APRICUS FINANCE

WEALTH MANAGEMENT

September 2023

August: A Tale Of Two Halves

Volatility increased markedly in August, albeit from an historical low level, as is often the case due to lower liquidity in financial markets. Renewed worries about the Chinese real estate sector, weak macroeconomic data from the same country, and fears of higher interest rates for longer, sparked a sell off in both fixed income and equities during the first two weeks of the month. 10-year USD yields moved from 3.95 to 4.35%, with the MOVE bond volatility index jumping from 110 to 130. Equities (MSCI world) dropped 5.3% over the same timeframe, led lower by large cap technology stocks, with the Nasdaq 100 falling 6.7%, the MSCI world dropping 5.3%, and the VIX volatility index jumping from 13 to 18%.

Reassuring macroeconomic data in the US, where more evidence that the job market is healthily rebalancing, the pause by the US Federal Reserve, and comments that the latest ECB hike could be the last, helped turn the tide: the Nasdaq 100 recovered most of its losses to close the month only 1.5% lower, as the MSCI world closed at -2.3%.

In commodities, with rising yields, Gold lost 1.3%, crude oil rose over 2%, as Saudi Arabia and Russia show no signs of increasing output, while the media focused on the price of gas in Europe, which at a certain point jumped 50%, on the back of the prospect of strikes in Australia, which could disrupt 10% of world LNG exports. Gas prices eventually closed 'only' 23% higher for the month. Unless there is abnormally severe weather in Europe, this year it is not a problem. First, gas prices are far below the levels of last year at the same time of the year: 35 EUR versus 240 per MWh. Second, Europe moved early to avoid a problem and the energy scare of 2022: gas storage in Europe is already almost full at 94%, versus 83% when the continent was frantically trying to fill its reserves at sky high prices, and well above the historical average of 74%.

Economy: hard data versus soft data

Soft data coming from surveys continued to deteriorate. In most developed economies, manufacturing PMI surveys have been sending softer and contractionary data for about a year. Services PMIs have recently turned contractionary in Europe, while they are just above the expansion line in the US.

Hard data, such as consumer spending, capital expenditure, also as a result of onshoring and reshoring spending, due to huge fiscal and political initiatives, both in Europe as well as in the US, both indicate that the economy is doing fine. Companies' results, (although backward looking), and forecasts, are also not consistent with a recession in Europe, and one in the near term in the US. In Europe, as we discussed in the past, several countries such as Spain or even France are doing fine, and we do not dispute the fact that Germany is facing trouble, as it failed to modernize its economy, and is belatedly trying to remedy the situation.

So, what is the issue with surveys? For once we know that fewer people and companies are answering them. In the US less than 40% of companies are answering the PMI surveys compared to roughly 60% pre-pandemic. About the same is true for people's surveys. Could there be response bias from those who do answer? Goldman Sachs Research found that 'in periods of heightened uncertainty, survey data can be biased downward by weak sentiment and falling prices, even as hard data remains in expansionary territory. Could that be that fewer respondents amplify that bias?

To make a case in point, let us look at a country we know well: Switzerland.

Switzerland is both an export led manufacturing, as well as a services country. We acknowledge that some companies might be missing the traction from China, however the composite PMI, (services and manufacturing), is consistent with a recession since early 2023, even

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a deep one, as it is at the same level as in the middle of the pandemic, in Q2 2020, or a level last seen during the 2008-09 crisis.

Consumer confidence on its side has recovered from the historical depths of September 2022, and the peak of the energy scare, but has stabilized since the beginning of the year at the same level it was at the worst point of the 2008-09 crisis, thus as well consistent with a deep recession.

On its side the KOF indicator of economic expectations, calculated by statisticians and economists, using a wide array of real activity data, current and future, is consistent with an economy growing by 0.5 to 1%, which is quite normal for the country.

Global Economy

Recent job data in the US reinforced our view that the economy is travelling towards a soft landing:

- The unemployment rate rose to 3.8%.
- This is actually good news: the rate rose because the participation rate of 'prime age' workers, (25 to 54 years old), increased to well above pre-pandemic levels, mostly led by women.
- One reason could be that an increasing number of people are attracted by the higher wages. Another one because of the K-shaped consumer we discussed in the past: despite inflation becoming under control, many families are facing higher bills then pre-pandemic for food and school tuition for example, there is the return of student debt payments, record credit card indebtedness or gasoline prices at the pump approaching the level of 4 USD per gallon. Both parents might be forced to work to make ends meet.
- This is good news for wage inflation. As the number of available jobs is dropping quickly towards pre-pandemic levels, a higher number of people seeking a job means less leverage in wage negotiations. Good news for inflation in general and good news for the central bank: as inflation goes down, real rates go up, which means the central bank can lower rates while keeping the same restrictive policy on the economy. And that's good news for the financial markets.

