Outlook
Second Semester
2024

July 2024

SunPartners
Spirit of Independence

SunPartners
Spirit of Independence

Executive Summary

- The global macro backdrop in H1 has been characterized by steady growth with major players balancing each other, sticky inflation (but almost 1 % lower than a year ago) and slow easing by central banks. Disappointing China data, offset by resilient growth in the US and India, as well as a cyclical pickup in Europe (after two years of stagnation). In general, the combination of steady growth and sticky inflation has led markets to price in fewer rate cuts. While the Fed's own rate-cutting cycle may be delayed, globally the tide has turned decisively from tightening. As the economy defied forecasts, risky assets rallied in the first half of 2024. US stocks have climbed to all-time highs thanks again to the technology sector. Strong gains for tech stocks have been fueled by market focus on artificial intelligence and investors preferring quality given high macro and market uncertainty. Rates volatility, sticky inflation, and uncertainty around the Fed's rate cutting path have defined the first half of the year for fixed income. As we enter H2, G-10 sovereign debt trades in the upper range of the past five years. New issuance, attractive yields, and strong balance sheets have been supportive of corporate credit.

- H2.2024: We still favor bonds over stocks as attractive yields provide a favorable opportunity for investors to lock in rates that could offer substantial portfolio returns by year-end and over the longer term. While there is a broad agreement among portfolio managers that a concentrated group of AI winners will drive returns over the short-term, we are concerned about the weak market breadth (in the last three months, the 10 largest stocks in the S&P 500 index have posted a median gain of 17%, while the rest have lost 1.3%) combined with aggregate positioning in US stocks hovering near multi-year highs. We still recommend focusing on quality stocks and defensive sectors. In the fixed income space, we are overweight on the most protective segments and suggest neutral duration vs benchmark to lock in yields.

- The main risks to our scenario are the implications of a higher for longer environment in US (how far can other central banks go in their easing cycles without getting "hurt" as the Fed stays on hold), politics continue to have a central stage (worldwide presidential elections, the Israel-Hamas and Russia-Ukraine wars, and the ongoing rivalry between the US and China) and how the US elections outcome will affect the fiscal sustainability.

Macro & Asset Class Overview

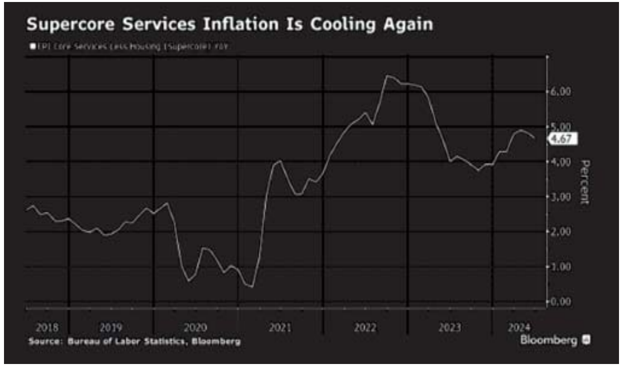
H1 2024 in review: supportive environment for risk assets

- **The global macro backdrop in H1 has been characterized by steady growth (with major players balancing each other), sticky inflation (but considerably lower than a year ago) and slow easing by central banks**. Disappointing China data, offset by resilient growth in the US and India, as well as a cyclical pickup in Europe (after two years of stagnation)- but just as data have started to improve, political risk has come back-. Despite a few slightly softer data points leading to renewed interest in the "US is finally turning down" theme, the underlying economy has remained very stable, heading to a soft landing as fiscal expansion supported the US through much of the hiking cycle.

- While there have been few surprises on growth this year, **the 'last mile' on inflation is proving to be slow and bumpy in developed economies as service inflation remains sticky.** In general, the combination of steady growth and sticky inflation has led markets to price in fewer rate cuts. Policymakers are just turning less restrictive – at a very deliberate pace-, while waiting for data that confirms inflation is decisively headed towards 2%.

