INDOSUEZ
WEALTH MANAGEMENT

Marketing Material

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When the tide goes out...

Architects of Wealth

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01 • Editorial
WHEN THE TIDE GOES OUT...

Delphine
DI PIZIO TIGER
Global Head
of Asset Management

Dear Reader,

"Only when the tide goes out do you discover who's been swimming naked". In keeping with Warren Buffet's saying, the sea of low interest rates and easy money has finally receded, exposing the weakest players. This was expected, which is why the financial world has been scrutinising the market for several months to detect potential weak links.

It is clear that while Credit Suisse had been identified, Silicon Valley Bank (SVB) was far from it. Indeed, until 10 March, when it defaulted, SVB was highly rated (investment grade) by S&P and Moody's. The company also had a good rating on the ESG dimension (Environmental, Social and Governance criteria). The MSCI rating agency had given it an "A", which meant that some "green" mutual funds in the market had bought its shares. Finally, until three months ago, the consensus among financial analysts (on the sell side) was to buy or hold the company's positions.

In the end, it was the governance aspect that caused SVB's default; a negative scissor effect, due to the violent rise in interest rates, between massive withdrawals (linked to a concentration of clients in the start-up sphere) and a negative market effect on the cash invested in US government bonds. In addition to this mismanagement between the bank's assets and liabilities, the US Government bears its share of responsibility through the relaxation of banking regulations in 2018 under President Donald Trump.

In addition to the default of two US banks already identified as weak links[1], the crisis of confidence caused by the SVB default has put many regional banks in difficulty, including the Californian investment, asset management and services bank, First Republic Bank. What is particularly striking in this story is the solidarity that was formed around these troubled banks.

- **Client solidarity for SVB;** more than a hundred capital investment companies immediately expressed their support for SVB. And this is probably linked to the ESG dimension of many of them, such as the venture capital company General Catalyst, the leader of this action, which integrates strong societal values in its investments.
- **Solidarity of the big banks for First Republic Bank;** indeed, the bank is now escaping bankruptcy thanks to the support of its competitors. 11 major US banks[2] have pledged a total of USD 30 billion in deposits to First Republic. This action was welcomed by the US authorities.

These initiatives are remarkable and mean that even if the sea recedes, it is potentially clearer. It is also interesting to note that in the SVB case, while a buyer is the first option chosen and it is highly likely that it will be a traditional bank, there is also the possibility that it will be a player in the new economy, like Elon Musk, who says he is open to the idea of Twitter taking a position.

What to expect next? The shockwave caused by the SVB default has spread outside the US, causing the UBS-Credit Suisse mega-merger in Europe. Nevertheless, we remain confident that this banking crisis, which is above all a crisis of confidence, will be resolved. The central banks that have injected liquidity on an ad hoc basis to deal with this crisis will probably change their restrictive policy (particularly with regard to reducing liquidity in the market), without losing sight of their original mandate: inflation.

Rising rates are therefore an opportunity to identify the weakest players. This episode is the first and there will probably be other specific events in the financial sector, but also potentially in other sectors where companies are sensitive to rising rates.

In this more volatile environment, it is necessary to turn these movements into investment opportunities and to discriminate more than ever in selecting stocks.

I hope you enjoy reading this issue, in which we will go into more detail about our convictions on banks, but also on the macro-financial sphere after this change of tide.

1 - Two players financing crypto-currencies in particular: Signature Bank, which was already under investigation for money laundering before it was shut down, and Silvergate, already in turmoil following the collapse of crypto-currency platform FTX.
2 - Bank of America, Citigroup, JPMorgan Chase, Wells Fargo, Goldman Sachs and Morgan Stanley, as well as second tier banks such as Bank of New York Mellon, PNC Bank, State Street, Truist and US Bank.

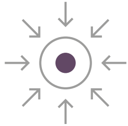
BANKS: SMELLS LIKE TIGHTENING SPIRIT

Alexandre DRABOWICZ
Chief Investment Officer

Yasser TALBI
Portfolio Manager

Lucas MERIC
Investment Strategy Analyst

Recent turmoil from San Francisco to Zurich has raised questions on implications for banks. Regulation risk on small US banks and the already weak status of Credit Suisse, allows us to believe that this crisis should remain contained, even if the impact on confidence and credit conditions has yet to be settled. From an investor perspective, we maintain our constructive approach on large banks.



+475 BPS IN 12 MONTHS: Fed funds rapid tightening cycle

BANKING TURMOIL: FROM SAN FRANCISCO TO ZURICH

Mid-March, Silicon Valley Bank (SVB), which had become a major player in US tech financing over the past 40 years, became the first victim of the Federal Reserve's (Fed) rapid monetary tightening cycle (+475 basis points (bps) in 12 months) which uncovered major asset-liability mismatches in the Californian bank's balance sheet. Depositors fled after the revelation of liquidity issues leading to SVB's failure on 10 March. As doubts grew about the soundness of the US banking system, Silvergate and Signature Bank also filed for bankruptcy. However, US officials, with the 2008 crisis still fresh in mind, reacted quickly: guaranteeing bank deposits, providing liquidity to banks (the Fed's balance sheet increased by USD 300 billion in a week) and coordinating a consortium of major US banks to provide USD 30 billion of deposits to First Republic Bank.

Growing uncertainty spread to Europe, especially to Credit Suisse, following a statement by the Saudi National Commercial Bank (Credit Suisse's main shareholder) explaining that it would not provide additional financial assistance. The statement set off a firestorm, causing Credit Suisse shares (already identified as the weakest link in the European Banking system) to plummet 24% in one day (their biggest drop ever) and the Credit Default Swap (CDS) to rise from 2.9% to 10.8%. Again, a quick reaction from the Swiss National Bank (SNB) to provide liquidity to Credit Suisse initially calmed markets, but ultimately resulted in UBS (government-backed) announcing a USD 3 billion offer for Credit Suisse (once worth more than USD 90 billion).

