MARCUARD
HERITAGE

Quarterly investment letter – 1st quarter 2024

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 **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 has fallen by 14.0% in 2023, reflecting **weak domestic demand** and **persistent deflationary pressures in China**.
- **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 **favor 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.

1 Regional macroeconomic backdrop

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 normalization process will lead to historically **more typical inflation rates, real interest rates, and budgets**, resulting in valuations aligning closer to historical norms.

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 emphasized, with concerns about the global economic outlook, including **slowing growth, rising headwinds in consumer spending, and elevated valuations.**

Chart 1: Equity markets anticipate low, but positive growth

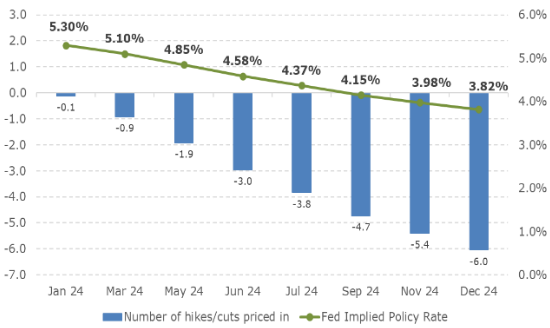
Source: Bloomberg Finance L.P., Alpinum Investment Management

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 end-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 Federal Open Market Committee minutes affirmed the **Fed's commitment to sustained elevated rates**.

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 slower 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.

Chart 2: Fed implied policy rates



Source: Alpinum Investment Management

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 a slightly less pessimistic signal, with the composite PMI climbing to 47.1.

Chart 3: “Magic Eight” of the EURO STOXX 50

Source: Bloomberg Finance L.P., 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 a 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.

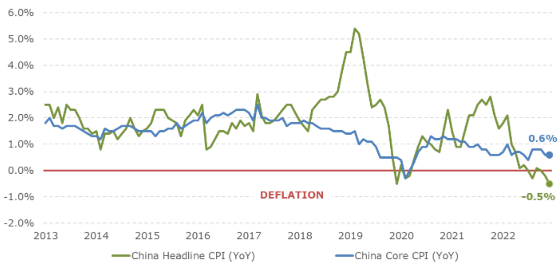
China and emerging markets (EM)

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.

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, allowing the PBOC to end its de facto peg. 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.

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

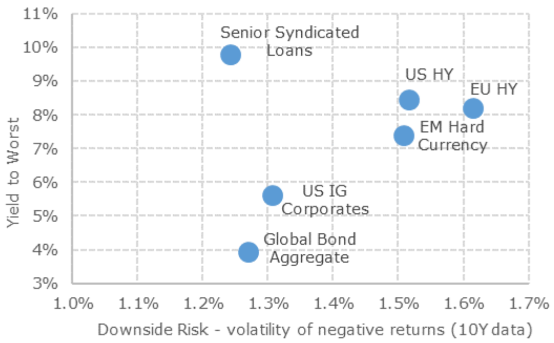


Source: Bloomberg Finance L.P., Alpinum Investment Management

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



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 emphasize 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, 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**.

2 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	0.9
Eurozone	5.3	3.5	0.5	0.8
Germany	2.6	1.9	-0.2	0.6
France	6.8	2.6	0.8	0.8
Italy	7.0	3.9	0.7	0.6
United Kindom	8.5	4.0	0.5	0.4
Switzerland	4.3	2.0	0.8	1.3
Japan	2.3	1.1	1.9	1.0
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	1.6
EMEA region	6.7	0.9	2..	2.3
China	8.4	3.0	5.2	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	2.6	1.2

Inflation %	2021	2022	2023e	2024e
World	4.7	7.6	7.6	4.3
United States	4.7	8.0	4.1	2.7
Eurozone	2.6	8.4	5.5	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	6.1	2.4
United Kindom	2.6	9.1	7.4	3.1
Switzerland	0.6	2.9	2.2	1.6
Japan	-0.3	2.5	3.0	1.9
Emerging economies	3.5	6.1	6.1	5.6
Asia Ex-Japan	1.7	2.6	1.0	2.5
Latin America	11.9	19.4	23.9	22.8
EMEA region	8.2	21.0	17.6	13.3
China	0.9	2.0	0.4	1.8
India	5.1	5.4	6.6	5.4
Brazil	8.3	9.3	4.3	4.0
Russia	6.7	13.8	5.9	5.5

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 Libor	-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 Bond	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	2.3
UK 3mth rate	2.5	2.6	2.4	2.3
UK 10yr Gov't Bond	2.4	2.3	2.4	2.2
Swiss 3mth rate	2.8	2.8	2.6	2.7
Swiss 10yr 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

- Source: Bloomberg Finance L.P., Alpinum Investment Management
  Note: Q4 = data as of 20 December 2023 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

3 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	-2.4%	12.9%	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	3366	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%

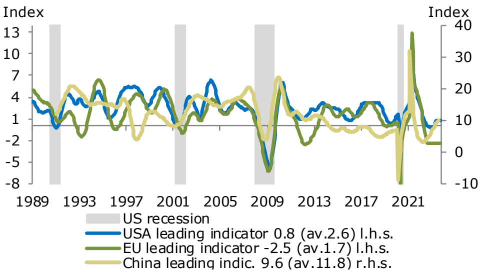
Source: Bloomberg Finance L.P., Alpinum Investment Management

