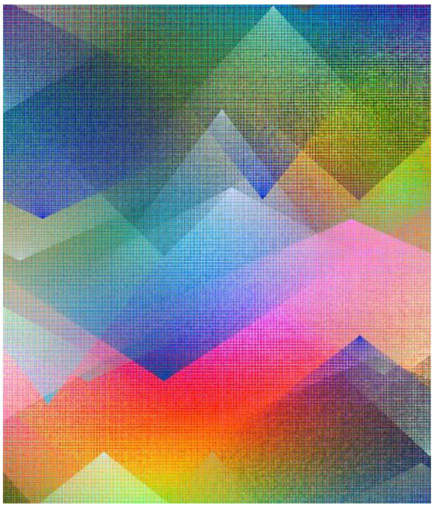
CBH | Investment Management

Quarterly Insight

4Q 2024

Creativity within Excellence



Zach Lieberman «Cone overlaps with noise»

Contents

CBH Foreword

Plate Tectonics In Motion

Key Takeaways

- The global economy is approaching a soft landing
- Europe is lagging behind the US economy and is exposed to downside risks
- Changes in monetary policy are fueling volatility
- While we are tactically reducing equity exposure, we remain overweight in equities overall
- Our allocations to CTA, Global Macro strategies, and gold are designed to enhance portfolio diversification and strengthen resilience against market volatility.

The fourth quarter of 2024 presents us with a pivotal moment in the global economic landscape, marked by significant shifts in monetary policy, most notably the long-awaited beginning of the Fed's rate-cutting cycle.

Much like the slow but powerful movement of tectonic plates beneath the Earth's surface, these shifts are reshaping the financial landscape in ways that bring both opportunities and challenges. We see this moment as a turning point—an opportunity to realign and optimize our strategies.

In the US and Europe, inflation is falling, wage growth is slowing and the labor market remains solid. So on September 18th, the Fed began its rate-cutting cycle with a 50 basis point cut. It did so before the first signs of an economic slowdown were clearly visible. In the short term, its focus is clearly shifting from controlling inflation to supporting employment.

Markets clearly anticipated this first rate cut, but welcomed it nonetheless. As a result, the third quarter was thus characterized by a rally in most asset classes, with the exception of certain commodities.

At this point, markets are pricing in a soft landing scenario, which is also our central assumption. Without exaggerating, these valuation levels leave little room for error in the event of a sharper-than-expected economic slowdown.

We therefore believe it is time to gradually and proactively reduce the level of risk in our portfolios; our tactical positioning simply reflects the fact that return expectations are lower after the performance of recent months and that macroeconomic uncertainties are higher.

Over the past year, technology stocks have benefited from the hype surrounding generative artificial intelligence. Although investing in the leaders in this field remains highly relevant in the medium to long term, we believe it would be appropriate to tactically reduce our overweight and take some of the profits.

The first phase in the emergence of a technological breakthrough is traditionally associated with rapid and massive gains.

The second phase is the validation of economic models and the adjustment of valuation multiples. This period is traditionally characterized by greater volatility and disparity in performance.

It is highly likely that the coming months will provide us with an opportunity to add to this theme at more attractive valuation levels.

Interest rates have fallen massively over the past four months, reflecting both investors' expectations of Fed rate cuts and the normalization of inflation. Over the next 12 months, we expect the carry trade to be the main source of bond returns. In the short term, rates could continue to fall, but at a slower pace. In the medium term, slightly higher rates than today are possible, as structurally higher inflation and the financing needs of the economies justify a higher term premium.

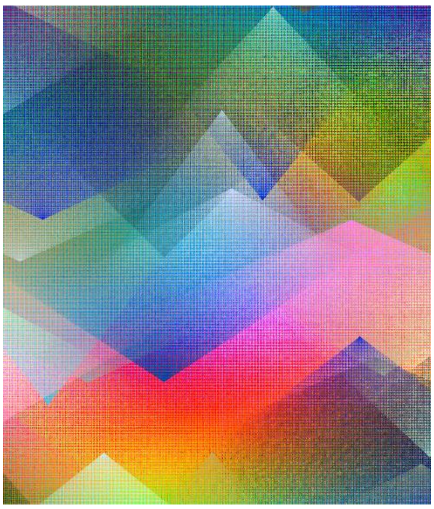
To successfully manage this transition period, and given the strong potential for alternative investments to benefit from market uncertainty, we remain overweight in the CTA and Global Macro strategies, while increasing our exposure to gold.

The current changes in monetary policy will have important macro- and microeconomic implications. A striking example is the Bank of Japan's 0.25% rate hike in July and Mr. Ueda's optimistic comments, which led to a surge in the yen and a sharp fall in Japanese equities (-12.4% for the Nikkei index on August 5th). These are tectonic shifts that may seem modest at first glance, but whose consequences are considerable.

While these policy adjustments may cause some turbulence in the markets, we remain confident. Our recent proactive measures are designed to anticipate these potential effects, enabling us to capitalize on future opportunities while mitigating the impact of the volatility associated with these trend changes.

Follow us on LinkedIn

https://www.linkedin.com/company/cbh-compagnie-bancaire-helv-tique-sa/



Global Macro Outlook

United States

Key Takeaways

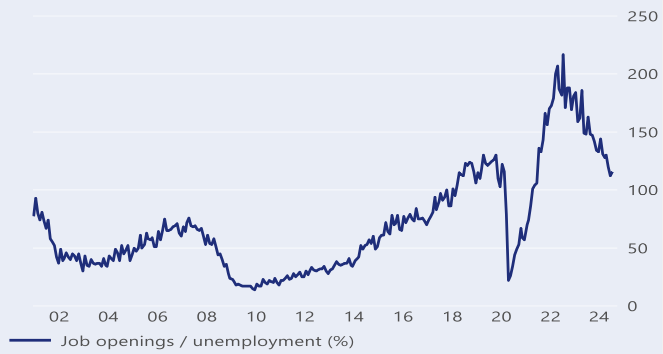
- Robust domestic demand
- Strong productivity growth
- The Fed's large cut should keep the US in good shape
- Long-term inflation is higher, markets will revise their expectations
- Read our analysis of the upcoming elections: https://lnkd.in/ecCtuZ87

US economic growth has shown resilience driven by strong domestic demand.

Despite restrictive monetary conditions, US economic activity is holding up well. Household consumption is supported by a solid labor market and wealth effects. Middle-income consumers are not worried about unemployment, have benefited from disposable income growth thanks to robust wage progression and have seen their financial portfolios and housing prices rise. The effect of higher rates has been offset by the increased use of fixed rates since the 2008 financial crisis. The rise in inflation has mainly weakened the most modest households. They have been hit particularly hard by rising rents and have resorted to credit cards to maintain their consumption levels. Delinquencies in this segment are rising, but remain low by historical standards and are not systemic. The labor market is no longer overheated, but it is still very healthy. The rise in the unemployment rate is the result of an increase in labor supply from immigration and an improved participation rate. Layoffs are currently at record lows, and job openings still outnumber the unemployed.

US: Labor market tightness

Vacancies still outnumber the unemployed



Source: LSEG Datastream/ CBH Investment Management

Meanwhile, businesses have maintained their investments, especially in intellectual property products (R&D, software). Residential investment suffered from the Fed's tightening cycle in 2022 and 2023, but this component is already showing signs of recovery as financial conditions have eased, despite the Fed's still restrictive stance.