ARE BANKS MORE FRAGILE FROM THE RECENT TURMOIL?

Impact on bank balance sheets

The duration risks for banks are contained in Europe given the strict Basel III banking regulations applied to the vast majority of banks, but only to banks of a certain size in the United States. Therefore, the majority of banks have probably hedged their duration risks, which explains their strong underperformance in periods of low interest rates. Nevertheless, we can expect that the remaining banks, which still have interest rate risks, will be forced to hedge them.

Impact on deposits

For the time being, deposits are flowing from smaller US banks to larger ones, despite lower compensation. The perception of safety is naturally higher towards larger players. Banks have seen their deposits fall since the pandemic due to: regulatory restrictions on leverage ratios in particular, and household flows towards Treasury bills and money market funds (Chart 1, page 5). Looking ahead the higher remuneration of deposit flows will negatively affect bank profitability via a contraction of interest margins.

Impact on credit conditions

Tightening credit conditions are already in place in both Europe and the US. Despite this, we have seen strong growth in bank credit volume in 2022, thanks in particular to healthier corporate and household balance sheets.

On the other hand, the pace has slowed since Q4 2022, without impacting GDP growth, given that the US economy is financed in large part via the financial markets and is less sensitive than in the past to rate hikes. In Europe, a sharp contraction in bank credit could weigh more heavily on the economy, but this is not our central scenarios given that corporates remain relatively cash-rich.

Overall, fiscal policy, excess savings and rising wages are likely to support economic demand in the short-term. As credit has not been the main engine of demand in the post-pandemic world, the broader impact of this tightening of credit conditions on inflation is even more uncertain.

Has liquidity been impaired?

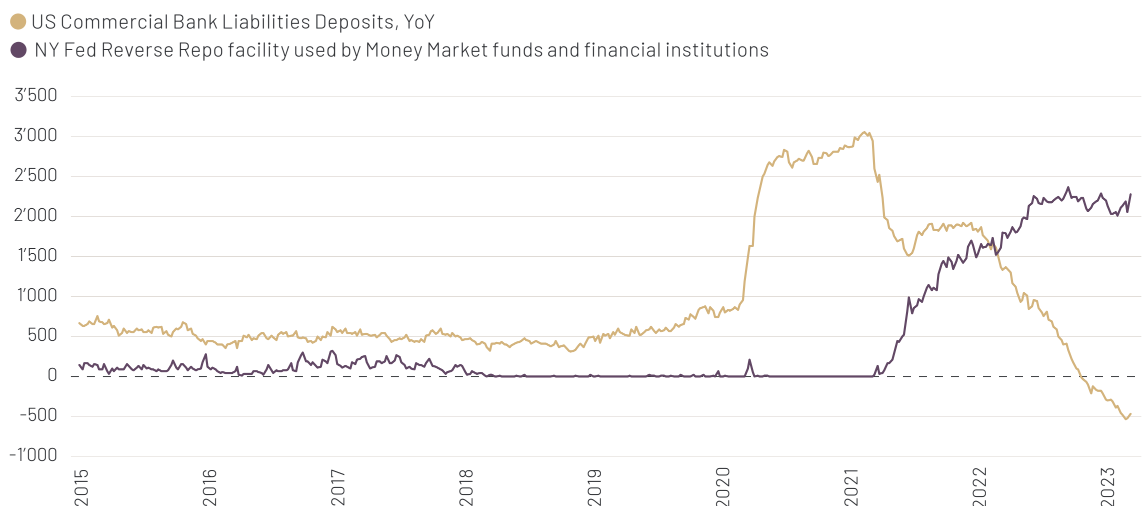
Central banks have reacted quickly and are playing their role as lender of last resort. Much like the Bank of England (BoE) during the pension crisis in September, the Fed and the European Central Bank (ECB) have tools to reinforce bank liquidity (see Fixed Income, page 8). It is clear that these measures have only been used by the weakest banking players (First Republic Bank, Silicon Valley Bank, Signature Bank or Credit Suisse in Switzerland) and foreign exchange swap lines between central banks have been hardly used. Liquidity needs are therefore limited to players suffering from bank runs and balance sheet mismanagement.

The banking and financial system does not appear to be lacking liquidity, but these measures allow to restore confidence and to gain time to address the capital situation of fragile players.

