



Investment Strategy

July 2023



"THERE IS A BEAUTY THAT REMAINS WITH US AFTER WE'VE STOPPED LOOKING."

CORY RICHARDS, PHOTOGRAPHER AND EXPLORER, WEARS THE VACHERON CONSTANTIN OVERSEAS.


VACHERON CONSTANTIN | ONE OF NOT MANY.
GENÈVE

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INTRODUCTION

Letter to Investors - Investment Climate

- Macroeconomic and political risks diminish
- Positive surprises on the inflation front
- Monetary policies increasingly decorrelated
- Hesitations in fixed-income markets
- Return of risk-on in equity markets
- Relatively favourable conditions for financial assets

Macroeconomic risks were still particularly high at the start of the quarter in the immediate aftermath of the March banking crisis. Fears of recession exacerbated by this crisis and by threats to the stability of the financial system were followed by new uncertainties in the USA, centred on a new crisis in US government financing. The debt ceiling crisis threatened the government with default in June if a political solution was not found. In extremis, the raising of the ceiling eased these tensions and averted this unlikely major risk. In the meantime, US economic statistics were more positive, highlighting the resilience of consumer spending and economic momentum, while some expected softening in the job market also reassured by reducing the risk of further rate hikes. These factors also reduced and postponed the risk of recession, which gave way to the prospect of an economic slowdown that was probably less severe than expected. In Japan and Europe, the resilience of the economies also proved to be a welcome surprise. Most national economies certainly avoided a recession during the 1st half of the year, and the expected slowdown in activity may not be very marked over the coming months either. Disappointment on the economic front has been caused more by the weakness of the Chinese recovery, which has again fallen short of expectations, particularly in terms of exports. The macroeconomic context for the 2nd half of the year can now benefit from an extremely positive inflation trend in the USA, but also in most other countries. Indeed, the CPI index has steadily declined, accelerating its fall in recent months to just +3%/year at the end of June. Just a year ago, we predicted a collapse in inflation, which peaked at +9.1%, and a new, much reduced monthly price increase regime leading to inflation of less than +4% by June 2023. The main direct consequences of this new environment were expected to be the end of the Federal Reserve's restrictive monetary cycle and the beginning of a downward adjustment in yield curves, which we now believe to be taking shape. In Europe, the decline has also begun with some delay, but the fall in price indices is also following a positive trend which should continue, albeit at a slower pace than in the USA. In Switzerland, the fall in inflation can be considered extremely satisfactory, since the annual CPI (+1.7%) is now below the SNB's target of +2%. Inflation, which for almost two years has been the main factor destabilizing financial markets by prompting central banks to adopt restrictive monetary policies, is now losing its influence. The US central bank seems to recognize this, but is still blowing hot and cold on financial markets by pausing its rate hike cycle in June, while announcing that further hikes are still possible. The SNB is following a similar trend, warning that it can still act, while Swiss inflation has clearly fallen back to a reasonable level. In Japan and China, monetary policies are still accommodative and may remain so, while in Europe, the cycle of key rate hikes is not yet close to its zenith. The decorrelation of monetary policies will become more pronounced, with some central banks adopting a more wait-and-see attitude for a few months before adjusting their rates downwards at the end of the year, when inflation appears to be more

clearly under control. The overall performance of bond markets is therefore held back by this risk, which we believe to be overestimated. Against this backdrop, there is a certain hesitancy - excessive in our view - in the capital markets, which are once again a little too fearful of the Federal Reserve's warnings of the possibility of two further key rate hikes between now and the end of the year. Indeed, Fed Funds futures for December 2023 are back to their extreme pessimism of the year, estimating that three-month key rates could reach 5.4% by the end of the year. This prospect is weighing on the yield curve, which is now too inverted, while recession risks are now lower and inflation seems increasingly under control. Dollar-denominated capital markets may be suffering in the short term from the need to refinance US debt, but we feel that inflation is behaving positively enough to justify a very significant lowering of the yield curve over the next few quarters. Equity markets don't seem to be adopting such a cautious attitude, and are once again in « risk on » mode. Indeed, the fall in share prices recorded during the banking crisis in March was quickly replaced by a stock market recovery in Q2, which took stock market indices to new heights. Virtually all national markets rose during the quarter, with Japan (+18.4%) and the USA (+8.7%) performing particularly well. As we also suggested at the start of the year, growth stocks and the Nasdaq in particular have significantly outperformed substance stocks in recent months. The MSCI World index ended the half-year up +15%, significantly outperforming the international bond index, which was barely up +1.4% over the same period. The more favourable inflation environment will have a positive impact on monetary policy and financing costs. The expected lowering of yield curves will reduce the difficulty of accessing credit, but will also lower the discount factor on future earnings. We believe that while all asset classes will benefit from this development over the coming months, securitized real estate should also finally benefit from the current improvement in the stock market climate. Indeed, international real estate continues to lag behind, with a stagnant +0.5% performance over six months. In addition, the expected recovery in Chinese growth and less negative economic performances than expected will support a revival in commodity prices, which rose by just +4.3% over the last quarter.



Alain Freymond
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BIG PICTURE

Main Convictions

- Recession risks diminish as positive surprises look likely
- A better scenario for inflation is emerging
- Significantly more positive outlook for monetary policy and interest rates
- Stock market climate once again favourable to all asset classes

Recession risks diminish as positive surprises look likely

Despite one of the fastest and most intense monetary tightening cycles in recent decades in the USA, the US economy remains surprisingly resilient at the end of June 2023. However, key rate hikes of over 500 basis points in just over twelve months have had a major impact on dollar yield curves and financing costs for all economic agents. Households, businesses and government entities have all had to cope with sharply rising financing costs, without this having a major impact on their equities. Credit card financing costs soared above 20%, while long-term mortgage rates exceeded the 7% threshold. Faced with this new situation, the economy has not collapsed and no longer seems ready for a severe recession, despite the fact that the Federal Reserve accepted this risk as part of its strategy to fight inflation without limits.

Fifteen months after the start of its change in monetary policy, the Fed can now look back with a degree of satisfaction - unjustified in our view - that inflation is gradually coming back into line thanks to its monetary policy. The Fed, which was prepared to provoke a recession in order to reduce domestic demand at the risk of increasing unemployment, should indeed note that the fall in inflation has not been dependent on the two objectives it had indirectly set itself. Indeed, the decline from +9.4% to just +3% in CPI and a drop below +5% in core inflation excluding food and energy were not caused, as the Federal Reserve expected, by a rise in unemployment linked to an economic recession expected and desired by the institution. Whatever the reasons for the decline in inflation, this particularly interesting context will enable the central bank to take advantage of a much more favourable situation than it had recently anticipated. If inflation continues to decline over the coming months, it will at the very least be able to maintain the status quo on current interest rates, before having to relieve the pressure at a later date, when it becomes clearer that moderate economic growth in the second half of the year will be accompanied by favourable price trends.

In our view, the risks of recession are diminishing in the United States, but this is also the case in most countries whose economies have also shown satisfactory resistance to the new financing conditions of recent months. The effects of monetary policy may still take time to materialize, but in the current context, we believe that the favourable trend in inflation will enable yield curves to adjust downwards fairly quickly, offering better financing conditions. With a six-month horizon, the Western economies should all record positive and sometimes very moderate GDP growth, while China and Asia should finally benefit from growing momentum. In this environment, the global economy should record overall growth of +2.5% in 2023, which could even be slightly better if the second half of the year were to be marked by a sharper decline in inflation and interest rates.

A better scenario for inflation is emerging

In the USA, inflation rose sharply in 2021 and again in 2022, reaching +9.1% year-on-year in June 2022. The inflation regime prevailing at the time was close to +1% per month, causing near panic among US monetary authorities, who had been convinced only a few months earlier that this inflation would only be transitory. The change in rhetoric was brutal in March 2022, when inflation had already reached +8.5%, leading the Federal Reserve to engage in a merciless battle against price trends. Most central banks in industrialized countries were facing the same situation at the time, and more or less quickly followed the Fed's lead in this new policy of absolute monetary restriction.

By setting inflation rate targets of 2%, central bankers wanted to show their determination to fight this new scourge, whatever the cost in terms of collapsing economic activity, although in our view this target was neither necessary nor desirable. In our view, however, the inflationary trend was not due to excess domestic demand, or to production capacity utilization reaching its limits, which could thus be the cause to combat, but rather to the exceptional situation created by the pandemic. It was the disorganization of supply networks and the bottlenecks that multiplied during successive lock-down periods in virtually all countries that developed inflationary effects, much more so than the risks induced by the war in Ukraine and the expected rise in the price of certain raw materials.

With the end of sanitary restrictions and the gradual, sometimes hectic reopening of markets in some countries, the disorganization of supply networks has improved and is now largely resolved. The process will have taken some time, but we can now see that most production lines are no longer suffering from supply delays. Producer prices, which had initially soared in all countries for this main reason and because transport costs had also soared during the pandemic, have now largely adjusted. Export price indices are contracting monthly in the USA, and are even down -12% year-on-year, while import prices are falling by -6.1% at the same time.

Producer prices (PPI) are also recording negative monthly growth at times, and year-on-year trends have « fallen into line », with increases of barely +0.1% in the USA after peaking at +11.6% in June 2022. The trend is similar in Japan (down from +10.6% to +4.4%), the Eurozone and the UK (down from +19.6% to +2.9%), while in China the decline that began at the end of 2021 from its peak of +13.5% is now contracting by -5.4%. The Eurozone, which had recorded the biggest rise due to the disruption caused by the rapid rise in gas prices following Russia's invasion of the Ukraine, can also regain some composure. After recording a +43% rise in PPI, it can now take advantage of negative growth of -1.5% in May.

In many countries, the extreme inflation regimes of the first half of 2022 have given way to new, much more moderate regimes. In the USA, recent CPI indexes are trending at around +0.3% per month, already offering inflation prospects close to 3% per annum.

In Japan, CPI also declined from +4.3% to +3.2% in May, and is following a monthly pattern of barely +0.25% per month. In the Eurozone, CPI fell from +10.6% in October 2022 to +6.1 in May. A similar pace of monthly increases could also be set in the Eurozone (+0.3% in June). In China, despite economic growth of over +5%, price trends have remained moderate, with June's year-on-year CPI of +0% remarkable after an increase of +2.85% in October 2022, and now virtually at its historic low. Finally, in Switzerland, CPI inflation was only +1.7% year-on-year in June and has stabilized for the last four months at +0.15%/month.

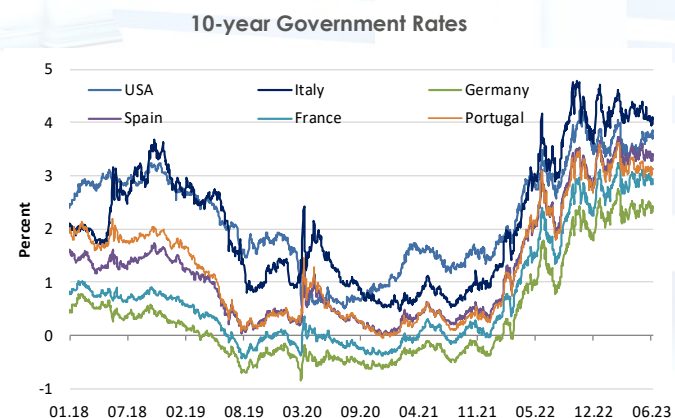
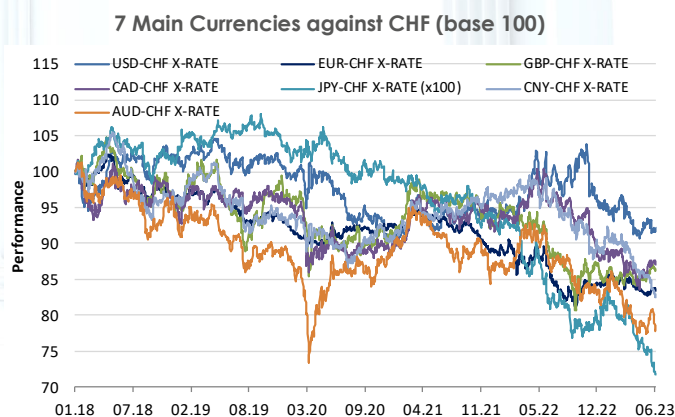
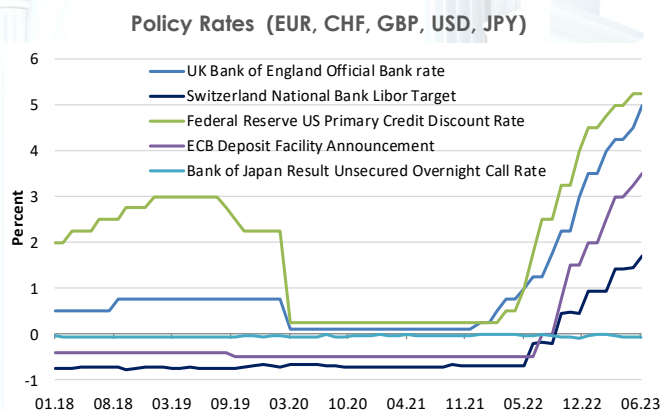
Significantly more positive outlook for monetary policy and interest rates

Against this backdrop of sharply improved inflation and a much brighter outlook, particularly in the United States, we believe that the US central bank's stance is paradoxically one of the most dogmatic to date. In view of recent inflation trends, the US Federal Reserve has raised doubts about the possibility of further hikes in the coming months, perhaps even in July, while announcing a temporary pause in its restrictive policy in June. It still seems intent on ensuring that, for the summer at least, economic agents remain alert to the possible risks of further price slippage, and its determination to act to counter any possible reversal in the trend.

Nevertheless, a number of indicators confirm the downward trend in US inflation, including CPI, PPI and even core inflation. The central bank is also indirectly pursuing its restrictive policy by reducing the size of its balance sheet at a rapid pace over the past few months. Almost \$500 billion was withdrawn from the financial system when the latter was reduced from \$8 trillion to \$7.5 trillion, representing another form of tightening of monetary conditions. We believe that the Fed should choose to remain in a « wait and see » phase on key rates, while maintaining its more indirect policy of reducing the size of its balance sheet. The current situation in the United States thus seems sufficiently well underway for the Fed to put an immediate end to its monetary tightening cycle and embark on a period of pause, which should lead to a downward adjustment of key rates by the end of the second half of 2023. Inflation should continue to decline across all measures, including services and slow components such as rents. Fed funds expectations for December of 5.4% seem to us totally excessive in this context. If inflation stabilizes at around +3% by the end of the year, we consider that key rates could be almost 200 basis points too high. Over the next few months, a pause seems likely in the United States, which will contrast with the perceived need in Europe to continue tightening until prices fall further. The 2nd half of the year will be characterized by the temporary end of monetary policy convergence between all central banks, but in a much more favourable context than that which prevailed over the last twelve months. Developments on the inflation front in the United States, in particular, are already favourable elements that could justify a readjustment of the interest rate curves right now. The inverse steepening of the yield curves seems to us extreme and unjustified by the current situation and by forecasts in terms of economic growth and inflation. The year 2023 should be positive for the US economy, with a probable rise of +1%, while inflation expectations could see CPI falling below +3% and core inflation below +4%. The Treasury yield curve is too inverted, with ten-year yields at 4.8% and 3-month yields above 5.5% at the end of December 2023. Over the next six months, we expect short rates to fall by 150 to 200 basis points, and ten-year rates by almost 100 basis points. The dollar-denominated bond markets should benefit greatly from this adjustment and from the interest of international and domestic investors.

Stock market climate once again favourable to all asset classes

Our expectations for economic growth, inflation and monetary policy trends, as well as interest rates, continue to support a favourable outlook for all asset classes over the coming quarters. Bond markets, such as securitized real estate, have yet to benefit from the improved trends mentioned above, but should soon benefit from the process of readjusting yield levels. As far as equity markets are concerned, the progress already observed could potentially come up against quantitative and technical factors suggesting risks of momentum loss. However, falling interest rates will continue to boost share prices, which in our view will be increasingly supported by a process of upgrading earnings prospects that has only just begun. A less uncertain macroeconomic context, less penalized by inflation and interest rates, will also be conducive to a revision of demand expectations for commodities, particularly if China steps up its measures to support economic growth, as we expect it to do.



MACROECONOMIC SCENARIO



MACROECONOMIC SCENARIO

Global Outlook

- Positive but below-average global growth in 2023
- +1% GDP growth in the United States
- The eurozone economy could grow by +0.8%.
- Swiss GDP up by +0.7%
- Positive outlook limited to +1% for Japan

Positive but below-average global growth in 2023

Over the past twenty years, annual growth in the global economy has averaged around +3.8%. The year 2023 is likely to be less successful, although the first half of the year was ultimately less negative than many observers had expected. For several quarters now, the spectre of recession has been looming over most industrialized countries, without actually manifesting itself. European economies seemed likely to be the first to be hit by the sharp rise in energy and commodity prices, as well as by persistent bottlenecks in production chains that are significantly reducing their real production capacities. Finally, the second half of 2022 ended with a stabilization of economic momentum, and the first half of 2023 still seems to show sufficient resilience in national economies to avoid a recession. In the United States, the banking crisis raised fears of an economic shock, but this did not materialize either, and instead consumption held up well.

China's recovery, which still seems disappointing in the eyes of those still hoping for miracles from the world's second-largest economy, was nonetheless +6.3% in the second quarter of 2023. As we enter the second half of the year, the global soft landing scenario already mentioned at the start of the year, based on the gradual disappearance of the main risk factors affecting 2022 (uncontrolled inflation, rising interest rate curves, restrictive monetary policies), remains our main scenario. The US forecast was one of the key elements in our growth estimate for the global economy in 2023, as we were already of the opinion that the risks of a severe recession in the US were in fact rather low. The monetary tightening cycle was expected to reach its zenith in June, with inflationary pressures rapidly on household disposable income and uncertainty.

Our forecasts for the United States, Europe, Japan and China are positive, with recession risks limited in the West, while Asia and the emerging countries will also benefit from more resilient international



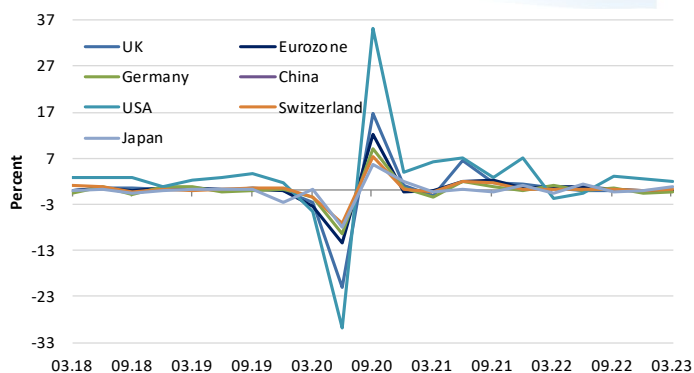
demand and lower interest rates. The Chinese economy should also benefit from further government stimulus measures and strengthen over the coming months, as the risk of deflation emerges and authorizes the PBoC to adopt measures to support growth. The end of restrictive monetary policies heralds better financing conditions and improved global liquidity for investment and consumption. As a result, global growth should pick up again towards the end of the year and in 2024.

We estimate that global growth in 2023 will still be below its historical average, but we are adjusting our expectations to a probable +3% increase. We believe that the USA, in particular, may well surprise by avoiding a recession for 2023 as a whole, with GDP growth of +1%. Our outlook is also positive for Japan (+1.0%), China (+5.0%) and India (+5.5%), and contrasts with the less favourable outlook for eurozone countries (+0.8%) and the UK (+0.1%).

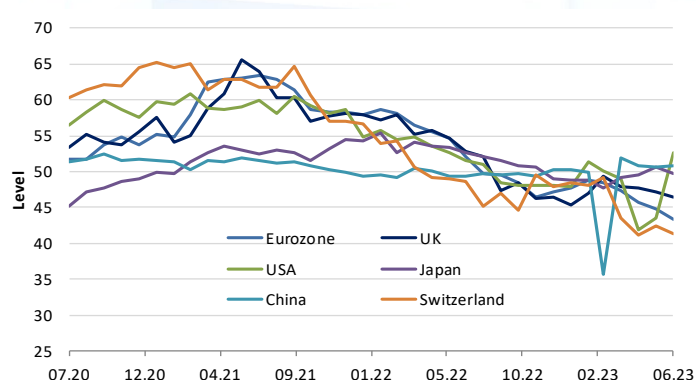
+1% GDP growth in the United States

The US economy is proving far more resilient than forecasters feared, and could therefore still end Q2 on a positive note, ahead of expectations. Inflation is receding ever more sharply and is certainly contributing to the improvement in consumer confidence, which is now less worried about the evolution of their purchasing power. This is all the more the case given that wage increases have reduced the impact of rising prices on their ability to consume. They are also reassured by the resilience of the job market and the absence of the much-hoped-for downgrading by the Federal Reserve. Unemployment remains relatively stable and historically low at 3.6%. American households resisted the rise in interest rates and inflation by using their savings to maintain their purchasing power and consumption. The rising cost of credit will undoubtedly curb this trend, although it is estimated that the decline in the level of household savings could theoretically continue for some time before coming to a halt, thanks to the 1.4 trillion in reserves that can still be deployed.

Quarterly GDP



Manufacturing PMI



Faced with the risks posed by the short-lived banking crisis at the end of the 1st quarter, monetary authorities reacted swiftly by reinjecting over 500 billion in liquidity. However, this liquidity has been completely withdrawn in recent months, causing volatility on interest-rate markets and a rise in financing costs. Consumer confidence nevertheless improved from 102.3 to 109.7 in June, according to the Conference Board. Overall, economic surprises were rather favourable in Q2, leading us to modify our cautious growth estimates for the period ending June to +1.2% and +2% at the high end. According to this estimate, the 1st half of the year therefore showed satisfactory growth in a particularly uncertain and tense environment. Our outlook for 2023 remains logically positive, close to +1%, as the risks of recession diminish.

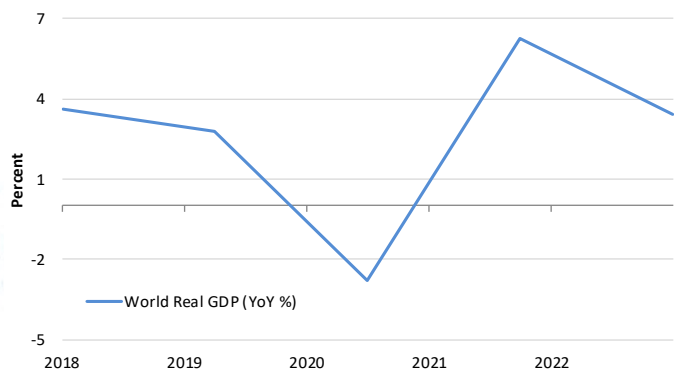
The eurozone economy could grow by +0.8%

Contrary to our outlook for stagnation in the European economy in the 1st half, which is likely to weigh on the full-year result, the ECB's adjusted forecast forecasts seem more optimistic. The institution still estimates that for the year as a whole, GDP growth could approach +1%, without government support, as public spending is forecast to grow by 0% in 2023. Although we expect government spending to increase, this will certainly be offset by a reduction in household spending. The service sector will undoubtedly be more affected by the loss of household purchasing power. Industrial production in the euro zone proved again highly volatile in Q2, with a low of -1.4% in March and a very slight rise of +0.2% in April. These fluctuating monthly data do not yet point to any real positive trend, but the sector nevertheless showed resilience in April, which could make a positive contribution to the overall result for the quarter if May and June pick up again. Note however, that the bulk of this slight rebound in April was due to the positive results of France (+0.8%) and Ireland (+21.5%), while the other countries recorded declines in production. The eurozone economy is unlikely to record significant growth in Q2, and may even stall again. We expect GDP to rise by a very slight +0.1%, thus avoiding another technical recession. Economic surprises have again been negative in recent months, limiting growth prospects. Q2 performance could just be sustained by further public spending. After a stagnant first half of the year, hopes for the 2nd half are based on lower inflation and a recovery in consumption. Prospects for the 2nd half of the year remain weak, but over the full year 2023, eurozone GDP could still grow by +0.8%.

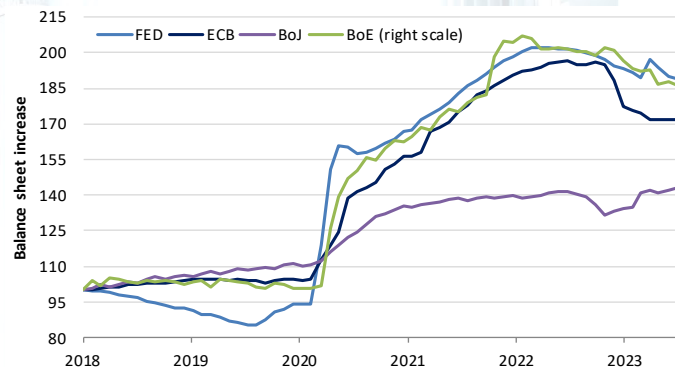
Swiss GDP up by +0.7%

At the start of the year, we forecast annual Swiss GDP growth of +0.7% in 2023. The results for the 1st half support our estimates, which remain unchanged for the time being. We believe that, while the outlook for the year will continue to be affected by an uncertain international economic environment, a more favourable environment in terms of inflation, interest rates and monetary policies, should the likelihood of an economic recovery in the 2nd half of the year both at home and abroad. The fall in inflation to below the SNB's target and the probable end of the SNB's rate hike cycle will boost consumer sentiment and domestic demand. An improvement in economic conditions in Asia and the USA will also support a recovery in external demand and Swiss exports.

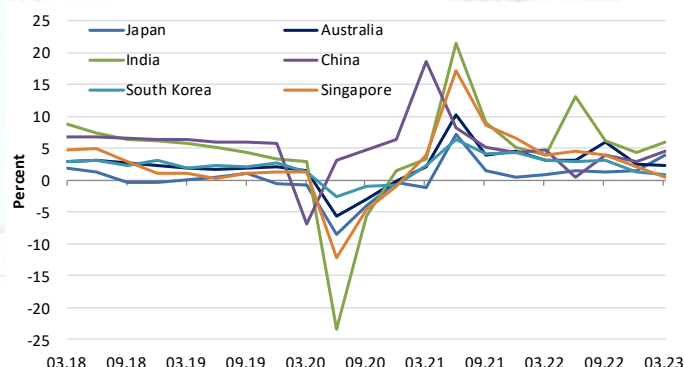
Real Growth in the World Economy



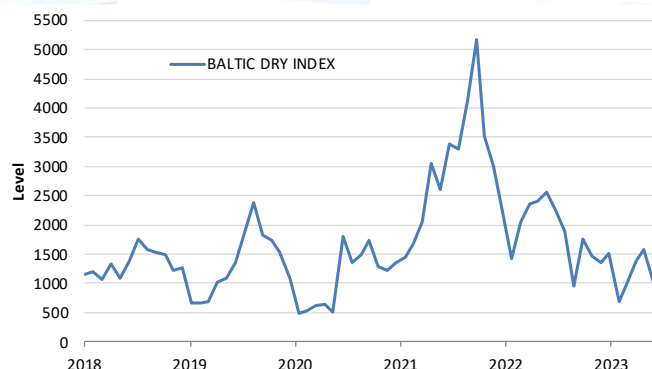
Global Liquidity



Growth Rates of Asian Economies (GDP)



Baltic Dry Index



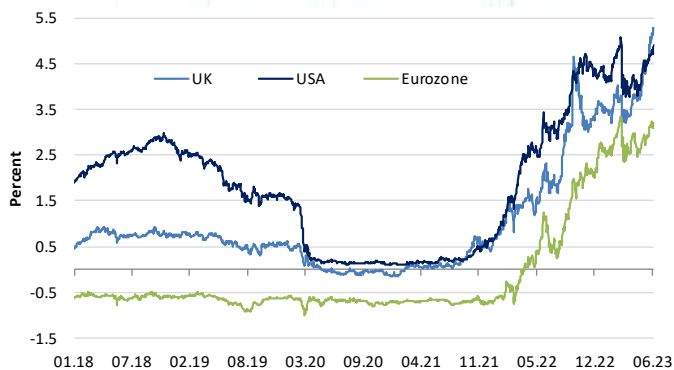
British economy still growing (+0.1%)

After two months of slight recovery, manufacturing PMIs have been on the decline again for the past four months and are now back in the contraction zone, approaching their December 2022 lows. As for services PMIs, the weakness is more recent, as the Markit/CIPS indicator has only been falling for two months and remains well above the growth threshold. The composite indicator therefore remains positive, thanks to the services component. Taking into account the existing statistical relationship between PMI indicators and GDP, the current results suggest a GDP growth of +0.4%. We believe, however, that this statistical relationship overestimates the real chances of growth in the 2nd quarter. Even if some better news on the inflation front (producer prices), other factors remain uncertain. Indeed, business confidence measures show a second monthly fall in May, probably suggesting a reduction in investment. As the PMI measures do not include the public sector, caution is called for in view of the recent drop in government spending, which will still have a negative impact on GDP if it remains on this trend, while industrial production returned to contraction territory (-0.3%) in April. PMI leading indicators for June remain mixed, with a further deterioration in the manufacturing sector services, which are still in the growth zone, with GDP nonetheless up +0.2%. The rebound has been driven by consumer spending and retail sales, but this is probably not the first sign of a recovery or a trend reversal. The weakness of the economy seems to us to be persistent, and April's rebound is certainly no more than a reaction to the drop in activity recorded in March. April's good results are unlikely to be transmitted with the same vigor to the quarter as a whole. However, the economy is showing surprising resilience, which could continue if household consumption proves more robust or government spending strengthens. The economic seems surprisingly resilient. We believe a recession is still possible, but the risks are diminishing. Our GDP growth forecast for the year has been adjusted to +0.1%.

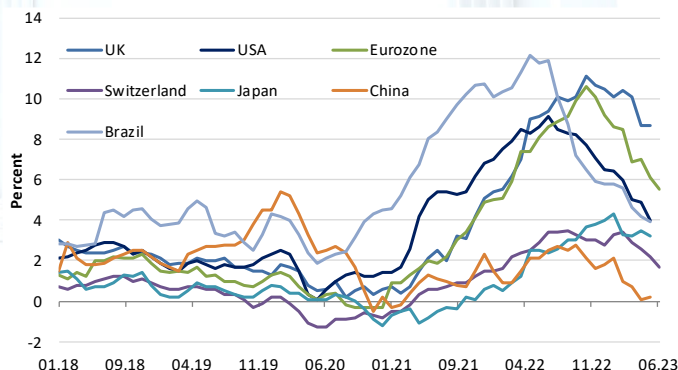
Positive outlook limited to +1% for Japan

Growth is likely to continue at a reduced pace in Q2, due in particular to the expected weakness in consumption and wages. Rising inventories suggest that companies are replenishing their stocks as the supply of spare parts improves, particularly in the automotive sector and especially for electronic chips. Household consumption could, however, contribute to the resilience of economic growth in Q2, particularly in view of the expected further decline in inflation. Consumer spending by foreign travellers in Japan could provide support for domestic consumption, though without significantly influencing the overall level. Japan's recovery is expected to continue very gradually, as the decline in consumer purchasing power following the steady decline in disposable income is likely to stabilize only very gradually. China's reopening of China seems to be the main factor on which the Japanese economy can count to boost its exports, against a backdrop of declining external demand, particularly in Europe. China's recovery is still modest compared with expectations at the start of the year, but the Chinese authorities are in the process of implementing new stimulus measures to strengthen the current momentum. With global demand still expected to be weak in Q2, the short-term economic outlook for Japan is therefore also more uncertain, but is likely to be up by +1% for the year as a whole. In fact, we believe that the 2nd half of the year should prove more positive, due both to more favourable domestic dynamics and to the induced effects of better economic conditions in China and the USA. Recent price index trends in Japan now offer the Bank of Japan the opportunity to avoid having to question its accommodating monetary policy. The deceleration in price rises could soon show growth of less than +3%, which would then no longer be so far from its target of +2%. The BoJ had a hard time getting out of the previous deflationary phase, and is certainly not risk a return to that situation by tightening policy too soon, tightening policy too soon.

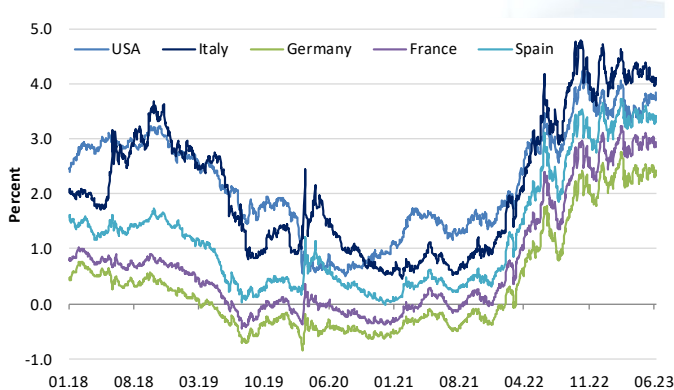
2-year Government Rates



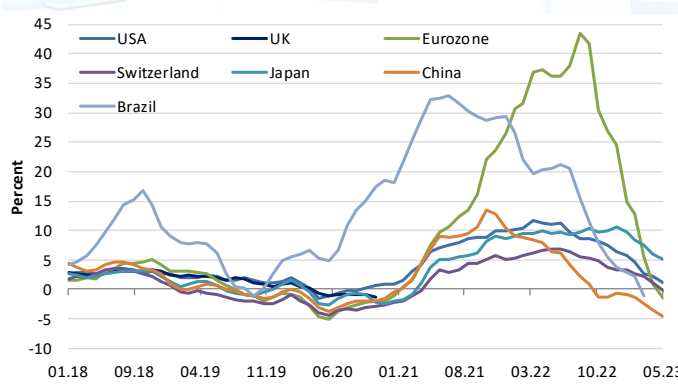
Inflation - CPI Indices



10-year Government Rates



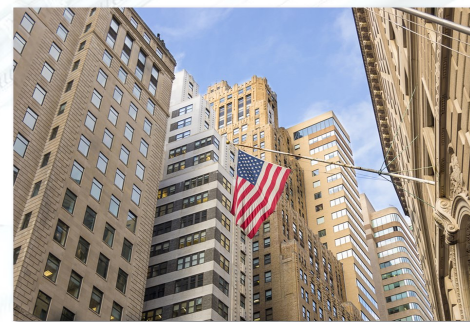
Inflation - PPI Indices



MACROECONOMIC SCENARIO

United States

- US economic momentum remains solid
- Moderate slowdown in Q2 (+1.2%)
- The Federal Reserve should give itself time
- Inflation declines, though some components adjust only slowly
- Volatility persists on yield curves



US economic momentum remains solid

The revised GDP figures for Q1 2023 underline the still relatively solid economic momentum in the United States. Revised GDP growth is +2% annualized, following a more favourable revision of exports and private consumption. Household consumption finally recorded a +4.2% increase, its strongest rise in twenty-four months, thanks to positive adjustments in the services segment, supported by a still solid labour market, despite weaker wage trends. Export growth of +7.8% also contributed significantly to the quarter's result. Conversely, the decline in government spending weighed on the performance of the US economy for the second consecutive quarter. The real estate sector continued to struggle, posting its eighth quarterly decline, while capital goods investment contracted for the second consecutive quarter. The start of the year has thus proved more robust than expected by the consensus, which was still counting on GDP growth of just +1.3% instead of the +2% forecast. As in the previous quarter, the US economy continues to surprise observers, and may yet deliver further surprises in the months ahead.

The risks of recession, so often evoked in recent months in response to the central bank's severe tightening of monetary conditions over the last year or so, have yet to materialize. The spectre of a hard landing also clearly seems to be fading, and growth forecasts are now tending to push back the probability of negative economic growth to the third or even fourth quarter of 2023. Recent statistics published in May and June have been rather better than expected, supporting expectations of a further positive development in US gross domestic product in the second quarter.

The relatively favourable situation of US households also comes as a surprise in the context of tighter credit conditions and more difficult

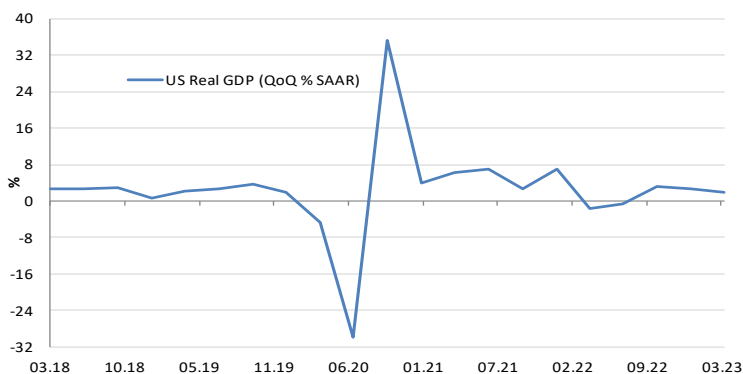
access to credit. It will undoubtedly contribute to further growth in household spending, although this will probably be significantly weaker in Q2. In particular, it is underpinned by a wealth effect that is undoubtedly more positive than many observers imagined. US household wealth grew by \$3 trillion in Q1, or +2.1% over the period, to reach a global valuation of \$148 trillion, according to estimates published by the Federal Reserve. Second-quarter performance will also depend on continued positive trends in exports, investment and government spending.

Moderate slowdown in Q2 (+1.2%)

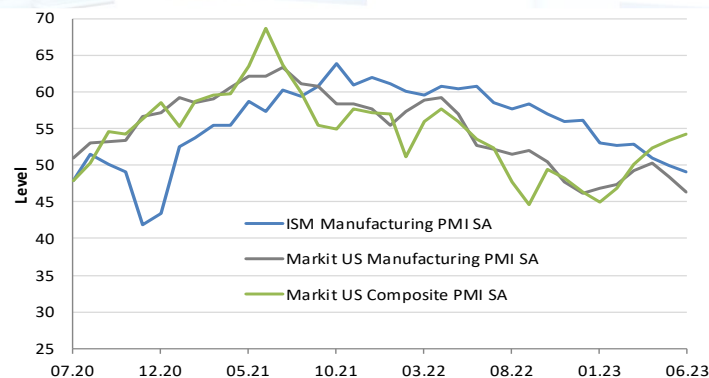
The US economy is proving far more resilient than forecasters feared, and could therefore still end Q2 on a positive note, ahead of expectations. Inflation is receding ever more sharply, and this is certainly helping to boost consumer confidence, as consumers are now much less worried about their purchasing power. All the more so as the wage increases they have agreed to have already reduced the impact of rising prices on their ability to consume. They are also reassured by the resilience of the job market and the absence of the much-hoped-for downgrading by the Federal Reserve.

Unemployment remains relatively stable and historically low at 3.6%. American households resisted the rise in interest rates and inflation by using their savings to maintain their purchasing power and consumption. The rising cost of credit will undoubtedly put a brake on this trend, although it is estimated that the decline in household savings could theoretically continue for some time before it comes to a halt, thanks to the 1.4 trillion in reserves that can still be deployed. Faced with the risks posed by the short-lived banking crisis at the end of the Q1, monetary authorities reacted swiftly by reinjecting over 500 billion in liquidity.

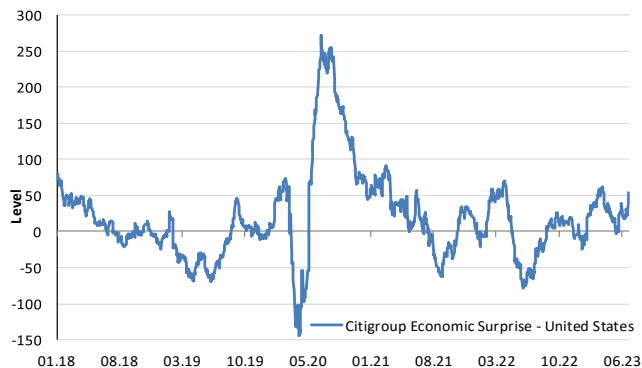
Quarterly US Real GDP



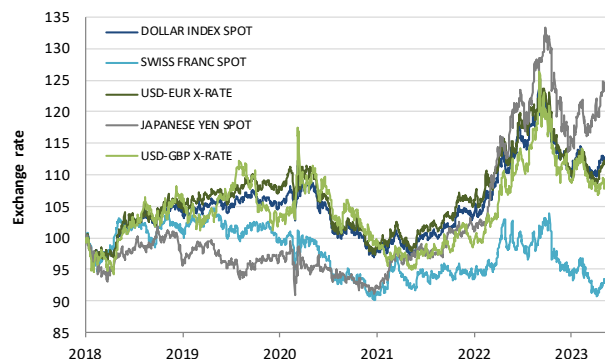
Leading Indicators PMI



Citigroup Economic Surprise Index USA



Dollar Trade-Weighted Index and Currencies



However, this liquidity has been completely withdrawn in recent months, causing volatility on interest-rate markets and a rise in financing costs. Consumer confidence nevertheless improved from 102.3 to 109.7 in June, according to the Conference Board. Overall, the economic surprises were rather favourable during Q2, leading us to modify our cautious growth estimates for the period ending in June to +1.2% and +2% at the top. According to this estimate, the 1st half of the year therefore showed satisfactory growth in a particularly uncertain and tense environment. Our outlook for 2023 remains logically positive, close to +1%, as the risks of recession diminish.

Leading indicators point to a slowdown

PMI indices contracted in June, returning to their lowest level of 2022 in the manufacturing segment (46.3). April's rebound above the 50 growth threshold was short-lived. On the contrary, the services index continued to perform well in June (54.4), supporting the overall indicator down to 53.0, which also remains in positive territory. The ISM manufacturing indicator also fell, confirming this trend, while the ISM services index (53.9) strengthened above the growth threshold. The new orders component rebounded from 52.9 to 55.5, suggesting a better situation for the months ahead.

Significant easing in the job market

Jobless claims have continued to rise steadily since the end of January, almost every week, and now stand at 248,000 new claims, significantly higher than the 180,000 low of September 2022. Non-farm job creation is now down from 339,000 in May to just 209,000 in June, the lowest since December 2020. Private sector employment also contracted from 283,000 in May to 149,000 in June. This confirms that the labour market is weakening as economic activity declines. JOLTS job vacancies also fell from 10.1 to 9.8 million, after peaking at 12 million in

March 2022. Annual growth in average hourly earnings has been falling steadily since March 2022 (+6%) to just +4.4% in June 2023, which is still higher than year-on-year inflation (CPI), which fell to +4% in June.

