

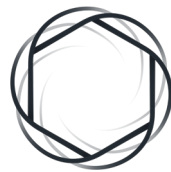


S.P. HINDUJA

BANQUE PRIVÉE

House View

October 2023



Thoughts of the CEO

“Volatile bond markets providing signals and opportunities.”

In September, the yield on the 10-year US Treasury bond broke through levels last seen in 2007 at 4.6 per cent. That number was close to the average yield of US government bonds over the last 120 years at 4.66 per cent. Hence, we appear to have moved decisively out of the low-interest rate years of 2008 to 2021, when the yield on US government bonds averaged just 2.4 per cent.

Seen from this perspective, US government bonds are attractive. For investors who do not have the US dollar as their reference currency, and who are concerned about a potentially weaker dollar relative to their reference currency, we would advise considering currency-hedged US government bonds.

The volatility of bond markets has also increased, which may be a sign that the bond market is awakening from its multi-year slumber. We first noticed a marked reaction a year ago in UK government bonds, when the UK government tried to cut taxes and borrow simultaneously, and we also noted spread widening in Italian government bonds in September, following the announcement of higher borrowing by the Italian government.

We mention these two examples merely to illustrate that we may be back in a phase where bond markets may react more sharply to unanticipated news. Triggers for big moves could include spikes in energy prices, which might change the estimates for when inflation might return to target, growing fiscal problems, or a bigger focus on recession fears again.

We are surprised that the gloomy economic outlook in the two large economic engines, Europe and China, continues to appear to play only a subordinate role. For example, as of the end of Q3 2023, credit spreads on corporate bonds hardly reflected recession fears and were mostly moving sideways. Since the beginning of the year, credit spreads

on lower-quality corporate bonds even declined, especially in the US and Europe. This simply suggests investors are overlooking the current risks of default in an environment of growing bankruptcies. Since we have a more defensive investment positioning, we have stuck to higher-grade bonds in our portfolios.

On the point of our more defensive positioning, regular readers of our House View will know that we also discuss which of our assumptions have held up, which not, and why. Accordingly, I have asked my team to provide an update on why the equity market had done so well as of the end of Q3 2023, despite rising rates, and our assumptions for equities going forward. This analysis appears on the next page.

In terms of opportunities in equities, we also share with you in this issue our assessment on Japanese equities and on a selection of quality stocks.

Yours sincerely,

Karam Hinduja





Investment Positioning

Despite a more moderate market performance in Q3, we see high valuations in the US pricing in an optimistic scenario. Incoming supportive economic data in the US lessens the likelihood of a near-term recession occurring there. We still believe that the impact of monetary tightening is just starting to hit US consumers: the US savings rate fell below the 20-year median in July to around 3.5 per cent, suggesting consumers have much less spending capacity in the quarters to come. Please see our detailed recommendations on pages 7, 8 and 9.

US risk assets pricing in an optimistic scenario

We struggle to associate a soft-landing scenario with climbing stock prices. US risk assets are pricing above-trend growth, and we believe they will converge towards below-trend growth, implying downward earnings revisions. Looking at EPS FY2024E growth consensus estimate of 11-12 per cent, the downside risk in earnings estimates as a consequence of the lagged effects of monetary tightening and the prospect of higher-for-longer rates remains a big concern to us. We maintain our conservative stance.

A review of our assumptions

Throughout the fiscal year 2023, we have maintained a defensive stance in our asset allocation and, at the same time, witnessed the surprising resiliency in the US economy. This has taken place after the most rapid and aggressive monetary policy tightening cycle in several decades. This makes us wonder whether the assumptions we took early in the year

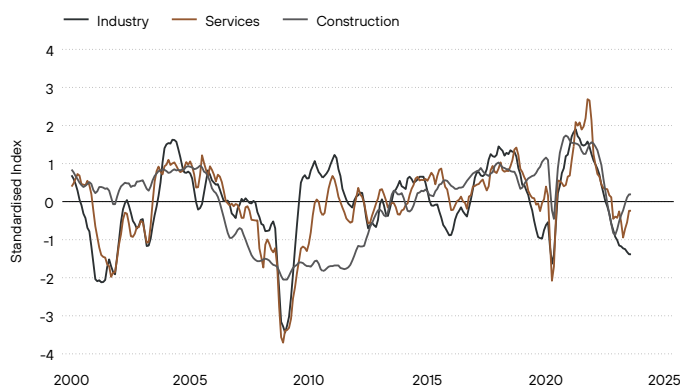
were the correct ones. We acknowledge they were not.

