BearBull
Global Investments Group

Investment Strategy

Q4 2023

TABLE OF CONTENTS

INTRODUCTION

Letter to Investors - Investment Climate

- US bond market under triple influence
- Rather reassuring trend in economic parameters
- Inflation regime improving
- US monetary policy too restrictive
- End of quarter marked by irrational rate hikes
- More favourable outlook for year-end

The third quarter was strongly marked by the surprising rise in US interest rates, which clearly disrupted the summer stock market climate. After a few weeks of limited increases in July and August, it was in fact during September that the acceleration in long rates was extremely rapid, triggering a rapid rise in uncertainty. In fact, this surprise rise seemed quite irrational in view of the real economic situation, which was in the throes of a downturn. The rise of almost 70 bps in ten-year yields to 4.7% seemed totally disconnected from the economy, whose many signs of slowdown should have lowered investors' yield requirements. The current economic slowdown and a calmer inflation regime were therefore no match for the triple influence of the US Treasury's high financing needs, the Fed's balance sheet reduction strategy and its worrying hawkish comments. Since the agreement to raise the U.S. Treasury's debt ceiling in July, the Treasury has rapidly increased its issuance, increasing the supply of government bonds on the market by several hundred billion dollars in just a few months. At the same time, the Federal Reserve was also drastically reducing the size of its balance sheet by selling Treasury bonds and de facto reducing the money supply in circulation. This influx of supply during the summer was digested by the markets only at the cost of a rate hike unjustified by economic fundamentals. Still too focused on controlling inflation, despite better-than-expected downward trends in CPI and PPI indices, monetary authorities were still suggesting potential further rate hikes, which never ceased to worry financial markets. Despite numerous signs pointing to an increasingly perceptible slowdown in growth, including in the job market, this triple influence pushed up long-term rates to the point of creating increasingly difficult conditions for financing consumption and investment in the months ahead. Indeed, the rise in nominal rates as inflation has contracted has pushed real rates to levels that may already be unsustainable, thereby drastically increasing the risk of a fall in demand and economic growth. With its dual action on short and long rates, the Fed seems to us to be implementing a monetary policy that will probably appear too restrictive in a few months' time. Even if it is deliberately seeking to influence the entire yield curve through its actions, it has probably not yet gauged the extent of the brake it is imposing on the economy. The Fed's monetary policy thus seems excessive to us, and US growth may ultimately fail to withstand these new pressures. Recent developments may indeed call into question the soft landing scenario and revive recession risks for 2024. The US central bank was wrong to judge inflation as transitory, before recognizing the need to adjust its monetary policy a little too late in 2022, with the consequences we are now aware of. We fear that it is still not sufficiently capable of measuring the risks of its restrictive policy, which could once again prevent it from achieving the soft landing for the economy that seemed possible. The end of the quarter was thus marked by the irrationality of the US capital market, which was hit by rate hikes on all maturities, unjustified by known and expected economic parameters. The third quarter should have been favorably influenced by an orderly economic slowdown in the USA and by less negative growth than expected in Europe, as well as by very encouraging signs of inflation and reduced risk of key rate hikes. Tensions on US interest rates caused capital markets in most regions to fall together during the quarter, with only the Swiss market managing to end the quarter without a loss (+0.06%), while all major markets fell by an average of around -3.59%. Unsurprisingly, such rate hikes could not go unnoticed by other financial assets, with equity markets also suffering significant sell-offs at the end of the period, pushing most indices down. The Swiss market (-3.32%) followed the same trend as the MSCI world index (-3.46%). Most regional markets recorded similar declines, with the exception of the FTSEE index, which rose slightly. Securitized real estate markets did not escape this trend either. Rising financing costs had the greatest impact on the US market, which contracted by -7.19%, twice as much as Asia (-4.3%). The European market reacted positively to falling inflation and the ECB's relatively measured monetary policy, finally recording a significant rebound of +7.02%, the best result among national indices. Swiss real estate funds also benefited from stable interest rates and historically low fees, rebounding slightly by +0.43%. In commodities, energy prices performed exceptionally well, surging +28.79% over the quarter. This rise was not underpinned by a recovery in Chinese demand, but by more effective control of supply, mainly orchestrated by OPEC and Saudi Arabia in particular. The +15.98% rise in the global commodities index is therefore welcome news for all diversified investment strategies which, as in 2022, benefited from the decorrelation of this asset class, while traditional bond and equity markets posted negative performances over the period. The final quarter is likely to be marked by further evidence of economic slowdown, including a weakening labour market and persistently positive inflation trends. Against this backdrop, fears of further rate hikes should diminish, encouraging a downward adjustment in dollar yield curves. This favourable environment for financial assets and commodities could, however, be negative for the greenback.

Alain Freymond
Partner & CEO
BBGI Group

BIG PICTURE

Main Convictions

- Dangerous flattening of the US yield curve
- The Federal Reserve will miss its target
- Faster and more intense downward rate adjustments
- Positive outlook for financial markets

Dangerous flattening of the US yield curve

The US yield curve has recently undergone a very significant flattening, which we consider particularly inappropriate for current economic conditions, and which once again threatens the soft landing scenario that had previously been very likely to materialize. At the end of the previous quarter, the yield spread between short (2-year) and long (10-year) U.S. Treasury maturities had reached -110 bps, reflecting a curve inversion essentially triggered by the Fed's egregious rate hike and the decline in long rates driven by successes on the inflation front. The fall in inflation to around 3% for the CPI and -3% for the PPI (NSA) in June allowed inflation expectations for 2024 and beyond to be lowered below 3%. Against this backdrop, the two-year Treasury yield stabilized at just under 5%, significantly lower than the key rate level of 5.5%, while ten-year rates ended the quarter at around 3.7%. This logical inversion at the end of the rate hike cycle and in anticipation of a future economic slowdown was suddenly corrected in an unexpected and historically rare fashion. Normally, the flattening of the yield curve occurs through monetary policy easing when inflation normalizes and the economic slowdown or recession materializes. In recent months, however, the spread has contracted as long rates have risen, while short maturities have remained unchanged. Two-year rates were still at 5% at the end of September, reflecting positive inflation expectations for 2024 and 2025, as well as the probable end of the rate hike cycle following the pause announced by the Fed in September. On longer maturities, and in particular ten-year rates, a surprise 100 bp rise pushed yields to 4.8% at the time of writing. The spread has thus narrowed from -110 bps to just -30 bps in three months, as the economic outlook and risks of accelerating inflation weakened.

This situation is quite exceptional and worrying, as it suddenly and very significantly tightens credit and financing conditions for all economic players and agents, including the US Treasury, in a way that is drastic and worrisome for the growth prospects of the US economy. As far as households are concerned, the rise in the cost of 30-year mortgage financing from 7.1% to 7.9% during the quarter further reduced access to real estate and increased mortgage debt servicing at a time when consumption was also weakened by the rising cost of credit. At a time when the US economy was showing increasing signs of weakening, this flattening of the yield curve seems to us to be a particularly negative indicator for the outlook at the end of the year and for the first half of 2024. The soft landing scenario we have been describing since the beginning of the year as the main economic scenario for the US in 2023 is still very much in place, and should prove accurate for the 4th consecutive quarter. However, we now see a higher probability of a more severe slowdown in early 2024 if current conditions remain unchanged on the US yield curves.

The Federal Reserve will miss its target

The U.S. central bank is now in danger of missing its objective of a soft landing for the U.S. economy, thanks to a monetary policy that is ultimately too aggressive and deliberately pursued on two fronts at the same time. While it may not have the intention of provoking a recession in 2024 during the presidential election period, it is in any case now creating all the conditions for such a scenario to eventually materialize. Indeed, the Fed's monetary policy is generally assessed by investors primarily through announced decisions to raise key rates and the prospects of future hikes. Historically, this was the Fed's main steering factor, but since the introduction of quantitative easing and the explosion in the size of the central bank's balance sheet, it can intervene effectively across the yield curve and influence financing conditions more broadly across all maturities. Between June 2022 and September 2023, the Fed raised its key rates eleven times, from 0.25% to 5.5%, in one of the fastest tightening cycles in recent history. These decisions have not escaped the attention of any investor, but the reduction in the size of the Fed's balance sheet that took place during this period has received far less media coverage. The Fed's quantitative tightening reduced the size of its balance sheet by $1,000 billion, or almost 12%. Between April and September 2023, the Fed sold around $700 billion in US Treasury bonds on the capital markets, while the US Treasury issued an additional $1.4 trillion in debt over the last three months, thanks to the raising of the debt ceiling by elected politicians in July. The combination of these developments was certainly the main cause of the very sharp rise in yields on all the longer maturities of the yield curves. The pause announced by Chairman J. Powell would be good news if it were not accompanied once again by the same warnings from monetary authorities that rates would remain higher for longer to ensure that inflation returned to its stated 2% target.

Is the Fed aware that it is putting the brakes on economic activity by pushing up the entire yield curve with its quantitative tightening?

No doubt it is not yet measuring the very significant risks of a potentially brutal impact on the economy, since it does not seem to have scaled back its securities sales program in recent months, despite the sharp rise in financing costs for all economic agents at the end of the quarter.

For too long, the Federal Reserve had totally underestimated the inflation trend in 2021, regularly declaring it to be transitory, before belatedly coming around to the evidence at the end of the first quarter of 2022. Since March 2022, it has finally been fighting inflation so hard that it has been unwilling to take into account the already significant progress made in consumer and producer price indices.

Having lagged far behind in its fight against inflation, the Fed is perhaps still too slow to consider the growing likelihood of an economic slowdown linked to the rising cost of financing. While it could undoubtedly achieve the soft landing objective by steering its quantitative tightening policy more carefully and at least temporarily halting its bond sales, for the time being it is the cause of the generalized rise in the cost of credit. We believe that, without an immediate halt to the latter, which would allow yield curves to ease, recession risks are set to increase significantly in early 2024.

Faster and more intense downward rate adjustments

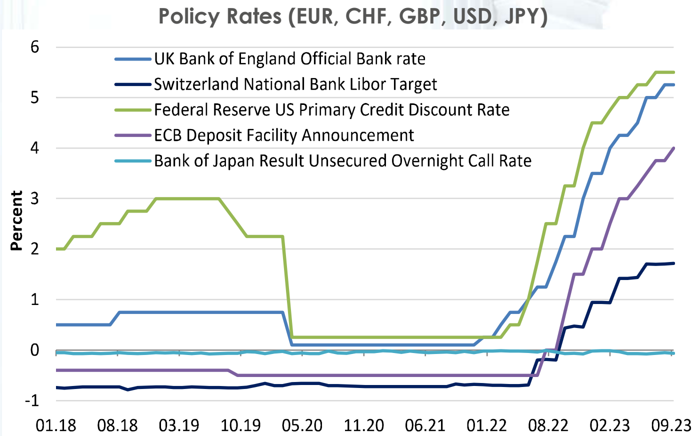
We see two possible scenarios for the next few months: a reaction from the Fed in the first case, and no reaction in the other, as economic conditions gradually worsen without a very clear improvement in inflation. In the former case, the Federal Reserve would be on the verge of accepting the idea that an economic slowdown is underway, and that it could rapidly worsen if financing costs remain as tight as they are today. It would then perhaps already consider the visible improvements in the labor market sufficient to agree to make its quantitative tightening policy more flexible, by implementing a pause similar to that decided for its key rates in the coming months. An easing of the yield curves could then take place, particularly if the Treasury's financing requirements also normalize in the final quarter. If yield curves were to ease, the soft landing scenario could once again become the main scenario for early 2024. Conversely, if the Fed were to wait for further evidence of the loss of economic momentum and maintain its policy of double action on rates, the risks of recession would rapidly increase and probably materialize in the first half of 2024. The Fed's assessment of the situation and risks will be decisive over the coming months, and could precipitate a change in the financial markets' perception of the likelihood of a recession.

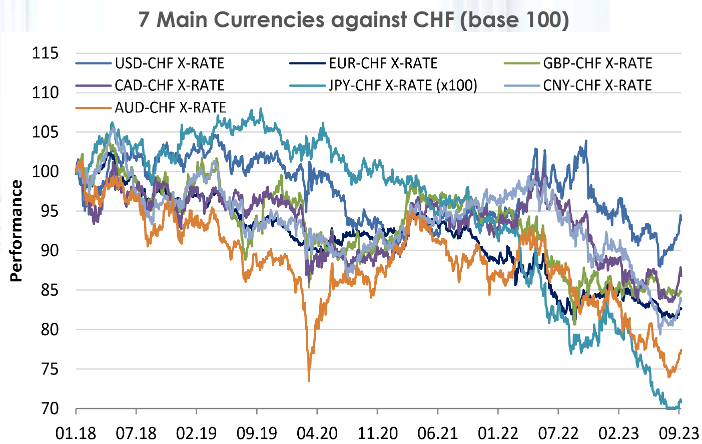
We believe that the US central bank will unfortunately remain overly concerned by the slower normalization of monthly inflation data than in previous months, which should not lead it to change its current policy. In this case, at the end of the year, it will most certainly continue with its current policy, characterized by resolute and regular quantitative tightening, and high and stable key rates, but accompanied by unchanged comments and warnings about the possibility of raising its key rates further in the future, if necessary. The future course of the yield curves therefore still seems closely linked to the intensity of QT and the Fed's decision to reduce its amplitude. But now, with both nominal and real rates rising sharply, it seems to us that the US economy is likely to show increasing signs of slowing. Against this backdrop, we believe that a growing body of statistics pointing to an economic slowdown will materialize in Q4, allowing yields to ease without any Fed intervention in the coming months. As a result, the short end of the yield curves will not be strongly affected for the time being, with most of the adjustment taking place on longer maturities. Further inversion of the yield curves could soon be observed, until the -110 bp level reached in June 2023 is reached again.

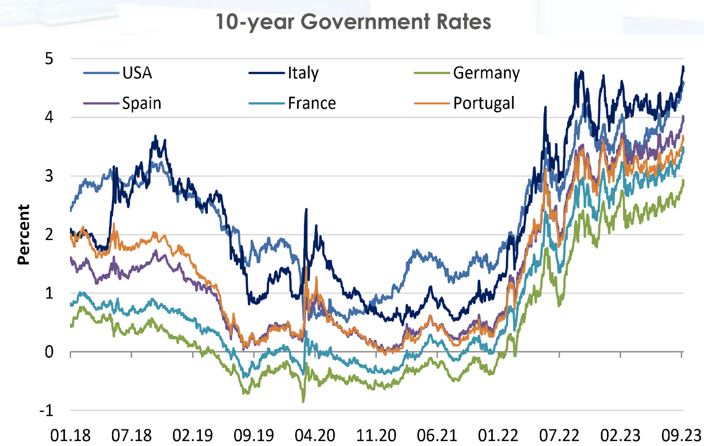
If the central bank nevertheless maintains its policy during the autumn, as we expect, the risks of a sharper-than-expected slowdown now seem more significant and will be taken into account by the markets. The current main economic scenario favoring a soft landing could therefore quickly be called into question in favor of a possible new recession scenario, which would then be largely due to the overly restrictive monetary policy pursued by the Federal Reserve during the second half of 2023. We believe that the Fed will then have to change its policy and lower its key rates more quickly than is currently envisaged and anticipated by the financial markets. The easing of key rates expected at the end of 2024 will, in our view, take place well before the end of the first half of the year, and should be accompanied by a pause in QT.

Positive outlook for financial markets

After the rate shock of the 3rd quarter, which triggered significant corrections in most financial assets, the 4th quarter should instead be characterized by an initial stabilization, followed by a downward adjustment of yield curves in the USA. This trend is unlikely to be followed by the same developments in Europe and other developed countries, where inflation levels are still somewhat high, but overall the interest rate and monetary policy environment should ease with the expected economic slowdown and reduced fears of further key rate hikes. Such an environment will be particularly favourable to the USD capital markets, and to long maturities in particular. Securitized real estate will also benefit from the easing of interest rate pressures in most regions. This should also be the case in equity markets. This improvement in the investment climate, which is favourable to all asset classes, should take hold and develop positive effects over the course of the quarter, unless signs of recession become more pronounced and lead to fears of a fall in corporate profits in 2024, which would call into question the factors supporting the equity market.







Graph sources: BearBull Group / Bloomberg

MACROECONOMIC SCENARIO

MACROECONOMIC SCENARIO

Global Outlook

- Global growth of +3% in 2023
- US momentum may be slowing more than it seems
- Eurozone quarterly GDP stagnates again
- UK recession likely at year-end
- Japanese growth supported by services

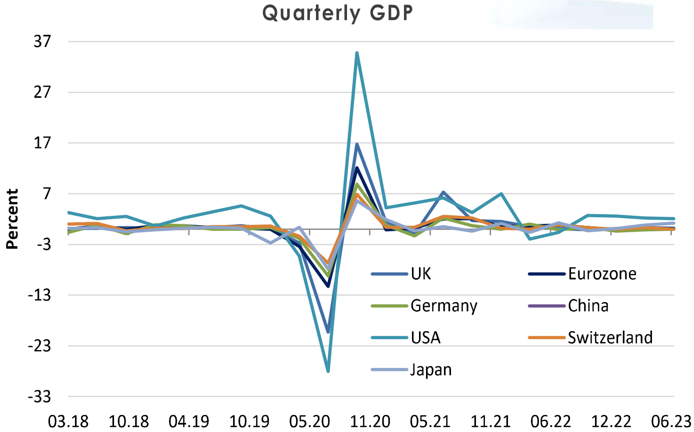
Global growth of +3% in 2023

With three months to go before the end of the year, we expect global growth to fall just short of its 2022 target of +3.5%. In the end, the economic recovery could turn out to be significantly better than expected, thanks in particular to the resilience of the European economies. Global GDP growth should thus reach +3.3% in 2023, which, given the risks mentioned by forecasters at the start of the year, will ultimately be a good result, albeit below the average performance of the last twenty years (+3.8% on average). The spectre of recession was raised many times, but never materialized in any major region. European economies were expected to be the first to succumb to the fatal rise in energy prices and inflation, but although they are still suffering at the end of this year, they still look set to record a few more months of extremely weak growth, sufficient to remain positive throughout 2023. However, the outlook is likely to darken over the winter, pushing Europe into a downturn. In the United States, the banking crisis led to fears of an economic shock, which also failed to materialize, and was followed by a further tightening of monetary policy affecting the entire yield curve. In September, the acceleration in financing costs reached extreme levels in both nominal and real terms. While the effects of a restrictive monetary policy are slow to materialize, particularly on the labor market, we believe that the risks of recession in the US have in fact risen sharply over the summer. Expected GDP growth of +2% in 2023 is already set to weaken markedly in Q4 and over the winter. In Asia, China's recovery still seems disappointing to those still hoping for miracles from the world's second-largest economy, but it should nevertheless approach the estimated +5% level and provide some external demand support for Japanese exports at the end of the year. Japanese GDP could thus reach +1% in 2023. The end of the year should also see the gradual disappearance of the main risk factors that affected 2022 (uncontrolled inflation, rising interest-rate curves, restrictive monetary policies). While inflation seems to be following an encouraging trend in most regions, monetary policies are still very restrictive and perhaps already a little too dogmatic, particularly in the United States. Indeed, the Federal Reserve does not seem to be taking sufficient account of existing signs of slowdown, focusing a little too much on the labor market. We therefore fear that its Quantitative Tightening policy, which has pushed up long rates to the point of reducing the yield spread between short (2-year) and long (10-year) rates from 110 to 30 bps, will have severe effects on consumption, investment and construction as early as this 4th quarter. As a result, global growth is likely to weaken in Q4, ending the year at around +3%.

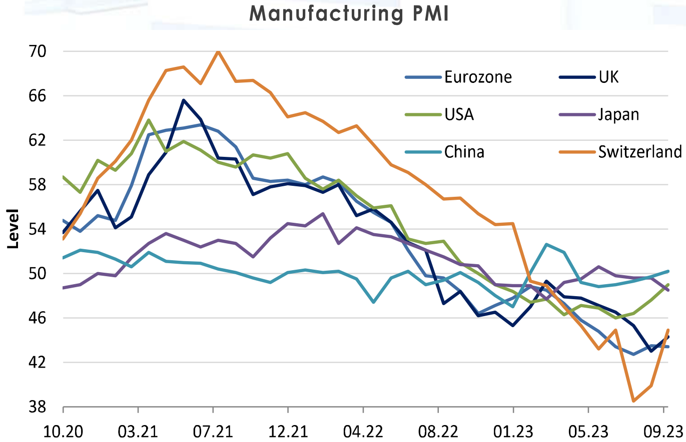
US momentum may be slowing more than it seems

The PMI indices have recently stabilized at levels close to the growth threshold. The PMI for the manufacturing segment (49.8) recovered slightly in September, but remains below the growth threshold of 50. While the manufacturing segment stabilized, the services index declined more sharply to 50.1, weakening even more than expected. The services sector, which has long been highly resilient, and more important in assessing the overall economic trend, is now also beginning to feel the effects of restrictive monetary policy. The composite indicator is therefore on balance at 50.2, hesitating to point more clearly towards the announced slowdown. Uncertainty therefore intensifies at the end of Q3, with leading indicators increasingly inclined to point towards an orderly slowdown in activity. The consumer confidence index declined again in September, as did the national activity indicators measured by various Fed (Chicago Fed, Dallas Fed, Philadelphia Fed), as well as the Richmond Fed's business conditions index. Q3 will undoubtedly be another strong year, but this surge in GDP growth could quickly fade as the year draws to a close.

Quarterly GDP



Manufacturing PMI

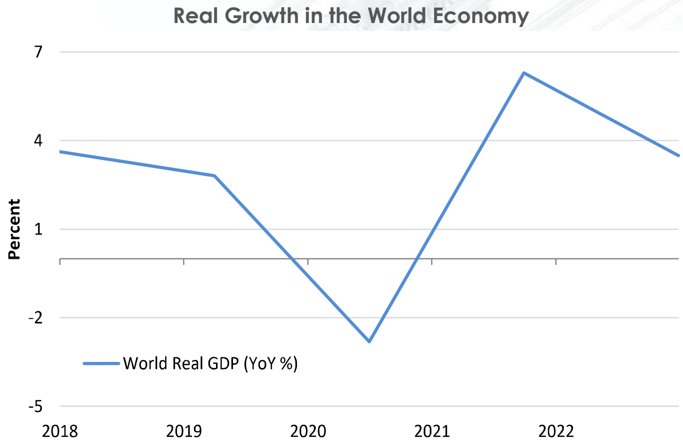


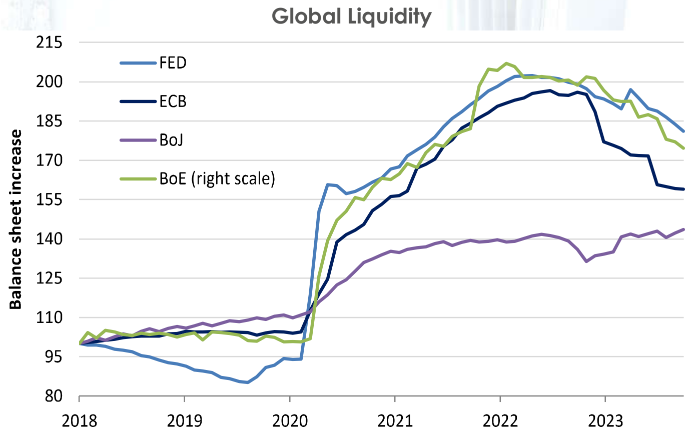
Graph sources: BearBull Group / Bloomberg

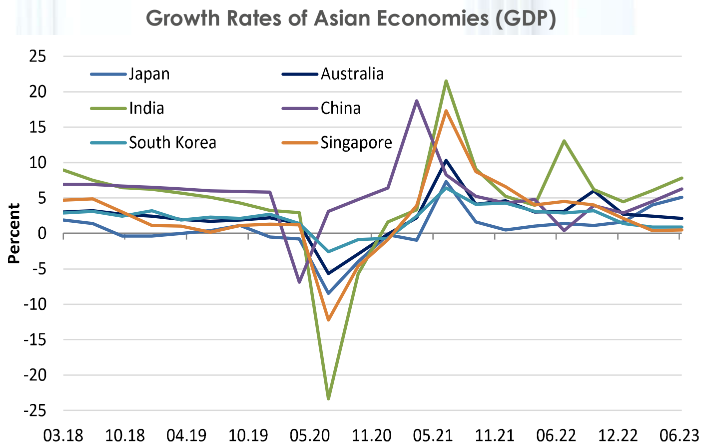
The current resilience of consumption can in fact be attributed to the use of what remains of the surplus savings accumulated during the pandemic, while rising interest rates are increasingly squeezing the borrowing capacity of households and businesses. Consumer credit has collapsed, and the banking sector is clearly confirming this trend, putting the brakes on household and business demand. The real estate sector is also being hit hard by rising financing costs, while retailers are also facing growing uncertainty over sales for the festive season. Inflation is receding ever more sharply and is certainly making a positive contribution to household sentiment, but the trend in financing costs is having an even more negative impact on consumer confidence, which is worsening. The very gradual weakening of the job market, together with a slight rise in the unemployment rate, should contribute to a slowdown in consumption. US households have initially resisted the rise in interest rates and inflation by resorting to savings to maintain their purchasing power and consumption, but rising credit costs are likely to put a brake on this trend. Monetary policy has also become more restrictive, with the Fed's balance sheet shrinking by almost 10% as it raises interest rates until the end of the quarter. At the end of the year, this should weigh more heavily on growth, confirming a soft landing scenario that is probably becoming increasingly perceptible. Our outlook for 2023 remains positive, approaching +2% with a rather weak final quarter. However, the rise in interest rates in September, which was particularly marked on long maturities, will weigh more heavily on the economic situation and outlook at the start of 2024. While the risks of recession seemed to have been averted, these latest developments clearly increase the likelihood of a recession in 2024.

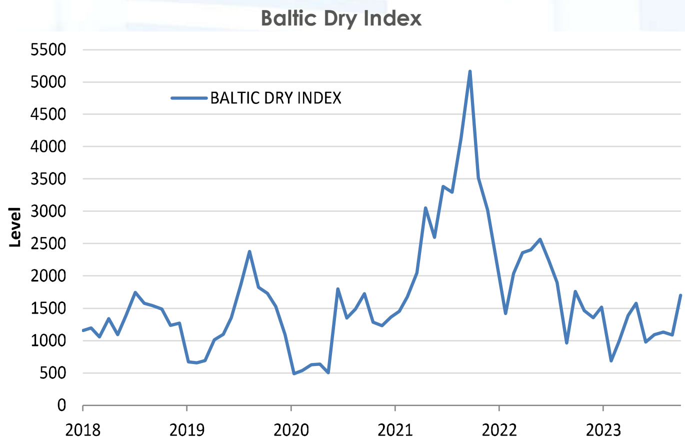
Eurozone quarterly GDP stagnates again

Eurozone aggregate GDP growth is likely to be 0% at best in Q3 and Q4. In this event, annual growth should hardly rise above +0.5%. Our forecast today is scarcely different from that at the start of the year, and we still believe that the eurozone will barely avoid a recession, ending the year with weak GDP growth of +0.3% to +0.4%. In contrast to our outlook for stagnation in the European economy over the coming months, which is likely to weigh on the full-year result, the ECB's adjusted forecasts seem more optimistic and certainly subject to disappointment. The ECB still believes that GDP growth for the year as a whole could be close to +0.7%, after long believing that an increase of +1% was likely. Without government support, this growth forecast will struggle to materialize. However, even if a slight increase were possible, we believe it would certainly be offset by a fall in household spending. The services sector will undoubtedly be hardest hit by the loss of household purchasing power. In the short term, we are already seeing a further decline in industrial production in the eurozone of -1.1% in July, following a slight recovery in April and June. Monthly data remain volatile and do not yet allow us to detect a real trend, but the upturn will have been short-lived. Another very weak start to Q3 suggests that the manufacturing sector remains fragile and could yet weigh on eurozone GDP. The same trends can be seen at the start of Q3 as in the Q2 national GDP data, with German and Italian industrial output weakening, while French and Spanish output is rising. The trend in PMIs suggests that the eurozone economy will find it difficult to record growth towards the end of the year, as it continues to be affected by higher interest rates and credit costs. Trends in the main parameters used to assess credit conditions also suggest that they are deteriorating for both households and businesses, thus increasing the risk of a weakening in the economy and consumption.









Graph sources: BearBull Group / Bloomberg

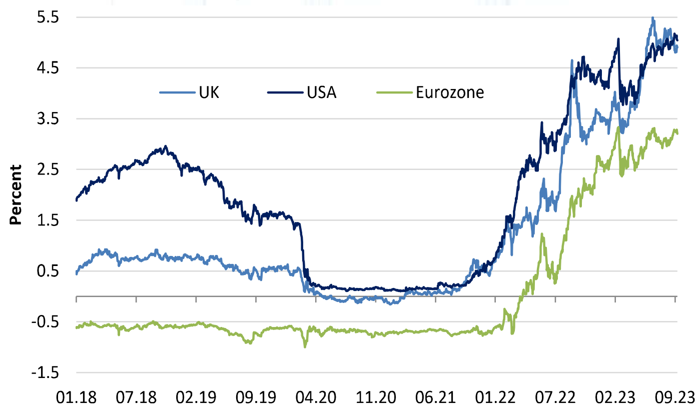
UK recession likely at year-end

The latest leading indicators published for the month of September confirm expectations of economic decline over the summer period. The manufacturing PMI is now down to 44.3, well below the theoretical growth threshold of 50, and barely above its all-time low reached after a steady decline that began in May 2021, with the exception of the low point reached in April 2020 in the midst of the pandemic. The services PMI (49.3) also fell below the growth threshold, hitting its lowest level in recent years, which is also a worrying result for the overall performance of the domestic segment. The composite indicator (48.5) also falls below the 50% growth mark. Household resilience is likely to stall somewhat as government spending also stabilizes. As a result, a real slowdown should finally occur in Q3, and will certainly continue towards the end of the year. The recent publication of GDP figures for July already seems to confirm this forecast of a decline in UK activity. The UK economy recorded a net decline of -0.5% in July, the sharpest fall for seven months. The contraction in July's GDP completely wipes out June's advance, and comes in well above expectations (-0.2%). This result is probably an indication of weakness that could plunge the British economy into a new phase of decline. The BoE was expecting growth of +0.4% for Q3, which is unlikely to materialize given the growth shock recorded for July. The downturn in activity was relatively widespread, with industrial production falling by -0.7%, echoing the -0.8% decline in the manufacturing segment, while construction declined by -0.5%, as did the services sector (-0.-5%). In July, the PMI leading indicators also followed a similar trend, pointing to a worsening short-term outlook. The manufacturing PMI slipped to 45.3, while the services PMI fell more rapidly from 53.7 to 51.5, both pulling the overall index to 50.8, close to the growth limit. The economic context in the UK is therefore worsening, pointing to a negative third quarter and another difficult end to the year. Our GDP growth forecast for the year has been adjusted to +0.1%.

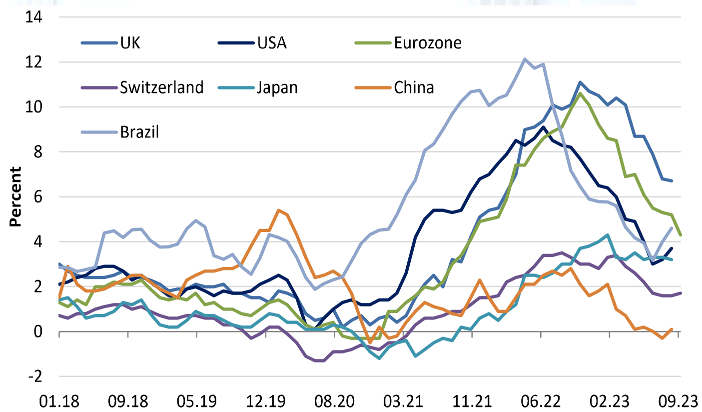
Japanese growth supported by services

The manufacturing index fell back just below 50 to 48.5, suggesting a slowdown in industrial activity. The composite indicator (52.1) also dipped, but remains in the growth zone, supported by a stabilization at 53.8 in the services index. Activity in the service sector appears to be clearly on the up, pointing to a continuation of the current positive momentum. Overall, the PMI indices confirm the economic recovery underway, while pointing to potential weakness in the industrial sector. The Japanese economy has now once again surpassed its pre-pandemic level, but private consumption remains lower than it was at that time, and is even weaker in real terms than its 2014 level, underlining the fragility of a recovery supported exclusively by exports. The weakness of domestic demand clearly remains a source of concern. It should be able to strengthen to sustain the positive economic trend currently visible in Japan. However, in the current context, the decline in consumer purchasing power, resulting from the steady decline in disposable income and ongoing inflation, is likely to stabilize only very gradually. The same applies to Japanese companies, which are still reluctant to make new investments. Consumer spending by foreign travelers in Japan could provide support for domestic consumption, though without significantly influencing the overall level. China's economic recovery appears to be the main factor underpinning a positive trend in its exports, against a backdrop of likely weakening external demand 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 packages aimed at boosting activity. Global demand remains weak, but the risks of recession have clearly diminished in Europe, while in the USA a soft landing remains the most likely scenario. The short-term economic outlook for Japan is therefore uncertain, but Japanese GDP is set to grow again in the second half of the year, and by more than +1% for 2023 as a whole.

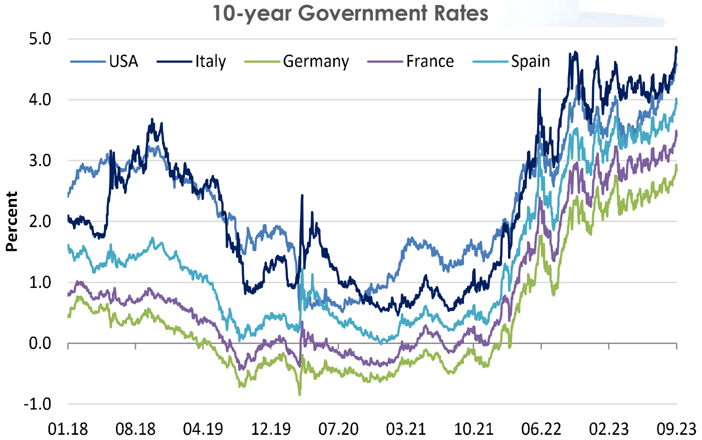
2-year Government Rates



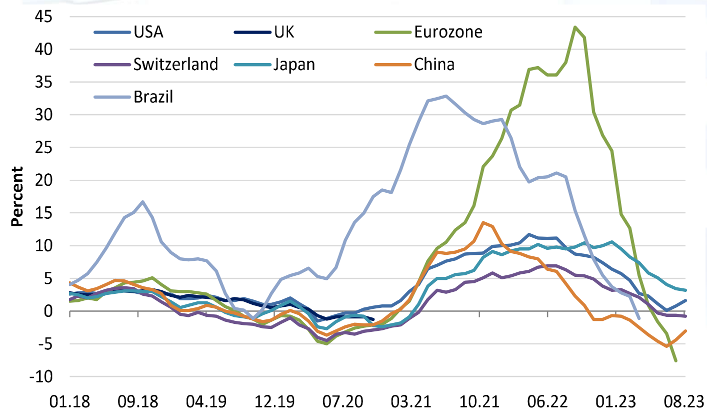
Inflation - CPI Indices



10-year Government Rates



Inflation - PPI Indices



Graph sources: BearBull Group / Bloomberg

MACROECONOMIC SCENARIO

United States

- Economic growth may be slowing more than it seems
- Slowdown looms for year-end
- Leading indicators suggest a soft landing
- The Federal Reserve will mark a lasting pause
- Inflation now falling in services too

Economic growth may be slowing more than it seems

Q2 GDP, revised from +2.4% to +2.1%, nevertheless suggested a resilience in US economic activity that surprised many observers, who had been predicting a recession in 2023 for several quarters. Real annualized growth in Q2 was similar to Q1. Personal consumption slipped sharply in Q2, rising by just +0.8% after a strong Q1 (+4.2%), which was its biggest increase in the last twenty-four months. The GDP revision was affected by weaker investment, while consumption was revised slightly upwards. A still robust, albeit easing, labor market is supporting personal consumption spending, and should continue to drive positive GDP growth in Q3. Businesses are easing their appetite for new hires, allowing the market to ease somewhat. Job creation figures are weakening, but jobless claims are not rising massively. As far as companies are concerned, the reduction in inventories should be a positive factor in assessing the outlook for industrial production over the coming months. It should also be noted that the +3.9% rise in investment in capital goods is regaining some of its vigor after the -0.4% decline of the previous quarter. The -10.6% fall in exports was considerably stronger than the -7% contraction in imports. As for government spending, growth slowed from +5% to +3.3%. As in the previous quarter, the US economy continues to surprise observers in a positive way, 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 strong tightening of monetary conditions over the past eighteen months, have yet to materialize. The spectre of a hard landing also seems clearly to be fading, and growth forecasts are now tending to push back the risk of negative economic growth further into 2024.

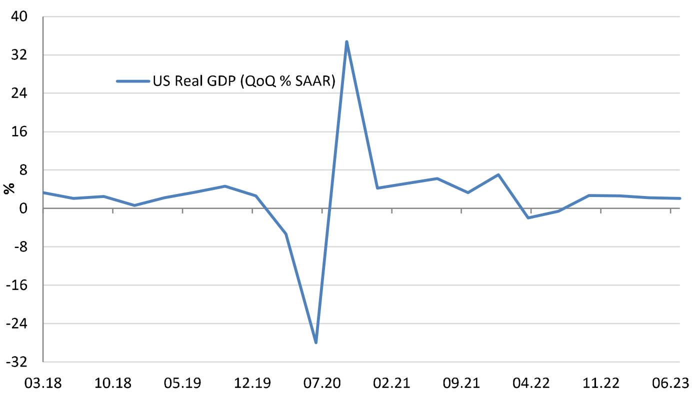
Consensus now seems to be forecasting Q3 GDP growth of +1.8%, before activity eases to +0.4% at the end of the year. Q3 GDP growth could prove even stronger, however, and exceed consensus expectations if the Atlanta Fed's GDPNow indicator, currently at +4.8%, proves correct. But this summer strength could also be short-lived, as measures other than GDP are already pointing to a slowdown in activity at the end of the summer.

Slowdown looms for year-end

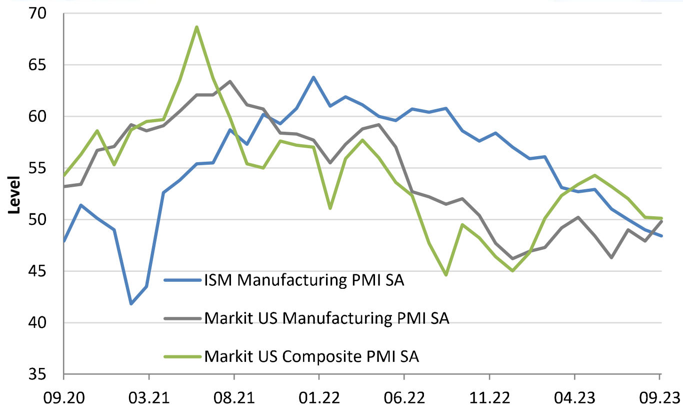
Q3 will certainly still be strong, but this surge in GDP growth could quickly falter towards the end of the year. The current resilience of consumption can be attributed to the use of what remains of the surplus savings accumulated during the pandemic, while rising interest rates are increasingly squeezing the borrowing capacity of households and businesses. Consumer credit has collapsed, and the banking sector is clearly confirming this trend, putting the brakes on household and business demand. The real estate sector is also being hit hard by rising financing costs, while retailers are also facing growing uncertainty over sales for the festive season. Inflation is receding ever more sharply and is certainly making a positive contribution to household sentiment, but the trend in financing costs is having an even more negative impact on consumer confidence, which is worsening. The very gradual weakening of the job market, together with a slight rise in the unemployment rate, should contribute to a slowdown in consumption. Initially, US households resisted the rise in interest rates and inflation by resorting to savings to maintain their purchasing power and consumption, but the rising cost of credit will undoubtedly put the brakes on this trend.

Monetary policy has also become more restrictive, with the Fed's balance sheet shrinking by almost 10% as it raises interest rates until the end of the quarter. At the end of the year, this should weigh more heavily on growth, confirming a soft landing scenario that is probably becoming increasingly perceptible. Our outlook for 2023 remains positive, approaching +2% with a rather weak final quarter.

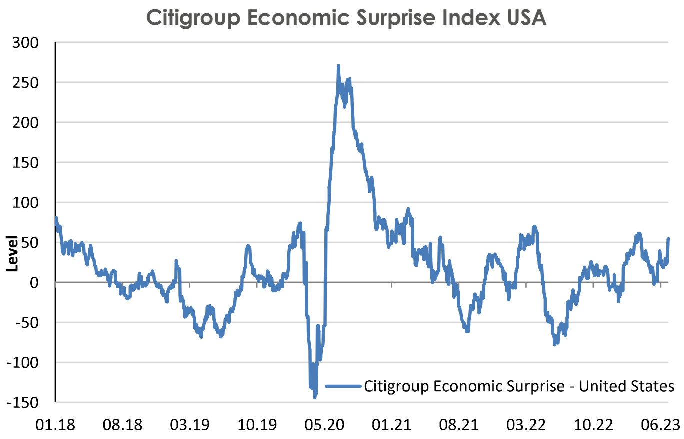
Quaterly US Real GDP

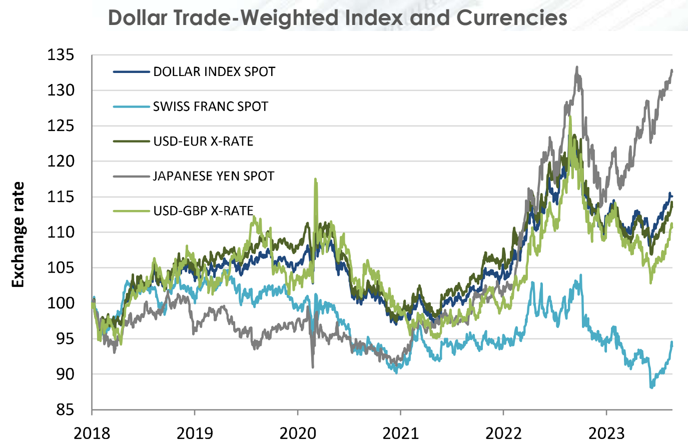


Leading Indicators PMI



Graph sources: BearBull Group / Bloomberg





Leading indicators suggest a soft landing

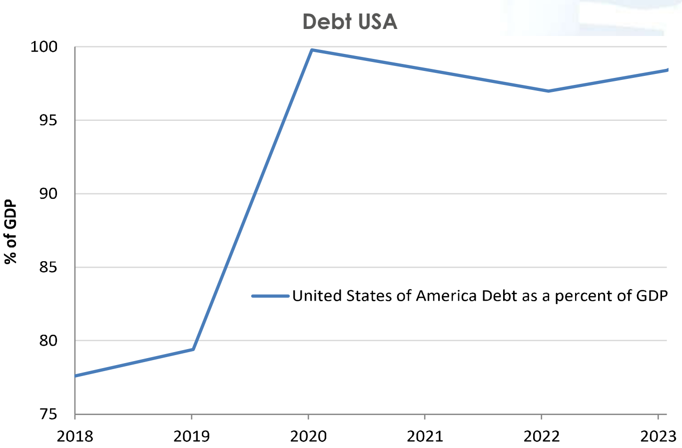
The PMI indices have recently stabilized at levels close to the growth threshold. The preliminary PMI index for the manufacturing segment (48.9) recovered slightly in September (+1), but remains below the growth threshold of 50. While the manufacturing segment stabilized, the services index declined more sharply from 50.5 to 50.2, weakening even more than expected. The services sector, which has long been highly resilient, and more important in assessing the overall economic trend, is now also beginning to feel the effects of restrictive monetary policy. The composite indicator is therefore on balance at 50.1, hesitating to point more clearly towards the announced slowdown. Uncertainty therefore intensifies at the end of Q3, with leading indicators increasingly inclined to point towards an orderly slowdown in activity. The consumer confidence index declined again in September, as did the national activity indicators measured by various Fed (Chicago Fed, Dallas Fed, Philadelphia Fed), and the Richmond Fed's business conditions index.

