# NEWSLETTER DECEMBER 2023

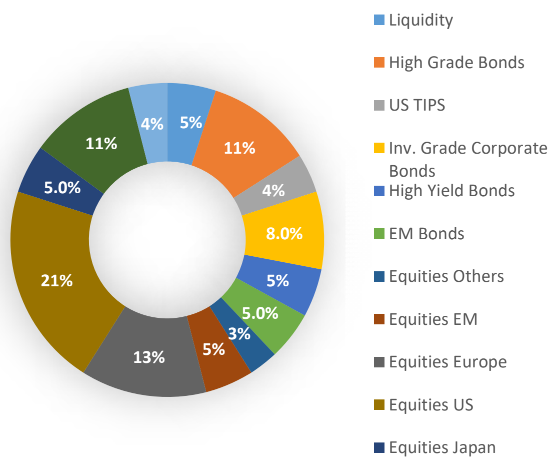
## FINANCIAL MARKET OUTLOOK (SHORT TERM)

| APPEALING | | LESS FAVOURED |
|---|---|---|
| Global value and quality stocks<br>Emerging market equities indl. China, India<br>Sectors: utilities, consumer stables, energy<br>Tech disruption<br>Energy disruption (greentech, clean air and carbon reduction, energy efficiency<br>Hearlthcare disruption (obesity, medical devices)<br>ESG leader | **Equities** | Cash |
| Quality bonds, (investment grade and high grade)<br>Sustainable bonds<br>Fixed term deposits<br>Bond ladders | **Bonds** | Cash<br>EM/HY bonds |
| AUD<br>Range-trading in EUR, CHF, GBP and CNY | **Currencies** | Upside in USD |
| Active commodity exposure<br>Oil | **Precious Metals & Commodities** | Excess cash |

## ASSET ALLOCATION

In our global strategy, we keep our preference for bonds over equities. Within equities, we retain our preference for quality income. We also like the consumer staples, utilities and energy sectors, globally. Our most preferred regions are EM and China. Within bonds, we prefer high grade and investment grade over high yield and emerging market credit. Within commodities, we hold a preference for oil. Within foreign exchange, we have a neutral stance in all major currencies with exception of AUD which we have at most preferred.

## BALANCED USD MODEL PORTFOLIO




## EQUITIES

We see better value in bonds than equities and retain our preference for high-quality bonds to stocks. Across regions, we keep US equities as least preferred and emerging market equities as most preferred. By sector, consumer staples, utilities, energy, and industrials stay as most preferred, and materials and healthcare as least preferred. Across styles, we prefer value (most preferred) and quality income (most preferred) to growth (neutral). Value stocks remain historically very cheap compared to growth stocks, in our view.

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## BONDS

We are most preferred on the higher-quality segments of fixed income, given the all-in yields on offer and as inflation cools, downside risks to growth remain, and restrictive monetary policy continues to transmit into the real economy. Specifically, we maintain a preference for high grade and investment grade bonds and are neutral on high yield and emerging market credit. The tightening of lending standards and higher official policy rates continue to weigh on growth and inflation, and should apply downward pressure on nominal interest rates. This is a positive driver for the performance of high-quality bonds. For higher-beta credit segments, we are beginning to see rising defaults and a gradual deterioration in corporate fundamentals. These dynamics and rising liquidity risk premiums are likely to have a greater impact on the lower quality segments of the asset class, such as high yield and loans.

## CURRENCIES

The USD strengthened towards the support levels in EURUSD and GBPUSD, AUDUSD and then weakened again. The broad ranges, e.g. EURUSD 1.05-1.10, stay intact. Market sentiment may shift back and forth, depending on the data, given that all central banks signaled data dependency. Over the next 6 to 12 months, we expect yields to converge, and consequently a slightly weaker USD relative to the rest of G10. Short term, we look to use options for yield pickup when it comes to the USD, while investors should consider beneficiaries of higher energy prices (NOK, AUD, or CAD) in the crosses.
Within this context, we are upgrading the AUD as most preferred, seeing risks of further rate hikes by the central bank alongside elevated short positioning and strong structural demand drivers for those commodities linked to the energy transition.

