



Investment Strategy

January 2024



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

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


VACHERON CONSTANTIN | ONE OF
GENÈVE | NOT MANY.

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savoir-faire in gem-setting, but even more so an ode to all the bold and fearless women out there. At the centre of each piece lies the collection's key distinguishing feature, the trapezoid cut diamond, bursting with self-confidence and strength.



INTRODUCTION

Letter to Investors - Investment Climate

- A highly volatile but ultimately positive 2023
- Radical change in stock market climate in Q4
- Pleasing deceleration in inflation offers new positive outlook
- An economic slowdown remains the central scenario
- New monetary policy paradigm for 2024
- More favorable environment for financial assets

The year 2023 ended with a particularly gratifying rise in stock market indices, but it was a highly volatile and difficult one to navigate for many investors and financial experts. It began with a degree of enthusiasm in January, as 2023 was supposed to be the year of recovery after a horrible 2022. But a series of bank failures in February quickly triggered a new crisis of confidence and called into question the stability of the US financial system, until the Federal Reserve intervened with liquidity injections of almost \$500 billion. The shockwave reached Europe and Switzerland, which was forced to organize an emergency rescue of its national banking system by offering UBS the opportunity to swallow CS, with the support of the Swiss Confederation and the SNB. Restrictive monetary policies and the ever-pessimistic comments of central bankers, who regularly raised the possibility of further key-rate hikes during the summer, then reinforced investors' fears once again, causing long-term yields to rise to as much as 5% on 10-year US Treasury yields. The consequences of this rise were massive for all asset classes. Equity indices (+7.88%) and commodities (+7.45%) erased most of their initial gains by the end of October, but maintained a positive performance, while bond indices (-3.38%) and real estate (-9.7%) plunged back into negative territory over ten months. In the end, the 4th quarter proved to be a saving grace, thanks to a fairly radical change in inflationary outlook and assessment of likely monetary policy trends. Having long feared further rate hikes, it became clear that the encouraging trend in inflation and the US labor market would certainly enable the Federal Reserve to adopt a less restrictive stance in the near future. Fears of rate hikes quickly turned to hopes of a rate cut by the 1st half of 2024, offering a new, more favorable outlook for the financial markets. Against this backdrop, the last two months of the year proved extremely satisfactory, with widespread price rebounds enabling the various asset classes to record positive performances. International equities ended the year up +23.79% (local currencies), while Swiss indices (+6.09%) remained penalized by the strength of the Swiss franc. Bond indices returned to positive results in Switzerland (+7.36%) and internationally (+5.72%), which also supported growth in securitized real estate globally (+8.67%) and in Switzerland (+5.03%). The prize for stock market recovery went to private equity, up +38.44%.

The year 2023 thus ended on a particularly volatile note, largely influenced by the extreme changes in economic forecasts and monetary policies that took place over the course of the year. The months of November and December thus played a decisive role in shaping overall performance, making a major contribution to the twelve-month result. Over the past few weeks, it has become increasingly clear that inflation is following an increasingly encouraging

trend, which will enable the various central banks to adjust their policies in 2024. In the United States, the fall in overall inflation and in indices excluding food and energy proved highly significant. By falling from 9% to just 3% in November, CPI came close to the Fed's target, a trend confirmed by November's negative monthly deflator (-0.1%), which reduced the inflation level of the main indicator observed by the Federal Reserve to just +2.6%. In Europe, too, inflation has decelerated more sharply than expected, underpinning the likely prospect of an end to this upward cycle in the USA, Europe and the UK. In the Eurozone, the -0.6% contraction in inflation in November lowered the year-on-year rise to +2.4%, while in the UK inflation declined by -0.1% to +3.9%. In both cases, these developments are particularly gratifying compared to the +10% rates recorded at the peak of 2022. At the same time, the fall in inflation has so far been achieved without causing a recession in either the USA or Europe. Consequently, the central economic scenario still seems to be that of a slowdown that will avoid a recession in the USA in 2024, even if one remains possible in Europe.

The year 2024 thus begins under new, more favorable auspices, both in terms of the assessment of inflationary risks and the likely evolution of monetary policies. Price trends are set to continue, with the various measures confirming that inflation is heading towards the central banks' target levels. The Chairman of the Federal Reserve now seems convinced that the US deflator could already be approaching +2.3% by the end of March 2024, and subsequently touch its target of +2%. By indicating that he would not wait for annual inflation to fall below his target before lowering his key rates, he was implicitly admitting that a first rate cut could come as early as March 2024. In our view, the ECB and BoE are unlikely to be so quick to ease policy, but the risks of further rate hikes in euros and sterling are now also very low. The first few months of 2024 should see the emergence and wider dissemination of a global scenario based on the belief that a recession will be avoided and that falling inflation will trigger an easing of monetary policy. The current level of yield curves only partially takes these factors into account. A further fall in yields therefore seems likely, although its amplitude will certainly be limited from now on. These developments should benefit bond markets, equities, real estate and precious metals.



Alain Freymond
Partner & CEO
BBGI Group

BIG PICTURE

Main Convictions

- Inflation gradually returning to acceptable levels
- Monetary policies on the road to normalization
- Soft landing scenario supports yield curve adjustment
- Positive outlook for financial markets

Inflation gradually returning to acceptable levels

The inflation figures published for November in the United States confirm the new regime that has been in place for the past fifteen months. The CPI of +0.1% follows a stagnation in prices (0%) in October, allowing the year-on-year measure to slip to +3.1%. Inflation is easing significantly, returning to an increasingly satisfactory monthly pace. The price index excluding food and energy has joined this trend, with a reduced rise of +0.3% for a still slightly high annual increase of +4%. Among the elements that are still holding up well, 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. The expected gradual reduction in inflation to an « acceptable » level is therefore, in our view, an increasingly clear trend. More importantly for the Federal Reserve, its main indicator, the general PCE index, slipped by -0.1% in November, lowering its year-on-year level to +2.7%, while the core PCE index fell from +3.5% to +3.1%. Meanwhile, producer price indexes (excluding food and energy) have been stabilizing over the past year, averaging +0.2%/month and rising by only +2% year-on-year. While inflation already seems closer to reaching the +2% target set in the United States within the space of a few months, the situation in the Eurozone is also improving significantly. For several months now, inflation in the eurozone has been declining faster than expected.

Inflation in the eurozone fell by -0.6% in November, thanks to an almost generalized decline in all components. On an annual basis, CPI is now up by just +2.4% after peaking at +10.7% in October 2022, and is approaching the ECB's +2% target more rapidly than expected. Excluding food and energy, the index is declining more slowly and still stands at +3.6 (+4.2% in October). Inflationary pressures eased sharply in November, with a particularly encouraging decline in the services segment, which remains the slowest to adjust. On the producer price front, the situation improved markedly in 2023, even though October saw a slight monthly increase of +0.2%. On an annual basis, prices actually fell by -9.4%, which should give companies some flexibility to adjust their sales prices downwards. The sharp decline in producer prices should therefore soon have a noticeable effect on consumer price indices. Inflation in the eurozone is likely to weaken further, particularly with the confirmation of the expected economic slowdown. The ECB's inflation forecast for the year as a whole is still +5.4%. The current situation is therefore already relatively ahead of the ECB's forecast. CPI could quickly reach the 2% threshold in early 2024, while core inflation will probably take a little longer to approach it. In China, inflation is already negative year-on-year for both CPI and PPI. In Japan, inflation is still resisting, mainly due to imported inflation linked to the fall in the yen. Overall, however, inflation is now falling to a more acceptable level, even below +3%.

Monetary policies on the road to normalization

In the United States, the Fed has logically decided to leave rates unchanged for the 3rd time in December, which is probably already a sign of the end of the cycle. While FOMC members seem ready to consider a reversal of the cycle, we should not expect them to act too quickly. According to their comments, recent indicators do point to a slowdown in economic activity and a decline in inflation, which the Fed believes remains too high. But they also point out that the tightening of financial conditions on credit will weigh on the economy, employment and inflation. At this latest meeting, however, the Fed seems to us to have given a clearer signal of the end of the cycle, particularly in the comments made by Chairman Powell, who seemed to find it difficult to rejoice at having won the battle against inflation without plunging the economy into recession, and to refute the growing likelihood of a further rate cut. All FOMC members now seem more convinced that policy has been sufficiently restrictive and that no further rate hikes are on the cards. It is also interesting to note that J. Powell mentioned that the first rate cut will come before inflation reaches the 2% target. As a result, it is possible that the latter could occur as early as the end of March, when the six-month annualized PCE supercore inflation rate reaches +2.2%.

Our forecast for the evolution of key rates envisaged an initial phase of status quo that could last until the fourth quarter of 2023, before being followed by a new period of rate cuts leading to a flattening of the yield curve. This pause forecast has now been confirmed by the Fed, and we now consider the probability of a first rate cut as early as the beginning of Q2 2024 to be increasingly credible, given the current economic context and the FOMC's evolving assessment of the situation. Fed funds rates for March 2024 already suggest a dip to 5.21% from the current level of 5.33%. For June, the Fed funds rate is even significantly lower, at 4.64%, suggesting a sharp rate cut from the current 5.25% to 5.5%. The market's current expectations do not seem excessive to us, and are in fact in line with our own estimate of a change in monetary policy regarding key rates that will take place within a time horizon of three to four months. For the end of 2024, the FOMC is forecasting a reduction in Fed funds to 4.3%, slightly higher than our own estimate of 4%. The year 2024 will begin in a totally different monetary policy climate, with expectations of a rate cut of around 125bp. The easing is therefore expected, and all that remains is for it to be confirmed by economic statistics supporting this new policy. The ECB and BoE may also decide to follow suit, easing their policies at a later date. Overall, 2024 will be characterized by the implementation of less restrictive monetary policies and fairly widespread key rate cuts.

In the USA, key rates could be cut from the current level of 5.5% to 4.4% in September, and then significantly below 4% if inflation continues its downward trend. In the Eurozone, the potential decline in key rates could also be very significant in 2024. The expected rate correction for June 2024 is already close to 110 bps, which would position ECB rates at 3.3% in the next six months. The downward trend will also affect BoE rates, which could fall by 100 bps to 4.2% in September. In Japan, the central bank will also normalize its policy, but given the current negative level of its key rate, this normalization will take the form of a rate hike of just over 0%.

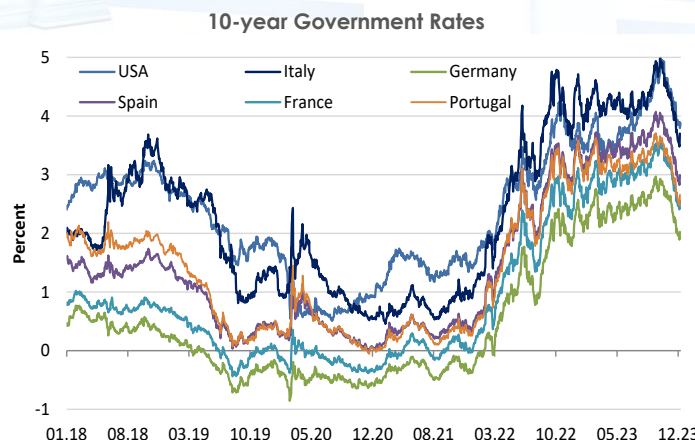
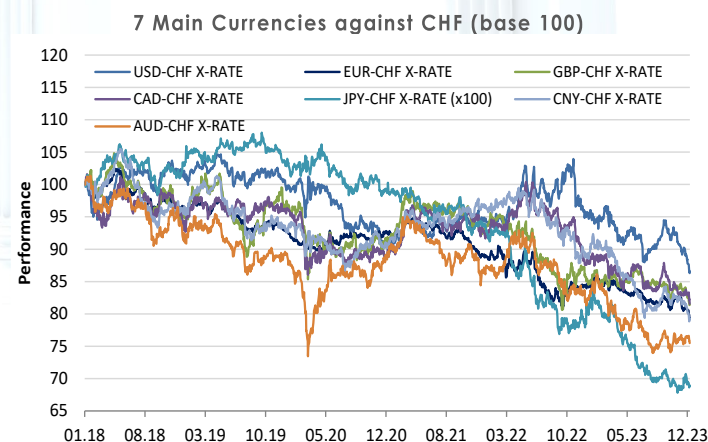
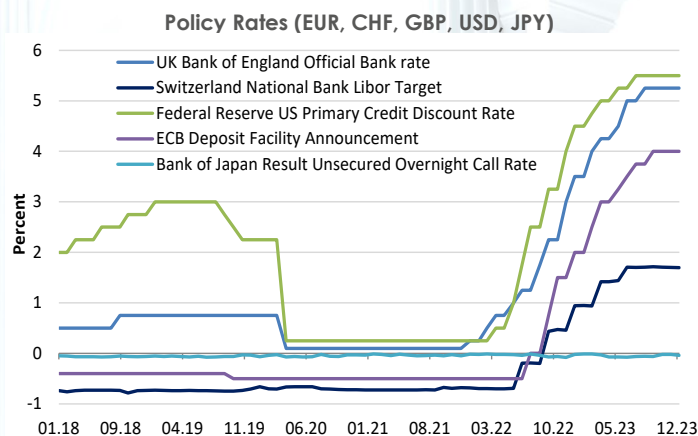
Soft landing scenario supports yield curve adjustment

The economic slowdown now observed in many industrialized countries is in fact the logical and expected result of the policies pursued by these countries' central banks. The fight against inflation initiated in 2022 with restrictive policies was aimed precisely at curbing economic momentum in order to reduce excessive inflationary pressures. As inflation declined, growth gradually slowed and labor markets began to adjust to the new situation. As a result, the fear of inflation driven by wage rises diminished significantly. As a result, the soft landing scenario we favor for early 2024 will also support inflation normalization forecasts. The current inversion of yield curves in both the US and Europe is essentially due to the high level of key rates, and consequently of the short end of the yield curves. In an environment characterized by the normalization of monetary policies by 100 to 110 bps over the next nine months and a stabilization of rates on other maturities, the yield curve between short-term and 10-year Treasury maturities would remain inverted by -50 bps, as was the case in October. We estimate that, with inflation continuing to decline towards +2% and considering an economic slowdown in the first half of the year, long rates should slide a further 50 bps to 3.5%. In this environment, excluding a recession, a yield curve inversion could quickly be considered unjustified, which would imply a de facto even more substantial downward adjustment of Fed key rates. A flattening of the US yield curve centered on a yield of 3.5% seems likely to us, which would have the effect of lowering overall yields by around 50 bps. The situation in the eurozone is a little different, as the recent decline in inflation is accompanied by an economic performance that is still close to recession in the zone's twenty states. The recent fall in 10-year yields from 3% to 2% was similar to that seen in the USA and the UK, and thus in line with the same paradigm shift on the inflation front. We consider, however, that the inversion of the euro curve is still relatively well suited to the persistent risks of recession at the start of 2024. The likelihood of further declines in European long yields is supported by these persistent recession risks, but at current levels, the prospects of further declines no longer seem very high to us. Falling inflation and recession risks are now enough to put pressure on long yields, but these two factors have already been taken into account quite clearly. The inversion of the euro yield curve is therefore likely to be longer-lasting, due to the slower cut in key rates by the ECB, which will slow the movement on the short end. In the UK, there is a greater risk of recession, while inflation remains high despite its recent decline. However, long rates have reacted more sharply to the latter, losing 125 bps, which would imply a curve inversion of around 70 bps in the event of a cut in key rates from 5.25% to 4.2% in September. The UK should also see a persistent inversion of the yield curve, while the likelihood of further declines in long rates has also diminished.

Overall, we believe that the prospects for lower yields and capital gains are still better in the United States.

Positive outlook for financial markets

The economic scenario favoring a soft landing should be accompanied by positive statistics on the inflation front in the 1st half of 2024. The expected normalization of monetary policy could begin in March, and should have a positive impact on yield curves and investor sentiment. Lower rates will subsequently support a potential recovery in consumption and investment, but should initially have a fairly clear positive impact on the valuation levels of financial assets and whet investors' appetite for risk. This generally less uncertain backdrop should sustain the interest of investors, particularly those looking for opportunities to reinvest their maturing fiduciary deposits, whose associated yields have lost some of their appeal. Capital markets will benefit from the downward trend in yields and the influx of new capital seeking capital gains opportunities, while securitized real estate should be one of the big winners in this phase of readjustment of prospects and risks with equity markets.



MACROECONOMIC SCENARIO



MACROECONOMIC SCENARIO

Global Outlook

- Global growth close to +3% in 2024
- Temporary slowdown in US momentum
- European growth still close to zero in early 2024
- UK recession postponed to early 2024
- Limited GDP growth in Japan in 2024
- Positive outlook limited to +1% for Japan

Global growth close to +3% in 2024

Growth in the global economy in 2023 will have been affected to a large extent in industrialized countries, in particular by the tightening of monetary policies since 2022 in North America and Europe. The effects expected by central banks on inflation trends have been slow to materialize sufficiently to approach the targets set, which has also weighed on economic momentum in most countries. However, despite the general rise in interest rates and financing costs, the resilience of the developed economies in 2023 proved remarkable. We expect the effects of these restrictive policies to be a little more visible in the winter of 2023-2024, but a rapid easing response from central banks will certainly limit the risks of too sharp a downturn in economic activity in 2024. Despite the estimated disappointing performance of the Chinese economy (+4.7%), its contribution to overall growth remained high. India (+6.1%), Indonesia (+5.2%) and other emerging economies outperformed OECD countries (+1.4%). The global economy was therefore driven by emerging countries in 2023, and will probably end the year with growth of +3%.

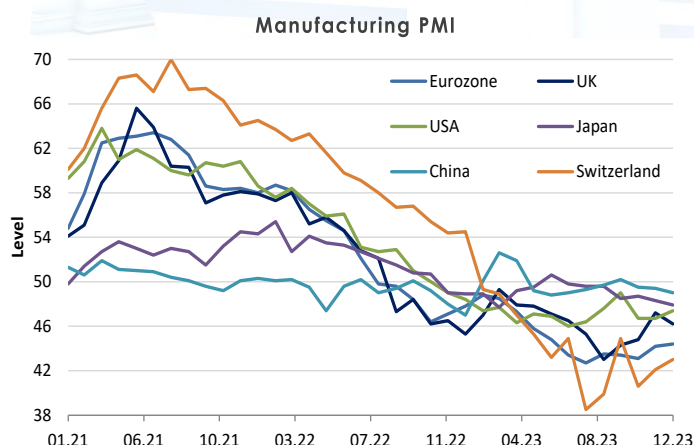
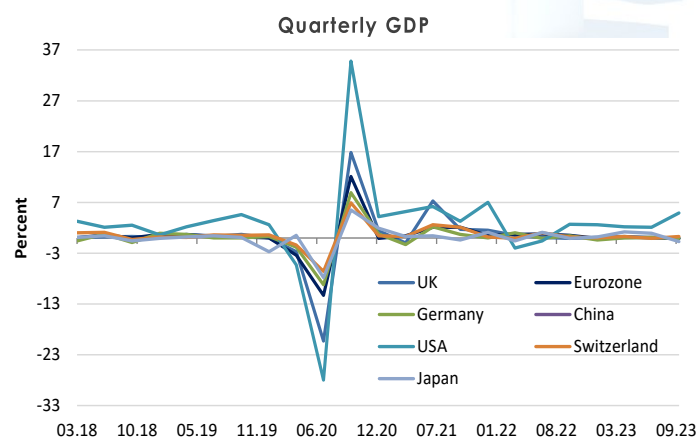
We believe that this trend will continue into 2024, with industrialized countries seeing their GDP growth rates decline somewhat initially, and emerging economies also benefiting from a gradual normalization of central bank monetary policies and lower credit costs. India and Indonesia will benefit even more from solid momentum, and could be followed by China, where growth will be slightly better than in 2023, particularly if the economic support measures adopted strengthen domestic activity as expected. The industrialized countries should initially experience some temporary weakness, before rebounding in the 2nd half, after a probable slowdown in the first part of the year, to



finally record GDP growth for the year as a whole above that of 2023. The easing of monetary conditions expected in Q2 2024 in the USA will be followed by less restrictive policies in Europe and clearly expansive policies in China and Japan. This more favorable interest rate environment will occur against a backdrop of more controlled inflation, and will certainly benefit emerging countries to a greater extent.

Temporary slowdown in US momentum

Q4 should be much less resilient than the very dynamic Q3 (+4.9%), with real annualized growth below +1%. The downturn expected at the end of 2023 and beginning of 2024 should be caused primarily by an adjustment in consumption and a reduction in public spending. However, consumer confidence may be more sensitive to the particularly favorable trend in inflation and the reversal in interest rates than to the evolution of some less favorable parameters in other segments. The fall in interest rates will perhaps have a greater than expected impact on household credit, which had contracted sharply in recent months. The decline in overall lending (net of foreign exchange) in October from 12.25 billion to just 5.13 billion may turn out to be only temporary. However, as the level of average rates (22%) charged on credit cards has not been lowered, despite the fall in capital market rates, we believe that this factor will continue to weigh on households' ability to support their consumption by continuing to use their credit cards to the same extent. Consumer credit has therefore collapsed, and the banking sector is clearly confirming this trend, which is putting the brakes on household demand.

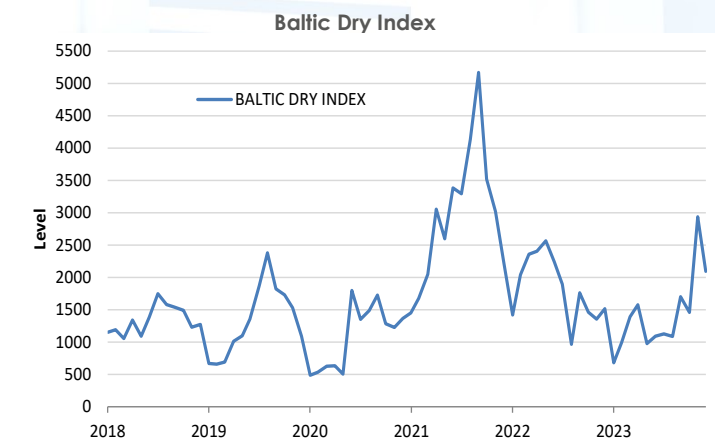
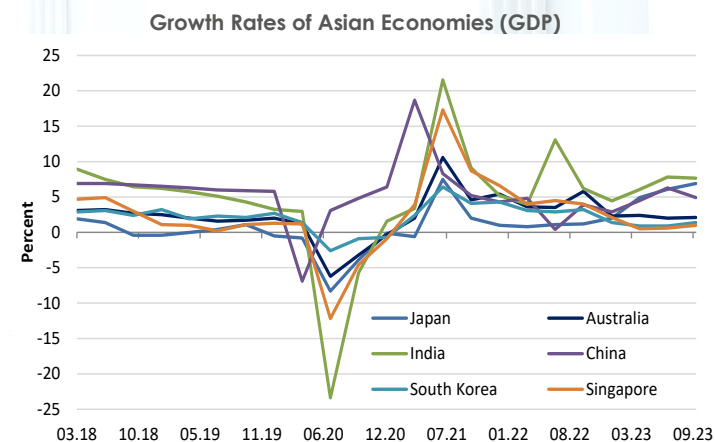
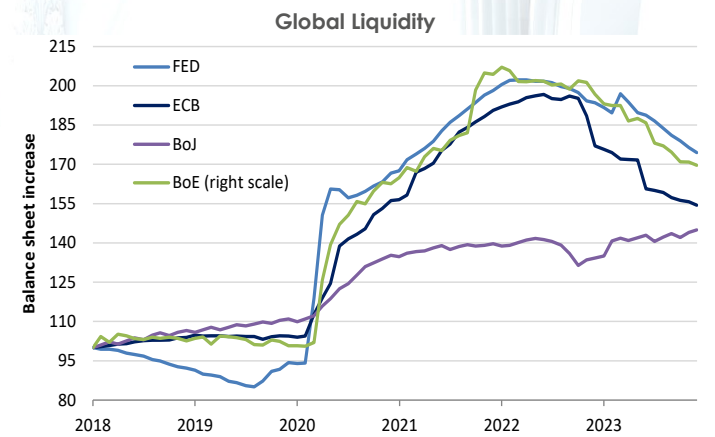
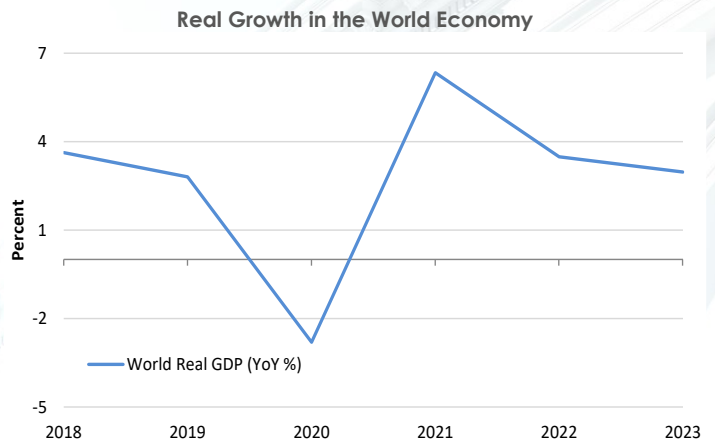


The real estate sector has also been hit hard by rising financing costs, while retailers are also facing growing uncertainty over their sales trends. US households initially resisted the rise in interest rates and inflation by resorting to savings to maintain their purchasing power and consumption, but rising credit costs will no doubt put a brake on this trend. Monetary policy has also become more restrictive, with the Fed's balance sheet shrinking by almost 14% to date, while key interest rates have remained high despite a much more favorable inflation trend than the Federal Reserve had expected. The 1st quarter of 2024 should therefore disappoint, with growth estimated at less than +0.5%. Such a slowdown is likely to increase uncertainty and raise the risk of recession beyond 50%. That said, PMI indices continue to stabilize above the growth threshold for the services PMI and the global PMI. The preliminary PMI for the manufacturing segment (48.2) remains highly uncertain and slipped again in December. The services index, meanwhile, stabilized somewhat after a worrying decline over the summer, and ended the year in a more optimistic zone. The composite indicator is therefore in balance at 50.1. Uncertainty remains for the start of 2024, with leading indicators not yet ready to confirm the risks of recession. The consumer confidence index seems more optimistic, with a rebound in December.

European growth still close to zero in early 2024

Eurozone aggregate GDP growth is likely to be 0% at best in Q3 and Q4 2023. In this eventuality, 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 rise in industrial production is a positive sign. 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.

That said, the latest positive developments observed since November on the inflation and interest rate fronts could temper negative estimates of falling demand and also support a rebound in leading indicators over the coming weeks. As a result, our growth forecasts for the 1st half of 2024 are slightly positive, with global GDP also set to grow by +0.7% in 2024.



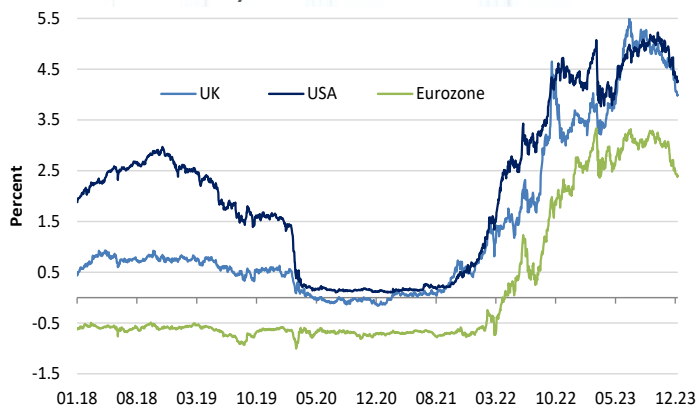
UK recession postponed to early 2024

Household resilience is stalling at a time when government spending is also contracting. As a result, a real slowdown is likely to take place in the coming months and continue into early 2024. The publication of GDP for October (-0.3%) does indeed point in this direction, and the statistics for November and December should further confirm this forecast of declining activity in the UK. The UK economy recorded a decline of -0.3%, which could well continue over the full quarter. This likely development could, however, be slowed by an improvement in inflation, which finally seems to be slowing, as suggested by the November CPI (-0.2%), the retail price index (-0.1%) and producer prices (-0.1%). Consumer confidence is low, but no longer deteriorating, as is the trend in house prices, which stabilized in December. The decline in activity finally appears to be limited at the start of Q4, which could well enable UK GDP to withstand another quarter of recessionary forecasts. Our GDP growth forecast for the year is still positive, but just above zero for the period as a whole (+0.1%). As we approach the end of December, the leading indicators published confirm expectations of economic decline, but do not point to a clear downward trend in activity. The manufacturing PMI rebounded from its August low of 43 to stand at 47.5 in December, closer to its growth threshold than two months ago. The services PMI also rebounded from 49.3 to 52.7, back above the growth threshold. The composite indicator therefore logically improved to 51.7, back above the growth threshold of 50. As the PMI measures do not include the public sector, we believe that declining public spending should not be able to compensate for the drop in activity expected in the private sectors. The PMI indicators are therefore less negative, but are still a long way from heralding the hoped-for economic recovery. The British economy could still surprise at the start of 2024, showing the same resilience as in 2023 and avoiding falling into recession once again. Our outlook for the coming months is still based on a stabilization of GDP.

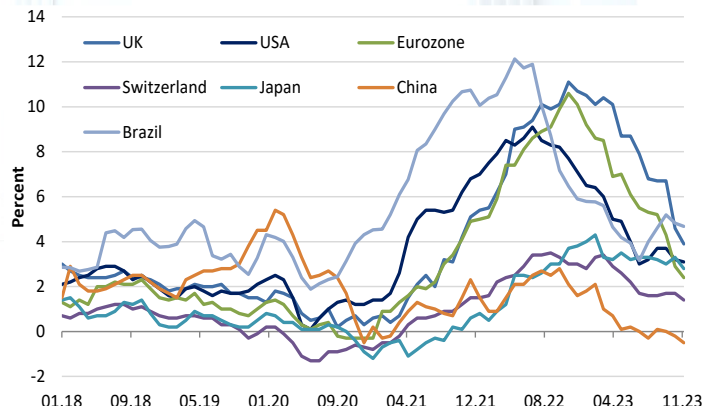
Limited GDP growth in 2024 in Japan.

With just a few weeks to go before the end of the year, Japanese GDP remains more than ever over-dependent on international demand, while domestic consumption is still struggling to recover. The economy is weakened by sluggish household consumption and exports that are totally dependent on international trends. It will be difficult for the Land of the Rising Sun to end the year with an acceleration in economic momentum. In the absence of a revival in external demand, Japan's economic situation will have to be supported by stimulating monetary policies. In the current context, the decline in consumer purchasing power, following the steady decline in disposable income and ongoing inflation, can only be stabilized very gradually. The same applies to Japanese companies, which are still reluctant to make new investments. Growing consumer spending by foreign travellers to Japan will provide only modest support, and will not significantly influence the overall level of consumer spending. Japan would greatly benefit from an economic revival in China, which could counteract the weakening seen in its other major partners, but the Chinese economy is also unable to strengthen significantly for the time being. With global demand weakening, the short-term economic outlook for Japan remains highly uncertain. Against this backdrop of persistently gloomy prospects for both domestic consumption and foreign demand in Q4, Japanese exports are likely to weaken along with domestic consumption and business investment. Q4 GDP could therefore once again be negative. The outlook remains relatively moderate for early 2024, and still highly dependent on the declining international economy. The yen's weakness will probably support Japanese exports in Q1, but the impact will remain temporary and limited without sufficient economic recovery in the USA, Europe and China. On the domestic front, retail sales showed a slight improvement at the end of the year, offset by a further dip in industrial production.

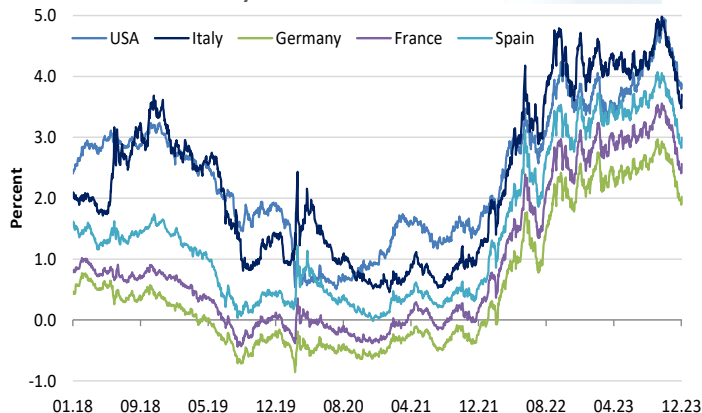
2-year Government Rates



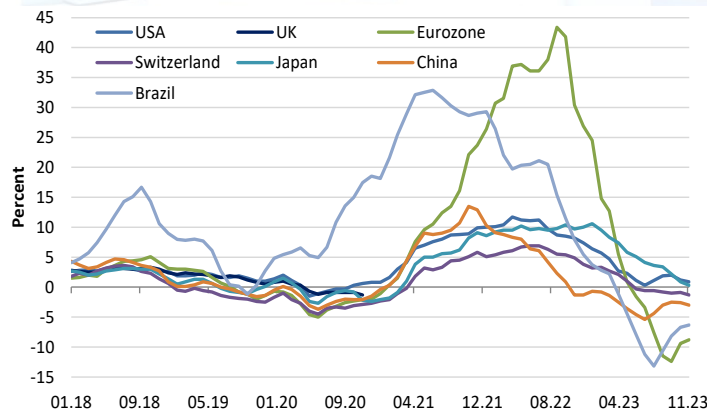
Inflation - CPI Indices



10-year Government Rates



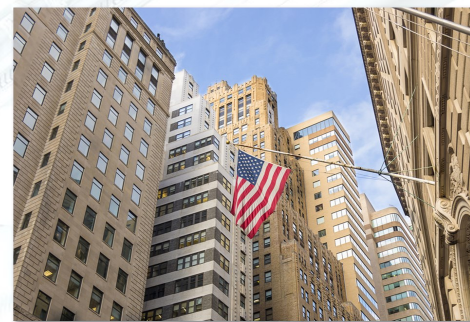
Inflation - PPI Indices



MACROECONOMIC SCENARIO

United States

- Slowdown likely after exceptional Q3
- Declining momentum raises fears of recession
- Leading indicators do not point to recession
- Federal Reserve to lower rates
- Inflation to reach +2% target in Q2 2024



Economic growth may be slowing more than it seems

Despite a final revision of Q3 GDP indicating slightly weaker growth than initially published (+5.2%), growth of +4.9% remains one of the most remarkable in recent years. The slowdown that had been expected for many months has still not materialized, despite an exceptionally intense monetary tightening cycle and a general acceleration in the rise in interest rates and financing costs for all economic agents. The resilience of the US economy has been remarkable so far. Personal consumption, which had slipped sharply in Q2, rising by just +0.8%, has now recovered strongly. The +3.1% increase is indeed very surprising given the specific context of the quarter, marked by a sharp rebound in interest rates. Growth in household spending seems to have been stronger in the durable (+6.7%) and non-durable (+3.9%) goods segments than in services (+2.2%). There was also a marked increase in private capital expenditure (+10%). The contribution of public spending was also very significant, with an increase of +5.8% higher than in previous quarters. Personal consumption expenditure was unaffected by the easing of tensions in the labor market, and instead benefited from the steady decline in inflation. As in previous quarters, the U.S. economy continues to surprise observers, and may yet deliver further surprises in the months ahead.

However, growth forecasts for the final quarter are now significantly weaker, although this does not mean that negative growth is on the cards. The Atlanta Fed's GDPnow indicator still suggests a positive development of +2.7%, slightly higher than that of the New York Fed, which seems less optimistic (+2.2%). In both cases, the US economy is still judged to be particularly resilient as the year draws to a close by these various models. The risk of recession has thus diminished since June, when it peaked at 65%. They are now estimated at 50% for the next twelve months, against a backdrop of persistently restrictive monetary conditions.

For our part, we believe that rising interest rates are finally having a clearer impact on the economy, and on household consumption in particular. As a result, 4th-quarter GDP is likely to be significantly less robust, with growth probably below +1%. For 2023 as a whole, GDP growth should be +2.4%, but the slowdown is on the horizon and should finally materialize during the winter.

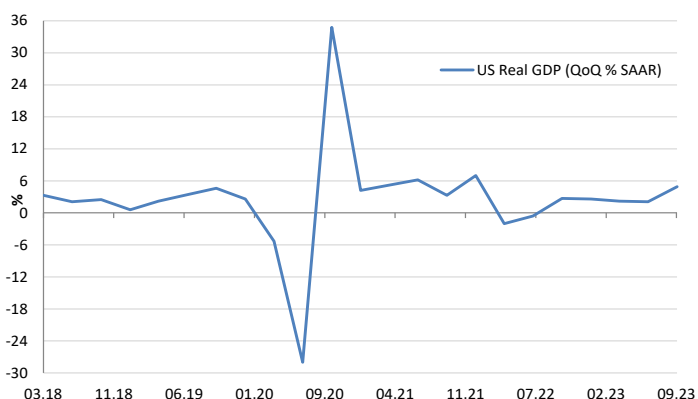
Declining momentum raises fears of recession

Q4 should therefore be much less resilient, with real annualized growth below +1%. The downturn expected at the end of 2023 and beginning of 2024 should be caused primarily by an adjustment in consumption and a reduction in public spending. But consumer confidence will perhaps be more sensitive to the particularly favorable trend in inflation and the reversal of the trend in interest rates than to the evolution of some less favorable parameters in other segments. The fall in interest rates may have a greater than expected impact on household credit, which had contracted sharply in recent months. The decline in overall credit (net foreign exchange) in October from 12.25 bn to just 5.13 bn may turn out to be only temporary.

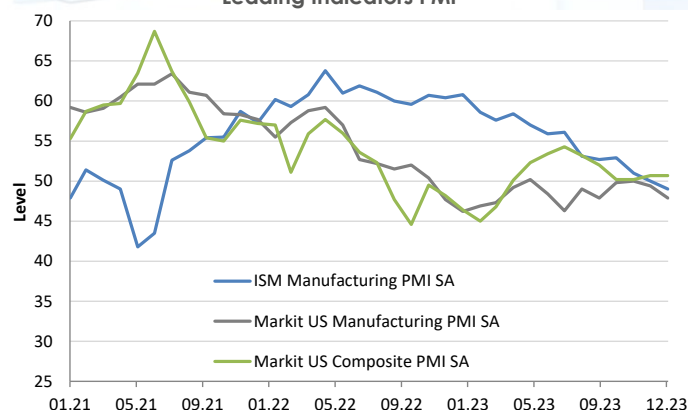
However, as the level of average rates (22%) charged on credit cards has not been lowered, despite the fall in capital market rates, we believe that this factor will continue to weigh on households' ability to sustain their consumption by continuing to use their credit cards to the same extent. Consumer credit has thus collapsed, and the banking sector is clearly confirming this trend, curbing household demand.

The real estate sector has also been hit hard by rising financing costs, while retailers are also facing growing uncertainty over their sales trends. US households initially resisted the rise in interest rates and inflation by resorting to savings to maintain their purchasing power and consumption, but rising credit costs will no doubt put a brake on this trend.

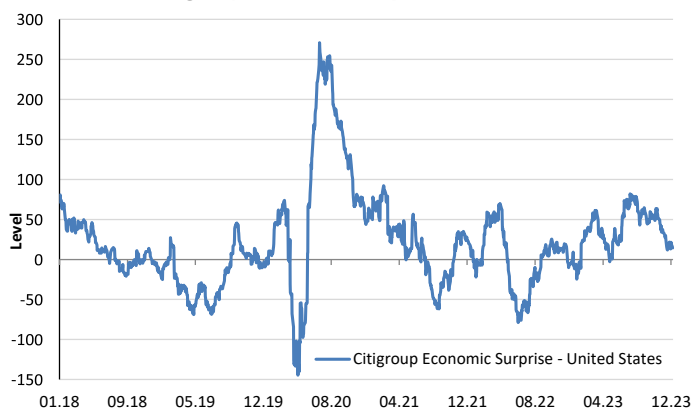
Quarterly US Real GDP



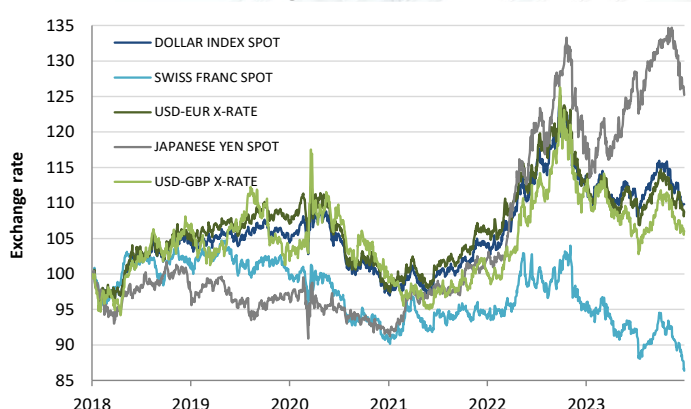
Leading Indicators PMI



Citigroup Economic Surprise Index USA



Dollar Trade-Weighted Index and Currencies



Monetary policy has also become more restrictive, with the Fed's balance sheet shrinking by almost 14% to date, while key interest rates have remained high despite a much more favorable inflation trend than the Federal Reserve had expected. The 1st quarter of 2024 should therefore disappoint, with growth estimated at less than +0.5%. Such a slowdown is likely to increase uncertainty and raise the risk of recession beyond 50%.

Leading indicators do not point to recession

PMI indices continue to stabilize above the growth threshold for the services PMI and the global PMI. The preliminary PMI for the manufacturing segment (48.2) remains highly uncertain and slipped again in December. The services index, meanwhile, stabilized somewhat after a worrying decline over the summer, and ended the year in a more optimistic zone. The composite indicator is therefore in balance at 50.1. Uncertainty remains for the start of 2024, with leading indicators not yet ready to confirm the risks of recession. The consumer confidence index seems more optimistic, with a rebound in December.

