

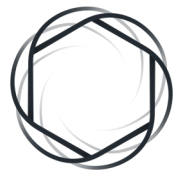


S.P. HINDUJA

BANQUE PRIVÉE

House View

November 2023



Thoughts of the CEO

“How do I protect my portfolio from extreme events?”

In recent years, numerous shocks have shaken markets and portfolios: a global lockdown, the reconfiguration of global supply chains, energy shortages, the highest inflation in decades, new geopolitical tensions, wars, and the return of high interest rates.

Notice how this list does not include many of the other big global issues, such as the impact of climate change. The potential factors that can impact our portfolios are many, therefore.

Against this backdrop, one basic principle that we can use to try and make our portfolios as crisis-resistant as possible is diversification. This includes, first and foremost, jurisdictional diversification. I am sadly aware of numerous instances where investors have been trapped by capital controls. These can come suddenly and unexpectedly. Let us not forget that in the EU, in June 2015, residents of Greece were restricted to withdrawing just €60 per day from cash machines. And because there was a shortage of smaller banknotes, in practice they mostly only got one single €50 note. Capital controls in Greece were lifted in September 2019.

I have seen a similar story repeated the world over: a quick, unexpected announcement, and then no easy way out.

Let me take an example from the United States. On 5 April 1933, US President Franklin D. Roosevelt signed Executive Order 6102 requiring "all persons" to deliver "on or before 1 May 1933 all gold coin, gold bullion and gold certificates now owned by them to a Federal Reserve Bank, branch or agency, or to any member bank of the Federal Reserve System." Notice the typically short timeframe of a crisis: 27 days to comply!

A key insight and lesson to make portfolios more crisis-resistant is to ensure jurisdictional diversification. Each

jurisdiction has its own laws and procedures. Not everyone is going to confiscate your gold in the same month. Not everyone is going to restrict your access to your own cash at the same time. Not every country will have its banks removed from the SWIFT payments system at the same time, leaving you stranded.

Cash provides optionality. Make sure that your cash is available in diversified jurisdictions, across different platforms.

The other key aspect of diversification that must work in a crisis is that the assets in your portfolio must not have a correlation of 1. In other words, you want to have assets that are likely to react in an uncorrelated manner. The search for uncorrelated assets is a never-ending endeavour because correlations are not static. Make sure, therefore, that you know the characteristics of the assets in your portfolio and that you are aware of how they may respond in times of financial market stress.

Last, but not least, it is worth assessing whether you may not be overinvested in the market that you know and love. It is normal for us to buy what we know, but one can have too much of a good thing. I am aware of numerous cases where investors have wisely diversified their jurisdictions, only to end up holding the same portfolio of stranded assets in all jurisdictions, for example, the same portfolios of sanctioned equities or the same portfolios of bonds in a collapsing currency.

Use jurisdictional diversification to also diversify your assets.

Yours sincerely,

Karam Hinduja



Investment Positioning

Higher bond yields continue driving the markets. The latter are struggling to find support in corporate earnings to help offset recent concerns about interest rates and geopolitical risks. Remarks about higher expenses and negative guidance during the Q3 earnings season are denting market sentiment. We continue favouring core fixed income over equities and recommend holding more cash than usual as it has continued to outperform most other major asset classes recently. We remain positive on gold as a protection against the positive correlation between bonds and equities.

The US yield curve still signals weakness

In recent months, markets were surprised by the "higher for longer" narrative following the assessment that major central banks were still taking the fight against inflation very seriously. Regular readers of our House View may recall that we had consistently pointed out that this would take time.

Consequently, last month, both the 2-year and 10-year US government bond yields temporarily rose above 5 per cent. This level of yield takes us above the very long-run average for US government bond yields from 1900 to 2023, namely around 4.7 per cent. We are, therefore, clearly back in interest rate territory that is recognisable as some kind of "normalisation" compared to the post-Global Finance Crisis aberration of near-zero and even negative central bank interest rates.

Despite the increase in long-term yields, the inversion of the yield curve remained with us last month (Fig. 1). Central

banks are pursuing a restrictive monetary policy but are unlikely to want to allow long-term interest rates to slope too high upwards, since this could endanger the stability of the financial system as we saw during the regional banking crisis in the US earlier this year.

The inverted yield curve is not the perfect predictor of recessions, but the historical data shows that recessions tend to follow such an inversion. The data also shows that the recessions tend to be recognised when the yield curve normalisation is already under way. In other words, the inversion has a delayed impact on the economy. Things take time.

Real rates also back to the pre-2008 world

Consistent with the data showing "normalisation" with regard to the nominal level of US 10-year government bond yields, we also see "normalisation" with regard to real yields.

Fig. 1: The US yield curve remains inverted



The chart shows the steepness of the US government bond yield curve. It is measured by subtracting the 2-year yield from the 10-year yield. The recent increase in long-term rates has reduced the steepness somewhat, but it is still in negative territory. An inverse yield curve indicates economic and financial market imbalances, and has historically been a signal for a recession.

