Outlook
First Semester
2024

January 2024

SunPartners
Spirit of Independence

Executive Summary

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- The year ahead looks set to be characterized by a deceleration in global growth -heterogeneous growth dynamics across regions-, a further cooling of inflation and the beginning of a rate easing cycle. Despite the very aggressive hiking cycle the Fed embarked on, raising rates by 450bp within a year, consensus call is for a soft landing in 2024 as the drop in labor demand is aligned with a gradual increase in the unemployment rate but without the labor market falling off a cliff. However, consumers face mounting headwinds. European growth, meanwhile, remains sluggish going into 2024, and China enters a "new normal" of lower growth on the back of no tangible support for the property sector and further thawing of geopolitics and trade between Washington and Beijing. A major source of tension for next year is the reconciliation of market pricing versus central bank stated intentions for policy. Economic outcomes will help shape the resolution of the discrepancy.

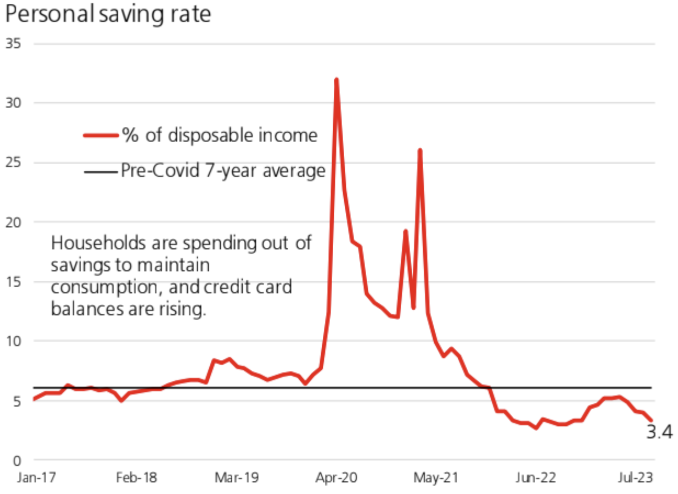
- 2024: Focus on quality. A downshift from above-trend growth could present challenges and economic cycles out of sync increases dispersion of returns. We favor bonds over stocks as volatility is expected to persist on the back of market expectations and monetary authorities rate cut expectations alignment. On the equity side, we recommend focusing on quality, income, and defensive options. In the fixed income space, we are overweight on the most protective segments and suggest adding duration on the back of the end of the tightening monetary policy cycle.

- The main risks to our scenario are monetary policy missteps (policymakers go beyond the expected pause), politics continue to have a central stage (US presidential election, the Israel-Hamas and Russia-Ukraine wars, and the ongoing rivalry between the US and China) and near-term earnings headwinds persist (as inflation/pricing power for corporates is waning).

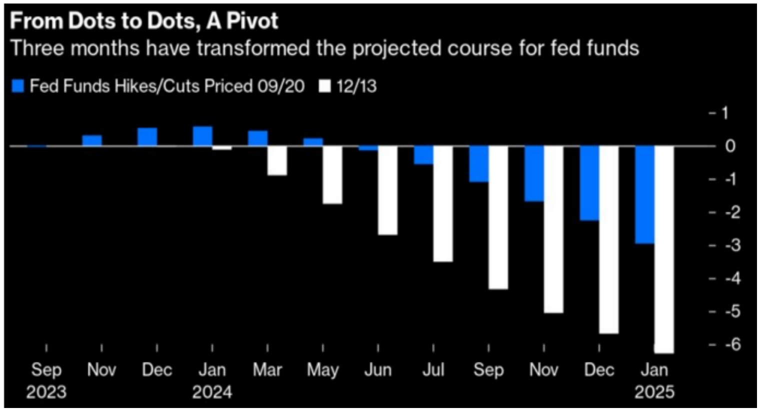
Macro & Asset Class Overview

2023 in review: a tale of two halves

- **The US economy proved to be more resilient to higher interest rates than expected on the back of a surprisingly high level of fiscal support and excess consumer savings leftover from the 2021 stimulus.** A decade of deleveraging and a post-COVID period of sub-3.5% mortgage rates “protected” nearly 85% of the mortgaged housing stock from the Fed raising rates by 450 bps within a year. Furthermore, USD 5 trillion fiscal payments to small businesses and vulnerable populations, Social Security cost-of-living adjustments and excess household savings have insulated consumption.
- **The resilience demonstrated by the global economy in 2023 helped to deliver positive returns for equity indexes in all major regions, but the drivers of these returns have varied significantly.** These moves leave most major equity markets looking neither cheap nor expensive heading into 2024. The US continues to trade at a major premium to others. **Most of this benign scenario where growth, inflation, and policy normalize is already mostly reflected in valuations, especially after the recent rally we've seen.**
- While 2023 was a very good one for the S&P 500 (confounded expectations), it has been a challenging one for the average stock and most sectors. The outsized contribution of just seven stocks to the market cap weighted benchmark's return (and earnings) has left this year's equity market performance one of the narrowest on record. After a 20% drawdown in many stocks between July and October, equities staged an impressive rebound in November and December thanks to the sharp reversal in interest rates. Despite the year rally was broaden, the gap between the market cap weighted index and the equal weight still ended in 125 bps. **A good portion of this reversal was due to the pricing of a much more accommodative rate cut path over the next 12 months.** Specifically, 130bps of cuts are now priced into Fed Funds futures through the end of next year. **Which is the relative performance of industry groups and factors around the Fed's first interest rate cut of the cycle?** Value tends to outperform into the cut and underperform growth post the cut. Quality tends to outperform meaningfully into the cut and then sees more volatile performance after. Cyclicals underperform defensives persistently both before and after the cut as do small caps.



