BearBull

Global Investments Group

Investment Strategy

April 2023

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- Phasing out of the main risk factors by 2022
- Relatively favourable conditions for financial assets

The first quarter of 2023 started off very well. The month of January and the first weeks of February benefited from a rather positive scenario in which the evolution of inflation played a central role. December saw the first inflation figure close to zero (+0.1%) in the United States, which suggested that the downward trend in the monthly figures in a new acceptable inflation regime had indeed taken hold. After six months, it seemed likely that this trend would continue into early 2023. The Federal Reserve also suggested that the pace of rate hikes could be reduced to 0.25% with a maximum target rate of about 5.0% by June. The economic scenario in place at the time assumed a gradual slowdown in economic dynamics with restrictive effects on inflation, allowing to envisage an early end to the rise in key rates. An exceptional January crowned these expectations before they were completely reversed in mid-February. The release of a rebound in US inflation in January to +0.5%, followed by an extraordinary job creation figure of 517k, well above expectations of 189k, have together set the world on fire. The central bank was quick to confirm that if the economy continues to be very strong, it will not hesitate to raise interest rates longer and higher. A sudden change in scenario appeared, described as a *no-landing scenario*, with extreme implications for interest rates and financial assets.

A 100 bp adjustment in Fed funds rates for December 2023 was accompanied by a similar move in short-term yields. All yield curves then adjusted upwards, without considering that this scenario was unlikely to materialize. The U.S. economy was indeed much less resilient than the lagging data on the labor market or rents suggested. While the economic slowdown seemed increasingly clear in many other economic statistics, general sentiment remained affected by negative expectations of a permanently restrictive policy for the coming months, and this led to a direct drop in the performance of financial assets.

The banking crisis at the beginning of March then brutally reinforced the prevailing uncertainty and provoked a wave of panic for a few days, raising fears that a new systemic situation similar to that of 2008 could seriously threaten the perenniality of the international financial system. It only took a few days of panic to bring down Credit Suisse and to push central banks and governments to adopt a resolute attitude by which they reaffirmed the solidity of the banking system while completely reversing the policies displayed until then. the banking system, while completely reversing the policies they had been pursuing up to that point. The central banks have indeed reassured investors and savers by providing all the liquidity necessary to avoid any systemic risk of contagion from the SVB bankruptcy, causing the Fed's balance sheet to jump by 500 billion, or about 6% in a few days. The rescue of Credit Suisse had a greater impact on the balance sheet of the SNB, estimated at more than 20%. This reversal of trend constitutes a whole new paradigm for central banks, which are revising their language by claiming to be able to decouple their policies to fight inflation by maintaining high key rates from those aimed at ensuring the stability of the financial system by injecting massive amounts of liquidity and offering guarantees of various kinds.

This latest episode of inflating systemic risks is still far from having developed all its effects in the medium term, but in the short term the result is clear: policy rate expectations have massively readjusted. Fed funds rates for December have fallen by 150 bps, and June Fed funds are now below the current key rate of 5%, implying an expectation that the Fed will cut rates in the coming months. The yield curves have also corrected, with more dramatic declines at the short end. The two-year US Treasury yield fell from 5.08% to 3.55% in just over two weeks.

The impact on bond prices was immediate, and March performances were therefore positive in all markets, supporting the gains recorded everywhere over the first three months of the year. Overall, bond indices returned around +3% for the quarter, with Australian bonds performing best among developed markets. Equity markets also rebounded at the end of the month with lower yields and assurances from central banks. Up +3.09% for the month of March, the *MSCI World index* ended the quarter with a satisfactory +7.7% gain and a record rebound for European stocks of +14.3%. The securitized real estate investments are still lagging the end-of-quarter recovery (+0.5%), but conditions are also favourable for them to catch up.

The stock market climate at the beginning of the second quarter is still very much affected by risks of a financial crisis, but the conviction has taken hold that the rate hike cycle is probably over in the United States. If the next statistics confirm both the weakness of the economic dynamic and a better inflation trend, the decline in yields could well continue and support a new bullish rally for all asset classes. As for commodities, the outlook should be strongly linked to the recovery of activity in China and India. While energy and industrial metal prices are likely to benefit, precious metals will rise with the support of lower rates and a weaker dollar.

Alain Freymond
Partner & CEO
BearBull Group

BIG PICTURE

Main Convictions

- The global soft landing scenario once again seems the most likely
- Inflation remains a key factor in risk assessment
- Monetary policies again less restrictive
- Favourable outlook for financial assets

The global soft landing scenario once again seems the most likely

The current quarter should already be the one to dismiss fears of a *non-landing* of the U.S. economy and to re-validate the main and most likely scenario of a gradual slowdown of the global economy. After a few weeks of fear in February and March that the US economy would not react to interest rate hikes and would instead continue to grow at a solid pace, these fears have now faded, probably due in part to the as yet unseen indirect effects of the March banking crisis. Investors have finally taken into account the deterioration in economic conditions in the United States on many fronts, while also taking into account the potentially harmful effects of this crisis on the banks' lending conditions. The difficulties in the banking sector will indeed affect the process of granting credit to individuals and businesses, while banks will undoubtedly seek to improve their solvency ratios.

In the United States, leading and coincidental indicators continue to deteriorate and indeed point to a likely weakening in economic activity. However, while the manufacturing sector is showing signs of weakening and household consumption is slipping dangerously close to a recession, the service sector is still showing some resilience. In Europe, the economic surprises were rather positive during the last quarter and the beginning of the year did not cause any significant reversal of the situation. The growth outlook for the year as a whole therefore seems slightly less pessimistic and expectations for the first quarter of 2023 suggest a limited contraction of -0.1% followed by a second quarter also in decline of -0.2%. In the UK, the economic environment also appears surprisingly resilient despite the tightening of monetary conditions and the decline in household disposable income. We believe, however, that a recession is still likely, but that it could ultimately have relatively limited effects. In Asia, the Japanese economy avoided a technical recession by recording an annualized increase of +0.1% of its GDP in the fourth quarter of 2022, confirming the expected weakness of the economy. The outlook for the first quarter of 2023 is only slightly better, with GDP still suffering from insufficient household consumption. The return of Chinese growth following the end of the zero-covid policy will gradually develop positive effects, partly offsetting weakness in the Western countries.

Inflation remains a key factor in risk assessment

For several years now, the evolution of inflation has been one of the main risk factors to be taken into account when monetary policies that will be adopted by central banks and whose effects on interest rates and access to financing will have a decisive impact on the valuation of financial assets and the investment climate. We had already alerted investors in 2020 to the risks of inflationary slippage directly linked to the very expansive monetary and fiscal policies that were being pursued in most Western countries to contain the negative effects of health policies to fight the pandemic. While central banks still considered the emergence and development of inflation as a transitory factor, we noted that the expansion of liquidity and historically low interest rates in some countries would eventually develop more lasting effects on inflation measures. The rhetoric of the central banks only adjusted to this reality belatedly, recognizing the sustainability of inflation when the war in Ukraine reinforced the trends already in place. They seem to be exercising the same excessive caution today by not taking sufficiently into account the forces that are already influencing the evolution of prices and being slow to recognize the progress that has been made. In reiterating their 2% inflation target, they tend to downplay positive developments by pointing out too dogmatically that these are still insufficient compared to their expectations.

The deceleration in prices is nevertheless evident in a number of countries, starting with the United States, even if this trend is still far from the Fed's objective. Through its actions and statements, the U.S. Federal Reserve has sustained a sense of permanent disappointment among investors by stating that it will maintain an anti-inflationary policy as long as its objective is not met. Yet the monthly inflation regime has changed dramatically from the first six months of 2022 to the current period. A particularly notable improvement which deserves to be discussed with a little more objectivity and less dogmatism. While inflation was rising at a monthly rate of +0.8% in the first half of 2022, it has only been advancing by an average of 0.28% per month for the past eight months in the US. In a 12-month projection, US inflation is now close to 3.4%, which is already close to 3.4%, which marks a clear decrease since the peak of +9%/year reached in June 2022, which the central bank could already be satisfied with. We believe that US inflation is on an encouraging downward trend, which will certainly be reinforced in the coming months by the ongoing economic slowdown. The inflation situation remains different in the UK and Europe. In both cases, it is not expected to make as rapid progress as in the US. But over a 12-month horizon, we should still see a reduction in pressure, allowing annual inflation to settle below +4% in the US, China and Japan. The euro zone will remain a little behind with a consumer price index probably still above +5%.

The expected gradual decline in inflation to an « acceptable » level in the major economies is a key factor in assessing the risks ahead. The announced downward trend seems to us to be sufficient to favourably influence monetary policies. Moreover, the recent banking crisis will also be taken into consideration by central banks, which will undoubtedly consider that it should develop effects on the evolution of demand and prices, justifying less restrictive policies. This context will allow a downward readjustment of yields on the dollar capital markets in particular. Such an improvement will lead to a readjustment of the risk parameters for the financial markets in the coming quarters.

Monetary policies again less restrictive

After a month of February already marked by the appearance of a highly unlikely *no landing scenario*, the risks of recession reappeared again in March. The bankruptcy of the SVB and the shock of the disappearance of Credit Suisse in a week of very high risks for the global banking sector and the financial system had repercussions on most financial markets, causing a wave of panic for a few days, raising fears that a new systemic situation similar to that of 2008 could seriously threaten the sustainability of the international financial system. The reaction of the main monetary authorities was swift and serious, as they largely reaffirmed the soundness of the banking system while completely reversing the QT policies displayed until then. First of all, they reassured investors and savers by providing all the liquidity necessary to avert any systemic risk on a massive scale, abandoning their QT and temporarily returning to a form of QE.

This reversal of trend constitutes a whole new paradigm for central banks, which are revising their language by asserting that they are able to decouple their anti-inflation policies on the one hand, by maintaining high key rates, and on the other hand those aimed at ensuring the stability of the financial system by injecting massive amounts of liquidity and by offering guarantees of various kinds. Expectations of future policy rates changed immediately, with bond yields falling by around 100 bps. Fed Funds are now already below the Federal Reserve's current policy rate for the June maturity. This is now a new paradigm for monetary policy, which is perceived to have already reached its zenith and is close to an easing phase in the US.

The second quarter will be clearly characterized by the end of the convergence of monetary policies between all central banks. Some of them will mark the end of the monetary tightening cycle during this period by pausing in their rate hike process. This will be the case for the Fed in particular, which should now refrain from raising its key rates before proceeding with further easing, perhaps at the end of the year, if the economic slowdown proves to be more severe and deeper than expected. For the ECB and the BoE, the path is more uncertain; they will have to make a few more hikes before reaching their inflection point, while in Japan, monetary policy will remain accommodating.

Relaxation and stabilization on the yield curves

The banking crisis and questions about the stability of the financial system in March led to a complete reversal of forecasts on the future course of monetary policy and a sharp readjustment of expectations on the bond markets, while the *soft landing* or even recession scenario became more consensual, as we had expected. The drop in short-term yields was rapid and completely correlated with the adjustment in Fed Fund Futures expectations, but it was also significant at the longer end of the yield curve. Bond yields have eased across the board and have since stabilized well below their October 2022 highs. We believe that in this weaker economic environment, the risks of a further pickup in inflation are much lower than the chances of a sharper slowdown and decline in price developments in the US in the coming months. Yield curves have flattened as yields have fallen more sharply at shorter maturities. The yield spread between 2 and 10 year US Treasuries has fallen from 110 bps to 60 bps, returning to the level of summer 2022.

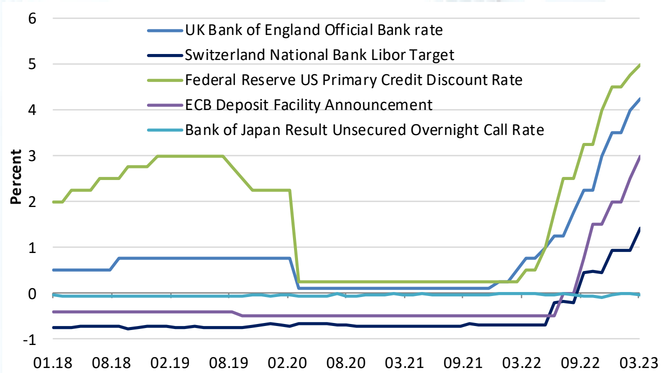
In this context, the correlation observed in 2022 in the bond markets will not continue in 2023, as monetary policies and inflation outlooks are sufficiently different to cause opposing movements in Europe, the United Kingdom and Japan in particular.

Favourable outlook for financial assets

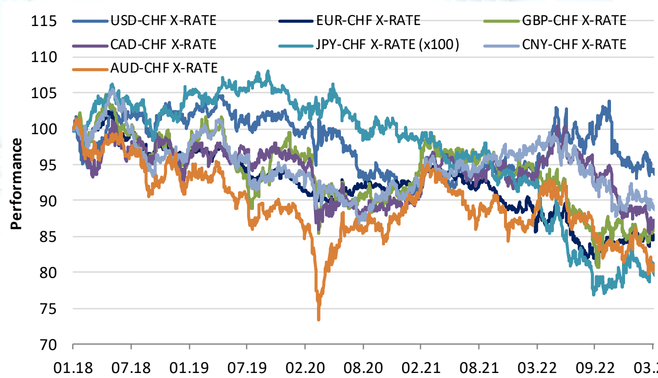
Inflation will remain the main factor to watch in the coming months, but an easing in prices remains the most likely scenario given the more difficult situation for consumption and economic growth. The ongoing slowdown should provide support for expectations of a softening of some yield curves, while the return of QE and an increase in global liquidity could also contribute to this trend.

Financial assets should benefit from this change in sentiment and paradigm shift resulting from the complete change in the macroeconomic scenario and interest rate expectations. After a particularly uncertain and volatile first quarter, the stock market climate has unfortunately not yet returned to serenity at the beginning of spring. However, a reduction in inflationary pressures and rate uncertainties will have a positive impact on the capital markets and on securitized real estate. For equities, the first quarter earnings season should not already be affected by the prospect of an economic slowdown, as earnings growth expectations are already rather low for the year as a whole.

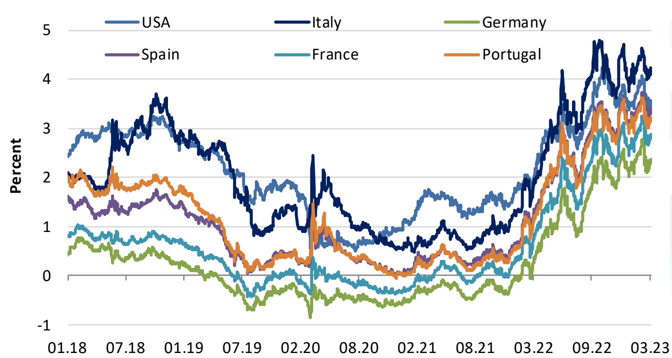
Policy Rates (EUR, CHF, GBP, USD, JPY)



7 Main Currencies against CHF (base 100)



10-year Government Rates



Graph sources: BearBull Group/Bloomberg

MACROECONOMIC SCENARIO

MACROECONOMIC SCENARIO

Global Outlook

- Positive global growth in 2023
- Temporary decline in US momentum
- Limited contraction of the European economy
- Swiss economy expected to grow by +0.7% in 2023
- British economy is approaching a recession

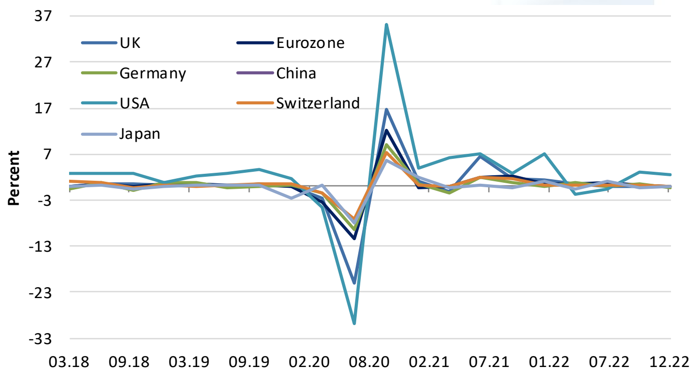
Positive global growth in 2023

The year 2023 began with relatively mixed growth forecasts for the major developed economies. The United States, the United Kingdom, Europe and Japan were unlikely, according to the consensus forecasters, to record an increase in their respective GDPs in the first half of the year. In fact, the surprise of the end of 2022 and the first quarter of 2023 is that none of these economies seems to have experienced a recession during the winter. Expectations of a recession were even temporarily erased by the fear of a *no landing* by the US economy, which was highly unlikely and barely supported by a few very « lagging » economic indicators, before the banking crisis and the associated systemic risks reversed this scenario once again, giving way to a more measured view of the economic outlook. At the beginning of the year, we were already talking about a global *soft landing scenario* based on the gradual disappearance of the main risk factors that had affected 2022 (uncontrolled inflation, rising interest rate curves, restrictive monetary policies). The forecast for the US was one of the key elements of our growth estimate for the world economy in 2023, as we already believed that the risks of a severe recession in the US were in fact moderate. The monetary tightening cycle seemed to us to have almost come to an end, with hikes expected in the first few months of 2023 and diminishing inflationary pressures expected to gradually reduce the pressure on households' disposable income and their level of uncertainty. In Europe, the recession was expected to be moderate, thanks to the gradual reduction of bottlenecks in supply chains, tax subsidies and the resilience of consumption supported by the drawdown of household savings. In China, the end of the zero-covid policy should lead to a faster-than-expected recovery in activity, with positive effects on global trade. The beginning of Q2 confirms this scenario with the end of the QT, the return of global liquidity, the normalization of yield curves and increasingly controlled inflation. Global growth should therefore continue the slowdown already underway in several economic zones. We estimate that global growth in 2023 will still be below its historical average and will not exceed +2%. However, while the risks of a recession have been largely integrated into many economists' and strategists' forecasts, we believe that the United States in particular could surprise by avoiding a recession for the whole of 2023 and by recording a +0.5% increase in GDP. Our outlook is also positive for Japan (+1.0%), China (+5.0%), and India (+5.5%), and contrasts with the less favourable outlook for the eurozone countries (+1.0%) and the United Kingdom (-0.5%).

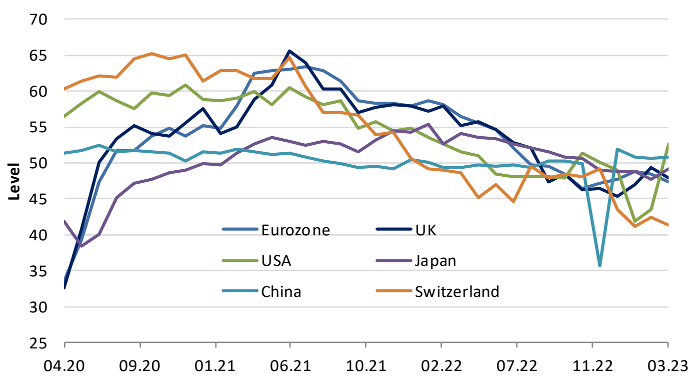
Temporary decline in US momentum

The *no landing scenario* for the US economy, which had surprisingly the quarter on a temporary rebound in inflation and job creation, will not withstand the banking crisis and its possible implications on the evolution of credit. The Fed's monetary policy is adjusting by injecting more than 500 billion in liquidity and considering the end of its monetary tightening cycle in March 2022. Faced with rising interest rates, the In the face of rising interest rates, the U.S. consumer had already dipped into his savings by 2022 and maintained his spending through increased use of credit. We doubt that they will be able to cope for long with the rise in financing conditions before they are forced to adjust their consumption. The decline in purchasing power is now a fact and is beginning to bite into confidence and retail sales. A net economic slowdown seems increasingly likely in the coming months. However, positive developments on the inflation front should help to lower interest rates and mitigate the recessionary effects of the banking crisis. This economic downturn should remain moderate, however, with our outlook for the first half of the year being +0% to +0.5% and +0.5% to +1% for the year 2023.

Quarterly GDP



Manufacturing PMI



Graph sources: BearBull Group/Bloomberg

Limited contraction of the European economy

The economic surprises were rather positive during the last quarter of 2022 and the beginning of the year did not cause any significant reversal of the situation. The outlook for growth therefore seems slightly less pessimistic for the year as a whole (+0.5%), while the risk of a recession in the next twelve months has decreased to only a 50% probability. Expectations for Q1 2023 suggest a limited contraction of -0.1% followed by a second quarter decline of -0.2%. The Eurozone should therefore enter a recession in the first half of the year without suffering a severe contraction of its GDP.

The ECB maintains its more optimistic forecasts for the evolution of the GDP and maintains its objective of +1% growth in the euro zone for the whole year and +0.1% in the first quarter. The +0.7% increase in consumer spending will be the main support for this growth according to the ECB.

Industrial production in the euro zone surprised favourably in January with a rebound of +0.7% after a weak December. However, the still volatile monthly data do not allow for the detection of a real positive trend, but the sector is still showing resilience that could contribute positively to the overall result for the quarter. The rebound in activity in Germany (+1.8%) contrasted with the declines in production in France (-1.9%), Spain (-0.9%), Italy (-0.7%) and the Netherlands (-4.3%). The next few months could be supported by the recovery in China and lower energy prices.

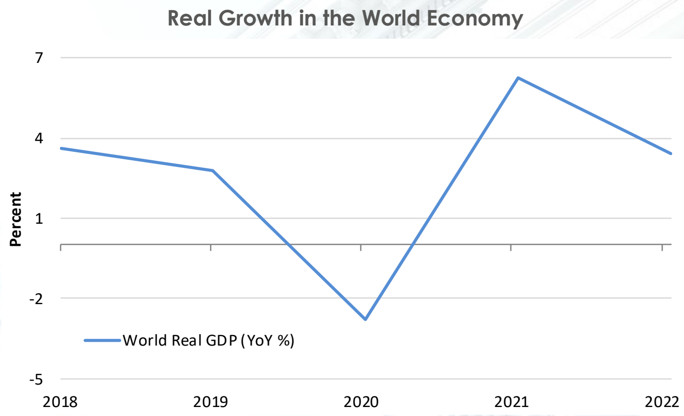
Swiss economy expected to grow by +0.7% in 2023

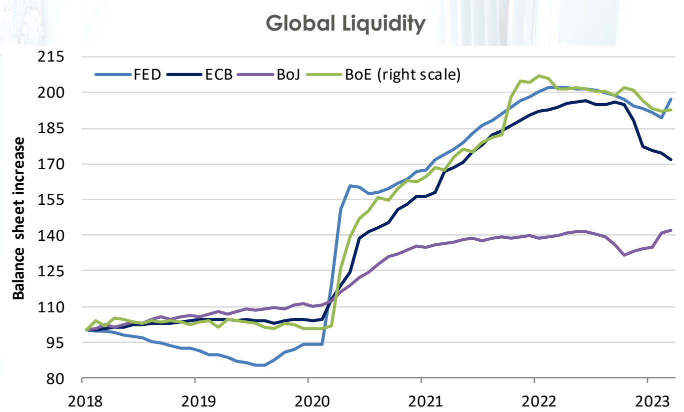
At the end of the quarter, leading indicators remain relatively mixed for the Swiss economic outlook. The KOF Economic Barometer recovered slightly and in February returned to its historical average of 100 after three consecutive months of increases before dipping slightly in March. However, it reversed the downward trend that began in the spring of 2021 and rebounded sharply from its lowest level since 2015, excluding the pandemic in the second quarter of 2020. The recovery of the KOF leading indicator contrasts positively with the perceived risks and suggests a welcome improvement in the Swiss outlook.

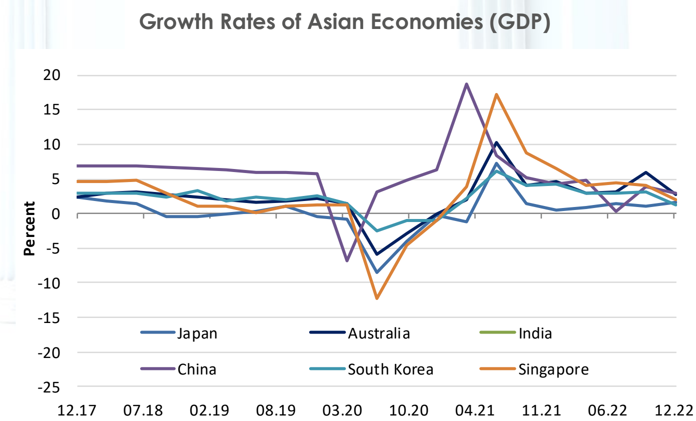
Activity in the manufacturing sector finally appears to be improving and is a major contributor to this result, but data in the consumer, export and financial segments are also evolving favourably. In the manufacturing industry, the situation is considered to be positive, particularly with regard to the development of order books and the competitive situation. But the manufacturing PMI indicators are still not improving, as suggested by the latest drop to 47 in March. Consumer confidence published by SECO, however, suggests an improvement in sentiment, which also rebounded from its extreme lows in December (-46.5) to stand at -30.2. The picture is particularly volatile in the SC sentiment survey, which showed a very strong improvement of the perception of the economic outlook in the rebound of its indicator from -40 to -12.3 in February, before a further dramatic fall in March (-41.3).

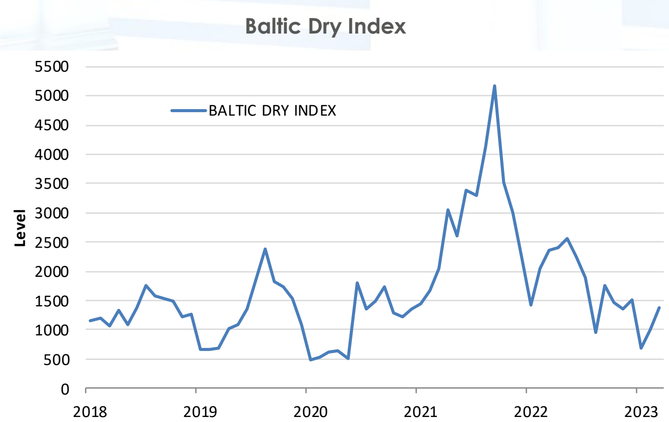
Overall, the leading indicators remain uncertain and do not yet point to a clear economic recovery in our country. Although retail sales finally recorded a slight increase of +0.3% in February and the unemployment rate (seasonally adjusted) fell below 2%, the leading indicators remain uncertain and do not yet point to a clear economic recovery in our country. Inflation is back on a favourable trend in March, with the CPI rising by just +0.2% after a jump of +0.7% in February.

The outlook for 2023 will be affected by a still uncertain international economic environment, leaving little chance for Swiss GDP to grow significantly beyond +0.7%.









Graph sources: BearBull Group/Bloomberg

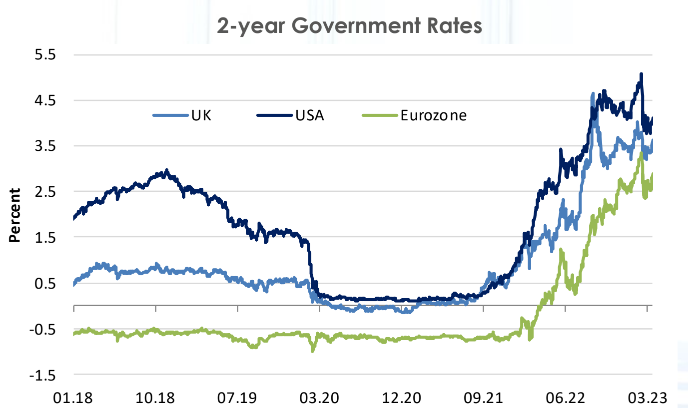
British economy is approaching a recession

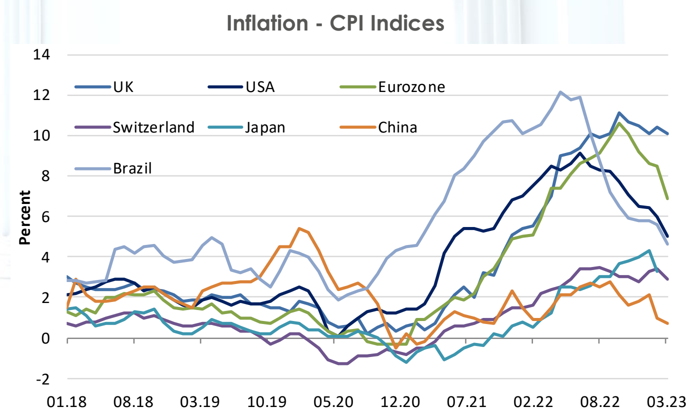
The PMI leading indicators reacted rather well in January and February, while January's monthly GDP already registered a surprising +0.3% increase. The service sector in industry was the largest contributor (+0.43%) along with education (+0.15%), while construction (-0.1%) contributed negatively to the result. The outlook for the first quarter remains gloomy, however, as it is largely marked by negative statistics on the labor market, the real estate sector, foreign trade, industrial production, inflation and the cost of credit. This good result for January should therefore not be transmitted with the same vigor throughout the quarter. However, the economy is surprisingly resilient and could continue to be so if household consumption proves more robust. The economic environment in the U.K. thus appears surprisingly resilient despite tighter monetary conditions and falling household disposable income. We believe that a recession is still likely, but that it could ultimately have a relatively limited impact in 2023. Our GDP growth forecast for the year is adjusted to -0.5%. The decline in the leading indicators has stopped since the end of December to show a significantly better trend in early 2023. After reaching a worrying point of 45.3 in December, the rebound of the manufacturing PMI in the first two months of the year brought it close to the growth threshold in March (47.9). The decline in the services PMI was more recent. The March rebound to 52.9 is encouraging, as it marks a shift from contraction to growth with the rebound from 48.7 to 52.9. The construction segment had also jumped from 48.6 to 54.6 in February before showing a weak phase again in March (50.7). We believe that this was not a sustainable recovery, but rather a temporary boost in confidence among economic agents in February. In March, house prices declined by a further -0.8% in conjunction with the decline in consumer confidence. The latest leading indicators published in March are therefore once again declining for the manufacturing and services segments, presaging another uncertain second quarter.

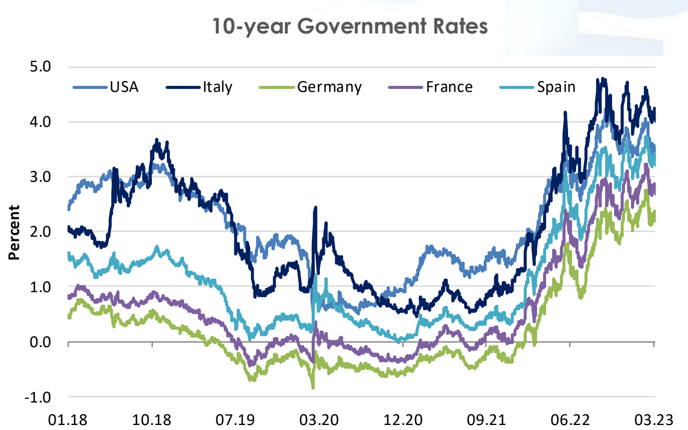
Barely positive outlook for Japan

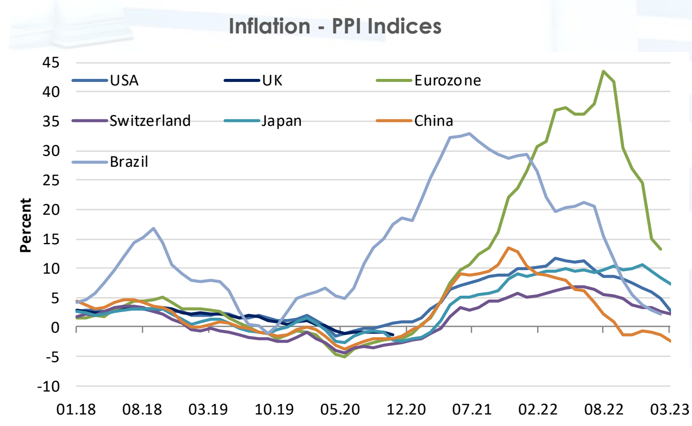
The Japanese economy just avoided a technical recession by recording an annualized increase of +0.1% in Q4, confirming the expected weakness of the economy. The outlook for the 1st GDP is still expected to suffer from insufficient household consumption despite the ongoing fiscal stimulus, as was the case in the previous quarter. Consumer spending by foreign travelers in Japan could support domestic consumption without significantly influencing its overall level. Japan's recovery is expected to take hold very gradually, as the decline in consumer purchasing power, following the steady decline in disposable income, is expected to stabilize only very gradually. The reopening of China seems to be the main factor on which the Japanese economy can count for a revival of its exports, but it is still difficult to determine when the first effects will be visible, as Japanese exports to China have actually been declining in recent months.

With global demand expected to remain weak in Q1, the near-term economic outlook for Japan is once again bleak, but likely to rise by 1% for the year. The Jibun Bank of Japan PMI leading indicators released in early April improved slightly. The composite indicator (52.9) recorded its fourth consecutive increase and is now well above the growth threshold (50). The rebound in the services index (55) was the main factor behind the improvement, while the manufacturing segment continued to struggle (49.2), but is approaching the growth threshold. The PMI indices confirm the continuation of the trend observed in the Japanese leading indicator, which also recovered slightly in February from 96.6 to 97.7, while the coincident business cycle indicator also rose from 96.4 to 99.2.







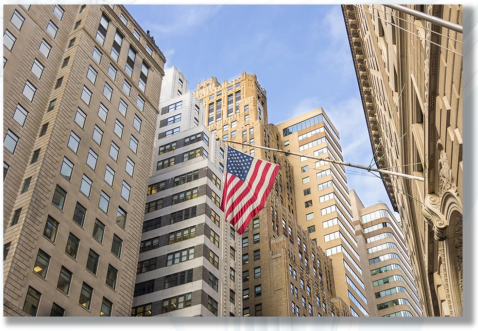


Graph sources: BearBull Group/Bloomberg

MACROECONOMIC SCENARIO

United States

- Q1 2023 will still be positive
- Employment statistics are finally deteriorating
- The Fed should take a break
- Inflation will be below Fed funds in June
- Further decline in the dollar forecast



A solid year-end will give way to a soft landing

The US economy ended the year 2022 with solid GDP growth of nearly +2.6% annualized, above economists' expectations, although slightly down from the momentum of the third quarter. The personal consumption was a major contributor to this positive development with growth of +2.1%, but in fact it remained on a similar trend to that of previous quarters. However, this increase certainly masks some difficulties for consumers to maintain their spending levels, while wages did not grow at the same pace as inflation. A loss of momentum is being temporarily held back by the use of excess household savings built up during the pandemic period. This situation is expected to deteriorate in the coming months and weigh on the growth outlook. It should also be noted that inventory building accounted for almost half of the increase in GDP, which from our point of view is not a very positive sign for the coming quarters, as it rather suggests weaker demand than expected by companies.

The latter should certainly reduce their production in the coming months in order to adjust to it, as we are already seeing in the unchanged industrial production figures for January and February. Meanwhile, the Federal Reserve has continued to raise its key interest rates to counter inflation, causing a sharp rise in financing costs and a deterioration in credit conditions, including in the real estate and industrial sectors. The reactions have been quite rapid, particularly in the technology sector, which has proceeded with fairly massive layoffs, which are now beginning to show up in the figures for new applications for unemployment benefits, and with reductions in investment. The central bank's priority is still to fight inflation, despite the positive developments underway, but if inflation is already in a clear deceleration phase, it also seems that the tightening of credit conditions is already affecting the growth prospects of the main segments of the economy and very clearly those of household consumption, the main component of US GDP. We believe that a *soft landing* is already taking place and that the slowdown will be noticeable as of the first quarter of 2023, with growth reduced to around +1%.

Q1 2023 will still be positive

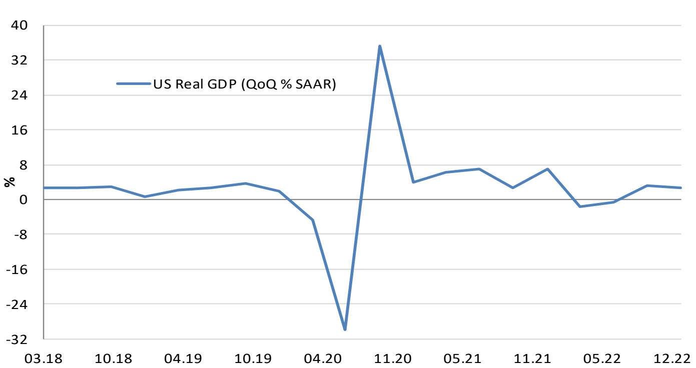
US GDP growth should therefore be close to +1% in Q1, which will certainly prove to be the last before a more marked downturn in the economy, which will materialize over the next two quarters (+0.2% and then -0.5%), before a probable recovery at the end of the year. US households have resisted the rise in rates and inflation by using their savings, but they will not be able to continue this strategy for long, although it is estimated that the decline in household savings could theoretically continue for some time before it is halted by the current 1.4 trillion in reserves that can still be deployed.

Temporary decline in US momentum

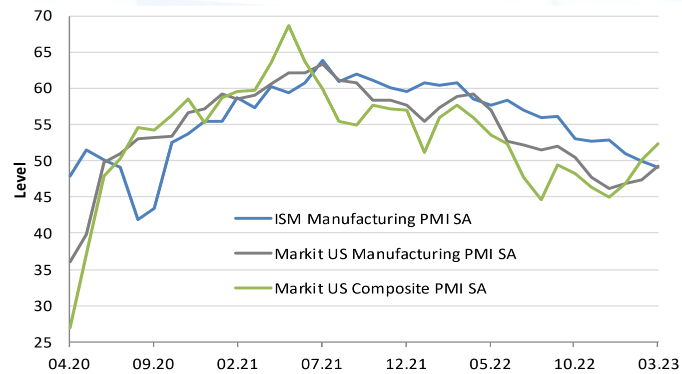
The *no landing scenario* for the US economy, which had surprisingly taken hold during the quarter on a temporary rebound in inflation and job creation, will not withstand the banking crisis and its possible implications for the evolution of credit. The Fed's monetary policy is adjusting by injecting more than 500 billion in liquidity and considering the end of its monetary tightening cycle in March 2022. In the face of rising rates, the US consumer had largely dipped into his savings by 2022 and has maintained his spending since then thanks to the increased use of credit. We doubt that they will be able to cope for long with the rise in financing conditions before they are forced to adjust their consumption.

The decline in purchasing power is now a fact and is beginning to bite on confidence and retail sales. On the investment side, companies seem much less willing to make new equipment purchases in the face of growing economic uncertainty. A clear economic slowdown seems increasingly likely in the coming months. However, positive developments on the inflation front should help to lower interest rates and mitigate the recessionary effects of the banking crisis. However, the economic downturn should remain moderate, and our outlook for the first half of the year is +0% to +0.5% and +0.5% to +1% for the whole of 2023.

Quarterly US Real GDP

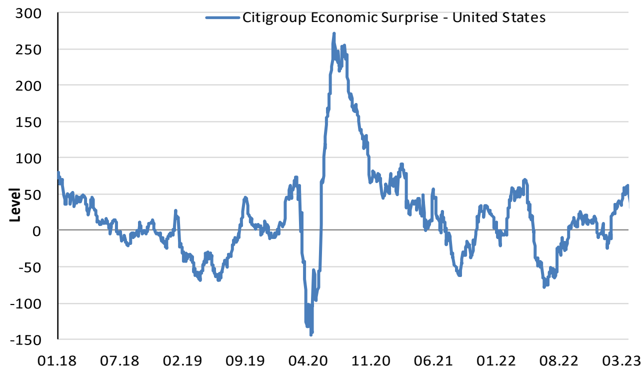


Leading Indicators PMI

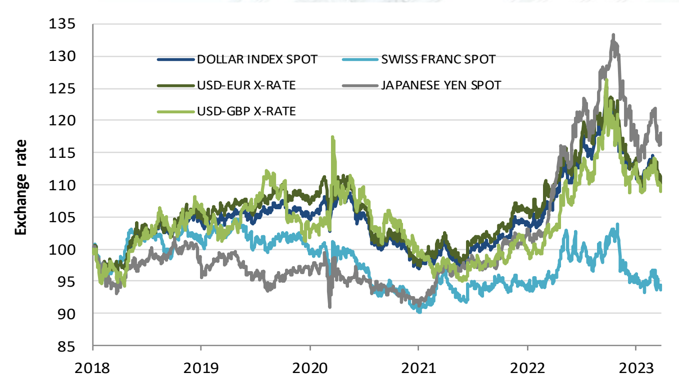


Graph sources: BearBull Group/Bloomberg

Citigroup Economic Surprise Index USA



Dollar Trade-Weighted Index and Currencies



Decline in leading indicators

The rebound in the PMI indices continues with the manufacturing segment recovering in March (49.2) from its December lows (46.2), but it is still very uncertain, while *the services index*, down slightly from 53.8 to 52.6 over the month, remains well above the growth threshold. The *composite index* slipped slightly over the month, but also remained in the positive zone with a level down from 53.3 to 52.3. In March, the ISM indicators also fell sharply from 47.7 to 46.3 for the manufacturing sector and from 55.1 to 51.2 for services. The new orders component fell a sharp 10 points, from 62.6 to 52.2, indicating a likely slowdown in the coming months.

Employment statistics are finally deteriorating

Unemployment claims have been rising steadily since the end of January almost every week and now average 240,000 new claims, significantly higher than the September 2022 low of 180,000. This reflects the layoff announcements made at the beginning of the year, which are only now gradually coming on stream. This confirms that the labour market is weakening with the decline in economic activity. Job openings have also contracted significantly below 10 million after peaking in March 2022 at 12 million. These developments should satisfy the Federal Reserve, which was recently concerned about the risks that a tight labor market could pose to wage and inflation trends. We believe that US companies will continue their efforts to adjust their costs through the employment variable in order to protect their profit margins and results during an economic slowdown.

