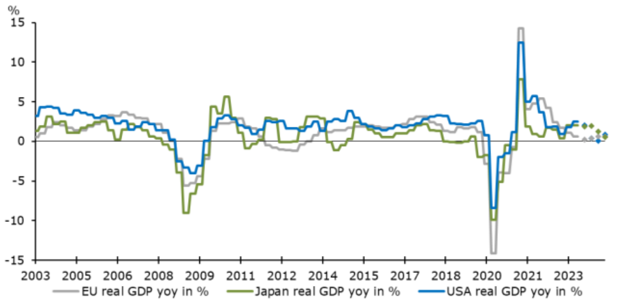
Quarterly Investment Letter – Q4 2023

"Muddling through" is a benign outcome

Central banks' unwavering commitment to curbing inflation and mitigating economic deceleration remains a central concern. The **era of escalating interest rates appears to be drawing to a close**, giving rise to expectations of a protracted period marked by elevated interest rates. Thus far, the **economic repercussions** of this heightened interest rate environment have **proven to be manageable**, albeit with certain sectors and companies facing challenging adjustments. The global economy continues to exhibit remarkable resilience, with **no discernible indications of an impending US recession on the horizon**. In the second quarter, the US GDP surpassed initial expectations, underlining the persistence of disinflationary pressures and the robustness of the labour market.

Chart 1: Potential stagflation but no (deep) recession



Source: Alpinum Investment Management

In the United States and Europe, the prevailing economic climate can be described as a **state of 'muddling through'**, characterized by subdued yet positive **real growth** in the **United States**, estimated to range **between 1-3%**, while **Europe** experiences **meagre growth prospects**. This landscape is underpinned by the anticipation of vigorous government expenditure, modestly favourable corporate investments, and the resurgence of inflationary forces. At present, the **most prominent risks** to this outlook encompass the **precarious condition** of the **Chinese property market**, coupled with the **looming spectre of long-term US Treasury rates** inching closer to the 5% threshold.

Summary Points

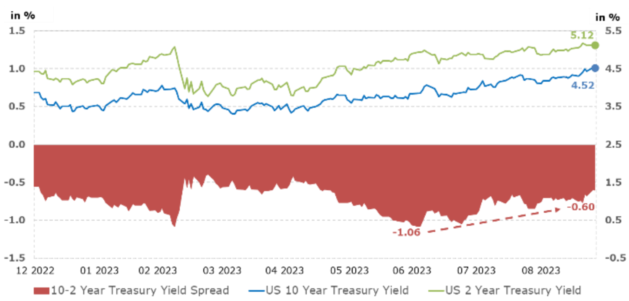
- The economic outlook is soft, but not disastrous. **US economy demonstrates strong resilience**, highlighted by **robust labour market** conditions, and documented by a solid **2.4% annualized real GDP growth rate in Q2**. There are **no signs for a severe US recession**.
- During the quarter, the **Federal Reserve raised the key interest rate range by 25 basis points**, reaching a 22-year high of 5.25% to 5.50%.
- **Europe** grapples with an **economic downturn** driven by **higher interest rates, lower consumption, and fiscal restraint**. A significant decline in business activity has arrived, whereas Germany has already entered recessionary territory.
- The **ECB has raised rates by 25 basis points to 4.0%, marking the 10th consecutive hike**.
- **China's economy faces deflationary pressures**, with negative CPI and PPI, weak retail sales growth, and a struggling real estate sector.
- **Conclusion:** Our **cautious stance with a neutral position in equities and an overweight in credit has paid off**. As an imminent severe recession can be ruled out, we are keeping our current risk positioning, but are prepared to reduce the equity allocation should rates continue to rise. At current valuation levels and from a risk/return perspective, we **prefer selective credit over equities**. Hence, we keep the overweight in credit investments, with a **focus on loans and non-cyclical short-term HY bonds** with yields of 8-9% and **maintain the neutral position in equities**. In this environment **we prefer an absolute return approach** compared to a classic relative value mandate.

Content

United States

Fitch Ratings' recent **credit rating downgrade of the United States** from AAA to AA+ underscored the nation's deteriorating fiscal conditions, mounting public debt, and declining governance standards. Amidst these challenges, the **US economy exhibited notable resilience** during the quarter. In August, the labour market demonstrated its strength as nonfarm payrolls expanded by 187,000, despite a slight uptick in the unemployment rate to 3.8%. However, the **trajectory of inflation remained equivocal**. While the Consumer Price Index (CPI) for August fell short of expectations, elevated shelter inflation persisted. Concurrently, the Producer Price Index (PPI) recorded an ascent, primarily driven by price increases in services. **Inflation expectations** for the coming year **reached a level (3.5%) not witnessed in over two years.** In the meantime, the yield on 10-year government bonds propelled to over 4.5%.

