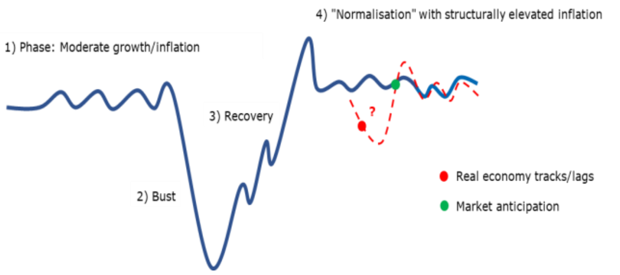
Quarterly Investment Letter – Q1 2024

Market pivot on inflation perception

In 2023, global financial markets witnessed a **significant surge in equities**, with the S&P 500 seeing a year-to-date increase of 22.4%, surpassing global bonds. **Market sentiment pivoted favourably as the perception of inflation underwent a positive shift**, mirroring the 2020 response to the Covid situation. The remedy this time is the **alleviation of transient inflationary pressures and an economic slowdown**, contributing to market stability. The normalisation process will lead to **inflation rates, real interest rates and budgets** that are **historically more typical,** resulting in valuations aligning closer to historical norms.

Chart 1: Equity markets anticipate low, but positive growth



Source: Alpinum Investment Management

The fourth quarter brought exceptional gains, especially in fixed income, driven by evolving **expectations favouring substantial Fed rate cuts in 2024**. This shift is reflected in the decline of US treasury yields, to 3.9%, **anticipating 150 basis points of rate cuts in 2024**. While positive Q3 earnings surprises in the S&P 500 are acknowledged, concerns persist about deteriorating global economic conditions, particularly in developed economies. There is a **risk of underestimating negative growth momentum amid geopolitical uncertainties**. Market vulnerability is emphasised, with concerns about the global economic outlook, including **slowing growth, rising headwinds in consumer spending and elevated valuations**.

Summary Points

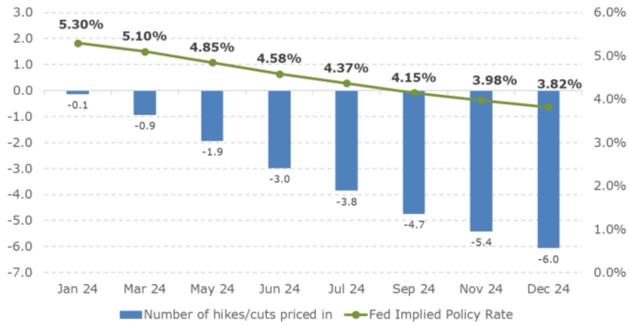
- The **economy faces a slowdown** with rising capital costs, yet resilient consumers and government support avert an imminent recession. Markets expect a **"soft landing" economic cooling**.
- Market sentiment pivoted favourably as the **perception of inflation underwent a positive shift.**
- Anticipated 2024 Fed rate cuts, a departure from the prior hawkish stance led to a decline in US Treasury yields to 3.9%, **signalling an expected 150 basis point reduction**.
- Mild inflation data reinforces the belief that the **ECB has finished its hiking cycle,** increasing the probability of maintaining a restrained policy stance.
- The onshore CSI 300 fell by 14.0% in 2023, reflecting **weak domestic demand** and **persistent deflationary pressures in China**.
- The **potential imposition of peace in Ukraine and the dynamics of the US election year** could trigger significant positive market reactions.
- **Conclusion:** In light of the absence of an imminent severe recession, our **current risk positioning remains unchanged**. However, we stand ready to trim our equity allocation should interest rates experience a resurgence. Given current valuation levels and a risk/return perspective, we continue to **favour selective credit over equities**. This translates into maintaining an overweight position in credit investments, with **emphasis on loans and non-cyclical short-term high-yield bonds** offering yields in the 8-10% range. **Our stance on equities remains neutral**, as we lean toward an **absolute return approach** rather than a traditional relative value mandate in this environment.

Content

United States

The November **US Consumer Price Index** (CPI) revealed a tempered trajectory, with year-on-year **declines in headline and core inflation to 3.1% and 4.0%**, respectively. Driven by lower energy and gasoline prices, optimism grew for achieving 2% inflation by year-end in 2024. Investor expectations of a decisive interest rate hike by the Federal Reserve in December waned, followed by **revised expectations for policy rates,** indicating an anticipated 150-basis-points reduction in 2024. Despite indications of peak policy rates, the November FOMC minutes affirmed the **Fed's commitment to sustained elevated rates**.

