APRICUS FINANCE

WEALTH MANAGEMENT

June 2023

May: Gyrations

May was characterized by volatility due to:

- Persistent concerns about US regional banks
- Wrangling on the US debt-ceiling, whereby a deal was eventually found shortly before the early June deadline
- Expected future moves by central banks, implying higher terminal rates
- Weaker economic data in Europe, (particularly in Germany), and the US, and fears of inflation being out of control in the UK
- The permanent hope and disenchantment for a massive stimulus package in China
- The Artificial Intelligence (A.I.) craze sparked by Nvidia's results

The result has been:

- A massive rotation out of 'defensives' stocks into anything that smelled of A.I., with the tech-heavy Nasdaq 100 up 7.7% on the month, while Nestlé lost 6% and Unilever 7%
- The MSCI world lost close to 1%
- A repricing of the bond market, with the global aggregate bond index losing 2%, while the Sterling aggregate sank over 3%: that aggregate is now massively underperforming, and is down 4% since the beginning of the year, versus up 2% for the Euro or US ones
- The euro weakened by 3% against the usd
- The market is now pricing a 50% chance that UK rates will be at 6% by year-end versus 4.25% currently
- The Chinese domestic market lost 5.5%, the Hang Seng tech index lost 7%; the yuan weakened by 3%
- Crude oil (WTI) lost 11%
- Two bright spots:
    - European High Yield edged up 0.7%, (see our last paper)
    - Japanese equities outperformed all other developed markets, with the broad based TOPIX gaining 3.6%

Equities: here comes the A.I. craze

While analysts are divided as to how much the A.I. craze could continue to help pull up US equity markets, we believe that probably most of the rocket-fuel has now burned, and that for the US market to advance further we need more broad-based participation. After the latest burst higher in the US technology mega-caps, on average, Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia and Tesla are up over 80% for the year. Apple's market capitalization is now equivalent to the Russel 2000 small cap index. Without technology the S&P500 would only be slightly positive or even negative, depending on what you include. In Europe, the picture is totally different. Broad-based participation, with the Eurozone outperforming the UK and Switzerland, with only two sectors down for the year, on the lack of demand from China: materials and oil & gas.

Global Economy and Central Banks

From recession relief to inflation relief? For Europe and the US, the answer is yes for the second statement, and maybe, later on, also yes for the first one. The signals we receive from markets and published economic figures are mixed at best. While globally the manufacturing sector has been flashing red since last year, the situation is different in the US and in Europe.

In the US, the mighty consumer is supporting the economy. However, there are increasing signs that the economy is getting increasingly bifurcated, or a K-shaped recovery, between the higher-income consumers and lower- middle-income ones. The housing market would typically be a leading indicator for the US consumer and the economy, however, this time around, the numbers might be a misleading indicator, as there are conflicting figures: new home sales are trending higher again, despite elevated mortgages, but there is also a dramatic decline in the number of existing homes being placed on sale, increasing the housing shortage, and making demand appear stronger than what it really is. Major consumer companies are also giving conflicting signals: companies catering to lower-income consumers such as Target and Dollar General lowered its guidance, while a company such as Lululemon boosted its guidance. Consumers are certainly splurging in travel, as, for example, with American Airlines, that also raised its guidance.

The main source of economic optimism has been the labor market. Recent unemployment figures also do not add up: the business survey indicated that a massive 339'000 jobs had been created, at the same time the unemployment rate, a household survey, rose from 3.4% to 3.7%. Inflation is obviously declining: the headline rate declined from 4.9% to 4%. The real figure is probably lower than that: shelter, the biggest component of the index (because of the way it is calculated) has a lagged effect on the figure.

At its last meeting, the Federal Reserve paused its hiking cycle: at the same it predicted a further 50 bps in rate hikes for 2023, and bigger cuts for 2024 and 2025. Just one month ago the market was implying rate cuts at its 2023 June or July meeting, and a further 125bps cut within one year.

We claimed that the market was too optimistic about so many rate cuts, similarly, we now believe that the central bank will not restart the rate hikes until later this year. The odds of a soft landing has thus increased, while the probability of a 'monetary mistake' has just increased substantially.

In Europe, it is not the consumer who is bifurcating but rather the economies.

While the Eurozone GDP figure showed a slight contraction of 0.1% for Q1, manufacturing heavy Germany and its neighbor The Netherlands showed a contraction of respectively 0.3 and 0.7%. On the other hand, France had growth of 0.2%, while 'Club Med' countries Spain, Italy and Portugal saw GDP rise between 0.5% and 1.6%.

