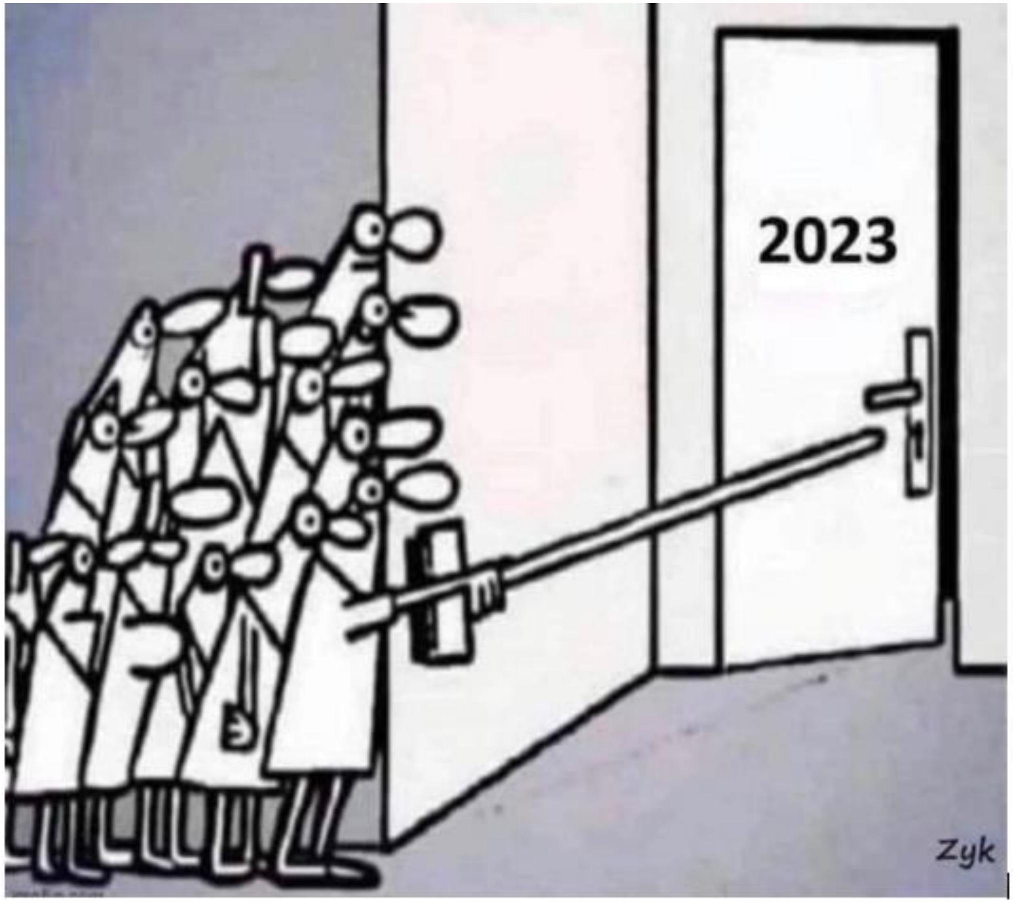

WEISSHORN
ASSET MANAGEMENT SA

Investment Committee Q4



1. Market highlights
2. Macro View
3. Long term view
4. Market review
5. Allocation
6. Cross Asset
7. Conclusion
8. Thematic
9. Appendix

1. Market highlights

- After 3 consecutive quarters of decline, equity indices rebounded from October to December. Growth stocks continued to underperform. The Nasdaq100 plummeted 32.97% during the year, its worst performance since 2008. The MSCI World lost 19.46%. European indices outperformed US ones for the first time since 2015 thanks to renewed interest in defensive stocks.

- By stubbornly treating inflation as "**transitory**", the major Central Banks found themselves "**behind the curve**" and caused a general panic on the markets by proceeding with the most rapid and brutal rate hike cycle in their history.

- This monetary policy mistake largely explains the disaster in the US and European bond markets. The latter have collapsed by between 15 and 20%, their worst annual performance ever!

- Following an acceleration that seemed out of control at the beginning of the year, **inflation** showed signs of slowing in the fourth quarter. In the US, the price increase stands at 7.1% YoY. On the other side of the Atlantic, due to the direct effects of the war in Ukraine on food and energy prices, it stood at 8.6%. Following the efforts of Central Banks, inflation in these two zones should continue to correct, but it may take longer than expected to reach the 2% target.

- Against the backdrop of soaring inflation and an historic rate hike cycle, investors fear significant damage to economic activity. The likelihood of a widespread **global recession** has risen sharply in recent months. The important thing for us investors is to know as soon as possible the extent of the contraction (if it occurs). Risky assets seem to be ready for a mild recession, assuming it is not too deep and not too long.

1. Market highlights

- The acceleration of post-Covid demand and the war in Ukraine also caused a strong reaction in **Commodity prices**. After a sharp rise at the beginning of the year, most Commodities have given back a good part of their gains. China's highly restrictive health measures are one of the main causes of this comeback. This does not call into question the potential “super-cycle” of the coming years.

- Pressure from the Chinese people seems to have paid off. Following numerous protests, the Chinese authorities decided to **relax the sanitary measures**. Even if the number of contaminations has logically risen again, the news has pleased Investors. Growth prospects could improve. But beware of the strong demand that could fuel inflation again.

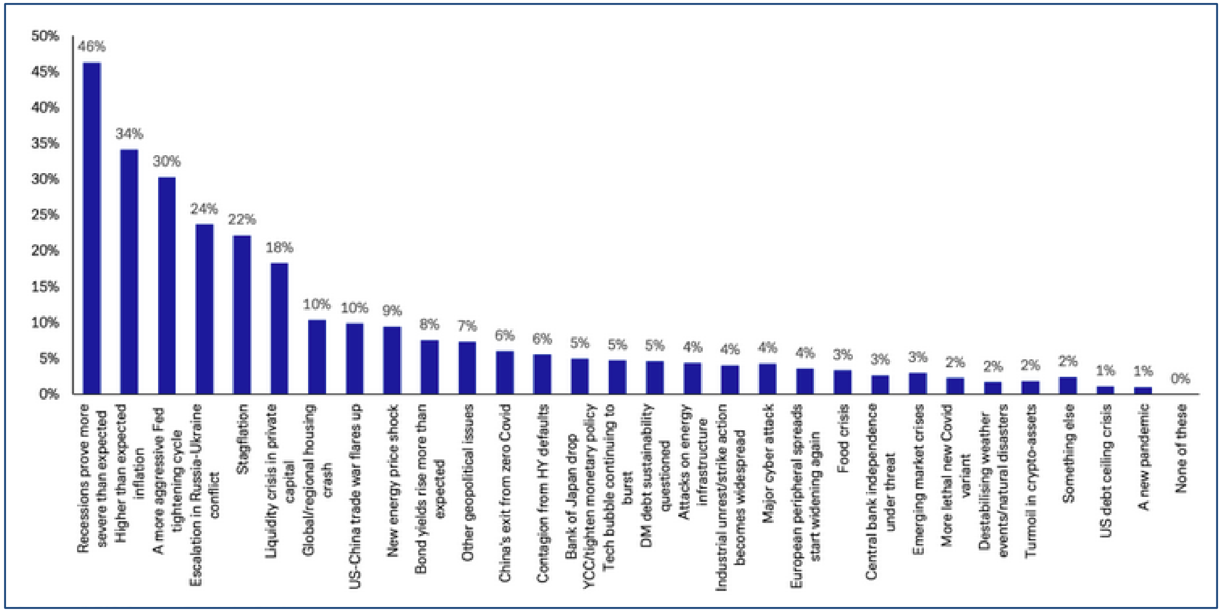
- Digital assets experienced their strongest crisis in history in 2022. Major cryptos have lost more than 60%, such as Bitcoin and Ethereum, while many smaller programs have disappeared. The FTX affair is tainting the confidence of an already suffering asset class. **This does not call into question the future of blockchain.**

2.1 Recession or no Recession ? That is the question

- We enter this new year with many uncertainties. There are several questions we are all asking ourselves. Has inflation peaked? How fast will it come down? Will central banks adopt a more dovish tone in 2023? Will the war in Ukraine end this year? Will there be a recession in the next 12 months? Has it already started?

- The question of recession is the one that seems to worry investors the most. Even today, it is difficult to say whether or not a recession will occur. Many believe that we are already in one in Europe and a consensus is forming that the US should be growing negatively by the end of 2023 and early 2024.

Biggest risk to market stability in 2023



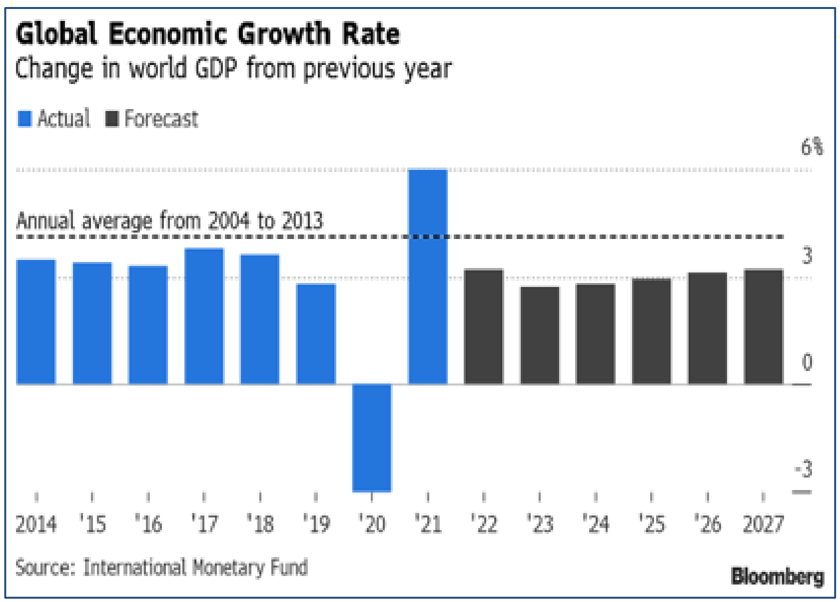
Source: Deutsche Bank

2.1 Recession or no Recession ? That is the question

- Since the first quarter of 2022 when inflation was no longer considered transitory and Russia invaded the Ukraine, GDP growth forecasts have been steadily revised downward. We expect world GDP growth of just over 3% in 2022 and around 2.9% in 2023, which is well below the historical average.

- Between a high dollar, commodity and energy prices peaking at historically high levels in mid 2022 and record-breaking inflation, many governments (Argentina, Mexico, Ukraine…), mainly in the emerging zones, have had to call on the IMF to resolve their liquidity issue in order to meet these additional costs.

World GDP Forecast



Source: Bloomberg

IMF Support

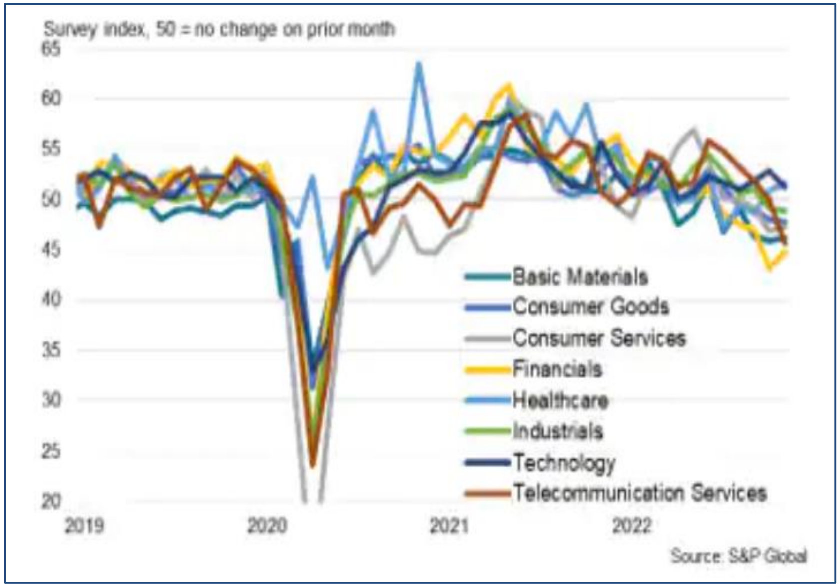
Source: Bloomberg

2.1 Recession or no Recession ? That is the question

- Some leading indicators such as PMIs confirm the hypothesis of a slow down in 2023. Almost all sectors have a PMI below 50 at the aggregate level. When PMIs stand below 50, this indicates that the sector is expecting a contraction.

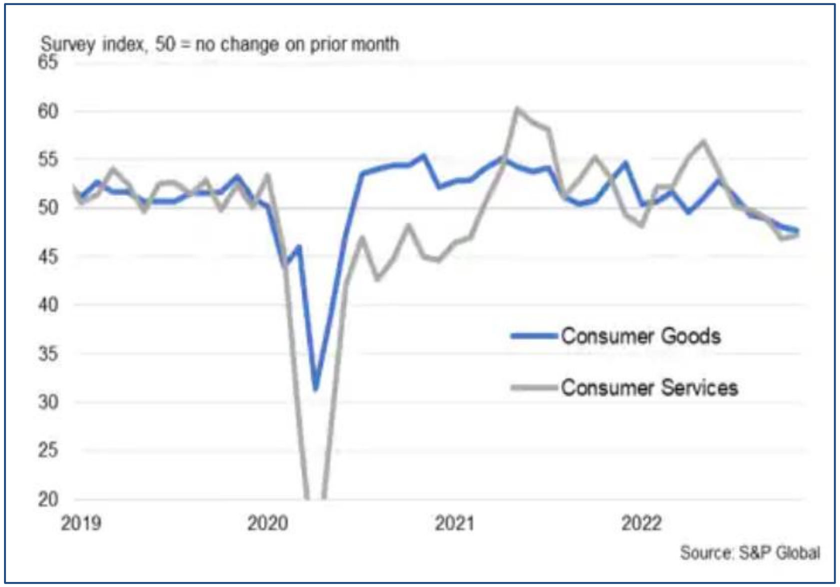
- On the services and consumer goods side, the levels are the same. After two years like 2021 and 2022 which benefited from the catching up due to the COVID-19 confinements, we can expect this effect to fade in 2023. Moreover, with an inflation rate of more than 7% for two consecutive years, this will also put pressure on the purchasing power of consumers.

Global Sector PMI



Source: S&P

Goods and Services PMI



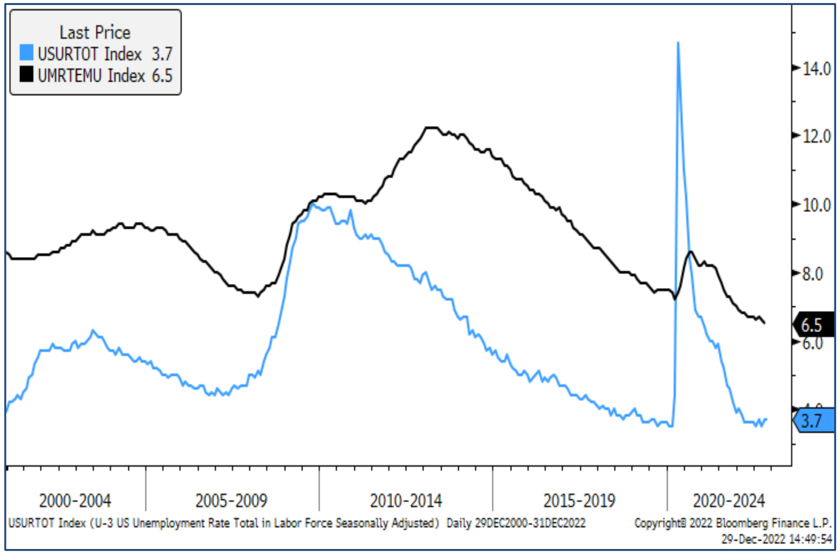
Source: S&P

2.1 Recession or no Recession ? That is the question

- The job market remains very strong. Unemployment is at historically low levels in Europe and the US and does not seem to be moving. Some industries are even complaining about a shortage of employees.

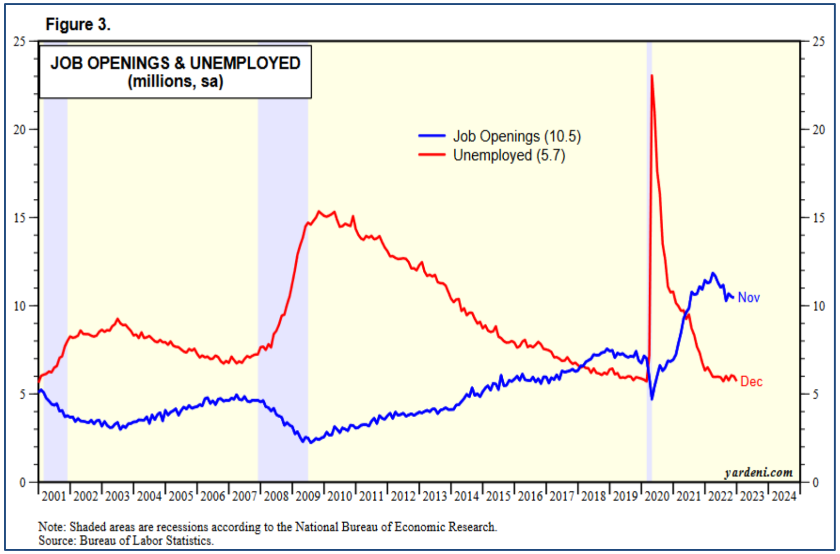
- In the US there are over 10 million open jobs while only 6 million people are unemployed. This under-staffing puts pressure on wages. Indeed, job seekers have the power and can ask for better wages than in the past. However, central banks do not like this situation and think that if wage increases were to continue, they could lead to a vicious where higher wage could feed inflation.

EU and US Unemployment Rate



Source: Bloomberg

US Job Openings



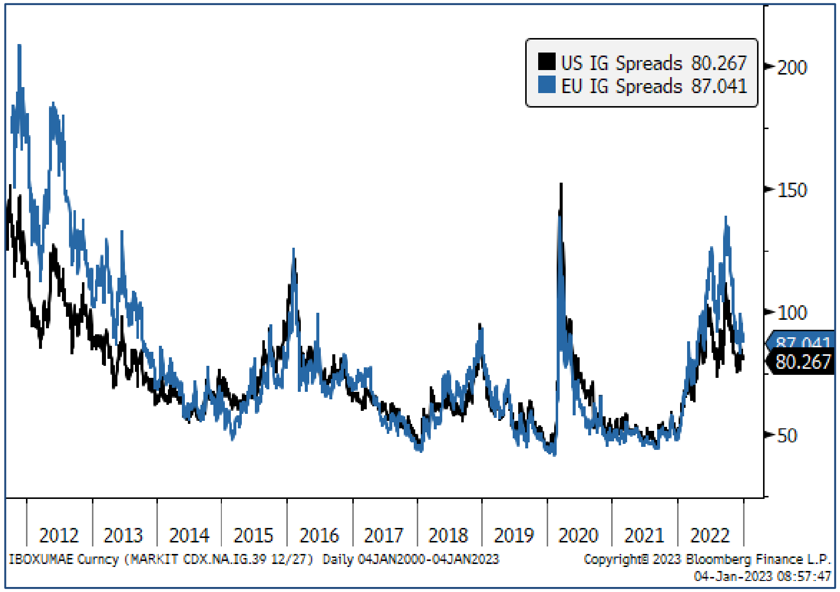
Source: Bloomberg

2.1 Recession or no Recession ? That is the question

- The bond markets offer good indicators for anticipating a recession. Among them, credit spreads are closely watched. Spreads tell us what premium companies must pay over the government to borrow money. When the economy goes bad, this premium goes up because there is more risk and uncertainty about the future creditworthiness of companies.

