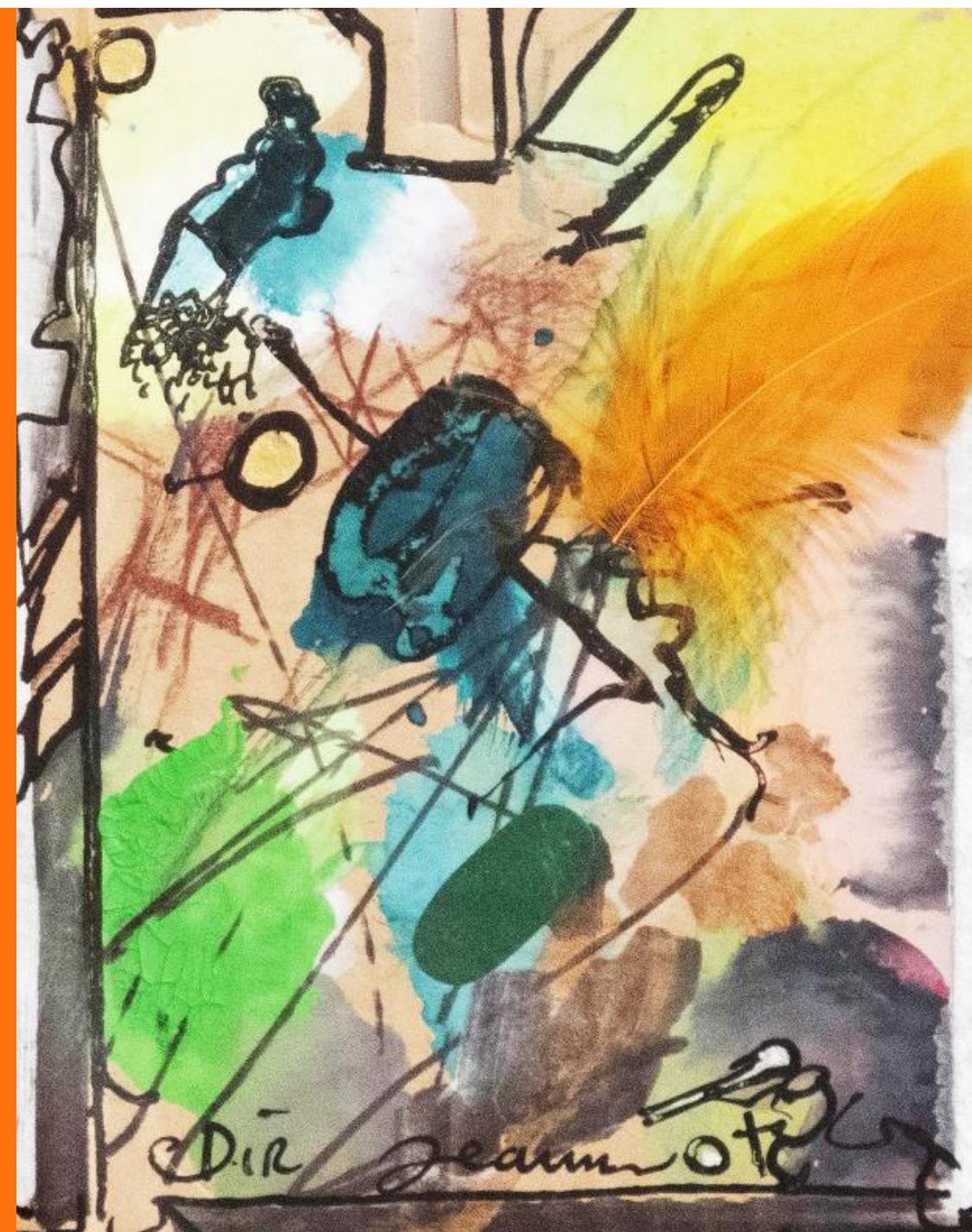




RESEARCH

QUARTERLY INSIGHT

Summer 2022



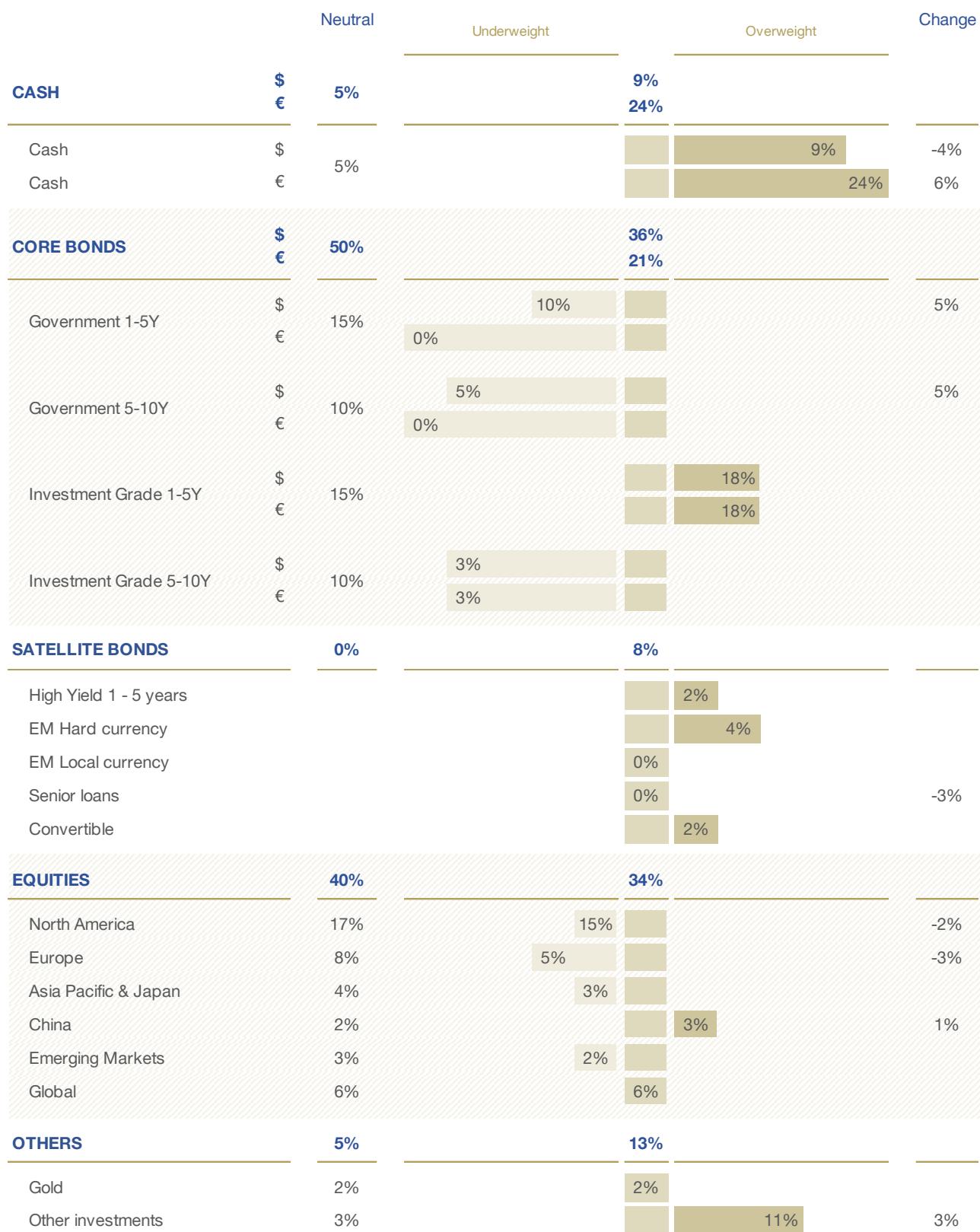


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Asset Allocation



Past performance is not a reliable indicator of future performance and should not be solely relied upon.

Asset Allocation Commentary

In our central scenario, we expect the global economy to avoid a recession thanks in large part to fiscal support and a more gradual central banks' tightening pace during the second half of the year. That said, a degree of humility in economic forecasting is needed. Forecasting economies and markets is never easy, especially in times when the risk of a potential "Black Swan" is high.

This is all the more difficult given the post-pandemic economic behavior characterized by unprecedented policy response. In addition, projections are influenced not only by economic and financial factors, but also by the (binary) decisions that will be taken by a handful of key individuals: Moscow political circles, NATO, central banks and politicians' priorities, President Xi and China's zero-Covid policy, to name just a few examples.

Considering all these many variable that cloud the outlook, a degree of humility when forecasting the economic outlook is warranted. This translates into our asset allocation, where a more balanced and defensive portfolio is prioritized. This is why we are adopting a more neutral allocation to risk assets and government bonds compared to previous quarterly editions.

In the fixed income asset class, after the strong back up in "risk-free" government bond yields (particularly in the US) during the first half of the year, we are increasing our exposure to high-quality government bonds. Moreover, we are gradually increasing the average duration of our investment portfolios, by assuming that the market is already pricing in a high degree of monetary policy tightening. In addition, we expect inflation rates to slow down during the second half of the year.

Finally, recessionary risks should penalize riskier assets and favor those perceived as safe havens. We maintain a relatively positive view in corporate investment-grade bonds, targeting the low quality investment-grade and cross-over segments. We are significantly reducing our exposure to high yield bonds, especially via a reduction in US Senior loans which are less liquid, where default rates are expected to rise in the future based on a weaker economy.

An underweight position relative to our benchmark is maintained for equities. The risk of further corrections is real and we believe we should meet a better entry point in the future in order to return to a neutral or overweight position during the third or fourth quarter of the year. We continue to under weigh EU equities to the benefit of US markets. We are cautious on emerging markets and would only target stronger countries and commodity exporters with decent credit metrics. We would avoid exposure to countries with too high political and geopolitical risks. We are becoming more optimistic in China. We expect most of the correction to be behind us and we are already seeing a more favorable regulatory environment and a more accommodative fiscal and monetary policy. On a sector basis, we would favor defensive over more cyclical sectors. In terms of style, we believe that value stocks

