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Our take on the economy

2023 so far

What went up

Most equity and bond markets

Gold and digital assets

Investor's confidence

What went down

Inflation

Commodity prices

Economists' mood

What made the news

The setbacks of US banks

Credit Suisse collapse and takeover by UBS

China reopening

Business health

Resilient

Overall, companies around the world have shown resilience so far. The long-term effect of higher interest rates and inflation are still weighing on revenues. At the same time, decreasing prices lead to more attractive valuations: equities are more affordable for investors.

Economic environment

Less conducive

In 2022, the economic environment changed drastically. Higher rates, lower asset prices and slower growth prospects are the new paradigm investors must deal with. While the environment remains challenging, there is also scope for more positive surprises, especially if Central Banks raise rates less aggressively.

Interest from investors

Divided

Investors are still divided when it comes to economic prospects, although we all got somehow used to the new market regime. While most economists are expecting a recession in 2023, many investors are taking advantage of lower asset prices and higher interest rates. Opinions diverge when it comes to the specific asset classes and sectors to invest in, this is good for price discovery.

What it means for investors

1

Market performance is still likely to be dictated by the actions of central banks and the pace at which inflation will retrench. Turbulences are still expected as economies are slowing down.

2

Higher interest rates affect the economy and put pressure on asset prices. At the same time, they provide opportunities to lenders.

3

Safer assets have become attractive again, and markets are offering bargains for more risky investments. It is not a bad environment for investors overall.

Key items on our radar

Hang on, businesses!

Can companies continue to post strong earnings as input costs rise and consumers are under pressure? Their resilience so far has provided hope to investors. We are closely monitoring the situation. On the positive side, lower prices and more realistic valuations mean better entry points for investors.

Long-term effects of central banks actions

When central banks raise rates, the effects on the economies are not immediate or homogeneous. While we start to see the impact of their actions on inflation, the repercussions on business growth, financing, consumption and real estate markets are starting to materialize too. The banking system was one of the first to take a hit.

