NPB CIO Office Update

Quarterly Asset Allocation Views – Q3 2023

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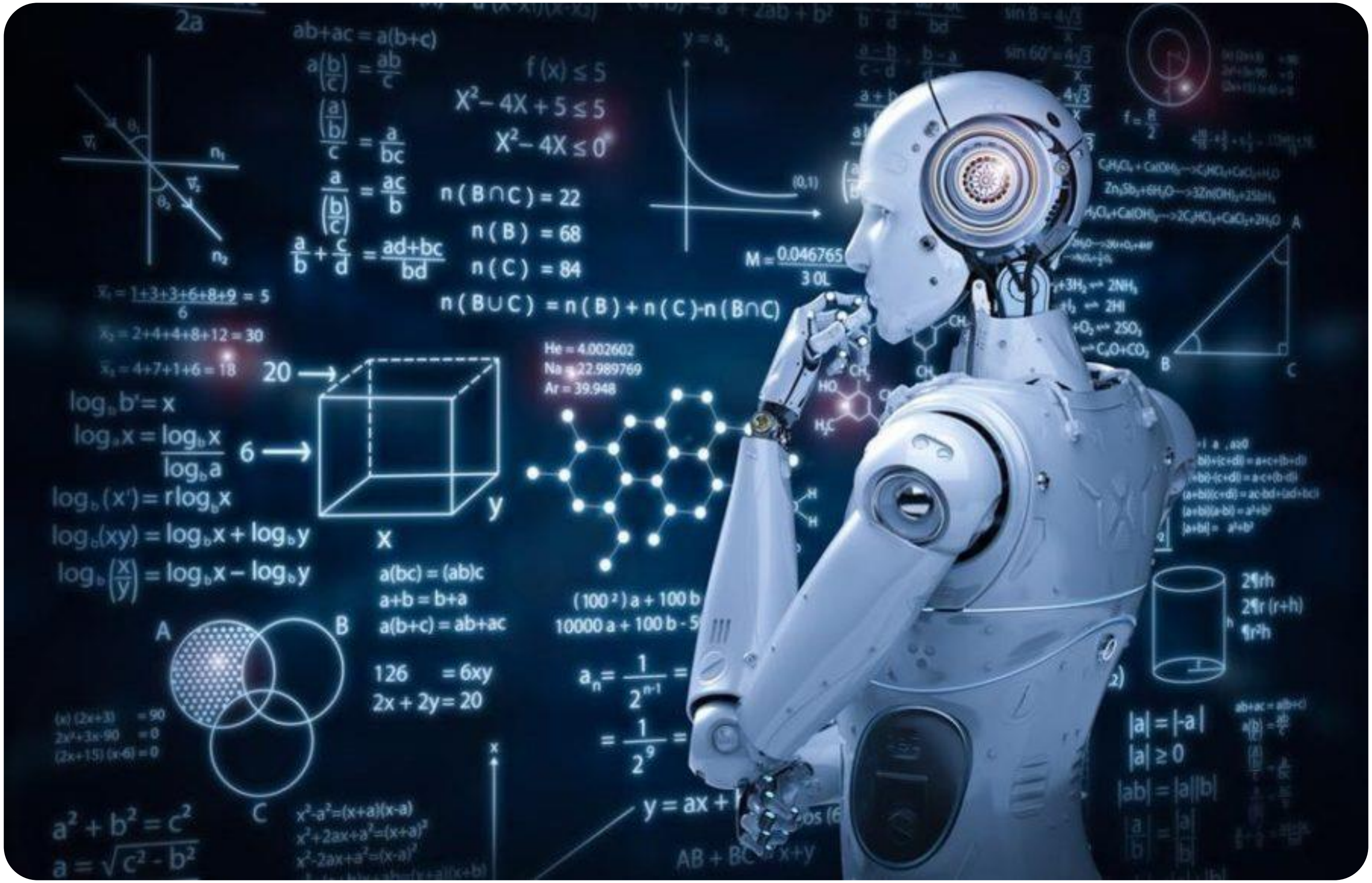

"Strategy without tactics is the slowest route to victory.
Tactics without strategy is the noise before defeat."