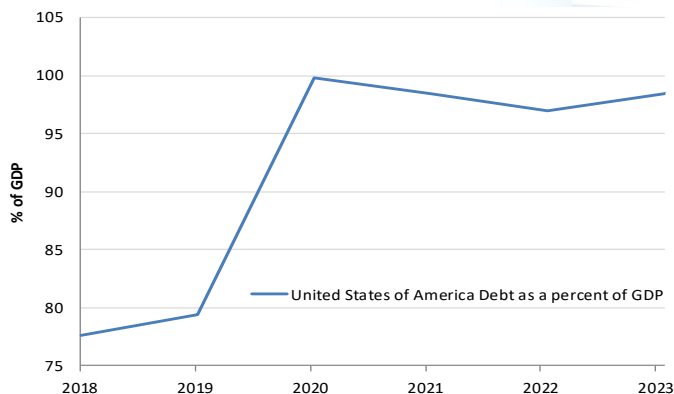
Despite a still historically low unemployment rate, these developments should satisfy the Federal Reserve, which was still recently concerned about the risks that a tight labour market could pose to wage and inflation trends. We believe that US companies will continue their efforts to adjust their costs via the employment variable, in order to protect their profit margins and earnings during an economic slowdown. On the other hand, the decline in inflation is also likely to dampen claims for wage increases, and put a further brake on average hourly wage levels.

The Federal Reserve should give itself time

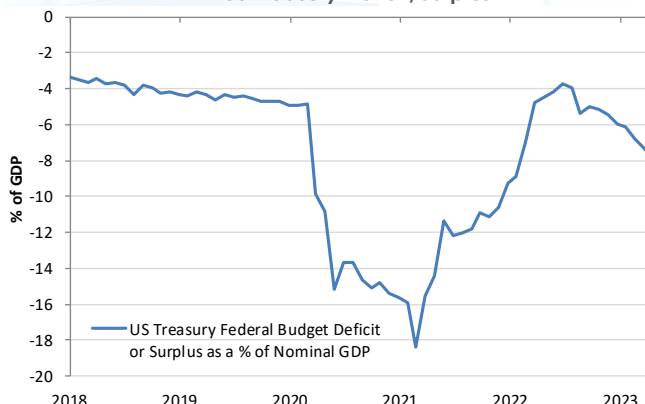
As a result, the labour market has been showing some signs of improvement over the past few months, and seems at last to be responding to monetary policy without collapsing, which should reassure the US central bank. Even if employment remains relatively buoyant, a reduction in tensions and the risk of wage increases being passed on to price indices are positive factors for the Federal Reserve.

On the price front, CPI inflation has already fallen to just under 4% at the end of May, down sharply on the previous figure for April (+4.9%), and could even slip to 3% for the end of June in the next few days. The monthly CPI inflation rate (+0.2%) is clearly improving, as are producer prices, which are now negative for May (-0.3%). In our view, the Federal Reserve can already consider that overall price trends are moving in the right direction, even if inflation excluding food and energy is still up +5.3% year-on-year in May. The central bank president announced a pause in the rate hike process after the last FOMC meeting on June 14, pending confirmation of recent trends.

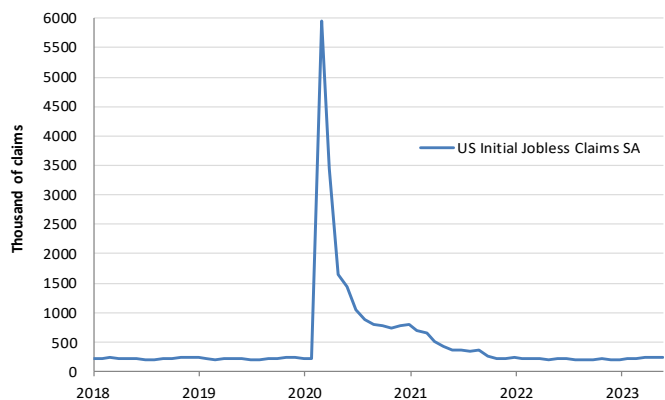
Debt USA



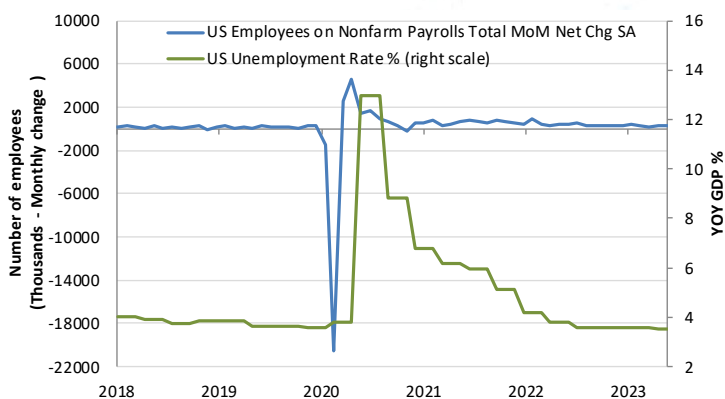
US Treasury Deficit/Surplus



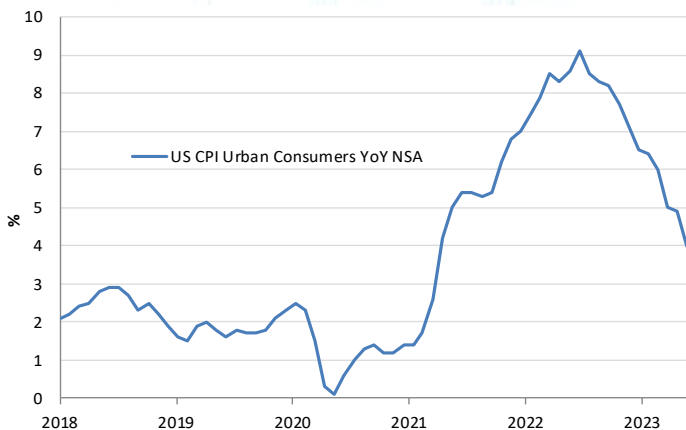
Unemployment Benefits in Thousands of Claims



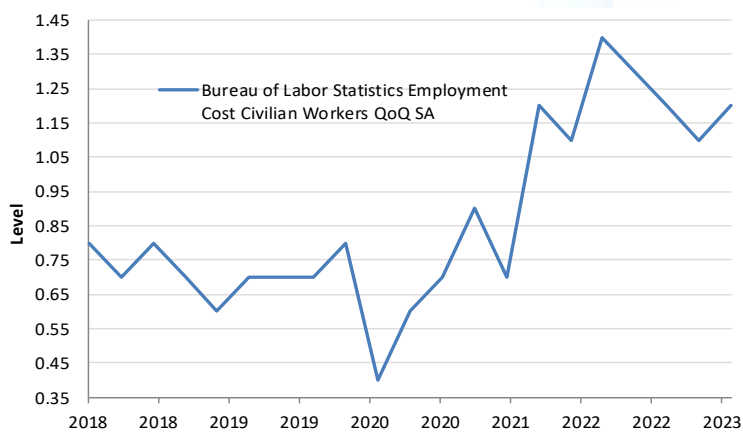
Job Creation Outside the Agricultural Sector (Net monthly var.)



Annual Inflation Rate USA 2018-2023



Unit Labour Cost (Employment Cost Index)



We believe that, despite the continuing likelihood of a 0.25% rate hike on July 26, it is more likely that the status quo will be maintained if June's annualized inflation actually slips to 3%, and if inflation excluding food and energy continues to fall to 5% below the 5.25% key rate.

For the past three months, the central bank has once again been reducing the size of its balance sheet. After a massive injection of 500 billion in liquidity needed to allay concerns linked to the outbreak of the banking crisis in March, which had increased the size of its balance sheet to 8.7 trillion, it has since withdrawn almost 500 billion, bringing it down to 8.3 trillion at the beginning of July. Since then, it has withdrawn almost 500 billion, bringing it down to 8.3 trillion in early July. While it raised interest rates in April, May and June, it also tightened monetary policy a little further, withdrawing liquidity from the financial system. In this once again more restrictive environment, we expect the Bank to maintain its stance in July. After betting too early on a reversal of monetary policy and cuts in key rates at the start of the summer, due to the perceived high risk of recession, investors now seem to have completely ruled out this eventuality. The yield curve is increasingly inverted, while the risks of a slowdown are now smaller. Our forecast for key interest rates envisages an initial phase of status quo until the fourth quarter of 2023, followed by a further period of rate cuts leading to a flattening of the yield curve.

Fed funds rates for December have also rebounded significantly from their post-banking crisis levels of 4% to 5.4%. They are thus once again higher than current key rates (5.25%), and no longer take into consideration any possible easing of monetary conditions over the next six months. This is yet another major paradigm shift for monetary policy, which in our view fails to take into account the real opportunities for lowering inflation to levels close to the central bank's target and, above all, well below that of Fed funds. It seems to us, therefore, that an annual inflation rate already down to just 3% at the end of the 1st half of the year, while the GDP deflator has already fallen to 3.9%, would be a good argument for holding back the FOMC from further hikes.

Inflation declines, though some components adjust only slowly

The inflation figures published for May in the United States confirm the new regime that has been in place for the past twelve months. Since then, it has been fluctuating between +0.5% and 0% per month, well below the +1.2% recorded in June 2022. It has averaged just +0.25% for the past four months. Inflation is receding significantly and 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 an annual pace of around +4.8%. Among the elements that are still holding up, 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 highly likely to follow the already visible downward trend in prices observed in the new rents sub-segment. We therefore believe that the expected gradual reduction in inflation to an acceptable level is still fully underway. Moreover, producer price indexes are already down by -0.1% (excluding food and energy). Inflation would therefore appear to be following the expected trend and continuing to decline without any massive new restrictive measures from the Fed. All the more so since, in our view, the causal relationship between unemployment levels, growth, key rates and inflation is not so clear-cut, particularly when we consider that price trends have been more a phenomenon of supply bottlenecks in the wake of the pandemic, than of excess demand.

Volatility persists on yield curves

Over the past nine months, volatility has remained high on the fixed-income markets, which have experienced fluctuations marked by short cycles of rising and falling yields on most maturities. Ten-year Treasury yields underwent five phases of 70 bp rises and falls, ranging from 3.3% to 4.25%, the last of which exceeded 4% again at the beginning of July. On the shorter two-year maturities, the latest cycle pushed rates to 5%, too close to Fed funds in our view and too high according to our estimates of medium-term inflation trends. Remember that the University of Michigan's 1-year inflation expectations are only 3%, and that the breakeven of two-year Treasury bonds has fallen from 3.4% in March to 2.05% today. Yields on the short end of the government curve clearly seem too high to us.

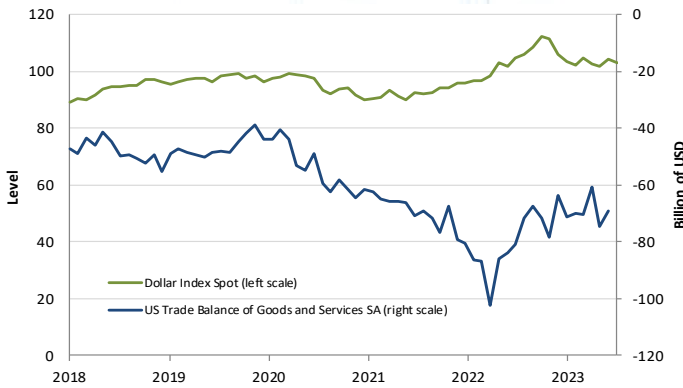
Influenced by the Fed's monetary policy statements announcing two more potential rate hikes should this become necessary. We have already mentioned our expectations for future growth, inflation and key interest rates, and believe that Treasury yields are currently too high on the short end, resulting in a steep slope that is unsuitable for the situation. A flattening of the yield curve through a sharper correction of the short end now seems the most likely scenario. We expect rates on short maturities to fall as soon as signs of inflation closer to 2.5% to 3%

become more evident. This rate cut will be more pronounced on 2- to 5-year maturities, which could slide by 150 to 200 bps, and by 70 to 100 bps on 10-year Treasury maturities. The outlook for dollar-denominated bond markets therefore seems favourable to us, and sufficiently attractive to support a diversified exposure favouring investment-grade corporate bonds offering both attractive yields and prospects of capital appreciation.

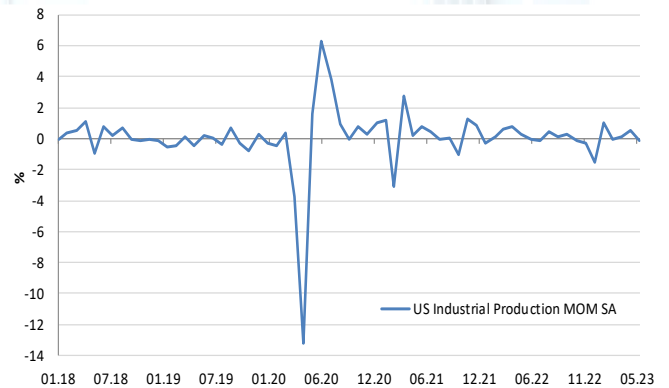
Dollar likely to weaken in 2nd half

Over the past three months, interest-rate dynamics have been stronger in the United States than in Europe. With a jump of 150 bps, two-year dollar rates rose more strongly than euro rates (110 bps). The dollar had initially been the big winner from the Fed's change in monetary policy, before weakening at the end of 2022. The stabilization of the dollar at lower levels over the past six months, against the backdrop of a probable deterioration in yield differentials, is not very reassuring for the US currency as we look to the end of the year. The expected decline in dollar yields will add further pressure on the greenback, which could well weaken again against the euro in particular. Interest in U.S. assets will certainly remain sufficient to curb the dollar's downward trend, which should gradually lose momentum.

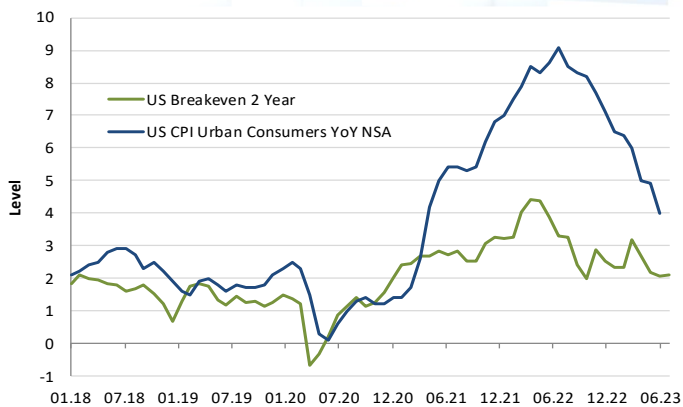
Trade Balance - Trade-weighted US



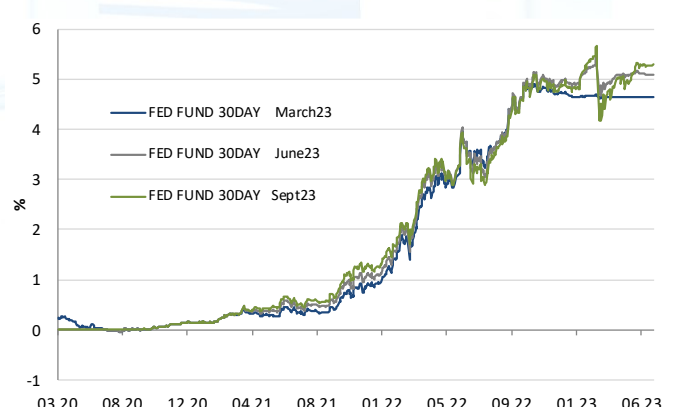
Industrial Production - US



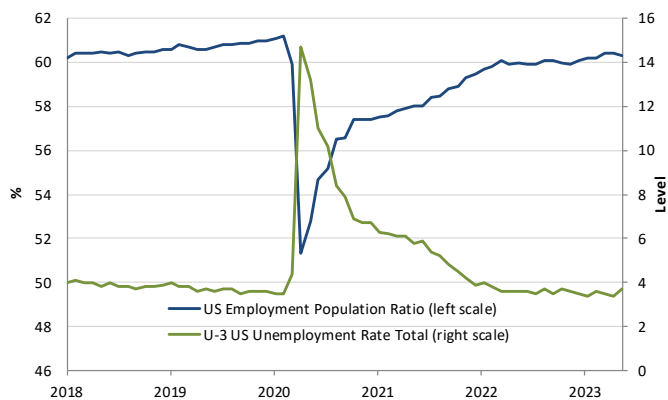
Expected Inflation and CPI - USA



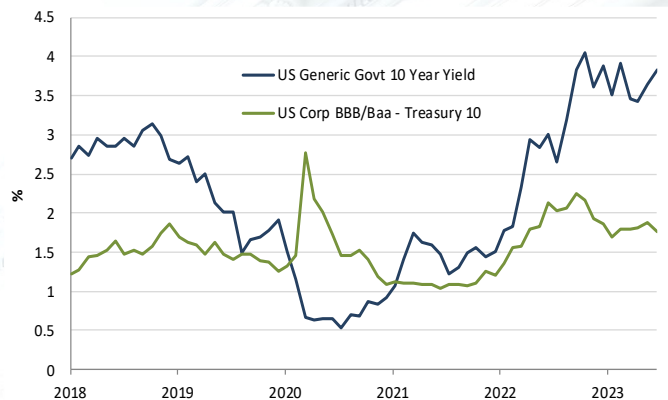
Fed Funds Futures



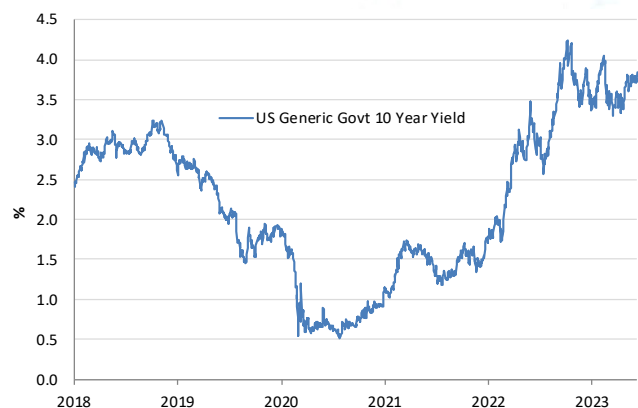
Unemployment Rate and Occupation Rate of the Population



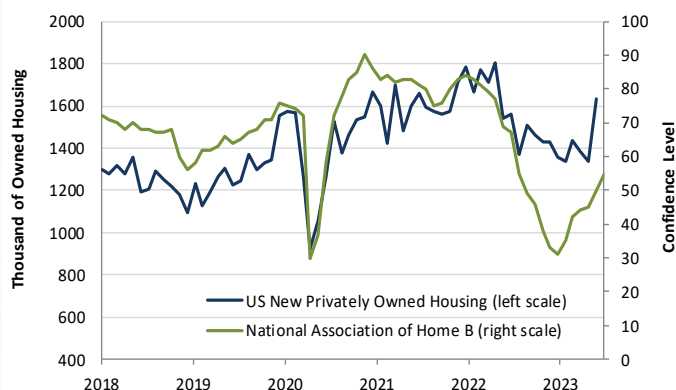
Yield Spread US Treasury-BBB 10 years



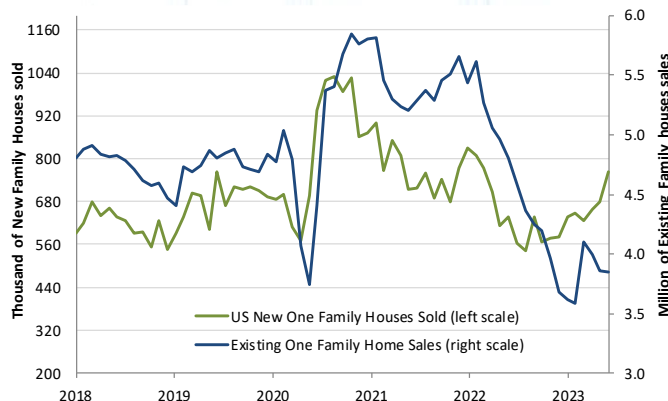
10-year US Treasury Bond Rate



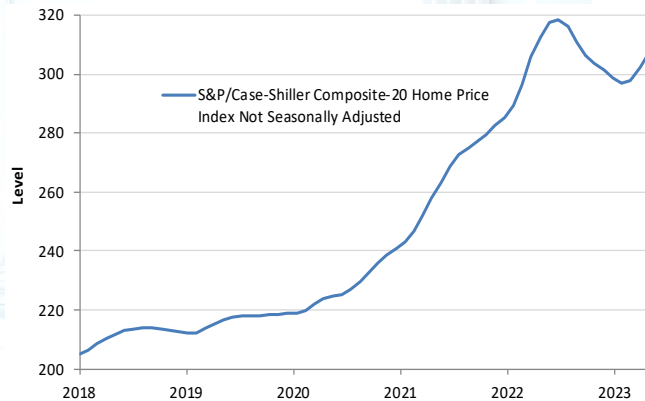
New Housing and NAHB US



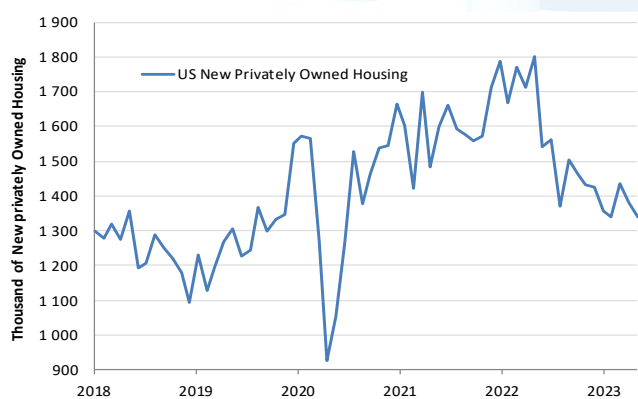
Sales of new and Existing Houses



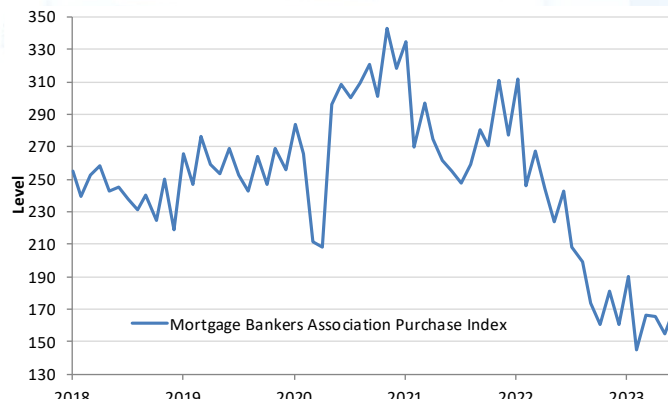
Property Prices S&P Case-Shiller Index



New Housing Starts



New Applications for MBA Funding



MACROECONOMIC SCENARIO

Switzerland

- Swiss economy surprises on the upside
- Domestic demand and exports underpin GDP
- Inflation falls below SNB target
- Status quo now a possibility for the SNB

Swiss economy surprises on the upside with +0.5% GDP growth in Q1

The Swiss economy has got off to a rather surprising start in 2023, finally picking up fairly sharply after a last quarter of 2022 in which GDP stagnated (0%). The GDP for the 1st quarter of 2023 recently published by the State Secretariat for Economic Affairs showed growth of +0.5%, after adjustment for sporting events, which quite clearly exceeds the forecast of only +0.1% growth estimated by economists. The Swiss economy had been penalized by a fall in exports, and is already recovering in Q1 thanks to a return of exports at the start of the year, which contributed significantly to this good result. Final domestic demand, up +0.9%, underpinned GDP, thanks in particular to strong private consumption, up +0.6%.

A slowdown in growth in 2023 was widely expected, but for the time being Switzerland still seems to be better able to withstand the effects of the more restrictive monetary policies pursued in most of its major economic partner countries. Taking into account the evolution of global inflation parameters, the development of restrictive monetary policies and the rise in financing costs in Switzerland and abroad, this GDP growth is still rather satisfactory. The Swiss economy is therefore still growing, and stands out from the more negative overall trend in Europe. In our country, the economy seems to be far more resilient to the turbulence of all kinds that began in 2022, and which has taken time to affect European economies more strongly. The European Union's GDP contraction of -0.1% in Q1 thus follows an identical drop at the end of 2022, suggesting that the EU has entered a recession over the past six months, in contrast to Switzerland's resilience.

The upturn at the start of the year in Switzerland was set against a backdrop of quarterly GDP growth sequences close to zero, but still insufficient to maintain annual growth close to the historical average. However, this performance exceeded economists' expectations. As far as we are concerned, our forecasts for annual Swiss GDP growth were +0.7% in 2023 at the start of the year, and the results of this 1st quarter



confirm our estimates, which remain unchanged for the time being. We will look below at the main components influencing GDP growth in recent months, and at the detailed outlook for the coming quarters to 2023. We believe that, while the outlook for the year will continue to be affected by a still uncertain international economic environment, a more favourable environment in terms of inflation, interest rates and monetary policies should strengthen the likelihood of an economic recovery in the second half of the year.

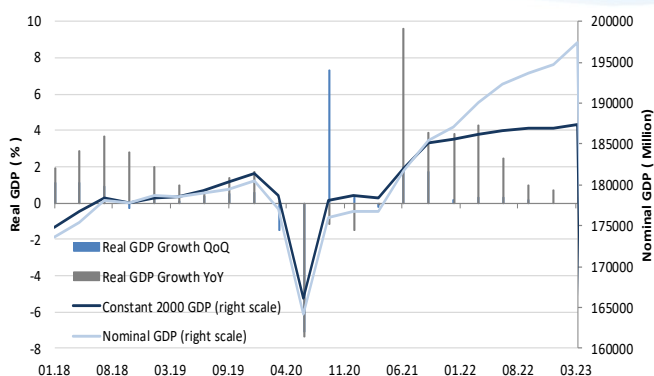
Domestic demand and exports underpin GDP

Despite the fact that interest rates in Switzerland are still significantly higher than the average for the last ten years, and that the SNB's more restrictive monetary policy is pushing up interest rates and financing costs, domestic demand has actually reacted rather well. Overall, it grew by +0.9%, well above its historical average. Domestic consumption has thus held up rather well against rising credit costs and the negative effects of inflation, continuing the solid trend of previous quarters.

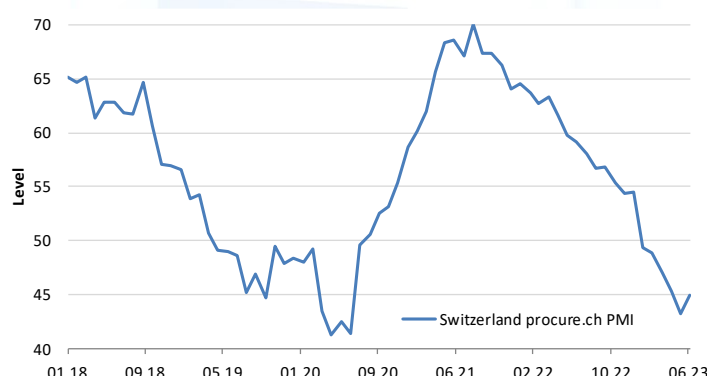
Domestic momentum is partly explained by a certain acceleration in capital goods investment, which jumped by +2.6% after an already solid +1.7% rise in the previous quarter. Research and development and vehicles, as well as other items, posted slight overall growth. Investment in construction (-0.1%) remained stable overall. After several quarters of weakness, value creation in construction rose again (+0.8%) on the back of higher sales in civil engineering and specialized construction.

After three consecutive quarters of negative values, there was also a slight reversal in the trend for value creation in manufacturing (+0.3%). While value creation in the chemicals and pharmaceuticals industry, although high, is down (-0.6%), that of the other industrial branches is up.

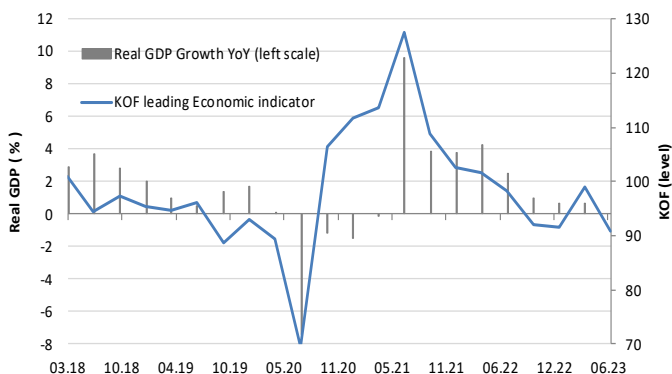
Nominal GDP - Nominal and Real Growth Rates



Swiss PMI Leading Indicator (Purchasing Managers)



Real GDP - Annualised Growth - KOF Leading Indicator



Exports and sales rose, particularly in the machinery and vehicle sectors. Overall, merchandise exports rose in a large majority of categories and countries (+4.0%). In April, however, exports declined again (-5.2%), while imports contracted less sharply (-3.3%). The Swiss trade balance still showed a surplus of CHF 2.6 billion.

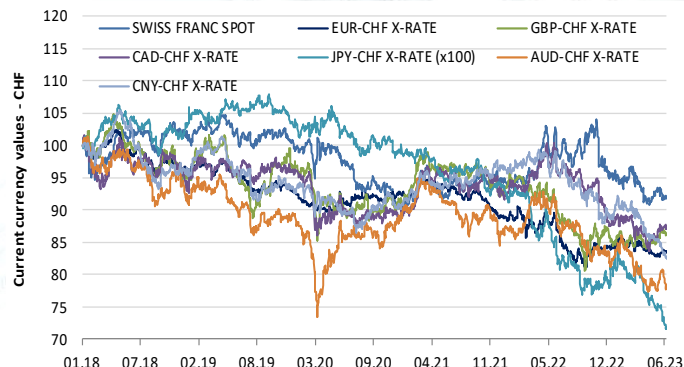
Household consumption remained relatively resilient, growing by +0.6%, again above average. Consumer spending on services, in particular, rose sharply, especially in the areas of mobility and tourism. Driven by the travel sector, which continues to reinvigorate, value creation recorded above-average growth in the transport and communications sector (+0.7%) and in the hotel and catering industry (+1%). Public consumption stagnated (0%). Consumer spending on goods was more moderate, resulting in a slight decline in value creation in retail trade (-0.4%), which had been at a high level. Thanks to wholesaling and motor vehicle sales, however, trade ended the quarter on a positive note (+2.1%). Most other tertiary sectors also recorded positive trends in the 1st quarter, including the important business services sector (+0.2%), healthcare (+0.7%) and recreation (+1.2%).

Leading indicators still very uncertain

Leading indicators had initially risen in the first few months of the year, but then tended to fall back in the 2nd quarter. The KOF economic barometer had recovered slightly to 99 in March, but sank again in May (90.2) to its lowest level in two years.

Manufacturing PMI indicators are not yet improving, as suggested by the latest drop to 43.2 in May. The decline which began in August 2021 is continuing, and is approaching the milestone of two years of more or less regular falls. Although consumer confidence figures published by SECO suggested an improvement in sentiment in the 1st quarter, this has not really been confirmed since, and remains in negative territory

CHF Exchange Rate (base 100)



(-30.2). The picture is similar in the CS survey, which shows a relapse in confidence and perception of the economic outlook (-32.2). Overall, the leading indicators remain highly uncertain and do not yet point to a clear economic recovery in our country, while retail sales slipped by -3.7% in April and industrial production is still growing, but slowed again from +4.1% in December to +2.9% in March.

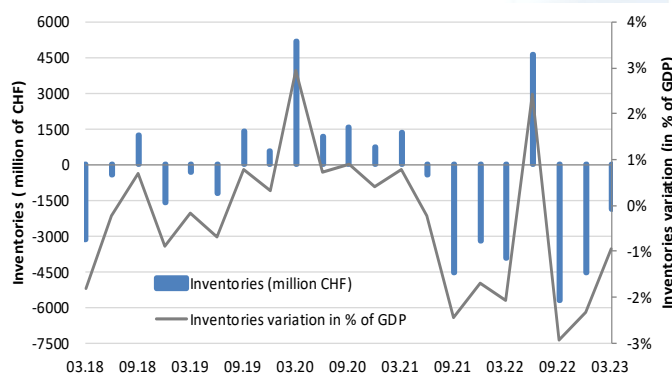
Inflation falls below SNB target

The inflation figures published in Switzerland for May (+2.2%/year) come as a surprise to all observers, yet are in line with our forecast made a year ago of a probable return to a reasonable level of inflation in our country by 2023. Indeed, back in June 2022, we were already suggesting that a new inflation regime would be in place by the 2nd half of 2022, which would be significantly lower than the one that had prevailed over the first six months.

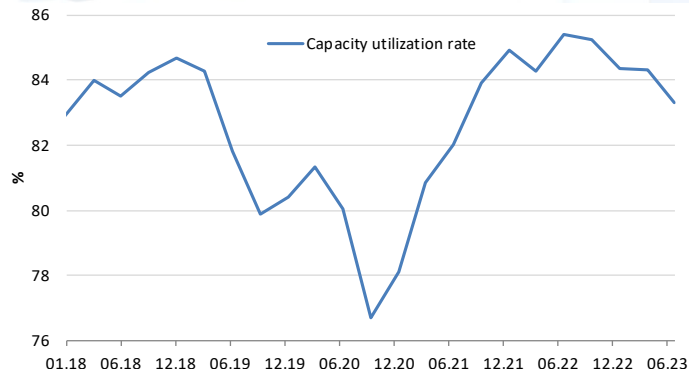
At the time, we suggested that price rises could be limited to +2.2%/year as early as June 2023, if our expectations of an average decline of around +0.2%/month were maintained for long enough. While the publication of an unchanged CPI for May (0%) came as an excellent surprise to many people, this result confirms our analysis and augurs well for the months ahead. The consumer price index excluding energy and food even fell below the SNB's target of +2%. The SNB is due to meet on June 22 to decide on a further probable increase in key rates of 0.25%, according to consensus estimates.

However, if inflation were to fall more rapidly than the central bank had expected, it might already decide to take a pause in its policy in order to assess whether further tightening is required before its next meeting in September. Swiss inflation should continue its downward trend in the second half of the year, reducing the risk of interest rate pressures.

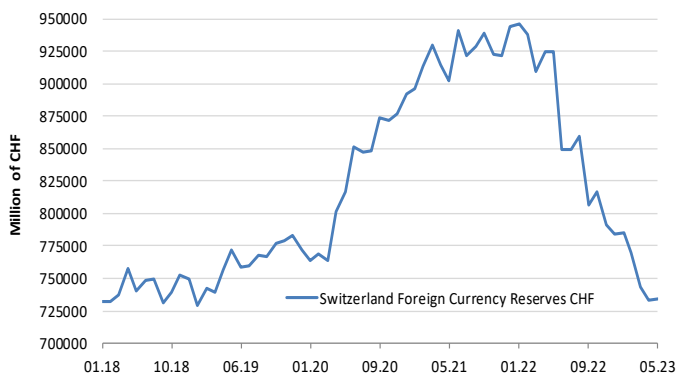
Inventories - Change in Stocks



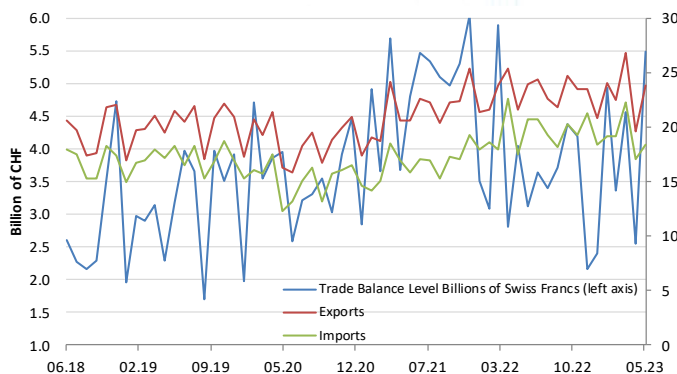
Capacity Utilisation Rate



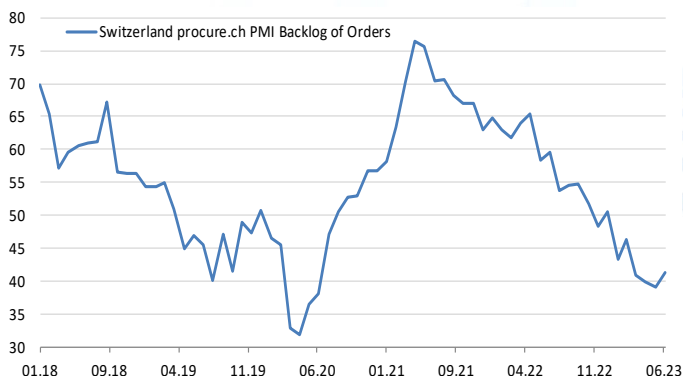
SNB Foreign Currency Reserves



Trade Balance Level



Order Book



Nevertheless, the benchmark rental rate for lease contracts, which had remained unchanged at 1.25%, was finally adjusted by 0.25% for the first time in 15 years, and now stands at 1.5%. Officially, a 0.25% increase in the reference rate allows lessors to adjust rents by +3%. This adjustment will not affect all rents, but could logically have a long-term effect on inflation through higher rents, particularly if the rise in the reference rate continues in the next publications on September 1 and December 1. The evolution of the Swiss franc against the euro and the dollar has had no notable specific impact over the past two rather stable months, with the franc appreciating by +1.4% against the US dollar and +1.6% against the euro. The currency factor has thus not made a major contribution to containing price trends in our country in recent months. In terms of import and producer prices, the situation turned out to be more favourable more quickly, since the June 2022 peak of +6.9%, these have in fact slipped further in recent months, falling to just +1% at the end of April, and thus no longer represent the same threat to companies.

In our view, this trend should help companies to control their costs and margins. The stabilization of producer prices means that we can also project a more positive outlook for consumer prices. Swiss inflation is showing a downward trend well ahead of that of the eurozone and the United States. We believe that the expected global economic slowdown will ease price pressures as the effects of falling agricultural commodity prices in particular begin to be passed on to consumer prices, contributing to a further, more marked reduction in inflation in Switzerland in a national context marked by wage stability.

Status quo now a possibility for the SNB

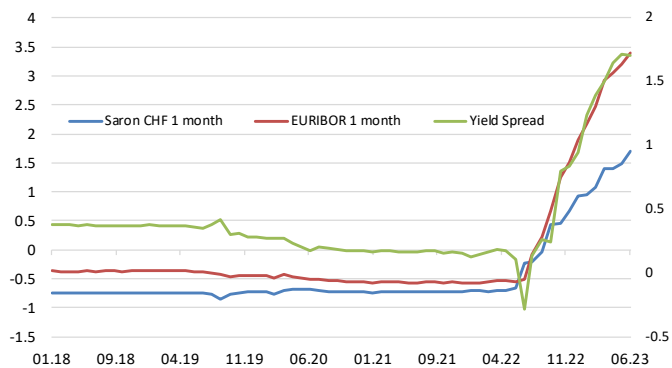
SNB President Thomas Jordan recently declared that the SNB's battle to control inflation was not over, and that we must remain vigilant until inflation truly and sustainably stabilizes below +2%. According to his comments, further rate hikes should not yet be ruled out, given that the overall environment for inflation remained too high and that price rises were still too widely visible and spread across the various sectors of the economy. After raising its key rates by 225 basis points over the past year, the SNB is likely to adjust interest rates once again on June 22, despite what we believe is an increasingly reassuring scenario for price trends in our country. The status quo could already be envisaged by the SNB, but it is likely that a final increase of 0.25% will be decided before a pause that could last until September. The SNB's inflation target of +2.2% for 2023 has in fact already been reached, so the SNB could pause for a moment while suggesting that further increases are still possible, pending confirmation of the current trend over the coming months.

Spread trends unfavourable to the franc

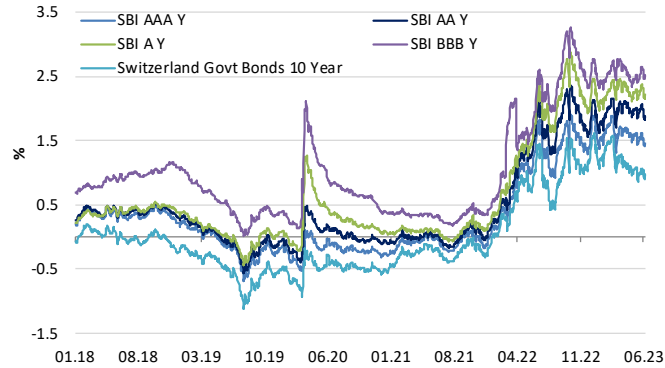
Switzerland's monetary policy is therefore nearing the end of its cycle, which is not the case in most other countries. In our view, policy rate differentials will not be favourable to the franc in an international context where tensions are tending to ease. To date, the yield differential between the 10-year Swiss government bond and the German Bund is 95bps, virtually its highest level since 2012. This observation is similar at the various points of the relative yield curve.

It should also be noted that, compared with the situation in 2015, the current level is higher than that which saw the euro rise from 0.97 to 1.20. The evolution of nominal yield spreads with US Treasury rates had reached their nadir in November 2022 at almost 300 bps and have gradually narrowed to 225 bps today. However, they remain sufficiently attractive to encourage a rise in Swiss investors' interest in US assets, which could support a rise in the exchange rate, especially if the decline in US inflation accelerates.

