17 96

LOMBARD ODIER

LOMBARD ODIER DARIER HENTSCH

# Investment Strategy

## Private Clients


Key highlights
Second-half outlook

p.02

Regional outlook
United States · Europe · Switzerland · United Kingdom · Japan · China · Emerging markets ex-China

p.09

Asset classes
Fixed income · Equities · Currencies · Commodities

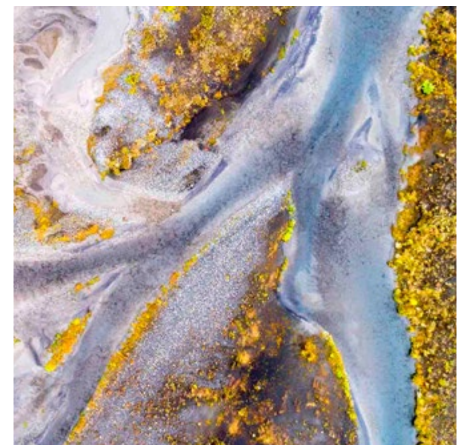
p.25

Macro insights
Moving past the inflation shock

p.03

Asset allocation
False positive, or fresh dawn?

p.19

June 2023 · 2nd Half 2023


Biannual publication of
Lombard Odier Investment Solutions – Strategy


**Important information**
Please read the important information at the end of the document.
Data as of 12 June 2023

## Second-half outlook

- Macroeconomic risks have shifted from inflation to growth. In the US, we expect consumer resilience to falter and see recession risks in late 2023 and early 2024, with interest rate cuts a story for 2024
- In Europe, near-term growth prospects remain unimpressive
- China's strong domestic demand should help it achieve real GDP growth of 5.5% in 2023 despite weakness in overseas demand, real estate, and industrial sectors
- Japan's economic fundamentals look healthy. With inflation now sustainably above target, we think the Bank of Japan is likely to end its policy of yield curve control this year
- As growth and inflation slow, and interest rates remain on hold at high levels, we seek to build resilient investment portfolios, with a neutral exposure to risk assets, that can perform under a range of economic outcomes
- We lean towards fixed income, with a preference for US Treasuries and investment grade credit, and see selective opportunities to earn attractive carry in emerging market debt
- In equities, we prefer quality stocks, defensive businesses, and non-US markets, which offer some valuation cushion as earnings downgrades unfold
- We see scope for further US dollar weakness against the euro, Swiss franc and Japanese yen, and strength against the Chinese yuan.

# Moving past the inflation shock

*Samy Chaar, Chief Economist*

As tighter financial conditions start to bite in the second half, consumer resilience should falter. We see mild recession risks in late 2023 and early 2024, with rate cuts a story for 2024.

Longer term, the rise of AI, ageing populations and increased geopolitical competition – especially in green investments – are reshaping economic dynamics.

Last year was a tough year for economic forecasters. Unexpected events – from the ongoing impact of the war in Ukraine and China's tough Covid restrictions, to significant post-pandemic supply and demand imbalances – led to persistent inflation. Understanding what went wrong has given rise to numerous academic studies, while central banks are busy improving their previous models. At the same time, advances in artificial intelligence (AI), net zero investments, ageing populations and fractured geopolitics are reshaping industry and labour forces worldwide, with long-term implications for interest rates and investment.

While a successful investment strategy requires constant adaptations to changing conditions, assessing the accuracy of our initial assumptions is also key to refining future ones. After a difficult 2022, 2023 is evolving more in line with our expectations. Below we highlight some important themes for the second half and beyond.

**A mild, short-lived US recession?**

With price pressures gradually easing across the developed world, macroeconomic risks have shifted from inflation to growth. The latter looks very uneven. In the US, rate-sensitive areas – housing, investment, manufacturing, and trade – are slowing or contracting, while services have been more robust. Fiscal policy will be tight this year or next – considering the modest adjustments factored in the bi-partisan deal to raise the debt ceiling. Credit conditions are at levels consistent with prior recessions (see chart 1, page 04), amid banking sector woes and the most aggressive interest rate hiking cycle in 40 years. Yet so far, the US consumer has proved surprisingly resilient, delaying expectations of when a recession will start, if at all. Unlike their eurozone and Japanese peers, Americans have been spending some of the excess savings they accumulated during the pandemic, which has acted as a shock absorber (see chart 2, page 04). Labour income remains solid amid low unemployment and months of strong wage growth. Key factors to watch in the second half include labour market developments, and how tighter lending standards at small banks affect small businesses and their employees, challenging consumer resilience. Historically, such effects have been felt around two quarters later, indicating the impact should fall largely in Q4. Recession risks for late 2023/ early 2024 remain high. However, we would expect any recession to be mild and short-lived, and for the US economy to register 0.9% growth for the full year.

