Investment Playbook Weekly Update

2nd December, 2022

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GLOBAL Private Banking INNOVATION AWARDS 2022

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Macro

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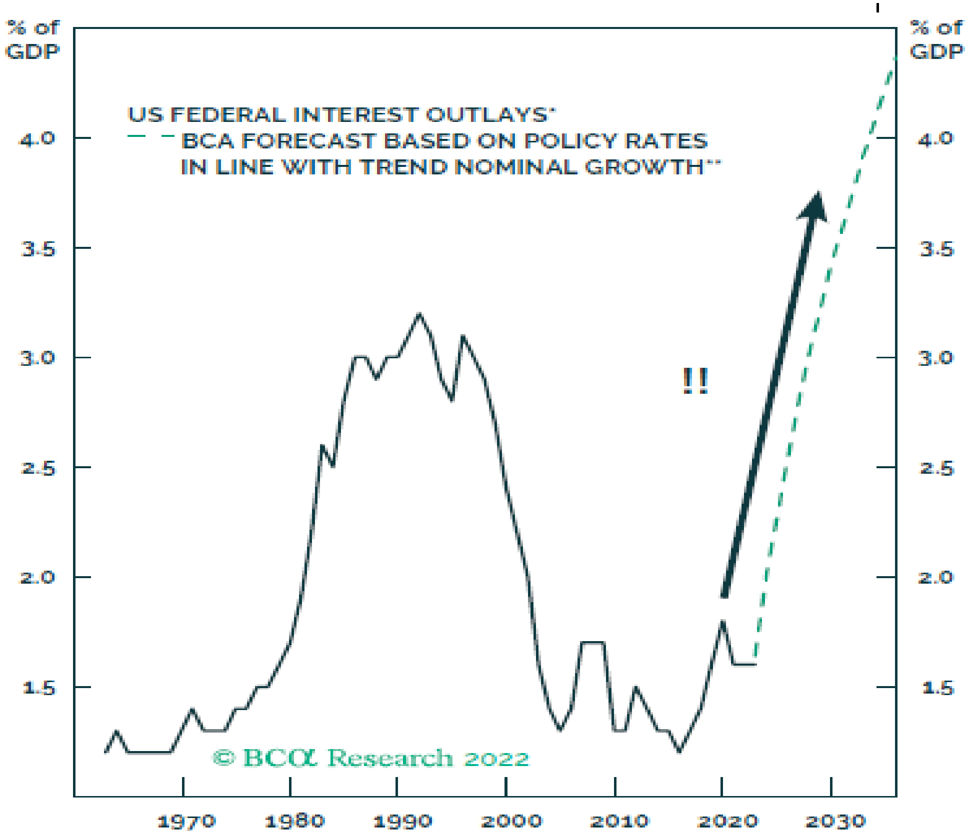
Governments Debt Burden To Surge

Higher for longer interest rates will sharply raise governments debt burden globally

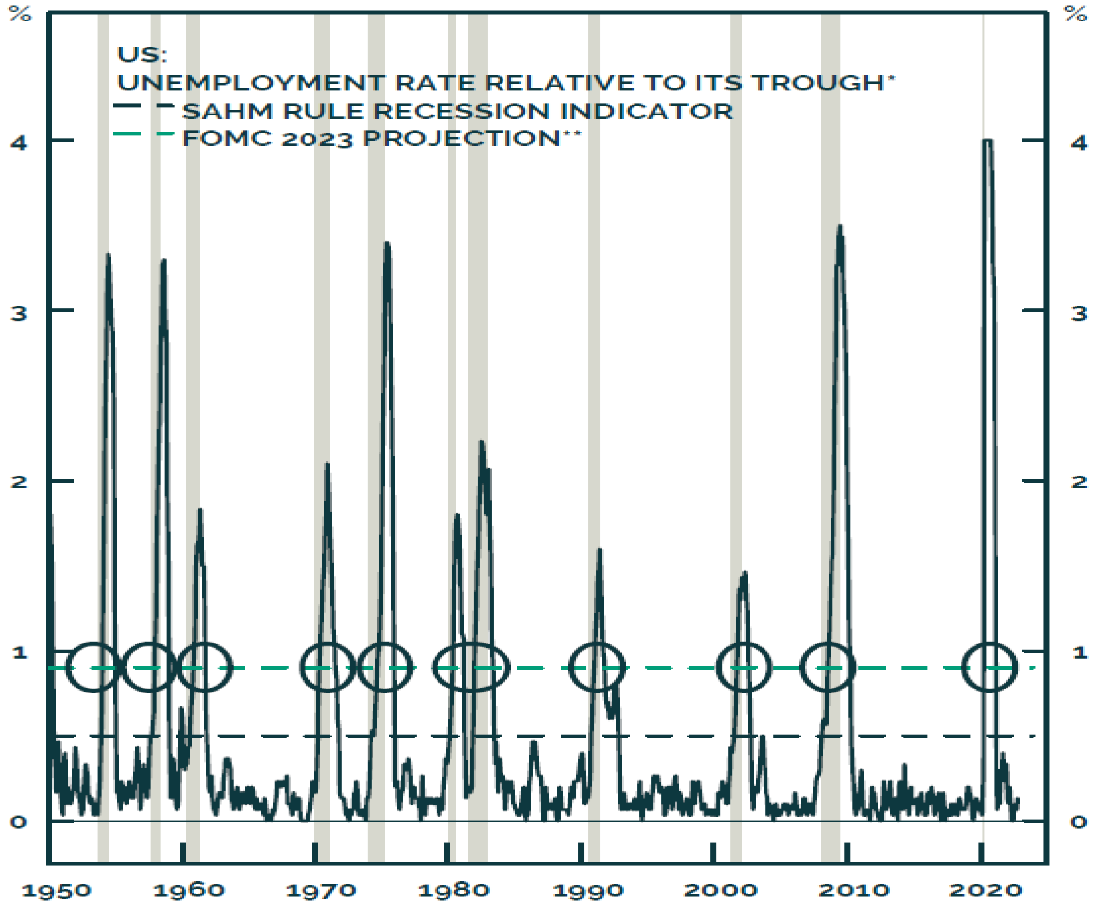


* SOURCE: CONGRESSIONAL BUDGET OFFICE.
** SOURCE: BCA CALCULATIONS.

November 2022

“Soft Landing”: Wishful Thinking?

