MARCUARD HERITAGE

Quarterly investment letter – 2nd quarter 2024

Content

Summary points

- Core economies sustained **late-stage expansion**, while **China pursued policy adjustments** aimed at stimulating economic growth.
- Market optimism drove the **S&P 500 to record highs**, supported by robust economic indicators, including a strong job report and GDP growth exceeding expectations.
- The **Federal Reserve's hawkish stance** on interest rates and uncertainties surrounding inflation and domestic demand tempered sentiment.
- The **ECB maintained rates**, awaiting economic stabilization evidence before **potential policy adjustments in June**.
- **In China, economic challenges persisted**, with weak retail sales and housing activity despite meeting Q4 GDP growth expectations. Japan's Nikkei 225 surged, and the **Bank of Japan ended its negative interest rate policy**, signalling economic revitalization.
- **Conclusion:** Given the absence of an impending severe recession we keep our **positive bias for risky assets**. Nevertheless, we stand ready to diminish our equity exposure in the event of a resurgence in rates or an economic cooling. In a low economic growth environment dispersion among companies and sectors is rising and calls for an active management. Overall, we maintain an overweight position in credit investments, with **emphasis on loans and non-cyclical short-term high-yield bonds** offering yields of 7-9%. **Our stance on equities is positively tilted,** but we lean toward an **absolute return approach** rather than a traditional relative value mandate in this environment.

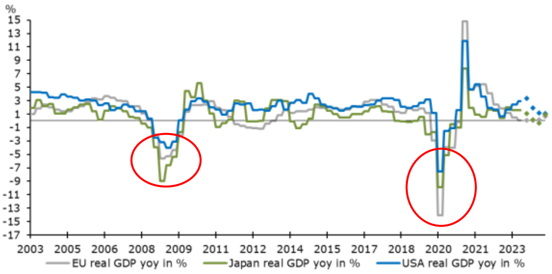
1 Regional macroeconomic backdrop

“Muddling through”…..to be continued.....

The global financial markets continued their positive trend, carrying forward the momentum from the strong rally experienced in 2023. **US large-cap growth stocks (+10.3%)**, notably in technology and communication services, **maintained strong performance** after leading the market in 2023 with over 40% gains. Optimism was fuelled by the US Federal Reserve's signal of a **shift towards monetary easing** in response to disinflationary trends, enhancing financial conditions. **Major economies**, including the US, **continued late-cycle expansion**, with China easing policies to stimulate growth.

Inflation, hovering around 3%, remained a focus, down from the 2022 peak of 9%. **Concerns persisted about inflation exceeding the Fed's 2% target** without further economic deterioration. US consumers remained robust, supported by real wage gains and strong balance sheets. Business capital expenditures increased, indicating a potential recovery in productivity growth. Challenges surfaced, notably the **market's vulnerability to overly optimistic expectations of significant Fed rate cuts.** Despite the Fed signalling a low urgency for rate cuts unless a recession occurred, the **disparity between sentiment surveys, economic resilience, inflation trends and market expectations created complexity for investors**.

Chart 1: Softer economic growth, but no shock wave



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

United States

In Q1 2024, the financial landscape was characterized by a **surge in market optimism**, driving the S&P 500 to unprecedented heights, **fuelled by expectations of a “soft landing”.** This optimism was underpinned by a string of robust economic indicators, notably a strong February job report, which saw the addition of 275k jobs and maintained wage growth alongside a **marginal increase of the unemployment rate to 3.9%**. The fourth-quarter GDP growth of 3.2% surpassed consensus expectations, further bolstering market sentiment. However, the **market sentiment waned due to the Federal Reserve's hawkish stance on interest rates** during their January 31 meeting. The Fed's resistance to dovish rate cut expectations, coupled with their explicit mention of an unlikely rate cut in March, unsettled risk markets and triggered a reversal in core government bonds.

Amidst this backdrop, earnings season provided a glimmer of positivity, with the **majority of the “magnificent seven” companies reporting results that either met or exceeded expectations**. This contributed to a notable 9.1% gain in the S&P 500 in Q1 2024. Economic resilience was further evidenced by the US composite PMI indicating continued expansion in February. However, **the economic landscape in March presented a more mixed picture.** While US Core PCE inflation met expectations with a 1.0% m/m increase in personal income, slowing nominal personal spending and persistent price pressures created uncertainty. The US ISM Manufacturing PMI disappointed, indicating challenges in domestic demand, while the ISM Services PMI suggested a slowing service sector. Despite a resilient job market, **uncertainties loomed regarding the US election** outcome and President Biden's approval ratings, potentially impacting investor sentiment moving forward.