Source: BEA, Haver, UBS



UBS, Morgan Stanley, Julius Baer, Bank of America

2023 in review: a tale of two halves

- **Three years ago, nearly 30% of all global government debt traded with a negative yield. Today, negative yielding debt has all but disappeared**. Over half of the developed world's sovereign debt trades with a yield higher than 4%, and U.S. Treasury yields across the curve, from 3-month bills to 30-year bonds, range from ~4% to 5%. Over the past 10 years, developed market equity earnings yields have on average been around 300 basis points higher than the yield available on developed market, BBB-rated corporate credit. Today, that gap is less than 30 basis points.
- **2023 was largely a tale of two halves for the Treasury market.** In the first half, 10-year UST yields largely traded around 3.75%, rising briefly amid stronger-than-expected economy, that defied widely held recession forecasts, and then rallying below in response to the banking turmoil in March. In the second half, they rose to almost 5%, the highest level in more than 15 years. The upward pressure on yields was exacerbated by worries about supply-demand imbalance, the sharp widening in budget deficits and concerns about excess duration supply. The deficit was about USD 2trn in FY23 versus mid-year expectations of USD 1.5trn and the prior year's deficit of USD 1trn. With the economy close to full employment, a deficit of 7.5% GDP came as a significant shock to markets. However, yields have retreated to below 4%. One can attribute a good portion of the movement in 10-year UST yields over the last 6 months to changes in the bond market's view on what the Fed will do over the next year. Softer inflation prints contributed to the late year rally as investors grew confident that conditions for an imminent easing cycle were falling into place helped by dovish Fed commentary and the December dot plot.
- **Investors piled into cash in 2023**. Certainly, 5% yields on cash and low volatility have been a magnet. Global investors added a record USD 1.1tn to their cash holdings in 2023, 25% rise in AUM to USD 5.9tn, the highest allocation since the pandemic.

Yield swings on short-term surprises

Sensitivity of U.S. 10-year yield to economic surprises, 2003-2023

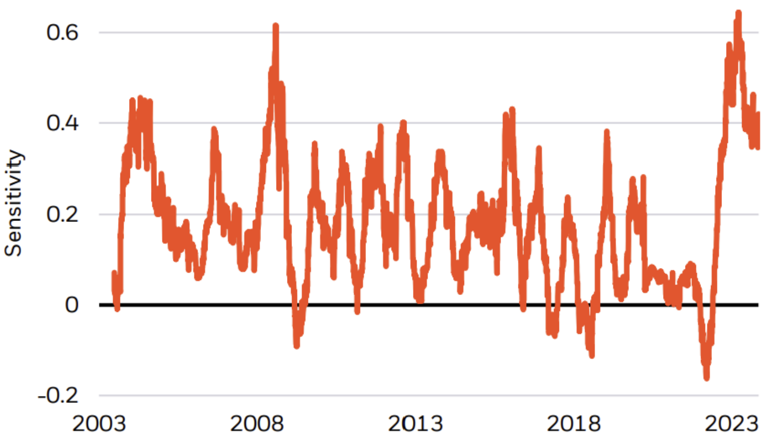
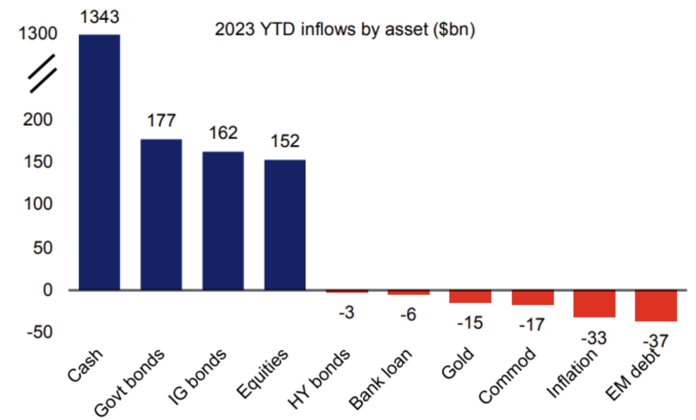


Chart 3: Cash the big flow 'winner' of 2023

YTD inflows by asset class ($bn)



Source: BofA Global Investment Strategy, EPFR. Cumulative inflows YTD till week ending 20th December.