A “soft landing” has never actually occurred in the US



* SERIES IS SHOWN AS A 3-MONTH MOVING AVERAGE MINUS A ROLLING 1-YEAR LOW; TRUNCATED AT 4%.
** SOURCE: FOMC SEPTEMBER SUMMARY OF ECONOMIC PROJECTIONS.
NOTE: SHADING DENOTES NBER-DESIGNATED RECESSIONS.

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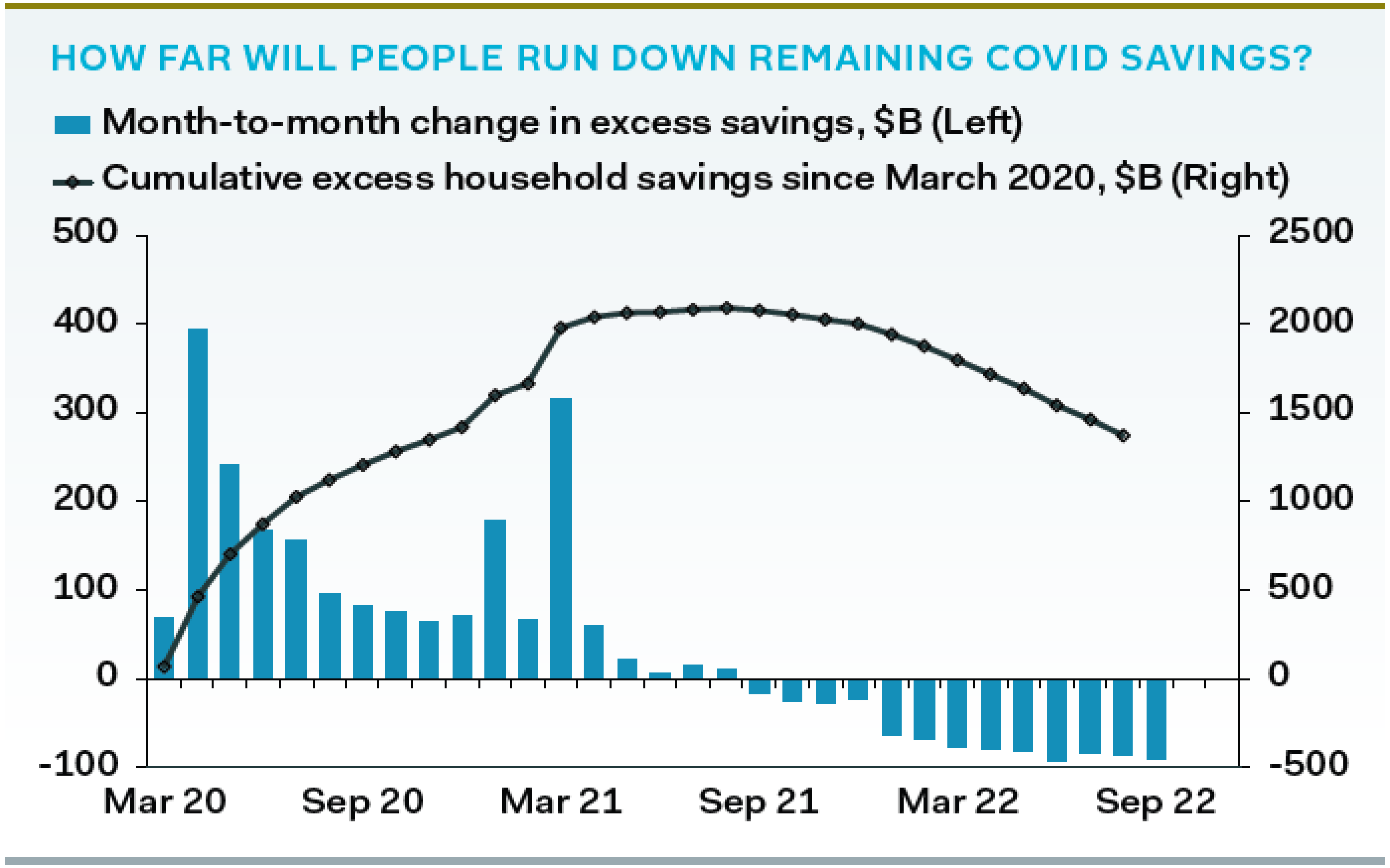
US Personal Savings Rate- Gravity in action

Sharp fall in personal savings rate will have an adverse impact on consumption demand



