

CURRENT SITUATION ASSESSMENT

1st quarter 2023

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	Careful			5,7%	5,6%	0,5-1%	Careful		Negative	Negative	
Investment Grade	Neutral			4,5%	3,7%	1,5-2,5%	Neutral		Neutral	Careful	
High Yield	Neutral			5,1%	12,6%	5,5-6,5%	Neutral		Neutral	Neutral	
Emerging Markets	Neutral			7,4%	7,8%	5,5-6,5%	Neutral		Neutral	Neutral	
Equities	Positive			7,7%	17,2%	6-8%	Neutral		Neutral	Careful	
Europe	Neutral			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	Neutral					6-8%	Neutral		Careful	Careful	
Health Care	Neutral					6-8%	Neutral		Careful	Neutral	
Commodities											
Gold	Neutral			4,5%	15,5%	4-5%	Neutral		Neutral	Neutral	
Raw Materials	Careful			1,9%	15,1%	3-4%	Neutral		Positive	Neutral	
Alternative investments											
Private Debt	Neutral					4-6%	Neutral		Neutral	Neutral	
Private Equity	Neutral					3-4%	Neutral		Neutral	Careful	
Diversified (HF)	Neutral			4,4%	6%	8-10%	Neutral		Neutral	Careful	
				4,4%	6%	4-5%	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 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 cyclical low in March 2023, until then further decline in economic momentum, or recessionary trend from the beginning of 2023 onwards Stable labour markets and declining commodity prices as well as fiscal policy support lead to a mild recession at most Decline in commodity prices brings lower inflation/consumer prices 	<ul style="list-style-type: none"> OECD leading indicator (9) Labour market (10) Fiscal policy (11) Expected crude oil price development with inflation expectations (12) Inflation expectations (12) Expected interest rate steps of the US central bank, derived from the futures market curve (10)
Interest	<ul style="list-style-type: none"> Fiscal policy measures bring inflationary pressure Although inflation has gone beyond the extremes, it is likely to remain slightly above the central banks' target rate of 2-3% in the longer term. Short-term interest rates rise steadily due to persistent inflationary pressures (above 2%) Even with long-term interest rates, the trend towards rising interest rates persists 	<ul style="list-style-type: none"> Extreme inflation levels have been exceeded Futures markets signal end of European Central Bank rate hike End of US rate hike imminent: Historically reliable signal whenever 2-year government bonds come in below the key rate Long-term interest rates are also showing signs of reaching a peak (US 10-year interest rate heading towards 3%). 	<ul style="list-style-type: none"> Inflation expectations (14) Expected interest rate steps of the European Central Bank (ECB), derived from the futures market curve (15) Interest rate cycle US: End of key rate hike (16)

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Bonds	<ul style="list-style-type: none"> ▪ After the rise in interest rates, yields have become more attractive again ▪ Government bonds and investment grade bonds are vulnerable to interest rate changes, which is why we prefer maturities of 3-4 years maximum ▪ Both investments are irreplaceable as defensive building block (low or negative correlations with equities) in the portfolio ▪ High-yield and emerging market bonds have a higher risk profile, but promise higher yields as compensation 	<ul style="list-style-type: none"> ▪ We are holding on to short maturities, even though we consider the risk of further interest rate increases to be low ▪ The increased risk premiums offer opportunity and increase the attractiveness in addition to the increased expiry yields ▪ Government bonds become more attractive, but remain less attractive compared to bonds of first-class borrowers due to the somewhat lower yield potential ▪ Investment grade bonds bring stability to the portfolio due to the low correlation to equities and are preferable to government bonds because of the yield buffer (higher compared to government bonds) ▪ High-yield and emerging market bonds are significantly above target returns, but also have a higher risk due to the higher correlation to equities ▪ In a weak economic environment, high-yield and emerging market bonds are additionally exposed to rising default risk 	<ul style="list-style-type: none"> ▪ Comparison YTM (18) ▪ Risk premiums (19) ▪ Default risks (20)

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Shares	<ul style="list-style-type: none"> ▪ Fiscal policy measures provide a solid foundation for further gains ▪ The neutral valuation level argues for returns in line with the historical average of 6–8% in the long term ▪ The US benefits from a more aggressive 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) show their advantages in correction phases via lower fluctuation margins 	<ul style="list-style-type: none"> ▪ The equity market anticipates the coming economic low with a lead time of three to six months and prices in the brightening economic environment ahead of time (positive start to 2023) ▪ Price volatility remains high due to recession uncertainty ▪ However, a strong recession is already reflected in equity prices, which means that the bottoming out that started in Q4 2022 will continue in Q1 2023 ▪ Still very negative investor sentiment confirms that there is a lot of negativity in current prices ▪ The decline in inflation and interest rates additionally supports equities, especially the growth segment ▪ Not all indicators are positive: earnings development is still declining at partly still appealing valuation levels 	<ul style="list-style-type: none"> ▪ OECD leading indicator (9) ▪ Equities anticipate the economic cycle (22) ▪ Recession in equities priced in (23) ▪ Negative investor sentiment (24) ▪ Bottom formation continues (25) ▪ Regional differences in earnings development (26) ▪ Regional differences in valuation (27)

Current situation assessment

Summary

	Long-term assessment (5 years)	Short-term assessment (9 months)	Justification (page)
Raw materials Precious metals	<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"> ▪ With the (real) decline in interest rates the attractiveness of gold increases ▪ After very positive development of commodities in 2022, the technical picture is becoming increasingly gloomy 	<ul style="list-style-type: none"> ▪ Real yields and gold (29) ▪ Market Technique Commodities (31) ▪ Mood raw materials (31)
Alternative investments	<ul style="list-style-type: none"> ▪ More attractive yield compared to fixed income ▪ Low correlation with 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 especially well for private debt ▪ Private equity is also subject to certain risks and cannot escape the volatility of traditional asset classes ▪ The outlook for private debt is positive ▪ The outlook for private equity is neutral, we expect volatility to decrease 	

Current situation assessment

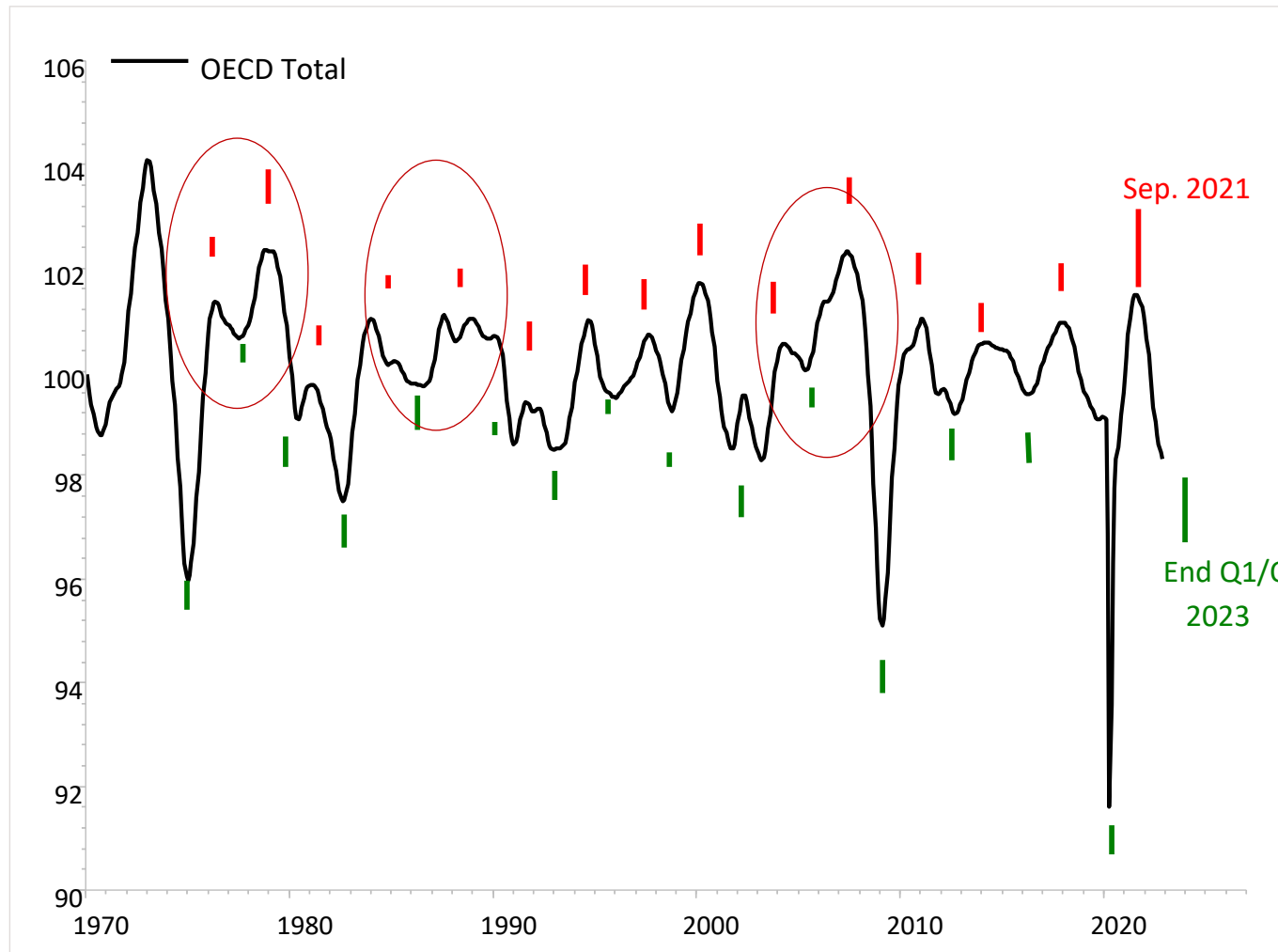
Summary

	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"> The trend reversal we expected in the US dollar occurred in Q4 Drivers for a weaker dollar are an improved equity market and the approaching end of the economic downturn US dollar trend reversal supported by still extreme trend divergence EUR/CHF interest rate differential speaks for a weaker franc 	<ul style="list-style-type: none"> US dollar and the economy (33) EUR/USD trend divergence (34) EUR/CHF interest rate differential (35)
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 global financial markets basically low 	<ul style="list-style-type: none"> Scenarios Ukraine (38)

Details short-term situation assessment Economy / Macro

Economy/Macro

OECD Leading Indicator (Global)