Relative resilience of the job market

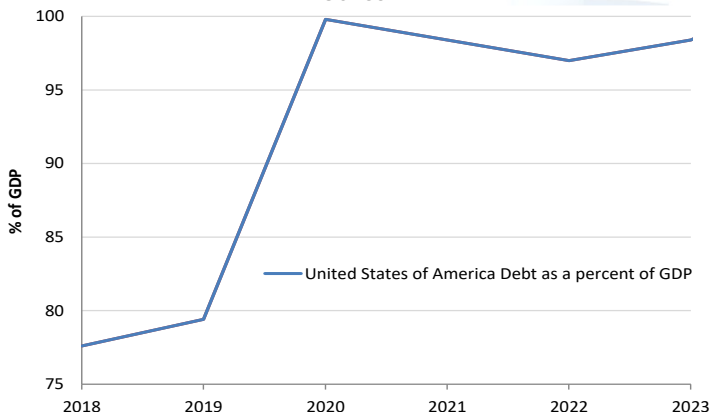
Unemployment claims had been rising steadily since the end of January, virtually every week, and stood at almost 265,000 new claims, before dropping significantly again during the summer. The volatility of last quarter's statistics does not fundamentally change the picture: claims are still close to their lows for the year, at just 205,000 in December. While redundancies are not soaring despite the current slowdown, JOLTS job vacancies continue to decline, dropping to 8.7 million after peaking in March 2022 at 12 million. Job growth is stabilizing at around 100 thousand creations per month after peaking

at 450k in June. Overall, however, claims for unemployment benefits have resumed their upward trend, reaching a high for the year of almost 1,865,000. Annual growth in average hourly earnings has also been falling steadily since March 2022 (+6%) to just +4.0% in November 2023, which is still higher than CPI inflation over the year (+3.1%). These developments are still sufficiently uncertain not to alter the perception of the Federal Reserve, which was still recently concerned about the risks that a tight labor market could pose to wage and inflation trends. It is therefore likely to adopt a wait-and-see attitude until there are clearer signs of reduced tension in this market.

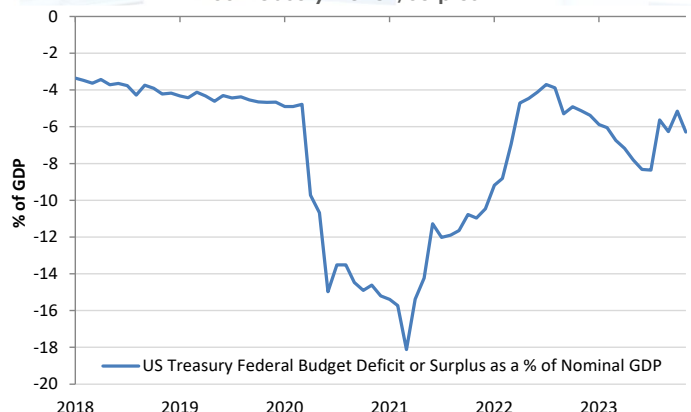
The Federal Reserve will have to cut rates

The fall in job vacancies and job creation, the rise in the number of unemployment benefits and the slowdown in wage growth are already positive indicators, but insufficient, in our view, to reassure the Federal Reserve that tensions in the job market have eased sufficiently to support a rapid change in monetary policy. However, it is undeniable that the risk of a further rise in wages being passed on to price indices is diminishing, which should be a positive factor for the Federal Reserve, which can already be satisfied with the current trend in price trends. Inflation (CPI) is once again on the decline, posting a reduced increase of +3.1% year-on-year. The monthly inflation regime for CPI improved markedly in 2023, as did that for producer prices. In our view, the Federal Reserve can already consider that the general trend in prices is moving in the right direction, even if in his last speech on December 13, the Fed Chairman remained cautious about a potential change in monetary policy, always stressing that the institution remained totally focused on the objective of bringing inflation down to 2%. The Fed has logically decided to leave rates unchanged for the 3rd time in a row, which is probably already a sign of the end of the cycle.

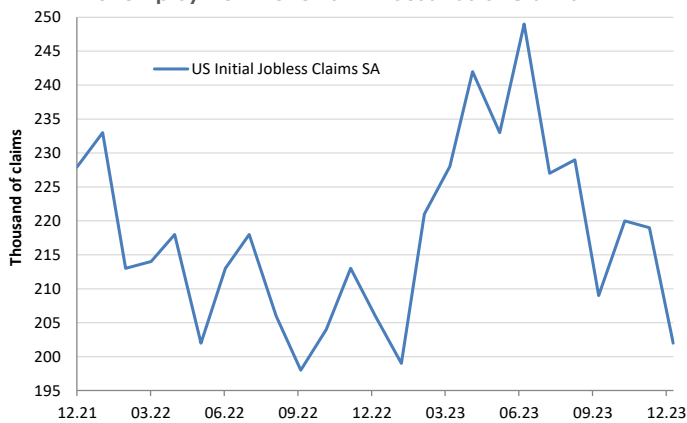
Debt USA



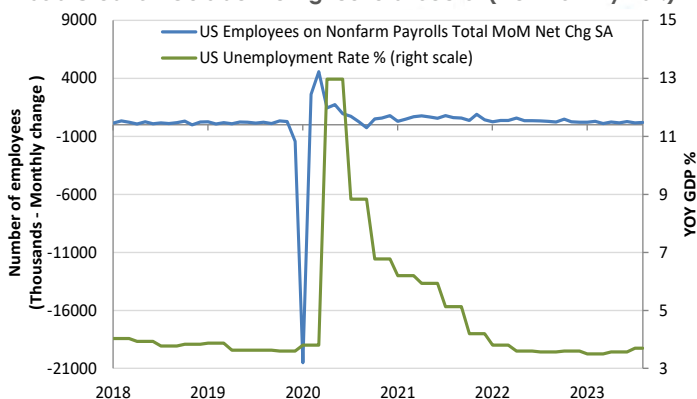
US Treasury Deficit/Surplus



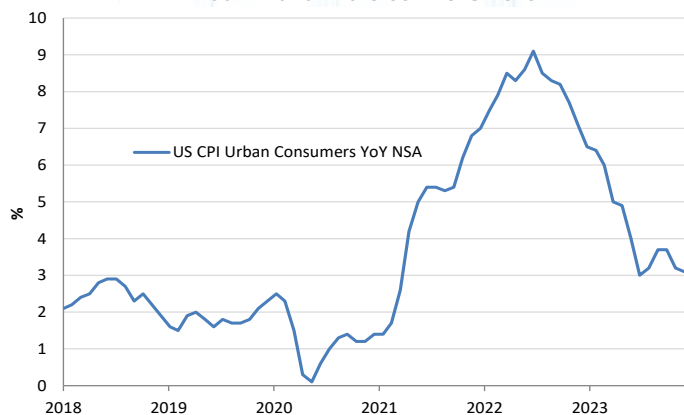
Unemployment Benefits in Thousands of Claims



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



Annual Inflation Rate USA 2018-2023



Unit Labour Cost (Employment Cost Index)



While FOMC members seem ready to consider a reversal of the cycle, we should not expect them to act too quickly. According to their comments, recent indicators do point to a slowdown in economic activity and a decline in inflation, which the Fed believes remains too high. But they also point out that the tightening of financial conditions on credit will weigh on the economy, employment and inflation. At this latest meeting, however, the Fed seems to us to have given a clearer signal of the end of the cycle, particularly in the comments made by Chairman Powell, who seemed to find it difficult to rejoice at having won the battle against inflation without plunging the economy into recession, and to refute the growing likelihood of a further rate cut. All FOMC members now seem more convinced that policy has been sufficiently restrictive and that no further rate hikes are on the cards. It is also interesting to note that J. Powell mentioned that the first rate cut will come before inflation reaches the 2% target. As a result, it is possible that the latter could occur as early as the end of March, when the six-month annualized PCE supercore inflation rate reaches +2.2%. Our forecast for the evolution of key rates envisaged an initial phase of status quo that could last until the fourth quarter of 2023, before being followed by a new period of rate cuts leading to a flattening of the yield curve. This pause forecast has now been confirmed by the Fed, and we now consider the probability of a first rate cut as early as the beginning of Q2 2024 to be increasingly credible, given the current economic context and the FOMC's evolving assessment of the situation. Fed funds rates for March 2024 already suggest a dip to 5.21% from the current level of 5.33%. For June, the Fed funds rate is even significantly lower, at 4.64%, suggesting a sharp rate cut from the current 5.25% to 5.5%. The market's current expectations do not seem excessive to us, and are in fact in line with our own estimate of a change in monetary policy regarding key rates that will take place within a time horizon of three to four months. For the end of 2024, the FOMC is forecasting a reduction in Fed funds to 4.3%, slightly higher than our own estimate of 4%. The year 2024 will begin in a totally different monetary policy climate, with expectations of a rate cut of around 125bp. The easing is therefore expected, and all that remains is for it to be confirmed by economic statistics supporting this new policy.

Inflation to reach +2% target in Q2 2024

The inflation figures published for November in the United States confirm the new regime that has been in place for the past fifteen months. The CPI of +0.1% follows a stagnation in prices (0%) in October, allowing the year-on-year measure to slip to +3.1%. Inflation is easing significantly, returning to an increasingly satisfactory monthly pace. The price index excluding food and energy has joined this trend, with a reduced rise of +0.3% for a still slightly high annual increase of +4%. Among the elements that are still holding up well, 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. The expected gradual reduction in inflation to an « acceptable » level is therefore, in our view, an increasingly clear trend. More importantly for the Federal Reserve, its main indicator, the general PCE index, slipped by -0.1% in November, lowering its year-on-year level to +2.7%, while the core PCE index fell from +3.5% to +3.1%. Meanwhile, producer price indexes (excluding food and energy) have been stabilizing over the past year, averaging +0.2%/month and rising by only +2% year-on-year.

Inflation therefore seems to be following the expected trend and continuing to decline, without the need for further restrictive measures by the Fed.

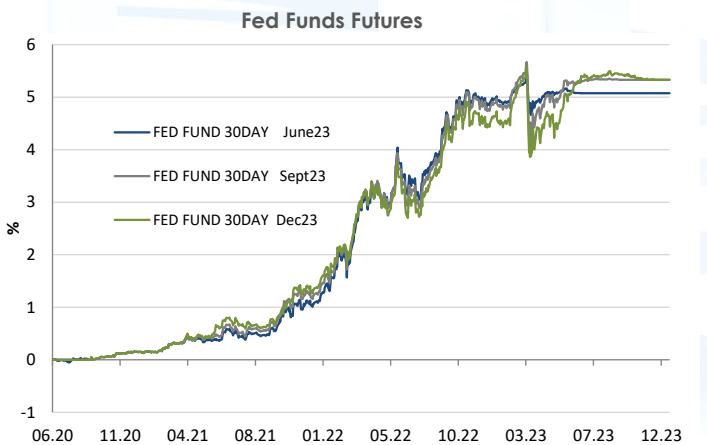
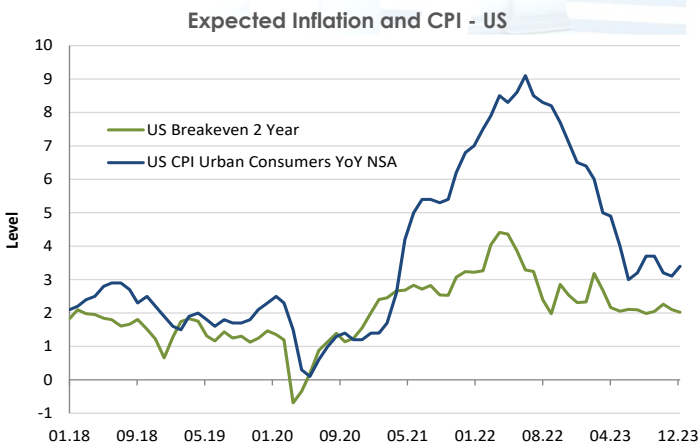
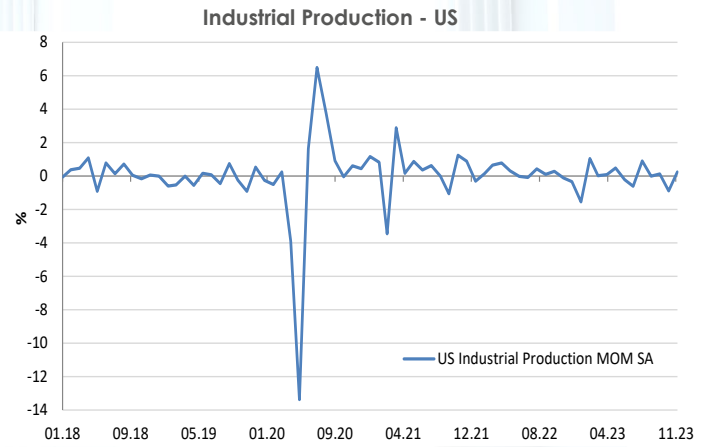
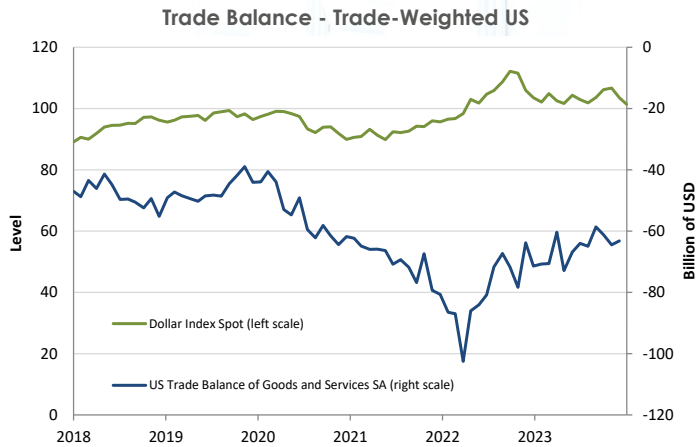
Especially since, in our view, the causal relationship between unemployment levels, growth, policy rates and inflation is not so clear-cut, particularly when we consider that the price trend was more a phenomenon of supply bottlenecks after the pandemic, rather than excess demand, which the Fed seems increasingly ready to accept. We believe that inflation will no longer be a penalizing factor in 2024, and that the +2% target will be reached in Q2 more quickly than the Federal Reserve expects.

Major readjustment of yield curves

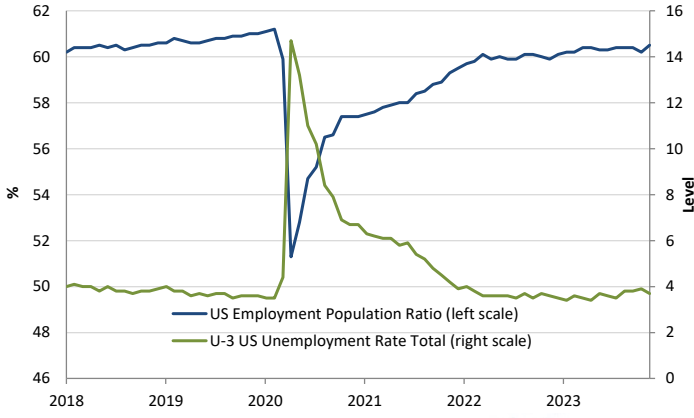
The rate-curve readjustment we were predicting began in November and accelerated in December, with growing evidence that Fed policy was now close to a cycle reversal. A few months ago, our expectations for growth and inflation were already pointing to a forthcoming change in monetary policy. In our view, Treasury yields were clearly too high not only on the short end, but also on the long end of the yield curve, calling for a major downward adjustment when signs of a Fed policy reversal became clearer. This is now clearly the case, and the fall of over 110 bps in ten-year Treasury yields is the main witness to this. The outlook for dollar-denominated bond markets seemed to us to be very favorable to support a diversified exposure favoring investment-grade corporate bonds offering both attractive yields and prospects of capital appreciation. As we enter 2024, the increasing likelihood of inflation returning to +2% and of key interest rates being cut as early as Q2 have probably not yet developed all their potential positive effects on dollar yield curves. We are therefore maintaining our positive view of future interest rates and the outlook for US bond markets.

Dollar suffers as expectations adjust

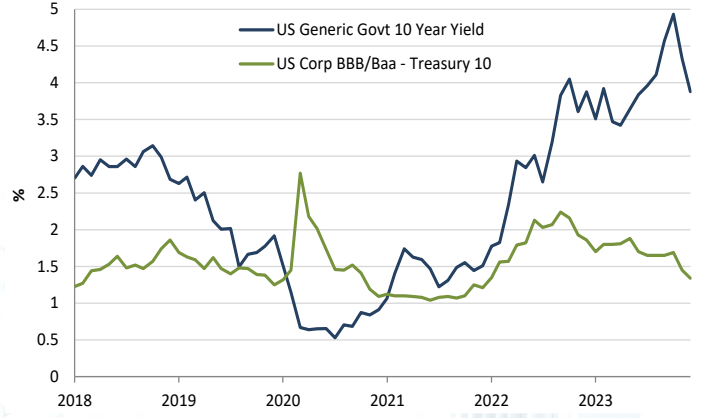
The change in outlook that took place during the last quarter, taking into account the end of the US monetary tightening cycle, was clearly not a positive factor for the dollar. The trade weighted dollar index logically felt the impact of this new rate outlook, falling -6% during the quarter after rising +5% in Q3. At the start of Q4, we announced that this rebound would be short-lived, given the likely gradual normalization of monetary policy and the downward adjustment of dollar yield curves. The expected decline in dollar yields which thus materialized triggered the predicted weakness of the greenback. Interest in U.S. assets and the adjustments that are bound to occur in other countries recording significant declines in inflation will help to limit the dollar's decline, anticipating a likely recovery in 2024.



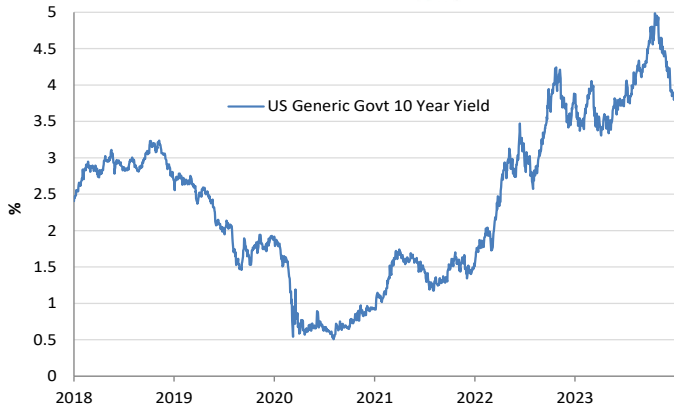
Unemployment Rate and Occupation Rate of the Population



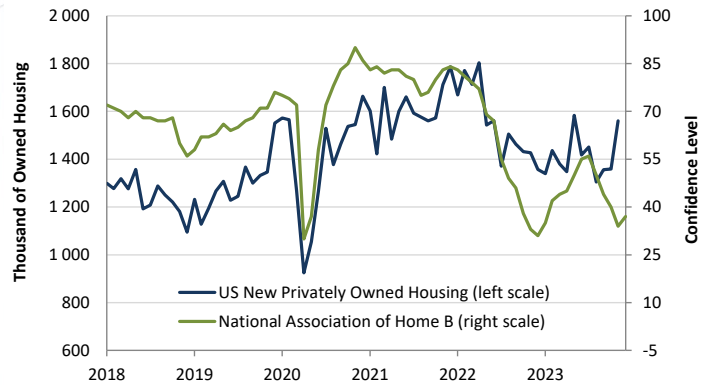
Yield Spread US Treasury - BBB 10 years



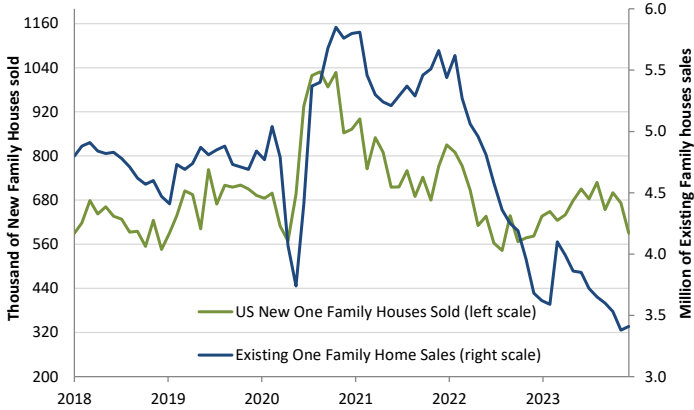
10-year US Treasury Bond Rate



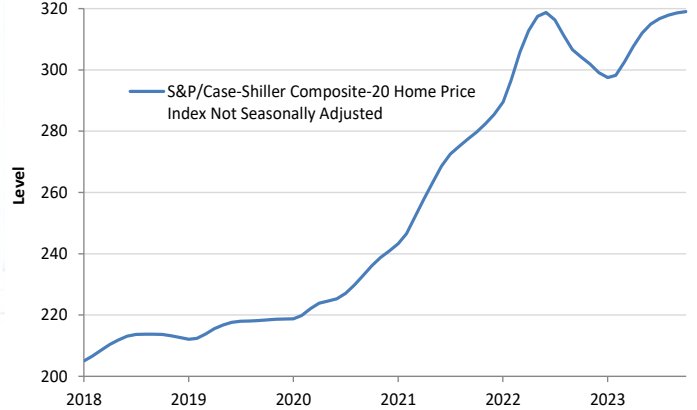
New Housing and NAHB US



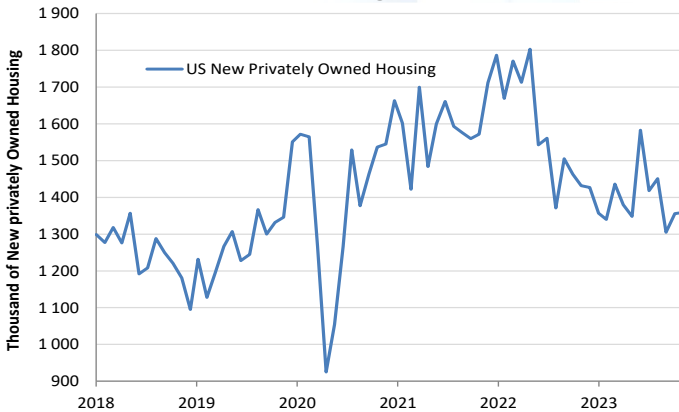
Sales of new and Existing Houses



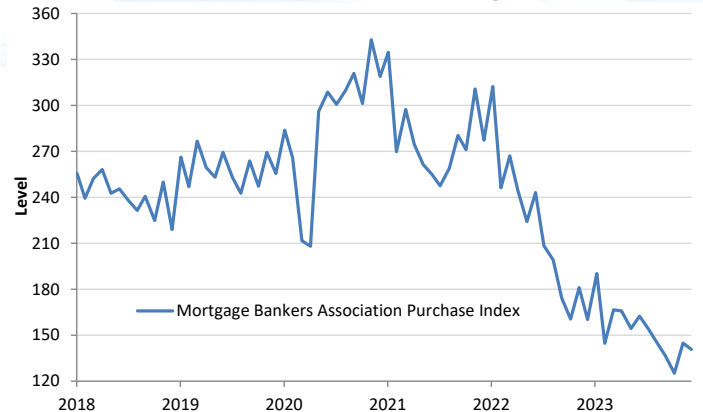
Property Prices S&P Case-Shiller Index



New Housing Starts



New Applications for MBA Funding



MACROECONOMIC SCENARIO

Switzerland

- Reduced growth prospects
- Fragile resilience in household consumption
- No inflation in Switzerland for nine months
- SNB monetary easing expected in Q2 2024

Reduced growth prospects

The GDP growth announced by SECO for the 3rd quarter of 2023 points to a rebound in economic activity of +0.3% in our country. This result remains below the historical average, and in our view is open to question following the revision of the growth rate for the 2nd quarter, which now indicates a contraction of -0.1% in the Swiss economy. For several quarters now, it has seemed increasingly clear that Switzerland's economic momentum has stalled, both because of the difficulties encountered by our main economic partners in Europe and because of the SNB's restrictive monetary policy. Rising interest rates and financing costs are now having a greater impact on households and businesses, which remain cautious about the outlook for 2024 and are translating their uncertainty and lack of confidence into more controlled spending. After the -0.1% fall in GDP at the end of June, the +0.3% growth in Q3 is a positive surprise for most economists, who were expecting only a slight increase of +0.1%. On a year-on-year basis, however, Swiss GDP growth was only 0.3%, below expectations (+0.5%).

In our view, the Swiss economy continues to be severely affected by a sluggish international environment and by the rise in the Swiss franc, which continues to affect the outlook for the manufacturing sector. In the absence of a clearer picture of future interest rates and inflation, Swiss economic agents remain cautious. As a result, value creation stagnated in industry, while the services sector remained more buoyant. The chemicals and pharmaceuticals industry, which is less exposed to international fluctuations, nevertheless advanced by 1.2%, thanks to positive sales trends and rising exports. Industrial sectors that are sensitive to the international economy, such as machinery and metals, made very little headway. Exports, which rose by a substantial +6.2%, benefited from transit trade, while imports grew by just +0.7%, owing to rather weak domestic demand. In the services segment, it was above all the health (+0.7%) and trade (+1.1%) sectors that boosted domestic demand. Among the negative contributors were business services and the hotel and catering sector (-3.7%), which saw a marked slowdown in activity. Overall, services are struggling to drive

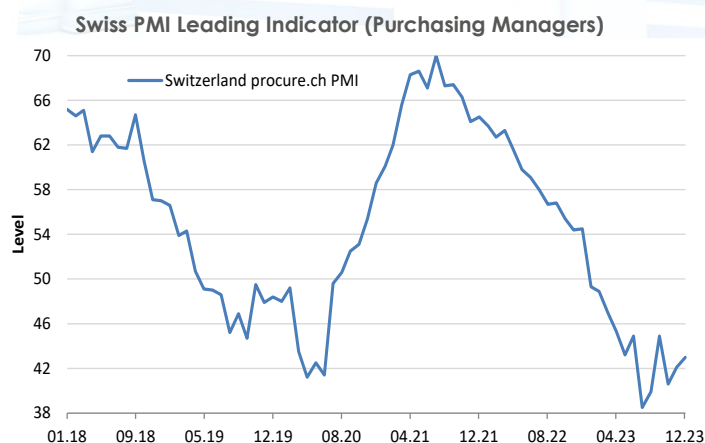
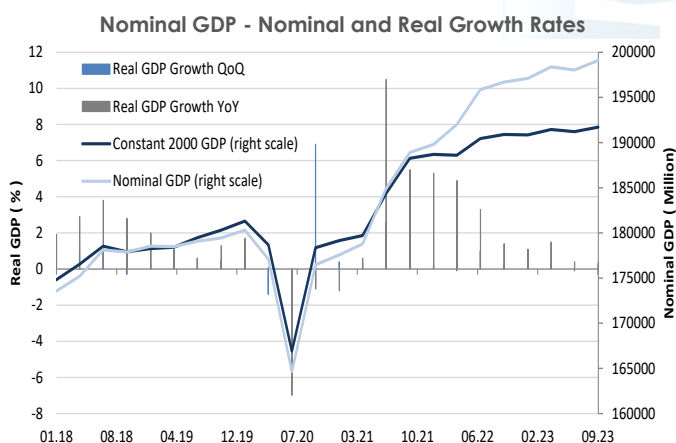


final domestic demand, which therefore failed to grow (+0.0%) in what is also a very anaemic international environment. On the private consumption front, despite continuing mixed sentiment among households, there was still a very slight increase of 0.2%, which remains extremely weak. At the same time, public spending rose by an appreciable 0.5%, but still below its historical average. Finally, investment in construction has not yet been greatly affected by the rise in interest rates, and has even managed to advance by +0.2%, while investment in capital goods has contracted by -1.1%.

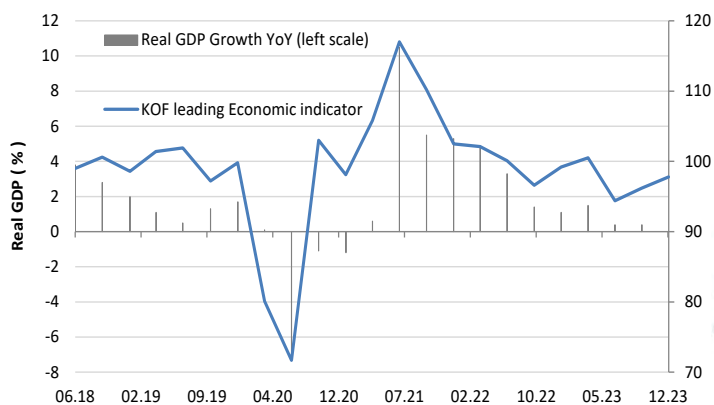
On the face of it, the Swiss economy appears to be in a position to withstand the weakness in the global economy, which has already led to a contraction in the eurozone. However, we believe that its momentum is being undermined by the strength of the Swiss franc and by the growing risks of a downturn in exports. Against this backdrop, which is not as positive as it might seem, the consensus forecasters still believe that GDP growth will be 0.8% in 2023, thanks in particular to a 0.2% rise still expected in the 4th quarter of the year.

Fragile resilience in household consumption

Household consumption held up well, with a very slight increase of 0.2%, lower than the previous quarter's +0.4%. It still seems relatively resilient despite a less favorable interest rate environment. 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 towards the end of the year. Against this backdrop, the rise in private consumption was satisfactory, although partly underpinned by the increase in spending on housing and services, particularly health care. Public spending once again underpinned GDP, with an increase of 0.5%, which remains substantial and welcome in the current environment. All in all, foreign trade made a positive contribution to GDP growth in the 3rd quarter. The level of merchandise exports does not seem to have been overly affected during the period by the rise in the Swiss franc.



Real GDP - Annualized Growth - KOF Leading Indicator

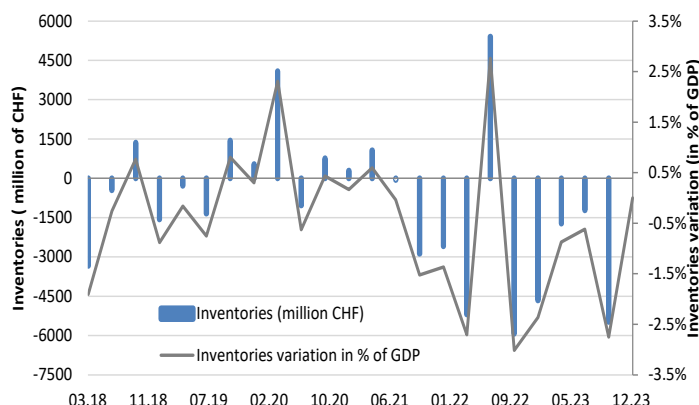


Indeed, the +6.2% increase in foreign sales was a welcome surprise, while imports of goods and services rose only slightly (+0.7%). The civil engineering sector contracted slightly (-0.3%), while construction advanced overall by +0.2%. However, the foreign trade situation deteriorated significantly at the start of the 4th quarter. The value of Swiss exports fell by -7.2% in October, completely reversing the positive trend of the previous month (+3.6%), but recovered in November (+1.8%). The +1.7% recovery in November follows the decline in imports (-3.1%) in October, after a -1% drop in September. The Swiss economy is therefore on a more difficult trend for the export sector, while sales of Swiss watches are only up +3.1% year-on-year, thanks in particular to increased demand in Hong Kong (+12.9%) and the UK (+16.7%).

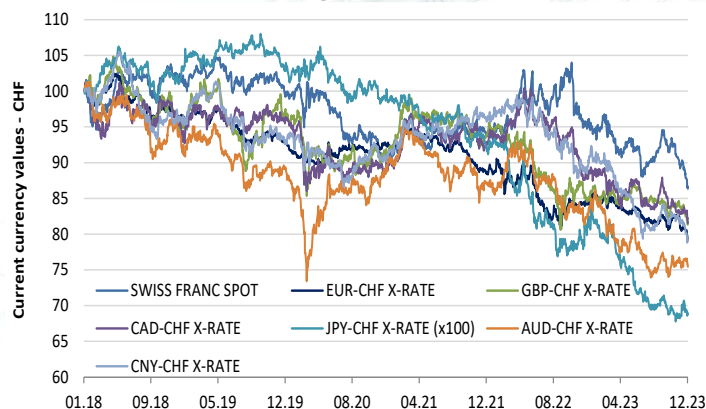
Leading indicators still uninspiring

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 recovered slightly to 99 in March, but then deteriorated again and has since stabilized above 95. The timid recovery in November does not yet seem to be a sign of a trend reversal. The manufacturing PMI seems to have halted the long decline that began in July 2021, when it peaked at a high of 70. The summer fall to an all-time low of 38.5 reflected the already difficult economic conditions at the time, when the strength of the Swiss franc added further pressure on the competitiveness of Swiss industrial companies and international demand weakened. The new orders indicator is also rather worrying, suggesting little likelihood of improvement over the coming months. After a period of stabilization, consumer confidence figures published by SECO once again suggest a sharp deterioration in household sentiment for the final quarter of the year. The drop in confidence is sharp and deep, as the indicator plummets from -27.1 to -40, suggesting significant risks of a collapse in consumption. After having been rather resilient, household demand looks set to weaken, with the CS/UBS survey also suggesting difficult economic conditions (-23.6).

Inventories - Change in Stocks



CHF Exchange Rate (base 100)

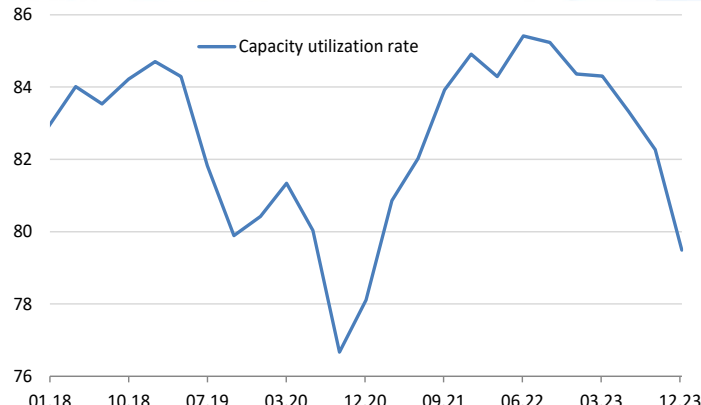


No inflation in Switzerland for nine months

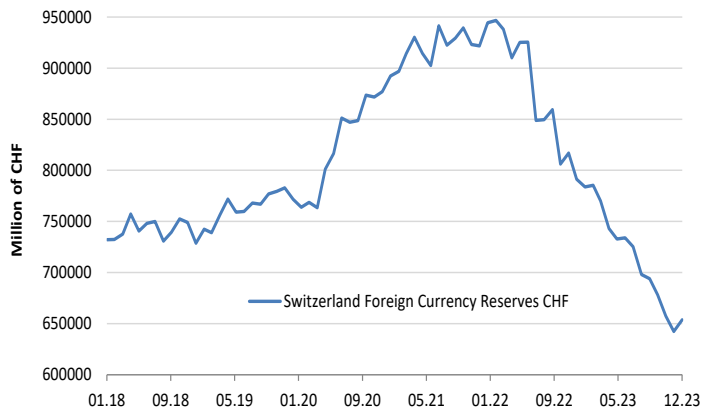
Swiss inflation figures for November confirm the trend towards a clear improvement in price trends in our country. With a fall of -0.2%, the Swiss CPI index continues to confirm the trend announced as early as July 2022 of the emergence of a new, much more moderate inflation regime, which would enable a probable return to a reasonable level of inflation in our country by summer 2023. Indeed, 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 then 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 has come as a pleasant surprise to many, but this new, slower pace only confirms our analysis and augurs well for the months ahead.

The CPI annualized index was thus just +1.4%, already below the SNB's target. The consumer price index excluding energy and food (+1.4%) also fell short of the SNB's target of +2%, an excellent result for our central bank, which can pride itself on having controlled price rises in our country. Despite a cautious stance that regularly emphasizes that the rate hike cycle could continue with further increases, the monetary authorities can nonetheless report that average monthly inflation has been close to zero for nine months now. This should motivate the SNB to keep rates unchanged in January 2024. We expect Swiss inflation to remain on this trend for a few months yet, which could quickly translate into a 12-month inflation rate well below +1%. The fall in the euro and dollar against the franc has helped to reduce the risk of imported inflation.

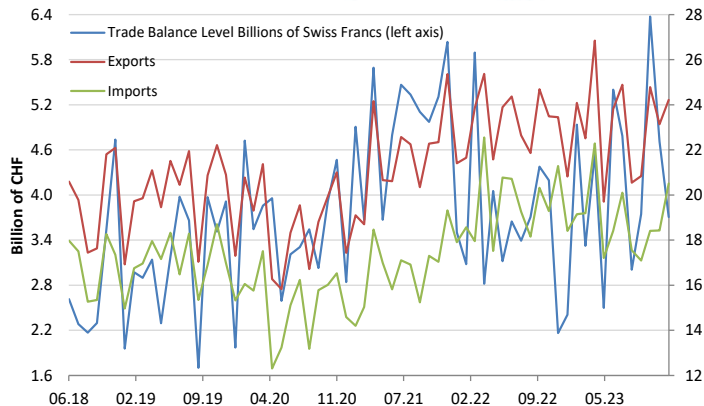
Capacity Utilisation Rate



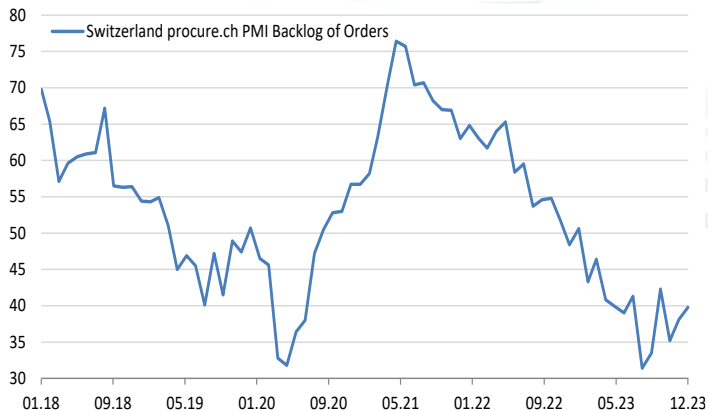
SNB Foreign Currency Reserves



Trade Balance Level



Order Book



Import and producer prices are now also under control. Since peaking in June 2022 at +6.9%, the index has steadily declined, entering negative territory in May. November's result of -0.9% is already the seventh price decline on record. We believe that this trend should help companies to control costs and margins. The stabilization of producer prices means that we can also project a more positive outlook for consumer prices in the near future. 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, against a backdrop of stable wages and unemployment at 2.1% in November.

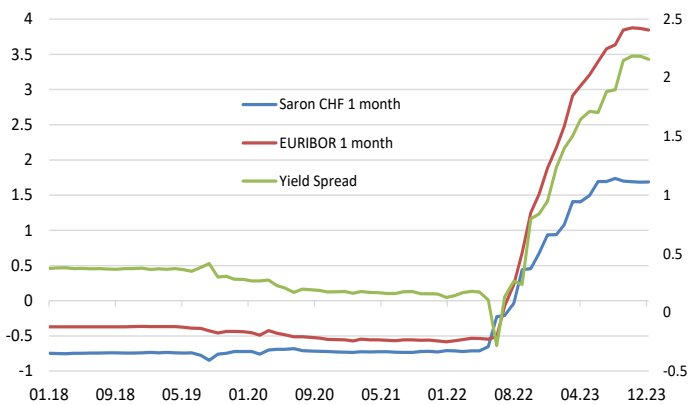
SNB monetary easing expected in Q2 2024

Despite the sharp decline in price indices, which saw annual CPI fall from +3.5% in August 2022 to just +1.4% in November 2023, the SNB still seems concerned about the level of inflation. Although inflation is now well below its target of +2%, the SNB is persisting with its cautious stance, and is not yet ruling out the idea of further hikes to ensure that the price level in our country remains under control. Against the backdrop of a fairly tight labour market and unemployment of just under 2%, 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 import prices, which are down -0.9% year-on-year, helping to drive down the CPI. The SNB therefore maintains a restrictive bias, even though it now appears much more pessimistic about future inflation than Swiss economists as a whole. With a forecast lowered from +2.2% to +1.9% for 2024, inflation remains above the new consensus estimate of +1.6%. With key rates at 1.75%, above November's published inflation figure of +1.4%, the SNB could already consider its action a success, with no immediate plans for further increases. All the more so as, in sixteen months 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 -32% in twenty-two months to CHF 641 bn, through sales of 10 to 20 bn per month. The SNB's monetary policy is thus more restrictive than it appears in absolute terms, but also in comparison with that of the Federal Reserve, which has only reduced the size of its balance sheet by -14% in the meantime. In this restrictive environment, the resilience of the Swiss economy to date has been remarkable, but the free-falling 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 Q4 2024, as currently envisaged, and anticipate a first 25 bp cut at the end of Q2 2024.

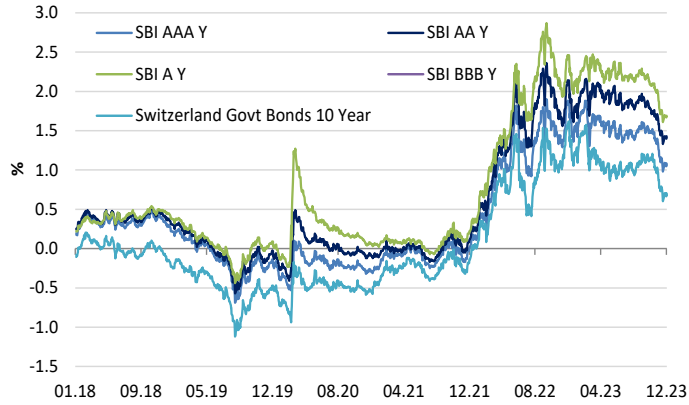
Bond yields fall below 1%.

In recent months, ten-year Swiss government bond yields have adjusted to changing inflation and economic growth expectations in Switzerland. After the already sharp decline from 1.6% to 1% observed in Q1, which was followed by a long period of stabilization around 1%, the nine-month sequence of price stability (CPI) finally brought market rates down to 0.60%. The yield differential between ten-year yields and short rates is now over 100 bps, which is the sharpest curve inversion recorded in Switzerland for a long time. 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.

