Q1 2023 OUTLOOK

JANUARY 2023

Banque Havilland, a well-established banking group offers services to both ***private*** *and* ***institutional*** *clients, who can benefit from the advantages of a robust banking platform located across seven financial centres. The bank was founded in 2009 in Luxembourg, where it has its head office, and today also has presences in Monaco, Liechtenstein, London, Dubai and Switzerland.*

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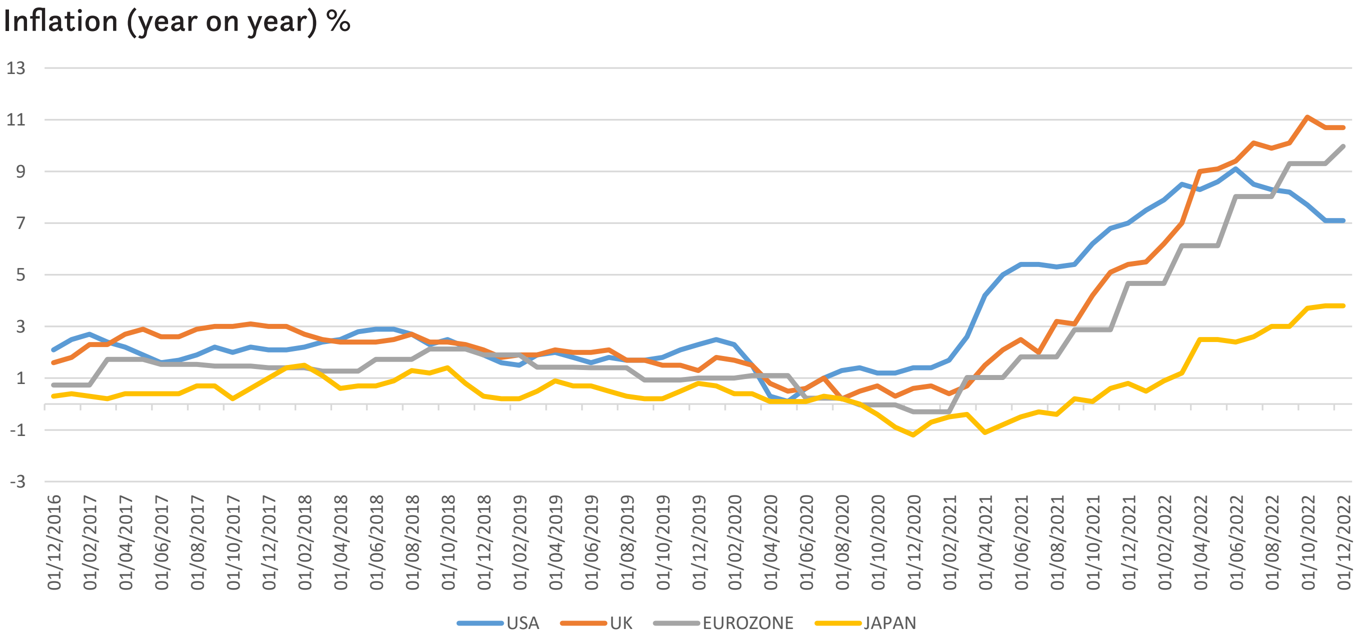
MARKET ENVIRONMENT

A post-mortem of the investment environment in 2022 needs little discussion, other to conclude that the return of inflation triggered more rate-hikes (over 300) across the world than we have seen since 1988 and with it severe losses for the two principle asset classes of equities and bonds. As ever there were some markets and sub-asset classes that did better than others, but with the global equity index down over 18% and the aggregate bond index losing over 13%, even the most diversified portfolio will have struggled to avoid a negative double digit performance last year. Indeed if it wasn't for an improvement in sentiment in the final quarter of the year, equity investors would have been looking at losses of 25% or more had October's low been revisited. Meanwhile those who partook in the cryptocurrency bubble suffered a very sobering year, with Bitcoin falling 65% from its March high. As the US Federal Reserve led the way, hiking rates at an unprecedented trajectory from 0.25% in March to 4.5% at the end of the year, the US Dollar duly surged with the dual tailwind of interest rate support and safe-haven liquidity demand. Dollar strength was a dominant theme in 2022, and most asset classes struggled in the face of a 15% rise in the reserve currency between January and November. As ever, the US economy appears a forward indicator for the rest of the world, and as such the inflation data in particular has taken prominence in investors' consciousness's. At the time of writing a game of cat and mouse is playing out between the Federal Reserve and the markets as Jerome Powell moved to stem October's market resurgence, saying that despite recent signs that US prices are cooling ''it will take substantially more evidence'' to convince him that inflation is genuinely in retreat. Likewise the ECB's Christine Lagarde complemented this message with her own comment that ''our job is far from completed''.