Inevitable slowdown in consumption

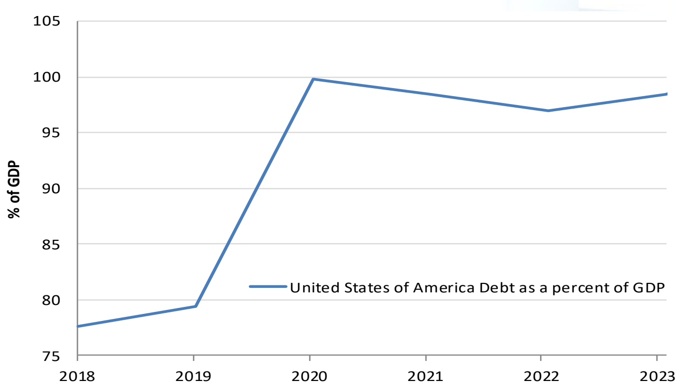
Household confidence remains hesitant, perhaps improving on the back of declining inflation as measured by the Conference Board, but declining according to the University of Michigan survey driven by declining real household income. The labour market will not be of much help in our view to support further improvement in sentiment, which will more likely depend on lower financing costs, interest rates and credit. Rising interest rates ended up pushing credit growth down to 15.3 bn in February, significantly less than the 19.5 bn increase in January. In this difficult environment, consumers often had no choice but to dip into their savings and increase their debt levels by using their credit cards more than usual. The increase in credit card rates above 20% is now slowing down consumers' desire to maintain their consumption through the use of credit cards. As a result, consumption is only up +0.2% in February, while real personal consumption is down -0.1%.

The Fed should take a break

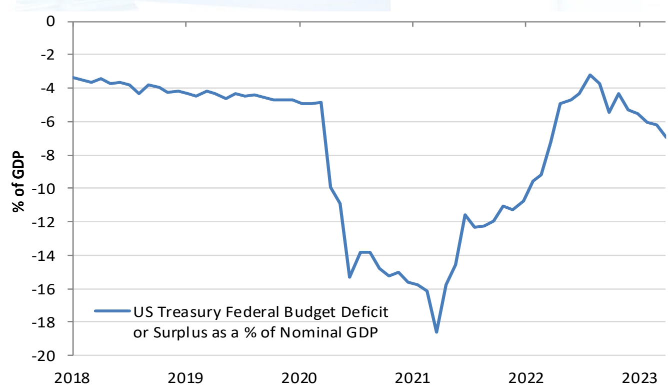
The publication of a rebound in inflation in the United States in January to +0.5%, followed by an extraordinary figure of job creation of 517k, well above expectations of 189k, had together set off the fire. The central bank was quick to confirm that if the economy continued to be very strong, it would not hesitate to raise its key rates longer and higher. An abrupt change in the scenario appeared, causing a 100 bp adjustment in Fed funds rates for December 2023 to 5.6% in particular, which was accompanied by a similar movement in short-term yields. All yield curves adjusted upwards, without considering that this scenario was unlikely to materialize. The US economy was far less resilient than the lagging data on the job market or rents suggested. While the economic slowdown seemed increasingly clear in many other economic statistics, general sentiment remained affected by negative expectations of a monetary policy that was ultimately more permanently restrictive than previously expected.

The banking crisis at the beginning of March brutally reinforced the prevailing uncertainty and caused a wave of panic for a few days, raising fears that a new systemic situation similar to the one in 2008 could seriously threaten the sustainability of the international financial system. It only took a few days of panic to push the Fed and the US government to adopt a resolute stance in which they reaffirmed the soundness of the banking system while completely reversing the policies they had previously stated. The Federal Reserve reassured investors and savers by providing all the liquidity necessary to avoid

Debt USA

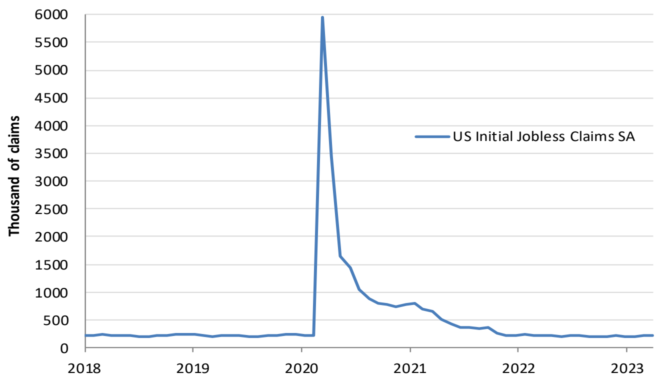


US Treasury Deficit/Surplus

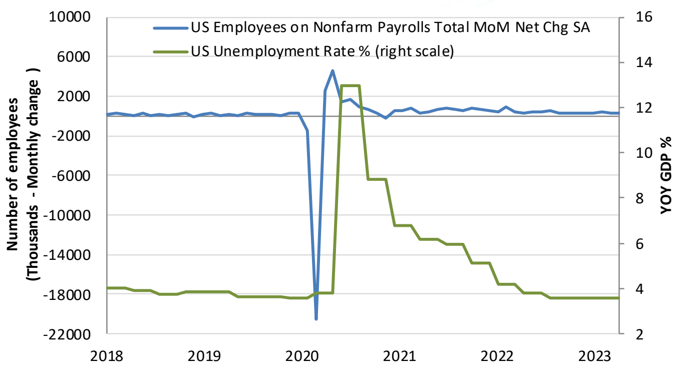


Graph sources: BearBull Group/Bloomberg

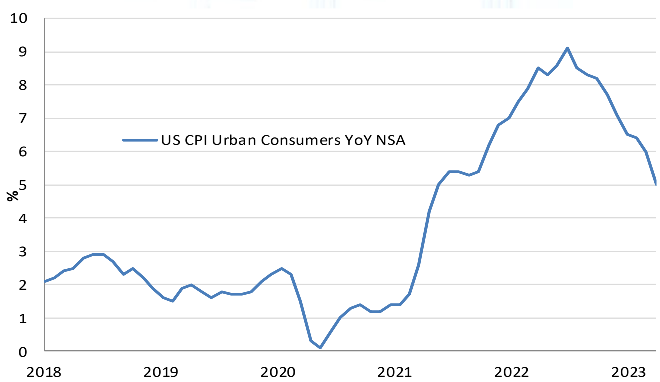
Unemployment Benefits in Thousands of Claims



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



Annual Inflation Rate USA 2018-2023



Unit Labour Cost (Employment Cost Index)

any systemic risk of contagion from the SVB bankruptcy, making the Fed's balance sheet jump by 500 billion, or about 6%, in a few days and thus putting an end to its QT strategy.

This latest episode of inflating systemic risks is still far from having developed all its effects in the medium term, but in the short term the result is clear: key rate expectations have massively readjusted to this new environment. Fed funds rates for December have fallen by 150 bps, with June Fed funds now below the current 5% policy rate, implying an expectation that the Fed will cut rates in the coming months already. This is now a new paradigm for monetary policy, which is perceived to have already reached its zenith and is close to an easing phase in the US. The Fed is now expected to refrain from raising rates before easing further, perhaps at the end of the year, if the economic slowdown proves to be more severe and deeper than expected.

Inflation will be below Fed funds in June

Reported inflation for March in the US fell from +0.45% in February to just +0.1% for the month, which implies a drop from +6% for the annual CPI in February to +5% in March. Inflation is falling significantly and is returning to an increasingly satisfactory monthly pace. The *price index* excluding food and energy is not yet showing the same momentum, but it remains at +0.4% on a pace of about +4.8% annual. Among the elements that are still resilient, we find almost exclusively the rents component, which is holding back the general downward trend somewhat.

However, it should be noted once again that this component is totally lagging, as it measures the overall level of all rents. It seems very likely to us that it will follow the already visible downward trend in prices observed in the new rents sub-segment. The expected gradual decrease in inflation to an acceptable level is therefore, in our opinion, still fully underway. Moreover, the evolution of producer price indices is already down by -0.1% (excluding food and energy). Inflation therefore seems to be following the expected trend and should soon fall back below the June Fed funds level (5%) and even below the September level (4.8%).

Yield curves adjust downward

Bond yields in the United States have adjusted extremely quickly to the change in the situation regarding the Federal Reserve's upcoming monetary policy. The bank failures of the last few weeks have directly and indirectly affected financing conditions and the psychology of savers. While the government and the central bank have reacted quickly enough to control the situation and avoid any immediate systemic type slippage, all the effects of this banking crisis are not yet really visible and may take time to materialize.

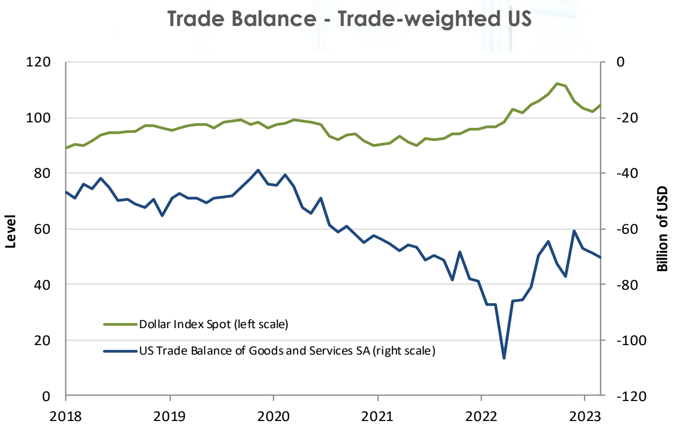
The central bank would be well advised to consider the risks that it may still represent on access to financing and on the indirect tightening of monetary conditions and therefore on the risks of a cyclical shock. We believe that this situation is conducive to the end of the QT and the rate hike cycle and that this will have a significant impact on the upcoming evolution of the US yield curves. A decrease in inflation (CPI) below +5%/year already in the second quarter seems very likely and conducive to a lowering of US Treasury rates below the current level of 4.7% (12 months), 4% (2 years), 3.6% (5 years) in the short term.

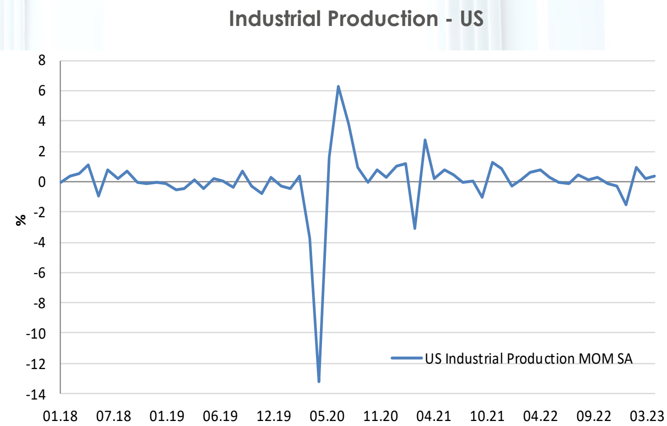
Graph sources: BearBull Group/Bloomberg

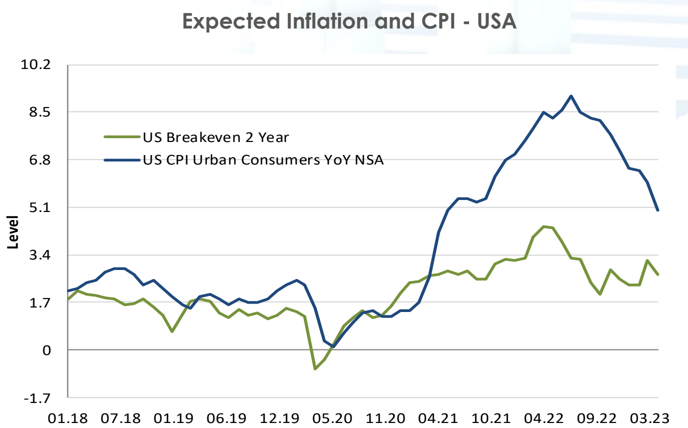
The slowdown in the economy and inflation will be the main factors in the change in perception of the shape and levels of the yield curves. Although they were largely inverted only a few weeks ago, we should soon see a general lowering of rates on the *short side*, contributing to an overall flattening of the yield curves. The outlook for dollar-denominated bond markets therefore seems favourable and sufficiently attractive to support a diversified exposure favouring investment-grade corporate bonds offering both an attractive yield and the prospect of capital appreciation.

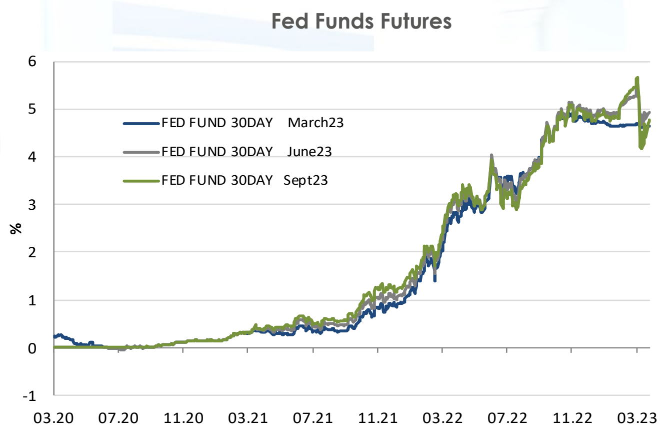
Further decline in the dollar forecast

The dollar was the big winner of the wave of interest rate hikes observed in 2022 and of the tightening of US monetary policy that began before most other central banks. The Fed's key rate hikes created a yield spread widening dynamic favourable to the US currency (+19.3%) until the fall of 2022. Since then, a loss of momentum in this dynamic has become apparent with the reduction of Fed rate hikes from 0.5% to 0.25% while other central banks maintained their 0.5% hikes. The contraction of the differential partly explains an already significant correction of the *dollar trade weighted index* (-11.5%) which should continue in the second quarter of 2023. US inflation will quickly fall back below +5%, causing dollar interest rates to fall. Interest in US assets will certainly remain sufficient to curb a weakening trend in the dollar, which should gradually lose momentum. However, the decision of some Gulf countries to accept oil and gas sales in yuan is a new long-term threat to the evolution of dollar demand that must be taken into consideration.



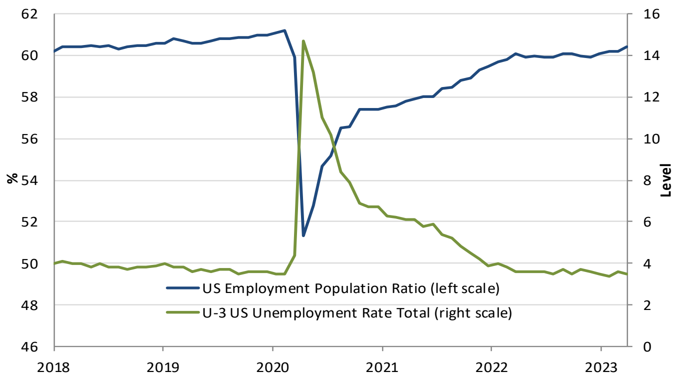




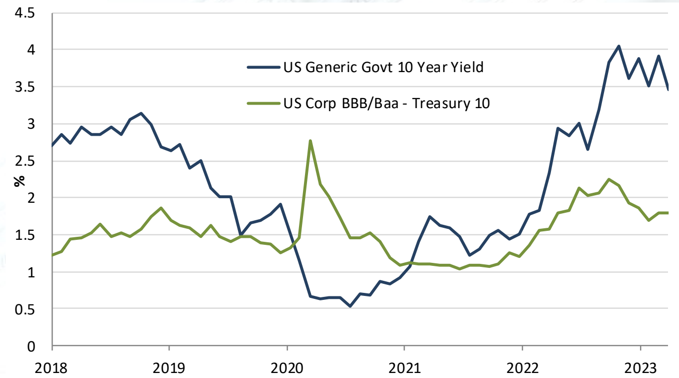


Graph sources: BearBull Group/Bloomberg

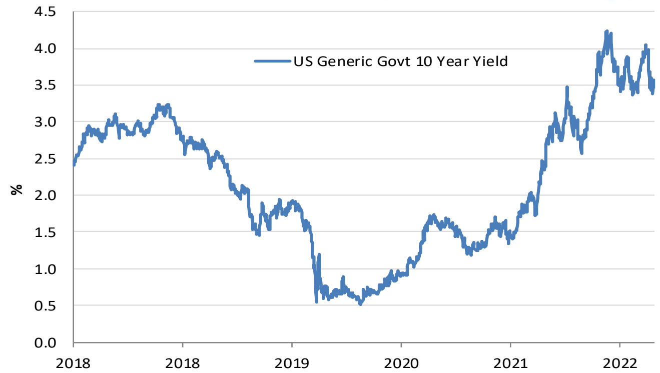
Unemployment Rate and Occupation Rate of the Population



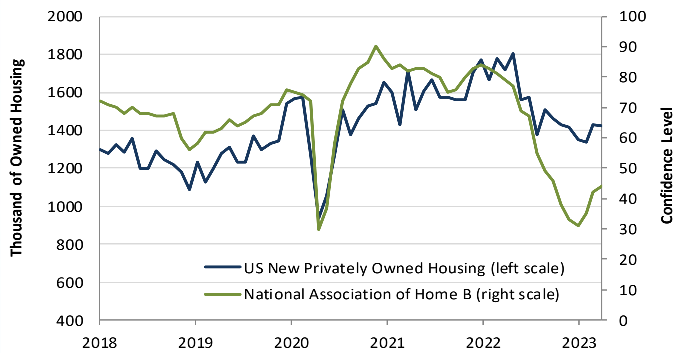
Yield Spread US Treasury-BBB 10 years



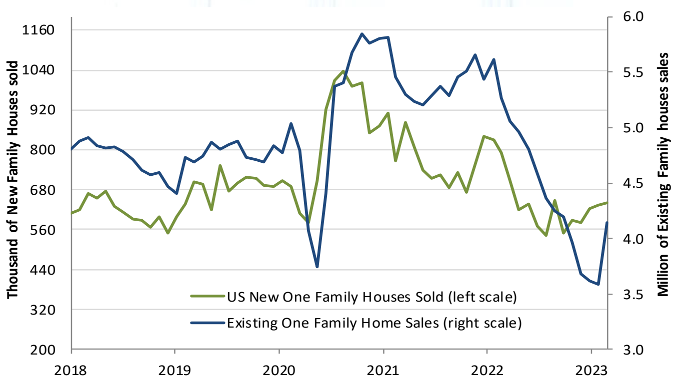
10-year US Treasury Bond Rate



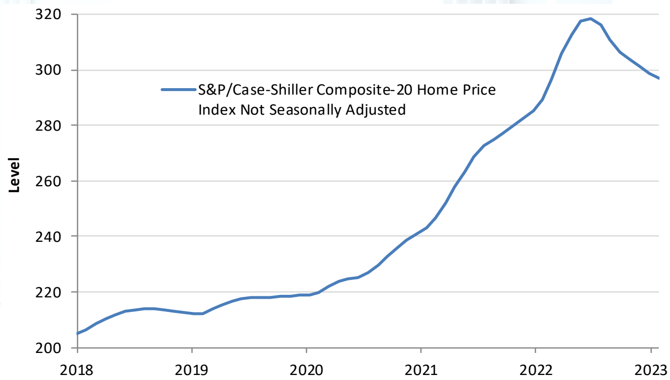
New Housing and NAHB US



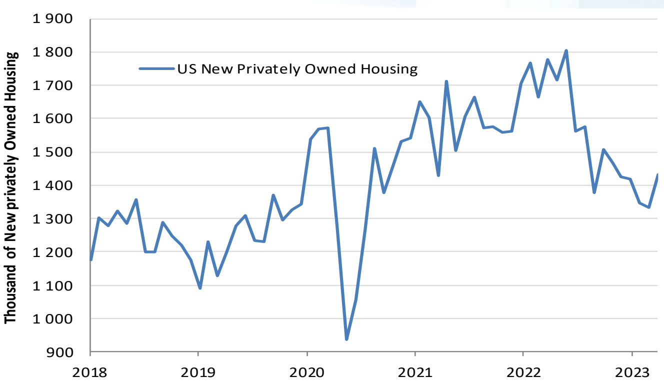
Sales of new and Existing Houses



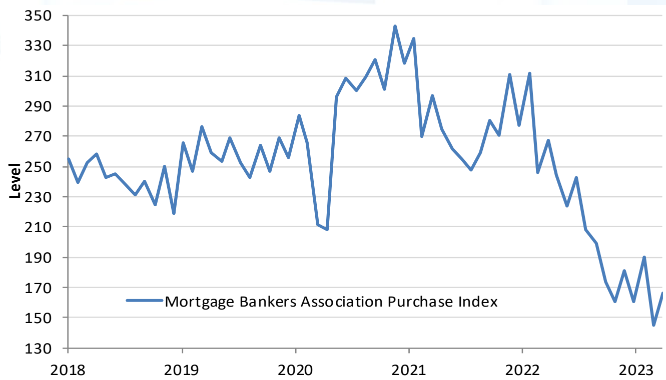
Property Prices S&P Case-Shiller Index



New Housing Starts



New Applications for MBA Funding



MACROECONOMIC SCENARIO

Switzerland

- Swiss economy stalls
- Domestic demand supports GDP
- Inflation falls back below +3%/year in March
- The SNB is expected to raise its key interest rates by another 0.5%

Swiss economy stalls

After a very slight increase of +0.2% in the third quarter, Swiss GDP stagnated in the fourth quarter (+0.0%). The Swiss economy thus slowed down at the end of the year under the pressure of a uncertain international environment. The manufacturing industry and exports are suffering from a more hesitant global economy. It is still domestic demand that is supporting GDP and enabling it to avoid a contraction. In 2022, the preliminary figures for Swiss growth suggest a slowdown in the solid growth recorded in 2021 from +3.9% to +2.1%. Taking into account the evolution of global inflation parameters, the evolution of restrictive monetary policies and the increase in financing costs in Switzerland and abroad, this 2022 GDP growth is still more positive than might have been feared. In the particularly difficult context marked in Switzerland by the negative impacts of the war in Ukraine and the rise of the Swiss franc, the Swiss economy may surprise by its relative stability. In our country, the economy seems to be much more resilient to the turbulence of all kinds that is appearing and threatening global growth.

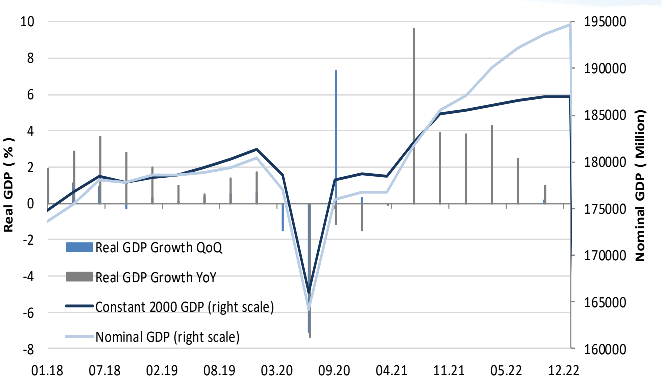
Since September 2020, the Swiss GDP will only have experienced a negative quarterly period of barely -0.1% in March 2021. The appreciation of the Swiss franc against the European currency in 2022has been a significant brake on the development of Swiss exports to the euro zone. Switzerland is resisting the difficult international economic situation, but is unable to escape the effects of declining external demand. The result for the last quarter is part of a series of quarterly GDP developments close to zero that are still insufficient to maintain annual growth close to the historical average. This performance was below the expectations of economists', expectations who were hoping for a slightly better economy in the fourth quarter.

As far as we are concerned, we were expecting this economic slowdown at the end of the year, and the slowdown announced several quarters ago continues to materialize quite logically in our country. However, the domestic components remained relatively solid and were little affected by the rise in inflation. We will see below what the main components that have influenced the evolution of GDP in recent months have been, and what the detailed outlook is for the coming quarters in 2023. In 2022, the Swiss economy has nevertheless suffered indirectly from the tense situation in Europe, particularly in the energy sector. Some catching-up effects were seen in the service sector and in private consumption, despite the rise in inflation. The outlook for 2023 will be affected by a still uncertain international economic environment, leaving little chance for Swiss GDP to grow significantly beyond +0.7%.

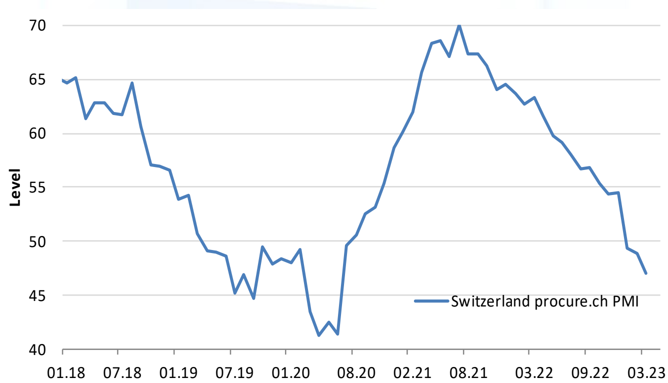
Domestic demand supports GDP

Despite an inflation level still above the SNB's target, domestic demand has actually resisted the negative effects of rising prices rather well. Final domestic demand grew by +0.5% in the fourth quarter, continuing the solid trend of the previous quarter. Growth was above average in capital goods investment (+1.7%), with vehicle sales in particular surprisingly strong thanks to improved supply chain conditions. Rising interest rates appear to have dampened the growth of construction investment (-0.5%). In particular, there was a sharper decline in the commercial segment, while residential construction held up well, resuming an upward trend after more than eighteen months of contraction. Household consumption was still in decline compared to the previous two rather strong quarters (+1.4%, +0.7%), but it still remains positive with an increase of +0.3%, slightly below its average. Growth in the services sector was positive, while the retail sector grew modestly, resulting in overall trade growth of +0.4%. Public consumption also contributed positively with a similar increase of +0.3%. Retail trade benefited from increased spending on housing, energy, travel and food. The trade sector thus recorded a further significant increase of +2.3% and is emerging from

Nominal GDP - Nominal and Real Growth Rates

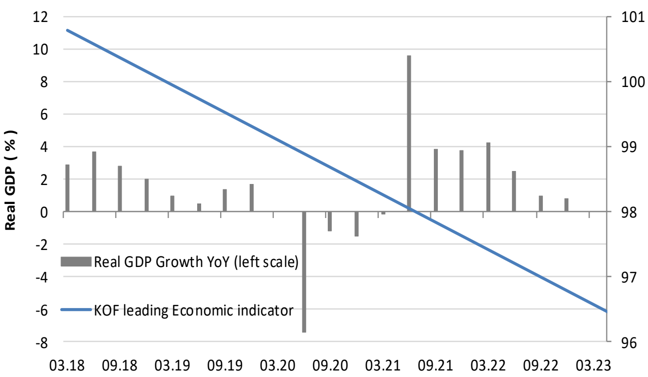


Swiss PMI Leading Indicator (Purchasing Managers)

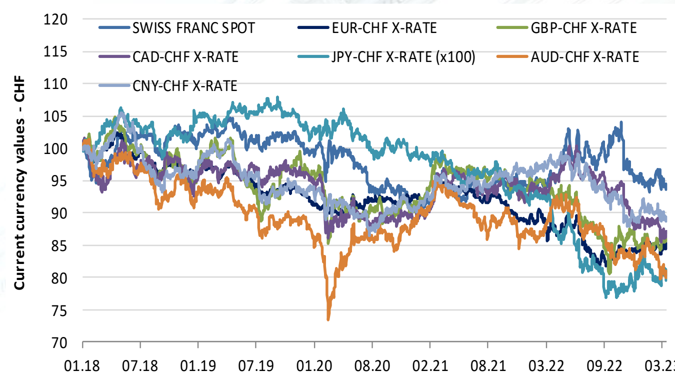


Graph sources: BearBull Group/Bloomberg

Real GDP - Annualised Growth - KOF Leading Indicator



CHF Exchange Rate (base 100)



On the services side, the financial sector, unlike the other sectors, suffered a contraction of -2.5% after a fall of -4.4% in the previous quarter. In manufacturing, the tighter international situation had a negative impact in Q4, with the sector contracting slightly by -0.3%. The chemical-pharmaceutical industry, which was more stable, continued its growth of the previous quarter and was still ahead by +1.7%. In the other sectors, there was a fairly generalized decline, which led to a further fall in exports of around -0.9% (-5.9% in Q3), while imports contracted by -1-1%. In January (+2.5%) the trend was positive, although down from the strong increase in December (+5.7%). Imports remained fairly stable during the same period, with increases limited to around +0.2%. The Swiss trade balance thus recorded one of its best results with a surplus of 5.08 billion francs in January 2023.

Leading indicators slightly more positive

At the beginning of 2023 the leading indicators offer some more positive signs. The KOF economic barometer has recovered somewhat and in February returned to its historical average of 100 after three consecutive months of increases. It reversed the downward trend that began in the spring of 2021 and rebounded significantly from its lowest level since 2015, excluding the pandemic in the second quarter of 2020. The rebound in the KOF leading indicator contrasts positively with the perceived risks and suggests a welcome improvement in the outlook for Switzerland. Activity in the manufacturing sector finally seems to be improving and is making a significant contribution to this result, but data in the consumer, export and financial segments are also developing favourably.

In the manufacturing industry, the situation is considered positive, particularly with regard to the evolution of order books and the competitive situation. But the manufacturing PMI indicators are not yet improving, as suggested by the latest drop to 48.9 in February. Consumer confidence published by SECO, however, suggests an improvement in sentiment, which has also rebounded from its extreme lows in December (46.5) to -30.2. The picture is also positive in the CS survey, which shows a very strong improvement in the perception of economic prospects in the rebound of its indicator from -40 to -12.3 in February.

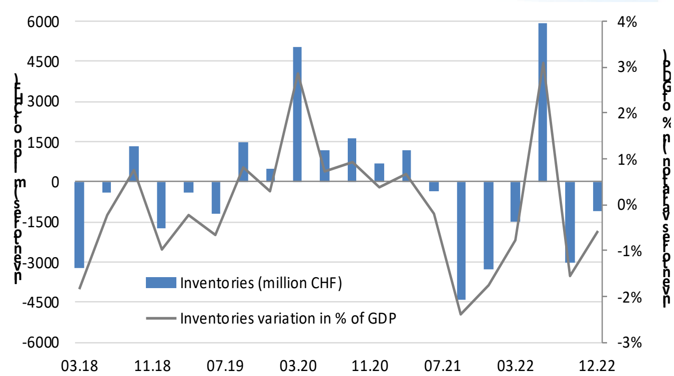
Overall, the leading indicators remain uncertain and do not yet point to a clear economic recovery in our country, although retail sales were slightly less negative in January (-2.2%) than expected and industrial production in December was up +6.0% in Q4 2022.

Inflation falls back below +3%/year in March

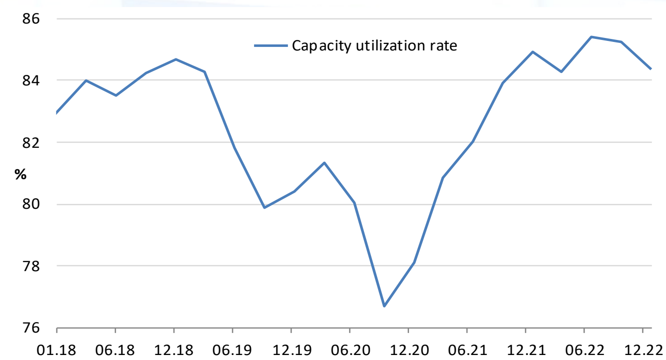
The recent evolution of inflation in Switzerland had surprised observers in January and February. The monthly increase of +0.7% in February was indeed higher than expected (+0.5%). The year-on-year increase of +3.4% was thus stronger than expected (+3.1%). The surprise came from the rise in airfares, travel prices, gasoline and rents. Inflation excluding food and energy was +2.4%, exceeding the SNB's target significantly for the first time. However, the reference interest rate for rental contracts remained unchanged at 1.25%, which should limit the contribution of rents to a further rise in inflation. The evolution of the Swiss franc against the euro and the dollar has not had a significant specific impact, so the currency factor has not contributed to containing the evolution of prices in our country in recent months.

The monthly inflation rate, which was around +0.7% until June 2022, had dropped to 0% per month by the end of December, giving rise to expectations of a significant improvement in price indices for the first half of 2023. The last two statistics published in January and February had logically revived uncertainties and the perception of risks of a resumption of inflation. However, the latest figures for March put the data from the beginning of the year into perspective once again, with CPI growth of barely +0.2%, allowing inflation (+2.9%) to fall below the threshold of +3% over one year in Switzerland.

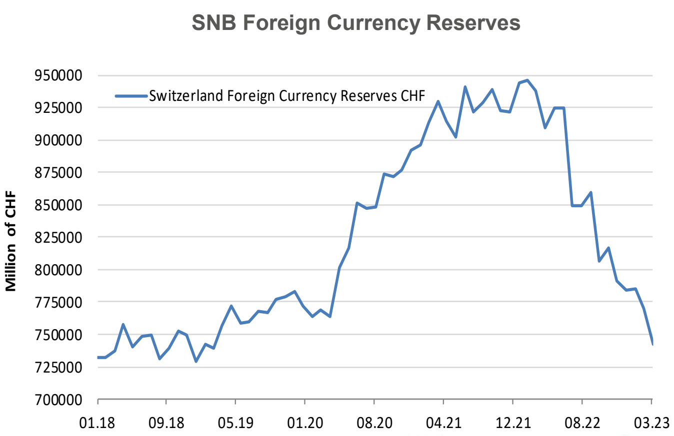
Inventories - Change in Stocks

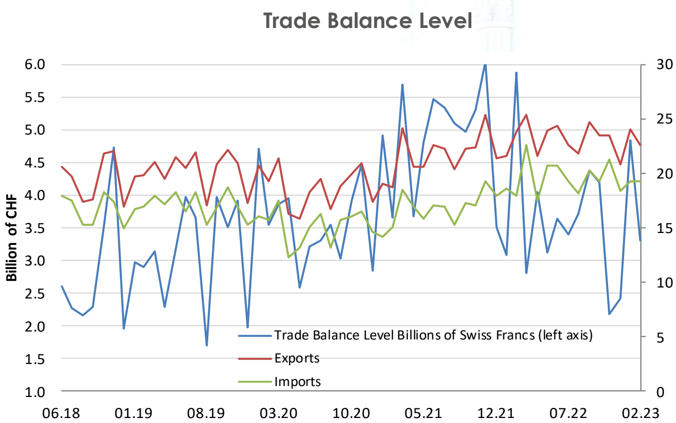


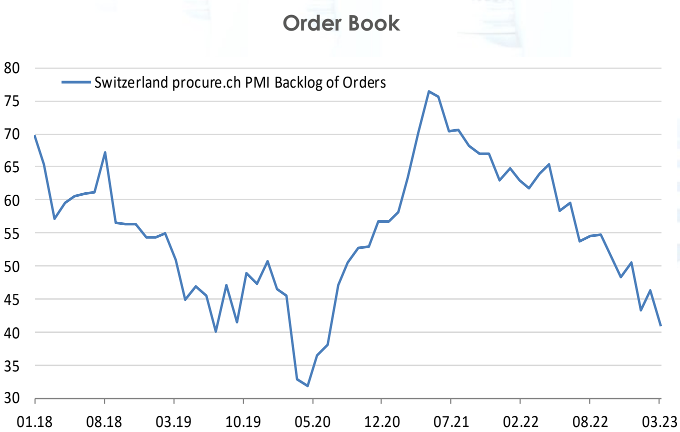
Capacity Utilisation Rate



Graph sources: BearBull Group/Bloomberg







In terms of producer prices, the situation improved further with a -0.2% decline in prices in March, lowering the year-on-year price increase from +3.3% to +2.7%. We believe that this development in March should help companies control their costs and margins. The stabilization of producer prices allows us to project a more positive outlook for consumer prices.

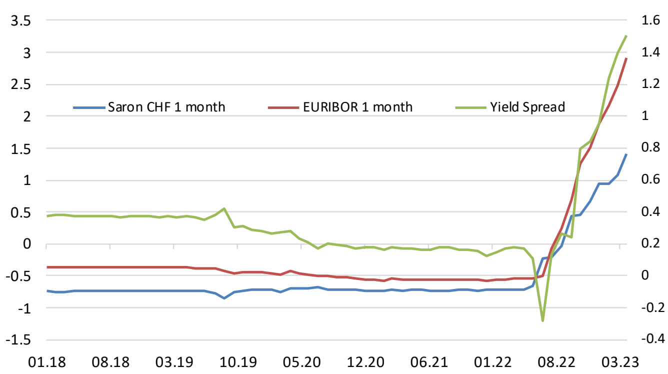
The SNB is expected to raise its key interest rates by 0.5%

Since the SNB's change in monetary policy on June 15, 2022, the Swiss central bank has been more focused on its historical primary objective of ensuring price stability in Switzerland than on steering the Swiss franc. An appreciation of the franc is now even considered favourable to the implementation of its inflation control policy. It has been acting with some firmness since June 2022, raising its key rates from 175 bps to 1% in December. It is likely to raise its key rates by a further 0.5% on 23 March at its next meeting, to 1.5%. It is also likely that it will decide on another similar increase in June to reach the 2% level that corresponds to its inflation objective. However, the latest inflation figures for February could raise fears of a higher resilience of inflation and push the SNB to act more significantly in March by raising the rate by 0.75%. However, we believe that the trend remains sufficiently uncertain for the SNB not to take an immediate risk of tightening too severely, which could prove to be excessive when economic growth is now at a standstill in Switzerland. In our opinion, the SNB should stick to its policy of a 0.5% increase and postpone the moment of the next inflexion.

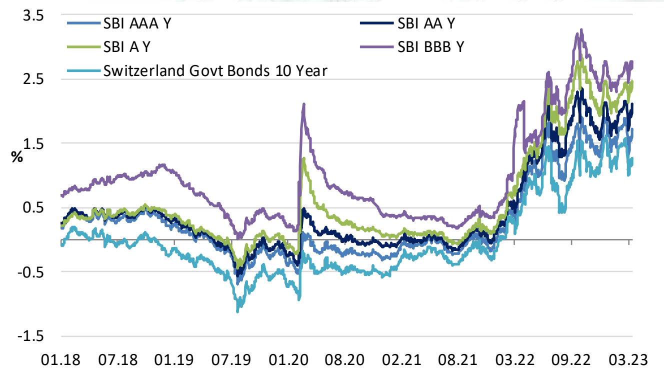
Spreads unfavourable to the Swiss franc

In most countries, monetary policies remain on the rise. The next rate hike by the SNB, but more likely the next two sequences of rate hikes, will not be superior to those implemented in the coming months by the FED, the ECB or the BoE. In particular, we believe that the SNB will not follow the same path of rate hikes as the ECB, which is facing a more dramatic inflation situation than Switzerland. The interest rate differential between the two currencies is therefore likely to increase permanently in favour of the euro. At present, the yield spread between the two-year federal government bond and the German Bund is still around 110 basis points, whereas it was close to zero at the beginning of the year. This observation is similar at the various points of the relative yield curve. It should also be noted that, compared to the situation in 2015, the current level is even higher than the one that allowed the euro to rise from 0.97 to 1.20 in three years. The franc should therefore weaken again against the euro.

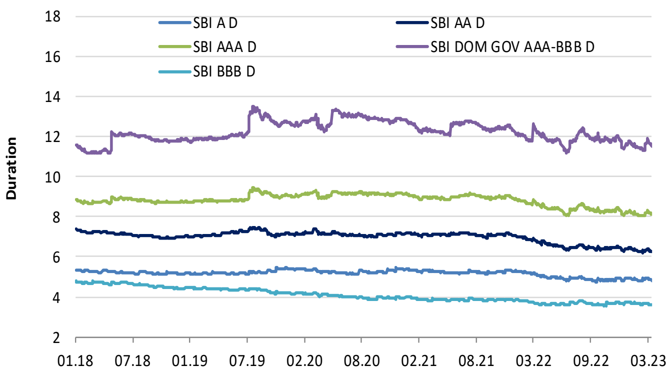
Saron/Euribor 1 Month Rate Differential



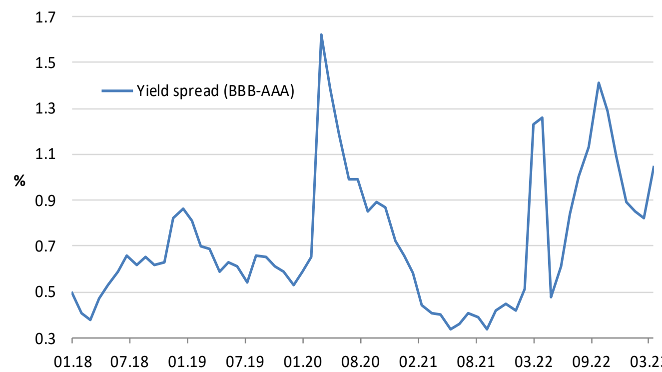
Interest Rate (Confederation, AAA, AA, A, BBB)



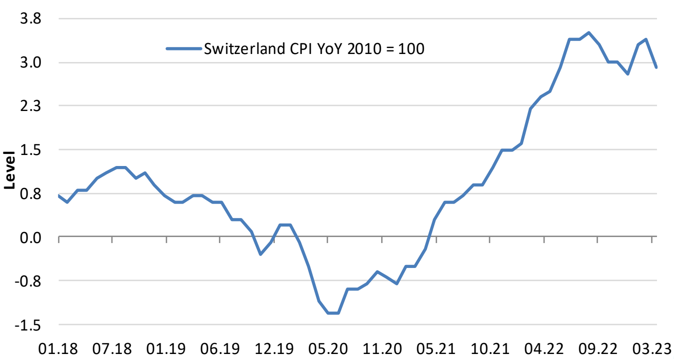
Duration of Swiss Bonds



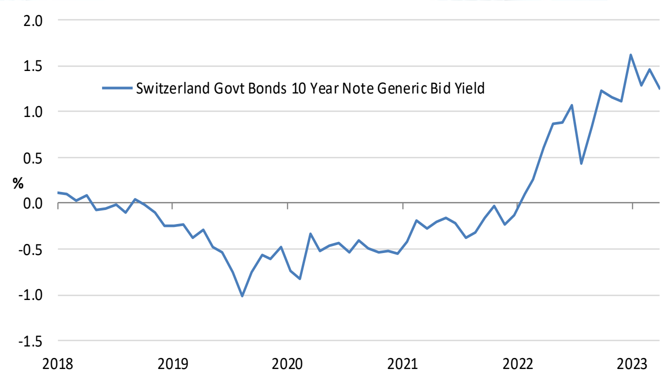
Yield Spread



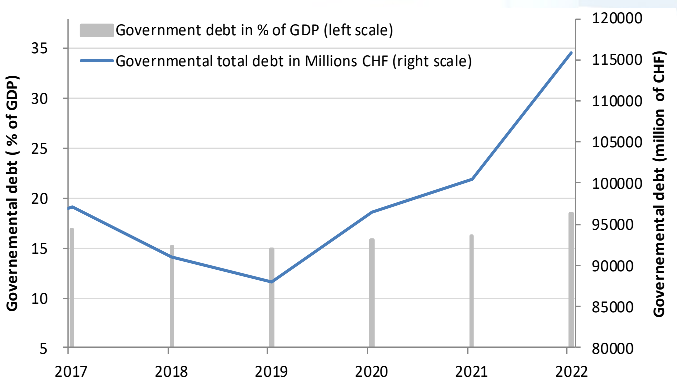
CPI Inflation



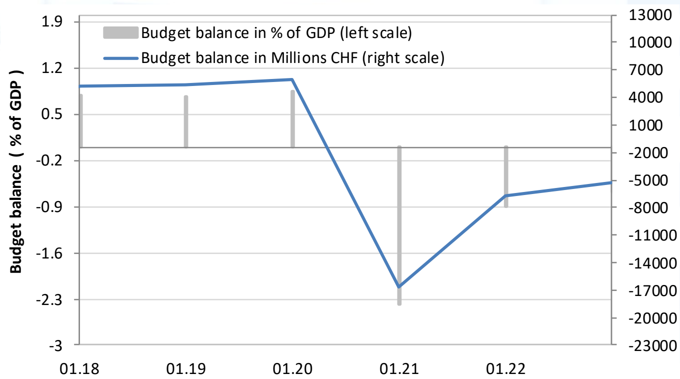
Federal Long Rates since 2018



Switzerland Government Total Debt



Switzerland Budget Balance



Graph sources: BearBull Group/Bloomberg

BearBull Global Investments Group

MACROECONOMIC SCENARIO

Eurozone

- European economy falters but avoids recession
- Limited economic contraction in the first half of 2023
- ECB reassures and raises key rates
- Euro likely to appreciate

European economy falters but avoids recession

For several months now, economic forecasts have been pointing to a clear slowdown in activity in the euro zone, which would necessarily be followed by negative growth and a recession. It has to be said that the eurozone economy still belied these expectations in the last quarter of 2022. However, it did not take much for the end of the year to be marked by a decline in the economy. Indeed, GDP only barely avoided contracting at the end of December, thanks in particular to government spending up by 0.7% and more positive foreign trade results thanks to a -1.9% drop in imports. However, consumer spending, which fell by -0.9%, did suffer the predicted decline linked to the fall in real household purchasing power, which was also accompanied by a decrease in investment spending (-3.65%). The stagnation of GDP (0%) during the quarter still suggests the possibility of a future recession with reduced effects. The resilience of the European economy, in the current context of a serious decline in real purchasing power caused by rising inflation, remains surprising.