*Source: UBS House View Dicember 2023*

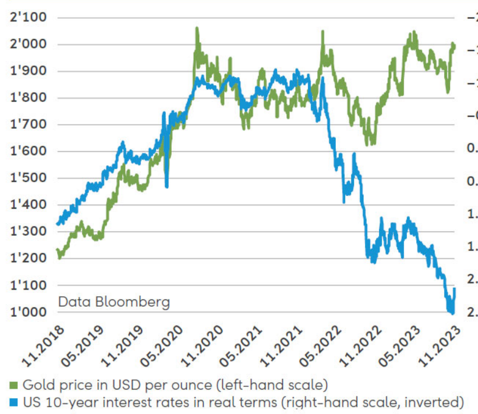
## TOPIC OF THE MONTH

### PRECIOUS METALS AND COMMODITIES

A look back: the rapid rise in interest rates over the last two years led to the worst performance in decades in long-term fixed-interest investments. Even in the case of inflation-linked bonds, the positive inflation returns were unable to offset the high losses due to interest rate sensitivity. Investors fled to safe havens (US dollar cash, short-dated securities with high credit ratings and gold) due to the simultaneous decline on the equity markets.

The resulting risk premium in gold appears considerable – we estimate it at several hundred basis points. If interest rates continue to rise, bonds and equities are likely to come under pressure in the short term and gold should remain in demand – in the absence of safe investment alternatives. Gold could only show signs of weakness again in the medium term if the economy continues to recover strongly. Falling interest rates, on the other hand, could lead to a duel between gold and long-dated bonds. In this scenario, we expect gold investments to sell off more, contrary to all expectations, and interest- bearing investments to be in high demand as investors seek to secure high current yields – especially on bonds.

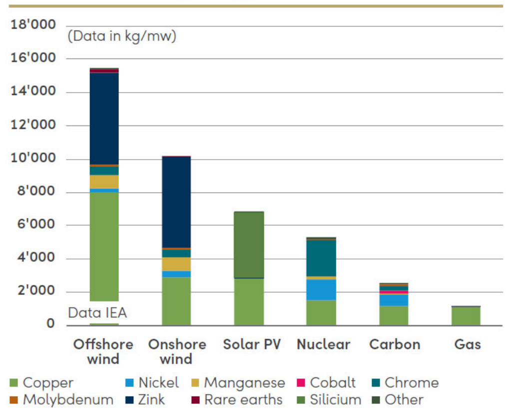
Gold price and real interest rate development




A lot of money is being invested in wind and solar power to drive forward the energy transition. However, as these technologies require a high initial consumption of conventional energy sources and are very resource-intensive, the question arises as to whether the transition can succeed smoothly. We expect prices for conventional energy sources – as well as for renewable energy – to remain high and volatile.

On the one hand, the rise in interest rates is making many renewable energy projects so expensive that in some cases the break-even points cannot even be reached without government support. On the other hand, the lower the energy density of an energy source, the greater its resource intensity. This is not a political problem, but a scientific principle.
The International Energy Agency (IEA) states, for example, that over 15 tons of various metals such as copper, nickel, manganese, and many more must be used to generate one megawatt of energy using an offshore wind turbine. In comparison, a gas turbine requires just over 1 ton of raw materials. With the trend towards less energy-dense and less efficient energy sources such as solar and wind power, the resource intensity of energy generation is increasing significantly. Favorable financing solutions, such as access to capital with low capital costs, as well as low raw material prices are therefore the prerequisites for the success of the energy transition. Due to the lack of investment in raw material extraction, we remain skeptical, at least regarding structurally low raw material prices. The hunger for raw materials, unleashed by political statements, should provide a structural tailwind for commodity prices in the coming years, especially on the demand side.