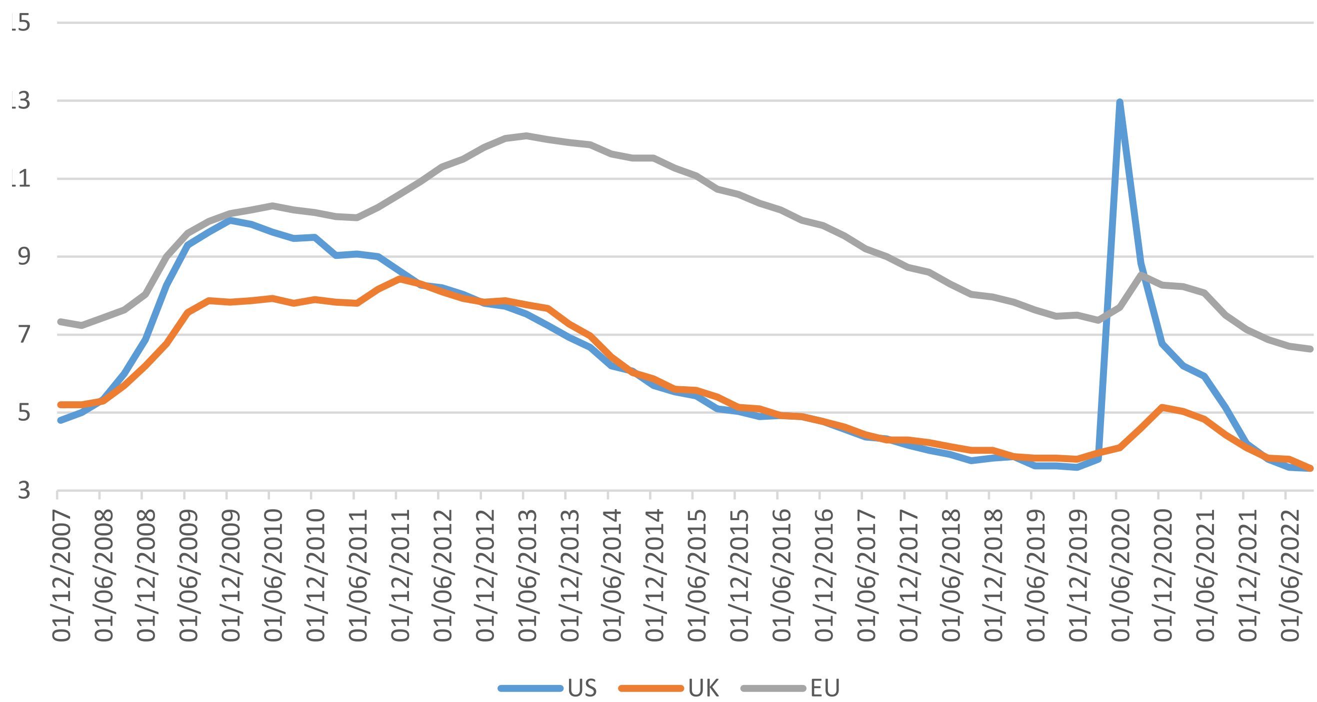


Inflation seems to have peaked in the US, but is still climbing elsewhere. At this point risk assets look exposed to any nasty suprises following the Q4 rally last year.

While this narrative initially saw a pause in the stock market recovery, his words were somewhat undermined by the reality of a smaller rate rise in December than the 0.75% hike in November and equities have started off 2023 in bullish mode, clearly expecting that inflation will fall back sharply later In 2023 and subsequently the Fed will then start easing again. Powell is probably right to exercise caution, as there is no guarantee that price pressures will fall as fast as they rose – history suggests that inflation is likely to remain sticky and would only seriously retreat once there was a US recession.

While markets appear to be pricing in future lower inflation and a softer monetary environment, they do not seem to be at terms with the likelihood of a full-blown recession, and as such we retain our defensive view at the start of the new year. The next key moment for investors will be the February central bank meeting, preceded by the US inflation figures that should shine some light on the question of whether this is an unusual situation and the new bull market has begun, or whether the more historically likely (post aggressive rate-hike recession) equity correction transpires.

Unemployment rate %

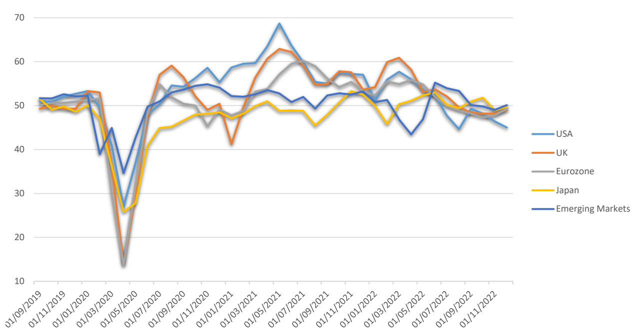


The unemployment statistics continue to point to tight labour markets which will support inflation and allow central banks to continue their hiking plans.

“There has been no extreme period of lending; balance sheets in households and corporations are in relatively good shape thanks to excess savings following Covid lockdowns (...).”

For now it is clear that a large chunk of the global economy is in contraction, looking at the various PMI charts and GDP readings from emerging and developed nations, led in particular by the weaker business and consumer climate as both groups struggle with higher prices, faltering relative wage growth and a widespread fall in property prices caused by higher rates. European consumers in particular are facing sustained higher energy costs and the knock-on effects on their disposable incomes, as a result of the ongoing conflict between Russia and Ukraine - though this could hopefully be mitigated by milder weather as we move further into winter. The Yield curves of the US, EU and UK are all inverted over the 2 and 10 year range, with the US especially so - again suggesting that the equity markets are too complacent about a recession in the region.

