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WEALTH MANAGEMENT

Marketing Material

MONTHLY HOUSE VIEW

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What has changed in 2022?

Architects of Wealth

• Table of contents

WHAT HAS CHANGED IN 2022?

Vincent MANUEL
Chief Investment Officer

"Freedom must be won before freedom can be arranged"
Jean Cavaillès

Dear Reader,

After a year that was out of the ordinary in every respect, the temptation is strong to turn to 2023 in the hope of more favourable prospects. However, there are lessons to be learned from 2022 that can be fruitful for the future, notably what structural changes have been made.

Firstly, this was the year of history's violent return. 2022 led us to definitively abandon the idea that peace and stability were a permanent feature of Europe. The historical rupture constituted by the invasion of Ukraine marks a lasting turning point for Europe: in the conception of its priorities, in its definition of power and its conditions (strategic autonomy, defence policy), and in its relationship to borders. Finally, it brings us back to a more classical conception of war as "the continuation of politics by other means" (Clausewitz). It then reminds us that before drawing up peace plans and organising the post-conflict period, it is the military balance of power on the ground that determines reality. Finally, it is also a warning about the future of Taiwan. Country risk will therefore remain central in 2023.

Secondly, 2022 was also the year of the return of politics, whether it be in China or in Europe. The policy orientations taken by Xi Jinping over the last two years clearly call into question the vision of China as an engine of global growth and a model of reformist pragmatism initiated by Deng Xiaoping. The shock of 2021-2022 for investors is the realisation that their analytical framework is becoming increasingly obsolete as ideology begins to supplant rationality, and that the accumulation of debt over the past 10 years and the restructuring of the real estate sector do not bode well for growth in the years to come. In Europe, the return of politics is reflected in a shift in prevailing ideas, where competitive policies seem to be giving way to strategic autonomy.

Thirdly, 2022 marked the return of scarcity: labour shortages, constrained value chains, energy rationing. This new equation is at the heart of the inflationary tensions we are experiencing, and constitutes a change of perspective in contrast to the model of abundant production and immediate availability that has prevailed until now. This prevalence of supply constraints marks the revenge of the so-called "classical" economists as opposed to the Keynesian economists who inspired a highly expansionary monetary and fiscal policy mix after the COVID-19 crisis.

Fourth, 2022 was undoubtedly a year of accelerating climate change. It is the year in which the changes have become the most visible and the most violent: from record heatwaves to forest fires, falling glaciers, drying rivers and devastating hurricanes.

What can economic and political history teach us as we look to 2023? What are the almost inevitable next steps in such a crisis? Inflationary phases usually result in increased social tensions, which are likely to punctuate the coming months. In Europe, we have already entered the political and social phase of inflation, in which reindexation pressures annihilate previous reform plans. Another lesson of the last decades is the likely return of sovereign risk; after a pandemic that increased public debt by 10 to 15 GDP points in the Western world, the energy crisis is also leading to increased deficits in Europe. However, with a less accommodating monetary policy, fiscal headroom is shrinking and the sustainability of the debt is no longer assured.

It is therefore on the corporate side that investors will continue to look to identify the main investment opportunities. After a surprisingly resilient 2022 in terms of margins, despite this stagflationary environment, 2023 should see a slowdown in profits, without, however, calling into question the attractiveness of equities and corporate bonds as the main sources of long-term performance.

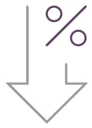
Wishing you all an enjoyable reading
and a happy new year !

CHINA REOPENING: A LOOK INTO THE COMMODITY HEDGE

Bénédicte KUKLA
Senior Investment Officer

Adrien ROURE
Investment Strategy Analyst

In addition to the pace of Federal Reserve (Fed) tightening and the end of the war in Ukraine, China's reopening will be a key driver of 2023. However, the impact of the reopening of the world's second largest economy will not be that of the typical infrastructure- and manufacturing-led recovery seen in the past, nor will its impact on commodities.



Share of cities under lockdown: from

20% to 2%

of GDP in 15 days

THE UNEASY, BUT FAST ROAD TO CHINA REOPENING

Although vaccination remains a major issue for the elderly (60% of the above 80 years-old are unvaccinated) and the health system will surely be put to the test this winter, the reopening of China is underway with the share of cities under lockdown down to 2% of GDP (compared to 20% end of November).

The reopening will be chaotic in the first months and it will take time before the macroeconomic context improves: retail sales are down by -0.6% month-on-month and industrial production by -0.3% in November. The return in consumer confidence will be a key element to determine the degree of pent-up consumer demand released in the short-term, even if in the medium-term the deleveraging process is expected to continue to weigh on Chinese consumption. We do see a clear upside in the short-term from lifted travel restrictions and government pledged fiscal stimulus that is still in the pipelines, blocked by the restrictions in movement.