Chart 2: Less inverted US Treasury yield curve



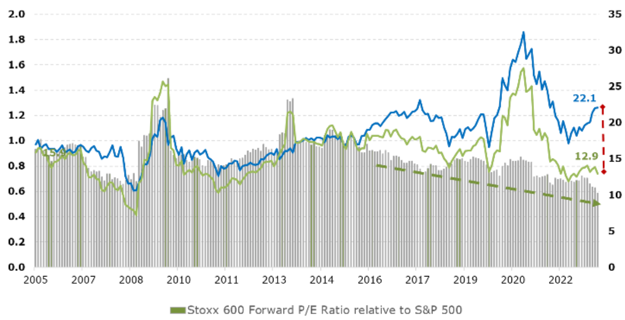
Source: Alpinum Investment Management

In a surprise turn, **second-quarter GDP figures exceeded forecasts**, with an annualized real GDP growth rate of 2.4%. This notable performance was boosted by robust consumption and substantial business fixed investments, partly offset by a modest decline in net exports. In addition, **oil prices surged to their highest levels since November 2022** due to unexpected developments within the OPEC+ alliance. West Texas Intermediate (WTI) crude oil traded above USD 90 per barrel. In July, the **Federal Reserve** (Fed) **raised** the **key interest rate range by 25 basis points**, **reaching a 22-year high** of 5.25% to 5.50%. This move had been well-telegraphed by various Fed officials. In September, the Fed decided to keep interest rates unchanged. Federal Reserve Chairman Jerome Powell reiterated the central bank's **willingness to enact further rate hikes**, contingent upon incoming economic data, especially the timing of additional increases. Market indicators suggest the **likelihood of one final rate hike of 25 basis points in 2023**, followed by a potential series of rate cuts in the second half of 2024.

Europe

Europe faces a confluence of economic challenges marked by the **potential for a recession**, primarily driven by higher interest rates and a resurgence of fiscal restraint. In the past quarter, **Europe experienced a significant decrease in business activity**, as indicated by a purchasing managers' survey, reaching its lowest point in almost three years. This **decline was particularly pronounced in Germany**, the economic leader of the region, which saw its most substantial monthly drop in business activity in over three years, highlighting wider economic apprehensions. At the same time, the **European Central Bank (ECB)** has implemented its 10th consecutive rate hike by **raising rates another 25 basis points**, indicating the likely **end of the tightening cycle** and the confidence in achieving the target inflation level within the forecast horizon. Despite these challenges, **European stocks present compelling valuations** when compared to their US counterparts. Earnings projections have reached historic highs, and the forward price-to-earnings ratio of the STOXX 600 in comparison to the S&P 500 indicates that European stocks are substantially more appealing.

Chart 3: Valuations of European compared to US stocks



Source: Alpinum Investment Management

On the flip side, **the economic outlook in Europe continues to be uncertain**. While Eurozone GDP experienced modest growth in the second quarter of 2023, labour markets remain tight. **Inflation, although showing slight moderation, remains elevated**, which sustains expectations of **future rate hikes by the ECB**. During the quarter, the MSCI Europe ex-UK index faced headwinds, particularly in the banking sector, due to Italy's announcement of a tax on banks' excess profits. European bond yields remained stable. Despite a BoE rate hike, the **UK economy had a positive Q2 2023** (+0.2%), marked by robust wage growth. **Expectations of more rate increases remained**, leading to a rise in the 10-year Gilt yield while the FTSE All-Share underperformed global peers.

China and emerging markets (EM)

China's economic landscape in recent months has been marked by several concerning trends. In the past quarter the **Consumer Price Index (CPI) in China dipped into negative territory** at -0.3% year-on-year, indicating deflationary pressures. Simultaneously, the **Producer Price Index (PPI)** recorded its **eleventh consecutive month of deflation**, reflecting a sustained period of falling prices in the manufacturing sector. Retail sales growth in China also disappointed, registering at just 2.5% year-on-year, significantly below expectations of 4.5% year-on-year. The **real estate sector**, in particular, bore the brunt of these challenges, experiencing an **8.5% drop in investment** between January and July. Notably, property developers like Country Garden and Evergrande faced difficulties, underscoring the fragility of the real estate market in China.

