI - all Items (Eurozone, YoY)



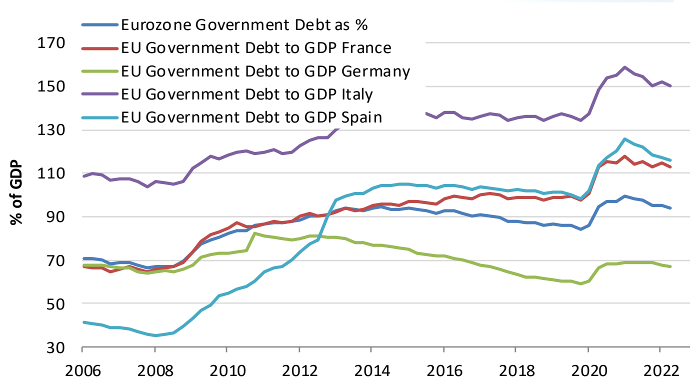
Consumer Confidence - Eurozone



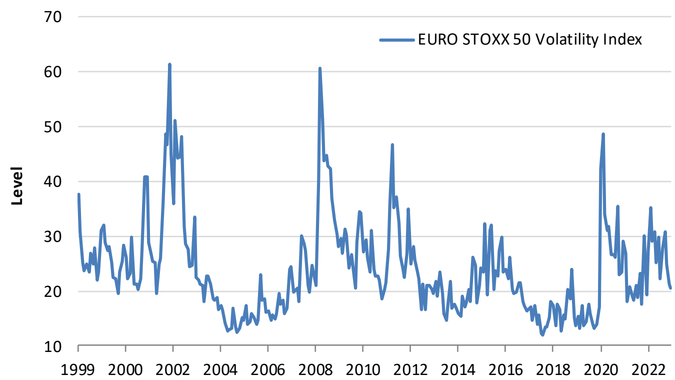
Loans and Credits to Households (Eurozone - YoY)



Government Debt



Volatility Indicator - Eurozone



Graph sources : BearBull Group/ Bloomberg/ S&P Global

MACROECONOMIC SCENARIO

United Kingdom

- The UK economy is resisting inflationary pressures and rising interest rates
- Negative GDP to end 2022
- Regime change for key interest rates
- No tangible signs of price declines yet
- Exit from the crisis for the pound sterling

The UK economy is resisting inflationary pressures and rising interest rates

UK GDP finally slipped by -0.2% in the 3rd quarter, which is another surprise compared to the more negative expectations of a -0.7% contraction expected by economists. The revision of the 2nd quarter had already provided a positive surprise, showing a just positive GDP when forecasters were already predicting a contraction of the economy. Over twelve months, the GDP grew by +2.4%, significantly less than the measure taken in the previous quarter. Private consumption fell by -0.5%, while public spending supported growth with an increase of +1.3%. Capital formation, which rose significantly by +2.5%, also made a positive contribution. On the foreign trade side, the +8% increase in exports over the quarter was particularly significant, while imports fell by -3.2% over the period.

This rather positive result should not, however, mask the deteriorating economic conditions that have been at work for several months. Inflation and interest rate developments are gradually affecting monetary conditions and the health of households. The outlook for the UK economy looks bleaker than the GDP figures currently show. During the quarter, we note a more visible deterioration in September, particularly in services, which were the main contributors to the month's decline. Services related to household consumption fell by -1.7%, clearly due to price increases. The construction and industrial sectors reacted better, recording small increases of +0.4% and +0.2%, partly offsetting the decline in services. Overall, private consumption stalled with a contraction of -0.5%, while investment spending was still able to advance by +2.5% thanks to public spending. Finally, the good performance of exports allowed foreign trade to add 3% to GDP growth.

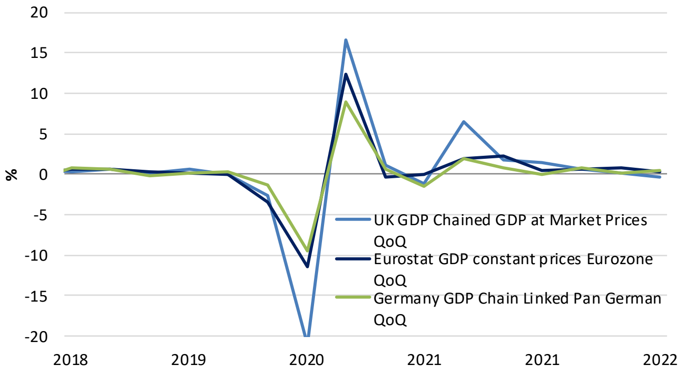
Negative GDP to end 2022

The last quarter is likely to be the turning point for the economic trend in the UK. Persistently high inflation continues to reduce real disposable income of households, while interest rates are also expected to start to bite into the ability of households to maintain their consumption levels. A contraction of -0.3% in Q4 is expected to continue into the early part of the year and certainly into the first half. The probability of a recession is now 90% before a recovery in the second half of 2023. A monthly GDP increase of +0.5% in October should not be overestimated as it represents a recovery from the decline in September and the death of Queen Elizabeth II. On a quarterly basis, GDP fell by -0.3%. We believe that the UK economy will soon suffer from a much sharper decline in household spending. The announced strikes in various sectors will also contribute to a decline in activity in Q4. However, the expected recession is likely to be moderate in early 2023.

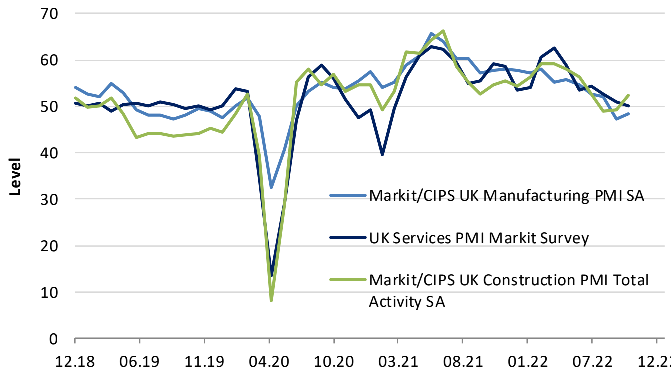
Leading indicators still not very encouraging

The decline in leading indicators has continued in recent months, most notably in the manufacturing sector. The manufacturing PMI declined further in December 2022 from 46.5 to 44.7, marking its lowest level since May 2020. It has now been in decline for almost 20 months. The decrease in the services PMI was more recent and less pronounced, but it has stabilised for the past three months at a level close to neutral 50 after having slipped to 48.8. The construction PMI dips again in November from 53.2 to 50.4 but still appears to be in growth territory. The composite PMI rises slightly to 49.0 without much conviction. Without being positive, the PMI leading indicators are close to 50, which suggests a surprisingly resilient and less pessimistic outlook for a relatively moderate slowdown in Q4.

Quarterly GDP Growth - United Kingdom

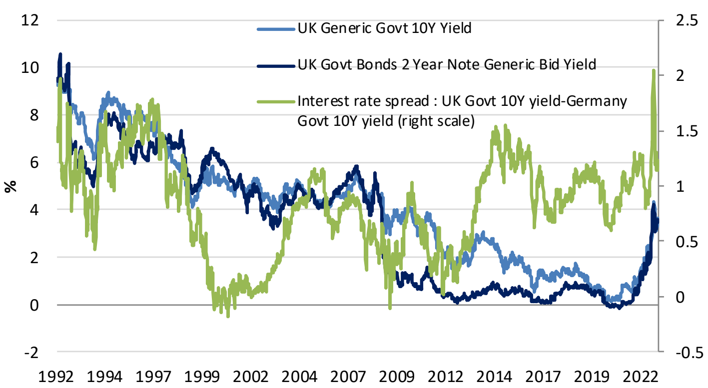


PMI Indicators (Manufacturing, Services, Construction)

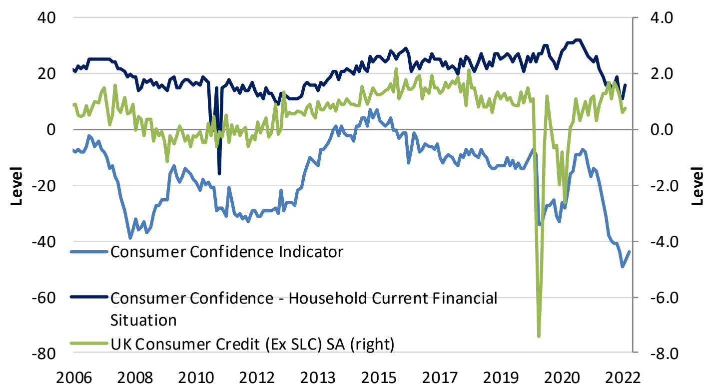


 Graph sources : BearBull Group/ Bloomberg/ S&P Global

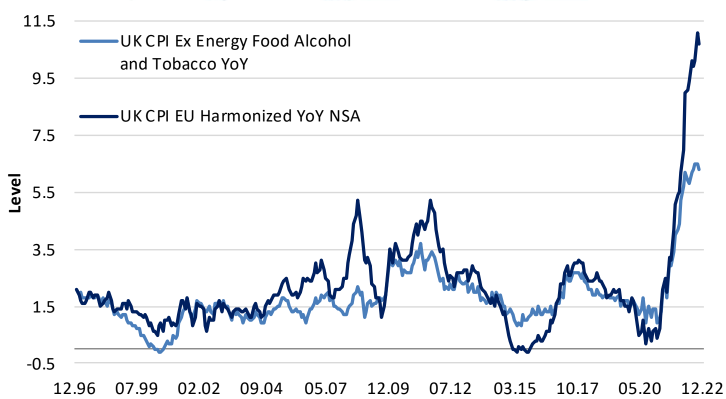
Government Rates (2yr-10yr)



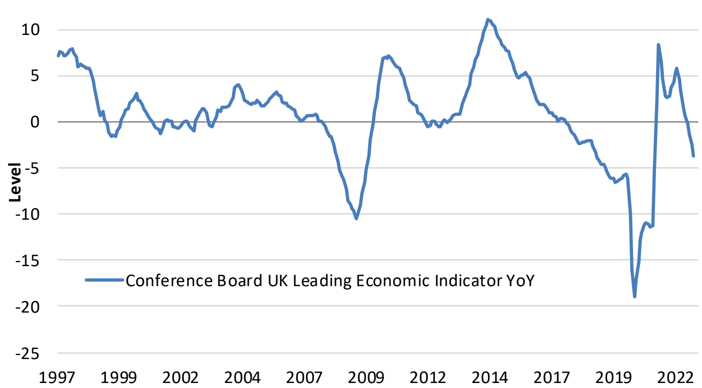
Household Confidence



Inflation CPI



Leading Indicator



Labour market still little affected

There are some signs that tensions in the labour market are decreasing, but none of a clear change of direction. Three-month employment growth to the end of November continues to decline but is now positive again after two periods of contraction. With a growth of 27,000 jobs, the period is nevertheless weak. It is largely supported by a recovery in October of 78,702 jobs. This dynamic seems to further underline the resilience of the labour market in the face of the growing difficulties facing the UK economy.

The increase in unemployment benefit claims from 3,300 to 30,500 contributed to a very slight rise in the unemployment rate from 3.6% to 3.7%, which remains close to the pre-pandemic low of 3.8%. The labour market is resilient to the deteriorating economic conditions and the adverse effects of the energy crisis and inflation on the health of businesses. The potential risks of wage inflation picking up are still significant and add to the other inflationary factors. In this environment, quarterly average wage growth was able to remain above 6% year-on-year at the end of October.

The risks of indirect transmission of wage growth on inflation indices have to be considered and are in particular taken very seriously by the British central bank (BoE). While wage growth appears to be strong in nominal terms, wages in real terms have actually contracted by around -4.7% due to persistently high inflation of +10.7% (November), which is the largest decline since 2014. The persistence of high inflation is already significantly affecting the purchasing power of households despite the rise in nominal wages. Rising taxes and energy costs are part of a general upward movement in prices, which should, however, start to stabilise. A possible economic slowdown at a time when companies are also experiencing an increase in their operating costs should slow down wage growth.

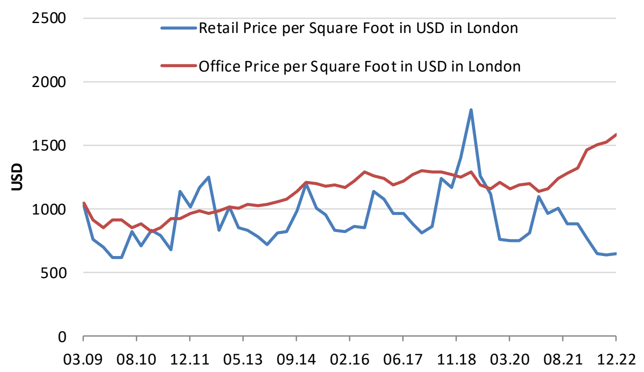
Household confidence remains at half mast

The GFK is recovering slightly from its low in September when *Prime Minister Lizz Truss' plan* caused a major financial crisis and crisis of confidence in the UK. However, it remains particularly gloomy and quite symptomatic of the prevailing uncertainty in the UK which is weighing on household morale. The decrease in job creation mentioned above - but even more clearly the decline in household purchasing power - are the main sources of the decline in consumer confidence. This slight improvement in sentiment concerns both the economic outlook for the next twelve months and the state of household finances. Energy prices are still a major concern for households, whose confidence is now below that seen during the previous recessions of 1991 and 2008. The contraction in household purchasing power, which is heavily impacted by inflation and still up by 0.4% over one month in November and 10.7% over one year, will continue to affect confidence and consumption.

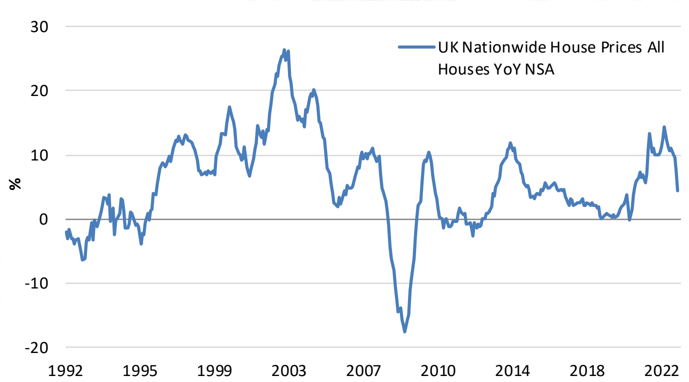
No tangible signs of price declines yet

The latest statistics barely suggest that prices are stabilising at a lower rate of growth, and it is not yet clear whether the fall in the *CPI YoY index* - from 11.3% in October to +10.7% in November - is a tangible sign that prices are about to drop. At the same time, the *CPI ex food and energy* also showed a first year-on-year decline from +6.5% to +6.3%. These measures remain very high and are logically still at the highest level of the last 30 years. The resolution of the political crisis in the UK has allowed the pound to recover the ground lost against the dollar over the summer in recent weeks.

Real Estate Prices per m2



Growth in Real Estate Prices



The rebound of more than +13% should thus make it possible to rule out other negative effects on inflation caused by a rise in the cost of imports in pounds. On the commodity side, the declines seen over the last few months, in particular the declines in oil and gas prices, should provide some respite to the evolution of price indices. The statistics published recently nevertheless show a clear loss of momentum in the various price indices, which should be confirmed in order to allay the concerns of consumers and businesses. The expected slowdown in the UK economy should provide a positive environment for stabilisation and lower inflation. The BoE's outlook has been effectively reduced to +10.75% for 2022.

Regime change for key interest rates

The UK central bank will have raised its key rates eight times in 2022, from 0.25% at the beginning of the year to 3.5% on 15 December. Including the first hike in December 2021 of 0.15%, the BoE will have raised rates nine times in twelve months. The latest 0.5% hike may suggest that the BoE's decisions are beginning to change in magnitude following the previous 0.75% increase in November. It may already be considering the potential risks of too much monetary tightening as signs emerge that the UK economy is likely to enter into recession in early 2023. It is clear that the BoE's main concern is wage developments and their consequent effect on further inflation dynamics. As the two variables are linked, the BoE is rightly concerned about the impact of persistent inflation and future expectations on wage demands. Private sector salary growth has already reached +6.9% due to inflation developments and not necessarily due to a relatively low unemployment rate in 2022, as in 2019 when the labour market was at its tightest, wage growth was limited to +3.6% because of low inflation expectations. We believe that it will gradually decline and weaken wage demands, which will certainly peak in Q4 2022.

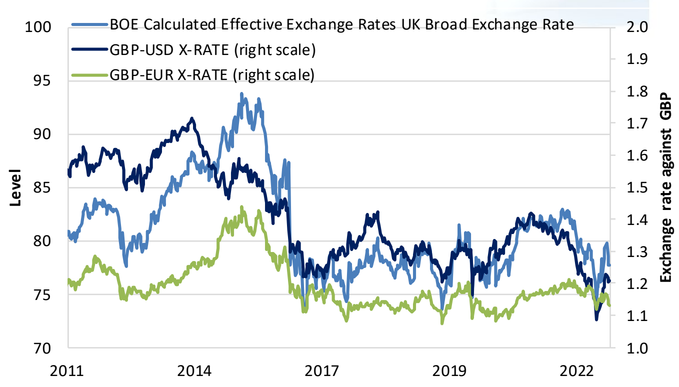
In February 2023, the MPC will probably consider that the more fragile economic situation and a sharper decline in inflation data will allow it to slow down its action a little more by only raising its key rates by 0.25%. Our central scenario then calls for two further 0.25% hikes to reach a policy rate peak of 4.25% in May 2023. The Governor, Andrew Bailey, has suggested that the latest inflation figures encourage him to believe that inflation is falling and even dropping a little more than the BoE had expected.

Exit from the crisis for the pound sterling

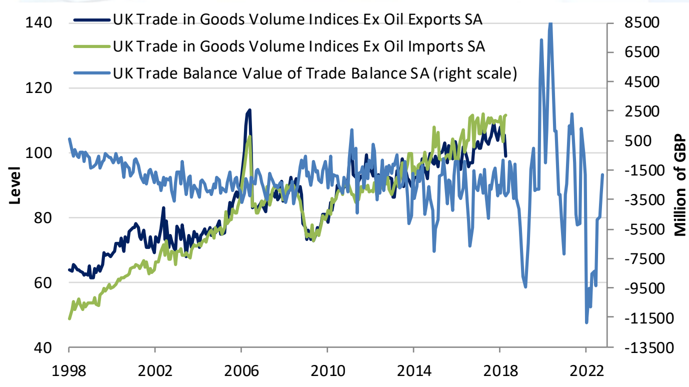
The Sterling pound could perhaps begin to hope to benefit from higher policy rates and favourable yield differentials, particularly against the franc and the euro. The shock of 23rd September had totally reshuffled the deck, causing extreme volatility in the currency and a two-day fall of -5.4% against the euro, -8% against the dollar and -7% against the Swiss franc. The extremely rapid political reaction and the decisive action of the BoE allowed a rapid return to normality which quickly put an end to the panic.

The exit from this particularly rapid political and financial crisis immediately put an end to the mistrust that had built up towards the British currency. The rapid interventions have already allowed the pound to stabilise and return to its previous exchange rate levels against most major currencies (such as the dollar, the euro, the franc or the yen). The return of confidence can now give way to a more dispassionate analysis of the conditions influencing prices in the foreign exchange markets. A growing and significant yield differential may now support investor interest in the pound. We believe that an appreciation of the British currency should still be dependent on the development of inflation.

Effective Pound Exchange Rates



Trade Balance - Exports - Imports



 Graph sources : BearBull Group/ Bloomberg/ S&P Global

MACROECONOMIC SCENARIO

Japan

- Less favourable outlook for the current quarter
- Leading indicators still moderately optimistic
- BoJ to change policy slowly

Japanese economy shrinks by –0.8% in Q3

The global economic slowdown also hit Japan, which recorded a contraction of its GDP by -0.2% for the third quarter and by -0.8% over one year. After having surged by +3.5% in the 2nd quarter, the Japanese economy suddenly changed pace by suffering a greater than expected setback during the summer according to the first published results of -1.2%. The recent revision of its performance is finally rather in line with expectations. The effects of Covid and the fall of the yen have not been without effect on the economy of the Rising Sun, which is nevertheless expected to recover slightly at the end of the year. This revision underlines that exports have finally limited the negative effects in terms of foreign trade, while spending on capital goods by Japanese companies has held up rather well. The increase in inventories has also been a positive component supporting GDP, but there is a rather worrying aspect to this trend as it reflects insufficient demand in contrast to the actual output of production of Japanese companies. Consumption also proved less dynamic in a logical reaction to the negative effects of the Covid during the summer.

The Japanese economy will face further difficulties at the end of the year and in early 2023 due to the likely weakness of global demand. A recession seems probable if the economy does not regain momentum from domestic activity in the coming months. This factor, which is essential to offset the risks of a more marked downturn in international demand, does not seem to be improving. Consumption reacted very weakly in the third quarter and has little reason to assert itself as the key element capable of supporting growth in the coming months. Prime Minister *Fumio Kishida* has already put in place support measures to counter the negative effects of a rise in inflation, even though it remains low by international standards in Japan. We can therefore logically expect positive effects of these measures on future household consumption figures.

On the monetary policy side, the BoJ's position is clear: key interest rates will remain low, thus preventing any possible spillover to interest rates and overall financing costs for households and companies in Japan.

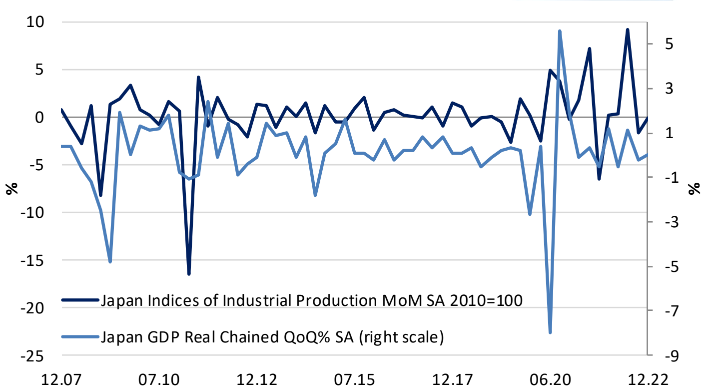
Outlook for Q4 still gloomy

The recovery of external demand and household consumption is therefore largely uncertain. While domestic demand for services may support growth during the quarter, the effects of the fall in the yen on imported prices and on consumer prices are likely to dampen household consumption. The latter will, however, be able to count on state subsidies to partially compensate for the rise in electricity prices. Nevertheless, the reduction in company margins will not allow an increase in wages likely to support household disposable incomes and private demand. The reopening of the borders will undoubtedly offer new prospects in terms of tourism which will also support growth. On the production side, the increase in inventories in Q3 should penalise industrial production at the end of the year. A revival of global demand for Japanese production, which is essential for GDP growth, is likely to be lacking again in Q4. The short-term economic outlook for Japan is once again bleak.

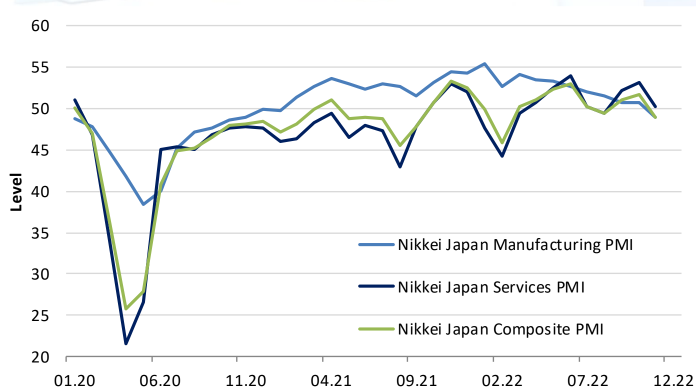
Leading indicators still moderately optimistic

The *Jibun Bank of Japan PMI* leading indicators published at the beginning of December are in a relatively stable phase, although in relative decline compared to the end of Q3. The services PMI (50.3) stabilises slightly above 50, barely supporting the segment's resilience estimate. The manufacturing PMI remains significantly below the positive threshold and slips again in November from 49.4 to 49, continuing its decline observed since February 2022. Overall, the composite PMI stabilised at 48.9 after falling back below the growth threshold. The collapse of industrial production (-2.6%) in October follows a -1.7% fall in September, also highlighting the ongoing weakness in the manufacturing sector. The recovery is likely to be anaemic in Q4, with semiconductor exports to China being notably weak. Japanese producer surveys are slightly more positive but do not indicate sufficient confidence to expect a significant recovery. Without a more visible recovery in Chinese activity, Japanese exporters will certainly not risk increasing production in Q4.

GDP and Industrial Production

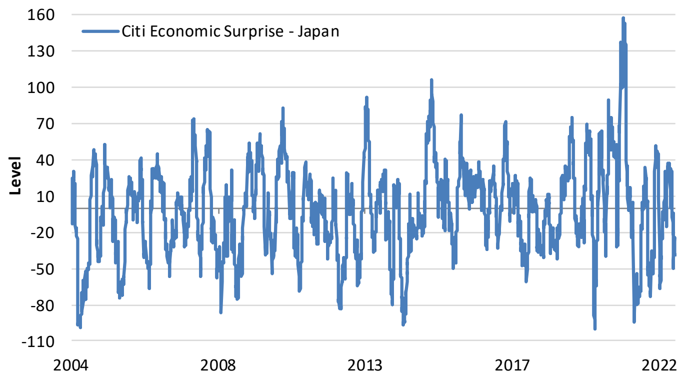


PMI Indicators (Manufacturing, Services, Composite)

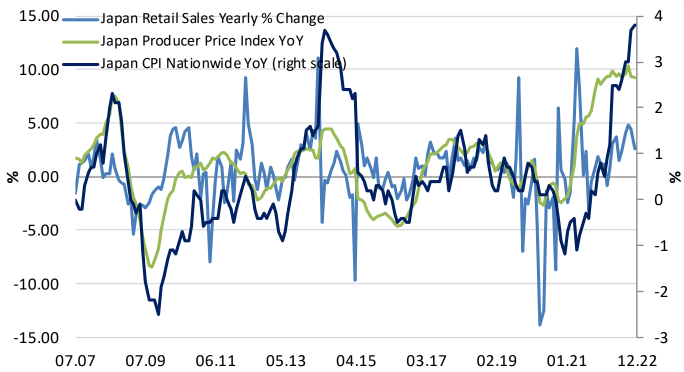


Graph sources : BearBull Group/ Bloomberg/ S&P Global

Economic Surprise Index



Inflation (CPI and PPI) and Retail Sales



While the fall in machine tool orders shows no sign of abating according to the latest figures published for October, down -5.5% year-on-year, it masks a strong disparity between regions that could perhaps offer some positive signs for Japan. The fall in European orders (-24.6%) and in Asian countries ex-China (-28.5%) contrasts with a recovery of orders from China, up by +28.8%. Some hope therefore still seems to be possible, even if uncertainty still prevails in this sector, which is extremely important for Japanese exports.

Consumer confidence is at an all-time low

Rising inflation is disrupting the development of household consumption. Household confidence is still sinking according to the latest figures published, showing a further decline. It now stands at 28.6, its lowest level in two years. Wage growth remains weak, although the unemployment rate is still very low at 2.6% in October. However, the ratio of job vacancies per applicant increased slightly from 1.34 to 1.35. Overall, the labour market remains tight and still suggests that a gradual transmission to wage levels is possible. Nonetheless, the rise in imported prices and production costs that companies are facing is a constraining factor that could further limit companies' ability to bear and accept wage increases in the coming months. Retail sales are still growing very slowly, by barely 0.2% over one month and 4.3% over one year. The recent acceleration in price increases has caused the CPI to rebound by 3.6% in Tokyo and in the country over a year, logically weighing on household confidence and private consumption.

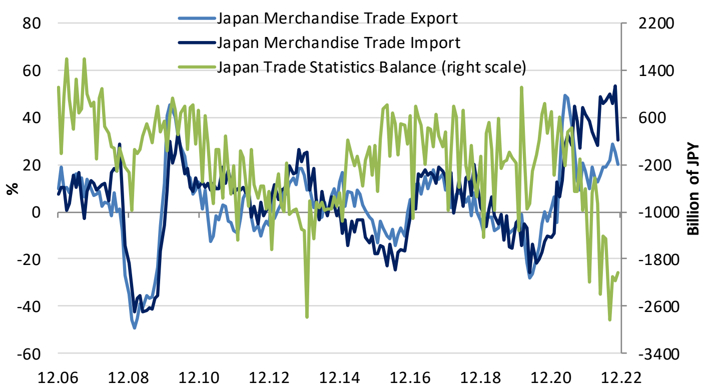
Japanese inflation hits a new high

Japanese inflation remained contained for a long time, before the sharp depreciation of the yen from 115 to 150 yen per US dollar reinforced a trend already initiated by the rise in commodity prices. While the CPI was still contained at the end of March at +1.2%, the fall in the yen propelled inflation to +3.6% in October. The CPI is now at its highest level since October 2014, when inflation rose very quickly and temporarily to 3.7%. Japan did not escape the global trend of rising inflation, which is mainly linked to its dependence on imported raw materials. Producer price inflation exceeded +10% in September before falling back to +9.1% at the end of October. The transmission of the rise in imported prices, and then producer prices to consumption, has finally developed, albeit with relatively limited effects in Japan if we consider the major fall in the Japanese currency. The energy & commodities factor will certainly remain a determining factor in the evolution of inflation over the next few months, although it will probably make a less significant contribution than in recent months. The stabilisation of oil and gas prices will indeed reduce the impact of these prices on imported prices. In parallel to the improvement of this trend, the recent recovery of the exchange rate, which fortunately appreciated by almost +10% against the dollar in the space of a few weeks, should also have several positive effects on the result of foreign trade as well as on inflation.

