Trillium SA

manavest

Quarterly Market and Equity Commentary

January 2023

Market Commentary – 2022 in Retrospect

2022 in retrospect

Russian invasion of Ukraine	Surge of inflation	Central banks' hawkish shift
From inflation to recession fears	Hope for FED's pivot	China ends zero-COVID policy
Cryptocurrency meltdown	Cash in USD is king	S&P 500 ends 2022 at 3'839.50 -18.1% (USD)
Global Aggregate Fixed Income -16.3% (USD)	Balanced portfolios (50/50) -15.4% (USD)	Value outperforms growth

Source: Trillium, Bloomberg

Major Themes for 2023

Global Growth

Shocks and aftershocks have left investors with nowhere to hide, all asset classes performed poorly in 2022.

Global growth slowdown should continue in 2023 as we see increasing signs of economic contraction. However, a global recession should be avoided on the back of 4 main elements: resilient labour market, global consumption, Chinese activity and easing inflation. Economies could start to recover in H2.

Inflation will most likely weaken over the course of 2023, but more modest overall growth must also be taken into account.

What will inflation be doing in 2023?

Central banks will continue to fight inflation. While gradually cooling down in the US and in Europe, inflation remains historically high. More than headline inflation numbers, job reports (wages) as well as energy prices will drive market sentiment.

The current environment (resilient growth, robust labour market and sticky inflation) leaves no space for a pause in Central Bank's rate hike cycle as inflation is likely to normalize but will not disappear in 2023. However, interest rate increases should be less pronounced in 2023.

Switzerland

Switzerland remains a preferred asset class in our allocation. Its ecosystem and the qualities of Swiss companies make it a defensive market that brings added value over time.

Furthermore, Swiss companies continue to be resilient in this uncertain macroeconomic environment. Despite a lack of short-term visibility, order books are full, companies have not suspended their investments and they continue to maintain a high level of R&D spending.

Finally, companies that are in niche markets (automation, telecommunications and energy efficiency) continue to be positive in the trends of tomorrow.

US and Europe

Equities:

A weaker economy in 2023, does not necessarily mean weak equity markets, especially as investors have already priced in a recession for most developed economies.

Valuations and potential earnings compression are amongst the biggest risks for equities especially as we lack visibility. Valuations vary according to country/sector/industry, but are overall still expensive in the current environment (earnings). Until now, earning revisions remain moderate and we could experience more downward revisions during the year. Without a doubt, near-term's earnings (Q1 and Q2) will be decisive and for investors.

Fixed income:

Bonds now offer more income than they have done over a decade, as current yield levels coupled with low default rate expectations should work in favour of positive fixed income returns in 2023. We do not expect yields to diverge greatly from their current level.

After a sharp rebound in spreads at the end of 2022, a retracement should help credit names to outperforms in H1. A credit rally is not our main scenario, unless the prospect of rate cuts comes sooner than anticipated. On the sovereign side, holding 10-year T-Bills could be an additional source of yield and would help mitigate downside risk should a more severe slowdown occur.

China and EMs

China's economy is expected to expand just above 3.0% this year, which would be the slowest pace since the 1970s (excluding 2020) and well below the PBOC's 6.0% target.

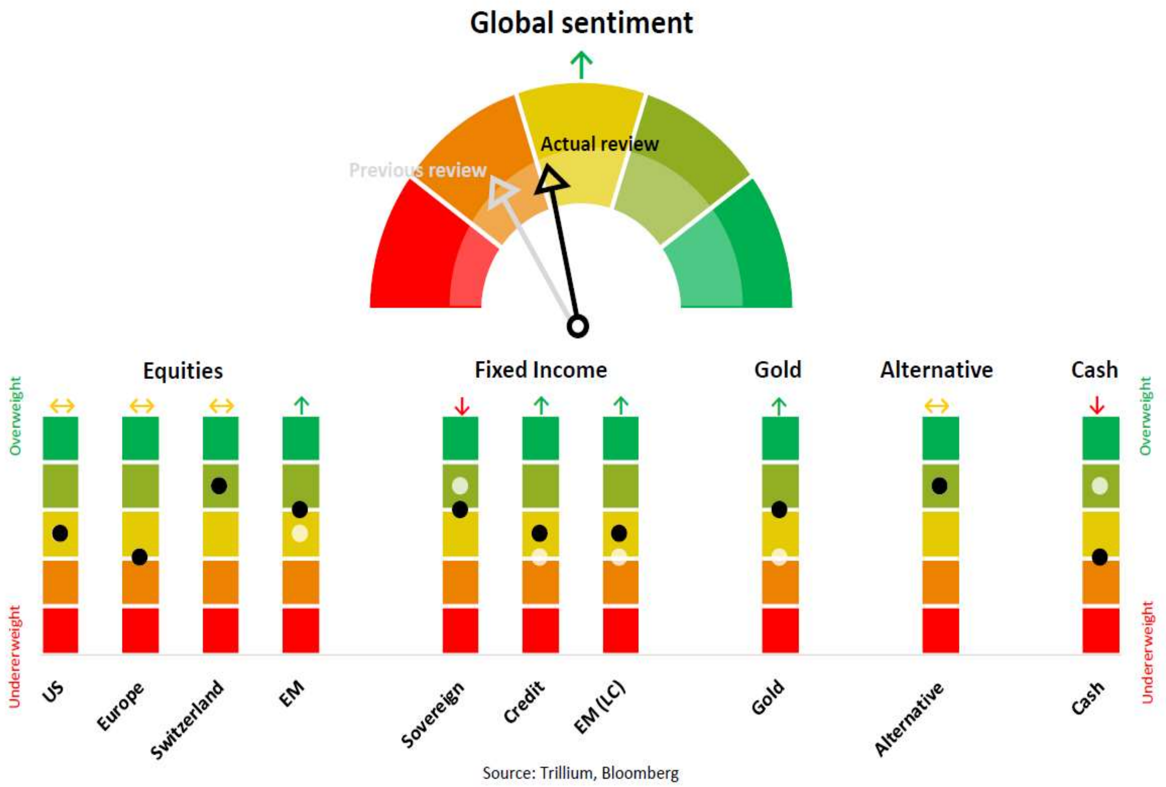
That being said, the 180° switch to pragmatism regarding Covid and growth, the country's reopening and the central bank ramping up stimulus, are some important trading themes in emerging markets sentiments.

Those factors should bring positive momentum to regional economies, global commodity suppliers, and for stocks, as it promises to raise domestic and global consumer demand, improve corporate earnings and revive trade volumes, while helping to bolster the Chinese property market.

Outcome

Return to some a semblance of normality: 2023 might be a complicated year, but last year's change of course in terms of monetary policy and interest rates opens the door to new investment opportunities. In 2023, both equities and fixed income (both credit and sovereigns) could return to positive performance. However, high volatility will be a consideration as geopolitical tensions remain high and lack of visibility will dominate in the first part of the year at least.

2023 Trillium Sentiment



DISCLAIMER

PRIVACY NOTE