The historic bifurcation between the manufacturing and services sector should increase, as the summer season gets underway, with large numbers of Asians and North Americans coming to Europe. This should boost those countries with a heavy exposure to tourism.

European consumer confidence, heavily affected last year by the Russian invasion, is rebounding sharply. Post-pandemic, we know that bad consumer confidence does not necessarily lead to less shopping. At the same time, another survey also sees a sharp rebound in intended large ticket item purchases. Europe will thus likely avoid a recession, at least until winter.

With inflation getting under control, this probably leaves the European Central Bank with just one rate hike for this cycle, with a terminal rate of 4.25%.

The UK continues to be a different battleground and on its own. Recent data showed that wages increased by 7.2% on a yearly basis, still below headline inflation at 8.7%. However, more worryingly, several placement agencies indicate that for new jobs, wage increases are around 10%. This is bad news, as it risks becoming self-feeding: wages rise, therefore goods and services increase.

The market reacted immediately by selling off the bond market: the market is now implying there is a 50% chance of seeing interest rates at 6% before year-end, up from the current 4.5%.

The forgotten market: Japan, back from the abyss

After years of divestments and underperformance, in 2022 the Japanese market stagnated at -5% rather than dropping 18% like the MSCI world. In 2023 we are witnessing a renaissance, with the broad based TOPIX up 23% year-to-date, touching a 33-year high, and sparking renewed interest from foreigners.

When Abenomics was introduced in 2013, raising hopes of reforms in corporate governance of Japanese companies, it turned out to be a false dawn in 2013.

Recently the Tokyo Stock Exchange introduced new rules for corporate governance, which are both game-changing and share-holder friendly. Among several measures, there is one that specifically targets capital efficiency: companies must explain or 'comply' if they are trading at a price-to-book ratio below one. The exchange warned such companies that they could face forced delisting by 2026. Also, part of those rules requires the companies to demonstrate how they have engaged investors and to begin publishing public disclosures in English.

Japanese companies have historically been hoarding cash.

Concretely, companies can easily improve their price-to-book ratio by distributing cash by means of increased dividends or utilising cash for share buy-backs.

Moreover, after years of deflation Japan loves inflation.

Prime minister Kishida publicly put pressure on corporations to boost salaries as part of his "New Capitalism" push for broader income distribution. Many Japanese workers, who had little or no growth in pay for decades, are now promised bigger pay-checks following recent labor negotiations. Fast Retailing in January announced pay-raises of up to 40% for full-time employees. Nintendo and Toyota Motor Corp. followed suit.

A prominent endorsement of the measures taken by Japan, has raised the awareness of Western media and investors: Eg. Berkshire Hathaway's Warren Buffett.

Buffett revealed in May that he had raised his stakes in five Japanese trading firms to 7.4% after an April visit to Japan. He also said that the company might increase its investments in Japan further.

As a side note for our readers, we would like to highlight the difference between the two main Japanese indices: the TOPIX and the Nikkei 225.

The Nikkei, as with the Dow Jones in the US, is price based: the higher the price of a stock, the bigger its weight in the index. The TOPIX. Instead, is market-cap based. As a result, the biggest weight in the Nikkei is Fast Retailing, with a weight of almost 11%. The same company has only a weight of 0.5% in the 2100-members TOPIX, where the biggest member is Toyota, at 3.5%.

China: failure to launch post ZCP

After the initial enthusiasm for the end of the Zero Covid Policy in December 2022, foreign investors and local consumers are disenchanted. At Apricus, we have been waiting for a massive stimulus package, along with monetary measures, since the end of last year. The only thing we got until today were interest rate cuts, which had little to no effect in reanimating the economy.

Most of the recently published indicators show a slowdown in the economy. Business and consumer confidence remains weak, households are reluctant to borrow, inflation is near zero and exports are contracting as the global economy slows. And China is now teetering on the brink of deflation.

Over the last couple of weeks there is however renewed hope, that finally something bigger could be announced to address the issues.

The new stimulus package under consideration has apparently been drafted by multiple government agencies, and includes at least a dozen measures designed to support areas such as real estate and domestic demand.

A key component is support for the real estate market. Regulators are seeking to lower costs on outstanding residential mortgages and boost relending through the nation's policy banks, to ensure homes under construction are finished and delivered, or that already paid/mortgaged projects finally start construction.

China's State Council and the Politburo meet in July and will review the country's economic performance in the first half of the year.

In view of the quick deterioration of the economic conditions, we might receive a package before these meetings. A social disaster is also looming if nothing is done: youth urban unemployment just hit an all-time high of almost 21%.

The stock market is already anticipating such a move: the Hang Seng China Enterprise index is already up 11% in June, with the Hang Seng TECH index up 17%.