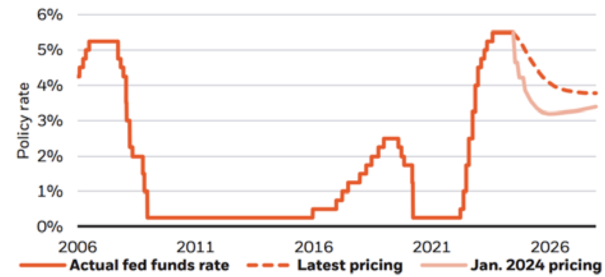
- At the start of the year, markets were pricing a meaningful rate-cutting cycle in 2024. Instead, the Fed has remained on hold. The Fed has gradually been adjusting to the reality that rates will need to stay high for longer – not only in the short term but also further out. Market pricing has adjusted accordingly, from seven to just two cuts in 2024. **While the Fed's own rate-cutting cycle may be delayed, globally the tide has turned decisively from tightening.** In March, the Swiss National Bank became the first major central bank to reduce rates and then cut again in June. Since then, Sweden's Riksbank, the Bank of Canada, and the European Central Bank have followed. The Bank of England is expected to cut rates in August.

- **As the economy defied forecasts, global equity markets rallied in the first half of 2024 and returned over 10% so far this year.**



Higher rate reality hits

Historic and market pricing of fed funds rate, 2006-2027



Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from LSEG Datastream, June 2024. Notes: The chart shows the historic future fed funds rate and the expected future path priced into SOFR futures.

UBS, Morgan Stanley, JPMorgan, BlackRock

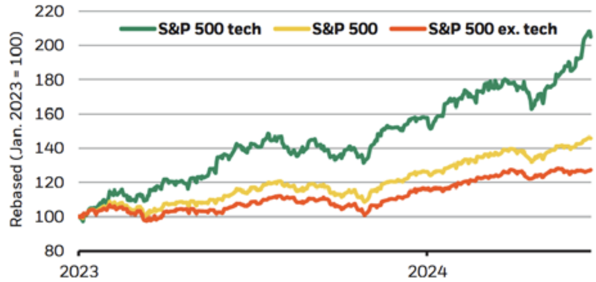
H1 2024 in review: supportive environment for risk assets

- More than 18 months on from the launch of ChatGPT, increasing conviction in the **artificial intelligence (AI) growth outlook has continued to drive equity market gains**. Microsoft, NVIDIA, Apple, Alphabet, Amazon, and Meta alone have contributed 64% of the global equity market's gain (in total return terms) since then. Add in a continued surge in Big Tech spending (US tech firms spent over $200bn last year on their AI build-out, with this number set to rise sharply in 2024). **The US stock market has pounced from one all-time high to the next, with the S&P 500 gaining 15% year-to-date, backed by an artificial intelligence-driven boost to corporate profit expectations**. Eight out of 11 S&P 500 sectors expanded net profit margins in Q1, LSEG Datastream data show. Even though the US stock market has pounced from one all-time high to the next, below the surface a waning share of stocks is participating in the advance. An equal-weight version of the index, which makes no distinction between the size of the companies, has lagged the market cap-weighted version by nearly 11% this year. If 2024 were to end now, it would be the second-widest gap since the dot-com mania in 1998 -right behind 2023.

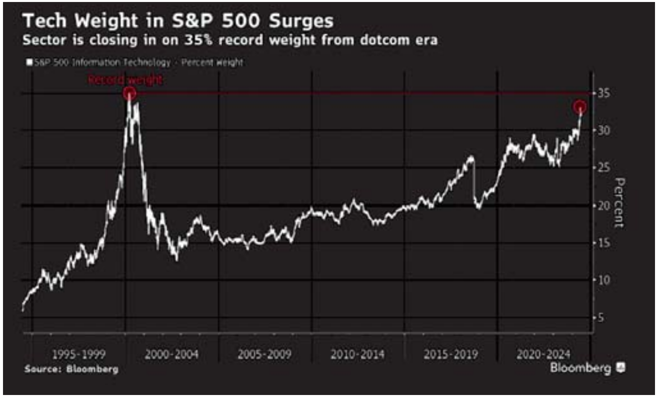
- **Rates volatility, sticky inflation, and uncertainty around the Fed's rate cutting path have defined the first half of the year for fixed income.** As we enter H2, 10-year US Treasury yields stand at 4.2%, 10-year German Bund yields at 2.4%, and 10-year Swiss yields at 0.7%—all trading in the upper range of the past five years. This provides a favorable opportunity for investors to lock in rates that could offer substantial portfolio returns by year-end and over the longer term. New issuance, attractive yields, and strong balance sheets have been supportive of corporate credit. In corporate credit, the theme has been tight spreads but attractive yields. High yield outperformed while investment grade faced headwinds from a total return standpoint but still posted positive excess returns year-to-date.

