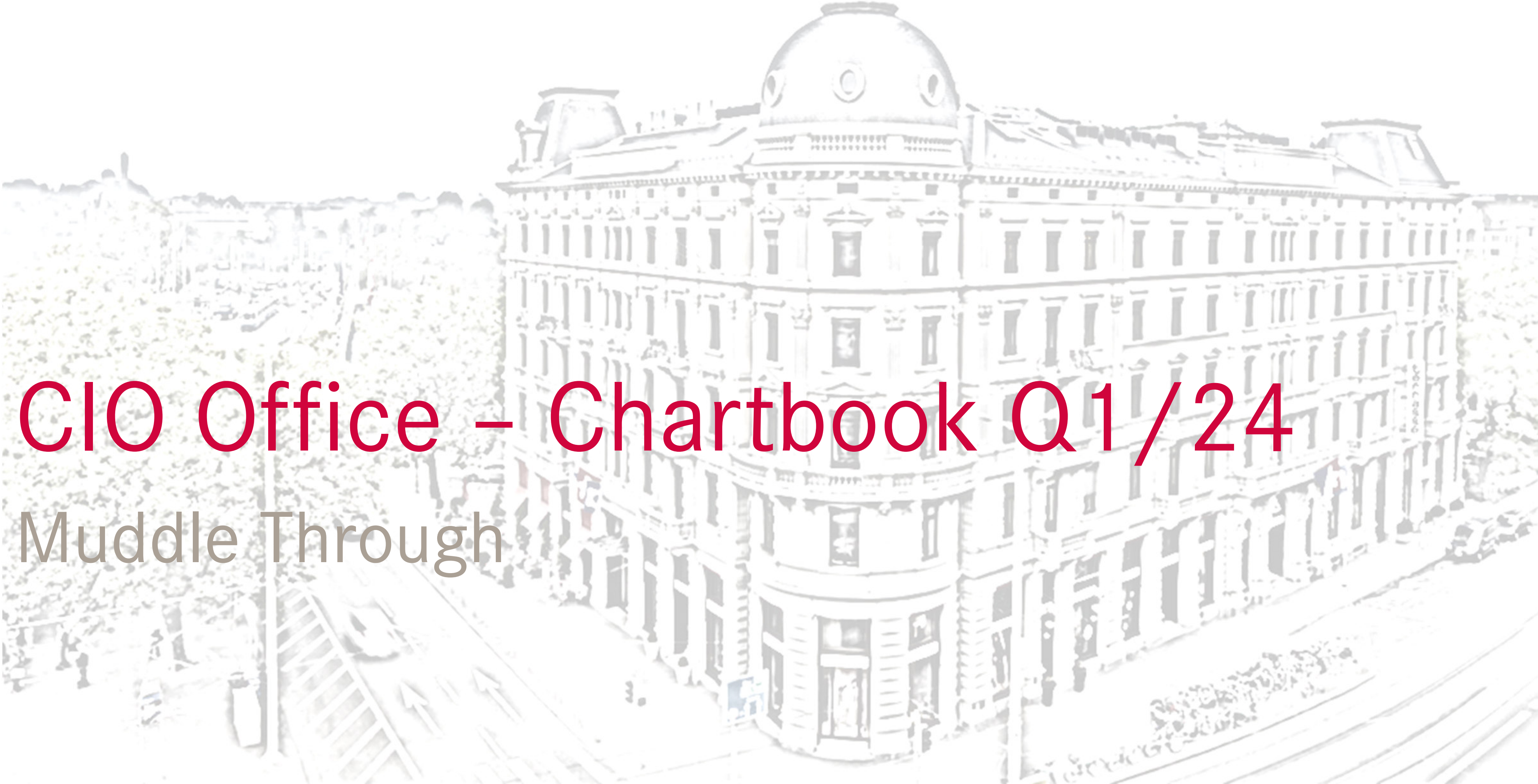

CIO Office – Chartbook Q1/24

Muddle Through

Index

Chart Categories

- CIO Office Outlook Q1 2024
  - Global Scenarios
  - NPB Global Asset Allocation Views
- Macroeconomic
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CIO Office Outlook Q1 2024

CIO Office Chartbook

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"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

Winston S. Churchill

Executive Summary

- Market participants are still waiting for the "most anticipated" recession to hit. Whilst growth remains robust and unemployment has now yet fallen out of bed, we are expecting a year of a "muddle through" economy and market environment.
- A major concern to us remains that central banks may loosen monetary policy to soon too fast in light of a looming recession, which could lead in combination with rising geopolitical tension to a second wave of inflation. But this may be something to worry about in the later parts of the year or even 2025.
- Several "wildcards" (aka known unknowns) are presenting themselves in early 2024, such as over 60 government elections, rising geopolitical tensions (Middle East, Red Sea, Russia, Taiwan, etc.).
- Hence, our economic outlook calls for a "muddle through" year, with some major hiccups along the way likely.
- Accordingly, our asset allocation will show a 'neutral' reading in many areas, but our intention is to follow up with ad-hoc reports along the year, presenting some more tactical opportunities.

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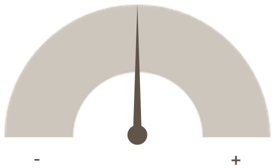
CIO Office Global Scenarios

Geopolitical and macroeconomic assessment

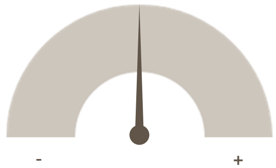
		Base Case	Best Case	Worst Case
Economy	Growth	Growth slowdown fears from Q3/Q4 2023 have abated and chances for avoiding a recession have increased	Growth surprises to the upside as CB eases monetary policy faster than expected	Soft landing is the consensus, and a more pronounced slowdown would take investors by surprise
	Inflation	Higher structural inflation (previous ceiling is new floor), but no runaway inflation	Inflation falls back into old Central Bank target range of the past 20 years (0-2%)	Too lose CB monetary policy too soon provoke a second inflationary wave not unsimilar to the 1970s experience
Geopolitics	US-China	Sino-US relations remain strained; status quo prevails	Diplomats find agreement on main friction points	Sino-US tensions escalate, with China invading Taiwan
	Middle East	Current conflict endures for months, but does not expand withing the region	Peace talks lead to a more durable ceasefire	Further escalation, with other countries, including US, getting involved in kinetic warfare
	Red Sea	Current situation prevails for another few months, leading to limited supply-chain disruptions	Nothing more than a "flash in the pan", Houthi activity dies down over coming weeks	Escalation; Suez channel is temporarily closed, leading to major supply-chain disruptions
	Russian War	Gridlock; no notable progress	Ceasefire; peace talks and territorial agreements	Tactical use of nuclear weapons; NATO involvement
Technology		AI leads to a productivity increase simultaneously exhibiting helpful disinflationary pressures	AI-induced prosperity boom plus advances on the Greentech front lead to a sustainable economic expansion	Not unsimilar to the internet boom, impact of AI may be overestimated on the short-term and underestimated on the long-term
Election		Over sixty local government/presidential elections around the globe will take place in 2024; with the US elections being the most closely followed one by market participants, other elections such as those in the UK, India, Taiwan, and not least the Eurozone could have lasting market impacts too.		
Probability		*High*	*Highly unlikely*	*Tail risk; low probability*

NPB Global asset allocation views (6-12m outlook)



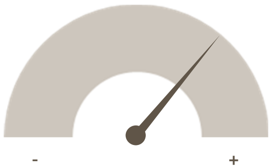
Cash & Money Market Instruments

We remain neutral on money market instruments given the attractive risk-return dynamics, but are aware of the increasing roll-over risk (i.e. lower yields over the coming months to quarters)



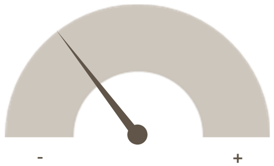
Precious Metals

Gold continues to deserve at least a neutral weighting in any investor's portfolio as a hedge against fiat-currency debasements



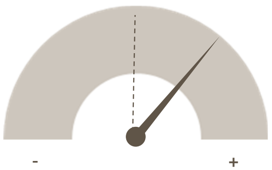
Fixed Income

We remain overweight fixed income, however, currently not following up on the duration expansion we initiated three months ago. Total returns remain attractive for treasuries, IG and HY in the recent history (15 years) context



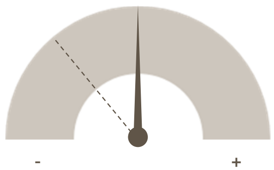
Commodities

Despite our increased optimism for a soft landing, we think it is still too early to upgrade "physical" commodity exposure. However, we see opportunities in commodity stocks (e.g. metals, energy, others)



Equities

We tactically increase our equity exposure to overweight, taking further advantage of still prevailing seasonal tailwinds. However, we focus exposure on quality stocks



Alternatives & Real Assets

Given our base scenario of a "muddle through" economic environment we increase our weighting to alternative investments to neutral, seeing opportunities in hedge fund strategies such as equity L/S, macro strategies and possibly CTAs

Current view   Previous view (if different)

NPB Global tactical views (6-12m outlook)

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Equities	View	Commentary
United States		There is little sense or need to bet against a continuation of the outperformance of the US markets versus the rest of the world. Overweight on a relative and absolute basis but keep the valuation premium in, i.e. focus on quality growth.
Europe		In Europe, the resilience of the German equity market in the face of a dire economic and political environment has been surprising. If we only could add some good news to that, the rally could be epic. Continue to UW France, OW Italy & Spain.
Switzerland		After a rather dire year of underperformance, mainly due to market structure (health care and luxury), we think that especially the health care weight in Switzerland's indices could now became a tailwind for 2024.
UK		The international part of the UK equity market (FTSE 100) continues to be range bound, but the dividend yield is attractive. On signs of a UK economic recovery (unlikely before elections), focus on the domestic equity market (FTSE 250).
Japan		Continue to enjoy the momentum, but short-term careful on committing more allocation as the move has gone a bit parabolic. The structural changes taking place in Corporate Japan should provide many more years of upside.
Emerging Markets		We continue to carry a neutral weighting on Ems as a whole, waiting for the technical picture to confirm a more positive stance. Select "friend-shoring" countries such as India (see below) and Vietnam can be of interest.
China		Chinese equities are carrying extreme low valuations, which unfortunately does not automatically mean they are good value. The lack of any positive price momentum let's us keep them as an UW; the not faint at heart may try to catch that falling knife.
India		In direct contrast to China, Indian equities are expensive (even in Indian terms), but price momentum is accelerating by the day. If you are invested, stay put, if not, look for a better entry level.
GCC Countries		The GCC area continues to be one of the growth "hot spots" globally, attracting foreign capital at a breathtaking pace. We continue to be overweight.

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Global tactical views (6-12m outlook)

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Equities	View	Commentary
Financials	Neutral	After a correction in bond yields and mixed bank earnings out of the US, we keep Financials as Neutral for the time being.
Consumer Discretionary	Overweight	Globally low unemployment figures and some (for the employee) positive wage pressure is keeping the consumer alive and kicking. Continue overweight for now.
Communications	Overweight	Stuck somewhere between Consumer Discretionary and Technology stocks, the Communications sector continues to exhibit positive price momentum as do the other two. Don't fade it, continue to OW.
Information Technology	Overweight	Big Tech continues to rule, but smaller tech is finally also catching up on the back of lower interest rates. Remain OW.
Industrials	Neutral	Industrials should, according to the idealized investment clock, be the next to start outperforming on a relative basis. However, we are still waiting for technical confirmation before going OW.
Energy	Neutral	Energy stocks lack relative and absolute price momentum but provide excellent shareholder yield (dividend + buybacks) at ridiculously low valuations and hence deserve a neutral rating.
Materials	Neutral	Materials stocks are rather a late cycle investment, and it is too early to OW
Healthcare	Overweight	We like health care after a two-year underperformance has left the segment with more than attractive valuations. A recent pick up in M&A in the sector is the prove. We expect continuation of this trend and OW health care stocks.
Utilities	Underweight	Once the path of interest lower is confirmed, we will bring Utility stocks back to Neutral weight.
Consumer Staples	Underweight	Cheap and defensive in nature, it is still too early to upgrade the Staples' rating.
Real Estate	Neutral	Lower interest rates and the prospect of central bank cuts has helped real estate stocks, but more is needed to trigger a meaningful rally. Neutral for now.

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Global tactical views (6-12m outlook)

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Fixed Income	View	Commentary
Government		We keep our overweight to longer duration government bonds, but do not expand on that duration for now, as the move has already been meaningful in a very short time span.
Investment Grade		IG bonds remain an overweight, though most of the credit spread compression has already taken place.
High Yield		Our decision to reduce HY exposure was clearly premature, however, despite our improved/muddle through outlook for the economy we struggle to go Neutral again from a tactical viewpoint. Any short-term credit spread widening may induce us to increase exposure again
Emerging Markets		A softening US Dollar in Q4 of last year helped Emerging Market Debt to produce a meaningful rally. Countries which are profiting from friend-shoring (e.g. Mexico, Vietnam, India others) remain attractive in our view.
Duration		We keep our duration overweight, but do not increase it further for now.

Currencies	View	Commentary
Swiss Franc		The Swiss Franc is overvalued, but to state the contrary to what we usually write: “Expensive for a reason”. AAA-status and fiscal discipline are appreciated by investors in a world where Fiat-money is being increasingly questioned.
Euro		We keep a neutral rating on the EUR. Differentiating rhetoric between the ECB (hawkish) and the Fed (dovish) is just that: rhetoric …
US Dollar		The US Dollar has the potential of becoming the victim of a too dovish Fed, but that may be a story for H2/2024. For now we remain neutrally weighted.
British Pound		Our cycle model continues to suggest weakness for another year and at current levels there is another opportunity to reduce exposure further.

Underweight | Neutral | Overweight | ● Previous view (if different)

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Macroeconomic

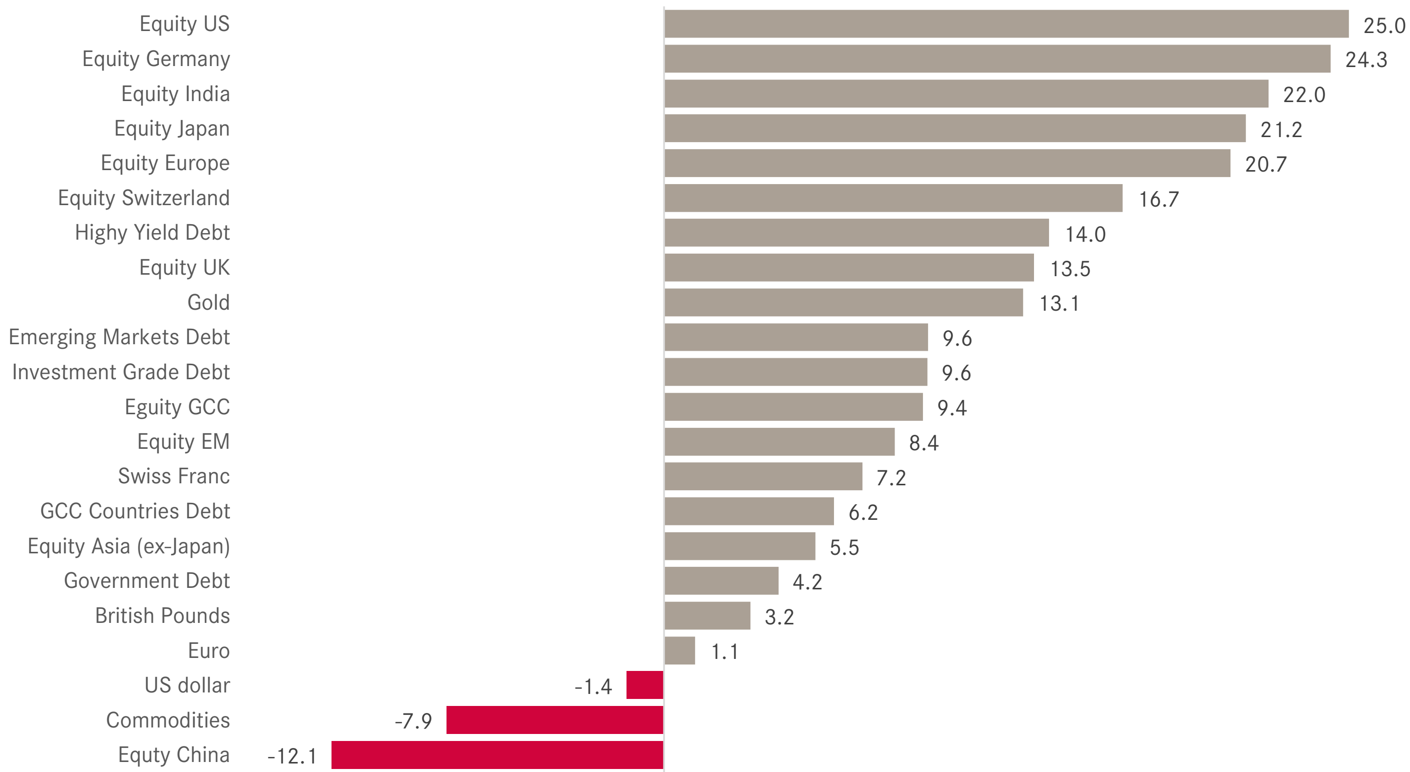
CIO Office Chartbook

Asset Classes

Performance Review 2023

Financial markets fared surprisingly well in 2023, especially in the context of rather dire expectations at the beginning of the year.

Stocks held up well most, whilst bonds were "saved by the bell" in Q4. Commodities disappointed.



Source: Bloomberg, NPB Calculations

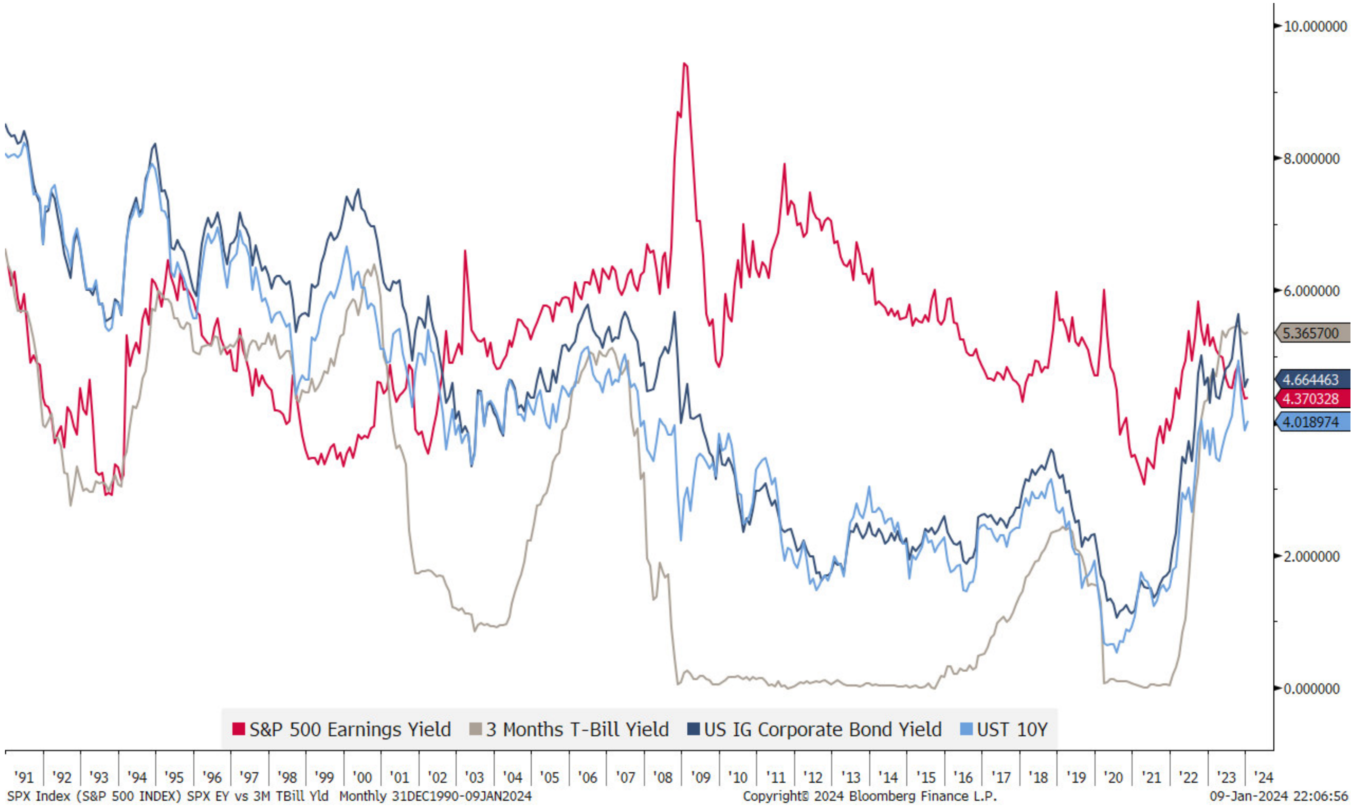
Chart of the Quarter

Muddle Through

It is hard to remember a time where so many assets provided yield in such a tight range (<1.4%).

Ignoring risk-adjustments for a moment, asset allocators have tough choices to make.

Muddle through anyone?



Source: BCA

Inflation

Flashback

At the beginning of 2023, we showed a version of the chart to the right, showing the previous period of high inflation in the 1960s and 1970s.

We suggested that inflation was likely to stall out … for now

Inflation

History does not repeat, but it often rhymes neatly

Today, we are inclined to update the same chart as seen to the right, noting that we are at a juncture where the danger of a second inflationary wave are rising.

Political and Geopolitical motives are aligning to trigger such a wave.

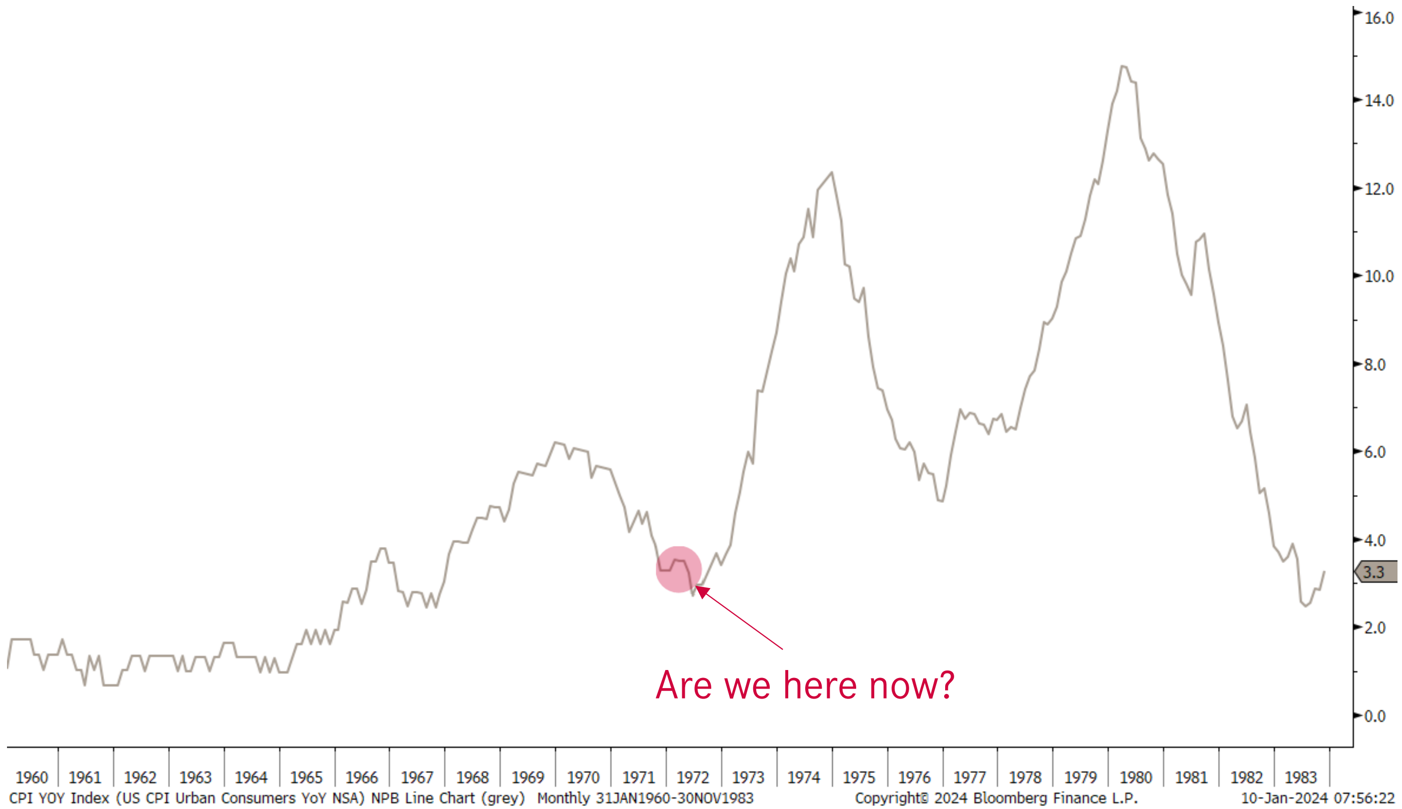


Chart of the Decade?