Chart 2: Interest rates and equity multiples move in lockstep

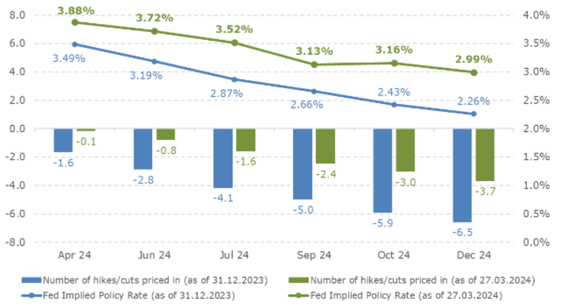
Source: Alpinum Investment Management

Europe

European markets experienced diverse performances. In January, the MSCI Europe ex-UK Index recorded a positive return of 2.1%, while the FTSE All-Share in the UK declined by 1.3%. The European Central Bank (ECB) maintained rates during its January meeting and emphasized its commitment to data dependency. Positive signs emerged with the **composite purchasing managers' index (PMI) reaching its highest level since July**, suggesting potential bottoming out of activity in the manufacturing sector. However, concerns arose with the **UK witnessing mixed economic indicators**, including a sharp decline in retail sales despite an increase in consumer confidence. In February, European stock markets faced challenges, with MSCI Europe ex-UK rising 2.8% compared to 4.3% for the MSCI World Index. The **UK continued to underperform**, exacerbated by a **fourth-quarter GDP print indicating a technical recession**. Furthermore, earnings data from UK companies disappointed analysts, leading to **downgraded profit growth estimates for 2024**. Despite signs of resilience in wage growth, UK Gilts faced losses, and government bonds across the eurozone also experienced declines.

The European Central Bank maintained a cautious stance, preferring to **wait for further evidence** of economic stabilization **before considering rate cuts**. Although signs of a slowdown in wage growth emerged, the ECB awaited confirmation through additional data, delaying potential policy adjustments until June. While **Germany faced economic challenges amidst eurozone resilience**, expectations of a potential rate cut by the ECB in June remained prevalent. The ECB's decision-making would depend on evolving economic indicators, particularly wage growth trends, with **June seen as a probable timeline for policy adjustments**.

Chart 3: ECB implied policy rates (March '24 vs December '23)



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

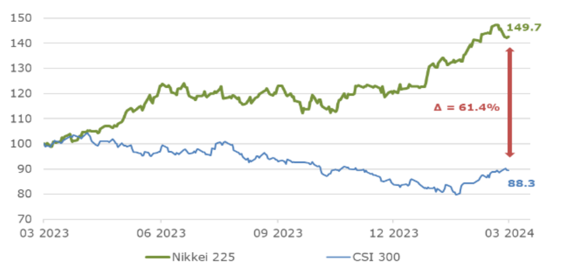
China and emerging markets (EM)

In China, the domestic economy faced challenges with disappointing retail sales and further deterioration in housing activity. Despite fourth quarter GDP growth meeting expectations at 5.2% year-on-year, it remained historically weak. Although the **People's Bank of China (PBOC) announced stimulus measures**, they fell short of market expectations, contributing to the weak performance of the MSCI Asia ex-Japan Index and the MSCI Emerging Markets Index, which both declined by 5.5% and 4.7% respectively in January. Chinese policymakers surprised with a **significant easing for the troubled property market**, notably cutting the 5-year loan prime rate (LPR) by 25bps to 3.95%. Deflationary pressures persisted in China's economy, marked by declining producer and consumer prices, as well as falling house prices, which could overshadow the impact of policy easing on economic recovery.

China's equity markets had hit five-year lows during the quarter. Still, activity data over the Lunar New Year holiday period showed improvement, and the **Chinese government responded with supportive interventions**, leading to an 11.8% gain in the MSCI China Index from its lowest point. Despite the policy-driven rebound in Chinese stocks, the macroeconomic backdrop remained challenging, suggesting limitations to further upside potential. Throughout the quarter, **the Nikkei 225 Index in Japan displayed remarkable resilience**, registering a notable surge of 21.8%, building upon its robust performance in the preceding year.