Sun Tzu

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Executive Summary

- The narratives over the past three months have been dominated by the rise of Artificial Intelligence (AI), further geopolitical rumblings out of Russia, China and Taiwan and a surprisingly resilient economy and stock market
- We remain overweight money market instruments given the attractive risk-return dynamics
- We also keep an overweight in the fixed income space but concentrate on the very short end (1-3 year) of the curve
- In equities, we have the intention to move overweight but believe a better entry point lays ahead
- We downgrade Chinese equity exposure to underweight in favor of a new overweight in Japanese equities
- We move temporarily to neutral on precious metals as elevated real rates pressure this segment

NPB Investment Committee

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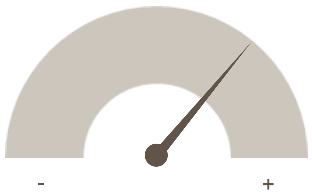
CIO Office 2023 Global Scenarios

Geopolitical and macroeconomic assessment

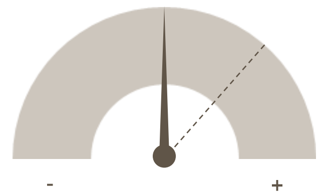
	Base Case	Best Case	Worst Case
Russian War	Gridlock; neither side makes notable progress, war goes on	Ceasefire; peace talks	Nuclear arsenal falls into wrong hands during a civil war and/or NATO involvement escalates
Energy	Global energy crisis is adverted; continuous adaption of alternative energy sources are supportive to economy	Better infrastructure (e.g. EU LNG) and faster than expected adoption of alternative sources keep fossil fuel prices low	Rising geopolitical tensions and chronic underinvestment in traditional energy sources cause prices to rise dramatically
AI/Digitalisation	Gradual adoption of AI & Digitalisation further increases productivity	Much faster than expected adaption of new technologies leads to a productivity boost and a new golden age	Overregulation leads to much slower adaption and hinders productivity increase
Geopolitics	Sino-US relations remain tense, but the status quo prevails; China continues with Hong Kong-style takeover of Taiwan	US and Chinese diplomats find agreements on main friction points; newly found peace in Middle East leads to new era of global prosperity	Sino-US tensions escalate, with China invading Taiwan. Risk-off mode for asset prices, except commodities
Economy	Slowdown but no recession, with inflation being kept in check	Slowdown is already over, and inflation falls back to long-term target level (~2%) of central banks	Severe recession followed by a pick-up in inflation as central banks over-ease monetary policy
Probability	*High*	*Highly unlikely*	*Tail risk; low probability*

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



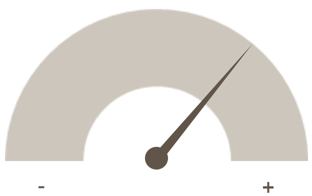
Cash & Money Market Instruments

We remain overweight money market instruments given the attractive risk-return dynamics



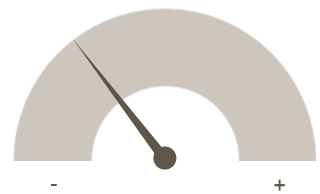
Precious Metals

Recognizing the benefits of precious metals as diversifiers in a portfolio, we nevertheless reduce the exposure to benchmark neutral, given the higher opportunity cost, and convinced that a better (lower) entry point lies ahead



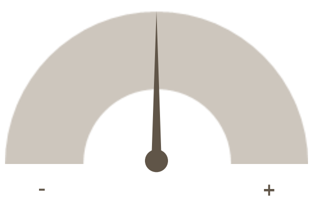
Fixed Income

We keep an overweight on this asset class and continue to focus on the short-end of the curve (1-3 years) due to the shape (inversion) of the yield curve



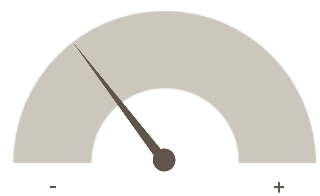
Commodities

Under our base case scenario of a further slowdown of the economy, it is still too early to add to the commodity complex at this point. However, we do see some value in certain commodity equities (e.g. Energy)



Equities

We leave our equity exposure "as is" at neutral, but look for an entry point over the coming months to upgrade to a slight overweight