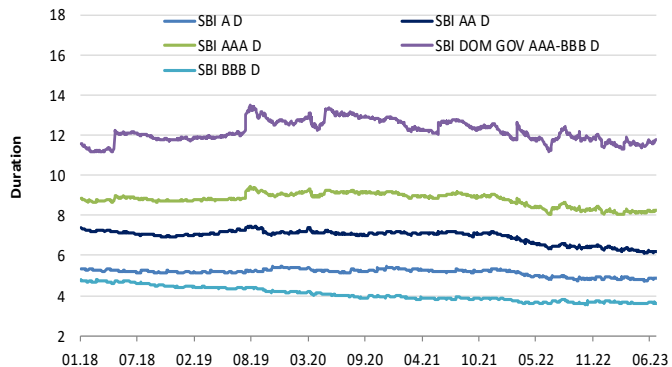
Saron/Euribor 1 Month Rate Differential



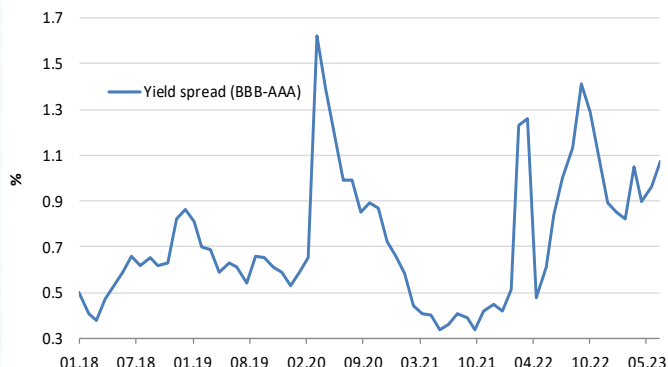
Interest Rate (Confederation, AAA, AA, A, BBB)



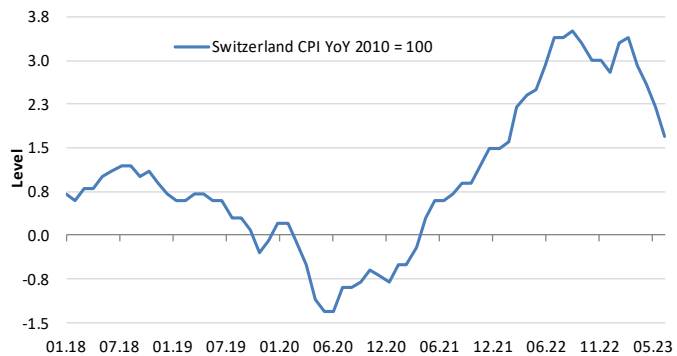
Duration of Swiss Bonds



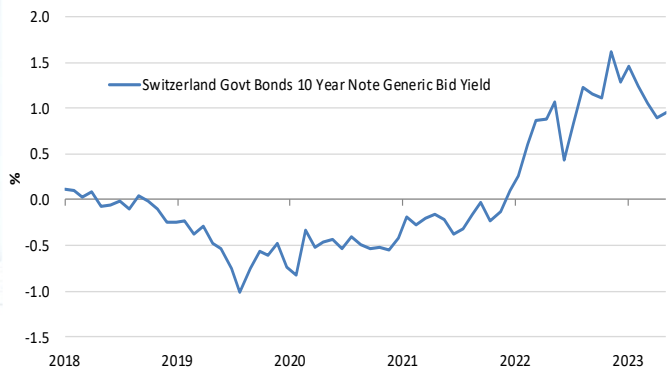
Yield Spread



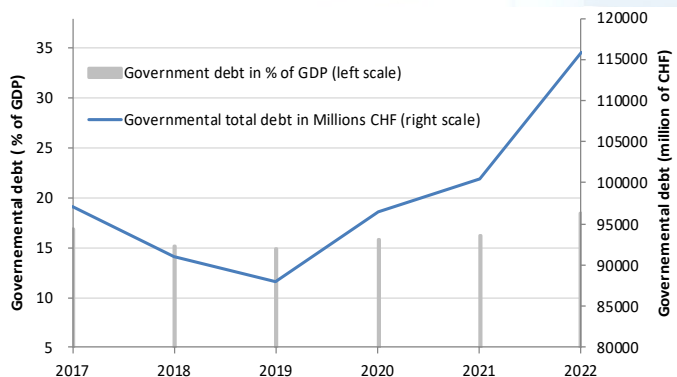
CPI Inflation



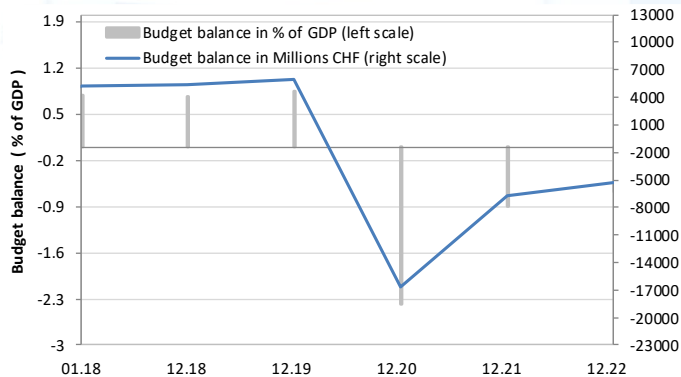
Federal Long Rates since 2018



Switzerland Government Total Debt



Switzerland Budget Balance



MACROECONOMIC SCENARIO

Eurozone

- The European economy is still at a standstill
- Falling inflation exceeds ECB expectations
- The ECB is set to raise its key rates to 5%
- Bond yields have yet to adjust



Bond yields have yet to adjust

The eurozone's GDP trend is resisting the headwinds, recording a modest contraction of -0.1% in Q1 2023. For several quarters now, economists have been predicting a recession in the eurozone, which has yet to materialize. The slowdown in eurozone activity is clear, but the economy's performance is not deteriorating as much as the consensus had predicted. It has to be said that the eurozone economy has once again beaten these negative expectations by recording another quarter of GDP stagnation rather than a collapse in economic momentum. The economy's overall resilience seems largely due to the +1.6% growth in government spending and capital goods investment (+0.6%), while household consumption slipped by -0.3%. The difficulties encountered by households are therefore very real, although the contraction in spending is lower than the previous quarter's -0.9%.

Exports contracted very slightly by -0.1%, while imports fell by -1.3%. This stagnation of GDP in the Eurozone is relatively similar to that of the European Union as a whole, which recorded a +0.1% increase in activity. 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, however, is staggering under the weight of the -0.3% loss in value, following a -0.4% fall in GDP in its now in technical recession.

Germany once again recorded the most disappointing national performance of the eurozone's main member countries. Italy (+0.6%), Belgium (+0.5%), Spain (+0.5%), France (+0.2%) and above all Portugal (+1.6%) ended the quarter with growth, while the Netherlands (-0.7%) and Germany (-0.3%) made a negative contribution to overall growth.

The 2nd quarter is likely to remain very weak

The eurozone economy is unlikely to record significant growth in Q2, and may even stall again. We expect GDP to remain very slightly up at +0.1%, thus avoiding another technical recession. Economic surprises have continued to be negative in recent months, limiting growth prospects. Q2 performance could just be sustained by further public spending.

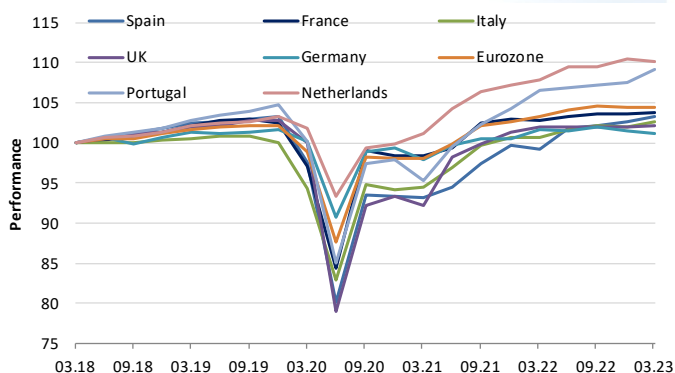
In contrast to our outlook for stagnation in the European economy in the 1st half, which is likely to weigh on the full-year result, the ECB's adjusted forecasts look more optimistic. The institution still estimates that for the year as a whole, GDP growth could approach +1%, without government support, with public spending forecast to grow by 0% in 2023. However, we expect government spending to increase, but this will certainly be offset by a reduction in household spending. The service sector will undoubtedly be hardest hit by the loss of household purchasing power.

Industrial production in the eurozone was again highly volatile in Q2, with a low point of -1.4% in March and a very slight rise of +0.2% in April. These fluctuating monthly figures do not yet point to any real positive trend, but the sector did show resilience in April, which could make a positive contribution to the overall result for the quarter if May and June pick up again. It should be noted, however, that the bulk of this slight rebound in April was due to the positive results of France (+0.8%) and Ireland (+21.5%), while the other countries recorded declines in production.

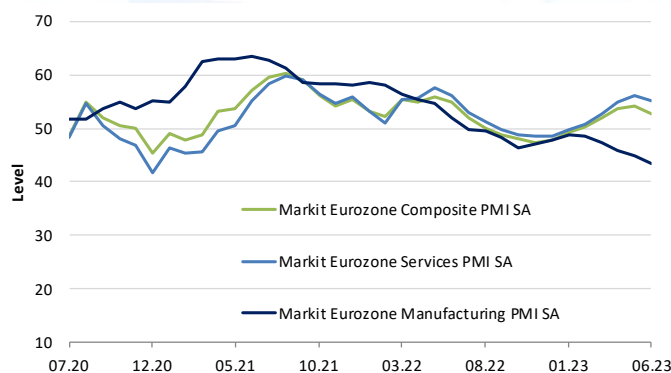
Leading indicators show further declines

The latest releases of PMI leading indicators for June failed to live up to economists' expectations, and clearly suggest a probable slowdown in the manufacturing sector and reduced momentum in services.

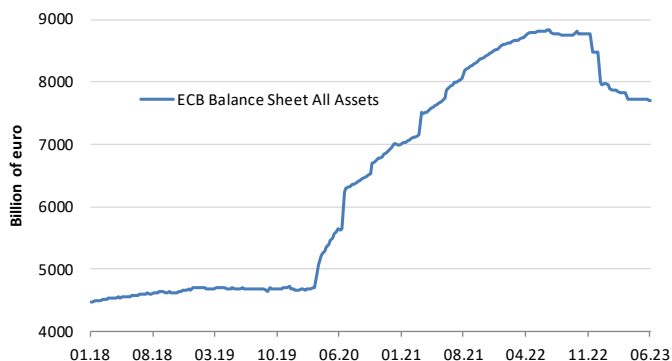
GDP Growth —Eurozone



Manufacturing, Service and Composite PMI



ECB Balance Sheet



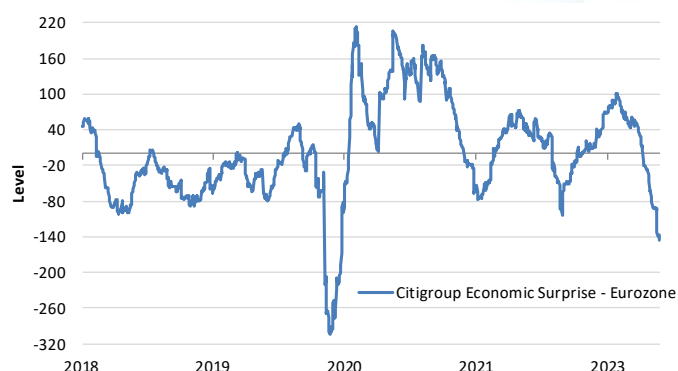
In one month, the composite indicator fell from 52.8 to 50.3, just above the growth threshold. This result was largely driven by the Services segment, which nonetheless struggled to cope with the various pressures in June, slipping from 55.1 to 52.4.

The leading manufacturing PMI indicators for the eurozone continue to decline in the contraction zone, falling in June from 44.8 to 43.6. They are approaching their lowest levels reached at the height of the pandemic in the 1st half of 2020. The trend in the PMIs suggests that the eurozone economy will find it difficult to record growth in Q2 and the following months, as it continues to be affected by the higher level of interest rates and financing. Trends in the main parameters used to assess credit conditions also suggest that they will deteriorate in Q2 for both households and businesses, thereby increasing the risk of a weakening in the economy and consumption.

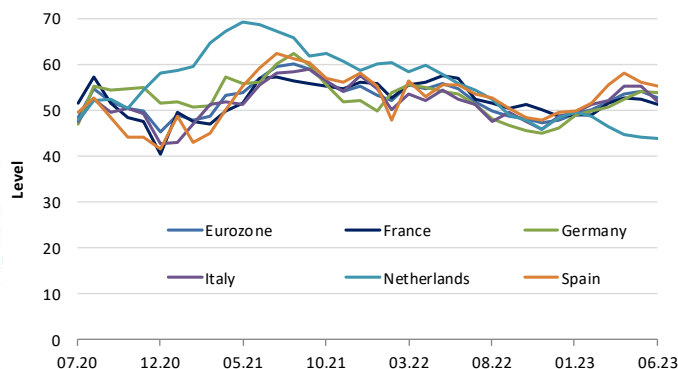
European households less worried than manufacturers

Household confidence for the month of June is advancing and improving slightly, despite rising financing costs and declining purchasing power. The European Commission's indicator remains gloomy, however, with a reading of -16.1, although it has clearly recovered from its September low of -28.7. The main concern remains price trends, which are having a dramatic impact on household purchasing power. The latter are still worried about CPI trends, despite a marked decline in this measure over the past few months and the peak reached in October 2022. On the contrary, indices measuring confidence in both industry and services continued to decline in June, sliding to their lowest level since October 2021. These persistently lacklustre levels of confidence are likely to influence economic performance in the quarter just ended and over the coming months, suggesting that economic conditions will remain very weak as we enter the second half of the year.

Citigroup Economic Surprise Index - Eurozone



PMI Composite - Country



Falling inflation exceeds ECB expectations

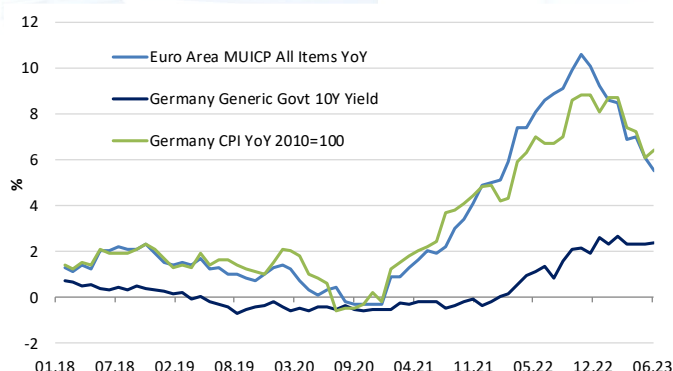
Eurozone inflation surprised observers by continuing to decline in June, coming in at +5.5% year-on-year, down significantly on May's +6.1%, thanks to a reduced increase of +0.3% month-on-month. It is now well below the maximum level of +10.7% reached in October 2022. After eight months of declining prices, inflation remains a key concern for households, but it may already be declining enough to help reduce household uncertainty. This June is notably due to a positive base effect linked to the sharp rise in energy and food prices recorded in June 2022, which was not repeated in June 2023. The energy/food segment has made a clear contribution to the fall in inflation in Europe over the last few months, with a negative contribution and a significantly lower weighting. The index excluding food and energy does not follow quite the same trend, but also surprises favourably with an increase limited to +5.4% year-on-year thanks to a virtual stagnation of +0.1% month-on-month.

In addition, producer prices are still down -3.2% according to the latest published measurement, and are now also well below their 2022 highs. This trend is already having a positive impact on consumer prices, and will have a further positive impact on CPI over the coming months. Inflation has now already reached the ECB's target of +5.4% for the year as a whole, suggesting that prices are now falling faster than the ECB had expected.

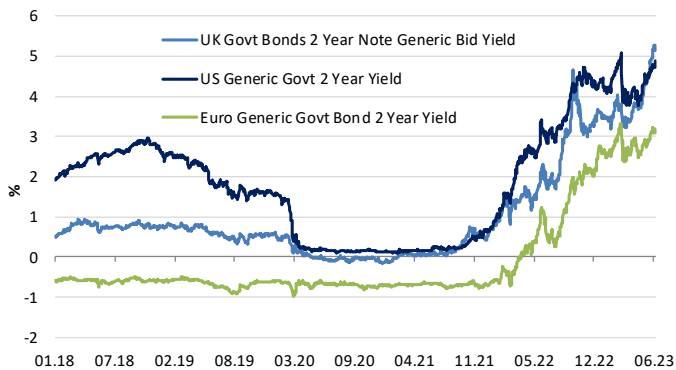
The ECB is set to raise its key rates to 5%.

Despite inflation falling to +5.4% year-on-year in June, and the ECB's estimate of +5.4% for 2023 as a whole, the ECB doesn't seem ready to consider this result better than it had hoped.

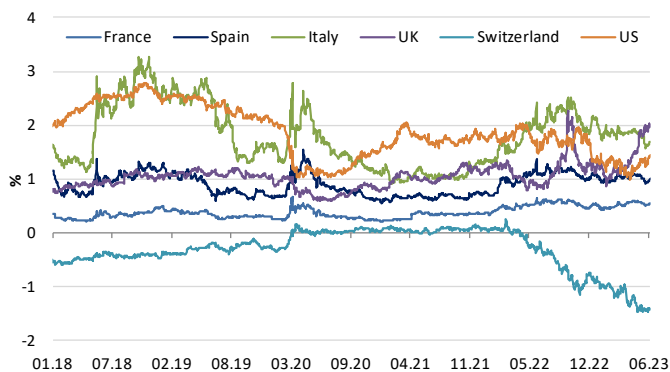
10 year Government Bond Yield - CPI



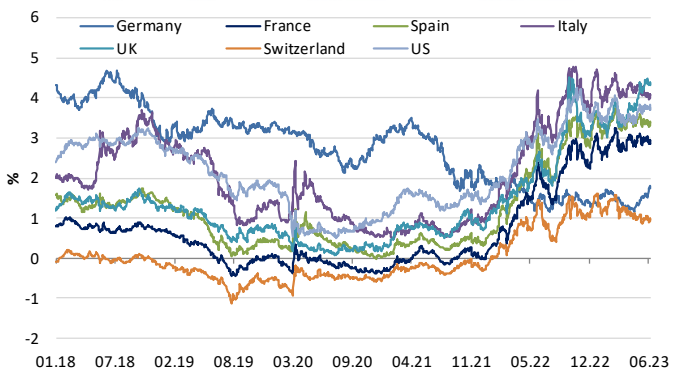
2-year Government rates (US, Euro, UK)



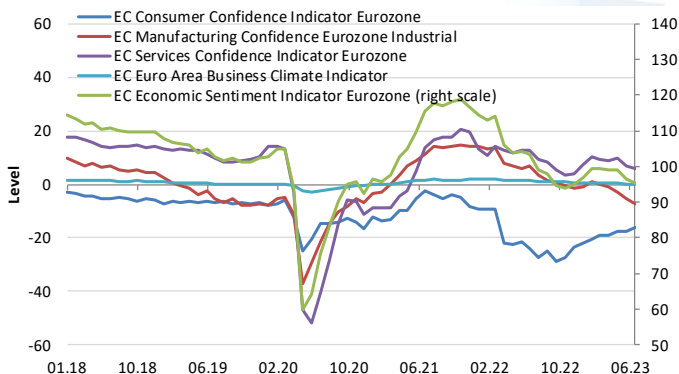
Risk premium — Government vs Bund



10-year Government Bond rate



Confidence in Europe (Economic Confidence Index)



The institution is not changing course and still wants to show its determination to fight inflation in order to lower price trends to +2%. With this in mind, the ECB once again raised its key rates in June by 0.25%, noting in particular that the inflation outlook was still too high and that the expected decline was indeed materializing, although at an insufficient pace. She also stressed that the high degree of uncertainty called for a flexible policy linked to the constant evolution of available data. In other words, the ECB confirms that it will assess the inflation outlook, taking into account a broad spectrum of economic and financial information in order to adjust its policy. Key rates are now at 4%, but still well below annual inflation.

Despite expectations of one or two further hikes, the consensus today is for a limited increase, which could already reach a monetary tightening cycle peak of around 4.5%. However, we consider this unlikely, unless the CPI accelerates sharply downwards over the summer. In our view, the peak of the cycle should be closer to 5% at the end of the year, before the European Central Bank decides on a pause phase. Christine Lagarde, President of the ECB, has reiterated the objective of bringing inflation back to 2%, which in our view cannot be achieved by a premature pause in key rates at 4.5%. The ECB must also take account of different national trends, and in particular the persistent tensions of higher inflation in Germany. Consequently, we believe that the risks of further monetary tightening in the eurozone are being underestimated by investors. The ECB is lagging behind the inflation cycle overall, and despite its more assertive rhetoric, we believe it will have to adjust its key rates several more times before it actually has enough impact on prices to achieve its objective. Despite the recent change in the expected projection of these rates, we believe that the ECB will raise its key rates three more times.

Euro bond yields have yet to adjust

Interest rate decorrelation between European and US bond markets is set to intensify over the coming months. While monetary policy is in a pause phase in the USA, and key rates (5.75%) are above inflation (3.9%), in Europe, ECB rates (4%) are still much lower, and should still rise above 5.5% to be above inflation rates.

Medium-term US government bond yields (4.1%) are also higher than the current level of US inflation. In Europe, five-year government yields are just 2.6%, almost 300 basis points below the CPI index of +5.4%. In this context, it seems extremely unlikely to us that European bond yields will stabilize at these levels in the immediate future. Ten-year German government yields (+2.4) need to tighten significantly simply to close the gap with the inflation rate, especially as German inflation is still at +6.8%.

Since October 2022, German government ten-year yields have stabilized at just below 2.5%, after rising 300 basis points since the nadirs of 2021 at -0.5%. In our view, this level of yield is clearly insufficient in view of inflation, and corresponds to a negative real yield of -1.4% in the short term and -3% on ten-year yields.

We believe that investors should therefore demand a less negative or even positive real return, which would imply that euro yields should soon resume their upward trend. In this context, an increase of one hundred basis points cannot be excluded on all German government maturities, while the yield curve is practically flat between two-year and ten-year maturities.

The European capital market is highly risky, and in the context described above, any risk of a rise in market yields may have different consequences depending on the quality of national debtors, but the upward trend is shared by all. Italian (3.9%), Spanish (3.2%), Portuguese (2.9%) and Greek (3.5%) government bonds, for example, will not be spared from the expected adjustment, despite their higher yields. Now is not the time for yield pick-up strategies, but for managing the risk of capital losses.

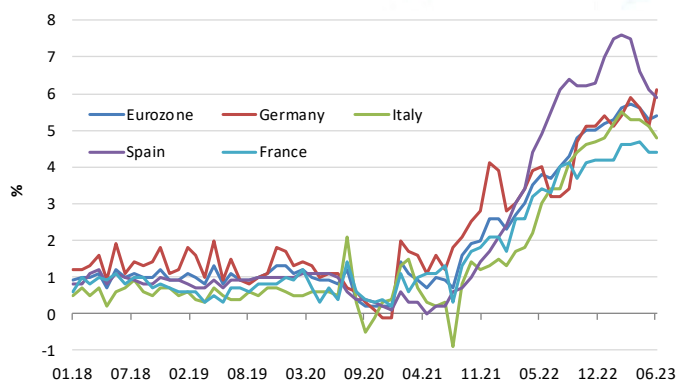
European currency supported by interest rate differentials

Since the pause in US monetary policy in June and the reduction in SNB rate hike increments, the US and Swiss monetary policy cycles are no longer in phase with the expected evolution of ECB policy.

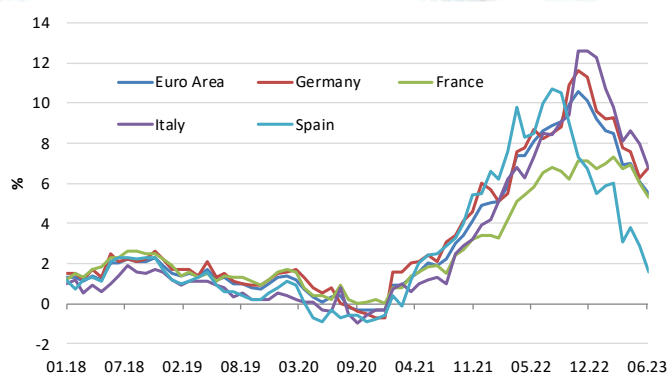
European monetary policy will continue to tighten by raising key interest rates for longer. Over the coming months, the ECB will certainly be one of the most restrictive of the major central banks. Market expectations for the level of key rates marking the end of the current monetary tightening cycle will continue to evolve over the coming months, but our six-month expectations seem to favour a widening of the yield spread with Swiss and Japanese rates in favour of the euro, as well as a narrowing of it with dollar rates, which will also potentially support an appreciation of the European currency against these three currencies.

For a few months, this environment should support a euro appreciation of around +5% against the dollar and franc. Our outlook for the next quarter is therefore favourable for the European currency.

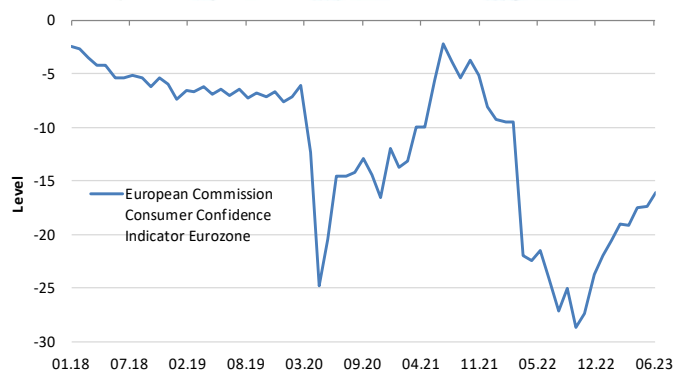
Eurostat CPI - Core Inflation (Eurozone, YoY)



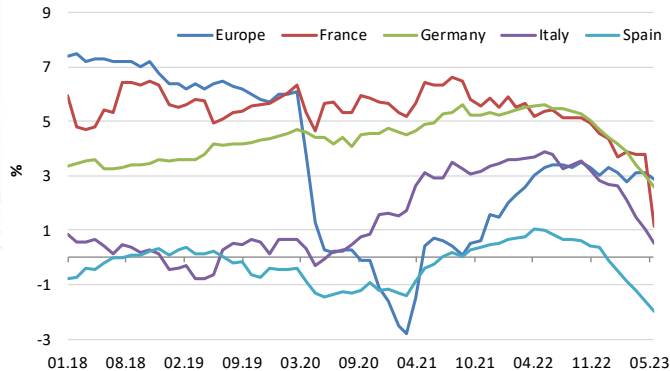
Eurostat CPI - all Items (Eurozone, YoY)



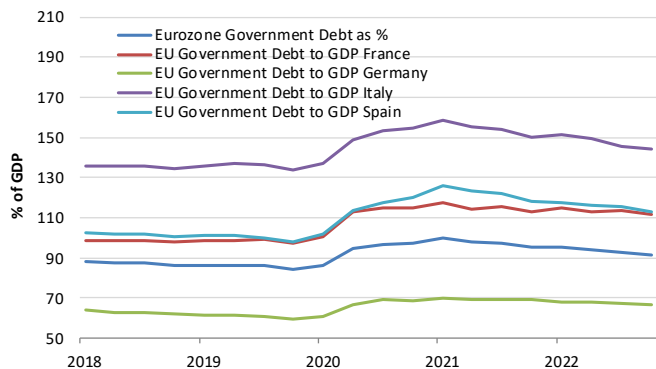
Consumer Confidence - Eurozone



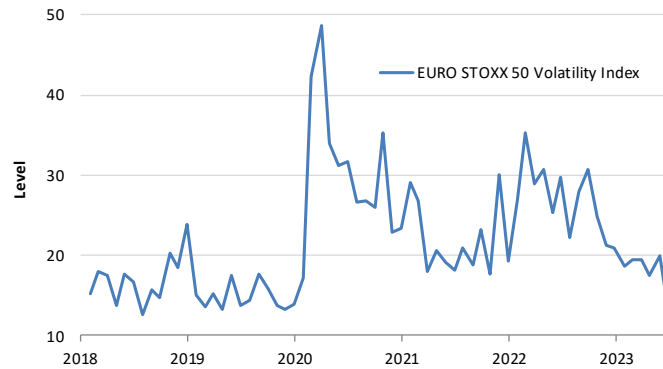
Loans and Credits to Households (Eurozone - YoY)



Government Debt



Volatility Indicator - Eurozone



MACROECONOMIC SCENARIO

United Kingdom

- British economy still flirting with recession
- Difficult 2nd quarter ahead
- Inflation still falling too slowly
- BoE forced to maintain restrictive policy
- Towards new highs for interest rates



British economy still flirting with recession

We were expecting another difficult first quarter, albeit probably a slightly positive one for the British economy, threatened by a complicated situation in the employment market, real estate, foreign trade, industrial production, inflation and finally, domestic demand. Zero growth in UK GDP in Q4, following a -0.4% fall in Q3, would have enabled the UK economy to avoid a technical recession, which has now been averted by the expected resilience of the economy at the start of 2023. The +0.1% growth recorded is not very encouraging, however, and still leaves a great deal of uncertainty on the British economy's ability to avoid a recession, even though this has often been predicted for several quarters. It has to be said that uncontrolled inflation and rate hikes have not yet had the logically expected effects, as they have not weighed sufficiently on momentum to push the economy into a decline. In our view, the outlook is logically no better today than it was a few months ago, particularly given the persistence of inflation and the need for the BoE to pursue its policy of rate hikes in an attempt to bend the trajectory of price rises.

The British economy is therefore virtually in recession, and the outlook for Q2 2023 is once again uncertain. Over the year as a whole, GDP grew by just +0.2%. Over the quarter, private consumption was virtually unchanged, growing by barely +0.1%, while investment rose by +1.3% and it was the -2.5% contraction in government spending that weighed on GDP growth. Recent monthly evolution showed a fall of -0.3% in March, which was not offset by a recovery of +0.2% in April, accompanied by a fall in industrial production of -1.9%. This result is not encouraging for the second quarter, which is already marked by persistent inflation and a further rise in BoE key rates. The environment in the UK remains highly uncertain.

Difficult 2nd quarter ahead

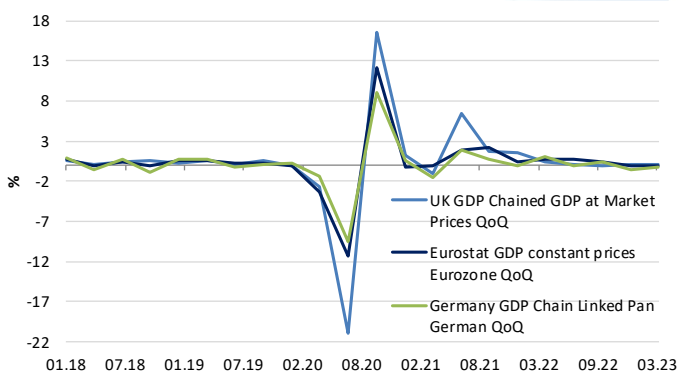
PMI leading indicators for June remain mixed, with essentially a further deterioration in the manufacturing sector below the growth threshold and a gradual erosion in services, which are still in the growth zone, with GDP nonetheless up +0.2%. The rebound has been driven by consumer spending and retail sales, but this is probably not the first sign of a recovery or a trend reversal. The weakness of the economy seems to us to be persistent, and April's rebound is certainly no more than a reaction to the drop in activity recorded in March.

April's good results are unlikely to be transmitted with the same vigor to the quarter as a whole. However, the economy is showing surprising resilience, which could continue if household consumption proves more robust or government spending strengthens. The economic environment in the UK therefore appears surprisingly resilient, despite tighter monetary conditions and falling household disposable incomes. We believe a recession is still possible, but the risks are diminishing. Our GDP growth forecast for the year has been adjusted to +0.1%.

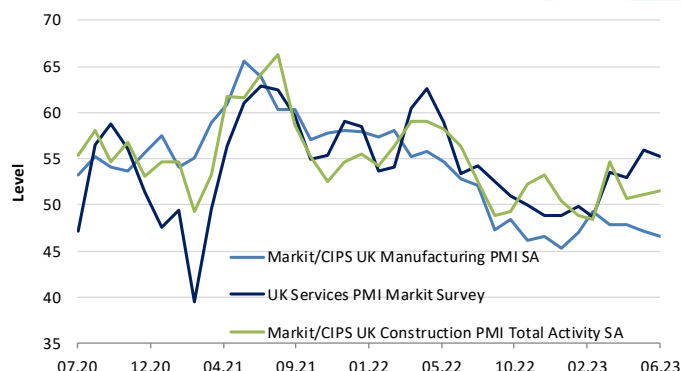
Further worrying declines in leading indicators

After two months of slight recovery, manufacturing PMIs have been on the decline again for the past four months, sinking back into the contraction zone and approaching their December 2022 lows. As for services PMIs, the weakness is more recent, since the Markit/CIPS indicator has only been falling for two months and remains well above the growth threshold. The composite indicator therefore remains positive, thanks to the services component. Taking into account the existing statistical relationship between PMI indicators and GDP, current results suggest GDP growth of +0.4%. We believe, however, that this statistical relationship overestimates the real chances of growth in Q2.

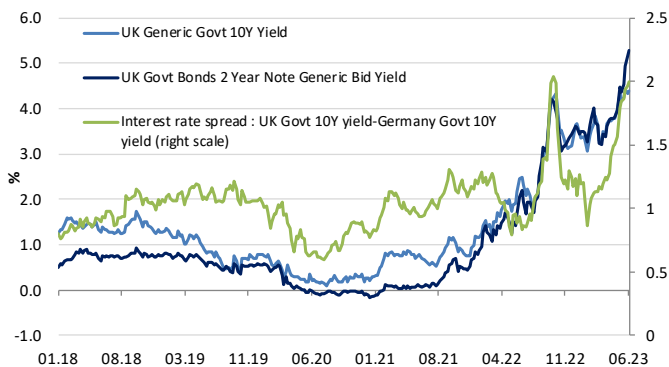
Quarterly GDP Growth - United Kingdom



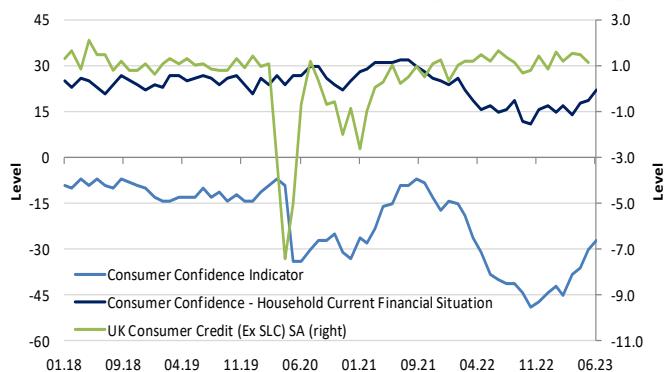
PMI Indicators (Manufacturing, Services, Construction)



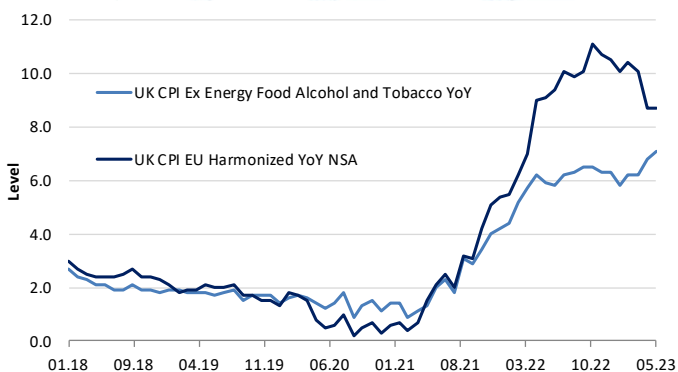
Government Rates (2yr-10yr)



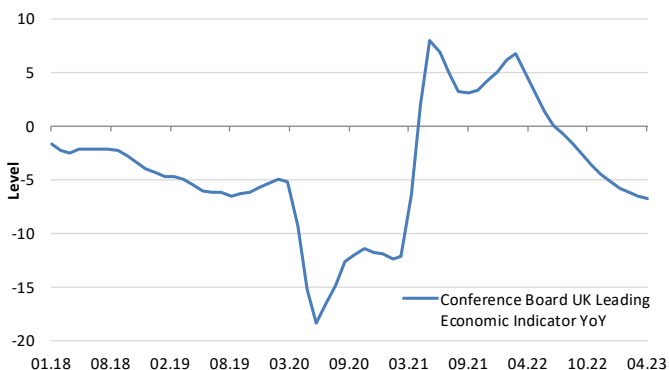
Household Confidence



Inflation CPI



Leading Indicator



Although there is some better news on the inflation front (Producer Prices), other factors remain uncertain. Indeed, business confidence measures showed a second monthly fall in May, probably suggesting a decline in investment. As the PMI measures do not include the public sector, we must remain cautious in view of the recent fall in government spending, which will still have a negative impact on GDP if it remains on this trend, while industrial production returned to contraction territory (-0.3%) in April.

Nominal wages continue to rise

The labour market remains resilient, as indicated by the unemployment rate, which barely rose from its low of 3.7% to 3.8% in April, below expectations of 4%. There are still no clear signs of deterioration. Three-month job growth again exceeded expectations, with an advance of 250,000 new jobs, above the consensus estimate of 150,000. This dynamic seems to further underline the resilience of the labour market in the face of the growing difficulties facing the British economy. The labour market is resilient in the face of worsening economic conditions, and the adverse effects of the energy crisis and inflation on business health. The potential risks of wage-led inflation are still significant, and add to the other inflationary factors. Wage growth reached +7.2% in April, making it one of the strongest year-on-year increases among developed countries by international comparison. It remains difficult to predict whether wage growth has peaked, but these nominal income increases are helping to limit the loss of household purchasing power. 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.

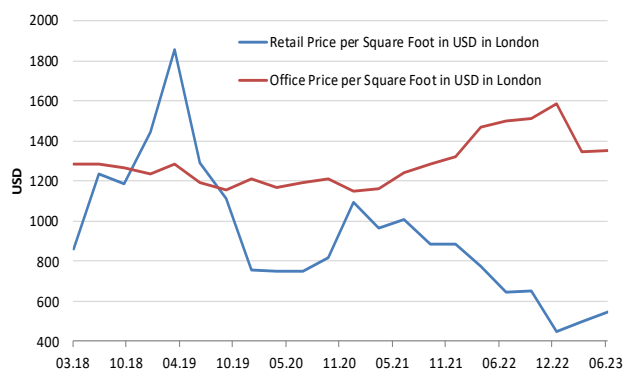
Household confidence strengthens gradually

The consumer confidence indicator (GfK) has been gradually improving since September, but 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 and rising wages. The indicator rebounded from -49 to -24, and is now at its highest level for the last eighteen months. Consumers are remarkably resilient in the face of inflation and rising financing and credit costs. Retail sales slightly surprised analysts with a better-than-expected result. A rise in May followed an increase in April, which may be motivated by fears of higher prices in the future during a period of inflation. The contraction in household purchasing power is partly offset by rising wages. Since October 2022, inflation has declined, falling to +8.7% in May. It remains too high for households, but compared with the +7.2% wage readjustment, the loss of purchasing power is barely -1.5%.

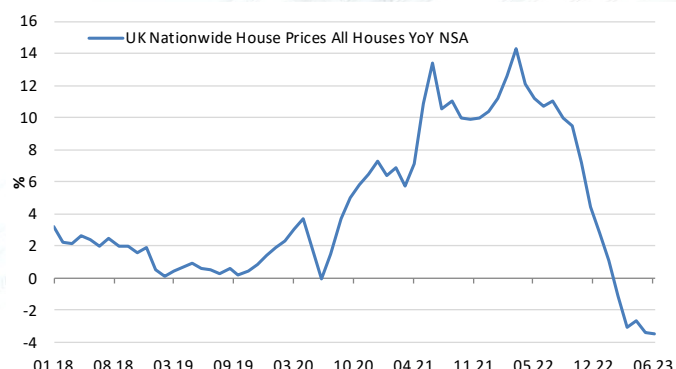
Inflation still falling too slowly

Inflation figures for May show an increase of +0.7%, bringing the year-on-year consumer price index to +8.7%. Although inflation has begun a new downward trend in the UK too, its decline clearly seems too slow and gradual to satisfy consumers and the central bank. While the trend is too uncertain for consumer price indices, the picture is fortunately clearer for producer price trends. May's -0.5% fall has enabled the year-on-year downward correction in prices to continue at a remarkable pace. Producer prices, which had risen by +19.7% in July 2022, have now fallen to +2.9% year-on-year. While these few measures may be a source of satisfaction, the evolution of the core CPI index, excluding food and energy, remains largely a source of concern.

Real Estate Prices per m²



Growth in Real Estate Prices



The latest published figure of +7.1%, although lower than that of the overall index, is an all-time high and shows a solid and still worrying upward trend. These elements will not be viewed favourably by the British central bank, which had hoped to be able to bend its policy by pausing, but which in the current context will be clearly ruled out. Indeed, whereas the evolution of commodity prices over the last few months, and in particular the declines in oil and gas prices, are conducive to a reduction in the pressure on global indices, the trend in services remains all too clearly upwards. A more marked slowdown in the UK economy clearly seems essential to the decline in household consumption of services, in order to have a positive impact on the core index.

core inflation. The Monetary Policy Committee took account of recent inflation data, and dismissed the risks posed by the turbulence in the banking system in March. Price stability has once again become the BoE's sole objective. The British monetary authorities are now facing a new and worrying situation, forcing them to react more forcefully and resume their restrictive policy course. Our central scenario also takes into account the resilience of the UK economy in the first half of 2023, the slippage in core inflation and the slowdown in global price indices, which is too slow to support the prospect of further tightening by the BoE in August, September and November, reaching a cycle peak of between 5.75% and 6% in the fourth quarter.

BoE forced to maintain restrictive policy

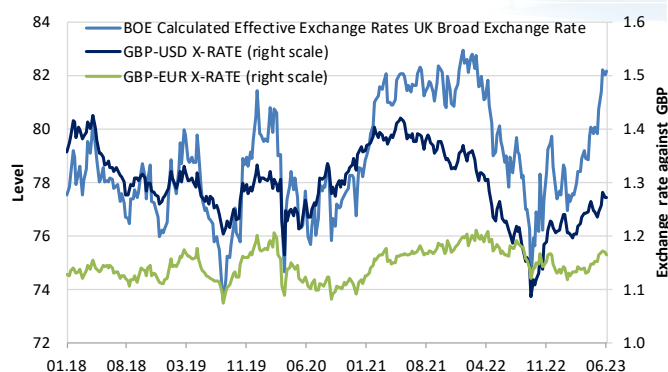
In retrospect, the UK central bank raised its key rates relatively quickly, at a similar pace to the US Federal Reserve. It was the first to decide on an increase in December 2021, before it was joined in its restrictive action by the Fed. However, after a further thirteen hikes in 2022 and 2023, it will not have succeeded in curbing the upward trend in prices. With its key rate now at 5%, the BoE is now significantly behind schedule 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 in 2023. The British economy is slow to slow down, avoiding the recession that the BoE would like to see in order to curb price rises. The fall in energy prices seems insufficient, and wage trends show no signs of the slowdown in adjustment that is needed to bring down inflation in services. The continuing rise in commodity prices is forcing the BoE to tighten its key rates even further. The 50 bp hike decided on June 22nd contrasts with previous hikes limited to 25 bp, and surprises the consensus, which was expecting only a quarter-point increase. This decision underlines the institution's determination to regain control and assert its fight against a still overly dynamic trend in

Towards new highs for interest rates

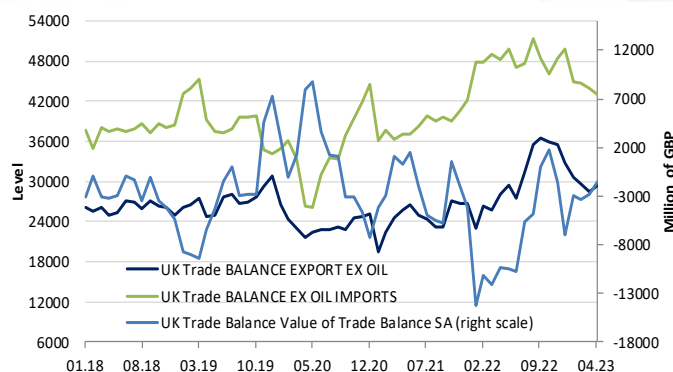
Ten-year UK government yields have once again reached the 4.5% threshold they hit in September 2022, when a wave of panic swept through the sterling capital markets following the announcement of the « mini-budget », setting the world alight and rapidly igniting both foreign exchange and capital markets. Long-term gilt yields thus touched 4.5% in June, driven by the disappointing trend in inflation, the BoE's reversal of trend and the prospect of further key rate hikes that could bring short-term rates up to 6%.