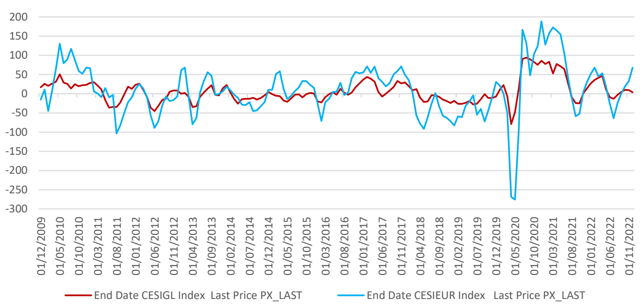
Composite PMI Readings



Purchasing managers’ sentiment has universally dropped below the 50 mark in recent readings which points to a global slowdown.

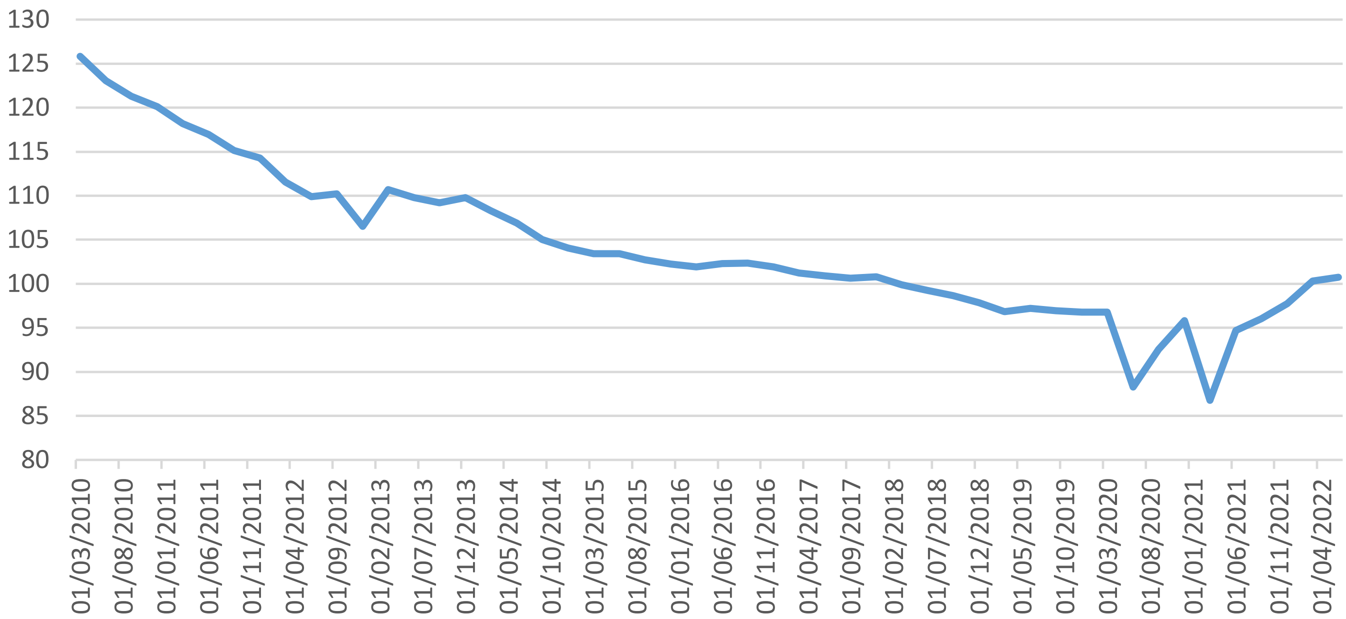
Maybe though, the markets will be vindicated by a range of factors that could limit downside recessionary forces, including: the recent plunge in energy prices, the rebound in the US auto sector, and what could turn out to be a (more rapid than we expect) decline in inflation. The conditions for a credit crunch, commonly seen ahead of other US recessions, do not exist currently. There has been no extreme period of lending; balance sheets in households and corporations are in relatively good shape thanks to excess savings following Covid lockdowns, though savings have fallen rapidly since the end of 2021. What is not known is the state of the private credit and equity markets, though this is likely to be flushed out by a period of higher rates. As it stands the smart money would suggest that the most severe deterioration in terms of economic activity and sentiment will occur in the first half of 2023, as the hangover from 2022 continues and equities are forced to confront valuations that (in the US) are back to their pre-pandemic levels, and we would suggest holding tight during this period in anticipation of the likelihood of better buying opportunities to open up. Aside from the probability of inflation genuinely peaking at some point, the concurrent easing in monetary policy (even allowing for Powell’s most hawkish scenario) and subsequent positive market reaction, there are other reasons for optimism despite the immediate gloom.

Citi surprise Index



The Citi Economic Surprise Indices measure data surprises relative to market expectations. A positive reading means that data releases have been stronger than expected and a negative reading means that data releases have been worse than expected. Eurozone data has been surpassing precictions recently.

US Household Debt: Disposable Income



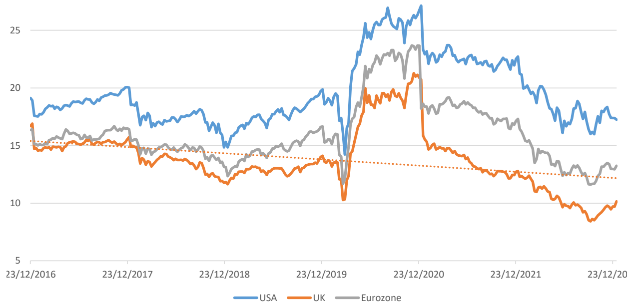
While household debt has started to rise as Covid Lockdown savings are eroded, it remains well below historical levels for now - this offers some protection for the consumer against higher prices, but also means spending will continue (supporting inflation).