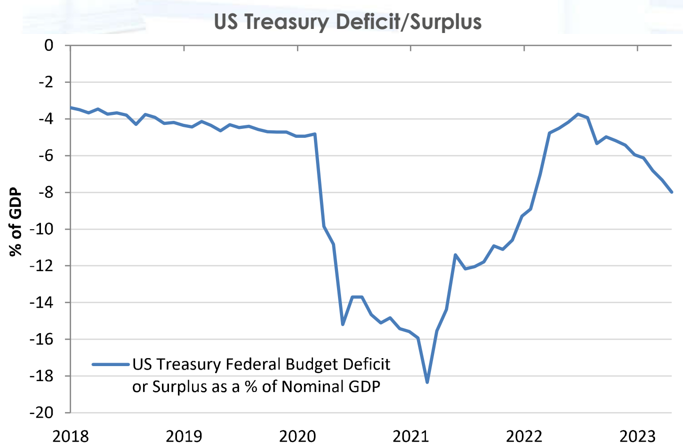
Job market still highly uncertain

Claims for unemployment benefits had been rising steadily since the end of January, almost every week, and stood at almost 265,000 new claims, before falling sharply in recent weeks, plunging to just 201,000 claims at the end of September, its lowest level since January. Continuing claims have been falling in parallel since April, from 1,863,000 to 1,662,000. The job market is still far from collapsing, and while job creation is weaker, redundancies are not soaring despite the downturn in economic activity. JOLTS job vacancies continue to decline, and have now fallen below the 9 million mark, dropping to 8.8 million after peaking at 12 million in March 2022. Annual growth in average hourly earnings has fallen steadily since March 2022 (+6%) to just +4.3% in August 2023, which is still higher than year-on-year inflation (CPI), which has dropped to +3.6%. With a slight rebound in the unemployment rate from 3.5% to 3.8%, these developments are still sufficiently uncertain to justify a certain wait-and-see attitude on the part of the Federal Reserve, which only recently expressed concern about the risks that a tight labor market could pose to wage and inflation trends.

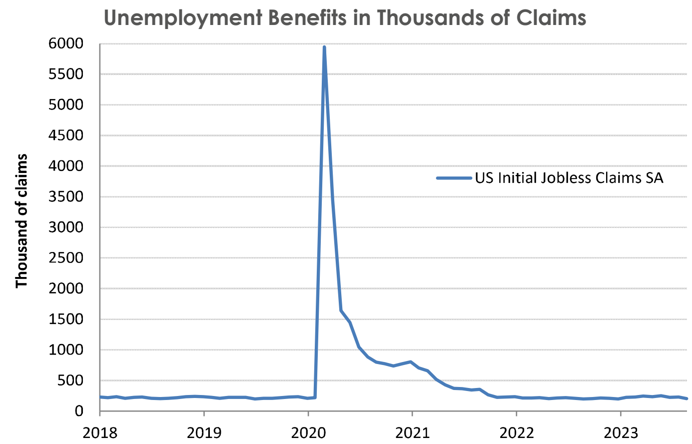
The Federal Reserve will mark a lasting pause

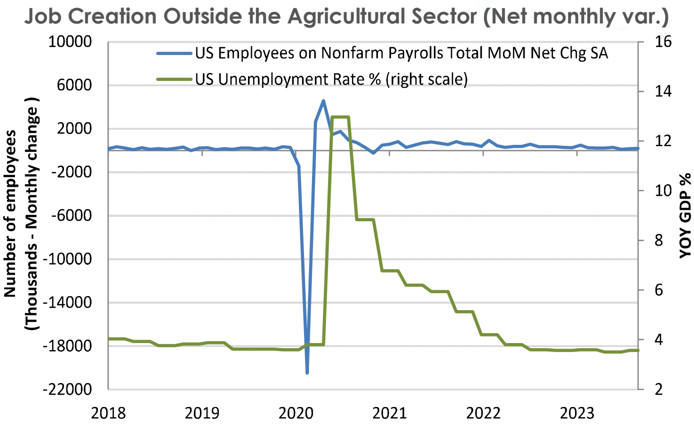
The labor market has seen some better developments in recent months, and finally seems to be responding to monetary policy without collapsing, which should reassure the US central bank. Even if employment remains relatively buoyant, a reduction in tensions and the risk of wage increases being passed on to price indices are positive factors for the Federal Reserve. In terms of price trends, CPI inflation had already fallen to just 3.7% by the end of August, while the index excluding food and energy was down to +4.3%. Monthly CPI inflation (+0.2%) is clearly improving, as is producer price inflation. In our view, the Federal Reserve can already consider that the general trend in prices is moving in the right direction, even if the Fed Chairman's last public speech, announcing a pause in monetary policy, was accompanied by warnings. The Fed decided not to touch its key rates on September 20, and so, in our opinion, begins a long phase of stability which will soon appear as the end of one of the most rapid and severe monetary tightening cycles in its recent history.

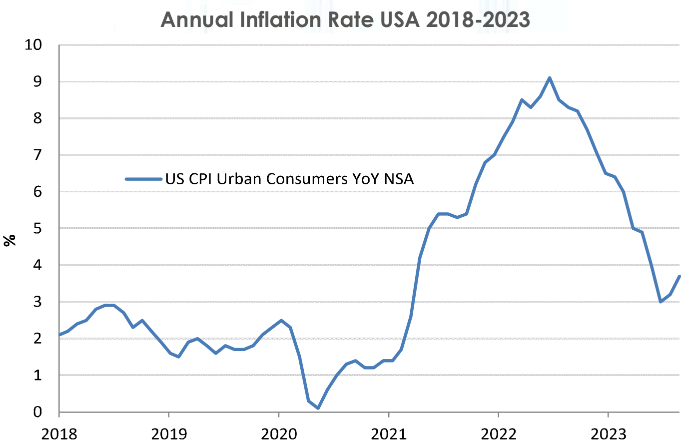


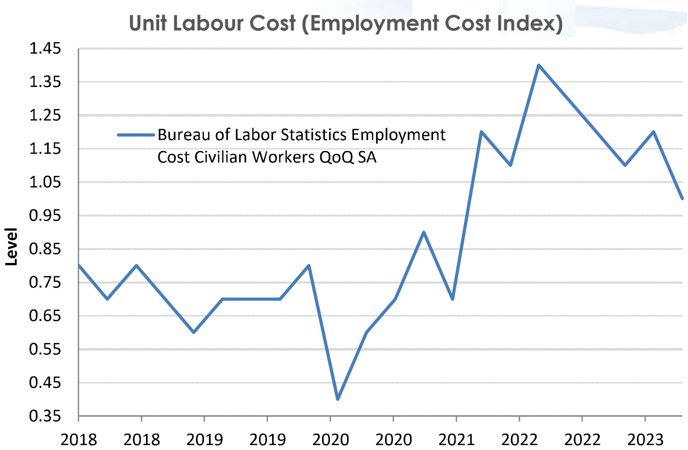


Graph sources: BearBull Group / Bloomberg









Between what the Fed Chairman can't say, what he would really like to say, what he thought he should say, what he actually said, what the financial markets heard, what they thought the Chairman meant, what they probably thought they understood and what they deduced in terms of the outlook for interest rates, the last few days have undoubtedly been particularly confusing for many. The bond market finally did not react much while the equity markets recorded a negative performance over the week in disorder and confusion. The Fed hinted that rates would have to stay high for longer to keep inflation under control, which was initially seen as a negative factor, but we believe it is actually secretly pleased to have implemented a soft landing that is accompanied by a decline in inflation on all fronts, including in the lagging services segment. In parallel with its rate hike policy, the Federal Reserve has also been reducing the size of its balance sheet for several months by selling Treasury bonds, at the risk of pushing up long-term rates through its sales. While the Treasury increased its debt issuance, the Fed did not hesitate to increase the supply of bonds, thereby reinforcing its restrictive monetary policy. Against this backdrop, and with indicators pointing increasingly to weak economic activity, we strongly doubt that the Fed has any real intention of further rate hikes. The next few months should therefore see a stabilization of key rates and a probable softening of yield curves.

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 March 2024 have also largely rebounded from their post-banking crisis levels of 4% to 5.45%. They are thus slightly below the current 5.5% upper limit for key rates, 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 does not take into account the potential need for a normalization of the Fed's strategy in Q2 2024, when the slowdown scenario will have materialized more clearly and the inflation level will have stabilized close to 3%.

Inflation now falling in services too

The inflation figures published for August 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 +0.6% and 0% per month, well below the +1.2% recorded in June 2022. It had averaged just +0.25% for several months prior to the August rebound driven by energy prices. Inflation is easing off significantly, returning to an increasingly satisfactory monthly pace. The price index excluding food and energy joined this trend with a reduced increase of +0.3% over the month in August. Among the elements that are still holding up, we find almost exclusively the « rents » component, which is holding back the general downtrend somewhat, but we can also see that services have been making a reduced contribution for some months now. We therefore believe that the expected gradual reduction in inflation to an acceptable level is still a valid trend. Furthermore, producer price indexes (excluding food and energy) have been stabilizing for the past year, averaging +0.2%/month. Inflation therefore seems to be following the expected trend and continuing to decline, without the need for massive new restrictive measures by the Fed. All the more so since, in our view, the causal relationship between unemployment, growth, key rates and inflation is not so clear-cut, particularly when we consider that price trends were more a phenomenon of supply bottlenecks after the pandemic, than of excess demand.

Graph sources: BearBull Group / Bloomberg

Excessive tension on yield curves

Despite the already significant decline in US inflation, yield curves that should have been falling have instead shifted upwards in recent months. Ten-year Treasury yields have now reached their highest level of the year, in a context clearly marked by the growing likelihood of an economic slowdown. Recent rate movements have therefore been less sensitive to inflation and growth prospects than to other factors. The reduction in the Federal Reserve's balance sheet, coupled with the large and concentrated financing needs of the US Treasury in recent months, have increased the supply of bonds, but the bond market was also still largely influenced by the Fed's monetary policy statements suggesting that rates would have to stay high for a long time to keep inflation under control.

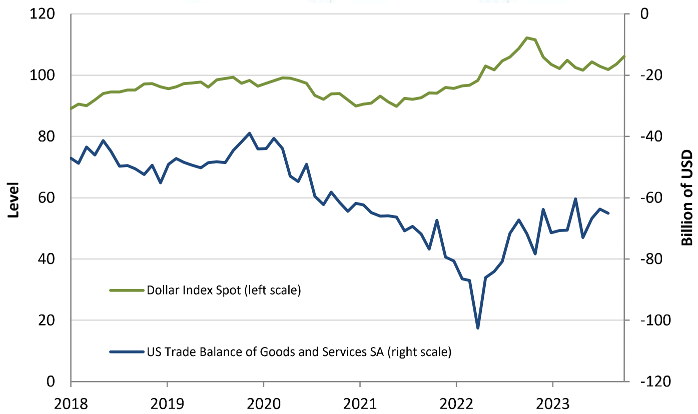
As we have already discussed our expectations for future growth, inflation and key interest rates, we believe that Treasury yields are currently too high, not only on the short end but also on the long end of the yield curve. We now expect yields to fall across the entire yield curve. The outlook for dollar-denominated bond markets therefore seems favourable to us, and sufficiently attractive to support a diversified exposure favoring investment-grade corporate bonds offering both attractive yields and prospects of capital appreciation.

The dollar temporarily benefits from rising rates

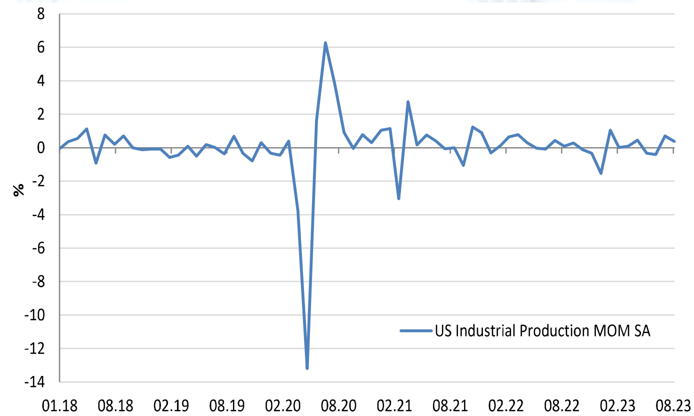
In the end, interest-rate dynamics proved stronger in the USA than in most other regions. The trade weighted dollar index took advantage of the rise in dollar yields to rise by +7% since its low point on July 15, returning to its mid-November 2022 level. The dollar had initially been the big winner from the Fed's change of monetary policy, before subsequently weakening. The recent rebound is likely to be short-lived, however, as monetary policy gradually normalizes and dollar yield curves adjust downwards.

The expected decline in dollar yields should trigger further weakness in the greenback. Interest in U.S. assets will certainly remain sufficient to curb a fall in the dollar, which should instead materialize as an erosion of the dollar.

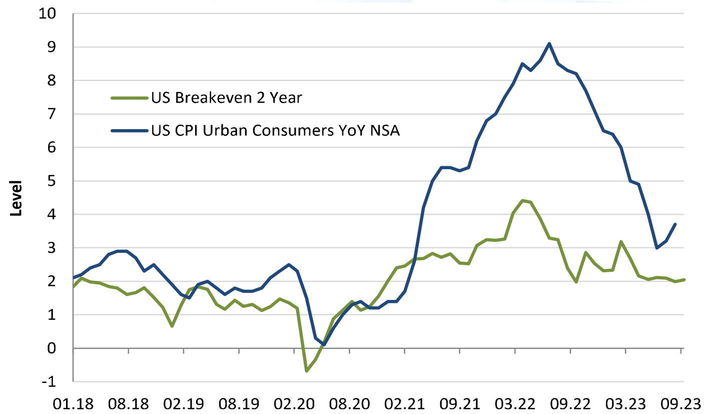
Trade Balance - Trade-Weighted US



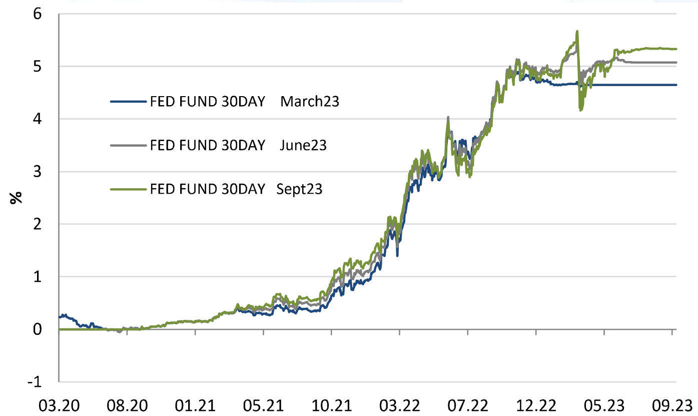
Industrial Production - US



Expected Inflation and CPI - US

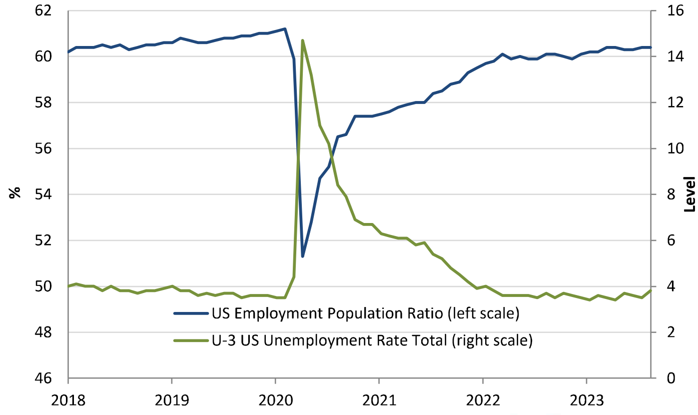


Fed Funds Futures

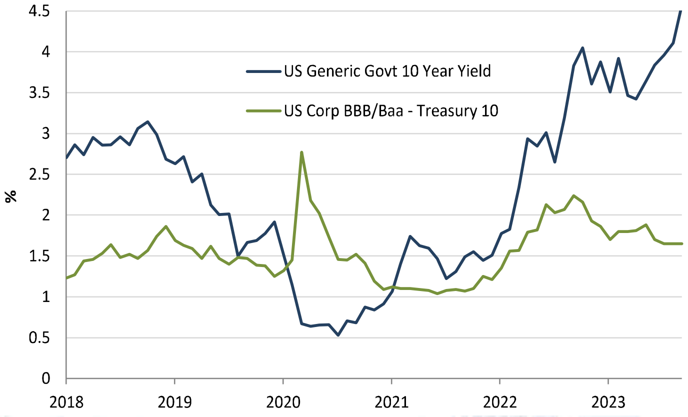


 Graph sources: BearBull Group / Bloomberg

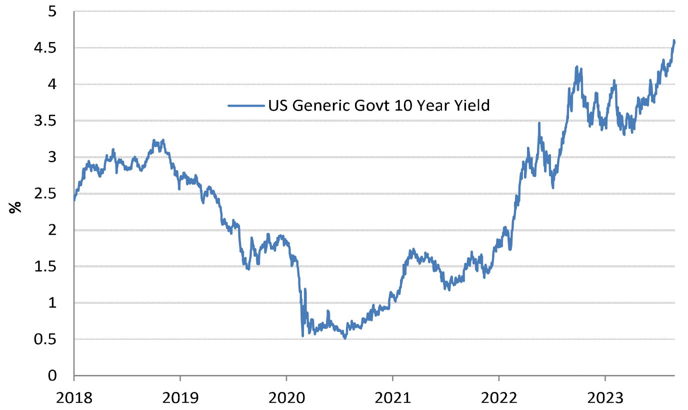
Unemployment Rate and Occupation Rate of the Population



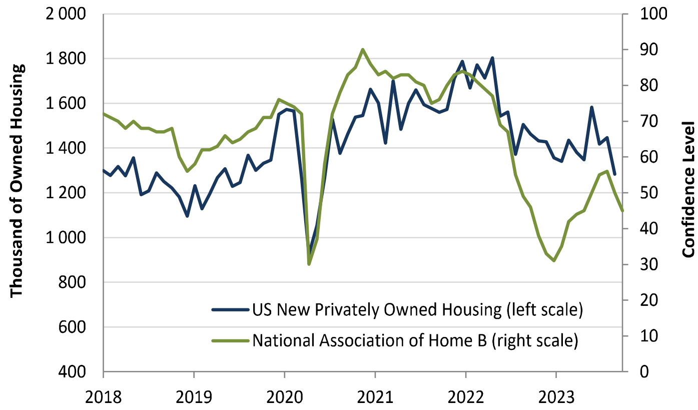
Yield Spread US Treasury-BBB 10 years



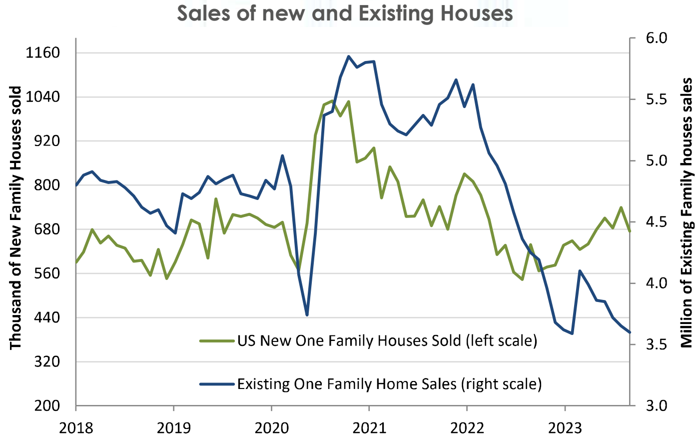
10-year US Treasury Bond Rate



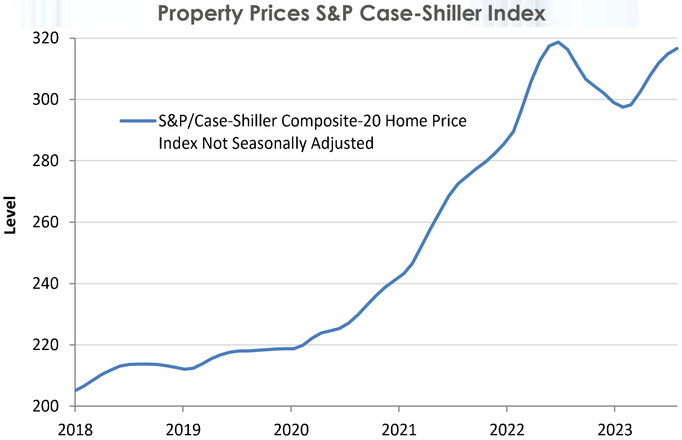
New Housing and NAHB US



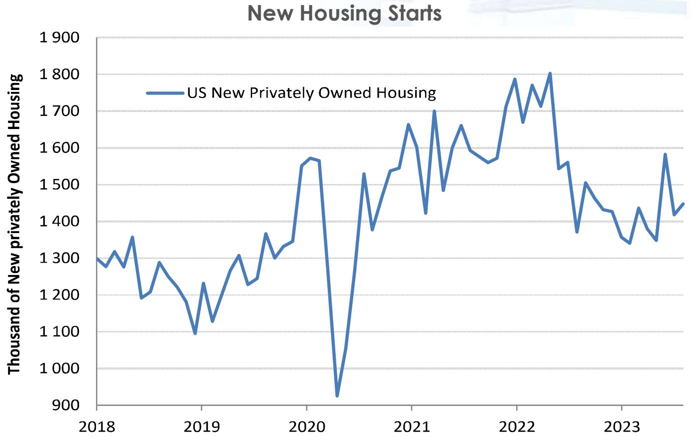
Sales of new and Existing Houses



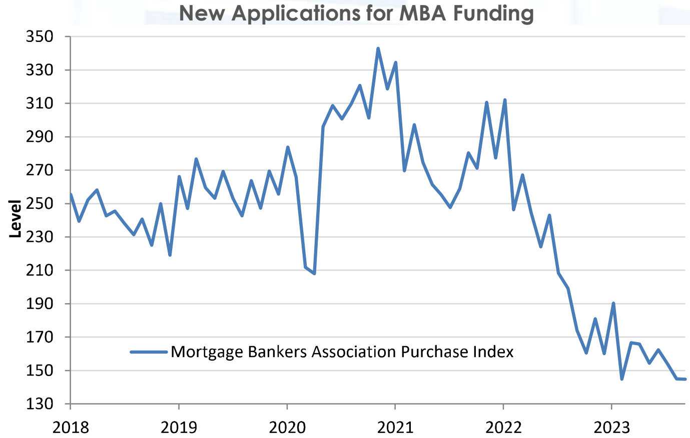
Property Prices S&P Case-Shiller Index



New Housing Starts



New Applications for MBA Funding



 Graph sources: BearBull Group / Bloomberg

MACROECONOMIC SCENARIO

Switzerland

- Significant slowdown in growth
- Private consumption and service exports on the rise
- SNB policy more restrictive than it seems
- Inflation stabilizes below the SNB's +2% target

Swiss economy slows sharply in Q2, with seasonally adjusted real GDP stagnating (0%)

The Swiss economy got off to a rather surprising start in 2023, finally recovering quite markedly after a last quarter of 2022 in which GDP stagnated (0%). GDP for the 1st quarter of 2023 initially showed growth of +0.5%, corrected to just +0.3% later, after adjustment for sporting events, which nevertheless exceeded economists' forecast of very slight growth of +0.1% at the start of the year. After a rather surprising start to the year, Switzerland's Q2 GDP slowed sharply, posting no growth over three months to the end of June. On a year-on-year basis, the Swiss economy remained positive, but declined to a moderate +0.5%. The Swiss economy thus turned out to be significantly weaker than expected, with limited overall support from the services sector, and most other components making a rather negative contribution. Value creation in industry was significantly reduced, while activity in services recorded above-average growth. The favourable start to the year in industry was largely reversed in Q2, with a -2.9% fall in activity. The chemical-pharmaceutical sector was also down by -2.3%.

Rising final domestic demand underpinned GDP, thanks in particular to strong private consumption, up +0.4%. A slowdown in growth in 2023 was widely expected, and is now materializing as some of Switzerland's major European economic partners are experiencing persistent difficulties that are also affecting Swiss momentum. The Swiss economy weakened slightly more than the eurozone as a whole in Q2 (+0.1%) after revision of initial data, and performed identically to the German economy (+0%) over the period under review.

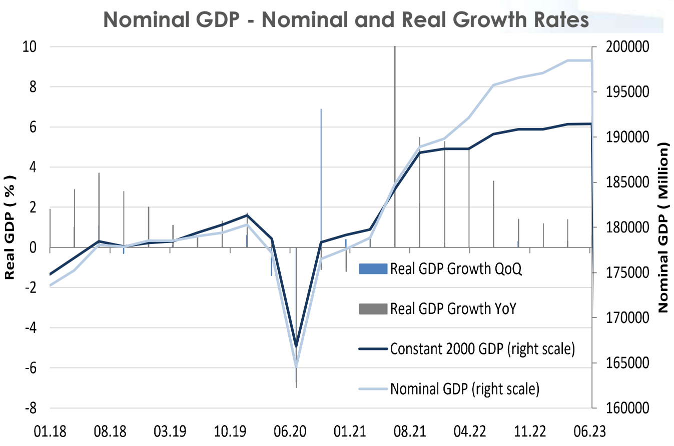
The quarterly evolution of our GDP is in line with quarterly sequences of gross domestic product development still close to zero, and therefore still insufficient to maintain annual growth close to the historical average. The outlook for the coming months will continue to be affected by a persistently uncertain international economic environment, although the risks associated with inflation and monetary policy are diminishing.

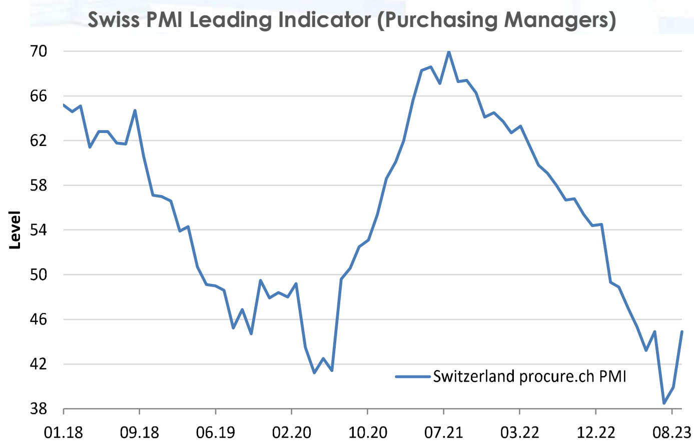
At the start of the year and at the end of Q2, our forecasts for annual Swiss GDP growth were +0.7% in 2023, but the results of Q2 call into question this expected performance for the year. The current quarter and the following one should be slightly positive (+0.2%), which may not be enough to enable GDP growth of around +0.7% for 2023 as a whole.

Private consumption and service exports on the rise

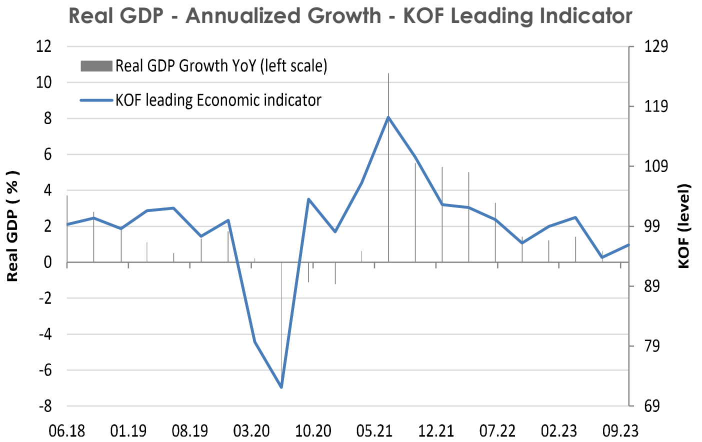
Household consumption proved relatively resilient despite a less favourable interest rate environment than in previous years. The SNB's monetary policy has increased pressure on interest rates in recent months, with significant effects on the cost of financing for households and businesses. The impact on rents is still limited, but could increase at the end of the year. Against this backdrop, the +0.4% rise in private consumption was satisfactory, although partly underpinned by higher spending on housing and services, particularly in the health sector. The increase in the number of tourists led to a very significant rise in value added in the hotel and catering sector (+5.2%). This trend is likely to continue in Q3, thanks to a particularly sunny summer and an increase in foreign tourist numbers. Most other service sectors also recorded increases in Q2.

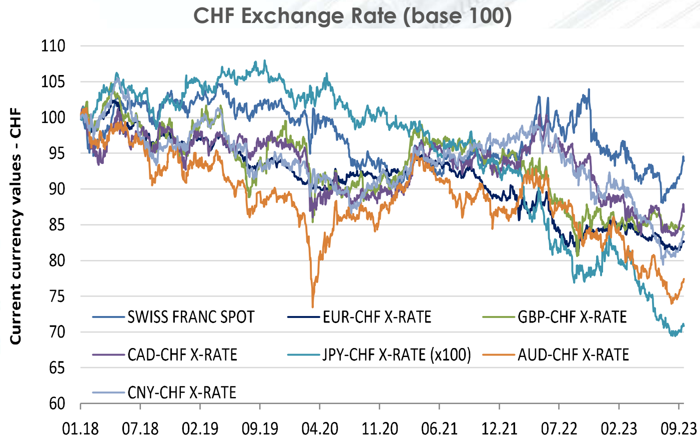
Value creation climbed in health and social services (+0.8%), business services (+0.7%) and recreational activities (+0.7%). In contrast, value creation stagnated in the transport and communications sector; while passenger transport increased, freight transport declined.





Graph sources: BearBull Group / Bloomberg





In financial services (+0.0%), value creation stabilized after several consecutive quarters of decline. In particular, fee and commission business showed signs of recovery in the wake of increased exports of financial services. Retail trade, meanwhile, posted a slight decline (-0.4%). Thanks to the wholesale and automotive trades, trade nevertheless ended the quarter with an above-average result (+2.1%). All in all, foreign trade made a positive contribution to GDP growth in Q2. The fall in goods exports was offset by an increase in services exports (+2.6%) and a decline in imports of goods and services (-3.7%). The construction sector suffered a sharp downturn, with a decline of -0.7% due to lower sales in all building and civil engineering segments. Construction investment was also negatively impacted by higher financing costs, contracting by -0.8%. Investment in capital goods also saw an overall decline of -3.7%, partly due to weakness in the IT sector. The manufacturing industry (-2.9%) also suffered from the effects of the strong franc, in a negative international environment for economically sensitive branches such as the machinery industry. As a result, exports of goods also fell (-1.2%).

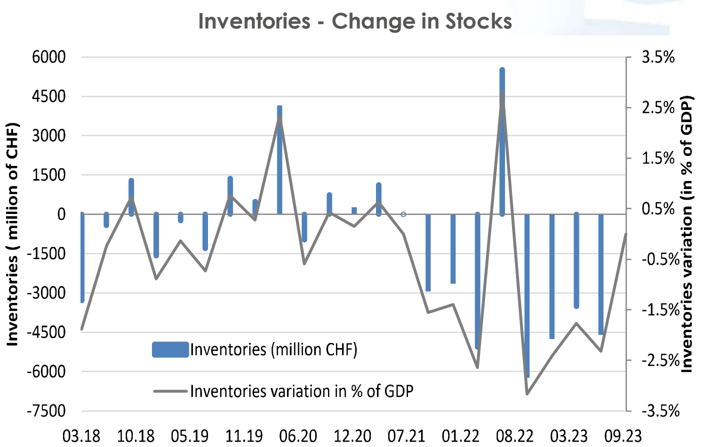
Leading indicators still not very encouraging

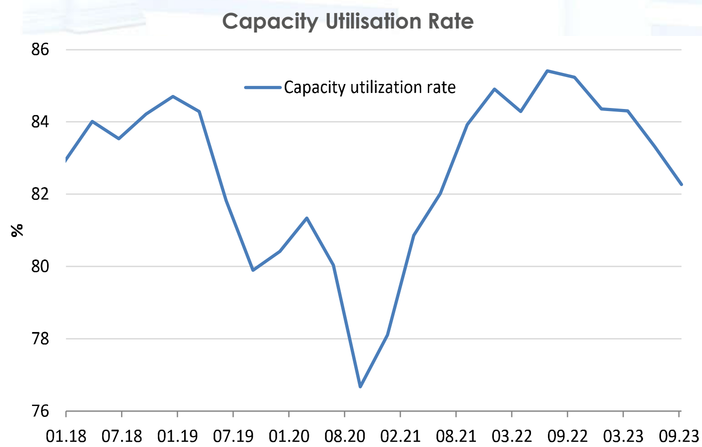
Leading indicators had initially risen in the first few months of the year, but then tended to fall back in the 2nd quarter and during the summer. The KOF economic barometer had recovered somewhat, rising to 99 in March, but then deteriorated again and remained very uninspiring at the end of August, with a value of 91.1, practically the lowest since July 2020. The worsening economic conditions in Switzerland seem to be affecting the industrial sector even more strongly, as illustrated by the manufacturing PMI indicator, which fell further over the summer to 39.9 at the end of August, its lowest level ever and well below its previous low point of April 2020 at 41.2. The leading indicator for the manufacturing sector has now been in decline since July 2021, as the strength of the Swiss franc adds further pressure and penalizes the competitiveness of Swiss industrial companies. The new orders indicator is also rather worrying, suggesting little likelihood of improvement over the coming months.

SECO's consumer confidence survey, meanwhile, suggests an improvement in household sentiment, but this is far from positive and remains very negative (-29.7) for Q3. The picture is similar in the CS survey, which shows a relapse in confidence and perception of the economic outlook (-38.6). Overall, leading indicators remain highly uncertain and do not yet point to a clear economic recovery in our country, while retail sales slipped by -2.2% in July year-on-year and industrial production was again negative in Q2 (-0.8%) year-on-year.

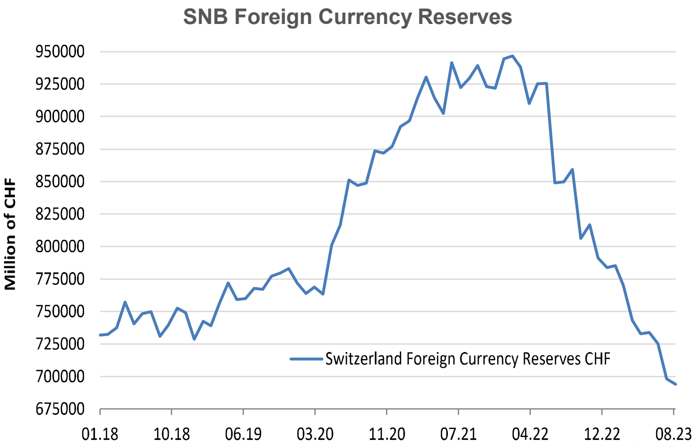
Inflation stabilizes below the SNB's +2% target

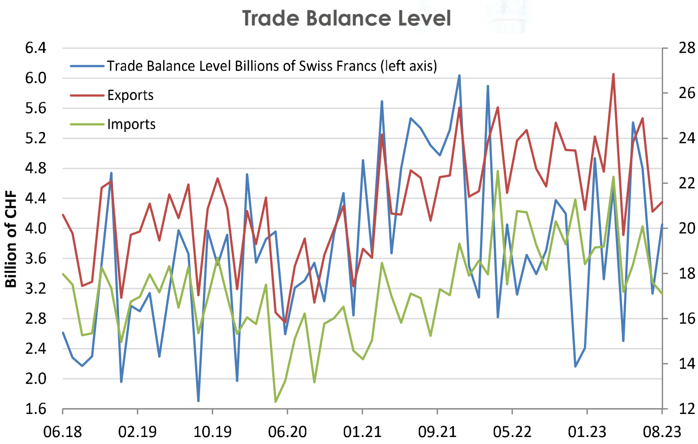
Swiss inflation figures for August confirm the trend towards a clear improvement in price trends in our country. With a moderate rise of just +0.2%, the Swiss CPI index is in line with our forecast made in July 2022 of a probable return to a reasonable level of inflation in our country by summer 2023. In fact, at that time, we suggested 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 during the first six months. We also suggested that price rises could be limited to +2.2%/year by June 2023, if our expectations of an average decline of around +0.2%/month were maintained for long enough. The inflation trend in Switzerland came as a pleasant surprise to many, but this new, slower momentum only confirms our analysis and augurs well for the months ahead. The CPI annualized rate is barely +1.6% and is already below the SNB's target. The consumer price index excluding energy and food is also below the SNB's target of +2%, which is an excellent result for our central bank, which can pride itself on having controlled price rises in our country.





Graph sources: BearBull Group / Bloomberg



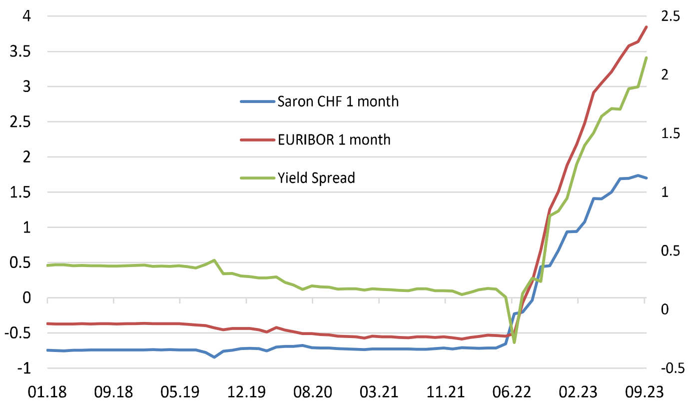


These developments could motivate the SNB to hold back its next rate hike on September 21, but it may decide on one last turn of the screw before taking a break from its cycle of key rate hikes. We expect Swiss inflation to remain subdued towards the end of the year, reducing the risk of interest-rate pressures. 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% rise 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 euro's -2% fall against the Swiss franc and the dollar's stability had no impact on prices during the quarter. The currency factor has therefore not made a major contribution to containing price trends in our country in recent months. In terms of import and producer prices, the situation quickly turned out to be favourable, as since the June 2022 peak of +6.9%, the PIP index has steadily declined into negative territory, indicating that prices have already been falling for three months. 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 begin to be passed on to consumer prices. This will contribute to a further decline in inflation in Switzerland, in a national context marked by wage stability and a very slight rise in unemployment from 1.9% to 2%.

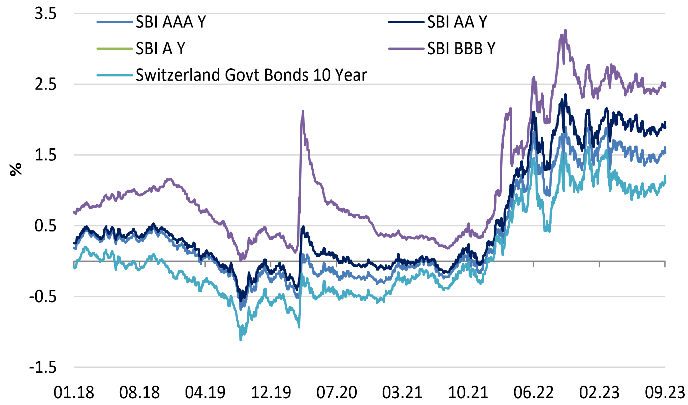
SNB policy more restrictive than it seems

The SNB still seems concerned about the level of inflation, despite the sharp decline in price indices which pushed the annual CPI (+1.6%) below its target (+2%). It is still considering further hikes to ensure that the price level remains below 2%. However, wage increases over the next twelve months should remain contained at around 2%, according to the latest KOF estimates. The recent rise in the value of the Swiss franc also continues to keep a lid on imported prices, which are down -0.6% year-on-year. The SNB is maintaining its bullish bias, even though it now appears much more pessimistic about future inflation than Swiss economists as a whole. With a forecast of +2.2% for 2024, this is well above the consensus estimate of just +1.5%. With key rates (1.75%) above July's published inflation figure of +1.6%, the SNB could already consider its action to have been a success, without envisaging any further hikes in the immediate future. Indeed, consensus expects a further rise of 0.25% to 2% in September. All the more so since, in a year of monetary tightening, the SNB has also been very active in reducing the size of its balance sheet. Foreign exchange reserves, which had reached CHF 946 bn in January 2022, have been drastically reduced by -26% in eighteen months, to CHF 694 bn. Total sight deposits also fell by -40%, from 754 to 459 billion. The SNB's monetary policy is more restrictive than it appears, also in comparison with that of the Federal Reserve, which reduced the size of its balance sheet by only -8%. The resilience of the Swiss economy to date has been remarkable, but the plummeting manufacturing PMI suggests a return to difficulties that should not leave the SNB indifferent. We therefore believe that key rates should be cut well before the 4th quarter of 2024, as currently envisaged.