Source: Pantheon Macroeconomics, November 2022

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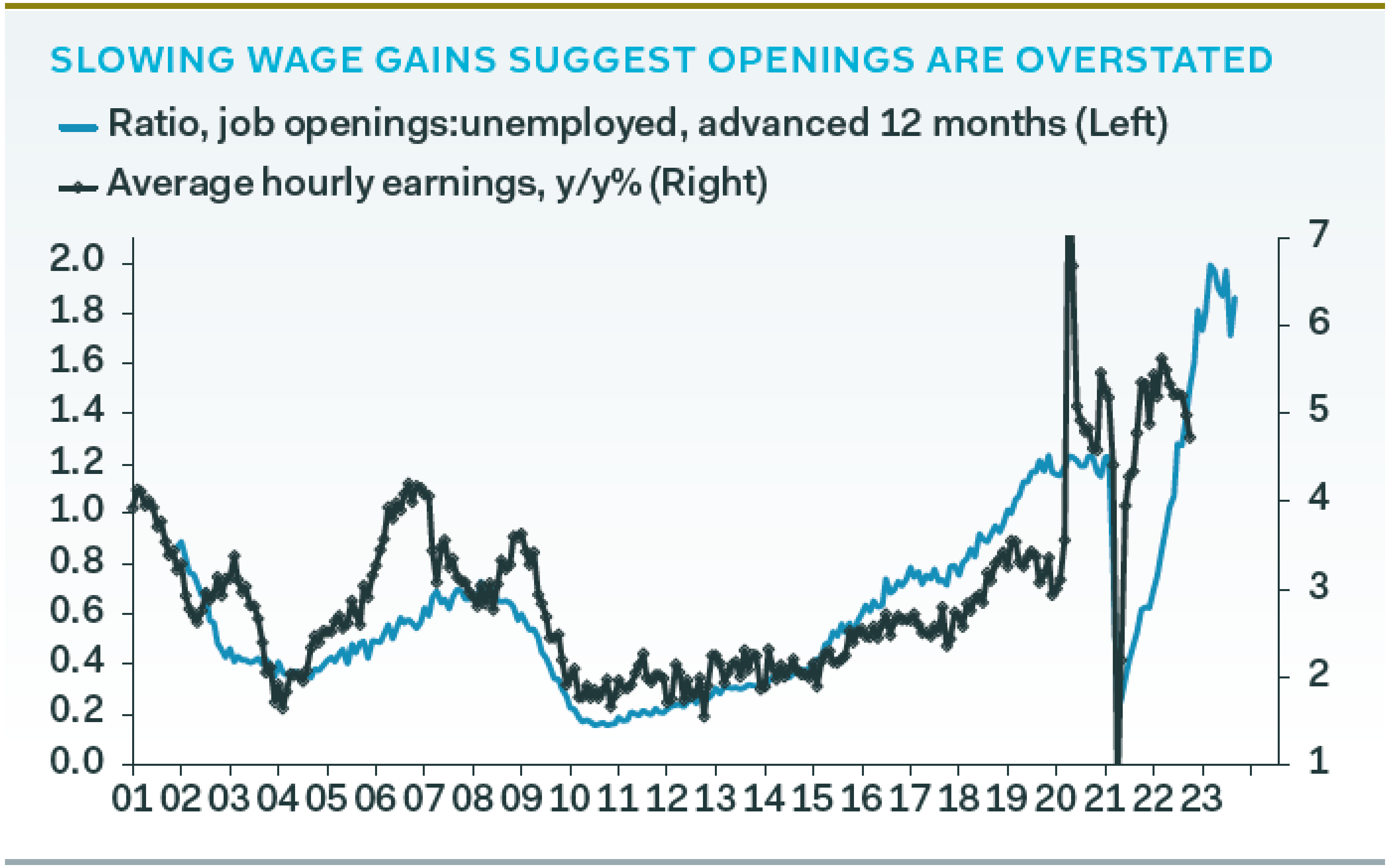
US Labour Market- Clear signs of weakening

Dip in job openings ratio & slowing avg. hourly earnings growth rate will add to softening demand



Source: Pantheon Macroeconomics, November 2022

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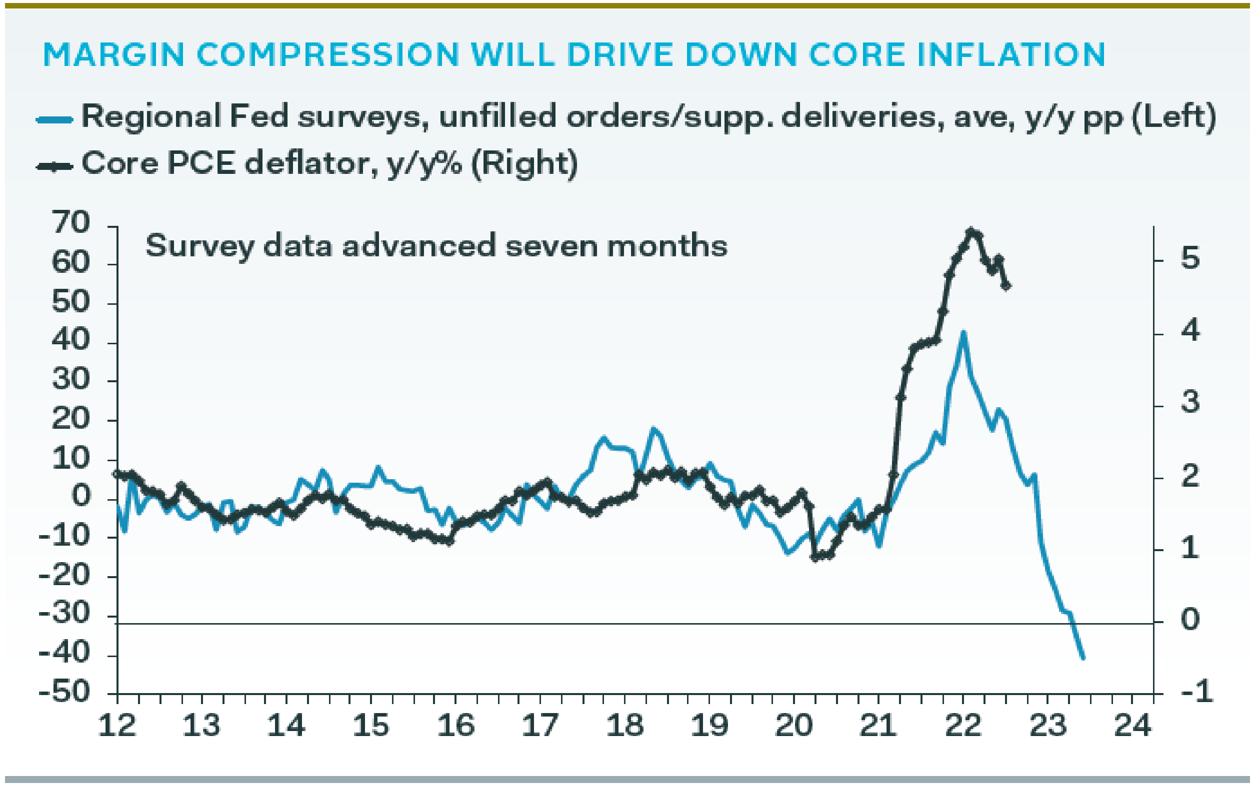
US Core PCE-Likely to slide

Combination of a dip in personal savings and a weakening job market will likely result in Core PCE slide



Source: Pantheon Macroeconomics, November 2022

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Macro – Executive Summary (1/2)

