



Investment Strategy

October 2022

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INTRODUCTION

Letter to Investors - Investment Climate

- Fed's hawkish speech stops investor optimism dead in its tracks
- Abrupt and rapid adjustment of rate curves
- Historical correlation of asset classes in the decline
- Risk diversification through commodities
- The decline in inflation is not yet convincing enough
- Investors stunned by volatility

September ended with negative results for most asset classes for the month, the quarter and the first nine months as a whole, amidst a general feeling of extreme investor anxiety at the end of the period. The last few days of the month were again shaken by high volatility on the international financial markets, which saw US Treasury yields rise above 4% on all medium and long maturities for the first time since November 2007. In recent months, geopolitical uncertainties have gradually taken a back seat, while fears of persistently high inflation have largely taken over. Despite some encouraging signs of stabilization in US price indices in July and August, which led to a surge of optimism in the financial markets, uncertainty and fear once again took hold of investors.

The tightening of the Fed's monetary policy then became the main source of concern affecting the financial markets. The Fed's increasingly explicit stance since Jackson Hole, left less and less doubt as to its willingness to firmly raise its key rates to 4.6% by the end of March 2023 with a 125 bp increase by the end of 2022, at the risk of provoking a recession and a rise in unemployment from 3.7% to 4.4% in 2023.

The growing risks of recession, the energy crisis in Europe and persistent inflation, as well as the political problems in the United Kingdom, also contributed to the climate of uncertainty that led 32 out of 33 asset classes and regions in our investment universe to record a negative performance for the month. This compares to 29 during the quarter and 30 since the beginning of the year, of which the only rising components were commodities. U.S. dollar cash benefited greatly from this situation since it was one of the very few investment solutions in a context of exceptional correlation in the downturn.

At the end of the third quarter, there was a high correlation between all asset classes and regions rarely seen in the past and within each asset class. The international bond markets collapsed by -19.89% in nine months, with no regional markets being able to escape this negative trend. In Switzerland, bond indices also fell by -11.64% and still recorded one of the worst regional performances, while sterling bonds suffered the biggest drop. The equity markets were obviously not immune to this rise in interest rates and logically reacted to the increase in uncertainty.

They quickly lost their enthusiasm of the beginning of the summer and sank into the red. US and international equities fell by approximately -9.2% in the final month of the quarter. The nine-month decline of the MSCI World Index of -25.42% also reflected quite negative regional performances, such as the decline in the US of -23.88%, in Europe of -20.4% or in emerging markets of -26.99%. Swiss equities were not spared and also plunged by -19.93%.

Securitized real estate was perhaps the most severely penalized asset class by the sharp rise in interest rates. The 29.36% drop in the global EPRA Nareit indices may also be linked to the lower liquidity and tradability of real estate funds, which may have exacerbated the downward trend to the point where the valuation levels of some major European stocks have fallen to less than 50% of their book value. In this

highly uncertain environment, private equity also plunged by -29.55%. Commodities were the only asset class to fare well in these complicated market conditions. The +21.8% rise in the S&P Goldman Sachs Commodities index owes its excellent absolute and relative performance to the +39.11% rise in the energy segment, as well as to the rise in agricultural products (+13.77%).

In monetary terms, the dollar was the big winner in this wave of interest rate hikes. Its +8.12% rise against the Swiss franc reflects its strength against all other currencies.

At the end of this quarter, we also note that all strategies diversified between a few asset classes, starting with the classic 60/40 or 40/60 strategies diversified between stocks, and which recorded one of the worst performances in their history, did not resist to the positive correlation observed in this downturn. Asset diversification including commodities was the only winning combination to control volatility and improve the overall result.

The sharp fall in the financial markets has logically affected the confidence of investors, who realized once again this quarter that the simple strategy of buying on price weakness no longer works. They are now logically reluctant to anticipate a slightly more positive evolution of the various parameters influencing the stock markets. The higher volatility of the last few months does not encourage investors to pick up on the positive signs that are appearing. The gradual decline in monthly and annual inflation or the indications of a decrease in the pressure on the labor market are still considered insufficient for reinvesting liquidity in the financial markets.

The risk-off mode is still dominating the markets for the time being, until a softening of the Federal Reserve's stance becomes possible. We believe that this will remain dependent on a more favourable evolution of inflation, which is not yet the case.



Alain Freymond
Partner & CEO
BBGI Group

BIG PICTURE

Main Convictions

- Growing risks of a sharp economic slowdown in 2023
- Inflation is slow to show encouraging signs
- High risk of central bank overshooting
- The worst is certainly over in the capital markets

Growing risks of a sharp economic slowdown in 2023

Economic growth has already been steadily weakening for several months in most countries, while the United States recorded two quarters of recession. But this trend is unfortunately likely to strengthen a little more at the end of 2022 and in 2023. Rising producer and consumer prices have been the main factor affecting global economic dynamics so far through their effects on the contraction of purchasing power and demand. Now, it is also the anti-inflation strategy implemented by central banks that reinforces the factors already present, that can push the economy further into recession. The risks of a recession are thus intensifying due to the combination of a weakening of consumption linked to the fall in household purchasing power and the desire of central banks to stop inflation. The U.S. Federal Reserve has made it clear that it wants to reduce tensions in the labour market and on wages, by causing a de facto increase in unemployment.

The Fed's monetary policy has appeared increasingly determined in recent weeks, with the target for the end of the first quarter of 2023 having risen significantly to 4.6%. Further rate hikes will push the current level of 3.25% towards this target with negative effects on the growth outlook. The tightening of monetary conditions should therefore continue over the next six months in both the US and Europe. The macroeconomic scenario for the next six months will most likely continue to be affected by these negative factors with lasting effects. Household and business confidence is at an all-time low and has little reason to improve quickly, especially if employment deteriorates. The world economy will certainly approach a global recession, but will probably avoid it thanks to China's growth in particular. The outlook is thus weak for both developed and emerging countries. GDP is not expected to grow by more than +1% in the US and +0.5% in Europe.

Inflation is slow to show encouraging signs

The last few months have again been particularly difficult for analysts in charge of determining the next evolution of inflation and for central banks, which are now clearly involved and determined to control it. While previous quarters regularly saw statistics pointing to a net increase in prices, in most countries under the influence of rising commodity prices, the third quarter was a bit more mixed. Without yet showing clear signs of a decline, some inflation measures have stabilized somewhat. In both producer prices and consumer price indices, monthly data often decelerated, but rarely showed a significant decline. The mixed signals given by the U.S. CPI index, for example, with a worrying +1.3% increase in June, were followed by encouraging July (0%) and August (+0.1%), before a more worrying September (+0.4%). In recent months, commodity prices have eased, providing a positive element to the various inflation measures. The contribution of the energy segment has clearly been positive in lowering the level of inflation. Nevertheless, other contributors proved sufficiently resilient to continue to push up price indices. In particular, rents are struggling to reverse the current upward trend and are supporting rising inflation, as are other service segments. In monthly sequences, inflation is nevertheless showing encouraging signs of a slowdown. The central banks are generally forecasting a decline in inflation by the end of 2022. They expect inflation to peak in the third quarter, followed by a steady and gradual deceleration. While inflation

is currently +8.1% (PCE +4.9%), the Fed's target for 2022 is +4.5%, and then +3.1% in 2023. The ECB, for its part, sees the current inflation (+9.3%) to stabilize at +8.1% at the end of the year and slip to +5.5% in 2023. Despite favorable base effects for some price index vectors, it seems clear that the expected decline in inflation will not materialize quickly. The inertia of certain trends will prevent price indices from declining as quickly as hoped. But the economic slowdown that is increasingly taking shape will necessarily have an impact on the evolution of the balance between supply and demand for goods and services. While we do not expect inflation to fall quickly, we believe that the peak has certainly already been reached.

High risk of central bank overshooting

Central banks are once again shaking up the financial markets with an attitude that could be perceived as dogmatic. After claiming for a long time that inflation was a temporary phenomenon linked to the health crisis, they have now completely changed course, fearing that it will be too vigorous and sustained by too much economic activity. Central bankers had lost their credibility even before the geopolitical crisis broke out in February. Already considered late in the fight against inflation, its persistence on a global scale has confirmed their lack of realism and anticipation. They belatedly realized that the friction in supply chains caused by the post-pandemic recovery of the global economy would not be temporary. At that time, we were already talking about the fact that the new major challenge awaiting them in 2022 would be to try to normalize their monetary policies, after having injected several trillion dollars of liquidity, without risking to derail the growth.

They were late in committing to the process of monetary tightening, when inflation seemed to be getting totally out of hand. Today, to restore their credibility, they are adopting aggressive strategies by emphasizing their unwavering determination to put an end to this dynamic. They are not afraid of the possible consequences of a major increase in key interest rates, estimated at nearly 5% today by the June 2023 deadline for the Federal Reserve. Nor are they afraid of the tightening of monetary conditions that is already being induced today, by the sudden rise in interest rates across the yield curves, which has a very significant impact on borrowing conditions in certain countries, such as the United States. Nor do they fear direct effects on corporate financing or on the financing of household real estate investments, because that is the objective they are now aiming for. The fight against inflation will certainly involve a probable economic recession and a rise in unemployment, which is what the Fed wants. The Fed does not seem to want to hear about a possible policy pivot and reminds us that it does not intend to change its strategy until it is certain that inflation is under control. At the current rate of 0.75% rate hikes per decision, the Fed will have already raised its key rate to 5% by the end of December, with two more hikes in November and December. Thus, we believe that if it does indeed hike 0.75% in November, it is likely that future hikes will only be 0.5% or 0.25%. The momentum of rate hikes in the United States should weaken. In Europe, the scenario is slightly different, as the ECB started its action later and is facing a more resistant inflation. The momentum of these decisions seems to us to be intact for a few months.

The worst is certainly over in the capital markets

The change in monetary policy announced by the US Federal Reserve in March marked the start of the historic interest rate adjustment that has taken place over the past six months. Six months of rising yield curves and bond market collapses that caused global indices to fall by around 20%. In two sequences of increases, interrupted only by a short pause between June and July, ten-year yields on US, UK and European government debtors in particular, have adjusted to inflationary developments and central bank strategies. They were even rising significantly faster than the short-term rates set by the central banks. In the US, ten-year yields jumped from 1.5% to 4%, while two-year Treasury yields adjusted even faster, rising from 0.7% to 4.5% in nine months. As a result, investors almost immediately adjusted their yield expectations across all maturities to the Fed's "announced" target of 4.5%-5% policy rates at the end of June.

This evolution also occurred in other capital markets in a global movement of readjustment of expectations rarely seen in previous decades, both in government securities and in corporate bonds. As a result, current yields on most maturities are already above the policy rates that central banks are about to raise. In other words, two-year US Treasury rates are already 100 bps higher than current policy rates (3.5%) and have already reached the 4.5% Fed Funds target expected for March 2023. In historical comparison, you have to go back to October 2008 to find US Treasury yields offering a 4% ten-year rate. It is true that at that time inflation peaked at 5.8% before collapsing to -2% in 2009, after the recession which caused GDP to fall by -4%. The Fed's monetary policy had gradually raised key rates from 1% to 5.25% between 2004 and 2007. This 4.25% increase in key interest rates was carried out in seventeen stages over four years.

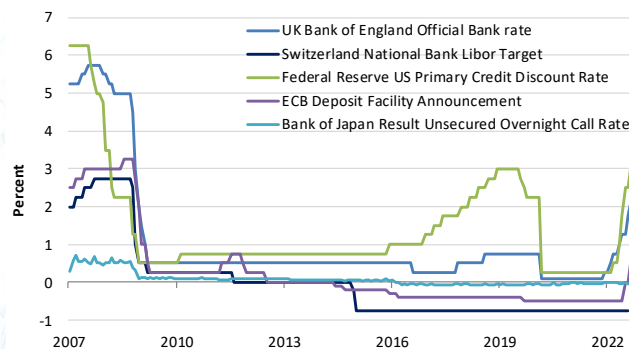
The Fed's adjustment this year is one of the fastest in recent economic history, with an adjustment of 3% in just five steps and in just six months. The current situation is certainly different, but the risks of a hard landing are still significant and certainly underestimated by the US central bank, which still has difficulty admitting that the economy has already been in recession for two quarters. The signs are there, but the Fed's insistence on ensuring an end to the tightness in the labour market may well be a little late in realising the damage already done to the economy, by the tightening of monetary conditions that has taken place in the US. The risks of overshooting its policy seem significant and exacerbated by the rapid reaction of bond markets. Today, the fear of inflation outweighs the fear of a slowdown and the risks of recession.

The Fed can avoid a hard landing and an entry into deflation

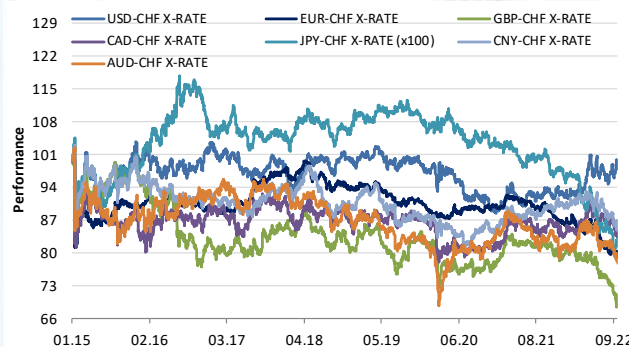
The risk is that the Fed will continue its monetary tightening policy for too long, with potentially very negative consequences for the economy, by trying to show unflinching determination in its fight against inflation. Inflation already seems to be declining, although the data are not yet very readable. Historically, since the 1920s, there are 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, we observe that inflation periods have corrected on average a little more than a year after their peak, falling back quite quickly to around 2%. A recession usually occurred within six months of the peak of inflation 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, rising policy rates and interest rates as a whole lead to a rapid destruction of demand as a result of rising debt servicing, in addition to the effects of inflation on falling purchasing power. A higher proportion of household and business income has to be devoted to servicing the debt and therefore leaves less disposable income.

The Fed's current action seems to us to be again inappropriate, as it is hoping for an economic slowdown that may turn into a deeper recession than it wants. Each 0.75% increase in policy rates brings it closer to the fateful moment when the effects of its policy will be felt at the same time, as the economic statistics already show an acceleration of the economy's weakness towards a deeper recession than it would have liked. However, the Federal Reserve can avoid this scenario by not being too dogmatic in its next actions. After the probable 0.75% increase in its key rates in November, it should show the flexibility needed to avoid the hard landing scenario by adopting a less aggressive policy of limited 0.5% and 0.25% increases.

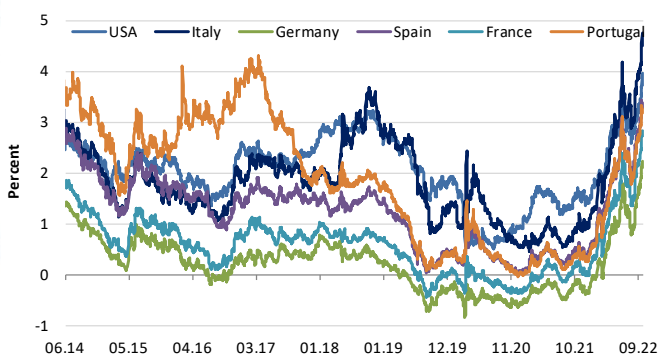
Policy Rates (EUR, CHF, GBP, USD, JPY)



7 Main Currencies against CHF (base 100)



10-year Government Rates



MACROECONOMIC SCENARIO



MACROECONOMIC SCENARIO

Global Outlook

- The spectre of a global recession looms
- Hard landing still possible in the US
- Very uncertain outlook in Europe in Q4
- The Swiss economy is still showing its resilience
- Improving economic conditions in Japan



The spectre of a global recession looms

Economic growth has already been steadily weakening for several months in most countries, while the US has been in recession for two quarters. Unfortunately, this trend is likely to become even more pronounced at the end of 2022 and in 2023. Rising producer and consumer prices have so far been the main factor affecting global economic dynamics through their effects on purchasing power and demand. Now it is also the anti-inflation strategy of the central banks that reinforces the factors already present that can push the economy further into recession. The risks of recession are thus intensified by the combination of a weakening of consumption linked to the fall in household purchasing power and by the desire of central banks to stop inflation. The US Federal Reserve has made it clear that it wants to reduce the pressure in the labour market and wage by causing a de facto increase in unemployment. The Fed's monetary policy has appeared increasingly determined in recent weeks, with the target for the end of Q1 2023 having risen significantly to 4.6%. Further increases in policy rates will push the current level of 3.25% towards this target with negative effects on growth prospects. The tightening of monetary conditions is therefore expected to continue over the next six months in both the US and Europe.

The macroeconomic scenario for the next six months will most likely continue to be affected by these negative factors with lasting effects. Household and business confidence is at an all-time low and has little reason to improve quickly, especially if employment deteriorates. The world economy will certainly come close to a global recession, but will probably avoid it thanks to China's growth in particular. The outlook is thus weak for both developed and emerging countries. GDP is not expected to grow by more than +1% in the US and +0.5% in Europe.

Hard landing still possible in the US

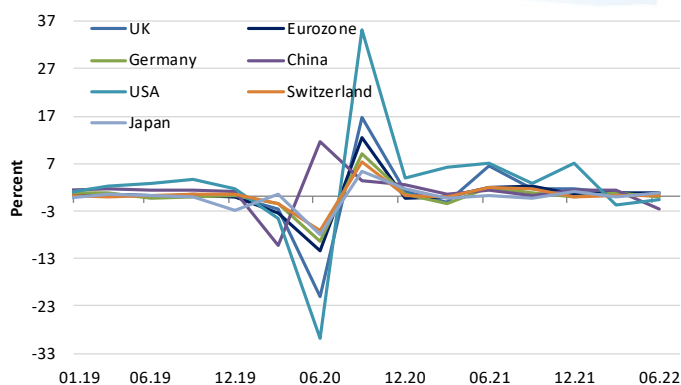
The US economy has already recorded two quarters of decline at the end of March and June, which theoretically already marked its entry into recession in the first half of 2022. The expectations for GDP growth

for the 3rd quarter are much more optimistic and suggest that it has already emerged from this phase of GDP contraction, with an expected +2% growth at the end of September. This result, when confirmed, will perhaps suggest that the economic recovery which could continue at the end of the year, with a further rise in GDP of +1.4%, is not affected by the evolution of inflation and interest rates. The US economy appears to be still growing, supported by a still very robust labour market and still significant wage increases, despite the negative effects of rate hikes and persistent inflation. Households have so far found ways to finance their consumption by relying more than ever on their savings and credit cards. But the cost of credit has risen sharply in recent months in the Fed's tightening environment.

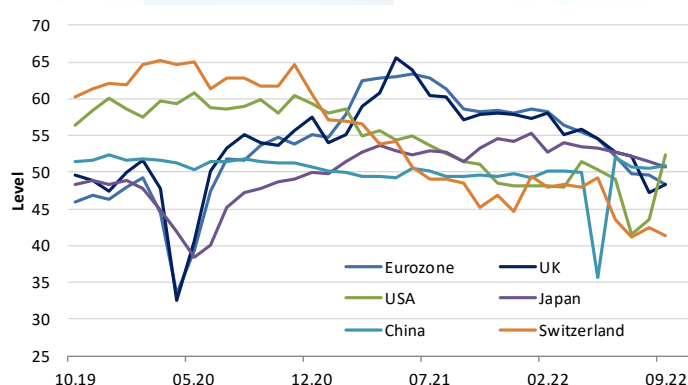
Financing costs have indeed jumped in the short and long term in connection with the rise in key rates from 1% in June to 3.25% today, and the rapid increase in ten-year Treasury yields for example: from 2.5% to 4%, which has spread widely to all areas, including real estate, where the 30-year mortgage rate has risen over the same period from 5.5% to 7.2%. We doubt that the US consumer will be able to cope in the coming months with such a tightening of financing conditions. It still seems a little too early to see a dramatic change in consumer behaviour and household spending, but the decline in purchasing power has taken hold and is beginning to bite into confidence and retail sales.

A peak in inflation in June-July and a gradual decline thereafter over the next few months seems possible however, if the decline in commodity prices that began in June continues and if the economic recovery in China also allows for a reduction in tensions in certain supply chains. This preferred scenario for inflation can therefore support the prospect of continued positive growth in the second half of the year, but it will depend heavily on Federal Reserve policy in the coming months. The latter can avoid the risk of a hard landing by not opting for an overly dogmatic stance in its next actions. After the likely 0.75% rate hike in November, it should show the flexibility needed to avoid this risk by adopting a less aggressive policy of subsequent limited increases to 0.5% and 0.25%.

Quarterly GDP



Manufacturing PMI



Europe is going through severe turbulence

The European economy is surprisingly resilient in the 1st half of the year, even though it is facing stronger domestic and international headwinds. The domestic demand is affected by the decline in household and business confidence, while external demand is weakening with the US recession and China's anaemic growth. Yet the European economic slowdown is still widely perceived as inevitable in the second half of the year. Germany, already in overdrive at the end of June with a GDP of +0.1%, could succumb in Q3 to the various tensions and the weakening of many economic indicators, such as retail sales (-1.3%), factory orders (-2.4%), industrial production (-0.8%) and a fall in consumer confidence (-42.5).

The French GDP, up by +0.5% at the end of June, could however be a little more resilient to the pressures observed during the summer. The declines in household consumption in July (-0.8%) and in industrial production (-1.6%) were partly followed in August by better statistics. Overall, the eurozone's GDP could still surprise by its resilience and even grow quite significantly by around +1.5%, if the forecasts for France (+1%), Germany (+0.7%) and Spain (+3.9%) materialise. European GDP should therefore still avoid a decline in Q3 despite the difficulties encountered by the German economy.

The reopening of European economies and fiscal support appear to be offsetting the effects of the energy crisis, but the European economy has probably not yet faced the maximum impact of the reorganisation of energy sources. The outlook for Q4 is still very uncertain.

The current quarter should still allow the southern European countries to benefit from a very promising return of tourists. But the pressure on household purchasing power from rising inflation should remain sufficiently worrying to affect consumption and investment at the end of the year. Germany and its industry remain particularly sensitive to difficulties in the supply of gas and energy, in the broad sense. The risks of a significant slowdown in the European economy are still growing at the end of the year. They should finally materialise in the coming months.

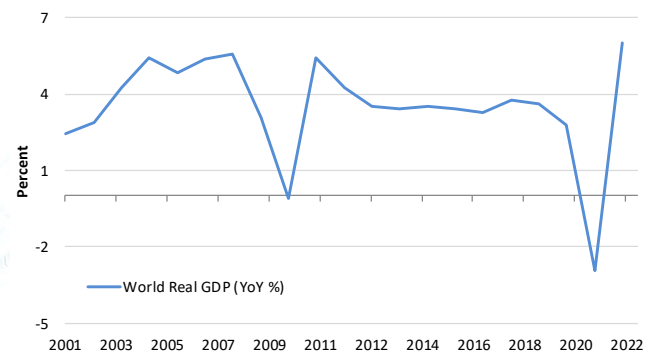
The Swiss economy is still showing its resilience

With only a few weeks to go before the publication of the Q3 performance, growth expectations seem to indicate a likely continuation of the resilience already observed in the first half of the year in Switzerland.

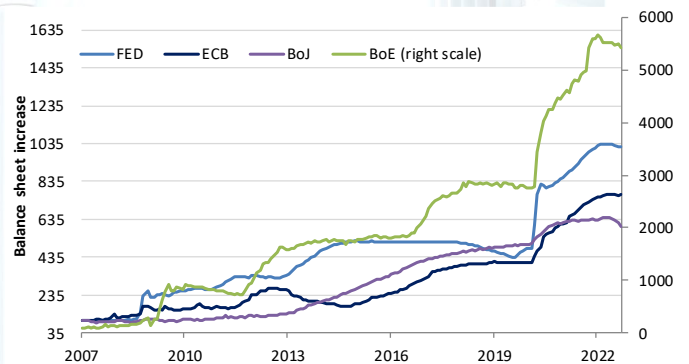
The Swiss economy is expected to have added +0.3% in real terms, in an increasingly difficult environment characterised by a weakening international economy, a sharp rise in inflation, an increase in the value of the Swiss franc, a net adjustment in interest rates and a tightening of monetary conditions implemented rapidly by the SNB. Yet the Swiss economy still faces undeniable contradictory forces. The crisis in Ukraine, the difficulties in obtaining raw materials and other products that are essential to Swiss industrial production, continue to have an impact on prices and the level of supply.

The end of the Covid restrictions was a more positive environment supporting the economy and the development of services in particular, but its positive effects are being offset by increased uncertainties directly related to the war in Ukraine and higher energy prices. Nonetheless, the Swiss economy should still grow by +0.3% in Q3. For the year as a whole, we believe that Swiss GDP should not undergo any major revision and should grow by +2.4%.

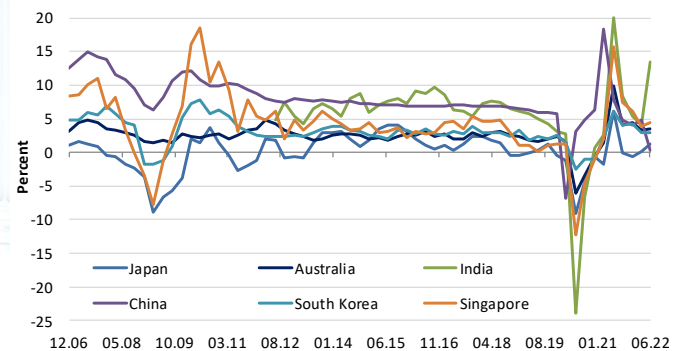
Real Growth in the World Economy



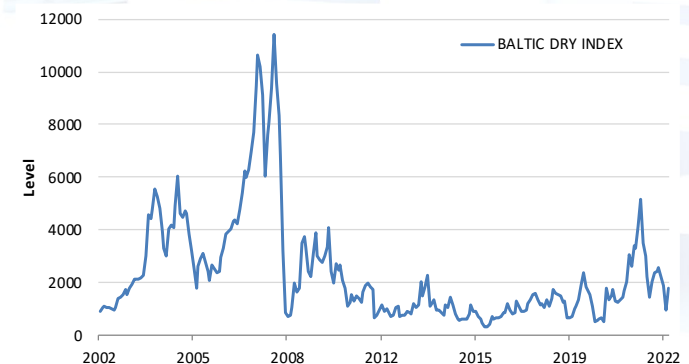
Global Liquidity



Growth Rates of Asian Economies (GDP)



Baltic Dry Index



UK economy still in surplus in Q3?

The latest revision of the UK economy's growth figures finally shows that GDP grew by +0.2% instead of the -0.1% contraction initially announced. Over twelve months, the measurement gap is more important since the GDP would have grown by +4.4% against +2.9% according to the first estimates. The decline in leading indicators continued over the summer, but there was surprising resilience in the face of particularly turbulent social conditions. While not positive, PMI indicators are close to 50, suggesting a surprisingly less pessimistic resilience than the negative growth forecasts that are being ahead of the next official Q3 GDP release.

Aside from the economic statistics, the new government is already facing a severe credibility crisis, with potentially very damaging effects on the short-term outlook. The measures announced and the reversal of position on tax rates have already clearly affected British confidence. The risks of a cyclical slowdown have thus logically increased in an environment already marked by a decline in industrial production and a fall in retail sales. But Q3 may yet surprise with a new resilience, by avoiding a recession again and recording a +0.1% increase in GDP. Q4 should however turn out to be a -0.4% decline.

Improving economic conditions in Japan

The Japanese recovery in Q3 seems to be slowing down after the good result in Q2. The recovery in demand and consumption is not proceeding at the expected pace. The fall in the yen has had a significant impact on inflation and imported prices should also affect Japanese foreign trade and push the deficit to a high level again. The health situation and the restrictions still in place in the face of an upsurge in Covid cases have dampened domestic demand. The easing of constraints in September should support a recovery in tourism and consumption, but these developments are likely to come a little late to really support Q3 growth. Furthermore, consumption is not expected to be supported by the rather negative evolution of households' disposable income. The decline in spending already observed at the beginning of the quarter should thus continue at the

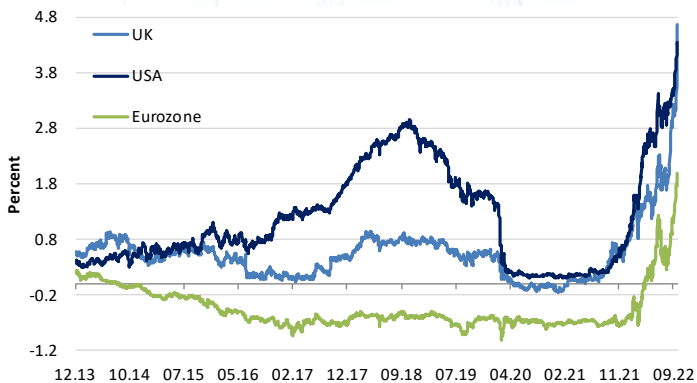
end of the period. That said, the rather surprising development of industrial production in August (+2.7%) and a possible continuation in September would support a stronger than expected Q3 growth of +2% (annualised).

The latest PMI leading indicators are all back in positive territory after lower levels in August in the services sector and at the aggregate level. The services PMI rises to 51.9 after a short period below 50 and is again higher than at the start of the pandemic, suggesting a recovery in the services sector. The manufacturing PMI still confirms a growth in activity with a level of 51, but it is still in the negative trend that began in February 2022. Overall, the composite PMI (50.9) rose above 50 and is benefiting from improving sentiment in services.

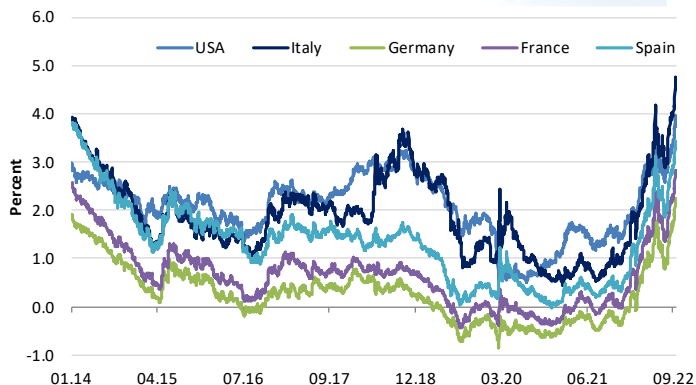
The rise in industrial production (+2.7%) in August could indicate a more positive behaviour of the manufacturing sector in Q3 and a new more favourable trend supported by a recovery in external demand, particularly from China. Orders for machinery jumped by +24.9% year-on-year, thus clearly supporting the overall development of the sector, which rose by +10.7% in August. The return of Chinese demand compensates for the weakness of European demand (-12%), while US orders also declined from +11.3% at the end of June to only +2.5% at the end of August.

In this context, the +2.4% increase in the level of production capacity utilisation, in the Japanese manufacturing sector to 94.5%, also confirms the improvement in production conditions and the revival of activity to almost its highest level, since the outbreak of the Covid crisis in March 2020 (95%).

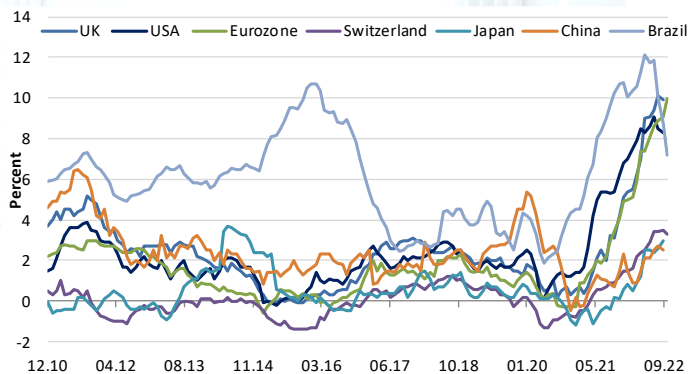
2-year Government Rates



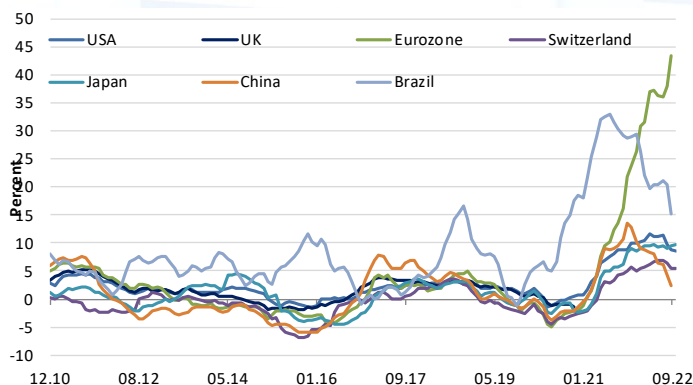
10-year Government Rates



Inflation - CPI Indices



Inflation - PPI Indices



MACROECONOMIC SCENARIO

United States

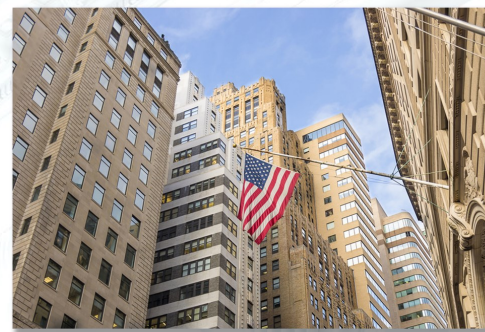
- Temporary exit from recession in Q3
- A hard landing still possible
- New inflation regime
- Dollar in decline
- Favourable situation for bonds and shares

Temporary exit from recession envisaged in Q3

After a Q1 and Q2 contraction of -1.6% and then -0.9%, the US economy virtually entered a technical recession on June 30 to the relative surprise of all observers who were expecting positive real GDP growth. However, current forecasts for Q3 favour a fairly clear recovery in economic activity, estimated on average at +2% GDP growth, at the end of September. While the risks of recession are clearly quite widely discussed by forecasters, they seem to be pushed back to 2023. The likely temporary recovery in economic activity was taken into account by investors, who, after having relaxed their attention a little, quickly raised their expectations for bond yields, which are now at their highest. Nevertheless, recent economic statistics are not so clear about the development of the economy in the third quarter that has just ended. The lack of growth in retail sales in September (0%) shows that the US consumer is finally being hit by inflation and declining purchasing power.

The manufacturing PMI is resilient (52), but the services PMI (49.3) and the overall index (49.5) are both below the 50 growth threshold. The labour market still looks strong from the Federal Reserve's perspective, but jobless claims are rising as total business job advertisements fall. However, the contraction of the economy in Q2 logically paved the way for an expectation of continued economic weakness in Q3. The tense inflationary context reducing the purchasing power of households and threatening consumption, the main component of US GDP, and the rise in interest rates were negative factors.

But while the economy is certainly in a slowdown phase and is expected to remain fragile, the economic data do not yet resemble those seen in a sustained recession. A soft landing of the economy is therefore not excluded. In this still relatively uncertain context and not yet marked by the latest surge in interest rates, a few months ago we estimated that the US economy could well already record further positive GDP growth in the third quarter, of around +1.5%. Our growth expectations for Q3 have now been revised down slightly, despite the



Atlanta Fed's GDP Now leading indicator pointing to +2.8% annualised growth in Q3.

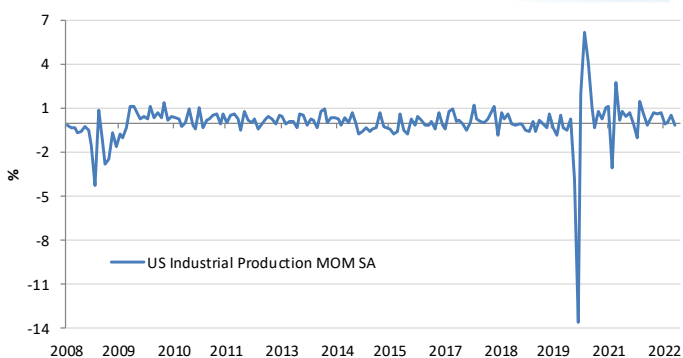
The third quarter could well be followed by a further contraction in GDP at the end of the year, if the trend in household consumption continues to be downward and if the negative signals observed in the labour market and the housing market continue. The main soft landing scenario can still occur and be supported by the central bank's still positive view of the labour market. The bank still seems convinced that the US economy is strong enough to withstand the new draconian rate hikes it has been imposing on it for the past six months, to fight inflation.

Nevertheless, we believe that the US consumer and business are already being affected by the sharp rise in financing costs at all levels. The last quarter is therefore unlikely to remain positive and will probably force the Fed to adopt a looser monetary policy at the end of the year by continuing to raise rates at a slower pace.

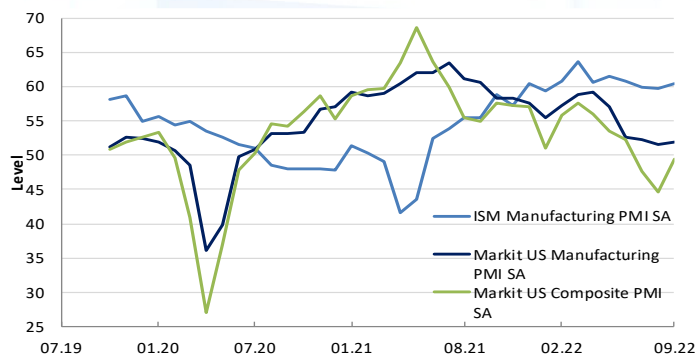
Hard landing still possible

The US economy has already recorded two quarters of decline at the end of March and June, which theoretically already marked its entry into recession in the first half of 2022. The expectations for GDP growth for the 3rd quarter are much more optimistic and suggest that it has already emerged from this phase of GDP contraction, with an expected +2% growth at the end of September. This result, when confirmed, will perhaps suggest that the economic recovery which could continue at the end of the year with a further rise in GDP of +1.4% is not affected by the evolution of inflation and interest rates.

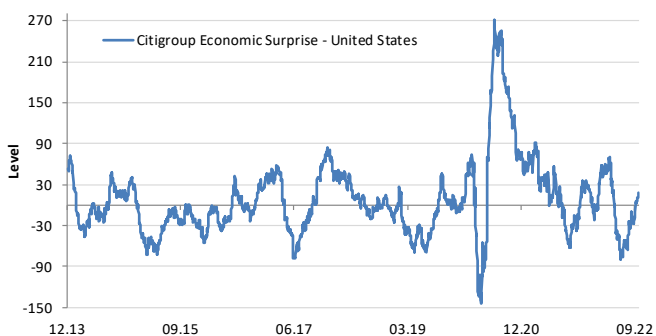
Quarterly US Real GDP



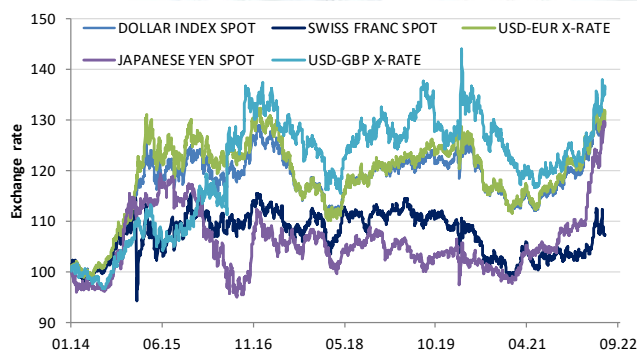
Leading Indicators PMI



Citigroup Economic Surprise Index USA



Dollar Trade-Weighted Index and Currencies



The US economy does indeed still seem to be growing, supported by a still very robust labour market and still notable wage increases, despite the negative effects of rate hikes and persistent inflation. Households have so far found a way to finance their consumption by using savings and credit cards more than ever. But the cost of credit has risen sharply in recent months, in the Fed's monetary tightening environment. Financing costs have indeed jumped in both the short and long term with the rise in key rates from 1% in June to 3.25% today and the rapid rise in 10-year Treasury yields, for example, from 2.5% to 4%, which has spread widely to all areas, including real estate, where the 30-year mortgage rate has risen over the same period, from 5.5% to 7.2%.

We doubt that the US consumer will be able to cope with such a tightening of financing conditions in the coming months. It still seems a little too early to see a dramatic change in consumer behaviour and household spending, but the decline in purchasing power is now a fact and is beginning to bite into confidence and retail sales. A peak in inflation in June-July and a gradual decline thereafter over the next few months seems possible however, if the fall in commodity prices that began in June continues, and if the economic recovery in China also makes it possible to envisage a reduction in tensions on certain supply chains.

This preferred scenario for inflation can therefore support the prospect of continued positive growth in the second half of the year, but it will depend heavily on Federal Reserve policy in the coming months. The Fed can avoid the risk of a hard landing by not being too dogmatic in its next moves. After the probable 0.75% rate hike in November, it should show some flexibility to avoid this risk by adopting a less aggressive policy of limited increases to 0.5% and 0.25%.