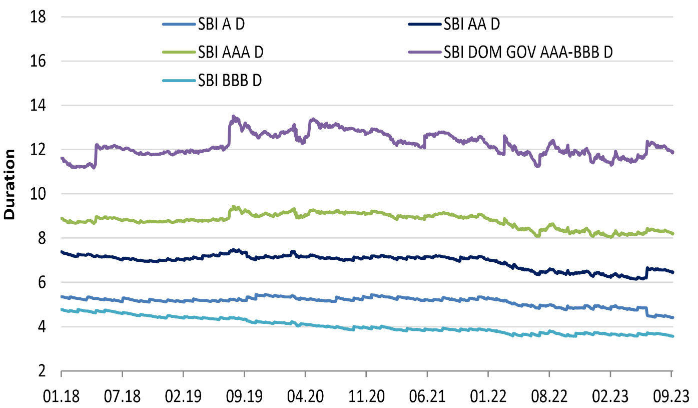
Saron/Euribor 1 Month Rate Differential



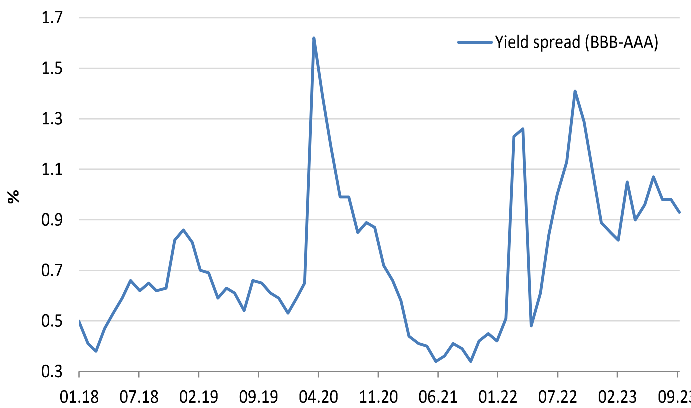
Interest Rate (Confederation, AAA, AA, A, BBB)



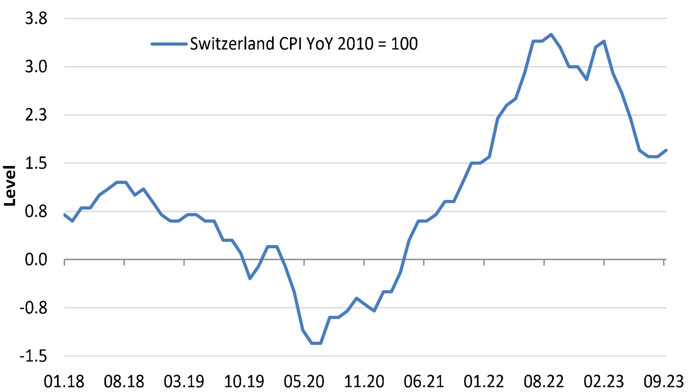
Duration of Swiss Bonds



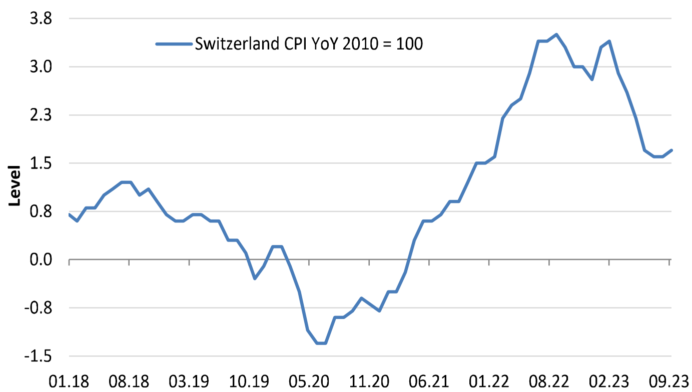
Yield Spread



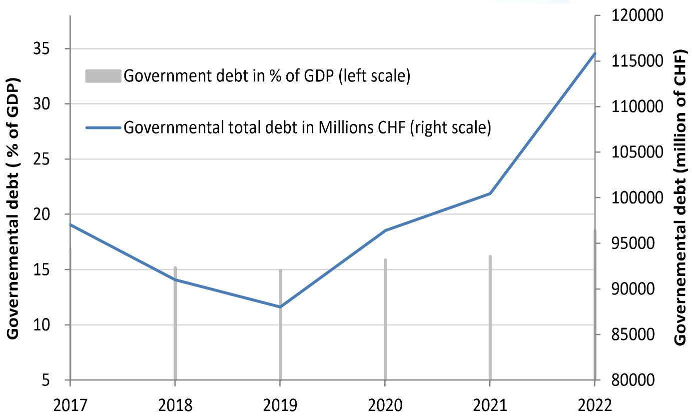
CPI Inflation



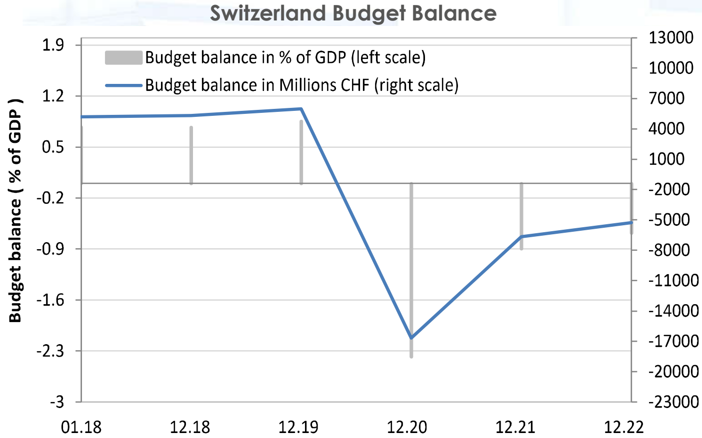
Federal Long Rates since 2018



Switzerland Government Total Debt



Switzerland Budget Balance



Graph sources: BearBull Group / Bloomberg

BearBull Global Investments Group

MACROECONOMIC SCENARIO

Eurozone

- Eurozone economy avoids recession
- Further stagnation in quarterly GDP in Q3 and Q4
- ECB to raise key interest rates to 5%
- Falling inflation still insufficient for ECB

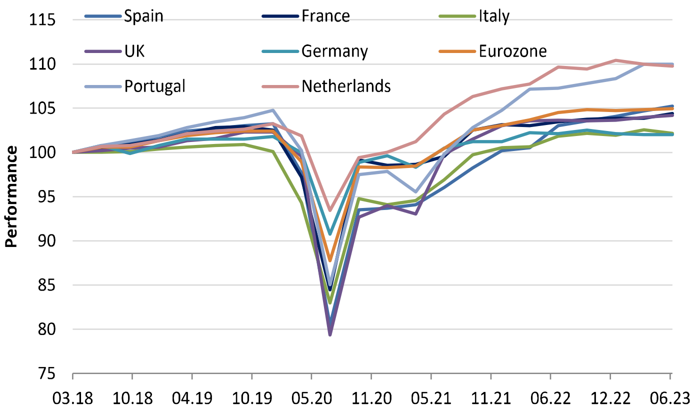
Eurozone economy avoids recession

Eurozone GDP growth in Q2 was exactly in line with our forecast of a barely positive +0.1%. However, this was significantly weaker than the consensus forecast of +0.3%. We were predicting a very weak Q2, but it's interesting to note that even modest momentum is resisting headwinds. After several quarters of negative expectations from economists predicting a recession in the eurozone, their recent optimism has once again proved excessive. The slowdown in activity in the eurozone is clear, but the economy's performance is slowly deteriorating. It has to be said that the eurozone economy has once again thwarted negative expectations, recording another quarter of relative GDP stagnation rather than a collapse in economic momentum. Overall, there was very little activity in any of the GDP components, with household consumption recording a result of 0% and +0.2% year-on-year, government spending also stagnating and rising by just +0.2% year-on-year, and the only notable increase coming from capital goods investment, which rose by +0.3% for a result of just +1.1% year-on-year. The only notable increase came from capital goods investment, which rose by +0.3%, for a result of just +1.1% year-on-year. Eurozone GDP advanced by +0.5% year-on-year. The -0.7% drop in exports over the quarter weighed on the overall result and is a cause for concern. The difficulties encountered by households are therefore very real, even though the evolution of their spending has simply stagnated. Contrary to expectations, it is not the situation in Germany, the eurozone's leading country, that is at the root of this economic stagnation. Germany's economic momentum (0%) was nil, and it was rather the negative contributions of Holland (-0.3%), Italy (-0.4%) and Austria (-0.7%) that dragged down the Eurozone's performance, while France (+0.5%) and Spain (+0.4%) managed to record increases in their national GDPs. This stagnation in Eurozone GDP is relatively similar to that of the European Union as a whole, where aggregate GDP was perfectly stable. The resilience of the European economy remains surprising. In the current context, serious declines in real purchasing power are being caused by rising inflation. The European economy is faltering and approaching a new danger zone in the second half of the year. We believe that rising interest rates and financing costs are only just beginning to affect consumption

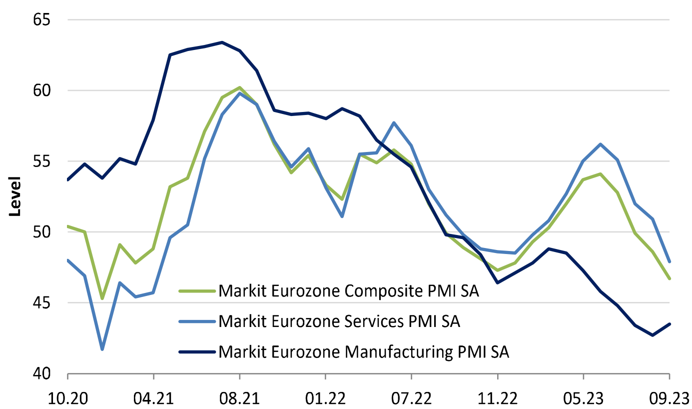
Further stagnation in quarterly GDP in Q3 and Q4

Eurozone aggregate GDP growth is likely to be 0% at best in Q3 and Q4. In this event, annual growth should hardly rise above +0.5%. Our forecast today is scarcely different from that at the start of the year, and we still believe that the eurozone will barely avoid a recession, ending the year with weak GDP growth of +0.3% to +0.4%. In contrast to our outlook for stagnation in the European economy over the coming months, which is likely to weigh on the full-year result, the ECB's adjusted forecasts seem more optimistic and certainly subject to disappointment. The ECB still believes that GDP growth for the year as a whole could be close to +0.7%, after long believing that an increase of +1% was likely. Without government support, this growth forecast will struggle to materialize. However, even if a slight increase were possible, we believe it would certainly be offset by a fall in household spending. The services sector will undoubtedly be more affected by the loss of household purchasing power. In the short term, we are already seeing a further decline in industrial production in the eurozone of -1.1% in July, following a slight upturn in April and June. Monthly data remain volatile and do not yet reveal any real trend, but the upturn will have been short-lived. Another very weak start to the quarter suggests that the manufacturing sector remains fragile and could yet weigh on eurozone GDP. The same trends can be seen at the start of Q3 as in the Q2 national GDP data, with German and Italian industrial output weakening, while that of France and Spain is rising.

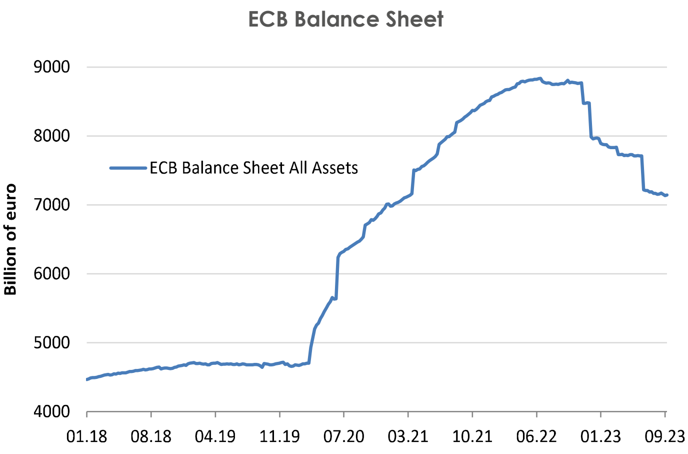
GDP Growth - Eurozone

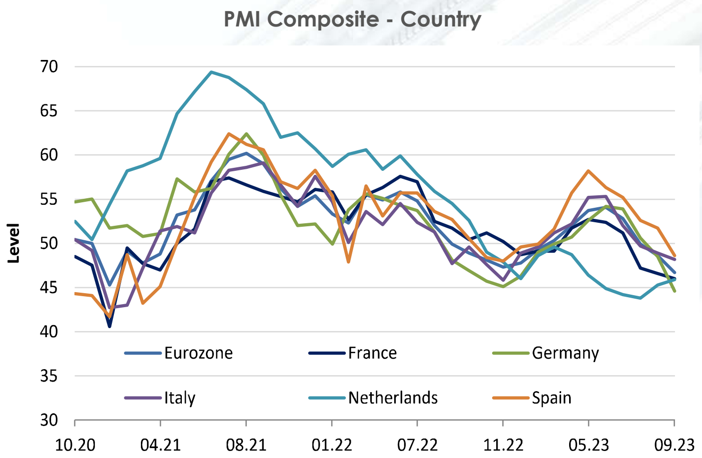


Manufacturing, Service and Composite PMI



Graph sources: BearBull Group / Bloomberg





Leading indicators point to recession

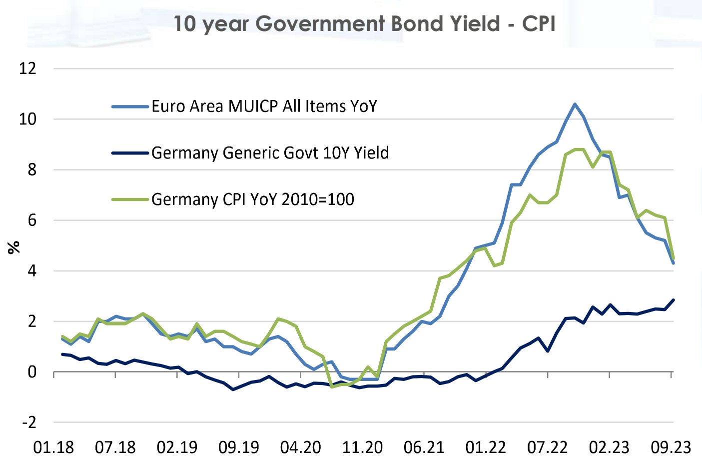
The latest releases of PMI leading indicators for August failed to live up to economists' expectations, and clearly suggest a probable slowdown in the manufacturing sector and reduced momentum in services. The composite indicator fell in one month from 47 to 46.7, and has thus been above the growth threshold for several months. This result is largely underpinned by the services segment, which nonetheless struggled to withstand the various pressures in August, slipping from 48.3 to 47.9. The leading manufacturing PMI indicator for the eurozone continues its decline in the contraction zone, falling in August from 43.7 to 43.5. He approach his more low level reached at the deeper pandemic of the 1st half 2020. The trend in the PMIs suggests that the eurozone economy will find it difficult to record growth in the 3rd quarter and subsequent months, as it continues to be affected by higher interest rates and credit costs. Trends in the main parameters used to assess credit conditions also suggest that they are deteriorating for both households and businesses, thus increasing the risk of a weakening in the economy and consumption.

Confidence indices fall again

Household confidence for August was relatively unchanged, stabilizing after nine months of improvement, despite rising financing costs and declining purchasing power. The European Commission's indicator remains gloomy, however, with a reading of -16.0, albeit a marked recovery from September's low of -28.7. The main concern remains price trends, which are having a dramatic impact on household purchasing power. Households are still concerned about CPI trends, despite a marked decline in this measure since its peak in October 2022. Confidence indices for both industry and services sank further into negative territory. On the contrary, they continued their decline in June, sliding to their lowest level since August 2020 for the former and May 2021 for services. These persistently low levels of confidence are likely to influence economic performance in the 3rd and 4th quarters.

Falling inflation still insufficient for ECB

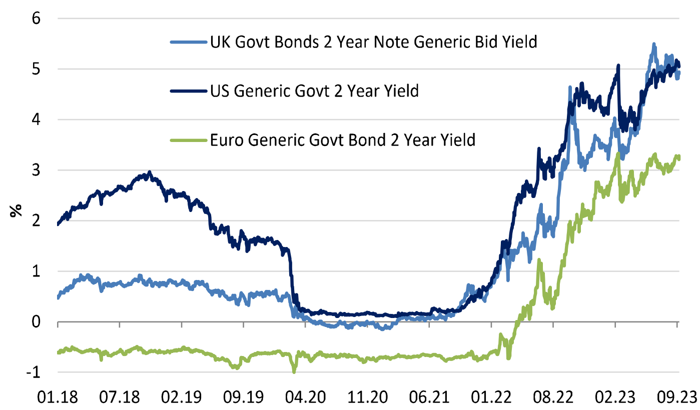
Eurozone inflation rebounded by +0.6% in August, thus halting the downward trend observed in recent months. On an annual basis, the decline in inflation is still very encouraging, despite stabilizing at +5.3% in August. It is now well below the peak level of +10.7% reached in October 2022. After ten months of declining prices, inflation is still logically a key concern for households, but it may already be declining sufficiently to help reduce their uncertainty. The energy/food segment had initially made a marked contribution to the volatility of the CPI index, and has also recently contributed to the decline in inflation measured by the overall index. The index excluding food and energy now registers an identical rise of +5.3%, and appears to be in a trend-lowering phase. On the producer price front, the situation has improved considerably, with a final decline of -0.5% in August confirming the downward trend in prices. On an annual basis, prices have even fallen by -7.6%, which should give companies some flexibility to adjust their selling prices downwards. The sharp decline in producer prices should therefore soon have a noticeable effect on consumer price indices. However, inflation in the eurozone remains too high, even if signs of a slowdown should contribute to a further decline in inflationary pressures. The ECB's inflation forecast for the year as a whole is still +5.6%. The current situation is therefore already relatively ahead of the ECB's forecast.



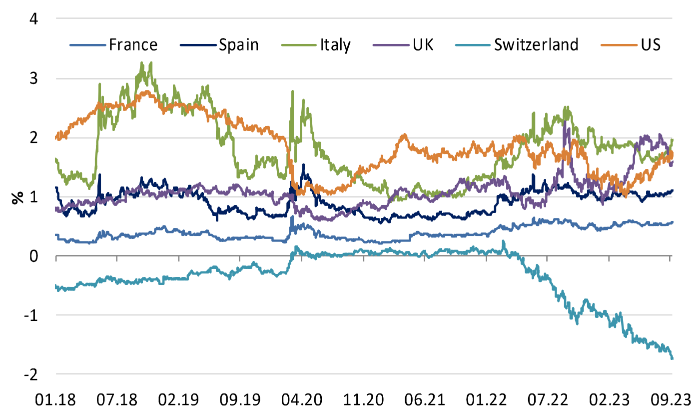
 Graph sources: BearBull Group / Bloomberg

BearBull Global Investments Group

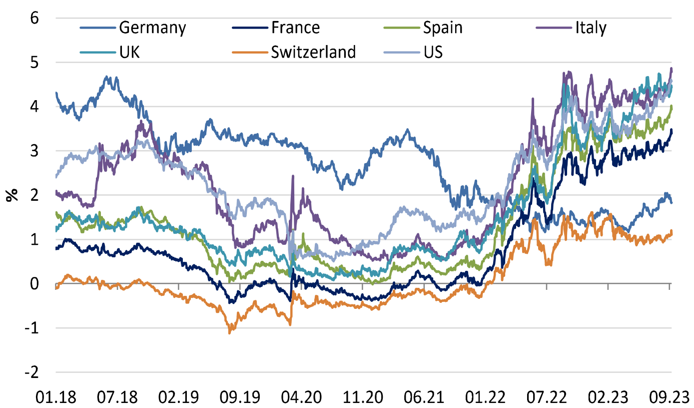
2-year Government Rates (US, Euro, UK)



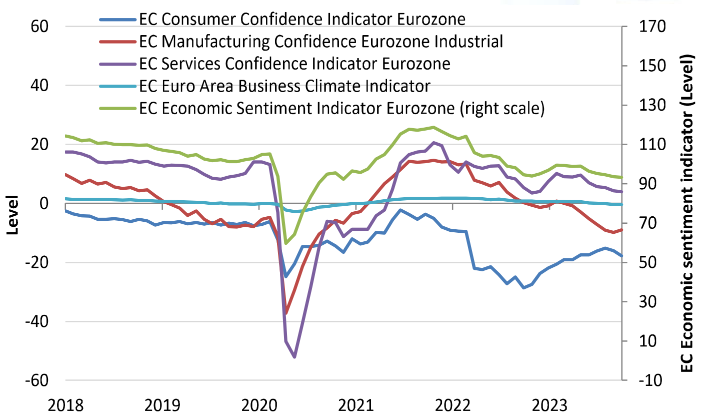
Risk premium - Government vs Bund



10-year Government Bond Rate



Confidence in Europe (Economic Confidence Index)



ECB to raise key interest rates to 5%

Despite a fall in inflation to +5.3% year-on-year in August, and an ECB estimate of +5.6% for 2023 as a whole, the ECB does not seem ready to consider this result better than it had hoped. The institution is not changing course, and still wants to show its determination to fight inflation and bring price trends down to +2%. With this in mind, the ECB once again raised its key rates in September for the tenth consecutive time by +0.25%, noting in particular that the inflation outlook was still too high and that the expected decline was indeed materializing, but at an insufficient pace. She also stressed that the high degree of uncertainty required a flexible policy linked to the constant evolution of available data. In other words, the ECB confirms that it will assess the inflation outlook by taking into account a broad spectrum of economic and financial information in order to adjust its policy.

Key rates are now at 4.50%, but still well below annual inflation. Consensus still seems to be expecting the monetary tightening cycle to end soon, partly due to forecasts of an economic slowdown, whereas they were already expecting the cycle to end at around 4.5%. In our view, however, this remains unlikely, unless the CPI accelerates sharply downwards over the next few months, which we do not consider likely. 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 her 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 into account differing national trends, and in particular the persistent higher inflationary pressures 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 sufficient impact on prices to achieve its objective.

Despite the recent change in the expected projection of these rates, we believe that the ECB will proceed with two further key rate hikes while economic growth shows more significant signs of deceleration.

Economic slowdown will not prevent euro bond yields from rising

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 (3.7%), in Europe, ECB rates (4.5%) are still much lower, and should rise further above 5.5% to be above inflation rates. US medium-term government bond yields (4.25%) are also higher than current US inflation levels. In Europe, ten-year government yields are just 2.6%, almost 300 basis points below the CPI index of +5.6%.

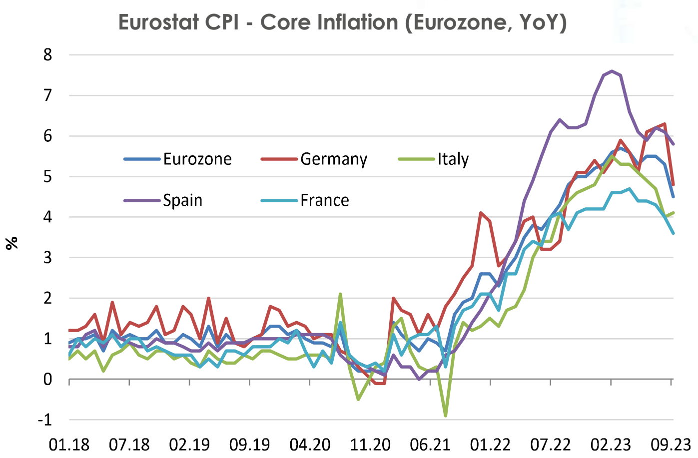
Against this backdrop, it seems extremely unlikely to us that European bond yields will stabilize at these levels in the immediate future. Ten-year German government yields (+2.6) need to tighten significantly simply to close the gap with the inflation rate, especially as German inflation is still at +6.1%.

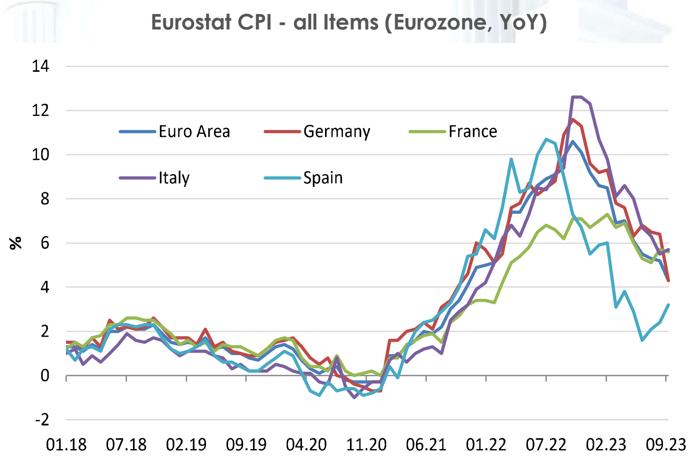
Graph sources: BearBull Group / Bloomberg

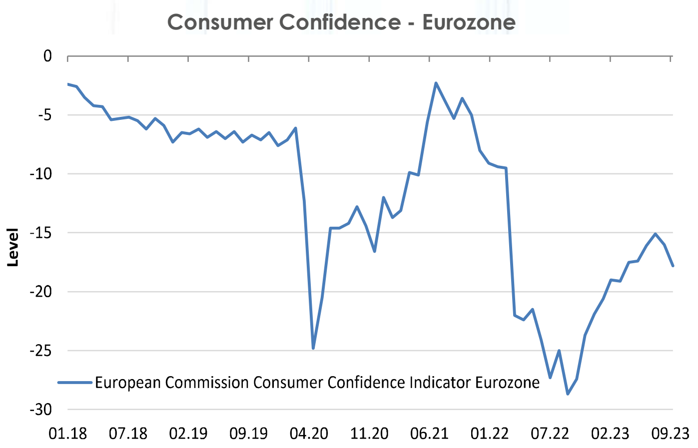
Since October 2022, German ten-year government yields have stabilized at just below 2.5%, after rising 300 basis points since the nadirs of 2021 at -0.5%. In our view, this level of yield is clearly insufficient in view of inflation, and corresponds to a negative real yield of -1.4% in the short term 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 the two-year and ten-year maturities. Now is not the time for yield pick-up strategies, but for managing the risk of capital losses. The European capital market presents very significant risks which may also have major consequences for Italian (3.9%), Spanish (3.2%), Portuguese (2.9%) and Greek (3.5%) government bonds, which will not be spared by the expected adjustment, despite higher yield levels.

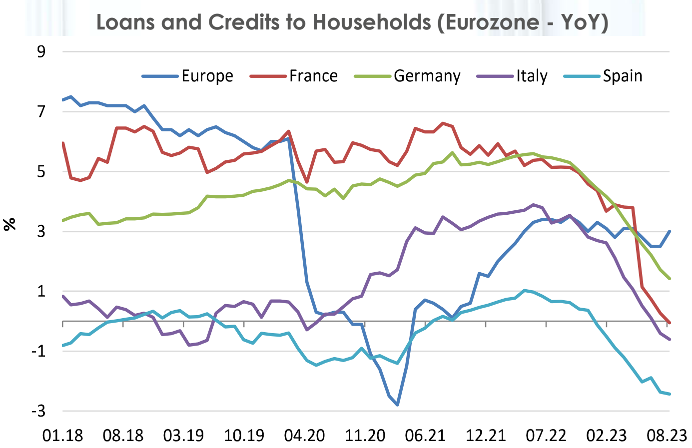
Decoupling of monetary policies in favor of the euro

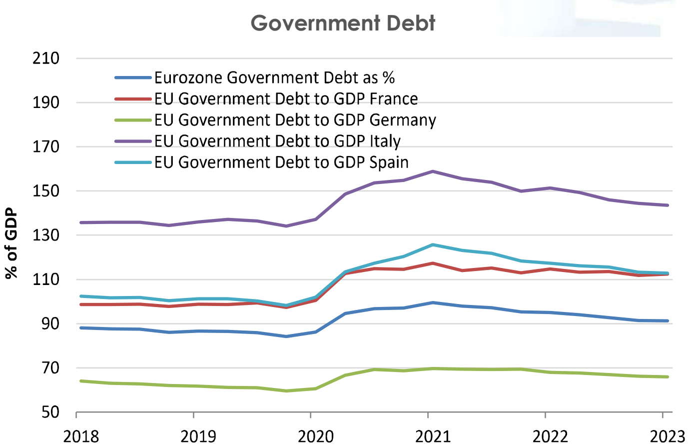
Over the coming months, the ECB is likely to be one of the most restrictive of the major central banks. Market expectations for the level of key rates marking the end of the current monetary tightening cycle will continue to evolve over the next few months, but our six-month expectations seem to favour an increase in the yield spread with Swiss and Japanese rates in favour of the euro, as well as a decrease in the spread with dollar rates, which will also potentially support an appreciation of the European currency. For a few months, this environment should support a euro appreciation of around +5% against the dollar and the franc. Our outlook for the next quarter is therefore favourable for the European currency.

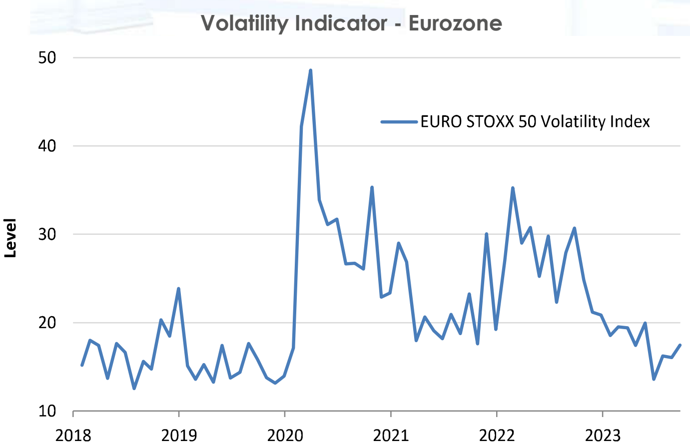












Graph sources: BearBull Group / Bloomberg

MACROECONOMIC SCENARIO

United Kingdom

- Resurgence of risks to the British economy
- Recession in the 2nd half
- Further worrying declines in leading indicators
- Bank of England sees the end of the interest rate hike cycle in sight
- New highs for interest rates?

Resurgence of risks to the British economy

For several quarters now, the British economy has been resisting economists' forecasts of a likely recession. In Q2, it seems once again to have surprised forecasters, posting another slight increase of +0.2%, ahead of the forecast of stagnant growth (0%). This follows a small rise of +0.1% in Q1, but is the strongest increase for a year. However, the British economy remains threatened by a complicated situation in the labor market, real estate, foreign trade, industrial production, inflation and, finally, domestic demand. This positive result once again enables us to avoid a recession at the end of June, and to avert the immediate spectre of two consecutive quarters of decline. At the end of June, inflation still out of control, a restrictive monetary policy and rising financing costs had not yet had the effects logically expected, as they had not weighed sufficiently on momentum to push the economy into decline. Naturally, the outlook does not seem any better to us today, particularly in view of 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 economy's overall resilience is essentially due to a domestic dynamic that remains surprisingly resilient, underpinned by a +0.7% rise in private consumption and a marked +3.1% rise in public spending over the quarter. At the end of June, therefore, the British economy was in a very weak state of growth and, in our view, temporarily in a state of suspended animation, as the forces at play should eventually bite back more sharply on consumption and investment, which were stable over the period. On an annual basis, GDP growth was still +0.4%. We do not believe that this result is a sign of recovery, but rather that the third quarter should begin to show real weakness in the economy, which should then be less supported by these two domestic components.

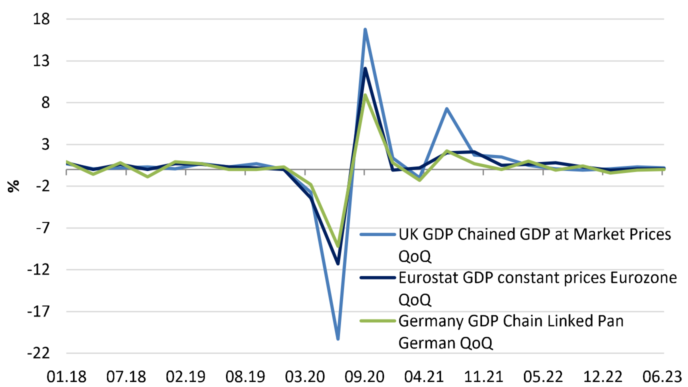
Recession in the 2nd half

Household resilience is likely to flag a little as government spending also stabilizes. As a result, a real slowdown should finally occur in Q3, and certainly continue towards the end of the year. The recent publication of GDP figures for July already seems to confirm this forecast of a decline in UK activity. The British economy recorded a net decline of -0.5% in July, the sharpest fall for seven months. The contraction in July's GDP completely wiped out June's advance, and came in well above expectations (-0.2%). This result is probably an indication of weakness that could plunge the British economy into a new phase of decline. The BoE was expecting growth of +0.4% for Q3, which is unlikely to materialize given the growth shock recorded for July. The downturn in activity was relatively widespread, with industrial production falling by -0.7%, echoing the -0.8% decline in the manufacturing segment, while construction declined by -0.5%, as did the services sector (-0.5%).^In July, the PMI leading indicators also followed a similar trend, pointing to a worsening short-term outlook. The manufacturing PMI slipped to 45.3, while the services PMI fell more rapidly from 53.7 to 51.5, both pulling the overall index to 50.8, close to the growth limit. The economic context in the UK is therefore worsening, pointing to a negative third quarter and another difficult end to the year. Our GDP growth forecast for the year has been adjusted to +0.1%.

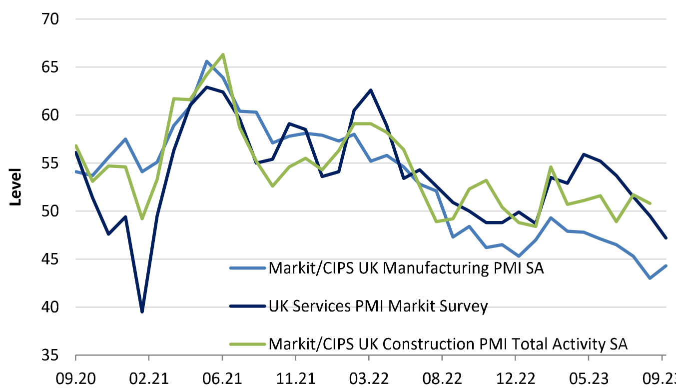
Further worrying declines in leading indicators

As we approach the end of Q3, the leading indicators published for August confirm expectations of economic decline over the summer period. The manufacturing PMI is now down to 43, well below the theoretical growth threshold of 50, the lowest level ever reached after

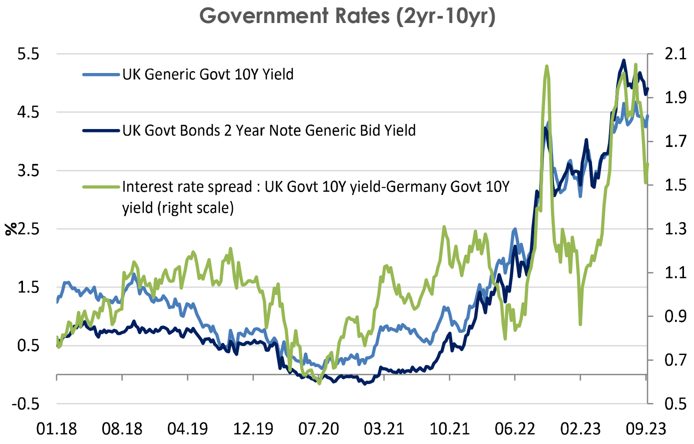
Quarterly GDP Growth - United Kingdom

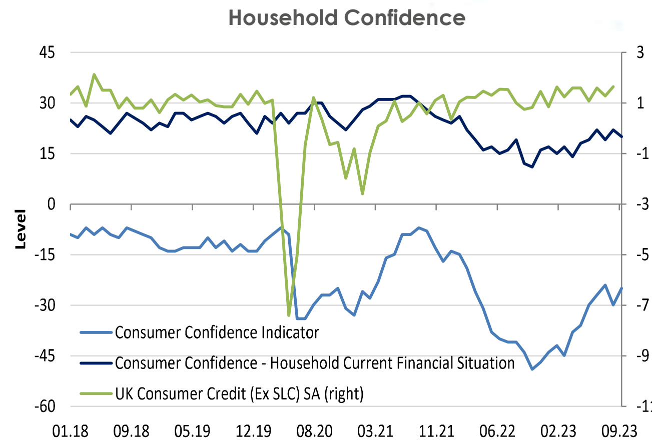


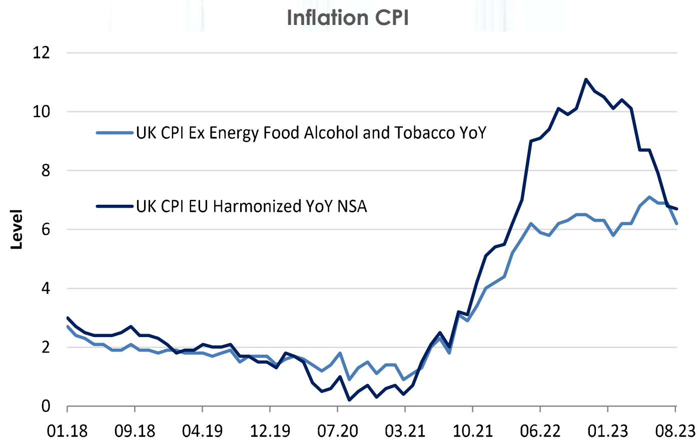
PMI Indicators (Manufacturing, Services, Construction)

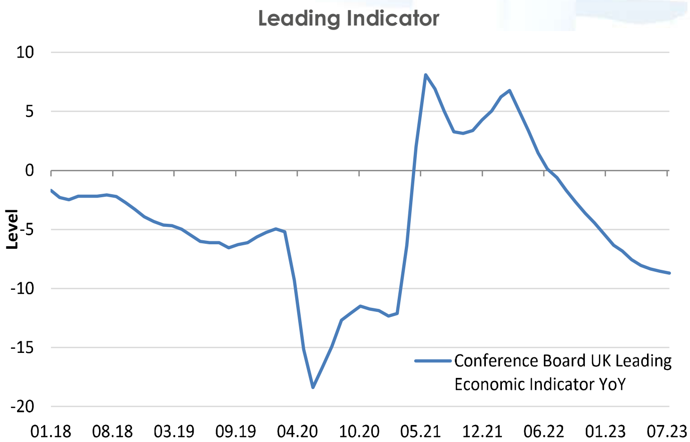


Graph sources: BearBull Group / Bloomberg









a steady decline that began in May 2021, with the exception of the low point reached in April 2020 in the midst of the pandemic. The services PMI (49.5) also fell below the growth threshold, hitting its lowest level in recent years, which is also a worrying result for the overall performance of the domestic segment. The composite indicator (48.6) also fell below the 50 growth mark. As the PMI measures do not include the public sector, we believe that they should not be able to compensate for the decline in private-sector activity.

Significant downturns in the job market

The labor market is beginning to show some signs of weakness, as can be seen from the level of the unemployment rate, which has finally been rising above 4% for several months. The July unemployment rate (4.3%) is the highest in a non-recessionary context. Employment growth has plummeted since its April peak (+250k), and contracted again in July (-207k) following a -66k decrease in June. The change in momentum is finally clear, and should reinforce the BoE's policy of calming the labor market. The potential risks of wage inflation picking up again are thus diminishing significantly, but the +7.8% rise in weekly earnings excluding bonuses (3m/GA) remains very high. It is at its highest for a decade, and shows no sign of abating yet. 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 for the central bank to change its policy for several months.

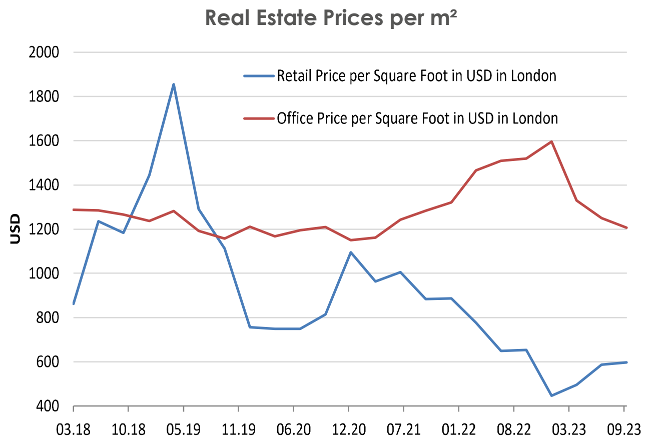
Household confidence and questioning

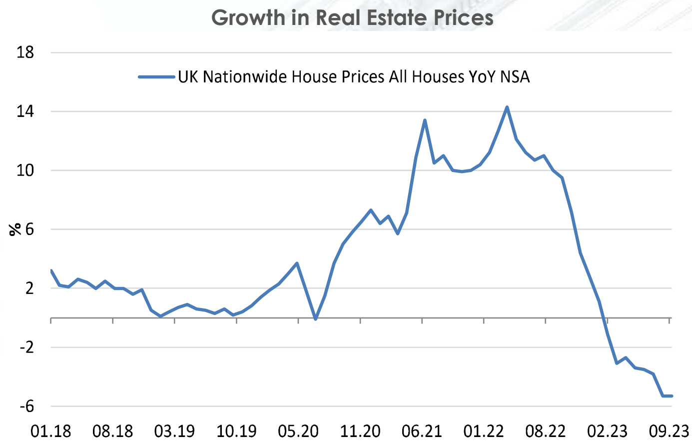
Household living standards are up again for the first time since early 2002, thanks to a rise in real wages and a significant increase in nominal wages. Although we expect these increases to stabilize rapidly, for the time being, households appear to see this rise as a very positive factor boosting their confidence levels. Indeed, the household confidence indicator (GFK) in August (-25) continued the gradual upward trend begun in September, although it remains well below its pre-health crisis level. The recent rise in the unemployment rate and the fall in job creation are bound to worsen consumer sentiment and resilience in the face of slowing inflation and the sustained rise in financing and credit costs. Retail sales reacted with a drop of -1.2% in July, suggesting that household expectations and confidence are being called into question.