		Nov 22	Market Expectations (1Q23)	Δ*	Market Expectations (3Q23)	Δ*	LC Views
US	Real GDP Growth (YoY)1	1.8%	0.5%	-	0.1%	-	▪ A Fed downshift looks imminent, but the tightening cycle is far from over. Jerome Powell signaled the FOMC will hike by 50 bps in December, and said smaller increases are less important than the questions of how much further to go and for how long. Officials need "substantially more evidence" to ensure prices are moderating, the chair added. "The path ahead for inflation remains highly uncertain." Bond traders dialed back their peak rate expectations to below 5%.
	Inflation (YoY)[2]	7.7%	6.2%	-	3.7%	-	
	Unemployment (YoY)[3]	3.7%	4.0%	+	4.5%	+	
	Probability of Recession[4]				62.5%		
	Policy Rate[5]	4.0%	4.9%	+	4.9%	+	
EU	Real GDP Growth (YoY)[6]	2.1%	0.0%	-	-0.4%	-	▪ Oct 27th saw the ECB hiking by 75 bps. Ms. Lagarde reiterated that further rates hikes will be as appropriate to bring inflation down to target levels. However, markets take the commentary from ECB to be dovish. ▪ The revised economic projections include an increase to the inflation forecasts with an average inflation rate of 8.1% this year and a decrease to the GDP growth forecasts from 2.1% to 0.9% in 2023. ▪ **We think probability of an early pivot by ECB is higher that their US counterparts.**
	Inflation (YoY)[7]	10.6%	9.0%	-	5.5%	-	
	Unemployment (YoY)[8]	6.0%	7.1%	+	7.2%	+	
	Probability of Recession[9]				80.0%		
	Policy Rate[10]	1.4%	2.6%	+	2.9%	+	
UK	Real GDP Growth (YoY)[11]	2.4%	-0.9%	-	-1.1%		▪ We are in line with the market view that **Bank of England may continue to raise interest rates aggressively** over the next 12 months.
	Inflation (YoY)[12]	11.1%	9.9%	-	6.5%	-	
	Unemployment (YoY)[13]	3.6%	4.1%	+	4.7%	+	
	Probability of Recession[14]				90.0%		
	Policy Rate[15]	3.0%	4.4%	+	4.6%	+	

**Change from previous period column*

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Macro – Executive Summary (2/2)

		Nov 22	Market Expectations (1Q23)	Δ*	Market Expectations (3Q23)	Δ*	LC Views
China	Real GDP Growth (YoY)[16]	3.9%	3.6%	-	4.4%	+	▪ The main economic risk for China is deflation and the continuation of underwhelming economic growth. Core and service consumer price inflation are both below 1% and property prices are deflating. Falling prices amid high debt levels is a recipe for debt deflation. - BCA (15 Aug) ▪ Throughout November, China has been piling up financial aids to its fragile property sector. Anti zero-covid protests in numerous cities will also likely expedite the pace of reopening. **Market sentiments have improved significantly.** However, how quickly these supportive policies can fully revitalize the Chinese economy remains to be monitored.
	Inflation (YoY)[17]	2.1%	2.8%	NC	2.2%	NC	
	Unemployment (YoY)[18]	4.0%	4.0%	+	4.0%		
	Probability of Recession[19]				17.5%		
	Policy Rate[20]	4.4%	4.4%	+	3.7%	-	
India	Real GDP Growth (YoY)[21]	13.5%	4.5%	-	6.5%	+	▪ In Sept policy, the Monetary Policy Committee (MPC) decided to increase the policy rates by 50 bps to 5.90%. ▪ RBI may hike rates by 25-35 bps in December thereby taking the repo rate to 6.15%-6.25%. Key factors for lower pace of tightening are dissent across committee members with respect to pace of rate hikes and US CPI data trending lower. ▪ In Oct, demand improved in lieu of the festive season as reflected by higher auto sales (retail), robust credit growth (17.9% in Oct 2022 vs 5.7% in Oct 2021), rise in services and manufacturing PMI and 2nd highest GST collections (since inception). However, moderation in some of the other key indicators like electricity generation, railway freight traffic, e-way bills, finished steel consumption, etc presents a mixed picture on growth side. ▪ Headline CPI in Oct 2022 declined to 6.77% vs 7.41% YoY in Sept 2022, primarily led by favourable base effect and slower rise in food prices. Going forward, we expect the CPI trajectory to trend downwards because of favourable base effect.
	Inflation (YoY)[22]	6.8%	6.1%	-	5.3%	-	
	Unemployment (YoY)						
	Probability of Recession[23]				0.0%		
	Policy Rate[24]	5.9%	6.5%	+	6.5%	+	

**Change from previous period column*

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Macro – Executive Summary (Sources)

