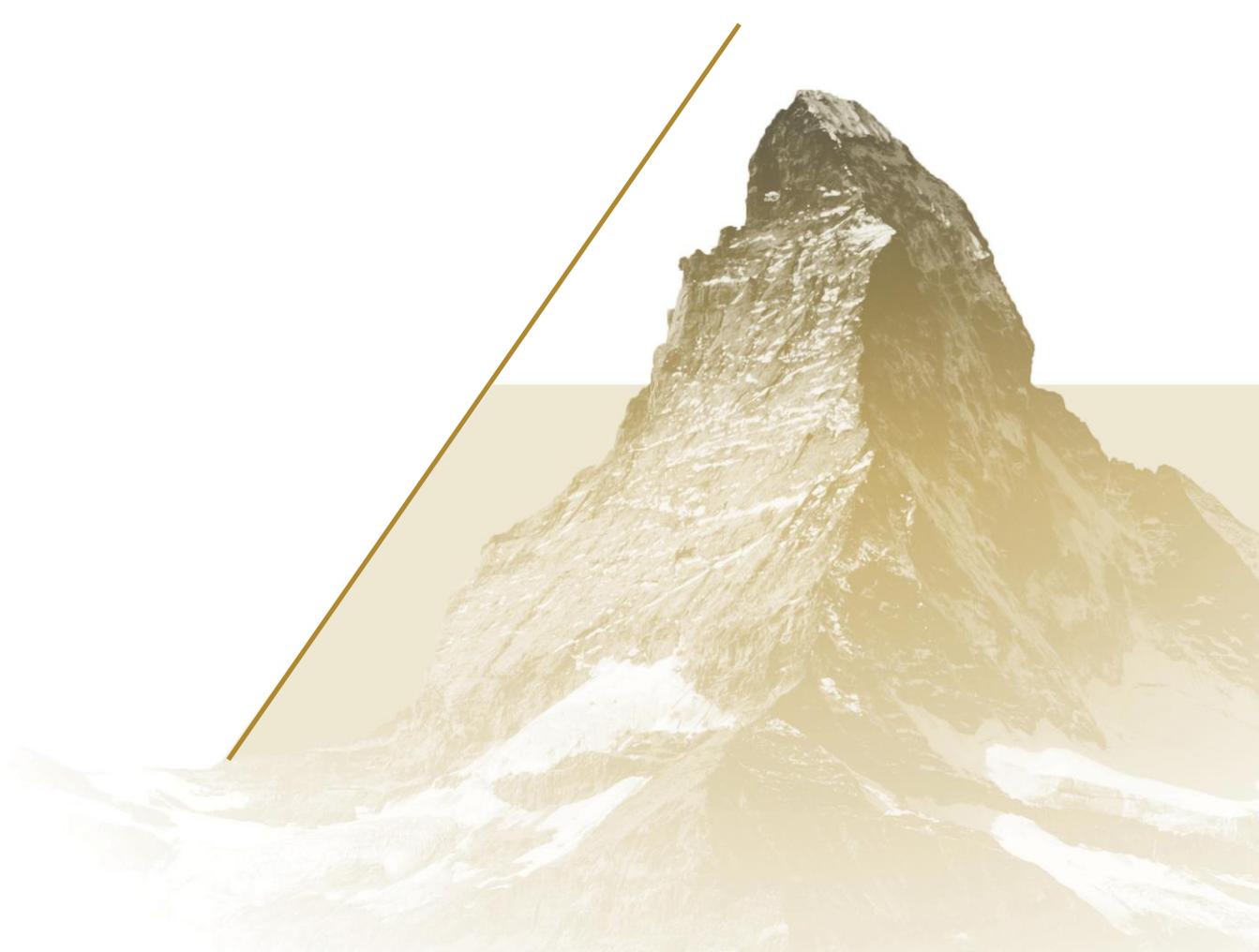


Investment letter

Monthly review of global financial markets



SWISS
CAPITAL^{IB}

November 2023

MACROECONOMICS

From a human standpoint, which is without doubt what we should start with, the surprise Hamas attacks against Israel on October 7th and its aftermaths are uniquely horrendous. Those events go well beyond the long-standing unresolved Israel-Palestinian conflict given their terrible implications for civilians, whichever side of the border they inhabit. From an economic standpoint, the key question revolves around the possibility of a broadening out of the conflict with a potential involvement of Iran, which would pose greater downside risks to the global economy.