Strategy

In May we didn't make any change to our asset allocation. In view of the above comments, we will carefully monitor any announcement coming out of China, and, more generally, review our exposure to Asia and Japan. Our current allocation to Japanese equities is slightly overweight, mostly currency hedged. Our current positioning: slightly underweight equities, overweight Europe, and Asia, and underweight the US. The partial equity protection on European equities, maturing in September, is now almost worthless. We are long Gold.

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.

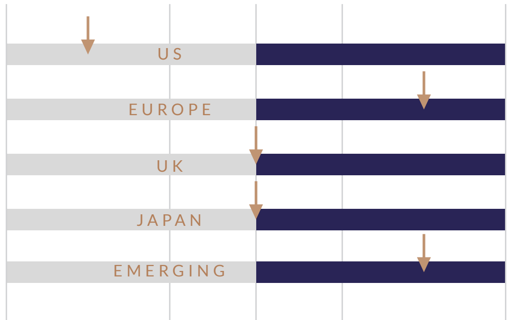
Currencies: Portfolios have a 5% USD exposure.

Commodities: Overweight

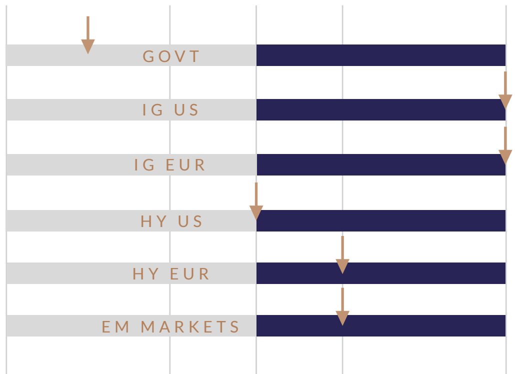
Long Gold.

Conviction thermometer

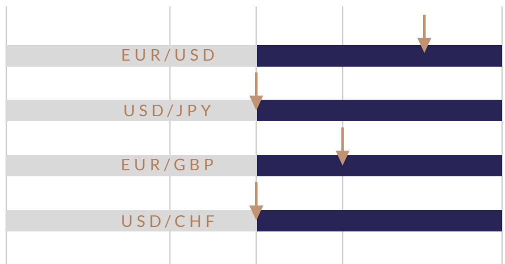
Equities



Bonds



Currencies



Commodities

Negative view Positive view

Market overview as of 31st May 2023

Equities (local ccies)	Level	5D	MTD	YTD	2022
MSCI WORLD	2 800,56	0,47%	-0,93%	8,82%	-17,71%
US S&P500	4 179,83	1,61%	0,43%	9,64%	-18,13%
NASDAQ 100	14 254,09	4,79%	7,73%	30,79%	-32,38%
RUSSELL 2000	1 749,65	-0,94%	-0,93%	-0,06%	-20,46%
EUROPE EURO STOXX 50	4 218,04	-0,92%	-1,86%	14,20%	-8,55%
GERMANY DAX	15 664,02	-1,12%	-1,62%	12,50%	-12,35%
FRANCE CAC40	7 098,70	-1,66%	-3,86%	12,33%	-6,71%
BELGIUM BEL20	3 536,79	-2,92%	-5,13%	-2,05%	-11,47%
SWISS MARKET INDEX	11 217,89	-1,38%	-1,62%	7,66%	-14,29%
UK FTSE100	7 446,14	-2,34%	-5,04%	-1,69%	4,57%
JAPAN TOPIX	2 130,63	-1,01%	3,56%	14,07%	-2,48%
MSCI EMERGING	958,53	-1,21%	-1,66%	1,15%	-19,81%
BRAZIL IBOVESPA	108 335	-0,43%	3,74%	-1,28%	4,69%
CHINA CSI 300	4 563,77	-1,46%	-5,56%	-1,65%	-19,83%
HS TECH	3 626,73	-3,93%	-6,97%	-11,98%	-26,66%
INDIA SENSEX	62 622,24	1,52%	2,86%	3,53%	5,77%
KOREA KOSPI	2 663,34	0,38%	3,02%	15,46%	-23,21%
HONG KONG HANG SENG	18 234,27	-4,58%	-7,85%	-6,94%	-12,56%
AUSTRALIA ALL-SHARE	4 066,80	-2,13%	-4,72%	1,49%	0,23%
SAUDI ARABIA TADAWUL	11 014,13	-1,89%	-1,98%	6,86%	-4,96%