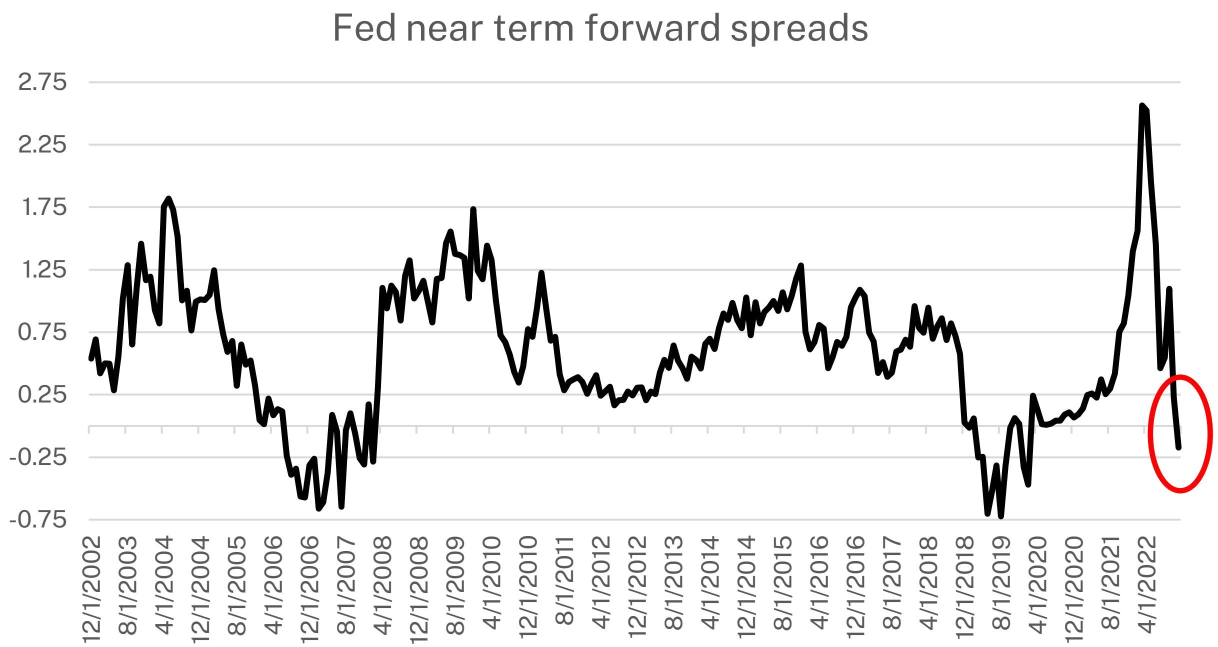
1) “GDP US Chained 2012 Dollars YoY SAAR ”, GDP CYOY Index, Source: Bureau of Economic Analysis. Forecast data derived from “GDP US Chained 2012 Dollars NSA”, GDNSCHWN Index, Source: Bureau of Economic Analysis.
2) “US CPI Urban Consumers YoY NSA”, CPI YOY Index, Source: Bureau of Labour Statistics. Forecast data derived from “US CPI Urban Consumers NSA”, CPURNSA Index, Source: Bureau of Labour Statistics.
3) “U-3 US Unemployment Rate Total in Labor Force Seasonally Adjusted”, USURTOT Index, Source: Bureau of Labour Statistics.
4) “United States Recession Probability Forecast”, ECRPUS 1Y Index, Source: Bloomberg.
5) “Federal Funds Target Rate - Upper Bound”, FDTR Index, Source: Federal Reserve.
6) “Euro Area Gross Domestic Product Chained 2010 Prices YoY”, Source: Eurostat. Forecast data derived from “European Union Gross Domestic Product Chained 2010 Prices ”, ENGKEU27 Index, Source: Eurostat.
7) “Euro Area MUICP All Items YoY NSA »”, ECCPEMUY Index, Source: Eurostat. Forecast data derived from “Eurostat European Union HICP All Items NSA”, CPALEU Index, Source: Eurostat.
8) “Eurostat Unemployment EU SA”, UMRT27 Index, Source: Eurostat.
9) “Eurozone Recession Probability Forecast ”, ECRPEU 1Y Index, Source: Bloomberg.
10) “ESTR Volume Weighted Trimmed Mean Rate”, ESTRON Index, Source: European Central Bank.
11) “UK GDP Chained GDP at Market Prices YoY ”, UKGRABIY Index, Source: UK Office for National Statistics. Forecast data derived from “UK GDP Chained GDP at Market Prices”, UKGRABMI Index, Source: UK Office for National Statistics.
12) “UK CPI EU Harmonized YoY NSA”, UKRPCJYR Index, Source: UK Office for National Statistics. Forecast data derived from “UK CPI EU Harmonized NSA”, UKRPCHVJ Index, Source: UK Office for National Statistics.
13) “UK Unemployment ILO Unemployment Rate SA”, UKUEILOR Index, Source: UK Office for National Statistics.
14) “United Kingdom Recession Probability Forecast”, ECRPGB 1Y Index, Source: Bloomberg.
15) “UK Bank of England Official Bank Rate”, UKBRBASE Index, Source: Bank of England.
16) “China GDP Constant Price YoY SA”, CNGDPYOY Index ,Source: National Bureau of Statistics of China. Forecast data derived from “China GDP Constant Price”, CNGDGDP Index , Source: National Bureau of Statistics of China.
17) “China CPI YoY”, CNCPIYOY Index,Source: National Bureau of Statistics of China. Forecast data derived from “China CPI YoY”, CNCPIYOY Index, Source: National Bureau of Statistics of China.
18) “China Qtrly Registered Unemployment Rate in Urban”, CNUERATE Index, Source: National Bureau of Statistics of China.
19) “China Recession Probability Forecast”, ECRPCN 1Y Index, Source: Bloomberg.
20) “China 1 Year Benchmark Lending Rates” , CHLR12M Index, Source: The People's Bank of China.
21) “GDP Growth Annual % India”, GDPGAIND Index, World Bank Group. Forecast data derived from “India Qtr Real GDP By Expenditure Cons 2011-12 Prices ”, IGQREGDP Index, Source: Central Statistics Office India.
22) “India CPI Combined YoY”, INFUTOTY Index, Source: Central Statistics Office India. Forecast data derived from “India CPI Combined”, INFUTOT Index, Source: Central Statistics Office India.
23) “India Recession Probability Forecast”, ECRPIN 1Y Index, Source: Bloomberg.
24) “Reserve Bank of India Repurchase Rate Policy Announcement”, INRPYLDP Index, Source: Reserve Bank of India.

Fixed Income

2

US Economy- Heading towards a recession

Fed's preferred gauge of rate spreads inverted, indicating a recession.



Source: Bloomberg, November 2022

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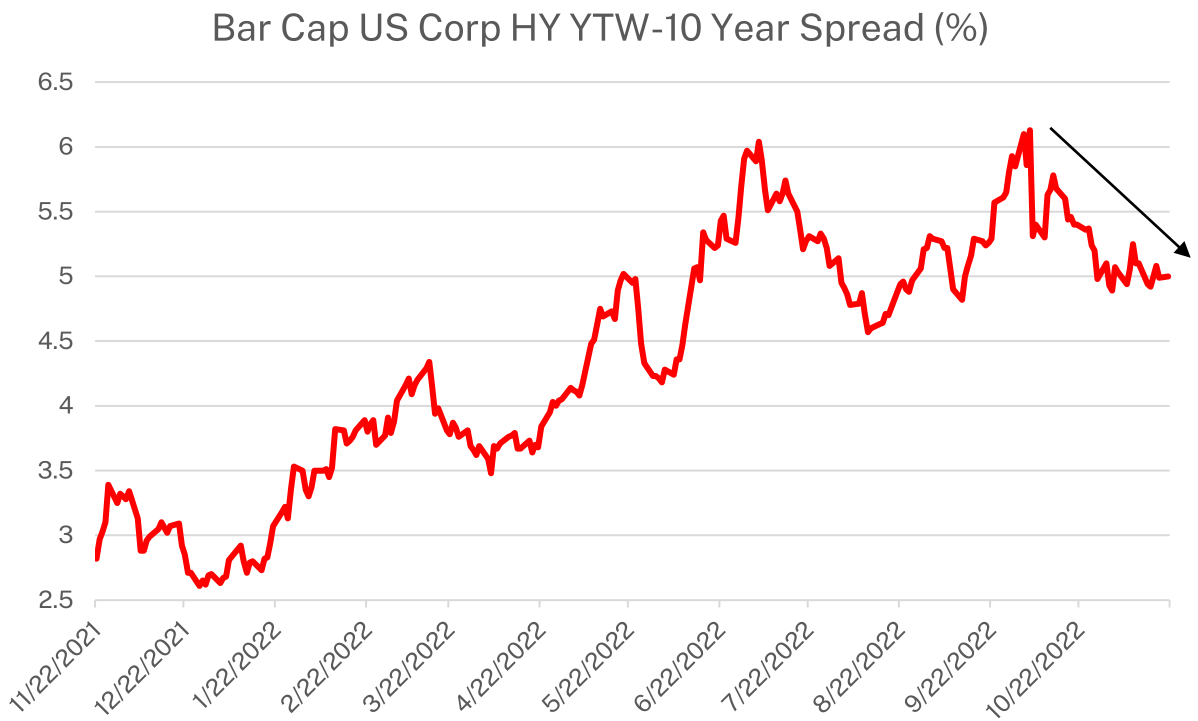
US High Yield Spread-Complacency sets in.

