INVIEW

MONTHLY GLOBAL HOUSE VIEW & INVESTMENT PERSPECTIVES

SEPTEMBER 2023

DISCIPLINED BY NATURE. FLEXIBLE BY DESIGN.
The icons alongside represent our investment process. Through a disciplined provision of investment policy and security selection at the global level, regional portfolio management teams have the flexibility to construct portfolios to meet the specific requirements of our clients.

HIGHLIGHTED IN THIS PUBLICATION:

GLOBAL STRATEGIC ASSET ALLOCATION

GLOBAL SECURITY SELECTION

REGIONAL ASSET ALLOCATION

REGIONAL PORTFOLIO CONSTRUCTION

Editorial

Moz Afzal
Chief Investment Officer

Welcome to the September edition of *Inview: Monthly Global House View*. In this publication we consider significant developments in the world's markets, and discuss our key convictions and themes for the coming months.

Markets paused in August following the strong rally seen in the first seven months of 2023. The MSCI World index lost 2.6% in August but nonetheless ended the month 14.9% higher than at the end of last year. The equity market sell-off occurred as long bond yields rose, with the US 10-year Treasury yields climbing above 4.3% for the first time since 2007. The increase in US bond yields relative to European yields supported the US dollar which also benefited from increased investor risk aversion.

The global economic outlook remains mixed. US GDP growth has performed better than expected although eurozone growth disappointed, negatively affected by the weakness in global trade and the Chinese economy. The latter continued to lose momentum, burdened by the ailing real estate market and the lack of stimulus from either monetary or fiscal policy. Lacklustre GDP growth in China is the most relevant downside risk to the global economy.

The overall moderation in global growth was to be expected after the unprecedented monetary tightening implemented since mid-2022. Equally unsurprising is that inflation, while still higher than desirable, is now falling in most countries, at least at the headline level. Financial markets will benefit from this inasmuch as it allows central banks to take time to assess the need for further tightening.

The implications for the asset allocation of a diversified portfolio are that a slight overweight in both equities and bonds is warranted at the expense of liquidity and alternative assets.

Within equities, the increasingly uncertain outlook for China justifies a reduction of exposure to emerging Asian equities and a reallocation of capital to US and eurozone markets. The valuation of European equities warrants an overweight exposure while the US market is underpinned by a solid macroeconomic outlook and improved earnings.

Among fixed income assets, the tightening of US dollar denominated high yield bond spreads seems excessive compared to the deterioration in the global business cycle. Reducing exposure in favour of sovereign bonds is advisable also to contain the overall riskiness of the portfolio.

Contents

ASSET ALLOCATION

Global Allocation

Based on a balanced mandate, the matrix below shows our 6-12 month view on investment strategy

No changes were made to our broad asset class allocations apart from the rebalancing of weights to reflect market drift. We maintain a slight overweight allocation to equities and also a small overweight in fixed income. Underweights to alternatives and cash also remain. In the event of a market correction or catalyst related to Federal Reserve actions, we could use that as an opportunity to consider raising our equity exposure.

	Allocation versus the benchmark	Weighting change from last month*
FIXED INCOME	+	↔
EQUITIES	+	↔
ALTERNATIVES	–	↔
CASH & MONEY MARKET	–	↔
FX	●	↔

– Underweight + Overweight ● Neutral

↔ No change ↑ Increase ↓ Decrease

*Note that arrows reflect any adjustment to allocation weighting and is not necessarily a full upgrade or downgrade.

Fixed Income

Within the fixed income allocation, exposure to US high yield is being reduced by 2%, as spreads remain overly tight in the context of a slowing economy. This remains supportive of a soft-landing scenario for the US economy, which is priced on current yield spreads. US high yield spreads are close to the bottom 25% of their historical range. Therefore, given the slowdown in economic data and the potential impact of high interest rates, we felt that it was appropriate to further increase the underweight to the sector.