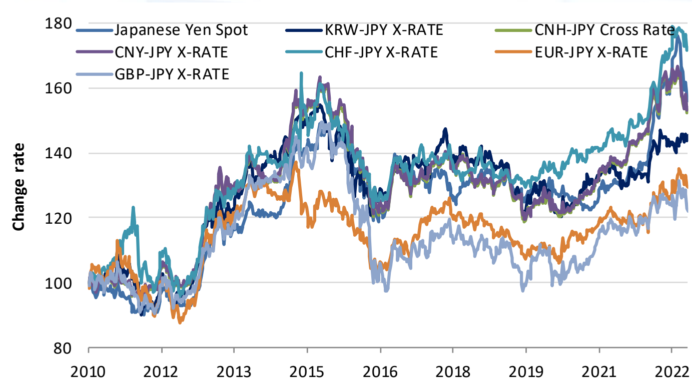
BoJ will maintain its strategy of absolute control of the yield curve

The BoJ, like other central banks, maintains its inflation target of +2%, but does not change its monetary policy despite the +3.6% rise in prices. While others are tackling the issue of inflation rising above their targets, the BoJ sees no reason yet to relax its yield curve control strategy. The recent evolution of inflation could however give the monetary authorities pause for thought, but they still declare themselves ready to maintain their ultra-expansive monetary policy. An inflexion of the BoJ's monetary policy in the near future does not seem to be an option, despite the higher level of inflation. If today the members of the monetary policy committee still have positions in favour of an expansionary policy, a dynamic seems to be taking place in the economy, which could well convince them in the coming months to adopt a new strategy. Governor *Kuroda* regularly cited the need to see price growth, economic recovery and rising wages, as the expected combination of conditions that would allow a change in policy. A policy rate hike in this context thus seems a little more likely now that inflation is running at +3.6% and wages may be responding to tight labour market conditions

Trade Balance in JPY Billion



Exchange Rates (base 100)



Graph sources : BearBull Group/ Bloomberg/ S&P Global

MACROECONOMIC SCENARIO

China

- The end of Covid restrictions is a game changer
- The PBoC has the means to boost Chinese growth
- The yuan is not the priority of the authorities
- Chinese inflation is under control

The end of Covid restrictions is a game changer

The Chinese economy was still suffering in the last quarter of 2022 from the disastrous effects of its zero Covid policy on household consumption and on industrial production in particular. Industrial production indeed contracted by -5% year-on-year at the end of October, marking a very slight improvement on September (-6.3%). Retail sales also stalled, although to a lesser extent, recording the first decline since May. Credit has collapsed in a very short period of time, mainly due to a fall in mortgage lending in a market that is still in deep trouble. These rather negative and worrisome developments for the Chinese government and central bank are expected to weigh on GDP growth for the last quarter. An increase of just +0.3% for the quarter should act as an electroshock for Chinese policy makers.

Over the whole year of 2022, the Chinese economy will have grown by perhaps +3%, which is no cause for satisfaction for the Chinese leaders. The objective of growth still close to +5% will not be reached and the risks of slippage seem to be increasing for China if it were to maintain the same policy in 2023, while the expected slowdown in Europe and the United States is likely to weaken the level of external demand even further. The Chinese population's reactions, fed up with three years of health restrictions, come indeed at the right time to justify a policy change that has become essential but difficult announce before *Xi Zingping*'s re-election.

The Chinese authorities therefore very quickly gave in to the demands of the population by abolishing quite rapidly all the measures that had been supported without fail until then. In a few weeks, the cursor of the priorities moved on the economic activity by relegating completely to the last plan the management of the sanitary crisis. In just a few weeks, the number of Covid contaminations jumped without hindering the opening of the country and the new possibility of travelling.

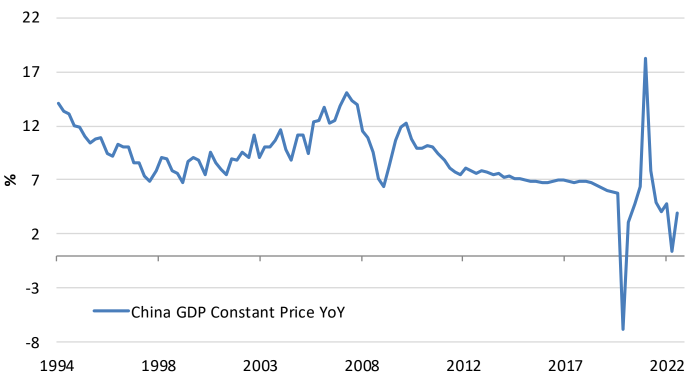
Now it is finally possible to envisage a real economic recovery in China, which could take shape as early as the first quarter of 2023. We estimate that GDP in this new configuration could recover and post a +1% increase. The risks of recession also drop in this context to less than 15%, for a 2023 GDP that could potentially grow by around +5%. China will therefore be able to make a more significant contribution to global growth, especially if the US economy avoids a recession in 2023.

The PBoC has the means to boost Chinese growth

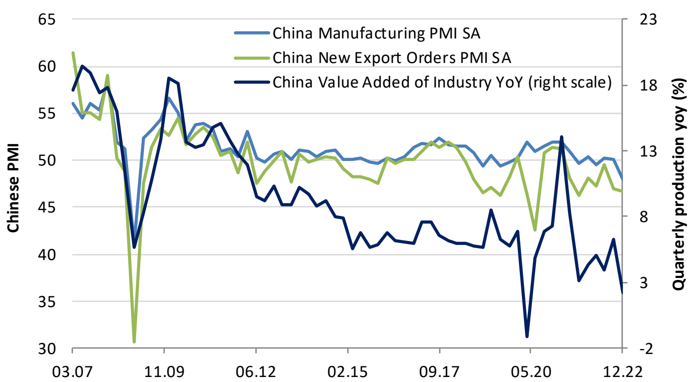
The evolution of inflation in China is one of the main reasons for the PBoC to implement an accommodating monetary policy while most other central banks are still trying to control the evolution of their respective inflation levels. The latest reduction in its reserve ratio for Chinese banks by 25 bps (RRR) announced in November will allow for a further increase in credit of about 500 billion yuan. Initially intended to counteract the decline in domestic demand in particular, which is partly related to the health restrictions, this measure will also reduce the effects of a decline in international demand. The central bank is also expected to support the flagging economy with other measures in the coming months. Further decreases of a similar nature in the RRR are expected in the first quarter of 2023, as well as a decrease in its one-year *MLF rate* of about 0.25 as well.

The *PBoC*'s announced objective after the end of the measures liked to the zero-covid policy is clearly to support economic activity and effective credit growth. It is committed to supporting the real economy, maintaining price stability, and will also work to develop support mechanisms especially for sectors particularly affected by the health crisis. It is also committed to supporting reasonable demands for financing from the real estate sector while encouraging merger and acquisition opportunities that could improve the situation of the real

YoY GDP Growth

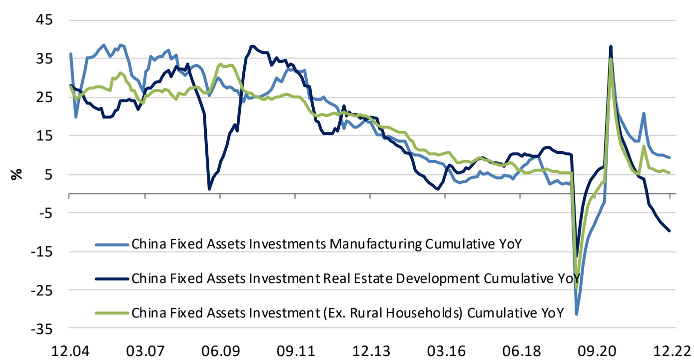


PMI and Industrial Production

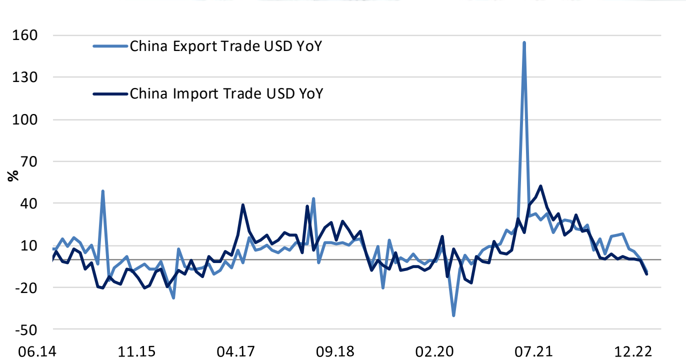


Graph sources : BearBull Group/ Bloomberg/ S&P Global

Real Estate Invesment, Infrastructure and Industry (YoY)



Exports- Imports (YoY)



The yuan is not the priority of the authorities

China's monetary policy still contrasts with that of the industrialised countries, whose restrictive monetary policies only increase the yield differential with the yuan rate. However, the next few months should constitute different bases for comparison with the dollar, the euro or the pound sterling. The increase in yield spreads with the latter to the detriment of the yuan will contrast with the relative stabilisation of the yield spread with dollar rates. The "programmed" weakness of the dollar will also concern the USD/yuan exchange rate, which should finally stabilise between 6.8 and 7 yuan to the dollar in the coming months. Defending the yuan is clearly not the *PBoC*'s objective in the current situation. A depreciation of its currency is even potentially a positive factor supporting its economic recovery efforts.

Foreign trade deteriorates further

Chinese exports continue their decline that began in early 2022 and are now dropping by -8.7% year-on-year at the end of November. The drop seems much larger than expected (-4%) and certainly announces a decline in Q4. Weaker external demand, production and organisation problems of goods shipments clearly linked to the sanitary restrictions measures and a base effect are responsible for this collapse. The weakness of Chinese activity is also reflected in a slightly larger drop in imports (-10.6%) for a final result of foreign trade down to 69 billion dollars. Exports to the United States were particularly hard hit with a drop of -25%. High-tech equipment suffered an even greater shock, while imports of raw materials such as steel fell by -22%.

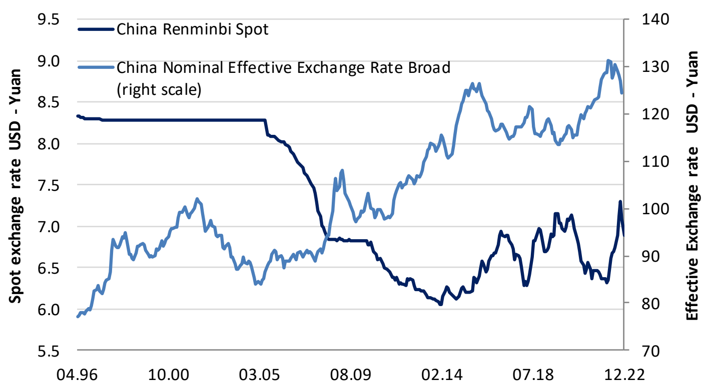
Chinese inflation is under control

Inflation continues to decline in China, with the latest statistics for November show a contraction of -0.2% after a small increase of +0.1% in October. The inflation regime of the last few months confirms a relatively controlled evolution of prices in China. On an annual basis, CPI has been declining for several months and stands at only +1.6%, significantly below October's +2.1%. The ex-food and energy CPI was +0.6% and has remained below +1% for eight months now. The welcome decline in food prices, which dropped from +7.0% in October to +3.7% in November, is one of the notable components of the November evolution. Producer prices are even in deflation, maintaining the contraction already observed in October of -1.3% year-on-year. Unlike most other economies, the Chinese economy still does not seem to have a major problem with inflation. However, this development is also related to the special situation of China still dedicated to the goal of zero Covid during this period. The abandonment in recent days of this policy and systematic sanitary controls should give a boost to domestic consumption and industrial production. We expect a moderate recovery in Chinese inflation with the end of the sanitary restrictions in the first quarter of 2023.

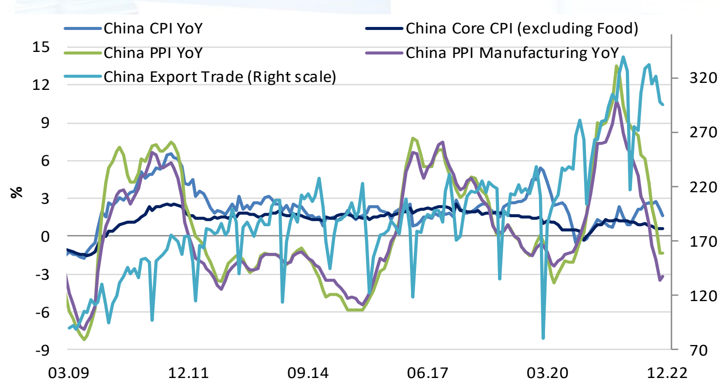
The housing market rout is not over

Residential real estate sales are still down very sharply in November (-31.1%), while new construction and land purchases are logically down by -50.8% and respectively -58.5%. The real estate market has been in complete disarray for over a year, pushing developers into bankruptcy. The government measures aimed at saving the sector will take time to ensure a stabilisation in 2023, which will not, however, allow a complete rebalancing between supply and demand for several years. Despite government support, more flexible policies to improve developers' financing capabilities appear insufficient to prevent a rise in bankruptcies now at their highest level in three months. Falling off-plan sales and declining mortgage lending continue to weaken developers. Some improvement in real estate investor sentiment visible in recent weeks may be reinforced by the disappearance of the Covid zero measures. However, it is too early to expect a reversal in China's property market.

Effective Exchange Rate and USD/Yuan



Inflation CPI - Core CPI



Graph sources : BearBull Group/ Bloomberg/ S&P Global

MACROECONOMIC SCENARIO

UNITED ARAB EMIRATES

- UAE's GDP set to grow by 7.6% in 2022, 3.9% in 2023
- Slight loss in momentum for UAE's PMI in Q4 2022
- Dubai Rolls Out $8.7 Trillion Economic Plan for Next Decade
- A specular turnaround in UAE's property market in 2022
- ADX was the best performing stock market in the GCC in 2022

UAE's GDP set to grow by 7.6% in 2022, 3.9% in 2023

2022 was a stellar year for the UAE's economy, which according to the UAE's Central bank, is expected to have grown at the fastest pace in almost a decade underpinned by a double digit increase in oil production and strong non-oil sector activity such as tourism and real estate. The strong growth witnessed in 2022 was mainly underpinned by a rebound in domestic activity, while elevated oil prices supported high surplus in the fiscal and external balances. Meanwhile, inflation was on the rise in 2022 in line with global trends and is expected to average just over 5% during the year.

According to the latest UAE Central Bank estimates, the UAE economy is expected to have grown by 7.6% in 2022, making it one of the fastest growing economies in the MENA region and globally. The UAE has been able to successfully ramp up its oil production in 2022 by 15% according to Bloomberg estimates. The non-oil sector growth was also robust as domestic demand continued its strong rebound from the pandemic related contraction in the previous year especially in the tourism and travel sectors. The UAE's successful management of the negative effects of the global pandemic alongside renewed geopolitical instability as result of the war in Ukraine are both point to an increase in the population of the UAE as a safe heaven, contributing further to a stronger domestic demand.

Foreign investment constituted a key contributor to the UAE's economic growth in 2022, with Dubai reporting a 14.6% y/y increase in FDI in the first half of 2022. The country continues to implement significant structural reforms while keeping the tax burden at competitive levels making it an increasingly attractive destination for investors. A new range of longer-term residency visas such as the Golden Visa - a renewal 10-year residency - has made it easier for skilled workers to move to the UAE without being sponsored. As result, Dubai alone has so far awarded more than 150,000 golden visas since the launch of the residency scheme in 2019. As part of structural reforms, the UAE also amended the laws governing foreign ownership and relaxed a range of business regulations to attract new talents and skilled workers to the country as the competition with neighboring countries such as the Kingdom of Saudi Arabia and Qatar is on the rise.

The outlook for the UAEs economy remain positive, supported by both elevated domestic actively and higher oil prices. The country is expected to outperform most developed and regional economies in terms of GDP growth. While oil and gas output is expected to slow this year, continued investment to boost production capacity should see the oil-sector contribute positively to headline GDP in 2023. Non-oil GDP is also expected to contribute positively to the UAE's economy although at a slower pace of 3.5% from an estimated 5.6% in 2022 as result of slower international trade and higher interest.

Slight loss in momentum for UAE's PMI in Q4 2022

The UAE PMI declined for the second month in a row in December to 54.2, almost matching the lowest figure in 2022 and indicating that growth momentum has slowed since its post-pandemic peak in the third quarter. The slowdown was mirrored in three of the PMI's major components, with output and new business growth both dropping to 15-month lows, and employment rising at the slowest rate in eight months. While domestic demand remains relatively strong, weakness in the global economy has resulted in the first decrease in new export business since August 2021.

Despite continuing to grow at a rapid rate in December, output growth continued to show signs of easing from its over three-year high in August. Increased output was frequently associated with increases in sales and customer numbers, though some businesses struggled to acquire new orders.

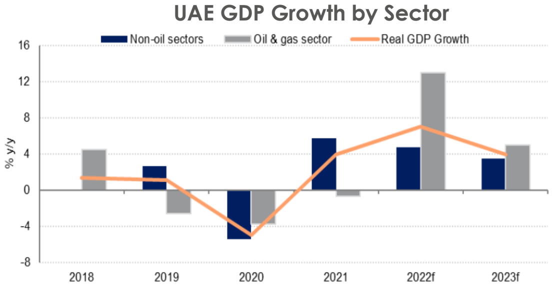
Similarly, new business at non-oil companies increased sharply, although the rate of growth slowed to a 15-month low. While domestic demand improved, the weakening global economy weighed on the expansion, as new export business fell for the first time since August 2021.

Dubai Rolls Out $8.7 Trillion Economic Plan for Next Decade

Dubai has revealed significant plans to change its economy over the next decade. According to a tweet released by Sheikh Mohammed bin Rashid, ruler of Dubai and prime minister of the UAE, Dubai will increase foreign trade to USD 6.97 trillion over the next decade, up from USD 3.87 trillion over the previous decade, and increase FDI to USD 16.34 billion per year, up from USD 8.71 billion over the previous decade.

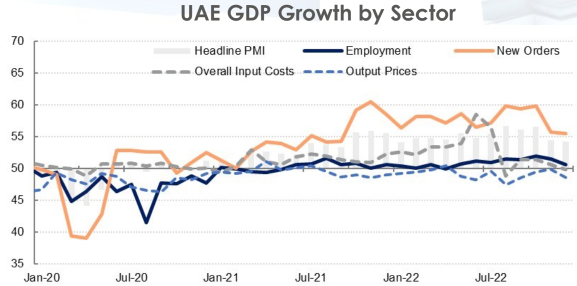
Government spending and private-sector investment are also expected to rise significantly to USD 190 billon and USD 270 billion, up from USD 139.4 billion and USD 215 billion respectively over the next decade. The economic strategy would place Dubai among the world's leading international financial centers, while also strengthening trade links with a number of economies.

UAE GDP Growth by Sector



Source: Emirates NBD Research, Haver Analytics, BearBull Global Investment Group

UAE GDP Growth by Sector



Source: Emirates NBD Research, S&P Global, BearBull Global Investment Group

A specular turnaround in UAE's property market in 2022

2022 marked a spectacular turnaround in UAE's property market, and Dubai's in particular, despite a challenging global macro-economic and tightening financial conditions. Dubai recorded the most number of residential sales since 2009 with 90,881 residential transactions in 2022 according to CBRE, beating the previous record of 81,182 deals in 2009. Ejari contracts, or home rental agreements, increased 11% in 2022 compared with a year earlier, further reflecting a growth in the city's residents.

Prices in prime Dubai are expected to end the year around 50% higher than in 2021 according to Knight Frank, while mainstream market is expected to have grown by 5 to 7% on average . Annual growth is however for both prime and mainstream markets are expected to moderate to respectively 13.5% and 7% in 2023, maintaining one of the highest growth rate for prime markets globally. Looking forward, despite weakening fundamentals and rising interest rates valuations are expected to remain rather sustainable in the mid-term reassuring homeowners and investors alike. Overall, prices in Dubai are still 21.4% lower than when they peaked in 2014. Cash purchasers are on the rise, accounting for roughly 80% of total transaction value. Rising interest rates will undoubtedly affect mortgage buyers in the mainstream market. However, with cash buyers dominating Dubai's luxury residential market, it's unlikely that demand will fall, despite the UAE's long-standing policy of mirroring US fiscal policy.

Residential values across Abu Dhabi increased by 2.1% in Q3, marking the fifth consecutive quarter of price increases; however, average prices remain 27.9% lower than the 2014 peak. Villas continue to outperform, with values rising 1.7% in the third quarter to AED 840 psf, only 2.7% higher than this time last year. Villa prices are now 19.7% lower than they were in 2014. Apartment prices increased by 2.1% in Q3 to AED 1,035 per square foot. Despite a 3% increase in the last year, apartments still trail the 2014 peak by 27.9%. According to Knight Frank, since Q1 2020, the average price increase for Abu Dhabi apartments has been 2.1%, while villa values have increased by 6.8%. The fact that values have remained relatively stable for the better part of the last two years might be the primary driver of the increase in transactional activity, instilling confidence in buyers and investors.

With increasing global economic uncertainty, the UAE is once again emerging as a safe haven destination, just as it did during the peak of the COVID-19 pandemic. The demand-supply imbalance, the government's world-leading response to the pandemic, one of the most business-friendly environments anywhere, and arguably some of the world's best beachfront real estate are what underpin the outlook. The risk of an off-plan sales driven slowdown appears limited, off-plan purchases have accounted for 40% of transactions so far this year, mirroring the 10-year average and a lower share than in both 2019 and 2020. With the US dollar strengthens against most currencies in 2022, the fixed peg of the UAE dirham to the greenback might have an influence on Dubai's relative affordability for purchasers from markets such as the UK or EU. So far, any influence appears to be negligible.

ADX was the best performing stock market in the GCC in 2022

In 2022, Abu Dhabi was the best performing major market in the GCC and the second best performing market in the MENA region, with the ADX General Index returning 20.3%. The index closed at 10,211.09 points after reaching a record closing high of 10,629.75 points on November 11, 2022. The aggregate market cap of firms listed on the exchange climbed by 62.3% to AED 2.6 Trillion (USD 702.6 Bn) due to a variety of factors including new exchange listings during the year as well as share price gains.

Overall, ADX sectoral performance was inconsistent. The largest annual gain was recorded by the utilities index, which increased by 176.5% to 13,510.75 points, primarily due to the performance of Abu Dhabi National Energy Co. (TAQA). The Financial index was the second-best performing index of the year, rising 47% to close the year at 17,669.13 points, thanks to companies such as International Holdings Company, whose share price has risen 169.7% during the year. The Healthcare Sector index (-31.6%) was the worst performing sector during the year, primarily due to Gulf Pharmaceuticals Industries' 37% share decline. The Telecom index experienced the second-largest decline of the year, falling by 27.4%. Driven mainly by the shares of Emirates Telecom Group and Al Yah Satellite Communications Company both experiencing yearly declines of 27.9% and 8.8%, respectively.

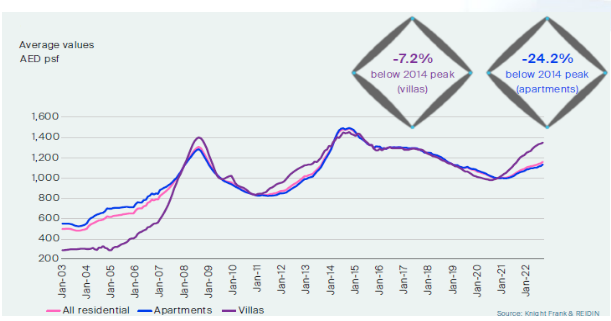
In 2022, the Abu Dhabi exchange saw an increase in trading activity y-o-y as volumes traded increased by 31.8% to 73.7 Bn shares. Similar to this, value traded rose by 16.2% y-o-y to AED 410.6 Bn in 2022. International Holdings Co led all stocks in terms of value traded in 2022, with AED 77.9 Bn worth of shares traded.

The Dubai Financial Market index recorded another year of gains in 2022 after being one of the best performing markets in the GCC in 2021. DFM ranked fourth in the region in terms of yearly returns, with a yearly gain of 4.4%. The DFM index reached a yearly high on 05-May-2022, but fell towards the end of the year, closing at 3,336.07 points. The benchmark gained consistently during the first five months of the year, but then fell precipitously between June and mid-July.

Consumer Staples led all sectors in terms of performance, rising nearly 200%, followed by the Materials and Real Estate indices, which saw annual gains of 17.9% and 13.8%, respectively. On the side of decliners, the Utilities index led with a drop of 14.4%, followed by the Consumer Discretionary and Communication Services indices with drops of 12.4% and 1.5%, respectively. Almost unchanged, the financials sector experienced a 0.2% marginal decline.

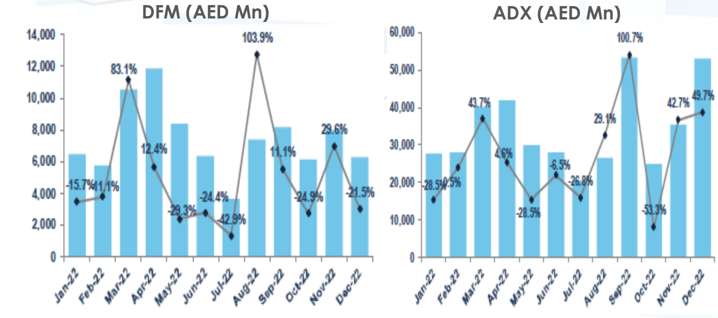
In terms of trading activity for 2022, DFM saw mixed results, with volume traded decreasing by 23% year on year to 37.9 billion shares. In terms of value traded, total share value increased by 26.3% year on year to AED 88.9 Bn, indicating increased trades in large-cap stocks during the year. Emaar Properties was the most actively traded stock on the exchange for the second year in a row, with AED 26.8 billion in its stock traded in DFM.

Average Values of Residential Transactions in Dubai



Source: Knight Frank, REIDIN, BearBull Global Investments Group

Historical Values Traded of DFM and FTSE ADX (AED Mn)



Source: DFM, Kamco Invest Research, BearBull Global Investment Group

MACROECONOMIC SCENARIO

Emerging Market

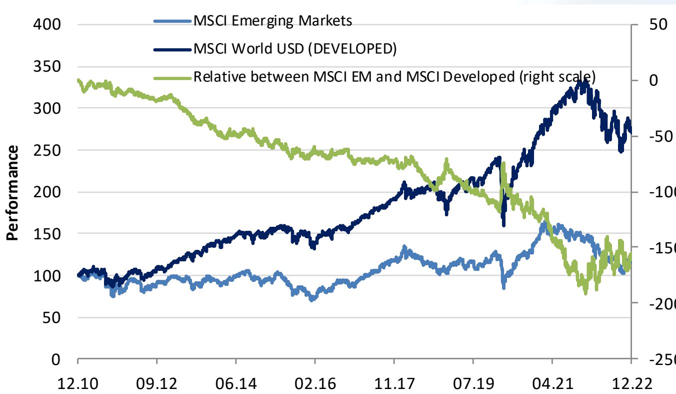
- No recession expected for emerging countries
- Inflation seems to have peaked in most countries
- Widespread monetary tightening is taking a slower pace

The global environment remains unfavourable and volatile, marked by a global growth outlook for 2023 that has been revised downwards once again. Tighter financial conditions in the major economies, energy supply difficulties in Europe, and weak growth in China, partly due to the Covid-19's policy in the country, reinforce the outlook for slower global growth in the coming quarters.

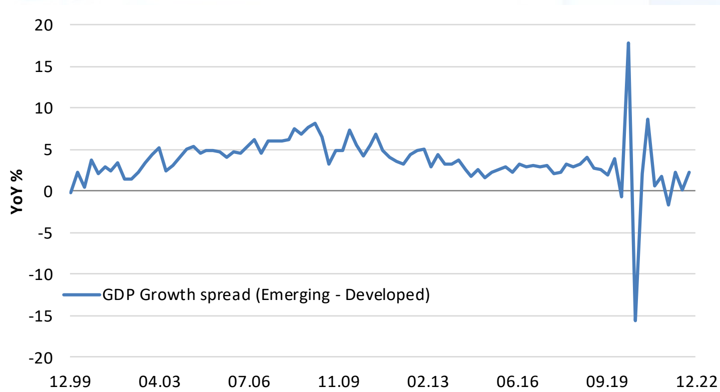
Brazil — Third-quarter GDP figures indicate a reduction in the rate of growth, particularly in some of the more cyclical components. In addition, labour market data also indicates a reduction in the pace of new job openings, but still with marginal positive net hiring. Declining confidence indicators and reduced credit granting, as well as the lagged effects of monetary policy, reinforce expectations of a slowing pace of economic activity, which is expected to worsen in the coming quarters. Despite the recent reduction in prices, particularly on the more volatile and tax-affected components, consumer price inflation remains high. The industrial goods components, reflecting the more intense decline in producer prices and reduced pressures in global value chains, have also shown a deceleration, albeit still slow. Inflation in the more business-cycle and policy-sensitive components, which have greater inertia, remains above the inflation target, although it shows some marginal moderation. Inflation expectations for 2022, 2023, and 2024 are now 5.9%, 5.1%, and 3.5%. The Monetary Policy Committee decided to maintain the *Selic* rate at 13.75% per annum. It believes that this decision reflects the uncertainty surrounding its forward-looking inflation scenarios, an even higher-than-usual variance in the balance of risks, and is consistent with the strategy of converging inflation to a level close to its target throughout the policy-relevant horizon, which includes 2023 and 2024. Without compromising its fundamental objective of ensuring price stability, this decision also implies a smoothing of economic fluctuations and promotes full employment.

