

Investment Review & Outlook

2Q 2023



18th July 2023

Major Indexes	Level	2023 YTD	2022	Commodities	Level	2023 YTD	2022
World	2,966.72	+15.44%	-17.71%	Gold	1,919.35	+5.23%	-0.28%
USA	4,450.38	+16.88%	-18.13%	Oil	74.90	-12.82%	+10.45%
Switzerland	11,280.29	+8.29%	-14.29%				
Asia ex. Japan	630.60	+3.11%	-19.58%				
Japan	33,189.04	+28.65%	-7.38%				
Europe	4,399.09	+19.18%	-8.55%				

Interest Rates	2023	2022	2021
US Treasury	+3.86%	+3.83%	+1.58%

World: MSCI World Index, USA: S&P 500 Index, Switzerland: Swiss Market Index, Asia ex. Japan: MSCI Asia Ex. Japan Index, Japan: Nikkei 225, Europe: EURO STOXX 50, US Treasury: US 10 year Swap Rate, Gold: Golds, Oil: Brent Crude. Performance figures are total return.

Q2 2023 in review

Global equity markets experienced a mixed quarter, where developed market indexes led with gains, while emerging market remained flatter and with negative returns. Enthusiasm over AI (Artificial Intelligence) boosted technology stocks from east to west. Major central banks raised interest rates in the period while the US Federal Reserve elected to stay on hold in June. Government bond yields rose, meaning bond prices declined.

In the US, equities ended the quarter higher, with the bulk of the gains made in June. The advance came amid moderating inflation figures. A revision to Q1 GDP growth indicated an expansion of 2% (annualised), more than the previous estimate of a 1.3% growth.

The Federal Reserve (Fed) raised interest rates by 25 basis points (bps) in May, however, it abstained from raising rates in June, thus adopting what economists have termed a “hawkish pause”. The “dot plot” of rate predictions indicated two further rate rises in 2023. There has been some caution around US debt ceiling concerns over the period, with Congress approving early in June a legislation to suspend the debt ceiling. The US is the world’s most indebted nation with over \$30 trillion owed to creditors. To put that in context, the US owes as much money as the next four countries (with the highest debt) combined. That is China (\$14t), Japan (\$10.2t), France (\$3.1t) and Italy (\$2.9t).

In the Eurozone, Growth data showed that the region experienced a mild recession over the winter, with GDP declines of -0.1% in both Q4 2022 and Q1 2023. Forward-looking data pointed to slowing momentum in the economy. The flash eurozone composite purchasing managers’ index (PMI) fell to 50.3 in June from 52.8 in May. That represents a five-month low which may suggest the economy could be close to stagnation.

Asian equities recorded negative performance in the second quarter. China, Malaysia, and Thailand were the worst-performing index markets, while share prices in India, South Korea and Taiwan gained.

In Japan, the market hit the highest level in 33 years with the Nikkei reaching to 33,700 yen in June. That has partly been driven by continuous buying from foreign investors since April and ongoing expectations of corporate governance reforms and structural shifts in the Japanese macro economy. Yen weakness and strength in the US market further supported a risk-on



mode in the Japanese equity market.

Asset classes & strategy implications

These first six months of the year have been relative kind to balanced strategies. Our global diversification within the equity space helped us capture some of the positive momentum experienced in the US and Eurozone, while keeping under control the more stagnating Asian markets such as Hong Kong and Greater China.

In the fixed-income space we have largely remained put.

Our convictions do not change, and besides a few maturities which have been reinvested in slight longer maturities up to 2027, overall average duration within the USD-denominated holdings remains in the proximity of 3 years, while yield-to-maturity fluctuating around 6%. With respect to other lower-yielding currencies such as the EUR, time or fiduciary deposits have come back to being useful tools to generating liquidity on the short-term. Fixed-income investments in both EUR and CHF remain constrained, with limited options and an upside potential to barely cover transactional and custodial fees. Risk to reward ratios continues to dictate our preference in short to mid duration securities, with a focus on plain vanilla bonds by reputable names.

The fears witnessed over Q1, such as a possible contagion risk over the US regional banking sector seem to have dissipated. While capitalization and regulations have improved over the last 15 years, first quarter lending surveys in the US and eurozone indicated tightened corporate lending standards which could spill into the broader economy.

On the equity side, much of the strong performance was driven by certain sectors. Leading Indexes performance, such as major US stock indexes have predominantly been driven by a select few stocks, such as those that have been capturing the enthusiasm over AI developments, while broader counterparts delivered milder returns. Over in the EU, luxury goods stocks likewise led the way, thanks to continued unparalleled profit margins, that no other industry can get anywhere close to.