should continue to outperform and catch up to growth stocks.

In terms of alternative investments, we believe that real estate and infrastructure investments should continue to behave well in the current context. On one hand, they tend to suffer less in an environment characterized by high inflation. On the other hand, they can also bring diversification inside a portfolio, thanks to low correlation with stocks and bonds. Hedge funds are also likely to thrive in an environment characterized by higher volatilities, particularly strategies like global macro, relative value and long/short equities.

In commodities, we adopt a neutral to bearish view. After the strong and rapid rise in prices observed in many commodities, we are now facing more downside than upside risks, especially over the medium term. This is especially the case for markets like oil and industrial metals, which are expected to suffer dramatically in the event that the global economy experiences a sharp slowdown or even a recession. The multiple shocks that hit financial markets in recent quarters have failed to push gold prices up substantially, in face of a strong greenback and increasing interest rates. Over the medium term, a neutral to slightly bearish view on the yellow metal is predicted.

Macroeconomic Scenario

A tumultuous first half of the year

The first half of the year was characterized by increased volatility across major asset classes, with almost no place for investors to hide.

A "perfect storm" hit the world's major financial markets. Initially, the world was affected by the delayed effects of the global pandemics. The multiple lockdowns adopted in China in recent months is a notable event. This has further exacerbated supply chain problems already present following the gradual reopening of major economies.

During this period, consumption (the demand side of the equation) grew rapidly (pent-up demand) and accommodative monetary policy and stimulus measures adopted by central banks and governments further supported the recovery of economic activity.

On the other hand, the supply side of the equation has not been able to keep pace with the surge in demand (supply chain disruptions). The recent conflict in Ukraine has further exacerbated this imbalance and led to a sharp rise in commodity prices.

The combination of strong demand and low supply resulted in a new equilibrium characterized by higher inflation pressures. Major central banks (US in primis) realized to be falling dramatically behind the curve.

We highlighted the policy error risk of monetary authorities in our previous quarterly publication as one of the potential main economic and financial mistakes.

Major central banks have fallen dramatically "behind the curve"

The US Fed's strategy of letting inflation overshoot in 2021 backfired spectacularly in the first months of 2022. Central bankers have made an about-face in their narrative of inflation, after realizing that it was not only limited to a temporary inflationary shock, but also the result of a long period of money printing and a movement of progressive de-globalization.

