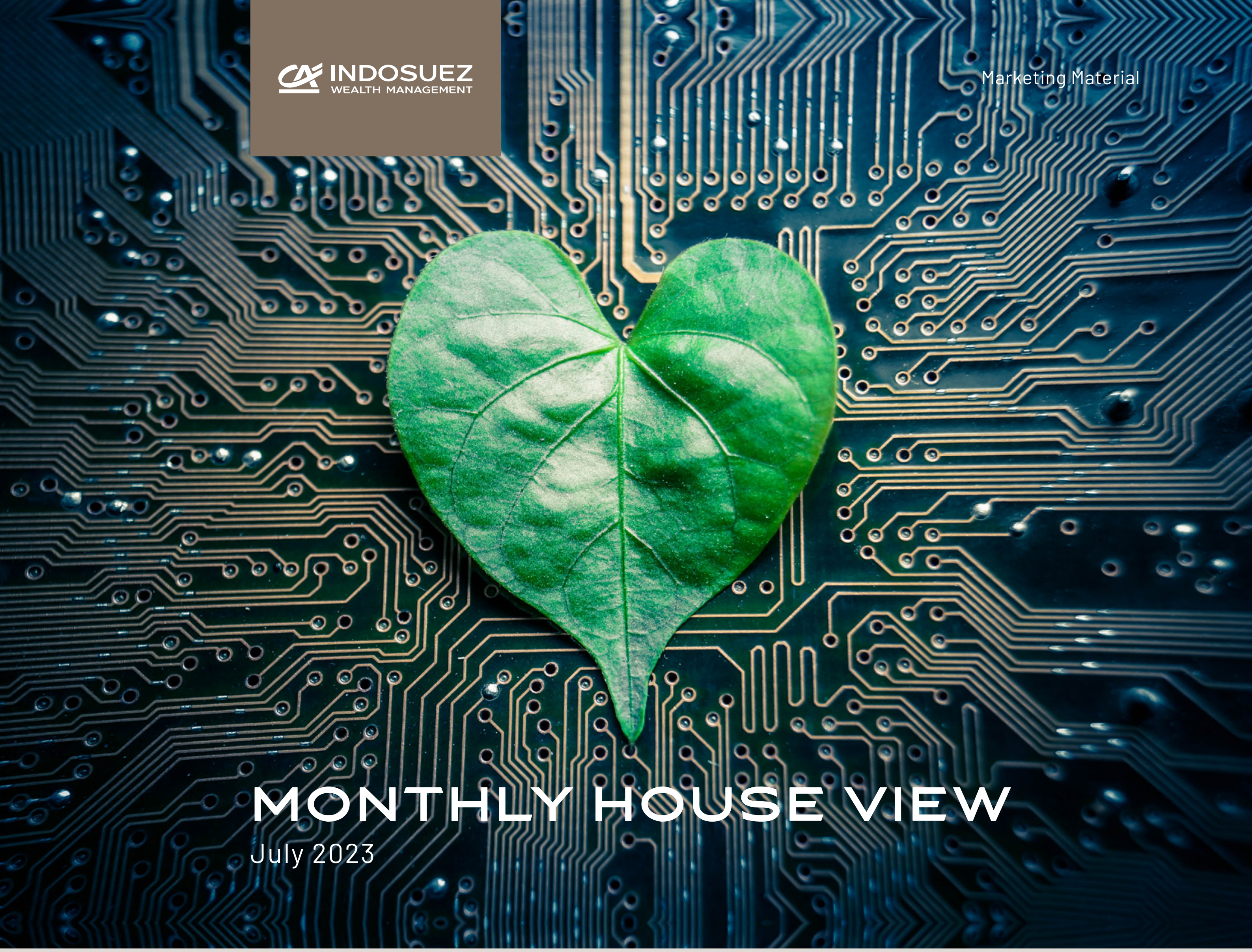
Marketing Material



MONTHLY HOUSE VIEW

July 2023

AI: a tool against global warming?

Architects of Wealth

• Table of contents

THE "MAGNIFICENT 7"

Alexandre
DRABOWICZ
Chief Investment Officer

Dear Reader,

The first six months of the year were marked by a remarkable performance by stock market indices, despite a gloomy macroeconomic context. Behind this performance lies an unprecedented concentration.

The so-called "Magnificent 7" (Apple, Microsoft, Google, Amazon, Tesla, Meta and Nvidia) have posted an equally weighted performance of over 50% since the start of the year. The "S&P 493", i.e. the US flagship S&P 500 Index minus the "Magnificent 7", has returned just 2%, showing beneath the surface that the bulk of the market is lagging. In Europe, the same phenomenon can be observed, with three stocks (ASML, LVMH, SAP) together accounting for half the performance of Euro Area equities since the beginning of the year.

The first trigger was the launch of ChatGPT in November 2022, followed by astronomical results from Nvidia, which in one trading session saw its market capitalisation jump by USD 150 billion, joining the very exclusive circle of companies that have surpassed the one trillion-dollar capitalisation mark. Artificial Intelligence (AI) has thus become the number one topic for investors. While the technology and the revolution it brings are indisputable, it is evident that investors are prepared to pay and overpay very heavily for any company that joins this movement. This month, Nicolas Mougeot shares with us a fascinating article on the subject (Focus, page 4). The debate is raging: is this a new bubble? Or is it an epiphenomenon similar to the excitement surrounding the 'metaverse' last year? Whatever the case, a handful of companies will be the big winners, but many others will be at risk. At 200 times its current profits and 40 times its annual sales, these figures for Nvidia leave no one indifferent, and it's hard to imagine how the company could do better: put another way, the slightest misstep will be painful.

