

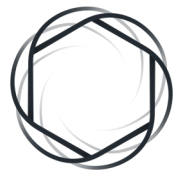


S.P. HINDUJA

BANQUE PRIVÉE

House View

June 2023



Thoughts of the CEO

“Taking stock halfway through 2023: The case for diversification.”

As we approach the year's halfway mark, it is useful to reflect on where we currently stand. What do the most recent economic data tell us, and what can we glean from the way that financial markets have interpreted them?

Regular readers of our House View will know that we are data-dependent, in other words, we are guided by the fundamental data, rather than current headlines. We look for trends rather than overinterpreting a single data point.

What we see from first quarter economic growth rates reflected the weakening growth forces at play globally with a common feature in developed markets, namely an acute dichotomy between depressed manufacturing activity and buoyant services. Even more striking than these low numbers is the weakness in international trade we are observing. Globally, nominal exports and imports are receding. In part, this is a result of falling energy prices and lower goods inflation. Still, many developed countries registered negative real imports. And we are of the view that where world trade growth goes, corporate earnings growth follows.

Given the recent unimpressive performance in leading indicators, we must be mindful that weak imports are the reflection of lacklustre domestic demand. Private consumption most likely has been slow because consumer sentiment in many places is uninspiring. Construction spending is increasingly hit by higher mortgage rates. And governments are struggling with post-Covid inflated deficits that they now have to bring back to more sustainable levels. That is partly the reason why Germany entered into technical recession in the first quarter of 2023. We saw that last year in the UK, and we have heard similar concerns about the sustainability of the US government's finances.

The key point here is that we cannot expect governments to bring out large fiscal bazookas. Yet, there are also positive developments that we need to acknowledge. In many

countries, the labour market seems robust. Consequently, consumer spending remains quite robust for the time being.

How relevant labour market data is for forecasts is often disputed. After all, the labour market is a coincident and not a leading indicator, and the leading indicators are currently pointing into a completely different direction. Judging by the recession indicator for the US that we follow (please see Figure 1 on the next page), a recession is still by far the most likely outcome.

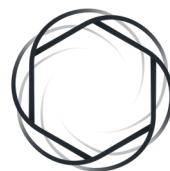
Bond and equity markets are sending mixed signals about recession risks. Maybe the expectation of lower money market rates towards the end of the year might be seen as counterbalancing weak growth, but credit spreads and stock prices are clearly pricing in earnings growth for the second half of the year. Up to 30 per cent of total corporate debt in the US is short-term debt that will need to be refinanced soon at materially higher rates. We believe it is time for investors to stress corporate cash flows.

Markets are not always right about future twists and turns. Hence, we continue to be guided by our tools and indicators, which we share with you in the following pages. Their signals suggest continued caution. This is also due to the expectation that as long as inflation is not back at central banks' target levels, the monetary authorities cannot easily deliver the equivalent of a monetary bazooka or stock market put. The authorities are thus restrained both in terms of their ability to respond with fiscal and monetary largesse.

Despite the elusive recession, we recommend our clients to remain defensive.

Yours Sincerely,

Karam Hinduja



Investment positioning

Overall, our portfolio positioning remains defensive. Our core macro scenario envisions resilient but unquestionable sub-trend growth, combined with stubborn inflation and elevated recession risk. Stress in the banking sector seems to have eased, but credit concerns are escalating. The effects of tighter lending conditions remain highly uncertain and are feeding recession risks. Cash levels in portfolios remain overweight and unchanged. Please see our detailed recommendations on pages 5, 6 and 7.

We are underweight equities with a focus on quality and defensiveness. We favour the US over Europe on the basis of recent performance and on the back of fast-worsening business sentiment and collapsing credit demand. We find relative value opportunities in certain markets, such as Japan, China and India.

