Markets & Convictions

January 2023

RJ Management

Macro

- Equity markets ended the year 2022 largely in the red: S&P500 -19.44% / Nasdaq -32.97% / Europe Stoxx600 -12.9% / SMI -16.67% / MSCI Emerging -22.37%
- Diversified portfolios were not greatly helped during the year by their allocation to bonds, an asset class that also suffered from rising interest rates
- As a result, the performance of the portfolio management industry was disappointing with an average of -14.5% for an "average risk" profile regardless of currency: Performance Watcher.
- For reference to our various comments in 2022 where we highlighted sector rotation, the famous tech stocks that used to outperform the S&P500, show a significant underperformance this year -> perf 2022 Tesla: -65% / Meta: -64.2% / Amazon: -49.6% / Alphabet: -39.1% / Microsoft: -28% / Apple: -26.4%
- Our central banks have waited (more widely for some / ECB) to see inflation "persist" and no longer "transit" to increase their key interest rates during 2022
- For the past few weeks, these strong rate hikes have begun to deliver their ultimate objective -> slowing economic activity and lower inflation
- The latest US figure is CPI @ 6.5% (vs. 9.1% in June) and for Europe at 9.2% (vs. 10.6% in October)
- This trend should continue in the coming weeks
- Therefore, the market is focused on the FED's "pivot" -> when it will stop raising rates and start lowering them
- The market is counting on a maximum rate of around 5% in September 2023 and then a drop to 3.7% by June 2024
- The European energy crisis seems to be under control at first glance, but it is very expensive, for example with Germany
- The situation in Ukraine does not seem to be moving towards a short-term exit, Ukrainians are attacking hard and even Germany could support them with tank deliveries
- Q4 2022 corporate earnings releases will be closely scrutinized for signs of slowdown/recession
- The labour market continues to fuel inflation, with strong job creation and a historically low unemployment rate (Eurozone @ 6.5% / US @ 3.5%)

Convictions

- Rising interest rates clearly benefit our European bank's theme
- We believe there is a good performance opportunity in both stocks and bonds (Axiom European Banks fund / BNP-Unicredit-SG stocks / CS Bond)
- The bond market at the beginning of this year is very active and we are taking advantage of this to invest cash in short-dated bonds (US T Bill @ 4.5% over 4 months) or longer high-yielding bonds (7.95% Crédit Suisse 2025)
- This environment also benefits our Short Duration bond certificate +3.36% in 2022 (i.e., 7 consecutive years of positive performance since its creation)
- The latent energy crisis brought to light by the conflict in Ukraine is far from being resolved

- In the short term, the winter season in Europe is currently one of the warmest since 1970!
- The price of gas is falling and is also impacting the demand for oil
- But we are convinced that 2023 could be the year of all records for black gold!
- Reopening of China / US strategic reserve at its lowest / massive underinvestment in new resources
- We believe it is also important not to underestimate the role of OPEC+.
- During 2022, OPEC announced a "pre-emptive" production cut at a time when the price of oil was historically high (USD 85)
- As our Western economies have massively forced producers to stop investing in new resources (thanks to the ESG), OPEC's pricing power has naturally increased
- We therefore believe that the price of USD 80 should be a floor and therefore favour our convictions in this theme (Westbeck hedge fund / TotalEnergies - Shell - Eni - BP shares)
- The strategic implications are numerous, the hearing of the CEO of TotalEnergies at the National Assembly is very interesting: Patrick Pouyanné - PDG TotalEnergies, audition Assemblée nationale 23 11 2022
- Although the Chinese health situation is difficult (perhaps even more complicated after the new year), this reopening is seen everywhere and is a sign of massive spending
- This validates our scenario for the synthetic bond we issued in December: maturity June 2024 / 97% capital guarantee / participates in all the rise of the Chinese stock index CSI 300 up to +27%
- As in the West, the big tech and e-commerce companies are suffering with a state that will not let these private companies be autonomous : China acquires Golden Shares in Alibaba
- We remain convinced that such a rise in the cost of credit can only have a negative impact on our economies and therefore on financial markets
- It is therefore necessary to remain diversified, with a pocket of cash invested in very short duration bonds (T Bill / Fiduciary / Short Duration Certificate etc...) to extract yield without taking the risk of duration
- In the short term, the news could continue to be relatively positive (lower inflation + reopening of China + lower USD + lower gas prices) -> our Recovery certificate captures this trend well on equities with a value approach (perf 2022: +1.21%, i.e., 3 years of positive performance since its launch 2021: +7.72% / 2020: +11.34%)
- In the medium term, inflation will not return below 2%, which will show the limits of our monetary policies
- The market could be surprised by persistent inflation and therefore by key rates that could stay much longer (than 2023) around the 5% mark
- In this context, our allocation to gold and gold mining should benefit greatly

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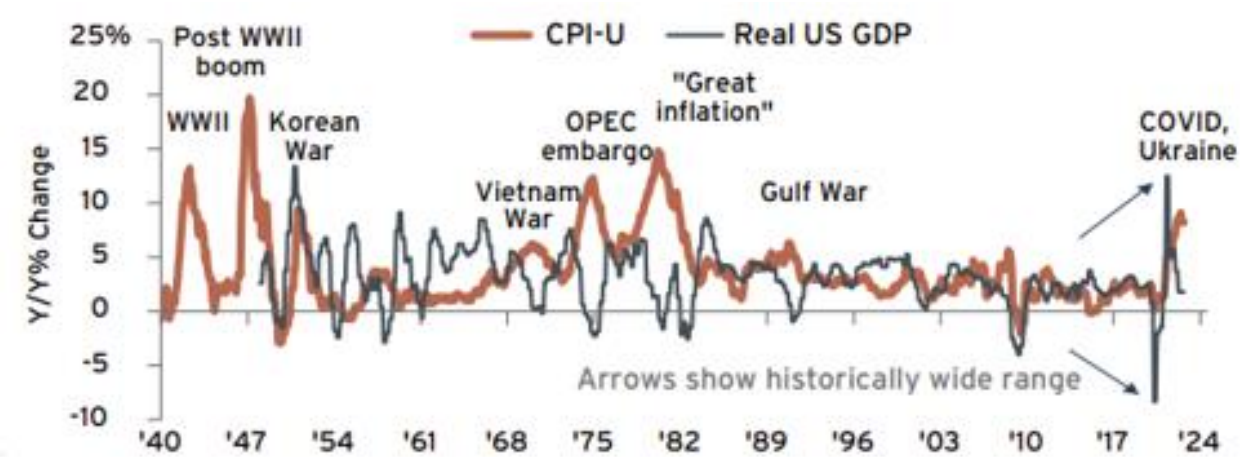
Charts of the Month: Chart since 1940 of annual changes in inflation (CPI) and US GDP: the COVID shock is VERY Important



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