Leading indicators fall back

The US Empire State Manufacturing indicator fell in October (-9.1), while the services PMI (49.3) and composite PMI (49.5) stabilised below the growth threshold. The ISM indices for September show significant declines in manufacturing (50.9), new orders (47.1) and employment (48.7). The labour market is also beginning to show signs of softening with job openings dropping from 11,239k to 10,053k in August

and job creation continuing its downward trend in September from 315k to 263k. It should be noted that the labour market is more of a "lagging" than a "leading" indicator and that the current trend will only have an effect on the unemployment rate in several months' time.

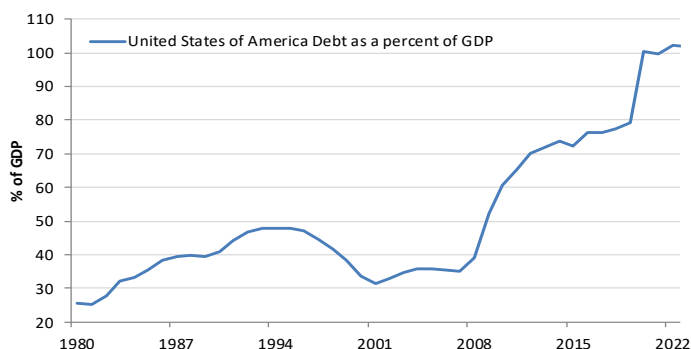
Consumers dip into their reserves

Household confidence is not at its best, but sentiment as measured by the University of Michigan improved in October. The labour market will not, in our view, be of much help in supporting a further improvement in sentiment. Average weekly earnings have been declining since March 2022, recording their lowest monthly increase (+0.3%) since February. Despite this increase, household purchasing power has contracted sharply due to a still high year-on-year inflation rate. Moreover, the sharp rise in interest rates and the cost of financing also reduces disposable income. The average commercial rate for credit cards has now risen to 16.27% in August. In this difficult environment, consumers have often had no choice but to dip into their savings and increase their level of indebtedness by using their credit cards more than usual.

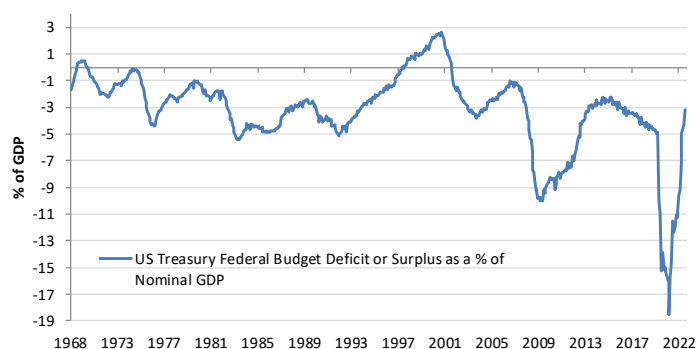
US households have struggled to cope with the fall in purchasing power for both current spending and purchases of durable goods. The cost of financing for vehicles has also risen to 5.5%, not to mention the increase in mortgage rates.

Household credit use thus increased by a further USD 32.2 billion in August, well above expectations. Revolving credit including credit cards increased by 17.2 billion, representing the third largest increase ever. The use of credit is therefore increasing significantly and is becoming a necessity for some households to maintain their level of consumption. 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 coming months.

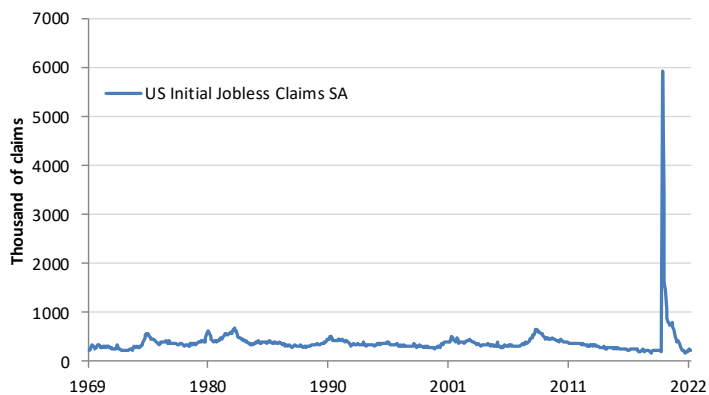
Debt USA



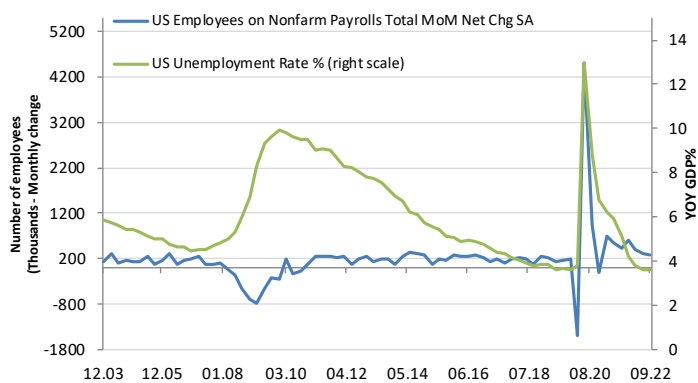
US Treasury Deficit/Surplus



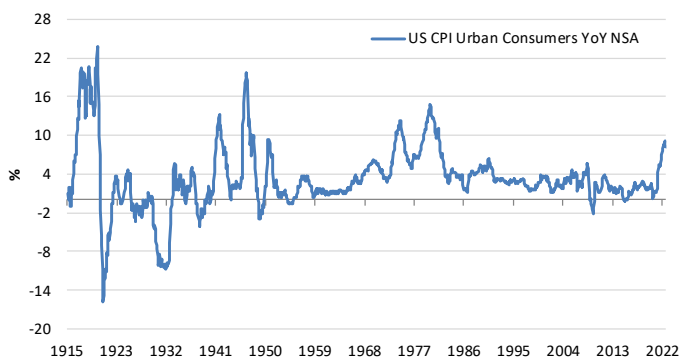
Unemployment Benefits in Thousands of Claims



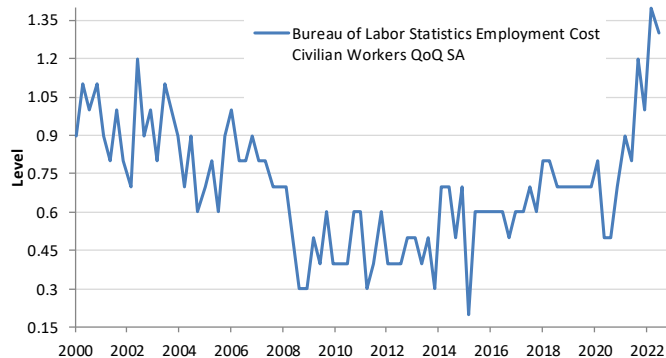
Job Creation Outside the Agricultural Sector (Net monthly var.)



Annual Inflation Rate USA 1914-2021



Unit Labour Cost (Employment Cost Index)



The Fed can avoid a hard landing and deflation

The risk today is that the Fed will continue its monetary tightening policy for too long, with potentially very negative consequences for the economy, in an effort to show unfailing determination in its fight against inflation.

Inflation already seems to be declining, although the data are not yet very readable. Historically, 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, inflation periods 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 peak of inflation 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, rising policy rates and interest rates as a whole cause a rapid destruction of demand as debt service rises, in addition to the effects of inflation on falling purchasing power. A higher proportion of household and business income has to be spent on servicing the debt, leaving less disposable income.

The Fed's current action again seems inappropriate, as it is hoping for a cyclical slowdown that may well turn into a deeper recession than it wants. Each 0.75% increase in its key rates brings it closer to the fateful moment when the effects of its policy will be felt, as the economic statistics will already show an acceleration of the economy's weakness towards a deeper recession than it would have liked. Nevertheless, the Federal Reserve can avoid this scenario by not being too dogmatic in its next actions. After the probable 0.75% increase in its key rates in November, it should show the flexibility needed to avoid the hard landing scenario, by adopting a less aggressive policy of limited increases of 0.5% and 0.25%.

Inflation slow to show encouraging signs

In recent months, commodity prices have eased somewhat, providing a positive element to the various inflation measures. The contribution of the energy segment was clearly positive in lowering the level of inflation. However, other contributors proved sufficiently resilient to continue to push up price indices. Rents in particular are struggling to reverse the current upward trend and are supporting rising inflation, as are other service segments. In monthly sequences, inflation nevertheless shows encouraging signs of slowing down.

Central bank forecasts generally point to a sharp decline in inflation by the end of 2022. They expect inflation to peak in the third quarter, followed by a steady and progressive deceleration. While inflation is currently +8.1% (PCE +4.9%), the Fed's target for 2022 is +4.5%, then +3.1% in 2023. Despite favourable base effects for some price index vectors, it seems clear that the expected decline in inflation will not materialise quickly.

The inertia of certain trends will prevent price indices from falling as quickly as hoped. But the economic slowdown that is increasingly taking shape will necessarily have an impact on the evolution of the balance between supply and demand of goods and services. While we do not expect inflation to fall rapidly, we believe that the peak has certainly already been reached.

The worst is certainly over in the interest rate market

The change in monetary policy announced by the US Federal Reserve in March marked the start of the historic interest rate adjustment that has taken place over the past six months. In two sequences of increases, interrupted only by a short pause between June and July, US ten-year Treasury yields have adjusted sharply to inflation and Fed policy. Thus, they sometimes even rose significantly faster than short-term rates. Ten-year yields jumped from 1.5% to 4%, while two-year Treasury yields adjusted even faster, rising from 0.7% to 4.5% in nine months. As a result, investors almost immediately adjusted their yield expectations across all maturities to the Fed's "announced" target of 4.5%-5% policy rates at the end of June. As a result, current yields on most maturities are already above the Fed's target for policy rates.

Two-year US Treasury rates are already 100 bps higher than current policy rates (3.25%) and have already reached the 4.5% Fed Funds target expected for March 2023. In historical comparison, you have to go back to October 2008 to find US Treasury yields offering a 4% ten-year rate. It is true that at that time inflation peaked at 5.8% before collapsing to -2% in 2009, after the recession which caused GDP to fall by -4%. The Fed's monetary policy had gradually raised key rates from 1% to 5.25%, between 2004 and 2007. This 4.25% increase in key rates was done gradually in seventeen stages over four years. The Fed's adjustment this year is thus one of the fastest in recent economic history, with an adjustment of 3% carried out in only five steps and in barely six months.

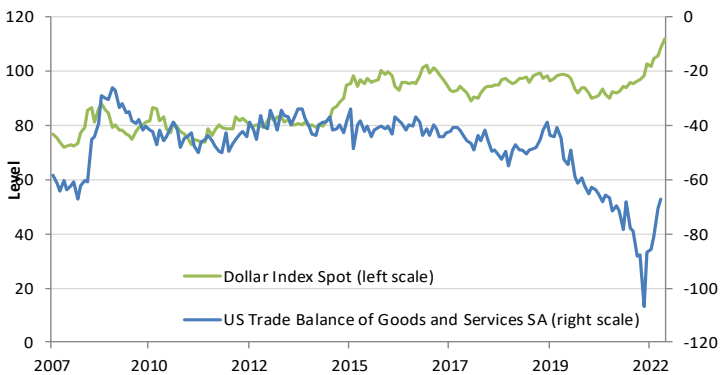
The risks of overshooting of its policy seem to us to be significant and exacerbated by the rapid reaction of the bond markets. Today, the fear of inflation outweighs the fear of a slowdown and the risks of recession.

Will the dollar soon be losing momentum?

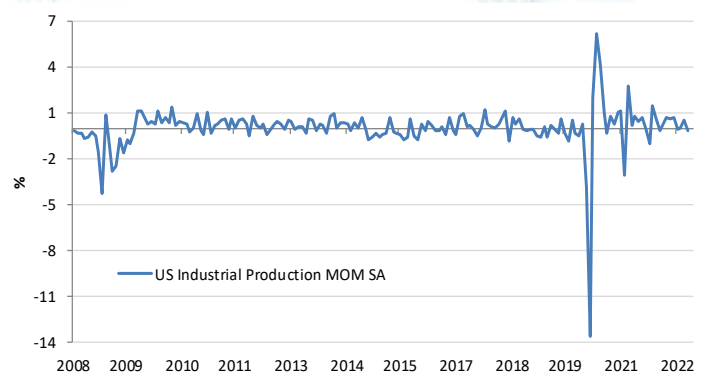
In monetary terms, the dollar has been the big winner in this wave of interest rate hikes. The +19.5% increase in the trade weighted exchange rate reflects the strength of the exchange rate, against a range of currencies. Dollar cash will have benefited greatly from this situation by establishing itself as one of the very few investment solutions. However, if a new inflationary regime finally materialises more clearly in the coming months, suggesting a reduction in tensions, we believe it is likely that a different dynamic will also materialise in the interest rate 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.

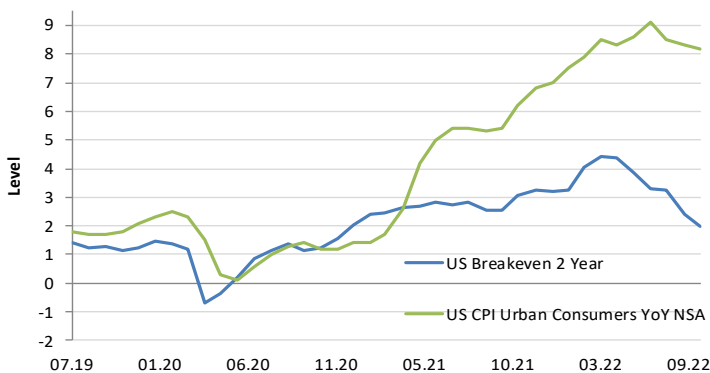
Trade Balance - Trade-weighted US



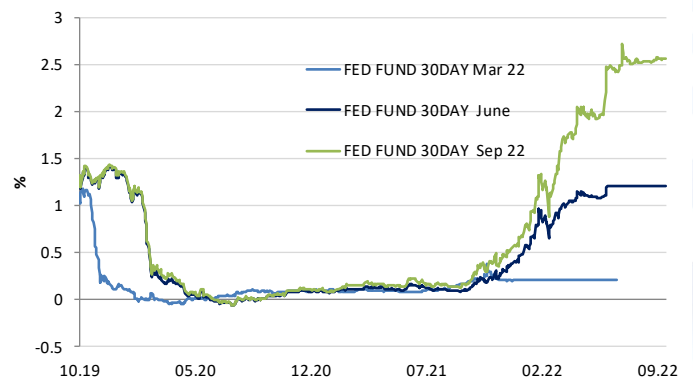
Industrial Production - US



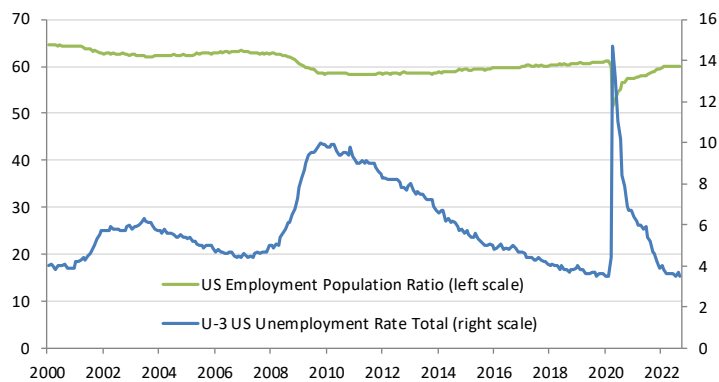
Expected Inflation and CPI - USA



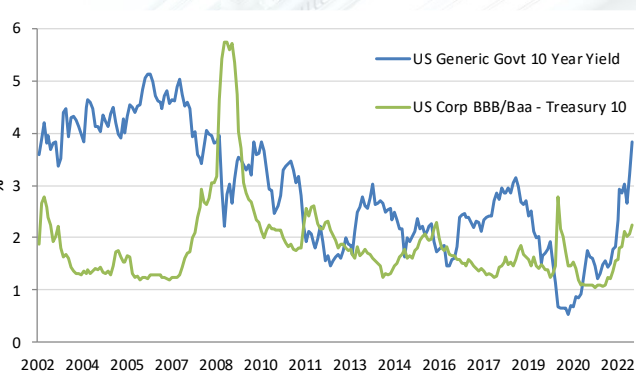
Fed Funds Futures



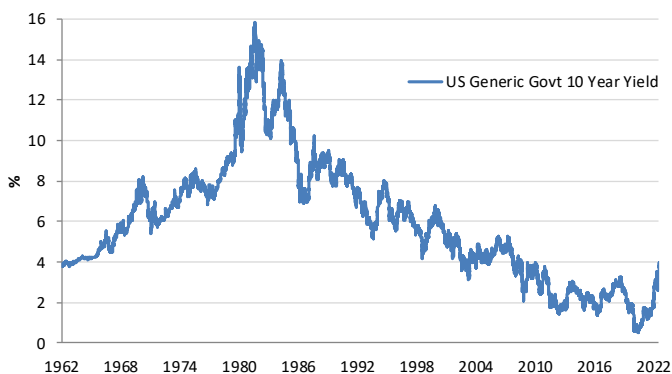
Unemployment Rate and Occupation Rate of the Population



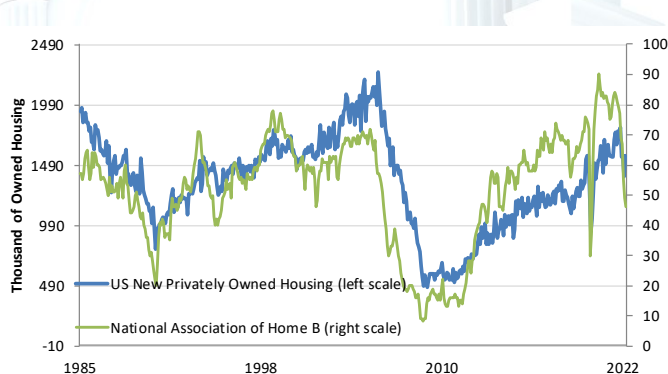
Yield Spread US Treasury-BBB 10 years



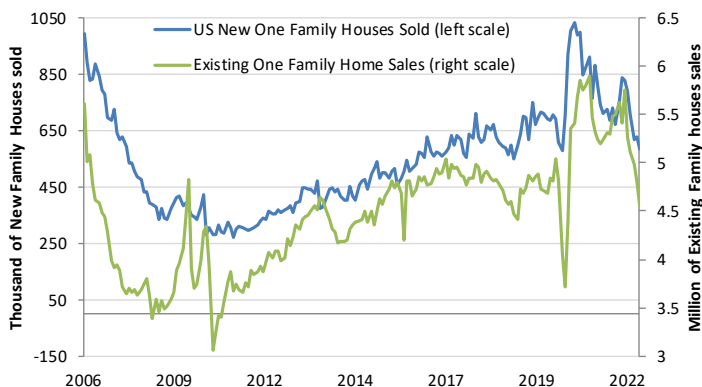
10-year US Treasury Bond Rate



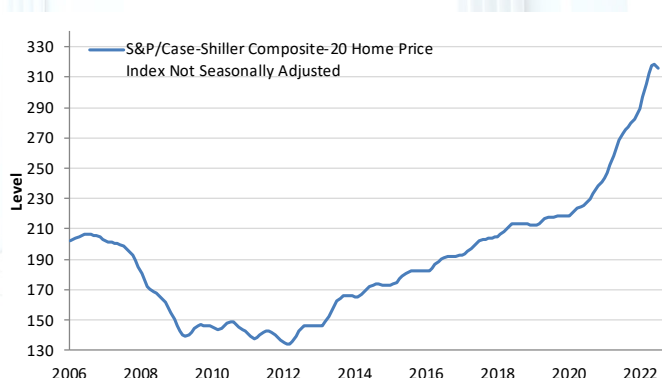
New Housing and NAHB US



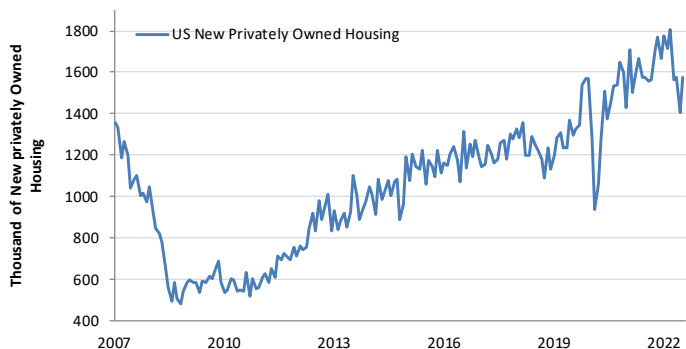
Sales of new and Existing Houses



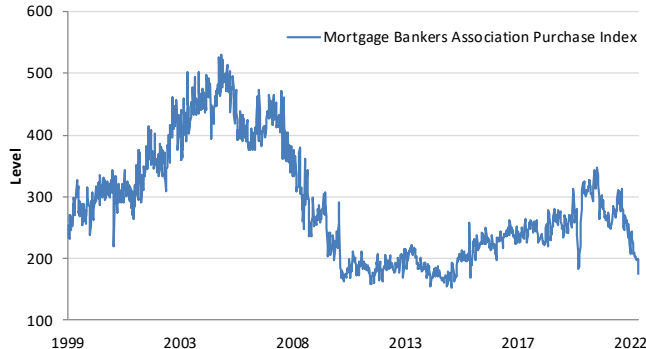
Property Prices S&P Case-Shiller Index



New Housing Starts



New Applications for MBA Funding



MACROECONOMIC SCENARIO

Switzerland

- Swiss economy withstands headwinds
- Public and private consumption remain the drivers
- Swiss inflation at a 30-year high
- Surprise and radical change in SNB policy

The Swiss economy is still showing its resilience

Swiss GDP continues its steady recovery trend despite the war in Ukraine, inflation, the rise of the Swiss franc and the strong increase in economic and political uncertainties. Indeed, the GDP for the second quarter was still positive (+0.3%) and therefore quite different from the situation observed in the United States, which recorded a second quarter of decline and an official entry into recession. In our country, the economy thus seems to be much more resistant to the turbulence of all kinds that appears and threatens growth.

By recording a new increase in its GDP of +0.3% in the 2nd quarter, the fifth consecutive increase after a progression of +0.2% and +0.3% during the two previous quarters, Switzerland seems to be ignoring the particularly worrying difficulties that are presented, notably in relation to the strength of the franc and the limited energy resources available to the country. This positive development in quarterly growth brings the year-on-year performance to +2.8%, although this is down from +4.4% in the previous quarter. We will see below what the main components were that supported this growth and what the detailed outlook is for the coming quarters. With only a few weeks to go before the publication of the third quarter performance, growth expectations seem to indicate a likely continuation of the resilience already observed in the first half of the year in Switzerland.

The Swiss economy is expected to have added +0.3% in real terms, in an environment that is still more difficult, characterised by a weakening of the international economy, a clear increase in inflation, a rise in the value of the Swiss franc, a net adjustment in interest rates and a tightening of monetary conditions implemented rapidly by the SNB. However, the Swiss economy is still facing undeniable forces. In particular, the crisis in Ukraine and the difficulties in obtaining raw materials and other products essential to Swiss industrial production are still having an impact on prices and supply levels. The end of the Covid restrictions provided a more positive environment for the economy and the development of services in particular, but its positive effects are being offset by increased uncertainties directly related to the war in Ukraine and the rise in energy prices.



Nevertheless, the Swiss economy is still expected to grow by +0.3% in the third quarter. We believe that for the year as a whole, Swiss GDP should not undergo any major revision and should grow by +2.4%.

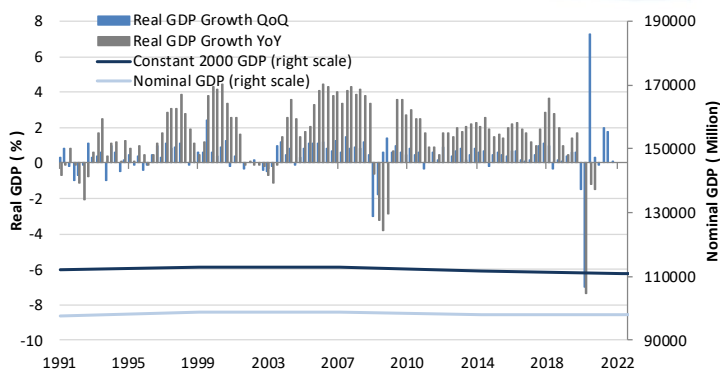
Private consumption and investment support GDP

The +0.3% increase in GDP was clearly supported by private consumption, which rose by +1.4%, and by investment in capital goods, which rose by +2.6%. Government consumption, which is generally positive, was flat in the second quarter and did not support growth. The recovery was clearly more marked in services, where the creation of added value rose sharply in the sectors previously particularly affected by the health restrictions, with the hotel and restaurant sector recording a fine increase of +12.4%. International tourism continued its recovery, particularly under the impetus of European and American tourists. Despite these encouraging developments, the sector's added value is still lower than before the pandemic by around -10%. Transport also benefited from the normalisation in the 2nd quarter and presented a growth of +4.4% which allowed the sector to return to its pre-crisis level.

The services segment benefited from the recovery, with the exception of financial services and trade, which saw their value added fall by -1.5% and -2.1% respectively. This positive trend was particularly evident in the services export sector, which rose by +5%. With the lifting of health restrictions, private consumption also recovered after a slump during the winter. The +1.4% increase was particularly evident in the hotel and restaurant sector. On the investment side, construction investment stalled with a slight decline of -0.2%, in relation to the decline in the construction sector (-1.7%), while investment in capital goods increased by +2.6% after a negative previous quarter.

The rise in domestic demand also led to a clear increase in imports of services (+6.2%), slightly higher than the +5% rise in exports of services. Exports of goods, however, fell by -11.5% over the period due to the decline in transit trade. In manufacturing, value added also declined by -0.5% after seven quarters of clear recovery, due to the decline in production and exports of the chemical-pharmaceutical industry.

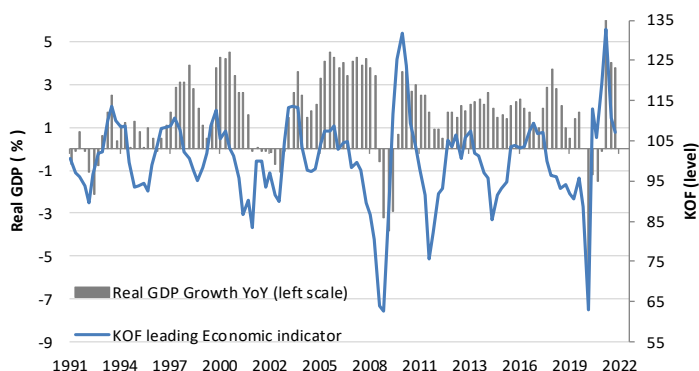
Nominal GDP - Nominal and Real Growth Rates



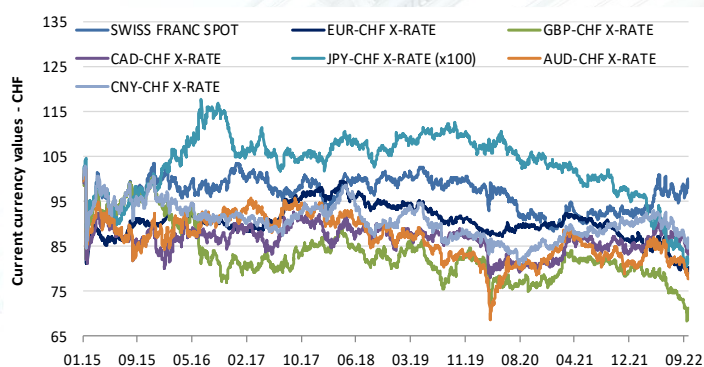
Swiss PMI Leading Indicator (Purchasing Managers)



Real GDP - Annualised Growth - KOF Leading Indicator



CHF Exchange Rate (base 100)



Prospects for a stabilisation of inflation in the near future

The strength of the Swiss franc has continued to be a favourable factor in containing price developments in Switzerland in recent months, by slowing down the developments observed in most industrialised countries, particularly in terms of producer prices. Nevertheless, consumer price indices still rose slightly, reaching +3.5% year-on-year in August. On a monthly basis, however, the CPI advanced by +0.3% after a month of stabilisation in July (+0%), offering some hope of a stabilisation of ongoing inflation after the more worrying figures published between February and June above +0.5%/month. On an annual basis, the latest CPI increase (+3.5%) brings inflation to its highest level in Switzerland in the last 30 years. While this annual result may still be worrying, the recent and still fragile stabilisation of the last two months could still be the first step towards a clearer reduction in inflationary pressures, in the coming months.

In national comparisons, Swiss inflation remains well below the eurozone figure of +8.89%, the UK (+9.9%) and the US (+8.3%). Excluding food and energy, Swiss inflation has now reached the SNB's target of 2%, effectively motivating the institution's change in monetary policy. The change in monetary policy by the Swiss National Bank, which demonstrated a priority to fight inflation by raising its key interest rates by 0.75% in September, should reinforce the likelihood of an upcoming stabilisation of prices. The international tensions observed on the production chains have not eased and therefore represent a very important risk factor for Switzerland, which could support a further rise in prices. Rising transport costs, logistical problems and persistent tensions in the labour market remain serious. With the unemployment rate still at a decade-low of 2%, the Swiss economy may also have to adjust to risks of wage increases.

Nonetheless, the upward momentum of energy and commodity costs is likely to slow significantly in the coming weeks and contribute to the loss of inflation momentum in Switzerland. In addition, the strength of the Swiss franc, which has strengthened against the euro in recent weeks, will also contribute to a likely improvement in inflation in the near future. The ongoing global economic downturn should also have an overall impact on prices by supporting an upcoming easing of inflation.

Still no clear trend for leading indicators

The KOF Economic Barometer fell again in August from 90.1 to 86.5 and continues the long decline that began in the spring of 2021. The decline in the KOF leading indicator has accelerated further, once again negatively surprising economists.

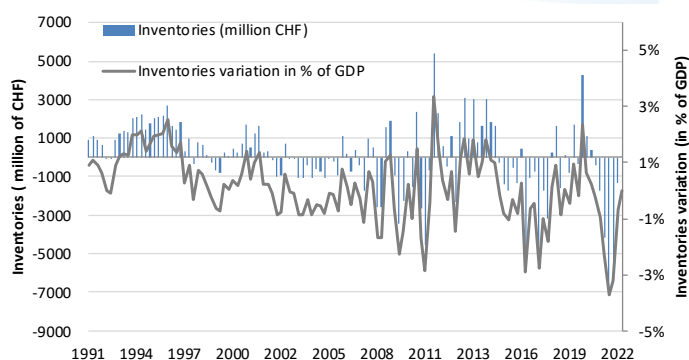
It is the private consumption indicators that seem to have the greatest influence on the decline, followed by the manufacturing and construction components. The situation is therefore not yet stabilising and improving. The Swiss economy is therefore expected to weaken further at the end of the year.

The manufacturing industry is likely to suffer from the global economic downturn and supply difficulties, but the outlook is equally mixed for the financial services, restaurant and hotel sectors.

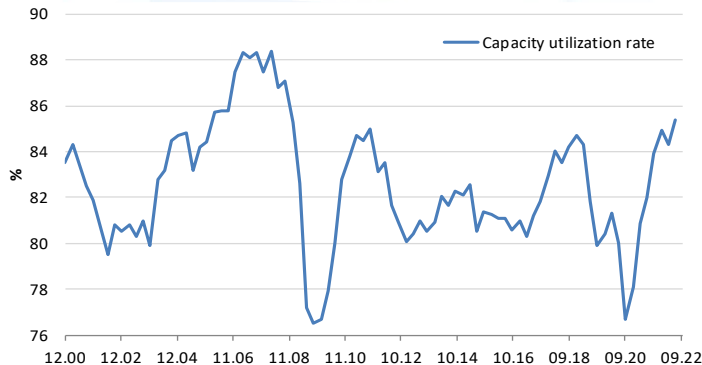
Consumption and production are negatively affected, but order books look less uncertain. The decline also continues on the manufacturing PMI with the latest release for August down from 58 to 56.4, the indicator has been sliding since July 2021 and is now at its lowest level since December 2020.

However, this level remains above the growth threshold of 50. Overall, the leading indicators continue to point to a cyclical downturn in our country in the wake of that seen in most developed countries.

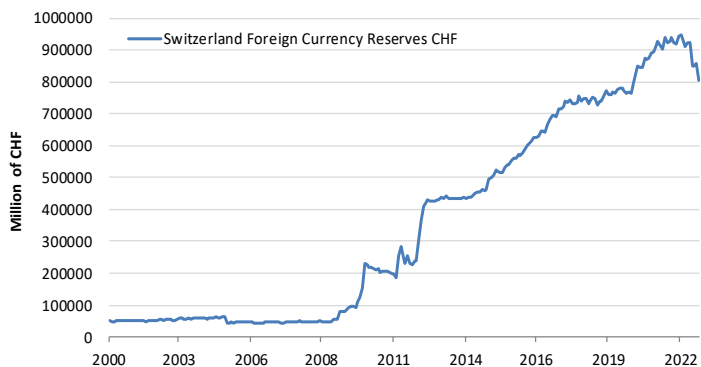
Inventories - Change in Stocks



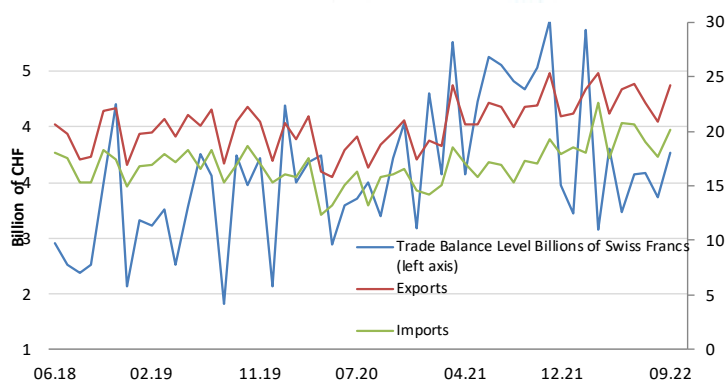
Capacity Utilization Rate



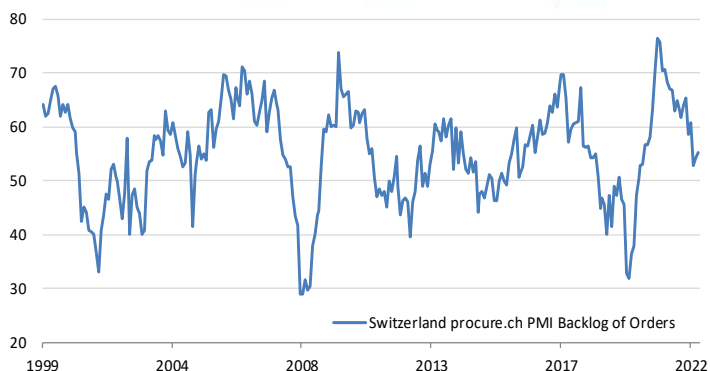
SNB Foreign Currency Reserves



Trade Balance Level



Order Book



The SNB drastically tightens its monetary policy

The SNB surprised everyone by raising its key interest rates by 0.5% on 15 June, the day after the Federal Reserve raised rates and well before the ECB could adjust its own policy. Its September hike of 0.75% was, however, more widely anticipated. The cost of financing from the SNB is therefore finally positive again (+0.5%) after eight years of negative rates. This increase was, however, the highest in the last twenty years, clearly underlining the institution's desire to deal a severe blow to inflation.

Despite these two decisive actions, the SNB President underlined the institution's determination to ensure that inflation is brought under control as quickly as possible, by mentioning the possibility of further rate hikes to ensure price stability. The SNB has now raised its key interest rates by 1.25%, as much as the ECB since July. In parallel to this decision, the SNB announced the reduction of its GDP growth target from +2.5% to only +2% for 2022. Its forecast for inflation is now +3% for 2022 and +2.4% in 2023. In this context, the strength of the franc seems to suit the SNB, which considers this factor as an essential factor of price control.

Spreads unfavourable to the franc

The SNB had changed its position on the value of the franc by modifying its assessment of its relative overvaluation in recent months. The widening inflation differential between the Swiss and foreign CPI and PPI indices, particularly in Europe and the United States, led the SNB to consider that the franc was no longer overvalued in the current context. The appreciation of the franc against the euro was initially achieved in an environment of stable key rates, before central banks decided to adopt monetary policies adapted to the acceleration of the global inflationary dynamic.

Beyond monetary policies, geopolitical risks support the franc's short-term appeal as a safe haven currency. However, it should be remembered that euro/CHF yield curve differentials have moved in favour of the euro on most maturities, particularly on ten-year rates, where the spread has increased by 83 bps in five months. On a two-year maturity, the spread is now 116 bps whereas it was "only" 90 bps at the 2015 exchange rate low before the European currency's rise. In this context, a stabilisation of exchange rates seems more likely in the coming month

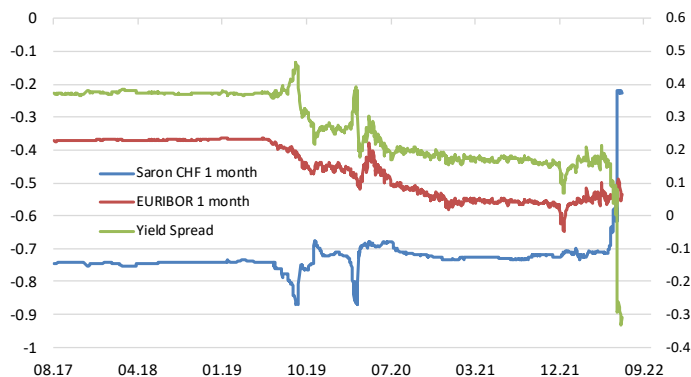
Renewed interest in Swiss franc bonds

Inflationary developments and central bank monetary policies were the main factors behind the return of volatility in the financial markets. The relative stabilisation of monthly inflation data during the summer, after the extreme values of the previous months, was not enough to reassure the markets. The persistence of year-on-year inflation at high levels took precedence, while central banks were at pains to communicate that they would do everything in their power to control price developments. The fall in commodity prices had a positive impact on expected inflation, which did indeed fall significantly, but concerns remained high due to central bankers' assertive policy focus on having inflation figures published, showing that ex-food and energy inflation was well under control before a possible policy change.

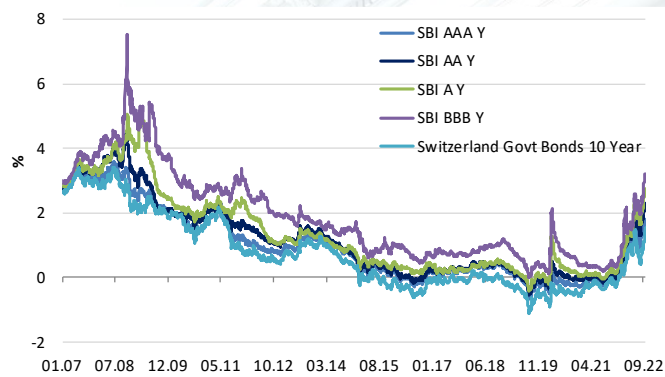
The second half of the quarter was thus marked by the inclusion of monetary tightening expectations in the yield curves. In the US, yields on all maturities jumped and exceeded the key rate target of 4.5% for the first quarter of 2023.

This quarter was also a tense one in Switzerland. Yields in Swiss francs were affected by the same fears, and therefore underwent the same fluctuations as those observed in markets that were more affected by the slippage of inflation. September will thus be remembered for the extreme adjustment of the Swiss Confederation's 10-year rates to almost 1.6%. This sharp rise in the Swiss yield curve seems to us premature in the context of the Swiss economy and the prospect of a reduction in inflationary pressures in 2023. At these levels, Swiss franc yields are regaining some appeal for Swiss investors.