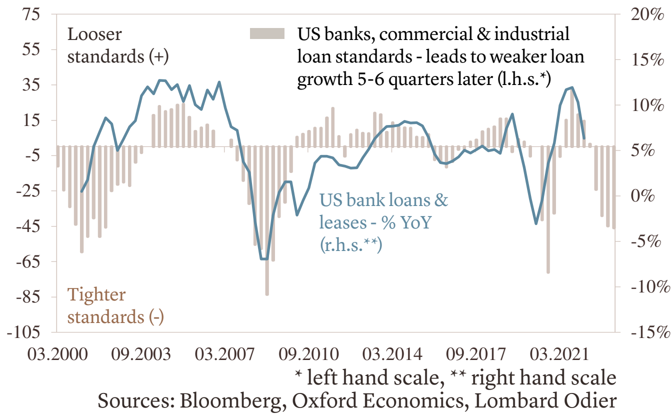
**Banking problems looks contained**

We do not think the US is in the early stages of a significant financial crisis. Bank credit has not been a major source of financing for either consumer or business spending since the 2007-2009 crisis, another factor behind the current resilience of demand. Americans today have borrowed remarkably little relative to their income, and only some of that from banks. Loan growth is slower than

Note: Unless otherwise stated, all data mentioned in this publication is based on the following sources: Datastream, Bloomberg, Lombard Odier calculations.

## 1. US banks: tightening credit conditions

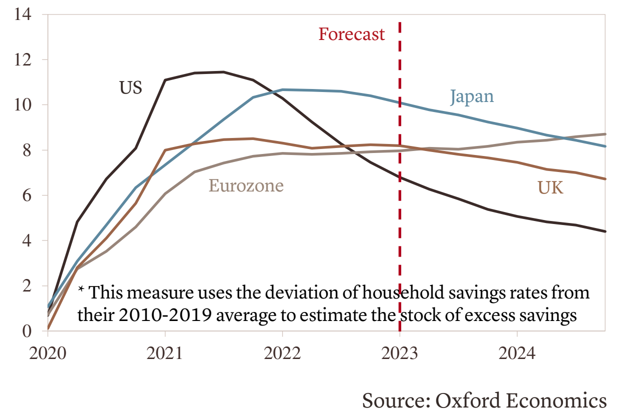
Index level and % year-on-year (YoY)




* left hand scale, ** right hand scale
Sources: Bloomberg, Oxford Economics, Lombard Odier

## 2. Stock of excess savings*

As % of GDP

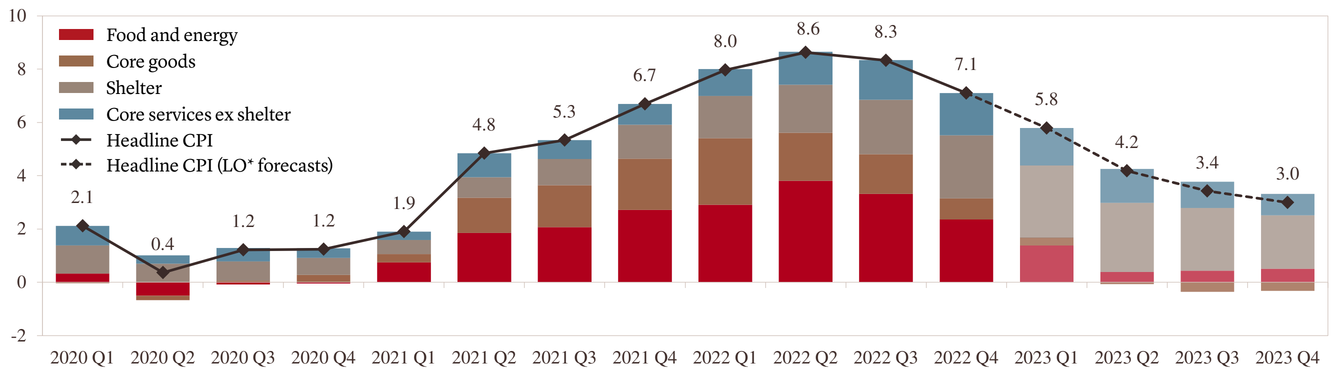



* This measure uses the deviation of household savings rates from their 2010-2019 average to estimate the stock of excess savings

Source: Oxford Economics

## 3. H2 inflation will be mostly about service sector inflation

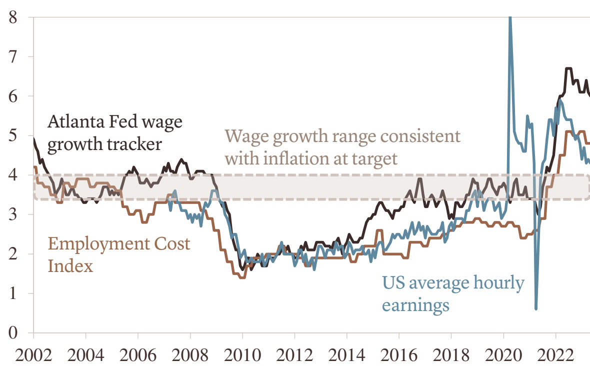
US CPI inflation, contribution from key segments, % YoY




