Macro and Market Outlook 2023
Another year of volatility and opportunity

January 2023

RASAMEEL

MACRO OUTLOOK

Economic data: To weaken further.

- Data indicates that the USA economy is weakening and may enter a mild recession in 2023. Other economies similar or worse.

Inflation: Path is for lower inflation in 2023

- Driven by slower economy.
- Our concern is that central banks won't do enough, and inflation remains 'higher for longer. A potential repeat of '70-'80.

Company Earnings

- Expected to come in below current consensus.

MARKET OUTLOOK

Equities: Remain Defensive

1H: expect equites to price in weaker macro and earnings.

- Defensive positioning; Overweight Cash and Healthcare.
- Underweight highly indebted companies and those sensitive to economic slowdown.
- Overweight China on re-opening trade.

2H: likely opportune time to add.

- Look to rotate into oversold areas of the market.

Sukuk: Overweight in 1H23

- Yields to decline into 2023 as slowdown priced in.
- Yields at 10yr high.
- A 6-12 month trade as inflation may rear its ugly head further out.

FX & Precious Metals: USD may make another leg up.

- USD 'flight to safety' currency.
- Cautious on PM for moment, but expect outperformance on eventual USD weakness, likely 2H23 or '24.

Venture Capital and Private Equity: 2023 may offer excellent distressed opportunities.

- Investors need to ensure that deals are attractively priced for the current environment.

Real Estate: Still needs to correct further for impact of higher rates/yields and weaker economy.

- May offer good entry point 2H23, as economic slowdown gets priced in.

KEY THEMES

Inflation, higher for longer, driven by:

- Climate Change Policies
- 'Build Back Better at Home' Policies
- Labour policies
- Universal basic Income programs

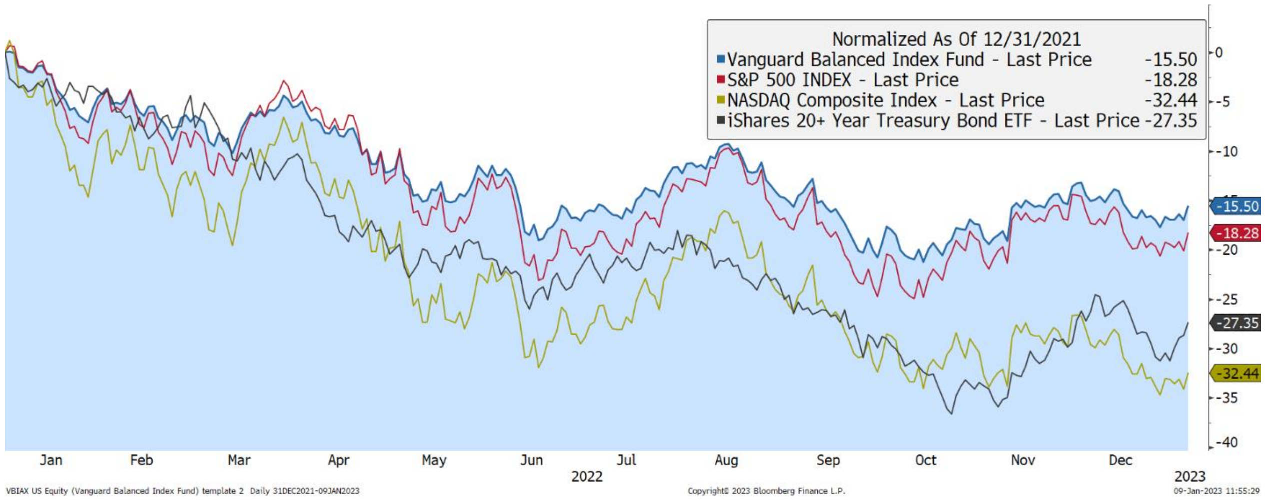
Potential black swans/risks:

- Widening of the conflict
- US and EU politics
- Taiwan and China
- New variants and lockdowns
- China Gold backed CBDC
- Higher oil prices

REVIEW OF 2022

2022 was a year to remember, and one to forget!

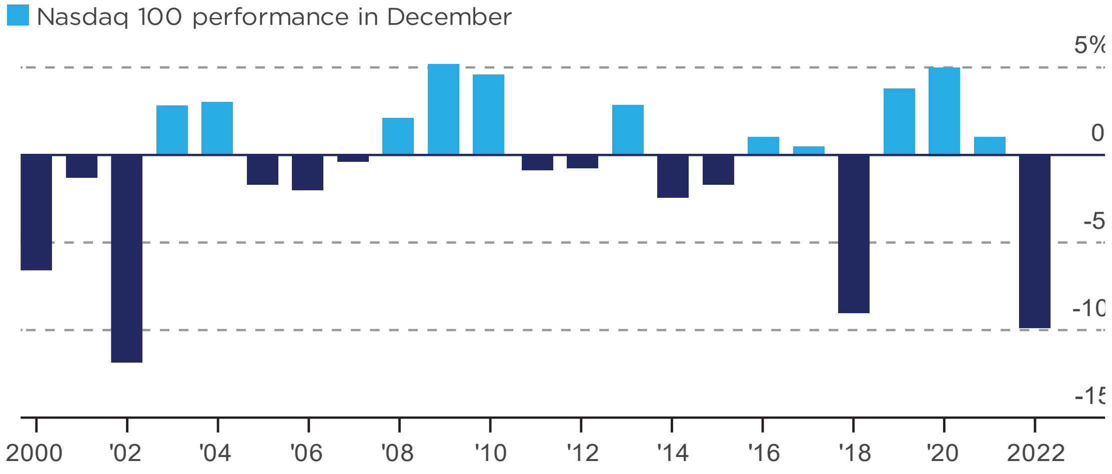
Very rarely in the history of financial markets do we see both risk assets (equities) and safe haven assets (government bonds) fall sharply in tandem, as we did in 2022. It was only the fourth year in over 150 years that saw both equities and bonds lose value simultaneously. The tried-and tested 60/40 'balanced' portfolio construction was not spared and saw its worst year in decades.



While the decline in equities is not extreme from a historical perspective, the sharper decline in technology shares, which had outperformed for so long, made it feel a lot worse for many investors. Indeed, Technology related equities had one of the worse years, in terms of drawdown, on record.

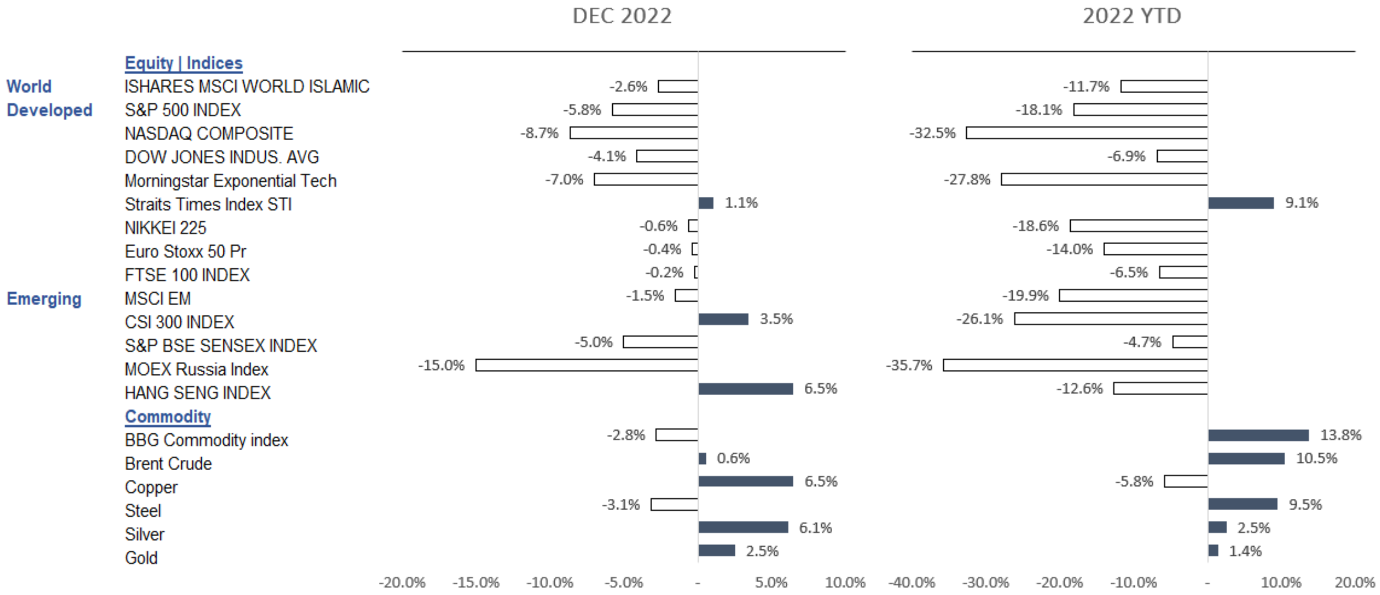
Worst in Two Decades

The Nasdaq 100 is on pace for its biggest December drop since 2002



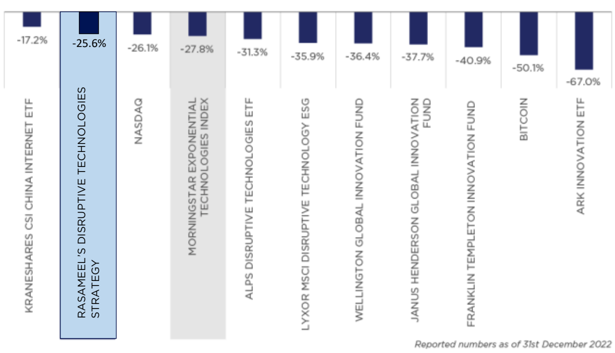
Source: Bloomberg

The selloff of 2022 was widespread, across most equity markets as well as bonds and commodities.

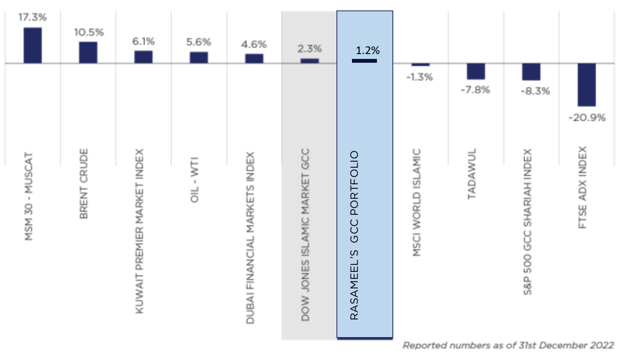


Our Strategies have generally outperformed their benchmarks and peers over the year. Indeed, the Multi-Asset Strategy had an excellent 2022 in relative terms, with much of this performance being in December, with the Fund outperforming by 3.15% in that month alone.

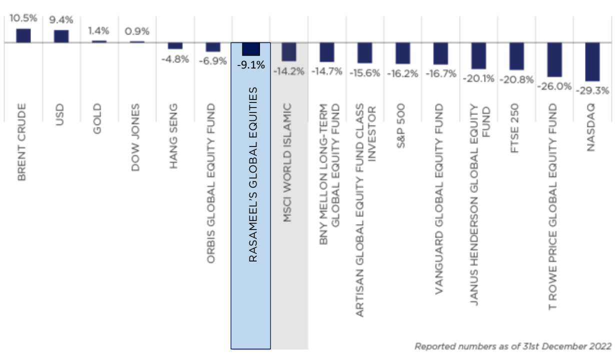
Rasameel's Disruptive Technology Strategy Performance
YTD Performance VS Similar Strategies



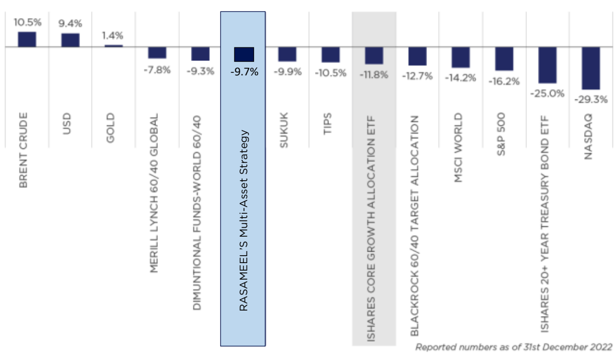
Rasameel's GCC Portfolio Performance
YTD Performance VS Similar Strategies



Rasameel's Global Equities Strategy Performance
YTD Performance VS Similar Strategies



Rasameel's Multi-Asset Strategy Performance
YTD Performance VS Similar Strategies

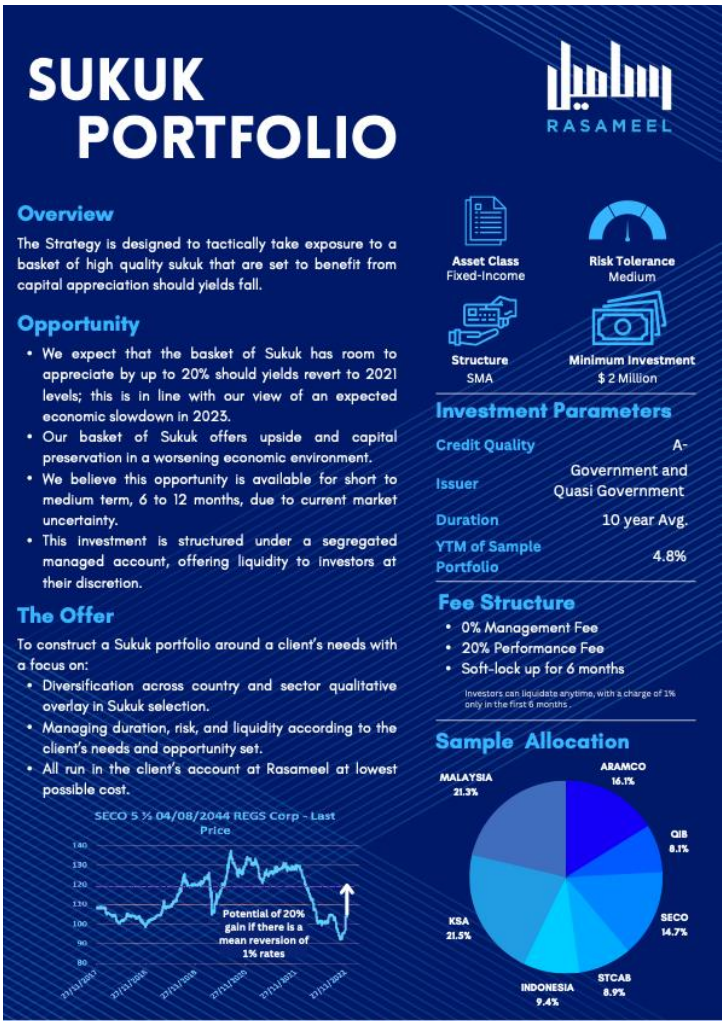


Over the past year, geopolitics and inflation took centre-stage as key drivers of the global economy and markets. Inflation was a concern going into the year, and the onset of the war in Ukraine, and supply chain issues, drove inflation up further. In response, all major central banks responded to rein in multi-decade high inflation rates, by raising policy rates and withdrawing covid-era stimulus support. All this while growth was slowing. From where we stand today, the global economy remains very vulnerable to a recession in 2023. We had highlighted the risk of recession in '23/'23 in our Outlook for 2022, and this is now largely a consensus call.

While we acknowledge that the risk of a recession is high, and that 2023 earnings consensus estimates still too optimistic, selective parts of the market are on sale. For yield-seeking investors, we believe there is an excellent opportunity in high-quality sukuk, where prices have fallen significantly over the last few months. We see today's sukuk yields as one of the best opportunities of 2023, notable in the first half of the year.

Indeed, we have highlighted this opportunity to clients. The Sukuk Opportunity strategy is a basket of high quality, high yielding mid-duration government and quasi government Sukuk which we believe offers an excellent opportunity to capture the upside in bond prices, as yields fall into the slowdown of 2023.

- We expect that the basket of Sukuk has room to appreciate by up to 20% should yields revert to 2021 levels; this is in line with our view of an expected economic slowdown in 2023.
- Our basket of Sukuk offers upside and capital preservation in a worsening economic environment.
- We believe this opportunity is available for short to medium term, 6 to 12 months, due to current market uncertainty.



MACRO OUTLOOK

Economic growth

As we have been highlighting in our prior reports over the year, we expect the macro data to weaken further as we move into 2023, particularly across most of the developed markets. Projections for GDP are all down and currently economists are still expecting the US to narrowly miss a recession, with GDP growth being 1%.

(Real GDP, annual percentage change)	2021	2022	2023
World Output	6	3.2	2.7
Advanced Economies	5.2	2.4	1.1
United States	5.7	1.6	1
Euro Area	5.2	3.1	0.5
Germany	2.6	1.5	-0.3
France	6.8	2.5	0.7
Italy	6.7	3.2	-0.2
Spain	5.1	4.3	1.2
China	8.4	2.7	4.7
Japan	1.7	1.7	1.6
United Kingdom	7.4	3.6	0.3
Canada	4.5	3.3	1.5
Other Advanced Economies	5.3	2.8	2.3

Source: International Monetary Fund

With expectations for GDP falling, we have also seen a drop off in manufacturing PMI (Purchasing Manufacturing index) across most major markets.

J.P .Morgan global manufacturing PMI

JPM Global manufacturing PMI summary

	Jul'22	Aug'22	Sep'22	Oct'22	Nov'22
Global PMI	51.1	50.3	49.8	49.4	48.8
Output	50.1	49.4	48.7	48.7	47.8
Future output	58.7	60.1	57.9	56.7	57.9
New orders	48.9	48.2	47.7	46.9	46.8
Export orders	48.0	47.0	45.9	46.2	46.2
Employment	50.4	50.3	50.8	50.3	49.8
Output prices	58.3	56.7	56.6	56.5	56.2
Fin goods inventory	50.5	50.6	50.6	50.3	50.7
Orders/Fin goods	0.97	0.95	0.94	0.93	0.92

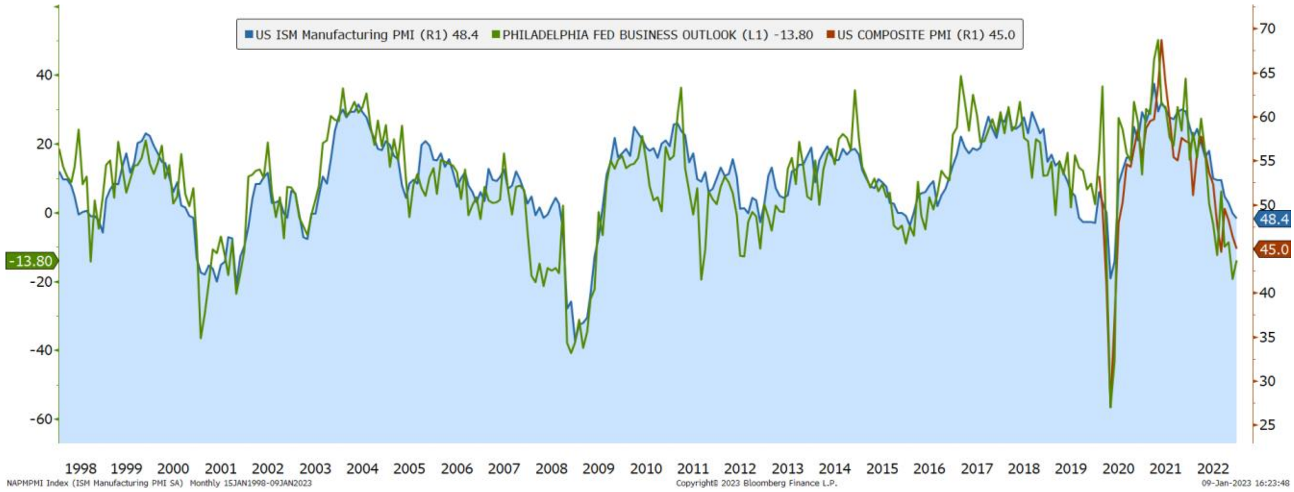
Source: J.P. Morgan

A reading below 50 indicates contraction. As we move into 2023, we expect this data will deteriorate further due to the tightening environment, with most central banks globally raising rates and withdrawing liquidity from the market.

US

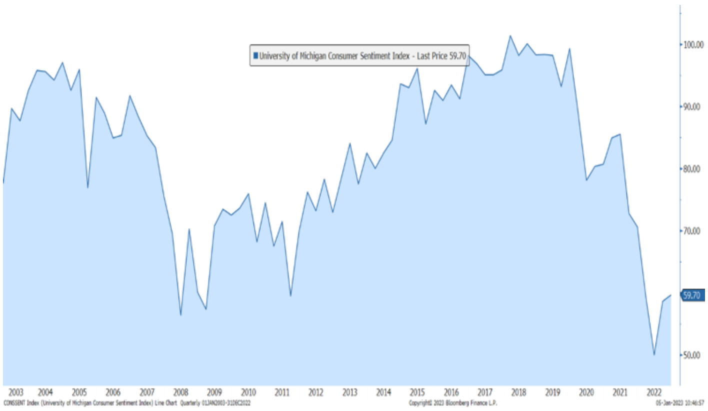
GDP tends to be a lagging indicator, so we focus on other indicators that help us forecast future growth. These would include ISM manufacturing and services data, house prices, consumer confidence, as well as many more.