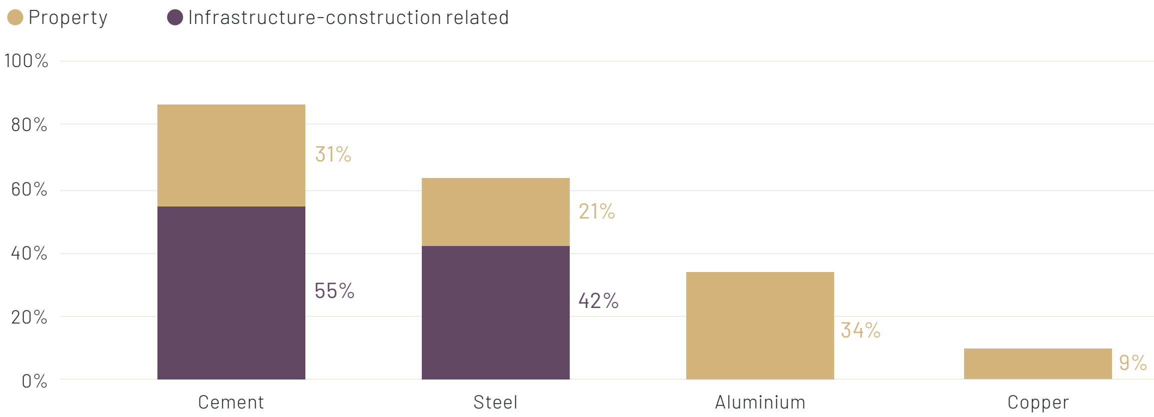
METALS: ENERGY TRANSITION COMMODITIES WILL HAVE THE UPPER HAND

The structural changes in the Chinese economy, moving away from its historical dependence on property to more productive sectors, will impact the outlook for metals, already in 2023. The property downturn primarily impacts cement and steel, while the exposure of copper and aluminium is significantly smaller (Chart 1). Prices of the latter surged until this spring, but recession fears caused a sharp drop since then, even if in recent weeks the easing of China's zero-COVID policy has boosted them again. We see copper and aluminium as solid hedges for a China reopening in 2023. Furthermore, copper is expected to benefit from the boom in electrical vehicles (EV) demand: China EV demand is expected to grow by 80% from 2022 to 2030. Prices of both copper and aluminium should also be boosted by their historically low stock levels.

OIL MARKETS: CHINA AMONG THE FACTORS AT PLAY

Geopolitical risk fuelled oil prices to peak at USD 128 per barrel on 3 March 2022, but recession fears and lockdowns in China have pulled oil prices back, leaving them flat year-to-date (Chart 2, page 5). Nevertheless, after a near-term period of negative demand pressures, we expect oil markets to recover in 2023. This is linked to a list of supportive factors for oil prices, notably on the demand side.

CHART 1: EXPOSURE IN EACH COMMODITY'S DEMAND, % OF VOLUME



Source: GS, Indosuez Wealth Management.

First the recovery in consumption by the airline industry. According to the International Air Transport Association (IATA), total airline revenue should increase to an estimated 93% of the pre-pandemic level in 2023 (compared to 87% in 2022), driven by the recovery in passenger traffic as air cargo revenues normalise. China's impact on oil prices will be mostly felt through renewed air travel, Asia having been a severe laggard in the recovery category. Lastly on the demand side, the US has largely used its strategic petroleum reserves (over 185 million of barrels so far) in an attempt to limit the rise in oil prices, but the Biden administration recently announced buying back oil for strategic reserves and stated that a price below USD 70 could be a threshold to refill reserves, which could act as a floor on price decline.

On the supply side, tensions are not expected to improve. OPEC will maintain a restrictive stance after already announcing a 2 million barrel production cut in October and Saudi Arabia, one of the only countries with spare capacity, having reaffirmed its position to keep production cuts until the end of 2023. The EU embargo on Russian oil will also play out, as Russia's diversification strategy towards Asian countries should not offset the capacity previously demanded by European countries from Russia. Structural underinvestment in oil capacity will also limit a large increase in production.

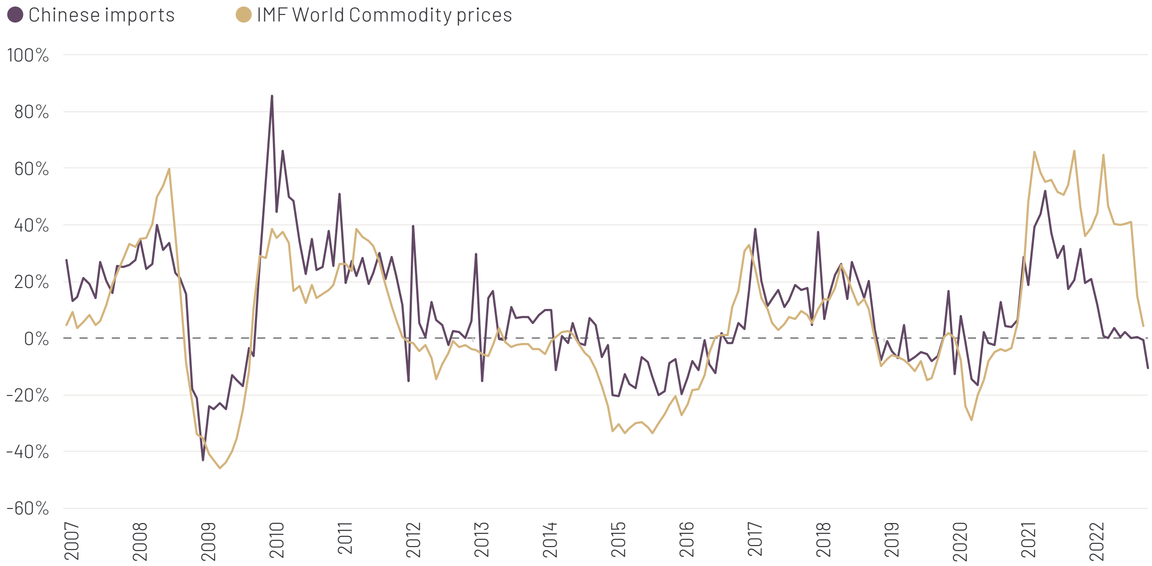
Overall, after a difficult period at the beginning of the year, where demand will remain below supply, we expect oil prices to recover to the upper USD 90-100 per barrel range in 2023.

THE 2023 COMMODITY IMPACT ON INFLATION

On the macro front, commodities will mostly have an easing impact on inflation. While our oil price range remains high by historical standards, it will create significant negative year-over-year base effects on energy prices and inflation in Q2 and Q3 2023 relative to 2022. Weakening dollar strength will be an additional supporting factor for imported inflation outside of the US in 2023 (see Forex, page 12). As per industrial metals outlook, despite a rise in infrastructure spending, construction related materials (such as iron ore, steel and cement) will continue to be affected by the ongoing slowdown in the housing sector both in developed countries and more specifically China, where the real estate downturn is still underway. On the other side, lithium and at some point copper, could conversely benefit from an increase in demand over the medium-term due to their role in the green transition.