On the macroeconomic front, US growth is holding up well, with the consensus adjusting upwards and aligning with our forecasts. US inflation continues to fall, reaching 4% year-on-year (YoY): the Federal Reserve (Fed) could be pleased about this, but to everyone's surprise, it is now referring to core inflation (excluding energy and food prices) as being too high and has resumed a restrictive tone on its monetary policy. This is not a pause, said Mr Powell, but a "skip". The two pre-announced hikes by the Fed are not convincing the market, or us: a single hike is expected in July, followed by a plateau. The direct consequence of this is an even more inverted yield curve: with short-term interest rates becoming even more attractive. In our view this is still the most attractive part of rates for investors, with long duration to be avoided. However, entry points will materialise, and we will be on the lookout to position ourselves.

The surprise of the last few weeks has come from China: figures showing that the economy is running out of steam have prompted the central bank to cut interest rates, and the market is beginning to consider supportive fiscal measures. We remain positive on Asia and Chinese equities for three fundamental reasons: 1- the valuation level is close to 10x future earnings (compared with 20x for US equities) with positive earnings growth of over 18% expected, 2- more fiscal and monetary support to come, 3- the market is under-owned by global and domestic investors. Ultimately, investors like to buy what is going up: this is known as *momentum*. Given China's underweight position, any turnaround could have a significant *momentum* effect and see the market catch up.

I hope you enjoy reading this issue, in which we return to the impact of monetary tightening on the real economy and the markets, even though the explosion of the AI theme has overturned the traditional correlation between long-term rates and growth stocks.

AI: A TOOL AGAINST GLOBAL WARMING?

Nicolas MOUGEOT
Head of Investment and Sustainability

AI has a major role to play in the fight against global warming by optimising certain production processes and minimising the use of resources. But to achieve a positive net impact, its designers must control the resources required for its development.

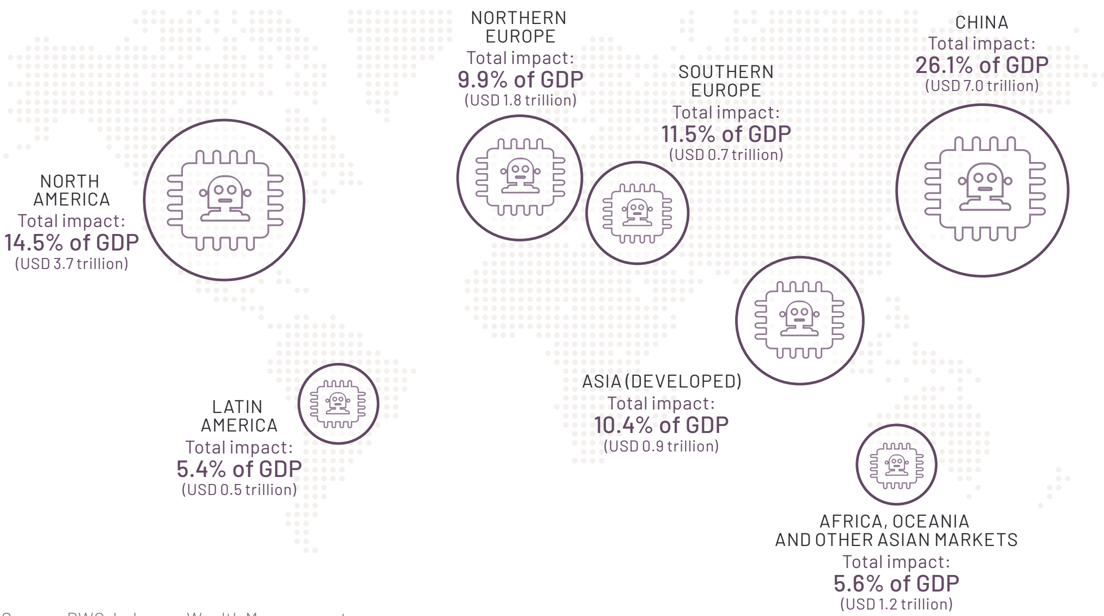
THE DEVELOPMENT OF AI, AN ACCELERATOR OF PRODUCTIVITY

It's hard to miss the phenomenon of ChatGPT, the AI created by OpenAI that can answer a wide variety of questions in a highly coherent way. From an economic point of view, beyond the short-term media buzz, the development of AI could accelerate productivity in many sectors and contribute to global GDP to the tune of 15'700 billion dollars by 2030 according to a study by PWC. This represents a significant increase since global GDP was just over USD 96'000 billion at the end of 2021 (Chart 1).

Many sectors are set to benefit from the adoption of AI methods, whether in healthcare, transport or, of course, IT.

AI does, however, raise several ethical questions, and some models are reputed to repeat or even amplify behavioural biases, associating certain minorities with low-paid jobs, for example. But what about its environmental impact? Will this new technology help to combat global warming, or will it have a net negative impact?

CHART 1: WHICH REGIONS WILL BENEFIT MOST FROM AI?



Source: PWC, Indosuez Wealth Management.

THE POSITIVE EFFECTS OF AI

Let's look first at the positive effects. Like any new technology, AI combined with big data could boost productivity in certain sectors, to the benefit of the environment. For example, some agricultural machinery companies, such as John Deere and its famous green tractors, are using AI to optimise cultivation. This involves drone systems that can visualise arid areas of a field to minimise irrigation, or the development of high-resolution cameras that differentiate between cultivated plants and weeds to optimise the use of fertilisers. The transport sector is also one of the biggest contributors to CO_2 emissions. AI is already present in the automation of logistics processes (use of robots to move parcels) and should make it possible to minimise delivery times through optimised routes and the introduction of self-driving vehicles, resulting in lower greenhouse gas emissions. The fight against global warming also involves reducing the carbon footprint of households. The use of AI is helping to reduce the carbon footprint of our homes and offices through better home automation and the adoption of smart meters that can optimally manage the use of electricity and heating and therefore avoid wasting energy.