Tech strength rolls on

S&P 500 performance, tech vs. the rest, 2023-2024



Past performance is no guarantee of future results. Index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, June 2024. Notes: The chart shows the index performance for the S&P 500, for the information technology (IT) sector of the S&P 500 and the S&P 500 excluding the IT sector. The data has been rebased so that January 2023 = 100.



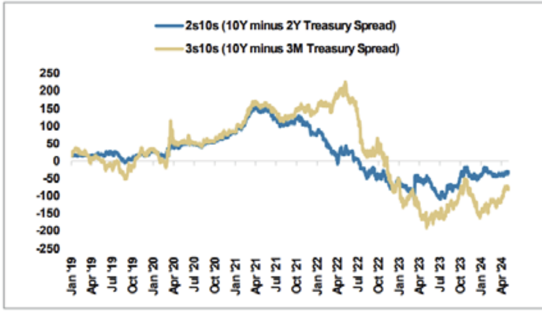
UBS, Morgan Stanley, JPMorgan, BlackRock

H1 2024 in review: supportive environment for risk assets

- The headwind to investment grade performance so far this year has been rates, accounting for nearly 75% of its return, but strong fundamentals meant an outperformance from an excess return perspective at 2% year-to-date. Despite spreads sitting at just the second percentile over a ten-year period, yields remain attractive. Hence, ‘carry’ will drive returns, not spread compression. Like investment grade, high yield spreads are near multi-year tights, while yields are attractive but below historical average. High yield spreads have been beneficiaries of strong economic growth, robust issuance and its correlation to equity returns. The supportive environment and elevated yields have attracted investors willing to accept the risk associated with very tight spreads. High yield looks rich at current spread levels, and spreads widening could not be discharged if the economy slows in H2.

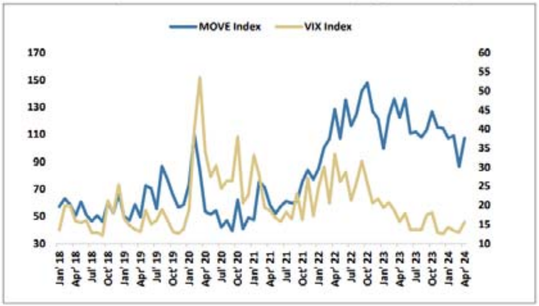
- While the geopolitical situation remains uncertain, volatility has stayed relatively low across asset classes, although gold prices have rallied 12% and oil has been well behaved.

Treasury Curve Remains Inverted



: Bloomberg, Morgan Stanley Research. All as of Apr. 30, 2024.

Rate Volatility is Elevated Relative to Equity Volatility



UBS, Morgan Stanley, JPMorgan

H1. 2024 market review

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
USA Equity 32.37	Real Estate 15.89	Japan Equity 9.94	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	USA Equity 15.29
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	Gold 12.79
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	Europe Equity 7.66
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 21.86	Emerging Markets Equity 7.04
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	Alternatives 6.21
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	Balanced Allocation 6.04
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	Japan Equity 4.46
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	High Yield Corp 2.52
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	EM USD Corp + Sov 2.48
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	Commodities 2.38
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	IG Corp -0.02
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 5.83	UST -0.45
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	Real Estate -4
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	Latam Equity -15.58