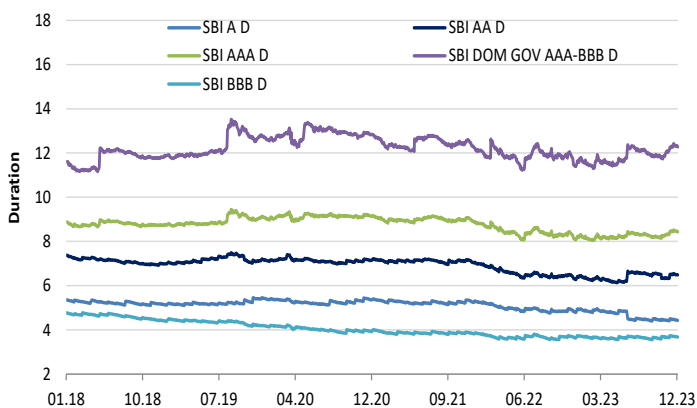
Saron/Euribor 1 Month Rate Differential



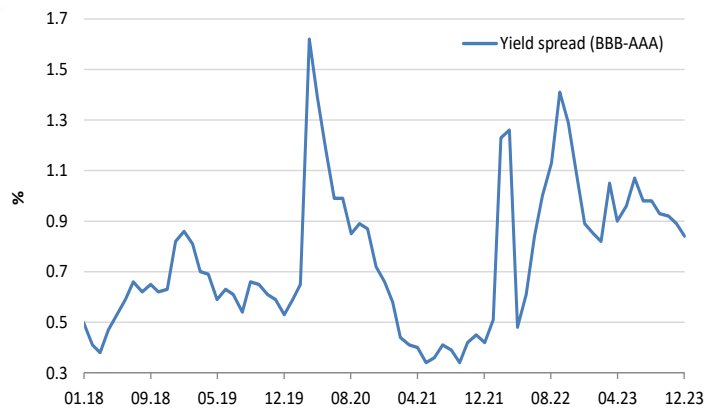
Interest Rate (Confederation, AAA, AA, A, BBB)



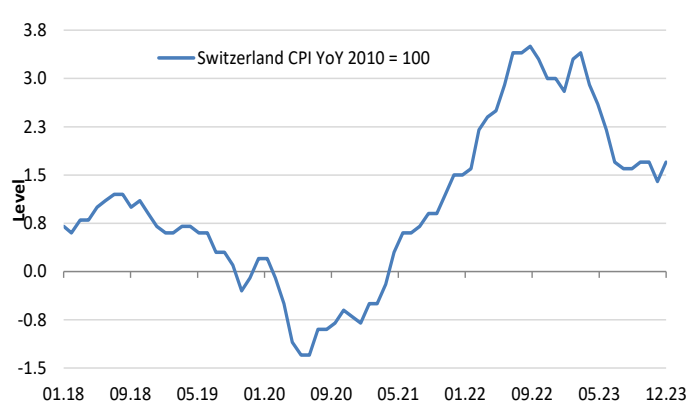
Duration of Swiss Bonds



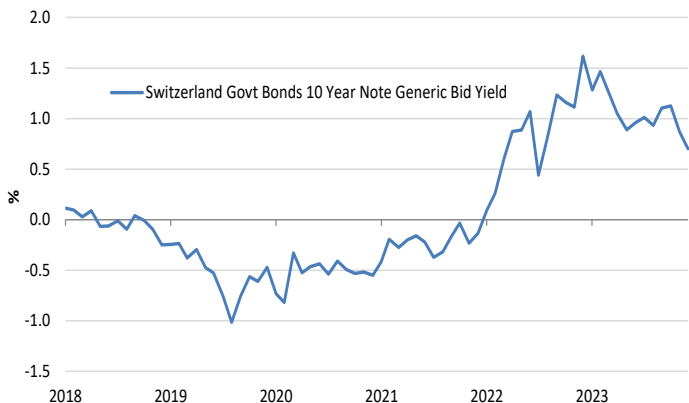
Yield Spread



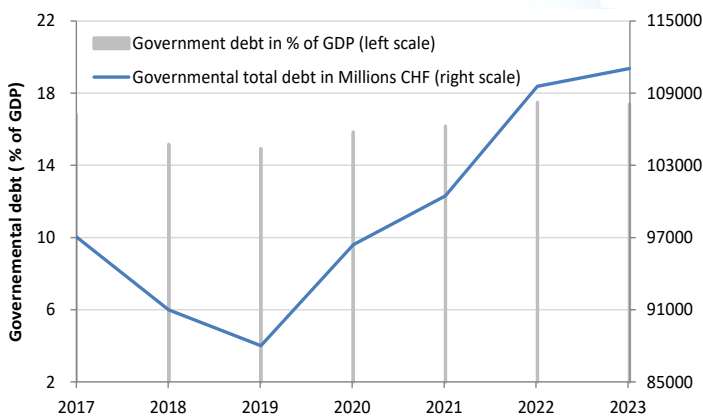
CPI Inflation



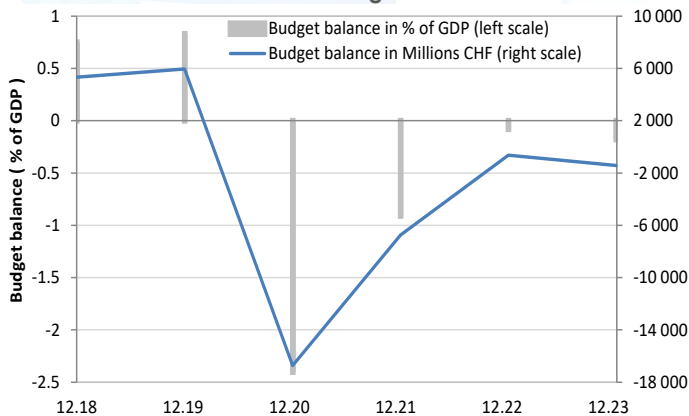
Federal Long Rates since 2018



Switzerland Government Total Debt



Switzerland Budget Balance



MACROECONOMIC SCENARIO

Eurozone

- Technical recession expected as early as Q4 2023
- Surprisingly rapid decline in inflation
- Unexpected fall in inflation is a boon for the ECB
- New paradigm for European bond markets



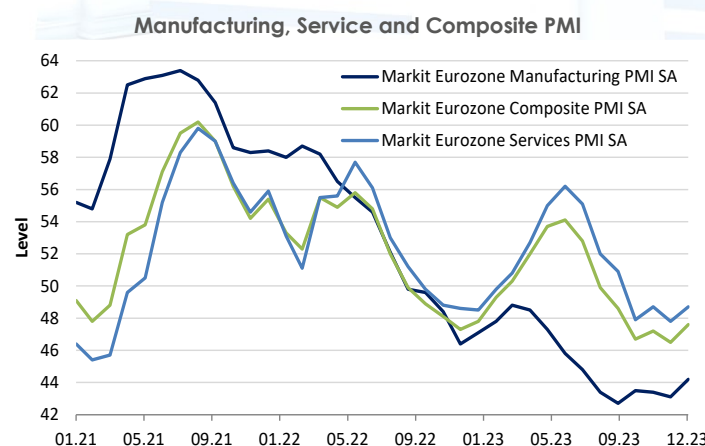
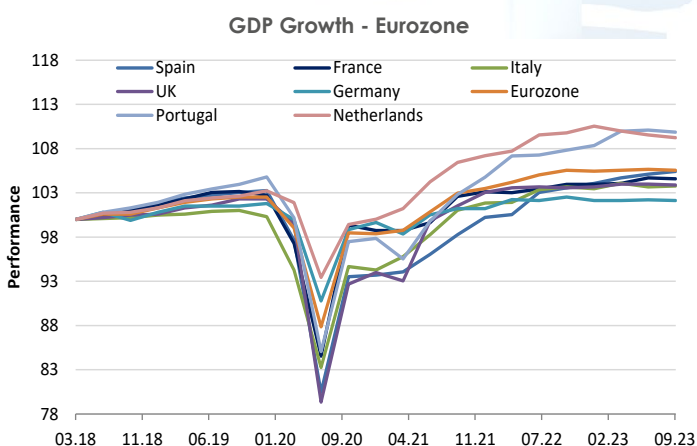
Eurozone GDP finally slips into negative territory

Eurozone GDP growth in Q3 takes another step towards a probable recession in H2, with a decline of -0.1%, which should be followed in Q4 by a further GDP contraction of -0.2%. The eurozone economy is thus closer than ever to recording two consecutive quarters of decline, after having long thwarted the more pessimistic forecasts already predicting a collapse in its momentum by early 2023. After holding up well against the headwinds at the start of the year, the European economy is now showing the weakness long expected. The slowdown in activity in the eurozone is thus taking shape very gradually, with a resilience that continues to surprise. Overall, there was little activity in any of the GDP components, but household consumption surprised with new growth of +0.3% over the quarter, as did the +0.3% rise in public spending. In the end, it was the impact of foreign trade that seems to have pushed GDP growth slightly into negative territory, with a -1.1% fall in exports. Over the year, GDP in the eurozone is now stable, after having risen by +0.5% year-on-year in the previous quarter. The difficulties faced by households are real, but they found the resources to increase their consumption levels during the quarter. Contrary to expectations, the situation in Germany, the eurozone's leading country, was not the sole cause of this negative quarterly result. Indeed, in regional comparison, the main European countries followed similar dynamics, with a limited contraction of just -0.1% in France and Germany, while the Netherlands and Portugal recorded a barely more marked decline of -0.2%. Spain (+0.3%) and Italy (+0.1%) seemed to be holding up a little better, supporting overall performance. Moreover, this contraction in Eurozone GDP is relatively similar to that of the European Union as a whole, which recorded perfect stability in its aggregate GDP, albeit with a clearer disparity in the respective national performances. The spectrum of national results sees Ireland recording a sharp contraction in GDP (-1.9%), while Malta (+2.4%) and Poland (+1.5%) continue the positive momentum already

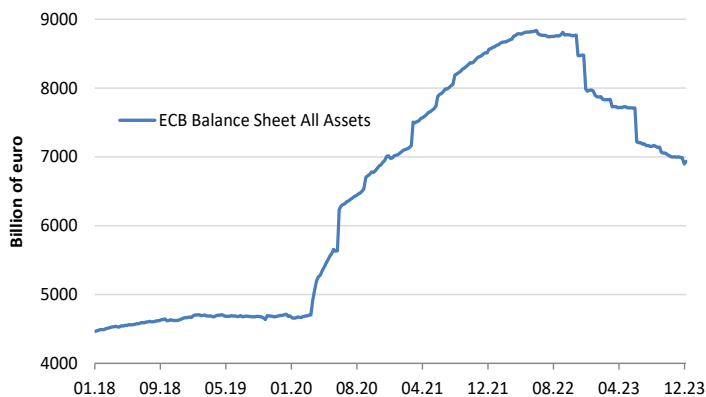
recorded in previous quarters. The resilience of the European economy remains surprising in the current context of serious declines in real purchasing power and rising financing costs. The European economy is staggering and is set to enter recession at the end of 2023.

Technical recession expected as early as Q4 2023

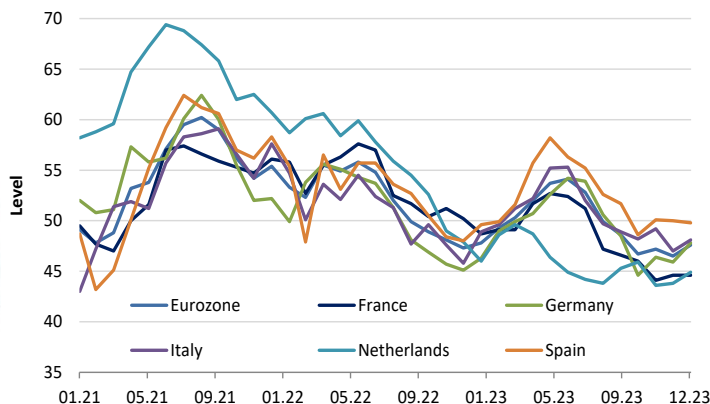
Aggregate GDP growth in the eurozone is likely to be -0.1% at best in Q4, which will be the tipping point for a technical recession characterized by two consecutive quarters of GDP contraction. In this eventuality, growth for 2023 as a whole would be unlikely to exceed +0.5% by year-end. Our forecast today is only slightly different from that at the start of the year, and we still believe that the eurozone will end the year with weak GDP growth of +0.3% to +0.4%. In contrast to our outlook for an extremely moderate recession in the European economy in the 2nd half of the year, which is likely to weigh on the full-year result, the ECB's current forecasts seem more optimistic. The ECB's forecast of +0.6% in 2023 will certainly be subject to disappointment. The ECB has been steadily reducing its GDP growth forecasts, after long believing that a +1% increase was likely. Without government support, this growth forecast will struggle to materialize. However, even if a slight increase in public spending were still possible, we believe it would certainly be offset by a reduction in household spending. The services sector will undoubtedly be more affected by the loss of household purchasing power. At the start of the 4th quarter, industrial production in the eurozone declined by a further -0.7% (October), representing a year-on-year contraction of -6.6%. Monthly data remain volatile, but this was the steepest fall seen in a very long time, with the exception of that seen in March and April 2020 at the start of the Covid pandemic. This is another very weak start to the quarter, suggesting that the manufacturing sector remains fragile and could yet weigh on eurozone GDP.



ECB Balance Sheet



PMI Composite - Country



Leading indicators point to a drop in activity

The latest releases of PMI leading indicators for December point more than ever to a very high risk of recession. Without registering any real collapses, manufacturing and services indicators remain on negative trends, well below growth thresholds. They clearly suggest a slowdown in the manufacturing sector and a continued downturn in services. As a result, the composite indicator fell again in the space of a month, from 47.6 to 46, and has now been below the growth threshold for several months. This result was largely driven by the services segment, which nevertheless struggled to withstand the various pressures in December, slipping from 48.7 to 48.1.

The manufacturing PMI leading indicator for the eurozone had already reached a low point in July (42.7) before recovering slightly thereafter, but in December it remained in a worrying zone with a pessimistic reading of 44.2, well below the growth threshold of 50. The trend in the PMIs suggests that the eurozone economy will find it difficult to record growth in Q4 and the following months, as it continues to be affected by higher interest rates and credit costs. Changes in the main parameters used to assess credit conditions also suggest that they are deteriorating for both households and businesses, thereby increasing the risk of a weakening of the economy and consumption. That said, the latest positive developments observed since November on the inflation and interest rate fronts could temper negative estimates of falling demand and also support a rebound in leading indicators over the coming weeks.

Confidence indices stabilize at low levels

Household confidence for December (-15.1) improved slightly, certainly in the light of better inflation statistics and doubtless also thanks to the easing of interest rate pressures, but it remains relatively gloomy by

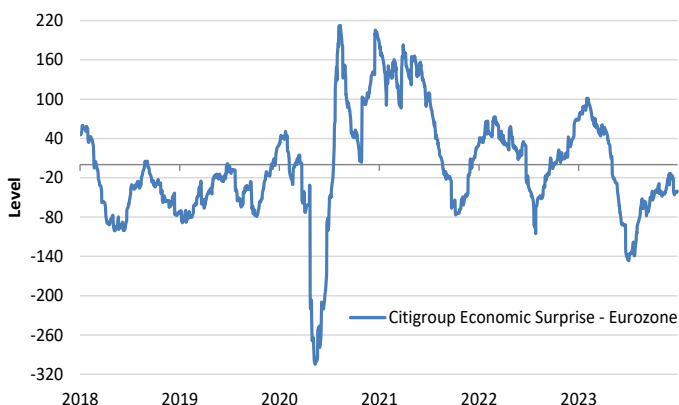
historical standards. The European Commission's indicator is still worrying, despite a relative stabilization at around -16, albeit a marked recovery from the September low of -28.7. The main concern remains price trends, which are having a dramatic impact on household purchasing power. Households are still concerned about CPI trends, despite a marked decline in this measure since its peak in October 2022.

Indices measuring confidence in both industry and services already seem to be looking a little further ahead, taking into account the positive prospects for a change in monetary policy in 2024. It's still far too early to see any real positive change in the degree of confidence of all economic agents, but the recent sharper decline in inflation will contribute to a forthcoming improvement in sentiment.

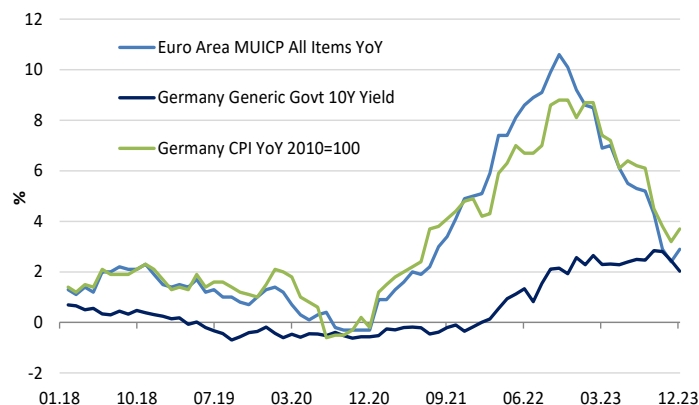
Surprisingly rapid decline in inflation

Inflation in the eurozone fell by -0.6% in November, thanks to an almost generalized decline in all components. On an annual basis, CPI is now only up by +2.4% after peaking at +10.7% in October 2022, and is approaching the ECB's +2% target faster than expected. Excluding food and energy, the index is declining more slowly and still stands at +3.6 (+4.2% in October). Inflationary pressures weakened sharply in November, with a particularly encouraging decline in the services segment, which remains the slowest to adjust. On the producer price front, the situation improved markedly in 2023, even though October saw a slight monthly increase of +0.2%. In fact, on an annual basis, prices actually fell by -9.4%, which should give companies some flexibility to adjust their sales prices downwards. The sharp decline in producer prices should therefore soon have a noticeable effect on consumer price indices. Inflation in the eurozone is likely to weaken further, particularly with the confirmation of the expected economic slowdown.

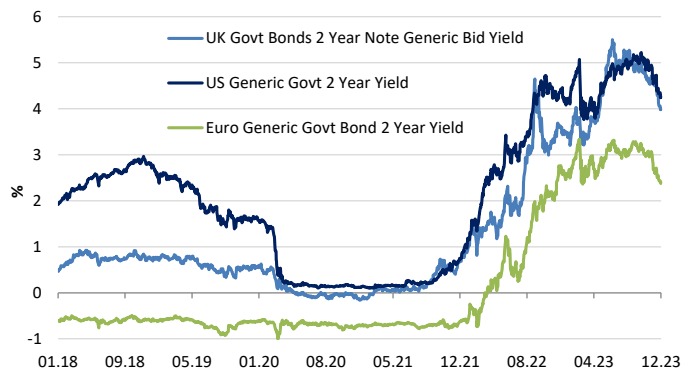
Citigroup Economic Surprise Index - Eurozone



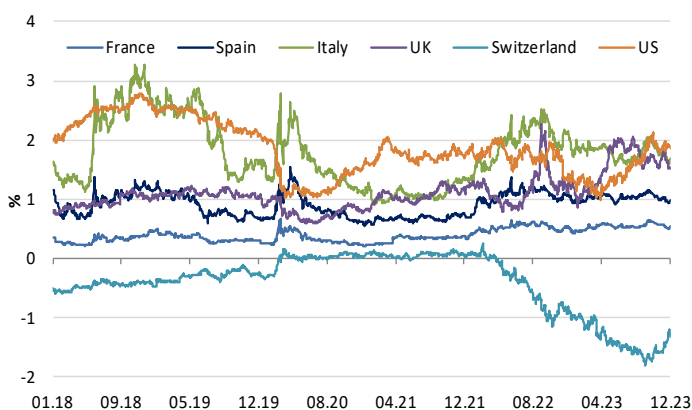
10 year Government Bond Yield - CPI



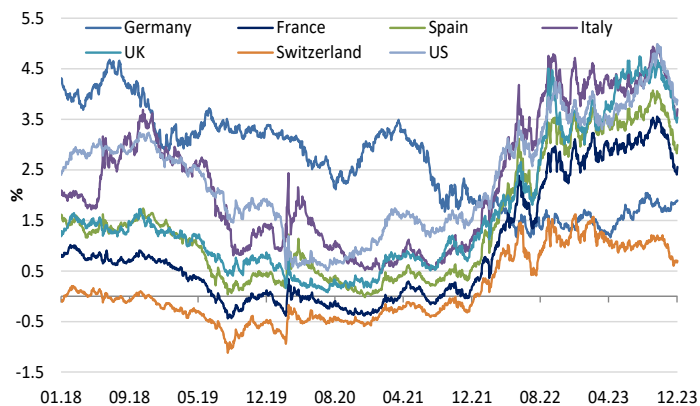
2-year Government Rates (US, Euro, UK)



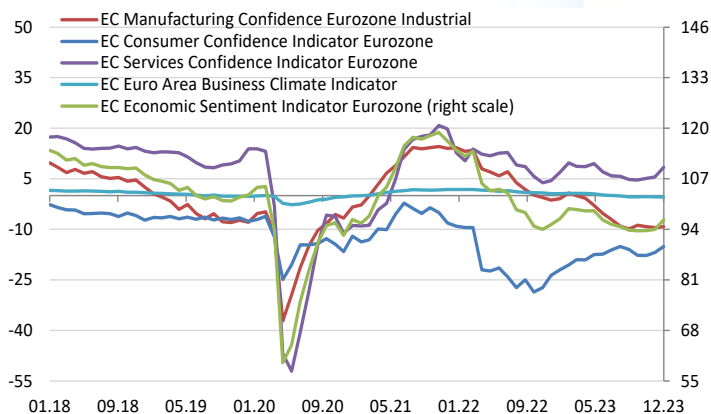
Risk premium - Government vs Bund



10-year Government Bond Rate



Confidence in Europe (Economic Confidence Index)



The ECB's inflation forecast for the year as a whole is still +5.4%. The current situation is therefore already relatively ahead of the ECB's forecast. CPI could quickly reach the 2% threshold in early 2024, while core inflation will probably take a little longer to approach it.

Unexpected fall in inflation is a boon for the ECB

The ECB was not expecting such a pleasant surprise after the summer break. Thanks to a faster-than-expected downward acceleration in price indices, the ECB can now look forward to its actions with a little more peace of mind. Only a few weeks ago, the ECB was still clearly demonstrating 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 time in a row, from +0.25% to 4.5%, noting in particular that the inflation outlook was still too high and that the expected decline was indeed materializing, albeit at an insufficient pace. It stressed that the high degree of uncertainty required a flexible policy linked to the constant evolution of available data. In other words, the ECB confirmed that it would assess the inflation outlook, taking into account a broad spectrum of economic and financial information, in order to adjust its policy.

As the year draws to a close, a number of economic statistics pointing more clearly to a recession and a more rapid fall in inflation are contributing to a very marked change in the ECB's assessment of the situation. Indeed, it should be noted that key rates have recently returned to a level above both headline inflation (+2.4%) and core inflation (+3.6%). This new situation, with a gap of over 200 bps between CPI and key rates, seems to us to require a change in monetary policy in the near future. Before the surprise fall in inflation in recent weeks, we believed that the conditions for monetary easing by the ECB were not yet in place, or even conceivable in the near future. It is now likely that, following the more rapid fall in inflation, the ECB will refrain from further rate hikes, and that the peak of the rate hike cycle has therefore probably already been reached in September. In the coming months, the ECB will continue to be concerned by the slow pace of adjustment in the services sector, and is likely to favor a cautious approach characterized by a stabilization of its action. Growing signs of economic slowdown could also very quickly support new expectations of a reversal of the monetary policy trend and a cut in key rates as early as the 2nd quarter of 2024.

A new paradigm for European bond markets

The faster-than-expected fall in inflation in Europe has had a major impact on investors' expectations regarding key rates and market rates. As far as key rates are concerned, the consensus is already that the ECB will have to adjust rates to 3.75% at the end of March, implying a 75 bp cut in key rates in the first three months of 2024. This seems to us to be a particularly aggressive expectation, even considering that inflation will continue to fall at a steady pace.

Barring a much more severe recession than that envisaged, the ECB is unlikely to embark on a radical change in monetary policy so soon in 2024. As far as medium- and long-term bond yields are concerned, the extremely rapid fall that has taken place has adjusted ten-year German Bund yields from 3% in October to less than 2% today. A fall of 100 bps, or 33%, in ten-year bond yields has put European yields back where they were in June 2022.

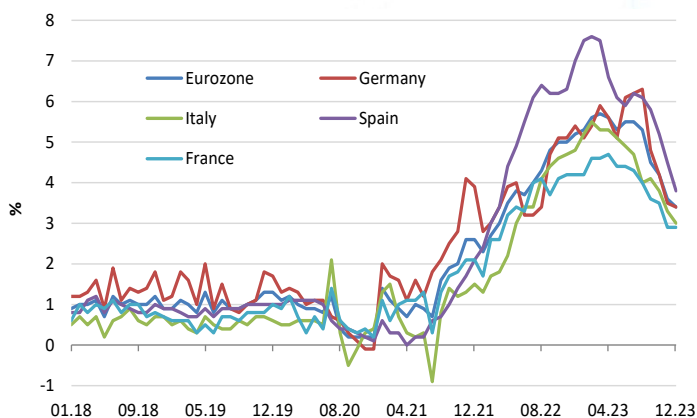
This adjustment, which has also taken place in many other market segments, may now seem excessive, even though it is supported by a downward trend in inflation and the risk of recession. Interestingly, in this new context, real yields adjusted in a matter of weeks thanks to a stronger decline in inflation. Ten-year real yields thus fell from -3% to -0.4%.

Against this backdrop, the yield curve has inverted sharply, pointing more logically to a heightened risk of recession in the winter of 2023-2024. The downward trend seems to be well underway, but given the amplitude of the fluctuations observed in just a few weeks, we believe that the potential for capital gains is now reduced, in the event of a moderate recession.

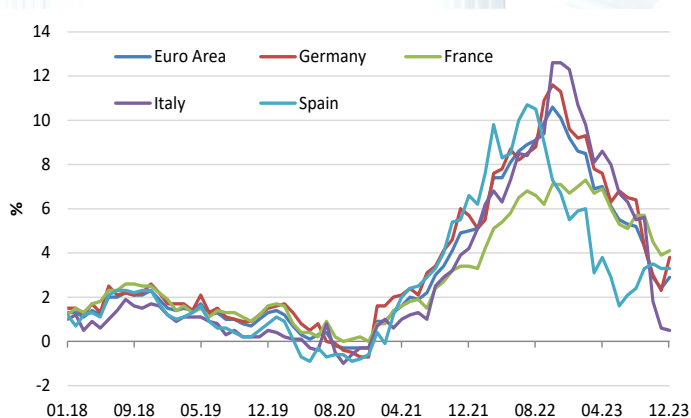
Crushing yields affect the euro

The ECB still looked set to be one of the most restrictive of the major central banks in Q4, but recent inflation trends have reshuffled the deck. It has finally joined the group of central bankers adopting a wait-and-see attitude. Investor expectations of bond yields have also changed dramatically, so that now, if short rates are unfavorable to the euro against the dollar, for example, this is even more the case for ten-year rates, whose differential has widened in recent weeks from 200 bps to 225 bps in favor of the dollar. The yield differential with Swiss ten-year rates, meanwhile, has contracted from 180 bps to 130 bps, but remains in favor of the euro. For a few months, this environment should support a slight appreciation of the euro against the franc. Conversely, the European currency should weaken slightly against the dollar.

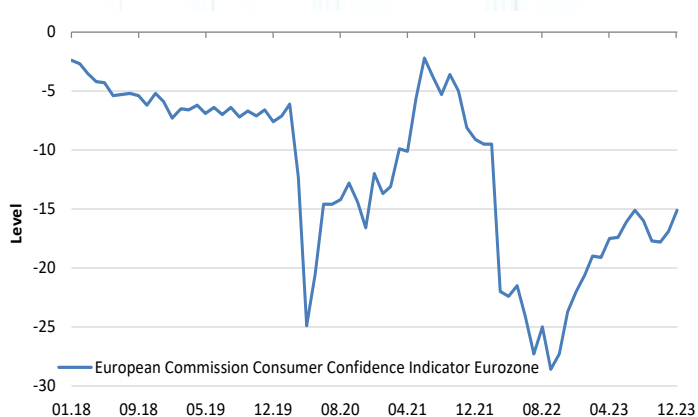
Eurostat CPI - Core Inflation (Eurozone, YoY)



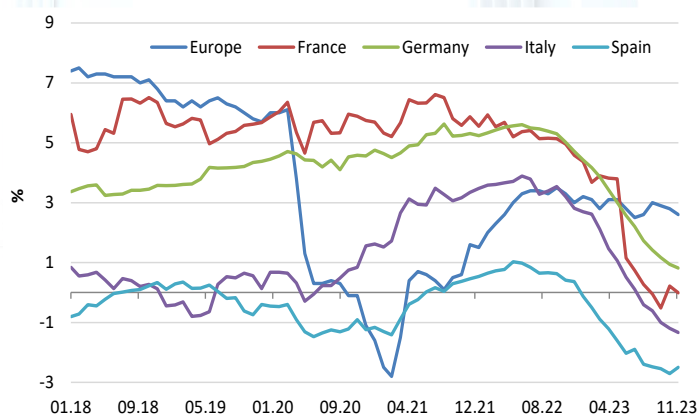
Eurostat CPI - all Items (Eurozone, YoY)



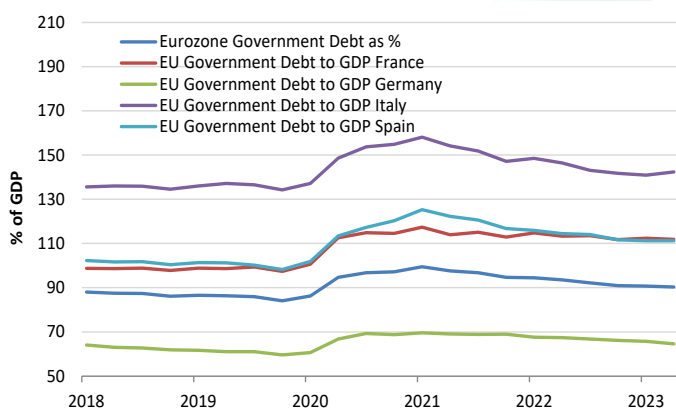
Consumer Confidence - Eurozone



Loans and Credits to Households (Eurozone - YoY)



Government Debt



Volatility Indicator - Eurozone



MACROECONOMIC SCENARIO

United Kingdom

- Recession postponed until early 2024
- Timid recovery in leading indicators
- Inflation finally falling more noticeably
- BoE maintains pragmatic caution
- Interest rate outlook normalizes



The British economy is still flirting with recession

For several quarters, the British economy had been resisting economists' forecasts of a probable recession. After a 2nd quarter that had already surprised forecasters with a slight increase of +0.2%, the British economy surprised once again in the 3rd quarter by avoiding a contraction in its GDP. With this surprise result of zero growth in Q3, the British economy remains threatened by a complicated situation in the job market, real estate, foreign trade, industrial production, inflation and, finally, domestic demand. With this zero result, the British economy has once again avoided a recession at the end of September, and the immediate spectre of a recession in 2023 has been averted for the time being. At the end of September, inflation still out of control, 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.

Logically, the outlook does not seem any better to us today, particularly in view of the persistence of inflation at excessively high levels and the BoE's understood need to pursue its restrictive policy in an attempt to bend the trajectory of price rises. This time, the economy's overall resilience was due rather to an improvement in the trade balance (+0.43%), a fall in imports (-0.26%) and a rise in exports (+0.17%), while the contribution of household spending turned negative (-0.25%). Domestic demand is therefore finally starting to weaken, with private consumption declining by -0.4% after rising by +0.5% in the previous quarter, while government spending also slipped by -0.4% after a fine previous rise of +2.5% in Q2. The British economy is still in overdrive and flirting with decline. The forces at work are likely to bite harder on consumption and investment in the months ahead. On an annual basis, GDP growth is still up +0.6%.

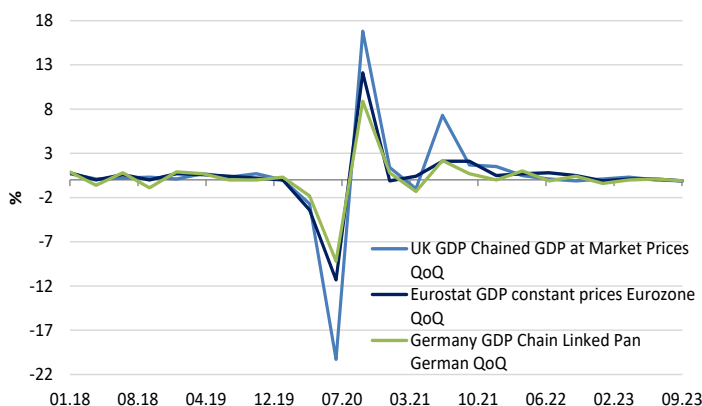
Recession postponed until early 2024

Household resilience is stalling at a time when government spending is also contracting. As a result, a real slowdown is likely to set in over the next few months and continue into the new year. The publication of GDP for October should already confirm this forecast of a decline in UK activity. The UK economy is set to shrink by a further -0.1%, which could well continue for the full quarter. This likely development could, however, be slowed by an improvement in inflation, which finally seems to be easing, as suggested by the November CPI (-0.2%), the retail price index (-0.1%) and producer prices (-0.1%). Consumer confidence is low, but no longer deteriorating, as is the trend in house prices, which stabilized in November. The decline in activity finally appears to be limited at the start of Q4, which could well enable UK GDP to withstand another quarter of recessionary forecasts. Our GDP growth forecast for the year is still positive, but just above zero for the period as a whole.

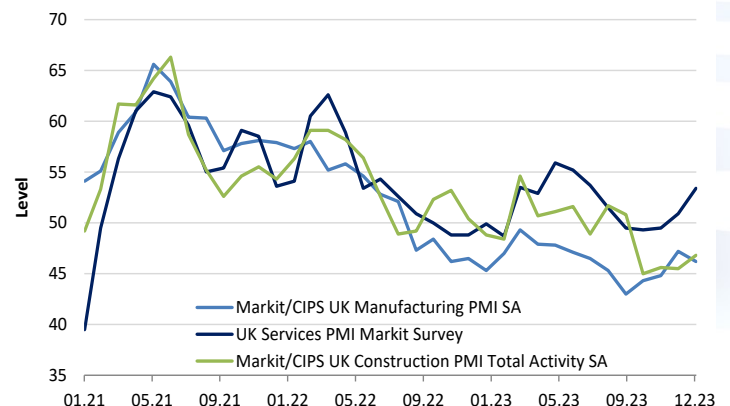
Timid recovery in leading indicators

At the very start of the year, the leading indicators published confirm expectations of economic decline, but do not point to a clear downward trend in activity. The manufacturing PMI rebounded from its August low of 43 to stand at 46.2 in December, closer to its growth threshold than two months ago. The services PMI also rebounded from 49.3 to 53.4, back above the growth threshold. The composite indicator therefore logically improved to 52.1, also above the growth threshold of 50. As the PMI measures do not include the public sector, we believe that declining public spending should not be able to offset the drop in activity expected in the private sectors. The PMI indicators are therefore less negative, but are still far from heralding the hoped-for economic recovery.

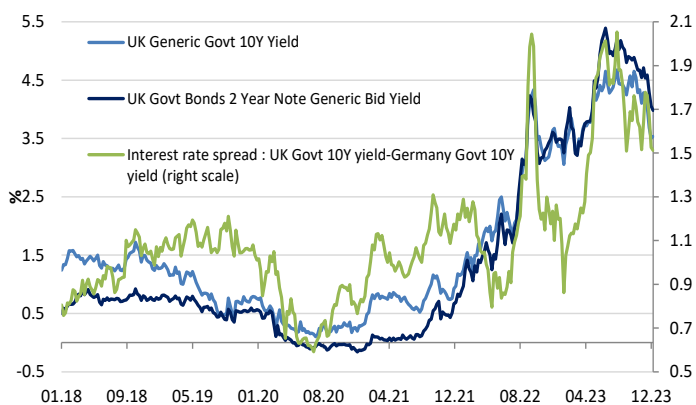
Quarterly GDP Growth - United Kingdom



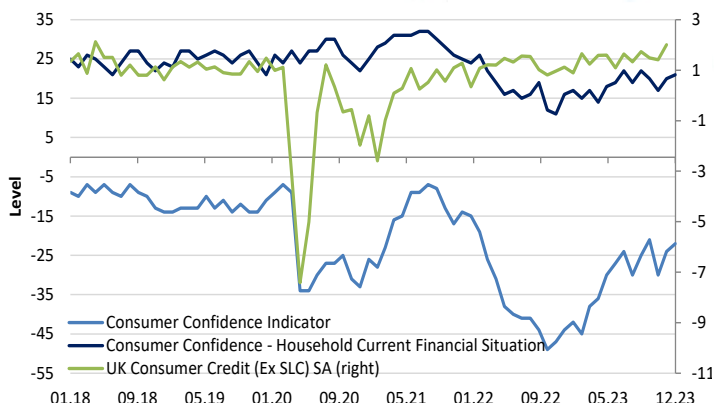
PMI Indicators (Manufacturing, Services, Construction)



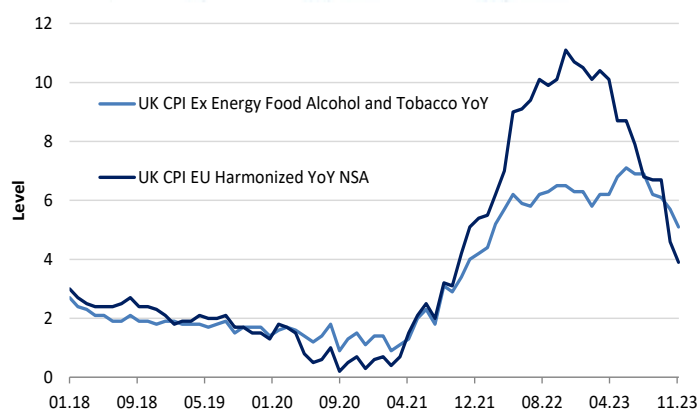
Government Rates (2yr-10yr)



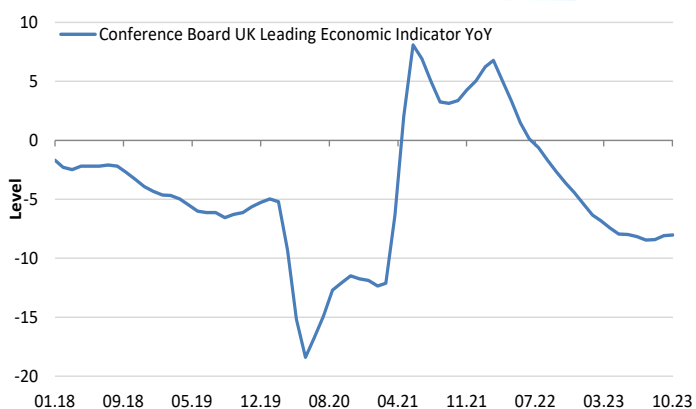
Household Confidence



Inflation CPI



Leading Indicator



Significant softening in the labour market

The labor market is beginning to show some signs of weakness, but the rise in the unemployment rate remains very limited. In fact, it has only risen from 3.8% to 4% in ten months. Employment growth has fallen since its peak in March and contracted in July and August, but October's figures show a slight increase in job creation. However, these remain well below the levels seen in the 1st half of the year. The change in momentum is finally noticeable, however, and should reinforce the BoE's policy of calming the labor market. The potential risks of inflation being driven by wages are diminishing significantly, but the +7.3% rise in weekly earnings excluding bonuses (3m/GA) remains very high at the end of October. It is still close to the highest levels of the 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 in the eyes of the central bank for it to change its policy for several months yet.

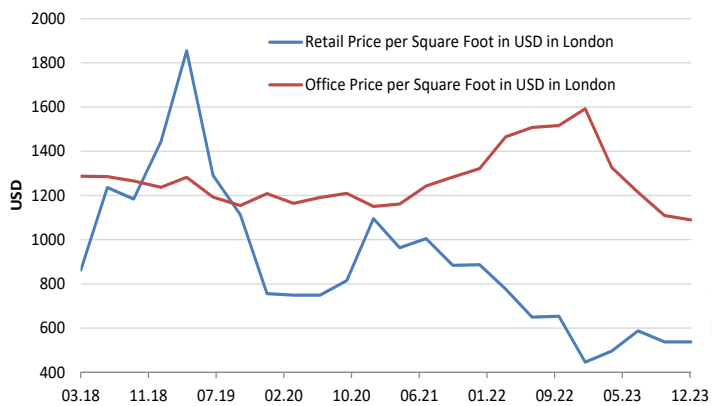
Household confidence improves

Household living standards are on the rise again for the first time since early 2002, thanks to an increase in real wages due to lower inflation, and a significant rise in nominal wages due to the ongoing catch-up of wage levels after 2022 inflation. Even if we consider that these increases should rapidly level off, it seems that, for the time being, households see this progression as a positive factor marginally reinforcing their confidence levels. Indeed, the household confidence indicator (GfK) is stabilizing at a much higher level (-22) than its catastrophic level of September 2022 (-48.7). While still well below the level that prevailed before the health crisis (-8), confidence is undeniably improving against all expectations and at a time when the economy is flirting with recession. 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. However, retail sales rebounded by +1.3% in November on the back of improved household confidence.

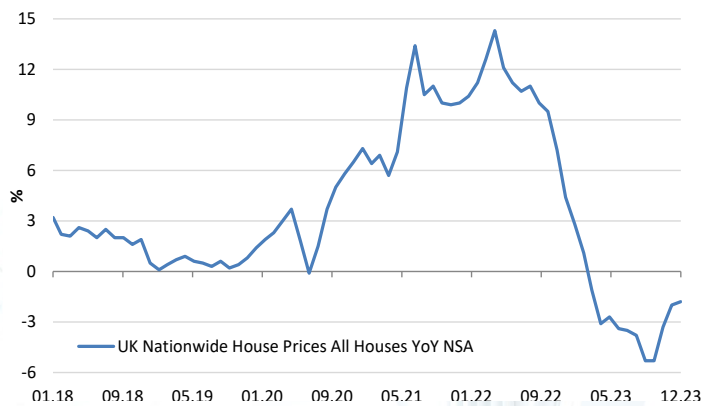
Inflation finally falling more noticeably

After a temporary price contraction of -0.4% in July, the CPI index then rebounded in August and September, disappointing forecasters' expectations of a sharper summer trend reversal. With the release of the November CPI of -0.2%, hopes were revived. Inflation has been on a new, sharper downward trend in the UK for the last six months, in a decidedly more moderate regime, but we are still waiting for a sharper deceleration which the November figure may finally herald. The decline in inflation is more evident in the annual data, with CPI falling to just +3.9% year-on-year, well below the peak of +11% reached exactly twelve months ago. On the producer price index (PPI) side, the decline is much sharper and very encouraging for future CPI trends. Indeed, the year-on-year fall of -0.6% in October shows a complete reversal of the trend from the +19.7% rise recorded in July. While these few measures may be a source of satisfaction, the evolution of the core CPI index, excluding food and energy, despite a very appreciable fall between September and November from +6.1% to +5.1%, is still too high for the BOE. The trend is certainly downward, but it is still a long way from the central bank's target. This last point still suggests that the BOE 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 for the fall in household consumption of services to have a positive impact on the core CPI, since this is where the main resistance to inflation currently lies. Indeed, it is underpinned by a CPI services index that showed little sign of abating in November, with a still worrying +6.3% rise.