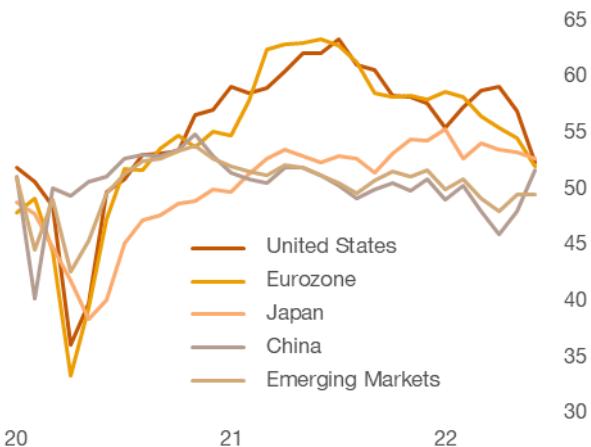
This reversal requires now the adoption of bolder and more costly actions, in order to avoid losing control of inflation, going hand in hand with the credibility of monetary institutions.

In the US, the upcoming November mid-term elections further exacerbate the exercise. The risk now is that central banks should need to tighten their monetary policies more sharply in order to regain control on inflation dynamics and maintain their credibility. This could result in a strong slowdown or even a technical recession in 2023.

This risk was acknowledged by Fed's chairman Powell itself. At its June 15 meeting, the FOMC raised the Fed fund target range by 75 basis points to 1.50-1.75%. The hawkish policy guidance was reinforced, with FOMC's

dots plot projecting the appropriate level of interest rates at the end of 2022 at 3.375% (from 1.9% previously) and at the end of 2023 at 3.75% (up from 2.8%).

Manufacturing PMI Indices



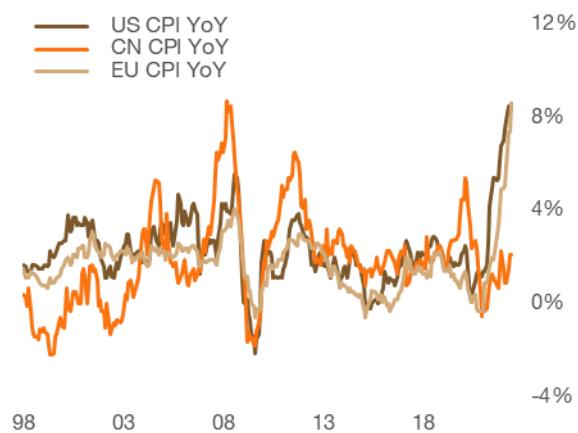
In addition, the Fed signaled a further 75 basis points rate increase for its July meeting. At the same time, the Fed cut its growth projections to 1.7% this year and 2023, and to 1.9% for 2024. Obviously, the FOMC must appear hawkish for some time. The Fed must remain in "risk management" mode in order to reduce the "second round" effects that are rooted in inflation expectations (that temporarily broke above 3%).

Market's inflation expectations (5Y-5Y inflation swap rate)



Actually, the market is "helping" the Fed to perform part of its anti-inflationary job. The housing market is already showing some signs of fatigue and latest consumer spending data indicate an inflection. High energy prices are also reducing purchasing power, a key factor to decrease hot consumption behaviors and bring down inflation. Finally, financial conditions have already tightened significantly and this is equivalent to an increase in interest rates. Inflation expectations are one of the main factors determining where inflation is actually headed.

CPI Inflation Rates (%), y/y



It is becoming increasingly clear that a sharp economic slowdown, or even a recession, will be needed to curb inflation in a sustainable way. However, a recession is currently very risky, given the colossal debts at the government level (and in some cases also private sector) and dries the few available resources available to the government to stimulate the economy. This will likely force central banks to appear more dovish later in the year, in order to avoid an economic and debt crisis, consequently accepting some higher inflation levels compared to their 2% long-term target. Therefore, we expect that the weakest and most indebted countries may feel the pain of the adjustment. This is already evident looking at weaker emerging market countries.

A difficult job of “equilibrist” awaits the ECB

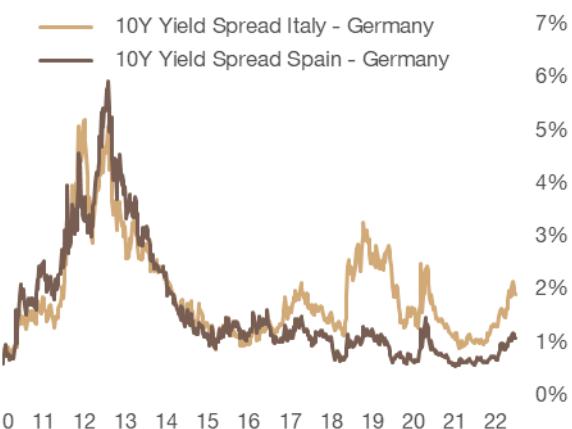
In Europe, debt sustainability doubts in peripheral countries and risk of the Euro disintegration are resurfacing. The widening of the debt gap between the strongest and weakest European countries is reemerging. This is reflected in a widening in their debt spreads. It will not be an easy job for the ECB to balance the need for a tighter monetary policy with the objective of the euro and debt sustainability. As a demonstration of this stress, the ECB had to hold an emergency meeting on Wednesday June 15th, just before the FOMC announcement of a 75 basis points increase in federal funds rate, to discuss the current market turbulence. With Italian 10-year yields breaking above 4% and spreads widening, the risks of debt sustainability and euro fragmentation is back on the table. The ECB is determined to be flexible in its reinvestment strategy and announced the design of a new anti-fragmentation instrument, but details are lacking yet. Details on these measures should be announced sometimes before the July 20-21 policy meeting, when interest rates are expected to be raised by at least a quarter of a point.

The countries that benefit from it would have certainly to meet some conditions to avoid concerns that the ECB is financing governments outright. Moreover, policymakers are determined to neutralize any intervention in debt markets so that it doesn't exacerbate upward price

pressures. Until these details are released it is unlikely that there will be a more lasting calm in the European debt markets.

After the 25 basis points rate increase announced for July, the ECB also signaled a further 25 to 50 basis points increase in September, if the medium-term inflation outlook persists. The ECB expects inflation to average 3.3% in 2022, 2.8% in 2023 and 2.3% in 2024, with economic growth of 2.8% in 2022 and 2.1% in both 2023 and 2024. That said, the rate hikes announced by the ECB are well below the expected 200 basis points increase by the end of 2022 that is already priced implicitly in the markets. This is why we believe that a short duration approach is always justified in euro-based bond markets. Given the weakness of economic fundamentals in the euro area, credit spreads (IG & HY) have widened, but are still not attractive enough to take a bullish stance in the segment.