Chart 2: Fed implied policy rates



Source: Alpinum Investment Management

In Q3, the US GDP exhibited robust expansion, surpassing expectations by accelerating from 2.1% q/q to 5.2% q/q annually. The economy demonstrated resilience, fuelled by increased consumption and positive contributions from private inventory investment, government spending, and residential fixed investment. Despite **signs of a cooling economy**, including modest upticks in jobless claims and rising credit card delinquencies, **optimism for a soft landing persisted**, supported by ongoing economic momentum and tight labour markets. The S&P 500 Index rose 22.4% year-to-date, and core government bonds rebounded, with the 10-year US government bond yield falling below 4.2% despite Moody's negative outlook on US sovereign debt. In the housing sector, **US home prices peaked in September**, with a 0.7% monthly increase, slightly lower than August's 0.8% rise. Annually, house-price appreciation accelerated from 2.6% to 4.0%. However, **new home sales contracted by 5.6% in October**, below the expectations of a 5.1% decline, with a revision of September's increase from 12.3% to 8.6%. Escalating **30-year mortgage rates, reaching a 23-year high** by October's end, contributed to subdued housing demand.

Europe

Eurozone economic indicators provided a mixed picture in recent releases. **CPI data from Germany and Spain showed moderation in price pressures**, with both monthly and annual measures falling below expectations. The European Commission's indicators for economic, industrial, and services confidence exceeded expectations in October, providing a positive sentiment despite slight deteriorations in economic and industrial confidence. **Germany's Q3 economic contraction** of 0.1% q/q, although better than expected, underscores the overall weakness of the Euro area's largest economy. Soft inflation prints support the **expectation that the ECB has concluded its hiking cycle**, with the likelihood of maintaining a restrictive policy stance. However, credit indicators caution of the potential impact of tighter policy on the economy, and European equities are expected to face headwinds in the coming months. **Eurozone retail sales continued to decline in September**, while flash PMI estimates for November showed slightly less pessimism, with the composite PMI climbing to 47.1.

Chart 3: "Magic Eight" of the EURO STOXX 50

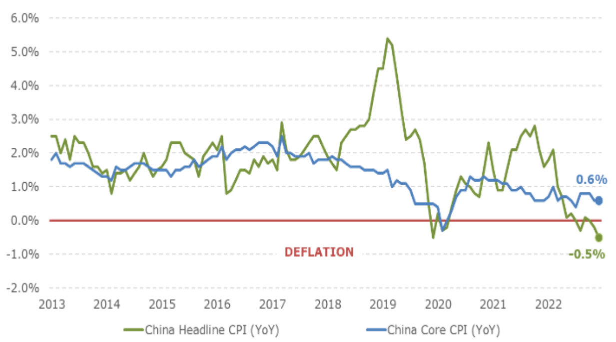
Source: Alpinum Investment Management

Europe has its "Magic Eight" (the counterpart to the "Magnificent Seven" in the USA), **large-cap stocks contributing significantly to EURO STOXX 50 gains**: Air Liquide, ASML, L'Oréal, LVMH, Sanofi, SAP, Schneider Electric, and Siemens. With a 21.8% share of the EURO STOXX 50 market capitalisation, they have been responsible for 50% of the price gains since 2015 and **contributed 6.5% to the current 19.5% in 2023**. However, their downside is being deemed expensive, trading at 21.2 times forward earnings compared to EURO STOXX 50's 12.6 times. Finally, in the **UK, the economy avoided a contraction in Q3** due to strong trade performance, despite declines in consumer spending, business investment and government spending. The outlook for UK Gilts remains influenced by inflation and interest rate expectations, with signs of economic activity bottoming.