The remarkable US economic resiliency so far this year was all but confirmed this month. October's PMIs surprised on the upside, all in expansion for the 1st time in 6 months, as the worst of the manufacturing's slump seems to have passed (index back at 50). Third quarter's GDP printed at a very strong 4.9% q/q annualized rate. Consumption was the primary driver, contributing 2.7%, with strength in goods and services. Durable goods orders rose a large 4.7% m/m in Sept., and a solid 0.5% m/m excluding transportation, reinforcing the growing goods demand's narrative. Most importantly, the labour market remains very tight. Sept. job market report came out considerably stronger than expected, with 336k jobs added last month, while July and August jobs' creation was revised higher by a combined 119k. The unemployment rate remained stable at a still low 3.8% and wages came down somewhat from 4.3% to 4.2% y/y.



THE REMARKABLE US ECONOMIC RESILIENCY SO FAR THIS YEAR WAS ALL BUT CONFIRMED THIS MONTH

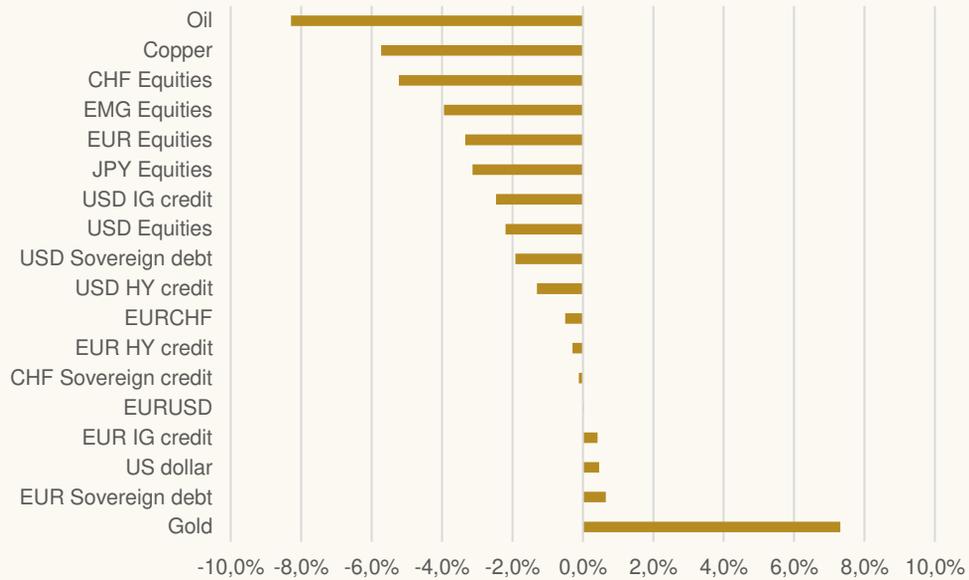
Meanwhile, Sept. core PCE, the Fed's preferred measure of inflation, was in line with expectations at 3.7% y/y, and in line with the Fed's year-end forecast. The headline CPI remained at 3.7% in September while the Core CPI slid to 4.1% from 4.3% in August.

In this context, J. Powell confirmed at the Economic Club of New York that the Fed is now facing the tough balancing act of neither tightening financial conditions much further from highly restrictive levels, nor letting them loosen too quickly given the continued underlying strength of the consumer and tightness of the labour market.

In the Euro area, PMIs resumed their downtrend in October, signaling growing risks of recession. The composite (46.5) more than reversed September's gain, the manufacturing's contraction deepened (43) and services plunged (47.8). Meanwhile, the Q3 ECB Bank Lending Survey underwhelmed with continued tightening in credit standards and net fall in loans' demand. The final Eurozone September HICP report confirmed that headline inflation eased to a 2-year low of 4.3% y/y in September thanks to base effects in energy and food but also to a particularly weak monthly gain in core CPI of just 0.1%, taking its yearly rate to a 14-month low of 4.5%.