Firstly, we were not able to gauge and properly anticipate the behavior of the inflation/economic growth tandem. In other words, we have seen how inflation has been reduced faster than the economy has slowed down, giving rise to an expansion of multiples in the risk assets space. As inflation has come down faster than domestic demand, the impact of lower corporate earnings in valuation multiples has been pretty tepid.

Secondly, we underestimated the enthusiasm with which the market welcomed the ability of AI to boost corporate earnings in the long-term, that has even taken a broader, multisectoral angle.

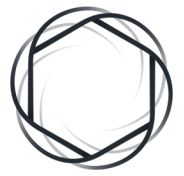
And thirdly, the private sector was in better shape than we expected, benefiting from locking financial terms below 4 per cent terms after such a long period of ultra-low interest rates and from the generous Covid-related stimulus packages.

Fig. 1: Sentiment in US manufacturing, services and construction



The chart shows that the sentiment in US manufacturing, services and construction has trended lower from the post-Covid peaks. The values shown are standardised nominal values.

SOURCE: REFINITIV, WELLERSHOFF & PARTNERS



We are surprised about the little capacity the decisions from central banks have had in influencing the real economy (particularly in the US) to date. We should not play down this quality of the monetary policy as some investors do. We believe it can be premature in light of certain indicators:

- Loan demand is weakening and credit standards are tightening.
- Bankruptcies are rising.
- Leading indicators signal contraction: manufacturing in the US and Eurozone, and services are weaker.

Therefore, we are more inclined to think that we were rather early in our assumptions than wrong.

More positive on Japanese equities

Within the equity space, we currently favor Japan and, more generally, quality companies worldwide.

Japan has a strong economic outlook, supported by positive factors such as a recovery in domestic consumption, inbound tourism, capital expenditure, and green transition. The country is expected to outgrow most advanced economies in 2023 and 2024 according to OECD projections.

Japan has improved its corporate governance standards, driven by the Tokyo Stock Exchange's campaign to encourage companies to enhance their investor appeal and capital efficiency. This could lead to higher returns on equity and better shareholder value.

Japan offers unique potential for investors amid global uncertainty, as it has a stable political and social environment as well as a diversified and innovative industrial base. Japan also benefits from its proximity and trade ties with China and other Asian markets.

Furthermore, the yen has depreciated significantly versus the CHF, EUR and USD (all-time, 15-year and 30-year low, respectively). This represents an opportunity when investing in non-currency hedged instruments.

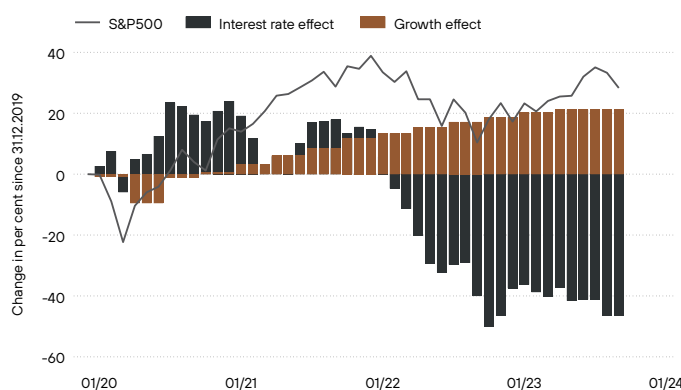
Opportunities in quality stocks

These stocks are typically companies that have strong return on equity and healthy balance sheets, along with long-term competitive advantages and pricing power. These factors can help them outperform the market, especially in a volatile or recessionary environment, as they can generate stable and growing earnings and protect their margins. Quality companies often have strong cash flow generation, which allows them to pay out higher dividends to shareholders.

Quality equities can also provide diversification benefits, as they tend to have lower volatility and correlation with the broader market, and they can also reduce the overall risk of a portfolio. Quality companies have strong positions in fields such as nutrition, pharmaceuticals, technology, engineering, luxury goods, and financial services.