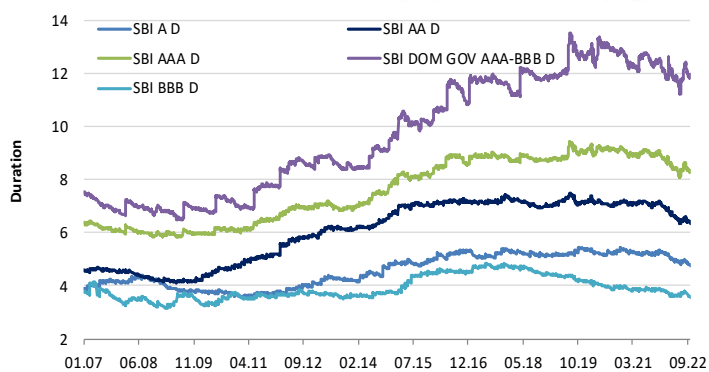
Saron/Euribor 1 Month Rate Differential



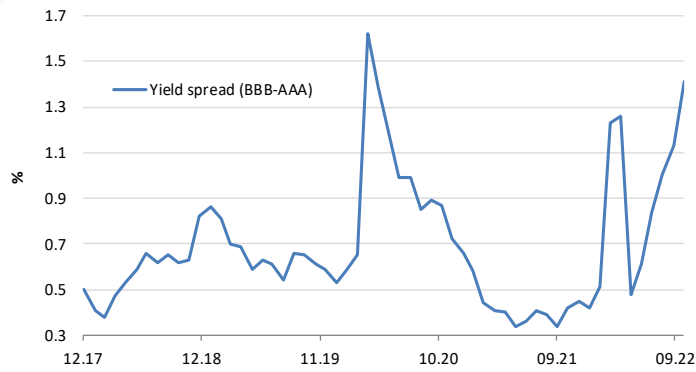
Interest Rate (Confederation, AAA, AA, A, BBB)



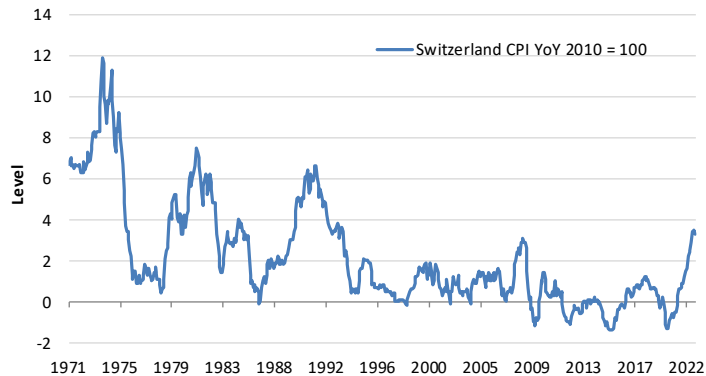
Duration of Swiss Bonds



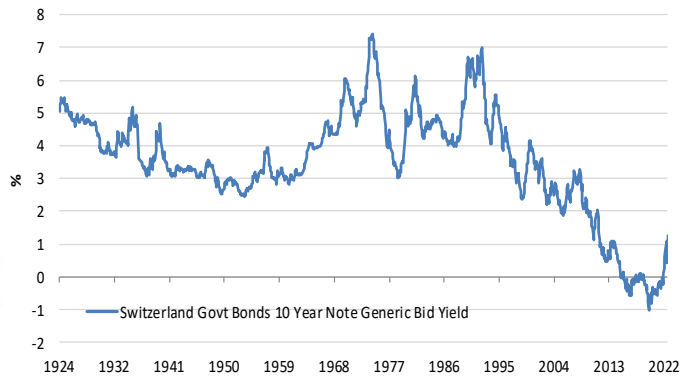
Yield Spread



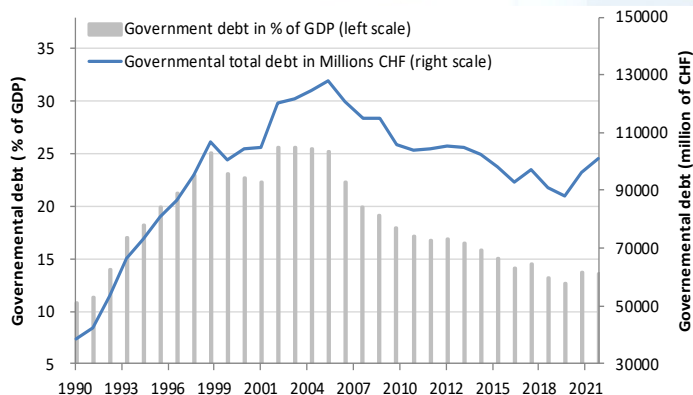
CPI Inflation



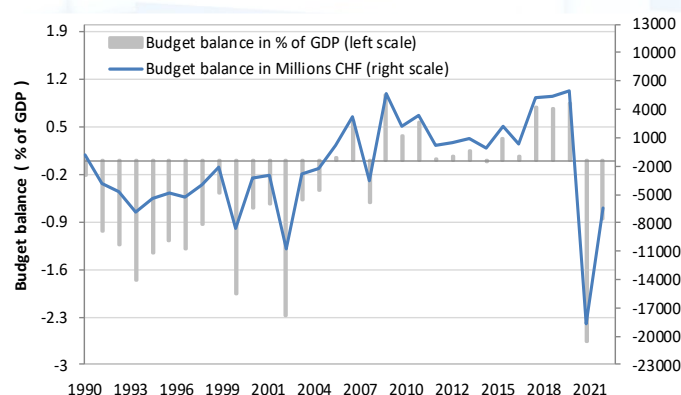
Federal Long Rates since 1924



Switzerland Government Total Debt



Switzerland Budget Balance



MACROECONOMIC SCENARIO

Eurozone

- Can Europe repeat its relative performance in Q3?
- Still uncertain outlook for Q4
- No lasting respite for European inflation yet
- More flexible and progressive ECB policy



Can Europe repeat its relative performance in Q3 and avoid a sharp decline in GDP?

The positive economic growth of the 2nd quarter (+0.8%) had largely surprised economists by significantly exceeding their more moderate growth estimates (+0.2%). This was already the case in the first quarter, which was surprisingly resilient, particularly in view of the already negative trend in US GDP. The European economy ended the first quarter with growth of 0.5%, significantly higher than expected, even though the geopolitical crisis was already having its first clear inflationary effects. European GDP was then growing almost as much as we expected before the invasion of Ukraine (+0.6%).

Without any real reduction in uncertainty and in a particularly tense context, in terms of oil and gas supply and its effects on inflation, the European economy had once again outperformed the US economy in the 2nd quarter. While the US saw its GDP fall for the second consecutive quarter by -0.9%, the European economy grew by 0.7% at the end of June. The European economy is surprisingly resilient in the first half of the year, even though it is facing stronger domestic and international headwinds. Domestic demand is affected by the decline in household and business confidence, while external demand is weakening with the US recession and anaemic growth in China.

The European economic slowdown remains however, widely perceived as inevitable in the second half of the year. Germany, already in overdrive at the end of June, with a GDP of +0.1%, could succumb in the 3rd quarter to the various tensions and the weakening of numerous economic indicators, such as retail sales (-1.3%), factory orders (-2.4%), industrial production (-0.8%) and a fall in consumer confidence (-42.5). The French GDP, up by +0.5% at the end of June, could nonetheless resist a little better to the pressures observed during the summer. The declines in household consumption, in July, (-0.8%) and industrial production (-1.6%) were partly followed in August by better statistics.

Overall however, GDP in the Eurozone could still surprise by its resilience and even grow quite significantly by around +1.5%, if the growth forecasts for France (+1%), Germany (+0.7%) and Spain (+3.9%) become reality.

European GDP should therefore still avoid a decline in the third quarter despite the difficulties encountered by the German economy.

Still uncertain outlook for Q4

The reopening of European economies and fiscal support seem to be offsetting the effects of the energy crisis for the time being, but the European economy may not yet have faced the full impact of the reorganisation of energy sources. The outlook for the 4th quarter is still very uncertain. The current quarter should still allow the southern European countries to benefit from a very promising return of tourists. But the pressure on household purchasing power from rising inflation should remain sufficiently worrying to affect consumption and investment at the end of the year.

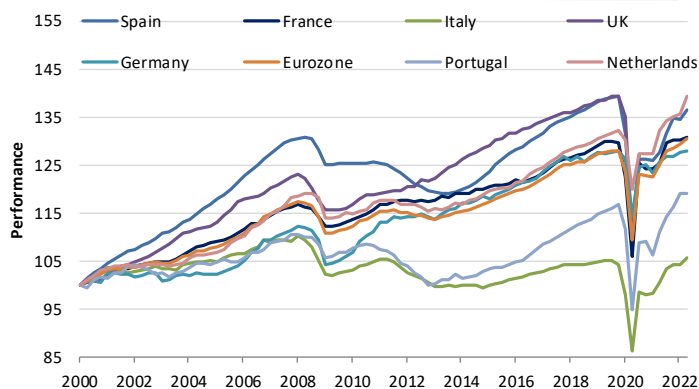
Germany and its industry remain particularly sensitive to gas and wider energy supply difficulties. The risks of a significant slowdown in the European economy are still growing at the end of the year. They should finally materialise in the coming months.

Leading indicators still very hesitant

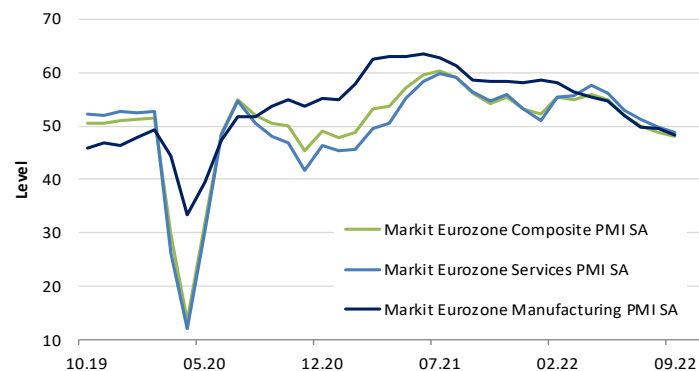
The leading manufacturing PMI indicators for the Eurozone continued the decline that began in July 2021 and recently settled below the 50 mark in July and August (48.4), for the first time since July 2020.

The trend is also gloomy in the services sector; the PMI index slips further below the growth threshold in September (48.8), still suggesting less positive conditions ahead. The composite PMI therefore logically falls to 48.1, its lowest level since January 2021.

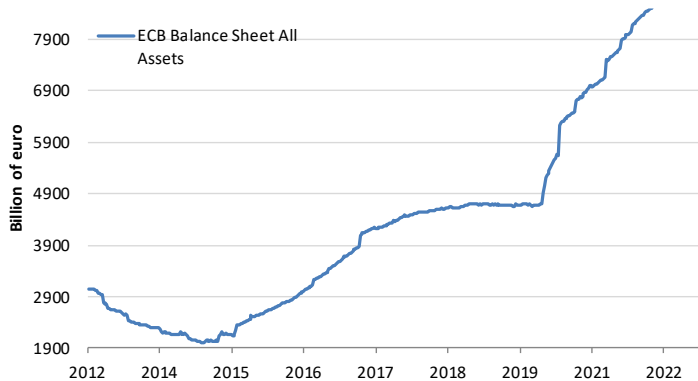
GDP Growth —Eurozone



Manufacturing, Service and Composite PMI



ECB Balance Sheet



Overall, the PMI indices point to a clear risk of economic slowdown in the second half of the year despite some recent encouraging signs. Industrial production for the month of August recorded a recovery of +1.5%, reversing the negative 12-month trend in July (-2.5%) which is now positive (+2.5%).

Further fall in household and business confidence

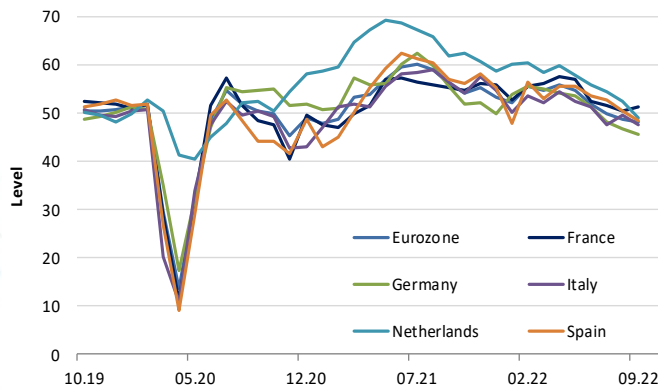
Household confidence collapsed further in Q3 and is now at its lowest level measured by the European Commission, below that of March 2020 when the pandemic broke out in Europe. The first consumer fears related to the invasion of Ukraine and the concern that a conflict would break out in Europe. For several months now, they have been concerned that the dramatic evolution of inflation would have a serious and above all lasting impact on their purchasing power.

Households are understandably increasingly concerned about these growing developments which have seen inflation rise from +7.5% in March to +10% in September on a year-on-year basis and with no tangible signs of abatement in the monthly statistics. Purchasing power has become a central concern for European consumers who are also worried about price developments during the coming winter.

Some European governments are trying to provide temporary solutions by controlling the rise in fuel prices, but these government subsidies are becoming increasingly expensive and cannot be sustained for long. A cap on gas prices is also on the agenda, without any concrete effect for the moment. Beyond consumers, these concerns are shared in economic circles.

Confidence in both industry and services fell further in September. This drop in confidence should already influence the economic performance of the third quarter and reinforce its impact at the end of the year. After 15 months of YoY growth, retail sales are now down by -2% and are recording a third month of contraction, reflecting this loss of confidence.

PMI Composite - Country



No lasting respite for European inflation yet

Headline inflation in the euro area only stabilised briefly in July (+0.1%) before strengthening again in August (+0.6%) and September (+1.2%). On an annual basis, it has now reached +10%, which is its strongest historical increase since the creation of the euro. More than half of this price increase is due to the dramatic rise in energy and food prices, as the core CPI excluding these two components is only up 4.8% year-on-year.

Core inflation has thus already been well above the ECB's target of +2% for several months, and the ECB is starting to worry about this, while hesitating to implement an overly aggressive policy that could push the fragile European economy into a brutal recession. The strong dynamics of producer prices, still up by +5% in August, brings the price evolution over one year to +43.3%; energy prices (+11.8%) in August being responsible for this evolution.

Excluding these and construction costs, the index rose by only +0.3%. A fall in energy prices is clearly the main determinant of a reduction in inflationary pressure for both producer and consumer price indices. In recent months, both oil and gas prices have shown a favourable trend which should allow for a gradual stabilisation of the indices.

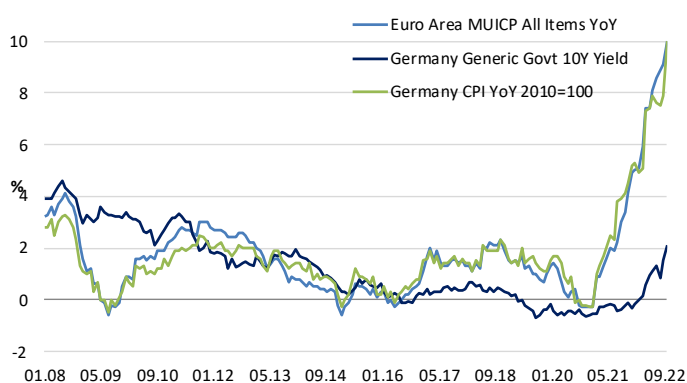
Since the end of May, North Sea crude oil prices have fallen by 28%. In the case of gas prices, volatility proved more important, pushing prices up again between May and June before a decline of -50% to -60% could be observed in Europe since then. Still up +370% year-on-year between August 2021 and August 2022, gas prices at the end of September were up a reduced +82%. In comparison, in the United States, gas prices were up by only 19% year-on-year at the end of September, after peaking at 110% at the end of August, in such extreme volatility.

The recent decline in energy prices is a necessary, but not yet sufficient, positive sign that upward pressure on inflation is easing. However, base effects should start to play out in favour of a deceleration that we believe should materialise soon.

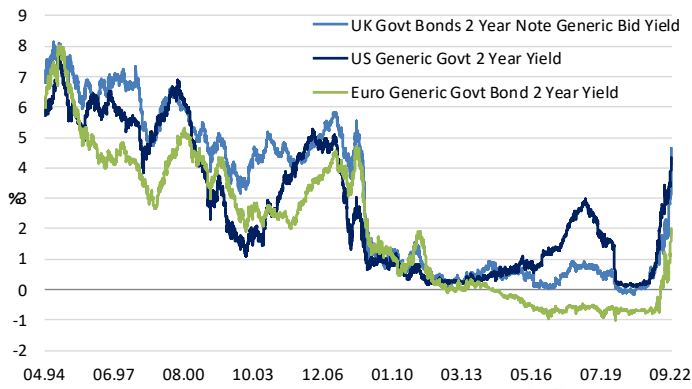
Citigroup Economic Surprise Index - Eurozone



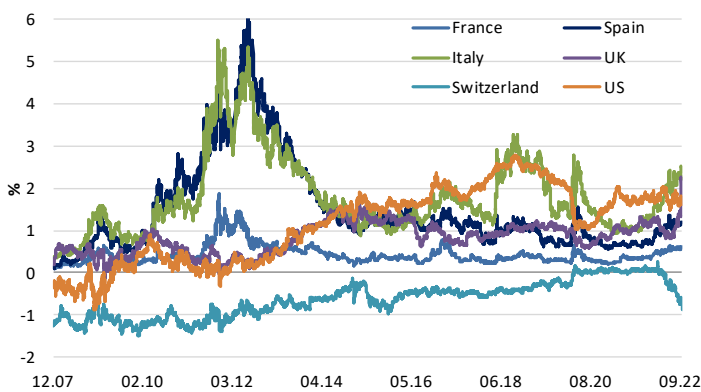
10 year Government Bond Yield - CPI



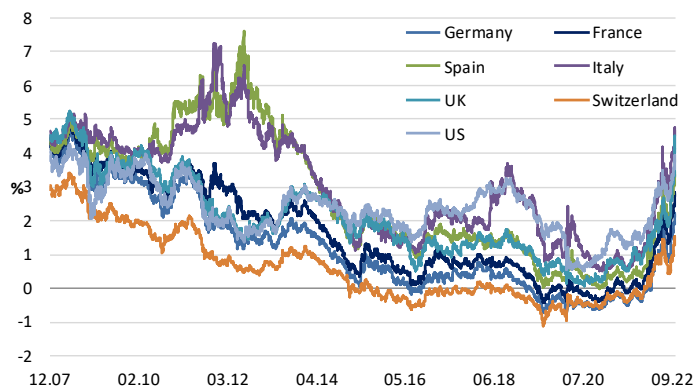
2-year Government rates (US, Euro, UK)



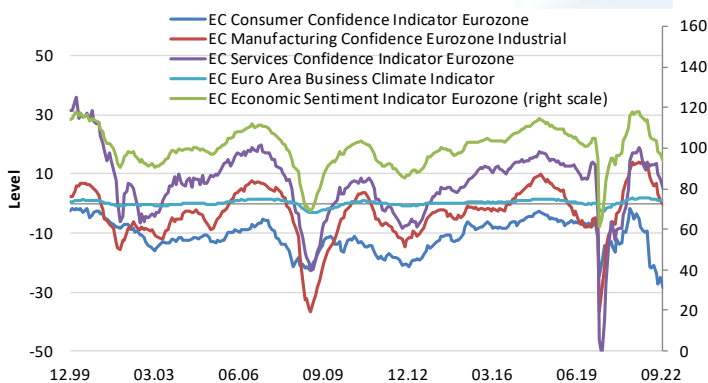
Risk premium — Government vs Bund



10-year Government Bond rate



Confidence in Europe (Economic Confidence Index)



More flexible and progressive ECB policy

The ECB still expects inflation to rise to +8.1% in 2022, suggesting an already significant decline of around -2% over the next three months. It was slow to realise that inflationary pressures, which existed before the Russian invasion of Ukraine, would be permanently exacerbated by rising energy costs. At the end of March, the ECB still did not fear the acceleration of inflation, which it considered to be linked to temporary factors due to the health crisis, in line with the view shared by the US Federal Reserve.

In this difficult and complex environment, the ECB raised its key interest rates by 0.75% in September to 1.25%, showing the beginning of its determination to raise interest rates to try to control inflation. The European Central Bank is expected to continue its policy of tightening monetary conditions to reach a level of 1.65% by the end of the year and probably 2.5% by the end of March 2023. The outlook for monetary tightening has become tighter in recent weeks, but the path that seems likely today appears to be relatively more moderate than the one followed by the Fed.

The more gradual approach taken by the ECB, which now seems to be lagging behind in normalising its monetary policy, may ultimately prove to be better suited to the evolution of household confidence and a likely economic slowdown. This more measured approach during the acceleration of inflation may be appropriate when the inevitable cyclical slowdown materializes in the coming months and energy and commodity price-driven inflation shows its first signs of abating.

The ECB will then be able to deal with the issue of reducing its balance sheet in better conditions, as it would clearly seem inappropriate to implement such a policy now, which would necessarily reinforce the upward trend in rates and the risks of recession.

Rising interest rate dynamics in favour of the euro?

In recent weeks, with the ECB's monetary policy less incisive than that of the Federal Reserve, the evolution of the euro and US dollar yield curves has been slightly more favourable to the dollar. Indeed, since the end of May, the government yield spread between US Treasuries and the two-year German Bund has risen by around 40 basis points. The dollar again benefited from a widening yield spread across the various maturities of the yield curve to cross the parity threshold and appreciate by +6% in the last quarter. For its part, the euro/franc exchange rate can finally rely on a significant change in the yield differential observed on the long end of the yield curve, which began in May.

The yield differential, which was still very slightly in favour of two-year federal bonds (+20 bp) in February, has gradually narrowed, 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 widened considerably since then and now stands at 122 bps.

The current yield spread is thus higher than that observed when the SNB introduced negative interest rates, which stopped at 90 bps. Notwithstanding the actions of the ECB and the SNB, euro yield curves have risen 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 more likely 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 the favour of investors tempted by a repositioning on one of the main international reserve currencies after a notable weakening in recent quarters.

Yield curves still positive

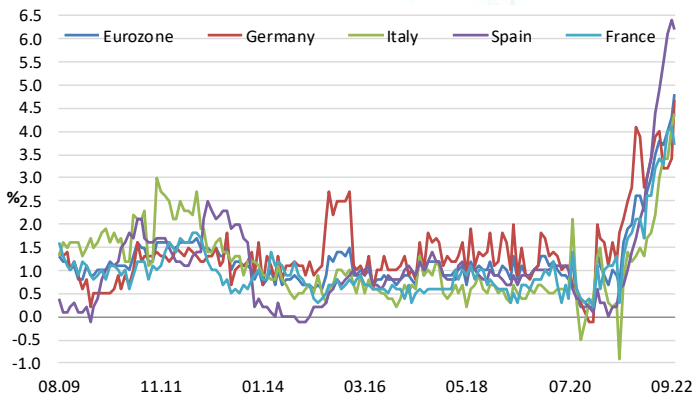
European yield curves have already exceeded the ECB's end-March target rate of 2.5% for most maturities, with the exception of the German government yield curve, where ten-year yields are still 2.3%.

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.

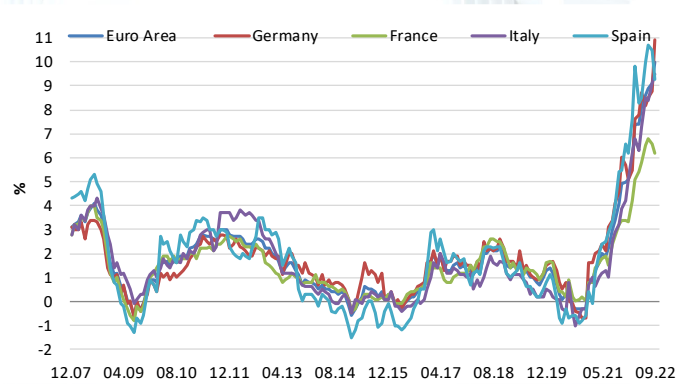
Our outlook for the next quarter is again negative for European bond markets, where ten-year government yields in France (2.91%), Spain (3.48%) and Italy (4.76%) are still significantly higher than German yields and in some cases comparable to dollar yields.

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.

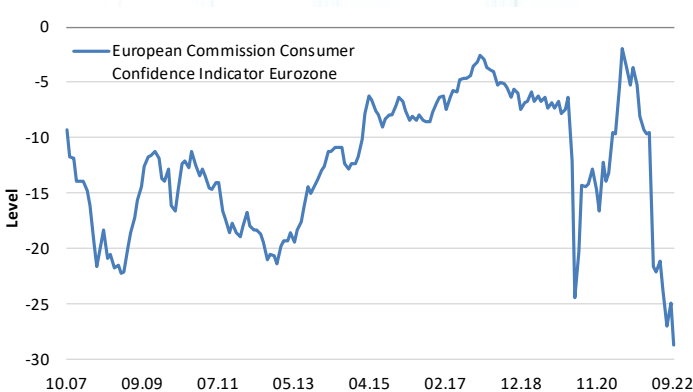
Eurostat CPI - Core Inflation (Eurozone, YoY)



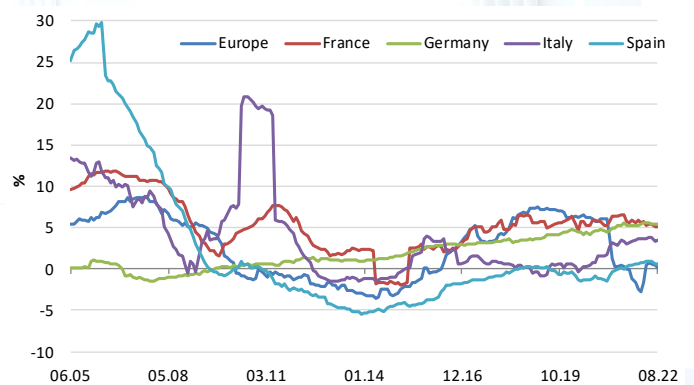
Eurostat CPI - all Items (Eurozone, YoY)



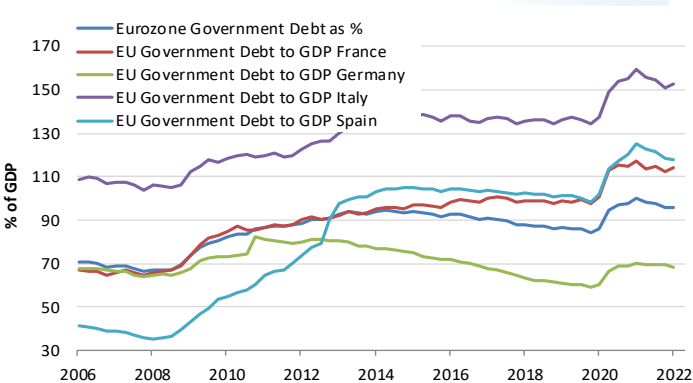
Consumer Confidence - Eurozone



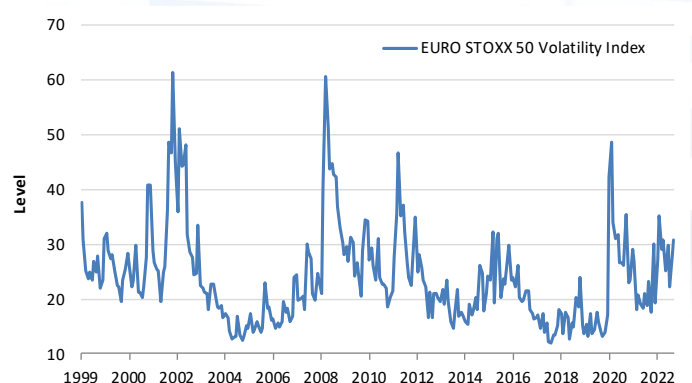
Loans and Credits to Households (Eurozone - YoY)



Government Debt



Volatility Indicator - Eurozone



MACROECONOMIC SCENARIO

United Kingdom

- The new British government causes chaos
- UK economy still in overdrive in Q3?
- BoE support plan of £65 billion
- The evolution of prices could continue and reach +13%.
- The « mini-budget » finishes off the pound



The new British government announces a "mini-budget" that causes chaos

The new British government has sprung a surprise by announcing a mini-budget based on a number of measures that have caused widespread concern in the financial markets and pushed the pound down. The strategy presented is based heavily on lower taxes, further deregulation, a freeze on the energy bill, and the introduction of a new tax system in an effort to revive the country's stalled growth and control runaway inflation. The government of the new Prime Minister, Liz Truss, has proposed a historic tax cut, which has led to fears that the British public finances will spiral out of control. Economists have estimated the cost of this tax package at several hundred billion pounds, which has led to a sharp rise in the yields of the British Treasury.

While inflation is over 10%, freezing the energy bill at 2,500 pounds for an average household might seem like a good social measure, at least that is how the new finance minister presented it, arguing that the new government is close to the people in these difficult times. This measure alone would cost 60 billion over six months. As for tax cuts, these are mainly reductions in social security contributions, taxes on real estate transactions and the maximum income tax rate, which are supposed to boost the economy. The experts believe that these are the biggest tax cuts in 50 years, without even proposing to rebalance public accounts.

The lifting of the ban on hydraulic fracturing and the abandonment of the initially planned increase in corporate taxes are other important measures in the announced tax package. After several days of panic and chaos, the government has partially reversed some of the elements of its tax package in an attempt to ease tensions and reduce the uncertainties that had caused the pound to plunge and interest rates to rise sharply, notably by removing the reduction from 45% to 40% of the maximum tax threshold for high earners. However, the main thrust of the plan has been maintained and the overall consequences for public finances remain worrying.

UK economy still in overdrive in Q3?

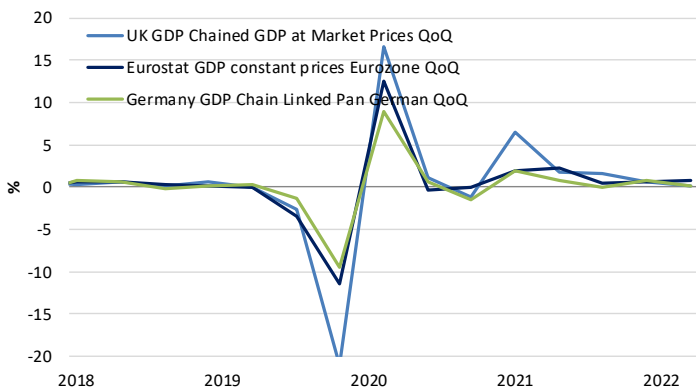
The latest revision of the British economy's growth figures finally show that GDP grew by +0.2% instead of the -0.1% contraction initially announced. Over a 12-month period, the measurement gap is more important since GDP would have grown by +4.4% compared to +2.9% according to the first estimates. As soon as it takes office, the new government is already facing a severe credibility crisis with potentially very damaging effects on the short-term outlook.

The measures announced and the reversal of position on tax rates have already clearly affected British confidence. The risks of an economic slowdown have thus logically increased in an environment already marked by a decline in industrial production and a fall in retail sales. Nonetheless, the third quarter may yet surprise with a new resilience by avoiding a recession once again, and recording a +0.1% increase in GDP. The last quarter should however turn out to be down by -0.4%.

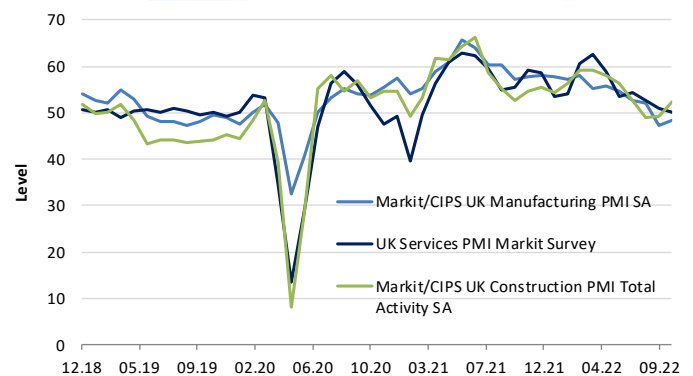
Leading indicators still indecisive

The decline in leading indicators continued during the summer, but there is still a surprising resilience in the context of particularly troubled social conditions. The manufacturing PMI has been declining since May 2021, but it rebounded slightly in September and stabilized at 48.5, still in the contraction zone. The decline in the services PMI was more recent and less pronounced, but it is back to the neutral 50 level after slipping to 49.2. The construction PMI shows the strongest bounce in September, rising from 49.2 to 52.3. The composite PMI edged up to 49.1 without much conviction. While not positive, the PMI leading indicators are close to 50, suggesting a surprisingly less pessimistic resilience than the negative growth forecasts that are prevalent before the next release of official Q3 GDP.

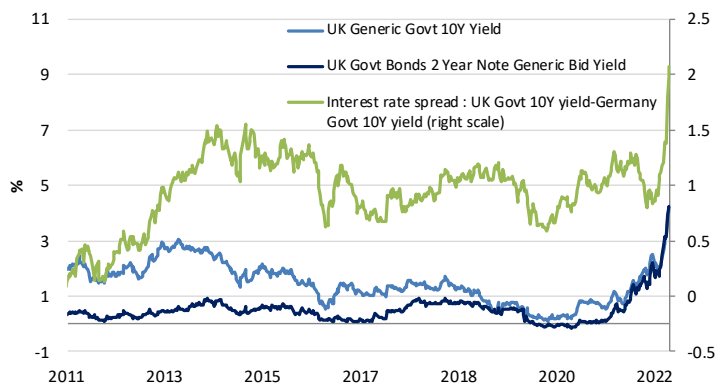
Quarterly GDP Growth - United Kingdom



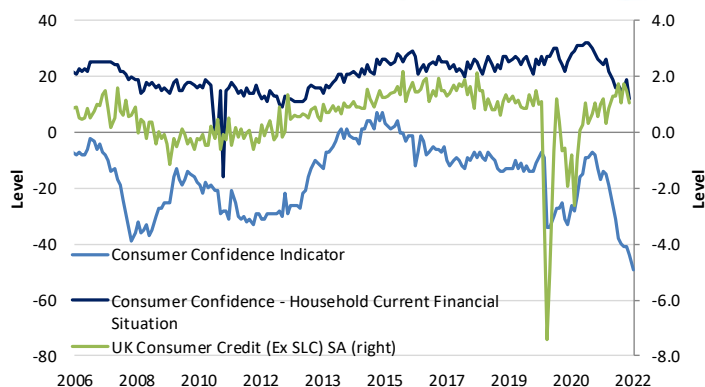
PMI Indicators (Manufacturing, Services, Construction)



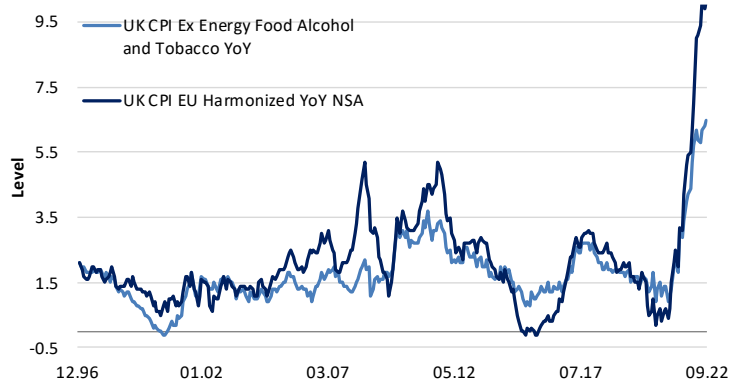
Government Rates (2yr-10yr)



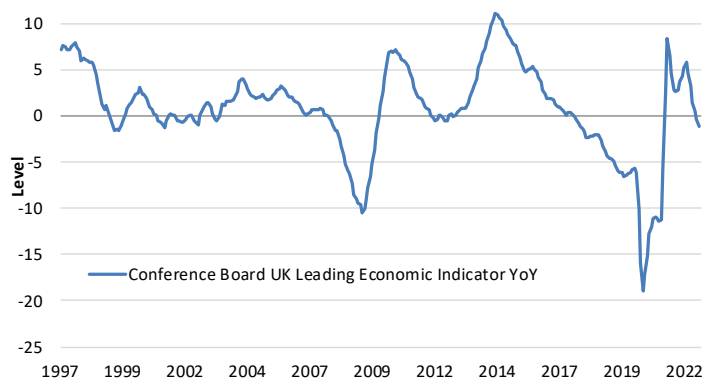
Household Confidence



Inflation CPI



Leading Indicator



Slight drop in tension in the labor market

There are some signs that the tightness in the labor market is easing, but there is no clear sign of a change in direction. Three-month job growth at the end of July showed a clear decrease in job creation (40k) compared to June (160k) and May (294k). This trend is confirmed in August by the first monthly increase of 6,000 additional unemployment benefit claimants. This is the first net increase since February 2021. Nevertheless, this momentum is insufficient to prevent a further drop in unemployment in July, to 3.6%. The unemployment rate is now significantly below the pre-pandemic low point of 3.8%. The labor market remains very strong despite deteriorating economic conditions and the adverse effects of the energy crisis and inflation on business health.

The potential risks of wage inflation picking up are still significant and add to the other inflationary factors. In this environment, wage growth has logically continued and stood at +5.5% in July compared to three months ago. The risks of indirect transmission of wage growth on inflation indices are to be considered and are in particular taken very seriously by the British central bank (BoE). While wage growth appears significant in nominal terms, in real terms wages actually contracted by around -4.5%, which is the largest decline since 2014. The persistence of high inflation is already having a significant impact on household purchasing power despite the rise in nominal wages. Rising taxes and energy costs are part of a general upward movement in prices that could push price indices even higher. A possible economic slowdown at a time when companies are also experiencing higher operating costs should slow wage growth.

Household confidence falls to historic lows

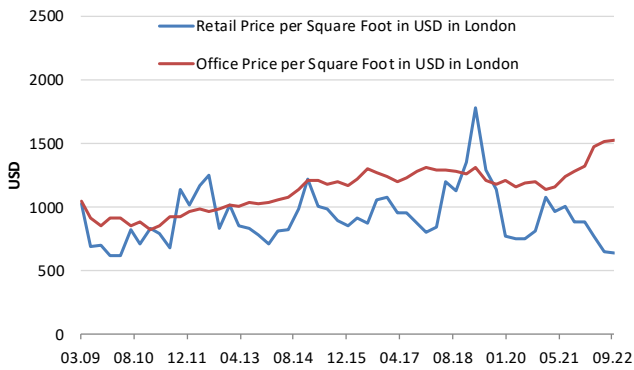
With the exception of the above-mentioned favourable trends in the labour market and on the wage front, the current environment is clearly no longer conducive to an improvement in household confidence. The confidence index fell further in September and is now at its lowest level ever. The deterioration in sentiment concerns both the economic outlook for the next twelve months and the state of household finances, with households taking a more negative view of the conditions for making major expenditures. Geopolitical uncertainty persists and energy prices are proving to be a lasting concern for households.

The contraction in household purchasing power, which is strongly impacted by inflation that is still up 0.5% over one month in August and 9.9% over one year, cannot be without effect on the upcoming evolution of confidence and consumption. British households have resorted to their savings but also to short-term credit to maintain their consumption. While during the pandemic, year-on-year growth in 12-month private credit sank into negative territory to around -10%, in recent months the recovery in household debt has been clear. Credit growth is at +7% in August, its highest level since March 2019. Despite this, retail sales slipped again by -1.6%. This drop confirms our expectations of a likely decline in consumption in the coming months.

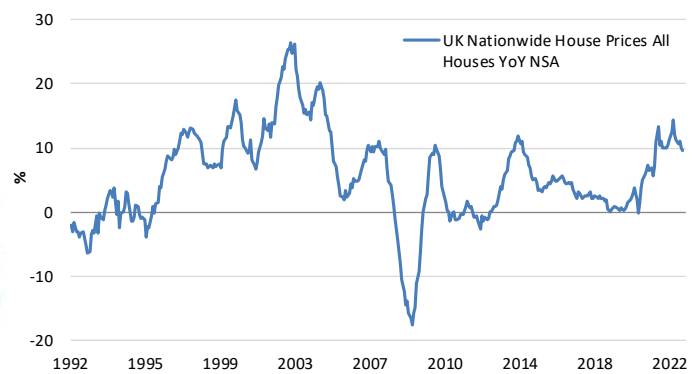
Prices could continue to rise by up to +13%

Price indices continue to surge in the UK in August, with a +0.6% increase over the month and a +9.9% rise in the CPI over the year, their highest level in 30 years. The CPI excluding energy and food recorded a smaller increase but still stood at +6.3%, up +0.1% from July, which also corresponds to the strongest advance in inflation in several decades. The increase in retail prices did not slow down in August and is still up +0.6%, bringing its year-on-year increase to +12.3%. Producer prices finally seem to be out of step with consumer price indexes this month by recording their first monthly decline since September 2020. The PPI output index fell -0.1% after rising +1.6% the previous month, but still remains up +16.1% year-over-year. The PPI manufacturing inputs index reverses its trend more sharply by falling -1.2% in August, but remains up a dramatic +20.5% year-over-year.

Real Estate Prices per m2



Growth in Real Estate Prices



The current fall in the pound sterling, if it continues, will still have an inflationary effect on imported prices, also contributing to the still bullish outlook for the various inflation measures for the coming months.

On the commodities side, the declines observed over the past several months and in particular the declines in oil and gas prices should provide some respite for the evolution of price indices. The recently published statistics nevertheless show a clear loss of momentum in the various price indexes, 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 inflation to stabilize and decline. Nevertheless, the BoE's outlook remains very pessimistic with an inflation forecast of +13% at the end of 2022.

The BoE intervenes massively in the emergency with a £65 billion support plan

The UK central bank has had its hands full managing the panic caused by the announcement of the "mini-budget" of the new government of Liz Truss. Until then, the BoE had been busy implementing a monetary policy strategy of gradually raising its key interest rates to combat the drift in price indices. It was even criticized for having chosen a policy of smaller steps than that pursued by the U.S. Federal Reserve. Its key rates had been gradually raised to 2.25% and it was about to logically continue its policy when the shock of the "mini-budget" forced it to urgently revise its policy.