Firstly, there is the prospect of China's economic demand finally coming back online after three years of coronavirus restrictions, however chaotic this process may turn out to be. While the inevitable spike in virus cases in the middle kingdom may make for grim and nervous reading, we can be hopeful that like the rest of the world that opened up earlier and learnt to live with increasingly less dangerous strains of Covid, China too will maintain its course to normality. In addition, China is leading a moderate easing cycle with the People's Bank of China delivering targeted support measures, while the credit impulse (a leading economic indicator) is positive while China's real money supply (M2) is expanding at 12 per cent year on year, the highest in six years. Should Chinese consumption pick up accordingly, then there could be a dramatic reversal in the fortunes of many emerging markets that export to the country. As mentioned earlier, Dollar strength has hit both developed and emerging markets globally, fuelling Inflation and raising the cost of imported goods. It has also added to the need for some central banks around the world to tighten their own financial conditions. This will all ease if and when the dollar's supremacy weakens, once the Fed's rate hike agenda has peaked – the effective tax on the global economy represented by a high reserve currency would be reduced. Another cause of relief, if not optimism, is the revitalised usefulness of the bond market now that the mathematics of the asset class means that the coupon (yield) should once again become the primary basis of the total return of a bond. For multi-asset portfolios this is especially welcome, as the traditional correlation of bonds and equities should return rather than simply having to bet on which bonds were likely to see their capital value rise more than others, with little hope of any meaningful income and the worry that a correction from 0% yields could happen. This correction is of course exactly what happened in 2022 when inflation took hold and central banks responded meaning the deeply negative real-yields that fixed income offered became logically and financially unsustainable. With benchmark yields now at 4% in the US and 3.5% in the UK investors can be more confident in allocating cash to an asset class that will provide income, even while there is uncertainty in the economy and equity markets. The coming year then, seems set to be a year of two halves with consensus and most indicators pointing to recession and volatility in in the early months before investors can look to recovery as 2023 progresses. Clearly the path of inflation is the key factor that runs throughout the macro environment, and while it may be overoptimistic to expect a good year for risk assets on the back of a very poor one as the era of 'free money' ends, the investment landscape looks set to improve over the longer term.

EQUITIES

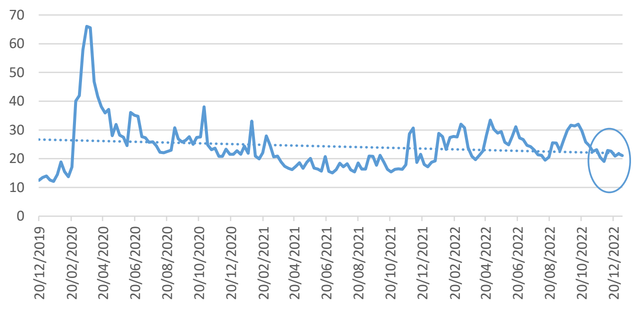
As is clear from our introduction, we are not yet advocating a material increase in equities exposure for client portfolios just yet, despite expecting buying opportunities to arise throughout the year. Quite simply, we suspect that the current trend upwards that has occurred since October does not represent the foothills of a larger bull-market mountain range, but is rather more likely to be the latest 'bear market rally', i.e. a temporary upwards surge in a longer term downwards trend. The noticeable diminishing volatility in the equity market (see the VIX Index) which is attributable to falling inflation and sustained robust economic data, suggests that the outlook among market participants is less pessimistic, but this could sour in the first half of 2023 in anticipation of further Fed rate hikes and a recession. Looking at the Federal Reserve's current rate hike agenda and the prospect of peaking inflation, however, we are optimistic that it may be the last rally before the market establishes a final bottom of the current cycle. As such, a cautious or neutral approach is suggested, recognising that being invested to a certain degree means that if the current market strength does turn out to be sustainable then one is at least participating. Now that we are entering a post free-money phase, it is likely that regional and security selection will be more important than in recent years in order to generate positive stock market returns in the coming months. It seems probable that the tech sector for example, has yet to realise its final low - which may seem odd following a year of huge declines that this is not so – but we would point to the extremely stretched starting point valuation following the post-pandemic rally. Tech is still trading at a premium to the wider market, comfortably above its historical average, and with the prospect of both an earnings and an economic recession, it's possible there's still froth to be blown off, even if not to the extent of 2023's sell-off. Naturally, companies with high levels of borrowing do not especially appeal with rates still set to rise a little further, and we believe it will be especially important to focus on businesses with good finances that are less affected by consumers' diminished spending power and that are able to withstand recessions. To us this means looking for companies with 'wide moats' (i.e. that have a business that is hard to difficult to replicate, in a sector with high barriers to entry), large amounts of free-cash flows with low levels of debt that are able to pass on inflationary costs to their customers. A combination of these sorts of features together with a sensible valuation discipline should result in a portfolio that can better withstand the potential volatility of the first half of the year. In short, the rising cost of capital will necessitate a more selective, idiosyncratic approach to equity investing, and those who base their investment decisions upon the continuation of a trend may see further losses this year than those who focus on valuations and fundamentals.