Déjà vu

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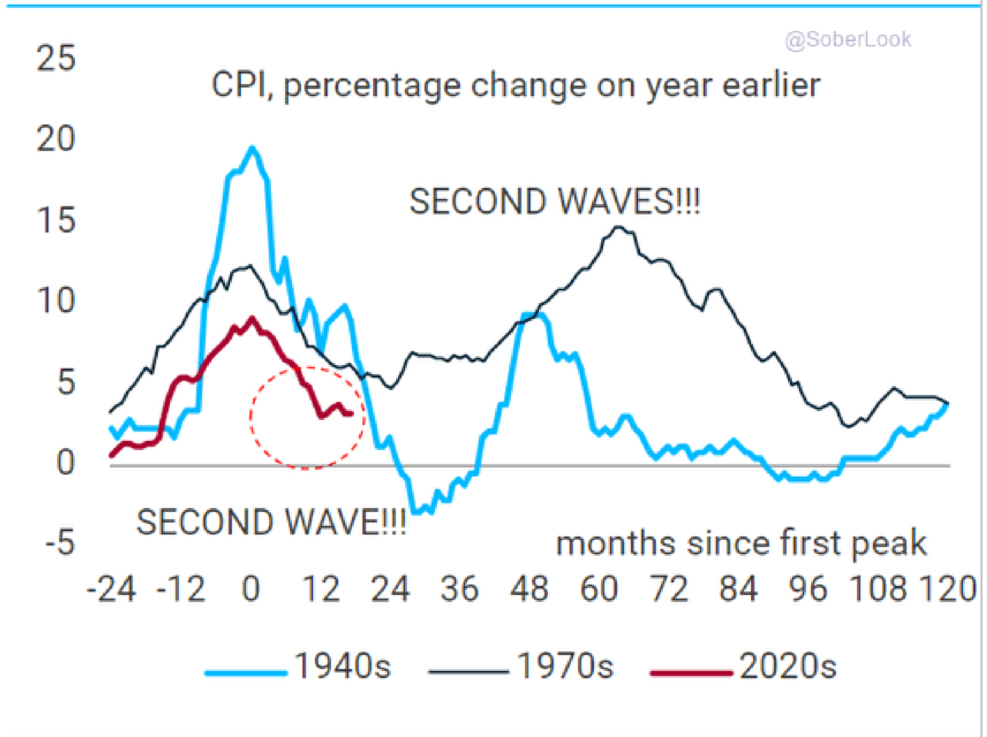
The previous chart is of course an oversimplification and the timing of a second inflationary wave (if it comes!) could be off by quarters as is demonstrated by the chart on the right.

However, the same chart also shows that these second waves have indeed happened in the past.



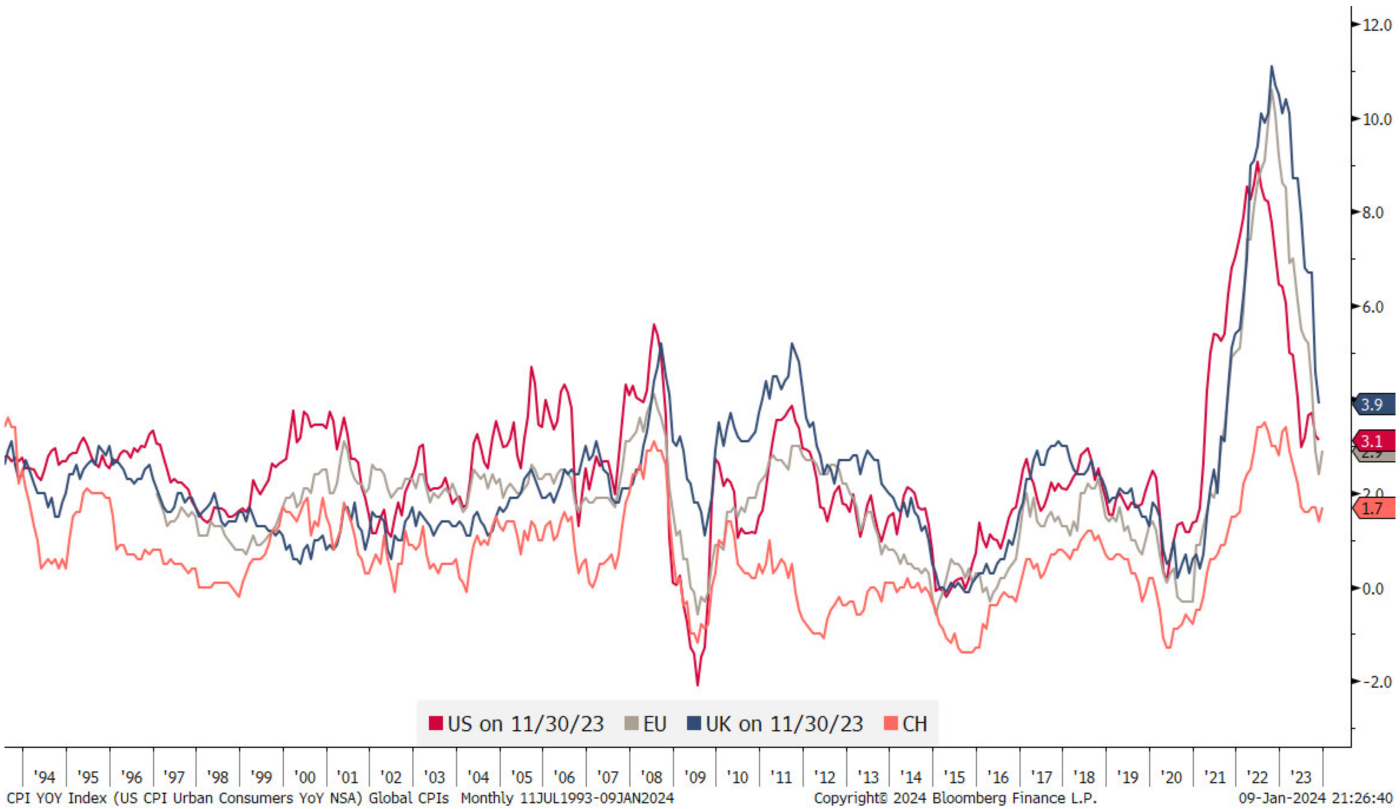
Source: BLS, TS Lombard

Global Inflation Rates

Will Inflation Fall Further?

Global inflation readings have fallen further since our last quarterly update in early December.

The question is now, will the top end of the inflation target of central banks become the new floor?

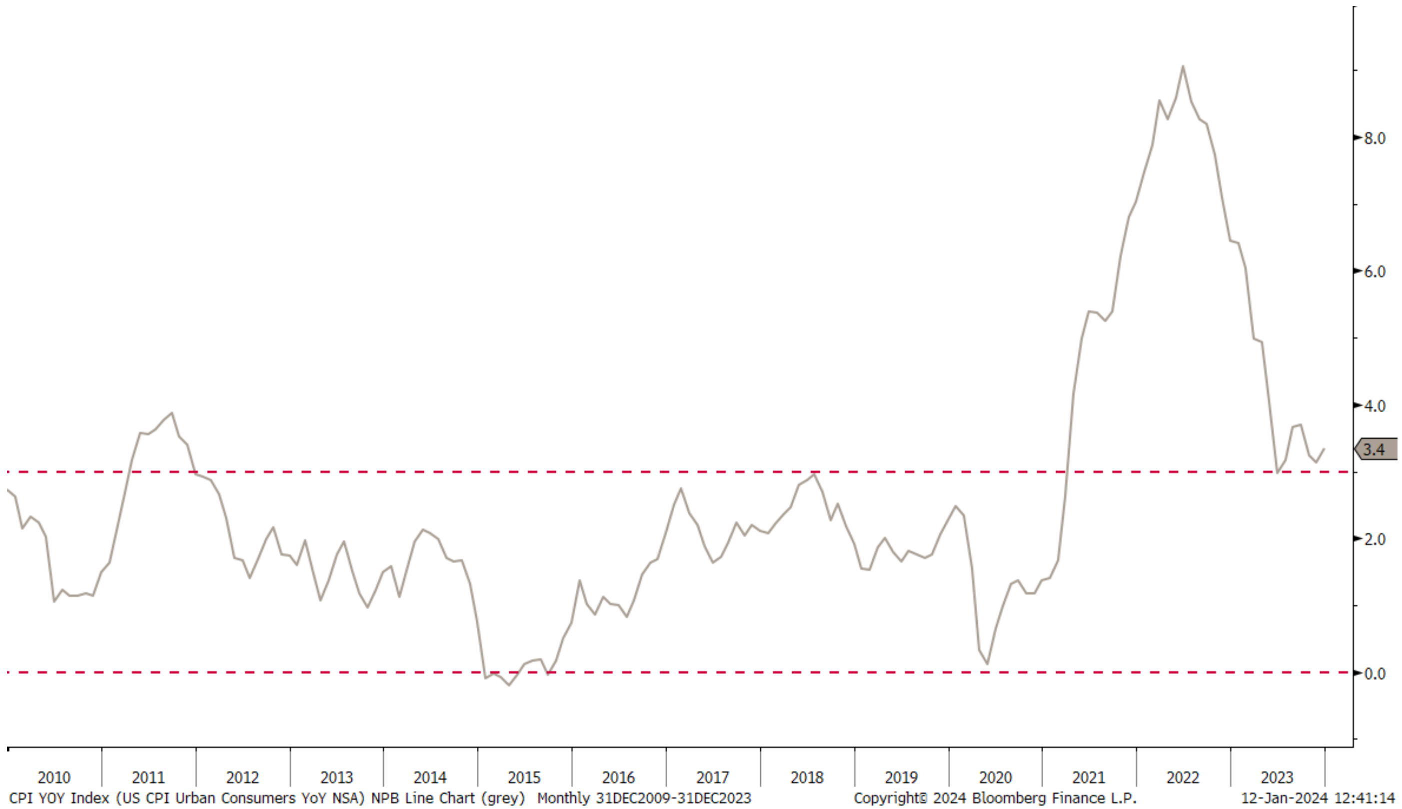


Source: Bloomberg, NPB Calculations

High is the new low?

Is inflation about to “bottom” out

Given our view that the Fed (and markets) may be “easing” monetary policy (expectations) too soon (too much), see next slide), there is a certain danger that inflation will bottom out at levels which previously were more closely associated with tops.



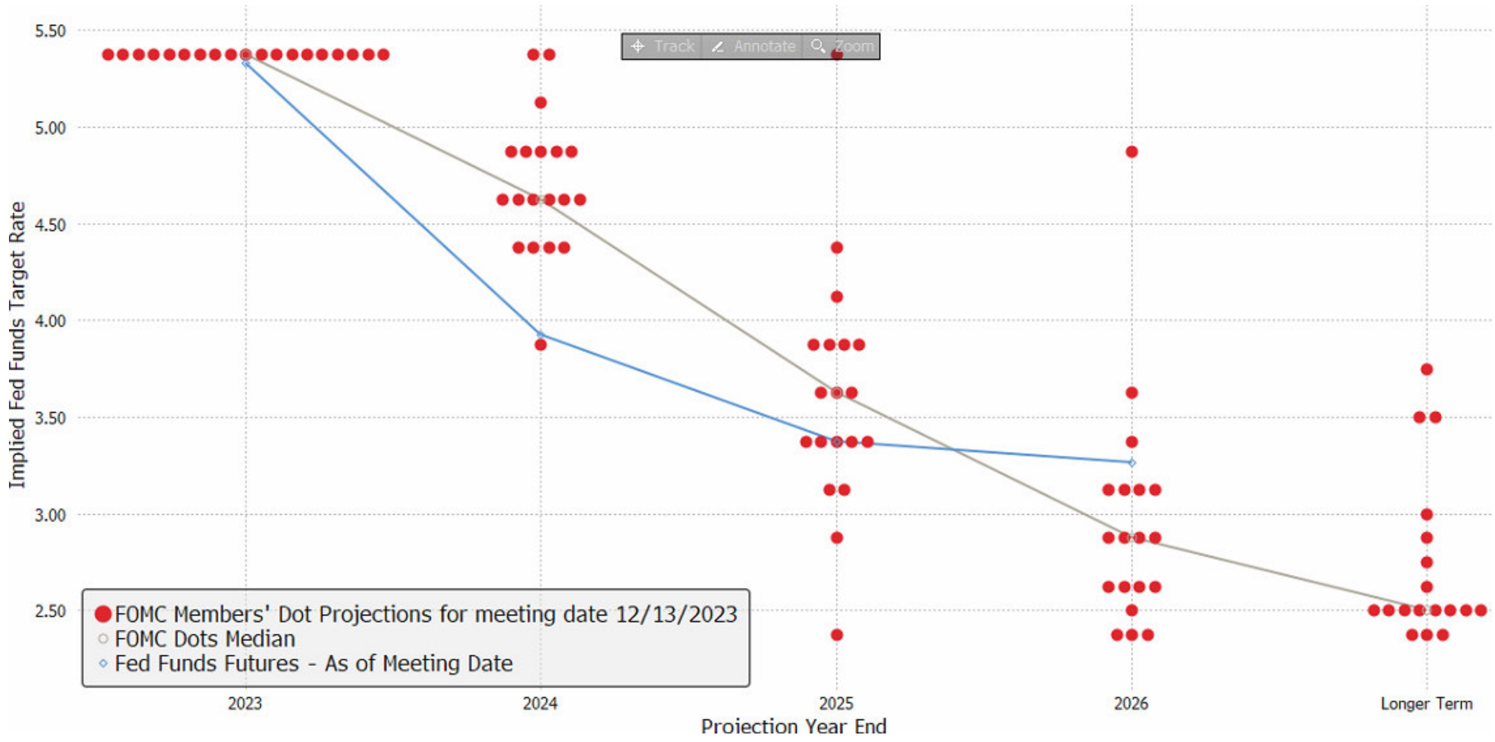
Source: Bloomberg, NPB Calculations

The Pivot

Politically Motivated?

To the surprise to many, if not most, market observers, the FOMC, took a much more dovish approach towards their monetary policy, as expressed via the Dot Plot (red dots and grey line) to the right.

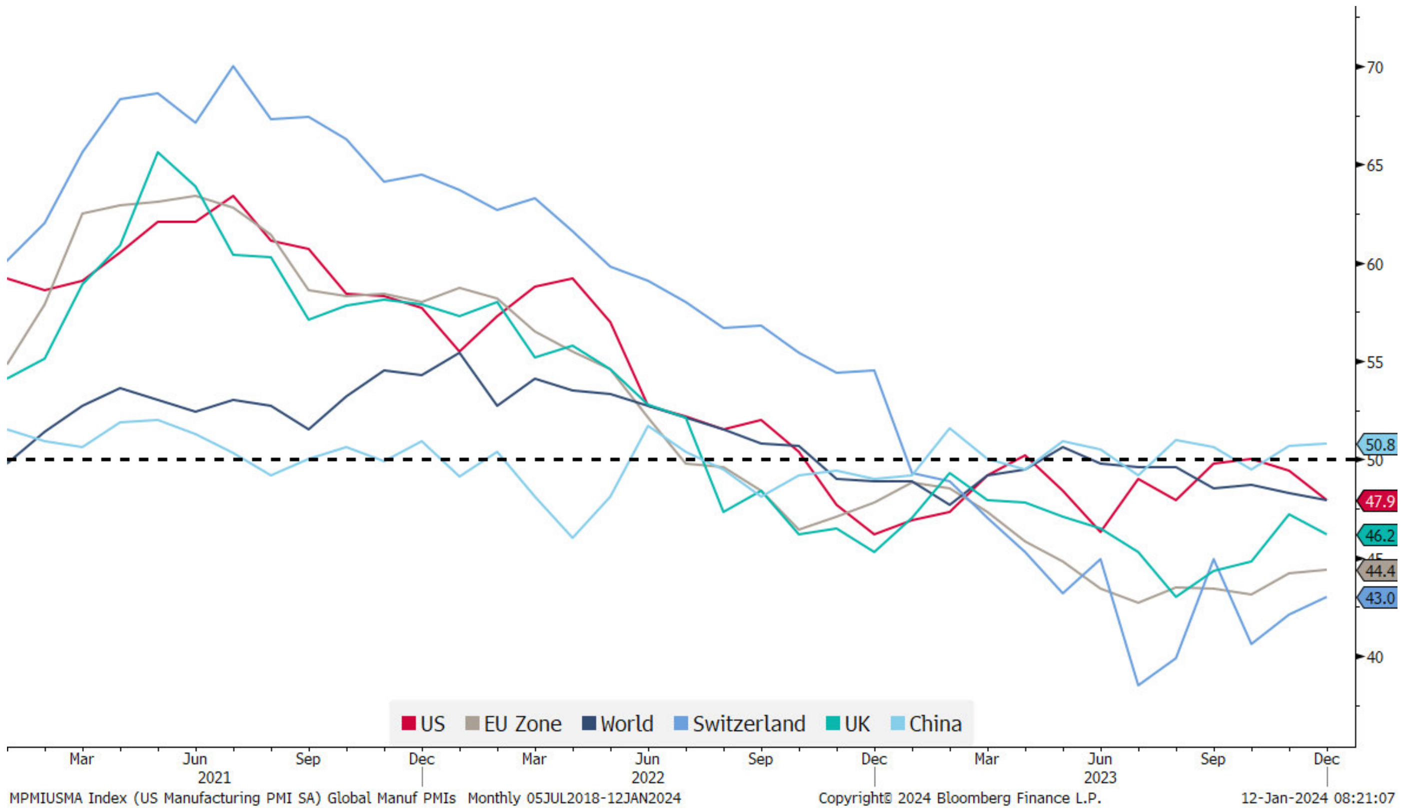
Even more surprisingly, the market has shifted to expected the Fed to take an even more dovish stance. (Fed sees 3 rate cuts in 2025, Fed Fund futures imply 6!



Global Manufacturing PMIs

Improving but still in contraction

Manufacturing PMI readings continue to move below the 50-mark, i.e. in contraction zone



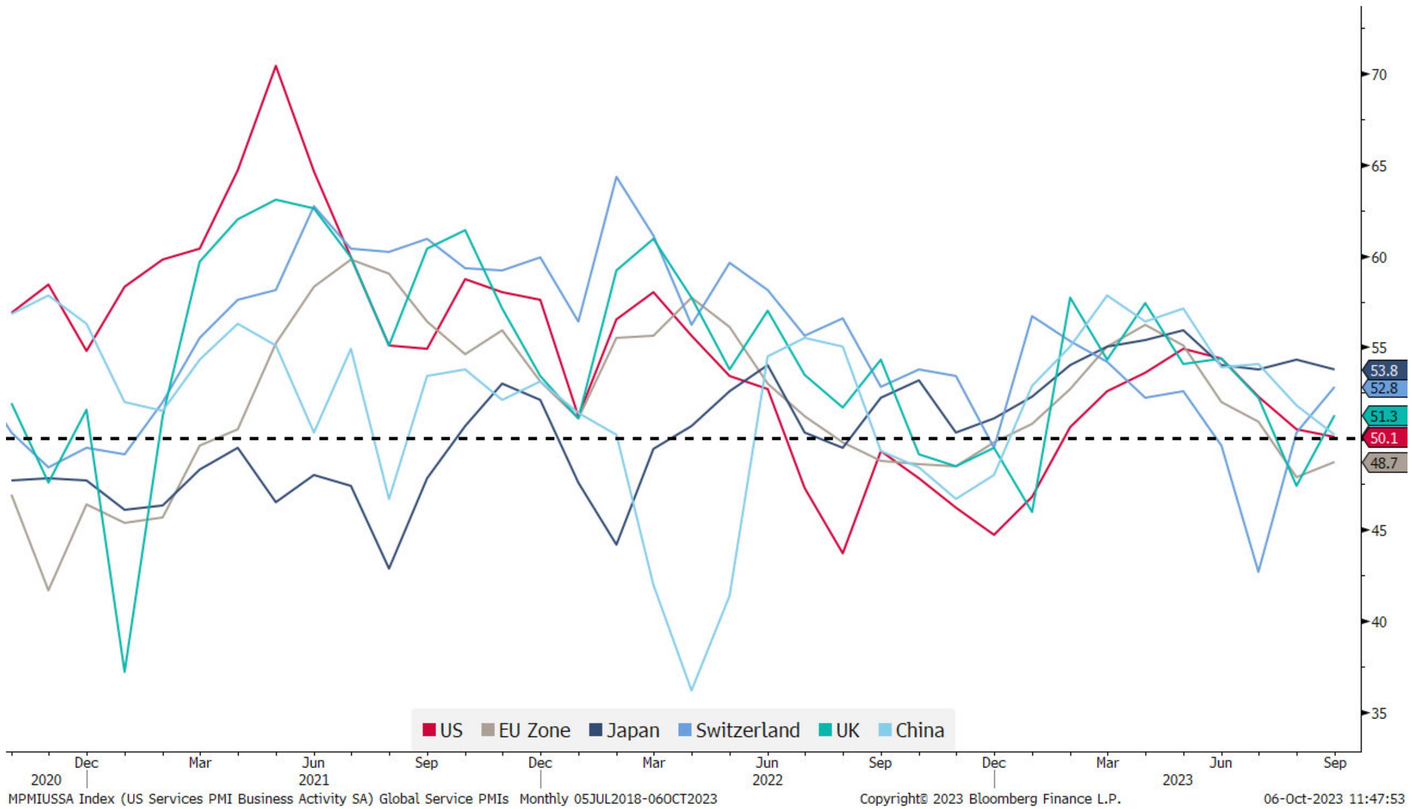
Source: Bloomberg, NPB Calculations

Global Service PMIs

Service PMIs "de-proving"

Simultaneously, Service PMIs improved since our last chartbook at the beginning of Q4/23.

This would set the expansion/recession signal to 'neutral' for this indicator



Source: Bloomberg, NPB Calculations

Unemployment Rate (%)

Global

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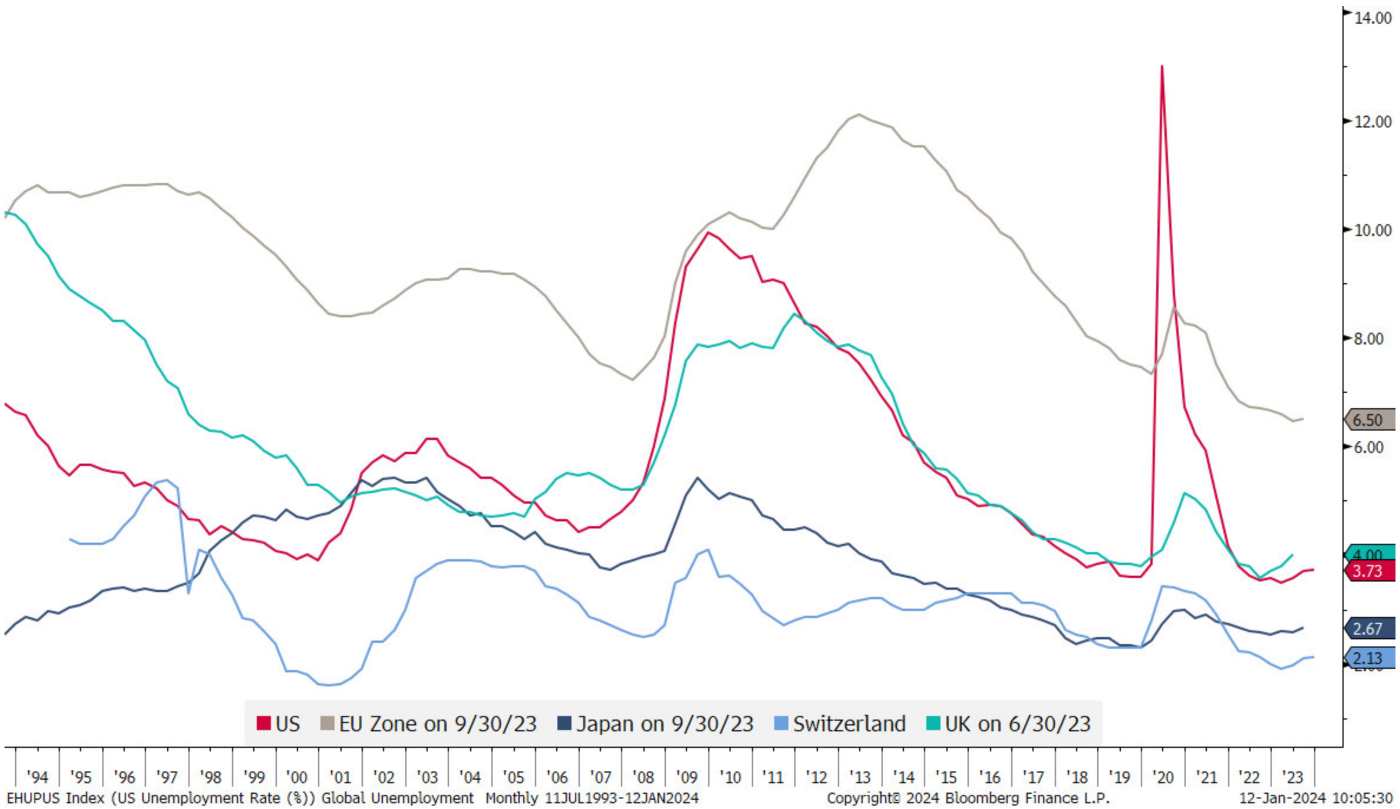
Unemployment has finally started ticker higher over the past few readings.

However, a simple “by the eye” observation would suggest we are seeing the slowest pace of increase in unemployment over the past 30 years.