While the outlook for commodities remains mixed due to the ongoing economic slowdown (see Macro Economics, page 6), the recent correction in energy and certain industrial metal prices offers an alternative opportunity to play the China reopening thematic.

CHART 2: CHINESE IMPORTS VISIBLE IMPACT ON COMMODITIES, YoY %



Source: Refinitiv, Indosuez Wealth Management.

FROM AN INFLATION TO RECESSION RISK

Bénédicte KUKLA
Senior Investment Officer

For the US economy, avoiding recession, only gives the Fed ammunition to keep tightening, albeit at a slower pace than in 2022. In Europe, converting inflation into debt so as to protect consumers, is losing favour. Global growth in 2023 and 2024 will be driven by emerging economies, with a possible upside from a broader Chinese reopening.

–

-0.1%
first negative US MoM inflation figure
SINCE NOVEMBER 2020

US: RECESSION AVOIDED, FOR NOW

In November 2022, the US registered its first negative month-on-month inflation figure in two years. The slowdown in goods and energy prices has been sharp. That's the good news and both should continue to drag down inflation in 2022, much to the relief of American consumers (November retail sales dropped -0.6% MoM, despite Black Friday and the Cyber Monday big discount days). The less good news is that the Fed is not yet convinced of the end of inflation, and neither are we. The risk is that inflation proofs stickier than anticipated in the services sector (currently making up 55% of US headline inflation) and wages continue to increase. The jobs market is indeed still very imbalanced (for every unemployed person there are currently 2.2 job openings, and 4 in the education sector), owing to the impact of the pandemic on certain sectors that is taking time to dissipate and structural demographic issues. Inertia in core inflation (excluding food and energy prices) will therefore take longer than expected. All in all, we expect consumers to get some respite from weakening inflation in 2023 (falling from 7.1% to 3-4% by year end), but even if 30-year mortgage rates have been cooling recently (from 7.1% to 6.3% in a month) they remain historically high and a problem for consumption and growth in 2023.

As the savings ratio dwindles (at 2.3% in October, its lowest since 2008), we expect the toughest impact on consumption in 2023, which will take time to recover in 2024.

EUROPEAN FISCAL POLICY: FROM HERO TO VILLAIN

Although Europe appears to have dodged the worst (energy-linked) case scenario in 2022, the European economy is still treading water and has not found a durable solution to its energy crisis. Industrial production fell 2% in October, pointing to contraction in Q4 2022. Still high producer prices and recession fears cloud the outlook, but large order backlogs are still to be processed, notably in Germany where consumer, producer and analyst surveys have been pointing to a bottoming out in the slump in activity thanks to a warmer winter thus far and a confidence boast from the EUR 200 billion government funded energy-protection package to be implemented in January 2023. The reopening of China is also an upside. Outside of Germany, France has recently been finger-pointed by the International Monetary Fund (IMF) on the lack of a targeted fiscal policy, restricting support measures to its most vulnerable.

The French public deficit-to-GDP ratio is indeed expected to remain over 5% of GDP in 2022 all the way through to 2024, but it will also allow the country to avoid recession in 2023 and restrain inflation from exceeding 6%. On the inflation front, the Euro Area is experiencing extreme divergence among member states, while on a sector basis inflation in energy prices is spreading into the goods, and to a lesser extent the services sector. Given the still extremely high level of producer prices, which will in part be passed through to consumers, we expect consumer inflation to remain significantly higher than in the US in 2023 (Table 1).

JAPAN: JOINS THE INFLATION FIGHT

Hit by another COVID-19 wave in August, the Japanese economy is also struggling with imported inflation and a slowdown in growth with its main trading partners. The reopening of China puts an upside risk on our modest growth forecast for 2023, but we remain sceptical for medium-term growth. Inflation recently hit an enviable 3.8% year-on-year, but this is its highest level in over 25 years and above the central bank's target for the seventh straight month.

By restricting its monetary policy and allowing the 10-year bond yield to move to 0.5% (compared to 0.25% previously), the Bank of Japan (BoJ) gave a clear signal that winds of change were coming and that even Japan was now fighting inflation.

EMERGING MARKETS : GLOBAL DRIVERS

The Indian economy – a strong domestic-focused economy - is proving resilient as activity surveys point to renewed growth in services (PMI: 56.4) and manufacturing (PMI: 55.7), while activity in Brazilian manufacturing took a turn for the worse in November (PMI at 44.3, below the 50 point growth threshold). The latter is mainly linked to policy uncertainty. Asian economies will outperform most Latam economies in 2023, supported by China's reopening and released supply tensions. Emerging market economies will contribute the most to global growth in 2023.

TABLE 1: MACROECONOMIC FORECAST 2022 - 2024, %

	GDP GROWTH			INFLATION		
	2022	2023	2024	2022	2023	2024
World	3.4%	2.1%	2.7%	8.3%	6.3%	4.0%
United States	1.9%	0.8%	0.6%	8.1%	4.1%	2.3%
Euro Area	3.2%	-0.7%	1.1%	8.7%	7.5%	3.2%
Japan	1.6%	0.5%	1.2%	2.4%	0.5%	0.4%
China	3.2%	4.5%	4.3%	2.0%	2.2%	2.1%
Brazil	3.1%	0.8%	1.7%	9.4%	4.6%	4.3%
India	7.3%	5.6%	6.0%	6.8%	6.0%	6.0%

Source: Amundi (December Forecasts), Indosuez Wealth Management.

THE WORST FIXED INCOME PERFORMANCE YEAR ENDS WITH A BANG!

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

Central banks ended this year with a flurry of monetary tightening announcements. Heading into 2023, the fixed income market is off to a good start with higher yields and carry opportunities not seen in years. Nonetheless, an adverse scenario would actually be one of higher-than-expected growth, fuelling real incomes, earnings for corporates and, ultimately, inflation.

