

CURRENT SITUATION ASSESSMENT

2nd quarter 2022

Current situation assessment

Summary

Asset class	Current positioning		History		Long-term assessment (5 years)			Short-term assessment (9 months)		
	Conclusion	- o +	Yield	Risk	Yield	Risk	SAA	Yield	Risk	TAA
Liquidity										
Bonds										
Government bonds	Negative		5,7%	5,6%	- 0,5%	Careful		Negative	Negative	
Investment Grade	Neutral		4,5%	3,7%	0,5-1,5%	Neutral		Neutral	Careful	
High Yield	Neutral		5,1%	12,6%	2,5-3,5%	Neutral		Neutral	Neutral	
Emerging Markets	Neutral		7,4%	7,8%	2,5-3,5%	Neutral		Neutral	Neutral	
Equities	Neutral		7,7%	17,2%	6-8%	Neutral		Neutral	Careful	
Europe	Positive		7,5%	18,1%	6-8%	Neutral		Neutral	Careful	
USA	Neutral		10,6%	17,9%	6-8%	Neutral		Neutral	Careful	
Emerging Markets	Neutral		8,8%	23,2%	6-8%	Neutral		Neutral	Careful	
Technology	Careful				6-8%	Neutral		Careful	Careful	
Health	Careful				6-8%	Neutral		Careful	Neutral	
Commodities										
Gold	Neutral		4,5%	15,5%	4-5%	Neutral		Neutral	Neutral	
Raw materials	Neutral		1,9%	15,1%	1-2%	Neutral		Positive	Neutral	
Alternative investments										
Private Debt	Neutral				4-6%	Neutral		Neutral	Careful	
Private equity	Neutral				8-12%	Neutral		Neutral	Careful	
Diversified (HF)	Neutral		4,4%	6%	4-6%	Neutral		Neutral	Neutral	

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Economy	<ul style="list-style-type: none"> ▪ The economy continues to develop according to the historical three-year cycle. A natural progression includes one and a half years of upswing followed by one and a half years of downswing ▪ Fiscal and monetary policy support remains in place (US ahead of Europe) and is increased situationally in case of an impending economic downturn 	<ul style="list-style-type: none"> ▪ We expect the next economic low in March 2023, until then a further decline in economic momentum and a recessionary trend from the beginning of 2023 ▪ The Ukraine war puts additional pressure on economic growth via rising commodity prices ▪ Consumer confidence is suffering under the pressure of high inflation figures despite record low unemployment figures 	<ul style="list-style-type: none"> ▪ OECD leading indicators (10) ▪ Consumer confidence (11), ▪ Unemployment rates (12)
Interest	<ul style="list-style-type: none"> ▪ Short-term interest rates remain at low levels ▪ Fiscal policy measures bring inflationary pressure ▪ Long-term interest rates rise continuously (inflation target 2%) ▪ Due to the active influence of the central banks on the interest rate level and the high level of overall economic debt, there will be no rapid rise in interest rates 	<ul style="list-style-type: none"> ▪ The rise in energy prices and the risk of prolonged supply chain disruptions make for high inflation figures in Q2 ▪ Short-term interest rates must be raised via the central banks' mandate of price stability ▪ Long-term interest rates are in a tense environment of rising inflation figures and a weakening economy. 10-year US government bonds at the end of 2022: 2%-2.5% ▪ A more moderate increase in long-term interest rates will flatten the yield curve 	<ul style="list-style-type: none"> ▪ Inflation expectations (14, 30) ▪ Central bank interest rate policy, short-term interest rate expectations (15,16) ▪ Long-term interest rate development (17) ▪ Yield curves (18)

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Bonds	<ul style="list-style-type: none"> As a consequence of continuously rising interest rates, government bonds and investment grade bonds remain below their historical yields. Due to the current lows, government bonds and investment grade bonds are vulnerable to interest rate changes, which is why we prefer maturities of a maximum of 5-6 years. Both investments are irreplaceable as a defensive building block (low or negative correlations with equities) in the portfolio 	<ul style="list-style-type: none"> After the rise in interest rates, yields have become more attractive again The risk premiums, which have risen in the meantime, offer opportunity and increase the attractiveness even further. Government bonds remain unattractive due to the low yield potential in case of additionally rising interest rates Investment-grade bonds bring stability to the portfolio due to the low correlation to equities and are better protected against the rise in interest rates via the yield buffer (higher compared to government bonds) and are thus preferable to government bonds High-yield and emerging market bonds are significantly above target returns (3%), but also have a higher risk due to the higher correlation to equities Despite historically low default risks, high-yield bonds remain vulnerable to post-Corona and Ukraine/Russia risks 	<ul style="list-style-type: none"> Comparison YTM (20), Risk premiums (21) Default risks (22)

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Equities	<ul style="list-style-type: none"> ▪ Monetary and fiscal policy measures provide a solid foundation for further gains ▪ The high valuation level argues for lower yields in the long term, at the lower end of the historical average of 6–8% ▪ The US benefits from more aggressive monetary and fiscal policy ▪ Europe is still facing structural problems. Many years of underperformance continue ▪ Emerging markets, with increased focus on domestic consumption, are delivering sustainable growth and becoming the global economic engine ▪ Innovative sectors (such as technology) have above-average earnings growth potential in the long term ▪ Defensive regions (Switzerland) or sectors (health care) show their advantages in correction phases via lower fluctuation margins 	<ul style="list-style-type: none"> ▪ European and EM equities are in the middle of the 30-year trend channel; this with attractive valuation ▪ The strongest support for equities currently comes from fearful investor sentiment, which has historically led to higher prices in the following months ▪ Easing interest rate pressure and fearful investor sentiment bring further recovery in Q2, especially in the growth segment ▪ Significant improvement of the technical picture ▪ Return of volatility in Q3/Q4 due to the economic slowdown. We see another 10% setback potential ▪ Equities subsequently anticipate the improved economic environment from March 2023 with a lead time of 6 to 9 months ▪ In the course of Q3/Q4, risk assets such as equities are increasingly bought, resulting in rising prices 	<ul style="list-style-type: none"> ▪ Trend Europe (24) ▪ Emerging Markets Trend (25) ▪ Rating (26) ▪ Mood (27) ▪ Technology global (28) ▪ Potential for setbacks see PMIs and S&P500 (29) ▪ Business cycle (10)

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Commodities	<ul style="list-style-type: none"> ▪ The trend towards electrification and electromobility requires a high consumption of raw materials and provides an additional increase in demand ▪ Gold makes sense as an admixture in mandates with equities due to the negative correlation (long-term target return 3-5%) 	<ul style="list-style-type: none"> ▪ Gold and commodities not yet an exaggeration despite strong performance, in long-term trend growth ▪ Gold reacts to geopolitical tensions, high consumer prices and rising inflation expectations with rising prices ▪ The already tense situation of too little production of raw materials is intensified by the sanctions against Russia and causes prices to rise 	<ul style="list-style-type: none"> ▪ Inflation (31) ▪ Trend Gold (32) ▪ Trend Raw Materials (34)
Alternative investments	<ul style="list-style-type: none"> ▪ More attractive yield compared to fixed income ▪ Low correlation to traditional investments, especially equities ▪ Portfolio stability in difficult market phases (e.g. Corona in March 2020) ▪ Long-term target return 4-6% 	<ul style="list-style-type: none"> ▪ The task of stabilisation in the portfolio works ▪ The outlook for private debt is positive ▪ The outlook for private equity is neutral, but remains volatile ▪ Private debt and private equity remain vulnerable to geopolitical and post-Corona risks 	

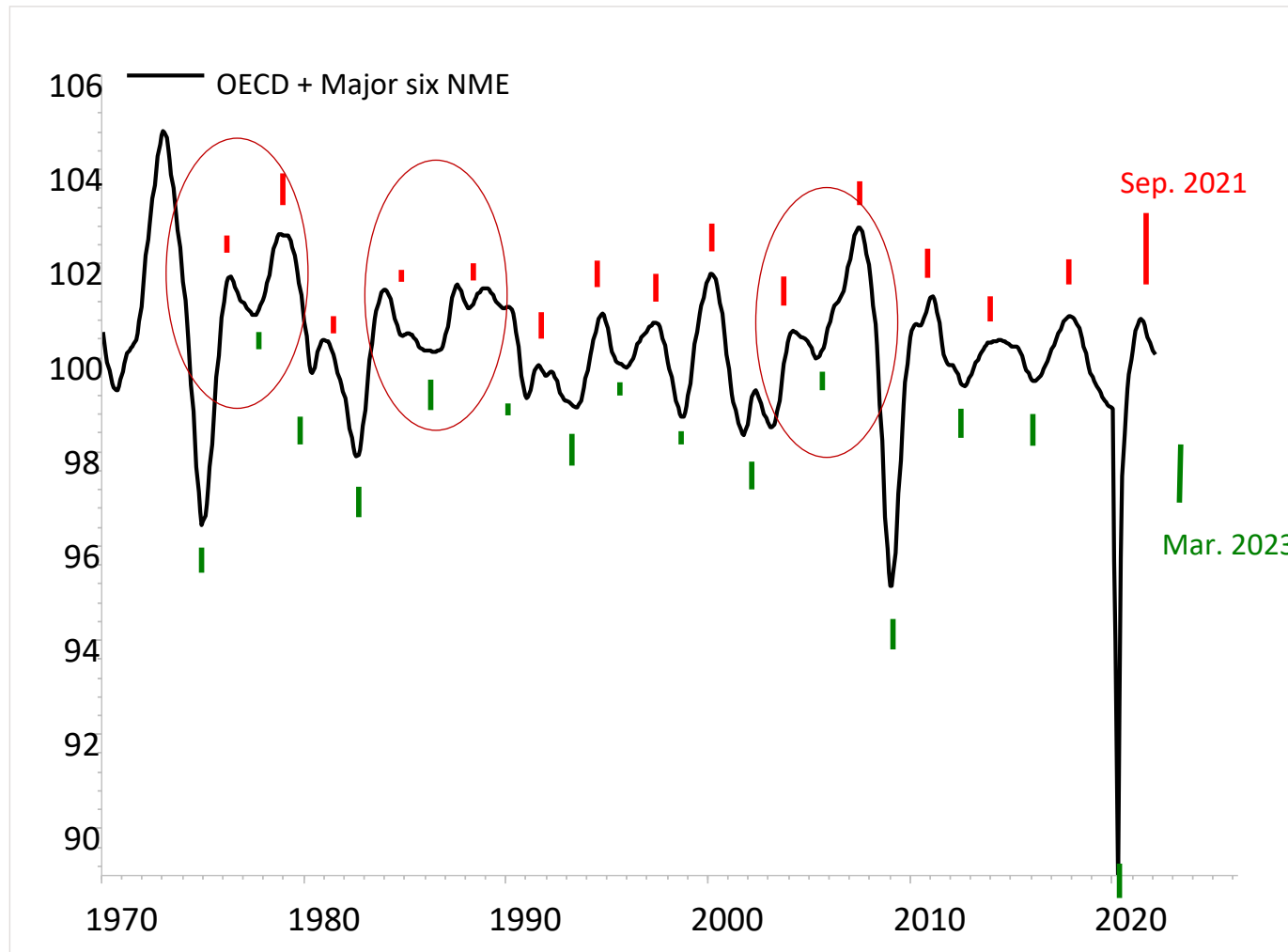
Current situation assessment Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Currencies	<ul style="list-style-type: none"> No strong trends are discernible in the currency markets in the long term In the portfolio context, additional risk factor (additional volatility to the investment) 	<ul style="list-style-type: none"> US dollar with strong trend against the euro The strength of the Swiss franc at the beginning of the war once again illustrated its function as a "safe haven". Countermovement towards 1.05 underway Surprisingly, the Swiss National Bank did not counteract the strength of the franc after the outbreak of war and later contributed to its weakening 	<ul style="list-style-type: none"> Summary Situation Assessment (43) Summary Technology EUR/USD (36) SNB sight deposits (37) Technology EUR/CHF (38)
News	<ul style="list-style-type: none"> The Corona crisis has accelerated technological applications, creating wider acceptance in the long term. 	<p><u>Ukraine/Russia baseline scenario</u></p> <ul style="list-style-type: none"> Ongoing war in Ukraine Sanctions against Russia remain in place Influence on financial markets decreases after initial uncertainty 	<ul style="list-style-type: none"> Scenarios Ukraine (39)

Details short-term situation assessment Economy / Macro

Economy / Macro

OECD Leading Indicator (Global)