US: Sectors	Level	5D	MTD	YTD	2022
COMMUNICATION SVCS	210,66	2,03%	6,21%	32,81%	-39,89%
CONSUMER DISCRETIONARY	1 188,05	1,76%	3,21%	18,64%	-37,03%
CONSUMER STAPLES	757,09	-1,41%	-6,08%	-1,89%	-0,62%
ENERGY	585,66	-4,92%	-10,04%	-11,44%	65,43%
FINANCIALS	526,72	-0,33%	-4,32%	-6,77%	-10,57%
HEALTH CARE	1 486,29	-1,04%	-4,29%	-5,60%	-1,95%
INDUSTRIALS	816,88	-0,48%	-3,16%	-0,99%	-5,51%
INFORMATION TECHNOLOGY	2 896,25	6,75%	9,46%	33,95%	-28,19%
MATERIALS	471,02	-1,47%	-6,85%	-2,99%	-12,28%
REAL ESTATE	225,76	2,42%	-4,51%	-1,77%	-26,21%
UTILITIES	327,97	-0,82%	-5,87%	-7,22%	1,56%

EUROPE: Sectors	Level	5D	MTD	YTD	2022
BASIC MATERIALS	2 703,98	-1,43%	-5,30%	-5,53%	-2,41%
CONSUMER GOODS	4 174,33	-3,60%	-6,09%	2,44%	-7,73%
CONSUMER SERVICES	1 478,71	-0,40%	-3,38%	18,33%	-15,22%
FINANCIALS	777,95	-1,33%	-1,67%	7,24%	-1,93%
HEALTH CARE	3 524,89	-1,57%	-1,02%	8,68%	-3,72%
INDUSTRIALS	3 333,29	0,19%	-0,57%	14,67%	-18,88%
OIL & GAS	1 367,41	-5,70%	-7,44%	-4,18%	30,59%
TECHNOLOGY	1 600,28	4,50%	8,36%	25,88%	-25,49%
TELECOMS	543,94	-2,51%	-5,85%	9,87%	-13,24%
UTILITIES	2 020,86	-0,86%	-2,94%	9,96%	-6,99%

Market overview as of 31st May 2023

Fixed Income	Level	5D	MTD	YTD	2022
Pan-Euro 3-5 yrs IG	196,81	0,69%	0,29%	2,14%	-11,37%
Euro Aggregate	227,30	1,15%	0,36%	2,59%	-17,18%
Pan-Euro HY Hedged Eur	387,11	0,16%	0,65%	3,92%	-10,72%
Global Inflation hedged EUR	233,21	0,30%	-1,94%	0,05%	-18,94%
US Corp High Yield	2 264,90	0,32%	-0,92%	3,64%	-11,19%
EM USD Aggregate TR	1 260,87	0,54%	-0,75%	1,78%	-15,26%
EM Aggregate TR Local Ccy	139,04	-0,86%	-1,43%	1,58%	-8,44%
EUR Banks CoCo Tier 1	128,10	0,39%	1,57%	-6,42%	-12,63%
EU GOVT HEDGED EUR	202,96	1,12%	-0,36%	1,58%	-20,38%
Global Aggregate	2 554,99	0,24%	-1,95%	1,44%	-16,25%

Commodities	Level	5D	MTD	YTD	2022
GOLD	1 962,73	0,28%	-1,37%	7,60%	-3,64%
COPPER	363,70	2,35%	-6,02%	-4,55%	26,84%
OIL WTI	68,09	-8,41%	-11,32%	-15,16%	55,01%
OIL BRENT	72,66	-7,27%	-8,65%	-15,42%	50,15%

Currencies	Rate	5D	MTD	YTD	2022
EURUSD	1,07	-0,57%	-2,99%	-0,15%	-6,93%
GBPUSD	1,24	0,61%	-1,00%	2,96%	-1,01%
USDJPY	139,34	-0,09%	2,23%	6,27%	11,46%
USDCHF	0,91	0,64%	1,80%	-1,49%	3,13%
AUDUSD	0,65	-0,63%	-1,69%	-4,55%	-5,60%
EURCHF	0,98	0,04%	-1,22%	-1,63%	-11,08%
USDCNY	7,11	0,67%	2,83%	3,04%	5,28%
USDKRW	1 318,40	0,67%	-0,91%	N.A.	4,22%
USDINR	81,43	0,07%	1,09%	-0,01%	9,15%
USDIDR	14 993,00	0,59%	2,20%	-3,69%	7,42%
USDBRL	5,06	1,92%	1,36%	N.A.	7,26%
USDTRY	20,76	4,35%	6,74%	10,97%	78,81%
BITCOIN	27 117,10	2,71%	-7,60%	63,56%	-64,30%