MONTHLY NEWSLETTER – March 2023

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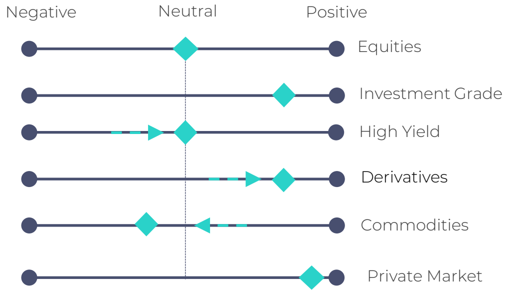
“Markets have been restless in March, with the banking sector having been hit by the collapse of Silicon Valley Bank and other US regional banks, before Credit Suisse in Europe. These events have led investors to lower their expectations concerning central banks' rate hikes, adding volatility to the bonds market. However, the FED, ECB and other central banks have re-emphasized the importance of controlling inflation. They raised interest rates, while reassuring investors about the strength of the banking sector and their support when needed.
With the Fed's terminal rate soon to be reached, however, we anticipate a future Fed tightening pause, which could be a real catalyst for the markets.
In this market environment, tactical allocation is key, and we have made adjustments on our strategic asset allocation.”

OUR MARKET VIEWS



POTENTIAL MARKET CATALYSTS

- **Pause in central bank’s interest rates hikes**
- **Inflation easing**
- **Inflexion in the labour market pressure (US)**
- **Easing of geopolitical tensions (Russia and Ukraine / China and Taiwan)**

KEY INDICATORS

Equities (%)	Level	Feb.	March	YTD
S&P 500	4 125	-2,6	3,51	7,03
Nasdaq 100	13 148	-0,5	9,46	20,49
Eurostoxx 50	4 334	1,8	1,81	13,74
FTSE 100	7 677	1,3	-3,10	2,42
China SI 300	4 103	-2,1	-0,46	4,63
Emerging markets	989	-6,5	2,73	3,54

Bonds (rate spreads)	Level	Feb.	March	YTD
10 year government bonds				
US	3,36	0,4	- 0,45	-0,4
Europe	2,28	0,4	- 0,36	-0,3
Corporate – 5 years spread				
Investment Grade US	76,34	5,0	-0,52	-6,2
Investment Grade Europe	120,62	1,1	-0,85	-5,6
High Yield US	480,26	32,6	0,86	-20,6
High Yield Europe	459,71	-0,7	22,69	-37,7

Currencies (%)	Level	Feb.	March	YTD
EUR / USD	1,0947	-2,6	2,49	1,3
GPB / USD	1,2484	-2,4	2,62	2,1
CHF / USD	1,1051	-2,8	2,95	1,0

Commodities (%)	Level	Feb.	March	YTD
Gold	2 025	-5,3	7,79	8,0
Brent	85	-0,7	-4,91	-7,1
Cuivre	395	-3,4	0,12	7,3
Aluminium	2 332	-10,7	1,95	1,4

Volatility	Level	Feb.	March	YTD
S&P 500	18	5,0	-0,39	-7,0
Nasdaq 100	19	6,7	-9,66	-13,7

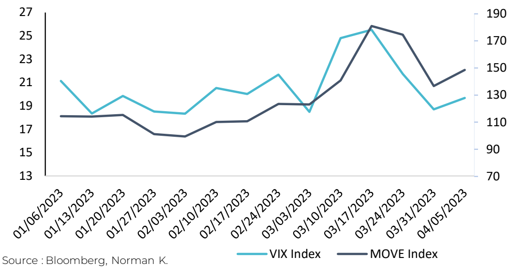
Cryptos (%)	Level	Feb.	March	YTD
Bitcoin	28 566	0,9	22,67	71,7
Ethereum	1 911	1,8	13,20	51,6

Sources: Bloomberg, Norman K. - Data as of March 31st 2023. Past performance is not a reliable indication of future performance. Non-contractual information.