The sterling yield curve is thus clearly inverted, with short-term rates close to 5.5% and ten-year rates close to 4.5%. The inversion of the curve is thus mainly observable between short and lower-medium maturities. On all maturities, real yields are negative, with inflation still above +7-8%. Monetary policy is once again in a temporary acceleration phase, which means that the context for capital markets remains highly uncertain. We believe that the current level is still insufficient for inflation. Bond yields are therefore still likely to rise by around 50 to 75 basis points over the coming months.

Effective Pound Exchange Rates



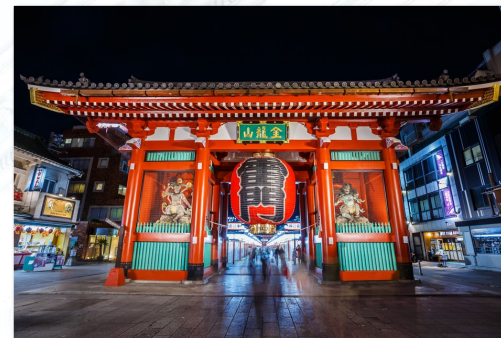
Trade Balance - Exports - Imports



MACROECONOMIC SCENARIO

Japan

- Japanese economy grows more strongly than expected (+0.7%)
- Slightly more encouraging leading indicators
- Japanese inflation confirms its downward trend
- BoJ monetary policy to remain highly expansive



Japanese economy recovers strongly in Q1, growing more strongly than expected (+0.7%)

The stagnation of Japanese GDP in Q4 2022 had enabled the Japanese economy to avoid a technical recession, despite starting the year with a rather hesitant and uninspiring outlook. Economists' forecasts called for a very moderate recovery at the start of the year, but this was largely outweighed by a much stronger than expected economic recovery. The seasonally-adjusted Japanese GDP result after a first revision showed quarterly growth of +0.7% for an annualized GDP increase of +2.7%, well above the expected +1% increase for the year as a whole. The strengthening of completed investments by businesses suggested that business sentiment remained resilient despite concerns about a slowdown in the global economy. Conversely, rising inventories supported growth, but perhaps suggest that demand is not keeping pace with production, a potential source of concern for the future. Consumer spending unfortunately turned out to be a little weaker than initially estimated. This stronger-than-expected growth is accompanied by a +0.4% rise in inventories, which are close to their highest levels in more than three decades. The world's third-largest economy is thus catching up with the already more positive trend in the US and Chinese economies, following the government's decision to end its health restrictions. This GDP result significantly reduces fears that a slowdown in the global economy will weigh more heavily on household and business sentiment in Japan. That said, Japan's real GDP remains below pre-pandemic levels. Private consumption and business spending are still below their previous levels. Private consumption advanced by only +0.5%, while capital expenditure rose by +1.4%. Despite the surprising momentum of the 1st quarter, GDP growth is likely to weaken over the following months, without calling into question the forecast of +1% growth for the year as a whole.

Slower growth in Q2

Growth is likely to continue at a reduced pace in Q2, due in particular to the expected weakness in consumption and wages. The increase in inventories suggests that companies are replenishing their stocks as supplies of spare parts increase, particularly in the automotive sector

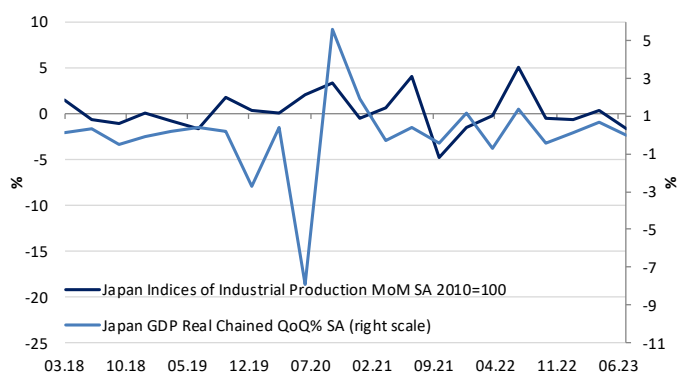
and especially for electronic chips. Household consumption could, however, contribute to the resilience of economic growth in Q2, particularly in view of the expected further decline in inflation. Consumer spending by foreign travellers in Japan could provide support for domestic consumption, but without significantly influencing the overall level of consumption. Japan's recovery is likely to continue very gradually, as the decline in consumer purchasing power following the steady decline in disposable income is likely to stabilize only very gradually. The reopening of China seems to be the main factor on which the Japanese economy can count to boost its exports, against a backdrop of declining external demand, particularly in Europe. China's recovery still looks modest compared with expectations at the start of the year, but the Chinese authorities are in the process of implementing new stimulus measures to strengthen the current momentum. With global demand still expected to be weak in Q2, the short-term economic outlook for Japan is also more uncertain, but is likely to rise by +1% for the year as a whole.

Slightly more encouraging leading indicators

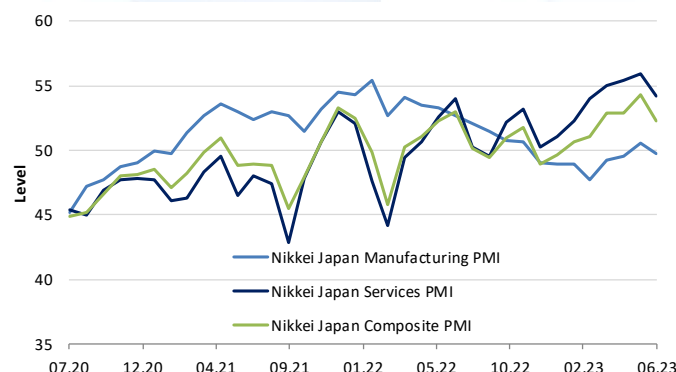
The Jibun Bank of Japan manufacturing PMI leading indicators published for May advanced further since the end of March to 50.8, and now point to a probable improvement in the situation in industry. The composite indicator also rose to 54.3, now well above the growth threshold, thanks in particular to the good progression of the services index, which suggests a continuation and reinforcement of the current strength. The PMI indices confirm the continuation of the trend observed for the Japanese leading indicator, which has been recovering since the start of the year and now stands at 97.6, while the coincident business cycle indicator rebounds sharply from 96.1 to 99.4.

Industrial production slipped slightly recently by -0.4% after two months of growth, underlining the risk of its positive influence on GDP growth waning in Q2. The capacity utilization rate also advanced to 93.8, logically accompanying the previous rebound in industrial production. As for machinery orders, the trend remains gloomy and shows no signs of abating: the latest figures published for May show a year-on-year decline of -22%.

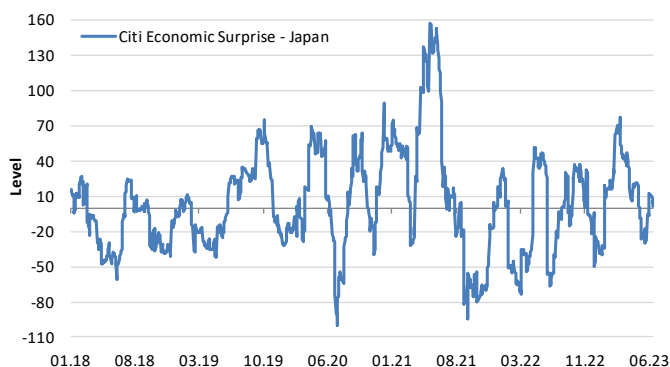
GDP and Industrial Production



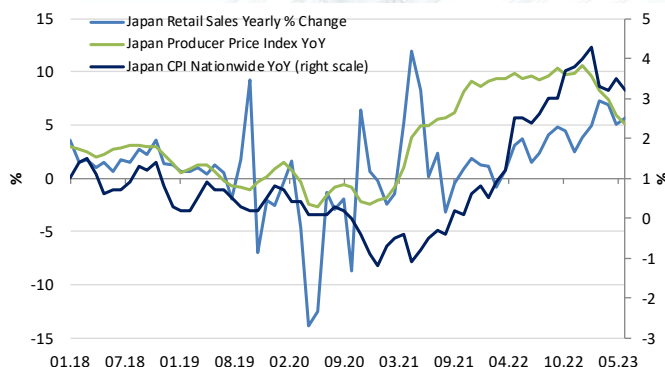
PMI Indicators (Manufacturing, Services, Composite)



Economic Surprise Index



Inflation (CPI and PPI) and Retail Sales



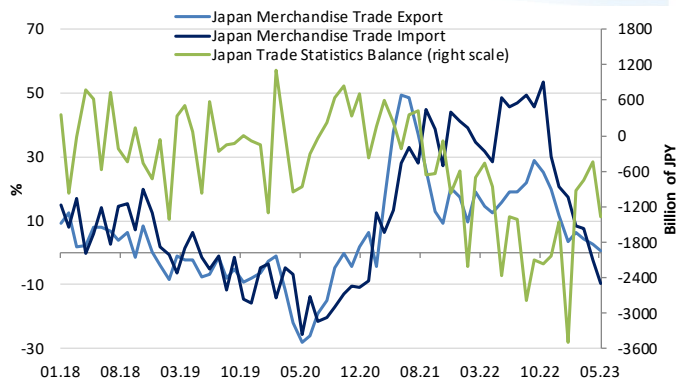
Japanese inflation confirms its downward trend

Japanese inflation had long been contained before the yen's sharp depreciation from 115 to 150 yen/USD reinforced an upward trend initiated by rising commodity prices. The reversal of the trend in both exchange rates and commodity prices has contributed to an improvement in inflation over the past few months. The consumer price index (CPI Tokyo) jumped from +0.8% to +3.9% in one year, peaking in January 2023 at +4.4%. The decline since then continued with a further drop to +3.2% in May. At national level, the same type of movement is expected, lowering the price increase to +3.2% at the end of May. In parallel with this trend in CPI indexes, producer prices have shown an already significantly improved trend since October, with a clear deceleration in monthly data and a further price contraction in May (-0.7%). Producer prices had peaked at +10.5% in December 2022, but thanks to the recent positive momentum, the year-on-year increase slipped to +5.1% in May. The transmission of rising import and producer prices to consumer price indices should further develop positive effects over the coming months, and bring inflation a little closer to the BoJ's target. The energy and raw materials factor will certainly remain a determining factor in inflation trends, making a positive contribution. The stabilization of oil and gas prices will reduce their impact on import and producer prices. A further weakening of the yen by around -5% during the current quarter, linked to uncertain growth prospects, will not help to improve this trend for imported prices. Overall, we believe that the various domestic and external factors should favour a further decline in Japan's various inflation measures towards the Japanese central bank's target. The Bank will be able to draw on these developments to maintain a policy of supporting economic growth by controlling the yield curve.

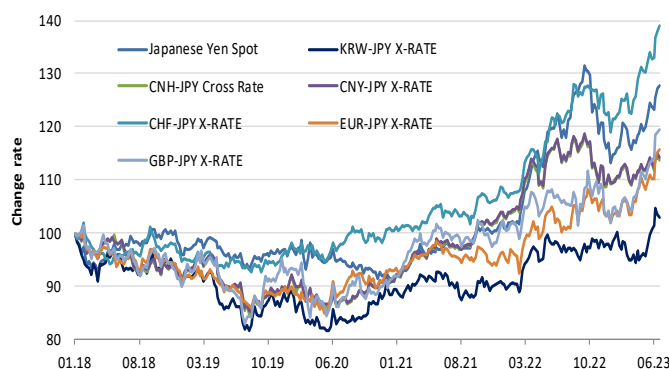
BoJ monetary policy to remain highly expansive

The recent evolution of price indices in Japan now offers the institution the opportunity to avoid having to question its accommodating monetary policy. The deceleration in price rises could soon show growth of less than +3%, which would then no longer be so far from its target of +2%. The BoJ had struggled to emerge from the previous deflationary phase, and will certainly not be prepared to risk a return to that situation by tightening policy too soon. Premature tightening would have damaging consequences that would be harder to counter than a subsequent acceleration in prices. The BoJ has made it clear that the risk is in trying to control inflation too aggressively, and will therefore maintain its policy of controlling the yield curve by keeping the fluctuation band fixed at 0% plus or minus 0.5% for ten-year government rates. Governor Kazuo Ueda is therefore unlikely to change his policy in July, regardless of the monthly trend in inflation, which he also fears will eventually slip even below +2% if monetary policy ceases to be expansionary. Japan's monetary policy is therefore still logically the most flexible of the major central banks' policies, and we expect it to remain so for a relatively long time yet. We believe that this policy is reasonable in the context of weak aggregate demand in Japan, which could effectively push inflation down to +1.7% by the end of 2023. We believe that Japanese monetary policy will not undergo any radical change in this context, particularly if inflation falls, which will undoubtedly penalize the exchange rate for some time to come.

Trade Balance in JPY Billion



Exchange Rates (base 100)



MACROECONOMIC SCENARIO

China

- Chinese economy slightly below expectations
- Slightly better outlook for 2nd half
- The short-term fall in the yuan may yet last
- The appeal of yuan bonds



Chinese economy slightly below expectations

China's growth had initially surprised observers in Q1, but economic surprises in Q2 seemed to call into question expectations of an acceleration in economic momentum. Weaker-than-expected growth in M2 money supply (+11.6%), industrial production (+3.6% YTD), retail sales (+9.3% YTD), or the weakness of exports (-7.5%) year-on-year, the fall in industrial company profits (-20.6%) and the contraction of trade surpluses to just \$65 bn (vs. an estimated \$95 bn) were already contributing to growing doubts about the quality of China's economic recovery. On the other hand, leading indicators strengthened further in May, more markedly in the services segment (57.1) than in the manufacturing sector (50.9), suggesting more sustained activity in the months ahead. Meanwhile, Chinese inflation fell sharply to zero year-on-year. The CPI index stabilized, while the producer price index fell to -4.6%. The PBoC further lowered two key interest rates to stimulate the economy. The prime rate for one-year loans was cut from 3.65% to 3.5% and the five-year rate, the benchmark for mortgage rates, was lowered from 4.3% to 4.2%. Earlier, it had cut its 7-day rate to 1.9%, while Chinese government ten-year rates in June reached their lowest level (2.6%) since 2020.

Economic growth figures published at the very beginning of July showed a +6.3% year-on-year rise in GDP, slightly below expectations of +7.3%. However, this result masked a much more timid development of just +0.8% for the quarter. This relatively weak result was nevertheless in line with expectations. On the industrial production front, the figures look better, with a +4.4% rise above estimates of just +2.5% year-on-year, while the year-to-date trend is slightly better, with a +3.8% increase. On the retail side, results were similar to expectations. The Chinese consumer has shown himself to be present, and the year-on-year increase of +8.2% is thus slightly higher than economists' expectations (+8%).

Domestic consumer demand therefore still seems to be alive and kicking, supporting GDP. The same cannot be said of weaker external demand, which is dragging down the performance of the Chinese economy. Exports were down sharply at the end of June. They contracted by -12.4% year-on-year, accelerating the decline already observed the previous month (-7.5%). The concomitant fall in imports of -6.8%, however, was enough to once again improve the trade balance, which increased its surplus from \$65.8 billion to \$70.6 billion. Even so, this good result fell short of expectations, which had forecast an increase to 74.9 billion.

Overall, the Chinese economy is somewhat disappointing, lacking dynamism after two quarters out of the restrictive measures linked to Covid. The recovery is taking shape, but is stalled in part by the weakness of the developed economies in the first half of 2023. In our view, the Chinese authorities should further strengthen their support measures by lowering credit conditions, increasing liquidity and further reducing interest rates.

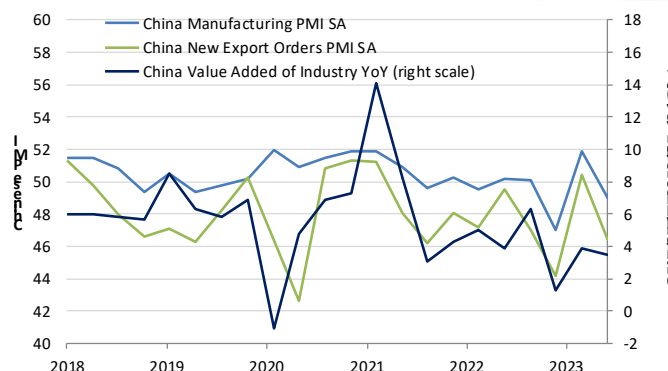
Slightly better outlook for 2nd half

Deflation is becoming a significant risk for the Chinese economy, which has just recorded a CPI of 0% year-on-year, even as the yuan lost value against most major currencies. Current economic data clearly suggest that the Chinese economy needs further stimulus to increase the momentum of the ongoing recovery. However, if the Chinese authorities maintain their target of +5% GDP growth, they may also consider that the situation is finally satisfactory on the domestic front, and that weak external demand cannot be controlled by domestic stimulus. The fall in the yuan is already a component of the external demand stimulus plan, which should logically be fleshed out with better economic conditions in the USA and Europe. We believe that the PBoC will nevertheless act in the coming weeks by lowering rates and reducing banks' reserve ratios, with the aim of increasing the level of liquidity available to the economy and strengthening credit.

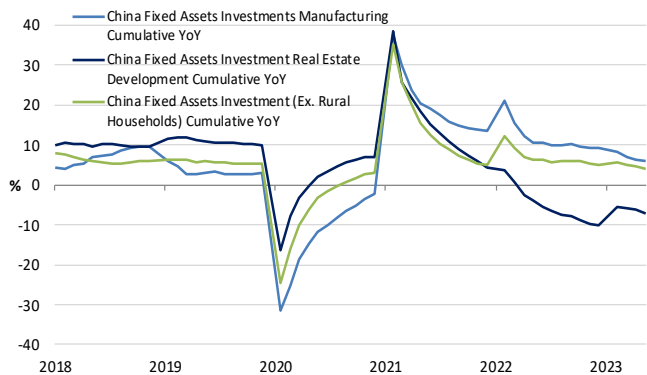
YoY GDP Growth



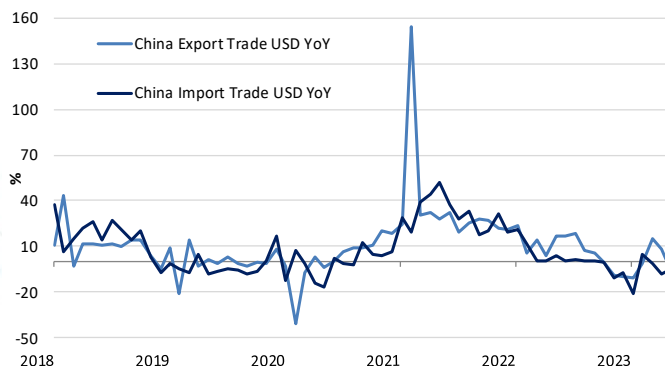
PMI and Industrial Production



Real Estate Investment, Infrastructure and Industry (YoY)



Exports-Imports (YoY)



The short-term fall in the yuan may yet last

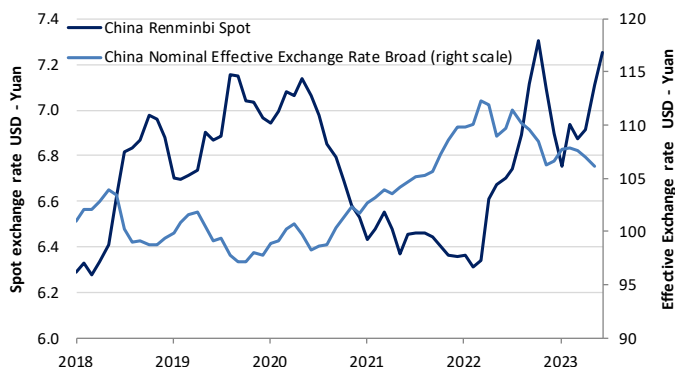
The yuan has lost almost -8% since mid-January against the US dollar, falling from 6.7 to 7.2 yuan/dollar, despite the fact that the US currency was particularly weak against a number of currencies. The Chinese currency was even weaker against other major currencies such as the euro (-11.3%), and had even fallen by almost 16% against the Swiss franc since that date. Since its July 2022 low against the euro, the yuan has depreciated by almost 20%. Against the dollar, the decline has been smaller (-13%), while it has peaked at 25% against the franc since June 2022. The yuan's depreciation coincides with the introduction of new restrictive monetary policies and rising yields in major industrialized countries. Chinese monetary policy has remained extremely accommodative during this period of monetary tightening in the USA, Europe and Switzerland. Yield differentials gradually widened against the yuan, reinforcing the relative attractiveness of other currencies.

The imminent end of the monetary tightening cycle in the United States should stabilize these yield spreads and reduce pressure on the Chinese currency. Moreover, the weakness of the Chinese currency does not seem to be worrying the authorities, who are now facing a deflationary risk that is totally opposed to the inflationary risks they are now facing a deflationary risk that is totally opposed to the inflationary risks that most other countries have been facing for several quarters. From this point of view, a gradual devaluation of the yuan is acceptable to the monetary authorities, who are not afraid of a negative knock-on effect on imported prices. On the other hand, the fall in the value of the yuan is seen as a positive factor in further improving the competitiveness of Chinese products at a time when China is also experiencing some difficulty in reviving its economic growth at a sufficient pace. Future government measures aimed at strengthening China's economic momentum will necessarily involve further cuts in interest rates and reserve ratios for banks, the initial effects of which on the exchange rate.

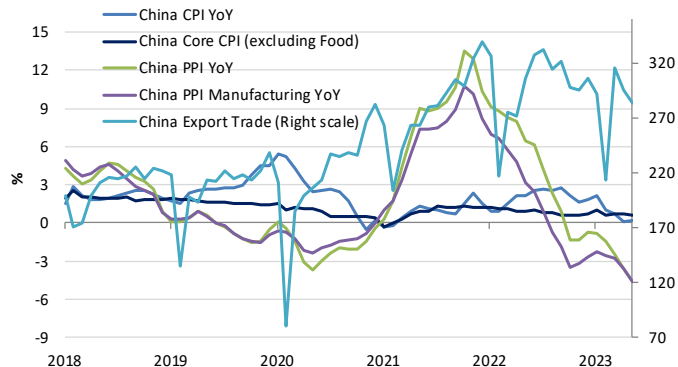
The appeal of yuan bonds

The Chinese bond market can count on the positive effects of declining inflation on yield curves, enabling medium-term capital gains. In addition, current yields remain highly competitive and sometimes higher than those offered by other major developed countries, notably Japanese bonds. Secondly, the significant growth in the use of the yuan as a transaction currency in international trade is increasing the credibility of the Chinese currency and its attractiveness as a diversification and reserve currency. An increase in the yuan's market share in international trade is already very clear, and the rise in its weight in IMF SDRs (Special Drawing Rights) to over 12% confirms its growing role as an alternative currency to the dollar in commodity transactions, which should boost the yuan's appreciation. Attractive yields, prospects of capital appreciation and potential currency gains support diversification into yuan-denominated government bond investments. Chinese government bonds reacted to falling inflation by lowering the ten-year yield to its lowest level since the beginning of the year, while deflation risks continue to underpin the trend.

Effective Exchange Rate and USD/Yuan



Inflation CPI - Core CPI



MACROECONOMIC SCENARIO

UNITED ARAB EMIRATES

- UAE's Hydrocarbons GDP Contracts, while Non-Oil Sectors Thrive on Consumer Demand and Tourism Recovery
- UAE PMI hits four-year high in Q2 2023
- Inflation in Dubai Shows Signs of Moderation in Q2 2023
- Dubai Real Estate Market Soars to New Heights in Q2 2023
- Dubai's economy has rebounded reaching 98% of pre-pandemic levels



UAE's Hydrocarbons GDP Contracts, while Non-Oil Sectors Thrive on Consumer Demand and Tourism Recovery

Preliminary data on the UAE's Gross Domestic Product (GDP) reveals a remarkable real growth rate of 7.9% in 2022. The driving force behind this expansion was a notable 9.5% surge in the hydrocarbons sector's GDP. Additionally, the non-oil sector experienced a robust growth rate of 7.2%, surpassing initial estimate by a full percentage point. This growth was primarily supported by strong performances in the services sectors. Manufacturing output remained solid, albeit at a slightly slower pace of 8.7% growth in 2022, compared to the 11.2% recorded in 2021. Furthermore, the expenditure GDP breakdown demonstrates a significant rebound in both private consumption and gross capital formation (investment) throughout the previous year.

In light of the data observed in the first half of 2023, Emirates NBD has revised its forecast for the UAE's economic growth. Notably, the extension of OPEC+ production cuts through the end of 2024 has led to a revision in the forecast for the UAE's hydrocarbons GDP. It is now anticipated to contract by -2.5% this year, a departure from the initial projection of expansion at the beginning of 2023.

According to Emirates NBD data, the first quarter of the year witnessed robust consumer demand in the UAE, with credit and debit card spending experiencing solid growth. This trend in aggregate demand is likely supported by the continuous population growth in the UAE, which has also contributed to higher housing costs. Furthermore, the tourism sector has shown significant signs of recovery, with overall visitor numbers only slightly below pre-pandemic levels in the year leading up to April. With expectations of surpassing 2019 levels for full-year visitor numbers, this resurgence in tourism will serve as a catalyst for growth in the transport and services sectors throughout the year.

In light of the above, the UAE has revised its forecast for non-oil GDP growth in the UAE to 5.0% for this year, representing an upward adjustment from the previous projection of 3.5%. The total GDP forecast for 2023 has been revised down to 2.9% from the previous estimate of 3.2%.

UAE PMI hits four-year high in Q2 2023

The non-oil companies in the UAE experienced a surge in growth during the latter part of the second quarter, as both output and new orders witnessed rapid expansion. The ability to secure new business was

aided by competitive pricing strategies, allowing firms to reduce selling prices despite increasing input costs.

According to the S&P Global UAE Purchasing Managers' Index, business conditions significantly strengthened, with the index reaching 56.9 in June, the highest level since June 2019. This positive trend reflects the continuous improvement in the health of the non-oil private sector, which has now displayed positive growth in each of the last 31 survey periods.

The ability of firms to secure increasing volumes of new business continued unabated in June, with growth of new work actually accelerating to a four-year high. Some of this growth was predicated on the offer of discounts to customers. The extent of the inflows in new work was such that backlogs of work continued to rise in June despite a ramping up of activity, further job creation and an expansion of purchasing activity. This should therefore support further increases in staffing levels in the months to come as firms try to keep on top of workloads.

Overall, the non-oil private sector remained on a strong footing at the midway point of the year, and is well placed for further growth in H2.

Inflation in Dubai Shows Signs of Moderation in Q2 2023

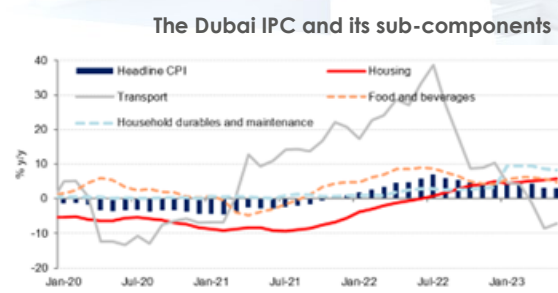
Inflation in the Dubai has demonstrated a slowdown compared to the peak observed last year, when it reached 7.1% in July 2022. The surge in energy and food costs, which contributed to the high inflation rate, has started to unwind and is now reflected in the base. As a result, Dubai's inflation declined to 3.0% y-o-y in May, down from 4.6% in January. Emirates NBD expects inflation in the emirate to average 3.5% for the year 2023, compared to 4.7% in 2022.

Surprisingly, the main driver of inflation in the first half of 2023 has been the cost of household durables, such as furniture, appliances, and home maintenance services. Housing costs in the CPI have accelerated, reaching 5.7% year-on-year in May, and are expected to rise further as market price increases are incorporated into the official index. However, the decline in transport costs has offset some of these inflationary pressures.

Overall, the inflation landscape in the UAE is displaying signs of moderation in 2023, with a decrease in overall inflation rates and fluctuations in specific sectors contributing to this trend.



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



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

Dubai Real Estate Market Soars to New Heights in Q2 2023

The Dubai real estate market witnessed an impressive surge in the second quarter of 2023, igniting waves of excitement among investors. With soaring property prices and record-breaking transaction values, the market showcased its resilience amidst challenging economic conditions reinforcing its position as a robust sector. In May alone, property values experienced a staggering increase of 2.51 percent, playing a significant role in driving this growth. This rapid expansion mirrored the market's hot pace observed in April 2021, marking a pivotal moment in the current growth cycle, reminiscent of the market's peak in March 2014, just before it entered a six-year downturn. As current property values are only slightly below their peak in September 2014, we continue to closely monitor the market dynamics.

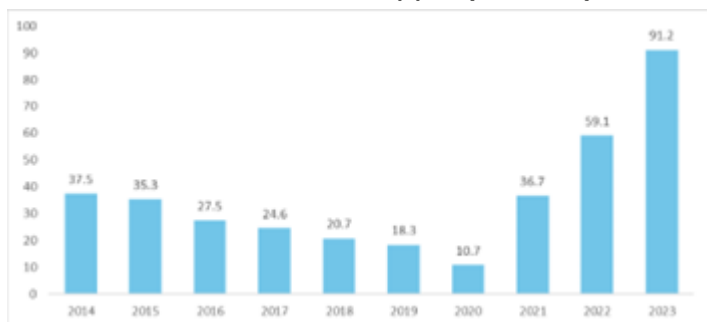
The value of transactions demonstrated an uplifting trend, increasing by an impressive 2% quarter-on-quarter and a staggering 54% year-on-year. Such robust expansion is indicative of a thriving market that instills strong investor confidence. Furthermore, the average transactional price per square foot for residential properties witnessed an 8% increase during the quarter, while average prices for commercial real estate experienced a marginal 4% decrease compared to the previous quarter. This disparity between the two sectors adds intrigue to the market environment. Cash transactions dominated the market, accounting for 61% of all transactions, while mortgage transactions made up the remaining 39%, indicating a strong preference for cash-driven deals among investors.

Additionally, primary market transactions constituted 49% of the total, trailing the secondary market by a narrow margin (51%). Despite an 8% quarterly decline, primary market activity remained an impressive 63% higher than the same quarter last year. Meanwhile, the secondary market remained robust, exhibiting a 3% quarter-on-quarter increase and a notable 15% year-on-year increase. The addition of 7,678 housing units during the quarter contributed to the expansion of the primary market. Moreover, 17,000 units have been delivered this year, with an additional 23,000 units introduced so far in 2023, showcasing the market's consistent supply expansion to meet rising demand.

The luxury real estate market took center stage, exhibiting a remarkable 4% quarter-on-quarter increase and a staggering 56% year-on-year growth. High net worth individuals were drawn to Dubai by the allure of exclusive and opulent properties. Palm Jumeirah emerged as the leading community in terms of transaction values, with AED 6.8 billion in property sales from just 640 transactions, highlighting the strong demand and enduring appeal of luxury properties in this prestigious area. Bulgari Residences in Jumeirah Bay Island solidified its position in the apartment market by hosting four of the top five high-value transactions. Notably, each of these transactions surpassed the prestigious AED 100 million mark, further enhancing the allure of luxury apartments within this captivating development.

In conclusion, the second quarter of 2023 was distinguished by an enthralling increase in property prices and buoyant transaction values within the Dubai real estate market. Dubai's real estate landscape is vibrant and dynamic, as evidenced by the market's resilience, the influx of luxury property seekers, and the steady supply of new developments.

Q2 Real Estate sales value by year (AED billion)



Source: BearBull Global Investments Group, Dubai Land Department

Dubai's economy has rebounded reaching 98% of pre-pandemic levels

The FTSE ADX index experienced a 1.5% increase in June 2023, recovering from the third-largest decline among GCC markets in May 2023. Among the sectoral indices, eight out of ten sectors saw growth during the month, while the remaining two recorded declines. The Utilities index led the gainers with an impressive 17.7% increase, followed by the Industrial index with a gain of 6.2%. Several constituent companies within the Industrial index observed growth in their share prices during the month. On the decliners' side, the Telecom index took the lead with a 2.9% slide, followed by the Energy index with a 2% drop in June 2023.

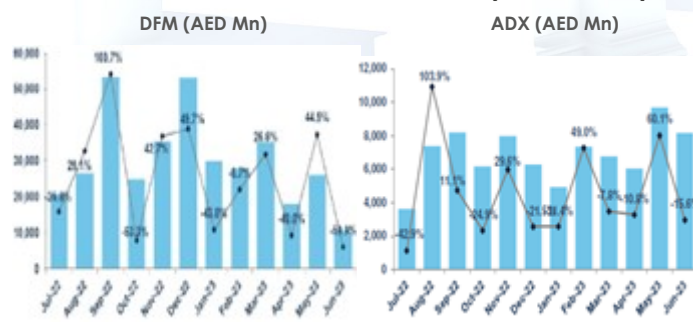
Trading activity showed a decline month-over-month in June 2023. The total volume of shares traded decreased by 62% to reach 2.1 billion shares, compared to 5.6 billion shares in May 2023. Similarly, the total value of trades fell by 59.9% to reach AED 10.5 billion. Multiply Group emerged as the most active stock during the month, with 417.5 million shares traded. It was followed by GFH Financial Group and Eshtaq Investments, which traded 311.0 million shares and 231.4 million shares, respectively. In terms of value traded, IHC remained at the top of the list for the fifth consecutive month, with AED 4.1 billion worth of shares changing hands. Alpha Dhabi Holding Co and Multiply Group followed with AED 2.0 billion and AED 1.3 billion, respectively.

The DFM General Index recorded its third consecutive monthly gain in June 2023, marking the highest growth among GCC markets with a 6.0% increase. This growth was driven by increases in six out of the eight sectoral indices, including Financials, Real Estate, and Industrials. The Consumer Discretionary Index showed the most significant monthly gain for the second consecutive month, with a remarkable 48.0% growth. The Real Estate Index followed with a 7.2% gain. However, the Materials index experienced the most substantial decline, falling by 8.7%. The Consumer Staples index was the only other sector that saw a decline, with a 5.9% decrease.

Regarding monthly trading activity, the total volume of shares traded increased by 29.8% to reach 7.4 billion shares in June 2023, compared to 5.7 billion shares in May 2023. The total value of shares traded also witnessed double-digit growth, recording an 11.2% increase to reach AED 10.8 billion in June 2023, compared to AED 9.7 billion in May 2023. Union Properties led the monthly volumes traded chart, with 1.6 billion shares traded during the month. It was followed by Ithmaar Holding and DEWA, with 1.6 billion shares and 760.3 million shares changing hands, respectively. On the monthly value traded chart, DEWA topped the list with AED 2.0 billion worth of shares traded, followed by Emaar Properties and TAALEEM, with AED 1.3 billion and AED 1.0 billion worth of shares traded, respectively.

New research by BMI reveals that Dubai's economy has rebounded, reaching 98% of pre-pandemic levels, driven mainly by the Transportation and Retail sectors. The report suggests that this ongoing rebound is expected to continue throughout 2023. Additionally, Dubai's financial sector is forecasted to maintain its upward trajectory, supported by the performance of newly listed companies on the Dubai Financial Market.

Historical values traded at DFM and ADX (Billions of AED)



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

MACROECONOMIC SCENARIO

Emerging Market

- Inflation has fallen significantly since its peak
- Inflation not yet under control enough to lower key rates



The global environment remains challenging. Despite some easing tensions involving banks in the USA and Europe, and the limited contagion of financial conditions so far, the situation still needs to be monitored. There is, however, a tightening of credit markets in the USA, the impact of which remains uncertain but which is having a negative effect on economic growth. The main central banks remain determined to bring inflation back in line with their targets. Recent inflation readings from several countries indicate some stabilization of core inflation at levels above their targets, and reinforce the persistent nature of the current inflationary process.

Brazil — Brazilian GDP growth for the first quarter of 2023 (4%) continues to point to a deceleration in the sectors most sensitive to the economic cycle. The pace of growth was moderate, with the exception of strong growth in the agricultural sector. However, once the stronger growth in the agricultural sector in the first quarter had passed, due to the seasonality of the harvests, the process of moderating growth in the sectors most sensitive to the economic cycle is likely to become more pronounced in subsequent quarters. Job creation has continued to rise in recent months. The unemployment rate remains relatively stable, but with a lower participation rate than in the pre-pandemic period. It remains to be seen whether this movement should be considered structural or cyclical, which would have different impacts on the long-term activity rate.

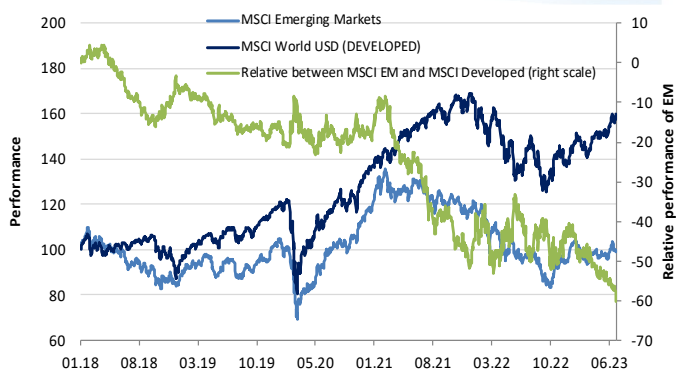
Disinflation dynamics always seem to be characterized by a two-stage process. In the first phase, already completed, disinflation is more rapid, with a greater effect on administered prices and an indirect effect on market prices thanks to less inertia. In the second phase, which we are currently observing 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. Inflation has fallen recently, mainly due to the dynamics of industrial goods and foodstuffs. Inflation of components more sensitive to the economic cycle and monetary policy, which have greater inflationary

inertia, has shown the beginnings of an improvement, but remains above the inflation target range. Inflation expectations for 2023 and 2024 have thus fallen to 5.1% and 4.0% respectively.

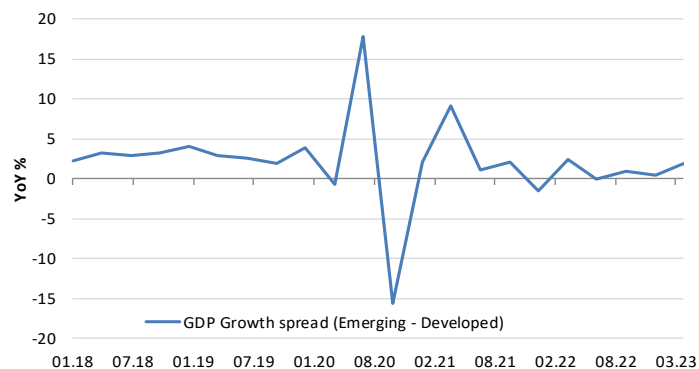
In view of the information available, Copom has decided to maintain the Selic rate at 13.75% and considers this decision to be compatible with the strategy of converging inflation towards a level close to its target in 2024. Without compromising its fundamental objective of ensuring price stability, this decision also involves smoothing out economic fluctuations and promoting full employment.

Russia — Economic activity is recovering faster than anticipated by the Bank of Russia's April forecasts, although still negative in the first quarter (-1.8%). This is largely due to the strong rebound in domestic demand. Despite persistently difficult external conditions, this is supporting positive business sentiment. However, the current capacity to expand production in the Russian economy is increasingly limited by labour market conditions. Unemployment has fallen to an all-time low. Labour shortages are worsening in many industries as a result of partial mobilization, while corporate demand for labour continues to grow. Under these conditions, productivity growth is likely to lag behind real wage growth. Changes in the structure of aggregate demand are continuing as part of the structural transformation of the economy. Domestic demand, which is partially replacing foreign demand, is making an increasing contribution to these changes. In particular, the strong recovery in consumer demand continues. Overall, the contribution of fiscal policy to the expansion of domestic demand continues to grow, notably due to increased public investment. Annual inflation has started to rise again from its April low (2.3%), as the low monthly price growth rates observed between May and October 2022 disappear from the calculation and current inflationary pressures increase and are observed on an increasingly wide range of goods and services. This is largely due to the recovery in consumer demand and the impact on prices of the weakening of the rouble since the beginning of 2023.

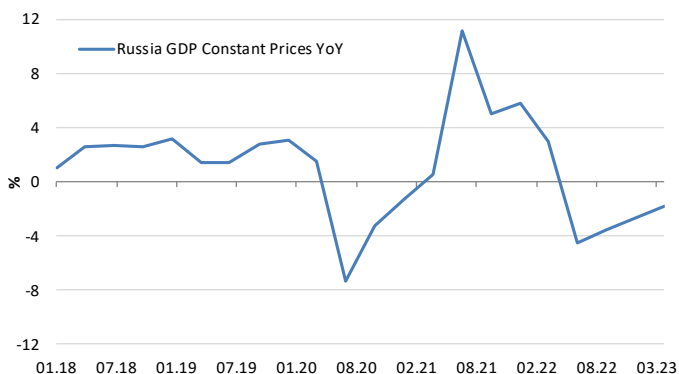
Emerging and Developed Markets – Performance



GDP Growth Spread



GDP (YoY) - Russia



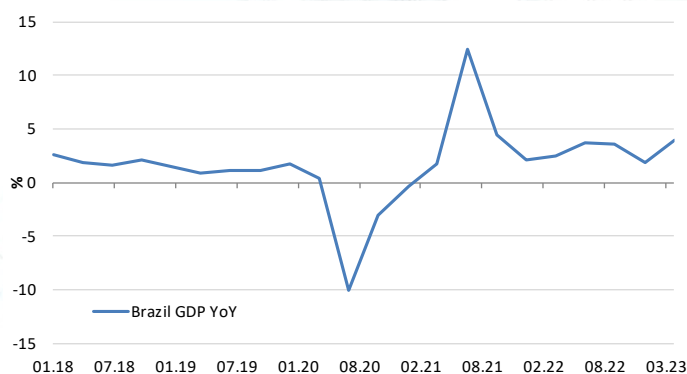
The annual growth rate of consumer prices is now 3.2%, well below the double-digit inflation of previous quarters. It should be between 4.5% and 6.5% by the end of the year, and 4% by 2024. The Bank of Russia has decided to maintain the key rate at 7.50%, but in the context of a gradual increase in inflationary pressures, it plans to raise the key rate at its next meetings in order to stabilize inflation at a level close to 4% in 2024 and beyond.