Real Estate Prices per m²



Growth in Real Estate Prices



BoE maintains pragmatic caution

The sharp economic slowdown that has been underway for several quarters and could soon turn into a recession is fuelling debate among the members of the UK central bank's Monetary Committee. They remained cautious, maintaining the pause in their restrictive policy decided in September. After fourteen consecutive rate hikes and one of the quickest restrictive monetary policies to be implemented in December 2021, the BoE is now faced with a new, slightly more comfortable situation, a few days before having to decide whether to proceed with a final hike before the end of the year or maintain its wait-and-see attitude. From now on, the severe restrictive policy seems to be bearing fruit. UK inflation has weakened significantly in both consumer and producer price indices, and the trends also seem sufficiently established to develop effects in the months ahead. From a relative point of view, UK inflation has accelerated its correction, and is nowhere near as far behind the US for a similar rate level and virtually zero growth. The current level of key rates at 5.25% is now also in the UK, as in the US, above CPI.

Against this backdrop, a further increase in December seems highly unlikely. We believe that the BOE will not be swayed by the slow pace of price declines in the services sector, and will therefore maintain its wait-and-see stance towards the end of the year. Weaker household consumption is also likely to have an impact on measured inflation in the services sector in the near future. The UK monetary authorities will therefore take the view that the current economic slowdown and signs of a softening labor market already offer encouraging prospects for a further decline 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 be patient and keep its policy unchanged.

Interest rate outlook normalizes

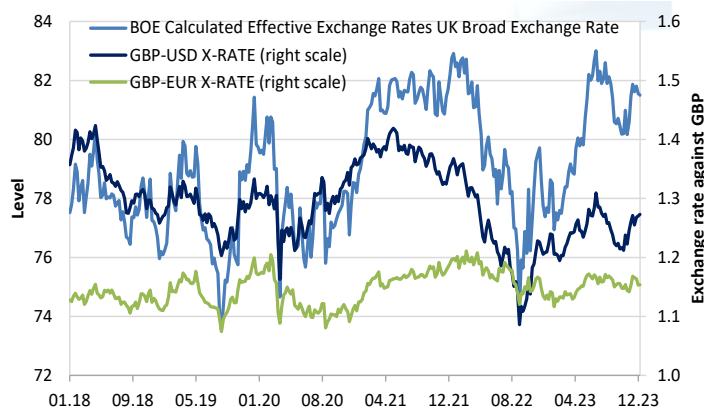
The increasingly visible economic slowdown, together with the more marked easing of inflation, now give reason to hope that interest rates will evolve somewhat differently from what was envisaged just a few months ago. In October, UK ten-year government yields once again reached the 4.5% threshold that had been touched in September 2022, and more recently in July and August 2023. November proved to be a potentially very important transition month for monetary policy, but also for the level of the UK government bond yield curve.

A series of economic statistics has significantly altered the assessment of the risks of monetary tightening and the perception of the appropriate level of long rates in the context of the ongoing economic slowdown and the ultimately faster decline in inflation.

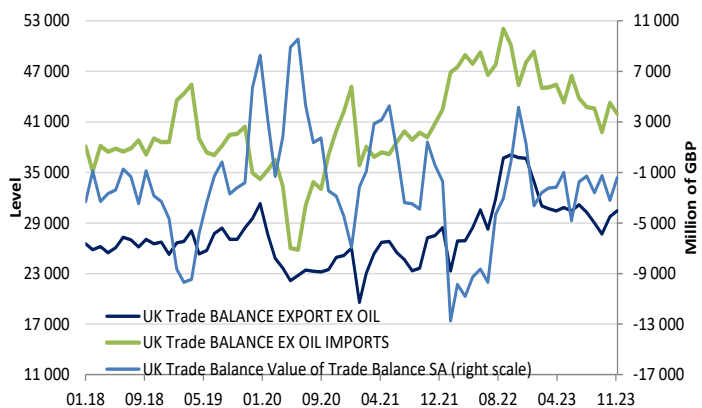
Over the past six months, long yields have hovered around 4.5% in anticipation of clearer signs of the long-awaited recession. Following this horizontal trend, the sterling yield curve remained inverted, as short rates also rose by 0.25% in August, taking the short end of the curve to 5.25%. Now, the inversion of the curve has become increasingly clear since ten-year rates fell from 4.65% in October to just 4% at the beginning of December. With inflation falling, real rates are no longer so negative. By international comparison, the yield curve still seems a little too low for the level of inflation seen in the UK.

However, in view of recent macroeconomic developments, a phase of stabilization and limited decline in long rates could still continue. The outlook for sterling bonds is therefore likely to normalize.

Effective Pound Exchange Rates



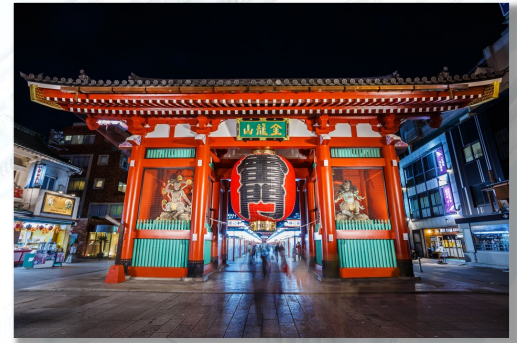
Trade Balance - Exports - Imports



MACROECONOMIC SCENARIO

Japan

- Possible recession at the end of 2023 in Japan
- Significant deterioration in leading indicators
- Temporary rebound in inflation?
- BOJ monetary policy still accommodative



A much more dramatic 3rd quarter than expected

A few months ago, we wrote that Japan's astonishing Q2 GDP growth was unlikely to be sustained into the middle of the year. Particularly uncertain leading indicators for the 3rd quarter suggested a weakening of consumption and exports, which could have a significant impact on Japan's economic performance over the summer. Following a seasonally-adjusted Japanese GDP result for Q2, which showed quarterly growth of +1.1% for a revised annualized GDP increase of +4.5%, the figure published for Q3 came as a partially expected shock. Indeed, the -2.1% fall in annualized quarterly GDP completely reverses the previous positive trend, being much more negative than the moderate -0.4% decline expected by the consensus. Over the quarter, almost all components made a negative contribution. Private consumption was barely stable over the quarter, while business investment fell by -0.6%, following a -1% decline in the previous quarter.

On the net export side, the negative impact of -0.1% was partly due to higher imports over the period. Inventories also contracted slightly, suggesting a certain return to normal after the rebuilding of stocks following the problems encountered by supply chains during the pandemic. The effective contribution of inventories is estimated at 0.6%. The world's third-largest economy ended up succumbing to the trend observed in Japan's main trading partners. While the international context seems to be clearly pointing towards a slowdown in activity in the United States, Europe and China, Japan's trade balance is affected by weak exports and a significant rise in imports. Our previous forecast of +1% growth for the year as a whole has therefore been lowered to +0.9%, both because of this more negative than expected 3rd quarter, and because of the lowering of our outlook for the final quarter of 2023, when global demand will prove weaker.

Possible recession at the end of 2023 in Japan

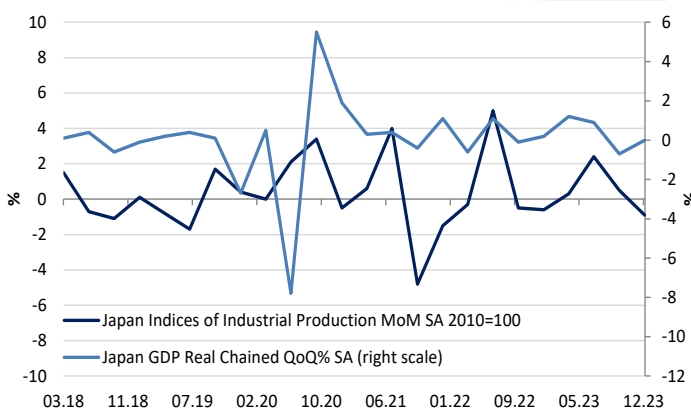
With just a few months to go before the end of the year, Japan's GDP remains more dependent than ever on international demand,

while domestic consumption is still struggling to recover. The economy is weakened by sluggish household consumption and exports that are totally dependent on international trends. It will be difficult for the Land of the Rising Sun to end the year with an acceleration in economic momentum. In the absence of a revival in external demand, Japan's economic situation will have to be further supported by stimulating monetary policies. In the current context, the decline in consumer purchasing power, following the steady decline in disposable income and ongoing inflation, can only be stabilized very gradually. The same applies to Japanese companies, which are still reluctant to make new investments. Growing consumer spending by foreign travelers to Japan will provide only modest support, and will not significantly influence the overall level of consumer spending. Japan would greatly benefit from an economic revival in China, which could counteract the weakening seen in its other major partners, but the Chinese economy is also unable to strengthen significantly for the time being. With global demand weakening, the short-term economic outlook for Japan remains highly uncertain. Against this backdrop of persistently gloomy prospects for both domestic consumption and foreign demand in Q4, Japanese exports are likely to weaken along with domestic consumption and business investment. Q4 GDP could therefore once again be negative.

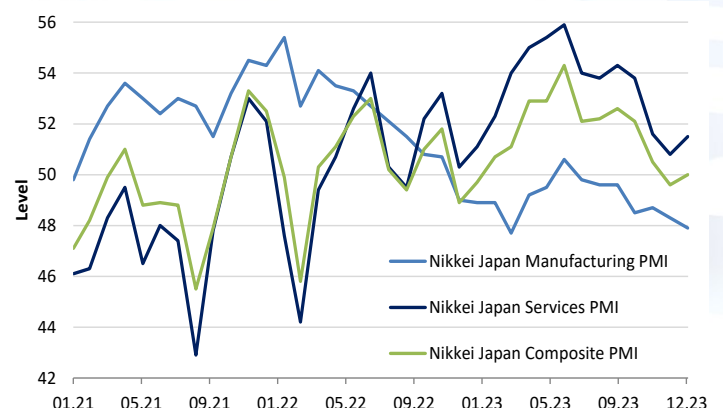
Significant deterioration in leading indicators

The Jibun Bank of Japan manufacturing PMI leading indicators published for November did not improve. The manufacturing index continues its decline below 50 and now stands at 48.1, suggesting a continuation of the ongoing slump in industrial activity. The composite indicator has also accelerated its downward trend and is now just on the razor's edge at 50, clearly showing a worsening situation. The services indicator seems to be holding up well, with a reading of 51.7 in November, which is still well below its May high of 55.9. Activity in the service sector ended up following the negative trend, but still looked slightly better. Overall, the PMI indices have been on a downward trend for several months, pointing to potential weakness in the industrial sector and a slowdown in services.

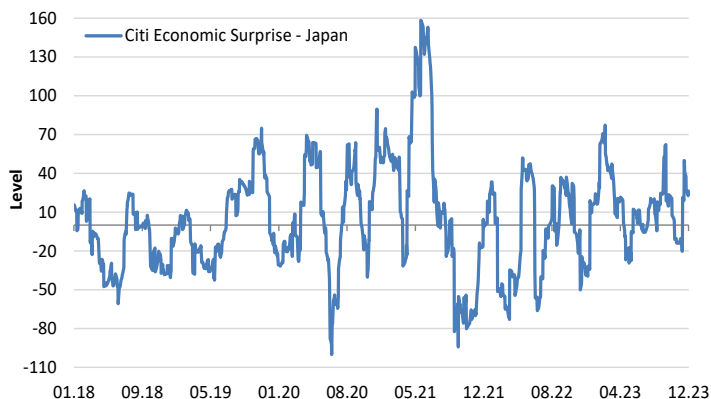
GDP and Industrial Production



PMI Indicators (Manufacturing, Services, Composite)



Economic Surprise Index

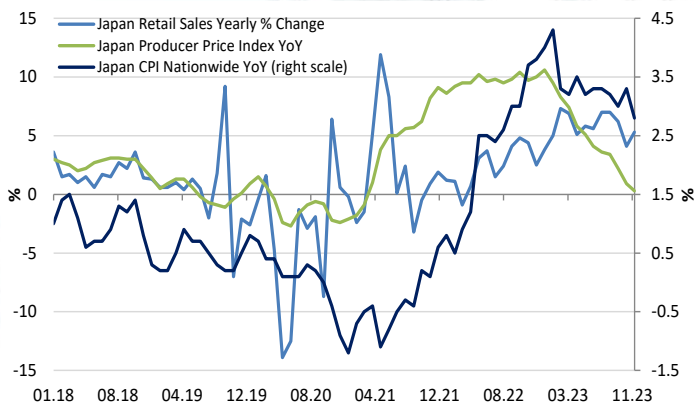


Activity measured by the Ministry of Economy and Trade in the tertiary sector has also weakened, according to the latest published figures, as has industrial production, down -4.4% year-on-year. The Japanese economy is feeling the effects of the global slowdown not only on its declining industrial output, but also on the evolution of its foreign trade. The value of exports rose by just +1.6% year-on-year, down sharply from the +4.3% recorded in September. Since the peak growth rate of almost +30% in September 2022, Japanese exports have been virtually stagnant for the past twelve months. This trend in Japanese exports is particularly worrying and represents a major risk for developments over the coming months. Without a clear upturn in exports in Q4, the Japanese economy will be unable to avoid a further contraction in GDP, plunging the country into technical recession. Hopes seem slim, and are linked to an expected improvement in Chinese activity and demand for Japanese products.

Temporary rebound in inflation?

The deflationary fears of 2020 and 2021 are no longer the order of the day in Japan, where inflation rose sharply in 2022, exceeding the +4%/year threshold. The fall in the yen orchestrated in mid-2021, which depreciated from 115 to 150 yen/USD in just over a year, contributed significantly to the return of inflation in Japan, 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 price index (national CPI) is now back below 3%, reaching a recent low of +2.8% in November. The index excluding food follows the same trend, declining to +2.5%, while the index excluding food and energy falls to +3.8%. In parallel with these developments in the CPI, producer prices (PPI) are following a similar trend, despite a small recovery in November of +0.2% following a decline of -0.4%, but over one year the increase is only +0.3%, after having reached +10.6% in December 2022. This is a rather encouraging result for CPI indices over the coming months, which should gradually benefit from this factor influencing

Inflation (CPI and PPI) and Retail Sales

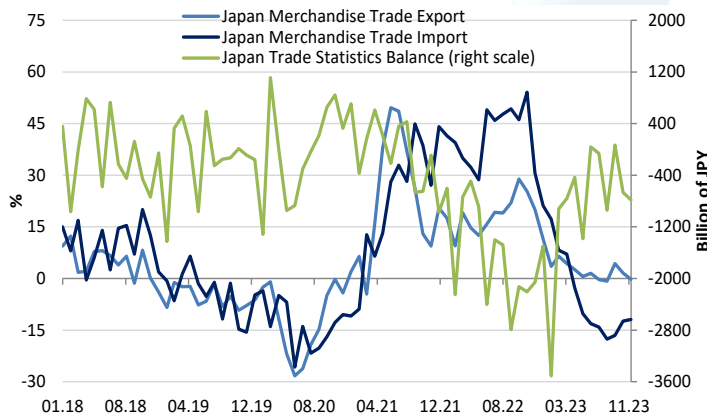


companies' propensity to raise their selling prices to maintain their margins. The transmission of rising import and producer prices to the CPI indexes should therefore continue to develop positive effects over the next few months, bringing inflation a little closer to the BoJ's target. Overall, the various domestic and external factors should favor a further decline in Japan's various inflation measures towards the Japanese central bank's target, if the exchange rate stabilizes.

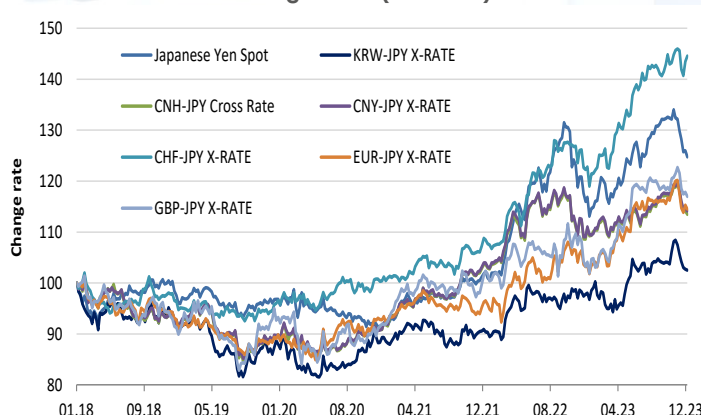
BoJ monetary policy remains accommodating

Recent price trends now offer the BoJ the opportunity to avoid having to question its monetary policy. The BoJ had a hard time getting out of the previous deflationary phase, and will certainly not be willing to risk a return to that situation by tightening policy too soon. A premature rate hike 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. Boj policy is likely to remain relatively accommodative. 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 eases, which will certainly penalize the exchange rate for some time to come. Consequently, we feel that expectations of an early end to negative rates (-0.1%) are excessive, as a change to a more restrictive monetary policy is still premature in the present context of inflation approaching the BoJ's target, while the monetary base in Japan has accelerated sharply since the contraction observed in July (-1.3%) and the +7.8% year-on-year increase.

Trade Balance in JPY Billion



Exchange Rates (base 100)



MACROECONOMIC SCENARIO

China

- 2024 should erase the disappointments of 2023
- Further support measures still essential
- Stabilization of the yuan in H1 2024
- Deflation takes hold and supports lower interest rates



2024 should erase the disappointments of 2023

Hopes of an economic revival in China in 2023 were soon called into question by the relatively disappointing economic statistics published in the 1st quarter. Over the course of the year, despite a number of support measures taken by the central bank and the Chinese government, the economy failed to strengthen sufficiently. In June, the significant year-on-year GDP increase of +6.3% fell short of expectations (+7.3%), while quarter-on-quarter growth was only +0.8%. According to the latest GDP figures, China's economy grew by +1.3% in Q3 and posted annual growth of +4.9%.

To date, year-on-year industrial production has risen from +4.1% to +6.6%, which, without being exceptional, at least already suggests an improvement in the trend in November. Retail sales, previously up +7.6%, were a little stronger at the end of the year, accelerating to +10.1%. On the foreign trade front, the situation is also looking a little better, with exports once again showing a slight increase of +1.7% year-on-year, after declining in the period from May to October 2023.

Stable imports (+0.6%) on the same basis of comparison enabled China's trade balance to jump from 405 billion to 490 billion yuan in November. In the real estate sector, the situation remains gloomy, with property investment still down -9.4% since the start of the year, while residential property sales are once again down -4.3% annualized. The real estate slump continues to affect households' financial situation and ability to consume. Investments, however, recorded a small increase of +2.9% over eleven months.

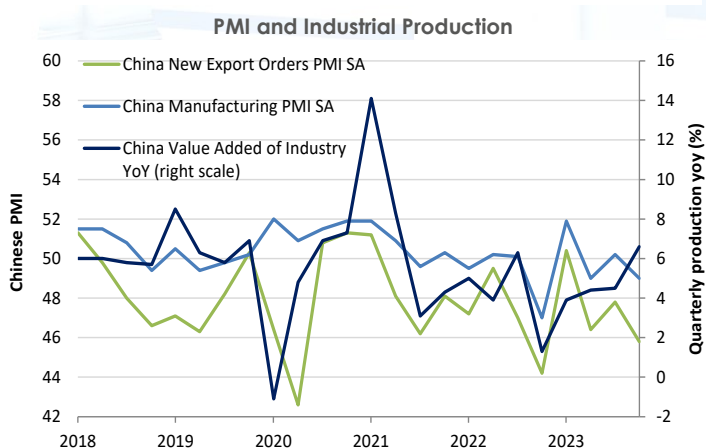
In this environment, there is little chance of a very marked improvement in Chinese economic conditions by the end of 2023. However, we believe that the last quarter could be a little better, and expect GDP growth of +5.2% at the end of December for the whole of 2023.

Further support measures still essential

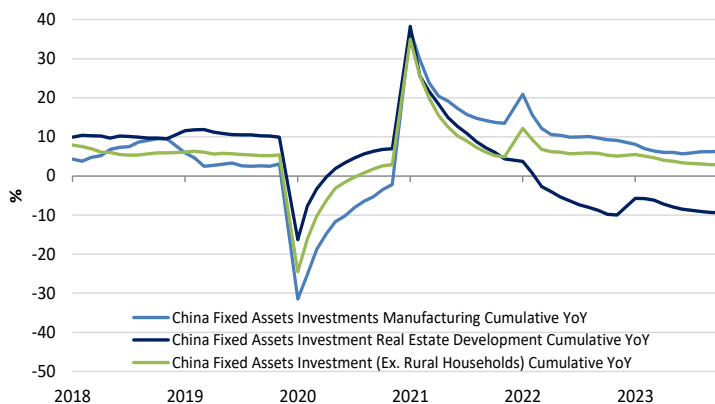
This result is unlikely to satisfy the Chinese authorities, who were undoubtedly hoping for a greater impact from the support measures taken at the start of the year. However, the PBoC has continued its efforts to stimulate activity by injecting record amounts of liquidity into the economy. Policy-makers will still have to consider further measures to support the economy, notably through increased public spending. Further reductions in capital requirements and rate cuts are expected in the coming months. The fall in the yuan is also a component of the external demand stimulus plan, which should logically be fleshed out. Nevertheless, we expect the PBoC to take action in the coming weeks by cutting rates and reducing banks' reserve ratios, with the aim of increasing the level of liquidity available to the economy and strengthening credit. M2 money supply is growing steadily at around +10%, while credit growth totalled 1.09 trillion yuan in November, compared with only 738 trillion yuan in October. This is encouraging, although below expectations for a 1.3 trillion yuan increase. On the contrary, corporate credit showed a year-on-year decline of 291 billion yuan, with a similar trend observed for household mortgages, which fell by 165 billion yuan. This suggests that support measures are still insufficient to stimulate domestic demand.

Developments in the latest PMI leading indicators confirm the risk that economic activity will be difficult to stimulate for the time being. The Caixin Manufacturing PMI (50.8) is just above 50, suggesting a still less positive outlook in industry than in services, whose PMI is now 52.9. Against this still uncertain backdrop, Chinese industrial companies saw their profits jump by +29.5%, due in particular to a positive base effect.

The Chinese authorities are expected to step up their support for consumption and investment with new measures and a continuation of their policy of cutting interest rates and bank reserve ratios.



Real Estate Investment, Infrastructure and Industry (YoY)



Exports-Imports (YoY)



Stabilization of the yuan in H1 2024

The yuan lost almost -10% against the US dollar in the first nine months of the year, rising from 6.7 to 7.35 yuan/dollar at the end of September. Since then, the Chinese currency has stabilized somewhat, ending 2023 at 7.1, with a reduced devaluation of just -2% against the US dollar. The last quarter was more favorable to the yuan, which actually appreciated. The weakening of the yuan in 2023 is part of the government's measures to counter growing deflationary risks and boost international demand for Chinese products. The yuan's decline is therefore widespread and can be seen against the euro (-6%), sterling (-8.2%), yen (-4.2%) and Swiss franc (-13%). 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.

Chinese monetary policy has remained extremely accommodative during this period of monetary tightening in the USA, Europe, the UK and Switzerland. Yield differentials have gradually widened against the yuan, reinforcing the relative attractiveness of other currencies.

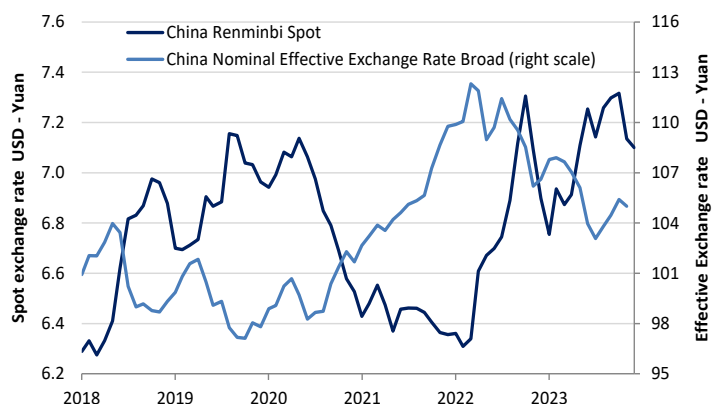
Stabilization now seems likely as the monetary tightening cycle comes to an end in the USA and Europe in particular. The easing of monetary conditions envisaged in these regions as early as March will have an initial positive effect on the exchange rates of the currencies concerned against the yuan. The steady depreciation of the Chinese currency is coming to an end, and we now expect it to stabilize for a few months.

Deflation takes hold and supports lower interest rates

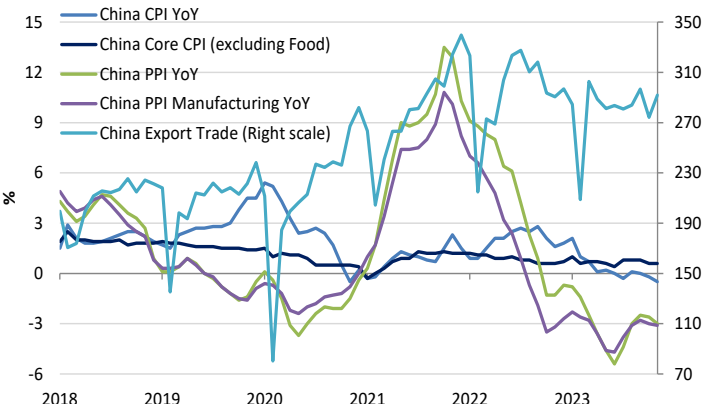
The fall in the yuan, which should have boosted imports and production costs, does not appear to have had a sufficient impact to prevent deflation in producer and consumer prices. The Chinese economy has thus effectively been in deflation for the past two months, and is set to record a new monthly sequence of negative inflation in December. Consumer and producer price indices had already shown a year-on-year price decline of -0.5% and -3% respectively in November. We expect them to fall again in December for the third month running. Remember that at the height of the Covid crisis, producer prices had climbed by +13.45%, so the change in trend is particularly significant.

Given the international economic slowdown expected for early 2024 and the relative weakness of domestic economic momentum, it seems unlikely that this trend can be countered in the near future. China has therefore certainly entered a period of moderate deflation, which could well extend into the 1st half of 2024. Against this backdrop, Chinese government ten-year bond yields declined significantly again in December, reaching their lowest level since May 2020. Ten-year yields fell from 3.3% in 2021 to 2.5% at the end of 2023. However, even if the prospect of further declines in yields seems likely and could present opportunities for capital gains, the weakness of the yen and the relative level of yields in international comparisons do not call for Chinese bonds to be considered as an attractive opportunity to diversify international bond investments.

Effective Exchange Rate and USD/Yuan



Inflation CPI - Core CPI



MACROECONOMIC SCENARIO

UNITED ARAB EMIRATES



- Real GDP growth forecast revised down to 3.1% in 2023 and expected to rebound to 5.7% in 2024
- The UAE PMI surged to 57.4, marking its second-highest level since mid-2019
- The inflation projections in the UAE for the year 2023 has been revised downwards to 2.4%
- Dubai's Real Estate shows its resilience and adaptability amidst changing economic and market conditions in Q4 2023
- Abu Dhabi Faces Decline, while Dubai emerged as the best performing market in the GCC in 2023 with a gain of 21.7%

Real GDP growth forecast revised down to 3.1% in 2023 and expected to rebound to 5.7% in 2024

In the second quarter of 2023, the UAE economy demonstrated a Y-o-Y growth of 3.8%, marking a notable shift from the robust 8% Y-o-Y growth observed in the same period in 2022, aligning closely with the performance in Q1 2023. While the overall growth rate exhibited a slight increase from the preceding quarter, the composition of the growth underwent a significant transformation. Notably, the non-oil sector, contributing nearly 75% to the GDP, experienced heightened activity, while there was a discernible decline in oil production.

The Central Bank of the UAE (CBAUE) adjusted its growth projections for 2023 downward, revising them from 3.3% to 3.1%. This revision predominantly reflects the extension of oil production cuts throughout the year. However, with the OPEC+ consortium unveiling substantial plans for increased oil production in 2024, the growth projection for 2024 has been revised upward from 4.3% to an optimistic 5.7%. Beyond the adjustments related to oil production, the projections also factor in an anticipated slowdown in the non-oil sector for both 2023 and 2024, influenced by a global softening of demand.

It is essential to note that the forecasts for 2023 and 2024 carry a degree of uncertainty, particularly contingent on various factors. These include the evolving situations in conflicts such as Ukraine and Gaza, the potential for a swifter-than-expected deceleration in global growth, further decisions by OPEC+ regarding oil production cuts, and the subdued oil production levels of other OPEC+ member nations. As the global economic landscape remains dynamic, these considerations underscore the complexity and potential variability in the economic outlook for the UAE in the coming years.

The UAE PMI surged to 57.4, marking its second-highest level since mid-2019

The S&P Global PMI survey for the UAE demonstrated a robust economic performance, reaching 57.4 in December, a notable uptick from the previous month's 57.0 and its second-best reading in four-and-a-half years. This contributed to a yearly average of 56.1, significantly surpassing the neutral 50.0 level that distinguishes contraction from expansion in the non-oil private sector economy. The UAE's economic resilience stood in stark contrast to the global

trend, where many major economies grappled with weak or contractionary PMI readings throughout 2023.

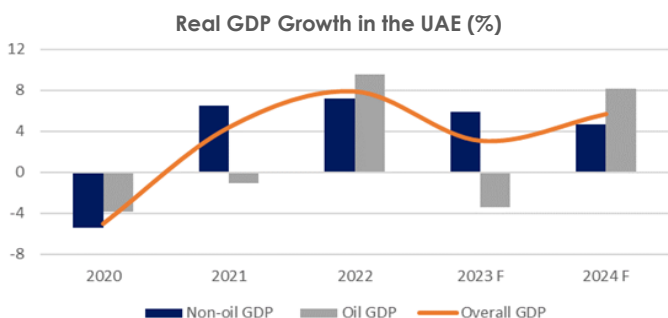
The year concluded on a positive note, as the fourth quarter exhibited a higher average compared to the third quarter, supporting the CBAUE anticipation of a robust non-oil GDP growth rate of 5.9% in 2023. Examining the December survey, output growth held steady at a five-month high, with over a quarter of respondents reporting increased activity, while only 1% noted a decline. The outlook for the coming months appears promising, with new orders growth accelerating in December, fueled by domestic demand and supported by promotional offers that facilitated increased sales.

In terms of pricing dynamics, the UAE experienced a softening of price pressures in the final month of the year, as purchase prices rose at the slowest pace since July. Respondents largely reported no change in their prices paid, aided by a moderation in raw materials prices. Despite facing higher input costs, businesses continued to adopt competitive pricing strategies, resulting in output prices falling at the fastest pace since July.

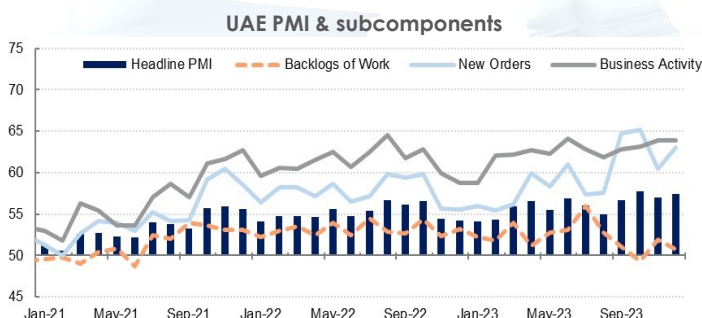
Looking ahead, UAE businesses remain confident, with business optimism reaching the third-highest level since early 2020, coinciding with the onset of the Covid-19 pandemic. Over a fifth of businesses anticipate increased business in the coming year, prompting firms to accelerate hiring efforts, particularly for expansion initiatives.

The inflation projections in the UAE for the year 2023 has been revised downwards to 2.4%

In its latest update, the Central Bank of the UAE (CBAUE) has revised its 2023 inflation projections downward from 2.8% to 2.4%, reflecting a stronger-than-expected pass-through effect from declining food prices and an appreciating AED. However, this optimistic adjustment is partially offset by the ascent in housing prices. The CBAUE observes a moderation in wage growth during the first ten months of 2023, contributing to the nuanced adjustments in inflation forecasts. Looking ahead to 2024, inflation is projected to further slow to 2.1%, down from the initial estimate of 2.6%, aligning with global disinflationary trends.



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



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

Dubai's Real Estate shows its resilience and adaptability amidst changing economic and market conditions in Q4 2023

In the ever-evolving real estate landscape of Dubai, the month of November 2023 emerged as a pivotal juncture, witnessing substantial shifts and noteworthy trends in the city's residential market. The total tally of residential transactions during this period amounted to 9,034, reflecting a 13.2% decline compared to the preceding year. This decline, however, was not uniform across all sectors, with the dynamics of off-plan and secondary market sales playing a decisive role in shaping the trajectory of the market.

Breaking down the numbers, November 2023 showcased a 26.4% decrease in off-plan sales, juxtaposed against a 5.1% increase in secondary market sales. When considering the cumulative data from the beginning of the year until November 2023, the total transaction volume soared to an unprecedented 112,356, signifying a resilient market responding to evolving conditions.

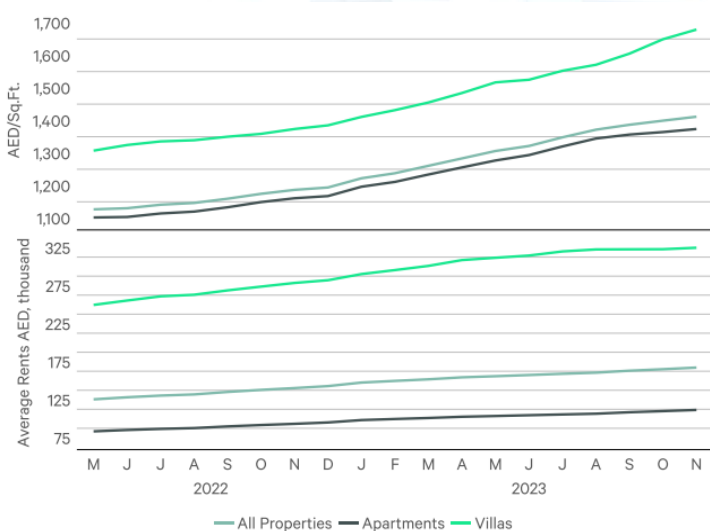
Dubai's residential market also displayed signs of a subtle moderation in price growth during the year leading up to November 2023. Average prices increased by 18.9%, a marginal decrease from the 19.1% recorded just a month earlier. This moderation was observed across different property types, with average apartment prices rising by 18.3% and average villa prices experiencing a growth of 22.2%. As of November 2023, the average apartment price stood at AED 1,374 per square foot, while the average villa price reached AED 1,679 per square foot. Despite these increases, apartment prices remained 7.7% below the record highs of 2014, while average villa sales rates surged to a remarkable 16.2% above the 2014 levels.

Delving into specific segments, Jumeirah emerged as the leader in the apartment category, boasting the highest sales rate per square foot at AED 2,497, while Palm Jumeirah claimed the top spot in the villa segment with a sales rate of AED 5,217 per square foot.

Turning attention to the rental market, a moderation in the rate of growth was evident. In the year leading up to November 2023, average residential rents in Dubai grew by 19.2%, a slight decrease from the 19.7% recorded a month earlier. Over the same period, average apartment and villa rents increased by 19.6% and 16.6%, respectively. The average annual apartment and villa rents reached AED 111,622 and AED 324,835, respectively.

Palm Jumeirah took the lead in the rental market as well, boasting the highest average annual apartment rent at AED 258,335, while Al Barari secured the top spot for villa rents, reaching an impressive average of AED 1,150,552. In essence, the multifaceted dynamics of Dubai's real estate market during November 2023 underscore its resilience and adaptability amidst changing economic and market conditions.

Residential Prices & Average Rents in Dubai



Source: Dubai Land Department, BearBull Global Investments Group

Abu Dhabi Faces Decline, while Dubai emerged as the best performing market in the GCC in 2023 with a gain of 21.7%

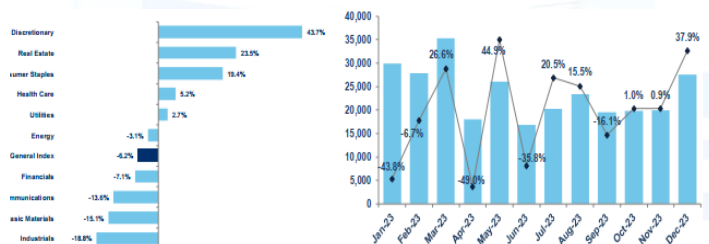
Abu Dhabi experienced a notable downturn in 2023, ranking as the third-worst performing major market in the GCC. The General Index witnessed a 6.2% decline, concluding the year at 9,577.85 points. Interestingly, Abu Dhabi had previously excelled as the best-performing stock market in the GCC in 2022 and 2021, with gains of 20.3% and 68.2%, respectively. Despite the General Index's decline, the total market capitalization of listed companies on the exchange increased by 12.3%, reaching AED 2.9 trillion (USD 790 Bn). This growth was primarily attributed to the successful listing of new companies like PureHealth, which raised nearly USD 1 Bn in December 2023.

Examining sectoral performance, the exchange displayed a balanced landscape, with five of the ten sector indices recording gains and the remaining five experiencing declines. The Consumer Discretionary Index led with a substantial 43.7% gain in 2023, followed by the Real Estate Index (23.5%) and Consumer Staples Index (19.4%). Conversely, the Industrial Index witnessed the most significant decline at 18.8%, followed by the Basic Material Index, which fell by 15.5%. Trading activity on the exchange saw a year-on-year decrease in 2023, with traded volumes dropping by 32.7% to 49.6 Bn shares. Similarly, the value traded plummeted by 30.0% year-on-year, amounting to AED 287.3 Bn in 2023.

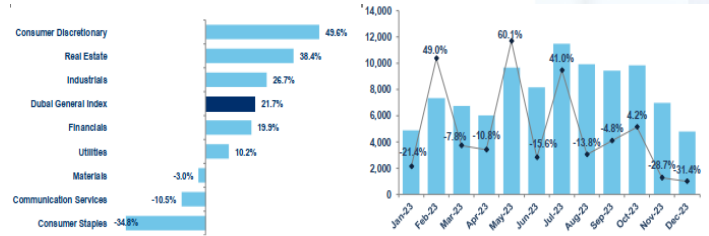
In contrast, Dubai emerged as the standout market in the GCC for 2023, boasting a remarkable 21.7% gain to close at 4,059.8 points. This marked the third consecutive year of positive performance. Examining sectoral dynamics, five out of eight sectors on the exchange experienced growth, while the remaining three faced declines. The Consumer Discretionary Index led the growth with a substantial 49.6% increase, followed by the Real Estate and Industrial Sector Indices with 38.4% and 26.7% growth, respectively. Conversely, the Consumer Staples Index registered the most significant decline at 34.8%, followed by the Communications Index (-10.5%) and Materials Index (-3.0%).

In terms of yearly gainers, Gulf Navigation Holding secured the top position with a remarkable 431.9% increase in its stock price in 2023. Al Firdous Holding and Al Salam Bank Bahrain followed suit with gains of 224.8% and 106.8%, respectively. On the flip side, shares of Shuaa Capital and Dubai Islamic Insurance experienced the most substantial declines, both dropping by 50.7%, followed by Aramex with a 34.9% decline in 2023. Examining trading activity for 2023, the Dubai Financial Market (DFM) exhibited robust growth, with traded volumes increasing by 26.2% year-on-year to reach 47.8 Bn shares. Additionally, the total value of shares traded improved by 7.6% year-on-year, amounting to AED 95.4 Bn, indicating heightened activity in large-cap stocks throughout the year.

ADX Monthly Sector Performance & Value Traded (AED Mn)



DFM Monthly Sector Performance & Value Traded (AED Mn)



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

MACROECONOMIC SCENARIO

Emerging Market

- Slower growth in emerging countries
- Clear improvement on the inflation front
- Rate hike cycle over

The international environment has improved in recent weeks. Growth is likely to be moderate, while inflationary pressures are easing in most countries. As a result, the likelihood of a soft landing in the US in particular has increased. This environment has already enabled some countries to signal a change in their monetary policy, while others are still maintaining the restrictive monetary policy necessary to contain inflation.

The publication of third-quarter GDP (+0.1%) highlighted the slowdown in Brazil's economic growth, in line with the scenario of slower activity in the second half of the year anticipated by the Monetary Policy Committee. The resilience of household consumption, which once again came as a positive surprise, is linked to the increase in gross household income, due to the expansion of the labor market, social benefits and disinflation-related gains in important segments of the consumer basket.

Brazil — The publication of third-quarter GDP (+0.1%) highlighted the slowdown in Brazil's economic growth, in line with the scenario of slower activity in the second half of the year anticipated by the Monetary Policy Committee. The resilience of household consumption, which once again came as a positive surprise, is linked to the increase in gross household income, due to the expansion of the labor market, social benefits and disinflation-related gains in important segments of the consumer basket.