Source: Bloomberg, NPB Calculations

Global Inflation Outlook

Economists' Consensus

Economists expect inflation to remain above the historic norm of the past three decades or so

	CPI						
	2019	2020	2021	2022	*2023*	*2024*	*2025*
USA	1.8	1.2	4.7	8.0	*4.1*	*2.6*	*2.3*
Europe	1.4	0.6	2.7	8.9	*6.3*	*2.8*	*2.2*
Switzerland	-	-0.7	0.6	2.8	*2.2*	*1.5*	*1.4*
Germany	-	0.4	3.2	8.6	*6.1*	*2.7*	*2.2*
UK	1.8	0.9	2.6	9.1	*7.4*	*3.0*	*2.1*
Japan	0.5	0.0	-0.3	2.5	*3.2*	*2.3*	*1.7*
China	2.9	2.5	0.9	2.0	*0.4*	*1.4*	*1.8*
India	3.7	6.6	5.1	6.7	*6.6*	*5.4*	*4.7*
UAE	-1.9	-2.1	-0.1	4.8	*3.1*	*2.5*	*2.0*

Source: Bloomberg, NPB Calculations

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Global GDP Outlook

Economists are not too excited

Similarly, or oddly enough, they also expect economic growth to be sub-par.

I.e., Bloomberg survey contributors (some 50-60 renowned economists) expect stagflation … stay tuned!

	GDP						
	2019	2020	2021	2022	*2023*	*2024*	*2025*
USA	2.5	-2.2	5.8	1.9	*2.4*	*1.3*	*1.7*
Europe	1.8	-5.6	5.5	3.6	*0.5*	*1.4*	*1.9*
Switzerland	1.2	-2.3	5.5	2.7	*0.8*	*1.1*	*1.5*
Germany	1.1	-3.8	3.2	1.8	*-0.2*	*0.3*	*1.2*
UK	1.7	-10.4	9.6	4.5	*0.5*	*0.3*	*1.2*
Japan	-0.4	-4.2	2.7	1.0	*2.0*	*0.8*	*1.0*
China	6.0	2.2	8.4	3.0	*5.2*	*4.5*	*4.3*
India	-	3.9	-5.8	9.1	*7.2*	*7.3*	*-*
UAE	1.1	-5.0	4.4	7.9	*3.1*	*3.8*	*4.1*

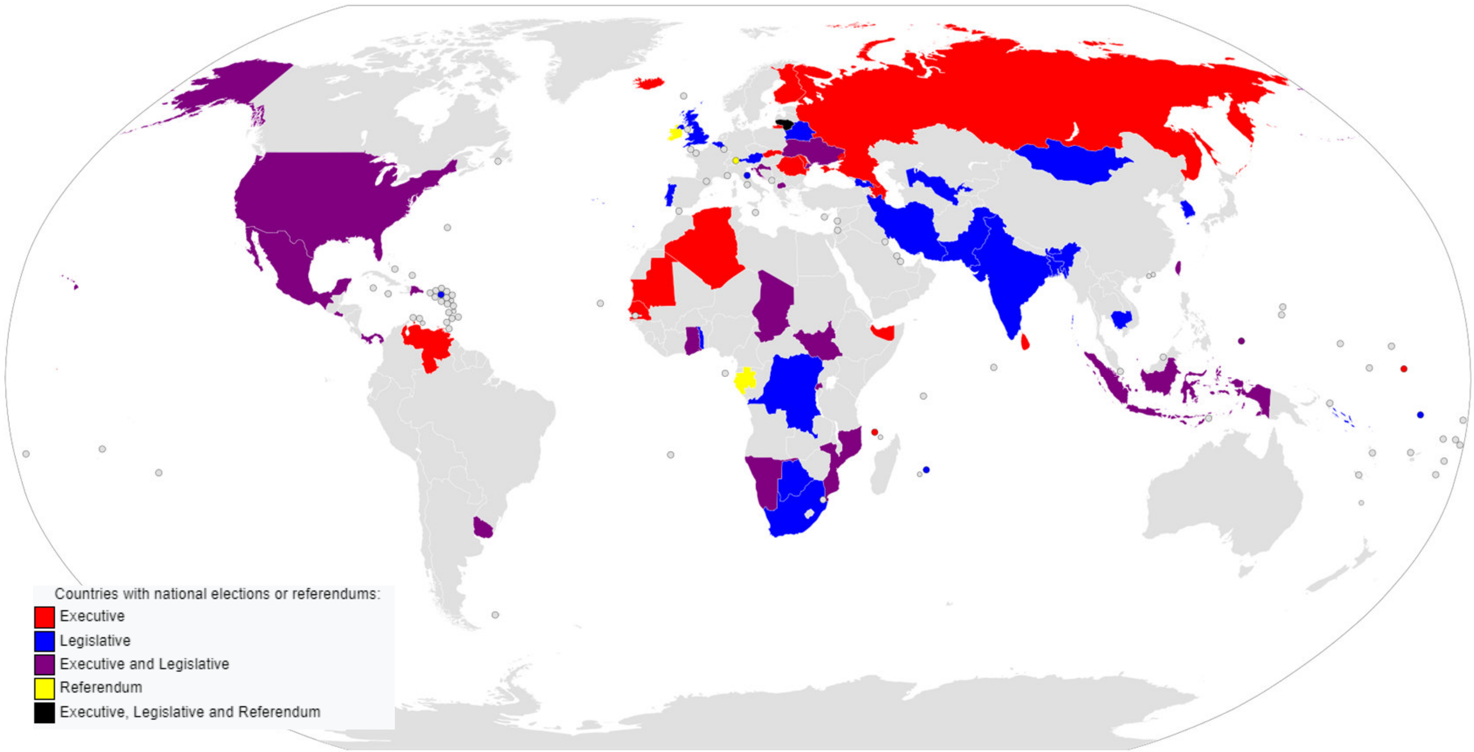
Source: Bloomberg, NPB Calculations

Global Elections

Pockets of Local and Global Volatility

We counted some 60+ government elections in one or the other form taking place around the globe in 2024.

Whilst all of them are important to their citizens, some stand out for global investors: US, UK, Eurozone, India, Russian and kicking off "voting season" Taiwan on 12th January 2024.



US Elections

Lose/Lose?

A recent study from the University of Virginia, showed some disturbing trends (see to the right), which raise the questions whether the US electorate is in for a no-winners scenario.

(Text to the right is taken one-to-one from study, only emphasis are ours)

University of Virginia, Center for Politics report, Oct. 18, 2023:

- A **staggering majority** of both Biden (70%) and Trump (68%) voters believed electing officials from the opposite party would result in **lasting harm** to the United States.
- **Roughly half** (52% Biden voters, 47% Trump voters) viewed those who supported the other party as **threats to the American way of life**.
- About **40% of both groups** (41% Biden voters, 38% Trump voters) at least somewhat believed that the other side had become so extreme that it is **acceptable to use violence** to prevent them from achieving their goals.
- A significant share of respondents also expressed doubts about both the future of democracy and even the United States as it is currently composed. Roughly two in five **(41%)** of respondents leaning towards Donald **Trump** in 2024 at least somewhat agreed with the idea of **red states seceding from the Union to form their own separate country**, while **30%** of **Biden** supporters **expressed a similar sentiment**, but for **blue states**. Disturbingly, nearly one-third (31%) of Trump supporters and about a quarter (24%) of Biden supporters at least somewhat agree that democracy is no longer a viable system and that the country should explore alternative forms of government to ensure stability and progress.

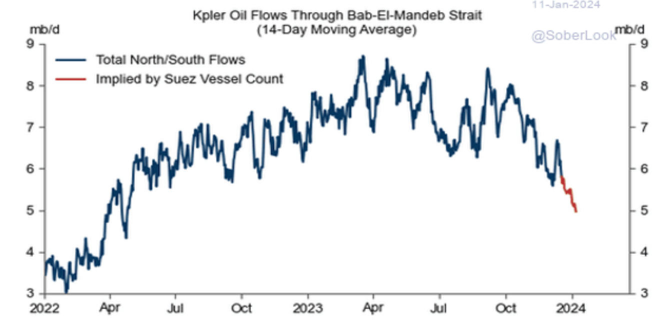
Red Sea

Shadows of Covid-Supply-Chain Fears

As we are preparing the final version of this report, the Houthi situation in the Red Sea, something we started evaluating two weeks ago, is quickly getting out of hand.

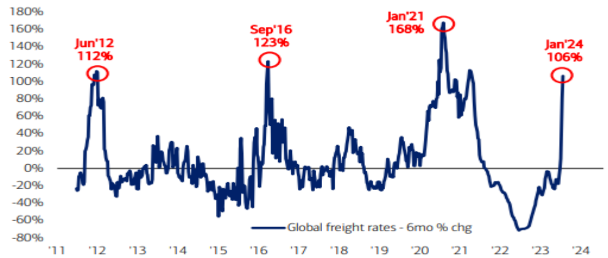
The issue could settle down quickly again, but likewise, there is potential escalation for major supply disruptions, especially taking given that another major shipping bottleneck, the Panama Channel, is also working with reduced capacity due to a major drought.

Red Sea Disruptions Have Lowered Oil Flows Through the Bab-El-Mandeb Strait by 0.9mb/d (or 15% on a 14DMA Basis)



Source: Kpler, Goldman Sachs Global Investment Research

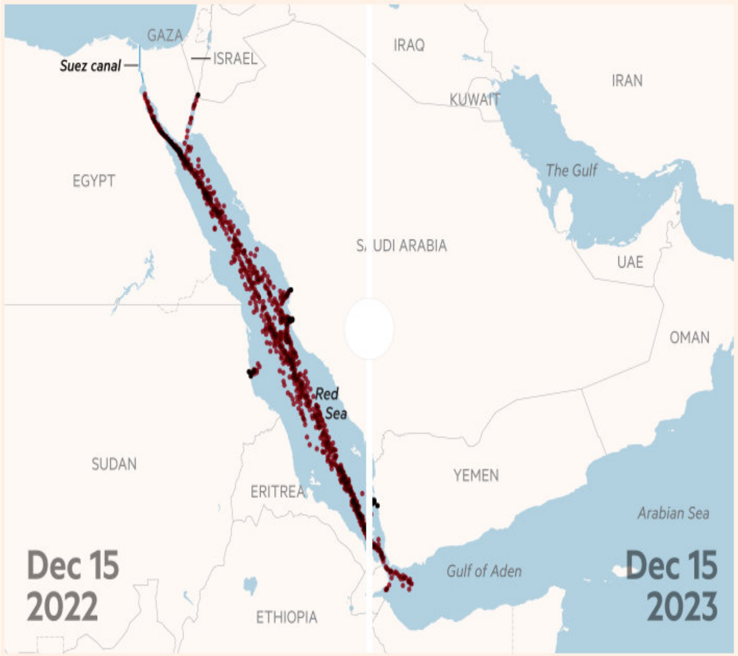
Chart 3: Geopolitics...freight rates up 120% past 6 weeks
Global freight rates - 6 month % change



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

Container shipping in the Red Sea was already down 30% by mid-December



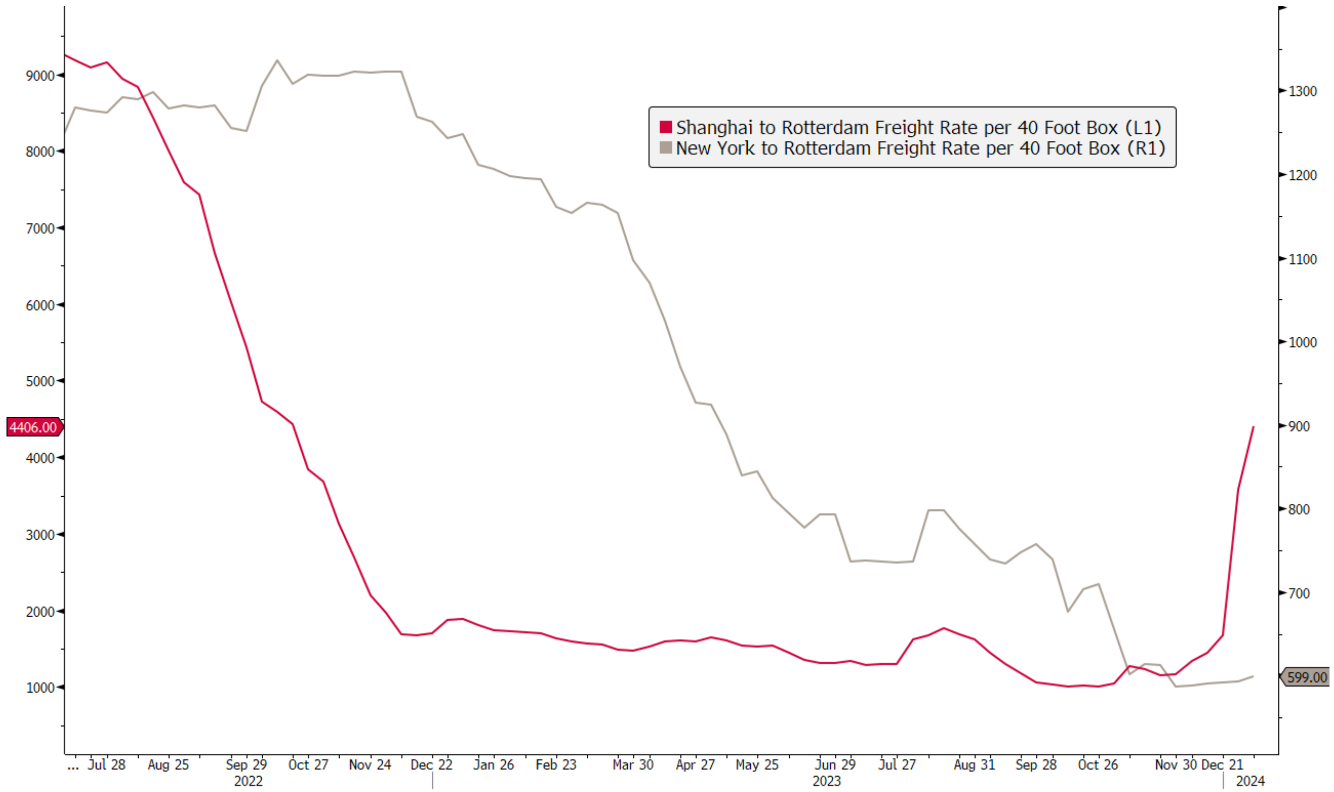
FINANCIAL TIMES Source: Marinetraffic.com • Darker dots indicate many ships in close proximity to each other

Red Sea

Freight Costs are Exploding

Point-in-case how the situation is escalating is the chart to the right.

Freight rates for shipment from Shanghai to Rotterdam are exploding, whilst New York to Rotterdam costs are unchanged (as they are not shipped through any channel)



WCIDSHRO Index (WCI Shanghai to Rotterdam Container Freight Benchmark Rate per 40 Foot Box) Shipping cost to Rotter Daily 12JAN2022-12JAN2024 Copyright© 2024 Bloomberg Finance L.P. 12-Jan-2024 17:23:21

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Equity

CIO Office Chartbook

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S&P 500

Not Bearish!

The S&P 500 just (12/1/24) closed at a new all time high on a weekly basis.

This is not bearish, however expensive or narrow the market seems to be. Let’s look at ‘expensive’ and ‘narrow’ on the next two slides.

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S&P 500

Expensive?

The S&P 500 is trading at 22.2x 1yr Forward earnings (red line), which is above the historical norm of 19x of the past ten years. However, the S&P 500 equal-weight index is trading at 18.2x (grey line) and hence below its historical mean of 18.8x.

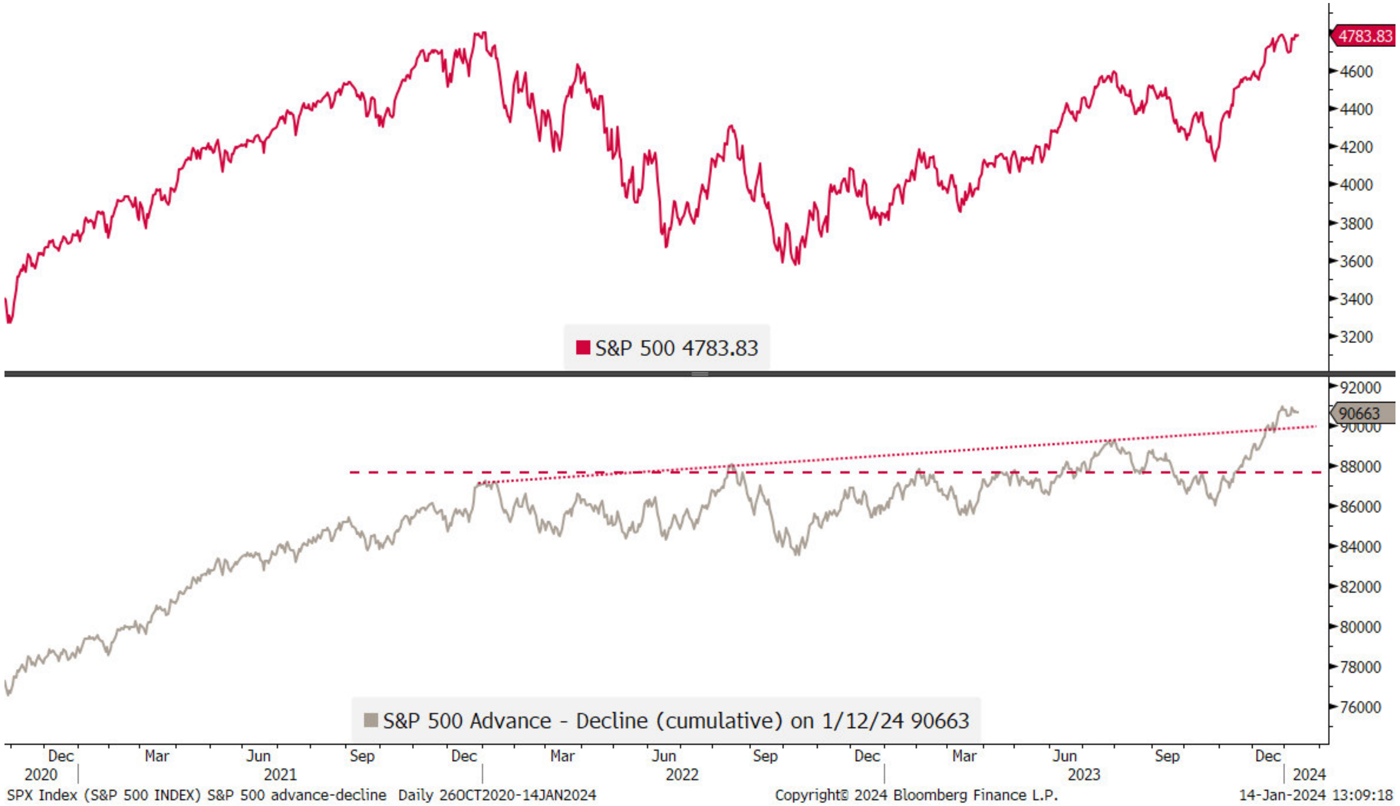
In other words, the broader market is not overly expensive (though not cheap either)

S&P 500

Narrow?

The Advance – Decline Indicator (lower clip) measure the number of advancing stocks versus the number of declining stocks on a daily cumulative basis. After moving sideways for two years it broke above the previous ATH in October, indicating the index (upper clip) is likely to follow.

In conclusion, participation is broad, not narrow, and expanding



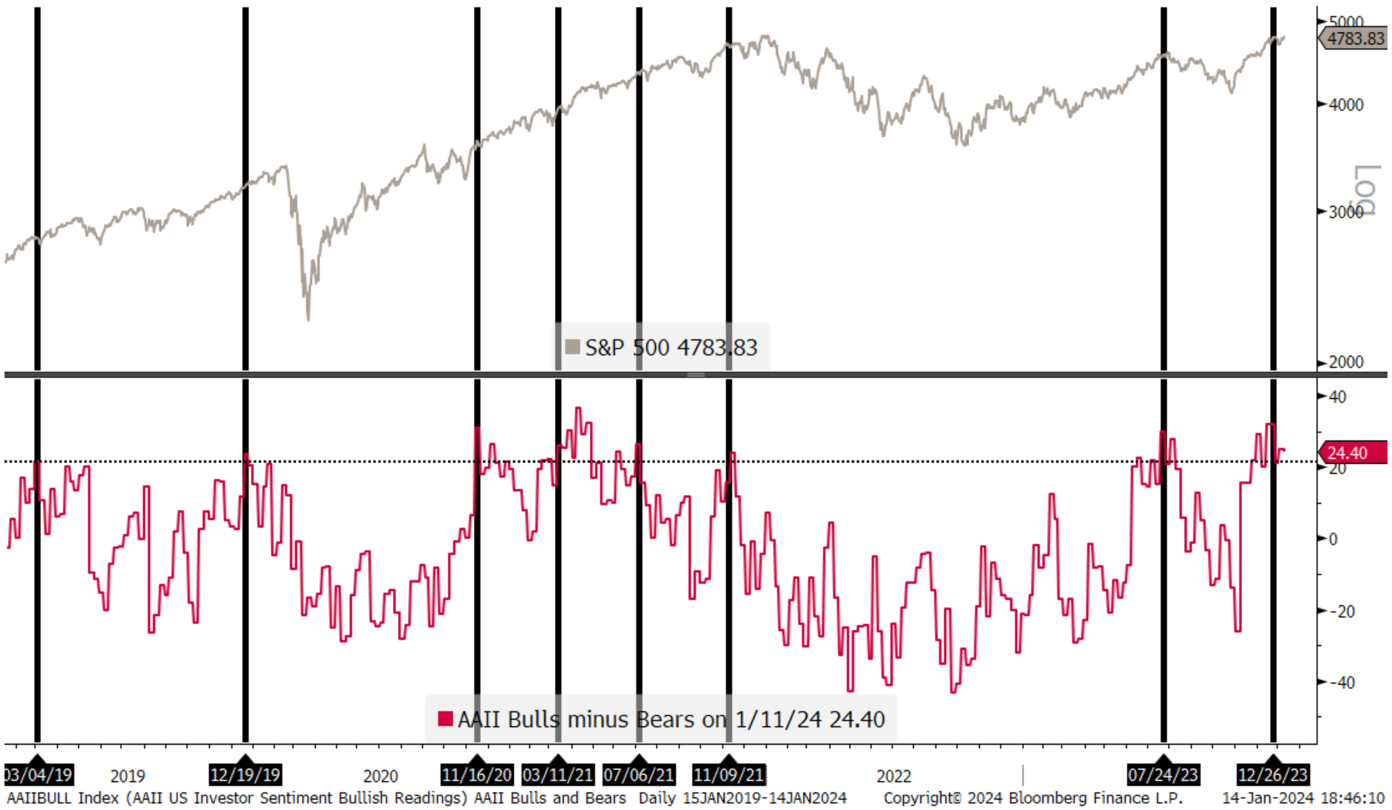
S&P 500

Short-Term Overbought?

On the very short run (days to weeks), equities seem a tad overbought.

The chart to the right shows one measure of market participants' bull- or bearishness and suggest a certain complacency right now, calling for a short-term correction. However, all previous readings of similar magnitude took place within a prevailing cyclical uptrend.

Buy the dip for the next leg of the rally into April.



STOXX 600 Europe

Old Continent lagging

Over on our side of the pond, stocks have been rushing higher too and are likely to test previous all-time highs over the coming weeks.

Japan

Fear Of Missing Out

Over in Asia, Japan is living its FOMO moment, as the uptrend is staring to get parabolic

Japan

Quote of the Century ☺

NPB | Neue Privat Bank

S&P BSE 500

Incredible India!

Erstwhile … India's stock market is a league of its own, though it does seem extremely overextended short term.

What could derail the long-term uptrend.

Nobody expects a major change during this year's election …

China

The Yin of Asian Market Performance

Contrary to the Japanese and Indian experience for equity investors, China's stock market is going from weakness to weakness with no catalyst for a turnaround in sight.

