S.P. HINDUJA

BANQUE PRIVÉE

House View

MAY 2022

Thoughts of the CEO

«Cybersecurity and Digitisation»

Last month I shared some thoughts on the changing landscape affecting global trade and how corporates are striving to build a more resilient procurement. This month, I would like to share with you how we view our society's increasing digitization from an investment opportunity perspective.
As many of you will be too aware from your own business activity, digital connectivity, supported by cloud computing, 5G mobile networks, the internet of things (IOT) and many other technological advances, brings significant benefits, but also makes households, businesses and governments more vulnerable to attacks from disruptive sources and criminal activity.

Several highly publicised cyberattacks in recent years include targets such as logistics companies, oil pipelines, retail store chains, banks, petrol stations, healthcare networks and many others. Furthermore, nations are engaging in cyberactivity affecting vital infrastructure all the way to trying and influencing election outcomes. Not surprisingly, the demand for comprehensive cybersecurity solutions is growing rapidly and finding them is poised to become one of the biggest challenges facing our planet.

To put the above into perspective, allow me to provide a few data points. Since 2005, 195 data breaches have been reported, involving more than 1 million records in each event, according to data from Bloomberg/Nasdaq. Globally, the average total cost per data breach in 2021 amounted to USD 4.2m, varying broadly between countries. In the US for instance, this cost exceeds USD 9m, whilst the cost for such events occurring in Brazil drops to just over USD 1m (source: IBM Cost of Data Breach Report 2021). The industry most affected by cyberattacks is healthcare, the top industry in average total cost for the eleventh year in a row, whilst the least vulnerable sector appears to be the public sector.

Concurrent with the sharp increase of cyberattacks, the past decade has seen a dramatic increase in the number of companies offering services ranging from the traditional antivirus protection to network, endpoint, web and data security to outsourced managed security services, feeding the worldwide security spending of USD 150bn in 2021.

With my thoughts shared as above, I am happy to present to you the House View for May 2022.

Yours sincerely,

Karam Hinduja

Digitisation boosts investments in cybersecurity

As the world becomes more digitally integrated – it is estimated that the number of connected devices is going to expand from 35bn in 2021 to 75bn in 2025 (Source: 2022 Statista Research Department) - economies need resilient technological infrastructure, which cybersecurity is essential for, making it a key contributor to the Sustainable Development Goal (SDG) number 9 "Industry, Innovation and Infrastructure". The cost linked to global cybercrime is expected to grow by 15% annually over the coming 5 years, reaching in excess of USD 10trn by 2025 (up from USD 3trn in 2015; Source: 2021 Cybersecurity Ventures). Therefore, cybersecurity spending is likely to continue growing rapidly, as can be seen in the chart below, creating compelling longer-term investment opportunities.

Cybersecurity solutions help organisations detect, monitor, report and counteract cyber threats and attacks to maintain data confidentiality. The global cybersecurity market, still widely fragmented, was valued at USD 133 billion in 2021, and it is predicted to grow at a compound annual growth rate (CAGR) of approximately 14% over the coming 5 years (Source: Mordor Intelligence).

The cybersecurity market landscape is vast and dynamic and we attempt to segment it by solutions type even though there are some inevitable overlaps. Thus, we identify the following five areas:

1. Cloud security: all security software aiming at protecting a network of remote servers that are hosted on the internet where data is stored, managed and processed. This also includes network, data and application security.

2. Network security: involves the authorisation of access to data in a computer network, including intrusion prevention and detection, network monitoring and unified threat management. Proxy and firewalls are examples of network security.

3. Data security: process of protecting data from unauthorised access and data corruption throughout a data set's lifecycle across all applications and platforms.

4. Application security: use of security software and other techniques to protect computer applications from any external threat. This encompasses adding security features through the whole application life cycle from development to usage.

5. End-point security: security of end-user devices such as servers, desktops, laptops and other mobile devices as main gateways into the networks

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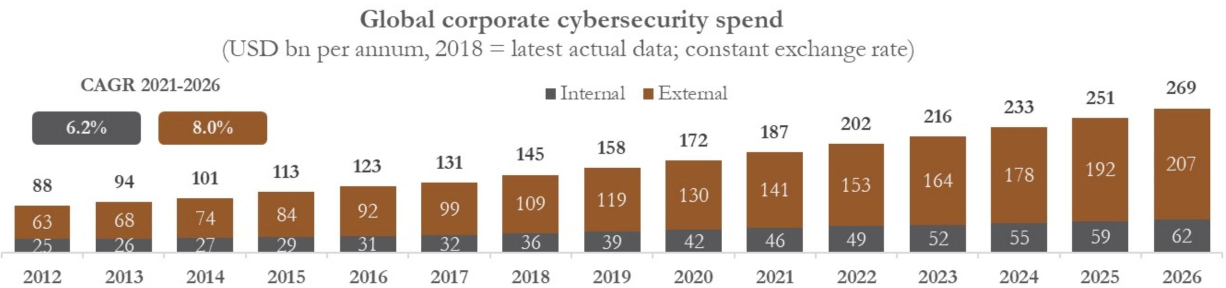
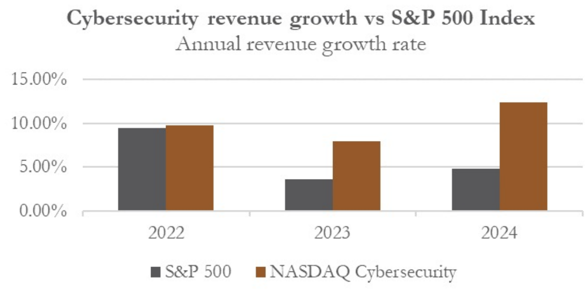
Fig. 1