BofA GLOBAL RESEARCH

UBS, Morgan Stanley, Julius Baer, Bank of America

2023 market review

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2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
USA Equity 32.37	Real Estate 15.89	Japan Equity 9.93	Latam Equity 31.04	Emerging Markets Equity 37.28	UST 0.86	USA Equity 31.47	Gold 25.12	USA Equity 28.68	Commodities 13.75	Latam Equity 32.71
Japan Equity 30.55	USA Equity 13.67	USA Equity 1.37	High Yield Corp 17.13	Japan Equity 25.71	Gold -1.56	Europe Equity 26.84	Japan Equity 24.74	Real Estate 27.21	Latam Equity 8.92	Europe Equity 27.27
Europe Equity 28.24	IG Corp 7.46	EM USD Corp + Sov 1.29	USA Equity 11.95	Europe Equity 25.44	High Yield Corp -2.08	Real Estate 23.06	USA Equity 18.39	Commodities 27.05	Alternatives 1.06	USA Equity 26.26
Balanced Allocation 14.97	UST 5.05	UST 0.84	Commodities 11.4	Latam Equity 23.74	EM USD Corp + Sov -2.46	Japan Equity 22.41	Emerging Markets Equity 18.31	Europe Equity 15.58	Gold -0.28	Japan Equity 21.77
Alternatives 9.73	EM USD Corp + Sov 4.76	Real Estate 0.05	Emerging Markets Equity 11.19	USA Equity 21.82	IG Corp -2.51	**Balanced Allocation 19.34**	**Balanced Allocation 13.22**	**Balanced Allocation 11.21**	High Yield Corp -11.19	**Balanced Allocation 16.56**
High Yield Corp 7.44	Alternatives 4.13	IG Corp -0.68	EM USD Corp + Sov 9.88	**Balanced Allocation 16.4**	Alternatives -3.19	Emerging Markets Equity 18.42	IG Corp 9.89	Alternatives 8.23	UST -12.46	High Yield Corp 13.45
Real Estate 4.39	**Balanced Allocation 3.2**	Alternatives -0.71	Gold 8.14	Gold 13.53	USA Equity -4.39	Gold 18.31	UST 8	High Yield Corp 5.28	Europe Equity -13.97	Gold 13.1
IG Corp -1.53	High Yield Corp 2.45	**Balanced Allocation -1.78**	IG Corp 6.11	Real Estate 11.42	Real Estate -4.74	Latam Equity 17.46	High Yield Corp 7.11	IG Corp -1.04	EM USD Corp + Sov -15.26	Real Estate 10.85
Emerging Markets Equity -2.6	Gold -1.44	Europe Equity -3.6	Japan Equity 5.87	EM USD Corp + Sov 8.17	**Balanced Allocation -5.71**	IG Corp 14.54	EM USD Corp + Sov 6.52	EM USD Corp + Sov -1.65	IG Corp -15.76	Emerging Markets Equity 9.83
UST -2.75	Emerging Markets Equity -2.19	High Yield Corp -4.47	**Balanced Allocation 5.34**	High Yield Corp 7.5	Latam Equity -6.57	High Yield Corp 14.32	Alternatives 6.36	UST -2.32	**Balanced Allocation -17.38**	EM USD Corp + Sov 9.09
EM USD Corp + Sov -4.12	Japan Equity -4.16	Gold -10.41	Real Estate 4.99	Alternatives 7.12	Japan Equity -8.54	EM USD Corp + Sov 13.11	Europe Equity 6.05	Emerging Markets Equity -2.54	USA Equity -18.13	IG Corp 8.52
Commodities -9.58	Europe Equity -7.86	Emerging Markets Equity -14.92	Europe Equity 1.76	IG Corp 6.42	Commodities -12.99	Alternatives 9.31	Commodities -3.5	Gold -3.64	Japan Equity -18.54	Alternatives 5.09
Latam Equity -13.36	Latam Equity -12.3	Commodities -24.7	Alternatives 1.25	UST 2.31	Emerging Markets Equity -14.57	UST 6.86	Real Estate -8.18	Japan Equity -4.39	Emerging Markets Equity -20.09	UST 4.05
Gold -28.28	Commodities -17.04	Latam Equity -31.04	UST 1.04	Commodities 0.75	Europe Equity -15.45	Commodities 5.44	Latam Equity -13.8	Latam Equity -8.1	Real Estate -24.41	Commodities -12.55

Bloomberg as of 29.12.2023

2024: Weakening growth, downside risks remain

- **The global economy continues to confront the challenges of persistent inflation and subdued growth prospects.** GDP growth has been stronger than expected so far in 2023, but is now moderating as the impact of tighter financial conditions, weak trade growth and lower business and consumer confidence is increasingly felt. Financial conditions are restrictive, with forward-looking real interest rates having generally risen further in recent months. Activity has slowed in interest-sensitive sectors, particularly housing markets, and in economies reliant on bank-based finance, especially in Europe. Heightened geopolitical tensions are also again adding to uncertainty about the near-term outlook. Headline inflation has fallen in almost all economies, easing pressures on household incomes, but core inflation remains relatively high.

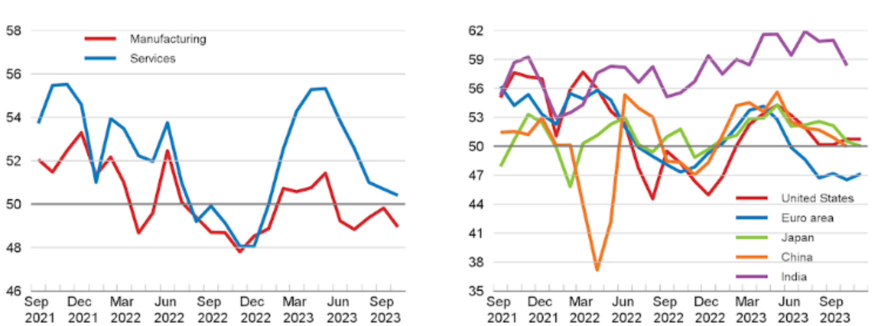
- Global GDP growth is projected to ease to 2.7% in 2024, from 2.9% this year, before edging up to 3% in 2025 as real income growth recovers and policy interest rates start to be lowered. **A growing divergence across economies is expected to persist in the near term**, with growth in the emerging-market economies generally holding up better than in the advanced economies, and growth in Europe being relatively subdued compared to that in North America and the major Asian economies. Annual consumer price inflation in the G20 economies is projected to continue easing gradually as cost pressures moderate, declining to 5.8% and 3.8% in 2024 and 2025 respectively, from 6.2% in 2023. By 2025, inflation is projected to be back on target in most major economies.