KEY INVESTOR TAKEAWAYS

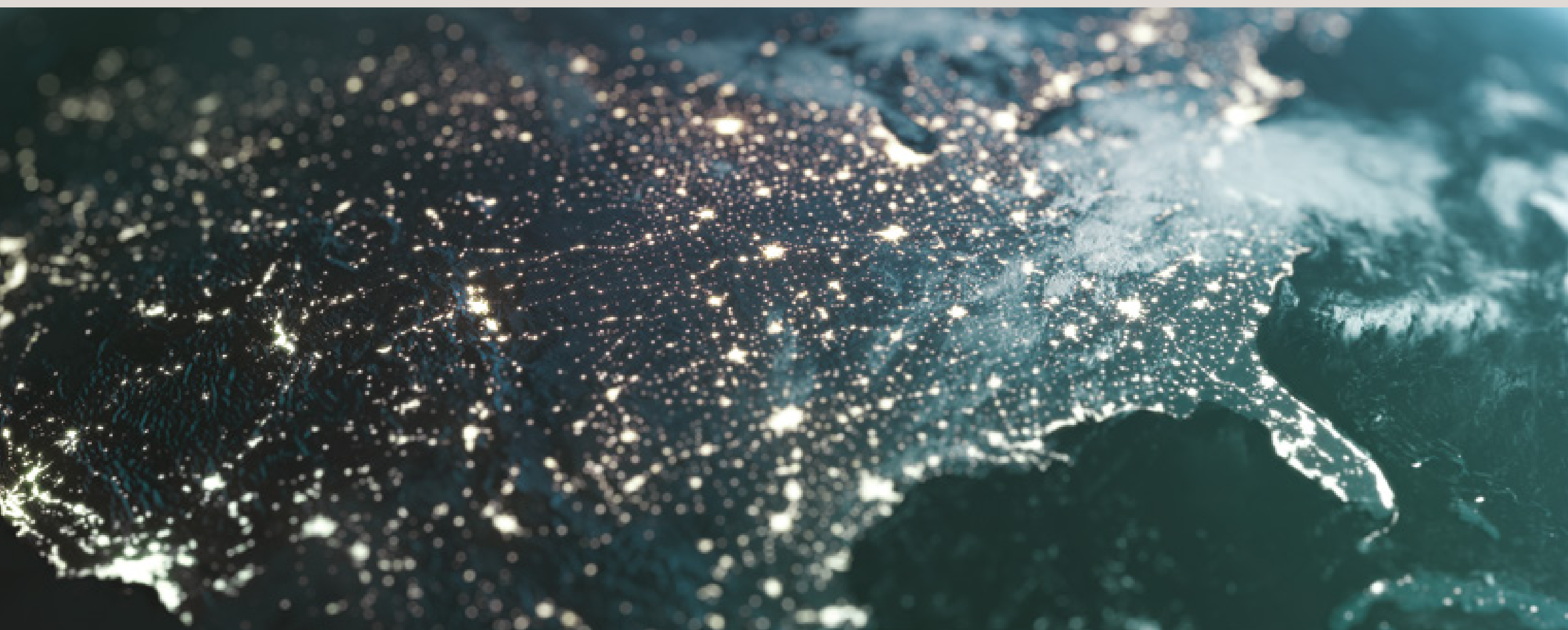
- We maintain our positions on the US banking sector despite drawdowns as we maintain a constructive approach on large US Banks (a different story from regional banks).
- We consider the extension of market concerns to European banks to be unwarranted, and believe that the market reaction reflects an unwinding from investors who decided to reduce their overweight position. Recent communication by the ECB, which reassured investors about the hierarchy of the capital structure, was well perceived by the market and this gives additional confidence about financial stability.
- Finally, European banks are well capitalised and more regulated than their US counterparts. There are no similar risks to US regional banks thanks to better balance sheet management and additional regulatory requirements. The Credit Suisse example reinforces our view for selectivity and to differentiate between banks.

CHART 1: US COMMERCIAL BANK DEPOSIT FLOWS TOWARDS TREASURY BILLS AND MONEY MARKET FUNDS, USD BILLION



Source: Bloomberg, Indosuez Wealth Management.

A MATTER OF CONFIDENCE



Bénédicte KUKLA
Senior Investment Strategist

It is still early days in this new market back drop, but it is becoming apparent that the temporary confidence crisis will have an impact on the wider economy. Nevertheless, we have revised up our forecasts for the US and Euro Area economy, mainly thanks to the significantly better than expected first quarter of 2023. Key focus is how this growth will be distributed over the year as we expect a slowdown in the US going into the second half. China remains a positive outlier and regional growth engine.

US consumer SPENDING ROSE by 1.8% in January

US ECONOMY: STILL A FEW TRICKS UP ITS SLEEVE

If the Atlanta Fed's forecast for GDP growth (at a seasonally adjusted annual rate of 3.2% in Q1) proves to be correct, the US economy will have blown most analysts off their feet in the first quarter of 2023. Real personal spending of US consumers indeed rose by 1.8% over the month of January, while job creation remained exceptionally strong as the service sector continued to enjoy strong demand. The ratio of job openings to unemployed remains exceptionally high (1.9), prompting companies to retain staff longer than usual. The story is not the same in manufacturing where production declined for the first time since February 2021. On the demand front, consumers have not yet been fully impacted by the rise in interest rates, which is taking more time to kick in compared to previous periods of monetary policy tightening thanks to pandemic savings levels, employment buffers and more fixed-rate mortgages.

However, delays in debt servicing increased over the month of February, indicate that consumers may have to put a stop to their frenzied post-COVID spending in the coming months. For now, however, we have revised up our central forecasts for the US mainly thanks to the better than expected first quarter of 2023, and see a mild contraction in GDP in the fourth quarter - impacting our now below-consensus 2024 annual growth figure. Further tensions on regional banks (that account for 50% of US commercial lending, 60% of residential real estate lending and 45% of consumer lending) has heightened the probability of our risk scenario, with only a limited impact on our central case given recent comforting developments. Consumer confidence will be the element to watch in the coming weeks.

EURO AREA: SECOND-ROUND INFLATION EFFECTS

The Euro Area began the year with a sigh of relief, having surpassed expectations on its ability to compensate for Russian natural gas. Having barely needed to reduce its energy inventories in winter 2023 – thanks mostly to preferential weather conditions - the stress over winter 2024 has significantly weakened. Nevertheless, the scars of the energy crisis remain apparent. At 8.5% year-on-year (YoY), inflation is beginning to moderate, but will remain high (Table 1). Energy prices are weakening (oil prices are below USD 80 per barrel), but the lagged effect of higher energy costs and a dry winter are boosting food prices, while core inflation remains robust due to supply constraints. In this context, consumption is beginning to weaken (retail sales down 2.3% YoY) despite a still supportive jobs market and raise eyebrow wage growth (labour cost index rose 5.7% YoY in Q4 2022). With these second round effects, we expect monetary policy to continue tightening in the Euro Area in the coming months. We have not factored an additional stress on European banks (see Focus, page 4); credit growth having already been slow for four months. On the production front, however, we believe that China's reopening will be positive for European exporters, with possible upside to our scenario from the Germany recovery.

