MARCUARD
HERITAGE

Quarterly investment letter – 2nd quarter 2023

Content

Regional macroeconomic backdrop	2
Market consensus forecasts	5
Performance table	6
Key charts	7
Scenario overview 6 months	8
Asset class assessment	9
Asset class conviction levels	10
Disclaimer	11

Summary points

- The economic environment presents challenges for investors as **market expectations diverge from reality**. Despite positive signs in Europe and China, stubborn inflation, **deteriorating quarterly dynamics in the US** and **stagnant eurozone growth** add to the complexity.

- The **US economy shows mixed indicators**, with a decline in the housing market, but robust labor data and a partly improving economic outlook. The Federal Reserve Chair cautions that **disinflation may take longer,** and further interest rate hikes will be needed to reach long-term price stability.

- The **eurozone has entered a stagflation period with close to zero growth in 2023,** while inflation is stubbornly high, currently at 8.5%. As a result, the ECB has signaled **further rates hikes**.

- China's economy grew by 3% in 2022, with a 5% GDP growth target set for 2023. Reopening may bring **rapid consumption-driven recovery** and **inflation implications for other regions**.

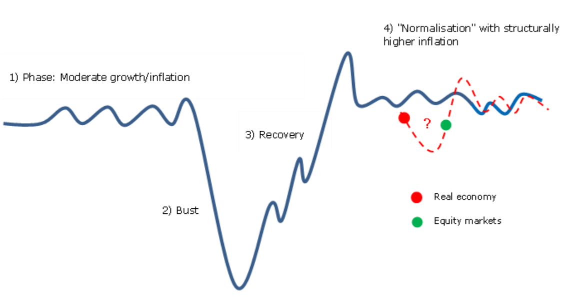
- **Conclusion:** Global monetary policy tightening cycle approaches its peak, evidenced by considerably higher US short-term interest rate levels of around 5% p.a. This results in an **upgrade of the entire fixed income bloc,** but cautiousness is still warranted as rates are expected to remain higher for longer. We like non-cyclical US and Scandinavian short-term HY bonds, but also selective IG bonds across the spectrum. We keep our **small underweight position in equities**, with a preference for non-US markets, while maintaining a balanced style approach. As the outlook for equity returns is capped, an **absolute return approach is preferred vs. a classic relative value mandate.**

1 Regional macroeconomic backdrop

From hope to reality, a bumpy road

The current economic environment is a major challenge for investors as the **gap between the real economy and the markets expectations continues to widen**. Despite some **encouraging signs in Europe and China**, such as the lower gas prices and reopening of China, the belief that inflation is decreasing rapidly and that central banks have successfully stabilized the economy to avoid another earnings recession is **more of a hopeful projection than an accurate reflection of current reality**. This sentiment was amplified, after the collapse of Silicon Valley Bank and the liquidity crisis of Credit Suisse, as there was a growing belief that the **Federal Reserve (Fed) would pause raising interest rates** and instead consider the possibility of cutting them.

Chart 1: Normalization with structurally higher inflation



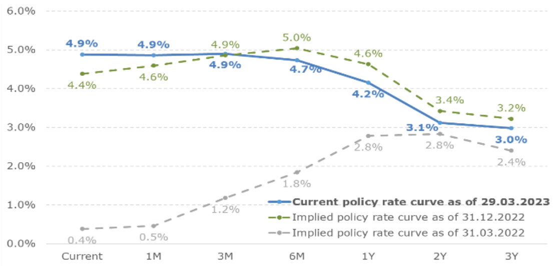
Source: Bloomberg Finance L.P., Alpinum Investment Management

Economic dynamics should deteriorate in the US in H2 2023, and **Eurozone** growth forecasts are **expected to stagnate.** Contrary to market expectations, **inflation is declining slowly**, and the path to the 2% target is likely to be "long and bumpy". While the **Fed is nearing the end of tightening**, the ECB remains hawkish. An improvement in the near-term global economic outlook prompted markets to price in expectations that **interest rates will remain higher for an extended period**. As a result, the outlook for duration-heavy bonds has improved, while fading hopes of an interest rate cut rally weighed on equity markets in Q1.

