NPB CIO Office Update

Quarterly Asset Allocation Views – Q2 2024

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Executive Summary

> Risky assets had a strong start into the year, and we expect tailwinds to persist at least into Q4 of this year. However, we are also aware of increasing event risks, mostly in geopolitical relations.

> The global economy is undeniably strengthening again, which is a tailwind to corporate profits and should translate into higher equity prices.

> On the other hand, have disinflationary pressures started to slowdown, especially so in the US. This has led to an increase in bond yields, albeit more so in the US than in Europe.

> This inflationary "imbalance" plus mounting geopolitical risks could start impacting currencies, with upside risk for the USD increasing.

> We had been expecting a secondary wave of inflation, though if indeed confirmed, it is arriving a bit sooner than we "hoped" for.

> Given the above, our main change in terms of asset allocation for this quarter is a pronounced reduction of duration risk amongst the fixed income asset class and we closely monitor increasing geopolitical risk on equities.

NPB Investment Committee

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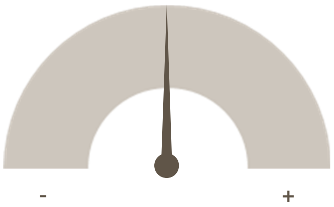
CIO Office Global Scenarios

Geopolitical and macroeconomic assessment

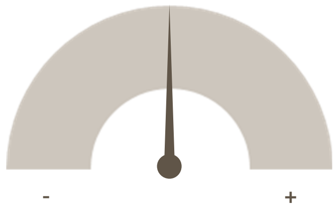
		Base Case	Best Case	Worst Case
Economy	Growth	Not only have recession fears from 2023 receded, but we now see global growth at long-term trend levels	Global growth accelerates above trend growth as lagging economies such as Europe and China surprise to the upside	Lagged impact from tight monetary policies of the past two years finally impacts economies
	Inflation	Inflation continues to fall, albeit at a slower pace (last mile).	Inflation falls below upper end (2%) of central banks' target range	Premature reacceleration of inflation on the back of continued wage pressures and little fiscal discipline
Geopolitics	US-China	Status Quo prevails, at least until after the US election	Diplomats find agreements on key friction points (albeit unlikely before US election)	Saber-rattling increases as both sides intend to 'misuse' the upcoming US elections to their advantage
	Middle East	Tension are clearly on the rise in the region, and our assumption of an Iran attack on Israel proved correct. No retaliation is key now	All parties decide to accept status quo and a cooling off takes place over the coming months	Iran attacks Israel and Israel retaliates, pulling the US even further into the conflict
	Russian War	Russia wins overhand and gets to keep annexed regions in Ukraine	Ceasefire; peac1e talks and territorial agreements	Tactical use of nuclear weapons; NATO involvement
	Election	Over sixty local government/presidential elections around the globe will take place in 2024; with the US elections being the most closely followed, other elections such as those in the UK, India and the European Union could have important market impacts too.		
Technology		AI leads to productivity increase simultaneously exhibiting disinflationary pressures	Rapid AI-adaption leads to a prosperity boom plus advances on the Greentech front lead to a sustainable economic expansion	Not unsimilar to the internet boom, impact of AI may be overestimated on the short-term and underestimated on the long-term
Energy		With an increasingly number of people emerging from poverty, electrification of everything and the most rapid adaption of a new technology ever (AI), energy needs are increasing exponentially. New solutions (e.g. SMRs, hydrogen, etc) must be found respectively adapted		
Probability		*High*	*Highly unlikely*	*Tail risk; low probability*

NPB Global asset allocation views (6-12m outlook)



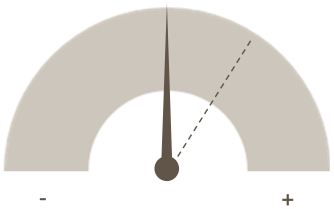
Cash & Money Market

We remain neutral on cash/money market instruments given their still attractive yields and implicit short duration.



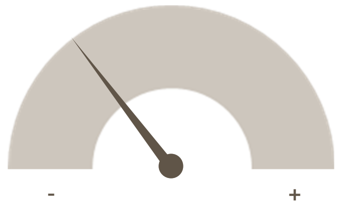
Precious Metals

Gold is sending a message, and we will consider going overweight over the coming weeks, but the current move looks a tad overextended.



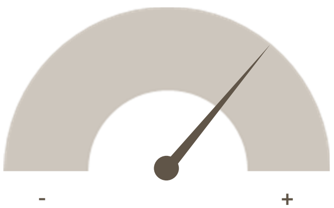
Fixed Income

We downgrade bonds to neutral due to increasing duration risk (which we would even underweight). However, credit risk remains attractive and warrants to position credit portfolios at the shorter end of the curve.



Alternatives

Having merged Alternatives with Commodities into one asset class leaves us with a administrative underweight, plus money market and bond yields remain attractive enough. Please check out the new section on page 7 for details on this asset class.