Inflation finally coming down

Inflation figures for July show the first month-on-month price contraction of -0.4% since January (-0.6%). On a year-on-year basis, the CPI index for July falls to +6.8%, clearly down on its June level (+7.9%) and its peak of +11.1% in October 2022. Although inflation has begun a new, clearer downward trend in the UK, it should now record several negative periods to satisfy consumers and the central bank. On the producer price index (PPI) side, the decline is much sharper, and is very encouraging for the forthcoming evolution of the CPI indices. Indeed, the year-on-year decline of -0.8% in July represents a significant reversal of the trend, compared with the +19.7% rise recorded in July 2022. While these few measures may be a source of satisfaction, the trend in the core CPI index, excluding food and energy, remains largely a source of concern for the BoE.

Graph sources: BearBull Group / Bloomberg





The latest published figure of +6.9% is now similar to that of the overall index, but remains close to its all-time high. This last point still suggests that the British central bank will not be able to change its policy and should maintain pressure on rates. A more marked slowdown in the UK economy clearly seems essential to the decline in the level of household consumption of services, in order to have a positive impact on the core index.

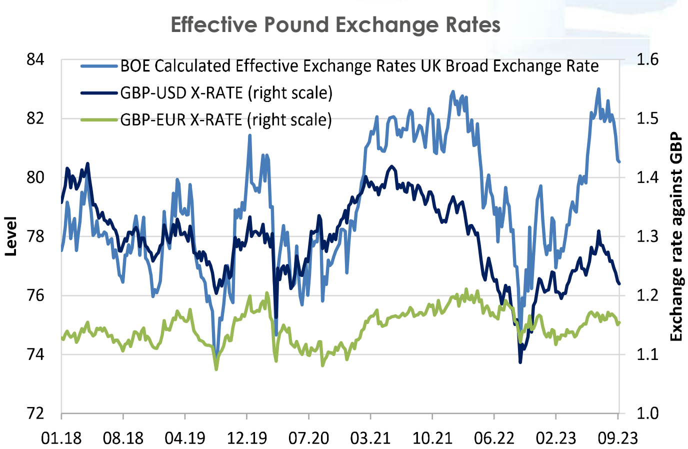
Bank of England sees the end of the interest rate hike cycle in sight

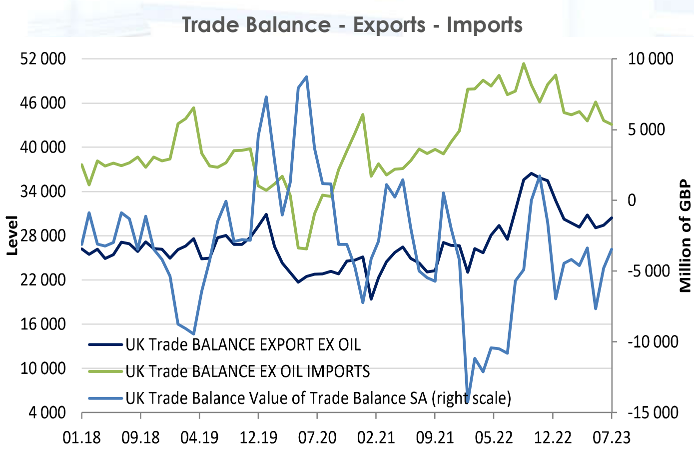
The economic slowdown that is beginning to emerge, increasing the risk of recession, is certainly beginning to fuel debate among the members of the UK central bank's Monetary Committee. After fourteen consecutive rate hikes and one of the quickest restrictive monetary policies to be implemented in December 2021, the BoE is now facing a new predicament just days before it has to decide whether to proceed with a fifteenth hike or whether the time for a pause has finally come. Despite an already severe restrictive policy, the fight against inflation does not yet seem to be won. Indeed, British inflation is almost twice as high as in the USA, for a similar level of interest rates and virtually zero growth. The current level of key rates at 5.25% is still well below annual inflation. A further increase on September 21 still seems highly likely, despite a number of statistics suggesting a clear economic slowdown since July, while the probability of a status quo is now 50%. The BoE had already been hoping for several months that its action would have a more rapid impact on consumption and growth, which finally stalled in the 3rd quarter. The fall in energy prices has not been enough to significantly calm the rise in prices, while wage growth remains strong. These factors show no signs of a forthcoming slowdown trend, which would enable the necessary adjustments to be made to bring down inflation in services.

However, the British monetary authorities are likely to consider that the current economic slowdown and signs of a softening labour market already offer encouraging prospects for a reduction in inflation. Our central scenario takes into account the positive effects of a fall in producer prices on consumer price indices, which should enable the BoE to pause its rate hike policy in September. However, it remains likely that the MPC will prefer to perhaps raise rates one last time, suggesting at the same time that a pause from this point onwards would certainly be appropriate while we wait to see the full effects of the restrictive cycle transmitted across the various sectors of the economy.

New highs for interest rates?

Ten-year UK government yields have once again reached the 4.5%-4.75% threshold that was hit in September 2022, when a wave of panic swept through the sterling capital markets following the announcement of the « mini-budget », which set the world alight and quickly engulfed both foreign exchange and capital markets. Long-term gilt yields thus rose to 4.75% in August, driven by the disappointing trend in inflation and the prospect of further key rate hikes that could take short-term rates to 6%. Over the past three months, long rates have hovered around 4.5%, awaiting clearer signs that the long-awaited recession is finally upon us. Following this development, the sterling yield curve remained inverted, as short rates also rose by 0.25% in August, taking the short end of the curve to 5.5%. 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 close to +7%. By international comparison, the yield curve still seems too low for the level of inflation observed in the UK. However, following recent macroeconomic developments, a phase of stabilization and limited decline in long yields could still materialize, particularly if the BoE were to decide on September 21 to pause in its strategy.





Graph sources: BearBull Group / Bloomberg

MACROECONOMIC SCENARIO

Japan

- Japanese economy surprises favorably in Q2
- Positive GDP trend for 2nd half
- Inflation continues its downward trend
- End of negative key interest rates for the BoJ?

Japanese economy surprises with +1.2% growth in Q2 and a positive outlook once again

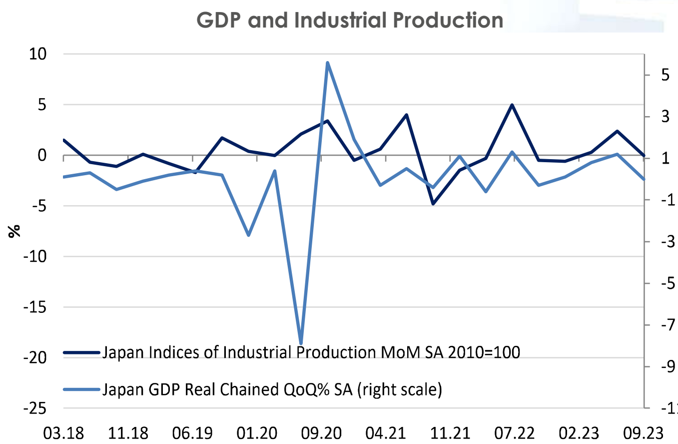
After a clear rebound in economic activity in Japan in Q1 (+0.7%), which followed a stagnation in Japanese GDP in Q4 2022, Q2 confirms the resumption of growth in Japan and removes the spectre of a recession often evoked at the start of the year by the majority of economists. Economists were expecting at best a very moderate recovery at the start of the year, and clearly appear to have been overly pessimistic in the light of 1st half results that were well above expectations. The Japanese GDP result result for Q2, after an initial revision, showed quarterly growth of +1.2%, for an annualized GDP increase of +4.8%. This rate of growth is already well above the consensus forecast of +1% for the year as a whole. The export sector (+1.8%) played a major role in driving GDP growth over the period, while private consumption (-0.6%) posted a sharp decline. Business spending also made a negative contribution (-1%), as did the inventories component, which had an impact of -0.2%. The GDP revision suggests slightly weaker growth than initially estimated, due in particular to still cautious household behavior and weaker consumption. Wage growth proved insufficient to sustain domestic demand, with real income growth reduced by -2.5%. We also note that the bulk of GDP growth was attributable to a marked recovery in exports, indicating a relatively high level of dependence on trends in international demand. The world's third-largest economy thus continued to surprise with its resilience in Q2, at a time when the international context seems to be clearly pointing towards a slowdown in activity in the USA, Europe and China. The surprising momentum of Q1 thus continued into Q2. Our forecast of +1% growth for the year as a whole is thus bolstered by a buoyant first half, which could nevertheless weaken in the second half of the year should global demand prove weaker.

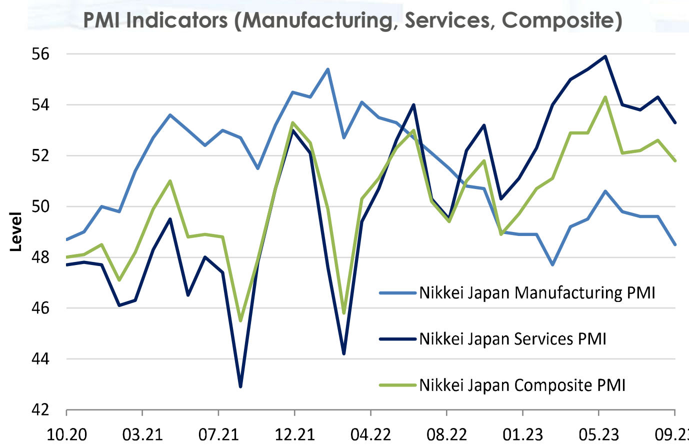
Positive GDP trend for 2nd half

The Japanese economy has now surpassed its pre-pandemic level again, but private consumption is still lower than it was at that time, and is even weaker in real terms than its 2014 level, underlining the fragility of a recovery supported exclusively by exports. The weakness of domestic demand clearly remains a source of concern. It should be able to strengthen to sustain the positive economic trend currently visible in Japan. However, in the current context, the decline in consumer purchasing power, resulting from the steady decline in disposable income and ongoing inflation, is likely to stabilize only very gradually. The same applies to Japanese companies, which are still reluctant to make new investments. Consumer spending by foreign travellers in Japan could provide support for domestic consumption, though without significantly influencing the overall level. China's economic recovery appears to be the main factor underpinning a positive trend in its exports, against a backdrop of likely weakening external demand 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 packages aimed at boosting activity. Global demand remains weak, but the risk of recession has clearly diminished in Europe, while in the US a soft landing remains the most likely scenario. The short-term economic outlook for Japan is therefore uncertain, but Japanese GDP is set to grow again in the second half of the year, and by more than +1% for 2023 as a whole.

Leading indicators still very uncertain

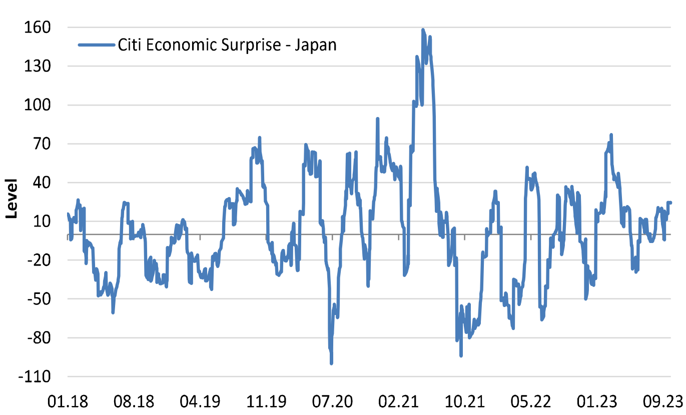
The Jibun Bank of Japan manufacturing PMI leading indicators published for August remain stable after a slight dip in July. The manufacturing index fell back just below 50 to 49.6, suggesting a slowdown in industrial activity. The composite indicator (52.6) also dipped, but remains in the growth zone, supported by a stabilization at 54.3 in the services index. Activity in the service sector appears to be clearly on the up, pointing to a continuation of the current positive momentum. Overall, the PMI indices confirm the economic recovery underway, while pointing to potential weakness in the industrial sector.



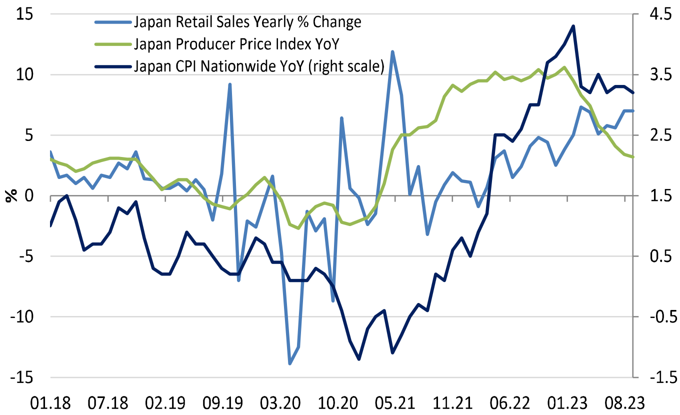


Graph sources: BearBull Group / Bloomberg

Economic Surprise Index



Inflation (CPI and PPI) and Retail Sales



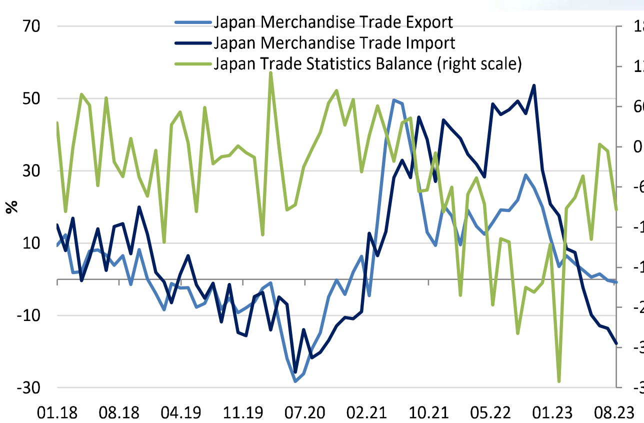
Inflation continues its downward trend

Japanese inflation had long been a source of concern for the central bank, which feared the deflationary risks posed by a persistently negative national CPI index in 2020 and 2021. The orchestrated fall in the yen from mid-2021, which depreciated from 115 to 150 yen/USD in just over a year, contributed to the rise in Japanese inflation, already triggered by the upward trend in commodity prices. 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 has been partly supported by the fall in crude oil prices in 2023. The Tokyo price index is now just +2.9%.Excluding food, the index is even slightly lower (+2.8%), which should reinforce the BoJ's conviction that inflation is falling into line and that accommodative monetary policy can be maintained. As the Tokyo indexes are a leading indicator of national prices, we can assume that the BoJ expects the current trend to continue and spread to the rest of the country. At national level, the CPI index actually declined similarly from +4.3% to +3.3% in August. In parallel with this trend in CPI indices, producer prices (PPI) have shown an already significantly better trend since October 2022, with a clear deceleration in monthly data. Producer prices had peaked at +10.5% in December 2022, but thanks to the recent positive momentum, the year-on-year increase slipped in August to just +3.3%. 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. Overall, we believe that the various domestic and external factors should favor a further decline in Japan's various inflation measures towards the Japanese central bank's target. The BoJ will be able to draw on these developments to maintain a policy of supporting economic growth by controlling the yield curve.

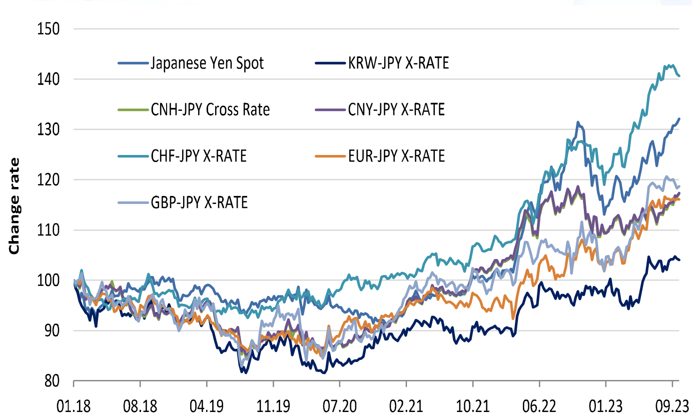
End of negative key interest rates for the BoJ?

The recent evolution of price indices in Japan now offers the BoJ 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, so it will maintain its policy of controlling the yield curve by adjusting the fluctuation band with a new maximum of 1% for ten-year government rates. The BoJ governor is therefore unlikely to change his policy in the short term, 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 should remain so for a relatively long time to come. We believe that this policy is reasonable in the context of weak domestic 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. Consequently, expectations of an early end to negative rates (-0.1%) seem excessive to us, as a change to a more restrictive monetary policy is still premature in the present context of inflation approaching the BoJ's target.

Trade Balance in JPY Billion



Exchange Rates (base 100)



 Graph sources: BearBull Group / Bloomberg

MACROECONOMIC SCENARIO

China

- China's economic momentum recovers
- Slightly better outlook for 2nd half
- Slowdown in the yuan's decline

China's economic momentum recovers

Since the end of restrictive sanitary measures in China, the economy recorded only a first phase of solid growth at the start of 2023, then continued to disappoint with weaker-than-expected economic conditions. The economic growth published at the very beginning of July showed a year-on-year rise in GDP of +6.3%, 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 economic performance was in line with expectations. The 3rd quarter should end with a slightly better result of +1.3%, corresponding to a slowdown in year-on-year growth to +4.7%.

M2 money supply growth slipped a little further to +10.6%, but industrial production rather surprised with +4.5 year-on-year (+3.9% YTD) growth in August. The trend in retail sales can be considered slightly favourable, since the latest statistics show year-on-year growth of +4.6% in August, significantly better than in July (+2.5%), and a better-than-expected result of +7% over eight months. In the real estate sector, the situation remains gloomy, with real estate investment still down -8.8% since the start of the year, while residential property sales are once again down -1.5% annualized. The collapse of the real estate market continues to affect households' financial situation and ability to consume.

However, recent government measures are having a positive impact on China's domestic dynamics. A gradual upturn in consumption could support a higher GDP growth rate in the 2nd half of the year. The year-on-year comparisons may, however, show some distortions, as comparisons with previous year's data may underestimate the level of recovery underway.

Perspectives Slightly better outlook for 2nd half

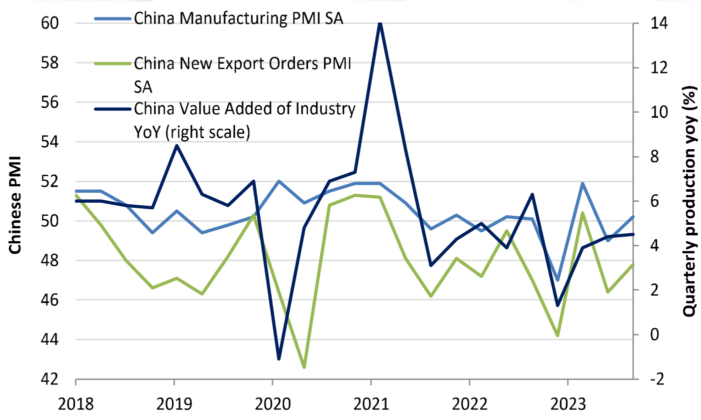
Deflation risks are still very present at the end of Q3, and are becoming a significant risk for the Chinese economy. For the past four months, the CPI has recorded zero growth, while the PPI index for September shows a contraction of -2.5%. The fall in the yuan, which should have boosted imports and production costs, does not seem to have had sufficient impact to prevent deflation in producer prices. Yuan-denominated exports stabilized somewhat after several months of sharp annual declines. In September, they fell by -0.6% year-on-year. Year-on-year imports in yuan also slipped by -0.8%. The yuan trade balance thus increased its surplus from 488 to 558 billion yuan. In dollars, China's trade surplus jumped from 68 to 77.7 billion.

However, if we look at the evolution of the latest PMI leading indicators, we still see a new dichotomy between PMI and Caixin PMI, giving a contrasting picture of the evolution of sentiment. The notable improvement in the PMI manufacturing (from 49.7 to 50.2), services (from 51 to 51.7) and composite (from 51.3 to 52) indices is not confirmed by the Caixin manufacturing (down from 51 to 50.6), services (from 51.8 to 50.2) and composite (from 51.7 to 50.9) indices. Overall, these indicators remain above the positive threshold of 50.

The Chinese authorities are expected to further increase their support for consumption and investment through new measures and a continuation of their policy of cutting interest rates and bank reserve ratios. The fall in the yuan is already a component of the plan to external demand stimulus plan, which should logically be fleshed out. We believe that the PBoC will nevertheless act in the coming weeks by cutting rates and reducing bank reserve ratios, with the aim of increasing the level of liquidity available to the economy and strengthening credit.

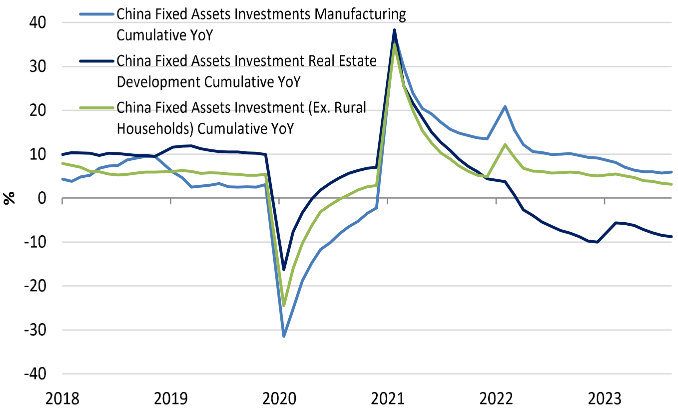
YoY GDP Growth

PMI and Industrial Production



 Graph sources: BearBull Group / Bloomberg

Real Estate Invesment, Infrastructure and Industry (YoY)



Exports-Imports (YoY)

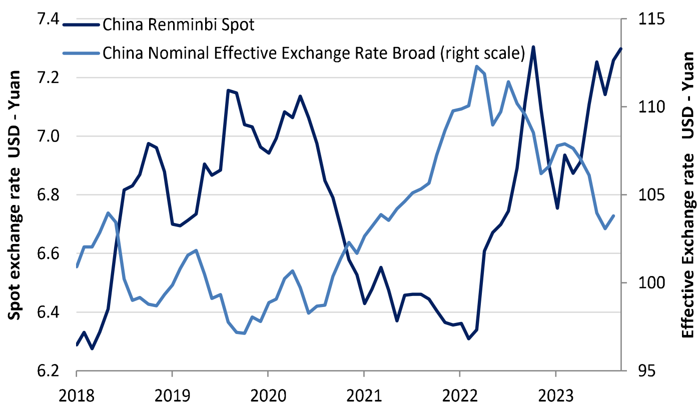
Slowdown in the yuan's decline

The yuan has lost almost -8% since mid-January against the US dollar, falling from 6.7 yuan/dollar to 7.2 yuan/dollar at the end of June, despite the fact that the US currency was particularly weak against a range of currencies. In the last quarter, however, the exchange rate remained stable as the greenback appreciated against most currencies. Over the past quarter, the Chinese currency appreciated against other major currencies such as the euro (+3%), the pound sterling (+4%) and the yen (+6%). It also strengthened by almost +2% against the Swiss franc, in a fairly volatile environment marked by the clear trend reversal observed since mid-July.

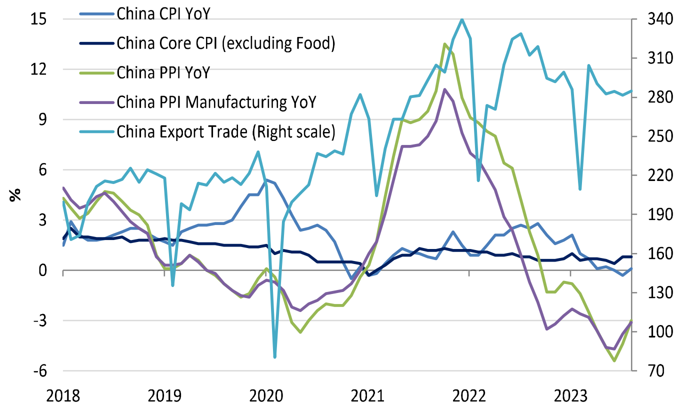
The yuan's depreciation previously coincided with the introduction of new restrictive monetary policies and rising yields in the major industrialized countries. Chinese monetary policy remained extremely accommodative during this period of monetary tightening in the USA, Europe and Switzerland. Yield differentials gradually widened against the yuan, reinforcing the relative attractiveness of other currencies. This weakening of the yuan could be seen as a positive factor in countering the deflationary forces in place, but the Chinese authorities do not want the yuan to depreciate too much either. They might have hoped for a possible stabilization when the U.S. monetary tightening cycle came to an end, but the Federal Reserve does not seem ready to lower its rates, which will maintain an unfavourable rate differential for the yuan for some time to come. The fall in the value of the yuan could also be 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 are likely to prove even more negative. Not surprisingly, China will be tightening its controls on capital exports. It will more tightly control the movement of liquidity, preventing new clients from taking advantage of the grey area in Chinese legislation that allowed investors to circumvent the exchange controls in place. Cross-border securities brokerage, securities lending and the sale of funds are now considered illegal by the CSRC.

Effective Exchange Rate and USD/Yuan



Inflation CPI - Core CPI



 Graph sources: BearBull Group / Bloomberg

MACROECONOMIC SCENARIO

UNITED ARAB EMIRATES

- Real GDP growth is forecasted to slow to 3.3% in 2023 and to rebound to 4.3% in 2024
- The UAE PMI recorded its first uptick for three months in Q3 2023
- The inflation projection in the UAE for the year 2023 has been revised downwards to 2.8%.
- Dubai's Real Estate Market Sees Mixed Trends in Q3 2023
- Dubai continues to boast healthy gains of 24.8% outperforming the MSCI GCC index.

Real GDP growth is forecasted to slow to 3.3% in 2023 and to rebound to 4.3% in 2024.

In the opening quarter of 2023, the United Arab Emirates (UAE) displayed a growth rate of 3.8% year-on-year (Y-o-Y), marking a slight deceleration from the 5.5% Y-o-Y growth observed in the preceding quarter, Q4 2022. This development mirrors the resilience of the UAE's economy, particularly in the non-oil sector, which constitutes a significant portion of the nation's economic activity. Simultaneously, this moderation in growth is attributed to the notable decrease in oil production. It is noteworthy that the non-oil sector plays a pivotal role, contributing to three-quarters of the country's economic output.

In alignment with the Central Bank of the United Arab Emirates' (CBUAE) earlier predictions, the growth forecasts for 2023 and 2024 have remained stable at 3.3% and 4.3%, respectively. These projections for the overall Gross Domestic Product (GDP) growth reflect a deceleration in the non-oil sector for both 2023 and 2024. This is primarily influenced by the softening of global demand and a significant reduction in oil production during 2023, attributable to the agreed-upon production cuts within the OPEC+ framework. However, there is optimism for 2024 as it is anticipated that some of the constraints on oil production will ease, leading to a rebound in this sector.

Nevertheless, the economic outlook for 2023 and 2024 remain susceptible to a degree of uncertainty. Several factors are at play, including the evolution of the situation in Ukraine, faster than expected deceleration in global economic growth, further adjustments in OPEC+ oil production, and the subdued oil production levels of other OPEC+ member countries. These variables may influence the UAE's economic trajectory and necessitate ongoing monitoring and adaptability in economic policy and planning.

The UAE PMI recorded its first uptick for three months in Q3 2023

In September, the UAE Purchasing Managers' Index (PMI) indicated a significantly robust surge in new business activity among non-oil companies. This uptick was primarily propelled by factors such as the acquisition of new clients, competitive pricing strategies, and a resilient underlying economic environment, all of which contributed to a heightened demand. As a result, there was a notable acceleration in output, accompanied by a surge in confidence levels. However, intensified growth in input procurement exerted upward pressure on costs, while the expansion of inventories and employment exhibited a more subdued trajectory.

According to S&P Global, the UAE PMI surged to 56.7 in September, up from August's reading of 55.0, signifying a powerful and swift expansion within the non-oil private sector. This remarkable 1.7-point escalation in the headline index was predominantly driven by the New Orders sub-index, which leaped by over seven points, reaching its highest level since June 2019. Responding to the upswing in new business opportunities, non-oil firms in the UAE expanded their production output significantly during the third quarter.

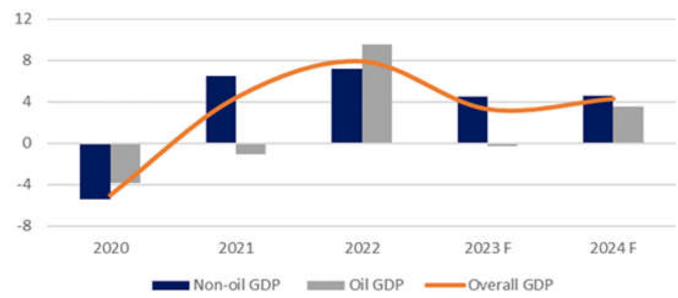
In contrast, several other sub-components of the PMI hinted at modestly negative trends in September. For instance, inventories of inputs and employment exhibited the slowest rates of growth in 14 and 7 months, respectively. On the cost front, reports indicated that broader inflationary pressures and increased demand for inputs had driven up raw material prices. Consequently, both procurement costs and overall expenses escalated notably, marking the swiftest increase in over a year.

The inflation projections in the UAE for the year 2023 has been revised downwards to 2.8%

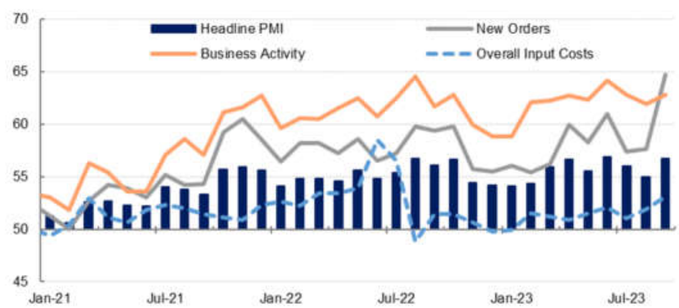
As of the latest available data, the Central Bank of the United Arab Emirates (CBUAE) has made slight adjustments to its inflation projections for the year 2023. The initial projection of 3.1% has been revised downwards to 2.8%. This adjustment primarily stems from the unexpectedly robust transmission of declining oil prices to transportation costs, albeit partially counterbalanced by the ascent of housing prices. Additional contributing factors to this revision, although they have a relatively minor impact, encompass reduced food prices, the appreciation of the AED (UAE Dirham), and prevailing global disinflationary trends. It is anticipated that the introduction of the corporate income tax in June 2023 will exert a modest influence on the overall inflation outlook.

Looking ahead to 2024, the inflation rate is anticipated to further decelerate to 2.6%, down from the prior projection of 2.8%. This downward adjustment is primarily attributed to the sustained moderation in transportation and food prices.

Real GDP Growth in the UAE (%)



UAE PMI & subcomponents



 Graph sources: BearBull Group / Bloomberg

Dubai's Real Estate Market Sees Mixed Trends in Q3 2023

The state of Dubai's residential real estate market in September 2023 tells a story of fluctuating dynamics. While the number of transactions declined by 8.3% compared to the same month in the previous year according to the latest report by CBRE, there were distinct shifts within the market itself. A substantial drop of 41.5% in off-plan sales was countered by a noteworthy 30.5% increase in secondary market sales. These figures hint at an evolving real estate landscape that is navigating through shifts in demand and supply.

In September 2023, Dubai's residential real estate market recorded a total of 7,523 transactions, marking an 8.3% decline compared to the same month the previous year. This slowdown in activity can be primarily attributed to a significant 41.5% drop in off-plan market sales, while secondary market sales witnessed a notable increase of 30.5%.
In the year-to-date figures up to September 2023, total transaction volumes reached an impressive 87,154, marking the highest figure recorded for this period. Despite the recent slowdown, there are strong indications that the total transactions for 2023 will surpass the 92,144 transactions recorded in 2022.

Throughout the year leading up to September 2023, the average property prices in Dubai experienced substantial growth, with an overall increase of 19.6%. Specifically, average apartment prices saw a 19.7% rise, reaching AED 1,357 per square foot, while average villa prices increased by 18.9%, reaching AED 1,605 per square foot. Although the average apartment sales rates in Dubai still remain 8.8% below the record levels observed in 2014, several key residential areas have consistently outperformed their 2014 benchmarks. In contrast, average villa sales rates currently sit at a commendable 11.1% above their 2014 levels. Notably, Downtown Dubai registered the highest sales rate per square foot in the apartment segment of the market, at AED 2,453, while Palm Jumeirah led in the villa segment, with the highest sales rate per square foot at AED 4,995.

Turning to the rental market, there has been a moderation in the rate of growth. Over the 12 months leading up to September 2023, average residential rents increased by 20.6%, a slight decline from the 21.7% growth reported in the preceding month. During this period, average apartment and villa rents rose by 20.7% and 20.1%, respectively. In September 2023, the average annual apartment rent stood at AED 108,606, and the average annual villa rent was AED 322,750. The highest annual apartment and villa rents were observed in Palm Jumeirah, with average asking rents reaching AED 257,366, and in Al Barari, where average rents were recorded at AED 1,098,788.

The resilience and adaptability of Dubai's real estate market continue to make it an area of keen interest for investors. The year-to-date figures reveal the market's overall resilience, with a remarkable 87,154 transactions, and signs that 2023 may yet surpass the record of 92,144 transactions in 2022.

Dubai continues to boast healthy gains of 24.8% outperforming the MSCI GCC index

The MSCI GCC index experienced a notable 2.7% decline this month, erasing the gains accumulated since the beginning of the year. This downturn has led to a year-to-date decline of 3.0%. The decline in the GCC region was widespread, with only the Dubai and Qatari markets posting gains for the month. Conversely, the remaining markets within the region recorded declines. Notably, Dubai maintains its impressive performance, with year-to-date gains of 24.8%, outperforming the MSCI GCC index by a remarkable 27.8%.

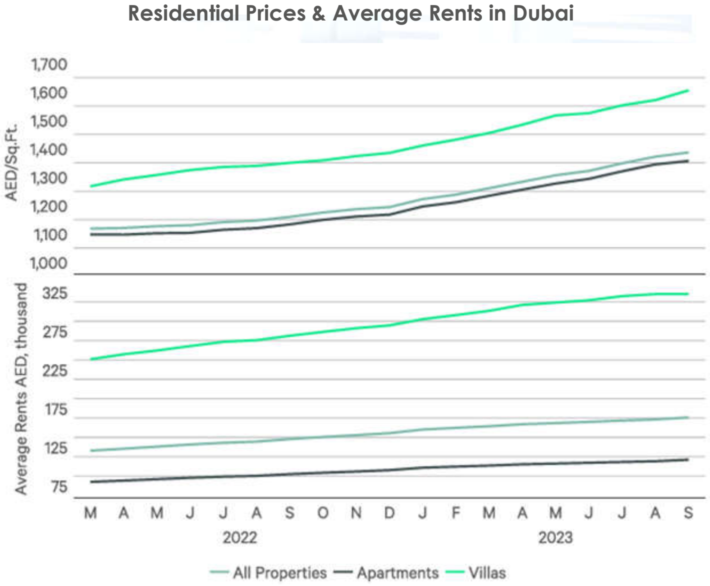
In September 2023, the FTSE ADX index experienced a modest 0.3% dip, closing the month at 9,785.32 points. This marked its first monthly decline following three consecutive months of growth. Regarding sectoral performance, six out of ten sectors displayed positive gains during the month, while the remaining four sectors faced declines. Among the gainers, the Real Estate index stood out with an impressive 7.1% growth, largely attributed to a substantial 67.8% surge in the shares of Sharjah Group Company. Following closely, the Healthcare index recorded a 5% increase. On the flip side, the Consumer Staples index led the decliners, with a notable 6.8% decrease, followed by the Consumer Discretionary index, which saw a 2.2% decline during September 2023.

Trading activity saw a decline month over month, following two consecutive monthly increases in August and July 2023. The total volume of shares traded dropped by a significant 35.3% in September 2023, totaling 3.5 billion shares compared to 5.4 billion in August 2023. Similarly, the total value of traded shares fell by 16.1%, amounting to AED 19.6 billion.

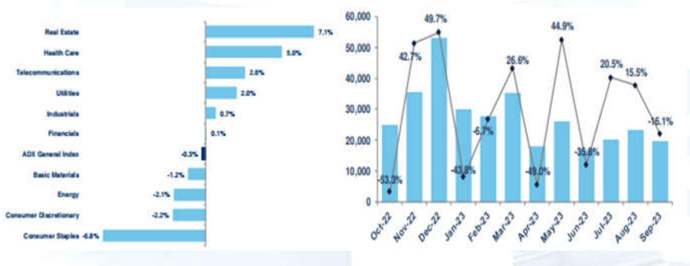
In contrast, the DFM General Index experienced a 2.0% monthly gain during September 2023, closing at 4,163.58 points, marking its sixth consecutive monthly increase. The Real Estate Index exhibited the most substantial monthly gain with an 8.6% growth, primarily attributed to Emaar Properties' impressive 13.9% increase in share prices. The Financial index followed closely as the second largest gainer during the month, with a 2.4% growth, driven by significant gains in some of the sector's major weighted companies. However, the Consumer Staples index faced the most substantial monthly decline, dropping by 9.9%, with the Consumer Discretionary index trailing at a 4.8% decrease.

Trading activity in the DFM declined during September 2023. The total volume traded fell by 51.2%, amounting to 2.6 billion shares compared to 5.3 billion shares in August 2023. Similarly, the total value of shares traded during the month witnessed a 4.3% dip, reaching AED 9.4 billion in September 2023, as compared to AED 9.9 billion in August 2023.

Residential Prices & Average Rents in Dubai



ADX Monthly Sector Performance & Value Traded (AED Mn)



DFM Monthly Sector Performance & Value Traded (AED Mn)

Graph sources: BearBull Group / Bloomberg

MACROECONOMIC SCENARIO

Emerging Market

- Weak economic growth in Q2
- Despite a slowdown, inflation remains high
- Status quo in monetary policy

The global environment has become more uncertain, with the disinflation process continuing despite a backdrop of high core inflation and resilient labor markets in many countries. At the same time, central banks in the major economies remain determined to bring inflation back in line with their targets, either by continuing their monetary tightening cycles, signaling an extended period of high interest rates to combat inflationary pressures, or indicating a period of pause in an interest rate hike cycle.

Brazil — The recent series of national outlook indicators suggests a scenario of greater resilience in Brazilian economic activity. Economic activity data for the second quarter (+0.90%) point to continued momentum in non-cyclical economic sectors, as well as expansion in the household consumption component of demand. Generally speaking, sector indicators point to some deceleration in the trade sector, a moderate re-acceleration in industry, and stable growth in the service sector, following higher growth rates in previous quarters. The labor market, meanwhile, remains resilient, albeit with some marginal moderation.

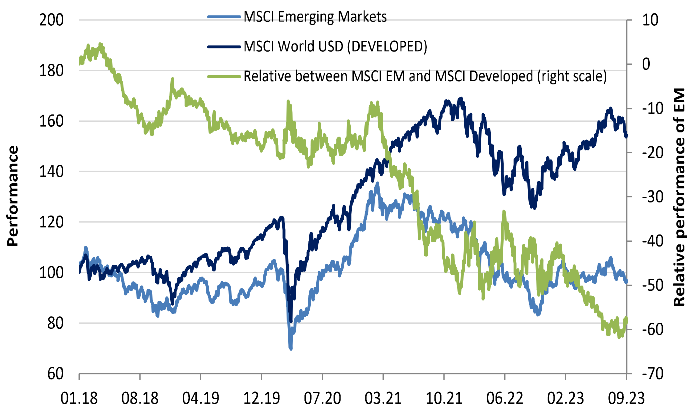
The disinflation dynamic still seems to be characterized by weak growth in food and industrial prices, and now a deceleration in services prices. Inflation expectations, having partially recovered, remain a cause for concern. Thus, the upside risks are greater persistence in global inflationary pressures, and stronger-than-expected resistance in services inflation due to a narrowing output gap. Downside risks stem from a greater-than-expected slowdown in global economic activity and a greater-than-expected impact of synchronized monetary policy tightening on global inflation. Despite the slowdown in inflation, the components more sensitive to the economic cycle and monetary policy, evolving with greater inertia, remain above target. Inflation forecasts for 2023, 2024 and 2025 are around 4.9%, 3.9% and 3.5%.

After evaluating the scenario, all Copom members agreed that it was appropriate to reduce the Selic rate for a second consecutive meeting by 0.50% to 12.75%. As for the next steps, Copom anticipates reductions of 0.50% at future meetings. This pace combines, on the one hand, the firm commitment to resetting expectations and disinflationary momentum and, on the other, the adjustment of the level of monetary tightening in real terms in the face of the more benign inflation dynamics anticipated in the base-case projections.

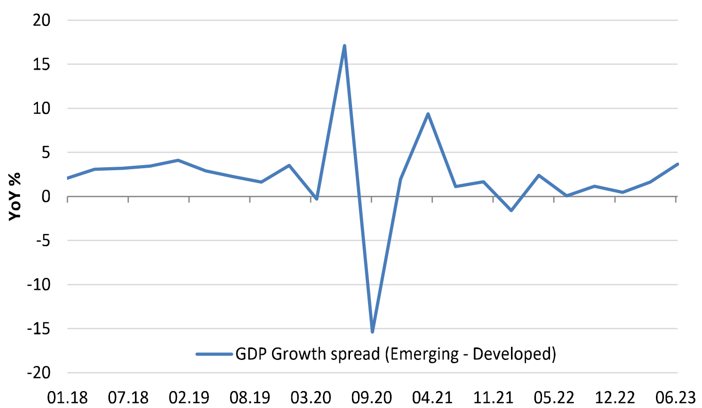
Russia — Economic activity is expanding in a wide range of sectors. Strong domestic demand is contributing to the Russian economy's upward deviation from its balanced growth trajectory. It is also the reason why import demand remains high. High import demand combined with reduced exports has been a key factor in the ruble's depreciation since the start of 2023. It is expected to adapt to the weakening of the ruble and key interest rate decisions over the coming quarters. Expanding private demand and continued high levels of public demand are driving strong growth in domestic demand. Growth in consumer activity is underpinned by the expansion of lending, rising real wages and households' adjustment to the new supply structure in commodity markets. The Russian economy has completed its recovery phase and is now expected to slow due to supply-side constraints, particularly in the labor market, where unemployment has fallen to a historically low level. At the same time, the low geographical and inter-sectoral mobility of the workforce is a further structural constraint. The Bank of Russia forecasts GDP growth of 1.5-2.5% in 2023, 0.5-1.5% in 2024 and 1.0-2.0% in 2025.