Exposure to European high yield bonds was kept unchanged given the less pessimistic view of the asset class. Spreads in European investment grade are at the top 25% of the historical range, while high yield spreads are aligned with the 20-year average. Following the reduction in US high yield we are increasing exposure to sovereign bonds by 2% across all currency portfolios. As a result of this change, portfolios will end up with a slightly higher duration, at approximately 6.5 years.

		Allocation versus the benchmark	Weighting change from last month
	Rates	+	↑
USD	Investment Grade	+	↔
USD	Sovereign	+	↑
EUR	Investment Grade	+	↔
EUR	Sovereign	+	↑
GBP	Investment Grade	–	↔
GBP	Sovereign	+	↑
CHF	Investment Grade	+	↔
CHF	Sovereign	+	↑
	Credit	–	↓
USD	High Yield	–	↓
EUR	High Yield	–	↔
	Hybrids	–	↔
	Asset-backed Securities	–	↔
	Convertibles	+	↔
	EM Local Currency	●	↔
	EM Hard Currency	–	↔

– Underweight + Overweight ● Neutral

↔ No change ↑ Increase ↓ Decrease

Equities

We are reducing our Asia ex-Japan positioning, taking it from an overweight to an underweight. This is mainly reflective of a less positive view on China, where stimulus has been underwhelming so far, concerns remain over the health of the property sector and there are increased deflationary risks. All of these have undermined confidence in Chinese financial assets and so we have cut our China exposure. Despite the reduction, we continue to hold an overweight China position versus the benchmark, noting that there is still the potential for a large stimulus package, providing fiscal support for consumers, to act as a catalyst.

With the reduction of our Asia exposure we are using this as an opportunity to increase our positions in US and European equities. Within the US we note that economic fundamentals have been stronger, there are improved valuations and technical factors as well as positive earnings revisions. While we have added to the US, we continue to be underweight given the large allocation in the benchmark. In Europe, valuations have also improved slightly and the change in interest rate expectations further supports the decision to increase exposure.

	Allocation versus the benchmark	Weighting change from last month
North America	–	↑
Europe	+	↑
UK	●	↔
Switzerland	●	↔
Asia ex-Japan	–	↓
China	+	↓
India	+	↑
Indonesia	+	↔
Korea	–	↔
Malaysia	–	↔
Philippines	–	↔
Taiwan	–	↔
Thailand	–	↔
Other	–	↑
Japan	+	↔
Latin America	+	↔
EMEA	●	↔
Thematic/Global	●	↔

– Underweight + Overweight ● Neutral

↔ No change ↑ Increase ↓ Decrease

Equity Sector Views

UK

Industrials is the largest sector overweight within UK exposure, taking advantage of the de-rating seen across the sector to pick up quality companies. We favour more internationally exposed companies in the sector over those more reliant on domestic UK business.

We have continued to add to utilities to boost defensive holdings in anticipation of a further weakening in the macroeconomic outlook for the UK. Regulatory uncertainty has reduced in recent months with clarity provided on windfall taxes, earnings resilience remains attractive in an inflationary environment, renewable transition programs are being accelerated and peaking bond yields should prove supportive for the sector.

The consumer staples sector has demonstrated resilient earnings through this period of high inflation as it has been able to price ahead of rising costs in raw materials and labour while also keeping volumes stable. However, recent earnings have shown a shift in price elasticities, with several companies reporting weaker volumes and offering more cautious guidance for the future. With this in mind, we remain underweight in UK consumer staples.

Equity Sector Views *(cont.)*

US

We are overweight in technology stocks and encouraged by recent signs of public cloud spending bottoming. After a year of IT budget optimisation, public cloud spending (and digital adoption in general) is poised to reaccelerate again later this year. We are also more positive on life science tools within healthcare. Headwinds (pharma/biotech spending rationalisation and inventory destock, post-Covid normalisation and China macro weakness) over the last 9-12 months have stabilised. With the 2024 US Presidential Election approaching, life science tools could also attract inflow from more politically-vulnerable healthcare subsectors such as pharma and managed care. We have trimmed our defensive holdings, taking advantage of recent market weakness and the rising probability of a soft-landing scenario.