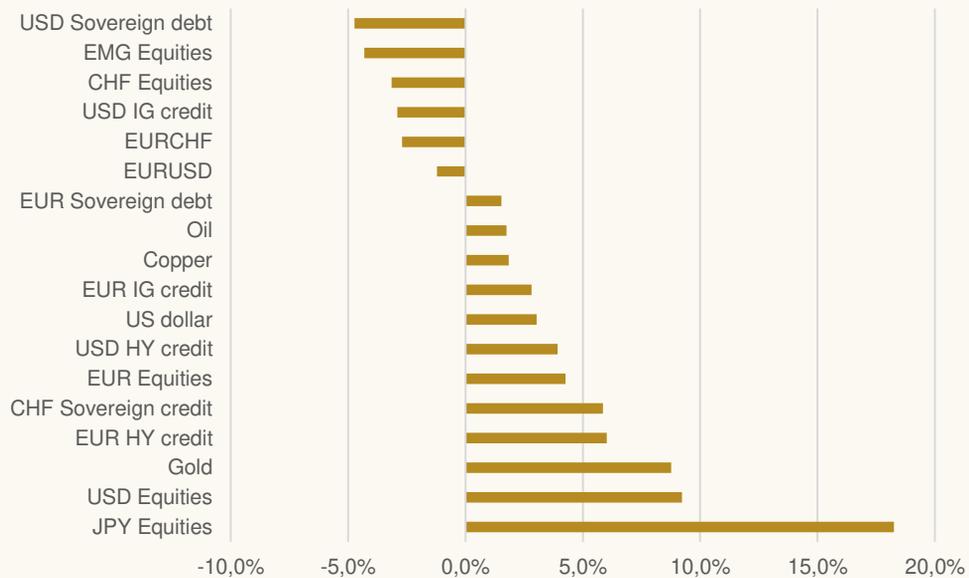
OVERVIEW

MAIN ASSET CLASSES MONTHLY PERFORMANCE



Source: Bloomberg, 31/10/2023

MAIN ASSET CLASSES PERFORMANCE YEAR-TO-DATE



Source: Bloomberg, 31/10/2023

Past performance is not indicative of future performance

MACROECONOMICS (CONTINUED)

In this context, the ECB kept its policy rates unchanged as expected for the first time in 10 hikes and 15 months last week. C. Lagarde was dovish on balance, with worries having now clearly shifted from inflation to growth. She noted the marked decline in inflation last month and insisted on the forceful transmission of tight monetary conditions to the real economy, with much more to filter through in the coming quarters.

The ECB is now most likely done with rate hikes, and while C. Lagarde was adamant to guide markets not to price premature rate cuts. That said, a first cut by June next year seems like a growing possibility according to markets.

EQUITY MARKETS

Equities sold off across the board in October. Rising long-end yields coupled with geopolitical tensions drove further flight to safety and cross-asset volatility.

Stocks declined for the third month in a row and the US marginally outperformed Europe in the Equity space (safety & better earnings season). Relative safe-haven hedges like Gold, USD and commodities all rose last month. Oil rebounded after the attack in Israel. Nasdaq underperformed SPX given the pressure from higher real yields and mixed Tech earnings, while DJIA delivered the best returns. Within Europe, dispersion among major indices was not significant.

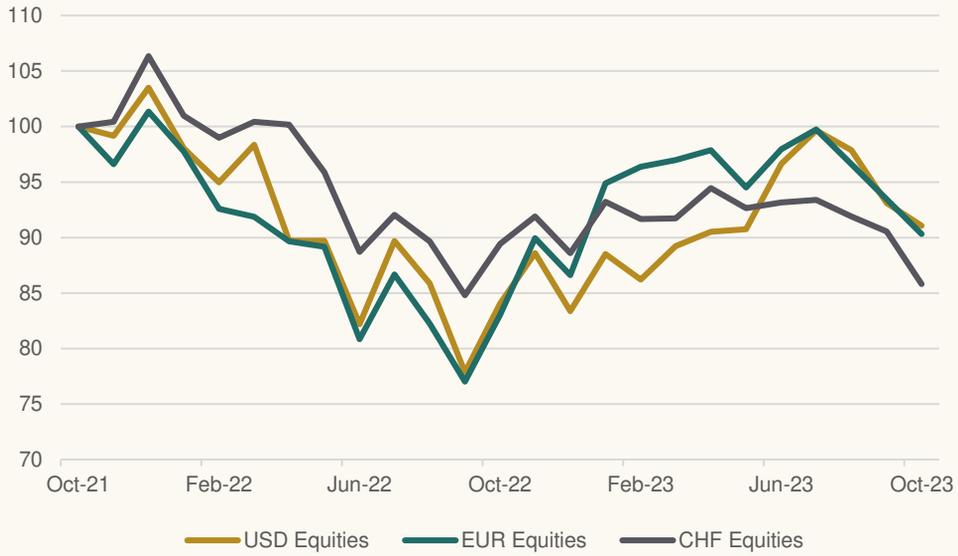
Stocks declined for the third month in a row

Factor performance was unsurprisingly defensive in October, with low vol and Quality outperforming. Growth managed to stand out too, in spite of the sharp rise in real yields (earnings & safety). Value underperformed.