Table 1.1. **Global growth is projected to remain subdued**

	Average 2013-2019	2022	2023	2024	2025	2023 Q4	2024 Q4	2025 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.4	3.3	2.9	2.7	3.0	3.0	2.9	3.0
G20[2]	3.5	3.0	3.1	2.8	3.0	3.2	2.9	3.0
OECD[2]	2.3	2.9	1.7	1.4	1.8	1.7	1.5	1.9
United States	2.5	1.9	2.4	1.5	1.7	2.4	1.3	1.9
Euro area	1.9	3.4	0.6	0.9	1.5	0.5	1.1	1.6
Japan	0.8	0.9	1.7	1.0	1.2	1.6	1.4	1.1
Non-OECD[2]	4.4	3.6	4.0	3.8	4.0	4.1	4.0	3.9
China	6.8	3.0	5.2	4.7	4.2	5.5	4.4	4.1
India[3]	6.8	7.2	6.3	6.1	6.5			
Brazil	-0.4	3.0	3.0	1.8	2.0			
OECD unemployment rate[4]	6.5	5.0	4.8	5.1	5.1	4.9	5.1	5.1
Inflation[1]								
G20[2,5]	3.0	7.9	6.2	5.8	3.8	5.4	4.5	3.4
OECD[6,7]	1.6	9.3	7.4	5.3	3.9	6.4	4.3	3.6
United States[6]	1.3	6.5	3.9	2.8	2.2	3.2	2.5	2.1
Euro area[8]	0.9	8.4	5.5	2.9	2.3	3.2	2.6	2.1
Japan[9]	0.9	2.5	3.2	2.6	2.0	3.0	2.1	2.1
OECD fiscal balance[10]	-3.2	-3.4	-4.8	-4.3	-4.0			
World real trade growth[1]	3.4	5.2	1.1	2.7	3.3	2.0	3.0	3.4

Figure 1.2. **Survey indicators suggest that growth is slowing in many countries**

A. Global output PMI **B. Composite output PMI**



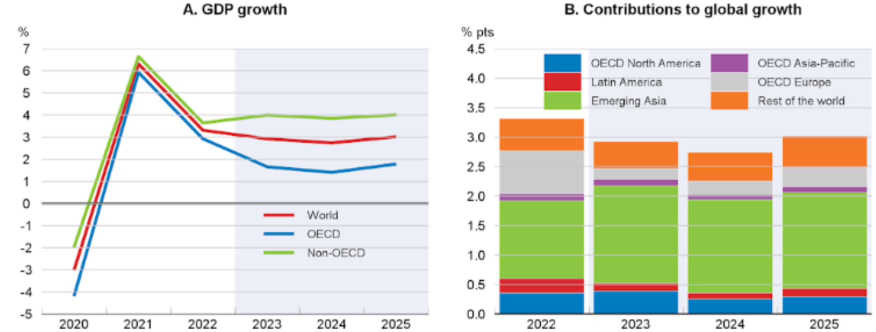
Note: Values below 50 indicate that a balance of firms reports a contraction in output. Panel B includes the November Flash PMIs for the advanced economies.

Source: S&P Global.

2024: Weakening growth, downside risks remain

- **Risks to the near-term global outlook remain tilted to the downside.** Heightened geopolitical tensions due to the conflict following the terrorist attacks on Israel by Hamas are a key near-term concern, particularly if the conflict were to broaden. This could result in significant disruptions to energy markets and major trade routes, and additional risk repricing in financial markets, that would slow growth and add to inflation. Headwinds from rising trade restrictions, inward-looking policies and the restructuring of global value chains are also contributing to the uncertain outlook for global trade, which is a key concern given the importance of trade for productivity and development. Continuing cost pressures, renewed rises in energy and food prices, or signs of an upward drift in inflation expectations could compel central banks to keep policy rates higher for longer than expected, potentially generating additional stress in financial markets. Conversely, the impact of higher interest rates and tighter credit standards could prove stronger than anticipated, leading to a more severe slowdown in spending, rising unemployment and higher bankruptcies. Tighter-than-expected global financial conditions would also intensify financial vulnerabilities, including in emerging-market and developing economies, and add to debt-servicing pressures in lower-income countries. On the upside, the global economy and financial markets have so far proved relatively resilient to the tightening of monetary policy, and inflation could return to target without a marked growth slowdown or a sharp rise in unemployment. A continuation of this pattern would imply better-than-expected growth in 2024 while inflation eases.

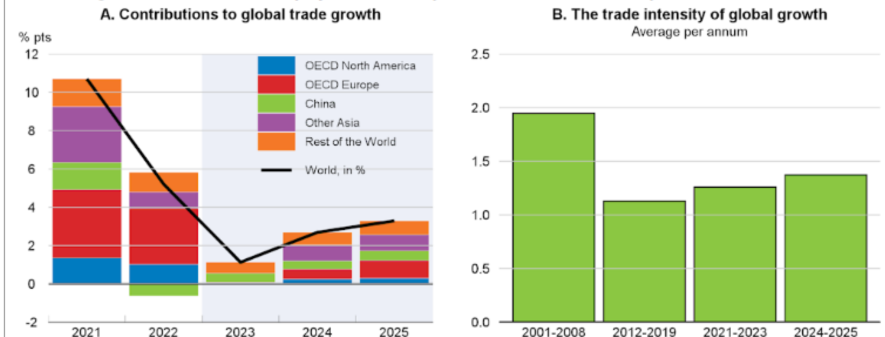
Figure 1.13. **Global growth will remain modest and come mainly from the major Asian economies**



Note: In Panel B, Emerging Asia comprises China, India, Indonesia and the Dynamic Asian Economies (Hong Kong (China), Malaysia, Chinese Taipei, the Philippines, Singapore, Thailand and Viet Nam). Latin America comprises Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. Contributions calculated moving PPP shares of global GDP.

Source: OECD Economic Outlook 114 database; and OECD calculations.