Assessment
Neutral

Justification

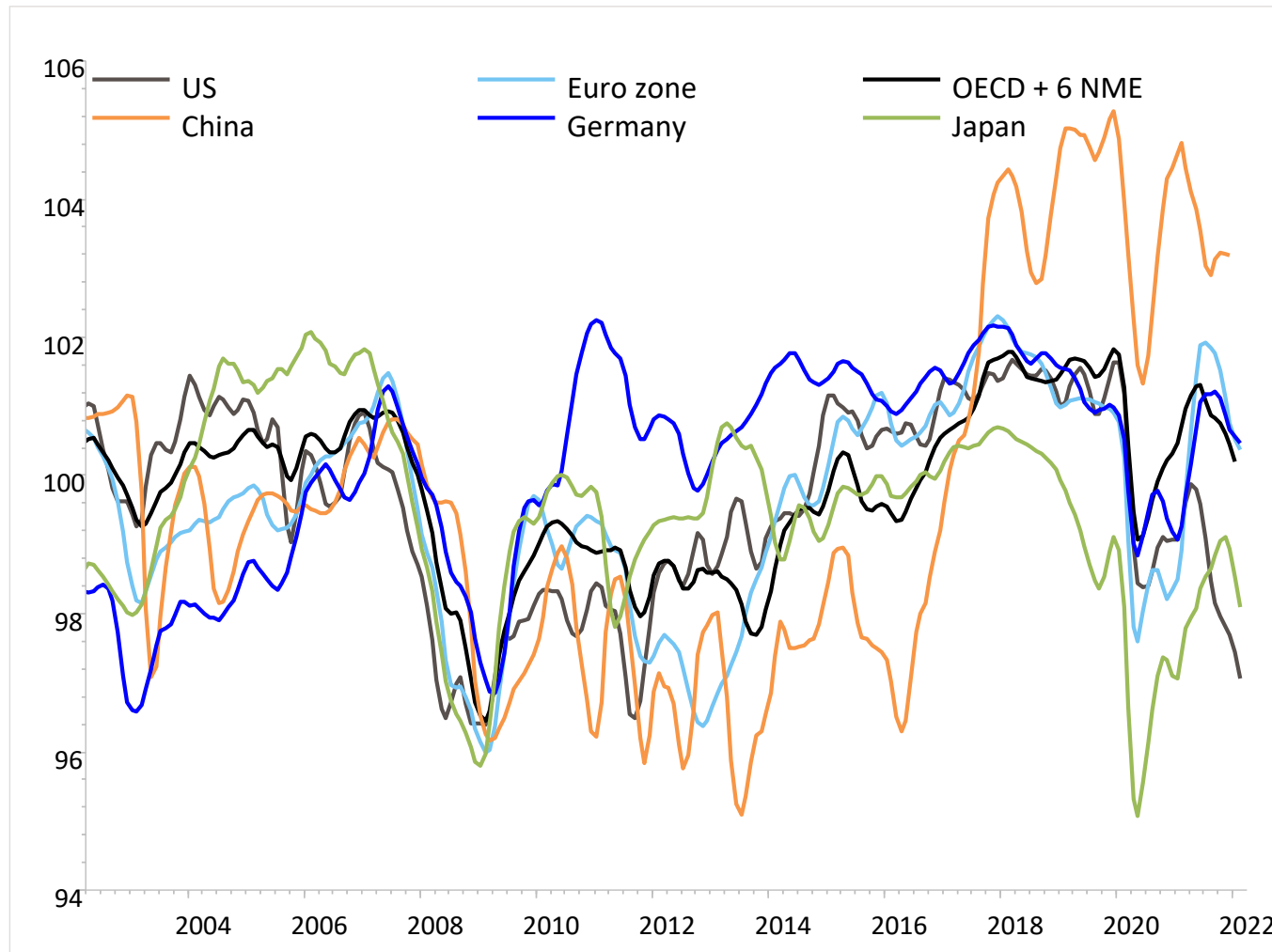
- Significant recovery after the Corona shock 2020
- Resumption of the normal, historical cycle

Explanation

- The OECD Leading Indicators provide early signals of turning points in the business cycle (lead: 6–9 months to GDP).
- Normal cycle lasts three years, approx. 1.5 years upswing and 1.5 years downswing

Economy / Macro

Consumer Confidence (Global)



Assessment
Negative

Justification

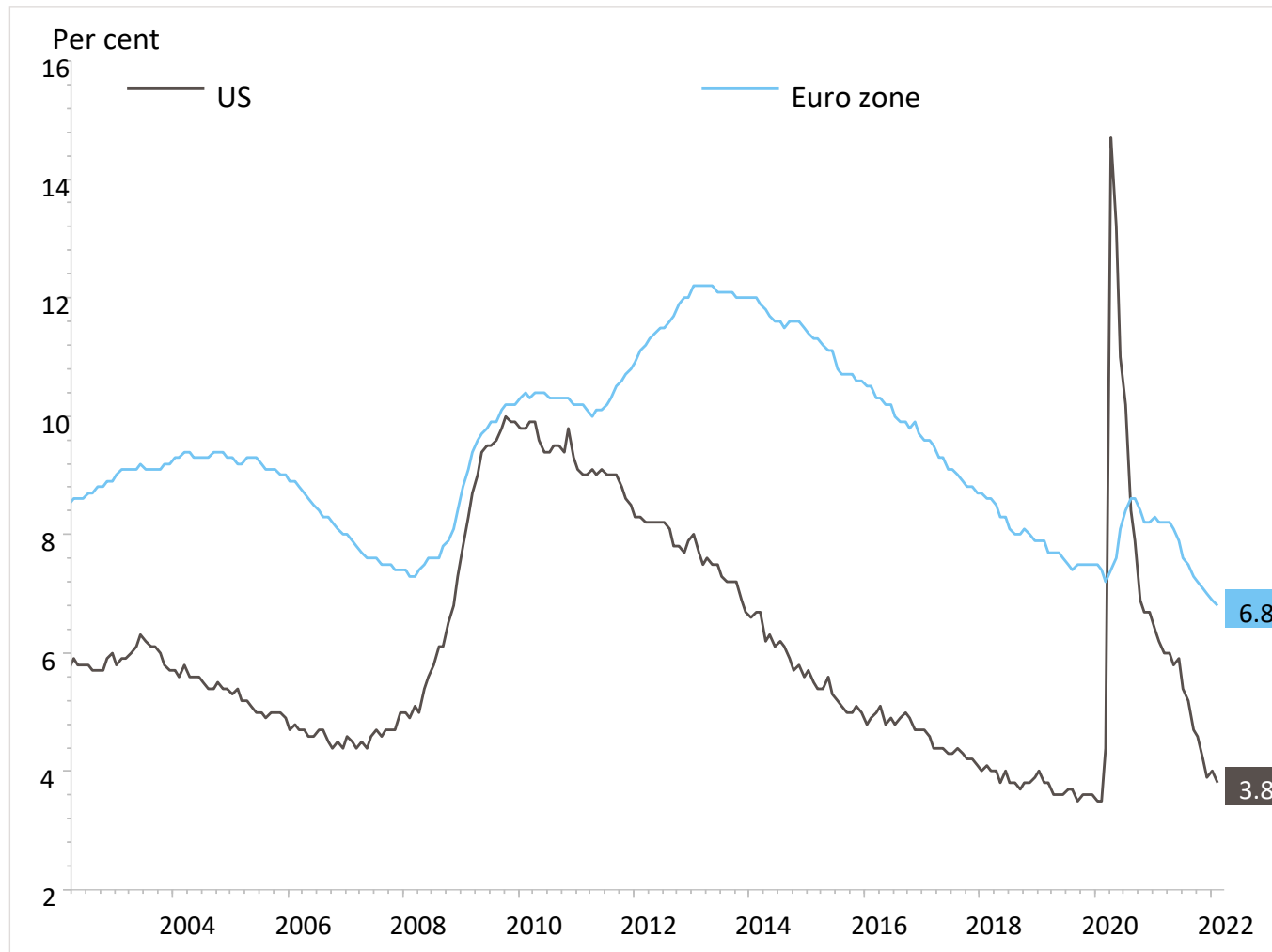
- Decline in consumer confidence due to inflation
- Highs have been breached

Explanation

- Survey on the financial situation regarding consumption and savings behaviour
- Value above 100: Higher consumer spending and lower share of savings in the coming 12 months

Economy / Macro

Unemployment rate (Global)



Assessment
Positive

Justification

- Decline in US unemployment rate positive
- At a historically low level

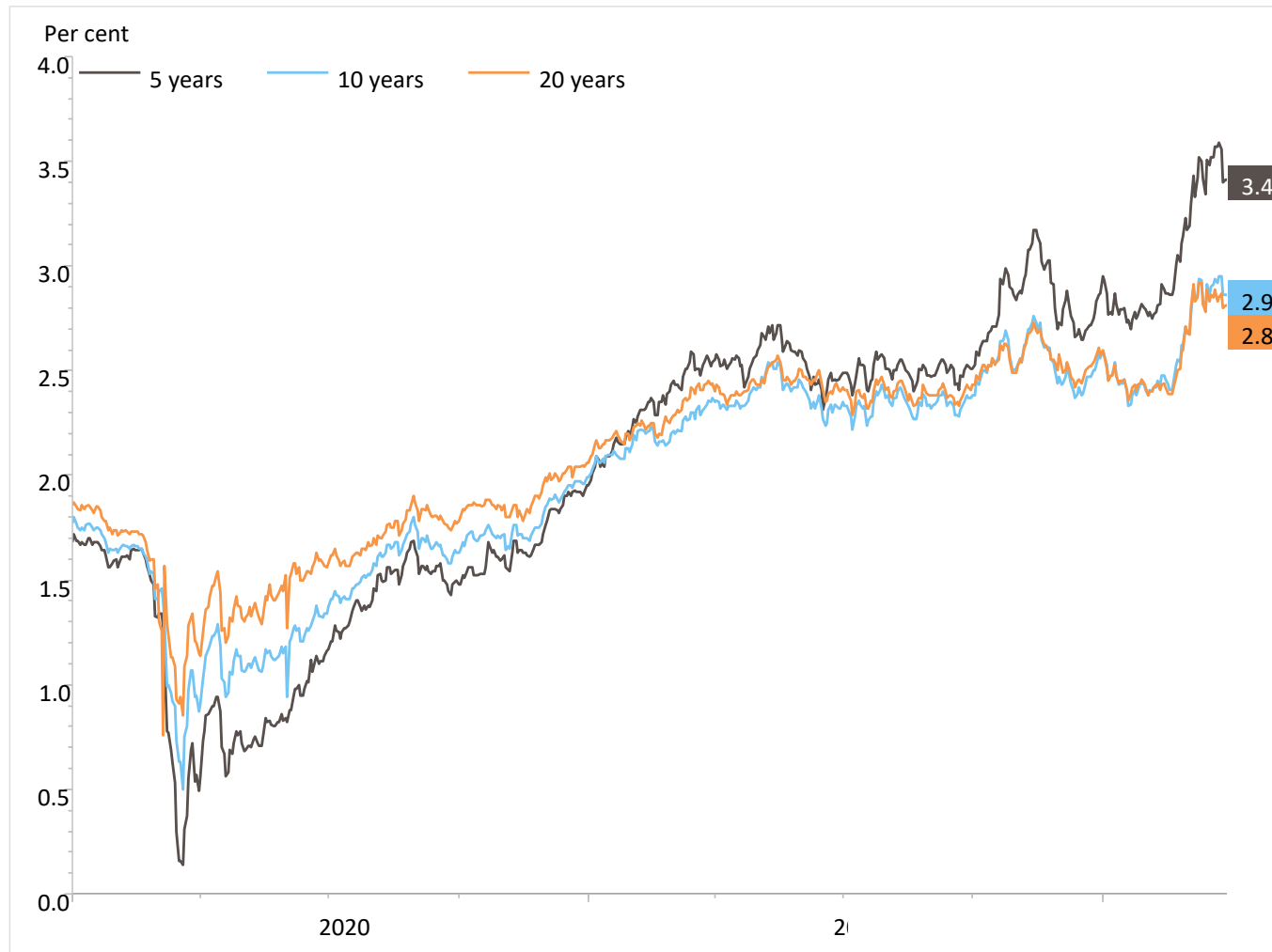
Explanation

- The unemployment rate relates the number of registered unemployed to the labour force and thus measures the relative underutilisation of labour supply