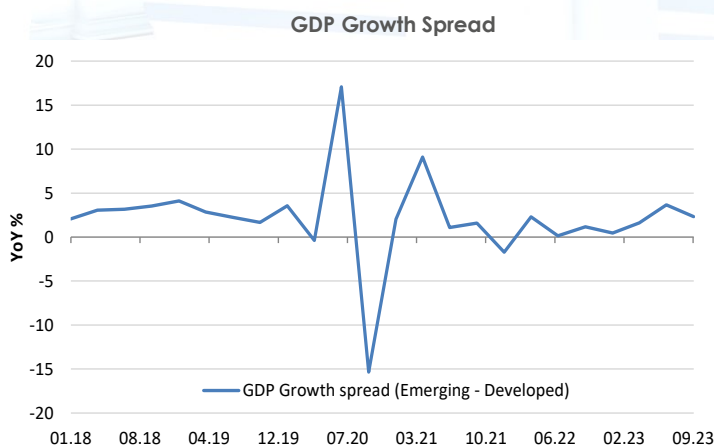
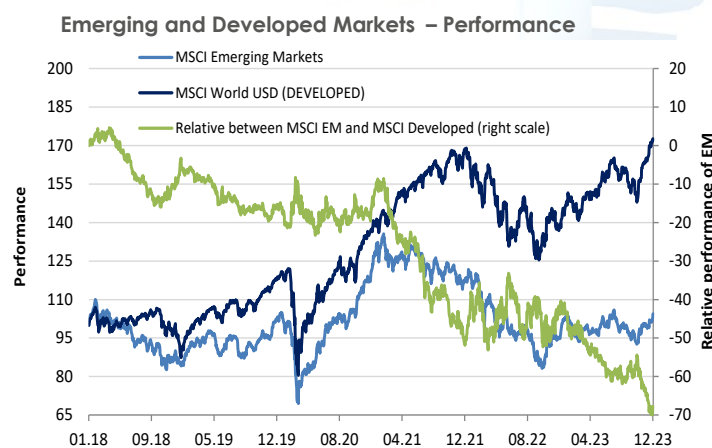
Although inflation (4.68%) has eased and is well below its 2022 highs (12.13%), inflation expectations remain a source of concern. The Committee believes that the reduction in inflation expectations requires firm action on the part of the monetary authorities. Upside risks to the inflation scenario include more persistent global inflationary pressures, and stronger-than-expected resilience in services inflation due to a narrower output gap. Downside risks include a greater-than-expected slowdown in global economic activity and a greater-than-expected impact of synchronized monetary policy tightening on global inflation. The recent decline is mainly due to the components most sensitive to the economic cycle and monetary policy. Inflation forecasts for 2023, 2024 and 2025 are around 4.5%, 3.9%

and 3.5% respectively. The decline in core and services inflation continues, reinforcing recent inflation momentum, while recent data suggest a moderation in economic activity. All members of the Monetary Policy Committee decided that it was appropriate to adjust the degree of monetary tightening by reducing the Selic rate by 0.5% to 11.25%.

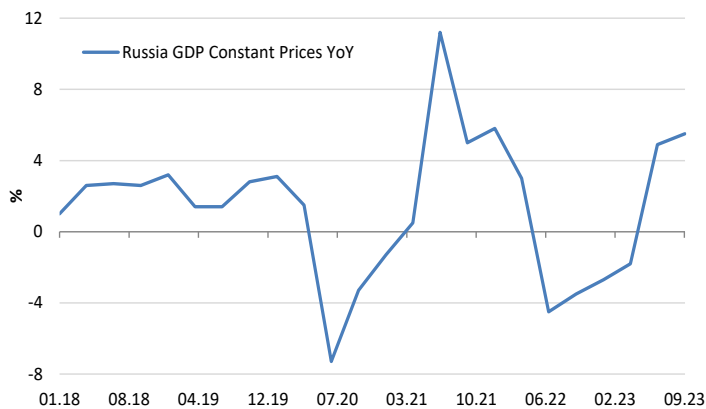
Russia — GDP growth in the third quarter of 2023 and recent monthly data for the fourth quarter of 2023 show that economic activity is accelerating much faster than the Bank of Russia had forecast in October, and is now expected to exceed 3% for 2023. The upward deviation of the Russian economy from the balanced growth trajectory is mainly due to domestic demand supported by the expansion of private demand and the still high level of public demand. Growth in consumer activity is being driven by rising real wages and loans. Significantly higher corporate profits and a positive business climate, thanks in particular to fiscal stimulus measures, are underpinning strong investment demand. At the moment, the main supply-side constraint in the Russian economy relates to labor market conditions. The economy still seems to be suffering from significant labor shortages, particularly in manufacturing, and historically low unemployment, while the low geographical and inter-sectoral mobility of the workforce is a further structural constraint.

Current inflationary pressures remain high following the new upward momentum observed since May 2023, which now puts inflation at over seven percent (7.1%). It should settle close to the upper limit of the forecast range at 7.5% for the year as a whole. Persistent inflationary pressures have increased in recent months, as domestic demand outstrips the capacity for expansion in the production of goods and services to a greater extent than previously estimated. According to Bank of Russia forecasts, given the monetary policy stance, annual inflation is set to fall to 4-4.5% in 2024 and remain close to 4% thereafter.

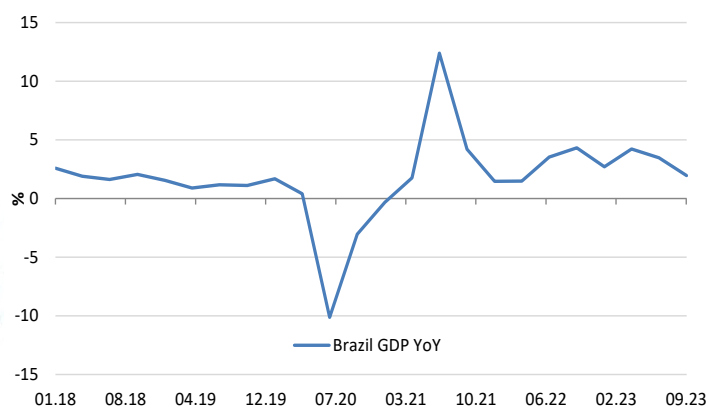
In December, the Bank of Russia decided to raise the key interest rate by 100 basis points to 16%. The return of inflation to its target in 2024 and its subsequent stabilization at 4% require the maintenance of strict monetary conditions.



GDP Russia (YoY)



GDP Brazil (YoY)



India — Indian economic activity is proving resilient. Indeed, real GDP grew by 7.6% year-on-year in the third quarter of 2023, thanks in particular to strong investment and public consumption, which mitigated the negative impact of external demand. The continued strengthening of manufacturing activity, the dynamism of construction and the gradual recovery of the rural sector should improve the outlook for household consumption. Healthy bank and corporate balance sheets, supply chain normalization, improved business optimism and increased public and private investment should support investment going forward. As exports improve, the drag from external demand should ease. Taking all these factors into account, real GDP growth for 2023 is expected to be close to 7%, before easing slightly to 6% in the course of 2024.

Inflation has fallen by around 2% since July, reaching 5.55% in November, due to a sharp correction in some vegetable prices, fuel deflation and a general moderation in core inflation. Uncertainty over food prices and unfavorable base effects are nevertheless likely to lead to higher inflation over the coming months. The arrival of the kharif harvest and the progress of rabi sowing should be monitored, as should weather conditions linked to the El Niño phenomenon. Adequate grain stocks and strong moderation in international food prices, together with proactive government supply-side interventions, could help contain these food price pressures. Inflation is projected at 5.4% for 2023. Assuming a normal monsoon next year, inflation should fall below 5%.

Given that the effects of the cumulative increase in the policy rate are having an impact on the economy, the Monetary Policy Committee has decided to keep the policy rate unchanged at 6.5%. Monetary policy must continue to be actively disinflationary to ensure that inflation expectations remain anchored.

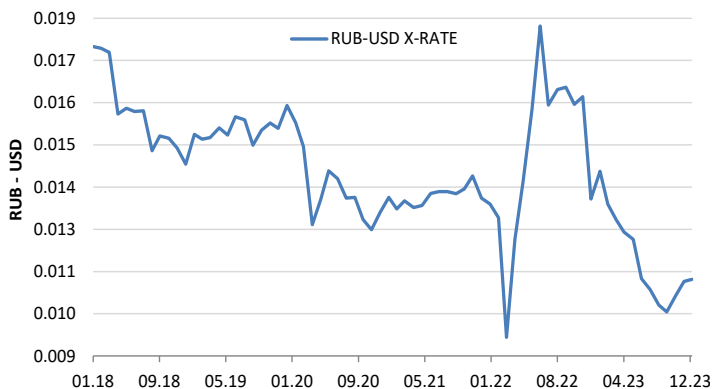
South Africa — Although power cuts have eased in South Africa, domestic growth is likely to remain moderate in the short term. Energy and logistical constraints are still weighing on economic activity and increasing overall costs.

Electricity supply was nevertheless set to increase gradually, which should help to revise upwards the growth forecasts for the coming quarters. Spending by businesses, households and public authorities remains positive in real terms, on an annual basis. Household disposable income is set to rise, albeit slowly. Investment forecasts have been revised upwards, while household and business credit growth is slowing. Overall, GDP growth for 2023 is revised slightly upwards, to 0.8% from 0.7% in September. Growth should then return to above 1% in 2024 and 2025, largely due to an expected reduction in power cuts.

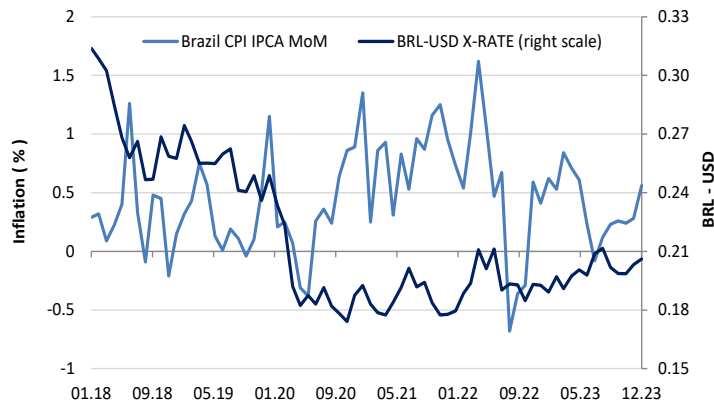
Risks to the inflation outlook remain on the upside. Despite the recent easing of some food price components, domestic food price inflation remains volatile and rose in October to 8.7%, with the El Niño phenomenon raising longer-term concerns. Inflation in imported goods has risen over the year and, despite more favorable recent results, remains sensitive to currency weakness. Electricity prices continue to present clear inflation risks and, together with logistical constraints, are likely to have wider effects on the cost of doing business and the cost of living. Inflation is thus expected to rise to 5.8% in 2023, then 5% in 2024, before stabilizing at 4.5% thereafter.

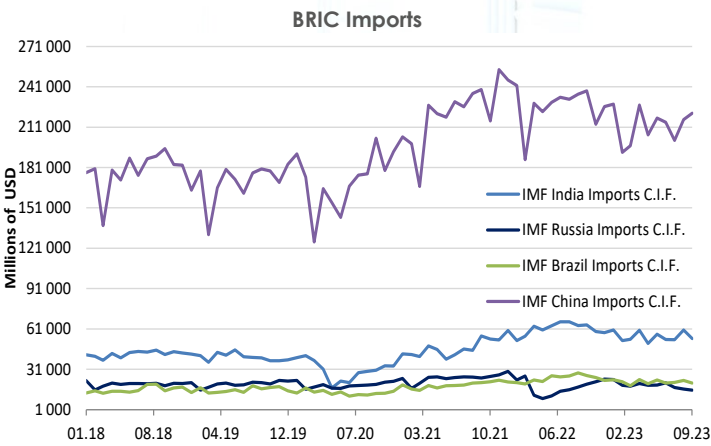
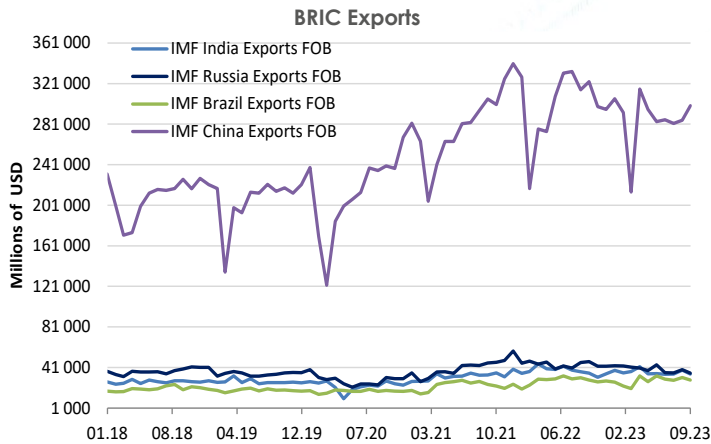
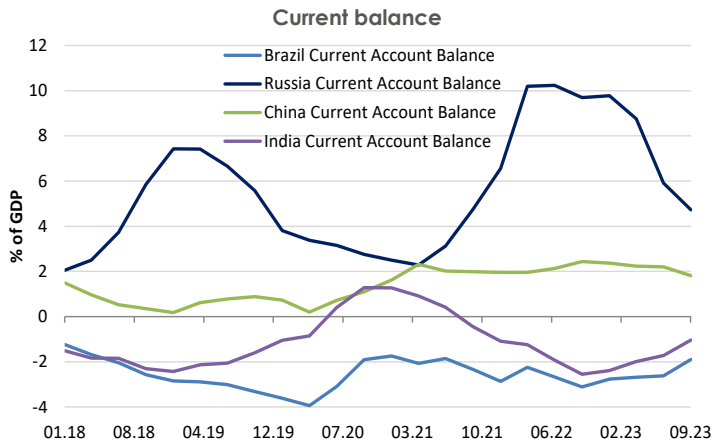
Against this backdrop, the Monetary Policy Committee has decided to maintain the key rate at its current level of 8.25%. At the current level, policy is considered restrictive and consistent with the outlook and high expectations for inflation.

Rouble VS USD



Inflation and Exchange Rates





Mexico — The Bank of Mexico has decided to maintain its key rate at the record level of 11.25%. This decision marks the sixth consecutive session of pause, after 15 interest rate hikes since June 2021. Annual inflation rose for the first time since January 2023 to 4.32%, driven by an increase in non-essential components. The central bank reaffirmed its commitment to a low-inflation environment and to maintaining a monetary policy aligned with the achievement of the 3% inflation target for 2025. Quarterly growth has continued to fluctuate around +1% over the past eight months.

Indonesia — Bank Indonesia has kept its interest rate unchanged at 6% for the second time in a row, stating that the decision is consistent with further stabilization of the rupiah and serves as a preventive measure to keep inflation under control. Inflation, currently at 2.61%, is expected to remain within the range of 2.5% ±1% in 2024. The economy (+4.94%) should continue to grow at a similar pace, at around +5% p.a. in 2024.

Turkey — The Central Bank of Turkey raised its benchmark one-week repo rate by 250 basis points to 42.5% in December, due to inflation still above 60% but stabilizing. The Bank now considers that the level of

monetary tightening required for disinflation has almost been reached. On the other hand, growth slowed over the quarter (+0.3%), but remains close to the six-percent annual rate (+5.9%).

Taiwan — The Central Bank of the Republic of Taiwan maintained its key rate at 1.875% to support steady growth in the economy and finance as a whole. Given the current situation of the global and local economies, domestic inflation (2.9%) is expected to fall to 2% during 2024. The domestic output gap should remain negative next year, but the economy should continue to expand at an annual rate of around +3%.

Thailand — The Bank of Thailand maintained its key rate at 2.5%. This marks the first pause in its tightening cycle after eight consecutive hikes pushed borrowing costs to their highest level since late 2013. The current key interest rate should be conducive to keeping inflation within the target range for the long term, while supporting growth. The latter should reach +2.4% in 2023 and +3.2% in 2024. Inflation should rise to 1.3% next year due to economic recovery and El Niño-related supply pressure, and stabilize at 2% in 2024.

Colombia — Colombia's central bank reduced its benchmark interest rate to 13% at its December meeting for the first time after four consecutive meetings of pause. Annual inflation in November slowed to 10.15%, the lowest level since June 2022, but remains high at more than three times the 3% target. It is expected to reach 5.7% for the full year 2024. Economic activity slowed (+0.2%), leading to a downward revision of growth forecasts for 2023 to 1%.

Roumania, Czech Republic, Poland, Hungary — The National Bank of Romania maintained its key rate at 7% for the seventh consecutive meeting in November, citing a downward trend in inflation since February 2023 (15.52%) to 6.72% in November. Policy-makers also underlined their commitment to bringing inflation down to the 2.5% ±1% target on a sustainable basis, while promoting sustainable economic growth. Nevertheless, economic activity has slowed markedly in recent quarters, and is now growing at a rate of +1.1%.

The Czech National Bank has cut its two-week repo rate by 25 basis points to 6.75% in December 2023. This is the first reduction in the key rate in over three years in response to continued disinflation, down from 17.5% in January to 7.3% in November, and the weakening economy, which has been contracting for three quarters in annual terms.

The National Bank of Poland kept its benchmark rate unchanged at 5.75% in December, amid uncertainty over the fiscal and regulatory outlook following the election victory of a coalition of pro-EU parties. In November, inflation slowed to 6.5%, the lowest level since September 2021, but still well above the target range of 1.5 to 3.5%. Meanwhile, Polish economic growth edged up to 0.5% year-on-year in the third quarter, following a contraction of 0.6% in the second quarter.

Hungary's central bank cut its key rate by 75 basis points to 10.75% at its December meeting, as inflation continues to fall. However, the central bank continues to resist pressure from the government for deeper rate cuts to support the economy. In November, inflation (7.9%) posted its slowest rise since January 2022, but remained significantly above the central bank's 3% target. With inflation expected to fall back below 3% by 2025, the current pace of rate cuts is likely to continue, given the persistent risks of an economic slowdown in the country.



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PROSPECTS AND STRATEGIES



PROSPECTS AND STRATEGIES

Currencies

- Relatively volatile 2023 for some currencies
- Dollar suffers from adjustment of rate cut expectations
- Historical yield differentials unfavorable to the franc
- Crushing yields affect the euro
- Stabilization of the yuan in the 1st half of 2024

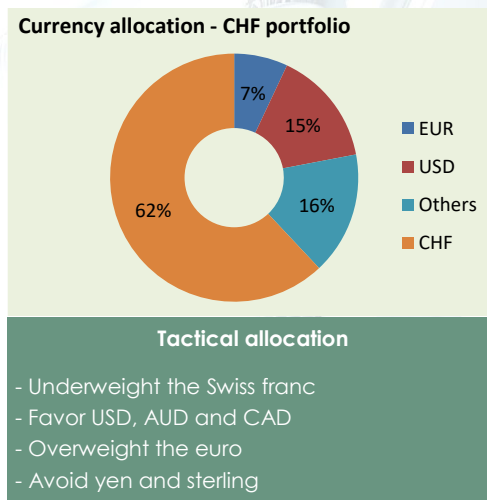
ASSETS	Expected Return		ALLOCATION (CHF Portfolio)								
	3months	1year	underweight			neutral overweight					
			---	--	-	=	+	++	+++		
Cash	→	→									
Bonds	↗	↗									
Real Estate	↗	↗↗									
Equities	↗	↗↗									
Hedge funds	↗	↗									
Commodities	↗	↗									
Private equity	→	↗									

Relatively volatile 2023 for some currencies

The year 2023 was a particularly difficult one for some currencies, especially the Japanese yen, which was largely abandoned by international investors. As the only region in the world where key interest rates were still negative in 2023, the yen was not favored by foreign investors, even though the Japanese also took advantage of investing their yen abroad in other currencies offering higher and growing returns, such as the dollar. More restrictive monetary policies in the USA and most other industrialized countries have widened the interest-rate differential against the yen to this day. Not surprisingly, the Japanese currency has been battered in this context by unfavorable monetary strategies. The yen's -7.9% fall against the dollar over the year masks a -16.2% decline recorded in November, before the correction in dollar yields was able to provide some support for the yen during the last six weeks of the year. For investors in Swiss francs, the year was no easy ride either, due to the SNB's monetary policy, which focused in particular on strengthening the franc in order to better control imported inflation. In 2023, our institution was certainly more concerned with fighting inflation than with other objectives. It therefore pursued its policy of reducing the size of its balance sheet by systematically selling the foreign currencies it had purchased in recent years and buying back Swiss francs to the tune of 10 to 15 billion per month. In doing so, it was able to reduce its foreign exchange reserves significantly, but also set the tone for the franc's indirect appreciation against all other currencies by around +7%. After reducing its foreign exchange reserves by 18% in 2022, it continued its strategy in 2023, buying back almost 150 billion francs, corresponding to a -33% reduction in foreign exchange reserves.

Dollar suffers from adjustment of rate cut expectations

The change in outlook that took place during the last quarter, taking into account the end of the US monetary tightening cycle, was clearly not a positive factor for the dollar. The trade weighted dollar index logically felt the impact of this new rate outlook, falling -6% during the quarter after rising +5% in Q3. At the start of Q4, we announced that this rebound would be short-lived, given the likely gradual normalization of monetary policy and the downward adjustment of



dollar yield curves. The expected decline in dollar yields which thus materialized triggered the predicted weakness of the greenback. Interest in U.S. assets and the adjustments that are bound to occur in other countries with significant declines in inflation will help to limit the dollar's decline, anticipating a likely recovery in 2024.

Historical yield differentials unfavorable to the franc

In view of the sharply deteriorating economic situation and the quite spectacular improvement in inflation, we believe that the SNB could now reduce its purchases of Swiss francs and let interest rate differentials act as the main vector for currency flows. Against this backdrop, the yield differential between 10-year Swiss government yields (0.75%) and German Bund yields (2.19%) has stabilized somewhat in recent weeks, but remains at a historically high 143 bps, its highest level since 2003. This observation is similar at the various points of the relative yield curve. Nominal spreads with US Treasuries have also stabilized at 340 bps, after hitting an all-time high of 380 bps at the end of October. Such spreads are likely to weigh on the Swiss franc without the SNB's action.

Crushing yields affect the euro

The ECB still looked set to be one of the most restrictive of the major central banks in Q4, but recent inflation trends have reshuffled the deck. It has finally joined the group of central bankers adopting a wait-and-see attitude. Investor expectations of bond yields have also changed dramatically, so that now, if short rates are unfavorable to the euro against the dollar, for example, this is even more the case for ten-year rates, whose differential has widened in recent weeks from 200 bps to 225 bps in favor of the dollar. The yield differential with Swiss ten-year rates, meanwhile, has contracted from 180 bps to 130 bps, but remains in favor of the euro. For a few months, this environment should support a slight appreciation of the euro against the franc. Conversely, the European currency should weaken slightly against the dollar.

Not yet the right time for sterling

If anything, recent developments in monetary policy and interest rates have highlighted a fairly clear correlation in the strategies of the US and UK central banks in particular. The restrictive monetary policies pursued by both institutions pushed short rates to similar levels, before pausing for a moment over the summer. Inflation trends were more rapidly favorable in the US, but yield differentials with other regions are in the pound's favor. The yield differential could yet sustain investor interest in the British currency, but we believe that an appreciation is not yet on the agenda. We prefer a more moderate outlook for the British currency in the short term, which will soon be negatively affected by the publication of statistics highlighting the slowdown in the UK economy.

Interest rate differentials still unfavorable to the yen

The BoJ's monetary policy is likely to remain relatively stable over the coming months, against the backdrop of a near-recessionary economic slowdown and accelerating inflation. The estimated key rates for December (0%), March and June 2024 (0%) demonstrate the absence of any anticipated change in policy over the coming quarters. In the short term, the yen seems to be increasingly affected by the interest-rate differential, which remains unfavorable to the Japanese currency against all the major currencies, but particularly against the dollar. A few months ago, we already mentioned that any appreciation of the yen would certainly be temporary in a medium-term trend of lasting depreciation. Yield spreads on various maturities seem to us sufficiently high to sustain the interest of Japanese investors 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 favors yen weakness against the US dollar down to 150 yen to the dollar.

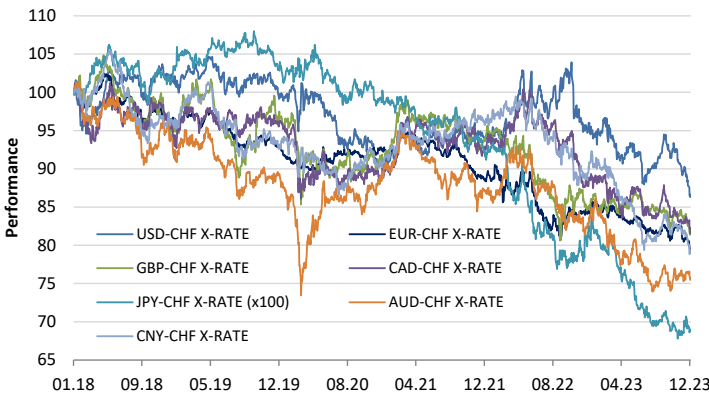
Stabilization of the yuan in the 1st half of 2024

The yuan lost almost -10% against the US dollar in the first nine months of the year, rising from 6.7 to 7.35 yuan/dollar at the end of September. Since then, the Chinese currency has stabilized somewhat, ending 2023 at 7.1, with a reduced devaluation of just -2% against the US dollar. The last quarter was more favorable to the yuan, which actually appreciated. The weakening of the yuan in 2023 is part of the government's measures to counter growing deflationary risks and boost international demand for Chinese products. The yuan's decline is therefore widespread and can be seen against the euro (-6%), sterling (-8.2%), the yen (-4.2%) and the Swiss franc (-13%). 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.

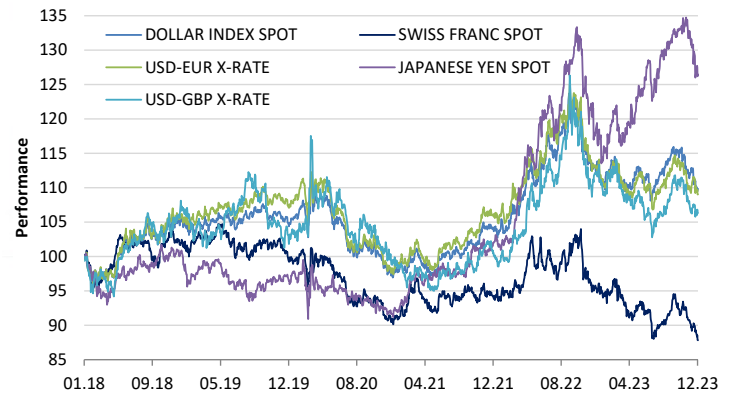
Chinese monetary policy has remained extremely accommodative during this period of monetary tightening in the USA, Europe, the UK and Switzerland. Yield differentials have gradually widened against the yuan, reinforcing the relative attractiveness of other currencies.

Stabilization now seems likely as the monetary tightening cycle comes to an end in the USA and Europe in particular. The easing of monetary conditions envisaged in these regions as early as March will have an initial positive effect on the exchange rates of the currencies concerned against the yuan. The steady depreciation of the Chinese currency is coming to an end, and we now expect it to stabilize for a few months.

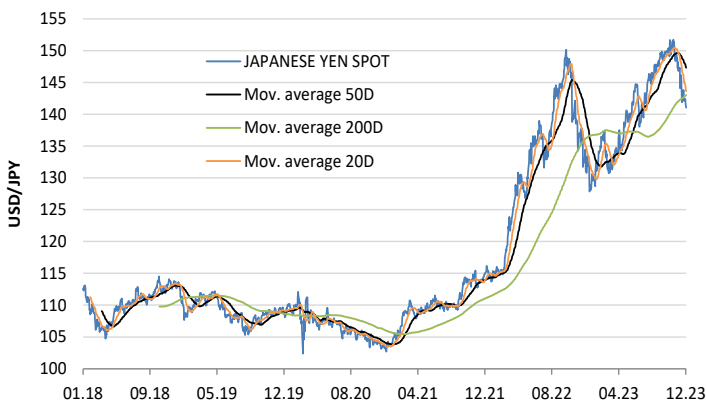
Evolution of the 7 Main Currencies against CHF (base 100)



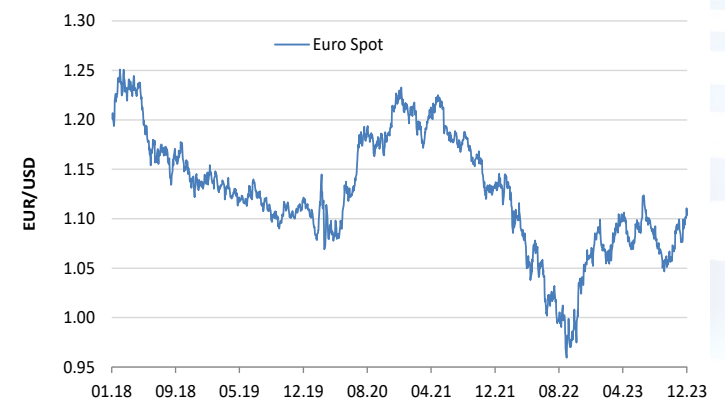
Dollar Trade-Weighted Index & Cross Rates (base 100)



Exchange Rate JPY/USD



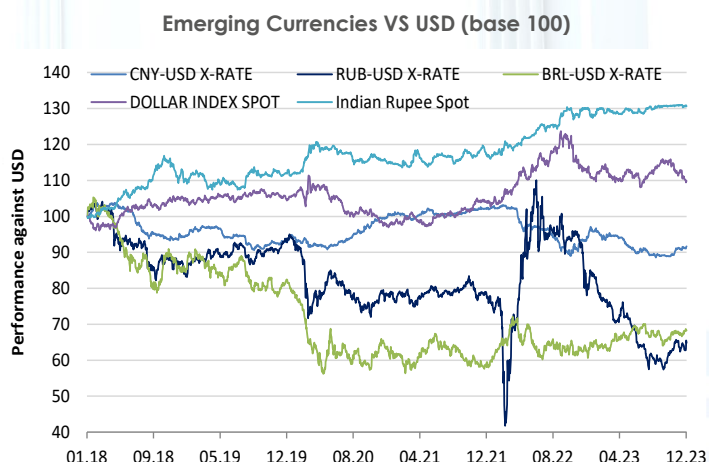
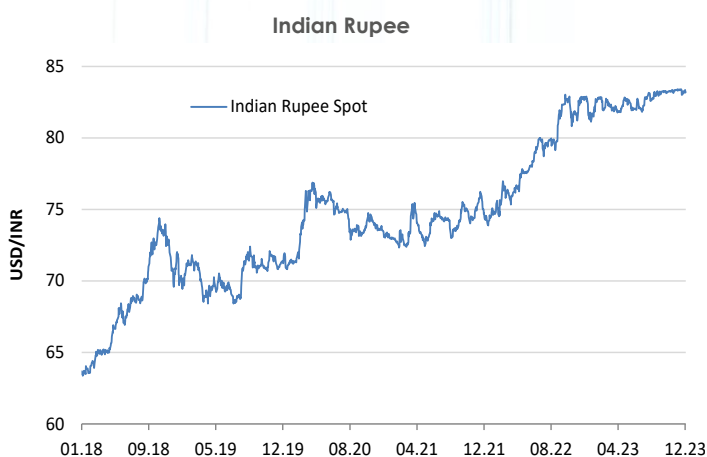
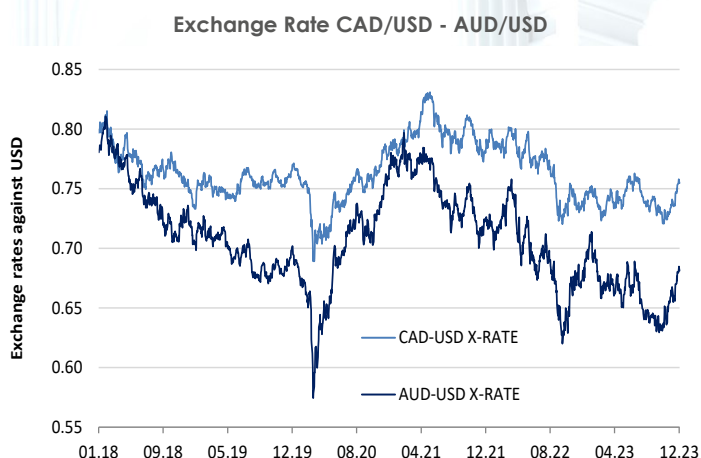
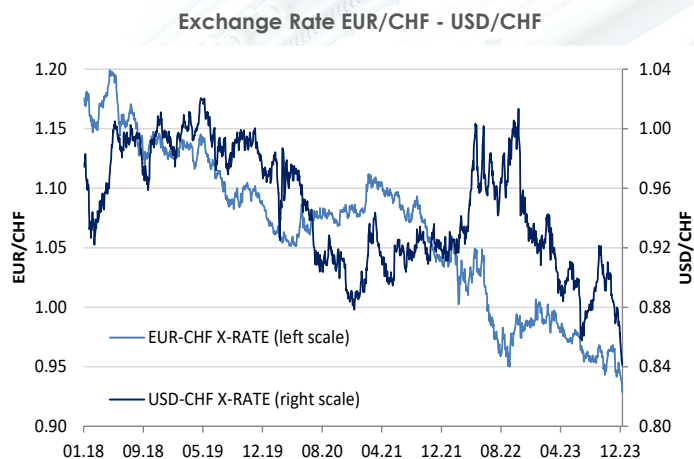
Exchange Rate EUR/USD



CURRENCIES

31.12.2023

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.10	0.23	1.39	4.41	1.19	3.12
CHF-USD X-RATE	1.19	1.70	4.02	8.79	6.45	9.87
GBP-USD X-RATE	1.27	0.24	0.85	4.36	0.22	5.36
JPY-USD X-RATE	0.01	0.97	5.07	5.90	2.31	-7.04
CAD-USD X-RATE	0.76	0.20	2.40	2.53	-0.01	2.34
AUD-USD X-RATE	0.68	0.19	3.13	5.86	2.22	-0.01
RUB-USD X-RATE	0.01	3.23	0.54	9.07	-0.18	-16.94
CNY-USD X-RATE	0.14	0.50	0.49	2.79	2.16	-2.86
INR-USD X-RATE	0.01	-0.07	0.23	-0.20	-1.40	-0.57
BRL-USD X-RATE	0.21	0.19	1.38	3.72	-1.34	8.93
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.84	-1.66	-3.86	-8.07	-6.05	-8.99
EUR-CHF X-RATE	0.93	-1.43	-2.52	-4.01	-4.92	-6.13
GBP-CHF X-RATE	1.07	-1.40	-3.01	-4.04	-5.74	-4.21
JPY-CHF X-RATE (x100)	0.60	-0.72	1.74	-2.68	-3.82	-15.44
CAD-CHF X-RATE	0.63	-1.55	-1.84	-6.08	-6.37	-7.21
AUD-CHF X-RATE	0.57	-1.31	-0.69	-2.51	-3.80	-8.99
RUB-CHF X-RATE	0.01	1.40	-3.39	0.21	-6.28	-24.62
CNY-CHF X-RATE	0.12	-1.25	-3.26	-5.35	-3.97	-11.49
INR-CHF X-RATE	0.01	-1.81	-4.01	-8.67	-7.85	-9.77
BRL-CHF X-RATE	0.17	-1.14	-2.25	-4.40	-6.95	-0.57



PROSPECTS AND STRATEGIES

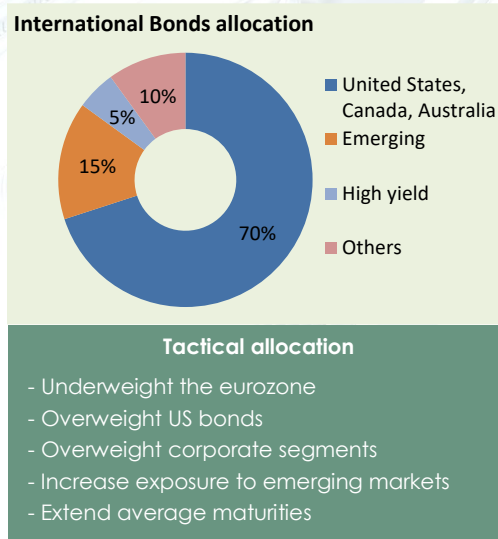
International bonds

- Faster decline in inflation galvanizes fixed-income markets
- Major realignment of US yield curves
- New paradigm for European bond markets
- Focus on dollar-linked markets and long maturities

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

Faster decline in inflation galvanizes fixed-income markets

The economic slowdown now observed in many industrialized countries is in fact the logical and expected result of the policies pursued by these countries' central banks. The fight against inflation initiated in 2022 with restrictive policies was aimed precisely at curbing economic momentum in order to reduce excessive inflationary pressures. As inflation declined, growth gradually slowed and labor markets began to adjust to the new situation. As a result, the fear of inflation driven by wage rises diminished significantly. As a result, the soft landing scenario we favor for early 2024 will also support inflation normalization forecasts. The current inversion of yield curves in both the US and Europe is essentially due to the high level of key rates, and consequently of the short end of the yield curves. In an environment characterized by the normalization of monetary policies by 100 to 110 bps over the next nine months and a stabilization of rates on other maturities, the yield curve between short-term and ten-year Treasury maturities would remain inverted by -50 bps, as was the case in October. We believe that, with inflation continuing to decline towards +2% and considering an economic slowdown in the 1st half of the year, long rates should slide a further 50 bps to 3.5%. In this non-recessionary environment, an inversion of the yield curve could quickly be seen as unjustified, implying de facto an even greater downward adjustment of Fed key rates. A flattening of the US yield curve centered on a yield of 3.5% seems likely to us, which would have the effect of lowering overall yields by around 50 bps. The situation in the eurozone is a little different, as the recent decline in inflation is accompanied by an economic performance that is still close to recession in the zone's twenty states. The recent fall in 10-year yields from 3% to 2% was similar to that seen in the USA and the UK, and thus in line with the same paradigm shift on the inflation front. We consider, however, that the inversion of the euro curve is still relatively well suited to the persistent risks of recession at the start of 2024. The likelihood of further declines in European long yields is supported by these persistent recession risks, but at current levels, the prospects of further declines no longer seem very high to us. Falling inflation and the risk of recession are now enough to put pressure on long yields, but these two factors have already been taken into account quite clearly. The inversion of the euro yield curve is therefore likely to be longer-lasting, due to the slower cut in key rates by the ECB, which will slow the movement on the short end. In the UK,



there is a greater risk of recession, while inflation remains high despite its recent decline. However, long rates have reacted more sharply to the latter, losing 125 bps, which would imply a curve inversion of around 70 bps in the event of a cut in key rates from 5.25% to 4.2% in September.

The UK should also see a persistent inversion of the yield curve, while the likelihood of further declines in long rates has also diminished. Overall, we believe that the prospects for lower yields and capital gains are still better in the United States.

Major realignment of US yield curves

The readjustment of the yield curves that we had been predicting began in November and accelerated in December, with growing evidence that Fed policy was now close to a cycle reversal. A few months ago, our expectations for growth and inflation were already pointing to a forthcoming change in monetary policy, a forthcoming change in monetary policy. We felt that Treasury yields were clearly too high not only on the short end, but also on the long end of the yield curve, which would call for a major downward adjustment when signs of a Fed policy reversal became clearer.

BOND INDICES (local currency)

		Total Return Performance						
		Last price	Curr. 7 d%	1 m %	3 m %	6 m %	YTD %	
SWISS BONDS	SBI AAA-BBB	131.5	CHF 0.0	1.3	3.6	3.7	7.4	
UE BONDS	Barclays EuroAgg	237.5	EUR -0.4	3.3	6.6	4.8	7.2	
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	141.5	EUR 0.0	1.0	2.3	3.0	3.5	
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2162.0	USD 0.5	3.8	6.8	3.4	5.5	
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USD A1	8.1	USD 0.4	1.2	2.9	3.7	4.9	
EMERGING BONDS	JPMorgan Emerging Markets Bond	569.2	USD 0.3	5.0	9.7	6.7	10.8	
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	471.4	USD 0.5	4.2	8.1	4.2	5.7	
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro Aggregate	237.5	EUR -0.4	3.3	6.6	4.8	7.2	
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	131.6	CHF -1.1	0.9	0.1	-0.4	-0.3	
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	169.1	USD 0.3	3.8	8.8	8.0	13.9	
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	13.6	USD 0.2	2.8	5.5	6.0	11.0	

This is now clearly the case, and the more than 110 bp drop in 10-year Treasury yields is the main evidence of this. At the time, the outlook for dollar-denominated bond markets seemed very favorable to support a diversified exposure favoring investment grade corporate bonds offering both attractive yields and prospects of capital appreciation. As we enter 2024, the growing likelihood of inflation returning to +2% and key interest rates being cut as early as Q2 have probably not yet developed all their potential positive effects on dollar yield curves. We are therefore maintaining our positive view of future interest rates and the outlook for US bond markets.

New paradigm for European bond markets

The faster-than-expected fall in inflation in Europe has had a major impact on investors' expectations regarding key rates and market rates. As far as key rates are concerned, the consensus is already that the ECB will have to adjust rates to 3.75% at the end of March, implying a 75 bp cut in key rates in the first three months of 2024. This seems to us to be a particularly aggressive expectation, even considering that inflation will continue to fall at a steady pace. Barring a much more severe recession than that envisaged, the ECB is unlikely to embark on a radical change in monetary policy so soon in 2024. As far as medium- and long-term bond yields are concerned, the extremely rapid fall that has taken place has adjusted ten-year German Bund yields from 3% in October to less than 2% today. A fall of 100 bps, or 33%, in ten-year bond yields has put European yields back where they were in June 2022.

This adjustment, which has also taken place in many other market segments, may now seem excessive, even though it is supported by a downward trend in inflation and the risk of recession. Interestingly, in this new context, real yields adjusted in a matter of weeks thanks to a stronger decline in inflation. Ten-year real yields thus fell from -3% to -0.4%. Against this backdrop, the yield curve has inverted sharply,

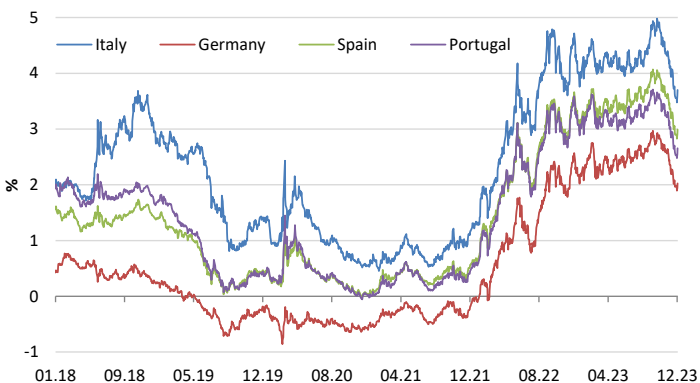
pointing more logically to a heightened risk of recession in the winter of 2023-2024. The downward trend seems to be well underway, but given the amplitude of the fluctuations observed in just a few weeks, we believe that the potential for capital gains is now reduced, in the event of a moderate recession.