China and emerging markets (EM)

China's central bank, the **People's Bank of China** (PBOC), adhered to market expectations by **intensifying liquidity injection** while **maintaining a 2.5% interest rate** on 1.45 trillion yuan of one-year medium-term lending facility (MLF) loans. With 850 billion yuan of MLF loans expiring, the operation resulted in a net 600-billion-yuan injection into the banking system. In the third quarter, **China exceeded economic growth forecasts** due to robust retail sales and government stimulus, offsetting the impact of the property crisis. However, October's trade data revealed a mixed outlook, with an **unexpected import pickup contrasting with sluggish global demand for Chinese goods**. China's CPI and PPI for October indicated **deflationary pressures**, supporting a targeted stimulus approach over expansive measures.

Chart 4: Core and headline inflation in China (YoY)



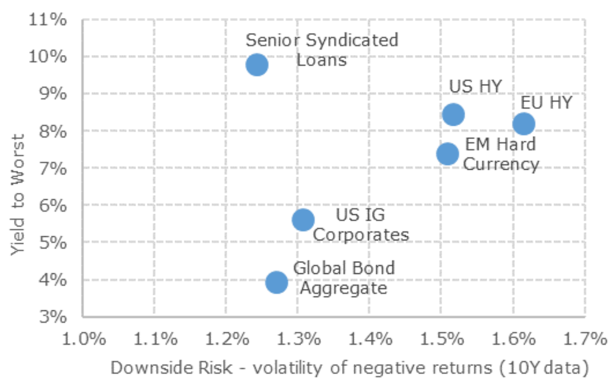
Source: Alpinum Investment Management

House prices continued their decline, particularly in lower-tier cities, **marking the fifth consecutive month of contraction**. The Chinese government is taking decisive steps to address the property crisis, urging banks to address a USD 446 billion funding gap. Money and credit data for October depicted weakness, with total social financing below expectations and a decline in bank loans. **Money supply indicators reveal slowing growth**: M0 and M1 money growth dropped to 10.2% y/y (from 10.7%) and 1.9% y/y (from 2.1%), respectively, falling below the anticipated 2.5% y/y. The diminishing ratio between M1 and M2 money supply signals **weakening private sector confidence**. The recent weakening of the US dollar has alleviated pressure on the renminbi. The onshore **CSI 300 dropped 14.0% since the beginning of the year**, reflecting the subdued domestic demand and persistent deflationary pressures in China's economy.

Investment conclusions

The **economy faces a slowdown** due to increased capital costs, but resilient consumers and a supportive government mindset **prevent an imminent severe recession**. Markets anticipate a controlled economic cooling, **embracing a "soft landing**". The **"new normal"** includes slightly **higher structural inflation, elevated fiscal spending and ongoing regulatory support** for troubled banks. High government debt and geopolitical factors contribute to sustained inflationary pressures, prompting global shifts like "re- or near-shoring". Potentially, the **imposition of peace in Ukraine** and the **dynamics of the US election year** might become events with significant potential, **eliciting positive market reactions** overall.

Chart 5: Yields in context with downside risk



Source: Alpinum Investment Management

Bonds: In light of rising default rates and the recent tightening in credit spreads, "credit" as an asset class is valued fairly, but **selective bottom-up opportunities** are still plentiful. We maintain a positive bias on duration exposure, considering it a valuable portfolio diversifier in the current economic cycle. We emphasise shorter maturities to mitigate risks associated with a potential steepening yield curve as the year progresses. We **are positive on fixed income in general, both for IG and HY. However, our highest conviction is still on European loans, short-term HY bonds** as well as **CLOs.**

Equities: Limited upside for US equities due to high (US-) multiples and vulnerable profit margins. Our **preference within equities is non-US markets,** maintaining a diversified strategy. Generally, we maintain our positive bias and our **neutral positioning** in equities and have an **overweight position in credit exposure**.

Market Consensus Forecasts

GDP growth (%)	2021	2022	2023e	2024e
World	6.2	3.1	2.9	2.6
United States	5.9	2.1	2.4	1.2
Eurozone	5.3	3.5	0.5	0.5
Germany	2.6	1.9	-0.2	0.3
France	6.8	2.6	0.8	0.7
Italy	7.0	3.9	0.7	0.5
United Kingdom	8.5	4.0	0.5	0.3
Switzerland	4.3	2.0	0.8	1.1
Japan	2.3	1.1	1.9	0.8
Emerging economies	4.6	3.1	3.9	4.1
Asia Ex-Japan	5.9	3.2	4.6	4.6
Latin America	8.3	4.0	1.7	1.5
EMEA region	6.7	0.9	2.3	2.4
China	8.4	3.0	5.2	4.5
India	-5.8	8.7	7.0	6.6
Brazil	5.2	3.0	3.0	1.6
Russia	5.6	-3.0	2.6	1.4

