

INVESTMENT OUTLOOK 01.2024

15 January 2024

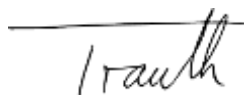
On behalf of the whole IMT team we wish you a happy, successful and healthy 2024.

We started 2023 with concerns about sticky inflation, further interest rate hikes, a looming recession, geopolitical tensions and the potential consequences for energy and food markets. While many of our concerns materialized, the US economy showed great resilience, markets performed fairly well, anticipating a soft-landing scenario in 2024, accompanied by tamed inflation and decisive rate cuts by the US Fed in 2024.

With hindsight we were too conservative last year. Nevertheless, we remain concerned – now even more so – about the macro-economic outlook.

We have changed the format of our first publication of the year somewhat and we will be focusing on major macroeconomic, geopolitical, and market trends in 2024. Also, from now on our publication will appear quarterly rather than monthly.

We hope you will continue to enjoy reading our Investment Outlook and we would welcome any feedback.

A handwritten signature in black ink, appearing to read "Trauth", written over a horizontal line.

Thomas Trauth

CEO – IMT Asset Management AG



WHAT HAPPED IN 2023?

The financial markets performed quite positively in 2023 in spite of high inflation, rising money market interest rates, a global growth slowdown and major geopolitical tensions. Prominent among these are the war in Ukraine, the Gaza conflict and strained Sino-American relations.

As we expected, inflation did go down in 2023, but it remained clearly above the targets set by the central banks. For that reason central banks sharply increased interest rates in several steps in 2023. In addition, global economic growth lost its momentum. Based on a nevertheless robust economic development in the USA with a trend to falling inflation and the hope that the central banks would be lowering interest rates again in 2024, many investors expected a soft landing for the US economy. The result was that overall, despite high levels of volatility, the bond and equity markets developed positively in 2023.

Our last year's predictions

In general, we were too negative on the US economy. We expected that it would grow by 1.0% only. However, the US economy has proven to be very resilient and will probably achieve a GDP growth of 2.2%. In contrast, our expectations regarding the development in Europe and China have proved to be quite accurate: the Eurozone has grown by 0.6% (forecast: 0.5%) and China by 5.1% (forecast: 4.4%).

We rightly anticipated that inflation would fall. However, US inflation did not fall by as much as we had thought and was at 3.4% in December (forecast: 2.3%). Meanwhile Eurozone inflation fell somewhat

more than we predicted with a rate of 2.9% in December (forecast: 4.5%).

We were about right to foresee Fed fund rates at 5%, as they ended the year at 5.3%, and we underestimated ECB's rate hikes. We predicted 3.25%, whereas the ECB actually raised rates to 4%.

We were almost right with our 10-year yield predictions. US yields reached 4.7% (forecast: 4.5-5%) and European yields reached 2.7% (forecast: 2.75-3.25%). However, both yield levels were reached at the end of October, when yields peaked and thereafter fell clearly below our predictions.

We thought that credit would perform mildly positively, but high-yield bonds, for example, in fact performed very strongly to gain about 10% in 2023.

We were especially wrong with our prediction for equity markets, expecting a flat year. In fact, the MSCI World surged by about 20%.

We thought that oil prices would be flat to higher, when in fact they fell by roughly 10%.

We were spot-on with our EUR-USD prediction of 1.10. The EUR-USD exchange rate ended the year at 1.11.

Review of our strategic asset allocation

We have reviewed our strategic asset allocation, as we do every year. The outcome is that we are basically satisfied with the asset allocation and have made no fundamental changes.

However, we have freshly structured the block of equities, including Asia (excluding Japan) and emerging

markets. This block is now divided into emerging markets equity (excluding China) and China equity. This will enable us to improve our mapping of and tactical reaction to developments in the region.

We have in addition made a slight reduction of 1% point in the strategic portfolio allocation to insurance-linked bonds, and we have increased government bonds by the same amount.