EU periphery spreads (10Y Italy & Spain vs. Germany; %)



Important market corrections, both in equities and fixed income, but performed on an orderly way

After decades of falling inflation in developed markets, unlike emerging markets that have experience with inflation, a real inflationary environment is a first time experience for many investors.

This explains the higher degree of stress and volatility actually present in major financial markets. On a positive note, markets are actually correcting in a relatively “orderly” way and we are not in presence of extreme moves, like those observed during the 2000 or 2008 crises, when economies were facing systemic challenges. The “Fear Index”, namely the famous VIX (volatility index) has risen, but remains contained compared to the previous systemic crises. Similarly, other measures of stress such as the TED-Spread and HY spreads have increased compared to the recent past, but remain a lot contained compared to the level reached during systemic crises witnessed in the past.

However, it would be illusive to deny that we are facing a multiyear regime change, after decades of falling nominal and real yields. It is usual in this kind of situations to see

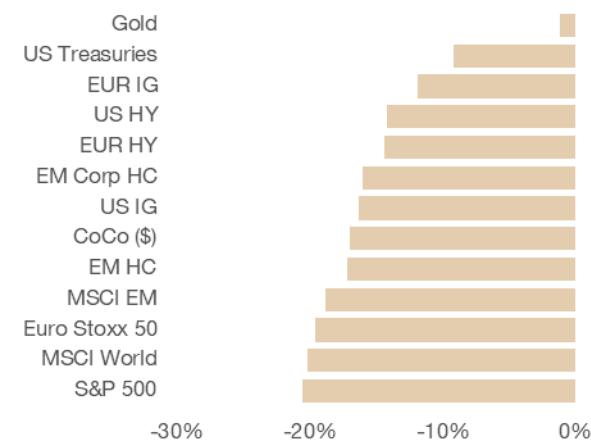
significant dislocations in financial markets. From a technical point of view, this also means that the potential for a sustained rebound in the short term is still missing, as there is still not enough panic (capitulation) according to the market's statistical indicators.

The latest indicator of the coming regime change is that, for the first time in many years, both global equities and bond markets sold off in unison. Fears of stagflation have meant that the traditional 60:40 portfolio (60% stocks – 40% bonds) has posted a return of minus 17.8% since the beginning of the year. This is to be put in front of an average positive performance of 7% per year between 2008 and 2021.

Almost every asset class was in the red during the last quarter and since the start of the year

Looking at the performance of the main asset classes since the beginning of the year, we can notice the following behavior.

Major markets performances (%), YTD



Stock markets have generally registered double digit corrections since the start of the year. Among developed markets, one of the best performers was the UK (in line with our call presented in the last quarterly publication), which benefited from the above-average exposure to commodity-related and value oriented equities and a cheap Sterling. Japanese equities also benefited from a more dovish BoJ and a weaker Yen. On the other hand, Eurozone equity markets were one of the main laggards (in line with our negative view) due to their geographical proximity to the conflict, a less dynamic economy and the current energy crisis. US markets also suffered from renewed recessionary worries linked to the hawkish Fed.

In terms of equity style, value stocks have outperformed growth stocks. The situation is unlikely to change in the short-to-medium term. Similarly, at the sector level, oil & gas and commodity-related stocks outperformed the market. Consumer cyclicals lagged the market, with valuation still looking demanding and facing structural headwinds.

The bond spectrum offered no safe haven against capital losses. Local currency emerging market bonds were relative outperformers, with Latin America profiting in the wake of the commodity rally. Emerging market hard currency bonds were the main underperformers, dragged down by the sell-off of Russian bonds and European emerging markets. Government bonds and inflation-linked bonds also recorded a significant correction, driven down by their low yield and long duration exposure.

In the commodity sector, oil and US natural gas were star performers. In contrast, industrial metals (like aluminum, copper and steel) and precious metals with industrial applications (such as silver) were the worst performers, underscoring fears linked to a global economic slowdown.

Therefore, what to expect for the future?

Going ahead, we think a focus on real assets makes sense. The current market environment is one of the most challenging many investors have faced in their careers.

First, geopolitics will play again a major role going ahead. De-globalization will accelerate as governments attempt to rebuild complex and efficient onshore supply chains, reducing the dependence from unreliable partners.

We are also witnessing an instrumentalization of the financial system, with a clear objective to punish non-compliant countries, even if this means that also investors in developed markets will have to pay a high price. The risk of capital confiscation for investments in sanctioned countries is alive and real. Investors will need to take this into account when building their investment portfolios.

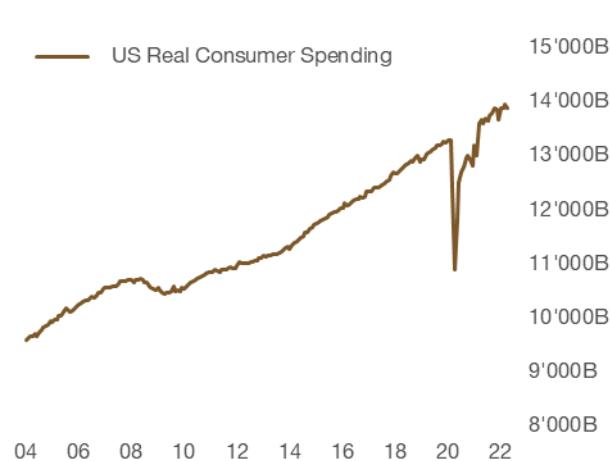
Second, inflation is back and is more persistent. While we expect inflation rates to decelerate in the second half of the year and into 2023, fighting capital erosion is becoming an imperative. This means favoring real assets (commodities, real estate and, in part, also equities) over nominal assets (cash, fixed income). Indeed, history tells us that real assets have tended to outperform cash and bonds during periods of high but contained inflation.

Stay invested in equities, but with a defensive tilt

We think that it's advisable to remain invested in equities. However, multiple risks obscure the horizon. Therefore, we advise to invest with a defensive tilt. The managed portfolios maintain a defensive position towards equities, and at the same time, move towards an increase in the degree of quality on the bond class, in particular towards government bonds.