Assessment
Careful

Justification

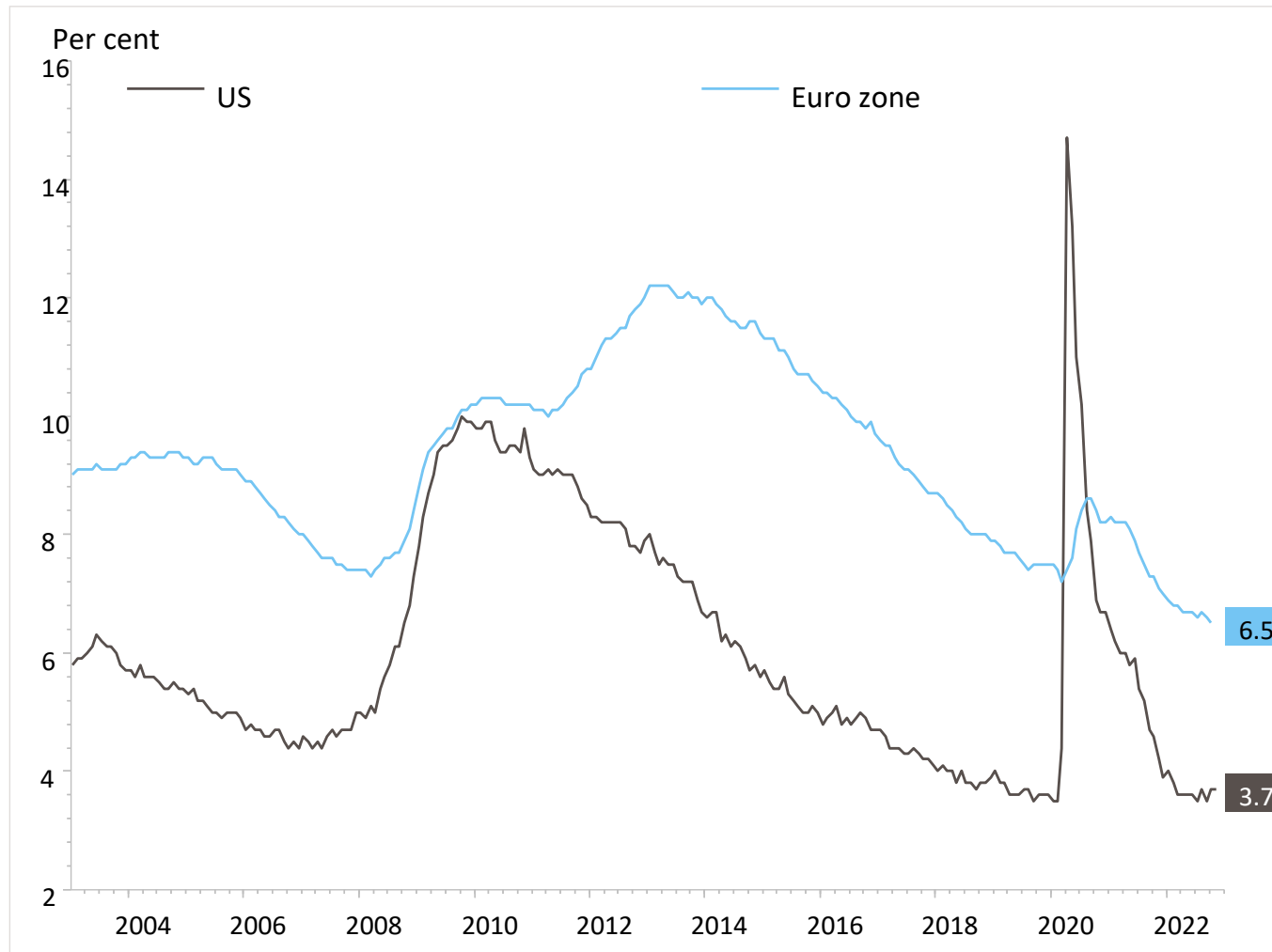
- Significant recovery after the Corona shock 2020
- Resumption of the normal, historical cycle

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

Unemployment rate (Global)



Assessment
Positive

Justification

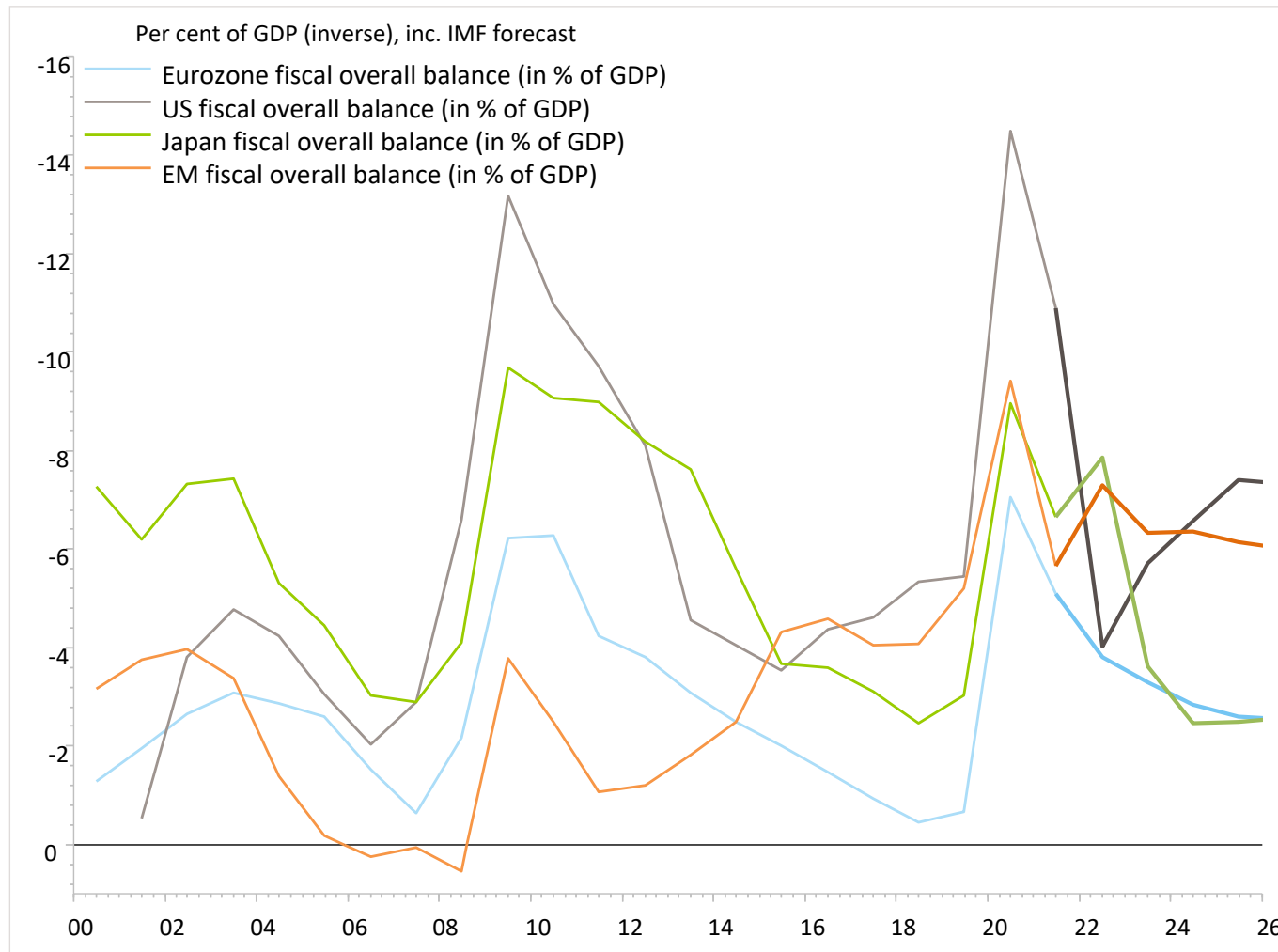
- Decline in US unemployment rate positive
- At a historically low level

Explanation

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

Economy/Macro

Fiscal programmes (Global)



Assessment
Neutral

Justification

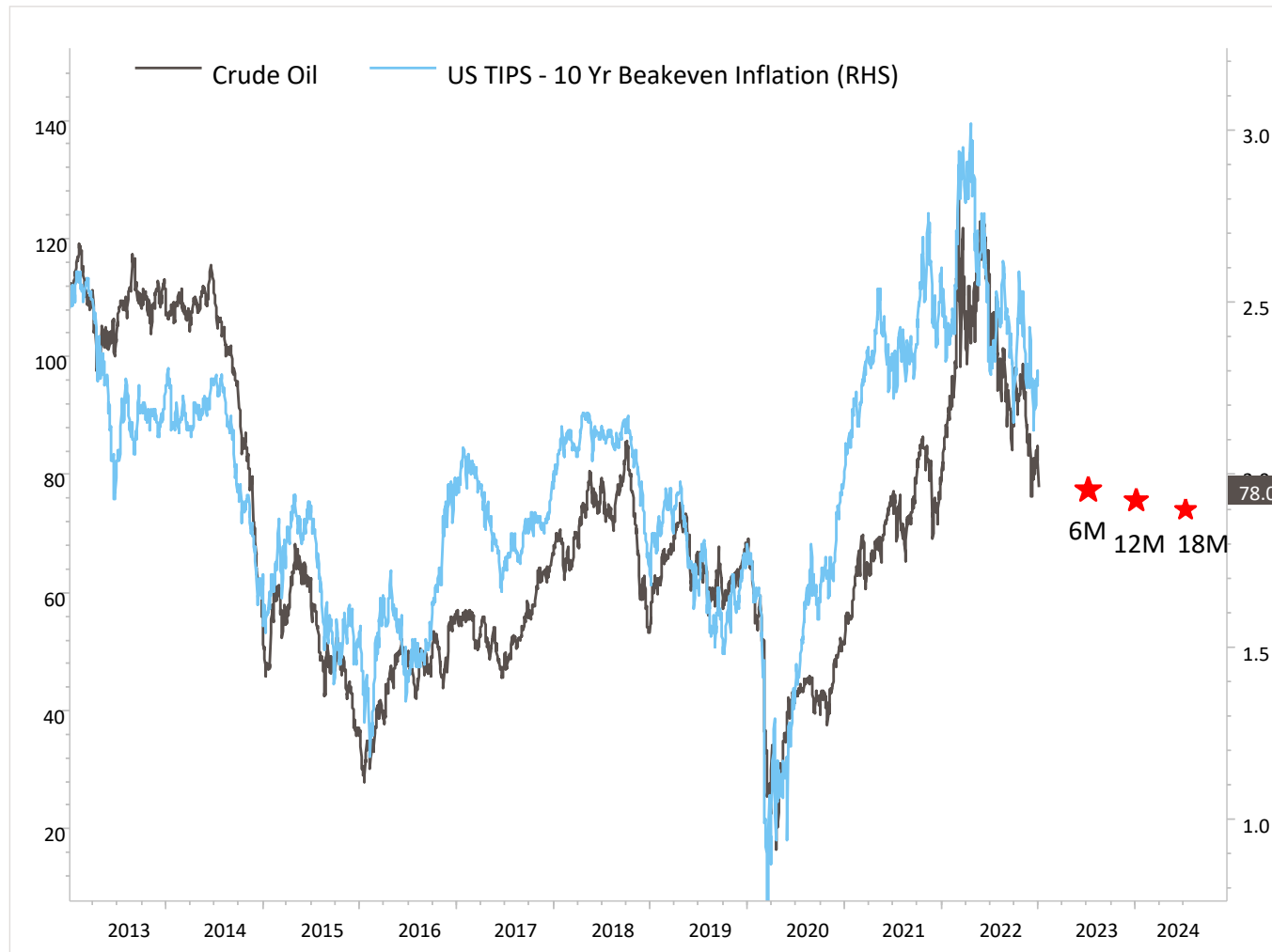
- Historically high level of fiscal programmes
- USA higher than Europe
- Emerging markets with strongest long-term momentum

Explanation

- Expectations of the International Monetary Fund (IMF) regarding the upcoming fiscal programmes