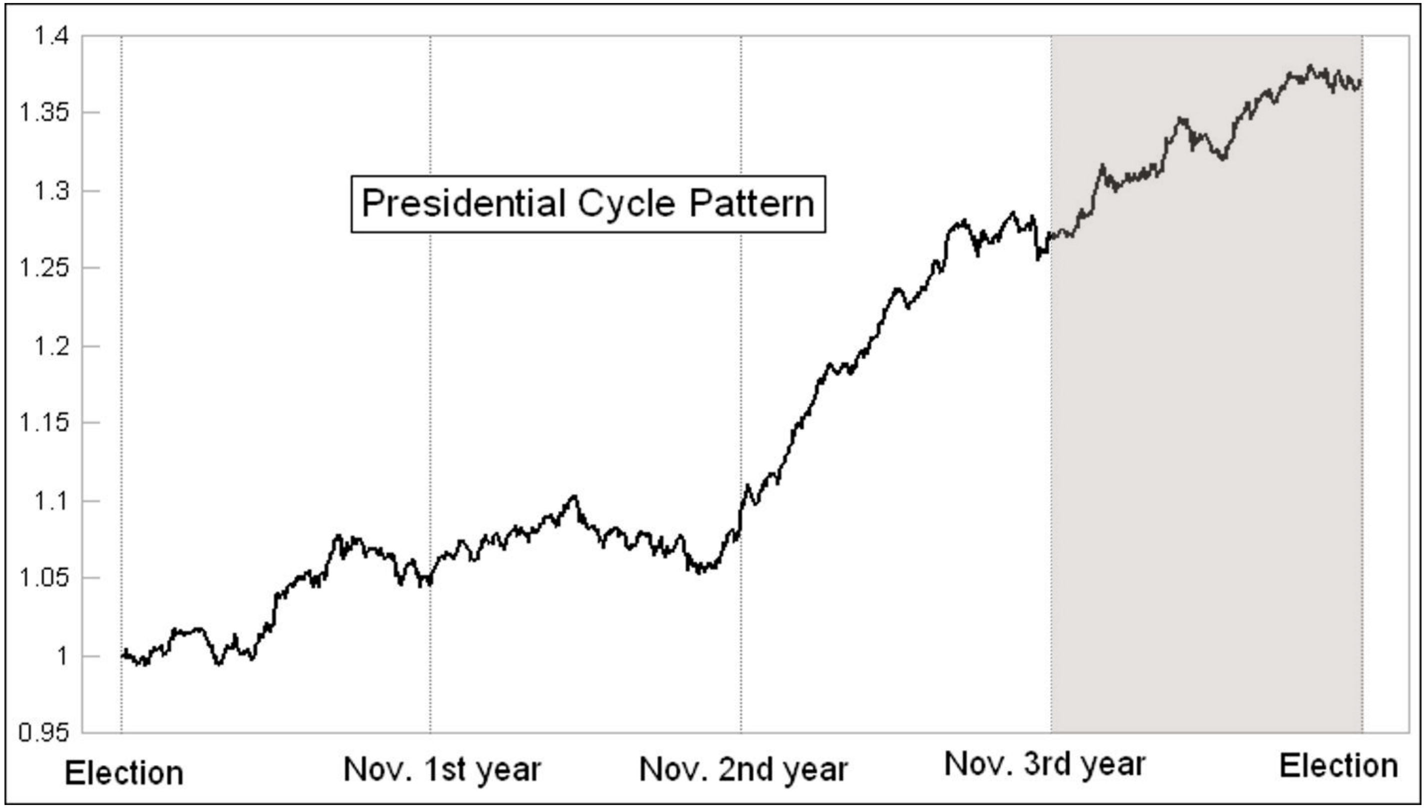
Seasonality

Presidential Cycle (1 of 2)

The presidential election cycle theory posits that equity market returns follow a predictable pattern each time a new U.S. president is elected.

The best returns are in year three (2023), whilst the worst returns are in year two.

Year four (2024) is the second-best year for equity markets, as the incumbent party will do "anything" to please and stay in power.



Source: Stockcharts.com

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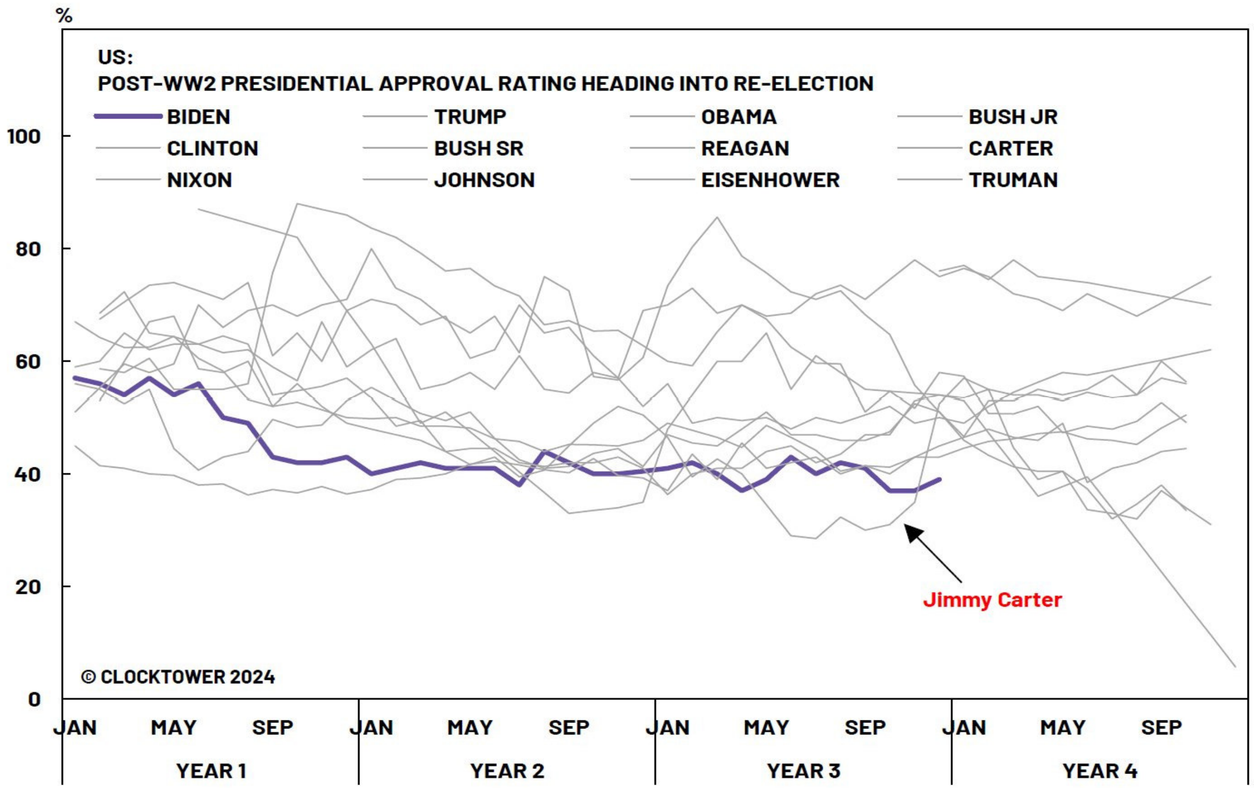
Seasonality

Presidential Cycle (2 of 2)

Given the Biden's presidential approval is now the worst of any president since WWII heading into re-election year, there is plenty of pleasing to do …

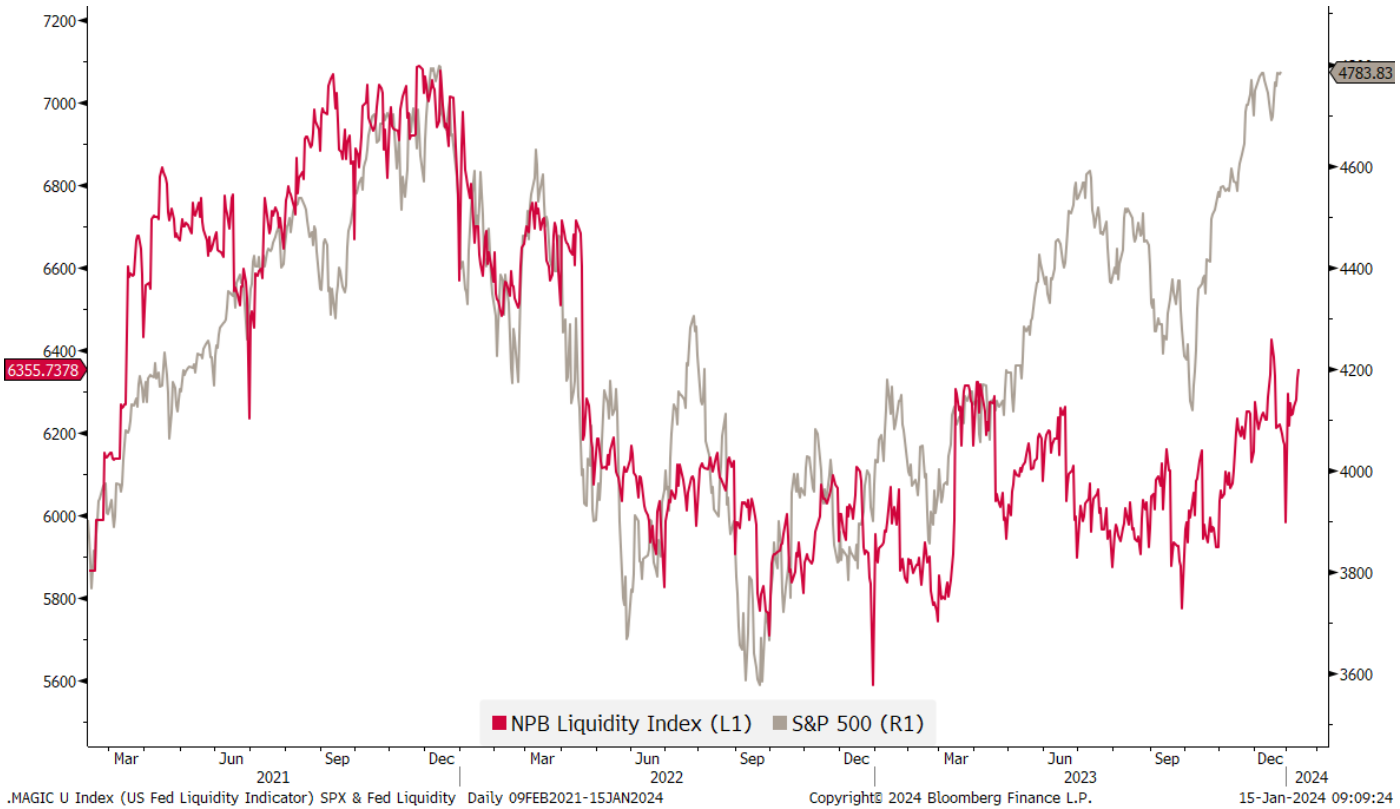
And with the most likely Republican candidate to be Trump, we wonder whether the dovish Fed Pivot in December was purely economic related.



Liquidity

Supportive

If our theory of the incumbent party receiving monetary support is correct, we should see our liquidity measure (red line) also sharply increasing over the coming months.



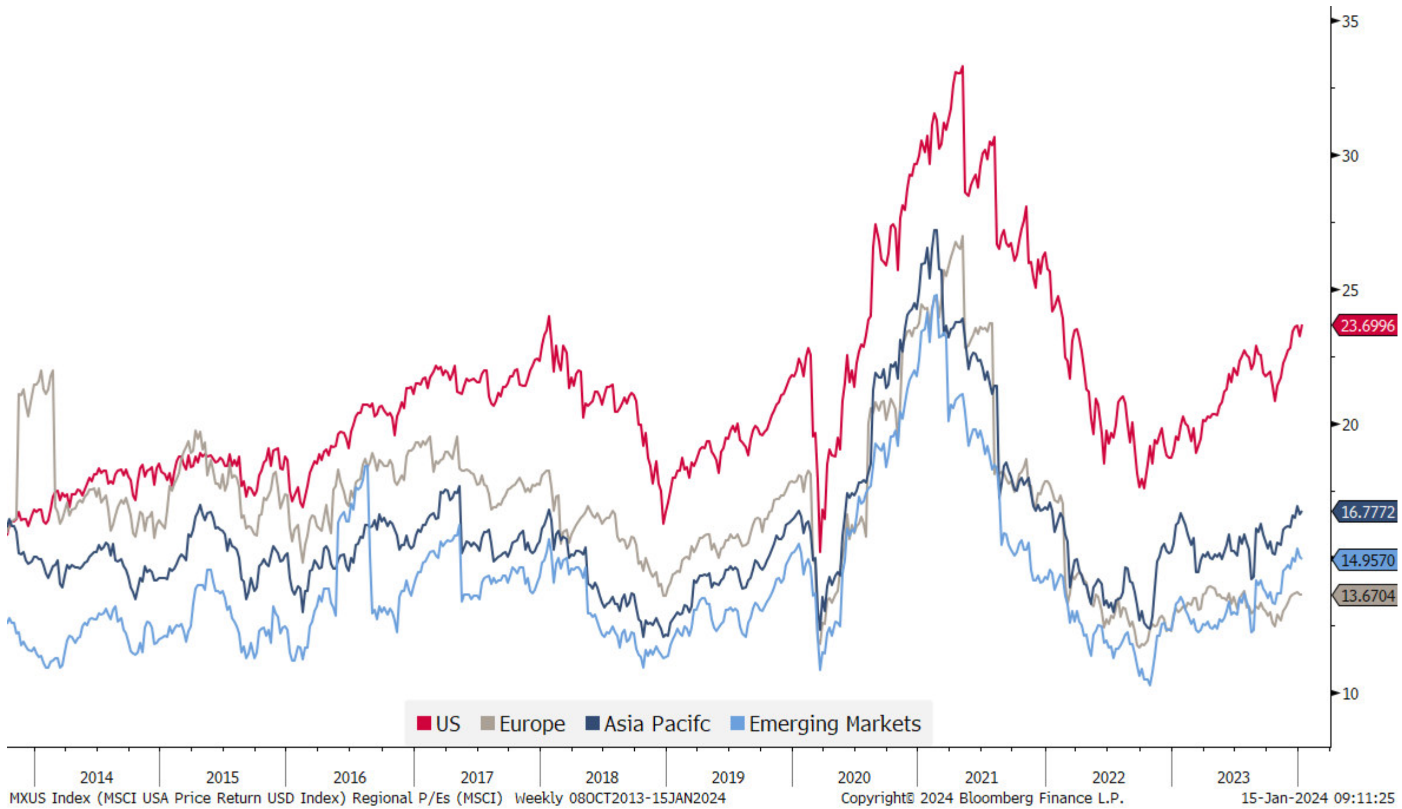
Source: Bloomberg, NPB Calculations

Valuation (1 of 2)

Price/Earnings Ratios

The Valuation gap between US and non-US markets continues to be wide, with Europe currently offering the best value.

Or, cheap for a reason?



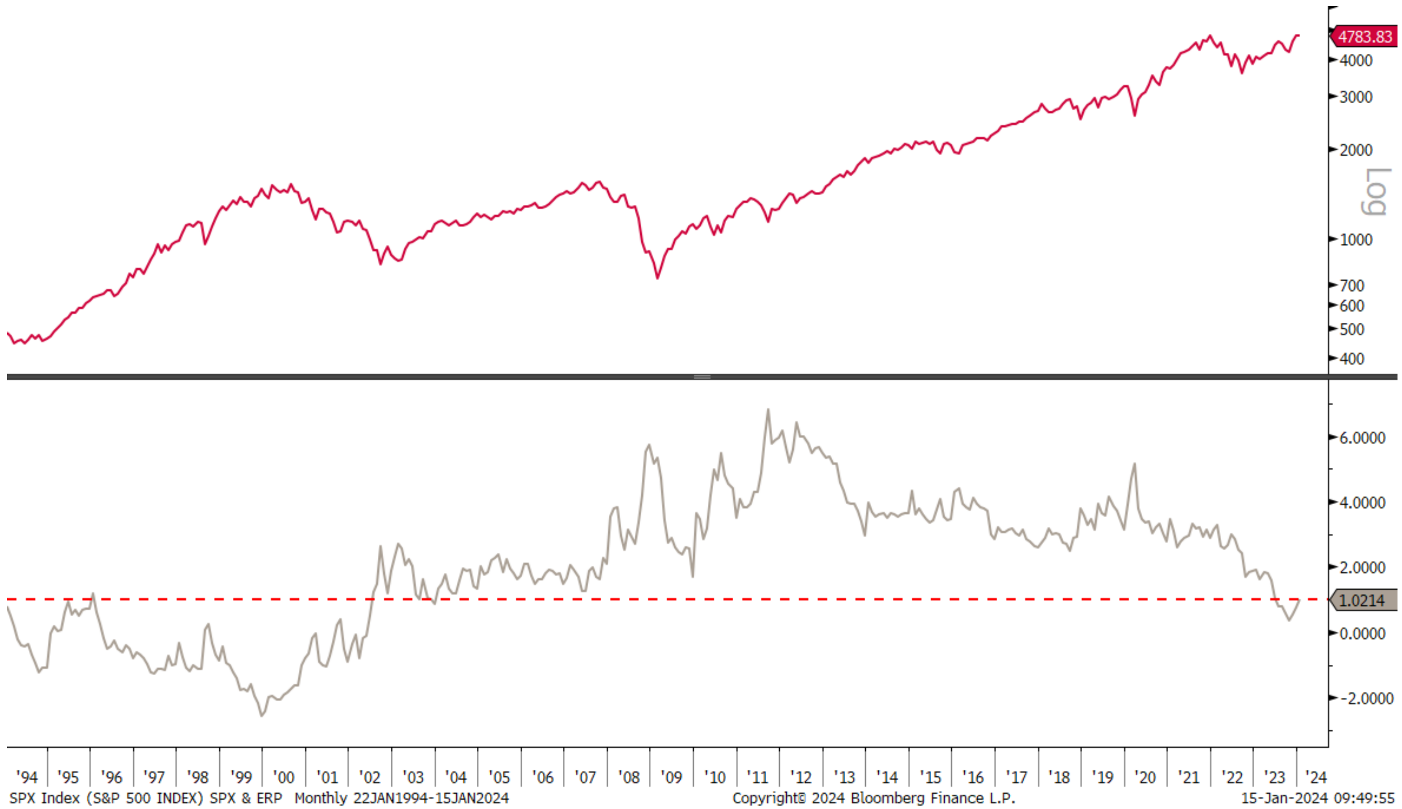
Source: Bloomberg, NPB Calculations

Valuation (2 of 2)

Equity Risk Premium

The EPR continues to be extraordinarily low, making equities risk-adjusted a not very attractive investment proposal.

However, we think liquidity conditions will dominate markets over the coming months, not unsimilar to the late 90ies, and valuations won't matter until they do.

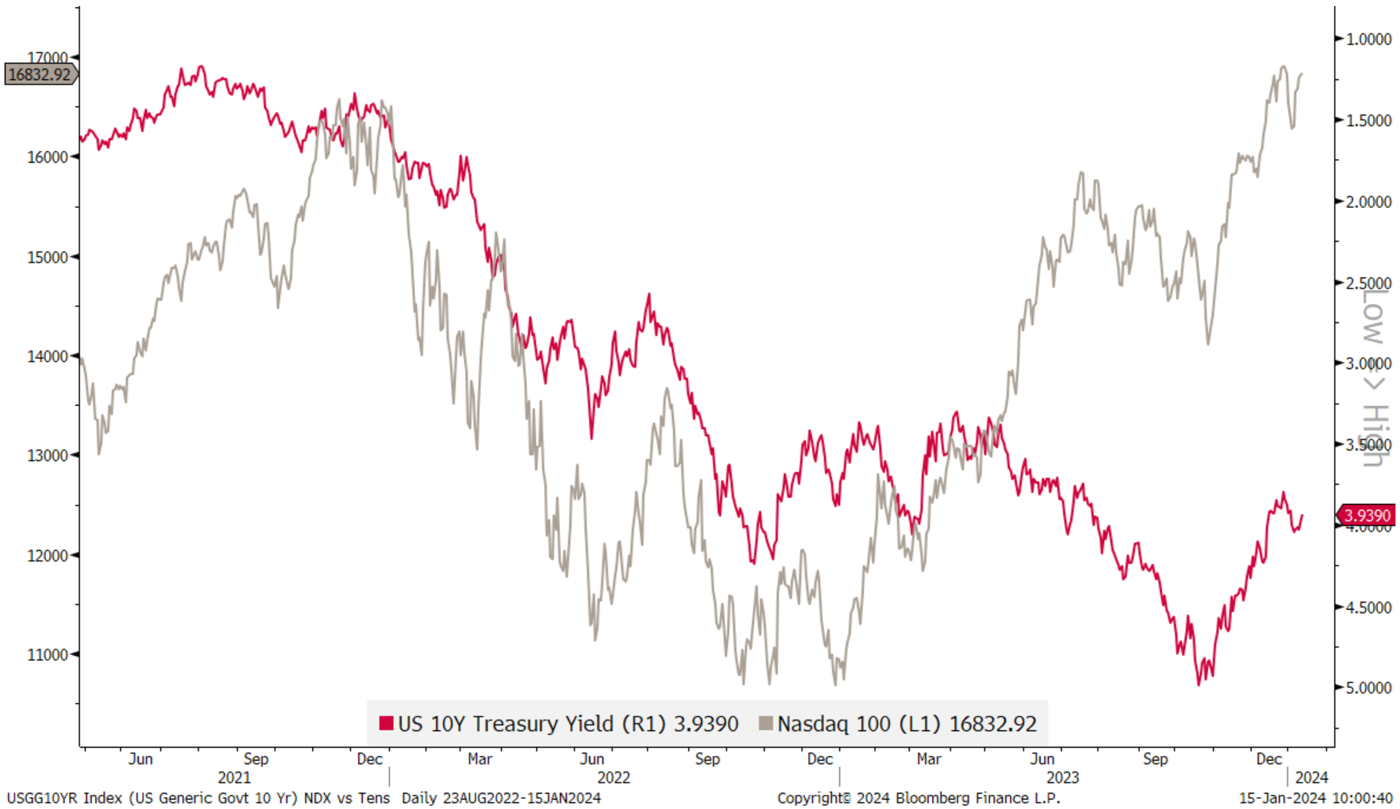


Nasdaq vs. 10-Year Yields

NPB | Neue Privat Bank

Are we there yet?

As yields (red, inverted, rhs) have softened, longer duration stocks (grey, lhs) started rallying on broad base.



Source: Bloomberg, NPB Calculations

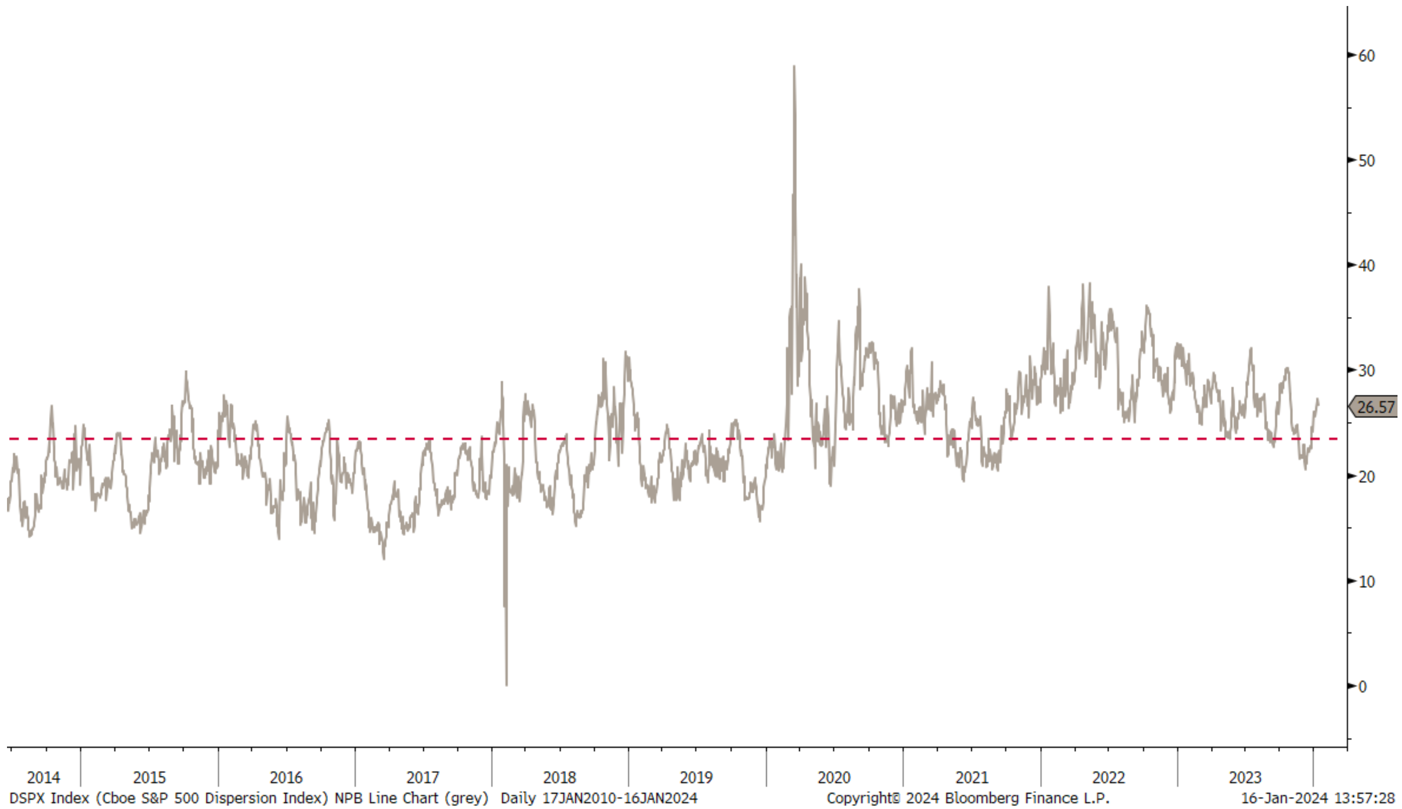
Dispersion

Stock Picking is Rewarded

Cboe S&P 500 Dispersion Index (DSPX) is a recently launched index which represents the implied correlation amongst the stocks in the S&P 500.

Simplified, a high reading means dispersion (correlation) amongst stocks is high (low) and vice versa.