"Intellectual property investment accounts for more than 40% of total non-residential investment"

The disinflation process continues. Services inflation is more persistent but on the right track. Labor costs have a significant influence on the pricing of services. Higher labor productivity mitigates the impact of wage growth and helps keep service prices under control.

In this context, Fed officials have gained additional confidence that inflation is moving sustainably toward its 2% target and the Federal Reserve kicked off its easing cycle in September with a significant 50 basis point rate cut. This initial easing will help protect the second half of its mandate. The Fed's dual mandate includes maintaining price stability and promoting full employment. This "jumbo" move does not reflect panic but rather the Fed's willingness to maintain the strength of the economy and the labor market. The Fed is easing its restrictive stance and will aim for neutrality, rather than an expansionary policy. Despite this pivot, we expect the Fed to remain cautious with a meeting-by-meeting decision-making process. The institution is no longer providing forward guidance anymore, a tool that central banks typically use to inform the public about the likely future course of monetary policy. This data-dependency approach fuels uncertainty and excessive expectations among market participants.

US: Fed funds futures

Market expectations are excessive, especially for 2025

Source: LSEG Datastream/ CBH Investment Management

The dollar has depreciated under the pressure of excessive market expectations for monetary policy. However, US real yields remain attractive. Despite the US twin deficits, the US dollar should benefit from the attractiveness of the US economy. The expected revision of market expectations should support a short-term rebound and volatility will remain elevated. The upcoming elections in November will add another layer of short-term volatility.

Global Macro Outlook

Euro area

Key Takeaways

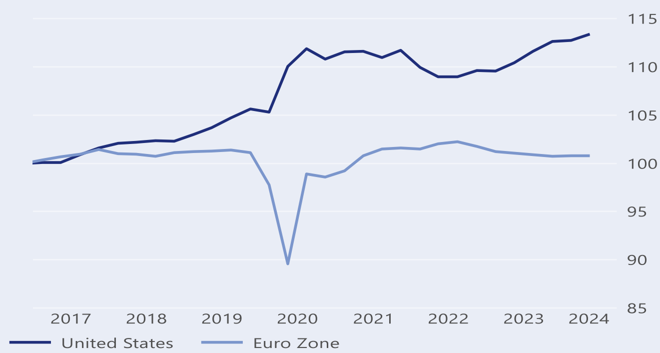
- Domestic demand is weak, but consumer demand should rebound, supported by a strong labor market
- Europe is lagging behind the US economy
- Disinflation is being delayed by rising labor costs

Domestic demand in the euro area remains sluggish.

In the first half of 2024, GDP growth was mainly driven by net exports, while investment declined and household consumption remained flat, despite an increase in real disposable income and a strong labor market. Consumer confidence fell sharply at the beginning of Russia's war with Ukraine and has remained subdued since, weakened by surging inflation. In the coming quarters, consumer demand is expected to pick up, thanks to the strength of the labor market (the unemployment rate is at a historic low), rising wages, and declining inflation. Indeed, nominal wages are now more buoyant than prices, making up for past inflation. As for industrial production, none of the four major economies in the region has returned to their pre-pandemic levels. It is worth highlighting that Germany's industrial model has been shaken by the crisis in the automotive market since 2018 and the energy-intensive industries have been hit hard by the energy crisis. Moreover, in contrast to the proactive industrial policies implemented in the United States, such as the Inflation Reduction Plan, public support in Europe has failed to boost investment. The massive stimulus package - Next Generation EU - launched during the pandemic to bolster industrial investment, digitalization, and the green transition hasn't raises potential growth so far, as implementation has been slow and complex. The divergence in the dynamics of capital accumulation therefore translates into differences in labor productivity. The gap with the United States is widening, affecting economic growth and inflation. Typically, productivity gains help mitigate the impact of wage growth on price increases, especially in services.

"Between 2019 and 2024, labor productivity increased by 0.9% in the euro area versus 6.7% in the US"

Labor productivity
The euro area lags behind the United States

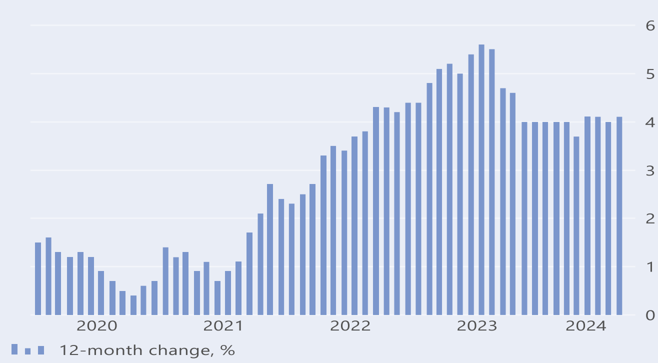


Source: LSEG Datastream/ CBH Investment Management

Behind this macroeconomic picture are very different situations in different countries. In France, the persistent political turmoil may dent consumer and business confidence and hence investment, but investment in intellectual property is stronger than elsewhere. Italy's export sectors and investment are showing strength, but public finances are under pressure, as in most Eurozone countries. In Germany, the manufacturing sector faces structural challenges and fiscal orthodoxy is hurting long-term prospects. Among the four major economies, Spain is the best performer, thanks to strong household confidence and robust tourist spending.

Inflation is now approaching the ECB's 2% target. However, services inflation, which accounts for almost half of headline inflation, remains elevated. Demand for services is much stronger than for goods. Moreover, services are very sensitive to changes in labor costs. In this context, wage dynamics are strong thanks to low unemployment amid ongoing labor shortages, while productivity growth is weak, resulting in higher upward pressure on prices.

Euro area: Consumer prices for services
Services inflation remains persistent



Source: LSEG Datastream/ CBH Investment Management

The ECB is easing its monetary policy stance. The Frankfurt-based institution cut its main policy rate by 25 basis points in both June and September. The ECB remains cautious in a context of persistent wage pressures and geopolitical uncertainty that could reignite commodity prices, especially energy. This gradual and meeting-by-meeting approach maintains flexibility but exacerbates market expectations.

Global Macro Outlook

Emerging economies

Key Takeaways

- China's outlook remains clouded
- India is a bright spot despite structural weaknesses
- Brazil's economic performance is strong, but political risk remains
- Mexico is well positioned in the current geoeconomic context
- US monetary easing could support emerging currencies.

The Chinese economy is troubled.

China remains a leading trade partner, as the country is a key player in the international supply chain, but the Chinese economy is plagued by a persistent real estate crisis that has weakened consumer confidence. High precautionary savings are a result of inadequate social protection, and this structural trend is currently exacerbated by high youth unemployment and a large stock of unsold housing. So far, stimulus measures have failed to boost growth and retail sales. The new package announced by the People's Bank of China is large and designed to inject liquidity and supporting housing and stock markets, but in our view it is not well targeted. More demand-side measures are needed to improve China's growth outlook, especially as China faces external constraints. Foreign investors are suffering from low confidence in the Chinese economy, and multinationals are reducing their new investments. Some are even selling existing assets. A weak domestic outlook, coupled with worsening geopolitics, is spooking investors.

China: Foreign direct investment inflows
Investor exiting China at record pace

Source: LSEG Datastream/ CBH Investment Management

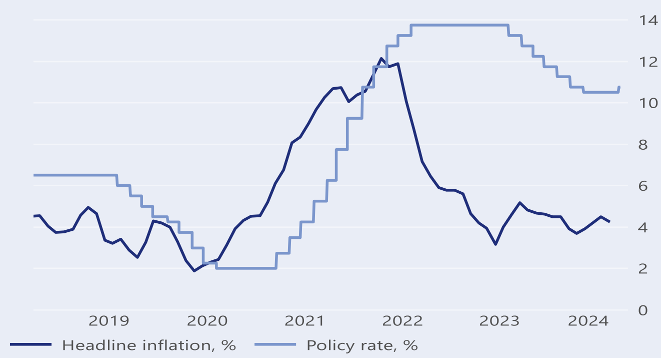
India is growing at a robust pace.