Chart 4: MSCI China Index compared to the S&P 500 Index

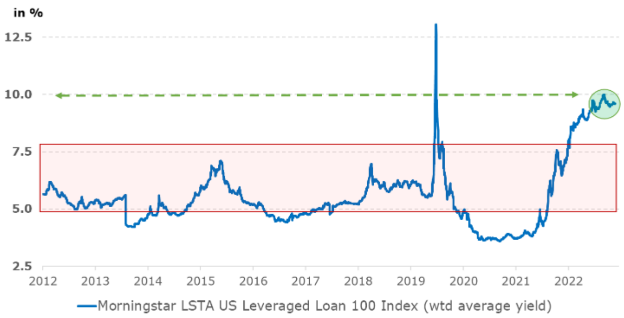
Source: Alpinum Investment Management

In August, the People's Bank of China (PBoC) responded to looming deflationary risks **with two interest rate cuts**, aiming to stimulate economic activity and combat deflation. Despite these efforts, the **Renminbi continued its year-long depreciation against the USD**, with a YTD decline of -5.6%. Simultaneously, the **CSI 300 index, reflecting China's leading firms, hit its lowest point of the year**. In stark contrast, Japan demonstrated impressive resilience during the same period. In Q2 2023, **Japan's economy expanded significantly by 4.8%** quarter-on-quarter, primarily driven by strong contributions from net trade. An **encouraging sign of recovery from deflation** emerged as Japan's core CPI increased by 10 basis points, reaching 4.3% YoY in July. Japanese equities showcased this resilience by outperforming many global markets, with the **Topix index surging by 3.6% in the third quarter**. This performance underscores Japan's economic strength relative to its global counterparts and hints at a promising trajectory beyond deflationary concerns.

Investment conclusions

The economic **growth outlook is soft, but not disastrous.** Tightening measures slow growth, affecting regions differently, leading to a slowdown or stagflation in the United States, stagnant growth or stagflation in Europe, and stronger emerging markets from a weak basis. Monitoring the resilience of the US consumer is crucial. Inflation is gradually decreasing, with sticky core inflation leading to a slow adjustment. **Monetary tightening is nearing its peak**, but rate cuts are not expected in the near future. **Real rates have risen significantly** in the last three months, surpassing 2%, driven by decreasing inflation expectations. These higher long- and short-term real rates have become advantageous for fixed income investors in various credit market sectors. In particular, **HY bonds and syndicated loans offer real yields that comfortably outperform equities**, even with optimistic earnings growth assumptions.

Chart 5: Yields of syndicated loans at historic high, 10%



Source: Alpinum Investment Management

Bonds: Monetary policies are in a tightening phase, approaching their peak and, with no expectations of a U-turn soon. Currently, markets are assuming a terminal policy rate close to 5.5%. We continue to **favour European loans, IG, non-cyclical US** and **Scandinavian short-term HY bonds** as well as **structured credit**.

Equities: Equity multiples remain challenged by rising interest rates and vulnerable/shrinking profit margins. Within equities, we continue to **favour non-US markets**, maintaining a mixed approach.

Our cautious stance with a **neutral positioning** has been the **right action during these extremely uncertain times**. We maintain a **neutral position in equities** and an **overweight position in credit exposure**.

Market Consensus Forecasts

GDP growth (%)	2021	2022	2023e	2024e
World	6.2	3.1	2.7	2.6
United States	5.9	2.1	2.1	0.9
Eurozone	5.3	3.5	0.5	0.8
Germany	2.6	1.9	-0.3	0.6
France	6.8	2.6	0.8	0.8
Italy	7.0	3.9	0.7	0.6
United Kingdom	8.5	4.0	0.4	0.4
Switzerland	4.3	2.0	0.8	1.3
Japan	2.3	1.1	1.8	1.0
Emerging economies	4.6	3.1	3.8	4.1
Asia Ex-Japan	5.9	3.2	4.5	4.6
Latin America	8.3	4.0	1.6	1.6
EMEA region	6.7	0.9	2.1	2.3
China	8.4	3.0	5.0	4.5
India	-5.8	8.7	7.0	6.2
Brazil	5.2	3.0	3.0	1.5
Russia	5.6	-3.0	1.9	1.2