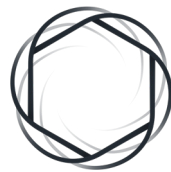
It is important to note that there is no single definition of a "quality stock." Different investors may use different criteria to identify quality stocks. However, they typically share the

Fig. 2: The impact of growth and interest rates on the S&P500



SOURCE: REFINITIV, WELLERSHOFF & PARTNERS

The chart shows our estimates for the impact of growth and interest rates on the S&P 500. We can see the negative impact of rapidly rising interest rates in 2022 and 2023, followed by the impact of sustained high rates. Rates can only decline when core inflation is back to target ranges.



above-mentioned elements.

One simple way to get exposure to global quality companies is through an ETF, e.g. the iShares Edge MSCI World Quality Factor UCITS ETF in USD. This ETF gives the investor exposure to companies such as Apple, Visa, Novo Nordisk, etc.

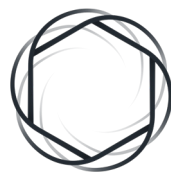
Besides the “general” quality companies ETFs, there are other quality ETFs that have a geographic focus or that invest in companies with quality dividend growth.

On top of that, equity-oriented investment funds with “high quality” investment strategies remain available for clients within our list of recommended funds. We encourage you to contact our Product department for additional information.



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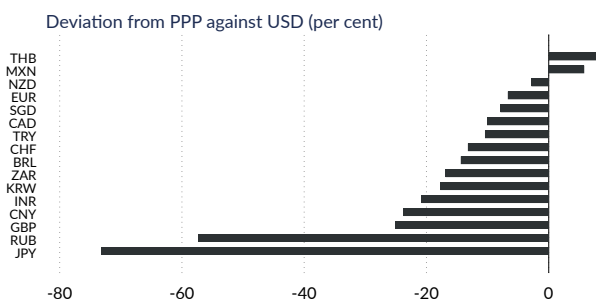
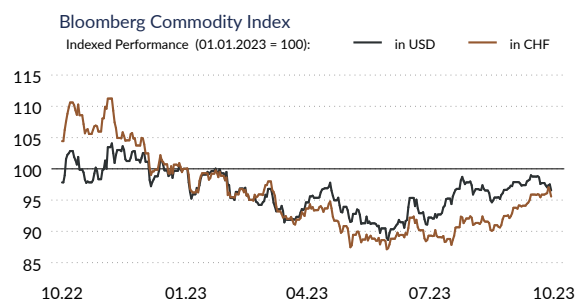
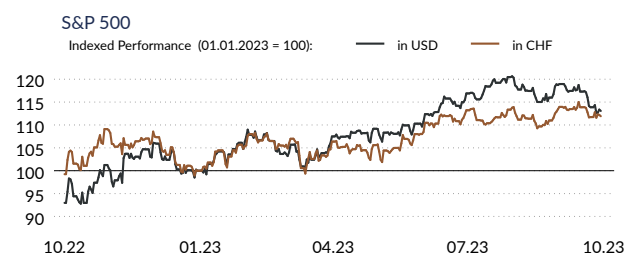
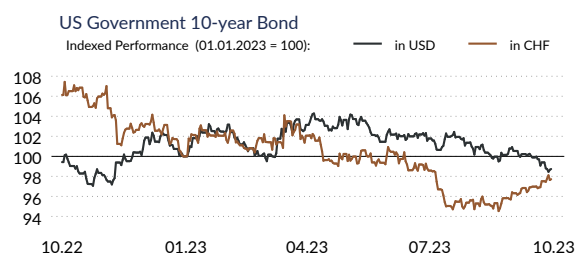


Macroeconomic estimates (in %)

	GDP Growth			Inflation		Interest Rates	Money Growth M1
	Trend	2023E	2024E	2023E	2024E	Q3 2023	y/y 09/2023
USA	1.6	1.8	1.2	4.0	3.6	5.50	-10.5
Eurozone	1.1	0.4	1.4	5.0	4.0	4.00	-10.4
UK	1.7	0.2	1.0	7.5	5.0	5.25	-8.7
Switzerland	1.3	0.7	1.2	2.3	2.2	1.75	-17.8
Japan	1.1	1.5	1.0	3.0	2.0	-0.10	4.2
China	4.5	4.5	4.5	1.3	1.8	4.35	2.3
Brazil	1.4	2.1	1.4	5.0	4.0	12.75	0.0
India	5.0	6.0	6.5	5.0	4.5	6.50	7.2
Russia	1.0	-1.0	0.0	6.0	5.0	13.00	27.4
World	3.0	2.6	2.8	4.6	4.0	–	–