The country is benefiting from strong growth momentum, supported by discretionary household spending and a robust investment pace. The medium-term outlook is bright, bolstered by infrastructure investment, a healthier banking sector, and a growing workforce. However, the Make in India initiative designed to boost the manufacturing sector faces regulatory constraints and structural protectionism. India remains a marginal player in international trade, lagging behind other Asian economies, especially China and Vietnam. India's share of world exports remains low at 2%, while China's share is still close to 15%.

Brazil's outlook is clouded by rising political and fiscal risks.

Domestic demand is growing at a robust pace. Household consumption is the main engine of this growth, supported by household debt rescheduling, wage growth underpinned by a robust labor market, and public transfers to consumers. Meanwhile, investment has accelerated. Inflation has increased slightly in recent months but remains within the Central Bank's target range. However, inflation expectations have deteriorated recently due to rising tensions between the government and the governor of the Banco do Brasil (BCB), concerns about public debt, and the strength of the labor market. The Brazilian real and equity prices have come under pressure. In this context, the BCB raised its policy rate by 25 basis points in September.

Brazil: Inflation and policy rate
Market expectations are excessive, especially for 2025



Source: LSEG Datastream/ CBH Investment Management

Mexico is well positioned to take advantage of the polarization in the US-China relations.

It can benefit from nearshoring and friendshoring investment opportunities. However, Claudia Sheinbaum, who was elected President in June, faces many challenges, including public finances, energy sector reform, and trade negotiations. In the short term, economic growth is strong, boosted by falling inflation and interest rates. Banco de Mexico started its easing cycle in March with a 25-bps cut, followed by another 25 basis point cut in August.

Emerging economies are sensitive to changes in the US monetary policy.

The Fed's pivot opens the door for emerging currencies to rebound. However, there is a lot of divergence within this bloc. Countries with a strong external position and robust domestic dynamics should perform better, such as the Indian rupee.

Global Macro Outlook

Other advanced economies

Key Takeaways

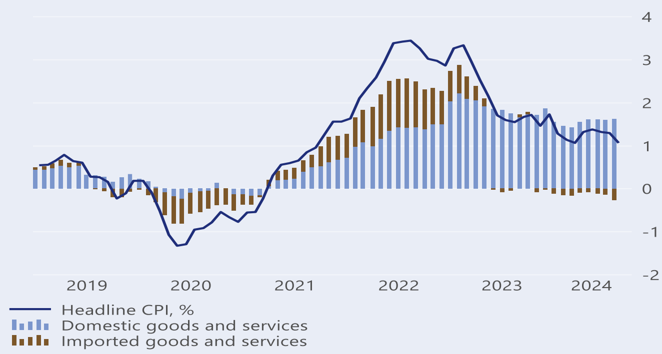
- Swiss economy bolstered by non-cyclical pharmaceutical sector
- The SNB lowered its policy rate by 75 basis points this year, and further cuts are on the table
- Japan has emerged from deflation and has ended its negative interest rate policy
- In Japan, the outlook for domestic demand remains clouded by excessive corporate savings.

The Swiss economy is resilient but vulnerable to international trade.

Domestic demand remained subdued in the first half of 2024. Solid employment growth and real wage increases have supported household consumption. Consumer sentiment is showing signs of improvement but remains weak. Investments are still under pressure, even though the Swiss National Bank started its easing cycle in March.

In the second quarter of 2024, Switzerland's performance was mainly supported by chemical and pharmaceutical exports, which are less sensitive to economic cycles and currency fluctuations. In 2023, pharmaceutical exports suffered from the post-Covid destocking process, but demand is now recovering. Growth in other industrial sectors is affected by the difficulties of Switzerland's trading partners, particularly Germany. As a small open economy, Switzerland can be significantly affected by the global outlook. In the coming quarters, the strength of the Swiss franc and the weak performance of some key trading partners will continue to weigh on the most cyclical industries.

Switzerland: CPI breakdown
Imported inflation is negative



Source: LSEG Datastream/ CBH Investment Management

Inflation has returned to the SNB's target. The strength of the CHF is driving imported inflation into negative territory, compensating for the rise in housing rental inflation. In this context, the central bank has stopped its FX interventions aimed at supporting the CHF and reducing the size of its balance sheet.

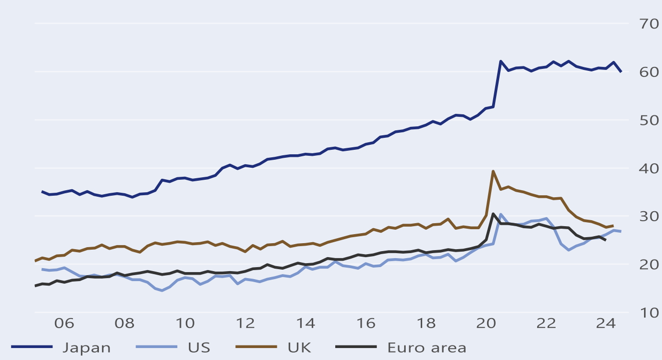
"Since January 2023, the real effective exchange rate of the CHF has appreciated by more than 9%".

Furthermore, the SNB cut its key interest rate by 25 basis points in March, June, and September. In addition, the SNB remains open to additional cuts and FX interventions if inflation decelerates significantly further or if upward pressure on the franc becomes too strong. 1% is considered a neutral rate by many central bank watchers. However, market expectations for the Swiss interest rate have also been exaggerated, with some investors now suggesting that the terminal rate could reach 0.25%. Such excessive expectations are likely to lead to repricing probabilities and volatility.

Japan is out of deflation, but the country still faces structural challenges.

Most of the upward pressure on prices is due to temporary factors rather than a strong recovery in domestic demand. Corporate savings are still largely held in cash. As a result, investment is structurally weak, constraining activity. Rising capital expenditure and a tight labor market are expected to reduce excess corporate savings and boost inflation, although the process may take several years. In the meantime, demand and productivity will remain sluggish.

Corporate cash and deposits (%GDP)
High corporate savings result in low investment



Source: LSEG Datastream/ CBH Investment Management

The Bank of Japan dropped its negative interest rate policy in March and hiked rates again in July. In September, the central bank maintained its policy, citing high uncertainties. Most economists expect the bank to raise interest rates again in 2024, but the BoJ is expected to take a gradual approach.

In this context, the yen has appreciated strongly over the past two months, but the Japanese currency is expected to remain under pressure in the coming months. The central banks' decisions and communications will be closely monitored, and market expectations for interest rates and foreign exchange can be quickly reassessed.

Global Macro Outlook

Commodities

Key Takeaways

- Most energy commodities have so far navigated 2024 quietly.
- Demand for minerals needed for decarbonization is expected to at least double by 2040
- Gold is being supported by a number of factors, including expectations around the Federal Reserve's policy path.