United States

The **US equity markets had a strong start** to the year, supported by falling inflation and the expectation that the monetary tightening cycle would soon end. However, following the release of robust economic data, bond yields increased, and equity markets experienced a downturn. With economic data indicating that a recession may not be imminent, **investors adjusted their expectations regarding the terminal interest rate** and the pace of rate cuts as the path to achieving **target inflation may take longer than initially anticipated**. For February, the Consumer Price Index (CPI) showed a year-on-year increase of 6.0% (headline inflation) and 5.5% (core inflation), in line with expectations.

Chart 2: Current and historical US policy rate curves



Source: Alpinum Investment Management

Federal Reserve Chairman Jerome Powell cautioned during a congressional hearing that the **disinflation process might take longer than anticipated** to produce the desired results and that the Fed may need to consider **further interest rate hikes** to ensure long-term price stability, should the macroeconomic data continue to demonstrate robust growth. This resulted in bond yields rising, with the yields on the 2- and 10-year Treasury bonds briefly surpassing 5% and 4%, before the banking stresses caused them to retreat. Consequently, the **spread between 2- and 10-year Treasury yields further inverted**, reaching levels not observed since September 1981 (-1.07%). In addition, the US housing market contracted significantly, with the total value of US real estate falling by USD 2.3 trillion or 4.9% in the second half of 2022, the **sharpest percentage decline since the housing crisis of 2008**. Despite these challenges, labor market data remains robust, and the purchasing managers' index suggests an **improved economic outlook**. The Federal Reserve's **decision on interest rates and the effects of the recent banking turmoil will be critical factors** influencing the economy's trajectory going forward.

Europe

European equities have outperformed US stocks this year, with the MSCI Europe up 4.9% year-to-date, marking a rare period of relative strength for the region. The European Commission recently announced that it expects the **eurozone economy to grow by 0.9% in 2023**, higher than the previous estimate of 0.3%, thus avoiding a technical recession. However, the Commission also cautioned that the outlook for the region remains weak, and that **growth may be driven primarily by lower energy prices**. Looking ahead, the European Commission has forecasted that the eurozone economy will expand by 1.5% in 2024, which is unchanged from previous projections. Inflation has been a concern for eurozone policymakers, with **headline inflation dropping to 8.5% in February**, while core inflation remained steady at 5.6%. Currently, markets are predicting that interest rates may rise to 3.3% by the end of the year.

Chart 3: Performance 12-month rolling

Source: Bloomberg Finance L.P., Alpinum Investment Management

Consumer confidence has improved, hinting at a potential rise in consumption in the coming months. The European Central Bank (ECB) raised interest rates by 50 bps in February and March, elevating the **deposit rate to 3.0%,** and reiterating its plan to increase rates steadily to **maintain restrictive levels and ensure a timely return of inflation to its 2%** target. Despite a decline in headline inflation, ECB President Christine Lagarde remains concerned about core inflation, **signalling the intention to further raise rates**. This resulted in eurozone government bond yields hitting their highest levels in over a decade, with the German 10-year yield surpassing 2.7%, only to retreat back to 2.2% after the banking stress hit the markets.

China and emerging markets (EM)

China's economy expanded by 3% in 2022, falling short of the official target (5.5%) and marking the second-slowest pace since the 1970s, due to the impact of Covid restrictions and the real estate sector downturn. Nonetheless, the pandemic's impact has weakened, and the recovery in retail sales alone can drive growth. Beijing has set a **GDP growth target of "around 5%" for 2023**, with only a modest increase in fiscal support to stimulate the consumer-driven recovery that is already underway. Although the market had expected a more ambitious target of above 5%, the target is still positive news for both China and the global economy, as the **Chinese economy is projected to contribute a third of global growth this year**.