Inflationary pressure in the Russian economy remains high, with domestic demand growth outstripping expansion capacity and the ruble depreciating. As a result, further tightening of monetary conditions is needed to limit the upward deviation of inflation from the

Emerging and Developed Markets – Performance

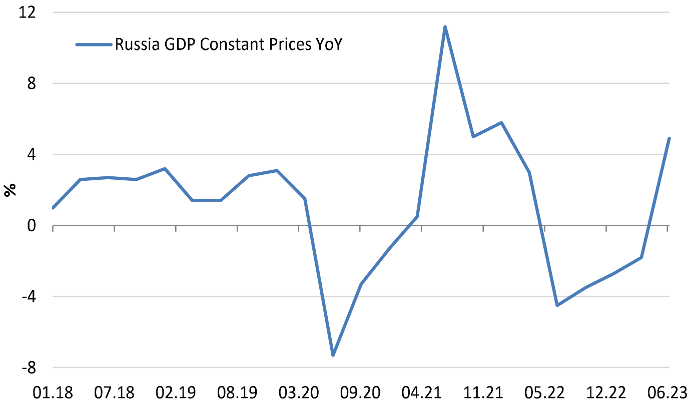


GDP Growth Spread

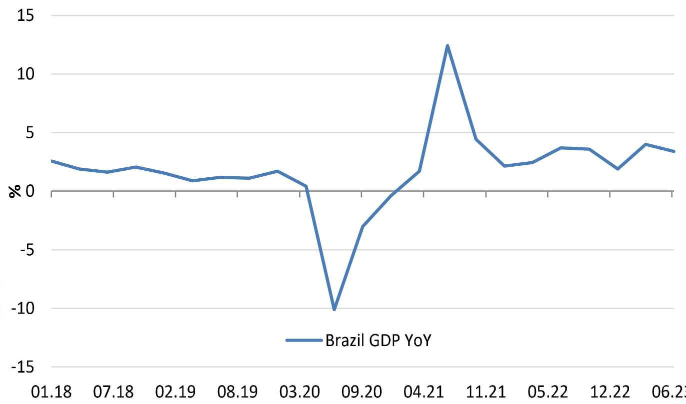


Graph sources: BearBull Group / Bloomberg

GDP Russia (YoY)



GDP Brazil (YoY)



and stabilizing it at a level close to 4% also implies that tight monetary conditions are maintained in the economy for a longer period. Inflation should remain between 6 and 7% in 2023, then return to 4% in 2024 and remain close to this level thereafter.

In September, the Bank of Russia decided to raise its key rate by 100 basis points to 13.00%, and does not rule out further increases. The return of inflation to target in 2024 and its subsequent stabilization at a level close to 4% imply the maintenance of strict monetary conditions for a long period.

India — The recovery in kharif sowing and rural incomes, buoyant services and consumer optimism should support household consumption over the coming months. Healthy bank and corporate balance sheets, supply chain normalization, business optimism and strong government capital spending are conducive to a renewed investment cycle, which is showing signs of becoming more widespread. Weak global demand, volatile global financial markets, geopolitical tensions and geo-economic fragmentation, however, pose risks to domestic economic prospects. GDP growth in 2023 is forecast at 6.5%, with the risks broadly balanced.

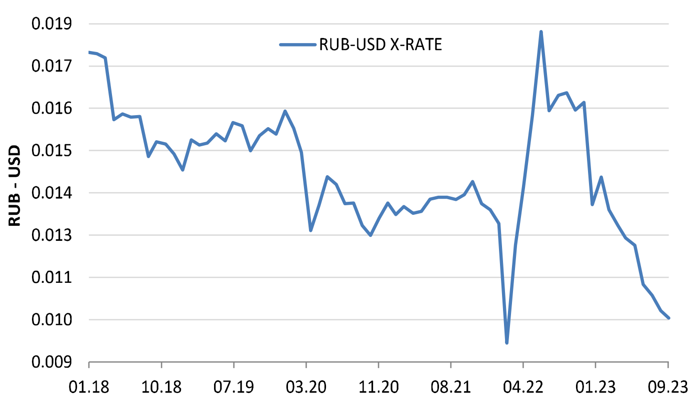
The surge in vegetable prices, led by tomatoes, is likely to exert considerable upward pressure on inflation in the short term. However, this upward trend should be corrected as new products enter the market. The progress of the monsoon and sowing season in July has improved significantly, but the impact of the uneven distribution of rainfall needs to be closely monitored. Manufacturing, service and infrastructure companies surveyed in the Reserve Bank's business surveys expect input costs to fall, but output prices to tighten. Inflation is thus expected to reach 5.4% in 2023.

Domestic economic activity is holding up well, supported by domestic demand despite weak external demand. With the cumulative 250 basis point increase in key rates having an impact on the economy, the committee decided to keep rates unchanged at 6.50%, while remaining ready to take action if the situation so warranted.

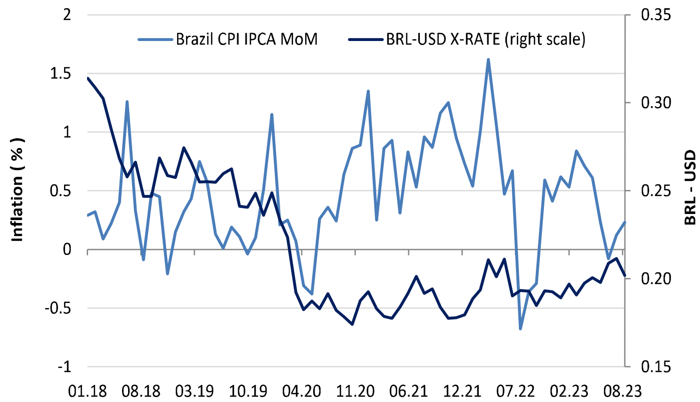
South Africa — Despite considerable respite over the winter months, power cuts in South Africa have increased and commodity export prices continue to fall. In the short term, the strengthening El Niño phenomenon threatens agricultural prospects, while energy and logistics constraints continue to weigh on growth prospects, limiting economic activity and increasing costs. On the demand side, spending by businesses, households, public corporations and general government remains positive in real terms, while household disposable income continues to rise, albeit slowly. The cost of household debt has risen to around 8.4% of disposable income, now close to the average of the last decade. Although growth in household and business credit has slowed in recent months, it is up on last year, and investment forecasts for the year have been revised upwards to 7.7% from 4.4%. These supply and demand trends have enabled the Central Bank to revise its GDP growth forecasts upwards to 0.7%, from 0.4% in July. GDP growth forecasts for 2024 and 2025 remain unchanged at 1.0% and 1.1% respectively.

Current growth forecasts leave the output gap slightly positive, meaning that GDP growth is not exerting significant pressure on inflation. The trajectory of the national inflation rate was mainly determined by fuel and food prices. Compared with the previous meeting, fuel price inflation is significantly higher, at 0.4% versus -3.1% previously, and is expected to reach 5.8% in 2024. Food inflation forecasts for 2023 and 2024 remain largely unchanged at 10.4% and 5.2% respectively. As services inflation is expected to be lower in the short term, headline inflation for 2023 is revised very slightly downwards to 5.9%, from 6.0%. It should settle at 5.1% in 2024 and stabilize at 4.5% in 2025.

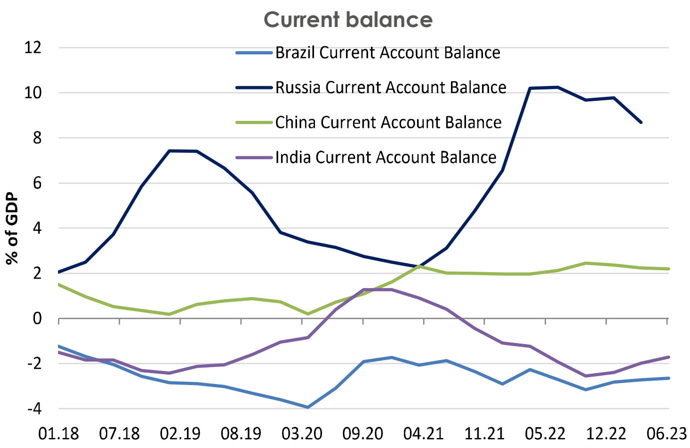
Rouble VS USD

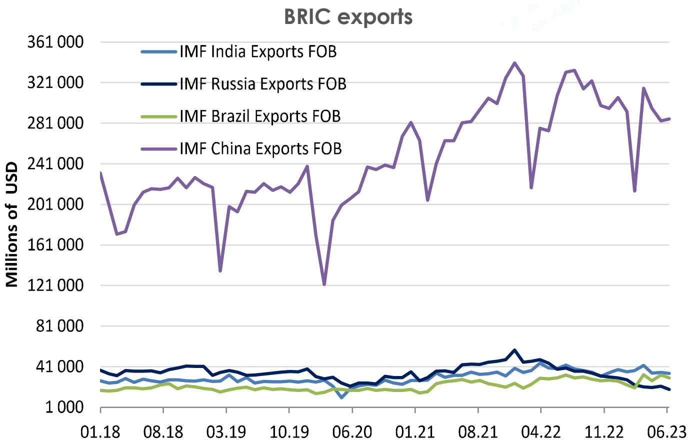


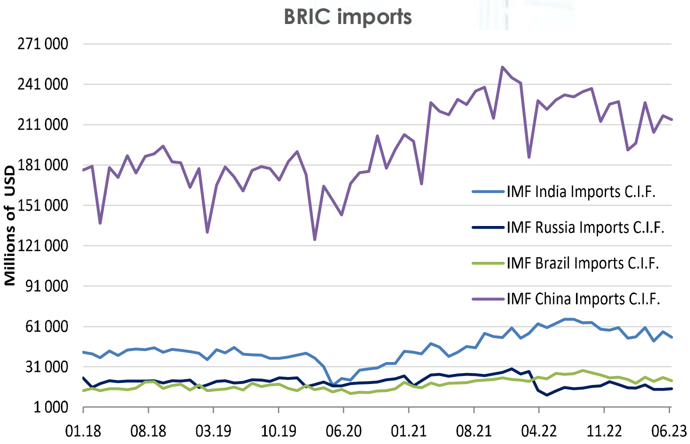
Inflation and Exchange Rates



Graph sources: BearBull Group / Bloomberg







Mexico — The Bank of Mexico has decided to maintain its key rate at a record 11.25%. This is the fourth time the board has voted unanimously to pause, having raised the cost of borrowing 15 times since June 2021. Although inflation fell to 4.4% in September, it remains at a high level and is expected to rise in 2023 before converging towards its 3% target thereafter. Mexican GDP stands at 3.6%, which has remained very constant for the past four quarters.

Indonesia — Indonesia's central bank has kept its interest rate unchanged at 5.75% for the eighth consecutive time, declaring that current policy is sufficient to keep inflation within the target range of 2% to 4%. Inflation is running at 3.27%, while the national economy has remained strong, maintaining its GDP growth outlook for 2023 at between 4.5% and 5.3%.

Turkey — Turkey's central bank raised its benchmark one-week repo rate by 500 basis points to 30% on September 21, pushing borrowing costs to their highest level since September 2003. This was the fourth consecutive increase by the central bank under the leadership of Governor Hafize Gaye Erkan, in a bid to control inflation, which has reached almost 60%. Economic growth (3.8%) remains close to 4%, mainly due to strong household spending (+15.6%).

Taiwan — The Central Bank of Taiwan maintained its key rate at 1.875% at its September meeting, in order to contribute to the steady development of the overall economy and finances. While inflation, currently at 2.93%, is expected to fall below 2% next year, the central bank further reduced its economic growth forecast for 2023 to 1.46%, from 1.72% previously, while forecasting a rebound to 3.08% growth in 2024.

Thailand — Thailand's central bank unexpectedly raised its key interest rate by 25 basis points to 2.50% at its September 2023 meeting, marking the eighth consecutive increase and pushing borrowing costs to the highest level since late 2013. Policymakers deemed the current decision appropriate to support sustainable long-term growth, keep inflation within the target range of 1% to 3% and ensure sufficient headroom given the uncertain outlook. The economic growth projection has been revised downwards for 2023 (2.8% vs. 3.6% previously) due to a delay in the recovery of exports and tourism, but it should rise by 4.4% in 2024, boosted by domestic demand. Meanwhile, inflation should remain within the target range for both this year (1.6%) and next (2.6%), supported by government subsidies and a favourable base effect.

Colombia — Colombia's central bank left its benchmark interest rate unchanged at 13.25% at its September meeting. This is the third time in a row that the central bank has held rates steady after almost two years of hikes, with falling inflation removing the pressure for further tightening. In September, inflation slowed to 10.99%, the lowest level in over a year, but remains high at nearly four times the long-term target of 3%. Growth also slowed to +0.3% in the second quarter of 2023.

Romania, Czech Republic, Poland, Hungary — The National Bank of Romania maintained its key rate at 7% for the sixth consecutive meeting, citing a downward trend in inflation since February. Romania's annual inflation rate fell for the sixth consecutive month to 9.4% in August 2023, marking the lowest reading since February 2022 due to the deceleration in the rate of growth of food prices and the continued decline in the dynamics of energy prices. Economic growth accelerated to 0.9% in the second quarter of 2023, compared with 0.5% in the first quarter.

The Czech National Bank maintained its two-week repo rate at 7% for the tenth time in succession. Inflation continued to slow, reaching 8.5% in August, the lowest level in 18 months, and should gradually return to levels close to the 2% target in the first half of 2024. Czech GDP contracted for the second time in a row in Q2 (-0.6%), theoretically pushing the country into recession. The National Bank of Poland cut its benchmark rate by 25 basis points to 5.75%, following a 75 basis point reduction at the previous meeting. This decision was taken against the backdrop of a weakened economic environment (-0.6%), weak demand and easing inflationary pressures. In September, inflation slowed sharply to 8.2%, falling below 10% for the first time since February 2022.

The Hungarian National Bank has lowered its overnight deposit rate by 100 basis points to 13%, following a series of similar cuts at recent meetings. The decision was taken against a backdrop of slowing inflation, which stood at 12.2% in September, down from 25.2% in March. It should return to around 7-8% towards the end of the year, and return to the central bank's tolerance band by 2025. The 2.4% contraction in Hungarian GDP follows a 0.9% fall in the previous period, marking the sharpest decline since the fourth quarter of 2020.

Graph sources: BearBull Group / Bloomberg

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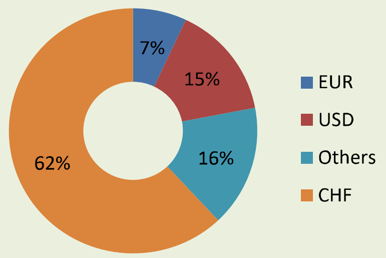
PROSPECTS AND STRATEGIES

PROSPECTS AND STRATEGIES

Currencies

- The dollar temporarily benefited from an extreme situation
- The SNB could support the franc less aggressively
- Decoupling of monetary policies in favor of the euro
- Sterling benefits from more attractive yields
- Interest rate differentials still unfavourable to the yen

Currency allocation - CHF portfolio



Tactical allocation

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

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

The dollar temporarily benefited from an extreme situation

In sum, interest-rate dynamics proved stronger in the United States than in most other regions. The value of the trade-weighted US dollar has surged by +7% since mid-July. The dollar appreciated almost equally against the Swiss franc, euro and yen. The exceptional trend in dollar-denominated interest rates across the US yield curves has provided tremendous support for the dollar's rise over the past three months.

The widening yield spreads between dollar-denominated fixed-income investments and those observed on capital markets in euros, Swiss francs or yen were therefore the main factor behind the greenback's rapid appreciation. The dollar now benefits not only from very attractive nominal yields, but also from exceptionally high real yields in international comparison, due to the marked consolidation of inflation. These factors are still contributing to the dollar's strength at the start of Q4, however, we expect their influence to diminish over the coming months. Indeed, while the dollar has benefited from a very restrictive monetary policy in the United States, a change in the macro-economic outlook and a resurgence of recession risks could well reverse the recent rate trends that have propelled the dollar higher. Our expectations of lower inflation in a more uncertain economic climate should help to lower yield curves and reduce the dollar's relative attractiveness. The US currency is still on an upward trend, but we fear that the announced rate adjustment will be a fatal factor in this trend. The greenback is likely to suffer from rate normalization, while in Europe, the monetary tightening cycle has not yet come to an end. But interest in US assets will certainly remain sufficient to curb a fall in the dollar, which is more likely to materialize in the more moderate form of an value of the greenback.

The SNB could support the franc less aggressively

In recent quarters, the SNB has drastically reduced the size of its balance sheet by selling its foreign exchange reserves in favor of Swiss franc purchases. In so doing, it has reinforced the franc's upward trend, with the simple aim of reducing the risk of imported inflation. inflation. Its fight against inflation has now borne fruit, if we consider that the average monthly CPI over the last three months is zero, and up by only 1.6% year-on-year. However, the SNB still seems concerned about the level of inflation, despite the fact that it is now below its target (+2%). The SNB maintains a bullish bias, even though it now appears much more pessimistic about the than Swiss economists as a whole.

With a forecast of +2.2% for 2024, this is well above the consensus estimate of just +1.5%. With key rates (1.75%) above inflation, the SNB could already consider that its action has been crowned with success, without envisaging further increases in the immediate future. Indeed, the consensus expects a further rise of 0.25% to 2% in September. All the more so since, in a year of monetary tightening, the SNB has also been very active in reducing the size of its balance sheet. Foreign exchange reserves, which had reached CHF 946 bn in January 2022, have been drastically reduced by 30% in eighteen months, to 697 bn. The resilience of the Swiss economy has been remarkable up to now, but the free-falling manufacturing PMI suggests a return to difficulties that should not leave the SNB indifferent. The SNB could now reduce its purchases of Swiss francs, leaving interest rate differentials to act as the main vehicle for currency flows. A weaker franc would also be welcome to counter the risk of a downturn in Swiss industry.

Decoupling of monetary policies in favor of the euro

Over the coming months, the ECB will certainly be one of the most restrictive of the major central banks. Although recent inflation trends in Europe have been better than expected, overall CPI indices, as well as indices excluding energy indices are still showing inflation levels that justify the continuation of the key rate hike cycle for some time to come. 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 an increase in the yield spread with Swiss and Japanese rates in favour of the euro, as well as a decrease in the spread with dollar rates, which will also potentially support an appreciation of the European currency. 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.

Graph sources: BearBull Group / Bloomberg

Sterling benefits from more attractive yields

Rising key rates and higher yields are supporting the currency. Yield differentials favor the pound against most currencies, including the dollar on longer maturities. Nevertheless, these factors do not seem to be working in favor of an appreciation of the pound, which has only just stabilized against the euro over the last three months at around the pivotal level of 0.86, and close to 1.11 against the Swiss franc. The dollar's rebound in recent weeks has also affected the USD/GBP pair. The interest-rate differential could bolster investor interest in the British currency, but we believe that an appreciation is not yet on the agenda, and prefer a more moderate outlook for the British currency, which will soon be negatively affected by the publication of statistics highlighting the slowdown in the British economy.

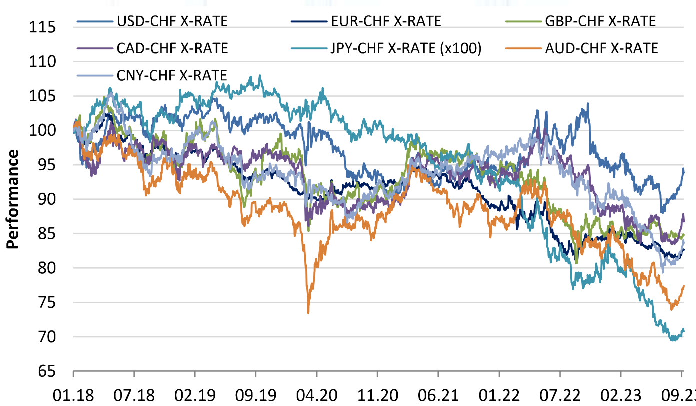
Interest rate differentials still unfavourable to the yen

The BoJ's monetary policy is likely to remain relatively stable over the coming months in the context described above. The 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 significant to us, and also took into account the stabilization, if not decline, of dollar-denominated 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 up to 150 yen to the dollar.

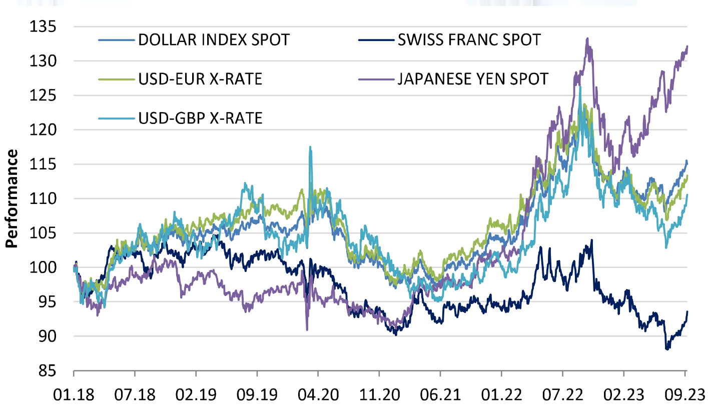
Slowdown in the yuan's decline

The yuan has lost almost -8% since mid-January against the US dollar, falling from 6.7 to 7.2 yuan/dollar at the end of June, despite the fact that the US currency was particularly weak against a range of currencies. In the last quarter, however, the exchange rate remained stable as the greenback appreciated against most currencies. Over the past quarter, the Chinese currency appreciated against other major currencies such as the euro (+3%), the pound sterling (+4%) and the yen (+6%). It also strengthened by almost +2% against the Swiss franc, in a fairly volatile environment marked by the clear trend reversal observed since mid-July. The yuan's depreciation had previously coincided with the introduction of new restrictive monetary policies and rising yields in the major industrialized countries. Chinese monetary policy 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. This weakening of the yuan could be seen as a positive factor in countering the deflationary forces in place, but the Chinese authorities do not want the yuan to depreciate too much either. They might have hoped for a possible stabilization when the U.S. monetary tightening cycle came to an end, but the Federal Reserve does not seem ready to lower its rates, which will maintain an unfavourable rate differential for the yuan for some time to come. The fall in the value of the yuan could also be seen as a positive factor in further improving the competitiveness of

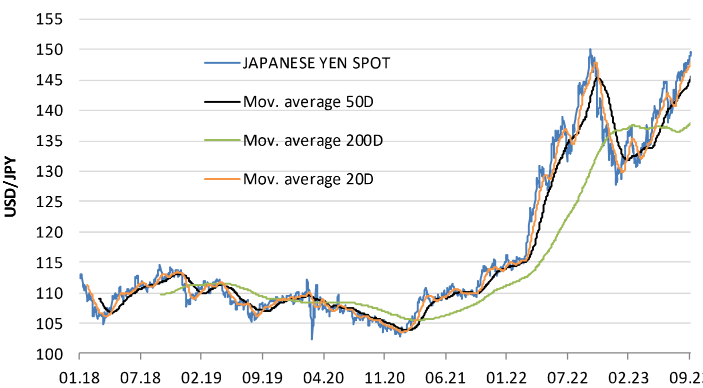
Evolution of the 7 Main Currencies against CHF (base 100)



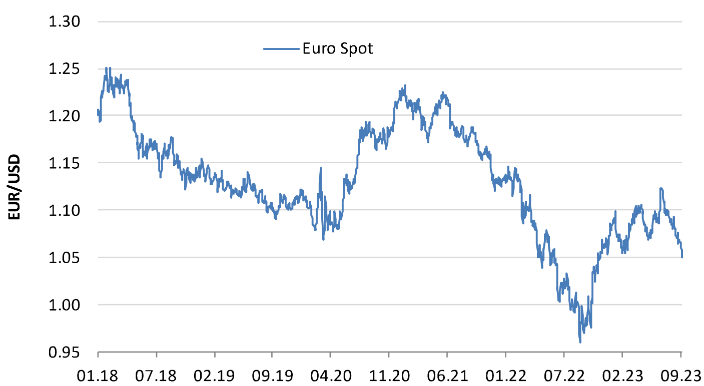
Dollar Trade-Weighted Index & Cross Rates (base 100)



Exchange Rate JPY/USD



Exchange Rate EUR/USD



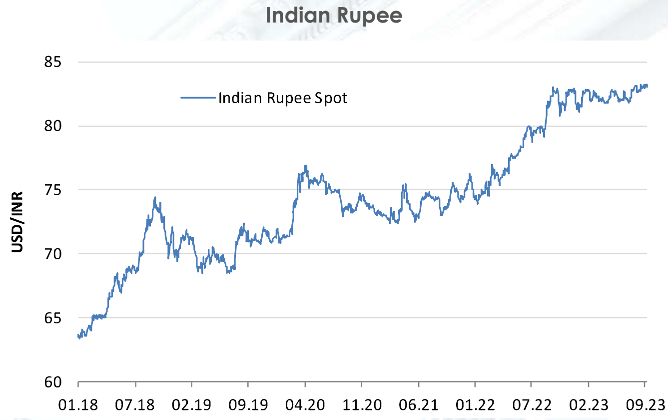
 Graph sources: BearBull Group / Bloomberg

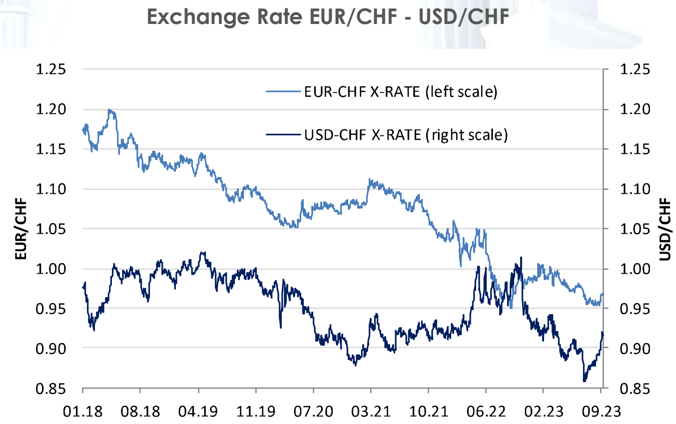
CURRENCIES

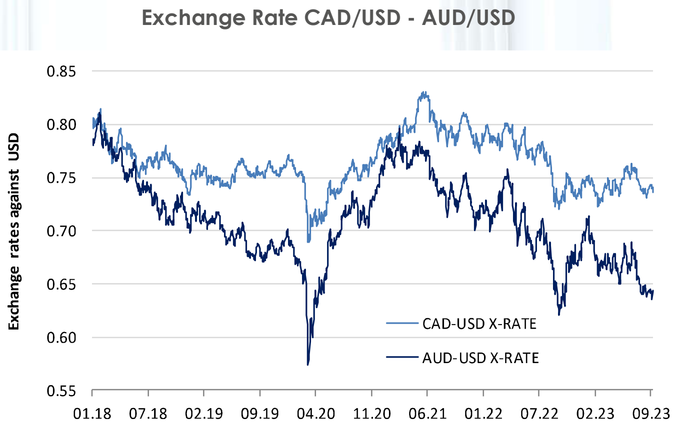
30.09.2023

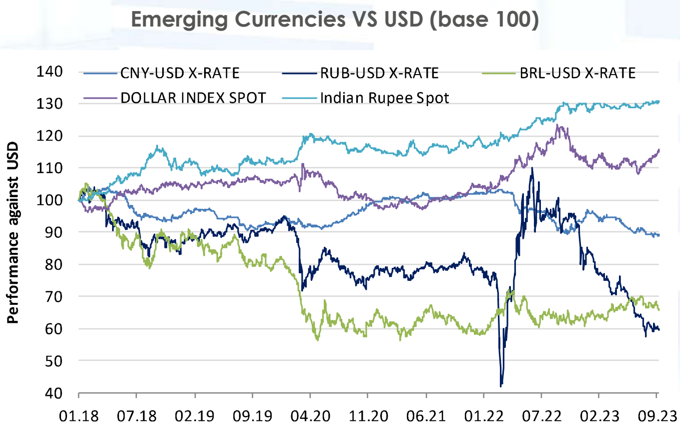
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.06	-0.75	-2.49	-3.08	-2.45	-1.23
CHF-USD X-RATE	1.09	-0.95	-3.49	-2.15	-0.01	1.00
GBP-USD X-RATE	1.22	-0.34	-3.74	-3.97	-1.12	0.96
JPY-USD X-RATE	0.01	-0.67	-2.56	-3.39	-11.05	-12.22
CAD-USD X-RATE	0.74	-0.70	-0.51	-2.48	-0.45	-0.18
AUD-USD X-RATE	0.64	-0.09	-0.76	-3.44	-3.74	-5.55
RUB-USD X-RATE	0.01	-1.82	-1.91	-8.48	-20.36	-23.85
CNY-USD X-RATE	0.14	0.01	-0.54	-0.61	-5.82	-5.49
INR-USD X-RATE	0.01	-0.12	-0.31	-1.21	-1.04	-0.37
BRL-USD X-RATE	0.20	-1.92	-1.54	-4.88	0.61	5.02
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.92	0.96	3.61	2.20	0.00	-1.00
EUR-CHF X-RATE	0.97	0.17	1.02	-0.96	-2.47	-2.22
GBP-CHF X-RATE	1.12	0.60	-0.25	-1.77	-1.04	-0.18
JPY-CHF X-RATE (x100)	0.61	0.23	0.97	-1.18	-11.02	-13.11
CAD-CHF X-RATE	0.67	0.57	3.13	-0.31	-0.30	-1.20
AUD-CHF X-RATE	0.59	1.06	2.83	-1.32	-3.71	-6.64
RUB-CHF X-RATE	0.01	-0.95	1.52	-6.48	-20.37	-24.78
CNY-CHF X-RATE	0.13	0.80	2.96	1.46	-5.93	-6.49
INR-CHF X-RATE	0.01	0.92	3.45	0.90	-0.67	-1.21
BRL-CHF X-RATE	0.18	-1.09	2.25	-2.67	0.55	4.00

Chinese products at a time when China is also experiencing some difficulty in reviving its economic growth at a sufficient pace. The next 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 are likely to prove negative. Not surprisingly, China will be tightening its controls on capital exports. Cross-border securities brokerage, securities lending and fund sales are now considered illegal by the CSRC.





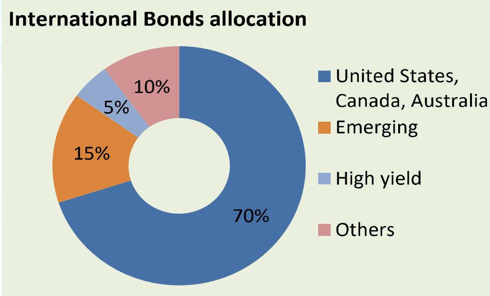




PROSPECTS AND STRATEGIES

International bonds

- Extreme situation on the US yield curve
- US recession risks return in early 2024
- Bond strategy focused on the dollar market and long maturities



Tactical allocation

- Marginalize allocation to the eurozone
- Overweight US bonds
- Overweight corporate segments
- Reduced exposure to HY
- Extend average durations

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

Extreme situation on the US yield curve

The US yield curve recently underwent a very significant flattening, which we consider particularly inappropriate for current economic conditions, and which once again threatens the soft landing scenario, which had previously had a good chance of materializing. At the end of the previous quarter, the yield spread between short (2-year) and long (10-year) U.S. Treasury maturities had reached -110 bps, reflecting an inversion of the curve essentially triggered by the Fed's steady increase in key rates and the decline in long rates motivated by the successes achieved on the inflation front. The fall in inflation to around 3% for the CPI and -3% for the PPI (NSA) in June allowed inflation expectations for 2024 and beyond to be lowered below 3%. Against this backdrop, the two-year Treasury yield stabilized at just under 5%, significantly lower than the key rate level of 5.5%, while ten-year rates ended the quarter at around 3.7%. This logical inversion at the end of a rate hike cycle and in anticipation of a future economic slowdown was suddenly corrected in an unexpected and historically extremely rare fashion. Normally, the flattening of the yield curve occurs through monetary policy easing when inflation normalizes the economic slowdown or recession materializes. In recent months, however, the spread has contracted as long rates have risen, while short maturities have remained unchanged. Two-year rates were still at 5% at the end of September, reflecting positive inflation expectations for 2024 and 2025, as well as the likely end of the rate hike cycle following the pause announced by the Fed in September. On longer maturities, and in particular ten-year rates, a surprise 100 bp rise pushed yields to 4.8% at the time of writing. The spread has thus narrowed from -110 bps to just -30 bps in three months, while the economic prospects and the risks of accelerating inflation are still far from clear.

US recession risks return in early 2024

This situation is quite exceptional and worrying, as it suddenly and very significantly tightens credit and financing conditions for all economic players and agents, including the US Treasury, in a way that is drastic and worrisome for the growth prospects of the US economy. As far as households are concerned, the rise in the cost of 30-year mortgage financing from 7.1% to 7.9% during the quarter further reduces access to real estate and increases mortgage debt servicing at a time when consumption is also being undermined by the rising cost of credit. At a time when the US economy was showing increasing signs of weakening, this flattening of the yield curve seems to us to be a particularly negative indicator for the outlook at the end of the year and for the first half of 2024. The soft landing scenario we have been describing since the beginning of the year as the main economic scenario for the US in 2023 is still very much in place, however, and should prove accurate for the 4th consecutive quarter. However, we now see a greater likelihood of a more severe slowdown in early 2024 if current conditions remain unchanged on US yield curves. Despite the already very significant decline in US inflation, yield curves that should have fallen have instead moved upwards in recent months. On the ten -year Treasury maturity, rates have now reached their highest level of the year, in a context clearly marked by the growing likelihood of an economic slowdown. Recent rate movements have therefore been less sensitive to changes in inflation and growth prospects than to other factors. The reduction in the Federal Reserve's balance sheet, coupled with the large and concentrated financing needs of the US Treasury in recent months, have increased the supply of bonds, but the bond market was also still largely influenced by the Fed's monetary policy statements suggesting that rates would have to stay high for a long time to keep inflation under control.

BOND INDICES (local currency)

30.09.2023

	Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
				Total Return Performance				
SWISS BONDS	SBI AAA-BBB	126.9	CHF	0.0	-0.8	0.1	2.2	3.6
UE BONDS	Barclays EuroAgg	222.9	EUR	-0.5	-2.1	-1.6	-1.5	0.6
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	138.3	EUR	0.0	-0.2	0.6	0.4	1.1
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2024.0	USD	-1.0	-2.5	-3.2	-4.0	-1.2
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	7.9	USD	0.3	-0.1	0.8	0.4	2.0
EMERGING BONDS	JPMorgan Emerging Markets Bond	518.9	USD	-1.3	-2.9	-2.7	-0.9	1.0
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	436.1	USD	-0.9	-2.9	-3.6	-5.1	-2.2
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro Aggregate	222.9	EUR	-0.5	-2.1	-1.6	-1.5	0.6
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	131.4	CHF	-0.1	0.8	-0.5	-2.5	-0.4
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	155.4	USD	-0.7	-1.9	-0.7	0.9	4.7
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	13.1	USD	-0.3	-0.8	0.5	2.0	5.2

Graph sources: BearBull Group / Bloomberg

statements suggesting that rates would have to stay high for a long time to keep inflation under control. As we have already mentioned, we believe that Treasury yields are currently too high, not only on the short end but also on the long end of the yield curve, increasing the risk of recession in early 2024. Against this backdrop, we now expect yields to fall across the yield curve. The outlook for dollar-denominated bond markets thus seems favourable to us, and sufficiently attractive to support a diversified exposure favoring investment grade corporate bonds offering both an attractive yield yields and prospects of capital appreciation.

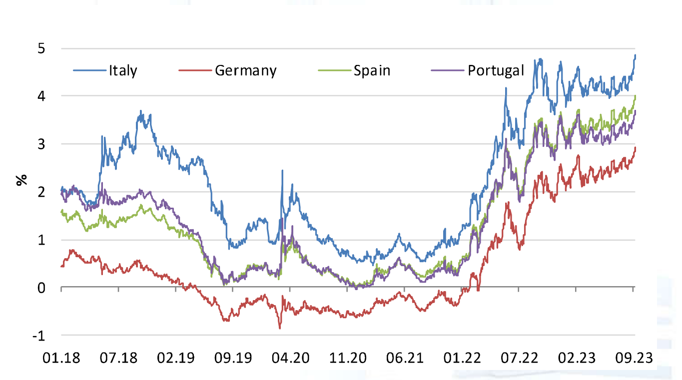
Economic slowdown won't stop euro rates from rising

Core inflation is again above CPI for the 1st time since 2020. As a result, the ECB's key rate still seems to us to be a long way from its equilibrium point. Despite statements by the ECB to the effect that the current policy is certainly coming to an end, we believe that inflation is still falling too slowly for the institution to really consider a pause. It will take several more hikes before the trend changes. Price dynamics continue to be fuelled by the structural specificities of the public and private sectors. Economic stagnation in a context of still above-average inflation will therefore not have a favourable impact on markets in the medium term. The fall in US inflation to 3% p.a. had barely stabilized the yield curve, which was anchored at 5.5%, 250 bps above annual CPI. A sharper fall in eurozone CPI is needed to justify a pause in monetary policy. In the meantime, euro-denominated yields need to to offer investors a sufficient risk premium. The ECB's rhetoric won't last long if inflation doesn't fall faster by the end of the year. The final quarter is likely to be hotter for the European fixed-income market, which has certainly not yet reached the fund. It is still premature to consider euro-denominated bonds as attractive, as the risk of capital loss seems greater than the consensus view. Ten-year German government yields reached 3% at the end of September amid widespread tension on international capital markets. They may ease temporarily before resuming a new phase of rise, which is essential simply to narrow the existing gap with the inflation rate, despite the recent decline in German inflation from +6.1% to 4.5%. In our view, this level of yield is clearly inadequate in view of inflation, and corresponds to a negative real yield of -2.1% 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. Against this backdrop, an increase of one hundred basis points cannot be ruled out on all German government maturities, while the yield curve is virtually flat between two-year and ten-year maturities. Now is not the time for yield pick-up strategies, but for managing the risk of capital losses. The European capital market presents very significant risks, which may also have severe consequences for Italian, Spanish, Portuguese and Greek government bonds which will not be spared by the expected adjustment, despite higher yields.

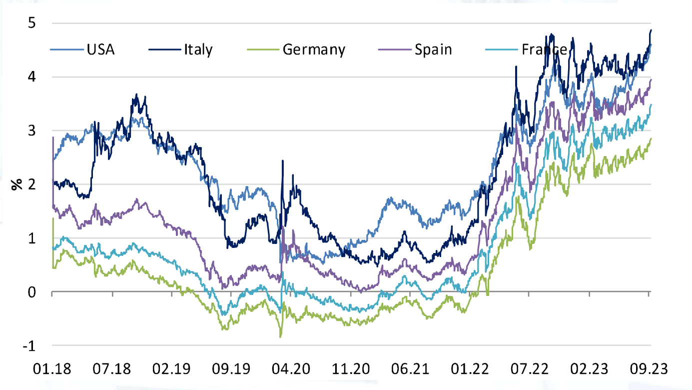
New record highs for British interest rates?

Ten-year UK government yields once again reached the 4.5%-4.75% threshold that had been 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 rose to 4.75% in August, driven by the disappointing trend in inflation and the prospect of further key rate hikes that could take short-term rates to 6%. Over the past three months, long rates have hovered around 4.5%, awaiting clearer signs that the long-awaited recession is finally upon us. Following this development, the sterling yield curve remained inverted, as short rates also rose by 0.25% in August, taking the short end of the curve to 5.5%. The inversion of the curve is thus mainly observable between short and lower-medium maturities.

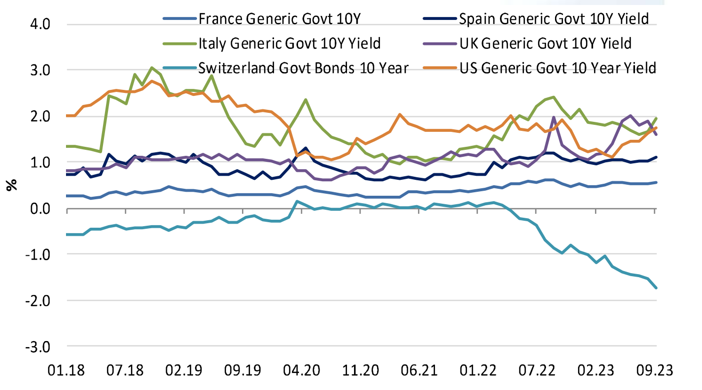
10 year Rate - Gvt Europe



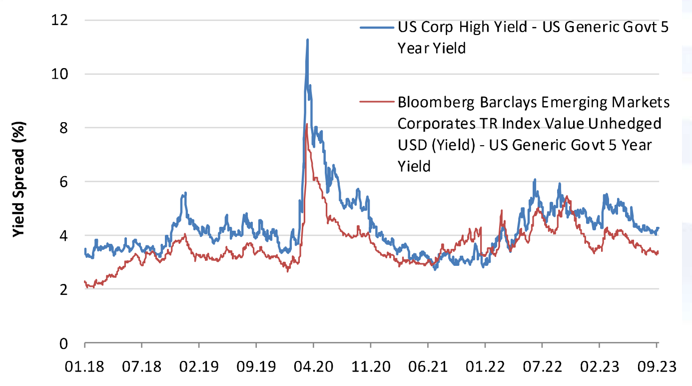
10 year Rate- Gvt



Risk Premium vs Germa Government



Risk Premium vs US Treasury



 Graph sources: BearBull Group / Bloomberg

On all maturities, real yields are negative, with inflation still close to +7%. By international comparison, the yield curve still seems too low for the level of inflation observed in the UK. However, following recent macroeconomic developments, a phase of stabilization and limited decline in long rates could still materialize, particularly if the BoE were to decide on September 21 to pause in its strategy.

Yen-denominated yields still unattractive

The Bank of Japan now holds over 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 1% for up to ten years. 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.