Following its **ascent to levels unseen in three decades**, the Bank of Japan ended its negative interest rate policy in March, by **increasing interest rates for the first time in 17 years**, raising them by 10 basis points. This move shifted the range of the short-term policy rate above zero to 0.0-0.1%. This shift marks an **exit from deflation, possibly revitalizing Japan's economy**.

Chart 4: 1-year spread of Japanese vs Chinese equities



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

Investment conclusions

We operate in an environment of low economic growth and high capital costs, but with no imminent recession. This is **leading to greater dispersion between companies and sectors, while the path of least resistance for risky assets is still up**. Structural inflation persists post-COVID, with cyclical inflation resurging alongside old disinflationary forces. While the **US experiences low growth, the EU stagnates and China targets a 5% GDP**. Despite geopolitical tensions, inflation, and conflicts, recession is averted. Interest rates normalize cautiously, with **constructive credit exposure**. Elevated equity multiples prompt value exploration beyond the US, **warranting vigilance for potential economic shocks**.

Chart 5: Attractive US bank loans yields (8-10%)

Bonds: Global **monetary policy tightening has concluded**, but banks' credit restrictions pose challenges for corporations. Default rates rise, yet **certain credit opportunities offer appealing pricing**. We maintain a neutral stance on IG bonds, with a favourable outlook on US Treasuries. Overweight positions are favoured in Scandinavian short-term HY, European loans and structured credit. Duration remains neutral for portfolio diversification.

Equities: Equity **valuations seem reasonable** considering low rates and modest growth, but **potential gains are constrained**, especially for US stocks.

We maintain our **positive bias towards risk assets** overall. Specifically, we have **slightly overweighted equity positions** in our balanced portfolios. Regarding credit, we anticipate an **uptick in default rates**, leading to slightly elevated levels, while we view **current credit spreads as reasonably valued** in general.

2 Market consensus forecasts

GDP growth %	2021	2022	2023e	2024e
World	6.2	3.1	3.0	2.8
United States	5.9	2.1	2.5	2.2
Eurozone	5.3	3.5	0.5	0.5
Germany	2.6	1.9	-0.1	0.1
France	6.8	2.6	0.9	0.7
Italy	7.0	3.9	0.7	0.6
United Kindom	8.5	4.0	0.3	0.3
Switzerland	4.3	2.0	0.8	1.2
Japan	2.3	1.1	1.9	0.7
Emerging economies	4.6	3.1	3.9	4.1
Asia Ex-Japan	5.9	3.2	4.6	4.8
Latin America	8.3	4.0	1.8	1.4
EMEA region	6.7	0.9	2.4	2.4
China	8.4	3.0	5.2	4.6
India	-5.8	8.7	7.0	7.5
Brazil	5.2	3.0	3.0	1.7
Russia	5.6	-3.0	3.3	1.9

Inflation %	2021	2022	2023e	2024e
World	4.7	7.6	6.0	4.0
United States	4.7	8.0	4.1	2.9
Eurozone	2.6	8.4	5.4	2.4
Germany	3.2	8.6	6.0	2.5
France	2.1	5.9	4.9	2.6
Italy	2.0	8.7	5.8	1.6
United Kindom	2.6	9.1	7.3	2.5
Switzerland	0.6	2.9	2.1	1.5
Japan	-0.3	2.5	3.3	2.3
Emerging economies	3.5	6.1	5.8	7.5
Asia Ex-Japan	1.7	2.6	1.1	1.9
Latin America	11.9	19.4	23.9	40.2
EMEA region	8.2	21.0	19.3	16.1
China	0.9	2.0	0.2	0.8
India	5.1	5.4	6.6	5.4
Brazil	8.3	9.3	4.6	3.9
Russia	6.7	13.8	6.0	6.5

Central bank rates %	2021	2022	2023e	2024e
US Fed Funds	0.25	4.50	5.50	4.6
ECB Main Refinancing	0.00	2.50	4.50	3.20
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	4.30
Swiss 3mth CHF Libor	-0.75	1.25	1.00	1.00

