APRICUS FINANCE

WEALTH MANAGEMENT

May 2023

April: not a lot happening on the surface

April was a rather complicated month, despite the month end picture showing equity indices edging up, stable credit spreads, and energy prices marginally lower, despite OPEC+ members announcing surprise cuts in oil production.

During the month, central banks delivered their expected rate hikes, Chinese demand for commodities didn't materialize, US economic activity appears to be losing momentum again, and the earnings season was better than feared. The realized volatility in the S&P500 fell to 9%, the lowest since 2021, and so did the 'fear factor' VIX index.

However, renewed concerns about the US banking system, a potential recession and worries about the upcoming US debt ceiling - as the Treasury's Yellen pointed to the first of June as the X date - delivered a month with considerable volatility. Markets pull and push led to continuous sector rotations within the indices, resulting in an extremely high dispersion of performance for individual stocks. Indices ultimately have been pulled higher by defensive stocks such as healthcare and utilities. Unsurprisingly, the Swiss SMI, with its known defensive characteristics, was the best performer among major indices, up over 4% for the month. Within fixed income, volatility, as measured by the MOVE index, remained historically very elevated, with large daily swings in yields across maturities.

Global Economy

As highlighted in our introduction, the economic news flow for the US has been pointing to weakness in the US.

First the unemployment rate: the rate came in at 3.4%, a new low. This number could be interpreted as the job market being extremely tight still. As we mentioned in previous commentaries, this is a survey: it measures the percentage of people over the age of 16 who aren't working, but are available and actively looking for work, among a sample of about 60'000 households. Respondents to the survey are first asked whether they worked during the week, that includes the 12th of the month. Individuals are counted as employed if they did any work at all as a paid employee, even for a single hour. Looking at other, recently published indicators, we think the US labor market is slowly rebalancing:

- 'JOLTS', or job openings have reached a two-year low
- The so-called 'quit' rate - the number of people voluntarily resigning is coming down quickly, and in a few months could be down to pre-pandemic levels
- Continuing claims continue to rise

Also:

- US retail sales fell 1% in March
- Inflation is cooling at 4.9% year on year. Even 'shelter', which represents 34% of the index, and has, in the past, been a major source of inflation, is now a disinflationary force. One third of the month-on-month increase, of 0.4%, is attributable to used cars jumping 4.5% over the month
- Annualized GDP rose only 1.1% in Q1
- The ISM manufacturing PMI fell further into contraction territory, and all components dropped below the 50-mark for the first time since 2009: while manufacturing represents only 12% of GDP, historically, it has been a better indicator of the future direction of the US economy, rather than services.

As highlighted in our last newsletter, we believe that the US could already be in a recession, but we also believe that, if it is, it should be a shallow one. And do not forget that we are entering a 'presidential year': Democrats and the president will do their utmost to power the economy, with nobody in the Republican camp wanting to be responsible for a recession ahead of the election. But let's not forget: erratic Trump is back.

In Europe, GDP growth was led by France, Italy, and Spain, while Germany was a bit disappointing. Services should be boosted further in Summer, with the return of Asian tourists, and, in particular, by Chinese ones: last year, their absence was only partly compensated by Americans returning to international travel. Labour continues to be strong, along with business confidence, despite the on-going war on our doorstep. With energy prices falling, direct help from individual states*, and China finally awakening, we can expect a continuation of the economic expansion. Finally, we still expect a pan-European answer to the US Inflation Reduction Act, which should further accelerate investments in energy and technology.

*Germany, for example, has proposed to extend energy subsidies to 2030 for industrial companies.

China's economy has been disappointing: despite a surge in tourism during the Golden Week, (May 1st), with it essentially back to 2019 levels in terms of travelling, and a return to restaurants and some shopping, the rest of the economy has been lackluster after abandoning the Zero Covid Policy. Recent figures, like inflation weakening to a two-year low of 0.1%, a contracting manufacturing in April, but especially credit data, reinforced concerns over the sustainability of the recovery:

- Aggregate financing, a broad measure of credit, reached only 1.2 trillion Yuan, instead of the 2 trillion expected
- New household mid and long-term loans, a proxy for mortgages, declined for the first time in a year
- New household short-term loans, usually used for durable goods such as cars or other big-ticket items, contracted for the first time in 4 months
- Corporate loans, a proxy for businesses' willingness to invest, was at the lowest since October of last year

We thus expect decisive action and targeted incentives by the government to spur the economy, along with more central bank stimulus.