AI can REDUCE THE CARBON FOOTPRINT of our homes

AI AND THE ENVIRONMENT

However, AI is not neutral in terms of greenhouse gas emissions. The very development of AI is costly: it requires not only a huge amount of computing power but also gigantic databases to train it. Without pointing the finger, GPT-3, the model behind ChatGPT, uses 175 billion parameters. A study by the University of California estimates that training it on data generated 552 tonnes of CO_2 equivalent, which is roughly the impact of 550 Paris-New York flights. This model was trained on data available until 2021 and will therefore need to be updated regularly, increasing its carbon footprint accordingly. In addition, the servers used to run ChatGPT require water to cool them down. According to a recent academic study by researchers at the University of California and the University of Texas, ChatGPT 'drinks' a bottle of water for every 20 to 50 questions it is asked. At a time when access to water is an issue, this consumption of water by AI could become problematic. However, all is not lost, as semiconductor and graphics card manufacturers are making significant efforts to reduce their energy consumption.

GROWTH RELAY

In conclusion, AI represents a formidable growth driver that should deliver significant productivity gains. In this way, AI will certainly be a key ally in the fight against global warming. We will nevertheless need to be vigilant about its carbon footprint. Since AI is mainly developed by American and Chinese companies, perhaps we should be asking ourselves whether it should be taxed in Europe. Last December, the European Union (EU) announced the introduction of a border carbon adjustment mechanism by 2027, which will mean that imports of steel, cement, fertiliser, aluminium, and electricity will be subject to the purchase of carbon emission certificates as if these resources had been produced in the EU. Perhaps we should consider adding AI to the list to ensure that these new technologies have a 'fair' energy impact.

2023: PROVING THE PESSIMISTS WRONG

Bénédicte KUKLA
Senior Investment
Strategist

While the US economy remains resilient, Japan is taking investors by surprise and Europe could yet surprise us with a golden summer. China may have disappointed in the second quarter, but the potential for recovery remains significant.

Japanese wages step
UP 1%
YoY in April

JAPAN: ON THE ROAD TO EXITING DEFLATION

There has been a lot of positive market hype regarding Japan this month, and admittedly things do feel a little bit different. Inflation, Japan's structural weakness, has now been hovering above the central bank's 2% inflation target for nine months now (at 3.5% YoY in April). This is even the case if we exclude the prices of imported fresh food (at 3.4%). Encouragingly nominal wages are starting to increase, but at 1% YoY consumers are still losing purchasing power, which is weighing on spending (retail sales -1.2% month-on-month (MoM)). In this context, the Bank of Japan (BoJ) is expected to remain accommodative in 2023, giving inflation time to prove it is on a sustainable path. On the supply side, the Japanese manufacturing sector is holding up surprisingly well compared with other developed nations (the May PMI Index is at 50.6 vs. 43.2 in Germany), while services are benefitting from the domestic and Chinese post-pandemic reopening. Despite the global slowdown, the weakness in the yen has supported export activity, but trade should slow towards the end of the year. We have slightly revised our GDP growth scenario for Japan, with stronger growth in 2023 than 2024 (Table 1, page 7).

US: A SLOWDOWN IS NOT A RECESSION

Once again, the US economy has surprised by the resilience of its jobs market (job openings still approximately 40% higher than pre-pandemic levels) and consumption (retail sales up 0.3% MoM in May compared to market forecasts of -0.1%). While investors were spooked by the threat of additional credit tightening on consumer behaviour, we have long argued US consumer resilience, protected by a strong labour market, a healthy balance sheet and excess savings. That said, we see consumption beginning to dwindle, with credit card rates above 20% and the savings ratio beginning to increase. Consumers escaped the worst from the debt ceiling negotiation in June, but the end of the student loan moratorium will further dampen consumer enthusiasm. At this stage, we cannot see the US economy avoiding some form of slowdown in the second half of the year. This is nevertheless a welcome phenomenon as it will be the only way to tame inflation. The last CPI figure was encouraging (at 4% YoY), notably with shelter prices - the last major contributor to inflation - starting to point downwards (on a monthly basis). Finally, the apparent recovery in the US real estate sector remains imbalanced, supply constraints will continue to foster construction, but a meaningful rebound in the sector requires restored affordability, either through lower mortgage rates or substantial price drops, neither of which we expect in 2023.

EURO AREA: DISINFLATION AHEAD

The main difference between our US and Euro Area macro-economic scenario is private consumption. Europeans have not been as bold in spending post pandemic, with the savings ratios remaining high on the old continent (14% in Q1 2023). However, we remain confident that Europe will continue to benefit from a strong services sector in the upcoming summer. This could even endanger the recent deceleration in inflation (from 7% to 6.1% YoY in May), especially with the risk of food prices being impacted by the harsh weather conditions. Encouragingly, wages have begun to moderate from high levels (the labour cost index fell from 5.7% in Q4 to 5% YoY in Q1) and goods inflation, previously bolstered by energy prices, have begun to turn down.

The latter will be the main element pushing down prices in the coming months - hopefully enough to reassure the European Central Bank (ECB) that it can stop hiking interest rates at 4%.

CHINA: THE RECOVERY IS NOT OVER YET

We end our global macro-economic overview with our key conviction, China. The recovery was disappointing in Q2 with industrial production in particular falling behind (at 3.5% YoY in May after 5.6% in April). The recovery has, as expected, been very much domestic and service driven. This was in some ways the easy part of the recovery, where restaurants and tourism have been the main beneficiaries. The second, more broad-based part of the recovery will take more time than investors initially anticipated. For this we need to see a recovery in consumer confidence and a stabilisation in the housing sector. In this light, the new monetary and fiscal stimulus talks to revive employment, the main weakness in the Chinese recovery, is encouraging, as are the recent stabilisation in house prices. We remain confident that the Chinese recovery, although slowing in Q2, still has strong potential given the vast amounts of household savings that are still to be unlocked.