Normalized outlook for UK interest rates

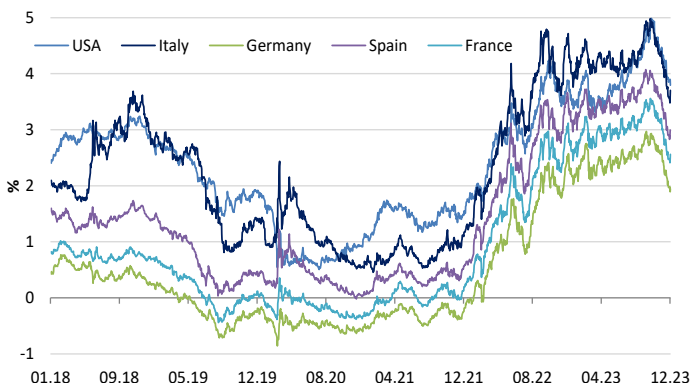
The increasingly visible economic slowdown, together with the more pronounced easing of inflation, means that the outlook for interest rates is now somewhat different from that envisaged just a few months ago. In October, UK ten-year government yields once again reached the 4.5% threshold that had been touched in September 2022, and more recently in July and August 2023. November proved to be a potentially very important transition month for monetary policy, but also for the level of the UK government bond yield curve. A series of economic statistics has significantly altered the assessment of the risks of monetary tightening and the perception of the appropriate level of long rates in the context of the ongoing economic slowdown and the ultimately faster decline in inflation.

Over the past six months, long yields have hovered around 4.5% in anticipation of clearer signs of the long-awaited recession. Following this horizontal trend, the sterling yield curve remained inverted, as short rates also rose by 0.25% in August, taking the short end of the curve to 5.25%. Now, the inversion of the curve has become increasingly clear since ten-year rates fell from 4.65% in October to just 4% at the beginning of December. With inflation falling, real rates are no longer so negative. In international comparison, the yield curve still seems a little too low for the level of inflation observed in the UK. However, in view of recent macroeconomic developments, a phase of stabilization and limited decline in long rates could still continue. The outlook for sterling bonds is therefore likely to normalize.

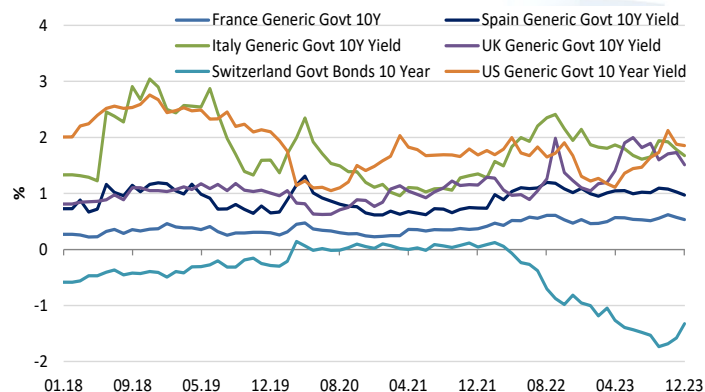
10 year Rate - Gvt Europe



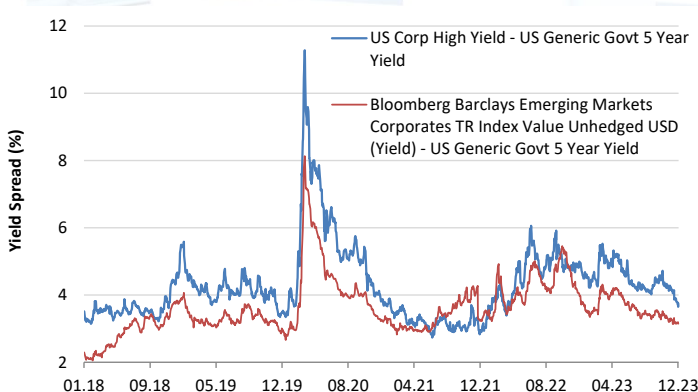
10 year Rate - Gvt



Risk Premium vs Germa Government



Risk Premium vs US Treasury



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 is still not attractive 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 environment offering more attractive international alternatives.

Deflation takes hold in China and supports rate cuts

The fall in the yuan, which should have boosted imports and production costs, does not appear to have had a sufficient impact to prevent deflation in producer and consumer prices. The Chinese economy has thus effectively been in deflation for the past two months, and is set to record a new monthly sequence of negative inflation in December. Consumer and producer price indices had already shown a year-on-year price decline of -0.5% and -3% respectively in November. We expect them to fall again in December for the third month running. Remember that at the height of the Covid crisis, producer prices had climbed by +13.45%, so the change in trend is particularly significant.

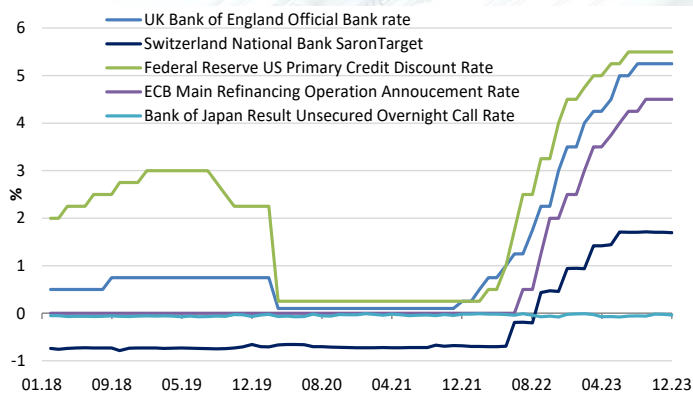
Capital markets remain highly correlated

Convergence of monetary policies seems more likely in the new context of a surprise fall in inflation in Europe. The renewed high correlation between the various bond markets was based on similar positive inflation surprises in the USA, the Eurozone and the UK in the final quarter of 2023. Inflation levels are beginning to converge towards the targets set by central banks, underpinning a new, more positive outlook in most regions. This correlation is likely to persist into the new year, with price indices likely to continue their downward trend. That said, the magnitude of the decline will remain variable, and in our view greater in dollar-linked markets than in euro and sterling markets.

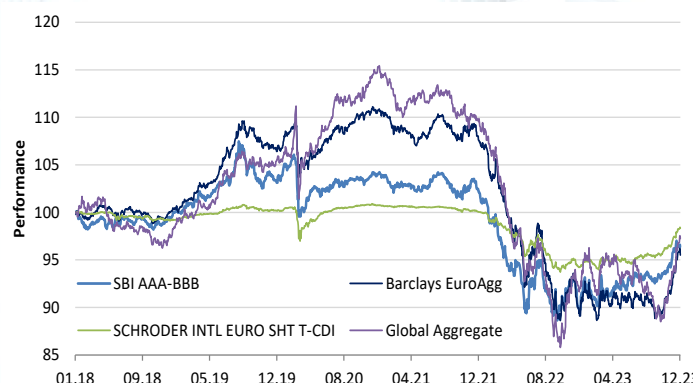
Focus on dollar-linked markets and long maturities

The downward adjustment in yields that we had expected occurred at the end of 2024, underpinning positive performances across all bond segments. At the start of this year, the US market remains one of the most attractive, thanks to high yields and potential capital gains superior to many other markets. We favor bonds in US, Canadian and Australian dollars, maintaining long maturities and overweighting corporate bonds. This global context should also be favorable to emerging dollar bonds, which also offer interesting opportunities for capital gains and attractive yields.

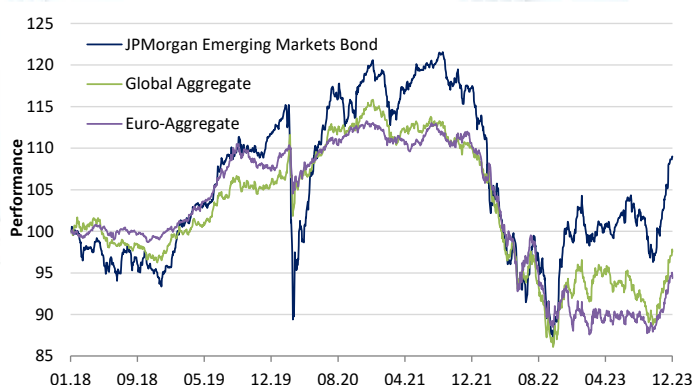
Key Rates (EUR, CHF, GBP, USD, JPY)



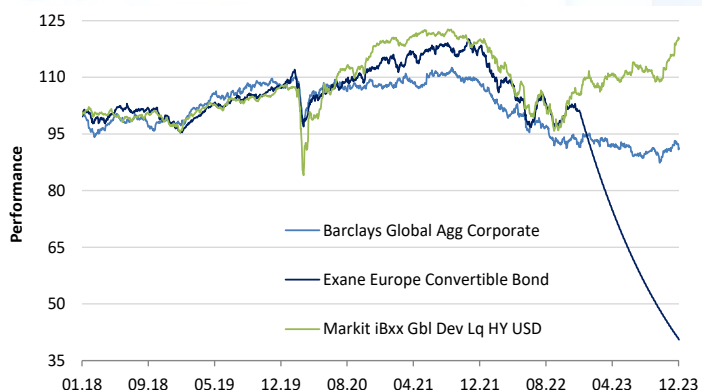
YTD Performance of 1- 5 year Bond Indices (base 100)



Emerging Bonds - Performance (base 100)



Eastern Europe Bonds - Performance (base 100)



PROSPECTS AND STRATEGIES

Swiss Bonds

- Exceptional performance in 2023 thanks to last quarter
- Bond yields fall below 1%
- Non-zero probability of rates slipping to 0.5% in 2024

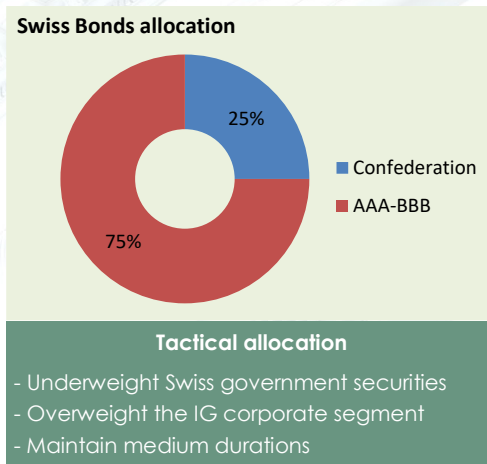
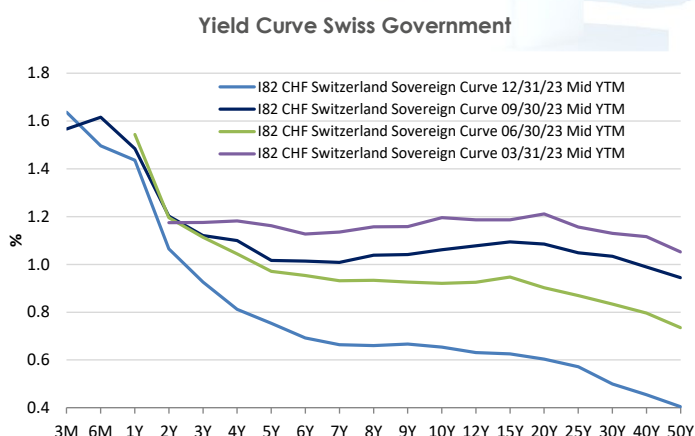
BONDS Type of Debtor	Expected Return		ALLOCATION (CHF Portfolio)								
	3months	1year	underweight			neutral overweight					
			---	--	-	=	+	++	+++		
Government	↗	↗									
Corporate (IG)	↗	↗									
Others	↗	↗									

Outstanding performance in 2023 thanks to last quarter

The Swiss bond market ended the year on a high note, thanks to an excellent cumulative performance in the last three months of the year. The last quarter's +3.6% rise enabled the global investment-grade bond index to end the year with an exceptional +7.36% performance, which, against all expectations, was the best since 2006. In absolute terms, for example, ten-year Swiss government yields fell from 1.6% at the start of the year to 0.7% at the end. In fact, this correction of almost 100 bps only affected long maturities, as short-term yields were still largely guided by the SNB's key interest rates, which continued to rise, reaching 1.75% in June. Yields therefore only fell by around 15 bps on two-year Swiss government bonds, and by 60 bps on five-year bonds.

Bond yields fall below 1%

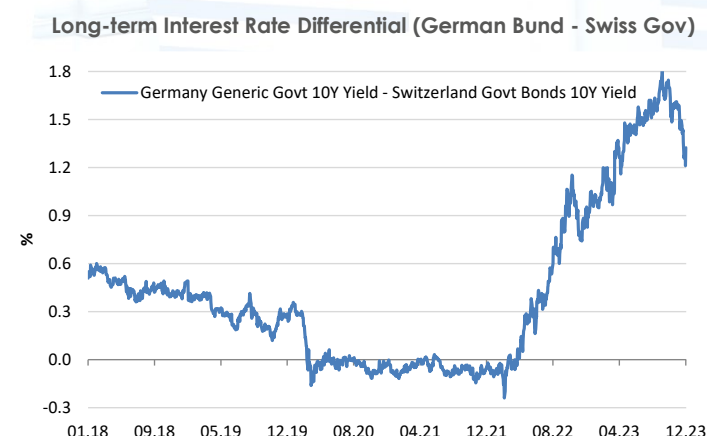
Ten-year Swiss government bond yields thus adjusted in November to the change in expectations regarding inflation and economic growth in Switzerland. After the already sharp decline from 1.6% to 1% observed in Q1, which had been followed by a long period of stabilization around 1%, the nine-month sequence of price stability (CPI) finally brought market rates down to 0.75%. The yield differential between ten-year yields and short-term rates is now over 100 bps, which is the steepest curve inversion recorded in Switzerland for a long time. 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



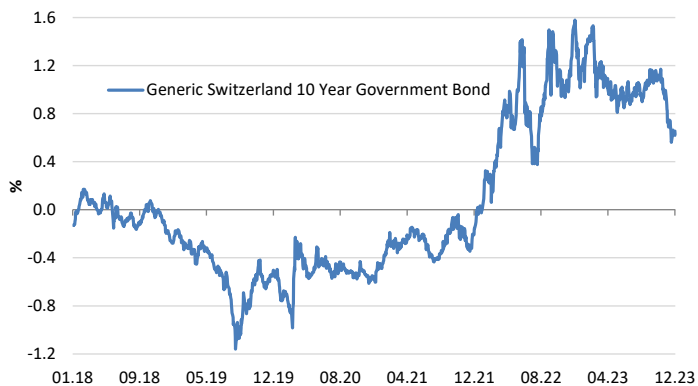
regime. We saw yield curves as presenting opportunities for returns and capital gains for Swiss investors who had been deprived of yield since 2014. This expectation is now being realized, as recent rate trends suggest.

Non-zero probability of rates slipping to 0.5% in 2024

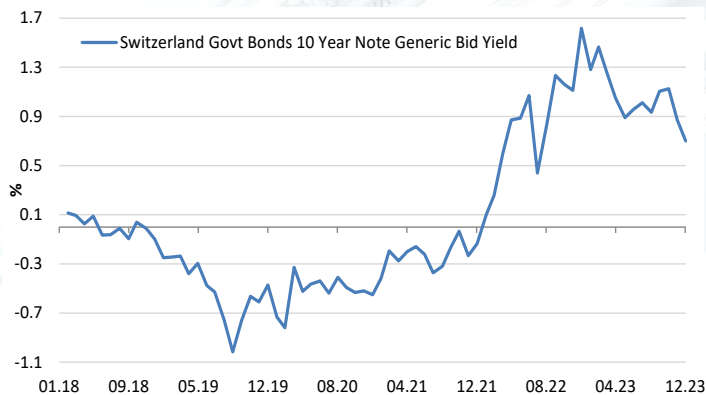
With the downward trend already recorded in recent months, it is becoming more difficult to envisage further declines in bond yields, pushing ten-year rates below 0.7% on a lasting basis. Nonetheless, it is by no means out of the question that inflation could once again trigger further yield curve adjustments. Indeed, current inflation stands at +1.7% year-on-year between December 2023 and December 2022. But this figure is essentially due to the rise in the first two months of 2023, since monthly inflation has been close to zero since March 2023. If the trend of the last ten months continues into January and February 2024, the CPI index published in March could be 0% year-on-year. In this likely eventuality, we believe that the SNB will have no choice but to quickly change policy by lowering its key rates. Bond markets could well become enthusiastic about this new, unanticipated positive situation in early 2024. In Switzerland, too, we are likely to see asset reallocations, and in particular fund flows from short-term investments into bond markets and investments with longer maturities. This shift in demand could push interest rates temporarily to 0.5%. Our cautious outlook envisages small capital gains in addition to the reduced yields currently available. We now expect yield curves to stabilize, with little likelihood of further capital gains.



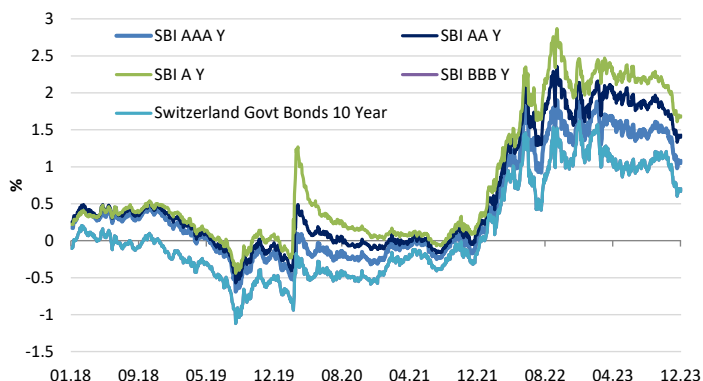
Swiss Government Bonds - 10 year Rate



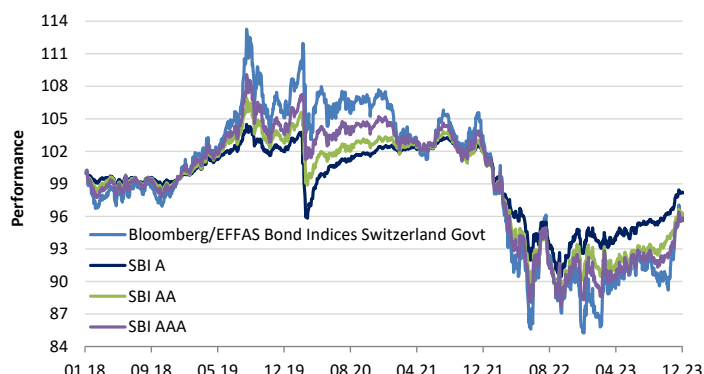
Swiss Government Long Rates since 2018



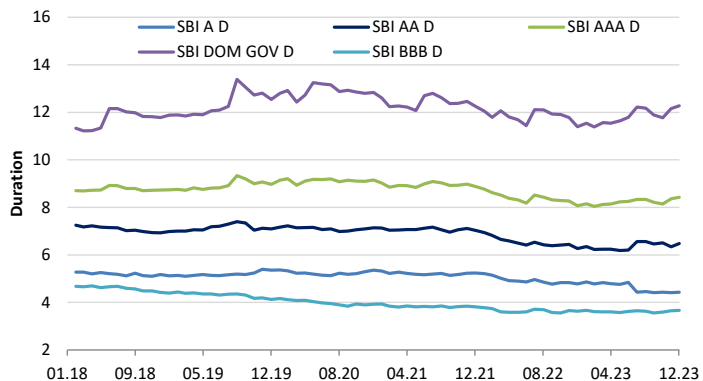
Yield (in %) by Type of Debtor



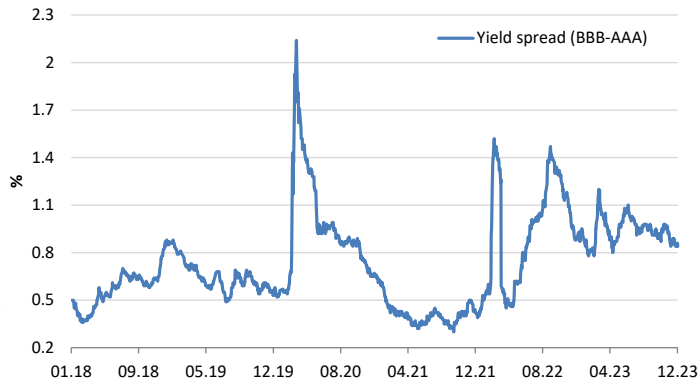
Performance of Swiss Bonds (base 100)



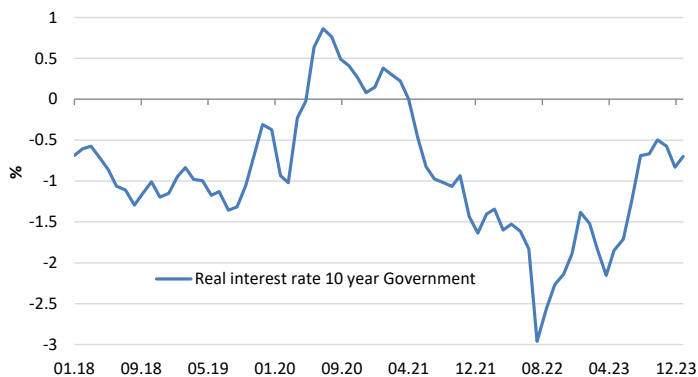
Duration of Swiss Bond Indices



Yield Spread



Real Interest Rates



SWISS BOND INDICES (CHF)

31.12.2023	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	250.6	CHF	-0.1	2.3	5.8	4.2	12.5
SBI A-BBB	134.3	CHF	0.0	0.9	2.7	3.5	5.8
SBI AA-BBB	131.1	CHF	0.0	1.0	3.0	3.6	6.2
SBI AAA-AA	130.2	CHF	0.0	1.4	3.9	3.7	7.8
SBI BBB	146.5	CHF	0.0	0.9	2.5	3.3	5.6
SBI AAA-BBB	131.5	CHF	0.0	1.3	3.6	3.7	7.4
SBI DOM GOV AAA-BBB 1-3P	58.9	CHF	0.0	0.2	0.3	0.2	-0.1
SBI DOM GOV AAA-BBB 3-7P	74.7	CHF	0.0	0.6	1.2	0.6	2.1
SBI DOM GOV AAA-BBB 7+ P	115.2	CHF	-0.3	2.9	7.6	4.8	15.7

PROSPECTS AND STRATEGIES

International Real Estate

- 4th quarter saves 2023 performance
- Overall positive outlook for 2024
- Bullish recovery in the US despite high valuations
- Attractive discounts in Europe and the UK

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

4th quarter saves 2023 performance

Under the influence of accelerating interest rate rises, and in particular ten-year Treasury yields of around 5%, international real estate ended the 3rd quarter with a -5.6% fall, driven by a negative -5.8% price trend in the last month of the quarter, which pushed overall performance over nine months down to -5.11%. Thanks to a sharp +14.53% recovery in real estate values in the 4th quarter, performance for the year was finally very positive, up +8.67%. The end of the year was therefore particularly favorable, enabling us to more than salvage the full year's performance.

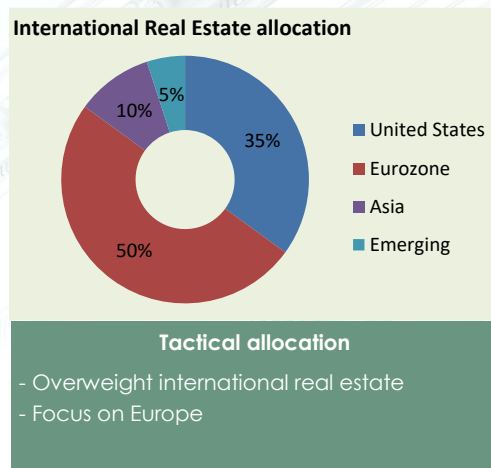
The main driving force behind this year-end stock market rally was our previous outlook for securitized real estate markets, which clearly foresaw a phase of interest-rate correction that we considered likely before the end of 2023, and which should prove very positive for risk appreciation and opportunities for securitized real estate. The favorable trend in inflation statistics in the USA, but also in the eurozone and the UK, was the trigger for the paradigm shift in the outlook for interest rates and monetary policy. Falling bond yields and expectations of the end of the monetary tightening cycle in the first half of 2024 underpinned the revaluation of listed real estate investments in these countries. With the risk of further rate hikes now a thing of the past, and long-term yields in dollars, euros and sterling

having corrected by around 100 bps, we have witnessed a return of investor interest in particularly depreciated assets, whose valuation ratios were already mentioned in our outlook at the end of September as being very attractive.

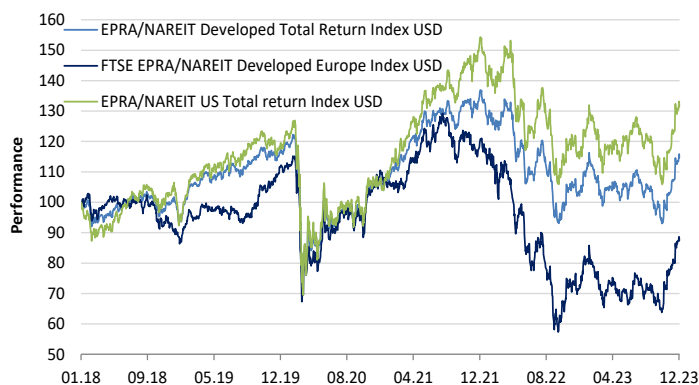
This more constructive environment was therefore beneficial for the revaluation of real estate stocks in Europe, whose performance over the quarter of +20.9% outperformed those recorded by other markets. The recovery in the United Kingdom (+18.9%) and the United States (+15.9%) was highly satisfactory, while it was less marked in Asia (+8.56%). Overall, therefore, the year was particularly favorable for real estate values, despite a period of uncertainty in mid-year caused by the exceptional and fortunately temporary rise in interest rates. Our strategy suggested favoring the eurozone, which ultimately gained +19.8% over the year as a whole, outperforming British (+10.7%), American (+13.27%) and Asian real estate (-1.15%).

Overall positive outlook for 2024

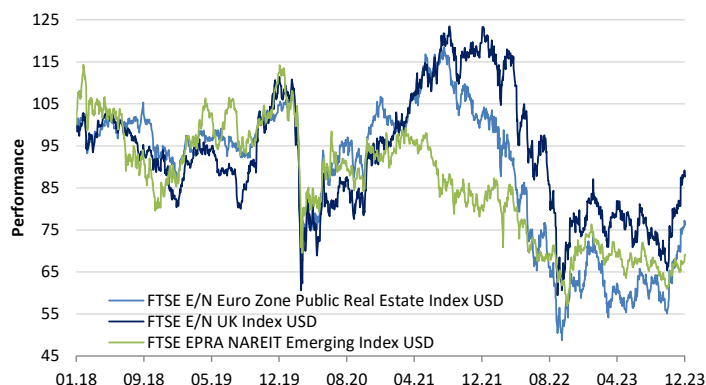
After a particularly painful year in 2022 for securitized real estate assets (-24.24%), the recovery expected in 2023, which materialized in an increase of +8.67%, seems to us to be just the beginning of a favorable trend that could develop gradually over the whole of 2024.



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



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



The global economic environment should prove sufficiently robust to record worldwide growth of around +4%, thanks in particular to China and India, but growth in Europe and the United States will be rather weak in the first part of the year. Against a backdrop of economic slowdown in these regions in the 1st half of the year, inflation trends should enable central banks to change their monetary policies by once again becoming less restrictive and lowering their key rates. These new monetary policies will allow bond yields to decline over longer maturities, directly benefiting listed real estate stocks. The upward trend seen at the end of 2023 should therefore continue into 2024, with reduced but still existing volatility linked to fluctuating risk perceptions regarding real estate financing costs.

Falling dollar yields are good news for direct real estate in the US

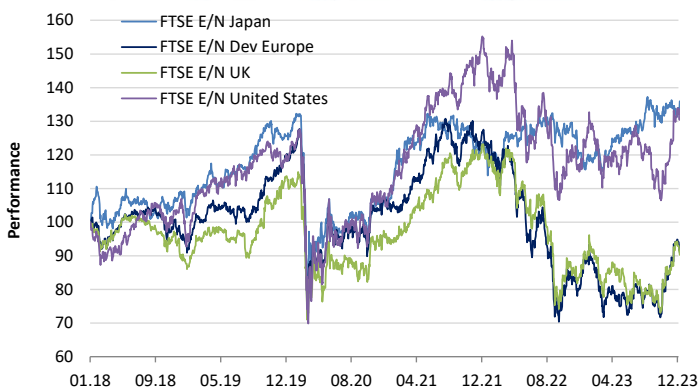
The latest interest rate tensions in the US have certainly affected activity in the construction sector. The rising cost of long-term financing, as measured by the average 30-year interest rate, which had reached its highest level in recent cycles at 8%/year in October, had indeed reduced households' ability to purchase. However, over the course of the quarter, the fall in interest rates and the 100 bp drop in the mortgage rate to 7% also led to a reduction in the cost of financing and an improvement in conditions in the physical real estate market. In terms of prices, direct real estate is still rising by around 0.5% per month and +4.77% year-on-year. On a national scale, mortgage applications were still rising at the beginning of December, before easing off at the end of the year. In another sign of easing, housing starts rose significantly (+14.8%) in November.

Inventories remain low, and the number of properties for sale is now much lower than it was in 2019. The real estate market is still adjusting to higher financing costs between 2022 and 2023, but the current decline in financing costs, together with lower supply and inventories, could allow the residential market to stabilize without a significant impact on price levels.

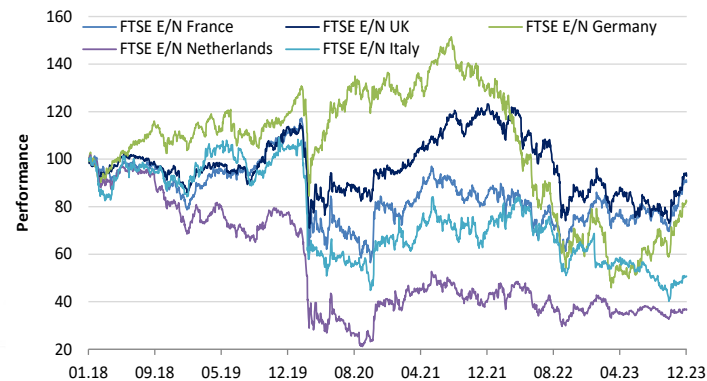
Upswing for US securitized real estate despite « stretched » valuations

As far as securitized real estate is concerned, the recent decline in interest rates has revived interest in this depressed sector. As a result, the EPRA Nareit USA index has enjoyed an exceptional uptrend of +15.9% over the past three months. At the end of September, we pointed out that the decline in the 3rd quarter represented an investment opportunity in anticipation of the likely fall in interest rates. After the excellent performance of the stock markets at the end of the year, US securitized real estate may well suffer some short-term profit-taking. However, our outlook for inflation, interest rates and US monetary policy suggests a continuation of the REIT revaluation process and the current uptrend in securitized real estate. The EPRA Nareit US index has an average yield of 4.16%, a total debt/total assets ratio of 45% and a price/net assets ratio of 2.1. In a still positive context for US real estate, in relative terms, this market nevertheless appears less attractive than the eurozone and UK markets. We recommend under-exposure to the US segment in favor of the eurozone in particular.

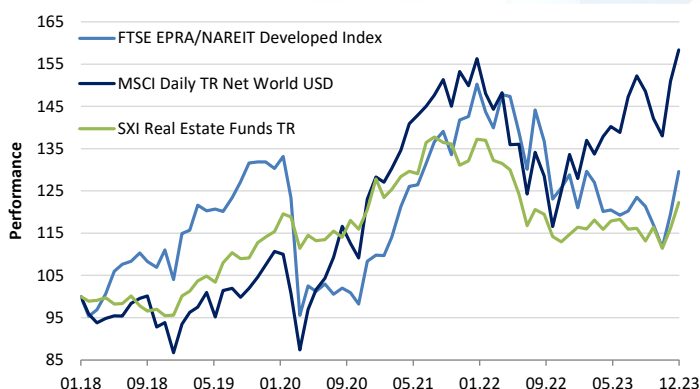
Real Estate Markets in Local Currencies



European Property Markets in Local Currencies



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



INTERNATIONAL REAL ESTATE INDICES (local currency)

		Total Return Performance						
31.12.2023		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2941.3	USD	1.2	9.2	14.8	8.6	9.8
DEVELOPED	EPRA/NAREIT Dev TR USD	5719.8	USD	1.1	9.6	15.6	9.1	10.9
DEVELOPED EUROPE	FTSE E/N Dev Europe	1710.6	EUR	0.0	10.6	21.6	26.9	17.3
EUROZONE	FTSE E/N Euro Zone	1703.3	EUR	0.4	10.0	20.9	29.4	19.8
USA	FTSE E/N United States	3068.7	USD	0.7	9.9	15.9	7.6	13.3
DEVELOPED ASIA	FTSE E/N Dev Asia	1257.8	EUR	2.3	5.9	4.2	2.9	-4.0

Attractive valuations and a positive outlook for securitized real estate in Europe

In recent weeks, securitized real estate in Europe has finally freed itself from the negative influence of inflation, the ECB's restrictive monetary policy and the interest rate pressures of the past two years. The downward acceleration in inflation in November, the widespread fall in interest rates and the probable end of the ECB's monetary tightening cycle have all helped to improve the outlook for listed real estate stocks. The EPRA Nareit index took advantage of this new, more favorable paradigm to rebound sharply from its October lows.

In our latest weekly analysis of securitized real estate, we pointed out that the collapse in prices in Q1 2023 clearly seemed excessive, even though it offered opportunities to reposition real estate companies trading at less than 60% of their book value. At the time, we indicated that the European real estate market offered rare investment opportunities worth considering. The recent rise of +34% comes as no surprise. It puts European securitized real estate back where it was at the end of January, with a YTD increase of +14%. The 12-month average yield of the EPRA Nareit Eurozone index remains very attractive at 5.98%, underpinning the favorable outlook for this asset class, whose price to net asset value is just 63%.

Positive outlook for UK securitized real estate

Annual house price growth continues to consolidate sharply in 2023. After reaching +14.3% year-on-year in July 2022, year-on-year house price trends have been negative since August. According to data from UK Rightmove, in December prices were down -1.9% on average across the country, and -1.1% year-on-year. Figures published by Nationwide Building Society show that the average house price also declined by -2%. Since peaking in July 2020, the downturn in prices has been very marked.

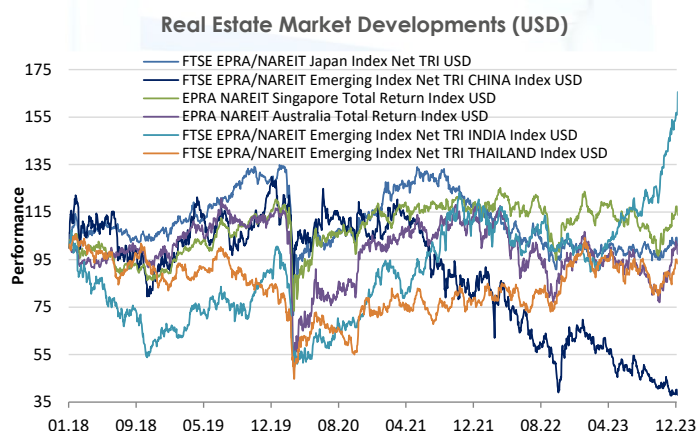
Rising financing costs are beginning to have an impact on households facing a shock when renewing their mortgages. The fall in mortgage financing approvals has stabilized, but now stands at 47,400 approvals, almost 50% below the level of summer 2022. This indicator points to a further fall in house prices 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. Despite this, the real estate market appears to be fairly resilient in the face of difficulties in finding the financing required for a purchase. Thanks to rising wages, British households still seem to be able to withstand mortgage rate rises for the time being.

Nevertheless, we believe the UK property market to be fragile, and that by 2024 it will be more severely affected by households' reduced capacity to invest, or even to maintain their property investments. Against the backdrop of an expected economic slowdown, we believe that a decline of around -10% in property prices, less severe than that induced by the 2008 financial crisis, which saw prices fall by -16%, is likely. UK securitized real estate, already down by -34% in 2022 due to negative expectations linked to the prospect of higher financing costs, has fallen by a further -17% in 2023, bringing the overall price correction for listed securities to almost -50%. The events of November were kind to UK securitized real estate, which in just a few weeks regained its level of the beginning of the year thanks to a +20% rebound. While the fall in the price of direct physical real estate has not yet reached its equilibrium point, we believe that the same cannot be said of securitized real estate, which already appears to offer opportunities for repositioning, not least because of its attractive valuations.

Attractive discounts in Europe and the UK

The new inflationary regime that seems to be taking shape can now positively influence monetary policy in the USA, Europe and China. This new paradigm for interest rates represents a more favorable environment for real estate investment. A new assessment of the risks and opportunities for securitized real estate assets should support a continuation of recent upward trends. Valuations expressed in terms of stock price to book value ratios are particularly attractive in Europe. The returns offered by these investments are also increasingly attractive compared to those offered in the capital markets. Risk premiums have in fact been reinforced by the decline in bond market yields. Even today, this asset class is generally under-represented in the diversified asset allocations of private and institutional investors.

In 2024, we expect to see a reallocation of assets in favor of securitized international real estate investments, to the detriment in particular of liquid assets, which were so popular in 2022. In view of the positive outlook, we recommend an overweight tactical allocation, favoring in particular investments in the eurozone and, to a lesser extent, UK stocks.



PROSPECTS AND STRATEGIES

Swiss Real Estate

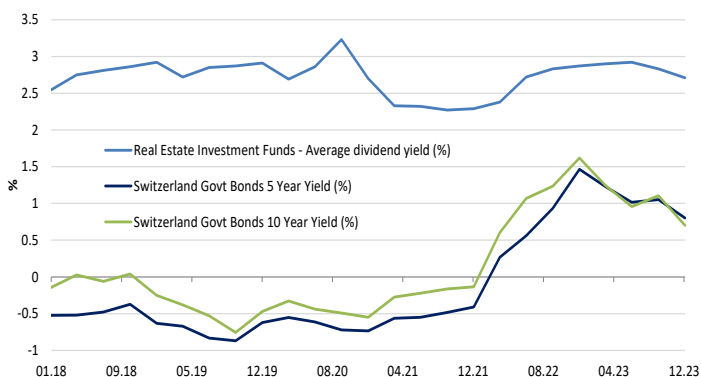
- Positive outlook for Swiss securitized real estate in 2024
- Absolute and relative returns still attractive
- Real estate companies expected to outperform

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

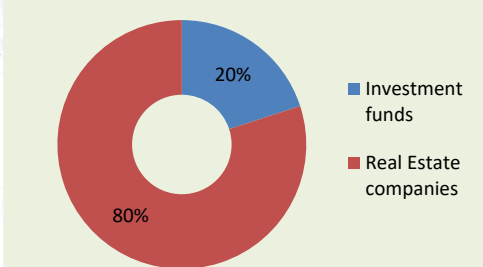
Positive outlook for Swiss securitized real estate in 2024

The months of November and December were decisive for the performance of securitized real estate investments in 2023. At the end of October, the YTD performance of real estate funds and real estate companies was -4.6% and -4.1% respectively, so it took two particularly positive months to reverse the trend and return these two market segments to positive territory. Indeed, thanks to a recovery as exceptional as expected, both indices ended the year up +5.03% and +5.38%, erasing all previous theoretical losses. The fall in interest rates, which we had predicted in the previous quarter, occurred during this two-month period and was the main factor underpinning the rebound in listed real estate values. In our previous issue for the 3rd quarter, we predicted that interest rates would fall in the near future, which would also substantially benefit securitized real estate investments, whose premiums had fallen sharply and were now looking increasingly attractive. The fall in ten-year Swiss government yields from 1.2% in October to just 0.6% in December largely supported the rise in prices. Today, however, it appears that the rise in prices of recent weeks has also had an impact on agios, which have partially recovered. Whereas the average agio had exceeded 40% at the beginning of 2022, indicating an extreme overvaluation of funds, its fall below 10% a few months ago was a convincing reason to reposition in real estate stocks. With a current level of 16% and 0.7% for real estate companies, we favor exposure to the latter, noting however that the funds' agio is still clearly below the historical average of close to 20%. Given recent developments on the interest-rate markets, financing conditions in Switzerland have not deteriorated to the same extent as in other countries, and therefore do not have a significant impact on the valuation of securitized real estate in our view.

Government and Real Estate Yield



Swiss Real Estate allocation



Tactical allocation

- Premiums, yields and risk premiums still attractive
- Focus on listed real estate companies

On the other hand, we believe that interest rates in Switzerland are unlikely to resume their upward trend rapidly in 2024 as inflation collapses. What's more, with average indebtedness below 25% of funds, refinancing risk is also highly overestimated. Our outlook for 2024 is positive for both securitized real estate segments.

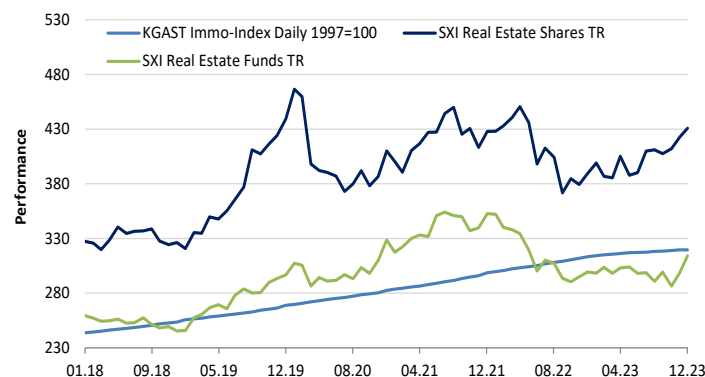
Absolute and relative returns still attractive

Given the rise in prices during the last quarter, the yield on real estate funds logically slipped from 3.28% to 2.7%, while that on real estate companies remained more stable, falling by only 4% to 3.79%. In both cases, these yields remain well above those of bond investments, and in particular the Confederation's ten-year yield, which ended the year at 0.7%. Given the relatively flat yield curve for Confederation yields, we consider the profitability of listed real estate investments to be very attractive in both absolute and relative terms. The risk premium for real estate companies is still almost 220 bps, which represents an attractive premium in the present context.