CHINA: THE POSITIVE OUTLIER

While inflation continues to loom over the rest of the world, China remains an outlier with still positive monetary and fiscal policy coupled with a strong *momentum* from the post-COVID reopening process. Inflation remains very weak (at 1% YoY in February, down from 2.1% in January), with the help of alternative fossil-fuel sources and still weak demand compared to pre-COVID levels. However, economic surveys have rebounded strongly in January-February: services remain particularly robust, but manufacturing also surprised (PMI indices at 56.3 and 51.6 respectively). Credit growth (up 11.6% YoY) has progressed notably in key infrastructure sectors, led by railway projects. The real estate sector remains slow to recover, but this has not stimulated government officials to add further stimulus. Our forecasts remain in line with official estimates of just over 5% GDP growth in 2023. Risks remain tilted to upside for China in the short, with a boast to the Asian region at a time when export demand from western economies remains weak (Korean exports fell 17.4% YoY in March).

TABLE 1: MACROECONOMIC FORECAST 2022 - 2024 (%)

● Revised down since last month ● Revised up

	GDP		INFLATION	
	2023	2024	2023	2024
United States	1.4	0.2	4.5	3.0
Euro Area	0.5	1.0	6.2	3.2
China	5.1	4.7	2.1	2.2
Japan	1.8	0.9	1.0	0.6
India	5.3	6.0	5.3	5.6
Brazil	0.7	1.7	4.9	5.0
World	2.6	2.7	-	-

Source: Indosuez Wealth Management.

REMAINING HARD CORE

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

With all the turbulence in the banking sector, central banks have had to assume their role of lender of last resort. As the Bank of England demonstrated in September, central banks can play this role, while also fulfilling their original mandate of price stability.

Retaining
A CAUTIOUS APPROACH
to modified duration

CENTRAL BANKS

Since the beginning of the year, economic surprises have shot up in the US and the Euro Area, although stalling recently, while disinflation has not been as linear as expected. This prompted a sharp repricing of the market's Fed rate hike expectations and took parts of the market off guard.

As the macro landscape has stayed resilient, yield curves have kept flattening and inverting.

The jobs market remains tight, core inflation is still trending at uncomfortable levels and hard data are not confirming yet the downturn in soft data.

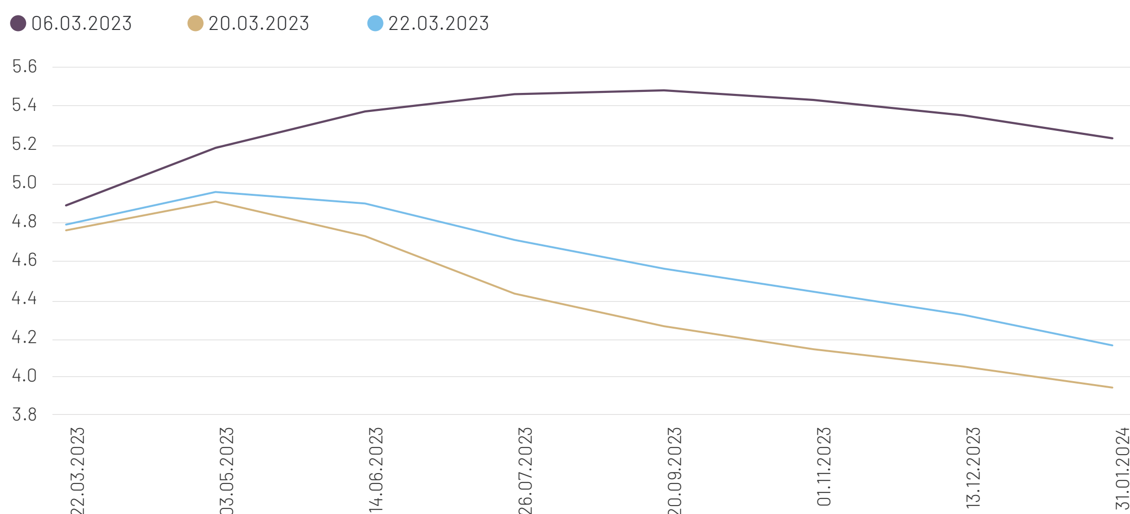
In March, US regional bank failures and the Credit Suisse takeover weighed heavily on sentiment and created a global flight-to-quality. Fixed Income markets reversed their central bank hiking scenarios (Chart 2), in a replay of the 2008 playbook and the consecutive global recession.

As for market participants, from hedge funds to long-term institutional investors, were heavily positioned for rising rates and thus short modified duration, and therefore were caught off guard. This led to a historic change in rates.

To address US funding stress, the Fed came with a new Bank Term Funding (BTFP) Program, a one-year funding program for banks and savings associations, associated with very attractive collateral conditions. At the March FOMC, Chairman Powell nevertheless hiked the benchmark rate by 25 bps, keeping all options open "if nothing else breaks".

On the ECB front, the Governing Council is following other central bank partitions. This could be a dangerous approach as core inflation dynamics are not the same. The ECB's new forecasts seem optimistic on core inflation. The Euro Area core numbers only have a small shelter component as opposed to the US, therefore the turnaround in housing prices will not be visible in Euro Area prices while other services prices continue to press on.

CHART 2: FED FUNDS RATE MARKET EXPECTATIONS, %



Source: Bloomberg, Indosuez Wealth Management.

Is the "HIGHER FOR LONGER" mantra dead? NO.

After the recent panic in markets, investors can indeed doubt that central banks will stay the course, which is what the market reflected at first. However, is the "higher for longer" mantra dead?

We do not think so; the Fed will not reduce rates in 2023. Central banks can play their role as lender of last resort, as the Fed did with the BTFP program or the BoE did during the September pension fund crisis, while fulfilling their original mandate, price stability. BoE Governor Bailey showed that it was possible to do so even if he was accused of relaunching quantitative easing (QE)!

Nevertheless, US small banks and the Credit Suisse situation will leave some scars. It could have a deflationary impact as all small banks could cut lending (representing 2% of GDP). We can also expect more tightening of lending standards, which would be a welcomed outcome for the Fed. Central banks will be more and more cautious in their approach.