Inflation (%)	2021	2022	2023e	2024e
World	4.7	7.6	6.0	4.3
United States	4.7	8.0	4.1	2.7
Eurozone	2.6	8.4	5.6	2.7
Germany	3.2	8.6	6.1	2.9
France	2.1	5.9	5.7	2.7
Italy	2.0	8.7	6.3	2.4
United Kingdom	2.6	9.1	7.5	3.1
Switzerland	0.6	2.9	2.2	1.6
Japan	-0.3	2.5	3.1	1.9
Emerging economies	3.5	6.1	5.9	5.6
Asia Ex-Japan	1.7	2.6	1.3	2.5
Latin America	11.9	19.4	23.8	22.8
EMEA region	8.2	21.0	16.5	13.3
China	0.9	2.0	0.6	1.8
India	5.1	5.4	6.6	5.4
Brazil	8.3	9.3	4.7	4.0
Russia	6.7	13.8	5.7	5.5

Central bank rates (%)	2021	2022	2023e	2024e
US Fed Funds	0.25	4.50	5.55	4.25
ECB Main Refinancing	0.00	2.50	4.40	3.60
China 1yr Best Lending	4.35	4.30	4.30	n.a.
Bank of Japan Overnight	-0.02	-0.10	0.00	0.00
UK Base Rate	0.25	3.50	5.35	4.60
Swiss 3mth CHF	-0.75	1.25	1.65	1.00

Commodities	2021	2022	2023e	2024e
NYMEX WTI oil USD/barrel	67	80	80	75
ICE Brent oil USD/barrel	71	85	84	79
Iron Ore USD/metric ton	119	117	105	95
Copper USD/metric ton	9721	8492	8364	8493
Gold USD/troy oz	1829	1906	1931	2040
Silver USD/troy oz	23.3	23.1	23.3	24.1

Major interest rates (%)	2021	2022	2023e	2024e
USA 3mth rate	0.2	4.3	5.4	4.3
USA 10yr gov't bonds	0.7	4.3	4.7	3.5
Eurozone 3mth rate	1.5	3.6	4.1	3.6
Eurozone 10yr gov't bond	-0.6	2.2	3.9	3.2
China 3mth rate	-0.6	2.1	2.8	2.3
China 10yr gov't bond	-0.2	2.1	2.4	2.3
UK 3mth rate	2.5	2.6	3.5	3.5
UK 10y gov't bond	2.4	2.3	2.0	2.0
Swiss 3mth rate	2.8	2.8	2.6	2.7
Swiss 10y gov't bond	-0.1	0.0	0.1	0.1

Exchange rates	2021	2022	2023e	2024e
EURUSD	1.14	1.00	1.08	1.13
EURCHF	1.04	0.98	0.97	1.00
USDCHF	0.91	0.97	0.90	0.90
EURJPY	130.92	144.50	155.50	148.00
EURGBP	0.84	0.88	0.87	0.87
USDJPY	115.08	144.00	142.50	130.00
GBPUSD	1.35	1.15	1.25	1.30
USDCNY	6.36	7.20	7.25	6.90
USDBRL	5.57	5.25	4.96	4.95
USDRUB	75.17	62.50	99.50	101.10

Performance table

		Performance		
Global equity markets	Price	Q3	Ytd Q3	Div.yld
MSCI World (USD)	2853	-3.8%	9.6%	2.2
MSCI World (USD) hedged	1527	-2.4%	12.9%	n.a.
HFRX Global Hedge Fund	n.a.	n.a.	n.a.	n.a.
S&P 500	4288	-3.6%	11.7%	1.7
Russell 1000	2351	-3.5%	11.7%	1.6
Nasdaq 100	14715	-3.1%	34.5%	0.9
Stoxx Europe 600	450	-2.5%	6.0%	3.6
MSCI Emerging Markets	953	-3.7%	-0.4%	3.0
Nikkei 225	31858	-4.0%	22.1%	1.9
China CSI 300	3690	-4.0%	-4.7%	2.6

	Forward		EPS growth	
Equity market valuations	PE	PB	2023e	2024e
MSCI World (USD)	17.4	2.7	0%	9%
MSCI World (USD) hedged	n.a.	n.a.	n.a.	n.a.
HFRX Global Hedge Fund	d Security	d Security	n.a.	n.a.
S&P 500	19.6	3.8	-2%	12%
Russell 1000	19.8	3.7	-2%	12%
Nasdaq 100	26.5	6.2	4%	21%
Stoxx Europe 600	12.6	1.8	1%	5%
MSCI Emerging Markets	13.4	1.5	-11%	20%
Nikkei 225	21.0	1.7	6%	17%
China CSI 300	12.2	1.5	8%	17%