Europe

Within sectors, we have reduced our financials exposure, where we are now underweight with a focus on banks and insurance. We see limited scope for further earnings upgrades on net interest income/investment yields as terminal rate expectations in Europe have declined. Provisions and liquidity risks, primarily related to real estate, cannot be overlooked. We increased exposure to communication services, consumer staples, healthcare and technology sectors, having an overweight position in all of these sectors, focusing capital on the highest quality, most defensive parts of the European market.

Asia ex-Japan

We favour industrials, particularly in India, given strong public and private capital expenditure. Financial exposure is being reduced given that rates have likely peaked and should lead to forward net margins falling. Within IT, artificial intelligence continues to be the primary sentiment driver, whereas demand excluding AI remains weak with little signs of recovery.

Alternatives

We have reduced our insurance risk exposure, taking positioning to underweight versus the benchmark. This is given that hurricane season is upon us and so we are looking to reduce our exposure to wind risk. Balancing this out, we have added exposure to hedge funds, moving to an overweight positioning. In our view this allows us to take advantage of better alpha opportunities as well as improve carry. While we have not made any change in our overall commodity weighting, we will start to look to diversify away from fold into other commodities following the change in leading indicators.

	Allocation versus the benchmark	Weighting change from last month
Hedge Fund	+	↑
Private Markets	●	↔
Real Assets	●	↔
Commodity	●	↔
Insurance	−	↓

− Underweight + Overweight ● Neutral

↔ No change ↑ Increase ↓ Decrease

Important disclaimers

The value of investments and the income derived from them can fall as well as rise, and past performance is no indicator of future performance. Investment products may be subject to investment risks involving, but not limited to, possible loss of all or part of the principal invested.

This document does not constitute and shall not be construed as a prospectus, advertisement, public offering or placement of, nor a recommendation to buy, sell, hold or solicit, any investment, security, other financial instrument or other product or service. It is not intended to be a final representation of the terms and conditions of any investment, security, other financial instrument or other product or service. This document is for general information only and is not intended as investment advice or any other specific recommendation as to any particular course of action or inaction. The information in this document does not take into account the specific investment objectives, financial situation or particular needs of the recipient. You should seek your own professional advice suitable to your particular circumstances prior to making any investment or if you are in doubt as to the information in this document.

Although information in this document has been obtained from sources believed to be reliable, no member of the EFG group represents or warrants its accuracy, and such information may be incomplete or condensed. Any opinions in this document are subject to change without notice. This document may contain personal opinions which do not necessarily reflect the position of any member of the EFG group. To the fullest extent permissible by law, no member of the EFG group shall be responsible for the consequences of any errors or omissions herein, or reliance upon any opinion or statement contained herein, and each member of the EFG group expressly disclaims any liability, including (without limitation) liability for incidental or consequential damages, arising from the same or resulting from any action or inaction on the part of the recipient in reliance on this document.

The availability of this document in any jurisdiction or country may be contrary to local law or regulation and persons who come into possession of this document should inform themselves of and observe any restrictions. This document may not be reproduced, disclosed or distributed (in whole or in part) to any other person without prior written permission from an authorised member of the EFG group.

This document has been produced by EFG Asset Management (UK) Limited for use by the EFG group and the worldwide subsidiaries and affiliates within the EFG group. EFG Asset Management (UK) Limited is authorised and regulated by the UK Financial Conduct Authority, registered no. 2321802. Registered address: EFG Asset Management (UK) Limited, 116 Park Street, London W1K 6AP, United Kingdom, telephone +44 (0)207 491 9111.

Independent Asset Managers: in case this document is provided to Independent Asset Managers ("IAMs"), it is strictly forbidden to be reproduced, disclosed or distributed (in whole or in part) by IAMs and made available to their clients and/or third parties. By receiving this document IAMs confirm that they will need to make their own decisions/judgements about how to proceed and it is the responsibility of IAMs to ensure that the information provided is in line with their own clients' circumstances with regard to any investment, legal, regulatory, tax or other consequences. No liability is accepted by EFG for any damages, losses or costs (whether direct, indirect or consequential) that may arise from any use of this document by the IAMs, their clients or any third parties.