Details short-term situation assessment Interest rate policy

Economy / Macro

Monetary policy: inflation expectations



Assessment
Careful

Justification

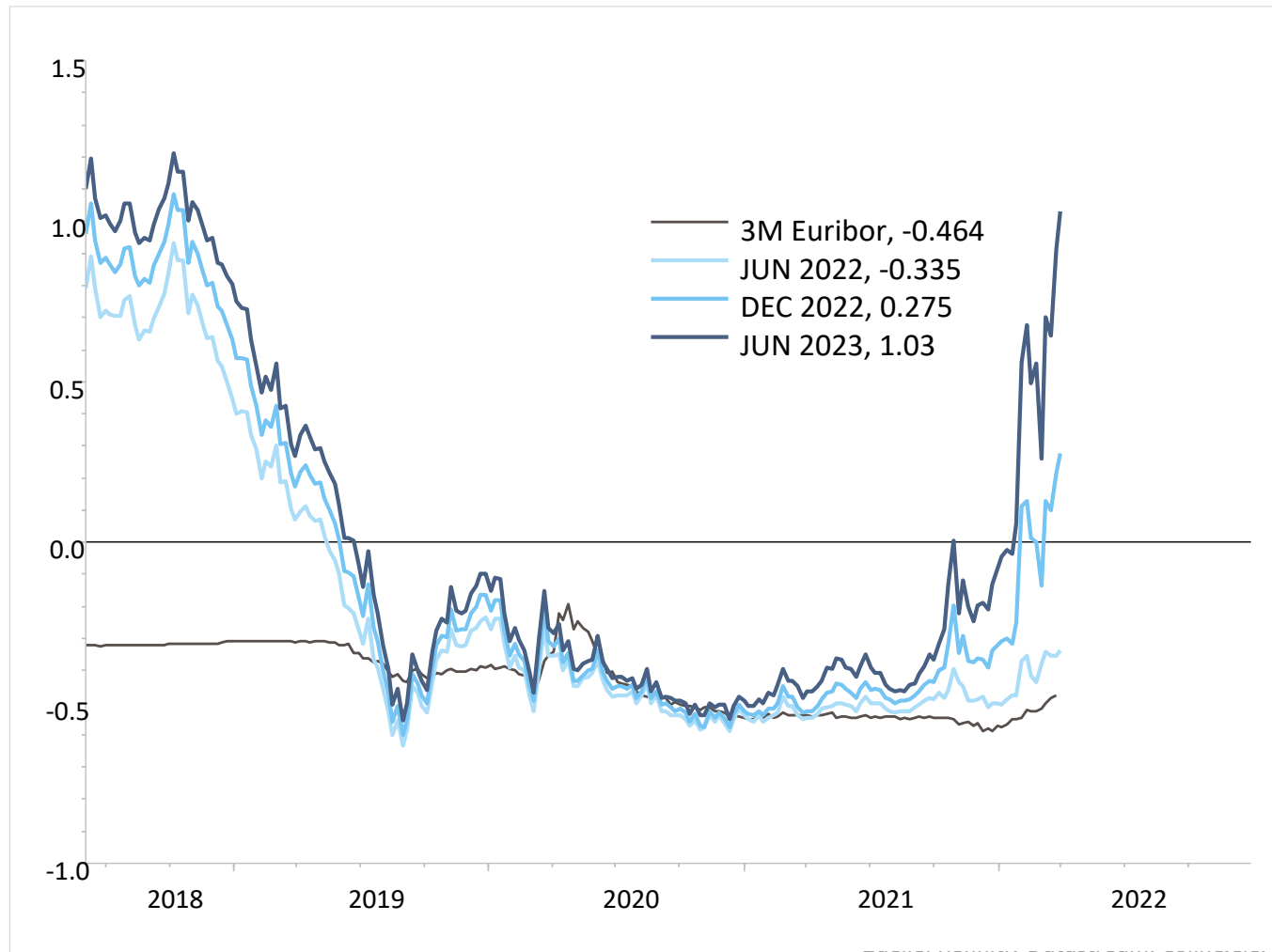
- As commodity prices rise, inflation figures settle at a higher level compared to pre-Corona times (inflation target 2%)
- Central banks' inflation target (2%) is exceeded, but is at the upper end of the central banks' comfort zone

Explanation

- Inflation expectations derived from bond markets for the next 5, 10 and 20 years

Interest rate policy

Implicit interest rate expectations (Europe)



Assessment
Careful

Justification

- Interest rate rise expected

Explanation

- The futures markets give an indication of where market participants see the interest rate going over time

Economy / Macro

Interest rate policy: Implicit interest rate expectations (USA/Fed)



Assessment
Careful

Justification

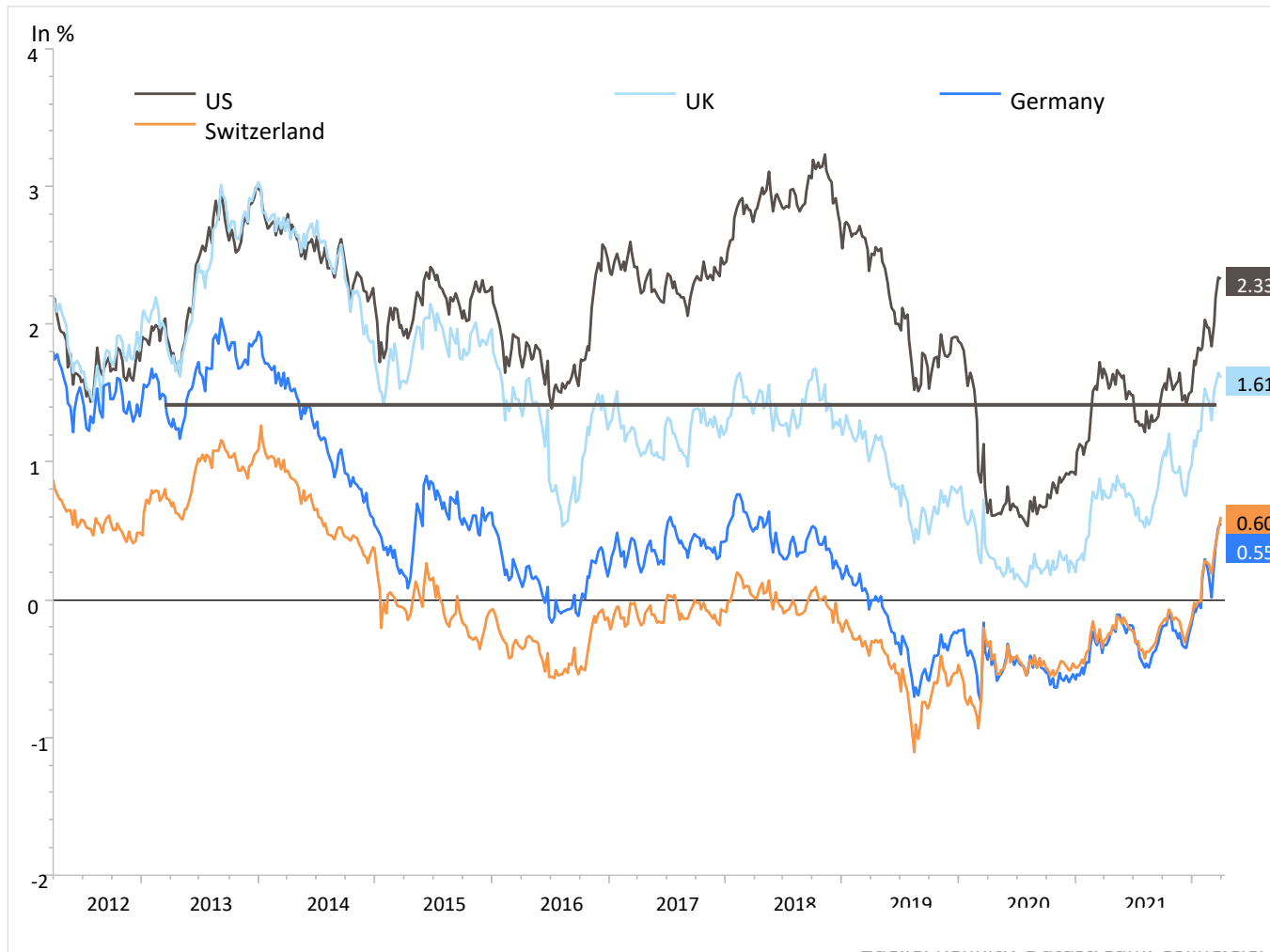
- Cycle of interest rate hikes has begun

Explanation

- The futures markets give an indication of where market participants see the interest rate going over time

Interest rate policy

Long-term interest rate level (10 years)



Assessment
Neutral

Justification

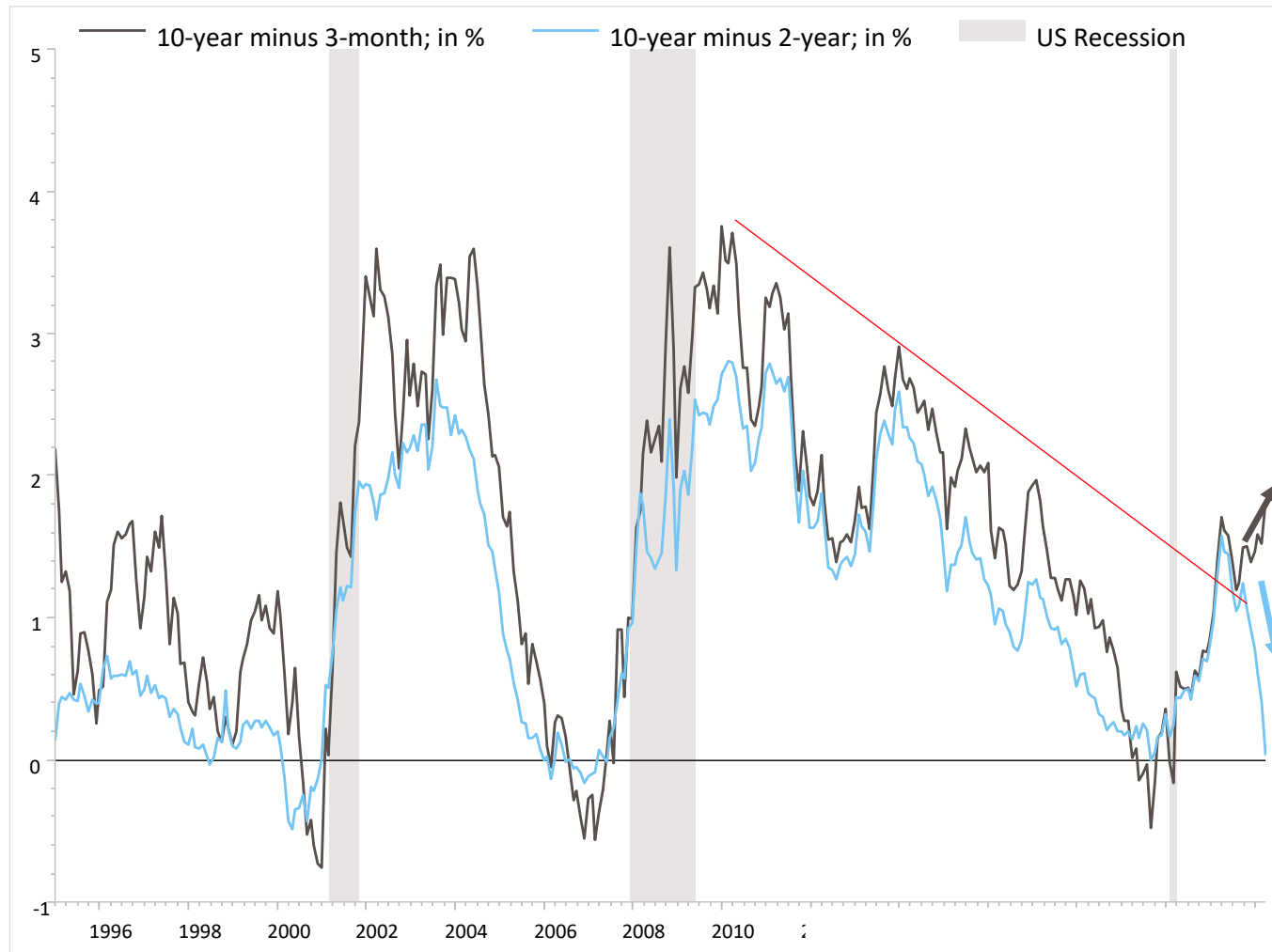
- Negative interest rates in Germany and Switzerland
- Long-term interest rates are too low in view of the economic normalisation and are continuously rising