Commodities	2021	2022	2023e	2024e
NYMEX WTI oil USD/barrel	67	79	73	69
ICE Brent oil USD/barrel	71	83	78	74
Iron Ore USD/metric ton	119	107	94	87
Copper USD/metric ton	9721	8833	9017	9023
Gold USD/troy oz	1829	2188	2318	2411
Silver USD/troy oz	23.3	25.7	26.0	27.0

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	4.6	3.8
Eurozone 3mth rate	1.5	3.6	4.1	3.9
Eurozone 10yr Gov't Bond	-0.6	2.2	4.0	3.0
China 3mth rate	-0.6	2.1	3.0	1.9
China 10yr Gov't Bond	-0.2	2.1	2.6	2.1
UK 3mth rate	2.5	2.6	2.4	2.2
UK 10yr Gov't Bond	2.4	2.3	2.4	2.1
Swiss 3mth rate	2.8	2.8	2.6	2.4
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	1.10
EURCHF	1.04	0.98	0.96	0.98
USDCHF	0.91	0.97	0.90	0.90
EURJPY	130.92	144.50	159.00	156.00
EURGBP	0.84	0.88	0.87	0.87
USDJPY	115.08	144.00	149.00	139.50
GBPUSD	1.35	1.15	1.23	1.28
USDCNY	6.36	7.20	7.23	7.10
USDBRL	5.57	5.25	4.99	4.95
USDRUB	75.17	62.50	90.00	98.00

- Source: Alpinum Investment Management (additional sources in appendix)
  Note: Q1 = data as of 26 March 2024 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

3 Performance table

Global equity markets	Price	Performance Q1	Ytd Q1	Div.yld
MSCI World (USD)	3414	7.7%	7.7%	1.9
MSCI World (USD) hedged	1840	9.4%	9.4%	n.a.
S&P 500	5204	9.1%	9.1%	1.4
Russell 1000	2853	8.8%	8.8%	1.4
Nasdaq 100	18211	8.2%	8.2%	0.9
Stoxx Europe 600	511	6.7%	6.7%	3.4
MSCI Emerging Markets	1040	1.6%	1.6%	3.0
Nikkei 225	40398	20.7%	20.7%	1.7
China CSI 300	3544	3.3%	3.3%	2.7

	Forward		EPS growth	
Equity market valuations	PE	PB	2024e	2025e
MSCI World (USD)	19.3	3.1	5%	11%
MSCI World (USD) hedged	n.a.	n.a.	n.a.	n.a.
S&P 500	21.6	4.3	9%	13%
Russell 1000	21.6	4.1	9%	13%
Nasdaq 100	27.0	6.6	21%	19%
Stoxx Europe 600	14.3	1.9	-4%	8%
MSCI Emerging Markets	12.4	1.5	19%	15%
Nikkei 225	23.4	2.2	41%	11%
China CSI 300	13.1	1.5	0%	16%

Global gov't bonds	Yield	Performance Q1	Ytd Q1	YtW
10yr US Treasury	4.23	-1.6%	-1.6%	n.a.
10yr Euro gov't bond	2.35	-1.0%	-1.0%	n.a.
10yr German gov't bond	2.35	-2.2%	-2.2%	n.a.
10yr Italian gov't bond	3.65	1.3%	1.3%	n.a.

Global bond indices	Price	Performance Q1	Ytd Q1	YtW
Barclays Global Corporate IG	270	-1.1%	-1.1%	4.9
Barclays US Corporate IG	3194	-0.8%	-0.8%	5.3
Barclays Euro Corporate IG	247	0.1%	0.1%	3.7
Barclays Emerging Market USD	1186	1.3%	1.3%	7.1
Barclays US Corporate HY	2511	1.3%	1.3%	7.7
Barclays Pan-European HY	446	1.7%	1.7%	7.7

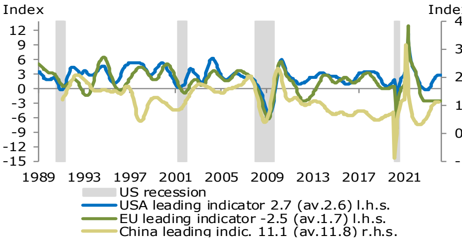
Commodities and currencies	Price	Performance Q1	Ytd Q1
Brent oil	86	12.0%	12.0%
US Energy Services	90	6.9%	6.9%
Copper	8781	3.5%	3.5%
Gold	2179	5.6%	5.6%
EURUSD	1.08	-1.9%	-1.9%
EURCHF	0.98	5.4%	5.4%