Bloomberg as of 28.06.2024

2024: Modest growth with downside risks

SunPartners

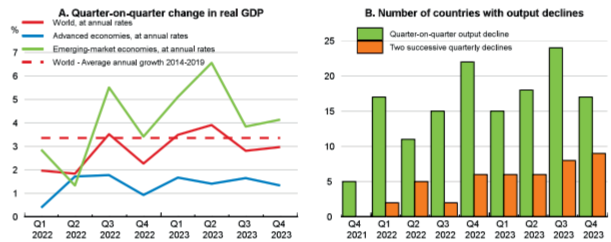
- **There are indications that the global economic outlook has begun to improve, although growth remains modest**. The effects of tighter monetary conditions persist, especially in housing and credit markets, but global economic activity is proving relatively robust. Inflation is declining faster than initially forecasted, and confidence among private sector entities is now on the rise.

- **Global GDP growth is expected to reach 3.1% in 2024, the same as in 2023, before increasing to 3.2% in 2025 supported by stronger real income growth and lower policy interest rates.** However, the overall macroeconomic policy stance is anticipated to remain restrictive in most countries, with real interest rates decreasing gradually and slight fiscal consolidation expected over the next two years. China stands out as an exception, with low interest rates and significant additional fiscal support likely in 2024 and 2025. The divergence across economies is expected to persist in the short term but diminish as the recovery in Europe becomes more firmly established, and growth slows in the United States, India, and several other emerging-market economies. Annual consumer price inflation in the G20 economies is projected to gradually decrease, assisted by diminishing cost pressures, falling to 3.6% in 2025 from 5.9% in 2024. **By the end of 2025, inflation is expected to return to target levels in most major economies.**

Table 1.1. Global GDP growth is projected to remain steady this year and next

	Average 2013-2019	2022	2023	2024	2025	2023 Q4	2024 Q4	2025 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.4	3.4	3.1	3.1	3.2	3.3	3.1	3.2
G20[2]	3.5	3.1	3.4	3.1	3.1	3.6	3.0	3.1
OECD[2]	2.3	3.0	1.7	1.7	1.8	1.7	1.7	1.9
United States	2.5	1.9	2.5	2.6	1.8	3.1	1.8	1.9
Euro area	1.9	3.5	0.5	0.7	1.5	0.0	1.2	1.6
Japan	0.8	1.0	1.9	0.5	1.1	1.3	1.0	1.0
Non-OECD[2]	4.4	3.7	4.4	4.2	4.3	4.7	4.3	4.2
China	6.8	3.0	5.2	4.9	4.5	5.6	4.7	4.5
India[3]	6.8	7.0	7.8	6.6	6.6			
Brazil	-0.4	3.1	2.9	1.9	2.1			
OECD unemployment rate[4]	6.5	5.0	4.8	5.0	5.0	4.9	5.1	5.0
Inflation[1]								
G20[2,5]	3.0	7.9	6.3	5.9	3.6	5.3	4.5	3.1
OECD[6]	1.6	9.4	7.1	4.8	3.5	5.7	4.1	3.1
United States[7]	1.3	6.5	3.7	2.4	2.0	2.8	2.5	1.9
Euro area[8]	0.9	8.4	5.4	2.3	2.2	2.7	2.3	2.0
Japan[9]	0.9	2.5	3.3	2.1	2.0	2.9	1.6	2.0
OECD fiscal balance[10]	-3.2	-3.3	-4.8	-4.5	-4.1			
World real trade growth[1]	3.4	5.3	1.0	2.3	3.3	1.9	2.5	3.5

Figure 1.1. Global growth held up in 2023, but some economies experienced a recession



Note: In Panel A, the global, advanced economy and emerging-market economy aggregates are derived using moving PPP weights. Panel B count based on 58 advanced and emerging-market economies.
Source: OECD Economic Outlook 115 database; and OECD calculations.