Economy/Macro

Monetary policy: Inflation



Assessment
Positive

Justification

- Inflation expectations will decline as crude oil prices fall

Explanation

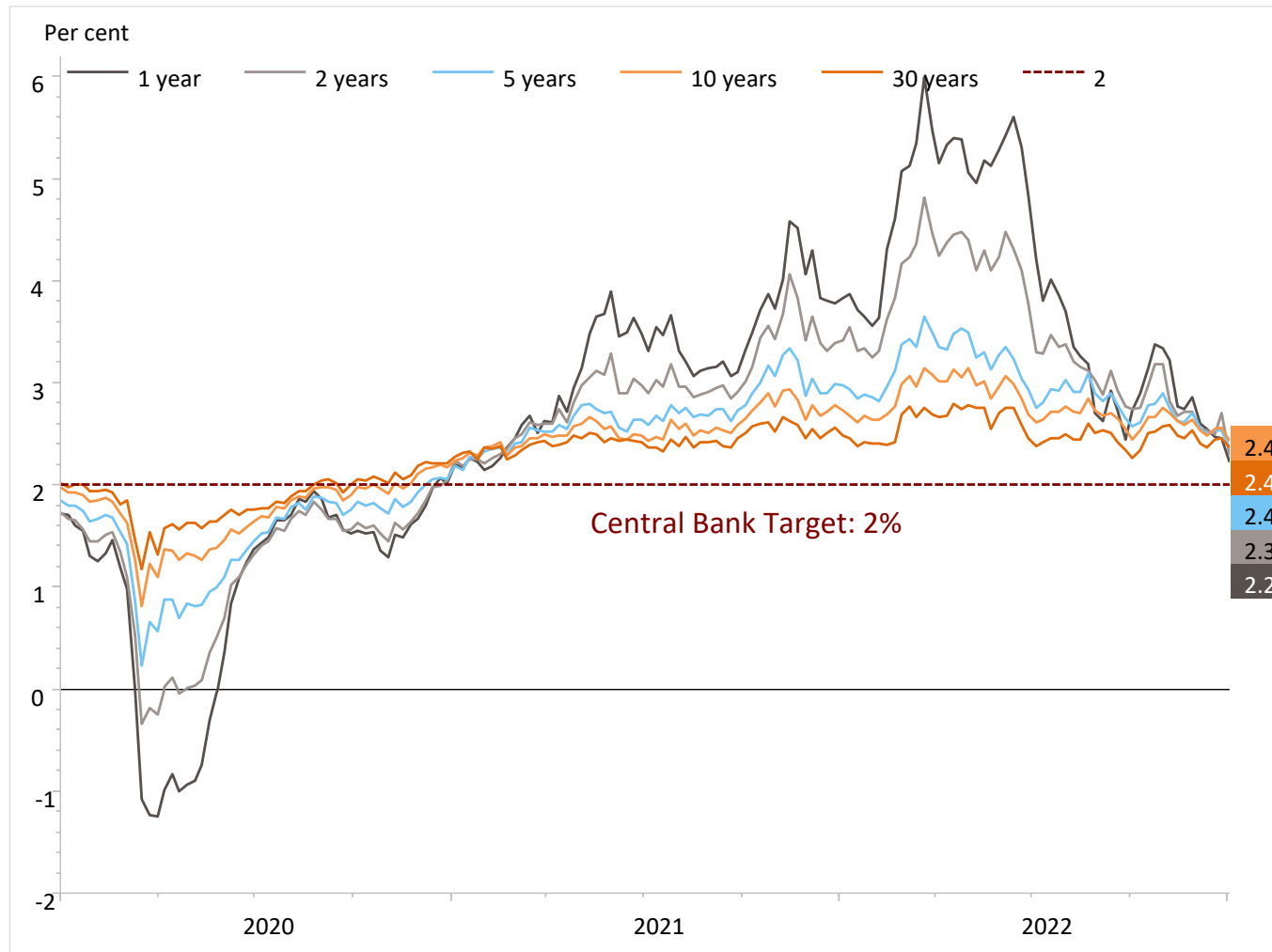
- Strong correlation between crude oil price and inflation expectations
- Expected development of crude oil price in 6M, 12M and 18M

Details short-term situation assessment

Interest rate policy

Economy/Macro

Monetary policy: inflation expectations



Assessment
Careful

Justification

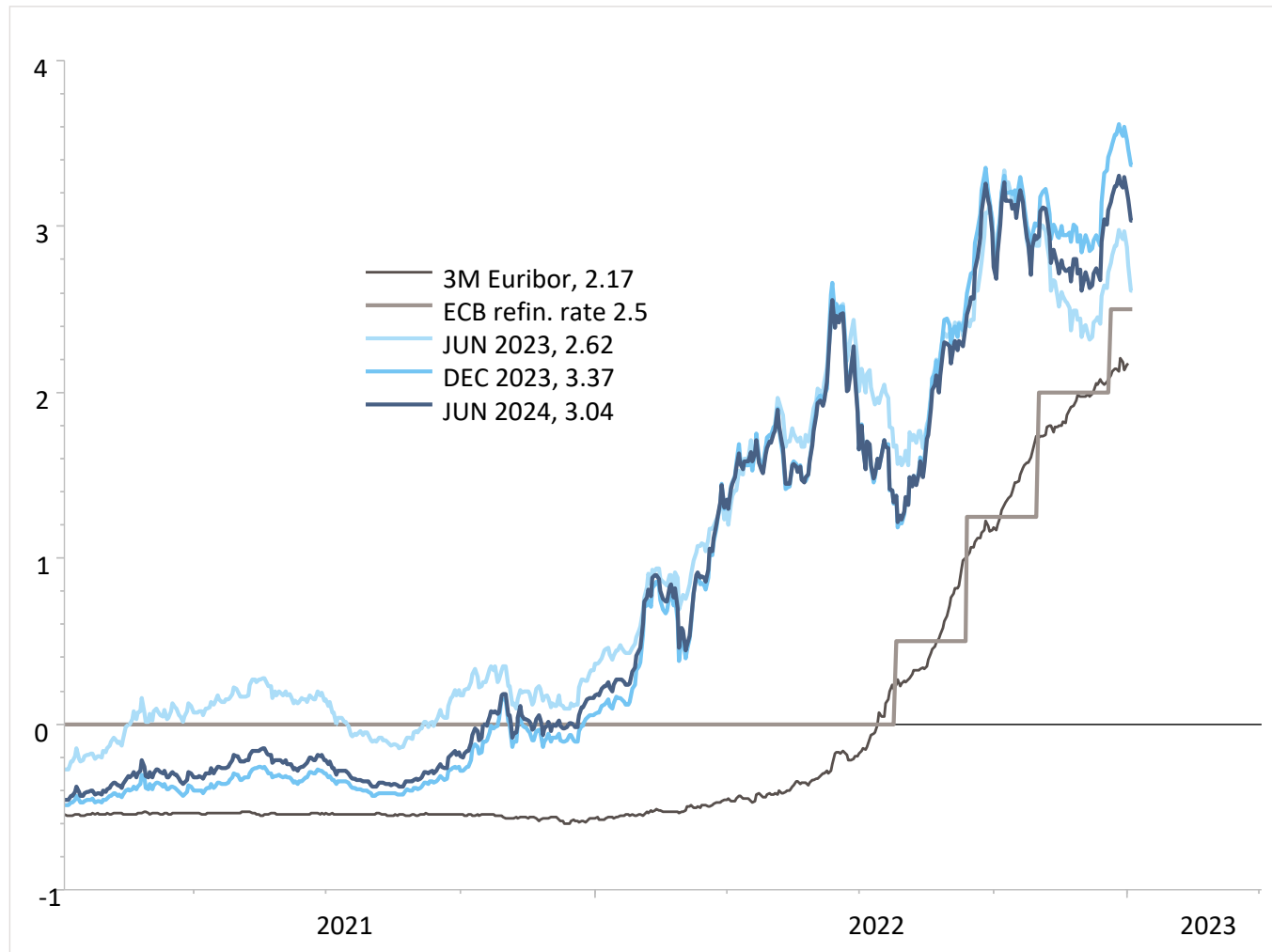
- As commodity prices rise, inflation figures settle at a higher level compared to the pre-Corona period
- Central banks' inflation target (2%) is exceeded, but is at the upper end of the central banks' comfort zone

Explanation

- Inflation expectations derived from the bond swap market for the coming 1, 2, 5, 10 and 30 years

Interest rate policy

Implicit interest rate expectations (Europe)



Assessment
Neutral

Justification

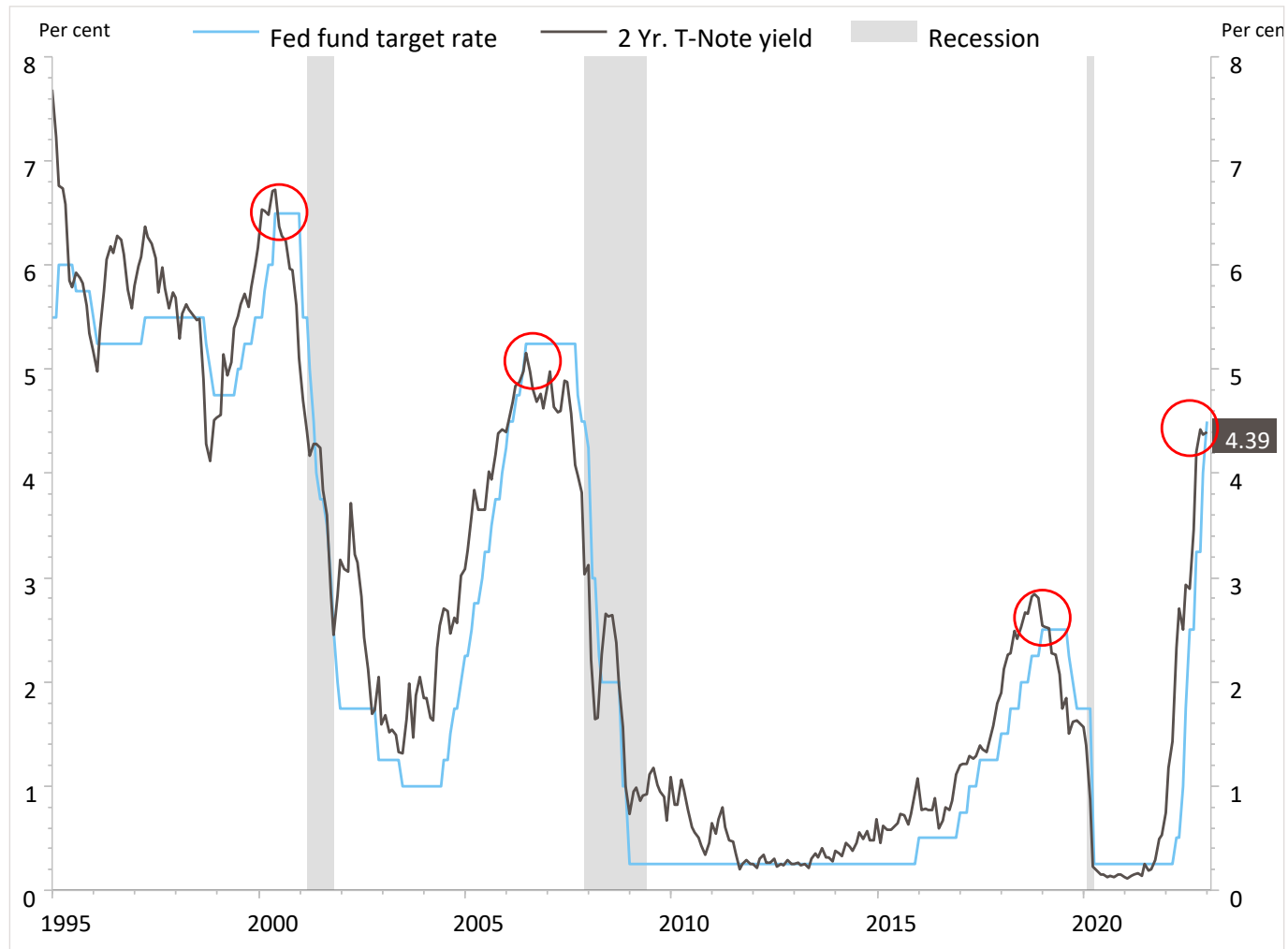
- The market anticipates further interest rate hikes and has priced them in

Explanation

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

Interest rate policy

Interest rate cycle: Fed Fund vs 2-year Treasury



Assessment
Positive

Justification

- 2-year rate anticipates key interest rate hikes
- Peak reached in key interest rates