Figure 1.14. **Global trade is projected to slowly recover but remain weak by historical standards**



Note: OECD North America includes Canada and the United States; Other Asia includes Japan, Korea, the Dynamic Asian Economies (Hong Kong (China), Malaysia, Chinese Taipei, the Philippines, Singapore, Thailand and Viet Nam), India and Indonesia. Trade growth is based on the average of imports and exports, in volume terms, in USD. Trade intensity calculated as the ratio of the average growth rate of imports and export volumes to GDP growth. Both series are in constant 2015 USD.

Outlook Summary: main providers

Outlook summary: main providers

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	Fixed Income										Equities				Alternatives		
	Government			Investment Grade			High Yield										
	US	EU	Focus	US	EU	Focus	US	EU	EM	Focus	US	EU	EM	Focus	HF	CO	Focus
JPM Asset Mgmt	▲	▬	US Short & Mid term, 2s/10s will steepen	▲	▲	OW US Large Banks, Consumer, Telecoms and Autos	▬	▼	▬	OW BB and B	▼	▬	▬	Quality, healthcare and utilities in US. OW UK and Japan	-	▬	Bullish Gold and Silver
BlackRock	▼	▬	OW US short duration, US TIPS, US MBS	▼	▼	Prefer Europe over the U.S.	▬	▬	▲	Prefer Europe HY over US. Favour EM HC	▼	▼	▬	OW US large cap growth, quality	-	-	
Julius Baer	▬	▬		▲	▲		▼	▼	▲	EM HC with quality bias	▲	▬	▬	Quality growth (IT & comm) & defensive (HC)	-	▬	Bullish copper
Pimco	▲	▲	OW Agency MBS and duration	▲	▬	High quality and securitized credits	▼	▼	▲	Favour BB and EM currency with high carry	▲	▬	▼	High quality US Companies	▬	▬	
Bank of America	▬	▬	OW 30 yr UST	▬	▬	OW IG in the near term, OW securitized LT	▬	▬	▬	OW EU subordinated	▲	▼	▬	US value over secular growth	-	▬	OW energy
UBS	▬		OW US TIPS	▲		OW US agency MBS	▬	▬	▬		▬	▬	▲	OW quality income & China	-	▬	OW oil

Executive Summary: Neutral views on the equity side remain and the overweight it towards the most protective segments of fixed income. Stock-bond correlations should eventually fall toward neutral levels, amid receding inflation.

- **Fixed Income**: Most are overweight fixed income, favoring investment grade, MBS and duration. The high yield segment is least favored as spreads widen due to deceleration in global growth. Constructive view on duration on the prospect of rate cuts.

- **Equity**: Quality, defensive and income segments will be best positioned to grow earnings in a slowing global economy. Estimates of around 7% growth in earnings next year, with multiples supported by lower rates, likely sees the S&P 500 test the 5,000 level in 2024. Japanese stocks are a consensus OW given rerating potential driven by corporate governance reforms. Emerging market equities holds a neutral view. Despite valuations are cheap, so far lack clear catalysts for a rebound.

Our Main Scenario

Our main scenario

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Central scenario: lingering risks remain

We await a deceleration in global growth in 2024 and heterogeneous growth dynamics across regions to persist, but we foresee inflation getting closer to targets and central banks moving towards an easier monetary policy stance. Elections will take place in several countries next year.

We expect slower growth (sub-trend) for the US economy in 2024 as consumers face mounting headwinds. Consumer delinquencies have been accelerating. High interest rates are likely to curb the propensity to spend. A modest contraction in real GDP cannot be discarded. European growth should remain subdued, and China to enter a “new normal” of lower, but potentially higher-quality, growth. We expect central banks to commence rate-cutting cycles in 2024. However, the market overestimates the speed and scope of Fed easing in 2024. Hence, the pace of policy easing, the shape of the yield curve, and the trajectory of economic growth will be the key drivers of portfolio returns in 2024.

Impact to our allocation

Focus on quality. A downshift from above-trend growth could present challenges for segments of the equity and fixed income markets. A major source of tension for next year is the reconciliation of market pricing versus central bank stated intentions for policy.

- Cash & equivalents: Cash is still providing positive yield, and this reserve shall serve as “dry powder” for future investments, coming along with a potential reserve of performance.

- Fixed income: We keep favoring quality over yield as a decelerating economic backdrop might cause default rates from high yield issuers revert to mean from minimum and credit spreads widening. High-quality credit should fare well, supporting valuations. As interest rates fall, we expect quality bonds to deliver both attractive income and capital appreciation.

- Equities: Higher quality stocks – those with robust balance sheets, proven management teams and a stronger ability to defend margins- will be best positioned to grow earnings in a slowing global economy. Naturally, some of these will be found in the technology sector, but there are also good examples in more traditionally defensive sectors such as healthcare.

- Diversification: Diversification provide a more defensive stance to portfolios as investors will likely contend with volatility around the market pricing of the easing cycle. Therefore, we will keep on adding liquid alternative investments and protection tactically to provide portfolios with volatility cushion to absorb short term shocks.

Main risks to our scenario

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Monetary policy missteps & debt sustainability

- As much has been already priced in, the cost of disappointment might be high. Policy surprises happen. Recall 2000 and 2007. In H2. 2000, the Fed signaled a pivot, executing its first rate cut in Jan 2001; markets peaked in March, prior to the tech-wreck. In early 2007, the Fed signaled cuts that it
- implemented in Sep; after new highs in Oct, the crash associated with the GFC commenced.

- An imminent easing cycle investors grew confident of, helped by dovish Fed commentary and the December dot plot, translated in a market pricing above the central bank stated intentions for policy. However, "supercore" metrics are stuck at roughly 4%, a mirror of sticky inflation in areas tied to demand stimulation.