Recessionary risks have increased, but this tends to be a concern more for 2023 than this year. While a sharp slowdown in growth is likely, we do not expect the global economy to go off the rails. Inflation has also soared for factors beyond the control of central banks (energy and commodity prices, supply chain problems, China lockdowns). So far, inflation has not destroyed demand and consumers continue to spend even though prices have increased. In the US, job creation is still solid and unemployment levels are historically low.

US real consumer spending (\$ bn)



Companies have generally stronger balance sheet nowadays compared to previous global crises (2000, 2008). They took advantage of the low yield environment to refinance their debts at cheaper levels and to lengthen maturities. The amount of debt that companies will need to refinance over the next two years is relatively small by historical standards and manageable, reducing risks of a liquidity crisis.

Corporates also continued to invest in all areas. In addition, inflation is expected to slow down gradually over the coming months and quarters. From a technical point of view, the base effects would become less challenging in the future. For example, the price of secondary used cars in the US, which is one of the components pushing up inflation strongly in the last few months, would need to almost double from current levels, in order to have the same effect on inflation as it had since the start of the year. This is certainly possible, but highly unlikely.

US used vehicle value index (1995 = 100)



Moreover, the expected moderation in demand behavior and a gradual normalization in disrupted supply chain should permit to reduce price pressure. Furthermore, the potential future increase in energy prices is in our view more limited than in the past. Oil prices have already

incorporated a huge amount of supply risks. Current high oil prices should spur supply and dampen demand going ahead. That said, high volatility is likely to persist and follow the flow of geopolitical news.

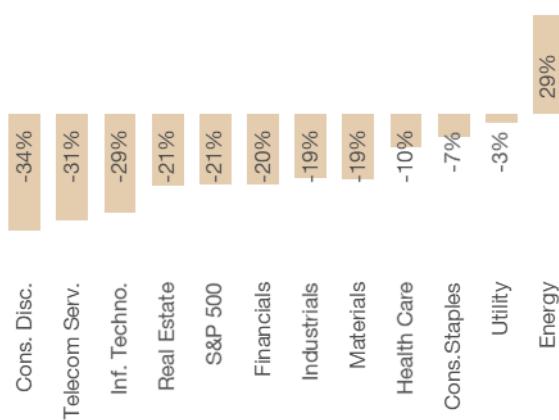
Finally, declining global economic growth and global decarbonization are structural headwinds for the energy sector. In the medium and long term, increased supply, demand destruction and reduced risk premium is likely to drive energy prices lower.

For all of these reasons, we believe, at least according to currently available data, that a systemic crisis like in 2000 (dot-com) or in 2008 (subprime) is actually not in the agenda.

Consequently, investors should remain invested in equities and for those not already invested; a gradual and systematic deployment of capital is in our opinion justified.

Nevertheless, we would adopt a more defensive bias in clients' portfolios. We would target investments in less cyclical and more defensive sectors; and in companies with strong pricing power able to protect their margins.

US sector performances (% YTD)



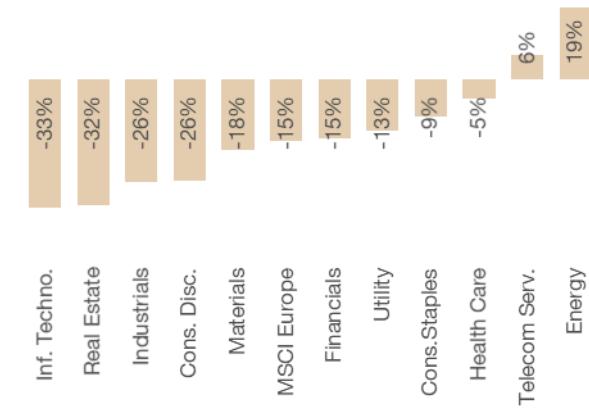
For example, the healthcare sector tends to show very strong balance sheets, decent sales growth, and relatively low sensitivity to inflation. Large-cap healthcare companies generally have stable earnings and a solid sales pipeline.

Swiss equities are also attractive in an uncertain environment, thanks to the market's strong defensive component.

UK stock market also appears to be attractively valued and offers exposure to commodity-related companies, whose cash flows and profits are skyrocketing alongside the rise in commodity prices.

Food and pharmaceutical companies and personal and household goods producers should also perform well in times of uncertainty, as the demand for these products is relatively inelastic, being a necessity in everyday life.

EU sector performances (% YTD)



High dividend stocks should perform relatively well. This type of companies tends to have solid balance sheets, attractive valuations and strong free cash flow generation: on top of that, stock buybacks potential is well present.

On the other hand, growth stocks are expected to continue to suffer in an environment of rising rates. Many of them, despite the recent correction and if realistic parameters are applied in the valuation models, still show significant negative net present values (which is the difference between what is expected to be worth in the long term and what you currently pay for it). But not everything is to be thrown in the trash. Some quality growth stocks seem to have been overly indiscriminately punished. In other words, selectivity in these sectors is a particularly important factor. To make a semantic shortcut, the losers of the last 2 years (Food & Beverage, tobacco, defense, etc.) may be the winners of the next year, and vice versa.

Regionally, we would maintain a preference for US over European equities. In Europe, UK remains our preferred market, thanks to its cheap currency and exposure to commodity producers.

For emerging markets, we would be very selective and target markets whose economies hold stronger fundamentals and are tilted towards commodity producers. We would avoid countries exposed to the risk of further geopolitical escalation.

In China, we are becoming more positive again, thanks to the more proactive government measures put in place to support the economy and an accommodative central bank policy. After a notable underperformance, it seems that the Middle Empire market is showing tangible signs of recovery.

Alternative investments should also perform relatively well in the actual volatile environment, but they are associated with lower liquidity levels.

Real estate and infrastructure have low correlations to equities and bonds and generate income streams that tend to rise with inflation.

Hedge funds are expected to thrive in the current volatile environment, especially strategies like global macro, relative value and equity long/short.

We think it's not ideal to liquidate portfolios at current levels

In times of high volatility, investors tend to increase their cash allocation.

On a tactical basis, this could be a good decision. On the other hand, on a more strategic basis, this could be a big mistake, especially in periods of high inflation.

In fact, the absolute amount of cash won't change, giving the investor a sense of safety, but what is sure and certain is that the purchasing power of this cash will be steadily and relentlessly eroded by inflation.