		Performance		
Global gov't bonds	Yield	Q3	Ytd Q3	YtW
10yr US Treasury	4.57	-4.4%	-2.9%	n.a.
10yr Euro gov't bond	2.84	-2.7%	0.9%	n.a.
10yr German gov't bond	2.84	-2.2%	0.1%	n.a.
10yr Italian gov't bond	4.78	-4.3%	3.0%	n.a.

		Performance		
Global bond indices	Price	Q3	Ytd Q3	YtW
Barclays Global Corporate IG	250	-2.7%	0.7%	5.7
Barclays US Corporate IG	2969	-3.1%	0.0%	6.0
Barclays Euro Corporate IG	233	0.3%	2.5%	4.5
Barclays Emerging Market USD	1083	-2.3%	0.9%	8.0
Barclays US Corporate HY	2314	0.5%	5.9%	8.9
Barclays Pan-European HY	415	1.9%	6.8%	8.4

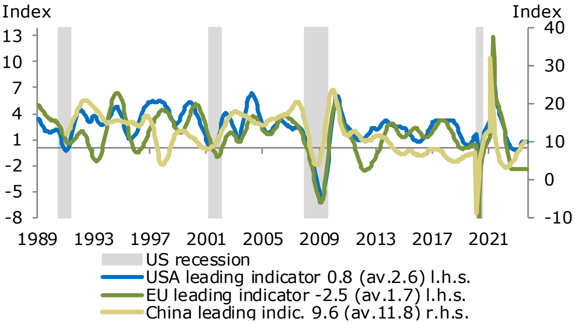
		Performance	
Commodities and currencies	Price	Q3	Ytd Q3
Brent oil	95	27.2%	10.9%
US Energy Services	95	19.5%	12.7%
Copper	8239	-1.0%	-1.6%
Gold	1849	-3.7%	1.3%
EURUSD	1.06	-3.1%	-1.2%
EURCHF	0.97	-1.0%	-2.3%

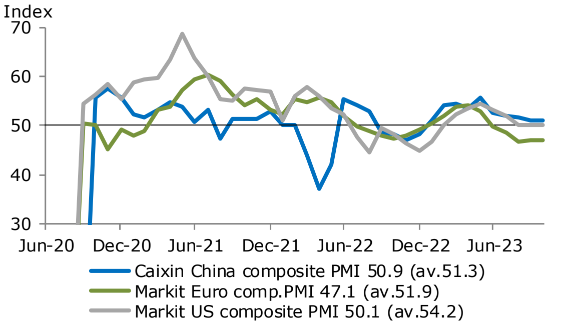
Source: Alpinum Investment Management (additional sources in appendix)
Note: Q3 = data as of 29 September 2023 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