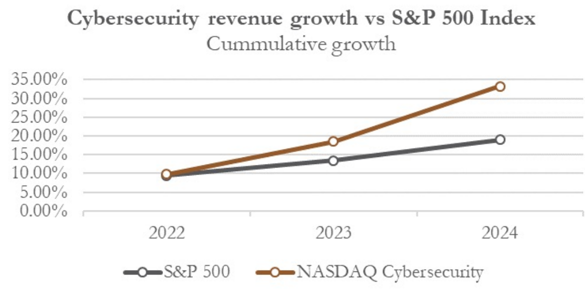


SOURCE: GARTNER, FORBES ROUND UP OF CYBERSECURITY FORECASTS, PUBLISHED 05.04.2020

The secular trend of ever-increasing cybersecurity-related spending assures healthy revenue growth for companies offering solutions to reduce the economy's vulnerability of approximately 10% CAGR for the coming 5 years, as shown in the following illustrations.

Fig. 2





SOURCE: S.P. HINDUJA BANQUE PRIVÉE, AS AT 27TH APRIL 2022.

Asset allocation considerations

Following our assessment presented in last month's House View of a more challenging macroeconomic outlook ahead, accompanied by heightened market volatility, we see ourselves compelled to increase the defensiveness of our tactical asset allocation (TAA).

We do realise that the fundamental backdrop is still mostly robust. Following the exceptional hit to economic activity by the Covid-19 induced lockdowns in early 2020, growth in many economies staged an exceptional subsequent recovery. Households in many advanced economies have strong balance sheets, businesses are expanding their productive capacities, and the banking industry is well capitalised and regulated.

However, this rosy scenario is increasingly threatened by gathering storm clouds. The extraordinary stimulus measures introduced by governments and central banks alike led to an extraordinary rise in demand for goods in particular, fuelling global shortages and strong inflationary pressures. Additionally, Russia's invasion of its neighbour Ukraine in February shook business and consumer confidence profoundly, pushed the inflation spiral even higher and re-kindled the long-forgotten prospect of stagflation. The only silver lining is that the financial system seems to be weathering this storm well, so far. Few banks have a direct link to the Russian economy and market and the impact from sanctions imposed on that country's central bank, government, businesses and individuals look manageable.

Furthermore, facing persistently high inflation, a number of central banks around the globe have started to embark on a rate hiking cycle, which in itself is nothing surprising, as we have commented on the normalisation of monetary conditions on numerous occasions. With the risks mentioned earlier, the path to orchestrate a soft-landing becomes increasingly narrow and the potential for a policy error is mounting. The US Federal Reserve Bank, notably, has upped its hawkish rhetoric in recent weeks, indicating an acceleration of rate hikes and quantitative tightening through the reduction of its balance sheet. Finally, China's Zero-Covid policy is starting to show strains in the system, and the latest stimulus measures announced by the PBoC in early April so far do not look convincing enough to avoid a hard landing.

As a result, risks for a significant economic downturn in 2022 have risen, which affects our outlook for risk assets. With fixed income markets posting the worst start of the year since 1987 (the Bloomberg Global Aggregate Total Return Index dropped 11.3% from 1st January to 30th April), bond yields both on a nominal and real basis are starting to look more attractive and warrant considering a reduction of equities and an increase in fixed income.