Therefore, we are still expecting a higher for longer stance. But surely slowly.

What if we are wrong? The Fed and other central banks can stop hiking rates and even reverse course to preserve financial stability. What would be the cost? No price stability, increased moral hazard and new financial regulations.

With no sign of easing in services inflation, any pause in hikes or cuts in 2023 will be met with a sharp repricing of the long end of the curve and deanchoring of inflation expectation. In such an extreme scenario, on a cross assets basis, investors could sell nominal bonds, buy inflation-linked bonds and gold.

AT1 MARKET

As a complement to the focus on the banking sector (page 4), the AT1 market represents USD 275 billion in Europe (source: Bloomberg). The decision of the FINMA to exercise its discretion to wipe out Credit Suisse AT1 holders and not shareholders distorts the hierarchy of creditors. In order to prevent a sell-off on AT1 markets, both the European Banking Authority and the BoE reassessed their own scheme to protecting senior creditors in line with the hierarchy of claims to preserve financial stability, in case banks need to be restructured or resolved.

The recent exacerbated volatility comforts our portfolio managers in their cautious approach on modified duration and credit risk. Higher yields on one to three year duration maturity buckets, combined with investment grade and high visibility issuers provide investors with predictable returns and managed volatility in a turbulent fixed income world.

A CORRECTION AT LAST

Laura CORRIERAS
Equity Portfolio Manager

With the contribution of the Equity Team

After a euphoric start to the year, the market correction was finally triggered by the Silicon Valley Bank failure and the collateral repercussions on the banking system. For now, we do not see a systemic risk thanks to the Fed emergency backstop. The question is: has the recent correction provided interesting entry points?

EARNINGS SEASON

The reporting season has not revealed any disasters, and earnings revisions have now stabilised in both the US and Europe. This is a supportive factor for absolute valuation.

In addition, the combination of the sharp fall in US 10-Year Yields/10-Year real rates and the recent fall in equity indexes have greatly improved the relative valuation of equity markets.

UNITED STATES

The news on US markets was largely dominated by the SVB bankruptcy. This failure created a panic movement on financial markets mid-March, which particularly impacted the banking sector. Within this sector, there is a very strong disparity in performance between the regional banks and the large banks, which are subject to different regulations. Thus, the regional banks have posted a performance of -27% since the beginning of the year, while the large banks have only fallen by -9%.

This failure has also had significant consequences on investors' perception of the wider US economy and more specifically on the Fed's expected monetary policy. Indeed, the markets are now expecting interest rates to fall much faster than they did a month ago and we have already seen long-term rates fall sharply. This has largely helped Growth companies and more specifically the NASDAQ components, which most of them are cash rich and have revenues mainly based on subscription models.

EUROPE

The outlook remains thus far supportive for European equities: overall banks are better capitalised and regulated than in the US. Lower energy prices (gas and oil) than in 2022 and the Chinese reopening which, combined with a weak currency, should have a positive impact on exports and competitiveness, supporting the appeal for European equities.

VALUATIONS remain ATTRACTIVE on Euro Area equities

The Q4 earnings season in Europe was better than feared by investors, and earnings-per-share (EPS) were slightly revised up from the beginning of the year. Yet, as inflation remains high, pricing power and the capacity of the companies to protect their margins during the coming quarters will likely stay a key investment theme. Regarding valuations, Euro Area equities remain attractive, especially when compared to the US.

We think the recent correction could offer a quite interesting entry point to increase Euro Area equities.

EMERGING MARKETS

China's economic recovery is well underway, as economic figures keep on improving (manufacturing and services PMI numbers, improving property sales and retail sales). Authorities are also maintaining accommodative monetary conditions (25 bps cut in the Required Deposit Reserve Ratio for Major Banks in March). The National People's Congress (NPC) concluded in March with Xi Jinping confirmed as China's President. Moreover, new Premier Li Qiang put emphasis on supporting private businesses, which should be positive for investor sentiment. China remains one of our preferred equity markets for 2023, as discounted valuations and improving earnings should provide some attractive opportunities. Nevertheless, lingering political tensions with the United States as well as the direction of US interest rates and the timing of a potential "Fed pivot" remain overhanging risks for now.

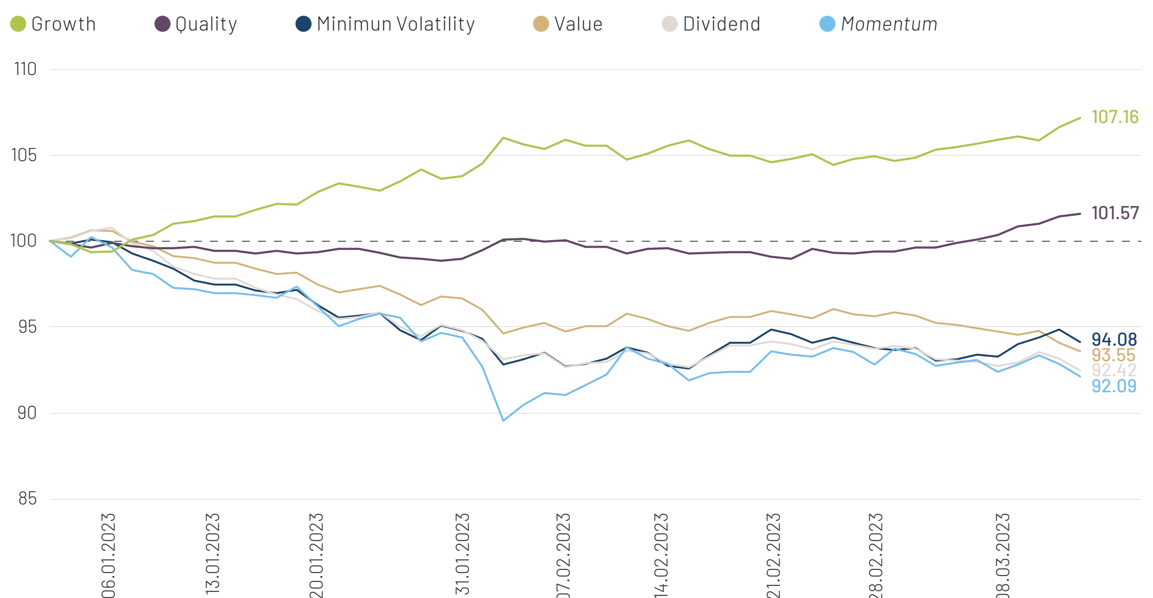
INVESTMENT STYLE

The issues of the SVB and the Credit Suisse have disrupted market optimism and brought back volatility. As a result, two specific segments of Value have been particularly under pressure: the banking segment and oil/commodities sectors.