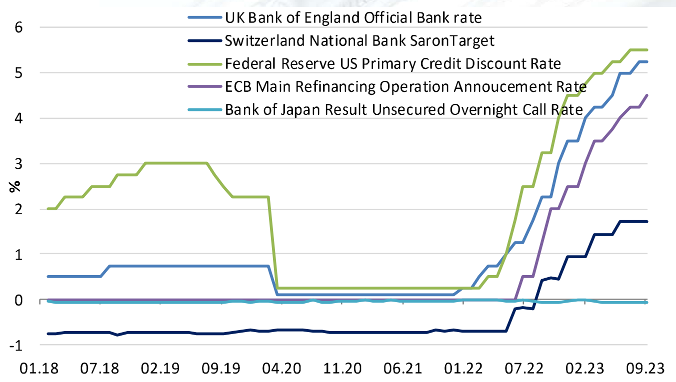
Return of capital market decorrelation

The decorrelation in interest rates between the European and US bond markets is set to intensify over the coming months. While monetary policy is on hold in the US, and key rates (5.75%) are above inflation (3.7%), in Europe, ECB rates (4.5%) are still much lower, and are likely to rise above 5.5% to outpace inflation. US medium-term government bond yields (4.25%) are also higher than current US inflation levels. In Europe, ten-year government yields are just 2.6%, almost 300 basis points below the CPI index of +5.6%. Against this backdrop, it seems extremely unlikely to us that European bond yields will stabilize at these levels in the immediate future.

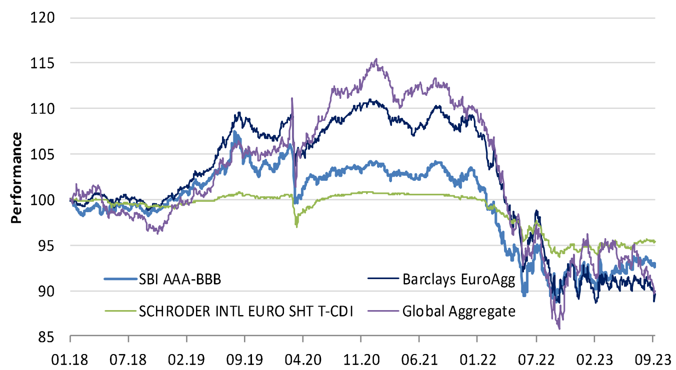
Bond strategy focused on the dollar market and long maturities

U.S. rates have certainly reached a turning point with the latest phase of exaggerated yields seen in September. The probable increase in recession risks in the US will gradually alter investors' perception of the appropriate level of rates. This will trigger a significant downward adjustment of yield curves, supported by the return of expectations of key rate cuts in 2024. The US market now offers extremely attractive nominal yield levels, particularly given that inflation is in decline and the risks of a rebound in CPI indices are limited. We prefer bonds in US, Canadian and Australian dollars, extending longer maturities and an overweight in corporate bonds. This global context should also be favourable to emerging dollar bonds, which also offer opportunities for capital gains and attractive yields.

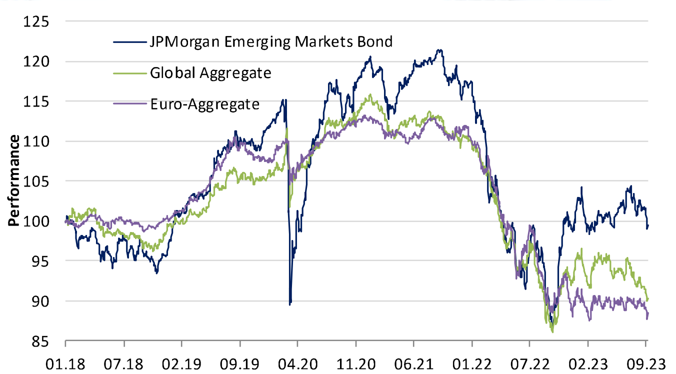
Key Rates (EUR, CHF, GBP, USD, JPY)



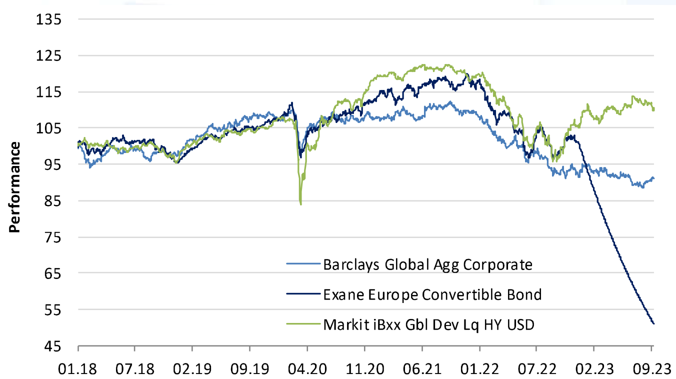
YTD Performance of 1- 5 year Bond Indices (base 100)



Emerging Bonds - Performance (base 100)



Eastern Europe Bonds - Performance (base 100)



Graph sources: BearBull Group / Bloomberg

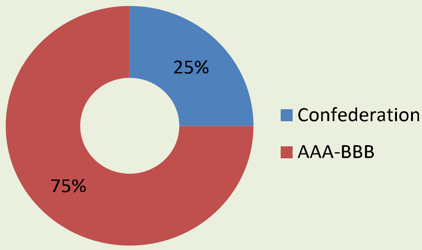
PROSPECTS AND STRATEGIES

Swiss Bonds

- Reduced risk in the Swiss bond segment
- Falling inflation and the end of the cycle for the SNB
- Stabilizing rates and low capital gains potential

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

Swiss Bonds allocation



Tactical allocation

- Underweight Swiss government bonds
- Overweight the « IG » corporate segment
- Maintaining medium lifetimes

Reduced risk in the Swiss bond segment

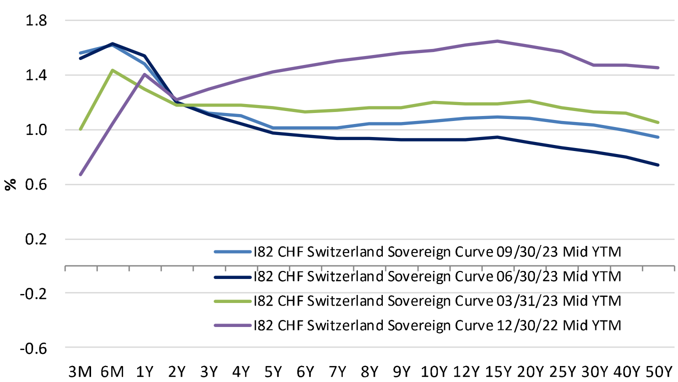
The outlook for Swiss bond markets at the end of this year and the beginning of 2024 remains closely tied to the SNB's future monetary policy and the already much more favourable inflation trend in our country. The SNB can now look forward to a sustained reduction in Swiss inflation Swiss inflation, which for the past four months has fallen below below its 2% target, with two monthly declines of -0.1%. Core inflation has even to just 1.3% at the end of September, demonstrating the effectiveness of the Swiss National Bank's monetary policy. With inflation back below the SNB's target, we can now look forward with greater certainty to the end of the rate hike cycle. In our view, it is no longer likely that we will see further rate hikes in the next few months, given the Swiss and international economic environment, which is increasingly marked by the risk of an economic slowdown in the months ahead.

The strength of the Swiss franc, orchestrated by another aspect of the SNB's monetary policy which consisted in reducing foreign exchange reserves by buying Swiss francs in order to limit the risk of imported inflation, did indeed contribute positively to this objective. The SNB has in fact reduced its foreign exchange reserves by almost 30% over the last few quarters to implement this policy. As a result, the level of foreign exchange reserves has fallen from almost CHF 1 trillion to just CHF 680 billion, wiping out not only the build-up of reserves during the pandemic, but more broadly all the growth recorded since 2017. However, the franc's appreciation is weighing on the economic outlook, as already suggested by the collapse of leading indicators such as the manufacturing PMI, now well below its growth threshold. Swiss GDP is therefore likely to stall over the coming months, affecting the outlook for medium- and long-term interest rates. The expected economic slowdown could bring the growth rate close to zero for the next few quarters, against the backdrop of the expected international downturn. The SNB should therefore consider curbing its policy of reducing foreign exchange reserves, which is strengthening the franc and penalizing GDP growth. We do not believe that this macro-economic environment will have a significant impact on Swiss franc yield curves, which are likely to remain relatively stable in the short term.

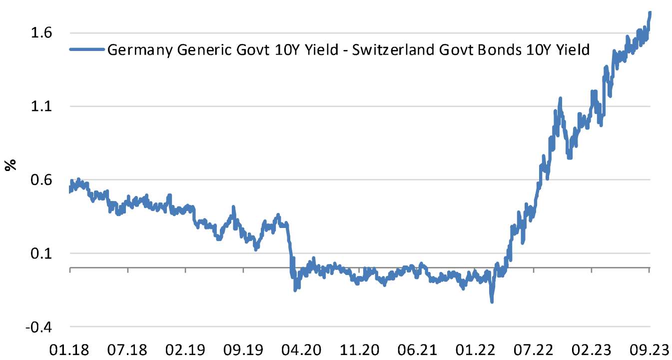
Stabilizing rates and low capital gains potential

The Confederation's ten-year yield has been stabilizing at around 1% for several months now, significantly below the 1.6% rate in June 2022 at the peak of annual inflation. The decline in inflation has therefore allowed yields to fall and stabilize. Ten-year Swiss government yields fell by 0.6% in 2023 as inflation declined, implying an inverted yield curve of over 70 bps 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 a sharp rise in the Swiss yield curve at the end of 2022 seemed premature in view of the Swiss economic situation and the prospect of a new, lower inflation regime. We saw yield curves as presenting opportunities for returns and capital gains for Swiss investors who had been deprived of yield since 2014. We now expect yield curves to stabilize, with little likelihood of further capital gains.

Yield Curve Swiss Government

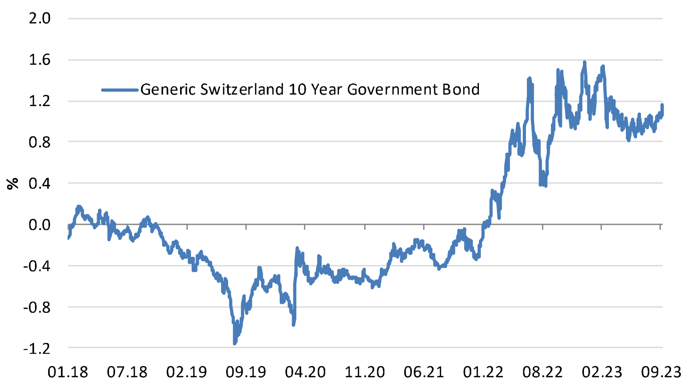


Long-term Interest Rate Differential (German Bund - Swiss Gov)

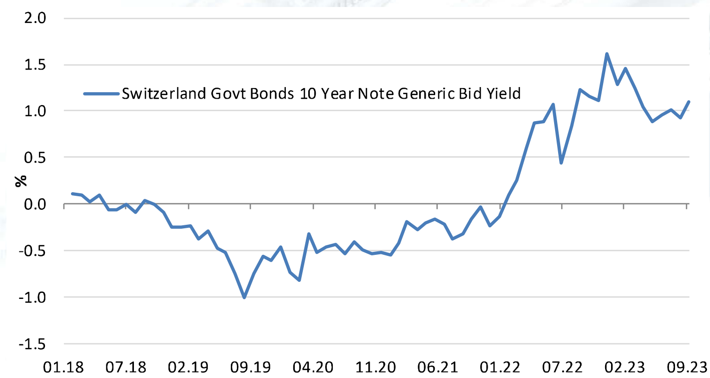


 Graph sources: BearBull Group / Bloomberg

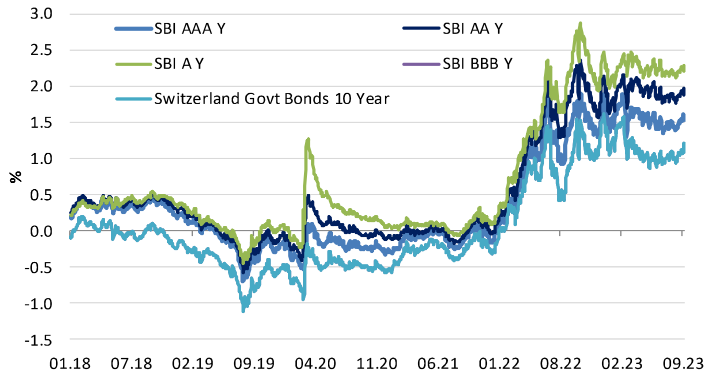
Swiss Government Bonds - 10 year Rate



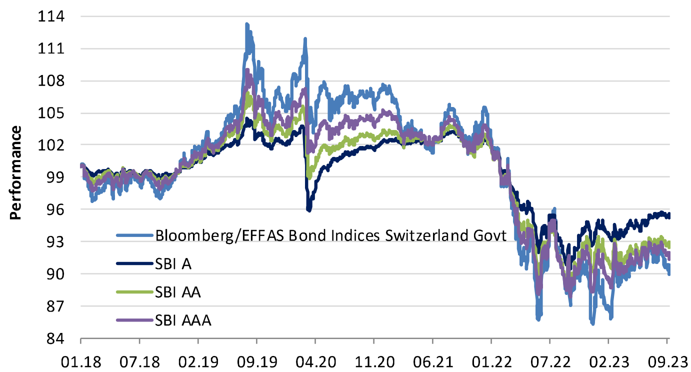
Swiss Government Long Rates since 2018



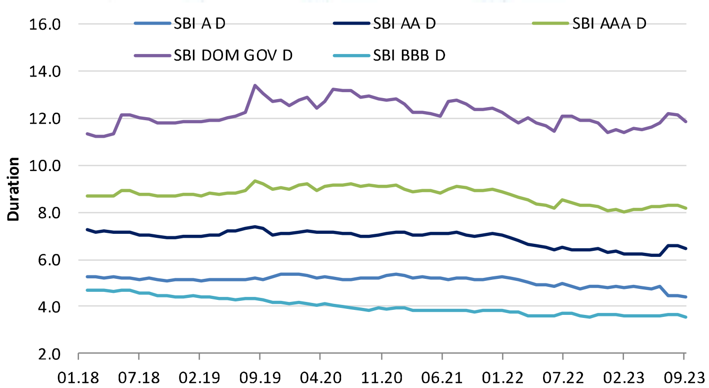
Yield (in %) by Type of Debitor



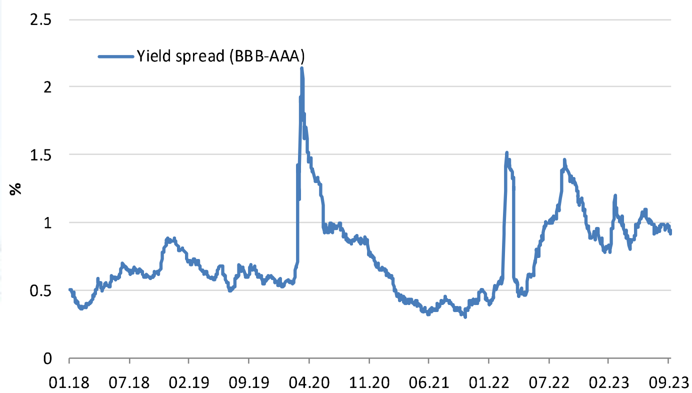
Performance of Swiss Bonds (base 100)



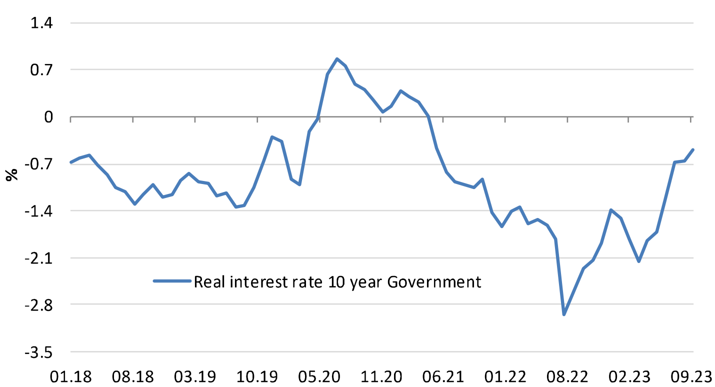
Duration of Swiss Bond Indices



Yield Spread



Real Interest Rates



SWISS BOND INDICES (CHF)

30.09.2023 — Total Return Performance

	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	236.9	CHF	-0.1	-2.0	-1.5	1.9	6.3
SBI A-BBB	130.8	CHF	0.1	-0.2	0.8	2.4	3.1
SBI AA-BBB	127.3	CHF	0.1	-0.4	0.5	2.3	3.1
SBI AAA-AA	125.4	CHF	0.0	-0.9	-0.2	2.1	3.8
SBI BBB	143.0	CHF	0.1	-0.1	0.8	2.3	3.1
SBI AAA-BBB	126.9	CHF	0.0	-0.8	0.1	2.2	3.6
SBI DOM GOV AAA-BBB 1-3P	58.7	CHF	0.0	-0.3	-0.1	-0.4	-0.4
SBI DOM GOV AAA-BBB 3-7P	73.9	CHF	0.0	-0.6	-0.5	0.1	1.0
SBI DOM GOV AAA-BBB 7+ P	107.0	CHF	-0.3	-3.0	-2.7	1.7	7.5

Graph sources: BearBull Group / Bloomberg

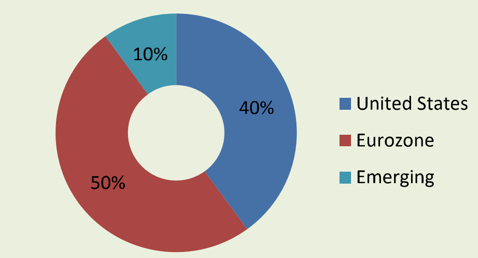
BearBull Global Investments Group

PROSPECTS AND STRATEGIES

International Real Estate

- Volatility returns to the real estate segment
- US securitized real estate collapses again
- A unique price/net asset ratio of 0.50 for European real estate
- Attractive discounts in Europe and the UK

International Real Estate allocation



Tactical allocation

- Overweight real estate class international
- Focus on Europe

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

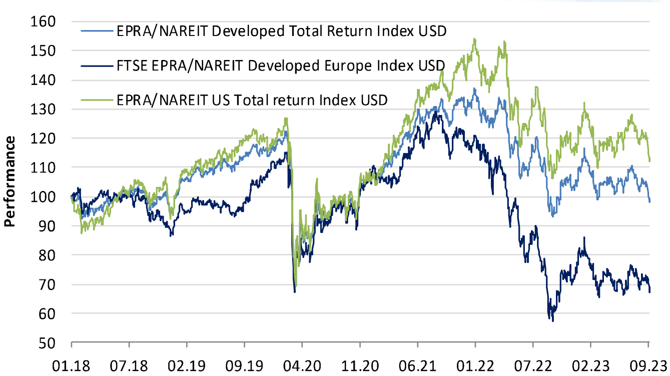
Volatility returns to the real estate segment

Volatility made a comeback in the listed real estate asset class, with a wide disparity in regional performances and highly varied quarterly trends punctuated by published economic statistics and expectations regarding monetary policy and yield curves. Overall, international real estate ended the quarter with a -5.6% fall, driven by a negative price trend of -5.8% in the last month of the quarter. Over nine months, the overall performance was also negative by -5.11%. This overall trend contrasts with very different regional performances over the quarter. In Europe, a welcome rebound of +7.02% developed without any particular support from interest rates, as the ECB continued its policy of rate hikes. In contrast, the United States succumbed to accelerating interest-rate tensions, plunging -7.19% in the process. In Asia, the decline was less marked (-4.3%), while emerging markets stabilized at -0.18%.

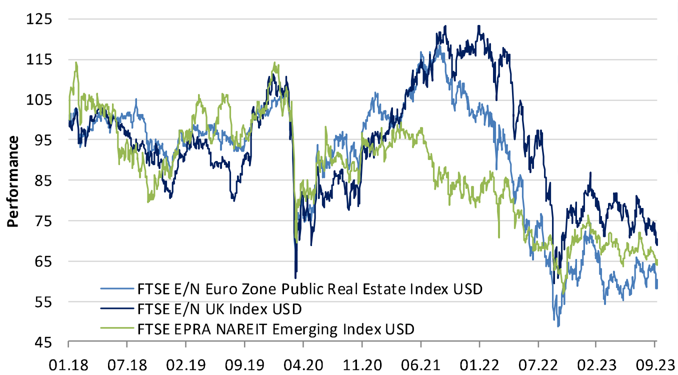
Uncertainty still dominates the stock market climate for real estate in this last quarter. Rising interest rates still seem to be the main factor penalizing REITs, which have already suffered quite extensively from the uptrend, often recording massive price falls in 2022 in all regions. The tightening of monetary policy was the trigger for the fall in share prices, and it still seems that despite a probable end to the upward cycle, the Federal Reserve's statements stressing that rates will remain higher and longer continue to weigh on the outlook and on investor sentiment.

However, we believe that this sentiment should, on the contrary start to improve in the coming months in most regions, and particularly in the United States. This is because in this region the rate hike cycle seems to have reached its zenith, and may even have to be reversed more quickly than central bank experts currently believe. The US economy is already in a slowdown phase, and the recent rise in long rates can only reinforce this trend. US yield curves are therefore too high in a context of growing recession risks. Falling inflation, the correction in interest rates and the hope of the next end of the monetary tightening cycle will soon provide a favourable environment which should revive investor interest and produce an upward revaluation of share prices. Elsewhere monetary policies have not yet reached their zenith, expectations are just as negative, and have already largely penalized real estate assets. The final quarter should be favourable for listed real estate investments if yield curves ease again after the excessive rises seen at the end of the quarter.

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



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



 Graph sources: BearBull Group / Bloomberg

Rising interest rates put the squeeze on direct real estate in the U.S.

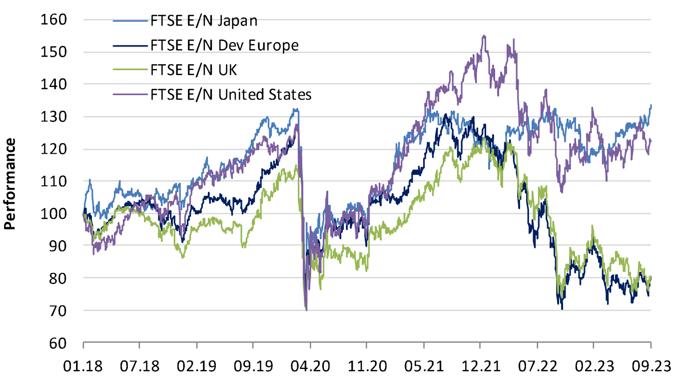
The latest tensions over interest rates in the United States will further reinforce the trends that have been in place for several months, pointing to a very sharp collapse in activity in the construction sector. The rise in long-term financing costs, measured by the average 30-year interest rate, has reached its highest level in recent cycles, touching 8%/year. The ability to finance a property purchase is falling, as evidenced by the 8.7% fall in new home sales in August and the 0.7% fall in sales of existing homes. The persistent pressure on interest rates in September should further reinforce this trend over the coming months. This deterioration in the direct market does not yet seem to have been reflected in house prices, which have stabilized in recent months, rising by only +0.13% year-on-year. Housing starts also fell by -11.3%, while building permits rose by +6.8%. Inventories are low, and the number of properties for sale is now much lower than it was in 2019. The real estate market is adjusting to higher financing costs and a doubling of mortgage interest rates. While the ability to acquire property has been reduced for some by this rise, the reduction in supply and inventories is allowing the market to stabilize, without having a significant impact on price levels for the time being. After a phase of stabilization, the direct real estate market once again seems riskier to us, due to the sharp decline in household financing capacity. Rising interest rates are becoming extremely penalizing not only for new purchases, but also for the simple refinancing of existing debt. Mortgage renewals will almost certainly be on much worse terms, which could indirectly also prompt some households to consider selling their properties.

US securitized real estate collapses again

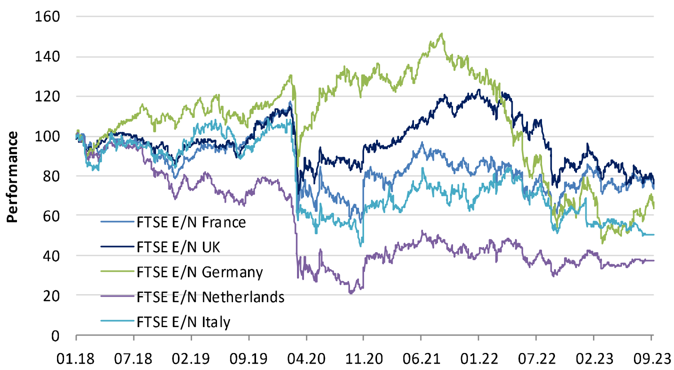
As for securitized real estate, the acceleration in interest rates in recent weeks has triggered a wave of selling in REITs, causing the EPAR Nareit USA index to fall by 15%. In the end, this fall could be temporary and represent an investment opportunity, provided that interest rates take a different path over the next few months. A downward adjustment of the yield curves and overall financing costs is probably essential if the trend is to be reversed for US securitized real estate, which will not be able to withstand such high nominal and real financing rates for long. If inflation trends allow us to envisage convergence towards the Fed's 2% target within a reasonable timeframe, and if the announced economic slowdown in the US materializes, a downward adjustment of the yield curves should materialize investors' negative expectations for US real estate securitization. In fact, it is likely that these factors are aligning to improve the outlook for listed real estate investments, which we believe to have the greatest potential for growth which seem to us to have already incorporated risks that will not fully materialize, and which offer repositioning opportunities in the medium term.

Securitized real estate has certainly already taken into account the risks of interest rates and rental vacancies, with a fall of -34.7% recorded between December 2021 and October 2022. The EPRA Nareit US index has an average yield of 4.52%, a total debt/total assets ratio of 45% and a price/net assets ratio of 1.87. Against this backdrop, US securitized real estate offers a yield than those observed in the eurozone and the UK, for a higher degree of debt and a lower yield. We recommend under-exposure to the US segment, in favor of the eurozone in particular.

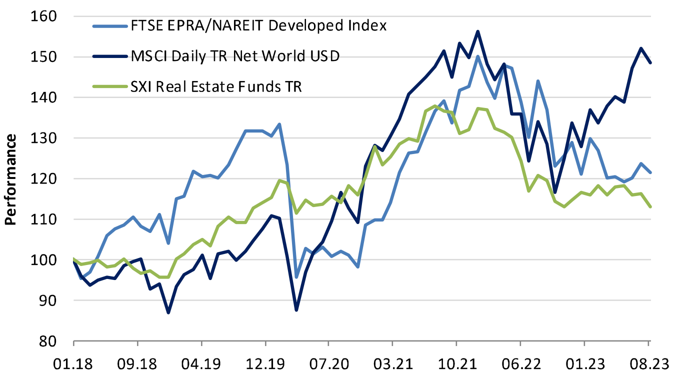
Real Estate Markets in Local Currencies



European Property Markets in Local Currencies



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



INTERNATIONAL REAL ESTATE INDICES (local currency)

30.09.2023

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
				Total Return Performance				
GLOBAL	FTSE EPRA/NAREIT Glb TR	2562.0	USD	-1.5	-5.7	-5.4	-5.1	-4.4
DEVELOPED	EPRA/NAREIT Dev TR USD	4948.5	USD	-1.5	-6.0	-5.6	-5.1	-4.1
DEVELOPED EUROPE	FTSE E/N Dev Europe	1412.8	EUR	-2.2	-3.5	4.4	1.0	-3.6
EUROZONE	FTSE E/N Euro Zone	1410.2	EUR	-2.9	-3.3	7.0	7.1	-0.9
USA	FTSE E/N United States	2676.4	USD	-1.4	-6.8	-7.2	-4.8	-2.3
DEVELOPED ASIA	FTSE E/N Dev Asia	1221.3	EUR	-0.1	-1.3	-1.3	-4.9	-7.8

Graph sources: BearBull Group / Bloomberg

A unique price/net asset ratio of 0.50 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 pressures of the past two years. The risks of instability in the financial system caused by the SVB's bankruptcy temporarily created uncertainty that damaged the valuation of securitized real estate investments, before fading away and being replaced by new uncertainties linked to the accelerated rise in long-term interest rates during the summer. The EPRA Nareit Eurozone index is struggling to stabilize after falling 28% between February and March. Since then, it has oscillated within a fluctuation band of plus or minus 7% around a trendless level of 1,400. This horizontal consolidation over the last six months, with significant volatility, seems to us to be a rather positive sign, heralding a probable rise in prices over the coming months. The current context still lacks the triggering factor to support this change in trend, but the forthcoming trend in interest rates and inflation should be the expected driver for an upturn in securitized real estate prices. At current levels, the collapse in European listed real estate prices thus seems clearly excessive, even in the context of a continuation of the rate hike for a few months yet. The EPRA Nareit Eurozone index offers an average yield of 5.04%, 6.65% for 2023 and 7.14% for 2024. Its total debt of 42.8% and a price/net asset ratio of 0.51 for 2023 and 0.54 for 2024. At around 50% of their net asset value, securitized real estate investments in the eurozone present exceptional opportunities. In recent historical comparison, the price/net asset ratio has fluctuated between 0.8 and 1.27 between 2016 and 2021. Current discount is therefore quite exceptional. At current levels, we believe that securitized real estate in the eurozone has already largely taken into account the risks associated with rising interest rates.

Real estate continues to consolidate in the UK

Annual house price growth continues to consolidate sharply in 2023. After reaching +14.3% year-on-year in July 2022, the year-on-year rise in property prices was just +1.7% in June 2023. This is the smallest increase since June 2020. According to figures published by Nationwide Building Society, the average house price even declined by -5.3% in August since its peak the previous year, the sharpest contraction in the last ten years. The decline is clear across all regions of the UK. The property boom is finally showing signs of weakness. Since the peak in July 2020, prices have fallen sharply. Rising borrowing costs are beginning to have an impact on households, who are facing a shock when they renew 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. The situation of households, already difficult due to rising inflation, will be further exacerbated by the increased cost of mortgage financing on their budgets. Average rates have reached 6.5%, with five-year rates at 6%. Around 1.7 million households are directly affected by short-term rate trends.

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 property investments. Against the backdrop of an expected economic slowdown in 2023, we believe that a decline of around -10% in property prices, less severe than that induced after the 2008 financial crisis, which saw prices fall by -16%, is likely. British securitized real estate, already down -34% by 2022 due to negative expectations linked to the prospect of higher financing costs, fell by a further -11% in 2023, bringing the overall price correction for listed securities to almost -45%. Nonetheless, we believe that if the fall in direct physical real estate prices has not reached its equilibrium point the same cannot be said of securitized real estate, which already appears to offer opportunities for repositioning, not least because of attractive valuations.

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 believe that investments in the eurozone are likely to recover, given their attractive financial ratios.

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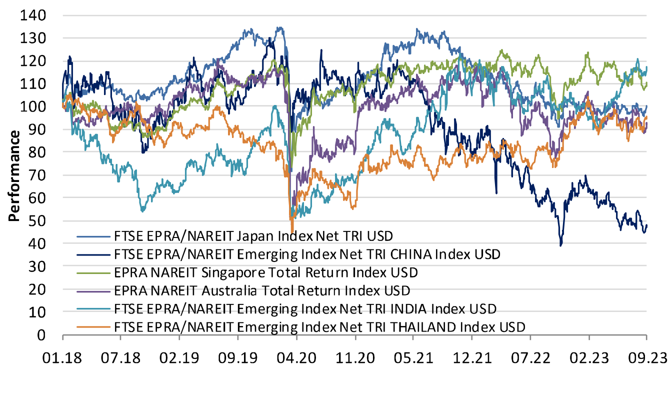
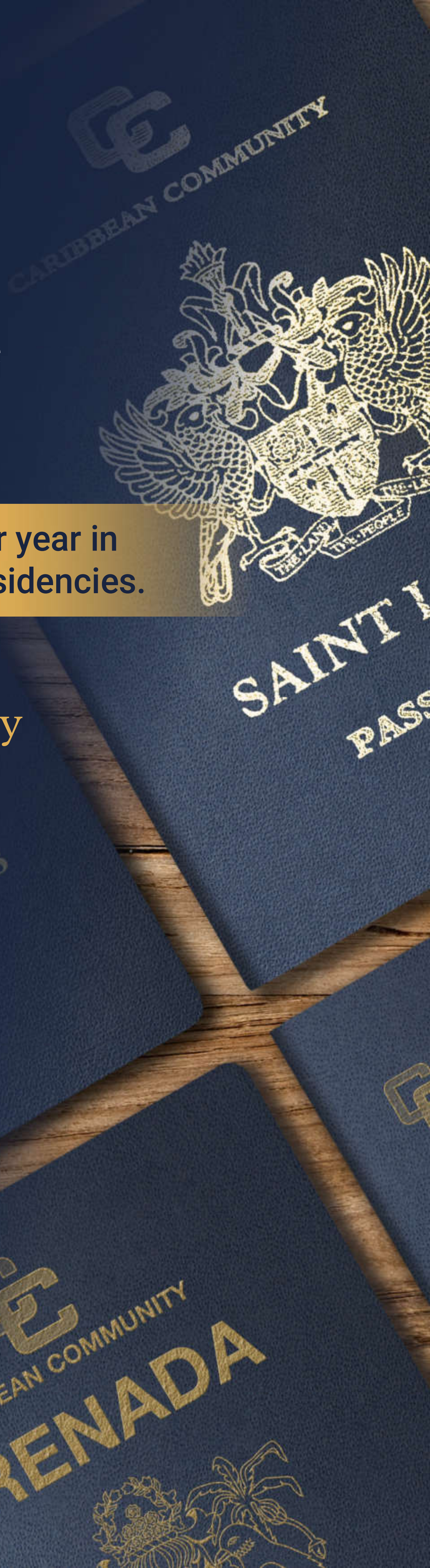
Real Estate Market Developments (USD)



 Graph sources: BearBull Group / Bloomberg

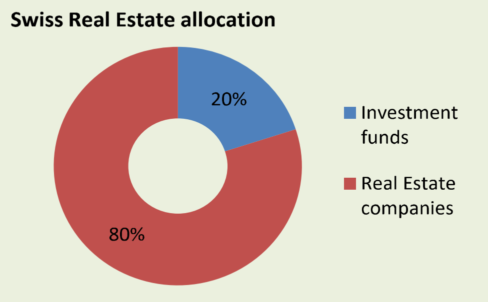


CARIBBEAN COMMUNITY
CARIBBEAN COMMUNITY
GRENADA

PROSPECTS AND STRATEGIES

Swiss Real Estate

- Exceptional historical value
- Attractive absolute and relative returns
- Positive outlook for both forms of investment



Tactical allocation

- Agios, yields and risk premium once again very attractive
- Favoring listed real estate companies

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

Securitized real estate benefits from exceptional historical valuations

The change in monetary policy in Switzerland, which saw short rates rise from -0.75% to +1.75%, had a clear impact on the Swiss securitized real estate sector in 2022. Yield curve adjustments over the same period had also contributed to the rise in financing costs and the price correction in investment funds and real estate shares. However, since the beginning of 2023, Swiss real estate prices have stabilized for both investment funds and listed real estate indices. The SNB's latest interest-rate hikes have had no further impact on real estate stocks, which were already largely affected in 2022 by expectations of tighter financing conditions. The relative stabilization of medium- and long-term yields has also contributed to this sideways trend in investment funds. The Swiss Real Estate Investment Fund Index in fact ended September with a slightly positive quarterly result positive result (+0.4%) and on an almost perfect stabilization (+0%) since the beginning of the year. Listed real estate companies followed a slightly more positive path, enjoying a +5.4% appreciation in the 3rd quarter, giving them a +5.7% gain over the first nine months of the year as a whole. The current context of 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 to just 11%, close to the 10% threshold last reached during the 2008 crisis. The current agio level is clearly below the historical average of close to 20%. For listed real estate companies, the average discount is now -3.7, its lowest level since 2010. With ten-year Swiss government bond yields fluctuating between 0.85% and 1.2% for the past six months 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 the return on funds for the average agio to fall below 15%. Only financing costs in excess of 4% have caused agio to fall to zero and potential disagio conditions to develop. We believe that interest rates in Switzerland are unlikely to exceed the level of the current yield on real estate funds of around 2.8%, which eliminates the risk of a fall in prices sufficient to lower the current level of agio, while average indebtedness is less than 25%.

Attractive absolute and relative returns

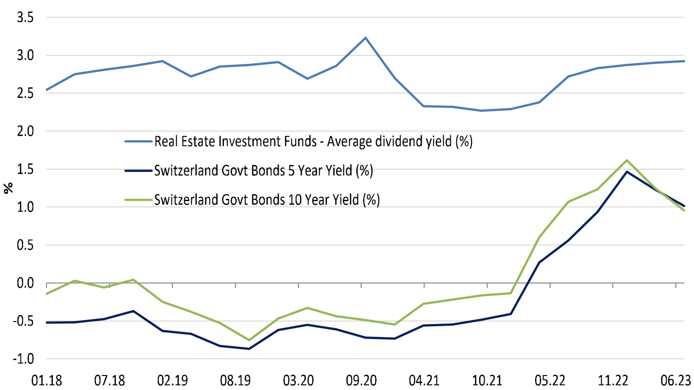
The yield on real estate funds is 3.28%, and that of real estate companies is even 4%. Given the relatively flat yield curve for Confederation yields, averaging 1% over 10 years, the profitability of listed real estate investments seems to us to be very attractive in both absolute and relative terms. The risk premium for real estate companies is even close to 300 bps, which represents an attractive premium in the present context which represents an attractive premium in the present context.

SWISS REAL ESTATE

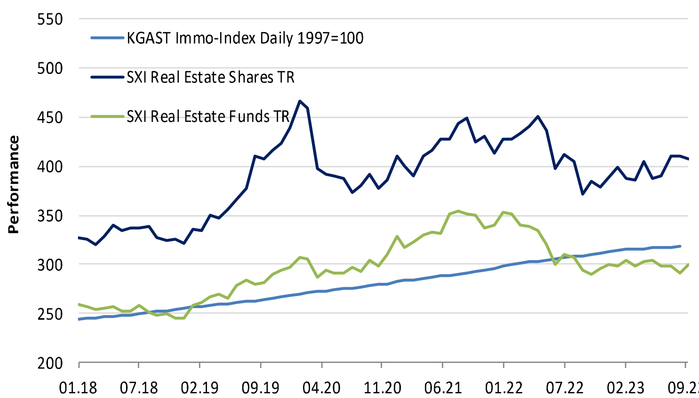
30.09.2023 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	440.3	-0.8	2.9	0.4	-0.3	0.0
SXI Real Estate Idx TR	3035.7	-0.4	-0.9	4.5	2.4	4.7
KGAST Immo-Index	355.7	0.0	0.0	0.3	4.2	1.6

Government and Real Estate Yield



Performance of Swiss Real Estate

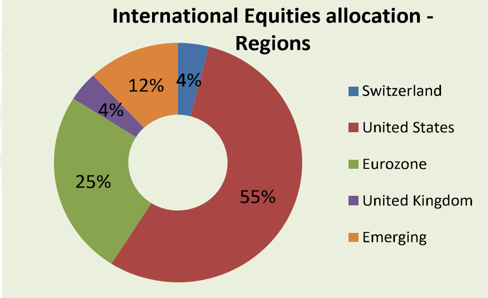


Graph sources: BearBull Group / Bloomberg

PROSPECTS AND STRATEGIES

International Equities - Regions

- Equity markets stumble on rate hike
- A new, more favourable environment
- Positive outlook for US and European equities



Tactical allocation

- Overweight the United States
- Reinvestment in emerging markets

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

Equity markets stumble on rate hike

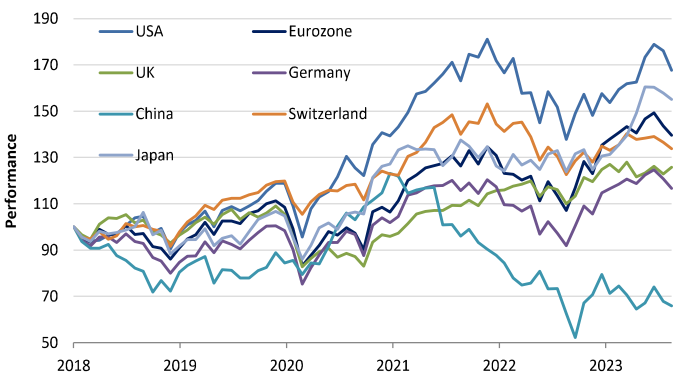
Equity markets had recorded significant gains at the end of June and were poised to continue their upward trend during the summer, supported by favourable economic statistics and better-than-expected corporate results. At the time, economic growth was still sufficient to enable companies to achieve their expected earnings gains, while inflation was marking time and the prospect of an end to the cycle of key rate hikes seemed increasingly high and favourable to the investment climate. However, the speeches by the Chairman and members of the Federal Reserve Board dampened these hopes, notably with the announcement that interest rates were likely to remain higher for longer. However, it is perhaps even more the rise in long-term rates supported by massive US Treasury issuance and the Fed's equally massive sales of Treasuries that have pushed long rates sharply to their highest levels since the start of the year. This has rekindled which affected all equity markets in much the same way at the end of the quarter. The -4.77% fall in US indices proved to be one of the sharpest of the month, resulting in a -3.27% decline for the quarter. Overall, the MSCI World Index also fell by -3.46% over the period, reducing its year-to-date gain. year-to-date increase to +11.1%.

While the rate hike cycle in Europe seemed to be further away from its end than in the United States, the stock market behavior of national indices was on average similar to that of the S&p500. The main European stocks ended the quarter up of +13.42%, compared with +13.06% for the US index. Among developed markets, Japan was the clear winner of the performance comparisons thanks to a +24.34% rise in the Nikkei index, but the currency's -14% fall against the US dollar redressed the balance.

A new, more favourable environment

Rising interest rates tripped up equity markets in Q3, but it seems unlikely that the interest rate factor will continue to have a negative impact on the investment climate for much longer. Indeed, the last quarter of 2023 should be increasingly marked by signs of in the US, but also in the eurozone and the UK. The main developed countries will almost certainly end the year with GDP growth rates that are likely to be the lowest of the year In Europe's case, this means that near-zero or even negative growth is likely. In such a context, if inflation continues its downward trend, interest rates should adjust downwards, creating a more favourable environment for equity market valuations. The new risks for equity markets will then focus more on profit trends in the event of an economic slowdown or even recession. Our outlook for the coming months is based on the predominance of the interest-rate factor and its positive effects on equity market valuations.

