



FROM PLAGUE TO WAR

The world, amidst higher than normal inflation, was doing a good job in emerging from the pandemic, we also expected China to at least relax its Zero Covid Policy after the Olympics, and therefore help global growth. Instead, Europe discovered war, with the largest displacement of people since WW2, and China continued its ZCP, by locking down entire cities once again. Because of the war, and the raft of Western sanctions, the already tense situation in commodity markets, particularly energy and agriculture worsened considerably, and expanded to Russian exports such as industrial metals. On its side, China has reverted to lockdowns to counter the omicron variant, and it means that the supply chain issues will take longer to normalize. While global measures of logistical costs are definitely easing from the highs set at the end of 2021, the number of ships waiting for berth at Chinese ports is rapidly increasing again.

As a result, global inflation spiked even higher, reaching levels last seen in the early 80's in the US, and, as a consequence, expected terminal rates shot higher: we now expect the US Federal Reserve to move rates up to 3.25%-3.5% by the middle of 2023, a full percentage point higher than pre-war, in several steps of 50 bps.

Stagflation risks in the US existed before the war, and we expected them to potentially appear towards the end of the year: the risks are now 'front-loaded' to Summer. In Europe, this risk appeared to be non-existent before the war: contrary to the US, the continent was expected to be fiscally expanding in 2022. It is evidence that Europe is also now facing the risk of stagflation, with lower economic output expected for 2022, and inflation north of 7%.

The future evolution of the European economy, and how much it will be impacted by the war, will largely depend on:

- How long will the war last
- And/Or how much economic pain European politicians are prepared to suffer by imposing further sanctions on Russia

Despite how gloomy the above situation appears, there are also several factors that should help soften blows to the economy and therefore underpin financial markets:

- First on the war: in Russia's planning and hopes, it was probably expected to last a few days, maybe a couple weeks. Now it has been raging for almost 2 months. Russia cannot afford, logistically, financially and in terms of personnel, for it to last much longer. Unless of course, they resort to much more powerful weapons, such as small tactical nuclear bombs. A good date to declare 'victory' for its domestic audience, and stop the 'special operation', by consolidating its grip on the pro-Russian regions, could therefore be on May the 9th, victory day, the end of WW2: one of the most important dates in its calendar.



- The US Federal Reserve and interest rates: we believe the central bank will attempt to engineer a soft landing, and not blindly drag the economy into recession by hiking rates to tame inflation. We therefore do not believe that the scenario of the early 80's, under chairman Volcker, will be repeated, when two successive recessions were provoked in just 3 years.
- China: recent economic data, particularly private surveys, point to a recession, which is, by the way, dragging down the rest of Asia. The country is also reportedly starting to suffer from citizens' fatigue from the lockdowns. China must reignite its economic growth engine if it wants to achieve its 2022 targets, along with its social target of 'common prosperity'. We therefore think that the government will soon come up with a comprehensive package, of credit stimuli, fiscal package and monetary policies, along with a change of approach in its covid policies and at least a partial relaxation of its regulations. Chinese markets went from a long gradual correction to a collapse in March. Authorities reacted with a string of announcements, notably regarding the audits required by the US for its ADRs, as China realized that it is too early to give up on the US capital markets. Recently, some officials also made statements regarding the relaxation of regulations for its tech giants.
- Historically, on average, household balance sheets, particularly in the US, have never been better.
- Corporate balance sheets are healthy: on both sides of the Atlantic, and, particularly in Europe, companies took advantage of the pandemic to reduce and extend debt maturities. The average net debt to ebidta has reached an historic low for the companies in the STOXX 600 index. In the US, after huge deleveraging post the Global Financial Crisis, companies that make up the S&P500 ex financials have an average net debt to ebitda consistent with 2019 levels. Capital expenditure is set to increase.
- As highlighted above, central banks will not blindly increase rates, and policy will remain, in real terms, accommodative.
- Fiscal policies, especially in Europe, have showed considerable flexibility in dealing with, or at least cushioning, the impact of increased energy costs on households. As we mentioned recently, even before the war, all budgetary rules seem to have been abandoned. In the US, it is different: there will be no fiscal package in 2022, unless a disaster happens. With looming mid-term elections, and president Biden in a weak position, it is highly unlikely that republicans will hand him a victory by passing a bipartisan fiscal bill.
- Equities are a claim on a portion of nominal GDP. Valuations, particularly in Europe, are already consistent with recession levels, and we believe Europe will avoid it.