Currently, the DSPX trades above its long-term average, implying a good hunting ground for stock pickers

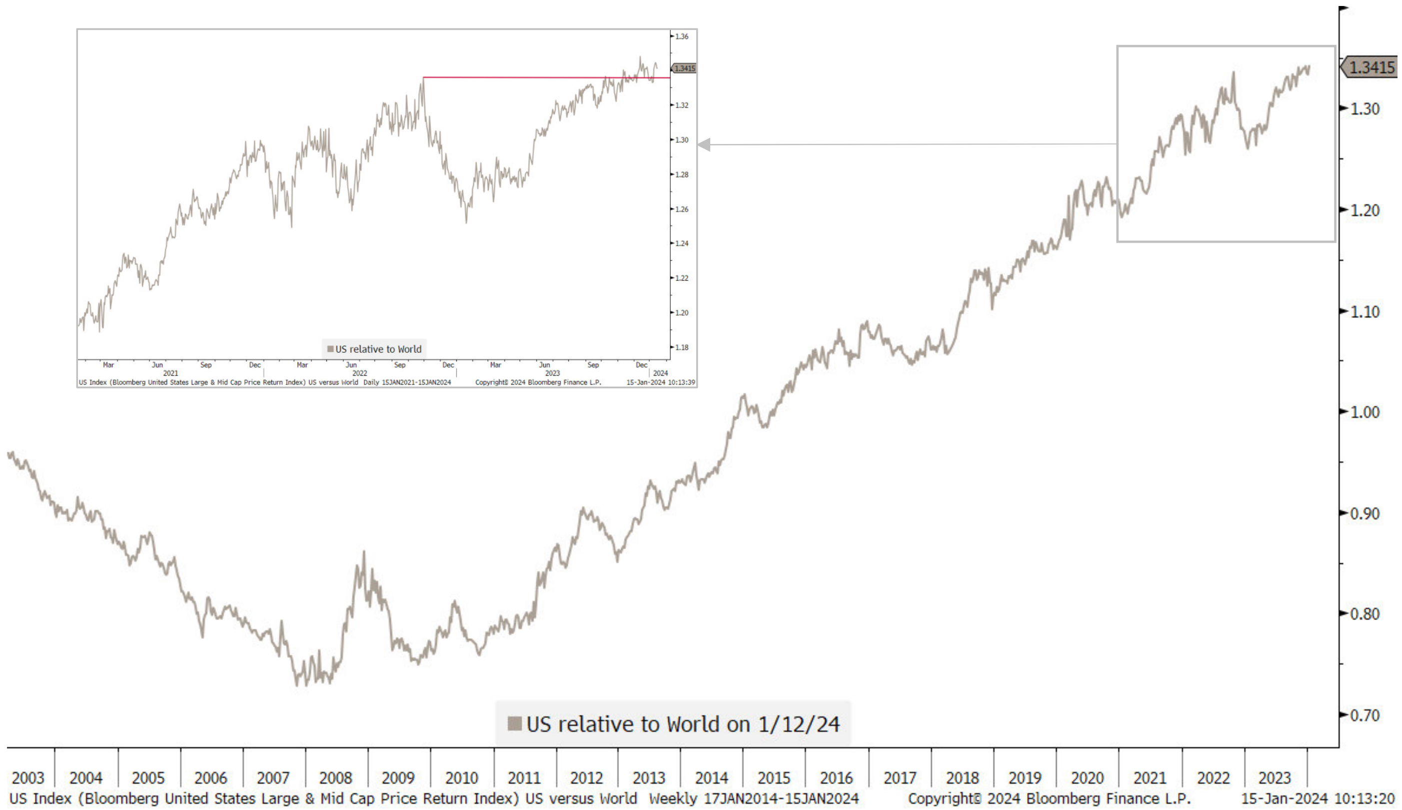


Source: Bloomberg, NPB Calculations

Regional Focus

US – Unabated Dominance

The US outperformance is reinstating itself (inset chart) and is now in year 15 (larger chart) of its incredible dominance

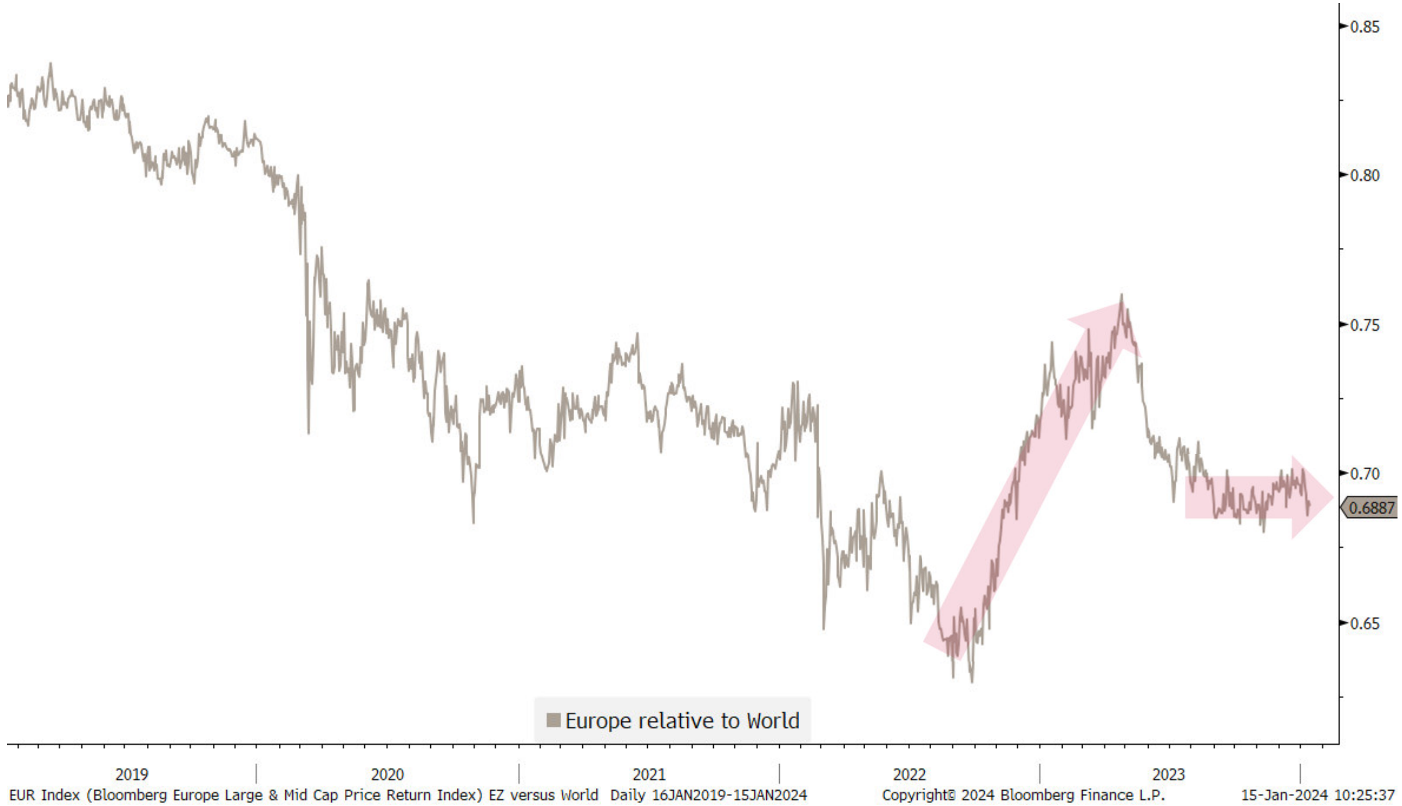


Source: Bloomberg, NPB Calculations

Regional Focus

Europe – Cheap for a Reason

Europe's strangely timed outperformance of 2022/2023 is a thing of the past, but at least the old continent was able to hold up with Global equities over the past few months without deteriorating further.

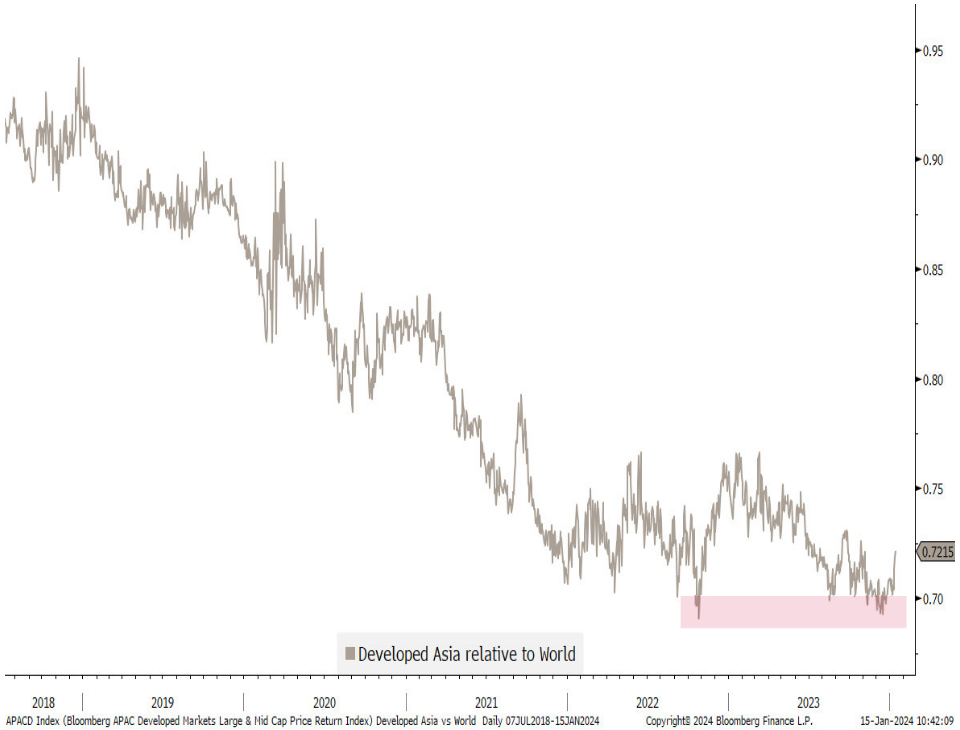


Source: Bloomberg, NPB Calculations

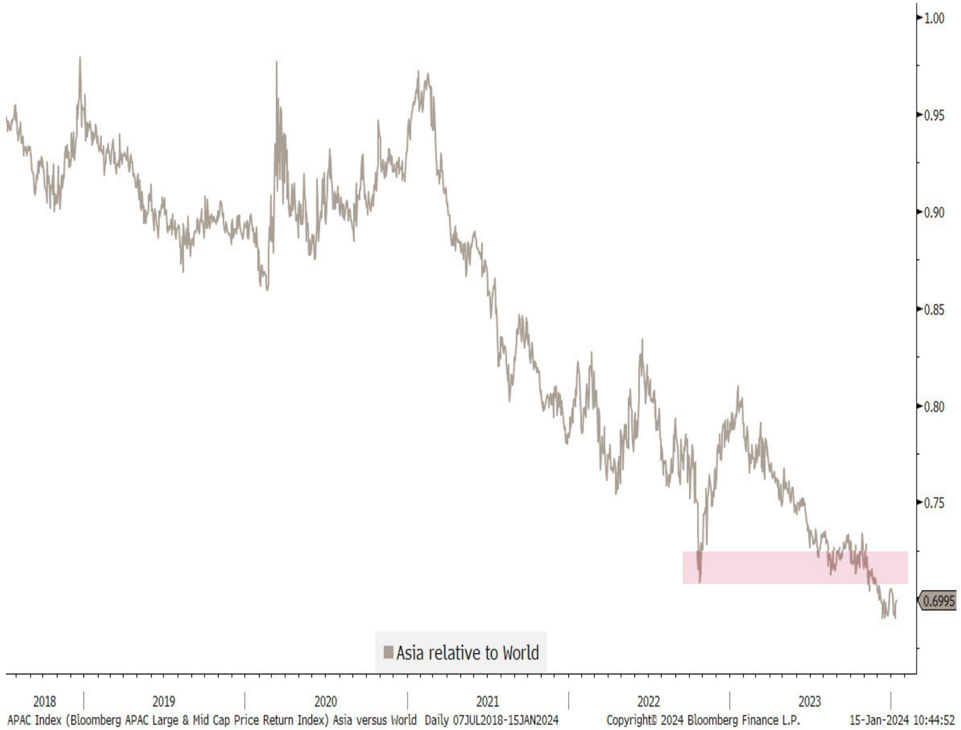
Regional Focus

Asia

Developed Asia is rebounding from the support level we observed in the last issue



However, “total” Asia, including countries such as China, has broken through that support and continues to weaken



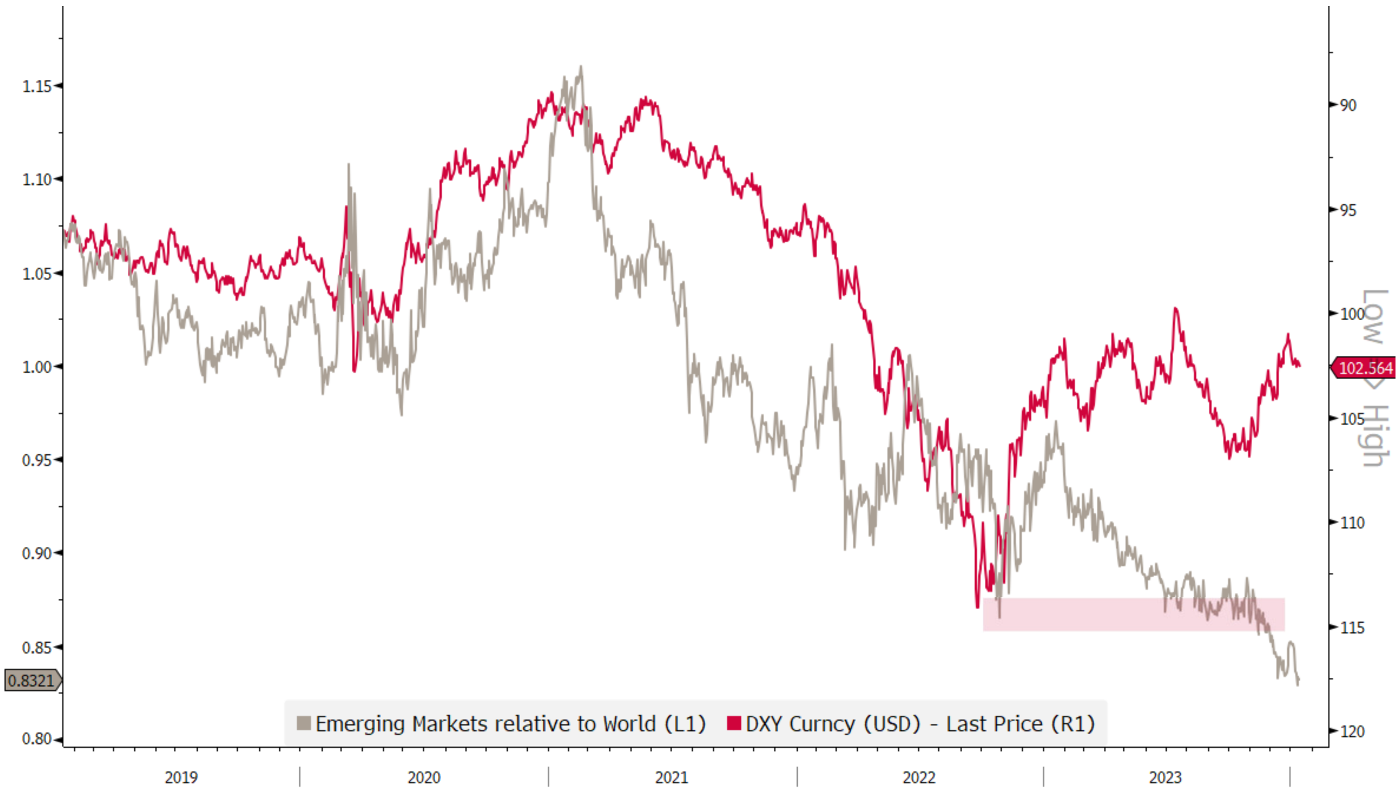
Source: Bloomberg, NPB Calculations

Regional Focus

Emerging Markets

The EM weakness is a bit of a surprise given its cheap valuation and even more so as EM (grey, lhs) performance is normally negatively correlated with the fortunes of the US Dollar (red line, inverted, rhs).

The USD halted its ascent in Q4/22 and even softened, but an initial EM rally faded quickly and give way to further weakness



EMT Index (Bloomberg Emerging Markets Large & Mid Cap Total Return Index) EM vs World vs DXY Daily 16JAN2019-15JAN2024 Copyright© 2024 Bloomberg Finance L.P. 15-Jan-2024 10:56:26

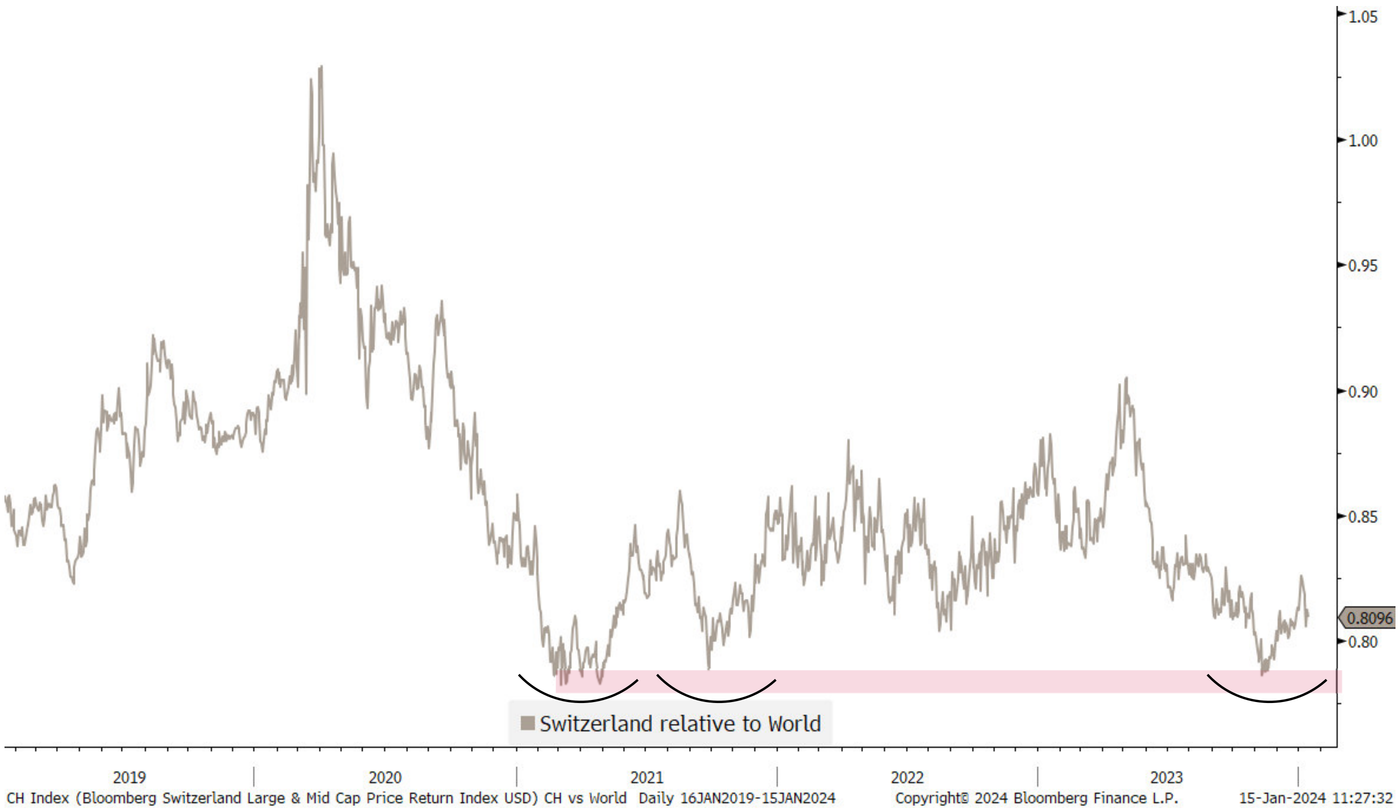
Source: Bloomberg, NPB Calculations

Regional Focus

Switzerland

A double-whammy of lower health care and lower luxury stocks, which are plentiful within the Swiss equity market (Roche, Novartis, Richemont, Swatch, etc).

As the healthcare sector is one of our favourites for 2024, the Swiss market should do well too, especially if luxury stocks are 'bombed out' now.



Source: Bloomberg, NPB Calculations

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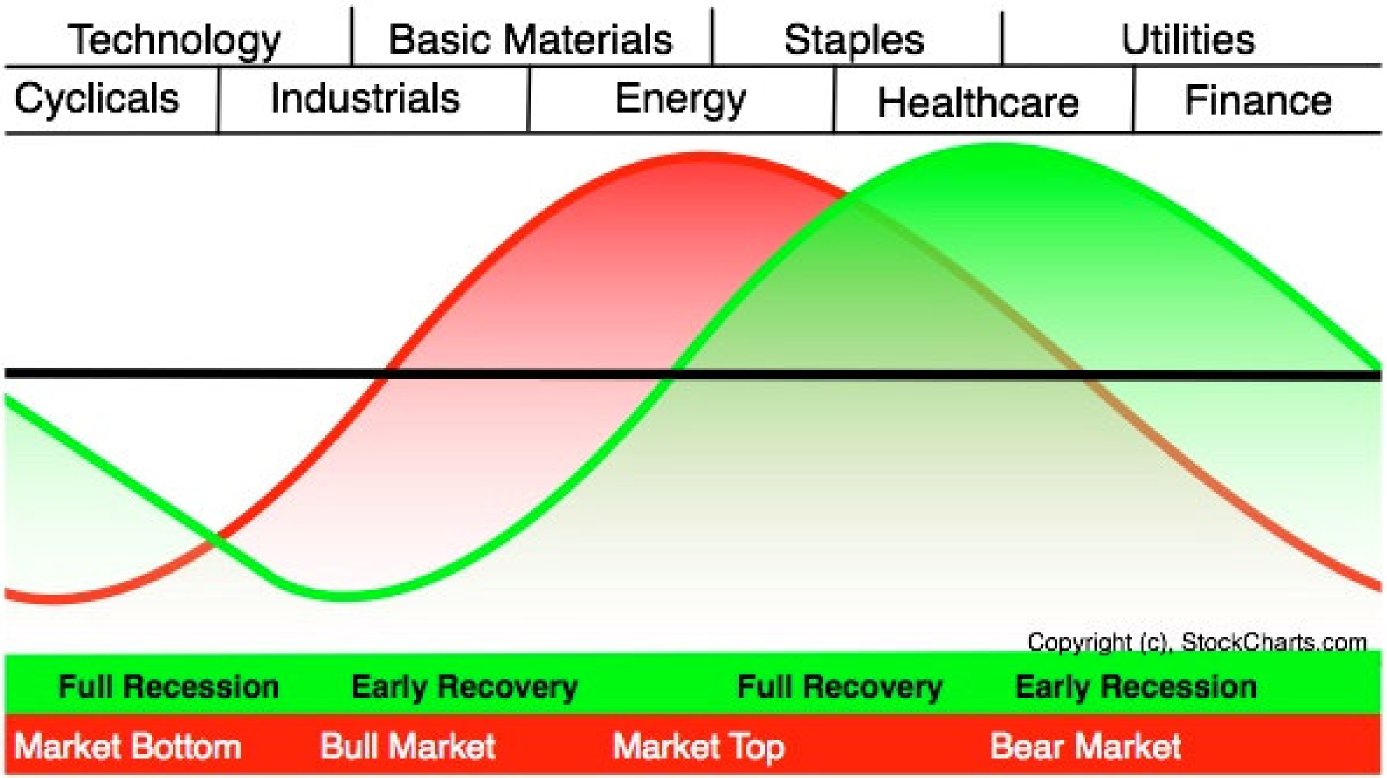
Sector

Business- and Market cycle Clock

The graph to the right conceptualize the business- and market cycles and which sector to hold at which time.

Of course, this is fully idealized and will look somewhat different in every market cycle.

However, it still can serve as guidance. The current constellation as seen on the next four slides would suggest we are early- to mid-cycle.

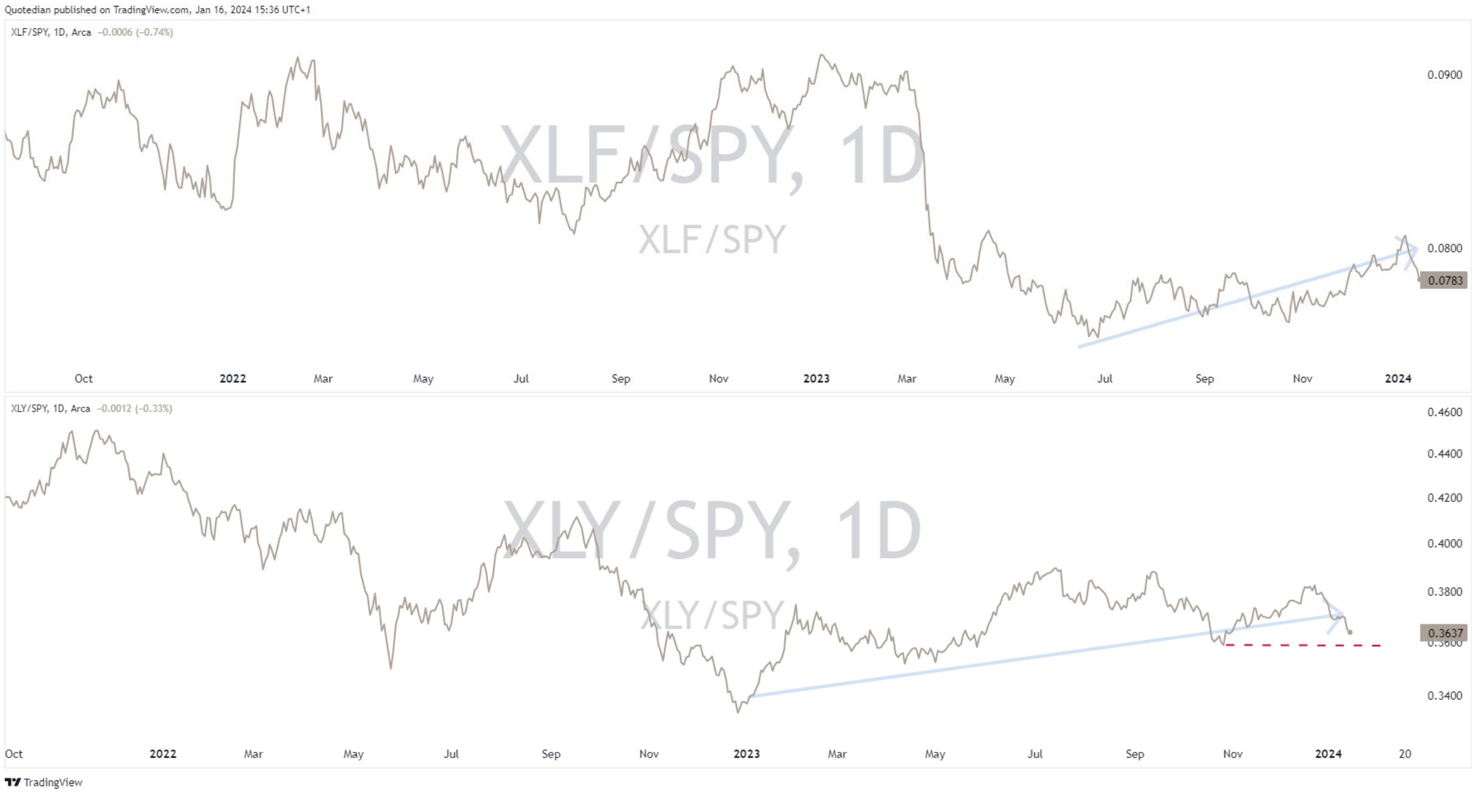


Source: StockCharts.com

Sector Focus

Early Cycle

Financial and Consumer Discretionary stocks are relative outperformers, in the case of the former since July and the latter since over a year now.