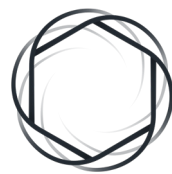
SOURCE: REFINITIV, WELLERSHOFF & PARTNERS

Financial Markets



SOURCE: REFINITIV, WELLERSHOFF & PARTNERS



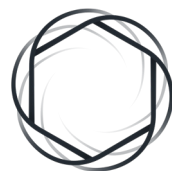


Global Asset Allocation Preferences – October 2023

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.	The end of the hiking cycle is in sight, and as growth weakens, it should provide a tailwind for high-quality sovereign bonds. US treasury bonds usually outperform in this scenario. We also favour German bunds with the eurozone in recession now. Overly tight monetary policy in the region also adds downward pressure on yields. We strongly recommend IG credit in developed markets over high-yield, preferably in non-cyclical sectors. Current IG yields look compelling and provide a valuation cushion.
		Duration	Medium-term.		

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



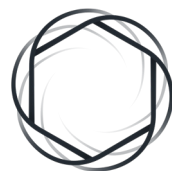


Global Asset Allocation Preferences – continued

Asset Class	View	Constituents	We favour	We avoid	Commentary
Equities	–	Markets	Selective in Europe and China. Japan.	Latin America.	The sell-off in September, following that of August, reflects the central banks' message of "rates higher for longer" loud and clear. We believe that "higher rates for longer" make equities less attractive than fixed income investments. Investors need to reinforce the bottom-up approach and become even more selective. Caution and enhanced diversification are our recommendations to set up a balanced equity exposure in portfolios. The US economy's soft-landing scenario gains momentum as the likely situation investors will face over the next few quarters. But this backdrop is not incompatible with a downward trend in corporate earnings.
		Sectors	Quality. Tilt to value. Dividend growers. Consumer staples, healthcare, utilities and agricultural stocks.	Construction, Autos, Tech Hardware, Consumer discretionary, Chemicals, Leisure and Travel.	We recommend quality companies, stable high-dividend stocks, resilient earnings and low refinancing risk. In terms of regions, we see stronger macro headwinds in Europe, and stocks trading accordingly. We recommend emerging markets, in particular China, and India specifically on more visibility in corporate earnings. We remain very selective in the US. We are positive on Japan because of the still attractive valuations and positive macro development.

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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>The resumption of the positive correlation between equities and fixed income support our overweight in Alternatives. Given the strength of the USD and the “higher rates for longer” narrative, we have become less bullish on gold. There are, however, still some good arguments for holding gold in a diversified portfolio for the long term: hedge against inflation and currency devaluation, economic and political uncertainty, etc.</p> <p>High inflation, the energy transition and growing digitization of the economy remain valid arguments to favour infrastructure as an alternative. Writedowns and defaults are still a threat to real estate. We avoid listed real estate. Industrial real estate, storage and students' residences are preferred segments for direct investments.</p>
Cash	+				<p>Though short-term recession risks have tempered in the US, we see recession risks beyond the immediate horizon. With 1-year treasury bills offering over 5 per cent, cash remains attractive taking into account that equities and credit are underpricing risk, in our view.</p>

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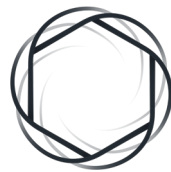


Figure of the Month

4.6

As September came to a close, a US government shutdown was avoided at the last minute. A temporary patch was found. The disagreement on US government borrowing occurred against the backdrop of the US Treasury 10-year bond breaking through 4.6 per cent, the highest levels since 2007. Higher yields mean that the US government will have to allocate more money to debt servicing.

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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.

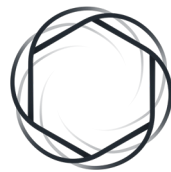
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S.P. HINDUJA
BANQUE PRIVÉE



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