Defensives led with Utilities and Staples doing well. Healthcare lagged though (some profit warnings). Cyclical faced headwinds from the broader risk-off sentiment: Financials underperformed. Tech was volatile around earnings but managed to outperform. Energy and Materials benefited from positive momentum for commodities.

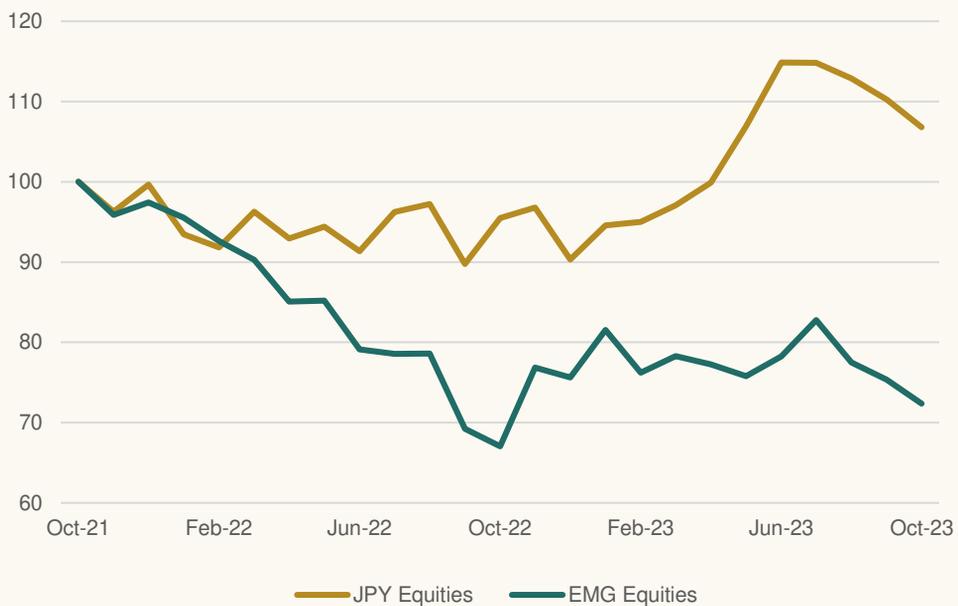
EQUITY MARKETS

EQUITY MARKETS EUR USD CHF PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 31/10/2023

EQUITY MARKETS JAPAN – EMERGING MARKETS PERFORMANCE OVER 2 YEARS



Source: Bloomberg, 31/10/2023

Past performance is not indicative of future performance

BOND MARKETS

The feverish rise in long-term yields continued in the USA in October, with the 10-year Treasury up 35bp, even though the Bund logically held up better (stable yield, growth decoupling in sight). We are therefore heading for a third negative year for US government bonds, with cash leading the way over the first 10 months of the year.

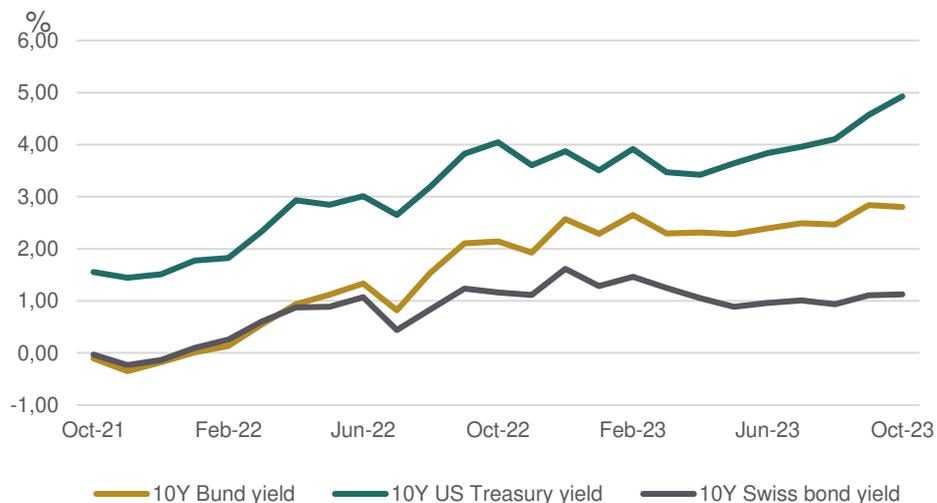
Nevertheless, we expect the 5% yield to represent a cap for 10-year US government bonds, as investor appetite grows for these valuation levels (asymmetric risk, fewer shorts on the market, close to fair value according to econometric models, US slowdown expected in Q4, search for defensive assets in an increasingly risky world).