Explanation

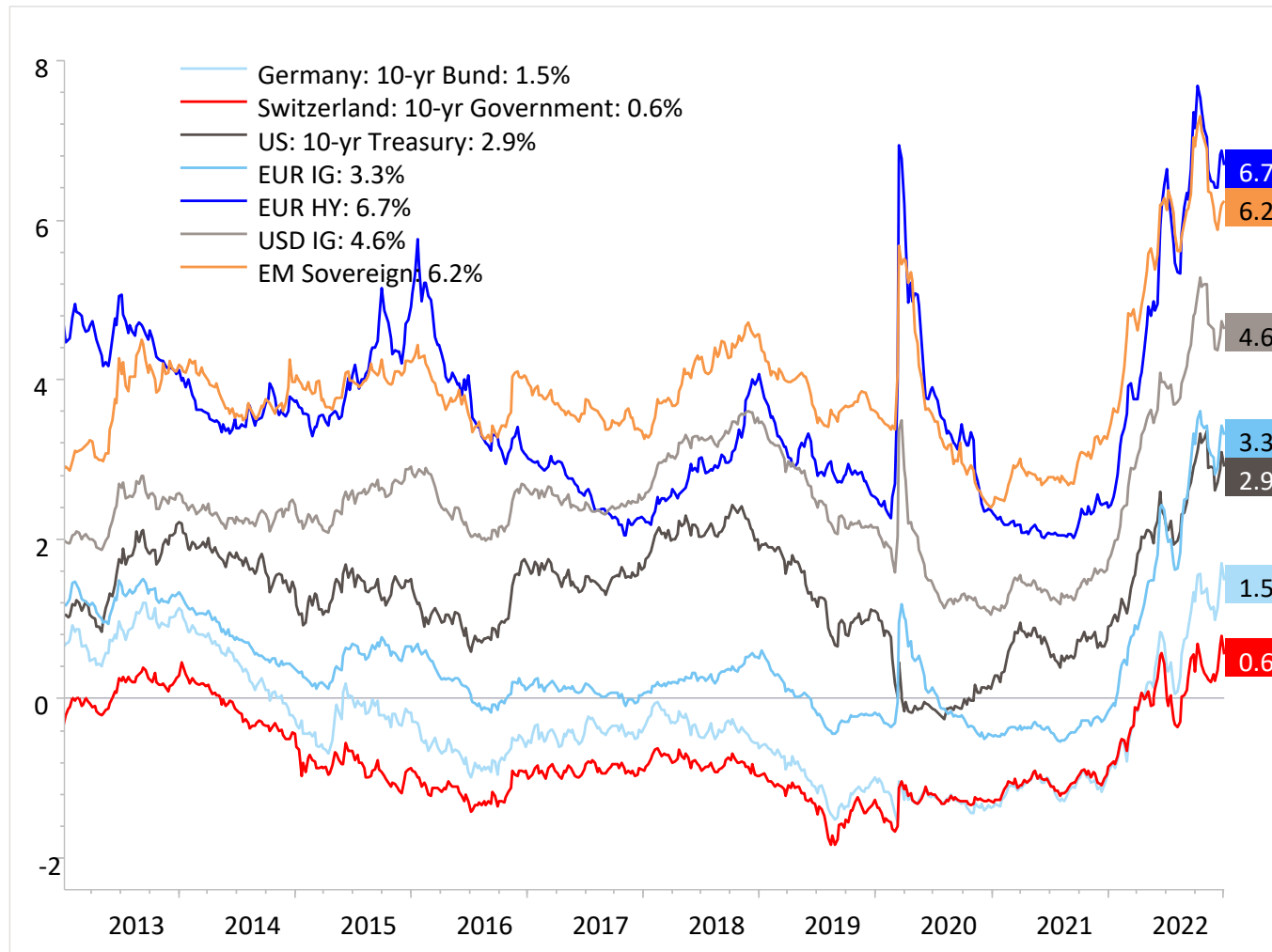
- 2-year government bond reflects market expectations of bond investors for the next two years
- As soon as the 2-year bond comes in below the central bank's key rate, bond investors expect lower key rates

Details short-term situation assessment

Bonds

Yield: Yield to Maturity

EUR Investment Grade



Assessment
Positive

Justification

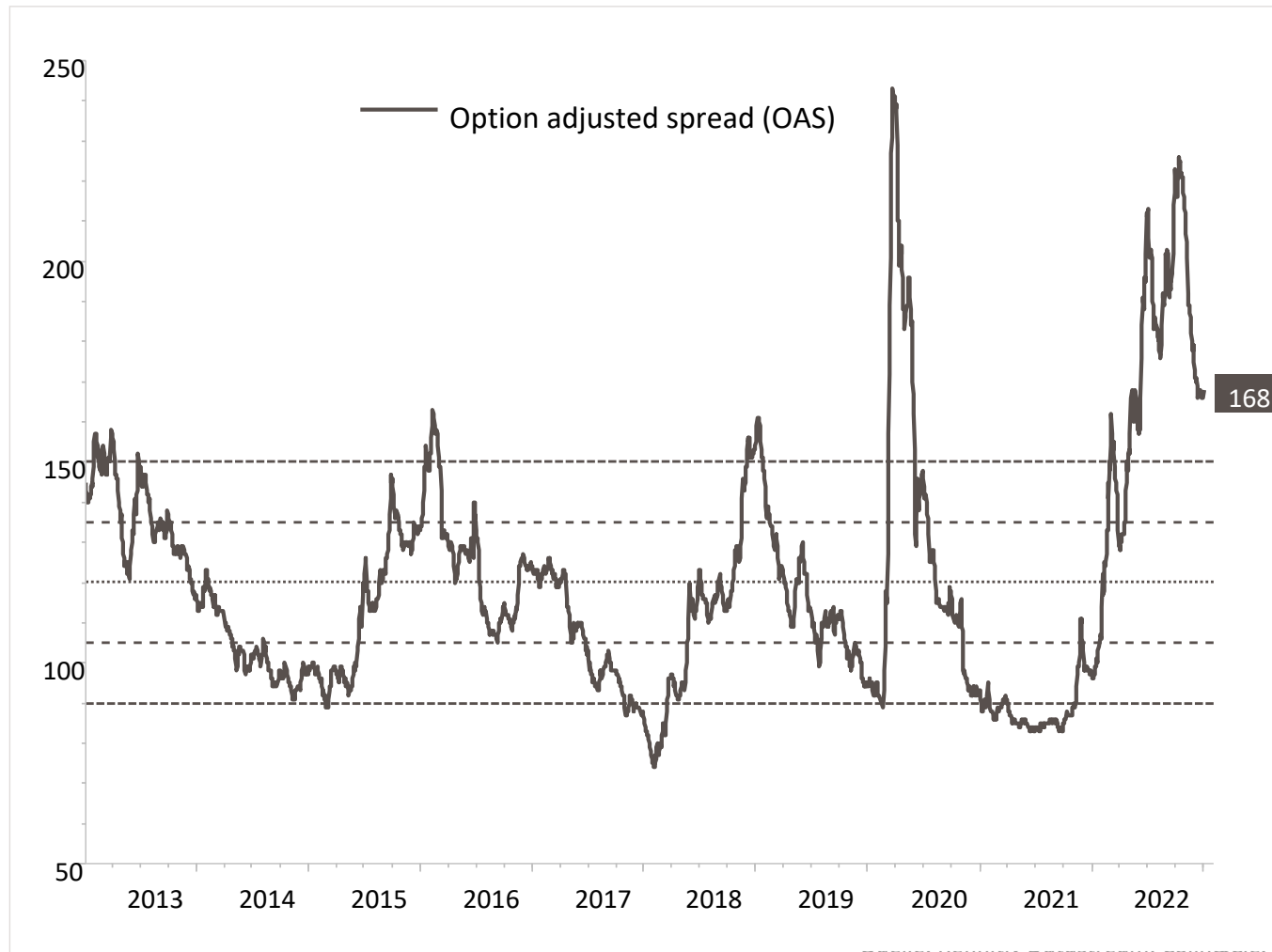
- Rising yields bring opportunity
- Maturity limitation with advantages in the environment of rising interest rates

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
Very positive

Justification

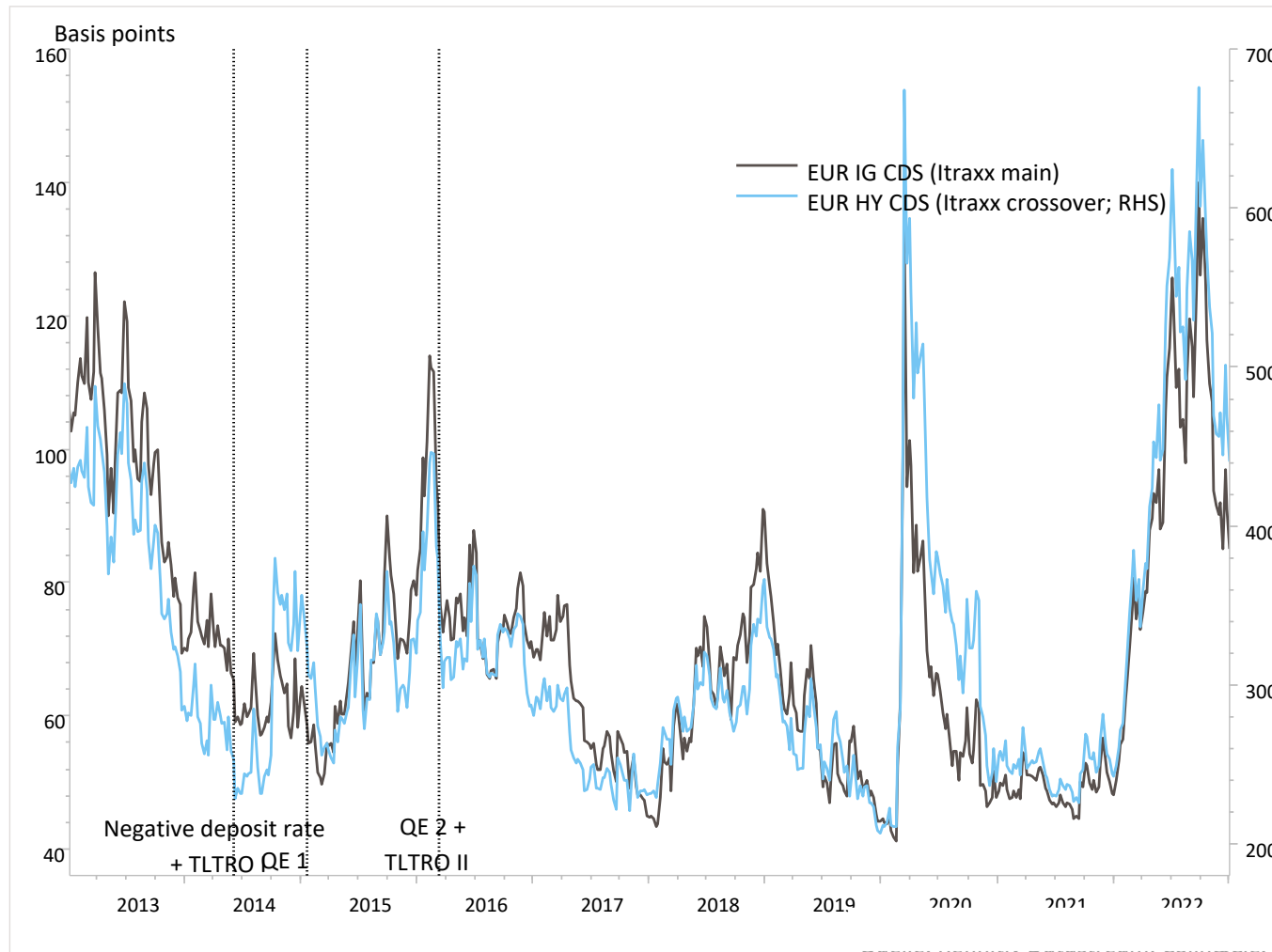
- Above twice the standard deviation

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

- CDS still imply increased default risks (risk of recession)