SOURCE: LSEG, WELLERSHOFF & PARTNERS



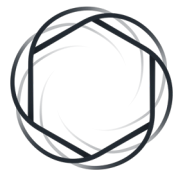


Figure 2 shows that 10-year US inflation-linked bonds have returned to around 2.4 per cent, levels last seen a decade and a half ago. Clearly, investors are demanding higher compensation for risks associated with US government bonds. This year we saw difficulties about possibly running into a debt ceiling and a potential US federal government shutdown. US government debt levels and budget deficits are very high by historical and global standards. If the US does not set its fiscal house in order, at some point the markets will have to trigger action. The risk, therefore, is that this traditional risk-free benchmark could become more volatile.

Which means we still need to keep a close eye on inflation

The good news is that inflation rates have been falling sharply in recent months. After peaking last autumn at above 9 per cent in the US and above 10 per cent in the eurozone, recent inflation data releases look dramatically better: 3.7 per cent for headline year-on-year inflation in the US in September and just 2.9 per cent in the euro area in October.

Initially, this was mainly due to lower energy prices. Oil prices had dropped from USD 120 per barrel in June 2022 to USD 75 a year later. In Europe, gas prices had peaked at EUR 150 per MWh late in 2022 and are now trading at less than a third of that. A lot of this was predictable from the base effect (i.e., we always pointed out that headline inflation would decline in year-on-year terms even if energy

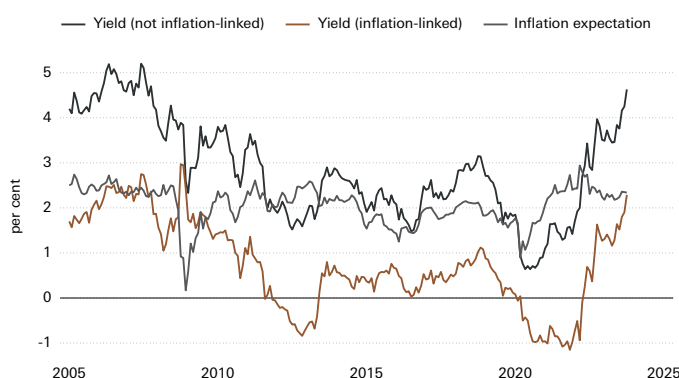
prices moved sideways).

The good news is that inflation also slowed in areas outside of energy. Consequently, for some time now, we have seen that even core inflation rates are coming down in most industrialised countries. In the US, the core inflation rate in September was 4.1 per cent. In the euro area, it was 4.2 per cent in October.

What is likely to happen next? From what we know, the days of a rapid fall in inflation are over. On the one hand, this is due to energy prices. While gas prices are still lower today than a year ago, that is not the case with oil prices. Therefore, energy will no longer lead to lower headline inflation, but will eventually be adding again to inflationary pressures in the coming months.

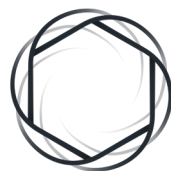
In terms of core inflation, which central banks say they are targeting, wage inflation would need to moderate too. In the US, wage inflation was 5.3 per cent in September. The most recent number we have for the EU (June 2023) was 5.1 per cent. While this might help consumers to stabilise their real earnings, and thus real consumption, it does not bode well for a speedy return of core inflation back to the target of 2 per cent or less. And central banks tell us that this is their target. Hence, the "higher for longer" theme remains relevant, despite good progress on headline inflation.

Fig. 2: 10-year yield on inflation-protected US government bonds



SOURCE: LSEG, WELLERSHOFF & PARTNERS

The chart shows the 10-year yield on US government bonds and on US inflation-linked bonds. The chart illustrates that the real yield on inflation-protected US government bonds is back at a level comparable to that before the global financial crisis. The rather high inflation rates and slow normalisation process make inflation-protected bonds with a real yield of currently above 2 per cent attractive from a longer-term perspective.