In contrast to interest rates, credit has been much less volatile, with spreads remaining within their recent range for both HY and IG. Moreover, the earnings season had far less of an impact on credit valuations than the direct impact of earnings releases on the equity market. The primary market largely calmed down in October, due to the blackout period, but should offer some interesting deals in November, the final stretch of the year.



WE ARE HEADING FOR A THIRD NEGATIVE YEAR FOR US GOVERNMENT BONDS

10Y SOVEREIGN BOND YIELDS
EVOLUTION OVER 2 YEARS



Source: Bloomberg, 31/10/2023
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CURRENCIES

After strengthening substantially between July and September, the DXY stabilized around 106 in October, a solid level by historical standards.

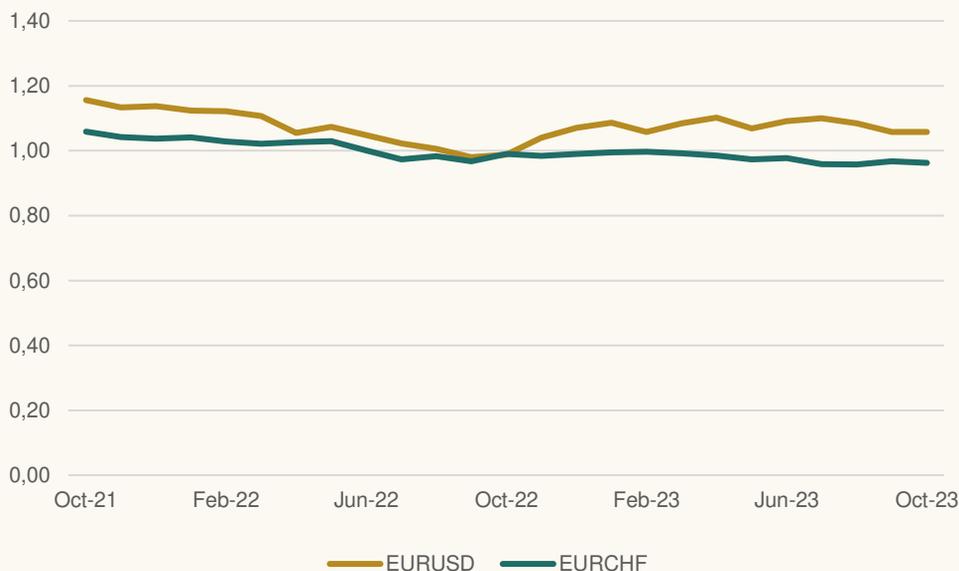
In early October, the EUR-USD hit its lowest mark since December 2022 (1.047). Since then, the pair has remained stuck at the bottom of its 1.05-1.11 trading range YTD, stopping the bleeding inaugurated in July. Though, the double whammy of a significantly weaker growth than in the US and the end of the ECB tightening cycle does not bode well for the EUR in the short run. That said, taking a step back, and more structurally, the USD remains overvalued on a PPP basis, and the EUR-USD fair value is likely closer to 1.15, which limits the EUR-USD downside, and should prevent the pair from retesting last year's historically low levels.

The GBP's slide against the USD also came to an end, with the pair stabilizing just above 1.21. UK inflation figures surpassed the consensus slightly, but PMIs depict a slowing economy, which should lead the BoE to tread carefully in the coming weeks.

After weakening by almost 7% between its July peak and September low, owing to the divergence between Swiss and US monetary policies, the CHF strengthened versus the USD in October, from its low around 1.08 at the end of September to slightly above 1.10, as investors bet on the Swiss currency's safe haven status amid geopolitical turmoil in the Middle East. Meanwhile, the SNB has been depleting forex reserves to a 6-year low, to beef up the Franc and tame imported inflation.