Central Banks

The US Federal Reserve, as expected, delivered a 25-bps rate hike, bringing the policy rate to a range of 5 to 5.25%, The Fed signaled a pause in rate hikes, and the market quickly went on to discount a rate cut in summer, and almost 2% worth of cuts by July of 2024, down to 3.25%. We think this is exaggerated. We continue to believe, as our central scenario, that the US will experience a soft landing, that the banking system will somehow be ring-fenced, and that an eleventh-hour agreement on the debt ceiling will be found. However, US politics has become increasingly volatile and polarised in recent years, and the return of 'candidate' Trump is obviously likely to accentuate that. If we want to find an indication of what could happen in case of no agreement, we must go back to Summer of 2011 and the 'debt ceiling crisis': financial markets experienced volatility last seen during the 2008 GFC, the S&P500 lost 17% in a matter of two weeks, and, along the way, Standard & Poor's stripped the country of its AAA rating. Back then though, market volatility was also obviously compounded by the European sovereign-debt crisis.

As expected, senior officer loan surveys, showed a tightening of credit conditions, and an increase in the spreads banks charge over their cost of funds: the market is doing the Fed's job, and this also points to a pause in rates. Where the central bank is facing a dilemma, contrary to the national figure of inflation discussed above, is in regional differences: in New York and Los Angeles, inflation is just above 4%, while it is above 9% in the Miami area.

The ECB, as expected, hiked its rates by 25-bps to 3.75%: we expect two more increases, with a terminal rate of 4.25%. We expect the Swiss National Bank to follow suit, increasing rates to a terminal rate of 2%.

The Bank of England also increased rates by 25-bps, to 4.5%. The situation in the UK, as we all know, is very particular, from the automatic indexing of many things, from energy, to student loans, from its dependence on imports, to domestic supply chain issues, inflation is likely to be much stickier and very elevated for much longer than in other developed countries.

The Bank of Japan stood out, with the new governor, Ueda, sticking to his predecessor's policy: yield curve control. As such, we now expect a change in monetary policy later in the year, that could send the YEN higher and bond yields soaring: inflation in the Tokyo area is reaccelerating again reaching 3.5% in April.

As mentioned in our last strategy update, authorities moved swiftly to contain the banking crisis, which was one of the factors in keeping our exposure unchanged. Over the last ten days, markets have begun repricing some of the above moves, with US stocks rotating out of technology mega caps, and back into cyclicals. In Europe, due to the dearth of technology stocks, the moves have been mostly out of defensives, such as Nestle or Danone, and healthcare stocks, and back into cyclicals and industrials.

We continue to prefer European equities over US ones.

We also believe that, as the banking crisis subsides, markets will once again be driven by fundamentals: the economy.

Financial Markets

All asset classes, including Gold, rose in April, delivering a positive month for multi-asset portfolios. The dollar weakened against the Euro and Sterling, whilst it rose against Asian currencies: the doubts about the health of China's economy reverberated across the region, along with the unchanged stance from the Bank of Japan. In equities, a clear bifurcation emerged between the positive performance of developed equities, and the negative performance of Chinese assets. Recent geopolitical tensions, with the US unveiling new curbs on AI chips, and the hesitancy of the domestic economy, pulled Chinese markets lower, led by its technology giants: the Hang Seng tech index lost almost 10%. In commodities and related equities, the impact was also felt strongly: copper fell 5.5% for the month, while mining giants Rio Tinto and BHP Group lost 8%. In European fixed income, subordinated bank debt has not yet recovered its levels of the pre–Silicon Valley Bank collapse and the Credit Suisse AT1 wipe out. However, debt new issuance by European banks, at attractive spreads, has returned, and has been very active: a clear sign of confidence, by both the issuers and investors, that the European situation is under control, contrary to the US.

Strategy

In view of the above comments, we decided to maintain our positioning: slightly underweight equities, overweight Europe, and Asia, and underweight the US. We own a partial protective "put", maturing in September, on European equities and we are long Gold.

During the month we started adding to European high yield. European high yield currently offers historically attractive characteristics:

- A yield of over 8.3%, of which 4% is coupon
- An average duration of just 3 years
- An average bond price of 87, that provides a large cushion in terms of convexity, even if a current default rate, of less than 1%, is likely to rise

Positioning

Overall Exposure
We are Underweight Equities, and Neutral Fixed Income, with a Gold position, partially USD and JPY hedged. Long a partial protection on European equities.

Equity: Underweight
We have a very sizeable Underweight in US equities and a very sizeable Overweight to Continental Europe, Neutral UK, Neutral Japan, Overweight Asia ex Japan.

Thematic Equities
European Family Holdings, Asian Technology, Health Improving Technologies and Services, European Cyclical Champions, the UN's 17 Sustainable Development Goals, Emerging Markets Healthcare.

Fixed Income: Neutral
Underweight Sovereigns, Overweight Investment Grade USD and EUR Bonds.