Inflation (%)	2021	2022	2023e	2024e
World	4.7	7.6	6.0	4.4
United States	4.7	8.0	4.1	2.7
Eurozone	2.6	8.4	5.5	2.5
Germany	3.2	8.6	6.1	2.7
France	2.1	5.9	5.7	2.6
Italy	2.0	8.7	6.1	2.0
United Kingdom	2.6	9.1	7.4	3.0
Switzerland	0.6	2.9	2.2	1.5
Japan	-0.3	2.5	3.2	2.3
Emerging economies	3.5	6.1	6.1	6.7
Asia Ex-Japan	1.7	2.6	1.2	2.2
Latin America	11.9	19.4	23.9	31.8
EMEA region	8.2	21.0	17.6	16.0
China	0.9	2.0	0.4	1.4
India	5.1	5.4	6.6	5.4
Brazil	8.3	9.3	4.6	3.9
Russia	6.7	13.8	5.9	6.2

Central bank rates (%)	2021	2022	2023e	2024e
US Fed Funds	0.25	4.50	5.50	4.45
ECB Main Refinancing	0.00	2.50	4.50	3.70
China 1yr Best Lending	4.35	4.30	4.30	n.a.
Bank of Japan Overnight	-0.02	-0.10	0.00	0.10
UK Base Rate	0.25	3.50	5.25	4.50
Swiss 3mth CHF	-0.75	1.25	1.00	1.55

Commodities	2021	2022	2023e	2024e
NYMEX WTI oil USD/barrel	67	78	74	71
ICE Brent oil USD/barrel	71	83	79	75
Iron Ore USD/metric ton	119	120	125	111
Copper USD/metric ton	9721	8468	8635	8703
Gold USD/troy oz	1829	1949	2092	2187
Silver USD/troy oz	23.3	23.5	25.0	26.1

Major interest rates (%)	2021	2022	2023e	2024e
USA 3mth rate	0.2	4.3	5.4	4.4
USA 10yr gov't bonds	0.7	4.3	4.9	3.8
Eurozone 3mth rate	1.5	3.6	4.5	3.9
Eurozone 10yr gov't bond	-0.6	2.2	4.0	3.4
China 3mth rate	-0.6	2.1	3.0	2.3
China 10yr gov't bond	-0.2	2.1	2.6	2.2
UK 3mth rate	2.5	2.6	2.4	2.3
UK 10y gov't bond	2.4	2.3	2.4	2.2
Swiss 3mth rate	2.8	2.8	2.6	2.7
Swiss 10y gov't bond	-0.1	0.0	0.1	0.2

Exchange rates	2021	2022	2023e	2024e
EURUSD	1.14	1.00	1.07	1.12
EURCHF	1.04	0.98	0.96	0.99
USDCHF	0.91	0.97	0.90	0.89
EURJPY	130.92	144.50	159.00	155.00
EURGBP	0.84	0.88	0.87	0.88
USDJPY	115.08	144.00	149.00	135.00
GBPUSD	1.35	1.15	1.23	1.28
USDCNY	6.36	7.20	7.23	7.00
USDBRL	5.57	5.25	4.99	4.93
USDRUB	75.17	62.50	90.00	101.10

Performance table

		Performance		
Global equity markets	Price	Q4	Ytd Q4	Div.yld
MSCI World (USD)	3122	9.4%	19.9%	2.0
MSCI World (USD) hedged	1661	8.8%	22.8%	n.a.
S&P 500	4698	9.6%	22.4%	1.5
Russell 1000	2582	9.8%	22.6%	1.5
Nasdaq 100	16554	12.5%	51.3%	0.8
Stoxx Europe 600	478	6.2%	12.5%	3.4
MSCI Emerging Markets	997	4.7%	4.3%	3.1
Nikkei 225	33676	5.7%	29.1%	1.9
China CSI 300	3298	-10.6%	-14.8%	2.9