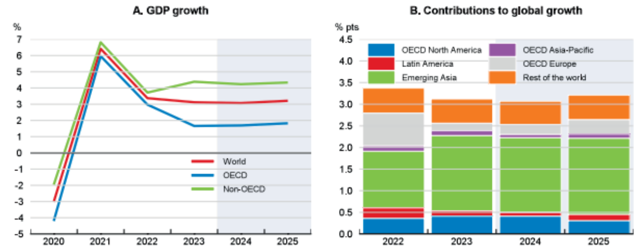
2024: Modest growth with downside risks

SunPartners

- **Headline inflation decreased rapidly in most economies in 2023, aided by generally restrictive monetary policies, lower energy prices, and ongoing relief from supply chain pressures.** Food price inflation also declined sharply in most countries, as abundant harvests of key crops such as wheat and corn resulted in prices falling quickly from their highs following the onset of the conflict in Ukraine. Average inflation in the typical advanced economy dropped from 9.9% in the final quarter of 2022 to 3% in the first quarter of 2024.

- **Core goods price inflation has generally decreased steadily, but services price inflation has been more persistent, remaining well above pre-pandemic averages in most OECD countries.** Further reductions in inflation could also be slower than anticipated if cost pressures and profit margins remain elevated, particularly in services. This could lead to slower-than-expected declines in policy interest rates, exposing financial vulnerabilities and potentially causing a more pronounced slowdown in labor markets. Another significant downside risk is that the impact of higher real interest rates in the future could be stronger than expected.

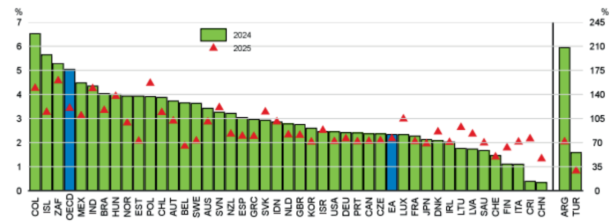
Figure 1.12. Global growth is projected to remain modest



Note: In Panel B, Emerging Asia comprises China, India, Indonesia and the Dynamic Asian Economies (Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam). Latin America comprises Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. Contributions calculated using moving PPP shares of global GDP.
Source: OECD Economic Outlook 115 database; and OECD calculations.

Figure 1.14. Inflation is projected to decline over the next two years

Consumer price inflation



Note: Argentina and Türkiye are shown on the right-hand scale, all other countries on the left-hand scale. Personal consumption expenditure price index for the United States, harmonised index of consumer prices for the euro area aggregate, euro area member states and the United Kingdom, and national consumer price indices for all other countries. India projections are based on fiscal years, starting in April.
Source: OECD Economic Outlook 115 database; and OECD calculations.

Outlook Summary: main providers

Outlook summary: main providers

	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	▲	▬	Barbell approach in US Treasuries	▲	▲	High quality intermediate Bonds	▬	▬	▲	OW in BB issuers	▬	▲	▲	High Quality Large and Mid Cap in US and EU.In EM China, Korea, Taiwan and India.	▲	▬	Commercial Real Estate, Multifamily offices. Bullish in Private Markets and Hedge Funds
BlackRock	▬	▬	OW US short duration & US TIPS	▼	▼	Prefer Europe over the US	▬	▬	▲	Prefer Europe HY over US. Favour EM HC	▲	▼	▬	OW US large cap growth, quality. OW India, Mexico & Japan	-	-	
Julius Baer	▬	▬		▲	▲		▼	▼	▲	EM HC with quality bias	▲	▬	▬	Quality growth (IT & comm) & defensive (HC & industrials)	-	▬	Bullish copper, gold & silver
Pimco	▲	▲	OW Agency MBS and 5 years duration	▲	▲	Global bond markets, high quality and securitized credits	▼	▼	▲	Favour BB and EM	▬	▬	▬		▬	▬	Middle market corporate lending, consumer lending, opportunities in Commercial Real Estate
Morgan Stanley	▬	▲		▬	▬	Prefer Europe over the US. OW leverage loans & securitized	▼	▬	▲	EM HC	▬	▲	▬	Cyclical & secular-growth. OW Japan & India	-	▬	Selectively bullish in metals with a tactical bias in Brent
UBS	▬	▬	OW Agency MBS	▲	▲	OW US Investment Grade	▬	▬	▬		▬	▬	▬	OW US Smaller Companies and UK	▬	▬	Bullish Gold and Oil

Executive Summary: Neutral views (or tactical OW) on the equity side and overweight towards the most protective segments of fixed income remain.