The European economy is staggering under the weight of the -0.4% loss in value of its main economy. Germany recorded the most disappointing national performance of the major Eurozone member countries. Germany, in particular, suffered from a larger decline in private consumption (-1%) and investment (-2.5), while public spending supported domestic demand with an increase of +0.6%. France's ended the quarter with a modest increase (+0.1%) with a result close to Spain (+0.2%), Italy (-0.1%) and Portugal (+0.3%). Among the main countries of the Eurozone, the Netherlands recorded a significant higher dynamic thanks to an advance of +0.6%. The economic result of the European Union was slightly worse, with a drop of -0.1% in GDP.

Limited economic contraction in the first half of 2023

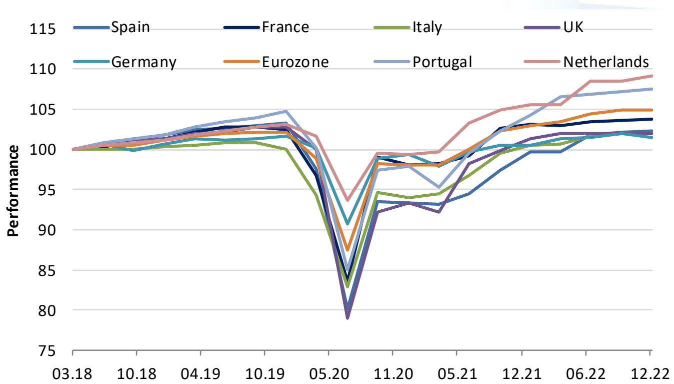
The economic surprises were therefore rather positive during the last quarter and the beginning of the year did not cause any significant reversal of the situation. The growth outlook for the year as a whole therefore looks slightly less pessimistic (+0.5%), while the 12-month recession risks have decreased to only a 50% probability. Expectations for Q1 2023 suggest a limited contraction of -0.1% followed by a second quarter decline of -0.2%. The euro zone should therefore enter a recession in the first half of the year without suffering a severe contraction of its GDP.

The ECB maintains its more optimistic forecasts for the evolution of the GDP and maintains its objective of +1% growth in the euro zone for the whole year and +0.1% in the first quarter. The +0.7% increase in consumer spending will be the main support for this growth according to the ECB. Industrial production in the euro zone surprised favourably in January with a rebound of +0.7% after a weak December. However, the still volatile monthly data does not allow for the detection of a real positive trend, but the sector is still showing resilience that could contribute positively to the overall result for the quarter. The rebound in activity in Germany of +1.8% contrasted with declines in production in France (-1.9%), Spain (-0.9%), Italy (-0.7%) and the Netherlands (-4.3%). The next few months could be supported by the recovery in China and lower energy prices.

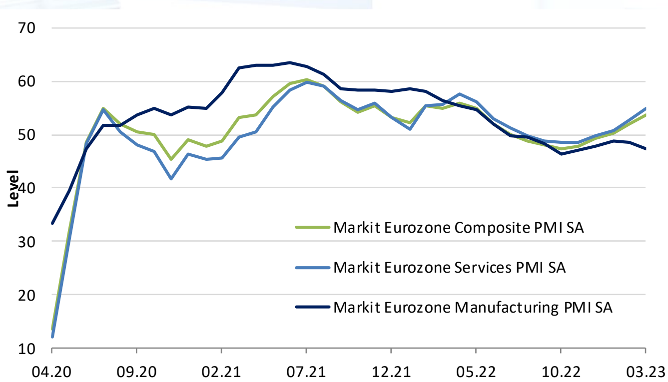
Leading indicators supported by services

In contrast to the slightly more positive developments in the industrial sector in Europe, the manufacturing PMIs are still showing signs of weakening momentum ahead. The leading manufacturing PMI indicators for the Eurozone have indeed fallen again to 48.5, still below the growth threshold, after a few months of stabilization.

GDP Growth —Eurozone

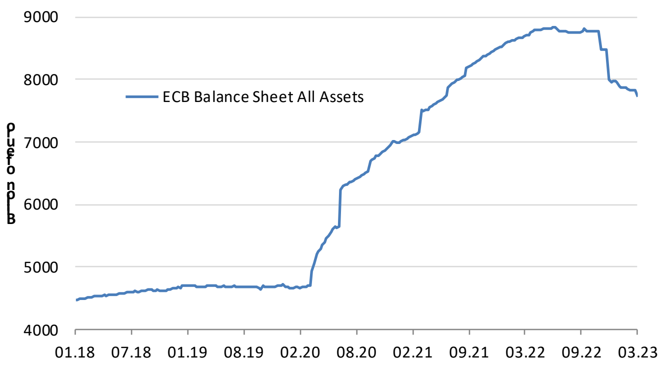


Manufacturing, Service and Composite PMI

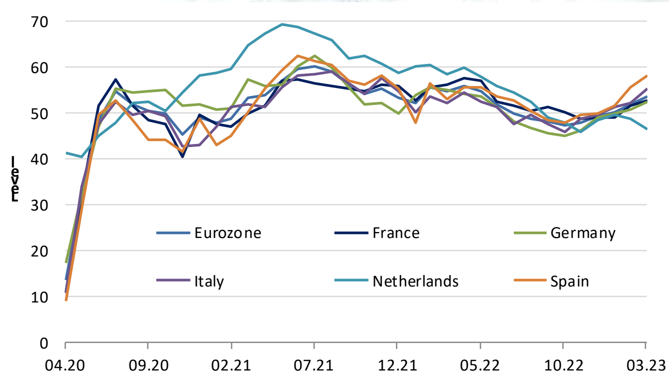


Graph sources: BearBull Group/Bloomberg

ECB Balance Sheet



PMI Composite - Country



Despite a slight recovery between October 2022 and January 2023, this new decline still suggests a difficult situation for the manufacturing sector, which has been suffering for nearly nine months now. The trend is clearly more favourable in the services sector, with the PMI asserting itself a little more in March and moving more seriously into the growth zone by rising from 52.5 to 55.6. The composite PMI thus advances a little more from 52 to 54.1 clearly in the growth zone at the end of March.

The positive trend in the services PMI suggests that the eurozone economy is resisting the effects of inflation and rising interest rates at the beginning of the year. On a regional level, France also seems to be doing better than Germany. General sentiment has improved with the sharp reduction in energy supply risks, with the worst case scenario envisaged for the current winter after the start of Russian intervention in Ukraine now averted. The decline in inflationary pressures, although still limited, is also contributing to this development. There have also been significant improvements in delivery times affecting supply chains.

European households remain worried

Household confidence for the month of March shows no tangible signs of improvement after the recovery seen since September. The European Commission's indicator is still particularly gloomy (-19), although it has clearly recovered from its September low (28.7). The main concern remains the evolution of prices and in particular energy costs, which are having a dramatic impact on household purchasing power. Households are still concerned about the CPI despite the beginning of a significant deceleration. After a significant contribution to the positive evolution of GDP in Q3, consumers seemed more concerned at the end of 2022, and at the beginning of this year, retail sales have notably slipped by -2.3% in January over one year despite a slight increase of +0.3% over the month in the euro zone. Nevertheless, consumer expectations for inflation in the medium term (3 years) have dropped from +3% to +2.5%. Beyond consumers, these concerns are also shared in economic circles. The *Sentix index* measuring confidence in both industry and services also marks a pause in its recent less pessimistic adjustment phase. These persistently low confidence levels are likely to influence economic performance in the coming months and also suggest a very uncertain economic environment in early 2023.

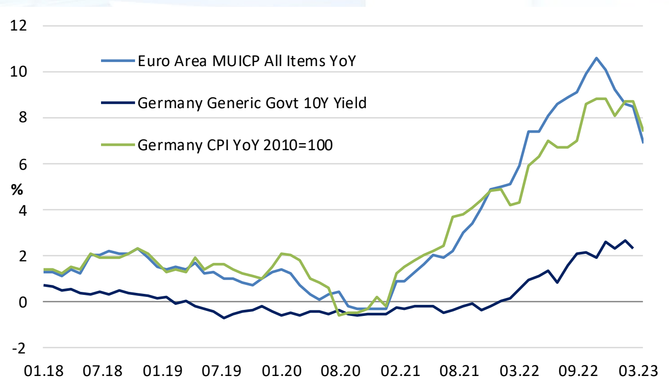
The services sector is holding back a net decline in inflation

The energy segment has made a clear contribution to the decline in inflation in Europe over the past several months, with a negative contribution and a significant drop in weight. This is also the case, to a lesser extent, for the food component, which is stabilizing but remains the main component of the overall price increase. The CPI benefited from several monthly declines in inflation between October and January before being hit by the +0.8% rebound in prices in February. The trend remains encouraging on a year-on-year basis, with inflation expected to slip below +8% soon. However, domestic factors remain tense and are holding back a sharper decline in inflation, which, excluding food and energy, is still rising and reached +5.6% on an annual basis at the end of February.

Headline inflation in the euro zone is still far from easing enough to change the ECB's monetary policy. However, it seems to be pointing in a sufficiently favourable direction to allow for a slight improvement in household confidence. Moreover, the -2.8% drop in producer prices in January is a positive factor that could have a positive impact on the level of consumer prices. After having literally exploded by +43.2% in August 2022, the current level of +15% is already a convincing element.

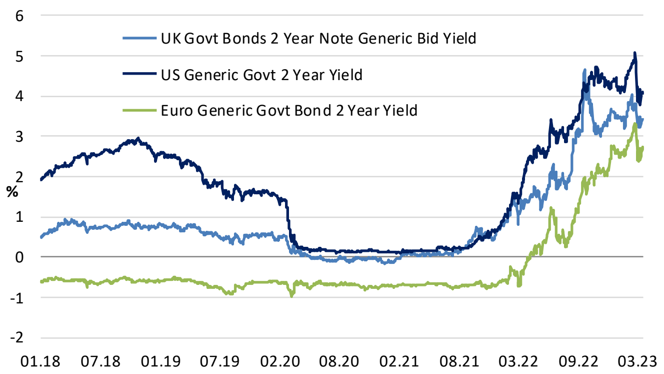
Citigroup Economic Surprise Index - Eurozone

10 year Government Bond Yield - CPI

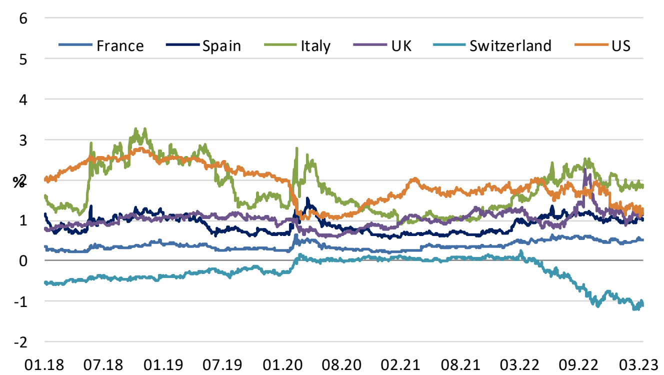


Graph sources: BearBull Group/Bloomberg

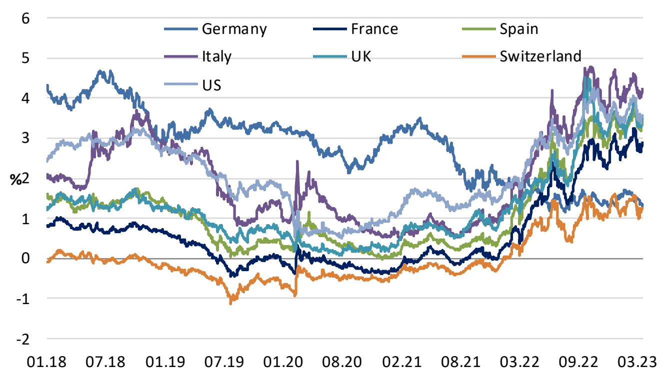
2-year Government rates (US, Euro, UK)



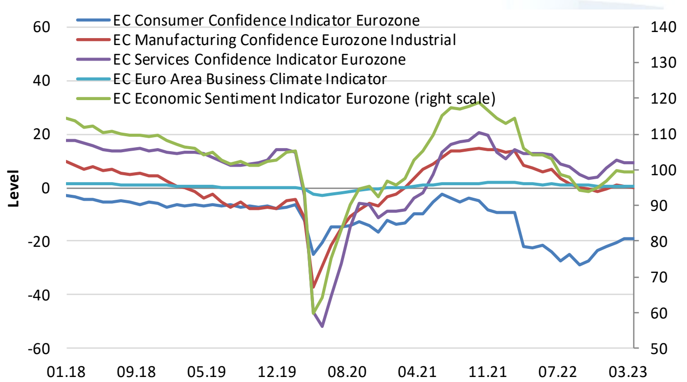
Risk premium — Government vs Bund



10-year Government Bond rate



Confidence in Europe (Economic Confidence Index)



Reduction of the trade deficit in Europe

According to Eurostat, the European Union's seasonally adjusted trade balance improved slightly in January, with the adjusted deficit falling from 19.3 billion in December to 14 billion in January. The breakdown by country still shows a German surplus of 15.4 billion representing the bulk of the positive components. Italy also contributed positively with a surplus of 3.9 billion, followed by Denmark (1.9 bn) and Sweden (1.8 bn). The Netherlands was the largest national deficit with a result of 19.1 bn. The EU recorded surpluses with the United Kingdom (9.2 bn), the United States (6.7 bn) and Switzerland (4.2 bn), and large deficits with China (29.9 bn), Norway (7.9 bn) and Russia (5.2 bn), mainly due to energy imports. In February, Germany saw its exports to other countries outside the EU increase by 6.1% year-on-year, with a sharp rise to the United States (+19.4%), while those to China fell by -12.4%. The recovery of exports to emerging countries was also one of the highlights of this period, which saw a clear recovery in the direction of Turkey (+37.9%), Brazil (+33.8%) and India (+20.3%) at the expense of exports to Russia, which fell by -60.1%. The +2.1% increase in exports in February and a -3.4% contraction in imports should also benefit the gradual improvement of German and EU foreign trade.

ECB reassures and raises key rates

The ECB raised its key interest rates again in March, noting, among other things, that the inflation outlook was still too high and that the expected decline was indeed taking place, but at an insufficient pace. It also stressed that the high degree of uncertainty required a flexible policy linked to the constant evolution of available data. In other words, the ECB confirms that it will make assessments of the inflation outlook, taking into account a broad spectrum of economic and financial information to adjust its policy. This rate hike came in the midst of a period of doubt about the stability of the financial system that has not spared Europe. The Governing Council reassured that it was monitoring the situation very closely and that it stands ready to take the necessary measures to safeguard both price and financial stability in the euro area. The ECB views this crisis as serious but not systemic.

The ECB expects the economy to strengthen with a recovery in industrial production supported by improved supply conditions and a recovery in confidence. Rising wages and falling energy prices should partially offset the loss of purchasing power, thereby supporting consumption. The last rate hike of 0.5% brought policy rates to 3.5%, but it seems that the final target of 4% is still far from the rate that will mark the end of the current monetary tightening cycle.

The inflation forecast for 2023, which is well above this level, should be puzzling. The ECB is behind the inflation cycle and despite its more assertive rhetoric, we believe it will have to adjust its policy rate level several more times before it actually has a sufficient impact on prices. Despite the recent change in the expected rate projection for December, we believe that the ECB will make two or three more rate hikes.

Euro bond yields decorrelated

With the end of the restrictive monetary policy in the United States in sight, the next moderate rate hikes by the ECB should reduce the rate differential currently very favourable to dollar investments. The yield spread in the major capital markets between dollar and euro yields should follow the same path. U.S. Treasury yields have a good chance of stabilizing around the current 3.5% level before a further decline, probably driven by lower inflation, materializes.

Graph sources: BearBull Group/Bloomberg

In Europe, German government yields are still below 2.5% for an inflation level that is much higher than in the US. In recent months, the international bond markets have remained relatively correlated, but we now believe that this correlation is likely to decrease significantly. We have certainly already seen the peak of the US rate cycle a few months ago, while the top of the euro yields is still ahead of us. The next few weeks will see a return of decorrelation between some capital markets and the US market. Ten-year German Bund yields were rising to new highs in early March prior to the banking crisis before taking advantage of an investor rush to safe havens. But with the crisis behind us, we believe that euro yields will start to rise again quickly. An increase of 100 basis points is not excluded on all maturities, while the yield curve is practically flat between the two-year and ten-year maturities.

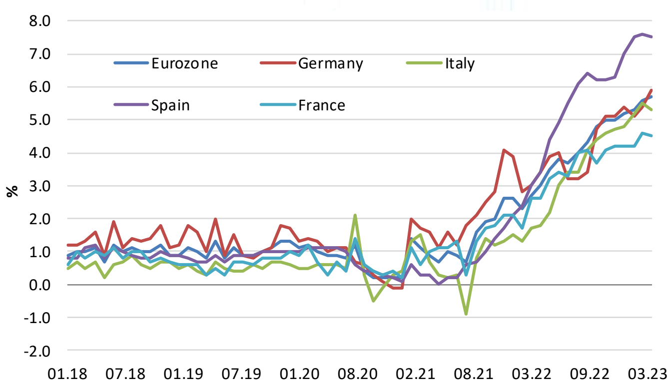
The European capital market presents greater opportunities and risks, and in the above-mentioned context any risk of a rise in market yields may have different consequences depending on the quality of national debtors. This is no longer the time for yield pick-up strategies, but for managing the risk of capital losses.

Euro likely to appreciate

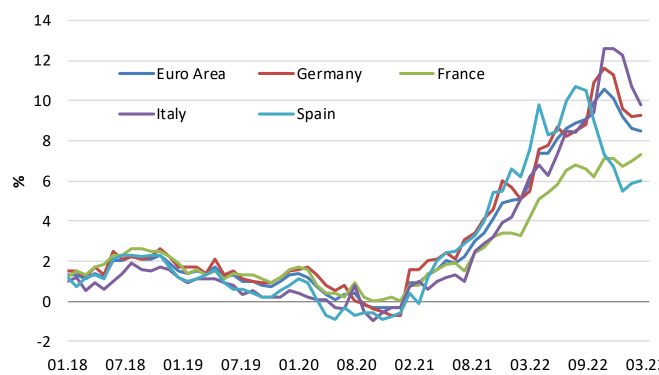
The next evolution of European monetary policy will certainly be the most restrictive of the major central banks. Market expectations for the level of policy rates marking the end of the current monetary tightening cycle will continue to evolve in the coming months, but our six-month expectations are now 4.75% in the US (currently 5%) implying a 0.25% cut in Fed Funds in September. In the Eurozone, the ECB raised its main policy rate by 0.5% to 3.5%. The markets are now anticipating three more 0.25% hikes during the May, June and September meetings. We are concerned that the expected path of inflation in Europe will continue to disappoint and justify higher yields for longer.

In the short term, the euro capital markets will logically have to adjust to the rise in short-term rates by a gradual increase in yields across all maturities. This adjustment phase should therefore reduce the yield spread that is currently less favourable to euro investments. This environment should support an appreciation of the euro for a few months. Our outlook for the next quarter is favourable for the European currency against the dollar, the Swiss franc and the yen.

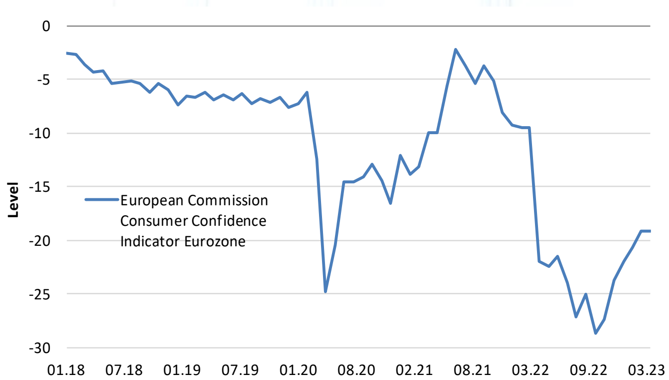
Eurostat CPI - Core Inflation (Eurozone, YoY)



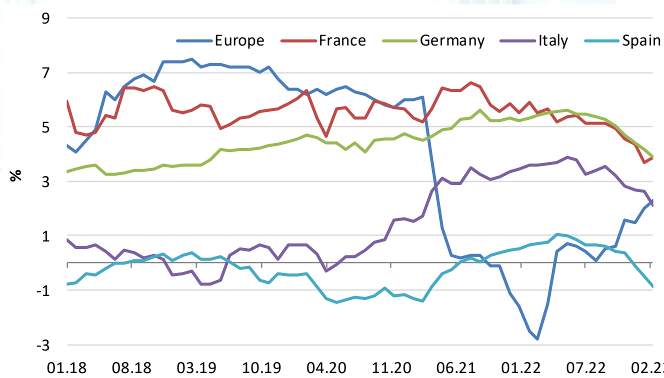
Eurostat CPI - all Items (Eurozone, YoY)



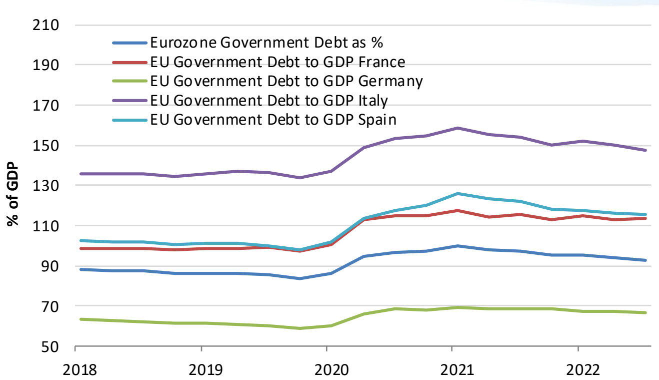
Consumer Confidence - Eurozone



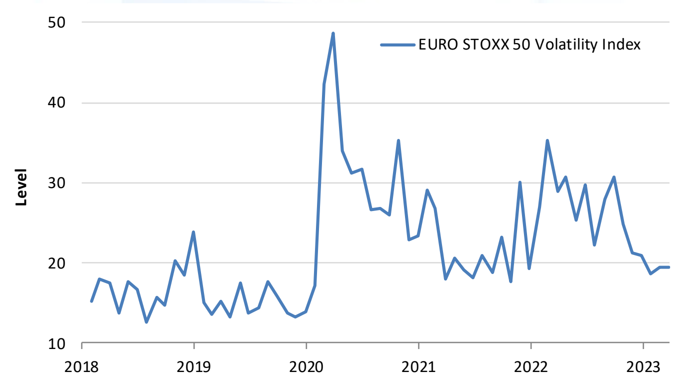
Loans and Credits to Households (Eurozone - YoY)



Government Debt



Volatility Indicator - Eurozone



Graph sources: BearBull Group/Bloomberg

MACROECONOMIC SCENARIO

United Kingdom

- UK economy moves closer to a recession
- Q1 2023 could still be resilient
- Temporary boost to inflation?
- The Bank of England is now in a holding pattern
- Rates are also adjusting on the bond market

UK economy moves closer to a recession

British GDP finally slipped by -0.4% in the 3rd quarter and ends the last three months of 2022 on a perfect stagnation of the economy. With 0% growth in Q4, the British economy is therefore practically in recession at the end of 2022. The outlook for Q1 2023 is again negative, the expected contraction of -0.3% at the end of March would confirm the country's entry into recession. This result for the last quarter of 2022 causes a drop in growth over a year from +1.9% at the end of September to just +0.4% at the end of December. The consumption increased very slightly (+0.1%) during the last three months, as did government spending (+0.8%). The -1% drop in exports and the +1.5% rise in imports weighed on the overall result. The end of the year was difficult as we expected for the British economy, marked in particular by a decline in disposable household income. However, it benefited indirectly from the exceptional vacations linked to the funeral of Queen Elizabeth II. In monthly sequences, there was a clear weakness in December, marked by a -0.5% fall in monthly GDP. This decline appears to have been driven by a decline in services, which fell by 0.8%. The decline is clear in the consumer services segment, which sank by -1.2% and remains well below (-9%) its pre-pandemic level. This is not an encouraging result for the beginning of 2023 and may be the last before a sharper decline in activity. Inflation and interest rate developments are gradually affecting monetary conditions and household health. The outlook for the UK economy looks bleaker than the GDP figures currently show.

Q1 2023 could still be resilient

The leading PMI indicators reacted rather well in January and February, while the monthly GDP for January already recorded a surprising +0.3% increase. The services sector was the most important contributor (+0.43%) along with education (+0.15%), while construction (-0.1%) contributed negatively to the result. The outlook for the first quarter remains gloomy, however, as it is largely marked by negative statistics in the employment market, the real estate sector, foreign trade, industrial production, inflation and the cost of credit. This good result for the month of January should therefore not be transmitted with the same vigour throughout the quarter. However, the economy is showing surprising resilience, which could continue if household consumption proves more robust.

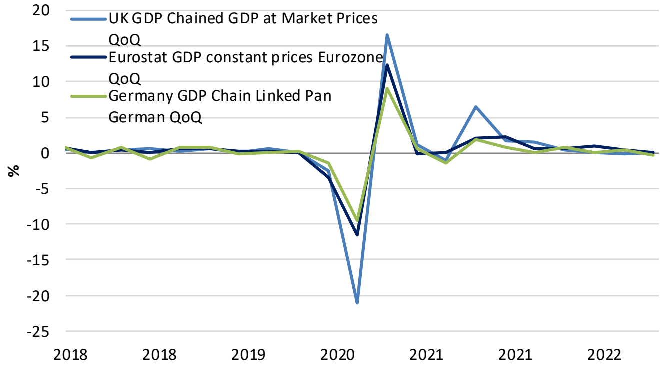
The economic environment in the UK therefore appears surprisingly resilient despite tighter monetary conditions and falling household disposable income. We believe that a recession is still likely, but that it could ultimately have relatively limited effects in 2023. Our GDP growth forecast for the year is adjusted to -0.5%.

Leading indicators still mixed

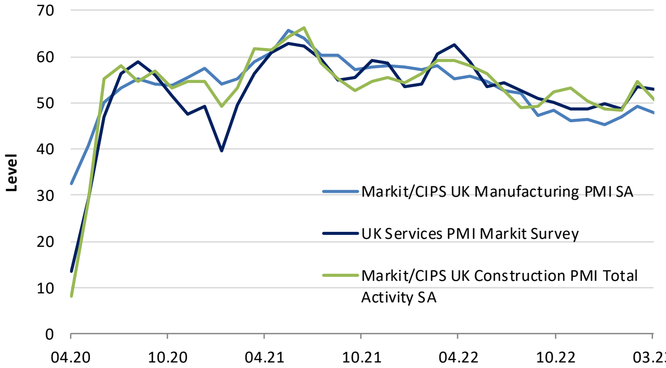
The decline in leading indicators has stopped since the end of December to show a significantly better trend in early 2023. After reaching a worrying point of 45.3 in December, the rebound of the manufacturing PMI in the first two months of the year brought it close to the growth threshold in March (47.9).

The decline in the services PMI was more recent, but the March rebound to 52.9 is encouraging. The March rebound to 52.9 is encouraging, as it marks the shift from contraction to growth with a rebound from 48.7 to 52.9. The construction segment had also jumped from 48.6 to 54.6 in February before showing a weak phase again in March (50.7). We believe that this was not a sustainable recovery, but rather a temporary boost in confidence among economic agents in February. In March, real estate prices declined by another -0.8% in conjunction with the drop in consumer confidence. The latest leading indicators published in March are therefore once again in decline for the manufacturing segment (48) and for services (52.8), presaging a further uncertain end to the quarter.

Quarterly GDP Growth - United Kingdom

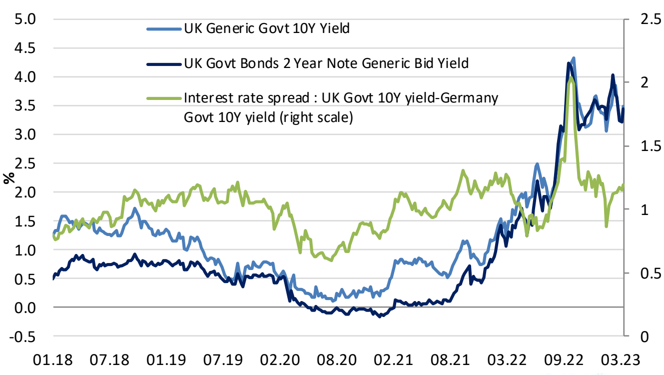


PMI Indicators (Manufacturing, Services, Construction)

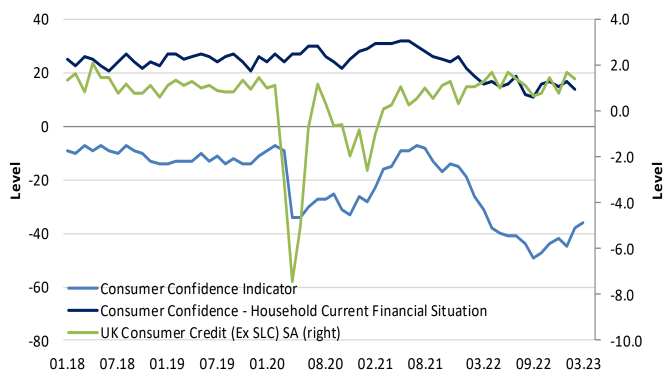


Graph sources: BearBull Group/Bloomberg

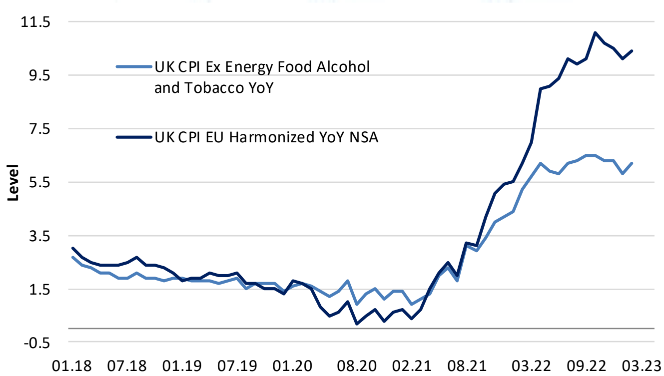
Government Rates (2yr-10yr)



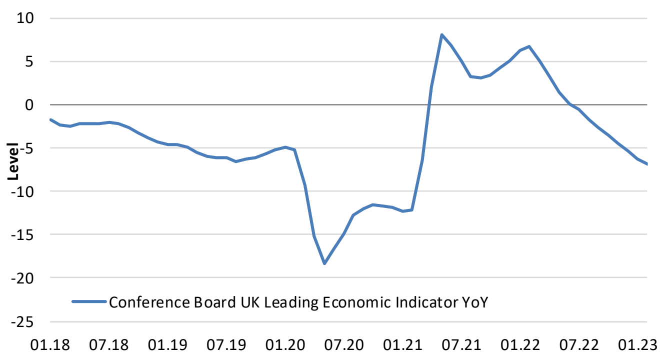
Household Confidence



Inflation CPI



Leading Indicator



Job market still resilient

The labour market remains resilient as the unemployment rate remains relatively unchanged at 3.7% and still shows no signs of changing trend. Employment growth was strong in February, with 98,000 new jobs created, corresponding to the largest increase since September 2021. This momentum seems to further underline the resilience of the labour market in the face of the growing challenges facing the British economy. The labour market is resilient in the face of 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, quarterly average wage growth has declined slightly but remains up +6.5% year-over-year at the end of January. Nonetheless, it would appear that wage growth peaked in Q4 and is now slowing. The private sector is growing at a significantly lower rate (3%-3.5%) and could reassure the BoE, which is still concerned about the possible transmission of wage growth to inflation. The reduction in this risk will only be very gradual and probably not sufficient in the eyes of the central bank for it to change its policy for several months.

Household confidence has improved

The household confidence indicator (GFK) has now been gradually improving for six months, but it is still very depressed and well below its pre-Health Crisis level. Sentiment has improved, however, in the absence of a collapse in labour market conditions. Retail sales surprised analysts with a much better than expected result. Growth of +1.2% in February, following a revision of January's momentum to +0.9%, may suggest positive behaviour for the quarter as a whole, which would support a more positive GDP growth outlook than estimated at the beginning of the year, as retail sales account for one third of household consumption. The decline in energy prices and government support contributed to this perception and these developments. The contraction in household purchasing power, which is heavily impacted by inflation outpacing wage growth, nevertheless strengthened in February. The rebound of the *consumer price index* by +1.1% in February after a -0.6% drop in January could therefore again penalize household confidence in March.

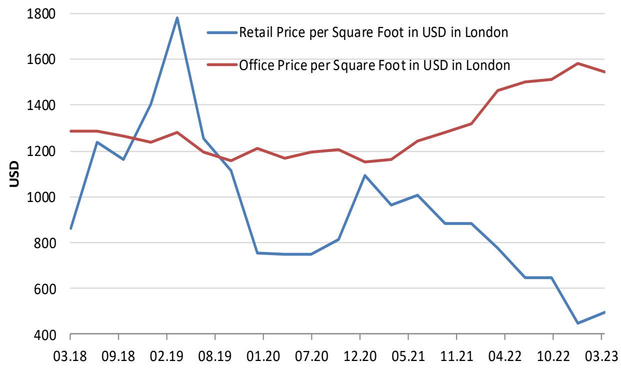
Temporary revival of inflation ?

The inflation figure for January suggested a slowdown in price growth in the UK, but the rebound of +1.1% in the CPI in February and +1.2% in the *Retail Price Index* (RPI) suggest otherwise. Annual inflation is back to +10.4% (CPI) and remains close to its October high (11.1%). On the retail side, the picture is similar, with inflation reaching +13.8% and showing no real signs of deceleration yet. Producer prices are also up by more than +10% year-on-year, but are clearly declining since the extreme level of +19.9 in July 2022. The measure of inflation excluding food and energy thus rose once again, from +5.8% to +6.2% in one month. Services inflation, which is particularly monitored by the BoE, also advanced from the previous month from +6% to +6.6%, again approaching its December peak.

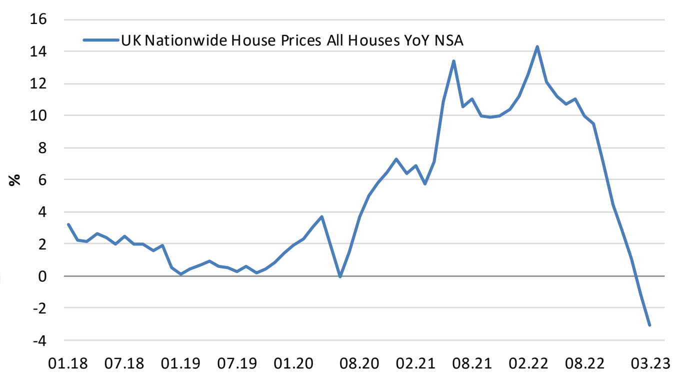
These elements will not be viewed favourably by the British central bank, which had hoped to be able to change its policy by marking a pause that has now been called into question by these latest worrying developments. Indeed, while the evolution of commodities over the last few months and in particular the declines in oil and gas prices are favourable to a reduction in the pressure on global indices, the trend in services remains too clearly upward. A more significant British economic slowdown than the one that seems to be taking shape is clearly essential to reduce the level of household consumption of services.

Graph sources: BearBull Group/Bloomberg

Real Estate Prices per m²



Growth in Real Estate Prices



The Bank of England is now in a holding pattern

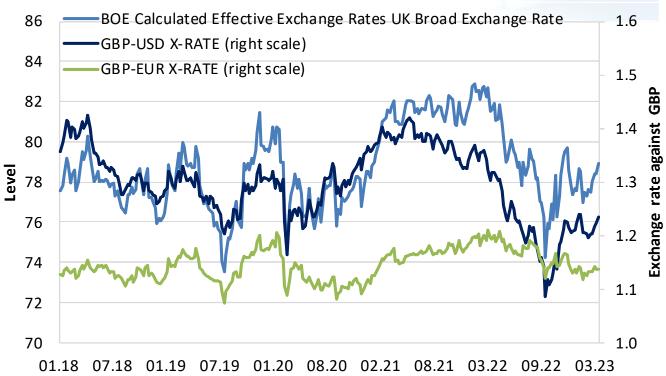
The U.K. central bank has in retrospect raised its policy rates relatively quickly at a similar pace to the U.S. Federal Reserve. It was the first to decide to raise rates in December 2021, before being joined in its restrictive action by the Fed. However, after eight additional hikes in 2022 and two more in 2023, it will not have succeeded in curbing the upward trend in prices. With the policy rate now at 4.25%, the BoE is now significantly behind in its fight against inflation, having perhaps over-optimistically assessed the likelihood of an economic slowdown and its potential positive effects on the price level. The British economy is indeed taking time to slow down and is avoiding the recession that the BoE would like to see in order to curb price increases. The fall in energy prices seems insufficient and wage trends do not clearly show a clear trend, allowing us to envisage a more serene decline in services inflation. The BoE finally raised its key interest rates by 0.25% on March 23rd, in the face of continued strong consumer behaviour in the UK. Despite what appears to be one of the most severe contractions in purchasing power, households are resisting and consuming.

The monetary policy committee should, however, take into account the recent risks posed by the turbulence in the international banking system since the collapse of the SVB and the takeover of Credit Suisse by UBS. While price stability is one of the main objectives of central banks, the BoE is likely to take a little more seriously the higher risks of instability in the international financial system caused by the new rate paradigm, even if it seems to want to defend itself against it. It will certainly be the tightening of credit conditions associated with this instability that should convince the committee to choose the status quo from now on. The rate hike had already put pension funds in a dramatic situation only a few months ago, forcing the BoE into action, so it should start to show more patience with inflation developments and hold back on further hikes with potentially serious effects. As in the U.S., the British monetary authorities will certainly show a little more restraint from now on before considering any further rate hikes. The March move could also be the last turn of the screw. We will see how long it takes the BoE to loosen this screw in the future. Our central scenario for the time being remains that the period of monetary restraint will end in March before a further easing, certainly linked to a sharp drop in inflation accompanied by the UK economy entering recession. Without these two developments, the BoE will remain in a holding pattern for some time. Financial markets have already clearly modified their expectations by dropping the September futures rate from 4.85% to 4.08% before reconsidering a more reasonable level of 4.5% in the last few days, which is barely 0.25% higher than the current official BoE rate.

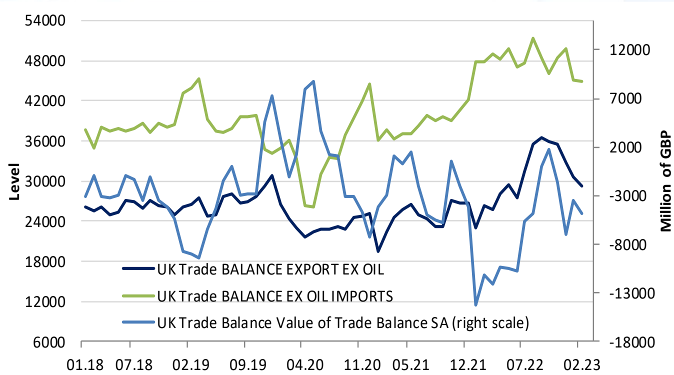
Rates also adjust in the bond market

The panic in the sterling capital markets had already begun in September 2022 with the announcement of the mini-budget, which set the foreign exchange and capital markets ablaze. Financial markets were concerned about the effects of such a reversal of fiscal and budgetary policy on British interest rates, the currency, the budget balance and the government's financing needs. Ten-year British Treasury rates, which had jumped to 4.5% on the 27th, quickly eased as the crisis reached a reassuring conclusion. Since then, calm has settled in with stabilized yield curves and relatively little fluctuation around a ten-year Treasury yield centered on 3.5%. The yield curve in sterling is thus practically flat between the two- and ten-year maturities. The inversion of the curve is thus essentially observable between the lower short maturities. At all maturities, real yields are extremely negative, given that inflation is still above +10%. Monetary policy is certainly in a pause phase, but it cannot be ruled out that it will have to be tightened again later on. For the capital markets, we believe that the current level is still insufficient for the level of inflation, so bond yields are still likely to rise in the coming months.