- Real rates remain deeply negative, and equities provide real yields.
- Positioning: institutional investors are underweight equities and sentiment is negative.
- We should start to see positive flows by risk parity and systematic funds. Bar the bond market freeze at the beginning of the pandemic, fixed income volatility has never been as high since the Global Financial Crisis, whilst delivering weaker returns than equities: to use simple benchmarks, the Bloomberg global aggregate is down 8.8% year to date, while the USD corporate investment grade index is down 10.7%.

MARKETS

With particularly agitated financial markets, the MSCI world managed to end the month up 2.8%, rebounding from the lows after the Russian invasion, regional performances have been uneven. The US market was up 3.7%, while European countries exposed to Russia saw their indices flatline. Safe haven Switzerland saw its main index rise 2.8%. China's domestic index, despite the mid-March rebound, ended the month at -7.8%. In terms of sectors, in the US energy was the logical winner, up 8.9%, along with, perhaps surprisingly in view of the rally in bond yields, bond proxies real estate and utilities, up 7.8% and 10.4% respectively. In Europe, because of the vicinity to Ukraine, the best sector has been the defensive healthcare one, up 6.9%. Since the beginning of the year, equity markets experienced frequent sector and style rotations. Since the start of the war, these rotations have been particularly violent, and almost on a weekly basis.

As the majority of the central banks prepare to combat inflation, with the outlook worsened by the war, bond yields spiked, with the US 10-year yield now up 1.2% since the beginning of the year, while yield curves flattened, and credit spreads widened, particularly in the US: the broad index of investment grade corporate credit in USD is down 10.7% year to date, worse than the global aggregate index at -8.7%, and worse than the US treasury index at -7.4%. Europe is faring a bit better, with corporate credit only down 6.2%. Surprising, is the behaviour of high yield credit: in the US it is down "only" 6.68%, and in Europe 4.9%, perhaps because of the dearth of issuance: so far this year. In the USD market for example, only 54 billion has been issued so far this year, 70% less than the same period a year ago.

Gold enjoyed a brief spike above 2000 USD an ounce, before retreating to 1900 USD, as yields spiked. It is now flirting with the 2000 mark again.

USD got a boost as a safe haven currency, essentially losing ground only versus commodity currencies such as the Australian dollar. The Swiss Franc also got boosted by safe haven flows, much to the despair of the central bank, but the unwanted strong franc is also a 'victim' of its own success: the inflation number



printed 2.2%, (EU harmonized), versus 7.5% for the Eurozone. As for the Japanese Yen, it is a different story. While every major central bank is aiming at normalizing policies, the Bank of Japan reaffirmed its zero yield targeting policy, (for the 10-year JGB), and offered to purchase an unlimited amount of bonds for several days. The currency dropped close to 6% for the month.

Oil prices were on a rollercoaster: Brent spiked to almost 140 USD per barrel, before falling to under 100 USD:

- several countries released, or are releasing, Strategic Petroleum Reserves in the market. The US specifically is releasing 1 mbd for six months
- China's renewed lockdowns put a cloud on demand
- The extent of the economic deceleration in Europe
- Russia finding willing buyers of its Ural oil in Asia, such as India and China, at discounts of 20 to 30 USD to the Brent
- The extension of European sanctions against Russian energy

In other commodities, war-sensitive wheat rose another 9% over the month, bring its total to over 40% year to date, and 70% since January of last year.

