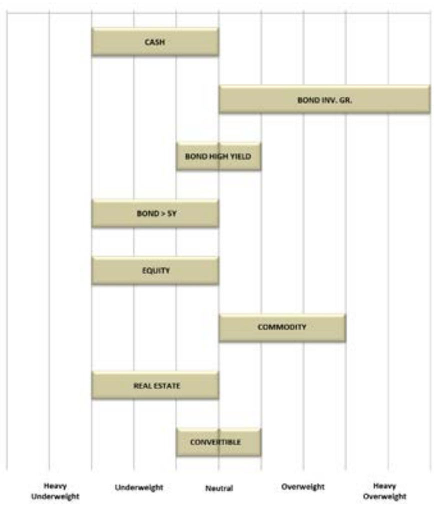
The return of volatility creates opportunities

After a highly stable middle part of the year, we expect volatility to return to the equities markets. Any adjustment may be an opportunity to increase exposure to the equities market. Regarding fixed income, we remain exposed to short maturities with good credit quality. In the coming months, there may be interesting opportunities to increase portfolio duration.

ASSET ALLOCATION



- We reduced the share of **CASH**, taking advantage of the high interest rates on ultra short-term bonds.
- We remain overweight on **GOVERNMENT and CORPORATE INVESTMENT-GRADE BONDS** with a preference for short maturities given the shape of the curves (flat or inverted). The average terms of the curve in US dollars are starting to offer value in view of a further economic slowdown.
- The **HIGH-YIELD BOND** sector offers attractive returns. However, given the uncertain macro context, we prefer to avoid significant exposures.
- We have increased investments on **EQUITIES**, after the August correction, but we still tend to remain cautious, waiting for more favourable conditions from an economic or even "technical" point of view.
- We are overweight on **COMMODITIES** because they are supported by the positive cycle of public investment and provide the benefit of diversification. Gold seems overvalued in relation to the level of real interest rates.
- We are negative on **REAL ESTATE** because the rise in interest rates makes these investments less attractive from a financial point of view.
- **CONVERTIBLE BONDS** remain a valid means of exposure to the equities market, with greater downside protection, but as they are tied to "mid caps," which suffer most from rising interest rates, we prefer to return to neutral.

MACRO VIEW

Compared to the previous quarter, there are no major changes in the main growth dynamics globally. The United States remains resistant to the pressure exerted by high interest rates, but a gradual slowdown, beyond what is shown by the GDP numbers for the second quarter, is under way and is also beginning to be seen in the labour market. Growth in China remains very disappointing compared to what could be expected following the post-COVID reopenings; this also negatively affects Europe, which is a major supplier. However, Europe, like Switzerland, currently remains buoyed by a fairly sound domestic economy.

FIXED INCOME

The summer months were characterised by an upward trend in government yields, for medium and long term maturities, driven by the dollar curve as well as moves made by the Japanese central bank. Despite some volatility, we have not seen any firm breaks in consolidated trading ranges since the beginning of the year. If it is true that central banks will remain data-dependent, as stated in the last few meetings, future interventions will be less easy to predict. If this upward trend in longer rates continues, this will make it possible to lengthen portfolio duration and make portfolios more defensive in the event of a serious economic slowdown.

FX VIEW

The US dollar halted its weakening trend in the first part of 2023 because the US economy remained sound, but it could start to weaken again when the effects of the rate hike are felt by consumers. The Swiss franc remains strong due to the robustness of the domestic economy and the SNB is also using the exchange rate to manage rising inflation. In general, however, the main world currencies of developed countries remain subject to the decisions of the relevant central banks. In terms of emerging currencies, the Chinese yuan continues to weaken, faced with an economy in evident difficulty.

EQUITY MARKETS

After rallying in the second quarter of the year, the American indices are still more "expensive" than the historical average and have also shown signs of being "overbought" at a technical level. The European indices trade on average with the valuation of the last few years and at a discount compared to the American indices. Now that falling inflation is priced into the markets, we see fewer positive performance drivers, and expect volatility to increase. We therefore remain cautious on equities and await a possible adjustment to increase exposure, given that, once this phase of economic slowdown has passed, the medium- and long-term prospects remain positive.

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