US ISM Manufacturing vs Philadelphia Fed Business Outlook vs US Composite PMI

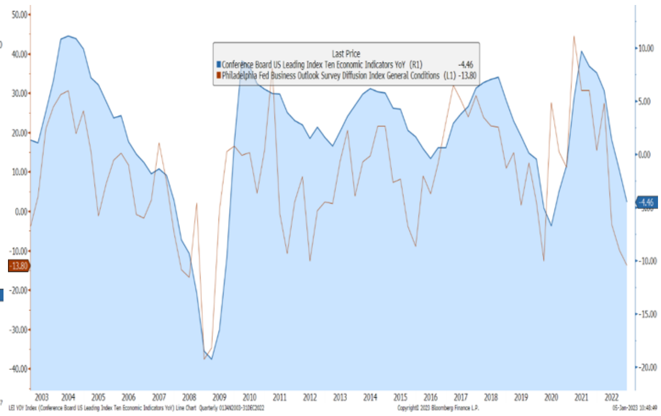


Consumer sentiment has reached lows not seen for many years, due to high inflation and rising rates. Similarly, business confidence has also dropped off significantly, though not quite at the levels we saw in 2008.

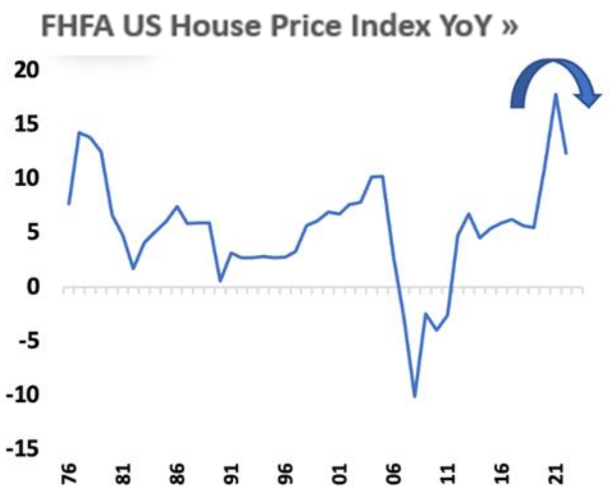
University of Michigan Consumer Sentiment Index

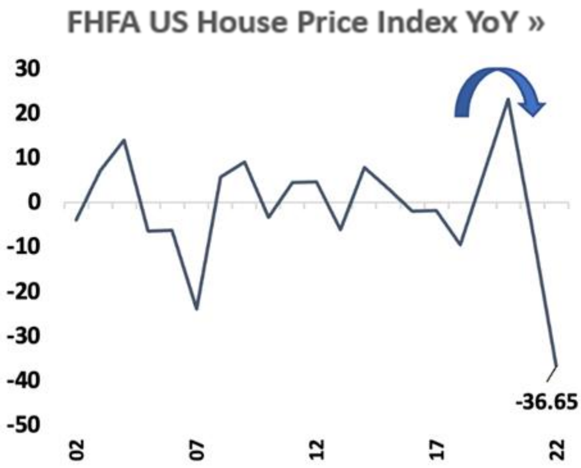


Conference Board US Leading index vs Philadelphia Fed Business Outlook



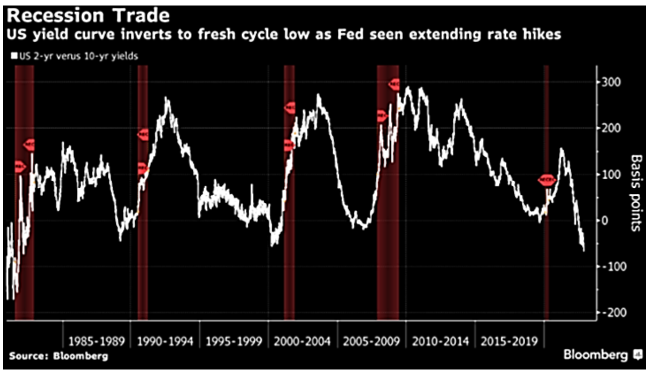
Across most of the indicators we track, the direction is downward. And the Fed is still in tightening mode. Housing data is also weakening. As the cost of borrowing increases and the economy slows, it becomes increasingly tough for many to cover their mortgage costs. We expect the trend in home prices to weaken further as we move through '23, potentially dramatically if we have a long recession, as homeowners eventually find it necessary to downsize and sell. With many homeowners having refinanced at the record low rates of the recent past, they will be reticent to sell and have to refinance at much higher levels.



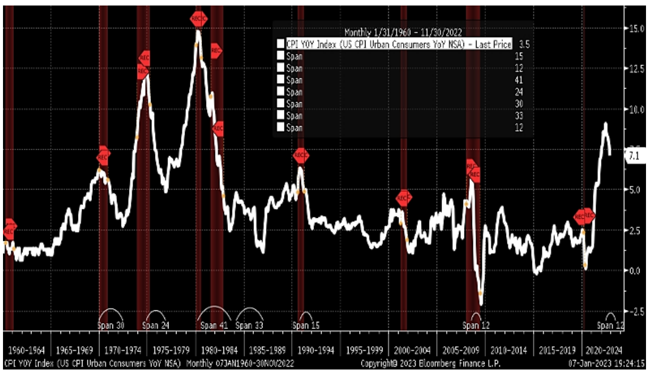


Another data set we have highlighted many times is the yield curve inversion, which has now reached recessionary levels. This has proven historically to be a good tool for forecasting a recession. As the chart below highlights, there was inversion of the yield curve a year or two ahead of each of the slowdowns/recessions we have witnessed over the past few years- namely 2020, 2008, 2000, 1991. High inflation has also been a forebear of an economic slowdown.

Inverted Yield Curve Indicates Recession

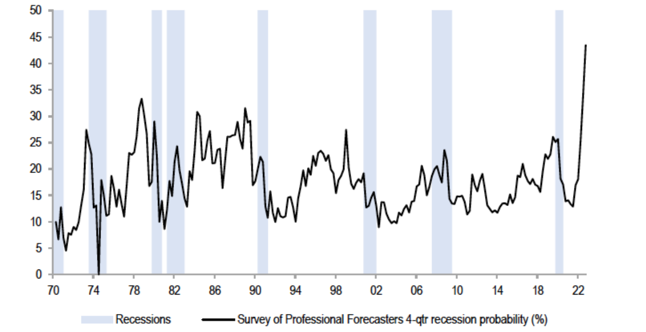


High Inflation forebearer of slowdown

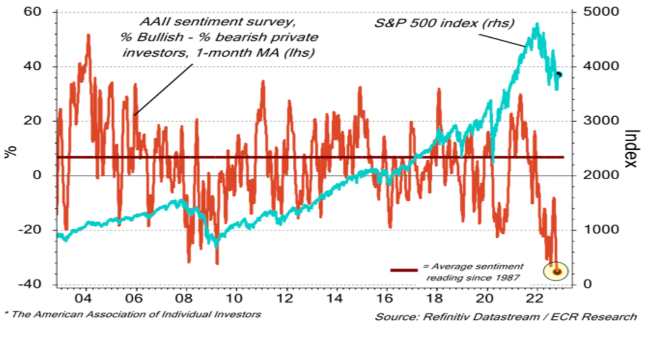


With all the negative data flow, it is not surprising that an increasing number of forecasters are expecting the US to enter recession sometime in 2023. While not yet over 50%, it is the highest number of forecasters in recent history to project a recession, since 1970. Higher even than in 2000 or 2007. **Investor sentiment - the market - is very bearish. While we note that this can often be a contrarian call, we expect there is further downside to go.** 2008 is a good example of this where the market remained bearish for some period of time, while the markets made lower lows.

Survey of professional forecasters US recession probability



The US AAII* Bull – Bear spread is extremely negative which tend to be a contrarian bullish signal



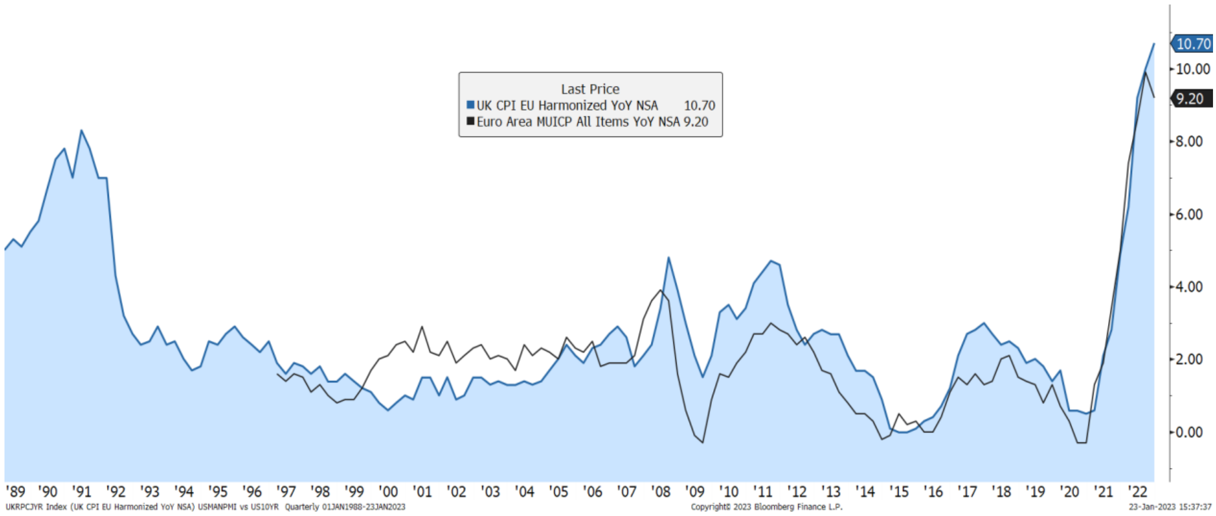
Source: JP Morgan

EU

The data out of Europe is, in many cases, worse than is the case in the US. Indeed, two of its largest economies Germany and France are already expected to contract in recession in 2023. It wouldn't surprise us if actual numbers are worse than currently expected.

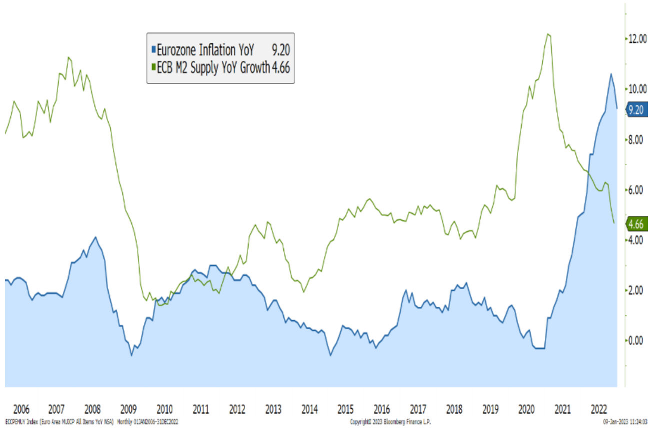
As a result of the breathtakingly high inflation that Europe is suffering from, the ECB has raised rates precipitously in recent months. And there will be many more rate increases, especially considering how high inflation is and with the EU having a target rate of around 3.5%.

UK CPI EU Harmonized vs Euro Area MUICP

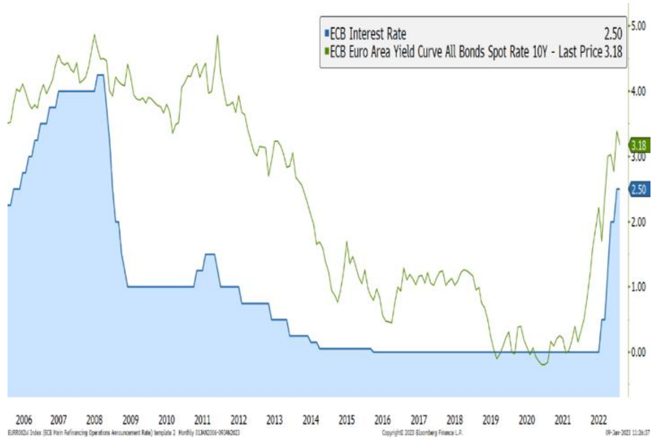


The rate of increase in rates, from zero, has been very significant as the ECB, like the Fed, is in catch up mode having been very slow to react to inflation, claiming initially it was transitory. In addition to raising rates, the money supply has also been tightened. The ECB is also raising the re-financing rate as well as the deposit rate, and the central bank will be reducing the size of its balance sheet. All in all, very tight polices.

Eurozone Inflation vs European M2 Supply

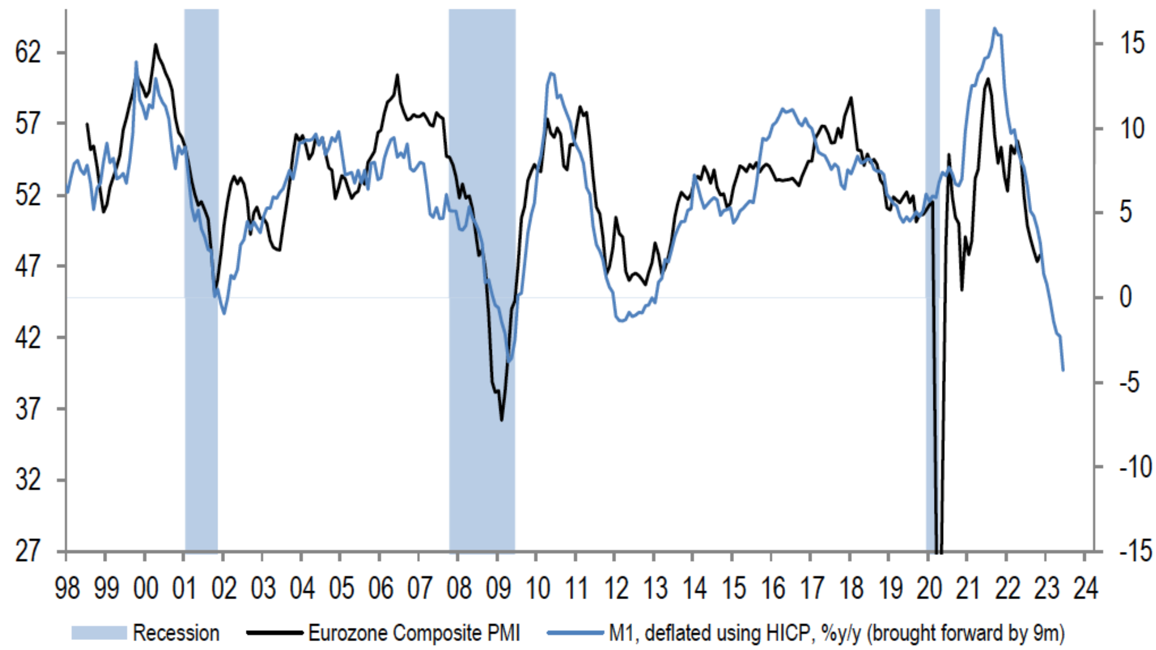


European Central Bank Interest Rate vs Euro Yield Curve



The chart below highlights the dramatic drop off in liquidity, as measured by M1 money supply, due to central bank tightening. The correlation between liquidity and PMI is very clear, with lower liquidity leading to a falloff in PMI, leading potentially to recession. **Current indications are very clear in the chart below – a recession is very much on the cards for Europe.**

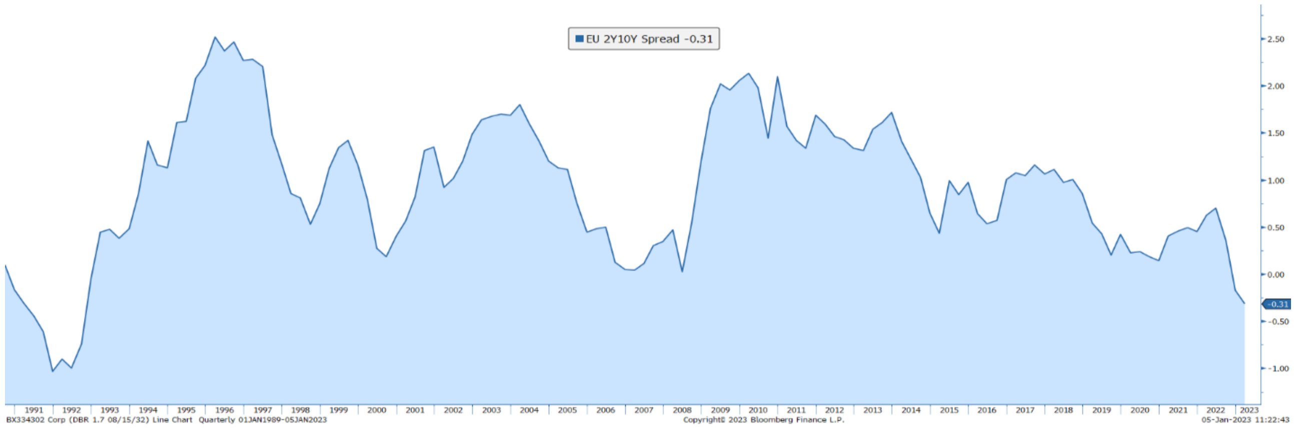
Eurozone M1 Growth vs PMI



Source: Bloomberg Finance L.P. , S&P Global

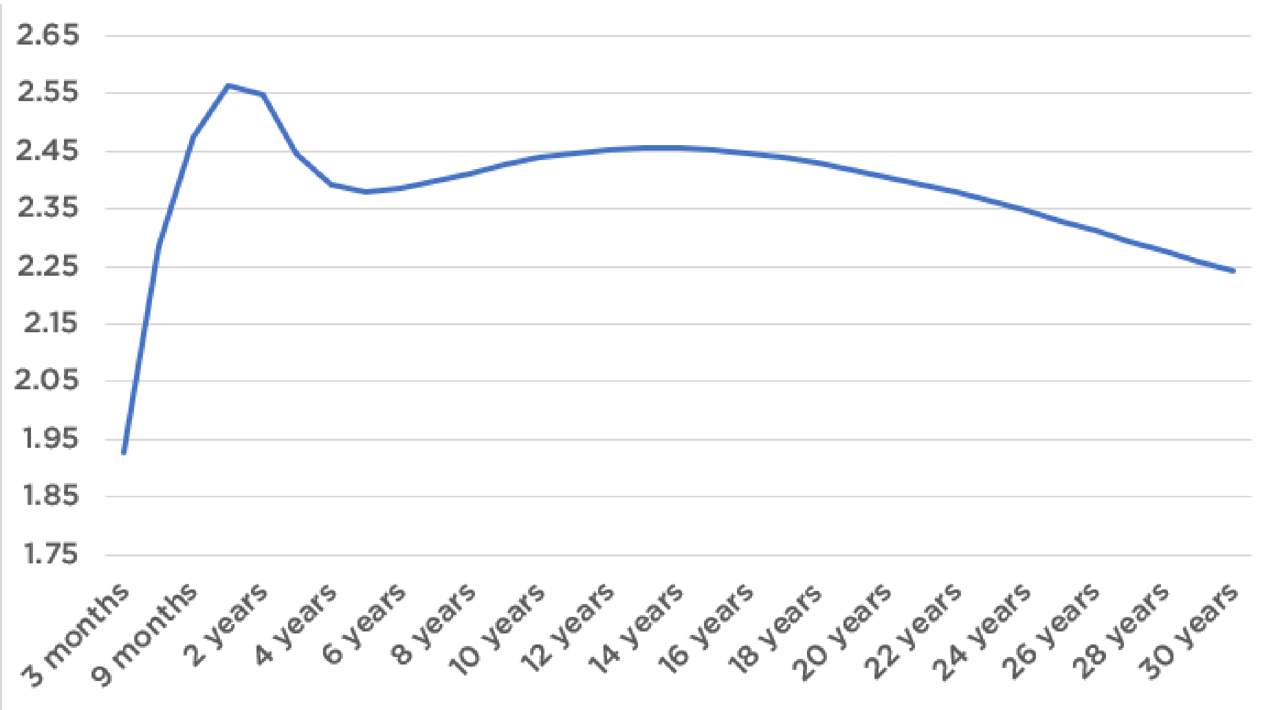
This is the case in the US, the yield curve in the EU is also inverted. The depth of the inversion though does differ across Europe, as we haven't seen this level of inversion since the '90's.

EU 2Y 10Y Spread



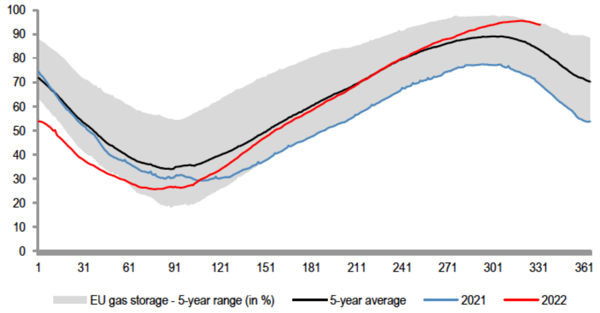
Like the US, the very front end of the curve still has to move higher with rate rises, and it is clear that the bond market is still pricing in higher rates to come, with the ECB's current target rate of 3.5%. The market is pricing in lower inflation further out though, with 10yr yields in Europe still very much below that of the US which are now closer to 3.5%, down from a recent high of 4.25%. This compares with the EU, where the 10yr yield is still only 2.5%.