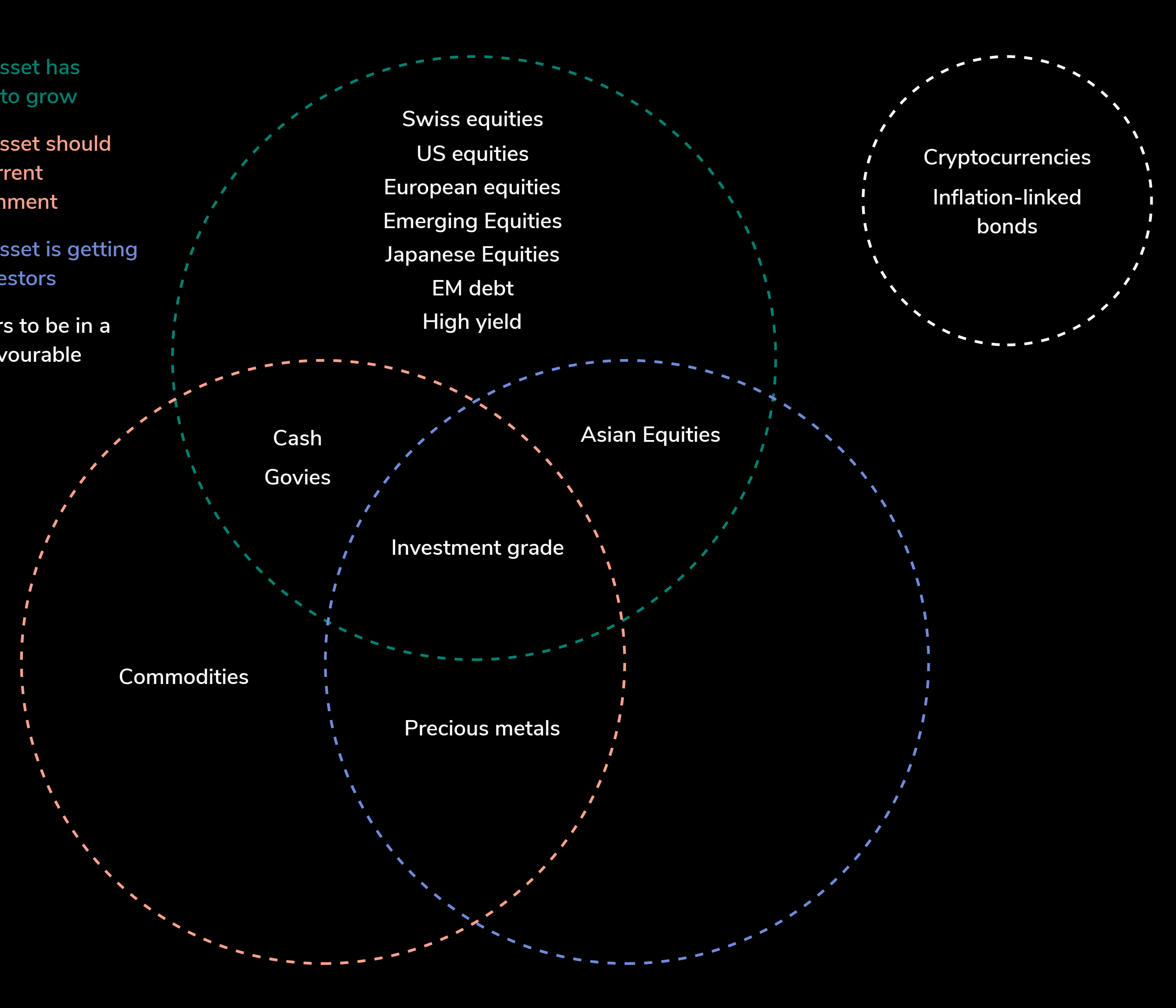
Deglobalization and decorrelation

The pandemic, the urge for a greener world, and the war in Ukraine have cast doubt on the future of globalization. The return to more local economic models has implications for global trade and, ultimately, international businesses. In addition, monetary policies differ from one economy to another, which led to dispersion in local market performances in 2022. We see this as a key argument for international diversification.

Alpian Ikigai

Inspired by the Japanese concept of Ikigai, Alpian's Ikigai is an intuitive representation of our investment team's current views on the asset classes typically found in investors' portfolios

- We believe the asset has intrinsic reasons to grow
- We believe the asset should do well in the current economic environment
- We believe the asset is getting interest from investors
- The asset appears to be in a temporarily unfavourable position



How to read the diagram above?

Alpian's investment team has developed a research framework to help our clients answer this question: "Is it a sound economic decision to buy or sell a particular asset?". Understanding whether or not an asset is likely to grow in value usually means figuring out three things, which can be represented by three overlapping spheres in a Venn diagram:

· Are there intrinsic reasons for the asset to grow?
· Is the external environment conducive to its growth?
· Are other investors likely to be interested in the asset in future?