USD & CHF

EVOLUTION OVER 2 YEARS AGAINST THE EUR



Source: Bloomberg, 31/10/2023
Past performance is not indicative of future performance

COMMODITIES

OIL

After spiking just shy of \$100 in late September, the Brent slipped to \$83 on the eve on the Hamas's onslaught on Israel. Even though fears of a barrel rocketing above \$150 were initially all the talk, the Brent has traded around \$90 in October. More precisely, according to the IEA, the surprise attacks by Hamas on Israel spurred traders to price in a \$3-4/bbl risk premium. In fact, as long as Iran is not directly involved in the conflict, geopolitics should not push prices through the roof.

Meanwhile, Russia and Saudi Arabia maintained their supply-management policy, with the renewal of their voluntary supply cuts. However, a slowdown in the EU combined with underwhelming (but not collapsing) growth in China exert an offsetting force on prices.



As long as Iran is not directly involved in the conflict, geopolitics should not push prices through the roof

OIL

EVOLUTION OF BRENT PRICES OVER 2 YEARS



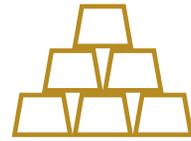
Source: Bloomberg, 31/10/2023
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COMMODITIES

GOLD

Despite serious headwinds (real rates at a record level, Fed's early cuts hopes dismissed, enduring US growth), the yellow metal benefited from the knock-on effect of mounting geopolitical uncertainty. Capitalizing on its safe-haven reputation, Gold jumped by almost 10% in October, touching the \$2000 threshold.

The conflagration in the Middle East (in the short-term) and the risk of recession (in the middle-term) are substantial tailwinds for Gold.



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GOLD

EVOLUTION OVER 2 YEARS



Source: Bloomberg, 31/10/2023
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VOLATILITY

VOLATILITY – VIX INDEX EVOLUTION OVER 2 YEARS



Source: Bloomberg, 31/10/2023
Past performance is not indicative of future performance

REAL ESTATE

SWISS RESIDENTIAL REAL ESTATE ANNUAL PRICE CHANGE



Source: Bloomberg, 31/10/2023
Past performance is not indicative of future performance

CALENDAR

Date	Country	Economic Data	Period	Previous
07 November	Germany	Industrial Production (MoM)	Oct-23	-1,4
	Switzerland	Unemployment Rate (%)	Nov-23	2,1
09 November	China	Inflation (YoY)	Oct-23	0,0
10 November	US	Consumer Confidence	Nov-23	63,8
	UK	Real GDP (QoQ)	Sep-23	0,2
14 November	US	Inflation (YoY)	Oct-23	3,7
	Eurozone	Employment (QoQ)	Sep-23	0,1
	Eurozone	Real GDP (QoQ)	Dec-23	-0,1
15 November	China	Retail Sales (YoY)	Oct-23	5,5
	China	Industrial production (YoY)	Oct-23	4,0
	Eurozone	Industrial Production (MoM)	Sep-23	0,6
	France	Unemployment Rate (%)	Sep-23	7,2
	UK	Inflation (YoY)	Oct-23	6,7
	Japan	Industrial Production (MoM)	Oct-23	0,2
	Japan	Real GDP (QoQ)	Sep-23	4,8
	16 November	US	Industrial Production (MoM)	Oct-23
	US	Philadelphia Fed Business Survey	Nov-23	-9,0
21 November	US	Fed minutes	Mar-24	
23 November	Eurozone	Markit Manufacturing PMI	Nov-23	43,1
	Eurozone	Markit Services PMI	Nov-23	47,8
	UK	Markit Manufacturing PMI	Nov-23	44,8
	UK	Markit Services PMI	Nov-23	49,5
24 November	Germany	Ifo Business Climate	Nov-23	86,9
	Germany	Real GDP (QoQ)	Dec-23	-0,1
24 November	Japan	Nikkei Manufacturing PMI	Nov-23	48,7
29 November	US	Real GDP (QoQ)	Dec-23	4,9
30 November	Eurozone	Inflation (YoY)	Nov-23	2,9
	Eurozone	Unemployment Rate (%)	Oct-23	6,5
	France	Real GDP (QoQ)	Dec-23	0,1
	Switzerland	KOF Leading Indicator	Nov-23	95,8

LET'S TALK ABOUT IT.

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