- The consequences of a higher for longer environment could translate into systemic risk that are not yet obvious (whether coming from the regional banking system, the commercial real estate refinancing cycle or the bankruptcy data on unprofitable "zombie" firms).

- Another source of concern is US debt sustainability. A final unknown is the impact of extraordinary levels of federal debt. Currently at USD 33 trillion, or nearly 125% of annual GDP, the debt is expected to continue growing faster than output as annual deficits persist through 2033. Interest costs on the debt, which stands at close to 125% of GDP, are on track to approach 60% of discretionary spending by 2030.

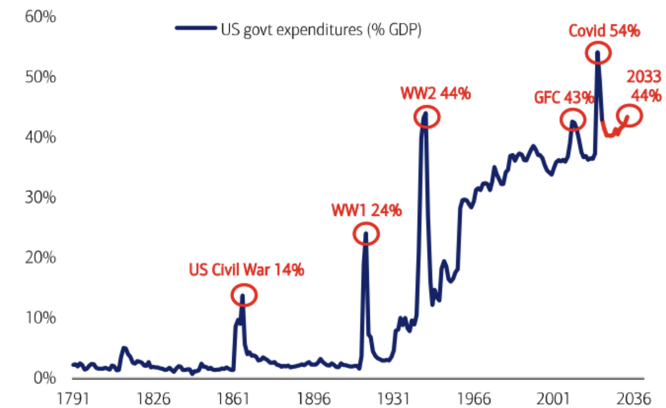
Traders Are Betting on 2024 Rate Cuts
Change in central bank rates, in basis points

Central bank	What markets expected for 2023	What actually happened in 2023	What markets expect for 2024
US	66	150	-110
Euro zone	141	250	-133
Japan	22	0	25
UK	159	225	-74
Canada	31	125	-106
Australia	79	150	-31
New Zealand	77	125	-55
Switzerland	86	125	-61
Denmark	136	235	-119
Norway	10	175	-101
Sweden	72	150	-114

Source: Bloomberg
Market expectations are derived from swap rates as of Dec. 1, 2022, and Dec. 7, 2023

Bloomberg Businessweek

Chart 8: Big Government
US government expenditures % GDP since 1791



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

Geopolitics continue to have a central stage

- Politics should have an outsized role in 2024. The US presidential election, the Israel-Hamas and Russia-Ukraine wars, and the ongoing rivalry between the US and China could all have global market repercussions.

- Elections will take place in several countries next year, which account for 80% world's market cap, 60% world's GDP, 40% world's population (Taiwan, Indonesia, Russia, Korea, India, South Africa, EU, Mexico, US, UK).

Downward earnings revision

- Near term earnings headwinds persist as inflation/pricing power for corporates is waning. It is interesting to note that S&P 500 3Q EPS surprised by 8% but revenues surprised by only 1%. Meanwhile, more comments from companies acknowledging demand have receded from the stronger pace they were seeing in Q3. Added to this, the recent decline in Q4.23 estimates is likely an early indication of continued downside for 2024 consensus estimates as companies soon begin to formally guide for next year. The significant fiscal impulse that helped to fuel the resilience of growth in 2023 is now fading and the high interest rate environment is increasingly weighing on both corporate and consumer sentiment. The combination of these factors suggests that earnings headwinds will likely persist into early next year before a durable recovery takes hold.

Paying more attention

BlackRock Geopolitical Risk Dashboard, 2018-2023

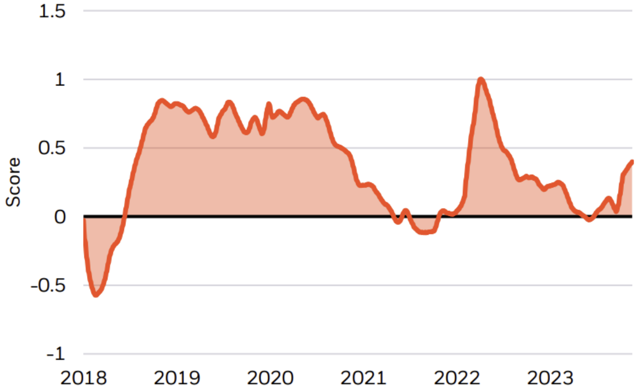
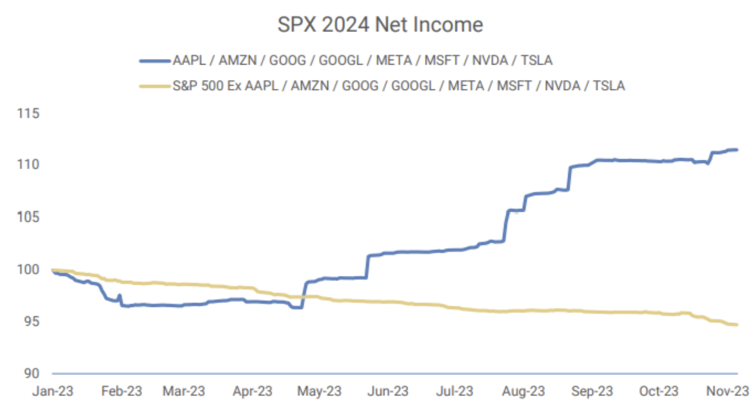


Chart takeaway: *Market attention to geopolitics has hit its highest this year, according to our BlackRock Geopolitical Risk Indicator.*

Exhibit 2: ...And Earnings Expectations



Source: Compustat, Factset, Morgan Stanley Research.