TABLE 1: MACROECONOMIC FORECAST 2023 - 2024, %

● Revised down since last month ● Revised up

	GDP		INFLATION	
	2023	2024	2023	2024
United States	1.1%	0.4%	4.0%	2.6%
Euro Area	0.5%	1.0%	5.5%	2.9%
China	5.6%	4.7%	1.3%	2.5%
Japan	1.3%	1.1%	2.7%	2.2%
India	6.0%	5.5%	6.0%	6.0%
Brazil	0.9%	1.2%	5.0%	5.0%
World	2.5%	2.8%	-	-

Source: Indosuez Wealth Management.

ON THE SURFACE, CALM IS ONCE AGAIN THE NORM ON BOND MARKETS

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

By taking the time needed to manage medium-term portfolios, bond investors are regaining visibility. The Fed and ECB will almost certainly reach the end of their rate hike programmes. The gradual withdrawal of the liquidity injected in 2020 should restore pre-COVID financial balances.

UK INTEREST RATES
at their highest level since
SEPTEMBER 2022

CENTRAL BANKS

The return of inflation to the 2% target adopted by the developed countries is not yet a foregone conclusion: Canada, Australia and the UK are still fighting core inflation above their target by using the short rates weapon. Is this a sign of things to come for the United States and the Euro Area? This is not our central scenario, particularly in the Euro Area where the price-wage loop is not as intense as in the UK. The Bank of England has no choice but to continue its monetary tightening, with the aim of breaking the *momentum* in the labour market.

The yield curves continue to send out paradoxical signals to bond investors: at -97 basis points (bps) at the time of writing, the US 2-10 year is back to the inversion levels reached in March 2023 before the banking crisis. This level of inversion has not been seen since 1981. Although some Fed members are communicating their desire to maintain an inverted curve to anchor medium-term growth and inflation expectations, investors continue to anticipate a recession that is slow to materialise. Except in the manufacturing sector, where the contraction has been ongoing since the end of 2022.

UNLISTED ASSETS: IMPACT OF TIGHTER FINANCIAL CONDITIONS

The tightening of credit conditions is affecting all geographical regions. The property market is the first to be affected, although in very different ways depending on the country: commercial property in the United States, residential property in Sweden and continental Europe. Ultimately, property risk impacts investors in unlisted assets (banks, insurers, real estate debt funds) and equity and bond investors in the sector. The latter have already suffered significant price falls since the end of 2021 (Chart 2, page 9), a mirror effect of the rise in risk premiums. The rating agencies are beginning to downgrade the weakest companies, which are actively managing their liabilities (capital increases), reorganising their asset portfolios (disposals at reasonable prices) and reviewing their governance (changes in management) in order to regain favour with investors. With its long-term vision, this sector deserves a close look, but solid analytical skills are needed to avoid the pitfalls.

There are also other segments within the private markets that are being impacted by the rise in interest rates and the decline in liquidity. Highly leveraged companies in the leverage loan segment are facing an exponential rise in their interest costs. In the US, since the beginning of the year, the private debt market has recorded 18 defaults, more than 2021 and 2022 combined. This trend is likely to continue, due to a combination of higher financing rates and a slowdown in sales or profits.

CREDIT

The coinciding fall in volatility on the equity and fixed-income markets has enabled the credit markets to outperform in the recent period. In a summer scenario with no major shocks, investors are well protected to hold credit issued by top-rated companies. The return on cash now competes with risk premiums, including equities. However, short-term credit has several advantages:

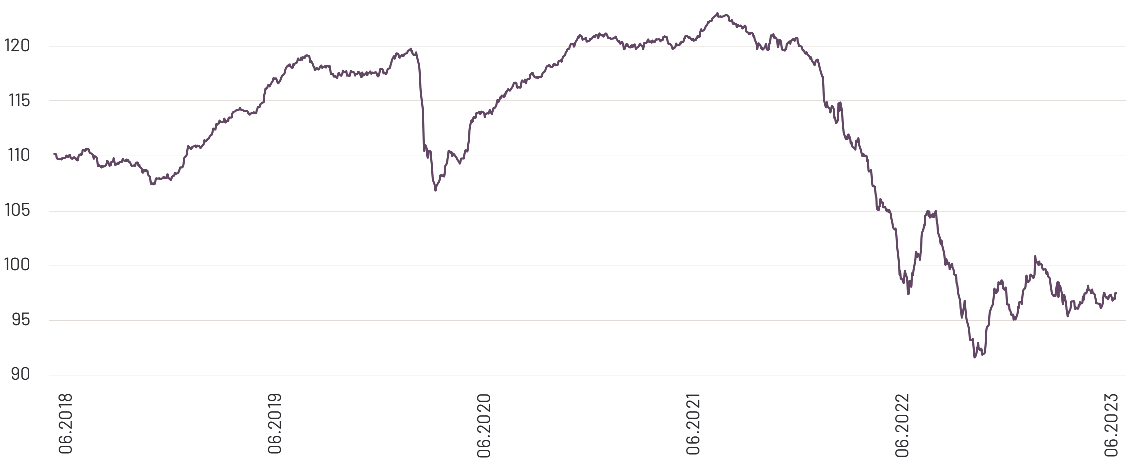
- Long-term remuneration (between 1 and 3 years);
- Protect against a sustained rise in rates or risk premiums (for example, the break-even point for a current yield of 5.10% on this segment is around 7.75% one year ahead);
- Favourable asymmetry compared with cash (short rates can fall over 3 years) and equities (capital gain needed to exceed return).

Adjusted for volatility, the only relevant way of comparing the performance of asset classes, the credit market outperforms other markets.