This environment is, therefore, not in favour of Value stocks in the medium-term. However, as the move on long-term yields has probably been exaggerated, we prefer to wait for a short-term normalisation and a tactical bounce of Value to reduce in favour of the Growth style (Chart 3).

We are still positive on the Quality style, which is the best policy in a scenario of: slowing growth, widening credit spreads and fading bond yields. On the other hand, we remain constructive on Growth stocks, given the flows back on Tech thanks to Artifical Intelligence (AI) disruptive topics and bond yields which are likely peaking.

CHART 3: EVOLUTION OF EQUITY MARKETS BY INVESTMENT STYLE, 100 = 01.2023



Source: Bloomberg, Indosuez Wealth Management.

DUAL FORCES AT PLAY

Alexandre
DRABOWICZ
Chief Investment Officer

While the USD is losing its uphill battle against the forces at play, the EUR, which should have been the clear winner in the banking sector turmoil, also lacks directionality. We maintain our constructive view on gold, even if a lot of supportive factors have already been priced in.

USD

A safe haven status with its own problem

The dollar has historically been seen as a safe haven currency, first and foremost because of its principle reserve currency, along with its liquidity, and cherry on the cake today, USD deposits enjoy a comfortable level of interest rate. For example, since the recent banking sector turmoil, the rush by investors to buy money market funds in USD is also a sign that liquidity has moved to the USD in search of the most risk free asset available for investors. Thus, the current banking crisis should have supported the USD, but dual forces are at play. The SVB debacle and the subsequent turbulence in the US regional banking sector, have totally changed the market anticipation of future Fed rate hikes. While investors had expected to Fed to reach a terminal rate close to 5.75%, the market is now looking for 75 bps of rate cuts by year end, a scenario that we view as a bit too aggressive. While this may moderate, the dollar is losing its yield advantage that is now acting as an opposite force to the safe haven status, limiting the dollar attractiveness.

USD: losing its yield advantage

EUR

No clear direction

The Euro Area common currency should have been a winner if the SVB situation had remained a specific US event, with no spill over to Europe. However, the sudden loss on confidence on Credit Suisse and the massive rush by investors to reduce their exposure to European banks, have acted as an opposite force for the euro. While the ECB stood firm by hiking interest rates by 50 bps, Christine Lagarde made it clear that it had moved away from a present course of rate hikes, to being much more data dependent and the terminal rate of the ECB rate hike cycle also reviewed lower.

With these dual forces in mind, our main scenario is a range bound market for the EUR/USD between 1.05 and 1.10. The risk would be to the downside, i.e. a strong USD, if the banking crisis was to worsen significantly. In the long-term, the slower pace of Fed tightening, China's reopening and a less stressed outlook for Europe as well as continued tightening by other G10 central banks justifies further USD weakness in 2023.

CHF

The barometer of risk

Prior to the Credit Suisse crisis and rescue, the Swiss franc was relatively strong. It held up from the beginning of the year as stronger inflation pushed local rates to outperform. However, inflation remained much lower in Switzerland in February than the Euro Area, again to the advantage of the Swiss currency as real rates remain relatively strong. At the time of writing, the Swiss National Bank meeting on 23 March was critical to the next path of the CHF performance. Both the SNB decision on interest rate policy and the Credit Suisse crisis are crucial to the currency.

JPY

The macro hedge currency

Japan's inflation is above the Bank of Japan's (BoJ) target, but weak wage growth, tensions on western banks and decelerating global growth will prevent the central bank from making further changes to its yield curve control (YCC) policy in the coming year. With a less hawkish Fed, yield differentials between the USD and the JPY are likely to compress further, restraining USD/JPY upside.