Riskier assets more broadly appear less impressed by the deteriorating prospects

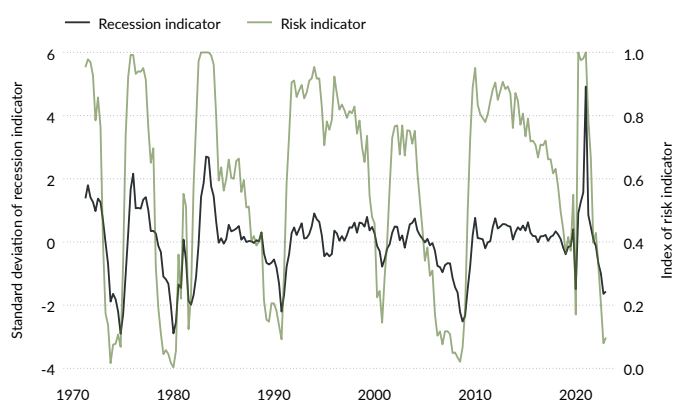
On the previous page we highlighted the apparent disconnect between the deterioration in the fundamental data and the reaction to this by financial markets, in particular risk assets. Here we provide more detail on what we are observing and how we interpret our findings.

Sentiment in the manufacturing industry continues to deteriorate and consumer sentiment remains at historically low levels. Additionally, inflation rates — in particular the core rates, which exclude volatile energy and food — are

sticky, while the world's largest economy is facing an unusual banking crisis. Equity markets more broadly, however, are apparently still not very impressed by this context or by the gloomy sentiment indicators. Their optimism remains almost as persistent as core inflation's stickiness: UK 6.8 per cent, Euro area 5.6 per cent, United States 5.5 per cent — still far enough away from the 2 per cent target to bet that rate cuts are just around the corner.

And yet, we have seen some financial market loss of optimism in some areas. Indeed, small caps stocks seem to have factored in the risk of a potential recession as well as the financial sector. Both segments are down by 13% from February's highs. And another segment is the commodity space. As of the end of May 2023, Brent oil was down from USD 120 per barrel a year ago to USD 76 — not exactly a sign of a global engine firing on all cylinders or even a sign of tight markets despite the announced cutbacks by OPEC+. Wholesale natural gas prices, both in the US and

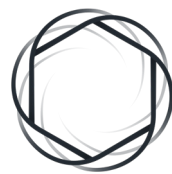
Fig. 1: Recession and financial risk indicators



SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS, WELLERSHOFF & PARTNERS

This chart shows the development since 1970 of a US recession indicator (left scale) and a general risk indicator for financial assets (right scale). The recession indicator has been indicating for 11 months now that we should expect a recession in the United States. The risk indicator suggests a cautious stance with regard to financial market risks.





in Europe are down sharply, so this is not just a European pipeline story. The same goes for several agricultural commodities, including wheat, soybeans and corn. As a consequence, the prices of many commodity-linked companies have fallen sharply. The currencies of commodity exporters, including the Australian dollar, the Canadian dollar, the Russian rouble, have also fallen against the US dollar over the past year. These are all signals that this is more about the demand side than the supply side.

When we combine these signals with the others we follow, the consolidated recession indicator, going back to 1970 and shown in Figure 1, has been predicting a recession in the US for 11 months now. What this has historically implied for financial market risks can be seen from the risk indicator on the chart. It suggests a cautious stance with regard to financial market risks.

The US dollar, despite correcting, is not cheap

When we look at the US dollar in trade-weighted terms (Fig. 2), we see that despite the dollar's correction since last year's peaks, the currency is still not cheap. The US dollar is 10 percentage points above its trade-weighted average since the year 2000, and 20 percentage points from its lows this century. Historically, a weakening US dollar has helped the performance of emerging market equities.

Our estimates show that, over the longer run, a 1 per cent depreciation of the US dollar typically boosted emerging market equity prices by about 0.8 per cent in the

respective local currencies. Over the last 15 years, the effect has been even stronger at 1.8 percent.

Hence, within a cautious, underweight equity allocation, we look to selectively add exposure to some emerging markets when we can. We are mindful, however, that increased global risk aversion could temporarily cause the US dollar to strengthen. The more than 10 per cent appreciation during the global financial crisis can clearly be seen on the chart, as can the reversal when sentiment shifted to more risk-on.