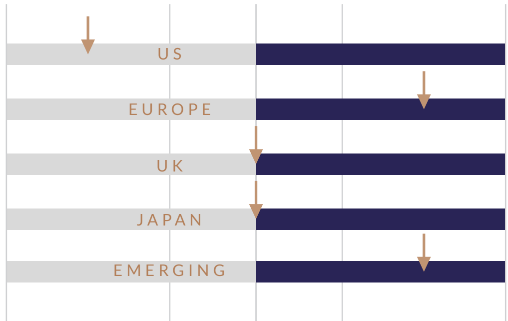
Thematic Fixed Income
Long High Yield in EUR , Long US Municipal Infrastructure Bonds, Long Hybrids, long Financial Credit and Long Asian Bonds.

Currencies: Portfolios have a 5% USD exposure.

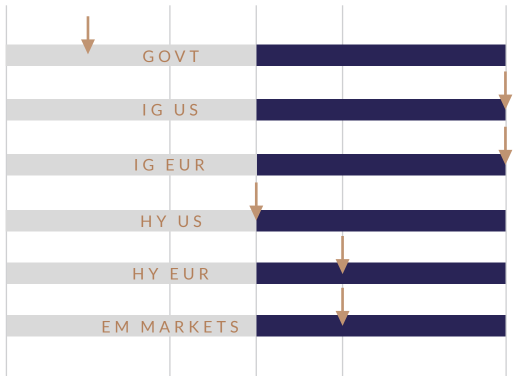
Commodities: Overweight
Long Gold.

Conviction thermometer

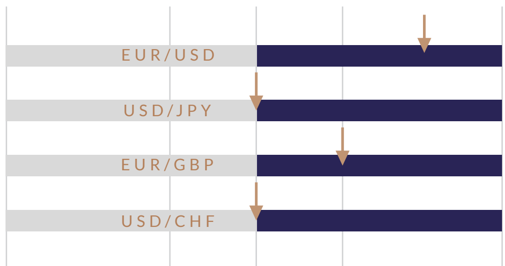
Equities



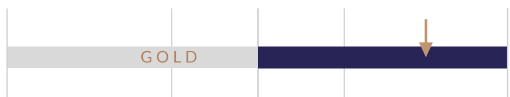
Bonds



Currencies



Commodities



Negative view Positive view

Market overview as of 28th April 2023

Equities (local ccies)	Level	5D	MTD	YTD	2022
MSCI WORLD	2 835,93	0,55%	1,80%	9,84%	-17,71%
GERMANY DAX	15 922,38	0,26%	1,88%	14,36%	-12,35%
FRANCE CAC40	7 491,50	-0,44%	3,04%	16,84%	-6,71%
UK FTSE100	7 870,57	-0,47%	3,41%	7,08%	4,57%
BELGIUM BEL20	3 801,81	-0,25%	0,62%	3,24%	-11,47%
SWISS MARKET INDEX	11 437,14	0,27%	4,14%	9,44%	-14,29%
EUROPE EURO STOXX 50	4 359,31	-0,53%	1,79%	16,36%	-8,55%
US S&P500	4 169,48	0,89%	1,56%	9,16%	-18,13%
NASDAQ 100	13 245,99	1,89%	0,52%	21,40%	-32,38%
RUSSELL 2000	1 768,99	-1,24%	-1,80%	0,88%	-20,46%
JAPAN TOPIX	2 057,48	1,10%	2,70%	10,14%	-2,48%
MSCI EMERGING	977,05	-0,27%	-1,12%	2,85%	-19,81%
BRAZIL IBOVESPA	104 431,63	0,06%	2,50%	-4,83%	4,69%
MEXICO MEXBOL	55 121,22	1,82%	2,44%	14,15%	-5,77%
HS TECH	3 901,52	-1,72%	-9,25%	-5,39%	-26,66%
CHINA CSI 300	4 563,77	-0,06%	-0,50%	4,14%	-19,83%
INDIA SENSEX	61 112,44	2,47%	3,63%	0,65%	5,77%
KOREA KOSPI	2 663,34	-1,68%	1,00%	12,07%	-23,21%
HONG KONG HANG SENG	19 894,57	-0,90%	-2,44%	0,99%	-12,56%
AUSTRALIA ALL-SHARE	4 283,83	-0,25%	3,35%	6,53%	0,23%
SAUDI ARABIA TADAWUL	N.A.	0,96%	6,55%	8,66%	-4,96%