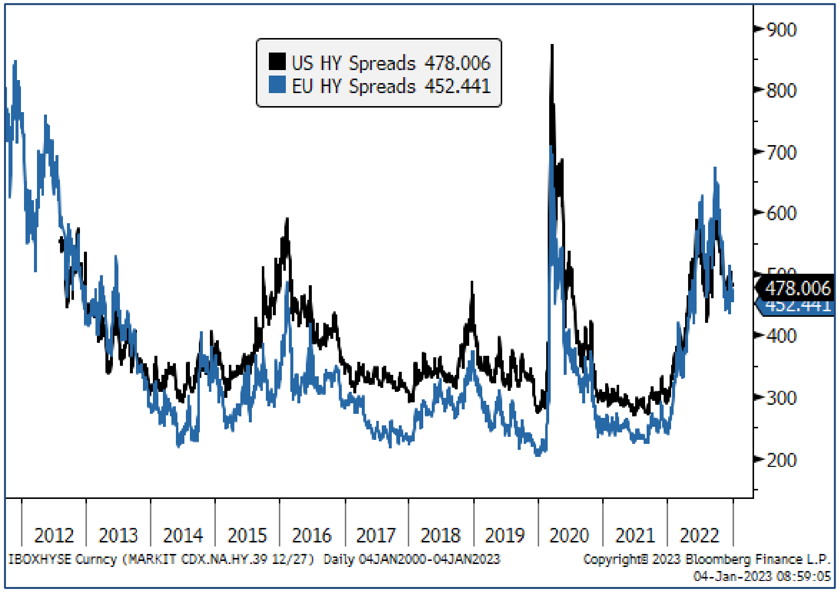
- Today, spreads are at stressed levels, much higher than the historical average. However, since the inflation figures seem to have peaked, these premiums are slowly returning to better levels.

IG Spreads



Source: Bloomberg

HY Spreads



Source: Bloomberg

2.1 Recession or no Recession ? That is the question

- There are some mathematical models that attempt to predict with some degree of probability whether a recession is coming or not. Each of the analysts who produce this kind of model then sends their results to Bloomberg and an average is taken. The result is that Europe has an 80% chance of entering a recession in the next 12 months, while the US is at 65%.

Eurozone 2023 consensus forecast

Country/Region/World: Eurozone | Contributor: Contributor Composite | Yearly / Quarterly | Private / Official | Browse

Actual / Forecasts | Probability of Recession 80.0%

Indicator	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Economic Activity										
Real GDP (YoY%)	2.0	1.9	2.6	1.8	1.6	-6.1	5.3	3.2	-0.1	1.4
Household Consumpt...							3.5	3.8	0.0	1.4
Government Consum...							3.8	1.9	1.2	1.1
Gross Fixed Investm...							3.6	2.5	-0.1	2.0
Exports (YoY%)							9.6	6.8	1.3	2.8
Imports (YoY%)							7.1	6.9	2.1	2.8
Industrial Production (Yo...							7.5	0.7	0.2	2.2

US 2023 consensus forecast

Country/Region/World: United States | Contributor: Contributor Composite | Yearly / Quarterly | Private / Official | Browse

Actual / Forecasts | Probability of Recession 65.0%

Indicator	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Economic Activity										
Real GDP (YoY%)	2.7	1.7	2.2	2.9	2.3	-2.8	5.9	1.9	0.3	1.3
Consumer Spending ...	3.3	2.5	2.4	2.9	2.0	-3.0	8.3	2.3	0.9	1.4
Government Spendin...	1.8	2.0	0.4	1.7	3.3	2.6	0.6	-0.8	1.1	1.0
Private Investment ...	5.5	-1.0	4.1	5.7	2.8	-5.3	9.0	3.7	-2.5	1.7
Exports (YoY%)	0.3	0.4	4.3	2.8	0.5	-13.2	6.1	7.3	2.2	2.2
Imports (YoY%)	5.2	1.5	4.5	4.2	1.1	-9.0	14.1	8.7	0.3	1.7
Industrial Production (Yo...	-1.4	-2.2	1.4	3.2	-0.7	-7.0	5.3	4.1	-0.4	1.0

Source: Bloomberg

2.1 Recession : conclusion

- We remain in an **uncertain environment** where each new economic data reinforces the idea of a recession or not. We can therefore expect the markets to remain volatile for the foreseeable future.

- Despite analysts' forecasts, although some indicators are at stressed levels, they seem to be returning to their historical averages. The problem is that most of the indicators that are returning to the norm are lagging indicators while other leading indicators like the PMIs are showing that **the economy is expected to slow down**.

- On the other hand, if analysts' forecasts are correct, the recession we should face will most certainly be shallow and short-lived. This will reassure investors! Moreover, if a **mild recession** were to occur, central banks would certainly have to lower their rates, which would be a positive factor.

- It is still difficult to know to what extent the performance of the indices reflects this risk. In Europe, the performance shows a **complacency** from investors in the idea that a recession will not happen or will be very weak. We will see if the market continues to believe this story over the next few months as new economic data comes out.

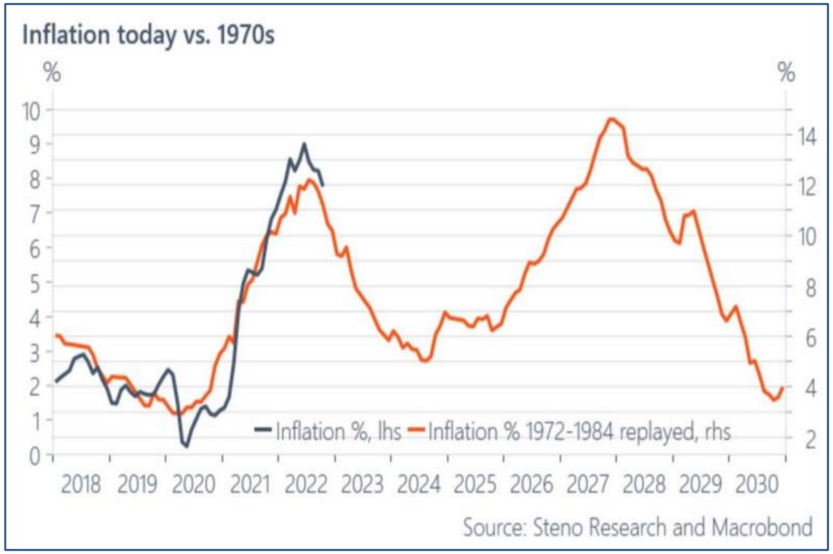
2.2 Inflation

- Inflation has been the number one concern for investors in 2022. Although it has been turning around for several months now, both the market and central banks are waiting for more data to confirm that prices are not likely to rise again.

- For now, analysts expect US inflation in 2023 to be around 4%. However, it is important to note that at the beginning of 2022, they expected inflation to reach 4.5%. These expectations can still fluctuate significantly over the next 12 months.

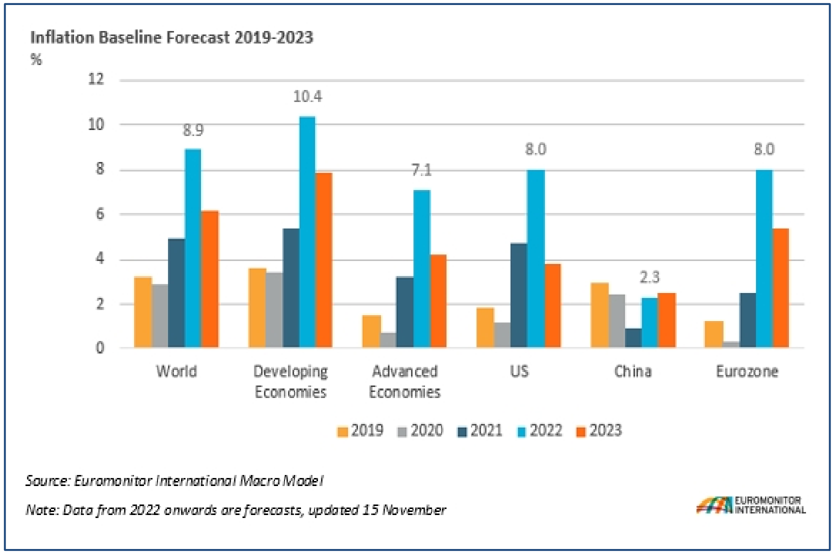
- There is also a risk that, as in 1970, inflation will rise again after a brief return to normal. If central banks were to cut interest rates to support the economy, governments were to increase spending to support the economy and China were to recover its growth, all these factors could push inflation up.

Inflation today vs 1970



Source: Steno Research

Inflation Expectation 2023



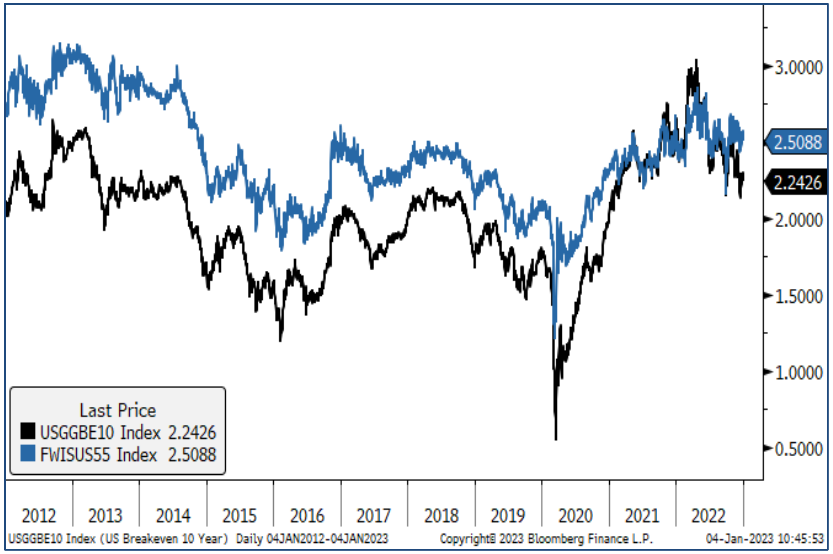
Source: Euromonitor

2.2 Inflation

- In the US, long-term inflation expectations have come down well from their 2022 highs. This shows that the market still has confidence in the FED and thinks that its plan to fight rising prices should work.

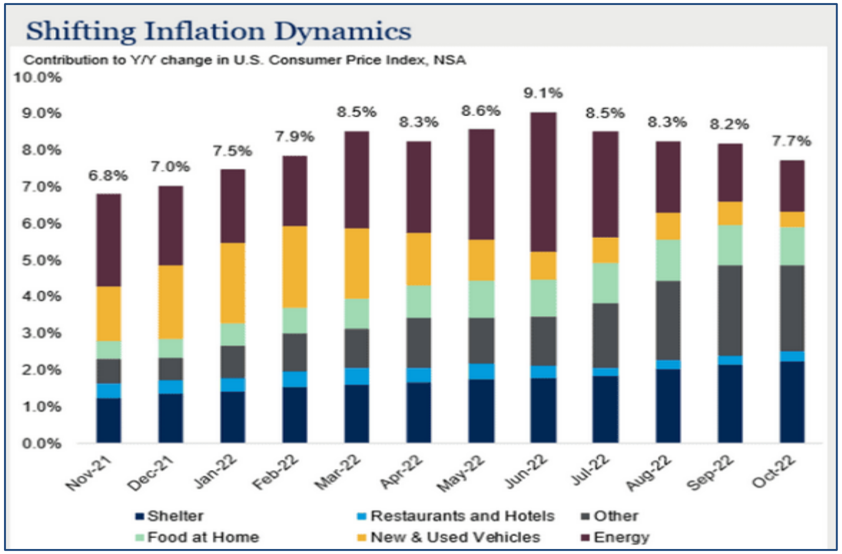
- Energy is no longer an issue now, with black gold prices back to 2018 levels. The contribution from higher energy prices is now a meager portion of the CPI. Let's keep in mind that the reopening of China probably means higher demand for raw materials and energy. This could bring back oil prices to above 100$/bl. It is now housing that has taken over the first spot in inflation contribution. However, if the economy were to slow the housing market should follow the same path.

US Long Term Inflation Expectations



Source: Bloomberg

US Inflation Breakdown



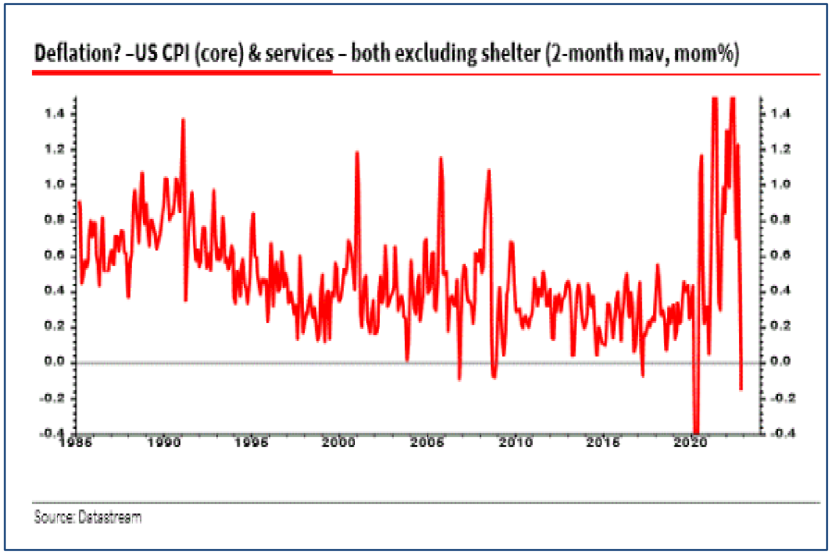
Source: Trustpoint

2.2 Inflation

- In some respects, we are even in a deflationary environment. The latest figures show a negative price increase in the last few months. The reasons for this are difficult to explain, but it could be that if this trend were to continue, we could find ourselves more quickly than expected towards the 2% desired by the central banks.

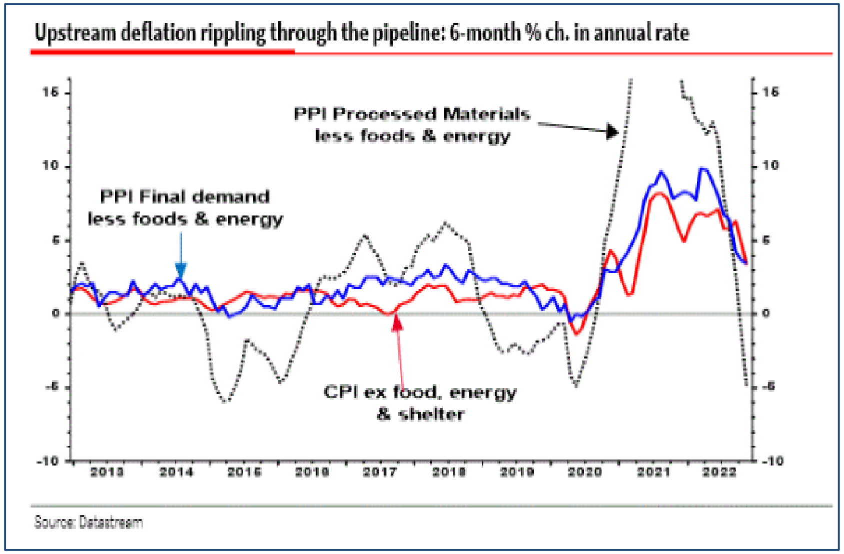
- Producer prices have been in negative territory Year on Year. When these products (from China) will come onto the market, inflation should continue to fall or the margins of companies should rise if they decide not to lower the prices of their products.

2 Month Moving Average Inflation MoM



Source: Datastream / Société Générale

PPI vs CPI



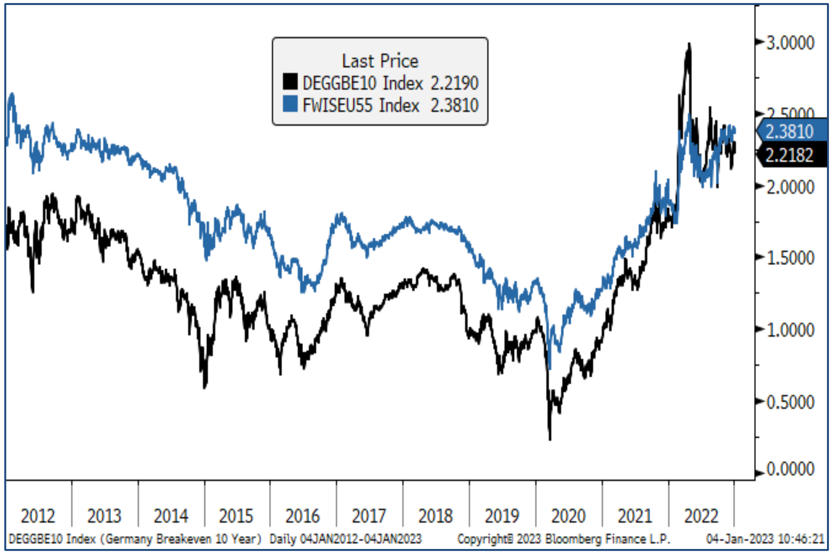
Source: Datastream / Société Générale

2.2 Inflation

- In Europe, inflation also seems to be easing in all countries. However, long-term inflation expectations remain anchored at much higher levels than before. That said, these levels fluctuate between 2% and 2.5%. Given that European inflation has been below 2% for several years, higher inflation over the next decade would put European inflation back on a long-term trend of 2%.

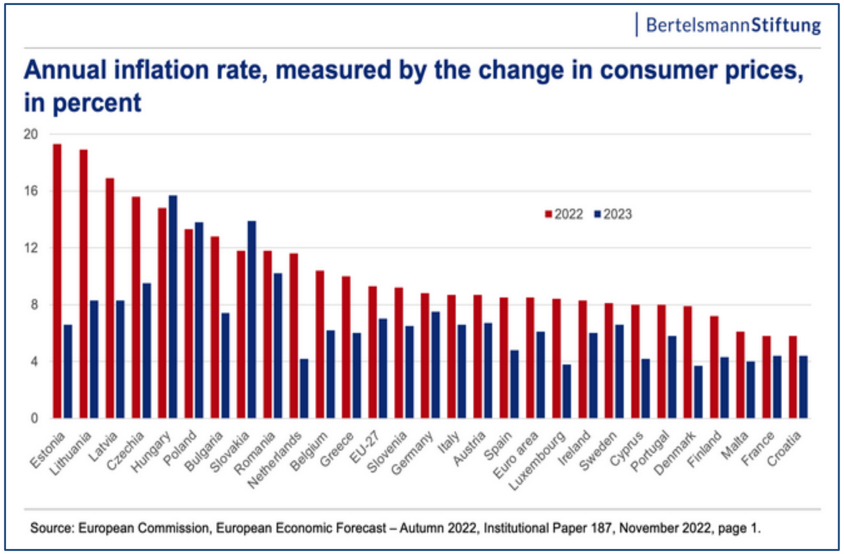
- Energy issues seem to be resolved for this winter. The presumably cold season is shaping up to be warmer than usual for now. Between higher temperatures and measures to reduce gas consumption, Europe should be able to do without Russian gas this year. Europe has imported 58% more LNG this year, thanks to the zero covid policy in China that reduced demand for gas and freed some stocks on the market. As of now LNG represents 35 % of European consumption up from 20% in 2021. Next year might be more difficult as Europe will probably not have access to any Russian gas and the reopening of China will lead to higher demand for energy.

