Quarterly Market Overview
4Q 2023

<u>January 2024</u>

MWC Group
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The FOMC has considerable control over short-term interest rates. We have much less influence over long-term rates, which are set in the marketplace.
Jerome Powell

The fight against inflation

Since the beginning of 2022 the Federal reserve has proceeded with the most aggressive tightening cycle in decades. To contain raising inflation, the reference rate was gradually increased from 0.25% to 5.50% in a period of 16 months.

Unfortunately, the effect of increased interest rates is not immediate on the economy as companies will refinance their debts only at the maturity of existing ones.

The official core Inflation rates went from 4.3% at the beginning of 2022 till 6.5% at the end of August of the same year before starting to invert. The last data published in November is back to 2.5%, not far from the 2% target of the Federal Reserve.

In the last speech of Fed's chair Jerome Powell on the 1st of December, there was a change in tone. While the Fed will remain attentive to further developments, interest rates hikes should be paused for the moment as an economic slowdown is finally in sight.
While rate cuts are not expected to happen very soon, expectations are now that we should have seen the last hike in this cycle.

The Markets

As we expected, October ended up being a nervous month for financial markets, with most asset classes losing ground. Core inflation data for September was surprisingly strong and immediately fueled markets fear. Notes from the Fed meeting that did not rule out further tightening additionally impacted the market.

November was more benign, with a very good recovery thanks to improved economic data. Jerome Powell speech on the first of December confirmed markets interpretation of the data and has led to a continued rally till the end of the year.

We went from Panic to Euphoria, a quarter where we saw it all.

The S&P500 Index jumped 14% in the last two months of the year and the yields for the 10 Years US Treasury bond went from almost 5% to 3.9% again.

From the commodities front, with a weakening of the economy, we have seen Gold gaining again to its all-time high, while the rest of the commodities rather softened on the prospect of a weaker economy.

The World

The whole 2023 was defined by an increase in conflicts.

On top of the Ukraine War that continues for a third winter, we have seen some new frictions in several areas around the world.
In September 2023 Azerbaijan seized the Nagorno-Karabakh territory that was in Armenian control.
At the beginning of October, Hamas attacked Israel with an unprecedented attack which caused 1200 casualties among Israelis, further 240 people were taken hostage. This led the Israeli army to invade Northern Gaza.
What looked like promising advances in diplomatic relations between Israel and the middle east have suddenly been halted.

From the U.S.-China tension front, unfortunately we did not see any major improvements neither. While the November talks at the APEC Leaders' Forum has brought minor agreements, progress were not mind-blowing.

From a technological point of view, we have finally seen the release of ChatGPT. Artificial Intelligence is quickly developing, and the first warning has been raised. Steve Wozniak and Elon Musk have signed an open letter to raise awareness of the dangers for society and humanity.

Efforts towards Space Operations have increased as well. While Russia crashed his lander on the moon surface at the end of August, few days later India successfully landed an unmanned vehicle near the south polar region of the moon.

All main nations have ambitious moon programs and concerns are raising over a militarization of the space.

India has been in the news for overtaking China as the world most populous country at the end of 2023. While the Chinese population has been shrinking and aging, India has a young and growing population, which should lead to higher economic growth rates.

On a positive note, in 2023 we saw major breakthroughs in the treatment of several illnesses. From drugs to slow Alzheimer to new treatments for cervical, prostate and breast cancers.

In terms of environment, China's emission is forecasted to start falling in 2024 after the massive investment and rollout of renewables.

Economic Outlook for 2024

The IMF expects a global economic slowdown for the Western developed countries, with Europe showing a minimal recovery. Inflation should further retrench slowly moving towards the Central Banks targets.

Markets are expecting a soft landing of the economy, means an economic slowdown that avoids a recession. This is a more probable scenario than a recession, in particular for the Unites States.
India and Japan are expected to remain at a late phase of economic growth.

A more detailed Global Outlook can be found here

2024 outlook for the Financial Markets

Currencies:
The development of the single currencies is usually derived from the current short-term interest rates. Therefore, with the current economic outlook, we expect the US Dollar to be weakening when interest rate cuts will start to happen.

The economic slowdown in Europe is at a more advanced state, we would expect the currency to start recover ground later during the year. A similar outlook is shared by the British Pound.

The Swiss Franc is expected to remain stable against European currencies but should start to gain against the US Dollar.

Interest Rates:
With inflation finally under control, markets are expecting interest rates to retrench again for most of the major economies of the world.

We see this as an opportunity to invest in the current environment to diversify portfolios and have a steady income.