Explanation

- Long-term interest rate level: term 10 years

Interest rate policy

Yield curve USA



Assessment
Neutral

Justification

- Yield curve steepening

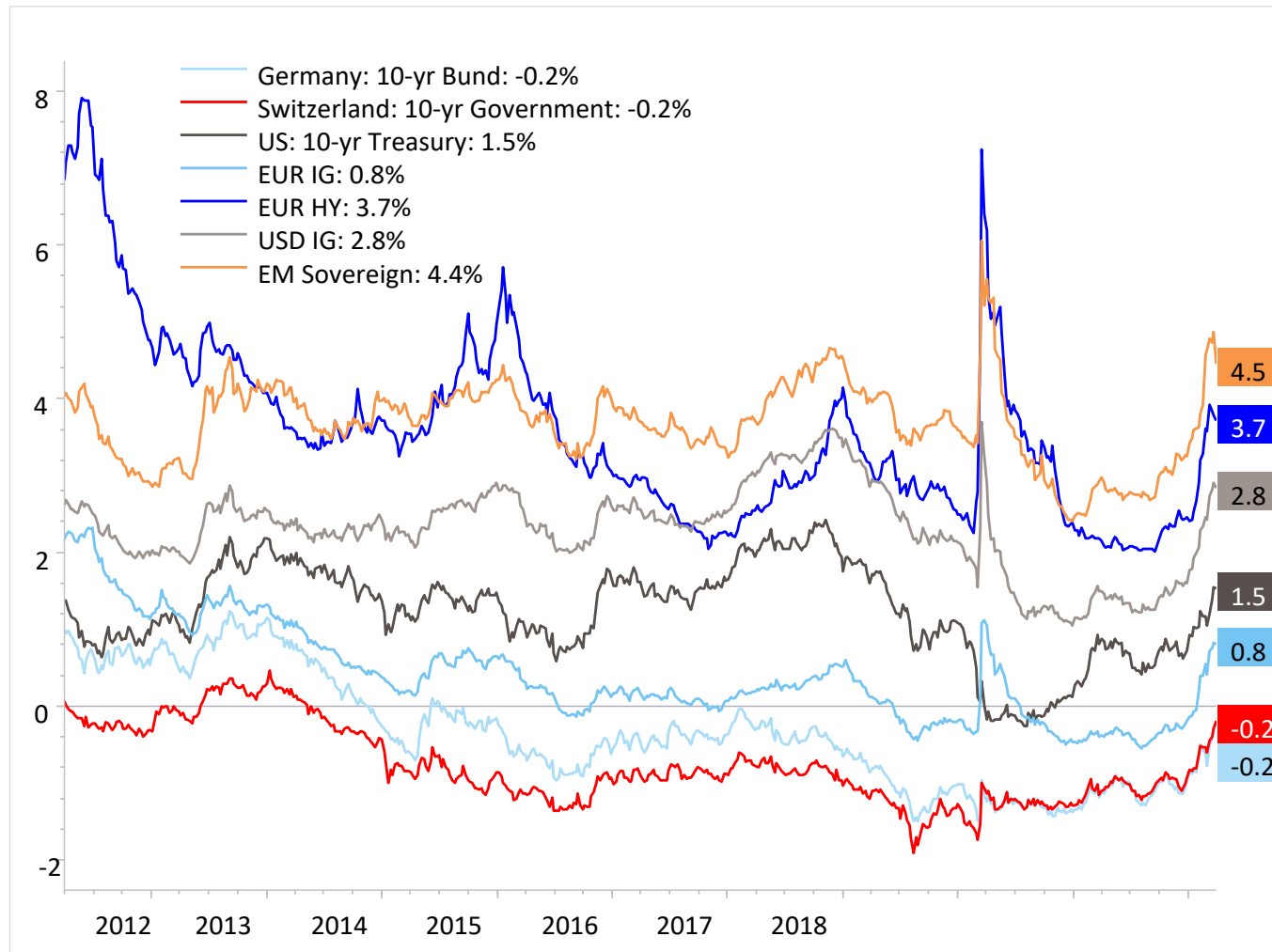
Explanation

- Long-term development (10 years) is more difficult to predict than the short-term (3 months)
- This higher risk must be rewarded
- Therefore, in a normal environment: bonds with a long maturity usually yield more than those with shorter maturities
- Inverse yield curve: Markets value short-term risks higher

Details short-term situation assessment

Bonds

Yield: Yield to Maturity EUR Investment Grade



Assessment
Positive

Justification

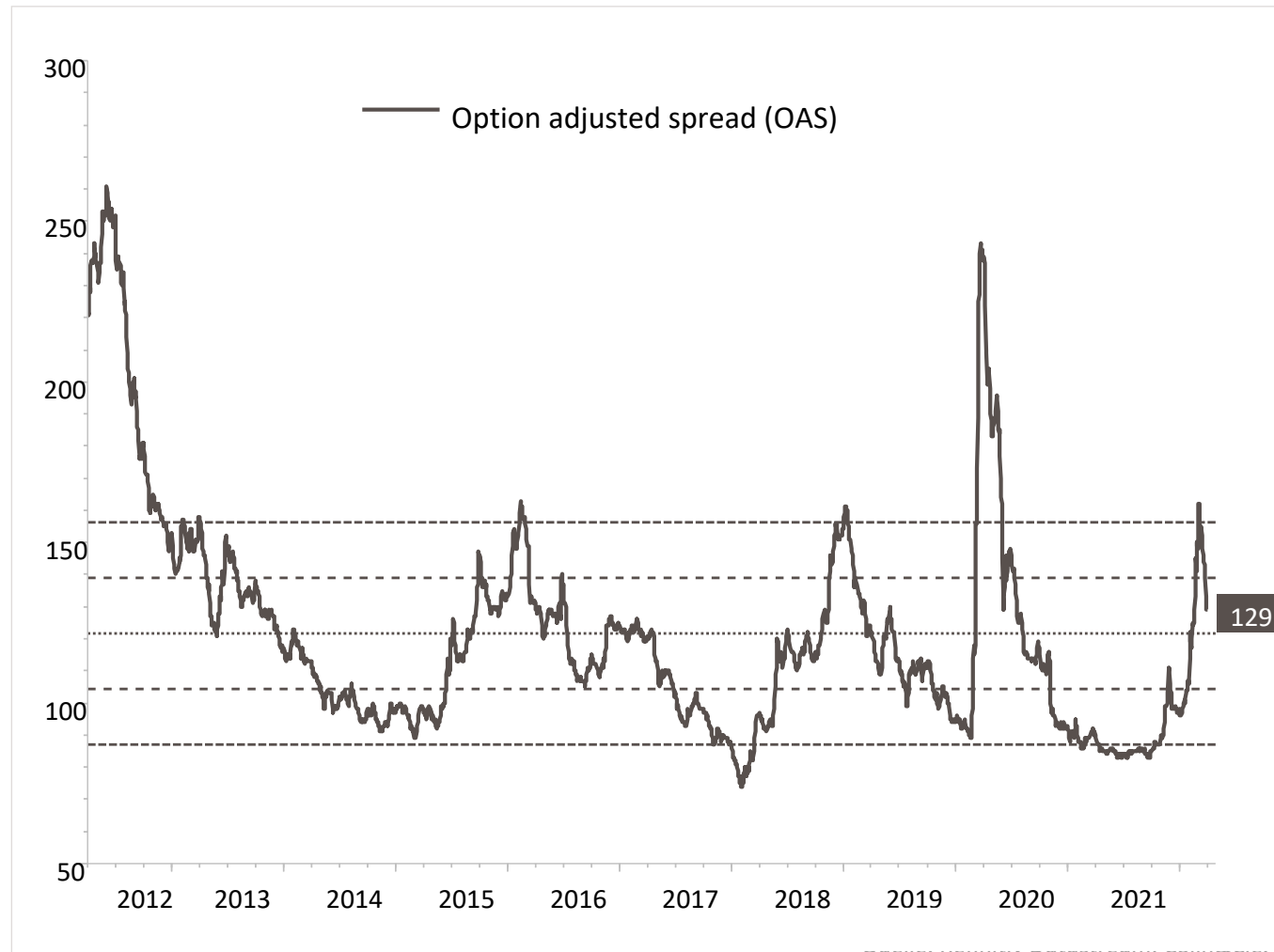
- Due to the historic lows in interest rates, investment grade bonds are vulnerable to interest rate changes, which is why we prefer maturities of 4-5 years at most

Explanation

- Lower interest rate environment is positive and goes hand in hand with higher bond prices
- Interest rate determines attractiveness
- Net returns

Risk premium

Interest rate differential to government bond: EUR investment grade

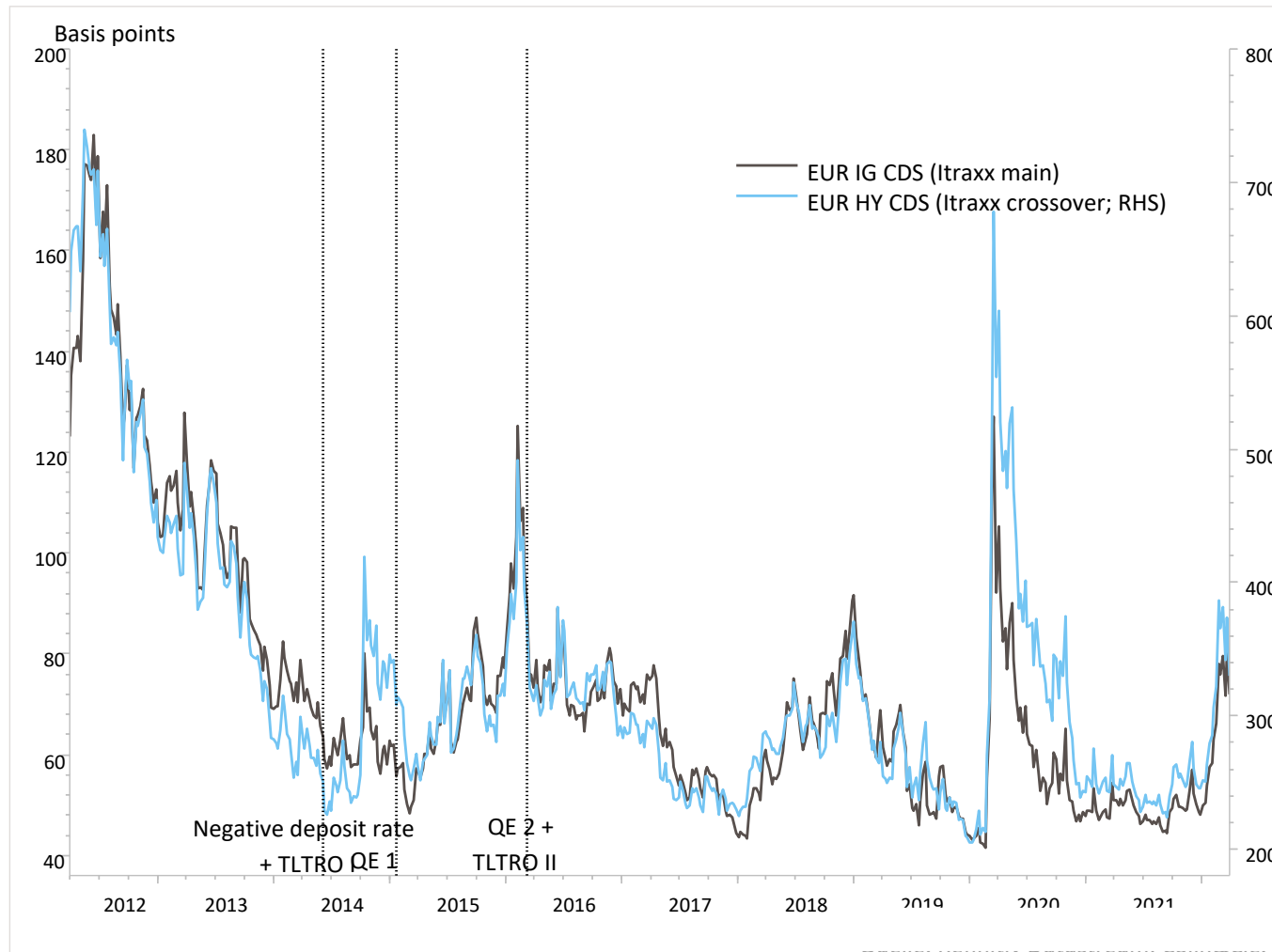


Assessment
Positive

- Justification
- Low risk premium on historical average
- Explanation
- The interest rate differential between the index and the government bond is a measure of the attractiveness of the bonds
 - Option Adjusted Spread (OAS) shows this interest rate difference to the government bond
 - The higher the difference, the more attractive
 - Independent of the interest rate level and thus comparable over time