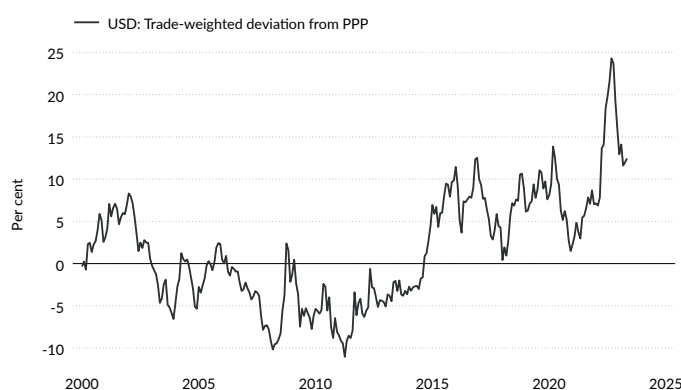
Credit demand in Europe

According to the last ECB bank lending survey for Q1 2023, a sudden shift in credit demand in the Eurozone is taking place. All leading indicators are now rolling over and they point to a significant slowdown in private investment for the next two to three quarters. The survey shows the collapse of credit demand for investment among non-financial firms, surveyed by the ECB. The stalling of inflation-adjusted operating margins in the private sector largely explains the outcome of the survey. The decline in net demand was stronger than expected by banks in the previous quarter and is the strongest since the global financial crisis. Hence our greater caution on Europe.

The value of diversified equity exposure

The sharp rise this year in the value of the technology-heavy index NASDAQ is attributed to the heavyweights

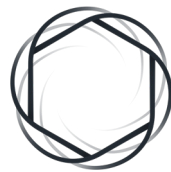
Fig. 2: The US dollar still expensive in trade-weighted terms



This chart shows the trade-weighted deviation of the US dollar from its purchasing power parity estimate. Although the gap has narrowed following the downward trend of the US dollar since last year's peak, the dollar continues to remain expensive on a trade-weighted basis. Accordingly, on this measure the dollar has further downside potential.

SOURCE: REFINITIV, WELLERSHOFF & PARTNERS



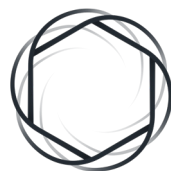


including Meta, Apple, Microsoft, Amazon and Alphabet — the so-called MAMAA stocks, after the original FAANG stocks underwent name changes or were dropped (Netflix).

A closer look at the performance of the S&P500 index tells us that without the emergence of AI (Artificial Intelligence), the index would have been in negative territory this year (-1.0 per cent according to Société Générale). The most representative AI stocks namely, Nvidia (+175 per cent), Microsoft (+38 per cent), Alphabet (+40 per cent) and Meta Platforms (+118 per cent) account for 15 per cent of the S&P500 market cap.

Unexpectedly, these stocks have proven to be extraordinarily resilient to the Fed's interest rate moves to date. The reason for this is probably that these stocks are no longer growth stocks in the traditional sense but established businesses with more stable cash flows. This means that interest rates are likely to have less of a discounting effect than on growth companies, whose cash flows are projected mainly into the future. Nevertheless, these are not the kind of stocks one would expect to massively outperform after the most aggressive and fastest monetary tightening in fifty years. It is a reminder why we pursue a diversified exposure to assets, even in a gloomier growth environment.