Global Asset Allocation Preferences — May 2022

Asset Class	Opinion	Constitutents	We favour	We avoid	Commentary
Cash	-				Temporarily increase cash for defensive profiles in times of heightened uncertainty
Fixed Income	+	Segments	Nominals over Inflation linkers	Emerging Markets, lower end of the credit spectrum	Central Banks accelerated normalisation effort heightens risk of economic slowdown. Nominal rates likely to top out in the near-term, making fixed income investments look attractive relative to risk assets.
		Duration	medium term		Government bonds benefit from safe-haven flows - longer duration warranted.
Equities	-	Markets	US	China, EM	Persistent uncertainty owing to Russia-Ukraine conflict and risk of monetary policy mistakes, raising spectre of economic downturn. Zero-Covid policy in China reducing potential for reaching growth targets. Heigthened uncertainty warrants reduction in exposure to risk assets.
		Themes	Quality stocks with high pricing power		Focus on companies with robust pricing power
Alternatives	+		Carbon, REITS, listed infrastructure,	Illiquid alternatives	potential for easing of supply/demand imbalances makes industrial metals temporarily less attractive

Opinion	++	very attractive
	+	attractive
	=	neutral
	-	unattractive
	--	very unattractive

Figure of the Month

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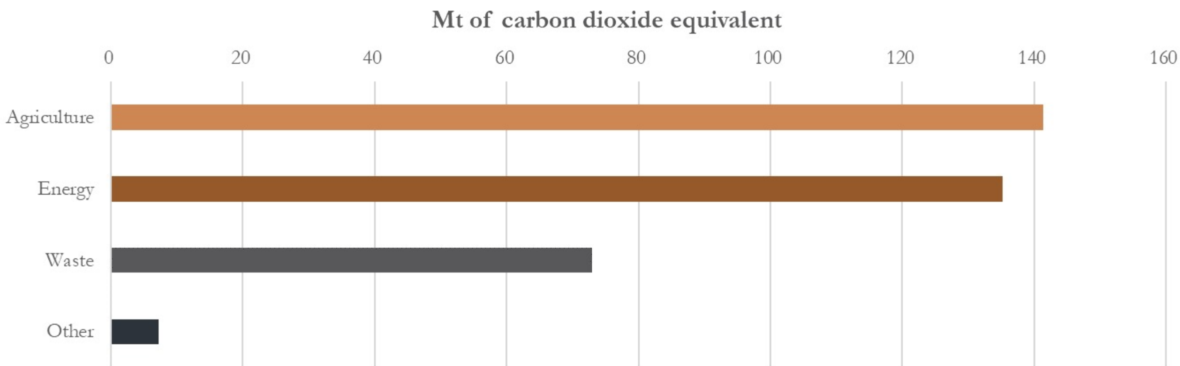
Methane emissions from the energy sector are approximately 70% higher than reported in official data, according to the latest Global Methane Tracker 2022 published by the International Energy Agency (IEA) on 23rd February of this year.

Methane is responsible for about 30% of the rise in temperature around the World since the industrial revolution. The Intergovernmental Panel on Climate Change estimates that today's concentration of methane in the atmosphere of close to 360 million tonnes (mt) is higher than at any time over the past 800,000 years.

The largest contributor from human activity is agriculture with approximately 40% of total emission, closely followed by the energy sector (38%), which includes oil, natural gas and coal extraction, processing and transportation, as well as from the incomplete combustion of bioenergy production.

Reducing these emissions is one of the most urgent priorities in order to limit near-term global warming and improving air quality. One of the most effective ways of methane abatement is to cut the wasteful leakages from fossil fuel operations. Had all these leaks been captured and marketed, especially in light of elevated energy prices, an additional 180 billion cubic metres of gas would have been made available, roughly equivalent to all the gas used in Europe's power sector, thus comfortably easing price pressures affecting households today.

Scientist and policy makers are increasingly recognising that methane reductions are crucial in order to reach the global temperature goal of a rise to maximium 1.5% C above pre-industrial levels by the end of this century. For example, a new initiative was born at last year's COP 26 in Glasgow, called Global Methane Pledge, which was signed by over 100 countries representing about 70% of the global economy. Their commitment is to cut global methane emissions by at least 30% by 2030 compared to 2020 levels.



SOURCE: IEA, TOTAL METHANE EMISSIONS AND METHANE INTENSITY OF PRODUCTION IN SELECTED OIL AND GAS PRODUCERS, 2021, IEA, PARIS HTTPS://WWW.IEA.ORG/DATA-AND-STATISTICS/CHARTS/TOTAL-METHANE-EMISSIONS-AND-METHANE-INTENSITY-OF-PRODUCTION-IN-SELECTED-OIL-AND-GAS-PRODUCERS-2021.

S. P. Hinduja Banque Privée – A family-owned Swiss Bank with Indian roots.

S.P. Hinduja Banque Privée S.A. is an innovative Swiss bank with roots in India, offering wealth management and investment advisory services to entrepreneurial clients. We partner with clients to create exponential economic and social impact, as our family has aspired to do for over 100 years.

Founded in Geneva in 1994 by Srichand Parmanand Hinduja with a vision to provide clients with a bridge between East and West, our institution remains the only Indian-owned Swiss bank in history. With an active presence in Switzerland, India, UAE and the UK, S.P. Hinduja Banque Privée offers its clients the reliability of Swiss regulatory oversight, while providing specialized access to high-growth markets.

We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

The future of banking is emerging at the intersection of profit and purpose.

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