On the alternative investment side, our exposure to commercial real estate as well as trade finance, have both remained inert and resilient, hedging the volatility of other asset classes while delivering stable returns and cash distributions. Precious metals, such as gold and silver have gone through a bit of volatility. The former closing the first six months in the green, while the latter in the red.

Outlook

Overall, the first 6 months of 2023 have been more pleasant to market participants as compared to 2022. It seems markets are increasingly hopeful that a recession can be avoided, and with inflation going back to target levels. That may however sound a bit too good to be true.

Europe Stock Markets	Level	2023 YTD	2022
Europe	4,399.09	+19.18%	-8.55%
UK	7,531.53	+3.11%	+4.57%
France	7,400.06	+17.41%	-6.71%
Germany	16,147.90	+15.98%	-12.35%
Spain	9,593.00	+19.30%	-2.02%
Italy	28,230.83	+23.28%	-9.36%
Sweden	2,309.904	+15.90%	-12.95%
Switzerland	11,280.29	+8.29%	-14.29%

Results are in the indexes' reference currencies terms.

Europe: Euro STOXX 50 Index; UK: FTSE 100 Index; France: CAC 40 Index; Germany: DAX Index; Spain: IBEX 35 Index; Italy FTSE MIB Index; Sweden OMX STKH 30 Index; Switzerland: SMI Index

Asia Stock Markets	Level	2023 YTD	2022
Japan	33,189.04	+28.65%	-7.38%
Hong Kong	18,916.43	-2.76%	-12.56%
HK CEI	6,424.88	-3.04%	-15.63%
China	3,842.45	+0.45%	-19.83%
Taiwan	16,915.54	+21.67%	-18.83%
South Korea	2,564.28	+14.90%	-24.36%
India	19,189.05	+6.95%	+6.29%
Malaysia	1,376.68	-5.78%	-0.91%

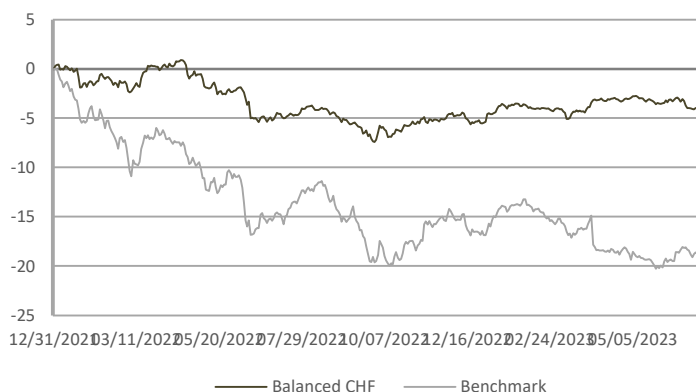
Results are in the indexes' reference currencies terms.

Japan: Nikkei 225 Index; Hong Kong: Hang Seng Index; HK CEI: Hang Seng China Enterprise Index; China: CSI 300; Taiwan: Taiwan TWSE Index; South Korea: KOSPI Index; India: Nifty 50 Index; Malaysia: FTSE Malaysia

There are a number of questions that are still outstanding and will need to be answered in the remainder of the year. If US interest rates won't be slashed pre-emptively a recession is still more likely than not and if rates are being slashed, it's probably because a recession has occurred which could trouble risk assets. Another uncertainty is how labour markets would behave should profits come under pressure, resulting in companies cutting back on investment, and then staff, in a bid to repair margins. This then marks the start of a vicious cycle as higher unemployment leads to a further downturn in demand, profits and so on.

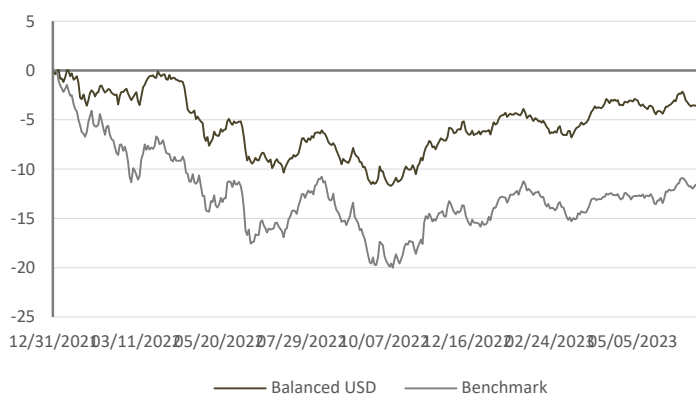


Model Portfolio: Balanced CHF (2 Year Return)