Explanation

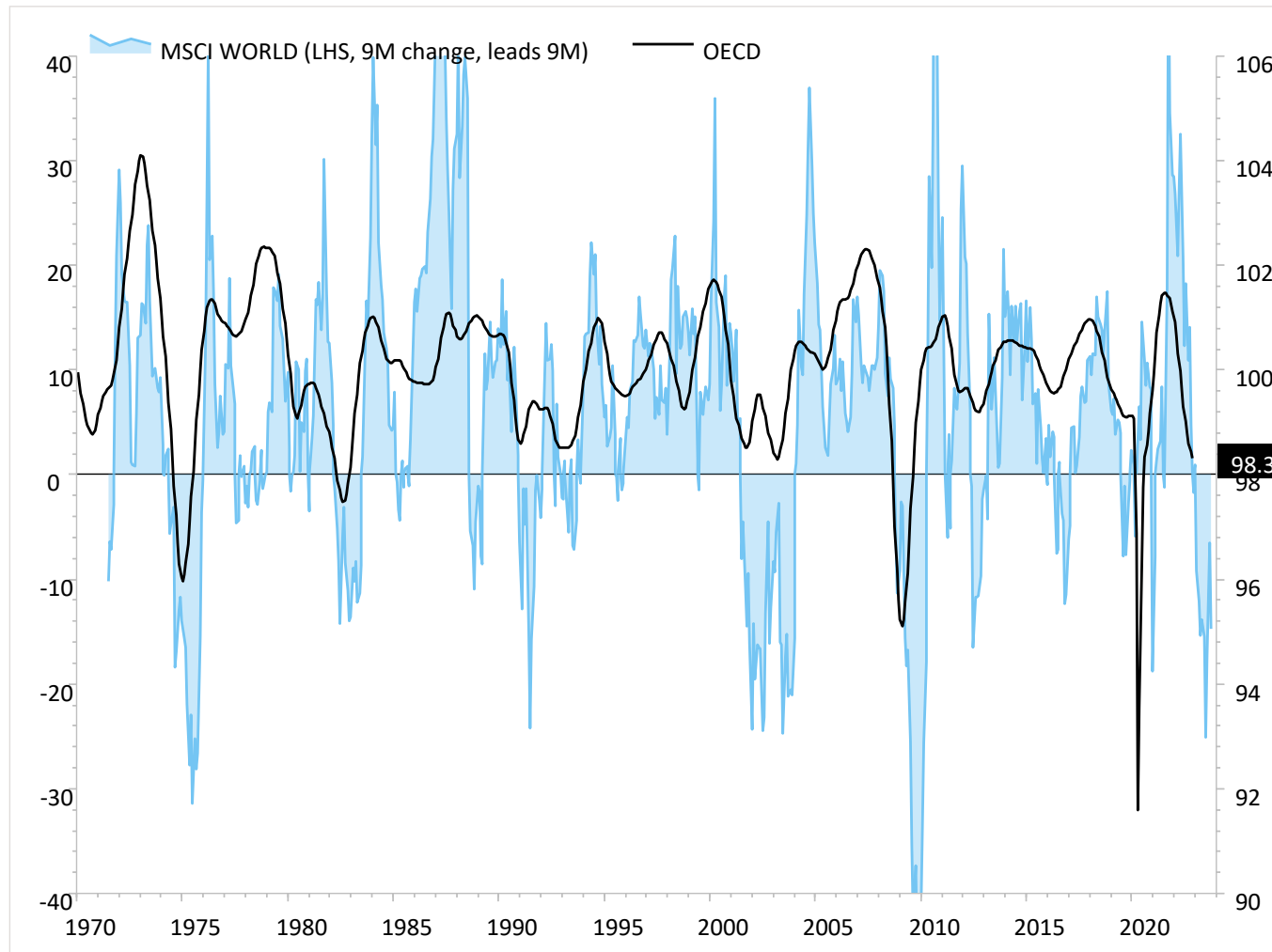
- A credit default swap (CDS) or credit default swap is a credit derivative in which default risks of loans, bonds or debtor names are traded
- Rising prices mean higher default risk

Details short-term situation assessment

Equities

Economy/Macro

OECD Leading Indicator (Global)



Justification

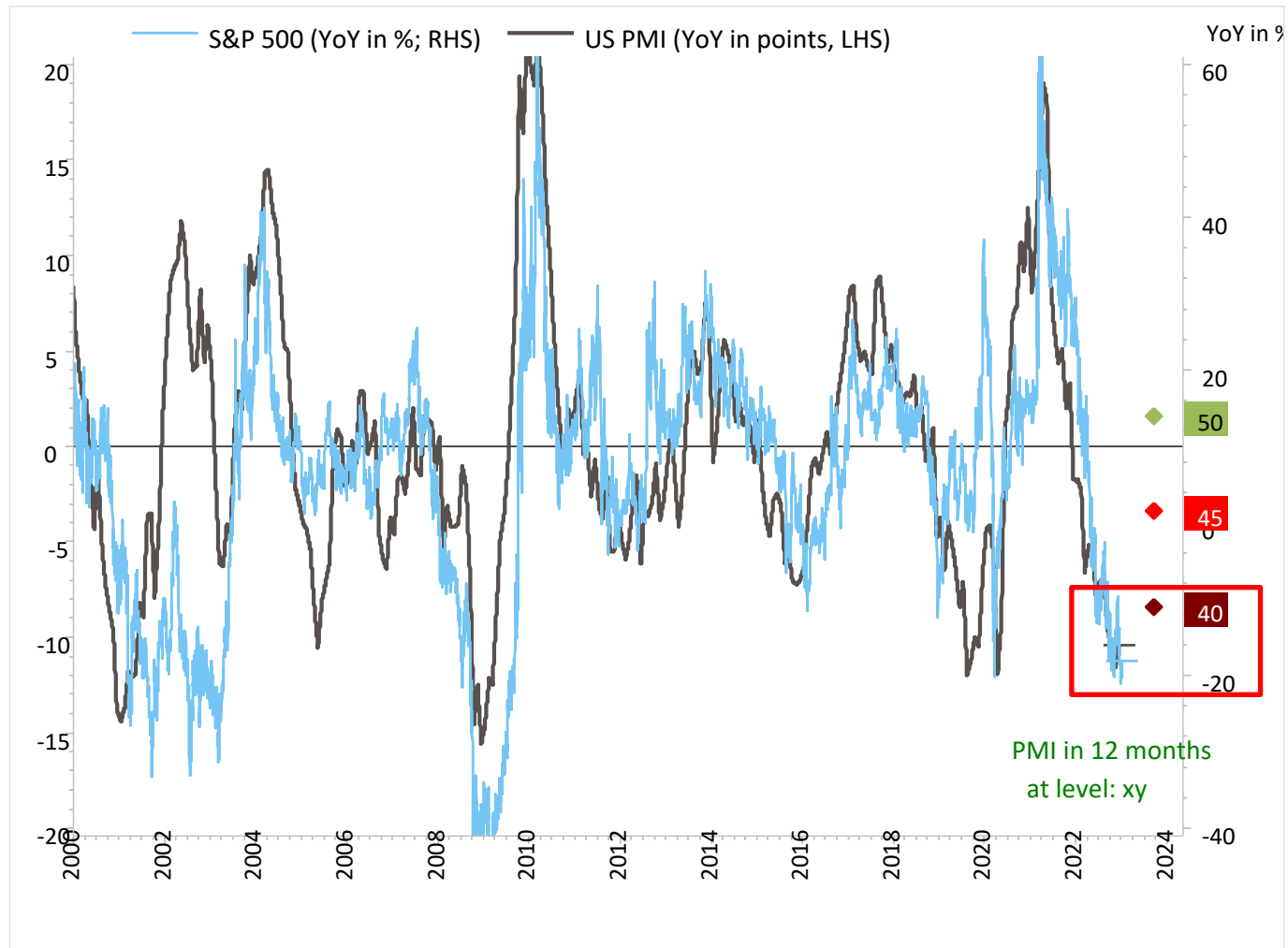
- Best correlation for equities with a lead time of 3-6 months
- At 9 months correlation still strong
- Not all cycles behave the same

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

PMI (USA) and S&P 500



Assessment
Neutral

Justification

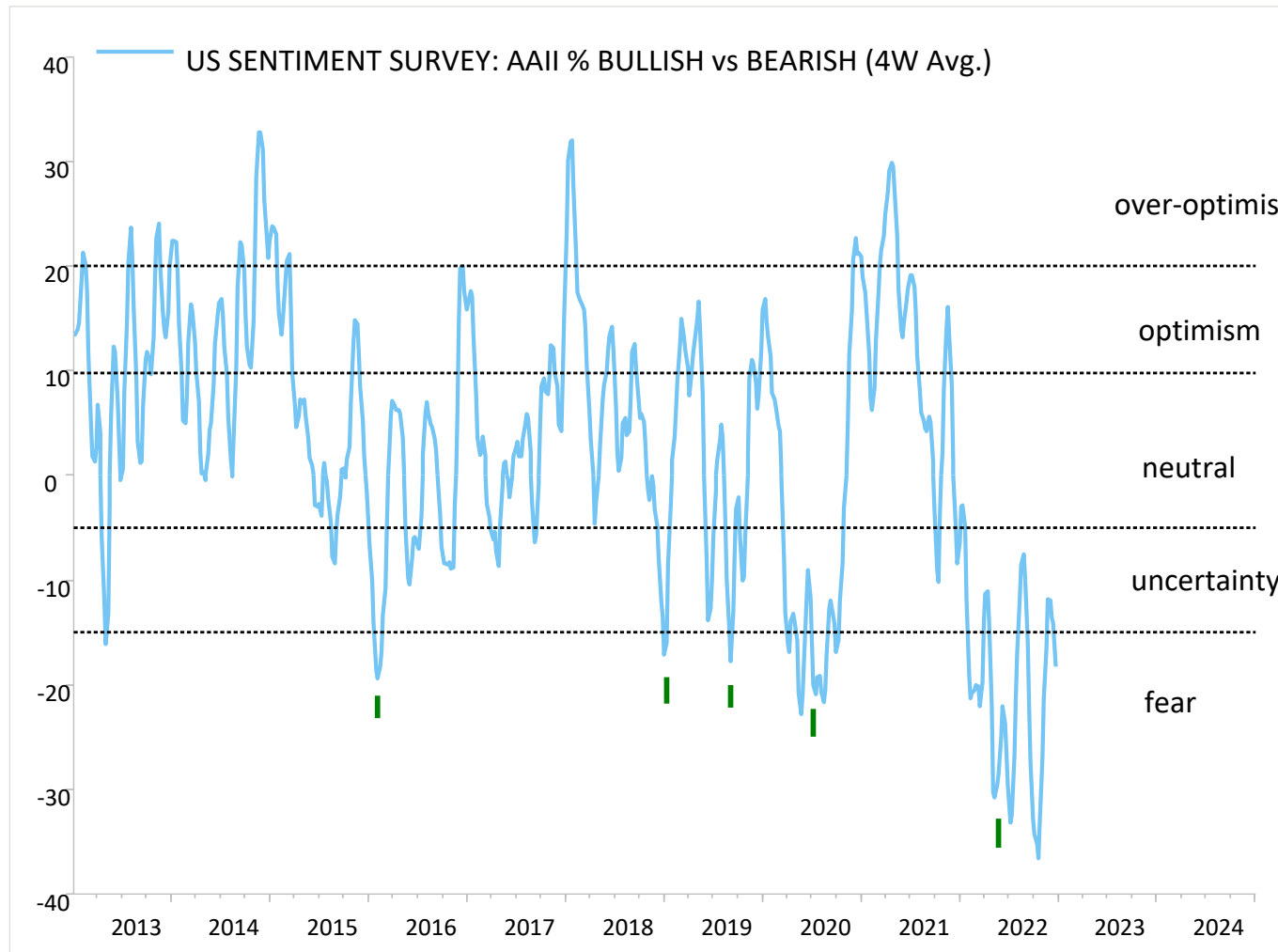
- Currently, equity markets are pricing in weaker economic development (PMI=40)
- A PMI of 40 corresponds to a correction potential of 0% from the current level