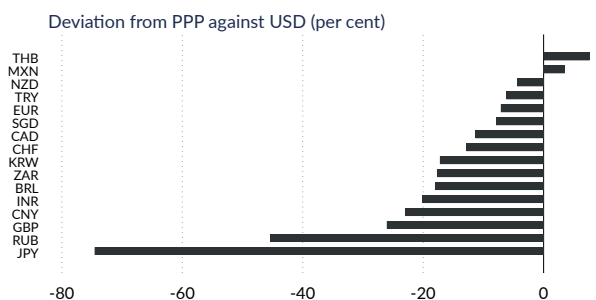
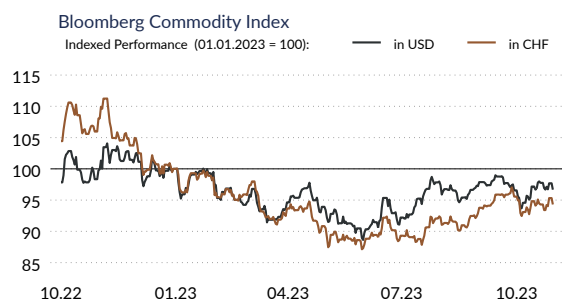
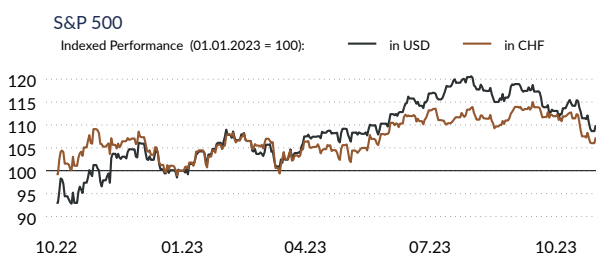
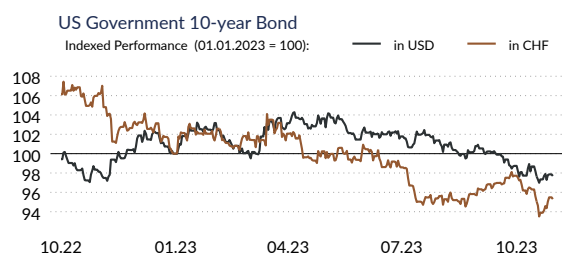


Macroeconomic estimates (in %)

	GDP Growth			Inflation		Interest Rates	Money Growth M1
	Trend	2023E	2024E	2023E	2024E	Q4 2023	y/y 10/2023
USA	1.6	2.2	1.2	3.8	3.6	5.50	-10.4
Eurozone	1.1	0.4	1.1	5.5	3.5	4.00	-9.9
UK	1.7	0.2	1.0	7.5	3.5	5.25	-13.4
Switzerland	1.3	0.7	1.2	2.0	2.2	1.75	-18.1
Japan	1.1	1.8	1.0	3.0	2.0	-0.10	4.2
China	4.5	4.5	4.5	0.5	1.5	4.35	2.1
Brazil	1.4	3.2	1.7	5.0	4.0	12.75	0.1
India	5.0	6.3	6.5	5.3	4.5	6.50	6.4
Russia	1.0	0.8	0.9	5.2	5.0	15.00	20.7
World	3.0	2.9	2.7	6.0	4.8	—	—

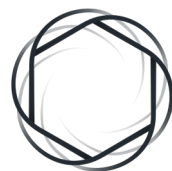
SOURCE: LSEG, WELLERSHOFF & PARTNERS

Financial Markets



SOURCE: REFINITIV, WELLERSHOFF & PARTNERS



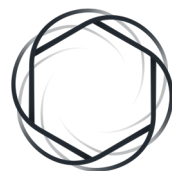


Global Asset Allocation Preferences – November 2023

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. As growth weakens, inflation falls, which should provide a tailwind for core fixed income. US treasuries usually outperform in this scenario. We also favour German bunds with the Eurozone on the verge of a recession. 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 in a scenario of rising default rates.
		Duration	Medium-term.		

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



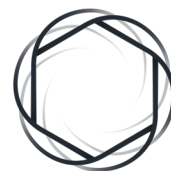


Global Asset Allocation Preferences – continued

Asset Class	View	Constituents	We favour	We avoid	Commentary
		Markets	US and Japan. Selective in Europe. India long-term	Latin America.	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. We see the current S&P500 EPS consensus estimate of 11% (Bloomberg) as being quite optimistic in light of the expected real GDP growth rate of the US economy for 2024: +1.2%.
Equities	—	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 (mostly found in the US), 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 have more doubts that Chinese stocks will benefit from a change of sentiment any time soon. We favour India on more visibility in corporate earnings. We are positive on Japan.

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	REITs. 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 as a hedge against inflation, currency devaluation and geopolitical risks.</p> <p>High inflation, the energy transition and growing digitisation of the economy remain valid arguments to favour infrastructure as an alternative. Avoid listed real estate. Writedowns and defaults are still a threat for real estate. Diversified commodities to enhance de-correlation.</p>
Cash	+				<p>Though short-term recession risks have tempered in the US, we see recession risks beyond the immediate horizon. With 6-month Treasuries yielding 5.5%, cash remains attractive and protects against the positive correlation between equities and bonds.</p>

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



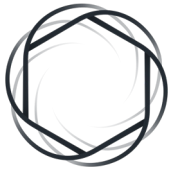


Figure of the Month

2,240

In an era of heightened geopolitical uncertainty, USD 2,240 billion was spent on defence last year according to the Stockholm International Peace Research Institute. NATO members accounted for USD 1,232 billion or 55 per cent of the global total. The five largest individual spenders were the United States (USD 877bn), China (USD 292bn), Russia (USD 86bn), India (USD 81bn) and Saudi Arabia (USD 75bn). The biggest increase, +30 per cent, was in Central and Western Europe (USD 345bn).

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.

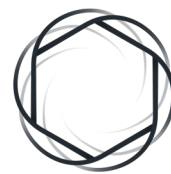
Contact:

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 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: 7 NOVEMBER 2023