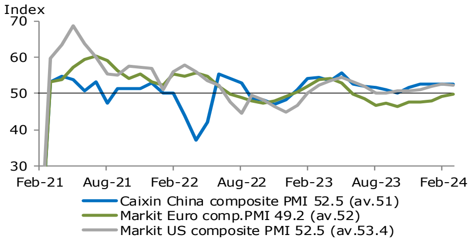
Source: Alpinum Investment Management (additional sources in appendix)
Note: Q1 = data as of 26 March 2024 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

4 Key Charts

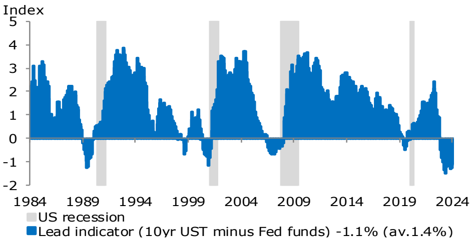
Leading indicators and manufacturing

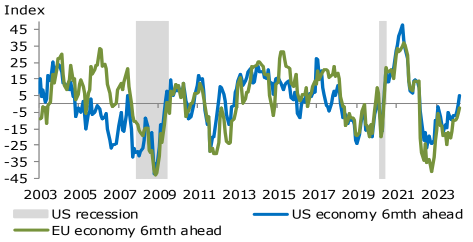
Source: Alpinum Investment Management



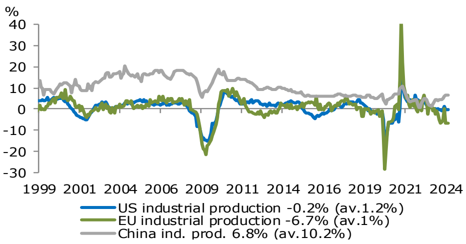


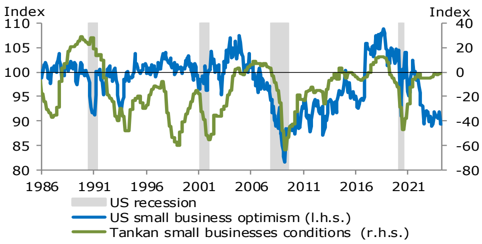
Recession indicator



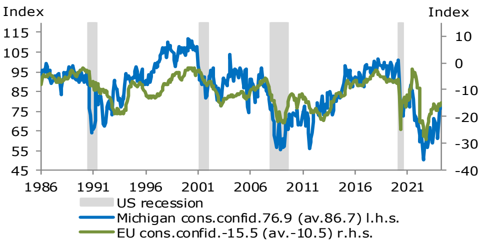


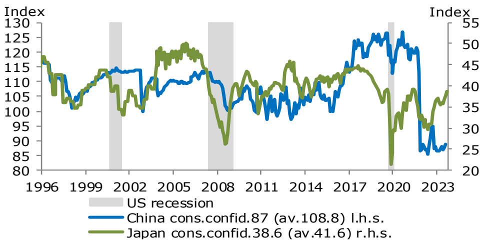
Industrial production and small businesses