The prospect of inflation rising to +13% was expected to lead to a tightening of monetary policy, but in the end it had to adopt exceptional measures to counter the panic that took hold in the capital markets and on the pound sterling exchange rate. The massive sell-off in the markets forced the BoE to make a 180 degree turn in its policy of reducing the size of its balance sheet by halting its sales and setting up a gilt buyback program. The BoE had to step in with an urgent rescue plan to buy back nearly £65 billion of government bonds to offset the cascade of sales by UK pension funds and to control the rapid rise in interest rates. Its purchases of Gilts during this panic phase helped to stem the tide and perhaps temporarily stabilize the situation.

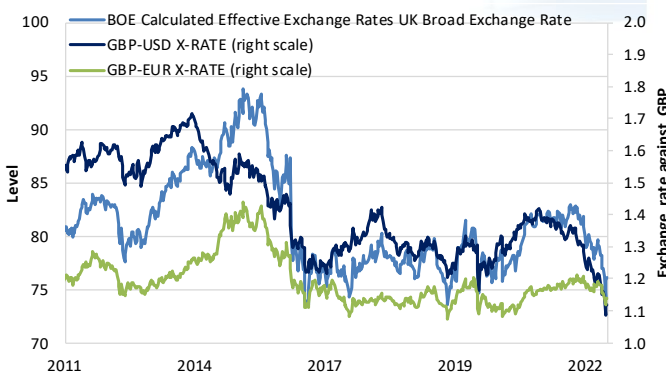
This dramatic episode does not yet have a clear outcome, but in any case it partly calls into question the rapid implementation of the BoE's planned policy. At its next meeting on November 3, the BoE would certainly have proceeded with a further rate hike, but it remains to be seen whether the conditions will be sufficiently favorable for this to be possible without major disruptions.

The mini-budget ends the pound

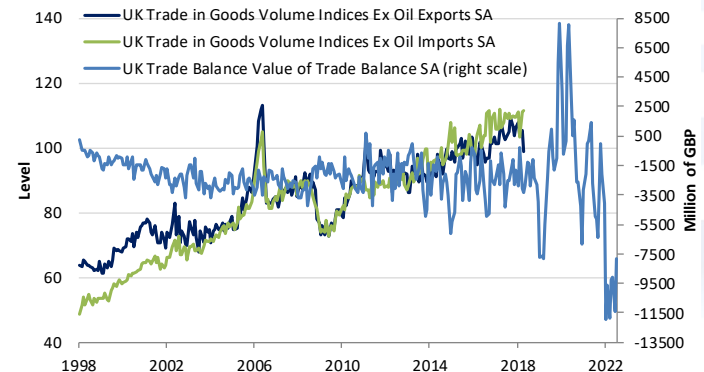
The pound sterling was not enjoying particularly positive conditions before the shock of the "mini-budget", but after the already significant decline against the dollar of -15% at the end of August, the more pronounced trend of rising key rates could have helped to halt the depreciation of the British currency and allowed it to appreciate, particularly against the franc and the euro. The shock of September 23 completely reshuffled the deck by causing extreme volatility in the currency.

The drop in two days of -5.4% against the euro, -8% against the dollar and -7% against the Swiss franc was evidence of the panic caused and the fear of investors to keep an exposure to the pound, which is now seen as particularly prone to a necessary devaluation. Despite the UK government's partial U-turn and the BoE's defensive actions, the risks of a downgrade of the UK's credit rating are increasing with this fiscal paradigm shift. The British pound is likely to continue to bear the brunt of the heightened uncertainty and suffer from further risk reduction strategies by investors.

Effective Pound Exchange Rates



Trade Balance - Exports - Imports



MACROECONOMIC SCENARIO

Japan

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

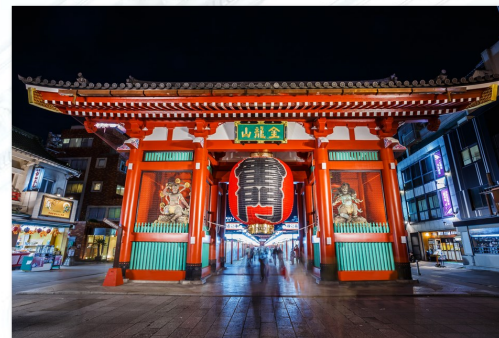
Very positive revision of Japanese GDP in Q2 (+3.5%)

Japan finally recorded adjusted annualised growth of +3.5% in the second quarter after an initial estimate of +2.2%. This important revision underlines the resilience of the Japanese economy in a difficult international context and a logically weak external demand. Japanese real GDP thus finally grew by +0.9% in Q2 (+0.6% in nominal terms, -0.3% deflator) thanks to a very good performance of investments (+2%) and private consumption (+1.2%). The contribution of exports was reduced (+0.1%), while inventories subtracted -0.3% from GDP growth. The Japanese economy thus largely surprised observers by recording a dynamic expectations (+2.9%). These positive developments have enabled it to return to its pre-pandemic level of production thanks to a clear recovery in business spending. It would appear that business confidence has improved and supported capital investment.

However, we do not believe that this positive momentum can be maintained in the third quarter due to both weakening internal and external support factors. The weaker international environment in Q3 and the negative effects of the fall in the yen and the rise in inflation on household purchasing power should lead to a slowdown in activity.

Less favourable outlook for the current quarter

The Japanese recovery in Q3 does indeed seem to be slowing down after the good result in Q2. The recovery in demand and consumption is not proceeding at the expected pace. The fall of the yen has had a significant impact on inflation and imported prices should also affect Japanese foreign trade and push the deficit to a high level again. The health situation and the continuing restrictions on an upsurge in Covid cases have dampened domestic demand. The easing of constraints in September should support a recovery in tourism and consumption, but these developments are likely to come a little late to really support Q3 growth. Nor should consumption be supported by the rather negative trend in household disposable income. The decline in spending already observed at the beginning of the quarter should thus continue at the end of the period. That said, the rather surprising evolution of industrial



production in August (+2.7%) and a possible continuation in September would support a stronger than expected Q3 growth of +2% (annualised).

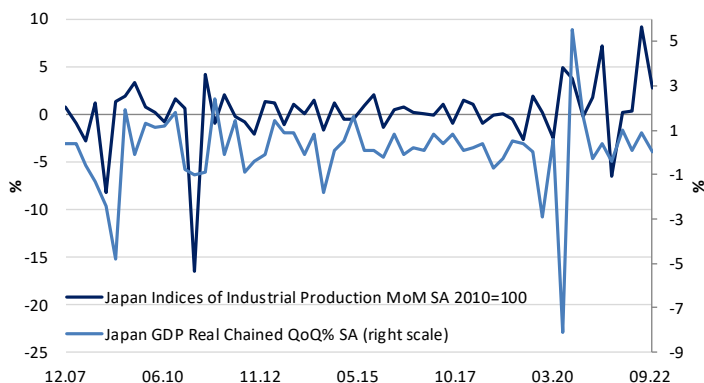
Leading indicators still moderately optimistic

The Jibun Bank of Japan PMI leading indicators released in September are all back in positive territory after recording lower levels in August in the services sector and at the aggregate level. The services PMI rises to 51.9 after a short period below 50 and is again higher than at the start of the pandemic, suggesting a recovery of momentum in the services sector. The manufacturing PMI still confirms a growth in activity with a level of 51, but it is still in the negative trend that started in February 2022. Overall, the composite PMI (50.9) is back above 50 and benefits from the improvement in services sentiment.

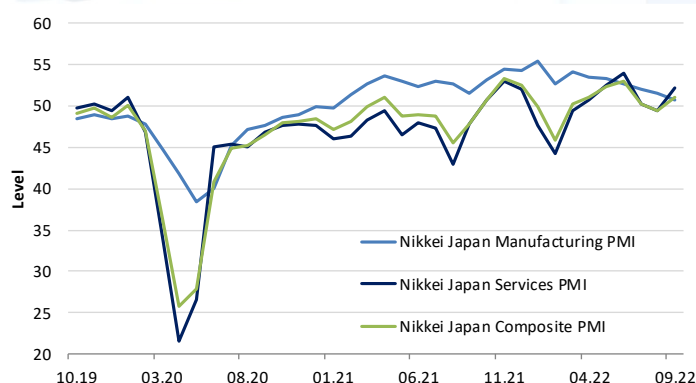
The rise in industrial production (+2.7%) in August could indicate a more positive behaviour of the manufacturing sector in the 3rd quarter and a new more favourable trend supported by a recovery of external demand and Chinese in particular. Orders for machinery jumped by +24.9% year-on-year, thus clearly supporting the overall development of the sector, which rose by +10.7% in August. The return of Chinese demand compensated for the weakness of European demand (-12%), while orders from the United States also declined from +11.3% at the end of June to only +2.5% at the end of August.

In this context, the +2.4% increase in the level of production capacity utilisation in the Japanese manufacturing sector to 94.5% also confirms the improvement in production conditions and the revival of activity to almost its highest level since the outbreak of the Covid crisis in March 2020 (95%).

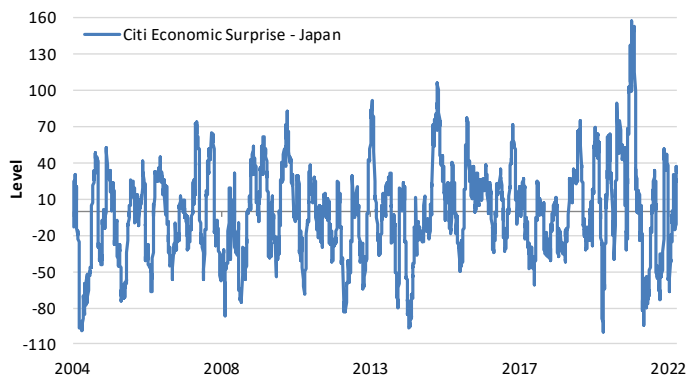
GDP and Industrial Production



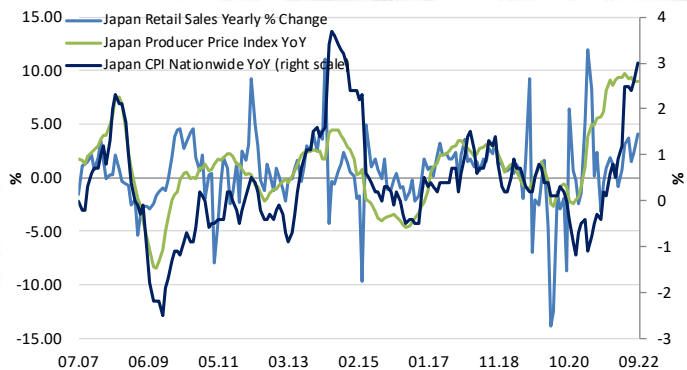
PMI Indicators (Manufacturing, Services, Composite)



Economic Surprise Index



Inflation (CPI and PPI) and Retail Sales



Consumer climate still gloomy

The increase in inflation does not favour the evolution of household consumption. Household confidence remains low according to the latest published figures, declining from 32.5 to 30.8 and at its lowest level since the end of Q1 2021. Wage growth remains weak, although the unemployment rate is still very low and even fell slightly from 2.6% to 2.5% in August. However, the ratio of job offers per applicant increased slightly from 1.29 to 1.32. Overall, the labour market remains tight and still suggests a gradual transmission to wage levels. However, the rise in import prices and production costs that companies are facing is a constraining factor that could further limit the ability of companies to bear and accept wage increases in the coming months. However, retail sales rose by +4.1%, surprising observers who were only expecting a +2.8% increase over the year thanks to a surprising +1.4% rise in August alone.

Trade deficit widens even further

Japan's trade balance sank again in August to a record 2,817 billion yen deficit, its lowest level in fifteen years. Imports rose by +49.9% year-on-year to 10.9 trillion yen, accelerating the increase already recorded the previous month. The +22.1% increase in exports proved largely insufficient to curb this trend. The collapse of foreign trade highlights the growing impact of the yen's depreciation on the rising cost of imports. This is now the thirteenth consecutive month of monthly deficits for Japan, representing the longest sequence of deterioration in its trade deficit in over fifteen years.

Imports soared by +49.9% compared to the previous year, mainly due to higher prices for oil, coal and liquefied natural gas. Exports rose by only +22.1% thanks to the recovery of vehicle exports. In monthly data, the situation is more worrying as exports fell by -0.7% while imports rose by +1.5%. The effects of rising import prices on the level of consumption are significant and may question the economic recovery.

On the export side, we also note that despite the fall in the yen, foreign demand is not increasing significantly in volume. The slowdown in Europe and the US is probably already limiting order growth. The trade deficit by region effectively shows the impact of oil and raw material imports in trillions of yen with Australia (-976), UAE (-569) and Saudi

Arabia (-507). The trade deficit with China (-576) is partly offset by the existing surplus with the US (+471).

A more significant recovery in external demand will be essential to hope for a reversal of the trend, which cannot be achieved solely through the fall in commodity prices.

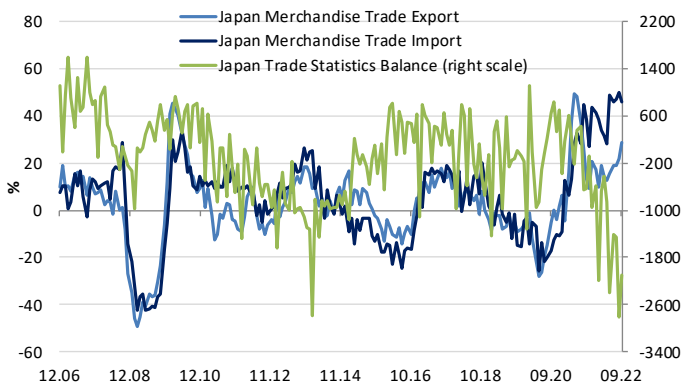
The BoJ will slowly change its policy

The latest developments in inflation may well lead to a shift in the BoJ's monetary policy in the near future. While all nine members of the Monetary Policy Committee currently hold positions that still favour an expansionary policy, there seems to be a momentum building in the economy that may well convince them to adopt a new strategy in the coming months. Unlike other central banks, Japan's central bank has not yet raised its policy rates in 2022 and could therefore consider a change of course soon. 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.

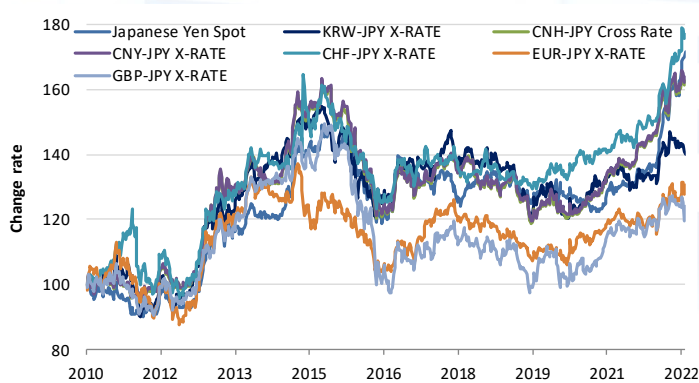
A possible increase in policy rates in this context thus seems somewhat more likely now that growth has reasserted itself, inflation is above +3% and wages seem ready to respond to tight labour market conditions. However, such a change in policy is certainly not yet in the immediate offing, although there has been a noticeable shift in the general sentiment of the committee members. The BoJ is still a long way from initiating a policy normalisation process, but its revision of inflation forecasts for the year to +2.4% and unemployment rate to 2.57% are in line with the above.

The BoJ unsurprisingly maintained its monetary policy at its last meeting on 22 September for the time being, keeping key rates at -0.1%. The BoJ also increased its planned bond purchases for Q4, supporting JGB's prices and reinforcing its zero interest rate target for ten year bonds.

Trade Balance in JPY Billion



Exchange Rates (base 100)



MACROECONOMIC SCENARIO

China

- Fragile and timid recovery of the Chinese economy in Q3 and Q4
- PBoC seeks creativity to boost growth
- The yuan's decline is expected to continue
- Foreign exchange reserves at their lowest since 2017



Fragile and timid recovery of the Chinese economy in Q3 and Q4

The Chinese economy could record a GDP growth of barely +3.5% this year, which is a real result far below the forecasts made by the government. The third quarter already looks particularly weak due to the zero Covid policy. Travel and movement restrictions are estimated to have cut more than 1% of GDP in Q3.

The expected recovery will certainly depend on how the authorities decide to ease up on their health policy and make new domestic investments. The ongoing economic slowdown in Europe and the United States will not offer any real support to the Chinese economy for several months either. External demand is already weak, export volumes from the port of Shanghai have fallen further and shipping costs have halved in the last three months, clearly reflecting the decline in global demand for Chinese products. The fall in demand is all the more significant as it comes at a time when foreign companies are usually stocking up before the end of the year.

In terms of leading PMI indicators, the manufacturing index rebounded slightly in September to return to an expansionary level after having fallen to 47.5 in April, particularly its construction component. The housing debacle continues to affect services PMIs and aggregate demand, also highlighting the difficulties faced by the Chinese economy. The housing sector continues to weigh on household sentiment as oversupply and developer financing continue to be a source of concern.

Fortunately, infrastructure spending is one of the most satisfactory sectors thanks to the support measures implemented by the government to sustain growth.

The slowdown in China is expected to continue into Q4 and is unlikely to pick up again until early 2023, when Covid zero policies are likely to ease.

The unexpected postponement of the publication of Q3 GDP and economic statistics strongly suggests that the government preferred to wait until after the Communist Party Congress to unveil disappointing statistics.

They should indeed show very weak growth after the decline in the dynamics already observed in the previous quarter. The statistics carried over from September should also point in this direction.

PBoC seeks creativity to boost growth

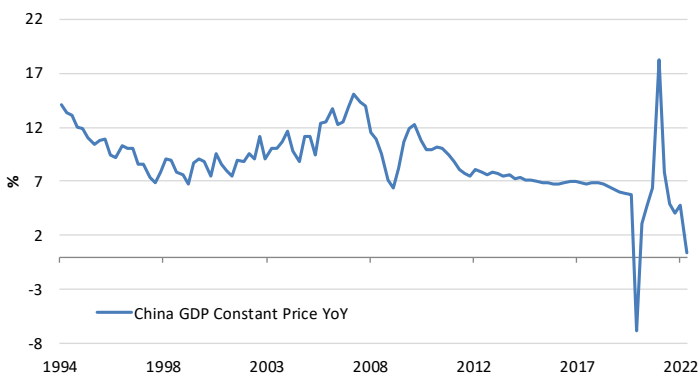
The unexpected 0.10% cut in Chinese one-year rates announced by the PBoC in August was not followed by further action in September. The Chinese central bank has adopted a prudent policy to support the economy and can afford to adopt a gradual strategy.

However, it should continue to ease monetary conditions by acting on both interest rates and quantitative tools. The reserve requirement ratio (RRR) for banks is expected to be lowered by a further 50 bps in the coming months, which will accompany its next decision to cut interest rates by 10 bps.

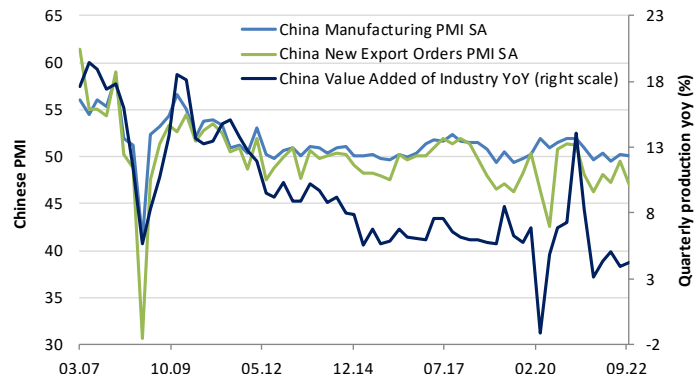
Among the indicators monitored by the PBoC, several point to the need for action to support growth. The low level of industrial production, the decline in house prices, the rather low inflation measures, the credit conditions especially in the housing sector suggest the need to support the economy.

The PBoC maintained its one-year medium-term lending rate at 2.75% in October, suggesting that it may not act again until Q1 2023. The fall in the yuan may be one of the reasons why it has refrained from lowering its key rate again in the current context of significant hikes at Federal Reserve meetings in the US. Fiscal policy should also provide much needed support to the economic recovery, so the PBoC should adopt further targeted measures rather than acting too aggressively on a rate cut.

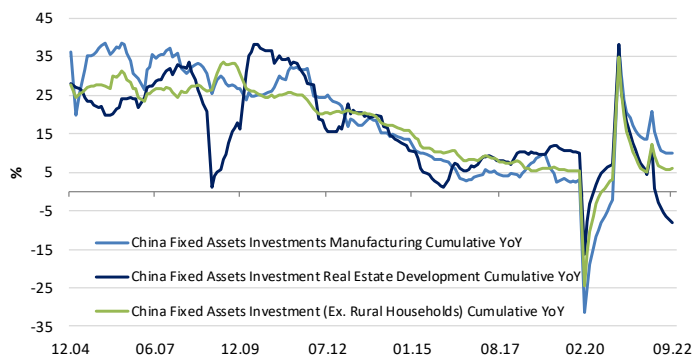
YoY GDP Growth



PMI and Industrial Production



Real Estate Investment, Infrastructure and Industry (YoY)



Exports - Imports (YoY)



The yuan's decline is expected to continue

Chinese monetary policy is in increasing contrast to that of the US and other industrialised countries. While the latter are facing a sustained increase in inflation and are fighting against its development through increasingly restrictive monetary policies, China is facing other difficulties while its inflation seems to be much better controlled. With inflation not as much of a concern, Chinese monetary policy can support its economy by easing monetary policy and lowering interest rates. The decline of the yuan against the dollar accelerated in the third quarter with the evolution of the yield differential between Chinese and US rates. The yuan fell by almost -8% against the dollar. Ten-year Chinese government yuan yields have slipped very slightly from 2.78% at the start of the year to 2.7% today amid a known rise in US Treasury yields from 1% to 4%.

The rate differential initially in favour of the yuan (+170 bps) has completely reversed to favour the dollar (-130 bps). 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 exchange reserves at their lowest since 2017

China's foreign exchange reserves have contracted significantly in recent months. Estimated at USD 3,250 billion at 31 December 2021, it had fallen to USD 3,028 billion by the end of September. This amount is more or less in line with that observed in 2017 and is almost at the lowest level recorded for ten years. In relative terms, current reserves are about 75% of their 2014 peak level.

At the same time, there has been a sharp fall in the stock of US Treasury bonds held. Estimated at USD 1.068 trillion at the end of December 2021, China's bond holdings at the end of September have indeed been reduced to USD 970 billion. This is a significant reduction in 2022 and now puts US bond 'risk' for the Chinese authorities at just over 70% of the 2013 threshold when China held 1,316 billion US Treasury bonds.

Chinese inflation is under control

Unlike most other economies, the Chinese economy still does not seem to have a major problem with inflation. The CPI ex food and energy slowed to +0.6% year-on-year and has been below +1% for the past six months, suggesting even deflationary trends. Food prices, however, are following a more worrying path and are up by +8.8%, mainly due to the sharp rise in pork prices.

The overall CPI is finally only up by +2.8% over one year. Producer prices are also contained and are only up +0.9% year-on-year in August. A similar movement can be observed in services, which are suffering from health restrictions and whose price index is only up by +0.5%.

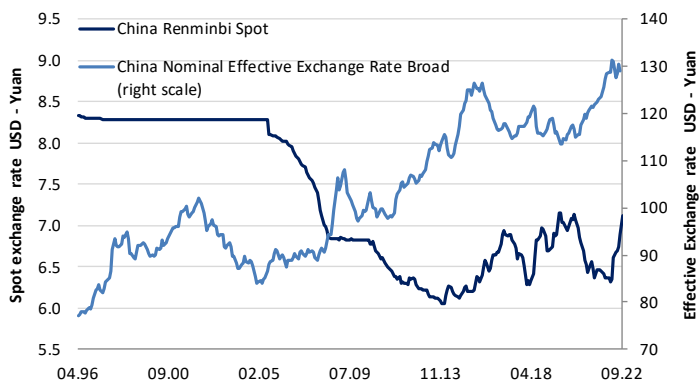
Producer prices in industry continue to be influenced by raw material prices and thus show an increase of +5.8%. By international comparison, China's inflation measures seem rather under control and allow the PBoC to pursue an expansionary policy without risks of slippage.

The housing market rout will continue

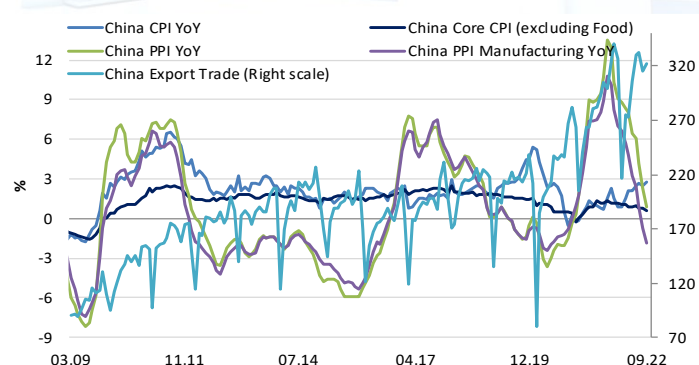
The property market has been in decline for over a year, pushing developers into bankruptcy. Average flat prices fell for the 12th consecutive month in August. The measures introduced to try to stabilise the housing market have not yet developed the expected effects.

The easing of purchasing restrictions, initial financial contributions or lower interest rates did not slow down the fall in prices. The latest measures to support housing demand for housing have at least reduced the risk of a crash. In particular, the accompanying measures pushing the banks to finance 600 billion yuan to the sector over the next few months underlines the fact that policy is becoming more and more important. A controlled and lasting contraction of the sector thus seems to be taking place, which should last and slow down Chinese growth.

Effective Exchange Rate and USD/Yuan



Inflation CPI - Core CPI



MACROECONOMIC SCENARIO

UNITED ARAB EMIRATES

- UAE Economy set for strongest expansion over a decade in 2022
- UAE Economy to grow by 4.2% in 2023
- The UAE's PMI points to robust growth in Q3
- Strong performance in the UAE's real estate sector continues into the third quarter
- Abu Dhabi and Dubai benchmarks turn negative in September



UAE Economy to grow by 4.2% in 2023

There are indeed a number of support factors such as pent-up demand from international travelers and the hosting of the FIFA World Cup by Qatar that constitute important economic catalysts that could benefit further the UAE's growing economy and help it start 2023 on a strong footing.

However, despite these positive catalysts, the deteriorating economic backdrop, may lead to lower than anticipated GDP growth for the UAE in 2023. According to the IMF's World Economic Outlook released recently the UAE's GDP is expected to grow by 4.2% in 2023. In its outlook for 2023 the IMF rightfully points to a more uncertain global economic backdrop that deteriorates seemingly on a weekly basis. Central banks have also become more aggressive in tightening monetary policy to curb inflation even as downside risks to growth increase, and markets are now pricing developed market interest rates moving higher and staying there for longer than they were just a few weeks ago. The UAE is an open economy – the value of external goods trade reached 137% of GDP in 2021 - and thus not immune from slowing global economic and trade growth. With a pegged currency, competitiveness is eroded as the USD strengthens and higher borrowing costs are likely to weigh on both consumption and private sector investment next year.

That being said, the UAE will remain in the enviable position of running a fiscal surplus - which is expected to remain the case in 2023 – with a strong balance sheet. This should allow the public sector to continue to invest domestically in order to achieve its longer-term strategic goals even as the private sector faces headwinds.

The UAE's PMI points to robust growth in Q3

The latest PMI data points to robust growth in the UAE's non-oil sectors through Q3 2022. Indeed, the S&P Global Purchasing Managers' Index rose to the highest level in more than two-and-a-half years in August, as businesses have consistently reported strong growth in activity and new work in recent months. Retail businesses have reported double digit growth in consumer spending in H1 2022 and hotels have been in a position to increase their revenues per available room by almost 20% on 2019 levels while increasing occupancy as well.

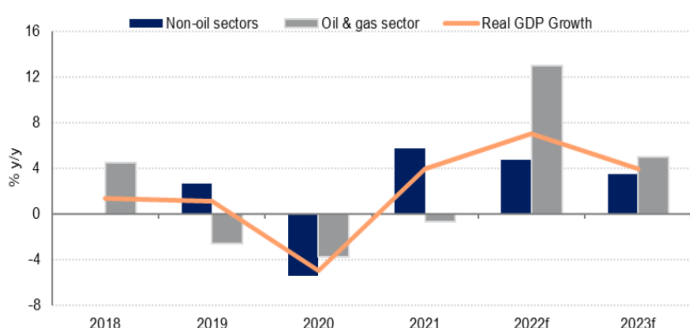
UAE Economy set for strongest expansion over a decade

The United Arab Emirates' economy is set to post its strongest annual expansion since 2011. The UAE economy grew faster than anticipated by most economists in Q1 2022, with positive contributions both from the oil and non-oil sectors. Official data released by the CBUAE put Q1 GDP growth for the UAE at 8.4% y/y, with the non-oil sectors expanding 8.8% y/y off a low Q1 2021 base. While the pace of growth may somehow have moderated over the course of the year, particularly in H2, Emirates NBD revised up its forecast for 2022 real GDP growth for the UAE to 7.0% from 5.7% previously. Abu Dhabi Commercial Bank also raised its UAE growth forecast for this year to 6.2% from an earlier estimate of 6.0% largely on the back of stronger than expected real non-oil GDP growth.

These upward revisions of the UAE GDP are justified by the fact that the UAE economy has rebounded strongly since the start of this year on the back of tourism, a vibrant property sector and higher oil prices. The S&P Global Purchasing Managers' Index for the UAE climbed to 56.7 in August from 55.4 in July, the quickest rise in non-oil business activity since June 2019. The UAE's foreign trade for the first six months of this year also witnessed a strong rebound by exceeding AED 1 trillion (USD 272 billion), compared with Dh840bn for the same period before the pandemic. The tourism sector's revenue exceeded AED 19bn during the first half of this year and total hotel guests in the same period reached 12 million. Growth in the number of hotel guests climbed by a remarkable 42 per cent, compared with the same period before the pandemic. The UAE's property market also continues to witness a strong rebound this year. According to the latest report by CBRE, in Dubai, average residential property prices increased by 10% in the year to June, with apartment prices nearly 9% higher on average and villa prices increasing by 19%. According to Property Finder, in July, Dubai also recorded the highest number of sales transactions in the past 12 years. Meanwhile, Abu Dhabi recorded 7,474 property transactions worth more than Dh22.51 billion in the first six months of the year.

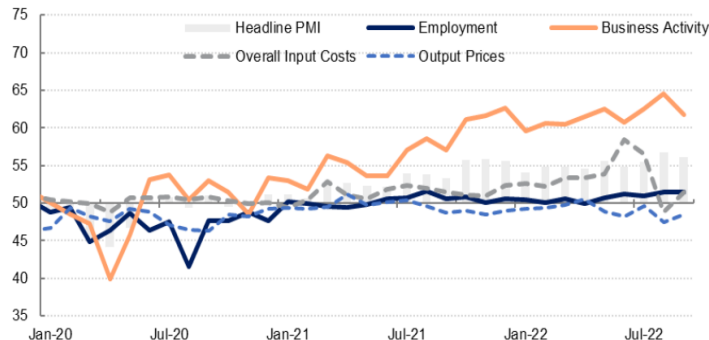
Going forward, and despite global economic headwinds intensifying against the backdrop of weaker global growth, a strong USD dollar, rising interest rates and higher inflation, we expect the current prevailing strong momentum to support overall sentiment going into the last quarter of 2022.

UAE GDP Growth by Sector



Sources: CBUAE, S&P Global, Oxford Economics, BearBull Global Investments Group

UAE PMI and Key Survey Components



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

Strong performance in the UAE's real estate sector continues into the third quarter

The UAE property market continued to witness a positive trajectory across the residential, office, retail, and hospitality sectors in the third quarter of this year. According to JLL Real Estate quarterly review around 6,600 residential units were handed over in Dubai in the third quarter, raising the total stock to 672,000 units. In terms of upcoming supply, an additional 20,000 units are scheduled for completion in the emirate in the final quarter of 2022, with any delays to deliveries expected to largely be rolled over into next year's figures. In Abu Dhabi, approximately 1,900 units were delivered in Q3, bringing the city's total number of dwellings to roughly 278,000 units. An additional 2,000 units are planned to be completed in the capital by year-end, mainly within master-planned communities.

Residential sales transactions saw remarkable growth over January to September 2022 according to data from the Dubai Pulse, with both volume and values up more than 45% year-on-year. The strong buyer activity was reflected in prices, which were up 9% year-on-year in August. End-users using mortgage finance to purchase properties have been rushing to lock-in fixed rates in an environment where both interest rates and rents are rising quickly. Indeed, REIDIN's citywide residential rent index showed annual growth of 25% in August.

In Abu Dhabi, demand remains strong for new developments located within investment zones – particularly for townhouses and villas. This has been demonstrated by the successful launch of recently delivered projects. Year-on-year, in September, residential prices in the capital increased by an average of 4% and rents grew by 2%.

In the hospitality sector, Dubai gained 1,000 keys in Q3, pushing the city's total hotel stock to 146,000. In the final quarter of this year, an additional 6,000 keys are expected to be delivered across the emirate. Whilst no new stock was added in Q3 in Abu Dhabi, the capital is scheduled to see the completion of around 600 keys by year-end.

According to data from Dubai's Department of Economy and Tourism, the Emirate received around 2.95 million overnight visitors between June and August 2022 – a significant jump compared to the 1.17 million recorded in the corresponding part of last year. On the same basis, Abu Dhabi witnessed a 24% increase in overnight visitors to 910,000, according to DCT Abu Dhabi.

This uplift was reflected in the hotel performance figures. In Dubai occupancy levels reached 70% between January and August 2022, a notable jump compared to the same period of last year (58%). On the same basis, average daily rate (ADR) reached USD 181 and revenue per available room (RevPAR) surged to USD 127. In Abu Dhabi, performance figures also posted improvement over the same period. Occupancy levels reached 68%, compared to 63% last year, whilst ADR and RevPAR rose to USD 105 and USD 71, respectively.

Hotels are likely to continue to perform well in the coming months, benefitting from upcoming events such as Formula 1, NBA Games and UFC 280 – as well as the FIFA World Cup in Qatar which is anticipated to have spillover effects for this market.

Abu Dhabi and Dubai benchmarks turn negative in September

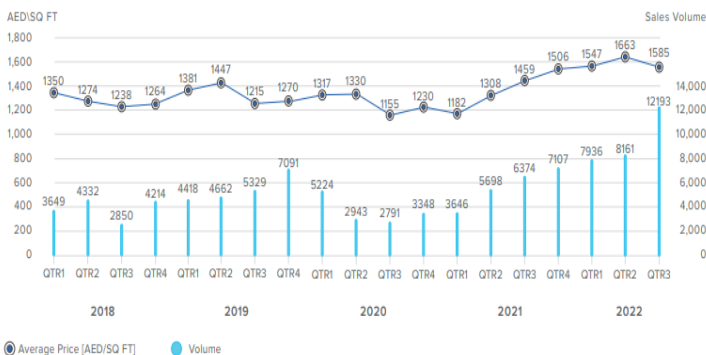
The Dubai Financial Market (DFM) General Index reported losses for the first time in three months during September. The benchmark witnessed 3.0% decline to close the month at 3,339.2 points. The index witnessed consistent gains during the middle half of the month of September but suffered most of the decline during the last part of the month, which in turn dragged down the YTD return for the index to 4.5%. In terms of sector performance, according to Kamko Invest research, the Consumer Staples index witnessed the biggest index decline among the sector indices with 18.4% fall during September to close the month at 157.8 points. On the other hand, the Industrial index was one of the two indices that witnessed growth during the month recording 23.2% rise to close the month at 113.6 points.

Trading activity on the exchange remained elevated during September as compared to the previous month. According to Kamko research invest, the total volume of shares traded decreased by 17.5% to reach 2.9 Bn shares in September as compared to 3.5 Bn shares during August. However, total value traded on the exchange increased by 11.1% to reach AED 8.2 Bn in September as compared to AED 7.4 Bn during August. Emaar Properties topped the monthly volumes traded chart recording 472.6 Mn in traded shares followed by Union Properties and the newly listed Salik at 358.6 Mn and 287.2 Mn of traded shares, respectively. On the monthly value traded chart, Emaar Properties also topped the list with AED 2.9 Bn worth of traded shares followed by Dubai Islamic Bank and Emirates NBD at AED 923.2 Mn and AED 742.5 Mn, respectively.

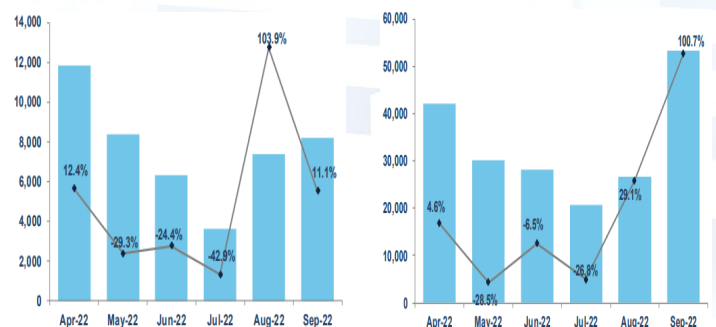
Abu Dhabi also witnessed a decline during September following gains during the previous two months. The FTSE ADX index was down by 1.3% during September-2022 to close at 9,750.8 points. In terms of sector performance, according to Kamko research invest, only two out of the ten sector indices witnessed a positive monthly gain while the remaining eight indices' sectors suffered monthly fall during September-2022. The Real Estate index recorded the biggest monthly fall among the indices with 11.9% decline mainly on the back of Eshraq Investments' 17.6% decline during the month. The Telecoms and Consumer Staples indices followed as the second and third-biggest decliners recording 8.9% and 6.7% falls, respectively. The decline in Telecoms index was mainly due to Etisalat's 9.2% decline during the month, while the negative performance of the Consumer Staples index was affected by Foodco Holding's 21.5% share decline.

Trading activity in the exchange jumped during September. According to Kamko research invest, monthly value traded more than doubled during the month to reach AED 53.4 Bn. Monthly volume traded also jumped by 263.5% to reach 17.4 Bn shares during September. TAQA topped the monthly volume traded chart with 10.9 Bn shares traded during the month followed by Multiply Group and RAK Cement Co and with 1.4 Bn and 1.3 Bn worth of their respective shares traded. TAQA also topped the monthly value traded chart with AED 14.4 Bn worth of shares traded during the month followed by International Holdings Company and RAK Cement Co which witnessed AED 7 Bn and AED 6.2 Bn of their shares traded during the month.

Dubai Residential Off-plan Transactions



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



MACROECONOMIC SCENARIO

Emerging Market

- Inflation continued to rise in most emerging countries
- Growth forecasts revised downwards for this year and the next
- In contrast to the rest of the world, Russia and Turkey continue to cut interest rates



The global environment remains unfavourable and volatile, with downward revisions to growth prospects in the major economies, notably China. On the other hand, the latest data and statistics reinforce the view that the labour market in the US, as well as in other advanced economies, remains buoyant. However, the normalisation of monetary policies in the major economies, the continuing war in Ukraine with its consequences for Europe's natural gas supply, and the continuing "zero Covid" policy in China reinforce the prospect of slower global growth.

Brazil — Brazil's economic growth surprised with a stronger than expected GDP in the second quarter. Robust growth was observed in both consumption and investment. Moreover, all the indicators published since the previous Copom meeting suggest a continuation of the growth of the national economy, although more moderately. In addition, the labour market has continued to grow, although the decline in real earnings observed in recent quarters has not yet been fully offset.

Despite the recent reduction in the prices of the most volatile components and the effects of fiscal measures, consumer inflation remains high. Recent publications have been strongly influenced by the reduction in administered prices, due to both lower taxes and, to a lesser extent, lower international fuel prices. In addition, industrial goods items, reflecting lower producer prices and reduced pressures in global value chains, also showed the beginnings of a decline. However, inflation in the more cyclically and policy-sensitive components, which have greater inflationary inertia, remains above the target range.

The inflation expectations for 2022, 2023 and 2024 collected by the Focus survey are 6.0%, 5.0% and 3.5% respectively. The Monetary Policy Committee assessed that the pass-through of the Selic rate to the final rates of the different types of credit occurred as expected, although new business loans remain more robust than expected. Nevertheless, much of the impact of monetary policy has yet to be seen, both in terms of economic activity and inflation. The central bank estimated that a +0.25% rise in policy rates would reinforce the vigilance stance and reflect the observation of stronger than expected economic activity. On the other hand, prudence and the need to assess over time the cumulative effects of the monetary policy cycle already undertaken would argue in favour of maintaining rates. For this reason, the interest rate has been maintained at 13.75%.

Russia — The external environment of the Russian economy remains difficult and considerably limits the country's economic activity. At the same time, second quarter GDP and high frequency indicators indicate a stronger momentum in economic activity than the Bank of Russia had expected in July. Both supply and demand factors have a negative impact on economic activity. A significant proportion of companies are still facing production and logistics difficulties. However, their sentiment continues to improve as suppliers of finished goods, raw materials and components become more diverse. An increasing number of companies seem to be adapting to this new environment.