India — Increased rabi crop production in 2022, the expected normal monsoon and sustained dynamism in services should support private consumption and overall economic activity in the current year. The government's focus on capital spending, moderating commodity prices and robust credit growth should support investment activity. Weak external demand, geo-economic fragmentation and protracted geopolitical tensions, however, pose risks to the outlook. Taking all these factors into account, real GDP growth for 2023 should come in at 6.5%.

The trajectory of inflation is likely to be determined by the dynamics of food prices. Wheat prices could see some correction, due to high arrivals and purchases of mandi. Milk prices, meanwhile, are likely to remain under pressure due to insufficient supply and high costs. Crude oil prices have fallen, but the outlook remains uncertain. According to the first results of Reserve Bank surveys, manufacturing, service and infrastructure companies surveyed expect input costs and output prices to tighten. Taking these factors into account, and assuming a normal monsoon, inflation is expected to reach 5.1% in 2023.

The cumulative 250 basis point rate hike undertaken by the Monetary Policy Committee is being transmitted through the economy, and its full impact should help to contain inflationary pressures in the months ahead. The Monetary Policy Committee therefore decided to keep the key rate unchanged at 6.50%.

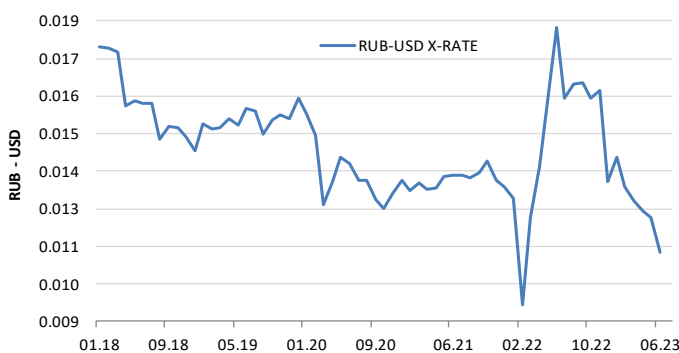
GDP (YoY) - Brazil



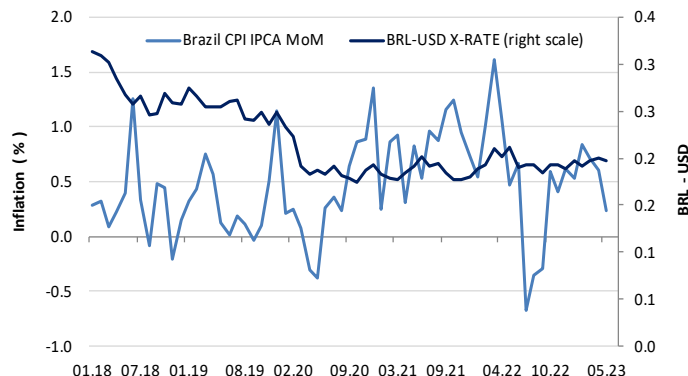
South Africa — For 2023, the South African Central Bank's GDP growth forecasts are slightly higher than in March, but remain low at 0.3%. Energy and logistical constraints remain a problem for South Africa's growth prospects, limiting economic activity and increasing costs. The impact of multiple power cuts in the country is estimated at around -2% for this year. Household spending is expected to grow very modestly in real terms, alongside a positive but small increase in real disposable income. Private sector investment remains positive, partly reflecting efforts to overcome energy supply and transport constraints. GDP growth forecasts for 2024 and 2025 are unchanged at 1.0% and 1.1% respectively.

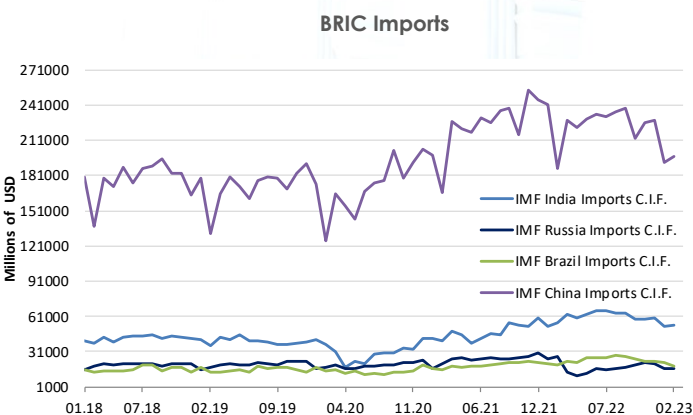
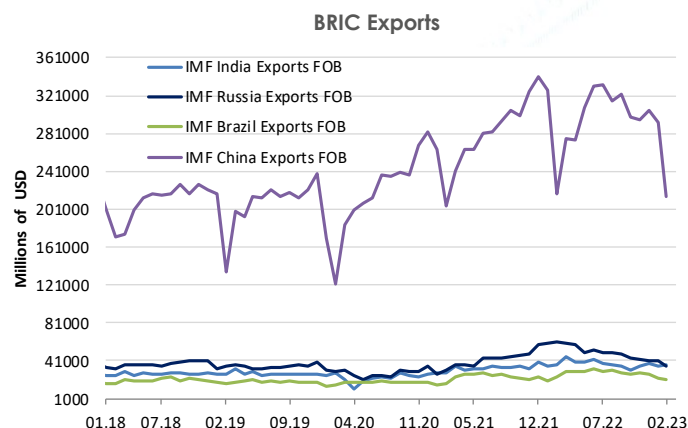
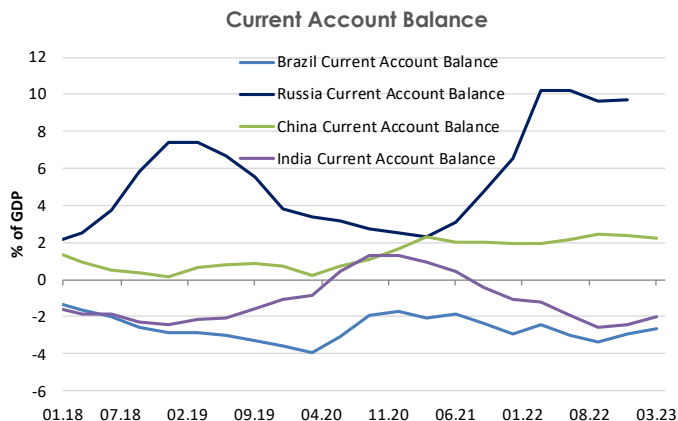
The rise in South Africa's overall inflation rate is mainly due to inflation in fuel, electricity and food prices. Compared with previous months, fuel and electricity price inflation are slightly lower, while food price inflation is higher. Indeed, fuel price inflation is expected to be -2.0% in 2023, while electricity price forecasts are also revised downwards for this year (11.6%), 2024 (13.4%) and 2025 (10.9%). Local food price inflation is again revised upwards, partly due to the delayed impact of the exchange rate cut, and despite the fall in dollar-denominated world food prices. Food price inflation is now expected to reach 10.8% in 2023, before returning to 5.0% in 2024. Overall, inflation for 2023 is revised upwards to 6.2% (from 6.0%). Inflation for 2024 is forecast at 5.1%, before moderating to 4.5% in 2025 due to lower food and fuel inflation. Against this backdrop, the Monetary Policy Committee has decided to raise the key rate by 50 basis points to 8.25%. At current levels, policy is restrictive, compatible with high inflation and risks. The monetary policy stance is aimed at anchoring inflation expectations more firmly around the mid-point of the target range, and reinforcing confidence in the sustainability of the inflation target.

Rouble VS USD



Inflation and Exchange Rates





Mexico— The Bank of Mexico maintained its key rate at 11.25% for the second time at its last meeting, after having been raised 15 times since June 2021, a cumulative increase of 725 basis points. Annual inflation slowed to 5.06% in June, from 6.25% in April, but remains high. Inflation forecasts for 2023 were adjusted slightly, while longer-term forecasts remained relatively stable at above-target levels.

Indonesia— Indonesia's central bank has left interest rates unchanged (5.75%) for the sixth time in a row, claiming that the current policy stance is sufficient to keep inflation under within the target range of $\pm 1\%$ around 3% this year and $\pm 1\%$ around 2.5% in 2024. The inflation rate fell to a 14-month low in June (3.52%). The economy should perform better than expected in the second quarter, boosted by household consumption and investment. For 2023 as a whole, GDP growth should be between 4.5% and 5.3%.

Turkey— The Central Bank of Turkey raised its key interest rate by 250 basis points to 17.5%, following a 650 basis point increase at the previous meeting, bringing borrowing costs to their highest level since September 2021. The Committee decided to continue the monetary tightening process in order to implement a disinflationary policy as quickly as possible, anchor expectations and control the deterioration in price behaviour. Recent indicators point to a continuing upward trend in underlying inflation, and the Committee expects tax regulations and

deteriorating price behaviour to exert further pressure on inflation. Going forward, monetary tightening will be stepped up as necessary, in a timely and gradual manner, until the inflation outlook improves significantly.

Taiwan— Taiwan's central bank maintained its key rate at 1.875% in June, pausing a year-long tightening cycle. Although the country's headline inflation slowed to 1.75% in June, the lowest level in two years, it is expected to rise to 2.24% in 2023, from 2.09% previously, while GDP growth was revised down from 2.21% to 1.72%.

Thailand — Thailand's central bank raised its key interest rate by 25 basis points to 2%, pushing borrowing costs to their highest level since early 2015. The Thai economy is forecast to grow by 3.6% in 2023 and 3.8% in 2024, driven mainly by the tourism sector and private consumption. Meanwhile, the country's headline inflation slowed to 0.23% in June, the lowest since December 2021, now even below the target range of 1-3%.

Colombia — Colombia's central bank maintained its benchmark interest rate at 13.25% at its June 30 meeting. This follows a 25 basis point increase at the previous meeting and is the first decision to hold rates steady in almost two years. Annual inflation in June slowed to 12.13%, the lowest level since October 2022, from 12.82% in April, but remains high at around four times the bank's long-term target of 3%. The bank of Latin America's fourth-largest economy updated its growth forecast for 2023 from 0.84% to 1%.

Romania, Czech Republic, Poland, Hungary — The National Bank of Romania kept its key rate unchanged at 7% for the fourth consecutive meeting, after +5.75% increases since October 2021. Inflation fell more rapidly in the first two months of the second quarter, from 14.53% in March to 10.25% in June, due to lower energy and fuel prices, lower crude oil costs, the basis of comparison and price cap systems for electricity and natural gas. Inflation should return to single-digit growth by the end of 2023. The latest data also indicated a greater-than-expected slowdown in GDP growth in the first quarter. However, household consumption and investment continued to rise over the period. The Czech National Bank maintained its key rate at 7% for the eighth consecutive meeting in June 2023, amid indications of decelerating inflation. The Czech annual inflation rate fell to 9.7% in June, its lowest level for 18 months, compared with 12.7% in April. The National Bank of Poland maintained its benchmark rate at 6.75% for the tenth consecutive meeting. The market is currently forecasting rate cuts for the fourth quarter, when inflation is expected to return to single digits, currently at 11.5%. Price growth is expected to slow gradually as supply shocks ease, external economic conditions weaken, hikes are implemented, commodity prices fall and GDP declines.

The National Bank of Hungary lowered its key rate by 100 basis points to 15%, continuing the easing of its policy after the same reduction the previous month, in a favourable risk environment. This decision was taken against a backdrop of slowing inflation, which stood at 20.1% in June, compared with 25.2% in March. If the improvement in risk perception persists, the central bank is expected to make further cuts of 100 basis points until the rate reaches 13% by September.



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PROSPECTS AND STRATEGIES

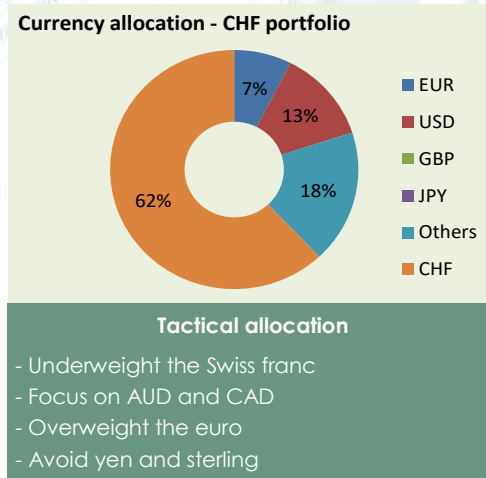


PROSPECTS AND STRATEGIES

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)						
	3months	1year	underweight		neutral	overweight			
			---	--	-	=	+	++	+++
EUR vs CHF	↗	↗							
USD vs CHF	→	→							
GBP vs CHF	↘	↘							
JPY vs CHF	↘	↘							
EUR vs USD	↗	↗							
USD vs JPY	↘	↘							
GBP vs USD	↘	↘							



Evolution of spreads unfavourable to the Swiss franc

Switzerland's monetary policy is nearing the end of its cycle, which is not the case in most other countries. We believe that the forthcoming evolution of key interest rate differentials will not be favourable to the franc, in an international context where political, monetary and inflationary tensions are easing. To date, the yield spread between the 10-year Swiss government bond and the German Bund is 95bps, virtually its highest level since 2012. This observation is similar at the various points of the relative yield curve. It should also be noted that, compared with the situation in 2015, the current level is higher than that which saw the euro rise from 0.97 to 1.20. The evolution of nominal yield spreads with US Treasury rates had reached their nadir in November 2022 at almost 300 bps and have gradually narrowed to 225 bps today. However, they remain sufficiently attractive to encourage a rise in Swiss investors' interest in US assets, which could support a rise in the exchange rate, especially if the fall in US inflation accelerates and provokes renewed interest in dollar-denominated equities, bonds and real estate investments.

European currency supported by rate differentials

Since the pause in US monetary policy in June, and the reduction in the SNB's rate hike increments, the US and Swiss monetary policy cycles are no longer in phase with the ECB's expected policy development. European monetary policy will continue its restrictive action by raising key rates for longer. Over the coming months, the ECB is likely to be one of the most restrictive of the major central banks. Market expectations for the level of key rates marking the end of the current monetary tightening cycle will continue to evolve over the next few months, but our six-month expectations seem to favour a widening of the yield spread with Swiss and Japanese rates in favour of the euro, as well as a narrowing of it with dollar rates, which will also potentially support an appreciation of the European currency against these three currencies. For the next few months, this environment should support a euro appreciation of around +5% against the dollar and franc. Our outlook for the next quarter is therefore favourable for the European currency.

The yuan's short-term decline may yet last

The yuan has lost almost -8% since mid-January against the US dollar, falling from 6.7 to 7.2 yuan/dollar, despite the fact that the American currency was particularly weak against a number of currencies. The Chinese currency was even weaker against other major currencies such as the euro (-11.3%), and had even fallen by almost 16% against the Swiss franc since that date. Since its July 2022 low against the euro, the yuan has depreciated by almost 20%. Against the dollar, the decline has been smaller (-13%), while it has peaked at 25% against the franc since June 2022. The yuan's depreciation coincides with the introduction of new restrictive monetary policies and rising yields in major industrialized countries. Chinese monetary policy has remained extremely accommodative during this period of monetary tightening in the USA, Europe and Switzerland. Yield differentials gradually widened against the yuan, reinforcing the relative attractiveness of other currencies.

The imminent end of the monetary tightening cycle in the United States should stabilize these yield spreads and reduce pressure on the Chinese currency. What's more, the weakness of the Chinese currency does not seem to be worrying the authorities, who are now facing a risk of deflation totally opposed to the risks of inflation that most other countries have been facing for several quarters. From this point of view, a gradual devaluation of the yuan is acceptable to the monetary authorities, who are not afraid of a negative knock-on effect on imported prices. On the other hand, the fall in the value of the yuan is seen as a positive factor in further improving the competitiveness of Chinese products at a time when China is also experiencing some difficulty in reviving its economic growth at a sufficient pace. Future government measures aimed at boosting China's economic momentum will necessarily involve further cuts in interest rates and reserve ratios for banks, the initial effects of which on the exchange rate are likely to prove even more negative.

Dollar likely to weaken in 2nd half

Over the past three months, interest-rate dynamics have proved stronger in the United States than in Europe. With a jump of 150 bps, two-year dollar rates rose more strongly than euro rates (110 bps). The dollar had initially been the big winner from the Fed's change in monetary policy, before weakening at the end of 2022. The ongoing stabilization at lower levels over the past six months, against the backdrop of a probable deterioration in yield differentials, is not very reassuring for the US currency as we look to the end of the year. The Fed's warnings that it could raise interest rates at least twice more in the coming months have largely worried investors, who have preferred to take these statements into consideration rather than appreciate the extremely positive trend in inflation. We believe that yield curves are currently too high in relation to the level of inflation and its relatively rapid decline prospects. Yield curve inversion is excessive, particularly if the economy manages to avoid a recession. As a result, the downward adjustment of yields on all maturities could be significant, further weighing on the factors affecting the dollar's valuation. The expected decline in dollar yields will add further pressure on the greenback, which could well weaken again against the euro in particular. Interest in U.S. assets will certainly remain sufficient to curb the dollar's downward trend, which should gradually lose momentum.

Sterling benefits from more attractive yields

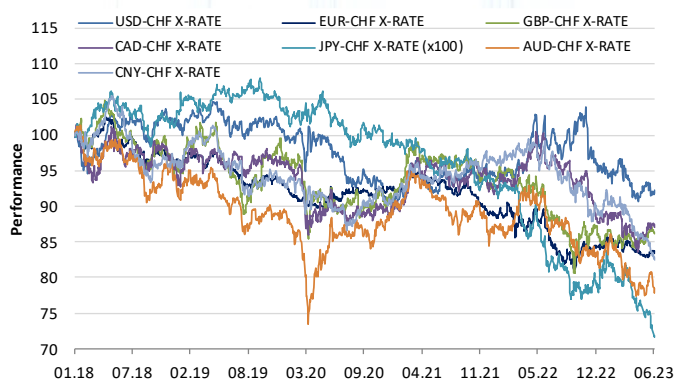
After the shock of September 23, which caused extreme volatility in the currency and a two-day fall of -5.4% against the euro, -8% against the dollar and -7% against the Swiss franc, the pound stabilized without much conviction. Since then, however, rising key rates and rising yields have provided support for the currency. The USD/pound sterling

exchange rate had already appreciated in the fourth quarter of 2022, rapidly erasing the effects of the September crisis. Since then, the trend against the dollar has gradually improved, taking the exchange rate from 1.20 to 1.27. The pound has also appreciated against the euro, the yen and even the Swiss franc. Despite record inflation in the UK, the exchange rate is appreciating due to the growing interest rate differential in its favour. This factor could sustain investor interest in the British currency, but we believe that an appreciation is not yet on the agenda, and favour a more moderate outlook for the currency's future evolution.

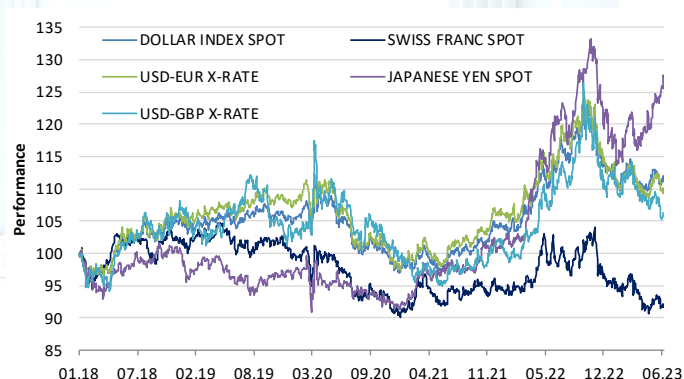
Interest rate differentials still unfavourable to the yen

The BoJ's monetary policy should remain relatively stable over the next few months in the context described above. Estimated key rates for both September (0.14%) and December (0.15%) remain unchanged, demonstrating the absence of any anticipated change in policy in the second half of the year. In the short term, the yen seems increasingly affected by the interest-rate differential, which remains unfavourable to the Japanese currency against all the major currencies. In March, the yen benefited only very temporarily from the uncertainty linked to the SVB bankruptcy, and has since suffered further depreciation. A few months ago, we mentioned that this appreciation of the yen already seemed to us to be significant, and also took into account the stabilization or even decline in dollar yields. Yield spreads on various maturities, although down on previous spreads, seem to us sufficiently high to sustain Japanese investors' interest in holding dollars. 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 BoJ policy, our outlook still favours yen weakness against the US dollar.

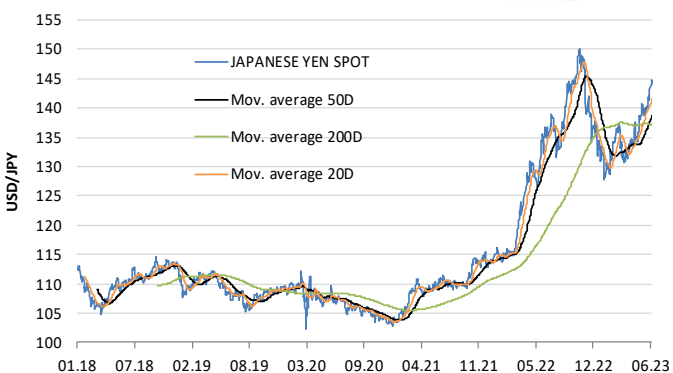
Evolution of the 7 Main Currencies against CHF (base 100)



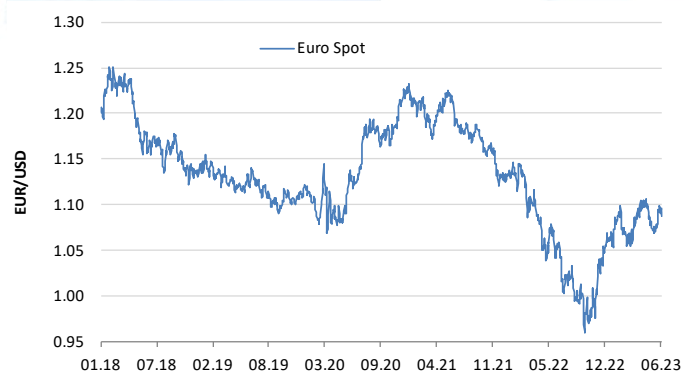
Dollar Trade-Weighted Index & Cross Rates (base 100)



Exchange Rate JPY/USD



Exchange Rate EUR/USD

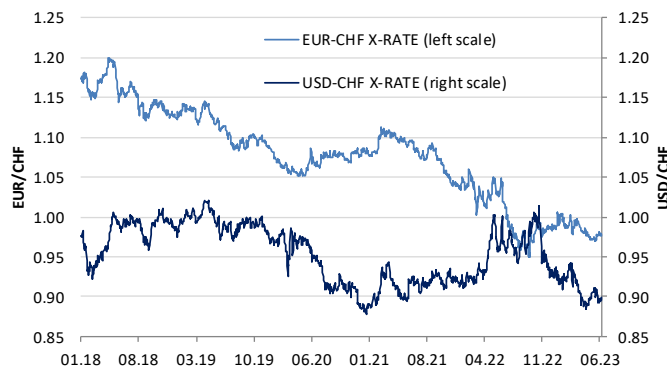


CURRENCIES

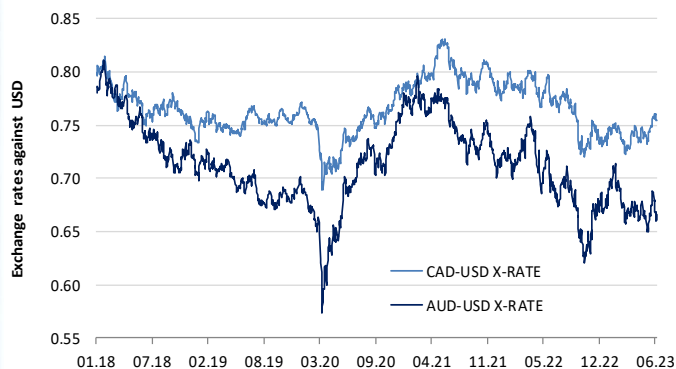
30.06.2023

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.09	0.14	2.06	0.65	1.91	1.91
CHF-USD X-RATE	1.12	0.14	1.68	2.19	3.22	3.22
GBP-USD X-RATE	1.27	-0.09	2.11	2.97	5.13	5.13
JPY-USD X-RATE	0.01	-0.42	-3.44	-7.93	-9.14	-9.14
CAD-USD X-RATE	0.76	-0.45	2.51	2.08	2.36	2.36
AUD-USD X-RATE	0.67	-0.24	2.48	-0.31	-2.19	-2.19
RUB-USD X-RATE	0.01	-5.41	-9.02	-12.98	-16.79	-16.79
CNY-USD X-RATE	0.14	-1.03	-2.00	-5.24	-4.91	-4.91
INR-USD X-RATE	0.01	-0.01	0.84	0.16	0.84	0.84
BRL-USD X-RATE	0.21	-0.05	5.61	5.77	10.41	10.41
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.90	-0.16	-1.66	-2.15	-3.13	-3.13
EUR-CHF X-RATE	0.98	-0.06	0.37	-1.53	-1.27	-1.27
GBP-CHF X-RATE	1.14	-0.33	0.34	0.74	1.62	1.62
JPY-CHF X-RATE (x100)	0.62	-0.64	-5.05	-9.96	-12.08	-12.08
CAD-CHF X-RATE	0.68	-0.60	0.83	0.01	-0.89	-0.89
AUD-CHF X-RATE	0.60	-0.48	0.78	-2.42	-5.39	-5.39
RUB-CHF X-RATE	0.01	-5.56	-10.53	-14.86	-19.57	-19.57
CNY-CHF X-RATE	0.12	-1.20	-3.59	-7.28	-7.84	-7.84
INR-CHF X-RATE	0.01	-0.11	-1.01	-1.55	-2.09	-2.09
BRL-CHF X-RATE	0.19	-0.53	3.89	3.31	6.86	6.86

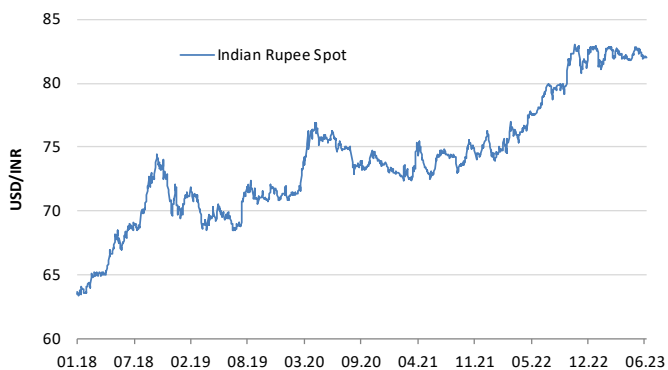
Exchange Rate EUR/CHF - USD/CHF



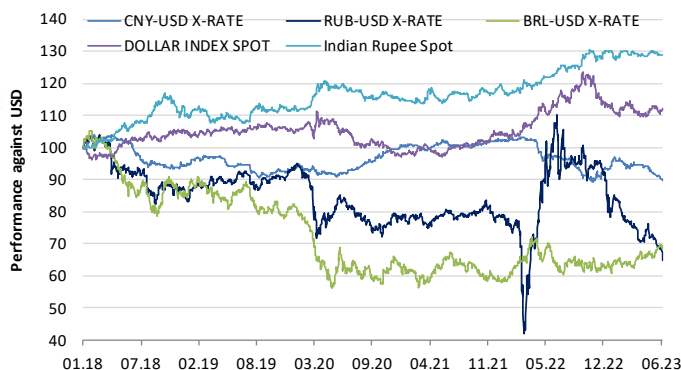
Exchange Rate CAD/USD - AUD/USD



Indian Rupee



Emerging Currencies VS USD (base 100)

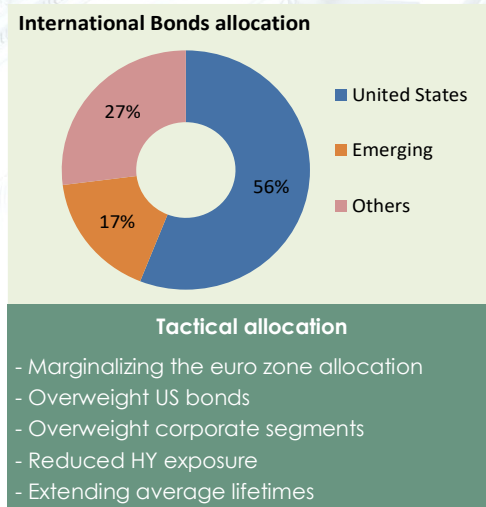


PROSPECTS AND STRATEGIES

International Bonds

- A much more positive outlook for monetary policy and interest rate
- End of volatility on USD yield curves
- Time to extend dollar durations

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



A much more positive outlook for monetary policy and interest rates

Against this backdrop of a very marked improvement in inflation and a much brighter outlook, particularly in the USA, we believe that the US central bank's rhetoric is paradoxically one of the most dogmatic to date. In view of recent inflation trends, the US Federal Reserve has cast doubt on the possibility of further hikes in the coming months, and perhaps even in July, while announcing a temporary pause in its restrictive policy in June. It still seems intent on ensuring that, over the summer at least, economic agents remain alert to the possible risks of further price slippage, and its determination to act to counter any possible trend reversal. Nevertheless, numerous indicators confirm the downward trend in US inflation, for CPI, PPI and even core inflation. The central bank is also indirectly pursuing its restrictive policy by reducing the size of its balance sheet at a rapid pace over the past few months. Nearly \$500 billion has been withdrawn from the financial system in the course of the reduction from \$8 trillion to \$7.5 trillion, representing a further tightening of monetary conditions. In our view, the Fed should choose to remain in a wait-and-see phase with regard to key rates, while maintaining its more indirect policy of reducing the size of its balance sheet. The current situation in the United States thus seems sufficiently well underway for the Fed to put an immediate end to its monetary tightening cycle and embark on a period of pause, which should lead it to adjust its key rates downwards at the end of the second half of 2023. Inflation should continue to decline across all measures, including services and slow components such as rents. Fed funds expectations for December of 5.4% seem to us to be totally excessive in this context. If inflation stabilizes at around +3% by the end of the year, we consider that the guide rates could then be almost 200 basis points too high. Over the next few months, a pause seems likely in the United States, which will contrast with the perceived need in Europe to continue tightening until prices fall further. The 2nd half of the year will be characterized by a temporary end to the convergence of monetary policies between all central banks, but in a much more favourable context than that which has prevailed over the last twelve months. Developments on the inflation front in the United States in particular are already favourable elements which may now justify a readjustment of the interest rate curves. Reverse steepening of the yield curves seems to us extreme and unjustified by the current situation and forecasts for economic growth and inflation. The year 2023 should be positive for the US economy, with a probable rise of +1%, while inflation expectations could see CPI falling below +3% and core inflation below +4%. The Treasury yield curve is too inverted, with

ten-year yields at 4.8% and 3-month yields above 5.5% at the end of December 2023. Over a six-month horizon, we expect short rates to fall by 150 to 200 basis points and ten-year rates by almost 100 basis points. Dollar-denominated bond markets should benefit greatly from this adjustment and from the interest of international and domestic investors.

End of volatility on USD yield curves

For the past nine months, volatility has been very much in evidence on the fixed-income markets, which have been subject to fluctuations marked by short cycles of rising and falling yields on most maturities. Ten-year Treasury yields underwent five phases of 70 bp rises and falls, ranging from 3.3% to 4.25%, the last of which exceeded 4% again in early July. On the shorter two-year maturities, the latest cycle pushed rates to 5%, too close to Fed funds in our view and too high according to our estimates of medium-term inflation trends. Remember that the University of Michigan's 1-year inflation expectations are only 3%, and that the breakeven of two-year Treasury bonds has fallen from 3.4% in March to 2.05% today.

BOND INDICES (local currency)

		Total Return Performance						
30.06.2023								
	Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS	SBI AAA-BBB	126.9	CHF	0.0	0.0	2.1	3.6	3.6
UE BONDS	Barclays EuroAgg	226.5	EUR	-0.3	-0.3	0.2	2.2	2.2
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	137.4	EUR	-0.1	-0.5	-0.2	0.5	0.5
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2091.6	USD	-0.3	-0.4	-0.8	2.1	2.1
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USA1	7.9	USD	0.0	-0.5	-0.4	1.2	1.2
EMERGING BONDS	JPMorgan Emerging Markets Bond	533.3	USD	0.2	2.2	1.9	3.8	3.8
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	452.3	USD	-0.3	0.0	-1.5	1.4	1.4
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro Aggregate	226.5	EUR	-0.3	-0.3	0.2	2.2	2.2
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	132.1	CHF	-0.3	-1.3	-2.0	0.1	0.1
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	156.5	USD	0.4	2.1	1.6	5.5	5.5
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	13.3	USD	0.4	1.4	1.5	4.7	4.7

Yields on the short end of the government curve are clearly too high in our view, influenced by the Fed's monetary policy statements announcing two more potential rate hikes should they become necessary. As we have already mentioned our expectations for future growth, inflation and key interest rates, we believe that Treasury yields are currently too high on the short end of the curve, resulting in a steep slope that is unsuited to the situation. A flattening of the yield curve through a sharper correction of the short end now seems the most likely scenario. We expect rates on short maturities to fall as soon as signs of inflation closer to 2.5% to 3% become more evident. This rate cut will be more pronounced on 2- to 5-year maturities, which could slide by 150 to 200 bps, and by 70 to 100 bps on 10-year Treasury maturities. The outlook for dollar-denominated bond markets therefore seems favourable to us, and sufficiently attractive to support a diversified exposure favouring investment-grade corporate bonds offering both attractive yields and prospects of capital appreciation.

Decorrelation of bond yields in euros

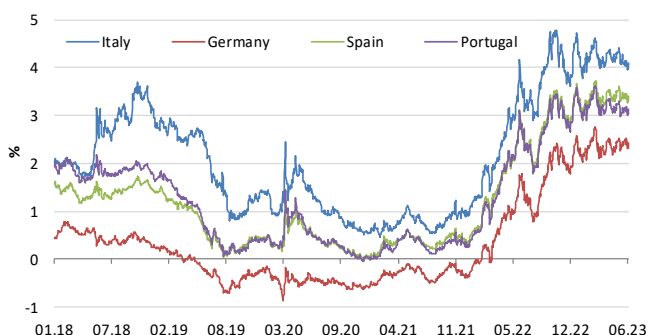
The decorrelation in interest rates between the European and US bond markets is set to intensify over the coming months. While monetary policy is in a pause phase in the US, and key rates (5.75%) are above inflation (3.9%), in Europe, ECB rates (4%) are still much lower, and should rise further above 5.5% to be above inflation rates. US medium-term government bond yields (4.1%) are also higher than current US inflation levels. In Europe, five-year government yields are just 2.6%, almost 300 basis points below the CPI index of +5.4%. Against this backdrop, it seems extremely unlikely to us that European bond yields will stabilize at these levels in the immediate future. Ten-year German government yields (+2.4) need to tighten significantly simply to close the gap with the inflation rate, especially as German inflation is still at +6.8%. Since October 2022, ten-year German government yields have stabilized at just below 2.5%, after rising 300 basis points since the nadirs of 2021 at -0.5%. In our view, this level of yield is clearly insufficient

in view of inflation, and corresponds to a negative real yield of -1.4% in the short term and -3% on ten-year yields. We believe that investors should therefore demand a less negative or even positive real return, which would imply that euro yields should soon start to rise again. Against this backdrop, an increase of one hundred basis points is not out of the question on all German government maturities, while the yield curve is virtually flat between two-year and ten-year maturities. The European capital market is highly risky, 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, but with a shared upward trend. Italian (3.9%), Spanish (3.2%), Portuguese (2.9%) and Greek (3.5%) government bonds, for example, will not be spared from the expected adjustment, despite their higher yields. Now is not the time for yield pick-up strategies, but for managing the risk of capital losses.

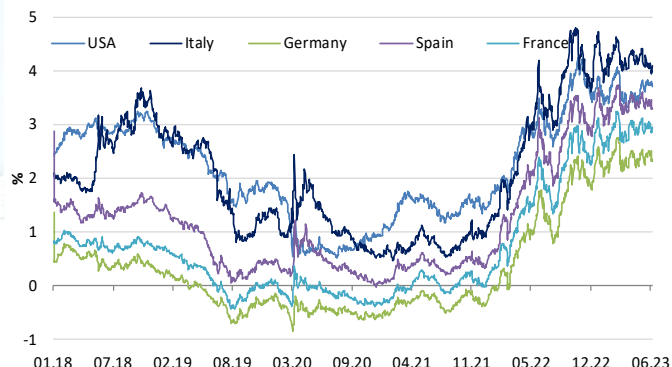
British interest rates head for new highs

Ten-year UK government yields have once again reached the 4.5% threshold they hit in September 2022, when a wave of panic swept through the sterling capital markets following the announcement of the « mini-budget » setting the foreign exchange and capital markets ablaze. Long-term gilt yields thus touched 4.5% in June, driven by the disappointing trend in inflation, the BoE's U-turn and the prospect of further key rate hikes that could take short-term rates to 6%. The sterling yield curve is thus clearly inverted, with short-term rates close to 5.5% and ten-year rates close to 4.5%. The inversion of the curve is thus mainly observable between short and lower-medium maturities. On all maturities, real yields are negative, with inflation still above +7-8%. Monetary policy is once again in a phase of temporary acceleration, which implies a still very uncertain context for capital markets. In our view, the current level is still insufficient for inflation. Bond yields are therefore still likely to rise by around 50-75 basis points over the coming months.

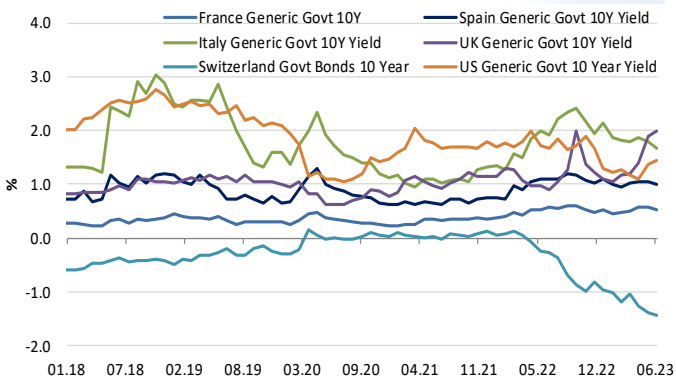
10 year Rate - Gvt Europe



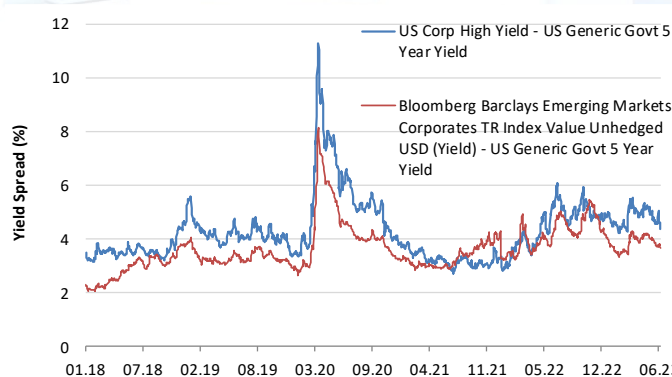
10 year Rate - Gvt



Risk Premium vs German Government



Risk Premium vs US Treasury



Yen yields still unattractive

The Bank of Japan now holds more than half of Japan's government bonds, and has just confirmed that it will maintain this policy in view of the country's particularly anemic economic dynamic. An extremely long period of reduced growth, very low inflation and wage stagnation had led the monetary authorities to adopt a policy of zero interest rates and yield curve control, which is now reaching its limits. The yield curve is rising, but remains contained between 0% and 0.5% for up to ten years. The BoJ has increased its balance sheet as a percentage of GDP to an extreme level of 125%, already twice as high as the ECB (60%) and the Fed (35%). The current context of more attractive international alternatives. The current policy will necessarily have to be adjusted in due course by a rise in interest rates, which will constitute an increasingly negative environment for the yen bond market. Against this backdrop, holding yen-denominated bond positions remains unattractive when compared with the yields offered in other currencies. Japanese bonds therefore offer no attractive prospect in the face of even a remote risk of rising rates and uncompetitive yields in the current context of more attractive international alternatives.

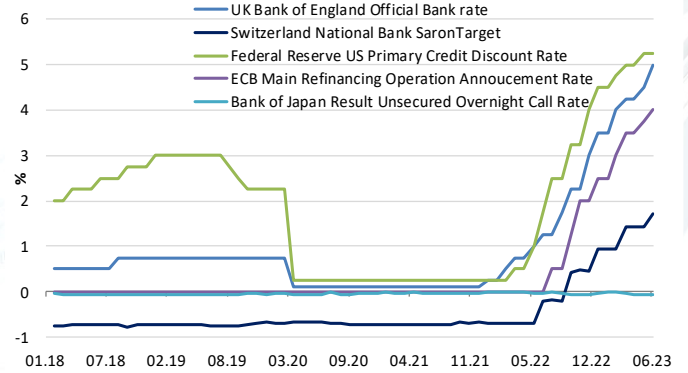
The appeal of yuan bonds

The Chinese bond market can count on the positive effects of declining inflation on yield curves, enabling it to generate capital gains in the medium term. In addition, current yields remain highly competitive and sometimes higher than those offered by other major developed countries, notably Japanese bonds. Secondly, the significant growth in the use of the yuan as a transaction currency in international trade is increasing the credibility of the Chinese currency and its attractiveness as a diversification and reserve currency. An increase in the yuan's market share in international trade is already very clear, and the rise in its weight in IMF SDRs (Special Drawing Rights) to over 12% confirms its growing role as an alternative currency to the dollar in commodity transactions, which should boost the yuan's appreciation. Attractive yields, prospects of capital appreciation and potential currency gains support diversification into yuan-denominated government bond investments. Chinese government bonds reacted to falling inflation by, among other things, lowering the ten-year yield to its lowest level since the beginning of the year, while deflation risks continue to underpin the trend.