If you have received this document from any affiliate or branch referred to below, please note the following:

Australia: This document has been prepared and issued by EFG Asset Management (UK) Limited, a private limited company with registered number 2321802 and with its registered office address at 116 Park Street, London W1K 6AP (telephone number +44 (0)207 491 9111). EFG Asset Management (UK) Limited is regulated and authorized by the Financial Conduct Authority No. 536771. EFG Asset Management (UK) Limited is exempt from the requirement to hold an Australian financial services licence in respect of the financial services it provides to wholesale clients in Australia and is authorised and regulated by the Financial Conduct Authority of the United Kingdom (FCA Registration No. 536771) under the laws of the United Kingdom which differ from Australian laws.

ASIC Class Order CO03/1099

EFG Asset Management (UK) Limited notifies you that it is relying on the Australian Securities & Investments Commission (ASIC) Class Order CO03/1099 (Class Order) exemption (as extended in operation by ASIC Corporations (Repeal and Transitional Instrument 2016/396) for UK Financial Conduct Authority (FCA) regulated firms which exempts it from the requirement to hold an Australian financial services licence (AFSL) under the Corporations Act 2001 (Cth) (Corporations Act) in respect of the financial services we provide to you.

The financial services that we provide to you are regulated by the FCA under the laws and regulatory requirements of the United Kingdom which are different to Australia. Consequently any offer or other documentation that you receive from us in the course of us providing financial services to you will be prepared in accordance with those laws and regulatory requirements. The UK regulatory requirements refer to legislation, rules enacted pursuant to the legislation and any other relevant policies or documents issued by the FCA.

Your Status as a Wholesale Client

In order that we may provide financial services to you, and for us to comply with the Class Order, you must be a 'wholesale client' within the meaning given by section 761G of the Corporations Act. Accordingly, by accepting any documentation from us prior to the commencement of or in the course of us providing financial services to you, you:

- warrant to us that you are a 'wholesale client';
- agree to provide such information or evidence that we may request from time to time to confirm your status as a wholesale client;
- agree that we may cease providing financial services to you if you are no longer a wholesale client or do not provide us with information or evidence satisfactory to us to confirm your status as a wholesale client; and
- agree to notify us in writing within5 business days if you cease to be a 'wholesale client' for the purposes of the financial services that we provide to you.

Bahamas: EFG Bank & Trust (Bahamas) Ltd. is licensed by the Securities Commission of the Bahamas pursuant to the Securities Industry Act, 2011 and Securities Industry Regulations, 2012 and is authorised to conduct securities business in and from The Bahamas including dealing in securities, arranging dealing in securities, managing securities and advising on securities. EFG Bank & Trust (Bahamas) Ltd. is also licensed by the Central Bank of The Bahamas pursuant to the Banks and Trust Companies Regulation Act, 2000 as a Bank and Trust company. Registered office: Goodman's Bay Corporate Centre West Bay Street and Sea View Drive, Nassau, The Bahamas.

Bahrain: EFG AG Bahrain is a branch of EFG Bank AG as licensed by the Central Bank of Bahrain (CBB) as Investment Business Firm Category 2 and is authorised to carry out the following activities:
a) Dealing in financial instruments as agents; b) Arranging deals in financial instruments; c) Managing financial instruments; d) Advising on financial Instruments; and e) Operating a Collective Investment Undertaking. Registered address: EFG AG Bahrain Branch, Manama / Front Sea / Block 346 / Road 4626 / Building 1459 / Office 1401 / P O Box 11321 Manama -- Kingdom of Bahrain.

Cayman Islands: EFG Wealth Management (Cayman) Ltd, is licensed and regulated by the Cayman Islands Monetary Authority ("CIMA") to provide securities investment business in or from within the Cayman Islands pursuant to the Securities Investment Business Law (as revised) of the Cayman Islands. Registered Office: Suite 3208,9 Forum Lane, Camana Bay, Grand Cayman KY1-1003, Cayman Islands. EFG Bank AG, Cayman Branch, is licensed as a Class B Bank and regulated by CIMA. Registered Office: EFG Wealth Management (Cayman) Ltd., Suite 3208,9 Forum Lane, Camana Bay, Grand Cayman KY1-1003, Cayman Islands.