Market Valuations (P/E ratio)



Valuations have generally lost some of the post-pandemic excesses, but the UK stands out amongst developed regions as a cheap market.

VIX Index



After the extreme volatility of 2020 and then the selling of 2022, equity makets have been eerily calm the past few weeks

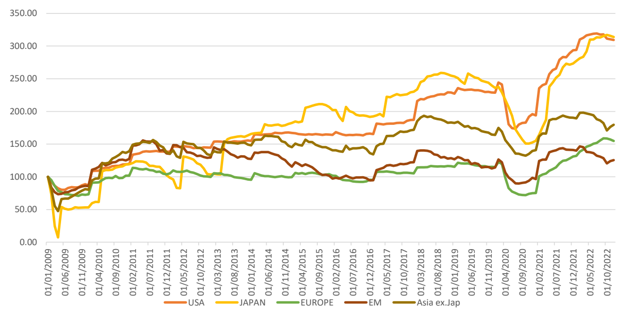
Investing in companies that offer high capital growth potential will undoubtedly become a winning strategy once again, but we remain unconvinced that it is the best approach at the moment. While valuations are less extreme and sentiment has become a little more grounded - valuations are still quite demanding in a historical context, with fundamentals not as impressive as markets have priced in. Some exposure to growth is sensible, but perhaps industrial and financial companies justify more focus than the technology sector as a whole.

From a regional perspective it may be a mistake to underestimate the resilience of the US economy, but earnings estimates for US stocks still look very ambitious with 10% growth predicted by the end of the year despite the growing threat of an economic downturn, but having said this they seem to have re-rated further than expectations for European equities that still show growth of 30%! On the other hand, European equites' valuations (fwd P/E) dropped more violently back in 2021 and are now trading well below their 10 year average as are US stocks, so there is little to choose between them at index level. The cyclical nature of the European market means it may be more exposed to a global slowdown and remains vulnerable to the Ukraine energy crisis, though early signs are that inflation in the region is on the turn which has led to a relief rally early in 2023 – and we note that countries have been affected unevenly, based on how dependent they are on Russian gas and oil. German industry has been particularly hard hit and is in the early throes of resetting its economic model as it grapples with de-globalisation (i.e. exporting to China) and the prospect of structurally higher energy prices. This suggests that for the medium term equity investors would be rewarded for looking at other opportunities in the Eurozone and not relying on German market leadership as has been the case in the past. Eventually, Europe will be independent of Russian energy, and its energy markets and infrastructure will be much better integrated, but this transition will take time and companies may move energy-intensive production away from the region. With the ECB to raise rate further it may be that we have to wait a little longer before turning bullish on European equities again, though European banks are cheap relative to the broader market and their own 10 year average and may actively benefit from higher base rates, thus representing a bright spot for investors.

A serious, but unexpected catalyst for stocks would be a resolution to the Ukraine/Russia war. Like their Eurozone counterparts, British consumers will have to rein in spending in the face of higher costs all round, but now that political risk in the UK has calmed we are marginally more positive on the equity market due to still attractive valuations and the prospect of a rebounding sterling in 2023.

The headline UK Index has had a much better year than most of its international peers, helped by an abundance of defensive sectors like oil, defence and tobacco and its global constituents benefitting from a weak currency, so we think a split between the main index and more domestic mid-caps is the best strategy looking forward. Looking east, Japan represents something of a dilemma for equity markets as a number of potential headwinds are countered by other factors. The delayed reopening of the Japanese economy and the accompanying catch-up growth

Earnings Estimates (EPS Jan 22-Jan 23)



US earnings estimates look steep and will likely be lower in reality. Asia and Emerging markets look to have already corrected with Europe well above its' historical level.

opportunity (as displayed by the improvement of the December PMI reading) is a compelling story, but this is tempered by the prospect of a global slowdown that could adversely affect the export-heavy nature of the Japanese market. Similarly, we think the Yen will likely strengthen over the course of the year as the Bank of Japan shows signs of life which would be a benefit to foreign investors of Japanese assets, but again would be detrimental to the nations' big internationals. We do think that Japan's economy is likely to outperform the rest of the world next year, supported by improving leading indicators, booming tourism and resilient capital spending – so it remains a conviction market of ours, with a focus on domestic stocks to shield against some of the global risks. As we enter a new year and the Dollar has showed signs of weakening – unsurprisingly the clamour In support of Emerging Markets stocks has grown louder, following a year in which EM assets once again failed to show any diversification benefits for holders of developed world equities. Clearly there were extenuating circumstances for some markets – Russia is an obvious one, while China spent most of the year under Covid restrictions and Brazil had a bitterly contested election – but then geopolitical risk is part and parcel of emerging market equity investing, and the main reason we don't allocate significantly to the asset class. Indeed the top EM performer last year was the Turkish Index that returned over 80% in USD terms, though in reality this was a snapback from years of huge underperformance that ran alongside fears of a full-blown currency crisis. Many other EM nations are effectively commodity economies so very much at the whim of global economic fluctuations. The larger Asian emerging economies deserve extra scrutiny due to their huge demographic and technological potential – in China a full reopening now looks likely by end of the first quarter and a recovery in China should benefit Asian emerging markets more generally. The reality is bleak at the moment, however, as economic growth plunged again in November. Bearing in mind the faster than expected reopening, we expect production to resume in February and a meaningful recovery to follow later on, and this could mean that the forward-looking equity markets start to benefit from the pent-up consumption of the Chinese consumer, as well as loose monetary policy in the country. Investors need to be braced for negative virus-headlines and economic data shocks, however. India's stock market actually made a positive return last year as its domestic-oriented economy has been able to buck the slowing growth trend seen in other major economies around the world, and while there is always vulnerability to higher energy costs, the economy is becoming increasingly dynamic and digitalised, with a business-friendly administration and a young, expanding middle class. Crucially the Indian stock market is not especially expensive compared to its historic average, with a P/E ratio of around 22 versus the 35 level it was at in early 2021.