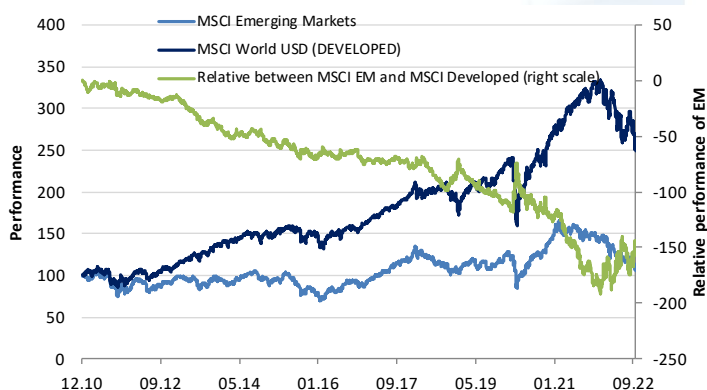
Despite the recovery, consumer activity remains weak. This is due to the recent decline in real household incomes, which households, which maintain their propensity to save. This last factor is explained, beyond the overall economic uncertainty, by the reduction in the supply of several types of goods and services. That said, supply-side constraints in consumer markets have eased slightly as imports of consumer goods gradually recover and import substitution takes hold.

The labour market situation remains generally stable with the unemployment rate close to historical lows. The adaptation of the labour market to the new conditions takes place mainly through part-time work and the adjustment of real wages. Given the current situation, the decline in GDP in 2022 could be closer to the upper limit of the Central Bank's July forecast range (-6% to -4%).

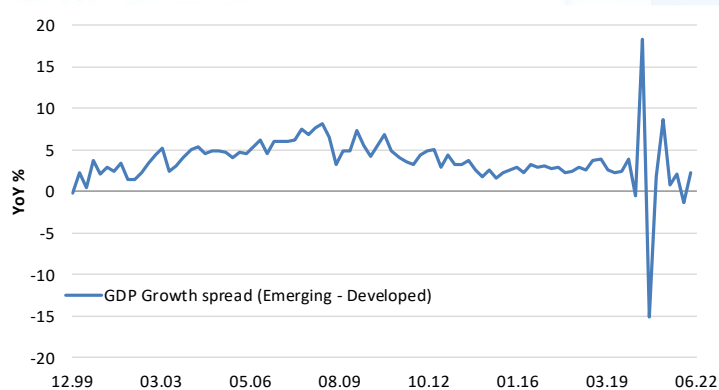
The fall in headline inflation was largely due to the continued adjustment of goods and services prices, following their sharp rise in March. This development was supported by the dynamic exchange rate of the rouble and generally moderate consumer demand. Another disinflationary factor has been the expansion of supply in a number of goods markets, with external and domestic export restrictions still in place. However, the monthly headline consumer price index in August decelerated more slowly than expected while core inflation rose slightly.

Based on current consumer price trends, the Bank of Russia expects annual inflation to fall to around 11.0-13.0% by the end of 2022. Annual inflation will continue to fall, influenced by base effects in particular, despite the expected further rise in prices. Inflation is then expected to fall to 5.0-7.0% in 2023 and to 4% in 2024.

Emerging and Developed Markets - Performance



GDP Growth Spread



GDP (YoY) - Russia



Despite the recent reduction in interest rates on deposits, the flow of funds from households to credit institutions has generally continued. Household funds were placed in long-term rouble deposits and current accounts, and withdrawn from short-term rouble deposits. This reflects a normalisation of the structure of household savings at banks.

In view of all these factors and the inflation target of 4% in 2023, the Bank of Russia cut its key rate by another 50 basis points in September to 7.50%.

India — Improved prospects for agriculture and related activities and the rebound in services boost the overall supply-side outlook. The government's continued investment efforts, improved capacity utilisation in manufacturing and a recovery in non-food credit should support the expansion of industrial activity that stalled in July. The outlook for overall demand is positive, with rural demand catching up and urban demand expected to strengthen further with a recovery in the second half of the year, supported in particular by demand for the end-of-year festivities. On the other hand, geopolitical tensions, tightening global financial conditions and slowing external demand pose risks to exports and thus to the outlook for Indian GDP. Taking all these factors into account, GDP growth is expected to be 7.0% for 2022 and 7.2% in the first quarter of 2023.

The high and prolonged uncertainty about geopolitical developments weighs heavily on the inflation outlook. However, commodity prices have fallen and the risks of recession in advanced economies are increasing. On the domestic front, the late resumption of sowing bodes well for kharif production. Prospects for the rabi crop are cushioned by comfortable reserve levels. However, the risk of crop damage from excessive rainfall remains.

Imported inflationary pressures remain a risk to the inflation path, amplified by the continued appreciation of the US dollar. The outlook for oil prices is highly uncertain and will depend on geopolitical developments, with both supply as well as demand concerns. The companies seem to see some easing of input cost and producer price pressures, but the pass-through of input costs to prices is still incomplete. Inflation is expected to reach 6.7% in 2022 and 5.0% in the first quarter of next year.

Rouble VS USD



GDP (YoY) - Brazil



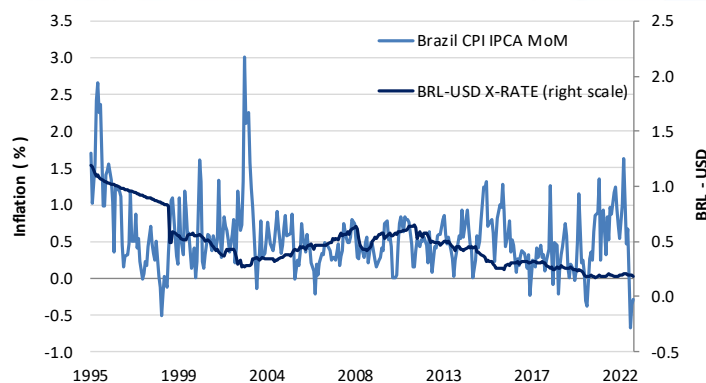
The Monetary Policy Committee decided to raise the key rate by 50 basis points to 5.90%. It also confirms its intention to remain focused on the exit from its accommodative policy to ensure that inflation remains on target in the future, while supporting growth.

South Africa — After a first quarter that surprised positively (+1.7%), flooding in Kwa-Zulu Natal and continuing constraints on electricity supply contributed to a -0.7% contraction in the second quarter. The growth in the third and fourth quarters should be +0.4% and +0.3% respectively for an annual growth of +1.9%. The economy is then expected to grow by +1.4% in 2023 and +1.7% in 2024. Private investment has strengthened thanks to the recovery, but public sector investment remains weak. Household spending continues to support growth, but is expected to weaken next year. Tourism, hotels and construction, on the other hand, are expected to recover more strongly over the coming months.

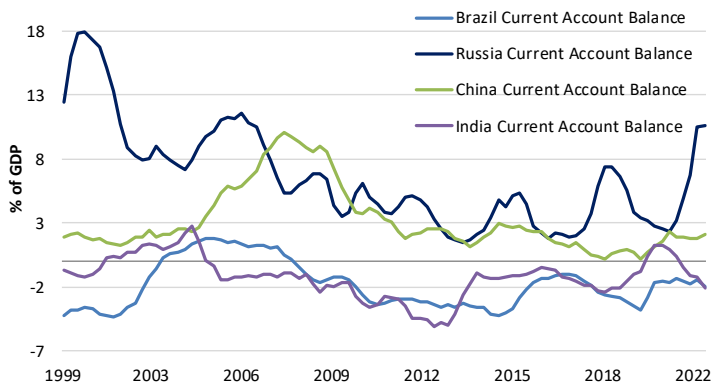
The headline inflation forecast for this year remains unchanged at 6.5%. For 2023, headline inflation is revised down to 5.3% (from 5.7%) due to lower forecasts for food, fuel and core inflation components for next year. Finally, an overall inflation of 4.6% is expected in 2024. Inflation risks are still pointing upwards with fuel and electricity prices possibly rising again and wage increases below the rate of inflation.

Against this background, the central bank raised its policy rate by 75 basis points to 6.25%, which is now slightly closer to the rate prevailing before the pandemic began. This level of rates remains favourable to short-term credit demand, while bringing rates to levels more compatible with the current view of inflation risks. The objective of monetary policy is to anchor inflation expectations more firmly around the midpoint of the target range and to increase confidence in the achievement of the inflation objective for 2024.

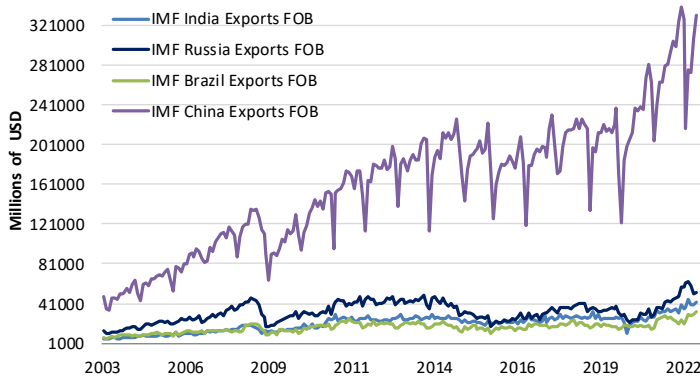
Inflation and Exchange Rates



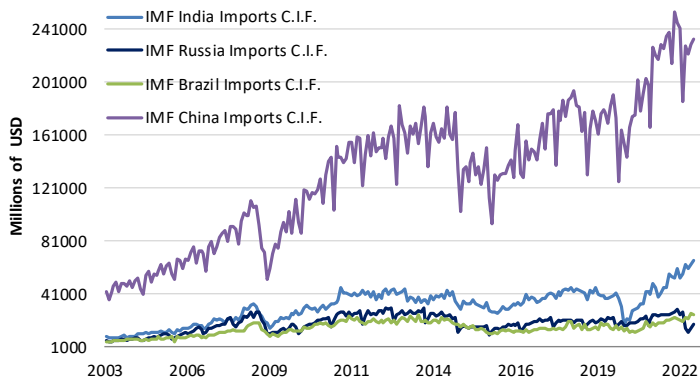
Current Account Balance



BRIC Exports



BRIC Imports



Inflation exceeded 83% in September, its highest level since 1998, largely due to rising energy costs. Economic activity grew by 2.10% in the second quarter but the central bank believes that a recession is inevitable.

Taiwan— Taiwan's central bank raised its key rate by 12.5 basis points to 1.625% in September, the highest since 2016. This is the third rate hike this year, aimed at curbing rising inflation (2.75%) despite the context of an economic slowdown (-1.80% in the second quarter).

Thailand — Thailand's central bank raised its key interest rate by 25 basis points to 1% at its September 2022 meeting, a second consecutive quarter-basis point increase, pushing borrowing costs to their highest level since early 2020, in an effort to control inflation and support growth. While growth is expected to be around 3% for this year and next, inflation is currently running at 6.3% but is expected to fall to 2.5% in 2023.

Colombia — The Colombian central bank raised its benchmark rate by 100 basis points from 9% to 10%. Analysts had expected a rise of between 125 and 150 basis points due to high inflation expectations (12%), dynamic economic activity and sustained annual growth in the second quarter (+12.6%). In addition, Colombia's large current account deficit reflects excess domestic demand and a high dependence on external financing, which is threatened by the global economic tightening.

Romania, Czech Republic, Poland, Hungary — The Romanian central bank raised its key rate by 75 basis points to 6.25%. This is the eighth consecutive increase in rates hike, bringing them to their highest level since October 2011. Inflation continues to rise, approaching 16% in September, while annual growth remains above 5%.

The Czech National Bank kept its key rate at 7%, after inflation unexpectedly slowed for the first time in 14 months to 17.2%. This is the second time that the central bank has kept rates unchanged since the beginning of the gradual tightening cycle of +6.75% in June 2021. However, inflation could rise further in the coming months and reach 20% in the autumn, mainly due to gas and electricity prices. It should average 16.5% in 2022 before falling drastically to 2% in one and a half years. The economy is expected to continue to grow at around +3%.

The National Bank of Poland kept its benchmark rate at 6.75%, marking the first pause after a long tightening cycle that began in October 2021 to fight inflation amid growing inflation, concerns about growth. Analysts expect GDP growth to slow further in the coming quarters, while annual inflation accelerated to 17.2% in September, the highest in 26 years and well above the central bank's target of 2.5% plus or minus one percentage point.

At its last meeting, the Hungarian National Bank raised its benchmark rate by 125 basis points to 13%, bringing borrowing costs to levels not seen since early 2000. This follows a 100 basis point increase in the previous two meetings and comes on top of the 12.4% interest rate hikes since the start of its tightening cycle in May 2021. While the recent trajectory of inflation exponential (20.1%), growth remains solid for the moment (+6.50%).

Mexico— Mexico's central bank raised its key interest rate by 75 basis points to 9.25% in September, its highest level since 2005. This is the eleventh rate hike since the normalisation process began in June of the previous year. With inflation reaching 8.76% in September, forecasts have once again been revised upwards, although convergence towards the 3% target is still expected in the first quarter of 2024. The Mexican economy grew by +0.9% in the second quarter, following a +1% increase in the first quarter.

Indonesia— For the second time this year, Indonesia's central bank raised its key rate by 50 basis points to 4.25%, surprising the markets who were expecting a +0.25% increase, in order to contain inflation expectations (5.95%) close to the 3% target for 2023, as well as to support the rupiah. Indonesia only started raising rates in July, after inflation finally rose above 4%. Growth rebounded by +3.72% in the second quarter after a correction of -0.9% in the first quarter.

Turkey— In September, the Turkish Central Bank unexpectedly lowered its interest rate by 100 basis points to 12%, down to -7% from September 2021. The decision to reduce borrowing costs was taken despite the fall in the lira (-45% since the start of the rate reduction cycle) and soaring consumer prices.



PROSPECTS AND STRATEGIES



PROSPECTS AND STRATEGIES

Currencies

- Spreads unfavorable to the Swiss franc
- Rate hike dynamics favorable to the euro?
- The dollar soon to lose momentum
- The mini-budget ends the pound sterling
- Target 150 for the yen/USD exchange rate?

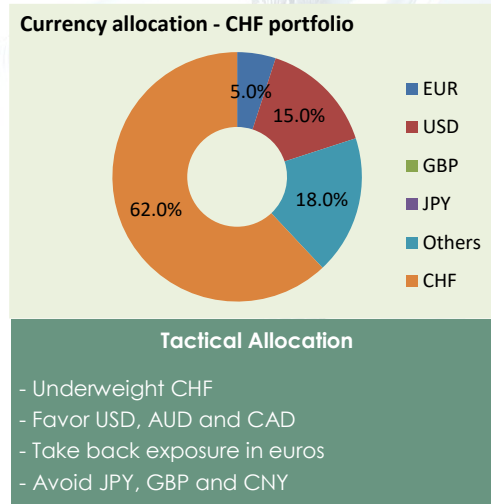
LIQUIDITY/ CURRENCY	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight			neutral overweight			
			---	--	-	=	+	++	+++
EUR vs CHF	↗	↗							
USD vs CHF	↗	↗							
GBP vs CHF	↘	↘							
JPY vs CHF	↘	↘							
EUR vs USD	↗	→							
USD vs JPY	↘	↗							
GBP vs USD	↘	↘							

Spreads unfavorable to the Swiss franc

The SNB surprised everyone by raising its key interest rates by 0.5% on June 15, the day after the Federal Reserve raised rates and well before the ECB could adjust its own policy. Its September's 0.75% hike was more widely anticipated. The cost of financing with the SNB is therefore finally positive again (+0.5%) after eight years of negative rates. However, this increase was the highest in the last twenty years, clearly underlining the institution's desire to deal a severe blow to the inflation trend. Despite these two decisive actions, the SNB president wanted to underline the institution's determination to ensure that inflation is brought under control as soon as possible, by mentioning the possibility of further rate hikes, to ensure price stability. The SNB has now raised its key rates by +1.25%, as much as the ECB since July. In parallel to this decision, the SNB has announced a reduction in its GDP growth target from +2.5% to only +2% for 2022. Its forecast for inflation is now +3% for 2022 and +2.4% in 2023. In this context, the strength of the Swiss franc seems to suit the SNB, which considers this factor as an essential factor for price control.

The SNB had changed its position on the value of the franc by modifying its assessment of its relative overvaluation in recent months. The widening inflation differential between the Swiss and foreign CPI and PPI indices, particularly in Europe and the United States, led the SNB to conclude that the franc was no longer overvalued in the current context. The appreciation of the franc against the euro was initially achieved in an environment of stable key rates, before central banks decided to adopt monetary policies, adapted to the acceleration of the global inflationary dynamic. In addition to monetary policies, geopolitical risks support the short-term appeal of the franc as a safe haven currency.

Nonetheless, it should be remembered that euro/CHF yield curve differentials have moved in favor of the euro on most maturities, and in particular on ten-year rates, whose spread has increased by 83 bps in five months. On a two-year maturity, the spread is now 116 bps, whereas it was "only" 90 bps at the 2015 exchange rate low before the rise of the European currency. In this context, a stabilization of exchange rates seems more likely in the coming months.



Rate hike dynamics favorable to the euro?

In recent weeks, against a backdrop of a less incisive ECB monetary policy than that of the Federal Reserve, the evolution of the euro and US dollar yield curves has been slightly more favorable to the dollar. Indeed, since the end of May, the government yield differential between US Treasury bonds and the two-year German Bund has increased by about 40 basis points. The dollar again benefited from the widening yield differential across the yield curve to cross the parity threshold and appreciate by +6% in the last quarter.

For its part, the euro/franc exchange rate can finally rely on a significant change in the yield differential observed on the long end of the yield curve, which began in May. The yield differential, which was still very slightly in favor of two-year Swiss government bonds (+20 bp) in February, has gradually narrowed, providing 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 122 bps.

The current yield spread is thus higher than that observed at the time of the introduction of the SNB's negative rates, which stopped at 90 bps. Notwithstanding the actions of the ECB and the SNB, euro yield curves have risen faster than Swiss rates. Against both the franc and the dollar, the euro could now benefit from a change in perception about the upcoming 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 favor with investors tempted to reposition to one of the major international reserve currencies, after a notable weakening in recent quarters.

The dollar soon to lose momentum

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 materialize 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.

The mini-budget ends the pound sterling

The pound sterling was not enjoying particularly positive conditions before the "mini-budget" shock, but after the already significant decline against the dollar of -15% at the end of August, the more marked trend of rising key rates could then contribute to curbing the depreciation of the British currency, and allow it to appreciate in particular against the franc and the euro. The shock of September 23 completely reshuffled the deck by causing extreme volatility in the currency.

Target 150 for the yen/USD exchange rate?

It is proving particularly difficult for the Japanese currency to withstand the joint development of a number of unfavorable factors that have been pushing the yen's depreciation for several months. The evolution of differentials against the yen have been largely to its disadvantage and will probably remain so for some time to come as long as the BoJ

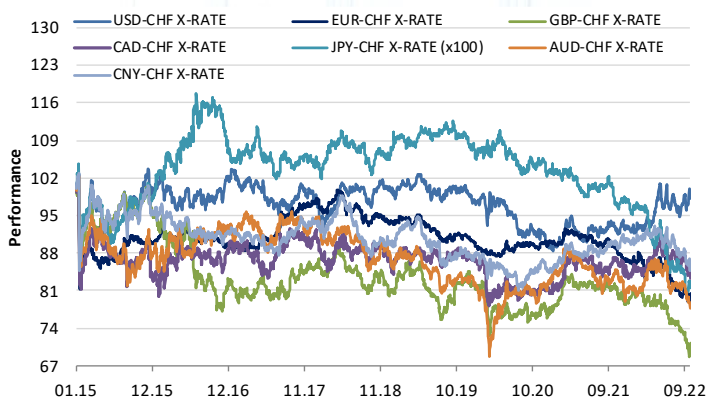
maintains a yield target close to zero in the context of rising international interest rates. Since the beginning of the year, the Japanese currency has fallen by -26% against the dollar, -16% against the Swiss franc and -9% against the euro. The Japanese currency has thus crossed new thresholds and is at its lowest level in two decades. We still believe that the interest rate differential should remain the main factor determining the value of the yen and especially the exchange rate against the US dollar. The rise in US dollar yields, in recent months, has widened the interest rate differential, and US monetary policy will maintain conditions that will also contribute to strengthening the differential on the short end of the yield curve, which is bad news for the Japanese currency, that cannot yet count on new positive factors.

The decline of the yuan should continue

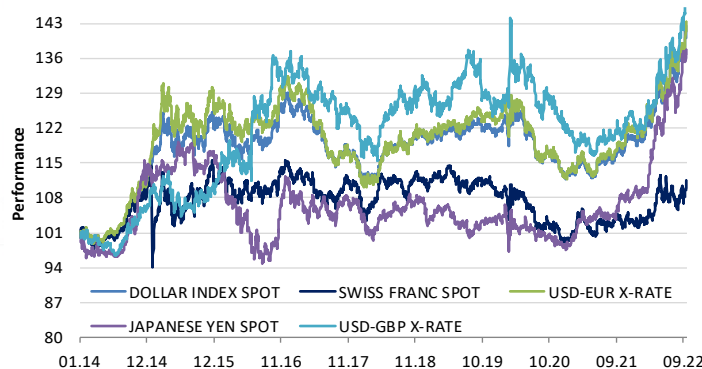
China's monetary policy is in increasing contrast to that of the US and other industrialized countries. While the latter are facing a sustained rise in inflation and are fighting against its development with increasingly restrictive monetary policies, China is facing other difficulties, while its inflation seems to be much better controlled. With inflation is not as worrisome, Chinese monetary policy can support its economy by easing monetary policy and lowering interest rates. The decline of the yuan against the dollar accelerated in the third quarter with the evolution of the yield differential between Chinese and US rates.

The yuan fell by almost -8% against the dollar. The Chinese government's 10-year yuan rates lightly declined from 2.78% at the beginning of the year to 2.7% today, in the context of a known increase in US Treasury yields from 1% to 4%. The rate differential initially in favor of the yuan (+170 bps) has completely reversed to favor the dollar (-130 bps). 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.

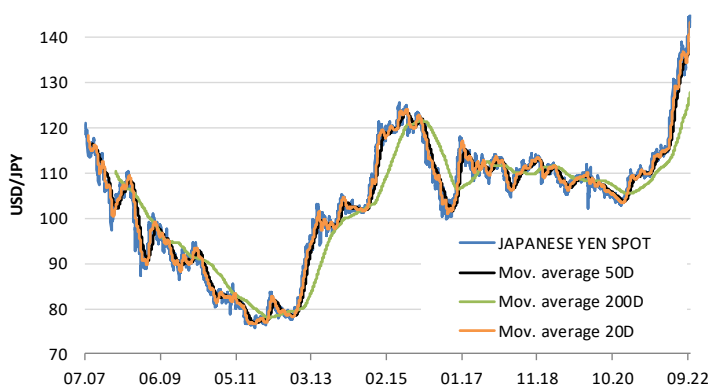
Evolution of the 7 Main Currencies against CHF (base 100)



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



Exchange Rate JPY/USD



Exchange Rate EUR/USD

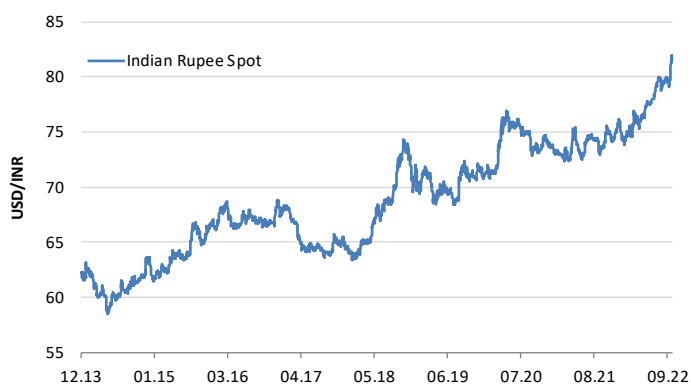


CURRENCIES

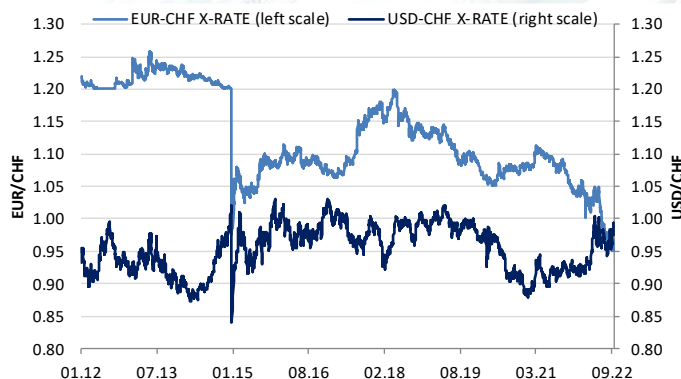
30.09.2022

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	0.98	1.19	-2.51	-5.88	-11.24	-13.79
CHF-USD X-RATE	1.01	-0.53	-0.97	-2.79	-6.23	-7.58
GBP-USD X-RATE	1.12	2.86	-3.89	-7.65	-14.82	-17.45
JPY-USD X-RATE	0.01	-0.99	-3.99	-6.56	-15.34	-20.47
CAD-USD X-RATE	0.72	-1.71	-5.06	-6.84	-9.49	-8.61
AUD-USD X-RATE	0.64	-1.96	-6.46	-6.08	-14.62	-11.88
RUB-USD X-RATE	0.02	-3.48	0.42	-5.83	42.10	24.92
CNY-USD X-RATE	0.14	0.22	-3.13	-5.80	-10.56	-10.65
INR-USD X-RATE	0.01	-0.44	-2.32	-2.94	-6.64	-8.40
BRL-USD X-RATE	0.18	-2.74	-4.20	-1.44	-13.89	2.95
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.99	0.53	0.97	2.69	6.54	8.12
EUR-CHF X-RATE	0.97	1.58	-1.58	-3.37	-5.42	-6.76
GBP-CHF X-RATE	1.10	3.47	-3.00	-5.04	-9.25	-10.61
JPY-CHF X-RATE (x100)	0.68	-0.50	-3.02	-3.89	-9.77	-13.95
CAD-CHF X-RATE	0.71	-1.09	-4.06	-4.39	-3.57	-1.38
AUD-CHF X-RATE	0.63	-1.87	-5.62	-3.68	-9.10	-4.80
RUB-CHF X-RATE	0.02	-3.30	2.37	-4.53	51.48	35.37
CNY-CHF X-RATE	0.14	0.73	-2.26	-3.14	-4.61	-3.34
INR-CHF X-RATE	0.01	-0.42	-1.40	-1.17	-0.76	-1.62
BRL-CHF X-RATE	0.18	-2.14	-3.17	1.67	-8.04	11.59

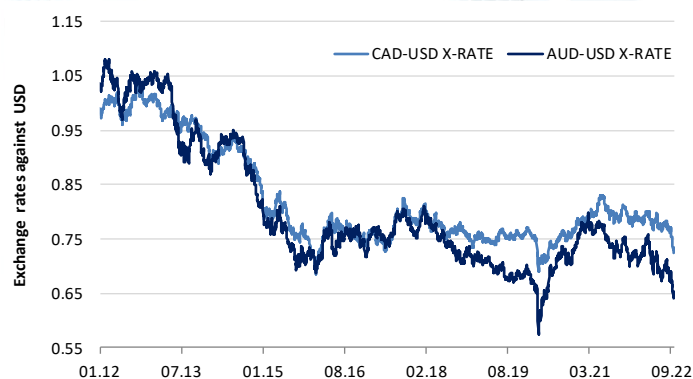
Indian Rupee



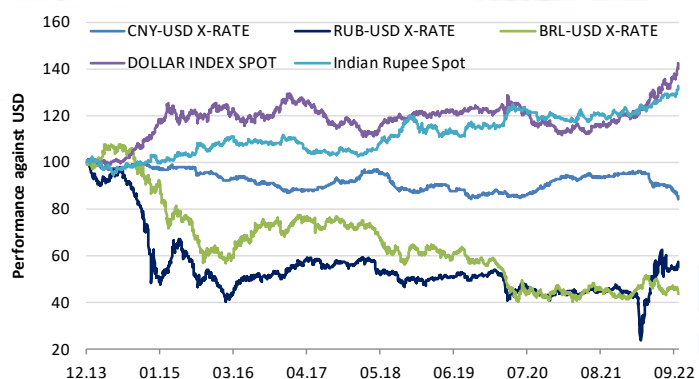
Exchange Rate EUR/CHF - USD/CHF



Exchange Rate CAD/USD - AUD/USD



Emerging Currencies VS USD (base 100)



PROSPECTS AND STRATEGIES

International Bonds

- The worst may be over in the capital markets
- Yield curves still positive in Europe
- Yield curve adjustments offer opportunities to capture higher returns

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

The worst may be over in the capital markets

The change in monetary policy announced in March by the US Federal Reserve marked the start of the historic interest rate adjustment that has taken place over the past six months. Six months of rising yield curves and collapsing bond markets that caused global indices to fall by around 20%. In two sequences of rises, interrupted only by a short pause between June and July, the 10-year yields of US, British and European government debtors in particular have adjusted abruptly to the evolution of inflation, and to the strategies of central banks.

They were even rising significantly faster than the short-term rates set by central banks.

In the United States, ten-year yields jumped from 1.5% to 4%, while two-year Treasury yields adjusted even faster, rising from 0.7% to 4.5% in nine months. Investors thus almost immediately adjusted their yield expectations on all maturities to the Fed's "announced" target of 4.5%-5% at the end of June.

This evolution has also occurred in other capital markets, in a global movement of readjustment of expectations, rarely observed in previous decades, both for government securities and corporate bonds.

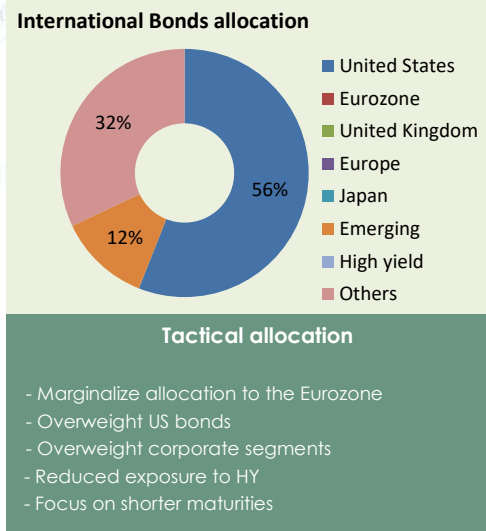
As a result, current yields on most maturities are already above the policy rates that central banks are about to raise.

In other words, two-year US Treasury rates are already 100 bps higher than current policy rates (3.5%) and have already reached the 4.5% Fed Funds target expected for March 2023.

In historical comparison, we have to go back to October 2008 to find US Treasury yields offering a rate of 4% for ten years. It is true that at that time, inflation peaked at 5.8% before collapsing to -2% in 2009, after the recession that caused GDP to fall by -4%. The Fed's monetary policy had gradually raised the key rates from 1% to 5.25%, between 2004 and 2007. This 4.25% increase in key rates was done gradually in seventeen steps and in four years.

The adjustment made by the Fed this year is thus one of the fastest in recent economic history, with an adjustment of 3% carried out in only five steps and in barely six months.

The current situation is certainly different, but we can estimate that the risks of a hard landing are still significant and certainly underestimated



by the American central bank, which still has difficulty admitting that the economy has already been in recession for two quarters.

The signs are there, but by insisting on the end of the tensions in the labor market, the Fed may well be a little late in realizing the damage already caused to the economy, by the tightening of monetary conditions that has taken place in the United States. The risks of overshooting in its policy seem significant and are exacerbated by the rapid reaction of the bond markets. Today, the fear of inflation outweighs the fear of a slowdown and the risks of recession. The Fed should also be concerned about a possible slippage in the dollar rate markets caused by its overly dogmatic attitude. We believe the Fed should realize the increased systemic risks posed by an upward spiral in rates and the dollar. If it quickly realizes the dangerous implications of its policy for the international financial balance, perhaps it will still be able to avoid the worst, if it is able to draw the necessary conclusions.

BOND INDICES (local currency)

30.09.2022		Total Return Performance						
Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %	
SWISS BONDS	SBI AAA-BBB	123.1	CHF	0.8	-2.0	-2.6	-5.9	-11.6
UE BONDS	Barclays EuroAgg	224.3	EUR	-1.0	-3.7	-5.6	-11.1	-16.2
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	137.3	EUR	0.2	-1.0	-2.0	-2.9	-3.8
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2011.1	USD	-1.0	-4.3	-5.3	-9.0	-14.6
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USA1	7.9	USD	-0.1	-1.6	-1.5	-3.0	-6.1
EMERGING BONDS	JPMorgan Emerging Markets Bond	473.9	USD	-3.2	-6.7	-5.9	-16.2	-24.7
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	426.5	USD	-0.7	-5.1	-7.4	-14.1	-19.9
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro Aggregate	224.3	EUR	-1.0	-3.7	-5.6	-11.1	-16.2
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	133.2	CHF	-1.1	-4.7	-4.8	-9.0	-14.6
CONVERTIBLE BONDS (UE)	Exane Europe Convertible Bond	7221.3	EUR	-1.2	-5.1	-0.4	-11.6	-18.3
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	135.8	USD	-0.9	-5.0	-3.8	-14.9	-19.7
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	13.0	USD	-1.2	-3.1	-0.8	-8.4	-11.5

Yield curves still positive in Europe

Yield curves in Europe have already exceeded the ECB's key rate target of 2.5% at the end of March on most maturities, with the exception of the German government yield curve, where ten-year yields are still at 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 expanded to replace it in the near future.

Our outlook for the next quarter is once again negative for European bond markets, for which 10-year government yields in France (2.91%), Spain (3.48%) and Italy (4.76%) have nevertheless reached levels 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 to be favored.

The British bond market goes up in flames

The announcement of the mini-budget on September 23 set off a firestorm and quickly ignited the foreign exchange and capital markets. Financial markets were rightly quick to worry about the effects of such a reversal of fiscal and budgetary policy on British interest rates and the currency. It did not take long to realize that this budget would have a major impact on the government's fiscal balance and financing needs.

This new fiscal paradigm was bound to lead to a deterioration of public finances, leading to a significant increase in costs, and a loss of investor confidence in the ability of the new government to adopt appropriate policies in times of crisis. Ten-year UK Treasury yields jumped from 3.3% on September 22 to 4.5% on September 27.

A dramatic increase was caused in particular by the massive sales by British pension funds, in need of replenishing reserves and liquidity, as the value of their bond positions collapsed. The vicious circle was now in place. The falling prices of the bonds they held forced the implementation of risk reduction operations, and therefore bond sales that contributed even more to the fall in prices. Only the intervention of the BoE put an end to this vicious spiral, but there is still a risk that the same institutions will take advantage of the respite granted by the BoE to adjust risk levels by still selling, but under better conditions.

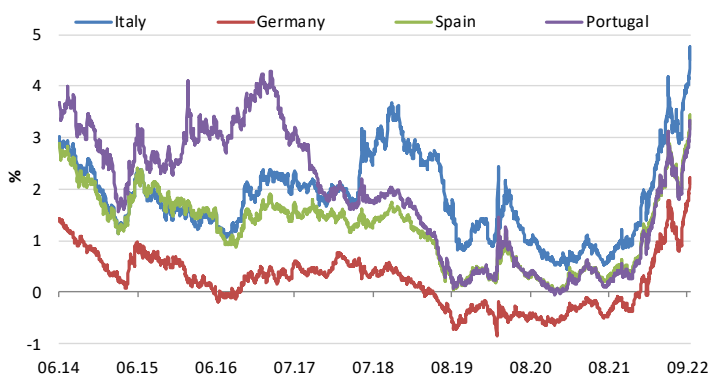
In this exceptional context, UK bonds have become particularly risky and susceptible to suffer further major setbacks. Current yields after BoE intervention have corrected only marginally by 30 bps.

Japanese bonds still unattractive

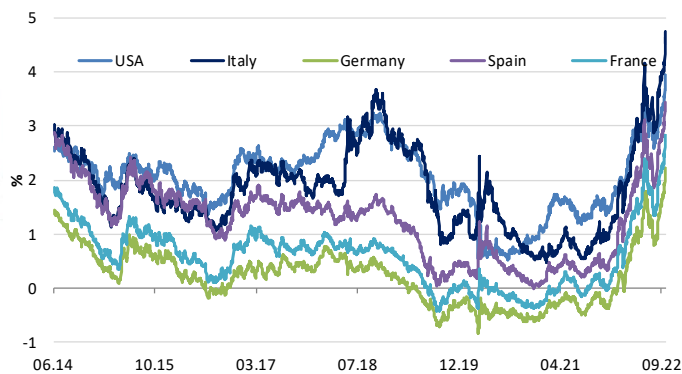
The BoJ's policy is proving particularly effective in the current Japanese environment and in the difficult international environment in the financial markets. Japanese 10-year long rates also experienced some fluctuations without being really affected by the generalized trend of rebounding yields observed in most capital markets.

Ten-year government bond yields have remained close to 0.2% over the past eight months, within a narrow band of +0.05%. Low yields and a weak yen are not helping to increase the attractiveness of Japanese bonds, which should remain largely underweighted in a diversified bond strategy. Indeed, holding bond positions in yen is not attractive compared to the returns offered in other currencies.

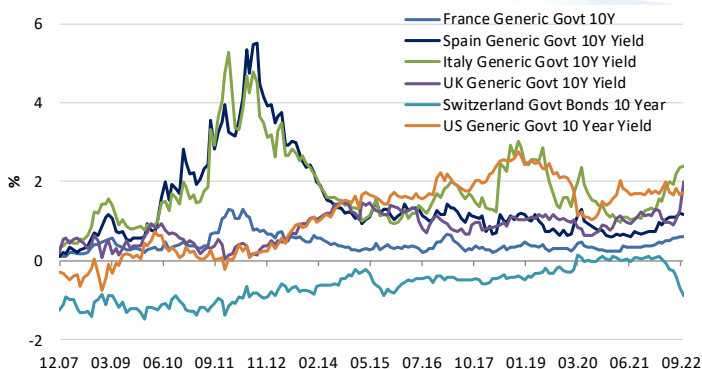
10 year Rate - Gvt Europe



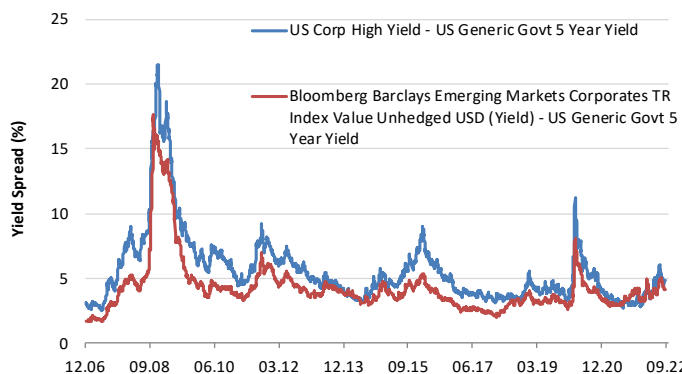
10 year Rate - Gvt



Risk Premium vs. German Government



Risk Premium vs US Treasury



An allocation to yen-denominated bonds could potentially be justified by the expectation of a currency gain, which has so far been unlikely to materialize. Japanese bonds offer no interesting prospects in the current context of more attractive international alternatives.

Yield curve adjustments offer opportunities to capture higher returns

After nine months of adjusting bond yields to new inflation conditions, September offered a unique medium-term opportunity to reposition in markets, offering the best achievable yields in several years. The sharp rise in yields over the last three quarters, and the obvious exaggeration that occurred in the last phase of the recent rise, did indeed offer a unique opportunity to reposition in the bond markets with a 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 opportunities and in diversified multi-asset portfolios.

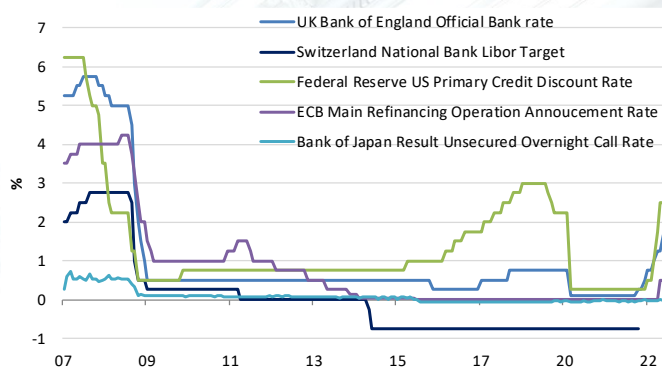
We now believe that the rise in US yields to 4% for ten-year Treasuries and 4.6% for two-year bonds is the marker of an intermediate top for yield curves, changing our assessment of risks and opportunities in the fixed income markets.