Sources: Bloomberg, * Lombard Odier

## 4. Wage growth measures have peaked

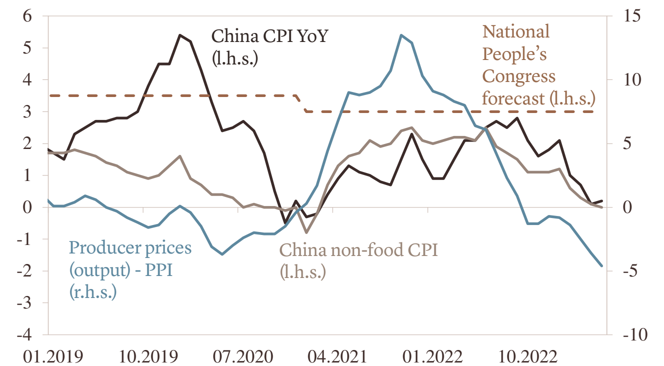
YoY change in wage growth measures, in %




Sources: Bloomberg, Lombard Odier

## 5. Inflation still not an issue for Beijing

China CPI inflation, % YoY; producer prices, % YoY




Sources: Bloomberg, Lombard Odier

in the 2000s and much slower than the 14% annualised growth seen as recently as mid-2022. Relatively low reliance on debt makes current US banking turmoil fundamentally different from previous credit cycles, including the late 1980s/early 1990s and 2000s, when bank failures were harbingers and amplifiers of severe economic downturns and slow recoveries.

**Rate cuts a story for Q1 2024**

Slowing developed market growth is helping inflation to fall. Demand for goods and supply chain disruptions have normalised. Energy prices have fallen. Services inflation is starting to decline. In the US, we expect housing costs to follow suit in the coming months, leading consumer price inflation down to around 3.0% by year-end (see chart 3, page 04). Wage growth has been declining slowly but steadily (see chart 4, page 04), yet the disinflationary trend is still too slow for the Federal Reserve (Fed) to pivot towards cutting rates before early 2024. In Europe, the banking sector looks generally more insulated from stresses, and wages have risen less sharply. Trends here have been following those in the US with a lag. Core inflation – stripping out food and energy costs – has only recently started to decline. We believe the European Central Bank (ECB) is very close to the peak of its hiking cycle, with rate cuts also likely in the first quarter (Q1) of 2024, following full-year 2023 growth of 0.7%. We do not see rate cuts in either the US or eurozone giving the global economy any significant support before the second half of 2024.

**Consumption to underpin Chinese growth**

The Chinese economy is on a different trajectory to most in the West, largely because of its later post-pandemic reopening. Fragilities remain in real estate – with a knock-on effect on consumer confidence – and in manufacturing, as global demand slows. Yet while the sustainability of its Q1 recovery has been questioned, we see consumption remaining a key growth anchor in Q2 and beyond. Inflation remains contained (see chart 5, page 04), and authorities may also choose to support the economy further in the second half, e.g. via more regulatory easing or cuts to banks' reserve requirement ratios. For now, we retain our full-year growth forecast of 5.5%.

**Longer-term inflation trends: green investments, greying population in a fragmented world**

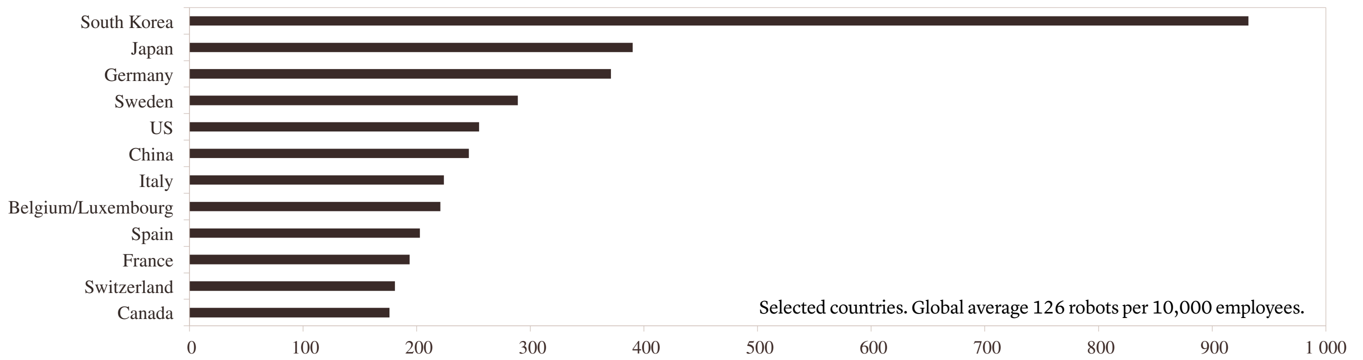
While we expect inflation to remain slightly higher than in the past 10 years, we believe that by and large, central banks will labour to keep it below 3% and not abandon prior targets. Meanwhile, the interplay between 'green' and 'grey' transitions – the net zero shift and ageing demographics – will be key to longer-term trends. Multi trillion-dollar investments in the sustainability transition, high levels of public debt and the increasing duplication of supply chains amid shifting geopolitical trends suggest rising inflationary pressures. However, we expect these to be offset to some degree by lower spending and higher savings rates as populations age – and by technological advances such as artificial intelligence and robotics helping ease any related labour force shortages. Japan's example shows that huge demographic changes need not be inflationary, and that workforces can adapt, in this case to include more women, older workers, and machines. Indeed, countries with ageing populations such as Japan, South Korea and Germany are already embracing a high degree of robotisation (see chart 6, page 06).