Main Asset Classes

Asset Class	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		RATIONAL
Cash			●			We downgraded cash one notch favouring fixed income, due to attractive yields. We recommend to keep moving assets from cash & equivalents to Fixed Income to lock in yields
Fixed Income					●	We keep on favouring Investment Grade, as riskier segments should face higher default rates on an economic slowdown. We believe duration will be an important source of returns in the next 12-24 months and we recommend adding duration in periods of volatility and higher rates
Equities		●				Despite in the last month of H2 2023 we moved our position to neutral, for H1 2024 we prefer to keep it underweight and have a more defensive position. We prefer Global Equities vs US stocks as valuations are more attractive. We favour a combination between growth and defensive sectors such as Healthcare
Commodities			●			Commodities remain a hedge for geopolitical risks, while offering less upside than previously. China demand growth will play an important role in prices. We recommend gold as a diversifier to portfolios.
Alternatives		●				Overall liquid alternative investments should keep on helping portfolios specially during volatility spikes, but we are cautious with illiquid strategies

Current	Previous
●	

Sub Asset Classes – Fixed Income

Sub Asset Class	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		RATIONAL
US Government bonds				●		In an environment of subtrend growth and lingering risk we stick to quality and recommend to increase duration through Treasuries.
US Credit					●	IG becomes a priority in portfolios to provide stable returns and income. Moreover is a good asset to increase duration. We believe credit spreads will probably increase but less than in HY and will remain tight
US High Yield		●				Expecting default rates to rise and credit spreads to increase, be selective. We prefer BB, short duration and senior secured bonds
EUR Government bonds			●			Europe will probably mantain high rates for a longer period than US. Is a good way to diversify the FX exposure
EUR Credit				●		Credit spreads are higher in Europe than in USA. However the probability of a recession is also higher. There is an opportunity for blue chips IG companies
EUR High Yield		●				Expecting default rates to rise, be selective. There are opportunities in specific sectors
EM Bonds			●			Emerging markets offer an interesting spread relative to advanced economies. There are opportunities in both local and hard currency
Perpetuals / Convert			●			Perpetuals could provide an extra cashflow, be selective in the quality of the issuer and resset terms
Alternative bonds			●			Liquid long/short and FX strategies still provides diversification within a traditional fixed income allocation

Current	Previous
●	

Sub Asset Classes – Equity and Alternatives

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Sub Asset Class	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		RATIONAL
US Equity		●				We mantain a relative underweight for H1 2024 as we believe there might be volatility and better entry points. We favour S&P500 equally weight vs S&P500 as valuations are more attractive
EUR Equity		●				Europe remains exposed to commodity shocks from geopolitical risks and macro data is deteriorating. Rates will remain high as long as necessary to keep on reducing inflation
EM Equity			●			Valuations are more attractive than other regions and growth is expected to be above Developed Markets
Alternative Equity			●			Liquid long/short strategies help to manage Beta of portfolio and provide diversification and partially absorb volatility
PE / Real Estate		●				High rates do not contribute to leverage in Private Equity and Real Estate markets. There will probably be a good entry point in next half.

Current	Previous
●	

Investment ideas

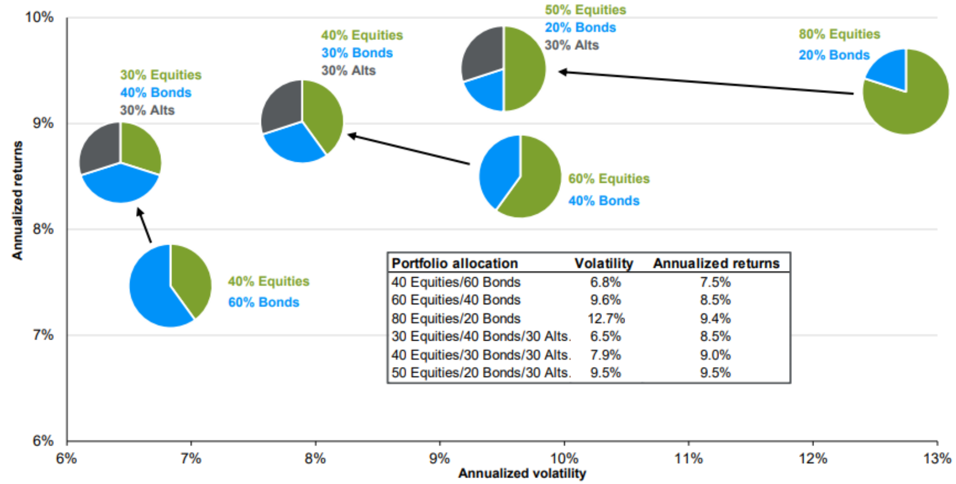
Liquid Alternatives

SunPartners

- Alternatives could help to diversify risk in portfolios by adding different sources of income and capital appreciation. Moreover, it increases risk adjusted returns.
- For instance, a balanced portfolio with 60% in equities and 40% in bonds has an 8.5% annualized return with a volatility of 9.6%, whereas a portfolio with 40% equities, 30% bonds and 30% alternatives has a 9% return annually with a lower level of volatility 7.9%.
- It might sound to good to be true but in private markets there is a huge dispersion of returns and finding the top quartile managers is key. Apart from that, private markets usually use high levels of leverage and an environment of lower rates or decreasing rates tend to be better than higher rates environments.
- In a period of high correlation between bonds and equities, adding alternatives could provide a better source of diversification. For the next H1 2024 we consider that liquid alternatives such as macro strategies or long/short strategies could help us to have a smooth path and achieve higher risk adjusted returns.