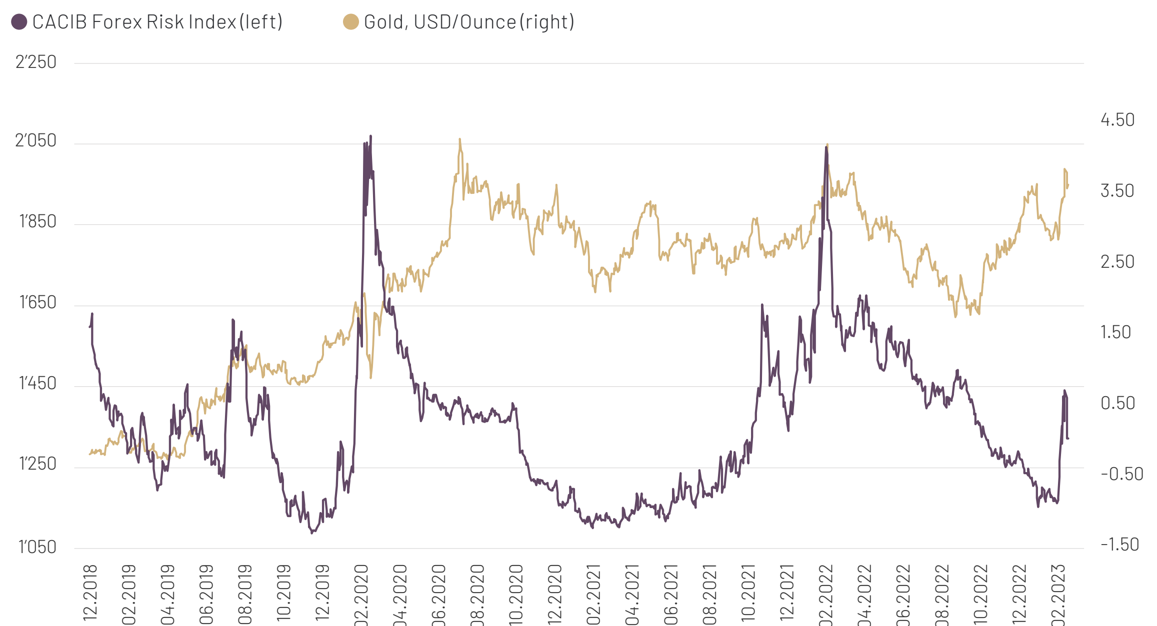
As highlighted last month, the Japanese currency has always been used as a good macro hedge in portfolios in times of crisis. We did see some JPY appreciation this month, but modestly as investors demand for USD remain strong. China's gradual re-opening over the coming year will be a boost to Japan's economy, its current account balance and the JPY. A potentially strong round of wage negotiations in spring will be a key focus for the BoJ's monetary policy and the JPY.

XAU

A constructive outlook

Gold benefits from two positive forces: first, it is seen as an attractive inflation hedge, second, it acts also as a risk aversion hedge during times of a potential banking crisis (Chart 4). It is therefore a key beneficiary from current market conditions, with investors looking to increase their exposure even further. Longer term, should the USD weaken further in 2023, it should help gold regain some of its shine, especially if the structural support from central bank purchases remains in place.

CHART 4: GOLD BENEFITS FROM HEIGHTENED RISK ENVIRONMENT



Source: Bloomberg, Crédit Agricole CIB, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager

INVESTMENT SCENARIO

- **Growth:** a below-trend growth scenario in advanced economies, but with an upward revision to US economic activity in 2023 due to an expected stronger first quarter that delays the GDP contraction to late 2023. Increased likelihood of the risk scenario explained by the impact of banking sector events on lending conditions. Modest growth in the Euro Area this year, with risks tilted to the upside, partially dependent on China reopening strength.
- **Inflation:** square-root shaped scenario maintained with stickier core prices as long as wages drive services inflation, while supply chain easing should contribute to goods disinflation. Energy prices are weakening but lagged effect of higher energy costs and a dry winter are still boosting food prices.
- **Central banks:** recent events in the banking sector do not change our expectations of terminal rates as focus remained on inflation but this should lead central bankers to adopt a more cautious approach in the path of rate hikes. Also, after having injected liquidity to deal with this crisis, they are likely to moderate their restrictive policies with regard to reducing liquidity in the market.
- **Earnings:** last earnings season has not revealed any disasters and earnings revisions are stabilising in both the US and Europe, which is a supportive factor for valuations, although we continue to expect margin levels to decrease along with the global macroeconomic deceleration.
- **Risk environment:** volatility is back in light of the recent banking events driving also more uncertainties on monetary policy decisions. Risks on the macro scenario are elevated (tightening of global financial conditions and financial stability, inflation stickiness) while external risks, especially on the geopolitical front still need to be cautiously monitored.

Favour
THE SHORT END
of the yield curve

ALLOCATION CONVICTIONS

EQUITIES

- Over the past weeks, we were maintaining an overall cautious approach and were standing ready to reallocate cash buffers on market breathing. Recent market corrections and increased volatility provide opportunities to redeploy our liquidities to play a tactical rebound in developed markets equities, bringing us back to equity neutrality in our portfolios.
- We continued to refocus our portfolio on global equities by reducing the weight of defensives within the portfolio. We are still cautious on cyclical sectors (with some exceptions on highly discounted sectors). Admittedly, the recent decline in long-term rates was a bit fast and far in favour of growth stocks, we will nevertheless be looking for opportunities in the market going ahead.
- From a geographical perspective, this translates into a reduction of our underweight on European equities and an increase of US equity exposure in our riskier strategies. We maintain a constructive view on Chinese equities, especially those highly sensitive to domestic economic activity, as the current reopening should firstly benefit this thematic. Long-term cautiousness is due to the ongoing deleveraging process.

FIXED INCOME

- Increased bond markets volatility provides opportunities to play duration strategies. After the recent hunt for quality that drove government bonds higher, we view the recent jump as too optimistic as we believe central bankers should continue to focus themselves on fighting inflation. As such, we downgraded our conviction on long-term government bonds and remain underweight duration in our portfolios. We favour the short end of the yield curve to take advantage of attractive carry levels.
- We have turned positive on inflation breakevens at current levels, which we believe do not reflect structural inflation issues faced by developed economies.

- On credit markets, preference for investment grade corporate debts of companies with strong fundamentals versus high yield in a context of deteriorating financing conditions for issuers and more selectivity expected from investors going ahead. Bucket of value arises on the financial debt segment after the sell-off but selectivity remains key.
- Positions held on local currency emerging market debt from a strategic view, especially for carry purposes and an expected dollar weakness this year while we acknowledge tighter valuations on a tactical basis.