EU Yield Curve



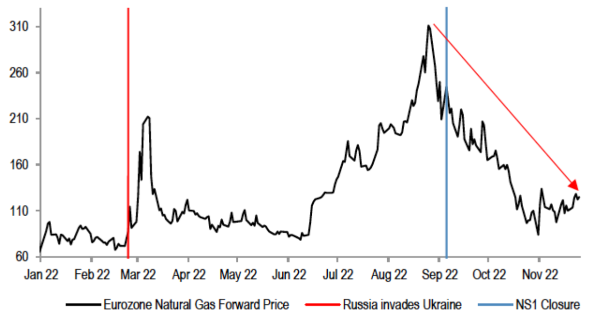
Europe is facing two key significant headwinds, massive inflation in part driven by energy supply uncertainties and raising rates by the ECB. Unlike the US though, inflation has still not turned down and, with the uncertainties over energy supplies, is likely to remain elevated. **Europe remains very vulnerable to the widening of the conflict in Ukraine. Europe did well to fill its reserves coming into the winter of 2022 but, unless it finds alternative supplies, it will see supply pressures in 2023.**

EU Natural gas storage, % full



Source: J.P.Morgan Commodities Research

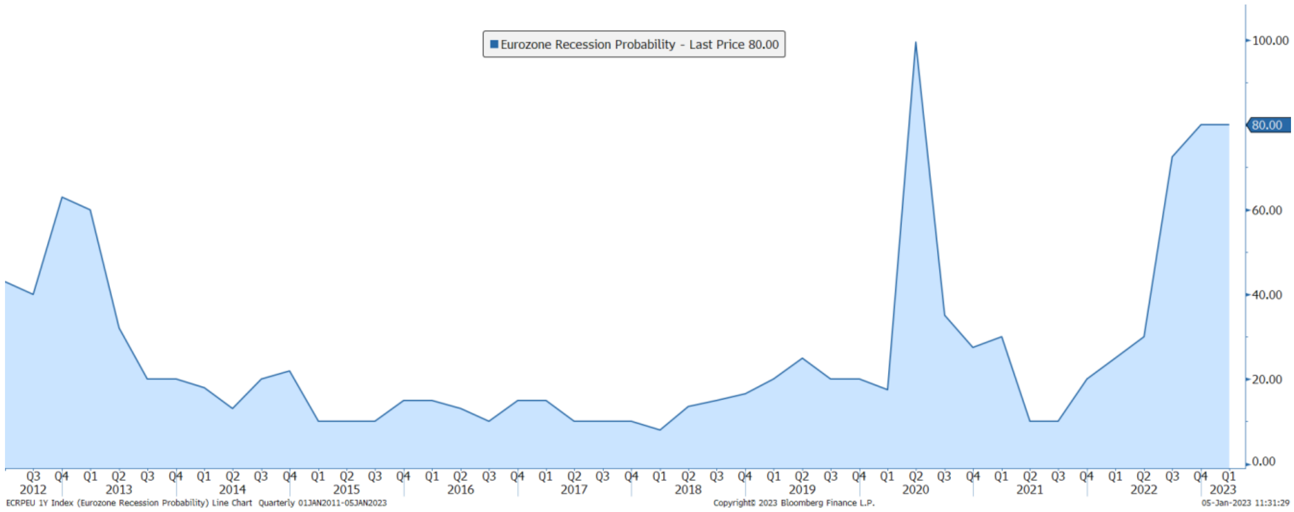
EU Natural Gas Price



Source: Bloomberg Finance L.P.

Like the US, an increasing number of forecasters are expecting a recession in Europe in 2023. Indeed, other than 2020, it's the highest number we have seen in the last 10 years.

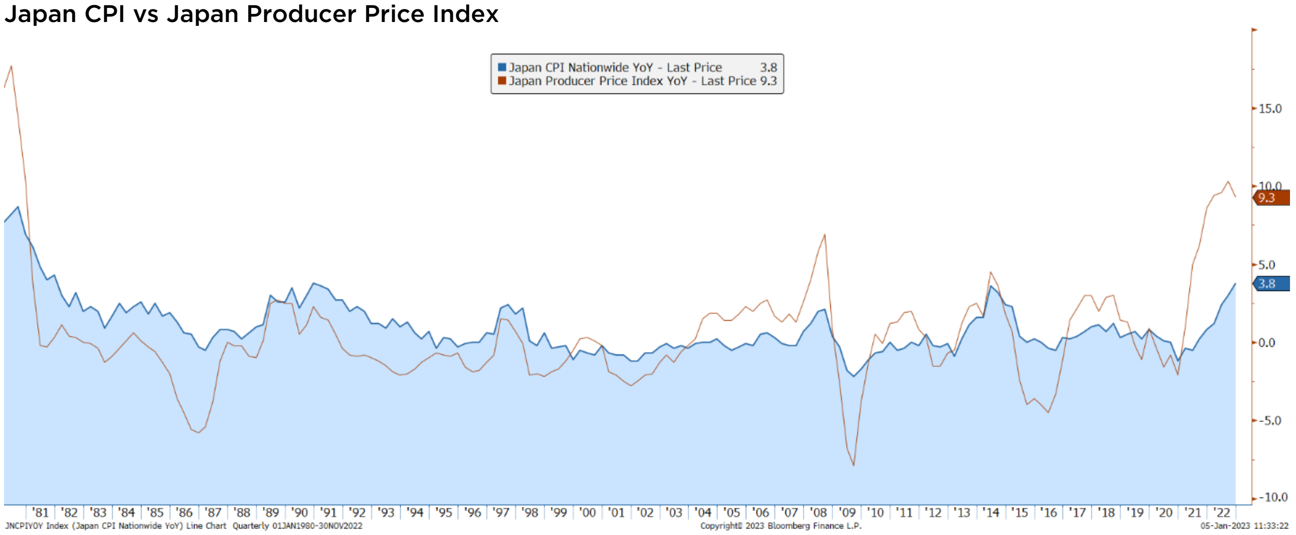
Eurozone Recession Probability



Japan

Like most other developed economies, Japan's inflation has increased exponentially. While lower than the US or Europe at just 3.8%, it was -1% at the end of 2021. So, the increase has been dramatic and may have further to go. Historically, there has been a relationship between CPI and Producer Prices, and the latter has ramped up significantly in recent months to just over 9%. So, CPI may move slightly higher before declining, in line with other markets.

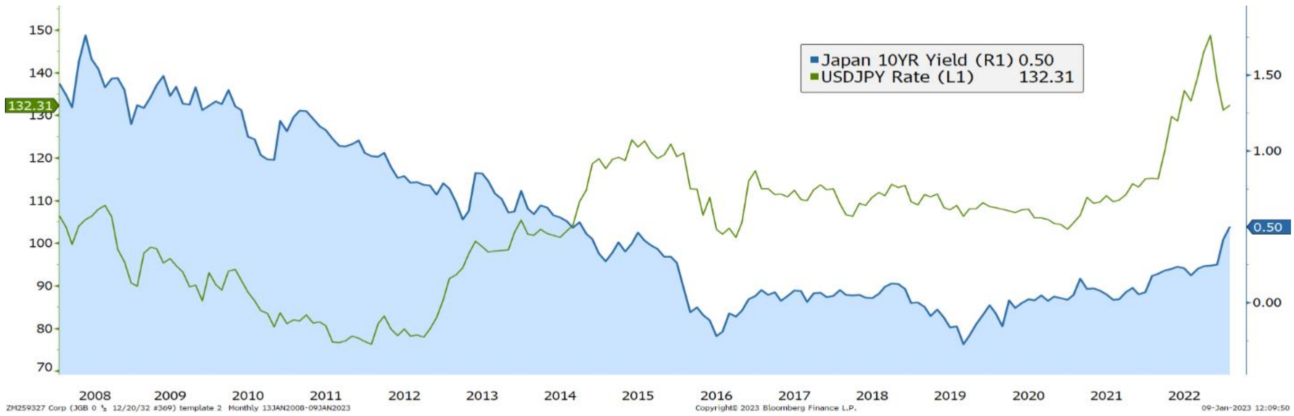
Japan CPI vs Japan Producer Price Index



The Bank of Japan (BoJ) has been imposing yield curve control for a while now. Setting bands for various maturities. In the case of the 10yr the band was 0-25bps. This was done to re-inflate the economy – the government could use fiscal policies to stimulate whilst the BoJ would be the main, if not only, buyer of JGBs.

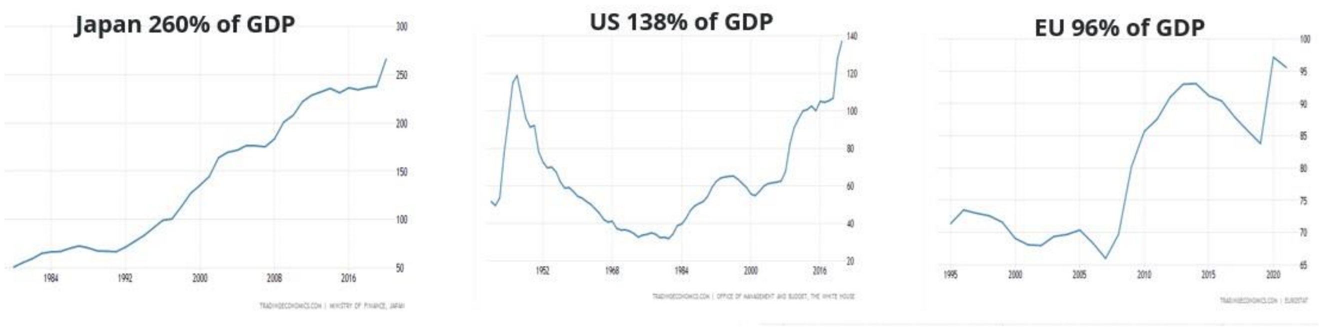
With inflation reaching 3.8% and showing no signs of slowing, the BoJ decided to allow yields to move higher setting the band for the 10yr to 25-45bps. The impact on the Yen from this action was significant with the yen strengthening dramatically, from 150 to 127 as at the time of writing.

Japan 10 Year Yield vs USD JPY Rate



The BoJ though, is between a 'rock and hard' place. The government debt to GDP ratio is already over 250%. The highest of all the developed economies. Indeed, the highest globally. So, the ability of the BoJ to fight inflation through higher rates and yields is very limited. **Raise rates and allow yields to float and the cost of government debt rises exponentially. Don't tighten and allow inflation to rise and the Yen declines in value.**

Japanese General Government Gross Debt % of GDP is higher than other markets



Japan is likely to use fiscal repression increasingly to control the economy and indicators such as inflation. Already there is yield curve control and we expect they will also start 'encouraging' institutions, and eventually also the retail market, into buying bonds at ridiculous low nominal and negative real yields.

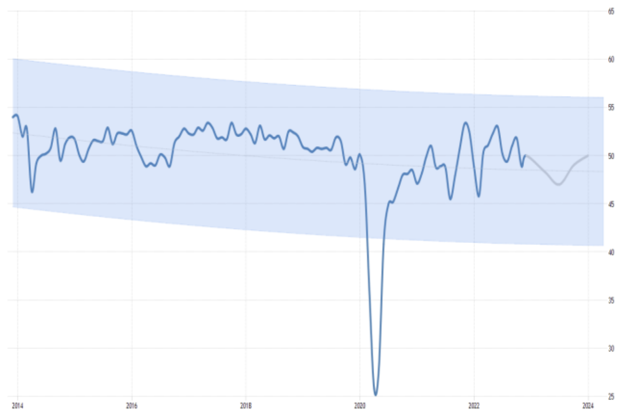
Longer term though, Japan is the poster child for what may be coming to the US and Europe if they don't get their books in order. There is a limit to how far one can grow government Debt to GDP and Japan is starting to reach the point where a 'reset' is required. This could be a cancellation of the debt between government and the BoJ. Or foreign exchange controls preventing Japanese from investing offshore and forcing them into the local markets. There is no ideal scenario, but it is a market to watch closely in this regard.

Japan GDP growth is flat, and forecasts are for PMI to weaken into '23 and '24. Unlike the US and Europe though, the market is not expecting Japan to enter a recession in 2023.

Indeed, the falloff in GDP is likely to be minor, given the level of real yields. As we highlight above the level of indebtedness prevents the BoJ from raising rates aggressively as otherwise the cost of borrow on government debt would rise exponentially.

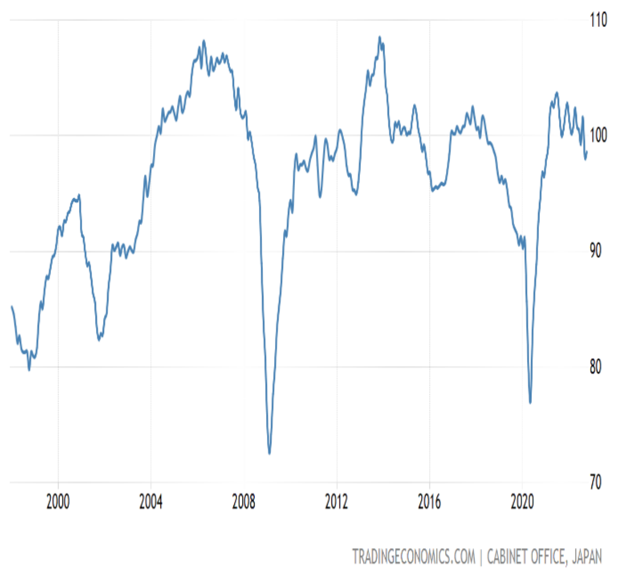
Japan GDP Annualized Growth

Japan Manufacturing PMI

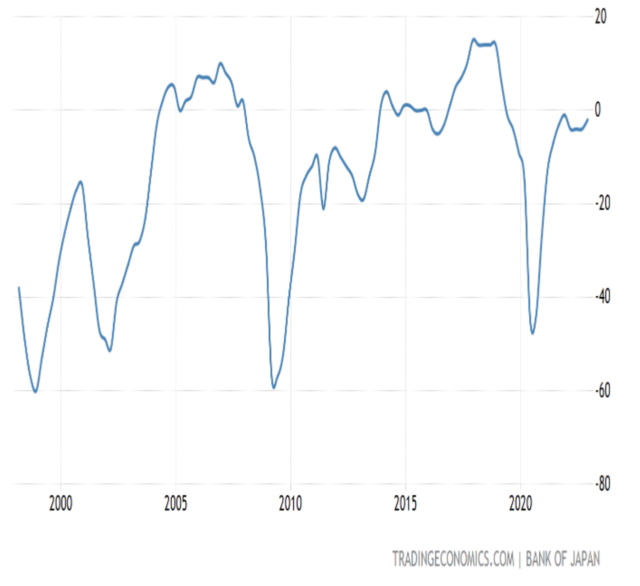


Japan has extremely negative real rates, with rates at -0.1% and inflation at 3.8%. Sentiment and the leading index are thus remaining relatively strong, compared to the drop off in other developed markets.

Japan Small Business Sentiment



Japan Leading Economic Index



China

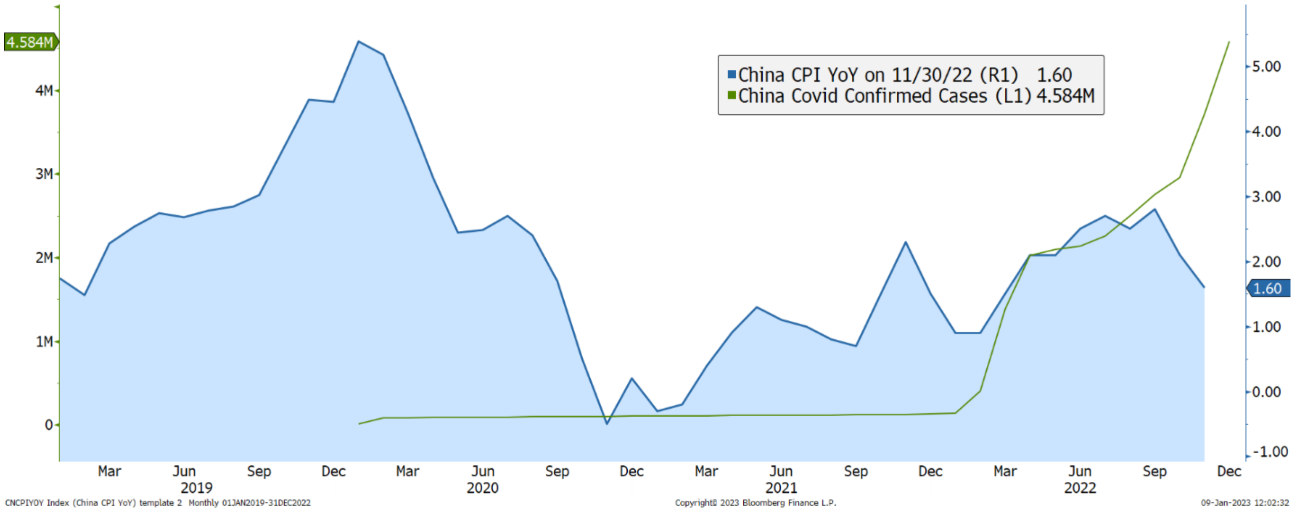
China is perhaps one of the markets that will do better than earlier consensus expectations, as the market slowly exits from Covid Zero policy. The news flow has become increasing positive, namely that authorities are stepping away from mass testing regimes and lockdowns and will deal with covid as though a common flu.

This is, in our opinion, excellent news, as China's policy of zero covid really had no place in a market-based society, especially 3 years after the start of the pandemic. This is particularly true given that we know the Omicron variant is not severe, especially for anybody below 60. Working age.

With the re-opening, we should anticipate infection rates will rise dramatically and that the populous will, to some extent, self-isolate. Something we have already started to see. In time though, the economy will normalize fully, and the government will be able to focus on the real work at hand, which is to get the economy back on a growth trajectory.

It's worth noting that China, unlike it global peers, doesn't have an inflation problem. Indeed, the economy is so weak that inflation has declined over the last few quarters, driven in part by the covid zero policies, which have been highly restrictive. Inflation in the last read was only 1.6%. We should treat this number with a 'pinch of salt' as data out of China has often been very dubious. The low inflation though, is reflective of how truly weak the economy has been over the last few quarters.

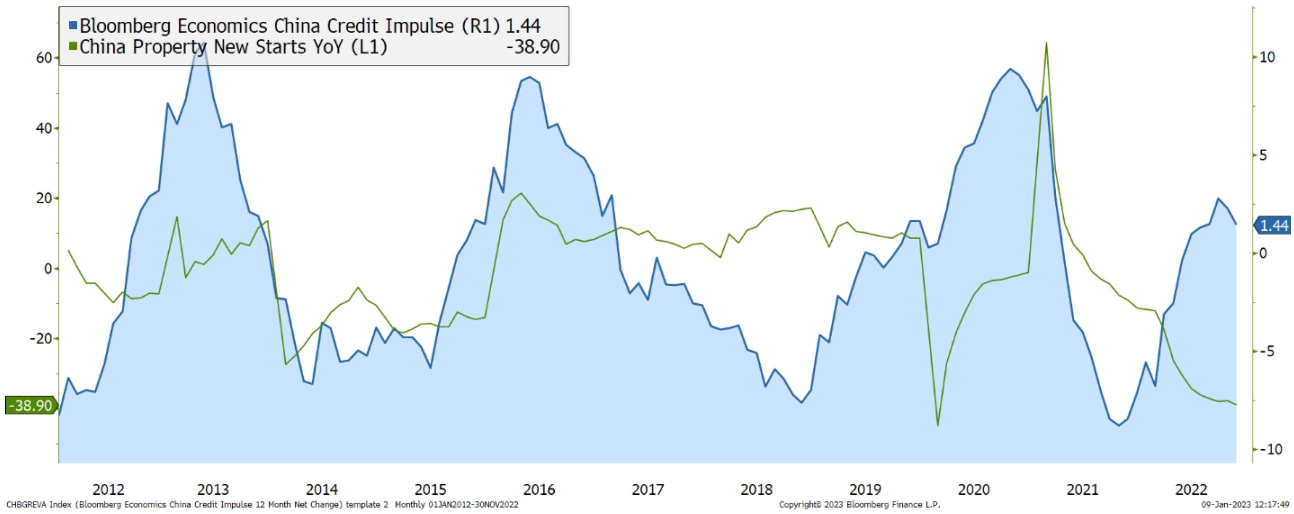
China CPI vs China Covid Cases



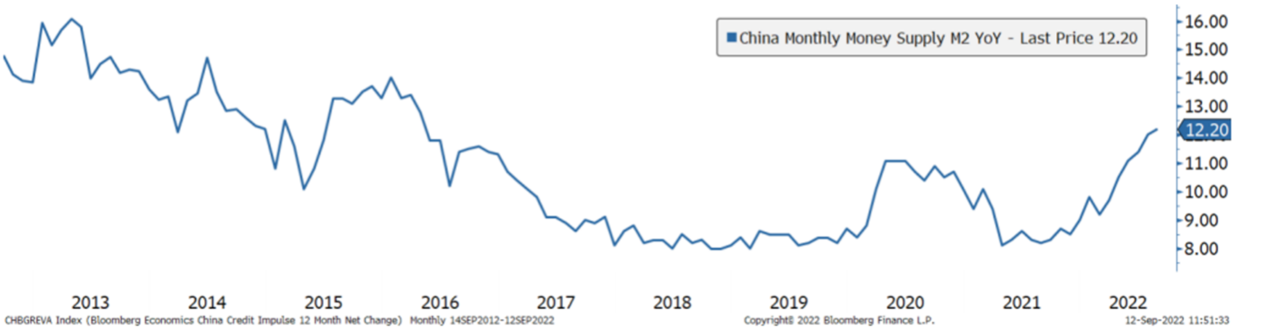
With inflation as weak as it is, the CCP have much greater flexibility to stimulate the economy.

The real estate market in China is really in the doldrums and is yet to pick up. Housing starts, for example, are the lowest they have been in years and prices are off nationally. We expect the government will do more to offer support of the sector. In the form of credit and money supply, all which will also in time feed into the equity markets. The government has already increased liquidity to the market with money supply moving sharply higher in recent months.

China Credit Impulse vs China Property New Starts



China M2 Money Supply



With lower inflation, a reopening economy and the credit impulse picking up, we have seen China GDP growth shift higher. Indeed, consensus forecasts are for GDP growth in China to accelerate to 4.7% in 2023. One of the very few markets to be showing strong growth in'23, relative to '22.