**Upcoming boom in global capital spending?**

Overall, we believe the trend of declining nominal interest rates seen from the 1980s to mid-2010s could be over, and we do not expect central banks to return to imposing negative interest rates. More importantly, we expect real rates – that are adjusted for inflation – to remain capped by a slower potential growth rate for developed economies, and by a rising supply of savings from an ageing population (see chart 7, page 06). An ongoing low real cost of capital, perhaps around 1%, combined with rising competition between geopolitical blocs – particularly in green investments – could spur a new global boom in capital spending, which will be necessary to address the net zero challenge.

## 6. The rise of the robots?

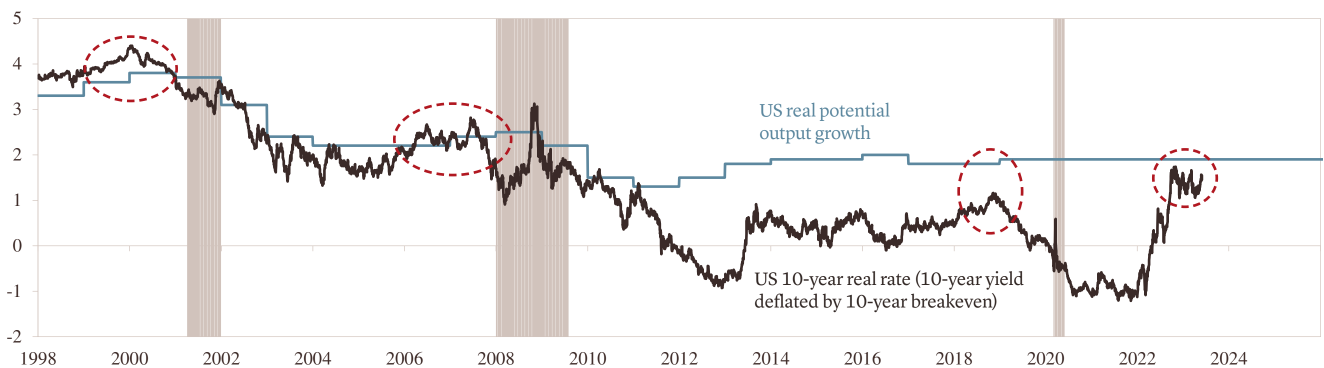
Number of robots employed per 10,000 employees in the industrial sector in 2020



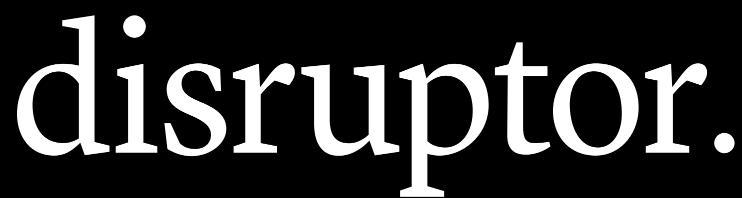

Sources: International Federation of Robotics, Statistica

## 7. The secular decline in interest rates might be over

US 10-year real interest rate versus real potential output growth




Sources: Bloomberg, Congressional Budget Office, Lombard Odier




The signs are clear.

In 2022, investment in renewables like wind overtook gas for the first time.

Electrification is now at a tipping point, as fossil fuels are swiftly and silently displaced.

Changing our entire economy faster and more fundamentally than many appreciate.

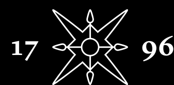
It's one of the greatest investment opportunities of our time.

For investors there isn't a moment to lose.

History is in the making. Again.