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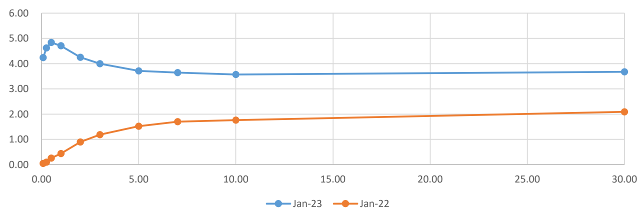
EQUITIES								**The Q4 rally may well turn out to be a false dawn with more central bank tightening to come. Earnings estimates in general look overoptimistic and markets are not priced for recession yet.**
US								Equities are being directed by rate expectations at the moment, and while the US economy looks better placed than elsewhere, its' growth bias makes it vulnerable.
UK								British stocks are still very cheap compared with other markets, and the energy/mining component of the 100 is attractive. Bleak political/economic backdrop.
Eurozone								Region is grappling with high inflation and energy prices while the ECB appears focused on this at the expense of the economy. Earnings estimates appear too optimistic.
Switzerland								Quality, defensive nature of the market continues to see Swiss stocks in demand, though valuations relatively rich now.
EM								We retain an allocation to emerging Asia for the long-term growth potential, with China's reopening finally here. Most EM regions do not justify their risk premiums.
Japan								Attractive valuation for a developed market, with a lower yen supporting its export sector. Economy currently 'reopening' from Covid.

FIXED INCOME

Mid-way through 2020 during the peak months of the pandemic, US 10 year Treasury yields touched 0.5%, UK 10 year Gilts touched 0% and EU 10 years were nearing -1% - at the start of 2023 they are now around 4%, 3.5% and 2.5% respectively so clearly the bond market is a more credible proposition than it has been for a while. Having long been heavily underweight the asset class as we felt it did not satisfy our two main criteria for fixed income (namely capital preservation and meaningful income), we are now more comfortable with the idea that bonds are once again capable of fulfilling their traditional role within an investment portfolio. Of course this comfort will be short-lived should the current slowing inflation trend prove to be an aberration rather than a genuine peak, but our core view is that bond prices are starting to be directed more by recessionary concerns than they are by duration risk (i.e. interest rates). Having said that, as we stated earlier, long term inflation remains well anchored and the risk/reward profile of the various moving parts of the bond market is by no means evenly spread. Caution when looking at Euro bonds is warranted; for example, as the ECB announced that it would start reducing the portfolio of bonds acquired under its asset purchase programme by some 15 billion euros a month starting in March 2023 while still having further to go with its rate hikes than the US. Likewise Japanese Government bonds do not look appealing for overseas investors in the likelihood of the Bank of Japans' relaxation of its curve control (i.e. buying back its own bonds) – as essentially it is where the US Treasury market was pre-2022. In the corporate space, Bonds issued from banks look particularly attractive as earnings and solvency have been robust, however, there are sectors where the outlook looks more challenging, such as real estate companies that continue to suffer from Covid changes and face higher refinancing costs. In terms of duration, the short end of the US yield curve should remain under pressure as the FED completes its rat-hiking cycle and at some point in 2023, the deterioration in growth prospects will put downward pressure on long-term rates – thus it will be necessary to be agile when it comes to adjusting the maturity of a portfolios' bond holdings. It seems very likely that the yield curve will 'dis-invert' at some point in the coming year (i.e. shorter dated treasuries will start to be bought more as the market starts to discount FED easing, while the prospect of recession should see the selling of bonds with maturities of 10 years plus). Depending on the severity of any recession, investors may then seek duration assets once more if central banks are forced to then lower rates – so an agile, liquid approach will be key.

US Treasury Yield Curve



Benchmark bond yields have risen significantly over the past year, but the curve is now 'inverted' with higher yields available for shorter dated securities. Historically this has forehadowed a recession, but also brings opportunities for bond investors when the curve 'dis-inverts'.

For standalone bond investors seeking income with minimal prospect of capital loss, we would suggest that a selection of high quality names in short duration corporates that are offering around 5% yield maturity offer an attractive risk-reward payoff. As with equities, we favour debt of companies with healthy balance sheets and sufficiently dominant positions in their markets to be able to pass on any further price increases. Staying agile and liquid, we would expect to rotate into more opportunistic sectors, including cyclical sectors and a larger weighting to emerging markets and high yield debt. For long term investors a yield of +9% looks like a decent income (and entry point) for high-yield bonds, offering a tangible buffer against credit risk, though once again, we would need to be confident that the central banks were definitely near completion of their tightening schedules before allocating further, and would avoid corporates with excess leverage. Really, we prefer US Treasuries and high-rated US Credit until later in the year as investment grade debt looks relatively cheaper and we believe its current yield offers better compensation for the risk, with better protection against a recession.