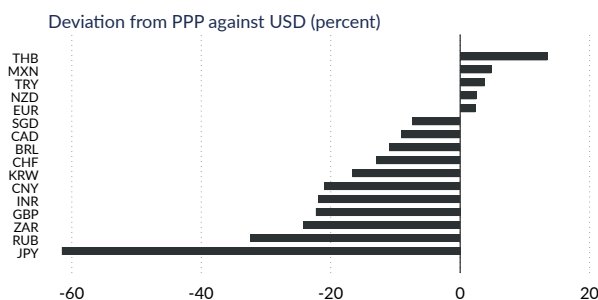
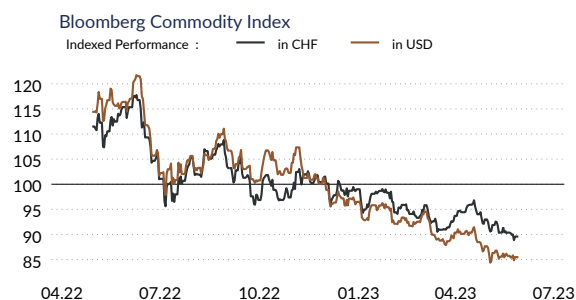
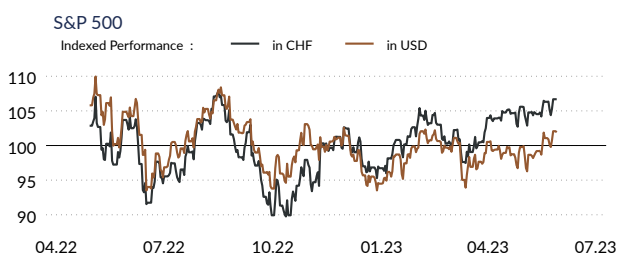
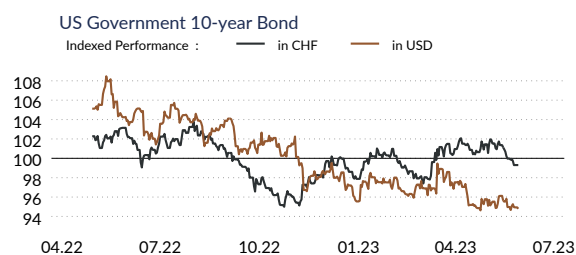


Macroeconomic estimates (in %)

	GDP Growth			Inflation		Interest Rates	Money Growth M1
	Trend	2023E	2024E	2023E	2024E	Q1 2023	y/y 04/2022
USA	1.6	1.0	1.2	4.5	4.0	5.25	-9.8
Eurozone	1.1	0.4	1.4	5.0	4.0	3.25	-5.1
UK	1.7	0.0	1.0	5.5	5.5	4.50	-2.9
Switzerland	1.3	0.6	1.2	2.5	2.5	1.50	-10.6
Japan	1.1	1.4	1.0	3.0	2.0	-0.10	4.4
China	4.5	4.5	4.0	2.0	2.2	4.35	5.3
Brazil	1.4	1.2	1.4	4.2	4.0	13.75	-4.6
India	5.0	6.5	6.5	5.0	5.0	6.50	6.8
Russia	1.0	0.5	1.0	10.0	4.0	7.50	30.1
World	3.0	2.5	3.0	5.0	4.0	-	-

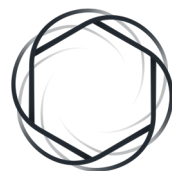
SOURCE: REFINITIV, WELLERSHOFF & PARTNERS

Financial Markets



SOURCE: REFINITIV, WELLERSHOFF & PARTNERS



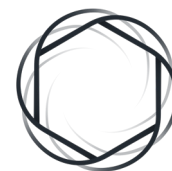


Global Asset Allocation Preferences – June 2023

Asset Class	View	Constituents	We favour	We avoid	Commentary
Fixed Income	++	Segments	US Treasuries and developed market investment grade credit.	Convertibles, High Yield, Emerging Market debt	Stock-bonds correlations are coming down sharply, offering a strong case to recover the diversification benefits of fixed income in portfolios. In the event of a global slowdown and a fixed income rally, US Treasuries tend to outperform within the asset class. Recessions later this year could see the Fed start cutting rates and will drive appetite for safe-haven assets. Investment-grade credit offers attractive yields. High-yield spreads do not price in additional earnings declines and higher debt-servicing costs, in our view.
		Duration	Medium-term		We continue to think that as inflation eases and the economy slows down, adding some duration tends to benefit portfolios. The investment approach in credit needs to focus on investment grade holdings. Balance sheet metrics such as liquidity, short-term debt and refinancing risks are at the centre of our analysis. We avoid corporates facing significant debt maturities in the short term.