Russia — The external environment for the Russian economy remains complicated and is a significant drag on economic activity. This is particularly true of the logistical problems that persist in many industries. However, high-frequency indicators suggest a slight growth in economic activity in the fourth quarter. Currently, the Russian economy's capacity to increase output is largely constrained by labour market conditions, with unemployment having fallen to a record low. Labour shortages are increasing in many industries as a result of Vladimir Putin's partial mobilisation. Under these conditions, real wage growth is accelerating in these sectors and could exceed productivity growth. The transformation of the economy is accompanied by a change in the structure of aggregate demand. Consumer demand remains subdued, while private sector investment demand is slowing down in a context of increasing public investment. Overall, the contribution of fiscal policy to domestic demand dynamics is increasing. The additional fiscal easing announced by the government should support economic activity in 2023. Annual inflation has declined significantly since its peak in the spring but still primarily reflects the effects of the sharp rise in prices that occurred between February and April 2022. At present, inflationary pressures appear to be relatively subdued, although prices are rising slightly, in part due to the stable components of inflation. Despite the relatively low rates of price growth in previous months, household and business inflation expectations remain high. According to the Bank of Russia's forecast, given the monetary policy stance, annual inflation is expected to decline to 5.0-7.0% in 2023, returning to 4% in 2024 and stabilizing thereafter. Against the backdrop of a rise in deposit rates since the end of September, credit institutions have seen a recovery in the inflow of funds from households, but mainly on current accounts. Despite the rise in inflation expectations, consumer behavior is generally cautious. This is reflected in the high propensity to save and the increased share of liquid assets in the savings structure. The Bank of Russia decided to keep its key rate at 7.50% in December.

Emerging and Developed Markets - Performance



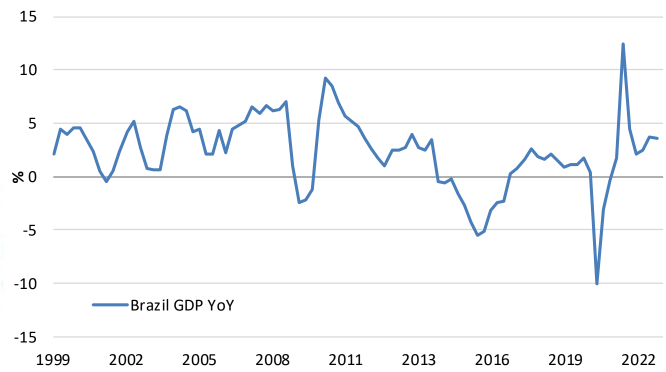
GDP Growth Spread



Graph sources : BearBull Group/ Bloomberg/ S&P Global
BearBull Global Investments Group Limited

GDP (YoY) - Russia

GDP (YoY) - Brazil



India — In India, the agricultural outlook has brightened, with expectations of a good rabi crop. The sustained rebound in contact-intensive sectors is supporting urban consumption. Robust and broad-based credit growth and the government's focus on capital spending and infrastructure should boost investment activity. According to the Reserve Bank of India survey, consumer confidence is improving. However, the economy is facing headwinds accentuated by prolonged geopolitical tensions, tightening global financial conditions and slowing external demand. Taking all these factors into account, real GDP growth for 2022 is expected to be +6.8%, with a third quarter at +4.4% and a fourth quarter at +4.2%. The national economy is then expected to grow by +5.5% during 2023.

While vegetable prices are expected to undergo a seasonal winter correction, grain and spice prices may remain high in the near term due to supply concerns. Adverse weather events; both domestic and global; are increasingly becoming a major source of upside risk to food prices as global demand weakens. Continued geopolitical tensions continue to cast uncertainty on the outlook for food and energy prices. The correction in industrial input prices and supply chain pressures could help to alleviate pressures on producer prices. Import inflation risks related to movements in the U.S. dollar should be closely monitored. Inflation is expected to be 6.7% for the full year 2022 and 5% and 5.4% for the first and second quarters of 2023.

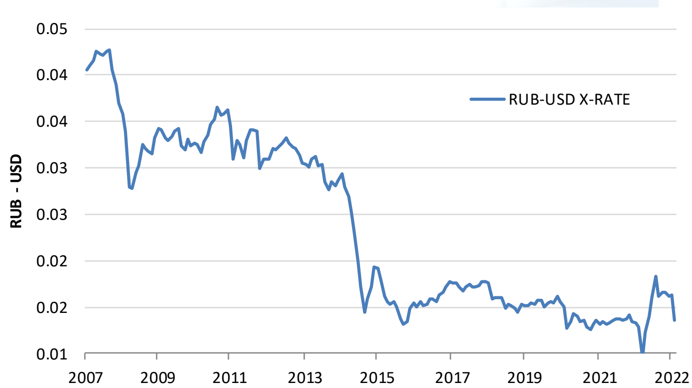
The Monetary Policy Committee believes that further calibrated monetary policy action is warranted to keep inflation expectations anchored, break the persistence of core inflation, and contain second-round effects, so as to strengthen the medium-term growth outlook. Accordingly, the Committee decided to raise the policy rate by 35 basis points to 6.25%.

South Africa — The South African economy is expected to grow at an annual rate of +1.8% in 2022. Despite considerable volatility in monthly indicators, GDP growth of +0.4% is still expected in the third quarter while fourth quarter growth is expected to be only +0.1%, largely due to record power outages. Despite the strengthening of private investment, the monetary policy committee expects the domestic economy to grow +1.1% in 2023 and +1.4% in 2024 due to an expected decline in commodity prices, rising inflation and interest rates, while power cuts could result in a loss of -0.6% in 2023.

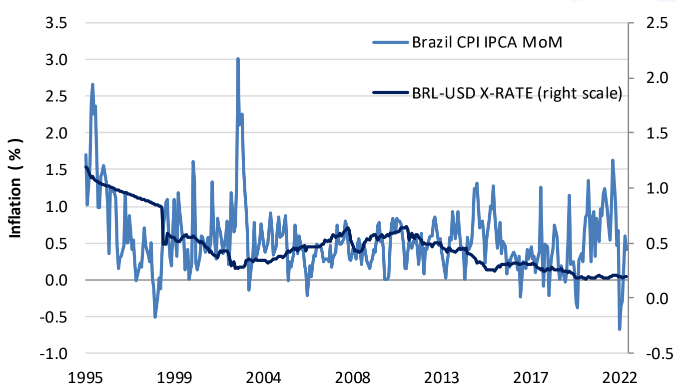
The central bank's forecasts for headline inflation for 2022 and 2023 are stable at 6.7% and 5.4% respectively. It is then expected to stabilise at 4.5%. Risks to the inflation outlook are assessed on the upside. Indeed, despite the slowdown in global producer and food price inflation, the war in Ukraine continues, with negative effects on global prices in general. Oil, electricity, and other administered prices continue to pose clear medium-term risks. In the second quarter of 2022, headline inflation crossed the upper limit of its target range and is expected to remain above it through the second quarter of 2023. Headline inflation is only expected to return to the midpoint of the target range on a sustained basis only around the second quarter of 2024.

In this context, the committee decided to increase the policy rate by 75 basis points to 7% per year. This is now higher than the level prevailing before the start of the pandemic. It nevertheless continues to support demand for short-term credit, while raising rates to levels more consistent with the view of inflation and related risks. The objective of this policy is to anchor inflation expectations more firmly around the midpoint of the target range and to increase confidence in the realisation of the objective in a sustainable manner.

Rouble VS USD

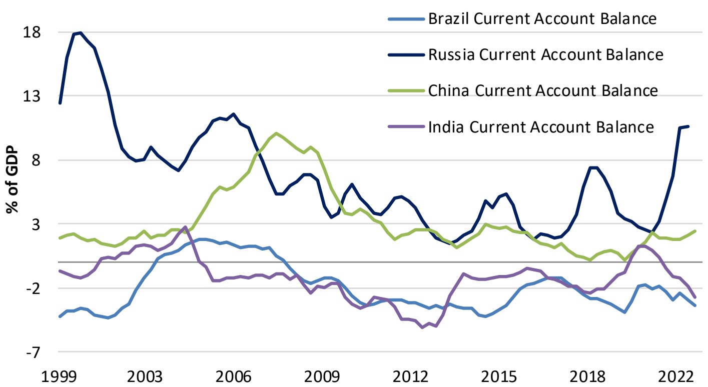


Inflation and Exchange Rates

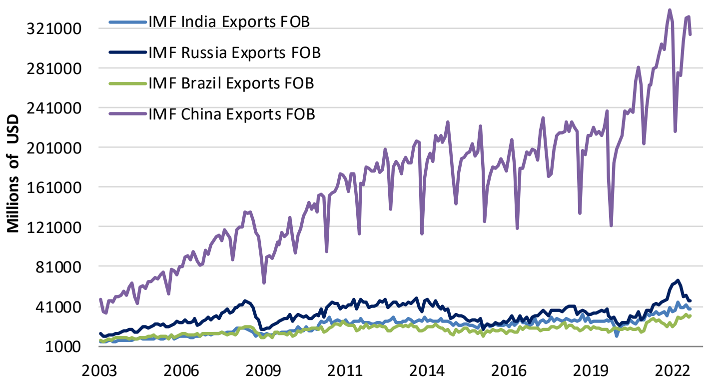


 Graph sources : BearBull Group/ Bloomberg/ S&P Global

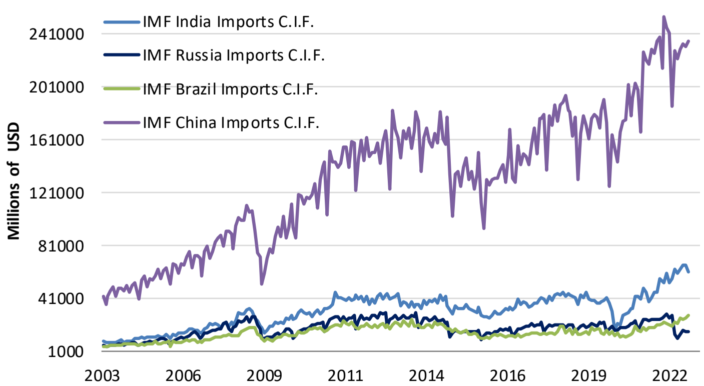
Current Account Balance



BRIC Exports



BRIC Imports



Mexico — The Bank of Mexico raised its key rate by 50 basis points to 10.5% and signalled another increase at its next meeting in 2023. This decision brought borrowing costs to their highest level on record, marking the 13th consecutive rate increase since the bank began its tightening cycle in June (+6.50%). The Bank emphasised the need for policy tightening due to the acceleration in prices in November, with forecasts revised upward and showing core inflation peaking in the fourth quarter before slowing next year and returning to its 3% target by the end of 2024. The high level of interest rates should also help the peso to hold its own against the dollar in 2023. The Mexican economy is expected to grow by +2.3% in 2022 and +1.5% in 2023.

Indonesia — Bank Indonesia raised its key interest rates by +0.25%, the fifth consecutive increase. The benchmark rate is now at its highest level since 2009 (5.5%). In 2022, the central bank raised rates by 200 basis points, the largest tightening since 2005. However, the December decision marks a smaller increase, after three consecutive increases of +0.5%. Inflation decreased to 5.51% in December and is expected to come down to around 3% by the end of 2023. Growth is expected to remain above +5% in 2022 and then trend towards +4% in 2023.

Turkey — Believing that the current policy rate is adequate, Turkey's central bank left its policy rate unchanged at 9% in December, keeping it 3% lower than in September. The central bank expects the disinflationary process to start as a result of the measures taken. The annual inflation rate in Turkey slowed down for the first time in 18 months, from 85.5% in October to 84.4% in November. Regarding growth, leading indicators for the current quarter point to a slowdown due to weakening foreign demand. It is expected to be +0.3% for the full year before rebounding in 2023 (+4%).

Taiwan — Taiwan's central bank raised its discount rate from 1.625% to 1.75% in December, pushing it to the highest level since 2015. Although inflation has declined in recent months, it is expected to remain above 2% this year before falling below it in 2023. Taiwan's economy is expected to grow at a slower pace next year as exports and investment face the global economic slowdown. GDP growth has been cut from 3.51% to 2.91% for this year and from 2.9% to 2.53% in 2023.

Thailand — Thailand's central bank raised its policy rate by 25 basis points to 1.25%, confirming market consensus and pushing borrowing costs to the highest since early 2020, as the committee factored in projections of higher inflation due to rising domestic energy prices. Inflation is still expected to be 6.3% for 2022, but has risen to 3% for 2023 (vs. 2.6%). At the same time, the GDP growth forecast has been revised slightly downward to 3.2% (vs. 3.3%) for 2022 and to 3.7% (vs. 3.8%) for 2023.

Colombia — Colombia's central bank raised its interest rate by another 100 basis points to 12%, bringing borrowing costs to their highest level since 2001, after inflation continued to accelerate in November (12.53%) for the sixth consecutive month, the highest rate since March 1999 and above market expectations

Romania, Czech Republic, Poland, Hungary — Romania's national bank raised its key interest rate by 50 basis points to 6.75%, the ninth consecutive rate hike and bringing borrowing costs to their highest level since February 2010. Inflation is expected to continue to rise slightly in the fourth quarter and slow in 2023, before falling back below 10% in 2024, if no further commodity supply shocks occur.

In December, the Czech national bank kept its key rate at 7% for the fourth consecutive decision, due to inflation that seems to be peaking (16.2%). The central bank nevertheless kept the door open for further hikes if necessary.

The National Bank of Poland kept its benchmark rate at 6.75% for the third time in a row at its meeting in December 2022. The Board decided to keep the interest rate constant despite soaring inflation, prioritising a more flexible monetary framework as deteriorating economic conditions are expected to continue to slow the Polish economy. Polish GDP is expected to be between 4.3% and 4.9% in 2022 before contracting by 0.3% to 1.6% in 2023. At the same time, inflation is expected to be 14.5% this year and remain high at 11% to 15% in 2023. The central bank also said it would be ready to intervene in the currency market if it deemed it necessary.

Hungary's national bank kept its key interest rate unchanged at 13% for the third consecutive decision in December, in line with market expectations and previous signals from the central bank that it had stopped raising rates. In contrast, Hungary's annual inflation rate in November reached 22.5%, the highest since August 1996.

 Graph sources : BearBull Group/ Bloomberg/ S&P Global

PROSPECTS AND STRATEGIES

Graph sources : BearBull Group/ Bloomberg/ S&P Global

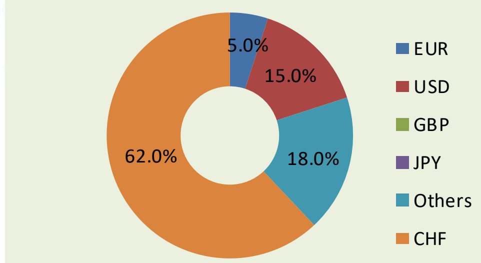
PROSPECTS AND STRATEGIES

Currencies

- Spreads unfavourable to the Swiss franc
- The euro will benefit from a more determined ECB
- The dollar is set to weaken
- British pound out of crisis
- Yen stabilises after three months of extreme volatility

LIQUIDITY/ CURRENCY	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
EUR vs CHF	↗	↗							
USD vs CHF	→	→							
GBP vs CHF	↘	↘							
JPY vs CHF	↘	↘							
EUR vs USD	↗	→							
USD vs JPY	↘	↗							
GBP vs USD	↘	↘							

Currency allocation - CHF portfolio



Tactical allocation

- Underweight the Swiss franc
- Focus on AUD and CAD
- Regain exposure to the euro
- Avoid the yen, pound sterling and yuan

Spreads unfavourable to the Swiss franc

After the 0.5% increase in its key rates in December, we believe that the beginning of 2023 will be characterised by a weakening of the SNB's action, which could lead to further, significantly lower increases in successive steps of 0.25%. The SNB will then have raised its key rates to around 1%-1.25% by the end of December, while the ECB is also expected to raise its rates by 75 basis points to 2.5%-2.75% on December 15th. We believe that the SNB will not follow the same path of rate hikes as the ECB, which is facing a more dramatic inflation situation than Switzerland, with CPI rising three times more than in Switzerland. The interest rate differential between the two currencies should therefore increase permanently in favour of the euro. To date, the yield spread between the 2-year federal government yield and the German Bund is already 110 basis points, whereas it was still close to zero at the beginning of the year. This observation is similar at the various points of the relative yield curve. It should also be noted that, compared to the situation in 2015, the current level is even higher than the one that allowed the euro to rise from 0.97 to 1.20 in three years. The franc should therefore weaken again against the euro.

The euro will benefit from a more determined ECB

Europe's inflation resistance leaves the ECB no choice. The ECB's inflation forecast of +8.4% for the end of 2022 is now unlikely to prove accurate unless there is a rapid fall in December in price indices. The ECB's forecast for 2023 of +6.3% inflation is also at the high end of the range of comparisons with the US, Canada, Japan or Switzerland. The ECB must therefore face up to the evolution of inflation in 2023 with more determination than other central banks. It is likely to maintain what will appear to be an increasingly restrictive stance from a relative point of view over the coming months. This was particularly apparent at the last monetary policy review on December 15th, during which ECB President Lagarde mentioned that the next rate hikes would logically be 50 bps in a more severe tone than before. We believe that the ECB is now more determined to tighten its monetary policy by adopting a more readable speech for the financial markets. However, while the initial reaction seems to have pushed the top rate target towards 3.4% in the current tightening cycle, the inflation forecast for 2023 well above this level, should be puzzling. If the ECB really wants to raise its key rates above the inflation rate, it should admit that this objective has a chance of being reached only in 2024, if inflation declines by then to approach its forecast of 3.4% at the end of 2024.

The ECB is behind the inflation cycle and despite its more hawkish rhetoric it is likely to remain so in 2023.

In recent months, movements in the euro capital markets have followed similar trends to those in international markets, although the magnitudes observed have been different. Most recently, two-year German Bund yields jumped from 1.8% to 2.6%, while two-year Treasury yields stabilised at 4.25%. The yield spread on the short end of the curve has thus fallen from 260 points to only 169 points in a few weeks. At the long end of the curve, it contracted from 195 bps to 130 bps during the same period. This development in the USD and euro capital markets was accompanied by a decline in the dollar, whose exchange rate rose from 0.96 to 1.06, corresponding to a +10.5% appreciation of the euro.

In our *Investment Strategy* at the end of September, we announced that a reversal of the trend in favour of the euro would materialise when it would become clearer that the ECB's monetary policy would become more restrictive. This is now the case and the euro is benefiting from this change and the now probably more aggressive pace of rate hikes that the ECB will follow. For its part, the euro/franc exchange rate can also finally benefit from a significant change in the yield differential observed on all yield curves since May. The yield spread, which was still very slightly in favor of two-year federal bonds (+20 bps) in February, has gradually narrowed, offering a widening yield spread in favor of the euro. At the end of June, it was 60 bps in favor of the euro, but it has since increased sharply and now stands at 136 bps and 86 bps on ten-year maturities. The current yield spread is thus higher than that observed at the time of the introduction of the SNB's negative interest rates. The faster progression of the euro yield curves should continue and support further increases in the euro.

Graph sources : BearBull Group/ Bloomberg/ S&P Global

The dollar is set to weaken

In monetary terms, the dollar has been the big winner in this wave of interest rate hikes. The 19.5% increase in the trade-weighted exchange rate reflects its strength against a range of currencies. Cash in dollars will have benefited greatly from this situation, establishing itself as one of the very few investment solutions. Nevertheless, if a new inflation regime finally takes shape more clearly in the coming months, suggesting a reduction in tensions, we think it is likely that a different dynamic will also materialise in the interest rate markets. A lowering of the yield curves in connection with the risks of a sharper slowdown in economic activity and the increase in bond purchases by investors, will have a negative impact on the dollar. This trend will be supported by a change in the dynamics of key interest rate increases, particularly between the dollar and the euro. Interest in U.S. assets will certainly remain sufficient to curb a trend of dollar erosion, which should gradually lose momentum.

British pound out of crisis

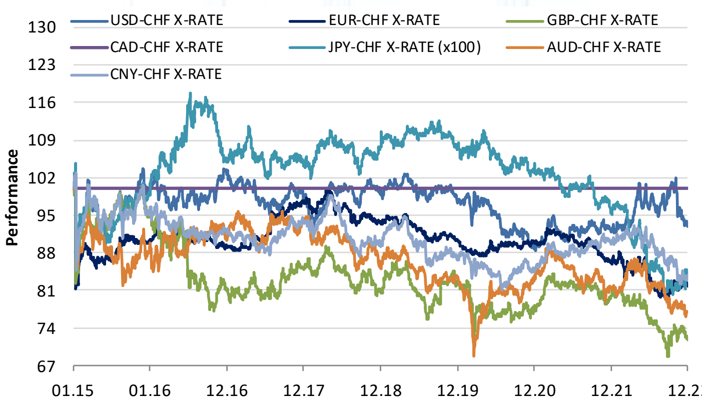
Perhaps the pound sterling could begin to hope to benefit from higher policy rates and favourable yield spreads, particularly against the franc and the euro. The shock of September 23rd completely reshuffled the deck, causing extreme volatility in the currency and a two-day drop of -5.4% against the euro, -8% against the dollar and -7% against the Swiss franc. The extremely rapid political reaction and decisive action of the BoE allowed a rapid return to normalcy that quickly put an end to the panic. The exit from this particularly rapid political and financial crisis immediately put an end to the mistrust that had built up towards the British currency. The rapid interventions have already allowed the pound sterling to stabilise and return to its previous exchange rate levels against most major currencies such as the dollar, the euro, the franc or the yen. The return of confidence can now give way to a more dispassionate analysis of the conditions influencing prices in the foreign exchange markets. A growing and significant yield differential can now support investor interest in the pound.

We believe that an appreciation of the British currency should still be dependent on the development of inflation. We are waiting for a clearer turnaround in British inflation before considering that the yield differential will then be a more buoyant factor in supporting an appreciation of the currency, particularly against the franc and the euro.

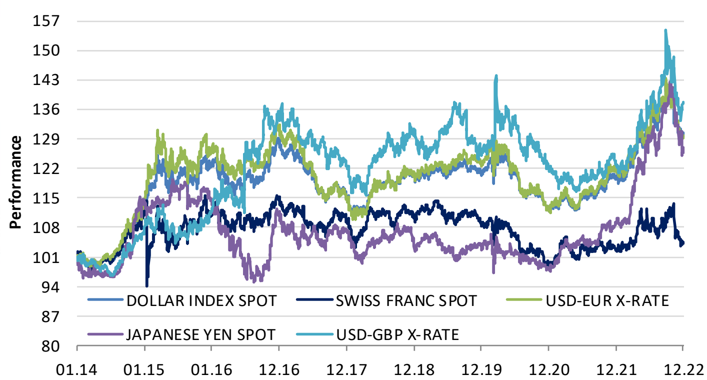
Yen stabilises after three months of extreme volatility

The target depreciation of the yen to 150 against the US dollar announced in our previous *Investment Strategy* materialised during the third quarter and was followed by an almost equally rapid correction in November. The exchange rate adjusted quickly as US inflation figures showed a noticeable slowdown later in the month. The evolution of yield spreads between the dollar and the yen, which had been largely unfavourable, then followed a new, less unfavourable trend. While the BoJ will most likely maintain a near-zero yield target in the coming months, expectations will adjust downward a bit for the upcoming evolution of dollar yields. Since the beginning of the year, the Japanese currency had fallen by -30% against the dollar before recovering recently in this new context. We still believe that the yield differential should remain the main factor determining the value of the yen and especially the exchange rate against the US dollar. The decline in US dollar yields in recent weeks is affecting the dollar and giving support to the yen. We expect the exchange rate to fluctuate between 130 and 140 yen per dollar in the coming months.

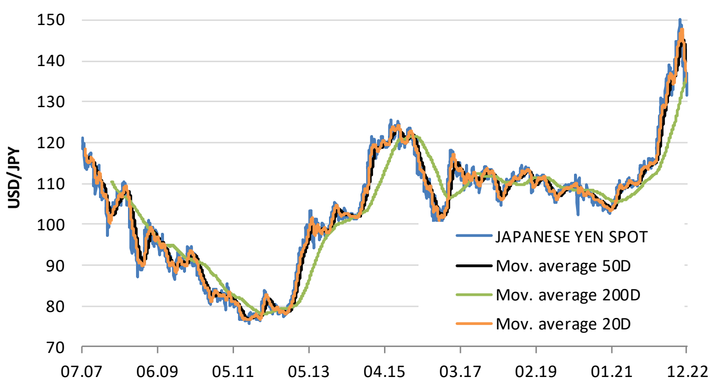
Evolution of the 7 Main Currencies against CHF (base 100)



Dollar Trade-Weighted Index & Cross Rates (base 100)



Exchange Rate JPY/USD



Exchange Rate EUR/USD

Graph sources : BearBull Group/ Bloomberg/ S&P Global

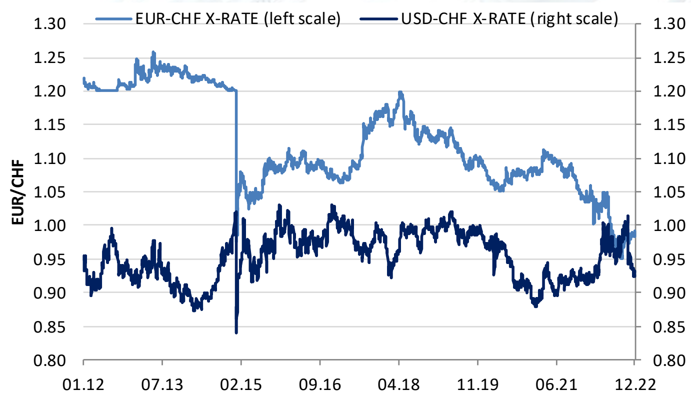
BearBull Global Investments Group Limited

CURRENCIES

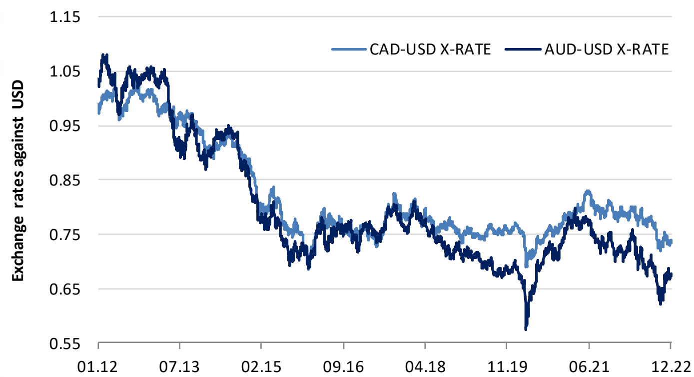
30.12.2022

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.07	0.83	2.87	9.21	2.79	-5.85
CHF-USD X-RATE	1.08	0.94	2.30	6.77	3.79	-1.32
GBP-USD X-RATE	1.21	0.25	0.21	8.17	-0.10	-10.71
JPY-USD X-RATE	0.01	1.37	5.30	10.39	3.15	-12.20
CAD-USD X-RATE	0.74	0.33	-1.05	2.03	-4.95	-6.75
AUD-USD X-RATE	0.68	1.37	0.37	6.45	-0.01	-6.20
RUB-USD X-RATE	0.01	-7.04	-17.78	-19.11	-23.83	1.05
CNY-USD X-RATE	0.14	1.34	2.79	3.14	-2.84	-7.85
INR-USD X-RATE	0.01	0.16	-1.58	-1.68	-4.57	-9.93
BRL-USD X-RATE	0.19	-2.37	-1.77	2.38	0.91	5.40
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.92	-0.93	-2.24	-6.33	-3.81	1.27
EUR-CHF X-RATE	0.99	-0.15	0.56	2.29	-1.15	-4.62
GBP-CHF X-RATE	1.12	-0.54	-1.88	1.49	-3.63	-9.28
JPY-CHF X-RATE (x100)	0.71	0.43	2.99	3.46	-0.56	-10.97
CAD-CHF X-RATE	0.68	-0.80	-3.18	-4.36	-8.56	-5.68
AUD-CHF X-RATE	0.63	0.61	-1.73	-0.06	-3.74	-4.86
RUB-CHF X-RATE	0.01	-7.70	-19.24	-24.06	-27.50	2.80
CNY-CHF X-RATE	0.13	0.37	0.53	-3.39	-6.42	-6.62
INR-CHF X-RATE	0.01	-0.64	-4.40	-7.37	-8.45	-8.87
BRL-CHF X-RATE	0.18	-3.31	-3.85	-4.37	-2.78	6.71

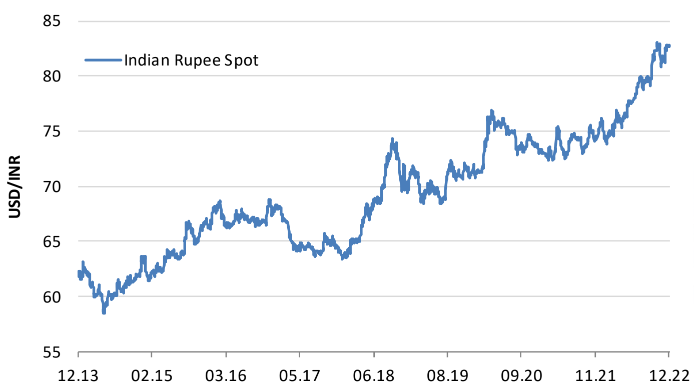
Exchange Rate EUR/CHF - USD/CHF



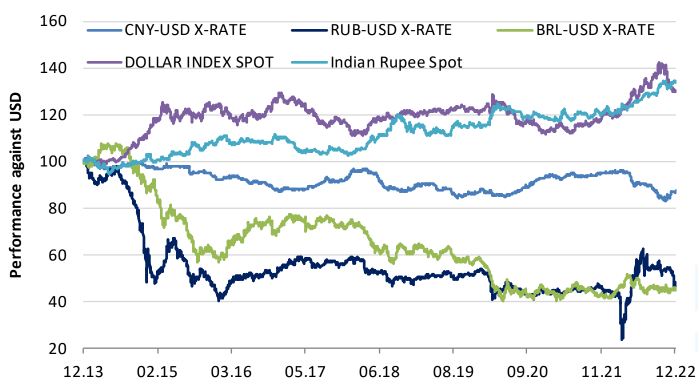
Exchange Rate CAD/USD - AUD/USD



Indian Rupee



Emerging Currencies VS USD (base 100)



Graph sources : BearBull Group/ Bloomberg/ S&P Global

BearBull Global Investments Group Limited

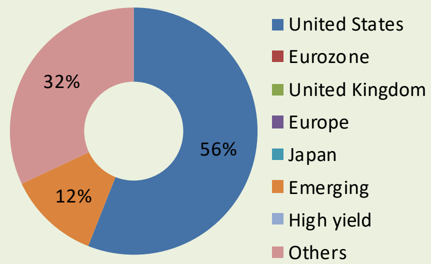
PROSPECTS AND STRATEGIES

International Bonds

- Yields adjusting to inflation are coming to an end
- Opportunities in U.S. capital markets
- Yields and potential gains support a more constructive bond strategy

BONDS (Areas/currency)	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	→	→							
United States	↗	↗							
Eurozone	↘	↘							
UK	↘	↘							
Europe	↘	↘							
Japan	→	→							
Emerging	↗	↗							
Other (AUD, CAD, NOK...)	↗	↗							

International Bonds allocation



Tactical allocation

- Marginalise allocation to the Eurozone
- Overweight US bonds
- Overweight corporate segments
- Reduced exposure to HY
- Focus on medium duration

Yields adjusting to inflation are coming to an end

The year 2023 may well be marked by quite different financial conditions than those that prevailed in 2022. The significant tensions that caused the largest correlated historical declines in virtually all asset classes and that strongly affected the bond markets in the first place will no longer be present in the same way in 2023. Without disappearing completely of course, inflationary risks are no longer as worrying as they were in 2022. Inflation will remain a factor to watch, but stabilisation at a reasonable level will not have any additional effects on expectations of undue monetary policy tightening.