Alternatives & Real Assets

Traditional asset classes currently offer good enough opportunities to make alternatives a less attractive choice. We stay underweight for now

Current view   Previous view (if different)

NPB Global tactical views (6-12m outlook)

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Equities	View	Commentary
United States		Mid- to long-term we remain constructive on US equities but believe that over the coming weeks to months a meaningful correction (5-10%) is possible. We will tactically move to neutral and maybe even OW as such an entry window opens
Europe		From a valuation point of view, Europe remains one of our favorite markets. Similar to our US comment above, we are waiting for a short-term setback over the coming weeks/months in order to move to overweight
Switzerland		The defensive nature of the Swiss stock market has caused it to lag behind its higher beta peers this year. Without any particular strong conviction at this point, we leave the 'rating' at neutral
Germany		Despite the fact that Germany has fallen into a technical recession, the DAX reached a new all-time high as recently as a few weeks ago. However, we would not accumulate further here
UK		UK's FTSE-100 benchmark index is now a far cry from the all-time highs it reached as recent as March of this year, probably better reflecting economic reality. We think it may still be too early to look for opportunities
Japan		Japanese equities remain, despite a nearly 30% (in JPY) rally so far this year, inexpensively valued, especially in comparison to global peers. Short-term pullbacks are possible, but the secular uptrend has probably much further to go
China		We downgrade China for two reasons: 1) The Chinese 'reopening' has disappointed, and the economy is clearly slowing down. 2) Political developments have made foreign investors into China more cautious, and some repatriation of invested funds seems to be taking place
Emerging Markets		We miss a clear catalyst (e.g. weaker US Dollar) to see an outperformance of Emerging Markets in general. Regional opportunities (e.g. India, GCC, others) remain, but EM as a whole we downgrade to neutral
India		India remains one of our favorite Emerging Markets and equities' resilience during the recent 'Adani-Crisis' has further strengthened our conviction
Asia Ex-Japan		Despite a relatively "flat" year-to-date performance, we continue to believe that this area will be a source of outperformance, not least thanks to favorable demographics. Also, "friend-shoring" (e.g. from China to Vietnam) could have positive a impact on the area as a whole
GCC Countries		The overweight call has paid off very well so far, and we see no abrupt end to this for the time being. A growing public market will continue to attract foreign capital

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

NPB Global tactical views (6-12m outlook)

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Fixed Income	View	Commentary
Government	Overweight	In recent historic comparison, government bonds remain attractive in total return terms, given that central banks have moved away from their decade long zero interest-rate (Fed) and negative interest-rate (ECB) monetary policies
Investment Grade	Overweight	Attractive yields in historical context, but focus should be on shorter duration bonds (1-3 years)
High Yield	Neutral ●	Credit spreads continue to offer decent value. As recession/slowdown fears recede, a well diversified exposure to high yield bonds should add excess return via spread compression
Emerging Markets	Neutral	Picking the right emerging market country is one of the main contributing factors at the moment, as many EM countries are in different stages of the inflation cycle. Overall, emerging market corporate debt seems to offer better opportunities than sovereign risk
GCC Countries	Overweight	Economic growth remains sound within a contained inflationary environment, which should function as a tailwind for fixed income total returns

Currencies	View	Commentary
Swiss Franc	Overweight	Out of the OECD countries, Switzerland seems to have the most contained inflation "problem", which could see the SNB end their hiking cycle sooner than others. Whilst this could lead to a disadvantage for the Swiss Franc in terms of interest rate differential, we think that any currency weakness would only be short-lived and structural tailwinds remain in force
Euro	Neutral	For now, the Euro seems to have found some sort of equilibrium against all other major (G10) currencies, with the exception of the Japanese Yen (a Yen problem, not a Euro problem). We see no need for an active bet in either direction as long as the currency remains range bound
US Dollar	Neutral	De-dollarization has become a broadly used (and abused) market narrative, which however, is not reflected in foreign exchange rates. While we understand that certain de-dollarization attempts are being launched, this is a theme for the decades to come, not for the next 6-12 months.
British Pound	Underweight	The GBP-recovery from the LDI-panic (liability-driven investment funds) in September of last year has caught many by surprise, but we too think it has run its course here now. We see approaches of the GBP/USD currency pair to 1.30 as selling opportunity

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

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