Sector Focus

Mid Cycle

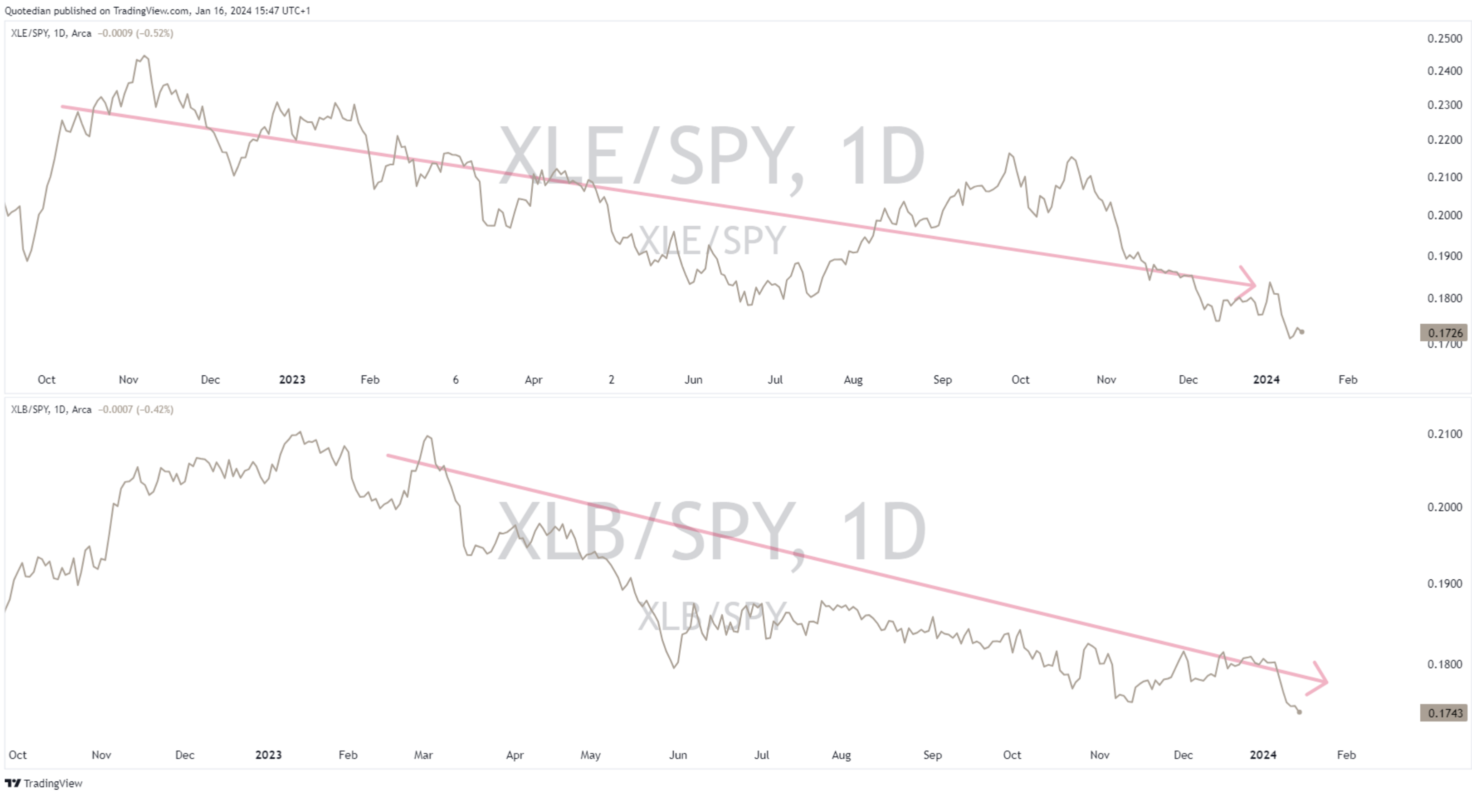
Technology (XLK) stocks, surely helped by the Mag 7, have been the strongest relative outperformer over the past twelve months.

Industrials (XLI) have been performing sideways and in theory should be the next sector to pick up on a relative basis.

Sector Focus

Late Cycle

Energy (XLE) and Materials (XLB) are clear relative underperformers, which fits our investment clock.

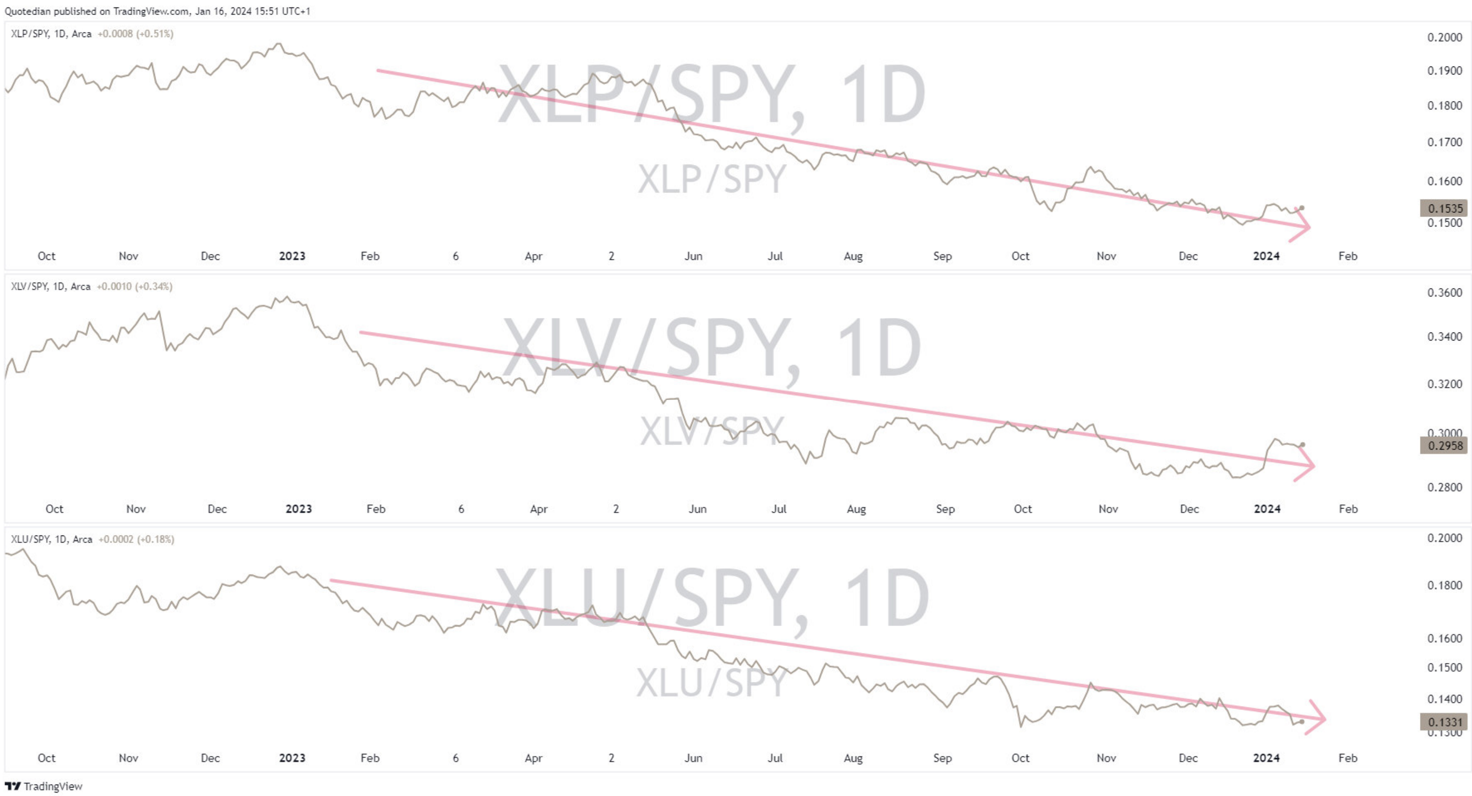


Sector Focus

Recession

Similarly, Consumer Staples (XLP), Health Care (XLV) and Utilities (XLU) have been relative underperformers too.

However, we are turning bullish on the health care sector, based on other factors (valuation, M&A activity, etc.) than the investment cycle.

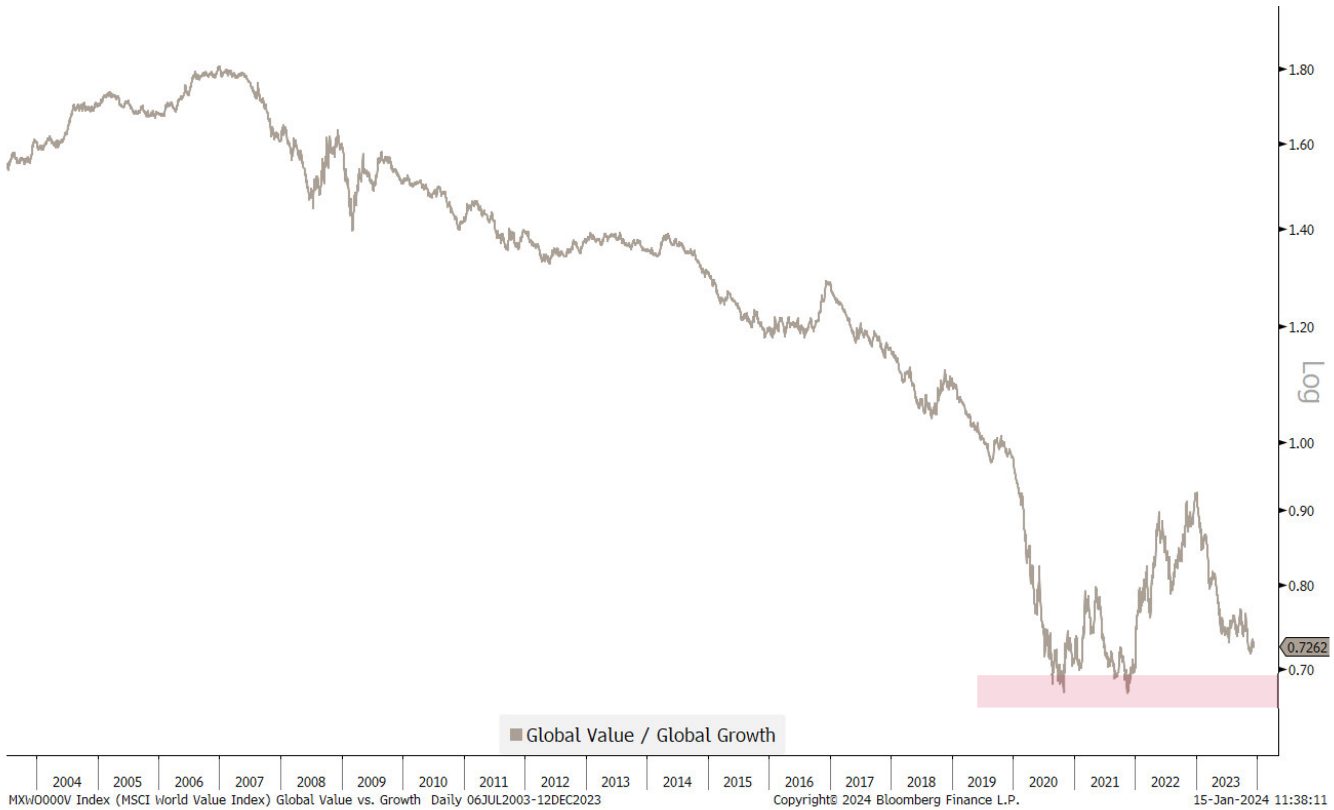


Style Focus

Value vs. Growth

The value versus growth debate continues to be a very short debate ...

Continue to overweight/prefer growth until told otherwise



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Fixed Income

CIO Office Chartbook

Bond Yield Rules

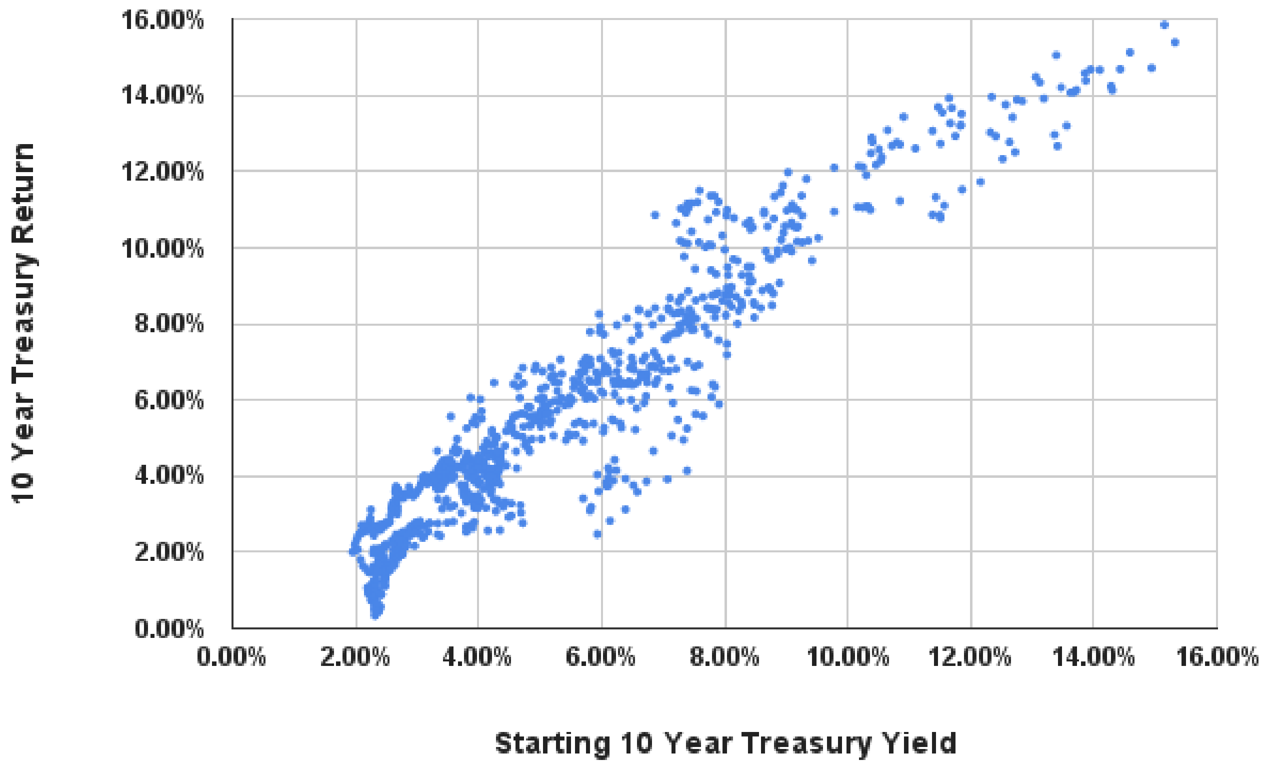
Starting 10-Year Yield and subsequent 10-Year Total Return

Total return is a concept often overseen by investors and especially on the bond side it is of vital importance.

As this chart shows, the higher the starting yield at the beginning of the investment period, the higher your total return will be.

Or, in other words, a lot of yield can work as buffer for capital losses.

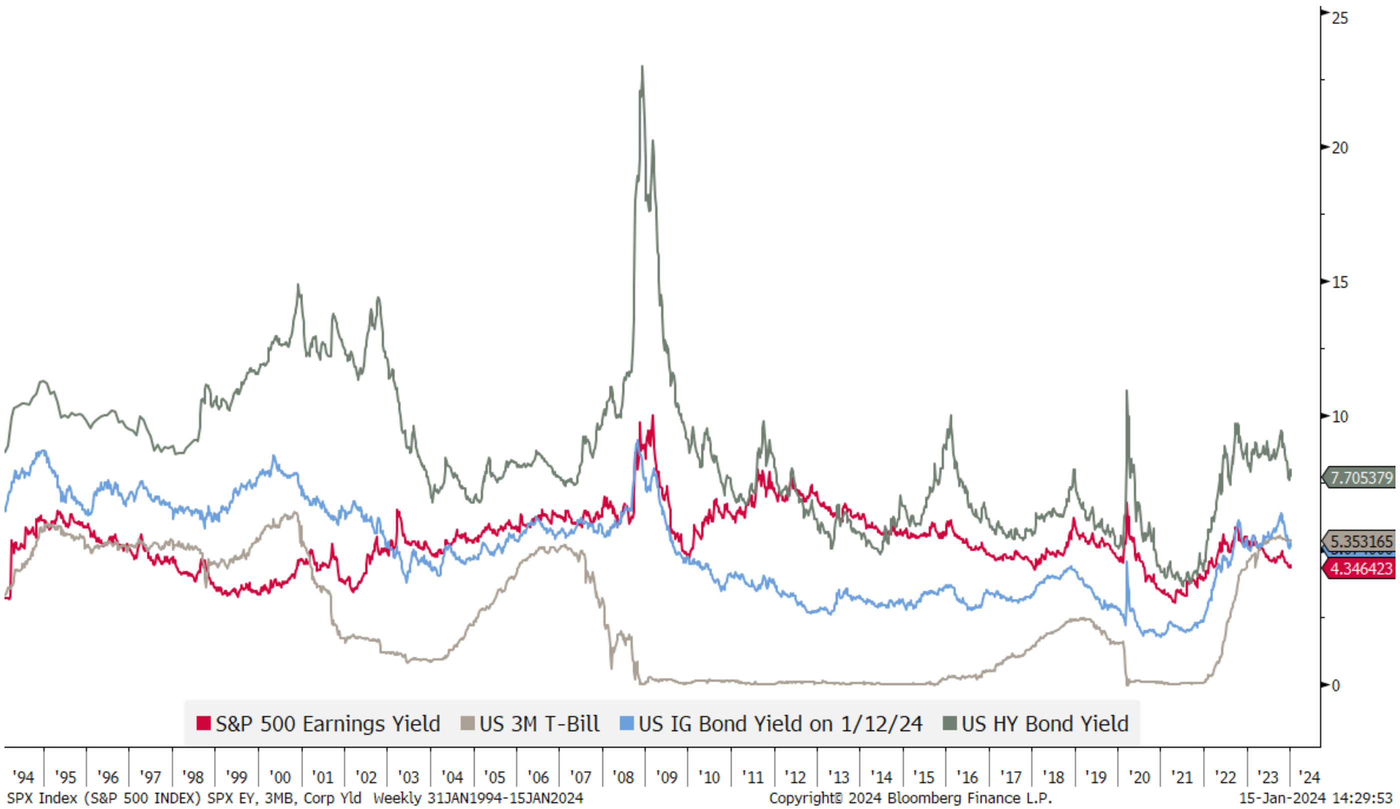
Today, starting at 4% yield, is better than three years ago where yields were hovering around 0%



Bond Yields

Attractive, at least on Paper

A second positive for bonds next to the higher starting yield is the relative attractiveness compared to equities. Treasury bills, investment grade and high yield corporate bonds all offer a partially substantial premium over the equity yield.



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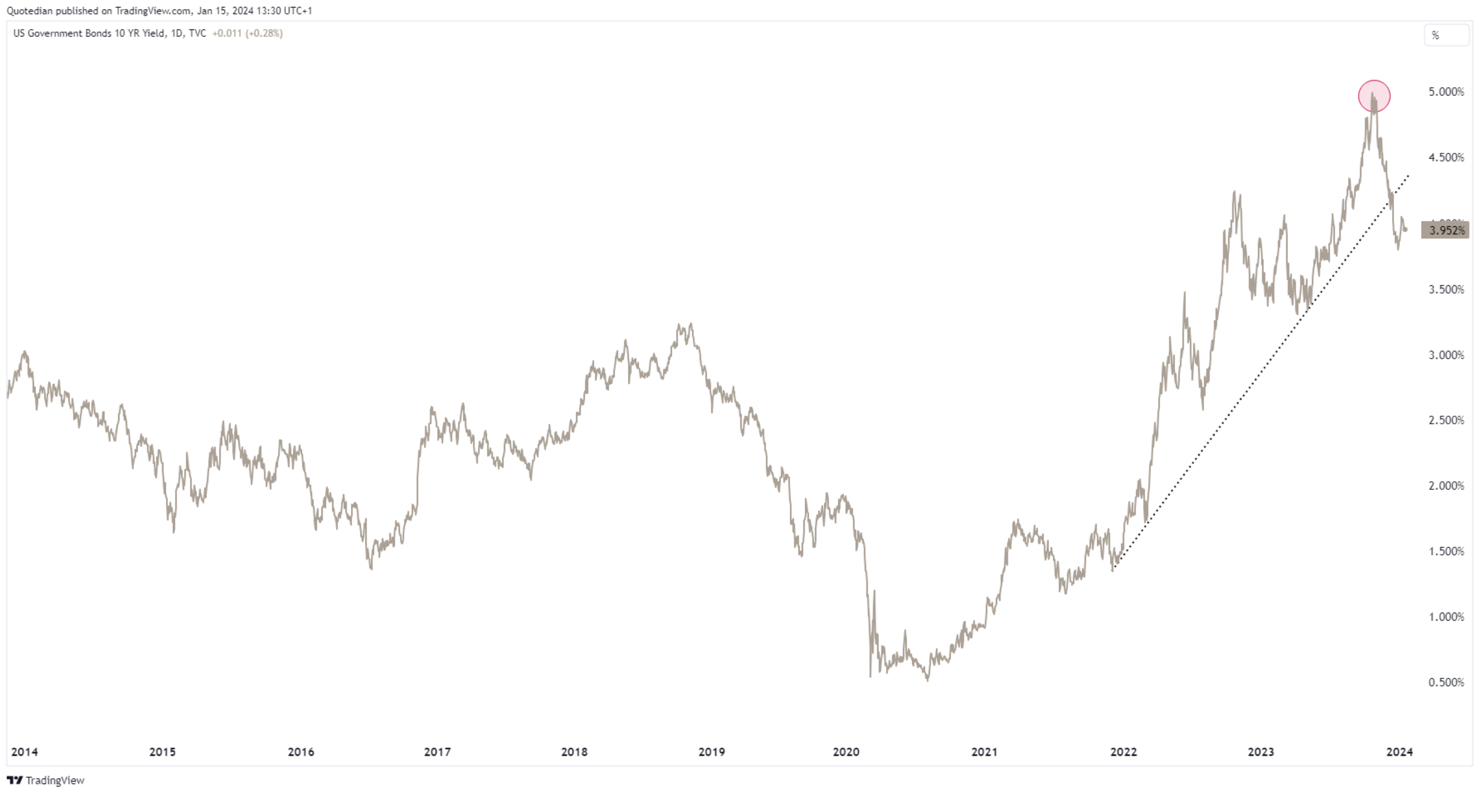
US 10-Year Benchmark Yield

Steam-rolling higher

Our call for an increase in bond duration at the beginning of Q4 last year (red circle) turned out the be extremely timely.

The intermediate uptrend (black dotted line) has been interrupted and a more complex consolidation seems to be unfolding.

Hence, total return considerations are extremely valuable here.



Source: TradingView, NPB Calculations

Fed Fund Futures

What do they know the Fed doesn’t know?

As already briefly highlighted on page 15, the market is already discounting seven(!) rate cuts for this year (as compared to the Fed which see three to four cuts).