However, it is not certain that the correlation observed in 2022 in the bond markets will continue in 2023, as monetary policies and the inflation outlooks are sufficiently different to cause opposite movements in Europe, the United Kingdom and Japan in particular.

The 2023 macroeconomic environment of global slowdown should support expectations of an easing in certain yield curves. Global liquidity may still be affected by the gradual reduction in the balance sheets of some central banks, but monetary conditions will prove less punishing. After the sharp rise in key interest rates in 2022, the last expected increases marking the end of the tightening cycle will ultimately be minor and should not develop any further negative effects.

Bond markets should benefit from this change in sentiment and from the relief of an upcoming end to rate hikes and the beginning of a period of relatively contained inflation. After one of the worst years for the bond markets, 2023 should be the year that capital gains return. The dollar bond markets will certainly benefit first from an easing of yields. However, capital gains will be limited to certain markets whose monetary tightening cycle is nearing its end and whose yield curves are already showing substantial inversion. The risks of capital losses remain in Europe, the United Kingdom and Japan in particular.

Opportunities in U.S. capital markets

U.S. bond yields adjusted quite logically to expectations of a gradual rise in Fed policy rates to the most likely level of 5% at the end of the second quarter of 2023. The faster progression of the short end of the yield curves has caused a reversal of the slopes. At current levels, we believe that expectations in the capital markets largely incorporate the next expected rate hikes. Dollar bond yields, however, still have a negative inflation expectation and do not project the already visible change in the inflation regime at all. While the Fed's ECP forecast for all of 2023 is +3.5%, one-year inflation expectations are +4.4% in the University of Michigan survey. If the current inflation regime continues over the next few months, downward revisions will accompany a very significant correction in bond yields, which will logically be considered excessive in a context of now stabilised inflation.

We believe that the likelihood of a pickup in inflation in the first half of 2023 is much lower than the likelihood of the new regime persisting. The outlook for the bond markets seems positive and supported by the gradual realisation that the inflation expectations contained in market yields are too high. In June 2023, when inflation will have reached an annual rate of +2.5% (current regime) to +3.75% (50% higher than the current regime), policy rates will certainly seem too high with a real yield of 2.5% to 1.25%, especially if we are at that time in a probable period of economic slowdown.

BOND INDICES (local currency)

30.12.2022

	Name	Last price	Curr.	Total Return Performance 7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS	SBI AAA-BBB	122.5	CHF	-0.3	-2.6	-0.5	-3.2	-12.1
UE BONDS	Barclays EuroAgg	221.6	EUR	-1.0	-3.6	-1.2	-6.8	-17.2
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	136.7	EUR	-0.1	-0.6	-0.5	-2.5	-4.3
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2048.7	USD	-0.7	-0.5	1.9	-3.6	-13.0
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	8.0	USD	0.1	0.9	1.2	-0.3	-5.0
EMERGING BONDS	JPMorgan Emerging Markets Bond	513.7	USD	-0.7	0.2	8.4	2.0	-18.4
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	445.9	USD	-0.3	0.5	4.5	-3.2	-16.2
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro Aggregate	221.6	EUR	-1.0	-3.6	-1.2	-6.8	-17.2
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	132.0	CHF	-1.3	-2.7	-0.9	-5.7	-15.4
CONVERTIBLE BONDS (UE)	Exane Europe Convertible Bond	7521.1	EUR	-0.2	-1.4	4.2	3.7	-14.9
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	148.4	USD	-0.2	1.1	9.3	5.2	-12.2
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	13.2	USD	-1.3	-1.2	2.9	2.0	-8.9

Graph sources : BearBull Group/ Bloomberg/ S&P Global

BearBull Global Investments Group Limited

The rise in yields is not over

The change in monetary policy has certainly been a determining factor in the evolution of the euro capital markets, but the persistence of high inflation has largely supported the rise in the yield curves. Despite the likely prospect of a possibly moderate recession in Europe over the next few months and the ECB's stance on inflation not coming down, we believe that the bond markets are still particularly risky. The rise in bond yields does not seem to us to be close to its zenith, while the ECB already appears to be the most committed in 2023 to continuing its key rate hikes. Unless inflation suddenly collapses faster than it expects, it will not change course and will maintain conditions likely to cause further capital losses for euro bondholders. Our outlook for the next quarter is again negative and we maintain our policy of caution both in terms of overall exposure to European bonds and in terms of maturity. Short maturities are still preferred.

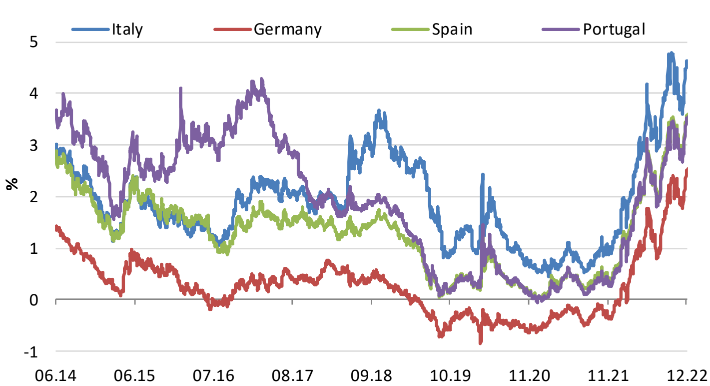
Decline in bond market tensions

The announcement of the mini-budget on September 23rd set off a firestorm of concern and quickly ignited the foreign exchange and capital markets. Financial markets were concerned about the effects of such a reversal of fiscal and budgetary policy on British interest rates, the currency, the budget balance and the government's financing needs. Ten-year British Treasury rates jumped from 3.3% on September 22nd to 4.5% on the 27th, marking the peak of a panic, which was fortunately resolved by the resignation of the initiators of this disastrous mini-budget and the implementation of new, more reasonable measures supported by activity adapted to the central bank's situation. Calm has now largely returned, as evidenced by the evolution of bond yields in October and November, down 150 basis points. The recent recovery from 3% to 3.5% in British ten-year Treasury yields occurred against a backdrop of a 0.5% rise in key rates. The yield curve in pounds sterling is thus practically flat from 3 months to 10 years. This is still significantly below the inflation expected for 2023 by the BoE (+5.25%) while the target rate seems to be set at 4.25% for May 2023. Compared to the Fed's policy, whose maximum rate seems to be close to 5% for an expected inflation of only 3.5% in 2023, the British situation seems more risky to us. Bond yields are still likely to rise in the coming months with the expected evolution of monetary policy.

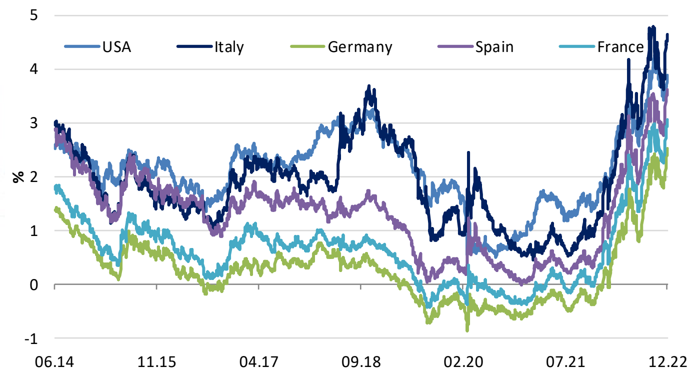
Japanese bonds still unattractive

While most capital markets went up in flames in 2022, the Japanese bond market remained virtually unaffected by the panic in the international markets. The BoJ's policy has been particularly effective in combating investor expectations as inflation also jumped significantly in the country. Japanese 10-year long yields experienced only a few bumps in the road and were not really affected by the generalised trend observed in most financial markets. Ten-year government bond yields have remained close to 0.2% over the past nine months, within a narrow band of fluctuations of +/-0.05%. Low yen yields and the depreciation of the yen do not increase the attractiveness of Japanese bonds, which should remain largely underweighted in a diversified bond strategy. Holding bond positions in yen is indeed still not attractive compared to the yields offered in other currencies. An allocation to yen bonds could potentially be justified by the expectation of a currency gain, which has so far been unlikely to materialise. Japanese bonds therefore do not offer any interesting prospects in the current context of more attractive international alternatives.

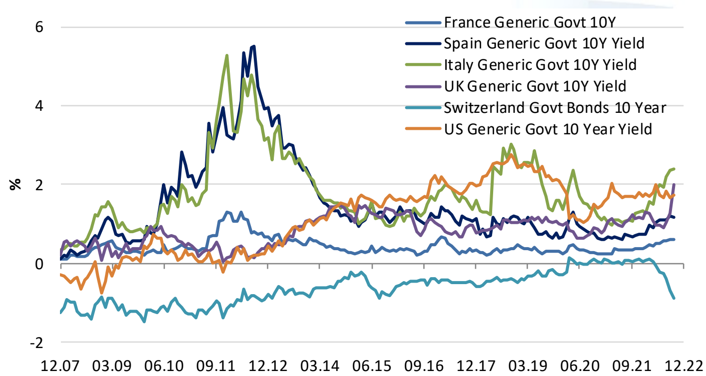
10 year Rate - Gvt Europe



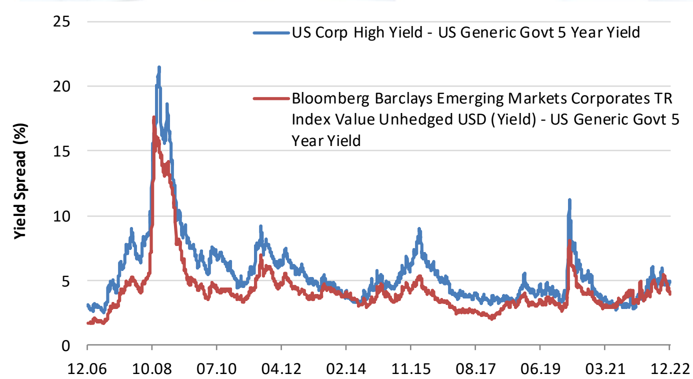
10 year Rate - Gvt



Risk Premium vs German Government



Risk Premium vs US Treasury



Graph sources : BearBull Group/ Bloomberg/ S&P Global

Yields and potential gains support a more constructive bond strategy

After nine months of adjusting bond yields to new inflation conditions, the last quarter offered unique medium-term opportunities to reposition in markets offering the best yields attainable in several years. The sharp increase in the last three quarters, and the obvious exaggeration that occurred in the last quarter, have indeed provided a unique opportunity to reposition in the bond markets to the new outlook.

After having adopted an extremely conservative bond investment policy for a long time, rising yields now seem to us to be more attractive and likely to bring new added value in terms of diversification of opportunities and risks in diversified multi-asset portfolios.

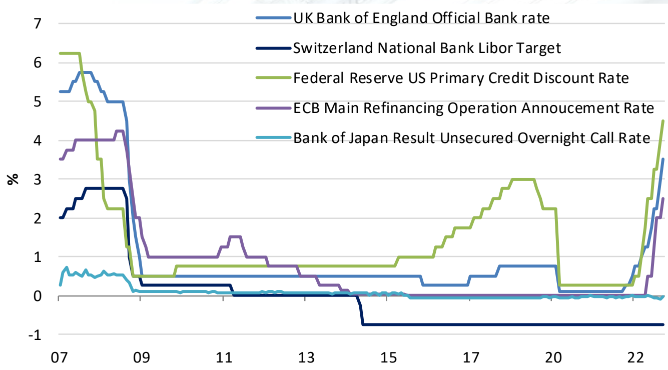
We now believe that the rise in US yields to 4 - 4.5% on ten-year Treasuries, as well as the rise to near 5% on two-year bonds, is a marker of a top in the yield curves that changes our assessment of the risks and opportunities in the fixed income markets.

As the U.S. economy approaches a slowdown, or even a moderate recession, the current level of rates is only justified by the persistence of inflationary risk expectations. Our inflation forecasts, in the current context, are based on the contrary, on the emergence of a new, lower inflation regime, closer to +0.2% to +0.3% per month, allowing for a future contraction of the yield curves.

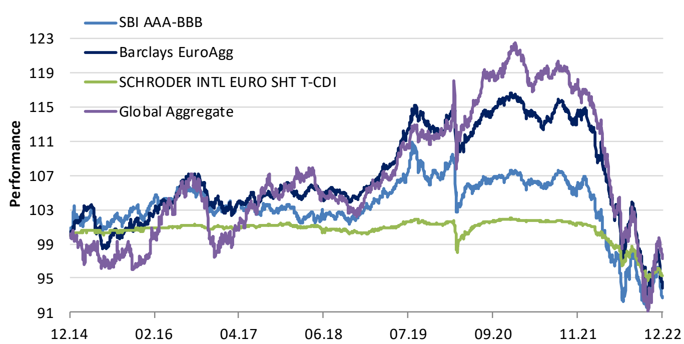
We now expect yields in the US to ease, with similar, but smaller trends in other markets, which will also benefit from the changing economic outlook and inflation regimes.

In terms of geographic allocation, we favor US dollar, Canadian dollar and Australian dollar bonds that offer attractive medium-term yields and opportunities for capital appreciation in the coming months.

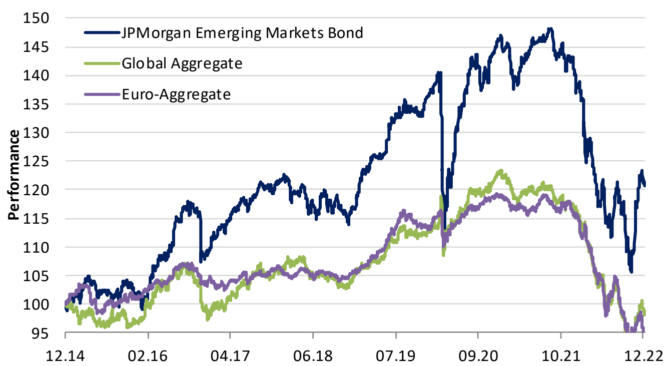
Key Rates (EUR, CHF, GBP, USD, JPY)



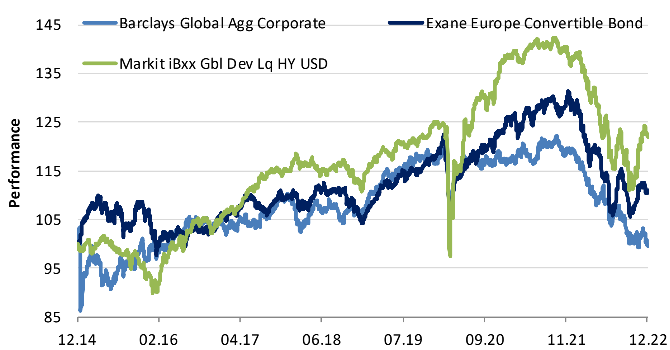
YTD Performance of 1-5 year Bond Indices (base 100)



Emerging Bonds—Performance (base 100)



Eastern Europe Bonds—Performance (base 100)



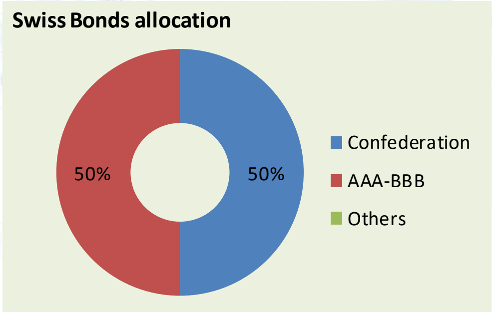
Graph sources : BearBull Group/ Bloomberg/ S&P Global

BearBull Global Investments Group Limited

PROSPECTS AND STRATEGIES

Swiss Bonds

- Bond yields remain relatively attractive
- Stabilisation of inflation becomes a reality
- Moderate near-term outlook



Tactical allocation

- Underweight Swiss government securities
- Overweight corporate "IG" segment
- Maintain medium durations

BONDS Type of Debtor	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Governement	↗	↗			■				
Corporate (IG)	↗	↗					■		
Others	↗	↗		■					

Bond yields remain relatively attractive

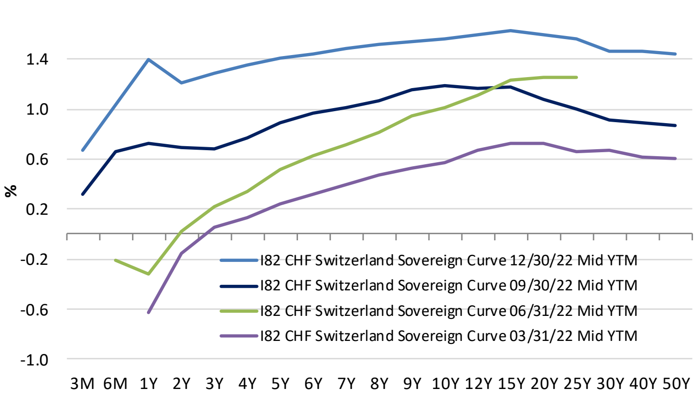
For almost nine months, the monetary policies of central banks and inflation statistics have set the tone in the financial markets. It is in fact, above all, the situation in the United States that is influencing all the markets, which are behaving in a rather indistinguishable way, despite the fact that their circumstances are sometimes quite different. This is notably the case for the Swiss market, which has fluctuated in line with the evolution of the American market in 2022, despite a radically different inflationary environment. While movements were often correlated with those of US Treasury bonds, their magnitudes have nevertheless been adapted to the specific situation in Switzerland. While US ten-year yields peaked at 4.6% in October, Swiss government yields stopped rising at 1.6%. Swiss franc yields were thus affected by the same fears and therefore experienced the same fluctuations as those observed on markets that were more affected by the slippage of inflation. The months of September-October will thus continue to be marked by the extreme adjustment of the Confederation's 10-year rates before a rapid return and recent stabilisation at just 1%. At the time, we announced that the sharp rise in the Swiss yield curve seemed premature given the Swiss economic context and the prospect of a reduction in inflationary pressures in 2023. At the time, we saw these yield levels as opportunities for Swiss investors who had been deprived of them since 2014. Today, the projected rate hike for the first quarter of 2023 of around 1.25%-1.5% is already close to the observed level of the entire yield curve. We believe that they have therefore reached a likely level of stabilisation in the context of the current economic slowdown, Swiss bonds thus remain attractive.

Stabilisation of inflation becomes a reality

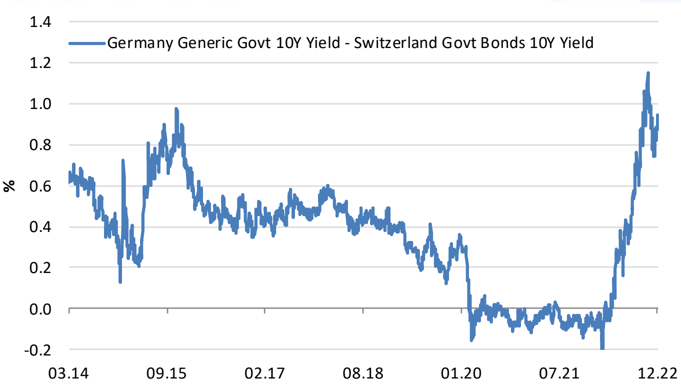
The strength of the Swiss franc has been a favourable factor in containing price trends by slowing down the developments observed in most industrialised countries. Since the June peak of +6.9%, producer prices have in fact slipped each month in year-on-year terms, falling to +4.9% at the end of October. The monthly inflation regime of around +0.7% until June has now fallen to 0% per month for the past four months, which explains the decline in the year-on-year data and seems to bode well for cost control by companies and their margins. The stabilisation of producer prices allows us to project a more positive expectation for the upcoming evolution of consumer prices. We are already seeing similar behaviour in consumer price indexes, which have also changed their growth pattern since June. The average monthly inflation rate was +0.5%/month in the first six months before dropping significantly to only +0.04% in the last four months. On an annual basis, the decline is already significant, as the CPI has fallen from +3.5% to +3%. Excluding food and energy, consumer price inflation was again below +2% at the end of November (+1.9%).

Rising transport costs, logistical problems and persistent tensions in the labour market remain serious. With the unemployment rate of 1.9% now below 2%, the Swiss economy may also have to adjust to growing risks of wage increases. However, the momentum of rising energy and commodity costs is likely to slow down considerably in the coming weeks and contribute to the loss of inflation momentum in Switzerland.

Yield Curve Swiss Government

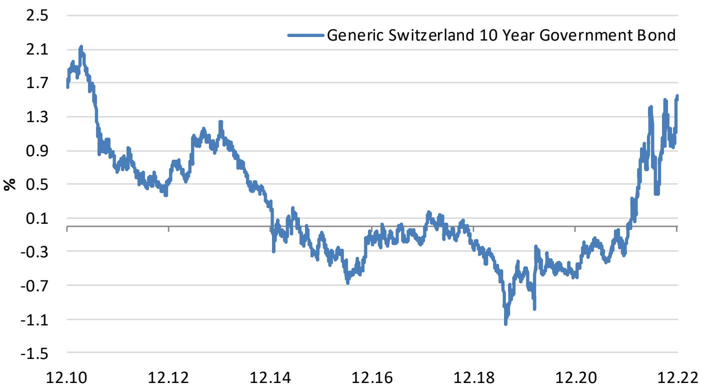


Long-term Interest Rate Differential (German Bund - Swiss Gov)

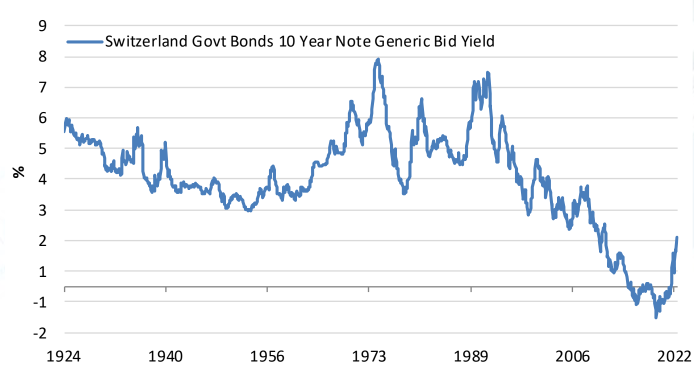


 Graph sources : BearBull Group/ Bloomberg/ S&P Global

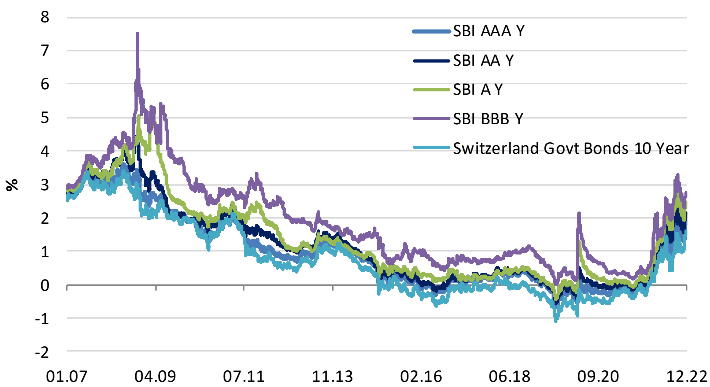
Swiss Government Bonds - 10 year Rate



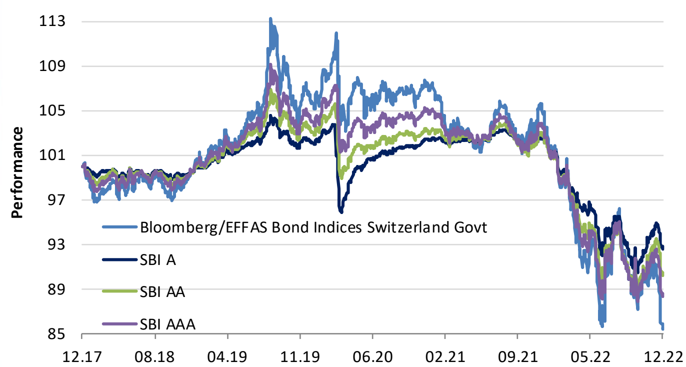
Swiss Government Long Rates since 1924



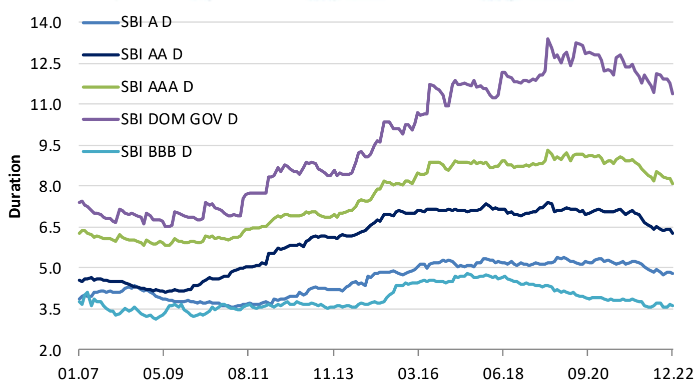
Yield (in %) by Type of Debtor



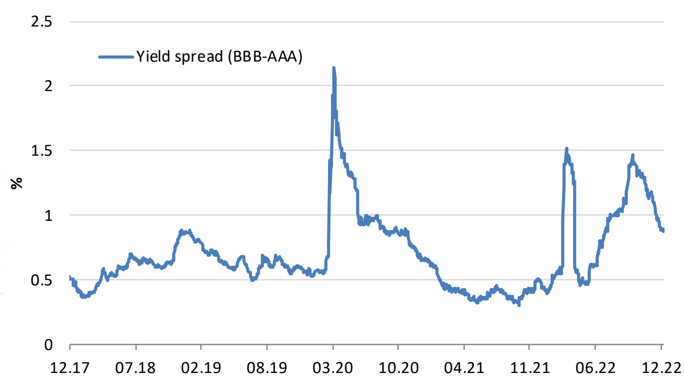
Performance of Swiss Bonds (base 100)



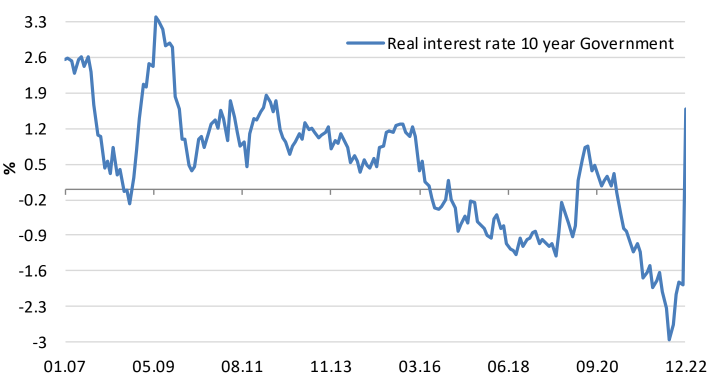
Duration of Swiss Bond Indices



Yield Spread



Real Interest Rates



SWISS BOND INDICES (CHF)

30.12.2022 — Total Return Performance

N° ISIN	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	222.8	CHF	-0.6	-5.1	-5.2	-6.0	-17.0
SBI A-BBB	126.8	CHF	-0.2	-1.1	1.4	-1.5	-9.4
SBI AA-BBB	123.5	CHF	-0.2	-1.7	0.8	-2.0	-10.3
SBI AAA-AA	120.8	CHF	-0.4	-3.0	-1.0	-3.6	-12.9
SBI BBB	138.7	CHF	-0.1	-0.6	1.8	-1.0	-9.7
SBI AAA-BBB	122.5	CHF	-0.3	-2.6	-0.5	-3.2	-12.1
SBI DOM GOV AAA-BBB 1-3P	58.9	CHF	0.0	-0.7	-1.2	-3.4	-5.3
SBI DOM GOV AAA-BBB 3-7P	73.2	CHF	-0.2	-2.3	-2.5	-5.9	-9.7
SBI DOM GOV AAA-BBB 7+ P	99.5	CHF	-0.9	-7.2	-7.5	-7.6	-22.6

Graph sources : BearBull Group/ Bloomberg/ S&P Global

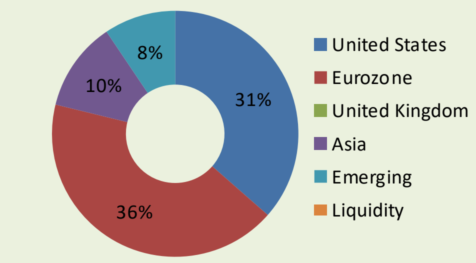
BearBull Global Investments Group Limited

PROSPECTS AND STRATEGIES

International Real Estate

- Still a mixed end to the year for securitised real estate
- Real estate values begin to rise
- US securitised real estate has already taken into account the rise in interest rates
- Broadly diversified strategy with an overweight in the Eurozone

International Real Estate allocation



Tactical allocation

- Overweight in real estate class international
- Focus on Europe

REAL ESTATE Areas	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Switzerland	↗	↗							
United States	↗	↗							
Eurozone	↗↗	↗							
United Kingdom	↗	→							
Asia	↗	↗							
Emergents	↗	↗							
Liquidity									

Still a mixed end to the year for securitised real estate

The last quarter of 2022 turned out to be a little better, as we expected, due to a relative stabilisation of the yield curves and hopes for a softening of US monetary policy. The European developed real estate market rebounded quickly in October from the massive drop seen in September, but the +3.3% increase over the quarter still does not erase the -15.5% correction in September alone. In the US, securitised real estate has undergone the same movements, the rebound of the last quarter is also about +5%, which shows a still undecided stabilisation of listed real estate, but quite encouraging for the year 2023. The last quarter was especially positive for Asian stocks, which rose by almost +9%.