US: Sectors	Level	5D	MTD	YTD	2022
COMMUNICATION SVCS	198,35	3,76%	3,78%	25,05%	-39,89%
CONSUMER DISCRETIONARY	1 152,42	0,21%	-0,95%	14,95%	-37,03%
CONSUMER STAPLES	807,20	1,08%	3,60%	4,45%	-0,62%
ENERGY	655,20	0,36%	3,30%	-1,56%	65,43%
FINANCIALS	551,42	-0,12%	3,18%	-2,56%	-10,57%
HEALTH CARE	1 555,39	-0,59%	3,07%	-1,37%	-1,95%
INDUSTRIALS	846,11	-0,62%	-1,18%	2,24%	-5,51%
INFORMATION TECHNOLOGY	2 649,95	2,43%	0,45%	22,37%	-28,19%
MATERIALS	507,06	-0,19%	-0,14%	4,14%	-12,28%
REAL ESTATE	236,74	1,52%	0,97%	2,86%	-26,21%
UTILITIES	350,26	-0,94%	1,87%	-1,44%	1,56%

EUROPE: Sectors	Level	5D	MTD	YTD	2022
BASIC MATERIALS	2 871,73	-1,12%	0,01%	-0,24%	-2,41%
CONSUMER GOODS	4 461,83	0,13%	4,17%	9,09%	-7,73%
CONSUMER SERVICES	1 547,30	-0,67%	2,23%	22,46%	-15,22%
FINANCIALS	807,02	-0,31%	3,96%	9,05%	-1,93%
HEALTH CARE	3 583,72	-1,32%	4,77%	9,80%	-3,72%
INDUSTRIALS	3 371,16	1,00%	1,61%	15,33%	-18,88%
OIL & GAS	1 487,47	0,69%	4,24%	3,51%	30,59%
TECHNOLOGY	1 484,64	-1,18%	-4,96%	16,17%	-25,49%
TELECOMS	578,62	0,99%	1,92%	16,69%	-13,24%
UTILITIES	2 097,83	0,96%	4,41%	13,29%	-6,99%

WORLD: Styles	Level	5D	MTD	YTD	2022
QUALITY	3 563,98	1,06%	2,14%	12,91%	-22,21%
MOMENTUM	3 265,15	-0,01%	2,88%	1,51%	-17,79%
VALUE	11 370,10	0,10%	1,91%	2,85%	-6,52%
GROWTH	8 024,93	0,94%	1,60%	16,95%	-29,21%
VOLATILITY	8 332,46	0,65%	2,66%	8,89%	-15,74%
SIZE	7 707,79	0,13%	1,32%	7,52%	-15,74%
DIVIDEND	4 655,09	0,50%	1,55%	6,94%	-9,62%

Fixed Income	Level	5D	MTD	YTD	2022
Pan-Euro 3-5 yrs IG	196,23	0,76%	0,32%	1,84%	-11,37%
Euro Aggregate	226,48	1,02%	0,13%	2,22%	-17,18%
Pan-Euro HY Hedged Eur	384,61	0,08%	0,48%	3,25%	-10,72%
Global Inflation hedged EUR	237,81	0,38%	-0,93%	2,02%	-18,94%
US Corp High Yield	2 286,64	0,49%	1,00%	4,60%	-11,19%
EM USD Aggregate TR	1 100,90	0,72%	0,39%	2,55%	-15,26%
EM Aggregate TR Local Ccy	141,05	0,01%	-0,05%	3,05%	-8,44%
EUR Banks CoCo Tier 1	126,13	-0,52%	1,01%	-7,86%	-12,63%
EU GOVT HEDGED EUR	203,68	0,99%	-0,39%	1,94%	-20,38%
Global Aggregate	2 266,23	0,74%	0,44%	3,46%	-12,46%

Commodities	Level	5D	MTD	YTD	2022
GOLD	1 990,00	0,35%	1,05%	9,10%	-3,64%
COPPER	387,00	-2,76%	-5,48%	1,56%	26,84%
OIL WTI	76,78	-1,40%	1,47%	-4,34%	55,01%
OIL BRENT	79,54	-2,60%	-0,29%	-7,41%	50,15%

Currencies	Rate	5D	MTD	YTD	2022
EURUSD	1,1019	0,30%	1,66%	2,93%	-6,93%
GBPUSD	1,2567	1,09%	1,86%	4,01%	-1,01%
USDJPY	136,30	1,60%	2,59%	3,95%	11,46%
USDCHF	0,8946	0,26%	-2,26%	-3,23%	3,13%
AUDUSD	0,6615	-1,15%	-1,05%	-2,91%	-5,60%
EURCHF	0,9854	0,49%	-0,68%	-0,42%	-11,08%
USDCNY	6,4583	0,39%	0,65%	0,29%	5,28%
USDKRW	1 106,85	0,81%	2,88%	6,24%	4,22%
USDINR	81,83	-0,32%	-0,42%	-1,09%	9,13%
USDIDR	14 674	-2,02%	-2,15%	-5,77%	7,42%
USDBRL	4,9878	N.A.	-1,50%	-5,64%	7,26%
USDTRY	19,4515	0,27%	1,41%	3,96%	78,81%
BITCOIN	29 355	7,64%	3,38%	77,06%	-64,30%

16.05.2023

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