Determining the trajectory of US retail spending, which is 70% of US GDP, is a conundrum over the next few months. Many companies mentioned increased shrink, (the term used by companies for losses related to shoplifting, employee theft and damaged goods), and 'worrying' increases in delinquencies on store credit cards: that could suggest that the lower income customer is facing difficult economic times. At the same time, retail spending increased over the summer. The entire increase was due to two movies, (Barbie and Oppenheimer), and concerts, (Taylor Swift and Beyoncé), with spending estimated at 8.5 billion USD: Was it an act of 'let's indulge ourselves for the last time?'. While socially a depressed lower income class might be a problem, and we are just ahead of a presidential race, it is the higher income customer who pulls the economy.

In Europe, along with Germany, the UK is the sick man of the continent. While in the Eurozone unemployment dropped to 6.4%, which is good news when compounded with very high levels of savings: if your job is safe, you are more likely to spend your extra savings. In the UK the rate rose. Unemployment rose to 4.3% but for the wrong reasons: the labor force, which had recovered its pre-pandemic numbers over the summer, lost over 200'000 people. The central bank, in its effort to cool inflation, is probably pushing the economy into recession. At the same time wages increased by a record 7.8%. The good news: real wages are again positive. The bad news: the central bank might be forced to act to slow down the economy even further.

In China many observers, including us, expected the government to act with the 'bazooka' to reinvigorate the economy. Instead, we are getting constant little steps: some of them are better received, such as lower upfront payments for property purchases or lower rates for existing mortgages, while other steps in key lending rates less so. While we didn't get a massive stimulus, policy tailwinds are gathering momentum, and recent data indicate that Beijing's policies are starting to bear fruit. Looking at equity flows, it appears that domestically peak pessimism is behind us, as investors return to the market, while foreign investors remain unconvinced.

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Strategy

Ou central scenario continues to be that:

- The US will achieve a soft landing, inflation will slowly move towards target, and the central bank is done with hiking, and will be able to start cutting rates in spring.
- The Eurozone will avoid a recession, however economically it is likely to resemble a patchwork, both for inflation and growth: Germany and the Netherlands will likely enter one, while Italy will straddle the zero-growth line. Inflation in Europe is likely to be higher than target in 2024, however the ECB is likely done with hiking, as food prices, for example, are non-interest sensitive. The ECB will start to lower rates by late summer, and not spring as the market implies.
- China looks like it is finally managing to pull its economy from the doldrums. That should help Chinese and regional markets, and finally draw interest from foreign investors again.
- Japan is facing a reflationary dynamic it has waited to see for the last 30 years. It is uncertain whether the Bank of Japan will intervene to curb YEN weakness at the 150 level like last autumn.
- As the world economy is expected to improve in 2024, we think that earnings revisions should continue higher. In the US profit margins have been declining since 2021: we expect some stabilization. In Europe they have been stable to higher, we expect further improvement, particularly if China stabilizes.
- We are thus positive for the performance of the classic 50/50 portfolio over the next couple of quarters.
- The revival of the IPO market with listings such as ARM holdings, Instacart, Birkenstock, if successful is likely to further lend support to equity markets.

In commodities we are still looking to have an exposure to Agriculture. The difficulty is in identifying the appropriate index, on which investment banks are ready to structure products. We have seen several iterations but are still looking for the appropriate one.

Asset Allocation Changes

We decided to exit the Emerging Market Healthcare thematic, which was implemented in December 2021. The thematic of the aging Asian population is still very much alive and appealing. However, similarly to other forward-looking or secular change thematics such as clean energy:

- The performance has been disappointing.
- Earnings have been coming below initial expectations and might grow later rather than sooner.
- Earnings expectations have thus been reduced.
- The sector started to re-rate, but it is still trading at a rather expensive level: at 40 times present and 33 times the forward earnings.

Of note, the vehicle we chose for the thematic performed absolutely in line with its benchmark.

In Fixed Income we decided to trim by 3% our overweight exposure to European Investment Grade credit, in view of the large outperformance versus treasuries year-to-date, and are investing the proceeds into short-term sovereign bonds (1 to 3 years).

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Positioning

Overall Exposure

We are slightly Underweight Equities, and Neutral Fixed Income, with a Gold position, partially USD and JPY hedged.

Equity: Slight Underweight

We have a very sizeable Underweight in US equities, and a very sizeable Overweight to the Eurozone, Neutral US technology, Neutral UK, Overweight Japan, Overweight Asia ex Japan.