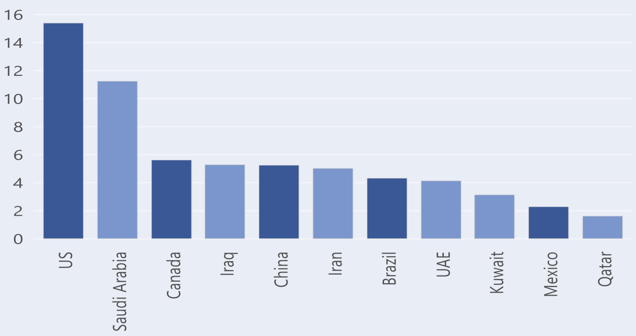
Oil prices have suffered from sluggish Chinese demand.

Despite significant geopolitical risks and wars on Europe's doorstep, most energy commodities have so far navigated 2024 quietly.

European gas prices have halved since the end of 2021. Europe has managed to diversify its supply sources, making the region less vulnerable to developments in the Ukraine conflict. Given the direct correlation between gas and electricity prices in the European market, this adjustment is also helping to ease pressure on electricity prices.

Meanwhile, oil prices are also under downward pressure, despite OPEC's efforts to boost prices with voluntary production cuts. Their pricing power is being eroded by the growing share of non-member countries in crude oil production. The United States is now the world's leading producer, ahead of Saudi Arabia. Oil prices have also suffered from sluggish Chinese demand and outlook. Even the Houthis' attacks on tankers in the Red Sea have had a limited impact on crude and freight prices.

Crude oil production (% of global)
Non-OPEC countries take the lion's share of the market



Source: LSEG Datastream/ CBH Investment Management

During the first nine months of 2024, some base metals have recorded significant gains, with tin leading the way. However, it is the minerals affected by geopolitical tensions that are under greater pressure, such as gallium and germanium, which are critical to the manufacture of semiconductors. China has imposed export restrictions on these two commodities in response to U.S. export controls on advanced semiconductors.

Demand for minerals needed for decarbonization, clean energy, and electrification development is expected to at least double by 2040, according to estimates by the IEA. Long-term demand requires enormous investment, and mine development takes years, but investors are not incentivized to invest given mounting uncertainties and current metal prices. In the longer run, however, the transition to a low-carbon economy supports a shift in the global energy system and an intensive use of these resources.

Gold has been the star this year. The precious metal is being supported by a number of factors, including expectations around the Federal Reserve's policy path, escalating global geopolitical risks, structural demand from emerging central banks, and flows from private investors concerned about the direction of the US economy. In addition, cautious Chinese households and a reduction in Indian import taxes have added to its appeal. Despite these flows, the market is not saturated and gold can continue to shine. Although gold ETFs have experienced net outflows so far this year, traditional investors are returning.

"Gold ends the third quarter at $2600 per ounce, up 28% since the beginning of the year"

Gold price ($ per ounce)
All-time high

Source: LSEG Datastream/ CBH Investment Management

Global Macro Outlook

Downside Risks Amid Structural Shifts

The global economy is approaching a soft landing. Economic growth in advanced economies is slowing down but remains resilient, while the disinflationary process is well advanced.

The strength of the labor market is the key variable determining the resilience of economic activity. Pandemic-related shortages have contributed to this robustness, but another structural factor is also crucial. **The demographic transition has already started to have an impact on labor supply.** The aging population is reducing the size of the labor force.

In the short run, this change helps to keep the unemployment rate low. In the longer term however, this trend will reduce savings available for investment, generate significant healthcare costs, weigh on potential growth and could lead to higher inflation. Artificial intelligence and immigration could help mitigate this risk by increasing productivity and the working-age population, but these solutions come with their own set of challenges.

Meanwhile, **the transition to a low-carbon economy is another game changer.** Businesses, households, and governments will need to adapt to a shift in the global energy system, implement new processes to increase efficiency and reduce consumption. Minerals are critical to this transition. Demand for copper is poised to double or triple by 2030, according to a March 2022 IEA study. Soaring demand for metals could likely create scarcity and require long-term investments, leading to a significant reallocation of capital.

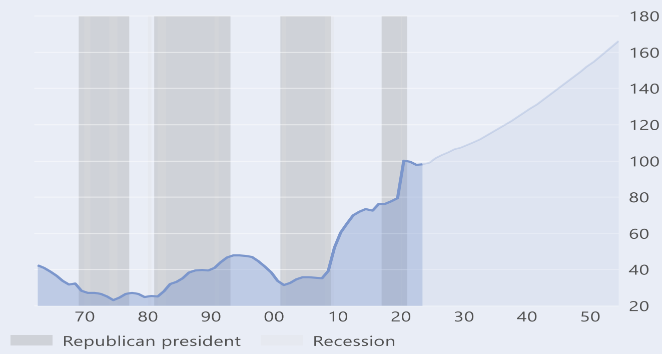
Both shifts will generate massive financing needs at a time when advanced economies are already struggling with public debt issues. Countries will need to spend more on climate mitigation and adaptation, health care and pensions. Cooperation will also be key. However, it is likely that geopolitical fragmentation and conflict could restrict access to natural resources or technologies critical to the transition, leading to delays and higher prices.

Moreover, **the soft landing could be challenged by a new geopolitical shock** that could reignite the rise in energy prices or disrupt supply chains. In addition, major advanced economies need to reduce their deficits and address their rising debt levels. **While austerity measures are necessary, they could hurt growth and constrain countries' ability to support investment**, innovation, productivity growth and transitions. Critical and well-calibrated measures are needed, but short-term pressures and political instability are overshadowing the long-term vision.

"We are entering a new era of supply constraints driven by labor shortages, geopolitical fragmentation, and the transition to a low-carbon economy. Prolonged high interest rates could become the new normal."

US Government Debt

% GDP, Congressional Budged Office

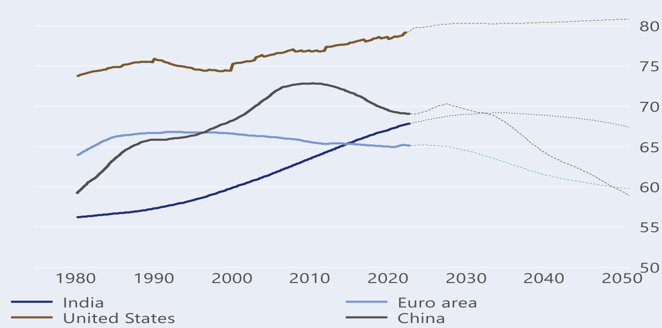


Source: LSEG Datastream/ CBH Investment Management

"In the face of these transitions and the downside risks, Europe is in a more vulnerable position than the United States."