The USD and GBP denominated Bond Markets currently offer value. We see different opportunities in the following areas:

USD Corporate Bonds Current yields of the reference index are slightly above the 5%. The focus should lie with a dedicated Fund that focuses on the quality of the issuers and avoids companies that have high leverage.

USD High Yields the reference index is currently at 8%. Here it is of utmost importance the selection of Fund Managers that focuses on the quality of the issuers. Issuers that have high leverage or are in a cyclical sector will suffer from worsened economic conditions, hence the need of selection.

USD Emerging Market Debt (so called Hard Currencies Emerging Market Debts). In the past decades while the western governments have continuously increased their debt load, emerging countries have been nimbler and have further reduced it. Again, we would favour a high-quality manager in the field that has an active approach in the selection.

GBP Corporate Bonds similarly to the USD Corporate Bonds, are at above 5% yield for Investment Grades Corporate Bonds. Here as well we would prefer quality issuer with low leverage.

Equities

With an economic slowdown expected it is more difficult to have a precise view for the year 2024. Generally, we can see that higher interest rates will slowly start to impact companies in their quest for refinancing.

Furthermore, if we look at current valuations, in particular large companies are richly valued in comparison with the last 20-year averages. It is true as well that Value companies are better priced compared to Growth companies. Chart from JP Morgan Asset Management:

Current P/E as % of 20-year avg. P/E

	Value	Blend	Growth
Large	103.2%	119.5%	135.3%
Mid	97.1%	98.7%	122.5%
Small	88.7%	93.4%	94.9%

Source: FactSet, Refinitiv Datastream, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.
All calculations are cumulative total return, including dividends reinvested for the stated period. Since market peak represents period from 2/19/2020 to 9/30/2023. Since market low represents period from 3/23/2020 to 9/30/2023. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices except for the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price-to-earnings is a bottom-up calculation based on the most recent indexprice, divided by consensus estimates for earnings in the next 12 months (NTM) and is provided by FactSet Market Aggregates and J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 6, 2023.

J.P.Morgan
ASSET MANAGEMENT

For this reason, we think that a more balanced approach to portfolios, including investments in quality stocks together with long term investment themes, is a wise choice in a year that could be expected to continue to be volatile. While the long-term outlook for equities is still positive, certain areas of the market could see some profit taking.

We therefore would like to focus on the following themes:

- Quality Companies
- US Small Caps (both Value and Growth compartments)
- India
- Japan

As Long-Term investment themes we remain with the following, considering the current economic phase:

- Artificial Intelligence
- Electric Vehicles and Battery Technologies
- Biotechnology, Genomics and Healthcare Tech
- Cybersecurity
- Robotics and Automation

Commodities

With economies slowing down we do expect demand to remain subdued for the more industry related commodities (Nickel, Copper, Platinum, Silver).

While some underlying themes are supporting some of them (for example Copper is used for Electric Vehicles as well), we would reduce exposure in the field and focus on long term themes. Investment in companies that are in the mining sector could remain of interest provided if the company is not over leveraged and the financing secured. Here again we would focus on the long-term investment themes (Uranium, Rare Earth Material) with a reduced exposure of portfolios.

One of the themes for 2024

Artificial Intelligence

As mentioned before, ChatGPT has been released in the past year. The advances in generative AI have been stunning and surprisingly some companies that were at the forefront of development look a little left behind now.

Google for example has developed Transformer, an Artificial Neural Network architecture that is at the base of ChatGPT. But on the 7th of February 2023 Microsoft launched its AI Co-Pilot for the search engine Bing and its browser Edge, while no similar advancements were made by Google.

The development of more complex AI models is starting to be limited to big players only and a few very well-funded companies. Energy and infrastructure requirements to run these complex models may slow further developments. Only economic viable models may survive on a longer term.

Furthermore, there are risks for this technology and we heard many warnings, but there are countless opportunities.

In the past, a few companies were the leaders in Artificial Intelligence developments, now we start to see increased adoption for practical applications in businesses.
Here are some examples of applications.

Manufacturing Industries

Supply chains have become very complex, including several continents, different methods of transportation and specialized suppliers.
One of the first task that AI can take over is the real time monitoring of weather conditions, traffic patterns, shipments.
Inventories could be managed more efficiently as well, avoiding big stocks.
The next point that could be tackled is the data regarding sustainability. Currently for a company it is difficult to track that information and AI could be analysing it.
The technology could be used to anticipate customer demand by monitoring trends.

AI can create graphics, images and designs and it is ideal if many versions are needed. This reduces the product development times and costs.
Quality Control is another task that can be taken over by artificial intelligence as it is a repetitive task.

AI analysis all data provided and can determine when maintenance is due, avoiding potential failures and down time.

And last but not least, this technology helps the planning of production and inventory.