The Japanese yen (JPY) has depreciated very sharply in recent years. Experts estimate that the yen is currently 40% undervalued. Diverging monetary policies led to this development. We expect, however, that the Bank of Japan will begin to tighten its monetary policy in the course of the year. As a result, the JPY should strengthen and move towards purchasing power parity. We have therefore increased the JPY portfolio weighting.

OUTLOOK 2024

Macroeconomics

The latest figures show that the fight against inflation has not yet been won. In December US inflation climbed to 3.4% from November's rate of 3.1%. In the same period euro zone inflation rose to 2.9% from 2.4%. However, part of the increase can be attributed to the discontinuation of energy price subsidies. Therefore, we regard it as extremely improbable that the US Fed will lower interest rates six (!) times in 2024, which is what the markets are currently anticipating. Interest rate cuts of this magnitude would be plausible only if the US economy were to fall into a deep recession in the coming months. Our opinion is that while a US recession is unavoidable it will occur only after a certain period of time has elapsed. At present the US economy is still being bolstered by excess savings built up during the Covid crisis and by pent-up demand for services such as hotel stays, flights and eating out in restaurants. By contrast, there has been a distinct slowdown in growth in the interest rate-sensitive sectors like housing and capex. Furthermore, lending has slumped. Company insolvency and credit card default are beginning to rise in the USA, and initial signs of weakness in the labor market have become apparent. In addition, a worrying debt mountain has built up in the commercial real estate sector, and this represents a latent risk for the banks.

For 2024 we certainly expect moderate interest rate cuts from the US Fed, but at the earliest in June. Should the Fed cut rates too early and too vigorously, there would be a danger of inflation flaring up once

again. This would inevitably lead to new interest rate hikes and as a consequence to an even deeper recession.

Geopolitics

Geopolitical risks have risen sharply in the last 12 months and will continue to be a major concern in 2024. The US elections in November will decide whether the USA will pursue a multilateral or a unilateral policy in the next legislative period. This will have far-reaching consequences for global stability. There are no indications that the war in Ukraine or the Gaza conflict is approaching a positive outcome. Regardless of the US election, the tension between the USA and China will remain. An invasion of Taiwan by China could even lead to armed conflict between the two world powers.

Private markets

The macro environment had far-reaching implications for private markets as well. Especially in 2022 private equity valuations remained relatively stable in contrast to painful losses on public equity markets. Nevertheless, deal activity has dried out, on the one hand due to a falling risk appetite and heightened uncertainties and on the other hand due to wide "bid-ask-spreads", i.e., differing price expectations of buyers and sellers. It seems, however, that deal activity could pick up again in 2024. This may be driven not least by the desire of limited partners to generate portfolio liquidity as the number and value of assets held by buyout funds has reached record levels. Since we expect the muted market environment to persist

for some time to come, fund managers are likely to pursue alternative exit routes, like continuation vehicles or secondary transactions.

Despite difficulties in executing exits, private equity managers are faced with additional challenges. Rapid inflation and rising production costs weigh on margins. Furthermore, portfolio companies are faced with a wall of maturities (this will apply especially in 2024 and 2025), which will require re-financing of debt at much higher costs. In addition, higher lending costs reduce the profitability of leveraged buyout transactions greatly.

Despite all those headwinds, we remain positive for the coming vintage years. History has shown that recession years usually turn out to be excellent vintage years. Sophisticated private equity managers will be able to select interesting companies at attractive valuations. We have therefore decided to maintain or even increase our capital deployment pace whenever possible.

Conclusions

For all these reasons, we expect 2024 to be a very challenging investment year. Despite some first interest rate cuts in 2024, we believe that rates will stay higher and for longer than the market currently believes. Since we are on a pathway to recession, we are expecting significant corrections on the equity markets. The outlook for high-yield bonds, REITs and commodities is likewise gloomy. In this context, however, government bonds will make a positive contribution to performance, even though bond yields already fell significantly in the fourth quarter of 2023.