Population of working age

As a percentage of the total population



Source: LSEG Datastream/ CBH Investment Management

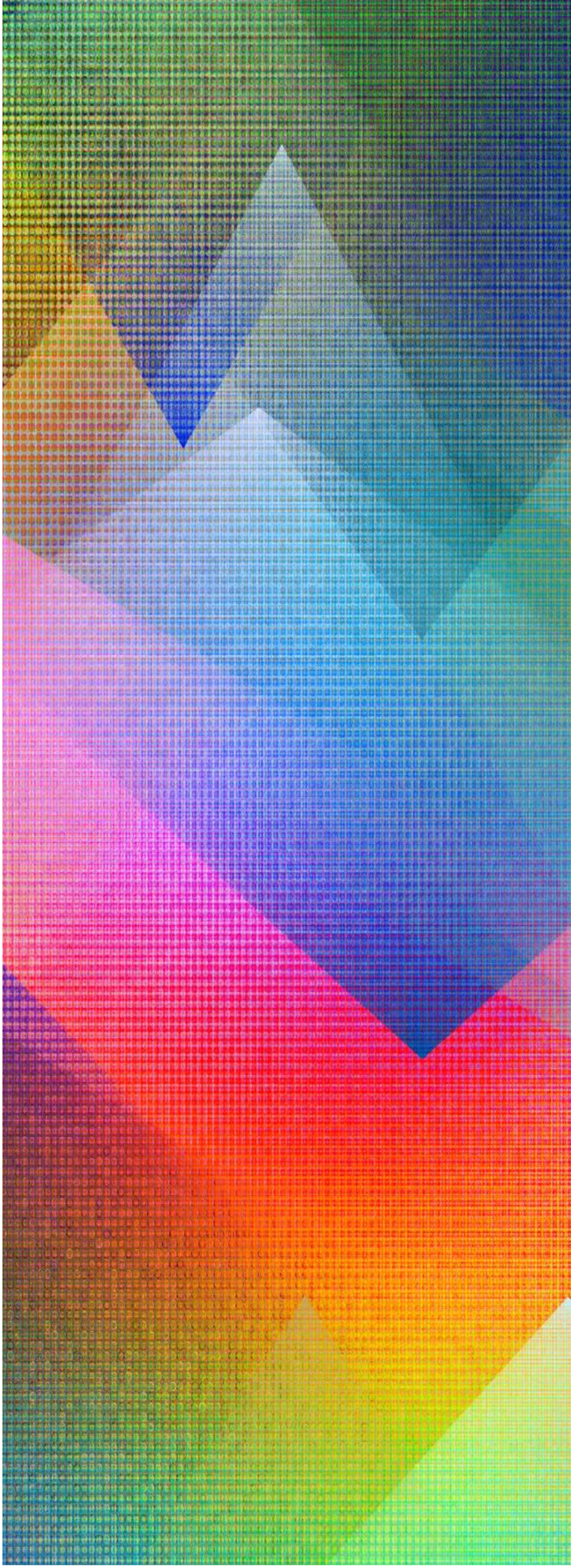
Global Macro Outlook

Key Macro Data and Forecasts

	Annual				2023			
	2022	2023	2024e	2025e	Q1	Q2	Q3	Q4
United States								
Real GDP	**2.5**	**2.9**	**2.6**	**2.0**	**2.8**	**2.5**	**4.4**	**3.2**
Private consumption	3.0	2.5	2.4	1.8	5.0	1.0	2.5	3.5
Non residential investment	7.0	6.0	3.9	2.8	5.3	9.9	1.1	3.8
Residential invesment	-8.6	-8.3	5.0	2.5	-4.3	4.5	7.7	2.5
Domestic demand (contribution, %pt)	2.4	2.8	3.1	2.3	4.8	2.7	3.2	3.6
Inventories (contribution, %pt)	0.6	-0.4	-0.1	-0.2	-2.3	-0.2	1.3	-0.5
Net exports (contribution, %pt)	-0.5	0.5	-0.4	-0.2	0.3	-0.1	-0.2	0.0
Inflation (CPI, %yoy)	8.0	4.1	2.9	2.3	5.7	4.0	3.6	3.2
Unemployment rate (%)	3.6	3.6	4.1	4.3	3.5	3.6	3.7	3.7
Euro area								
Real GDP	**3.4**	**0.5**	**0.9**	**1.2**	**1.3**	**0.5**	**0.0**	**0.2**
Private consumption	4.9	0.8	0.6	0.6	1.5	0.8	-0.1	0.9
Invesment	2.1	1.1	-2.6	0.8	1.6	1.3	0.2	1.3
Domestic demand (contribution, %pt)	3.3	0.9	0.1	0.7	1.2	0.9	0.4	1.1
Inventories (contribution, %pt)	0.1	-0.5	-0.4	0.2	-0.4	-0.2	-0.6	-0.9
Net exports (contribution, %pt)	0.0	0.1	1.2	0.4	0.5	-0.2	0.3	-0.1
Inflation (HICP, %yoy)	8.4	5.5	2.4	2.1	8.0	6.2	4.9	2.7
Unemployment rate (%)	6.8	6.6	6.5	6.5	6.6	6.5	6.6	6.5
China								
Real GDP	**3.0**	**5.3**	**5.0**	**4.5**	**1.8**	**0.8**	**1.5**	**1.2**
Unemployment rate (%)	5.5	5.1	5.1	5.1	5.3	5.2	5.0	5.1
Inflation (CPI, %yoy)	2.0	0.2	0.6	1.5	1.3	0.1	-0.1	-0.3
Trade	5.6	0.8	3.1	3.4				

Key Rates and Forecasts

	Actual	Target		Last 5 years	
	10/24	3M	12M	High	Low
Policy rate					
Fed funds (upper)	5.00	4.50	3.75	5.50	0.25
ECB deposite rate	3.50	3.00	2.50	4.00	-0.50
10-year rate					
US Treasury	3.74	3.80	4.00	4.76	0.56
German Bund	2.04	2.20	2.30	2.91	-0.64



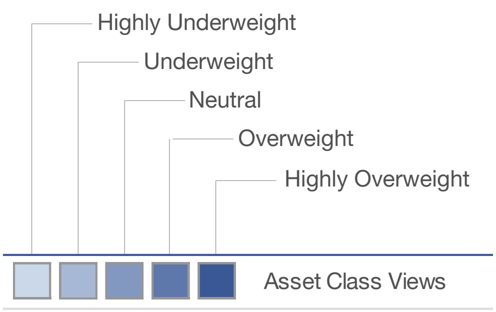
Asset Class Views

These asset class views have a 3 to 12 month horizon.

Where there has been a change since the last Quarterly Insight, the dot (•) indicates the previous view. These views should not be regarded as portfolio recommendations. This summary of our individual asset class views indicates the strength of conviction and relative preferences across a broad range of assets, but is independent of portfolio construction considerations.

	Highly Underweight	Underweight	Neutral	Overweight	Highly Overweight
Fixed Income		■			
Governments Bonds		■			
Corporate Investment Grade			■		
Corporate High Yield		■			
Emerging Market Debt Local Currency	■				
Emerging Market Debt Hard Currency		■			
Duration				■	
Equities				■	
United States of America				■	•
Europe		■			
UK		■			
Switzerland		■			
Japan	■				
Emerging Markets ex-China		■			
China	■				
Alternatives				■	
Hedge Funds					■
Gold	•	■			
Commodities		■			
Currencies (against USD)					
EUR			■		
CHF			■		
GBP				■	
JPY				■	

How to read the table?



This content provides a snapshot of the current market environment and is not intended to predict or guarantee future results. It should not be regarded as investment research or advice on specific funds, strategies or securities. Past performance is not a guide to future results. Any forecasts, projections or targets mentioned are for illustrative purposes only and are not guaranteed to be accurate or achieved.