Chart 4: China targets modest growth of 5% for 2023

Source: Bloomberg Finance L.P., Alpinum Investment Management

In line with the experiences of Europe and the US, China has a **significant surplus of savings and pent-up consumer demand** resulting from the frequent lockdowns in recent years. The reopening of China post-lockdown could result in a **rapid consumption-driven recovery** in the Chinese economy, but it could also have **severe implications for inflation growth in other regions worldwide**. According to the latest official Chinese manufacturing purchasing managers' index, growth accelerated to 52.6, the quickest pace in over a decade. After rising more than 17.5% in the quarter, the **MSCI China Index gave back all its gains** (+2.2% YTD), although it has still been up 39% since the October 2022 low. Meanwhile, the People's Bank of China (PBOC) has maintained its one-year loan prime rate (LPR) at 3.65%, while the five-year LPR remains at 4.30%. **Both lending rates are the lowest in the past two decades**. China's decision to hold interest rates was also due to concerns about the yuan, which was dangerously close to surpassing the critical 7 to the USD level.

Investment conclusions

In Q1 2023, an improvement in the global economic outlook led to market expectations that interest rates would need to remain elevated for an extended period to bring inflation back towards its target. However, the end of the rate hike cycle is expected to be approaching, i.e. "**higher for longer but less than previously expected**". **Unemployment rate is expected to rise, accompanied by a decline in capital spending and pressure on profit margins**, which will especially hurt companies with high operating leverage. Once the economy starts to slow down, **central banks may end their monetary tightening** and opt to cut interest rates, which would ultimately ease pressure on bonds and possibly equities. During the quarter, **fixed income gained relative attractiveness** compared to equity investments, and **duration as an asset class is becoming investable again**.

Chart 5: US high-yield bonds and loans vs. equity yields

Bonds: Monetary policy is in tightening mode worldwide and approaching peak levels for short-term rates. This puts the whole fixed income bloc into the spotlight as **both credit and duration sensitive bonds look attractive** - something we have not experienced for a decade. We continue to **favor European loans, non-cyclical US** and **Scandinavian short-term HY,** but also **selective IG bonds across the spectrum** as the Fed should soon stop, or at least pause its tightening cycle**.**

Equities: Equity multiples remain challenged with higher interest rates and vulnerable profit margins. Within equities, we continue to **favor non-US markets**, maintaining a mixed style approach with a minimal **tilt towards selective value**.

At this point along the way, we are **preparing for further volatility** and focusing accordingly on **preserving capital**. Having said that, investors shall remain cautious by adopting an **active** and **controlled downside-risk management** within an **absolute return approach**.

2 Market consensus forecasts

GDP growth %	2021	2022e	2023e	2024e
World	6.0	3.1	2.4	2.8
United States	5.9	2.1	1.0	1.0
Eurozone	5.3	3.5	0.5	1.2
Germany	2.6	1.9	0.0	1.1
France	6.8	2.6	0.5	1.0
Italy	6.7	3.9	0.5	0.9
United Kindom	8.5	4.0	-0.4	0.9
Switzerland	4.3	2.0	0.6	1.4
Japan	2.3	1.1	1.1	1.1
Emerging economies	4.4	3.1	4.2	4.4
Asia Ex-Japan	5.6	3.2	5.1	4.9
Latin America	8.2	4.0	0.9	1.9
EMEA region	5.7	0.9	0.5	2.6
China	8.1	3.0	5.3	5.0
India	-6.6	8.7	6.9	6.0
Brazil	5.2	3.0	0.9	1.7
Russia	4.7	-3.0	-2.5	1.5

Inflation %	2021	2022e	2023e	2024e
World	4.7	7.6	5.6	3.6
United States	4.7	8.0	4.3	2.6
Eurozone	2.6	8.4	5.7	2.4
Germany	3.2	8.6	6.1	2.6
France	2.1	5.9	5.2	2.4
Italy	2.0	8.7	6.6	2.2
United Kindom	2.6	9.1	6.5	2.4
Switzerland	0.6	2.9	2.4	1.4
Japan	-0.3	2.5	2.3	1.2
Emerging economies	3.6	6.1	6.0	4.6
Asia Ex-Japan	1.7	2.6	3.0	2.7
Latin America	11.9	19.4	20.3	15.3
EMEA region	8.2	21.0	14.6	9.6
China	0.9	2.0	2.3	2.3
India	5.1	5.4	6.7	5.3
Brazil	8.3	9.3	5.3	4.2
Russia	6.7	13.8	5.8	4.8