Investors should also remember that short-term challenges often tend to create the basis for long-term opportunities. Thus, like the oil shock of the 70's, the current energy crisis will boost the energy transition. Valuations for companies linked to climate technology have fallen significantly. If their earnings increase as the transition accelerates, these companies could now offer compelling medium-term opportunities.

Investors must identify their risk profile, return objectives and cash needs. They also need to ensure to have a diversified investment portfolio in order to reduce correlations between assets as much as possible. Many investors, also professional ones, try to "time the market" in order to acquire assets at the lowest possible prices. Empirical studies show that this strategy hardly pays off and leads investors to miss a great part of the market's long-term upside.

A wiser strategy would be to put excess liquidity to work gradually and in a disciplined manner, averaging entry prices downwards, but respecting their predefined tolerance for risk and return.

The vast majority of investors are influenced by the constant flow of information, which in many cases is Brownian noise. This noise can certainly exert an influence in the short term but none in the long term. This leads to a critical source of error, especially during market downturns. It increases misunderstanding and confusion, either in the upside or in the downside. The likelihood of making the wrong decision at the worst possible time becomes particularly elevated. This often prompts investors to trade too frequently, rebalance their portfolios too often, and ultimately not time the market successfully. Instead, history shows that the average investor tends to underperform an outright "buy and hold" strategy.

This message should not be interpreted as an optimistic message. In fact, we are operating a risk reduction in our portfolios, but we are not liquidating them at the current

level. This will allow us to constitute reserves, which could be redeployed in due time.

Fixed income markets have already incorporated a huge amount of negative news

The above strategy also applies to bond investors. The perfect storm that characterized the start of the year led global bond markets to correct significantly, quickly and unprecedentedly in known financial history.

The correction has been especially swift and violent compared to the past also because the starting point has been different. During the last few years, we lived in a global zero-yield environment. A correction starting from this level of (no) yield is much more damaging for investors compared for example to the period following the oil shock of the 70's, when risk-free rates were at double-digit levels.

Since the start of the year, the Bloomberg Global Aggregate Bond Index – which is a flagship measure of global investment grade debt from twenty-four local currency markets including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers – lost 13.9%, the most on record.

The Global Government Bonds (Treasuries) Index lost even more, losing 14.8%. The Global High Yield Index also registered a double-digit correction, down more than 16.8%.

Even though financial markets tend to overshoot and undershoot, what is sure is that a lot of negative news is already incorporated in current prices. Such a price correction again mechanically offers attractive bond yields.

The Fed's main objective is currently more towards curbing inflation than promoting growth. The Fed's actions and rhetoric have clearly become bearish, prompting market participants to adjust their forecasts.

While it cannot be ruled out that bond yields may rise further, thus driving bond prices down, it seems to us that current prices have already anticipated quite a lot of unfavorable winds.

In riskier bond segments, spreads have also widened to more attractive levels. The Markit iTraxx Europe Crossover index spreads (at 575 bps) are now above long-term averages. However, they remain well below the peak reached during the worst period of the Covid-19 crisis in March 2020 at 707 bps. In our view, it seems too late to sell now, but it is still too early to increase meaningfully our allocation towards fixed income assets.

For euro-denominated fixed income markets, the situation is likely to be more complicated in the future. The ECB has not yet started its normalization policy and, without a genuine monetary and fiscal union, its task will be much more difficult.

By going back to what is still the global barometer, the US market, and in the current environment, we would therefore stick to the strategy adapted during the recent quarters. We would target short-to-medium term bonds as we think this is still not the timing to aggressively increase duration. Should inflation not peak soon, market operators could be tempted to push US 10Y Treasury yields towards the levels present in 2007-08 (at 4.0-4.5%).

A portfolio with a short average duration should be less sensitive to rising rates. That said, after the sharp rise in yields, government bonds are becoming more and more attractive. In addition, the yield curve slope, which is defined by the difference between 10-year and 2-year yields, continues to flatten.

This means that proportionally, short rates rise faster than long rates. A gradual increase in duration would make sense in order to capture the higher yield offered, which would be a valuable hedge in the case we will enter a recessionary environment.

Also, remember, that an inverted curve is generally a leading indicator of a recession. In such situation, long rates fall, so the prices of bonds rise mechanically.

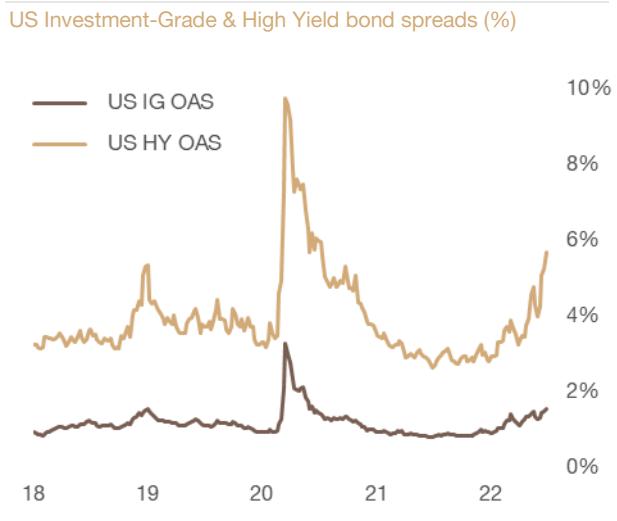
US & EU government bond yield curve slope (10Y-2Y)



A barbell strategy, targeting a portfolio duration close to 3, could also be wise. Short duration bonds should be less sensitive to higher benchmark rates than longer-term ones, but the longer-term one would permit to capture a higher yield, which should be beneficial in case the Fed overreacts and pushes the economy into recession.

Further weaknesses in US Treasuries can be used to add some duration and portfolio hedges, but we would do that on a gradual way. Thus, the weight of US government bonds is increasing in our asset allocation. This is done after many years of strong underweights in the segment.

Corporate bonds are preferred to government bonds. The target segment remains the cross-over (BBB-BB rated issuers) offering wider spreads, an advantage that may partially cover the negative effects related to higher reference rates.



For the moment, we are adopting a more selective approach on HY credits. The economic slowdown, or even a recession, will inevitably lead to higher default rates, affecting primarily the financially weakest companies in the market, and therefore the HY issuers.

Thanks to the FED's hawkish tilt and market's re-pricing, yield is finally there again. This allows us to increase the quality of our bond portfolios by targeting bonds in the low investment grade universe.