Even more stunning, is that since last week’s inflation figures (mild upside surprise) the chances for May, June and July cuts have moved above 100%

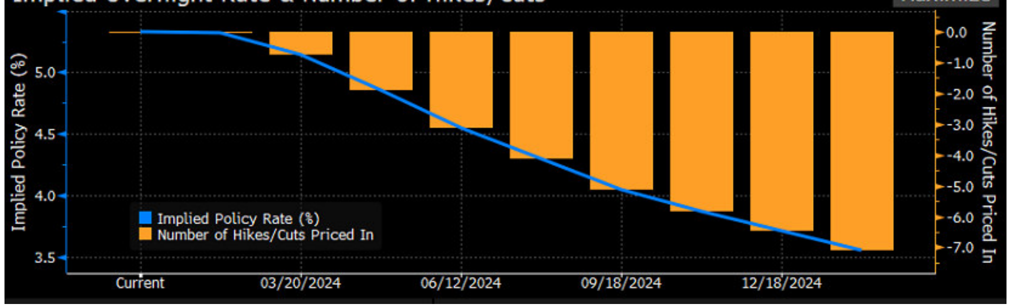
Region: United States » Instrument: Fed Funds Futures »

Target Rate 5.50 Pricing Date 01/15/2024

Effective Rate 5.33 Cur. Imp. O/N Rate 5.329

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
01/31/2024	-0.045	-4.5%	-0.011	5.318	0.250
03/20/2024	-0.733	-68.8%	-0.183	5.145	0.250
05/01/2024	-1.882	-114.8%	-0.470	4.858	0.250
06/12/2024	-3.104	-122.3%	-0.776	4.553	0.250
07/31/2024	-4.125	-102.1%	-1.031	4.298	0.250
09/18/2024	-5.123	-99.8%	-1.281	4.048	0.250
11/07/2024	-5.838	-71.6%	-1.460	3.869	0.250
12/18/2024	-6.473	-63.5%	-1.618	3.710	0.250
01/29/2025	-7.095	-62.2%	-1.774	3.555	0.250

Implied Overnight Rate & Number of Hikes/Cuts



Yield Curve

US 10-Year minus 2-Year Treasury Yield

If that market "prediction" turns out to be true, not all of it has been baked into yields/bond prices yet.

Least so in the steepness of the yield curve, which continues to be inverted.

This will be formidable and entertaining to observe in 2024

Yield Curve & Recession

To Land Or Not To Land, That Is The Big Question

As we discussed in our previous musings, it is not an inverted yield curve that precede recession, but rather the “de-inversion”, as rates normalize again across the term structure.

Will the Fed indeed pull off a no- or soft-landing?

Chances are not bad, BUT, this is also consensus …

Source: Bloomberg, NPB Calculations

US 10-Year Benchmark Yield

NPB | Neue Privat Bank

History does not repeat, but rhymes very often

Will the Fed and other Central Banks around the Globe ease to early and hence create the next wave of inflation?

Too early to tell, but definitely not to be dismissed.

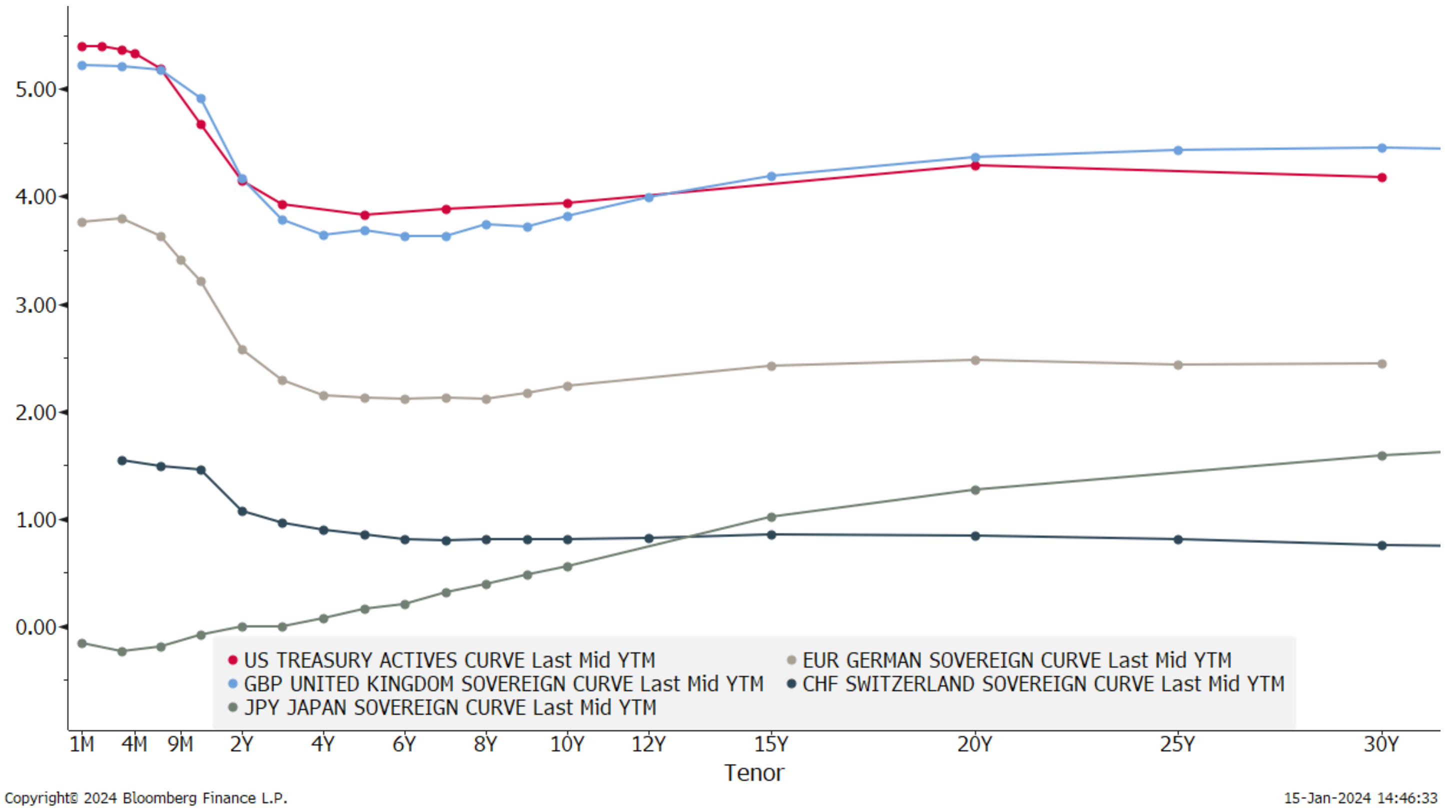
Source: TradingView, NPB Calculations

Yield Curves

International Comparison – Selected Developed

The USD and GBP curves continue to provide the highest yield, whilst the CHF and JPY curves are similarly low. EUR rates are spot on in the middle of the two 'extremes'.

Another observation of interest is that the Japanese Yen curve is the only non-inverted curve, with the BoJ being the only CB not to have hiked in the current cycle



Source: Bloomberg, NPB Calculations

German 10-Year Bund

No discussion about the trend direction here either

Whilst the ECB is trying to sound as hawkish as it can (Holzmann: “Shouldn’t count on rate cuts in 2024”), it is hard to imagine a world where the US cuts three to seven times and the ECB cut count is zero.

Source: Bloomberg, NPB Calculations

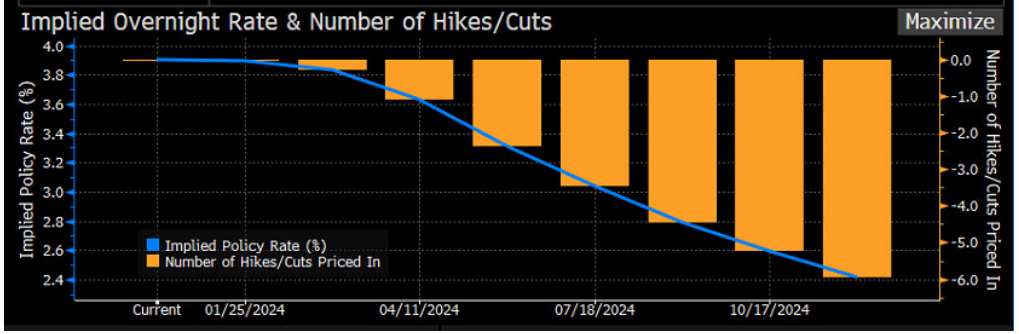
European Rates Futures

Is Mr Holzmann on the Holzweg?

… and Futures traders strongly disagree with Mr Holzmann!

Region: Eurozone »		Instrument: Overnight Index Swaps »	
Target Rate	4.0000	Pricing Date	01/15/2024
Effective Rate	3.9040	Cur. Imp. O/N Rate	3.903

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
01/25/2024	-0.033	-3.3%	-0.008	3.895	0.250
03/07/2024	-0.292	-26.0%	-0.073	3.830	0.250
04/11/2024	-1.085	-79.2%	-0.271	3.632	0.250
06/06/2024	-2.369	-128.5%	-0.592	3.311	0.250
07/18/2024	-3.467	-109.8%	-0.867	3.036	0.250
09/12/2024	-4.469	-100.2%	-1.117	2.786	0.250
10/17/2024	-5.229	-76.0%	-1.307	2.596	0.250
12/12/2024	-5.951	-72.2%	-1.488	2.415	0.250



German 10-Year Bund

Long-term Picture

In the bigger scheme of things, yields in Europe (proxied via the German Bund) could drop even below 1%, without really endangering the current secular upcycle.

Source: Bloomberg, NPB Calculations

European Yield Curve

Proxied via German Curve

The European (German) curve also continues to be inverted, even a bit more so than three months ago.

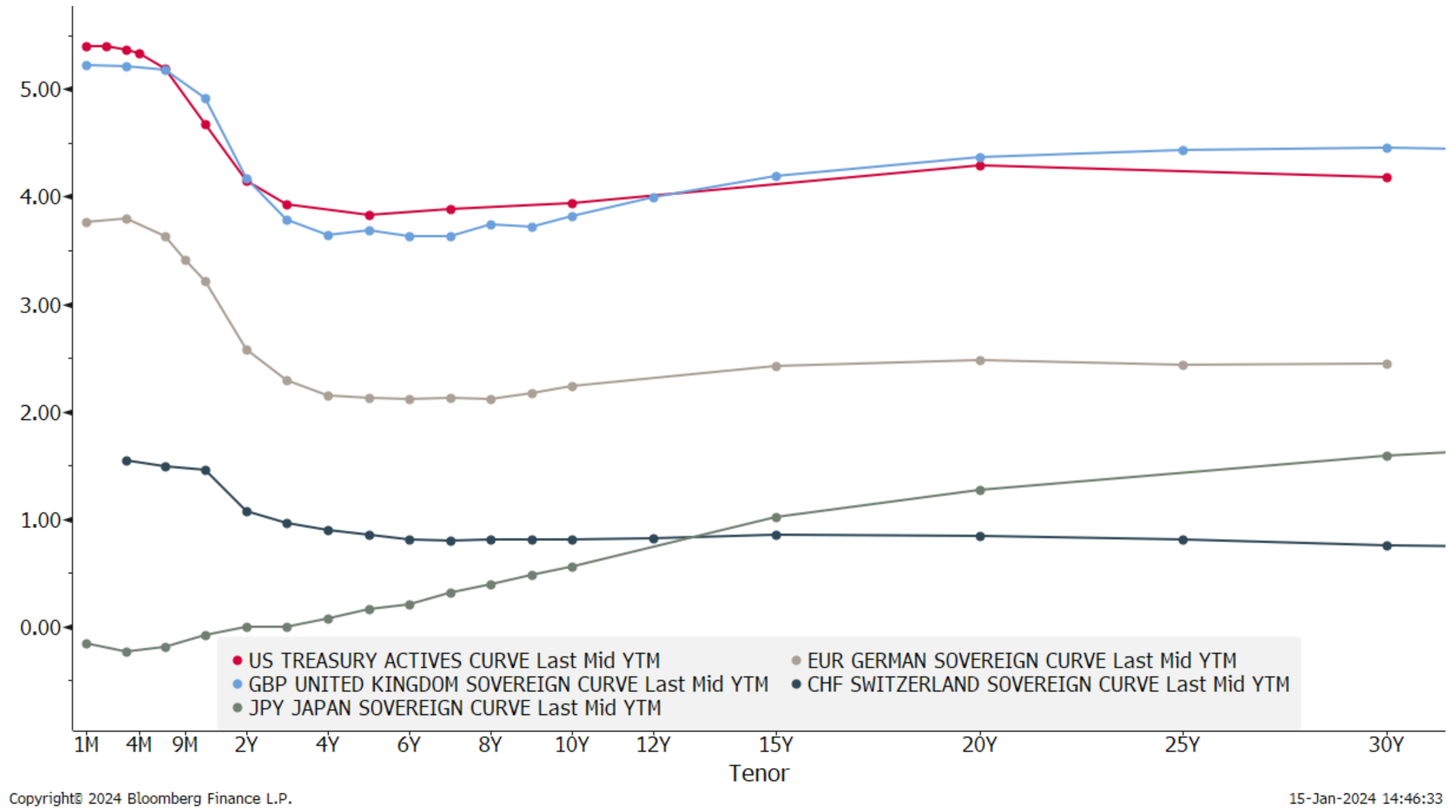
Source: Bloomberg, NPB Calculations

Yield Curves

International Comparison – Selected Developed

The USD and GBP curves continue to provide the highest yield, whilst the CHF and JPY curves are similarly low. EUR rates are spot on in the middle of the two 'extremes'.

Another observation of interest is that the Japanese Yen curve is the only non-inverted curve, with the BoJ being the only CB not to have hiked in the current cycle



Source: Bloomberg, NPB Calculations

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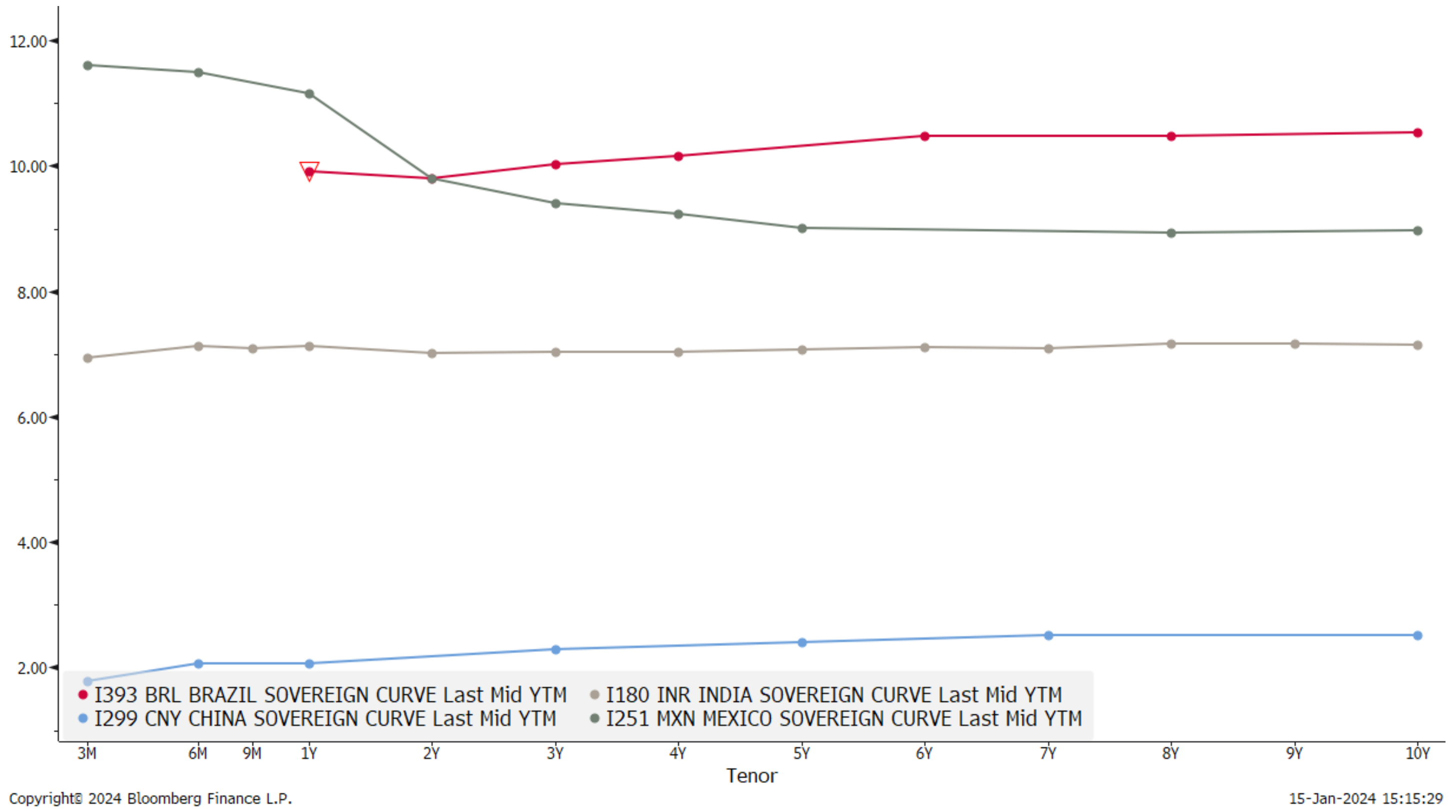
Yield Curves

International Comparison – Selected Emerging

The first observation here would be the difference in level of rates in China and other EM markets. This would raise the question, whether China, at least in terms of the bond market, is really still "emerging"?

The other observation would be that all curves, except for Mexico, exhibit a "normal" slope.



Source: Bloomberg, NPB Calculations

FX

CIO Office Chartbook

FX Forecasts

Nothing Dramatic Expected

Forecasters see a slightly higher Euro versus the US Dollar and the Swiss France.

Another consensus is for a higher Yen, to which we agree, but which will definitely need help from the BoJ.

	FX								
	12-2023	Q124	Q224	Q324	Q424	25	26	27	28
EUR/USD	1.10	1.10	1.10	1.11	1.12	1.15	1.17	1.17	1.17
USD/CHF	0.84	0.87	0.88	0.88	0.88	0.88	0.89	0.88	0.87
EUR/CHF	0.93	0.96	0.97	0.97	0.98	1.01	1.02	1.03	1.06
GBP/USD	1.27	1.26	1.26	1.27	1.30	1.29	1.34	1.30	1.25
EUR/GBP	0.87	0.87	0.88	0.87	0.88	0.89	0.88	0.90	0.92
USD/JPY	141.04	143	140	137	135	130	125	115	105
USD/INR	83.21	83.22	83.00	82.50	82.00	81.00	80.00	79.38	79.00
USD/CNH	7.13	7.15	7.10	7.05	7.00	6.80	6.60	6.50	-
AUD/USD	0.68	0.67	0.67	0.69	0.70	0.72	0.75	0.74	0.70
USD/CAD	1.32	1.35	1.33	1.32	1.31	1.28	1.26	1.26	1.26
EUR/NOK	11.22	11.40	11.30	11.15	11.00	10.90	10.80	11.00	-
EUR/SEK	11.14	11.25	11.28	11.24	11.15	10.79	10.70	11.00	-

Source: Bloomberg, NPB Calculations

US Dollar Index

Moving into the Apex

In our last CIO Outlook update at the beginning of October 2023, we warned of the US Dollar "wrecking ball" swinging again, and its possible implication on risky assets.

Luckily, shortly after $-strength started to vane and the index dropped right back to key support at 101.

Interpreting the chart here remains challenging. Best reading is a triangle formation, with a breakout either side possible setting the new longer-term trend.

Source: Bloomberg, NPB Calculations

EURO

Range bound

The EUR/USD cross has been range bound for the largest part of 2023, with two false breakouts either side.

Not worthwhile for now betting which side it will break for good. Wait for it, then follow …

Source: Bloomberg, NPB Calculations

Japanese Yen

Undervalued

On the long-run, the Yen is undervalued by about just any possible measure (e.g. PPP, z-score), but technically it could still move to 160. And god forbid it would move above that level!

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Japanese Yen

Technical Assessment

On the shorter-term chart (daily) 152 is rock solid resistance for now. However, the currency pair should not exceed 146.40 (147.70 max) to keep the current downtrend (uptrend for the Yen) valid.

On the other side, a drop below 141 would confirm downtrend continuation.

GBP/USD

Long-Term Cycle Chart

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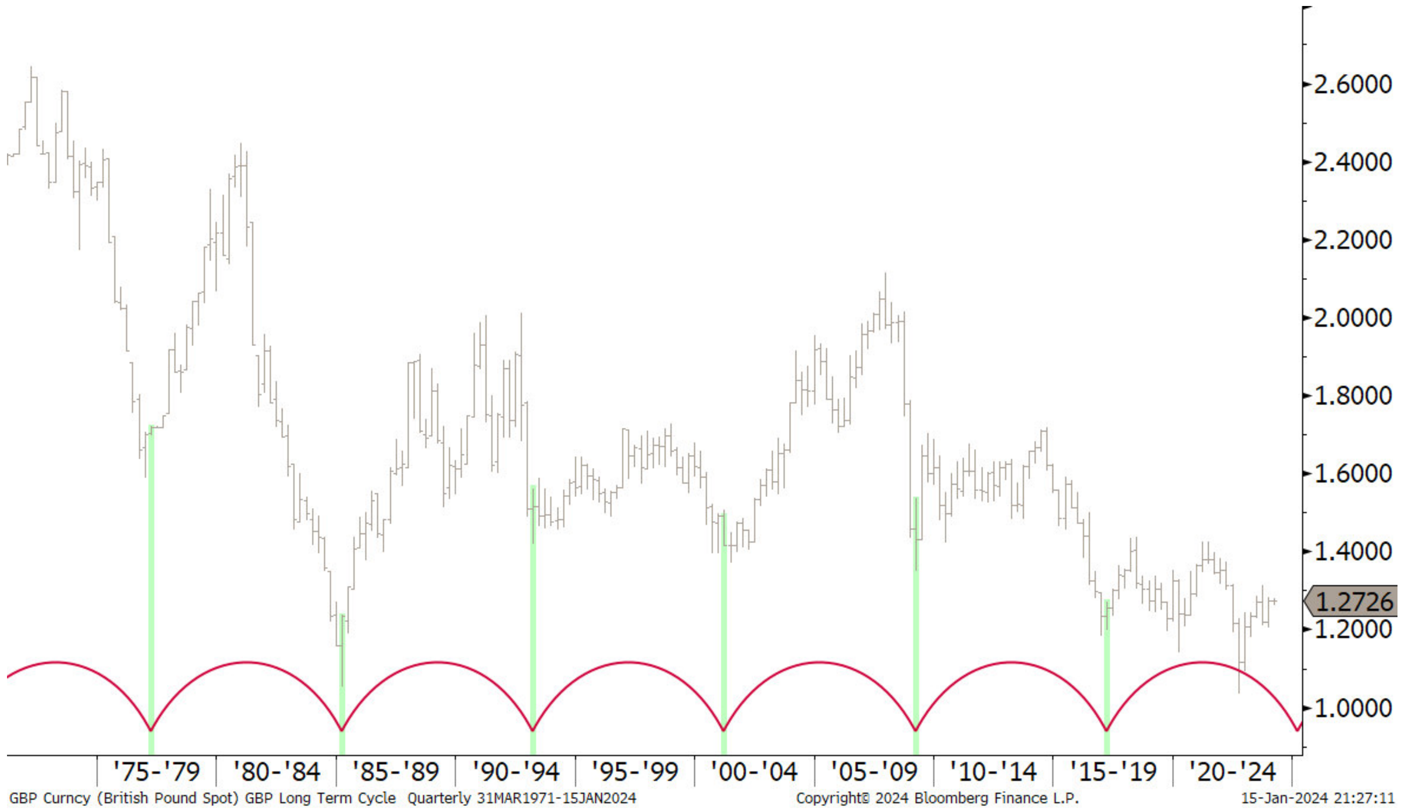
Our cycle work continues to point to a long-term bottom in Q1 of 2025.

Until then, remain prudent with GBP exposure



Source: Bloomberg, NPB Calculations

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Commodities

CIO Office Chartbook

Commodities

Super-Cycle or Mini-Cycle

The commodity complex is wide and diverse, but as a whole, measure by the Bloomberg Commodity index (BCOM) is now at clear and present danger of losing any argument for a Supercycle.

95.50 and 90 are the last bastions of support.

