Portfolio manager comments March 2023

MARKET REVIEW

The first quarter was characterized by strong swings in interest rates. Markets repeatedly repriced the risks of inflation and central bank policy on the one hand, and the probability of a recession on the other hand. Going into the second quarter, interest-rate volatility has decreased and rates have stabilised around the 2% level for the moment. However, past rates volatility put a lot of strain on the banking sector in February and March. Confidence in banks was badly hurt by the failure of SVB bank and the emergency merger between UBS and CS. In Switzerland, the latest economic indicators show a mixed picture. The consumer prices increased surprisingly to 3.4% on a YoY basis vs. a figure of 3.3% for the prior month. The February unemployment rate came out 2.1% lower than the prior figure of 2.2%. February trade figures moved in opposite directions. On the one hand, exports dropped for the first time in three months, both in nominal (-1.1%) and real terms (-2.7%). On the other hand, imports rose in the month at a stronger pace in nominal terms (+1.3%) while declining in real terms (-0.5%). The 10-year CHF swap rate started the quarter at 1.90% to end at similar levels at 1.92%. The 10-year Swiss Government bond ended the quarter yielding 1.24%.

PORTFOLIO ACTIVITY – LPP/BVG-SHORT-MID TERM BONDS

We started the quarter with a flattening position on the 2-5 year part of the Swiss interest rate curve. Overall, we had a neutral duration positioning on the CHF rates curve. On the credit side, towards the end of January we selectively decreased credit exposure in the portfolio, mainly leaving the following pockets of active credit positioning: Financials, Regional Banks and Utilities. Finally, rating-wise, we are long BBB names against a short in AA and AAA issuers. Throughout the quarter, we participated in the new issues of: Alpiq, ASB Bank, Amag Leasing, Banque Federative du Credit Mutuel, BNG Bank, Cantonal Bank of Valais, Cie De Financement Foncier, Commerzbank, Deutsche Bank, First Swiss Mobility, Ferring Hyundai Capital, Inselspital, Kraftwerke Linth-Limmern, Lloyds, Nationwide Pfandbriefbank, Sparebank, Swiss Life and the Swiss Government. We reduced exposure to issuers like Banco Santander, Cembra Money Bank, Credit Agricole, Citigroup, Digital Intrepid, Met Life and Natwest. We also managed to sell all the remaining position in Russian Railways in the fund at attractive conditions. Finally, we tried to maintain an adequate cash level.

PORTFOLIO ACTIVITY – LPP/BVG-10 ESG

Over the quarter, the core positioning did not change as our main scenario has remained the same. On the equity side, the underweight was maintained throughout the period, with a preference for the Swiss and emerging markets to the detriment of the developed markets as we still expect economic data to deteriorate further going forward in the USA and Europe. Within fixed income, we increased our exposure to Swiss bonds, doubled our exposure to French government bonds and reduced our underweight in corporates. On the other side, we also sold our exposure on the 10y US Treasury on the back of disappointing inflation data in the USA, which did not offer much relief on the rates front. Equities ended the month at 7.0%, bonds at 69.7%, alternatives at 13.4% and cash at 9.9%. Our exposure to sustainable funds (Art 8 and 9 according to SFDR regulation or internal equivalent) stood at 86.2%.

PORTFOLIO ACTIVITY – LPP/BVG-25 ESG

Over the quarter, the core positioning did not change as our main scenario has remained the same. On the equity side, the underweight was maintained throughout the period, with a preference for the Swiss and emerging markets to the detriment of the developed markets as we still expect economic data to deteriorate further going forward in the USA and Europe. In line with the dichotomy seen between the developed and emerging economic developments, we increased the exposure to the themes linked to the reopening of the Chinese economy (Premium Brands, emerging Asia) while reducing some less rewarded positions (slowdown, minimum volatility, US infrastructure ESG). Within fixed income, we increased our exposure to Swiss bonds, doubled our exposure to French government bonds and reduced our underweight in corporates. On the other side, we also sold our exposure on the 10y US

Treasury on the back of disappointing inflation data in the USA, which did not offer much relief on the rates front. Equities ended the month at 22.0%, bonds at 54.3%, alternatives at 14.2% and cash at 9.5%. Our exposure to sustainable funds (Art 8 and 9 according to SFDR regulation or internal equivalent) stood at 81.2%.

PORTFOLIO ACTIVITY – LPP/BVG-MULTI ASSET FLEXIBLE

In March, we increased protection assets (33.4%, +9.9%) at the expense of growth (35.2%, -5.0%) and cash assets (12.3%, -5.1%). Uncorrelated assets (19.2%, +0.2%) remained virtually unchanged. In delta-adjusted terms, growth assets also decreased (35.2%, -5.0%). Growth assets were composed of 27.3% equities and 7.9% credit. In growth assets, we removed US corporate credit. We exited US infrastructure and EM equities, opening a position in Nasdaq 100 and topping up MSCI World. Protection assets comprised 31.7% core bonds and 1.7% precious metals. In core bonds, we built a strong position in German Bunds, in addition to adding to US nominal and inflation-linked bonds. Finally, we booked final profit on our last remaining position in equity hedges (VIX). Uncorrelated assets included 7.9% HFs and 11.3% real estate. In HFs, we removed Winton Trend. There is tentative evidence that risk diversifiers' correlation regime is shifting back to "normal" with core bonds and gold recovering their safe-haven status, no longer warranting substitution from CTA strategies. Regarding currencies, we further decreased Swiss franc exposure (76.5%, -1.3%).