Effective Pound Exchange Rates



Trade Balance - Exports - Imports



 Graph sources: BearBull Group/Bloomberg

MACROECONOMIC SCENARIO

Japan

- Barely positive outlook for early 2023
- Inflation finally seems to be subsiding
- Weak improvement in household confidence
- BoJ also faces post-SVB adjustments

The Japanese economy is at a standstill

We were expecting a still sluggish Q4 for the Japanese economy, potentially not supported by external or domestic demand. The seasonally adjusted Japanese GDP result was released and finally came in at 0% in Q4, leaving only a minimal +0.1% year-on-year increase. However, this is slightly better than the contraction of -0.8% recorded in the previous quarter, but the weakness of Q4 underscores the continuing fragility of the economic situation in Japan after a Q2 increase of +3.5% annualized, which may have been more encouraging for the second half of the year. This result is also far below the expectations of the Japanese authorities. From the point of view of the Japanese central bank, this lack of performance will further support the need to strengthen economic support measures and maintain an accommodating monetary policy. The effects of Covid and the fall of the yen have not been without effect on the economy of the Rising Sun, which in Q4 has not yet been able to count on the Chinese recovery that is expected in the coming quarters thanks to the decision to end anti-Covid restrictive measures. The private consumption was weak and grew by a small growth of +0.3% over the quarter, while capital goods spending and investment declined by -0.5%. Japanese companies do not yet seem to be convinced of the possible improvement in the business climate and have thus adjusted their expectations more cautiously by limiting their investments.

The Japanese economy will still face further difficulties due to the low probability of aggregate demand during the winter. Domestic consumption will again prove to be a decisive factor in trying to offset the risks of a sharper downturn in international demand. Consumption was still weak in Q4, due in part to rising prices, but this weak momentum still came as a negative surprise to observers who were expecting better results supported by the fiscal stimulus provided by the Central Bank of Japan (BoJ).

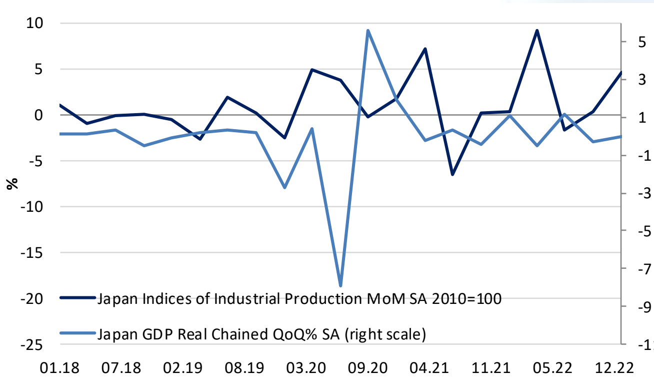
Barely positive outlook for Q1 2023

The Japanese economy thus just avoided a technical recession by recording an annualized increase of +0.1% in Q4, confirming the expected weakness of the economy. The outlook for Q1 is hardly better, with GDP still expected to suffer from insufficient household consumption despite the ongoing fiscal stimulus, as was already the case in the previous quarter. Consumer spending by foreign travellers in Japan could support domestic consumption without significantly influencing its overall level. Japan's recovery is expected to take hold very gradually, as the decline in consumer purchasing power, following the steady decline in disposable income, is expected to stabilize only very gradually. The reopening of China seems to be the main factor on which the Japanese economy can count for a boost in exports, but it is still difficult to determine when the first effects will be visible, as Japanese exports to China have actually declined over the past two months. With global demand expected to remain weak in Q1, the near-term economic outlook for Japan is again bleak, but likely to rise by 1% for the year as a whole.

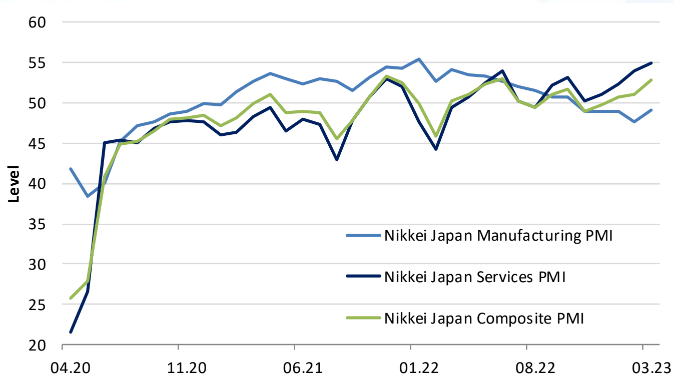
Leading indicators still moderately optimistic

The Jibun Bank of Japan PMI leading indicators released in early March improved slightly. The composite indicator (51.1) recorded its third consecutive increase and moved back above the growth threshold (50). The rebound in the *services index* (54) was the main factor behind the improvement, while the manufacturing segment still struggled (47.7). The PMI indices confirm the continuation of the trend observed in the Japanese leading indicator, which declined again in January from 96.9 to 96.5, while the coincident business cycle indicator also slipped from 99.1 to 96.1.

GDP and Industrial Production

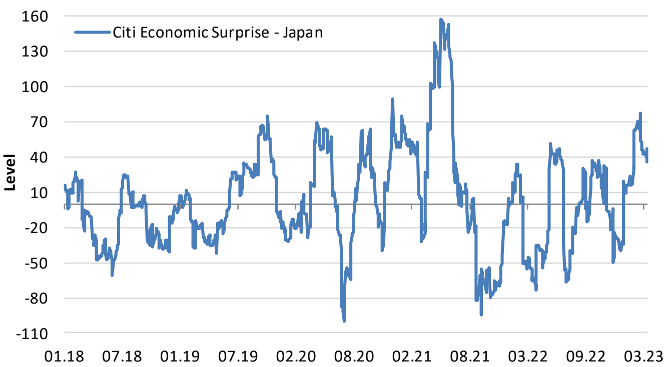


PMI Indicators (Manufacturing, Services, Composite)

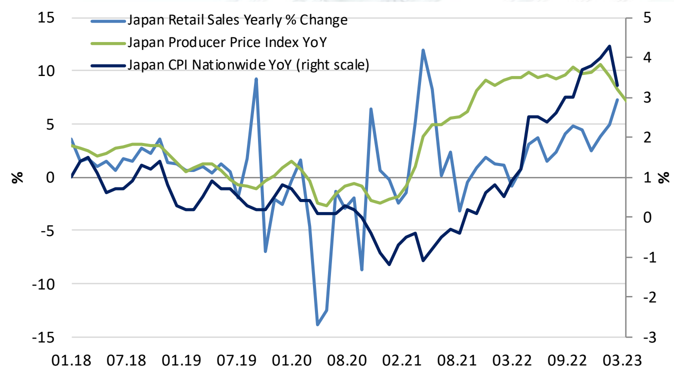


Graph sources: BearBull Group/Bloomberg

Economic Surprise Index



Inflation (CPI and PPI) and Retail Sales



The collapse of industrial production (-5.3%) in January follows a brief stabilization in December. However, the capacity utilization rate fell by -5.5% to 89.6% and is evidence of the ongoing weakness. While the fall in machine tool orders shows no sign of abating, according to the latest figures for February, down -10.7% year-on-year. However, Japanese companies are now expecting a recovery in machine orders in the first quarter of +4.3% that could erase the decline of the last three months (-5%). The manufacturing sector is expected to grow by +13.6% following a decline of -14% in the previous quarter, mainly supported by the recovery of demand in the aerospace sector and machinery production. They also expect a favourable impact from the reopening of China. Some hope therefore still seems to be allowed, even if uncertainty still dominates in this extremely important sector for Japanese exports.

Weak improvement in consumer confidence

Japanese consumer confidence remains low and still far below the level observed a few quarters ago, but it has nonetheless improved over the past three months and is gradually rising again. The confidence indicator rose from 28.6 to 31.1, highlighting a slight improvement in households' perception of risk. Despite a stable ratio of job offers per applicant of 1.35 and an unemployment rate still falling in recent months from 2.6% to 2.4%, disposable income only increased by +0.8% over one year and real income contracted by -4.1% after taking inflation into account, which corresponds to its biggest drop since 2014. Overall, the labour market remains under pressure, suggesting that a gradual transmission to wage levels is possible. Retail sales, on the other hand, have recovered and are up by +1.9%, bringing the year-on-year increase to 6.3%. The recent drop in inflation from +4.4% in January to +3.4% (Tokyo) in February year-on-year probably supported the recovery in retail sales and confidence.

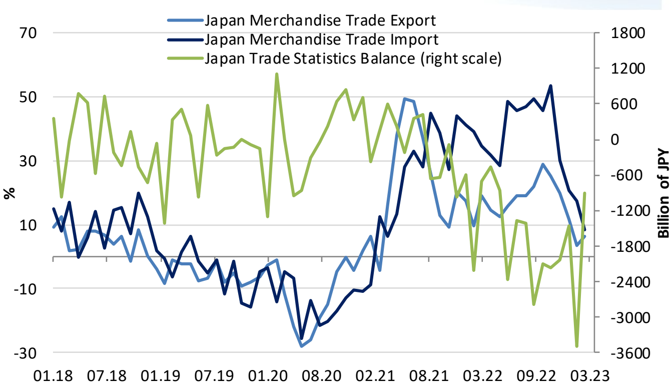
Japanese inflation finally seems to be easing

The favourable evolution of the exchange rate since its peak of 150 yen against the U.S. dollar in October has certainly contributed significantly to the net improvement in Japan's inflation measures in recent months. The drop from 150 to about 130 yen has reduced the level of imported inflation reversing the previous trend that had supported inflation growth in 2022. The transmission of the rise in import prices and producer prices to the *consumer price indexes* should continue to develop positive effects in the coming months. The energy and raw materials factor will certainly remain a determining factor in the evolution of inflation over the next few months, although it will probably make a smaller contribution than in recent months. The stabilization of oil and gas prices will in fact reduce the impact of these prices on imported prices. In addition to the improvement of this trend, the recent recovery of the exchange rate, which fortunately appreciated by almost +15% against the dollar in a few weeks, should also have several positive effects on the result of foreign trade and inflation.

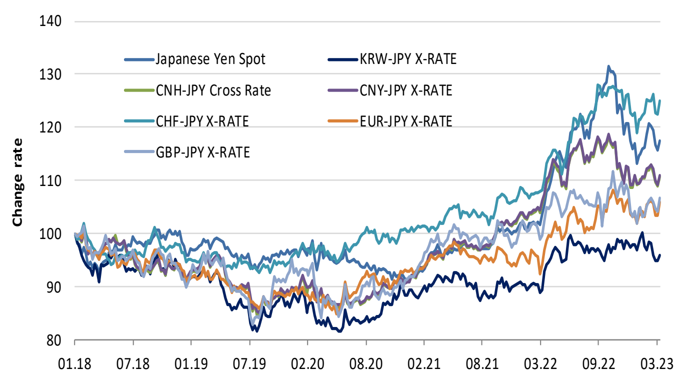
BoJ also faces post-SVB adjustments

Until December 2022, the BoJ implemented a monetary policy in clear opposition to that of other central banks pursuing restrictive policies to fight inflation. While maintaining its inflation target of +2%, it had pursued a strategy of controlling the yield curve, despite the rise in prices, by adopting a policy that is still considered the most flexible of the central banks, despite a decided increase from 0.25% to 0.5% in its key rates in December. The policy of supporting the Japanese economy with low rates, by controlling rates across the yield curve, has led it to act by further increasing its purchases of government debt. The BoJ now holds 52% of the debt issued by the Japanese government. The crisis of confidence caused by the SVB bankruptcy has not been without effect on the Japanese bond market and on investor sentiment in Japan. The Japanese Finance Minister also had to remind that Japanese financial institutions had enough liquidity and capital and that the financial system was stable and not threatened by this event. He also stressed that he was following the situation very closely with the BoJ and other financial authorities. Thus, a common front has also been established in Japan to deal with possible difficulties that could still affect Japanese banking institutions.

Trade Balance in JPY Billion



Exchange Rates (base 100)



 Graph sources: BearBull Group/Bloomberg

MACROECONOMIC SCENARIO

China

- Growth accelerates in Q2
- The PBoC can afford a flexible policy
- The yuan is establishing itself as an alternative to the dollar
- Chinese inflation largely under control

Leading indicators strengthen in March

Both the non-manufacturing PMI (58.2) and the Caixin China PMI for services (57.8) assert themselves in March and now reach their highest level since June 2020. The trend is less clear in the manufacturing segment, which slips slightly but remains above the growth threshold with a measure of 51.9 for the former and 50.0 for the Caixin PMI.

Growth accelerates in Q2

China's economy is emerging from a period of relative lethargy due to the zero Covid policy without a big show of strength and power in Q1 2023. The expected GDP growth for the whole year is in the range of +5% to +5.5%, but the first quarter still seems relatively timid, both because of a weak recovery in domestic demand and because of external demand that is still inadequate. The expected growth for the first three months is nevertheless around +3%, which is slightly higher than expected at the beginning of the year. A return of confidence is essential both to revive household consumption and to boost investment. It is certainly during the second quarter that the Chinese recovery should prove to be the most dynamic before a probable weakening thereafter. The current quarter should therefore be the strongest of 2023. The government has certainly set a conservative target of +5% GDP growth for the year, while organizing significant support to the economy that could develop positive effects to surpass this target. The reserve ratio of banks was reduced by 0.25% by the PBoC, also suggesting a cut in the policy rate in the current quarter. The fiscal deficit was increased to -5.9% of GDP, exceeding the previous deficit when the economy needed even more support in Covid times than it does now. In the first quarter, local governments also issued one-third of their special financing quotas, significantly more than needed, suggesting that they have more liquidity to fund their infrastructure spending now. In the real estate sector, access to external financing for developers has been made easier, strengthening their ability to restructure their debt. Lower mortgage rates are also an additional supportive factor that will be reinforced by the easing of rules for the acquisition of real estate. Finally, the recent restructuring of Alibaba Group suggests a new government approach to regulating the private technology sector that is more conducive to private investment.

New Chinese trade surplus

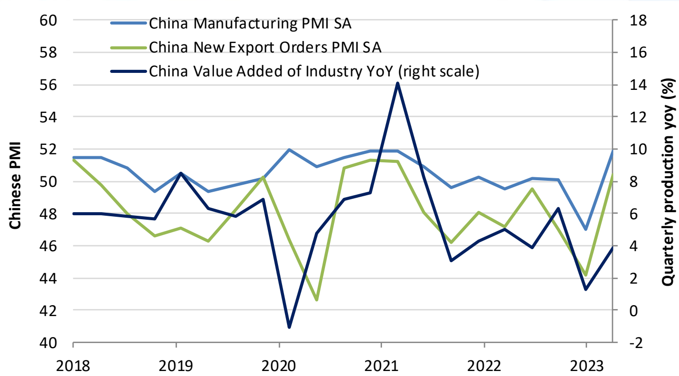
The reopening of the Chinese economy is for the moment supported by consumption of services and investment. The dynamics seem to follow a similar path to that observed during the reopening phases of other economies, with retail sales rising by +3.5%, their best rate since February 2022. If the trend continues, it could create a favourable dynamic in the second quarter, supporting services and consumption. On the other hand, the weakness of the economy in the major industrialized countries continues to weigh on Chinese production, which remains behind its historical trend with growth of barely 2.4% year-on-year in February. Exports are improving slightly but remain in contraction of -6.8% over one year after a -10.5% drop in the previous month. Thanks to the drop in imports (-10.2%), Chinese foreign trade is still moving forward and recorded a new surplus of 116.88 billion dollars in February.

The PBoC can afford a flexible policy

The favourable inflation trend in China is one of the main reasons for the PBoC to implement an accommodating monetary policy while most other central banks are still trying to control the evolution of their respective inflation levels. The latest reduction in its reserve ratio for Chinese banks by 25 bps (RRR) announced will allow for a further increase in credit of about 500 billion yuan. This measure will also reduce the effects of a decline in international demand. The central bank should also support the economy through other measures in the months. Further cuts in the RRR are expected, as well as a reduction in its one-year MLF rate.

YoY GDP Growth

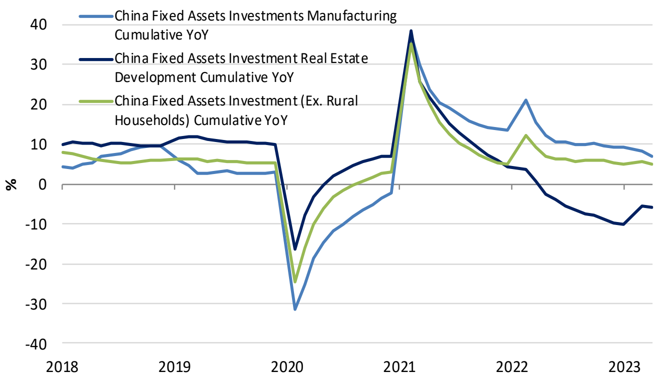
PMI and Industrial Production



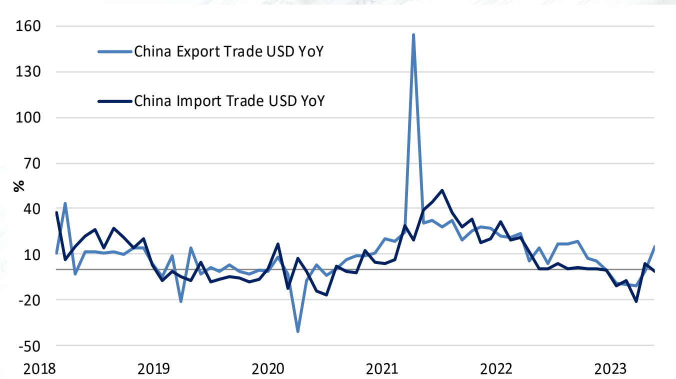
Graph sources: BearBull Group/Bloomberg

BearBull Global Investments Group

Real Estate Invesment, Infrastructure and Industry (YoY)



Exports-Imports (YoY)



The yuan is establishing itself as an alternative to the dollar

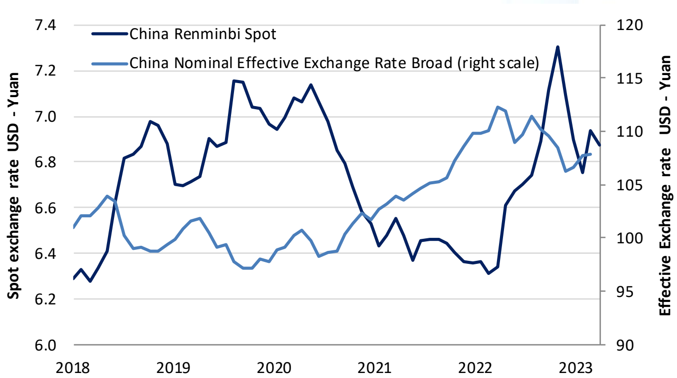
China's monetary policy is still very different from those of its main economic partners and should remain so in the coming quarters. Inflation is under control and trade surpluses are still large allow an accommodating monetary policy and stable interest rates which still contrasts with those of the United States and other industrialized countries whose restrictive monetary policies only increase yield differentials with yuan rates. The upcoming end of the monetary tightening cycle should therefore stabilize these yield spreads and reduce pressure on the Chinese currency. For several years now, China has also been pursuing a clear policy aimed at further increasing the role and weight of the yuan in international trade. In 2016, the IMF had to accept the request of the Chinese authorities to consider the yuan as an international reserve currency because it finally met the criteria of negotiability and representativeness in international transactions required by the institution. We then considered that the IMF was giving the yuan its « letters of nobility » and announced that this step was a milestone in the Chinese government's strategy, which would eventually lead to the yuan's adoption by the Chinese government that would eventually lead the yuan to compete with the dollar. Today, the weight of the yuan in the IMF's special drawing rights has increased to about 12.28%. The PBoC has signed more than twenty bilateral agreements with central banks and monetary authorities, as well as a growing number of agreements allowing the settlement of transactions in yuan without using a third currency. The process of internationalization of the yuan is firmly anchored in Chinese policy and is progressing steadily, thanks to the CIPS (Cross-border Interbank Payment System) clearing system, similar to the SWIFT system, managed by the PBoC. The recent decisions of some Gulf countries to accept transactions in yuan for oil and gas sales marks a tipping point in the predominance of the dollar by paving the way for petrodollars to compete with petroyuans in the Middle East. The influence of the yuan seems increasingly visible and irreversible as a growing number of countries seek to reduce their dependence on the dollar by seeking alternatives to the dollar. There is no doubt that the market share of the yuan will increase further and probably cause an appreciation of the Chinese currency in the long run.

Chinese inflation largely under control

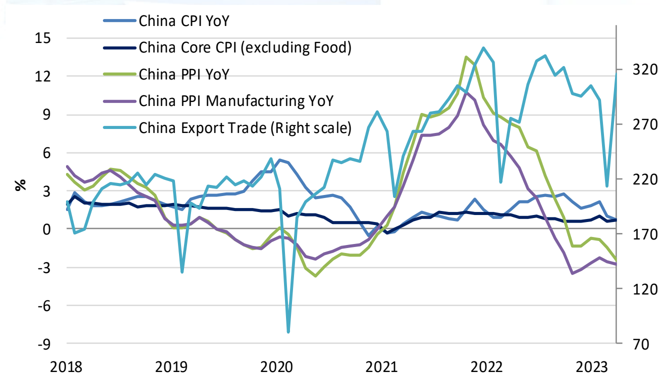
China's inflation continues to slide steadily and continues the decline that began in October. The consumer price index is now only advancing by +0.7% year-on-year in March, after peaking at +3% in September 2022. Inflation is therefore increasingly under control in the country, despite the pressure still visible on food prices, which are still up by +2.4%. However, the decline is very clear since the high figure of +7% in October. The trend is even clearer and more favourable for the evolution of producer prices, which even fell by -2.5% in March over twelve months. The decline in producer prices will support the ongoing decline in consumer prices. Unlike most other economies, the Chinese economy still does not seem to have a major problem with inflation. The Chinese economy is now even closer to potential deflation if the influence of producer prices proves to be clearer on the other price indices. The end of health restrictions in the first quarter of 2023 could have triggered a return of Chinese domestic demand and inflationary effects, which have not manifested themselves. But the weakness of the services segment is one of the key factors behind the decline in inflation, suggesting also that Chinese demand is certainly still too weak to cause such upward price effects. This factor will certainly support the development of new policies to stimulate consumption, including likely further interest rate cuts.

Chinese government bonds reacted to falling inflation by lowering the 10-year yield to its lowest level since the beginning of the year. The movement is not spectacular, but the drop from 2.93% in December to 2.81% today is in line with the prospect of further government stimulus following the reduction in the banks' reserve ratio announced in March.

Effective Exchange Rate and USD/Yuan



Inflation CPI - Core CPI



 Graph sources: BearBull Group/Bloomberg

MACROECONOMIC SCENARIO

UNITED ARAB EMIRATES

- UAE's economy set for robust growth in 2023 despite oil slowdown
- UAE PMI at five month high in Q1 2023
- A rail network set to boost UAE freight transport sector
- UAE real estate sector sees steady growth in Q1 2023 despite slower pace
- UAE ranks as most attractive market for investors in MENA region 2023

UAE's economy set for robust growth despite oil slowdown

The UAE's economy is poised for robust growth in 2023 despite a slowdown caused by OPEC+ policies. The country's GDP is projected to grow by 3.2% in 2023, with the non-oil sector expanding by 3.9%. The UAE government's recent trade agreements have lowered tariffs, creating opportunities to diversify its non-oil sectors further and underpin growth. The government maintains its objective to double the size of its economy by 2031 and diversify away from hydrocarbons, with 7% GDP growth annually required to achieve that goal.

While oil production is expected to be flat in 2023, high-frequency data and anecdotal evidence indicate that the non-oil economy continues to perform strongly, with the PMI for the non-oil sector reaching a five month high of 55.9 in March. Additionally, the real estate sector is rebounding, with house prices rising in Abu Dhabi, while Dubai's property sales hit decade highs in recent months. The tourism industry is also recovering, with passenger numbers at Dubai's international airport rising 67% YoY in Q4 2022, and international visitors are expected to increase by 20% in 2023, surpassing pre-pandemic levels.

The weakened oil prices have allowed the UAE authorities to implement policies to encourage the development of new sectors, such as the digital economy, creative industries, and scientific innovation, as part of the « We the UAE 2031 » vision. This strategy will continue to diversify the economy across sectors and provide a roadmap for future growth.

Despite the difficult global economic conditions, the UAE economy is estimated to grow by about 4.1% in 2024, benefiting greatly from the strong recovery of the non-oil economy. Oil sector revenues are expected to remain robust, enabling the government to support overall GDP growth this year and run a budget surplus of 3.7% of GDP. A gradual moderate increase in rents is likely as new supply comes online during 2023.

According to Emirate NBD, revenue estimates for 2023 have been revised lower due to a reduction in the assumed oil prices and no expected increase in oil production. Emirate NBD expects overall tax revenues to decrease by around 9% in 2023 and has factored in a 5% increase in current spending, slightly higher than the expected average inflation rate. The bank forecasts the budget surplus for this year to be AED 125.2 billion (USD 34 billion), equivalent to 6.2% of the estimated GDP.

UAE PMI at five month high in Q1 2023

According to the latest S&P Global PMI survey, the non-oil private sector in the UAE reached a five-month high of 55.9 in March, marking a significant increase from the previous month's 54.3. Although the growth rate has decelerated compared to the middle of last year, the PMI results for the first quarter demonstrate that the private sector has maintained a consistent expansion. This reinforces the prediction for non-oil growth of 3.5% in 2023. Despite the global slowdown, the UAE's critical sectors have been resilient so far.

Output slightly accelerated to a five-month high, attributed to a strong tourism sector and increased project work. New orders grew robustly, the fastest since October, and new export orders turned positive, albeit only marginally, for the first time since November.

In March, input costs increased for the second consecutive month, driven by higher raw material and staff costs, with some firms raising wages due to increased orders. However, firms continued to offer discounts in a competitive market, with output prices remaining below 50.0 for the 11th consecutive month.

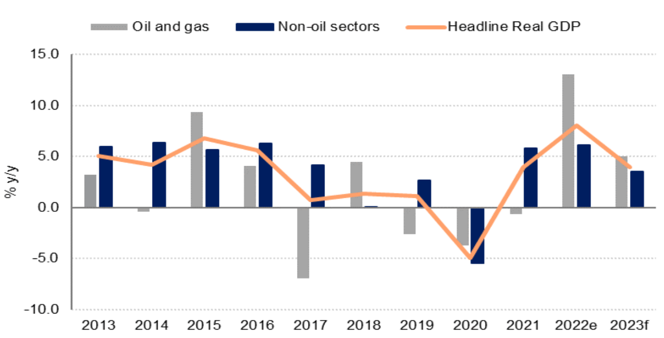
While business expectations increased for the third consecutive month, only 12% of respondents expected improved conditions in the next 12 months, and most expected no change. Despite this, firms increased hiring, with the subcomponent rising to the highest level since 2016, as companies reported the need for more staff to complete work on time.

A rail network set to boost UAE freight transport sector

Etihad Rail has completed its comprehensive rail freight network, linking all seven emirates in the UAE. The network runs for 900km from the UAE's southern border with Saudi Arabia to Fujairah, connecting all major ports, including Khalifa Port and Jebel Ali. The rail network is expected to boost rail freight volumes and support regional trade growth and economic integration by linking with the rail networks of the rest of the GCC.

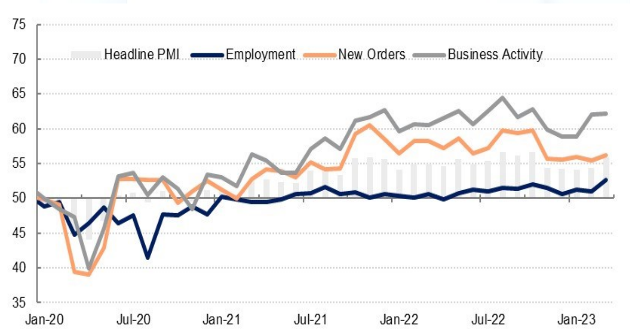
The UAE's rail network development is expected to enhance the country's freight transport industry, which is a critical driver of economic growth. Moreover, the forthcoming launch of passenger rail services will help alleviate road congestion, promote the country's net zero goals, and create revenue opportunities for the government.

UAE GDP Growth by Sector



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

United Arab Emirates PMI & subcomponents



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

UAE real estate sector sees steady growth in Q1 2023 despite slower pace

Despite challenging global macro-economic conditions and tightening financial conditions, the UAE's property market - and in particular, Dubai's - experienced steady growth in Q1 2023. Dubai's real estate sector continued to grow, albeit a slower pace in Q1 of 2023.

According to the latest data from Dubai Land Department the total number of transactions has increased by 5.8% quarter on quarter to 30,897, and the value of transactions has grown by 8.1% quarter on quarter to AED 88.72 billion (USD 24.1 billion). The demand for off-plan properties among investors continues to remain robust, with off-plan transactions constituting 51.5% of the total transactions. This trend may be attributed to buyers' preference for off-plan sales in a rising rate environment, as developers tend to offer attractive incentives and flexible payment options.

Although the number of off-plan transactions increased by 87.3% quarter on quarter, the value of these transactions experienced a slight decline of 1.2% quarter on quarter. This trend may be attributed to the rise in transactions occurring in areas with a lower price per square foot and a drop in transactions in prime real estate areas. The average price per square foot for off-plan transactions in Q1 2023 was AED 1,781(USD 484), which was almost 7% lower than the Q4 2022 average of AED 1,914 (USD 521).

According to ReidIn data, the average value of off-plan units sold in Q1 2023 was AED 2.23 million (USD 607k), indicating a decline of nearly 9% from the previous quarter. In Q1, the number of transactions for existing properties increased by a mere 3.8% quarter on quarter. However, the value of these transactions experienced a more significant uptick of 15.3% quarter on quarter, indicating that the prime segment was driving the activity.

According to data from ASTECO, sales prices for freehold villas in existing properties continued to increase in Q1 2023, albeit at a slightly moderated growth rate of 20.5% year on year. In contrast, freehold apartment prices appear to have gained momentum at the beginning of 2023, rising by 18.6% year on year. The growth rate of apartment rents is beginning to stabilize across all segments, with the average growth rate for apartment rents experiencing a slight decline from 20.1% in Q4 2022 to 19.9% year on year in Q1 2023.

The Dubai office rental market continued its upward trajectory in Q1 2023, marking the eighth consecutive quarter of rent increases. The average office rent increased by 20.8% year on year, reflecting the growing demand for commercial space in the emirate. In line with the upward trend in rental rates, the average sales price of freehold office space in Dubai also experienced a significant rise, increasing by 20.1% year on year. The average sales price reached a new high of 1,149 AED (USD 313) per square foot, the highest since 2017.

This indicates that Dubai's commercial real estate market remains attractive to investors, with businesses continuing to move to the city, particularly in prime areas such as DIFC, Barsha Heights, and Jumeirah Lakes Towers.

UAE ranks as most attractive market for investors in MENA region 2023

In March 2023, the *FTSE ADX index* experienced its poorest monthly performance in nine months, plummeting 4.2% and concluding the month at 9,430.25 points. Notably, it was the weakest performing index in the GCC for that period. Despite this, the exchange's market capitalization surged by 8.1% throughout the month, reaching AED 2.7 trillion (USD 735.2 billion), largely attributed to the listing of ADNOC Gas. The performance of sectoral indices was almost evenly divided, with four out of ten sectors showing declines and the remaining six recording gains.

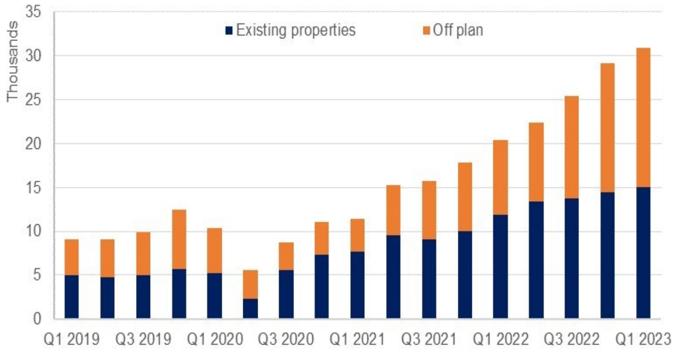
The *Telecom index* was the top decliner, experiencing a 13.1% drop to close the month at 5,466.1 points, primarily due to the decline in Etisalat shares, which fell 13.5%. Conversely, the *Health Care Index* achieved the most significant gain among the indices, rising 5.2% in March 2023 and closing at 3,216.1 points. In March 2023, trading activity on the exchange saw a m-o-m increase, with the total volume of shares traded reaching 4.1 billion, compared to 3.9 billion shares traded in February 2023. However, the monthly value traded declined by 26.6%, amounting to AED 35.3 billion (USD 9.6 billion) in March 2023.

In market news, Abu Dhabi National Oil Company reportedly increased its share offering for the IPO of ADNOC Gas from 4% to 5%, or a total of 3.84 billion shares. ADNOC Gas achieved the largest listing on the ADX, with oversubscription for the USD 2 billion IPO, driven by significant demand from both local and foreign investors. In economic news, the UAE has emerged as the most appealing market in the MENA region and the third most attractive to investors, according to Kearney's 2023 *FDI Confidence Index*. The report estimates that the UAE attracted FDI worth USD 22.0 billion during 2022.

The *DFM General Index* experienced a slight decline of 0.9% in March 2023, closing at 3,406.72 points. The drop in monthly index performance was primarily due to declines in five out of the eight sectoral indices. Among the indices, the *Consumer Staples Index* witnessed the most significant decline, plummeting by 15.4% to close at 106.2 points, while the *Materials Index* followed with a 9.8% decline. However, the *Real Estate Index* partially balanced out the steep index declines in other sectors, recording a monthly gain of 4% and closing the month at 5,413.7 points.

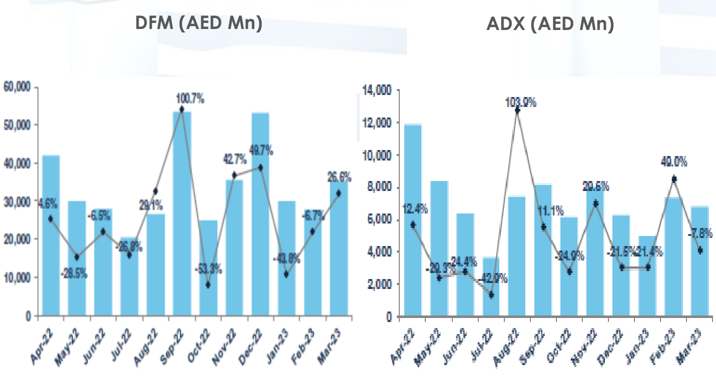
In March 2023, trading activity on the exchange experienced a decline compared to the previous month. The total volume of shares traded fell by 9.6% to reach 2.7 billion shares, down from 3 billion shares in February 2023. Similarly, the total value traded on the exchange decreased by 7.8% to reach AED 6.8 billion (USD 1.8 billion) in March 2023, compared to AED 7.3 billion (USD 1.9 billion) in the previous month. In market news, Al Ansari Financial Services staged the first IPO on the Dubai Stock Exchange in 2023, selling 750 million shares for AED 1.03 and valuing the company at AED 7.7 billion (USD 2.1 billion). According to Bloomberg the IPO generated aggregate demand of more than AED 12.7 billion (USD 3.5 billion), including AED 200 million (USD 54.5 million) commitment from National Bonds Corp. In economic news, a new report by EY forecasted that Dubai Expo 2020 and its legacy will add AED 154.9 billion (USD 42.2 billion) of gross value added to the Emirates economy from 2013 to 2042.

Existing and off-plan property sales



Source: Dubai Land Department, BearBull Global Investments Group

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



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

MACROECONOMIC SCENARIO

Emerging Market

- Growth down but no recession
- Inflation has begun to normalize
- Monetary tightening is coming to an end

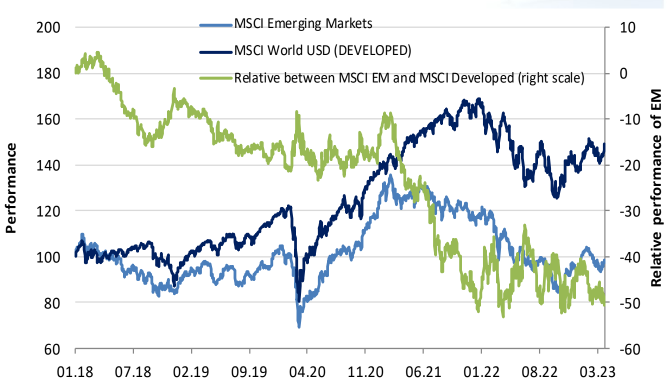
The global situation deteriorated at the end of the quarter, in particular due to banking events in the US and Europe which increased uncertainty and volatility in the markets. In contrast, recent data on global economic activity and inflation remain resilient as the monetary tightening process continues. The environment remains marked by the prospect of below-potential global growth, but the easing of Covid policy in China, a milder winter in Europe, and a still-solid U.S. economy are mitigating the ongoing global economic slowdown resulting from tighter financial conditions in the major economies.

Brazil — The set of indicators released in recent weeks still corroborates the scenario of slowing Brazilian growth from 2.9% in 2022 to 1.2% in 2023, with indicators of economic activity decreasing while the credit market also showed a slight deceleration. After surprising positively throughout 2022, it is only recently that the labour market is showing signs of a moderate slowdown, as expected, given its lagging nature relative to the business cycle, now more consistent with expectations of a slowing pace of economic activity. The unemployment rate, however, is showing relative stability, resulting from a decline in the labour force and the workforce.

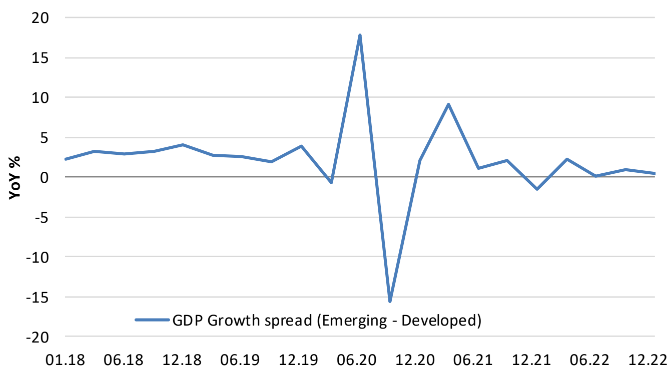
The dynamics of disinflation continue to be characterized by a process in two distinct stages. In the first stage, which has already been completed, disinflation is faster, with a greater effect on administered prices and an indirect effect on market prices thanks to less inertia. In the second phase that we are currently observing, the speed of disinflation is slower and core inflation, which is more affected by aggregate demand and monetary policy, declines at a slower pace in response to the output gap and inflation expectations. Thus, there is an inflationary dynamic driven by excess demand initially in goods, which has now shifted to the service sector, and thus requires a slowdown in economic activity for the effects of monetary policy to take effect. Such a process requires patience in the conduct of monetary policy for inflation to converge towards its objectives. Inflation expectations for 2023 and 2024 are around 6.0% and 4.1%, respectively. The conduct of monetary policy is therefore not an easy task, with increased risks to both financial stability and the inflationary scenario. On the one hand, the need to provide the necessary liquidity following the events related to the banking sector and on the other hand, growth and inflation data that remain resilient. The Committee believes that the primary objective of monetary policy remains the fight against inflationary pressures and the mitigation of economic fluctuations, but that this does not preclude achieving its financial stability objective as well. Because of the lagged effects of monetary policy on inflation, the Committee believes that patience is required and therefore maintains the Selic rate at 13.75%.

Russia — In 2022, Russian GDP fell by 2.1%, above the Central Bank's February estimate. High-frequency data seem to show that economic activity continues to recover in the first quarter of 2023. Domestic demand growth is supporting the improvement in the business climate despite some deterioration in the external environment. However, the current capacity for output expansion in the Russian economy is largely constrained by the labour market with the unemployment rate falling to a new low (3.5%). Labour shortages are worsening in many industries as a result of partial mobilization, while business demand for labour continues to grow. Under these conditions, productivity growth is expected to lag real wage growth. Changes in the structure of aggregate demand continue as part of the structural transformation of the economy. Consumer demand is gradually recovering but remains moderate overall. Private sector investment demand is slowing while public investment is increasing. Annual price growth continued its steady decline in February to 11% due to an average monthly rate close to 4% in annualized terms since the beginning of the year. The weakening of the ruble since the end of 2022 has so far had little impact on price developments. At the end of March, the Bank of Russia forecast that inflation would temporarily fall below 4% in the coming months, influenced by last year's high base effect. This forecast materialized in early April with the publication of the March inflation figure of 3.5%.

Emerging and Developed Markets – Performance

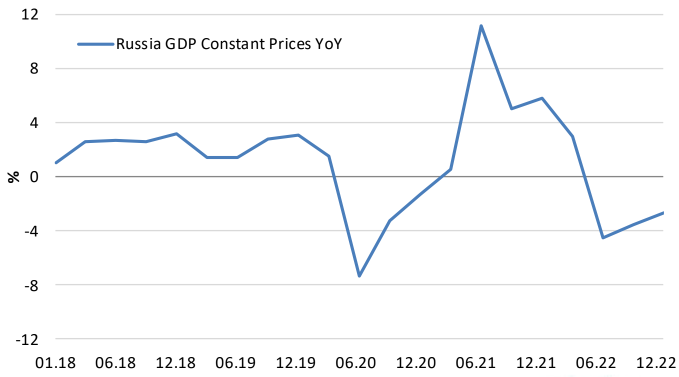


GDP Growth Spread

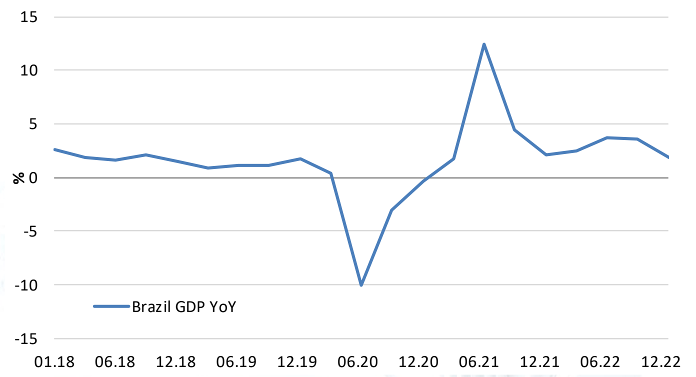


Graph sources: BearBull Group/Bloomberg

GDP (YoY) - Russia



GDP (YoY) - Brazil



On the other hand, sustained inflationary pressures are expected to persist and gradually increase and end the year between 5% and 7% before returning to 4% in 2024. High-frequency data suggest that the recovery in business and consumer activity is underway. Household inflation expectations are down significantly but remain high.