The prospects of emerging market debt will very much hang on the direction of the Dollar, and as we expect the dollar to retreat in the longer term this bodes particularly well for the asset class, especially since tightening is at an end in many developing economies, with South Korea among those leading the transition. Nevertheless, as with our overall outlook we do not wish to over allocate to risk until the longer term inflationary picture is clearer along with the central bank cycle, but with some degree of recession likely we are happy to hold a neutral weighting to fixed income with a bias to high quality credit and conservative duration profile.

2 Year Bond Yields

COUNTRY	MATURITY	YIELD + / -
BRAZIL	07/01/2025	4.77
UNITED STATES	31/12/2024	4.24
MEXICO	27/04/2025	4.07
CANADA	01/11/2024	3.93
BRITAIN	22/04/2024	3.41
ITALY	01/12/2024	3.06
GREECE	02/04/2024	2.98
SPAIN	31/05/2024	2.84
FRANCE	25/02/2024	2.71
PORTUGAL	15/02/2024	2.70

COUNTRY	MATURITY	YIELD + / -
GERMANY	12/12/2024	2.63
NETHERLANDS	15/07/2024	2.60
SWEDEN	12/05/2025	2.55
SWITZERLAND	11/06/2024	1.08
NEW ZEALAND	15/04/2025	4.64
SOUTH KOREA	10/12/2024	3.60
AUSTRALIA	21/04/2025	3.28
CHINA	15/09/2024	2.30
JAPAN	01/01/2025	0.02

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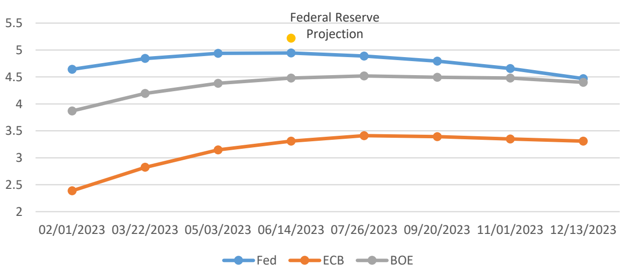
FIXED INCOME				**Yields are far more attractive than a year ago, but it is unclear whether a period of structurally higher rates and inflation is yet priced in. We will look to add selectively.**
Sovereign Bonds				US yield curve is inverted and rates remain under threat while inflation remains elevated. Recession may see some support, but not until FED expectations peak.
Corporate I.Grade Bonds				Buyers may soon come back with 5% yields for corporates looking attractive against a recessionary backdrop. US looks preferable to Europe.
High Yield Bonds				Default rates are subdued, but may rise as financing costs increase. Yields look attractive, but highly selective approach needed.
E.M. Bonds				We are generally cautious on emerging markets given looming recession fears, but our short duration approach achieves yield at acceptable risk.

CURRENCIES AND COMMODITIES

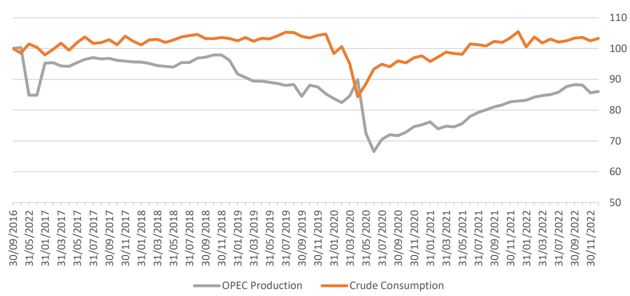
After dominating the investment environment for most of 2022 the Dollar started to weaken in the final quarter as the Federal Reserve's hiking was perceived to be slowing, and our central assumption is that there is scope for further downside once the growth outlook hits the bottom. In keeping with our scepticism towards the current equity market rally, however, we believe there may be an initial resurgence in the first half of the year for the Dollar should the Fed stick to its hawkish plan while deteriorating risk sentiment in general also tends to be a Dollar positive. We note that while the official expectations of the Federal Reserves' committee projects that rates will peak somewhere between 5 and 5.5% in 2023, the market futures indicate expectations of a peak below 5% - in other words the market is currently more optimistic than the reality, pointing to a reckoning at some point for risk assets (especially if inflation remains sticky which is likely as the jobs market is tight and the Chinese economy reopens). Over a longer horizon we would expect the Pound, Euro and Yen to regain some of the heavy losses against the Dollar from last year, with the Japanese currency in particular having the most potential with the Bank of Japan looking set to further relax its control of the yield curve. The yen should also benefit from an expected repatriation of capital by Japanese investors, who are likely to be attracted to the market's higher yields. Inflation in the UK and Europe is even higher than it is in the US and with the central banks there behind the Federal Reserve, interest-rate traders are factoring in more than 150 basis points of tightening from the ECB which should provide hefty support for the Euro. Ordinarily we would expect to see Sterling strengthen even more than the Euro as it tends to have a higher sensitivity to Dollar movements. As such, in the coming months we will consider reducing our USD exposure for client portfolios, with inflation of course being the key consideration. A lower Dollar should, all else being equal, be positive for those assets priced in the currency and some of the major commodities and precious metals have already started to climb. Having troughed in September last year, Gold (which remains a permanent fixture in our allocation) has been steadily rising as the Dollar has slid, though this is only part of the equation for the yellow metal's current trend as it has been reported by the World Gold Council that demand has outstripped any annual amount in the past 55 years. Much of this demand is being attributed to central bank buying, particularly by Russia and China, as nations look to diversify their reserves away from the Dollar. This is a powerful structural support for the gold price, which should also benefit from the expected peaking of interest rates after a period of hiking that has theoretically diminished the metals' appeal for many investors.