At the same time, exposure to higher-yield bonds, which are more correlated with equities, and therefore subject to suffer more in the context of a sharp economic downturn, is reduced. Selectivity and diversification remain key factors in order to avoid a loss of capital.

In conclusion, we believe that in the actual environment, attractive yields/spreads are once again present by taking on moderate credit risks.

In Euro, our preference goes for the lower part of investment grade. The macroeconomic environment is undoubtedly more fragile and vulnerable, and therefore riskier, than that of the US.

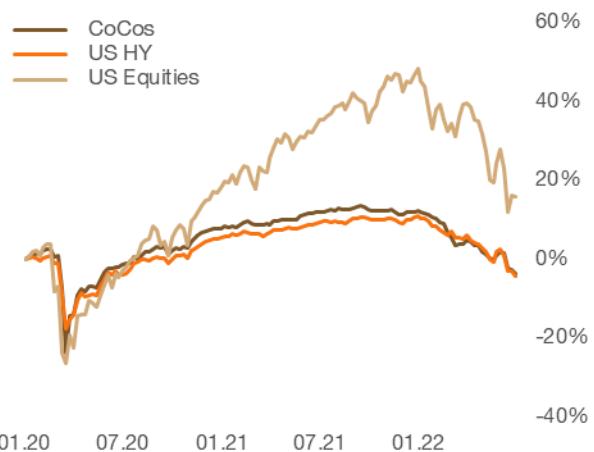
Given the strong capitalization of EU banks, subordinated financial debt is attractive again after the strong back up in yields. However, should peripheral debt sustainability threat come back in vogue, this sector is likely to continue to suffer significantly. We would only target the strongest systematic banks/insurances in the region. This type of instruments only suits to clients with an above average risk profile.

In summary, for fixed income, in the same case as for equities, we think it's valuable to stay invested, with a relatively short duration exposure.

On a market-to-market basis, like during the first half of the year, fixed income portfolios could suffer again. Admittedly, it's almost impossible to correctly time the top in yields.

However, keep in mind your time horizon, diversify your portfolios and be selective in order to avoid defaults as much as possible.

Riskier fixed income (HY, CoCos) correcting in line with equities



It is also adequate to recall that prices of fixed-income instruments tend to approach par as their maturity approaches. Thus, a negative performance in the short term should gradually be absorbed over time. This, of course, provided that the issuer does not go bankrupt. Excluding the latter case, the realization of losses today does not make sense. If you hold a relatively short duration portfolio, the price correction (negative market-to-market performance) you have already suffered this year means that your portfolio is yielding now much more, and the time to recovery will be lower. In real terms, at the end of your investment horizon, you will always be better off than realizing losses now and sitting on your cash. In fact, inflation will erode your cash by decreasing its purchasing power.

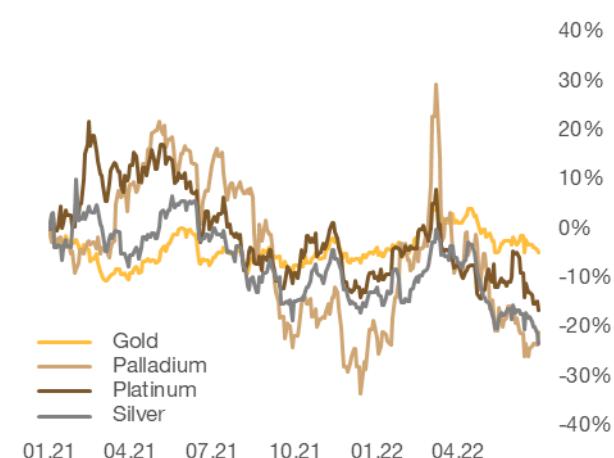
Commodities seem to be toppish

Commodity prices, as long as geopolitical factors and supply chain problems remain present, are expected to remain at high levels. However, should a sharp global economic slowdown (or even a recession) occur, the probability of which is increasing, then commodity prices should correct as demand would decline.

Oil prices give us a taste of the likely future evolution. Despite the multiple headwinds affecting the oil market, prices have pulled back in recent weeks under the growing influence of the recession threat. This naturally led us to adopt a neutral approach to oil prices over the short-to-medium term. In the longer term, the oil futures curve continues to show a "backwardation", structure indicating that, in the long term, the markets expect a price normalization. Global economic growth is likely to slow significantly in the coming quarters and this will naturally affect energy demand. With an unchanged supply and a decreasing demand, prices should mechanically correct.

In the short term, gold seems to behave more like a currency than a hedge against inflation. The large stream of economic and geopolitical setbacks seen in recent months was not enough to push the prices of the yellow metal beyond the highs of 2020. An important factor that could push gold prices higher more steadily would likely be a weakening greenback. Over the short-term this seems unlikely to happen considering the Fed stance. As the time horizon of this publication is on a quarterly basis, we adopt a neutral positioning on this precious metal.

Precious metals performances since 2021 (%)



Apart from these technical considerations, gold, in the long run, is historically the only "currency" that does not lose its purchasing power. Let's take the trivial example of the price of a "Ford T" in 1920. This vehicle aimed the upper middle classes and was very widely marketed. This vehicle was worth about USD 400, and an ounce of gold was priced at \$20.68. Which means each vehicle was worth 19.34 ounces of gold. These 19.34 ounces converted to current price would represent more or less \$35 thousand, or, in other words, the price of a middle-class car (Golf and comparable). Gold is therefore not an

investment, but a non-printable and less confiscable store of value than is cash, provided that this one to be physical and not the fruit of financial engineering products.

More generally, the Bloomberg Commodity Index failed to surpass its 2014 record high. In addition, it is likely that the index has peaked for now. Like oil, it is highly likely that the rapid gains of 2022 could be sharply reversed. A vertical evolution of prices, specially measured in semi-logarithmic scale, is generally followed also by a vertical decline. Thus, the commodity spectrum currently presents an asymmetric risk profile, with risk oriented in favor of the downside, all other things being equal. Of course, unexpected new geopolitical events or supply chain dislocations could challenge this scenario. Without excluding such a scenario, it seems that the market has massively integrated the worst or something closed to it.