Accelerating fiscal spending, deteriorating terms of trade, and labour market conditions continue to pose inflationary risks. The overall balance of inflation risks has remained relatively stable since the beginning of the year. The Board of Directors of the Bank of Russia decided to maintain the key rate at 7.50% in March.

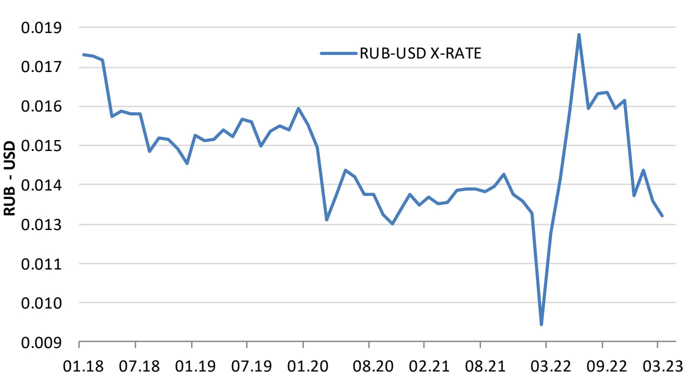
India — A brighter outlook for agricultural activities should boost rural demand. The rebound in contact-intensive sector activity and spending should support urban consumption. Strong credit growth, resilient financial markets, and the government's continued focus on capital spending and infrastructure are creating a favourable environment for investment. On the other hand, external demand is expected to be dampened by a slowdown in global activity, negatively impacting Indian exports. Taking all these factors into account, GDP growth is expected to be close to 6% in 2023 after 4.4% for the whole of 2022.

Although the outlook for the rabi crop has improved, particularly for wheat and oilseeds, risks from adverse weather conditions remain. Commodity prices are expected to come under upward pressure with the easing of COVID-related mobility restrictions in some parts of the world. Continued pass-through of input costs to producer prices, particularly in services, could continue to put pressure on core inflation. Against this backdrop, inflation stood at 5.66% in March and is expected to continue to decline towards 5% by year-end. With the objective of keeping inflation expectations anchored, breaking the persistence of core inflation and thereby strengthening the medium-term growth outlook, the central bank raised the policy rate by 25 basis points to 6.50% in February and then decided to keep it unchanged at the April meeting for the first time after six consecutive hikes. The monetary policy committee also decided to continue to focus on withdrawing easing measures to ensure that inflation remains within the target range, while supporting growth.

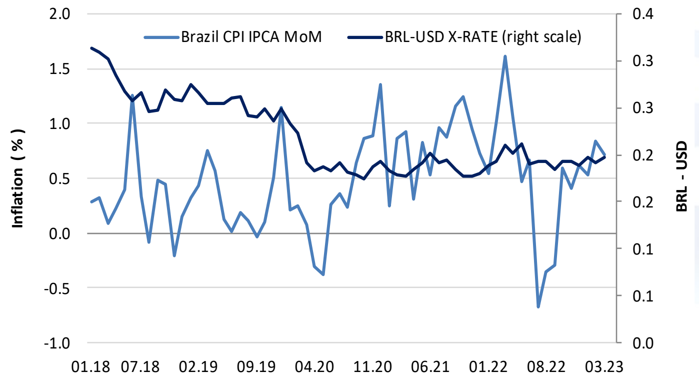
South Africa — The South African economy contracted by 1.3% in the fourth quarter of 2022, significantly below forecasts made in January. The contraction was widespread, consistent with record power cuts in the last three months of the year. For the year as a whole, GDP still grew by 2%, compared to the previously expected 2.5%. For 2023, however, the economic growth forecast is close to 0%. Beyond that, household spending and investment are expected to grow slightly, although energy issues continue to weigh heavily on consumption and investment decisions. Private sector investment is expected to remain positive, largely due to efforts to overcome energy supply and transportation constraints. As a result, the economy is expected to grow by 1% in 2024 and 1.1% in 2025.

Lower commodity prices and increased financing needs of state-owned enterprises will put pressure on the financing terms of rand-denominated bonds. Ten-year bond yields are currently trading at around 10%, despite the expected decline in inflation. The rand has depreciated overall in recent months and years. Recent weeks have seen a further sharp depreciation, followed by some reversal of the trend following decisions in some major advanced economies. The rise in inflation in South Africa is mainly due to increases in fuel, electricity and food prices. Last year, fuel price inflation averaged 34.4 percent and is expected to be -0.6 percent in 2023. Electricity prices are forecast to remain unchanged at 12.9% in 2023, 14.5% in 2024 and 10.9% in 2025. Food prices are again expected to rise despite the decline in world food prices in dollars, partly due to the lagged impact of the exchange rate decline. Food inflation is now expected to be 9.9 percent in 2023 and 4.5 percent in 2024. Due to rising commodity and food prices in the short term, inflation for 2023 has been revised upwards to 6.0% from 5.4%. Despite this, food and fuel inflation is

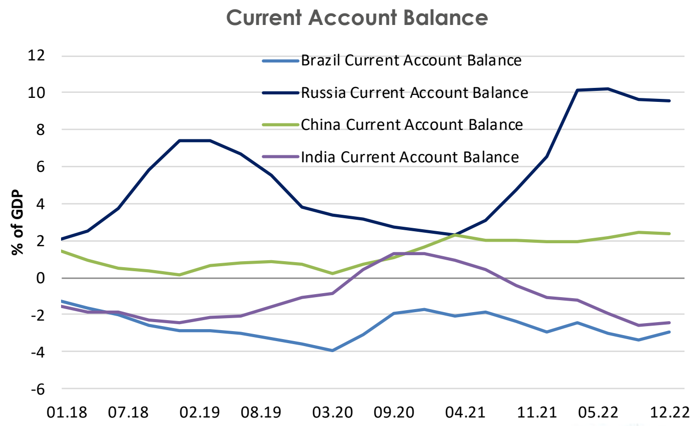
Rouble VS USD

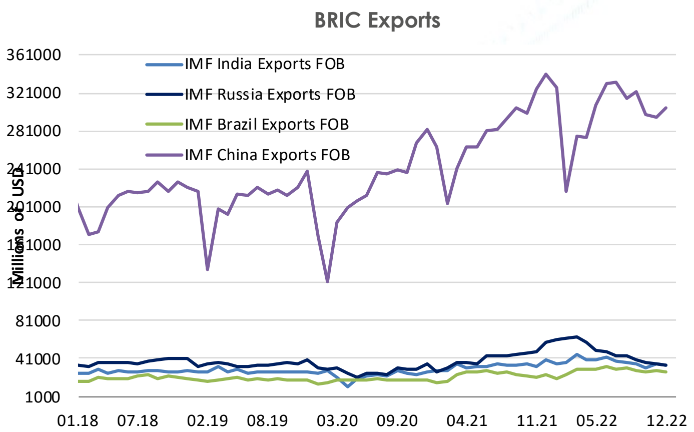


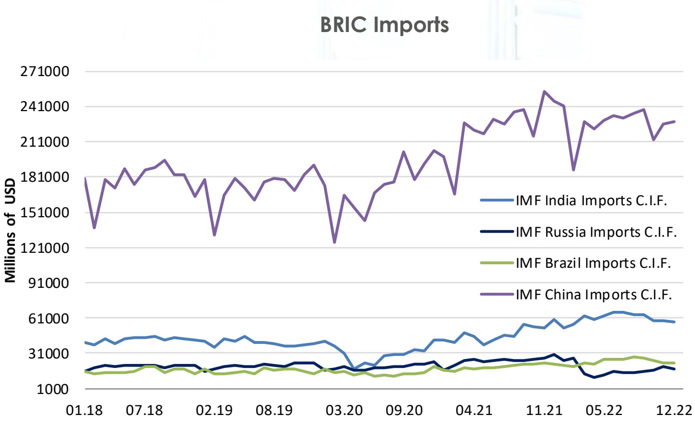
Inflation and Exchange Rates



 Graph sources: BearBull Group/Bloomberg







expected to decline thereafter, resulting in forecasts of 4.9% for 2024 and 4.5% for 2025.

Given the power cuts, the risks of rising inflation and the increased need for external financing, the local currency is expected to weaken further. In this context, the Monetary Policy Committee decided to increase the policy rate by 50 basis points to 7.75%.

Mexico — The Bank of Mexico raised its key rate by 25 basis points to 11.25% in March. This is the 15th consecutive rate hike, for a total of 725 basis points of rate increases since the monetary tightening cycle began in June 2021. Inflation (6.85%) fell more than expected in March due to the most volatile components. It is expected to converge towards the 3% target by the end of 2024. The Mexican economy grew by 3.1% in 2022, slowing from last year's 5% increase.

Indonesia — Bank Indonesia kept the key interest rate unchanged at 5.75% for the second consecutive month in March. Inflation, which has been hovering above 5%, is expected to return to its target range of 2% to 4% by year-end. The central bank maintained its growth outlook for this year at the upper end of its range of 4.5% to 5.3%.

Turkey — The Central Bank of Turkey kept its interest rate at 8.5% in March, as expected after a 50-basis point cut the previous month in response to the country's earthquake disaster. Last year, the bank cut its key rate by 500 basis points as part of an unorthodox easing cycle designed to counter an economic slowdown. The *liraization strategy* should enable the Turkish economy to achieve financial and price stability, with a first target of 5% inflation in the medium term. There is still a long way to go, with inflation at 50% in March, but still a clear improvement on the 85% in October. Turkish growth has been set at 5.6% in 2022 but should be penalized in 2023 by the penalized in 2023 by the damage caused by the earthquakes.

Taiwan — Taiwan's central bank raised its key interest rate by 12.5 basis points to 1.875% in March, surprising most market participants who were expecting a status quo. It also lowered its GDP growth forecast for this year to 2.21% from the 2.53% forecast in December and raised its inflation forecast for this year to 2.09% from 1.88% previously.

Thailand — Thailand's central bank raised its key interest rate by 25 basis points to 1.75% in March. The Thai economy is expected to grow by 3.6% in 2023 and 3.8% in 2024, supported by tourism and private consumption. Inflation is expected to return to the target range of 1% to 3% by mid-2023 as supply pressures ease. It is expected to fall to 2.9% this year and 2.4% next year.

Colombia — Colombia's central bank raised its interest rate by 25 basis points to 13% in March, slowing the pace of monetary tightening. This follows a 75-basis point increase at the previous meeting, following inflation of over 13% in December. In 2023, the monthly pace of inflation declined, supported by the decline in the food component, perhaps suggesting that the inflection point in the inflationary trend is nearby. Colombian growth was 7.5% in 2022 but is expected to slow in 2023 and remain slightly above 1%.

Romania, Czech Republic, Poland, Hungary — The National Bank of Romania kept its policy rate unchanged at 7% for a second consecutive meeting in April, after a tightening cycle of nearly 6%. Inflation fell to 14.53% in February 2023 thanks to lower fuel and electricity prices. Economic growth was up 4.8% in 2022, lower than in 2021 (5.8%) and probably higher than in 2023 (1.3%).

The Czech National Bank kept its key rate at 7% for the sixth consecutive meeting in March due to signs of slowing inflation (15% in March vs. 17.5% in January) and after a one-year cycle of 675 basis points. The economy grew by +2.5% in 2022 but is expected to stagnate in 2023.

The National Bank of Poland maintained its benchmark rate at 6.75% for the seventh consecutive meeting in April. Annual consumer inflation in Poland fell to 16.1% in March from 18.4% in February. It is expected to continue to decline gradually due to weaker external economic conditions, implemented hikes, lower commodity prices and lower national GDP (+4.9% in 2022 vs +6.8% in 2021).

The Hungarian National Bank kept its key interest rate unchanged at 13% in March. Inflation has been stagnant for three months now at around 25% due to lower increases in food and energy. The economy grew by 4.6% in 2022 compared to a 7.1% increase the previous year.

Graph sources: BearBull Group/Bloomberg

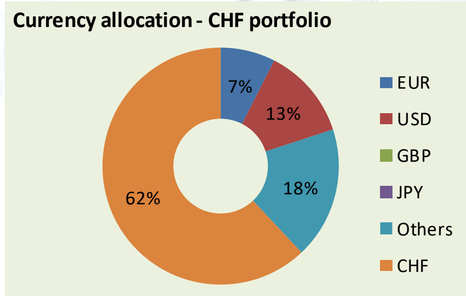
PROSPECTS AND STRATEGIES

PROSPECTS AND STRATEGIES

Currencies

- Evolution of spreads unfavourable to the Swiss franc
- Probable appreciation of the euro
- The yuan is establishing itself as an alternative to the dollar
- Continued decline of the dollar forecast
- Interest rate differentials still unfavourable to the yen

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



Tactical allocation

- Underweight the Swiss franc
- Focus on AUD and CAD
- Overweight the euro
- Avoid the yen and pound sterling

Spreads unfavourable to the Swiss franc

In most countries, monetary policies remain on the rise. The next rate hike by the SNB, but more likely the next two sequences of rate hikes, will not be superior to those implemented in the coming months by the FED, the ECB or the BoE. In particular, we believe that the SNB will not follow the same path of rate hikes as the ECB, which is facing a more dramatic inflation situation than Switzerland. The interest rate differential between the two currencies is therefore likely to increase permanently in favour of the euro. At present, the yield spread between the two-year federal government bond and the German Bund is still around 110 basis points, whereas it was close to zero at the beginning of the year. This observation is similar at the various points of the relative yield curve. It should also be noted that, compared to the situation in 2015, the current level is even higher than the one that allowed the euro to rise from 0.97 to 1.20 in three years. The franc should therefore weaken again against the euro.

Euro likely to appreciate

The next evolution of European monetary policy will certainly be the most restrictive of the major central banks. Market expectations for the level of policy rates marking the end of the current monetary tightening cycle will continue to evolve in the coming months, but our six-month expectations are now 4.75% in the US (currently 5%) implying a 0.25% cut in Fed Funds in September. In the Eurozone, the ECB raised its main policy rate by 0.5% to 3.5%. The markets are now anticipating three more 0.25% hikes during the May, June and September meetings. We are concerned that the expected path of inflation in Europe will continue to disappoint and justify higher yields for longer. In the short term, the euro capital markets will logically have to adjust to the rise in short-term rates by a gradual increase in yields across all maturities. This adjustment phase should therefore reduce the yield spread that is currently less favourable to euro investments. This environment should support an appreciation of the euro for a few months. Our outlook for the next quarter is favourable for the European currency against the dollar, the Swiss franc and the yen.

The yuan is establishing itself as an alternative to the dollar

China's monetary policy is still very different from those of its main economic partners and should remain so in the coming quarters. Inflation is under control and trade surpluses are still high, allowing for an accommodative monetary policy and stable interest rates, which still contrasts with those of the United States and other industrialized countries, whose restrictive monetary policies are only increasing the yield differentials with yuan rates. The upcoming end of the monetary tightening cycle should therefore stabilize these yield spreads and reduce the pressure on the Chinese currency.

For several years now, China has also been pursuing a clear policy aimed at further increasing the role and weight of the yuan in international trade. In 2016, the IMF had to accept the request of the Chinese authorities to consider the yuan as an international reserve currency because it finally met the criteria of negotiability and representativeness in international transactions required by the institution. At the time, we considered that the IMF was giving its *letters of nobility* to the yuan and announced that this step was a milestone in the Chinese government's strategy that would eventually lead the yuan to compete with the dollar. Today, the weight of the yuan in the IMF's special drawing rights has increased to about 12.28%. The PBoC has signed more than 20 bilateral agreements with central banks and monetary authorities, as well as a growing number of agreements allowing the settlement of transactions in yuan without using a third currency. The process of internationalization of the yuan is firmly anchored in Chinese policy and is progressing steadily, thanks in particular to the CIPS (Cross-border Interbank Payment System) clearing system, similar to the SWIFT system, managed by the PBoC.

The recent decisions of some Gulf countries to accept yuan transactions for oil and gas sales marks a tipping point in the predominance of the dollar by paving the way for petrodollars to compete with petroyuans in the Middle East.

The influence of the yuan seems to be more and more visible and irreversible as a growing number of countries want to reduce their dependence on the dollar by looking for alternatives. There is no doubt that the market share of the yuan will further increase and probably cause an appreciation of the Chinese currency in the long run.

Graph sources: BearBull Group/Bloomberg

Further decline in the dollar forecast

The dollar was the big winner of the wave of interest rate hikes observed in 2022 and the tightening of US monetary policy that began before most other central banks. The Fed's key rate hikes created a yield spread widening dynamic favourable to the US currency (+19.3%) until the fall of 2022. Since then, a loss of momentum in this dynamic has become apparent with the reduction of Fed rate hikes from 0.5% to 0.25% while other central banks maintained their 0.5% hikes. The contraction of the differential partly explains an already significant correction of the dollar trade weighted index (-11.5%) which should continue in the second quarter of 2023. U.S. inflation will quickly fall back below +5%, causing dollar interest rates to fall. Interest in U.S. assets will certainly remain sufficient to curb a weakening trend in the dollar, which should gradually lose momentum. However, the decision of some Gulf countries to accept oil and gas sales in yuan is a new long-term threat to the evolution of dollar demand that must be taken into consideration.

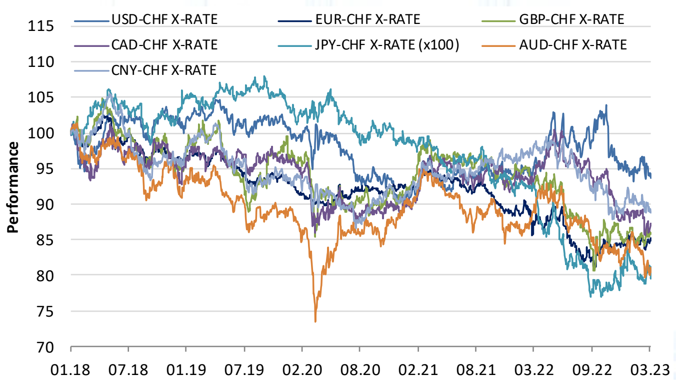
The British Pound is trying to be forgotten

After the shock of September 23rd, which had caused extreme volatility on the currency and a fall in two days of -5.4% against the euro, -8% against the dollar and -7% against the Swiss franc, the pound stabilized without much conviction. Since the end of the crisis, the BoE's action has reassured and erased the mistrust of the pound, which has been able to stabilize and return to its previous exchange rate levels against most major currencies such as the dollar, the euro, the franc or the yen. The return of a certain confidence is still insufficient, however, to generate a new trend in favour of the pound against the euro or the Swiss franc. But we will certainly see an appreciation against the dollar, reflecting more the weakness of the greenback than the strength of the pound. Further pressure on pound bond yields seems likely if inflation does not fall more sharply. In this context, a widening yield differential could support investor interest in the British currency. We believe that an appreciation of the British currency is not yet on the agenda and prefer a more moderate outlook for the British currency's future development.

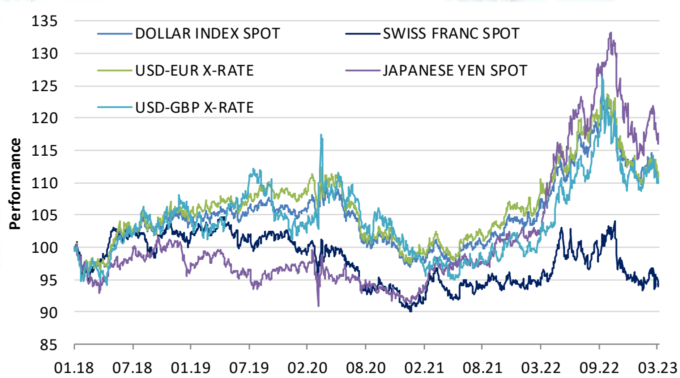
Interest rate differentials still unfavourable for the yen

The BoJ's monetary policy is expected to remain relatively stable over the next few months, with the estimated policy rates for both June and September still at 0.14%, suggesting extremely limited potential BoJ activity. In the short term, however, the yen could still benefit a bit from the expected dovish change in the Fed on the one hand and the Japanese wage negotiations that resulted in a wage increase on the other hand, which could open the door to rate hikes by the BoJ later this year. For the time being, the yen is benefiting from the uncertainty related to the SVB bankruptcy and is resuming a positive trend. However, the appreciation of the yen seems to us to be already significant and already takes into account the recent change in trend on dollar rates. Dollar yields have indeed declined in recent days, by nearly 50 bps on long maturities, but the decline is more than 120 bps on two-year Treasury yields. These relative yields are therefore down sharply compared to those in yen, but they remain high enough to support an equilibrium exchange rate close to 130 yen in our view. We believe that the yield differential will be the main factor determining the level of the exchange rate and in the absence of an unlikely more restrictive policy from the BoJ, our outlook favours a stabilization of the yen against the US dollar in the range of 127-130 yen per dollar in the near future.

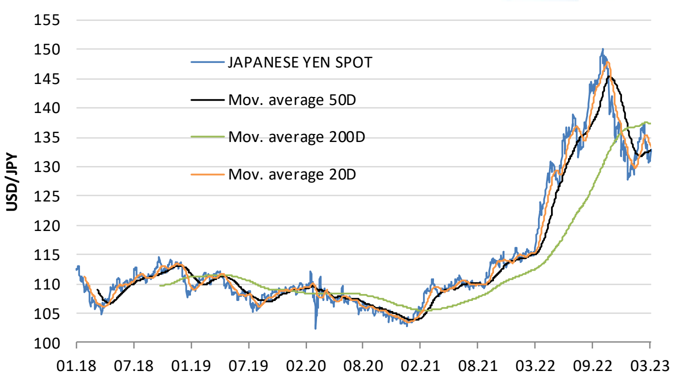
Evolution of the 7 Main Currencies against CHF (base 100)



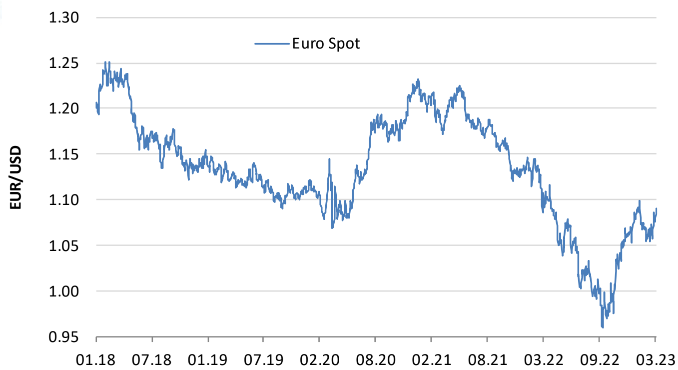
Dollar Trade-Weighted Index & Cross Rates (base 100)



Exchange Rate JPY/USD



Exchange Rate EUR/USD

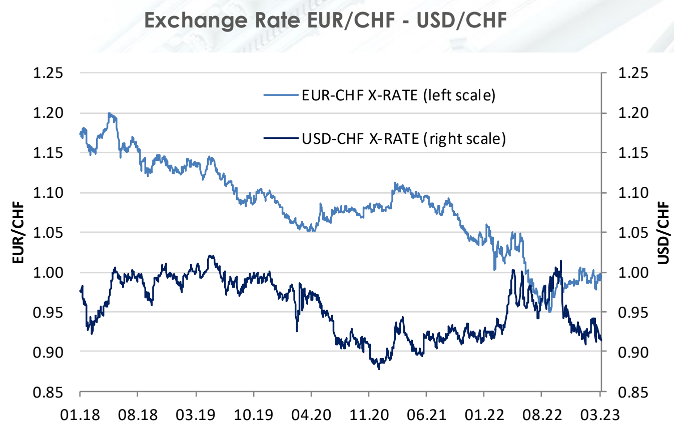


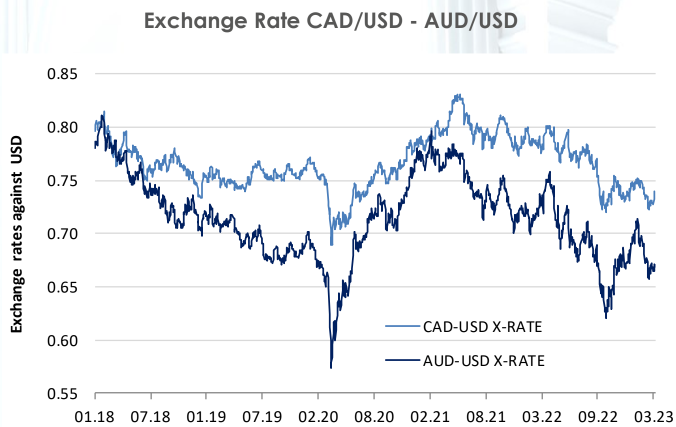
Graph sources: BearBull Group/Bloomberg

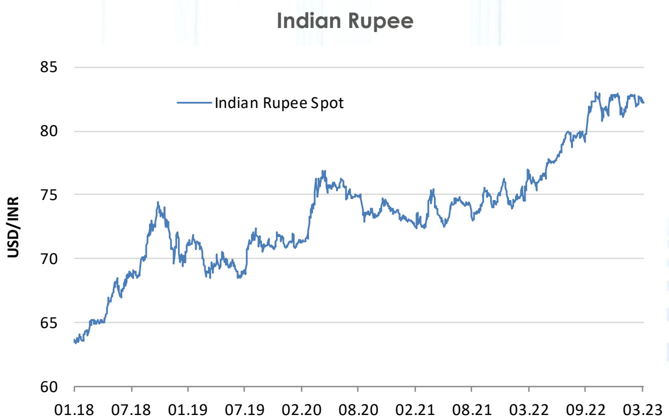
CURRENCIES

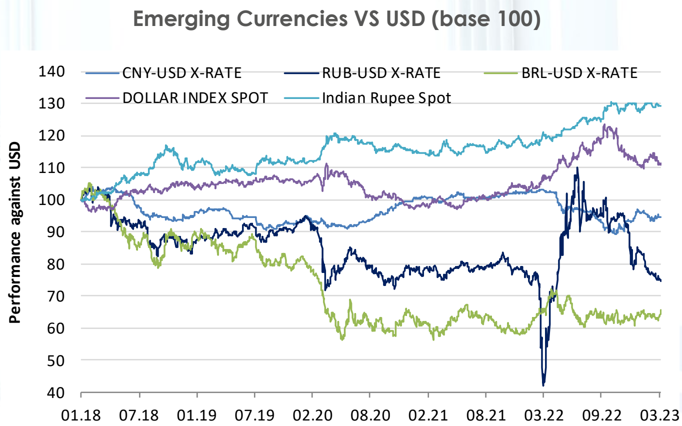
31.03.2023

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.08	0.73	1.60	1.25	10.58	1.25
CHF-USD X-RATE	1.09	0.50	2.67	1.01	7.85	1.01
GBP-USD X-RATE	1.23	0.85	2.56	2.10	10.45	2.10
JPY-USD X-RATE	0.01	-1.61	2.51	-1.31	8.94	-1.31
CAD-USD X-RATE	0.74	1.68	0.57	0.27	2.31	0.27
AUD-USD X-RATE	0.67	0.60	-1.12	-1.88	4.45	-1.88
RUB-USD X-RATE	0.01	-0.54	-3.31	-4.38	-22.66	-4.38
CNY-USD X-RATE	0.15	-0.10	-0.05	0.34	3.49	0.34
INR-USD X-RATE	0.01	0.37	0.40	0.68	-1.01	0.68
BRL-USD X-RATE	0.20	3.62	2.33	4.39	6.87	4.39
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.92	-0.49	-2.59	-1.00	-7.26	-1.00
EUR-CHF X-RATE	0.99	0.23	-1.03	0.26	2.56	0.26
GBP-CHF X-RATE	1.13	0.29	-0.16	0.87	2.37	0.87
JPY-CHF X-RATE (x100)	0.69	-2.06	-0.14	-2.35	1.03	-2.35
CAD-CHF X-RATE	0.68	1.00	-2.14	-0.91	-5.23	-0.91
AUD-CHF X-RATE	0.61	0.08	-3.71	-3.04	-3.10	-3.04
RUB-CHF X-RATE	0.01	-1.01	-5.84	-5.53	-28.26	-5.53
CNY-CHF X-RATE	0.13	-0.60	-2.63	-0.60	-3.97	-0.60
INR-CHF X-RATE	0.01	-0.42	-2.13	-0.55	-7.88	-0.55
BRL-CHF X-RATE	0.18	2.84	0.00	3.43	-1.09	3.43









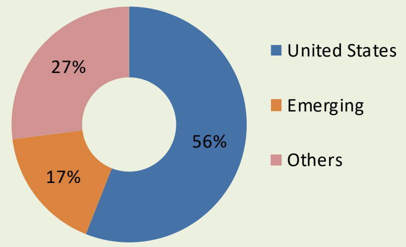
Graph sources: BearBull Group/Bloomberg

PROSPECTS AND STRATEGIES

International Bonds

- Relaxation and stabilization of yield curves
- Downward adjustment of USD yield curves
- Yield and potential gains support a more constructive bond strategy

International Bonds allocation



Tactical allocation

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

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

Relaxation and stabilization of yield curves

The banking crisis and questions about the stability of the financial system in March caused a complete reversal of expectations about the next course of monetary policy and a sharp readjustment of expectations in the bond markets, as the *soft landing* or even recession scenario became more consensual than we expected. The drop in short-term yields was rapid and completely correlated to the adjustment in *Fed Fund Futures* expectations, but it was also significant at longer maturities. Bond yields have eased across the board and have since stabilized well below their October 2022 highs. We believe that in this weaker economic environment, the risks of further inflation are much lower than the chances of a sharper slowdown and decline in price developments over the next few months in the US and most countries. Yield curves have flattened as yields have fallen more sharply at shorter maturities. The yield spread between 2 and 10 year US Treasuries has fallen from 110 bps to 60 bps, returning to the level of summer 2022.

In this context, the correlation observed in 2022 in the bond markets will not continue in 2023, as monetary policies and inflation prospects are sufficiently different to cause opposite movements in Europe, the United Kingdom and Japan in particular.

Inflation remains a key factor in risk assessment

The expected gradual decline in inflation to an « acceptable » level in the major economies is a key factor in assessing the risks ahead. The announced downward trend seems to us to be sufficient to favourably influence monetary policies. Moreover, the recent banking crisis will also be taken into consideration by central banks, which will undoubtedly consider that it should develop effects on the evolution of demand and prices, justifying less restrictive policies. This context will allow a downward readjustment of yields on the dollar capital markets in particular. Such an improvement will lead to a readjustment of the risk parameters for the bond markets in the coming quarters.

Downward adjustment of USD yield curves

Bond yields in the United States have adjusted extremely quickly to the change in the situation regarding the Federal Reserve's upcoming monetary policy. The bank failures of the last few weeks have directly and indirectly affected financing conditions and the psychology of savers. While the government and the central bank have reacted quickly enough to control the situation and avoid any immediate systemic type slippage, all the effects of this banking crisis are not yet really visible and may take time to materialize. The central bank would be well advised to consider the risks that it may still represent on access to financing and on the indirect tightening of monetary conditions and therefore on the risks of a cyclical shock. We believe that this situation is conducive to the end of the QT and the rate hike cycle and that this will have a significant impact on the upcoming evolution of the US yield curves. A decline in CPI inflation below +5%/year already in Q2 seems very likely and conducive to a lowering of *US Treasury rates* below the current level of 4.7% (12 months), 4% (2 years), 3.6% (5 years) in the short term. The slowdown in the economy and inflation will be the main factors in the change in perception of the shape and levels of the yield curves. Very largely inverted only a few weeks ago, we should quickly see a general lowering of rates on the *short side*, contributing to an overall flattening of the rate curves. The outlook for dollar-denominated bond markets therefore seems favourable and sufficiently attractive to support a diversified exposure favouring investment-grade corporate bonds, offering both an attractive yield and the prospect of capital appreciation.

BOND INDICES (local currency)

31.03.2023 — Total Return Performance

	Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS	SBI AAA-BBB	124.2	CHF	-1.0	0.7	1.4	0.9	1.4
UE BONDS	Barclays EuroAgg	226.2	EUR	-0.9	2.5	2.1	0.9	2.1
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	137.7	EUR	-0.4	1.0	0.7	0.3	0.7
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2109.4	USD	-0.5	3.1	3.0	4.9	3.0
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	8.0	USD	-0.1	1.3	1.6	2.8	1.6
EMERGING BONDS	JPMorgan Emerging Markets Bond	523.5	USD	0.5	1.6	1.9	10.5	1.9
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	459.3	USD	-0.4	3.3	3.0	7.7	3.0
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro Aggregate	226.2	EUR	-0.9	2.5	2.1	0.9	2.1
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	134.8	CHF	-0.2	0.3	2.2	1.2	2.2
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	154.1	USD	1.8	1.6	3.8	13.5	3.8
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	13.3	USD	1.4	1.1	3.1	6.8	3.1

Graph sources: BearBull Group/Bloomberg

Euro bond yields decorrelated

With the end of the restrictive monetary policy in the United States in sight, the next moderate rate hikes by the ECB should reduce the rate differential currently very favourable to dollar investments. The yield spread in the major capital markets between dollar and euro yields should follow the same path. U.S. Treasury yields have a good chance of stabilizing around the current 3.5% level before a further decline, probably driven by lower inflation, materializes. In Europe, German government yields are still below 2.5% for an inflation level that is much higher than in the US. In recent months, the international bond markets have remained relatively correlated, but we now believe that this correlation is likely to decrease significantly.

We have certainly already seen the peak of the US rate cycle a few months ago, while the top of the euro yields is still ahead of us. The next few weeks will see a return of decorrelation between some capital markets and the US market. Ten-year German Bund yields were rising to new highs in early March prior to the banking crisis before taking advantage of an investor rush to safe havens. But with the crisis behind us, we believe that euro yields will start to rise again quickly. An increase of 100 basis points is not excluded on all maturities, while the yield curve is practically flat between the two-year and ten-year maturities. The European capital market presents greater opportunities and risks, and in the above-mentioned context any risk of a rise in market yields may have different consequences depending on the quality of national debtors. This is no longer the time for yield pick-up strategies, but for managing the risk of capital losses.

Rates also adjust in the bond market

The panic in the sterling capital markets had already begun in September 2022 with the announcement of the mini-budget, which set the foreign exchange and capital markets ablaze. Financial markets were concerned about the effects of such a reversal of fiscal and budgetary policy on British interest rates, the currency, the budget balance and the government's financing needs. Ten-year British Treasury rates, which had jumped to 4.5% on the 27th, quickly eased as the crisis reached a reassuring conclusion. Since then, calm has settled in with stabilized yield curves and relatively little fluctuation around a ten-year Treasury yield centered on 3.5%. The yield curve in sterling is thus practically flat between the two- and ten-year maturities. The inversion of the curve is thus essentially observable between the lower short maturities. At all maturities, real yields are extremely negative, given that inflation is still above +10%. Monetary policy is certainly in a pause phase, but it cannot be ruled out that it will have to be tightened again later on.

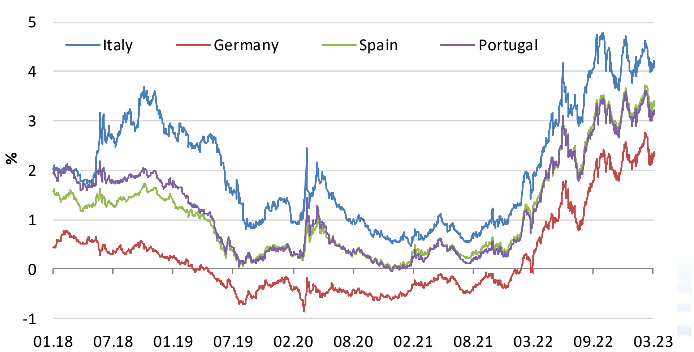
For the capital markets, we believe that the current level is still insufficient for the level of inflation, so bond yields are still likely to rise in the coming months.

Yen yields still unattractive

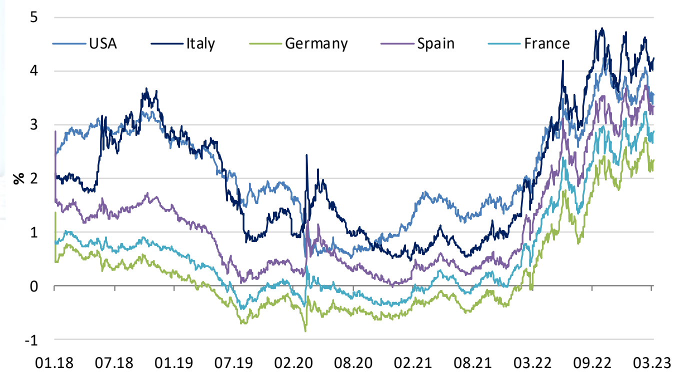
The rise in yen yields from 0.25% to 0.5% between December 2022 and February 2023 was not a significant change to consider a yen bond investment. The recent drop in yields to 0.25% in the above context does not change our assessment of the situation. The low yen yields and the prospect of a flight to quality that could support the yen are not sufficient to create the conditions to positively consider an exposure to Japanese bonds.

Holding bond positions in yen is indeed still not attractive compared to the returns offered in other currencies. Japanese bonds therefore do not offer any attractive prospects in the current context of more attractive international alternatives.

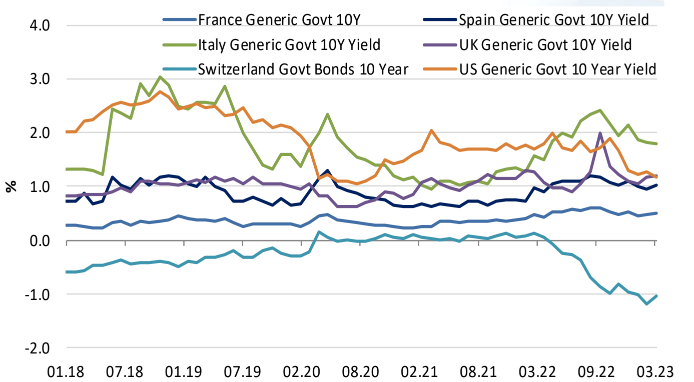
10 year Rate - Gvt Europe



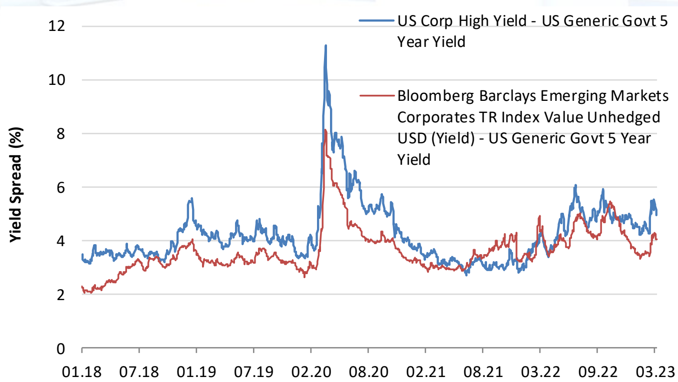
10 year Rate - Gvt



Risk Premium vs German Government



Risk Premium vs US Treasury



 Graph sources: BearBull Group/Bloomberg

The three factors supporting yuan bonds

There are three main factors supporting exposure to Chinese government bonds today. First, the Chinese bond market can count on the positive effects of low and still declining inflation on the yield curves allowing for capital gains in the medium term. In addition, current yields remain very competitive and sometimes higher than those offered by the other main developed countries, especially Japanese bonds. Secondly, the significant development of the use of the yuan as a transaction currency in international trade increases the credibility of the Chinese currency and its attractiveness as a diversification and reserve currency. An increase in the market share of the yuan in international trade is already very clear, the increase of its weight in the SDR (Special Drawing Rights) of the IMF beyond 12% confirms its growing role as an alternative currency to the dollar in commodity transactions should promote the appreciation of the yuan. Attractive yields, prospects for capital appreciation and potential foreign exchange gains support diversification into yuan government bond investments.

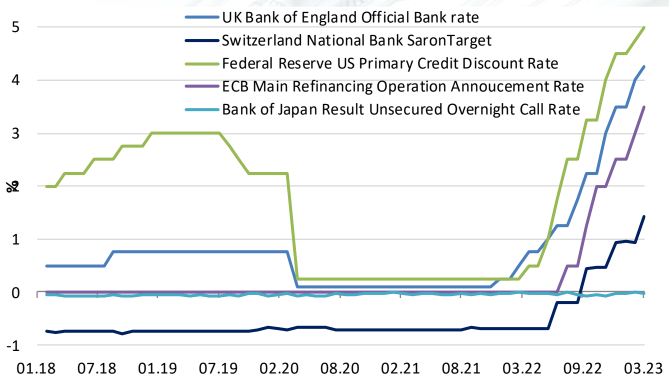
Chinese government bonds reacted to the fall in inflation by reducing the 10-year yield to its lowest level since the beginning of the year. The move is not spectacular, but the drop from 2.93% in December to 2.81% today is in line with the prospect of further government stimulus following the cut in the banks' reserve ratio announced in March. This trend should therefore continue and generate capital gains in the coming months.