US HY spreads had a sharp compression on back of risk-on sentiments. Runs risk of widening.



Source: Bloomberg, November 2022

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Fixed Income – Overview

	Sub-Asset	Region	IC Outlook (2Q23)	IC Comments	Recommended Positioning
Long Term Rates	**10Y Rate**	**US**	↑	▪ The US will probably enter a "mild" recession next year that could cost more than 1 million jobs, JPMorgan said. Bank economists see the Fed raising rates at each of its first two meetings to reach a target range of 4.75% to 5% before pausing. Goldman boosted its Fed peak rate call to 5.25% from 5%, forecasting a 50-bp increase next month and 25-bp moves in February, March and May.	▪ Fixed income should be part of any portfolio (defensive as well as growth) as yields are admittedly looking attractive again. ▪ We are **bullish on bonds in US IG credit**. with duration < 3 over a 12 months horizon. Indeed, as Fed funds rates are expected to be increased by another 100bps over the next two quarters, we recommend keeping the overall duration of the portfolio low (<3y) to avoid unnecessary drawdowns. ▪ **Add Distressed managers** to benefit from dislocations and mispricing. ▪ "**Duration is likely the first asset class to be poised for outperformance**, once the US recession is confirmed" according to Pimco. We agree with such view, keeping in mind that timing the recession is simpler said than done. ▪ **Avoid EU names, PERPs, Cocos & High Yield** bonds for the moment. Look to add duration in a gradual and phased manner.
		EU	↑	• The ECB may slow its tightening pace with only a 50-bp increase next month. Initial discussions suggest a lack of momentum for another 75 bp hike, barring another surprise surge in inflation, given mounting recession risks. The need to bargain over a start to balance-sheet reduction was also cited.	
Credit	**IG Spread (bps)**	**US**	↔	• Global Corporate bonds are likely to face headwinds up until 1H23. High Yield spreads currently do not factor in an imminent recession and hence runs risk of widening. • Policy rates in 1H23 are expected to rise across Developed Markets, while corporate spreads should widen on back of a global economic slowdown and higher refinancing rates, with High Yield to be the most heavily impacted.	
		EU	↑		
	HY Spread (bps)	**US**	↑		
		EU	↑		

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Equities Highlights

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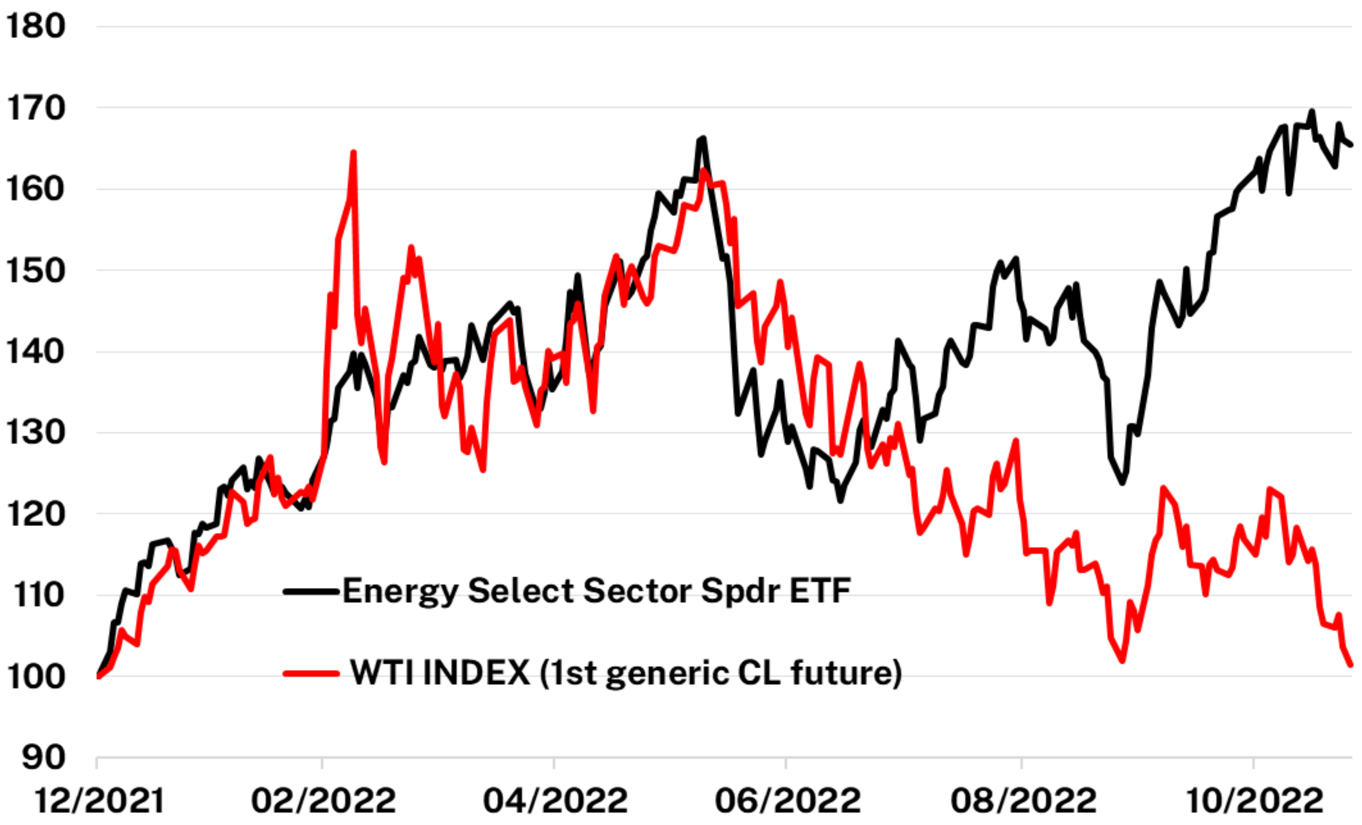
Time To Exit Oil Stocks