LATIN AMERICA

In terms of geographical diversification, the Latin American market offers an attractive alternative for USD-denominated investments. Growth and inflation *momentum* are more predictable than in Asia, with less geopolitical risk. Domestic companies benefit from solid local consumption and, against a backdrop of Sino-American tensions, from the United States' desire to further integrate industrial production into the Pan-American continent. Taking Brazil as an example, the currency is appreciating against the dollar, helped by a plateau since the summer of 2022 on the SELIC, the Central Bank of Brazil rate, albeit at the very high level of 13.65%.

CHART 2: EVOLUTION OF THE REAL ESTATE, IBOXX, EUR



Source: Iboxx, Bloomberg, Indosuez Wealth Management.

AI: A NEW PARADIGM FOR EQUITY MARKETS?

Laura CORRIERAS
Equity Portfolio Manager

With the contribution
of the Equity Team

US equity markets continued to rise, driven by the growth prospects of AI and a Fed that kept its key rate unchanged for the first time in 15 months. The explosion of the generative AI theme has upset the traditional correlation between long-term rates and growth stocks, putting the Nasdaq and technology stocks back in the spotlight.

S&P 500 breaks through the symbolic 4'200-POINT barrier

UNITED STATES

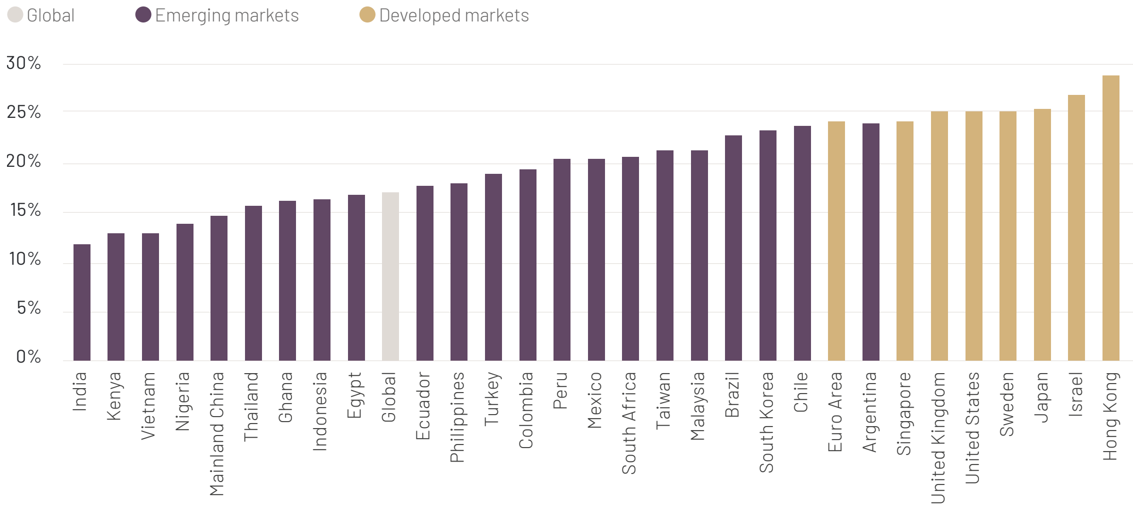
Against the backdrop of a favourable outcome to negotiations on raising the US debt ceiling, the S&P 500 broke through the symbolic 4'200-point barrier in June - a level that the market had stumbled on several times since the start of the year. The US equity market is benefiting above all from the theme of AI. Indeed, what the market is already calling the "Magnificent 7" account for almost 85% of the annual rise in the Nasdaq 100. These major US technology companies are all key players and leaders in AI. As a result, we can observe major differences within the US market as the Nasdaq 100 is up by 38% on an annual basis, while the Russell 2000, the Dow Jones and the S&P 500 are all up by between 3% and 7%. Finally, it is worth noting that despite a very negative 2022 for large-cap US technology stocks, they remain by far the biggest contributors to MSCI World performance over the past ten years.

EUROPE

The European equity market has seen some profit-taking in recent weeks.

However, we are maintaining our constructive view on European equities. The latest data releases have shown inflation decelerating faster than expected, notably due to gas prices returning to pre-war levels in Ukraine. In addition, the Chinese recovery continues to benefit European exporters. As a result, positioning is currently weak on European equities according to cumulative flow data. Furthermore, Europe is the region where earnings revisions have been the largest over the past year, and sentiment towards earnings per share (number of upward revisions versus downward revisions) remains as good in Europe as in the US. Finally, given valuation levels, European equities still look attractive, both historically and in relative terms (particularly compared with the US).

CHART 3: SHARE OF EMPLOYMENT EXPOSED TO AUTOMATION BY AI, %



Source: Goldman Sachs, Indosuez Wealth Management.

CHINA

In China, the strength of the economic recovery was disappointing, and earnings revisions are once again being revised downwards. However, we remain positive in the medium-term, since the latest lower-than-expected figures should be accompanied by more stimulus, including targeted stimulus measures for struggling industries. Our scenario still calls for consumer demand to catch up. More generally, China still offers an attractive valuation, against a backdrop of a reopening economy and gradual monetary policy support. Geopolitical risks are also weighing on the perception of the Chinese market.