Attractive yields and potential capital gains support a more constructive bond strategy

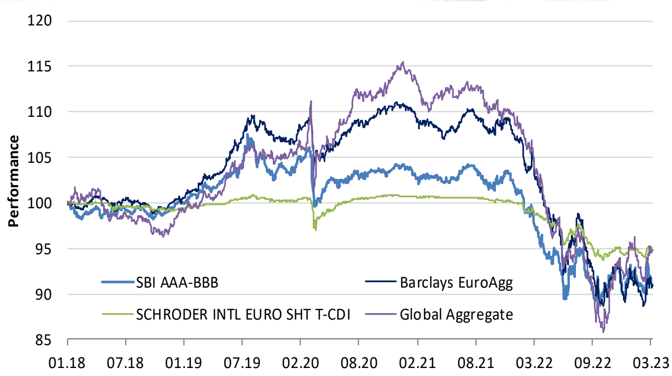
After having long adopted an extremely cautious bond investment policy until the second half of 2022, characterized by very short maturities and inflation-linked investments, the dramatic rise in yields that was exacerbated until October finally appeared to us to be more attractive and likely to bring new added value in terms of diversification of opportunities and risks in diversified multi-asset portfolios. The volatility of the economic scenarios that marked the end of 2022 and the beginning of 2023 recreated in March conditions that we believe are favourable to the adoption of a more constructive bond strategy. The unlikely *no landing scenario* at the end of February offered investment opportunities, whereas our economic scenario favoured a *soft landing* of the US economy in particular. We believed that the rebound of *US Treasury yields* above 4% for 10-year bonds, as well as the rise of yields above 5% for two-year bonds, was a sign of a top in the yield curves, modifying our assessment of the risks and opportunities in the fixed-income markets. Inflation is expected to quickly slip below 5% before the end of June, while the US economy will be in a slowdown phase. We now expect an easing of yields in the US to be accompanied by similar, but smaller, trends in other markets, which will also benefit from the changing economic outlook and inflation regimes.

In terms of geographic allocation, we favour US, Canadian and Australian dollar bonds. Emerging market bonds also offer selective opportunities. In terms of credit risk, government bonds are attractive, but investment grade yields offer risk premiums that are already particularly attractive, as well as significant capital appreciation opportunities.

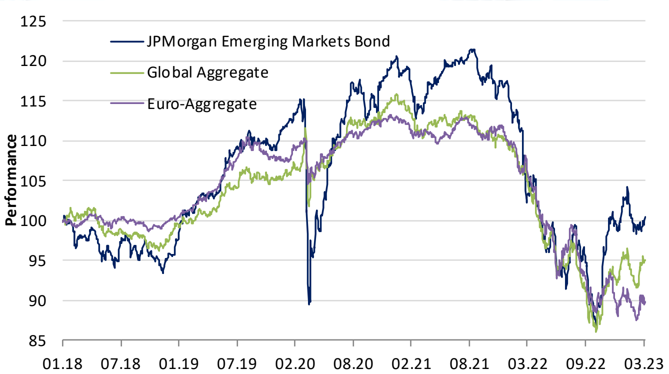
Key Rates (EUR, CHF, GBP, USD, JPY)



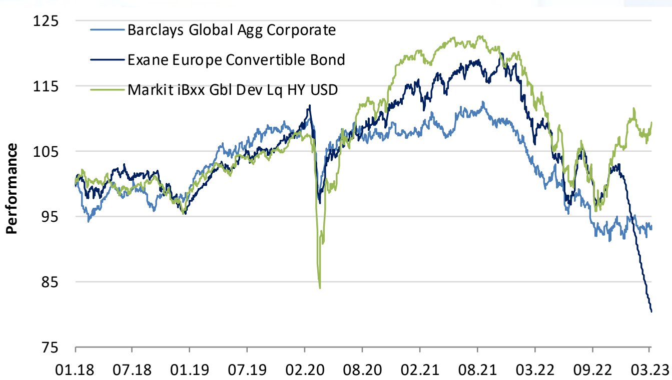
YTD Performance of 1-5 year Bond Indices (base 100)



Emerging Bonds—Performance (base 100)



Eastern Europe Bonds—Performance (base 100)



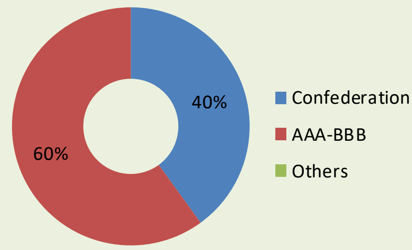
 Graph sources: BearBull Group/Bloomberg

PROSPECTS AND STRATEGIES

Swiss Bonds

- Bond yields are one again attractive
- Inflation falls below +3% in March
- Positive but moderate short-term outlook

Swiss Bonds allocation



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

Tactical allocation

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

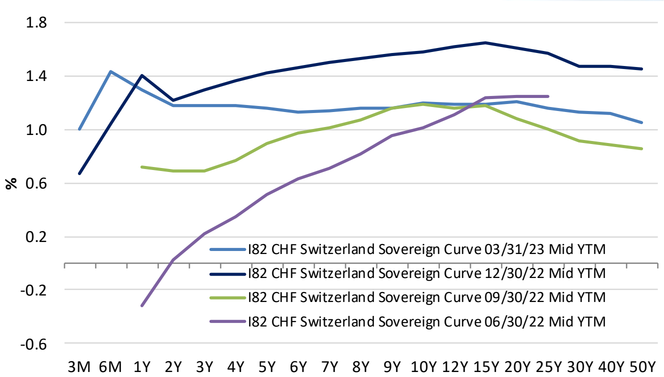
Bond yields are one again attractive

The correlation remains high between the capital markets, which still fluctuate to a large extent in tune with US economic statistics and the Federal Reserve's monetary policy expectations. The Swiss market is no exception to this correlation, as are other markets. Despite different economic cycles and different monetary policies, the less favourable than expected evolution of inflation in most countries has rekindled uncertainties regarding monetary policies. In Switzerland, too, the January and February inflation figures have rekindled speculation that the SNB will tighten its policy. While expectations were previously more moderate and supported by monthly inflation close to zero, the adjustment since then has caused a 50 bp adjustment in yields on most maturities. While the SNB's policy rate expectations are now at 1.5%, both the two-year federal government yields and the 10-year bond yields have also reached 1.5%. We had already announced that the sharp rise in the Swiss yield curve at the end of the year seemed to us premature given the Swiss economic context and the prospect of a reduction in inflationary pressures in 2023. At the time, we saw these yield levels as opportunities for Swiss investors who had been deprived of them since 2014 if inflation remained on a downward trend. Today, the projected increase in key rates for the first half of the year from around 1.5% to 2% is already close to the observed level of the entire government yield curve. We believe that rates have therefore reached a likely level of stabilization in the context of the current economic slowdown and an upcoming decline in inflationary pressures. In this context, Swiss bonds offer attractive new prospects.

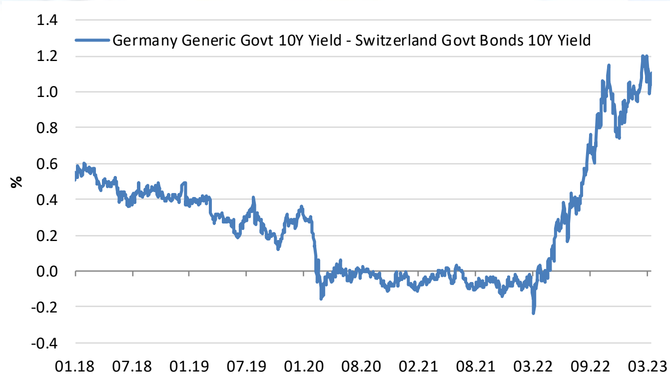
Inflation falls below +3% in March

The recent evolution of inflation in Switzerland had surprised observers in January and February. The monthly increase of +0.7% in February was indeed higher than expected (+0.5%). The year-on-year increase of +3.4% was thus stronger than expected (+3.1%). The surprise came from the rise in airfares, travel prices, gasoline and rents. Inflation excluding food and energy was +2.4%, exceeding the SNB's target significantly for the first time. However, the reference interest rate for rental contracts remained unchanged at 1.25%, which should limit the contribution of rents to a further rise in inflation. The evolution of the Swiss franc against the euro and the dollar has not had a significant specific impact, so the currency factor has not contributed to containing the evolution of prices in our country in recent months. The monthly inflation rate, which was around +0.7% until June 2022, had dropped to 0% per month by the end of December, giving rise to expectations of a significant improvement in price indices for the first half of 2023. The last two statistics published in January and February had logically revived uncertainties and the perception of risks of a resumption of inflation. However, the latest figures for March put the data from the beginning of the year into perspective once again, with CPI growth of barely +0.2%, which allows inflation (+2.9%) to fall below the +3% threshold over one year in Switzerland. In terms of producer prices, the situation improved further with the -0.2% decline in prices in March, lowering the year-on-year price increase from +3.3% to +2.7%. We believe that this development in March should help companies control their costs and margins. The stabilization of producer prices allows us to project a more positive outlook for consumer prices.

Yield Curve Swiss Government

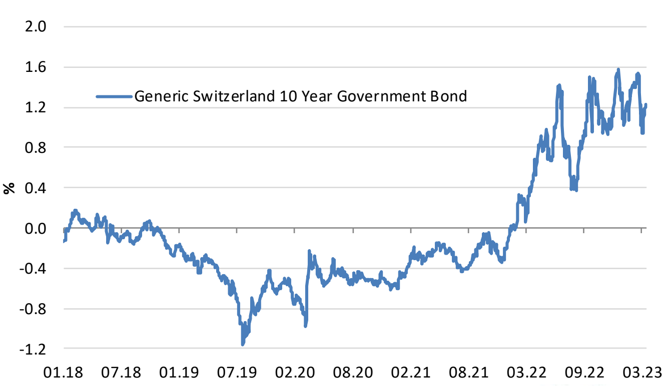


Long-term Interest Rate Differential (German Bund - Swiss Gov)

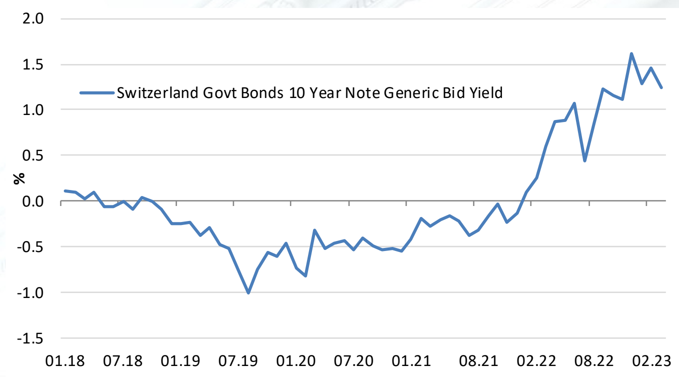


 Graph sources: BearBull Group/Bloomberg

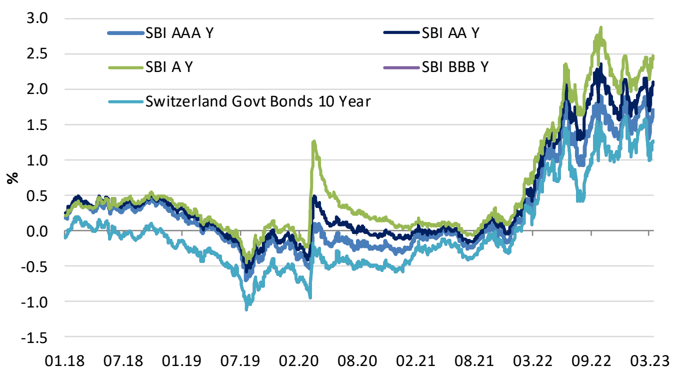
Swiss Government Bonds - 10 year Rate



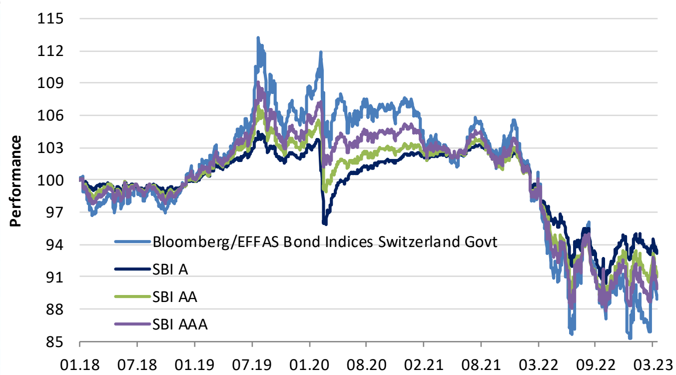
Swiss Government Long Rates since 2018



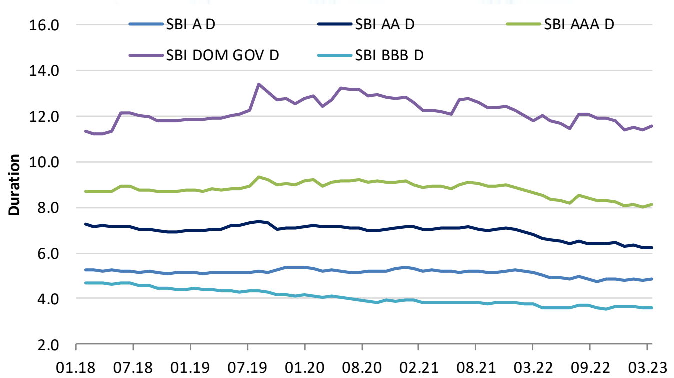
Yield (in %) by Type of Debtor



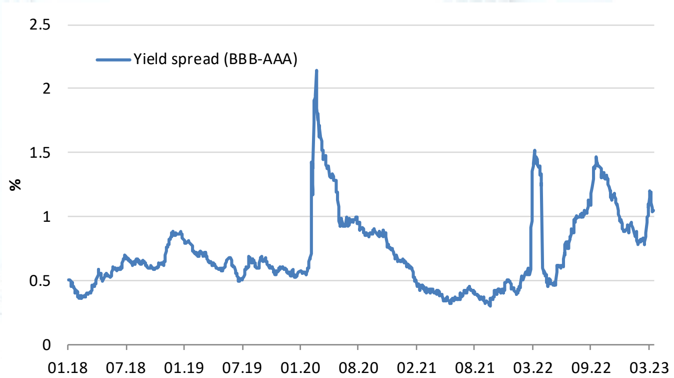
Performance of Swiss Bonds (base 100)



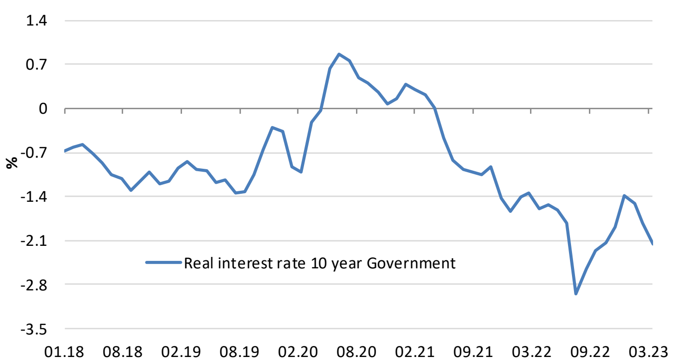
Duration of Swiss Bond Indices



Yield Spread



Real Interest Rates



SWISS BOND INDICES (CHF)

31.03.2023

N° ISIN	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
			Total Return Performance				
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	232.5	CHF	-1.4	3.1	4.3	-1.1	4.3
SBI A-BBB	127.7	CHF	-0.5	-0.1	0.6	2.1	0.6
SBI AA-BBB	124.4	CHF	-0.8	0.1	0.8	1.6	0.8
SBI AAA-AA	122.8	CHF	-1.2	1.0	1.6	0.5	1.6
SBI BBB	139.7	CHF	-0.3	-0.1	0.7	2.5	0.7
SBI AAA-BBB	124.2	CHF	-1.0	0.7	1.4	0.9	1.4
SBI DOM GOV AAA-BBB 1-3P	58.9	CHF	-0.6	0.2	0.0	-1.2	0.0
SBI DOM GOV AAA-BBB 3-7P	73.8	CHF	-0.9	0.8	0.9	-1.6	0.9
SBI DOM GOV AAA-BBB 7+ P	105.3	CHF	-1.8	4.3	5.7	-2.2	5.7

Graph sources: BearBull Group/Bloomberg

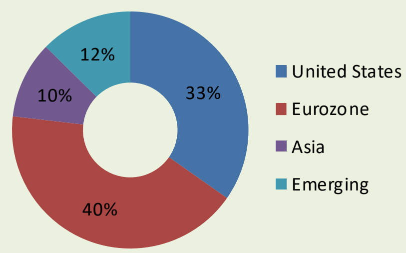
PROSPECTS AND STRATEGIES

International Real Estate

- Return of volatility in securitized real estate
- The correction in securitized real estate is an opportunity
- European real estate unfairly penalized by the banking crisis
- Attractive discounts in Europe and the UK

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

International Real Estate allocation



Tactical allocation

- Overweight in real estate class international
- Focus on Europe

Return of volatility in securitized real estate

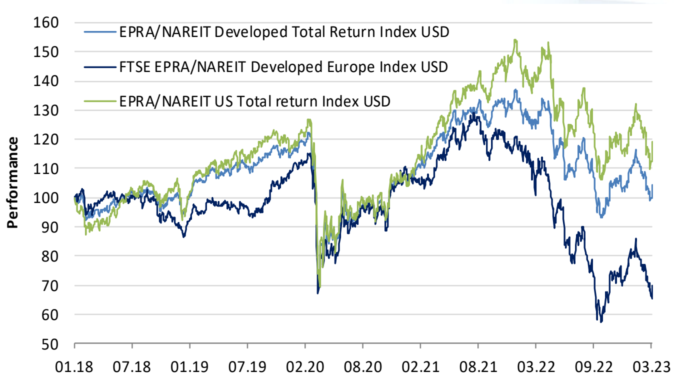
After a very nice price recovery in the last quarter of 2022 (+7.5%), securitized real estate saw a return of volatility in the first quarter of 2023. The quarter had started off rather well thanks to a trio of factors that aligned to allow for a revaluation of real estate values. Falling inflation, the correction in interest rates and the hope that the monetary tightening cycle would soon end provided a favourable environment in January that pushed prices up by around +9%. The appearance of a *no landing scenario* in the United States in February and the complete reversal of its potential implications for the three factors mentioned completely reshuffled the deck for financial assets and for the securitized real estate segment as well. The rebound in interest rates that quickly took hold totally changed the conditions for assessing risks and opportunities for listed real estate. Rising financing costs have negatively impacted the current valuation of real estate assets held by pushing down the prices of REITs and real estate companies. The fall was severe, with real estate indices losing all of their January gains and ending virtually unchanged for three months. The banking crisis in mid-March did not help reassure investors, despite the fall in interest rates which was one of the first consequences and then the clear increase in the probabilities suggesting the possible immediate end of the Fed's restrictive policy. Now torn between the positive aspects of a fall in interest rates and therefore in their financing costs and the risks of a tightening of access to credit, listed real estate seems at the beginning of this quarter to be still under the shock of this versatility of scenarios and prices.

From a regional perspective, US real estate fared slightly better with a slightly positive performance of +2.67%, which contrasts with the declines in other regions. Europe still seems to be the most affected, with a quarterly drop of -7.44%, followed by emerging real estate (-4.21%), while Asia (-1.54%) and the United Kingdom (-1.35%) slip slightly.

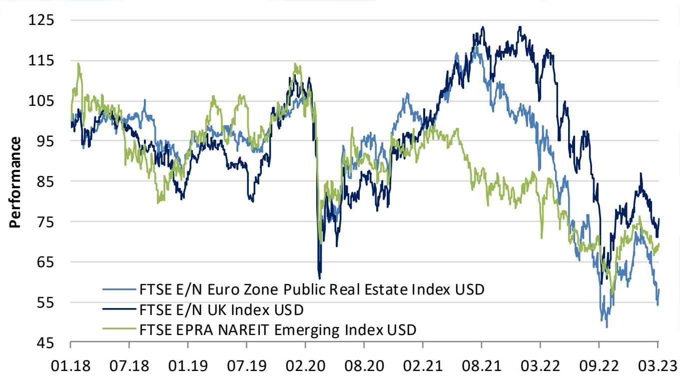
The outperformance of the U.S. market can be justified by the positioning of the much more advanced interest rate, inflation and monetary policy cycle, the negative impacts of which on the valuation of listed real estate have already been taken into account and the upcoming developments of which are now more favourable. In Europe, inflation is not yet really under control and interest rates will have to rise further to allow inflation to fall.

Overall, the events of the quarter have affected investor confidence, as investors have not yet taken the time to seriously reassess the situation of securitized real estate. The refinancing risks of listed real estate assets do not seem to us to be in line with the current valuation level, still influenced by the return of volatility during the quarter.

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



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



Graph sources: BearBull Group/Bloomberg

The correction in securitized real estate is an opportunity

The fall in listed real estate values observed in February and March does not seem to us to reflect the real situation, which is clearly more favourable for most of them. In fact, real estate valuations are now frequently trading below their book value, often falling back to the price levels of the beginning of Q4 2022 and sometimes even significantly below them. It is thus not uncommon to see iconic *leading* stocks in their markets trading at less than 50% of their intrinsic value, which in our view clearly reflects a very pessimistic view of both the value of the real estate investments held and the estimated excessive effects of higher financing costs on their results. Securitized real estate, unlike all other asset classes, has not yet reacted positively to the drop in funding costs in recent weeks, which is having a significant impact on real estate as well. This asset class has therefore not really benefited from a positive revaluation of the factors that previously triggered waves of selling.

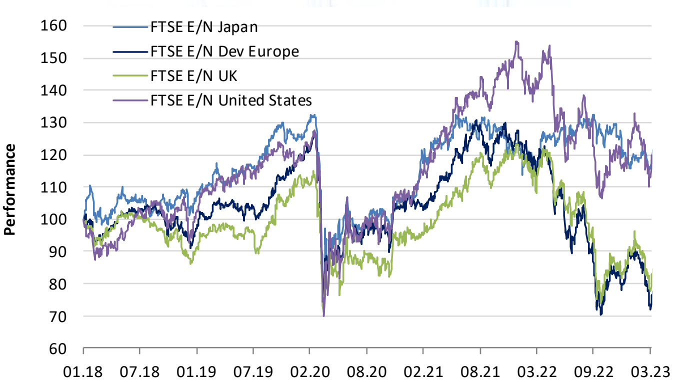
In other words, the consensus macroeconomic scenario now favours a global economic slowdown again, with relatively little likelihood of sharp regional recessions, which is rather a favourable environment for interest rate developments. Furthermore, the inflationary outlook is clearly improving in the US, while in Japan and China it does not seem to be a source of risk for the upcoming interest rate trend, which is also a positive factor in these regions. Only Europe seems to be further behind these two trends, but the level of price correction potentially already takes the risks of rising rates into account to a large extent.

Consequently, we consider that securitized real estate represents a diversification opportunity that deserves an overweight allocation.

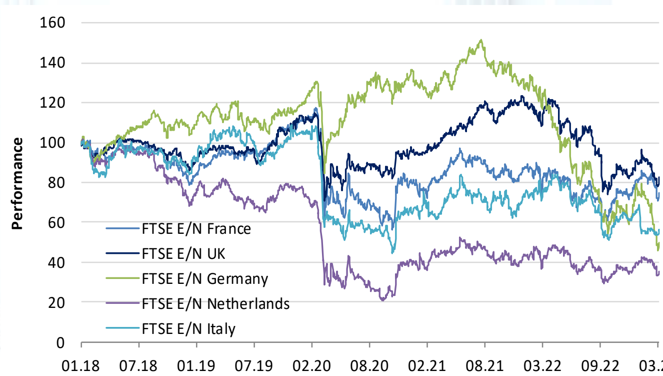
Direct and securitized real estate markets in the United States

Since the dramatic change in U.S. monetary policy that began in March 2022 and the subsequent rapid rise in mortgage rates, house prices have initially been in a markedly slowing trend, entering a relatively steady monthly price decline in July 2022. This trend is still in place. Indeed, real estate prices slipped another -0.2% in January, marking the seventh consecutive month of decline for an overall decline of -3% since the June 2022 peak according to the *S&P CoreLogic Case-Shiller 20 City Composite Index*. On a year-over-year basis, the *national index* is now up only +3.8%, slightly below its December performance (+5.6%) but well behind the price acceleration visible in April 2022 (+21%). We had frequently suggested that this downward trend should take hold and continue in the coming quarters, given the foreseeable evolution of the main parameters affecting the real estate market. Higher financing costs have dampened momentum and limited demand, but mortgage rates have fallen back to the lowest levels in six weeks. However, at 6.45% at 30 years, they remain about 2% higher than at the beginning of 2022 and are holding back new mortgage applications (-4.1%). Indeed, it is likely that the recent banking crisis is making access to credit a bit more difficult, while refinancing requests are up and home sales have also picked up slightly in all regions except the western United States. The housing market may be stabilizing. With respect to securitized real estate, there still seems to be uncertainty. We believe, on the contrary, that the evolution of inflation, monetary policy and yield curves are already on a path that will prove more favourable to listed real estate investments, which therefore seems to us to have already incorporated risks, which will not fully materialize, and probably offers opportunities for repositioning in the medium term.

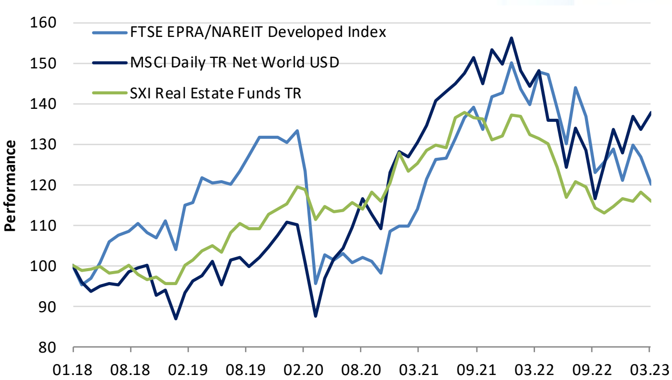
Real Estate Markets in Local Currencies



European Property Markets in Local Currencies



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



INTERNATIONAL REAL ESTATE INDICES (local currency)

31.03.2023				Total Return Performance				
Region	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2699.5	USD	4.4	-1.9	0.8	8.3	0.8
DEVELOPED	EPRA/NAREIT Dev TR USD	5213.3	USD	4.8	-1.8	1.0	8.2	1.0
DEVELOPED EUROPE	FTSE E/N Dev Europe	1436.8	EUR	4.5	-8.2	-4.6	-0.1	-4.6
EUROZONE	FTSE E/N Euro Zone	1369.3	EUR	3.5	-12.5	-7.4	-4.4	-7.4
USA	FTSE E/N United States	2871.8	USD	6.1	-1.2	2.7	7.9	2.7
DEVELOPED ASIA	FTSE E/N Dev Asia	1312.5	EUR	0.3	-2.3	-3.1	-3.0	-3.1

Graph sources: BearBull Group/Bloomberg

But securitized real estate has already taken into account the current difficulties of direct real estate in the United States. It is still down by 26% at the end of March, after having reached a low corresponding to a fall of nearly 36% between the peak in December 2021 and the low point in October 2022. The *EPRA Nareit US index* has an average yield of 4.41%, a total debt to total assets ratio of 45% and a price to net assets ratio of 185%.

Real estate unfairly penalized by the banking crisis

Securitized real estate in Europe is still suffering from the effects of interest rate tensions and access to credit. The risks of instability in the financial system caused by the bankruptcy of the SVB have once again created uncertainty that is damaging to the valuation of securitized real estate investments. The *EPRA Nareit index* has fallen by -25% in two months, losing all the gains made since September 2022. The index is back to its lowest level, down -50% since August 2021. Increased uncertainty in Europe has logically affected risky assets, but in the case of European real estate, the valuation of certain companies is already, in our view, taking into account a decline in asset holdings as well as an increase in financing costs. At less than 50% of book value, some stocks present exceptional opportunities despite the context of rising financing costs. The European real estate market now offers unique investment opportunities.

Securitized real estate has already largely taken into account the current difficulties of direct real estate in Europe. It is still down by 37% at the end of March, after having reached a low corresponding to a fall of nearly 44% between the peak in December 2021 and the low point in September 2022. The *EPRA Nareit EUrozone index* has an average yield of 6.82%, a total debt to total assets ratio of 42% and a price to net assets ratio of 51%.

UK direct real estate slowdown

Annual house price growth fell to +6.3% year-on-year and thus posted its weakest growth since October 2020. The decline is clear and affects all regions of the UK. From now on, the price increase is only +3.2% in London. The monthly indicator published by the Nationwide Building Society shows a sequence of seven consecutive months of declines. The property boom is therefore finally showing signs of weakness. Since the peak in July 2020 (+14%/year), the decline in prices has been very clear. Although financing rates have eased in recent months, households are facing a shock when they renew their mortgages. The drop in mortgage financing approvals has stabilized, but is nearly 50% below the level of the summer of 2022. This indicator points to a more significant drop in house prices in the coming months. The already difficult situation of households due to rising inflation will be further exacerbated by the rising cost of mortgage financing on their budgets. The UK housing market is likely to be more strongly affected in 2023 by the reduced ability of households to invest or even maintain their property investments. In the context of the expected economic slowdown in 2023, a decline of around -10% in house prices, less severe than the one induced after the 2008 financial crisis which saw prices fall by -16%, seems likely.

But securitized real estate has already taken into account the current difficulties of direct real estate. It is still down sharply at the end of March by -37%, after having reached a low corresponding to a fall of almost-44% between the peak in December 2021 and the low point in September 2022. The *EPRA Nareit UK index* has an average yield of 4.57%, a total debt to total assets ratio of 27.7% and a price to net assets ratio of 65%.

It is still a little early to consider exposure to China

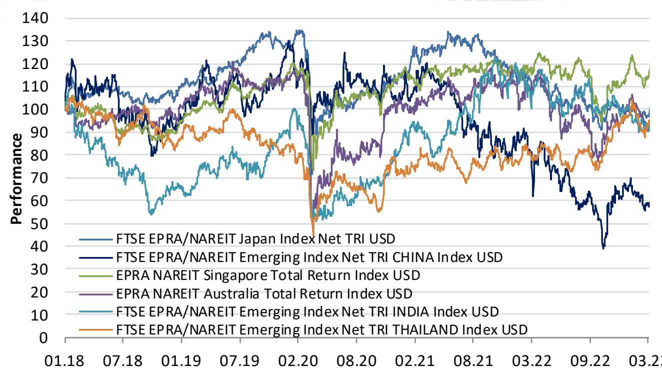
Direct property prices in China rose by an average of +0.44% (new properties) in sixty-four Chinese cities, the second consecutive month of price increases on a monthly basis. Encouraging signs were also observed in the secondary market. On a yearly basis, new housing prices are declining by -1.7%. Government policies aimed at stabilizing the real estate market seem to be starting to have a positive effect on investor confidence. It is probably still a little early to say that the problems in the Chinese real estate sector are being resolved. However, it is worth noting that access to external financing for developers has been facilitated, which has enhanced their ability to restructure their debts. Lower mortgage rates are also an additional supporting factor, which will be further supported by the easing of rules for property acquisition.

As far as Chinese securitized real estate is concerned, we still recommend caution before considering taking a specific position in this still fragile and non-transparent market.

Attractive discounts in Europe and the UK

The new inflation regime that seems to be taking hold may now positively influence monetary policy. This new investment climate will be conducive to a decrease in interest rate pressures and a new assessment of the risks and opportunities for the securitized real estate markets. We still believe that this asset class is underrepresented in a diversified asset allocation. It should benefit from investors' desire to build more balanced portfolios. We recommend an overweight tactical allocation and in terms of regional positioning, we believe that a revaluation of eurozone investments is likely given their attractive financial ratios.

Real Estate Market Developments (USD)



Graph sources: BearBull Group/Bloomberg

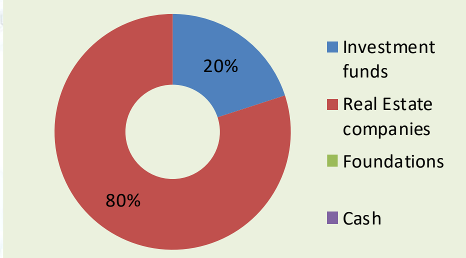
PROSPECTS AND STRATEGIES

Swiss Real Estate

- Swiss securitized real estate offers opportunities
- Attractive absolute and relative returns
- Positive outlook for both forms of investment

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

Swiss Real Estate allocation



Tactical allocation

- Agios, yields and risk premium again very attractive
- Focus on listed real estate companies

Swiss securitized real estate offers opportunities

Despite the tightening of monetary conditions in Switzerland with the SNB's key interest rate hike of 225 bps in just nine months from -0.75% to 1.5%, and the subsequent adjustments in Swiss franc bond yields observed on the yield curves, securitized real estate investments remained relatively stable. The *Swiss real estate investment trust index* actually ended March unchanged from June 30, 2022, the date of the first SNB key rate hike from -0.75% to -0.25%. This relative stability nevertheless masks short-term volatility in investment funds, which were also affected by changes in risk perception during the period. After an increase of +8.76% in the last quarter of 2022, the *SXI Real Estate Funds index* ended the first quarter with a limited increase of +0.46%. Listed real estate companies followed a similar path (+8.94%) in the last quarter, as they did in Q1 2023 (+1.54%). The current context of the Swiss securitized real estate market presents a very special situation in terms of the valuation of listed funds. While the average premium had exceeded 40% at the beginning of 2022, it fell to 12.8% at the end of March 2023, down from 13.8% at the end of December. Half of the investment funds even have a disagio of more than -20% to date. The current level of agio is below the historical average of close to 20% and close to its lowest level reached in 2008 at below 10%. Commercial funds are already in disagio and almost at their lowest level of 2008. For listed real estate companies, the disagio is now -4%, its lowest level since 2010. With ten-year federal government rates between 1% and 1.5%, financing conditions in Switzerland have not deteriorated as much as in other countries and therefore do not have a significant impact on the valuation of securitized real estate. Historically, it has been observed that financing costs must be higher than the return on funds for the average premium to fall below 15%. Only financing costs above 4% have caused agio to fall to zero on a sustained basis and potential disagio conditions. We believe that interest rates in Switzerland are unlikely to rise above the current yield of real estate funds of around 2.8%, which rules out the risk of prices falling sufficiently to lower the current premium level.

Attractive absolute and relative returns

The yield of *real estate funds* is 2.8% and that of real estate companies is even 3.7%. Taking into account a flat rate curve for the Confederation's yields of 1.25% on average, the profitability of listed real estate investments seems to us to be very attractive both in absolute and relative terms. The risk premium for real estate companies is even close to 250 bps which represents an attractive premium in the present context.

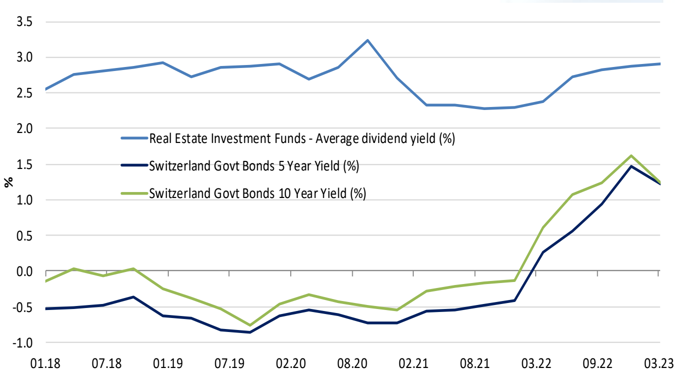
Positive outlook for both forms of investment

Current valuation levels present interesting repositioning opportunities. We are therefore overweighting securitized real estate in a diversified asset allocation.

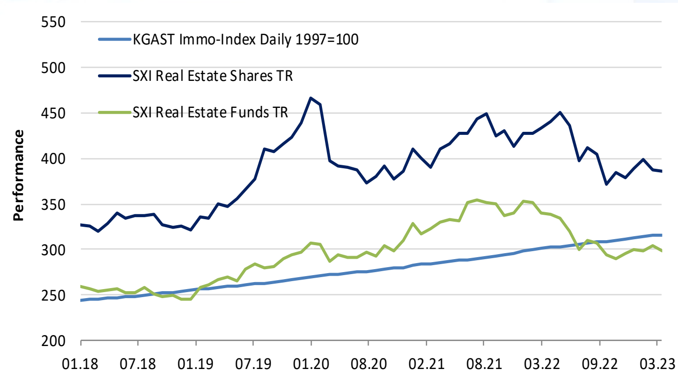
SWISS REAL ESTATE

31.03.2023		Total Return Performance				
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	438.3	2.1	-0.7	-0.4	-0.8	-0.4
SXI Real Estate Idx TR	2872.2	3.0	0.8	-1.0	-3.1	-1.0
KGAST Immo-Index	352.8	0.2	0.2	1.2	3.4	0.7

Government and Real Estate Yield



Performance of Swiss Real Estate

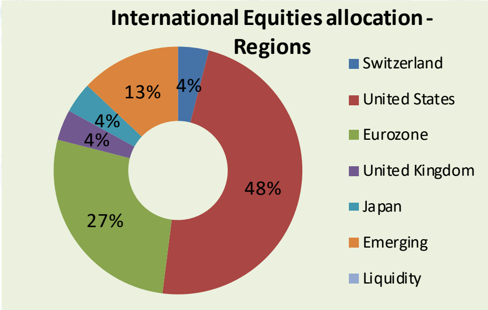


Graph sources: BearBull Group/Bloomberg

PROSPECTS AND STRATEGIES

International Equities - Regions

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



Tactical allocation

- Overweight the United States
- Reinvestment in emerging countries

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

Rather positive economic and monetary conditions

Inflation will remain the main factor to watch in the coming months, but an easing of price indices remains the most likely scenario given the more difficult situation for consumption and economic growth. The ongoing slowdown should provide support to expectations of a softening of some yield curves, while the return of QE and an increase in global liquidity could also contribute to this trend. The end of the monetary tightening cycle in the U.S. is increasingly likely, while China and Japan will remain accommodative.

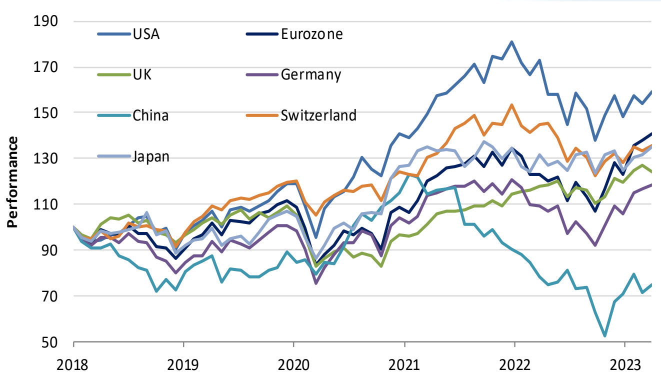
Financial assets should benefit from this change in sentiment and paradigm resulting from the complete overhaul of the macroeconomic scenario and interest rate expectations. After a particularly uncertain and volatile first quarter, the stock market climate is still searching for a certain serenity which we expect to strengthen during the spring. A gradual easing of inflationary pressures and interest rate uncertainties will, however, have a positive impact on the capital markets and on the valuation of equity markets. Lower financing costs and lower discount factors for future earnings will have a positive impact on markets and PE. The Q1 earnings season should not already be affected by the prospect of an economic slowdown, as earnings growth expectations are already rather low for the full year.

For the year 2023 as a whole, however, the economic outlook remains positive in almost all countries. A US *soft landing* essentially centered on the summer does not erase the prospect of an annual GDP increase of +1%. In Asia, estimates for China (+5%) and India (+5.5%) are solid and will also support a recovery in Japan (+1%). In Europe, the Eurozone seems more at risk (+0.7%), and only the UK could enter a real recession (-0.5%) in 2023. Overall, a global economic slowdown is more likely than a general recession, suggesting a resilience in corporate profits allowing for an increase in equity indices.

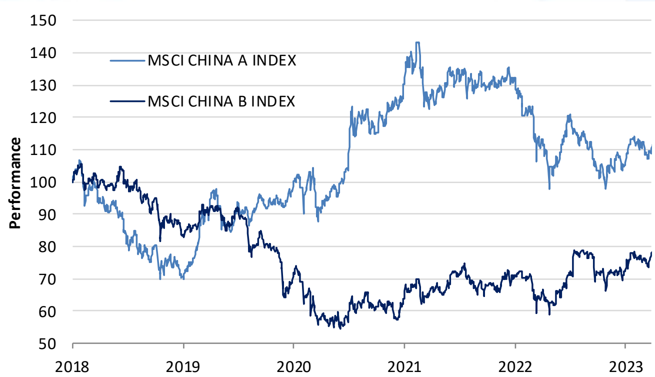
Favoured growth values

Growth stocks had been more widely affected in 2022 by rising interest rates. Nasdaq stocks in particular reflected this trend quite clearly, falling much more sharply until September. Since then, we have repeatedly mentioned the improvement in valuation conditions for growth stocks, which seems even more relevant at the beginning of the second quarter. The paradigm shift in interest rates is a key factor in the present and future evolution of the relative performance of *growth* and *value* styles. The outperformance of the *S&P500* growth (+11.04%) versus the *value* segment (+5.77%) by more than 500 bps in Q1 should continue in our view with the expected decline in inflation and interest rates. We recommend to focus on the growth style in a diversified investment strategy for the coming months.

Long-term Equity Markets (base 100)



Chinese A and B Shares (base 100)



Graph sources: BearBull Group/Bloomberg

BearBull Global Investments Group

Outlook for equities remains positive

The quarter was volatile in the equity markets due to fickle economic scenarios and drastic changes in the outlook for Fed funds and interest rates. But with the return of a *soft landing scenario* and the probable end of the rate hike cycle, the macroeconomic environment at the beginning of the second quarter confirms our positive outlook for US stocks. They should indeed benefit from a certain normalization of the yield curves and a drop in financing costs, which will accompany the announced decline in inflation that is taking shape. The rebound in equity indices in recent weeks has erased the March correction linked to unfounded expectations of an overly strong US economy and further tightening of monetary policy. Growth stocks (+11.04%) have significantly outperformed substance stocks (+5.77%) in line with our expectations based on a normalization of interest rates that is more favourable to technology stocks in particular, which have been favoured since the beginning of the year in our investment policy. We believe that the expected earnings growth for the S&P500 of close to zero for the next twelve months is particularly conservative and therefore maintain a positive view of the next evolution of equities while maintaining an overweight on growth stocks.

European equities resist uncertainty

The banking crisis of the last few weeks, which had also affected European indices and in particular its banking sector, seems to have been fully digested by investors who are still convinced by the positive fundamentals of European stocks. The rebound of the *Stoxx 50 index* has allowed it to regain its previous peak of early March, while the banking sector is still far behind (-14%), despite a significant rebound of +10% from its low point of March 20th. European stocks still have a significant discount to US stocks. The valuation of 12.3x earnings for 2023 is thus lower than the *S&P500*'s PE of 18.5x. They also look attractive compared to Japanese stocks (16.5x) and are on par with Chinese stocks (12.1x). The average dividend yield in Europe (3.25%) is also attractive and far exceeds that of the US (1.7%) and Japan (2%) in particular. Thus, despite a +7% outperformance since the beginning of the year, European equities still deserve to be favoured in the perspective of 2023, unless the next ECB rate hikes end up disrupting investors' appreciation of risks and opportunities.