- **Fixed Income**: Most are overweight fixed income vs equity, favoring investment grade, securitized and emerging markets. Balanced approach to portfolio duration.

- **Equity**: Quality, defensive and income segments will be best positioned to grow earnings in a slowing global economy. Estimates of single digit growth in earnings, with multiples supported by lower rates, likely sees the S&P 500 test the 5,600 level in 2024. Japanese stocks are a consensus OW given rerating potential driven by corporate governance reforms. Emerging market equities holds a neutral view, except for India and Mexico.

Our Main Scenario

Our main scenario

Central scenario:

The H2 leitmotiv is growth around or below trend and central banks continue cutting policy rates as inflation normalizes. The Fed's higher-for-longer policy rate is starting to have its desired effects on inflation and growth. Slower growth, the labor market returning to balance and lower inflation will let the Fed begin cutting rates. Markets expect between two to three Fed cuts in 2024, starting in September. While US economic growth remains around trend over the next 12 months, other Western economies will experience sub-trend growth. China might announce further targeted measures to support economic activity. At a geopolitical level, no mayor changes are expected. The Middle East crisis remains geographically contained and the war in Ukraine continues. The US election contributes to volatility, particularly at a sector level, but the net effect on broader markets is expected to be limited.

Impact to our allocation

With the fixed income and equity markets benefitting from loose financial conditions since the end of 2023, neither asset is currently cheap. We maintain our up-in-quality bias.

- 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. Fed actions, related to inflation and growth, corporate earnings, and the November elections will be the key drivers of the H2 rate outlook. Falling rates and the shape of the yield curve will both play an important role in total returns. The investment focus should be creating income stability in an environment where rates are expected to decline even further as the rate-cutting cycle begins. The main contributors of total return in fixed income for H2 will be income and price appreciation. We maintain a mid duration (4 to 5 year) OW and recommend a buy-the-dip approach for longer duration. We also favor emerging market debt.

- Equities: Stocks have march from one record to the next. Weak market breadth remains a source of concern, boosting uncertainty about the rally's staying power. Despite equities with a generally higher debt burden, like small caps and REITs, as well as emerging-market stocks, may stand to benefit as policymakers get closer to easing, we stick to higher quality stocks – those with robust balance sheets, earnings growth, competitive advantage-. 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 shifting interest rates, geopolitics and elections. 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

Higher for longer environment

- While inflation has proven stickier vs forecasts, expectations for sharp cuts in interest rates vanished. From the roughly six rate cuts expected in the US at the start of the year, traders now see just one or two rate cuts happening this year. Even Some investors and economists point out that there's a chance of no cuts at all this year. Including some Fed Governors said that there might be no cuts in the short term due to lack of strong evidence that inflation is converging towards the 2% target as "supercore" metrics are stuck at roughly 4%.

- The domestic implications 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).

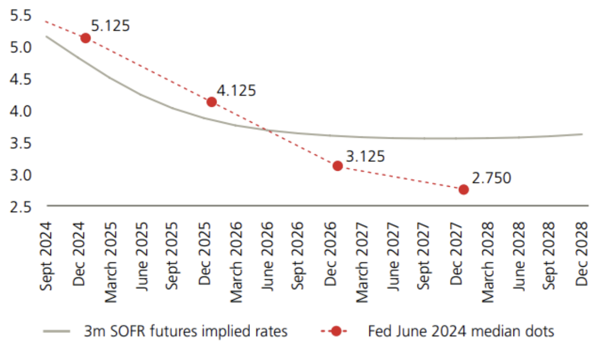
- Despite the Fed's stance to stay on hold, some of its global peers are moving forward with rate cuts anyway. If they get too far out of sync with the Fed, that risks driving down their currencies, raising import prices and undermining progress in getting inflation towards target. But not easing could pose growth risks.