US: QT
could end
in the summer

MAIN TARGET: KEEP AMPLE LIQUIDITY IN THE US ECONOMY, AVOID SCARCITY

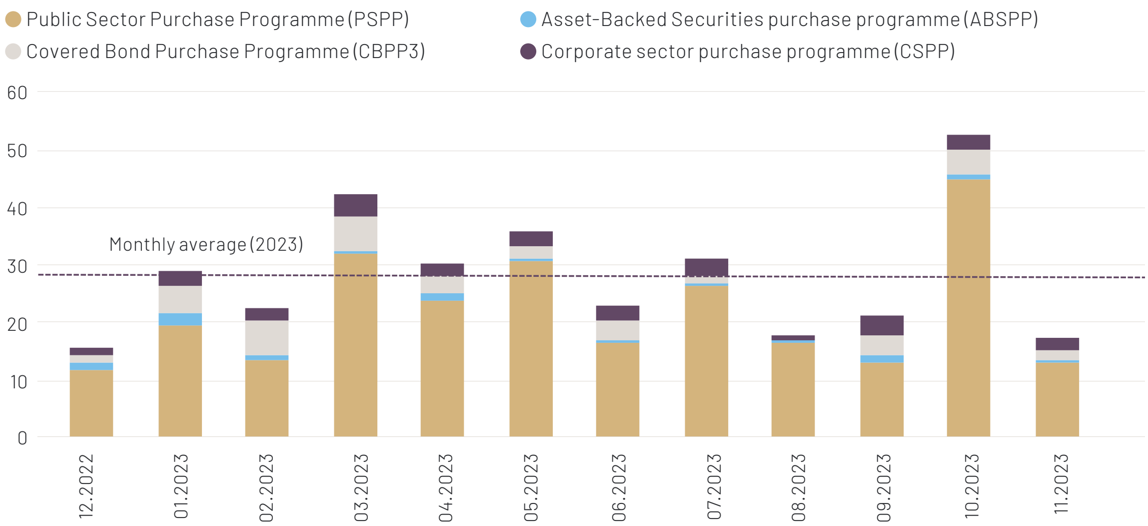
With the first Fed rate cut now fully priced in for Q3 2023, quantitative tightening (QT) might end in the summer, as the Fed will not want to communicate the provision and withdrawal of monetary accommodation at the same time. The reverse repurchase agreement (RRP) is expected to reach EUR 3 trillion by the end of 2023, while reserves are to reach close to USD 4 trillion, well above the "ample reserve regime" estimated in a range 8-10% vs. 12.5% as of data available mid-December.

The European Central Bank (ECB) is hiking rates by 50 basis points (bps), as expected, but has given "very" hawkish guidance, based on the "substantial upward revision" to inflation forecasts, noting that interest rates will still have to rise "significantly at a steady pace" to reach levels that are sufficiently restrictive. However, the ECB is less hawkish on its QT outlook, which will start in March 2023 with caps on the Asset Purchase Programmes (APP) (Chart 3) reinvestments (presumably, with details due in February) resulting in a EUR 15 billion monthly pace initially, to be reviewed in Q3.

CONSEQUENCES ON EUROPEAN RATES MARKETS

For 2023, expect lower net issuance, but the highest increase in debt-free float[1]. This could expose macro and fiscal policy frameworks to greater market discipline, as explained in a speech dated 24 November by Ms Isabelle Schnabel. Supply absorption should be supported by the cash resulting from deleveraging, demand rotation to high-quality issuers and valuations driven by attractive real yields. France and Italy are set to increase market funding, with very light foreign holdings of Italian debt, while demand on French bonds could benefit from high-ratings demand. The risks of fiscal slippage is, however, not to be ignored given the political landscape and nature of inflation. The UK's mini budget crisis demonstrated the need for governments to collaborate with the inflation against fight.

CHART 3: APP INVESTMENTS SHORT OF EUR 30 BILLION/MONTH IN 2023, EXPECTED MONTHLY REDEMPTION AMOUNTS FOR THE APP, EUR BILLION



Source: ECB, HSBC Global Research, Indosuez Wealth Management.

1 -The debt-free float is the share of outstanding government debt securities held by price-sensitive investors, ie. excluding holdings by the domestic central bank, foreign central banks and pension funds and insurance companies.

POSITIVE REAL RATES AND TREASURY DEMAND

As a policy objective, the Fed wants "to see significantly positive real rates" (Chair Powell's press conference, 21 September 2022). Ample demand from domestic sources, given positive real yields, and the cyclical outlook resulted in lower foreign demand for Treasuries, due to a number of factors, such as the strength of the USD, increasing currency hedging costs and forex interventions.

The highs in volatility might be behind us, but we are not going back to a low volatility regime as macro uncertainty remains elevated. Higher market volatility and QT have durably impacted Treasury market liquidity. The US Treasury will address liquidity issues by buying back off-the-run (or past) bonds this year, thus actively managing its yield curve.

CREDIT MARKETS IN 2023

2023 positioning seems commonly accepted: a preference for investment grade vs. high yield, financials vs. corporates with short to medium duration. There is no reason to be contrarian at this time of the cycle. Supply should pick up moderately this year (+10% investment grade new issuance). The ECB will step out progressively. Corporates will most likely turn more to bank funding, while market financing slows fuelled by quantitative tightening (Chart 4).

Apart from (overdone) real estate extension risk on hybrid debt: issuers that needed to replace bonds did so (eg EDF, Orsted, Telefonica). Some have decided to "exit" i.e. call and not replace (Naturgy, Bertelsmann). 2023 supply should be limited and support the asset class.