For the reasons we have set out we are maintaining our defensive positioning. We are remaining underweight in equities, REITs, high-yield bonds and commodities. On the other hand, we are overweight in government bonds, insurance-linked bonds and liquidity.

ECONOMICS

In 2023 global growth slowed. Europe's economy was faced with stronger headwinds than the US economy, where excess savings kept consumers afloat. Most manufacturing PMIs dropped below 50, i.e., indicating a contraction. While we observed the anticipated

disinflationary trend, inflation remained clearly above central banks' targets, with US inflation at 3.4% in December and Eurozone inflation at 2.9%. Wage pressure, US shelter and European energy prices will continue to push prices up.

Fig. 1: PMIs

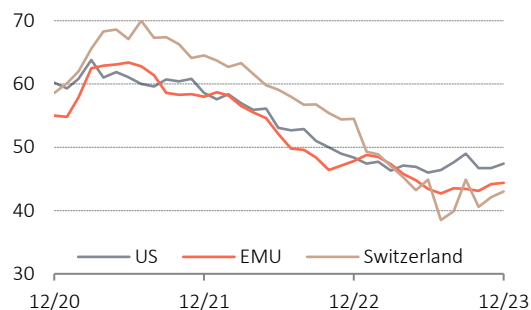


Fig. 2: PMIs

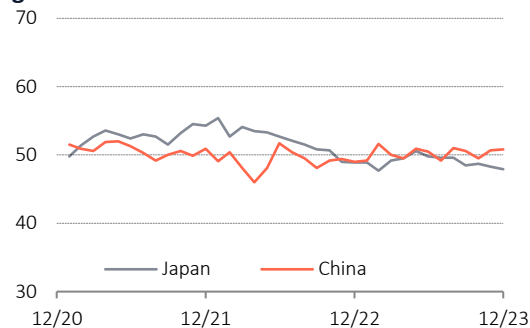


Fig 3: Consumer price inflation, in % YoY

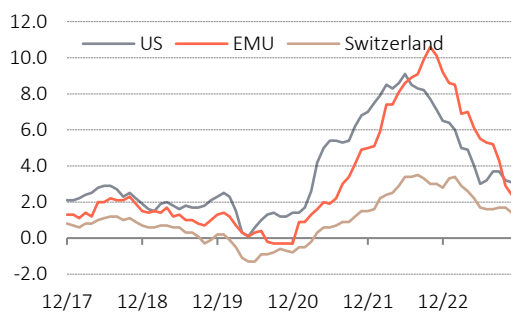


Fig. 4: Consumer price inflation, in % YoY

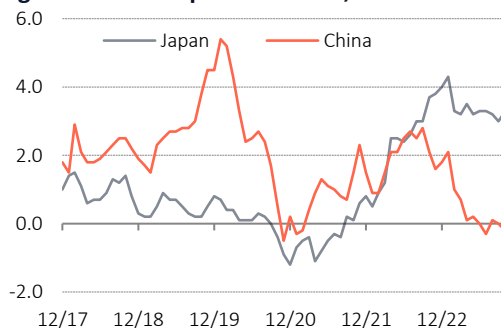


Fig 5: Unemployment rates, in %

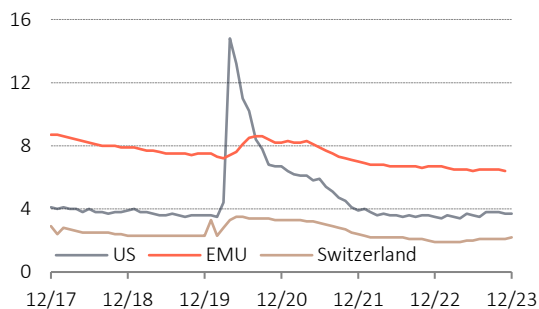
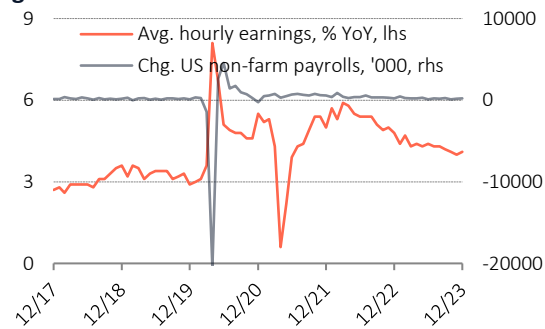