Major commodity indices performances since 2021 (%)



Currencies Market Expectations

Major Currencies

	Q3-22	Q4-22	Q1-23	Q2-23	Q4-23
EURUSD	1.05	1.06	1.08	1.09	1.10
EURCHF	1.00	1.02	1.03	1.03	1.04
EURGBP	0.86	0.86	0.86	0.86	0.87
EURJPY	142	140.0	139.0	138.0	138.0
EURNOK	10.32	10.20	10.08	10.00	9.90
USDCAD	1.29	1.27	1.26	1.25	1.25
USDCHF	0.96	0.97	0.97	0.96	0.95
USDJPY	136	132.0	130.0	127.0	125.5
USDCNY	6.70	6.75	6.74	6.74	6.67
GBPUSD	1.22	1.23	1.24	1.26	1.27
NZDUSD	0.62	0.64	0.65	0.66	0.67
AUDUSD	0.69	0.71	0.73	0.74	0.76

Other Currencies

	Q3-22	Q4-22	Q1-23	Q2-23	Q4-23
USDMXN	20.1	20.1	20.3	20.0	20.4
USDBRL	5.26	5.2	5.2	5.3	5.2
USDARS	125.2	140.0	149.0	170.0	218.0
USDTRY	16.70	18.0	19.0	18.8	21.0
USDIIS	3.49	3.5	3.5	3.4	3.2
USDHKD	7.85	7.9	7.9	7.8	7.8
USDINR	79.0	78.5	79.0	78.5	78.0
USDRUB	54.2	65.0	69.4	73.4	75.0
USDPLN	4.48	4.4	4.3	4.2	4.1

The table above provides an overview of market forecasts for major currencies. It is composed of dozens of individual forecast providers and delivers a consensus forecast. These consensus forecasts represent a median number and all forecasts evaluated correspond to calendar quarter-end dates.

Future forecasts do not guarantee future performance and should only be used for indicative purposes.

Market Performances

	Name	QTD *	YTD**	2021	2020	2019	2018	2017
Cash	Dollar 3m Total Return	0.1%	0.1%	0.1%	1.0%	2.5%	2.4%	1.1%
	Euro 3m Total Return	-0.2%	-0.3%	-0.7%	-0.5%	-0.4%	-0.4%	-0.4%
Government bonds	US 3-5	-1.4%	-6.0%	-2.0%	6.2%	5.3%	1.5%	1.0%
	Eurozone 3-5	-2.8%	-5.6%	-1.2%	1.3%	1.9%	0.1%	0.1%
	US 7-10	-4.5%	-10.8%	-3.1%	10.0%	8.5%	0.9%	2.6%
	Eurozone 7-10	-7.0%	-12.5%	-2.9%	4.5%	6.7%	1.4%	1.3%
Corporate bonds IG	USD Corp 1-5	-1.9%	-5.6%	-0.5%	5.4%	7.0%	1.0%	2.6%
	EUR Corp 1-5	-4.1%	-6.7%	-0.1%	1.1%	2.8%	-0.5%	1.2%
	USD Corp 5-10	-6.4%	-12.9%	-1.5%	9.7%	14.3%	-1.7%	5.6%
	EUR Corp 7-10	-11.6%	-18.6%	-2.0%	4.4%	10.9%	-2.4%	4.2%
Corporate bonds HY	USD Corp 1-5	-9.6%	-13.6%	5.0%	5.8%	13.9%	-1.8%	7.0%
	EUR Corp 1-5	-10.7%	-14.4%	3.4%	2.3%	11.3%	-3.8%	6.9%
	USD Corp 5-10	-8.0%	-10.2%	4.7%	-2.0%	9.1%	-1.9%	7.6%
	EUR Corp 5-10	-14.7%	-20.1%	2.2%	2.8%	13.2%	-4.4%	8.0%
EM bonds (in \$)	Hard currency	-8.7%	-17.1%	-1.7%	6.5%	13.1%	-2.5%	8.2%
	Local currency	-7.0%	-9.0%	-1.6%	5.3%	9.5%	-3.4%	14.3%
	Chinese Yuan	-4.4%	-3.3%	8.7%	9.3%	2.8%	3.0%	5.0%
Others	S&P Leverage Loan Index	-4.5%	-4.6%	5.2%	3.1%	8.6%	0.4%	4.1%
	Global Convertible	-12%	-17%	3%	26.5%	18.2%	-1.2%	7.2%
Equities	North America	-17%	-22%	25%	19%	29%	-6%	19%
	Europe	-10%	-15%	22%	-5%	22%	-13%	7%
	Japan	-5%	-7%	11%	7%	16%	-17%	18%
	Asia Pacific	-12%	-18%	-3%	17%	16%	-16%	29%
	Developed Markets	-17%	-21%	20%	14%	25%	-10%	20%
	China	9%	-5%	-11%	23%	38%	-21%	32%
	Latin America	-24%	-4%	-13%	-16%	14%	-9%	21%
	Emerging Markets	-12%	-19%	-5%	16%	15%	-17%	34%
Other investments	HFRX Alternative	-3%	-5%	4%	7%	9%	-7%	6%
	VIX	40%	67%	-24%	65%	-46%	130%	-21%
	G7 Currency Volatility	33%	79%	-15%	23%	-34%	21%	-36%
	DJ Global Commodity	-6%	18%	27%	-4%	5%	-13%	1%
	Gold	-7%	-1%	-4%	25%	18%	-2%	14%
	Industrial metals	-27%	-10%	30%	16%	5%	-21%	28%
	Agriculture index	-6%	13%	27%	16%	0%	-13%	-12%
	WTI Oil	5%	41%	55%	-21%	34%	-25%	12%
Currencies (vs. \$)	Dollar Index	6%	9%	6%	-7%	0%	4%	-10%
	EM Currency Index	-3%	-2%	-9%	-6%	-1%	-11%	6%
	Euro	-5%	-8%	-7%	9%	-2%	-4%	14%
	British Pounds	-7%	-10%	-1%	3%	4%	-6%	10%
	Swiss Francs	-3%	-4%	-3%	9%	1%	-1%	5%
	Japanese Yen	-10%	-15%	-10%	5%	1%	3%	4%
	Chinese Yuan	-5%	-5%	3%	7%	-1%	-5%	7%

* Quarter to date

** Year to date

Past performance is not a reliable indicator of future performance and should not be solely relied upon.

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All data as of June 30, 2022
Published on July 1, 2022

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