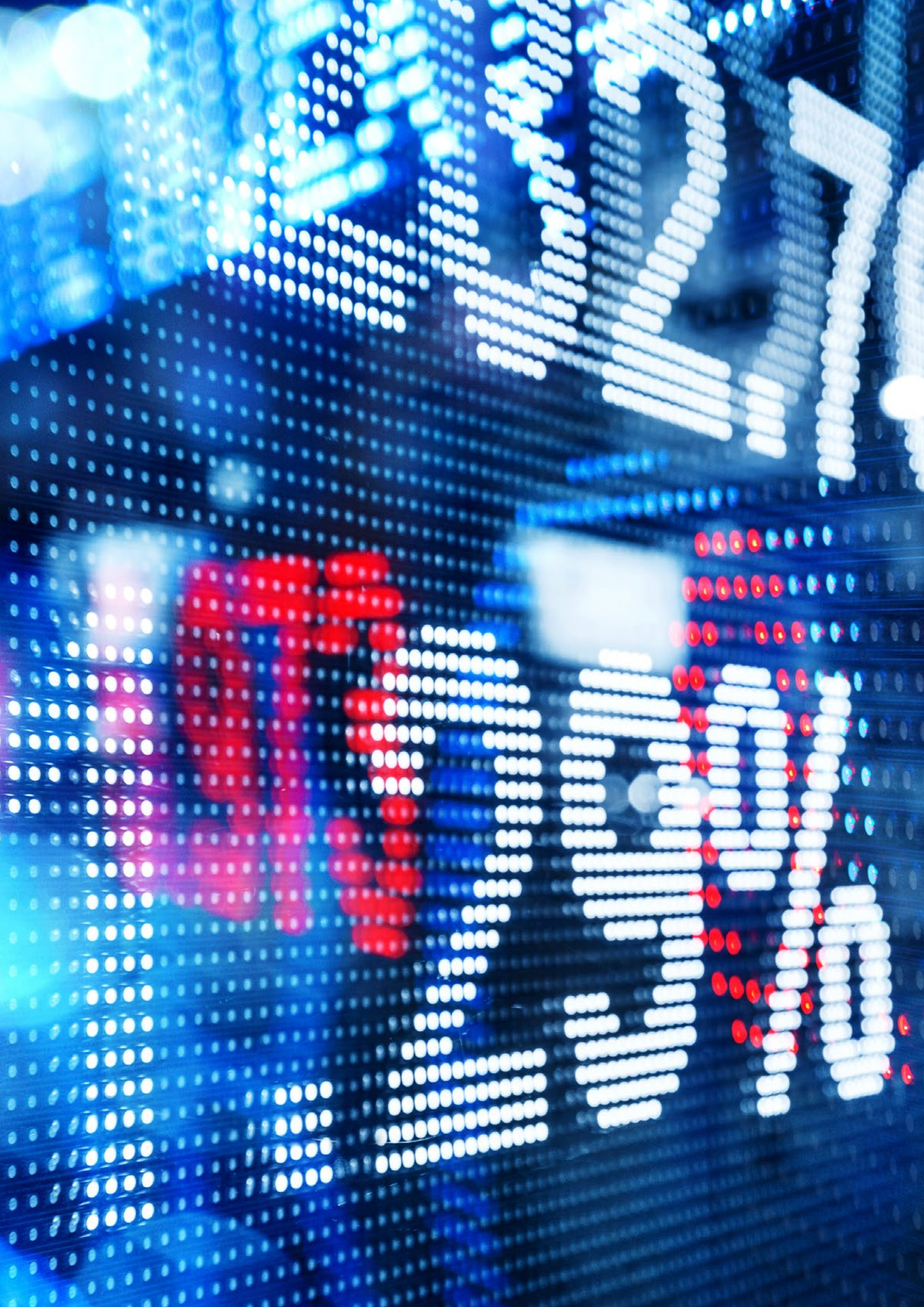
Find out more about our Electrification Strategy at **LombardOdier.com**

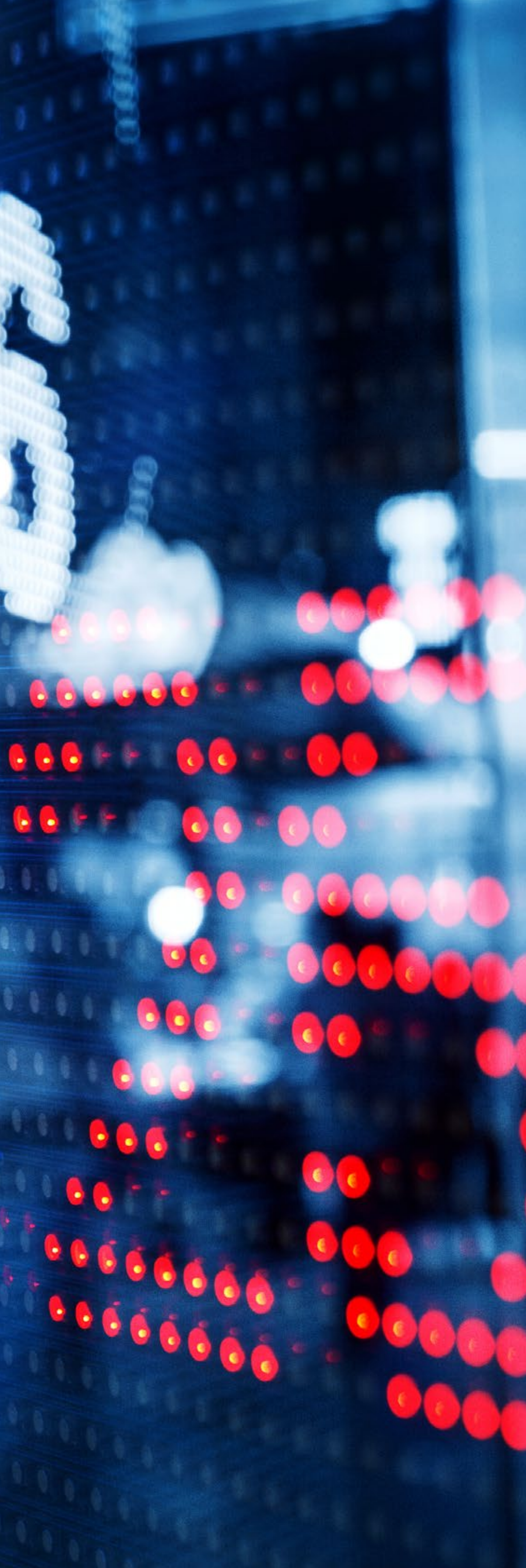
rethink everything.®




LOMBARD ODIER
LOMBARD ODIER DARIER HENTSCH

Investments are subject to a variety of risks. This is a marketing communication. Please refer to the prospectus, the KIID of LO Funds SICAV and your investment advisor before making any final investment decisions. Lombard Odier (Europe) S.A. UK Branch is authorised and regulated by the Commission de Surveillance du Secteur Financier ('CSSF') in Luxembourg and is authorised in the UK by the Prudential Regulation Authority ('PRA'). Subject to regulation by the Financial Conduct Authority ('FCA') and limited regulation by the PRA. Financial Services Firm Reference Number 597896. Lombard Odier Asset Management (Europe) Limited - authorised and regulated by the FCA in the UK. ©2023 Lombard Odier