Key Economic Charts

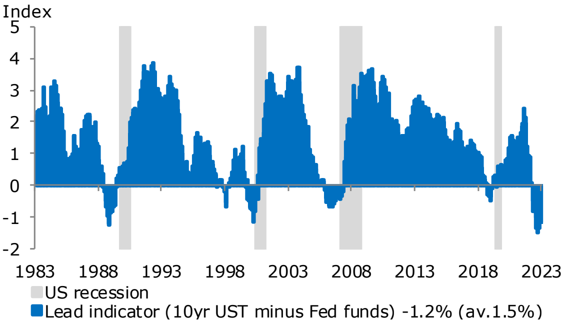
Leading indicators and manufacturing

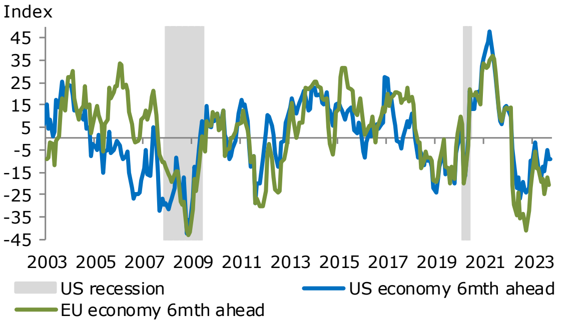
Source: Alpinum Investment Management



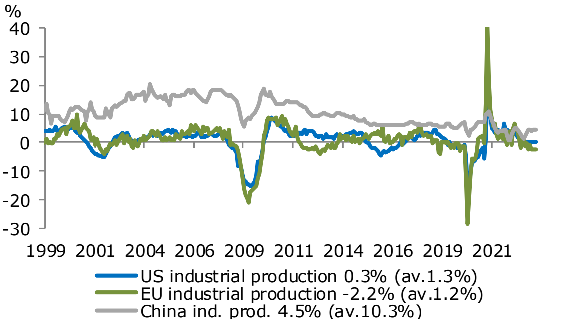


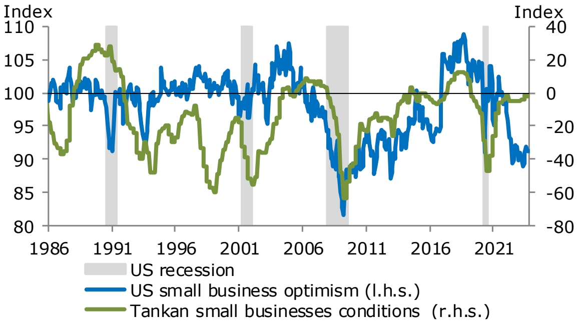
Recession indicator



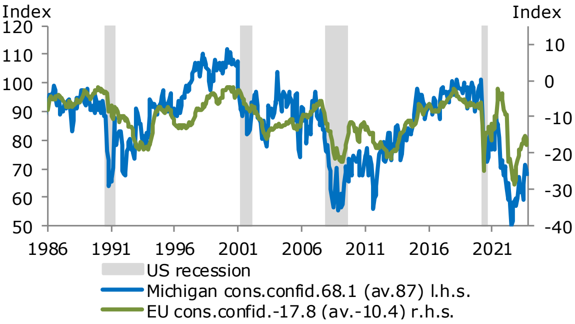


Industrial production and small businesses





Consumer confidence



Source: Alpinum Investment Management (additional sources in appendix)

Scenario Overview 6 Months

Base case 70%

- **US:** Economic stagflation environment with minimal positive real growth. This still translates into 3-4% nominal growth, what keeps the economy rolling. Elevated inflation weighs on consumer demand and pressures companies' profit margins. High interest rates and geopolitical tensions remain the key concern for the economic outlook and constrains private investments. As house prices stabilized and wages still rise by ~4% YoY, consumption remains robust. Government spending (i.e., infrastructure, old/new energy, defence) remains the other source of growth.
- **Eurozone:** Stagflation, zero growth environment. Slow growth dynamic caused by inflation spike, higher rates, impact of war. But continuing fiscal impulse, solidarity payments, defence spending and a reasonable absolute interest level are supportive.
- **China:** GDP growth rises towards 4-5%, but the path is slow and stimulated by credit impulse measures.
- **Oil:** OPEC+ targets elevated energy prices, while economic weakness in DMs has an easing effect.

Investment conclusions

- **Equities:** Equities are confronted with profit margin pressure, low economic growth ahead, high rates and looming risk of vicious wage-price spiral. Equities lack a sustained upside potential with i.e., S&P forward P/E multiple of ~19. We recommend a balanced approach in terms of equity style.
- **Interest rates:** Neutral bias on rate exposure as upward pressure on yields is easing. (US) duration exposure serves as a valuable diversifier and tail hedge in case of an evolving (severe) recession.
- **Credit:** Credit spreads have adjusted and are fairly priced and remain selectively attractive, despite an increase of corporate default rates in 2023 towards 3-4%. We prefer loans, short-term HY, senior exposure in structured credit and on a very selective basis Emerging Debt and low-duration IG bonds.
- **Commodities/FX:** Rates advantage keeps USD on the bid-side in the short-term; energy gets support from OPEC/limited supply and structural inflation supports the commodities bloc.

Bull case 15%

- **US:** Sub-par GDP growth rate of ~2% heading into '24. Fed succeeds and inflation decelerates. Supply chain issues solved and consumer spending remains robust, supported by high savings, wage increases. Energy prices don't overshoot, firms keep capex alive. Economy transforms slowly into "new normal".
- **Europe:** Temporary growth halt & avoiding broad recession; peripherals backed by continued fiscal/monetary policy support; standing together spirit holds; significantly more defence/green energy spending.
- **China/EM:** Chinese regulatory craze fades further, consumption revives and credit easing measures gain traction. No further escalation with the West. Supply chain issues largely solved.