Central bank rates %	2021	2022e	2023e	2024e
US Fed Funds	0.25	4.50	5.05	3.60
ECB Main Refinancing	0.00	2.50	4.10	3.35
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	4.25	3.40
Swiss 3mth CHF Libor	-0.75	1.25	1.75	1.00

Commodities	2021	2022e	2023e	2024e
NYMEX WTI oil USD/barrel	69	73	69	66
ICE Brent oil USD/barrel	72	78	74	72
Iron Ore USD/metric ton	119	120	108	101
Copper USD/metric ton	9721	8971	8949	8912
Gold USD/troy oz	1829	1986	2111	2191
Silver USD/troy oz	23.3	23.3	24.5	25.1

Major interest rates %	2021	2022e	2023e	2024e
USA 3mth rate	0.2	4.3	4.9	3.4
USA 10yr Gov't Bond	0.7	4.3	3.9	3.1
Eurozone 3mth rate	1.5	3.6	3.5	3.3
Eurozone 10yr Gov't Bond	-0.6	2.2	3.5	2.6
China 3mth rate	-0.6	2.1	2.5	1.8
China 10yr Gov't Bond	-0.2	2.1	2.3	2.0
UK 3mth rate	2.5	2.6	2.5	n.a.
UK 10yr Gov't Bond	2.4	2.3	2.5	2.3
Swiss 3mth rate	2.8	2.8	3.1	3.1
Swiss 10yr Gov't Bond	-0.1	0.0	0.1	0.0

Exchange rates	2021	2022e	2023e	2024e
EURUSD	1.14	1.00	1.12	1.14
EURCHF	1.04	0.98	1.02	1.05
USDCHF	0.91	0.97	0.91	0.92
EURJPY	130.92	144.50	139.00	136.00
EURGBP	0.84	0.88	0.90	0.89
USDJPY	115.08	144.00	125.50	120.00
GBPUSD	1.35	1.15	1.25	1.29
USDCNY	6.36	7.20	6.70	6.50
USDBRL	5.57	5.25	5.17	4.90
USDRUB	75.17	62.50	80.00	92.50

- Source: Bloomberg Finance L.P., Alpinum Investment Management
  Note: Q1 = data as of March 28, 2023 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

3 Performance table

Global equity markets	Price	Q1	Ytd Q1	Div.yld
		Performance		
MSCI World (USD)	2705	3.9%	3.9%	2.3
MSCI World (USD) hedged	1410	4.2%	4.2%	n.a.
HFRX Global Hedge Fund	1360	-0.5%	-0.5%	n.a.
S&P 500	3971	3.4%	3.4%	1.8
Russell 1000	2176	3.3%	3.3%	1.8
Nasdaq 100	12611	15.3%	15.3%	0.9
Stoxx Europe 600	444	4.6%	4.6%	3.6
MSCI Emerging Markets	971	1.5%	1.5%	3.1
Nikkei 225	27518	5.5%	5.5%	2.1
China CSI 300	4000	3.3%	3.3%	2.4

	Forward		EPS growth	
Equity market valuations	PE	PB	2023e	2024e
MSCI World (USD)	16.2	2.6	1%	9%
MSCI World (USD) hedged	n.a.	n.a.	n.a.	n.a.
HFRX Global Hedge Fund	n.a.	n.a.	n.a.	n.a.
S&P 500	18.1	3.5	-2%	10%
Russell 1000	18.3	3.4	-2%	11%
Nasdaq 100	24.3	5.7	-3%	18%
Stoxx Europe 600	12.7	1.7	-1%	6%
MSCI Emerging Markets	12.1	1.4	0%	17%
Nikkei 225	16.9	1.6	15%	13%
China CSI 300	13.8	1.7	4%	15%

		Performance		
Global gov't bonds	Yield	Q1	Ytd Q1	YtW
10yr US Treasury	3.57	3.0%	3.0%	n.a.
10yr Euro gov't bond	2.29	3.6%	3.6%	n.a.
10yr German gov't bond	2.29	2.9%	2.9%	n.a.
10yr Italian gov't bond	4.13	5.8%	5.8%	n.a.