# Regional outlook

United States

Europe

Switzerland

United Kingdom

Japan

China

Emerging markets ex-China

# United States
## The pain of achieving price stability

*Bill Papadakis, Senior Macro Strategist*

### Key takeaways

- The resilience of the US consumer has staved off any recession fears to date
- With resilient demand and a tight labour market, inflation has only fallen gradually, and remains too high for the Fed's comfort
- Restrictive monetary policy will stay in place throughout 2023, inevitably slowing growth, and making a mild recession likely towards year-end.

Mid-year may be an arbitrary point in time to assess an economy's outlook, but this time it feels particularly well-timed for multiple turning points in the US economy. The risk of a catastrophic debt ceiling breach has been averted, the banking system 'mini-crisis' is abating, and after a sharp tightening of its policy, the Fed is reaching a pause in its hiking cycle.

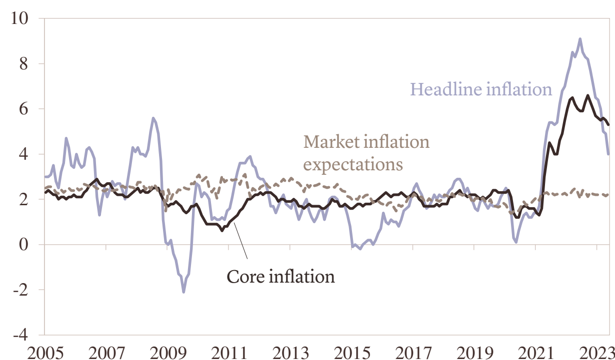
Until very recently the Fed was playing catch-up with emergency rate hikes. Excess demand, driven to a significant extent by extremely generous fiscal stimulus during the pandemic, and manifesting in an overheated labour market, had pushed inflation way above target.

These rate hikes are now taking effect. Consumer price inflation has fallen from a peak of 9.1% to 4.0% (see chart 8), reducing the urgency of further policy adjustments. Progress towards labour market rebalancing has been even more notable. The number of job openings has fallen sharply, the job 'quits' rate is normalising, unemployment is hovering around mid-3%, and wage growth is slowing. While the US labour market remains tight, we see increasingly fewer signs of overheating (see chart 9).

Still, with the underlying rate of inflation running closer to 4% than the Fed's 2% target, and labour market tightness making price stability elusive, the Fed will have to be persistent. Its policy rate is therefore likely to stay in territory that is highly restrictive for growth until at least Q1 2024. Ongoing stress in the banking system, although down from peak levels in March, is likely to tighten credit conditions further, slowing demand across the economy.

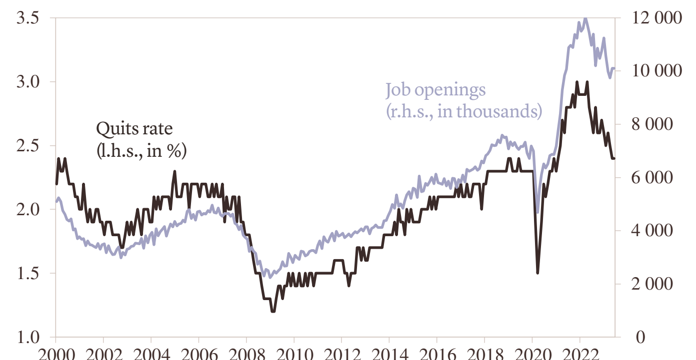
We therefore expect GDP growth to slow in the quarters ahead, rising just 0.9% in 2023 and around 0.7% in 2024. While this is certainly an unimpressive and below potential rate, it is a feature, not a bug of the Fed's policy stance: subpar growth and a mild recession may well be the price to pay to re-establish price stability. Once this objective is achieved, we expect growth to reaccelerate from mid-2024 given strong fundamentals, no major economic imbalances, and likely cuts to interest rates.

8. **Inflation on a clear downtrend – but still way above target**
Headline and core CPI, in %




Sources: Bureau of Labor Statistics (BLS), Bloomberg, Lombard Odier

9. **Rebalancing of overheated labour market underway**
Quits rate versus job openings




Sources: BLS, Bloomberg, Lombard Odier

# Europe

## Energy shock absorbed, growth challenges remain

*Bill Papadakis, Senior Macro Strategist*

### Key takeaways

- If fears of a full-blown energy crisis across Europe dominated last year's outlook, this is far from a key concern today
- However, growth dipped slightly below zero in Q4 2022 and Q1 2023, and near-term growth prospects remain unimpressive
- Inflation is proving persistent enough to push the ECB into an increasingly restrictive policy stance.

