A surprisingly good quarter

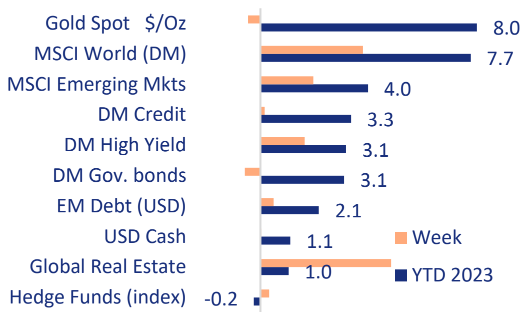
- **The first quarter ends with positive returns across major asset classes**
- **The Central banks have a little more way to go as inflation still above target in developed economies**
- **Focus shifts to the upcoming jobs report and Q1 earnings**

We started the year anticipating that volatility would continue across all asset classes and our year-ahead publication was titled "Adapting to Unpredictability." The year's first quarter is over, with the balance shifting between inflation and growth. January started with a Goldilocks scenario as markets rallied, hoping for an imminent FED rate cut. In February investors recognised that an era of higher inflation was in place and the "higher-for-longer" theory was predominant. Yields surged, and risky assets went down. This was followed by March which saw 3 US banks fail with the FDIC stepping in to protect SVB depositors and the hastily arranged takeover of Credit Suisse by UBS.

March saw positive returns as the month ended with investors comforted by the government support to banks and no further crisis. Friday, we see the US jobs report another closely watched metric by the FED.

At the end of the first quarter, the S&P 500 is up 7.5%, and the Nasdaq has rallied by 17%. Emerging Market stocks are also positive, with a return of +4%. Benchmark UST 10-year yields have dropped by 40 bps, with IG Credit returning +3.3% and topping the charts while remaining our most favoured segment within Fixed Income. Gold was up by +7.9% during the quarter.US Treasuries had the best quarter since 2020 with a return of +3%. Brent Crude fell 7.5%, in Q1 but April starts with oil prices rallying as OPEC+ cuts output by 1.15 mn barrels a day.

ASSET CLASSES USD % TOT.RETURN, YTD 2023 & LAST WEEK



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Cross-asset Update

The week before last four central banks, including the Fed, raised rates and markets remained resilient, and last week markets have yet again put in quite some gains. The uncertainty coming alongside the banking crisis is taking a backseat in investor minds, now focusing on the strength of the US and European economies.

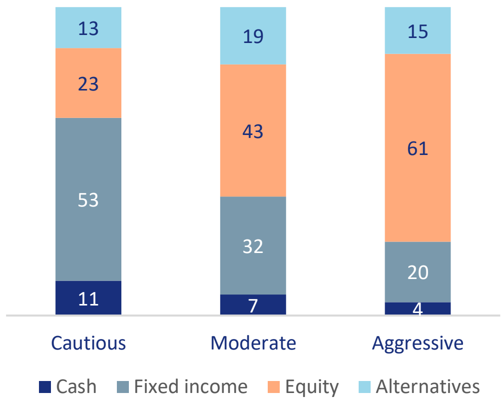
Friday's PCE indicators were lower than consensus expectations (5% Vs. 5.1% Exp.), while Core PCE came in at 4.6% Vs. 4.7% Exp. This is still higher than the FED's target of 2%.

The so-called dot-plot, the future path of rates projected by Fed officials, sees the maximum Fed funds rate for this year to be slightly above 5%, implying at most one more hike, expected at the May meeting. While the Fed wants to prioritise the fight against inflation, financial stability is taking its toll, and Fed Chair Powell may need to at least pause after May to assess the cumulative impact of the hikes carried out at unprecedented speed since April 2022. At the March FOMC he mentioned that recent developments are likely to "weigh on economic activity, hiring, and inflation" via "tighter credit conditions". Such anxiety may well be justified, with the Fed's Standard Economic Projections embedding a recession in H2 this year. The final hike may be in sight, but what comes thereafter can severely challenge growth though we continue to see surprises in the services sectors both in the US and Europe.

Due to the competitiveness of money market fund rates versus deposit rates they are seeing huge inflows. Banks will lend less to make room for liquidity to tackle deposit flights, and credit tightening will follow, negatively affecting growth and stocks. Also, the more money market funds grow, the more the destination of their investments, repurchase agreements, grows. Whenever the Reverse Repo Facility is tapped, money leaves the banking system, hence the velocity of money slows - fewer transactions are made in the economy - and ultimately the economy is negatively impacted. Treasury Secretary Janet Yellen warned about the necessity of rolling back some of the deregulation that to an extent watered down the post-2008 financial reforms. Regulators will be honing in on tighter rules for the financial sector, that will stress profits and add to expenses.