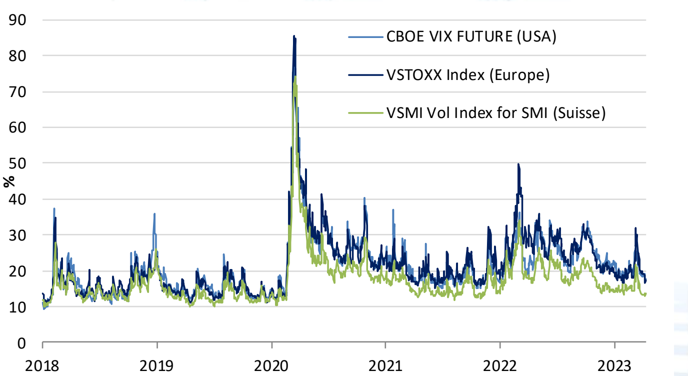
Mixed outlook for Japanese equities

The Japanese banking sector recorded its worst weekly performance since April 2020 in the wake of the Silicon Valley Bank bankruptcy in the US. The -18% correction in the banking sector in five days is a testament to the panic caused also in Japan by the failure of a US bank. Overall, the *Topix composite index* erased almost all of its gains for the year, falling by almost -8%.

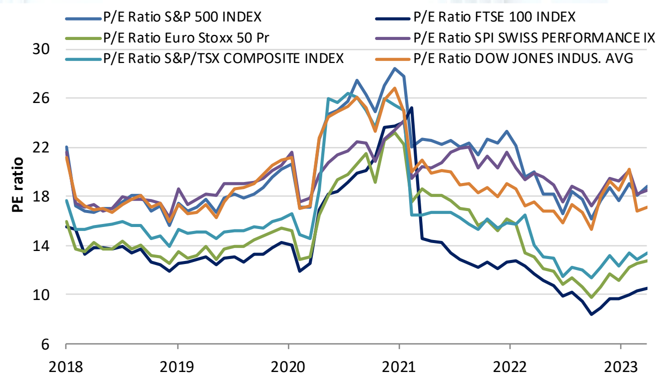
The gradual improvement in the international stock market climate had also benefited the Japanese indices, which were approaching their 2021 highs before this event. The absence of pressure on Japanese interest rates has certainly proved to be a key factor in the exceptional resilience of Japanese stocks, even though the profit outlook for companies was still negatively affected by the decline in international demand and still sluggish domestic consumption.

In relative terms, the Nikkei is no longer as attractive today with a valuation of 16x 2023 earnings, compared to a PE of just 12x for European stocks. However, it remains cheaper than the *S&P500* (PE of 17x). The decline in the relative risk premium for Japanese stocks in the stabilizing yen environment now limits the attractiveness of Japanese equities in an internationally diversified strategy. In this environment, despite the still relatively positive outlook, we suggest an underweight allocation to Japanese stocks.

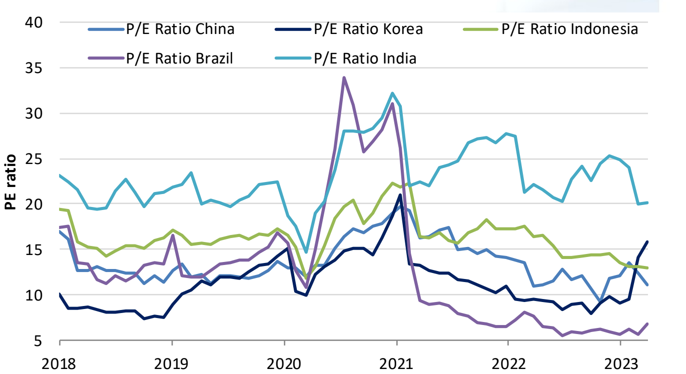
Volatility Indicators (USA, Europe, Suisse)



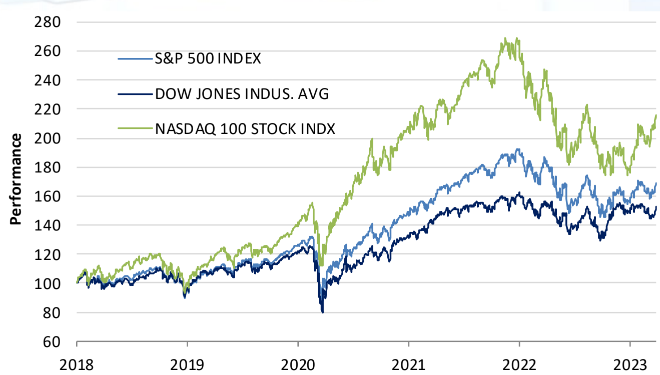
Developed Market PE



Developed Market PE



US Equity Markets (base 100)



Graph sources: BearBull Group/Bloomberg

UK equities still attractive

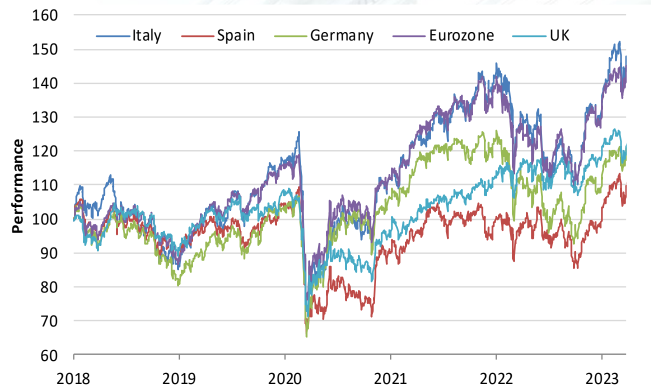
The banking crisis in March also hit the UK equity market quite hard, as the banking sector's weighting of around 9% is higher than the *S&P500*'s 3%. While the sector had been benefiting for months from expectations of improving interest margins, the SVB case highlighted the risks of mismatches between banks' assets and liabilities. Corrections in mining stocks also weighed on the overall indices. The fall in oil and gas prices is a cause for concern and calls into question the hitherto positive outlook for the energy sector. However, the fall in UK stocks in recent weeks is probably already excessive. Technical valuation measures suggest an oversold situation. Moreover, from a fundamental point of view, they still enjoy a significant competitive advantage thanks to a particularly advantageous stock valuation. Indeed, at 10x 2023 earnings, they benefit from a discount of -17% compared to the *Euro Stoxx 50* (PE 12x) and -45% compared to the *S&P500* (18.4x). This valuation gap should be favourable.

Emerging markets

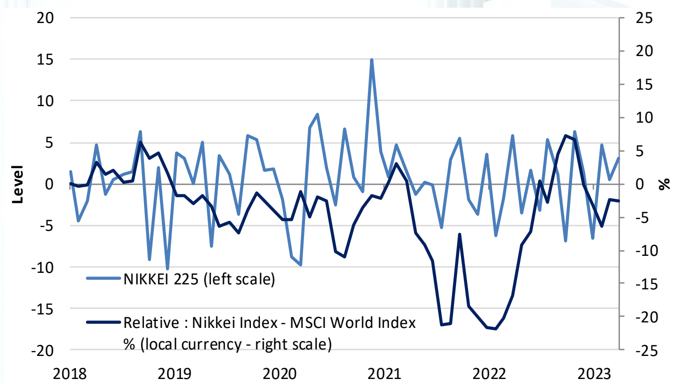
Emerging markets again underperformed the global indices in Q1 2023. Their average performance of +4.77% actually underperformed the *MSCI World Index* (+9.26%) and the *S&P 500 Value and Growth Indexes*. The Chinese economic recovery has not yet had an effect on the evolution of Chinese equity indices, with the *CSI 300* remaining barely up by +5.14% over the same period.

The indebted emerging economies have largely suffered from the rise in US interest rates and the depreciation of their currencies against the US dollar. However, the latest developments on both these factors are improving conditions in emerging markets. The fall of the *dollar trade weighted index* by -11% and the fall in interest rates could encourage renewed investor interest in assets that were particularly hard hit in 2022 and that have not yet reacted in 2023 to any improvement in the situation.

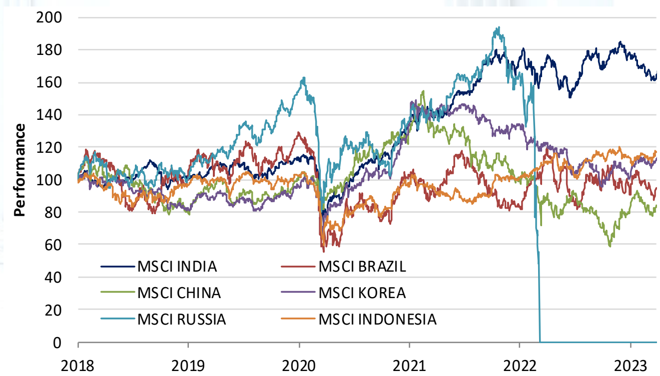
Equity Markets (base 100)



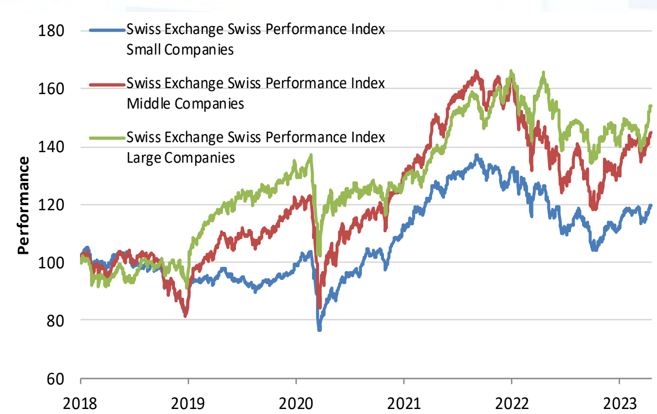
Japan Equity Markets VS MSCI World



Emerging Equity Markets (base 100)



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



EQUITIES - BY REGION (local currency)

31.03.2023

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
				Total Return Performance				
SWITZERLAND	SPI Swiss Performance Index	14547.1	CHF	4.4	2.0	5.9	10.5	5.9
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	5122.2	CHF	4.0	0.6	10.0	18.0	10.0
EUROPE	STXE 600 € Pr	457.8	EUR	4.2	0.6	8.6	19.4	8.6
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	494.8	EUR	4.0	-3.3	5.9	17.4	5.9
UK	FTSE All-Share Index	4157.9	GBP	3.0	-3.2	3.1	12.2	3.1
USA	S&P 500 Index	4109.3	USD	3.5	4.2	7.5	15.6	7.5
USA SMALL-MID CAPS	RUSSELL 2500	772.1	USD	4.6	-3.9	3.4	11.0	3.4
JAPAN	NIKKEI 225	28041.5	JPY	3.3	2.8	8.5	9.4	8.5
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	1082.2	JPY	3.3	1.0	6.7	9.2	6.7
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	523.9	USD	2.0	1.0	4.2	17.0	4.2
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	1079.6	USD	2.1	-0.8	2.7	12.1	2.7
EMERGING	MSCI EM	990.3	USD	2.0	1.0	4.0	14.2	4.0
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	8603.2	USD	3.8	3.4	7.7	18.3	7.7

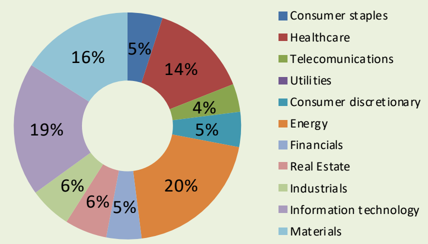
Graph sources: BearBull Group/Bloomberg

PROSPECTS AND STRATEGIES

International Equities - Sectors

- A first quarter of outperformance for the *growth style*
- A trend favoured by the end of the rate hike cycle
- Focus on sectors favoured by a decline in rates
- Overweight in technology
- Net underweight of the banking sector

International Equities allocation -sectors



Tactical allocation

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

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

EQUITIES - BY SECTOR

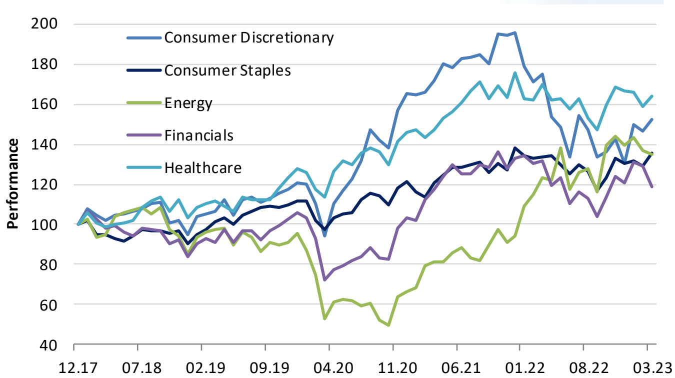
31.03.2023 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	338.2	USD	5.3	4.6	16.5	13.8	16.5
CONSUMER STAPLES	MSCI WORLD/CON STPL	277.9	USD	2.5	5.6	3.6	15.9	3.6
ENERGY	MSCI WORLD/ENERGY	235.4	USD	6.0	-2.9	-3.1	16.1	-3.1
FINANCIALS	MSCI WORLD/FINANCE	128.0	USD	4.3	-7.4	-1.4	14.4	-1.4
HEALTHCARE	MSCI WORLD/HLTH CARE	338.0	USD	2.4	3.7	-1.4	11.6	-1.4
INDUSTRIALS	MSCI WORLD/INDUSTRL	318.9	USD	4.4	1.5	7.2	26.5	7.2
MATERIALS	MSCI WORLD/MATERIAL	326.8	USD	5.0	0.5	6.3	24.8	6.3
REAL ESTATE	MSCI WORLD/REAL ESTATE	196.4	USD	4.4	-0.8	0.9	6.8	0.9
TECHNOLOGY	MSCI WORLD/INF TECH	475.5	USD	3.6	10.9	21.2	27.4	21.2
TELECOMMUNICATION	MSCI WORLD/TEL SVC	78.5	USD	1.7	9.5	18.2	18.8	18.2
UTILITIES	MSCI WORLD/UTILITY	152.6	USD	3.8	6.9	0.8	12.1	0.8

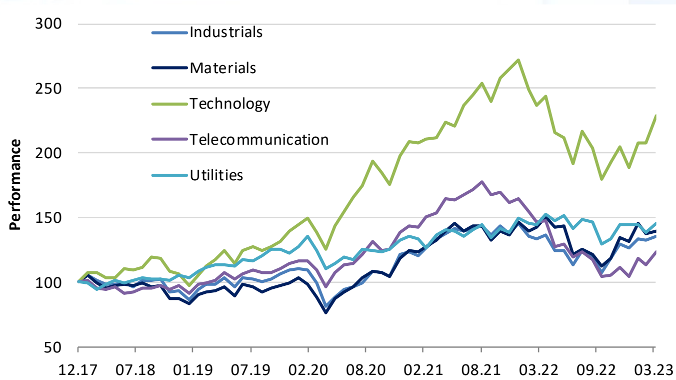
The first quarter saw a strong return to growth style after a particularly difficult year for growth companies and technology stocks. In the United States, the *S&P Value Index* ended the year with a slight decline of -5.25%, which was quite satisfactory in a period as turbulent as 2022. The *growth style* meanwhile suffered a sharp decline of -29.4%, due to the massive impact of stock corrections and valuations already mentioned as being quite excessive in 2021. In our last « Quarterly Strategy » of January, we noted that the anticipation of a probable end to the Federal Reserve's monetary tightening cycle would be an essential condition for a change in dynamics that would once again favour growth stocks. At the time, we believed that the maximum rate point should be reached in June and that it would not exceed 5%, while already announcing that the correction in the valuation of technology stocks in particular offered new opportunities for repositioning.

Stocks that are highly dependent on interest rates were expected to benefit the most from the end of the monetary tightening cycle expected at the end of the second quarter. In this context, technology and digital stocks were already expected to benefit from *bottom fishing* strategies in the first quarter and to continue their recovery phase with the expected normalization of interest rates in the first half of the year. The first quarter was indeed marked in the United States by this trend, which is favourable to our positioning. At the beginning of the quarter, we are maintaining a strategy that favours growth stocks and Nasdaq companies. Alternative energies are also favoured, as are the more traditional energy stocks. The banking crisis has prompted us to reconsider the banking sector in a diversified strategy from a new angle. The lack of visibility in this sector increases the level of risk associated with banking stocks, which will henceforth be much less present in our sector policy. We continue to favour the natural resources sector, particularly gold stocks.

Sectors - MSCI World (base at 100)



Sector Performance - MSCI World (base at 100)



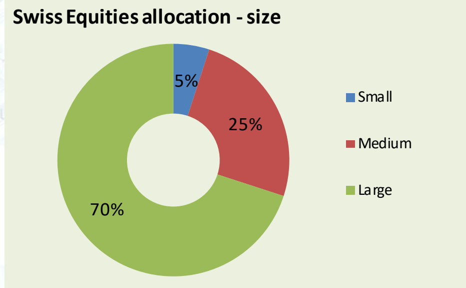
Graph sources: BearBull Group/Bloomberg

BearBull Global Investments Group

PROSPECTS AND STRATEGIES

Swiss Equities

- Globally positive expected return
- Market supported by global leaders in their sectors
- Performance threatened by high valuations



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

Tactical allocation

- Overweight mid caps
- Favour stocks with solid margins

Positive outlook for Swiss equities

Equity markets have been particularly sensitive and even highly correlated to the evolution of monetary policies and interest rates in 2022 and at the beginning of 2023. Recent fears of an upward revival of inflation in our country and its effects on yield curves have had relatively limited impacts on equity markets to date. The rise in 10-year rates by more than 100 bps in seven months has not caused any further correction in Swiss equity indices. The recent rebound in rates in February did not sufficiently affect investors, who took this factor into consideration in relative calm. After a very substantial price recovery in the fourth quarter and a further rise in January, the February correction is therefore rather limited and was finally followed by a welcome rebound at the end of the quarter. It would seem that the rate hike is not a decisive factor, but rather a reason to take profits after a +13% uptrend for the SMI since the pivot low in late September.

Technical factors could soon revive the uptrend as the SMI tests its 100-day average and returns well above the 200-day average. On the fundamental side, the prospect of a rising euro/CHF exchange rate should support the financial results of Swiss companies in 2023 and support their share prices. However, the latest rally has put the Swiss market back in the group of relatively expensive markets in terms of PE for the year 2023. With a PE of 17x, the SMI is just below the S&P500 (19x) and significantly above the CAC40 (12.9x), the Dax (11.9x) or the FTSE (10.9x). If the international stock market climate were to improve after an only temporary upturn in inflation and interest rates, Swiss stocks, often considered as more defensive stocks, could well be abandoned in favour of others, in particular growth stocks, once again supported by the expected easing in bond yields. However, the Swiss market still has a positive expected return for the coming months.

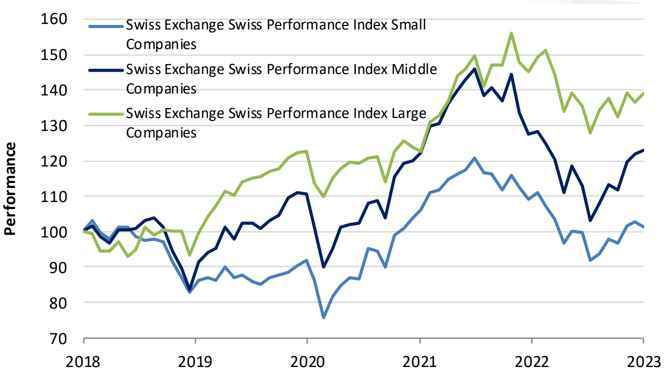
Market supported by global leaders in their sectors

The Swiss market has always been considered a defensive market, due in particular to the fact that its composition is largely represented by health and consumer stocks in both the SMI and the SPI. The relatively positive global economic scenario for the year as a whole, characterized by limited risks of a significant and lasting recession, should enable the Swiss economy to achieve a more than respectable performance in this context. Swiss GDP growth should support domestic stocks, while international stocks should, in our view, be able to maintain their earnings power and prove rather resilient. The international leadership position of many Swiss entities should continue to be favourable in the coming quarters, especially if a weaker Swiss franc finally materializes and supports the international profits of Swiss multinationals in francs.

Performance threatened by high valuations

The latest price increase above 11,300 for the SMI, however, puts the Swiss market in the group of relatively expensive markets in terms of PE for the year 2023. With a PE of 17x, the SMI is only slightly below the S&P500 (19x) and significantly above the CAC40 (12.9x), the Dax (11.9x) or the FTSE (10.9x). If the international stock market climate is once again a little more favourable to risk-taking, Swiss stocks, often considered as more defensive stocks, could well be abandoned in favour of others, particularly growth stocks, which are once again supported by the expected easing in bond yields. However, the Swiss market still has a positive expected return for the coming months.

Performance of Swiss Equities



SWISS EQUITIES - Capitalization

31.03.2023 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	14547.1	4.4	2.0	5.9	10.5	5.9
SPI SMALL COMPANIES INDX	28040.9	2.7	-1.1	4.6	10.1	4.6
SPI MIDDLE COMPANIES IDX	20388.8	4.1	0.8	10.2	19.3	10.2
SPI LARGE COMPANIES INDX	13905.8	4.5	2.3	5.0	8.7	5.0

PROSPECTS AND STRATEGIES

Swiss Equities - Sectors

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

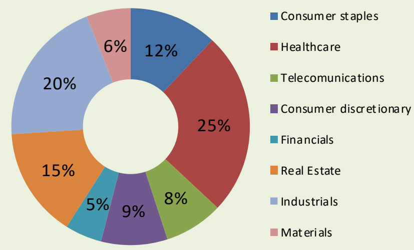
Slightly high earnings expectations for the SMI

Earnings expectations for all stocks in the *SMI index* are +16.5% for the next twelve months, even though the global economic scenario is rather moderately positive with risks of temporary regional recessions during the year. Almost half of the companies in the SMI have earnings expectations above +10%, while 40% of the stocks still have estimates below +5%. Consensus earnings expectations for the SMI already seem high by international standards for 2023, but expectations of +10.5% for 2024 also seem a bit optimistic. The situation is only slightly different for Swiss mid-cap companies, as expectations for the SPI Middle Cap are also +13.8% for 2024, but they are more reasonable for the current year with an expected growth of only +4.7%.

Investment policy focused on secondary stocks

Our investment policy for the coming months favours more cyclical and less defensive stocks, which should benefit from a change in investor sentiment that is less concerned by interest rate risks. Among the SMI's leading stocks, the financial sector is likely to be largely underweighted, with banking exposure significantly reduced. Large food and healthcare stocks should also be less represented in our diversified strategy. Overall, we believe that value now resides more clearly in mid-sized companies, which now deserve an expanded and overweighted position in our investment policy.

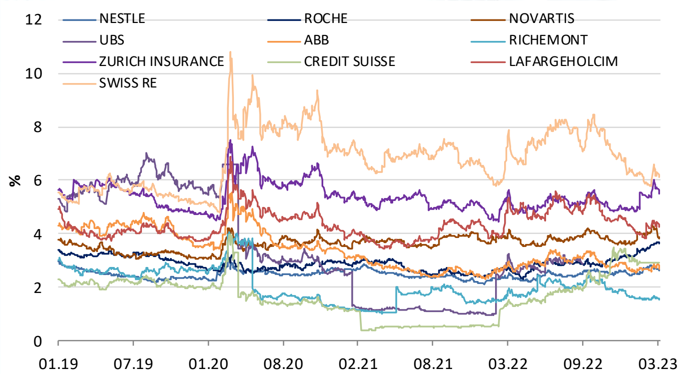
Swiss Equities allocation - sectors



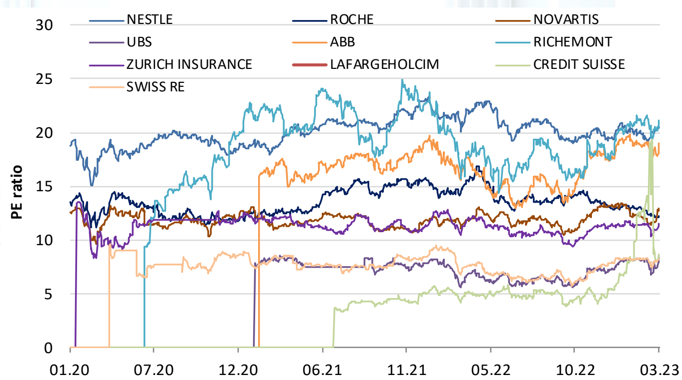
Tactical allocation

- Prioritize secondary values over *blue chips*
- Financial sector underweight

Dividend Yield - Top 10



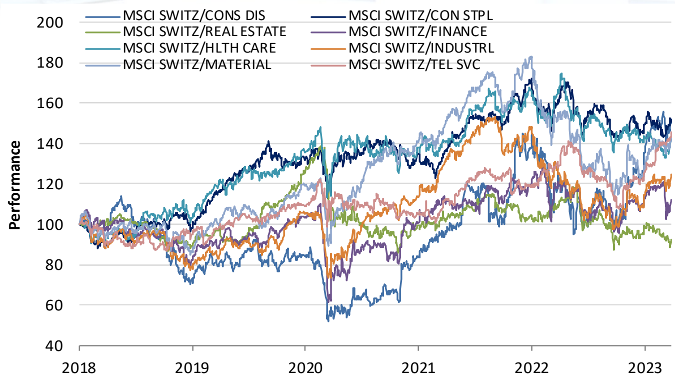
PE ratio - Top 10



SWISS EQUITIES - BY SECTOR

31.03.2023		Total Return Performance				
Name	**Last price**	**7 d %**	**1 m %**	**3 m %**	**6 m %**	**YTD %**
MSCI SWITZ/CONS DIS	472.5	4.6	1.1	21.4	52.4	21.4
MSCI SWITZ/CON STPL	371.1	1.8	5.5	4.7	4.6	4.7
MSCI SWITZ/FINANCE	58.6	6.1	-6.2	3.2	15.2	3.2
MSCI SWITZ/HLTH CARE	173.5	5.1	4.5	1.3	0.3	1.3
MSCI SWITZ/INDUSTRL	210.7	5.9	2.0	15.2	26.0	15.2
MSCI SWITZ/MATERIAL	390.7	4.2	2.4	15.7	21.9	15.7
MSCI SWITZ/REAL ESTATE	885.2	1.4	-1.4	-2.9	-1.5	-2.9
MSCI SWITZ/TEL SVC	110.2	3.0	4.6	19.5	30.6	19.5

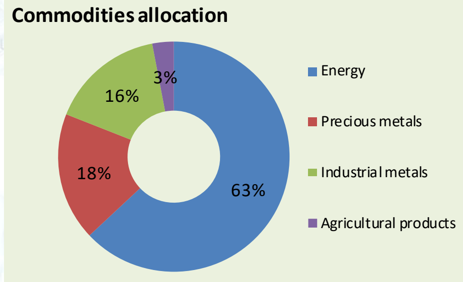
Sector Performance - Swiss Equities



Graph sources: BearBull Group/Bloomberg

PROSPECTS AND STRATEGIES

Commodities



- Stronger second quarter for energy and metals
- China's recovery will quickly unbalance the market
- OPEC sets the tone: target $100 a barrel

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

Tactical allocation

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

Stronger second quarter for energy and metals

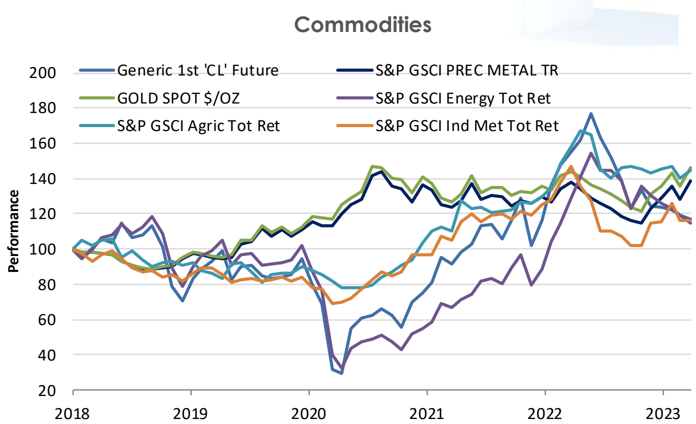
In 2022, commodities were the only asset class to achieve a positive return within our international investment universe. In our view, this net outperformance is not likely to end despite a lackluster first quarter. The *S&P Goldman Sachs Precious Metals Index* rose by +7.36%, outperforming most of the other asset classes, but the weakness in energy (-8.6%) temporarily affected the performance of the overall indices. We believe that the *soft landing scenario* with a clearer recovery in Chinese demand in the second quarter will again be favourable for commodities and will primarily benefit oil prices and industrial metals. Precious metals will also benefit from the falling dollar and lower interest rates. In our view, the current level of commodity prices is attractive for any investor who wants to have optimal diversification - including assets that are uncorrelated or even negatively correlated to other assets - but also to take advantage of an expected upward recovery in most segments in 2023.

China's recovery will quickly unbalance the market

The Chinese economy is emerging from a period of relative lethargy due to the zero Covid policy without a major show of strength and power in the first quarter of 2023. GDP growth for the year as a whole is expected to be in the range of +5% to +5.5%, but the first quarter still seems to be relatively weak, both because of a weak recovery in domestic demand and because external demand is still insufficient. It is certainly in the second quarter that the Chinese recovery should prove to be the strongest, temporarily exceeding +5%. The global economic slowdown in 2023 will therefore not reduce global demand for raw materials, but will only slow down the pace of its growth. The return of Chinese demand will be the main support factor, although a moderate slowdown in developed economies will be enough to help boost aggregate demand for raw materials. In 2022, capital expenditures did not change the environment of recent years, characterised by a generalised drop in *CAPEX* of about –40% in the oil sector and in the various commodity-producing sectors. The persistent structural imbalance between supply and demand is now exacerbated by restrictions on Russian exports, while inventories are already often at their lowest levels for several raw materials. The oil and mining companies do not seem willing to take the risk of launching new massive investments, like OPEC members, whose oil production is barely 29 mbd, still 15% below the peak of 2016. This reduction in the *Capex* will certainly extend the duration of the current supercycle by limiting the level of production.

OPEC sets the tone: target $100 a barrel

The decline in crude oil prices from their June 2022 highs above $120 to $70 was interrupted by the expectation that China would reopen and recover its demand for crude oil. As this was not forthcoming, inventories rose, while the crude oil market was still in a stabilisation phase between $70 and $80 a barrel, awaiting confirmation of this Chinese demand to allow a return of the upward trend. The recent risk off episode did not spare oil, which had also fallen by 20% before recovering its $80 level with OPEC's intervention. It should be noted that in the meantime the US government had announced that it did not want to quickly replenish the strategic reserves previously used to curb the impact of energy prices on inflation measures. During this period, short sales had accumulated to nearly $30 billion.



COMMODITIES (USD)

31.03.2023 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	8603.22	USD	3.77	3.38	7.73	18.25	7.73
GLOBAL	S&P GSCI Tot Return Indx	3323.0	USD	4.6	-2.1	-4.9	-1.7	-4.9
WTI CRUDE	Generic 1st 'CL' Future	75.7	USD	9.3	-2.6	-5.7	-4.8	-5.7
BRENT OIL	Generic 1st 'CO' Future	79.8	USD	6.4	-5.4	-7.1	-9.3	-7.1
NATURAL GAS	Generic 1st 'NG' Future	2.2	USD	0.0	-21.2	-50.5	-67.2	-50.5
OR	GOLD SPOT $/OZ	1969.3	USD	-0.5	7.2	8.0	18.6	8.0
ARGENT	Silver Spot $/Oz	24.1	USD	3.8	14.8	0.6	26.6	0.6
AGRICULTURE	S&P GSCI Agric Indx Spot	460.2	USD	3.3	2.0	-2.2	-3.9	-2.2
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	452.2	USD	1.6	-1.8	0.2	12.8	0.2

Graph sources: BearBull Group/Bloomberg

Speculative positions at a four-year high weighed on crude oil prices until OPEC's surprise announcement over the weekend. The 1 mbpd cut reversed this wave of bearish speculation, causing a massive short covering and the price now rising back above $80. OPEC wants to set the tone again and is committed to stabilizing the market, while Russia has cut its production by 0.5 mbpd and Iraq's is also down by 0.4 mbpd. This should be enough to cause a rapid decline in inventories and change the supply and demand parameters. OPEC+ is targeting $90 to $100 and may well be able to achieve this target if global demand proves to be close to current forecasts suggesting that it will exceed the 100mb mark for the first time in 2023.

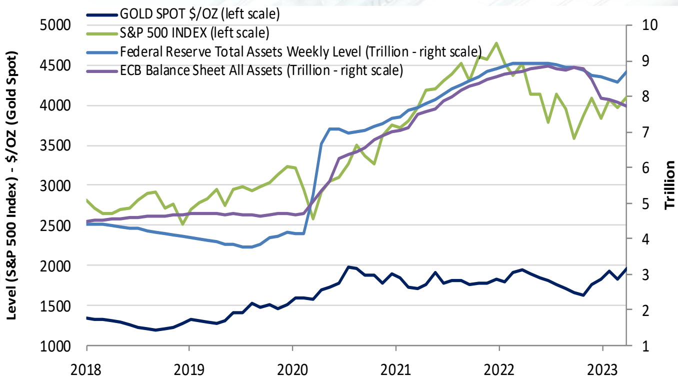
New highs for gold prices

After having been one of the best assets in terms of relative performance in 2022, gold has again kept its promises in 2023 increasing by +9.77% and by approaching, once again, its historical high of $2,075 per ounce. At the beginning of the year, we announced that the yellow metal would benefit from conditions that would allow it to surpass this level by setting a new record. This is now an ongoing process that should become a reality. The announced end of the monetary tightening cycle and the expected adjustments in interest rates in the macroeconomic context of a slowing economy should together further support a bullish trend for gold in the coming months. Alongside these two positive factors, the central bank activity already seen in 2022 should also continue and strengthen in 2023, supported in particular by BRICS' accumulating gold reserves. Already weakened by the change in interest rate dynamics, the dollar could come under further pressure in this new environment of mistrust and questioning of its position as the main transaction and reserve currency. The absolute reign of the dollar in the global commodities trade is now clearly challenged by the first oil and gas transactions in yuan between some Gulf countries and China. In the future, petroyuans will compete with petrodollars, while the BRICS also want to promote the use of their respective currencies in trade, allowing them to consider a single currency in the future. These new factors are likely to weaken the supremacy of the dollar and strengthen the appeal of the yellow metal, which is expected to soar to new heights.

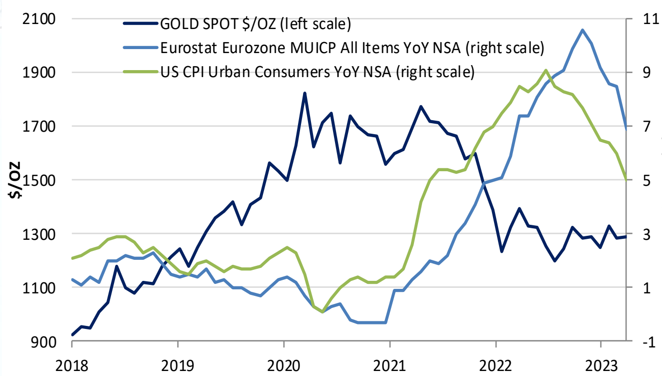
A Chinese recovery favourable to industrial metals

The decline in Chinese demand was one of the main factors affecting the development of industrial metals markets in 2022. After a few positive weeks earlier in the year that pushed prices to extremes in a panic caused by the war in Ukraine, prices declined steadily until the end of the year when Covid's zero policy was gradually challenged before being quickly abandoned by the Chinese authorities. China has radically changed its policy and is now trying to support its economic development regardless of the human cost of abolishing sanitary restrictions. We believe that Chinese domestic demand should benefit from this in the coming months and that the expected economic recovery will have clear implications for demand for industrial raw materials as well. A Chinese economic recovery in the current context of particularly low stocks is bound to have a further positive impact on prices. A reversal of the upward trend after a first quarter with no major changes is expected for aluminium, copper, cobalt and nickel. The new requirements for industrial metals needed to implement the energy transition are also an extremely important factor in the development of global demand. The fall in the *Capex* in recent years continues to weigh on the level of supply, effectively 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 automotive sector.

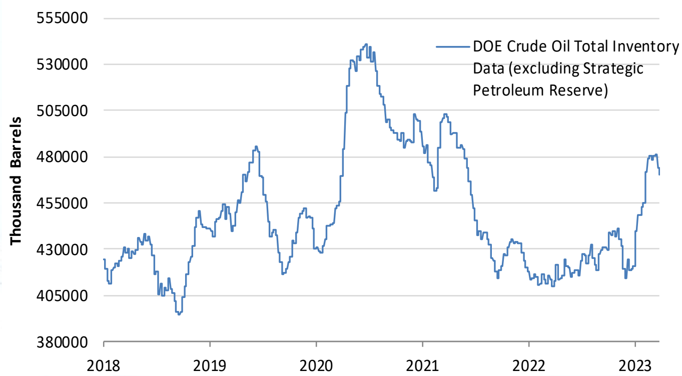
High correlation between Gold and Global liquidity



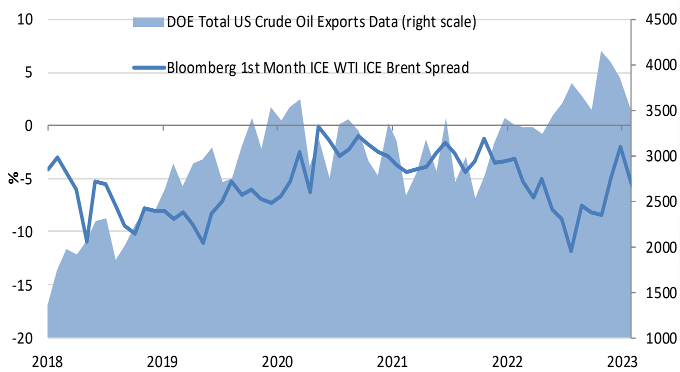
High correlation between Gold and Inflation



Oil inventories (United States)



Price differential between WTI and Brent oil



Graph sources: BearBull Group/Bloomberg

PROSPECTS AND STRATEGIES

Hedge Funds

- Hedge funds stagnate in the first quarter

As in the previous quarter, alternative investments (+0.0%) failed to benefit from this generally favourable environment for all bond and equity markets, particularly in the first month of the year, which was the best January for diversified strategies in over 20 years. Indeed, the emergence of a macroeconomic scenario favouring a *soft landing* for the U.S. economy and a less worrisome outlook on the inflation front have made it possible to envisage the imminent end of the monetary tightening cycle initiated in March 2022, which pushed key rates from 0.25% to 5%.

The four strategies followed are on either side of the zero performance in the first three months of the year. Thus, relative value arbitrage and equity hedge increased by +1.1% and +0.8% respectively. On the other hand, the *event driven* (-0.2%) and *macro/CTA* (-2.5%) approaches closed this quarter in negative territory.

Private Equity

- Good start to the year for private equity

Uncertainty soared in March after a February already marked by the appearance of a *no landing scenario*, which was nevertheless unlikely. The collapse of SVB and the shock of the demise of Credit Suisse in a very high-risk week for the global banking sector and the financial system impacted most financial markets, causing exceptional volatility. Listed private equity was also caught up in this wave of uncertainty about the stability of the financial system, before recovering with the assurance that central banks would provide the liquidity needed to keep the banking system functioning. The overall scenario now seems to be more balanced again, allowing for more positive developments for the asset class in the coming months.

Thanks to an excellent January, private equity recorded a second consecutive positive quarterly increase between December and March (+4.1%). Geographically, the strongest increase was in the United States (+4.7%), while Europe advanced by almost three percent (+2.7%). The United Kingdom, on the other hand, declined by -2.1% during the first three months of the year.