Thematic Equities

European Family Holdings, Asian Technology, Health Improving Technologies and Services, European Recovery, Megatrends.

Fixed Income: Neutral

Underweight Sovereigns, Overweight Investment Grade USD and EUR Bonds.

Thematic Fixed Income

Overweight High Yield in EUR and Underweight in USD. Overweight Investment Grade EUR and USD Bonds, Underweight Sovereigns. Long US Municipal Infrastructure Bonds, Long Hybrids, Long Financial Credit & Long Asian Bonds.

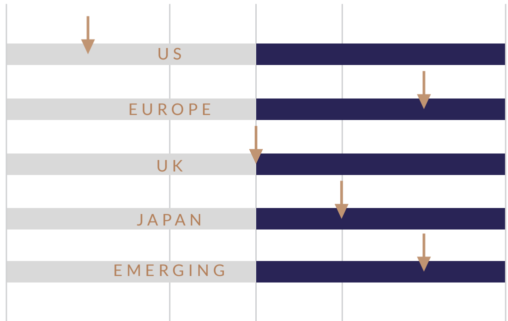
Currencies: Portfolios have a 5% USD exposure.

Commodities: Overweight

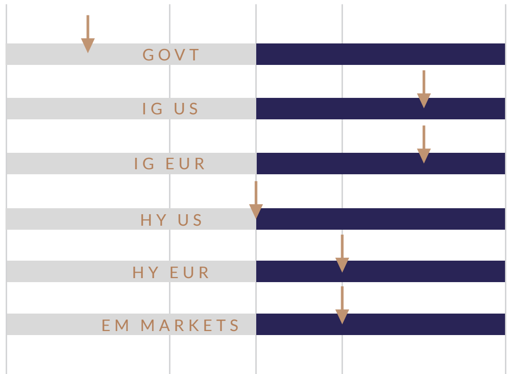
Long Gold.

Conviction thermometer

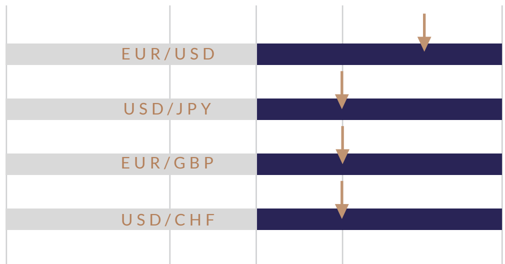
Equities



Bonds



Currencies



Commodities

Negative view   Positive view

Market overview as of 31st August 2023

Equities (local ccies)	Level	5D	MTD	YTD	2022
MSCI WORLD	2 986,02	2,80%	-2,35%	16,55%	-17,71%
US S&P500	4 507,66	3,06%	-1,59%	18,72%	-18,13%
NASDAQ 100	15 501,07	4,65%	-1,50%	42,53%	-32,38%
RUSSELL 2000	1 899,68	2,94%	-5,01%	8,93%	-20,46%
EUROPE EURO STOXX 50	4 297,11	1,53%	-3,82%	16,65%	-8,55%
GERMANY DAX	15 947,08	2,08%	-3,04%	14,53%	-12,35%
FRANCE CAC40	7 316,70	1,42%	-2,42%	16,13%	-6,71%
BELGIUM BEL20	3 665,97	1,29%	-2,86%	1,73%	-11,47%
SWISS MARKET INDEX	11 125,95	1,36%	-1,62%	6,80%	-14,29%
UK FTSE100	7 439,13	1,45%	-2,61%	2,78%	4,57%
JAPAN TOPIX	2 332,00	2,01%	0,43%	25,05%	-2,48%
MSCI EMERGING	980,33	-0,19%	-6,14%	4,80%	-19,81%
BRAZIL IBOVESPA	115 742	-1,10%	-5,09%	5,47%	4,69%
CHINA CSI 300	4 563,77	1,23%	-6,02%	-0,55%	-19,83%
HS TECH	4 179,49	0,52%	-8,14%	1,66%	-26,66%
INDIA SENSEX	64 831,41	-0,65%	-2,33%	7,77%	5,77%
KOREA KOSPI	2 663,34	0,73%	-2,89%	14,85%	-23,21%
HONG KONG HANG SENG	18 382,06	1,04%	-8,23%	-4,36%	-12,56%
AUSTRALIA ALL-SHARE	4 059,53	1,57%	-2,59%	2,46%	0,23%
SAUDI ARABIA TADAWUL	11 491,20	0,77%	-1,06%	12,64%	-4,96%