Asset Allocation

A challenging environment for diversification

Key Takeaways

- A stark contrast emerges between the scenarios priced by defensive and risk assets
- With the equity-bond correlation still positive, we seek alternative sources of diversification
- As the narrative shifts to growth and employment, we expect volatility to increase
- We have tactically reduced our equity overweight to account for rising uncertainties

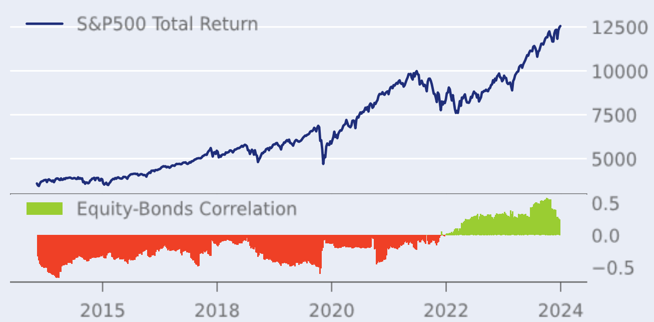
Asset allocators face a particularly challenging environment in today's market. First, the pricing across asset classes reflects the "split personality" of financial markets. Defensive assets such as sovereign bonds and gold are signaling a recession, while risk assets such as equities and high yield bonds are pricing in a "Goldilocks" scenario. This divergence has benefited multi-asset portfolios over the past two years, as rising markets have lifted all boats. Going forward, however, it creates a portfolio construction dilemma for the future: which asset class will emerge as the winner? As the outcome remains uncertain, our focus is on building robust portfolios that can withstand risks from multiple scenarios.

Second, the correlation between high-quality bonds (Treasuries and investment-grade corporates) and equities has turned positive since mid-2022, posing a significant asset allocation challenge. According to the main theoretical paradigm, the bond-equity correlation regime is mainly shaped by the inflation-growth mix, with a positive correlation typically emerging when inflation is high, monetary policy is tightening, and the economy is under pressure. Hence, given our medium-term macro outlook, we expect this correlation to shift back to negative in the future. For now, however, it remains positive, forcing us to explore alternative avenues to enhance diversification. In this context, alternative investments—in particular specific hedge fund strategies—present a compelling opportunity to diversify portfolios and build resilience against market volatility.

Beyond portfolio construction, we believe that financial markets are at a critical crossroads as they shift from a focus on inflation and artificial intelligence to one on economic growth and the labor market prospects. This transition has caused turbulences, and the sharp selloff in early August may signal that risk assets are stretched in terms of both momentum and valuation, making them vulnerable to further sharp reversals. What's particularly concerning is that one of the triggers for the recent volatility spike was the unwinding of JPY-funded carry trades. Since the exact scale of the remaining carry trades is unknown, another wave of unwinding cannot be ruled out, especially given the strong fundamentals supporting further yen appreciation.

Regarding our current positioning, we continue to favor taking risk in equities in our multi-asset portfolios as credit looks richer and faces stronger headwinds. However, in September, we tactically reduced risk by scaling back our overweight in equities due to rising global uncertainties in the short term. We believe that several factors could lead to increased volatility in the final quarter of the year, including overly optimistic Fed pricing, a slowing U.S. economic cycle, a potential further unwinding of JPY carry trades, a closely contested U.S. election, and heightened geopolitical risks. While these factors warrant a more cautious approach, we do not see the need for a structural de-risking at this stage.

A still positive equity-bonds correlation regime
A challenging environment for diversification



Source: CBH Investment Management, Bloomberg
1Y correlation with Bloomberg US Treasury Total Return Unhedged USD

Asset Allocation

Equities - Broadening of earnings growth expectations

Key Takeaways

- Supportive US macro backdrop bodes well for earnings growth over the next 12 months
- The broadening out of growth expectations across all sectors provides a new impulse
- The risk of earnings disappointments is high as the bar for earnings growth expectations is high
- Politics and geopolitics could fuel episodes of heightened volatility in Q4

With the exception of two pullbacks in April and August, U.S. equities have maintained strong momentum this year, driven by solid earnings growth, expectations of lower interest rates, a resilient U.S. economy and declining inflation. While we anticipate increased volatility heading into year-end, we believe strong tailwinds will continue to support U.S. equities over the medium-term.

The U.S. economy continues to demonstrate remarkable resilience, driven by strong consumer spending and a robust services sector. In our view, the cooling labor market is not a sign of recession but rather a normalization of post-COVID excesses. We also expect disinflation to persist, supported by slowing wage growth and declining rents. As a result, we anticipate monetary policy to ease over the next 12 months, with financial conditions remaining broadly supportive for risk assets. With low recession risk and more favorable interest rates, we believe companies are well-positioned to deliver robust earnings growth over the next year.

Expectations for strong earnings growth remain a key driver of equity markets. Analysts remain optimistic about 3Q 2024, forecasting a 4.6% year-over-year earnings growth, marking the fifth consecutive quarter of growth. The consensus also calls for double-digit earnings growth in Q4 2024, bringing full-year EPS growth to 10%. Looking ahead to CY 2025, analysts project S&P 500 earnings to rise by 15.2%, with the tech (+21.2%) and health care (+21.3%) sectors leading the way.

Notably, all 11 sectors are expected to see earnings growth, signaling a broadening of earnings strength beyond mega-cap growth companies. We view this as particularly supportive for equities, as it suggests a healthier, more balanced market environment with reduced concentration risk. Looking ahead, we thus expect U.S. equity performance to become less reliant on mega-cap names like the "Magnificent 7", creating more opportunities for active equity strategies and tactical asset allocation. This led us to gradually diversify our exposure into U.S. mid-caps over the summer, as we believe they stand to benefit from lower interest rates and a rebound in growth in 2025. We find the S&P Midcap 400 Index attractive, with a cheaper valuation compared to the Russell 2000 small-cap index (15.2x vs. 24.4x NTM earnings). Moreover, mid-caps offer a higher quality profile, with fewer unprofitable companies than the small-cap space.

In terms of regional positioning, we continue to favor U.S. equities over Europe and emerging markets. Although growth in Europe is gradually recovering from low levels, the economy remains weaker compared to the U.S., leading us to expect lackluster European corporates earnings over the next 12 months. This pessimism is evident in the year-to-date earnings downgrades for French equities and negative fund flows. In addition, we find the market composition in Europe suboptimal, with low exposure to technology and growth sectors while being heavily leveraged to China. While relative valuations may seem attractive, we do not see any compelling near-term catalysts for equity outperformance. Our underweight position in emerging markets is primarily driven by caution regarding China, despite recent policy supports. We believe that a sustained recovery in the property market is essential to revive confidence and boost consumption.

Despite the medium-term fundamental tailwinds for developed markets equities, we have reduced our equity overweight to address increasing uncertainties as we approach the year's end. While the earnings outlook appears optimistic, it may be overly bright. As the market begins to factor in a softening macro environment, earnings revision momentum has turned negative in the third quarter. We also view 2025 earnings expectations as ambitious, particularly for mega-cap growth companies, given the growing uncertainties around the monetization of Artificial Intelligence. With high expectations set, companies must deliver solid earnings to justify elevated valuations. Any earnings disappointments could dampen sentiment and limit equity indices in the short term. Moreover, the upcoming U.S. presidential election is likely to introduce short-term uncertainties across asset classes, potentially prompting sectoral shifts based on the outcome. Furthermore, geopolitical risks from the Middle East crisis and the Russia-Ukraine conflict could further exacerbate market volatility.

Mid-caps vs large-caps

Mid caps offer attractive relative value vs large caps

Source: CBH Investment Management, Bloomberg

Asset Allocation

Fixed Income - Favor quality in credit and agile duration management

Key Takeaways

- U.S. Treasury yields have significantly declined in anticipation of upcoming Fed rate cuts
- Based on our macro outlook, we believe yields are approaching a cyclical bottom
- Credit is rich as the market is pricing in a “Goldilocks” scenario
- We prefer to take a cautious stance and favor Investment Grade over High Yield in credit

Since Q2 2024, U.S. bond yields have fallen sharply amid rising expectations of significant Fed easing. This has sparked a broad rally across the yield curve, with short-term yields dropping more steeply than long-term yields, leading to the long-awaited bullish steepening and normalization of the curve after two years of inversion. However, we believe the market is pricing in more aggressive rate cuts than warranted by the growth and inflation outlook. As a result, we expect a repricing of the Fed’s cuts, which could trigger a short-term rebound in yields. In our view, the bond rally is overdone, and we recommend gradually trimming overweight duration positions.