Alternatives and portfolio risk/return

Annualized volatility and returns, 1989 – 2Q23

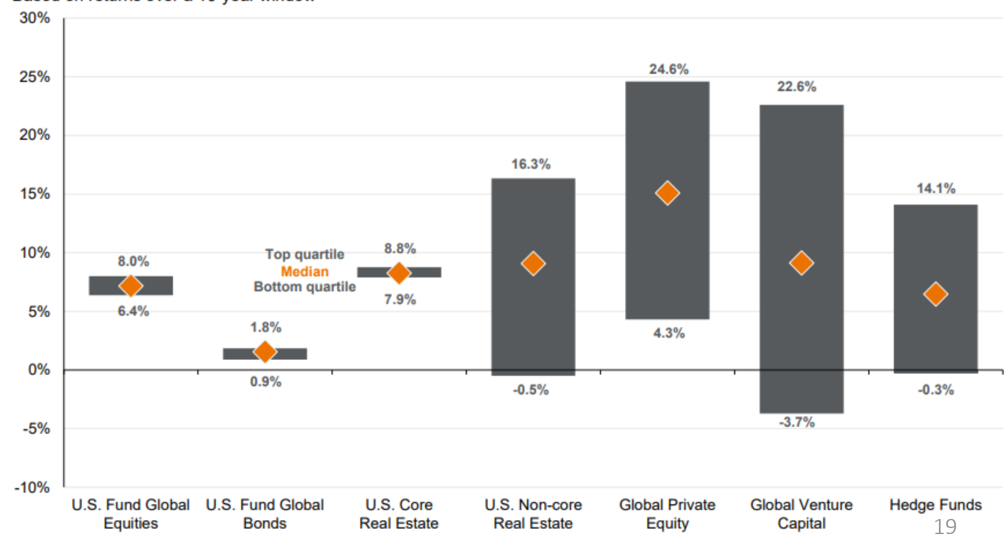


Portfolio allocation	Volatility	Annualized returns
40 Equities/60 Bonds	6.8%	7.5%
60 Equities/40 Bonds	9.6%	8.5%
80 Equities/20 Bonds	12.7%	9.4%
30 Equities/40 Bonds/30 Alts.	6.5%	8.5%
40 Equities/30 Bonds/30 Alts.	7.9%	9.0%
50 Equities/20 Bonds/30 Alts.	9.5%	9.5%

Source: Bloomberg, Burgiss, HFRI, NCREIF, Standard & Poor's, FactSet, J.P. Morgan Asset Management. Alts include hedge funds, real estate, and private equity, with each receiving an equal weight. Portfolios are rebalanced at the start of the year.
Data are based on availability as of November 30, 2023.

Public and private manager dispersion

Based on returns over a 10-year window*

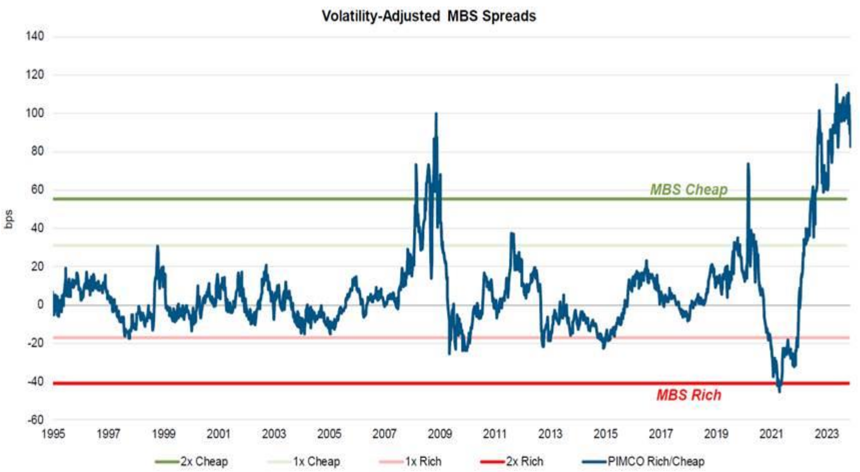


JPM Guide to Alternatives

Core fixed income: Agency MBS and securitized credits

Why adding now Agency MBS and securitized credit?

- Increases the overall yield – valuations in both asset classes remain at historically attractive levels with Agency MBS offering the best forward-looking return potential in the last 15+ years
- Enhance portfolio quality – Agency MBS securities are government guaranteed and incur no credit risk (AAA-rated), while high quality securitized credit has built in structural protections that can withstand heightened levels of economic stress and increasing defaults
- Provide resiliency and the opportunity to earn excess returns in a recessionary environment – Agency MBS provides strong downside protection in recessionary environments and can help provide structural liquidity within a portfolio. On the credit side, US housing has historically provided strong downside protection relative to corporate earnings during recessions.
- Moving up from A corporates to AAA securitized credit today imply meaningfully more yield while being better diversified and benefitting from a greater degree of structural protection



SOFR Spreads (bps)				
Collateral	**Sector (AAA Seniors)**	**Recent tights (Nov 2021)**	**Current (August 2023)**	**March 2020 (COVID)**
Commercial real estate	**Floating-rate CMBS**	85	**193**	225
	Commercial real estate CLO	120	**220**	230
Residential real estate	**Reperforming loan MBS**	65	**110**	215
Corporate loans	**Bank loan CLO**	95	**150**	213
Consumer receivables	**Student loan ABS**	60	**140**	230
	Consumer ABS	55	**130**	325
Securitized credit simple average		80	**157**	240
Investment grade corporates (rated A)		37	**118**	151
Investment grade corporates ex financials (rated A)		25	**84**	127

Source: PIMCO

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Spirit of Independence

Digital version available

Sources: all sources have been mentioned on the presentations. Views are issued from the yearly research of each bank or asset manager respectively.

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