US: Sectors	Level	5D	MTD	YTD	2022
COMMUNICATION SVCS	229,72	4,20%	-0,37%	45,16%	-39,89%
CONSUMER DISCRETIONARY	1 344,81	4,83%	-1,17%	34,63%	-37,03%
CONSUMER STAPLES	763,99	1,19%	-3,57%	-0,25%	-0,62%
ENERGY	677,49	2,79%	1,81%	3,27%	65,43%
FINANCIALS	570,68	1,62%	-2,65%	1,53%	-10,57%
HEALTH CARE	1 549,31	0,48%	-0,69%	-1,17%	-1,95%
INDUSTRIALS	912,89	2,45%	-1,99%	11,13%	-5,51%
INFORMATION TECHNOLOGY	3 121,19	5,05%	-1,32%	44,66%	-28,19%
MATERIALS	520,84	2,92%	-3,28%	7,76%	-12,28%
REAL ESTATE	231,96	1,82%	-3,00%	1,87%	-26,21%
UTILITIES	317,74	-0,28%	-6,16%	-9,31%	1,56%

EUROPE: Sectors	Level	5D	MTD	YTD	2022
BASIC MATERIALS	2 771,31	2,74%	-3,53%	-2,31%	-2,41%
CONSUMER GOODS	4 119,76	0,40%	-1,89%	1,79%	-7,73%
CONSUMER SERVICES	1 477,14	1,29%	-5,51%	18,41%	-15,22%
FINANCIALS	830,59	1,49%	-1,46%	15,15%	-1,93%
HEALTH CARE	3 565,95	-0,10%	0,45%	10,22%	-3,72%
INDUSTRIALS	3 346,07	2,39%	-5,29%	15,44%	-18,88%
OIL & GAS	1 462,73	1,79%	2,17%	3,79%	30,59%
TECHNOLOGY	1 548,70	1,90%	-4,72%	22,00%	-25,49%
TELECOMS	515,29	2,94%	-0,77%	5,65%	-13,24%
UTILITIES	1 957,11	0,37%	-3,23%	8,64%	-6,99%

Market overview as of 31st August 2023

Fixed Income	Level	5D	MTD	YTD	2022
Pan-Euro 3-5 yrs IG	197,55	0,27%	0,32%	2,52%	-11,37%
Euro Aggregate	227,60	0,40%	0,30%	2,72%	-17,18%
Pan-Euro HY Hedged Eur	394,66	0,28%	0,30%	5,94%	-10,72%
Global Inflation hedged EUR	231,46	0,65%	-0,97%	-0,70%	-18,94%
US Corp High Yield	2 264,90	1,04%	0,28%	7,13%	-11,19%
EM USD Aggregate TR	1 260,87	0,71%	-1,20%	3,26%	-15,26%
EM Aggregate TR Local Ccy	139,67	-0,07%	-2,04%	2,05%	-8,44%
EUR Banks CoCo Tier 1	132,35	0,04%	-1,26%	-3,32%	-12,63%
EU GOVT HEDGED EUR	202,67	0,46%	0,12%	1,43%	-20,38%
Global Aggregate	2 554,99	0,62%	-1,37%	0,74%	-16,25%

Commodities	Level	5D	MTD	YTD	2022
GOLD	1 940,19	1,21%	-1,27%	6,37%	-3,64%
COPPER	377,25	0,04%	-5,88%	-1,00%	26,84%
OIL WTI	83,63	5,79%	2,24%	4,20%	55,01%
OIL BRENT	86,86	4,20%	1,52%	1,11%	50,15%

Currencies	Rate	5D	MTD	YTD	2022
EURUSD	1,0843	0,31%	-1,40%	1,29%	-6,93%
GBPUSD	1,2673	0,56%	-1,26%	4,88%	-1,01%
USDJPY	145,5400	-0,20%	2,28%	11,00%	11,46%
USDCHF	0,8834	-0,12%	1,32%	-4,45%	3,13%
AUDUSD	0,6484	1,04%	-3,47%	-4,83%	-5,60%
EURCHF	0,9579	0,18%	-0,09%	-3,20%	-11,08%
USDCNY	6,4583	#VALEUR!	1,62%	5,22%	5,28%
USDKRW	1 106,85	0,02%	3,77%	3,86%	4,22%
USDINR	82,7850	0,25%	0,65%	0,06%	9,15%
USDIDR	15 230,00	-0,10%	0,99%	-2,17%	7,42%
USDBRL	4,9550	1,47%	4,85%	-7,55%	7,26%
USDTRY	26,6968	3,39%	-0,88%	42,69%	78,81%
BITCOIN	26 013,12	-0,01%	-10,93%	56,90%	-64,30%

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