Long-term Equity Markets (base 100)



Chinese A and B Shares (base 100)

Graph sources: BearBull Group / Bloomberg

Positive outlook for U.S. equities

Tensions over interest rates have not been without effect on equity markets in recent months. After showing excellent resilience in the more tense environment of May, June and July, the latest round of rate hikes, which took US Treasury yields from US ten-year Treasury yields from 4% to 4.8%, was more difficult to digest. The S&P500 finally succumbed to this negative environment, recording a consolidation of -7%, inversely proportional to the dollar's rise. The summer consolidation on equity markets was no more marked on technology stocks, with the Nasdaq index sliding -8% over the same period.

While the rising dollar is a negative factor for the valuation of dollar-denominated profits of US export companies, it is not the primary factor behind the short-term correction in equity markets. Indeed, interest-rate tensions were the main determinant of the downturn. Our scenario for economic growth and interest-rate trends should once again bolster interest in US stocks. The consolidation of the equity markets seems to us to be temporary and close to an end. We take a positive view of the future trend in equity indices, recommending an overweight in growth stocks, which are still more sensitive to interest rates.

European equities revive after eight months of consolidation

After eight months of horizontal consolidation, European equities should now be able to ride out the impending rate hikes and participate in the upward trend of international equity markets. European equities remain attractive in terms of historical valuation and relative to their peers. They still offer a significant discount to US stocks. Their valuation of 12x earnings for 2024 is lower than the S&P500's PE of 20.3x. They also look attractive relative to Japanese (18.8x) and Swiss (17x) equities, and are on a par with Chinese stocks (12.3x). 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. Now in relative performance since the start of the year compared to the S&P500 European equities still deserve to be favored in the 2024 outlook, unless the ECB's forthcoming rate hikes end up disrupting investors' appreciation of risks and opportunities.

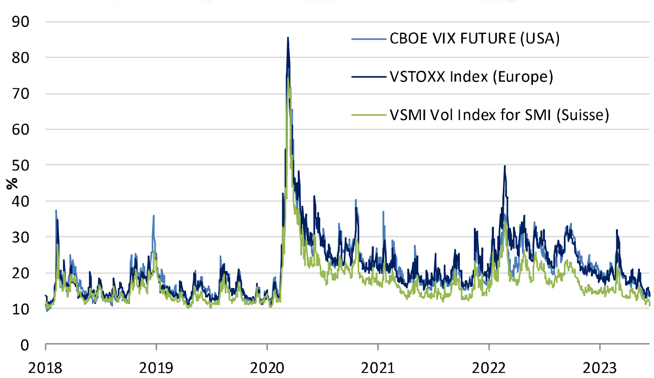
Our positive scenariofor European equities is therefore essentially underpinned by attractive relative valuations and earnings growth prospects for 2024 of +11%.

Satisfactory growth in Japanese corporate profits

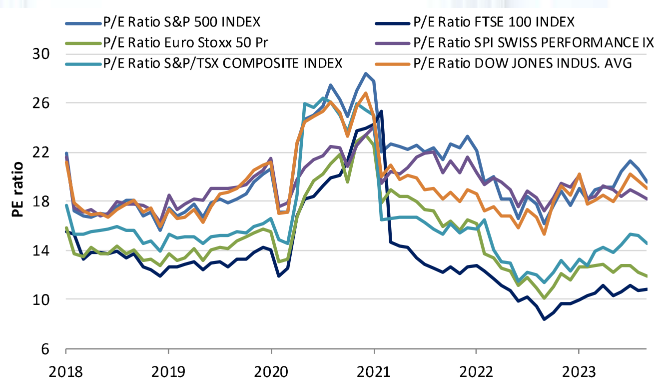
The Japanese economy surprised economists with stronger momentum in the 1st half and still looks set to maintain growth in Q3 and Q4. Japanese corporate profits rose by +11.6% in Q2, a trend which should continue in the second half if external demand holds up and exports to China can resume. After several years of reduced growth, expectations for Japanese corporate earnings are now +8% for 2024. The Japanese market has thus outperformed other developed markets, posting up +25% in local currency since the start of the year, and in recent weeks has hit new 33-year highs. Corporate profits appear to be solid, and are also reviving the interest of foreign investors attracted by the prospect of earnings growth and shareholder-friendly reforms after a long, more uncertain period of development.

The absence of pressure on Japanese interest rates remains a notable factor in the exceptional resilience of Japanese stocks. Japanese stocks will benefit from the probable return of international investors, who are now more inclined to reconsider the weighting of Japanese stocks in their diversified allocations following a decline in the yen. With the Nikkei expected to stabilize at around 33,000 points, we believe that the conditions are now in place for a new phase of growth. We now recommend reinvestment and repositioning in Japan's leading stocks.

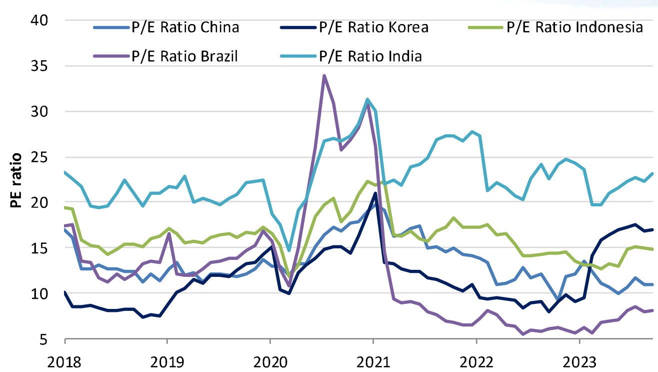
Volatility Indicators (USA, Europe, Switzerland)



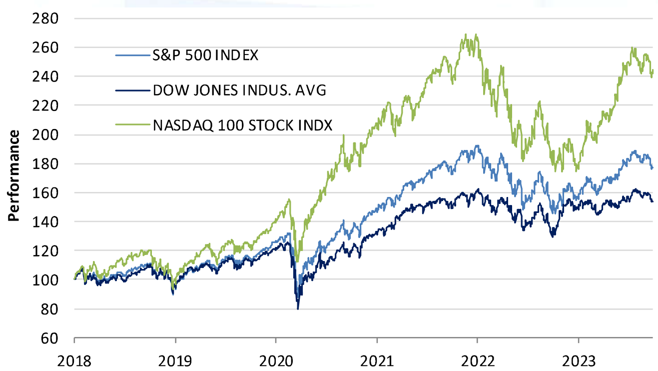
Developed Market PE



Emergents Market PE



US Equity Markets (base 100)



Graph sources: BearBull Group / Bloomberg

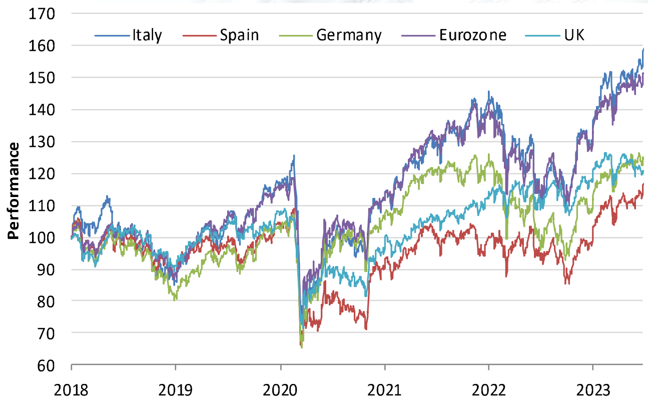
Discount still attractive for British equities

For some weeks now, the FTSE100 index has been feeling the effects of expectations of restrictive monetary policy and rising interest rates. However, the monthly volatility observed over the summer leaves the equity market virtually unchanged at the end of September. The current economic slowdown could prove to be a positive factor for the UK market, which would finally benefit from a less unfavourable monetary policy and interest rate scenario. The current level of the UK market offers some opportunities due to rather attractive absolute and relative valuation measures. All FTSE100 companies continue to enjoy a relative advantage, with an average PE (10.7x) well below that of the US S&P500 (18x) and SMI. However, the discount to European equities has narrowed to just 10%. Technical valuation measures also suggest an oversold situation, from which a new uptrend seems likely.

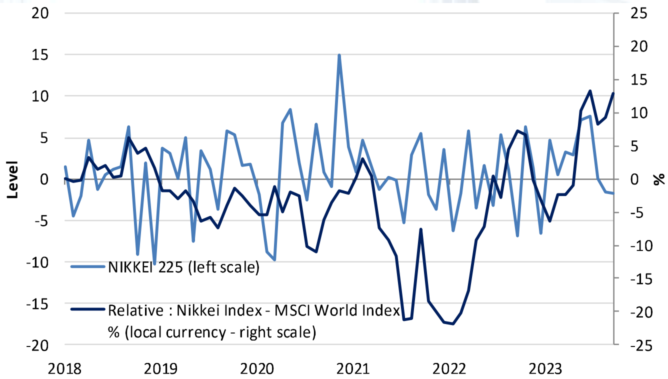
New appeal of emerging markets

Emerging markets reacted relatively better to tighter monetary conditions and rate hikes during the 3rd quarter. The -2.85% decline in the MSCI Emerging Market index is actually slightly better than that of international equities. However, with an increase of just +2.07% in 2023, emerging equities are at the bottom of the performance comparison league. This is essentially due to China's underperformance, which had a major influence on the overall result with the -11% fall in its CSI300 index, and contrasts with the positive trends in Taiwan, Korea and emerging markets such as India (+6%) and Vietnam (+8%), while Brazil also advanced by almost +10%. The Chinese government's forthcoming economic stimulus measures should encourage international investors to return to Chinese stocks, with their attractive medium PEs. In addition, emerging economies that had suffered from the rise in US interest rates and the depreciation of their currencies against the US dollar should benefit from an improvement in conditions for both these factors. Lower interest rates and a weaker dollar should therefore benefit them. We recommend an increase in the allocation to emerging markets, which reacted relatively little in 2023 and are still lagging overall behind developed markets.

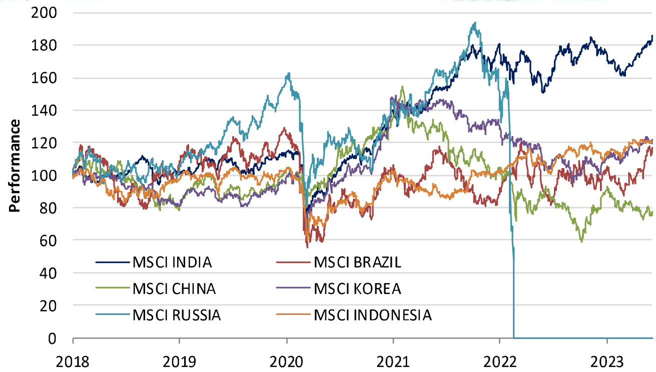
Equity Markets (base 100)



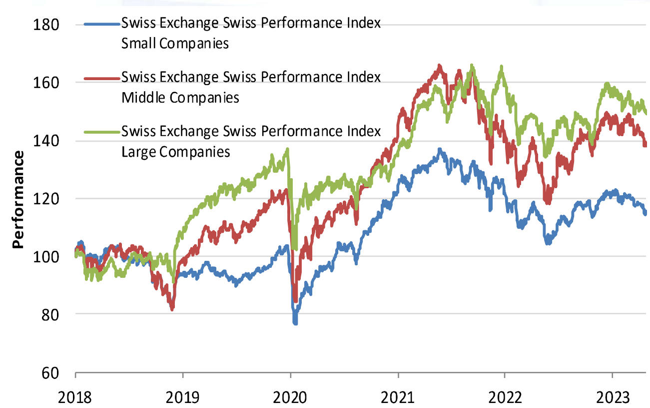
Japan Equity Markets VS MSCI World



Emerging Equity Markets (base 100)



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



EQUITIES - BY REGION (local currency)

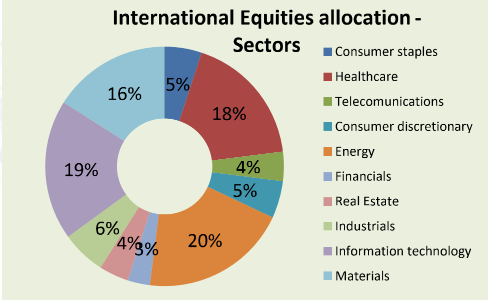
30.09.2023 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	14368.6	CHF	-0.7	-2.0	-3.3	-1.2	4.6
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	4827.9	CHF	-0.8	-4.6	-5.7	-5.7	3.7
EUROPE	STXE 600 € Pr	450.2	EUR	-0.6	-1.6	-2.0	0.6	9.2
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	480.2	EUR	-0.6	-3.1	-2.8	-2.9	2.8
UK	FTSE All-Share Index	4127.2	GBP	-1.0	1.8	1.8	1.2	4.3
USA	S&P 500 Index	4288.1	USD	-0.7	-4.8	-3.3	5.2	13.1
USA SMALL-MID CAPS	RUSSELL 2500	767.4	USD	0.5	-5.6	-4.8	0.2	3.6
JAPAN	NIKKEI 225	31857.6	JPY	-1.1	-1.7	-3.4	14.5	24.3
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	1255.9	JPY	-1.1	0.1	4.0	16.0	23.8
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	492.1	USD	-1.0	-2.7	-3.2	-4.1	0.0
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	1112.6	USD	-0.3	-2.8	0.2	3.1	5.8
EMERGING	MSCI EM	952.8	USD	-1.2	-2.6	-2.8	-1.9	2.1
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	8872.6	USD	-0.9	-4.3	-3.5	3.1	11.1

PROSPECTS AND STRATEGIES

International Equities - Sectors

- Sustainable outperformance of the growth style
- Upgraded profit outlook for 2023 and 2024
- Favoring sectors favored by declining interest rates
- Underweight Megacaps and banks
- Overweight technology and alternative energies



Tactical allocation

- Favoring growth values
- Overweight alternative energies, REITs, mining companies and technology

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

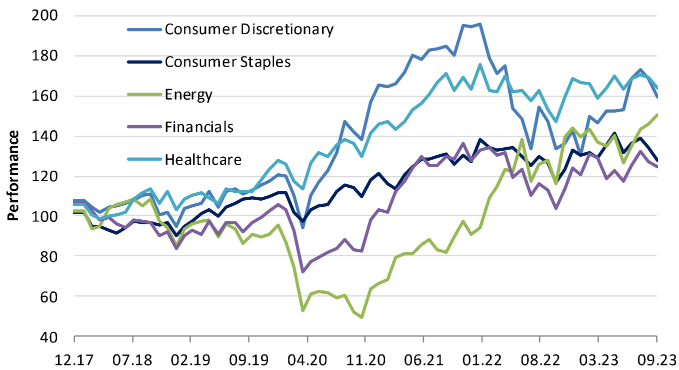
EQUITIES - BY SECTOR

30.09.2023

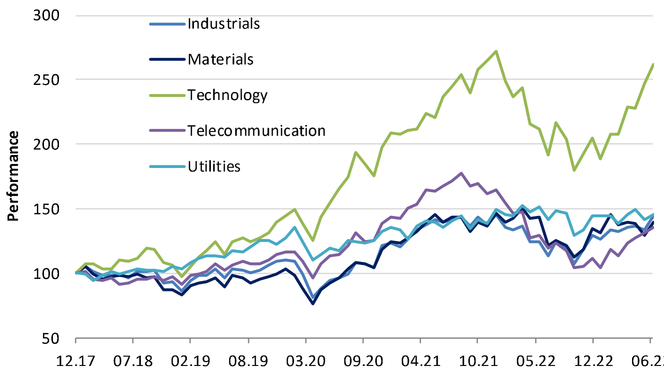
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
				Total Return Performance				
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	350.4	USD	-1.0	-5.5	-5.6	4.5	21.8
CONSUMER STAPLES	MSCI WORLD/CON STPL	257.8	USD	-2.2	-4.9	-6.3	-5.7	-2.3
ENERGY	MSCI WORLD/ENERGY	256.5	USD	0.9	2.8	11.5	11.2	7.8
FINANCIALS	MSCI WORLD/FINANCE	131.3	USD	-1.4	-2.1	-0.6	4.7	3.2
HEALTHCARE	MSCI WORLD/HLTH CARE	334.6	USD	-0.9	-3.2	-2.7	-0.2	-1.6
INDUSTRIALS	MSCI WORLD/INDUSTRL	319.6	USD	-0.6	-5.1	-5.1	1.3	8.7
MATERIALS	MSCI WORLD/MATERIAL	309.0	USD	-0.4	-3.7	-3.8	-3.9	2.2
REAL ESTATE	MSCI WORLD/REAL ESTATE	180.2	USD	-1.4	-6.4	-6.9	-6.4	-5.6
TECHNOLOGY	MSCI WORLD/INF TECH	510.5	USD	0.0	-6.8	-6.0	7.8	30.7
TELECOMMUNICATION	MSCI WORLD/TEL SVC	86.8	USD	-0.2	-3.0	1.5	11.4	31.6
UTILITIES	MSCI WORLD/UTILITY	135.5	USD	-5.9	-5.6	-8.9	-9.1	-8.4

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 4th quarter, we believe that growth stocks should continue to be favoured, but we now expect a broader participation in index growth and a potential underperformance of these leading stocks. In the United States, the S&P Value Index (+7.8%) has recently corrected by half its increase at the end of June (+14.9%) and remains well behind the current S&P Growth performance (+21%). With the peak of the monetary tightening cycle in sight, we believe that current conditions are conducive to the anticipation of further rate cuts in 2024, which should sustain the current uptrend in the markets. At sector level, stocks that are highly dependent on interest rates should benefit from these factors, as should cyclical stocks penalized by the hard landing scenario. Against this backdrop, technology and digital stocks should already benefit from the return of more constructive investor sentiment. We are maintaining a strategy favoring growth stocks and Nasdaq companies. After suffering the negative effects of rising interest rates and falling crude oil prices until July, alternative energies 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 recent months. In the financials segment, we prefer insurance to banking stocks, which will remain under-represented in our sector policy. We also favor the natural resources sector, particularly gold stocks, which will benefit from both a fall in interest rates and a loss of momentum in the dollar.

Sectors - MSCI World (base at 100)



Sector Performance - MSCI World (base at 100)



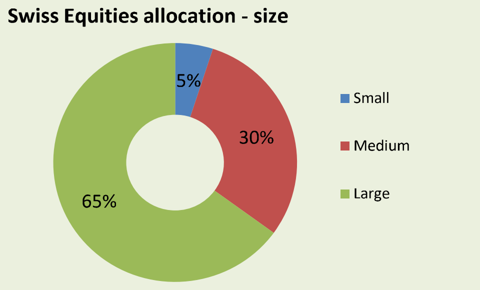
 Graph sources: BearBull Group / Bloomberg

PROSPECTS AND STRATEGIES

Swiss Equities

- Swiss equities continue to lag
- Bullish recovery dependent on a weaker Swiss franc?
- High valuations justified by good prospects

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



Tactical allocation

- Overweight mid caps
- Focus on stocks with solid margins

Swiss equities continue to lag

Swiss equities continued to suffer from the strong franc in Q3. The performance of the SMI (-2.8%) and SPI (-3-3%) this quarter was only slightly better than that of the main developed markets but they remain close to the results now recorded for the year as a whole. In fact, Swiss equities are still lagging behind, with growth of just +4.6%, well below the average of +11.1% for the MSCI World index.

Rate hikes in Switzerland were well below those in other markets, and were certainly not the main factor behind this underperformance. The Swiss franc's rise of almost +3% against a basket of currencies is not dramatic, but it does add to the almost +5% appreciation in 2022, and still penalizes the competitiveness of Swiss companies.

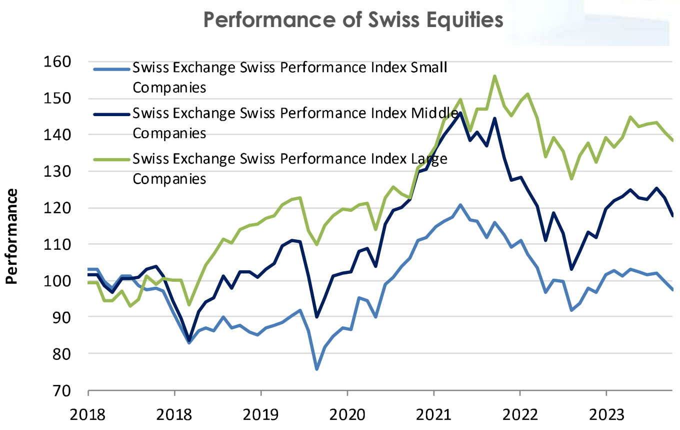
Bullish recovery dependent on a weaker Swiss franc?

The Swiss equity market remained highly indecisive over the summer, penalized in particular by the strength of the Swiss franc against the dollar and the euro in July, and a still restrictive monetary policy. The macroeconomic data and statistics published, despite favourable on the inflation front (CPI 1.7%/year, ex-food and energy +1.3%), below the SNB's target, failed to generate enthusiasm for Swiss equities, which were also affected by the economic slowdown in our country (zero growth in Q2) and in other European economic partner countries. Following a rise of almost +10% in stock market indices between mid-March and mid-May, consolidation materialized on both small & mid cap indices and those representing the largest market capitalizations (SMI), against a backdrop of growing uncertainty for the manufacturing sector and for Swiss exports.

The SNB's aggressive monetary policy of balance sheet reduction and massive currency sales has logically boosted demand for Swiss francs, contributing significantly to investor sentiment about the strength of the franc. The fall in core inflation to just +1.3% p.a. at the end of September should prompt the SNB to normalize its policy. We expect both an end to the upward cycle in interest rates and a marked reduction in currency sales. Against this backdrop, the franc will be less supported by SNB purchases, and could finally suffer from the rate differential, which is clearly to its disadvantage against both the dollar and the euro.

The rise in the franc had logically affected the competitiveness of some exported products and services, but it had also contributed to a reduction in estimates of profits made abroad and expressed in Swiss francs.

We believe that the prospect of declining inflation, the end of the rate hike cycle and a falling franc should be factors supporting a revival of the uptrend for Swiss equities over the coming months. Earnings expectations for 2024 for the SMI as a whole are +13% and +12.8% respectively for the SPI, and we believe that companies will be able to maintain their margins and deliver better-than-expected results. In terms of valuations, price/earnings ratios for 2024 are 15.3x for the SMI and 15.9x for the SPI. In our view, the outlook for the Swiss market is currently positive for 2024. Secondary stocks (medium-sized and smaller companies) could well outperform the blue chips.



SWISS EQUITIES - Capitalization

30.09.2023 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	14368.6	-0.7	-2.0	-3.3	-1.2	4.6
SPI SMALL COMPANIES INDX	26983.6	-0.4	-2.4	-4.0	-3.8	0.7
SPI MIDDLE COMPANIES IDX	19503.2	-0.5	-3.8	-3.8	-4.3	5.4
SPI LARGE COMPANIES INDX	13840.8	-0.7	-1.6	-3.2	-0.5	4.5

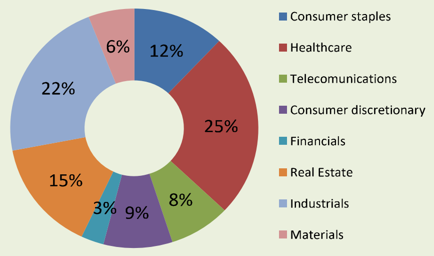
Graph sources: BearBull Group / Bloomberg

PROSPECTS AND STRATEGIES

Swiss Equities - Sectors

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

Swiss Equities allocation - sectors



Tactical allocation

- Beware of excessive valuations
- Underweighting of blue chips
- Underweighting of the financial sector

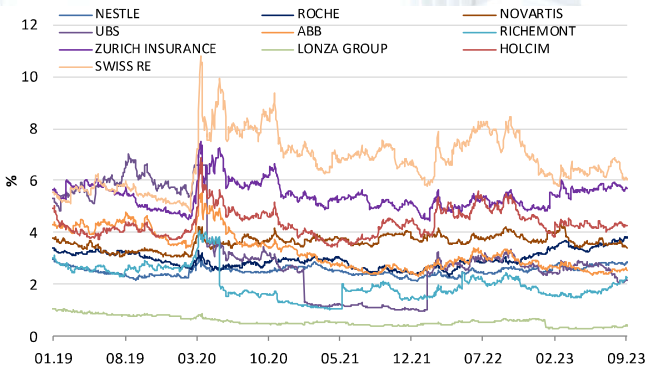
High valuations justified by good prospects

The Swiss market is currently trading at 16x for the SMI and 17x for the SPI, based on estimated earnings for 2024. By international comparison, the Swiss market is almost as expensive as the US market (S&P500 19x) or the Nikkei (18x). The price/earnings ratio for the eurozone is only 11x earnings, and 10x for the FTSE100 index. However, estimated earnings growth for 2024 in Switzerland (+14%) is significantly higher than for the eurozone (+11%) and the UK (7%). From a relative point of view, the Swiss market could be overlooked by international investors who would prefer exposure to continental Europe and the UK in terms of valuations, but the expected earnings growth justifies these valuation differentials.

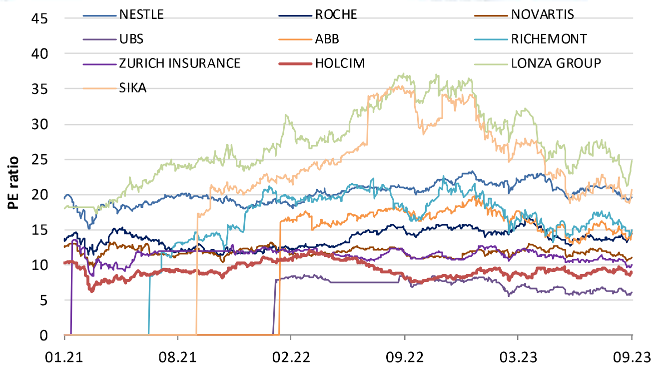
Among the SMI's top three stocks, Nestlé is valued at 20x 2024 earnings, significantly higher than the valuations of the other two blue chips, Novartis (13x) and Roche (12x).

Price growth expectations for Nestlé (+16%) and Roche (+25%) outstrip those for Novartis, whose expected rise is only around +5%. Among other SMI stocks, we highlight the very significant price growth expectations for Richemont, Lonza, Sika, Sonova and Alcon, which are well above the expected average increase of +14% for the Swiss market as a whole. These stocks should benefit from relative overweights, while Novartis, Zurich, Givaudan, SwissRe, Partners, Geberit, Swiss life, Swisscom Kuhne + Nagel and Logitech, which have lower price growth expectations, should be underweighted.

Dividend Yield - Top 10



PE ratio - Top 10

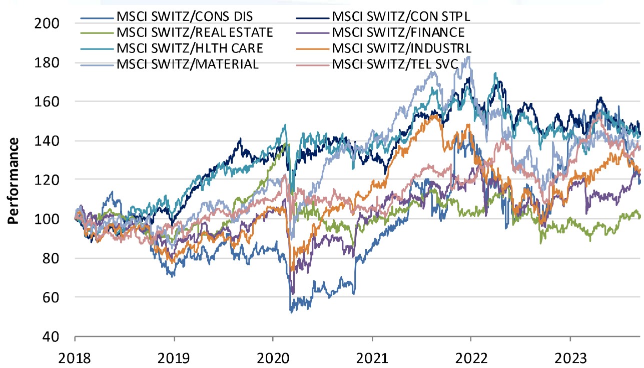


SWISS EQUITIES - BY SECTOR

30.09.2023 Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	363.3	-4.1	-7.9	-21.9	-21.0	-4.1
MSCI SWITZ/CON STPL	344.1	-2.8	-2.6	-4.2	-5.0	-0.5
MSCI SWITZ/FINANCE	61.7	-1.0	0.9	10.7	9.6	13.1
MSCI SWITZ/HLTH CARE	174.0	0.8	-1.5	-4.7	0.4	1.7
MSCI SWITZ/INDUSTRL	208.9	0.7	-3.0	-5.4	0.5	15.8
MSCI SWITZ/MATERIAL	375.1	0.0	-2.3	-3.9	-3.9	11.2
MSCI SWITZ/REAL ESTATE	977.2	-0.7	-1.1	8.1	10.4	7.2
MSCI SWITZ/TEL SVC	102.9	-1.4	1.2	-2.4	-6.7	11.5

Sector Performance - Swiss Equities



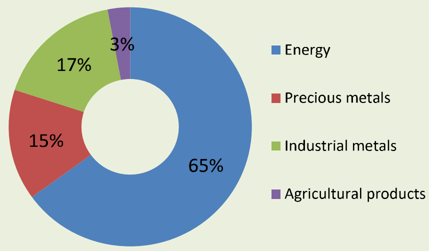
Graph sources: BearBull Group / Bloomberg

PROSPECTS AND STRATEGIES

Commodities

- Outlook for the coming quarters remains positive
- Gas prices to rise by 30% before the end of 2023
- Rates and the dollar have finished penalizing gold prices

Commodities allocation



Tactical allocation

- Overweight energy, precious metals and industrials
- Underweight agricultural products

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

Outlook for the coming quarters remains positive

Against a particularly negative backdrop in Q3 for most financial assets affected by rising interest rates, commodities once again successfully demonstrated their ability to decorrelate themselves from traditional asset classes. While international bonds (-3.59%) and equities (-3.46%) fell together, and real estate sank a little further (-5.63%), commodities performed positively. The +15.98% rise in the global commodities index was therefore welcome news for all diversified investment strategies, which, as in 2022, benefited from the decorrelation of this asset class, while traditional bond and equity markets posted negative performances over the period. Of particular note was the exceptional performance of energy prices, which jumped +28.79% over the quarter, and the less spectacular +3.51% rise in industrial metals. Over the period, the precious metals segment was temporarily penalized by the rise in interest rates and the nearly +7% rise in the dollar. The rise in crude oil prices was not underpinned by a recovery in Chinese demand, but by more effective control of oil supply, mainly orchestrated by OPEC and Saudi Arabia in particular. The outlook for commodities is generally favourable for the coming quarters.

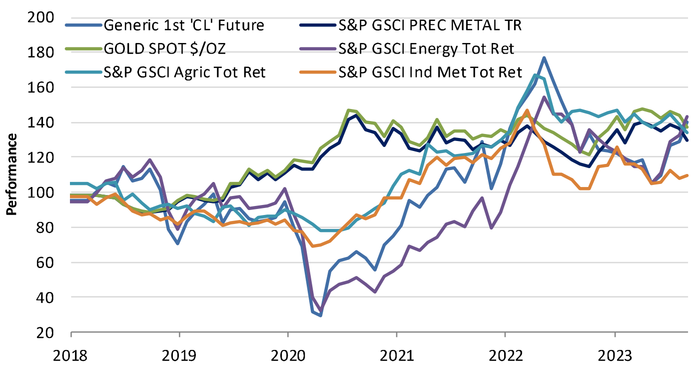
The oil market is in deficit

Crude oil prices have risen by almost 30% since their March 2023 low and are now trading at their highest level of the year, at $85.5 for WTI and $88.5 for Brent. They have finally reacted positively in recent weeks to the production cuts announced by OPEC, which could well be extended over the coming months. After three rounds of production cuts announced since September 2022, the market is now likely to be short by around 2 million barrels a day. However, the decline in US production is not yet very noticeable, despite the fact that the number of active wells according to data published by Baker Hughes is now down by -17% since the start of the year. The price differential between WTI and Brent has contracted sharply over the past six months, dropping from almost $8 in February 2023 to just $3 at the end of August. In the United States, inventories are contracting, while demand for crude has already exceeded pre-pandemic levels in May and June. The gradual strengthening of the soft landing macro-economic scenario for the US economy clearly seems to be reflected in demand trends. However, at current prices, crude oil prices could mark an initial phase of temporary pause, not least because of lingering uncertainties about the Chinese economy's ability to grow in line with expectations. In the case of oil stocks, the rise was significant, but less than that of crude oil. After rising by almost +20%, the S&P500 Energy index may also be temporarily marking time, but a further rise in crude oil prices towards $90-100 remains likely in the current environment, and would then once again benefit stocks in the sector.

Gas prices to rise by 30% before the end of 2023

The recent rise in crude oil prices has brought us close to our short-term target of $90-95 per barrel of WTI. At this price level, we believe we can assess the potential for crude oil substitution, and in particular the evolution of natural gas demand. The fall in US natural gas prices from the highs reached ($10) during the invasion of Ukraine to just $2 in the spring of 2023 was due to a combination of factors such as a mild winter and high production.

Commodities



COMMODITIES (USD)

30.09.2023 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	8872.61	USD	-0.85	-4.31	-3.46	3.13	11.10
GLOBAL	S&P GSCI Tot Return Indx	3748.9	USD	-0.2	4.1	16.0	12.8	7.2
WTI CRUDE	Generic 1st 'CL' Future	90.8	USD	0.8	8.6	28.5	20.0	13.1
BRENT OIL	Generic 1st 'CO' Future	95.3	USD	2.2	9.7	27.2	19.5	10.9
NATURAL GAS	Generic 1st 'NG' Future	2.9	USD	11.1	5.8	4.7	32.2	-34.5
OR	GOLD SPOT $/OZ	1848.6	USD	-4.0	-4.7	-3.7	-6.1	1.3
ARGENT	Silver Spot $/Oz	22.2	USD	-5.9	-9.3	-2.6	-8.0	-7.4
AGRICULTURE	S&P GSCI Agric Indx Spot	385.9	USD	-2.5	-3.6	-4.0	-16.1	-18.0
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	420.3	USD	1.8	1.4	3.0	-7.1	-6.8

Graph sources: BearBull Group / Bloomberg

A smaller decline in inventories was recorded as production peaked at 101.5 Bcf/d, leading to reserves 20% above the historical average. However, demand for natural gas should start to pick up again, as already suggested by one of the strongest recent demands for gas consumption for power generation recorded during the summer in the USA. Exports of liquefied natural gas are also expected to rise sharply, while production may finally be adjusting downwards. We expect gas drilling activity to decline in the wake of lower prices. Natural gas injections into storage areas should therefore logically decrease before the end of October, as winter approaches. Against this backdrop, gas market fundamentals could tighten sufficiently to have a positive impact on prices towards the end of the year. The rise in natural gas prices in recent months, after a long period of consolidation around $2.5 Bcf/d, only partly reflects these expectations. Today, the $3 Bcf/d threshold is being tested and should, in our view, be exceeded, reaching $4 Bcf/d by December 2023.

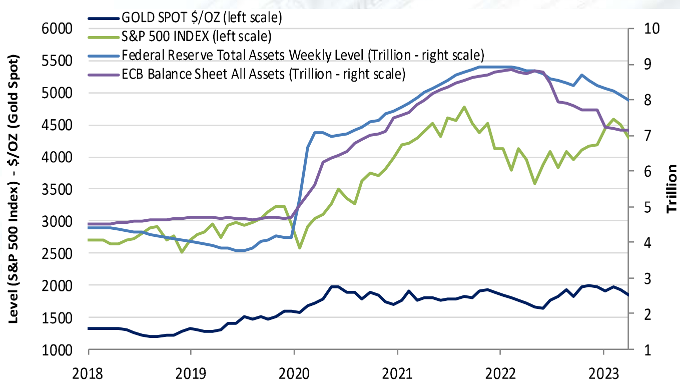
Rates and the dollar have finished penalizing gold prices

After rising by almost +13% in the first four months of the year, gold prices then slowly eroded as the US Federal Reserve tightened monetary conditions and bond yields rose, not only in dollars but in other major currencies too. The fall of the last few days of September, directly correlated with the latest tensions on long rates towards 4.8%/year, finally reset the performance counters to zero for the yellow metal in 2023. The price of an ounce of gold in US dollars (1'860 USD/ounce) is now well below its 200-day average value (1'928 USD/ounce), following divestments in favor of investments offering a short-term return in excess of 5% in USD. Physical gold ETFs have seen outflows of around -20% since their peak in 2020, and -7% in 2023 alone. While in 2023 the trade-weighted dollar price has only appreciated by +2.4%, the increase since the July low is still +7%. The recent context for two important factors monitored by investors to assess opportunities for gold price appreciation have been negative, but in our view they are in a likely transition phase. With this in mind, they could now support a new trend in the price of the yellow metal, one that could prove to be more positive in the long term. Indeed, the tensions observed on the yield curves today seem to us to be disconnected from economic reality, and will not withstand statistics showing a deterioration in the economy. Further downward adjustments in interest rates will also penalize the dollar, and should thus contribute to an upward revival in gold prices above 2,000 per ounce.

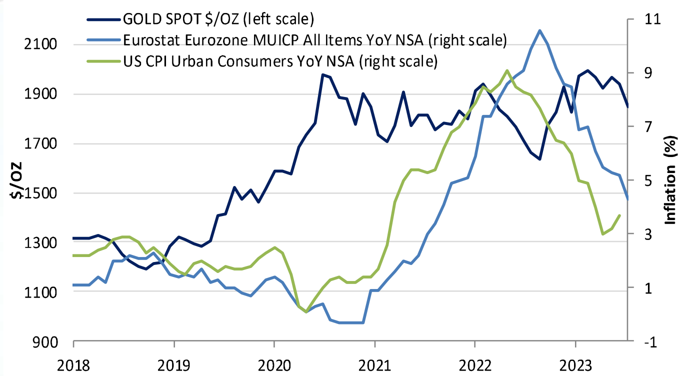
Improvement fundamentals for industrial metals

Industrial metals were still largely penalized in Q3 by China's lower-than-expected growth. After significant declines in the 1st half of the year, industrial metal prices largely stabilized over the summer, probably in anticipation of more positive statistics and more decisive announcements of economic support from the Chinese authorities. Chinese growth is still showing no serious signs of recovery, with weak international demand still weighing on production and exports, while developments in the real estate sector and infrastructure investment remain uncertain. Inventory levels are particularly low, however, and cannot easily be used as an adjustment variable if 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. The new need for industrial metals, essential for the implementation of the energy transition, is also an extremely important factor in the evolution of global demand. The fall in Capex in recent years continues to weigh on supply levels, thereby limiting the risk of a sharp rise 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.

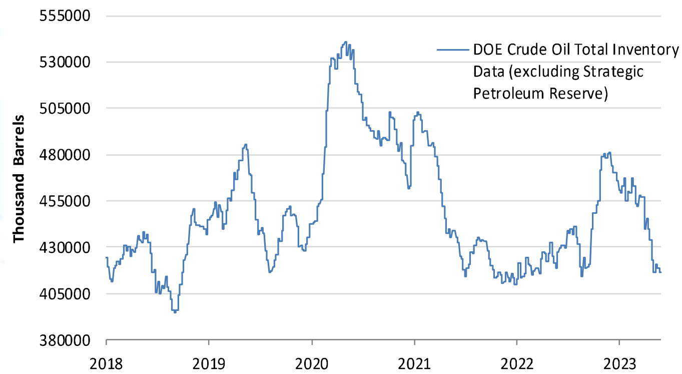
High correlation between Gold and Global liquidity



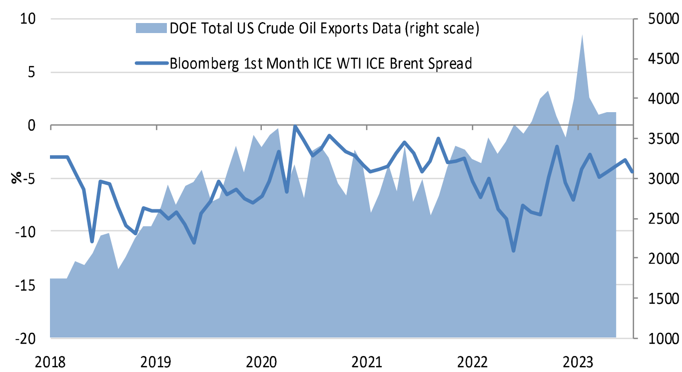
High correlation between Gold and Inflation



Oil inventories (United States)



Price differential between WTI and Brent oil



Graph sources: BearBull Group / Bloomberg

PROSPECTS AND STRATEGIES

Hedge Funds

- A favourable quarter for hedge funds

The third-quarter environment was generally unfavourable to traditional asset classes, which were penalized by the upward trend in interest rates. The economic slowdown and falling inflation had no positive impact. The Fed's assertion that rates will remain higher for longer is a cause for concern, as US policy continues to increase uncertainty over budget funding, with the risk of a government shutdown once again looming. The major issuance of US Treasury debt comes at a time when bond sales by the Fed and China are unbalancing the market. Against this backdrop, hedge funds fared well, posting a slightly positive quarter (+0.7%).

With the exception of the macro/CTA strategy, which declined by -0.5% between June and September, the other approaches finished in the black. Equity Hedge, Relative Value Arbitrage and Event-Driven strategies grew by +0.2%, +0.6% and +2.2% respectively in the third quarter. Year-to-date, event-driven (-0.9%) and macro/CTA (-0.2%) strategies are in negative territory. Relative value arbitrage and equity hedge climbed by +2.8% and +3.2%, for an overall increase of +1.4% in hedge funds.

Private Equity

- Private equity grows despite rising interest rates

Except for energy prices, which rose by almost +30% in the third quarter, private equity outperformed all other asset classes with a quarterly increase of +7.5%. Benefiting firstly from improving inflationary dynamics and the easing of recession risks in the US in particular, private equity was not penalized by rising interest rates, as investors focused more on improving macroeconomic data than on the potential risk of higher rates for longer.

Over the quarter, it was in the USA that the increase occurred (+10.5%), in stark contrast to the corrections in Europe (-2.7%) and the UK (-0.9%). After the first nine months of the year, Europe (+5.4%) and the UK (+6.8%) still posted favourable results, but well behind the USA (+24.8%). Overall, listed private equity has grown by +19.3% since the beginning of the year.