		Performance		
Global bond indices	Price	Q1	Ytd Q1	YtW
Barclays Global Corporate IG	255	2.6%	2.6%	5.1
Barclays US Corporate IG	3038	2.4%	2.4%	5.3
Barclays Euro Corporate IG	231	1.4%	1.4%	4.3
Barclays Emerging Market USD	1087	1.2%	1.2%	7.5
Barclays US Corporate HY	2224	1.8%	1.8%	9.0
Barclays Pan-European HY	398	2.2%	2.2%	8.3

		Performance	
Commodities and currencies	Price	Q1	Ytd Q1
Brent oil	79	-8.5%	-8.5%
US Energy Services	78	-7.0%	-7.0%
Copper	8976	7.2%	7.2%
Gold	1974	8.2%	8.2%
EURUSD	1.08	1.3%	1.3%
EURCHF	1.00	0.7%	0.7%

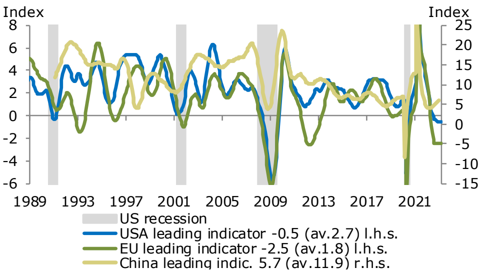
Source: Bloomberg Finance L.P., Alpinum Investment Management

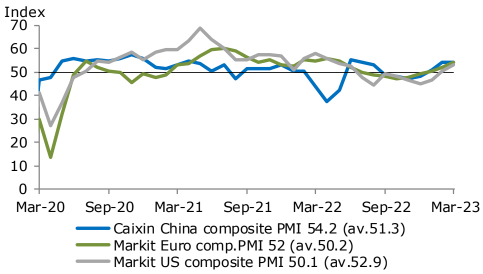
Note: Q1 = data as of March 28, 2023 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