In the medium term, the U.S. economy is likely to regain momentum next year if the outlook for a soft landing materializes, reducing the chances of aggressive Fed easing. As a result, we don’t expect yields to fall significantly from current levels. Moreover, history suggests that most of the decline in yields occurs before the Fed starts to cut rates. While we don’t rule out a drop in the short-term, we believe that yields are nearing a cyclical bottom after the summer rally, that saw the 10-year U.S. Treasury yield fall from 4.7% in April to 3.6% in September. Furthermore, the reemergence of the debt ceiling issue and ongoing deficit spending risks could increase the supply of government bonds, driving both the term premium and long-term yields higher.

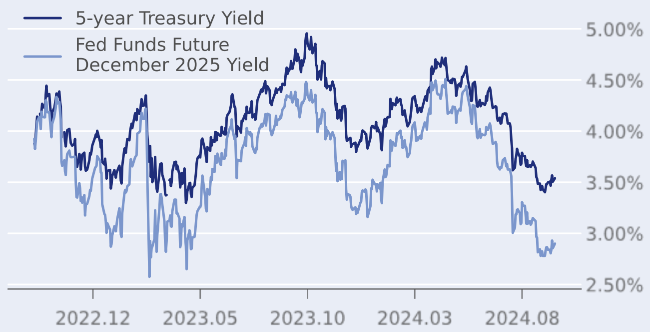
Credit has performed strongly year-to-date, largely driven by technical factors. Investment-grade (IG) bonds in both USD and EUR have continued to attract substantial capital flows, driven by strong demand from carry-seeking investors. In particular, attractive all-in yields have fueled strong demand for annuity products in the U.S. With market pricing suggesting that Fed cuts could push money market rates below 3% over the next year, investors have increasingly shifted into high-quality bonds in anticipation of lower returns on cash. As a result, demand for IG bonds has remained robust throughout the year, and September’s heavy issuance was absorbed without widening spreads in the secondary market. Another key tailwind for IG credit has been the improvement in corporate fundamentals. Corporate earnings have consistently beaten expectations, bolstering creditworthiness metrics. Both gross and net leverage are now lower than in 2021, and interest coverage remains well within historical norms, despite higher interest rates.

The combination of tight credit spreads and steep rate cut expectations reflects a high degree of confidence in the Fed’s ability to engineer a soft landing. While we share this view, the margin for error is narrow, and as we saw in early August, the market can shift quickly if sentiment changes, even slightly. This makes it critical to remain cautious when complacency creeps in. With credit spreads still historically tight, we believe the market is offering limited compensation for the risk of a potential deterioration in macroeconomic conditions. Consequently, we don’t believe now is the time to increase portfolio betas and continue to favor IG over High Yield (HY). In addition, from a cross-asset perspective, we prefer to take risk in equities over credit, as the outlook for equities appears more attractive.

While strong demand continues to drive IG credit, limited supply is the main technical support for HY, as the market sees a shrinking pool of issuers due to upgrades to IG status, known as rising stars. Furthermore, new issuance in the HY space has remained relatively subdued. In terms of fundamentals, the HY market shows greater bifurcation. Higher-rated companies have both the ability and the willingness to reduce debt, while the weakest HY firms are struggling. These weaker companies are likely to reduce debt through restructurings, where creditors may face partial write-downs. Finally, the HY market also appears expensive, especially when considering credit spreads for distressed bonds with a high likelihood of restructuring. Even excluding distressed bonds, spreads for performing HY bonds are still close to all-time lows. These valuations could be justified if a soft landing materializes, but if the landing turns out to be less smooth, the HY market is vulnerable to widening spreads. As a result, we remain cautious on deep credit.

Bonds rallied strongly in anticipation of Fed cuts

The pricing in for the Fed pivot pushed U.S. yields down since April



Source: CBH Investment Management, Bloomberg

Asset Allocation

Forex - JPY and GBP to remain well supported

Key Takeaways

- The U.S. dollar has weakened significantly as the market has priced in the Fed pivot
- Monetary policy divergence is likely to support the yen, although much is already price in
- Robust economic growth and a cautious BoE provide strong support for the British pound
- While gold may be vulnerable to short-term profit taking, structural factors remain in place

In contrast to the relatively subdued volatility in the first half of the year, we have seen far more pronounced swings among G10 currencies in the third quarter. Japanese yen has surged by more than 12%, the Swiss franc and the British pound by more than 6%, and the euro by more than 4%. Meanwhile, the US Dollar Index dropped more than 5%, driven down by lower yields as markets began to price in the anticipated Fed pivot. In our view, the pricing of the relative paths of central bank policies remains the dominant driver in G10 FX, as evidenced by the yen's dramatic rise following the Bank of Japan's (BoJ) rate hike and the subsequent unwinding of yen-funded carry trades.

Looking deeper, the yen's meltup was triggered by a confluence of three key factors. First, weaker-than-expected data in the U.S. heightened recession fears and boosted expectations for Fed rate cuts, sparking broad dollar weakness against a spectrum of G10 and EM currencies. Second, the Japanese Ministry of Finance intervened by purchasing approximately USD 37 billion worth of yen, effectively putting a floor under the JPY. Third, the Bank of Japan (BoJ) shifted its longstanding policy by hiking interest rates and moving away from negative rates. Still, even after a 13% appreciation, the yen remains the cheapest G10 currency. After raising interest rates by 10bps in March and 15bps in July, we expect the BoJ to normalize rates further in the first half of 2025 as Japanese inflation is expected to remain sustained in the wake of robust real wage growth. As the Fed heads in the opposite direction, the narrowing US-Japan yield differential is likely to provide a strong tailwind for further yen appreciation. However, the pace and scale of Fed rate cuts will be crucial in determining the yen's upside potential. In the short term, we see limited room for significant yen gains, as much of the positive outlook has already been priced in, with the yen appreciating nearly 16% from mid-July to mid-September. USD/JPY holds support at 140, with the next level at 137, which we don't expect to be breached until next year.

In our view, the dollar is more likely to weaken against the yen than the euro. Since April, the FX market has already priced in the Fed's expected pivot, while the unwinding of JPY-funded carry trades in August caused EUR/USD to fall to a 13-month low of around 1.12. Going forward, the potential for further euro appreciation will depend on whether European economic growth can catch up with that of the U.S. and how aggressively central banks in both regions cut rates over the next year.

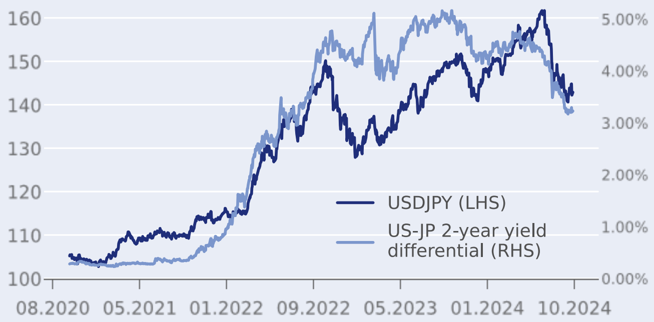
Furthermore, we believe that the market has overestimated the extent of Fed rate cuts, and a repricing in the coming months could lend renewed support to the dollar. EUR/USD is currently capped at 1.12, and we don't expect the pair to rise above 1.15 before the end of the year. Our baseline scenario sees EUR/USD closer to 1.10 by the end of the year.