Overall, credit spreads were surprisingly resilient this year, with an again positive end of year momentum after the release of the lower-than-expected US inflation figures. A slowing economy, tighter financial conditions and higher borrowing costs will pressure the weakest corporates' debt-servicing capacity and hinder funding access (weakest: B- and below). Refinancing risk is building slowly, as pandemic-era refinancing will buffer rate pressures.

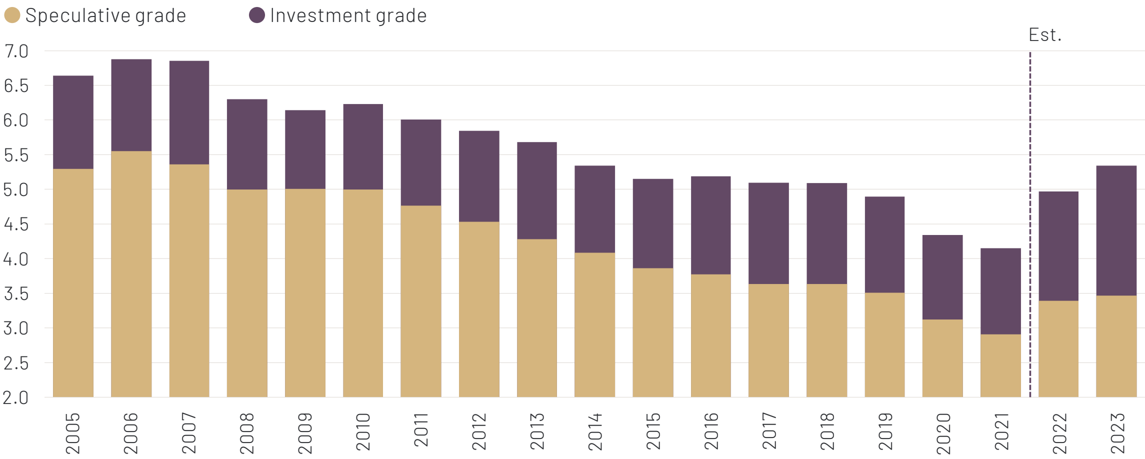
2023 supply should normalise and increase substantially (with an estimated 50 billion in new bond issuances and 30 billion in loans, up 40% vs. 2022). Therefore, we expect pressure on secondary market curves.

Precarious leveraged capital structures will be tested. Those with limited liquidity and loan-only will be vulnerable as the credit cycle turns. The leverage of B-rated is over 6x as of November 2022, nearing the all-time highs set in 2020.

Default rates are still extremely low: 0.4% in Europe! Forward expectations range from 3% to 5% (vs. Moody's "pessimistic" 9%). Access to funds might prove less "easy" than in 2020.

As for Emerging Market default rates, in November we observed: a slight deceleration in Asia (27% issue-weighted, from 29% in October), stability in EMEA including Russia/Ukraine/Belarus (18%), and continued low defaults in Latam (2%).

CHART 4: ECB PROGRAMMES - THE ERA OF CHEAP BORROWING COSTS IS OVER, MEDIAN CASH INTEREST PAID/TOTAL DEBT, %*



* Rated non-financial corporates.
Source: S&P Capital IQ, S&P Global Ratings, Indosuez Wealth Management.

WAITING FOR THE PIVOT...

Laura CORRIERAS
Equity Portfolio Manager

With the contribution of the Equity Team

What are the key points for markets in 2023? Probably the timing of the Fed pivot which will be decisive for a potential turning point for equities. Until this moment, investors are to remain cautious, limiting the upside on the current market levels.

-13%
AVERAGE EPS decline during high-inflation bear markets

EARNINGS SEASON

During the last nine US bear markets in periods of inflation since 1960's, the S&P 500 has declined by 33% and earnings-per-share (EPS) contracted by 19%. In bear markets with strong inflation (above 5%), which occurred only five times between 1969 and 1990, EPS have declined a little less, by an average of -13%.

Until now, EPS have been downgraded by 4.5%. By historical standards, this suggests a possible additional EPS decline of about -9% over the next months, which could put the market under considerable pressure.

UNITED STATES

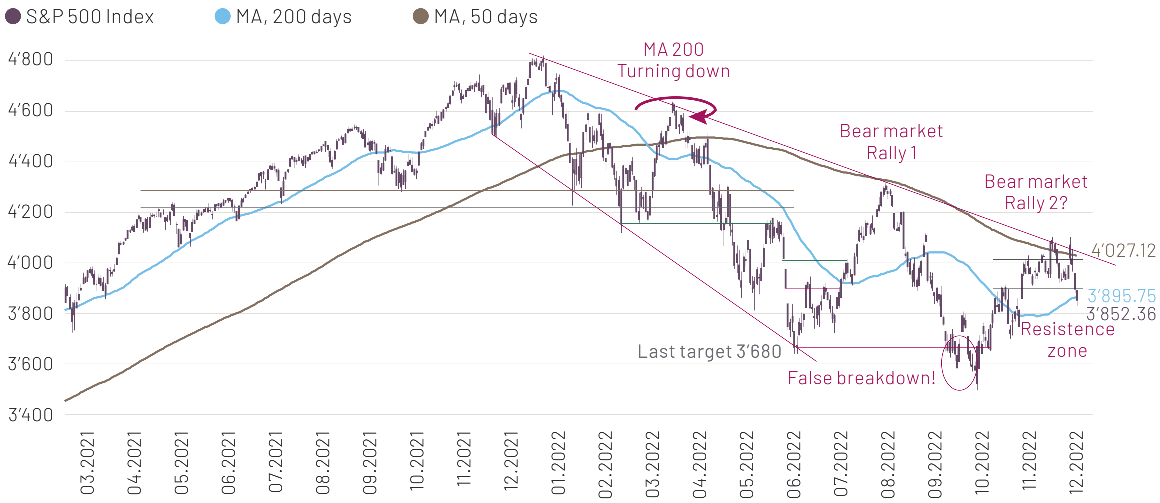
While inflationary fears are fading, fears of a slowdown or even a recession are increasing.