Fig 6: US labor market



FIXED INCOME

In 2023 money market rates have risen on the back of further central bank rate hikes. Bond yields rose and reached their peak at the end of October. However, in November and December bond markets ral-

lied strongly, which pushed bond yields below the levels at the beginning of the year. Break-even inflation rates remained well anchored in 2023. The risk-on environment led to a significant tightening of credit spreads.

Fig.7: 2Y government bond yields

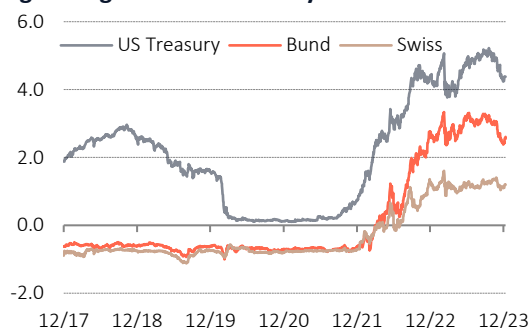


Fig. 8: 10Y government bond yields

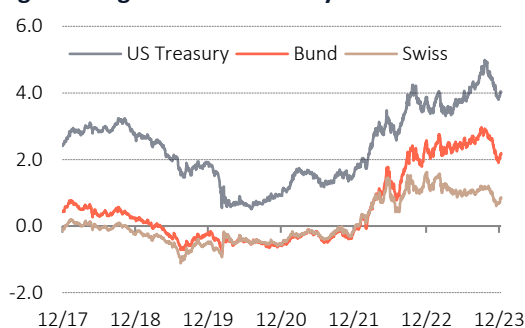


Fig 9: 10Y break-even inflation

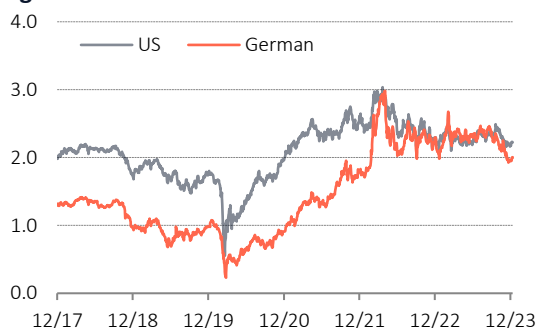


Fig. 10: Credit spreads, 5Y credit default swaps



Fig 11: Money market spreads (3M-2Y)

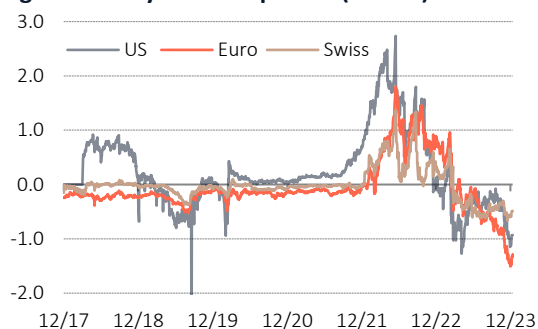
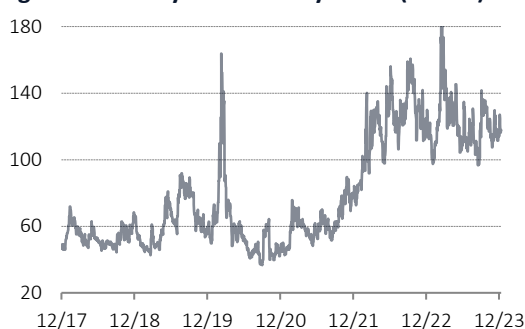