4 Key Charts

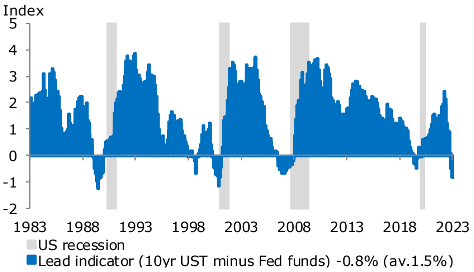
Leading indicators and manufacturing

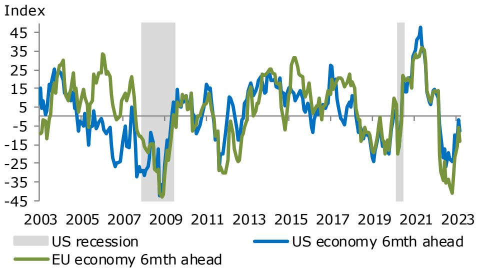
Source: Alpinum Investment Management



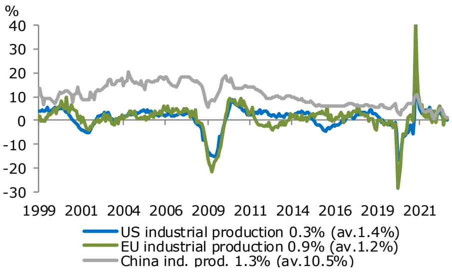


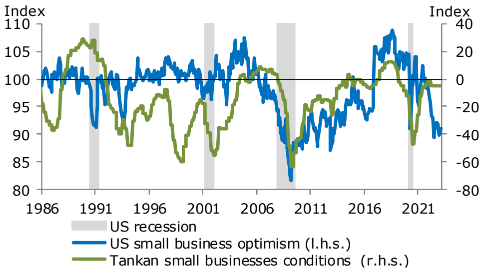
Recession indicator



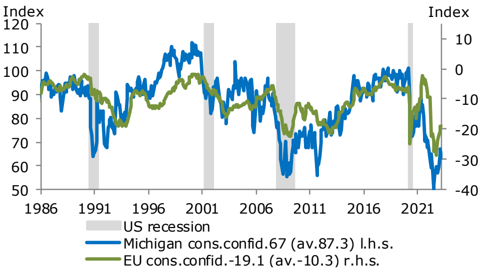


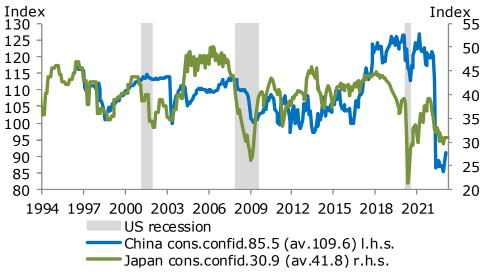
Industrial production and small businesses





Consumer confidence





Source: Bloomberg Finance L.P., Alpinum Investment Management

5 Scenario overview 6 months

Base case 65%

- **US:** Economic slowdown/stagflation environment with 0-1% GDP growth in 2023, while still printing high nominal numbers. Elevated, but moderating inflation weighs on consumer demand and pressures companies' profit margins. High interest rates and geopolitical tensions remain a key concern for the economic outlook and lead to fewer investments. House prices decelerate, wages increase, but supply chain issues largely solved. Government spending (i.e. infrastructure, old/new energy, defense) remains supportive.
- **Eurozone:** Stagflation, zero growth environment. Slow growth dynamic caused by inflation spike, higher rates, war impact. But continuing fiscal impulse, solidarity payments, defense spending and still low absolute interest level are supportive.
- **China:** GDP growth rises towards ~5% as zero Covid-policy was lifted and credit impulse revives economy.
- **Oil:** China reopening boosts demand, but economic weakness in developed countries eases prices.

Investment conclusions

- **Equities**: Equities face uncertain outlook with profit margin pressure due to elevated input costs, lower economic growth ahead, higher 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 ~17 and upcoming profit margin pressures. We recommend a balanced approach in terms of equity "style".
- **Interest rates:** Minimal negative bias on rate exposure as upward pressure on yields remains, but (US) duration exposure serves as a valuable diversifier and tail hedge in case of a severe recession.
- **Credit:** Credit spreads have adjusted and are selectively attractive, despite an increase of corporate default rates in 2023. We prefer loans, short-term HY, senior exposure in structured credit and very selective EM/Asia as well as IG bonds in general.
- **Commodities/FX:** USD strength fades further; selective cyclical commodities face headwind while a structural inflation supports the commodities bloc.

Bull case 20%

- **US:** Sub-par GDP growth rate (~2%). Fed succeeds and inflation decelerates. Supply chain bottlenecks solved and consumer spending remains robust, supported by high savings and wage increases. Energy prices decelerate, firms keep capex spending alive. Economy transforms into "new normal".
- **Europe:** Temporary growth halt & avoiding recession; peripherals backed by continued fiscal/monetary policy support; standing together spirit holds; significantly more defense/green energy spending.
- **China/EM:** Chinese regulatory craze fades further, consumption revives and credit easing measures gain traction. No further escalation with West. Supply chain issues largely solved with changed Covid policy.

Investment conclusions

- **Equities:** After market correction, equities look more attractive. Firms reduce labor vs. capital spending 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 in check.
- **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 danger to stay for longer, but still positive nominal GDP growth. Low unemployment rate combined with resilient inflation kicks off wage-price spiral and sustained rate hike increases.
- **Europe:** Moderate recession with 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 2-3% GDP growth in 2023 and moderate 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 test new lows. Highly priced US equities will lead the correction, followed by Europe.
- **Interest rates:** Long-term rates drop (further yield curve inversion), but limited potential apart from USD rates. Support for high-quality assets (Treasuries, A/AA bonds, agency bonds). Cash is king!
- **Credit:** Corporate default rates climb and approach higher end of long-term average levels, but severe default cycle is avoided. Favor short dated high-quality bonds and cash.
- **Commodities/FX:** Negative for 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, Euro break up.
- Military conflict in the South China Sea.
- Pandemic crisis re-emerges/new virus variants.
- Nuclear escalation resulting in 3rd World War.
- Emerging market meltdown similar to 1998.

