NPB CIO Office Update

Quarterly Asset Allocation Views – Q1 2024

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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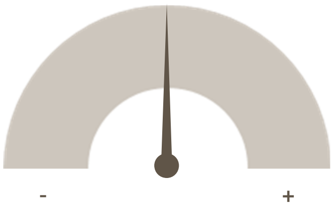
CIO Office Global Scenarios

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*

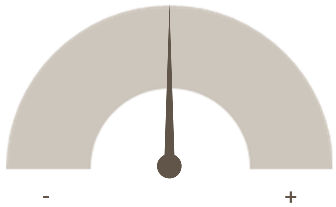
NPB Global asset allocation views (6-12m outlook)

Cash & Money Market Instruments



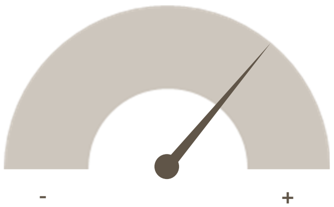
We remain neutral on money market instruments given the attractive risk-return dynamics, but are aware of the increasing roll-over risk (i.e. lower yields over the coming months to quarters)

Precious Metals



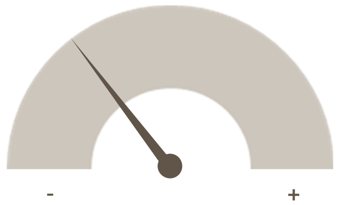
Gold continues to deserve at least a neutral weighting in any investor's portfolio as a hedge against fiat-currency debasements

Fixed Income



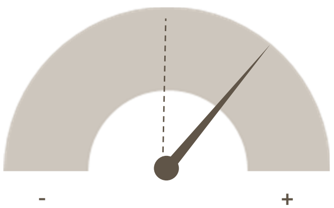
We remain overweight fixed income, however, currently not following up on the duration expansion we initiated three months ago. Total returns remain attractive for treasuries, IG and HY in the recent history (15 years) context

Commodities



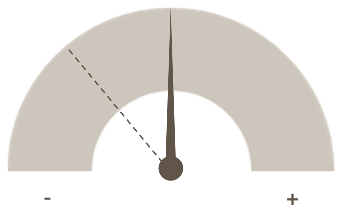
Despite our increased optimism for a soft landing, we think it is still too early to upgrade "physical" commodity exposure. However, we see opportunities in commodity stocks (e.g. metals, energy, others)

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)

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		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		Globally low unemployment figures and some (for the employee) positive wage pressure is keeping the consumer alive and kicking. Continue overweight for now.
Communications		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		Big Tech continues to rule, but smaller tech is finally also catching up on the back of lower interest rates. Remain OW.
Industrials		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		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		Materials stocks are rather a late cycle investment, and it is too early to OW
Healthcare		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		Once the path of interest lower is confirmed, we will bring Utility stocks back to Neutral weight.
Consumer Staples		Cheap and defensive in nature, it is still too early to upgrade the Staples' rating.
Real Estate		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)

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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