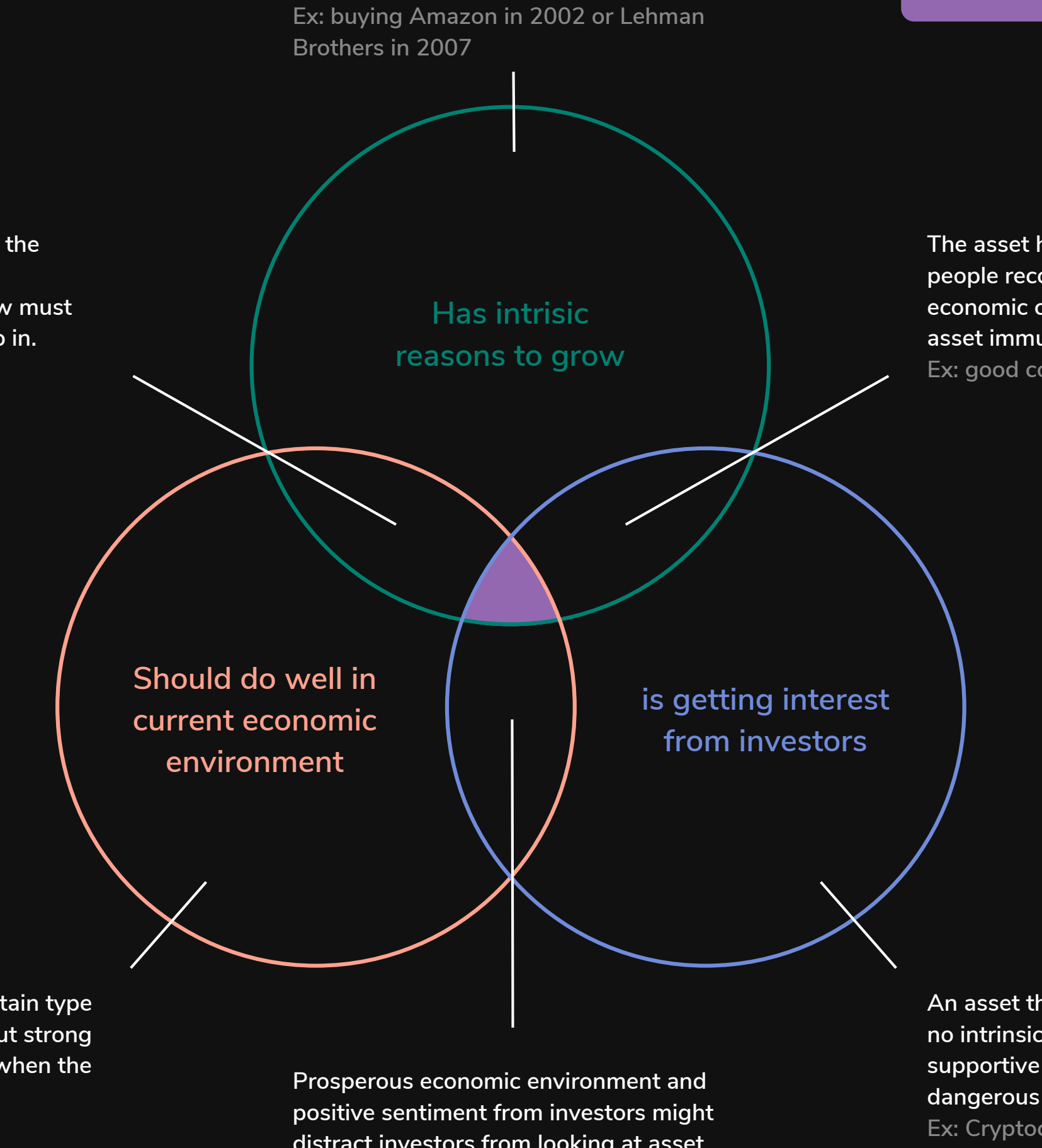
Our investment team tries to answer these questions periodically for a range of popular asset classes. We visualise our interpretation by placing asset classes in the relevant areas of the diagram. Each one has a specific meaning and suggests a different course of action. You can learn more about these in the legend below or by clicking on this link.

You decide to buy an asset only based on its fundamentals, ignoring economic signals and investor sentiment. It is a very contrarian positioning.
Ex: buying Amazon in 2002 or Lehman Brothers in 2007

The ikigai is when all stars are aligned. The asset has intrinsic reason to grow, the environment is conducive, and investors are interested

Still a contrarian positioning but the fundamentals are good and the environment conducive. You now must convince other investors to jump in.
Ex: some exotic asset classes or emerging countries.

The asset has reasons to grow, and people recognized it. But what if economic conditions deteriorate? Is the asset immune to external shocks?
Ex: good companies in 2007-2008



Some assets perform well in certain type of economic environment without strong fundamentals. The issue arises when the economic regime changes.
Ex: gold in time of crisis

Prosperous economic environment and positive sentiment from investors might distract investors from looking at asset fundamentals. Trend following has its limits and lack of due diligence can be costly.
Ex: junk companies in low rate environment, subprimes in 2007

An asset that attracts investors but has no intrinsic reason to grow nor supportive economic factors, could be a dangerous game. Beware of bubbles.
Ex: Cryptocurrencies in 2021 or AMC in 2020

What we do in portfolios

1

Our overall positioning remains conservative. We are constructive on most asset classes but we take advantage of fixed income securities to diversify our risks.

2

We have redeployed the cash buffer we constituted last year to take advantage of higher yields and equity markets weaknesses.

3

We favor core allocations over more thematic ones and spread our bets internationally. As Central Banks' actions start to pay off, we reduced our exposure to inflation-linked instruments.

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