SWISS REAL ESTATE

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	462.3	0.0	5.3	5.0	5.5	5.0
SXI Real Estate Idx TR	3209.5	0.0	1.9	5.7	10.4	10.7
KGAST Immo-Index	357.2	0.0	0.0	0.4	0.7	2.0

Performance of Swiss Real Estate

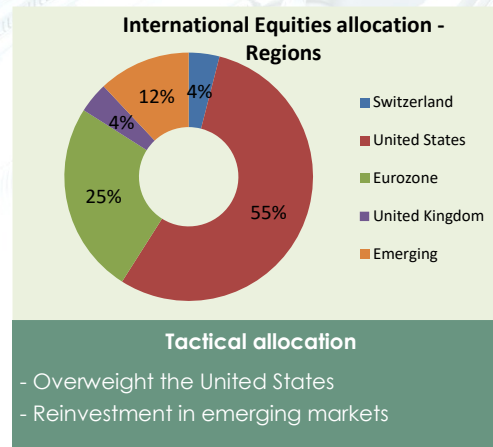


PROSPECTS AND STRATEGIES

International Equities - Regions

- 2023 performance owes much to Q4
- New interest-rate paradigm favorable to equities in 2024
- Favorable allocations to US and emerging markets

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



2023 performance owes much to last quarter

Speeches by the Chairman and members of the Federal Reserve had clouded investors' expectations during Q3, triggering fears of further rate hikes. The resulting acceleration in rates during the 3rd quarter, pushing 10-year Treasury yields from 4.1% to 5% in the space of a few weeks, had a negative impact on investors' appreciation of risk and led to an ultimately relatively limited -3.46% decline in the MSCI World index.

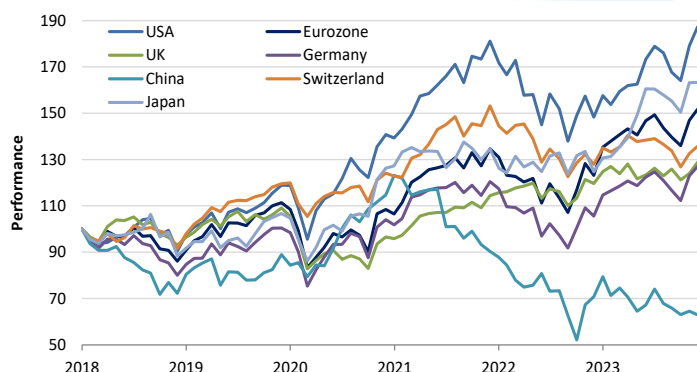
In October, the Fed's radical change in outlook and positioning completely altered the perception of the risks of further rate hikes. It appeared increasingly likely that the monetary tightening cycle which had come to a halt in June at 5.5% may already have reached its zenith, as we noted in our outlook at the end of September. Gradually, the U.S. central bank's rhetoric came to be supported by more favorable economic statistics and inflation, which was declining faster than expected. This environment even made it possible to envisage a reversal of monetary policy as early as March 2024, with a first potential cut in key rates of -0.25%. This reversal in the assessment of interest-rate risks had a major impact on equity markets, which resumed their upward trend, posting a +11.42% rise at the end of the year. Thanks to this further rise, the MSCI World index ended the year with an extremely gratifying +23.79%. The US (+26.26%) and European (+23.22%) markets benefited most from investors' renewed optimism.

New interest-rate paradigm to benefit equities in 2024

Three months ago, we announced this complete paradigm shift in interest rates, which was to have a positive impact on equity markets by the end of the year. The rise of the last quarter was indeed based on this change in outlook, as we had expected. Thanks to this final quarter, 2023 will have been sufficiently positive to totally erase the negative performance of -18.42% in 2022.

At the start of 2024, we believe that the economic outlook will be significantly less positive, with persistent recession risks in Europe and a significant economic slowdown in the USA. This environment should create sufficient conditions for a further decline in inflation in developed countries, and support a lowering of yield curves and an easing of monetary conditions by central banks. In fact, the year could be marked by a significant US rate cut of over 150 bps, with positive effects on market valuations. The new risks for the equity markets will then focus more on profit trends in a phase of 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. After a limited and temporary consolidation, still possible at the beginning of 2024 following the formidable advance of the 4th quarter of 2024, markets should benefit from the growing interest of investors reducing their exposure to short-term investments, which are less and less remunerative.

Long-term Equity Markets (base 100)



Chinese A and B Shares (base 100)



Positive outlook for US equities

The interest-rate tensions of Q3 had taken their toll on the positive momentum of the first six months. The S&P500 index finally succumbed to this negative environment, recording a consolidation of -7%, inversely proportional to the rise in the dollar. The summer consolidation in equity markets was no more marked in technology stocks, with the Nasdaq index sliding -8% over the same period. At the start of Q4, our scenario for economic growth and interest-rate trends supported interest in US stocks, which were set to benefit from a positive change in the investment climate, driven mainly by a new positive outlook for monetary policy. In our view, equity market consolidation was temporary and nearing its end. We therefore took a positive view of the future trend in equity indices, maintaining an overweight in growth stocks. As 2023 draws to a close, the S&P500's rise of around +10% over the quarter has proved in line with our expectations. We believe that the upside potential of US equities remains very significant for early 2024, given the reversal in monetary policy, and confirm our bullish outlook. The concentration of performance on a limited number of stocks should give way to a broader participation in the rise of the indices.

Favorable backdrop for European equities

European equities have logically taken on board the extremely positive aspects of the rate cut, and have resumed their rise in line with our expectations. After a three-month decline of around -10%, European stocks have indeed benefited from lower rates since the beginning of November. The +13% rise pushed SX5E stocks to their highest level of the year, above 4,500 points. Now up +20% YTD, 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 12.7x earnings for 2024 is lower than the S&P500's PE of 21.2x. They also look attractive relative to Japanese equities (20x), Swiss equities (18.4x) and Chinese equities (11.7x). The average dividend yield in Europe (3.1%) is also attractive, well ahead of the US

(1.5%) and Japan (1.8%). European equities still deserve to be favored in the 2024 perspective.

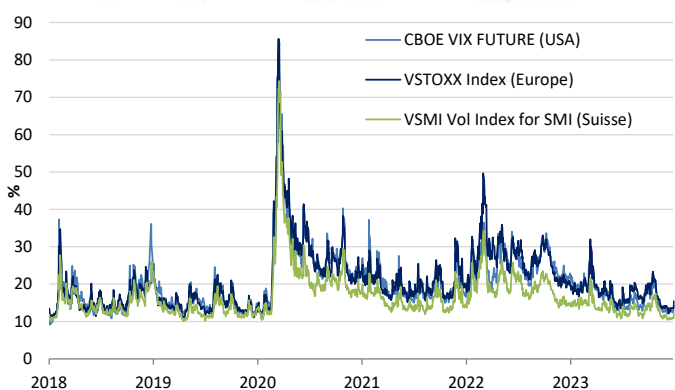
Expected profits of Japanese listed companies overestimated

Japanese corporate profits are likely to have risen by +14% in Q3 and, according to the current consensus, by a further +11.4% in 2024. Based on these results and expectations, the Japanese market rose sharply in yen terms until June, after which it stabilized. It thus outperformed the other developed markets in local currencies, gaining +28%, nearly 20% of which was wiped out by the fall in the yen. Corporate profits appear 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 business development. The absence of rate hike risks is also a notable factor in the exceptional resilience of Japanese stocks, whereas the international context has tended to be marked by upward trends in financing costs. However, following the Nikkei's recent rebound to around 34,000, the conditions for a new uptrend now seem less propitious. We now recommend a more cautious, underweight exposure to Japanese equities.

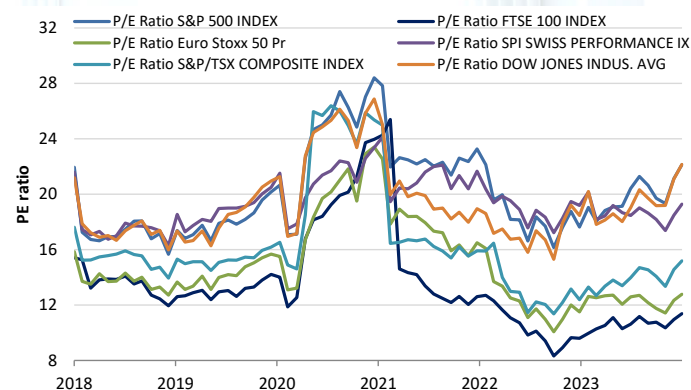
Discount still attractive for British equities

For several months now, the FTSE100 index has been suffering the effects of expectations of a restrictive monetary policy, rising interest rates and a severe economic slowdown. However, the monthly volatility observed since the start of the year leaves the equity market virtually unchanged at the end of November. The current economic slowdown could prove to be a positive factor for the UK market, which would finally benefit from a less unfavorable monetary policy and interest rate scenario. The current level of the equities market offers some opportunities, due to rather attractive valuation measures in both absolute and relative terms.

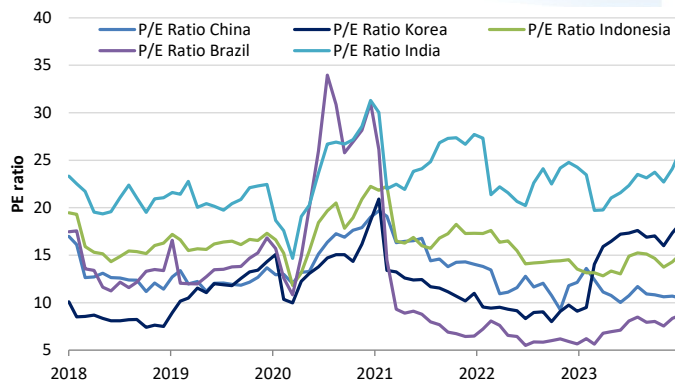
Volatility Indicators (USA, Europe, Switzerland)



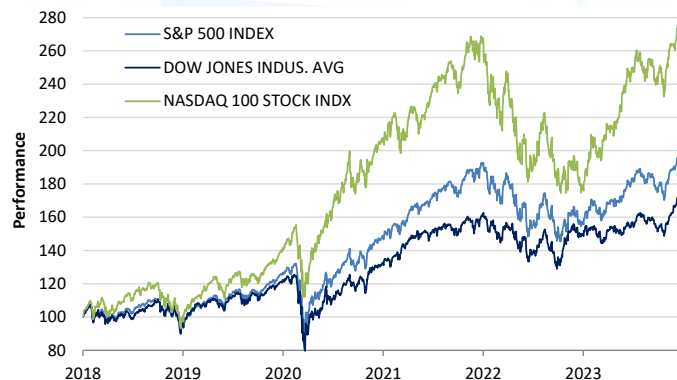
Developed Market PE



Emergents Market PE



US Equity Markets (base 100)



All FTSE100 companies still enjoy a relative advantage thanks to an average PE (11x) well below that of the US S&P500 (20.7x), Europe's SX5E (12.6x) and the SMI (18.2x). Technical valuation measures also suggest an oversold situation, from which a new uptrend seems likely.

New attractiveness of emerging markets in 2024

Emerging markets significantly underperformed developed markets (+23.79%) in 2023, ending the year with a reduced advance of just +10.12%. This was mainly due to China's underperformance, which had a major impact on the overall result with the -27.8% fall in its CSI300 index (in USD), contrasting with the positive trends in USD of Taiwan (+27.4%), Korea (+16.4%) and emerging markets such as India (+7.41%) and Vietnam (+8%), while Brazil advanced by +33%. The Chinese government's forthcoming economic stimulus measures should encourage international investors to return to Chinese stocks with attractive average to new 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 improved conditions on both counts. Lower interest rates and a weaker dollar should therefore benefit them.

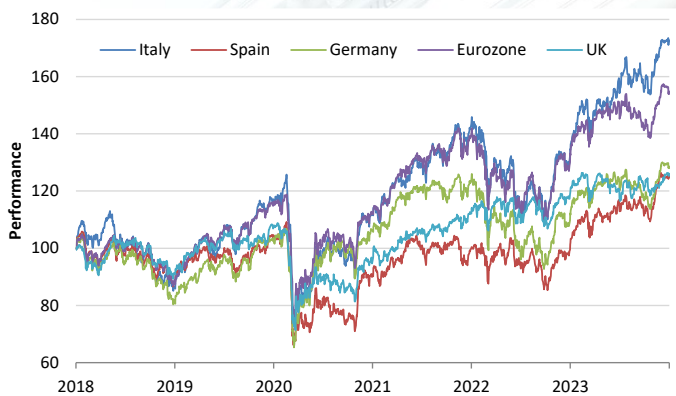
Regional allocations in favor of US and emerging markets

In 2024, we expect key interest rates and bond yields to fall more sharply in the US than in the Eurozone. This environment should benefit US stocks, which are also likely to achieve superior financial results in an economic slowdown less severe than that observed in Europe. We recommend an overweight tactical allocation to the US, to the detriment of Europe and Japan. In addition, less restrictive monetary conditions may also support renewed interest in emerging markets. In the case of China, the equity market is still lagging far behind other markets, despite the government's economic support policies. These should be reinforced to boost domestic demand and improve the outlook for Chinese companies. We also suggest gradually increasing our allocation to emerging markets.

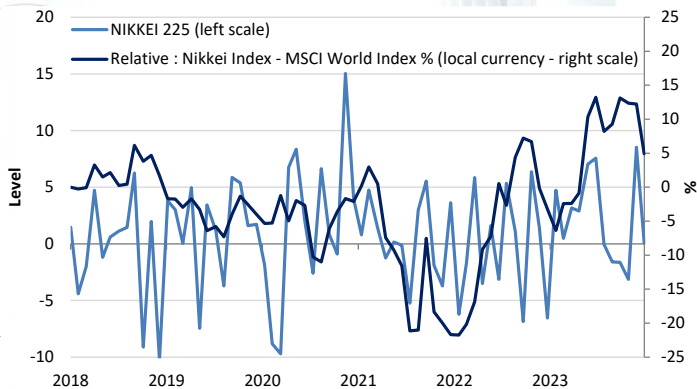
EQUITIES - BY REGION (local currency)

		Total Return Performance						
31.12.2023								
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	14571.2	CHF	-0.1	2.4	1.4	-2.0	6.1
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	4960.8	CHF	0.1	2.5	2.8	-3.1	6.5
EUROPE	STXE 600 € Pr	479.0	EUR	0.3	3.8	6.8	4.6	16.6
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	526.9	EUR	0.2	7.0	9.7	6.7	12.7
UK	FTSE All-Share Index	4232.0	GBP	0.5	4.5	3.2	5.1	7.7
USA	S&P 500 Index	4769.8	USD	0.3	4.5	11.7	8.0	26.3
USA SMALL-MID CAPS	RUSSELL 2500	866.2	USD	-0.1	10.7	13.3	7.9	17.4
JAPAN	NIKKEI 225	33464.2	JPY	1.0	0.0	5.2	1.7	30.9
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	1275.5	JPY	1.2	0.0	1.6	5.7	25.8
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	528.9	USD	3.2	4.6	7.9	4.4	7.9
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	1212.1	USD	2.3	5.1	8.9	9.2	15.3
EMERGING	MSCI EM	1023.7	USD	3.2	3.9	7.9	4.8	10.1
INTERNATIONAL EQUITIES - DIVERSIFIED USD	MSCI Daily TR Net World	9885.5	USD	0.6	4.9	11.4	7.6	23.8

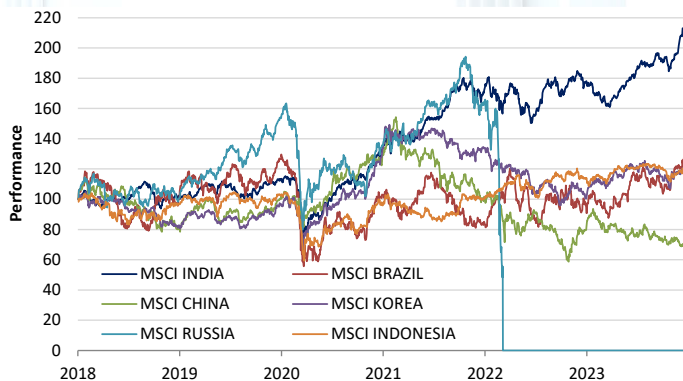
Equity Markets (base 100)



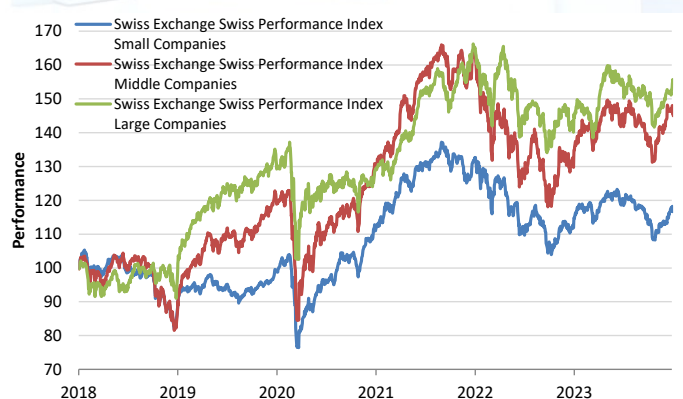
Japan Equity Markets VS MSCI World



Emerging Equity Markets (base 100)



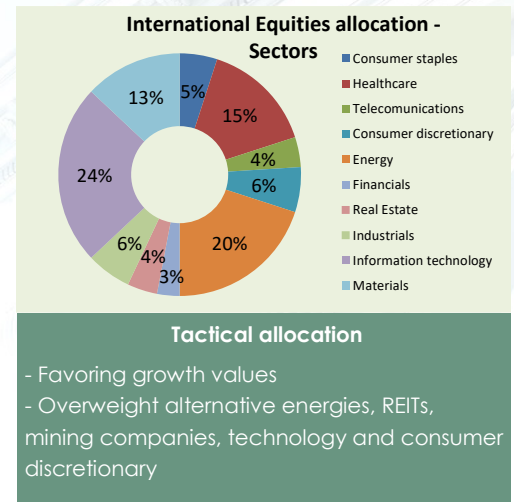
Swiss Equities (large - middle - small caps/base 100)



PROSPECTS AND STRATEGIES

International Equities - Sectors

- Sustainable outperformance of the growth style
- Favoring sectors favored by declining interest rates
- Overweight technology and alternative energies
- Focus on discretionary consumption, insurance, energy and materials



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

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. As we enter 2024, we believe that growth stocks should continue to be favored, 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 (+22.19%) continues to lag far behind the performance of the S&P Growth Index (+30%).

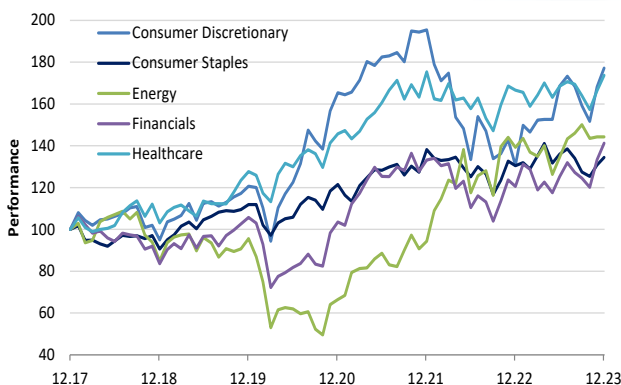
The peak of the monetary tightening cycle has been reached, and current expectations already suggest a rate cut in March. The environment in 2024 will certainly be more favorable to growth stocks, given the expected interest rate cuts. In sector terms, stocks that are highly dependent on interest rates should therefore benefit. Cyclical penalized by the hard landing scenario and technology stocks were likely to be the first to benefit from the return of more constructive investor sentiment.

We maintain our strategy of focusing on growth stocks and Nasdaq companies. After suffering the negative effects of rising interest rates and falling crude oil prices until the end of 2023, alternative energies will benefit from the expected easing of interest rates in 2024. The energy sector can now count on an oil market that is more conducive to a recovery in crude oil prices in 2024. 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, in particular gold stocks, which will benefit from both a fall in interest rates and a loss of momentum in the dollar. In the consumer sector, our preference is for non-essential consumer goods and services stocks.

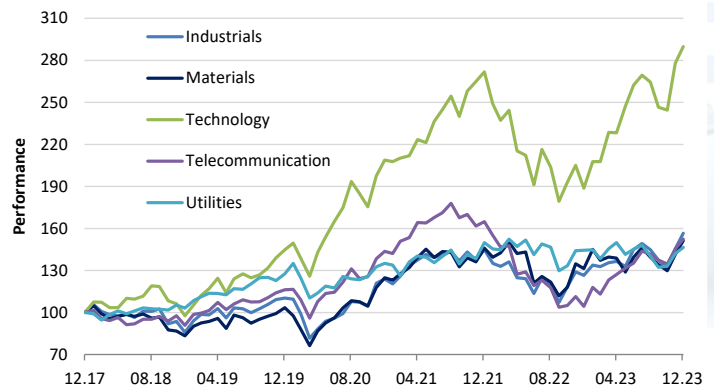
EQUITIES - BY SECTOR

31.12.2023		Total Return Performance						
Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %	
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	388.9	USD	0.1	5.3	11.2	5.1	35.5
CONSUMER STAPLES	MSCI WORLD/CON STPL	270.0	USD	1.2	2.8	5.5	-1.1	3.0
ENERGY	MSCI WORLD/ENERGY	244.3	USD	-0.8	0.0	-3.9	7.2	3.6
FINANCIALS	MSCI WORLD/FINANCE	148.1	USD	0.9	6.0	13.4	12.8	17.1
HEALTHCARE	MSCI WORLD/HLTH CARE	353.3	USD	1.1	4.5	6.0	3.1	4.3
INDUSTRIALS	MSCI WORLD/INDUSTRIL	362.7	USD	1.0	7.6	13.9	8.1	23.8
MATERIALS	MSCI WORLD/MATERIAL	347.3	USD	0.5	6.9	12.8	8.5	15.3
REAL ESTATE	MSCI WORLD/REAL ESTATE	1998.9	USD	1.0	8.4	18.1	8.4	10.1
TECHNOLOGY	MSCI WORLD/INF TECH	599.1	USD	0.3	4.3	17.6	10.5	53.7
TELECOMMUNICATION	MSCI WORLD/TEL SVC	96.0	USD	-0.1	4.8	10.9	12.6	46.0
UTILITIES	MSCI WORLD/UTILITY	148.9	USD	0.9	3.0	10.7	0.9	1.4

Sectors - MSCI World (base at 100)



Sector Performance - MSCI World (base at 100)

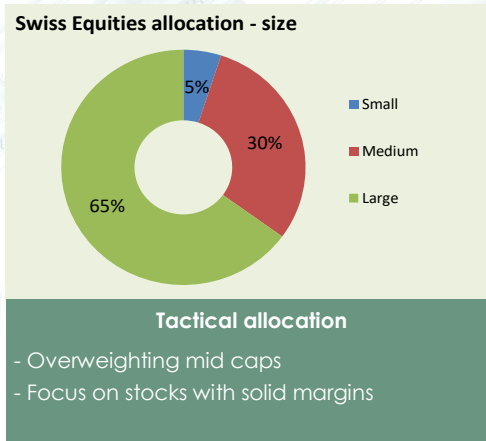


PROSPECTS AND STRATEGIES

Swiss Equities

- Franc pushes Swiss equities to underperform in 2023
- Profit growth in excess of +10% in 2024
- Small and mid caps favored in 2024

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



Franc pushes Swiss equities to underperform in 2023

Swiss equities continue to be penalized by the strength of the franc, and once again underperformed international equities (+11.42% in USD) in Q4, despite a very slight rebound of +1.42%. They recorded their fourth consecutive quarter of underperformance in 2023, ending the year up a modest +6.09% (SPI), well behind the +23.79% performance of the MSCI World index (in USD). Swiss blue chips did not fare much better than the overall index, rising by just +7.06%. The year-end improvement in interest-rate risk perception and the drop in ten-year Swiss government yields to just 0.65% benefited small and mid-cap stocks significantly more, with a quarterly performance of +4.47% and an annual result of +9.62%. An underweighting of Swiss blue chips in favor of small and medium-sized companies was therefore favorable in 2023.

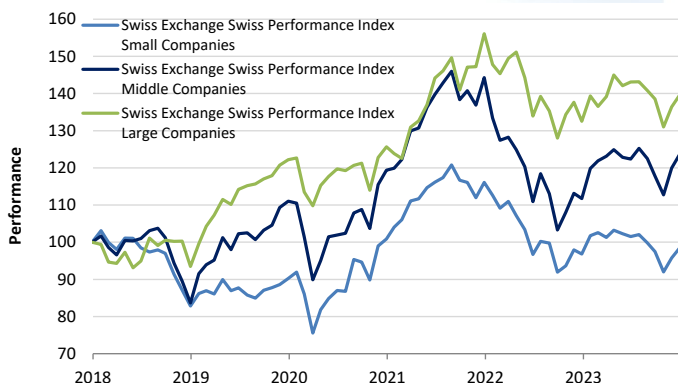
The Swiss market's underperformance seems to be essentially linked to the franc, as the economic environment in Switzerland was no worse. GDP growth proved more resilient than that of its close economic partners, and monetary policy was not particularly restrictive by international comparison either, with Swiss key rates having paused as early as June at a level of 1.75%, well below those of other Western countries. Finally, inflation trends were much more encouraging in Switzerland, with CPI well below the 2% target. These various factors tended to support the franc and penalize the earnings of listed Swiss companies. The evolution of the Swiss franc was therefore the main drag on share prices in 2023. The franc's appreciation (trade weighted index) of +7.2% in 2023 follows an increase of +4.84% in 2022, extending to six consecutive years the sequence of negative annual performances of currencies against our national currency.

Profit growth in excess of +10% in 2024

After several months of consolidation, a sharp decline in share prices up to October and now more attractive valuations, we announced a probable resumption of the upward trend for the end of the current year, which began in November. The +1.42% rise in the 4th quarter is very disappointing in the context of an overall recovery in the equity markets, but the rise of the last two months has made it possible to erase the decline in the indices recorded in October. We believe that, after a probable and temporary pause, the recovery should continue over the coming months. The Swiss equity market had remained very indecisive over the summer, penalized in particular by the strength of the Swiss franc and a still restrictive monetary policy. The macroeconomic data and statistics published did little to generate enthusiasm for Swiss equities, which were also affected by the economic slowdown in Switzerland and other European trading partners. As the franc's rise affected the competitiveness of certain exported products and services, sales by Swiss exporting companies were often maintained at the expense of corporate margins. As a result, the strength of the franc weighed heavily on profit estimates expressed in Swiss francs.

A brighter outlook for declining inflation and the end of the rate hike cycle will help to weaken the franc, provided the SNB eases its policy of reducing foreign exchange reserves and cuts back on its purchases of Swiss francs. The latter should support the resumption of the upward trend of the last two months. Earnings expectations for 2024 for the SMI as a whole are +9.2% and the SPI. We believe that companies will be able to maintain their margins and deliver better-than-expected results. In terms of valuation, price/earnings ratios for 2024 are 16.6x for the SMI and 17.1x for the SPI. The outlook for the Swiss market is positive for 2024, especially for secondary stocks (mid-caps and smaller), whose performance should outperform that of the blue chips.

Performance of Swiss Equities



SWISS EQUITIES - Capitalization

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	14571.2	-0.1	2.4	1.4	-2.0	6.1
SPI SMALL COMPANIES INDX	27231.7	0.6	2.7	0.9	-3.1	1.6
SPI MIDDLE COMPANIES IDX	20445.7	0.0	2.9	4.8	0.9	10.5
SPI LARGE COMPANIES INDX	13931.1	-0.1	2.2	0.7	-2.6	5.2

PROSPECTS AND STRATEGIES

Swiss Equities - Sectors

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

Bullish recovery dependent on a weaker Swiss franc?

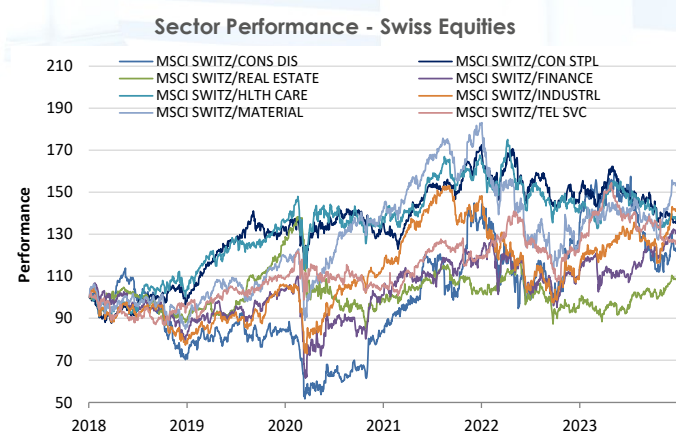
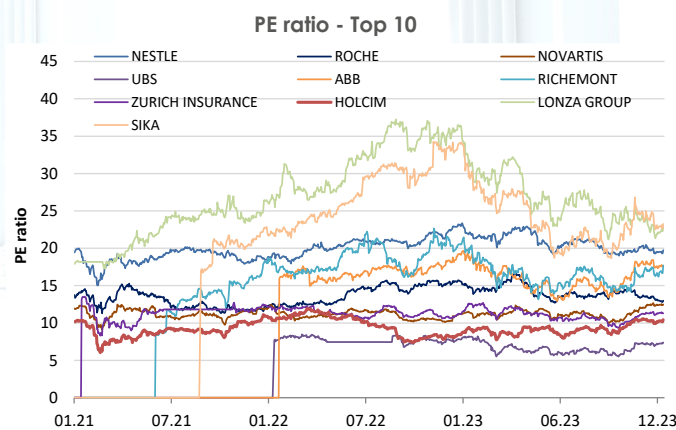
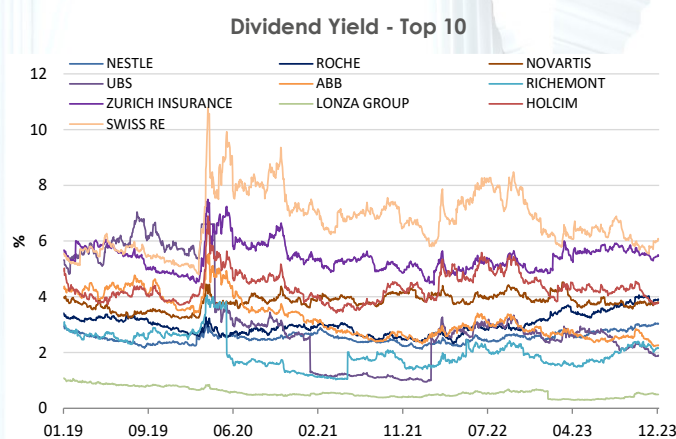
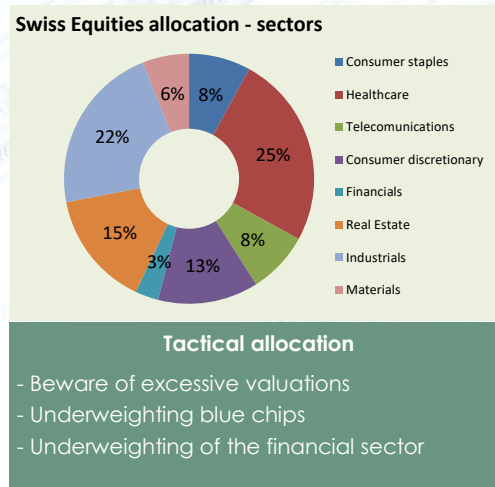
The strength of the franc has affected the competitiveness of certain exported products and services, and has contributed to a reduction in estimates of profits made abroad and expressed in Swiss francs. We believe that expected developments will reverse these parameters and become factors supporting a revival of the uptrend for Swiss equities over the coming months. Earnings expectations do not take into account a possible weakening of the franc, which should favor a gradual upgrading of prospects in 2024. After reducing its foreign exchange reserves by -32% in two years, the SNB could pause for breath, as the latest publication of reserves up by 12 billion may already suggest, and weaken the franc.

Small and mid caps favored in 2024

The new monetary policy paradigm that is about to take hold in Switzerland will also be characterized by key rate cuts. Nine months after the SNB's decision to pause its rate hike policy, we expect a change in March or April to see the first cut implemented. This monetary easing could begin against a backdrop of near-zero inflation and extend throughout 2024. A sustainable environment of lower interest rates and improved financing costs for companies will have a positive impact on their valuation. This trend, coupled with moderate weakness in the Swiss franc, will have a positive impact on earnings estimates for Swiss companies, particularly for small and medium-sized stocks. In terms of investment policy, we therefore recommend favoring these stocks over the big Swiss blue chips.

SWISS EQUITIES - BY SECTOR

Name	Last price	Total Return Performance				
		7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	371.2	0.0	5.3	2.2	-20.2	-2.0
MSCI SWITZ/CON STPL	325.2	0.2	-2.1	-5.5	-9.5	-6.0
MSCI SWITZ/FINANCE	66.0	-0.6	2.0	6.9	18.3	20.9
MSCI SWITZ/HLTH CARE	168.5	-0.1	2.4	-3.2	-7.7	-1.6
MSCI SWITZ/INDUSTRIL	235.8	-0.1	6.8	12.9	6.8	30.8
MSCI SWITZ/MATERIAL	421.8	-0.1	7.4	12.5	8.1	25.0
MSCI SWITZ/REAL ESTATE	1045.8	0.1	2.1	7.0	15.7	14.7
MSCI SWITZ/TEL SVC	95.6	-0.7	-0.9	-7.0	-9.3	3.7

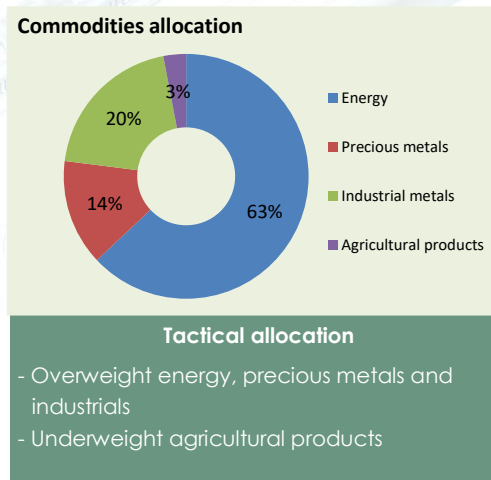


PROSPECTS AND STRATEGIES

Commodities

- Global growth (+4% in 2024) favorable to commodities
- The oil market awaits a recovery in Asian demand
- Gold above \$2,000 may pull silver towards \$30

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



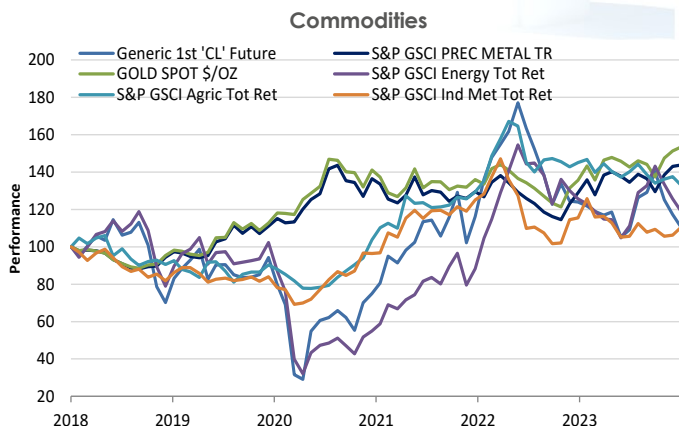
Global growth (+4% in 2024) favorable to commodities

The reversal of expectations at the end of the year did not benefit commodities, which were more influenced in the immediate term by the economic slowdown scenario than by the fall in interest rates and the drop in the trade-weighted dollar in the 4th quarter, following a +15.98% rise in the 3rd quarter. The global commodities index logically fell by -10.73% at the end of the year under the influence of the correction in crude oil prices. All in all, commodities ended the year down by an understandable -4.27%, following a 25.99% rise in 2022. To a certain extent, the decorrelation of commodities was once again confirmed in 2023, as in 2022, when the asset class' positive result partially offset the losses observed in traditional assets such as bonds and equities.

Over the coming quarters, however, we anticipate a return to positive performance in all three segments: energy, precious metals and industrial metals. Global growth in 2024 is still expected to be around +4%, although the next few months could prove more uncertain in the industrialized countries. Over the year as a whole, however, most geographic zones will be supported by less restrictive monetary policies, and will be able to record positive GDP growth rates. This environment will support global demand and prices.

The oil market awaits a recovery in Asian demand

The energy segment proved highly volatile over the year, and was strongly influenced by changes in the economic scenario, both positive and negative, for the assessment of crude oil demand. The last quarter ended with a -16.74% drop in the energy segment, which completely wiped out the growth still present at the end of September.



Crude oil prices fell by almost -21% in Q4 2023, driven by falling inflation and the prospect of an economic slowdown in the USA, as well as a growing likelihood of recession in Europe. The evolution of the global macroeconomic scenario also suggested a weakening of growth prospects for early 2024. This less dynamic environment, suggesting a likely reduction in energy demand, logically weighed on crude oil prices. However, the relatively orderly decline in crude oil prices from almost \$95 a barrel at the end of September to just \$68 in mid-December, due to rising production in the USA, now seems to be coming to an end. Current prices have now been stabilizing for almost two months on previous support levels already reached in March, May and June 2023.

The outlook for oil production remains constrained by the main OPEC producing countries maintaining their reduced production levels. At the same time, however, weaker demand seems to be reflected in inventory levels, which rose in the USA at the end of the year. Against this backdrop, it is interesting to note that the geopolitical risks that emerged in the Middle East in early October did not worry the oil markets.

The situation has since changed, however, and is now considered more critical due to interventions by the Houthis rebels in Yemen, endangering the trade route used by tankers along their coasts and in the Red Sea. A major part of the world's oil transit currently passes through this area. A partial detour of transit on the much longer route around Africa will have consequences for supplies to Europe, and for prices. The organization of a US-led international intervention force to protect commercial vessels has been enough to reassure markets in recent weeks, but it is not certain that this will be enough to eliminate uncertainty.

COMMODITIES (USD)		Total Return Performance						
Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %	
MSCI Daily TR Net World USD	9885.46	USD	0.57	4.91	11.42	7.56	23.79	
GLOBAL	S&P GSCI Tot Return Indx	3346.6	USD	-1.4	-3.3	-10.7	3.5	-4.3
WTI CRUDE	Generic 1st 'CL' Future	71.7	USD	-2.6	-5.7	-21.1	1.4	-10.7
BRENT OIL	Generic 1st 'CO' Future	77.0	USD	-2.6	-7.0	-19.2	2.9	-10.3
NATURAL GAS	Generic 1st 'NG' Future	2.5	USD	-3.7	-10.3	-14.2	-10.2	-43.8
OR	GOLD SPOT \$/OZ	2063.0	USD	0.5	1.3	11.6	7.5	13.1
ARGENT	Silver Spot \$/Oz	23.8	USD	-1.6	-5.8	7.3	4.5	-0.7
AGRICULTURE	S&P GSCI Agric Indx Spot	386.8	USD	0.1	-3.4	0.2	-3.8	-17.8
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	422.6	USD	0.9	3.9	0.6	3.6	-6.3

In the absence of a visible upturn in global demand, particularly from China, which will reinforce current forecasts of growing global demand in 2024, crude oil prices may continue a temporary consolidation phase. Subsequently, we expect crude oil prices to return to their 2023 highs, touching the \$95/barrel mark again, despite a slowdown in the global economy.

Gold prices above \$2,000 can pull silver towards \$30

The last quarter was favorable for precious metals, which recorded an overall rise of +10.99%. Over the year as a whole, volatility was driven by interest rates, but the +11.51% performance in 2023 is quite satisfactory. Silver prices do not reflect the very positive fundamentals of the current market. Industrial and jewelry demand is expected to grow strongly over the next ten years. In particular, demand for silver in the fast-growing solar sector is extremely robust, as is that linked to the production of electric vehicles. These two sectors will strongly influence global silver demand over the coming decades. The industry's needs may eventually exceed current production and reserves. The physical market was already in imbalance in 2022, with demand exceeding production, which was also declining slightly, by more than 230 million ounces. The current trend is similar, highlighting the fact that recent imbalances have already largely offset the surpluses of the previous decade.

Silver, like gold, is also an alternative to the dollar and to money in general. The dollar's rise over the summer has so far not been conducive to investment demand for silver or gold metal. It has not yet materialized in 2023, as suggested by the fall in volumes invested in physical ETFs up to the end of October, but we believe it should strengthen again with the fall in the dollar and the correction in interest rates.

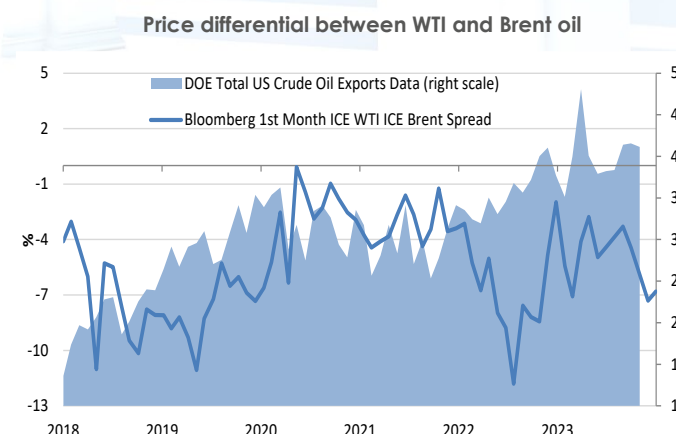
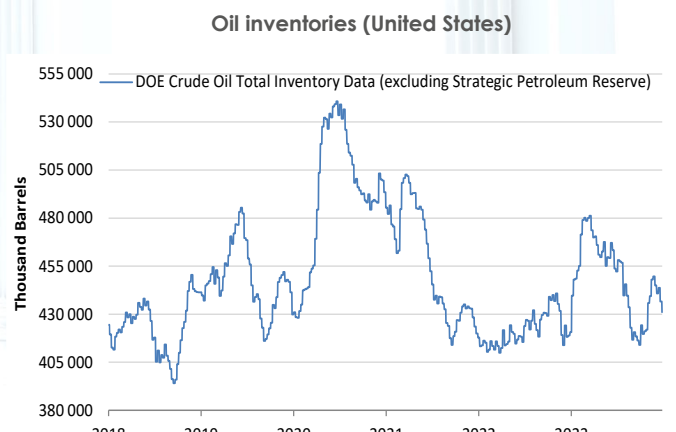
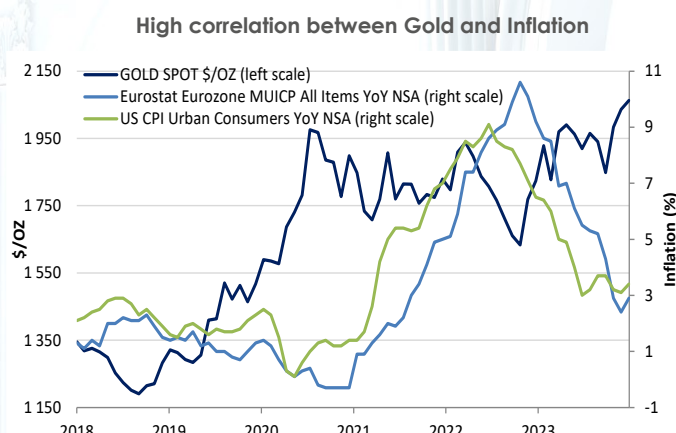
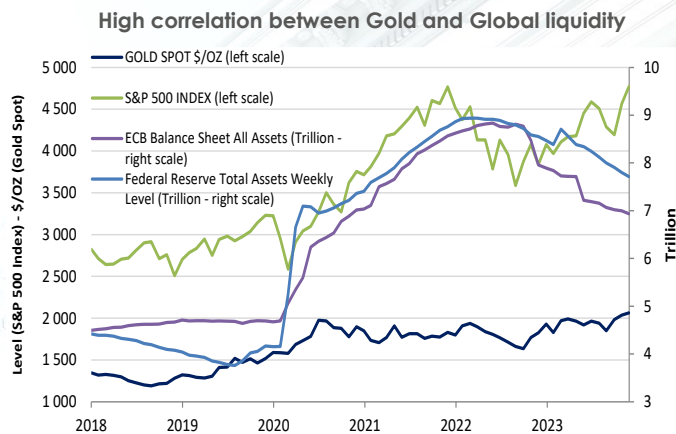
The rise in gold prices that we predicted at the start of 2023 is continuing and reaching new heights. The current 81-1 ratio between silver and gold prices is extreme and a far cry from its historical average of around 40-1. When this ratio returns to its mean, silver prices strongly outperform gold prices. Geologists consider the silver/gold reserve ratio to be less than 20-1, so gold above \$2,000 can push silver prices to \$30.