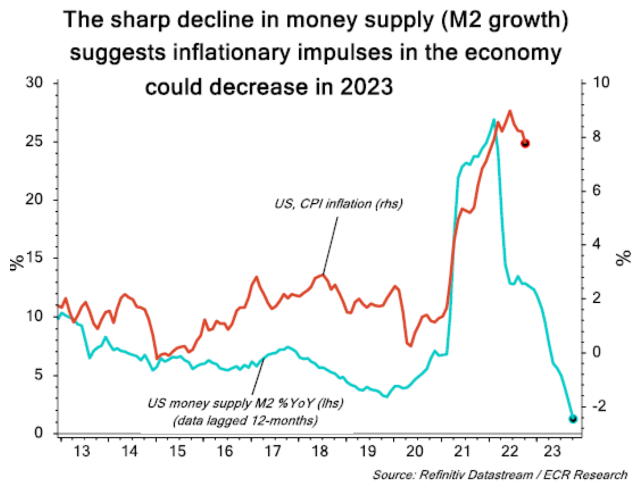
China GDP Growth Rate

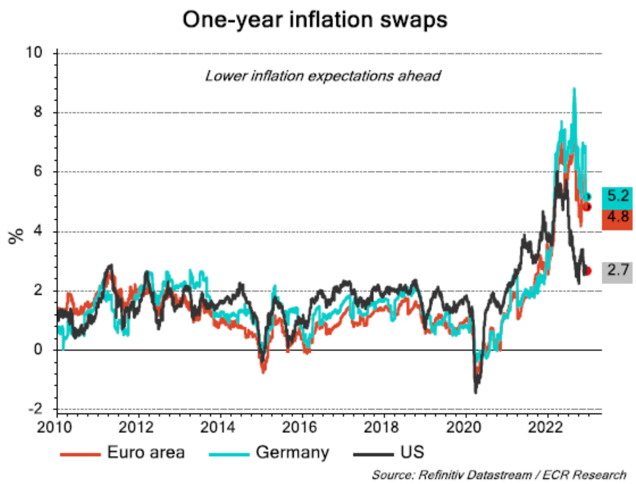
Inflation: Path is for lower inflation in 2023

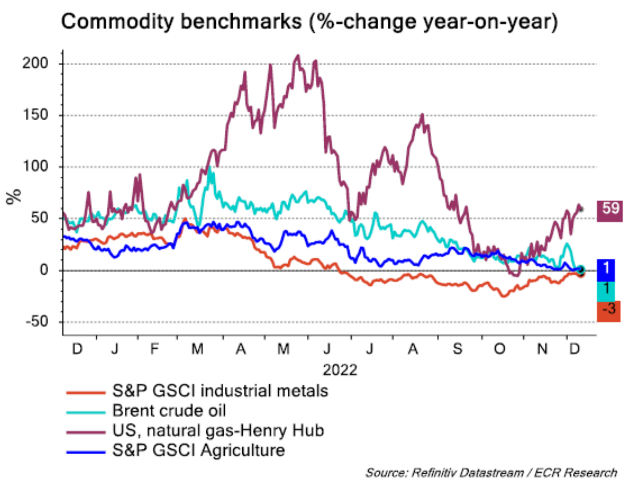
- Driven by slower economy.
- Our concern is that central banks won't do enough, and inflation remains 'higher for longer'. A potential repeat of '70-'80.

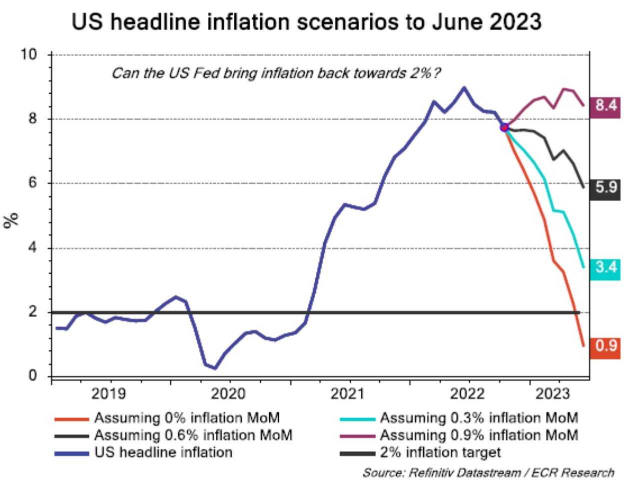
As economic growth slows in 2023, we expect inflation to follow suit.

Inflation is expected to continue falling in the USA and other major markets, driven by a decline in money supply, falling demand, lower commodity prices and fewer supply chain disruptions, compared to '22.



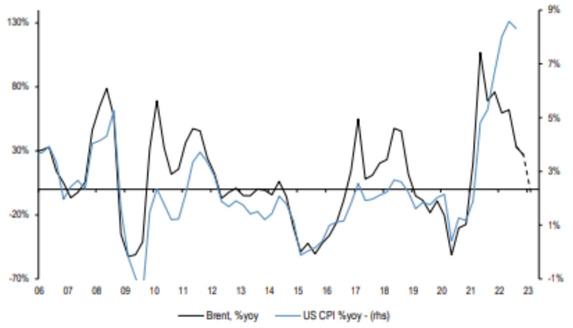






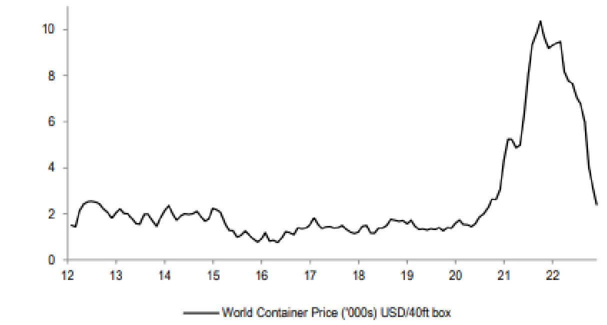
CPI and oil/brent have shown some correlation in prior years and the fall of in brent is indicative, as are many other measures, that inflation will decline into 2023. Container and shipping prices have also fallen, a reflection of fewer supply chain disruptions and a weaker economy.

US CPI and Brent, %YoY



Source: JPMorgan, Bloomberg Finance L.P.

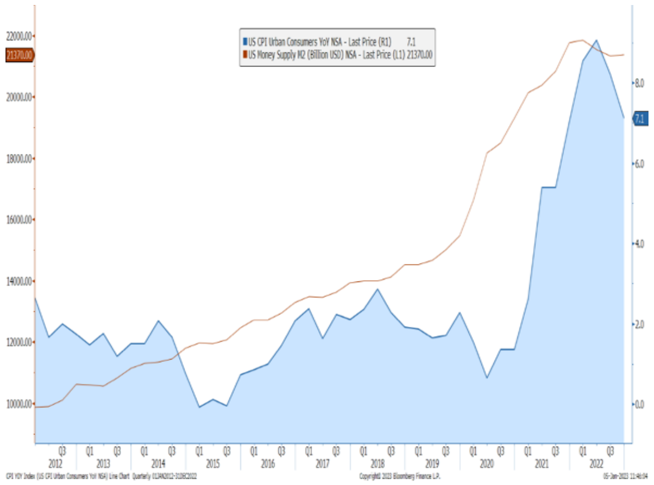
World Container Prices



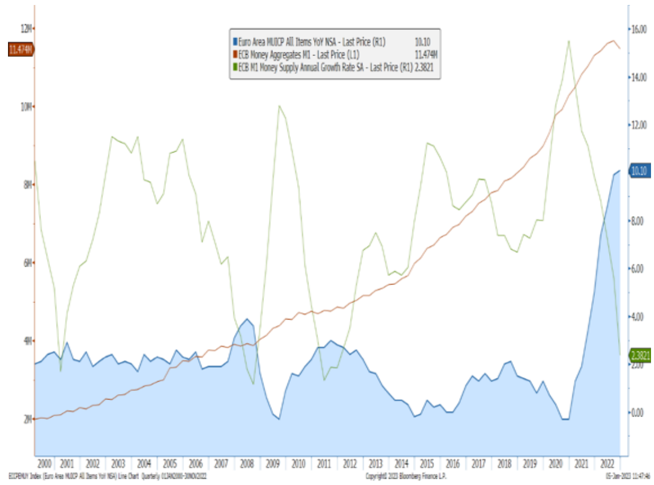
Source: J.P. Morgan

The fall is money supply in the US is another indicator we track and again indicates a fall in inflation as we move into 2023. CPI in the US and elsewhere has been driven largely in part by the massive stimulus programs we saw following the covid lockdowns of 2020. With higher rates though and quantitate tightening money supply will cool dramatically and will have the resultant impact of lower growth and inflation.

US CPI Urban Consumer vs US Money Supply M2



Euro Area MUICP vs ECB Money Aggregates vs ECB M1 Money Supply Growth Rate

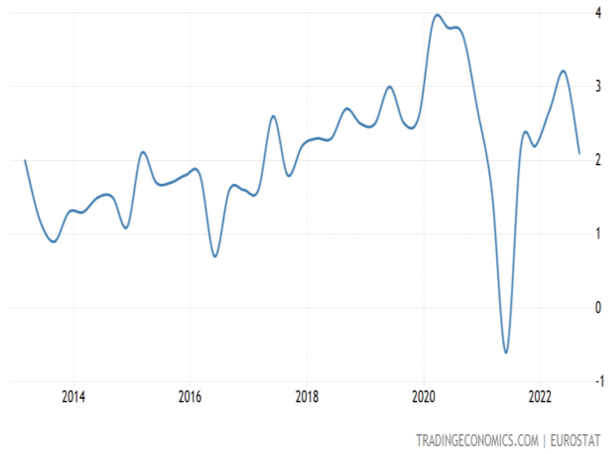


Wage inflation is though, starting to become a major driver of core inflation. The reason it is such a critical variable for the central banks, is its stickiness.

Wage inflation in the US has been falling off but is still elevated. We do though, expect it will fall off more aggressively as we move into 2023. By comparison, wage inflation in the EU has never really picked up and is already declining.

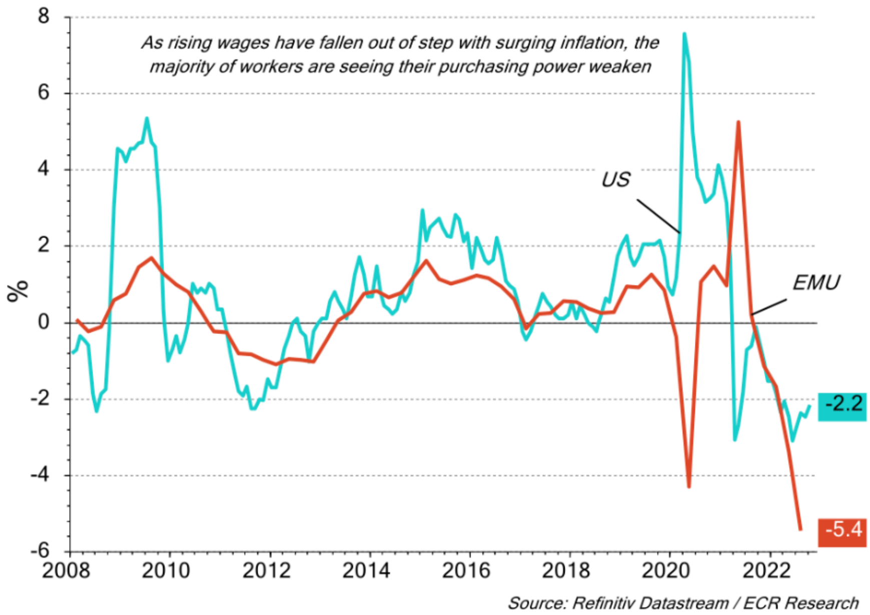
US Wage and Salaries Growth

EU Wages and Salaries Growth



In real terms though, wages have declined. So, we anticipate for nominal wages to move higher to account for this.

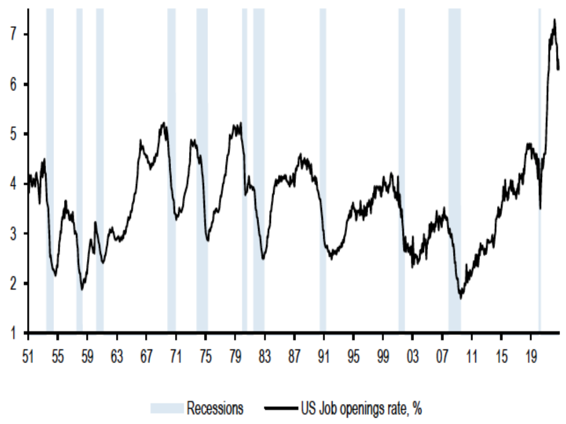
Real wage growth %YoY



Once wages start to move higher it is a trend that can last for some time and wont reverse unless there is a serious recession. Two factors driving wage inflation, are the large number of job openings and the low participation rate.

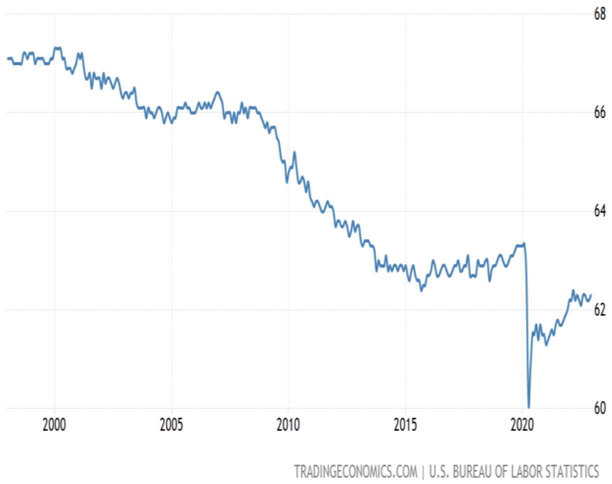
With the Fed very much focused on slowing wage inflation, one of the indicators they will be tracking is job openings. At the moment, the employment market is still very hot, so there is some way to go here before we see real weakness in the space. The risk is that we require close to a hard landing to get there.

US Job Vacancy Rates



Source: Barnichon, SF Fed, J.P. Morgan

US Participation Rate



That is the real risk. That the Fed, in their efforts to slow wage inflation, overtightens and pushes the economy into a hard landing.

Job openings will be a critical indicator for the Fed and they have made it clear they want to see some weakness in the labour market before reversing policies. We already see a number of companies, particularly in the US Technology sector, cutting head count.

Reuters

Jobless benefits rolls grow but U.S. labor market remains ...

The number of Americans filing new claims for unemployment benefits edged higher last week and a week earlier the total number on jobless...

Slate Magazine

Amazon, Facebook, Twitter layoffs: Where will newly ...

This year is shaping up to be the worst time for white-collar tech workers since the dot-com bubble burst. Even before Amazon began laying...

Tech Monitor

Amazon, Meta layoffs revealed amid Big Tech job cuts

Amazon and Meta layoffs were announced as Big Tech went big on job cuts, while the FTX collapse raised questions about the crypto sector.

3 days ago

While inflation is expected to fall off globally in 2023, we don't expect it will fall to current central bank target levels and stay there. Rather, we anticipate it will fall into the slowdown, but will likely resurge in later years.

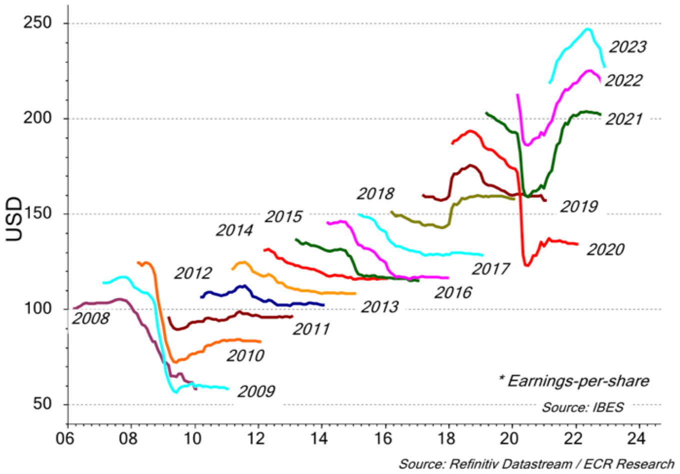
Central banks are unlikely, in our opinion, to raise rates sufficiently to prevent a res-surgency of inflation in later years.

Furthermore, we expect fiscal policies, used to support the market will be inflationary. These are likely to include policies to reduce carbon outputs as well as 'build back better at home' policies. We touched on both in our November report.

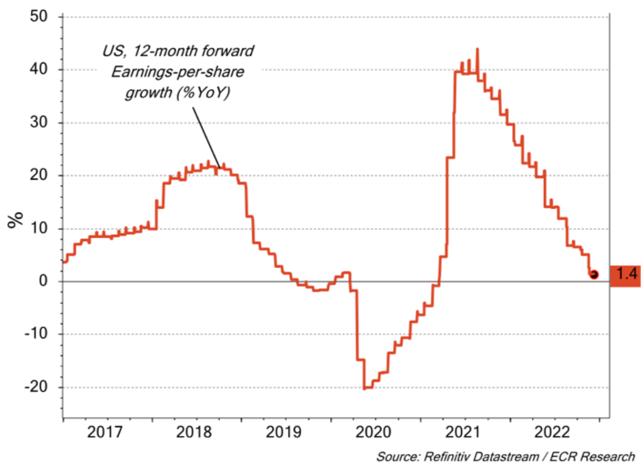
- **Company earnings:** **Expected to come in below current consensus.**

Consensus earnings per share expectations for US corporates is already falling and we expect it will fall further. As we have noted in prior reports, earnings still need to fully price in the stronger USD, the weaker economy and spending rates and margin pressure from rising salaries and wages.

Analysts' S&P 500 consensus earnings estimates

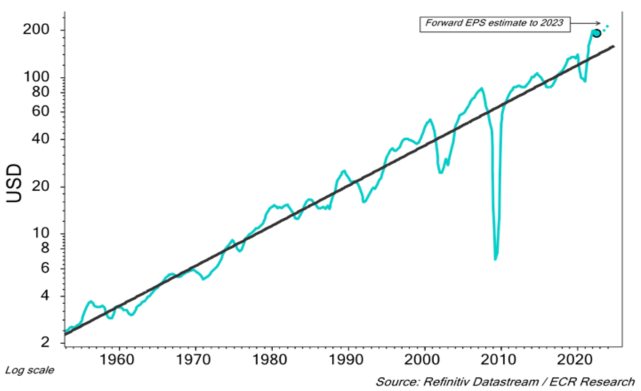


US 12-month forward earnings growth expectations

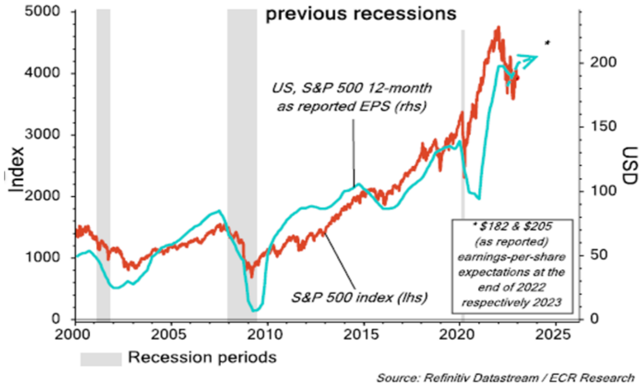


Presently, consensus earnings growth is too high relative to the economic outlook. The market, based on bottom-up analyst expectations, is still expecting EPS for the S&P to come in at around 230 in 2023. We think this is far too high, for various reasons.

S&P 500 12-month as reported EPS (earnings-per-share)
and long-term trend line

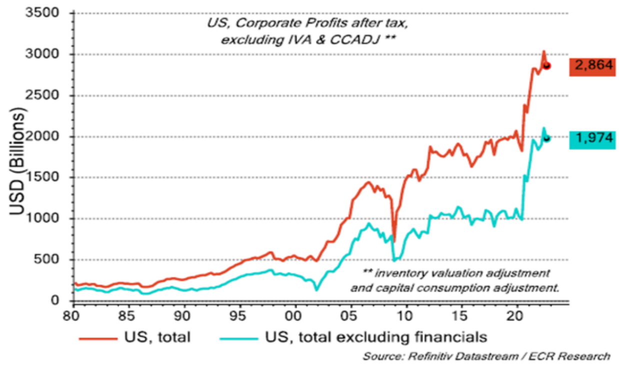


Too optimistic US corporate profit outlook for 2022 & 2023?
EPS estimates have yet to come down, as happened during
previous recessions

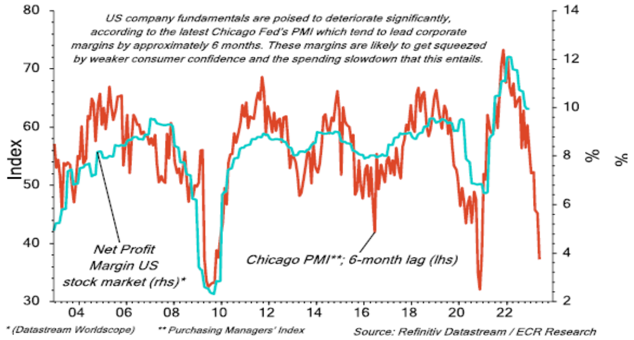


Profit margins are at record highs and inflation, particularly wage inflation, is certainly going to bite into profits as we move into '23/'24, with margins falling off. Furthermore, there is obviously a high correlation between economic growth and earnings. As the economy strengthens, earnings will rise and vice versa on weakness. With wage inflation picking up as well, we see pressure on margins, which are still close to record levels.