- Even though central banks start the easing cycle, analysts point out advanced economies are facing an era of higher interest rates. There is a growing view in markets that the US economy's so-called neutral rate -a theoretical level of borrowing costs that neither stimulates nor slows growth - is much higher than policymakers are currently projecting.

Figure 1

Markets are pricing much higher long-term rates than the Fed

3-month SOFR futures implied rates vs. Fed median dot plots projection, %



Source: Bloomberg, UBS, as of June 2024

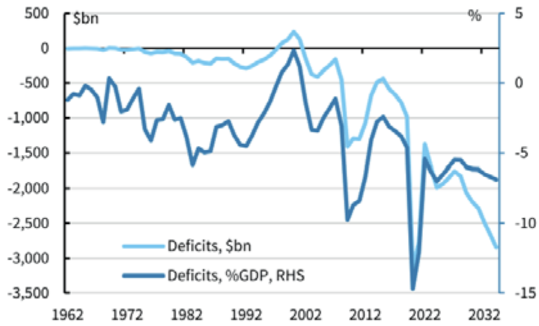
SunPartners

US fiscal policy & debt sustainability

- Another source of concern is US fiscal policy and debt sustainability. Neither Harris nor Trump appears willing to arrest high deficit spending, so under either administration spiraling US debt may cause investors to demand a higher premium to own longer-dated Treasuries. Hesitation is around the two candidates' propensity to add to the US near USD 2 trillion fiscal deficit and ballooning debt load, either through higher spending, lower taxes, or some combination. As the Treasury sells more longer-dated bonds to fund the deficit, that supply will put upward pressure on yields.

- Treasury debt outstanding currently totals USD 27 trillion, more than six times the size of the US government debt market in mid-2007. The Congressional Budget Office projects that chronic deficits will lift the US debt pile to about USD 50 trillion by the end of 2034. Interest costs on the debt, which stands at close to 125% of GDP, are on track to approach 60% of discretionary spending by 2030.

FIGURE 5. **US deficits are likely to keep worsening...**



Source: CBO, Barclays Research

FIGURE 6. **...leading to a higher debt/GDP ratio**

Source: CBO, Barclays Research

Main risks to our scenario

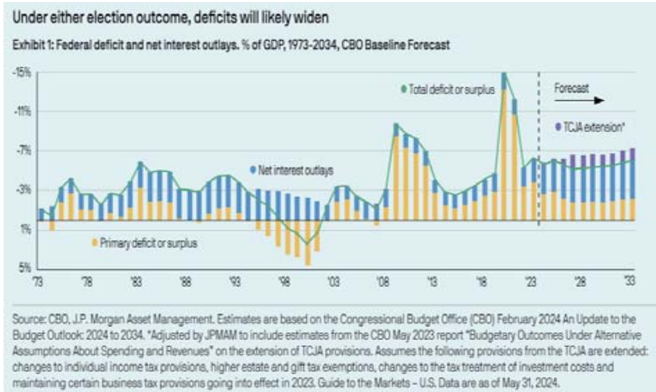
<u>Geopolitics continue to have a central stage</u>

- The US presidential election, the Israel-Hamas and Russia-Ukraine wars, and the ongoing rivalry between the US and China remain in the spotlight.

- Trade frictions are rising, with the US and EU both imposing new tariffs on China. The relationship between the US and China, the world's two largest economies and trading partners, seems to be in a state of inexorable decay. As we approach Q4, attention should turn to the US elections as polls solidify and the prospect of a global trade war looms.

- The latest polls give Trump a slight lead. But a significant proportion of voters is undecided. And the ability of either presidential candidate to pursue a robust legislative agenda in 2025 will also depend upon the outcome of the congressional races. Indeed, three important elections that took place in H1 emphasized the importance of a legislative focus, because the surprise was not in who won, but in the legislative outcomes.

- Elections in India, Mexico and South Africa all surprised markets in different ways. While the headline results were in line with expectations, the margins were not. In the US, the fiscal outcome will be determined in large part by the Congressional results. The base case remains that control of Congress likely will be split between Democrats and Republicans, regardless of whether President Harris or former President Trump is elected. Democrats are slightly favored to win the House and Republicans favored to win the Senate. Divided government would likely result in legislative gridlock as far as enacting fiscal policies, including spending and taxes.