6 Asset class assessment

Equities	Comment
▪ After 2022 market correction, valuation levels have somewhat normalized and approach “neutral land”. ▪ However, the looming risk of an economic slowdown asks for an additional risk premium, which contributes further to an uncertain outlook for the asset class. Another negative factor for equities remains the competition of other asset classes, namely the high short-term interest rate levels of US Treasuries approaching 5% or HY bonds yielding >8% p.a. ▪ The upside potential is limited due to the continued high inflation (input costs; profit margin pressure) and lower economic growth prospects (weakening demand for goods & services). ▪ 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 weakens.	▪ Equity multiples have adjusted downwards, but will feel additional pressure if rates don’t stop rising. A current P/E ratio of ~17 for the S&P translates into an earnings yield of only 5.8%! ▪ Market consensus estimates that US earnings will be flat in 2023 and rise +12% in ‘24, posing a risk for disappointment, when history suggests that earnings tend to drop by 10-20% in a recession. ▪ Military conflict leads to more structural inflation pressure (less globalization/productivity, less efficient/safer 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**: With the massive rate hikes in recent quarters, the outlook for duration as an asset class has largely improved, but a negative bias remains as long as inflation is not tamed. Further hikes are limited, evidenced by US (10 year) real rates ranging between 1 and 1.5%. We hold small duration exposure, but are willing to increase tactically. Duration acts primarily as a valuable portfolio diversifier. ▪ **IG**: Upgrade in general. We hold minimal US investment grade bonds and only selective European IG bonds. Selective EM/Asia IG bonds look attractive. ▪ **High Yield:** Loans and high yield bonds offer fair relative and attractive absolute yields. Overall, we favor selective US short-term non-cyclical bonds, European loans & senior/mezzanine CLO tranches. ▪ **Emerging Debt:** After the sell-off in 2022 in emerging and Asian debt markets, plenty of opportunities exist and are a tactical buy. With USD strength fading, selective local currency bonds gain our attention.	▪ With the stress in the banking system and the provoked regulatory actions, the borrowing costs will increase, whereas at the same time, the speed and magnitude of further rate hikes will be lower. ▪ The narrative for short-term rates has adjusted to: “Higher for longer with a lower peak level”. ▪ The ECB is expected to further raise rates from current levels, whereas the US Fed is expected to pause after another hike. ▪ Credit spreads have repriced and 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. ▪ 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.	▪ Current fragile economic environment benefits active managers. 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 positive situation with peak rates ahead of us.	▪ High inflation environment is beneficial for commodity prices, but cyclical downturn is negative. China re-opening demands more commodities. ▪ Supply-side disruption fades on a global scale.

7 Asset class conviction levels

Equities	Underweight	←	Neutral	→	Overweight
North America	□	□	■	□	□
Europe	□	□	■	□	□
Switzerland	□	□	■	□	□
China	□	□	■	□	□
Japan	□	□	■	□	□
Asia – Emerging Markets	□	□	□	■	□
Others – Emerging Markets	□	□	□	■	□
Fixed Income					
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 Hiegh 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					
Gold	□	□	■	□	□
Oil (Brent)	□	□	■	□	□
Hedge Fund: Strategies					
Equity Long-Short	□	□	□	□	■
Credit Long-Short	□	□	□	□	■
Event-Driven Corporate Actions	□	□	□	□	■
Global Macro	□	□	■	□	□
Hedge Fund: Regional Focus					
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 of the relative expected return of an asset class versus well-recognized benchmarks such as BarCap Global aggregate (for bonds) and MSCI World (equities) but does on the other hand also partly incorporate our view of the absolute expected return versus "cash".

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