EU Long Term Inflation Expectations



Source: Bloomberg

EU Inflation Forecast 2023



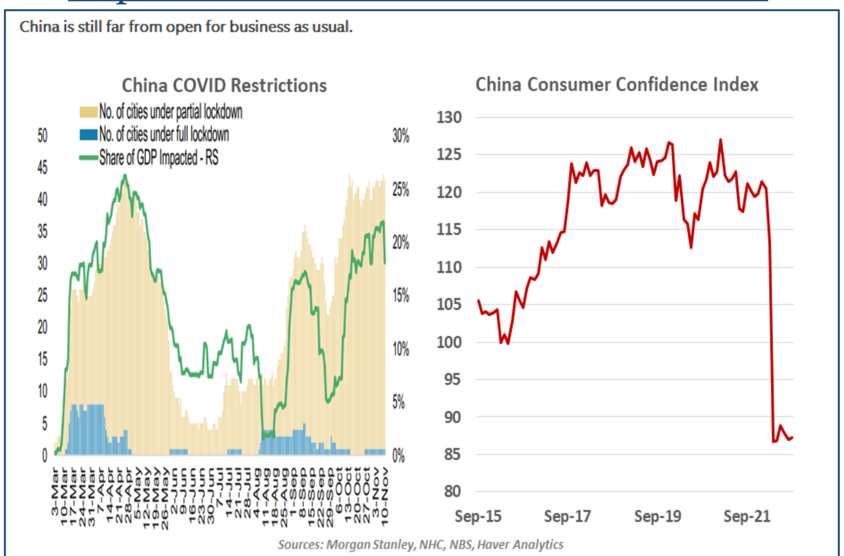
Source: European Commission

2.3 The Cost of China Zero-Covid Policy

- This year has been marked by lockdown in China, which has lasted much longer than expected. These confinements have had a strong impact on the country's growth. GDP growth is expected to reach 3% in 2022, well below China's target. In addition to the impact on growth, consumer confidence has fallen drastically this year.

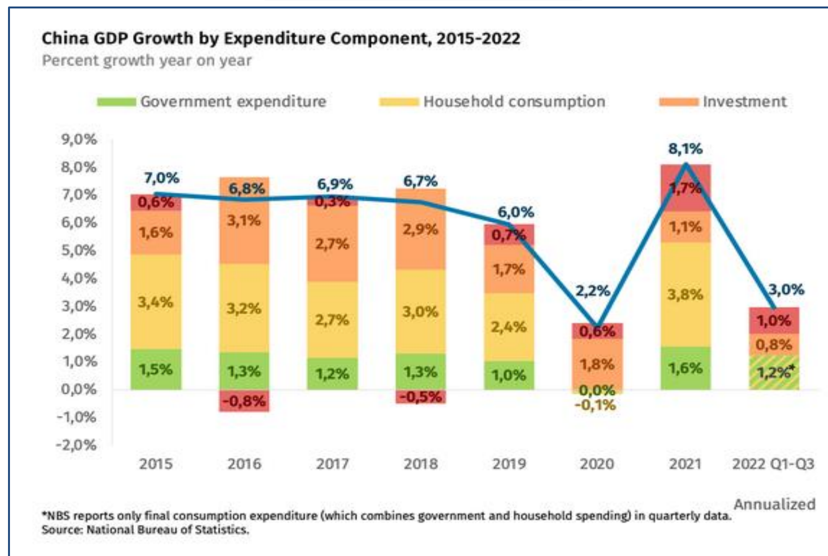
- After several months of confinement/deconfinement, the Chinese people decided they had had enough and took the street to protest. Following these protests, the government had no choice but to let the population circulate freely.

Impact on GDP and Consumer Confidence



Source: Morgan Stanley

China GDP Growth



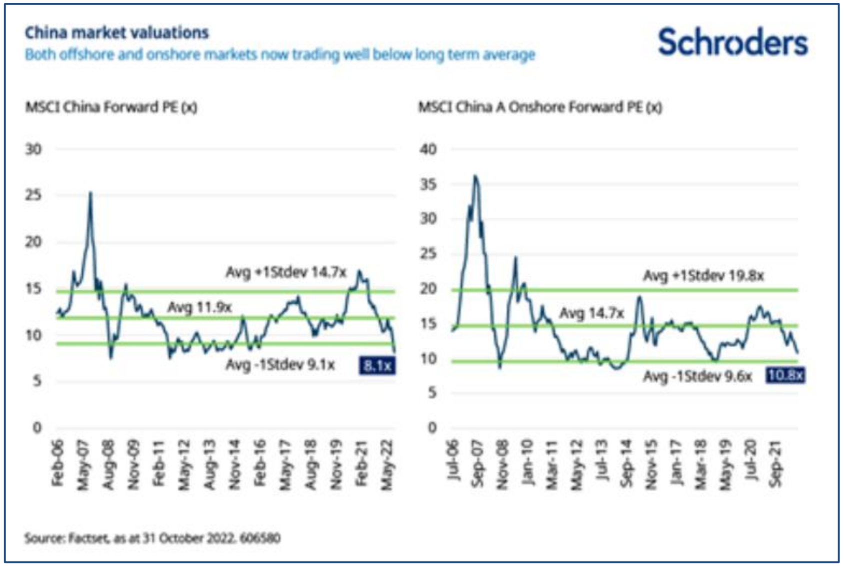
Source: Forbes

2.3 The Cost of China Zero-Covid Policy

- Between the market slump, the geopolitical conflicts and the health crisis, it is normal that the price of Chinese shares has fallen. This also means that they have become cheaper than before. In terms of PE the Chinese market is one standard deviation below its historical levels. This rerating is also explained by the fact that the market is now pricing a discount as interventionism for the government weight on investors confidence.

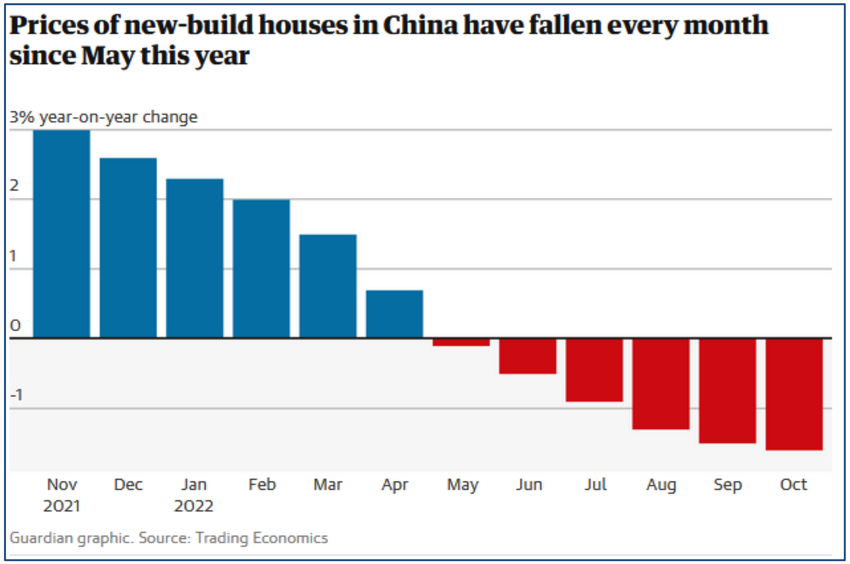
- Chinese real estate prices have also suffered. As developers are in great difficulty, some of them have not been able to finish the work they had started and therefore have not been able to deliver the promised properties. The Chinese people are no longer willing to take the risk of buying houses off-plan, which is slowing down the construction sector.

Equity Market Valuation



Source: Schroders

New Build Houses Prices



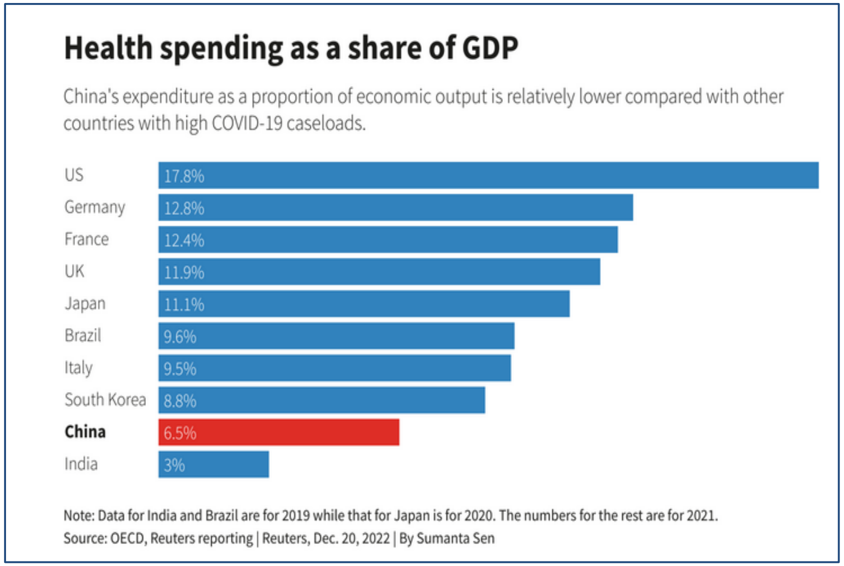
Source: Guardian

2.3 The Cost of China Zero-Covid Policy

- Although no more lockdown is positive for the economy, it poses some problems. The Chinese health system is not able to accommodate the large number of sick people. It is a sector that has been under-invested for too long. Moreover, the vaccines used by China do not seem to be very efficient. Therefore, now that many people can walk the streets, the virus may spread at high speed which should be a problem for the country. Plus, the Chinese government doesn't want to allow western vaccine, even though Chinese companies are developing a better vaccine, it might be too late before the population gets vaccinated.

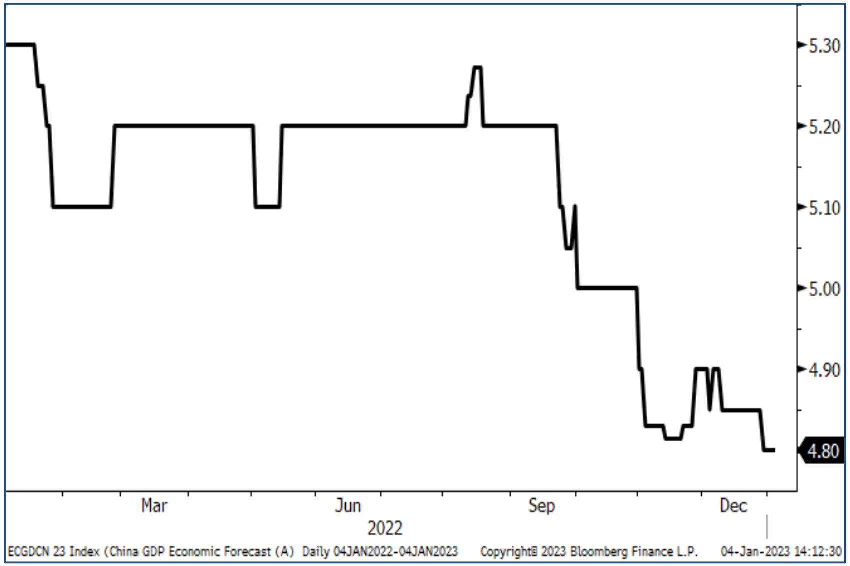
- Analysts are still uncertain whether China will have to reapply containment to avoid a massacre. The economic outlook therefore remains very uncertain and forecasts for 2023 continue to be revised downwards although consumption is recovering.

Spending in Healthcare as % of GDP



Source: OECD

China GDP 2023 Expectations



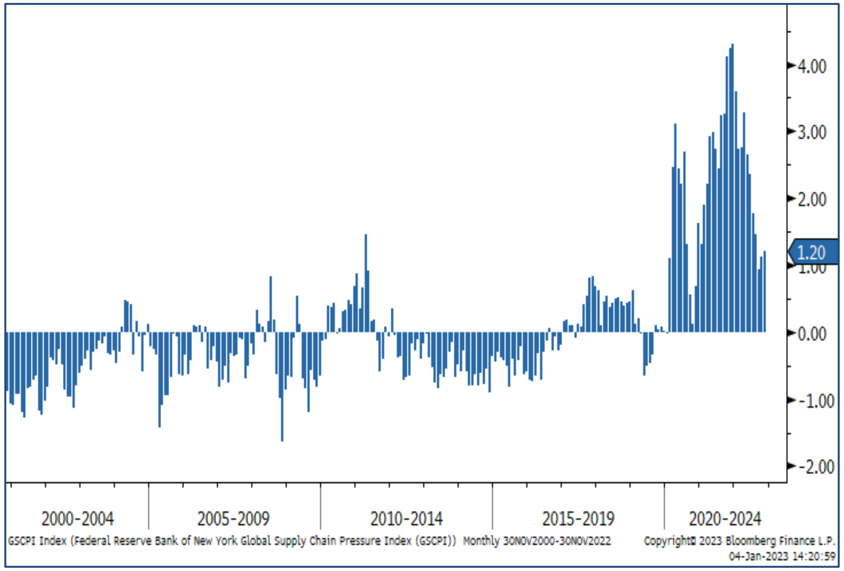
Source: Bloomberg

2.3 The Cost of China Zero-Covid Policy

- The good news is that, thanks to deconfinement, the industrial business should be able to operate at full capacity. This means that the pressure on the supply chain should continue to ease as we move back to normal. The backdrop of this is that a return to normal means higher demand for commodities as well as energy. This means higher prices and thus inflation.

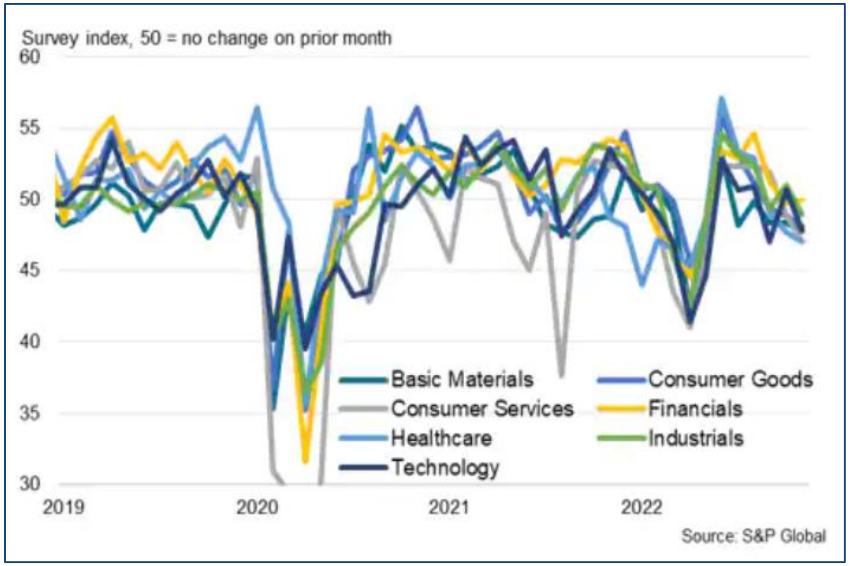
- For now, leading indicators are rather pessimistic about China's future. However, if, as in developed countries, the Chinese have managed to save during the lockdown, a catch-up effect could be felt and should boost the country. We will have to be careful about the risk of inflation if the world's second largest economy returns to growth.

NY Fed Supply Chain congestion Index



Source: Bloomberg

Chinese PMI



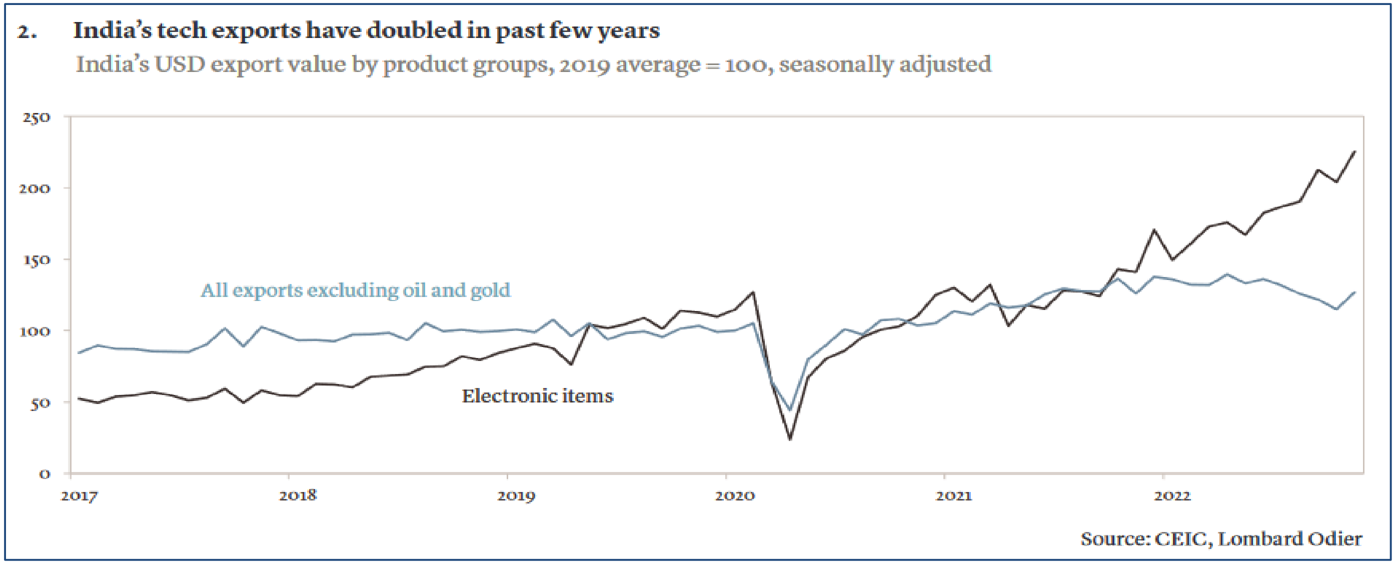
Source: Bloomberg

2.3 The Cost of China Zero-Covid Policy

- One of the main costs of this policy is that companies with production sites in China are looking to relocate some of their workforce. The risks associated with Covid and government interventionism are pushing some companies like Apple to review their production chain.

- One of the main countries that should benefit is India. Technology companies like Apple and Samsung have already planned to invest several billion to build production facilities for their various products. This transition is expected to take time, both in terms of building new capacities and training personnel. However, the Indian economy should benefit from this transition over the next few years.

India Exportation



Source: Lombard Odier

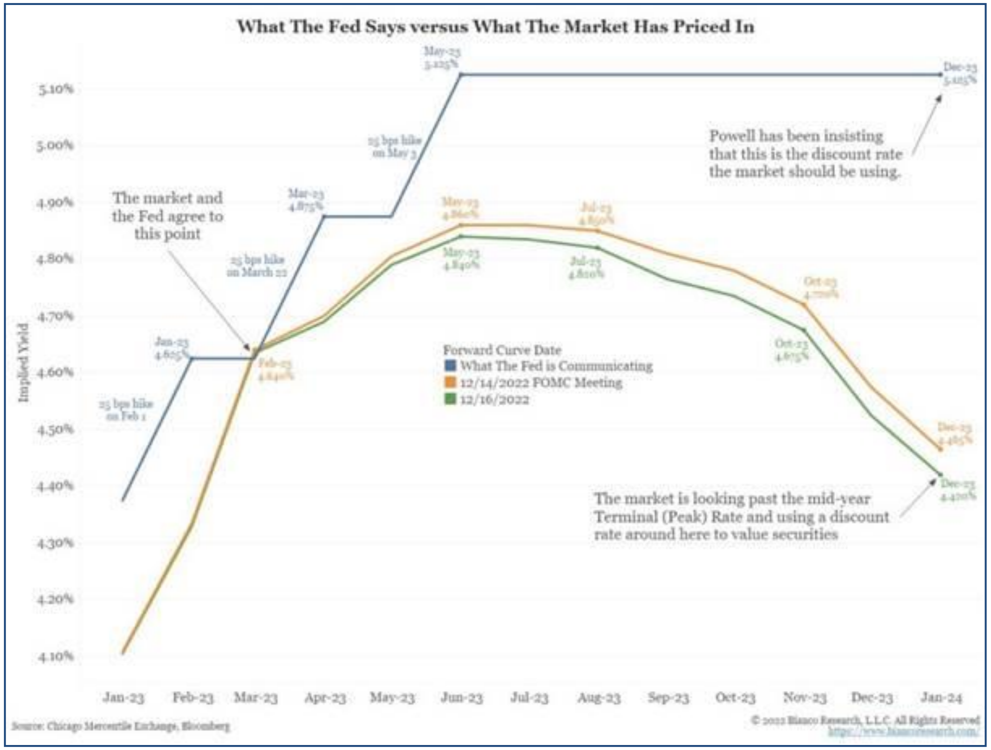
2.4 Rates and Central Banks

- Monetary policy remains at the center of all economic debates. Both in the US and in Europe, central bankers have expressed their desire to continue to raise interest rates to fight inflation. At the last FED meeting, its members predicted that rates will top out at a level a little higher than 5%.