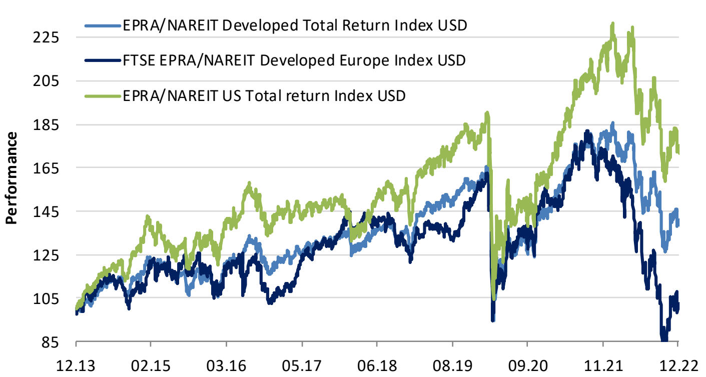
Over the year as a whole, it must be noted that despite the very significant rebound mentioned above, listed real estate stocks still fell by 24% overall, with the sharpest correction observed in Europe, with a decline of 36.4%, barely greater than British real estate of -31.9%. Emerging (-6.7%) and Asian (-11.4%) real estate (-11.4%) were the most resilient to the waves of sell-offs by investors panicked by the potential effects of rising interest rates on the financing costs of listed real estate companies and the risks of non-payment of rents during a potential recession.

Real estate values begin to rise

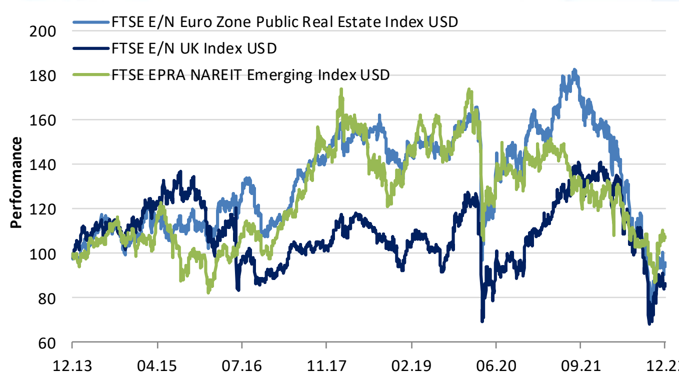
The first part of 2022 was indeed marked by a rapid return to the forefront of inflation at historically high levels and by a historic rise in key rates and yield curves. Real estate indices could have confirmed their superior resilience - statistically proven during demonstrated periods of inflation - by clearly outperforming bonds and equities in the first quarter. But the acceleration of the rise in financing costs then caused investors to pull back significantly in the wake of the sales observed in other asset classes. The concentration of sell orders in a short period of time and in a relatively narrow and illiquid market contributed to the exaggerated decline in securitised real estate indices

The underperformance of securitised real estate in September was expected to give way to a clear recovery in prices with the gradual improvement in sentiment regarding inflation and the appropriate level of interest rates. This correction in real estate prices should be seen as a new opportunity to reposition in this asset class. European real estate had been particularly hard hit and offered more attractive opportunities in our view. We now believe that the rebound of the last few months is only the beginning of a phase of real estate value recovery that will take place in 2023.

EPRA Nareit Indices - USA, Europe, World (in USD)



EPRA Nareit Index - Eurozone, UK, Emerging Markets (in USD)



Graph sources : BearBull Group/ Bloomberg/ S&P Global

US securitised real estate has already taken into account the rise in interest rates

Direct real estate in the U.S. has experienced a deceleration in price growth since March through June, followed by steady monthly declines, which then caused year-over-year price growth to slip from +21% (April) to +8.6% (October) according to the *S&P CoreLogic Case-Shiller 20 City Composite Index*.

The dramatic change in U.S. monetary policy and the rapid rise in mortgage rates have combined to affect demand and prices. This trend, which we were predicting, has therefore taken hold and should continue in the coming quarters, given the foreseeable evolution of the main parameters affecting the real estate market.

The boom seen during the pandemic is now being altered by the sharp rise in mortgage rates, rising construction costs and increasing economic uncertainty. New single-family home sales have fallen from over 1 million units in 2020 to about 600,000 units in November. Pending home sales also fell for the sixth consecutive month to their second lowest level on record. Uncertainty has kept potential buyers away. The *National Association of Realtors' index* of signed contracts to purchase existing homes is down 4% and is at its lowest non-pandemic level, nearly 40% below the November 2021 level. Rising financing costs are the main factor behind the current trend.

An easing in the capital markets should also have a similar effect on the cost of financing real estate and on mortgage rates. The movement already seen in recent months in bond yields will gradually be passed on to mortgages, offering better conditions that could revive demand somewhat.

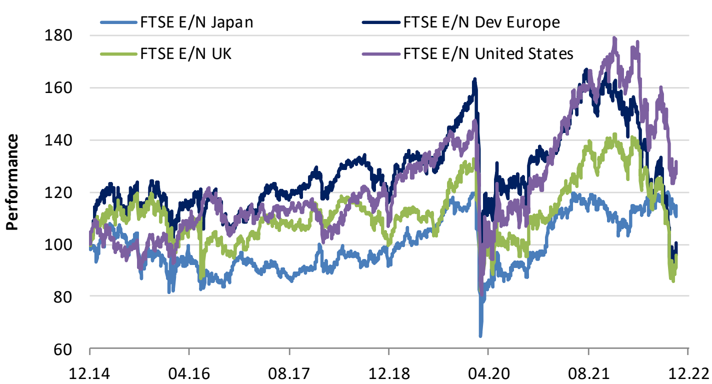
On the equity side, U.S. securitised real estate, which peaked on December 31, 2021, had initially weathered the inflation and interest rate environment of the first few months of 2022 quite well and was outperforming the bond and equity markets significantly, which were already affected by these negative factors. The shock then came late and hard in May and June, when these factors accelerated, changing the conditions of the direct real estate market.

The second wave of declines occurred in late summer, bringing the overall correction in U.S. securitised real estate to -30%, before the recovery in October and November reduced the losses to -24.8% for the full year 2022.

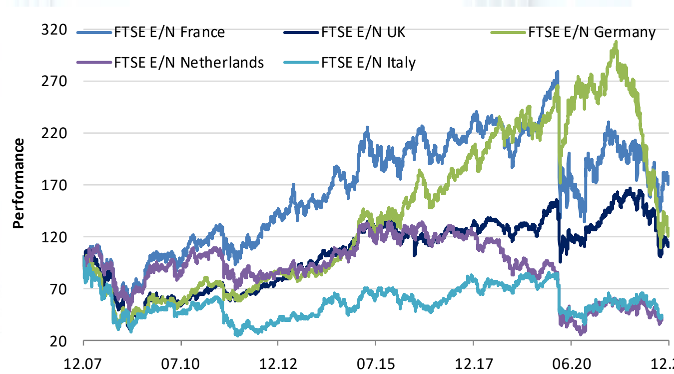
Uncertainty thus still seems to affect investors who still fear a negative evolution of securitised real estate. We believe, on the contrary, that the evolution of inflation, monetary policy and yield curves are already on a path that will prove more favourable to listed real estate investments. A stabilisation of inflation in a much more benign regime is underway and will certainly motivate the Fed to limit its next rate hikes, the next visible consequence on the interest rate markets and real estate financing will be more positive.

At current levels, US securitised real estate therefore seems to us to have already incorporated risks, which will not fully materialise, and probably offers opportunities for repositioning in the medium term.

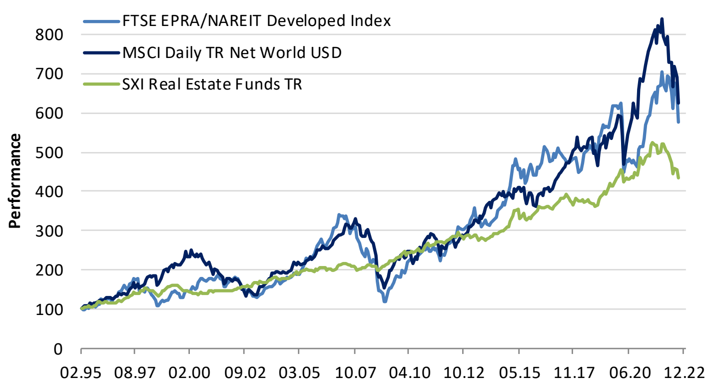
Real Estate Markets in Local Currencies



European Property Markets in Local Currencies



Long-term Performance ; International Real Estate, Swiss Real Estate (CHF) and international Equitites (base 100)



INTERNATIONAL REAL ESTATE INDICES (local currency)

30.12.2022 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2679.4	USD	0.2	-2.5	7.5	-5.7	-23.6
DEVELOPED	EPRA/NAREIT Dev TR USD	5159.9	USD	0.2	-2.6	7.1	-6.0	-24.4
DEVELOPED EUROPE	FTSE E/N Dev Europe	1519.8	EUR	0.1	-1.5	4.6	-12.3	-36.7
EUROZONE	FTSE E/N Euro Zone	1493.2	EUR	0.4	-1.8	3.3	-14.0	-36.5
USA	FTSE E/N United States	2826.7	USD	-0.3	-5.1	5.1	-7.1	-24.8
DEVELOPED ASIA	FTSE E/N Dev Asia	1371.8	EUR	0.8	-1.8	0.1	-3.2	-5.2

Graph sources : BearBull Group/ Bloomberg/ S&P Global

Significant drop in UK house prices

Real estate prices seem to have been falling more sharply in recent months. The -2.1% drop in prices in December echoes a -1.1% drop in November. The real estate boom is therefore finally showing signs of weakness. Over a year, the price increase has clearly subsided from more than +10% in March 2022 to +5.6% in December. In recent months, the increase in real estate values has been cut in half. The fall in mortgage financing approvals has reached -20%, reflecting very clearly the difficulty households have in coping with the new financing conditions. This indicator points to a further fall in house prices in the coming months. The *BoE data* suggests that the cost of financing rose from 4.2% in September to 6% in October. The situation of households, already difficult due to the rise in inflation, will be further exacerbated by the increase in the cost of mortgage financing on their budgets. The UK housing market is likely to be more strongly affected in 2023 by the reduced ability of households to invest or even maintain their property investments. In the context of the expected economic slowdown in 2023, a decline of around 10% in property prices, less severe than the one induced after the 2008 financial crisis, which saw prices fall by 16%, seems likely in the coming quarters. UK securitised real estate remains particularly depressed at the end of 2022 with a still very negative performance of -35%, barely better than the October low of -42%. The continuation of the *BoE's monetary policy* will still potentially act as a brake on a recovery in stock prices. However, the current level of securitised real estate already seems to us to take into account the aforementioned risks of a decline in direct real estate prices. At current levels, securitised real estate already seems to present repositioning opportunities for investors ready to consider a holding positions in the medium term.

European securitised real estate remains influenced by interest rates

Securitised real estate in Europe is still feeling the effects of interest rate pressures at the end of 2022. The *EPRA Nareit index* has fallen nearly -50% since August 2021 and -32% since the bullish recovery in euro yields over the past five months. The slippage of inflation marked the beginning of the rise in euro yields, arguably excessively affecting listed real estate stocks in Europe. The increase in uncertainty in Europe has logically affected risky assets, but in the case of European real estate, the valuation of certain companies is now less than 50% of book value, an exceptional situation that seems unjustified to us despite the context of rising financing costs. The European real estate market now offers investment opportunities, but it will probably still be very fragile in the short term due to the next rate hikes.

European securitised real estate is also very depressed at the end of 2022 with a still very negative performance of -39%, barely better than the October low of -46%. The continuation of the ECB's monetary policy will continue to be a potential brake on stock market recovery, but the current level of securitised real estate already seems to us to take into account the above-mentioned risks of a decline in direct real estate prices. At current levels, securitised real estate already seems to present opportunities for investors willing to consider a medium-term holding of positions.

The rout of the Chinese real estate market is not over

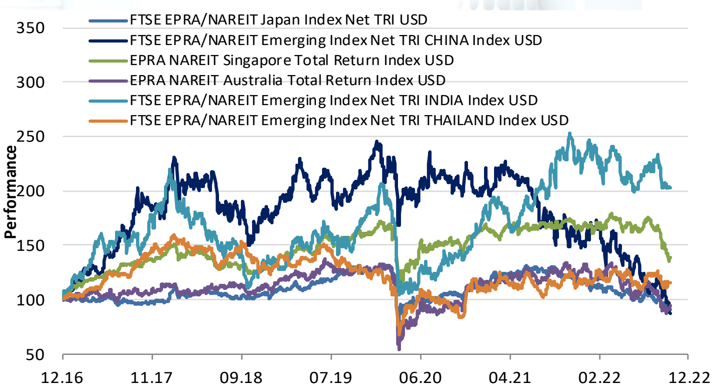
Residential real estate sales are still down sharply in November (-31.1%), while new construction and land purchases are logically down by -50.8% and respectively -58.5%. The real estate market remains in complete rout for more than a year, pushing developers into bankruptcy.

Government measures to save the sector will take time to stabilidse in 2023, but will not fully rebalance supply and demand for several years. Despite government support, more flexible policies to improve the financing capabilities of developers appear insufficient to prevent a rise in bankruptcies, now at their highest level in three months. Falling off-plan sales and declining mortgage lending continue to weaken developers.

Broadly diversified strategy with an overweight in the Eurozone

In terms of asset allocation and portfolio optimisation, it is generally observed that international securitised real estate is historically more resilient to rising inflation and interest rates than equities or bonds. The year 2022 seems to be an exception to the rule as securitised real estate has been largely impacted by rising interest rates. The zenith of inflation has certainly been reached in June 2022, as suggested by the last five monthly *CPI* measures in the US, which have declined sharply. The new inflation regime that seems to be taking place can now positively influence monetary policy, which should reach its maximum point after two further 0.25% hikes in the first half of 2023. This new investment climate could be favourable to a decrease in interest rate tensions and a new assessment of the risks and opportunities for the securitised real estate markets. We still believe that this asset class is under-represented in a diversified asset allocation and should benefit from investors' desire to build more balanced portfolios. We therefore suggest an overweight investment policy and tactical allocation. In terms of regional positioning, our allocation is diversified in the current environment, but favours a revaluation of investments in the eurozone.

Real Estate Market Developments (USD)



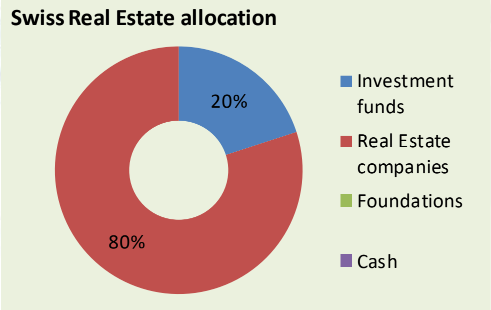
 Graph sources : BearBull Group/ Bloomberg/ S&P Global

PROSPECTS AND STRATEGIES

Swiss Real Estate

- Swiss securitised real estate stabilises with no real trend
- Swiss economic environment remains positive
- Positive outlook for 2023

REAL ESTATE Switzerland	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Investment funds	↗	↗							
Real Estate companies	↗↗	↗							
Foundations	↗	↗							
Cash									



Tactical allocation
- Agios again very attractive
- Focus on listed real estate companies

Swiss securitised real estate stabilises with no real trend

Real estate investment trusts, like real estate companies, were caught up in the turmoil that gripped listed assets in 2022, and in particular in the two phases of rising Swiss franc rates in the 2nd and 3rd quarters. The slight rebound of the investment funds in the 4th quarter of +1.9 just reduced the overall performance of 2022 to a historic -15.1% decline. This is by far the worst annual performance ever recorded since the *SIX Real Estate Funds TR Index* began in 1999. During this period, the index had suffered only four negative performances, the worst of which was -5.3% in 2018. Listed real estate companies followed a similar path in 2022, but the stock market correction proved less dramatic. The -9.3% fall in share prices was not historic either, since between 2005 and 2022 they had already recorded five price corrections ranging from -1.99% to -11.65%. Real estate companies partially reacted positively in the fourth quarter in the wake of improved sentiment at the end of the year by regaining +5.67%, which was the bulk of the third quarter's decline (-6.96%). However, the rise in interest rates in Switzerland was relatively limited by international standards. With ten-year federal interest rates at barely 1.5%, financing conditions in Switzerland have not deteriorated as much as in other countries, notably the United States. The sharp correction in real estate values seems to us to be more related to general sentiment, which is particularly negative in terms of monetary policy than to a real change in the fundamental parameters in our country. It is true that the average agio of over 40%, which prevailed at the beginning of the year, was logically considered excessive in a context of reversal of the interest rate trend. It is now just 13.9% (well below the historical average) for funds and is even in disagio of -3.8% for real estate companies. This situation is truly exceptional and reflects a panic by investors who are reducing their exposure to this asset class without taking into account the low liquidity of these two specific markets. We believe that the asset class has therefore been too heavily penalised by the reversal of the trend in the interest rate market. The current level of valuation seems attractive to us compared to the theoretical returns associated with funds and companies of 2.87% and 3.85%.

Swiss economic environment remains positive

The economic context remains favourable for real estate. The increase in the cost of financing and the level of interest rates remain historically very attractive and will not significantly affect demand. This adjustment is still insufficient to change the positive trends that currently support real estate.

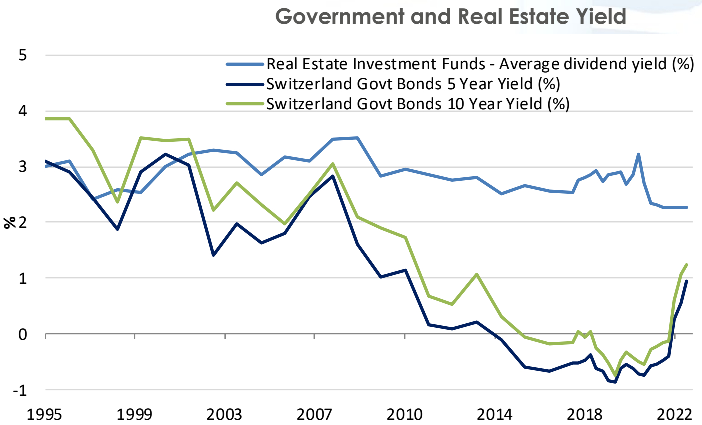
Positive outlook for 2023

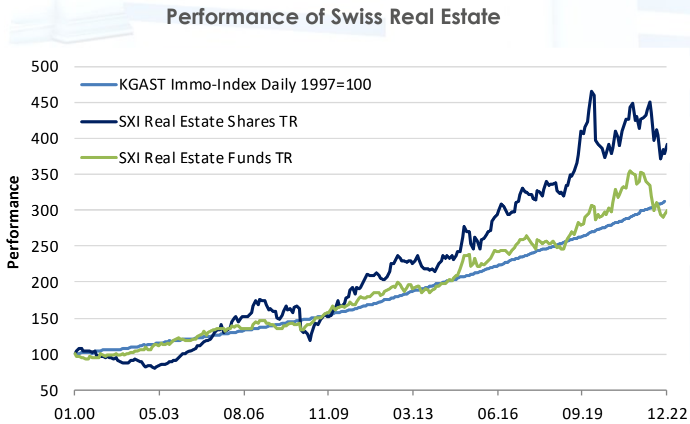
The agios of the funds have melted and the disagio of the real estate companies contribute to indirectly improve the level of returns. We believe that Swiss securitised real estate investments once again offer interesting repositioning opportunities. We are therefore overweighting them in a diversified allocation.

SWISS REAL ESTATE

30.12.2022 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	440.1	1.6	1.5	1.9	-0.3	-15.2
SXI Real Estate Idx TR	2900.1	0.2	2.6	4.7	-2.2	-9.0
KGAST Immo-Index	348.7	0.0	0.0	0.9	2.2	4.4



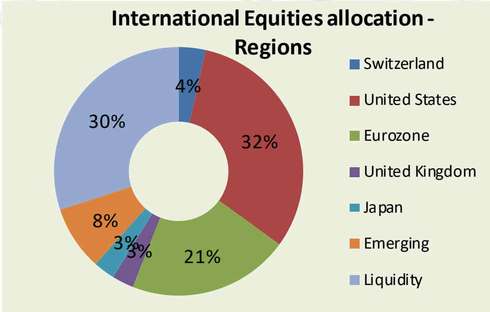


Graph sources : BearBull Group/ Bloomberg/ S&P Global
BearBull Global Investments Group Limited

PROSPECTS AND STRATEGIES

International Equities - Regions

- Positive outlook for equity markets in 2023
- Investors remain cautious despite opportunities
- US earnings expectations too depressed
- Attractive valuations for European equities



Tactical allocation
- Increase equity allocation
- Reinvestment of cash

EQUITIES REGIONS	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↗	↗							
United States	↗	↗							
Eurozone	↗	↗							
United Kingdom	↗	↗							
Japan	↗	↗							
Emerging	↗	↗							
Liquidity									

Positive outlook for equity markets in 2023

The year 2023 may well be marked by quite different financial conditions than those that prevailed in 2022. The major tensions that caused the biggest historical declines, correlated to almost all asset classes, will indeed no longer be present in the same way in 2023. Without disappearing completely of course, inflationary risks are no longer as worrying as they were in 2022. Inflation will remain a factor to be monitored, but stabilisation at a reasonable level will not have any additional effects on expectations of tightening of ill-considered monetary policies. The global macroeconomic environment for 2023 should support expectations of an easing in some yield curves. Global liquidity may still be affected by the gradual reduction in the balance sheets of some central banks, but monetary conditions will prove less damaging. After the sharp rise in policy rates in 2022, the last expected increases, marking the end of the tightening cycle, will ultimately be minor and should not develop further negative effects.

The equity markets should benefit from this change in sentiment and from the relief that rate hikes will soon end and a period of relatively contained inflation will begin. After one of the worst years for all asset classes, 2023 should be the year of return to capital gains for equities. The earnings outlook for 2023, derived from the global consensus scenario of a recession in 2023, seems too pessimistic to us. Therefore, a resumption of the upward trend seems very likely in the 1st quarter.

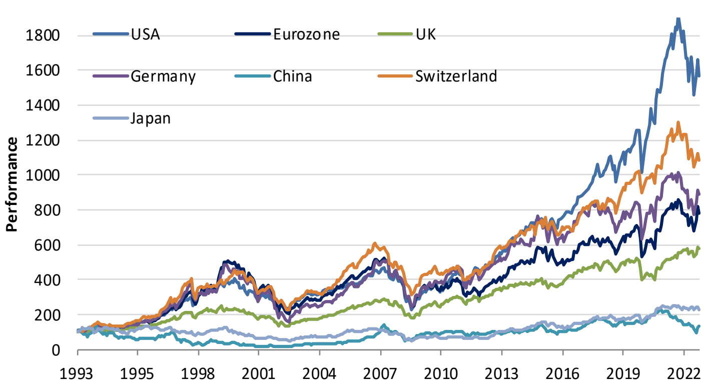
Investors remain cautious despite opportunities

Caution remained high at the end of the year despite a significant rebound of +9.7% in global equity markets (*MSCI World*). Inflation seems to be a little more under control, but monetary policies have not yet reached their maximum policy rates. Recession risks remain and raise fears of future earnings revisions. This is also the case for the upcoming Q4 corporate earnings sequence. Investors remained in « cautious mode » at the end of the year and will certainly need a little more certainty on these elements to increase their risk asset allocations in 2023.

However, as we enter 2023, it seems that we are not far from the end of the current cycle of inflation and interest rate pressures in the US in particular. It is also likely that the resilience seen in 2022 in US corporate earnings will continue into the 4th quarter of 2022 and offer new reasons to look forward to a better 2023 stock market year.

Caution still seems to be the order of the day, but the likelihood of equities outperforming in the coming months seems to us to be growing.

Long-term Equity Markets (base 100)



Chinese A and B Shares (base 100)

Graph sources : BearBull Group/ Bloomberg/ S&P Global

BearBull Global Investments Group Limited

US earnings expectations too depressed

The end of 2022 ended with a decline in the indices in December, after two months of expected stock market recovery. It is likely that the very special circumstances of 2022 motivated some of the largest private investor tax optimisation activity ever in December. Indeed, historic sales were identified, suggesting extraordinary activity in a period of reduced stock market volumes that may well set the stage for a more positive start to 2023.

US equities are not attractively valued, however, and remain among the highest in the developed markets. But the interest rate dynamic that has hurt the US market so much is about to change, in our view. Inflation and interest rates should lose their negative influence on the markets in 2023. We believe that the expected earnings growth for the *S&P500* of just +4.6% for 2023 is particularly conservative, unless we are looking at a deeper economic recession scenario than we expect. We therefore consider US equities to be attractive, despite a *PE* of 16 to 17x.

Attractive valuations for European equities

The expected rebound in European stocks was quite evident in October and December, even though we were suggesting a risk premium of around 45% for these stocks to support such a recovery. The *SX5e*, for example, rose by 21% in two months, far more than the *S&P500* (+12%) in a less favourable economic context in Europe. Indeed, the last few months have not brought any clear elements of satisfaction, the tightening of monetary policy in response to persistent inflation being rather a penalising factor.

