NPB CIO Office Update

Quarterly Asset Allocation Views – Q2 2022

Neue Privat Bank

Asset allocation highlights

> We reduce our exposure to equities to neutral and increase our cash allocation given increased tail risks.

> Within equities, we prefer lower beta markets, such as the US, over higher beta markets, like the euro-zone and emerging markets.

> We maintain our contrarian overweight on Japan, given a valuation discount and an improving earnings outlook.

> Sectorally, in light of increasing inflation rates, we have a bias towards defensive and structural growth sectors, with a focus on companies with pricing power.

> Within fixed income we remain underweight duration and prefer taking credit risk exposure.

> We maintain an overweight to inflation hedges, such as real assets and commodities.

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Global asset allocation views

Six to twelve-month outlook

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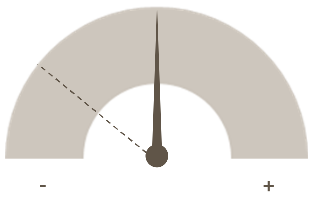
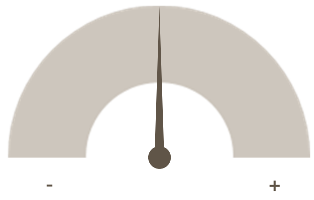


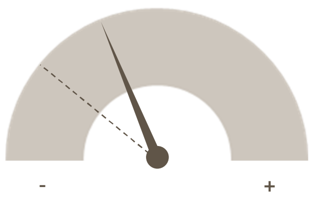
Cash

We move to neutral on cash in order to build up a cushion against volatility in this uncertain backdrop.



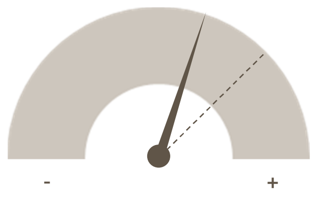
Precious Metals

We remain neutral on gold. We like its defensive characteristics as a risk mitigator in portfolios, however, we see rising real yields and a high valuation as a headwind to the metal.



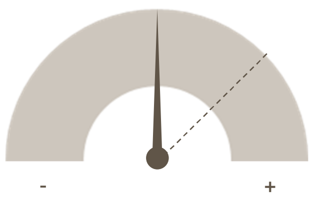
Fixed Income

We stay underweight fixed income on the grounds of high valuations, falling liquidity and the beginning of a rate tightening cycle. However, we reduce our underweight given the increase in rates.



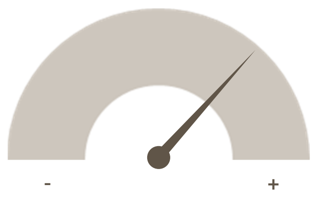
Commodities

We stay overweight commodities but reduce our overweight on the grounds of recent strength. We anticipate oil prices to remain supportive, given the structural under investment in the oil economy. We also have a preference for industrial metals which feed into secular themes, such as EV mobility.



Equities

We lowered our recommendation for equities to neutral. The macro environment of rising inflation and a slowing economy does not support earnings growth. Higher input costs from both materials and wages will put downward pressure on profit margins at the same time as revenue growth may be slowing.



Alternatives & Real Assets

We remain overweight. We favour real assets, such as property, as a hedge against high inflation. We seek exposure to prime real estate in the best locations, where demand is high and vacancy rates are low, as well as infrastructure in secular growth sectors (such as life sciences, data storage, etc.).

Current view — Previous view (if different)

Global tactical views

Six to twelve-month outlook

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Equities	View	Commentary
United States		We are modestly overweight on US equities. Fundamentals remain better than other developed markets. We prefer more value oriented sectors with high free cash flow, given the potential pressure on margins in the coming quarter.
Europe		We move to underweight on European equities. High inflationary pressures exacerbated by the war in Ukraine, coupled with falling consumer and business confidence, will impact the region. Also, Europe is a higher beta market and subsequently suffers more in times of uncertainty.
Switzerland		We are neutral on Swiss equities due to the stretched valuation in larger companies.
Germany		We move to underweight on German equities. Sentiment remains downbeat, given falling consumer purchasing power on the back of rising energy prices and concerns over stalling growth.
UK		We are neutral on UK equities. We favour the more defensive makeup of the UK market with a large allocation to pharmaceuticals and consumer staples. However, we are mindful that the valuation discount with other developed markets is now less pronounced.
Japan		We are overweight Japan on the grounds of valuation and earnings momentum. With the fiscal year soon to end we anticipate further evidence of solid corporate fundamentals supporting our contrarian view.
China		We are underweight China. The PBOC's regulatory clampdown; pursuit of common prosperity policies coupled with a fragile property market have led to weaker growth expectations. In addition, the government's pursuit of a zero-COVID policy with imposed lockdowns further weigh on economic activity.
Emerging Markets		We move to neutral based on more compelling valuations than other parts of the market. We favour commodity exporting countries in a period of high inflation.
Asia ex-Japan		We are neutral on Asia. Imposed lockdowns due to a relatively low vaccination rate coupled with supply chain issues weigh on the region in the near term. Furthermore, a slowing Chinese economy dampens the outlook for Asian markets. India remains a standout due to structural tailwinds and improving liquidity with a rise in IPOs.
GCC Countries		We are neutral based on valuation. The GCC has benefited from being a global supplier of oil and having successful vaccination rollout programmes, which have strengthened fiscal budgets.

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

Fixed Income	View	Commentary
Government		We are underweight sovereign bonds given an expectation of further interest rate hikes and a fall in liquidity with the end of government bond purchases. We would caution on long duration positions until at least real yields are higher and the yield curve has steepened to more attractive levels.
Inflation Protected		We are underweight US TIPS given that US break evens are close to all-time highs and thus valuations are prohibitively expensive.
Investment Grade		We are neutral on investment grade bonds. Global corporate credit spreads have not reflected the pickup in government yields and as such are trading at rich valuations.
High Yield		We stay overweight on high yield on a relative basis given our expectation that default rates will remain benign. Despite tighter spreads vs. history, we find opportunities in the cross over space between high yield and investment grade bonds.
Emerging Marktes		We are overweight dollar denominated emerging market debt. Coupons are relatively more attractive to developed markets. However, selectivity is key given potential resurgence in political risks and COVID-19 outbreaks.
GCC Countries		We are overweight the GCC relative to the developed market. Fiscal budgets have improved due to positive cash flows, leading to reduced leverage in the system, resulting in a more stable credit outlook.

Currencies	View	Commentary
CHF		We are overweight CHF structurally given the financial and political health of the country. There have been discussions that the currency may have lost some of its safe haven status given its participation in Western sanctions against Russia, however, we still think the currency is well supported in an uncertain backdrop.
EUR		We move to neutral on the EUR. The EUR has been impacted by the sanctions on Russia with rising energy prices rapidly shrinking the EUR region's current account surplus. However, as a result of the crisis, political unity has strengthened, making a EUR collapse less likely.
USD		We are overweight the dollar. Positive momentum continues to support the currency in uncertain geo-political times. Furthermore, growth prospects of the US economy are relatively favourable compared to other developed countries.
GBP		We move to neutral on the pound. The decline in purchasing power and the overhang of Brexit on the economy means the Bank of England will be cautious about further rate hikes, which tempers our view on the currency.

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