UBS, JPM, Barclays

Main Asset Classes

Asset Class	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		RATIONAL
Cash			●			We mantain cash in neutral due to attractive yields and in case opportunities arise in equities and fixed income.
Fixed Income				●		We keep on favouring Investment Grade, MBS and Treasuries as riskier segments could face headwinds in a bear scenario as spreads are tight and yields are below average. However, we decrease one notch to reflect that spreads in the low historical range. Adding duration in periods of volatility should provide extra returns in the next 12-24 months. We also favour EM debt.
Equities		●				Mantain an UW position to reflect higher valuations. We favour global exposure vs US 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. China demand growth will also play an important role in prices. We recommend gold as a diversifier to portfolios, while central banks continue to increase their positions.
Alternatives		●				Overall liquid alternative investments should continue playing the diversification role, specially during volatility spikes. We keep our cautious view of illiquid strategies

Current	Previous
●	

Sub Asset Classes – Fixed Income

Sub Asset Class	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		RATIONAL
US Government bonds				Current / Previous		In an environment of subtrend growth and lingering risk we stick to quality and recommend to increase duration via Treasuries.
US Credit				Current	Previous	IG becomes a priority in portfolios to provide stable returns and income. In case credit spreads widen, IG should suffer less than HY.
US High Yield		Current / Previous				In a scenario of higher for longer, default rates might revert to mean and credit spreads wide, hence we reman selective. We prefer BB, short duration and senior secured bonds.
EUR Government bonds			Previous	Current		Europe already started to reduce rates and will probably provide stable returns with diversification benefits
EUR Credit				Current / Previous		Credit spreads are wider in Europe than in US and there is an opportunity for blue chips IG companies.
EUR High Yield		Current / Previous				Expecting default rates to rise, be selective. There are opportunities in specific sectors.
EM Bonds			Previous	Current		Emerging markets offer an interesting spread relative to advanced economies. There are opportunities in both local and hard currency. Latam HY still atractive.
Perpetuals / Convert			Current / Previous			Perpetuals could provide an extra cashflow, be selective in the quality of the issuer and reset terms
Alternative bonds			Current / Previous			Liquid long/short and FX strategies still provides diversification within a traditional fixed income allocation

Current Previous

Sub Asset Classes – Equity and Alternatives

Sub Asset Class	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		RATIONAL
US Equity		●				We mantain a relative underweight 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			●			We move our view from UW to neutral in Europe to reflect better realtive valuations in Europe vs other DM.
EM Equity			●			Valuations are more attractive than other regions and growth is expected to be above DM
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.

Current	Previous
●	

SunPartners
Spirit of Independence

Notes

SunPartners
Spirit of Independence

SunPartners
Spirit of Independence

SunPartners

Spirit of Independence

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

This material has been prepared solely for purposes of illustration and discussion. Under no circumstances should the information contained herein be used or considered as an offer to sell, or solicitation of an offer to buy any security. Any security offering is subject to certain investor eligibility criteria as detailed in the applicable offering documents. The information contained herein is confidential and may not be reproduced or circulated in whole or in part. The information is in summary form for convenience of presentation, it is not complete and it should not be relied upon as such.

All information, including performance information, has been prepared in good faith; however SunPartners make no representation or warranty, express or implied, as to the accuracy or completeness of the information, and nothing herein shall be relied upon as a promise or representation as to past or future performance.

These information and related material are not directed to US persons and the companies do not accept US clients generally.
This material may include information that is based in whole or in part on hypothetical assumptions, models and / or other analysis of SunPartners (which may not necessarily be described herein). No representation or warranty is made as to the reasonableness of any such assumptions, models, or analysis.

The information set forth herein was gathered from various sources which SunPartners believe to be reliable, but it cannot guarantee their reliability. Unless otherwise stated, any opinions expressed herein are current as of the date hereof and are subject to change at any time.
All sources which have not otherwise been credited derive from SunPartners.