Explanation

- Purchasing Manager Index (PMI): Indicator of economic development
- S&P 500 year-on-year shows the stock market's expectation for the economic trend

Sentiment

Sentiment Survey (Global)



Assessment
Very positive

Justification

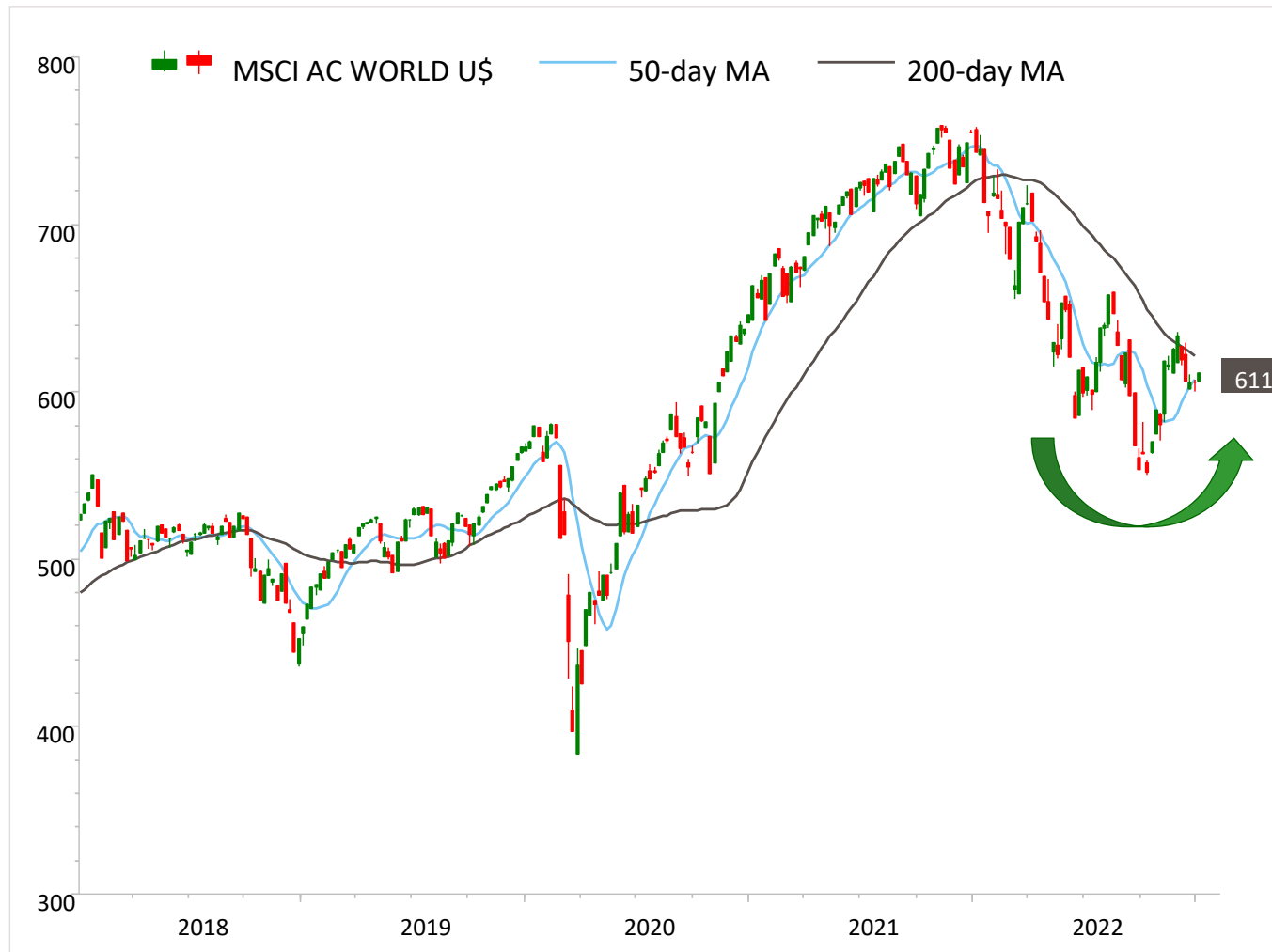
- Negative assessment by private investors, the indicator remains in the fearful range
- Positive as a contra-indicator, as there is a lot of negativity in it

Explanation

- The sentiment of private US investors is surveyed through 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
Neutral

Justification

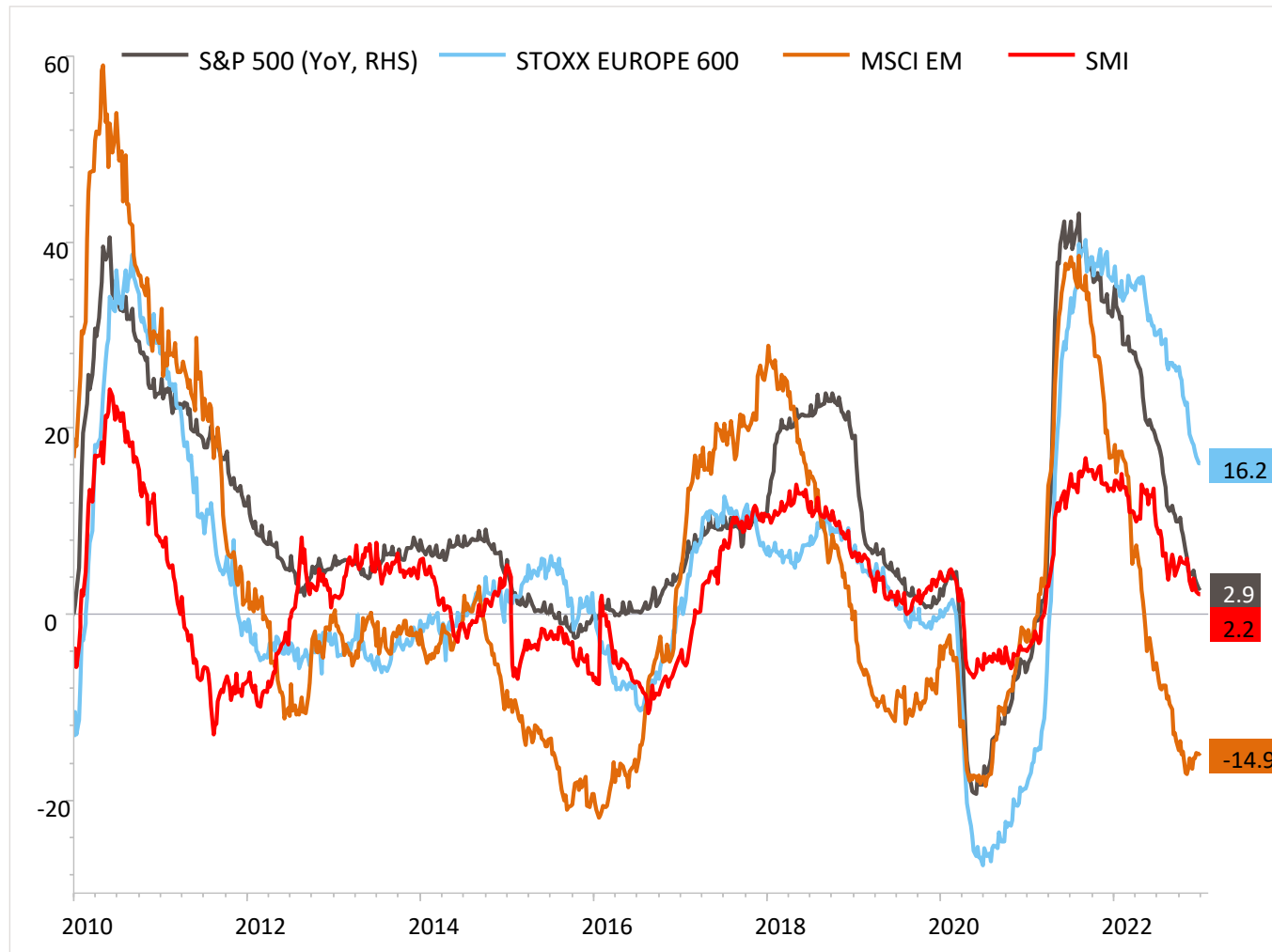
- Price above the two average lines
- Slope of the long-term trend (200 days): falling
- Slope of the medium-term trend (50 days): neutral

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

Expected corporate profits

Annual changes (Europe in comparison)



Assessment
Neutral

Justification

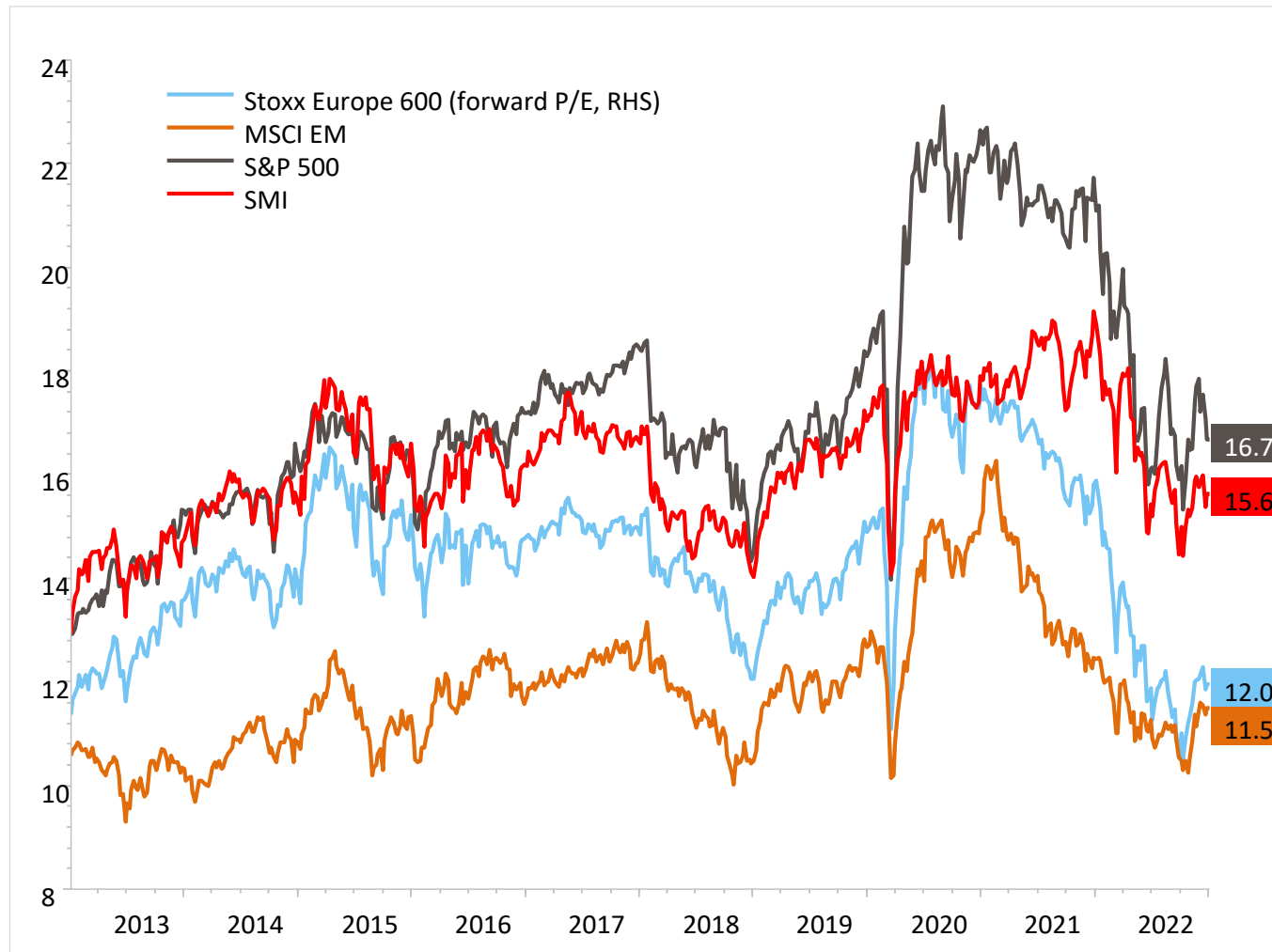
- Positive earnings growth in the industrialised countries
- Negative earnings growth anticipated only in emerging markets