Macroeconomic concerns are being confirmed at the micro level; analysts are revising corporate earnings expectations downward and this trend is likely to continue.

Since the S&P 500 entered a bear market in 2022, we have seen two bear market rallies. The first one took place from mid-June to mid-August with a rebound of about 17% and, more recently, a second rally from mid-October to early December with the market rebounding by another 18%.

At this point, the market remains in a bear market (Chart 5) configuration even though the S&P 500 briefly managed to break through its 200-day moving average and, on the sentiment side, the volatility index (VIX) remains in the low 20-points range. In both cases, however, the market was unable to hold these symbolic levels and stocks quickly moved back down, invalidating a reversal to a bull market scenario for now.

CHART 5: IS THE BEAR MARKET RALLY OVER?



MA: Moving Average.
Source: S&P 500 Index, Indosuez Wealth Management.

EUROPE

The outlook in Europe appears more positive. Indeed, over the past few weeks a number of factors have been more favourable: gas prices have fallen sharply, Russia has made a military retreat from some cities in Ukraine and fears of contagion over UK pension funds have lessened. And despite the strong market rebound, the relative valuation of European equities compared to other regions, especially the US market, remains very attractive. Nevertheless, there are still many headwinds, notably on the geopolitical side, with high inflation and a hawkish ECB policy among others. Furthermore, EPS growth remains clearly on the downside and further downwards revisions to come could weigh on sentiment after the strong rally that occurred since October. Therefore, we remain cautious on European equities and favour quality/defensive names.

EMERGING MARKETS

Chinese equity markets have continued to be highly volatile over the last few weeks. Yet, the MSCI China (mostly Hong Kong-listed Chinese companies) surged by 32% since the 2022 low point on 31 October[2]. This strong rally has been mainly due to the "Xi Jinping pivot": a total of 30 measures to ease DZC (Dynamic zero-COVID) policy and specific support measures targeted at the property sector. The official rhetoric has recently switched to encouraging higher vaccination rates among the elderly population and emphasising the less lethal nature of the current COVID-19 variant.

This represents a major shift in the Party's line and should bode well for improving depressed consumption numbers down the line, based on massive pent-up demand in China and despite the still long deleveraging process ahead. Moreover, global investors still under-own Emerging Markets and Chinese equities. Volatility could remain high through the year-end, as the actual reopening process could be bumpy over the short-term.

INVESTMENT STYLE

Like the 1970s, the post Fed pivot playbook is likely to feature a sustained move on Cyclicals, especially those that help solve inflation. Regarding the spread of valuation between Cyclical and Value vs. Defensive and Growth, the first part is supposed to outperform the second one in 2023 notably after the pivot. Nevertheless the recent rebound of Cyclicals is probably premature as negative earnings revisions have to be implemented during H1 2023, a correction of these stocks could offer a better entry point. Similarly, the pivot should be a positive catalyst for Growth stocks, but a part of this rebound has already occurred with the recent rally of the market and we think it's too early to take that stance. We continue to favour Quality/Return to shareholder themes (stable margins, pricing power) which should benefit from the macro/inflationary context and have more resilient earnings revisions.

2 - Source: Bloomberg (through 20 December 2022, in USD).

CENTRAL BANKS AWAKEN

Davis HALL
Head of Capital Markets, Asia

Sophie ICHE
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Active Advisor

ECB terminal rates expected to peak
3%
IN 2023

The Fed is not the only game in town anymore as global central banks play catch-up. The dynamics of carry will be the catalyst in 2023. This is not the end of the mighty dollar as much of the decline has already occurred over the past month. 2023 should be a less directional, less volatile and definitely a more carry-oriented year.

EUR

The hawkish ECB

At its last meeting, the ECB raised its rates by 50 bps, bringing its deposit rate to 2%, and propped up core inflation projections significantly in 2023 and 2024. The terminal rates are now expected to peak at 3% in 2023. The rate hike itself did not surprise the markets, but the tone of the statement and the press conference were clearly hawkish. Christine Lagarde told markets to expect further rate hikes in increments of 50 bps, a significant departure from previous guidance (25 bps). In addition, the ECB is also concerned about potential second round effects of its policy tightening and gave further details on balance sheet reduction. Consequently, the EUR/USD continued its progression to 1.0735. However, we stay cautious as many headwinds can reappear and European energy prices will remain key. We expect the currency pair to rise in a non-linear manner for the next weeks to come with an objective of 1.0800.

USD

Historic vulnerability in November

The greenback suffered significantly across the board last month as it became crystal clear that US CPI may well have peaked. This perception that the Fed can become gradually less hawkish as the economy likely loses steam into mid-2023 has seen the broad Dollar Index succumb to sudden profit taking of 10% from the recent peak. The momentum driven dollar overshoot now appears to clearly have peaked. Although further interest rate hikes still lie ahead, the forward curve has already started to anticipate a pause and potential cuts later in 2023. As such, the dollar's status will now become more mixed within consolidation mode until a Fed-pivot occurs in earnest.

CHART 6: CURRENCY VOLATILITY INDEX, CVIX

Source: Bloomberg, Indosuez Wealth Management.

CHF

The third SNB rate hike

On the Swiss side, the SNB raised its deposit rate by 50 bps, bringing it to 1%. This third consecutive rate hike – which ended its seven-year monetary experiment of enforcing negative rates in September - was largely expected and there were no significant moves in the markets. Thomas Jordan reiterated his hawkish stance as Swiss inflation has likely peaked in August, along with falling oil prices. Inflation fell to 3% in November, compared with 10% in the neighbouring Euro Area. However, the central bank will clearly keep an eye on core inflation rates as it fears price pressures are becoming more entrenched in some areas of the economy and warned of significant macroeconomic uncertainties this year. Markets expect another 25-50 bps in rate hike(s) which would bring the terminal rate to 1.5%. The safe haven currencies should continue to perform well in Q1 2023 and consequently, we retain a constructive view on the CHF. EUR/CHF is likely to remain in a range between 0.97-0.99 and USD/CHF to decrease modestly due to the dollar weakness to 0.9100.