- The market agrees with the FED hawkishness up until the February meeting. But despite this confidence, investors are already playing the "fight the FED" game and doesn't believe that Mr. Powell and his colleagues will raise interest as much as they have forecasted.

- Market participant anticipate that a slowdown of the economy will force the FED to revise its guidance downward.

Fed vs market



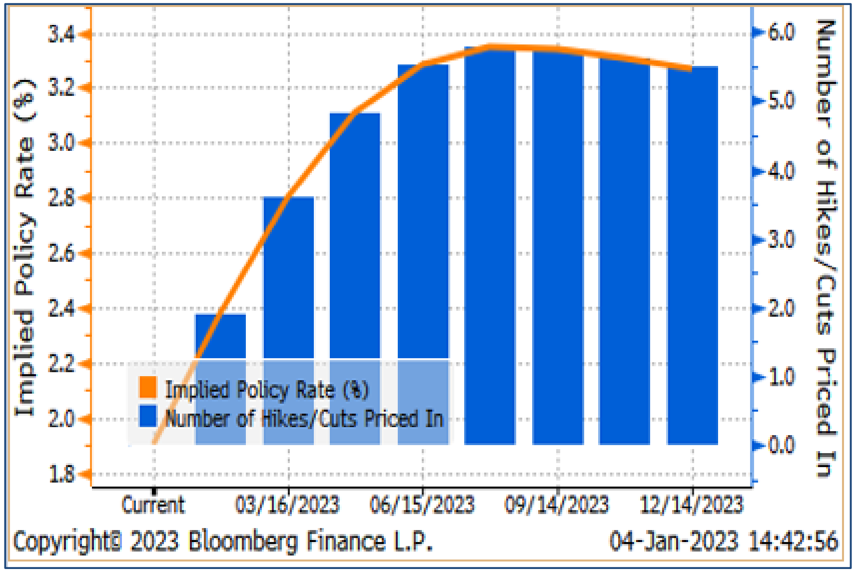
Source: CME, Bloomberg

2.4 Rates and Central Banks

- In Europe, now that energy no longer seems to be a problem for this winter, the indicators that the ECB will be looking at are the same as in the US. On this side of the Atlantic, rates should peak at 3.25% in 2023.

- One of the additional complications for Europe is the peripheral spreads. Indeed, the European Central Bank has had to take special measures to ensure that the spreads of countries economically weaker than Germany do not widen too much. If it manages to keep these spreads within a certain range, debt servicing should not be a concern for these countries.

Interest Rate Probability Europe



Source: Bloomberg

Spread Italy vs Germany

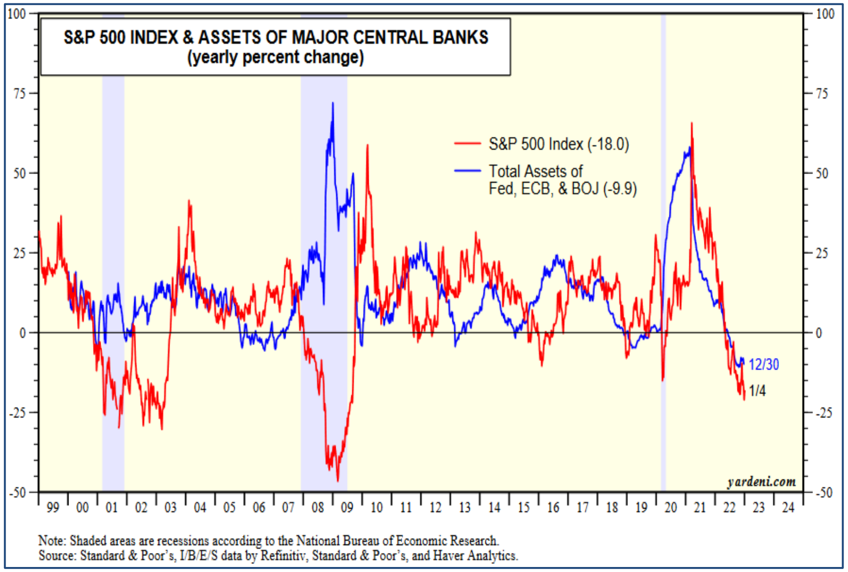
Source: Bloomberg

2.4 Rates and Central Banks

- The next factor to be considered in central bank monetary policy is quantitative tightening. This should have the same effect as rate hikes, however, there is no consensus yet on the exact effect that QT could have on the market.

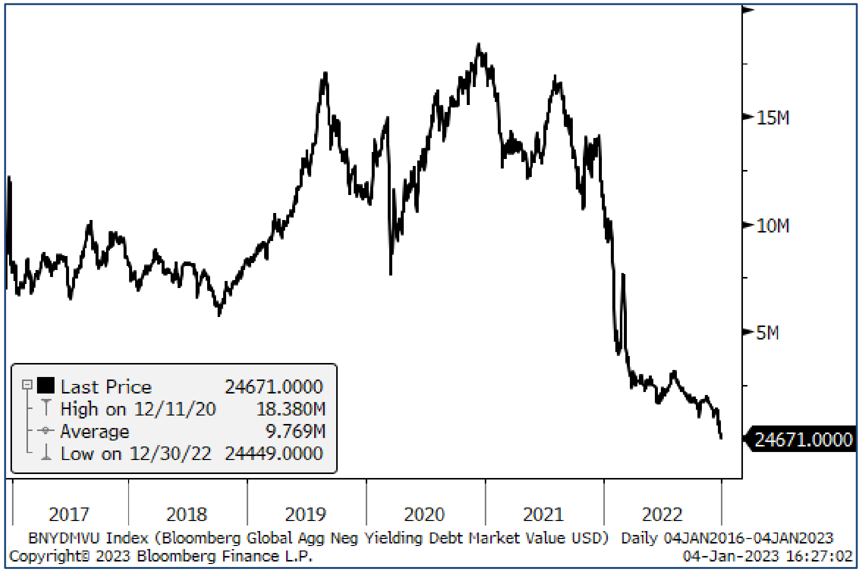
- The positive side of this year is that negative yielding debt is almost non-existent. We have gone from a pile of 18,4 trillion in negative yielding debt in 2020 to less than 230bn at the end of 2022. This should allow balanced portfolios to generate better returns in their bond pockets.

Central Banks balance sheet vs S&P 500



Source: FED

Negative Yielding Debt



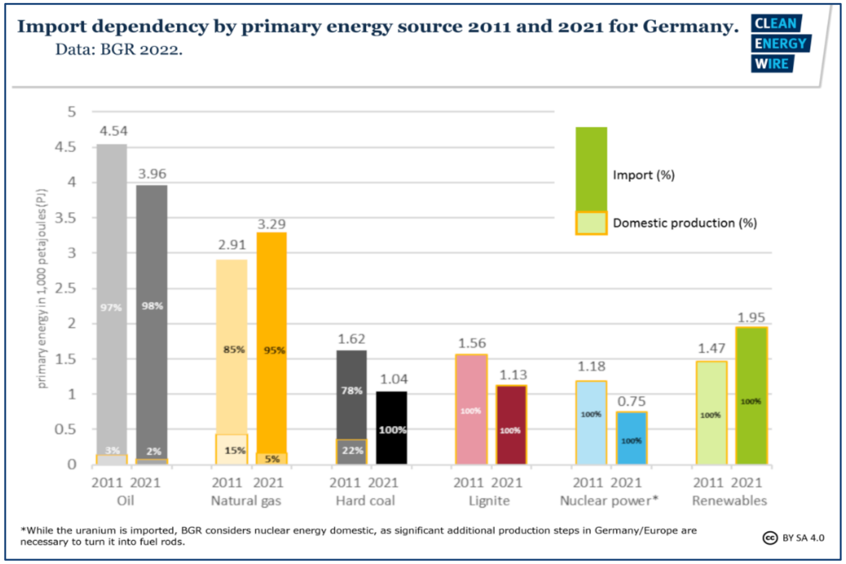
Source: Bloomberg

2.5 Europe Energy Dependency

- Europe has had a difficult year, mainly because of the war in Ukraine and the related energy crisis. However, against all odds, it has come through it well. The gas tanks were filled before Russia closed the valves and the winter is expected to be milder than usual. The gas stocks should therefore allow us to get through the winter.

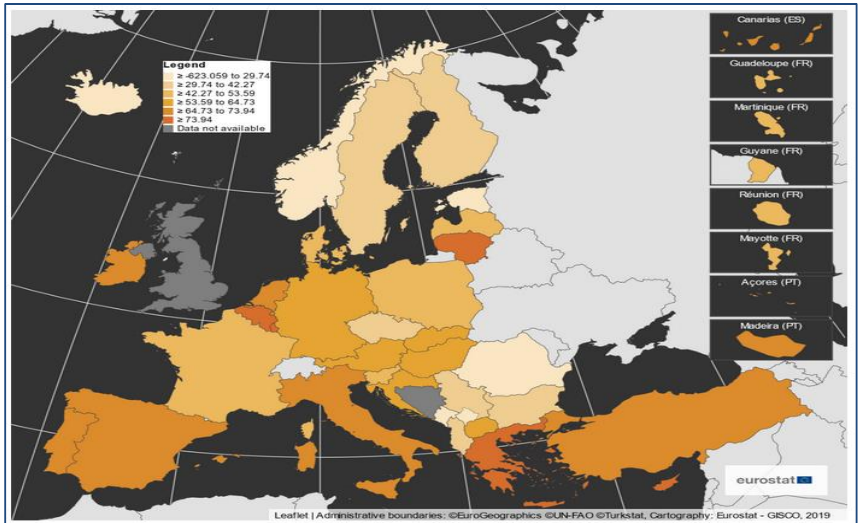
- It has also had time to build new infrastructure to import LNG and has been able to sign supply contracts with countries other than Russia. In addition, the growth of renewable energy is expected to continue to reach new heights.

Import dependency by energy



Source: BGR

Europe reliance on energy importation



Energy import dependency in European countries in 2020 in percent of energy needs covered by net imports.
Source: eurostat 2022.

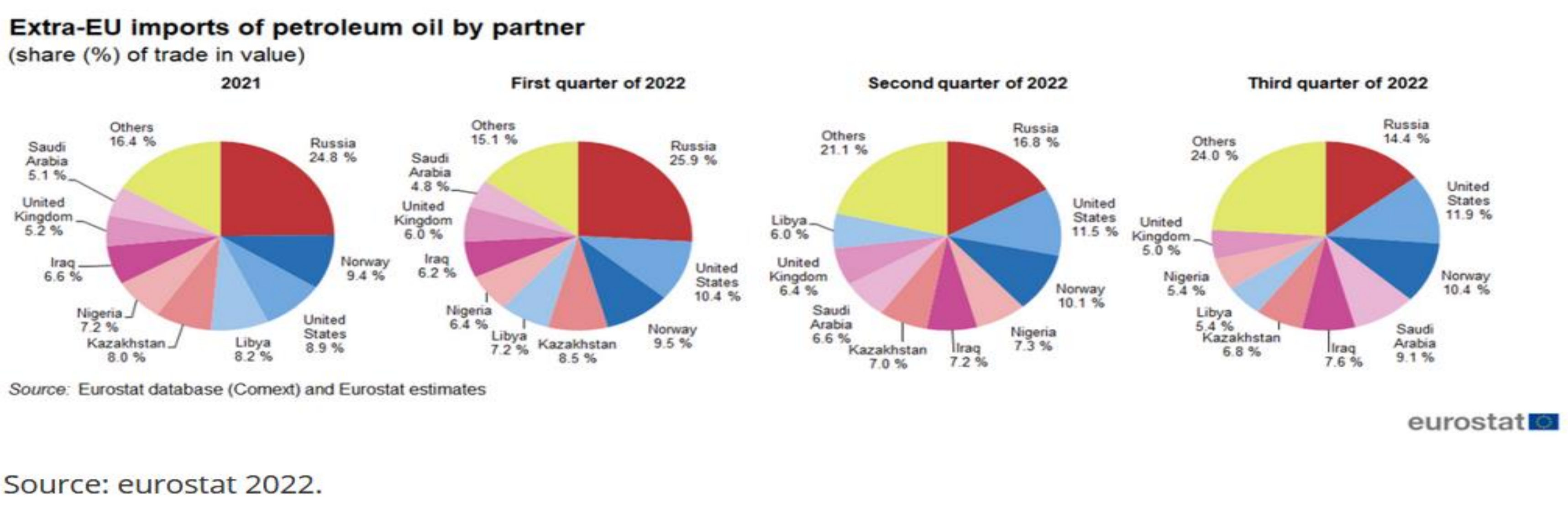
Source: Eurostat

2.5 Europe Energy Dependency

- Since December the 5th, Europe has decided to set the price per barrel of oil that it is prepared to pay Russia at USD 60. However, Russia has decided to stop selling oil to countries that have decided to implement this course.

- During the third quarter, 15% of oil imported into Europe still came from Russia, and this figure is expected to decrease accordingly in the coming months. However, Europe seems to be able to do without this oil by increasing the quantities purchased from its other suppliers.

European Oil Import by Partner



Source: Eurostat

2.5 Europe Energy Dependency

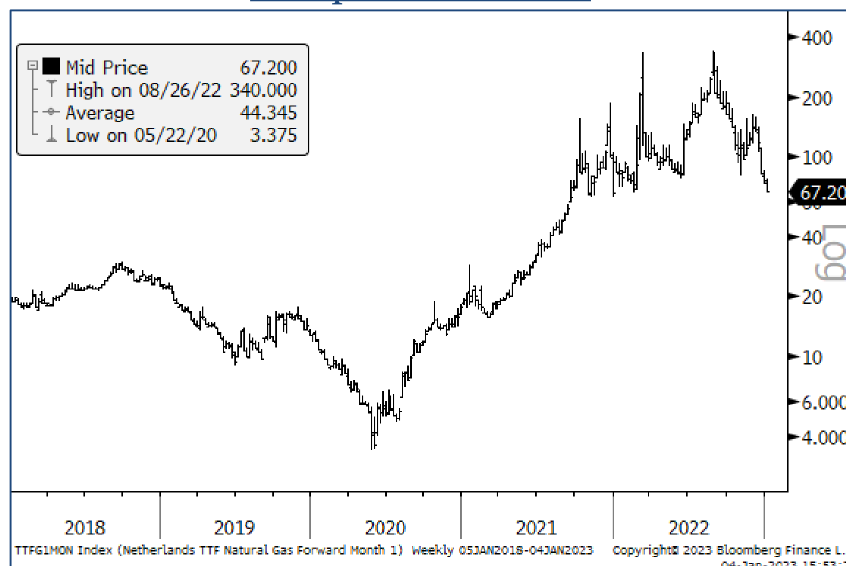
- The measures implemented to reduce gas demand seem to be working. Demand fell by more than 20% in November 2022. These figures reassure us that Europe can get rid of Russia.

- Although it is difficult to ski because of the lack of snow on top of the mountains, it is the price of gas that has been sliding down the slope at full speed. The price of gas in the Netherlands has seen its price divide by 5 since its highs this summer but remains at higher levels than in the pre-covid period. A mild winter, full inventories and falling demand have all contributed to the decline in gas prices.

European Gas Demand

Source: FT

European Gas Prices



Source: Bloomberg

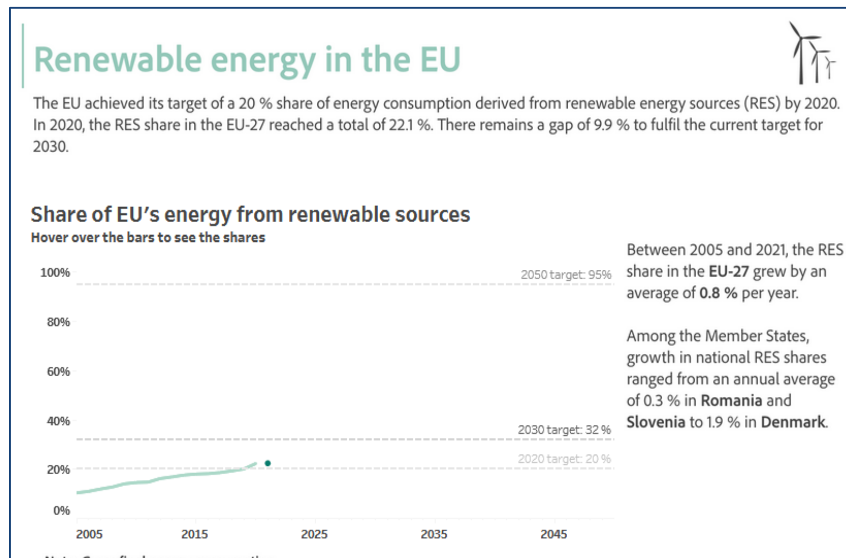
2.5 Europe Energy Dependency

- Many promises were made at COP 21 and COP 26. However, the energy crisis in Europe has highlighted the need for fossil fuels. Coal consumption has soared, and the underinvestment in oil has been felt. Even though the share of renewable energy continues to grow, everything leads us to believe that a full green Europe will not see the light of day for several decades.

Coal Phase-Out

Source: Eurostat

Renewable Energy in EU



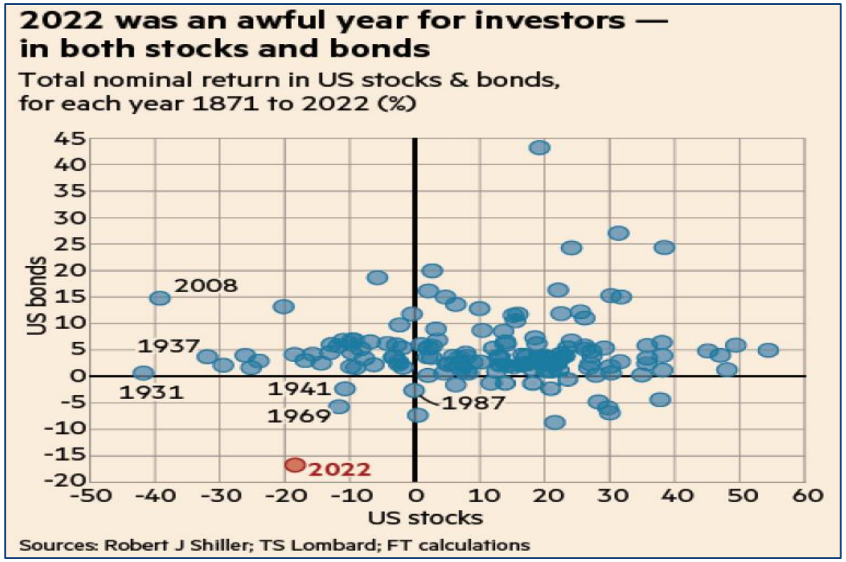
Source: Eurostat

2.6 Market Review

- 2022 was a horrible year for the bond and equity markets. As the FT chart shows, 2022 was an outlier. The fact that the central banks were behind the curve caused the equity markets to collapse while rates rose. The 2 markets that were supposed to be negatively correlated ended up going down at the same time.

- However, after such a complicated year, we can expect to see better performance in 2023, even if interest rates don't drop right away, the expected return is much better than before. As for equities, the 2022 rerating enabled certain sectors to go back to more attractive valuation.