	Forward		EPS growth	
Equity market valuations	PE	PB	2023e	2024e
MSCI World (USD)	19.2	3.1	0%	9%
MSCI World (USD) hedged	n.a.	n.a.	n.a.	n.a.
S&P 500	21.8	4.3	-4%	12%
Russell 1000	21.9	4.1	-3%	13%
Nasdaq 100	29.5	7.0	5%	21%
Stoxx Europe 600	13.6	1.9	0%	5%
MSCI Emerging Markets	13.8	1.6	-10%	19%
Nikkei 225	24.7	1.9	-5%	29%
China CSI 300	11.6	1.3	2%	16%

		Performance		
Global gov't bonds	Yield	Q4	Ytd Q4	YtW
10yr US Treasury	3.85	6.5%	3.5%	n.a.
10yr Euro gov't bond	1.97	8.5%	9.5%	n.a.
10yr German gov't bond	1.97	7.1%	7.3%	n.a.
10yr Italian gov't bond	3.59	10.6%	13.9%	n.a.

		Performance		
Global bond indices	Price	Q4	Ytd Q4	YtW
Barclays Global Corporate IG	271	8.3%	9.0%	4.7
Barclays US Corporate IG	3210	8.1%	8.1%	5.1
Barclays Euro Corporate IG	246	5.4%	8.1%	3.6
Barclays Emerging Market USD	1167	7.7%	8.7%	7.1
Barclays US Corporate HY	2466	6.5%	12.8%	7.7
Barclays Pan-European HY	438	5.3%	12.4%	7.4

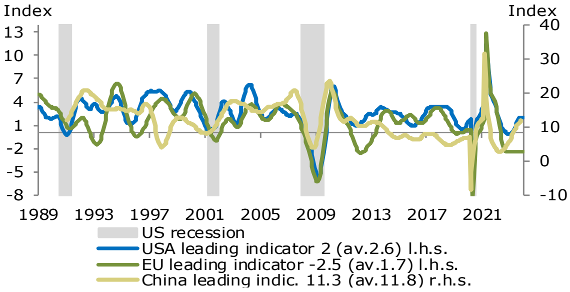
		Performance	
Commodities and currencies	Price	Q4	Ytd Q4
Brent oil	80	-16.4%	-7.2%
US Energy Services	84	-10.6%	0.8%
Copper	8524	3.5%	1.8%
Gold	2031	9.9%	11.4%
EURUSD	1.09	3.5%	2.2%
EURCHF	0.94	-2.4%	-4.7%

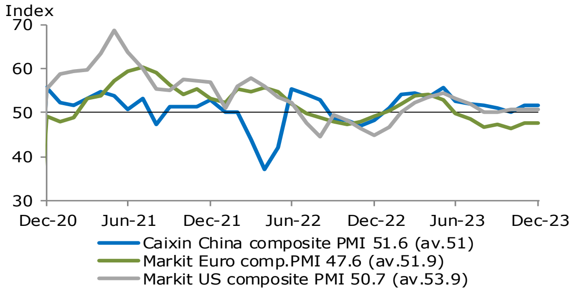
Source: Alpinum Investment Management (additional sources in appendix)
Note: Q4 = data as of 20 December 2023 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