As the US economy approaches a recession, the current level of rates is only justified by the persistence of inflationary risks. Our inflation expectations in the current context are instead based on the emergence of a new regime of lower inflation closer to +0.2% to +0.3% per month, allowing for a future contraction of the yield curves.

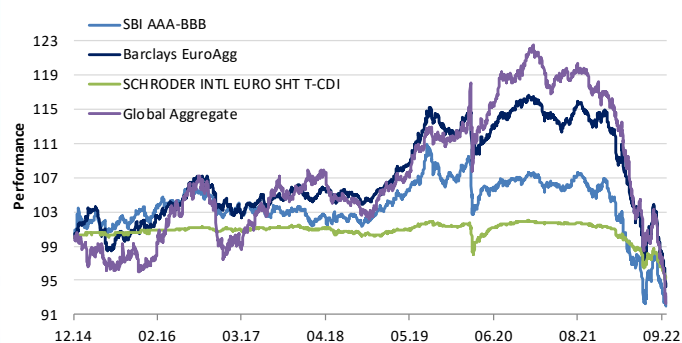
We now expect yields to ease in the US, accompanied by similar, but smaller trends in other markets, which will also benefit from the change in economic outlook and inflation regimes.

In terms of geographic allocation, we favor US, Canadian and Australian dollar bonds, which already offer particularly attractive 4-5 year yields as well as opportunities for capital appreciation in the coming months.

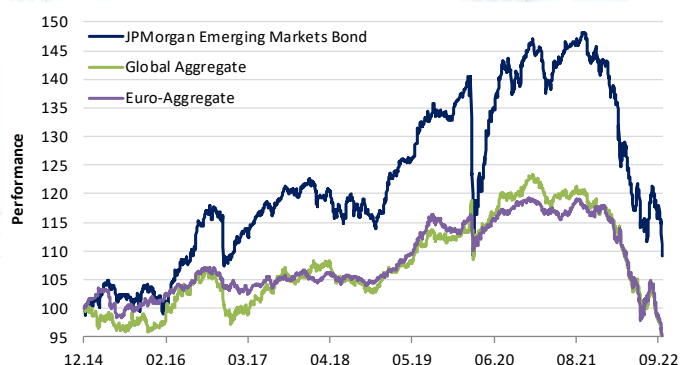
Key Rates (EUR, CHF, GBP, USD, JPY)



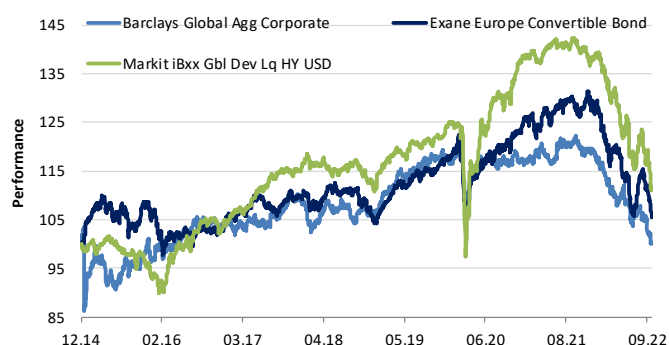
YTD Performance of 1-5 year Bond Indices (base 100)



Emerging Bonds—Performance (base 100)



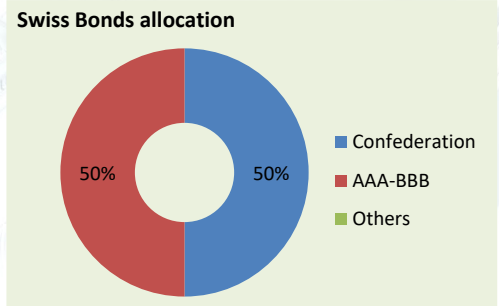
Eastern Europe Bonds—Performance (base 100)



PROSPECTS AND STRATEGIES

Swiss Bonds

- Renewed interest in Swiss franc bonds
- A first drop in inflation favorable to the interest rate markets
- Lengthening of maturities



- Tactical allocation**
- Underweight Swiss government securities
 - Overweight the "IG" corporate segment
 - Keep short duration

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

Renewed interest in Swiss franc bonds

The evolution of inflation and the monetary policies of central banks were major factors in the return of volatility in the financial markets. The relative stabilization of monthly inflation data during the summer, after the extreme values of the previous months, was not enough to reassure the markets. The persistence of year-on-year inflation at high levels took precedence, while central banks spared no effort in communicating that they would do everything in their power to control price developments. The fall in commodity prices had a positive impact on expected inflation, which indeed fell significantly, but concerns remained high due to the central bankers' stated policy of wanting to see inflation figures published, demonstrating that ex-food and energy inflation was well under control, prior to a possible policy change. The second half of the quarter was thus marked by the inclusion of monetary tightening expectations in the yield curves. In the United States, yields on all maturities jumped and exceeded the key rate target estimated at 4.5% for the first quarter of 2023.

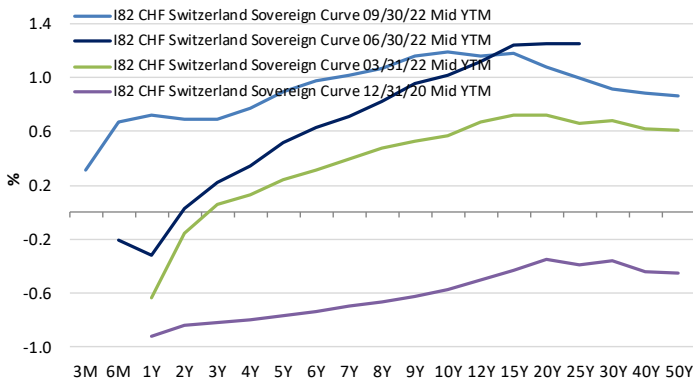
This quarter was also a tense one in Switzerland. Yields in Swiss francs were affected by the same fears and therefore suffered the same fluctuations as those observed in markets, which are more affected by the slippage of inflation. The month of September will therefore be remembered for the extreme adjustment of the Swiss government's ten-year rates to almost 1.6%. This sudden rise in the Swiss yield curve seems premature in the context of the Swiss economy, and in terms of prospect of a reduction in inflationary pressures in 2023.

A first drop in inflation favorable to the interest rate markets

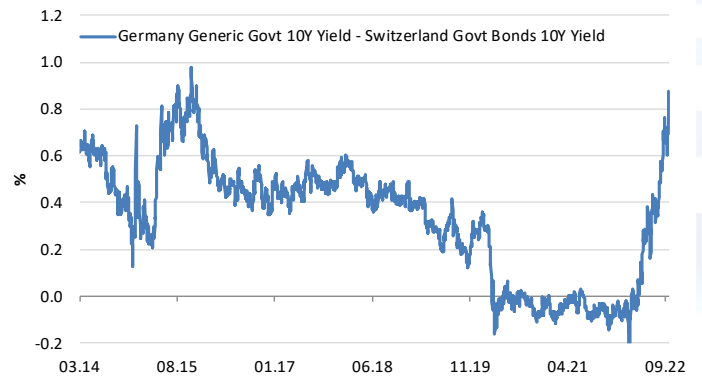
Nevertheless, inflation surprised observers in September by a first decline of -0.2% over a month. A few weeks after the SNB's surprise decision to raise its key rates in June (0.50%) and September (0.75%), Swiss inflation was already showing a decline, which was also reflected in a drop from 3.5% to 3.3% in the CPI index. If Swiss inflation is indeed above the SNB's target of 2%, core inflation excluding food and energy is barely 2%. In its latest rate hike communication, the SNB also revised its inflation targets to +3% for 2022 and +2.4% for 2023. The decline of inflation in our country, in September, does not however owe much to the SNB's more restrictive monetary policy, the effects of which will be felt in the future. The strength of the Swiss franc is undoubtedly still partly responsible for the better control of imported inflation, and for the effects of the prices of imported products and commodities.

This first monthly decline is a good omen, but it does not yet clearly indicate the expected new trend. It should be noted, however, that we have to go back to 2008 to find returns similar to those available today. The temptation to reconsider Swiss franc investments that offer positive returns at these levels is elevated, even if they remain significantly lower and less attractive. At these levels, Swiss franc returns are once again attractive to Swiss investors and pension funds. We also recommend a slightly more middle-of-the-road positioning on the yield curve and on investment grade, but non-government borrowers.

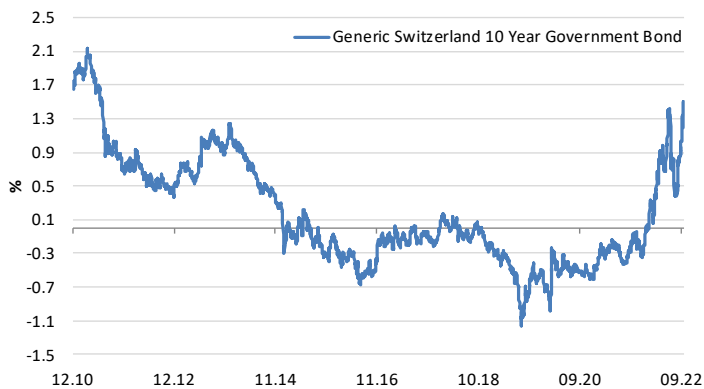
Yield Curve Swiss Government



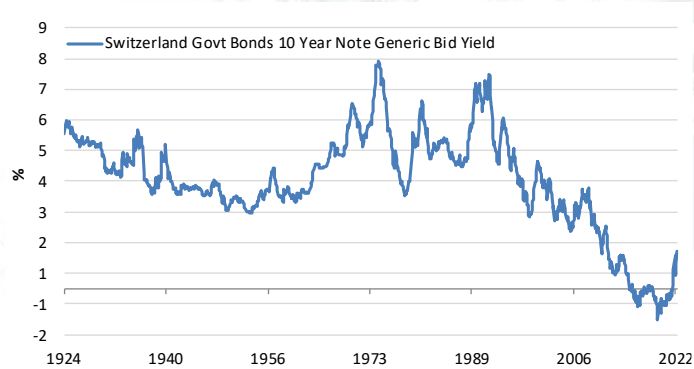
Long-term Interest Rate Differential (German Bund - Swiss Gov)



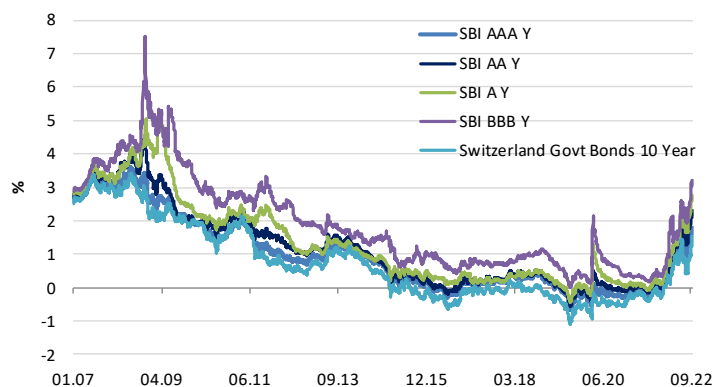
Swiss Government Bonds - 10 year Rate



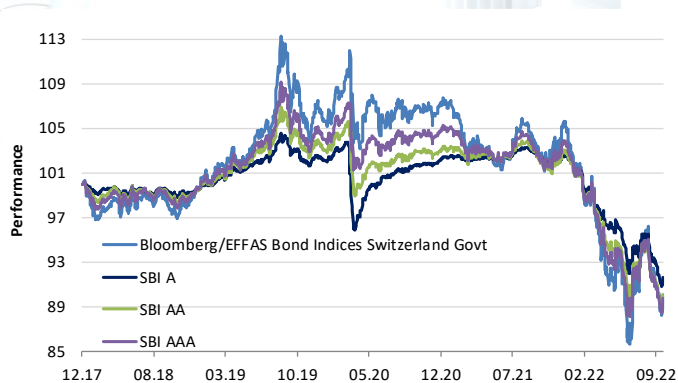
Swiss Government Long Rates since 1924



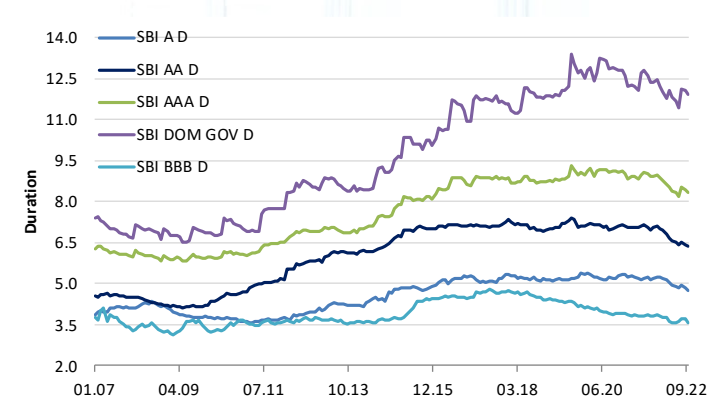
Yield (in %) by Type of Debtor



Performance of Swiss Bonds (base 100)



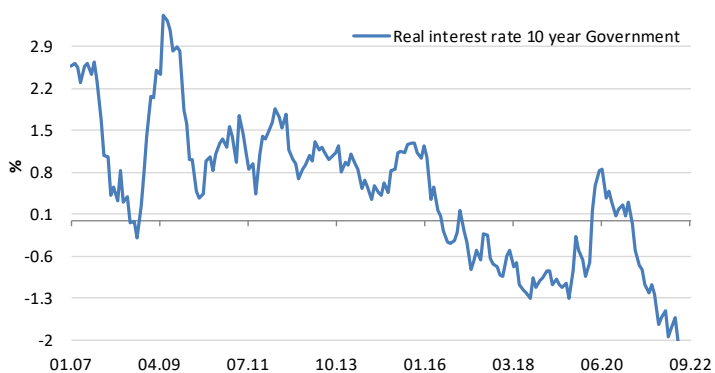
Duration of Swiss Bond Indices



Yield Spread



Real Interest Rates



SWISS BOND INDICES (CHF)

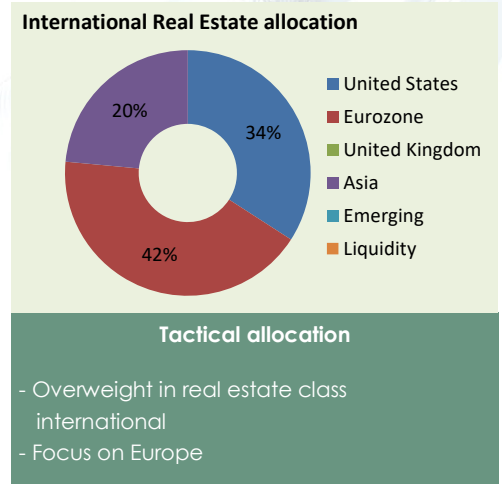
	Last price	Curr.	Total Return Performance				YTD %
			7 d %	1 m %	3 m %	6 m %	
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	235.1	CHF	1.3	-2.6	-0.8	-4.8	-12.5
SBI A-BBB	125.1	CHF	0.5	-1.8	-2.9	-5.5	-10.6
SBI AA-BBB	122.5	CHF	0.7	-1.8	-2.8	-5.8	-11.0
SBI AAA-AA	122.1	CHF	0.9	-2.1	-2.6	-6.1	-12.0
SBI BBB	136.3	CHF	0.4	-1.8	-2.8	-4.8	-11.3
SBI AAA-BBB	123.1	CHF	0.8	-2.0	-2.6	-5.9	-11.6
SBI DOM GOV AAA-BBB 1-3P	59.7	CHF	0.7	-0.4	-2.2	-2.5	-4.1
SBI DOM GOV AAA-BBB 3-7P	75.0	CHF	1.1	-1.7	-3.5	-4.1	-7.4
SBI DOM GOV AAA-BBB 7+ P	107.7	CHF	1.4	-3.5	-0.1	-6.1	-16.3

PROSPECTS AND STRATEGIES

International Real Estate

- A particularly difficult quarter for securitized real estate
- Real estate values likely to rebound
- European rates do not yet threaten direct real estate
- Broadly diversified strategy with an overweight in the eurozone

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



A particularly difficult quarter for securitized real estate

Listed real estate investments had weathered an initial wave of uncertainty and rising inflation at the beginning of the year quite well, but the latest phase of accelerating interest rate increases had investors very concerned. Increasingly restrictive monetary policies in the United States and the United Kingdom, extreme tensions on the yield curves in most countries, and a particularly depressed stock market climate have indeed added to the uncertainty, and caused a form of panic on the listed real estate markets, in recent months. It is also likely that aspects of market liquidity have also exacerbated the impact of reduced exposure on price levels.

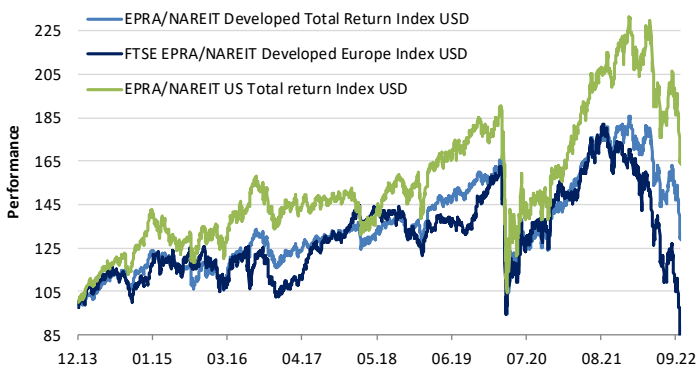
In fact, the September drop in the EPRA Nareit Global index of -12.16% in USD was exceptionally strong compared to that of international equities (-9.3%), underlining the strong underperformance of securitized real estate, which was also linked to the acceleration of interest rates in September. This fall dragged down the quarter's performance (-17.01%) for a nine-month negative result of around -29.4%. This drop occurred in a different inflationary environment, however, which has shown a much more moderate trend over the past three months in the US. The new inflation regime could have given hope for a different outcome for the evolution of monetary policy and interest rates. This was not the case and US real estate fell by 12% in the month of September alone. In Europe, the fall of -15.5% is exceptional and is the worst performance since October 2008.

Real estate values likely to rebound

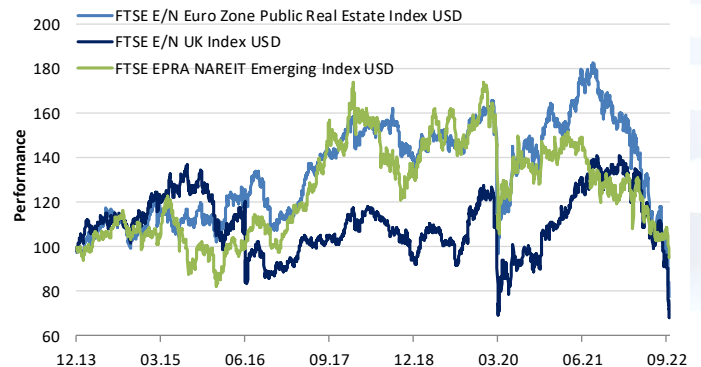
The year 2022 is thus marked by a rapid return to the forefront of inflation at historically high levels, and by a historic rise in key rates and yield curves. Real estate indices had been able to confirm their statistically proven superior resistance during periods of inflation by clearly outperforming bonds and equities in the first quarter, but the acceleration in the rise in financing costs then triggered significant investor sell-offs 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 securitized real estate indices. The underperformance of securitized real estate in September should remain a temporary observation. We believe that this asset class should quickly recover over the next few months. The correction in real estate provides a new opportunity to reposition in this asset class. European real estate has been particularly hard hit and now offers more attractive opportunities in our opinion.

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



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



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

U.S. home prices had not recorded a monthly decline since March 2012. The strongest monthly increase in the last ten years was recorded exactly ten years later in March 2022, when it stood at +2.38% (S&P CoreLogic Case-Shiller 20 City Composite). The slowdown in price increases was finally quite concentrated as only three months after the last monthly increase, average prices recorded their first decline in July of -0.44%. The radical change in U.S. monetary policy and the rapid rise in mortgage rates have combined to affect demand and prices.

This trend, which we announced, has therefore taken hold and should continue over the next few 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 construction was still down sharply in September, by -8.1%. Sales of existing homes fell again in August for the seventh consecutive month. New mortgage applications logically plunged even more sharply in September, by -14.2%.

Developers are now faced with rising inventories, and buyers who are a little more cautious and less inclined to follow through on their desire to purchase a property. Developer sentiment is also logically declining for the tenth consecutive month in this more difficult context, which represents the longest phase of uncertainty since 2007. New building permit applications have also very logically slipped in this more morose environment.

The very sharp rise in mortgage rates, the high price level and the presence of growing inventories suggest further price declines for future transactions.

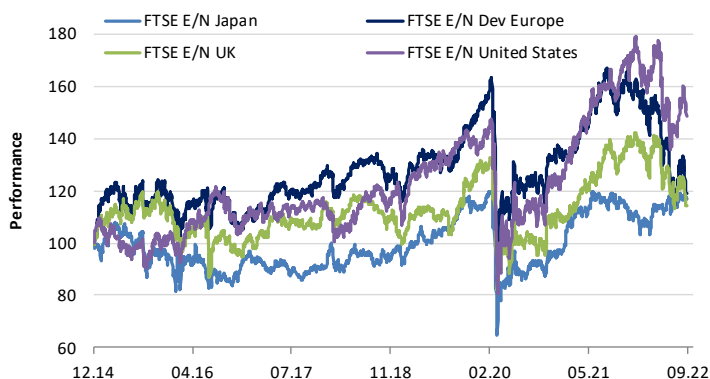
On the stock market front, US securitized real estate, which had peaked on December 31, 2021, began a downward trend in May that has resulted in a 32% correction in value to date. The EPRA Nareit US index was thus much more quickly affected by the change in direct real estate market conditions, and is still suffering from sales by concerned investors. Following the acceleration of the price decline in August and September, it would appear that securitized real estate is attempting to stabilize in early October.

The evolution of the yield curves will be decisive in the coming weeks in order to estimate the probability of a reversal of the trend in REITs' prices. A stabilization of interest rates is indeed necessary after the acceleration observed in recent weeks.

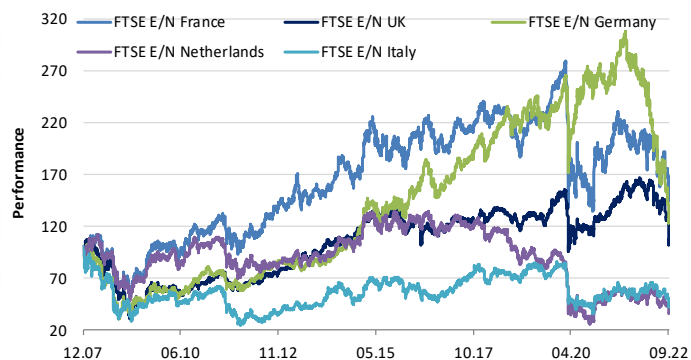
The fall in the price of US securitised real estate suggests that listed stocks have already taken into account the risks of price declines that will materialise in the coming months.

At current levels, US securitised real estate seems to us to have already incorporated new negative expectations and probably offers opportunities for repositioning in the medium term.

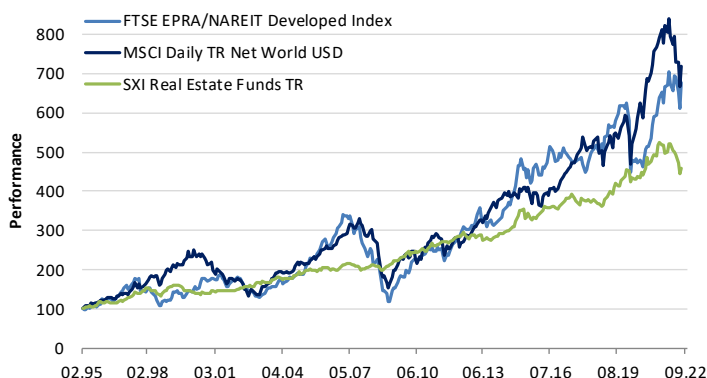
Real Estate Markets in Local Currencies



European Property Markets in Local Currencies



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



INTERNATIONAL REAL ESTATE INDICES (local currency)

		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT GIB TR	2492.7	USD	-3.6	-12.0	-12.3	-27.3	-28.9
DEVELOPED	EPRA/NAREIT Dev TR USD	4817.5	USD	-3.4	-12.3	-12.2	-27.6	-29.4
DEVELOPED EUROPE	FTSE E/N Dev Europe	1459.5	EUR	-0.5	-16.6	-16.2	-36.7	-39.5
EUROZONE	FTSE E/N Euro Zone	1446.5	EUR	0.9	-15.5	-16.8	-36.2	-38.5
USA	FTSE E/N United States	2717.9	USD	-3.6	-12.0	-11.5	-26.8	-28.4
DEVELOPED ASIA	FTSE E/N Dev Asia	1385.0	EUR	-5.9	-6.9	-3.4	-7.4	-5.3

First signs of a downturn in UK house prices

The real estate boom is showing increasing signs of weakness and is recording its first month of zero price growth. Indeed, since February, real estate prices have been on an upward trend, albeit at a steadily declining monthly rate. The month of September shows an expected stability (+0%) which was slow to materialize. This timid decline in prices is due to the increase in the cost of financing and the decrease in the disposable income of households to purchase real estate. Over one year, the price increase has stabilized at +9.5%. Despite this increase in financing costs, the number of mortgages granted rebounded significantly from 63,800 to 74,300 in August. The level of net financing increased slightly from 5.1 to 6.1 billion. The direct real estate market will quickly face a sharp deterioration in financing conditions that is expected to have a significant impact on prices and the overall real estate sector.

British securitized real estate, which is more influenced by developments in the financial markets, underwent a major correction phase in 2022, of -22% at the end of August. Since then, the shock of September 23 has triggered a new wave of price declines that have pushed the fall in real estate values to nearly -43%. We believe that current prices could offer interesting repositioning and diversification opportunities for multi-asset portfolios as risks normalize. For the time being, however, we consider that the shock of the "mini-budget" may not yet have developed all its effects on real estate values and suggest some caution before considering an investment in UK securitized real estate.

European securitised real estate is in turmoil

Securitised real estate in Europe is strongly affected by interest rate pressures. The EPRA Nareit index has fallen by -32% since the recent and rapid upturn in euro yields that has taken long rates from 0.78% on 1st of August 2022 to 2.31% today. The correction in European listed real estate prices had already started at the end of 2021, when ten-year yields were still negative (-0.5%) and inflation was starting to accelerate above its highest levels in a decade. The slippage in inflation marked the beginning of the rise in euro yields, arguably excessively affecting listed real estate stocks in Europe. Increased uncertainty in Europe has logically affected risky assets, but in the case of European real estate, the valuation of some companies is now less than 50% of book value, an exceptional situation that seems to us to be unjustified despite the context of rising financing costs.

The average level of average mortgage rates has still only risen slightly in the euro area and is well below the US cost of funds. Historically, current yields and mortgage rate levels in Europe remain low. The recent rise therefore does not, in our view, threaten the current favourable trend for European direct real estate. Imbalances between supply and excess demand should also persist and will not be abruptly curbed by changes in financing costs or asset valuations. Despite a still very uncertain economic environment, the sharp decline in European securitised real estate already seems to us to take into account this higher level of uncertainty and risk. European securitised real estate should therefore be favoured.

China's property market rout to last

The property market has been in disarray for over a year, pushing developers into bankruptcy. The average price of flats fell for the twelfth consecutive month in August. The measures introduced to try to stabilise the property market have not yet developed the expected effects. The easing of purchase restrictions, initial financial contributions or the lowering of interest rates have not slowed the fall in prices. The latest measures to support housing demand have at least reduced the risk of a crash. In particular, the accompanying measures pushing banks to finance 600 billion yuan to the sector over the next few months underlines the fact that policy is becoming more favourable. A controlled and sustainable contraction of the sector thus seems to be taking place which should last and slow down Chinese growth.

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 the last three CPI measures in the US suggest a sharp decline. The new inflation regime that seems to be taking hold should not motivate ultra-aggressive monetary policy if it continues and leads to a decline in price indices in the coming quarters.

This new investment climate could be conducive to a decrease in interest rate pressures 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 that it 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.

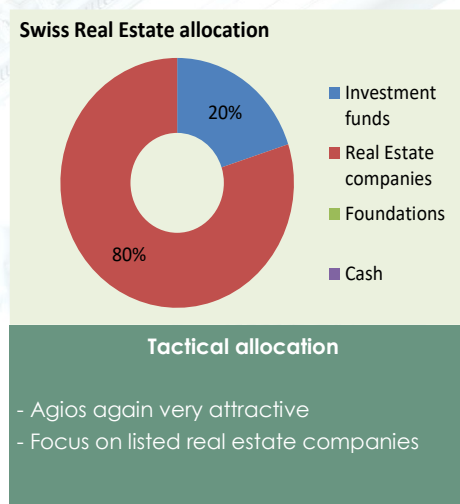


PROSPECTS AND STRATEGIES

Swiss Real Estate

- Swiss securitised real estate is caught up in the stock market turmoil
- The economic context does not justify a fall in VI
- Positive outlook for 2023

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



Swiss securitised real estate is caught up in the stock market turmoil

Both real estate investment trusts and real estate companies have been caught up in the turmoil that has gripped listed assets for several quarters. The particularly pessimistic general stock market climate affected all asset classes around the world with little distinction. At the end of the third quarter, the performance of bonds, equities and securitised real estate was indeed quite correlated in a historic and exceptional downward movement. Investment funds fell again in the third quarter by -5.21%, bringing the year-to-date performance to -22.6%. Real estate companies fell further into the red in Q3 with a decline of -9.81%, bringing the price trend for the year to -20.2%. However, the rise in interest rates in Switzerland has been relatively limited by international standards. With key rates at 1.25% and ten-year federal government rates only slightly higher, financing conditions in Switzerland have not deteriorated as much as in other countries, particularly the United States. The sharp correction in real estate values seems to us to be more related to the particularly negative general sentiment regarding monetary policy than to a real change in the fundamental parameters in our country.

It is true that the average agio of more than 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 12.7% (well below the historical average) for funds and is even in disagio of -6.6% for real estate companies. This situation is truly exceptional and reflects a certain panic of investors who are hastily reducing their exposure to this asset class without considering the low liquidity of these two specific markets. We believe that Swiss real estate values have therefore been too heavily penalised this year by the trend reversal in the interest rate market. The current level of valuation seems attractive to us also in view of the theoretical yields associated with the funds and companies, which stand at 2.79% and 4.03%.

The economic context does not justify a fall in IV

The Swiss economic environment remains favourable for direct and indirect real estate. Rising financing costs are certainly a penalizing factor, but 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 direct real estate to the extent that the intrinsic values (IV) of listed real estate have fallen by -20%.

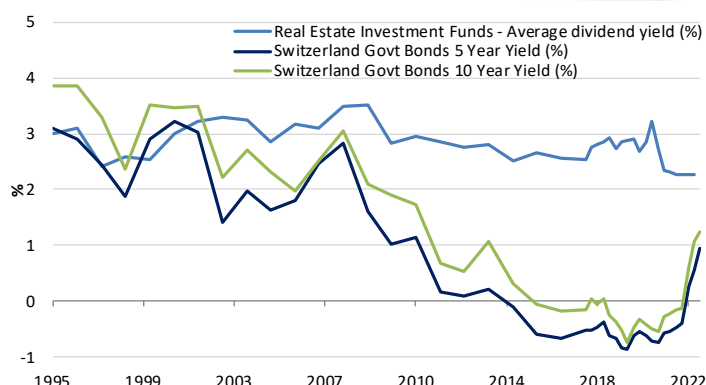
Positive outlook for 2023

Real estate as a real asset performs rather better than others in an inflation recovery phase. The agios of real estate funds have fallen sharply in recent months, indirectly improving the level of returns. Swiss securitised real estate investments once again offer interesting repositioning opportunities. We overweight the latter in a diversified allocation.

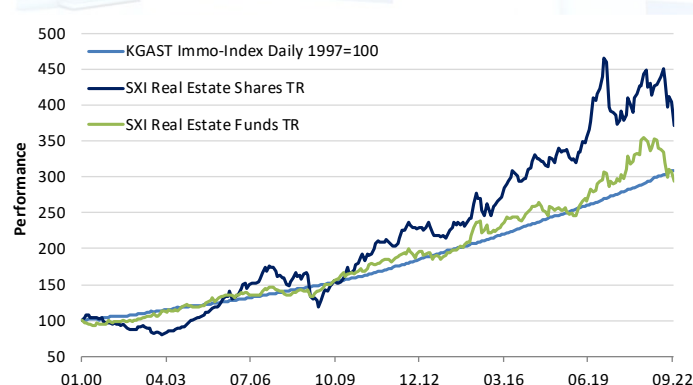
SWISS REAL ESTATE

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	431.8	3.0	-4.4	-1.6	-14.5	-16.8
SXI Real Estate Idx TR	2768.7	0.1	-8.0	-6.6	-16.7	-13.1
KGAST Immo-Index	345.6	0.3	0.3	1.3	2.2	3.5

Government and Real Estate Yield



Performance of Swiss Real Estate



PROSPECTS AND STRATEGIES

International Equities - Regions

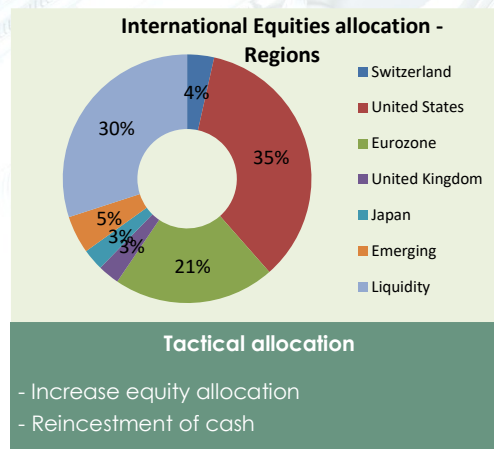
- Fed reinforces negative trend in equity markets
- Investors remain cautious despite opportunities
- A risk-on mode is tentatively emerging in the US
- Risk premium still high for European equities

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

Fed reinforces negative trend in equity markets

September ended with negative results for most equity markets for the month, the quarter and for the nine months as a whole, amidst a general feeling of extreme investor anxiety at the end of the period. The last few days of the month were again shaken by high volatility in the financial markets, which saw US Treasury yields rise above 4% on all medium and long maturities for the first time since November 2007. In recent months, geopolitical uncertainties have gradually taken a back seat as fears about the gradually faded into the background, while fears of persistently high inflation have largely taken over. Despite some encouraging signs of stabilisation in the US price indices in July and August, which led to a surge of optimism in the financial markets and a rise of almost +10% in the main indices, uncertainty and fear once again gripped investors.

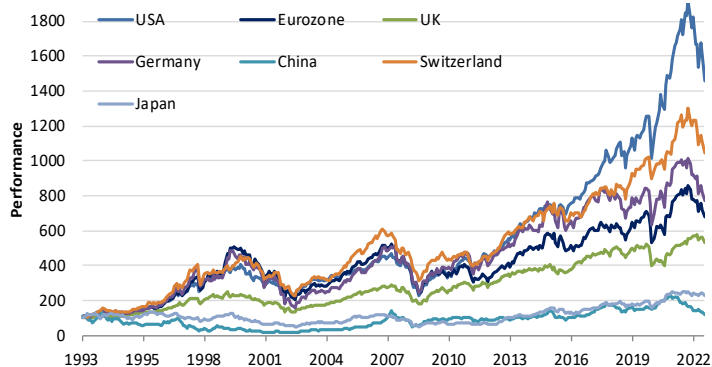
The tightening of the Fed's monetary policy then became the main source of concern affecting the equity markets. The Fed's increasingly explicit stance since Jackson Hole left less and less doubt as to its willingness to firmly raise rates to 4.6% by the end of March 2023 with a 125 bp increase by the end of 2022, at the risk of provoking a recession and rising unemployment. The growing risks of recession, the energy crisis in Europe, persistent inflation, as well as the risks of falling corporate margins and earnings, have also contributed to a climate of uncertainty that has caused equity markets to fall further.



Investors remain cautious despite growing opportunities

As a result, investors quickly lost their enthusiasm from the beginning of the summer and reduced their risk again, causing further falls in stocks. US and international equities fell by around -9% in the last month of the quarter. The nine-month fall in the MSCI World Index of -25.42% also reflected fairly negative regional performances, with the US down -23.88%, Europe down -20.4% and emerging markets down -26.99%. This latest market decline has further reduced investor confidence as they realised this quarter that the simple strategy of buying on price weakness no longer works. Logically, they are now reluctant to anticipate a slightly more positive development in the various parameters influencing the stock markets. The higher volatility regime of recent months does not encourage one to pick up on the positive signs that are emerging. The gradual decrease in monthly inflation or the evidence of a decrease in labour market tensions are still considered insufficient for a reinvestment of cash and a repositioning in the equity markets. The risk off mode therefore still dominates for the time being until a softening of the Federal Reserve's stance is possible and Q3 corporate earnings suggest a better than expected resilience in profits.

Long-term Equity Markets (base 100)



Chinese A and B Shares (base 100)



A risk on mode is timidly setting in the US

Bearish sentiment among professional investors was still very much in evidence at the end of September and the beginning of the last quarter, as suggested by the S&P500 long positions, which were at their lowest levels in ten years. Investors were still influenced by the Fed's dogmatic stance and still feared a tightening of monetary policy in connection with unsatisfactory inflation developments. Competition from attractive interest rates and the lack of a clearer view on the inflation outlook have so far dampened risk-taking. Still in "risk off" mode until the announcement of inflation for the month of September (+0.4%) which caused extreme volatility followed by a recovery, investors will carefully observe the first corporate results for the third quarter and their expectations for 2023 before changing their perception of opportunities and risks.

With only a few weeks to go before the end of the year, the US indices are back to their June lows and may want to anticipate an easing in bond yields and on the inflation front, while the S&P500 earnings growth outlook has been lowered to +4.2% for 2023 and the PE of 16.4x looks more reasonable.

Risk premium still high for European equities

European stocks are certainly suffering more at the moment from the perception of greater risks to their earnings than from rising interest rates. In regional comparison, European ten-year rates remain in most cases lower than American rates (4%) and logically have a more moderate influence on corporate financing. But rising energy and electricity costs pose significant challenges for European companies dependent on energy prices and a steady supply of gas or electricity. Since the emergence of the crisis, not all European countries have been affected in the same way, with Germany clearly being more affected than others. Rising raw material prices and supply difficulties are also affecting production costs in an exceptional way. These have now reached unprecedented levels in Europe and are severely disrupting the production of industrial sectors. Margins in industry in particular are under pressure in an environment also marked on the demand side by a general decline in purchasing power.

In international comparison, European companies are more affected and are likely to see their profits penalized more heavily. In terms of relative valuations, they are trading at around 9x 2023 earnings, a much more reasonable level than the US multiple of 16x. With a relative valuation discount of 45%, they deserve to be favoured, but we fear that in the short term they will continue to suffer from reduced visibility in favour of the US market, which is less affected by European geopolitics. A change in the stock market climate is essential to allow European stocks to outperform.

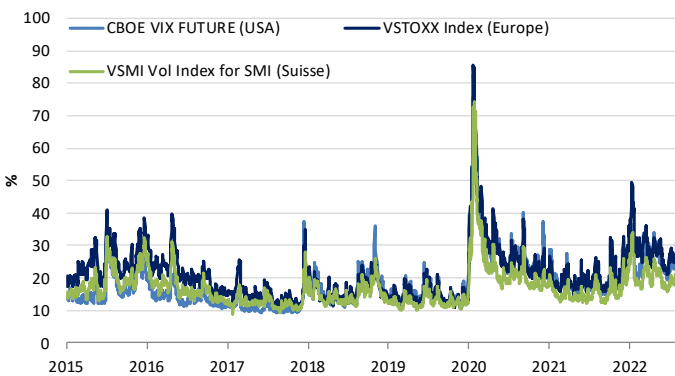
Weakening outlook for the Nikkei index

Japanese equities have understandably lost ground over the past quarter in the wake of the major stock markets. The international stock market climate is still largely unsettled by inflationary developments in most countries and by the effects of the ongoing energy crisis. Generalized rate hikes did not take place in Japan, but Japanese stock market indices could not escape the general gloomy atmosphere, which did not favour risk taking. In this context, Japanese equities held up rather well, managing to limit their decline to only -9% (local currency) over the first nine months, while European equities (-22.8%), US equities (-25%) and Nasdaq technology stocks (-32.4%) suffered greater losses.