Source: Bloomberg, NPB Calculations

Precious Metals

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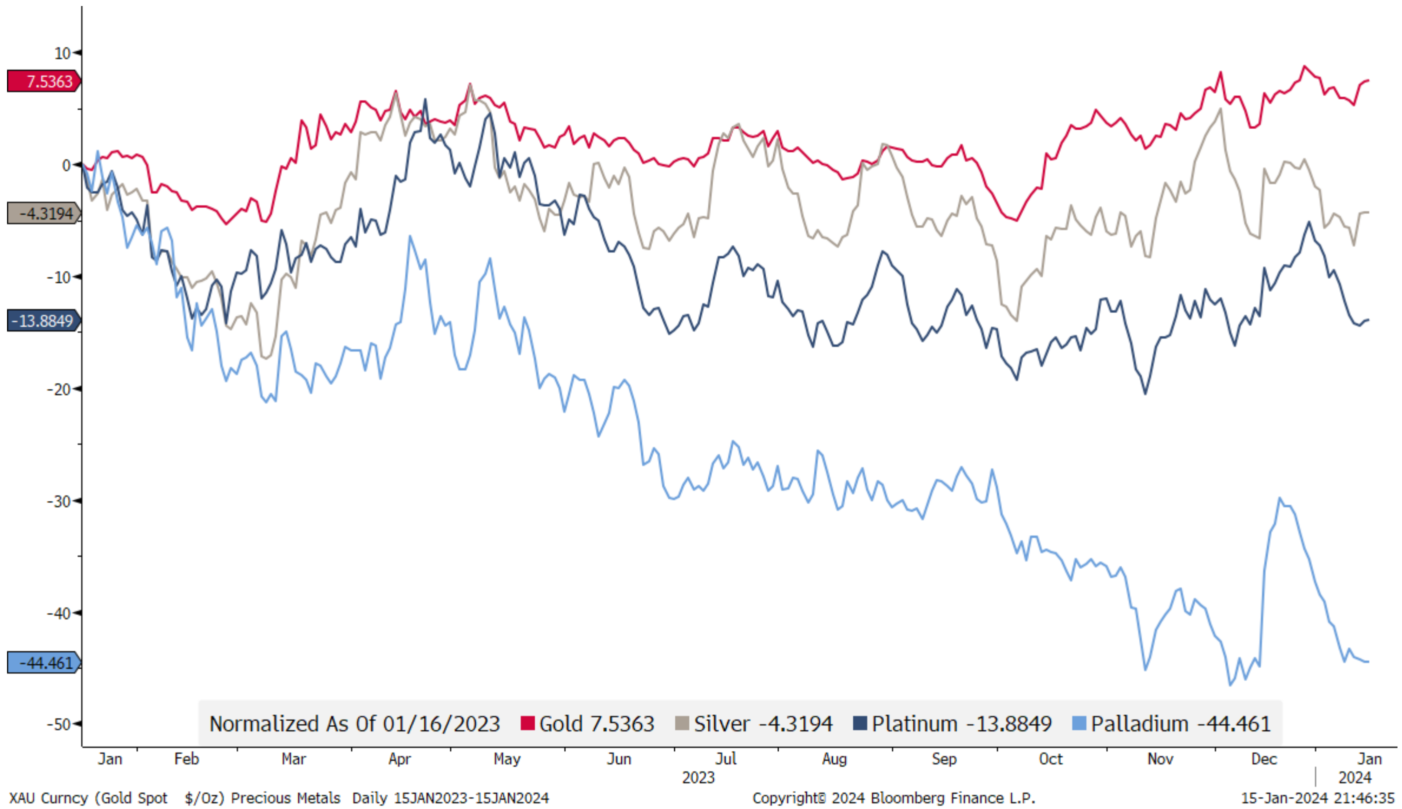
Not all that shines is Gold

Over the past 12 months, the best (Gold) and worst (Palladium) performing precious metals have managed to build up a performance spread in excess of 50%.

Choose your metal wisely …



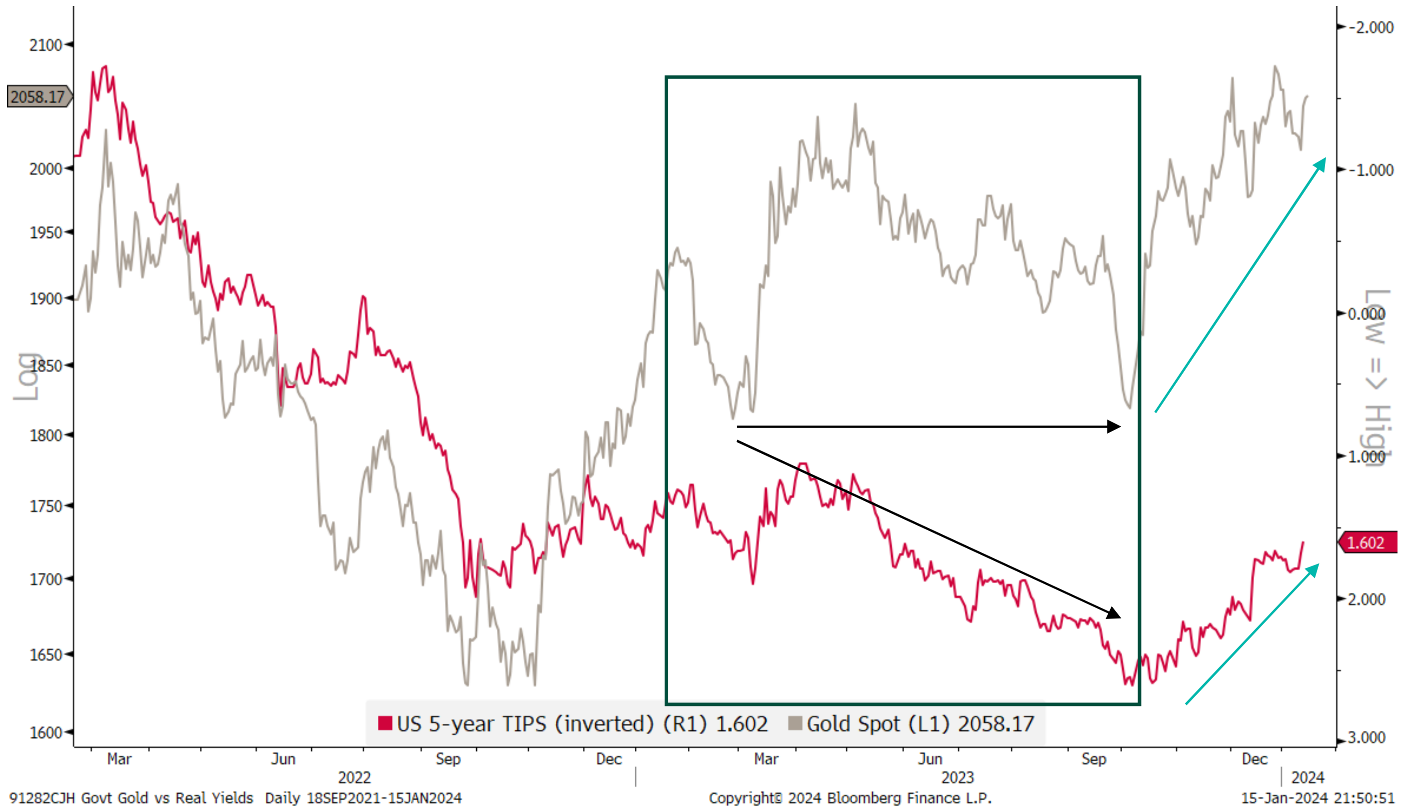
Source: Bloomberg, NPB Calculations

Gold

Gold and Real Rates

Gold's (grey, lhs) resilience during time of sky-rocketing real yields (red, inverted, rhs) has been astonishing (black box and arrows) and hinted to a strong gold rally (green arrows) once real yields would top out (bottom out on this chart).

And this is indeed what happened.



Source: Bloomberg, NPB Calculations

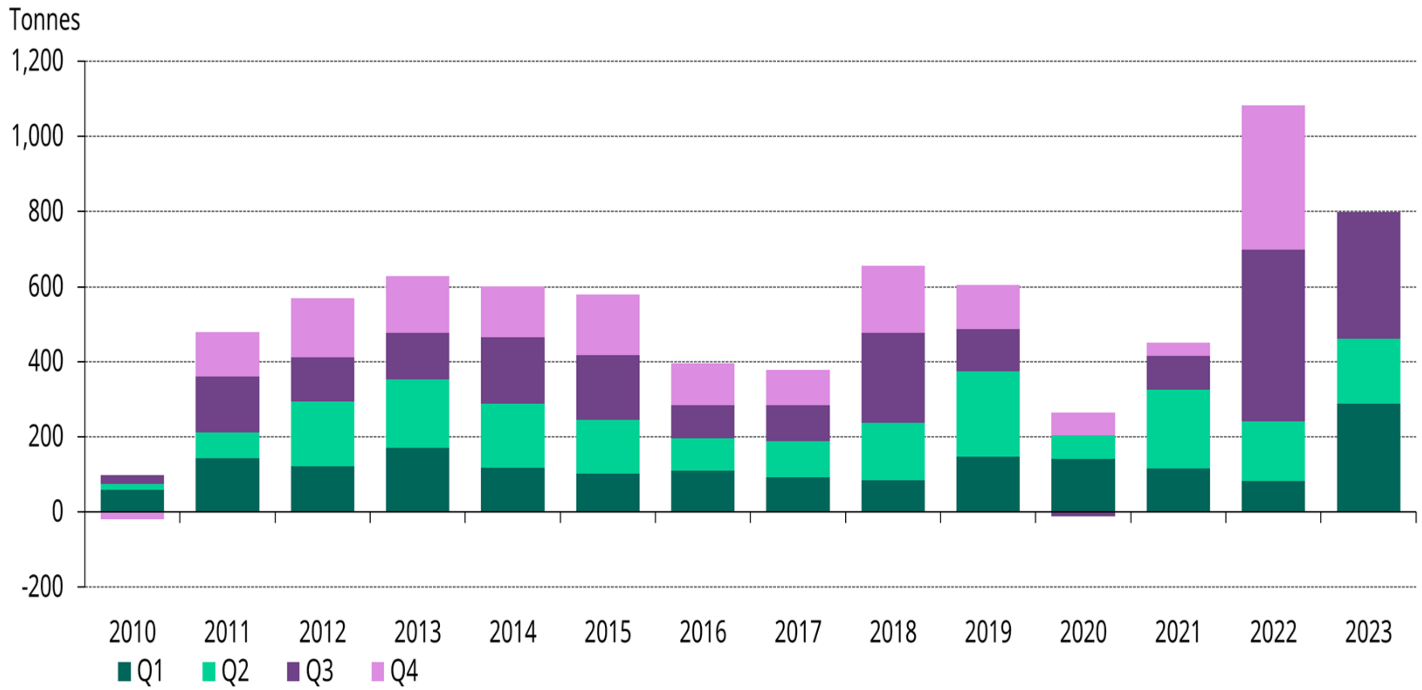
Gold

NPB | Neue Privat Bank

Central Bank Buying has gone from Strength to Strength

Central Bank gold demand has been strong since 2011 but has exploded post-Covid and especially after Russia's CB assets held with Fed were frozen in 2022.

It is unlikely this trend will reverse anytime soon.

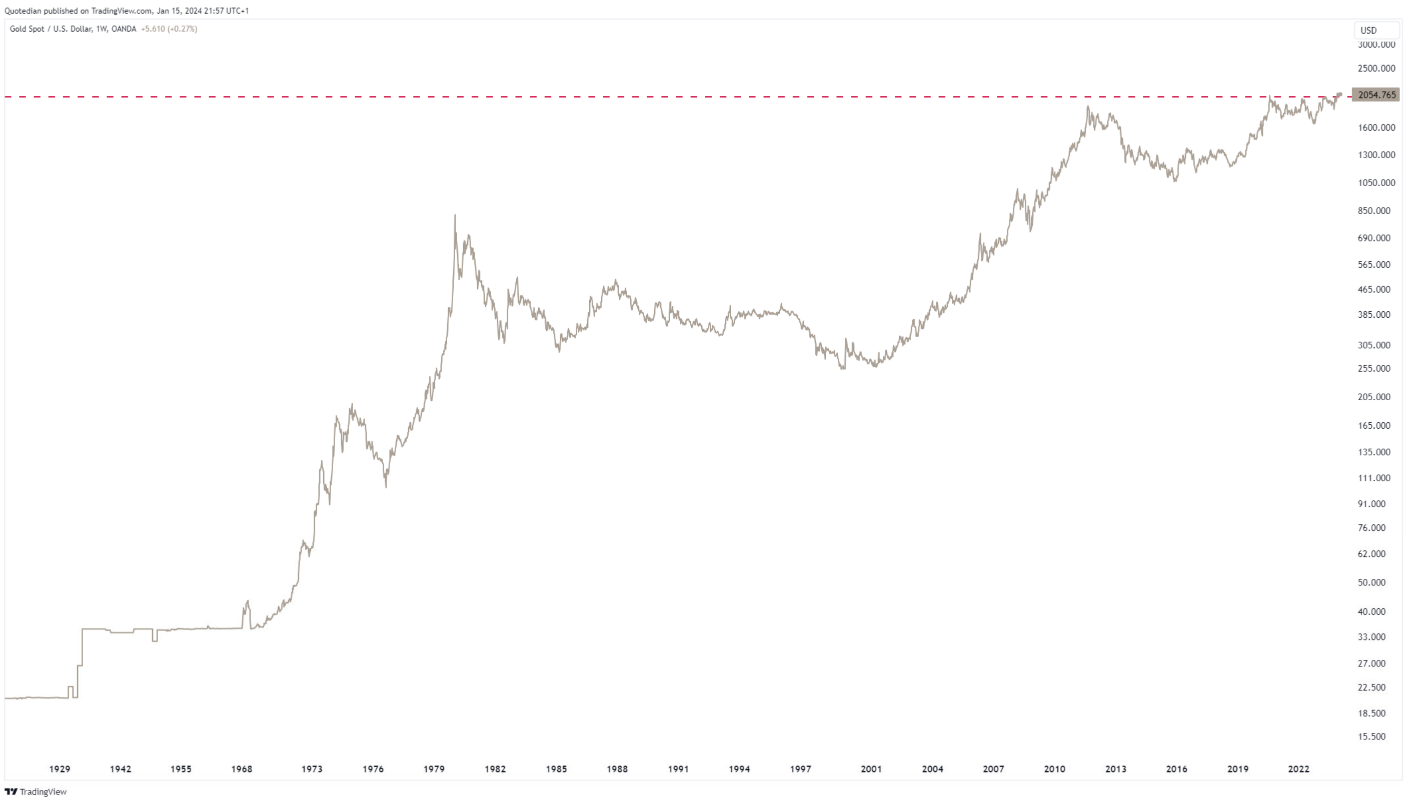


Source: World Gold Council

Gold

Long-Term

On the long-term chart, Gold is hovering around all-time highs and as the saying goes: “there is no such thing as a triple top”



Crude Oil

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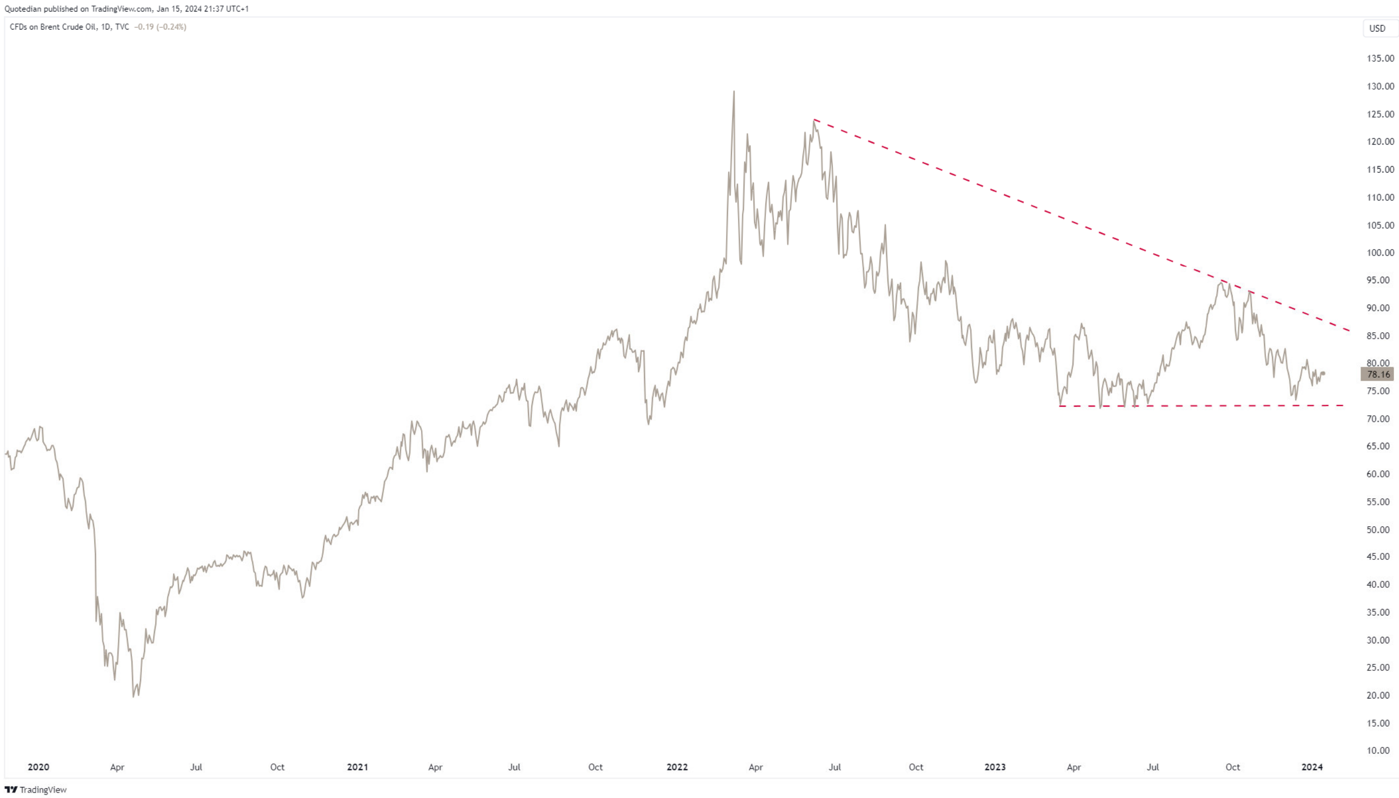
ICE Brent Futures

The chart of Brent crude oil futures is clearly not clear …

Not unsimilar to the EUR/USD chart a few slides ago, the best possible analysis seems to be that oil is moving within a triangle and is close to the apex, which would call for a resolution either side. Stay tuned …



Source: TradingView, NPB Calculations

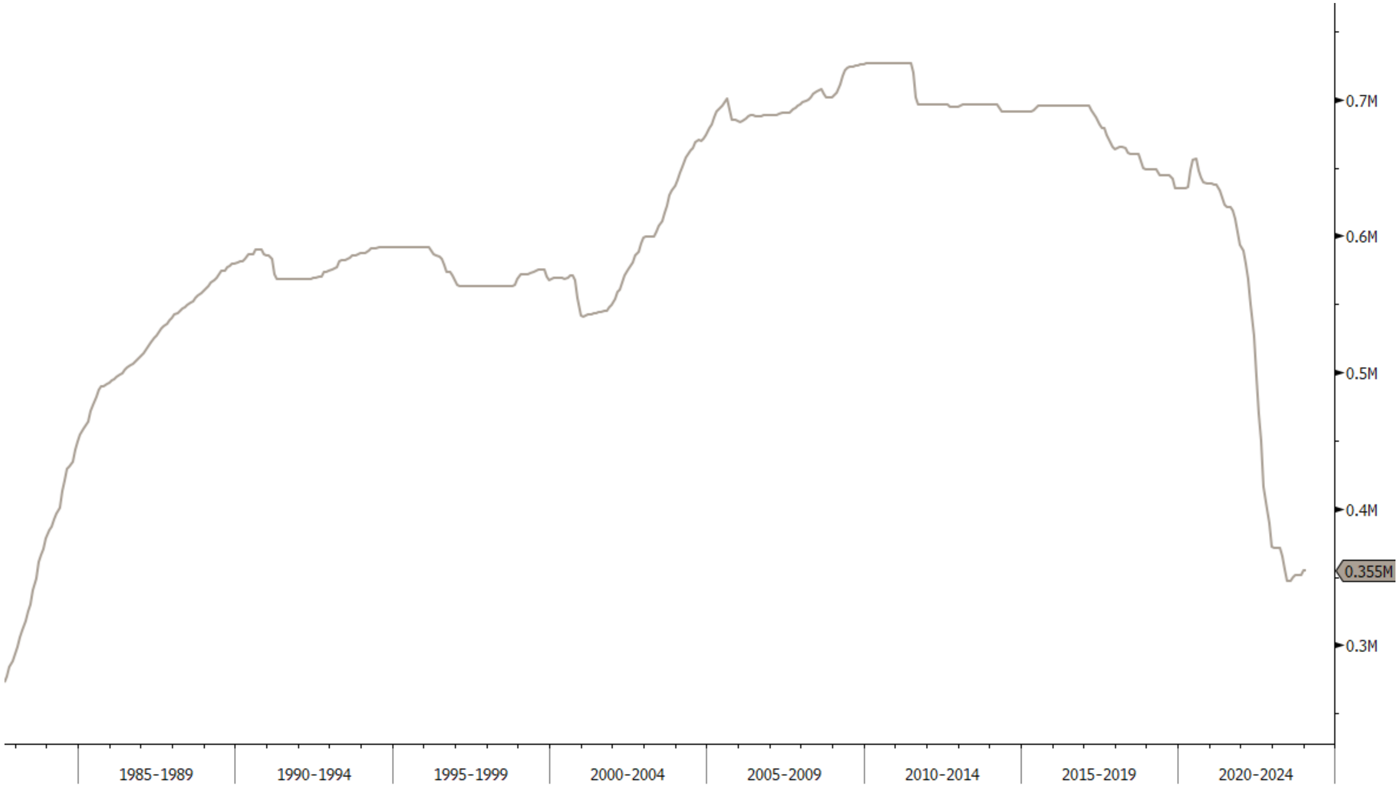
Crude Oil

US Strategic Petroleum Reserve

The DOE's Strategic Petroleum Reserve (SPR) continues to be very depleted.

Biden's strategy to empty the SPR worked surprisingly well to keep the oil price in checkers last year.

Eventually, the SPR has to be restocked, but don't count on it in an Election year.



DOESSPR Index (DOE Strategic Petroleum Reserve (SPR) Total Inventory Data) NPB Line Chart (grey) Monthly 22JAN1994-15JAN2024 Copyright© 2024 Bloomberg Finance L.P. 15-Jan-2024 21:43:07

Uranium

There's a message there

One of the best performing commodities last year was Uranium – and only few are aware of it.

As the world tries to turn electric, there is only one "clean" source of energy and it is starting to show in the price.

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Appendix

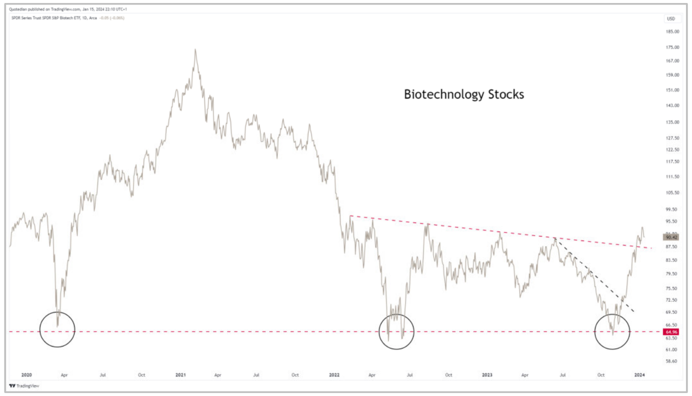
CIO Office Chartbook

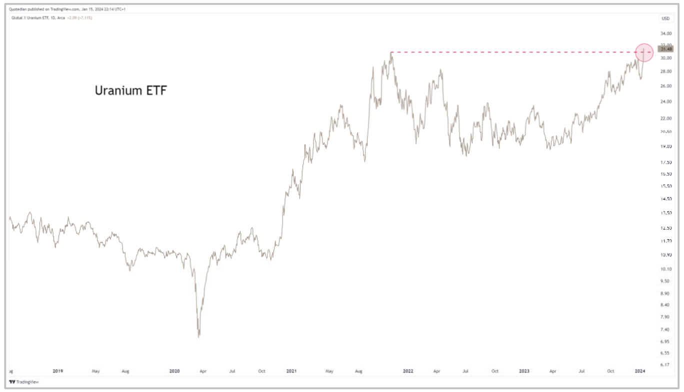
Opportunistic Approach

Sample Set

As mentioned in our executive summary, in a year where opposing forces (growth vs recession vs inflation) could possibly provoke a stall mate (aka muddle through) the successful investor will consider tactical opportunities to complete a successful asset allocation.

We will show such tradeable ideas at a higher frequency over the coming twelve months and beyond.





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Glossary

Initialism	Term	Explanation
PMI	Purchasing Managers' Index	The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions are expanding, staying the same, or contracting as viewed by purchasing managers. The purpose of the PMI is to provide information about current and future business conditions to company decision-makers, analysts, and investors.
AAII	American Association of Individual Investors	The American Association of Individual Investors (AAII) is an investor education organization. It is a membership-driven nonprofit with local chapters throughout the United States.
CPI	Consumer Price Index	The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. 1U.S. Bureau of Labor Statistics. "Consumer Price Index.“
CNN Fear and Greed Index	CNN Fear and Greed Index	The Fear and Greed Index was developed by CNN Business to measure how emotions influence how much investors are willing to pay for stocks. The index is calculated daily, weekly, monthly, and yearly and is based on the logic that excessive fear will drive share prices down, and too much greed will drive prices up.
PPP	Purchasing Power Parity	A popular macroeconomic analysis metric to compare economic productivity and standards of living between countries is purchasing power parity (PPP). PPP is an economic theory that compares different countries' currencies through a "basket of goods" approach. According to this concept, two currencies are in equilibrium—known as the currencies being at par—when a basket of goods is priced the same in both countries, taking into account the exchange rates.

Source: Investopedia

Glossary

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Initialism	Term	Explanation
Core Inflation	Core Inflation Rate	Core inflation is the change in the costs of goods and services, but it does not include those from the food and energy sectors. This measure of inflation excludes these items because their prices are much more volatile. It is most often calculated using the consumer price index (CPI), which is a measure of prices for goods and services.
Halloween Indicator	Halloween Indicator	The Halloween strategy, Halloween effect, or Halloween indicator is a market timing strategy based on the hypothesis that stocks perform better from Oct. 31 (Halloween) to May 1 than they do from the beginning of May through the end of October.
NPB Liquidity Index	NPB Liquidity Index	Fed Total Assets – (Treasury General Account + Fed Reverse Repo)

Source: Investopedia

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