Key Economic Charts

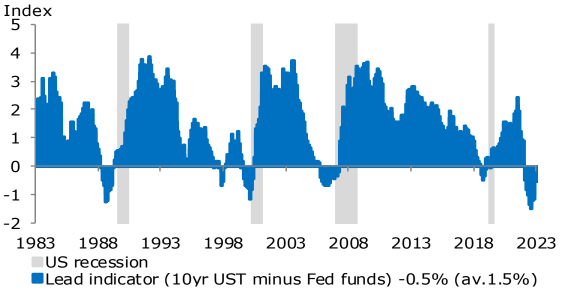
Leading indicators and manufacturing

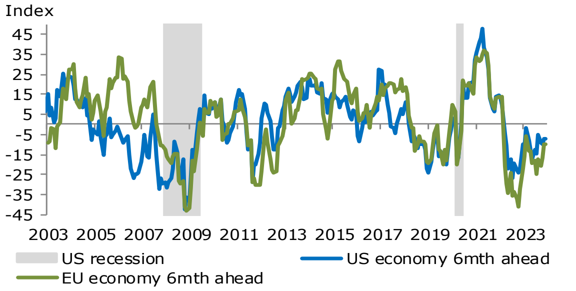
Source: Alpinum Investment Management



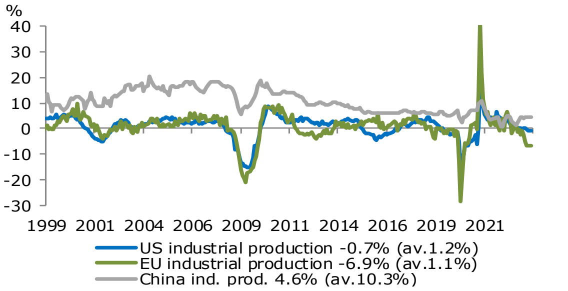


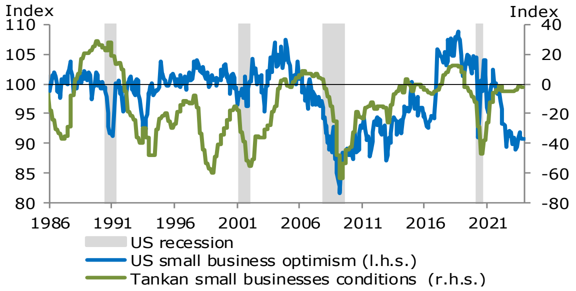
Recession indicator



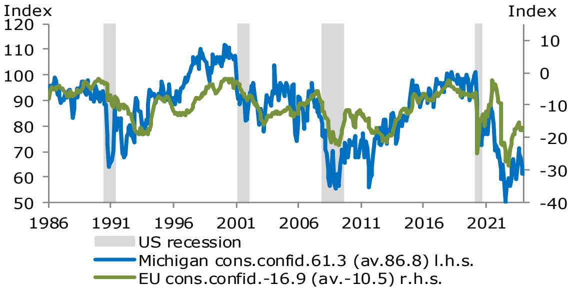


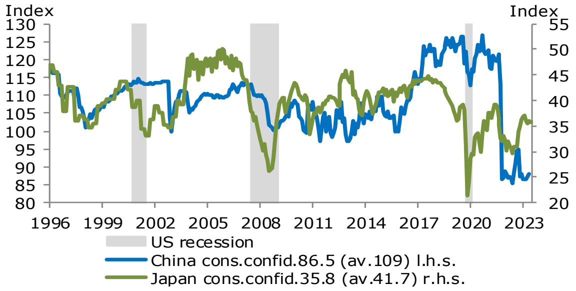
Industrial production and small businesses



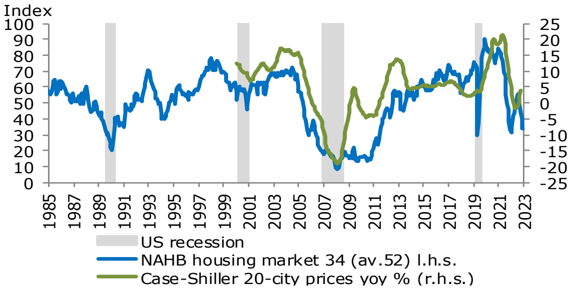


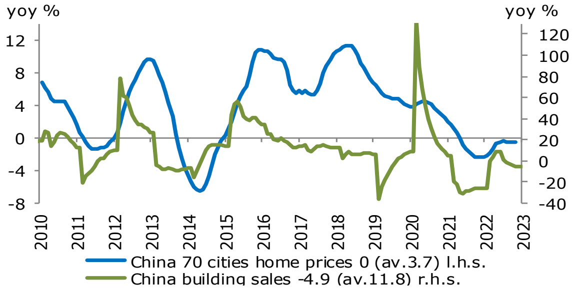
Consumer confidence





Housing market





Source: Alpinum Investment Management (additional sources in appendix)