STRATEGY

As we wrote in early March, on a medium-term horizon, the economy always trumped geo-political events, independently of how tragic they were. The shift has already happened, despite the horrific news and images coming out of Ukraine. While just a couple of weeks ago financial markets were moved by positive news, (for example negotiations), or negative ones, (number of civilian casualties for example), they are now almost entirely focused on economic data and company earnings.

In view of the extremely high volatility of Chinese assets, we decided to reduce Chinese exposure, in order to keep it constant, from a risk-adjusted perspective.

We continue to have an exposure to Gold, that, over the long term, we think will continue to be an ideal portfolio diversifier. We strategically hedge our USD exposure.

In equities we have had partial protections in place since early in the year.



POSITIONING

Overall Exposure

We are Overweight Equities, and Underweight Fixed Income, Overweight Cash, with a long Gold position, fully USD hedged.

Equity: Overweight

Overweight Continental Europe, Neutral UK, Underweight US, Neutral Japan, Overweight Asia.

Thematic Equities

Health Improving Technologies and Services, Asian Technology, European Family Holdings, European COVID Recovery, Pet and Animal Wellbeing, the UN's 17 Sustainable Development Goals, Emerging Markets Healthcare

Fixed Income: Underweight

Underweight High Yield in EUR and USD. Overweight Investment Grade EUR and USD Bonds, Underweight Sovereigns. Long Global Inflation Linked Securities, Long US Municipal Infrastructure Bonds, Long Hybrids & Long Asian Bonds.

Currencies: Underweight USD, (Portfolios are fully USD hedged)

Commodities: Overweight

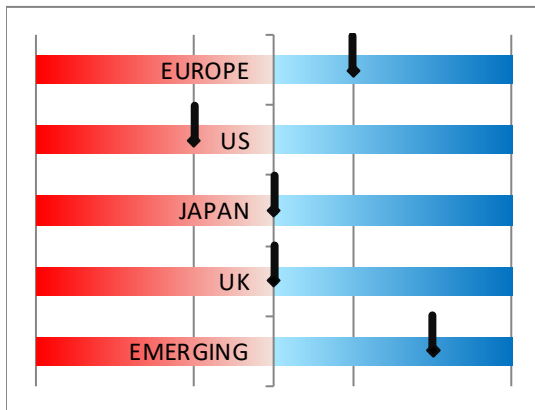
Long Gold

Derivatives : long partial S&P500 protection via high watermark lookback put options