Corporate profitability is still near record highs



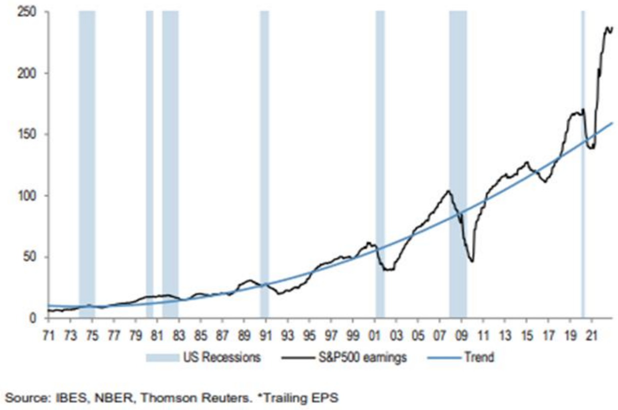
Very doubtful whether high US corporate profit margins are sustainable



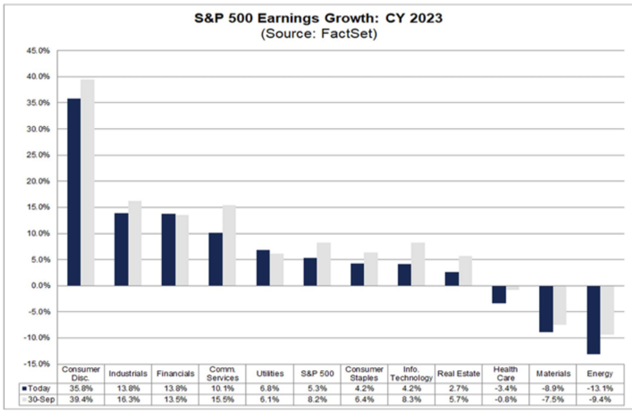
Some 40% of earnings for US companies are sourced from abroad. We have noted that earnings have already been impacted by the USD but, as we expect the USD to make one more leg higher, the risk of further adjustment is there.

It's also worth noting that the market expects the consumer discretionary sector to enjoy c.35% earnings growth 2023. Given our expectations of a slowdown in '23, this is likely an area where consensus earnings growth is likely to fall significantly. By comparison, analysts are already expecting earnings per share in the energy sector to fall back on the lower oil prices.

S&P 500 EPS vs Trend

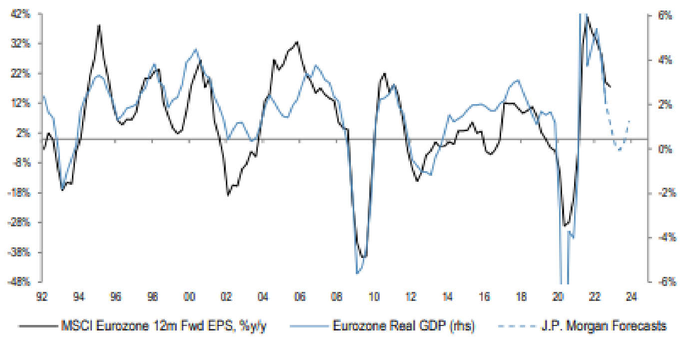


S&P 500 Earnings Growth



It's a similar story in the EU where earnings are expected to fall with GDP growth.

Eurozone EPS growth vs GDP Growth



Source: IBES, J.P. Morgan

MARKET OUTLOOK

Equities: Remain Defensive

1H expect equites to price in weaker macro and earnings.

- Defensive positioning; Overweight Cash and Healthcare.
- Underweight highly indebted companies and those exposed to economic slowdown.
- Overweight China on re-opening trade

2H likely opportune time to add.

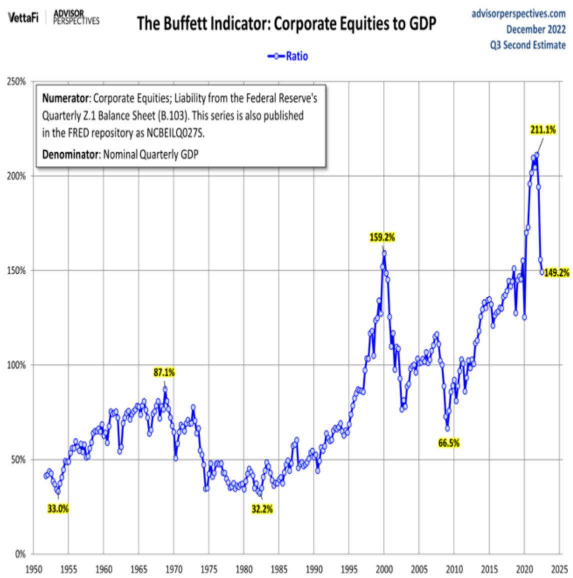
- Look to rotate into oversold areas of the market

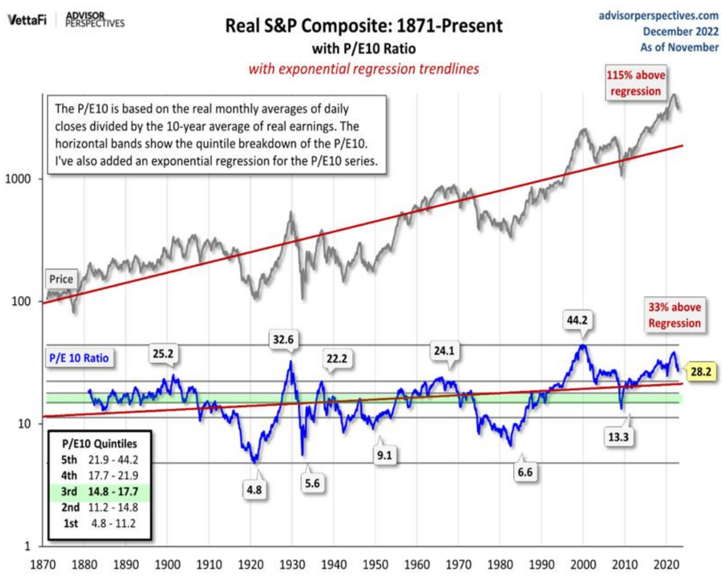
We expect equities and other risk assets to come under pressure coming into 2023. We don't believe the equity market has fully priced in the expected weaker macro and earnings data.

Our current base case for equities is that we have another leg down over the 1H23 and then a reversal as the Fed and other central banks pivot and start to focus on the expected slowdown.

The Fed has made it very clear that they want to tighten to 5% and would look to see weaker employment data and a decline in wage inflation. So, our base case is based on not fighting the Fed, or for that matter, the majority of all the developed market central banks that are currently all in tightening mode. We accept that we are in line with the market consensus, which expects weaker equity prices, which does temper our confidence in the view. Outside of not fighting the Fed though, we also don't see the need to chase valuations as in most cases these remain high; or, where they are low, they are low for a reason.

This is particularly the case for the US equity market which remains expensive, within the context of a slowdown.





As we have been highlighting in our monthly Outlooks, we do anticipate earnings will come in lower than the market currently expects for 2023.

Our base case is that if earnings growth is zero to marginally negative and that multiples fall to the 14x, the S&P should trade at around 3100.

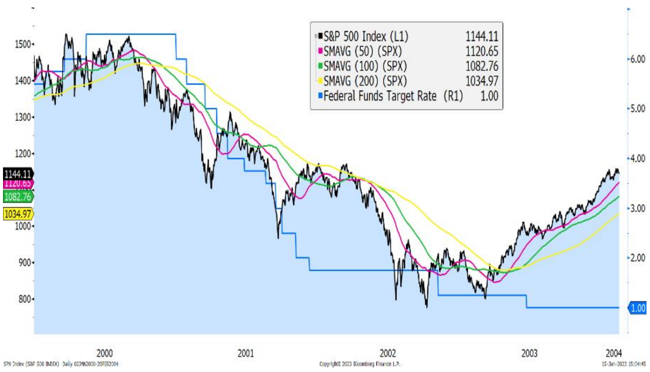
		S&P 500 2022 Target					
2023 EPS Growth		-15%	-10%	-5%	0%	5%	10%
2023 EPS		189.6	200.7	211.85	223	234.15	245.3
Fwd PE Ratio	15.5	2938	3111	3284	3457	3629	3802
	15.0	2843	3011	3178	3345	3512	3680
	14.5	2748	2910	3072	3234	3395	3557
	14.0	2654	2810	2966	3122	3278	3434
	13.5	2559	2709	2860	3011	3161	3312
	13.0	2464	2609	2754	2899	3044	3189
	12.5	2369	2509	2648	2788	2927	3066

Note – The above analysis is based on the assumption of 2022 EPS meeting the current consensus of $223

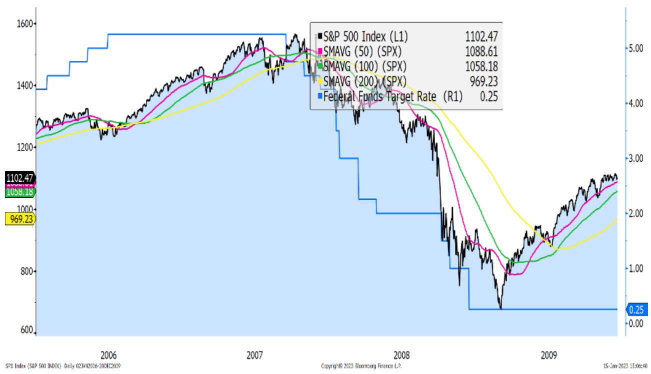
S&P at 3100 in 2023 would reflect a total drawdown of around 35% from the high of 4796, which is less than we have seen in prior major bear moves. So, should the Fed tighten by more than expected, or there is a 'black swan' event, we could easily see a lower low. On the flip side, should the Fed pivot earlier than current expectations, the overall drawdown could be less.

Technically, the S&P has followed an almost perfect 'bear market' trajectory, with the 200dma providing initial support and then resistance. At this stage in the cycle, we believe we are in the 3rd leg down and that the market will find new lows in the coming months. We saw the same sort of trend in the 2000-'03 correction, as well as in '08.

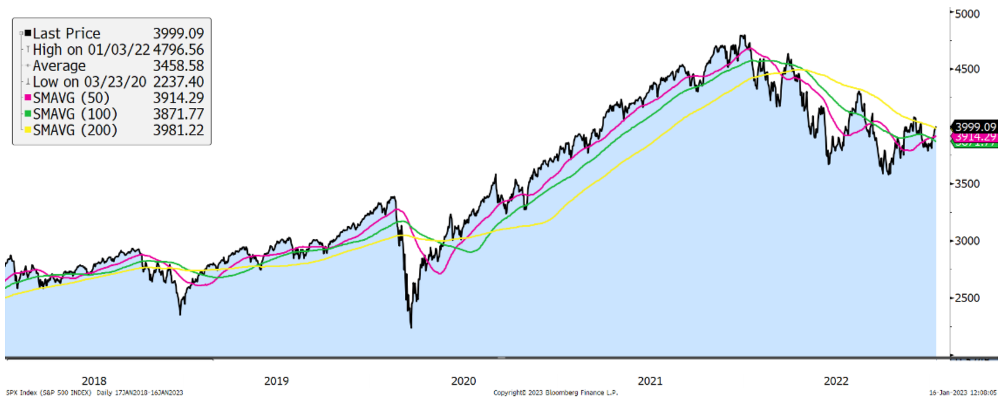
2000 to 2004 Daily Moving Averages



2006 to 2009 Daily Moving Averages



2018 to 2022 Daily Moving Averages



On the back of high valuations, both in absolute and relative terms, a tightening environment and declining earnings per share which has not been fully priced in by the market, **we are underweight US equities across all our different strategies.**

Europe

In terms of Europe, the equity markets are trading at relatively attractive valuation levels compared to the US, having underperformed for the last few years.

MSCI Eurozone 12M FWD PE Relative to US

Source: IBES

MSCI Eurozone median P/E

Source: IBES

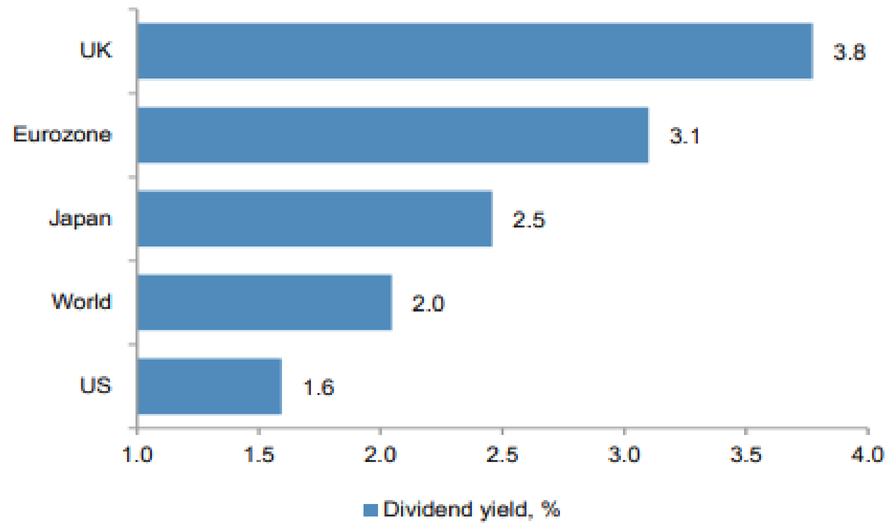
MSCI Eurozone 12M FWD PE relative to MSCI World

With the ECB still in tightening mode and the risk around the escalation of the conflict in Ukraine and worsening relations with Russia, however, we remain similarly cautious on European equities. We are also less than comfortable with Europe's current reliance on Russian gas which has had significant ramification recently. Also, we are uncomfortable with all the talk of 'special taxes' on the profits energy companies are making.

As a percent of equity exposure, we are overweight Europe. We are primarily overweight UK and Swiss equities, with the primary focus being on Energy and Healthcare. We are very constructive on the Healthcare sector in Europe, a space that we have been overweight and has performed extremely well for us.

We also see excellent dividend yield from the UK and Europe, particularly across the Healthcare and the Energy space. The MSCI Europe Health Care Index and MSCI Europe Energy Sector Index offer a yield of 2.8% and 4.64% respectively. As per the chart, the dividend yield of UK and EU are far higher than the US.

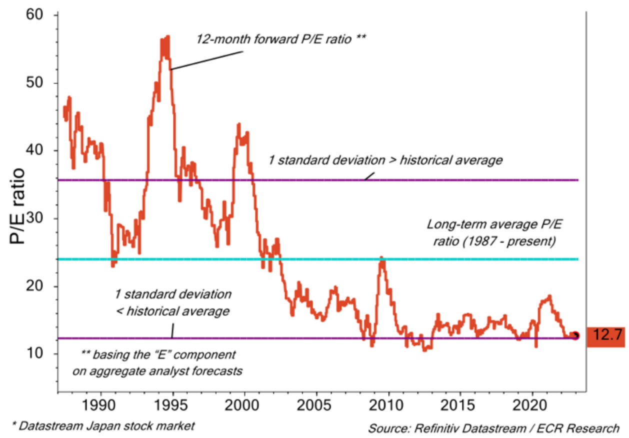
Dividend yield for key regional markets

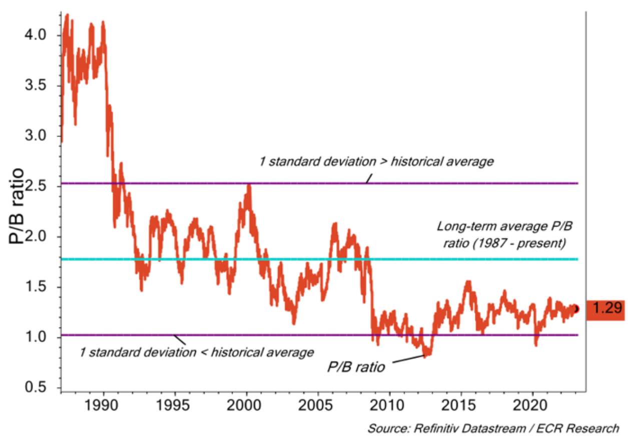


Source: Bloomberg Finance L.P.

Japan

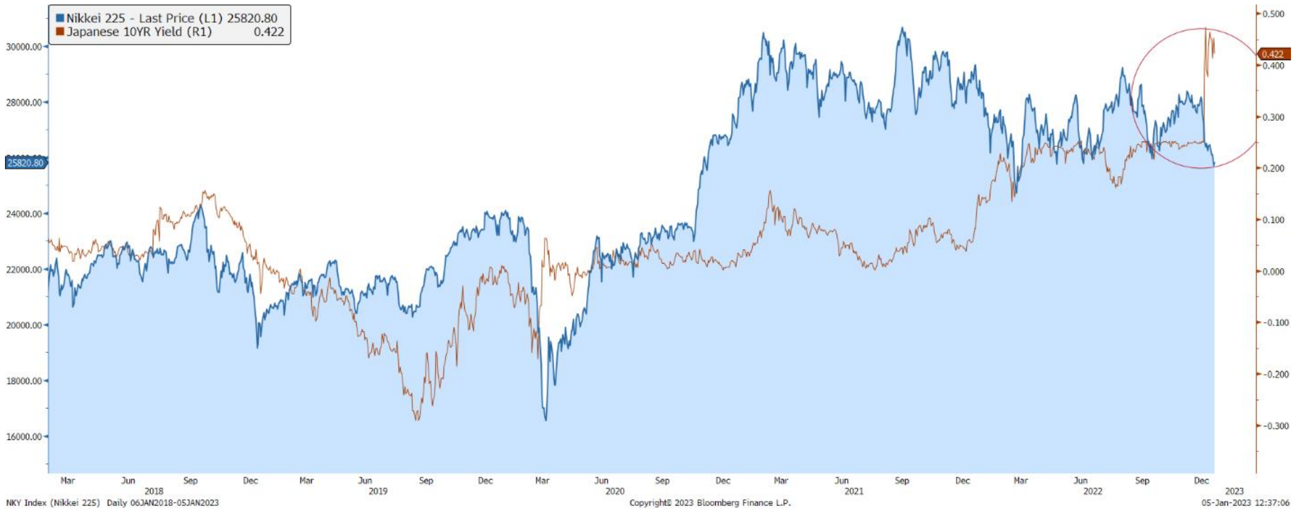
Japan, like Europe, is also trading a at discount to its history as well as to other markets, particularly the US.





We have maintained some exposure to the Japanese market, but have been cautious due to the expectation that in time the BOJ would need to reverse its zero yield environment and start tightening, which it has just started to do. Japanese equities sold off on the news.

Nikkei 225 vs Japanese 10 YR Yield

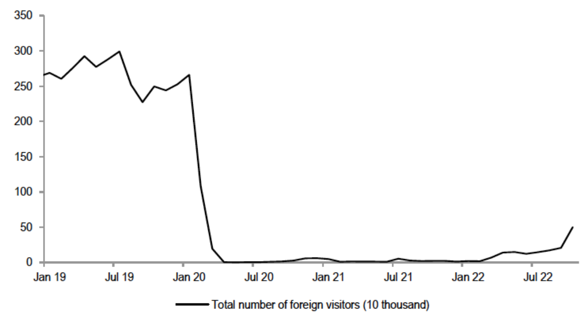


Corporate earnings in Japan are very correlated to global manufacturing PMI which is still very weak. So, at this time we remain neutral to marginally underweight and cautious on the market.

Japan though is an equity market we may add exposure to in time, for a number of reasons.

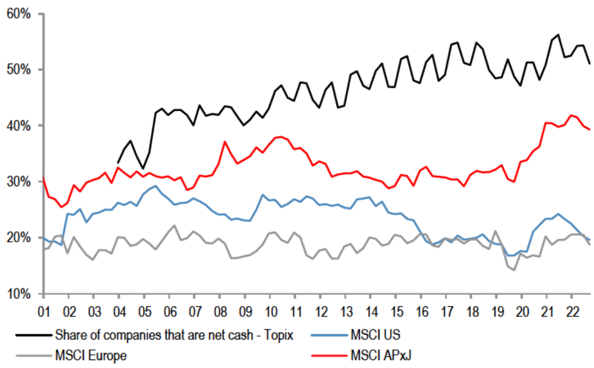
- After two years of little activity, **tourists are slowing coming back to Japan** as it opens up to foreign tourism again. Like China, the re-opening will assist the economy to regain some strength.
- The **balance sheet of the corporate sector is, compared to other developed markets, very robust being net cash.** Just over 50% of companies in Japan have more cash than debt. Corporates are thus able to increase share buybacks. Historically, Japan corporates have focused on paying out dividends, so the dividend payout is now one of the highest globally.
- The **BoJ is highly active in the financial markets and will likely support the equity market in times of weakness by buying ETFs.** Domestic ownership is also light and as the Yen strengthens, we may see the domestic investors buying back into the domestic market.
- And, **its relatively cheap**.

Number of foreign visitors into Japan

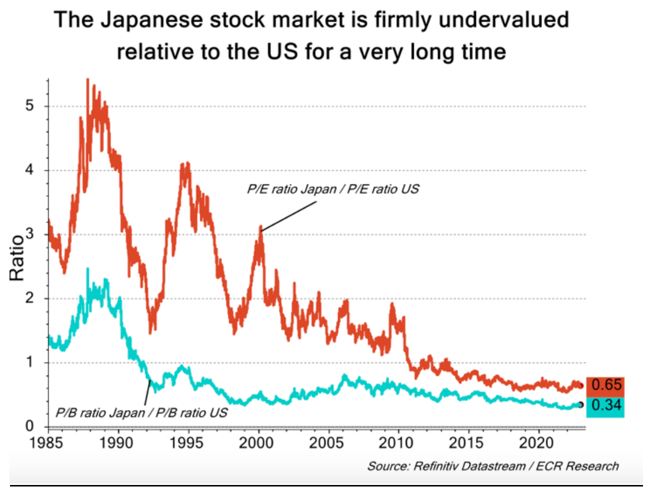


Source: J.P. Morgan Japan Strategy Team

Share of Corporates that are Net cash



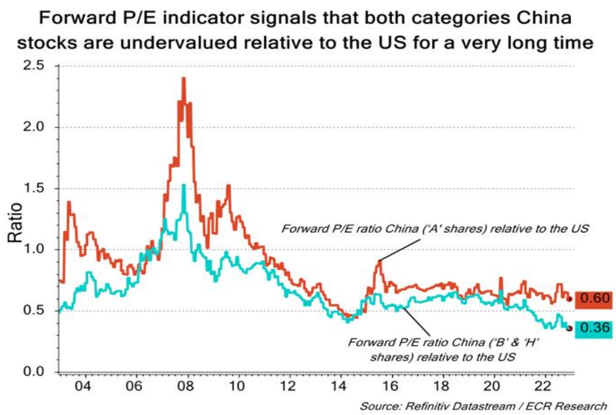
Source: Bloomberg Finance L.P.