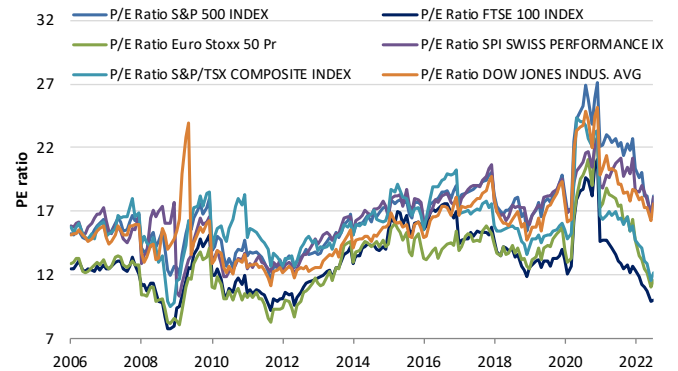
In relative terms, the Nikkei still looks attractive today with a valuation of 13.9x 2023 earnings, compared to a PE of 14.8x for the S&P500. However, the relative decline in its discount to the S&P500 index from 20% to 6% in a few months due to the greater fall in US stocks no longer favours Japanese stocks.

Indeed, the decline in the relative risk premium for Japanese stocks in the pressured yen environment now limits the attractiveness of Japanese equities in an internationally diversified strategy that is now significantly more favourable to US and European companies. In this environment, we suggest an underweight allocation to Japanese stocks.

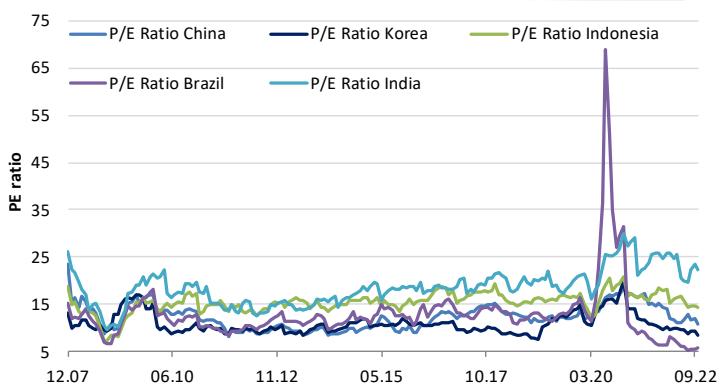
Volatility Indicators (USA, Europe, Switzerland)



Developed Market PE



Developed Market PE



US Equity Markets (base 100)



Limited shock for UK equities

Before the "mini-budget" shock, British stocks (PE 9.7x) were still trading at a discount of around 14% to European stocks (PE 11.2x) and 40% to US stocks (PE 16.9x). This valuation gap was expected to be favorable, especially if energy and basic materials stocks were to benefit further from commodity developments in the coming quarters. The PE of the FTSE 100 is now 8.8x 2023 earnings and the discount to European equities of the Eurostoxx 50 (10x) is still 15%. UK stocks are also still benefiting from the valuation differential with US stocks due to the high multiple of the S&P500. UK equities should not be overly penalized by the problems encountered in the bond market. Rising yields and financing costs are also damaging to UK listed companies, but at current valuation levels, the risks involved seem to be built in.

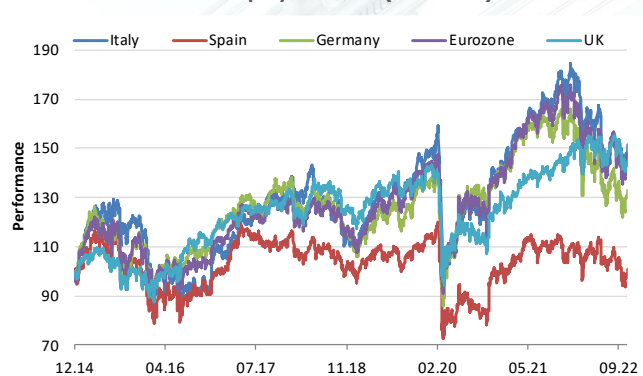
Emerging markets remain in bear market

The MSCI emerging market index continues to decline and is now down -41% since February 2021. Indebted emerging economies are suffering from rising US interest rates and the depreciation of their currencies against the US dollar. The global economic slowdown is not helping them and is weighing on their exports. In addition, most of them are also negatively impacted by rising energy and commodity prices, which are causing inflation that is damaging to growth prospects and corporate profits. Emerging markets producing and exporting commodities are better positioned to weather this difficult phase. Others will suffer from rising costs and limited growth prospects.

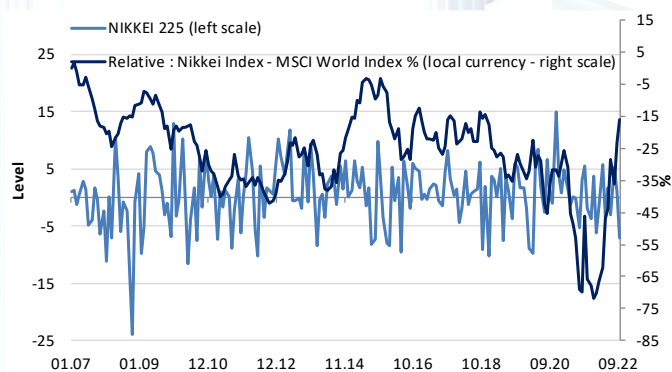
China continues to be penalised by the domestic slowdown, the drop in external demand and the difficulties of its property market.

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

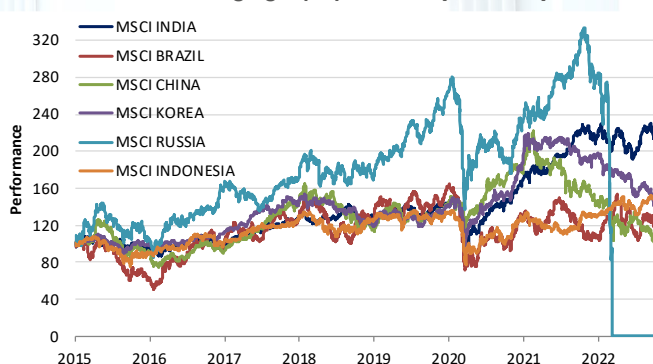
Equity Markets (base 100)



Japan Equity Markets VS MSCI World



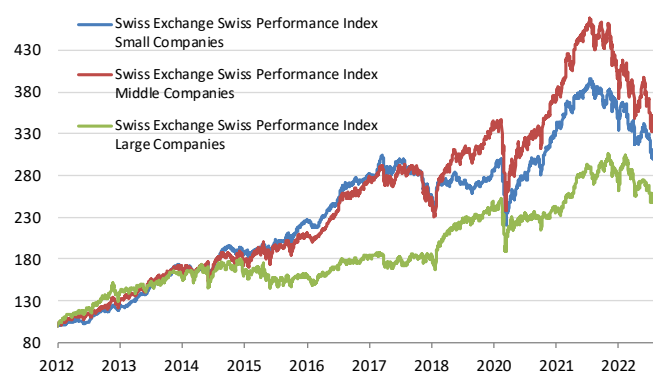
Emerging Equity Markets (base 100)



EQUITIES - BY REGION (local currency)

		Total Return Performance							
		Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND		SPI Swiss Performance Index	13166.4	CHF	1.2	-6.0	-5.1	-15.4	-19.9
SWITZERLAND SMALL-MID CAPS		SPI Extra Total Return	4339.3	CHF	0.7	-9.2	-8.1	-21.2	-29.2
EUROPE		STXE 600 € Pr	387.9	EUR	-0.6	-6.4	-4.2	-13.4	-18.0
EUROPE SMALL-MID CAPS		MSCI Europe Small Cap Net TR E	421.3	EUR	-1.9	-10.9	-8.9	-23.1	-30.1
UK		FTSE All-Share Index	3763.5	GBP	-2.1	-5.9	-3.5	-8.7	-8.0
USA		S&P 500 Index	3585.6	USD	-2.9	-9.2	-5.9	-20.5	-23.9
USA SMALL-MID CAPS		RUSSELL 2500	701.0	USD	-1.2	-9.5	-4.1	-20.0	-24.0
JAPAN		NIKKEI 225	25937.2	JPY	-3.7	-6.9	0.9	-5.3	-8.1
JAPAN SMALL-MID CAPS		Russell/Nomura Mid-Small Cap I	991.5	JPY	-2.7	-4.8	1.7	-1.2	-2.7
ASIA EX-JAPAN		MSCI AC Asia Pac Ex Japan	452.8	USD	-3.6	-12.5	-11.7	-21.8	-26.0
ASIA EX-JAPAN SMALL-MID CAPS		MSCI AC Asia Pacific Ex Japan Small Cap	962.8	USD	-4.5	-12.1	-6.5	-24.4	-28.5
EMERGING		MSCI EM	875.8	USD	-3.3	-11.7	-10.7	-21.8	-27.0
INTERNATIONAL EQUITIES - DIVERSIFIED USD		MSCI Daily TR Net World	7275.4	USD	-2.4	-9.3	-6.7	-21.5	-25.4

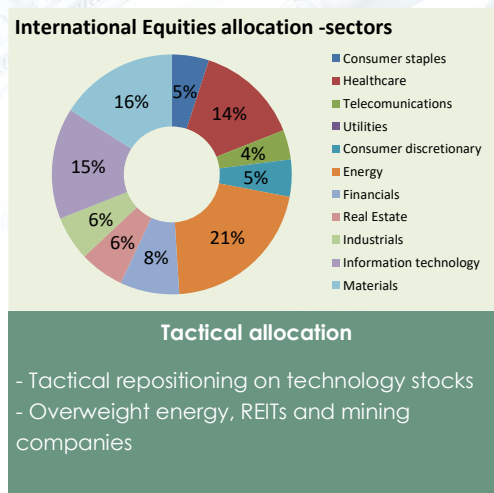
Swiss Equities (large - mid - small caps / base 100)



PROSPECTS AND STRATEGIES

International Equities - Sectors

- Stabilisation of the markets favourable to risk-taking
- Momentum for rate hikes to decline
- Technology stocks, alternative energy and REITs will be the main beneficiaries of a change in trend.



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

After nine months of doubts, uncertainties and concerns about economic growth, inflation, monetary policies, interest rates and geopolitical risks, financial markets are still fragile. The likelihood of a stabilisation and decline in inflation is now reinforced by the increased risks of a slowdown and recession at the end of the year and in 2023, supporting an easing of monetary policy and a reduction in the magnitude of rate hikes. A shift from risk-off to risk-on mode would allow for a year-end stock market rally.

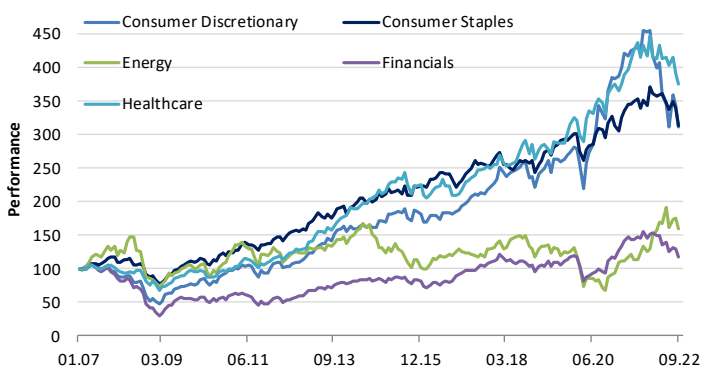
The first sectors to be affected by a possible change in risk perceptions should be the very ones that were penalised by the acceleration in the rise in rates. Technology and digital stocks, but especially innovative companies whose expected profits are unlikely to materialise in the near future and whose value is largely linked to and dependent on the level of interest rates, will certainly benefit the most from an improvement in investor sentiment.

A window of opportunity could open again, as it did at the end of the second quarter, and support a recovery in prices motivated by the expectation of a temporary lull on the interest rate front, despite central bank policies determined to fight inflation. It is probably premature to determine whether this recovery will be a bear market rally, but it is likely to be one of the few opportunities for capital gains in 2022. Such a stock market recovery should be viewed with great caution, especially if hopes for a less extreme implementation of monetary policies are disappointed. In this context, in the short term, we are once again favouring stocks in the technology sector, alternative energies, REITs and large digital players, while maintaining exposure to the traditional energy sector in particular.

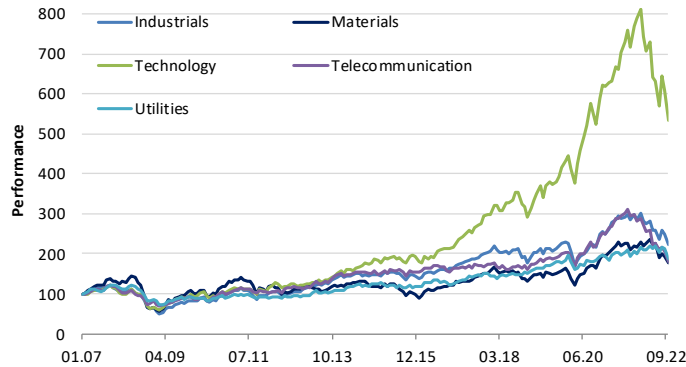
EQUITIES - BY SECTOR

30.09.2022		Total Return Performance						
Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %	
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	298.8	USD	-2.4	-9.0	-0.8	-23.3	-31.6
CONSUMER STAPLES	MSCI WORLD/CON STPL	242.6	USD	-2.4	-7.7	-7.5	-13.1	-15.5
ENERGY	MSCI WORLD/ENERGY	207.4	USD	1.9	-9.2	-1.3	-6.6	23.3
FINANCIALS	MSCI WORLD/FINANCE	113.5	USD	-2.9	-8.2	-6.4	-20.8	-22.0
HEALTHCARE	MSCI WORLD/HLTH CARE	305.7	USD	-0.5	-3.9	-7.4	-13.8	-16.1
INDUSTRIALS	MSCI WORLD/INDUSTR	254.5	USD	-1.8	-10.3	-5.9	-20.5	-26.1
MATERIALS	MSCI WORLD/MATERIAL	265.7	USD	0.4	-8.1	-6.8	-26.1	-23.4
REAL ESTATE	MSCI WORLD/REAL ESTATE	187.3	USD	-4.0	-12.7	-12.6	-25.5	-28.7
TECHNOLOGY	MSCI WORLD/INF TECH	375.1	USD	-3.7	-11.9	-6.3	-26.4	-34.0
TELECOMMUNICATION	MSCI WORLD/TEL SVC	66.5	USD	-2.9	-11.8	-13.4	-30.3	-37.1
UTILITIES	MSCI WORLD/UTILITY	138.3	USD	-7.7	-11.5	-10.1	-15.4	-13.4

Sectors-MSCI World (base at 100)



Sector Performance MSCI World (base at 100)

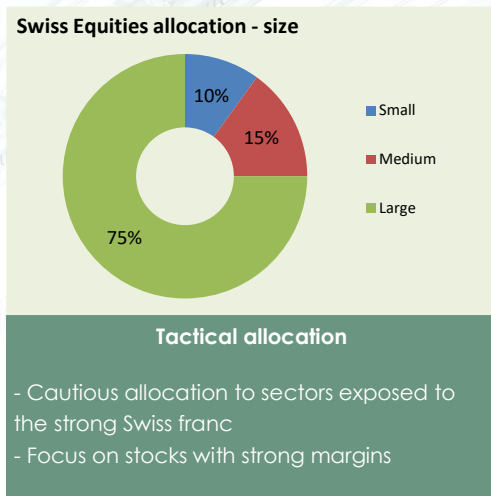


PROSPECTS AND STRATEGIES

Swiss Equities

- Easing yields will be favourable to equities
- Slightly more attractive valuations for 2023
- Swiss franc could support profit growth

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



Easing yields will be favourable to equities

Equity markets have been particularly sensitive and even highly correlated to interest rate developments in recent weeks. The stock market rebound (+8%) that began at the end of June also corresponded to the short-term "top" of rates in Switzerland and continued during the decline in yields from 1.5% to 0.5% until mid-August. The rise in uncertainty was much less related to the results recorded by listed companies than to the evolution of inflation and interest rates. The rise in ten-year interest rates from 0.5% to 1.5% over the past six weeks was the main factor in the renewed -10% correction in Swiss equities.

After two sequences of "risk on" and then "risk off" during the quarter, we believe that Swiss equities should no longer be negatively affected by the interest rate factor to the same extent over the next few months. Swiss equities should benefit from a reduction in inflationary expectations and some easing of yields, which we believe are too high in the current environment. A recession should be avoided, which should prevent major earnings revisions for companies still negatively affected by the strong franc. This last factor also seems to us to be losing its intensity against the euro.

This environment should be less unfavourable to risk-taking and motivate investors to return to international Swiss stocks, whose valuations have adjusted significantly. The SMI's PE is now 14x for 2023 with earnings growth estimated at around -2%.

Slightly more attractive valuations for 2023

The price correction now positions Swiss equities on a basis of around 14x corporate earnings for the year 2023. This is significantly lower than the level of almost 20x 2022 earnings that prevailed before the financial

market downturn, but it does take into account a sharp decline in expected earnings for 2023 (-2%).

However, in relative comparison to the valuations of other European developed markets such as Germany (10x), France (9x), the UK (9x), Spain (10x) or Italy (7x), Switzerland does not offer a particularly attractive PE 2023. Only the US (16x) has such a rich valuation today, or Japan (15x).

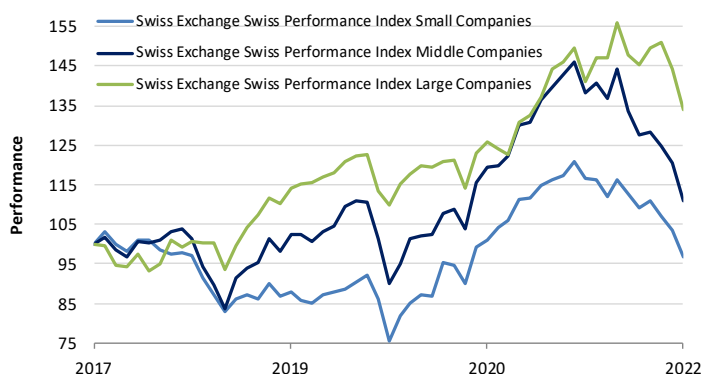
The upward adjustment of interest rate curves in Switzerland proved to be as powerful as in other countries. Ten-year government yields also rose rapidly as the SNB made a radical change in monetary policy. The rapid rise in ten-year yields from -0.1% at the beginning of the year to 1.6% also had an impact on the equity market.

A paradigm shift has thus also materialised in Switzerland with the certainly lasting reversal of rates. The discount factor for corporate profits will no longer be close to zero as it has been for the past seven years. Now it will adjust to market conditions more freely and probably with a new sustainable gradual evolution that will be accompanied by less expansionary monetary conditions.

This new interest rate regime will not be without effect on the valuation measures of Swiss equities and in particular on the appropriate price/earnings ratio. It is likely that multiples will continue to contract in the future in this new environment.

Therefore, while the current valuation of 14x earnings looks attractive, the 17x or 18x level will certainly be a new threshold that will be difficult to surpass without risk for Swiss equities.

Performances of Swiss Equities

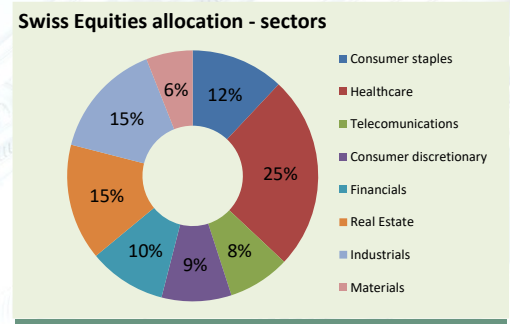


SWISS EQUITIES - Capitalization

Name	Total Return Performance					
	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	13166.4	1.2	-6.0	-5.1	-15.4	-19.9
SPI SMALL COMPANIES INDX	25464.5	-1.1	-7.8	-4.8	-16.9	-20.8
SPI MIDDLE COMPANIES INDX	17097.4	0.7	-8.6	-7.0	-19.5	-28.4
SPI LARGE COMPANIES INDX	12791.7	1.3	-5.4	-4.8	-14.5	-18.0

Swiss Equities - Sectors

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



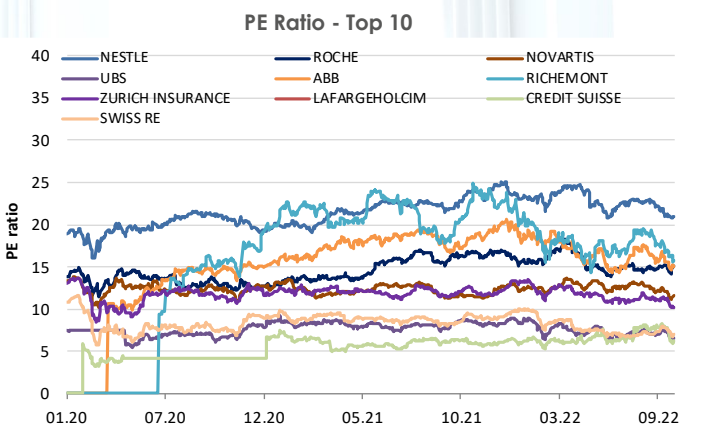
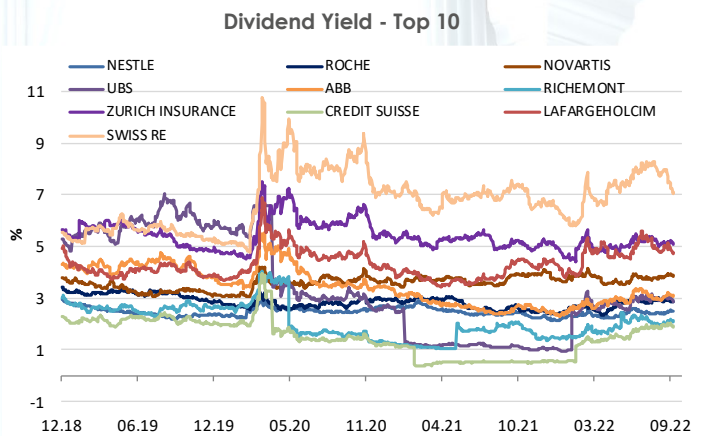
Tactical allocation
- Focus on stocks that can maintain their profit margins in times of inflation

The Swiss franc could now support an increase in profits

The rise of the Swiss franc against the euro over the past four months has also been a particularly damaging factor for Swiss stocks in 2022. The exchange rate continued to fall below parity against the euro in the first few weeks of the third quarter, dealing a significant blow to the Swiss franc results of exporting multinationals.

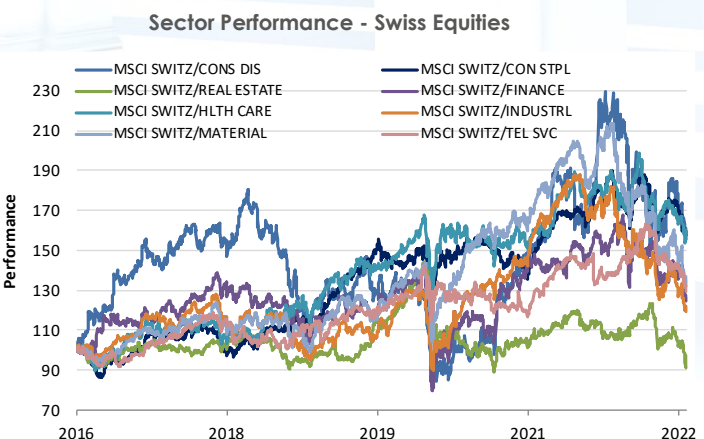
Particularly stable until 16 June, the CHF/EURO exchange rate rapidly fell by -4% in the days following the SNB's first 0.5% increase in the key rate. The SNB's action to assert a new priority in the fight against inflation at the expense of exchange rate stability is not inconsistent in the current context, but it opens the door to an undoubtedly quite logical and legitimate appreciation of the franc in view of the relative fundamentals of the Swiss economy vis-à-vis the European economy. For Swiss companies, the 50 bp increase in key rates in June and the 75 bp increase in September have put an end to exchange rate stability by increasing currency risks and the predictability of their results in Swiss francs.

The evolution of yield spreads between euro and Swiss franc rates is more positive than it seems. Indeed, interest rate differentials are now clearly in favour of the euro, both on long and short maturities. The spread between the German government's and the Swiss Confederation's 2-year rates exceeded the level reached in January 2015, which had allowed the euro to resume a positive trend against the franc. If this scenario materializes in the coming months as we expect it to, the currency factor will become a new support element for Swiss equities.



SWISS EQUITIES - BY SECTOR

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	310.0	-1.7	-10.6	-2.6	-16.3	-27.5
MSCI SWITZ/CON STPL	354.9	0.2	-6.6	-5.0	-9.7	-14.6
MSCI SWITZ/FINANCE	50.9	-2.0	-9.7	-6.9	-19.3	-18.2
MSCI SWITZ/HLTH CARE	178.2	3.6	-2.3	-4.4	-14.2	-14.9
MSCI SWITZ/INDUSTRIL	170.2	1.6	-6.2	-4.1	-20.4	-32.4
MSCI SWITZ/MATERIAL	323.7	1.1	-7.1	-7.9	-23.7	-35.7
MSCI SWITZ/REAL ESTATE	919.6	0.7	-6.3	-5.6	-14.5	-10.3
MSCI SWITZ/TEL SVC	87.6	-3.2	-8.4	-11.8	-13.8	-6.2

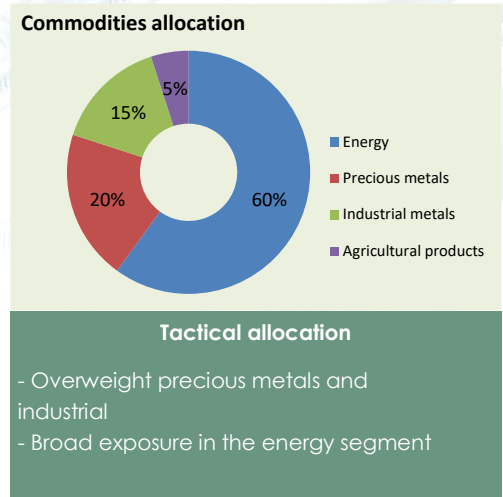


PROSPECTS AND STRATEGIES

Commodities

- Essential diversification in asset allocation
- Falling capex influences supply levels
- Energy transition supports demand for industrial metals industrial

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



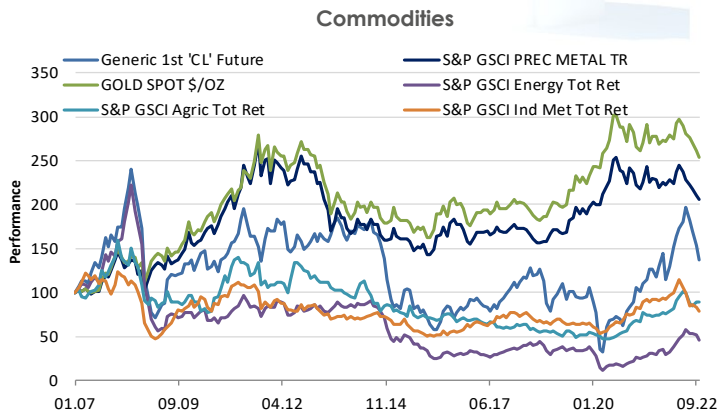
Essential diversification in asset allocation

The low or even negative historical correlation during certain periods of the commodity asset class with traditional assets such as bonds, equities and even real estate, has again established itself in 2022 as an indispensable element in the optimal composition of multi-asset portfolios. Since the beginning of the year, commodities as a whole have achieved a positive performance of +21.8%, while all other asset classes have lost between -20% (international bonds), -25% (international equities) and -29% for international property. Traditional 60/40 or 40/60 portfolios have collapsed and are performing at their worst ever. The year 2022 is so far proving to be extraordinary in relative terms for commodities, which are the only ones to perform positively in our universe of 33 asset classes.

This net outperformance is not likely to stop. The super-cycle for commodities will not end with the expected economic slowdown. The fall in prices in the last quarter of around -8% reflects expectations of a fall in demand following the Chinese, European and American slowdowns, which are already underway. The current level of commodity prices is therefore once again an entry point for the asset class for any investor wishing to have optimal diversification including assets uncorrelated or even negatively correlated to other assets.

Falling capex influences supply levels

The decline in investment of around -40% in recent years in the oil sector and in the various commodity producing sectors has created a structural imbalance that will have a lasting impact on prices over the next few years. In 2022 and 2023, imbalances between supply and demand are expected to continue, while inventory levels are often already at their lowest levels. Oil and mining companies do not seem to want to take the risk today of reacting to the rise in prices by deciding to launch new research or production programmes, just as



OPEC members are preparing to reduce their production in anticipation of a fall in world demand.

The lack of a real Capex response will therefore impact on the likely lengthening of the current super-cycle by limiting the level of production. With the emergence of a short-term economic slowdown scenario, the incentives to make new investments are even weaker. The Capex crisis will therefore continue and have the same consequences on the foreseeable level of supply.

Energy transition supports demand for industrial metals

The war in Ukraine will have a lasting effect on the supply and distribution networks of raw materials. The solution to Europe's dependence on Russian gas lies in the development of decarbonisation projects focusing on alternative energies. The energy transition process will promote the development of renewable energies, but its implementation will inevitably lead to a new boom in the demand for industrial metals to meet the needs of the wind, solar, hydrogen, battery and even nuclear industries, and the entire electrical energy production and storage chain. The energy transition will therefore support demand for industrial metals, whose inventory levels are also historically low.

COMMODITIES (USD)

30.09.2022		Total Return Performance						
Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %	
MSCI Daily TR Net World USD	7275.38	USD	-2.38	-9.30	-6.69	-21.48	-25.42	
GLOBAL	S&P GSCI Tot Return Indx	3379.6	USD	0.3	-7.8	-11.6	-8.1	21.8
WTI CRUDE	Generic 1st 'CL' Future	79.5	USD	1.0	-11.2	-26.7	-19.9	5.7
BRENT OIL	Generic 1st 'CO' Future	88.0	USD	2.1	-8.8	-21.2	-15.7	13.1
NATURAL GAS	Generic 1st 'NG' Future	6.8	USD	-0.9	-25.9	18.1	18.3	81.4
OR	GOLD SPOT \$/OZ	1660.6	USD	1.0	-2.9	-8.3	-13.8	-9.2
ARGENT	Silver Spot \$/Oz	19.0	USD	0.8	5.8	-4.3	-22.7	-18.4
AGRICULTURE	S&P GSCI Agric Indx Spot	478.7	USD	0.1	0.1	3.9	-10.2	7.5
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	401.1	USD	-0.2	-5.9	-6.8	-31.7	-19.7

Crude oil prices will not stabilise for long

Crude oil prices have fallen by almost -40% since their last peak in June at \$122 a barrel. After four months of relatively steady decline, oil prices are expected to stabilise between \$80 and \$90 before probably resuming an upward trend. In the short term, the risks of recession and its effects on the level of global demand are the main factor determining the evolution of crude oil today. 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 United States, production of crude oil and shale gas has reached new heights, which should provide the global supply with new additional vectors to limit the rise in prices. The Biden administration has also announced the release of 15 million barrels from strategic reserves and is seriously considering the possibility of further releases over the winter should this prove necessary.

The aim is to prevent further increases in petrol and energy prices with undesirable inflationary effects. The US government had already announced the release of 185 million barrels in the spring, of which 165 million have already been made available. If Chinese growth picks up and the economic slowdown remains moderate, the recession scenario will ultimately prove too extreme, demand will not collapse as current prices suggest.

A rebound in crude oil prices is therefore very likely, as geopolitics has not finished affecting the level of supply in Europe, reinforcing the risks of further price rises after a phase of stabilisation of prices between \$85-90/b.

Precious metals await lower rates and a weaker dollar

In an environment particularly troubled by geopolitical risks, inflation, a historic rise in yields and a sharp reversal in monetary policy, gold has proven to be one of the best investments of the last nine months with a limited decline of -10%. However, it was outperformed by the dollar, which rose against virtually all currencies.

Since March the correlation has been strongly negative, underlining the influence of the dollar on the evolution of gold prices. Rising interest rates and the dollar were the main factors in the decline of the yellow metal, while central banks were rather buying. The fall in investment in physical ETFs was also a depressing factor for gold prices.

A change in the trend for dollar interest rates and the US currency now seems essential for a bullish revival of the yellow metal. The economic slowdown scenario could cause a decline in the upward trend of both. Such a development would also be positive for all precious metals.

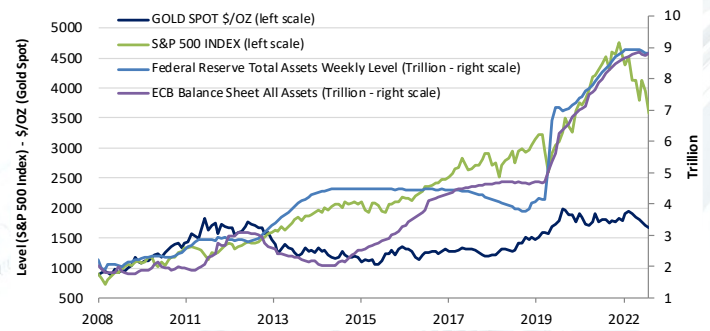
Industrial metal inventories are historically low

Industrial metal prices have been largely affected by the decline in Chinese demand in recent months. They are still largely influenced by the lacklustre Chinese news due to the Covid policy and the difficulties in the property sector. Global macroeconomic uncertainty continues to affect the short-term outlook.

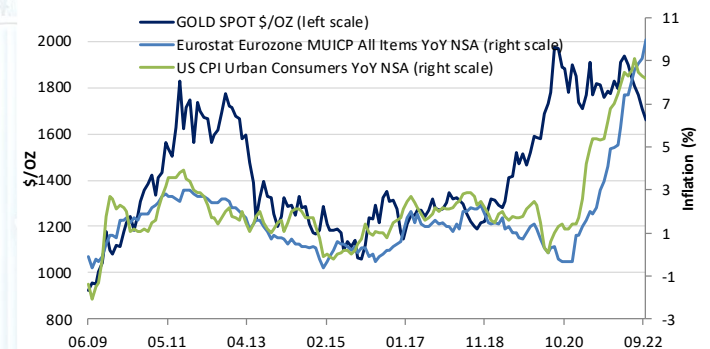
However, the Chinese government is working to revitalise infrastructure investment, which could lead to an upturn in activity and a return of demand for industrial metals. The risks of an economic slowdown have eased the tensions that had materialised with the introduction of sanctions against Russian exports, but a Chinese economic recovery in the current context of particularly low stocks in Shanghai warehouses will necessarily have a further impact on prices.

A reversal of the upward trend for aluminium, copper, cobalt and nickel in particular seems very likely, although premature at this stage. The new needs for industrial metals required for the implementation of the energy transition are also an extremely important factor in the evolution 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.

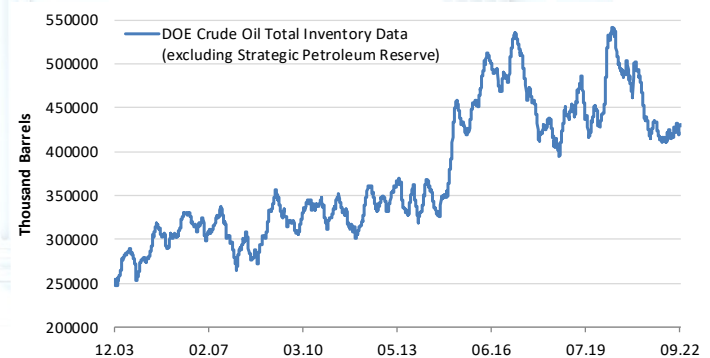
High Correlation between Gold and Global Liquidity



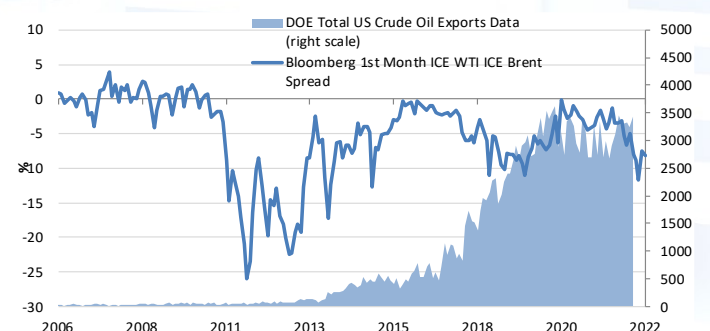
High Correlation between Gold and Inflation



Oil Inventories (US)



Price Differential between WTI and Brent oil



PROSPECTS AND STRATEGIES

Hedge Funds

- Hedge funds benefit from their decorrelation with other asset classes

After having already outperformed all asset classes, except commodities, during the first quarter (-1.4%), the global hedge fund index once again benefited from its decorrelation with other markets between March and June (-3.7%) and thus closed one of the worst first half-years in the history of diversified management in a much more resilient manner (-5.0%) than equities (-20.51%), bonds (-13.91%) and real estate (-19.94%).

As in the first three months of the year, the macro/CTA strategy was again the only one to end the quarter in positive territory (+2.4), while equity hedge (-4.4%), event driven (-4.4%) and relative value arbitrage (-6.0%) continued to decline. Thus, since the beginning of the year, the "macro/CTA" approach has climbed by +3.3% for corrections of -4.7%, -6.2% and -9.2% respectively for the other three strategies.

Private Equity

- Almost 30% drop after six months

In a complicated first half of the year for all risky asset classes due to growing fears of uncontrolled inflation, monetary policy tightening by central banks and the economic slowdown which could even push some economies into recession, starting with the world's leading economy, private equity is in clear negative territory (-28.0%). After a particularly unfavourable month of June, the private equity sector has experienced a second quarter of decline in 2022 (-19.8%).

Geographically, the order of performance in the first quarter was repeated between March and June. Indeed, Europe again shows the most marked quarterly correction (-21.5%), followed by the United Kingdom (-17.8%) and the United States (-14.8%).

Since the beginning of 2022, these three regions have been in the red at -33.7%, -28.2% and -17.1% respectively.

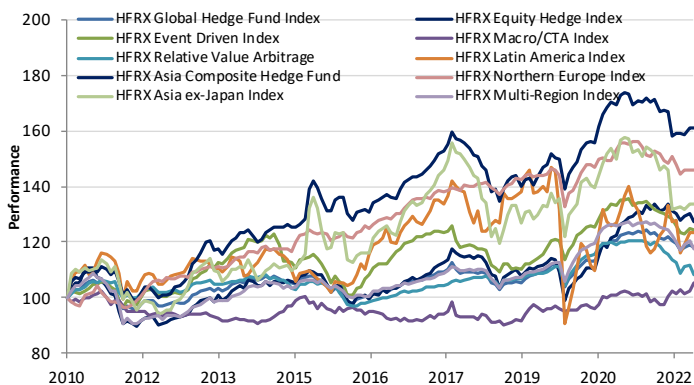
HEDGE FUND INDICES (USD)

		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1365.6	USD	-0.6	-1.0	0.6	-3.5	-4.6
EQUITY HEDGE	HFRX Equity Hedge Index	1423.1	USD	-0.6	-2.0	-0.2	-4.7	-4.8
EVENT DRIVEN	HFRX Event Driven Index	1675.3	USD	-0.3	-0.3	1.4	-4.0	-5.4
MACRO/CTA	HFRX Macro/CTA Index	1295.4	USD	0.3	3.0	2.9	4.8	6.1
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1221.8	USD	-1.6	-3.0	-0.7	-6.6	-9.8
LATIN AMERICA*	HFRX Latin America Index	2015.4	USD	-	0.0	6.6	-7.2	4.9
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2595.6	USD	-	0.0	1.1	-3.7	-6.0
NORTHERN EUROPE*	HFRX Northern Europe Index	2107.8	USD	-	0.0	1.0	-1.7	-4.5
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2520.5	USD	-	0.0	0.4	-8.7	-12.1
MULTI-REGION	HFRX Multi-Region Index	1464.0	USD	-1.2	-2.3	0.4	-5.5	-7.2

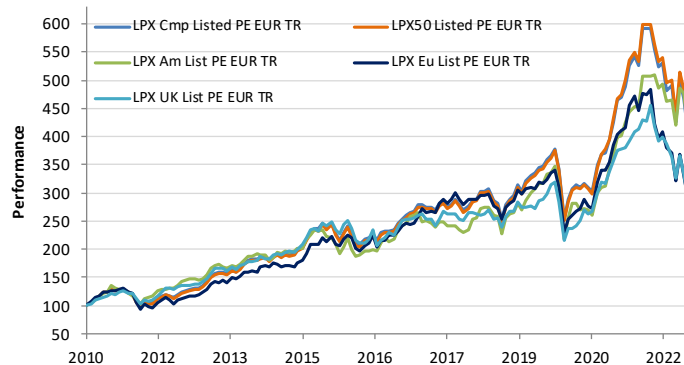
PRIVATE EQUITY INDICES (EUR)

		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	340.6	EUR	-2.8	-12.3	-5.1	-23.8	-30.7
MAJOR COMPANIES	LPX50 Listed PE EUR TR	3343.6	EUR	-3.1	-12.6	-4.7	-23.1	-29.6
USA	LPX Am List PE EUR TR	550.6	EUR	-5.7	-13.2	-4.3	-17.7	-18.5
EUROPE	LPX Eu List PE EUR TR	928.6	EUR	-0.9	-12.5	-8.9	-29.3	-39.9
UK	LPX UK List PE EUR TR	326.2	EUR	-2.3	-12.8	-9.4	-27.3	-36.1

Hedge Fund Indices



Private Equity indices



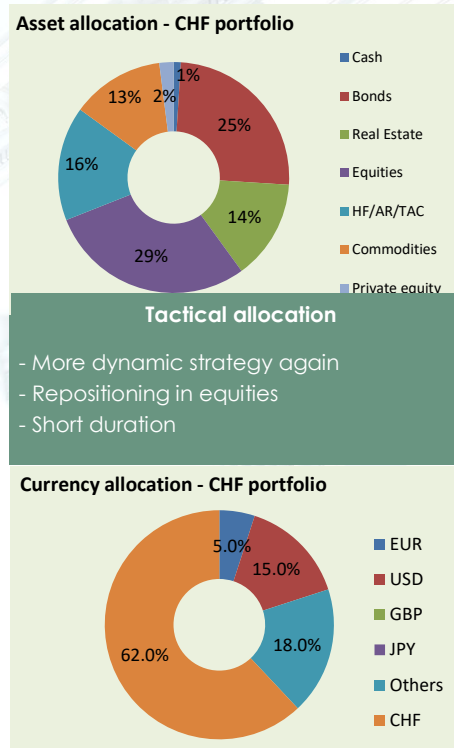
GLOBAL STRATEGY & ASSET ALLOCATION



GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio CHF

- Outstanding returns in the bond markets
- Attractive valuations in the equity markets
- New opportunities in securitised real estate
- Favourable supercycle in commodities



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

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. The expected rise in interest rates is now creating new opportunities in the bond markets, centred on the investment grade segment, after the sharp rise in yield curves. Real estate is more than ever an attractive source of diversification with an attractive yield and some protection in times of inflation. Precious metals and commodities are also favoured in this more uncertain environment.