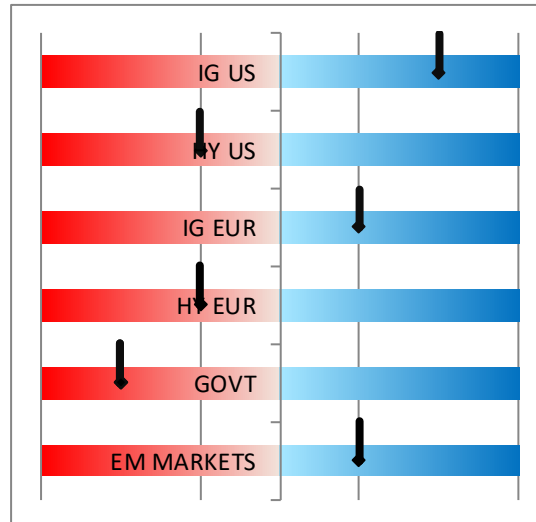


CONVICTION THERMOMETER

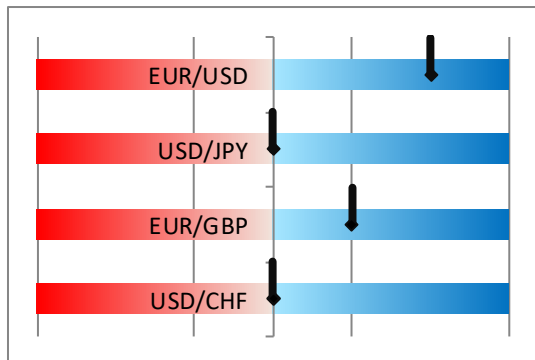
Equities



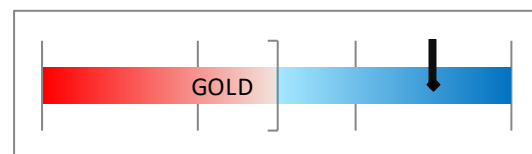
Bonds



Currencies



Commodities



*Negative view / Positive view



MARKET OVERVIEW AS OF 31ST MARCH 2022

EQUITIES (local ccies)	Level	5D	MTD	YTD	2021
MSCI WORLD	3 053,07	0.48%	2.30%	-5.04%	22.38%
GERMANY DAX	14 414,75	0.99%	-0.32%	-9.25%	15.79%
FRANCE CAC40	6 659,87	1.59%	0.13%	-6.65%	31.88%
UK FTSE100	7 515,68	0.68%	1.42%	2.89%	18.40%
BELGIUM BEL20	4 158,78	1.09%	3.63%	-3.42%	21.86%
SWISS MARKET INDEX	12 161,53	0.44%	2.32%	-4.27%	23.73%
EUROPE EURO STOXX 50	3 902,52	1.01%	-0.42%	-8.88%	24.10%
US S&P500	4 530,41	0.24%	3.71%	-4.60%	28.68%
NASDAQ100	14 838,49	0.50%	4.28%	-8.91%	27.51%
RUSSELL 2000	2 070,13	-0.21%	1.24%	-7.53%	14.78%
JAPAN TOPIX	1 946,40	-0.79%	4.19%	-1.29%	12.77%
MSCI EMERGING	1 141,79	0.48%	-2.25%	-6.99%	12.32%
BRAZIL IBOVESPA	119 999	0.79%	6.06%	14.48%	-1.93%
MEXICO MEXBOL	56 536,68	1.27%	6.33%	6.41%	24.07%
RUSSIA MICEX	2 703,51	4.85%	9.43%	-28.24%	21.88%
CHINA CSI 300	4 563,77	-0.67%	-7.83%	-14.53%	33.51%
INDIA SENSEX	58 568,51	1.69%	4.13%	0.71%	23.23%
KOREA KOSPI	2 663,34	1.03%	2.17%	-7.19%	5.56%
HONG KONG HANG SENG	21 996,85	0.25%	-2.32%	-5.66%	-1.84%
AUSTRALIA ALL-SHARE	4 187,78	0.81%	1.30%	0.50%	18.29%
SAUDI ARABIA TADAWUL	13 090,40	1.10%	4.10%	16.31%	33.19%
US: Sectors	Level	5D	MTD	YTD	2021
COMMUNICATION SVCS	235,09	0.55%	0.95%	-1.92%	21.57%
CONSUMER DISCRETIONARY	1 462,69	0.59%	4.91%	-9.03%	24.43%
CONSUMER STAPLES	791,47	1.91%	1.81%	1.01%	18.63%
ENERGY	581,93	-0.02%	8.93%	-8.99%	54.35%
FINANCIALS	637,61	-0.78%	-0.19%	1.48%	34.87%
HEALTH CARE	1 594,81	0.87%	5.56%	12.58%	26.13%
INDUSTRIALS	870,46	-0.15%	3.38%	12.36%	21.10%
INFORMATION TECHNOLOGY	2 794,09	0.20%	3.49%	-8.36%	34.52%
MATERIALS	553,45	-0.24%	6.11%	12.38%	27.28%
REAL ESTATE	302,42	3.74%	7.79%	16.32%	46.14%
UTILITIES	378,12	3.77%	10.36%	4.77%	17.67%
EUROPE: Sectors	Level	5D	MTD	YTD	2021
BASIC MATERIALS	3 277,55	0.17%	3.36%	6.28%	22.50%
CONSUMER GOODS	4 353,83	0.70%	1.49%	-5.56%	25.09%