Fig 12: Merrill Lynch volatility index (MOVE)



EQUITIES

Equity markets performed well in 2023, albeit with two periods of weakness, in March and between July and October. The so-called magnificent seven, the large US tech stocks, Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla, clearly outperformed and were responsible for the strong performance of

the S&P500 index (+24.2%). The Japanese Nikkei index profited from the weakness of the JPY and surged by 28.2%. The more defensive SMI (+3.8%) and especially the Chinese CSI300 (-11.4%) clearly underperformed.

Fig. 13: MSCI equity indices – major regions



Fig.14: Equity indices – major developed markets

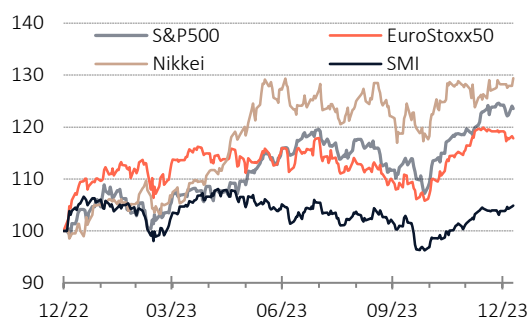


Fig 15: Equity indices – major emerging markets

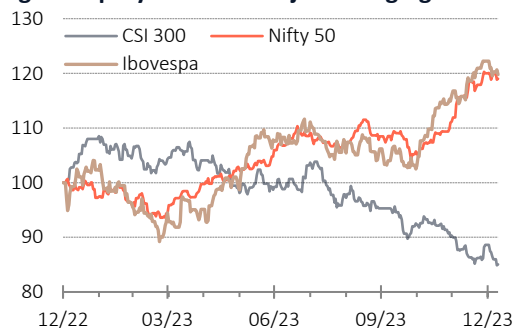


Fig. 16: Sector performance, MSCI Indices, 2022

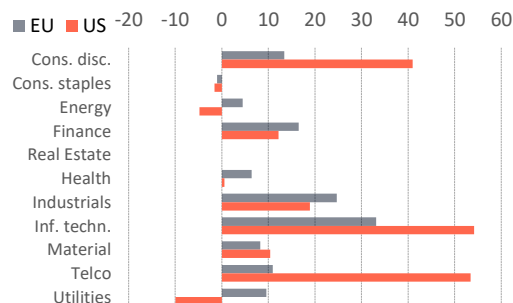


Fig 17: Price-earnings ratios

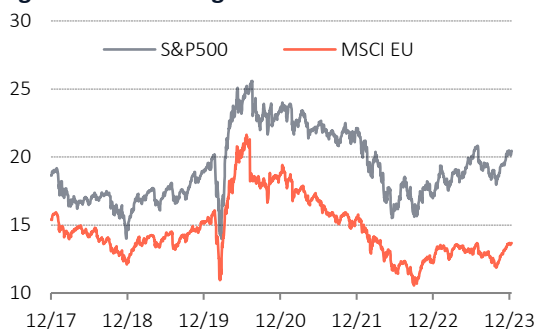
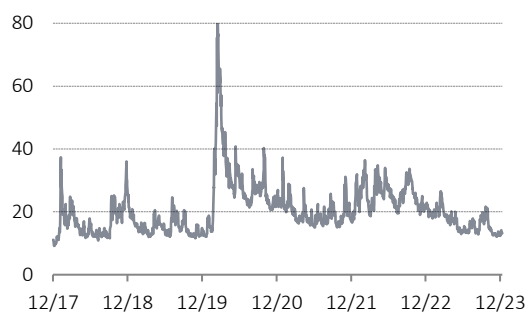


Fig 18: Equity volatility – S&P500 VIX index



ALTERNATIVE INVESTMENTS

Gold rallied strongly (+13%) in 2023, probably because of elevated uncertainties. In contrast, the price for Brent oil fell about 10%. The global REITs index was slightly up in 2023. After three weak quarters REITs rallied strongly in Q4. Crypto assets recovered

after a long and painful bear market. Part of that rally was fueled by the expectation that regulators would approve ETFs on Bitcoin, which they recently did. Bitcoin gained 57% and Ethereum 35.8%.