Bonds

The end of the third quarter was marked by a phase of panic in the bond markets eager to see more positive inflation data. A general rise in the US yield curve above 4% was followed by similar movements in other currencies. These moves now seem excessive in the current environment and offer opportunities to capture attractive returns over the medium term. Central banks have become more active in fighting inflation at the risk of provoking a recession through overly restrictive policies. These new investment opportunities at often decade-high yields support our recommendation to finally adopt a more constructive bond strategy by increasing the allocation to dollar bonds with intermediate durations.

Equities

Equity markets have been hit hard by the widespread adjustment of interest rates following the dramatic evolution of inflation in the first nine months. The fall in prices of more than -35% for the Nasdaq and around -25% for most markets offers new positioning opportunities in our view. We had adopted a more defensive strategy in the first few quarters in anticipation of the market decline, but we now believe that the recession scenario will have a positive impact on rates, which should benefit the equity markets at the end of the year. The corporate earnings season could also help support a recovery in equities, which are once again well represented in our asset allocation.

Commodities

Commodities could be temporarily affected by the recession scenario and by the fall in Chinese demand during the period of containment. We believe that the decline in demand will be short-lived, especially in the energy segment, which is still influenced by the reorganisation of supply networks. Commodities remain essential in multi-asset portfolios for their diversification characteristics.

Real estate

Real estate remains a prime alternative to interest rate markets. We favour real estate markets in countries or regions that do not fear a rapid rise in interest rates and whose business cycle positioning is favourable.

Currencies

The franc should finally suffer from the now significant increase in yield differentials in favour of the euro. However, a decline in the dollar at the end of the year could be positive for the franc. The US dollar remains the preferred currency for the time being.

Market performances - Q3 2022

	Q3 2022		YTD			Q3 2022		YTD	
	local	CHF	local	CHF		local	CHF	local	CHF
Exchange rates									
USD/CHF	3.3%	8.1%							
EUR/CHF	-3.4%	-6.8%							
GBP/CHF	-5.2%	-10.6%							
JPY/CHF	-3.0%	-13.9%							
Equity markets									
World	MSCI World USD	-6.2%	-3.1%	-25.4%	-19.4%				
Europe	DJ Stoxx 600	-4.3%	-7.6%	-18.6%	-24.1%				
Eurozone	DJ Eurostxx 50	-4.0%	-7.2%	-22.8%	-28.0%				
	MSCI Europe S.C.	-9.3%	-12.4%	-31.6%	-36.2%				
Germany	Dax 30	-5.2%	-8.4%	-23.7%	-28.9%				
France	Cac 40	-2.7%	-6.0%	-19.4%	-24.9%				
United Kingdom	FTSE 100	-3.8%	-8.9%	-6.6%	-16.6%				
Switzerland	SPI	-4.8%	-4.8%	-19.9%	-19.9%				
	SMI	-4.4%	-4.4%	-20.3%	-20.3%				
	MSCI Swiss S.C.	-6.9%	-6.9%	-35.2%	-35.2%				
North America	SP500	-5.3%	-2.1%	-24.8%	-18.7%				
	Nasdaq	-4.1%	-0.9%	-32.4%	-26.9%				
	Tse 300	-2.2%	-5.9%	-13.1%	-14.3%				
	SP600 Small C.	-5.6%	-2.4%	-24.0%	-17.9%				
Japan	Nikkei 225	-1.7%	-4.7%	-9.9%	-22.5%				
Emerging	MSCI EMF USD	-12.5%	-9.6%	-28.9%	-23.1%				
Interest rates (3 months) (level)									
CHF		0.45%							
EUR		1.17%							
USD		3.75%							
JPY		-0.04%							
Bonds markets									
World	Cl Gr Global Govt USD	-7.6%	-4.5%	-21.3%	-14.9%				
Europe	Euro Ser-E Gov > 1	-5.1%	-8.3%	-16.7%	-22.3%				
United Kingdom	UK Ser-E Gov > 1	-13.6%	-18.1%	-26.4%	-34.2%				
Switzerland	SBI Général AAA-BBB	-1.6%	-1.6%	-11.6%	-11.6%				
	SBI Govt	1.0%	1.0%	-12.4%	-12.4%				
USA	US Ser-E Gov > 1	-4.3%	-1.2%	-13.1%	-6.0%				
Japan	Japan Ser-E Gov > 1	-0.6%	-3.7%	-3.6%	-17.0%				
Emerging	J.P. Morgan EMBI Global	-4.2%	-1.0%	-22.2%	-15.9%				
Miscellaneous									
	LPP 25 Index	-3.1%	-3.1%	-14.7%	-14.7%				
	LPP 40 Index	-3.5%	-3.5%	-15.9%	-15.9%				
	LPP 60 Index	-4.0%	-4.0%	-17.4%	-17.4%				
Real Estate CH	DB RB Swiss Real Est Fd	-2.2%	-2.2%	-16.3%	-16.3%				
Hedge Funds	Hedge Fund Research USD	0.5%	3.9%	-4.7%	3.0%				
Commodities	GS Commodity USD	-10.3%	-7.3%	21.8%	31.7%				

GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio EUR

- Outstanding returns in the bond markets
- Attractive valuations in the equity markets
- New opportunities in securitised real estate
- Favourable supercycle in commodities

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

Asset allocation

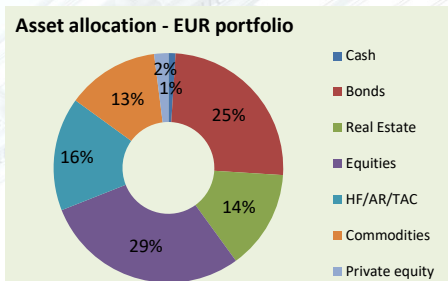
The core of our investment strategy is composed of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity). The tactical allocation is now largely diversified across asset classes. Equity exposure is again more constructive with a reinforced allocation following the sharp fall in prices. The expected rise in interest rates is now creating new opportunities in the bond markets, centred on the investment grade segment, after the sharp rise in yield curves. Real estate is more than ever an attractive source of diversification with an attractive yield and some protection in times of inflation. Precious metals and commodities are also favoured in this once again more uncertain environment.

Bonds

The end of the third quarter was marked by a panic phase in the bond markets eager to see more positive inflation data. A general rise in the US yield curve above 4% was followed by similar movements in other currencies. These moves now seem excessive in the current environment and offer opportunities to capture attractive returns over the medium term. Central banks have become more active in fighting inflation at the risk of provoking a recession through overly restrictive policies. These new investment opportunities at often decade-high yields support our recommendation to finally adopt a more constructive bond strategy by increasing the allocation to dollar bonds with intermediate durations.

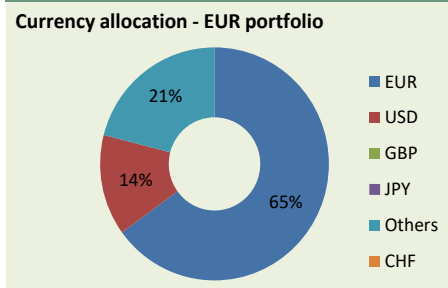
Equities

Equity markets have been hit hard by the widespread adjustment of interest rates following the dramatic evolution of inflation in the first nine months. The fall in prices of more than -35% for the Nasdaq and around -25% for most markets offers new positioning opportunities in our view. We had adopted a more defensive strategy in the first few quarters in anticipation of the market decline, but we now believe that the recession scenario will have a positive impact on rates, which should benefit the equity markets at the end of the year. The corporate earnings season could also help support a recovery in equities, which are once again well represented in our asset allocation.



Tactical allocation

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



Commodities

Commodities could be temporarily affected by the recession scenario and by the fall in Chinese demand during the period of containment. We believe that the decline in demand will be short-lived, especially in the energy segment, which is still influenced by the reorganisation of supply networks. Commodities remain essential in multi-asset portfolios for their diversification characteristics.

Real estate

Real estate remains a prime alternative to the interest rate markets. We favour real estate markets in countries or regions that do not fear a rapid rise in interest rates and where the positioning of the business cycle is favourable.

Currencies

The euro should become more attractive with a more assertive rate hike dynamic. Yield spreads have improved in its favour, particularly against the franc.

Market performances - Q3 2022

	Q3 2022		YTD			Q3 2022		YTD	
	local	EUR	local	EUR		local	EUR	local	EUR
Exchange rates									
USD/EUR	7.0%		16.0%						
CHF/EUR	3.5%		7.2%						
GBP/EUR	-2.0%		-4.2%						
JPY/EUR	0.3%		-7.7%						
Interest rates (3 months) (level)									
CHF					0.45%				
EUR					1.17%				
USD					3.75%				
JPY					-0.04%				
Equity markets									
World	MSCI World USD	-6.2%	0.3%	-25.4%	-13.5%				
Europe	DJ Stoxx 600	-4.3%	-4.3%	-18.6%	-18.6%				
Eurozone	DJ Eurostoxx 50	-4.0%	-4.0%	-22.8%	-22.8%				
	MSCI Europe S.C.	-9.3%	-9.3%	-31.6%	-31.6%				
Germany	Dax 30	-5.2%	-5.2%	-23.7%	-23.7%				
France	Cac 40	-2.7%	-2.7%	-19.4%	-19.4%				
United Kingdom	FTSE 100	-3.8%	-5.7%	-6.6%	-10.6%				
Switzerland	SPI	-4.8%	-1.5%	-19.9%	-14.2%				
	SMI	-4.4%	-1.1%	-20.3%	-14.5%				
	MSCI Swiss S.C.	-6.9%	-0.4%	-35.2%	-24.8%				
North America	SP500	-5.3%	1.3%	-24.8%	-12.7%				
	Nasdaq	-4.1%	2.6%	-32.4%	-21.6%				
	Tse 300	-2.2%	-2.6%	-13.1%	-7.8%				
	SP600 Small C.	-5.6%	1.0%	-24.0%	-11.9%				
Japan	Nikkei 225	-1.7%	-1.4%	-9.9%	-16.9%				
Emerging	MSCI EMF USD	-12.5%	-6.4%	-28.9%	-17.5%				
Bonds markets									
World	Cit Gr Global Govt USD	-7.6%	-4.4%	-21.3%	-15.6%				
Europe	Euro Ser-E Gov > 1	-5.1%	-5.1%	-16.7%	-16.7%				
United Kingdom	UK Ser-E Gov > 1	-13.6%	-15.3%	-26.4%	-29.5%				
Switzerland	SBI Général AAA-BBB	-1.6%	1.8%	-11.6%	-5.3%				
USA	US Ser-E Gov > 1	-4.3%	2.3%	-13.1%	0.8%				
Japan	Japan Ser-E Gov > 1	-0.6%	-0.4%	-3.6%	-11.0%				
Emerging	J.P. Morgan EMBI Global	-4.2%	2.5%	-22.2%	-9.8%				
Miscellaneous									
	LPP 25 Index	-3.1%	3.9%	-14.7%	-8.6%				
	LPP 40 Index	-3.5%	3.5%	-15.9%	-9.8%				
	LPP 60 Index	-4.0%	2.9%	-17.4%	-11.5%				
Real Estate CH	DB RB Swiss Real Est Fd	-2.2%	-2.2%	-16.3%	-10.3%				
Hedge Funds	Hedge Fund Research USD	0.5%	7.5%	-4.7%	10.5%				
Commodities	GS Commodity USD	-10.3%	-4.1%	21.8%	41.3%				

GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio USD

- Outstanding returns in the bond markets
- Attractive valuations in the equity markets
- New opportunities in securitised real estate
- Favourable supercycle in commodities

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

Asset allocation

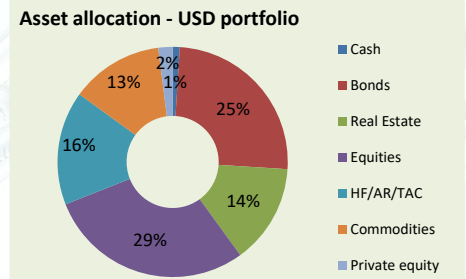
The core of our investment strategy is composed of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity). The tactical allocation is now largely diversified across asset classes. Equity exposure is again more constructive with a reinforced allocation following the sharp fall in prices. The expected rise in interest rates is now creating new opportunities in the bond markets, centred on the investment grade segment, after the sharp rise in yield curves. Real estate is more than ever an attractive source of diversification with attractive yields and some protection in times of inflation. Precious metals and commodities are also favoured in this more uncertain environment.

Bonds

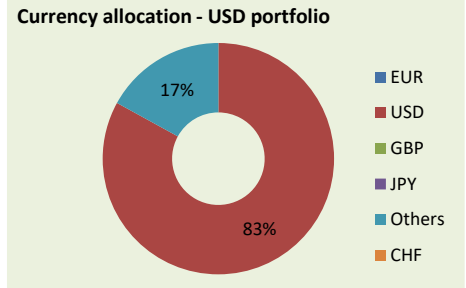
The end of the third quarter was marked by a phase of panic in the bond markets eager to see more positive inflation data. A general rise in the US yield curve above 4% was followed by similar movements in other currencies. These moves now seem excessive in the current environment and offer opportunities to capture attractive returns over the medium term. Central banks have been more active in fighting inflation at the risk of causing a recession through overly restrictive policies. These new investment opportunities at often decade-high yields support our recommendation to finally adopt a more constructive bond strategy by increasing the allocation to dollar bonds with intermediate durations.

Equities

Equity markets have been hit hard by the widespread adjustment of interest rates following the dramatic evolution of inflation in the first nine months. The fall in prices of more than -35% for the Nasdaq and around -25% for most markets offers new positioning opportunities in our view. We had adopted a more defensive strategy in the first quarters in anticipation of the market decline, but we now believe that the recession scenario will have a positive impact on rates, which should benefit the equity markets at the end of the year. The corporate earnings season could also help support a recovery in equities, which are once again well represented in our asset allocation.



Tactical allocation
 - More dynamic strategy again
 - Repositioning in equities
 - Short duration



Commodities

Commodities could be temporarily affected by the recession scenario and by the fall in Chinese demand during the period of containment. We believe that the decline in demand will be short-lived, especially in the energy segment, which is still influenced by the reorganisation of supply networks. Commodities remain essential in multi-asset portfolios for their diversification characteristics.

Real estate

Real estate remains a prime alternative to interest rate markets. We favour real estate markets in countries or regions that do not fear a rapid rise in interest rates and whose business cycle positioning is favourable.

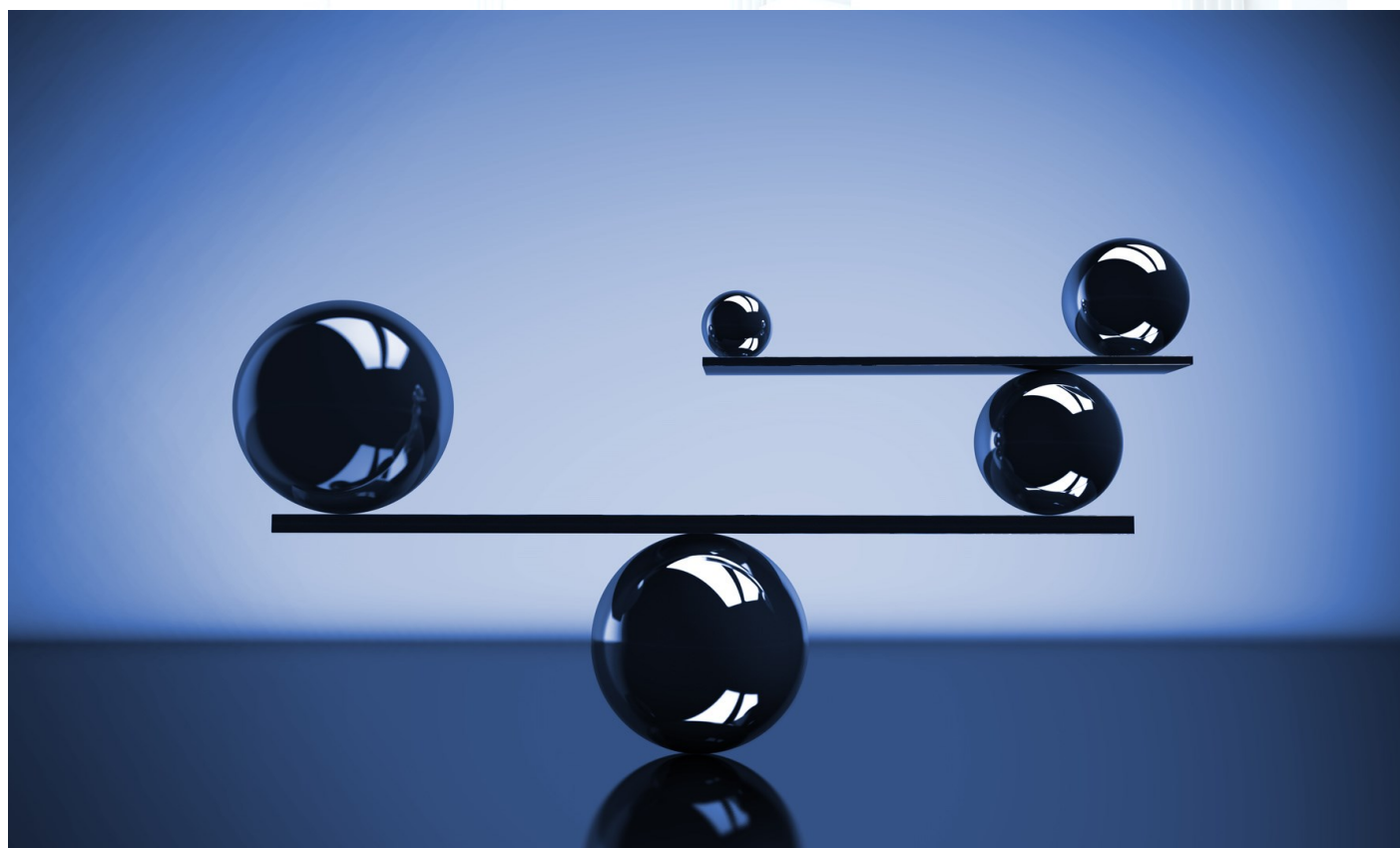
Currencies

The US dollar retains its status as the preferred currency in the current environment, justifying a reduced allocation to foreign currencies.

Market performances - Q3 2022

	Q3 2022		YTD			Q3 2022		YTD			
	local	USD	local	USD		local	USD	local	USD		
Exchange rates					Interest rates (3 months) (level)						
CHF/USD	-3.3%	-7.6%			CHF	0.45%					
EUR/USD	-6.5%	-13.8%			EUR	1.17%					
GBP/USD	-8.3%	-17.5%			USD	3.75%					
JPY/USD	-6.2%	-20.5%			JPY	-0.04%					
Equity markets					Bonds markets						
World	MSCI World USD	-6.2%	-6.2%	-25.4%	-25.4%	World	Chi Gr Global Govt USD	-7.6%	-10.6%	-21.3%	-27.2%
Europe	DJ Stoxx 600	-4.3%	-10.6%	-18.6%	-29.9%	Europe	Euro Ser-E Gov > 1	-5.1%	-11.2%	-16.7%	-28.2%
Eurozone	DJ Eurostoxx 50	-4.0%	-10.2%	-22.8%	-33.4%	United Kingdom	UK Ser-E Gov > 1	-13.6%	-20.7%	-26.4%	-39.2%
	MSCI Europe S.C.	-9.3%	-15.2%	-31.6%	-41.0%	Switzerland	SBI Général AAA-BBB	-1.6%	-4.8%	-11.6%	-18.3%
Germany	Dax 30	-5.2%	-11.4%	-23.7%	-34.3%		SBI Govt	1.0%	-2.3%	-12.4%	-19.0%
France	Cac 40	-2.7%	-9.0%	-19.4%	-30.6%	USA	US Ser-E Gov > 1	-4.3%	-4.3%	-13.1%	-13.1%
United Kingdom	FTSE 100	-3.8%	-11.8%	-6.6%	-22.9%	Japan	Japan Ser-E Gov > 1	-0.6%	-6.8%	-3.6%	-23.3%
Switzerland	SPI	-4.8%	-7.9%	-19.9%	-26.0%	Emerging	J.P. Morgan EMBI Global	-4.2%	-4.2%	-22.2%	-22.2%
	SMI	-4.4%	-7.5%	-20.3%	-26.3%						
	MSCI Swiss S.C.	-6.9%	-6.9%	-35.2%	-35.2%	Miscellaneous					
North America	SP500	-5.3%	-5.3%	-24.8%	-24.8%	LPP 25 Index		-3.1%	-10.4%	-14.7%	-21.2%
	Nasdaq	-4.1%	-4.1%	-32.4%	-32.4%	LPP 40 Index		-3.5%	-10.8%	-15.9%	-22.3%
	Tse 300	-2.2%	-9.0%	-13.1%	-20.6%	LPP 60 Index		-4.0%	-11.3%	-17.4%	-23.7%
	SP600 Small C.	-5.6%	-5.6%	-24.0%	-24.0%	Real Estate CH	DB RB Swiss Real Est Fd	-2.2%	-2.2%	-16.3%	-22.7%
Japan	Nikkei 225	-1.7%	-7.8%	-9.9%	-28.4%	Hedge Funds	Hedge Fund Research USI	0.5%	0.5%	-4.7%	-4.7%
Emerging	MSCI EMF USD	-12.5%	-12.5%	-28.9%	-28.9%	Commodities	GS Commodity USD	-10.3%	-10.3%	21.8%	21.8%

INVESTMENT THEME FOCUS



INVESTMENT THEME

The Fed must change its policy to avoid systemic risk

- The appreciation of the dollar disqualifies other assets
- 1.25 trillion additional costs for the US Treasury in 2023?
- Rising rates are a real global systemic threat
- What will the Fed finally do?
- What are the possible effects on financial markets?

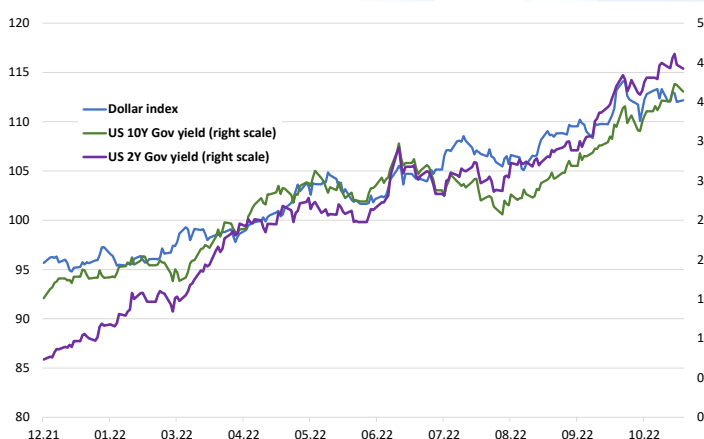
Long live the US dollar !

The dollar has so far been the big winner of the the Federal Reserve's abrupt monetary policy reversal in 2022. The rise in US policy rates from 0.25% to 3.25%, or 300 bps in just five hikes since March, has understandably pushed all government and corporate rates to historic levels in the dollar markets. But the consequences of this policy were global and were observed in all interest rate markets. The negative performance of -20% of the international bond indices is evidence of this exceptional phenomenon over the past nine months. The appreciation of the US dollar is indeed totally linked to the evolution of the Fed's very aggressive monetary policy. It has therefore largely benefited the greenback, whose overall increase measured by the trade weighted dollar index is currently +19%. This average appreciation was much higher for the yen (+30%), but it also included impressive increases in such a short time against the pound sterling (+21%), the euro (+15%), the yuan (+14%) and the franc (+8%).

Dollar appreciation disqualifies other assets

We have mentioned for several months in our economic and strategic analyses that the rise of the US currency could pose significant problems at various levels that would probably end up alerting the US Federal Reserve and would certainly lead it to readjust its monetary policy. The end of the year is looking increasingly likely for this change. At first, it may seem favourable and reassuring to see one's currency appreciate against all other currencies, but we will see that the consequences of a strong dollar can be more negative than it seems. The year 2022 has already shown that dollar cash has been the best asset to hold and that the reasons for its relative strength over the medium term have been the cause of the fall in all other asset classes. By offering the opportunity of a "risk-free" asset, at least for dollar-based investors, delivering increasing returns throughout the year following Fed rate hikes, the Fed has disqualified all other asset classes that are negatively correlated to its rate hike policy and left only one winner: the dollar.

US Government Rates (2 and 10 years) and Dollar Index



A side note on money creation and debt

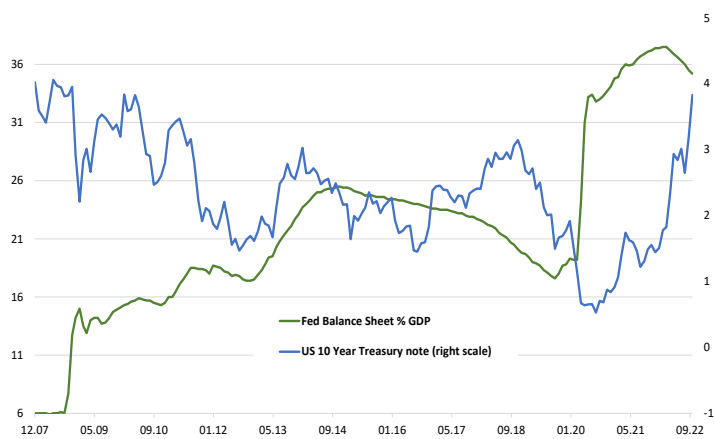
Before proceeding, it should be recalled at this point that dollar creation has been extremely important in recent years, long before the Covid crisis. The explosion in the size of the Fed's balance sheet dates back to the last financial crisis in 2008, which first required the doubling of the size of the balance sheet by creating \$1 trillion in one year. The years that followed saw the creation of another 2.5 trillion to reach the colossal amount of 4.5 trillion dollars in 2014. After a five-year pause, the Fed's balance sheet has grown to 7 trillion in 2020 and 9 trillion in 2022. It has thus been multiplied by 9x during this period without any link to the evolution of economic growth and the real liquidity needs resulting from this growth.

US government debt has also grown during this period from \$10 trillion in 2008 to \$31 trillion in 2022, in a downward trend in interest rates. Ten-year US Treasury yields were 4% in 2008 and have gradually fallen to a low of 0.31% by 2022. This is an important notion to note when one observes that ten-year rates have now exceeded the level they had on 1 January 2008 in just a few months of rebound. The US public debt ratio, which was 62% of GDP at the time, has doubled in 15 years to reach the current level of 125% of GDP. This huge increase in debt will have serious consequences when refinancing maturities, as we shall see later.

1.25T extra cost to the Treasury in 2023?

It is also interesting to note in the context of 2022 interest rate hikes that the Fed's balance sheet, which was only 6% of GDP in 2008, has grown dramatically to 35% of US gross domestic product (GDP) (\$25.2 trillion). Meanwhile, US Treasury revenues are estimated at \$4.9 trillion in FY 2022 for expenditures of \$6.2 billion and an estimated deficit of \$1.4 billion according to the US Congressional Budget Office. The Fed's balance sheet therefore represents more than the entire annual income of the US government.

US 10-year Rates and Fed Balance Sheet (%GDP)



With total Treasury debt of around \$31.2 trillion, total US government revenues are estimated in 2022 to be around 15.6% of total debt. If by simplification we were to estimate the impact of a rise in the dollar Treasury yield curve from 0.25 at the beginning of the year, to 4.25%, i.e. 4%, on the government's debt service, we would obtain an increase of 4% on an outstanding amount of 31.2 trillion, i.e. a total amount of 1.25 trillion dollars or in other words, 1,250 billion dollars. Following this line of reasoning, debt service would therefore increase by 1.25 trillion, which would represent more than 25% of the annual income of the US Treasury.

Rising rates are a global systemic threat

Not so long ago, in 2021, we often heard the argument from optimists that in a globalised world, increasingly indebted and in particular in dollars, a significant rise in interest rates and financing costs would not be sustainable without provoking a new crisis in the financial system and thus justifying the highly improbable nature of a change in Fed policy. Our anticipation was then the opposite and we clearly warned of the dangers that an inflationary trend that was not understood by the central banks and yet provoked by the explosion of the money supply that they themselves had organised, would end up necessarily provoking a chain reaction of key rate hikes with implacable effects on all the yield curves. The new paradigm that quickly took hold in a few months in 2022 is now a real threat that grows as rates continue their upward trend and the dollar appreciates. Internationally, many emerging countries have taken on dollar debt to finance their investments, imports and commodity purchases. An estimated \$14 trillion of debt is issued in USD by emerging markets alone. When the dollar appreciates, these countries find themselves short of dollars to meet their commitments and settle their purchases or debts. They are logically obliged to print more and more of their own currency in order to cope with this.

But it is not only emerging markets that face this problem. In the case of Japan, the sharp fall of the yen against the dollar, for reasons that also suit the Japanese government and the BoJ, has been accompanied by large and similar, if somewhat smaller, money creation than in the US. Indeed, the BoJ's balance sheet has also grown strongly and has increased 7x since 2008. But with the yen falling by 30% this year, Japan has sold almost 10% of the US Treasury bonds it held as reserves. The scenario is the same for China, which has also shed 11% of its US Treasury holdings in 2022, while the yuan has fallen by -14%. This reduction comes after a rather stable 2021 which saw the yuan/USD exchange rate appreciate very slightly by +1.5%. Japan and China are certainly the most emblematic countries to have adopted this strategy, but many other states are in a similar situation and have to sell their US Treasury bonds to meet their commitments. The rise in Treasury yields, initially based on the expectation that policy rates would be raised to combat inflation, was thus reinforced by the growing need for dollar liquidity as the rise in the dollar became a reality and led many governments to sell their Treasuries to obtain this liquidity.

Is the Fed aware of the indirect effects of its policy?

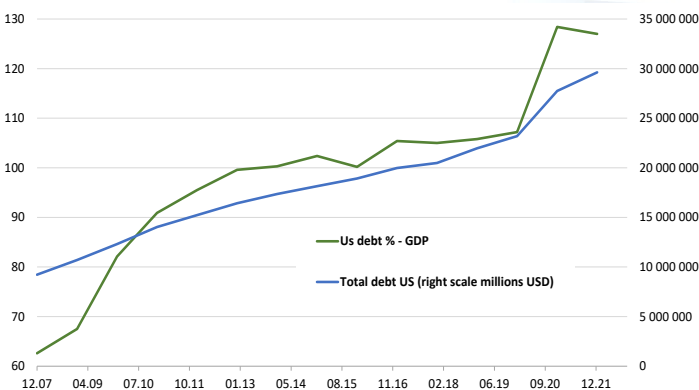
Having perhaps been satisfied with the rise in the dollar, the US Federal Reserve must now ask itself to what extent this appreciation of the greenback is in line with its objective of fighting inflation and whether the secondary effects of such a rise are not contrary to its interests. An appreciation of the US currency can effectively reduce the impact of imported inflation provided that imports are primarily denominated in another depreciating currency. This may be the case for imports from China, Japan and Europe, but it does not apply to dollar-denominated commodities. But in return, a rising dollar affects the competitiveness of US exports, which have held up relatively well in recent months. The economic downturn in the US had the effect of reducing imports in volume and also in dollar terms, as US companies adjusted their inventory levels to lower domestic demand. Overall, the Federal Reserve may still view the decline in the trade deficit that has materialised over the past two quarters as a positive side effect of its policy.

Perhaps more importantly, the US central bank should also begin to assess other risks associated with a rising dollar related to the declining availability of dollars in the global economy, which is the main reserve currency. Dollar-indebted economies may soon need further facilities from the US central bank to meet these needs.

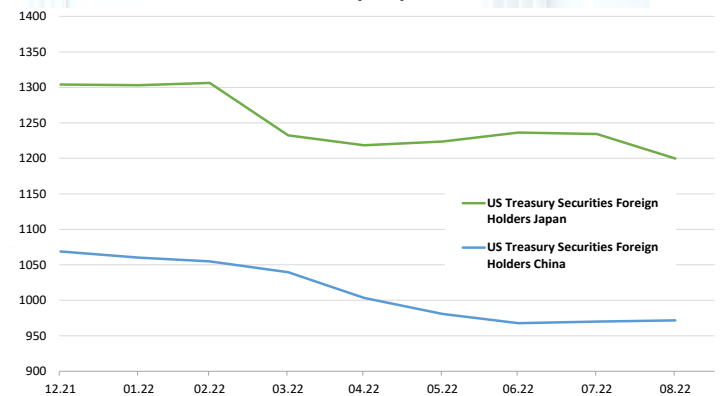
This is not the case for Switzerland, but the recent news that the Fed granted a \$3.1 billion swap line to the SNB on October 5 and a \$6.27 billion swap line on October 12 corresponding to dollar needs expressed by Swiss banks indicates a return of stress in the financial markets. This was the first significant application of the year 2022!

The US central bank is well aware that its policy of controlling inflation through a recession can be very costly to the US government and taxpayers. If financing rates were to remain high for a long time, a US recession would have a negative impact on government revenues, which would further increase the burden of debt servicing as a proportion of revenues.

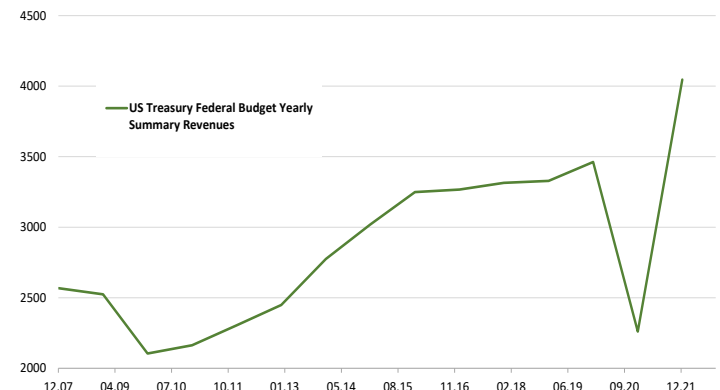
US Debt as % of GDP and Total Debt



US Debt Held by Japan and China



US Budget



The Federal Reserve must know that the outcome of its policy can only be a further cut in interest rates when it becomes more obvious that the US economy is indeed in recession. There will then be no other solution for the latter than to resort once again to liquidity creation, an easing of monetary conditions, interest rates and consequently a fall in the dollar.

Increasing systemic risks: the UK example

In recent weeks, the UK authorities have had to deal with an exceptional situation caused by a panic rise in interest rates that endangered the stability of the UK financial system. The BoE responded to this threat by making a 180-degree turn in policy and once again rescuing the bond market by buying bonds on a massive scale in an attempt to control rates and reassure the markets, although it has not yet succeeded. Based on this recent example, the Fed should also be concerned about a possible slippage in the dollar rate markets caused by its overly dogmatic attitude. We believe that the Fed should realise the increased systemic risks posed by an upward spiral in rates and the dollar. If it quickly realises the dangerous implications for the international financial balance of its policy, it may still be able to avoid the worst, if it is able to draw the necessary conclusions.

What will the Fed finally do?

The US Federal Reserve will probably raise its key interest rates by 0.75% on November 2 to 4%, which could complete one of the fastest phases of six monetary restrictions in history, but in our opinion it would be well advised to mention in its comments that from now on, it will pursue its policy with smaller "touches", taking into account with the greatest attention the evolution of economic dynamics and inflation. It could note that since the implementation of its policy in March, the latter seems to have finally entered a more reasonable rate of increase, and potentially in line with its objective of a +3.1% rise in the PCE index in 2023. The average CPI of the last three months of +0.166% is indeed significantly lower than the average CPI of the first six months of +0.85%.

A continuation of this trend in the last quarter would be an understandable source of satisfaction for the Fed, which could logically announce the success of its anti-inflationary policy already in December. It could then regain lost credibility without having to run the risk of provoking a deeper recession in the economy.

If, on the contrary, it does not sufficiently perceive the risks of this policy or if it decides to implicitly accept the consequences, it will maintain even higher rate hikes and a dogmatic discourse exclusively centred on its determination to achieve its project of total control of inflation in order to reach its +2% objective. The risk would then be to provoke both a "hard landing" of its economy and a new financial crisis accompanied by defaults of insolvent companies and states.

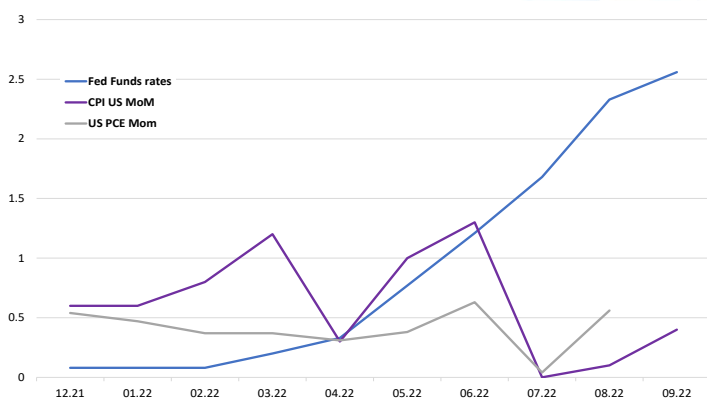
What possible effects for financial markets?

In our view, therefore, it should rationally start to change its position. This would allow the financial markets to rule out the worst case scenario. In this case, the outlook for short-term rates would be improved by the gradual dilution over time of future increases of more moderate magnitude. The first consequence in the capital markets should be a fall in medium-term expectations and a lowering of the yield curves. The dollar should then halt its advance and weaken in a sustained downward trend. The main overall consequence of these declines will be a decrease in default risk. In the financial markets, assets that were particularly negatively affected by rising interest rates and the appreciation of the dollar in the first nine months will benefit from a new positive dynamic. Bond markets, high yield, real estate, private equity, equity markets and in particular gold and precious metals should logically begin a positive adjustment phase in their values.

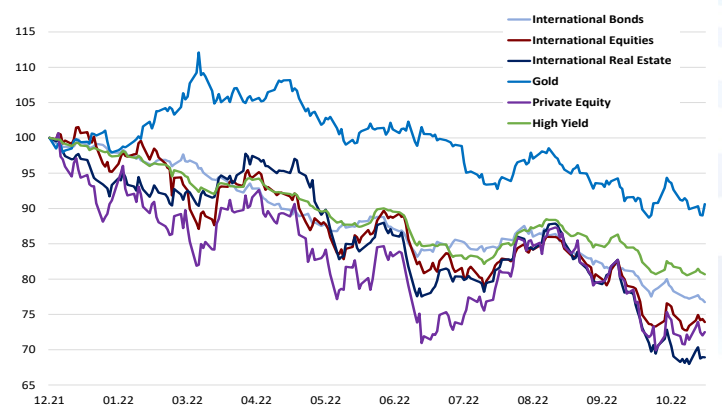
If not, the worst-case scenario induced by a dogmatic Fed will probably lead to a deeper recession and increased risks of bankruptcy. Inflation is unlikely to resist this scenario, which will also see bond yields adjust sharply downwards. In this context, investment grade bonds should be favoured, but residential real estate, already heavily penalised, should also benefit from lower interest rates.

Precious metals and gold in particular would regain their safe haven status and benefit from the decline of the dollar. Equity markets and private equity would certainly still be potentially at risk, especially in sectors that cannot rely on earnings visibility during a severe recession.

Fed Funds Rates, CPI and PCE



Evolution of Asset Classes during the year 2022







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

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