Raw material use by energy source




*Source LLB, December 2023*

## KEY FIGURES 2023

### EQUITY INDICES (LOCAL CURRENCIES)

| AMERICA | 31.12.2022 | 01.12.2023 | % Chg YTD |
|---|---|---|---|
| Dow Jones Ind. | 33'147.25 | 36'245.50 | 9.35% |
| S&P 500 | 3'839.50 | 4'594.63 | 19.67% |
| RUSSELL 2000 | 1'760.83 | 1'862.64 | 5.78% |
| NASDAQ COMP | 10'466.48 | 14'305.03 | 36.67% |
| CANADA - TSX | 19'384.92 | 20'452.87 | 5.51% |
| MEXICO - IPC | 48'515.63 | 53'901.43 | 11.10% |
| BRAZIL IBOVESPA | 109'734.60 | 128'184.91 | 16.81% |
| COLOMBIA COLCAP | 1'286.07 | 1'151.79 | -10.44% |
| **ASIA** | **31.12.2022** | **01.12.2023** | **% Chg YTD** |
| JAPAN- NIKKEI | 26'094.50 | 33'431.51 | 28.12% |
| H.K. HANG SENG | 19'781.41 | 16'830.30 | -14.92% |
| CHINA CSI 300 | 3'887.90 | 3'482.88 | -10.42% |
| **EUROPE** | **31.12.2022** | **01.12.2023** | **% Chg YTD** |
| EURO STOXX 50 | 3'793.62 | 4'418.51 | 16.47% |
| UK - FTSE 100 | 7'451.74 | 7'529.35 | 1.04% |
| GERMANY - DAX | 13'923.59 | 16'397.52 | 17.77% |
| SWITZERLAND - SMI | 10'729.40 | 10'887.36 | 1.47% |
| SPAIN - IBEX 35 | 8'229.10 | 10'140.80 | 23.23% |
| PORTUGAL - PSI 20 | 5'726.11 | 6'527.07 | 13.99% |
| RUSSIA - RTSI | 98'860.00 | 108'650.00 | 9.90% |

### VOLATILITY

| | 31.12.2022 | 01.12.2023 | % Chg YTD |
|---|---|---|---|
| SPX (VIX) | 22.75 | 12.63 | -44.48% |

### CURRENCIES

| | 31.12.2022 | 01.12.2023 | % Chg YTD |
|---|---|---|---|
| EUR/USD | 1.14 | 1.0830 | -4.78% |
| USD/JPY | 115.15 | 146.81 | 27.49% |
| USD/CHF | 0.9110 | 0.8962 | -1.62% |
| GBP/USD | 1.35 | 1.2711 | -6.14% |
| USD/CAD | 1.26 | 1.3498 | 6.85% |
| EUR/CHF | 1.04 | 0.946 | -8.70% |

### COMMODITIES (USD)

| PRECIOUS METALS | 31.12.2022 | 01.12.2023 | % Chg YTD |
|---|---|---|---|
| GOLD USD/OZ | 1'824.56 | 2'071.25 | 13.52% |
| SILVER USD/OZ | 23.97 | 25.45 | 6.17% |
| PLATINUM USD/OZ | 1'073.50 | 938 | -12.62% |
| **ENERGY** | **31.12.2022** | **01.12.2023** | **% Chg YTD** |
| WTI Crude Oil | 80.26 | 74.07 | -7.71% |
| Brent Crude Oil | 85.91 | 78.88 | -8.18% |
| Natural Gas | 4.47 | 2.81 | -37.05% |

### INTEREST RATES GOVERNMENT BONDS

| | 3 Months | 2 Years | 10 Years |
|---|---|---|---|
| USA | 5.388 | 4.567 | 4.224 |
| GERMANY | 3.723 | 2.663 | 2.3630 |
| SWITZERLAND | 1.530 | 1.133 | 0.7910 |
| UK | 5.328 | 4.516 | 4.141 |
| JAPAN | -0.2 | 0.036 | 0.69 |

**T&T INTERNATIONAL GROUP**

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