CNY

The worst may well be behind us

Following Xi Jinping's leadership renewal in October, swift policy initiatives have been forthcoming including the all-important zero-COVID policy review. Thus, sentiment has drastically improved whilst stimulus measures have been extended, coupled by monetary relaxation. Although this nascent recovery in risk appetite is growing from deeply suppressed levels, we remain cautiously optimistic that the China bottoming is in place also from a currency perspective. Similar to the Hong Kong dollar which has swiftly backed off its lower intervention boundary corridor at USD 7.85, the CNY has established a "solid shoulder-head-shoulder" bottoming formation versus the greenback.

As such, as the USD also peaks versus China's European trading partners, so too will the People's Bank of China (PBoC) now allow their currency to stabilise on a stronger footing into 2023.

JPY

BoJ adjusts bank's yield curve

The BoJ shocked markets by adjusting the central bank's yield curve control program by doubling the upper limit at 0.50%. That could radically change the 2023 outlook for the underperforming yen.

As the global tightening cycle takes effect and global growth slows, G10 yield curves will increasingly price rate cuts and lead to compression of G10 yields that will coincide with the economic recovery in Japan and the BoJ policy change. The risk for the USD/JPY is to the downside towards supports at 131.50 then below 130.00.

GOLD

In large central bank demand

It goes without saying that the surging US dollar trumped all others year-to-date bar one. Despite un-relentless interest rate rises around the world in 2022, zero yielding gold has managed to eke out a flat performance this year. Central bank demand for physical bullion is on track to be the highest since 1967 as global Reserve allocators gladly continue to diversify their USD exposure on bouts of strength. Looking beyond peak FOMC hawkishness, gold should find solid support on any dips given the ongoing and prevailing geo-political tensions that persist. However, key triple technical support at the USD 1'610 per ounce level must contain any pullbacks for our constructive view to hold firm. Finally, the yellow metal will remain in competition with newly yielding assets.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

GLOBAL GROWTH
driven by emerging countries in
2023

INVESTMENT SCENARIO

- **Growth:** no recession in the US, with a downside risk regarding consumption after US households have drawn on their surplus savings. Europe should enter a mild recession in H1 2023. Inflation decelerating, but still above central banks targets; hence justifying further monetary tightening. Overall, global growth will be driven by Emerging Markets this year with risks for 2023 balanced between the upside from a broader-than-expected China reopening and potential peace in Ukraine, and the downside from Fed and ECB over tightening.
- **Inflation:** even if commodities remain high, their contribution to inflation will be lower than in 2022. The drop in energy prices will drag headline inflation prices, while core prices remain stickier due to services and wages in the US, and the fall in housing prices will only be reflected in CPI later in 2023. Overall, inflation will remain above central bank targets in Q4 2023.
- **Fiscal policy:** supportive in Europe, more neutral in the US with a divided government (Democrat President and Senate, but Republican House). Increasing risks from a debt sustainability standpoint if interest rates remain at elevated levels, whilst nominal GDP growth fades.
- **Central banks:** still focused on fighting inflation, and not very sensitive to recession risks so far (both for ECB and the Fed). The Fed pivot is still seen as unlikely in coming months, smaller rate hikes ahead, but terminal rates readjusted to the upside with the risk remaining on the length of the plateau.
- **Earnings:** the negative revision is expected to worsen as the global macroeconomic slowdown continues. Risks remain on margins for Q4 2022 releases, as it will be increasingly difficult for companies to continue raising prices as consumer demand declines. As a result, we could see a contraction in profitability in developed markets. China's EPS bottomed out and started to rally as the country reopens, which will help support the market rebound.
- **Risk environment:** volatility regime will stabilise at higher levels than previous years going ahead while in the short run markets still show some complacency which makes it more vulnerable to technical corrections and justifies a cautious approach on a cross-asset basis.

ALLOCATION CONVICTIONS

EQUITIES

- A cautious stance remains on equities, as it seems too early to buy the Fed's pivot with a continuation of the equity market bear-market rally, while some technical indicators reveal a certain vulnerability of developed equity markets in the short-term.
- 2023 will probably be divided in two parts, with conviction maintained on high-dividend strategies, quality and defensive value during the first part of the year before potentially adding back risk in portfolios through growth stocks and cyclicals as soon as visibility improves on both monetary policy and the economic front.
- From a geographical perspective, we hold on US equities, despite rich valuations, with a focus on quality and remain less exposed to Europe at this stage, especially after the recent rebound, although we recognise that the zone offers attractive valuation levels.
- Ongoing positive *momentum* on Chinese equities, as fundamentals started to revert in line with the reopening process, justifying keeping existing exposure in portfolios. Long-term cautiousness due to the ongoing deleveraging process and less supportive policy-mix and regulations.

FIXED INCOME

- Duration recently tactically reduced, as the US government bond rally in early December seemed exaggerated. A two-pronged approach with exposure to short maturities (which have a high carry with good visibility) and to the long-end of the curve (for macro hedge on recession purposes). We await to find a better level on rates to add back duration.
- Euro rates are sensitive to the ECB's hawkish rhetoric, while this year's net supply could be a concern, especially for some countries that are still expected to have high issuance this year, while the ECB will start quantitative tightening by March 2023.
- We maintain our positive view on high quality corporate debt, which pays well for the risk taken. Fundamentals are to remain sound, with risks limited in the absence of a short-term refinancing wall. We remain cautious on the high yield asset class, which offers a less attractive risk/return profile.
- Progressively more positive on local currency emerging debt, as we see it as a good diversifier for 2023, with the asset class potentially benefiting from USD weakness and a more accommodative stance from some emerging central banks this year while offering an attractive yield.