CONSUMER SERVICES	1 336,21	1.68%	-4.19%	-13.42%	22.44%
FINANCIALS	779,44	0.88%	1.83%	-2.64%	29.12%
HEALTH CARE	3 516,62	1.46%	6.89%	1.20%	27.58%
INDUSTRIALS	3 230,97	-1.30%	-0.04%	-12.85%	31.32%
OIL & GAS	1 310,52	0.19%	3.79%	15.32%	26.63%
TECHNOLOGY	1 453,58	0.14%	0.89%	-16.40%	38.92%
TELECOMS	610,87	0.77%	1.79%	1.12%	16.24%
UTILITIES	2 027,79	4.43%	-3.70%	-3.46%	7.75%
WORLD: Styles	Level	5D	MTD	YTD	2021
QUALITY	3 712,53	0.52%	3.40%	-8.51%	25.66%
MOMENTUM	3 689,23	0.39%	4.45%	-5.71%	14.64%
VALUE	11 749,57	0.27%	2.29%	-0.65%	21.94%
GROWTH	8 758,60	0.68%	3.24%	-9.64%	21.18%
VOLATILITY	8 683,45	0.73%	2.94%	-4.38%	21.77%
SIZE	8 082,83	0.55%	1.88%	-5.00%	18.02%
DIVIDEND	4 714,42	0.76%	2.65%	-2.12%	19.40%
FIXED INCOME	Level	5D	MTD	YTD	2021
Pan-Euro 3-5 yrs IG	208,54	-0.47%	-2.05%	-4.08%	-0.51%
Euro Aggregate	253,03	0.18%	-2.18%	-5.81%	-2.85%
Pan-Euro HY Hedged Eur	400,18	0.40%	0.12%	-4.08%	3.46%
Global Inflation Hedged EUR	277,99	0.13%	-1.46%	-3.33%	4.66%
US Corp High Yield	2 264,90	0.75%	-1.15%	-4.84%	5.28%
EM USD Aggregate TR	1 260,87	1.34%	-2.34%	-9.23%	-1.55%
EM Aggregate TR Local Ccy	146,30	0.74%	-1.54%	-2.14%	-1.59%
EUR Banks CoCo Tier 1	148,95	1.08%	-0.06%	-4.43%	4.65%
EU GOVT HEDGED EUR	234,45	0.17%	-3.04%	-6.58%	-4.21%
U.S. Treasury	2 554,99	0.08%	-3.11%	-5.58%	12.82%
COMMODITIES	Level	5D	MTD	YTD	2021
GOLD	1 937,44	-1.03%	1.49%	5.92%	-3.64%
COPPER	475,10	0.47%	6.90%	16.44%	26.84%
OIL WTI	100,28	-10.74%	4.76%	33.33%	55.01%
OIL BRENT	107,91	-9.34%	6.85%	38.74%	50.15%
CURRENCIES	Rate	5D	MTD	YTD	2021
EURUSD	1,1067	0.64%	-1.35%	-2.86%	-6.93%
GBPUSD	1,3138	-0.37%	-2.10%	-2.91%	-1.01%
USDJPY	121,70	-0.53%	5.83%	5.75%	31.46%
USDCHE	0,9225	-0.83%	0.62%	1.05%	3.13%
AUDUSD	0,7482	-0.41%	3.02%	3.02%	-5.60%
USDRUB	81,22	-20.47%	3.63%	8.80%	-11.08%
USDCNY	6,3400	0.35%	-0.13%	-0.13%	5.28%
USDKRW	1 106,85	0.20%	0.07%	0.07%	4.22%
USDINR	75,79	-0.77%	0.59%	3.20%	9.15%
USDTRY	14,6724	-1.02%	5.97%	10.29%	78.81%
BITCOIN	45 768	4.26%	10.50%	-1.22%	59.79%

31.03.2022



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