HEDGE FUND INDICES (USD)

31.03.2023

	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1367.8	USD	0.6	-1.3	0.0	0.2	0.0
EQUITY HEDGE	HFRX Equity Hedge Index	1458.8	USD	0.7	-0.4	0.8	2.5	0.8
EVENT DRIVEN	HFRX Event Driven Index	1637.6	USD	0.7	-1.6	-0.2	-2.3	-0.2
MACRO/CTA	HFRX Macro/CTA Index	1235.2	USD	0.2	-3.1	-2.5	-4.6	-2.5
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1264.6	USD	0.5	-0.5	1.1	3.5	1.1
LATIN AMERICA*	HFRX Latin America Index	2080.7	USD	-	-0.6	2.8	8.5	3.0
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2550.5	USD	-	-1.0	-0.9	1.3	-0.9
NORTHERN EUROPE*	HFRX Northern Europe Index	2200.5	USD	-	-0.1	4.6	6.0	4.2
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2437.9	USD	-	1.6	-0.7	2.2	0.1
MULTI-REGION	HFRX Multi-Region Index	1461.1	USD	0.6	-1.2	-0.8	-0.2	-0.8

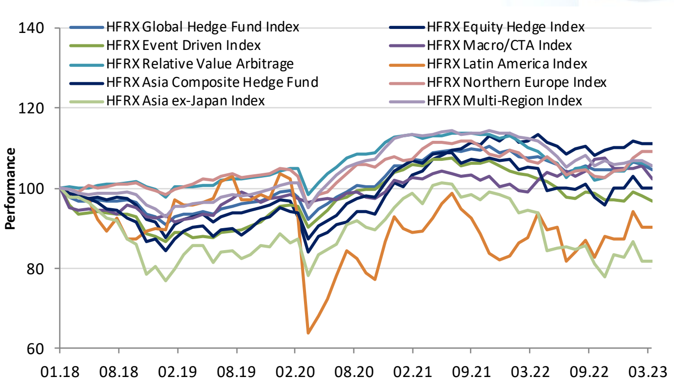
* Subject to one-month lag

PRIVATE EQUITY INDICES (EUR)

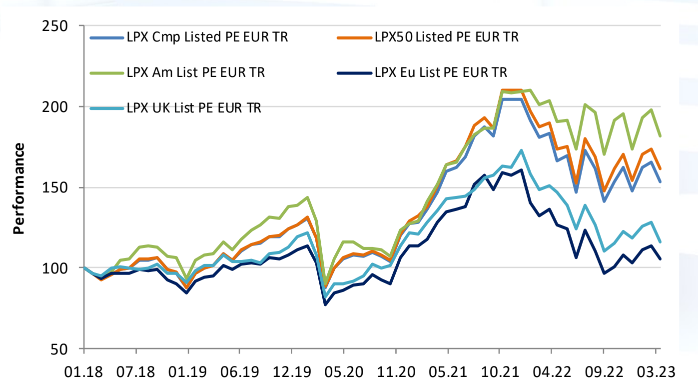
31.03.2023

	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	370.2	EUR	3.9	-6.4	4.1	8.7	4.1
MAJOR COMPANIES	LPX50 Listed PE EUR TR	3660.1	EUR	3.9	-6.0	5.0	9.5	5.0
USA	LPX Am List PE EUR TR	587.1	EUR	2.6	-7.3	4.7	6.6	4.7
EUROPE	LPX Eu List PE EUR TR	1015.3	EUR	4.0	-5.5	2.7	9.3	2.7
UK	LPX UK List PE EUR TR	341.9	EUR	2.0	-8.4	-2.1	4.8	-2.1

Hedge Fund Indices



Private Equity Indices



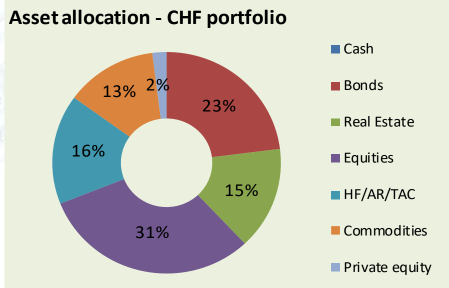
Graph sources: BearBull Group/Bloomberg

GLOBAL STRATEGY & ASSET ALLOCATION

GLOBAL STRATEGIES I ASSET ALLOCATION

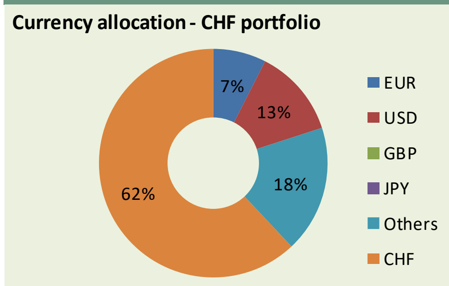
Multi-asset portfolio CHF

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



Tactical allocation

- Overweight equities and real estate
- Wide diversification in materials raw



ASSETS	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
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. The equity exposure is again more constructive with a reinforced allocation following the sharp fall in prices in 2022. The rate hikes observed in 2022 as a result of growing inflationary pressures now offer new opportunities in the bond markets, particularly in the investment grade segment. Real estate is, more than ever, an attractive source of diversification that offers attractive returns and some protection in times of inflation. Precious metals and commodities are also favoured in an uncertain environment, thus requiring optimal diversification between asset classes.

Bonds

The first quarter ended on a more positive note for the capital markets after the dramatic acceleration of rate hikes seen in the middle of the quarter. Fears of renewed inflation and further tightening of monetary policy had pushed yield curves to extreme levels in our view, just before the banking crisis and a new *soft landing economic scenario* allowed an expected decline in bond yields. This period of extreme concern offered opportunities to capture attractive yields over the medium term. Our bond strategy has therefore proved to be more opportunistic and finally more constructive. We maintain our expectations of a gradual decline in inflation and yields that will also allow for some capital gains in the coming months.

Equities

The equity markets suffered in the middle of the quarter from this volatile stock market climate. However, the unlikely *no landing scenario* also negatively affected equity markets before the situation normalized at the end of March. We now believe that the economic slowdown and inflation control scenario in 2023 will have a positive impact on rates and investor sentiment. This downward adjustment in rates should benefit equity markets in 2023. The downside risks to earnings remain in this environment of reduced economic growth, but we believe that after the price declines in February, valuations have often become attractive again.

Commodities

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

Real Estate

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

Currencies

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

Market performances - Q1 2023

		Q1 2023 local	Q1 2023 CHF	YTD local	YTD CHF
Exchange rates					
USD/CHF		-1.0%		-1.0%	
EUR/CHF		0.3%		0.3%	
GBP/CHF		0.9%		0.9%	
JPY/CHF		-2.4%		-2.4%	
Equity markets					
World	MSCI World USD	7.7%	6.7%	7.7%	6.7%
Europe	DJ Stoxx 600	8.4%	8.7%	8.4%	8.7%
Eurozone	DJ Eurostoxx 50	13.7%	14.0%	13.7%	14.0%
	MSCI Europe S.C.	5.5%	5.7%	5.5%	5.7%
Germany	Dax 30	12.2%	12.5%	12.2%	12.5%
France	Cac 40	13.1%	13.4%	13.1%	13.4%
United Kingdom	FTSE 100	2.4%	3.3%	2.4%	3.3%
Switzerland	SPI	5.9%	5.9%	5.9%	5.9%
	SMI	3.5%	3.5%	3.5%	3.5%
	MSCI Swiss S.C.	9.2%	9.2%	9.2%	9.2%
North America	SP500	7.0%	6.0%	7.0%	6.0%
	Nasdaq	16.8%	15.6%	16.8%	15.6%
	Tse 300	3.7%	2.7%	3.7%	2.7%
	SP600 Small C.	2.1%	1.1%	2.1%	1.1%
Japan	Nikkei 225	7.5%	4.9%	7.5%	4.9%
Emerging	MSCI EMF USD	3.5%	2.5%	3.5%	2.5%

		Q1 2023 local	Q1 2023 CHF	YTD local	YTD CHF
Interest rates (3 months)		*(level)*			
CHF		1.45%			
EUR		3.04%			
USD		5.19%			
JPY		-0.01%			
Bonds markets					
World	Citi Gr Global Govt.USD	3.5%	2.5%	3.5%	2.5%
Europe	Euro Ser-E Gov > 1	2.5%	2.7%	2.5%	2.7%
United Kingdom	UK Ser-E Gov > 1	2.2%	3.1%	2.2%	3.1%
Switzerland	SBI Général AAA-BBB	1.4%	1.4%	1.4%	1.4%
	SBI Govt.	4.4%	4.4%	4.4%	4.4%
USA	US Ser-E Gov > 1	3.0%	2.0%	3.0%	2.0%
Japan	Japan Ser-E Gov > 1	2.4%	0.0%	2.4%	0.0%
Emerging	J.P. Morgan EMBI Global	2.2%	1.2%	2.2%	1.2%
Miscellaneaous					
	LPP 25 Index	2.7%	2.7%	2.7%	2.7%
	LPP 40 Index	3.4%	3.4%	3.4%	3.4%
	LPP 60 Index	4.3%	4.3%	4.3%	4.3%
Real Estate CH	DB RB Swiss Real Est Fd	0.7%	0.7%	0.7%	0.7%
Hedge Funds	Hedge Fund Research USD	0.2%	-0.8%	0.2%	-0.8%
Commodities	GS Commodity USD	-4.9%	-5.9%	-4.9%	-5.9%

Graph sources: BearBull Group/Bloomberg

BearBull Global Investments Group

GLOBAL STRATEGIES I ASSET ALLOCATION

Multi-asset portfolio EUR

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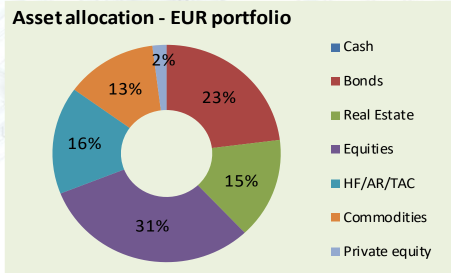
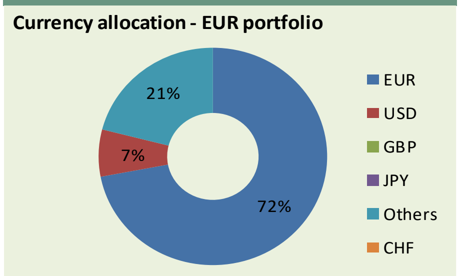


Tactical allocation

- Overweight equities and real estate
- Great diversification in materials raw

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



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Real Estate

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Currencies

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

Market performances - Q1 2023

		Q1 2023 local	Q1 2023 EUR	YTD local	YTD EUR
Exchange rates					
USD/EUR		-1.2%		-1.2%	
CHF/EUR		-0.2%		-0.2%	
GBP/EUR		0.7%		0.7%	
JPY/EUR		-2.5%		-2.5%	
Equity markets					
World	MSCI World USD	7.7%	6.4%	7.7%	6.4%
Europe	DJ Stoxx 600	8.4%	8.4%	8.4%	8.4%
Eurozone	DJ Eurostoxx 50	13.7%	13.7%	13.7%	13.7%
	MSCI Europe S.C.	5.5%	5.5%	5.5%	5.5%
Germany	Dax 30	12.2%	12.2%	12.2%	12.2%
France	Cac 40	13.1%	13.1%	13.1%	13.1%
United Kingdom	FTSE 100	2.4%	3.1%	2.4%	3.1%
Switzerland	SPI	5.9%	5.7%	5.9%	5.7%
	SMI	3.5%	3.3%	3.5%	3.3%
	MSCI Swiss S.C.	9.2%	7.8%	9.2%	7.8%
North America	SP500	7.0%	5.7%	7.0%	5.7%
	Nasdaq	16.8%	15.3%	16.8%	15.3%
	Tse 300	3.7%	2.6%	3.7%	2.6%
	SP600 Small C.	2.1%	0.9%	2.1%	0.9%
Japan	Nikkei 225	7.5%	4.8%	7.5%	4.8%
Emerging	MSCI EMF USD	3.5%	2.3%	3.5%	2.3%

		Q1 2023 local	Q1 2023 EUR	YTD local	YTD EUR
Interest rates (3 months)		*(level)*			
CHF		1.45%			
EUR		3.04%			
USD		5.19%			
JPY		-0.01%			
Bonds markets					
World	Citi Gr Global Govt.USD	3.5%	3.3%	3.5%	3.3%
Europe	Euro Ser-E Gov > 1	2.5%	2.5%	2.5%	2.5%
United Kingdom	UK Ser-E Gov > 1	2.2%	2.9%	2.2%	2.9%
Switzerland	SBI Général AAA-BBB	1.4%	1.2%	1.4%	1.2%
	SBI Govt.	4.4%	4.1%	4.4%	4.1%
USA	US Ser-E Gov > 1	3.0%	1.7%	3.0%	1.7%
Japan	Japan Ser-E Gov > 1	2.4%	-0.1%	2.4%	-0.1%
Emerging	J.P. Morgan EMBI Global	2.2%	1.0%	2.2%	1.0%
Miscellaneaous					
	LPP 25 Index	2.7%	2.5%	2.7%	2.5%
	LPP 40 Index	3.4%	3.2%	3.4%	3.2%
	LPP 60 Index	4.3%	4.1%	4.3%	4.1%
Real Estate CH	DB RB Swiss Real Est Fd	0.7%	0.7%	0.7%	0.5%
Hedge Funds	Hedge Fund Research USD	0.2%	-1.1%	0.2%	-1.1%
Commodities	GS Commodity USD	-4.9%	-6.1%	-4.9%	-6.1%

Graph sources: BearBull Group/Bloomberg

GLOBAL STRATEGIES I ASSET ALLOCATION

Multi-asset portfolio USD

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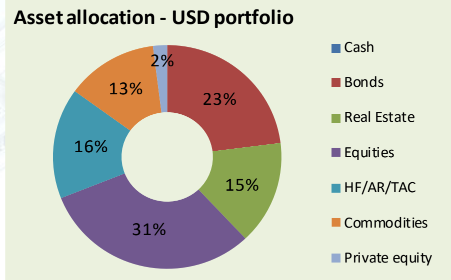

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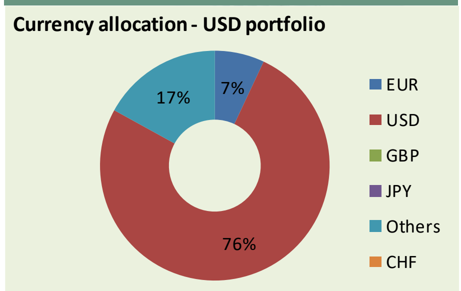

ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (USD Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	→	→							
Bonds	↗	↗							
Real Estate	↗↗	↗							
Equities	↗↗	↗							
Hedge funds	↗	↗							
Commodities	↗↗	↗							
Private equity	↗	↗							

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Currencies

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

Market performances - Q1 2023

		Q1 2023 local	Q1 2023 USD	YTD local	YTD USD
Exchange rates					
CHF/USD		1.0%		1.0%	
EUR/USD		1.3%		1.3%	
GBP/USD		2.1%		2.1%	
JPY/USD		-1.3%		-1.3%	
Equity markets					
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Japan	Japan Ser-E Gov > 1	2.4%	1.1%	2.4%	1.1%
Emerging	J.P. Morgan EMBI Global	2.2%	2.2%	2.2%	2.2%
Miscellaneaous					
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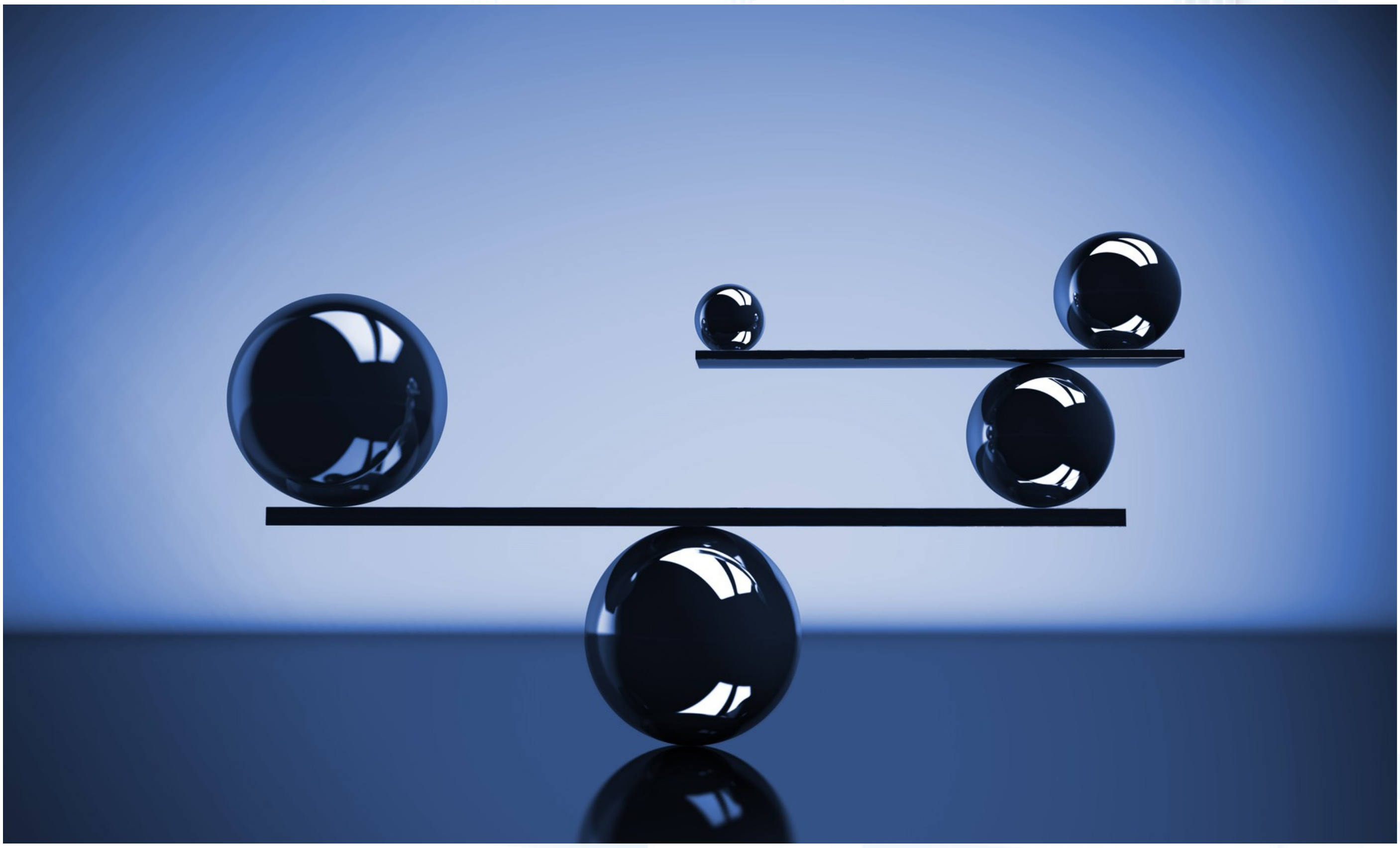
	LPP 40 Index	3.4%	4.4%	3.4%	4.4%
	LPP 60 Index	4.3%	5.4%	4.3%	5.4%
Real Estate CH	DB RB Swiss Real Est Fd	0.7%	0.7%	0.7%	1.7%
Hedge Funds	Hedge Fund Research USI	0.2%	0.2%	0.2%	0.2%
Commodities	GS Commodity USD	-4.9%	-4.9%	-4.9%	-4.9%

Graph sources: BearBull Group/Bloomberg

INVESTMENT THEME FOCUS



INVESTMENT THEME

Risks and opportunities of an accelerated de-dollarization of the world economy

- The first signs of the end of petrodollars and the beginning of de-dollarization
- China unites the discontented and proposes an alternative to the dollar
- Petrodollars, petroyuans and the new BRICS currency
- 4 major consequences of de-dollarization

How the dollar becomes THE international currency

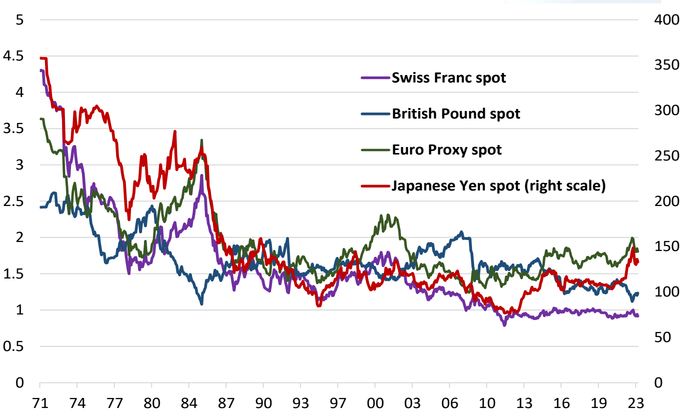
A long evolution that began in the 17th century and found its current foundation after World War II. The first banknote to be printed on American soil dates from 1690, by the British colony of Massachusetts. A century later, the dollar was finally adopted by the Congress of the Confederacy on July 6th, 1785 and became the official currency of the United States under the Mint Act in 1792. The face value of the first 1 dollar coins minted in 1794 was indexed to silver: 1 dollar was equivalent to 26.96 g of silver at 892/1000. In 1861, the first greenbacks appeared. The world monetary system known as the Gold Exchange Standard was then put in place by the Genoa agreements in 1922. But in 1933, Roosevelt suspended the convertibility of the dollar into gold to devalue it. Later, the Bretton Woods Agreement in 1944 gave the dollar a prominent place after World War II by ending the gold standard, which implied the convertibility of various currencies into gold on demand. The dollar then became an international currency by pegging all currencies to the greenback. At the time, the United States held the world's largest gold reserve and accounted for 75% of the world's gold production, which justified the use of the dollar as a reference instead of gold. This agreement was based on two main pillars: the first was a system of fixed exchange rates between currencies (with very small margins of fluctuation) and the second was the recognition of the dollar as an international reserve currency (as good as gold), which remained convertible into gold, but only in the context of trade between central banks. At the same time, the World Bank and the International Monetary Fund were created to control the operation of the new monetary system. The accumulation of U.S. deficits, further increased by the expenses related to the Vietnam War, led to very strong pressure on the U.S. currency at the beginning of the 1970s, which nonetheless benefited from its function as a world reserve currency until August 15th, 1971, when the dollar's convertibility with respect to gold was abolished. The reason for this decision was the increased risk that other central banks would demand that their surplus dollars be converted into gold, since the dollar was convertible into gold. It heralded the death of the Bretton Woods system, since the value of each of the currencies was determined by reference to a weight of gold.

The pressure on the dollar then increased as its trade balance deteriorated, but its balance of payments did not suffer because of the dollar's status as an international reserve currency. Several political meetings were held to agree on a devaluation of the U.S. currency and to attempt to overhaul the system. They led to the « Washington Agreement », concluded on December 18th, 1971 by the finance ministers and central bankers of the « Group of Ten » (the EEC, Sweden, the United States, Canada and Japan), which established central parities and fluctuation margins reduced by 2.25%.

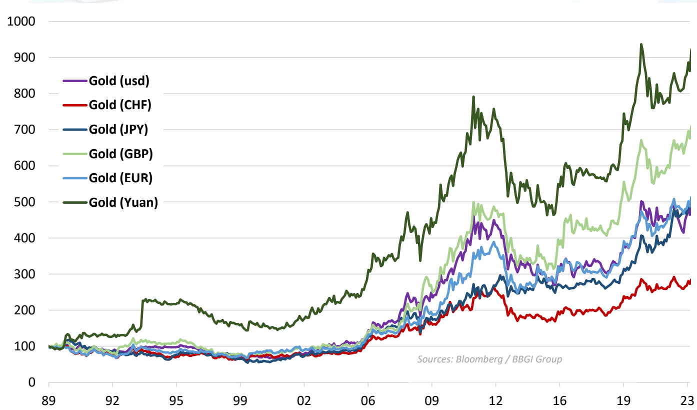
As the dollar weakened, the other central banks accumulated dollars to respect these fluctuation margins, which led them to devalue the dollar by 10% on February 13th, 1973, which led to the emergence of a new exchange rate regime. On March 19th, 1973, the « Group of Ten » decided to abandon the fixed exchange rates of the various currencies in relation to the dollar standard, which allowed the central banks of the other countries to stop buying dollars to maintain their parity, according to the principles inherent in the existing system. A new international monetary system called « floating exchange rates » was born and is still in force.

The floating exchange rate system was supposed to stabilize the exchange rate system, but in fact it has not been able to stabilize the exchange rate and the value of the dollar, which has suffered significant shocks. The subsequent fall of the dollar by about 50% could only be countered by a rise in real interest rates to 11% in 1980, attracting international capital to the dollar, allowing it to recover its 1973 value. The obvious overvaluation of the dollar was corrected by the Plaza Accords of 1985, which organized the devaluation of the dollar to its 1979 low. Two years later, in a further effort to stabilize the dollar, the Louvre Accords (1987) attempted to halt the decline of the greenback, without success, as the dollar continued to depreciate. The USD/CHF exchange rate fell between 1971 and 1995 by almost 75%. The volatility of the exchange rate has subsequently been reduced in a more moderate decline lowering the exchange rate from 1.12CHF for 1 dollar to 0.89 today.

Evolution of the main currencies against USD (1971-2023)



Evolution of gold in the main currencies (1989-2023)



Graph sources: BearBull Group/Bloomberg

50 years of dollar hegemony

Today, the dollar is not only the currency of the United States, but also of Puerto Rico, Ecuador, Zimbabwe, the Federated States of Micronesia, the Marshall Islands, Palau, Panama, El Salvador, East Timor, the Turks and Caicos Islands, the British Virgin Islands and the BVI. But it is also indirectly the currency of many countries that have fixed the exchange rate of their currency on the dollar, including the Gulf countries (Saudi Arabia, United Arab Emirates, Bahrain, Oman, Qatar). The dollar is the most widely used currency in the world for transactions and the first in terms of quantity of money in circulation. It is also the reserve currency used in the world, representing 58% of the reserves of central banks worldwide in 2022 and the most used currency in international trade. It is also the main currency traded in the foreign exchange market before the Euro. More importantly, it is the currency of quotation for commodities. Finally, for much smaller amounts, it is a widely used fiat currency in the world, with more than 50% of its outstanding banknotes actually held outside the United States.

The reference currency of the post-war world and often considered a safe haven, the US currency quickly became the currency of the vast majority of commodities traded in the world. Approximately 90% of commodities are traded in dollars and the largest trading centres for agricultural, energy and precious metal futures are located between New York and Chicago, such as the Chicago Board of Trade, the *Chicago Mercantile Exchange*, the *Nymex*, *Comex* or the *Intercontinental Exchange*. The commodities market represents 20 to 25% of the world economy and with exports estimated at 6 trillion dollars, it constitutes nearly 30% of global exports. As oil is the most traded commodity, it is important to highlight the role it has played in the evolution of the world demand for the dollar since the beginning of the 1970s.

Emergence of petrodollars in the 1970s

As a result of agreements between the United States and oil-producing countries, the majority of oil supply contracts in the world have been denominated in US dollars for several decades. Oil-buying countries have thus become dependent on their foreign exchange reserves in dollars for their oil supplies.

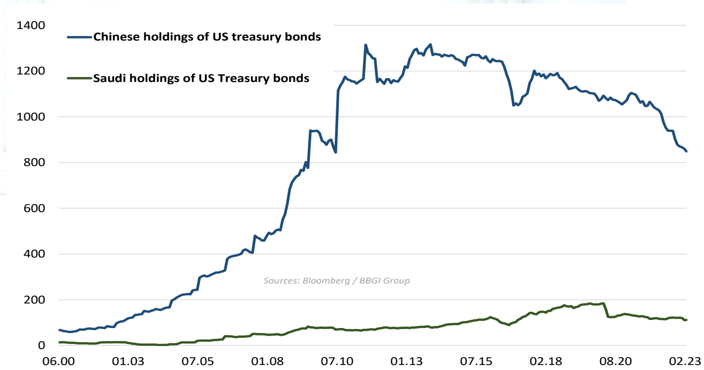
The oil shocks of the early 1970s caused an explosion in the price of oil in dollars and a massive influx of capital into the exporting countries, which could not absorb it; the latter invested in the capital markets through commercial banks and recycled part of the income in dollars from their transactions into the Western economies. These petrodollars enabled the United States to finance its budget deficit. Indeed, the country's deficit is all the greater because it imports so much. But these imports are often denominated in dollars implying that these dollars leave the American economy and end up abroad, especially in Europe and East Asia. By forcing countries to buy oil in dollars, foreign exchange reserves in dollars are centralized by these exporting countries, which, through their sovereign wealth funds, reinvest them in the United States in U.S. Treasury bonds.

The formation of the U.S.-Saudi Joint Commission on Economic Cooperation after the 1973 oil embargo and rising crude oil prices strengthened ties between the two countries by establishing a clear basis for cooperation, in which Saudi Arabia agreed to sell its oil in dollars and reinvest its excess dollar reserves in U.S. Treasury securities and U.S. companies that contribute to Saudi infrastructure development, in exchange for which the United States provided security for the country. This agreement was later extended to other OPEC countries. In recent years, however, the oil-producing countries have reformulated their economic development strategies, in particular by wishing to diversify their economies by investing oil revenues in their own countries, thereby reducing their de facto investments in the United States.

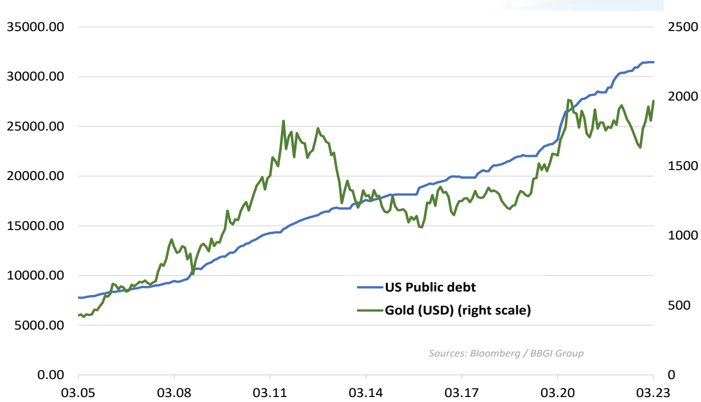
The first signs of the end of petrodollars and the beginning of de-dollarization

The petrodollar system began to falter after the oil-for-food program in 1996, when France and Germany decided to denominate oil contracts with Iraq in euros. As of 2016, Iranian oil contracts are also denominated in euros. Today, Saudi Arabia has declared its readiness to conduct crude oil transactions in yuan. For the time being, these first steps towards de-dollarization have no real effect on global commodity trade. The dollar remains by far the dominant currency in which oil is denominated. Over the past decade, however, oil producers have been the first to consider strategies to reduce their dependence on the dollar. But another important trading partner of the United States, which also recycled its trade surpluses into U.S. debt, began to develop its own strategy to destabilize the dollar from its role as a global currency. The de-dollarization of the world now seemed timidly but surely underway with the increase in yuan transactions gradually replacing those previously conducted in dollars, notably with Australia, Brazil, the European Union, India, Iran, Japan, Russia, Saudi Arabia, Venezuela and other countries.

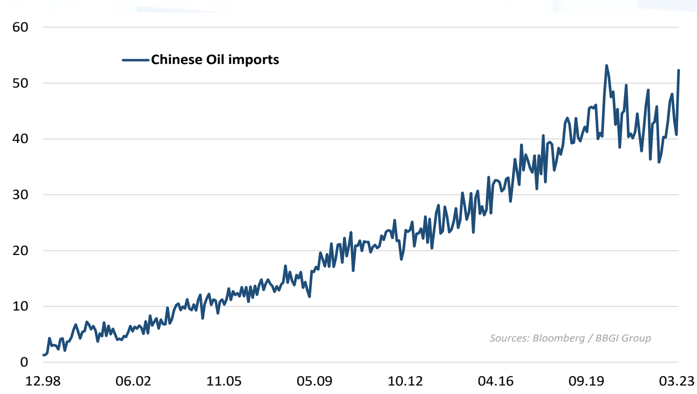
U.S. Treasury bond holdings
China - Saudi Arabia (2000-2023)



US Public Debt - Gold Price (2005-2023)



Evolution of Chinese oil imports (1998-2023)



The yuan becomes a respectable currency in 2016 thanks to the IMF

In 2016, the IMF could no longer resist China's insistent demands to see its currency become one of the main reserve currencies admitted by the IMF. After a few refusals, the IMF finally gave the yuan its letters of nobility by considering that the Chinese currency meets the criteria imposed to be part of the extremely restricted circle of reserve currencies. It includes the renminbi in the basket of currencies of the special drawing rights (SDR) which constitutes an international reserve asset allowing to complete the official reserves of its member countries. The composition of the SDR currency basket is therefore represented by the US dollar, the euro, the yen, the pound and the yuan. The IMF's two criteria specify that an SDR currency must be issued by the world's largest exporting countries playing a central role in the world economy and secondly, the currency must be freely usable, that is, widely used in international transactions and commonly traded in major foreign exchange markets. In 2022, at the end of the IMF's five-year review of the weighting of this basket of currencies, the weight of the dollar was raised to 43.38% from 41.73% and that of the yuan increased from 10.92% to 12.28% at the expense of the euro, yen and pound. The emergence of the yuan in the SDRs is clearly a major step towards de-dollarization by offering all central banks the possibility to hold yuan directly and indirectly as a reserve currency. The hardest part was done for the Chinese government, which could now also rely on this new status as a respectable currency that could now represent a real alternative to the dollar.

SWIFT and CIPS to facilitate yuan transactions

Founded in 1973 to address the drawbacks of physical document flows, SWIFT provides standardized interbank transfer messaging services and interfaces to more than 10,800 institutions in over 205 countries, with an estimated total daily transaction value of several trillion dollars. It has become a major component of the international financial system. SWIFT acts as an intermediary facilitating the transport of messages containing payment instructions between the financial institutions involved in a transaction. In the context of cross-border transactions, this is often done through accounts held at correspondent banks by the financial institutions between which the payment takes place. Since the establishment of the Bretton Woods system, the dollar has been used as a medium for international trade, making it possible for the U.S. Treasury Department to monitor the SWIFT financial transfer network, which allows it to exert significant influence over global financial transaction systems, with the ability to impose sanctions on foreign entities and individuals.

The China International Payments System (CIPS), also known as the Cross-Border Inter-Bank Payments System, is a cross-border inter-bank payment system, established in 2015, which provides clearing and settlement services to its participants for cross-border yuan payments and exchanges similar to the SWIFT system. It is a financial market infrastructure in China, but also has a growing international dimension, so negotiations are underway with the SWIFT network to promote transactions in Yuan.

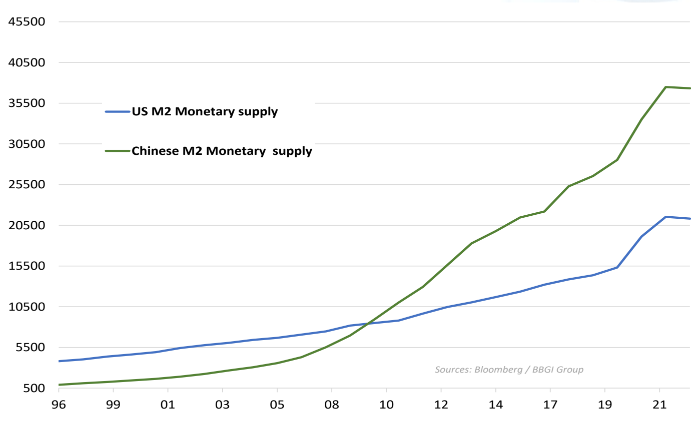
China unites the discontented and proposes an alternative to the dollar

The hegemony of the dollar has displeased many countries in recent decades, starting with the BRICS coalition, who have resented the use of the dollar by the United States as a means of influencing and controlling their political and economic activities. The pandemic and then the war in Ukraine undoubtedly served as a gas pedal for the dynamic they have been seeking to put in place since 2016 to free themselves from the dollar, starting with increased bilateral transactions in currencies other than the dollar. The last few weeks have seen a series of policy decisions from Latin America to Russia, Africa and the Middle East, supporting the development of a Chinese currency alternative and increased economic relations. The weight of the BRICS in terms of population, exports and raw material reserves is already considerable, and could be further increased if the current movement were to spread to other countries. It is estimated that the global GDP of such an expanded coalition could exceed the US GDP by 30%.

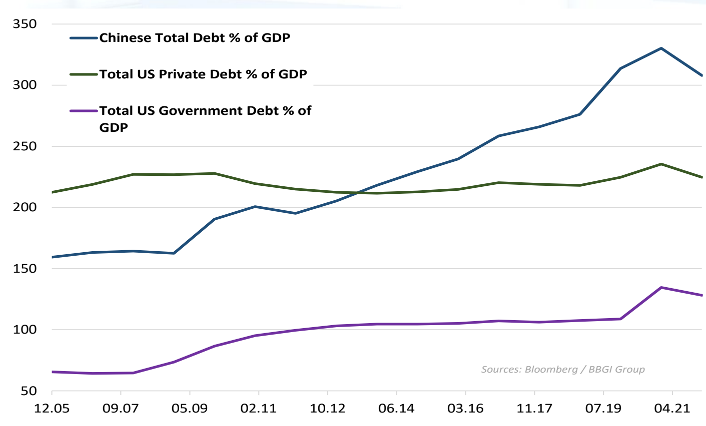
In the Middle East, discontent has also recently grown against the United States because of its policy in Afghanistan and in the war in Yemen. The rapprochement orchestrated by China between Saudi Arabia and Iran could have significant implications, as the first Saudi crude oil transactions have been arranged in yuan, much to the surprise of the US in recent weeks.

The New Development Bank created in 2014 by the BRICS states (Brazil, Russia, India, China and South Africa) laid the foundations for an alternative to the existing World Bank and the International Monetary Fund with the aim of promoting greater financial cooperation and increasing development between emerging countries, by financing infrastructure projects and creating a « currency reserve » that would allow the support of member countries in the case of crisis and financial shocks. It is expected to play a larger role in the future by expanding its membership, recently, the United Arab Emirates and Egypt joined the founding members in the institution. The political and economic initiatives of the BRICS beyond the prospects of strengthening trade within the bloc of member countries, seem to seduce more and more countries ready to join them. In particular, the ideas revolving around the creation of a new currency allowing them to emancipate themselves from the United States and the dollar. The sanctions imposed by the United States and Western countries on Russia after the invasion of Ukraine surprised by their scale and speed, making many other countries fear a similar treatment and forcing them to take the step of creating an alternative monetary system.

Evolution of M2 (money supply) in the United States and China (1996-2021)



Debt as % of GDP for the US and China (2005-2021)



Graph sources: BearBull Group/Bloomberg

Petrodollars, petroyuans and the new BRICS currency

By opening the door to oil transactions in yuan, Saudi Arabia is putting an end to more than 50 years of dollar hegemony over its oil revenues. In recent months, China's initiatives have accelerated, pushing the adoption of the yuan in commodities trading in countries that are closely linked to the United States, thus creating major precedents on which new trends with significant developments capable of undermining the dollar's hegemony in global commodity trade will be based. The tide seems to have turned in the Gulf, as Saudi Aramco has made its largest ever yuan acquisition of a Chinese refinery giant (Rongsheng Petrochemical), while TotalEnergie signed its first liquefied gas contract in yuan through the Shanghai Petroleum and Natural Gas Exchange for 65,000 tons of liquefied gas with the United Arab Emirates, paving the way for other commodity transactions in yuan. In a few years, China has become Saudi Arabia's largest customer, the largest trading partner of the GCC countries, but also of other commodity producers such as Brazil. This situation clearly gives China special power and leverage to influence its economic partners. This is what it did during its historic visit to the Middle East when President Xi declared that a new paradigm of energy cooperation was taking shape and that the Shanghai Petroleum and Natural Gas Exchange would be the platform to settle these growing yuan transactions. Since March 2018, a *future contract on Brent crude oil* had been launched there in yuan, offering the opportunity to compete with other dollar contracts. China explicitly linked this contract with the ability to convert yuan into physical gold through the Shanghai and Hong Kong markets to reassure investors, with PetroChina and Sinopec vouching for the liquidity of these *future oil contracts*.

The yuan will certainly be increasingly used in commodity transactions, but the BRICS+ may seek an alternative to the dollar closer to SDRs by creating a similar tool based on a currency basket of their own currencies that could indirectly be backed by dedicated commodity reserves. The creation of a BRICS coin will be discussed at the next BRICS summit in August, in the meantime settlements in national currencies have already started. The realization of this project will have consequences for global trade and monetary policies beyond the BRICS. But the most likely solution may simply be the expanded use of the yuan as the reference currency for their trade, especially if the yuan can be backed by a large gold reserve. We wrote a few years ago that China's long-term vision for establishing the yuan as a credible alternative currency would certainly be to give it a solid foundation of proven physical gold reserves. However, for the past few years China has not published accurate statistics on its own annual gold production that could be used to build up these reserves. We believe that Chinese policy is now focused on the goal of building up a large physical gold reserve, as suggested by its recent massive purchases of gold in 2023.

4 major consequences of de-dollarization

A huge change is thus taking place in the global commodity trade and potentially beyond this sector into the global trade of goods and services. De-dollarization now seems to be accelerating and is ready to upset the existing balances. The Wall Street Journal is not alone in its concern and points out that these developments may challenge the current supremacy of the greenback in the international financial system. In the long term, we see various negative trends for the United States.

1. Depreciation of the dollar through reduced global demand

While most of the dollar money in circulation is used in the United States, a significant portion of it is currently outside the U.S. borders and used by governments, businesses and individuals. The first important consequence of the challenge to the supremacy of the dollar by the growing use of alternative currencies in international trade will be a reduction in the need for dollars outside the United States, both for the acquisition of products and services and for reasons of monetary reserves, in favour of the yuan and gold in particular.

A fall in demand for dollars will mean that a proportion of dollars will no longer be used by non-domestic investors, which will no longer be recycled in US banks or in Treasury bonds. The "end" of the petrodollar system is bad news for the value of the dollar, which will suffer from the reduced demand for dollars if the overall dollar money supply remains unchanged, potentially causing a significant depreciation of the US currency.

2. Rising inflation and dollar interest rates

The second consequence for the US could be an increase in the difficulties of financing US budget deficits that have been supported by the recycling of petrodollars and the need for dollar reserves in the form of purchases of US Treasury securities. It is estimated that there are several trillion dollars in US Treasury bonds held by foreigners. A rise in interest rates would also be the consequence of such a disengagement of foreign investors in US assets. Moreover, a de-dollarization of the world would necessarily have to be accompanied by a corresponding reduction in the dollar money supply to avoid the potential inflationary effects caused by an excess of dollars over the actual needs of the US economy and those of the rest of the world. The monetary authorities and the American government will not have many qualms about preferring a fall in the dollar to a rise in interest rates that would damage their entire economy.

3. Massive appreciation of gold

Gold and silver were for millennia the heart of many financial systems until the « Gold standard » of the 20th century. Following the end of the convertibility of the dollar into gold, for several decades now, we have observed a flow of transactions from West to East estimated at 2,000 or 3,000 tons per year, confirming the disengagement of Western countries and the interest of Asia and the emerging countries for this asset capable of protecting against fluctuations in the value of paper currencies. These transfers are relatively large in relation to the world's gold production, which will only reach 3,600 tons in 2022. Since 1971, the purchasing power of gold has only increased in all major currencies, and we believe that this trend is accelerating, particularly for gold quoted in dollars, now seems very likely. China is probably recreating a system that is also based in some way on the value of gold. Its gold reserves could exceed the officially announced by about 8'000 tons. Indeed, over the past 15 years, the Shanghai Gold Exchange reports having arranged for 23,000 tons of physical deliveries of yellow metal, of which an unspecified portion could have been acquired by the PBoC. We estimate that gold prices could reach USD 3,000 per ounce in the described context of de-dollarization in progress.

4. Loss of influence of the United States

The de-dollarization of the world and the gradual reduction in the use of the dollar by an undoubtedly growing number of emerging economies around the BRICS will necessarily lead to a decrease in the influence of the United States as exercised to date. Marco Rubio, Republican Senator from Florida and supporter of Ron DeSantis (Governor), potentially the next President of the United States, recently commented on recent developments by pointing out that China is creating a new form of economic relationship away from the dollar, which will prevent the United States in the next five years from implementing economic sanctions against countries as it is able to do today.

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