JAPAN

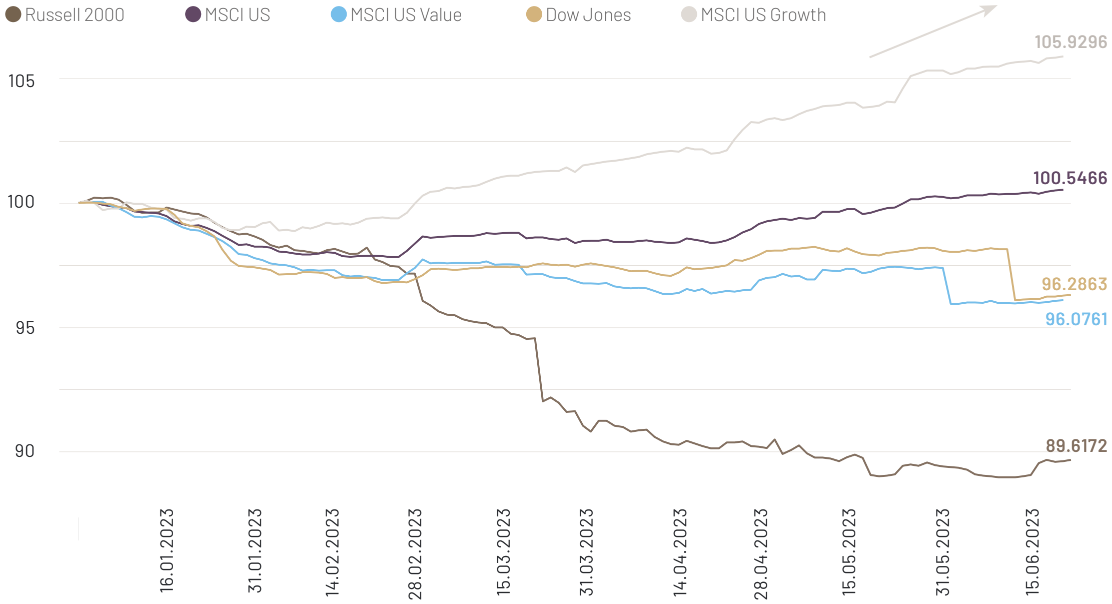
Japan could be another alternative to play China's reopening. Return of inflation after years of deflation, economic growth regaining *momentum*, structural reforms of the Tokyo Stock Exchange in a market that is still largely under-exploited - the planets seem to be aligning for the Japanese market. When it comes to improving productivity through AI, Japan could be one of the main potential beneficiaries (Chart 3, page 10).

The Nikkei Index has just returned to levels not seen for three decades. While the rebound is impressive and rapid, it must be balanced by the sharp fall in the yen, which makes the market still affordable for foreign investors.

INVESTMENT STYLE

In terms of style, we are continuing to gradually build up our exposure to growth. The recent rise in long-term interest rates, which traditionally penalises growth stocks, has not had the desired effect. In fact, the explosion of the theme of generative AI has upset this traditional correlation, putting the Nasdaq and technology stocks back in the spotlight. While the rise in the index has been impressive, it has been relatively concentrated, so there remains a core part of the market that can still appreciate, thanks to the improvement of earnings *momentum* (Chart 4). Broader growth themes should be able to take over (cloud, cybersecurity, robotics, etc).

CHART 4: REVERSAL OF EARNINGS REVISIONS FOR MOST US INDICES



Source: Bloomberg, Indosuez Wealth Management.

Note: The AI craze is not the only explanation for the US equity market rally seen in recent months. Earnings revisions on the MSCI US Growth Index are also the most bullish.

MONETARY POLICY BACK IN THE SPOTLIGHT

Maxime GARCIA
Investment Strategist

There is a strong correlation between the interest rate differential and performance on the currency markets. With the Fed struggling to convince the market, the dollar is likely to lose ground, while the euro benefits from an ECB perceived as more restrictive. The yen is waiting for a change in monetary policy before outperforming, and the CNY could be affected by an accommodative People's Bank of China.

USD

Loss of *momentum*

The dollar index (DXY Index) has been losing ground since the beginning of June. Firstly, the resilience of macroeconomic data and the reduced risk of a banking crisis have fuelled investors' appetite for risk and consequently reduced demand for the greenback as a safe haven. At the same time, the resurgence of a strong correlation between monetary policy divergence and currency appreciation weighed on the dollar (Chart 5). The dollar lost 1.2% after the last Fed committee meeting, at which the central bank decided not to raise interest rates.

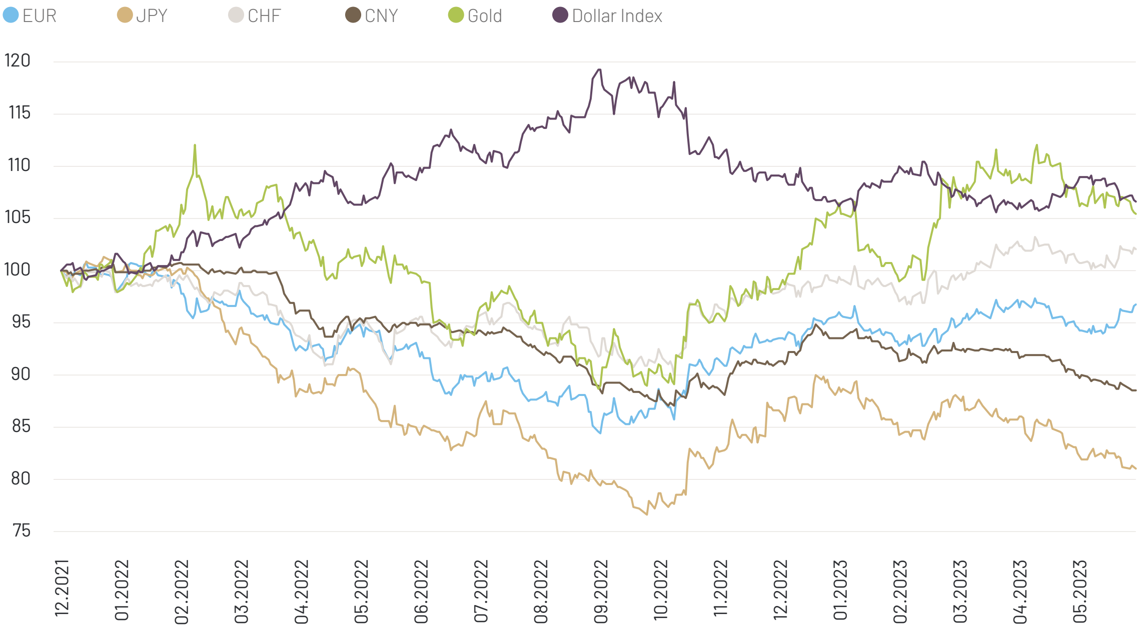
The Fed meeting also left investors sceptical about the two further rate hikes expected before the end of the year, according to the dot plots.