HEDGE FUND INDICES (USD)

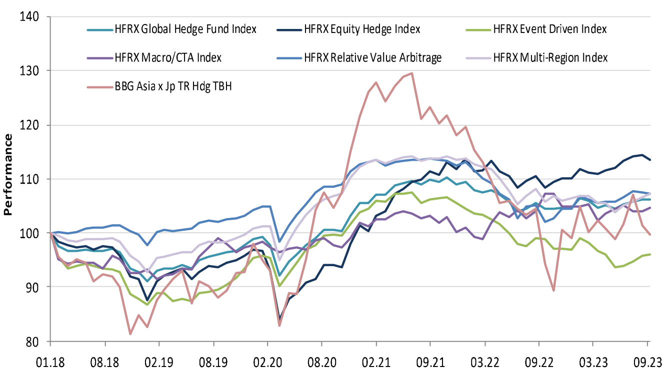
30.09.2023				Total Return Performance				
N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1386.8	USD	-0.2	-0.1	0.7	1.4	1.4
EQUITY HEDGE	HFRX Equity Hedge Index	1493.2	USD	-0.1	-0.8	0.2	2.4	3.2
EVENT DRIVEN	HFRX Event Driven Index	1627.4	USD	-0.2	0.1	2.2	-0.6	-0.9
MACRO/CTA	HFRX Macro/CTA Index	1264.0	USD	-0.2	0.6	-0.5	2.3	-0.2
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1285.7	USD	-0.1	-0.1	0.6	1.7	2.8
ASIA EX-JAPAN*	BBG Asia x Jp TR Hdg THB	1420.4	USD	-0.8	-1.8	-1.9	-2.6	0.6
MULTI-REGION	HFRX Multi-Region Index	1486.5	USD	0.0	0.6	2.2	1.7	0.9

* Subject to one-month lag

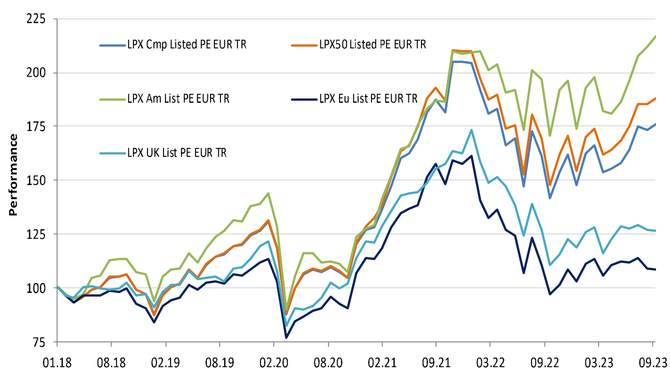
PRIVATE EQUITY INDICES (EUR)

30.09.2023				Total Return Performance				
N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	423.9	EUR	0.2	1.6	7.5	14.5	19.3
MAJOR COMPANIES	LPX50 Listed PE EUR TR	4257.7	EUR	0.0	1.7	7.7	16.3	22.2
USA	LPX Am List PE EUR TR	699.3	EUR	0.0	2.3	10.5	19.1	24.8
EUROPE	LPX Eu List PE EUR TR	1041.9	EUR	-0.2	-0.4	-2.7	2.6	5.4
UK	LPX UK List PE EUR TR	372.7	EUR	-1.1	-0.1	-0.9	9.0	6.8

Hedge Fund Indices



Private Equity Indices



Graph sources: BearBull Group / Bloomberg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GLOBAL STRATEGY & ASSET ALLOCATION

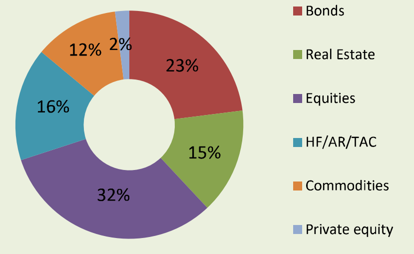
GLOBAL STRATEGIES I ASSET ALLOCATION

Multi-asset portfolio CHF

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

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

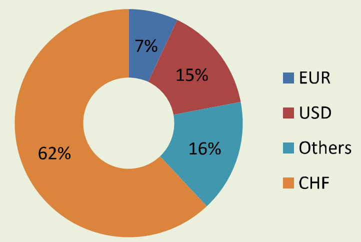
Asset allocation - CHF portfolio



Tactical allocation

- Overweight equities and real estate
- Wide diversification in commodities

Currency allocation - CHF portfolio



Asset allocations

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 modified allocation following the sharp fall in share prices in 2022. The rate hikes observed in 2023 as a result of the restrictive monetary policies pursued by central banks 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 favored in an uncertain environment, requiring optimal diversification between asset classes.

Bonds

The 3rd quarter was characterized by a surprise acceleration in US long rates, the effects of which were visible across the entire yield curve. High volatility penalized most capital markets at the end of the quarter. Between fears of renewed inflation and further tightening of monetary policy, which were unfavourable to bond markets, and expectations of a favourable economic slowdown, national interest-rate markets recorded progressively less correlated fluctuations. A clear acceleration in rate rises in the USA was also evident in the UK and Europe. Our bond strategy proved to be more opportunistic and, finally, more constructive in terms of duration. 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 will have an increasingly positive impact on interest rates and investor sentiment over the coming months. The expected downward adjustment of yields in certain countries and the end of restrictive monetary policies should be favourable to equity markets. Earnings downside risks remain in this environment of reduced economic growth, but profit expectations that have already been lowered by analysts for several quarters should be revised upwards over the coming months, reinforcing the markets' bullish outlook.

Commodities

Commodities remain the best guarantee of risk diversification, as they were again in Q3 for multi-asset portfolios. Supply and demand parameters are favourable to a continuation of the positive cycle for commodities, particularly in the energy segment.

Immobilier

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 and their yield levels 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 - Q3 2023

		Q3 2023 local	Q3 2023 CHF	YTD local	YTD CHF
Exchange rates					
USD/CHF		2.2%		-1.0%	
EUR/CHF		-1.0%		-2.2%	
GBP/CHF		-1.8%		-0.2%	
JPY/CHF		-1.2%		-13.1%	
Equity markets					
World	MSCI World USD	-3.5%	-1.3%	11.1%	10.0%
Europe	DJ Stoxx 600	-2.1%	-3.0%	8.5%	6.1%
Eurozone	DJ Eurostoxx 50	-5.1%	-6.0%	10.0%	7.6%
	MSCI Europe S.C.	-3.2%	-4.1%	0.4%	-1.8%
Germany	Dax 30	-4.7%	-5.6%	10.5%	8.1%
France	Cac 40	-3.6%	-4.5%	10.2%	7.8%
United Kingdom	FTSE 100	1.0%	-0.8%	2.1%	1.9%
Switzerland	SPI	-3.3%	-3.3%	4.6%	4.6%
	SMI	-2.8%	-2.8%	2.2%	2.2%
	MSCI Swiss S.C.	-8.2%	-8.2%	0.1%	0.1%
North America	SP500	-3.6%	-1.5%	11.7%	10.6%
	Nasdaq	-4.1%	-2.0%	26.3%	25.0%
	Tse 300	-3.0%	-3.3%	0.8%	-0.4%
	SP600 Small C.	-5.4%	-3.3%	-0.5%	-1.5%
Japan	Nikkei 225	-4.0%	-5.1%	22.1%	6.1%
Emerging	MSCI EMF USD	-3.7%	-1.6%	-0.4%	-1.4%

		Q3 2023 local	Q3 2023 CHF	YTD local	YTD CHF
Interest rates (3 months)		*(level)*			
CHF		1.77%			
EUR		3.95%			
USD		5.66%			
JPY		0.02%			
Bonds markets					
World	Citi Gr Global Govt.USD	-4.3%	-2.2%	-2.7%	-3.6%
Europe	Euro Ser-E Gov > 1	-2.5%	-3.4%	-0.1%	-2.3%
United Kingdom	UK Ser-E Gov > 1	-0.7%	-2.5%	-4.6%	-4.8%
Switzerland	SBI Général AAA-BBB	0.1%	0.1%	3.6%	3.6%
	SBI Govt	-1.5%	-1.5%	6.3%	6.3%
USA	US Ser-E Gov > 1	-3.1%	-0.9%	-1.5%	-2.5%
Japan	Japan Ser-E Gov > 1	-3.2%	-4.3%	-0.4%	-13.5%
Emerging	J.P. Morgan EMBI Global	-2.6%	-0.5%	1.1%	0.1%
Miscellaneaous					
	LPP 25 Index	-0.8%	-0.8%	3.7%	3.7%
	LPP 40 Index	-1.1%	-1.1%	4.3%	4.3%
	LPP 60 Index	-1.4%	-1.4%	5.2%	5.2%
Real Estate CH	DB RB Swiss Real Est Fd	-0.5%	-0.5%	0.3%	0.3%
Hedge Funds	Hedge Fund Research USD	0.8%	3.0%	1.6%	0.6%
Commodities	GS Commodity USD	16.0%	18.5%	7.2%	6.2%

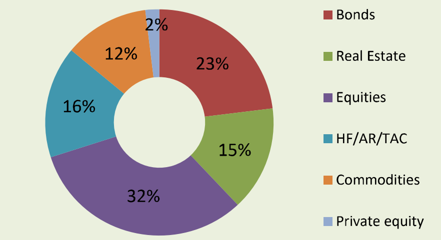
Graph sources: BearBull Group / Bloomberg

GLOBAL STRATEGIES I ASSET ALLOCATION

Multi-asset portfolio EUR

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

Asset allocation - EUR portfolio

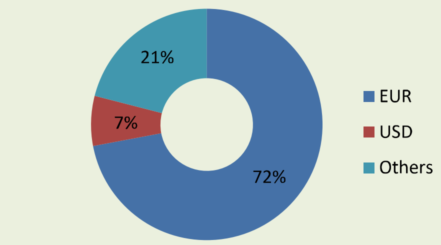


Tactical allocation

- Overweight equities and real estate
- Wide diversification in commodities

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

Currency allocation - EUR portfolio



Asset allocations

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 modified allocation following the sharp fall in share prices in 2022. The rate hikes observed in 2023 as a result of the restrictive monetary policies pursued by central banks 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 favored in an uncertain environment, requiring optimal diversification between asset classes.

Bonds

The 3rd quarter was characterized by a surprise acceleration in US long rates, the effects of which were visible across the entire yield curve. High volatility penalized most capital markets at the end of the quarter. Between fears of renewed inflation and further tightening of monetary policy, which were unfavourable to bond markets, and expectations of a favourable economic slowdown, national interest-rate markets recorded progressively less correlated fluctuations. A clear acceleration in rate rises in the USA was also evident in the UK and Europe. Our bond strategy proved to be more opportunistic and, finally, more constructive in terms of duration. 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 will have an increasingly positive impact on interest rates and investor sentiment over the coming months. The expected downward adjustment of yields in certain countries and the end of restrictive monetary policies should be favourable to equity markets. Earnings downside risks remain in this environment of reduced economic growth, but profit expectations that have already been lowered by analysts for several quarters should be revised upwards over the coming months, reinforcing the markets' bullish outlook.

Commodities

Commodities remain the best guarantee of risk diversification, as they were again in Q3 for multi-asset portfolios. Supply and demand parameters are favourable to a continuation of the positive cycle for commodities, particularly in the energy segment.

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 and their yield levels offer interesting repositioning opportunities.

Currencies

Finally, the euro will benefit from increasing yield differentials in its favor, and we recommend a high exposure to euros.

Market performances - Q3 2023

		Q3 2023 local	Q3 2023 EUR	YTD local	YTD EUR
Exchange rates					
USD/EUR		3.2%		1.3%	
CHF/EUR		1.0%		2.3%	
GBP/EUR		-0.9%		2.2%	
JPY/EUR		-0.3%		-11.1%	
Equity markets					
World	MSCI World USD	-3.5%	-0.4%	11.1%	12.5%
Europe	DJ Stoxx 600	-2.1%	-2.1%	8.5%	8.5%
Eurozone	DJ Eurostoxx 50	-5.1%	-5.1%	10.0%	10.0%
	MSCI Europe S.C.	-3.2%	-3.2%	0.4%	0.4%
Germany	Dax 30	-4.7%	-4.7%	10.5%	10.5%
France	Cac 40	-3.6%	-3.6%	10.2%	10.2%
United Kingdom	FTSE 100	1.0%	0.2%	2.1%	4.3%
Switzerland	SPI	-3.3%	-2.4%	4.6%	7.0%
	SMI	-2.8%	-1.9%	2.2%	4.6%
	MSCI Swiss S.C.	-8.2%	-5.3%	0.1%	1.4%
North America	SP500	-3.6%	-0.6%	11.7%	13.1%
	Nasdaq	-4.1%	-1.1%	26.3%	27.9%
	Tse 300	-3.0%	-2.4%	0.8%	1.9%
	SP600 Small C.	-5.4%	-2.3%	-0.5%	0.7%
Japan	Nikkei 225	-4.0%	-4.3%	22.1%	8.5%
Emerging	MSCI EMF USD	-3.7%	-0.7%	-0.4%	0.9%

		Q3 2023 local	Q3 2023 EUR	YTD local	YTD EUR
Interest rates (3 months)		*(level)*			
CHF		1.77%			
EUR		3.95%			
USD		5.66%			
JPY		0.02%			
Bonds markets					
World	Citi Gr Global Govt.USD	-4.3%	-3.3%	-2.7%	-0.4%
Europe	Euro Ser-E Gov > 1	-2.5%	-2.5%	-0.1%	-0.1%
United Kingdom	UK Ser-E Gov > 1	-0.7%	-1.6%	-4.6%	-2.6%
Switzerland	SBI Général AAA-BBB	0.1%	1.0%	3.6%	6.0%
	SBI Govt	-1.5%	-0.6%	6.3%	8.8%
USA	US Ser-E Gov > 1	-3.1%	0.0%	-1.5%	-0.3%
Japan	Japan Ser-E Gov > 1	-3.2%	-3.4%	-0.4%	-11.5%
Emerging	J.P. Morgan EMBI Global	-2.6%	0.5%	1.1%	2.4%
Miscellaneaous					
	LPP 25 Index	-0.8%	1.5%	3.7%	6.2%
	LPP 40 Index	-1.1%	1.2%	4.3%	6.8%
	LPP 60 Index	-1.4%	0.9%	5.2%	7.7%
Real Estate CH	DB RB Swiss Real Est Fd	-0.5%	-0.5%	0.3%	2.6%
Hedge Funds	Hedge Fund Research USD	0.8%	4.0%	1.6%	2.9%
Commodities	GS Commodity USD	16.0%	19.7%	7.2%	8.6%

Graph sources: BearBull Group / Bloomberg

GLOBAL STRATEGIES I ASSET ALLOCATION

Multi-asset portfolio USD

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- Favourable outlook for equities
- New opportunities in securitized real estate
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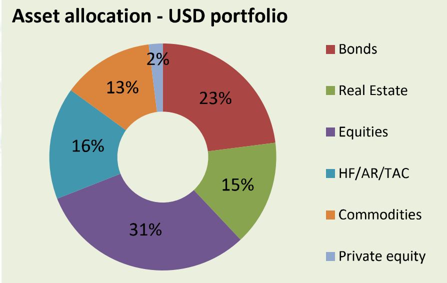
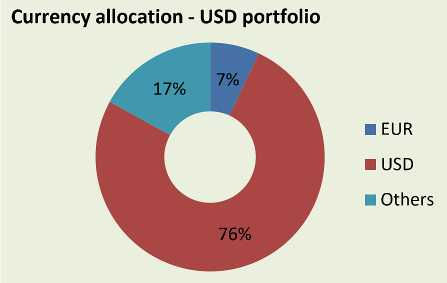


Tactical allocation

- Overweight equities and real estate
- Wide diversification in commodities

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



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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 and their yield levels offer interesting repositioning opportunities.

Currencies

We continue to recommend significant dollar exposure, while adopting a policy of diversifying opportunities outside the greenback.

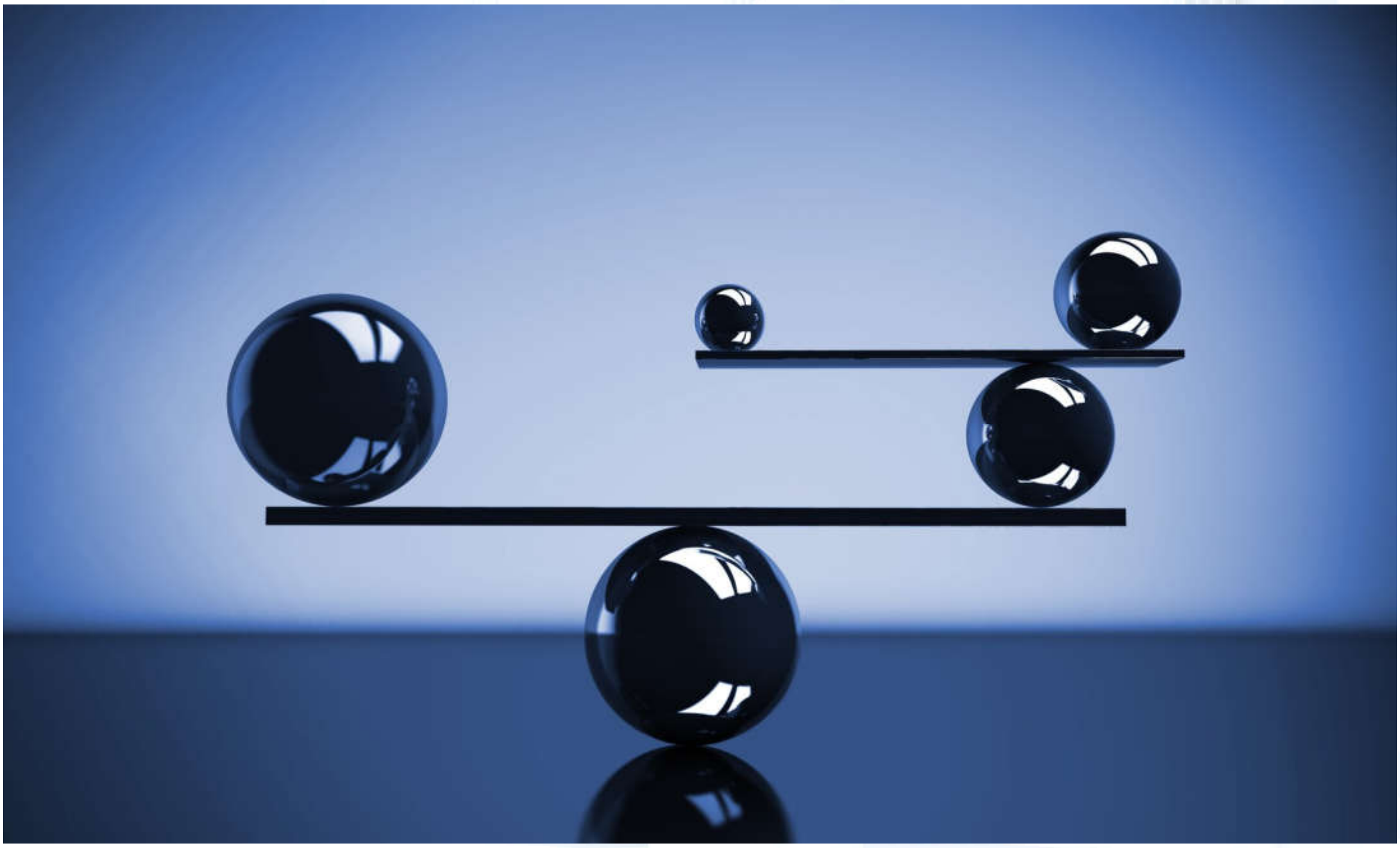
Market performances - Q3 2023

		Q3 2023 local	Q3 2023 USD	YTD local	YTD USD
Exchange rates					
CHF/USD		-2.1%		1.0%	
EUR/USD		-3.1%		-1.2%	
GBP/USD		-4.0%		1.0%	
JPY/USD		-3.4%		-12.2%	
Equity markets					
World	MSCI World USD	-3.5%	-3.5%	11.1%	11.1%
Europe	DJ Stoxx 600	-2.1%	-5.1%	8.5%	7.2%
Eurozone	DJ Eurostoxx 50	-5.1%	-8.0%	10.0%	8.7%
	MSCI Europe S.C.	-3.2%	-6.2%	0.4%	-0.8%
Germany	Dax 30	-4.7%	-7.6%	10.5%	9.1%
France	Cac 40	-3.6%	-6.6%	10.2%	8.9%
United Kingdom	FTSE 100	1.0%	-3.0%	2.1%	3.1%
Switzerland	SPI	-3.3%	-5.4%	4.6%	5.7%
	SMI	-2.8%	-4.9%	2.2%	3.2%
	MSCI Swiss S.C.	-8.2%	-8.2%	0.1%	0.1%
North America	SP500	-3.6%	-3.6%	11.7%	11.7%
	Nasdaq	-4.1%	-4.1%	26.3%	26.3%
	Tse 300	-3.0%	-5.4%	0.8%	0.6%
	SP600 Small C.	-5.4%	-5.4%	-0.5%	-0.5%
Japan	Nikkei 225	-4.0%	-7.3%	22.1%	7.2%
Emerging	MSCI EMF USD	-3.7%	-3.7%	-0.4%	-0.4%

		Q3 2023 local	Q3 2023 USD	YTD local	YTD USD
Interest rates (3 months)		*(level)*			
CHF		1.77%			
EUR		3.95%			
USD		5.66%			
JPY		0.02%			
Bonds markets					
World	Citi Gr Global Govt.USD	-4.3%	-6.3%	-2.7%	-1.7%
Europe	Euro Ser-E Gov > 1	-2.5%	-5.5%	-0.1%	-1.3%
United Kingdom	UK Ser-E Gov > 1	-0.7%	-4.7%	-4.6%	-3.7%
Switzerland	SBI Général AAA-BBB	0.1%	-2.1%	3.6%	4.7%
	SBI Govt	-1.5%	-3.7%	6.3%	7.4%
USA	US Ser-E Gov > 1	-3.1%	-3.1%	-1.5%	-1.5%
Japan	Japan Ser-E Gov > 1	-3.2%	-6.4%	-0.4%	-12.6%
Emerging	J.P. Morgan EMBI Global	-2.6%	-2.6%	1.1%	1.1%
Miscellaneaous					
	LPP 25 Index	-0.8%	0.2%	3.7%	4.8%
	LPP 40 Index	-1.1%	-0.1%	4.3%	5.4%
	LPP 60 Index	-1.4%	-0.4%	5.2%	6.3%
Real Estate CH	DB RB Swiss Real Est Fd	-0.5%	-0.5%	0.3%	1.3%
Hedge Funds	Hedge Fund Research USI	0.8%	0.8%	1.6%	1.6%
Commodities	GS Commodity USD	16.0%	16.0%	7.2%	7.2%

Graph sources: BearBull Group / Bloomberg

INVESTMENT THEME
FOCUS



INVESTMENT THEME

Positive outlook for gold prices again

- Upward trend in the yellow metal set to resume soon
- Towards a probable imbalance in the physical gold market
- Bullion and coin investments drive global demand
- Lower cost of carry

Upward trend in the yellow metal set to resume soon

After rising by almost +13% in the first four months of the year, gold prices then slowly eroded as the US Federal Reserve tightened monetary conditions and bond yields rose, not only in dollars, but in other major currencies too. After an initial drop in the 2nd quarter (-7%), which wiped out almost half of the rise at the start of the year (+13%), the fall of the last few days of September, directly correlated with the latest tensions on long rates towards 4.8%/year, finally reset the performance counters to zero for the yellow metal in 2023. The price of an ounce of gold in US dollars (1,860 USD/ounce) is now well below its 200-day average value (1,928 USD/ounce), following divestments in favour of investments offering a higher yield of around 5.5% in USD in the short term. Physical gold ETFs have thus seen outflows of almost -20% since their peak in 2020, and -7% in 2023 alone. In 2023, the trade-weighted dollar has only appreciated by +2.4%, but the increase since the July low is still +7%. The recent context for two important factors monitored by investors to assess opportunities for gold price recovery have been negative, but in our view they are in a likely transition phase. With this in mind, they could now support a new trend in the price of the yellow metal, one that could prove more positive in the long term. Indeed, the tensions observed on the yield curves today seem to us to be disconnected from economic reality, and will not withstand statistics showing a deterioration in the economy. Further downward adjustments in interest rates will also penalize the dollar, and should thus contribute to an upward revival in gold prices above $2,000 an ounce.

Towards a probable imbalance in the physical gold market

The main fundamentals of the gold market remained relatively stable, however, according to the latest statistics published by the World Gold Council and others. Global gold supply rose by around +7% year-on-year to 1,255 tonnes in the last quarter under review, driven by all segments. Mining production was up, as was recycling, and so was producer hedging. On an annual basis, gold supply would therefore have reached almost 4,020 tonnes. Quarter-on-quarter, the increase was from 1,204t to 1,255t, largely due to higher mine production, which rose from 857t to 923t. On the demand side, the rise was similar to the year-on-year comparison, with overall demand also up by +7% to 1,255t, or 4,020t per annum. This increase was mainly driven in the 1st half by investment demand, up +20% to 256t. In quarterly comparison, however, demand declined from 275t in the previous quarter. Jewelry demand remained particularly stable (0%) year-on-year, but slipped sharply quarter-on-quarter from 511t to 491t. Demand from central banks fell sharply year-on-year by -35%, and even more significantly over the quarter, dropping from 284t to 102t at the end of June. Finally, demand for ingots and coins rose by +6% year-on-year, despite a three-month decline from 304t to 277t. Against this backdrop, gold prices followed virtually the same trend, rising by +6% year-on-year to $1,975 per ounce at the end of June. In our view, the situation over the next few quarters will be significantly different, affected in particular by an increase in demand for investment, ingots and coins, but also by a significant reduction in supply, due in particular to a drop in recycling. We believe that the gold market will see an increase in demand at the same time as supply is being reduced, pushing the price of the yellow metal above $2,000 an ounce.

Mining production up +4% year-on-year

The first available mining data suggest that mine production (923t) increased by +4% year-on-year. This is the highest production for a 2nd quarter since 2000, narrowly beating the previous record of 899t set in 2018. Combined with Q1 production (857t) - also a record for this time of year - this generated record mine production of 1,781t for H1 2023, +2% above the previous record set in 2018. Quarter-on-quarter, production was up +8%, mainly due to the normal seasonal fluctuations that limit production in the first quarter, when open-pit and alluvial mining operations are curtailed or halted in some very cold climates, particularly in Russia and other CIS countries. Similarly, the South African gold mining industry is subject to reduced production over the long summer vacations of Christmas and New Year. Four countries are behind the increase in global production: South Africa (+29% year-on-year), mainly due to the impact of disruptive strike action in 2022, Ghana (+20% thanks to the ramp-up of the Bibiani and Obuasi mines), the United States (+11% with higher production at Nevada Gold Mines due to sequencing at Cortex and improved processing rates at Carlin and Turquoise Ridge), and finally Russia (+7% due to higher grades at Polyus' Olimpiada, the country's largest gold mine, and the ramp-up of the recently commissioned Kutyn mine). Western sanctions against Russia do not appear to be affecting gold mining volumes, but costs have risen rapidly and new projects under development have been delayed. For the first time in two years, Chinese production was undisturbed, following a resumption of production after earlier shutdowns for safety reasons. In some countries, operations were affected by lower grades (Argentina -10%), production suspensions (Australia -2%) or conflicts (Sudan -10%).

In terms of mine production growth forecasts, the World Gold Council believes that, based on Metals Focus data, first-half trends suggest that mine production will reach a new all-time high in 2023, surpassing the previous record of 3,656 tonnes set in 2018. A rise in mine production is by no means certain, however, particularly in view of the sharp rise in operating costs and the fall in gold selling prices in recent months. We remain more cautious on the evolution of the real capacity to increase production in this context.

Gold recycling increased by +3%.

Over the same period, gold recycling rose to 322t (+3% over the quarter and +13% year-on-year), the highest level since Q4 2020. Excluding robust gains in India and China, the rest of the world saw a slight decline in recycling volumes - despite a record average gold price of $1,976 per ounce for the quarter. Recycled gold volumes rose by +9% year-on-year to 634t over six months, representing the highest half-year since 2016.

China and India drove the supply of recycled gold. Three factors drove this increase: firstly, last year's COVID disruptions had reduced recycling supply, distorting comparisons due to base effects. Secondly, much weaker-than-expected demand for jewelry triggered the recycling of wholesale inventories after disappointing trade fairs in April. Finally, recycling supply reacted to high prices in local currencies during the quarter. Recycled gold supply in the rest of the East Asian region followed more normal patterns, reacting mainly to local currency prices. In India, base effects also played a role in the year-on-year and quarter-on-quarter increase in recycled gold supply, but the absolute level of recycling was in line with historical norms. It would appear that high prices and consumer distress have fueled growth in recycled gold supply. At the same time, weak demand for jewelry has also resulted in low volumes of old gold jewelry being exchanged for new. The recent fall in the price of gold and the decline in inflation should no longer contribute to increasing recycling supply in these regions.

The supply of recycled gold in the USA and Europe has increased only marginally, despite rising gold prices. Low unemployment and a resilient economy seem to have cancelled out the effects of the cost-of-living crisis on gold recycling, and some reports are already pointing to the depletion of gold stocks for recycling. The Middle East saw a drop in recycling volumes both year-on-year and quarter-on-quarter, with Iran and Egypt contributing to the decline, partly due to high inflation. In neighboring Turkey, recycling activity was limited due to the presidential elections. Once the elections were over, sales picked up again, boosted by the fall in the Turkish lira.

Recycling supply is thus set to decline with the fall in gold prices over the last few months, before recovering moderately. This component of overall supply will reduce its contribution towards the end of the year.

Slowdown in the level of producers' net hedges

Initial estimates published by the World Gold Council suggest that growth in net hedging has continued, but at a much slower pace. The decline from 36t to just 9t is probably not yet definitive, but essentially suggests that producers hedged their production heavily when prices approached and exceeded $2,000 per ounce at the end of Q1, and then reduced their sales when prices slipped, de facto reducing the attractiveness of these hedging strategies. In the previous quarter, net hedges had been revised upwards on the basis of company results, and this may well be the case again in the coming months. Producers' delta-adjusted hedging book was adjusted to 36 tonnes, after an initially lower estimate. New risk hedging was clearly driven by producers operating in South Africa and Australia, who took advantage of high local-currency gold prices and steeper forward curves, while in North America, forward sales seemed to correspond to project or debt hedging. The fall in gold prices that lasted below the $2,000 mark between May and September is unlikely to have motivated many producers to hedge their positions. Despite the expected upturn in prices towards the end of the year, we expect hedging positions to have a negative impact on the overall level of physical gold supply.

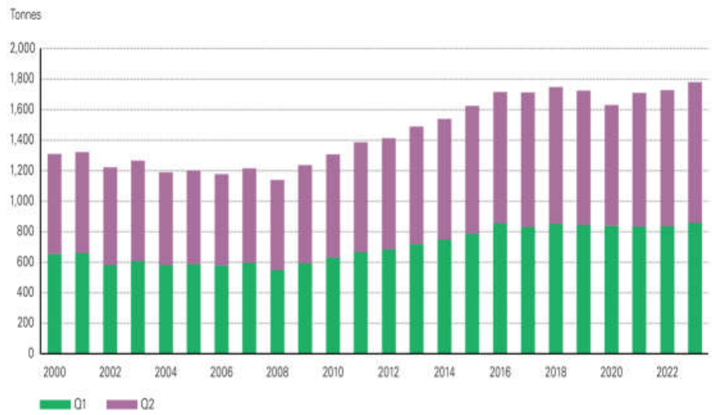
Sharp rise in production costs

Against a backdrop of higher mine production and inflation affecting most operating cost components, mining costs increased significantly in 2023. In the first quarter (the last quarter for which data are available), mining operating costs are estimated to have risen by +6% quarter-on-quarter to a quarterly record of $1,358 per ounce. This represents an increase of +10% year-on-year. The increase in industry costs since 2020 is due to inflationary pressure on all aspects of miners' input costs, particularly labor, fuel and electricity. This factor will continue to weigh on production capacity, and in particular on the operation of mines with lower margins, reducing overall supply.

Jewelry demand up year-on-year

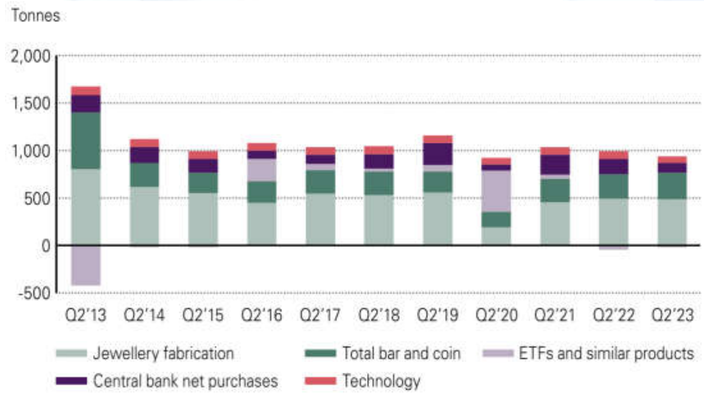
Global gold jewelry consumption in Q2 of 476t was +3% higher year-on-year, with China's strength outweighing India's weakness. Demand was virtually unchanged from the previous quarter, bringing six-month demand to 951t. Q2 manufacturing volumes of 491t led to a 15t increase in inventories. This was partly due to Chinese demand failing to meet manufacturers' expectations. Against a backdrop of very high gold prices, jewelry demand has been remarkably resilient since the beginning of the year. China's recovery from the consumption slump of 2022 partly explains this dynamism. The sector's prospects for the rest of the year are moderate, given that prices have remained well supported and consumers in much of the world are facing a deteriorating economic situation.

Mine production up sharply



*Data as of 30 June 2023. Quarterly data available from Q1 2000.
Sources: Metals Focus, Refinitiv GFMS, World Gold Council

Components of overall demand



*Data as of 30 June 2023.
Source: Metals Focus, Refinitiv GFMS, World Gold Council

Demand for gold jewelry in China reached 132t in Q2, up +28% year-on-year. This strong growth is, however, built on a low basis of comparison due to the strict COVID-related closures that affected the market last year. Demand for the first half totaled 328t, up +17% year-on-year, but -4% below the ten-year average. The end of the « zero COVID » policy laid the foundations for a rebound in demand for gold jewelry in China in the first half. The wedding demand accumulated over the past year also provided support. In addition, gold's unique dual nature as both a value-preserving asset and an everyday accessory continued to attract attention in Q2, as the local economic recovery became increasingly uncertain and the yuan depreciated.

That said, demand has yet to return to its average level of the last ten years. The record quarterly average of the local gold price in yuan has weighed on demand, as has increased spending on tourism and leisure, two sectors that compete for gold's share of discretionary spending. High-end pure (24K) gold products gained in popularity. With the rise in local gold prices, these products saw the strongest growth in the 1st half, their lighter weight offsetting the impact of higher gold prices and better suiting the budgets of younger consumers.

The Chinese gold industry expects demand to pick up during the summer, when the usual seasonal factors begin to kick in. Vacation spending could support demand for gold jewelry in the second half of the year. Industry events such as the Shenzhen Jewellery Show could prompt retailers to restock more actively, and wedding demand should boost consumption in the second half of the year, traditionally the peak season for weddings. Demand for antique gold jewelry remained buoyant. However, volume growth slowed as heavier pieces suffered from accessibility constraints in a context of high prices. The industry has therefore refocused on lighter pieces in this range, including those with enamel and gemstone inlays. This positive outlook remains undermined by an uncertain economic environment, which could lead consumers to be increasingly cautious about discretionary spending. The local price of gold will also be a key factor; if it remains high or strengthens, demand is likely to be further reduced.

Indian consumption of gold jewelry fell by -8% year-on-year to 129t in Q2, undermined by record gold prices. This brought six-month demand to 207t, down -12% year-on-year. 18k gold jewelry continued its upward trend, with consumers attracted by the affordability of these products. Given the price of gold, it would have been reasonable to expect a much lower demand for gold jewelry. But it's fair to say that the favourable economic context has helped, with GDP growth forecast at +6.3% for fiscal year 2023/24. A knee-jerk reaction to the ban on 2,000 rupee bills during the quarter had a brief but noticeable impact on gold demand.

Although demand has held up relatively well since the start of the year, we also support the moderate outlook for the second half. Local prices, while no longer at record levels, remain high.

Bullion and coin investments drive global demand

Demand for investment rose by a very substantial +20% to 256 tonnes year-on-year, while demand for ingots and coins also advanced by +6% over the same period. Turkey, China, India and the Middle East are still the main players in the latter demand, accounting for around 277 tonnes. Demand for gold coins is the main driver of growth in investment demand, while bullion purchases have declined slightly.

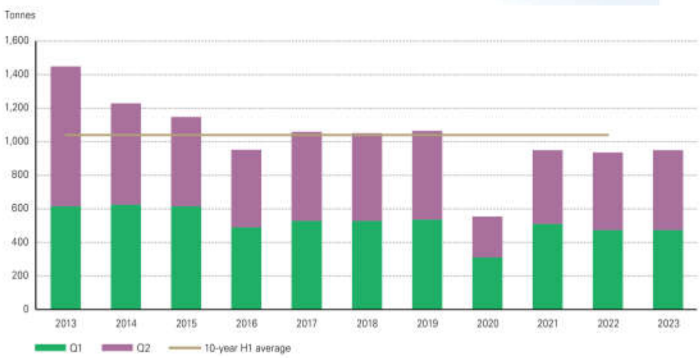
Demand for ETFs reacted strongly negatively at the end of the quarter after several months of increases. The fall in gold prices and the rise in financial assets against a backdrop of strong competition from much higher bond yields together reversed the short-term trend, triggering a fall in demand for physical gold held in ETFs, particularly in Europe (-29t), a trend which contrasted with some resilience in the USA. After the initial impact of the banking crisis, the subsequent fall in prices was the main driver of the change in momentum and the drop in investment demand. The current environment of very high interest rates is clearly a brake on any rapid recovery in gold prices and ETF investment demand.

However, we believe that interest rates have already reached the peak of the current monetary tightening cycle, which means that key interest rates will soon ease in 2024. In the meantime, the emerging economic slowdown will most likely cause yield curves to steepen, which will then benefit gold prices. The prospect of easing interest rates is therefore a very important factor in supporting gold prices and boosting investment demand for ETFs, as well as bullion and coins.

Fall in central bank purchases

Central bank demand contracted by -64% in Q2 and -35% year-on-year. Thanks to a very strong Q1, central bank demand was finally strong in H1 2023, with estimated purchases of 387t, the strongest half-year in historical comparison since 2000. The slowdown in Q2 was mainly due to strong sales orchestrated by Turkey's central bank after having been a positive contributor in the previous quarter. The TCMB sales appear to be tactical and temporary, and we expect buying from Turkey to resume in the second half of the year. Gold prices therefore failed to benefit from central bank demand, which declined overall but remained positive at around 103 tonnes. It should benefit from a resumption of purchases by central banks in emerging countries in the 2nd half of the year.

Jewelry demand



*Data as of 30 June 2023.
Source: Metals Focus, Refinitiv GFMS, World Gold Council

ETF physical gold investment flows

*Data as of 30 June 2023.
Source: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

Lower cost of carry

The cost of carry is the cost of holding physical gold over a given period. Carrying costs include insurance, storage and interest on invested funds, as well as other ancillary costs. In the case of a purchase, the cost of carry is the cost of interest paid on a margin account. Conversely, in the case of a short position, the cost of carry is the cost of paying dividends, or rather the opportunity cost, i.e. the cost of buying a particular security rather than an alternative. For most investments, the cost of carry generally refers to the risk-free interest rate that could be obtained by investing currencies in a theoretically safe investment vehicle, such as a USD money market account, minus the future cash flows expected from holding an equivalent instrument with the same risk (generally expressed as a percentage and referred to as the convenience yield). Storage costs (generally expressed as a percentage of the spot price) must be added to the cost of carrying gold.

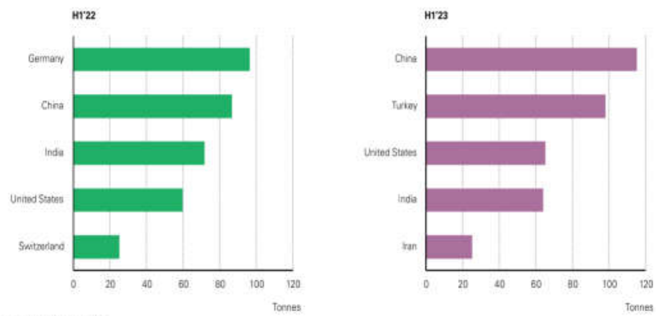
The massive rise in interest rates over the last few months has obviously had a major impact on gold prices, as it has pushed up the carrying costs of the yellow metal. The 150 bp rise in long rates, but even more markedly the rise in short rates to 5.75%, has had a considerable impact on the cost of holding gold. The end of the US Federal Reserve's restrictive monetary policy, and the implications for yield curves and financing costs of a forthcoming reversal in interest rates, should be an important factor in supporting the yellow metal's prospects in 2024.

The expected fall in interest rates against the backdrop of a probable economic slowdown will have the opposite effect to that which the tightening of monetary conditions had on the price of an ounce of gold from March 2023 onwards. Lower costs of carry will once again be a supportive factor for prices.

Central bank demand

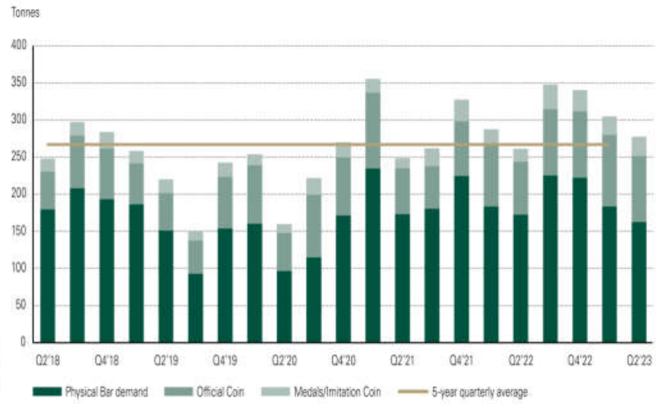
*Data as of 30 June 2023. Quarterly data available from Q1 2000.
Source: Metals Focus, Refinitiv GFMS, World Gold Council

Top 5 bullion and coin markets



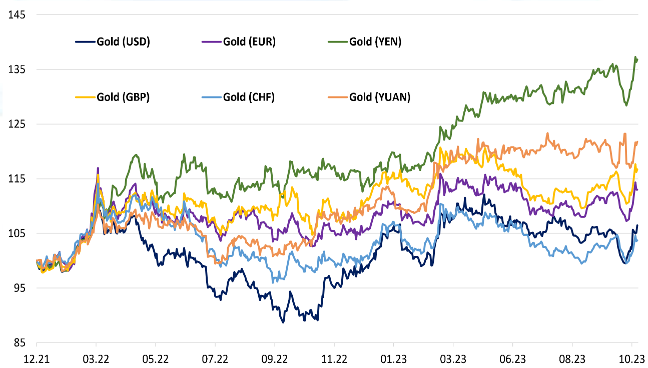
*Data as of 30 June 2023.
Source: Metals Focus, World Gold Council

Bullions and coins demand



*Data as of 30 June 2023.
Source: Metals Focus, World Gold Council

Gold prices in various currencies



Graph sources: BearBull Group / Bloomberg

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