Cyprus: EFG Cyprus Limited is an investment firm established in Cyprus with company No. HE408062, having its registered address at Kennedy 23, Globe House, 6th Floor, 1075, Nicosia, Cyprus. EFG Cyprus Limited is authorised and regulated by the Cyprus Securities and Exchange Commission (CySEC).

Dubai: EFG (Middle East) Limited is regulated by the DFSA. This material is intended "for professional clients only". Registered address: EFG (Middle East) Limited DIFC, Gate Precinct5, 7th Floor PO Box 507245 - Dubai, UAE.

Greece: EFG Bank (Luxembourg) S.A., Athens Branch is a non-booking establishment of EFG Bank (Luxembourg) S.A. which is authorised to promote EFG Bank (Luxembourg) S.A.'s products and services based on the EU freedom of establishment pursuant to a license granted by the Luxembourg financial supervisory authority "CSSF". Registered address: 342 Kifisias Ave. & Ethnikis Antistaseos Str. - 154 51 N. Psychiko, General Commercial Registry no. 143057760001.

Hong Kong: The Hong Kong branch of EFG Bank AG is authorised as a licensed bank by the Hong Kong Monetary Authority pursuant to the Banking Ordinance (Cap. 155, Laws of Hong Kong) and is authorised to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activity in Hong Kong. Registered address: EFG Bank AG, Hong Kong Branch, 18th floor, International Commerce Centre 1 Austin Road West - Kowloon, Hong Kong.

Liechtenstein: EFG Bank von Ernst AG is regulated by the Financial Market Authority Liechtenstein. Registered address: EFG Bank von Ernst AG Egertastrasse 10 - 9490 Vaduz, Liechtenstein.

Jersey: EFG Wealth Solutions (Jersey) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business under the Financial Services (Jersey) Law 1998.

Luxembourg: EFG Bank (Luxembourg) S.A. is authorised by the Ministry of Finance Luxembourg and supervised by the Commission de Surveillance du Secteur Financier (CSSF). EFG Bank (Luxembourg) S.A. is Member of the Deposit Guarantee Fund Luxembourg (F.G.D.L. - Fonds de Garantie des Dépôts Luxembourg) and Member of the Luxembourg Investor Compensation Scheme (S.I.I.L. - Système d'Indemnisation des Investisseurs Luxembourg). R.C.S. Luxembourg no. B113375. Registered address: EFG Bank (Luxembourg) S.A. - 56, Grand-Rue, L-1660 Luxembourg.

Monaco: EFG Bank (Monaco) SAM is a Monegasque Public Limited Company with a company registration no. 90 S02647 (Registre du Commerce et de l'Industrie de la Principauté de Monaco). EFG Bank (Monaco) SAM is a bank with financial activities authorised and regulated by the French Prudential Supervision and Resolution Authority and by the Monegasque Commission for the Control of Financial Activities. Registered address: EFG Bank (Monaco) SAM, Villa les Aigles, 15, avenue d'Ostende – BP 37 – 98001 Monaco (Principauté de Monaco), telephone: 377 93 15 11 11. The recipient of this document is perfectly fluent in English and waives the possibility to obtain a French version of this publication.

People's Republic of China ("PRC"): EFG Bank AG Shanghai Representative Office is approved by China Banking Regulatory Commission and registered with the Shanghai Administration for Industry and Commerce in accordance with the Regulations of the People's Republic of China for the Administration of Foreign-invested Banks and the related implementing rules. Registration No: 310000500424509. Registered address: Room 65T10, 65 F, Shanghai World Financial Center, No. 100, Century Avenue, Pudong New Area, Shanghai. The business scope of EFG Bank AG Shanghai Representative Office is limited to non-profit making activities only including liaison, market research and consultancy.