Default risks

Credit Default Swaps: Corporate Europe



Assessment
Careful

Justification

- Rising default risks

Explanation

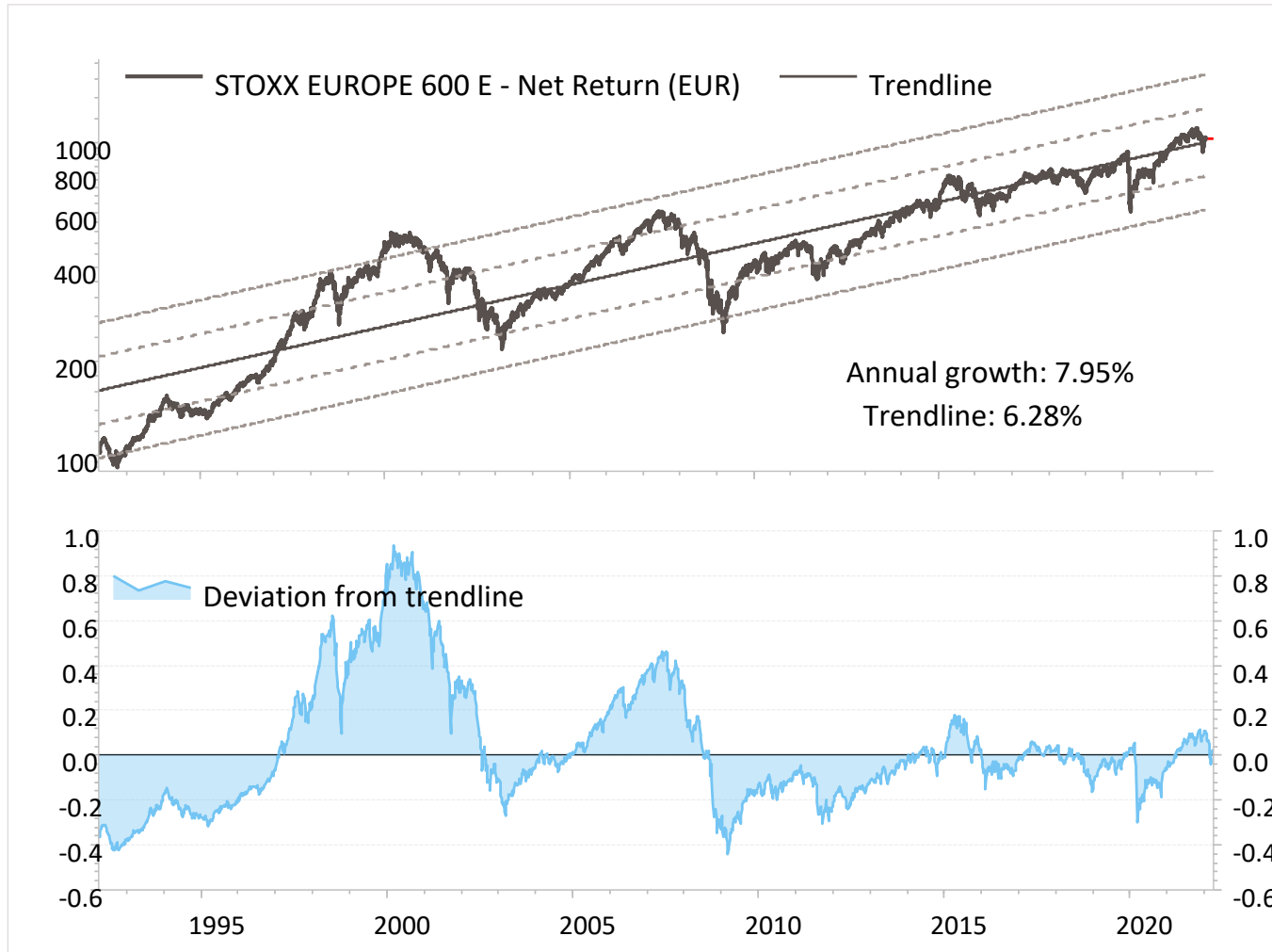
- A credit default swap (CDS) or credit default swap is a credit derivative in which default risks of loans, bonds or debtor names are traded
- Rising prices mean higher default risk

Details short-term situation assessment

Equities

Strategy / Trend channels

30 years (Europe)



Assessment
Neutral

Justification

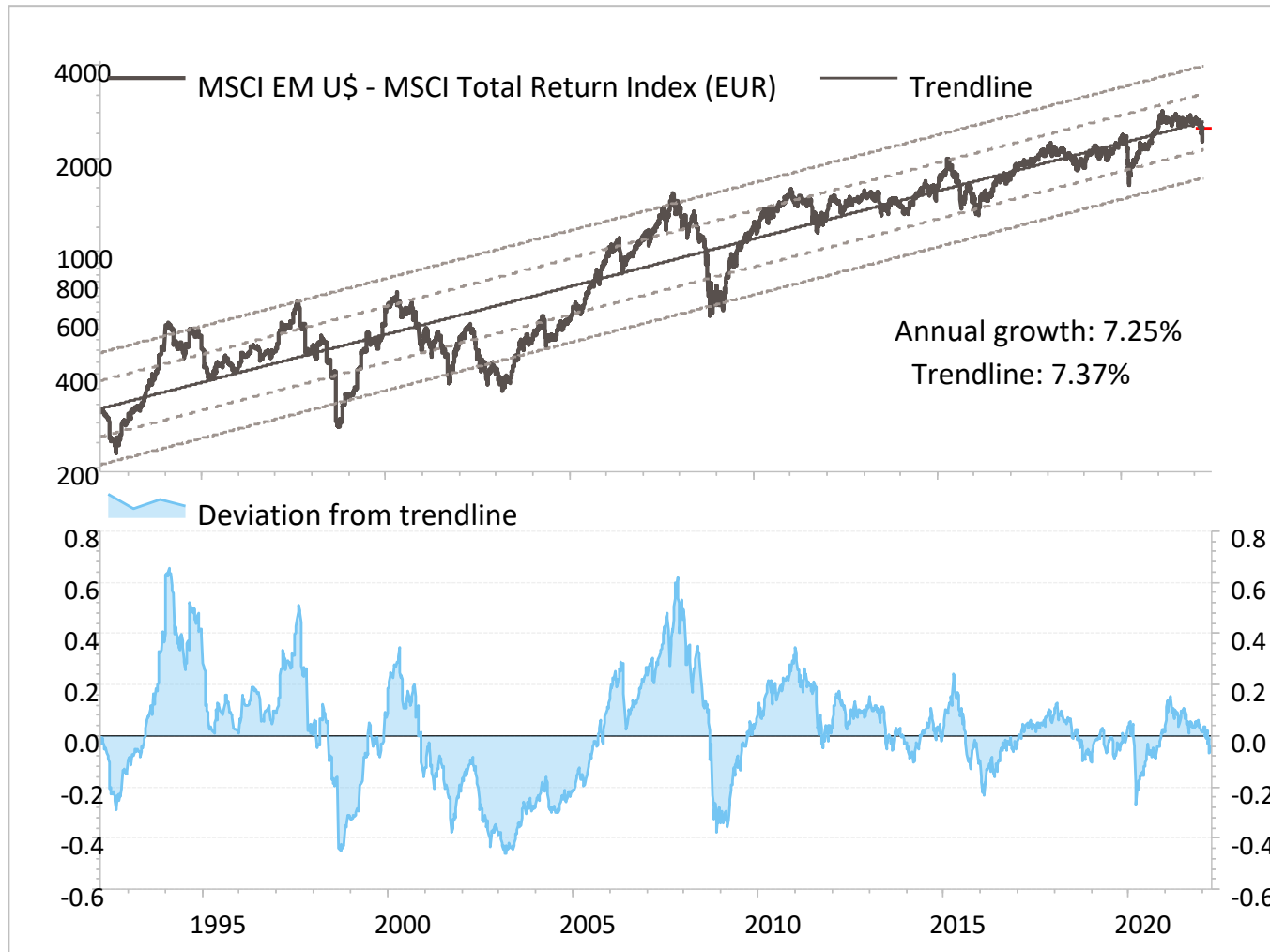
- Close to long-term trend growth
- No exaggeration in the current environment

Explanation

- Equity indices move in long-term trend channels and deviate to varying degrees from the average development

Strategy / Trend channels

30 years (emerging markets)



Assessment
Neutral

Justification

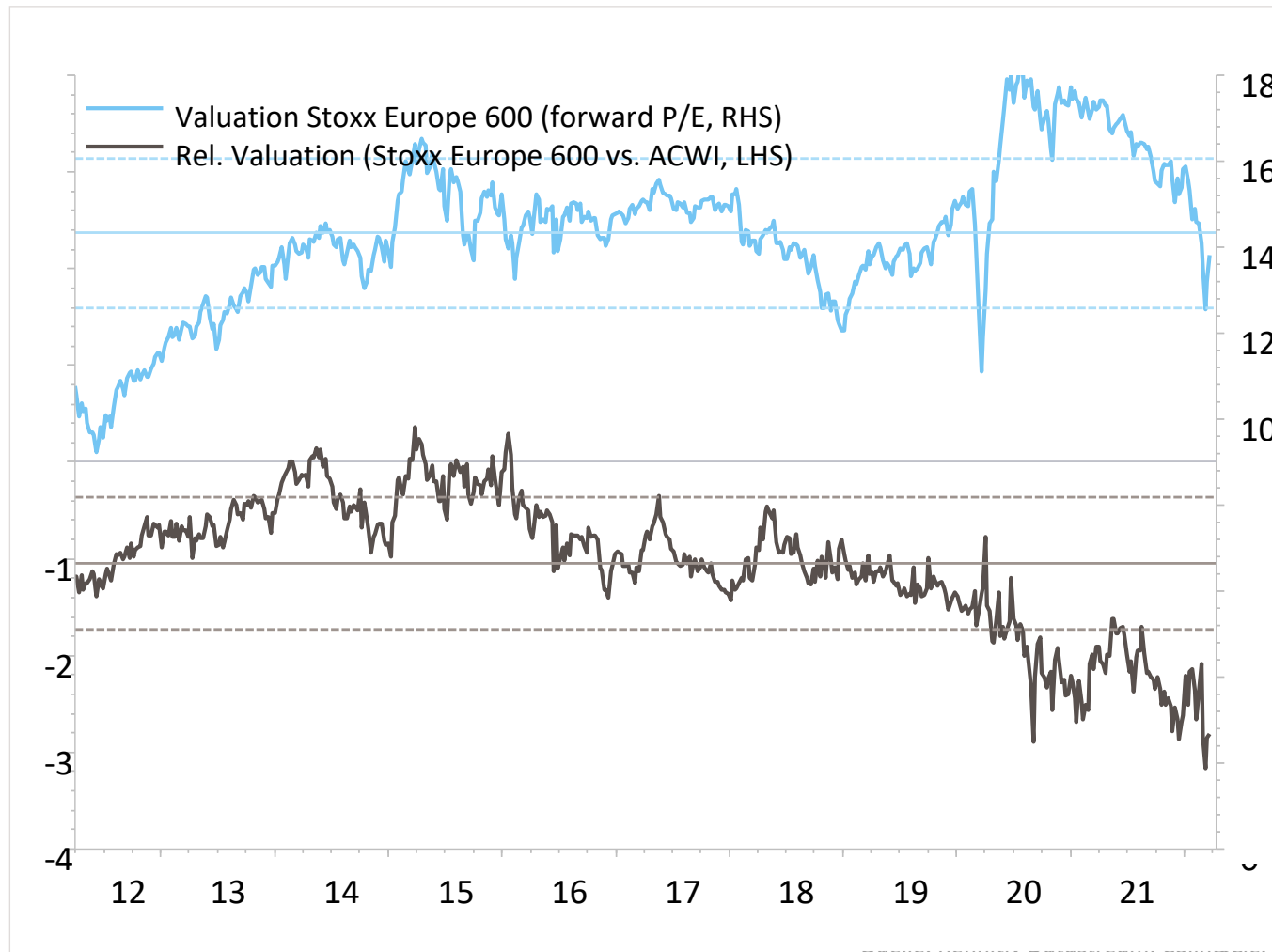
- Close to long-term trend growth
- No exaggeration in the current environment

Explanation

- Equity indices move in long-term trend channels and deviate to varying degrees from the average development

Valuations

P/E ratio absolute and relative (Europe)