WTI has dropped 17% since July whereas energy stocks have jumped more than 32% over the period



Base 100: 31/12/2021

Source: Bloomberg, November 2022

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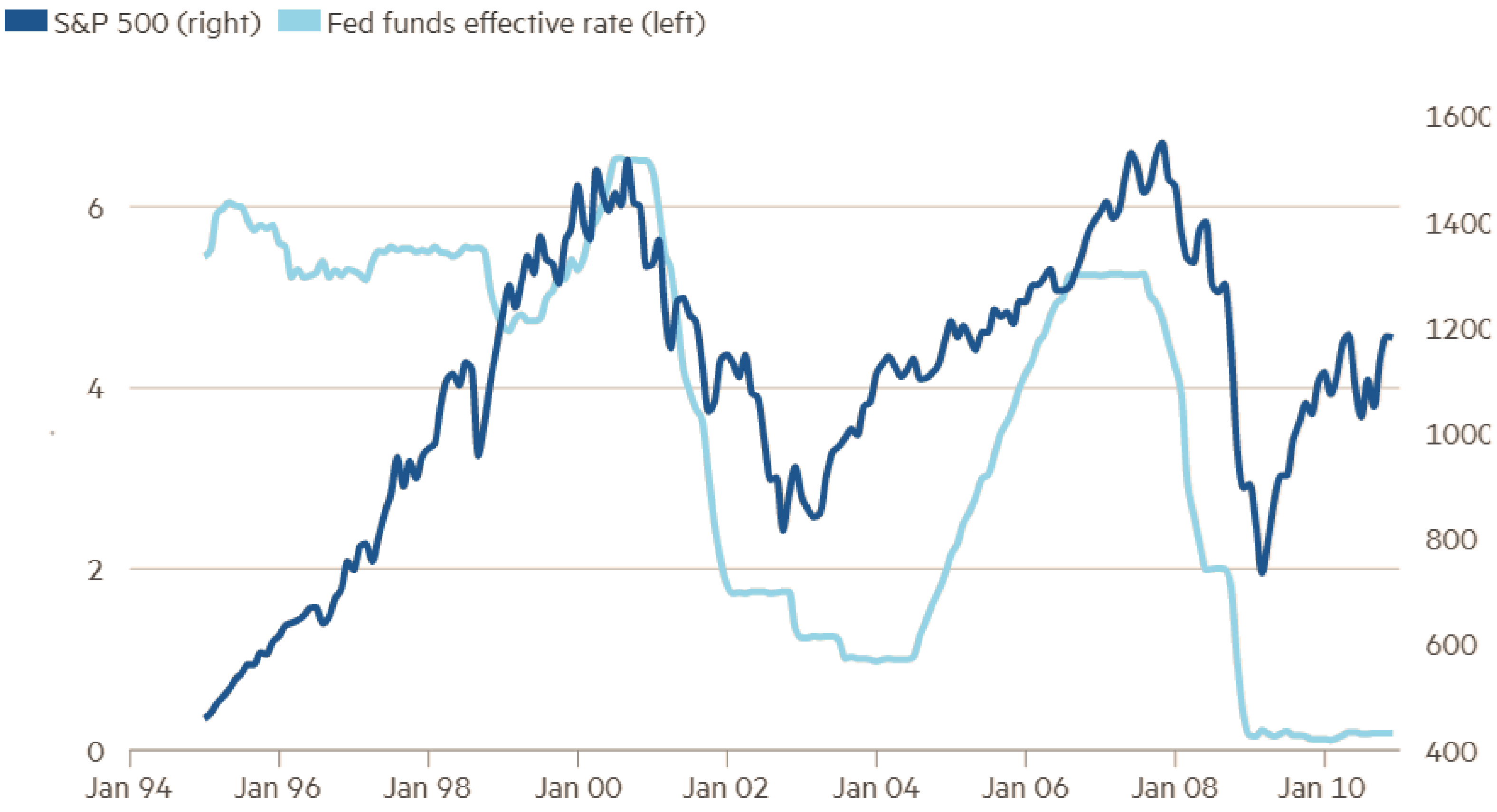
Too Early to Call the Bottom

In previous tightening cycles, equity only recovered after the fed funds rate had already come down.



Source: Financial Times, November 2022

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China Zero Covid Policy: End In Sight?

Chinese stocks have been surprisingly resilient this week, despite adverse news flow.

Source: Bloomberg, November 2022

Equities – Overview (1/2)

<table>
<tr><th>Region</th><th>IC Outlook (2Q23)</th><th>IC Comments</th><th>Recommended Positioning</th></tr>
<tr><td>US (S&P 500)</td><td>↓</td><td>▪ We hold a bearish view on US equities over the next 6-12 months given that interest rates are expected to continue rising and economic growth, while not collapsing, is softening. Equities have discounted higher interest rates, but not the decline in profits that those rates will, in time, bring about.

▪ Moreover, US Equities are likely to continue to be negatively correlated with long-term rates and are exposed to any hawkish comments from the FED.</td><td rowspan="2">▪ Equity markets rallied by more than 3% on Wednesday after the Street reacted positively to Chairman Powell's speech, where he mentioned that "The time for moderating the pace of rate increases may come as soon as the December meeting". We continue to believe that this is yet another bear market rally and going forward short-term sentiment will fizzle out and earnings will drive stock prices, which as of Q3 look to be facing the pressure of a slowing economy.

▪ 489 of the S&P 500 companies have reported earnings, with approximately 69% & 59% of them exceeding earnings and revenue expectations, respectively. While revenue growth has been broad based with YoY growth in all 11 sectors, the earnings picture is not as positive, with 6 out of the 11 sectors registering a YoY degrowth.

▪ We do not think it is time to increase beta on portfolios yet and recommend a cautious stance in terms of positioning as we continue to believe that earnings expectations are overly optimistic, especially those for 2023.

▪ Consider adding Long/Short managers who can take bi-directional bets and who should benefit from current dispersion.