In the second half of last year, making the case that Europe could avoid the worst-case scenario felt particularly controversial. Drastic cuts to Russian gas supplies and the sharp price increases that ensued made a full-blown energy crisis appear imminent.

Growth in the euro area dipped slightly below zero in Q4 2022 and Q1 2023. However, it looks set to remain in positive territory throughout 2023, helped by successful diversification away from Russian gas, rapid infrastructure improvements, and consumption cuts through efficiency gains without industrial shutdowns. Fiscal support has shielded large parts of the economy from the impact of high energy prices. Having finished the heating season with plenty of spare natural gas in its inventories (see chart 10), refilling ahead of next winter looks eminently manageable.

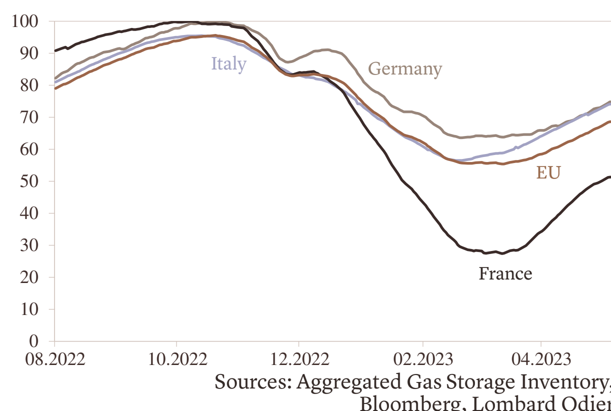
But while the fading energy crisis has helped improve growth prospects, boosting confidence (see chart 11), and making financial markets unusually optimistic about Europe, growth in the coming quarters still faces challenges. The short-term fiscal measures that were put in place to deal with the energy shock will now expire.

Monetary policy will also weigh on growth. The European Central Bank (ECB) has already raised its deposit rate by 400 basis points, from a lower bound of -0.50% to 3.50% currently. With core inflation having only recently started to drop and wage growth accelerating against a historically tight labour market, we see the ECB hiking rates by a further 25 bps to a peak of 3.75%. This raises the risk of a policy error, given an already contracting economy and our forecast of many inflationary elements falling in the months ahead. And while European banks are well capitalised, enjoying healthy profits amidst rising interest rates, and seeing less of the stress that has been evident in the US banking system, bank lending conditions are also getting tighter across the euro area.

We thus expect weak growth of 0.7% this year. In 2024, with inflation falling, employment staying strong, and monetary policy starting to gradually ease, we expect to see some reacceleration to just above 1%. This is far from spectacular, but also far from the crisis that threatened when Russian gas supplies were cut.

10. Europe managed last winter's energy crisis well, and looks in good shape for the coming winter

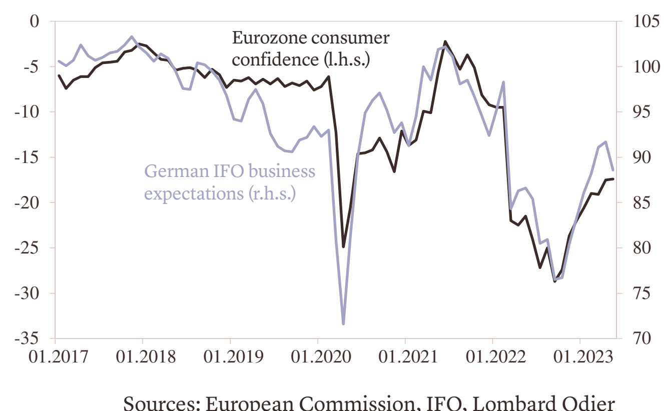
Fullness of gas inventories by country, %




Sources: Aggregated Gas Storage Inventory, Bloomberg, Lombard Odier

11. With the energy shock abating, confidence has returned

Consumer confidence and IFO business expectations (index level)




Sources: European Commission, IFO, Lombard Odier

# Switzerland
## Bruised by a global downturn

*Samy Chaar, Chief Economist*

### Key takeaways

- Demand for Swiss goods – and to a lesser extent services – is slowing, leading to our forecast of below-potential 1% growth this year
- High household savings and overall wealth, a strong job market, contained inflation and resilience shown by Swiss companies to date are all helping to stave off recessionary risks
- Swiss interest rates are near their peak; we are closely monitoring financial stability and banking sector concerns, mortgage and real estate risks.

The Swiss economy faces a challenging 2023, with growth vulnerable to a global downturn in the second half. Demand is already falling for Swiss goods and services exports, as many of its trading partners suffer from the impact of high inflation and monetary tightening. Domestic demand is also slowing, amid higher-than-usual inflation, and rising interest rates that have eroded consumer confidence and increased the cost of servicing high levels of household and corporate debt. The KOF Economic Barometer, a leading indicator of Swiss growth, fell sharply in May (see chart 12), with weaknesses emerging in manufacturing, the financial sector and foreign demand. As international and domestic factors weigh on growth in the quarters ahead, we expect GDP to rise by a below potential 1.0% this year.