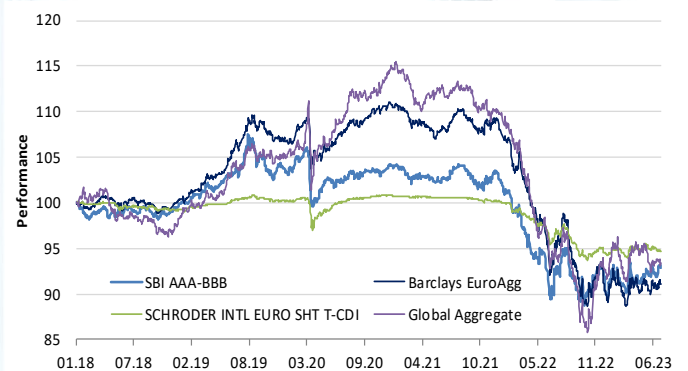
Time to extend dollar duration

The peak of the rate hike cycle is approaching, but yield curves are still affected by the latest alarming messages from central bankers. The general decline in inflation, which will continue into the 2nd half of the year, will be the main factor driving yield curve adjustments, primarily in the USA. The decline in inflation could trigger a 150-200 bp drop in the short end of the USD yield curve. Risk premiums should also contract in this environment. We favour bonds in US dollars, Canadian dollars and Australian dollars, with longer maturities and an overweight in corporate bonds. Emerging market bonds also offer selective opportunities.

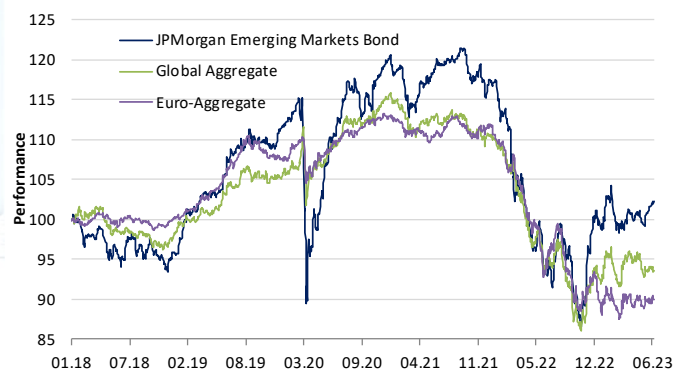
Key Rates (EUR, CHF, GBP, USD, JPY)



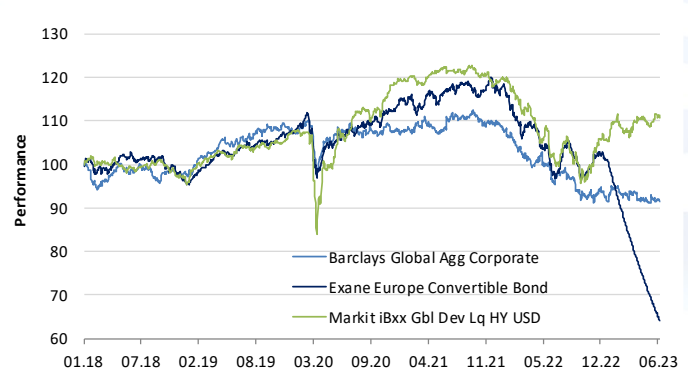
YTD Performance of 1-5 year Bond Indices (base 100)



Emerging Bonds—Performance (base 100)



Eastern Europe Bonds—Performance (base 100)

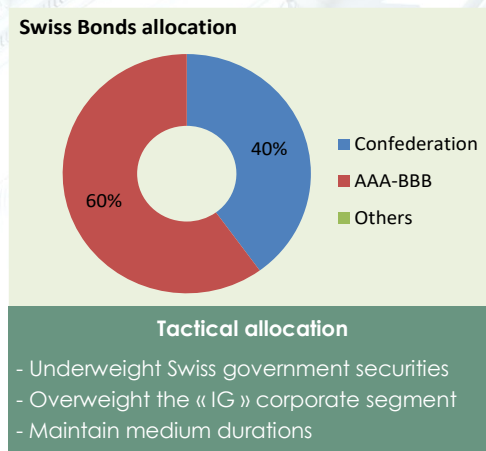


PROSPECTS AND STRATEGIES

Swiss Bonds

- A new paradigm for the Swiss bond segment
- Falling inflation and the end of the SNB cycle
- Positive but limited outlook for bonds

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



A new paradigm for the Swiss bond segment

The outlook for the 2nd half of the year will continue to be affected by a still uncertain international economic environment, but also by a much more favourable situation in Switzerland in terms of inflation, interest rates and monetary policy. In Switzerland, these factors will help to reinforce the likelihood of an economic recovery in the second half of the year. The Swiss economy is resilient and does not seem ready to collapse, despite the risks posed by the current difficulties of one of its main economic partners, Germany. However, the SNB is unlikely to see any worrying signs that would justify a major change in its monetary policy, given that inflation in Switzerland is finally showing signs of slowing down. We believe that the SNB's policy is now close to its tipping point. However, a final rate hike is not out of the question, even if current inflation levels already appear to be close to the SNB's annual target. Current GDP growth and Swiss inflation levels should therefore have no appreciable impact on the Swiss government's yield curve, which will remain relatively flat at between 0.95% and 1.1% on maturities of over 1 year, and for which the risk of upward adjustments still seems very limited.

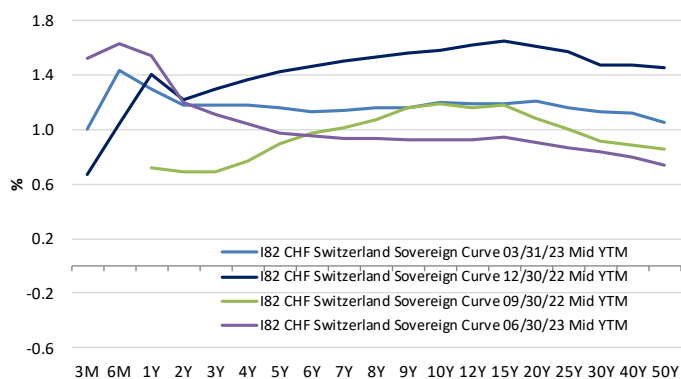
The decline in inflation in our country had largely contributed to the favourable trend in interest rates, which are now lower (0.96%) on the long end (10-year) of the yield curve than they were (1.6%) in June 2022, just after the SNB began implementing its monetary tightening cycle. The Confederation's 10-year rates fell by 0.6% in 2023 as inflation fell, implying an inverted yield curve of over 70 basis points exclusively due to short-term rates (1.7% six months, 1.2% twelve months) linked to the SNB's high key rates.

We had already announced that the sharp rise in the Swiss yield curve at the end of the year seemed premature in view of the Swiss economic situation and the prospect of easing 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, thanks in particular to an inflation trend that remained downward. A continuation of this trend, and the approaching end of the cycle of monetary restraint, will be conducive to an easing of the yield curve, underpinning attractive new prospects in the corporate investment grade segment too.

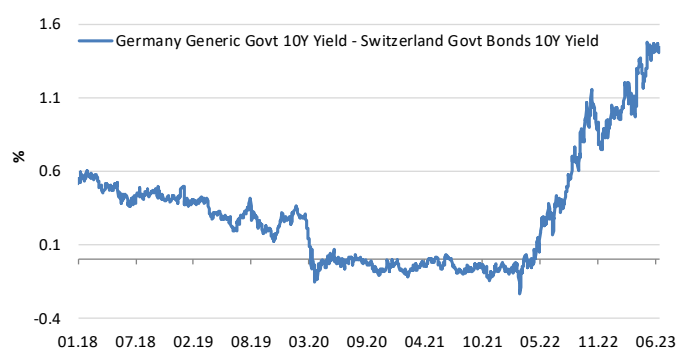
Positive but limited outlook for bonds

The current situation now looks set to stabilize, with moderate economic growth in Switzerland of around +1%, inflation already down to just +1.7%/year, and yield curves increasingly inverted. The influence of monetary policy on the short end of the yield curve is decisive, and is unlikely to change in the short term. We expect the SNB to maintain the status quo at this level of key interest rates for the long term, before possibly adjusting them downwards by a further 25 bps if inflation were to fall rapidly to 1%. In the meantime, Swiss inflation remains slightly above policy rates and bond yields. This background is unlikely to offer prospects of capital gains, but at least offers slightly more attractive levels of positive returns on the corporate segment than for government bonds.

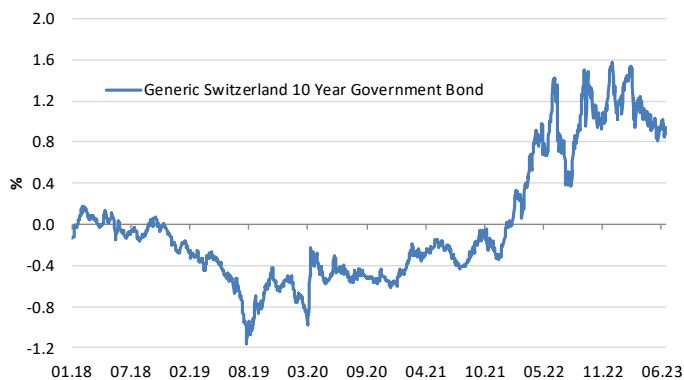
Yield Curve Swiss Government



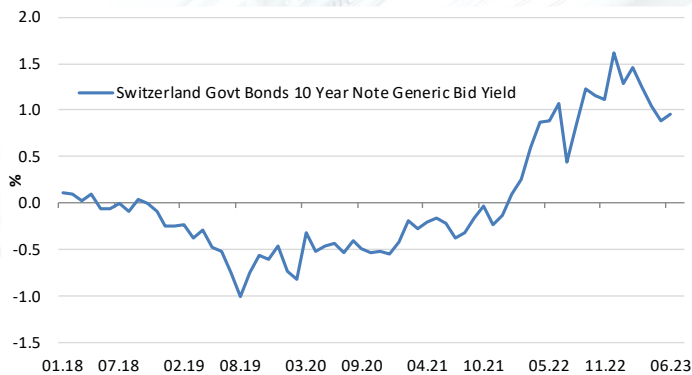
Long-term Interest Rate Differential (German Bund - Swiss Gov)



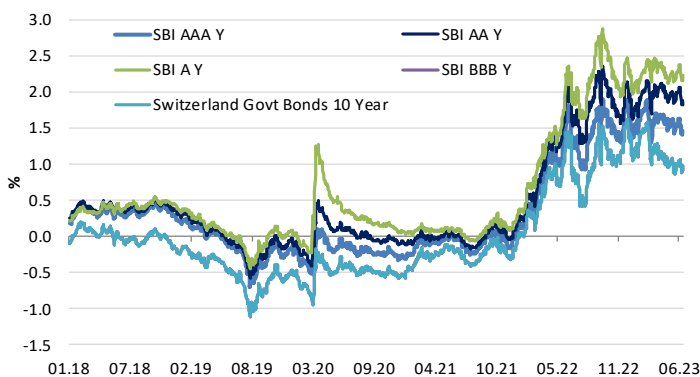
Swiss Government Bonds - 10 year Rate



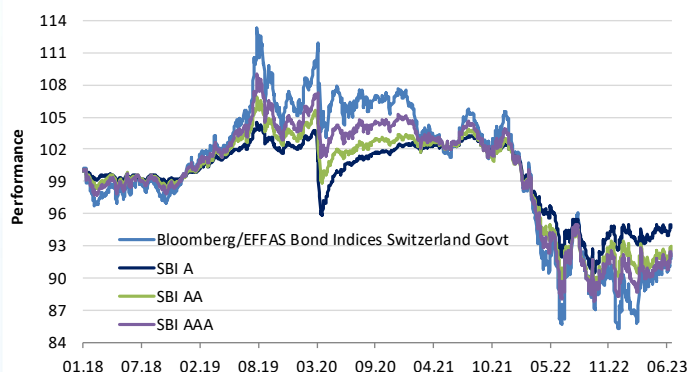
Swiss Government Long Rates since 2018



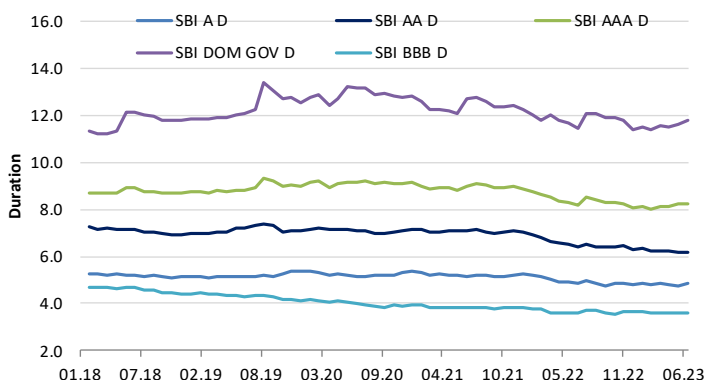
Yield (in %) by Type of Debtor



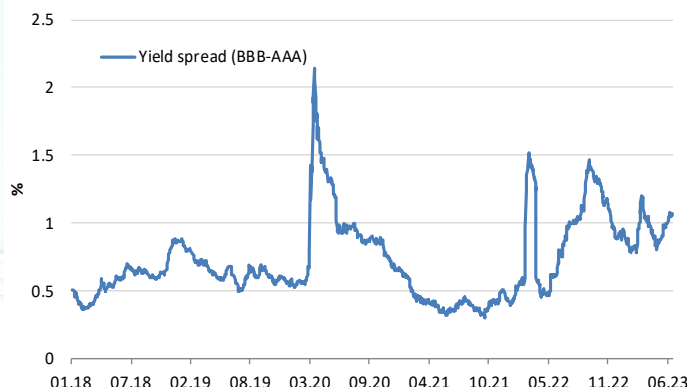
Performance of Swiss Bonds (base 100)



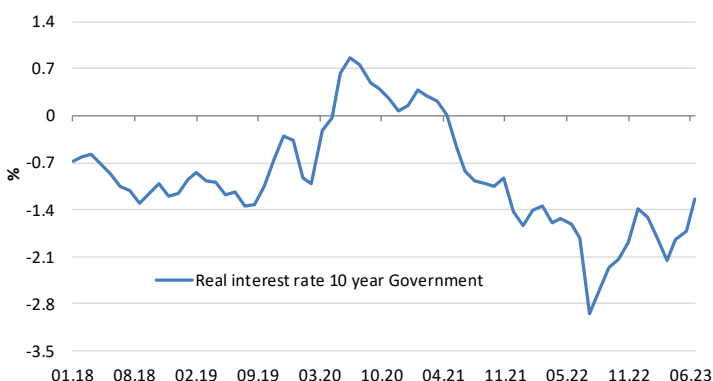
Duration of Swiss Bond Indices



Yield Spread



Real Interest Rates



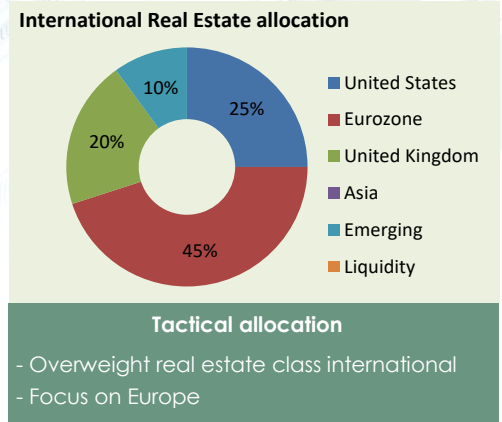
SWISS BOND INDICES (CHF)

	Last price	Total Return Performance					
		Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	240.6	CHF	0.0	-0.2	3.5	8.0	8.0
SBI A-BBB	129.7	CHF	-0.1	-0.2	1.6	2.3	2.3
SBI AA-BBB	126.6	CHF	0.0	-0.1	1.7	2.5	2.5
SBI AAA-AA	125.6	CHF	0.0	0.0	2.3	3.9	3.9
SBI BBB	141.8	CHF	-0.1	-0.2	1.5	2.2	2.2
SBI AAA-BBB	126.9	CHF	0.0	0.0	2.1	3.6	3.6
SBI DOM GOV AAA-BBB 1-3P	58.7	CHF	-0.3	-0.7	-0.3	-0.3	-0.3
SBI DOM GOV AAA-BBB 3-7P	74.3	CHF	-0.3	-1.0	0.6	1.5	1.5
SBI DOM GOV AAA-BBB 7+ P	110.0	CHF	0.1	-0.1	4.5	10.5	10.5

PROSPECTS AND STRATEGIES

International Real Estate

- Risks discounted, current prices represent real investment opportunities
- A unique price/net asset ratio of 0.54 for European real estate
- UK securitized real estate in the early stages of recovery
- Attractive discounts in Europe and the UK



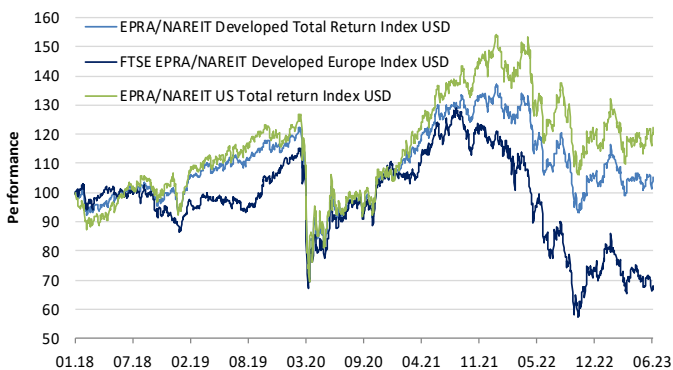
REAL ESTATE Areas	Expected Return		ALLOCATION (CHF Portfolio)							
	3months	1year	underweight			neutral	overweight			
			---	--	-	=	+	++	+++	
Switzerland	↗	↗								
United States	↗	↗								
Eurozone	↗↗	↗								
United Kingdom	↗	→								
Asia	↗	↗								
Emergents	↗↗	↗								
Liquidity										

Securitized real estate still affected by persistent uncertainty

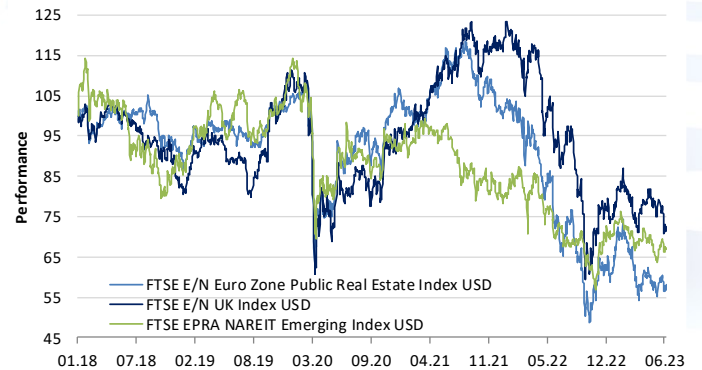
The quarter just ended brought little change to investors' still mixed feelings about securitized real estate. Taken as a whole, the listed real estate market recorded almost total stability in Q2 (+0.04%), following an already rather calm and slightly positive Q1 (+0.51%). While overall, real estate indices do not seem to be showing any trend, remaining surprisingly static given the economic context, which is nonetheless rich in events likely to affect real estate, there was nevertheless significant decorrelation and a certain volatility in monthly performances. It was not until June that prices finally began to recover, particularly in the United States (+5.03%), Europe (+2.37%) and emerging markets (+3.2%). However, these recent rebounds did not always erase the declines of previous weeks, and in the end only enabled US real estate to end the quarter (+2.56%) and 1st half (+5.29%) with satisfactory gains. In the United States, a combination of three favourable factors began to sustain renewed investor interest in this asset class and its listed securities. In fact, it was the alignment of these three factors that enabled real estate values to begin to recover. Falling inflation, a correction in interest rates and hopes that the monetary tightening cycle would soon come to an end provided a favourable environment

that pushed prices upwards. In Europe, on the other hand, persistently high inflation despite a clearer downward trend, and a monetary policy resolutely geared to the continuation of the tightening cycle, did not yet offer sufficient reasons for investors to favour real estate investments. UK property values fell by a further -6.99%, increasing their six-month decline to -8.11%. In the eurozone, a timid recovery in June only partially offset the declines of the previous months. The 1st half performance thus ended on a decline of -7.41%, similar to that of emerging real estate (-6.67%). The uncertainty surrounding the revaluation of real estate assets is largely due to the problems associated with rising interest rates, increased financing or refinancing costs, and access to credit. These factors have had a further negative impact on the assessment of risks and opportunities. The rise in financing costs has had a negative impact on the current valuation of real estate assets held, pushing down the prices of REITs and real estate companies. The banking crisis in mid-March also did little to reassure investors, who are now torn between the positive aspects of a likely fall in interest rates in the United States, and therefore in their financing costs, and the risks of tighter access to credit. Elsewhere, although monetary policies have not yet reached their zenith, expectations are just as clear and have already largely penalized real estate assets.

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



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



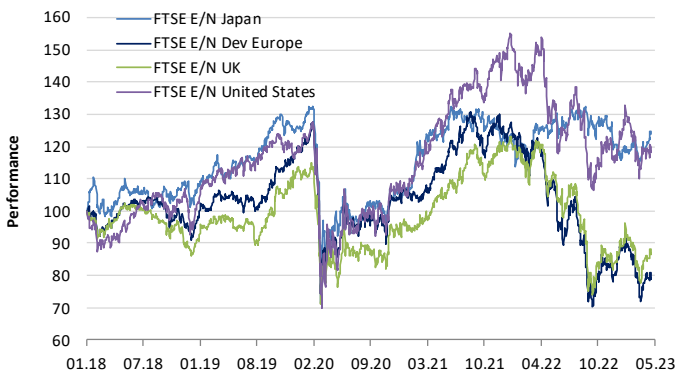
Risks discounted, current prices represent real investment opportunities

The fall in listed real estate stocks has now reached levels which, in our opinion, already reflect the risks associated with a possible increase in debt refinancing difficulties for many real estate companies. For many of these companies, current share prices do not reflect their true financial situation. In fact, real estate valuations are now frequently trading below their book values, often falling back to the price levels prevailing at the start of Q4 2022, and sometimes even significantly below them. It is not uncommon, for example, to see emblematic market-leading stocks 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 excessive impact that higher financing costs are expected to have on their earnings. Securitized real estate, unlike all other asset classes, has not yet reacted positively to the improvement in the global economic scenario, nor to the decline in financing costs now underway in the United States, which will have a significant impact on real estate too. As a result, this asset class did not really benefit from a positive revaluation of the factors that had previously triggered waves of selling. In Europe, the rate hike is indeed not over, but expectations of tensions have largely preceded the monetary tightening cycle, which already suggests that European real estate values have also already reached their nadir in recent weeks. The macroeconomic scenario of a global soft landing, accompanied by sharply declining inflation, should provide a favourable environment for interest rate trends and a return of investor interest in this asset class, which is currently grossly undervalued. As a result, we believe that securitized real estate represents a diversification opportunity that merits an overweight allocation.

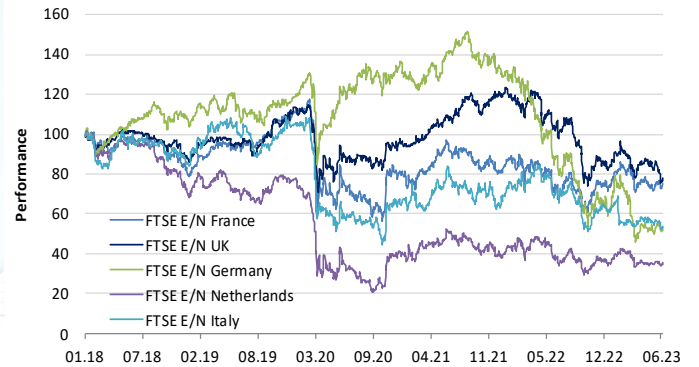
Favourable situation for direct and securitized real estate in the USA

The direct real estate market in the USA continues to recover in 2023 after a few difficult months in mid-2022. House prices, which had recorded monthly declines between February and December, are now on the rise for the third consecutive month, driven by a growing number of buyers and reduced supply. Inventories are low, with the number of properties for sale now less than half what it was in 2019. The +0.5% increase recorded in April is part of a rather solid trend in which we are seeing a growing number of buyers ready to offer higher prices than those posted to secure a transaction. The current upturn seems to be affecting all regions. On an annual basis, price trends are now stable (-0.2%). Mortgage rates (6.87%) are back below 7% (30 years), and applications for new financing have surged by +7.3%. Despite this, financing costs are holding back demand, which is down -1.3%, while mortgage applications are up +1.1%. Less than 10% of loans are above 6%. The real estate market is adjusting to higher financing costs and a doubling of mortgage interest rates. While some people's ability to purchase a property has been reduced by this rise, the reduction in supply and inventories is stabilizing the market, without having a significant impact on price levels for the time being. Three months ago, we mentioned our expectation that the market was stabilizing, and today we believe that this trend should even be reinforced by the expected positive trend in interest rates. As far as securitized real estate is concerned, there still seems to be some uncertainty. We believe, on the contrary, that inflation, monetary policy and yield curves are already on a path that will prove more favourable to listed real estate investments, which we therefore believe have already incorporated risks that will not materialize completely, and probably offer opportunities for repositioning in the medium term.

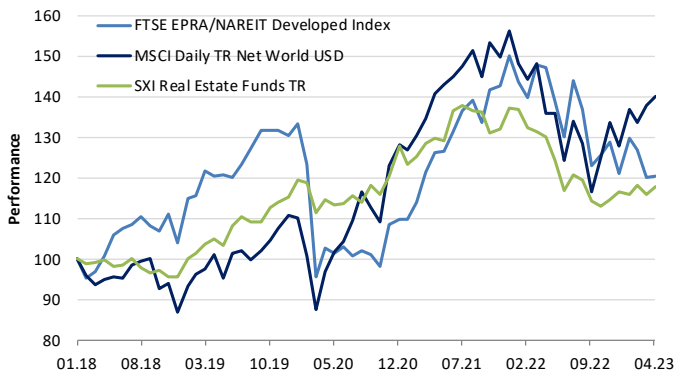
Real Estate Markets in Local Currencies



European Property Markets in Local Currencies



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



INTERNATIONAL REAL ESTATE INDICES (local currency)

		Total Return Performance						
30.06.2023		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2708.2	USD	3.8	3.4	0.3	1.1	1.1
DEVELOPED	EPRA/NAREIT Dev TR USD	5241.6	USD	4.0	3.2	0.5	1.6	1.6
DEVELOPED EUROPE	FTSE E/N Dev Europe	1364.2	EUR	2.3	-1.3	-3.2	-7.6	-7.6
EUROZONE	FTSE E/N Euro Zone	1327.8	EUR	2.6	2.4	0.0	-7.4	-7.4
USA	FTSE E/N United States	2914.6	USD	5.3	5.0	2.6	5.3	5.3
DEVELOPED ASIA	FTSE E/N Dev Asia	1250.2	EUR	0.7	-3.0	-3.7	-6.7	-6.7

Securitized real estate has already taken on board the risks of interest rates and rental vacancies, with a fall of -34.7% recorded between December 2021 and October 2022. After the recent price recovery of +14% following the banking crisis in March, it is still down -23% on its cycle peak in December 2021. The EPRA Nareit US index has an average yield of 4.32%, a total debt/total assets ratio of 45% and a price/net assets ratio of 2.09.

A unique price/net asset ratio of 0.54 for European real estate

Securitized real estate in Europe is still suffering from the effects of inflation, the ECB's restrictive monetary policy and the interest-rate tensions that have prevailed for almost twenty-four months. 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, by increasing the difficulty of accessing credit. The EPRA Nareit Eurozone index is struggling to stabilize after falling by -28% between February and March, and is still close to its lowest level, down by -53% since August 2021. In our view, the collapse in listed European real estate prices is clearly excessive, even in the context of the continued rise in interest rates mentioned rates.

The EPRA Nareit Eurozone index has an average yield of 5.23%, 6.69% for 2023 and 7.02% for 2024. It has a total debt/total assets ratio of 42.8% and a price/net assets ratio of 0.54. At less than 50% of their book value, some European stocks have already taken these risks into account, even though their financing and rental income are not really threatened. In our view, the European real estate market offers rare investment opportunities.

British securitized real estate in the early stages of recovery

Annual house price growth continues to consolidate sharply in 2023. After reaching +14.3% year-on-year in July 2022, property prices rose by just +3.5% in April 2023. This is the smallest increase since October 2020. The decline is clear across all regions of the UK. Price rises in London are now down to +2.5%. The monthly indicator published by the Nationwide Building Society even shows a year-on-year fall of -3.4%, the sharpest contraction in ten years. The property boom is finally showing signs of weakness. Since peaking in July 2020, prices have clearly fallen back. Although financing rates have eased in recent months, households are facing a shock when it comes to renewing their mortgages. The fall in mortgage financing approvals has stabilized, but is now almost 50% below the level of summer 2022. This indicator points to a further fall in house prices over the coming months. Households' already difficult situation due to rising inflation will be further exacerbated by the increased cost of mortgage financing on their budgets. Average mortgage rates reached 4.7% and 4.3% for five-year rates. Around 1.7 million households are directly influenced by short-term interest rates. Financing costs are likely to rise above 5.5% to 6%, making mortgage financing and property purchases particularly fragile. In 2023, the UK property market is likely to feel the effects of a decline in households' ability to invest, or even to maintain their investments. Against the backdrop of an expected economic slowdown in 2023, we believe that a fall in property prices of around -10%, less severe than the -16% drop in prices in the wake of the 2008 financial crisis, is likely.

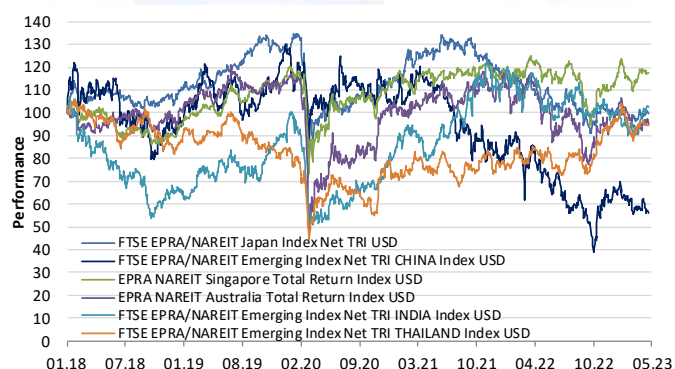
UK securitized real estate, already down -43% from its peak in December 2021 to its low point in September 2022, and retouched in June 2023, also looks set to benefit from a change in perception of risks and opportunities. Negative expectations linked to the prospect of higher financing costs also seem to us to be well integrated into the current levels of listed real estate stock prices. While we believe that the fall in the price of direct physical real estate has not yet reached its

equilibrium point, we feel that the same cannot be said of securitized real estate, which already seems to be presenting opportunities for repositioning due to its already attractive valuations. The EPRA Nareit UK index has an average yield of 4.67%, a total debt/total assets ratio of 27.7% and a price/net assets ratio of 0.74.

Attractive discounts in Europe and the UK

The new inflation regime that seems to be taking shape may now have a positive influence on monetary policy. This new investment climate will be conducive to a reduction in interest-rate tensions and a new assessment of the risks and opportunities for securitized real estate markets. We still believe that this asset class is under-represented 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 feel that investments in the eurozone are likely to be upgraded, given their attractive financial ratios.

Real Estate Market Developments (USD)

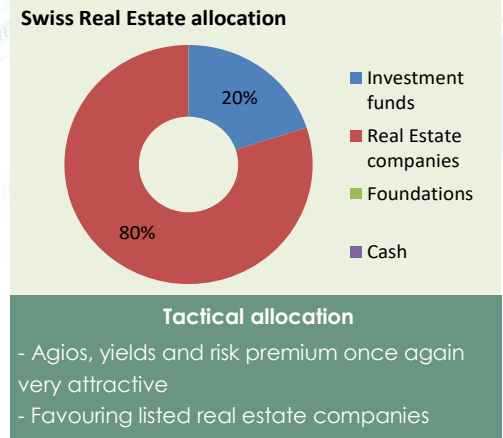


PROSPECTS AND STRATEGIES

Swiss Real Estate

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

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



Positive outlook for Swiss securitized real estate

Despite the tightening of monetary conditions in Switzerland over the past year, and the latest 25bp increase in key rates in June to 1.75%, Swiss securitized real estate remains relatively stable. As the 250 bp increase and subsequent yield curve adjustments in Swiss franc bond yields also raised the cost of credit, securitized real estate investments remained relatively resilient. In fact, the Swiss real estate investment fund index ended June unchanged from June 30, 2022, the date of the SNB's 1st key rate hike from -0.75% to -0.25%. However, this relative stability masks short-term volatility in investment funds, which were also affected by changes in risk perception over the period. After a first-quarter rise of +0.46%, the SXI Real Estate Funds index recorded a further increase of +2.16% in Q2. Listed real estate companies followed a slightly more positive path, with an initial rise of +1.54% followed by a further gain of +2.73% in Q2. Without being exceptional, the two forms of real estate investment thus posted gains of +2.62% and +4.27% at the end of June. The current environment in the Swiss securitized real estate market presents a very special situation in terms of the valuation of listed funds. Whereas the average agio exceeded 40% at the start of 2022, it has now slipped below the 10% threshold last reached during the 2008 crisis. The current agio level is clearly below the historical average of close to 20%. Commercial funds are already in disagio and virtually at their 2008 lows. For listed real estate companies, the average discount is now -6.6%, 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 are therefore not having a significant impact on the valuation of securitized real estate. Historically, financing costs have had to exceed returns on funds for the average agio to fall below 15%. Only financing

costs in excess of 4% have triggered a sustained fall in agio to zero and potential disagio conditions. We believe that interest rates in Switzerland are unlikely to rise above the current real estate fund yield of around 2.8%, which eliminates the risk of a fall in prices sufficient to lower the current agio level, while average indebtedness is below 25%.

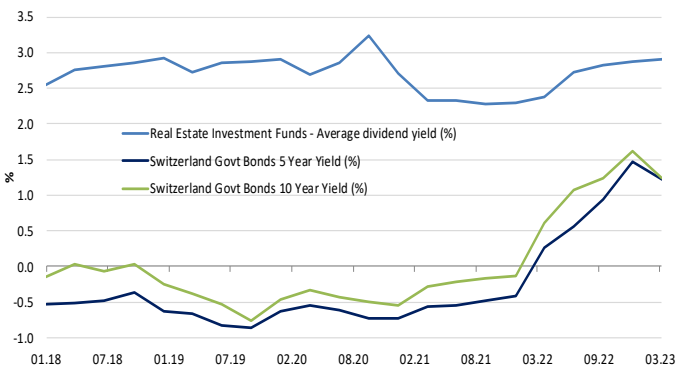
Attractive absolute and relative returns

The yield on real estate funds is 2.8%, and that of real estate companies is even 3.8%. Given the relatively flat yield curve for Confederation yields, averaging 1.25% to 1% (10 years), the return on listed real estate investments looks very attractive in both absolute and relative terms. The risk premium for real estate companies is even close to 280 bps, which represents an attractive premium in the present context.

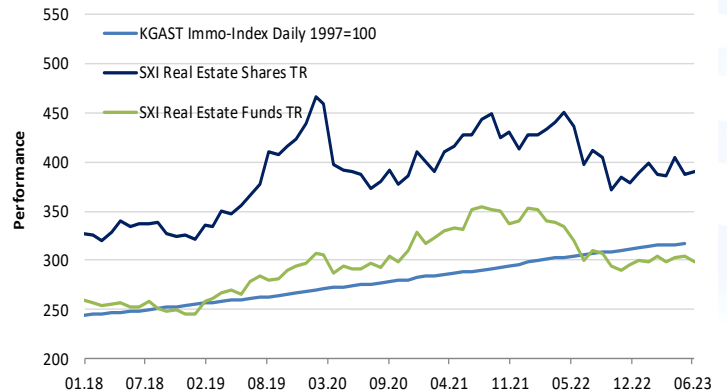
SWISS REAL ESTATE

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	438.4	-1.0	-2.0	0.0	-0.7	-0.4
SXI Real Estate Idx TR	2906.3	1.7	0.6	1.2	-2.0	0.2
KGAST Immo-Index	354.6	0.1	0.1	0.5	3.9	1.3

Government and Real Estate Yield



Performance of Swiss Real Estate

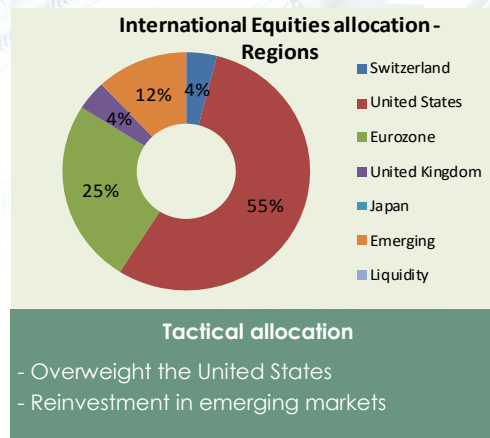


PROSPECTS AND STRATEGIES

International Equities - Regions

- Favourable environment for continuing upward trends
- Widening shareholdings and rising earnings prospects
- Overweight US non-FANG+ stocks

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



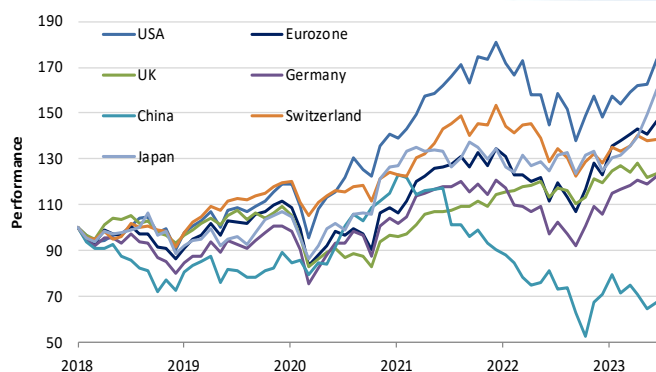
Favourable environment for continuing upward trends

Our expectations for economic growth, inflation, monetary policy and interest rates continue to support a positive outlook for all asset classes, and for equity markets in particular, over the coming quarters. In the short term, however, the significant progress already seen in some markets may come up against quantitative and technical factors suggesting risks of momentum loss in various regions and sectors. Year-to-date gains in European (+19.2%) and Japanese (+28.7%) indices, for example, have been particularly strong, as have gains in growth and technology stocks (+26%). However, in our view, lower interest rates will continue to drive share price gains, which will be increasingly supported by a process of upgrading earnings prospects. This trend has only just begun, and could intensify over the coming weeks as companies release their quarterly results for Q2 and their outlook for the coming months. A less uncertain macroeconomic environment, less penalized by inflation and interest rates, will also be conducive to a revision of expectations, particularly in the USA. We believe that the concentration of the rise in indices on a limited number of leading technology stocks, which could have been a source of uncertainty, is now over.

Broadening participation and increasing prospects beneficiaries

Over the past few months, equity markets have shown excellent resilience, despite the tighter interest-rate environment in May and June and the Fed's recent standstill. The S&P500 index has continued to climb, gaining 10% since the start of the year. Our expectations of a bullish recovery in the equity markets, underpinned by renewed interest in the main technology stocks, have come true, with the Nasdaq now up +25% by 2023. Growth stocks are back in vogue, driven by the wave of enthusiasm provoked by technological developments and the prospects for Artificial Intelligence (AI). Our Q2 growth scenario reinforces the feeling that earnings expectations for 2023 are still too pessimistic and will hold some positive surprises. The expected near-zero earnings growth for the S&P500 over the next twelve months is particularly conservative. The US corporate earnings season is thus underway, with earnings expectations estimated at -7.2% on average for the 2nd quarter. Seven out of eleven sectors are expected to report increases over the past twelve months. We expect positive corporate earnings surprises and positive revisions to the 2024 outlook. We are remaining overweight growth stocks. Overall, the US market should be overweighted at the expense of Japan and Europe, while emerging markets also seem to offer selective opportunities.

Long-term Equity Markets (base 100)



Chinese A and B Shares (base 100)



Overweight securities other than FANG+

US equities benefited above all from the renewed interest in the Nasdaq's blue-chip stocks, and the recent enthusiasm for Artificial Intelligence. While the FANG+ index jumped by +81%, the S&P500 recorded a much lower rise of +18.5%. The Nasdaq Equal Weights index did barely better, posting an overall gain of +25.4%, underlining the 55% performance gap with the main index, the impact of the 6 main stocks. The rise has been so massive that the Nasdaq 100 index is now extremely concentrated on a few stocks, which is a potential problem for the diversification principles of index-based funds. The overall weighting of the 6 leading stocks in the index, namely Microsoft, Apple, Alphabet, Nvidia, Amazon and Tesla is now over 50% of the overall index. Morningstar estimates that \$280 billion worth of index funds will have to adjust their weightings to the new index data at the close on July 24. Early indications suggest that close to \$100 billion will flow out of these 6 stocks and be reinvested in the 94 other stocks in the index. The weighting of these stocks in the S&P500 index is not in question at present, and they still represent around 25% of the index. That said, this consideration of risk structuring within supposedly diversified portfolios should, in our view, broaden and leading to a new trend towards of rediscovering the potential merits of other companies with equally seductive prospects and attractive valuations.

European equities benefit from higher PEs and yields

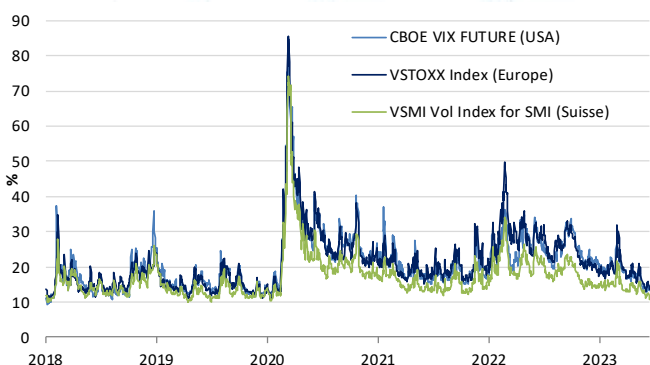
Unlike listed real estate assets, which are still being penalized by rising interest rates, European equity markets are not worried about the evolution of financing costs and the discounting of future income. Nor are they worried about the real risk of an economic slowdown threatening the eurozone, and they seem rather convinced and enthusiastic about the valuation differential still very favourable to European equities. The banking crisis will have only temporarily affected investor confidence, which has since pushed the Euro Stoxx 50 index upwards, enabling it to return to its November 2021 peak with a gain of almost +16% since the start of the year. Despite this progress, European stocks are still heavily discounted compared to their American counterparts. Our valuation of 12.4x earnings for 2023 is lower

than the S&P500's PE of 20.4x. They also look attractive relative to Japanese (19.2x) and Swiss (17.2x) equities, and are on a par with Chinese stocks (11.9x). The average dividend yield in Europe (3.4%) is also attractive, far outstripping that of the USA (1.5%) and Japan (1.8%) in particular. Despite a slight year-to-date outperformance of two percentage points versus the S&P500, European equities still deserve to be favoured in the 2023-2024 outlook, unless the ECB's forthcoming rate hikes end up disrupting investors' appreciation of risks and opportunities.