2022 Performance US



Source: FT

2022 World Performance

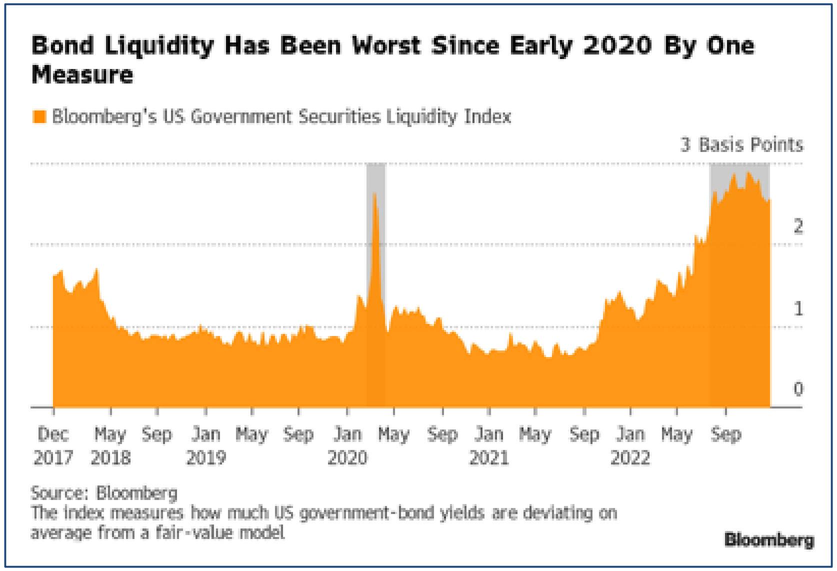
Source: FT

2.6 Market Review

- The lack of liquidity on the markets has contributed to amplify all the movements. This year is historic in terms of the number of days the S&P 500 has moved more than 1% up or down.

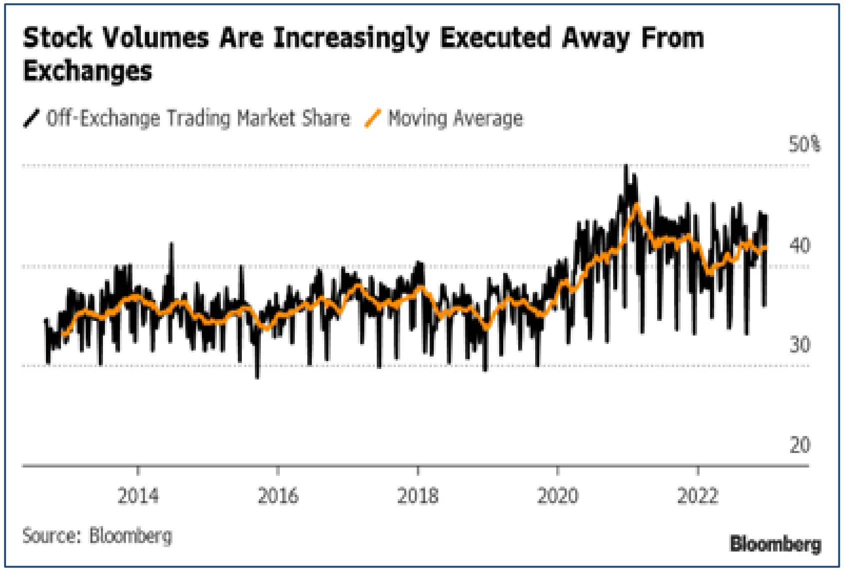
- Liquidity is not expected to return to the markets until investors are willing to take on risk again. Moreover, the quantitative tightening of central banks should contribute to the drying up of liquidity in the bond market.

Bond Liquidity



Source: Bloomberg

Stock Market Liquidity



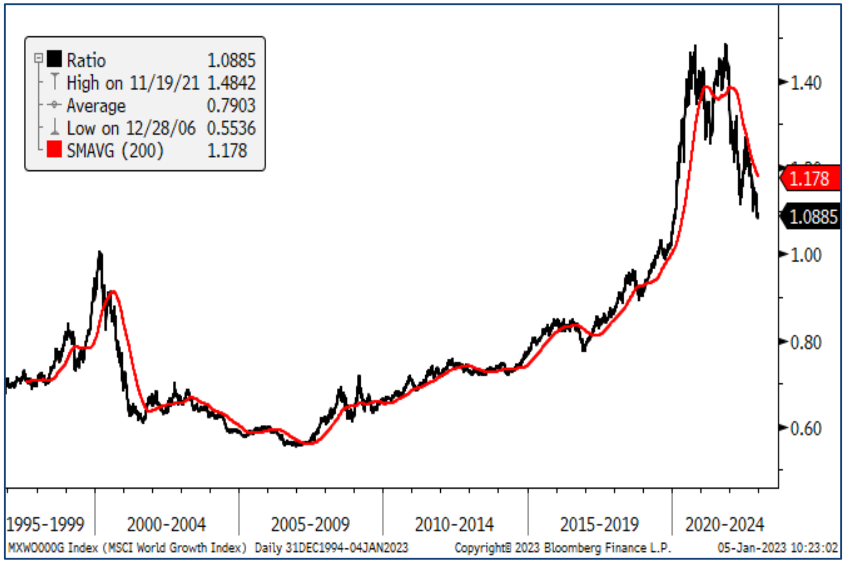
Source: Bloomberg

2.6 2022 Review

- In terms of investment style, this year has seen a strong return of value stocks. Banks, insurance companies and energy-related stocks have enjoyed an environment where interest rates and energy prices were rising. Now that discount rates are higher, growth-related sectors have suffered the most.

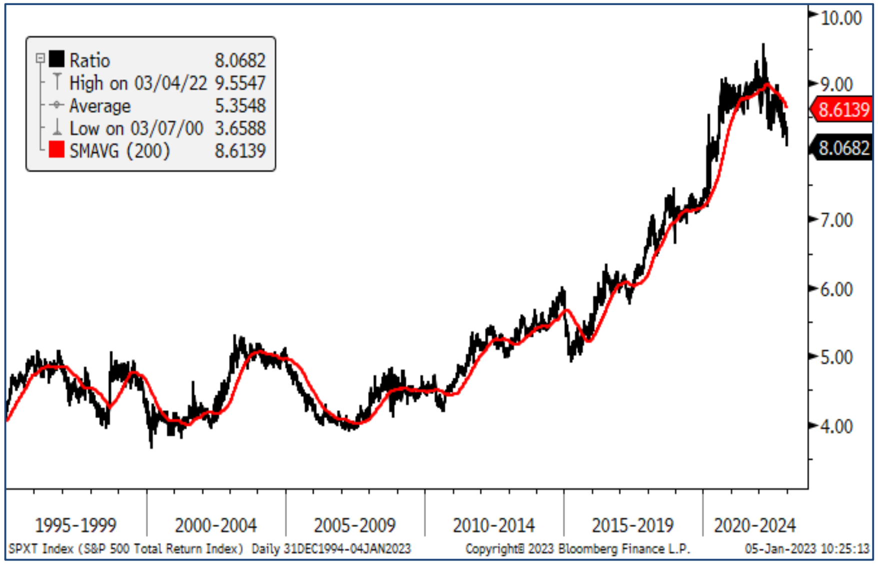
- Due to the construction of these indices, the European Stoxx 600 has outperformed the S&P 500 this year. If value stocks continue in the same vein this year, Europe may well continue to outperform the US in terms of market performance.

Growth vs Value



Source: Bloomberg

S&P 500 vs Stoxx 600



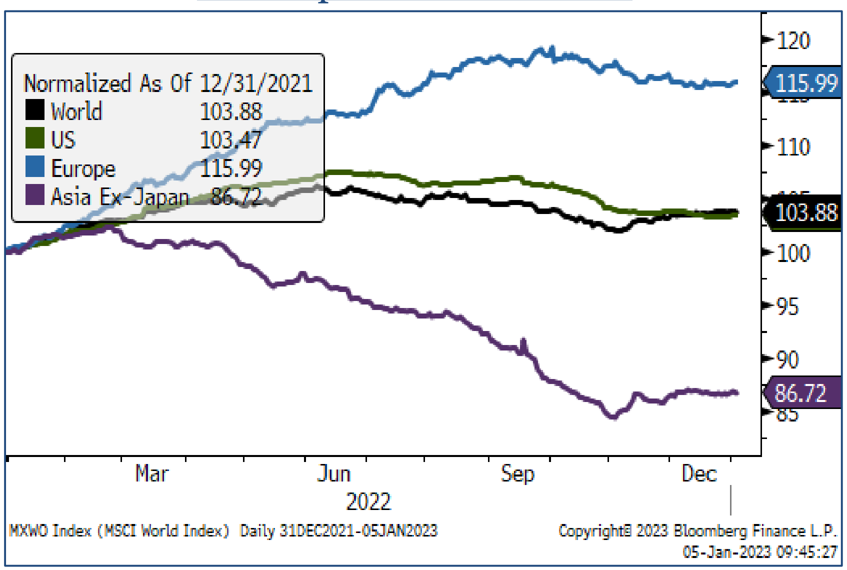
Source: Bloomberg

2.6 2022 Review

- Earnings expectations for 2022 have remained stable for the US and the world. In Europe they have been revised upwards by about 16% for the year, while in Asia they are expected to be 13% lower than at the beginning of the year.

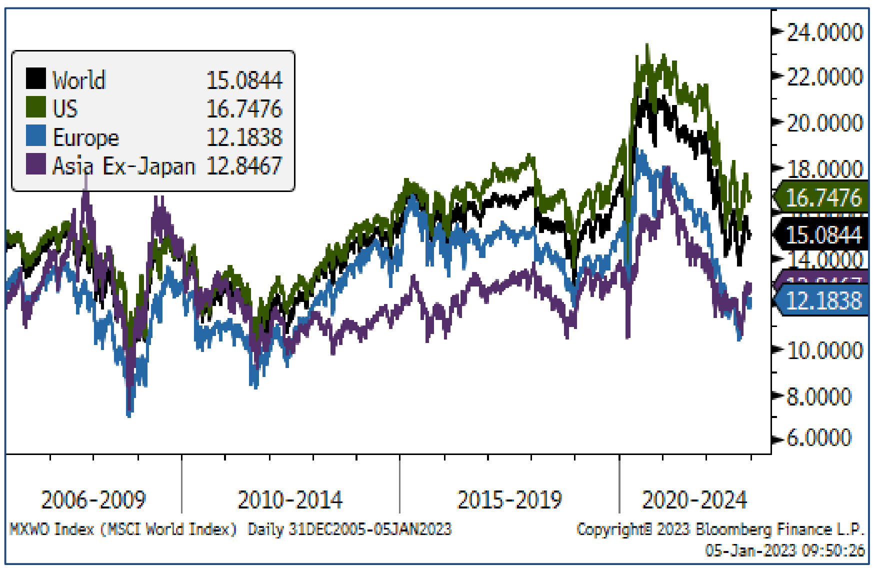
- Between the market correction and stable earnings, the indices have become much cheaper than before. Europe is paying 12 times expected earnings in 2023, the same is true for Asia. The US, although down more than 6 points from its last high, remains more expensive than the rest of the markets and pays almost 17 times 2023 earnings.

EPS Expectation 12M Fwd



Source: Bloomberg

PE Estimates 12M forward



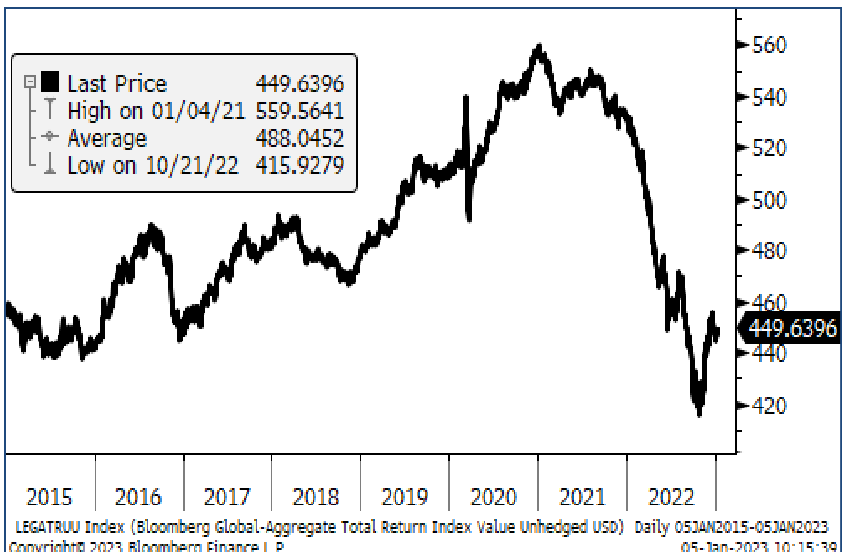
Source: Bloomberg

2.6 2022 Review

- On the debt side, the Global Aggregate has returned 7 years of performance. This is good news for new investors who can take advantage of these low points to enter the market and benefit from the catch-up that the index must make.

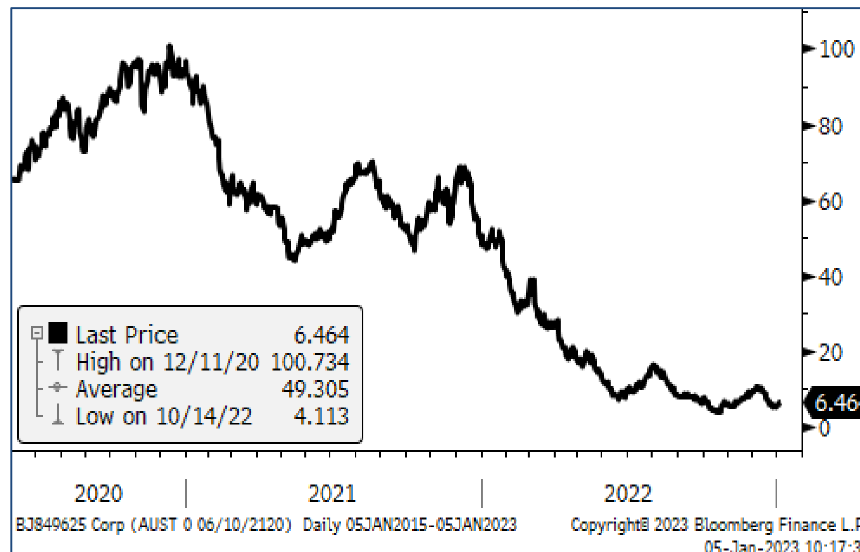
- The word duration came up a lot this year and the best way to explain it in pictures is to take the example of the Austrian 100 year 0% coupon. Because of the effect of duration, this bond went from 100 in 2020 to 6.5 in 2022. This shows the impact that rising interest rates can have on long-dated debt without increasing the credit risk.

Global Aggregate



Source: Bloomberg

Austria 100Yr Maturity Bond



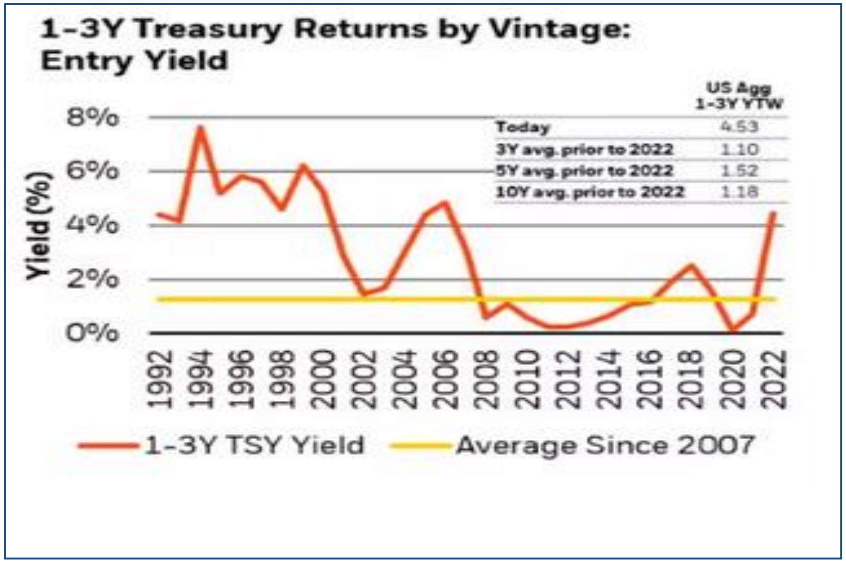
Source: Bloomberg

2.6 2022 Review

➢ Investors now entering the US government debt market can expect a yield of 4.53% on bonds with 1 to 3 years to maturity. This yield is 3.35% higher than the average of the last 10 years. It is therefore an excellent entry point for a more than interesting risk-adjusted return.

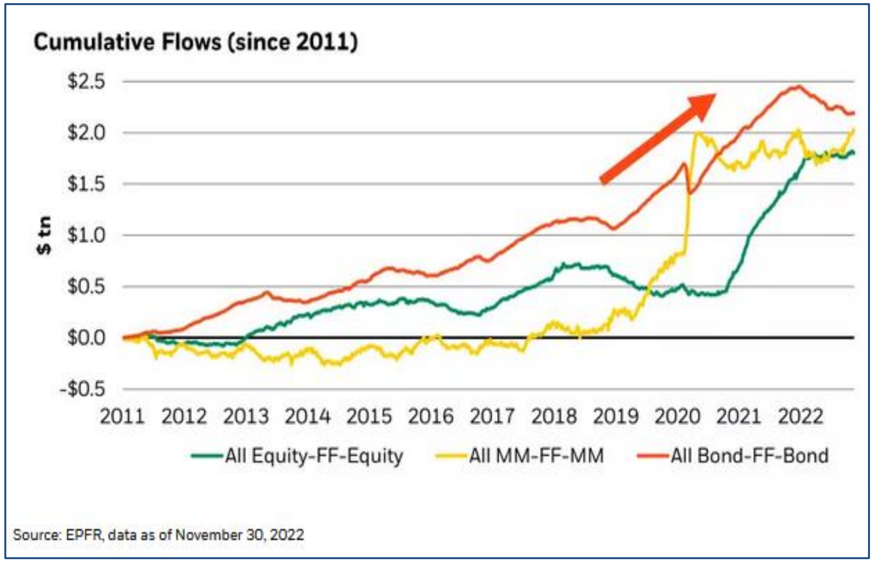
➢ The flow in ETFs shows us that investors do not yet have an appetite for risk and prefer to focus on government bonds with a very low maturity. As soon as this trend is reversed, performance should soar.

Treasury Yield



Source: BlackRock

ETF Cumulative Flow



Source: BlackRock

3. Long term views

- The FED is coming to the end of its aggressive hiking campaign. We would have never thought that it would be so fast and quick. This process occurred without any liquidity issues or a wave of bankruptcies. It highlights the excellent health of the private sector. Despite its lack of clairvoyance in 2021, the FED was able to remain credible

- Fiscal and tax policies are now a significant component of recovery scenarios. Governments will subsidize the middle class should energy prices rise too quickly, which is an aberration for the climate change goals, but getting re-elected is more important. Fiscal will be more important than monetary policies in 2023. Austerity would be bad news for the economy, but it is a low-probability scenario.

- In Europe, there is a high probability that the stability pact could be abandoned or tricked; Maastricht rules are suspended till the end of 2023. There is room to spend money at the European level and monetize it.

- Most economists work with pre covid levels models. It won't deliver good forecasts in the current economic environment. The end of the 40s, the beginning of the 50's period last century, closely resembles what we are going through currently; interest rates should be four to five percent higher than they now are. We expect real interest rates (nominal rates-CPI) to remain negative in 2023. Macrocycles will be volatile, the era of great moderation is behind us.

- Europe is sending heavy weapons to Ukraine, especially Germany. The German U-Turn on foreign policy and defense is remarkable. Germany and Europe will strengthen their army. Spending will increase significantly in this space in most European countries.

Source: Premyss.

3. Long term views

- The commercial and political tensions between the USA and China (and, incidentally, Russia) will remain. China is behaving more aggressively on domestic and international matters. The Taiwan issue is a source of instability.

- The world will have to deal with two technological, military, and economic powers (Asia-China-Russia, and Occidental-US). Asia remains an engine of global growth.

- China's reopening is big news for the world economy. It will help the world economy and potentially disrupt already tight supply chains, which could push commodity prices higher. Therefore, this comeback is, at the same time, a threat and a blessing.

- AI, data management, and the Metaverse are themes that have many years to go. There are substantial investments to be made, like starting a new economy. This is comparable with the beginning of industrialization in the 18th century. Corporations involved will continue to flourish. Nevertheless, valuations are under pressure for companies with high R&D budgets.

- Avoid loss-making and highly valued growth stocks. We remain in a phase where cyclical stocks should benefit from the subsequent recovery and see their multiples grow, while richly valued companies should not.