Scenario Overview 6 Months

Base case 70%

- **US:** Economic stagflation environment with low positive real growth. This still translates into 3-5% nominal growth, which keeps the economy rolling. Inflation still weighs on consumer demand and pressures the profit margins of companies. High interest rates and geopolitical tensions remain the key concern for the economic outlook and constrain private investments. As house prices stabilised and wages continue to 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. 2nd round inflation effects keep rates up; war impact still weighs negatively. 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:** Supply chain issues and inflationary pressures have faded, which eases pressure on profit margins. Low expected economic growth has now become the no. 1 concern. Looming risk of a vicious wage-price spiral is also off the table for now. But (US-) equities lack a sustained upside potential with high multiples, such as a S&P with 19x. We recommend a balanced approach in terms of equity style.
- **Interest rates:** Positive bias on rate exposure as upward pressure on yields is gone. (US) Duration exposure serves as a valuable diversifier and tail hedge in case of an evolving recession.
- **Credit:** Credit spreads have adjusted and are fairly priced. Corporate default rates rise towards 3%. We like the whole fixed income bloc, but prefer loans, short-term HY, CLOs and selective Emerging Debt and IG bonds.
- **Commodities/FX:** Rates advantage keeps USD on the bid-side in the short-term; mild winter and ceasefire hopes to temper the energy-bloc.

Bull case 20%

- **US:** Sub-par GDP growth rate of ~2%. Fed succeeds and inflation decelerates. Supply chain issues solved and consumer spending remains robust, supported by wage increases/robust absolute payroll level. Energy prices do not 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 comes to an end, 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 (maintain) 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 increase slightly, 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 10%

- **US:** Mild recession with a risk that it may linger, but still positive nominal GDP growth. Low unemployment rate combined with new cyclical and existing resilient inflation kicks off a wage-price spiral and expected rate cuts do not materialise.
- **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 suffers from higher input costs.
- **China/EM:** China fails to ease credit measures enough, leading to ~3% GDP growth and disappointing exports. EMs (ex-commodity exporters) suffer as global trade is held back. EM FX decline does not stop.

Investment conclusions

- **Equities:** Equities fall and relinquish some of the Q4 ’23 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 with 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 safe havens 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, profit margins of corporates are more sustained than feared as cost cutting programmes prove to be successful. ▪ Positive wealth effect driven by rising equity markets in 2023, higher wages and stabilising house prices provide support to US consumption and corporates' revenues. ▪ A negative factor for equities is the competition of other asset classes, namely the attractive short-term interest rate levels of US Treasuries >5% or HY bonds yielding 8-9% 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 widely anticipated rate cuts will be delayed, US equities will be negatively affected. ▪ Market consensus estimates that US earnings will be flat in 2023 and rise 10% in '24, which poses a risk for disappointment, as history suggests that earnings tend to drop 10-20% in a recession. ▪ Military conflict leads to more structural inflation pressure (less globalisation/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 turned to a positive bias, although, inflation is not yet fully tamed. There is room for disappointment as massive rate cuts are already priced in, while new "cyclical" inflation could emerge in H2 2024. We increased our duration exposure and consider the allocation as a valuable portfolio diversifier. ▪ **IG:** We changed our stance towards investment grade bonds, and we now have a neutral position, but we still avoid structurally very long maturities. ▪ **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 on-going negative fund flows remain a negative driver. Should the recent USD weakness continues, selective local currency bonds will gain our attention and we will increase our exposure.	▪ With the stress in the banking system in H1 2023 and the provoked regulatory actions, borrowing costs have increased. ▪ The narrative for short-term rates is: Rates remain elevated despite the anticipated rate cuts. ▪ Both the Fed and the ECB rates have peaked, but the risk lies later in the year in case the economy starts to accelerate, which will not only keep up the labour market, but also inflation numbers. ▪ Credit spreads appear fairly valued in general. However, spreads will not be wide enough in case the economic outlook is going to darken. Corporate default rates increase towards long-term average levels of ~3%. ▪ 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 as direct lending offers currently high absolute yield levels of 10-11% p.a.	▪ 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-globalisation (protective measures) and supply-side constraints. ▪ Gold benefits when real and/or nominal interest rates fall and vice versa, now a support; should geopolitical uncertainties fade, gold will fall.	▪ High inflation environment is beneficial for commodity prices, but cyclical downturn is negative. ▪ Chinese growth hopes have not yet fully materialized and represent a drag for higher prices. ▪ Supply-side disruption fades on a global scale.

Asset Class Conviction Levels

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

			Conviction Level over 6 Months		
Fixed Income	**Underweight**	←	**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	☐	☐	☑	☐	☐

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

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

			Conviction Level over 6 Months		
Hedge Fund: Regional Focus	**Underweight**	←	**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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