Explanation

- Trend analysis of expected profit growth
- Change over 12 months

Valuations

Price-earnings ratio (Europe compared)



Assessment
Very positive

Justification

- USA and Switzerland: historically average ratings
- Europe and emerging markets favourably valued

Explanation

- Valuation in a 10-year historical comparison

Details short-term situation assessment Commodities – Precious Metals

Monetary policy

Real yield and gold price



Assessment
Careful

Justification

- Rising real interest rates make gold less attractive in comparison

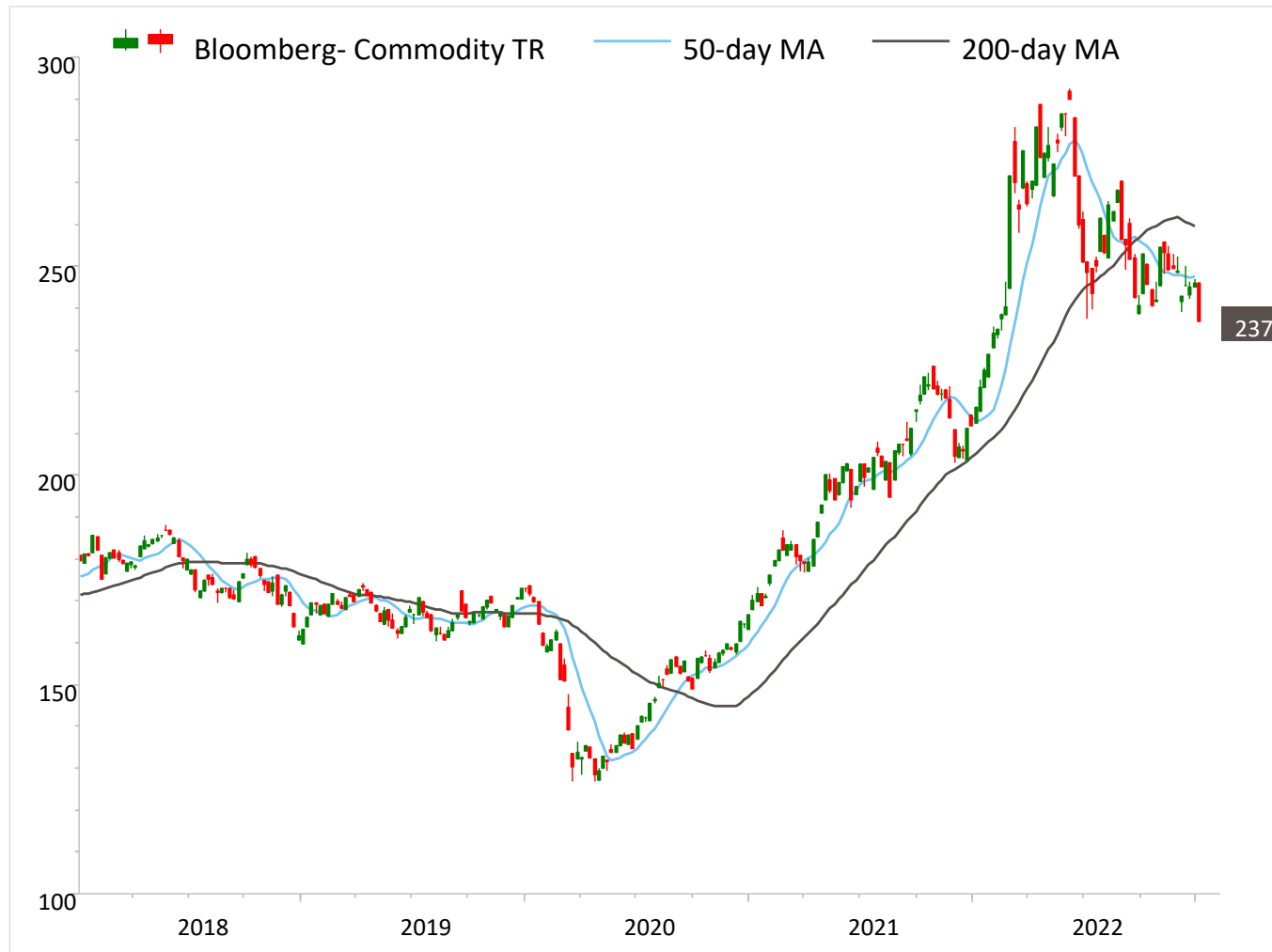
Explanation

- Strong negative correlation between gold price development and US Treasury Inflation Protected Securities (TIPS)
- The TIPS reflect the level of the real return via inflation protection

Details short-term situation assessment Commodities – Raw Materials

Market Technique

200- and 50-day moving average (commodities)



Assessment
Careful

Justification

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

Explanation

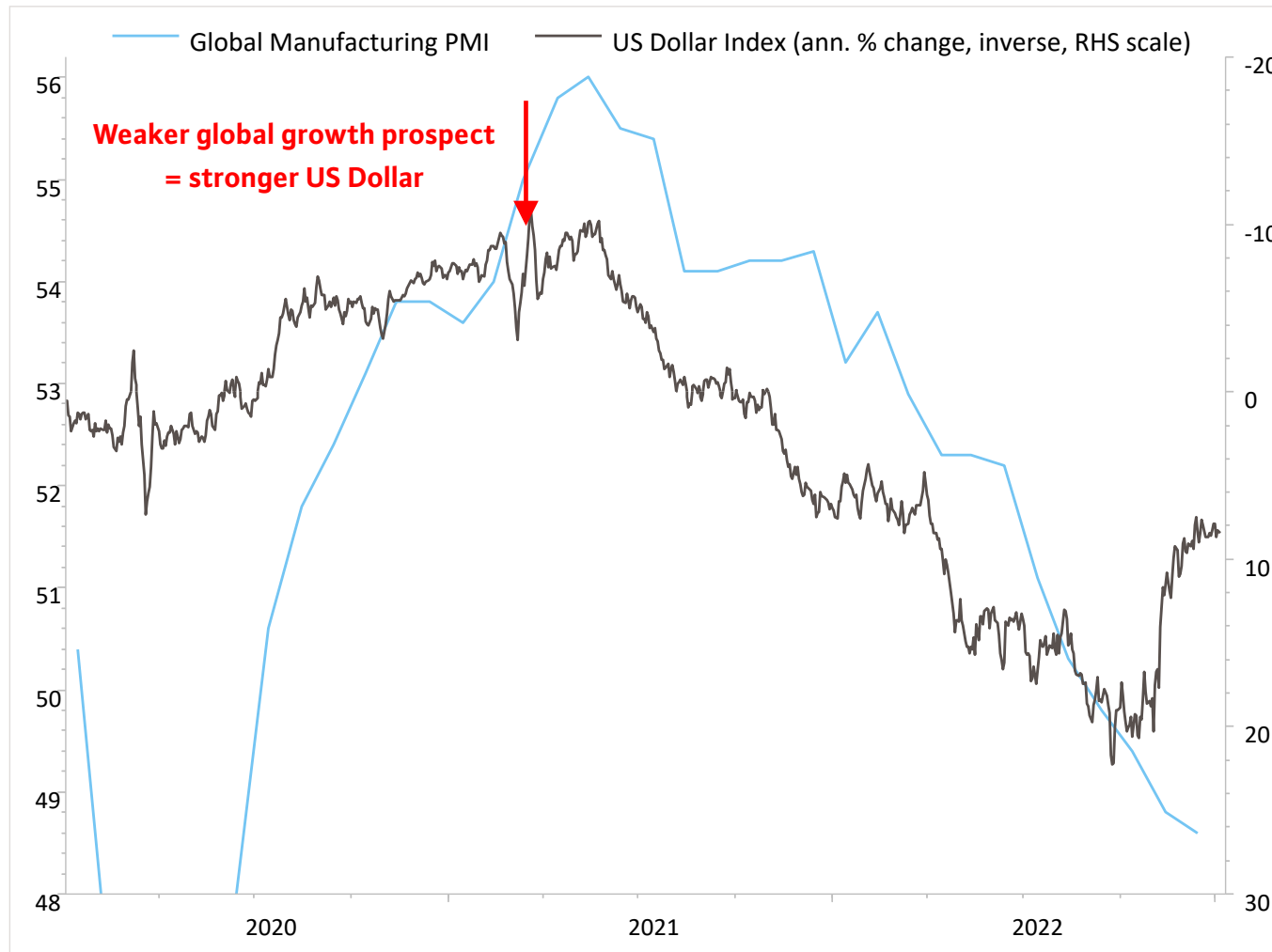
- Comparison of the current price with the 50- and 200- day average lines
- 200-day average line: long-term trend
- 50-day average line: medium-term trend

Details short-term situation assessment

Currencies

Economy / Macro

PMI (Global)