- Gold remains a diversification tool in the portfolios. We expect the Chinese to use it as an anchor for the alternative payment system (to swift) they are preparing with Russia and India. Therefore, demand should remain important for the physical, like in 2022. We remain with a positive view of the yellow metal.

Source: Premyss.

3. Long term views

- The fight against global warming remains a mega theme. Thanks to new regulations and government spending, demand will be strong for low carbon-emitting infrastructure and green energy. The Russian aggression will force Europe to act quicker and bolder and invest massively to cut European reliance on Russia's fossil energy. "Greener" capitalism is underway, but ESG constraints could lower the fossil energy supply when we need it the most, driving higher prices. This trend is a boon for commodity producers. Mining companies will benefit.

- Equities will deliver better (real) returns than bonds over the next ten years; In Europe and EM markets, government bonds remain expensive relative to equities. It's not the case anymore in the US. Therefore, Investments in EU government and corporate bonds should be made using the cheapest possible vehicles. Their allocation should remain close to zero in portfolios. These EU bonds are still not attractive; with low expected returns and high correlation with risky assets, they don't qualify (even in the context of portfolio construction).

- 2022 was a terrible year for all asset classes. Therefore, expected returns for the next five years have risen significantly, especially for bond investors. US short-term high-yield and US short-term TIPS are particularly attractive.

- European and Emerging equity markets are cheap, on an absolute basis, and relative to the "star" US market. The coming five years could see a reversal, especially if the general level of nominal rates remains high relative to the last ten years.

Source: Premyss.

3. Long term views

- Remain with a strong biais on value when investing in equities. The US equity market could go sideways over the next few years while EU & EM markets go up. Financials, staples, energy, and materials are our favorite sectors.

- Blockchain is a technology for the future. It will drain much money in the coming years. Finance will not be the same in ten years. Find a way to have exposure.

Source: Premyss.

4. Market review: Equity Performance

- After reaching their lows at the end of September, the last three months of the year marked a strong rebound for equities. Europe benefited the most, with inflation seemingly coming down and gas levels seemingly sufficient, and this was all it took to restore investors confidence.
- Brazil finished the year at the head of the pack. The rise in commodity prices and the strengthening of its currency benefited companies in that country. It was also supported by a catch-up effect as the Ibovespa was down 12% in 2021.

Equity Indices	% YTD in USD	% YTD in EURO	% 3M in USD	% 3M in EURO
MSCI WORLD	-19.5%	-13.2%	9.4%	1.0%
S&P 500	-19.4%	-13.2%	7.1%	-1.4%
NASDAQ	-33.1%	-26.9%	-1.0%	-9.5%
BRAZIL	9.8%	15.4%	2.1%	-6.9%
Euro Stoxx 50	-17.6%	-11.7%	23.5%	14.3%
Stoxx Europe 600	-18.7%	-12.9%	18.8%	9.6%
FTSE 100	-9.8%	-4.3%	16.3%	7.2%
CAC 40	-15.3%	-9.5%	21.6%	12.3%
DAX	-18.2%	-12.3%	24.1%	14.9%
IBEX	-11.4%	-5.6%	20.9%	11.7%
MIB	-19.2%	-13.3%	24.0%	14.8%
SMI	-17.9%	-12.0%	10.8%	2.2%
NIKKEI 225	-23.3%	-16.6%	10.0%	1.6%
HANG SENG	-15.5%	-9.7%	15.5%	6.3%
SHANGHAI	-23.7%	-17.1%	5.2%	-3.4%
RUSSIA RTS	-39.2%	-32.9%	-8.1%	-16.5%
VIX	25.8%	32.1%	-31.5%	-39.9%

Source: Bloomberg 31/12/22.

4. Market review : Sector Performance Review

- In terms of sectors, it is no surprise that energy was at the forefront with double-digit positive performances, while defensive sectors such as healthcare and consumer staples were only slightly negative.

- The growth sectors suffered the most, with consumer discretionary and technology suffering a severe repricing.

Sector performance	Europe % YTD	Europe % 3M	USA % YTD	USA % 3M	World % YTD	World % 3M
Consumer Discretionary	-16.8%	13.3%	-37.6%	-10.4%	-33.4%	-2.4%
Consumer Staples	-8.3%	1.7%	-3.2%	12.0%	-6.1%	11.7%
Energy	36.9%	11.0%	59.0%	21.7%	46.0%	19.5%
Financials	-3.1%	14.8%	-12.4%	13.0%	-10.2%	15.9%
Health Care	-4.4%	6.5%	-3.6%	12.3%	-5.4%	13.1%
Industrials	-16.9%	13.4%	-7.1%	18.7%	-13.2%	17.9%
Information Technology	-28.7%	8.1%	-28.9%	4.4%	-30.8%	5.1%
Materials	-9.2%	10.9%	-14.1%	14.4%	-10.7%	17.3%
Telecommunication Services	-12.3%	2.3%	-40.4%	-1.6%	-36.9%	0.4%
Utilities	-8.1%	11.1%	-1.4%	7.8%	-4.7%	11.0%

Source: Bloomberg 31/12/22.

4. Market review : FX and commodities performance

	Currencies	
	Against USD	
	YTD	3M
EURO	-5.8%	9.2%
JPY	-13.9%	9.4%
GBP	-10.7%	8.2%
CHF	-1.3%	6.3%
CNY	-8.5%	3.1%
HKD	-0.1%	0.6%
CAD	-7.3%	2.0%
AUD	-6.2%	6.5%
	Against Euro	
	YTD	3M
USD	6.2%	-8.4%
JPY	-7.3%	1.0%
GBP	-5.2%	-0.9%
CHF	4.6%	-2.3%
CNY	-2.0%	-5.5%
HKD	5.8%	-8.6%
CAD	-0.9%	-7.0%
AUD	-0.4%	-2.6%
	Against CHF	
	YTD	3M
EURO	-4.8%	2.3%
USD	1.3%	-6.8%
JPY	-12.4%	3.3%
GBP	-10.3%	1.5%
CAD	-5.8%	-4.6%
AUD	-5.1%	-0.2%
HKD	1.2%	-6.1%

- The last quarter was marked by the fall of the dollar, which gave back much of what it had gained during the first six months of the year. The yen has also recovered since the Bank of Japan decided to authorize a slightly higher rate interval.
- Gas finally stopped its rise and ended the quarter down 35%.

	% YTD in USD	% 3M in USD
WTI Crude Oil	6.7%	1.0%
Brent Crude Oil	10.5%	-2.3%
Gasoline	10.4%	-0.5%
Natural Gas	25.8%	-35.5%
Gold	-0.3%	9.8%
Silver	2.8%	25.9%
Platinum	10.9%	24.3%
Palladium	-5.9%	-17.3%
Aluminum (LME)	-15.3%	10.0%
Copper (LME)	-13.9%	10.7%
Corn	14.4%	0.1%
Wheat	2.8%	-14.1%
Soybean	14.3%	11.3%
Coffee	-26.0%	-24.5%
Sugar	6.1%	8.8%
Cotton	-26.0%	-10.6%

Source: Bloomberg 31/12/22.

4. Market review : Fixed Income Performance

- The market has been tumultuous this year and all performances are negative.
- On the corporate side, rising interest rates and credit spreads have pushed bond prices down.
- Asia is holding up best this year. The Covid crisis is still having an effect there and monetary policies have remained more accommodating than in the West.

	Perf Dec.	Perf YTD End Dec.	Perf last 3 months	Yield	Duration	Spread
Global						
Global Aggregate	0.5%	-16.2%	4.5%	3.7	6.9	51
Treasuries	0.7%	-17.5%	4.8%	3.0	7.6	14
Credit	0.2%	-17.0%	5.3%	5.0	6.4	134
USA						
U.S. Universal	-0.3%	-13.0%	2.2%	5.1	6.3	92
U.S. Aggregate	-0.5%	-13.0%	1.9%	4.6	6.5	52
U.S. Gov/Credit	-0.5%	-13.6%	1.8%	4.6	6.6	50
U.S. Treasury	-0.5%	-12.5%	0.7%	4.1	6.3	1
Government-Related	-0.3%	-11.1%	1.9%	4.7	5.4	60
Corporate	-0.4%	-15.8%	3.6%	5.4	7.4	132
U.S. MBS	-0.4%	-11.8%	2.1%	4.7	6.3	50
Pan Europe						
Pan-Euro Aggregate	-3.9%	-18.9%	-0.7%	3.5	7.0	78
Euro-Aggregate	-3.6%	-17.2%	-1.2%	3.3	6.7	88
Asia Pacific						
Asian-Pacific Aggregate	-2.1%	-0.1%	-3.4%	1.9	7.7	7
High Yield						
Global High Yield	0.7%	-12.7%	8.0%	9.3	4.5	536
U.S. Corporate High Yiel	-0.6%	-11.2%	4.2%	8.8	4.4	459
Pan-European High Yiel	-0.9%	-11.1%	4.7%	8.2	3.4	511
Other						
Global Inflation-Linked	-1.7%	-22.9%	4.1%			
Municipal Bond Index	0.3%	-8.5%	4.1%	3.5	6.3	
Emerging Markets						
EM USD Aggregate	0.8%	-15.3%	6.6%	7.5	6.4	340
Sovereign	0.2%	-17.4%	8.3%	8.0	7.6	401
Corporate	2.0%	-14.9%	6.1%	7.8	5.1	361
High Yield	1.6%	-12.4%	10.8%	10.9	5.3	684

Source: Bloomberg 30/09/2022

5. Long-term Investment Strategy

- We think diversification into long-term themes will provide real benefits to traditional sector allocation in the current investment landscape. Many sectors (such as the car market) are disrupted and challenged by technological developments. Moreover diversified approaches (style, sector, geographic) have proven to be an effective hedging against tail risk with durable long-term performance.

- Short term noise may bring volatility up but we focus on secular trends: implementation of our Innovation-societal impact-environmental footprint 3-dimensional approach.

- Our equity exposure is centered around: Technology (Robots, Cybersecurity, Artificial Intelligence), Biotechnology, Societal as well as Environmental impacts, mixed with strong balance sheet companies that generate recurring cash-flow over time and rewards investors through share buyback programs and high dividend distribution.

- In a context of interest rates normalization, we now believe that government bonds look attractive.

5.1 Current Asset Allocation

➢ Our current allocation is 50.82% Risky Assets*, 25.04% Investment Grade Bonds in our Balanced EUR model.

Asset allocation	**Equity allocation:** neutral. **Bonds:** underweighted. **Cash:** neutral.		
		Core allocation	**Tactical allocation**
Equities	**Regions/ sectors**	• Developed Markets (USA and Europe). • Emerging Markets, China & Vietnam.	
	Investment style, stock selection	• Global growth themes. • "Bond proxy" dividend selection. • Sustainable finance strategies. • Decorrelated strategies.	
Bonds & currencies	**Duration**	• Short duration (short-term HY and medium-term IG in Europe). • Short duration in USD.	
	Bond segments	• Investment Grade USD and Euro, High Yield corporates EURO.	• Sustainable Convertible bonds. • CAT Bonds.
	Currencies	• Neutral.	• Crypto basket.
Commodities		• Gold.	

* Risky Assets = Equities + (High Yield Bonds * 0.6 factor)

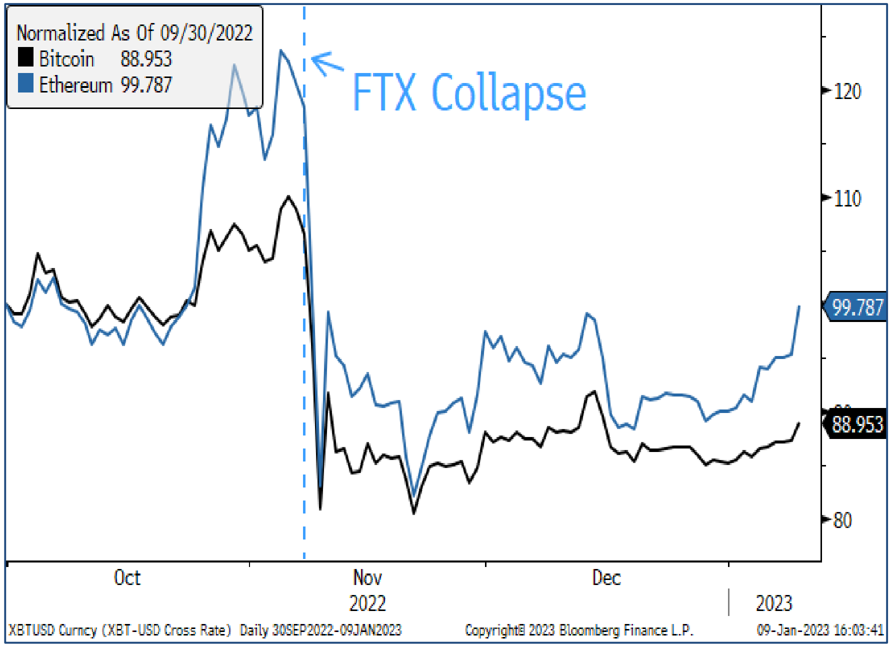
6. Cross Asset : Digital Currencies / FTX

- The digital assets had a very complicated quarter. the source of this new discomfiture is to be found on the side of the company FTX, one of the largest cryptocurrency trading platforms founded in 2019 by Sam Bankman-Fried (former "disciple" of Changpeng Zhao, founder of Binance). The latter had to file for "Chapter 11" bankruptcy protection in the US following failed takeover discussions by Binance.

- At the beginning of November, we learned that Binance was going to separate itself from its FTT (FTX's token) because there seemed to be conflicts of interest between the FTX platform and the hedge fund Alameda Research also founded by Sam Bankman-Fried (SBF). Following this announcement, hundreds of clients decided to withdraw their funds from the FTX platform, which caused a panic on the platform.

- Fund redemptions were blocked and SBF was left with no choice but to find funding to solidify FTX's equity or find a buyer. After unsuccessful discussions with his former boss and owner of Binance, SBF was forced to resign his mandates and put the company into bankruptcy.

- What happened does not put into question the future of blockchain even though it's going to take a long time to regain investors' confidence.

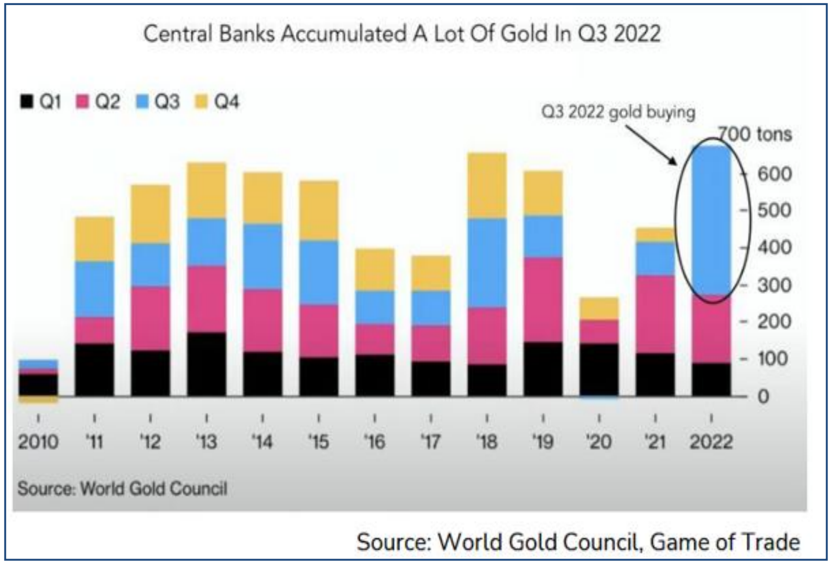


6. Cross Asset : Gold

- Central banks have bought a record number of tons of gold this year, yet the price of gold has hardly moved. Turkey, India and Uzbekistan are among the top countries having bought gold in 2022. These are all countries that are trying to free themselves from the almighty greenback. As gold is supposed to be a good hedge against inflation, the fact that its price remains unchanged is even more surprising. Perhaps the rate hike can explain in part why gold has not. Investors have preferred to go to assets with a positive yield instead of going to an asset class that pays no coupon.

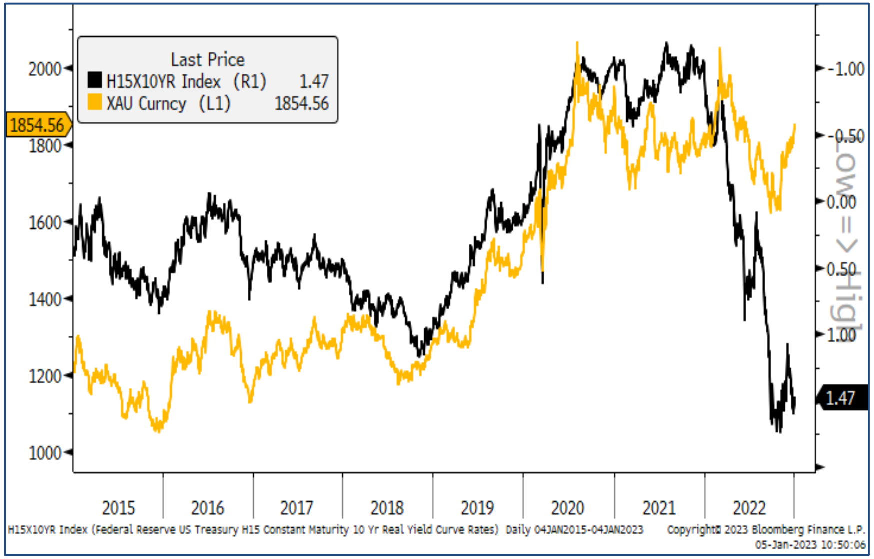
- Today gold does not seem to be following the same trajectory as real rates so it may be that gold is telling us that real rates should fall again either because inflation should rise or because rates should fall.

Gold bought by Central Banks



Source: World Gold Council

Gold vs 10Yr Real Yield (Inv.)



Source: Bloomberg

Conclusions

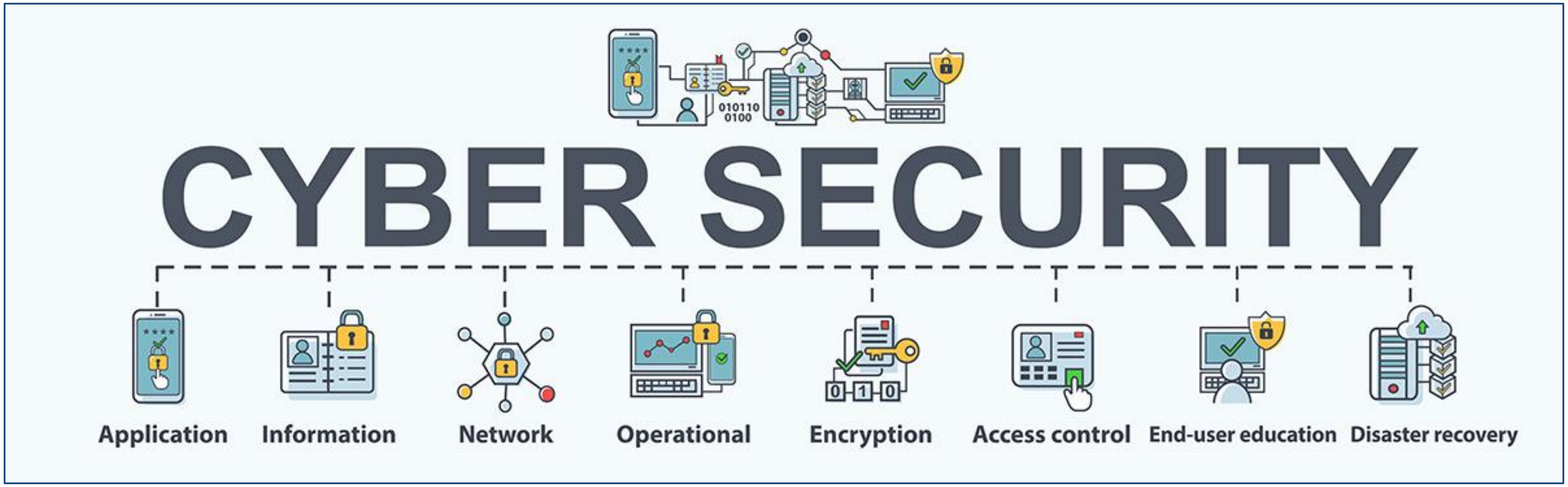
- After the out-of-control inflation, Investors now fear a deeper economic slowdown.
- The consensus bets on a mild recession. Beware of unpleasant surprises.
- China's reopening should support economic activity…but could reignite inflation fears.
- Will central banks pivot this year?
- Geopolitical tensions between East and West are set to remain. The situation in Ukraine will be decisive.
- Look for decorrelated asset and strategies.