Interest Rate Probability 2023



Markets are expecting rates to peak in the middle of the year, but interestingly at a lower number than the Federal Reserve members are currently stating as their intention.

Oil: Demand is beating Supply = higher prices



Crude consumption remains steady, despite the 'transition to green energy', while OPEC maintains a tight grip over supply to keep the oil price elevated.

With respect to industrial commodities and energy, the Russian invasion of Ukraine and the subsequent effects on supply has caused nations and investors alike to refocus their views on the markets. The commodity index was one of the only places that saw positive returns for investors last year and fulfilled its reputation for being an inflation-busting asset class, and we continue to believe there is more upside for oil and copper, in particular in the years to come. While prices corrected somewhat in the second half of the year the structural bull case for fossil fuels, driven by climate change policy remains intact and could get an immediate boost from the Chinese economic reopening as demand picks up. OPEC is maintaining a tight a grip on the crude market as ever, at a time where much traditional fossil fuel capital expenditure is being diverted to renewable energy, thus meaning supply is set to be restricted whatever the demand implications of a slowing economy bring. China accounts for 70% of global demand for copper, a metal that curiously fell 14% in 2022, so the ramping up of activity there would see the price rebound dramatically while the global transition to renewables perhaps benefits copper more than any other commodity.

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ALTERNATIVES								**We like holdings that are genuinely uncorrelated to the main asset classes.**
Precious Metals								Gold may get a boost as rate expectations peak. Remains the most compelling long-term hedge against inflation and elevated geopolitical risk.
Hedge Funds								Genuine alternative funds that behave in a different manner to traditional assets are a vital source of wealth preservation and diversification
Oil/Commods								Commodities mania has subsided, but shifting geopolitics and green policies will offer structural upside over the longer term.

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CURRENCIES								**DXY strength has finally subsided with expectations of a Fed slowdown, but we would not be surprised by a short term recovery in the first half of the year. Risk currencies and EM FX could do well over the longer term.**
U.S. Dollar (DXY)								The dollar is only likely to retreat further if lower inflation trend is confirmed and FED becomes more dovish. Likely to be underpinned by relative resilience of US economy v Europe.
Sterling (GBP)								GBP has recovered more due to USD weakness than any great optimism over the UK's economic prospects. Whether the BOE close the gap on the Fed will determine mid term outlook.
Euro (EUR)								Has rallied on USD weakness and following 0.75% ECB hike. Economy looks turgid, and ECB will be wary of hiking too hard in face of recession.
Japanese Yen (JPY)								JPY weakness has been the ccy story of 2022 and looks overdone. Policy remains loose, but economy improving and BOJ have informally stepped in at 150 level.
Swiss Franc (CHF)								CHF remains relatively steady, as SNB underwhelmed with 0.75% hike. Swiss inflation much less than EUR and GBP.
EM								CNY will benefit from economic pick-up in China, while other EM's will enjoy carry from and long term USD weakness.

AUTHOR

Jonathan Unwin
Deputy Head of Asset Management & Advisory
15 years' experience of multi-asset-class investments, including 8 years at Credit Suisse and Saxo Bank, London prior to Havilland. Jonathan is the Chairman of the banks' Investment Committee and the lead manager of the Managed Fund and Investor Visa portfolios. LLB (Hons) Law, University of Southampton. Chartered MCSI.

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ASSET MANAGEMENT TEAM

Stefano Torti
Group Head of Asset Management & Advisory

Ronak Yadav
Senior Investment Advisor, Asset Management & Advisory

Thomas Mcleod
Assistant Portfolio Manager, Asset Management & Advisory

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BANQUE HAVILLAND S.A.
35a, avenue J.F. Kennedy | L-1855 Luxembourg
t. +352 463 131 | f. +352 463 132 | e. info@banquehavilland.com

BANQUE HAVILLAND S.A. (UK BRANCH)
5 Savile Row, London | W1S 3PB | United Kingdom
t. +44 20 7087 7999 | f. +44 20 7087 7995 | e. info.uk@banquehavilland.com

BANQUE HAVILLAND (MONACO) S.A.M.
Le Monte Carlo Palace | 3-7, Boulevard des Moulins | MC-98000 Monaco
t. +377 999 995 00 | e. info.monaco@banquehavilland.com

BANQUE HAVILLAND (LIECHTENSTEIN) AG
Austrasse 61 | LI-9490 Vaduz
t. +423 239 33 33 | e. info.lie@banquehavilland.li

BANQUE HAVILLAND S.A. REP.OFFICE (DUBAI)
Aspin Commercial Tower | Office # 4001 | Sheikh Zayed Road
P.O. Box 414678 | Dubai, United Arab Emirates
t. +971 4 306 28 88 | e. info.dubai@banquehavilland.com

BANQUE HAVILLAND (LIECHTENSTEIN) AG, VADUZ, ZWEIGNIEDERLASSUNG ZÜRICH
Bellariastrasse 23 | 8027 Zürich | Switzerland
t. +41 44 204 80 00 | e. info.switzerland@banquehavilland.ch

LUXEMBOURG LONDON MONACO
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