Investment conclusions

- **Equities:** Corporates have been fast in adapting to lower growth prospects via cost cuttings to maintain earnings strength. Firms favour capital vs. expensive labour to increase (keep) profitability. If a de-escalation in the Russia-Ukraine conflict can be reached, markets will experience an upwards lift. However, inflation pressure and higher rates keep valuations largely in check. Limited upside potential.
- **Interest rates:** Long-term rates move slightly up, bear flattening curve; inflation pressure persists.
- **Credit:** Corporate default rates increase towards long-term average. Credit in general and short-term HY bonds/loans in particular benefit the most.
- **Commodities/FX:** Bid for cyclical commodities/metals. EUR and selective EM FX rates recover.

Bear case 15%

- **US:** Mild recession with a risk to stay for longer, but still positive nominal GDP growth. Low unemployment rate combined with resilient inflation kicks off a wage-price spiral and further rate hike increases.
- **Europe:** Moderate recession with a risk of lasting economic weakness due to war/geopolitics and elevated inflation. No sustained recovery of international tourism. Peripherals suffer from yield increases and Germany from higher input costs.
- **China/EM:** Chinese regulators fail to ease credit and regulatory measures enough, leading to ~3% GDP growth in 2023 and disappointing exports. Emerging markets (ex-commodity exporters) suffer as global trade is held back. EM FX decline does not stop.

Investment conclusions

- **Equities:** Equities fall and give back most of 2023-YTD gains. Highly priced US equities and cyclicals will lead the correction, followed by Europe.
- **Interest rates:** Long-term rates drop (further yield curve inversion), but limited potential apart from US rates. Support for high-quality assets (Treasuries, A/AA bonds, agency bonds). Cash is king!
- **Credit:** Corporate default rates climb and approach the higher end of long-term average levels. Severe default cycle is avoided, but credit markets suffer. Favour short dated high-quality bonds and cash.
- **Commodities/FX:** Negative for cyclical commodity prices. USD, CHF, and JPY act as a safe haven again.

Tail risks

- Liquidity shock due to external event/bank failure.
- An Italian sovereign debt crisis, EUR break up.
- Military conflict in the South China Sea.
- Pandemic crisis re-emerges/new virus variants.
- Nuclear escalation resulting in World War III.
- Emerging market meltdown similar to 1998.

Asset Class Assessment

Equities	Comment
▪ With the prospect of a "muddling through" US economic scenario, corporates' profit margins are more sustained than feared as cost cutting programs during H2 2022 & 2023 proved successful. ▪ Positive wealth effect driven by rising equity markets in 2023, higher wages and stabilizing house prices provide support to US consumption and corporates' revenues as a consequence. ▪ A negative factor for equities remains the rising competition of other asset classes, namely the attractive short-term interest rate levels of US Treasuries >5% or HY bonds yielding close to 9% p.a. ▪ Non-US equities trade with more attractive valuations and are poised to outperform if a de-escalation in the Ukraine conflict emerges and/or if USD stops strengthening.	▪ Current elevated S&P P/E ratio of ~19 translates into an earnings yield of only 5.2%. If interest rates move further up, US equities are very vulnerable. ▪ Market consensus estimates that US earnings will be flat in 2023 and rise +10% in '24, which poses a risk for disappointment, when history suggests that earnings tend to drop 10-20% in a recession. ▪ Military conflict leads to more structural inflation pressure (less globalization/productivity, less efficient/safe supply chains, more protectionism). ▪ US equities incorporate advanced valuations vs. other regions. However, the economy is also more resilient, less impacted by the Ukraine conflict and supported by big tech earnings. Hence, a certain valuation premium is justified.