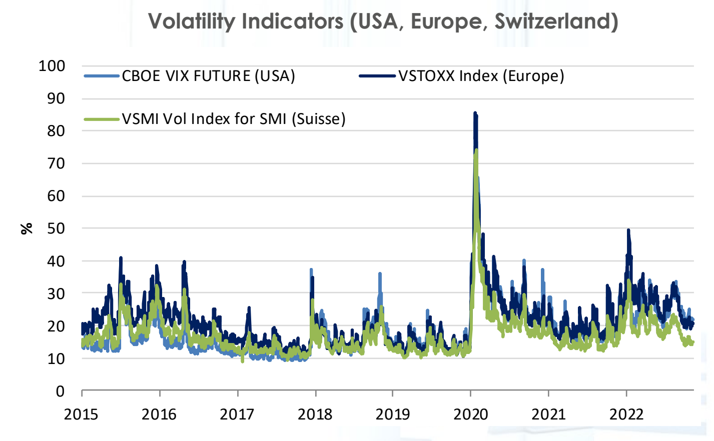
Nevertheless, despite this clear outperformance, European stocks still have a significant discount to US stocks. The valuation of 11.3x earnings for 2023 is thus lower than the *PE* of 16.3x for the *S&P500*. They also look attractive compared to Japanese (14.5x) and even Chinese (11.1x) stocks. The average dividend yield in Europe (3.5%) is also attractive and far exceeds that of the US (1.7%) and Japan (2.2%). Thus, despite a notable outperformance in recent weeks, European equities still deserve to be favoured in the run-up to 2023, unless the ECB's next rate hikes end up disrupting investors' appreciation of risks and opportunities.

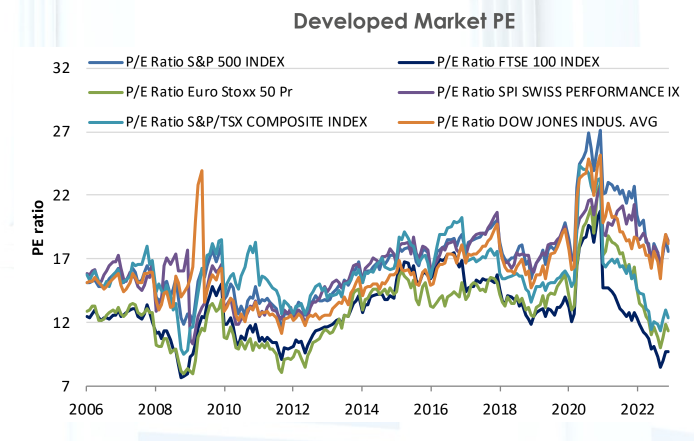
Moderately positive outlook for the Nikkei index

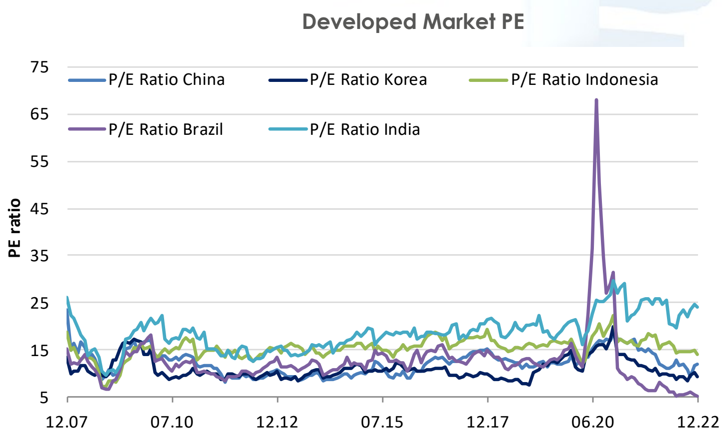
Japanese equities have done particularly well this year in the face of the pressures experienced by the vast majority of other stock market indices. With a few weeks to go before the end of the year, the *Nikkei* is still largely holding its own with a respectable performance of -3%, while the *S&P500* is still down -17.5% for example. The gradual improvement in the international stock market climate, still largely disrupted by inflation in most countries and the effects of the ongoing energy crisis, is also benefiting the Japanese market. The absence of pressure on Japanese interest rates is certainly a key factor in the exceptional resilience of Japanese stocks, while corporate earnings prospects are negatively affected by the decline in international demand.

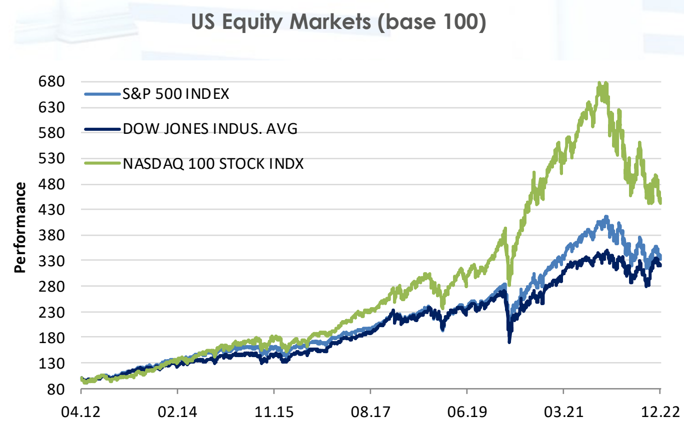
In relative terms, the *Nikkei* is no longer as attractive today, with a valuation of 15x 2023 earnings compared to a *PE* of barely 12x for European stocks. However, it remains cheaper than the *S&P500* (*PE* of 17x). The decline in the relative risk premium for Japanese stocks in the stabilising yen environment now limits the attractiveness of Japanese equities in an internationally diversified strategy. The relative valuations are indeed significantly more favourable to European companies.

In this environment, despite the still relatively positive outlook, we suggest an underweight allocation to Japanese stocks.









Graph sources : BearBull Group/ Bloomberg/ S&P Global

Still positive conditions for UK equities

EAs 2022 draws to a close, UK equities are enjoying a significant competitive advantage supported by a particularly attractive valuation of *FTSE 100* stocks. Indeed, with a valuation of 10x 2023 earnings, the UK stock market's flagship index benefits from a discount of -15% compared to the European stocks of the *Euro Stoxx 50* (*PE* 11.5x). But it is especially in comparison with the *US PE* of 16.5x earnings that the spread looks most attractive. This valuation gap should be favourable, particularly if the energy and basic materials sectors, which are well represented in the UK, benefit a little more from the evolution of commodities in the coming quarters. UK equities should not be adversely affected by the interest rate hike, which is already expected to take place in the next few months. However, rising financing costs are still damaging to the earnings of UK listed companies. But at current valuation levels, we believe that the risks involved are built-in.

Emerging markets ready to outperform?

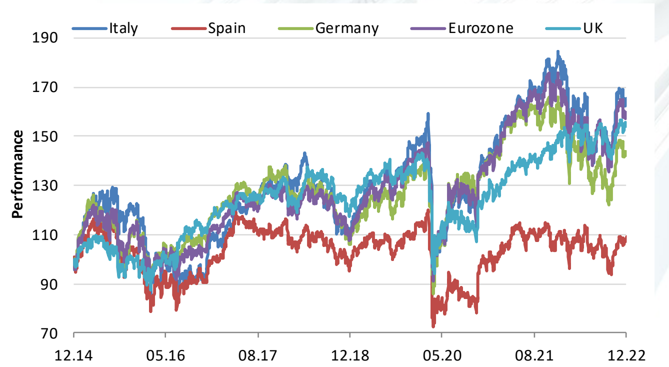
The *MSCI Emerging Market Index*'s recovery in the last two months of 2022, in line with that of most developed markets, may finally signal a possible exit from the crisis for emerging equities. Indebted emerging economies are suffering from rising US interest rates and the depreciation of their currencies against the US dollar. However, the latest developments on these two factors could lead to renewed investor interest in particularly affected assets in 2022.

While the global economic slowdown in 2023 may not be favourable to them, an easing of interest rates and a weaker dollar could together support a renewed interest in emerging economy equities. A stabilisation of energy prices would also have a positive effect, thereby reducing the risks of damaging effects on the growth and profit prospects of companies.

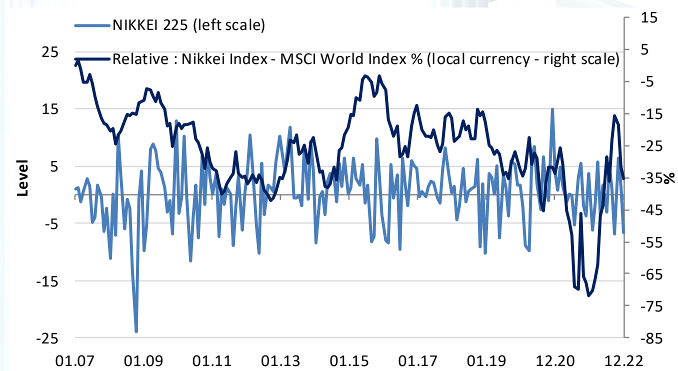
Until recently, China was still being penalised by the domestic slowdown and the fall in external demand. By putting an end to the zero Covid policy, the Chinese authorities are giving themselves the means to revive domestic consumption.

The time is not yet right for broad exposure to emerging markets. A very selective strategy is still required.

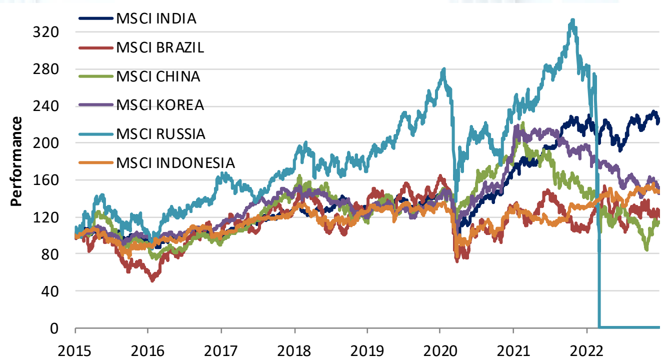
Equity Markets (base 100)



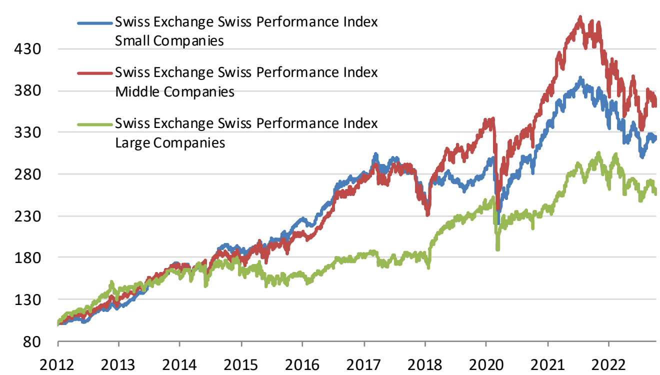
Japan Equity Markets VS MSCI World



Emerging Equity Markets (base 100)



Swiss Equities (large - mid - small caps / base 100)



EQUITIES - BY REGION (local currency)

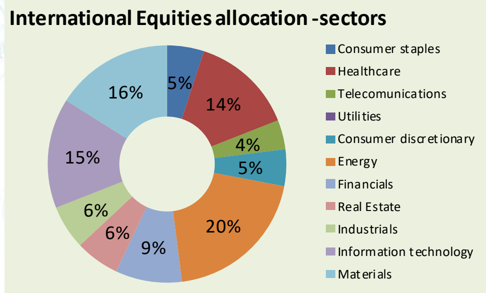
30.12.2022				Total Return Performance				
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	13734.9	CHF	-0.6	-3.3	4.3	-1.0	-16.5
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	4656.8	CHF	-0.1	-1.5	7.3	-1.4	-24.0
EUROPE	STXE 600 € Pr	424.9	EUR	-0.6	-3.3	10.0	5.3	-9.9
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	467.3	EUR	-0.4	-2.5	10.9	1.1	-22.5
UK	FTSE All-Share Index	4075.1	GBP	-0.2	-1.4	8.9	5.1	0.2
USA	S&P 500 Index	3839.5	USD	-0.1	-5.8	7.5	1.2	-18.1
USA SMALL-MID CAPS	RUSSELL 2500	749.8	USD	0.0	-5.9	7.4	3.0	-18.4
JAPAN	NIKKEI 225	26094.5	JPY	-0.4	-6.6	0.7	1.7	-7.4
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	1014.0	JPY	0.3	-4.2	2.3	4.0	-0.4
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	505.6	USD	0.5	-0.6	12.0	-1.0	-17.1
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	1051.7	USD	1.1	-1.2	9.2	2.2	-21.9
EMERGING	MSCI EM	956.4	USD	0.2	-1.5	9.6	-2.2	-19.9
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	7985.9	USD	-0.1	-4.2	9.8	2.4	-18.1

Graph sources : BearBull Group/ Bloomberg/ S&P Global

PROSPECTS AND STRATEGIES

International Equities - Sectors

- 2022 has established the value style
- Will the growth style return in 2023?
- There is value in the technology sector
- Overweight in alternative energy, REIT's, banking and gold mining



Tactical allocation

- Tactical repositioning on growth stocks
- Overweight energy, REITs and mining companies

EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	↗	↗			■				
Healthcare	↗	↗			■				
Telecommunications	↗	↗			■				
Utilities	↗	↗		■					
Consumer discretionary	↗	↗		■					
Energy	↗↗	↗↗						■	
Financials	↗↗	↗				■			
Real Estate	↗↗	↗					■		
Industrials	↗	↗				■			
Information technology	↗↗	↗					■		
Materials	↗↗	↗↗					■		

The year 2022 ends with a victory for the value style over the growth approach, symptomatic of the analysis and selection process in uncertain times and stock market corrections. In the US, the *S&P Value Index* ended the year with a slight decline of -5.25%, quite satisfactory in a period as turbulent as 2022 was. In the meantime, the growth style suffered a sharp decline of -29.4%, under the massive impact of stock corrections and valuations already mentioned as being quite excessive in 2021. The very strong underperformance of growth stocks is due to a combination of two factors, the first being their extreme valuation in 2021 and the second being an environment of rising interest rates with fatal consequences. After twelve months of underperformance, the legitimate question would be to ask what conditions would allow a return of the growth style that could reverse the current trend. The expectation, or more likely the certainty, that the Fed has finally completed its monetary tightening cycle will be essential for a change in dynamics. We believe that in this regard, visibility on future Fed action has increased and that the Fed could be content with two to three 0.25% hikes in the first half of the year before taking a break, having perhaps reached its maximum target.

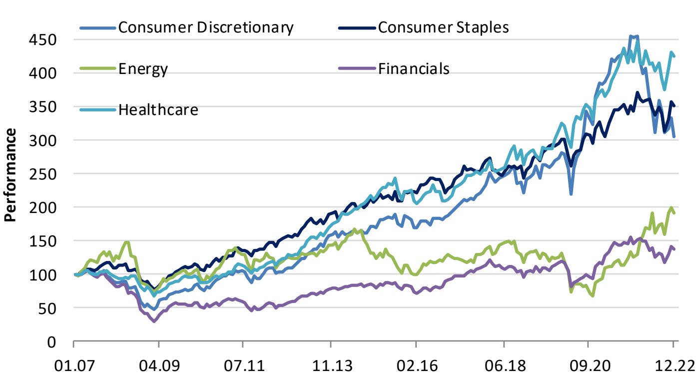
In the meantime, technology and digital stocks have seen their valuations correct sharply and now offer new opportunities, such as certain innovative companies whose expected profits are unlikely to materialise in the near future and whose value is largely linked to and dependent on the level of interest rates. They will certainly benefit the most from the end of the monetary tightening cycle expected at the end of the Q2. In this context, technology stocks could already benefit from bottom fishing strategies in Q1. Alternative energies (*REITs*), the banking sector, the traditional energy sector and in particular gold mines should benefit from overweight allocations in our international sector strategy.

EQUITIES - BY SECTOR

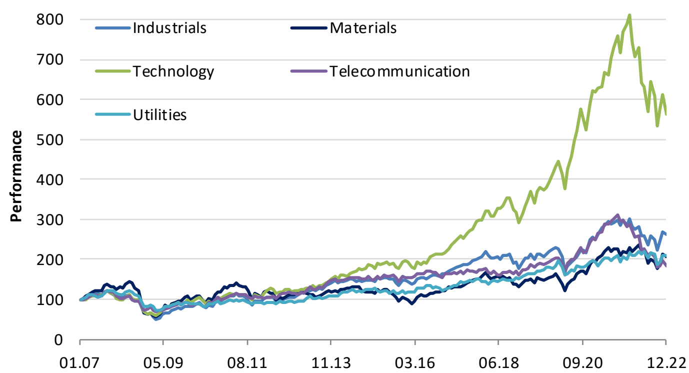
30.12.2022 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	291.2	USD	0.1	-8.5	-2.3	-3.1	-33.1
CONSUMER STAPLES	MSCI WORLD/CON STPL	269.8	USD	-0.6	-1.6	11.8	3.4	-5.5
ENERGY	MSCI WORLD/ENERGY	246.1	USD	-0.1	-3.4	19.8	18.2	47.7
FINANCIALS	MSCI WORLD/FINANCE	130.9	USD	0.3	-2.5	16.1	8.7	-9.5
HEALTHCARE	MSCI WORLD/HLTH CARE	345.1	USD	-0.1	-1.2	13.2	4.8	-5.0
INDUSTRIALS	MSCI WORLD/INDUSTRL	299.2	USD	0.0	-2.0	18.0	11.0	-12.8
MATERIALS	MSCI WORLD/MATERIAL	310.8	USD	-0.6	-2.6	17.3	9.4	-10.1
REAL ESTATE	MSCI WORLD/REAL ESTATE	196.4	USD	0.1	-3.1	5.9	-7.4	-24.5
TECHNOLOGY	MSCI WORLD/INF TECH	393.4	USD	-0.1	-8.0	5.2	-1.5	-30.6
TELECOMMUNICATION	MSCI WORLD/TEL SVC	66.7	USD	0.0	-6.3	0.5	-12.9	-36.7
UTILITIES	MSCI WORLD/UTILITY	152.8	USD	-0.4	0.2	11.2	0.0	-3.7

Sectors-MSCI World (base at 100)



Sector Performance MSCI World (base at 100)



Graph sources : BearBull Group/ Bloomberg/ S&P Global

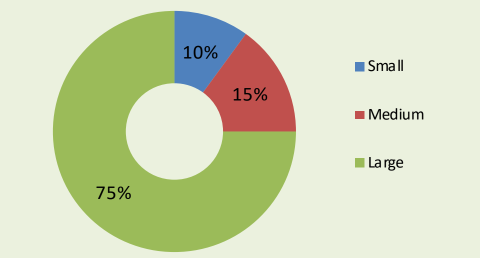
BearBull Global Investments Group Limited

PROSPECTS AND STRATEGIES

Swiss Equities

- Interest rates remain key
- Possible increase in an environment of moderate recession
- High relative valuations of Swiss equities

Swiss Equities allocation - size



Tactical allocation

- Allocation mainly to blue chips
- Focus on stocks with strong margins

EQUITIES capitalization	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Small	↗	↗							
Medium	↗	↗							
Large	↗	↗							

Interest rates remain key

Equity markets were particularly sensitive and even highly correlated to interest rate developments in 2022. This was also the case for Swiss equities. The last quarter's +4.5% rebound for the *SMI index*, which erased the similar -4.41% drop in the Q3, was made possible by the sharp correction in Swiss franc yields during this period (from 1.5% on the 10-year Swiss government yield to 1%). This correlation proved more important in explaining the Swiss stock market's evolution than the earnings prospects of Swiss companies in our view. Interest rates thus logically played a more important role in 2022 than the macroeconomic outlook or the evolution of companies' earnings power. The development of the Swiss stock market was in fact more heavily influenced by this valuation factor than by all of the specific determinants of companies' earnings.

The Swiss market has experienced three downward and three upward sequences in 2022, all of which correlate well with similar fluctuations in Swiss long-term returns. In this regard, it is likely that the same factors that largely influenced the markets in 2022 will continue to play a role in 2023. But this time, inflation, monetary policy and yield developments could act as further support for equity market developments. The rise in long-term federal government yields to 1.5% already seems significant in the current context of stabilising or even contracting Swiss inflation. The SNB's monetary policy could now adjust more slowly through limited rate hikes.

Swiss equities should benefit from a reduction in inflationary risks and some softening of yields, which we believe are too high in the current environment. A recession should be avoided, which should prevent major earnings revisions by companies.

Possible increase in an environment of moderate recession

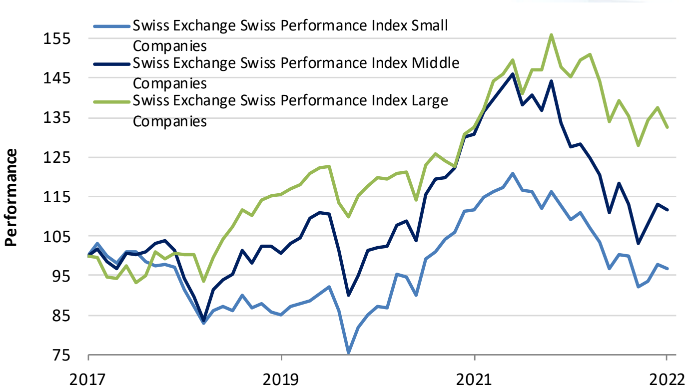
The Swiss market has always been considered a defensive market, due in particular to its very large composition of health and consumer stocks in the *SMI* and *SPI* indices. In more detail, a majority of the stocks in the *SMI* can also be considered capable of weathering more unstable economic times while maintaining their level of profitability. Applying this analysis to the current situation and the international economic outlook (suggesting a moderate recession in Europe and the US at various times in 2023), Swiss companies should be able to maintain their earnings power and be fairly resilient. The international leadership position of many Swiss entities should continue to be favourable in 2023, especially if a weakening of the Swiss franc finally materialises and supports the international profits of Swiss multinationals in francs.

High relative valuations of Swiss equities

The latest price increase puts the Swiss market in the group of relatively expensive markets in terms of *PE* for the year 2023. With a *PE* of 15.7x, the *SMI* is only slightly below the *S&P500* (16.8x) and significantly above the *CAC40* (11.3x), the Dax (11.3x) or the *FTSE* (9.8x).

If the international stock market climate proved to be a little more optimistic at the end of the year and more favourable to risk-taking, Swiss stocks, often considered to be more defensive in substance, could well be abandoned in favour of others, in particular growth stocks, once again supported by the expected easing in bond yields.

Performances of Swiss Equities



SWISS EQUITIES - Capitalization

30.12.2022 — Total Return Performance

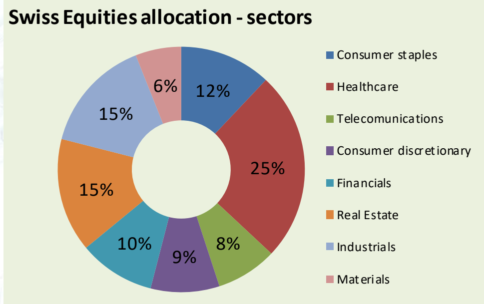
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	13734.9	-0.6	-3.3	4.3	-1.0	-16.5
SPI SMALL COMPANIES INDX	26804.5	0.2	-1.2	5.3	0.2	-16.6
SPI MIDDLE COMPANIES IDX	18499.2	-0.3	-1.3	8.2	0.7	-22.6
SPI LARGE COMPANIES INDX	13239.8	-0.7	-3.7	3.5	-1.4	-15.1

Graph sources : BearBull Group/ Bloomberg/ S&P Global

PROSPECTS AND STRATEGIES

Swiss Equities - Sectors

SWISS EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	↗	↗							
Healthcare	↗	↗							
Telecommunications	↗	↗							
Consumer discretionary	↗	↗							
Financials	↗	↗							
Real Estate	↗	↗							
Industrials	↗	↗							
Materials	↗	↗							



Tactical allocation

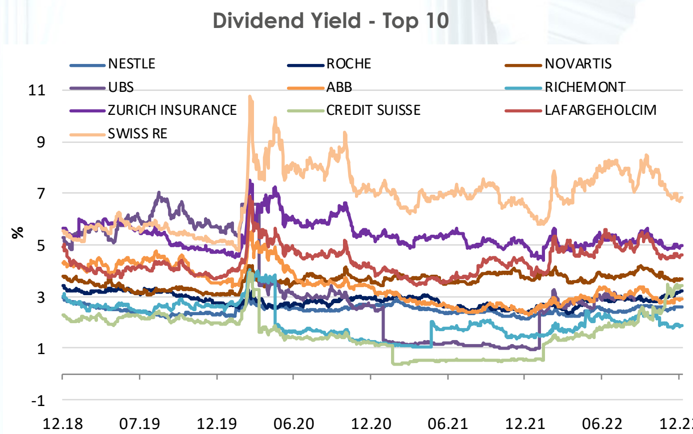
- Focus on stocks with reasonable valuations and high dividends

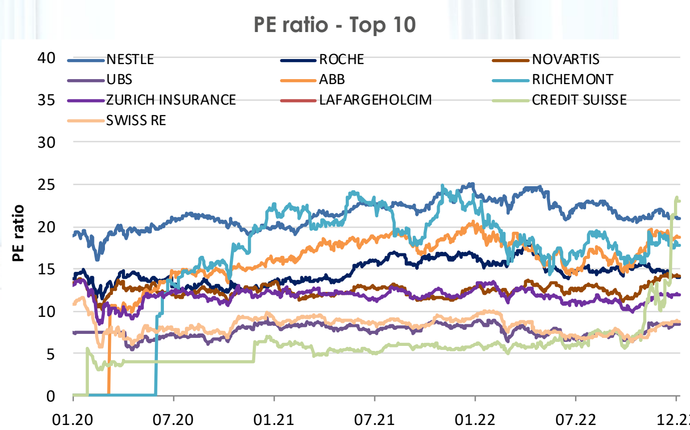
Limited impact of exchange rate on profits

The currency factor remains volatile for the time being with regard to the relative strength of the Swiss franc and its potential effects on corporate earnings. In the last quarter, the main exchange rates Swiss listed companies have again moved in opposite directions, with the euro/CHF exchange rate rising and the USD/CHF. The appreciation of the euro against our currency in the last quarter of +2.3% may seem weak, but it actually masks a clearer recovery of +4% from the low points of September to the end of the year. While the context was slightly bullish for the euro, the situation was very different for the dollar, whose decline was more powerful in November and slightly more significant overall (-6%). The currency effects for Swiss companies will be relatively modest in 2023 and will contribute marginally to their results.

Profit expectations too high

The earnings outlook for Swiss stocks seems to us to be limited in 2023 by the rather modest global growth scenario, despite the leading position of most Swiss companies active in international markets. Consensus earnings expectations for the *SMI* remain relatively high at around +12% for 2023 and +6.5% for 2024. They could therefore be revised downwards over the next few months in the context of the economic slowdown in Europe and the United States. The current valuation of Swiss stocks is in fact higher than its historical average and the dividend yield (being interesting at nearly 3%) does not seem any more attractive in international comparison.

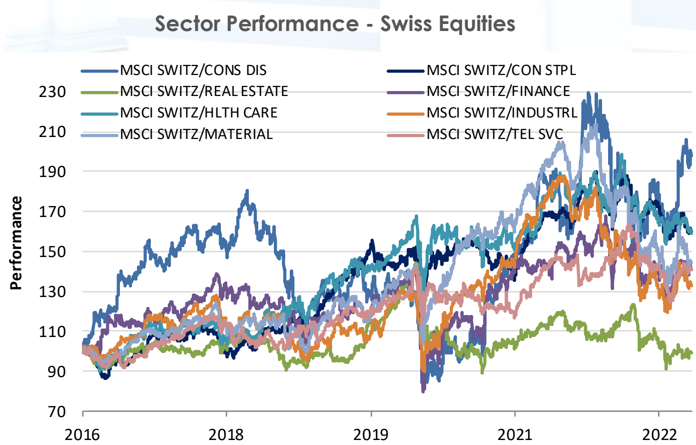




SWISS EQUITIES - BY SECTOR

30.12.2022 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	389.3	2.4	-2.2	25.6	22.3	-8.9
MSCI SWITZ/CON STPL	354.4	-0.6	-4.6	-0.1	-5.2	-14.7
MSCI SWITZ/FINANCE	56.8	-0.9	-2.0	11.7	4.0	-8.7
MSCI SWITZ/HLTH CARE	176.6	-1.2	-3.5	-0.9	-5.2	-15.7
MSCI SWITZ/INDUSTRL	186.1	-0.1	-3.6	9.3	4.8	-26.1
MSCI SWITZ/MATERIAL	341.1	-0.3	-6.0	5.4	-3.0	-32.2
MSCI SWITZ/REAL ESTATE	932.9	-0.1	2.1	1.5	-4.2	-9.0
MSCI SWITZ/TEL SVC	95.7	-0.3	-0.3	9.3	-3.6	2.5



Graph sources : BearBull Group/ Bloomberg/ S&P Global

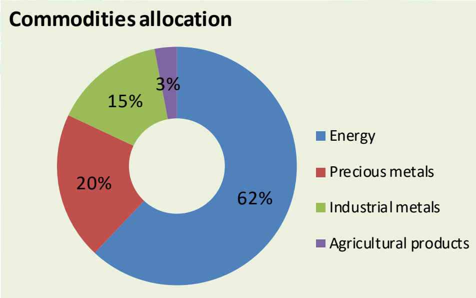
BearBull Global Investments Group Limited

PROSPECTS AND STRATEGIES

Commodities

- Still positive outlook for 2023
- Falling capex will still have a positive impact on prices
- Oil could be the best performing commodity

COMMODITIES	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Energy	↗↗	↗↗							
Precious metals	↗↗	↗↗							
Industrial metals	↗↗	↗↗							
Agricultural products	↗↗	↗↗							



Tactical allocation

- Overweight precious metals and industrial metals
- Large exposure in the energy segment

Still positive outlook for 2023

In 2022, commodities have again emerged as the best source of diversification for multi-asset portfolios. Thanks to their historically low or even negative correlation with traditional assets such as bonds, equities and even real estate, commodities recorded an increase of -26%. This is in stark contrast to the massive declines seen in all other asset classes this year, which lost between -16% (international bonds), -18.5% (international equities) and -24.2% for international real estate. Traditional 60/40 or 40/60 non-commodity portfolios were unable to benefit from this diversification and achieved one of their worst performances ever.

