NEWSLETTER JULY 2023

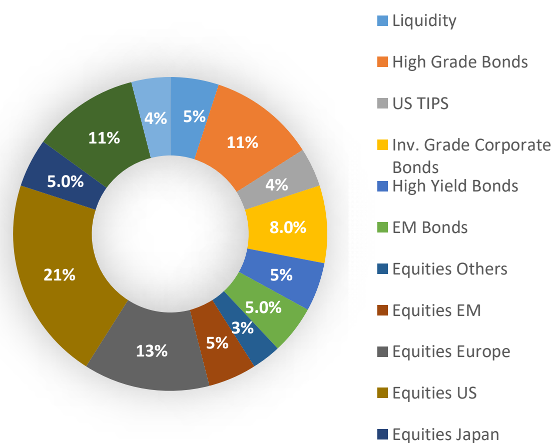
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Sectors: utilities, consumer staples, industrials Global Value Quality income Australia Emerging market equities Select European opportunities (Germany, consumer) Sustainable equities: ESG leaders, renewables and water scarcity Infrastructure including greentech.	**Equities**	Excess US equities Excess IT equities Excess growth equities Excess healthcare equities Concentrated stocks Excess cash
High grade, investment grade, sustainable bonds Emerging market credit Select senior financial bonds Actively managed fixed incomesolutions	**Bonds**	Excess cash Sell-expensive-rated bonds Excess equities
JPY	**Currencies**	USD
Active commodity exposure Oil Gold	**Precious Metals & Commodities**	Excess cash

ASSET ALLOCATION

In our global strategy, we keep global equities as least preferred and bonds most preferred. At this stage of the economic cycle, we think bonds offer better value and lower volatility than equities. Within equities, we prefer value and quality income versus growth. We also like emerging markets, China, and Australia. Within credit, we prefer high grade, investment grade, and emerging market bonds. Within commodities, we like gold and oil. Regarding currencies, we have the US dollar as least preferred and the Japanese yen as most preferred currency.

BALANCED USD MODEL PORTFOLIO



EQUITIES

As policy rates are expected to stay higher for longer, we see limited room for global equity valuations to improve. We also see earnings at risk as economic growth decelerates and profit margins trend lower. We therefore believe that a cautious view on developed market equities is warranted. Across regions, we keep US equities as least preferred, and maintain Australian and emerging market equities as most preferred. By sector, we keep consumer staples, utilities, and industrials as most preferred, and information technology, communication services, and healthcare as least preferred. Across styles, we prefer value and quality income to growth.

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BONDS

We continue to advocate allocations to the more defensive, higher-quality segments of fixed income, given the all-in yields on offer and as inflation risks transition to growth risks. Specifically, we maintain a preference for high grade and investment grade bonds. We also like emerging market credit, where valuations are attractive relative to historical levels, driven by the high yield space. We think this segment factors in a more challenging growth environment while offering upside amid prospects for a weaker USD and higher oil prices. We are neutral on high yield. Though we believe high yield spreads will trend wider by year-end, and relative returns may be lower than higherquality segments, total returns should be protected by virtue of higher outright yields.

CURRENCIES

We removed the Australian dollar from our top currency picks. It did not profit as expected during China's economic rebound, and that rebound was weaker than we anticipated. The Reserve Bank of Australia nevertheless turned more hawkish in the last two meetings. This is priced in by now, and we believe that upside potential is more limited in the coming months. We keep the US dollar as least preferred and the Japanese yen most preferred. We maintain a neutral positioning on the euro, British pound, and Swiss franc.

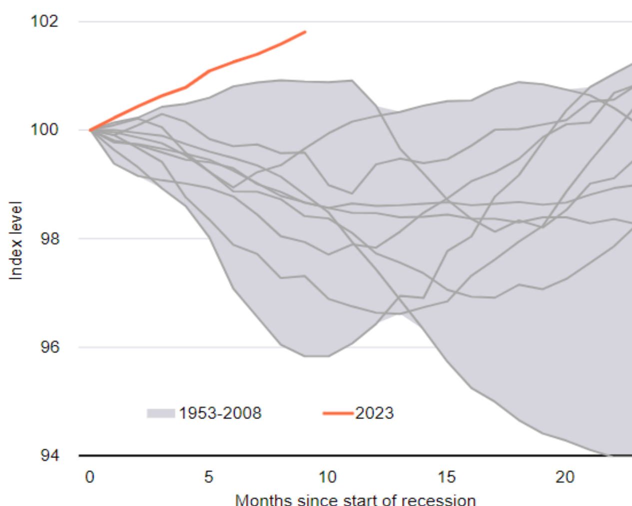
Source: UBS House View July 2023

TOPIC OF THE MONTH

CENTRAL BANKS COMPELLED TO HOLD THIGHT

Sticky inflation looks to compel developed market (DM) central banks to crank policy rates higher – and keep policy tight for longer. The Federal Reserve paused last week but pointed to more hikes on the way. The European Central Bank (ECB) raised rates and made clear it wasn't done. Others hiked after earlier pauses.