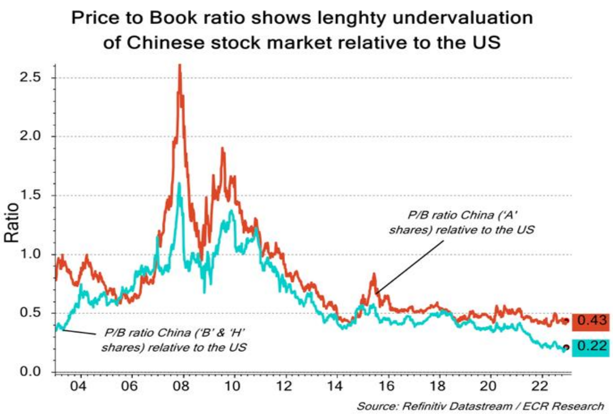


China

The last market we cover is China. Chinese equities have had a roller coaster ride for the last few years, but are now really starting to shine. The government has finally stepped away from Covid zero policies and is opening the economy fully. No longer requiring tests for travel and the mass testing regime is over. We have seen other markets do the same in early 2022, so it is encouraging that China has finally moved forward on opening up.

Chinese equities are also cheap against history.

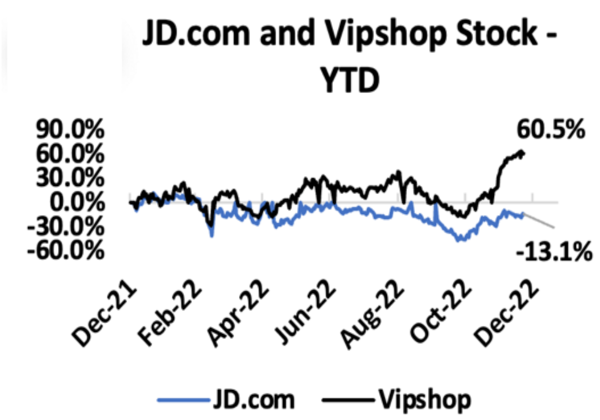




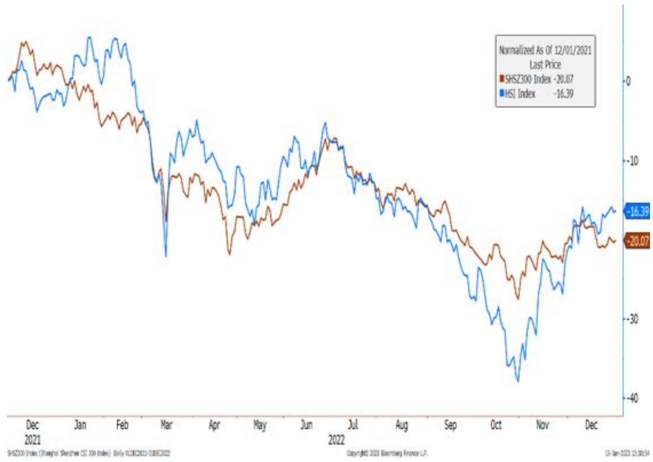
The China Equity market was down 17% in '21 and 20% through to October '22, driven by covid zero policies, supply chain disruptions, a weak property sector and an aggressive regulatory environment. It was to some extent becoming an un-investible market.

Since October'22 though, there has been a significant turnaround. And we witnessed a massive run in equities towards the end of 2022 with the HSI up over 48% by year end off its October lows. Our two holdings enjoyed an even better run, with JD and VIPS up over 43% and 65% over the same time period.

Bear Market Rally in Chinese Equities



Market Rally In Heng Seng Index and Shanghai Shenzen Index



Given China is in the process of re-opening and is recovering from a significant slowdown in the housing market, we expect it will be one of the better markets to have exposure to in 2023. We do though caveat this with some degree of caution, as our memory is still raw having had periods over the past few years that we felt that China was becoming increasing un-investible due to the uncertainty around government policies and the regulatory environment.

We remain Overweight China.

SECTORS

In terms of our thoughts on the various sectors, **we continue to prefer those sectors that are less exposed to the underlying economy.** Less cyclical. But at the same time still meet our valuation orientation. Healthcare is a core overweight for us, across all strategies.

As the table below highlights, sectors that are less cyclical, which include Healthcare, Staples and Utilities tend to perform relatively well during the late cycle.

Those that are more sensitive to rates and a slowing economy, including Consumer Discretionary, Industrials and Materials do worst in the late cycle

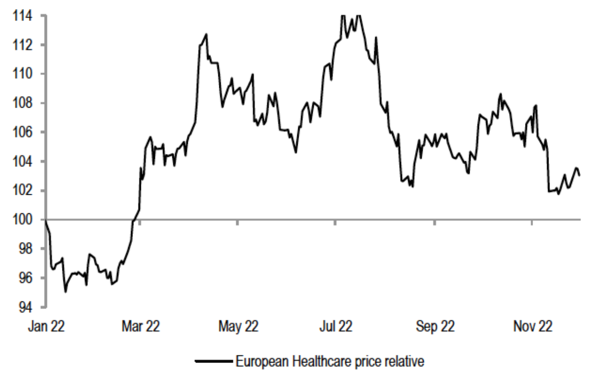
S&P 500 sector excess price return relative to the S&P 500 Index

Position of economic cycle (ISM Manufacturing Index)	S&P 500 Materials	S&P 500 Industrials	S&P 500 Consumer discretionary	S&P 500 Financials	S&P 500 Information technology	S&P 500 Energy	S&P 500 Health care	S&P 500 Consumer staples	S&P 500 Utilities	S&P 500 Real estate
Early cycle	0.760%	0.144%	0.964%	0.513%	1.659%	-1.464%	-1.020%	-0.554%	-1.433%	-1.243%
	0.110%	0.142%	0.027%	0.682%	-0.533%	0.516%	0.119%	-0.206%	-0.439%	0.603%
Mid cycle	0.301%	0.131%	0.120%	-0.100%	1.477%	-0.133%	-0.504%	-0.643%	-1.371%	-0.349%
	-0.509%	0.340%	-0.075%	-0.452%	0.692%	-0.213%	-0.184%	-0.285%	1.280%	0.562%
Late cycle	-0.666%	-0.140%	0.249%	-0.014%	0.515%	-0.042%	0.620%	0.314%	0.152%	0.486%
	-0.276%	-0.095%	-0.095%	-0.490%	-0.818%	0.317%	1.524%	1.440%	0.267%	-0.539%

Healthcare, by its nature is less sensitive to macro indicators or GDP growth. Far less so than for example industrials, which would include shipping or infrastructure plays.

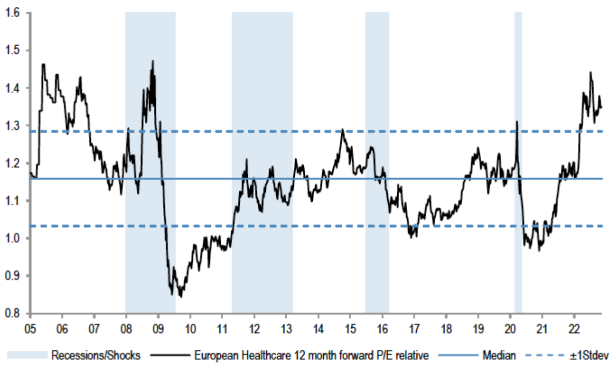
We have been overweight Healthcare through 2022, particularly European, across all strategies, and it has worked well for us. We believe it is still prudent to have an overweighting here as we move into the 1H23.

European Healthcare Outperformed



Source: JP Morgan

European Healthcare no longer cheap



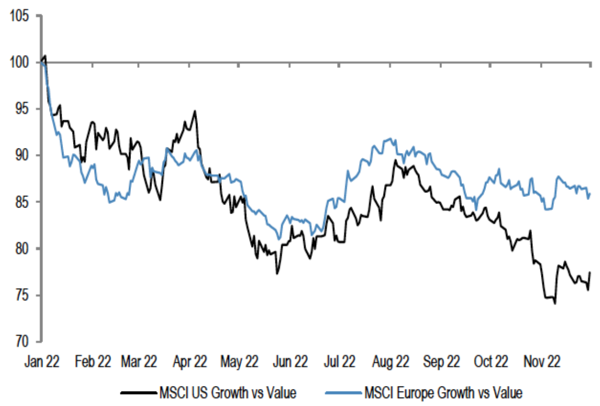
Source: IBES

We have been Underweighting those areas of the equity market which are economically sensitive, and expensive, such as Technology, for some time and in 2022 it helped us.

Technology was one of the worst performing sectors in 2022. While the sector has sold off significantly, with over 50% of the S&P Technology stocks down over 50% from their highs, we expect there is further to go here though, so remain underweight as the slowdown starts to bite.

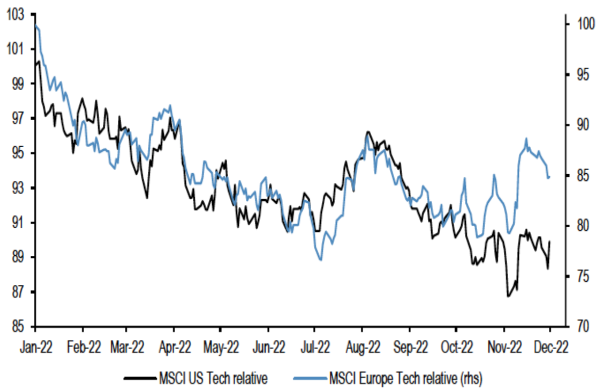
Growth and Technology underperformed in 2022.

US and EU Growth vs. Value



Source: JP Morgan

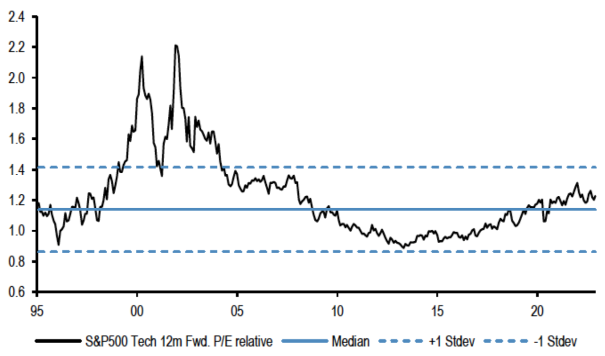
US and EU Technology relative YTD



Source: JP Morgan

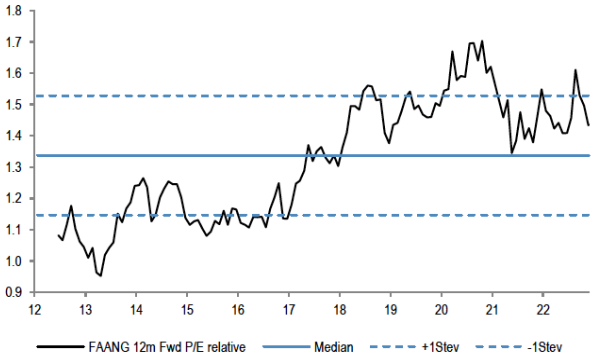
Earnings expectations have also been revised downward so the sector is certainly not cheap at this point.

S&P 500 Technology Fwd P/E Relative



Source: JP Morgan

FAANG Fwd P/E Relative



Source: JP Morgan

We do anticipate though, that we will rotate at some stage during the 1H23 from defensive areas of the market, into the more cyclical and oversold areas such as Technology. The timing of this will be based around the market having priced in the weaker earnings data that we anticipate, as well as the central banks reversing some of their extremely restrictive policies.

Sukuk: Overweight in 1H23

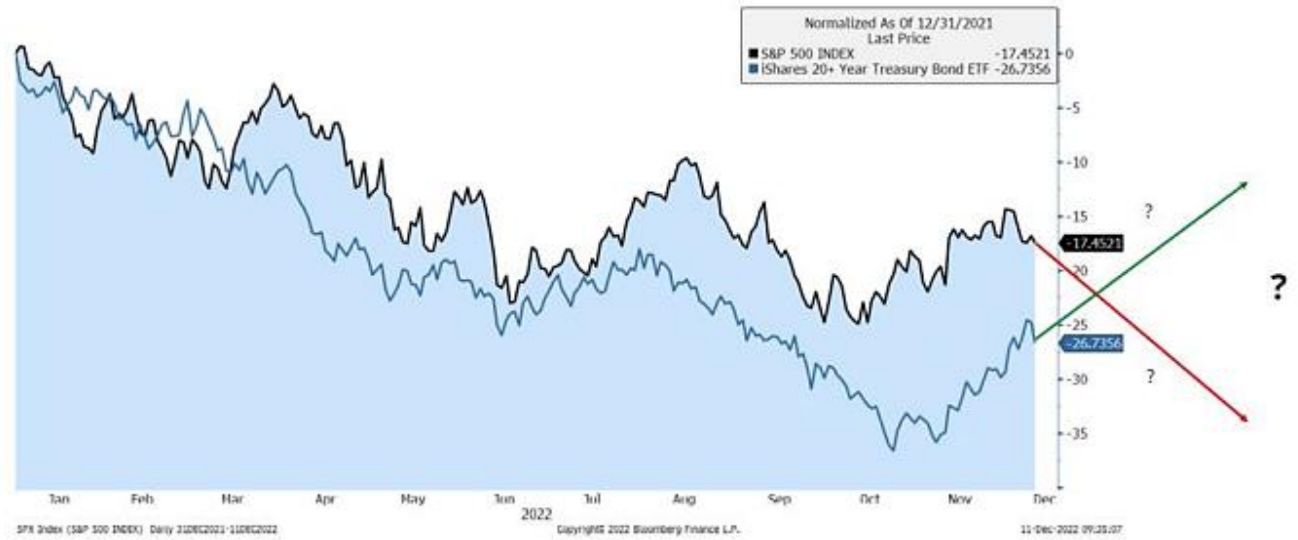
- Yields to decline into 2023 as slowdown priced in.
- Yields at 10yr high.
- A 6-12 month trade

There are a few bright spots in the financials market, most notably in the fixed income space. Sukuk, we believe offers excellent yields and should offer capital appreciation into 2023 as yields come off.

As we noted in our November Outlook update, yields on sukuk are at historically high levels and, should inflation fall off we would expect the market to price this in. Hence in our last update, we noted it as a good trade for the next 6m months and certainly a place to add to in a multi-asset portfolio.

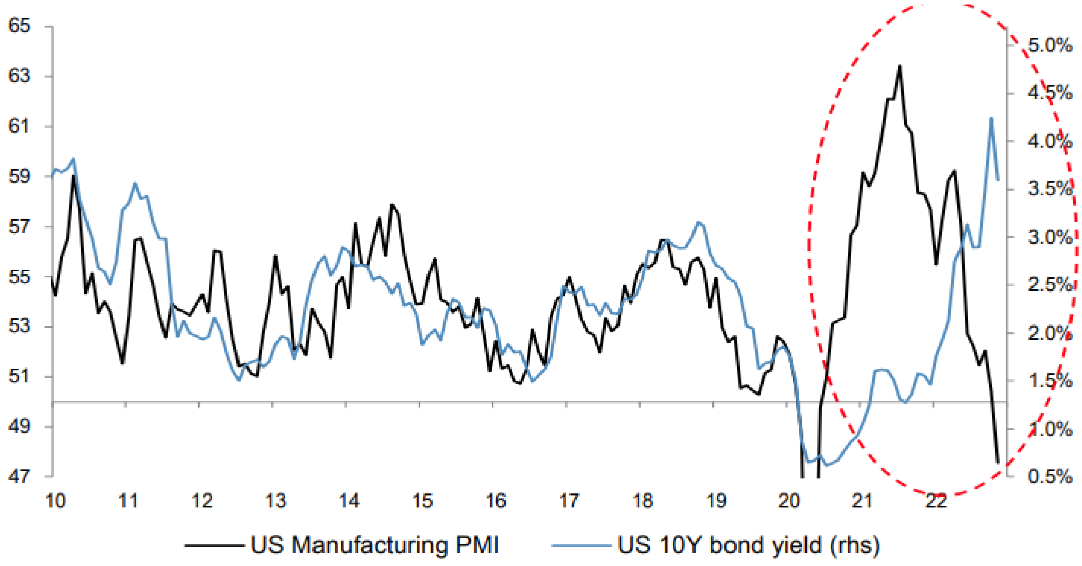
We saw sukuk being very correlated to equities in 2022 but do expect this correlation to break. In this regard they provided an excellent hedge to a weaker equity market. Should we be right, and we have a slowdown in 2023, this would be positive for bonds and negative for equities. So, the correlation we have seen should break in 2023.

S&P 500 and 20-year Bond performance YTD



Our expectation is that as the economy weakens and PMIs decline this will drag yields and rates eventually lower. The chart below highlights the historical correlation between yields and PMI and we don't expect this time round will be any different.

US Manufacturing PMI and Bond Yields



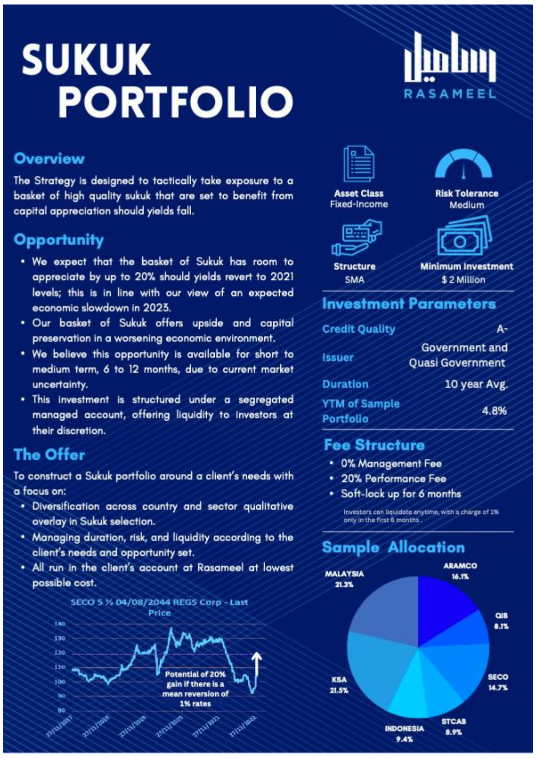
Source: Bloomberg Finance L.P.

In terms of the potential upside from sukuk, if we assume that 2023 is no different from prior slowdowns and the Fed aggressively lowers rates and yields fall to levels we saw in prior lows such as 2003 and 2009, the upside could be significant.

With this in mind, we put together a basket of sukuk – high quality government and quasi government - which would offer significant upside should yields fall as anticipated. Sukuk offer a slight spread on traditional bonds of the same risk profile, a form of compensation for the marginally less liquidity.

An attentive reader though, would obviously highlight the risk that inflation doesn't fall off like in prior cycles, particularly if the Fed does not do enough now to fight inflation and it gets priced into the market for later years.

That is a risk and hence we see adding to sukuk as a trade. A basket of sukuk with a 10yr duration and A- credit rating yielding c.4.8% should perform very nicely should inflation fall off as we expect.



FX & Precious metals: USD may make another leg up but likely weaker by end 2023

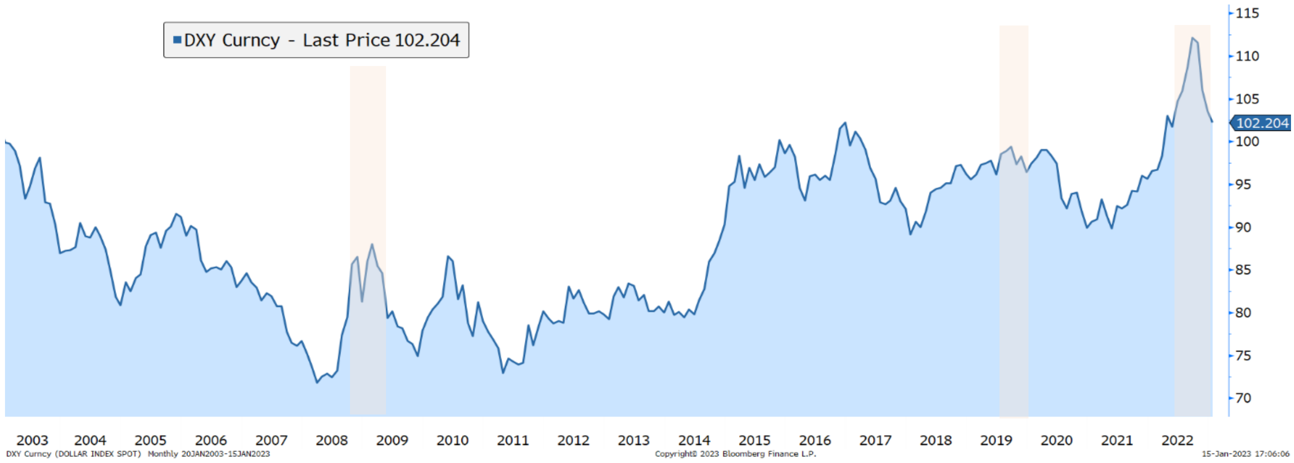
- USD flight to safety currency
- Cautious on Precious Metals for moment, but expect outperformance on eventual USD weakness, likely 2H23 or '24.