Assessment
Positive

Justification

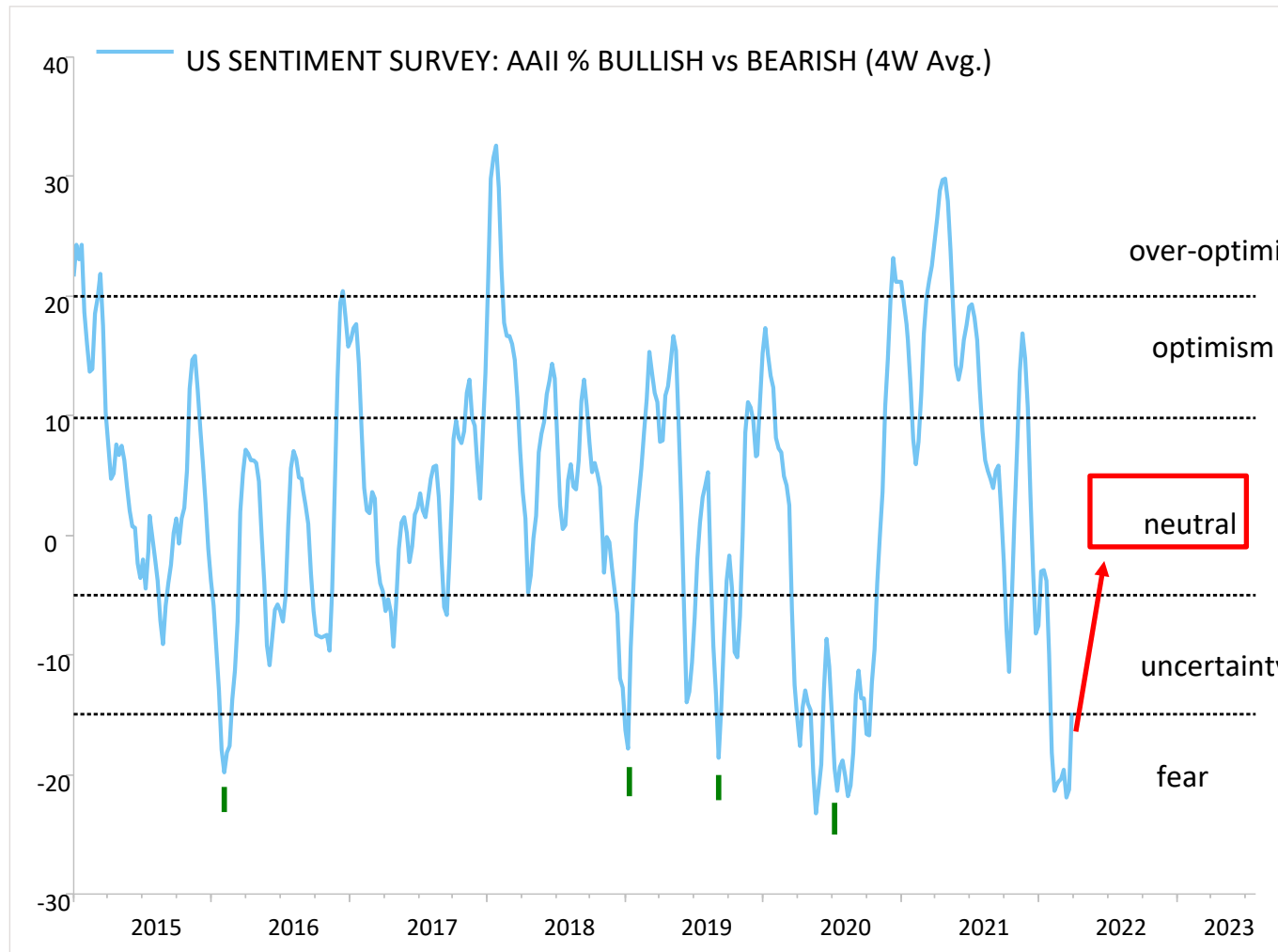
- Historically average valuation
- Attractive valuation relative to the world index

Explanation

- Valuation in 10-year historical comparison with average and standard deviation
- In case of extreme valuation compared to historical ranges positive or negative impulse

Sentiment

Sentiment Survey (Global)



Assessment
Very positive

Justification

- Negative assessment of private investors, the indicator remains in the fearful range
- To be rated positive as a contra indicator, as it contains a lot of negativity

Explanation

- The sentiment of private US investors is surveyed via a weekly poll
- Extreme position of the global sentiment index is to be interpreted as a contra-indicator

Market technique

200- and 50-day average (Global)



Assessment
Careful

Justification

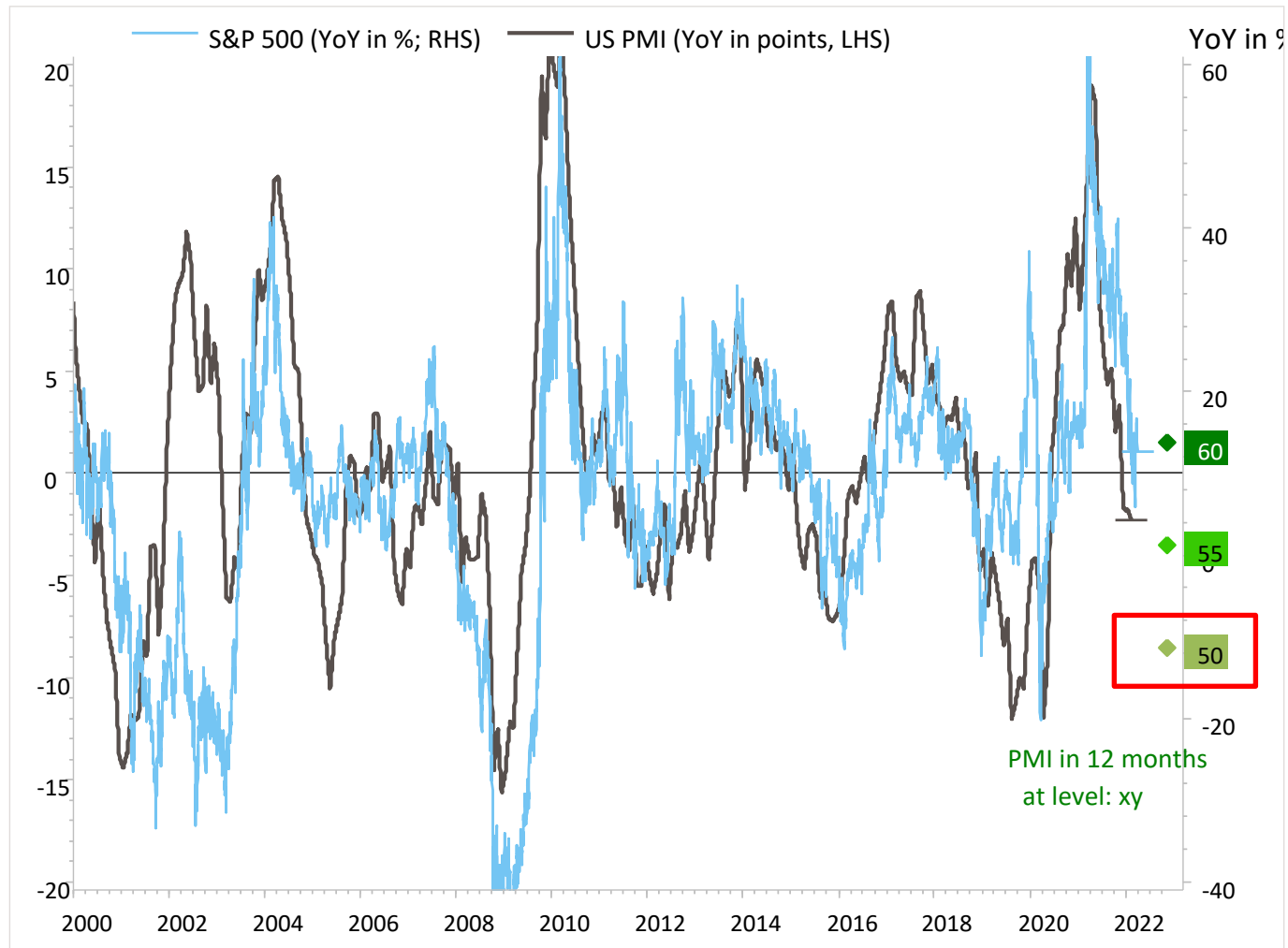
- Price below the two average lines
- Slope of the long-term trend (200 days): neutral
- Slope of the medium-term trend (50 days): falling

Explanation

- Comparison of the current price with the 50 and 200 day average lines
- 200-day average line: long-term trend
- 50-day average line: medium-term trend

Economy / Macro

PMI (USA) and S&P 500



Assessment
Careful

Justification

- Currently, equity markets are pricing in a better economic development (PMI>50)
- A PMI of 50 corresponds to a correction potential of 10% from the current level

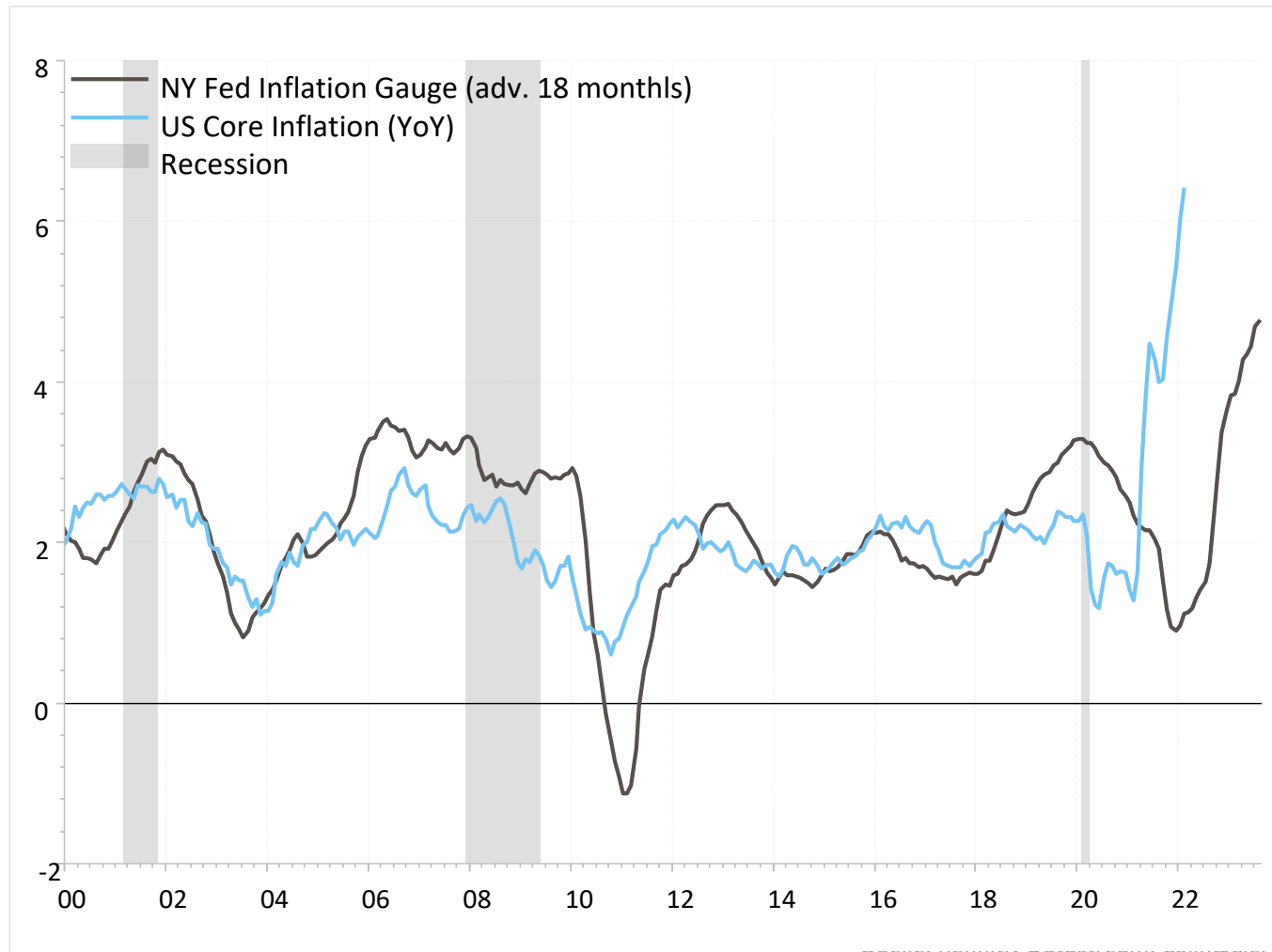
Explanation

- S&P 500 year-on-year shows the stock market's expectation for the economic cycle