Fig. 19: Gold price, USD/oz



Fig.20: Brent oil price, USD/bl



Fig 21: Bloomberg commodity indices

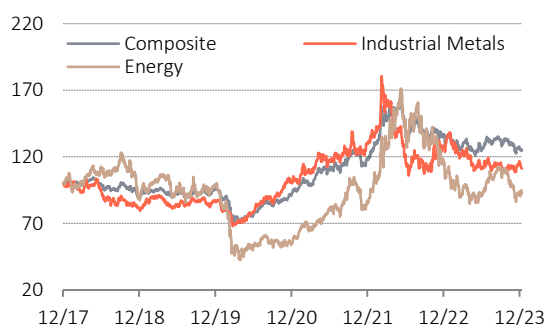


Fig. 22: Global Listed Private Equity



Fig 23: FTSE EPRA/NAREIT global REITS index



Fig 24: Crypto Assets



CURRENCIES

After a period of USD strength, the USD weakened in 2023, losing about 3% vis-à-vis the EUR. As interest rates differentials widened, the JPY sold-off and reached new lows against major currencies. The JPY

lost about 11% against the EUR. The CHF strengthened to new highs against the EUR, as the interest rate difference narrowed. In addition, the SNB sold CHF 110 bn worth of foreign reserves during the first three quarters to reduce the size of its balance sheet.