The USD rallied strongly for most of 2022, with the DXY hitting 111.00 by October and USDEUR 1.01 and USDJPY 150.

The strength of the USD in '22 was driven primarily by the Fed raising rates more assertively than other central banks. Rates, and yields, in the US are considerably higher than in the EU or Japan, so funds flowed towards the USD.

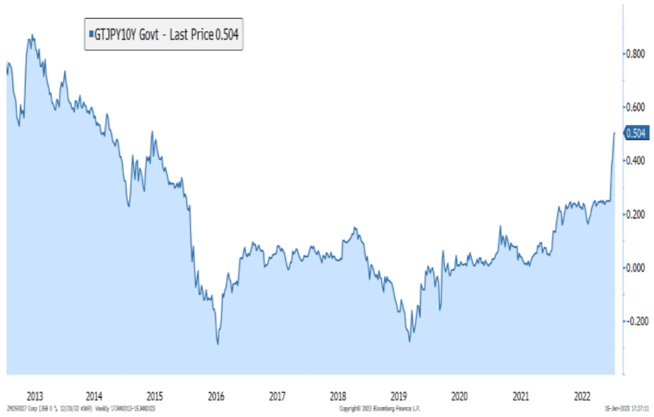
Going forward, we see the potential for the USD to have a further up move, driven by the flight to safety. The USD, being the reserve currency, tends to be strong into an economic slowdown as investors pay down USD denominated debt and hold cash for safety. Then, as the Fed loosens restrictive policies, the USD weakens once more as investors shift into assets and away from safety. We have seen this occur in all of the major market moves in the last two decades, and we see no reason why we should not follow a similar path in 2023.

USD Over 20 Years over Recessionary Periods

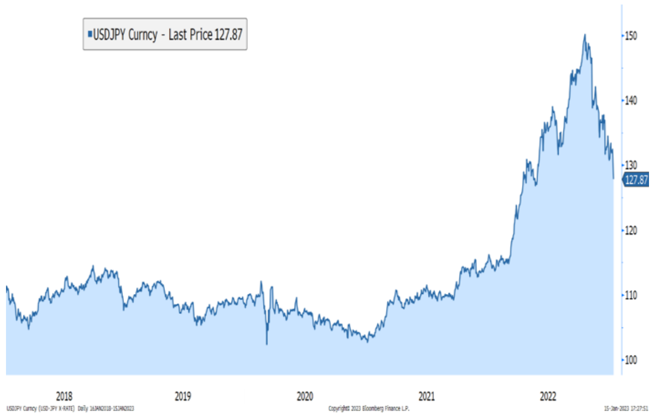


There were some big moves in the USD JPY rate over the year. The BoJ kept the upper-band on the 10yr JGBs at 25bps, but that cap was allowed to increase to 50bps in USD. On the back of this the yen strengthened 17.4%, off its lows.

10 Year Japan Government Bond



USDJPY Over 5 years



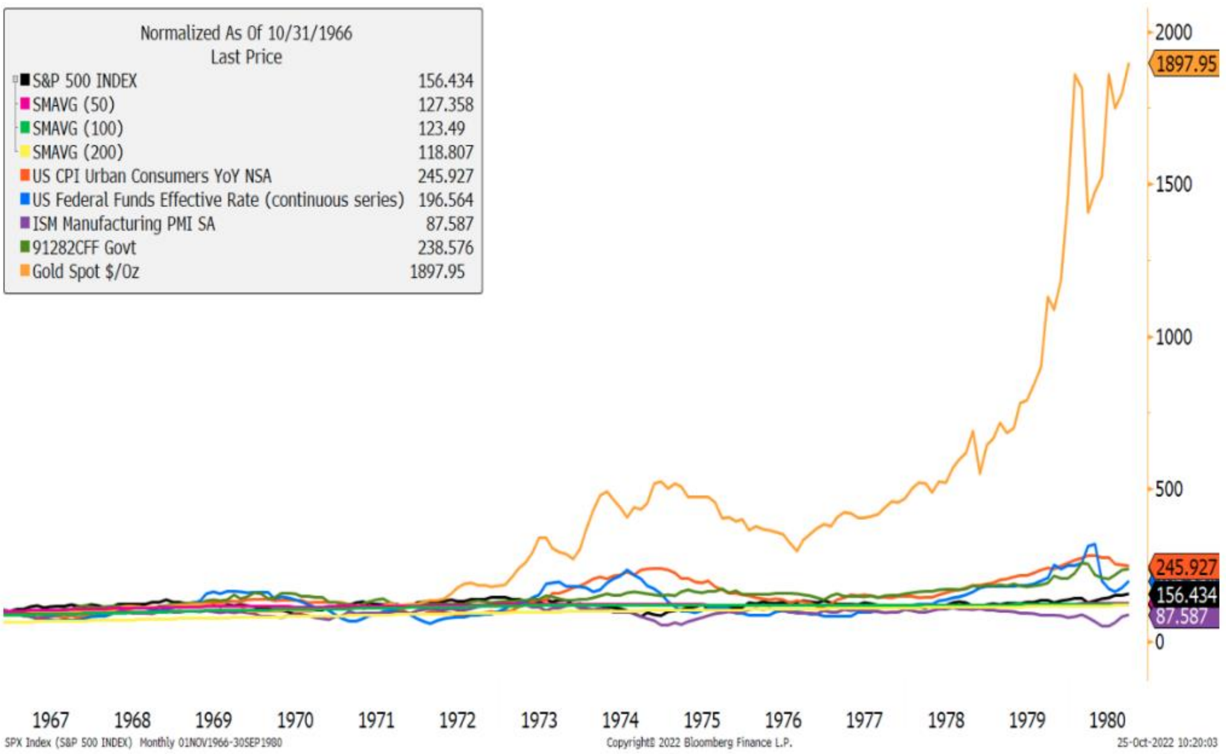
With it being increasingly impractical to keep 10yr bond yields at 50bps, with inflation there being 3.8% and PPI at 9.3%, we expect the BoJ will allow yields to float higher, as we move through 2023. So, we expect the USDJPY to move to around 125, so strengthening from current levels, reflecting a lower USD, which should be supportive on gold.

Once we see sufficient pain in the labour market and a Fed pivot and reverse restrictive policies, and potentially more fiscal spend to support the economy, we expect the USD will weaken. An expectation very similar to what we saw in prior cycles.

A weaker USD implies a stronger currency on the other side, such as the Euro or yen. But both currencies could be weakening against real assets. We saw this in the '74-'80 period, where inflation was allowed to creep higher across most markets. Should we see a Fed and other central banks not deliver a killing blow to inflation in the next quarter or two, our base case expectations is for inflation to creep higher in '24 and further out years until sufficiently firm action is taken.

This would be extremely positive for Precious Metals, such as gold and silver as well as for other real assets such as real estate and potentially also crypto, such as BTC.

Gold vs other asset classes from '73 to '82



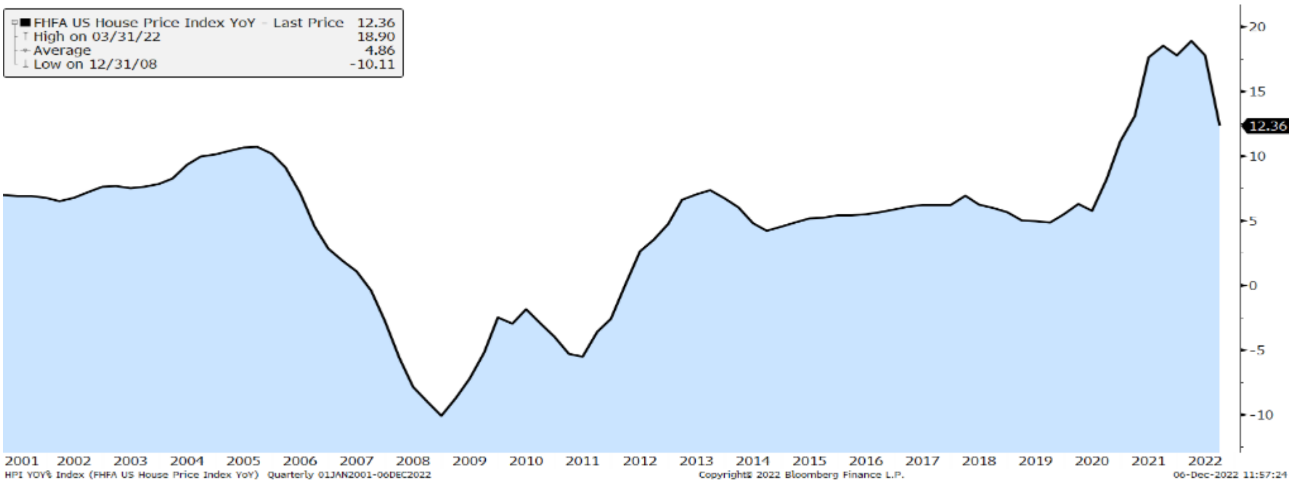
So, for the next few quarters of weaker growth and tight market we don't expect much from gold, but once we see a weaker USD and negative real rates again, we expect both gold and silver to be stronger and most likely up for the year.

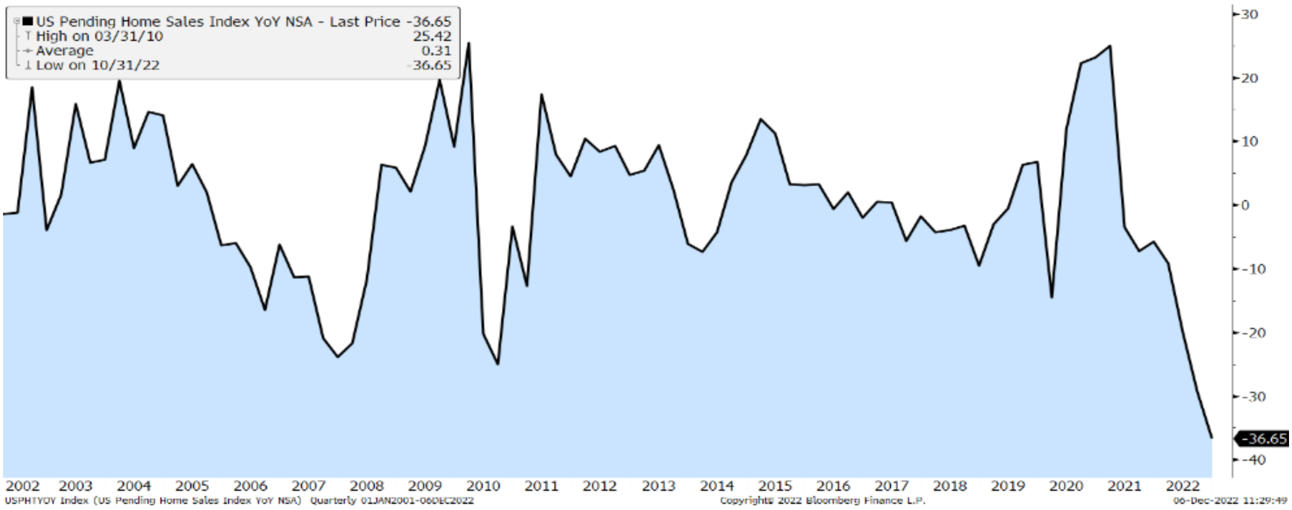
Real Estate

- Still needs to correct further for impact of higher rates/yields and weaker economy.
- May offer good entry point 2H23, as economic slowdown gets priced in.

The tight monetary conditions of 2022 hut most sectors including real estate. Deals got cancelled as clients got cold feet and wanted higher returns to compensate for higher financing costs, whilst also wanting to wait for underlying prices to correct and affordability levels to improve. Is goes without saying that financing at close to 0% is a lot easier than at 6 or 7%. In the US we have already seen residential real estate prices come off as well as volumes. We expect there is further to go.

US House Prices and volumes

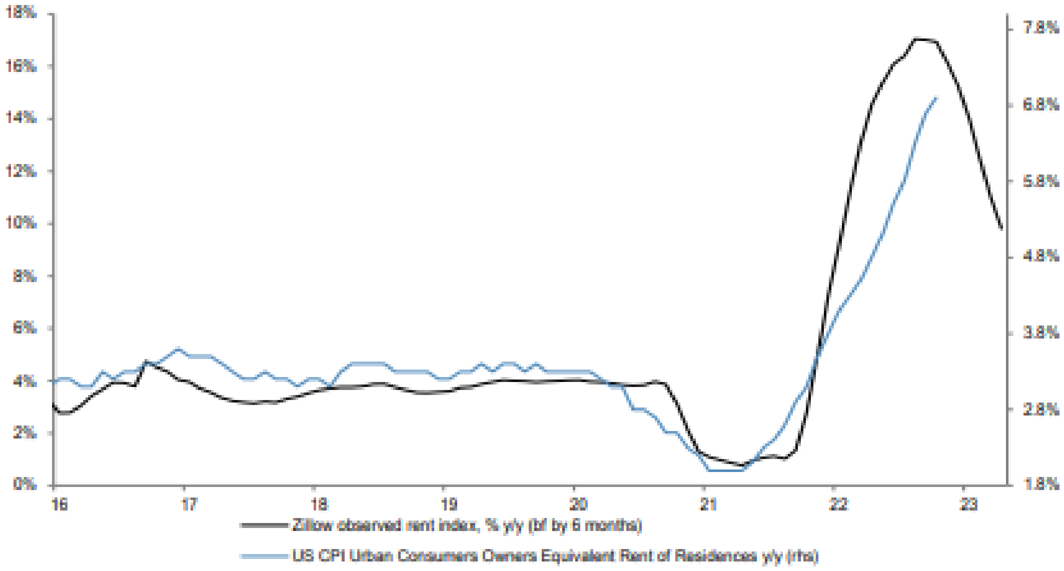




The CBRE forecasts a 15% year-over-year drop in U.S. commercial real estate investment volume in 2023, and that it will exceed the pre-pandemic record annual total in 2019. They expect investment activity will bottom out in the first quarter and then gradually improve. So similar to our view of weakness in 1H and then an improvement in 2H.

While rents tend to keep pace with inflation over the long term, making commercial real estate relatively attractive in times of high inflation, asset values fall when interest rates rise, as tighter financial conditions inhibit economic activity and real estate demand.

Zillow Rent Index vs US Core CPI – rent Component



Source: Bloomberg Finance L.P.

Since bottoming in early 2022, cap rates are up by approximately 100 basis points (bps) across all property types, translating to a 10% to 15% decline in values through the first three quarters of 2022. The CBRE is expecting a further likely another 5% to 7% decrease in values in 2023.

We expect investors will remain more discerning between high-end Class A office assets, which continue to have relatively strong fundamentals, and Class B and C office assets, which are showing signs of distress.

Our focus remains in areas which we consider are less economically sensitive, such as class A office buildings in the USA for medical or healthcare related tenants and student accommodation in the UK, which most readers will know faces shortages currently and future supply is very tight.

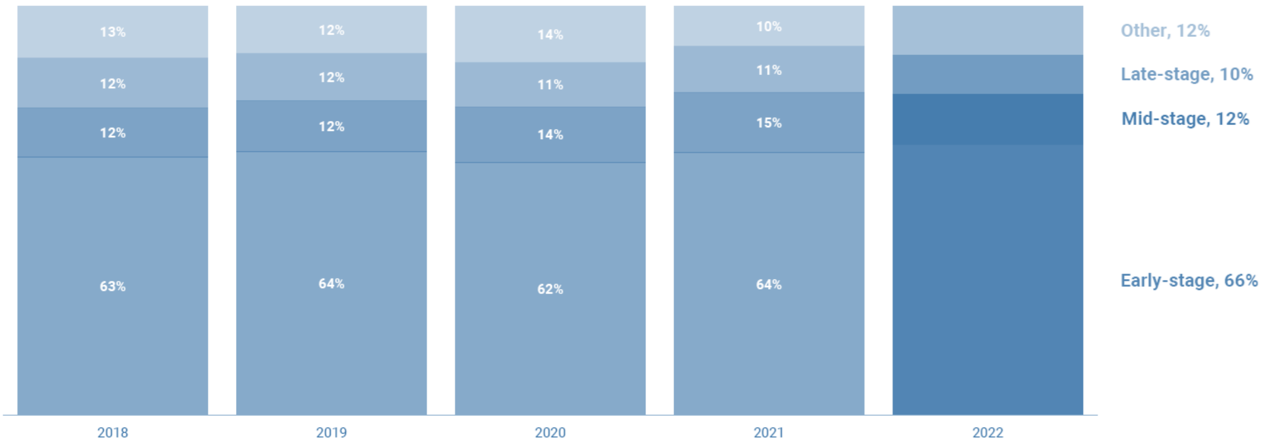
Once we are though the period of slowdown and the pricing in of tighter monetary conditions though, we expect real estate will offer some very interesting opportunities for investors particular in the distressed space, should over levered players bail out. If we do have a period similar to '74-'80 playing out, then real estate will benefit once again from asset appreciation as well as strong yields. So potentially a very good space to have exposure to, once we are on the other side of the current correction.

Venture Capital and Private Equity

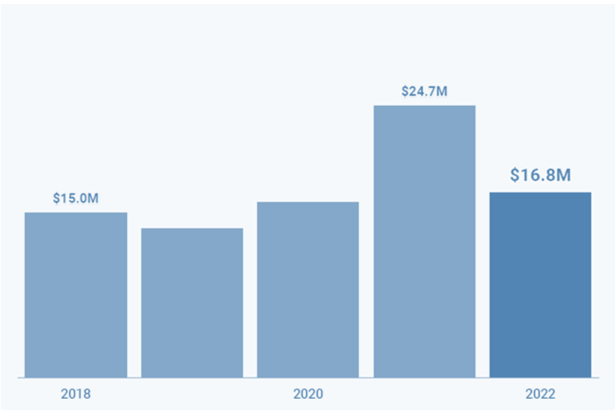
- 2023 may offer excellent distressed opportunities.
- Investors need to ensure that deals are attractively priced for the current environment

It was a tough 2H22 for VC and PE. Q4 closed with a 86% drop in new unicorns from the last year. Funding was down 35% from the peak year in 2021. The 4th quarter also registered the lowest funding for startup in Silicon Valley since 2019. Top 3 investors in the space's activity dropped 56%. Late-stage deals witnessed a significant drop in median deal sizes (-45%). Earlier stage deals represent roughly two thirds of all deals in the sector and have generally shrunk in terms of average deal sizes by roughly 20% while median deal sizes stayed the same. Startups have received over $400 billion in funding last year; almost 35% lower than funding received in 2021. Fintech retail tech, and health tech have all dropped in funding allocated to their spaces by 46%, 52%, and 56% respectively.

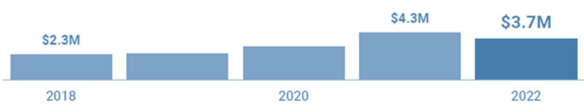
VC Deal Stage



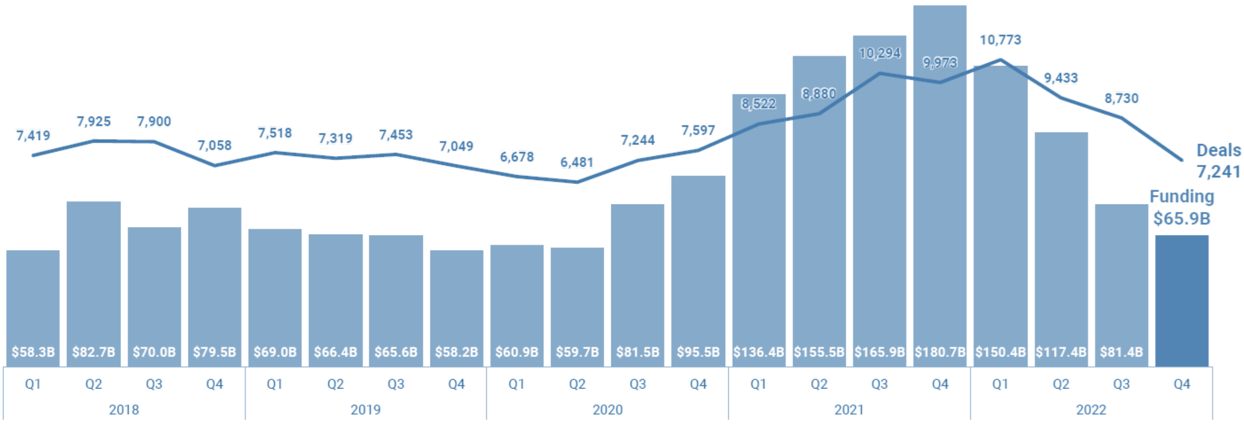
Average Deal Size



Median Deal Size



VC Total Funding



Despite the drop in funding there is still dry powder to be deployed. VCs raised record amounts during this year. Emphasis is being placed more on execution instead of the growth potential of a business. Startups with better KPI's, top and bottom lines. Energy and utilities are among a few sectors that are getting increased attention despite a more cautious approach from investors driven by soaring energy prices.

We expect much of the activity in the coming year to mimic 2022. While borrowing rates remain higher than they were the last 12+ years and with capital markets yet to definitively 'bottom', investors in the space will be continuing the conservative approach in funding startups. The focus will continue to be on key indicators, sustainable growth, top line increases and healthier bottom-line margins.

Should banks bring rates back down, we may see more investors (likely newer incumbents) take a more aggressive approach to deploying their capital. VCs and investors that have experienced downturns Despite the drop in funding there is still dry powder to be deployed. VCs raised record amounts during this year. Emphasis is being placed more on execution instead of the growth potential of a business. Startups with better KPI's, top and bottom lines. Energy and utilities are among a few sectors that are getting increased attention despite a more cautious approach from investors driven by soaring energy prices.