Portugal: EFG Bank (Luxembourg) S.A. - Sucursal em Portugal is authorised and supervised by Banco de Portugal (register 280) and the CMVM, the Portuguese securities market commission, (register 393) for the provision of financial advisory and reception and transmission of orders. EFG Bank (Luxembourg) S.A. - Sucursal em Portugal is a non-booking branch of EFG Bank (Luxembourg) S.A., a public limited liability company incorporated under the laws of the Grand Duchy of Luxembourg, authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier). Lisbon Head Office: Avenida da Liberdade n.° 131 - 6° Dto., 1250 - 140 Lisboa. Porto agency: Avenida da Boavista, n.° 1837 - Escritório 6.2, 4100 - 133 Porto. Companies Registry Number: 980649439.

Singapore: Singapore (UEN No. T03FC6371J) is licensed by the Monetary Authority of Singapore as a wholesale bank to conduct banking business and additionally carries on the regulated activities of dealing in capital markets products (securities, collective investment schemes, exchange-traded derivatives contracts, spot foreign exchange contracts for the purposes of leveraged foreign exchange trading and over-the counter derivatives contracts), fund management, product financing and provision of custodial services as an Exempt Capital Markets Services Entity under the Securities and Futures Act 2001 and of providing financial advisory services as an Exempt Financial Adviser under the Financial Advisers Act 2001 by advising others, either directly or through publications or writings, and whether in electronic, print or other form, and advising others by issuing or promulgating research analyses or research reports, whether in electronic, print or other form, concerning the following investment products: securities, collective investment schemes, exchange traded derivatives contracts, over-the-counter derivatives contracts, spot foreign exchange contracts other than for the purposes of leveraged foreign exchange trading, spot foreign exchange contracts for the purposes of leveraged foreign exchange trading and structured deposits. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of the recipient, before the recipient makes a commitment to purchase the investment product. Please contact EFG Bank AG (Singapore Branch) in respect of any matters or queries arising from or in connection with this publication. Please note that EFG Bank AG (Singapore Branch), however, does not take legal responsibility for the contents of this publication. EFG Bank AG (Singapore Branch) and EFG Asset Management (UK) Limited have put in place appropriate mechanisms and segregation policies to ensure the independence of EFG Asset Management (UK) Limited's research activities, and procedures to manage undue influence of issuers, institutional investors or other external parties on EFG Asset Management (UK) Limited. Other arrangements may be established where necessary to prevent conflicts of interest from arising. For Singapore, this document and the products mentioned herein are only intended for "accredited investors" and "institutional investors" within the meaning of the Securities and Futures Act 2001 and any rules made thereafter. This advertisement has not been reviewed by the Monetary Authority of Singapore. Registered address: EFG Bank AG, Singapore Branch 79 Robinson Road, #18-01 Singapore 068897.

Switzerland: EFG Bank AG, Zurich, including its Geneva and Lugano branches, is authorised and regulated by the FINMA. Registered Office: EFG Bank AG, Bleicherweg 8, 8001 Zurich, Switzerland. Registered Swiss Branches: EFG Bank SA, 24 quai du Seujet, 1211 Geneva 2, and EFG Bank SA, Via Magatti 2, 6900 Lugano.

United Kingdom: EFG Private Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. EFG Private Bank Limited is a member of the London Stock Exchange. Registered company no. 2321802. Registered address: EFG Private Bank Limited, Park House, 116 Park Street, London W1K 6AP, United Kingdom, telephone +44 (0)20 7491 9111.

USA: EFG Capital International Corp ("EFG Capital") is a U.S. Securities and Exchange Commission ("SEC") registered broker-dealer and member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). None of the SEC, FINRA or SIPC, have endorsed this document or the services and products provided by EFG Capital and its U.S. based affiliate, EFG Asset Management (Americas) Corp ("EFGAM Americas"), a registered SEC investment adviser. Securities products and brokerage services are provided by EFG Capital, and asset management services are provided by EFGAM Americas. EFG Capital and EFGAM Americas are affiliated by common ownership under EFG International AG and maintain mutually associated personnel. Registered address: 701 Brickell Avenue, Ninth Floor - FL 33131 Miami.