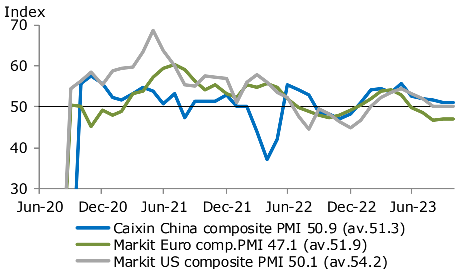
Note: Q4 = data as of 20 December 2023 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

4 Key Charts

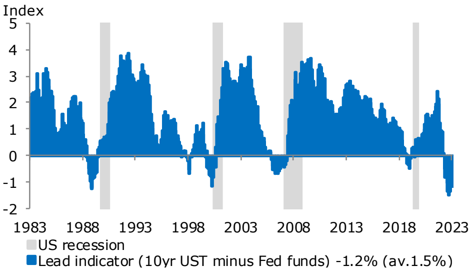
Leading indicators and manufacturing

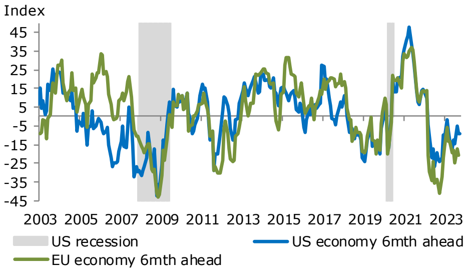
Source: Alpinum Investment Management



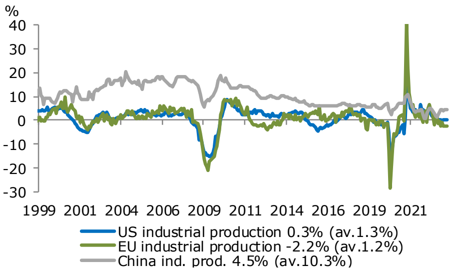


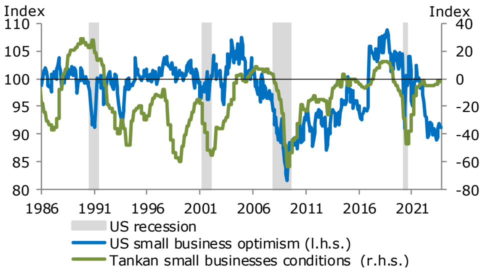
Recession indicator



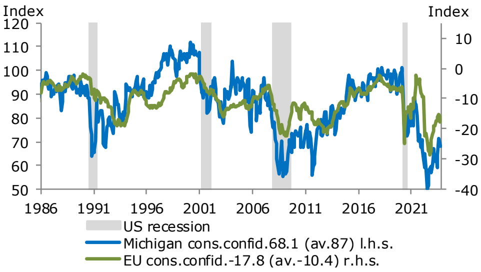


Industrial production and small businesses





Consumer confidence



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

5 Scenario overview 6 months

Base case 70%	Investment conclusions
▪ **US:** Economic stagflation environment with low positive real growth. This still translates into 3-5% nominal growth, what keeps the economy rolling. Inflation still 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. 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.	▪ **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%	Investment conclusions
▪ **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.	▪ **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%	Investment conclusions
▪ **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.	▪ **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.

6 Asset class assessment

Equities

- 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.

Comment

- 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 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

- **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.

Comment

- 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

- 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.

Comment

- 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

- 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, now a support; should geopolitical uncertainties fade, gold will fall.

Comment

- 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.

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".

Disclaimer

This document or email and any attachments transmitted with it (hereinafter altogether document) are confidential and intended solely for the use of the recipient. If you have received this document in error, please inform us immediately and delete it.

This document has been prepared by Marcuard Heritage AG, its subsidiaries or affiliates (hereinafter altogether Marcuard Heritage) and is for your information purpose only. It is not intended to be investment advice or research, a sales prospectus, an offer or a solicitation to an offer to enter any investment activity.

This document is of generic information and does not consider specific investment objectives, financial situation or particular needs of any recipient. It should therefore not be regarded by recipients as a substitute for the exercise of their own judgment. The explanations contained in this document are based on general economic principles and assumptions. Different assumptions or views could lead to materially different results. Any investment entails a certain degree of investment risks. The attention is hereby drawn to such risks (which can be substantial). Changes in foreign exchange rates may have a negative impact on the price, value or income of an investment. The market in specific securities may be illiquid and therefore valuing the investment and identifying the risks may be difficult. Some investments may be subject to sudden, and large drawdown in value and may return less than the invested amount. Past performance is no guarantee of future results.

Some links in this document may lead to access websites of third-party providers. Such links are only provided for your benefit and information. Marcuard Heritage does not review or monitor the information on any third-party website. Although Marcuard Heritage endeavours to ensure that the information is accurate, Marcuard Heritage does not represent or warrant the accuracy, validity or completeness of the information. Accordingly, Marcuard Heritage assumes no responsibility for the accuracy, completeness or legality of the content of such websites or any offers and services contained therein. Accessing third party website is at your own risk.

Marcuard Heritage does not provide any tax or legal advice and makes no representations as to the tax treatment of assets or the investment returns thereon, both in general or with reference to specific recipient's circumstances and needs. Recipients should obtain independent legal and tax advice on the implications in the respective jurisdiction and should consult their personal advisor in order to ensure that the respective investment product and services are suitable to them.

This document is not intended for distribution into the US or to US persons or in jurisdictions where its distribution by Marcuard Heritage would be restricted. Marcuard Heritage prohibits the re-distribution of it in whole or in part without prior written agreement of Marcuard Heritage. Marcuard Heritage, its directors or employees do not accept any liability whatsoever for the actions of third parties in this respect or any liability for any loss or damage arising out of the use of this document.

Contact Information:
www.marcuardheritage.com
investmentsolutions@marcuardheritage.com