Credit/Fixed Income	Comment
▪ **Rates:** After the massive and fast rate hikes, the outlook for duration as an asset class has largely improved and peak rates are in sight, although inflation is not yet fully tamed. Further hikes are limited, evidenced by US (10 year) real rates >2%. We hold only small duration exposure, but are willing to increase the allocation tactically. Duration acts primarily as a valuable portfolio diversifier. ▪ **IG:** We hold minimal US investment grade bonds and only selective European IG bonds. A limited number of EM/Asia IG bonds look attractive, but we hold close to 0% exposure. ▪ **High yield:** Loans and high yield bonds offer fair relative and attractive absolute yields. Overall, we favour selective US short-term non-cyclical bonds, European loans & senior/mezzanine CLO tranches. ▪ **Emerging debt:** Selective opportunities exist, but the risks are still elevated with the on-going negative fund flows. When the USD strength starts to fade again, selective local currency bonds will gain our attention.	▪ With the stress in the banking system in H1 2023 and the provoked regulatory actions, borrowing costs have increased and limit further rate hikes. ▪ The narrative for short-term rates is: Higher for longer, but peak level is in sight. ▪ The ECB is expected to peak @ the current level (4%), whereas the US Fed is expected to push through another hike to 5.5% as some cyclical inflation forces have re-emerged. ▪ Credit spreads look fairly valued in general. Current wider spread levels compensate for a softer economic outlook, but not for a deep recession. Corporate default rates increase towards long-term average levels of 3-4%. ▪ We like the structured credit market such as selective US non-agency RMBS or European CLOs. ▪ Consider harvesting the illiquidity premium from direct loans (corporate/mortgage-backed loans). ▪ We also identify attractive yield in new alternatives, but selection and a proper liquidity management are paramount.

Alternatives	Comment
▪ Credit long-short strategies identify plenty of relative value trades, both long and short. ▪ Equity long-short strategies benefit from high volatility and elevated performance dispersion. ▪ Alternative lending as an asset class is in the spotlight in a low or rising rates environment.	▪ Active managers benefit from the current fragile economic environment. Moreover, innovative disruption leads to more price dispersion among single securities, industries, etc. ▪ Global macro managers benefit from sharp market movements in either direction (i.e., rates/FX).

Real Assets	Comment
▪ Cyclical headwind. Commodities benefit partly from de-globalization (protective measures) and supply-side constraints. ▪ Gold benefits when real and/or nominal interest rates fall and vice versa; a rivalling situation in the short-term and a current headwind for gold.	▪ High inflation environment is beneficial for commodity prices, but cyclical downturn is negative. Chinese growth hopes have not yet materialized as an additional support level for commodities. ▪ Supply-side disruption fades on a global scale.

Asset Class Conviction Levels

Equities	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
North America			✓		
Europe				✓	
Switzerland			✓		
China			✓		
Japan			✓		
Asia - Emerging Markets				✓	
Others - Emerging Markets				✓	

Fixed Income	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
US - Treasury Bonds			✓		
Euro - Government Bonds	✓				
US - Investment Grade Bonds		✓			
Europe - Investment Grade Bonds		✓			
US High Yield			✓		
US Short Term High Yield					✓
US Loans				✓	
US Municipal Bonds			✓		
European High Yield			✓		
European Short Term High Yield				✓	
European Loans				✓	
US/EUR Preferred Securities				✓	
US/EUR Asset Backed Securities			✓		
Emerging Market Local Currency			✓		
Emerging Market Hard Currency			✓		
Emerging Market High Yield			✓		

Commodities	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
Gold			✓		
Oil (Brent)			✓		

Hedge Fund: Strategies	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
Equity Long-Short				✓	
Credit Long-Short					✓
Event-Driven - Corporate Actions					✓
Global Macro			✓		

Hedge Fund: Regional Focus	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
Hedge Fund: North America				✓	
Hedge Fund: Europe			✓		
Hedge Fund: China / Japan			✓		
Hedge Fund: Emerging-Markets			✓		

Note: The above conviction table reflects on the one hand our view on the relative expected return of an asset class versus well-recognized benchmarks such as BarCap Global aggregate (for bonds) and MSCI World (equities), but on the other hand also incorporate our view on the absolute expected return versus cash.

Appendix: Data and Price Sources

Alpinum Investment Management
Bank of America Merrill Lynch indices
Bloomberg
Federal Housing Finance Agency
Federal Reserve Bank of St. Louis
J.P. Morgan
Markit CDS indices
Moody's Investors Service
Palmer Square indices
Preqin
S&P
The Federal Reserve
US Census Bureau

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Past performance is not a guide to future performance and may not be repeated. You should remember that the value of investments can go down as well as up and is not guaranteed. The actual performance realized by any given investor depends on, among other things, currency fluctuations, the investment strategy invested into and the classes of interests subscribed for the period during which such interests are held. Emerging markets refer to the markets in countries that possess one or more characteristics such as certain degrees of political instability, relative unpredictability in financial markets and economic growth patterns, a financial market that is still at the development stage, or a weak economy. Respective investments may carry enhanced risks and should only be considered by sophisticated investors.

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