Better fundamentals for industrial metals

Industrial metals continued their horizontal consolidation in Q4, rising by just +0.82%. This increase was insufficient to alter the full-year result, which was down -4.47%. The industrial metals segment continues to be heavily penalized by lower-than-expected growth in China. Following sharp declines in the 1st half of the year, industrial metal prices largely stabilized thereafter, pending more positive statistics and more decisive announcements of economic support from the Chinese authorities. Chinese growth is still showing no serious signs of recovery, notably due to weak international demand, which is still weighing on production and exports, while developments in the real estate sector and infrastructure investment remain uncertain.

Inventory levels for most industrial metals 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. But we may have to wait a few more months before the positive factors align to support a rise.



PROSPECTS AND STRATEGIES

Hedge Funds

- Hedge funds fail to benefit from falling interest rates

The end of the year was marked by a gradual strengthening of a number of new convictions that had taken hold in investors' minds during November, significantly altering the consensus economic scenario. The economic data published reinforced the prospects of a slowdown in the US economy, and were accompanied by increasingly favorable statistics on the inflation front, allowing interest rates to accelerate their downward adjustment. The financial scenario then began to take increasing account of the growing likelihood of a change in Fed monetary policy sooner than initially expected, and possibly as early as March 2024, allowing traditional asset classes to resume their upward trajectory. On the other hand, alternative investments failed to keep pace, posting modest quarterly (+1.7%) and annual (+3.1%) performances.

With the exception of the macro/CTA strategy, which declined by -1.3% in the final quarter of the year, the other approaches finished in the black. Thus, event-driven, relative value arbitrage and equity hedge grew by +1.4%, +1.9% and +3.6% respectively. In 2023, the macro/CTA strategy was the only one to finish in the red (-1.5%), while the other approaches posted performances of +0.5%, +4.8% and +6.9%.

Private Equity

- Private equity grows despite rising interest rates

With the exception of 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 favorable 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)

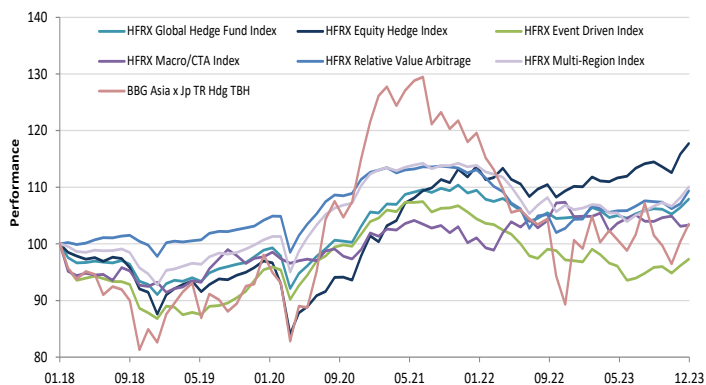
		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1410.3	USD	0.2	1.4	1.7	2.5	3.1
EQUITY HEDGE	HFRX Equity Hedge Index	1547.0	USD	0.3	1.6	3.6	3.8	6.9
EVENT DRIVEN	HFRX Event Driven Index	1649.5	USD	0.2	1.2	1.4	3.6	0.5
MACRO/CTA	HFRX Macro/CTA Index	1248.0	USD	-0.1	0.2	-1.3	-1.7	-1.5
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1309.9	USD	0.3	2.1	1.9	2.5	4.8
MULTI-REGION	HFRX Multi-Region Index	1524.7	USD	0.0	1.7	2.6	4.8	3.5

* Subject to one-month lag

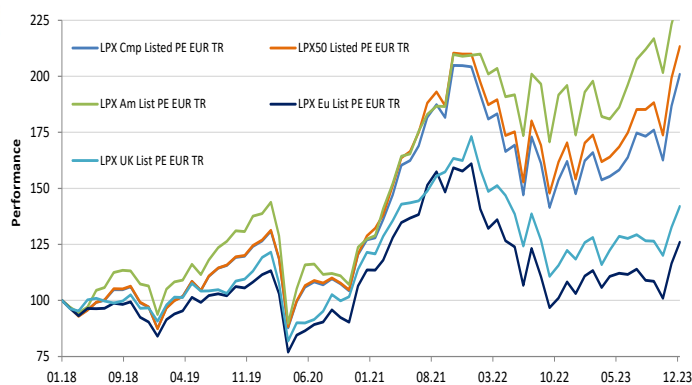
PRIVATE EQUITY INDICES (EUR)

		Total Return Performance						
		Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	483.8	EUR	0.3	7.6	14.1	22.6	36.1
MAJOR COMPANIES	LPX50 Listed PE EUR TR	4824.2	EUR	0.3	7.0	13.3	22.0	38.4
USA	LPX Am List PE EUR TR	763.4	EUR	0.2	6.0	9.2	20.6	36.2
EUROPE	LPX Eu List PE EUR TR	1209.4	EUR	0.2	8.2	16.1	12.9	22.3
UK	LPX UK List PE EUR TR	418.5	EUR	-0.1	7.0	12.3	11.2	19.9

Hedge Fund Indices



Private Equity Indices





MONTRES PRESTIGE

GENEVA



A UNIQUE PLACE
FOR UNIQUE WATCHES

LAURENT FERRIER
GENEVE

AUDEMARS PIGUET
Le Brassus


RESSENCE
BEYOND HANDS

A. Favre & fils

RICHARD MILLE


JACOB & CO


AKRIVIA
GENEVE



SHAMBALLA JEWELS

HYT

GLOBAL STRATEGY & ASSET ALLOCATION



GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio CHF

- More favorable interest rate environment and monetary policy in 2024
- Positive outlook for bond and equity markets
- New opportunities for securitized real estate
- Supercycle favorable to commodities

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

Asset allocations

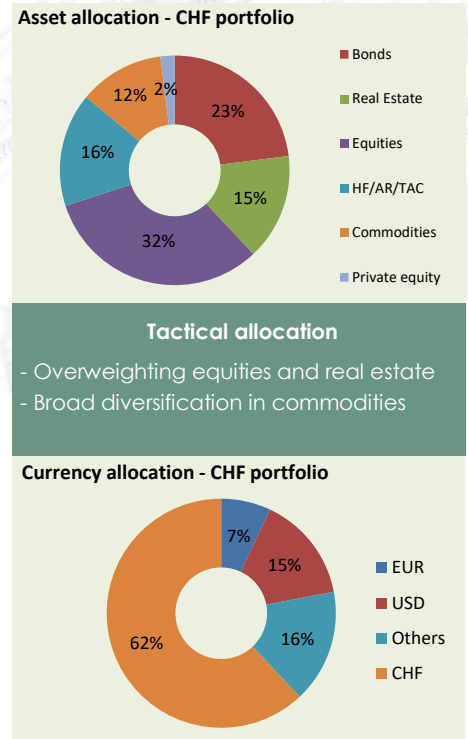
The core of our investment strategy is composed of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity, etc.). Today, the tactical allocation is largely diversified between asset classes. Equity 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 4th quarter was characterized by an expected reversal of the trend in US long rates, the effects of which were visible across the entire yield curve. The decline in inflation made it possible to envisage a new monetary policy paradigm more favorable to bond markets and financial assets. Most capital markets benefited. The slowdown in the economy, the faster-than-expected decline in inflation and the prospect of key interest rate cuts in 2024 underpinned sharp rebounds in capital markets. Our bond strategy has benefited greatly from this situation, which still offers opportunities for 2024. 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 also clearly benefited from this global change in scenario and sentiment towards the end of the year. We 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, will continue to benefit 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 outlook for equity market gains in 2024.



Commodities

Commodities remain the best guarantee of risk diversification, as they were again in 2022 for multi-asset portfolios. Supply and demand parameters are favorable to a continuation of the positive cycle for commodities, particularly in the energy and metals segments.

Real Estate

Real estate also benefited from falling interest rates towards the end of the year, and remains a prime alternative to bond markets. Current valuations for securitized real estate are still very attractive, and their yield levels are often significantly higher than those of bond markets, offering interesting opportunities for 2024.

Currencies

The franc is likely to suffer from yield differentials that are largely against both the dollar and the euro. We recommend exposure to other currencies offering higher yields and appreciation potential if the SNB decides to reduce its purchases of francs.

Market performances - Q4 2023

	Q4 2023		YTD			Q4 2023		YTD			
	local	CHF	local	CHF		local	CHF	local	CHF		
Exchange rates					Interest rates (3 months) (level)						
USD/CHF	-8.1%	-9.0%			CHF	1.68%					
EUR/CHF	-4.0%	-6.1%			EUR	3.91%					
GBP/CHF	-4.0%	-4.2%			USD	5.59%					
JPY/CHF	-2.7%	-15.4%			JPY	0.05%					
Equity markets					Bonds markets						
World	MSCI World USD	11.4%	2.4%	23.8%	12.7%	World	C&I Gr Global GovUSD	8.1%	-0.6%	5.2%	-4.3%
Europe	DJ Stoxx 600	6.7%	2.4%	15.8%	8.7%	Europe	Euro Ser-E Gov > 1	7.2%	2.9%	7.1%	0.6%
Eurozone	DJ Eurostoxx 50	8.3%	4.0%	19.2%	11.9%	United Kingdom	UK Ser-E Gov > 1	8.6%	4.2%	3.6%	-0.8%
Germany	MSCI Europe S.C.	9.3%	4.9%	9.8%	3.1%	Switzerland	SBI Général AAA-BBB	3.6%	3.6%	7.4%	7.4%
France	Dax 30	8.9%	4.5%	20.3%	12.9%		SBI Govt	5.8%	5.8%	12.5%	12.5%
United Kingdom	Cac 40	5.7%	1.5%	16.5%	9.4%	USA	US Ser-E Gov > 1	5.7%	-2.9%	4.1%	-5.3%
Switzerland	FTSE 100	1.6%	-2.5%	3.8%	-0.6%	Japan	Japan Ser-E Gov > 1	0.9%	-1.8%	0.5%	-15.0%
	SPI	1.4%	1.4%	6.1%	6.1%	Emerging	J.P. Morgan EMBI Global	9.3%	0.4%	10.4%	0.5%
	SMI	1.6%	1.6%	3.8%	3.8%	Miscellaneous					
	MSCI Swiss S.C.	14.0%	14.0%	14.1%	14.1%	LPP 25 Index	2.9%	2.9%	6.7%	6.7%	
North America	SP500	11.2%	2.3%	24.2%	13.1%	LPP 40 Index	2.6%	2.6%	7.1%	7.1%	
	Nasdaq	13.6%	4.4%	43.4%	30.5%	LPP 60 Index	2.3%	2.3%	7.7%	7.7%	
	Tse 300	7.3%	0.7%	8.1%	0.3%	Real Estate CH	DB RB Swiss Real Est Fd	6.4%	6.4%	6.7%	6.7%
	SP600 Small C.	14.5%	5.3%	13.9%	3.6%	Hedge Funds	Hedge Fund Research USD	3.1%	-5.3%	3.9%	-5.4%
Japan	Nikkei 225	5.0%	2.2%	28.2%	8.4%	Commodities	GS Commodity USD	-10.7%	-17.9%	-4.3%	-12.9%
Emerging	MSCI EMF USD	7.4%	-1.2%	7.0%	-2.6%						

GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio EUR

- More favorable interest rate environment and monetary policy in 2024
- Positive outlook for bond and equity markets
- New opportunities for securitized real estate
- Supercycle favorable to commodities

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

Asset allocations

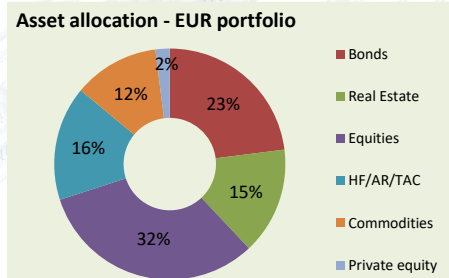
The core of our investment strategy is composed of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity, etc.). Today, the tactical allocation is largely diversified between asset classes. Equity 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

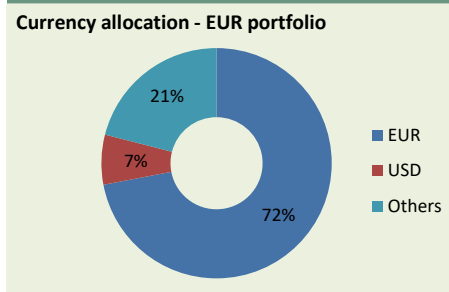
The 4th quarter was characterized by an expected reversal of the trend in US long rates, the effects of which were visible across the entire yield curve. The decline in inflation made it possible to envisage a new monetary policy paradigm more favorable to bond markets and financial assets. Most capital markets benefited. The slowdown in the economy, the faster-than-expected decline in inflation and the prospect of key interest rate cuts in 2024 underpinned sharp rebounds in capital markets. Our bond strategy has benefited greatly from this situation, which still offers opportunities for 2024. 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 also clearly benefited from this global change in scenario and sentiment towards the end of the year. We 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, will continue to benefit 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 outlook for equity market gains in 2024.



Tactical allocation
 - Overweighting equities and real estate
 - Broad diversification in commodities



Commodities

Commodities remain the best guarantee of risk diversification, as they were again in 2022 for multi-asset portfolios. Supply and demand parameters are favorable to a continuation of the positive cycle for commodities, particularly in the energy and metals segments.

Real Estate

Real estate also benefited from falling interest rates towards the end of the year, and remains a prime alternative to bond markets. Current valuations for securitized real estate are still very attractive, and their yield levels are often significantly higher than those of bond markets, offering interesting opportunities for 2024.

Currencies

We continue to recommend significant exposure to euros, while adopting a policy of diversifying opportunities outside the European currency.

Market performances - Q4 2023

	Q4 2023		YTD			Q4 2023		YTD			
	local	EUR	local	EUR		local	EUR	local	EUR		
Exchange rates					Interest rates (3 months) (level)						
USD/EUR	-4.2%	-3.0%			CHF	1.68%					
CHF/EUR	4.2%	6.6%			EUR	3.91%					
GBP/EUR	0.0%	2.1%			USD	5.59%					
JPY/EUR	1.4%	-9.8%			JPY	0.05%					
Equity markets					Bonds markets						
World	MSCI World USD	11.4%	6.7%	23.8%	20.1%	World	Citi Gr Global Govt/USD	8.1%	12.6%	5.2%	12.1%
Europe	DJ Stoxx 600	6.7%	6.7%	15.8%	15.8%	Europe	Euro Ser-E Gov > 1	7.2%	7.2%	7.1%	7.1%
Eurozone	DJ Eurostxx 50	8.3%	8.3%	19.2%	19.2%	United Kingdom	UK Ser-E Gov > 1	8.6%	8.5%	3.6%	5.8%
	MSCI Europe S.C.	9.3%	9.3%	9.8%	9.8%	Switzerland	SBI Général AAA-BBB	3.6%	7.9%	7.4%	14.4%
Germany	Dax 30	8.9%	8.9%	20.3%	20.3%		SBI Govt	5.8%	10.2%	12.5%	19.9%
France	Cac 40	5.7%	5.7%	16.5%	16.5%	USA	US Ser-E Gov > 1	5.7%	1.2%	4.1%	0.9%
United Kingdom	FTSE 100	1.6%	1.6%	3.8%	6.0%	Japan	Japan Ser-E Gov > 1	0.9%	2.4%	0.5%	-9.4%
Switzerland	SPI	1.4%	5.6%	6.1%	13.1%	Emerging	J.P. Morgan EMBI Global	9.3%	4.7%	10.4%	7.1%
	SMI	1.6%	5.8%	3.8%	10.7%	Miscellaneous					
	MSCI Swiss S.C.	14.0%	9.2%	14.1%	10.6%	LPP 25 Index	2.9%	9.7%	6.7%	13.7%	
North America	SP500	11.2%	6.5%	24.2%	20.5%	LPP 40 Index	2.6%	9.4%	7.1%	14.2%	
	Nasdaq	13.6%	8.8%	43.4%	39.1%	LPP 60 Index	2.3%	9.1%	7.7%	14.8%	
	Tse 300	7.3%	5.3%	8.1%	7.2%	Real Estate CH	DB RB Swiss Real Est Fd	6.4%	6.4%	6.7%	13.8%
	SP600 Small C.	14.5%	9.7%	13.9%	10.4%	Hedge Funds	Hedge Fund Research USD	3.1%	-1.3%	3.9%	0.8%
Japan	Nikkei 225	5.0%	6.6%	28.2%	15.7%	Commodities	GS Commodity USD	-10.7%	-14.5%	-4.3%	-7.2%
Emerging	MSCI EMF USD	7.4%	2.9%	7.0%	3.8%						

GLOBAL STRATEGIES | ASSET ALLOCATION

Multi-asset portfolio USD

- Environnement de taux et politique monétaires plus favorable en 2024
- Perspectives positives pour les marchés obligataires et les actions
- Nouvelles opportunités dans l'immobilier titrisé
- Supercycle favorable aux matières premières

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

Asset allocations

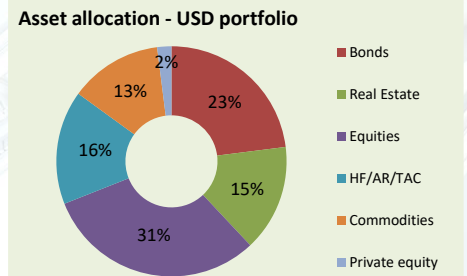
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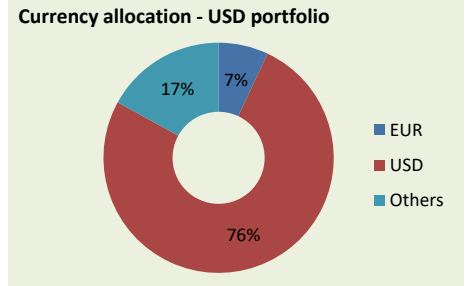
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Currencies

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

Market performances - Q4 2023

		Q4 2023		YTD				Q4 2023		YTD	
		local	USD	local	USD			local	USD		
Exchange rates						Interest rates (3 months) (level)					
CHF/USD		8.8%		9.9%		CHF		1.68%			
EUR/USD		4.4%		3.1%		EUR		3.91%			
GBP/USD		4.4%		5.4%		USD		5.59%			
JPY/USD		5.9%		-7.0%		JPY		0.05%			
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	Tse 300	7.3%	10.0%	8.1%	10.7%	Real Estate CH	DB RB Swiss Real Est Fd	6.4%	6.4%	6.7%	17.3%
	SP600 Small C.	14.5%	14.5%	13.9%	13.9%	Hedge Funds	Hedge Fund Research USI	3.1%	3.1%	3.9%	3.9%
Japan	Nikkei 225	5.0%	11.2%	28.2%	19.2%	Commodities	GS Commodity USD	-10.7%	-10.7%	-4.3%	-4.3%
Emerging	MSCI EMF USD	7.4%	7.4%	7.0%	7.0%						



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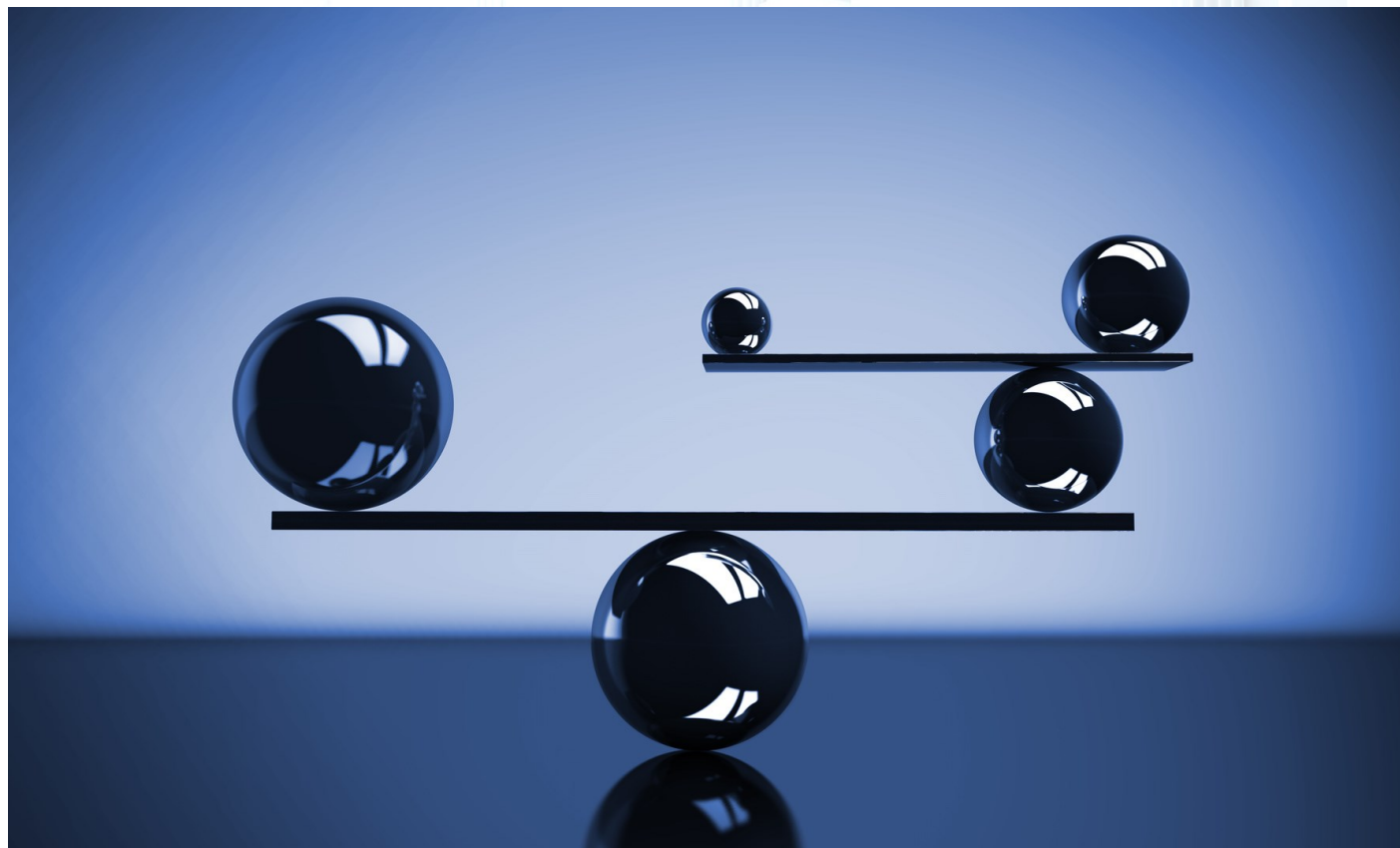
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INVESTMENT THEME FOCUS



INVESTMENT THEME

Who owns the central banks whose monetary policies guide our economies?

- A reminder of the foundations of central bank creation and the concept of independence
- Who appoints the central bankers? How independent are they from shareholders?
- What are the main roles and objectives of central banks?
- Who benefits from the financial results? Independence remains fragile in times of acute crisis

Who owns the central banks whose monetary policies guide our economies?

There was a time when central banks acted in a particularly discreet manner, and did not openly communicate the basis of their analyses and expectations to the public in any detail. Their monetary policy decisions were communicated without specific precaution, the doctrine being that observers had to be surprised if the policy was to have the greatest impact. Today, the situation is very different, and central bankers have changed their approach in favor of steering market expectations. They communicate their analyses much more regularly, particularly since the recent financial crises, which have forced them to act more actively and decisively, developing new approaches such as quantitative easing, introduced after the 2008 crisis. As a result, they are obliged to be more transparent, in order to reassure the public of their ability to implement appropriate policies that will enable them to achieve the objectives set out in their mandates. As a result, central bankers are increasingly heard to express their views on the policies to be pursued, and their influence on investor sentiment is growing. The influence of central banks has become crucial in managing financial crises, as we saw again in March 2023 in the USA, with the crisis of confidence caused by several bank failures necessitating the injection of \$500 billion from the US central bank to stabilize the financial system, or in Switzerland, with the decisive action that had to be taken by the SNB in organizing the takeover of CS by UBS. Since 2008, central banks' balance sheets have increased tenfold on average, underlining their growing role in steering economic cycles and financial crises. It is now clear to all that their role has become fundamental in ensuring financial stability. But the question of their independence from political power, often mentioned as a core value of their effectiveness, does not seem clearly established in all cases.

A reminder of the foundations of central bank creation and the concept of independence

One of the foundations of central bank independence is to be found in American philosophy, which regards independence as one of the fundamental conditions for the functioning of democracy. History shows that executive power can sometimes be tempted by demagogic manipulations with severe consequences, both socially and politically. If left unchecked, the executive can provoke damaging instability and crises that are difficult to overcome. The U.S. and Swiss constitutions reflected these concerns at their inception, by providing for control of the executive by the legislature. When it comes to monetary policy, the fear of instability can therefore arise from the unleashing of passions and the particular interests of political groups who may seek a specific interest to the detriment of the general interest of the country and its population. The organization of institutions responsible for monetary policy must therefore take into account the future risks of demagogic pressures, in order to avoid and regulate conflicting interests.

Although the USA and Switzerland set up their central banks around the same time, the two countries will decide to ensure the independence of their central banks from political power in very different ways.

The independence of the central bank is therefore a necessity in order to counter the risks of instability that could be caused by policy changes leading to major economic and social inequalities. At the root of the formulation of monetary policy principles, we naturally find the fight against the consequences of high inflation and the redistribution of wealth in society. In particular, the independence of central banks was strengthened to reassure the public and financial markets worried about the effects of the risks associated with the resurgence of uncontrolled inflation. All too often, the appearance of uncontrolled inflation caused by governments unable to react effectively had led to political excesses, social unrest and, in some cases, even instability at the root of major conflicts. In the United States, the Founding Fathers seemed perfectly aware of the redistributive effects of inflation, and were quick to address this issue in their Constitution, defining the principle of regulating the value of money in order to maintain its purchasing power.

It's worth remembering that, originally, the States of the Union did not have the right to issue money, even though there was no central bank yet. A sign of mistrust of the executive, confirmed by the fact that this role was originally performed by Parliament. When the FED was created, in the wake of the banking panics of 1907, it was vital to protect the new central bank from political and banking pressures by ensuring the highest degree of independence. This principle of independence still prevails today, and is often put forward as a guarantee of the success of monetary policies conducted in the sole interest of the population and the country. But independence is not always self-evident, either in national regulations or in the day-to-day work of central banks, due to external pressures or collusion with governments. In some cases, the various financial crises of recent years have demonstrated a clear interdependence between political power and central bank action.

Historically, this notion of independence has been reinforced at various times, depending on the country concerned, and since the end of the 20th century it has become clear that it must be guaranteed if central banks are to act effectively. The following is a reminder of the important periods when the independence of various national institutions was strengthened.

FED (1913): its independence has been strengthened since 1978

In the United States, the central bank was officially created by the Federal Reserve Act or Owen-Glass Act of December 23, 1913, following the banking crises of 1907 in particular. Its independence was reinforced during the currency instability of the late 1970s.

Prior to this, the First Bank of the United States had been responsible for issuing the new American currency and regulating credit since 1791. Replaced in 1816 by the Second Bank of the United States to put an end to the hyperinflation resulting from the Second World War with the United Kingdom, it was dissolved in 1830 before a new financial instability, caused by the difficult cohabitation of regional monetary systems, led to the creation by the US Congress of the National Monetary Commission, whose historic task was to define the founding legislation of today's FED. As early as 1913, the U.S. government placed the FED under its control, appointing the Secretary of the Treasury as a member.

In the wake of the Great Depression, the passage of the Banking Act altered decision-making structures, notably creating the Federal Open Market Committee, whose purpose was already to regulate credit and steer interest rates. Since the Secretary of the Treasury was no longer a member of the FED, the central bank's independence was taken for granted. Particularly as the central bank is not owned by the government and receives no state funding for its budget.

The definition of its mandate changed again in 1978, when the Humphrey-Hawkins Full Employment Act was passed. The Fed is independent, and its decisions are not subject to authorization by the President of the United States or any other federal government body. Congress does, however, have a right of oversight.

SNB (1907): independence enshrined in the Constitution

The SNB was founded in 1907 under the Swiss National Bank Act. The SNB is a public limited company listed on the Swiss stock exchange, whose activities are now governed by a new special law adopted in 2002. Although the SNB has been a public limited company since it was founded in 1907, the Swiss Confederation does not own any shares, which ensures its independence, even though its capital is partly held by the Swiss cantons, the cantonal banks and about a third by the public. The SNB is managed by its Executive Board, made up of three members appointed by the Federal Council. Article 99 of the Swiss Constitution guarantees the SNB's independence and obliges it to hold sufficient currency reserves, partly in gold, to reassure investors of the stability and value of the currency.

BoE (1694): independence of the Bank of England reinforced in 1997

The Bank of England is certainly the oldest central bank to mint its own currency. Founded in 1694 by Members of Parliament and merchants, it was then a private holding company controlled by financial interests from the City, before its capital was nationalized in 1946. Its independence was strengthened in 1997 by a vote of Parliament, and subsequently in 2013 by the Financial Services Act, which established

an independent Financial Policy Committee. Since then, it has been theoretically independent of political pressure.

ECB (1998): independence guaranteed by the statutes of the European Monetary System of Central Banks

In Europe, the case of the European Central Bank is particularly interesting. Since 1998, the European Union's Central Bank has been based in Frankfurt, succeeding the European Monetary Institute (EMI), which was created to set up the new central bank along the lines of the Bundesbank. The German central bank model, which was to some extent imposed after the Second World War, was originally heavily influenced by the negative experience of the 1930s, the scene of hyperinflation caused by unlimited money creation to finance government spending. The Bundesbank's desire for absolute independence reflected its distrust of political power, which was naturally tempted to create too much money and credit, risking inflation and social instability in the process.

The ECB was therefore originally set up as a body independent of EU member states or any supranational European institution. Its independence is guaranteed by the statutes of the European System of Central Banks, which stipulate that a governor can only be dismissed in the event of serious misconduct or incapacity. The ECB is, however, accountable to the European Parliament.

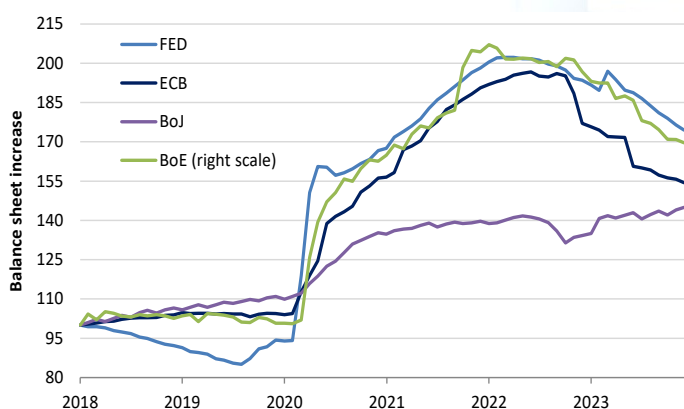
BoJ (1882): theoretical independence since 1998

In Japan, the Bank of Japan has been issuing currency on behalf of the government since 1882, but only acquired its theoretical independence from the government under the Bank of Japan Act of April 1, 1998. In fact, its independence from political power is not so great. Since the appointment of Prime Minister Abe in 2012, the monetary policy pursued by its Governor Mr. Kuroda, appointed by Mr. Abe, has been very clearly influenced by government policy, which is still the case to this day under the presidency of Mr. K. Ueda.

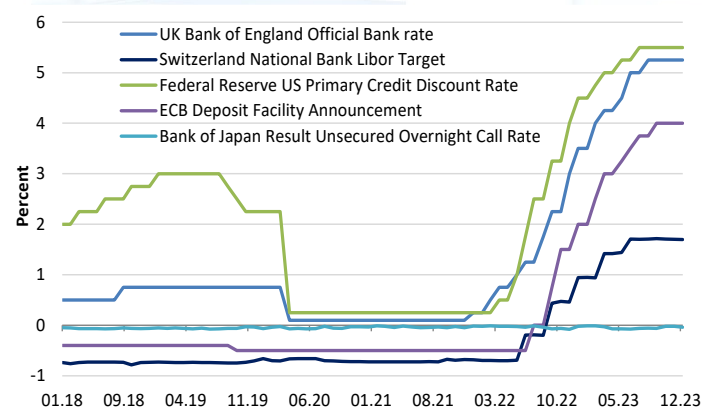
PBoC (1948): dependent on political power

The People's Bank of China was founded in 1948 and has never been independent of political power. It is owned by the Chinese state.

Central bank balance sheet trends



Key interest rate trends



Who appoints central bankers?

Since the emergence of the financial crisis in 2007 and its media explosion with the collapse of Lehman Brothers in 2008, central banks have once again come to the fore, attracting the close attention of media and investors worldwide. There is no longer a word, a phrase, a slip of the tongue or a raised eyebrow from a central banker that is not instantly deconstructed and analyzed to derive new and decisive information, enabling a more accurate assessment of the future evolution of policy and doctrine. The salvation of the global economy is now clearly in their hands.

The names of influential central bankers are now better known than ever to investors and the general public, even when the latter have only a limited interest in the economy or international finance. Mr. J. Powell (FED), Mrs. C. Lagarde (ECB), Mr. Jordan (SNB), Mr. A. Bailey (BoE) or Mr. K. Ueda (BoJ) regularly make the headlines and their interventions are relayed with fervor, so crucial has their role become to the health and development of the global economic system. The election of central bankers is now a public affair, since in the case of the six central banks mentioned above, the choice of central bank president or governor is in fact a political decision.

In **Switzerland**, it is the Federal Council, acting on a proposal from the Bank Council (the central bank's supervisory body), which elects the President (Mr. Jordan) and the other two members of the Executive Board. The SNB's policy is thus set by an Executive Board of three politically-elected individuals.

In **the United States**, the Board of Governors is the governing body of the Federal Reserve (FED). It is made up of seven members appointed by the US President, a choice subsequently confirmed by the US Senate. The Chairman (Mr. J. Powell) is appointed for a four-year term, renewable without restriction, and the other members of the Board are appointed for a fourteen-year term.

In **Europe**, the ECB's Executive Board is made up of six members, including President C. Lagarde, elected by common accord of the heads of state or government of the eurozone countries on a recommendation from the Council of the European Union. This follows a consultative process with the European Parliament and the ECB Governing Council. The ECB Governing Council is made up of the ECB Executive Board and the governors of the national central banks of the eurozone countries.

In the **UK**, the Chancellor of the Exchequer appoints the Governor of the Central Bank.

In **Canada**, Mr. T. Macklem is appointed by the Minister of Finance, while in Japan, the appointment of the Governor is approved by the Senate on the proposal of the government.

In **China**, the President of the People's Bank of China is appointed by the Premier and approved by the National People's Congress (NPC).

Central bank presidents are therefore appointed exclusively by governments.

How independent are we from our shareholders?

In **Switzerland**, the central bank is owned by the cantons, the cantonal banks and the public. The State is indirectly present in the capital, the Confederation elects the members of the Executive Board, the Bank Council responsible for overseeing the management of the business is made up of six members appointed by the Federal Council, and only five others are elected by the General Meeting. In the final analysis, independence is not fully guaranteed at institutional level.

In **Europe**, the ECB is clearly owned by the national central banks, the only ones authorized to hold its shares. The capital, initially set at 10.76 billion euros, is held in proportion to the shares of each EU member state, to the GDP and population of the Union. The Bundesbank, for example, holds 18%, while the Banque de France and the Bank of England both hold 14%. In theory, therefore, the ECB is independent of government power, but the central banks of these three countries are themselves owned by their respective governments. Independence is therefore not theoretically assured from this point of view.

The case of **the United States** is a little more complex. The US central bank is owned by the twelve regional central banks, which tends to give it the status of a federal institution, independent of government power, since the federal government does not hold any shares in the Federal Reserve. However, each of these twelve Regional Federal Reserve Banks has a shareholder base made up of commercial banks from their corresponding district, who elect some of the members of the board of each regional reserve. The Federal Reserve Bank of New York is naturally the largest, accounting for around 40% of the regional banks' assets. It also executes the financial market operations decided by the FED. The FED is therefore made up of bodies whose representation is sometimes public or mixed (the Board of Governors chaired by Mr. J. Powell, the Federal Open Market Committee, the twelve central banks, the member banks of the regional central banks and several advisory councils). The FOMC, which is responsible for monetary policy, comprises the seven members of the Board of Governors and five representatives of the twelve regional central banks. The distinctive feature of the American system is that money creation is the prerogative of the Treasury Department, not the FED. Congress exercises its right of control and oversight.

In the **UK**, the BoE is an independent public body controlled by the Treasury Solicitor's Department. However, its operational independence is linked to the inflation targets set by the Treasury and included in the government budget.

In **Japan**, the BoJ is 55% owned by the Japanese government and 45% by private shareholders, whose shares have no voting rights but are listed on the stock exchange.

What are the main roles and objectives of central banks?

In **Switzerland**, the SNB has a mission defined by the Constitution and the National Bank Act. It is responsible for issuing currency and managing the country's monetary policy. It ensures the stability of the Swiss franc and of prices, taking into account the economic situation.

In **the United States**, the Federal Reserve Act defines the Fed's mission as maintaining growth in monetary aggregates and in the quantity of credit consistent with potential output growth, so as to achieve the goals of maximum employment, stable prices and low interest rates.

In **Europe**, the ECB is responsible for conducting monetary policy within the eurozone, in conjunction with the central banks of the eurozone member states. Its mission is to maintain price stability, manage reserves and conduct foreign exchange operations.

In the **UK**, the BoE is responsible for maintaining monetary and financial stability, foreign exchange policy, currency distribution and acting as lender of last resort to commercial banks.

In Japan, the BoJ is responsible for issuing money, directing monetary policy and ensuring the financial stability of the Japanese financial system.

In **China**, the PBoC is responsible for the country's monetary policy and financial stability. It regulates financial institutions and oversees tax regulations.

Who benefits from the financial results achieved ?

In **the United States**, part of the FED's financial results are paid out to member bank shareholders in the form of a guaranteed dividend of 6% (\$583 million in 2021), while the federal government receives the remaining profits, which amounted to \$107.4 billion, to the US Treasury.

In **Switzerland**, the National Bank Act contains specific provisions on the allocation of profits. It stipulates that a maximum dividend of 6% is to be paid to shareholders, and that one third of the profit in excess of the dividend is to be paid to the Swiss Confederation, and two thirds to the cantons. In 2021, the SNB paid out CHF 6 billion to the cantons.

In **Europe**, the ECB enjoys its own budgetary independence and can also freely use the profits generated by its monetary policy. In practice, it returns a large part of its profits to its shareholders.

Independence remains fragile in times of acute crisis

Since the emergence of the 2008 financial crisis, the independence of central banks has clearly suffered. In most countries, the independence of central bankers has been undermined by political and financial instability, and by the growing interventionism of governments. Political power has interfered in the conduct of monetary policy in countries that are perfectly democratic and respectful of the notion of independence, as laid down by those same governments. The risks of social unrest, which were supposed to stem from uncontrolled inflation, have taken another unexpected path, but one that is just as dangerous for the stability of the financial system and for social order, justifying the increasingly obvious collusion between governments and central bankers.

Finally, these events may simply highlight a situation that has always existed in practice: the independence of central banks is fragile and

must be protected. The FED had already pursued an aggressive policy on the public debt market to enable the government to refinance itself more cheaply after the Second World War, and has been following a similar path indirectly since the adoption of QE. Today, it holds a high proportion of all US public debt, as is also the case in Japan and the eurozone.

SNB share price performance



PROFIT DISTRIBUTION AND DISTRIBUTION RESERVE

In CHF millions

	2018	2019	2020	2021	2022 ²
Annual result	-14 934.0	48 851.7	20 869.6	26 300.0	-132 479.5
- Allocation to provisions for currency reserves	-5 423.4	-5 857.3	-7 907.4	-8 698.1	-9 567.9
= Distributable annual result	-20 357.4	42 994.4	12 962.2	17 601.9	-142 047.4
+ Distribution reserve before appropriation of profit ¹	67 348.4	44 989.5	83 982.4	90 943.1	102 543.5
= Net profit/loss	46 991.0	87 983.9	96 944.6	108 545.0	-39 504.0
- Payment of a dividend of 6%	-1.5	-1.5	-1.5	-1.5	-
- Profit distribution to Confederation and cantons	-2 000.0	-4 000.0	-6 000.0	-6 000.0	-
= Distribution reserve after appropriation of profit	44 989.5	83 982.4	90 943.1	102 543.5	-39 504.0

¹ Year-end total as per balance sheet.

² In accordance with appropriation of profit.

Source : SNB





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