The year 2022 is so far proving to be extraordinary in relative terms for commodities, which are the only ones to achieve a positive track record within our universe of 33 asset classes. We believe this net outperformance will continue into 2023. The commodity supercycle will not end with the expected economic slowdown. The stabilisation of prices in the last quarter (+3.4%) just reflects expectations of a drop in demand due to the possible risks of an economic slowdown in 2023. In our view, the current level of commodity prices remains attractive for any investor seeking optimal diversification - including assets that are uncorrelated or even correlated to other assets - but also to benefit from an expected upward recovery in most segments in 2023.

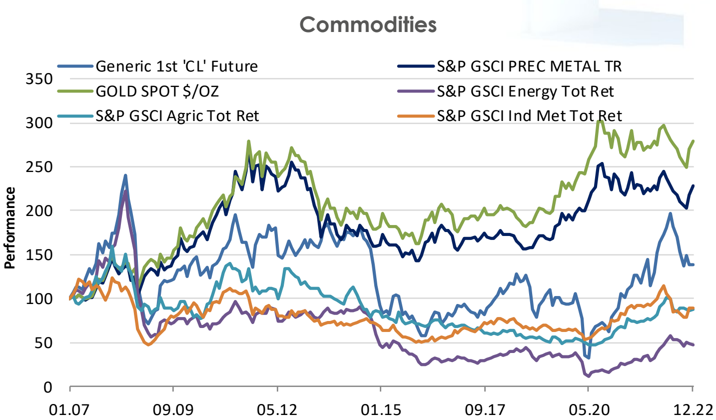
Falling capex will still have a positive impact on prices

A global economic slowdown in 2023 should, however, support global GDP growth of +2%. It will therefore not reduce global demand for raw materials, but will only reduce the level of its growth. The return of Chinese demand will be the main supporting factor in 2023, although a moderate slowdown in the developed economies is sufficient to help boost aggregate demand. In 2022, capital spending has not changed from the environment of recent years characterised by a generalised *CAPEX* drop of around -40% in the oil and various commodity-producing sectors.

The continuing structural imbalance between supply and demand is now exacerbated by restrictions on Russian exports, while inventories are often already at their lowest levels. Oil and mining companies do not seem to be willing to take the risk of launching massive new investments, as do OPEC members, whose oil production is barely 29 mbpd, still 10% below the average production between 2016 and 2018. This decline in *capex* will certainly extend the duration of the current supercycle by limiting the level of production.

Oil could be the best performing commodity

Crude oil prices are still influenced in the short term by a relatively mild start to the winter in Europe and by Chinese demand limited due to an economy still very much affected by the zero Covid policy, which prevailed until the end of December. As a result, US crude oil prices remained relatively stable in Q4 2022, ending the year at $80 per barrel, the same level as at the end of September (+1%). In contrast, North Sea oil recorded a slight decline of -2.3%.



COMMODITIES (USD)

31.12.2022 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	7985.86	USD	-0.07	-4.96	9.77	2.42	-18.14
GLOBAL	S&P GSCI Tot Return Indx	3495.8	USD	0.8	-1.4	3.4	-8.6	26.0
WTI CRUDE	Generic 1st 'CL' Future	80.3	USD	0.9	-1.2	1.0	-26.0	6.7
BRENT OIL	Generic 1st 'CO' Future	85.9	USD	2.4	-1.1	-2.3	-23.0	10.5
NATURAL GAS	Generic 1st 'NG' Future	4.5	USD	-11.9	-33.6	-33.9	-21.9	20.0
OR	GOLD SPOT $/OZ	1824.0	USD	1.4	1.2	9.8	0.7	-0.3
ARGENT	Silver Spot $/Oz	24.0	USD	0.9	5.3	25.9	20.5	2.8
AGRICULTURE	S&P GSCI Agric Indx Spot	470.5	USD	1.0	2.6	-1.7	2.1	5.7
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	451.1	USD	0.2	-0.3	12.5	4.8	-9.6

The expected stabilisation between USD 80 and 90 is still supported by the risks of recession and their potential effects on the level of global demand, thus still constituting the main factor determining the evolution of crude oil. *OPEC* oil producing countries are particularly attentive to this risk and have announced their willingness to reduce production to adjust supply to a perceived decline in demand over the coming months. In the US, shale oil and gas production has reached new highs, which should provide additional supply to limit the rise in prices. However, in the medium term, the end of China's zero-covid policy is likely to have economic recovery and energy demand in the coming months already. In the US, the priority is still to ensure a reasonable gasoline price, but the replenishment of strategic stocks will have to take place and will also support demand. On the supply side, we also believe that Russia will have no choice but to cut production by a few million barrels per day. The recession scenario should, in our view, ultimately prove too extreme, as demand will not collapse as current prices suggest. Therefore, a rebound in crude oil prices becomes very likely. A rise in prices towards $100 -105 a barrel would represent an increase of 35% and would certainly position crude oil as one of the best performing commodities of the year.

Precious metals benefit from lower yields and from the dollar

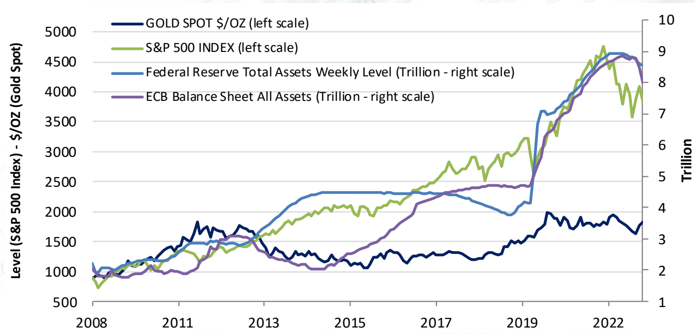
The barely negative performance (-0.28%) of gold in 2022 in USD terms proved to be one of the best performers of all asset classes during the period, with the exception of oil (+42.2%) and agricultural products (+12.1%).In an environment particularly troubled by geopolitical risks, inflation and a historic rise in yields as well as a sharp reversal in monetary policy, gold has done relatively well to protect the value of investors who had placed their trust in it. The correlation between gold and rates or the dollar is still strongly negative. The last phase of the dollar's decline largely benefited gold, but the decline in long-term yields seen during the last quarter also contributed to gold's +11% rebound at the end of Q4. Central banks have been rather buying recently, while investments in gold *ETF* holding of physical gold barely stabilised at the end of the quarter on a selling note that started in April 2022. The expected change in the trend of dollar interest rates in 2023 should support a continuation of the recent bullish rally in the yellow metal. Such a development would also be positive for all precious metals.

A Chinese recovery favourable to industrial metals

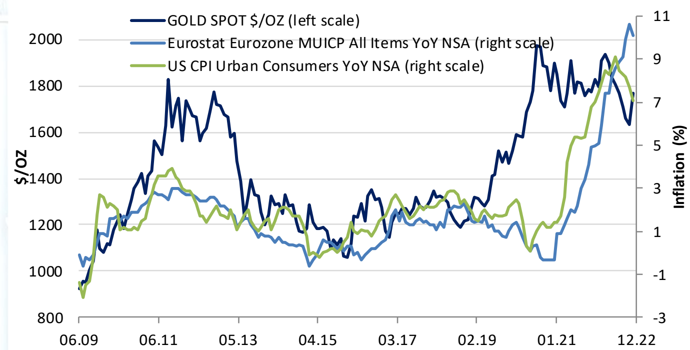
The decline in Chinese demand was one of the main factors for the development of industrial metals markets. After a few positive weeks at the beginning of the year, which pushed prices to extremes in a panic caused by the war in Ukraine, prices declined steadily until the end of the year when the zero Covid policy was gradually called into question, before being quickly abandoned by the Chinese authorities. China has radically changed its policy and is now trying to sustain its economic development regardless of the human cost of abolishing health restrictions. We believe that Chinese domestic demand should benefit in the coming months and that the expected economic recovery will have clear implications for the demand for industrial commodities as well.

A Chinese economic recovery in the current context of particularly low stocks will necessarily have a further positive impact on prices. A reversal of the upward trend for aluminium, copper, cobalt and nickel in particular seems very likely. The new needs for industrial metals, which are essential for the implementation of the energy transition, are also an extremely important factor in the development of world demand. The fall in capex in recent years continues to weigh on the level of supply, thereby limiting the risks of a significant increase in inventories. Our outlook is positive for all industrial metals, which will benefit from increased demand for infrastructure, wind projects, rail and the growing electric car sector.

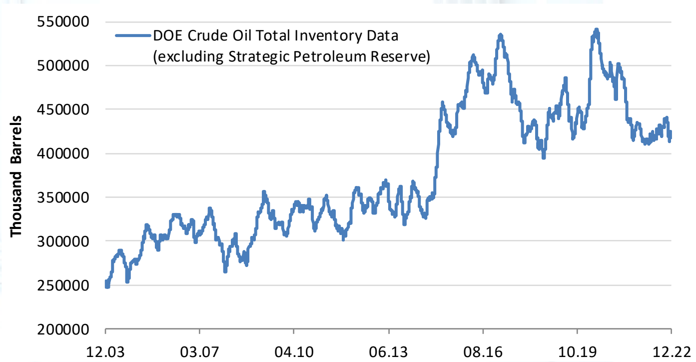
High Correlation between Gold and Global Liquidity



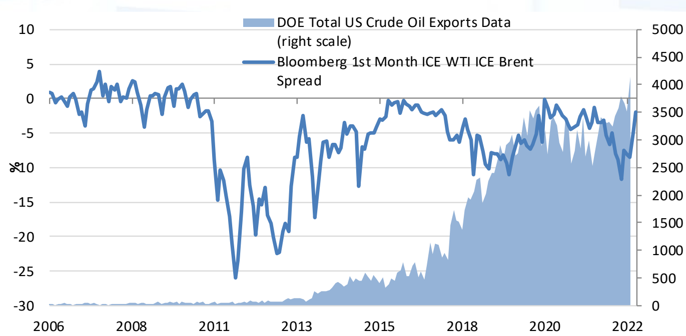
High Correlation between Gold and Inflation



Oil Inventories (US)



Price Differential between WTI and Brent oil



Graph sources : BearBull Group/ Bloomberg/ S&P Global

PPROSPECTS AND STRATEGIES

Hedge Funds

- Hedge funds outperform traditional asset classes

After three quarters in which hedge funds clearly outperformed the more traditional asset classes, they failed to benefit from the improvement in investor sentiment following the more favourable inflation figures and the fall in bond yields. Indeed, alternative investments stagnated during the quarter under review (+0.2%) but still ended the year much better (-4.4%) than equities (-18%) and bonds (-16%) in particular.

While equity hedge (+1.7%) and relative value arbitrage (+2.3%) ended a favourable fourth quarter, event driven and macro/CTA corrected by -2.0% and -2.2% respectively. Over the whole of this complicated year 2022, relative value arbitrage (-7.7%), event driven (-7.3%) and equity hedge (-3.2%) closed in negative territory, while macro/CTA managed to remain in the black (+3.8%).

Private Equity

- Worst annual result since 2008

After nine particularly difficult months for private equity, the last quarter of 2022 ends on a positive note. The stock market recovery seen mainly in October and November will have reduced, in part, the losses of the first nine months and also offer a perhaps finally better outlook for 2023, contrasting with the general feeling of extreme investor concern that still prevailed at the end of September. The expectation in the third quarter that the Federal Reserve's stock would decelerate sharply as it approached its 2023 target for the maximum policy rate led to a degree of calm. The gradual decline in inflation should be accompanied by a reduction in financial market tensions and provide a more positive environment for financial assets. Private equity thus recorded its only positive quarterly performance of the year (+4.4%), but ended the year down by -27.7%.

Geographically, the quarterly rebound was more pronounced in the United Kingdom (+7.0%) and Europe (+6.5%), the two regions that had suffered most during the first nine months of the year, than in the United States (+1.8%). For the year 2022 as a whole, these three regions corrected by -31.6%, -36.0% and -17.0% respectively.

HEDGE FUND INDICES (USD)

30.12.2022

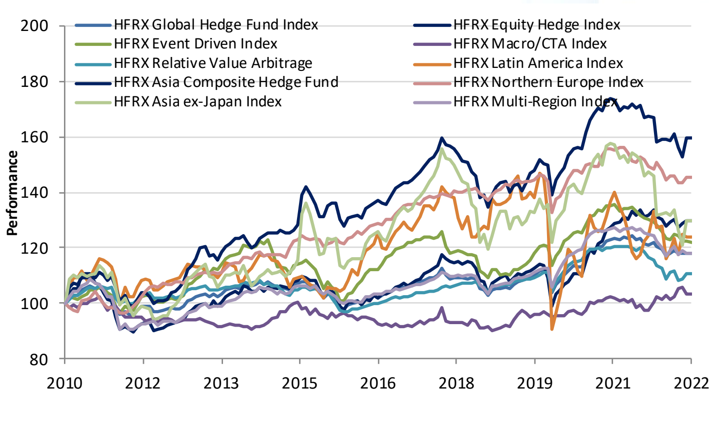
	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1367.8	USD	0.0	-0.1	0.2	0.8	-4.4
EQUITY HEDGE	HFRX Equity Hedge Index	1447.2	USD	0.0	-0.1	1.7	1.5	-3.2
EVENT DRIVEN	HFRX Event Driven Index	1641.5	USD	0.1	-0.2	-2.0	-0.7	-7.3
MACRO/CTA	HFRX Macro/CTA Index	1266.9	USD	0.3	0.0	-2.2	0.7	3.7
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1250.3	USD	-0.2	0.0	2.3	1.6	-7.7
LATIN AMERICA*	HFRX Latin America Index	2023.9	USD	-	0.0	5.5	7.0	5.4
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2572.8	USD	-	0.0	2.2	0.2	-6.8
NORTHERN EUROPE*	HFRX Northern Europe Index	2103.0	USD	-	0.0	1.3	0.8	-4.7
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2454.7	USD	-	0.0	2.9	-2.2	-14.4
MULTI-REGION	HFRX Multi-Region Index	1472.9	USD	0.1	0.3	0.6	1.0	-6.6

PRIVATE EQUITY INDICES (EUR)

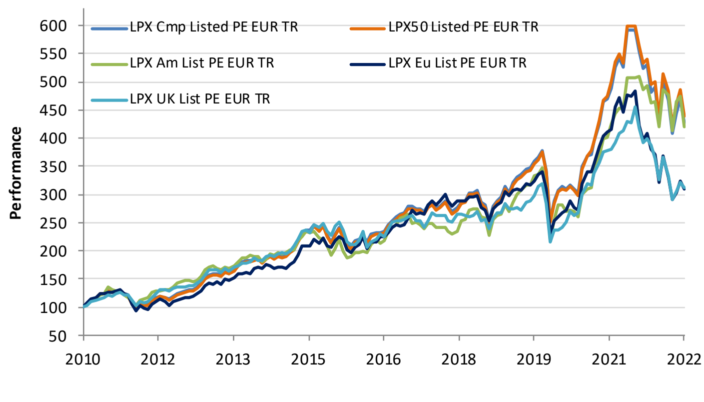
30.12.2022

	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	355.4	EUR	-0.4	-8.9	4.4	-1.0	-27.7
MAJOR COMPANIES	LPX50 Listed PE EUR TR	3484.8	EUR	-0.5	-9.6	4.2	-0.6	-26.6
USA	LPX Am List PE EUR TR	560.5	EUR	-1.0	-11.3	1.8	-2.6	-17.0
EUROPE	LPX Eu List PE EUR TR	988.9	EUR	0.1	-4.8	6.5	-3.0	-36.0
UK	LPX UK List PE EUR TR	349.1	EUR	0.2	-3.2	7.0	-3.0	-31.6

Hedge Fund Indices



Private Equity Indices



Graph sources : BearBull Group/ Bloomberg/ S&P Global

GLOBAL STRATEGY & ASSET ALLOCATION

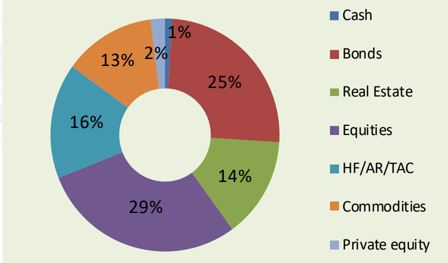
GLOBAL STRATEGIES I ASSET ALLOCATION

Multi-asset portfolio CHF

- Attractive yields in the bond markets
- Positive outlook for equities
- New opportunities in securitised real estate
- Favourable supercycle for commodities

ASSETS	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Cash	→	→							
Bonds	↗	↗							
Real Estate	↗	↗							
Equities	↗	↗							
Hedge funds	↗	↗							
Commodities	↗	↗							
Private equity	↗	↗							

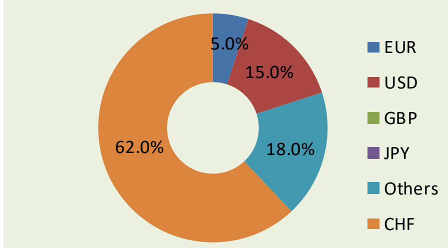
Asset allocation - CHF portfolio



Tactical allocation

- More dynamic strategy again
- Repositioning in equities
- Medium duration

Currency allocation - CHF portfolio



Asset allocation

The core of our investment strategy is composed of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity). The tactical allocation is now largely diversified across asset classes. Equity exposure is again more constructive with a reinforced allocation following the sharp fall in prices in 2022. The rate hikes observed in 2022 as a result of growing inflationary pressures now offer new opportunities in the bond markets, particularly in the investment grade segment. Real estate is, more than ever, an attractive source of diversification that offers attractive returns and some protection in times of inflation. Precious metals and commodities are also favoured in an uncertain environment, thus requiring optimal diversification between asset classes.

Bonds

The 4th quarter ended on a more positive note for the financial markets after the acceleration of dramatic rate hikes seen in August and October. Fears of slipping inflation and further tightening of monetary policy had pushed the monetary policies had pushed the yield curves to extreme levels in our opinion. The more favourable statistics showing a fairly clear deceleration in inflation have finally allowed a gradual return to reason. This period of extreme concern offered opportunities to capture attractive medium-term returns. Our bond strategy has become more opportunistic and finally more constructive. We maintain our expectations of a gradual decline in inflation and yields that will also provide some capital gains in the capital gains over the next few months.

Equities

Equity markets suffered in 2022 from this inflationary environment and rapid increases in interest rates. Stock prices fell across the board and particularly affected growth stocks and technology titles with high valuations. We had adopted a more defensive strategy during the first few quarters in anticipation of the market decline. We now believe that the scenario of economic slowdown and controlled inflation in 2023 will have a positive impact on rates and investor sentiment. This downward adjustment in interest rates should benefit the equity markets in 2023. Earnings downside risks remain in this environment of reduced economic growth, but we believe that after the price declines of the first nine months, valuations are often attractive.

Commodities

In 2023, commodities will remain the best guarantee for risk diversification, as they were in 2022 for multi-asset portfolios. The end of the zero Covid policy in China heralds an economic recovery that will support demand for commodities while supply remains constrained by falling of the *Capex* and restrictions on Russia.

Real estate

Real estate remains a prime alternative to the interest rate markets, especially after declines in most regions due to the fear and pressure of rising financing costs. The historical relative valuations of securitised real estate offer interesting repositioning opportunities for the year 2023.

Currencies

The franc is likely to suffer from yield differentials that are largely unfavourable to the Swiss currency against both the dollar and the euro. We recommend exposure to other currencies that offer higher yields and potential for appreciation.

Market performances - Q4 2022

		Q4 2022 local	Q4 2022 CHF	YTD local	YTD CHF
Exchange rates					
USD/CHF		-6.3%		1.3%	
EUR/CHF		2.3%		-4.6%	
GBP/CHF		1.5%		-9.3%	
JPY/CHF		3.5%		-11.0%	
Equity markets					
World	MSCI World USD	9.8%	2.8%	-18.1%	-17.1%
Europe	DJ Stoxx 600	9.8%	12.4%	-10.6%	-14.8%
Eurozone	DJ Eurostoxx 50	14.3%	16.9%	-11.7%	-15.8%
	MSCI Europe S.C.	10.5%	13.1%	-24.4%	-27.9%
Germany	Dax 30	14.9%	17.6%	-12.3%	-16.4%
France	Cac 40	12.3%	14.9%	-9.5%	-13.7%
United Kingdom	FTSE 100	8.1%	9.7%	0.9%	-8.5%
Switzerland	SPI	4.3%	4.3%	-16.5%	-16.5%
	SMI	4.5%	4.5%	-16.7%	-16.7%
	MSCI Swiss S.C.	18.3%	18.3%	-23.3%	-23.3%
North America	SP500	7.1%	0.3%	-19.4%	-18.4%
	Nasdaq	-1.0%	-7.3%	-33.1%	-32.2%
	Tse 300	5.1%	0.5%	-8.7%	-13.8%
	SP600 Small C.	8.7%	1.8%	-17.4%	-16.4%
Japan	Nikkei 225	0.6%	4.1%	-9.4%	-19.3%
Emerging	MSCI EMF USD	9.2%	2.3%	-22.4%	-21.4%

		Q4 2022 local	Q4 2022 CHF	YTD local	YTD CHF
Interest rates (3 months)		*(level)*			
CHF		0.95%			
EUR		2.13%			
USD		4.77%			
JPY		-0.03%			
Bonds markets					
World	Citi Gr Global Govt USD	3.8%	-2.8%	-18.3%	-17.2%
Europe	Euro Ser-E Gov > 1	-2.1%	0.1%	-18.5%	-22.2%
United Kingdom	UK Ser-E Gov > 1	1.7%	3.2%	-25.1%	-32.1%
Switzerland	SBI Général AAA-BBB	-0.5%	-0.5%	-12.1%	-12.1%
	SBI Govt	-5.3%	-5.3%	-17.0%	-17.0%
USA	US Ser-E Gov > 1	0.7%	-5.7%	-12.5%	-11.4%
Japan	Japan Ser-E Gov > 1	-1.9%	1.5%	-5.4%	-15.8%
Emerging	J.P. Morgan EMBI Global	7.4%	0.6%	-16.5%	-15.4%
Miscellaneaous					
	LPP 25 Index	0.7%	0.7%	-14.2%	-14.2%
	LPP 40 Index	1.3%	1.3%	-14.8%	-14.8%
	LPP 60 Index	2.1%	2.1%	-15.7%	-15.7%
Real Estate CH	DB RB Swiss Real Est Fd	1.7%	1.7%	-14.9%	-14.9%
Hedge Funds	Hedge Fund Research USD	0.8%	-5.5%	-3.9%	-2.7%
Commodities	GS Commodity USD	3.4%	-3.1%	26.0%	27.6%

Graph sources : BearBull Group/ Bloomberg/ S&P Global

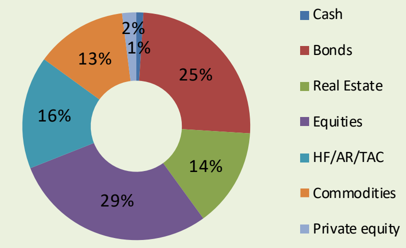
GLOBAL STRATEGIES I ASSET ALLOCATION

Multi-asset portfolio EUR

- Attractive yields in the bond markets
- Positive outlook for equities
- New opportunities in securitised real estate
- Favourable supercycle for commodities

ASSETS	Expected Return		ALLOCATION (EUR Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Cash	→	→							
Bonds	↗	↗							
Real Estate	↗	↗							
Equities	↗	↗							
Hedge funds	↗	↗							
Commodities	↗	↗							
Private equity	↗	↗							

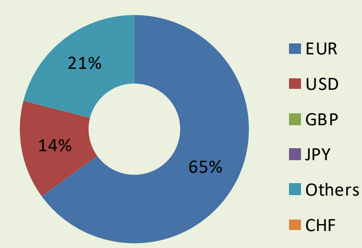
Asset allocation - EUR portfolio



Tactical allocation

- More dynamic strategy again
- Repositioning in equities
- Medium duration

Currency allocation - EUR portfolio



Asset allocation

The core of our investment strategy is composed of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity). The tactical allocation is now largely diversified across asset classes. Equity exposure is again more constructive with a reinforced allocation following the sharp fall in prices in 2022. The rate hikes observed in 2022 as a result of growing inflationary pressures now offer new opportunities in the bond markets, particularly in the investment grade segment. Real estate is, more than ever, an attractive source of diversification that offers attractive returns and some protection in times of inflation. Precious metals and commodities are also favoured in an uncertain environment, thus requiring optimal diversification between asset classes.

Bonds

The 4th quarter ended on a more positive note for the financial markets after the acceleration of dramatic rate hikes seen in August and October. Fears of slipping inflation and further tightening of monetary policy had pushed the monetary policies had pushed the yield curves to extreme levels in our opinion. The more favourable statistics showing a fairly clear deceleration in inflation have finally allowed a gradual return to reason. This period of extreme concern offered opportunities to capture attractive medium-term returns. Our bond strategy has become more opportunistic and finally more constructive. We maintain our expectations of a gradual decline in inflation and yields that will also provide some capital gains in the capital gains over the next few months.

Equities

Equity markets suffered in 2022 from this inflationary environment and rapid increases in interest rates. Stock prices fell across the board and particularly affected growth stocks and technology titles with high valuations. We had adopted a more defensive strategy during the first few quarters in anticipation of the market decline. We now believe that the scenario of economic slowdown and controlled inflation in 2023 will have a positive impact on rates and investor sentiment. This downward adjustment in interest rates should benefit the equity markets in 2023. Earnings downside risks remain in this environment of reduced economic growth, but we believe that after the price declines of the first nine months, valuations are often attractive.

Commodities

In 2023, commodities will remain the best guarantee for risk diversification, as they were in 2022 for multi-asset portfolios. The end of the zero Covid policy in China heralds an economic recovery that will support demand for commodities while supply remains constrained by falling of the *Capex* and restrictions on Russia.

Real estate

Real estate remains a prime alternative to the interest rate markets, especially after declines in most regions due to the fear and pressure of rising financing costs. The historical relative valuations of securitised real estate offer interesting repositioning opportunities for the year 2023.

Currencies

The euro will finally benefit from increasing yield differentials in its favor and we recommend a high exposure to euros.