Fig. 25: EUR-USD exchange rate



Fig. 26: GBP-USD exchange rate



Fig. 27: USD-JPY exchange rate



Fig. 28: USD-CNY exchange rate



Fig. 29: EUR-CHF exchange rate



Fig. 30: USD-CHF exchange rate

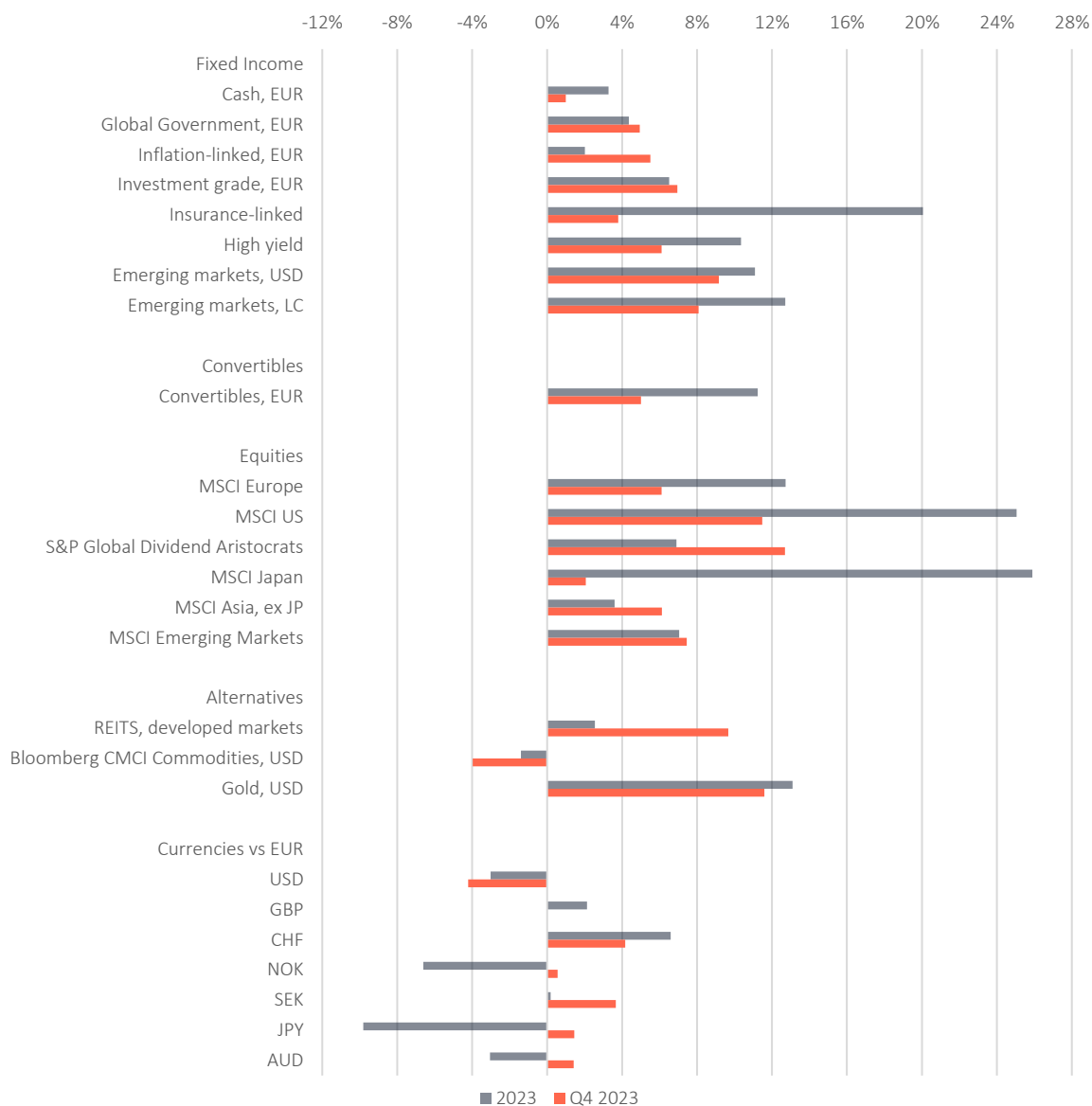


ASSET ALLOCATION

The graph below illustrates that most asset classes clearly contributed positively to the performance of a multi-asset class portfolio in 2023. The S&P500 was driven by the magnificent seven stocks, Japanese stocks benefited from the weaker JPY and insurance-linked bonds performed very well, due to

favorable market conditions. EUR investors were faced with weaker foreign currencies, especial the USD and the JPY.