▪ There are some good quality companies which we have on our list that appear oversold with high implied volatility – making them good candidates for FCNs/ELN structures. This is a good way to maintain a defensive stance while benefiting from high carry from coupons. <u>Do not</u> go beyond 6M in maturity.</td></tr>
<tr><td>EU (STOXX 600)</td><td>↓</td><td>▪ We think EU is in a precarious situation as it is likely to already be in recession. Elevated gas prices and energy rationing efforts would keep a lid on any growth prospects, and we anticipate corporate earnings pressure to intensify into 1H23.

▪ Despite the bleak economic situation, the consensus STOXX 600 earnings growth expectations envisage a rather optimistic scenario given the current macro situation, in our opinion. We expect more earnings misses to materialize over the next 12 months.

▪ According to Deutsche Bank, investors have redeemed $83 billion from European equities in the past 6 months.</td></tr>
</table>

Equities – Overview (2/2)

Region	IC Outlook (2Q23)	IC Comments	Recommended Positioning
China (CSI 300)	↔	▪ Shares of Chinese property developers rallied sharply In November following news of Beijing's 16-point plan to help resuscitate its struggling property market. The measures announced include extensive support for both property developers as well as home buyers. In addition to the property market plan, authorities have also adjusted the country's zero-Covid rules in a raft of 20 measures which include shortening quarantine times, reducing mass testing, and abolishing Covid flight suspension. ▪ Although the latest changes are positive for the property market on the margin, the near-term outlook remains highly uncertain.	▪ In the short term, the Chinese markets will be primarily driven by policies. In November, Chinese government announced zero-Covid policy easing and supportive measures for the property sector. This resulted in a large rally in the Chinese equity markets, especially in the property sector and reopening-related stocks. ▪ As these policies still need time to revitalize the economy, we remain cautiously optimistic on Chinese assets. Investors may consider to **add a small tactical position** or **remain invested in low beta long short managers** (FengHe, Luxence, UBS O'Connor China L/S) for now. Indeed, we **do not recommend taking on full beta risk just yet**.
India (NIFTY 50)	↔	▪ Indian equity performance has shown resilience in the last few months and outperformed major global markets on the back of strong economic growth expectations and inflation prints not getting out of hand. ▪ Q2FY23 sales and PAT growth for Nifty 50 companies on an aggregate basis was 29% and 9% respectively. The earnings are largely led by domestic cyclicals like financials, industrials, consumer discretionary (mainly autos) companies and commodity themes like metals, oil and gas and cement were the biggest laggards on account of lower realizations and higher costs. ▪ With the recent up move, Nifty 50 is now trading at a 12-month trailing PE of 23 times, above the long-term averages.	▪ We recommend a **cautious and staggered approach** when it comes to allocating to Indian equities, as we await further clarity with respect to how the global macro situation unfolds and whether Indian corporate earnings can hold up in an increasingly tougher macro environment and a more restrictive monetary stance being taken by the central bank.

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Forex, Commodities & Alternatives

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Commodities – Overview

	Sub-Asset	IC Outlook (2Q23)	IC Comments	Recommended Positioning
Commodities	Gold	↔	▪ There are two opposite forces for Gold. ▪ On the one hand, gold is likely to face near term headwinds on back of higher rates (which is an opportunity cost for gold holders) and a strong dollar. ▪ On the other hand, increasing holdings of gold in global central bank reserves points to a de-dollarization trend which could act as tailwinds for the yellow metal.	▪ We believe that **some exposure to gold makes sense** as a means to hedge longer term inflation and geopolitical shocks. ▪ As it is difficult and extremely tricky to time and trade the yellow metal, our **recommended way to gain exposure is via external managers** (Delbrook - gold equities, Drakewood - gold futures/options)
	Oil	↔ / ↓	▪ Oil demand should likely deteriorate on back of higher recession risks globally. ▪ On the flipside, OPEC to lower production by 2mm b/d starting in November, marking the largest cut since 2020. ▪ We think risks are skewed more to the downside given the historically large drawdowns (>40%) which oil faces during recessions. The OPEC production cuts will temporarilly help minimize the extent of these drawdowns.	-

Forex – Overview

	Sub-Asset	IC Outlook (2Q23)	IC Comments	Recommended Positioning
FX	USD	↔/↓	▪ The dollar's decline in the month of November was primarily driven by cooling inflation numbers in the US which increased expectations for a pause/pivot in QT. ▪ A stronger dollar is the global transmission policy of the Federal Reserve's rate policy, that policy is tightening fast, and it is uncertain where it will stop. We anticipate the dollar to maintain its strength throughout 22 as recessionary fears accelerate.	• With core CPI cooling off in October, the Fed is likely to add another 50bps in its December meeting. **We expect the US dollar to remain linked to market sentiments while maintaining a downward bias.** • **Bleaker growth outlook globally will continue to support current levels in the near term.** • Both BOE and ECB are now expected to hike rates further to narrow the interest rate differential with the USD and support their currencies. **Longer term investors may consider gradually adding DM currency exposures** (EUR, GBP) as they are looking cheap versus the dollar.
	EUR	↔/↑	▪ The EUR remains cheap and near term upside will likely be underpinned by continued hawkishness from the ECB coupled with improving sentiment indicators which we observed for the month of November. ▪ On the flip side, global growth concerns (exacerbated by China's slowdown) linger and remain a key headwind to any meaningful strengthening in non dollar currencies (especially the EUR).	
	GBP	↔/↑	▪ The 2/30y Gilt curve remains steep and is a reflection of entrenched inflation and fiscal fears. ▪ BOE is likely to be pressured to flatten the curve by way of 1) aggressive hikes and 2) buying long end papers to keep liquidity neutral ▪ Together with some fiscal loosening on the horizon, this should set the GBP for an eventual rebound from very depressed levels	
	CNY	↓	▪ The PBOC is very supportive and has started decreasing interest rates. Policymakers will ultimately continue to ease domestic policy to reflate the economy and the PBoC will probably cut rates further. The implication is that the CNY – which has already depreciated by 10% so far this year – is likely to continue weakening. ▪ Given that the Chinese economy faces deflationary pressures, authorities in Beijing do not have an incentive to pursue a stronger yuan.	
	JPY	↔	▪ The JPY is to remain challenged as the rates differential increases with other central banks, owing to the BoJ's YCC policy ▪ That said, it currently looks extremely cheap relative to its longer-term PPP fair value.	

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