VIEW: ++ VERY ATTRACTIVE + ATTRACTIVE = NEUTRAL – UNATTRACTIVE — VERY UNATTRACTIVE



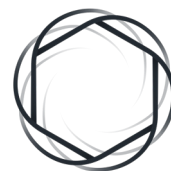


Global Asset Allocation Preferences – continued

Asset Class	View	Constituents	We favour	We avoid	Commentary
Equities	–	Markets	US, selective Asia ex-Japan	Latin America	<p>The market appears too complacent looking at recession and credit risks, in our view. A deterioration of business and consumer confidence together with tighter credit standards will increase pressure on corporate margins and hence earnings.</p> <p>Within US, we continue to favour low beta and quality stocks as we see the region more sensitive to growing risk aversion. We keep the same criteria in Europe, though we have become more neutral after recent outperformance in a risk-on market.</p> <p>Remain neutral on Japan. We expect resilience in China, despite having lost some momentum. We reiterate our long-term preference for faster-growing India.</p>
		Sectors	Quality, value. Dividend growers. Consumer staples, healthcare, utilities and agricultural stocks.	Construction, Autos, Tech Hardware, Consumer discretionary, Industrials, Commercial REITs	<p>We favour quality names, strong balance sheets and earnings resilience. In a higher rate environment, we favour value (highly selective on financials and energy) over growth and companies with strong earnings profile featuring pricing power characteristics, high margins, and low refinancing risks. Defensive US stocks usually outperform during global earnings recessions. Oversold utilities present an opportunity. Healthcare, staples, food producers and food retailers are preferred.</p>

VIEW: ++ VERY ATTRACTIVE + ATTRACTIVE = NEUTRAL – UNATTRACTIVE — VERY UNATTRACTIVE





Global Asset Allocation Preferences – continued

Asset Class	View	Constituents	We favour	We avoid	Commentary
Alter-natives	+		Selected direct real estate, listed infrastructure, gold	Distressed debt, Private debt, Consumer lending	<p>High inflation, energy transitions and growing digitization of the economy keep on being valid arguments to favour infrastructure as an alternative. In real estate, renewed downside risks exist in the form of writedowns and defaults. The sector is highly exposed to the new headwinds stemming from tightening lending standards. Selected logistics, storage and students' residences are preferred segments. Avoid listed real estate in general and investments in commercial real estate.</p> <p>We continue defending our skew towards gold. The asset should perform well as rates normalise and risks of recession mount. USD and strong purchases from central banks might become additional supports.</p>
Cash	++				<p>We continue to hold more cash than in normal circumstances. Cash remains highly attractive in an environment of high and growing recession risk, demanding valuations of risk assets and underestimated credit risk.</p>

VIEW: ++ VERY ATTRACTIVE + ATTRACTIVE = NEUTRAL - UNATTRACTIVE — VERY UNATTRACTIVE



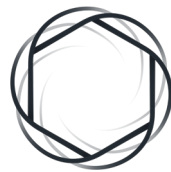


Figure of the Month

2%

This was the average interest rate that the United States government paid to service its USD 31 trillion of debt in 2022. That translates into around USD 620 billion per year, excluding repayments of the principal. As a consequence of rising yields, the US can be expected to spend even more in the coming years on debt servicing costs. Higher interest payments mean the federal government will either have to lower spending, raise taxes or issue even more debt to service its obligations.

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.

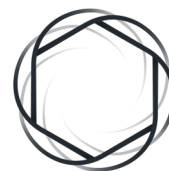
Contact:

S.P. Hinduja Banque Privée S.A.
Place de la Fusterie 3bis
1204 Geneva
Switzerland

Phone: +41 58 906 08 08
Fax: +41 58 906 08 00
Email: info@sphinduja.com
Website: sphinduja.com



S.P. HINDUJA
BANQUE PRIVÉE



Disclaimer

This his report has been exclusively prepared and published by S.P. Hinduja Banque Privée SA (“SPH”). This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or any other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide and/or on an unrestricted basis. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions indicated are subject to change without notice. Some investments may not be readily realizable if the market in certain securities is illiquid and therefore valuing such investments and identifying the risks associated therewith may be difficult or even impossible. Trading and owning futures, options, and all other derivatives is very risky and therefore requires an extremely high level of risk tolerance. Past performance of an investment is no guarantee for its future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. SPH is of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we recommend that you take financial and/or tax advice as to the implications (including tax liabilities) of investing in any of the products mentioned herein. This document may not be reproduced or circulated without the prior authorization of SPH. SPH expressly prohibits the distribution and transfer of this document to third parties for any reason. SPH will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

EDITORIAL DEADLINE: JUNE 7, 2023