Fig. 31: Performance of major asset classes, based on our EUR portfolio strategy



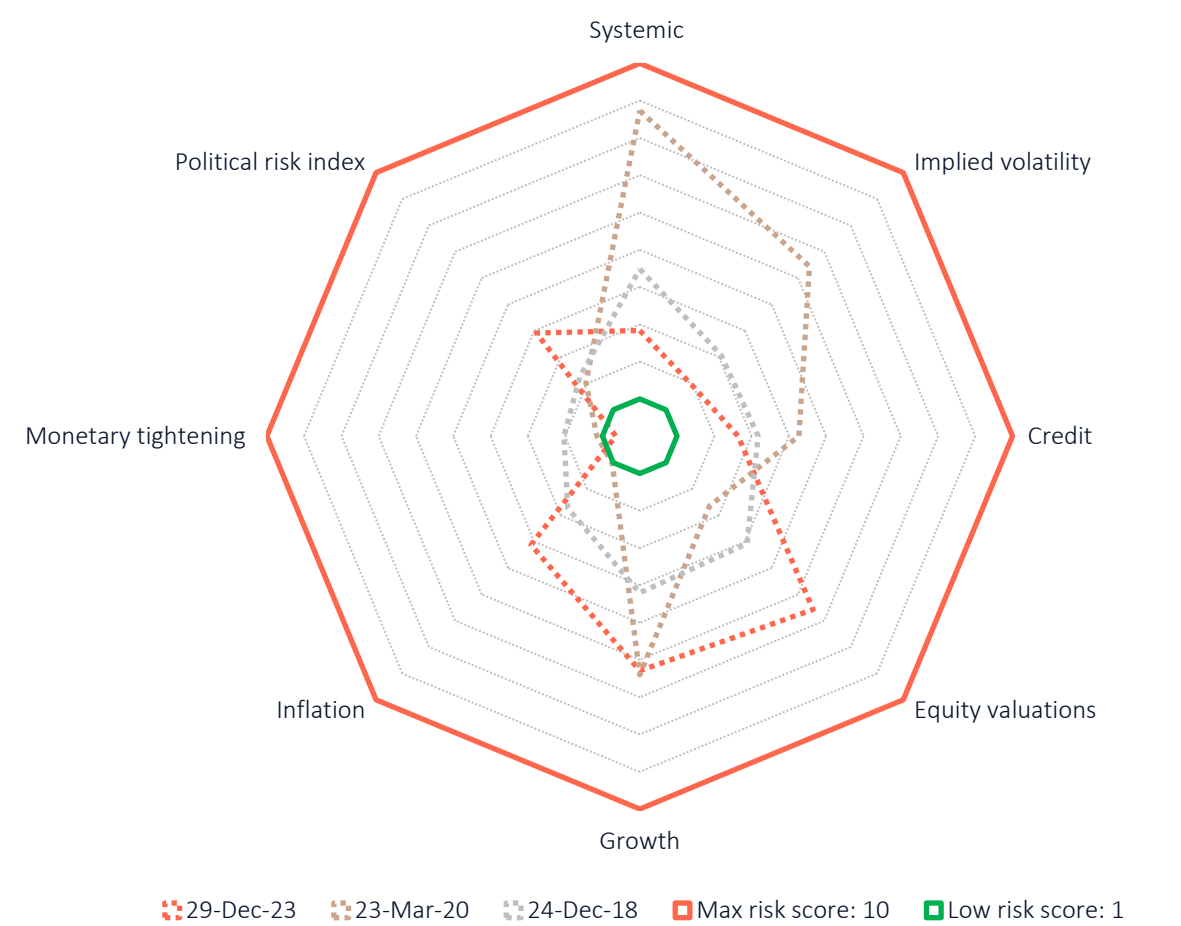
RISK MONITOR

As we may have reached the peak of the interest rate cycle, monetary tightening risks have disappeared. Inflation and growth risks continue to dominate the risk landscape, along with elevated equity valuations. With various wars ongoing the political

risk index has increased. Despite high uncertainties, implied volatility remains very low. Note, however, that equity volatility has been unusually low for an extended period of time, while fixed income volatility has been elevated in recent months.

Fig. 32: IMT Risk Monitor

24-Dec-2018: Growth and monetary tightening fears
23-Mar-2020: Global pandemic



DISCLAIMER

This document is for information purposes only and is not a solicitation of an offer or a recommendation to buy or sell any investment instruments or to engage in other transactions. This document contains data and information which are prepared by IMT Asset Management AG. Although IMT Asset Management AG takes care to ensure that the information in this document is correct at the time it was collected, IMT Asset Management AG neither explicitly nor implicitly provides any assurance or guarantee of accuracy, reliability or completeness, and assumes no liability or responsibility for either its own or for third-party publications. IMT Asset Management AG is not

liable for any direct, indirect or incidental loss incurred on the basis of the information in this document and/or on the risks inherent in financial markets. Investment in financial products should be done only after carefully reading the relevant legal requirements, including sales restrictions or any other risk factors. Any opinions represented in this document solely reflect those of IMT Asset Management AG or specified third-party authors at the time of publication (subject to modifications). The services mentioned in this document are addressed exclusively to clients of IMT Asset Management AG.

Source for all graphs: Bloomberg, IMT Asset Management AG.