Medical Field

Artificial Intelligence has several applications in the medical field as well.
The most developed area is in the medical imaging and visual diagnosis, such as dermatology. Doctors often use AI as a second opinion for skin cancers, psoriasis, diabetic retinopathy, ...

AI has been used already for drug discovery and personalized treatment options. Focus has been put so far to the analysis of human genomics and the identification of drugs to combat neurological diseases like Parkinson's, Alzheimer and Amyotrophic lateral Sclerosis (ALS).

Some companies have built AI Assisted systems that offer 24 hours support to find physicians on call, appointment scheduling and assisting doctors with hospital protocol information.

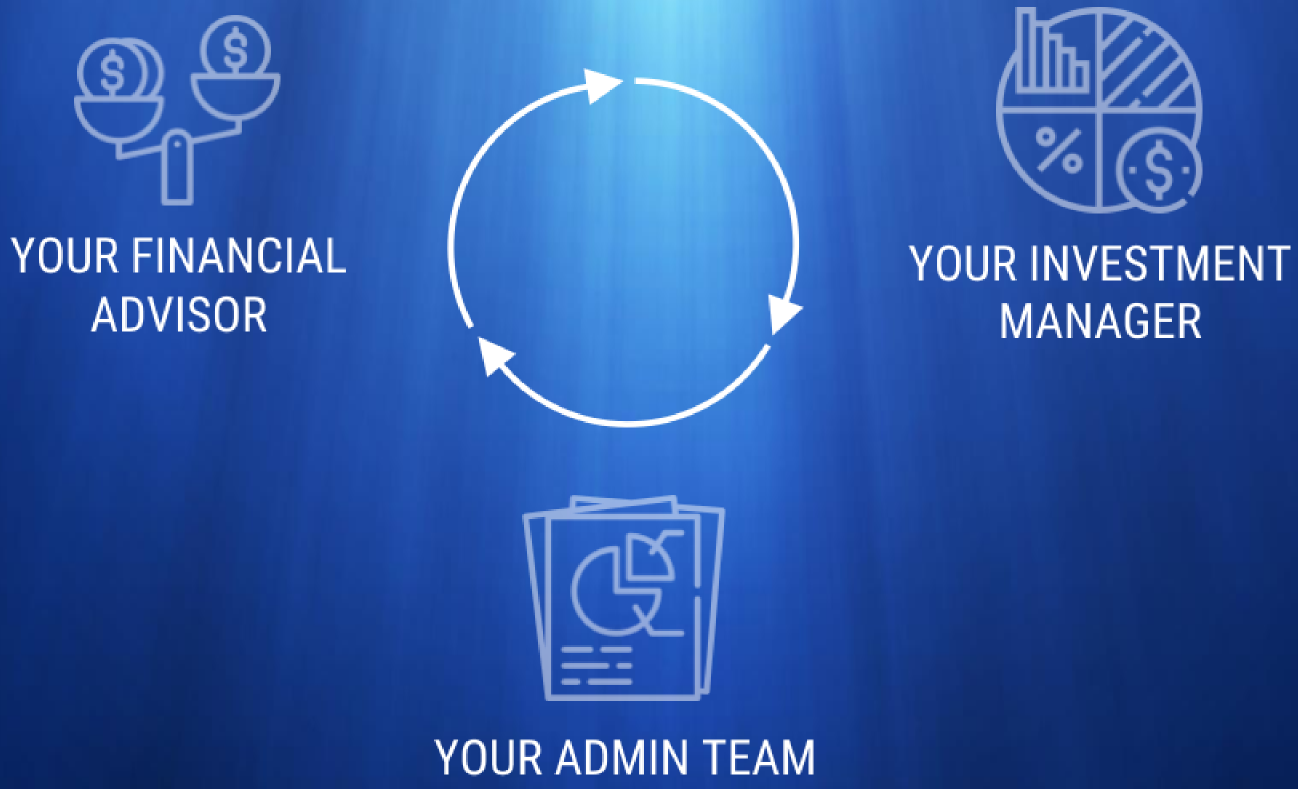
Worth to mention the company Moderna using an IBM basis model to develop mRNA medicaments.

Finance

Even in the finance world numerous applications could be taken over by Artificial Intelligence. First on the line are back-office operations, automation of accounting, document analysis and even Fraud detection.

Writer.ai is a company that runs a language model used in the financial sector. It is used to deliver personalized campaigns for existing customers and acquisition or for the creation of economic research.

Hence while the investment theme was delimited on few companies focusing on the development of the technology, we expect it to be more widely adopted in the different industries. We expect this to first happen in smaller companies as they have a more flexible structure, but should at some point be subject to a wider adoption.



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