EUR

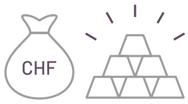
Catching up in the tightening cycle

The euro has recovered against the dollar, up 1.6% since the ECB meeting in June. The single currency is being supported by a central bank that is continuing its tightening cycle and maintaining a restrictive tone, in the face of a Fed that is perceived as less convincing. The reopening of China and the absence of a recession in 2023 should also continue to have a positive impact on the euro.

CHART 5: CURRENCY PERFORMANCE, 100 = 31.12.2022



Source: Bloomberg, Indosuez Wealth Management.



CHF AND GOLD benefit from their SAFE-HAVEN STATUS

We therefore remain positive but cautious on EUR/USD and have lowered our long-term target to 1.07-1.11.

JPY

Pending

The Bank of Japan's continued accommodative stance has pushed the USD/JPY above 140 and triggered further verbal intervention from Japanese politicians, so we are not ruling out the possibility of foreign exchange intervention in the months ahead. Besides, although inflationary pressures are not yet prompting a change in monetary policy, the trend could be reversed as the yen continues to depreciate. Finally, investors have largely reduced their long positions in the currency, and the safe-haven status of the Japanese currency should provide support. In the event of a change in policy, USD/JPY could reach 130.

CNY

Monetary easing is driving the weakness

The USD/CNY is rising in the face of a Fed that is relatively much more restrictive than the People's Bank of China and weaker-than-expected Chinese data. A short-term rise in the USD/CNY cannot be ruled out, especially if Chinese economic data fails to live up to expectations. In addition, the Chinese central bank's rate cut points to a further widening of yield spreads between the US and China, which would affect the currency. We forecast a trading range of 6.90 - 7.30 for USD/CNY.

CHF

Between safe haven and a restrictive central bank

The CHF should continue to find support from its central bank, with inflation still above 2%. Intervention in the foreign exchange market could happen, and indeed already has (although the Swiss National Bank has not officially confirmed this), with the central bank's foreign exchange reserves having fallen from around CHF 900 billion in July 2022 to around CHF 700 billion today. Furthermore, the Swiss franc's status as a safe-haven asset remains attractive in an environment marked by a great deal of uncertainty. Although further upside potential is limited, we remain positive and expect a range of 0.97-1.00 for EUR/CHF.

GOLD

Still an attractive hedge against uncertainty

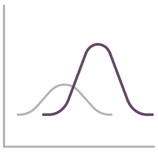
Gold is moving away from its highs, losing 2% since the start of the month, as the Fed's recalibration and a persistently high dollar weigh on prices. The agreement on the debt ceiling cleared some of the market's fears, and central bank demand turned negative in April for the first time in a year. However, this is more of a local dynamic (the Turkish central bank was the main seller) rather than a change in the long-term trend, and the yellow metal's safe-haven status remains intact, which should enable it to continue to capture some of the investor demand. Gold should continue to move between USD 1'900 and 2'000/ounce.

07 • Asset Allocation

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager



RISK factors HAVE DECREASED

INVESTMENT SCENARIO

- **Growth:** we are maintaining our scenario of global growth in 2023 largely driven by emerging countries (led by China). We expect modest growth in Europe this year (+0.5%), although this will include economic divergence between countries. Across the Atlantic, the economy is also normalising, although the US consumer is more resilient, which explains why its growth figure for 2023 is higher than that of the Euro Area (+1.1%).
- **Inflation:** Disinflation is underway in the advanced economies, supported by significant base effects on energy prices but also by improved supply constraints in the manufacturing sector. Nevertheless, risk remains on the upside.
- **Central banks:** The Fed is likely to raise rates by 25 bps at its next meeting, before keeping short-term rates at high levels as long as underlying inflation continues to trend upwards. In the Euro Area, the ECB will continue to raise rates (two hikes are still expected), while the financial institution could also accelerate its quantitative tightening in the coming months.
- **Corporate earnings:** Earnings revisions proved resilient, particularly in Europe, where companies were able to maintain high margins by passing on higher costs in their selling prices. Across the Atlantic, the *momentum* of earnings revisions is improving, driven by technology companies that are benefiting from the highly profitable prospects offered by AI.
- **Risk environment:** Risk factors have diminished in recent weeks (resolution of the debt ceiling in the US and the return of financial conditions to pre-Silicon Valley Bank levels). Against this backdrop, equity volatility has continued to fall, acting as a support factor for risky assets. Conversely, interest rate volatility is likely to remain at high levels.

ASSET ALLOCATION

Equities

- While we recognise that the current environment is more favourable to risky assets, with market sentiment improving and a gradual return of flows to the equity markets in recent weeks, some technical indicators call for a degree of caution in the very short-term. However, we remain alert to opportunities to redeploy our liquidity.
- From a geographical point of view, we maintain our constructive view on European equities, which remain attractively valued in both absolute and relative terms. However, the resilience of economic activity in the United States and the rise of Artificial Intelligence are leading us to adopt a more optimistic view of US equity markets.
- In Asia, the change in the macroeconomic and financial environment in Japan has led to a return of foreign flows into risky assets. However, caution is still called for in the short-term, given the speed of the rally in equities. At the same time, despite the lack of interest in Chinese equities from foreign investors, we are keeping our recommendation unchanged. The region could benefit from further support from the government, while market valuations appear to us to be excessively low.

Obligations

- We continue to take a cautious view on government bonds and favour an underweight duration in our portfolios.
- In terms of positioning, we continue to favour the short end of the yield curve in the Euro Area and the United States, which offer an attractive carry. Conversely, longer-dated government bonds continue to be penalised by high volatility and an expected rebuilding of the term premium over the coming quarters.