Cybersecurity Industry

1. What is Cybersecurity

- Cybersecurity is the practice of protecting computers, servers, mobile devices, electronic systems, networks, and data from digital attacks, theft, and damage. It involves implementing and maintaining measures to prevent unauthorized access to information, as well as detecting and responding to attacks when they occur. cybersecurity is important because it helps to ensure the confidentiality, integrity, and availability of data and systems, and protects organizations and individuals from cyber threats such as malware, ransomware, and phishing attacks.

- The cybersecurity industry is divided in many subsector. Companies specialize themselves in a few of these areas. An investor can find difficult to invest in the cybersecurity space as it is often difficult to predict which company will come with the newest and best services.

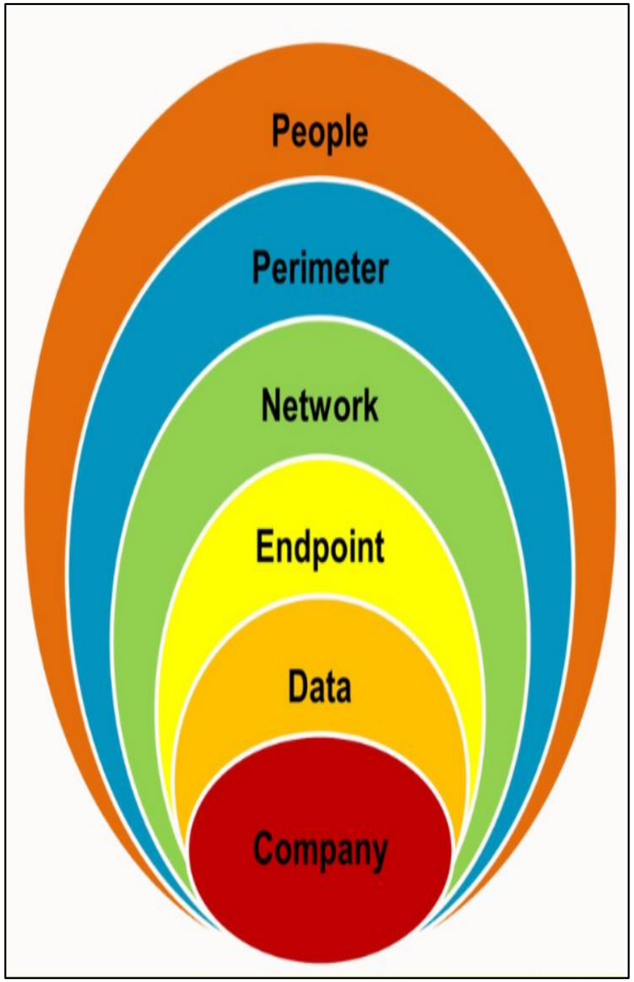


2. Cybersecurity Domains

Infrastructure Security	Practices for protecting the computer systems, networks, and other assets that society relies upon for national security, economic health, and/or public safety.
Network Security	Security measures for protecting a computer network from intruders, including both wired and wireless (Wi-Fi) connections.
Application Security	Processes that help protect applications operating on-premises and in the cloud. Security should be built into applications at the design stage, with considerations for how data is handled, user authentication, etc.
Cloud Security	Specifically, true confidential computing that encrypts cloud data at rest (in storage), in motion (as it travels to, from and within the cloud) and in use (during processing) to support customer privacy, business requirements and regulatory compliance standards.
Data Security	Data protection measures, such as the General Data Protection Regulation or GDPR, that secure your most sensitive data from unauthorized access, exposure, or theft.
Endpoint Security	Endpoint security is a type of cybersecurity that focuses on protecting the devices that are used to access a network. These devices, known as endpoints, can include computers, laptops, tablets, smartphones, and other internet of things (IoT) devices. Endpoint security involves implementing measures to prevent unauthorized access or attacks on these devices, as well as detecting and responding to threats when they occur. This can involve installing antivirus software, implementing firewalls etc..

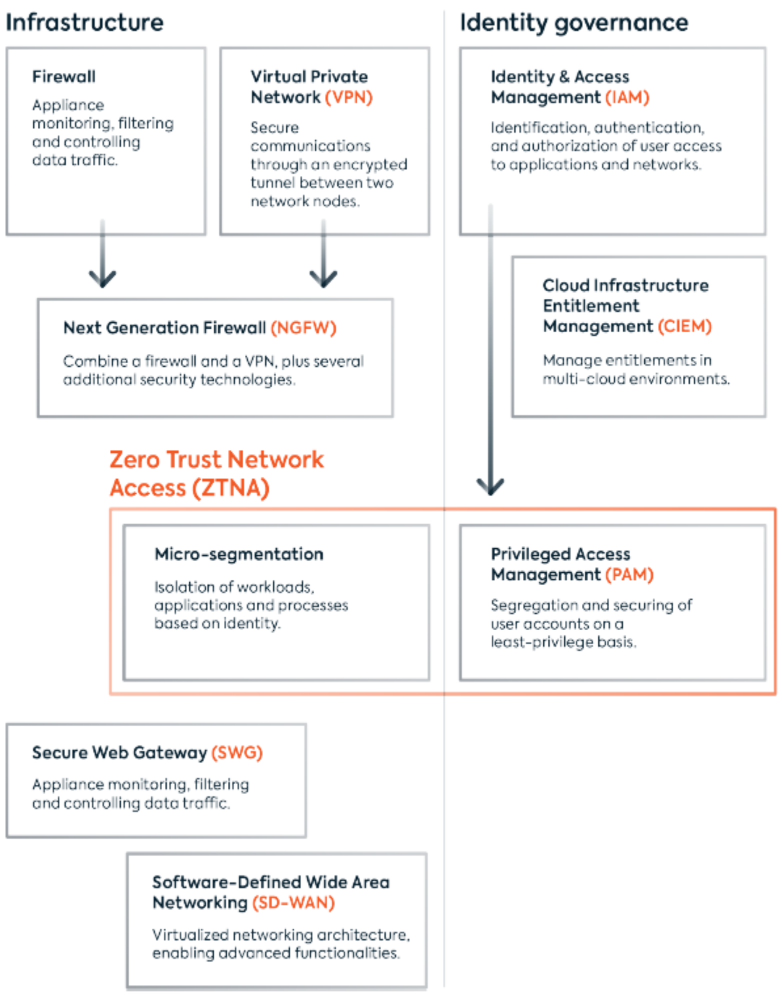
2.1 Infrastructure Security

- Infrastructure security involves protecting the hardware, software, and networks that support an organization's operations from attacks and other security threats.
- Network segmentation: Dividing a network into smaller, more secure segments can help to limit the spread of an attack.
- Network access controls: Implementing controls such as firewalls and access lists can help to prevent unauthorized access to network resources.
- Secure configuration: Ensuring that hardware and software are configured securely, with all unnecessary services and features disabled, can help to reduce the attack surface of a system.
- Intrusion detection and prevention: Implementing systems that can detect and prevent unauthorized access to network resources can help to protect against attacks.
- Patch management: Ensuring that all systems are kept up to date with the latest security patches can help to prevent vulnerabilities from being exploited.
- Backup and recovery: Having a robust backup and recovery plan in place can help to ensure that critical data and systems can be restored in the event of an attack or other disaster.



2.2 Network Security

- Network Security deals with protecting users and resources within a trusted local network from untrusted external networks.
- The infrastructure segment has historically relied on firewalls, which remain in use today at the cost of drastic evolutions.
- A firewall is a network security device that monitors incoming and outgoing network traffic and permits or blocks data packets based on a set of security rules. Its purpose is to establish a barrier between your internal network and incoming traffic from external sources (such as the internet) in order to block malicious traffic like viruses and hackers
- On top of the infrastructure side, users navigating the network need to be identified to prevent them from accessing private data.
- New frameworks and architectures have emerged to tackle the problem, the most popular being Zero Trust.
- "castle-and moat" model: what was important was ensuring that no threat could penetrate the outer layer of the network, similar to walls securing a medieval city; once allowed to enter the network, a connection would be considered as trusted.



2.3 Application Security

- Application security is a branch of cybersecurity that focuses on securing applications from attacks, vulnerabilities, and threats. This can include tasks such as testing for vulnerabilities, implementing security controls, and monitoring for attacks.

- Application security includes code testing, runtime security, application firewalls, and cloud-native application protection platforms.

- Dynamic AST (DAST) impersonates a user or a hacker and tries to trigger a reaction from the software by performing expected and unexpected manipulations without "seeing" the code.

- Software Composition Analysis (SCA) also analyzes the code. It looks if the code depends on some other opensource code (available for all) and, if so - looks for vulnerabilities and ensures that licensing requirements are respected.

- Bot management controls the traffic coming from various bots. Like bacteria, there are good bots that help search engines see the application/website and malicious bots that steal information or overload the application.

- This is reflected in the 22% 5Y CAGR of the application security TAM (topdown) and 44% 3Y EPS CAGR (bottom-up) for the companies within, providing a lucrative investment opportunity to investors.

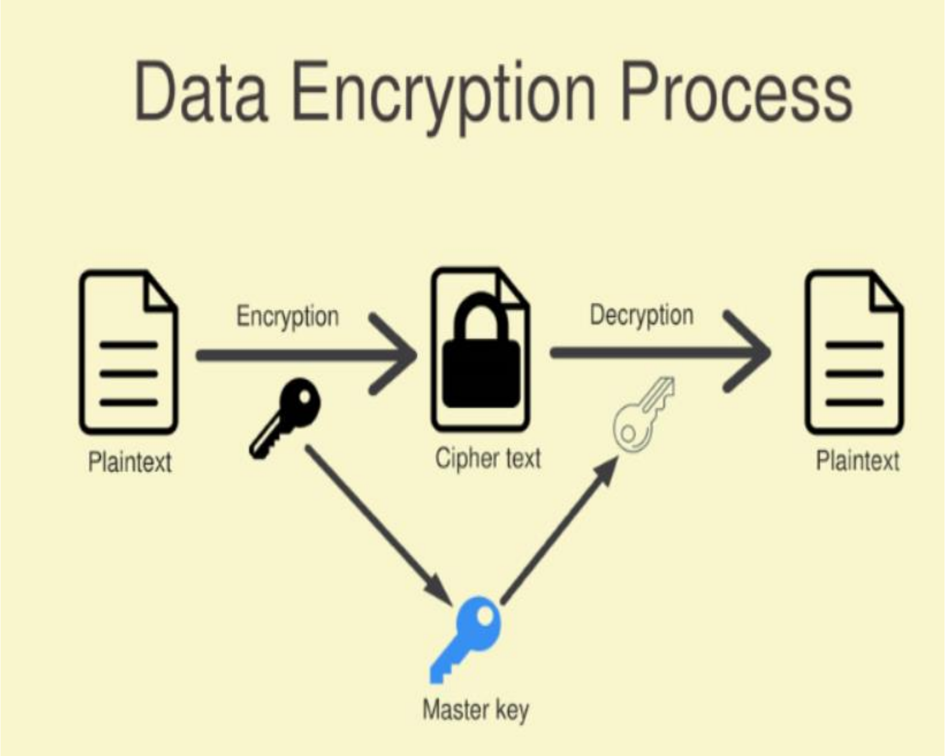
- the market is consolidating. Prominent players IntSights and RiskIQ have been acquired by Rapid7 and Microsoft , respectively. Tenable, Qualys, and Rapid7 are the noteworthy listed players.

2.4 Cloud Security

- Cloud security is a critical aspect of cybersecurity that involves protecting data, applications, and infrastructure that are hosted in the cloud from attacks and other security threats.
- Data security: Ensuring that sensitive data is encrypted and stored securely in the cloud, and that access to the data is restricted to authorized users.
- Access controls: Implementing controls such as authentication and authorization mechanisms to ensure that only authorized users can access cloud resources.
- Network security: Protecting the network infrastructure that supports the cloud from attacks and unauthorized access. In addition, a layer of security against DDOS attack is often used.
- Compliance: Ensuring that the cloud environment is compliant with relevant laws, regulations, and industry standards.
- The cloud security market is expected to reach $52bn in 2026, which means it will grow at 17% CAGR and EPS are expected to grow at 40% for the next 3 years.

2.5 Data Security

- Data security is a critical aspect of cybersecurity that involves protecting data from unauthorized access, use, disclosure, disruption, modification, or destruction.
- Data encryption: Encrypting data can help to protect it from unauthorized access, particularly when it is in transit or at rest.
- Access controls: Implementing controls such as authentication and authorization mechanisms to ensure that only authorized users can access data.
- Data backup and recovery: Having a robust backup and recovery plan in place can help to ensure that data can be restored in the event of a disaster or data loss.
- Data retention and disposal: Having policies and procedures in place to govern the retention and disposal of data can help to ensure that data is not retained unnecessarily and is disposed of securely.
- Data classification: Classifying data based on its sensitivity can help organizations to prioritize their data protection efforts and ensure that the appropriate measures are in place to secure different types of data.
- Data security market is expected to reach 35bn in 2026 assuming a 12.4% CAGR.



2.6 Endpoint Security (antivirus)

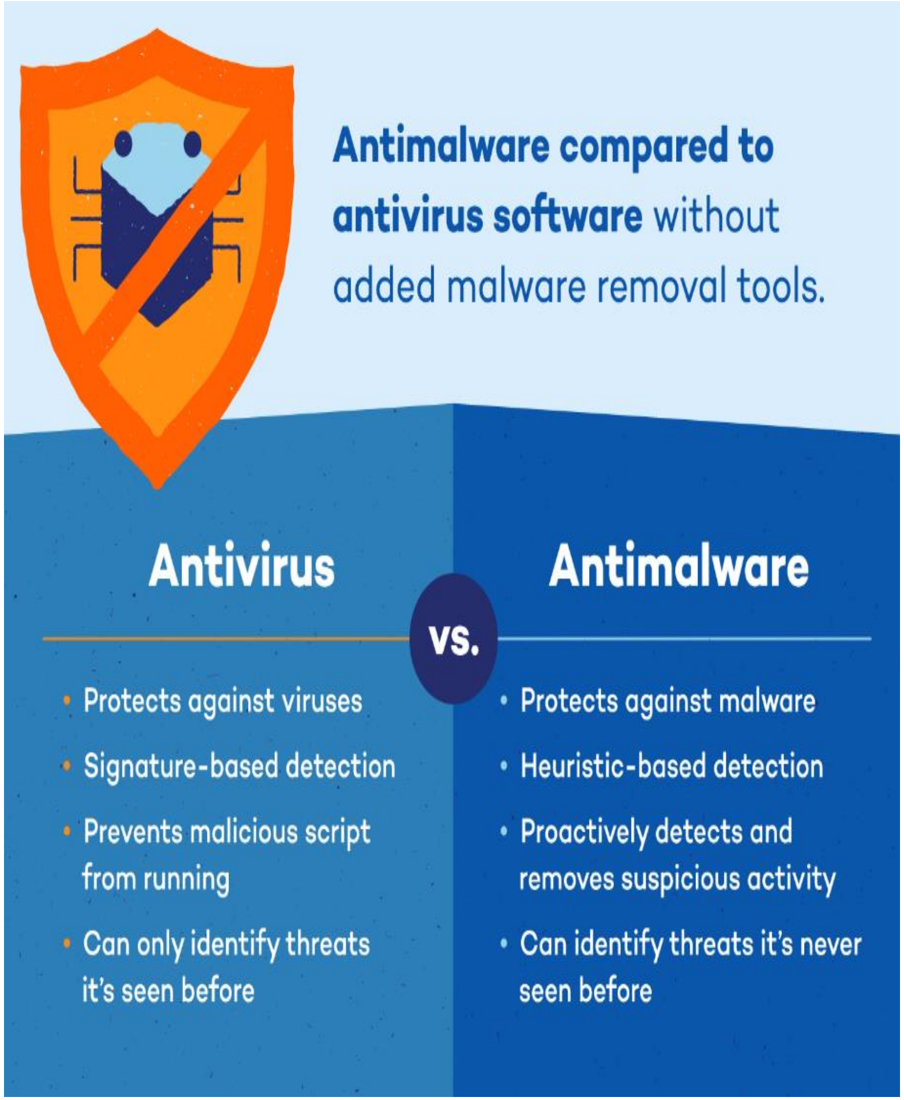
- Old antivirus needs a database to identify viruses in order to get rid of them.

- Modern Endpoint and Extended Endpoint Detection and Response (EDR and XDR) offer real-time insights and use real time data to block and sanitize compromised

- Most EDR players have started with antiviruses and transitioned to EDR platforms organically or through M&A. Some of them have naturally started to work on XDR solutions and offer managed services. In terms of a customer base, Microsoft is the most prominent antivirus vendor - not such a surprise, knowing that Microsoft Defender comes with every Windows system.

- more prominent players such as CrowdStrike and SentinelOne offer cloud-native platforms. Their lightweight agent installs on the hardware, consumes little to no processing resources, and is not power-hungry. AI computing, behavioral analytics, and response are done and triggered on the servers (and not on the machine).

- Adequate endpoint security relies on analyzing all the historical security and behavioral data. Better algorithms will improve the current offering and boost the sector.



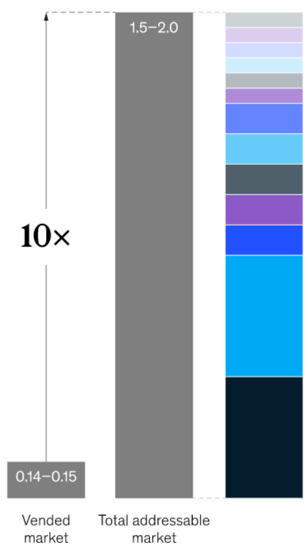
3. Key players

Infrastructure Security	Network Security	Application Security	Cloud Security	Data Security	Endpoint Security
Microsoft	Citrix	Tenable	Fortinet	Accenture	CrowdStrike
Palo Alto	Cloudflare	Qualys	Crowdstrike	Avast	Splunk
CrowdStrike	Zscaler	Rapid7	Zscaler	Cisco	SentinelOne
Cloudflare	Cisco	Microsoft	Palo Alto	Cloudflare	
Zscaler			Cisco	IBM	

4. Cybersecurity Market

- Worldwide Spending on Security & Risk Management Forecast to grow 11.3% in 2023.
- Four factors influencing growth in security spending are the increase in remote and hybrid work, the transition from virtual private networks (VPNs) to zero trust network access (ZTNA), the shift to cloud-based delivery models and the fact that cybersecurity has now become a branch of the army.
- Cyber risks lead the concern barometer again in this year's CEO Survey and were cited by 100% of respondents (global: 96%). Firstly, reports of cyber attacks are ubiquitous in the media. Secondly, a keener understanding of cyber attacks and their consequences has recently evolved. Many managers know people who have been affected in their professional network.