CHART OF THE MONTH

Higher volatility in the bonds market following the banking sector's turbulences

Stocks and bonds volatility, YTD



Source : Bloomberg, Norman K.

- The increase in volatility on the bonds market was widely reinforced by the Swiss National Bank's decision to write down the CHF 16 billion of AT1 debt held by Credit Suisse.
- Equity holders were then favoured over debt holders, adding stress to the bond market.
- Central banks have intervened to reassure about debt holders' priority in the event of a bankruptcy.
- They also provided their support to troubled banks, bringing back some calm in the markets.

MARCH: TOWARD A PAUSE IN MONETARY POLICY TIGHTENING ?

USA: May a soft landing be more difficult to happen ?

- Failure of Silicon Valley Bank, Signature Bank and other regional banks
- Inflation eases in March but remains high (+6.0% YoY) and core inflation is still increasing (+0.5%)
- Still strong data from the labor market (nonfarm jobs increased in February even if unemployment rate rose slightly to 3.6%)
- The Fed raised the target range for the federal funds rate by 25 basis points to 4.75-5.0%

Our view: Following recent bank failures, **credit markets could tighten** even if rates don't continue to rise. The economy could suffer from these tighter lending standards and make it **more difficult to have a soft landing** of the economy.

EUROPE: Mixed economic data

- UBS has bought Credit Suisse for CHF 3.25 bn after being solicited by the Swiss National Bank
- Despite the turmoil in the banking sector, the ECB raised interest rates by 0.50 bps and said it is now "data dependent"
- ECB tried to reassure investors about financial institutions stability
- Inflation is slowing in Europe thanks to a strong decrease of energy prices. However, core inflation (ex. food and energy prices) keeps increasing
- Eurozone economic growth in the fourth quarter was revised down by -0.1% but PMI rebounded

Our view: The eurozone **economy** is still **strong despite the interest rates hikes**, and the banking sector remains resilient. As expected, ECB does not ease the tone and is still **focusing on reducing inflation**.

CHINA: Data are confirming the rebound

- IMF projected that China's economy would grow 5.2% this year
- Inflation slows in February
- Strong PMI figures and services rebounded to highest level in more than a decade

Our view: As expected, the **rebound** has been initiated and is expected to be **reflected on earnings and macroeconomic figures.**

NK Last month has been hectic on markets due to financial sector's turmoil. However, **systemic risk should be avoided** because banks, especially in Europe, are well capitalized and central banks have shown their support in uncertain times (SVB, Credit Suisse). Banking stocks suffered while technology stocks rebounded strongly (over the quarter, the sector recorded an increase of more than 20%).

The message from **central banks** has been quite clear, with rate hikes, confirming their objective of inflation controlling, which is still above the central banks' 2% target. However, the Fed's latest rate hike in March may suggest a **pause in monetary tightening** as we approach the terminal rate and inflation data should gradually move lower.

Tighter lending standards and a potential economic slowdown could have an impact on future **earnings**, making it crucial to select companies with low levels of debt and ability to deliver **cash-flows over the long run**. However, we think that the market catalyst would be stronger on rates than on earnings.

In this context (anticipation of the end of monetary tightening), we continue to prefer **investment grade credit**, particularly on **long durations** that could benefit from a potential interest rates loosening. We have also upgraded **high-yield bonds** to neutral, anticipating a decrease in interest rates and credit spreads components. Nevertheless, allocation should remain **tactical**, and **selectivity** is key to avoid default risks.

The recent rise in volatility increased yields on **derivatives**, leading us to move our strategic allocation to neutral-positive.

In our view, **private markets** continue to offer diversification and decorrelation. More sensitive to economy's weakness and in a context of decreasing fundraisings, some **private companies** offer very attractive discounts.

WHICH OPPORTUNITIES IN THIS CONTEXT?

High valuations of stocks

- In-depth analysis and selectivity
- Specific stocks

Potential pause in moneraty tightening

- Opportunities in the bonds market

Dislocated markets

- Tactical investments
- Pre-IPO segment / asset finance

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