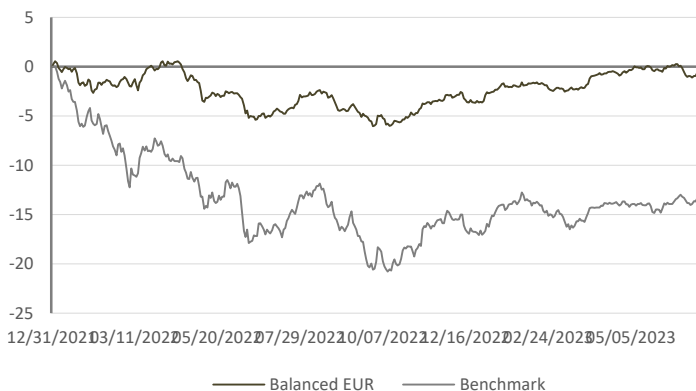
	Bal. CHF	Benchmark
2023 YTD	+1.87	+3.34
2022	-5.51	-16.87
2021	+5.15	+7.75
Sharpe R.	0.59	-0.18
St. Dev.	3.65	10.26

Model Portfolio: Balanced USD (2 Year Return)



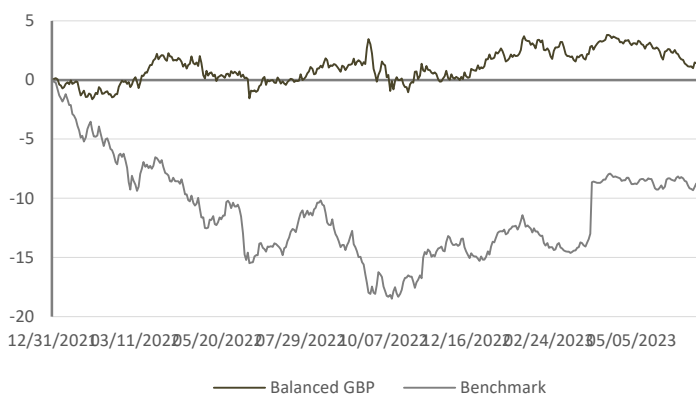
	Bal. USD	Benchmark
2023 YTD	+3.28	+5.19
2022	-6.17	-15.65
2021	+6.12	+7.43
Sharpe R.	0.35	0.12
St. Dev.	6.2	9.61

Model Portfolio: Balanced EUR (2 Year Return)



	Bal. EUR	Benchmark
2023 YTD	+3.13	+4.47
2022	-3.67	-17.07
2021	+5.52	+8.19
Sharpe R.	0.7	0.16
St. Dev.	3.77	8.74

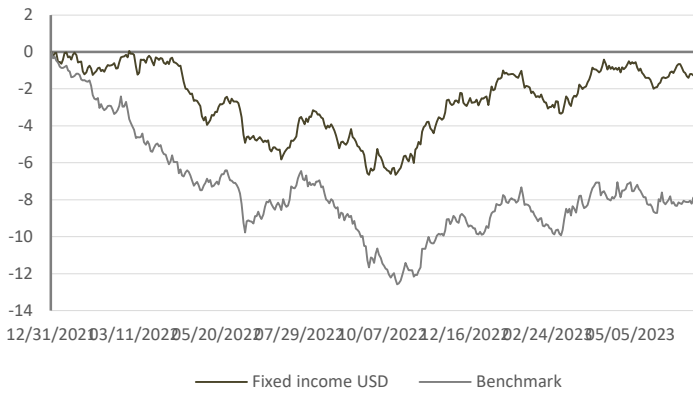
Model Portfolio: Balanced GBP (2 Year Return)



	Bal. GBP	Benchmark
2023 YTD	0	+2.67
2022	+0.80	-10.97
2021	+3.04	+7.11
Sharpe R.	-0.51	-0.13
St. Dev.	5.01	7.92



Model Portfolio: FI USD (2 Year Return)



	FI USD	Benchmark
2023 YTD	+1.31	+1.78
2022	-2.60	-9.90
2021	+0.02	-1.64
Sharpe R.	-0.1	-0.78
St. Dev.	4.07	4.60

Quoting Lao Tzu, an ancient Chinese Taoist philosopher “the flame that burns twice as bright burns half as long.” While capturing on new themes’ momentum and hype, we do remain put on diversification and well-balanced strategies, whereby it remains important to separating exciting future themes and those with investment merit. short term.

Your Novum Team



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