Market performances - Q4 2022

		Q4 2022		YTD	
		local	EUR	local	EUR
Exchange rates					
USD/EUR		-8.4%		6.2%	
CHF/EUR		-2.3%		4.8%	
GBP/EUR		-0.8%		-5.0%	
JPY/EUR		1.1%		-6.7%	
Equity markets					
World	MSCI World USD	9.8%	0.5%	-18.1%	-13.0%
Europe	DJ Stoxx 600	9.8%	9.8%	-10.6%	-10.6%
Eurozone	DJ Eurostoxx 50	14.3%	14.3%	-11.7%	-11.7%
	MSCI Europe S.C.	10.5%	10.5%	-24.4%	-24.4%
Germany	Dax 30	14.9%	14.9%	-12.3%	-12.3%
France	Cac 40	12.3%	12.3%	-9.5%	-9.5%
United Kingdom	FTSE 100	8.1%	7.2%	0.9%	-4.2%
Switzerland	SPI	4.3%	1.9%	-16.5%	-12.5%
	SMI	4.5%	2.1%	-16.7%	-12.7%
	MSCI Swiss S.C.	18.3%	8.3%	-23.3%	-18.5%
North America	SP500	7.1%	-2.0%	-19.4%	-14.4%
	Nasdaq	-1.0%	-9.4%	-33.1%	-28.9%
	Tse 300	5.1%	-1.8%	-8.7%	-9.4%
	SP600 Small C.	8.7%	-0.5%	-17.4%	-12.3%
Japan	Nikkei 225	0.6%	1.7%	-9.4%	-15.5%
Emerging	MSCI EMF USD	9.2%	0.0%	-22.4%	-17.5%

		Q4 2022		YTD	
		local	EUR	local	EUR
Interest rates (3 months)		*(level)*			
CHF		0.95%			
EUR		2.13%			
USD		4.77%			
JPY		-0.03%			
Bonds markets					
World	Citi Gr Global Govt.USD	3.8%	1.5%	-18.3%	-14.4%
Europe	Euro Ser-E Gov > 1	-2.1%	-2.1%	-18.5%	-18.5%
United Kingdom	UK Ser-E Gov > 1	1.7%	0.8%	-25.1%	-28.9%
Switzerland	SBI Général AAA-BBB	-0.5%	-2.8%	-12.1%	-7.9%
	SBI Govt.	-5.3%	-7.4%	-17.0%	-13.1%
USA	US Ser-E Gov > 1	0.7%	-7.8%	-12.5%	-7.0%
Japan	Japan Ser-E Gov > 1	-1.9%	-0.9%	-5.4%	-11.8%
Emerging	J.P. Morgan EMBI Global	7.4%	-1.6%	-16.5%	-11.2%
Miscellaneaous					
	LPP 25 Index	0.7%	5.5%	-14.2%	-10.1%
	LPP 40 Index	1.3%	6.1%	-14.8%	-10.7%
	LPP 60 Index	2.1%	7.0%	-15.7%	-11.7%
Real Estate CH	DB RB Swiss Real Est Fd	1.7%	1.7%	-14.9%	-10.8%
Hedge Funds	Hedge Fund Research USD	0.8%	-7.7%	-3.9%	2.1%
Commodities	GS Commodity USD	3.4%	-5.3%	26.0%	33.8%

Graph sources : BearBull Group/ Bloomberg/ S&P Global

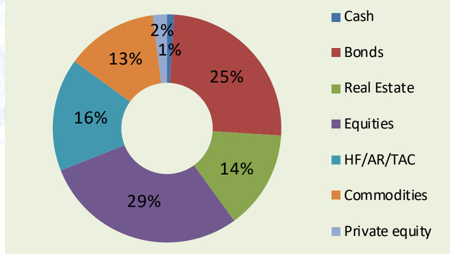
GLOBAL STRATEGIES I ASSET ALLOCATION

Multi-asset portfolio USD

- Attractive yields in the bond markets
- Positive outlook for equities
- New opportunities in securitised real estate
- Favourable supercycle for commodities

ASSETS	Expected Return 3months	Expected Return 1year	underweight ---	underweight --	underweight -	neutral =	overweight +	overweight ++	overweight +++
Cash	→	→							
Bonds	↗	↗							
Real Estate	↗	↗							
Equities	↗	↗							
Hedge funds	↗	↗							
Commodities	↗	↗							
Private equity	↗	↗							

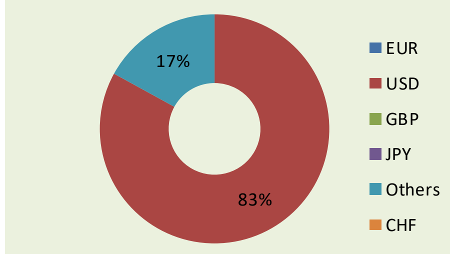
Asset allocation - USD portfolio



Tactical allocation

- More dynamic strategy again
- Repositioning in equities
- Medium duration

Currency allocation - USD portfolio



Asset allocation

The core of our investment strategy is composed of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity). The tactical allocation is now largely diversified across asset classes. Equity exposure is again more constructive with a reinforced allocation following the sharp fall in prices in 2022. The rate hikes observed in 2022 as a result of growing inflationary pressures now offer new opportunities in the bond markets, particularly in the investment grade segment. Real estate is, more than ever, an attractive source of diversification that offers attractive returns and some protection in times of inflation. Precious metals and commodities are also favoured in an uncertain environment, thus requiring optimal diversification between asset classes.

Bonds

The 4th quarter ended on a more positive note for the financial markets after the acceleration of dramatic rate hikes seen in August and October. Fears of slipping inflation and further tightening of monetary policy had pushed the monetary policies had pushed the yield curves to extreme levels in our opinion. The more favourable statistics showing a fairly clear deceleration in inflation have finally allowed a gradual return to reason. This period of extreme concern offered opportunities to capture attractive medium-term returns. Our bond strategy has become more opportunistic and finally more constructive. We maintain our expectations of a gradual decline in inflation and yields that will also provide some capital gains in the capital gains over the next few months.

Equities

Equity markets suffered in 2022 from this inflationary environment and rapid increases in interest rates. Stock prices fell across the board and particularly affected growth stocks and technology titles with high valuations. We had adopted a more defensive strategy during the first few quarters in anticipation of the market decline. We now believe that the scenario of economic slowdown and controlled inflation in 2023 will have a positive impact on rates and investor sentiment. This downward adjustment in interest rates should benefit the equity markets in 2023. Earnings downside risks remain in this environment of reduced economic growth, but we believe that after the price declines of the first nine months, valuations are often attractive.

Commodities

In 2023, commodities will remain the best guarantee for risk diversification, as they were in 2022 for multi-asset portfolios. The end of the zero Covid policy in China heralds an economic recovery that will support demand for commodities while supply remains constrained by falling of the *Capex* and restrictions on Russia.

Real estate

Real estate remains a prime alternative to the interest rate markets, especially after declines in most regions due to the fear and pressure of rising financing costs. The historical relative valuations of securitised real estate offer interesting repositioning opportunities for the year 2023.

Currencies

A weakening of the dollar seems likely. We continue to recommend significant dollar exposure while adopting a policy of diversifying opportunities outside the greenback.

Market performances - Q4 2022

Exchange rates		Q4 2022 local	Q4 2022 USD	YTD local	YTD USD
CHF/USD		6.8%		-1.3%	
EUR/USD		9.2%		-5.8%	
GBP/USD		8.2%		-10.7%	
JPY/USD		10.4%		-12.2%	

Equity markets		Q4 2022 local	Q4 2022 USD	YTD local	YTD USD
World	MSCI World USD	9.8%	9.8%	-18.1%	-18.1%
Europe	DJ Stoxx 600	9.8%	20.0%	-10.6%	-15.9%
Eurozone	DJ Eurostoxx 50	14.3%	24.9%	-11.7%	-16.9%
	MSCI Europe S.C.	10.5%	20.7%	-24.4%	-28.8%
Germany	Dax 30	14.9%	25.5%	-12.3%	-17.5%
France	Cac 40	12.3%	22.7%	-9.5%	-14.8%
United Kingdom	FTSE 100	8.1%	16.9%	0.9%	-9.9%
Switzerland	SPI	4.3%	11.4%	-16.5%	-17.6%
	SMI	4.5%	11.6%	-16.7%	-17.8%
	MSCI Swiss S.C.	18.3%	18.3%	-23.3%	-23.3%
North America	SP500	7.1%	7.1%	-19.4%	-19.4%
	Nasdaq	-1.0%	-1.0%	-33.1%	-33.1%
	Tse 300	5.1%	7.2%	-8.7%	-14.8%
	SP600 Small C.	8.7%	8.7%	-17.4%	-17.4%
Japan	Nikkei 225	0.6%	11.1%	-9.4%	-20.4%
Emerging	MSCI EMF USD	9.2%	9.2%	-22.4%	-22.4%

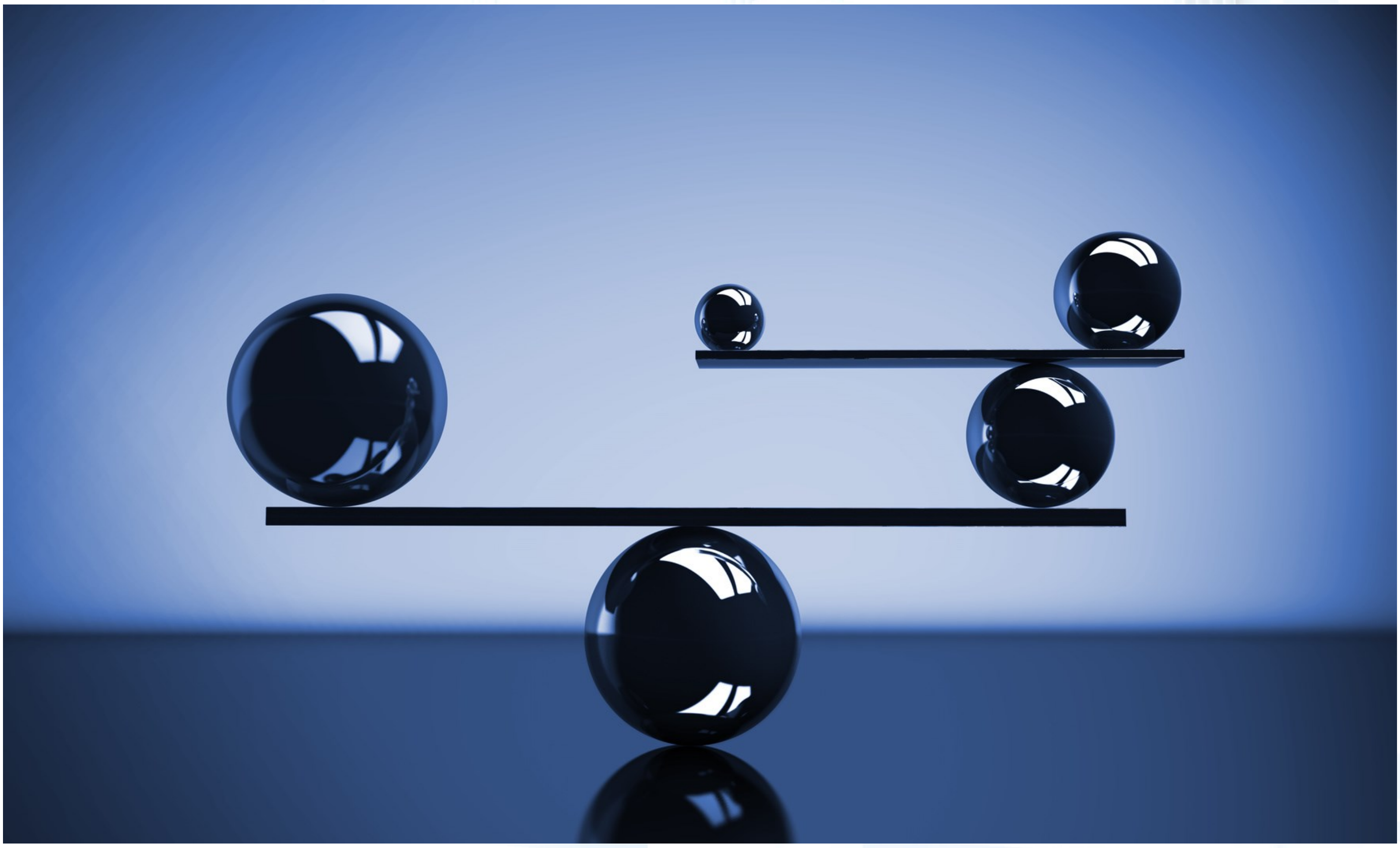
Interest rates (3 months)		(level)			
CHF		0.95%			
EUR		2.13%			
USD		4.77%			
JPY		-0.03%			

Bonds markets		Q4 2022 local	Q4 2022 USD	YTD local	YTD USD
World	Citi Gr Global Govt USD	3.8%	10.9%	-18.3%	-19.3%
Europe	Euro Ser-E Gov > 1	-2.1%	6.9%	-18.5%	-23.2%
United Kingdom	UK Ser-E Gov > 1	1.7%	10.0%	-25.1%	-33.1%
Switzerland	SBI Général AAA-BBB	-0.5%	6.2%	-12.1%	-13.3%
	SBI Govt	-5.3%	1.1%	-17.0%	-18.1%
USA	US Ser-E Gov > 1	0.7%	0.7%	-12.5%	-12.5%
Japan	Japan Ser-E Gov > 1	-1.9%	8.3%	-5.4%	-17.0%
Emerging	J.P. Morgan EMBI Global	7.4%	7.4%	-16.5%	-16.5%

Miscellaneaous		Q4 2022 local	Q4 2022 USD	YTD local	YTD USD
	LPP 25 Index	0.7%	-0.7%	-14.2%	-15.3%
	LPP 40 Index	1.3%	0.0%	-14.8%	-15.9%
	LPP 60 Index	2.1%	0.8%	-15.7%	-16.8%
Real Estate CH	DB RB Swiss Real Est Fd	1.7%	1.7%	-14.9%	-16.0%
Hedge Funds	Hedge Fund Research USI	0.8%	0.8%	-3.9%	-3.9%
Commodities	GS Commodity USD	3.4%	3.4%	26.0%	26.0%

Graph sources : BearBull Group/ Bloomberg/ S&P Global

INVESTMENT THEME
FOCUS



INVESTMENT THEME

Commodities : Imbalances will persist in 2023

- End of China's zero Covid policy upsets forecasts
- Oil demand driven by Asia
- Industrial metals in supply deficit
- New record highs for precious metal prices?

End of China's zero Covid policy upsets forecasts

The end of China's zero Covid policy will bring new hope and opportunities for the commodities sector. A recovery in consumption and investment demand from the world's largest importer of raw materials should have a major impact on the supply and demand balances of a large number of specific commodities.

The decision by the Chinese authorities to end the policy of strict control of the evolution of the Covid pandemic in China, which has prevailed for several years, will have a significant impact on the global market, particularly affected in 2022 by a sharp drop in Chinese demand. The speed with which health measures have been abandoned is spectacular. China has gone from a zero Covid policy to a strategy of total openness. This was therefore able to allow a new freedom of movement and travel within China, but also abroad. Unfortunately, the first effects of this opening up are catastrophic in terms of the health of the population, but the authorities seemed to have no other option and therefore accepted the likely consequences of this change in strategy. After an initial massive wave of Covid that could still affect China's economic dynamics, the authorities are counting on a clear upturn in activity which, according to them, will enable GDP growth in 2023 to be significantly higher, close to +5%. The year 2023 should thus prove to be much better than 2022, which certainly saw GDP advance by only around +3%. The first quarter could still be a little weaker, but the effects of the new policy will probably be more visible from the spring onwards.

In 2022, commodity markets were essentially affected by two very different sequences. In the first quarter, Russia's invasion of Ukraine completely disrupted global supply and demand forecasts and expectations. An immediate price surge occurred in response to the perceived sustained disruptions in the production and supply of certain commodities produced by Russia and Ukraine. Secondly, it was the risks of a cyclical slowdown, caused by the aggressive monetary tightening by developed country central banks such as the Fed, the ECB and the BoE from March onwards, which led to fears of a clear slowdown in the economic dynamic in Europe. China, on the other hand, already very concerned by the evolution of Covid in the country, was implementing a severe health policy that was penalising its economic development.

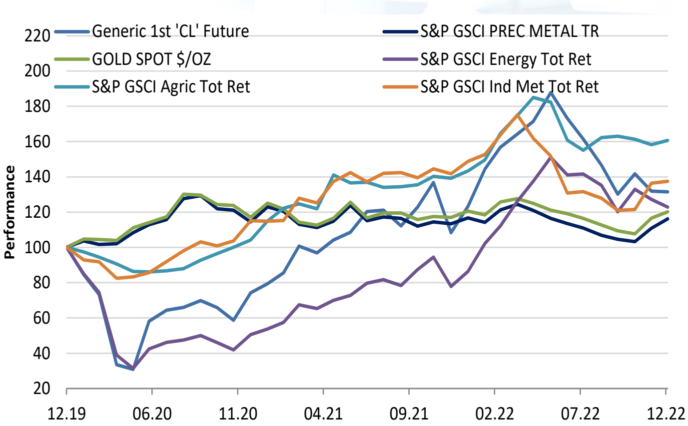
In this context, the *Bloomberg Commodity Index* jumped by 25.4% in Q1 before falling by 5.9% and then by 4.7% in the following quarters, to finally recover slightly in the last quarter by +1.1%.

The Chinese government has surprised observers and forecasters by making this radical change in health policy, which necessarily opens up completely new and unanticipated perspectives in 2023.

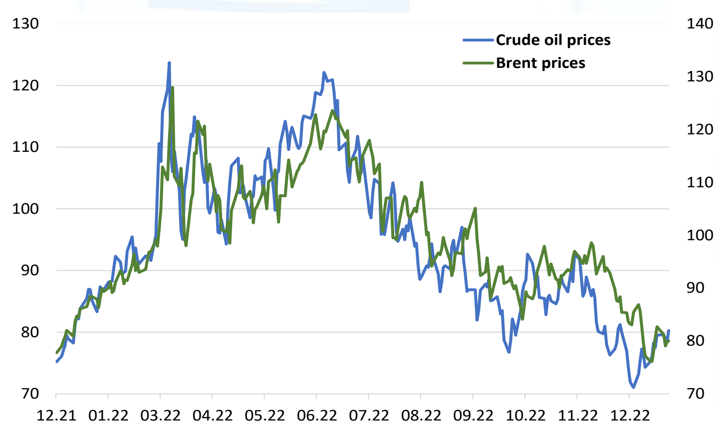
All demand forecasts will have to be adjusted to take this new parameter into account. Clearly, a recovery in Chinese activity is by far not included in the analysis and outlook for the year 2023.

However, it should be noted that the recovery in China will not be instantaneous and will have more or less diluted effects over time on the various specific markets. In China itself, the coastal cities will certainly be affected more quickly than the inland regions, but the proximity of the Chinese New Year should be a positive factor from the beginning of 2023. The recovery over the year as a whole will therefore be gradual and also partly dependent on the various government support measures that will be adopted to support economic activity.

Commodities



Evolution of crude oil prices (2022)



Graph sources : BearBull Group/ Bloomberg/ S&P Global

Oil demand driven by Asia

We believe that the return to normalcy in China will have a very rapid effect on petrol and oil consumption due to the immediate increase in population movements. It is already apparent that traffic in China has already picked up strongly in December, although it is still below the level of January 2021. Air travel is also expected to return to pre-pandemic levels, representing a strong increase in aviation fuel demand.

We therefore estimate that oil consumption could return fairly quickly to its pre-pandemic level in 2023. More broadly, energy demand, including gas and coal but also all other forms of alternative energy, is expected to grow in 2023.

Oil demand could thus turn out to be stronger in 2023 and exceed the previous peak. The predicted economic slowdown in the US and Europe is expected to be limited, while demand from India and emerging markets is expected to rise more sharply. On the supply side, the EU embargo on Russian energy products will mean a downward adjustment of Russian supply. OPEC countries still have no intention of increasing production after years of declining *capex*. The US is expected to be the only producer able to rise exports to meet the expected grow in global demand. Nevertheless, US shale oil producers should not rush to increase their production volumes and should certainly focus on improving their profitability.

In addition, OECD oil stocks are at their lowest level since 2004 and strategic reserves reduced in 2022 to increase supply and counter rising crude prices will need to be replenished in 2023.

We believe that this current global oil market environment is thus once again in even greater disequilibrium with the return of Chinese consumption. Our forecast for crude oil prices (*WTI*) favours a price increase above $100-110 per barrel.

Industrial metals in supply deficit

Chinese demand, which had contracted compared to previous years due to health policy, was partially offset by the still strong demand from developed countries supported by the energy transition. Despite fairly positive supply and demand fundamentals, prices declined in the second half of the year due to a strong dollar and increased uncertainty due to aggressive central bank monetary policies. Overall, inventories of the various industrial metals are low at the end of 2022 despite the fact that changing geopolitical conditions still underline the need to secure access to metals such as copper, nickel or cobalt. In 2023, we believe that macroeconomic factors will continue to influence industrial metal prices with increasing risks of supply-demand imbalances.

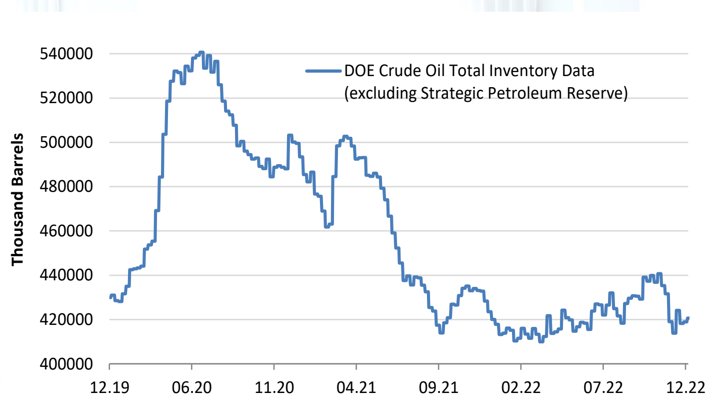
The prospect of China's reopening has also supported renewed interest in industrial metals and **iron** in particular, despite the continuing difficulties in the property sector. Demand for steel should also follow that of iron, particularly if the authorities continue their policy of facilitating access to credit. China imports about 70% of its iron requirements for steel production, which in turn is about 40% directly linked to real estate consumption. An upward trend has been set in place that could push iron prices higher in 2023.

In 2022, demand for **copper** remained strong, supported in particular by infrastructure investment in Europe, but also in China due to electric vehicle production, which compensated for the decline in real estate activity. Copper is also essential to the real estate sector and to the development of renewable energies. A recovery in Chinese demand seems evident as copper inventories are falling.

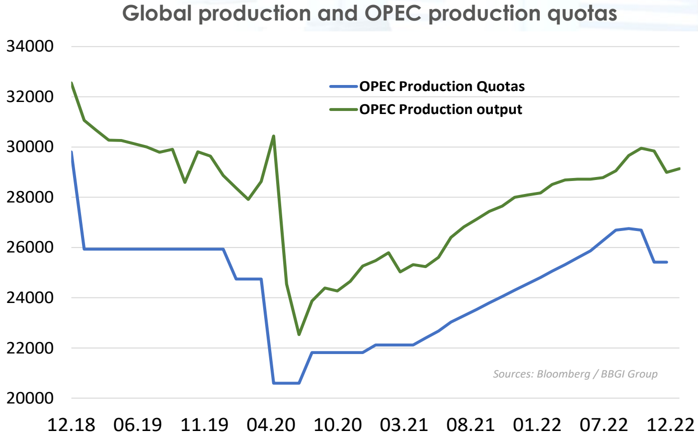
On the international market, copper supply is tight, suggesting an imbalance and a probable shortage of supply in 2023 that could push prices up to the highs seen in 2022. The situation of the copper market is particularly tense, with world supply limited by the absence of additional production capacity and by a specific situation in Chile, while demand remains strongly growing and supported by policies for the development of renewable energies, the electrification of vehicles, batteries, photovoltaic cells, etc...

Copper prices could rise again to over $10,000 per metric ton.

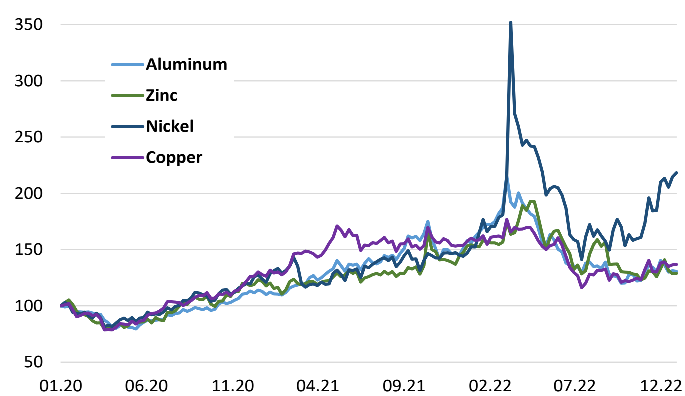
DOE oil inventories



Global production and OPEC production quotas



Evolution of industrial metals (2022)



 Graph sources : BearBull Group/ Bloomberg/ S&P Global

Zinc stocks are also at record lows on the *LME* and *Shanghai Futures Exchange*. Demand was relatively weak in 2022, but production had fallen even more drastically to adjust to this decline. Rising gas and energy prices have had a strong impact on European processors. China, which is also a major consumer and importer of zinc, has also reduced its needs during the lock-in period.

The **aluminium** market had an extremely volatile start to the year 2022 with prices rising 60% on fears of falling supplies from Russia, which then quickly faded as the global economic outlook deteriorated. The rise in energy prices in Europe affected aluminium transformation costs and caused the slowdown in activity. In China, the world's largest aluminium producer, processing has also been limited. Volatility is expected to continue in 2023.

The **nickel** market has also experienced strong fluctuations in 2022 and a distortion between physical and futures prices. Fundamentally, the market remains well-fed by increasing supply due to increased capacity in Indonesia in particular. If the country's development plans are realised, Indonesia could produce 50% of the world's supply by 2024. The market is therefore less tight and rather oversupplied unless demand for nickel batteries used in electric vehicles grows even faster under the impetus of the recovery in China.

Inventories of the six main industrial metals traded on the *London Metal* Exchange plunged by two-thirds in 2022 and are at their lowest levels in 25 years. The decline is 72% for aluminium, while zinc stocks are 90% lower, suggesting a possible shortage if demand proves a little stronger than estimated. Although the vast majority of metal production does not go through the exchanges, stocks on the *LME* or *Shanghai Futures Exchange* are important for estimating the risks and tensions in the physical markets between limited supply and, in particular in 2023, the potential new needs of China as its economy re-opens.

New record highs for precious metal prices ?

The year 2023 could once again be the year of gold and other precious metals. After being one of the best assets in 2022 in relative performance thanks to a performance close to zero but in fact far superior to all other traditional asset classes such as bonds and equities, gold could still shine with a significant positive absolute performance in 2023. In general, the expected macroeconomic environment for 2023 is characterised by a change in central bank monetary policies after several quarters of restraint. The rise in policy rates should be accompanied by a global decline in yield curves, which will take place against a backdrop of weaker inflation data.

A weaker dollar will provide additional support to gold prices, which will then be in a position to set new records in 2023.

The observed activity of central banks in the physical market in 2022 reveals a new trend to diversify their reserves away from the US dollar through physical gold purchases. We expect the record of central bank buying to be repeated in 2023.

The *World Gold Council* has noted that the environment of economic weakness, and even recession in some regions in 2023, is a favourable context for gold, which has historically benefited in 5 out of 7 cases from US recessions since the 1970s. Moreover, it also appears that gold has always been an excellent asset to hold in times of stagflation.

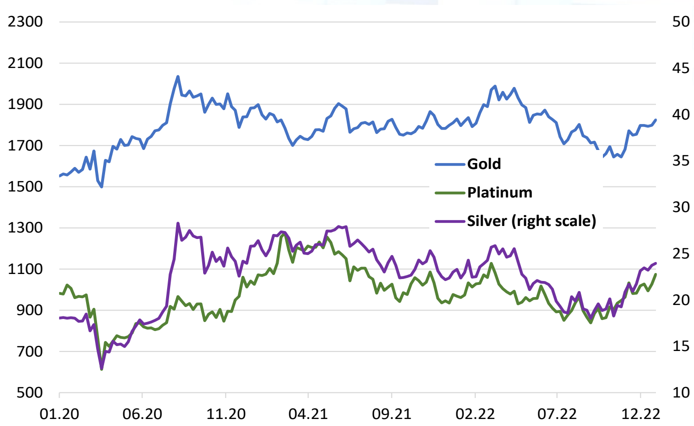
For silver, *the Silver Institute* estimates that global demand is expected to reach a new peak of 1.21 billion ounces already in 2022 and to strengthen in 2023, when the silver market will record another deficit year. In recent years, this deficit has been growing, but it is in 2022 that it has increased significantly. Demand is supported by the implications of silver in various stages of the energy transition. The main drivers of the demand recovery are also linked to the reopening of China which will support industrial demand. A rise in silver prices to $28.5 per ounce is in this context quite likely in 2023 according to our scenario.

Platinum ended the year up +11%, outperforming silver +3% and gold. Palladium was the only loser with a decline of -6%.

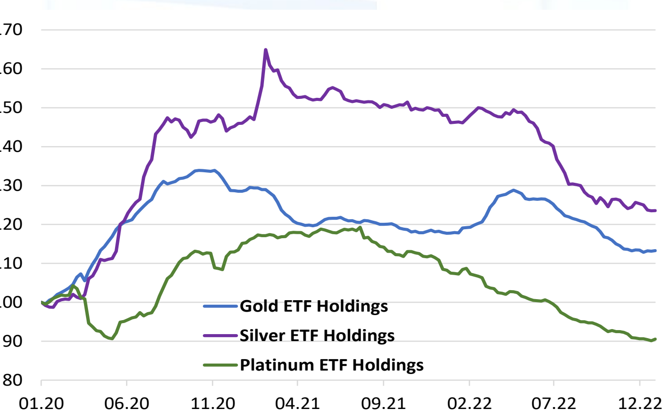
The *World Platinum Investment Council* stated in its latest report that the platinum market could well be in deficit by 2023 if the outlook for an increase of almost 20% in global demand materialises. Platinum supply, on the other hand, is estimated to increase moderately by +2% over the same period, which would put the platinum market into a supply deficit. After two years of surpluses, the market seems unlikely to rebalance and could therefore experience a year of production shortfalls. Supply remains well below pre-pandemic levels, while demand for platinum is expected to remain strong even in the economic downturn expected in 2023. Demand from the automotive sector is strong again.

Investment demand contracted in 2022 for most of the year, stabilising only when gold prices rose at the end of the year. Investors' holdings of physical gold through *Gold ETFs* have fallen by -12% since April 2022 (-15.8% since 2020) and end the year at their lowest level in volume. The same phenomenon can be observed for *Platinum EFTs*, whose ounce size has fallen even more sharply by -24% since June 2021.

Evolution of precious metals (2022)



Evolution of the physical holding of ETFs



 Graph sources : BearBull Group/ Bloomberg/ S&P Global

BearBull Global Investments Group Limited

BearBull
Global Investments Group

Information

Contact BearBull Group :

T : + 971 4 401 9161
E : info@bearbull.ae

BearBull Group
Gate Village 3, Level 1
Dubai International Financial Centre
PO. Box. 127676,
Dubai United Arab Emirates

www.bearbull.ae

swissquote.com

Swissquote Bank