Assessment
Positive

Justification

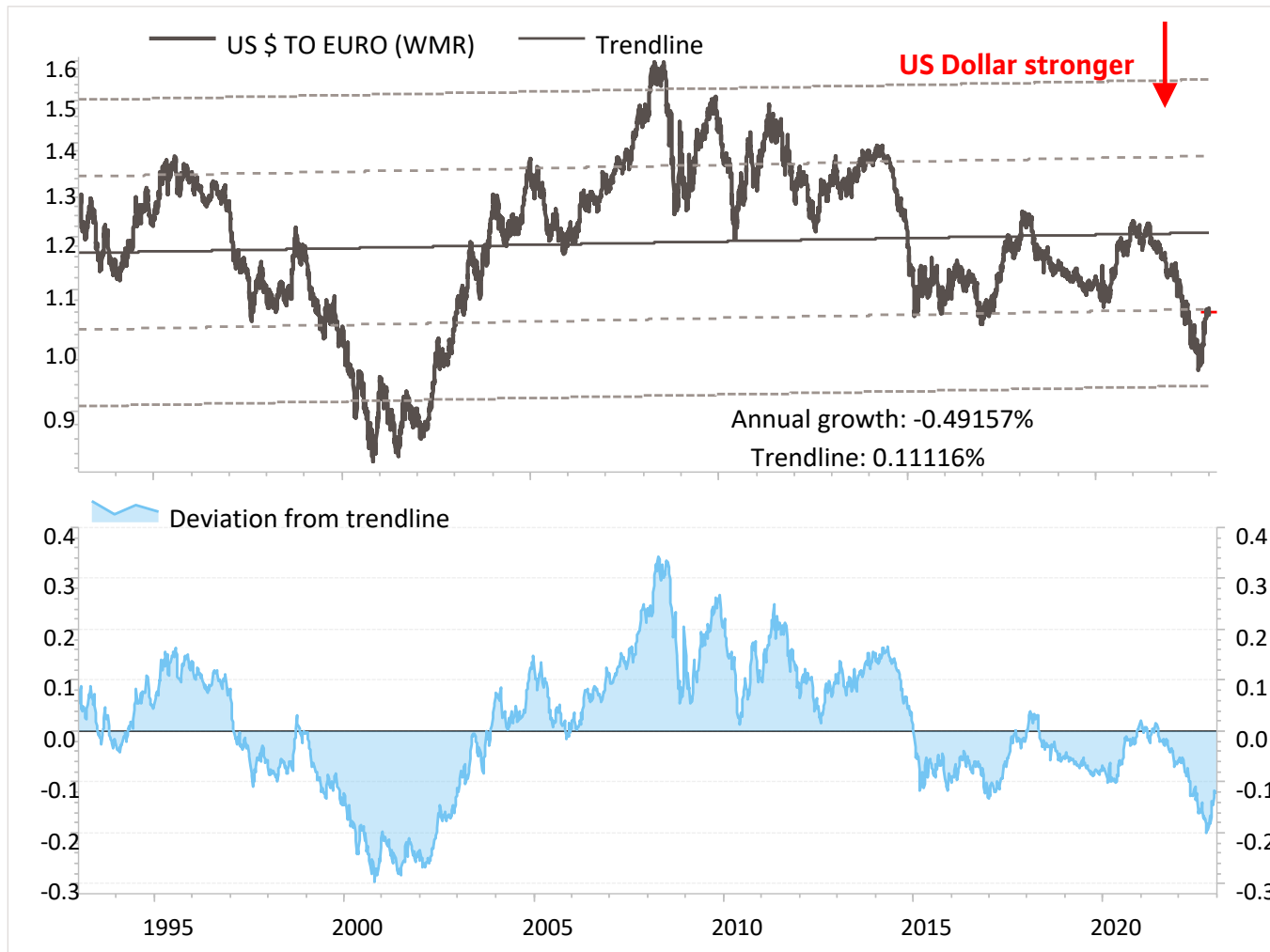
- Economic slowdown speaks in favour of the US dollar

Explanation

- Purchasing managers' indices: Monthly indicator of economic development
- Values above 50 mean expansion
- Values below 50 indicate a contraction of the economy

Strategy / Trend Channels

30 years (EUR/USD)



Assessment
Careful

Justification

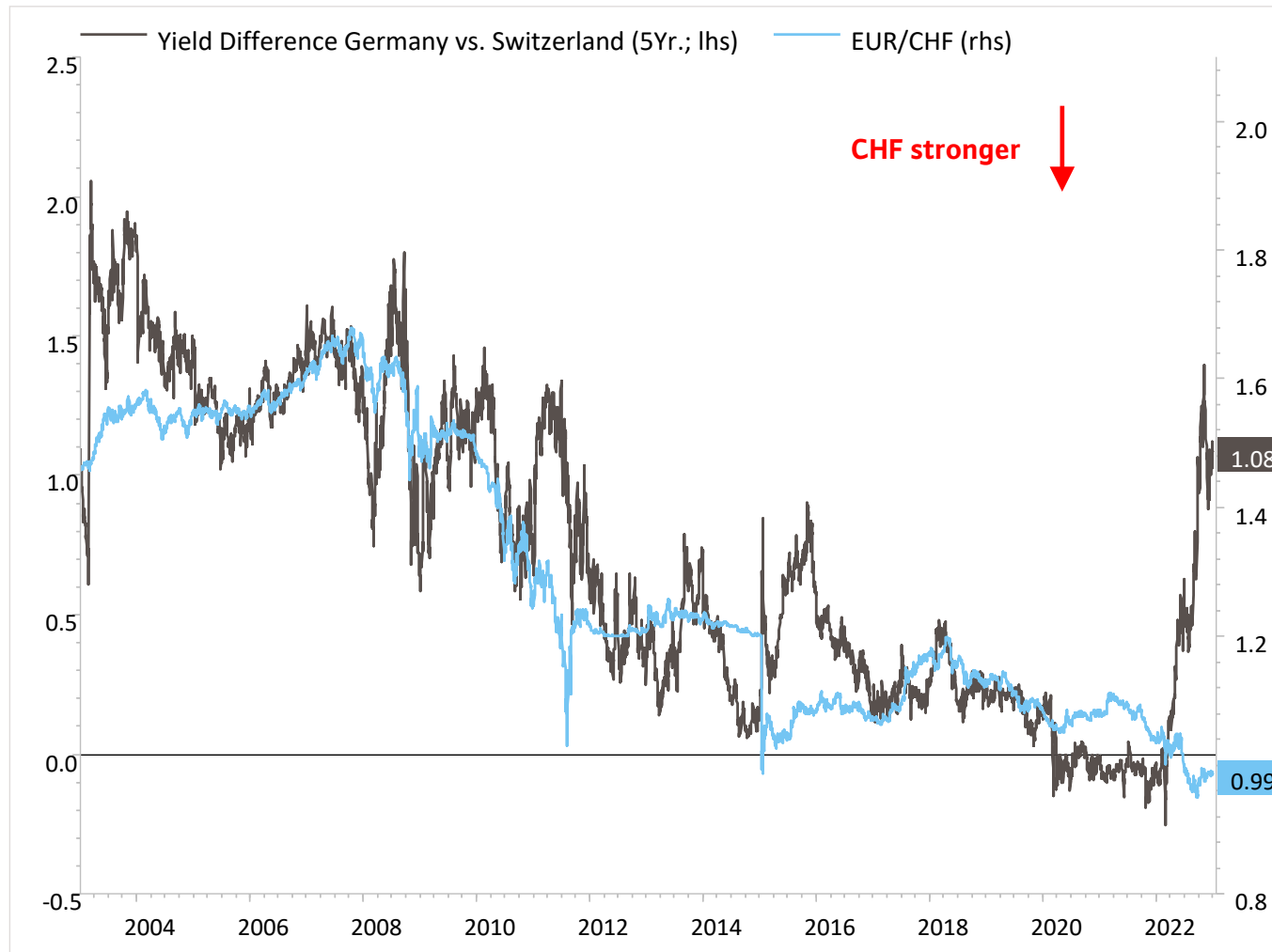
- Deviation below the simple standard deviation
- Cautious for the US dollar

Explanation

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

Interest rate differential

Exchange rate and 5-year interest rate differential (EUR/CHF)



Assessment
Careful

Justification

- Interest rate differential speaks against Swiss franc

Explanation

- Higher interest rates increase the attractiveness of the currency as an investment currency, which leads to higher demand and a correspondingly higher exchange rate

Details short-term situation assessment

News

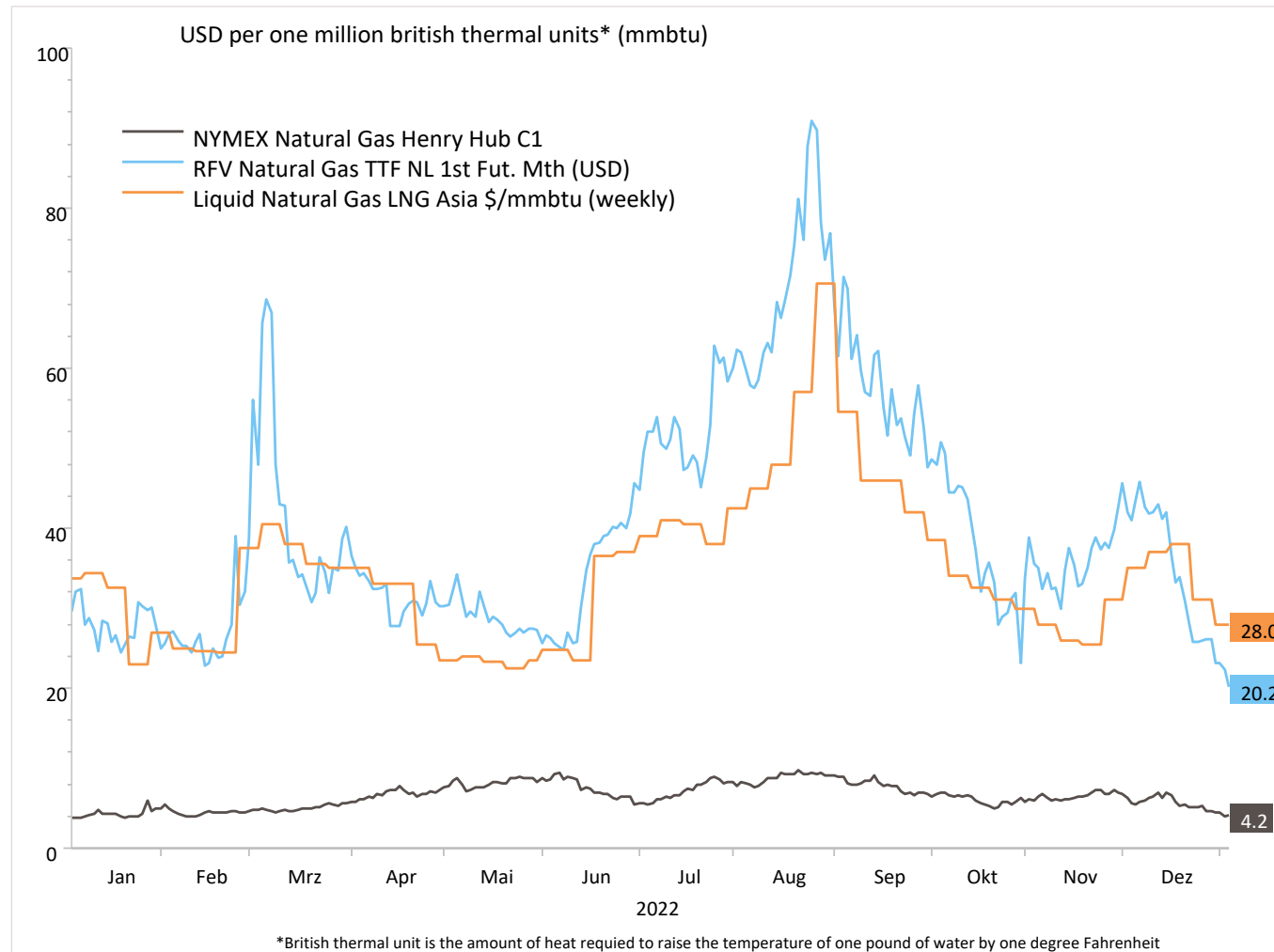
Ukraine crisis

Work scenarios

	Scenarios	Description	Affected asset classes
Current baseline scenario	Deposition 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% – AI: +5%
	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% – AI: +5%
	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% – AI: +5%
	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% – AI: +5%
	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% – AI: +5%

News

Global Gas Prices



- Gas prices are back below the level before the outbreak of the Ukraine war
- High price differences, as global markets are not strongly interconnected
- USA with significant price advantage over the rest of the world

Overview of all short-term indicators

Short-term situation assessment Summary

Asset class	Estima- tion	TAA			Analysis									
		-	0	+										
Liquidity														
Bonds														
Government Bonds	Careful				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	Positive				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News	Partner	
Europe	Neutral				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News	Partner	
USA	Neutral				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News	Partner	
Emerging Markets	Neutral				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News	Partner	
Technology	Neutral				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News		
Health Care	Neutral				Macro	Mon. policy	Trend	Profits	Evaluation	Sentiment	Technology	News		
Commodities														
Gold	Neutral				Macro	Mon. policy	Trend	US Dollar	Evaluation	Sentiment	Technology	News	Partner	
Raw Materials	Careful				Macro	Mon. policy	Trend	US Dollar		Sentiment	Technology	News	Partner	
Alternative Investments														
Private Debt														
Private Equity														
Diversified (HF)														

Short-term situation assessment

Summary

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

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