Labor shortages are fueling wage growth, keeping core inflation elevated. That has led the Fed to double down on a "whatever it takes" approach to fighting inflation: Last week it signaled more hikes in the same meeting where it paused. This is happening as central banks in Australia and Canada resumed hikes after attempted pauses – and as the ECB hiked again. We think the Fed and ECB appear to be underappreciating the existing damage from hikes. The Fed revised its growth forecast up based on historically low unemployment. The Fed may be relying on a job and growth relationship that has broken, in our view. Labor shortages have made firms reluctant to let workers go, even as demand slows and growth stagnates. That has made job growth look resilient (orange line in the chart) in recent months compared with weaker jobs data in past recessions (gray lines), even as some data suggest recession may have already arrived.



Source: BlackRock Investment Institute, Bureau of Labor Statistics, with data from Haver Analytics, June 2023. Notes: The chart shows U.S. non-farm payrolls indexed around recession peaks as defined by the National Bureau of Economic Research. 2020 is excluded from the sample. The red line is indexed to Q3 2022 prior to the start of the contraction in the average of GDP and growth domestic income (GDI).

A broad measure of activity that in the past has been a good indicator suggests as much. The average of U.S. gross domestic income and GDP has contracted for two consecutive quarters. We think the Fed's improved growth forecast ignores the sharp trade-off it faces: crush growth or live with inflation. We think it also exposes an important inconsistency: even higher rates to combat still-high inflation – but with a better growth outlook than previously expected. We don't think the Fed can expect to bring inflation back down so quickly and maintain such an optimistic view on growth. CPI data last week confirmed core inflation is not cooling enough yet for inflation to return to 2%.

This new regime of heightened macro and market volatility requires us to constantly assess what is being priced by markets. That helps uncover regional nuance in how markets are interpreting the macro story across DM. The ECB's determination to keep hiking has pushed up euro area government bond yields. The market pricing of hikes by the ECB and the Bank of England have become more extreme than our view: Pricing shows rates for both staying higher for much longer than the Fed while inflation stays elevated. Recent shortage and supply constraints plaguing other DMs, but we don't see the inflation problems there or in the euro area as fundamentally much worse than in the U.S.

Short-term bond yields jumped in the euro area and UK on market expectations for further rate hikes after the ECB's signal and UK data showed surprisingly strong wages. Two-year Treasury yields also rose as the Fed signaled more rate hikes even after a pause. These events confirm the ongoing tightening bias of central banks facing sticky inflation. DM stocks hit new 14-month highs, with gains broadening beyond the mega cap tech shares that have been the big winners this year.

Source Blackrock, 20.06.2023

KEY FIGURES 2023

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2022	23.06.2023	% Chg YTD
Dow Jones Ind.	33'147.25	33'727.43	1.75%
S&P 500	3'839.50	4'348.33	13.25%
RUSSELL 2000	1'760.83	1'821.63	3.45%
NASDAQ COMP	10'466.48	13'492.51	28.91%
CANADA - TSX	19'384.92	19'418.23	0.17%
MEXICO - IPC	48'515.63	53'341.91	9.95%
BRAZIL IBOVESPA	109'734.60	118'977.00	8.42%
COLOMBIA COLCAP	1'286.07	1'143.54	-11.08%
ASIA	**31.12.2022**	**23.06.2023**	**% Chg YTD**
JAPAN- NIKKEI	26'094.50	32'781.54	25.63%
H.K. HANG SENG	19'781.41	18'889.97	-4.51%
CHINA CSI 300	3'887.90	3'864.03	-0.61%
EUROPE	**31.12.2022**	**23.06.2023**	**% Chg YTD**
EURO STOXX 50	3'793.62	4'217.61	11.18%
UK - FTSE 100	7'451.74	7'461.87	0.14%
GERMANY - DAX	13'923.59	15'829.94	13.69%
SWITZERLAND - SMI	10'729.40	11'221.22	4.58%
SPAIN - IBEX 35	8'229.10	9'265.80	12.60%
PORTUGAL - PSI 20	5'726.11	5'868.72	2.49%
RUSSIA - RTSI	98'860.00	104'920.00	6.13%

VOLATILITY

	31.12.2022	23.06.2023	% Chg YTD
SPX (VIX)	22.75	13.44	-40.92%

CURRENCIES

	31.12.2022	23.06.2023	% Chg YTD
EUR/USD	1.14	1.0937	-3.84%
USD/JPY	115.15	443.69	285.31%
USD/CHF	0.9110	0.8968	-1.56%
GBP/USD	1.35	1.2714	-6.12%
USD/CAD	1.26	1.3216	4.61%
EUR/CHF	1.04	0.9808	-5.34%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2022	23.06.2023	% Chg YTD
GOLD USD/OZ	1'824.56	1'921.00	5.29%
SILVER USD/OZ	23.97	22.43	-6.42%
PLATINUM USD/OZ	1'073.50	922	-14.11%
ENERGY	**31.12.2022**	**23.06.2023**	**% Chg YTD**
WTI Crude Oil	80.26	69.16	-13.83%
Brent Crude Oil	85.91	73.85	-14.04%
Natural Gas	4.47	2.73	-38.95%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	5.304	4.702	3.739
GERMANY	3.308	3.170	2.3590
SWITZERLAND	1.670	1.088	0.9370
UK	5.289	5.180	4.319
JAPAN	-0.11	-0.077	0.354

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