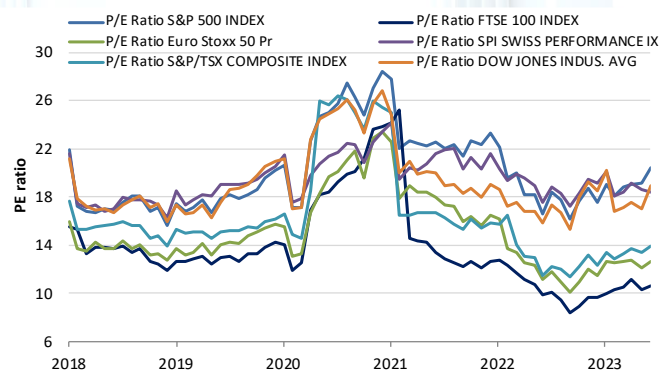
Nikkei at 33-year high

The Japanese economy regained some momentum, while inflation slipped and justified a status quo on monetary policy in the 1st half, surprising analysts and reviving more positive expectations for Japanese equities in the medium term. After several years of sluggish growth, expectations for Japanese corporate earnings improved. As a result, the Japanese market has outperformed its local competitors since the start of the year, setting new 33-year highs. Corporate profits are proving robust, and are also rekindling the interest of foreign investors attracted by the prospect of earnings growth and shareholder-friendly reforms after a long, more uncertain period of business development. The post-Covid reopening in Japan and China, as well as a certain normalization underway in production/supply chains, have bolstered earnings growth for listed companies at the start of the year. The absence of pressure on Japanese interest rates has certainly proved a key factor in the exceptional resilience of Japanese stocks. Weak external demand may still represent a source of uncertainty for corporate results, which will nonetheless benefit from the probable return of international investors who are now more inclined to reconsider the weighting of Japanese stocks in their diversified allocations. In the short term, however, the accelerating performance of recent weeks is likely to be followed by some understandable profit-taking, weighing somewhat on the immediate performance of Japanese indices. After the Nikkei's recent rise, a stabilization now seems likely in this context. We recommend an underweight exposure to Japanese equities.

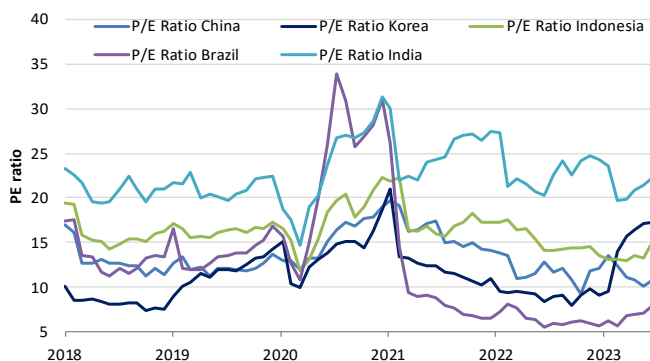
Volatility Indicators (USA, Europe, Switzerland)



Developed Market PE



Developed Market PE



US Equity Markets (base 100)



Significant discount for UK equities

For some weeks now, the FTSE100 index has been suffering from expectations of restrictive monetary policy and rising interest rates. The fall in share prices in May and June contrasts with the generally more favourable trend in both Europe and the United States. Moreover, the composition of the UK index, with little exposure to technology stocks and rather a high proportion of stocks of substance, does not contribute to the current trend in favour of growth sectors in particular. The fall in oil and gas prices is a cause for concern, calling into question the positive outlook for the energy sector to date, as well as the lack of momentum in all commodity-related stocks. The fall in UK stocks in recent weeks may already be proving excessive. Technical valuation measures suggest an oversold situation. On the other hand, from a fundamental point of view, they still enjoy a relative advantage thanks to much lower PEs (10x) and a discount of -17% to the Euro Stoxx 50 (PE 12x) and -45% to the S&P500 (18).

Emerging markets remain very attractive

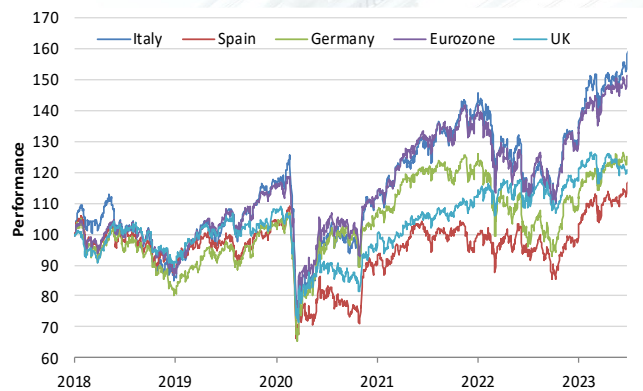
Emerging markets again underperformed global indices in Q2 and H1 2023 overall. Their average performance of +5% since the start of the year (MSCI Emerging markets) and +1% in Q2 effectively underperformed the MSCI World index (+15.1%) and the S&P 500 value and growth indices. China's economic recovery has yet to have an impact on the performance of its equity indices, with the CSI 300 still lagging far behind with a zero return of -0.1% since the start of the year. In Asia, China contrasts with the positive trends in Taiwan, Korea and emerging markets such as India (+9.5%) and Vietnam (+16.5%). However, the Chinese government's forthcoming economic stimulus measures should encourage international investors to return to Chinese stocks with attractive average to new PEs.

Indebted emerging economies have suffered greatly from the rise in US interest rates and the depreciation of their currencies against the US dollar. However, the latest developments in these two factors are improving conditions in emerging markets. The further decline of the dollar trade weighted index by -3% and the potential for a rate cut in dollars could strengthen investor interest in assets that are particularly hard hit in 2022, and which have yet to react in 2023 to any improvement in the US dollar.

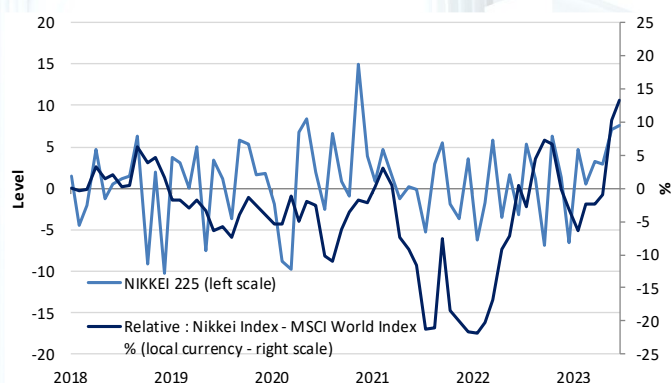
EQUITIES - BY REGION (local currency)

		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	14861.8	CHF	0.7	0.5	2.2	8.2	8.2
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	5121.5	CHF	2.0	0.4	0.0	10.0	10.0
EUROPE	STXE 600 € Pr	461.9	EUR	2.0	2.4	2.7	11.5	11.5
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	493.9	EUR	1.8	0.8	-0.2	5.7	5.7
UK	FTSE All-Share Index	4096.3	GBP	1.1	1.0	-0.6	2.5	2.5
USA	S&P 500 Index	4450.4	USD	2.4	6.6	8.7	16.9	16.9
USA SMALL-MID CAPS	RUSSELL 2500	809.1	USD	4.0	8.5	5.2	8.8	8.8
JAPAN	NIKKEI 225	33189.0	JPY	1.3	7.6	18.5	28.7	28.7
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	1207.0	JPY	1.0	6.2	11.5	19.0	19.0
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	514.0	USD	0.2	3.2	-0.9	3.3	3.3
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	1109.9	USD	0.8	3.2	2.8	5.5	5.5
EMERGING	MSCI EM	989.5	USD	0.0	3.9	1.0	5.1	5.1
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	9190.8	USD	2.2	6.0	6.8	15.1	15.1

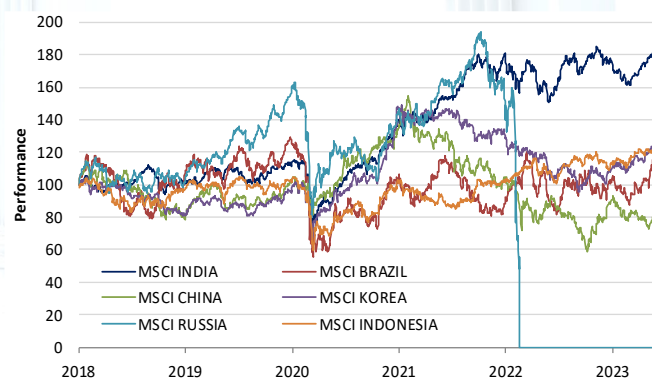
Equity Markets (base 100)



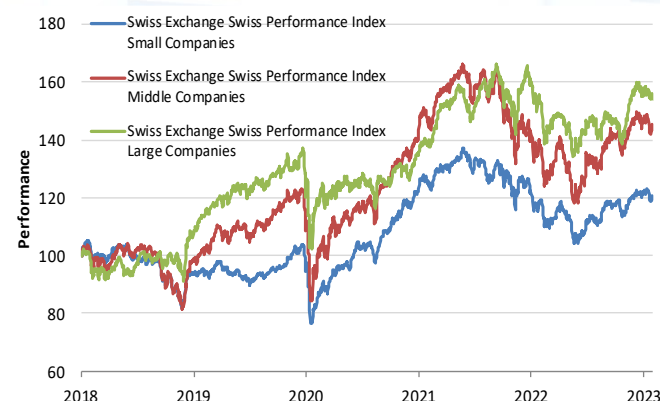
Japan Equity Markets VS MSCI World



Emerging Equity Markets (base 100)



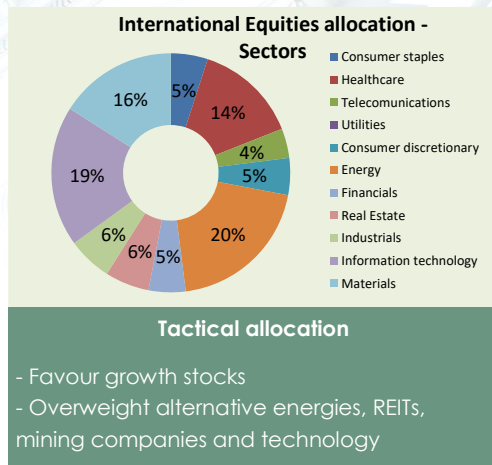
Swiss Equities (large - middle - small caps/base 100)



PROSPECTS AND STRATEGIES

International Equities - Sectors

- Sustainable outperformance of the growth style
- Improved earnings prospects for 2023 and 2024
- Focus on sectors favoured by declining interest rates
- Underweight megacaps and banks
- Overweight technology and alternative energies



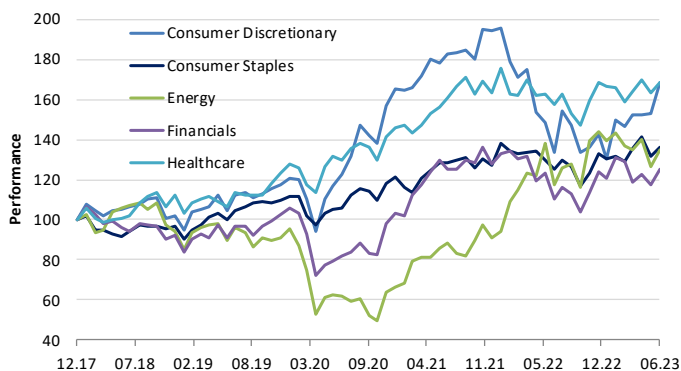
EQUITIES Sectors	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight		neutral		overweight		
			---	--	-	=	+	++	+++
Consumer staples	↗	↗							
Healthcare	↗	↗							
Telecommunications	↗	↗							
Utilities	↗	↗							
Consumer discretionary	↗	↗							
Energy	↗	↗							
Financials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

EQUITIES - BY SECTOR

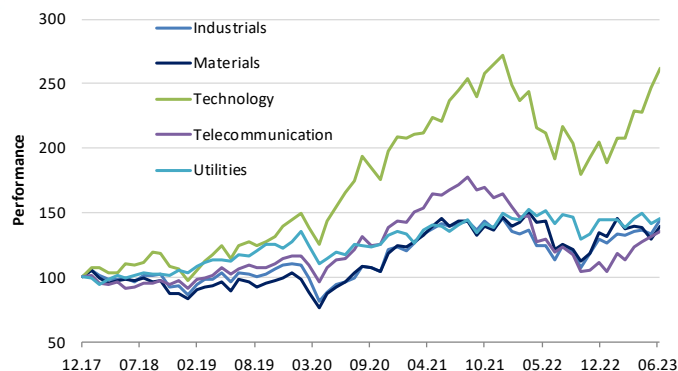
30.06.2023		Total Return Performance						
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	372.2	USD	2.7	10.5	10.7	29.0	29.0
CONSUMER STAPLES	MSCI WORLD/CON STPL	276.9	USD	0.6	3.3	0.6	4.2	4.2
ENERGY	MSCI WORLD/ENERGY	232.4	USD	3.9	6.6	-0.3	-3.4	-3.4
FINANCIALS	MSCI WORLD/FINANCE	133.0	USD	3.0	6.6	5.3	3.8	3.8
HEALTHCARE	MSCI WORLD/HLTH CARE	345.0	USD	0.3	3.2	2.5	1.1	1.1
INDUSTRIALS	MSCI WORLD/INDUSTRL	338.2	USD	2.8	9.0	6.8	14.5	14.5
MATERIALS	MSCI WORLD/MATERIAL	324.4	USD	2.9	8.2	-0.1	6.3	6.3
REAL ESTATE	MSCI WORLD/REAL ESTATE	195.4	USD	4.1	4.1	0.6	1.5	1.5
TECHNOLOGY	MSCI WORLD/INF TECH	544.4	USD	3.0	6.2	14.7	39.1	39.1
TELECOMMUNICATION	MSCI WORLD/TEL SVC	85.8	USD	0.7	2.7	9.7	29.6	29.6
UTILITIES	MSCI WORLD/UTILITY	150.3	USD	1.1	2.6	-0.2	0.6	0.6

Since the beginning of the year, we have once again recommended an investment policy geared towards growth stocks, and in particular technology companies, which were particularly affected in 2022 by the sharp rise in interest rates, and which were expected to benefit in 2023 from a soft landing scenario in the United States, accompanied by an end to the cycle of rising key interest rates. These stocks have now taken full advantage of these positive factors, with the Nasdaq Megacaps performing exceptionally well, outperforming the overall index by a wide margin. At the start of the 2nd half of the year, we believe that growth stocks should continue to be favoured, but we now expect a broader participation in the progression of the indices and a potential underperformance of these main stocks. In the United States, the S&P Value Index (+14.9%) continues to lag far behind the performance of the S&P Growth Index (+24%) since the start of the year. The peak of the monetary tightening cycle is now in sight, and we consider that the recession scenario can gradually be ruled out. In our view, current conditions are now conducive to an upgrading of earnings prospects for 2023 and 2024, which should improve and sustain the markets' current uptrend. On a sectoral level, stocks highly dependent on interest rates should benefit from these factors, as should cyclical stocks penalized by the now less likely recession scenario. Against this backdrop, technology and digital stocks should already benefit from the return of more constructive investor sentiment. We are maintaining our strategy of focusing on growth stocks and Nasdaq companies. Alternative energies are also favoured, after suffering the negative effects of higher overall financing costs in 2022, and will benefit from the expected easing of interest rates. The energy sector, and in particular the upstream segment, can now count on an oil market conducive to a recovery in crude oil prices. In the financials segment, we prefer insurance to banking stocks, which will remain under-represented 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)

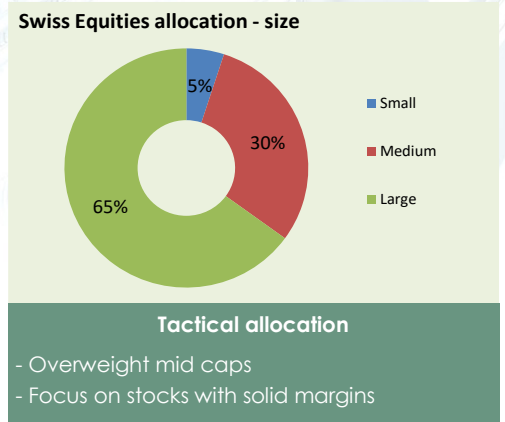


PROSPECTS AND STRATEGIES

Swiss Equities

- A mixed first half for Swiss equities
- Renewed uptrend in the 2nd half of the year
- Performance threatened by high valuations

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



A mixed first half for Swiss equities

The uncertainties of March and the shock of the forced takeover of Credit Suisse by UBS, which had had damaging effects on the Swiss equity market, were fairly quickly erased by the favourable trend in interest rates, which enabled stock market indices to rise in April. The following weeks, however, were not kind to the equity markets, with both the SMI and SPI recording consolidations in May and June. The 1st half of the year ended with the SMI showing a limited rise of +5% and an uncertain technical configuration for the Swiss stock market's flagship index. Swiss megacaps were struggling to keep pace with the overall indexes. Nestlé's underperformance in particular contributed to this mixed result for the SMI. The SPI, which is less exposed to Novartis, Roche and Nestlé stocks, fared slightly better, with an increase of +8.2% over the same period. Small and mid-caps performed similarly, benefiting from a less uncertain and significantly less volatile environment since the start of the year.

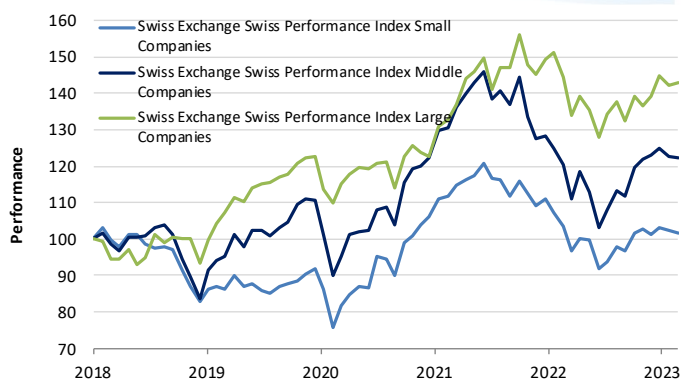
Renewed uptrend in the 2nd half of the year

After unfounded fears of renewed inflation and slightly higher key interest rates (0.25%) in June, the situation at the end of the 1st half of the year seems much calmer with regard to these two main factors. Clearly declining inflation, which is already below the Swiss National Bank's announced targets, growing prospects for the end of the rate hike cycle, a possible weakening of the Swiss franc and resilient economic growth all appear to be sufficient factors, however, to support a revival of the uptrend for Swiss equities over the coming months. Equity indices can now rely on these factors and on more favourable technical and quantitative indicators, notably the supports of the 200-day averages, to get back on the uptrend.

On a fundamental level, the prospects of a rising euro/CHF exchange rate, supported by a widening interest rate differential after a period of relative stabilization in recent quarters, should boost the financial results of Swiss companies in 2023 and provide another positive factor supporting their share prices. But the dollar's decline of -3% over six months, which accelerated in early July, will have a more negative impact on Swiss franc earnings. In our view, the exchange-rate factor will therefore have only a limited impact on the earnings trend of Swiss companies.

The average earnings growth now expected for the next twelve months is again close to zero, and stands at +9.5% for the year 2024 for SPI stocks. We believe that Swiss listed companies will be able to maintain their margins and deliver better-than-expected results. In terms of valuation, the Swiss indices are in the relatively expensive group of markets based on price/earnings ratios for the year 2024. With a PE of 15.5x and 16x for the SMI and SPI, Swiss stocks are still slightly less expensive than S&P500 stocks (18.7x) and significantly more expensive than the CAC40 (12x), Dax (10.5x) or FTSE (10.5x). However, the Swiss market is still expected to perform positively over the coming months, especially secondary stocks (mid-caps and smaller), whose performance is likely to outperform blue chips. In an international stock market climate that is once again a little more favourable to risk-taking, Swiss stocks, often regarded as more defensive stocks of substance, could be abandoned in favour of other international stocks, particularly growth companies, once again supported by the expected easing of interest rates. Nevertheless, the Swiss market still has a positive expected return for the coming months.

Performance of Swiss Equities



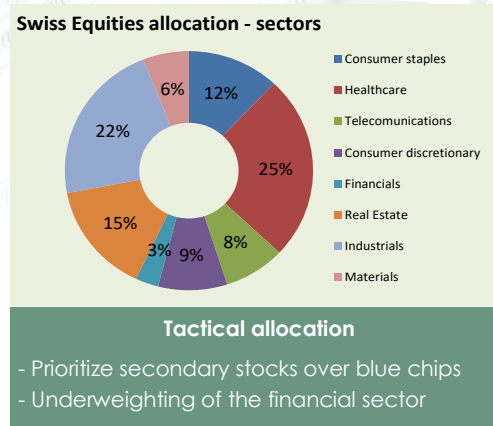
SWISS EQUITIES - Capitalization

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	14861.8	0.7	0.5	2.2	8.2	8.2
SPI SMALL COMPANIES INDX	28112.5	1.0	-0.7	0.3	4.9	4.9
SPI MIDDLE COMPANIES INDX	20268.5	2.2	-0.3	-0.6	9.6	9.6
SPI LARGE COMPANIES INDX	14299.1	0.4	0.7	2.8	8.0	8.0

PROSPECTS AND STRATEGIES

Swiss Equities - Sectors

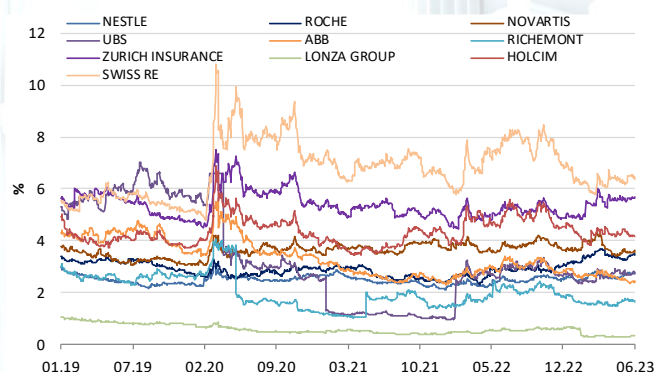
SWISS EQUITIES Sectors	Expected Return		ALLOCATION (CHF Portfolio)						
	3months	1year	underweight		neutral overweight				
			---	--	-	=	+	++	+++
Consumer staples	↗	↗							
Healthcare	↗	↗							
IT & T	↗	↗							
Consumer discretionary	↗	↗							
Financials	→	→							
Real Estate	↗	↗							
Industrials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



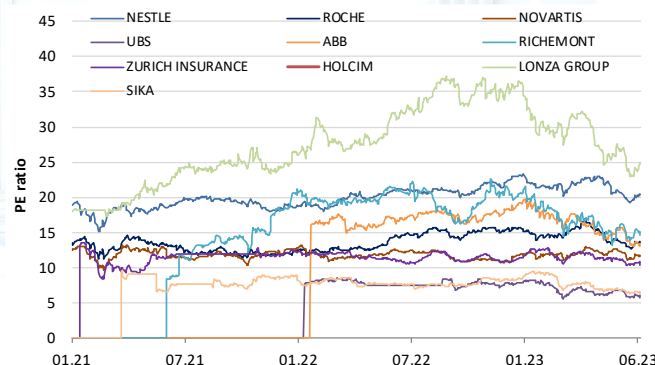
Investment policy focused on secondary stocks

For the second half of the year, our investment policy still favours more cyclical and less defensive stocks, which should continue to benefit from a more favourable risk-taking environment underpinned by reduced uncertainty about economic growth and monetary policy. Among the SMI's leading stocks, we remain underweight banking stocks. After a long period of underweighting, large food and healthcare stocks could regain a slightly larger allocation. Overall, we believe that value now resides more clearly in medium-sized companies, which now deserve a larger, overweighted place in our investment policy.

Dividend Yield - Top 10



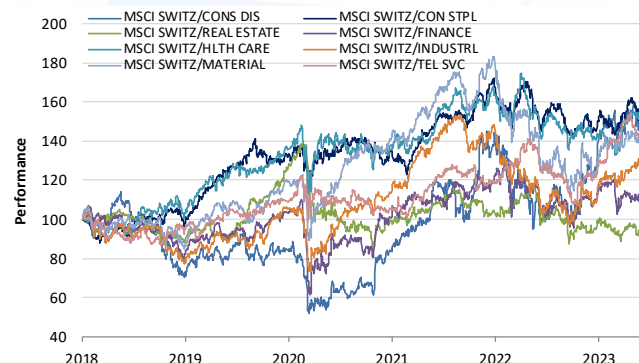
PE ratio - Top 10



SWISS EQUITIES - BY SECTOR

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	477.0	3.6	3.7	1.2	22.9	22.9
MSCI SWITZ/CON STPL	359.4	-0.8	-0.2	-0.8	3.9	3.9
MSCI SWITZ/FINANCE	55.7	1.0	1.0	-1.0	2.2	2.2
MSCI SWITZ/HLTH CARE	182.6	-0.3	-0.9	5.3	6.7	6.7
MSCI SWITZ/INDUSTRIL	220.7	2.8	4.0	6.2	22.4	22.4
MSCI SWITZ/MATERIAL	390.8	2.5	2.5	0.0	15.7	15.7
MSCI SWITZ/REAL ESTATE	903.8	2.0	1.0	2.1	-0.9	-0.9
MSCI SWITZ/TEL SVC	105.4	0.3	-3.3	-4.4	14.3	14.3

Sector Performance - Swiss Equities

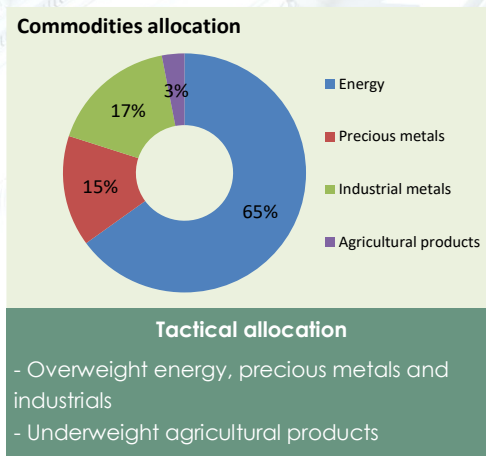


PROSPECTS AND STRATEGIES

Commodities

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

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



Contrasting performances in the 1st half

The performance of the various commodities was relatively mixed over the first six months of the year, with the precious metals segment clearly outperforming the other three segments. Gold prices (+5.8%) were largely boosted by the dollar's decline, while the few episodes of interest rate cuts in dollars also temporarily supported the trend. However, these factors were not sufficient to enable silver, platinum and palladium to follow the same trend. Uncertainties about economic growth in developed countries and the risk of recession weighed on commodity prices overall. However, a number of disappointments and surprises regarding the level of China's recovery soon weighed on commodity prices, with both energy and industrial metals experiencing downward adjustments to growth prospects. We believe that the soft landing scenario, with a clearer recovery in Chinese demand in the 2nd half of the year, will once again be favourable for commodities, benefiting above all oil prices and industrial metals. Precious metals will also benefit from a weaker dollar and lower interest rates. In our view, the current level of commodity prices is attractive for any investor looking for optimal diversification - including the ability to invest in a variety of asset classes.

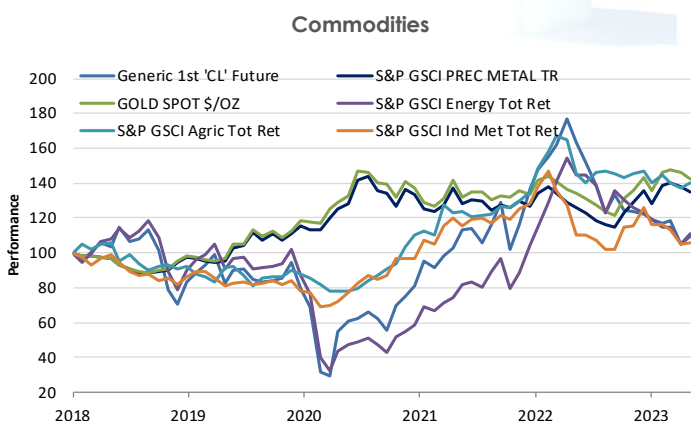
China's recovery will rapidly unbalance the market

Chinese growth came in below expectations, but remains solid with a year-on-year jump of +6.3%. The downturn of recent months is likely to be short-lived, as June's industrial output (+4.4%) has already picked up

above expectations. The Chinese authorities have considerable room for manoeuvre to sustain economic momentum, particularly in view of the favourable trend in inflation, which reached zero year-on-year in June. The Chinese authorities have already indicated that they will implement new support measures to bolster domestic consumption. Demand for crude oil is likely to respond rapidly, leading to a rebalancing of supply and demand that will help prices to continue their upward trend, while inventories in the USA have been declining for several weeks. Overall, a moderate slowdown in developed economies will be sufficient to help boost global demand for raw materials.

OPEC sets the tone: target \$100 a barrel

Since its announcement at the beginning of April, aimed at countering the speculative downward spiral in oil prices, OPEC+ countries have indeed reduced their production. But the reduction has only been around 0.2 mb/d, significantly less than expected, and has been offset by the rise in US shale oil production. Saudi Arabia's announcement today that it will cut its production by a further 1 mb/d to 9 mb/d in August was supported by Russia, which will also reduce its supply by 0.5 mb/d. Saudi Arabia is still seeking to boost crude prices, while China's economic recovery is slow to gather momentum and Western demand remains weakened by an uncertain economic climate. However, crude reserves are at their lowest level since 2001, around 35% below 2017 levels.



COMMODITIES (USD)		Total Return Performance						
Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %	
MSCI Daily TR Net World USD	9190.78	USD	2.24	6.05	6.83	15.09	15.09	
GLOBAL	S&P GSCI Tot Return Indx	3232.3	USD	-0.1	4.4	-2.7	-7.5	-7.5
WTI CRUDE	Generic 1st 'CL' Future	70.6	USD	2.1	3.7	-6.6	-12.0	-12.0
BRENT OIL	Generic 1st 'CO' Future	74.9	USD	1.4	3.1	-6.1	-12.8	-12.8
NATURAL GAS	Generic 1st 'NG' Future	2.8	USD	2.5	23.5	26.3	-37.5	-37.5
OR	GOLD SPOT \$/OZ	1919.4	USD	-0.1	-2.2	-2.5	5.2	5.2
ARGENT	Silver Spot \$/Oz	22.8	USD	1.5	-3.0	-5.5	-4.9	-4.9
AGRICULTURE	S&P GSCI Agric Indx Spot	402.0	USD	-8.1	-5.3	-12.6	-14.6	-14.6
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	408.0	USD	-1.2	0.2	-9.8	-9.6	-9.6

The decision to postpone the replenishment of reduced US strategic reserves, in order to bring about a fall in prices and a positive impact on inflation, has not yet been called into question. This political decision would allow a sharper decline in inventories and a rise in oil prices. In the meantime, speculative short positions, betting on a future fall in the price of black gold, continued to accumulate in May and June. They are now at their highest level for four years. Yet apparent Chinese demand is at an all-time high, as are record crude imports. A change in the parameters of supply and demand seems to be underway. OPEC+ is targeting \$90 to \$100, and may well succeed in reaching this target if global demand proves close to current forecasts suggesting a historic breakthrough of the 100 mb/d mark in 2023. An increase from \$70 to \$85 a barrel seems likely in the short term.

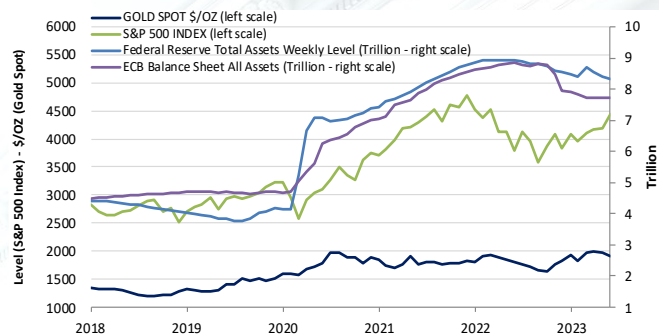
New highs for gold prices

After being one of the best-performing assets in relative terms in 2022, gold has again lived up to its promise in 2023, already up +9.77% and approaching its all-time high of \$2,075 per ounce once again. At the beginning of the year, we announced that the yellow metal would benefit from conditions enabling it to surpass this level by setting a new record. This process is now underway and should become a reality. The announced end of the monetary tightening cycle and the expected adjustments in interest rates in the context of the macroeconomic slowdown should together further support a bullish trend for gold over 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 those 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 global commodities trading is now clearly being challenged by the first oil and gas transactions in Yuan between certain 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, enabling them to envisage a single currency in the long term. These new factors are likely to weaken the dollar's supremacy and strengthen the appeal of the yellow metal, which should soar to new heights.

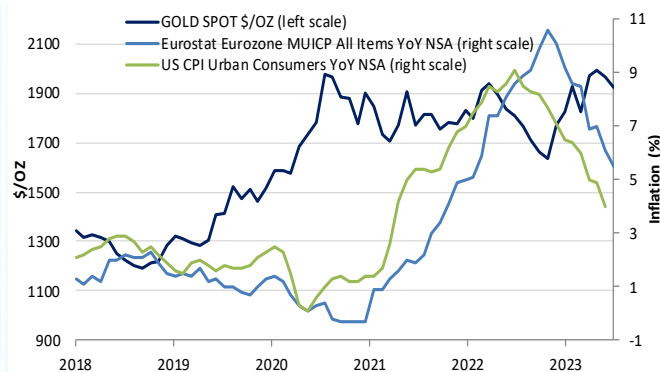
Chinese recovery benefits industrial metals

In Q2, industrial metals continued to be penalized to a large extent by lower-than-expected growth in China. Down -9.1% over the last three months, industrial metals have suffered some negative readjustments in their outlook for Chinese demand. It is true that Chinese growth has been somewhat disappointing in recent months, driven mainly by consumption. Weak international demand has weighed on production and exports, while developments in the real estate sector and infrastructure investment remain uncertain. The second half of 2023 should be less affected by fears of recession in developed countries, and will also see an economic recovery materialize in China and emerging markets. Demand for industrial metals should be favourably impacted by this new environment. Inventory levels are currently particularly low, and will not easily become an adjustment variable when demand picks up. This is bound to have a further positive impact on prices. A reversal of the upward trend is expected for aluminum, copper, cobalt and nickel, following a largely unchanged 1st half. The new requirements for industrial metals essential to the implementation of the energy transition are also an extremely important factor in the evolution of world demand. The fall in capex in recent years continues to weigh on the level of supply, limiting the risk of a major increase in inventories. Our outlook is positive for all industrial metals, which will benefit from increased demand for infrastructure, wind power projects, railways and the fast-growing electric vehicle sector.

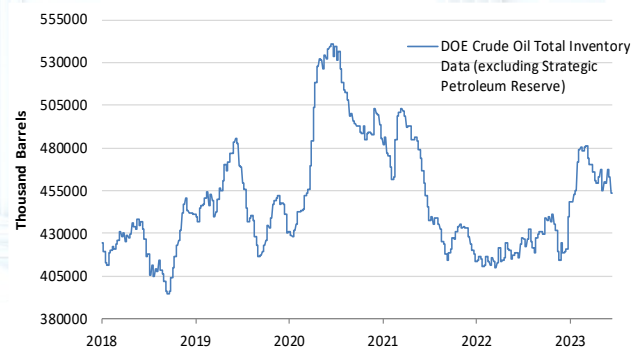
High correlation between Gold and Global liquidity



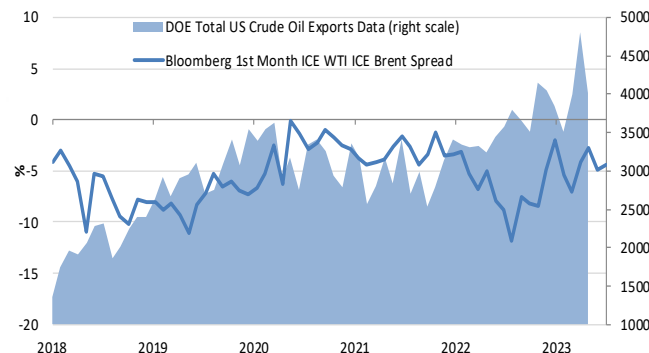
High correlation between Gold and Inflation



Oil inventories (United States)



Price differential between WTI and Brent oil



PROSPECTS AND STRATEGIES

Hedge Funds

- Alternative investment stagnates in first quarter

At the end of the second quarter of 2023, hedge funds were still moving horizontally, failing to take full advantage of the global environment, which was rather favourable to equities, and posting only a very slight increase of +0.6%. In fact, despite a turbulent start to the quarter, the inflationary environment is nonetheless improving significantly in many geographic zones, pointing to the potential end of the monetary tightening cycle by central banks in developed countries. Similarly, fears of a hard landing may only materialize in the form of a less brutal economic slowdown than expected between now and the end of the year. Three of the four strategies we follow were nevertheless in positive territory at the end of June.

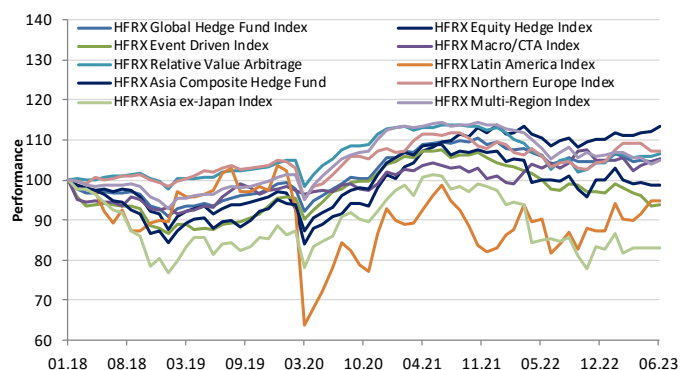
Equity Hedge, Macro CTA and Relative Value Arbitrage were up by +2.1%, +2.8% and +1.00% respectively. The Event Driven strategy, on the other hand, posted a negative performance and ended the quarter down (-2.8% in the second quarter and -3.0% YTD).

HEDGE FUND INDICES (USD)

		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1376.5 USD	0.2	0.8	0.6	0.6	0.6	0.6
EQUITY HEDGE	HFRX Equity Hedge Index	1490.1 USD	0.1	1.3	2.1	3.0	3.0	
EVENT DRIVEN	HFRX Event Driven Index	1592.5 USD	0.0	0.4	-2.8	-3.0	-3.0	
MACRO/CTA	HFRX Macro/CTA Index	1270.1 USD	0.7	0.5	2.8	0.3	0.3	
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1277.4 USD	0.0	0.7	1.0	2.2	2.2	
LATIN AMERICA*	HFRX Latin America Index	2196.0 USD	-	0.0	5.5	8.5	8.7	
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2540.2 USD	-	0.0	-0.4	-1.3	-1.3	
NORTHERN EUROPE*	HFRX Northern Europe Index	2162.9 USD	-	0.0	-1.7	2.9	2.4	
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2440.8 USD	-	0.0	0.1	-0.6	0.2	
MULTI-REGION	HFRX Multi-Region Index	1455.3 USD	0.2	1.1	-0.4	-1.2	-1.2	

* Subject to one-month lag

Hedge Fund Indices



Private Equity

- Favourable start to the year for private equity

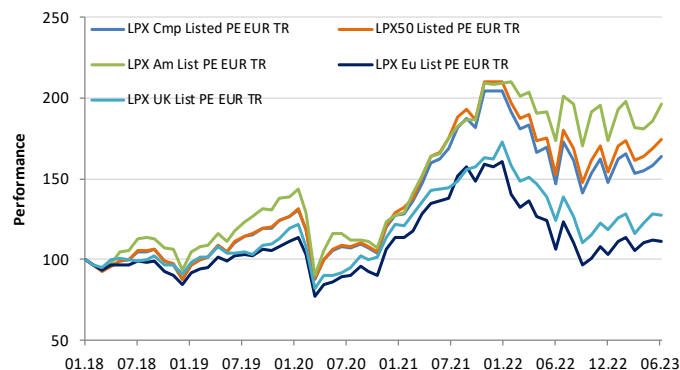
With central banks acting swiftly to provide the liquidity needed to keep the banking system running smoothly, the Q2 scenario was generally conducive to a positive trend in the sector. Indeed, the downward trend in the number of exits during 2022, in the face of a very penalizing interest rate environment, seems well on the way to being reversed. Private equity recorded a third consecutive quarterly increase in the number of trade sales (197 in Q1 and 200 in Q2) and secondary sales (120 in Q1 and 148 in Q2) since the low point of the fourth quarter of 2022 (131 and 70 respectively), but remains well below the records set in 2021 (288 and 303). The preferred sector was healthcare, which accounted for 3 of the 10 largest deals. The number of IPOs, which continues to fall (15 in Q1 and 6 in Q2), should also return to a positive trend, less excessive than in 2021, as debt conditions streamline between now and 2024. With the inflection point for central bank monetary tightening approaching, it seems unlikely that the trend of 2022 will be repeated without a very severe economic recession.

The segment posted a net gain of +6.6% and a cumulative positive performance of +11.0% since January. Geographically, growth was strongest in the UK (+10.0%), while the USA and Europe also posted positive performances.