Details short-term situation assessment Commodities— Precious Metals

Economy / Macro

Monetary policy: Inflation expectations



Assessment
Positive

Justification

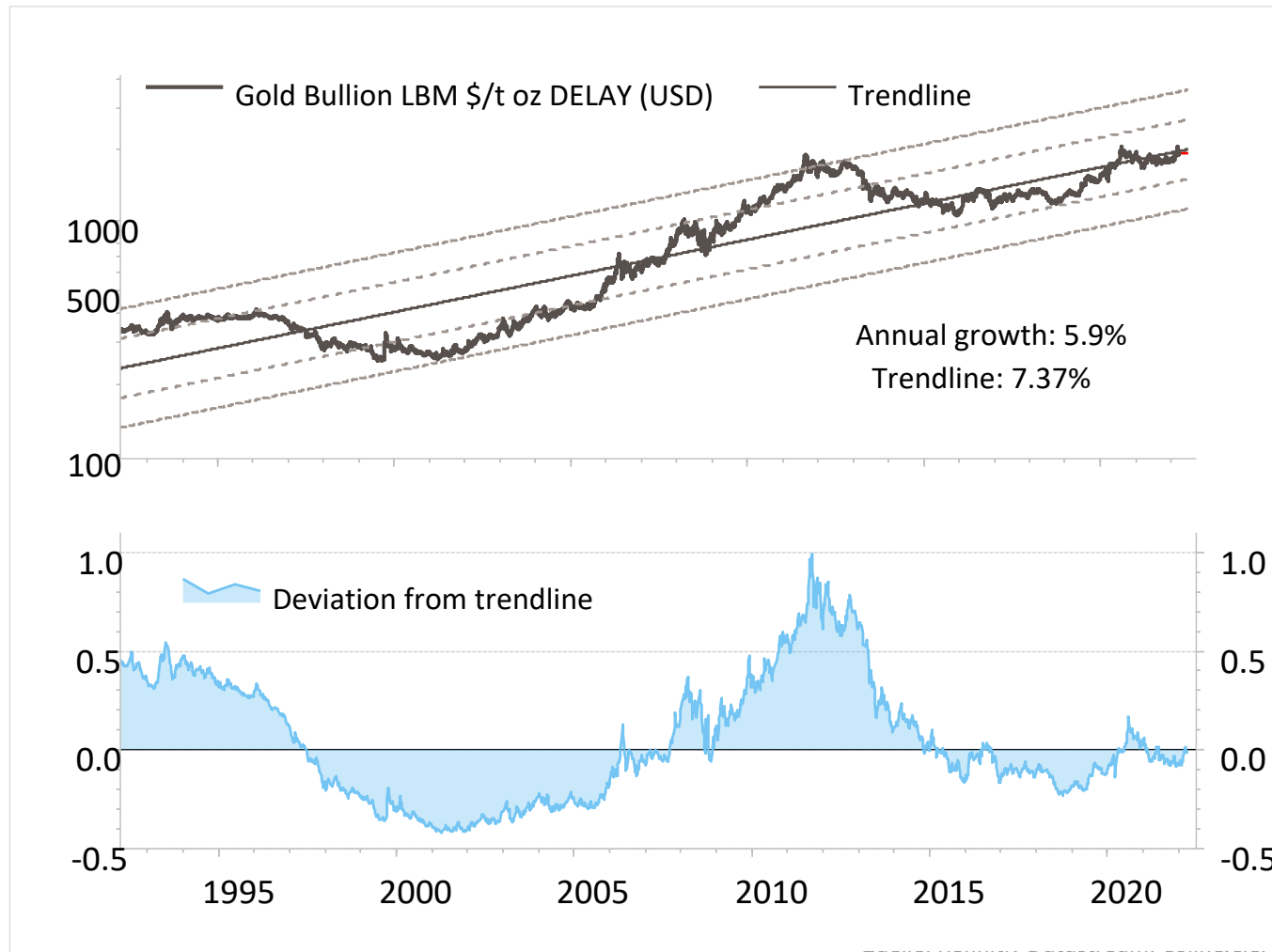
- Inflation estimates have bottomed out and are rising.

Explanation

- NY Fed inflation estimate with focus on the sustainable inflation driver
- The estimation follows the idea that inflation is subject to a variety of macroeconomic variables, which are aggregated with modern statistical models

Strategy / Trend channels

30 years (gold)



Assessment
Neutral

Justification

- Very close to the long-term trend line
- Average annual growth of approx. 5%

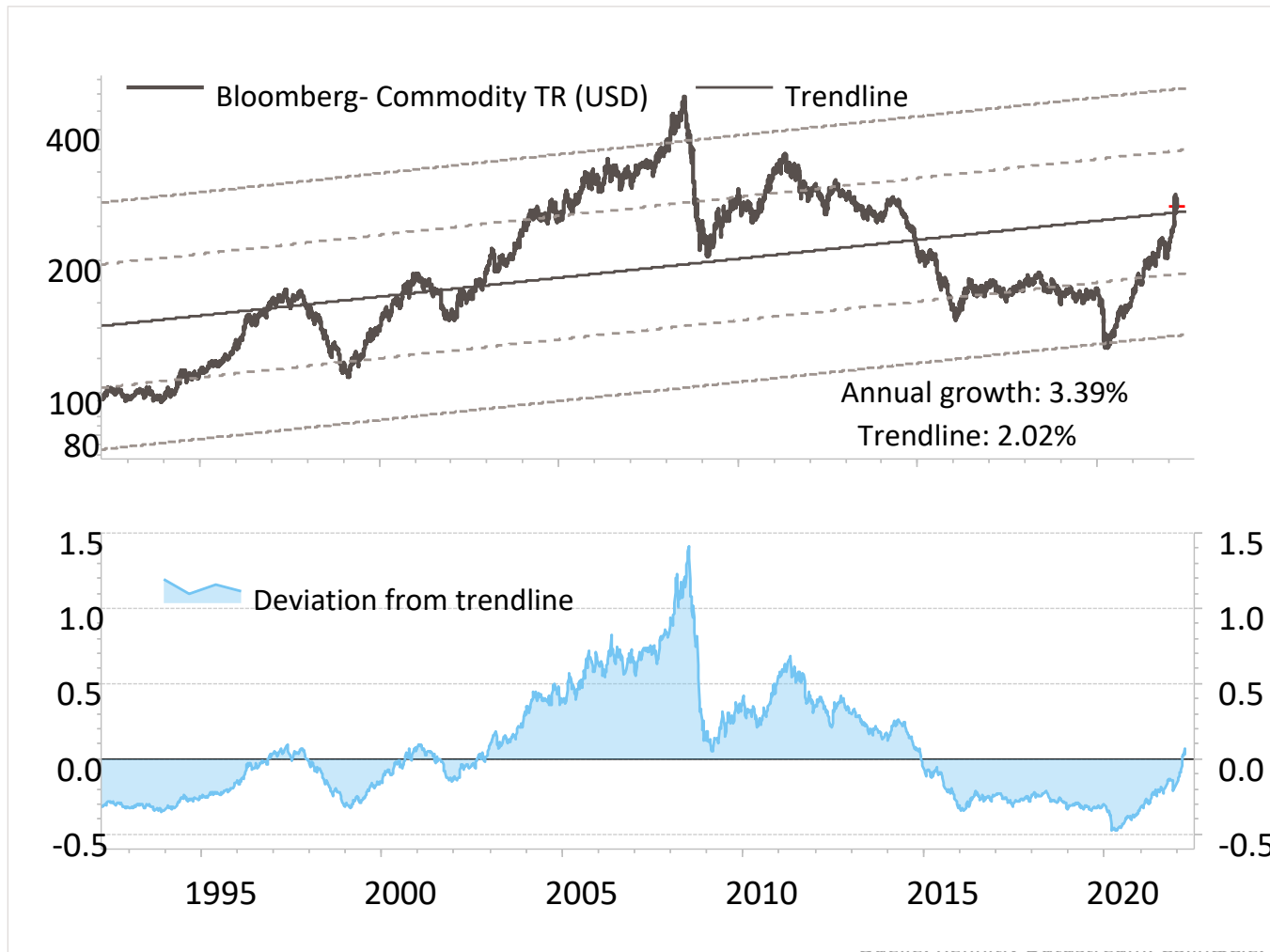
Explanation

- Gold price moves in a long-term trend channel and deviates from the average trend to varying degrees

Details short-term situation assessment Commodities— Raw Materials

Strategy / Trend channels

30 years (commodities)



Assessment
Neutral

Justification

- Strong deviation from the trend line
- Within the simple standard deviation

Explanation

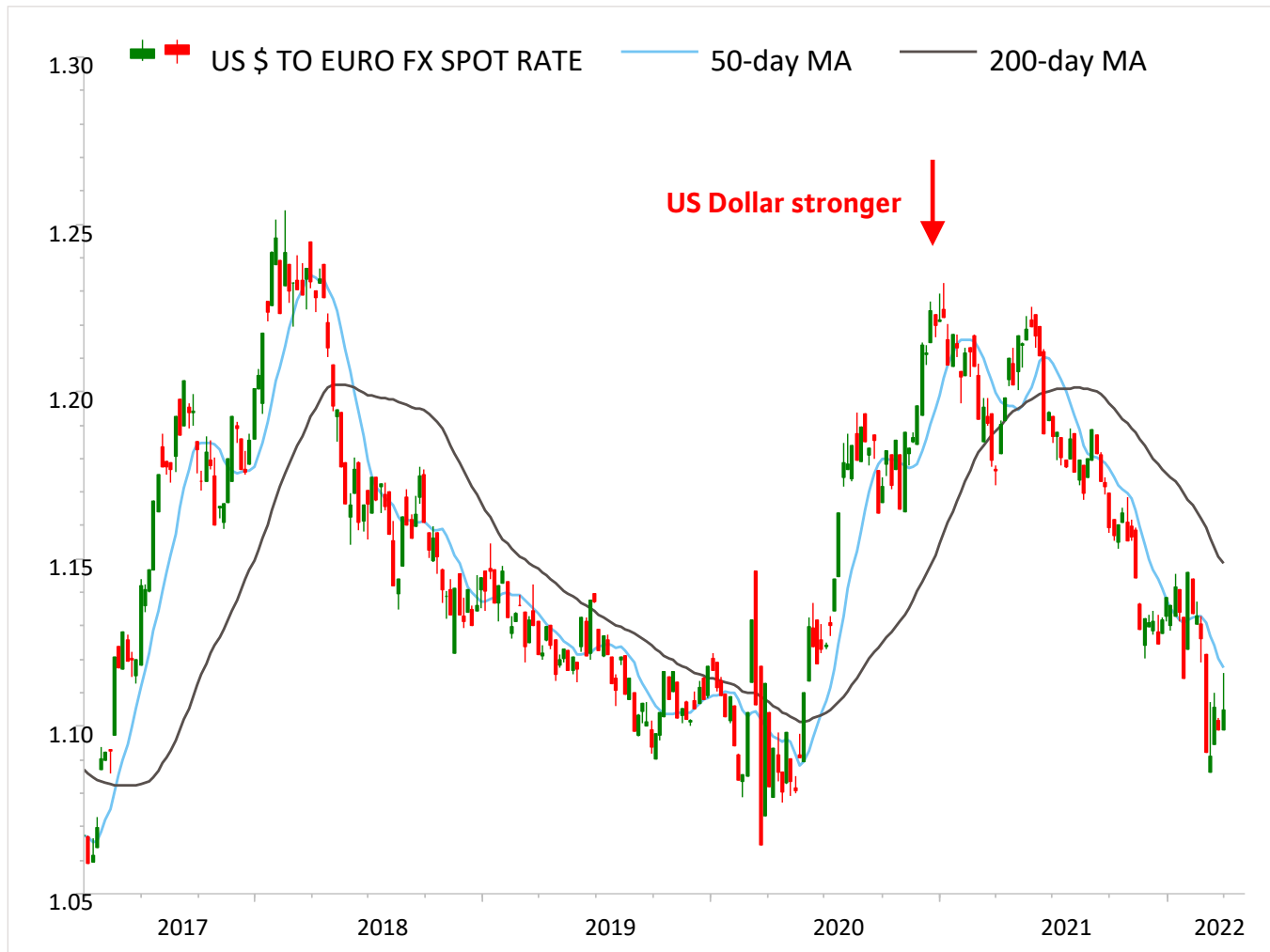
- Commodity index (Bloomberg Commodity Index) moves in a trend channel
- Commodities include energy, precious and industrial metals and agricultural goods

Details short-term situation assessment

Currencies

Market technique

200- and 50-day moving average (EUR/USD)