We expect much of the activity in the coming year to mimic 2022. While borrowing rates remain higher than they were the last 12+ years and with capital markets yet to definitively 'bottom', investors in the space will be continuing the conservative approach in funding startups. The focus will continue to be on key indicators, sustainable growth, top line increases and healthier bottom-line margins.

Should banks bring rates back down, we may see more investors (likely newer incumbents) take a more aggressive approach to deploying their capital. VCs and investors that have experienced downturns in the space before will likely continue funding with more diligence.

Like the liquid markets, we thus expect further weakness in the VC/PE space, especially as deals get properly priced for the higher cost of capital. But coming out of the slowdown some excellent opportunities will be available to the prudent investor who can take advantage of distressed plays. The usual cycle...

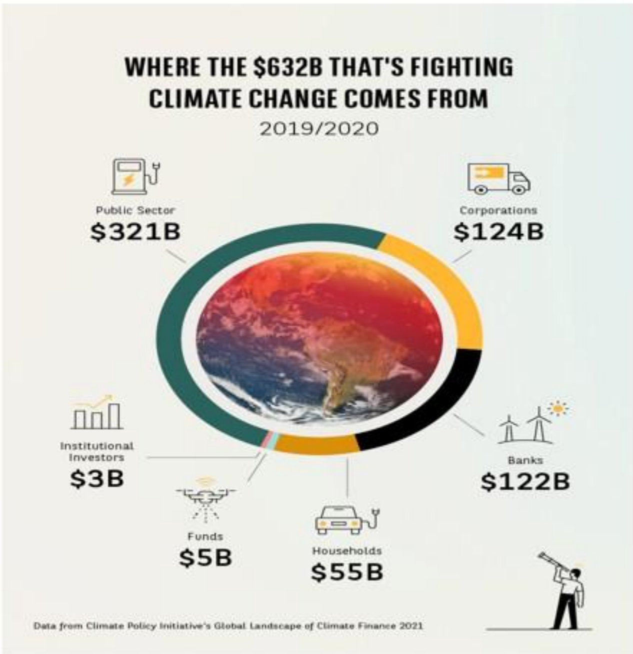
KEY THEMES

- Inflation, higher for longer, driven by:
    - Climate Change Policies
    - 'Build Back Better at Home' Policies
    - Labour policies
    - Universal basic Income programs
- Potential black swans/risks:

Climate Change Policies

As we highlighted in our November 2022 Outlook report, we expect Climate Change Policies to have a dramatic impact on fiscal spend in the next few years.

In October of 2018, the United Nations Intergovernmental Panel on Climate Change (IPCC) highlighted the importance of slowing the pace of global warming to 1.5 degrees Celsius from the current 2 degrees Celsius. Governments who committed to the Paris Climate Agreement have taken this report to heart, and many Advanced economies have ramped up their investments into cleaner and renewable technologies to help achieve their targets. Since the report, investments centered around the energy transition have grown around 14% per year, and really picked up in earnest in 2021, reaching an annual investment of $755 Billion, representing 27% year on year growth. The UN today calls for a massive increase in investment to the tune of $4 Trillion annually until 2030 to reach stated climate goals.

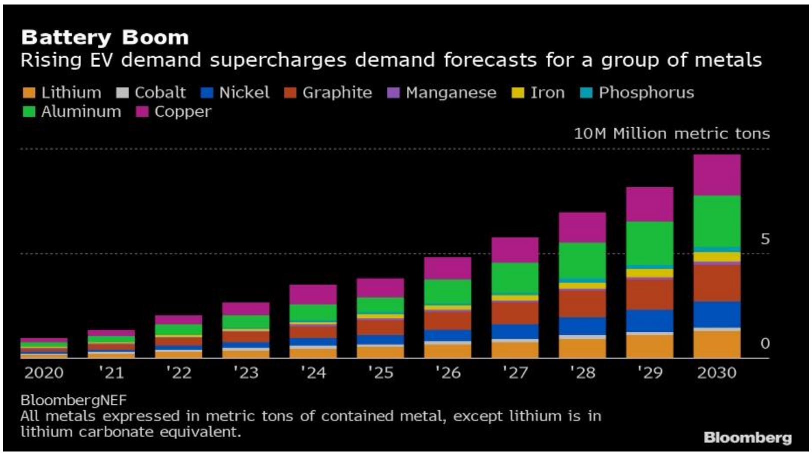


On the face of it, investment into technology and diversifying into different energy sources is undoubtedly beneficial for society and the economy, especially as an economic recovery mechanism after a steep recession. Yet, many advanced economies appear to be racing towards an energy cliff that may have even more severe consequences than highlighted by the IPCC.

As major Western economies had blocked the expansion of fossil fuels over the past 5 years, today they face great challenges to their energy security, while the poorest of nations are already experiencing social unrest and political upheaval due to shortages in energy.

Current renewable energy technology faces key issues of scale, intermittency, and storability. The sun only shines during the day, wind farms only generate energy when its windy, and the capacity to store and distribute this energy is extremely limited and expensive. The energy inflation and shortages we have seen in 2022, might merely be a precursor for what is to come in terms of the path of prices for most goods and services for the decade ahead.

The massive demand boom for metals such as copper, cobalt, and lithium driven by the surge in demand for EV's and green power should ultimately lift the prices of these metals, and their end products along the way. CEO of Freeport-McMoran, Richard Adkerson commented that "substantial new mine supply development will be required to meet goals of the global energy transition, and current prices of copper are insufficient to support new mine supply development, which is expected to add to future supply deficits".



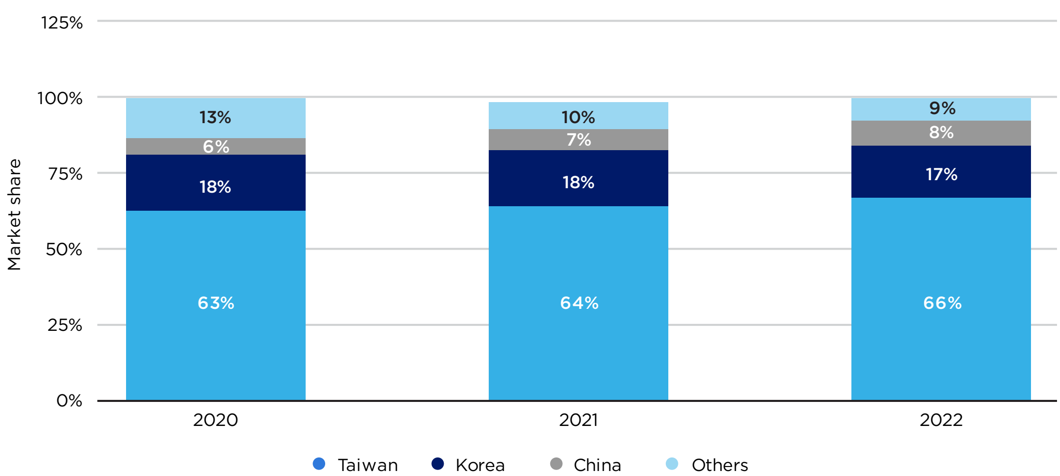
Thus, as cheap energy becomes a scarcer resource, we should anticipate increasing prices for everything where energy is an input.

Build back better at Home and capex cycle

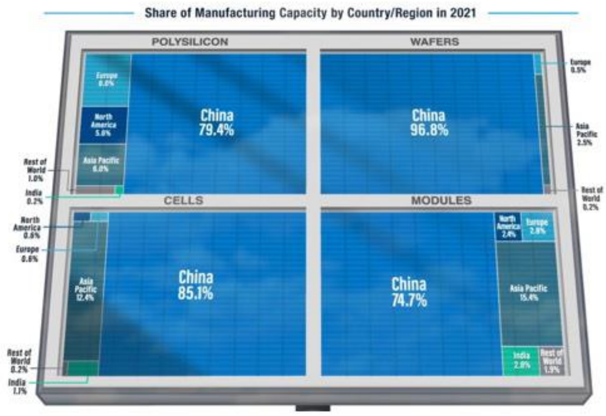
As we highlighted in our Outlook report of November 2022, after decades of fostering globalization to the benefit of the world economy, we are now awakened to the threats posed by the loss of global leadership in many vital industries.

The chip shortages endured during the pandemic has given us a glimpse of the ugly side of the overdependence on China and Taiwan for chip manufacturing capacity. As the chart below highlights some 70% of semiconductors are sourced from China and Taiwan.

Semiconductor Foundries revenue share worldwide from 2020



It's not just semiconductors. China is also the world's largest supplier of rare earths, critical for many technology applications as we as 'clean energy' such as solar panel manufacture.



During the last 30 years, the US has lost 2/3 of its manufacturing capacity to the Asia Pacific region, mainly China and Taiwan. The past few years have highlighted the state of globalization in the world, and the United States may be at an inflection point in which it might finally do what it takes to support the onshoring of critical industries. The CHIPS Act aims to support chipmakers with over $50 billion in subsidies to build foundries, with an additional $200 billion authorized to fund scientific research to boost technological innovation over the next 10 years.

The US has quietly gone from running a trade surplus of over $50 billion in advanced technology with the rest of the world, to currently running a deficit close to $200 billion. Onshoring of this critical industry is critical to national security and will go a long way in creating manufacturing jobs and private investment opportunities.

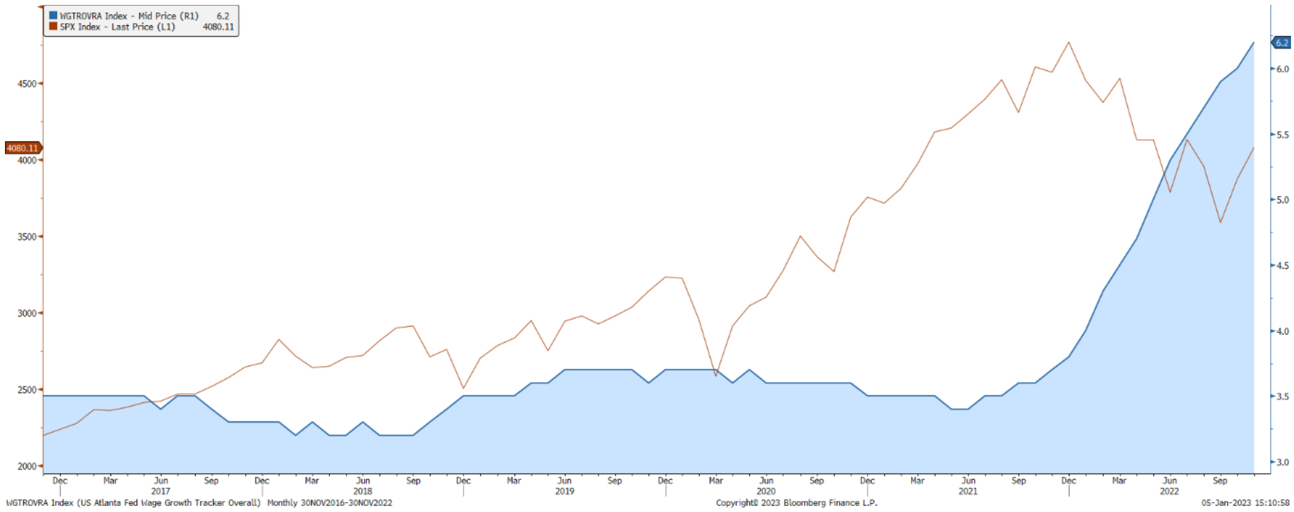
We expect these two policies initiatives will form the core of new fiscal spend into the latter half of this decade and are likely to be highly inflationary.

Labour policies and Universal basic Income programs

With the negotiation power of unions having been decimated over the last few decades, labour's ability to negotiate has been weakened. As a result, we have seen wage inflation generally lag revenue growth which has allowed margins to expand significantly also for massive redistribution of wealth.

Going forward though, the impact of covid and the reticence of many to either go to the office or re-join the labour pool will require companies to provide greater incentives to staff. The actions of the Fed to date are unlikely to completely derail wage inflation, driven in part by the 'build back better at home policies', the lower participation rate and the increasing skill mismatch. Unless of course the eventual slowdown in '23/'24 is significantly worse than currently expected.

Wage inflation in the US has picked up dramatically



While we expect wage inflation to remain more elevated than in pre covid years, we also anticipate that the increasingly level of poverty in many of the developed markets will drive the need for Universal Basic Income (UBI) programs.

This is a basic form of state aid directed at the populous, those that are earnings below a subsistence level. UBI was widely used in the pandemic, but we would expect governments this time to be much more targeted in their delivery to the people that really need it, rather than handouts across the board to all. So, we anticipate that there will need to be enrolment process and governments will get a lot smarter at their delivery.

Our expectation is that many counties will use UBI as a way to test launch Central Bank Digital Currencies (CBDC). CBDCs are still in their infancy, but we should anticipate them being followed out over the next decade. **Both UBI and CBDC will, in our opinion, be inflationary by their very nature.**

The ongoing role out of new technology will be a key driver of the need for UBI. There simply won't be suitable jobs for the current labour force. A good example of this later in the decade or next will be driverless cars – taxi, truck and delivery drivers will no longer be needed as drones and autonomous vehicles will be used.

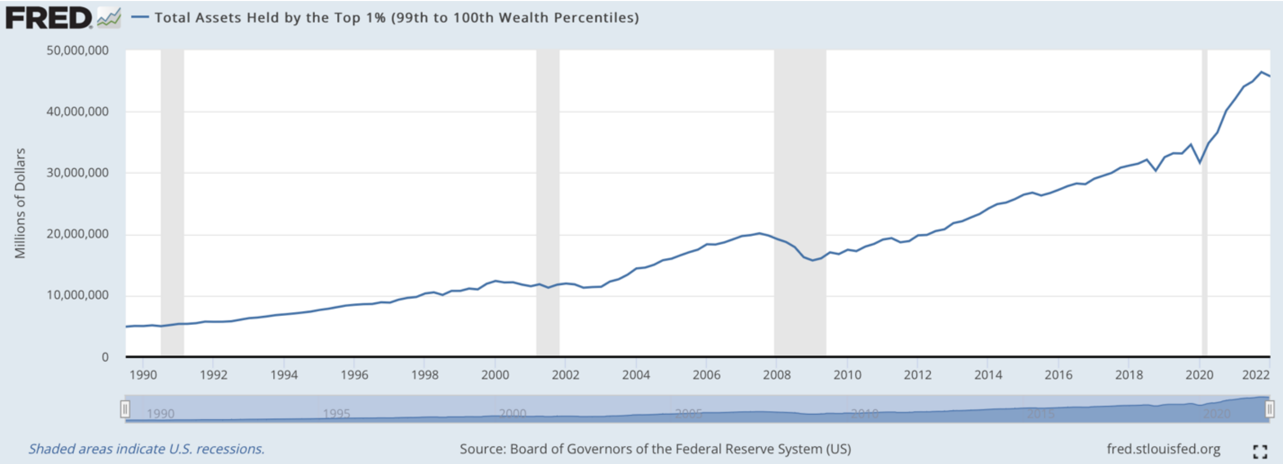
A diligent reader could no doubt question our inflation 'higher for longer' view as the roll out of technology will inherently be deflationary. We wouldn't disagree, but the time frame is key. For the next few years, we expect inflationary forces, such as the build back better at home, sticky wage inflation and carbon zero polices, to keep inflation above current central bank targets of 2% in late '24 and a few years beyond; after which there will likely be another tightening phase and a deflationary period. Again, we are using the '74 to '80 period as our template here.

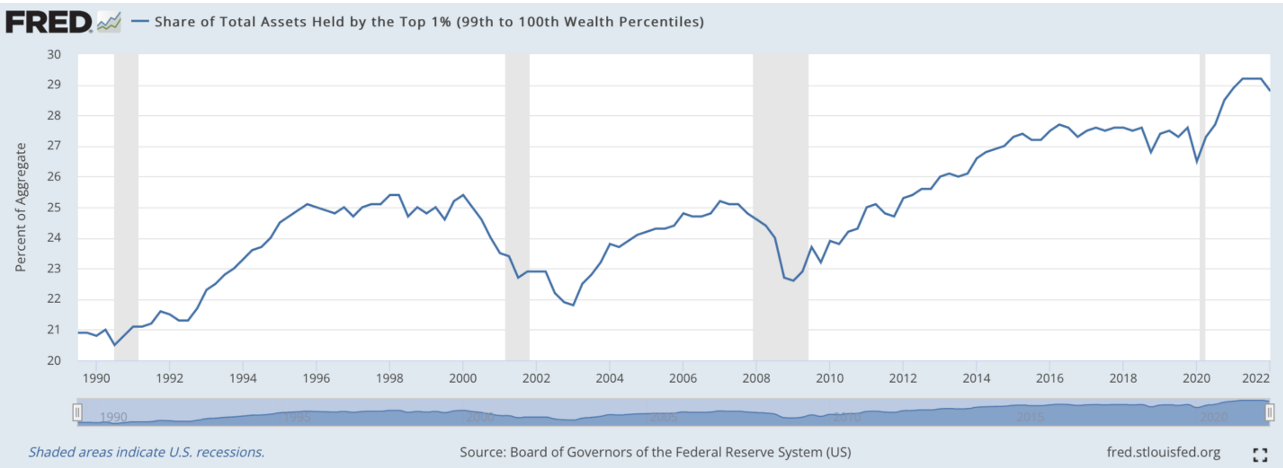
Potential black swans/risks and Geopolitical issues

We consider a number of potential black swans in our analysis and list a few here:

- **Continuation and widening of the conflict in Ukraine:** Our concern for Ukraine is that the war in the region will potentially persist for many years, to the detriment of the Ukrainian citizen and the country as a whole, but to the benefit of the arms suppliers and political power brokers. We don't see this as a war that can be won, other than through a peace deal.

- **China and Taiwan:** We don't expect any 'hot' action in this region, but rather that China will simply absorb Taiwan gradually. To the Chinese, Taiwan is part of China. Many Taiwanese (surveys indicate around 1/3) feel the same. So we expect there will be a significant amount of political posturing. The West has exposed itself by relying too much on China and Taiwan for critical inputs and both know it. So news flow from the region will likely be extremely volatile and potentially very damaging to global relations.
- **US politics and division:** The divisions in the US are at extremes. Never have we witnessed such extreme levels of income disparities, with the poor and middle class getting poorer, while the wealthy get richer. This is particularly apparent during the '20'- end '21 period fueled by the easily monetary policies and stimulus. The lockdowns of '20, was a period of massive wealth generation for the super wealthy.





There is also increased division across the political spectrum, the liberals/democrats and the republicans. With the election coming up in '24, we should expect tensions to rise further, particularly if the voting process is not improved to prevent the potential appearance of fraud. Certainly using voting ID would help here.

- **New variants and Climate change lockdowns:** The world has at long last started to fully normalize after the absurdities of the last few years. Never before have whole economies been forced into lockdowns for a disease which has an average mortality age of over 80 and a survivability rate of well over 99% on average. While the toll on economies and a large swathe of the populous was extremely high, there are still many that clamor for greater control of human movement and activity. The mere fact that the 'top 1%' got even richer on the back of policies to assist those impacted by covid lockdowns should alert any reader to the potential that policies are misused and exploited.

So we remain concerned that extreme policies could be enforced either for new variants or even as a way of driving climate change agendas, by restricting travel and free movement.

- **China Central Bank digital Currency (CBDC):** Most developed nations are trialling/assessing CBDC. China has been doing so for years. They are perhaps the leader now in the monitoring and social scoring of the city based populous and CBDC is the logical next step. Using social scoring and CBDC together would give the CCP ultimate control over the populous. Behave, and you get to keep your DC. Don't, and the government could go so far as to deny you access to it or make deductions from it. It's programmable and digital after all. The black swan for the USD, would be a China gold backed CBDC, which becomes a key currency for pricing commodities such as gold and oil.
- **Potential for much higher oil prices:** While on the one hand an economic slowdown would be beneficial for lowering demand and prices, the re-opening of China will drive higher consumption. Oil consumption is, due to slow re-opening, still below the normalized. So demand may be more resilient than many expect. Supply on the other hand increasingly appears to be somewhat capped. The lack of investment over the last 5 yrs or so, has resulted in little surplus capacity. The risk is oil prices spike higher due to less supply from Russia and OPEC, which yet again drive inflation higher.

Disclaimer

This document is not directed at or intended for use by any person resident or located in any jurisdiction where the distribution of such information is contrary to the laws of such jurisdiction, or such distribution is prohibited without obtaining the necessary licenses or authorizations. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the content. The information contained in this document is for informational purposes only and should not be regarded by recipients as a substitute for the exercise of their own judgment. This document does not constitute a solicitation, an offer, or a recommendation to buy or sell any investment instruments, to affect any transactions, or to conclude any legal act of any kind whatsoever. When making a decision about your investments, you should seek the advice of a professional financial advisor. No representation or warranty of any kind, either express or implied, with respect to the content is made. This document is provided on a confidential basis to invited parties and may not be copied or distributed without prior written consent. Subject to contract. This document is prepared for promotional purposes, and it may not be presented or distributed in State of Kuwait except to the “Professional Clients” only according to the definitions contained in the first book of the Executive Bylaws of Kuwait Capital Markets Authority. Rasameel Investment Company hereby undertakes that it does not disguise, diminish, or obscure important items from the investment subject of promotion.

Warning

The past performance of any investment or a product is not a reliable indicator of future results, and it cannot be relied upon for investment decision making. The performance stated above for the Global and Disruptive Technology Strategy is for a composite of client accounts and is gross of all fees and commissions. Actual client performance may vary from the composite. The performance of the Multi-Asset Fund is based on a model portfolio.

RASAMEEL

Rasameel Investment Company
Kuwait City, Souq Al Safat, 3rd Floor, Office 6 & 5
P.O. Box 4915 Safat 13050

T. +965 2247 8800
F. +965 2247 6600
E. info@rasameel.com

www.rasameel.com

Rasameel