FOREX MARKETS

- If the US dollar could benefit from its safe haven status on short-term market turbulence, the greenback is progressively losing its yield advantage - which acted as a supportive force last year – limiting its attractiveness from a medium-term perspective.
- The narrowing of the transatlantic spread on short-term interest rates is in favour of the Euro Area common currency, with the ECB sticking to its guns with a 50 bps rate increase in March. Meanwhile, the loss of confidence in Credit Suisse (resulting in a reduction in exposure to European banks by investors) and the continued high geopolitical risk in the region support the idea of a range-bound euro in the coming months.
- The Swiss franc remains an attractive hedge despite the recent Credit Suisse event, as more compelling Swiss fundamentals and the real rate differential are supportive of the currency.
- We continue to like the Japanese currency as a macro hedge in portfolios but also as a tactical opportunity to benefit from a potential revision of BoJ's monetary policy which should face more and more pressure on inflation should wages continue their upside trend.
- The gold rally has probably been too far and could be sensitive to a reversion of real rates. However, we maintain a constructive view on the precious metal over the long-term as it should benefit both from central banks' purchasing activity and potentially less hawkish stance from central banks going forward.

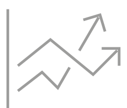
KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
EUR 2-Year (Germany)	=/-	=/-
EUR 10-Year (Germany)	=/-	=/-
EUR Periphery	=/-	=/-
US 2-Year	=/-	=/-
US 10-Year	=/-	=
EUR Breakevens Inflation	=/+	=/+
US Breakevens Inflation	=/+	=/+
CREDIT		
Investment grade EUR	=/+	+
High yield EUR/BB- and >	=/-	=
High yield EUR/B+ and <	-	=/-
Financials Bonds EUR	=	=
Investment grade USD	=/+	+
High yield USD/BB- and >	=/-	=
High yield USD/B+ and <	-	=/-
EMERGING DEBT		
Sovereign Debt Hard Currency	=/-	=/+
Sovereign Debt Local Currency	=/+	=/+
Latam Credit USD	=	=
Asia Credit USD	=	=
Chinese Bonds CNY	=	=
EQUITIES		
GEOGRAPHIES		
Europe	=	=/+
United States	=	=
Japan	=/-	=/-
Latin America	=/-	=
Asia ex-China	=/+	=/+
China	=/+	=/-
STYLES		
Growth	=/-	=/+
Value	=/+	=
Quality	=/+	=
Yield	+	=/+
Cyclical	=/-	=/+
Defensive	=	=/-
FOREX		
United States (USD)	=	=/-
Euro Area (EUR)	=/+	=
United Kingdom (GBP)	=/-	=
Switzerland (CHF)	=/+	=/+
Japan (JPY)	=/+	=/+
Brazil (BRL)	=/+	=
China (CNY)	=	=
Gold (XAU)	=/-	=/+
Commodity currencies (NOK, NZD, CAD)	=/+	=/+

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 23 MARCH 2023



GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	3.43%	-45.02	-44.82
France 10-year	2.72%	-23.40	-38.80
Germany 10-year	2.19%	-28.30	-37.30
Spain 10-year	3.24%	-19.80	-40.80
Switzerland 10-year	1.17%	-27.30	-44.50
Japan 10-year	0.30%	-20.10	-11.40

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	35.67	1.55%	2.75%
Euro Government Bonds	197.02	1.59%	2.26%
Corporate EUR high yield	197.92	-0.69%	2.27%
Corporate USD high yield	302.75	-0.20%	2.04%
US Government Bonds	303.76	2.85%	2.83%
Corporate Emerging Markets	43.41	0.21%	1.52%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9928	0.33%	0.33%
GBP/USD	1.2287	2.28%	1.69%
USD/CHF	0.9165	-1.87%	-0.87%
EUR/USD	1.0831	2.22%	1.18%
USD/JPY	130.85	-2.86%	-0.21%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	22.61	1.47	0.94

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'948.72	-1.59%	2.84%
FTSE 100 (United Kingdom)	7'499.60	-5.16%	0.64%
STOXX 600	446.22	-3.52%	5.02%
Topix	1'957.32	-0.91%	3.47%
MSCI World	2'696.85	-1.48%	3.62%
Shanghai SE Composite	4'039.09	-1.57%	4.33%
MSCI Emerging Markets	977.78	-1.01%	2.24%
MSCI Latam (Latin America)	2'067.22	-7.91%	-2.87%
MSCI EMEA (Europe, Middle East, Africa)	186.46	-0.93%	-2.88%
MSCI Asia Ex Japan	638.74	-0.13%	3.15%
CAC 40 (France)	7'139.25	-2.44%	10.28%
DAX (Germany)	15'210.39	-1.71%	9.24%
MIB (Italy)	26'482.21	-2.92%	11.71%
IBEX (Spain)	8'970.00	-2.83%	9.00%
SMI (Switzerland)	10'718.54	-4.71%	-0.10%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	4'116.00	-3.45%	0.51%
Gold (USD/Oz)	1'993.40	9.39%	9.29%
Crude Oil WTI (USD/Bbl)	69.96	-7.20%	-12.83%
Silver (USD/Oz)	23.14	8.63%	-3.73%
Copper (USD/Tonne)	9'031.00	1.43%	7.87%
Natural Gas (USD/MMBtu)	2.15	-6.91%	-51.87%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

	DECEMBER 2022	JANUARY 2023	FEBRUARY 2023	4 WEEKS CHANGE	YTD (23.03.2023)
BEST PERFORMING (+)	0.48%	9.69%	1.74%	-0.13%	5.02%
	-0.39%	8.18%	1.35%	-0.91%	4.33%
	-1.60%	7.85%	0.91%	-0.93%	3.62%
	-1.64%	7.37%	-2.10%	-1.01%	3.47%
	-3.12%	7.00%	-2.53%	-1.48%	3.15%
	-3.44%	6.67%	-2.61%	-1.57%	2.84%
	-4.34%	6.18%	-4.41%	-1.59%	2.24%
	-4.70%	4.42%	-6.36%	-3.52%	0.64%
	-4.73%	4.29%	-6.54%	-5.16%	-2.87%
WORST PERFORMING (−)	-5.90%	2.27%	-6.86%	-7.91%	-2.88%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

09 • Glossary

Basis point (bp): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Gig economy: system characterised by flexible, temporary or freelance jobs.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI : An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: World Trade Organization.

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