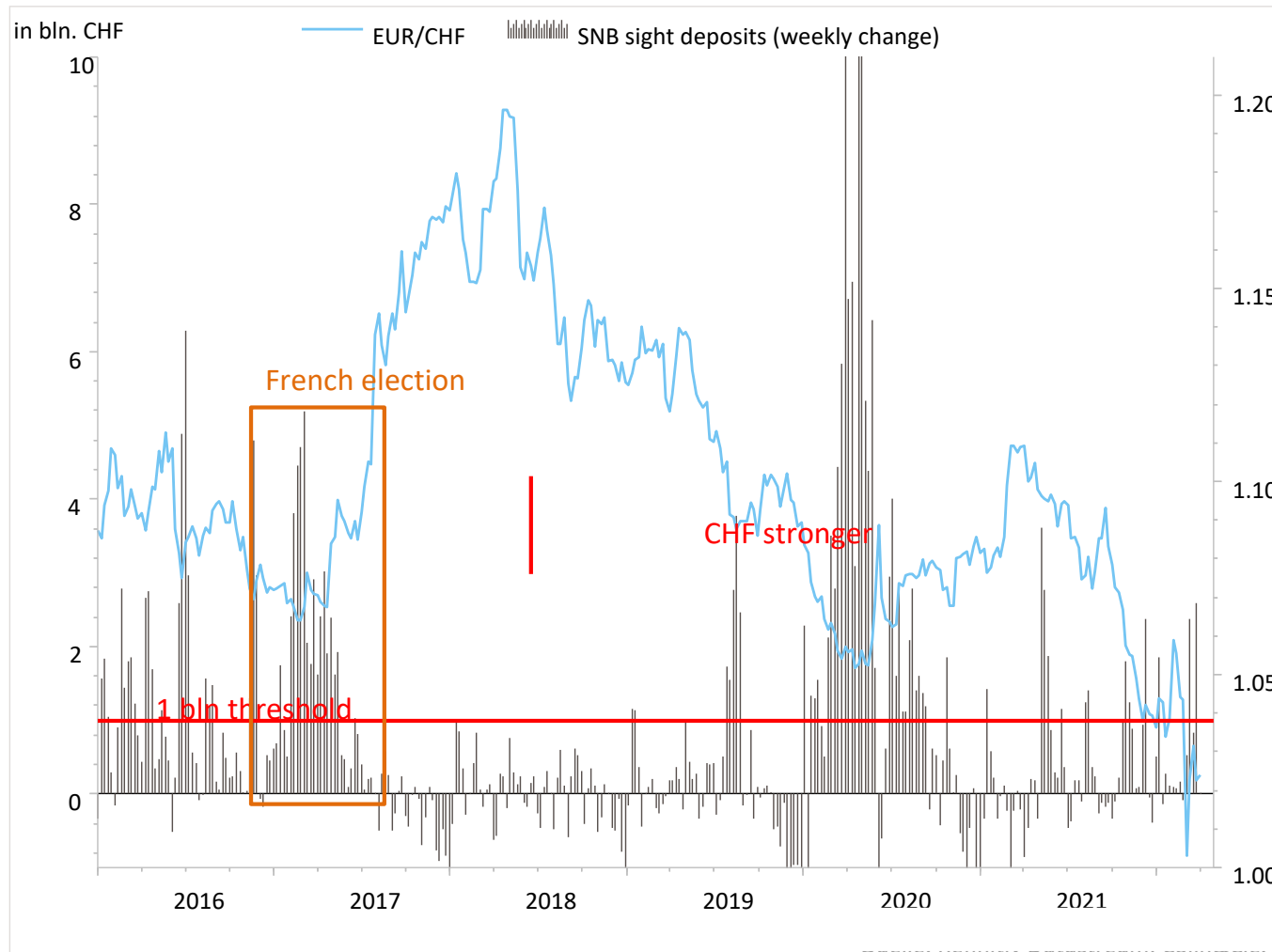


Assessment
Positive

- Justification
- Price below the two average lines
 - Slope of the long-term trend (200 days): negative (USD strength)
 - Slope of medium-term trend (50 days): negative (USD strength)
- Explanation
- Comparison of the current price with the 50 and 200 day average lines
 - 200-day average line: long-term trend
 - 50-day average line: medium-term trend

Policy

Central bank policy: SNB sight deposits



Assessment
Neutral

Justification

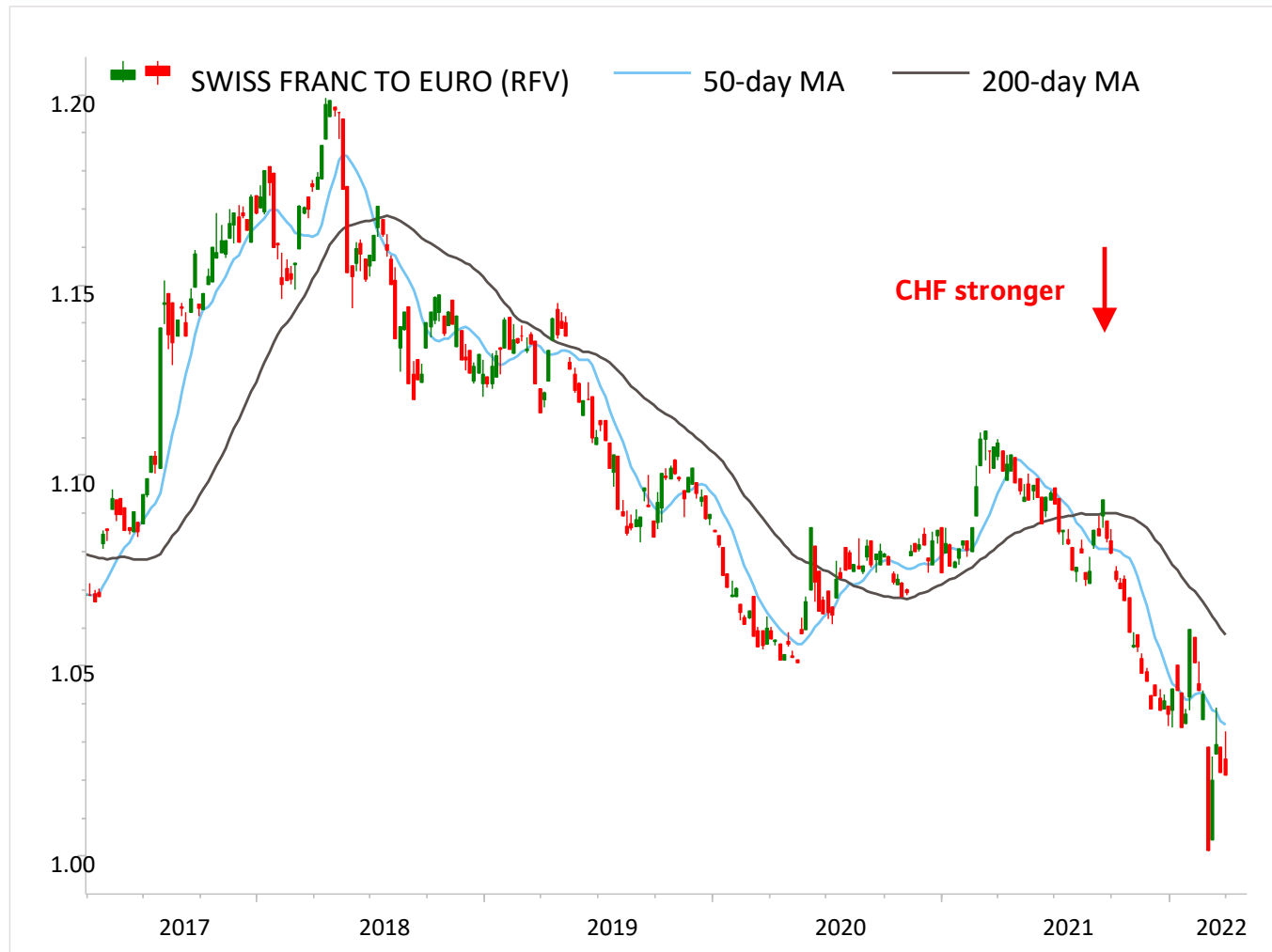
- No/low intervention

Explanation

- The development of sight deposits is considered an indication of whether the SNB intervenes in the foreign exchange market to weaken the Swiss franc
- The central bank buys foreign currencies and credits the banks with the corresponding amount of Swiss francs on their SNB accounts

Market technique

200- and 50-day moving average (EUR/CHF)



Assessment
Positive

- Justification
- Course between the two average lines
 - Slope of the long-term trend (200 days): positive
 - Slope of the medium-term trend (50 days): neutral

- Explanation
- Comparison of the current price with the 50 and 200 day average lines
 - 200-day average line: long-term trend
 - 50-day average line: medium-term trend

Details short-term situation assessment

News

Ukraine crisis

Work scenarios

	Scenarios	Description	Affected asset classes
Current baseline scenario	Deposition of Putin	<ul style="list-style-type: none"> - Coup from within the Russian government, e.g. via oligarchs - Political orientation unclear, but conciliatory thrust - Sanctions are lifted 	<ul style="list-style-type: none"> - Equities: +20% - Bonds +5% - Commodities: -20%
	Sustainable peace negotiations	<ul style="list-style-type: none"> - Search for a face-saving solution for all parties involved - Division into a Russian and Ukrainian part - Sanctions are gradually being lifted 	<ul style="list-style-type: none"> - Equities: +10% - Bonds +/-0% - Commodities: -10%
	Ongoing conflict/war	<ul style="list-style-type: none"> - Long lasting war - Sanctions against Russia remain in place - Influence on financial markets decreases after initial uncertainty (bottoming out after 20 days after outbreak of war) 	<ul style="list-style-type: none"> - Equities: +/-10% - Bonds +/-0% - Commodities : +10
	Russia wins	<ul style="list-style-type: none"> - Russia's military victory over Ukraine - Installation of a pro-Russian government in Ukraine - Sanctions against Russia remain in place 	<ul style="list-style-type: none"> - Equities: -10% - Bonds -5% - Commodities: +20%
	Escalation of the conflict with NATO participation	<ul style="list-style-type: none"> - Involvement of NATO in conflict - Outbreak of World War 3 with use of nuclear weapons 	<ul style="list-style-type: none"> - Equities: -40% - Bonds +10% - Commodities: -40%

Overview of all short-term indicators

Short-term situation assessment

Summary

Asset class	Estima- tion	TAA - 0 +	Analysis											
Liquidity														
Bonds														
Government Bonds	Negative		Macro	Int. rate policy	Yield		Default risk	Correlation	Uncertainty	News	Partner			
Investment Grade	Neutral		Macro	Int. rate policy	Yield	Premium	Default risk	Correlation	Uncertainty	News	Partner			
High Yield	Neutral		Macro	Int. rate policy	Yield	Premium	Default risk	Correlation	Uncertainty	News	Partner			
Emerging Markets	Neutral		Macro	Int. rate policy	Yield	Premium	Default risk	Correlation	Uncertainty	News	Partner			
Equities	Neutral		Macro	Mon. policy	Trend	Profits	Evaluation	Mood	Technology	News	Partner			
Europe	Positive		Macro	Mon. policy	Trend	Profits	Evaluation	Mood	Technology	News	Partner			
USA	Neutral		Macro	Mon. policy	Trend	Profits	Evaluation	Mood	Technology	News	Partner			
Emerging Markets	Neutral		Macro	Mon. policy	Trend	Profits	Evaluation	Mood	Technology	News	Partner			
Technology	Careful		Macro	Mon. policy	Trend	Profits	Evaluation	Mood	Technology	News				
Health Care	Careful		Macro	Mon. policy	Trend	Profits	Evaluation	Mood	Technology	News				
Commodities														
Gold	Neutral		Macro	Mon. policy	Trend	US dollar	Evaluation	Mood	Technology	News	Partner			
Raw Materials	Neutral		Macro	Mon. policy	Trend	US Dollar		Mood	Technology	News	Partner			
Alternative Investments														
Private Debt														
Private Equity														
Diversified (HF)														

Short-term situation assessment

Summary

Asset class	Estima- tion	TAA - 0 +	Analysis										
Euro													
<i>US Dollar (EUR/USD)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner		
<i>Franc (EUR/CHF)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation		Technology	News	Partner		
<i>Pound (EUR/GBP)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation		Technology	News	Partner		
Swiss Franc													
<i>US dollar (USD/CHF)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner		
<i>Euro (EUR/CHF)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation		Technology	News	Partner		
Pound sterling													
<i>US Dollar (GBP/USD)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner		
<i>Euro (EUR/GBP)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation		Technology	News	Partner		
US Dollar													
<i>Euro(EUR/USD)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner		
<i>Swiss franc (USD/CHF)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner		
<i>Pound (GBP/USD)</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner		
<i>US Dollar Index</i>	Neutral		Macro	Politics	Trend	Interest	Evaluation	Mood	Technology	News	Partner		

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