Equities

We leave equities at a tactical overweight for now but are a bit "itchy" to take some profits over the coming weeks. Most importantly, pay attention to changes in sector leadership (see page 8 for sector allocation)

Current view ---------- Previous view (if different)

NPB Global tactical views (6-12m outlook)

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Equities	View	Commentary
United States		Despite being in top quartile in terms of expensiveness amongst developed markets, US exceptionalism continues to warrant an overweight of this market.
Europe		Valuations are undemanding in relative terms and so far, the aggregate European equity market has been able to keep up with its US cousin. With the ECB likely to cut key policy rates in June, European stocks should continue to enjoy a tailwind.
Switzerland		We upgraded the Swiss stock market in our previous quarterly report, citing an important underperformance in 2023, provoking a relative undervaluation coupled with catch-up potential. With the SNB now the first major Western central bank to have cut rates, our outperform conviction has been reinforced further.
UK	●	The UK market is a beast of two natures. Large cap stocks (FTSE 100) are mostly international behemoths and have been able to more or less keep up with its continental European peers. Mid- and small cap stocks (FTSE 250) are domestically focused and are struggling with a flat year-to-date performance. Continue to overweight the former but underweight as a whole.
Japan		Japanese stocks had a huge rally over the past year and a half, in local currency and US Dollar terms. Valuations remain undemanding and the optimist in us argues that stocks have gone nowhere for 35 years, and the rally is just getting going.
Emerging Markets		Looking at the long-term chart, it continues to be difficult to be bullish on Emerging Markets as a whole. With the US Dollar possibly moving into a cycle of strength, headwinds could yet once again increase for EMs. Stay selective.
China		Technically, the Chinese equity market (CSI 300) is being rejected at its long-term downtrend line. For those who bottom-fished at the right moment, take some profits now. For those eager to buy, wait for a clear break higher. Everybody else, stay put.
India		The upcoming elections in India seemingly will be a landslide victory for Modi's BJP party, but this is fully-backed into equity prices. Nevertheless, little seems able to derail to multi-year growth success story and the attached equity rally. Only further saber-rattling from the market regulator regarding rampant market speculator as seen in February is a pocket of worry.
GCC Countries	●	After a nasty 30% correction from 2022 to late 2023, markets in the GCC region have started picking-up again. So far, geopolitical worries have not been able to spread to equity investors, but it is a risk that should be monitored and coupled with still elevated valuations, we downgrade our overweight by one notch.

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Global tactical views (6-12m outlook)

Fixed Income	View	Commentary
Government		Assuming that Government bonds are principally used on private client portfolios to "steer" duration exposure, we move this sub-asset class to Neutral. Rising geopolitical tensions could put a short-term bid under government bond prices.
Investment Grade		Investment Grade risk remains relatively attractive, especially given the ongoing risk-on mood in equity markets and the likely soft/no landing scenario.
High Yield		High Yield should continue to do well but may be overdue for a correction over the coming months.
Emerging Markets		Emerging markets as a whole are cheap on many accounts, but a stronger US Dollar is a threat to emerging markets. Be selective and don't rush.
Duration		Underweight! Especially US but be aware of inflationary contagion to other regions.

Currencies	View	Commentary
Swiss Franc		The Swiss Franc is approaching key support levels and the nearly ten percent slide versus the Dollar could start slowing. We remain US Dollar bulls, but the CHF was the first to signal the increasing interest rate differential between the US and the rest of the world. Nevertheless, we downgrade to Neutral, recognizing that we are late.
Euro		The Euro is approaching the lower end of the 18 months trading range, driven by interest rate differentials. 1.05 will be tested, but don't get to aggressive in either direction, but rather wait for confirmation.
US Dollar		The US Dollar has been rising since most of its peers since the beginning of the year, probably signaling the rising interst rate differential, provoked by different levels of inflation. Now, rising geopolitical risk may add to the Greenback's strength.
British Pound		We leave the GBP as underweight, especially versus the US Dollar. Our cycle model calls for a bottom in Q1 of 2025 – little to go now.

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Global tactical views (6-12m outlook)

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Alternatives	View	Commentary
Commodities*		The commodity super-cycle is well and alive. Play it via commodity stocks, which continue to exhibit undemanding valuations. At this rate of geopolitical developments, government spending will refocus on commodity suppliers soon
Hedge Funds		Avoid distress debt, overweight good macro managers and start preparing to replace long only exposure via long/short and equity neutral managers.
Private Equity		The flow to PE is good for now, warranting an overweight.
Private Debt		A bit more cautious on private debt. The flows are enormous, but higher rates in liquid markets are formidable competition.
Real Estate		Underweight, especially CRE. The next wave may be upon us.
Infrastructure		We like the long-term story of infrastructure investments. The most attractive returns are likely in the non-liquid solutions.

*Commodities ex precious metals

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Global tactical views (6-12m outlook)

Equities	View	Commentary
Financials		With Q1 earnings season underway, first results out of the banking sector are confirming the positive trend from previous quarters. Prefer banks over insurers.
Consumer Discretionary		We move the consumer discretionary sector to underweight, expecting further underperformance. Especially the Automobile subsector could be in for another period of consolidation after the recent recovery.
Communications		Given our Consumer Discretionary downgrade, we move communications (i.e. advertising) down to neutral.
Information Technology		The outperformance over the past 18 months is overdue for a breather.
Industrials		With the global economy reaccelerating, industrials stocks will continue to outperform. Given geopolitical risks, do not forget the defense sector, despite massive advances already.
Energy		Still cheap, still good dividend yields, and a rising underlying (crude). What's not to like?
Materials		Commodity prices are on the rise and will continue to lift material stocks. Consider precious and industrial metal miners/producers alike.
Healthcare		Still massive M&A potential. Be selective or chose a capable long/short manager.
Utilities		Given our extreme cautiousness on bond duration, we consequently also continue to underweight utilities
Consumer Staples		Momentum continues to be lousy for Consumer Staples stocks and with inflation on the rise again, price pressures will continue to eat into margins

Underweight Neutral Overweight ● Previous view (if different)

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