PRIVATE EQUITY INDICES (EUR)

		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	394.5 EUR	3.5	3.5	6.6	11.0	11.0	
MAJOR COMPANIES	LPX50 Listed PE EUR TR	3953.2 EUR	4.0	3.7	8.0	13.4	13.4	
USA	LPX Am List PE EUR TR	632.9 EUR	4.3	5.4	7.8	12.9	12.9	
EUROPE	LPX Eu List PE EUR TR	1070.9 EUR	2.7	-0.5	5.5	8.3	8.3	
UK	LPX UK List PE EUR TR	376.2 EUR	2.4	-0.7	10.0	7.8	7.8	

Private Equity Indices



GLOBAL STRATEGY & ASSET ALLOCATION



GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio CHF

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

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

Asset allocation

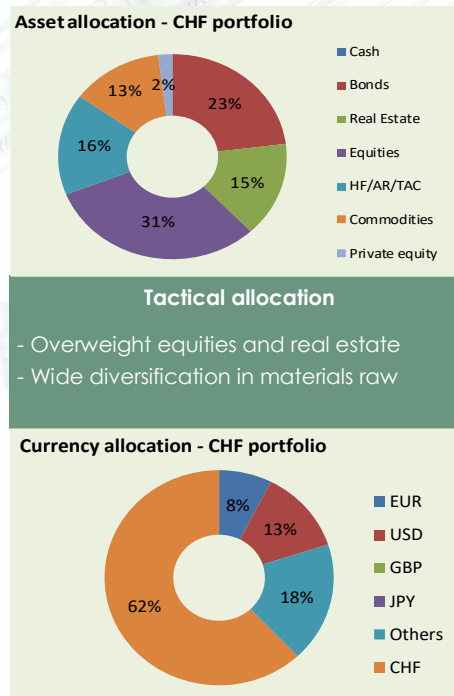
The core of our investment strategy is made up of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity). Today, the tactical allocation is broadly diversified across asset classes. Equity exposure is once again more constructive, with a reinforced allocation following the sharp fall in share prices in 2022. The rate hikes observed in 2022 as a result of rising 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, offering attractive yields and a degree of protection in times of inflation. Precious metals and commodities are also favoured in an uncertain environment, requiring optimal diversification between asset classes.

Bonds

The 1st half of the year ended on a more positive note for the capital markets, following a period of temporarily high volatility. Between fears of renewed inflation and further tightening of monetary policies unfavourable to bond markets, and expectations of a favourable economic slowdown, national interest-rate markets recorded progressively less correlated fluctuations. Yields stabilized in the USA, while the UK and Europe continued their upward trend. As a result, our bond strategy has become more opportunistic and, at last, more constructive. We are maintaining our expectations of a gradual decline in inflation and yields, which will also enable us to achieve some capital gains over the coming months.

Equities

Equity markets suffered in part from this volatile market climate. We now believe that the scenario of economic slowdown and controlled inflation in 2023 will have an increasingly positive impact on interest rates and investor sentiment. This downward adjustment of yields in certain countries and the end of restrictive monetary policies should further benefit equity markets in the 2nd half of the year. Earnings downside risks remain in this environment of reduced economic growth, but profit expectations which have already been lowered by analysts for several quarters should be revised upwards over the coming months, reinforcing the markets' bullish outlook.



Commodities

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

Real Estate

Real estate remains a prime alternative to the fixed-income markets, particularly after the declines recorded in most regions due to the fear and pressure of rising financing costs. The historical relative valuations of securitized 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 offering higher yields and potential for appreciation.

Market performances - Q2 2023

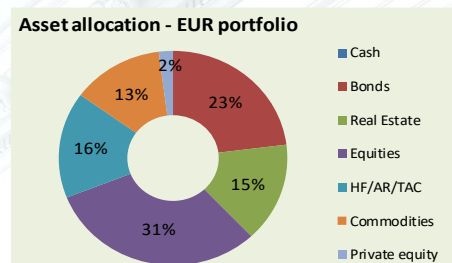
		Q2 2023		YTD		Q2 2023		YTD			
		local	CHF	local	CHF	local	CHF	local	CHF		
Exchange rates											
USD/CHF		-2.2%		-3.1%		CHF		1.72%			
EUR/CHF		-1.5%		-1.3%		EUR		3.58%			
GBP/CHF		0.7%		1.6%		USD		5.55%			
JPY/CHF		-10.0%		-12.1%		JPY		0.00%			
Interest rates (3 months) (level)											
CHF											
EUR											
USD											
JPY											
Equity markets											
World	MSCI World USD	6.8%	4.5%	15.1%	11.5%	World	C&I Gr Global Govt USD	-1.8%	-3.9%	1.7%	-1.5%
Europe	DJ Sibor 600	2.3%	0.7%	10.9%	9.4%	Europe	Euro Ser-E Gov > 1	0.1%	-1.5%	2.5%	1.2%
Eurozone	DJ Eurostbx 50	1.9%	0.4%	16.0%	14.5%	United Kingdom	UK Ser-E Gov > 1	-6.0%	-5.3%	-3.9%	-2.4%
	MSCI Europe S.C.	-1.6%	-3.1%	3.8%	2.4%	Switzerland	SBI Général AAA-BBB	2.1%	2.1%	3.6%	3.6%
Germany	Dax 30	3.3%	1.7%	16.0%	14.5%		SBI Govt.	3.5%	3.5%	8.0%	8.0%
France	Cac 40	1.1%	-0.5%	14.3%	12.9%	USA	US Ser-E Gov > 1	-1.4%	-3.5%	1.6%	-1.6%
United Kingdom	FTSE 100	-1.3%	-0.6%	1.1%	2.7%	Japan	Japan Ser-E Gov > 1	0.4%	-9.6%	2.8%	-9.6%
Switzerland	SPI	2.2%	2.2%	8.2%	8.2%	Emerging	J.P. Morgan EMBI Global	1.5%	-0.7%	3.8%	0.6%
	SMI	1.6%	1.6%	5.1%	5.1%	Miscellaneous					
	MSCI Swiss S.C.	-0.1%	-0.1%	9.1%	9.1%	LPP 25 Index		1.8%	1.8%	4.5%	4.5%
North America	SP500	8.3%	6.0%	15.9%	12.3%	LPP 40 Index		2.0%	2.0%	5.5%	5.5%
	Nasdaq	12.8%	10.4%	31.7%	27.6%	LPP 60 Index		2.3%	2.3%	6.7%	6.7%
	Tse 300	0.3%	0.3%	4.0%	3.0%	Real Estate CH	DB RB Swiss Real Est Fd	0.1%	0.1%	0.8%	0.8%
	SP600 Small C.	2.9%	0.7%	5.1%	1.8%	Hedge Funds	Hedge Fund Research USD	0.7%	-1.5%	0.8%	-2.3%
Japan	Nikkei 225	18.4%	6.6%	27.2%	11.8%	Commodities	GS Commodity USD	-2.7%	-4.8%	-7.5%	-10.4%
Emerging	MSCI EMF USD	-0.1%	-2.2%	3.5%	0.2%						

GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio EUR

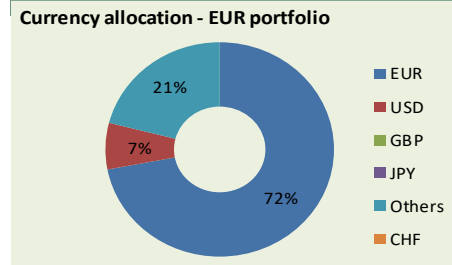
- Attractive yields in the bond markets
- Positive outlook for equities
- New opportunities in securitized real estate
- Favourable supercycle for commodities

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



Tactical allocation

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



Asset allocation

The core of our investment strategy is made up of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity). Today, the tactical allocation is broadly diversified across asset classes. Equity exposure is once again more constructive, with a reinforced allocation following the sharp fall in share prices in 2022. The rate hikes observed in 2022 as a result of rising 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, offering attractive yields and a degree of protection in times of inflation. Precious metals and commodities are also favoured in an uncertain environment, requiring optimal diversification between asset classes.

Bonds

The 1st half of the year ended on a more positive note for the capital markets, following a period of temporarily high volatility. Between fears of renewed inflation and further tightening of monetary policies unfavourable to bond markets, and expectations of a favourable economic slowdown, national interest-rate markets recorded progressively less correlated fluctuations. Yields stabilized in the USA, while the UK and Europe continued their upward trend. As a result, our bond strategy has become more opportunistic and, at last, more constructive. We are maintaining our expectations of a gradual decline in inflation and yields, which will also enable us to achieve some capital gains over the coming months.

Equities

Equity markets suffered in part from this volatile market climate. We now believe that the scenario of economic slowdown and controlled inflation in 2023 will have an increasingly positive impact on interest rates and investor sentiment. This downward adjustment of yields in certain countries and the end of restrictive monetary policies should further benefit equity markets in the 2nd half of the year. Earnings downside risks remain in this environment of reduced economic growth, but profit expectations which have already been lowered by analysts for several quarters should be revised upwards over the coming months, reinforcing the markets' bullish outlook.

Commodities

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

Real Estate

Real estate remains a prime alternative to the fixed-income markets, particularly after the declines recorded in most regions due to the fear and pressure of rising financing costs. The historical relative valuations of securitized real estate offer interesting repositioning opportunities.

Currencies

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

Market performances - Q2 2023

Q2 2023				YTD				Q2 2023				YTD			
		local	EUR			local	EUR			local	EUR			local	EUR
Exchange rates															
USD/EUR		-0.6%	-1.9%												
CHF/EUR		1.6%	1.3%												
GBP/EUR		2.3%	3.0%												
JPY/EUR		-8.6%	-10.8%												
Interest rates (3 months) (level)															
CHF		1.72%													
EUR		3.58%													
USD		5.55%													
JPY		0.00%													
Equity markets															
World	MSCI World USD	6.8%	6.1%	15.1%	12.9%										
Europe	DJ Stoxx 600	2.3%	2.3%	10.9%	10.9%										
Eurozone	DJ Eurostoxx 50	1.9%	1.9%	16.0%	16.0%										
	MSCI Europe S.C.	-1.6%	-1.6%	3.8%	3.8%										
Germany	Dax 30	3.3%	3.3%	16.0%	16.0%										
France	Cac 40	1.1%	1.1%	14.3%	14.3%										
United Kingdom	FTSE 100	-1.3%	1.0%	1.1%	4.1%										
Switzerland	SPI	2.2%	3.8%	8.2%	9.7%										
	SMI	1.6%	3.2%	5.1%	6.6%										
	MSCI Swiss S.C.	-0.1%	-0.7%	9.1%	7.1%										
North America	SP500	8.3%	7.6%	15.9%	13.8%										
	Nasdaq	12.8%	12.1%	31.7%	29.3%										
	Tse 300	0.3%	1.7%	4.0%	4.4%										
	SP600 Small C.	2.9%	2.2%	5.1%	3.1%										
Japan	Nikkei 225	18.4%	8.2%	27.2%	13.4%										
Emerging	MSCI EMF USD	-0.1%	-0.7%	3.5%	1.5%										
Bonds markets															
World	Cit Gr Global Govt USD	-1.8%	-0.3%	1.7%	3.0%										
Europe	Euro Ser-E Gov > 1	0.1%	0.1%	2.5%	2.5%										
United Kingdom	UK Ser-E Gov > 1	-6.0%	-3.8%	-3.9%	-1.0%										
Switzerland	SBI General AAA-BBB	2.1%	3.7%	3.6%	5.0%										
	SBI Govt.	3.5%	5.1%	8.0%	9.4%										
USA	US Ser-E Gov > 1	-1.4%	-2.0%	1.6%	-0.3%										
Japan	Japan Ser-E Gov > 1	0.4%	-8.2%	2.8%	-8.3%										
Emerging	J.P. Morgan EMBI Global	1.5%	0.9%	3.8%	1.9%										
Miscellaneous															
	LPP 25 Index	1.8%	3.2%	4.5%	6.0%										
	LPP 40 Index	2.0%	3.4%	5.5%	6.9%										
	LPP 60 Index	2.3%	3.7%	6.7%	8.2%										
Real Estate CH	DB RB Swiss Real EstFd	0.1%	0.1%	0.8%	2.1%										
Hedge Funds	Hedge Fund Research USD	0.7%	0.0%	0.8%	-1.0%										
Commodities	GS Commodity USD	-2.7%	-3.4%	-7.5%	-9.3%										

GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio USD

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

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

Asset allocations

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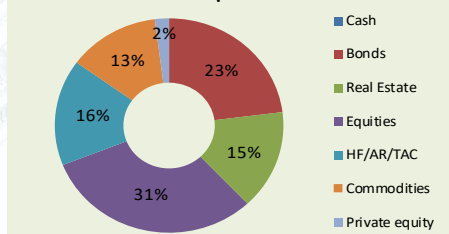
Bonds

The 1st half of the year ended on a more positive note for the capital markets, following a period of temporarily high volatility. Between fears of renewed inflation and further tightening of monetary policies unfavourable to bond markets, and expectations of a favourable economic slowdown, national interest-rate markets recorded progressively less correlated fluctuations. Yields stabilized in the USA, while the UK and Europe continued their upward trend. As a result, our bond strategy has become more opportunistic and, at last, more constructive. We are maintaining our expectations of a gradual decline in inflation and yields, which will also enable us to achieve some capital gains over the coming months.

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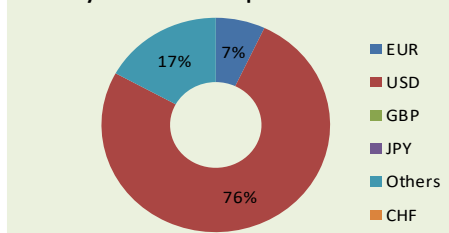
Asset allocation - USD portfolio



Tactical allocation

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

Currency allocation - USD portfolio



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.

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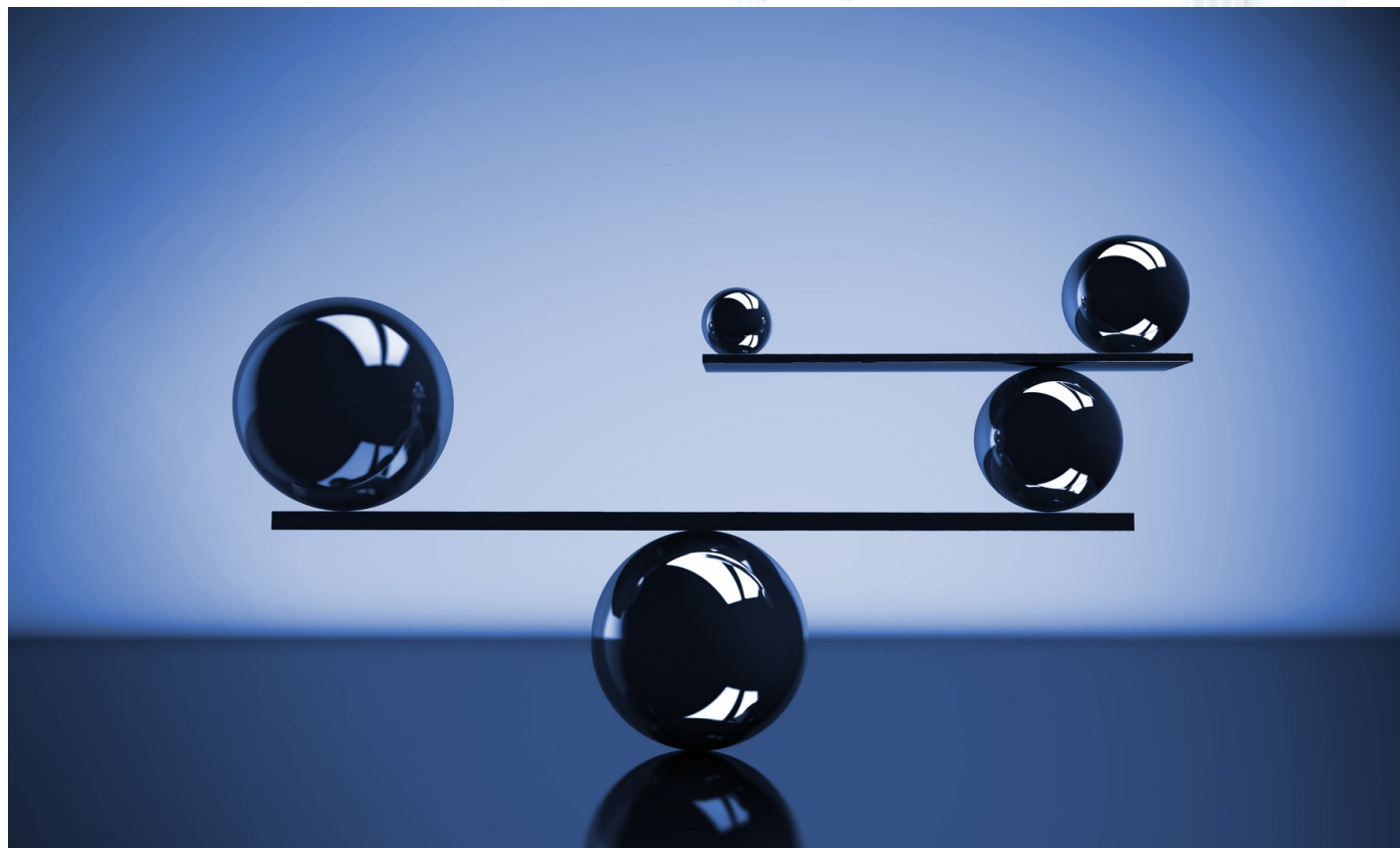
Currencies

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 - Q2 2023

		Q2 2023		YTD		Q2 2023		YTD	
		local	USD	local	USD	local	USD	local	USD
Exchange rates									
CHF/USD		2.2%		3.2%					
EUR/USD		0.6%		1.9%					
GBP/USD		3.0%		5.1%					
JPY/USD		-7.9%		-9.1%					
Interest rates (3 months) (level)									
CHF				1.72%					
EUR				3.58%					
USD				5.55%					
JPY				0.00%					
Equity markets									
World	MSCI World USD	6.8%	6.8%	15.1%	15.1%				
Europe	DJ Stoxx 600	2.3%	2.9%	10.9%	13.0%				
Eurozone	DJ Eurostoxx 50	1.9%	2.6%	16.0%	18.2%				
Germany	MSCI Europe S.C.	-1.6%	-1.0%	3.8%	5.7%				
France	Dax 30	3.3%	4.0%	16.0%	18.2%				
United Kingdom	Cac 40	1.1%	1.7%	14.3%	16.5%				
Switzerland	FTSE 100	-1.3%	1.6%	1.1%	6.3%				
	SPI	2.2%	4.4%	8.2%	11.7%				
	SMI	1.6%	3.8%	5.1%	8.5%				
	MSCI Swiss S.C.	-0.1%	-0.1%	9.1%	9.1%				
North America	SP500	8.3%	8.3%	15.9%	15.9%				
	Nasdaq	12.8%	12.8%	31.7%	31.7%				
	Tse 300	0.3%	2.4%	4.0%	6.4%				
	SP600 Small C.	2.9%	2.9%	5.1%	5.1%				
Japan	Nikkei 225	18.4%	9.0%	27.2%	15.6%				
Emerging	MSCI EMF USD	-0.1%	-0.1%	3.5%	3.5%				
Bonds markets									
World	Ci Gr Global Govt USD	-1.8%	0.4%	1.7%	4.9%				
Europe	Euro Ser-E Gov > 1	0.1%	0.7%	2.5%	4.5%				
United Kingdom	UK Ser-E Gov > 1	-6.0%	-3.2%	-3.9%	1.0%				
Switzerland	SBI Général AAA-BBB	2.1%	4.4%	3.6%	6.9%				
	SBI Govt	3.5%	5.7%	8.0%	11.4%				
USA	US Ser-E Gov > 1	-1.4%	-1.4%	1.6%	1.6%				
Japan	Japan Ser-E Gov > 1	0.4%	-7.6%	2.8%	-6.6%				
Emerging	J.P. Morgan EMBI Global	1.5%	1.5%	3.8%	3.8%				
Miscellaneous									
	LPP 25 Index	1.8%	5.1%	4.5%	7.9%				
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	LPP 60 Index	2.3%	5.6%	6.7%	10.2%				
Real Estate CH	DB RB Swiss Real Est Fd	0.1%	0.1%	0.8%	4.0%				
Hedge Funds	Hedge Fund Research USI	0.7%	0.7%	0.8%	0.8%				
Commodities	GS Commodity USD	-2.7%	-2.7%	-7.5%	-7.5%				

INVESTMENT THEME FOCUS



INVESTMENT THEME

How to use structured products to optimize an investment strategy

- Institutional and private investors increasingly convinced
- Demystifying the supposed risks of structured products
- How to assess the effectiveness of structured products?
- SMART BRC+ Yield enhancement : a BBGI concept focused on the use of BRCs

How should structured products be objectively classified?

Structured products may appear complex, but their popularity has grown over the last few decades, thanks to their ability to respond precisely to investors' needs and market expectations. Legislators generally consider structured products to be a specific asset, and include them in a typology that classifies non-traditional investments into a category often referred to as alternative investments. This includes virtually all assets other than cash, bonds, equities and real estate. In OPP2, in Article 53, « Permitted investments », structured products are included among « claims that are not listed in para. 1, let. b, d bis or d ter, are treated as alternative investments, in particular claims that are not denominated in a fixed amount or whose full or partial repayment is linked to conditions... ». The structured products are also explicitly mentioned as a type of financial product that falls into the category of alternative investments (Art 53 al4).

Structured products often offer de facto bond-like features with certain risk and opportunity characteristics linked to another asset, defined as the underlying asset. Like bonds, they incorporate a credit risk, a coupon or a predetermined profitability structure linked to the underlying asset. Convertible bonds, which have long been well known to institutional and private investors, also incorporate the concepts mentioned above, by offering a return linked to the performance of a share, for example, under certain conditions. Bonds with options linked to inflation or gold, for example, have also long been part of the universe of investments considered by many investors as simple bonds. Art. 53, par. 1, let b, point 4 of the OPP2 simply classifies « bonds, including convertible bonds or bonds with option rights », although from a technical point of view the distinction with certain structured products is not obvious. In the case of structured products, the link with an underlying asset also exists, and can expose the investor to some or all of the upside potential, as well as some or all of the downside risk, in exchange for a coupon that is often significantly higher than the short-term market rate. In practice, many investors see structured products as extensions of their specific asset class strategies, and view them as sub-segments of their underlying asset class. For example, an equity-linked structured product could be considered as potentially forming part of an investor's overall equity allocation in order to estimate the overall exposure to equity risk over the life of the product, and in particular at maturity if the structured product were to lead to the receipt of securities instead of repayment of the note. The same would apply to equity convertible bonds.

Institutional and private investors increasingly convinced

Over the past few years, institutional investors have significantly increased their allocation to real and non-traditional assets, with the main aim of improving risk diversification and maximizing returns on their strategies by integrating real estate, private debt, commodities and structured products. It then became clear that diversification into

a wider range of asset classes, with little or no correlation with equities and bonds, could improve the risk-return profile of their investment policies. Recently, when it comes to asset allocation, 60/40 (bonds/equities) or 40/60 strategies have once again proved ineffective compared to better diversified strategies. In 2022, strategies incorporating non-traditional assets, such as commodities and fully decorrelated structured investments, were more likely to outperform these strategies. In recent years, institutional investors have gradually included structured products among these non-traditional assets, not least because of their direct absence from the two main asset classes (bonds and equities) that often represent the core of their long-term investment policy.

The many advantages of structured products have thus overcome the main drawback initially mentioned, namely the absence of a specific benchmark, suitable for all forms of structured products, which can be used for comparison and trajectory control purposes. For this reason, it is difficult to integrate structured products into a classic optimization model based on historical data, which can be used to justify the optimal allocation for a given return or risk objective. The introduction of structured products into an investment policy therefore generally follows a pragmatic approach on the part of investors. They integrate them into their diversified investment policy to meet specific needs in terms of flexibility and tactical vision, taking into account elements linked to their time horizon and risk appetite. The integration of structured products must be based on a sufficient understanding of the dynamics of the products chosen. We'll see later that their characteristics and objectives can be very different, and correspond to different needs.

Diversification between different forms of non-traditional assets can be strategic or tactical, with the merits of the various categories varying according to the objectives set and the expected evolution of the economic and financial environment over the coming years. An environment of rising interest rates, for example, is generally unfavourable to investments in private equity or venture capital, and conversely particularly favourable to investments in commodities, all of which are considered alternative products. As far as structured products are concerned, a systematic and significant strategic allocation makes even more sense, given the potential total decorrelation of the strategies pursued, thus justifying an unchanged tactical allocation whatever the financial environment. Investors can therefore dynamically adjust their exposure to certain alternative segments on a tactical basis, but should consider structured products as the best way of ensuring that they always have the right products for current conditions. In our view, the added value of these types of investments clearly justifies the growing interest of institutional investors, particularly in terms of diversification, and in terms of the superior and truly unique match between the profitability and risk objectives of structured products in particular.

The year 2022 marked a new turning point in institutional investors' appreciation of new risk and return parameters. The joint fall in equities and bonds has underlined the importance of having alternative forms of investment available to deal more effectively with the new challenges ahead. While the future environment seems more uncertain than in the past, due in particular to the totally different interest-rate cycle that has prevailed for several decades, new opportunities exist and will be increasingly considered by institutional and private investors alike. We'll see later how the introduction of a strategic allocation to certain forms of structured products contributes very effectively to reducing risk and improving the results of conventional strategies. One of the key aspects of structured products is the desired asymmetry of the risk-return profile, offering performance profiles adjusted to the market views and risk-taking desired by the investor. This characteristic makes it possible to better match the investor's objectives. These asymmetrical characteristics are also undeniably attractive to private investors. For example, a capital-protected exposure to equities would ideally enable an investor nearing retirement to retain exposure to a remunerative asset while limiting his level of risk in the event of an impromptu market downturn. As life expectancy lengthens, a structured product of the capital protection type may thus be considered more optimal by this investor.

Structured products in brief

Structured products are first and foremost instruments for achieving return and risk objectives that cannot be achieved through direct investments (securities) or indirect investments (funds, ETFs...) in traditional investments in bonds, equities, commodities, etc. The profile of structured products thus corresponds to the specific objectives of conservative or dynamic investors who view these products as complements to their existing allocations, and who see them as tools for improving their risk-return profile. Their objectives can be diverse, ranging from capital protection and hedging to yield enhancement and risk diversification optimization, not to mention tax optimization.

- Capital protection at a level chosen by the investor
- Risk hedging for certain investments
- Enhanced returns associated with risk control
- Access to certain market components such as volatility, correlations, etc.
- Benefit from tax-efficient structures
- Diversification with instruments that adjust risk-return and optimization

There are many different types of structured products. We'll take a brief look at them here, distinguishing three main product families to identify

their main aspects in terms of both risk and return profile. First, there are capital preservation products, followed by yield enhancing products and enhanced participation products.

Capital preservation products are designed to offer protection in the event of a fall in an underlying asset and participation in any rise, according to a predetermined ratio and conditions. At maturity, investors receive a participation in the event of an increase, or regain their capital protection in the event of a decline.

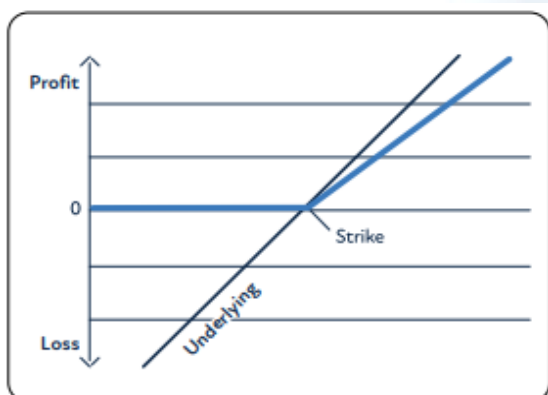
Yield enhancement products do not offer initial capital protection and may sometimes limit participation in an underlying's upside. The aim is to generate a higher return than an investment in bonds, considered the least risky investment. These products may resemble bonds in that they pay a coupon, often much higher, and are redeemed at par. In general, they have different risk characteristics associated with the occurrence of a specific, pre-determined event which may have an impact on the product's long-term profitability. A barrier, for example, may be associated with the movement of an underlying, which, if exceeded, could potentially transform the final value of the investment. BRC Barrier Reverse Convertibles are thus characteristic of yield enhancement structured products.

Enhanced participation products are generally associated with leveraged up or down strategies, with or without partial, total or conditional capital protection. Usually, no coupon is involved. There are many variants of these products, generally known in the form of certificates, most often based on equities or commodities, but can be built on most assets. A participation rate is generally agreed, to be applied at maturity to the performance of the underlying.

Demystifying the supposed risks of structured products

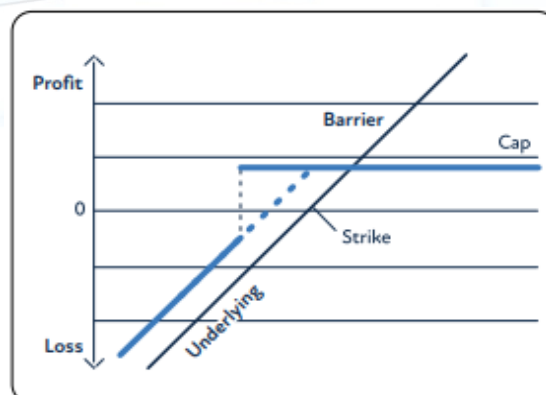
Structured products are not necessarily complex and can often be described in very simple terms. A structured is generally made up of two parts, like a convertible bond for example, offering the possibility of investing in an interest-bearing bond that can be converted into shares under certain conditions. The two components of structured products are ultimately very simple: on the one hand, there is a note bond, typically a zero-coupon bond that protects all or part of the capital at maturity, and on the other, an option-type instrument that provides the additional payoff to the bond payment. This instrument is linked to the performance of an underlying asset and takes the form of a coupon or a gain/loss at maturity. In its simplest form, it may be a zero coupon acquired with a discount and an option. At maturity, the zero coupon is repaid at par, thus protecting part of the capital invested. The option will have the value defined contractually according to its characteristics, when this is above the strike price.

« Capital preservation »
Participating capital-protected note



Source : SSPA Swiss Derivative Map 2023

« Yield enhancement »
Note Barrier Reverse Convertible



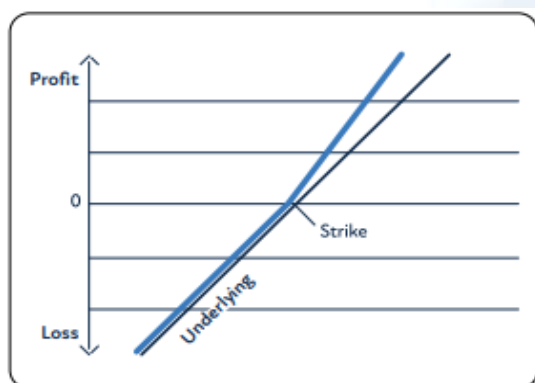
Source : SSPA Swiss Derivative Map 2023

Structured products are thus generally designed with a specific objective: capital protection, yield enhancement (alpha) or participation. They generally combine a bond component with some form of exposure to an underlying in the form of a derivative. In this sense, they are considered alternative investments, like hedge funds, but because they incorporate a derivative, a number of investors consider them risky. This is generally because many still don't understand how they work or their characteristics. On the contrary, because of their flexibility, their suitability for a specific market vision and their role in an investment strategy, many structured products can in fact be considered to have the real aim of mitigating risk and reducing it, by incorporating, for example, a capital protection component and outperformance potential. Structured products are therefore often wrongly regarded as complicated and lacking in transparency. Understanding complexity is in most cases not that difficult, and is in fact made accessible to anyone wishing to understand the risk-return profile built into the product under consideration, thanks to particularly effective legislation requiring issuers to provide total transparency in their issue prospectuses. Issue prospectuses are generally very clear, detailing the risk-return profiles and giving precise examples of the product's performance under various types of market conditions, both favourable and unfavourable. In this way, investors can clearly understand the opportunities and risks associated with the strategy incorporated in the structured product. In this way, payout transparency is achieved in advance, without any surprises. The same applies to the other key components of each structured product, which must be described in detail in the issue prospectus. The credit risk of the issuer of the note is specified, as is the pricing applied, for example.

Are structured products better suited to a particular type of market?

Structured products can be used at any time, and are not tailored to a single type of financial market - quite the contrary. In fact, structured products are extremely flexible and can be adapted to all market conditions. They can be created, for example, to generate returns during periods of market stability or downturn, in any phase of the cycle for traditional asset classes (bonds, equities, commodities, currencies, etc.), but also during bull or bear markets. Generally speaking, a structured product should enable an investor to achieve three main objectives over time: either a return with little risk associated with his or her capital, or a higher return in periods of volatility and consolidation, or an alternative to generate additional returns in the portfolio. In terms of time horizon, structured products can be created with short durations of a few months, but they can also have long maturities of one or more years. While they are often intended to be held until maturity, they can generally be liquidated at any time, as there is usually a secondary market enabling the investor to sell them at conditions that are often predetermined and mentioned in the issue prospectus.

« Enhanced participation »
Certificat Outperformance



Source : SSPA Swiss Derivative Map 2023

How do you assess the effectiveness of structured products?

The effectiveness of using structured products can be assessed in a number of ways, but above all it must be measured against the objective initially set by the investor. If the objective was to preserve capital by retaining even a limited capacity to participate in the rise of an underlying, the investor should judge the result of his structured product positively in the event of a rise, even if it allows him to participate only partially in this rise of the underlying. On the other hand, in the event of a fall, they should be satisfied with having suffered only part of the decline.

The quality and effectiveness of a structured product within an investment strategy will, however, depend above all on the investor's or asset manager's ability to anticipate market fluctuations. By designing a product that is best suited to a given forecast, its creator optimizes the risk-return function of the investment to his or her forecasts. If these turn out to be fairly accurate over the long term, the strategies developed and implemented using structured products will be more effective. The strategic, tactical and directional vision, as well as the risk and volatility mitigation method, are essential elements for the creator of structured products to optimize their effectiveness and relevance. A robust and disciplined structured product construction process must be available to guide all decisions.

The asymmetrical nature of structured products is a unique and distinguishing factor, reinforcing its central role in investment strategies. This characteristic is in fact essential to ensure the closest possible match between the product's maturity profile and the specific market views (profitability expectations) of its creator. This characteristic is precisely what allows us to take into account the fact that no anticipation of the expected evolution of a financial asset by investment professionals or non-professional investors has a 100% probability of occurrence. Structured products make it possible to take account of the probabilities associated with any investment decision.

For example, without the possibility of using structured products or option strategies, if an investor estimates a 70% probability of a +10% rise in an equity index over three months, and a 30% probability of a -10% fall, he will undoubtedly decide to buy this index by increasing his asset allocation, for example by arbitraging cash and reinvesting it in the equity market. A simple binary decision to buy and take 100% exposure, while still considering a potential 30% risk of being wrong and having to take a loss in the event of a market downturn. This binary decision does not allow him to obtain an exposure that truly corresponds to his non-binary risk assessment. A structured product could, on the contrary, enable him to participate in the potential rise, partial or total, of +10% over three months and protect his capital by, say, 95% in the event of a fall. The profile of this structured product would then correspond perfectly to his market and risk vision, enabling him to adjust his investment policy as closely as possible to his expectations.

Structured products are therefore better suited to representing the real complexity of any investment decision, by going beyond a classic policy of exposure or non-exposure to a given asset, and taking into account both the chances of being right about one's main prediction, and the risks of the market behaving differently than expected if this prediction does not come true. In this way, they can be finely adapted to any form of market trend forecast, taking into account both the probability of a positive or negative event occurring.

SMART BRC+ Yield enhancement : a BBGI concept focused on the use of BRCs

By way of example, we share below the results of one of the concepts we propose to our institutional, family office and trustee clients for diversification of an asset allocation in the alternative investments section, achieved through a dedicated, professional and disciplined SMART BRC+ strategy. This concept focuses on a type of yield-enhancing structured product called Barrier Reverse Convertible (BRC).

The strategy selects international blue chip stocks using a proprietary quantitative and judgmental model. The stock universe is broad, focusing primarily on companies with market capitalizations in excess of \$5 billion at issue, across all sectors of the MSCI World indices. The robust stock selection process used to create a BRC structured product follows a rigorous methodology, with fundamental and technical characteristics designed to minimize the probability of prices fluctuating below the set barrier during the life of the structured product. The stock selection process does not depend as much on the stock market cycle and general market conditions as on the specific characteristics of each company.

A quantitative process for optimizing volatility and fluctuation risks supports the selection of candidates for the creation of BRCs. This reduces the probability of the barrier being exercised, maximizing the success of each product and the overall strategy. A composite portfolio is ideally made up of 20 positions for diversification purposes, with an average time horizon of 4 to 5 months. Historically, this method has led to particularly impressive results: in less than 5% of cases, the barriers have been touched, activating the dynamic exit control of the securities positions received, which could then be resold under favourable conditions for the investor.

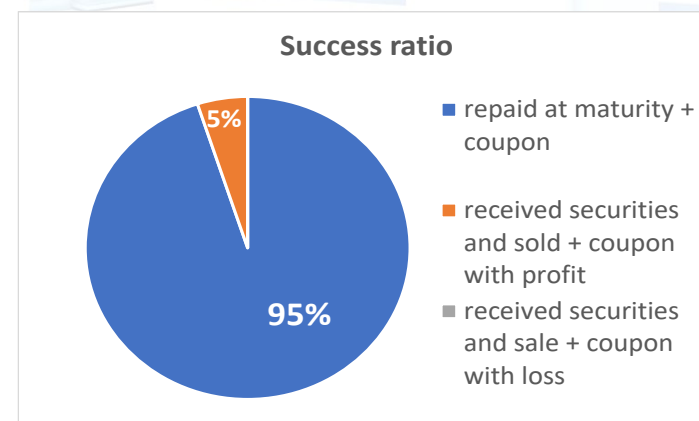
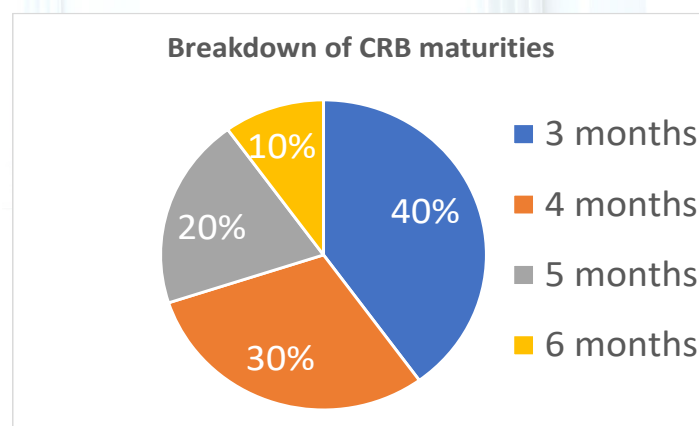
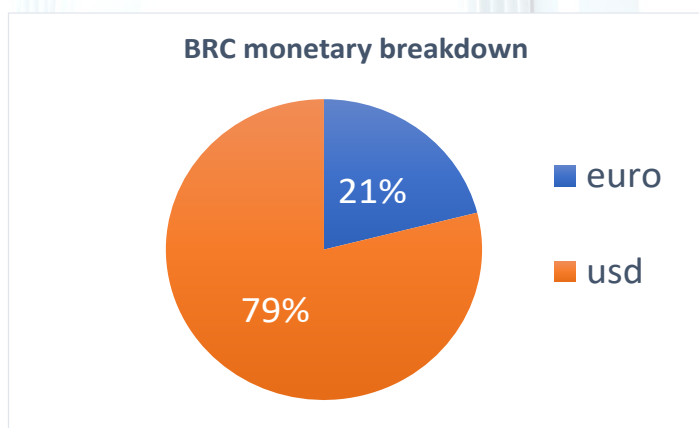
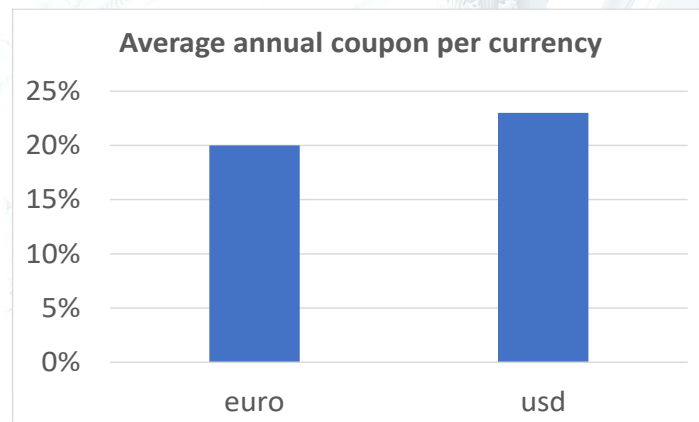
The SMART BRC+ concept has demonstrated its superior effectiveness, thanks in particular to the robustness of its predictions in terms of volatility and return to the mean of the prices of the selected candidates; characteristics which are only marginally dependent on market cycles, and which reinforce the exceptional diversification character of the concept within a global asset allocation strategy. Geographical, sectoral and monetary diversification is ensured at all times. Issuer risk is also measured and diversified across a sufficient number of counterparties.

Average returns on the structured products that make up this strategy have been in excess of 20% p.a. net of fees. Even with a reduced asset allocation, this represents an exceptionally positive contribution to the overall performance of any traditional diversified strategy such as LPP40 for Swiss institutional investors. From a regulatory point of view, this approach is part of the alternative segment and therefore cannot represent more than 15% of a Swiss IP's assets.

Philosophically, our SMART BRC+ concept offers an alternative to bond investments, with a much higher return thanks to its theoretical and optional indirect exposure to the equity asset class. A theoretical link also exists indirectly between these two asset classes, since the underlying assets of structured products are equities. The maximum market risk of such a strategy would be for all structured products to be affected at the same time by declines in all selected securities falling below their barriers. Without ruling out this risk, the staggered weekly creation of structured products also minimizes the risk of market volatility, as not all products are issued at the same time and with the same sensitivity to any external shock that may occur. In this extreme case, the investor would still benefit from the coupons received (18%) and would receive the securities corresponding to the structured products issued. Considering that it is exceptional to observe investment strategies positioned on their maximum points in equities, the extremely unlikely occurrence of this scenario would in fact lead to a temporary increase in the equity portion within the defined

fluctuation bands until the end of the exit pilot for the securities received.

Historically, if 10% of the portfolio had been allocated to the SMART BRC+ Yield enhancement strategy, only 0.5% would have been temporarily added to the portfolio's equity allocation before being reintegrated into the alternative segment, for an overall return in excess of +20%/year.





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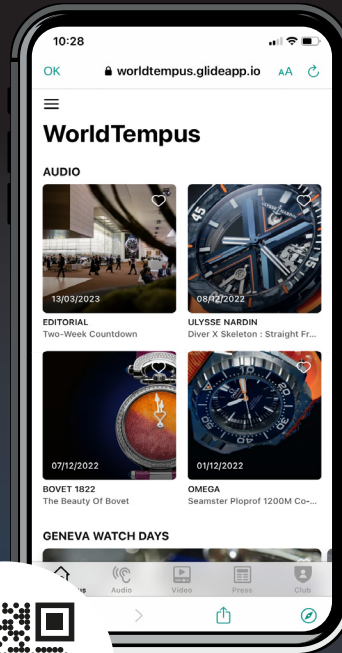
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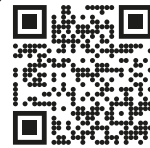
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