- On the credit side, short-term debts of quality corporates continue to offer the best risk/return trade-off. The high-yield market appears expensive from a valuation perspective, particularly given the level of issuer refinancing rates.
- We remain positive on emerging market debt in local currencies, where fundamentals remain sound thanks to good management of the inflation cycle by emerging central banks.

Forex

- The resilience of the US economy and excessive market optimism about potential Fed rate cuts led us to tactically change our view on the EUR/USD. With the easing of several macroeconomic and financial risks, and a tightening cycle that is closer to its end in the United States than in the Euro Area, the EUR/USD could regain its upward *momentum* in the coming months.
- Investors continue to shun the yen at this stage, with the Bank of Japan maintaining an accommodative policy despite rising inflation. However, in the short-term, the levels reached by the Japanese currency could trigger a reaction from the Finance Ministry to halt the downward *momentum*. Finally, the return of buying flows to Japanese equity markets is also a supportive factor.
- The yellow metal has entered a phase of price stabilisation but remains vulnerable to a rise in real interest rates in the short-term. Nonetheless, we remain buyers of gold on a correction because we value its role as a hedge in diversified portfolios.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
EUR 2-Year	=	=/-
EUR 10-Year	=/-	=/-
EUR Periphery	=	=/-
US 2-Year	=/+	=/+
US 10-Year	=/-	=/-
EUR Breakevens Inflation	=	=/+
US Breakevens Inflation	=	=/+
CREDIT		
Investment grade EUR	=/+	+
High yield EUR	=/-	=
Financials Bonds EUR	=/-	=
Investment grade USD	=	+
High yield USD	-	=
EMERGING DEBT		
Hard Currencies	=/-	=/+
Local Currencies	=/+	=/+
EQUITIES		
GEOGRAPHIES		
Europe	=	=/+
United States	=	=
Japan	=/-	=
Latin America	=	=
Asia ex-China	=/+	=/+
China	=/+	=
STYLES	=/-	
Growth	=	=/+
Value	=	=/-
Quality	=/+	=
Yield	+	=/+
Cyclical	=	=/+
Defensive	=/-	=/-
FOREX		
United States (USD)	=	=/-
Euro Area (EUR)	=	=/+
United Kingdom (GBP)	=/-	=
Switzerland (CHF)	=/+	=/+
Japan (JPY)	=/+	=/+
China (CNY)	=	=
Gold (XAU)	=/-	=/+

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 22 JUNE 2023

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	3.79%	-2.28	-8.02
France 10-year	3.02%	-7.60	-8.40
Germany 10-year	2.49%	-3.00	-7.40
Spain 10-year	3.44%	-14.40	-20.50
Switzerland 10-year	1.03%	-5.50	-58.90
Japan 10-year	0.37%	-5.00	-4.20

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	37.19	2.06%	7.14%
Euro Government Bonds	195.29	0.02%	1.36%
Corporate EUR high yield	202.54	0.80%	4.66%
Corporate USD high yield	309.11	1.36%	4.18%
US Government Bonds	299.16	-0.09%	1.28%
Corporate Emerging Markets	43.43	1.57%	1.57%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9803	0.92%	-0.93%
GBP/USD	1.2748	3.47%	5.50%
USD/CHF	0.8948	-1.20%	-3.21%
EUR/USD	1.0956	2.15%	2.34%
USD/JPY	143.11	2.18%	9.14%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	12.91	-6.23	-8.76

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'381.89	5.56%	14.13%
FTSE 100 (United Kingdom)	7'502.03	-0.91%	0.67%
STOXX 600	454.70	-0.32%	7.02 %
Topix	2'296.50	7.01%	21.40%
MSCI World	2'930.37	4.77%	12.59%
Shanghai SE Composite	3'924.24	0.35%	1.36%
MSCI Emerging Markets	1'001.14	3.85%	4.68%
MSCI Latam (Latin America)	2'469.07	8.70%	16.01%
MSCI EMEA (Europe. Middle East. Africa)	192.19	4.13%	0.11%
MSCI Asia Ex Japan	638.97	3.14%	3.19%
CAC 40 (France)	7'203.28	-0.36%	11.27%
DAX (Germany)	15'988.16	1.23%	14.83%
MIB (Italy)	27'410.08	3.79%	15.62%
IBEX (Spain)	9'364.70	2.73%	13.80%
SMI (Switzerland)	11'183.42	-1.25%	4.23%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'784.00	9.02%	-7.59%
Gold (USD/Oz)	1'914.01	-1.41%	4.93%
Crude Oil WTI (USD/Bbl)	69.51	-3.23%	-13.39%
Silver (USD/Oz)	22.47	-1.40%	-6.54%
Copper (USD/Tonne)	8'574.00	7.68%	2.41%
Natural Gas (USD/MMBtu)	2.61	13.05%	-41.72%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

	MARCH 2023	APRIL 2023	MAY 2023	4 WEEKS CHANGE	YTD (22.06.2023)
BEST PERFORMING +	3.51%	1.46%	3.56%	8.70%	21.40%
	3.29%	3.13%	0.25%	7.01%	16.01%
	2.83%	1.92%	-1.25%	5.56%	14.13%
	2.73%	2.69%	-1.41%	4.77%	12.59%
	0.51%	1.59%	-1.90%	4.13%	7.02%
	0.36%	-0.54%	-2.09%	3.85%	4.68%
	0.04%	-1.34%	-3.19%	3.14%	3.19%
	-0.46%	1.63%	-5.39%	0.35%	1.36%
	-0.71%	3.48%	-5.72%	-0.32%	0.67%
− WORST PERFORMING	-3.10%	-2.19%	-6.19%	-0.91%	0.11%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

09 • Glossary

Basis point (bps): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI : An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: World Trade Organization.

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Edited as per 22.06.2023.