Even in Asia the recent data releases point to a slowdown. South Korean exports slumped again in March, and Japan's Tankan survey of large manufacturers fell more than expected. China's March Caixin factory PMI also came in at 50 Vs Exp. 51.4.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

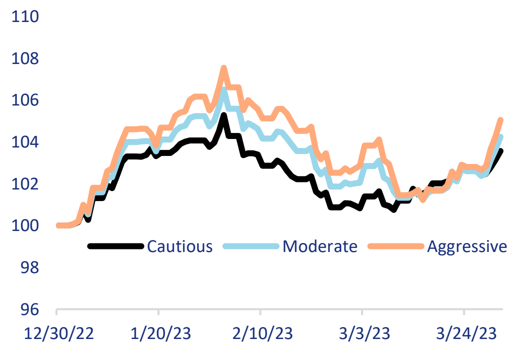


TAA – RELATIVE POSITIONING – MODERATE PROFILE

UW/N/OW:Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>
DM Gov.			>
DM Credit			>>
DM H. Yield	<		
EM Debt	<<		
DM Equity	<<<<		
EM Equity			>>>>
Gold	<		
Hedge Funds		=	
Real Estate	<		

TAA – 2023 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

Fixed Income Update

The first quarter has whipsawed fixed-income investors. We saw a secular rally in yields and credit in January as Fed pivot hopes increased. Hawkish Fed speak and strong macro data releases in February were a bane for Fixed Income as Yields moved while credit spreads traded in a range. The upward movement in the front-end yields resulted in a bear-flattening of the UST Yield curve, leading to a record inversion of the 2-year and 10-year part of the curve since the early 80s. March heralded the era of heightened tail risks in the form of a banking crisis both in the US and Europe. Yields tanked, and credit spreads widened to their highest levels since November 2022.

US Treasuries had the best quarter since 2020 with a return of +3%. IG Credit has returned +3.3% and topped the charts while remaining our most favoured segment within Fixed Income. Looking at the history of the last 30 years, the median OAS spreads for IG bonds during high vol periods (when MOVE Index is > 95) is 152 bps, while the recession-era spread average is 222 bps. Moreover, the average recession-era yield for IG in the last 20 years is 5.29%, while the average non-recession era yield in the previous 20 years is 3.34%.

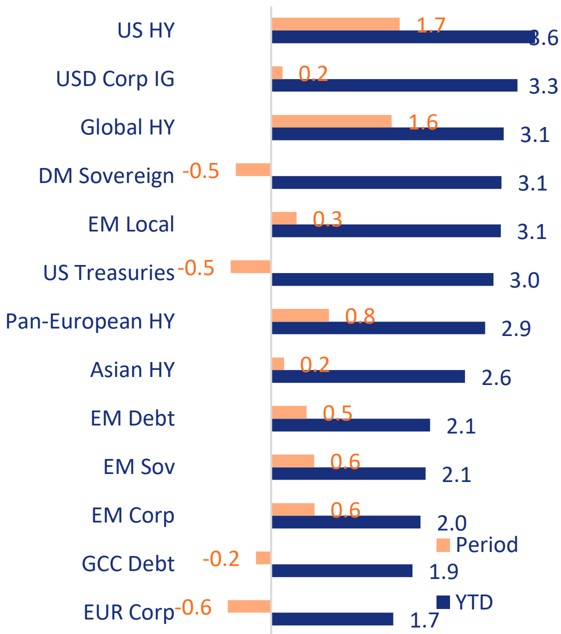
We would be cautious adding risk in the portfolios as the leading indicators point to a future slowdown. Expect rate volatility to increase as there would be tonnes of data and Fed speak before the May 3rd rates decision. HY and EM spreads have compressed since the flare-up during the banking upheaval. Within HY, corporate hybrids offer relative value as these bonds have sold off in line with the Financial AT1s but don't carry the same level of risk. These notes are the product of BBB Investment Grade issuers as they seek to build rating agency headroom but are often rated as High yield at the issue level.

The GCC region saw a few sovereign rating and outlook upgrades last month indicating the resiliency of our region and support from the continued robust oil prices. KSA has been upgraded by one notch and has a stable outlook, while the outlook for Oman and Qatar has been changed to positive from stable. S&P has upgraded the Kingdom of Saudi Arabia from A-(positive) to A with a stable outlook. As per the report, the rating revision comes from KSA's significant reform momentum, like non-oil sector growth, social liberalization, and other measures, which have begun to deliver structural improvements to its economy and fiscal and debt management. Additionally, the benefit of KSA's leading role as the largest individual oil exporter globally will benefit its economy. Furthermore, Oman's sovereign rating outlook has been changed from stable to positive due to its improving fiscal performance, with the country's gross debt stock to GDP ratio improving from 60% to 40% in the past year. Lastly, Fitch has revised its outlook for Qatar to positive from stable, expecting that Qatar's external balance sheet will strengthen further from an already strong level.