Global cybersecurity market size, 2021, $ trillion



Segment	Total addressable market, $ billion	Current penetration, %
Data protection	50–100	30–35
Governance, risk, and compliance	50–100	30–35
Email security and awareness	50–100	10–15
Cloud security	50–100	1–5
Network security	50–100	15–20
Identity and access management	50–100	20–25
Security consulting	100–200	15–20
Web security	100–200	5–10
IoT/OT[1]	100–200	1–5
End point security	100–200	5–10
Application security	100–200	1–5
Security and operations management	400–500	1–5
MSSP[2]/outsourcing	400–500	5–10

[1]Internet of Things/operational technology.
[2]Managed security service provider.
Source: McKinsey Cyber Market Map 2022

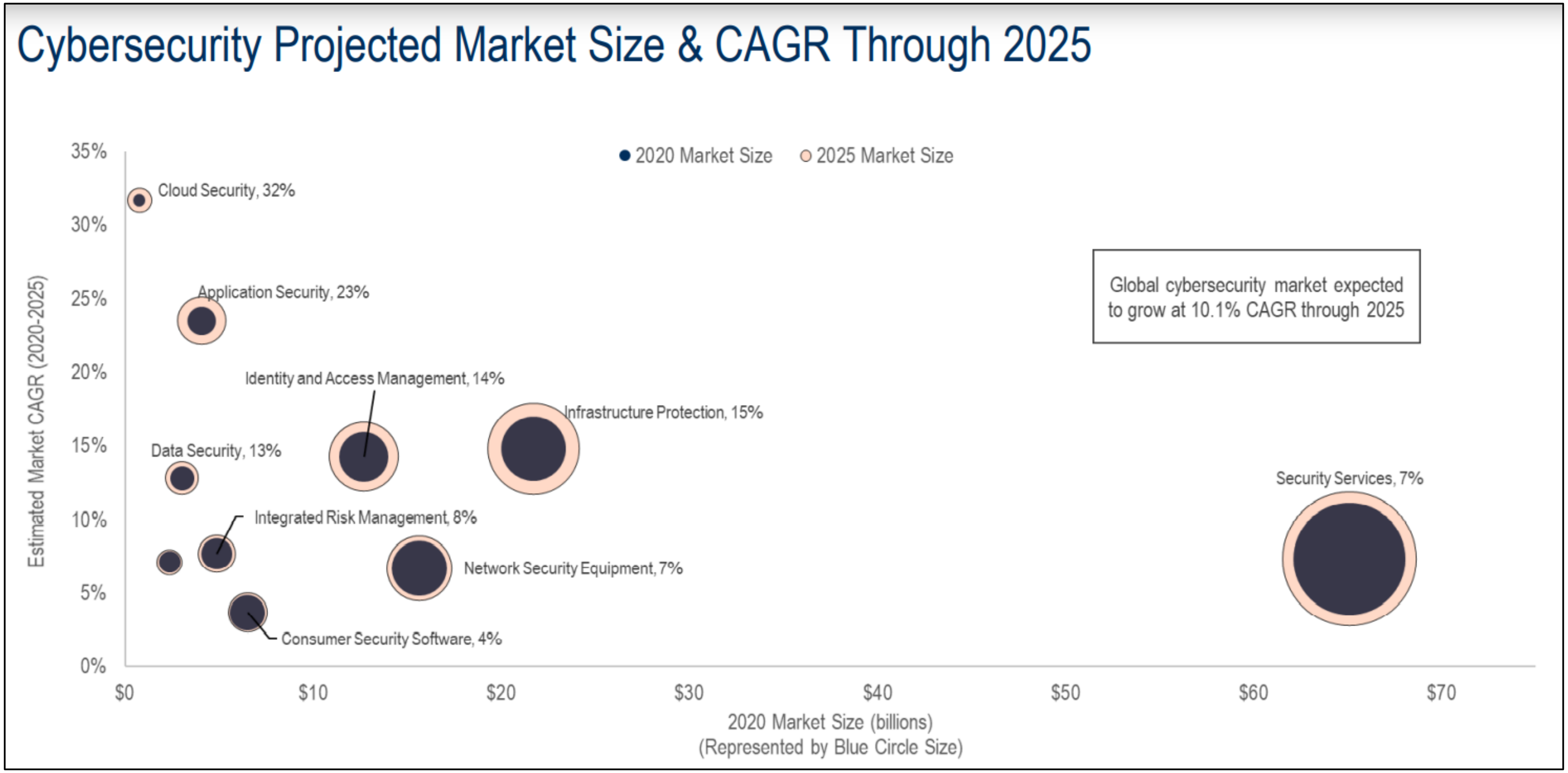
Market Segment	2021 Spending	2021 Growth (%)	2022 Spending	2022 Growth (%)	2023 Spending	2023 Growth (%)
Application Security	4,963	20.8	6,018	21.3	7,503	24.7
Cloud Security	4,323	36.3	5,276	22.0	6,688	26.8
Data Privacy	1,140	14.2	1,264	10.8	1,477	16.9
Data Security	3,193	6.0	3,500	9.6	3,997	14.2
Identity Access Management	15,865	22.3	18,019	13.6	20,746	15.1
Infrastructure Protection	24,109	22.5	27,408	13.7	31,810	16.1
Integrated Risk Management	5,647	15.4	6,221	10.1	7,034	13.1
Network Security Equipment	17,558	12.3	19,076	8.6	20,936	9.7
Other Information Security Software	1,767	26.2	2,032	15.0	2,305	13.4
Security Services	71,081	9.2	71,684	0.8	76,468	6.7
Consumer Security Software	8,103	13.7	8,659	6.9	9,374	8.3
TOTAL	**157,749.7**	**14.3**	**169,156.2**	**7.2**	**188,336.2**	**11.3**

Source: Gartner (October 2022)

Source: Mckinsey

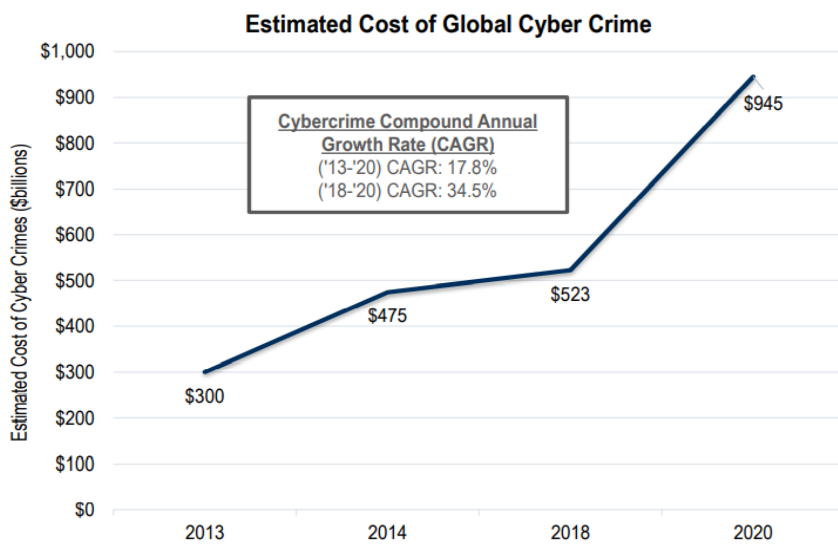
Source: Gartner

4. Cybersecurity Expected Growth through 2025



4. Cost of Cyber Crime

- As of today, the cost of cyber crime is 7 times higher than what the market is spending in defending itself against these attacks.
- The cost of cyber crime can vary widely depending on the type of attack, the resources required to mitigate the attack, and the impact on the organization. Some attacks, such as phishing scams, may have relatively low direct costs, but can still have significant indirect costs in terms of lost productivity and damage to an organization's reputation. Other attacks, such as data breaches, can have much higher direct costs, including the cost of hiring forensic investigators, providing credit monitoring services to affected customers, and legal fees.



Source: Center for Strategic and International Studies, Gartner. Data as of 9/12/2020. The cost of cyber crime is based on estimates made by the Center for Strategic and International Studies.

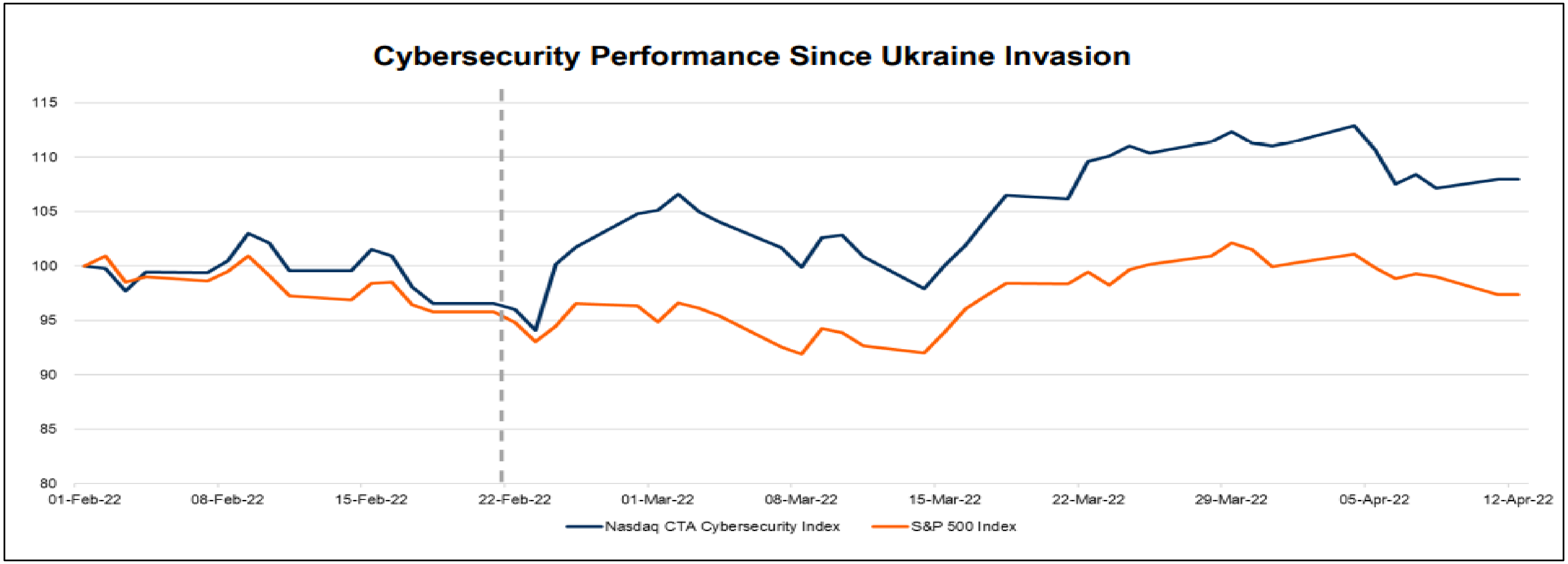
Source: First Trust

Sources: Center for Strategic and International Studies, Gartner. McAfee. Cost of Cyber Crime data as of 12/9/2020. Cost of cybersecurity data as of 8/12/2021. The cost of cyber crime is based on estimates made by the Center for Strategic and International Studies. The cybersecurity market represents the Information Security and Risk Management Products and Services market as calculated by Gartner.

Source: First Trust

5. Cybersecurity performance

- For thematic investors, cybersecurity has always been about investment by necessity, with one of the main catalysts leading this being event driven risk.
- Perhaps one of most significant developments of the Russian invasion of the Ukraine, was that before a shot was fired or the tanks rolled in, cyber attacks were the front line.
- Germany are the latest country to sizably increase its defense budget, announcing a $113bn investment. Elsewhere, the White House announced mandatory reporting of any cyber-breaches.
- On the 22nd March, President Biden warned of the "evolving intelligence that the Russian Government is exploring options for potential cyberattacks".



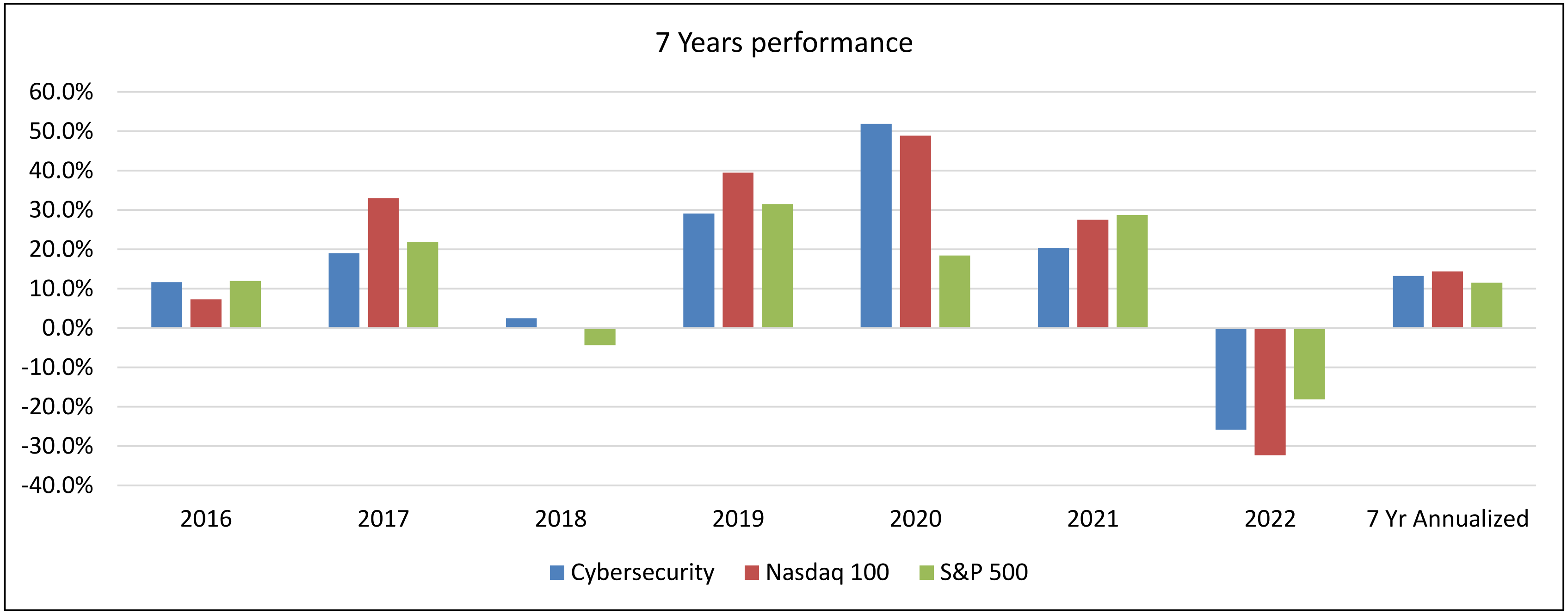
Source: First Trust

5. Cybersecurity performance

- The cybersecurity theme is closely linked to technology and high-growth companies in general. The increase in attacks in recent years has allowed this theme to attract the attention of investors and thus outperform the S&P 500 over the past 7 years.

- This theme is destined to perform well in the coming years for several reasons. The first is double-digit revenue growth over the next five years. The second is the conflicting geopolitical environment we have entered in 2022. And the last one is simply the digitalization that continues its trajectory.

- The downside might come from valuation. In 2022 we have seen a repricing of overvalued stock and as of today cybersecurity companies are still highly valued due to high growth potential.



6. Conclusion

- Cybersecurity is a topic that offers good long-term prospects. There are many factors that support growth in this industry and very few that could hinder this growth.

- In addition to the cost that companies and individuals must bear through the attacks they may face, cybersecurity has become a geopolitical issue at the center of the debate.

- This industry remains relatively complex to understand and even more so when it comes to investing. The different products offered by the different companies are often incomprehensible without some knowledge of computer science. Moreover, these companies are constantly in a race to R&D in order to have a better solution proposed than its competitors. It is therefore difficult to predict which company will come out on top. As a result, growth cycles can change from one company to another depending on the degree of innovation of their product.

- However, the future of this theme seems to be bright. Moreover, many elements that we have not mentioned will certainly revolutionize this sector. Blockchain technology as well as artificial intelligence will have a big role to play in the future.

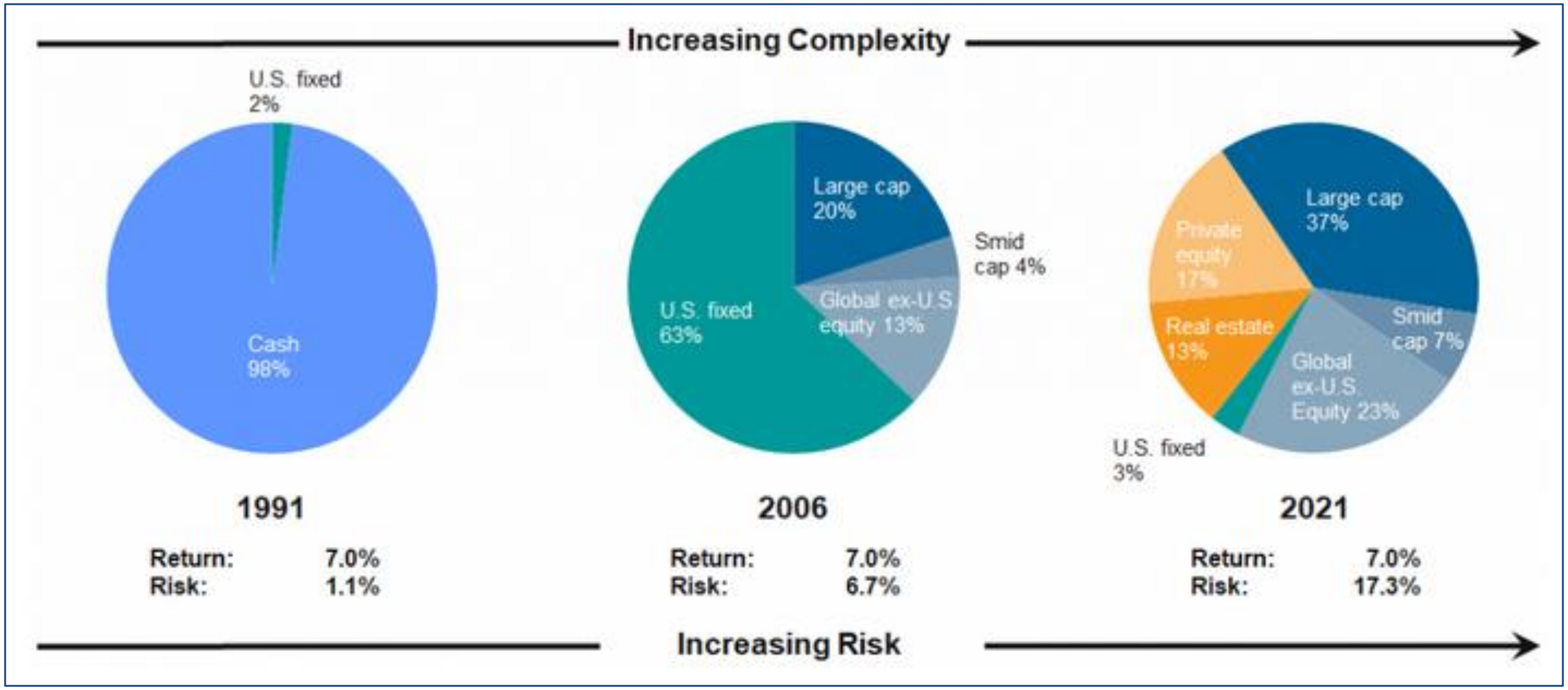
Appendix

1. Rolling the Dice

Appendix 3: Rolling the Dice

- Investors grabbling with lower interest rates have to take larger risks to reach the same returns as three decades ago.

Estimates of what investors needed to earn 7.0%



Source: Callan Associates

Disclaimer :

This document is made available exclusively to clients of Weisshorn Asset Management under discretionary portfolio management who has expressly requested to receive such information and documents (such as analysis, research, report, commentary and/or fact sheet). It shall not be communicated to any third party.

The information and opinions (including positioning) contained on this document are for information purposes only and is not a solicitation, offer or recommendation to sell or acquire any securities, effect any transaction or to enter into any legal relations. More particularly, no information, document or opinions (including positioning) provided on this website regarding services or products shall constitute or be construed as an offer or solicitation to sell or acquire securities or other instruments in any jurisdiction where such offer or solicitation is prohibited by law or in which the person making an offer or solicitation is not licensed or registered to do so or to any person to whom such offer or solicitation is contradictory to local law or regulation. Any such prohibited offer or solicitation is void and Weisshorn Asset Management will disregard any communication received in respect thereof.

Past performance should not be taken as an indication or guarantee of current or future performance, and no representation or warranty, express or implied, is made regarding future performance. Clients are urged to be assisted by professionals to assess the possibilities and risks associated with any financial operation before making any investment or other decisions.