FOREX MARKETS

- We believe it is still a bit too early to buy the dollar's depreciation until the Fed pivots. We are waiting for a retracement after the euro's upward exaggeration before gradually reducing our USD positions, as the expected narrowing of the transatlantic spread could weigh on the greenback in coming quarters.
- Gold has also been a big beneficiary of the weakening dollar recently, but may be vulnerable in the near-term in a world where investors continue to favour yielding assets.
- Meanwhile, we continue to view commodity currencies as good diversifiers for USD investors and CHF as the best non-dollar hedge, especially for EUR investors. The yen is on the road to potentially recovering its attractiveness after the surprising move from the BoJ, while acting as a good hedge in portfolios over the recent period.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
Core EUR 10-Year (Bund)	=/-	=
EUR Periphery	-	=/-
US 2-Year	=/+	=/+
US 10-Year	=/-	=
US 30-Year	=	=/+
EUR Breakevens Inflation	=	=
US Breakevens Inflation	=	=
CREDIT		
Investment grade EUR	=/+	+
High yield EUR/BB- and >	=/-	=
High yield EUR/B+ and <	=/-	=/-
Financials Bonds EUR	=	=
Investment grade USD	=/+	+
High yield USD/BB- and >	=/-	=
High yield USD/B+ and <	=/-	=/-
EMERGING DEBT		
Sovereign Debt Hard Currency	=/-	=/+
Sovereign Debt Local Currency	=/+	=/+
Latam Credit USD	=	=
Asia Credit USD	=/-	=
Chinese Bonds CNY	=/-	=
EQUITIES		
GEOGRAPHIES		
Europe	=/-	=
United States	=	=
Japan	=/-	=/-
Latin America	=/-	=
Asia ex-China	=/+	=/+
China	=	=/-
STYLES		
Growth	=/-	+
Value	=/-	=/+
Quality	+	=
Yield	+	=/+
Cyclical	-	=/+
Defensive	+	=/-
FOREX		
United States (USD)	=	=/-
Euro Area (EUR)	=/-	=
United Kingdom (GBP)	=/-	=
Switzerland (CHF)	=/+	=
Japan (JPY)	=	=/-
Brazil (BRL)	=	=
China (CNY)	=	=
Gold (XAU)	=/-	=
Commodity currencies (NOK, NZD, CAD)	=/+	=/+

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 22 DECEMBER 2022

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	3.68%	-1.41	216.85
France 10-year	2.89%	60.50	269.90
Germany 10-year	2.36%	51.00	253.90
Spain 10-year	3.42%	63.40	286.10
Switzerland 10-year	1.50%	53.50	163.80
Japan 10-year	0.39%	14.70	32.60

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	34.65	1.23%	-11.65%
Euro Government Bonds	194.11	-2.33%	-11.18%
Corporate EUR high yield	193.40	-0.56%	-9.47%
Corporate USD high yield	300.34	0.20%	-9.65%
US Government Bonds	296.83	0.69%	-7.32%
Corporate Emerging Markets	42.83	1.69%	-16.02%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9867	0.45%	-4.90%
GBP/USD	1.2038	-0.62%	-11.04%
USD/CHF	0.9311	-1.28%	1.99%
EUR/USD	1.0596	1.79%	-6.81%
USD/JPY	132.35	-4.47%	15.01%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	21.97	1.55	4.75

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'822.39	-5.09%	-19.80%
FTSE 100 (United Kingdom)	7'469.28	0.04%	1.15%
STOXX 600	427.26	-3.08%	-12.41%
Topix	1'908.17	-5.48%	-4.22%
MSCI World	2'595.25	-4.09%	-19.69%
Shanghai SE Composite	3'836.03	2.11%	-22.35%
MSCI Emerging Markets	964.06	1.96%	-21.75%
MSCI Latam (Latin America)	2'145.28	-3.01%	0.72%
MSCI EMEA (Europe. Middle East. Africa)	190.45	-3.41%	-30.92%
MSCI Asia Ex Japan	624.56	3.86%	-20.87%
CAC 40 (France)	6'517.97	-2.82%	-8.88%
DAX (Germany)	13'914.07	-4.30%	-12.41%
MIB (Italy)	23'813.30	-3.71%	-12.92%
IBEX (Spain)	8'272.10	-1.38%	-5.07%
SMI (Switzerland)	10'774.64	-3.43%	-16.32%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'984.00	6.87%	-12.40%
Gold (USD/Oz)	1'792.52	2.12%	-2.01%
Crude Oil WTI (USD/Bbl)	77.49	-0.58%	3.03%
Silver (USD/Oz)	23.48	9.87%	0.53%
Copper (USD/Tonne)	8'310.50	3.35%	-14.51%
Natural Gas (USD/MMBtu)	5.00	-31.60%	34.02%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

	SEPTEMBER 2022	OCTOBER 2022	NOVEMBER 2022	4 WEEKS CHANGE	YTD (22.12.2022)
BEST PERFORMING +	-3.37%	9.59%	18.69%	3.86%	1.15%
	-5.36%	7.99%	14.64%	2.11%	0.72%
	-6.48%	7.11%	9.81%	1.96%	-4.22%
	-6.57%	6.28%	6.80%	0.04%	-12.41%
	-6.72%	5.09%	6.75%	-3.01%	-19.69%
	-8.19%	4.17%	6.74%	-3.08%	-19.80%
	-9.34%	2.91%	5.38%	-3.41%	-20.87%
	-9.46%	-3.15%	4.55%	-4.09%	-21.75%
	-11.90%	-6.13%	2.91%	-5.09%	-22.35%
− WORST PERFORMING	-12.94%	-7.78%	-0.82%	-5.48%	-30.92%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

09 • Glossary

Basis point (bp): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings-per-share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Gig economy: System characterised by flexible, temporary or freelance jobs.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI : An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: World Trade Organization.

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