FIXED INCOME KEY CONVICTIONS

DEVELOPED MARKETS
OW Quality corporates
OW Government Bonds
UW High Yield
EMERGING MARKETS
Overall UW EM Debt
Favor quality and selectivity
OW Selectively Asia, LatAm

FIXED INCOME SUB ASSET CLASS RETURNS (YTD, LAST WEEK)



Source: Bloomberg

Equity Update

At the end of the first quarter global equities are +7.4%, with developed markets in the lead and outperformance from the Eurozone and the tech sector. Most regions in the positive with the S&P 500 trading above the key 4000 level. Growth stocks i.e., big tech, EV and semi stocks saw strong gains, but a caveat that only the profitable companies participated in the rally. The Nasdaq is officially in a bull market +22% since December, a growth rally buoyed by lower Treasury yields. Surprisingly global banks are down only 3.7% year to date as their 12% fall in March was buffered by their earlier rally in Jan and Feb.

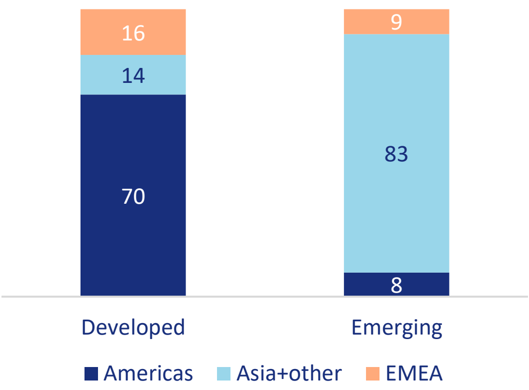
We enter Q2, with the same headwinds as Q1: geopolitical tensions around Taiwan, Russia Ukraine and China US relations, central banks tackling inflation, slowing growth and earnings in question with recession possibilities but the added worry on US and Europe bank stress with the impact of higher rates on asset liability mismatches and lending conditions tightening for the real estate sector and lower rated corporates. US banks in the spotlight after a report the FDIC is mulling a squeeze on big banks to help cover the almost $23 bn in costs from the recent spate of bank failures. However, tailwinds are rate hikes close to peaking, inflation slowing though not near Central Bank target levels and continued support to depositors and regional banks. A still strong service sector and so far, corporates have managed to grow revenues passing on higher costs to consumers.

We have a neutral stance to US equities and the S&P 500 has traded around our 4000-year end fair value for the last 3 months, which is predicated on a 18.2X price to earnings multiple and flat earnings growth estimate for 2023.Year to date the S&P 500 is +7.5% and the Nasdaq +17%. Tech leads this year whilst real estate is the worst performer. Financial stocks have steadied especially regional banks, which had fallen sharply following the collapse of Signature, SVB and Silvergate. Europe equities have outperformed other regions with a beta to Chinas opening.

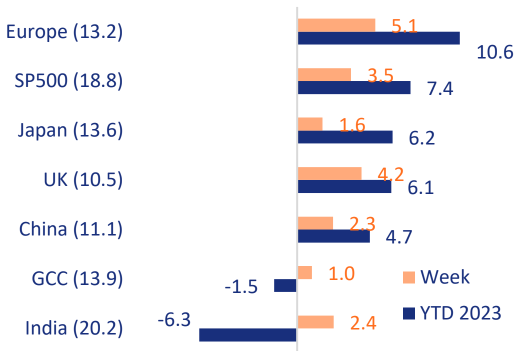
We are overweight Asia and see a rebound in India. The Alibaba restructuring is positive for sentiment around China tech and has been followed by JD.com planning to spin off and list 2 divisions in Hong Kong. Alibaba rallied after announcing plans to split its $254 bn company into six individual corporates. Alibaba is unlocking value while bowing to China government regulatory pressures around Big Tech. The government has criticized the influence of online platforms and monopolies worried that concentrating power among a few tech companies suppresses innovation and extensive access to data on the majority of Chinas population. Alibaba is the leader in ecommerce and cloud in China.

We have a continued conviction on select tech areas with EV sales doubling every year. Tesla grew Q1 deliveries by 4% and other EV makers Ford, Volkswagen and BMW are rolling out new affordable models every month. We also feel generative AI is still at the cusp of adoption though concerns are rampant and Elon Musk and another 1100 tech personnel have signed an open letter for a six month pause on development of advanced AI systems such as OpenAI's ChatGPT in what they call a dangerous arms race.

EQUITY RECOMMENDED REGIONAL POSITIONING

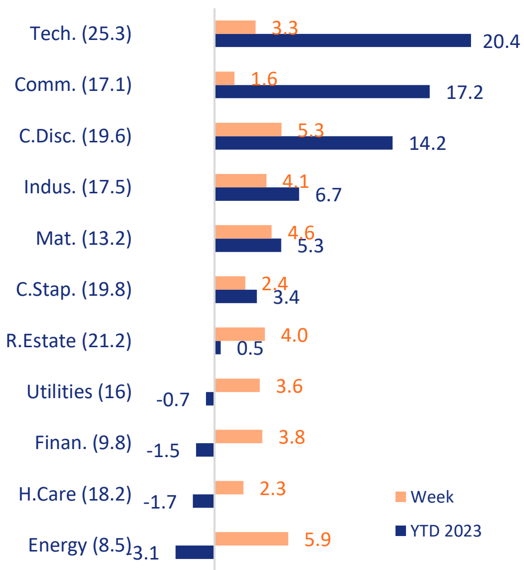


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND 2023PE



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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