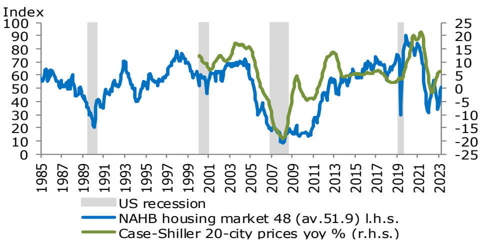


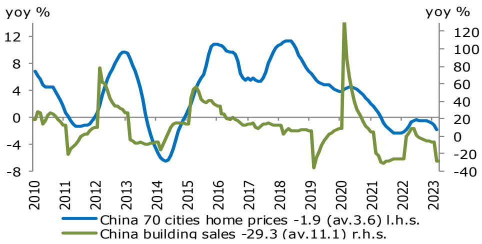
Consumer confidence





Housing market





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

5 Scenario overview 6 months

Base case 65%	Investment conclusions
▪ **US:** Minimal positive real GDP growth (1-2%) with solid ~4% nominal growth, which keeps the economy rolling. Some inflation forces still weigh on consumer demand and challenge the persistency of companies' profit margins. High interest rates and geopolitical tensions remain the key concern for the economic outlook and constrain private investments. As house prices have risen slightly and wages are still going up 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 grows towards 4-5% thanks to government support incl. various credit impulse measures. ▪ **Oil:** OPEC+ targets elevated energy prices, while latest marginal economic expansion is also pro-cyclical.	▪ **Equities**: Equities are confronted with profit margin pressure risk, limited economic growth ahead, high rates and the looming risk of a vicious wage-price spiral. Equities lack a sustained upside potential with a 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, but some new cyclical inflation is building. (US) duration exposure serves as a valuable diversifier and tail hedge in case of an evolving (severe) recession. ▪ **Credit:** Credit spreads are fairly priced and remain selectively attractive, despite an increase of corporate default rates towards 3-4%. We prefer loans, short-term HY, senior exposure in structured credit and on a selective basis, also some 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; structural higher inflation supports the commodities bloc.

Bull case 20%	Investment conclusions
▪ **US:** Sub-par GDP growth rate of 2-3% (4-6% nominal). 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 transitions further into a "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.	▪ **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. Further 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%	Investment conclusions
▪ **US:** Mild recession with the risk of lasting longer, but still positive nominal GDP growth. Low unemployment rate combined with resilient inflation kicks off a slight wage-price spiral. Fed rate cuts are off the table. ▪ **Europe:** Moderate recession with a risk of lasting economic weakness due to war/geopolitics. No sustained recovery of international tourism. Peripherals suffer from yield increases and Germany from higher (energy) input costs. ▪ **China/EM:** Chinese regulators fail to ease credit and regulatory measures enough, leading to <5% GDP growth in 2024 and disappointing exports. Emerging markets (ex-commodity exporters) suffer as global trade is held back. EM FX decline does not stop.	▪ **Equities:** Equities fall and give back at least the 2024-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.	▪ Pandemic crisis re-emerges/new virus variants.
▪ An Italian sovereign debt crisis, EUR break up.	▪ Nuclear escalation resulting in World War III.
▪ Military conflict in the South China Sea.	▪ Emerging market meltdown similar to 1998.

6 Asset class assessment

Equities	Comment
▪ With the prospect of a "muddling through" US economic scenario, corporates' profit margins are more sustained than feared and cost cutting programs during 2022 & 2023 proved successful. ▪ Positive wealth effect driven by rising equity markets, higher wages and stabilizing house prices provide support to US consumption and corporates' revenues as a consequence. ▪ A negative factor for equities remains the "competition" of other asset classes, namely the attractive short-term interest rate levels of US Treasuries >5% or HY bonds yielding close to 8% 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 the USD loses strength.	▪ Current elevated S&P P/E ratio of ~19 translates into an earnings yield of only 5.2%. If negative earnings surprises come up, US equities are very vulnerable. ▪ Market consensus estimates that US earnings will grow around 10% both in 2024 & 2025, which poses a risk for disappointment. ▪ 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**: We have entered a new interest rate regime with the yield spike in 2022/23. The outlook for duration as an asset class is now appealing. Peak rates in Fed funds are reached, however, inflation is not yet fully tamed. We have a neutral positioning in duration but are willing to increase the exposure tactically. Now, duration acts as a valuable portfolio diversifier again. ▪ **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 only very little 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, 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 are still elevated. ▪ The narrative for short-term rates is: Higher for longer, but peak level is reached. ▪ The ECB is expected to cut rates initially in a few months' time, whereas the US Fed will push out its first rate to the summer as some cyclical inflationary forces have re-emerged. ▪ Credit spreads look fairly valued in general. Current spread levels compensate for a soft economic outlook, but not for a 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 as yields have never been higher.	▪ 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
▪ Commodities benefit partly from de-globalization (protective measures), supply-side constraints and the recent cyclical economic uptick. ▪ Gold benefits when real and/or nominal interest rates fall and vice versa; currently a tailwind for gold.	▪ Elevated inflation is beneficial for commodity prices, but a soft economy is negative. Chinese growth hopes have not yet materialized as an additional support level for commodities. ▪ Supply-side disruption has faded 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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