The pound appreciated over 6% in the third quarter, supported by strong economic growth momentum and a cautious stance from the Bank of England (BoE). EUR/GBP has continued to trend downward, reflecting the divergence between the UK and eurozone economies. At its September meeting, the BoE left rates unchanged but maintained a slightly hawkish tone, signaling a gradual approach to monetary easing. In addition, markets have priced out the risk of a U.S. recession, boosting risk assets and pro-cyclical currencies such as Sterling. Given our baseline macro outlook, we expect the pound to remain well-supported against both the USD and the EUR. While long GBP positions may seem stretched, we don't see this as a significant headwind given the broader pro-cyclical environment and the fundamental supports behind Sterling.

Gold recently reached an all-time high of $2,685 an ounce. The main driver of this rally has been the sharp decline in U.S. nominal yields as markets have priced in upcoming Fed rate cuts, simultaneously pushing down real rates and the U.S. dollar. Furthermore, financial demand has re-emerged as a strong factor, with gold ETFs attracting significant capital flows following the breakout above the $2450 resistance level. While some of these inflows may represent "hot money" from retail investors and momentum chasers, we see increased central banks demand as a more structural and enduring factor that could provide a floor for gold prices in the coming quarters. Moreover, we expect rising fiscal deficits and global money creation to remain bullish factors, as institutional investors continue to view gold as a hedge against fiat currency debasement.

Monetary policy divergence to drive USDJPY

The widening of the yield differential has supported the yen



Source: CBH Investment Management, Bloomberg

Geographical Presence

CBH is present in Geneva, Zurich, London, Luxembourg, Israel, Hong Kong, Rio de Janeiro, São Paulo and The Bahamas. Due to its international exposure, it is under the consolidated supervision of the FINMA in Switzerland and its affiliated companies are supervised by the CSSF in Luxembourg, the FCA in the United Kingdom, the Central Bank of The Bahamas, the SFC in Hong Kong and the CVM in Brazil.

Geneva

Headquarter
CBH Bank
Bd Emile-Jaques-Dalcroze 7
P.O. Box
1211 Geneva 3, CH
cbhbank.com
t +41 22 839 01 00

Zurich

Branch Office
CBH Bank
Bahnhofstrasse 82
P.O. Box 1213
8021 Zurich, CH
cbhbank.com
t +41 44 218 15 15

Luxembourg

SICAV
1618 Investment Funds
106, route d'Arlon
L-8210 Mamer
Grand Duché de Luxembourg
1618am.com

London

Subsidiary
CBH Wealth UK Limited
2-4 Cork Street, London
W1S 3LG, UK,
cbhbank.com
t +44 207 647 1300

Hong-Kong

Subsidiary
CBH Asia Limited
Suite 2001, 20th Floor, K11 ATELIER, 18-24 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong, HK
cbhbank.com
t +852 2869 0801

Nassau

Subsidiary
CBH Bahamas Ltd.
CBH House, East Bay Street
P.O. Box N-1724
Nassau, N.P., Bahamas
cbhbank.com
t +1 242 394 61 61

Rio de Janeiro

Subsidiary
1618 Investimentos
Av. Ataulfo de Paiva,
204 Salas 305 a 308
Leblon, Rio de Janeiro/RJ
CEP: 22440-033, Brazil
1618investimentos.com
t +55 21 3993 6901

São Paulo

1618 Investimentos
Subsidiary
Rua Iguatemi, 192
Itaim Bibi, São Paulo -SP
CEP: 01451-010
Brazil
1618investimentos.com
t +55 11 4550 4401

Tel Aviv

Representative Office
CBH Bank
Rehov Tuval 40
Ramat Gan
5252247 Israel
cbhbank.com
t +972 73 793 62 22

Disclaimer

This publication is for information purpose only and does not constitute any offer, inducement, and recommendation by CBH Compagnie Bancaire Helvétique SA or any other members of its group. Particularly, this publication does not constitute a prospectus, and the published information is not to be understood to be an offer of sale of any securities or an investment proposal of any kind.

It is general information based on proprietary knowledge, information furnished by third parties, and publicly accessible sources. It is not solely the result of independent financial research, therefore the legal requirements regarding the independence of financial research do not apply. The information and opinions expressed in this publication were published by CBH Compagnie Bancaire Helvétique SA, as of the date of writing and are subject to change without notice, in particular any prices indicated are current as of the date of this publication, and are also subject to change without notice.

Investments in the asset classes mentioned in this publication may not be suitable for all recipients and may not be available in all countries. This publication is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives.

Professional advice, including tax advice, should be sought if investors are in doubt. The value of investments and the income from them may fall as well as rise and is not guaranteed, therefore they may not get back the original amount invested; the value of an investment may fall suddenly and substantially; past performance is not a guide to future performance; and levels and basis of, and reliefs from, taxation may change from time to time. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment.

Please note that the value of investments and the income from them may fall as well as rise and is not guaranteed, therefore they may not get back the original amount invested; the value of an investment may fall suddenly and substantially; past performance is not a guide to future performance; and levels and basis of, and reliefs from, taxation may change from time to time. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment.

No representation is made with respect to the accuracy and completeness of this publication, and this publication should not be relied on. Possible errors or incompleteness of the information contained in this publication do not constitute grounds for liability. Neither Compagnie Bancaire Helvétique SA nor any other members of its group are liable for the information contained in this publication.

This publication may only be distributed in countries where its distribution is legally permitted by CBH's local entities. This publication is not directed to any person in any jurisdiction where (by reason of that person’s nationality, residence or otherwise) such publications are prohibited.

Important Distribution Information

Switzerland - This publication is distributed by CBH Compagnie Bancaire Helvétique SA, an authorized and regulated entity by the Swiss Financial Market Supervisory Authority FINMA in Switzerland.

Bahamas - This publication is distributed to clients of CBH Bahamas Ltd. and is not intended for distribution to persons designated as a Bahamian citizen or resident for the purposes of the Bahamas Exchange Control Regulations and rules. Thus, it is only intended for persons who are designated or who are deemed non-residents.

Hong-Kong – This publication is distributed by CBH Compagnie Bancaire Helvétique SA, and is distributed by CBH Asia Limited on its own behalf to its clients. CBH Asia Limited is a company licensed with the Hong Kong Securities and Futures Commission (SFC), and registered with the Mandatory Provident Fund Schemes Authority (MPFA) and the Hong Kong Insurance Authority (IA).

UK - This publication is distributed to clients of and by CBH Wealth UK Limited, authorized and regulated in the United Kingdom by the Financial Conduct Authority [FRN 514546]. This document is intended for general information purposes, and not considered as investment research. For full information on CBH Wealth UK Limited communications, please visit our website or speak to your Relationship Manager.

United States - Neither this publication nor any copy thereof may be sent, taken into or distributed in the united states or to any us person.

This publication may contain information obtained from third parties, including ratings, scoring measures, prices and other data. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

All data as of September 30, 2024
Published in October 2024

Creativity within Excellence

CBH | Compagnie Bancaire Helvétique

Asset Management
Boulevard Emile-Jaques-Dalcroze 7
P.O.Box
CH - 1211 Geneva 3

am@cbhbank.com
www.cbhbank.com