PORTFOLIO ACTIVITY – LPP/BVG-40 ESG

Over the quarter, the core positioning did not change as our main scenario has remained the same. On the equity side, the underweight was maintained throughout the period, with a preference for the Swiss and emerging markets to the detriment of the developed markets as we still expect economic data to deteriorate further going forward in the USA and Europe. In line with the dichotomy seen between the developed and emerging economic developments, we increased the exposure to the themes linked to the reopening of the Chinese economy (Premium Brands, emerging Asia) while reducing some less rewarded positions (slowdown, minimum volatility, US infrastructure ESG). Within fixed income, we increased our exposure to Swiss bonds, doubled our exposure to French government bonds and reduced our underweight in corporates. On the other side, we also sold our exposure on the 10y US Treasury on the back of disappointing inflation data in the USA, which did not offer much relief on the rates front. Equities ended the month at 37.2%, bonds at 41.3%, alternatives at 16.0% and cash at 5.5%. Our exposure to sustainable funds (Art 8 and 9 according to SFDR regulation or internal equivalent) stood at 78.5%.

PORTFOLIO ACTIVITY – LPP/BVG-60 ESG

Over the quarter, the core positioning did not change as our main scenario has remained the same. On the equity side, the underweight was maintained throughout the period, with a preference for the Swiss and emerging markets to the detriment of the developed markets as we still expect economic data to deteriorate further going forward in the USA and Europe. In line with the dichotomy seen between the developed and emerging economic developments, we increased the exposure to the themes linked to the reopening of the Chinese economy (Premium Brands, emerging Asia) while reducing some less rewarded positions (slowdown, minimum volatility, US infrastructure ESG). Within fixed income, we increased our exposure to Swiss bonds, doubled our exposure to French government bonds and reduced our underweight in corporates. On the other side, we also sold our exposure on the 10y US Treasury on the back of disappointing inflation data in the USA, which did not offer much relief on the rates front. Equities ended the month at 57.2%, bonds at 21.8%, alternatives at 14.8% and cash at 6.2%. Our exposure to sustainable funds (Art 8 and 9 according to SFDR regulation or internal equivalent) stood at 73.9%.

MARKET OUTLOOK

The latest Swiss economic indicators show a slightly weaker picture for the Swiss economy in the coming months. March PMI surveys continued to decline. The manufacturing gauge surprised on the downside, falling further into the contractionary zone at 47 (-1.9 pts.). The services PMI rebounded for the second month in a row to 54.2 (-+1.1 pts.). Overall, the latest figures point to a slowing GDP growth pace but also to easing in inflationary pressures that was more significant than previously expected. The March KOF composite leading indicator slightly declined to 98.2 (after a small downward revision to 98.9 in February). The SECO Spring fore-

casts have been revised upward. The experts now expect 0.8% real GDP growth this year while they have slightly reduced their 2024 growth forecast to 1.8%. The SNB implemented another 50 bps rate hike in March, above market expectations. The Board provided guidance for further rate hikes, if necessary, to ensure price stability in the medium term. The SNB revised the inflation forecast to 2.6% in 2023 (from 2.4% in December), to 2.0% in 2024 (from 1.8% in December) and expects inflation at 2.0% on average in 2025 with inflation rising again to 2.1% both in Q3 and Q4 2025. Looking ahead, we expect the SNB to be under less pressure to hike rates given this inflation forecast.

Disclaimer

This document is exclusively intended for eligible investors and is not intended for other persons who are citizens of, domiciled or resident in, or entities registered in a country or a jurisdiction in which its distribution, publication, provision or use would violate current laws and regulations.

The information and data furnished in this document are disclosed for information purposes only; the Pictet Group* is not liable for them nor do they constitute an offer, an invitation to buy, sell or subscribe to securities or other financial instruments.

Furthermore, the information, opinions and estimates in this document reflect an evaluation as of the date of initial publication and may be changed without notice. The value and income of the securities or financial instruments mentioned in this document are based on rates from the customary sources of financial information and may fluctuate. The market value may vary on the basis of economic, financial or political changes, the remaining term, market conditions, the volatility and solvency of the issuer or the benchmark issuer. Moreover, exchange rates may have a positive or negative effect on the value, the price or the income of the securities or the related investments mentioned in this document.

Past performance must not be considered an indicator or guarantee of future performance, and the addressees of this document are fully responsible for any investments they make. No express or implied warranty is given as to future performance.

The content of this document is confidential and can only be read and/or used by its addressee. The Pictet Group is not liable for the use, transmission or exploitation of the content of this document. Therefore, any form of reproduction, copying, disclosure, modification and/or publication of the content is under the sole liability of the addressee of this document, and no liability whatsoever will be incurred by the Pictet Group. The addressee of this document agrees to comply with the applicable laws and regulations in the jurisdictions where they use the information reproduced in this document.

This document is issued by the Pictet Group. This publication and its content may be cited provided that the source is indicated.

*The Pictet Group includes the entities mentioned in the report published under the following link: www.group.pictet/reports.

Data Source: FundPartner Solutions (Europe) S.A. – Part of Pictet Group.