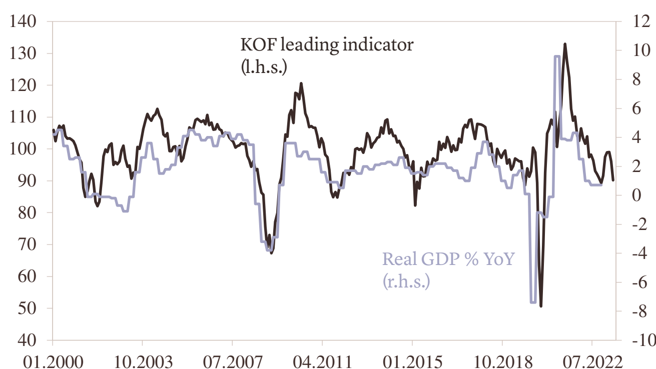
That said, the already elevated savings rate of Swiss households increased during the pandemic, and has remained high since then, providing some buffer from rising rates. The increase in household expenses due to higher interest rates on mortgage loans should therefore not slow private consumption to recessionary levels. Unemployment remains low and the number of job vacancies high. The impact of higher food and energy prices has also had a less marked impact on a generally wealthy population. Meanwhile, many Swiss companies reported unexpectedly strong revenue growth and resilient profit margins in the first quarter.

Inflation has also remained lower than in the eurozone and US, helped by a strong Swiss franc, and less reliance on oil and gas imports, although it remains above the Swiss National Bank's (SNB) target (see chart 13). Like most central banks in developed economies, the SNB has rapidly increased its policy rate since mid-2022. We expect it to make a further 25 bps rate hike at its June meeting, with a potential further 25 bps increase in September, although the latter is not our base case scenario. In common with the Fed and the ECB, we do not expect the SNB to start cutting rates before early 2024.

Risks to our outlook include further turmoil in the banking sector or financial stability concerns, given the seismic changes seen in Swiss banking in March, and the importance of financial services to the Swiss economy. The fiscal surplus should also be lower in 2023, amid lower profits from the SNB and increased government spending on programmes including energy security. We will also be closely monitoring risks related to the real estate market as house prices fall and borrowers refinance onto higher rates.

**12. Below-potential growth**

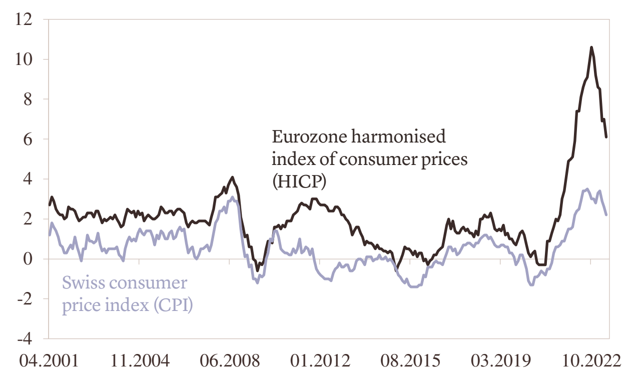
KOF leading indicator and Swiss GDP growth




Sources: KOF, Bloomberg

**13. Lower inflation than elsewhere in Europe**

Eurozone versus Swiss inflation, %




Sources: Bloomberg, Lombard Odier

# United Kingdom
## Rates headed higher

*Bill Papadakis, Senior Macro Strategist*

### Key takeaways

- The energy price shock has receded, significantly improving the outlook
- Yet domestically driven inflationary pressures are pushing the Bank of England to raise rates higher than previously expected
- With some mortgage borrowers yet to refinance onto higher rates, the full effect of significant rate tightening has yet to be felt by UK households.

The UK economy has proved hard to analyse of late. While excessive market pessimism on its growth prospects seems to be over, inflation has proved more persistent, even as it is on a clear downtrend in both the US and the euro area. The UK's April CPI report surprised markedly on the upside, and even showed core inflation picking up again. The Bank of England (BoE), having been wrongfooted by inflation, and by its November predictions of a long recession (it now expects modest growth), has continued to tighten policy, with the policy rate now looking set to exceed 5%.

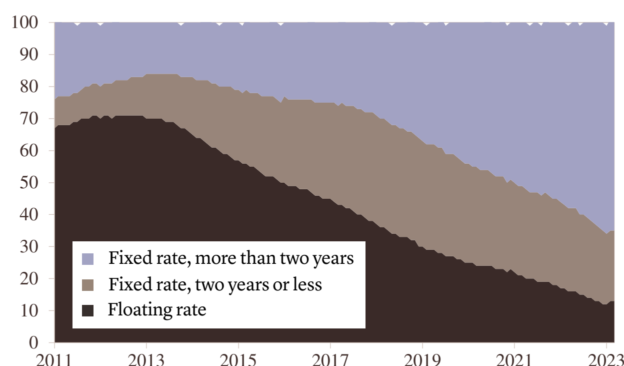
We expect growth in the UK to be roughly flat in 2023, the weakest reading among major economies but still avoiding recession. Falling energy prices have reduced the terms of trade shock. The policy environment has become more predictable and less volatile, helping stabilise market conditions after the short tenure of former Prime Minister Liz Truss ended in October. Meanwhile, relations with the EU have improved following the Windsor Framework agreement in February.

Still, real incomes continue to suffer from elevated inflation, and the impact of significant monetary policy tightening. While the UK consumer has shown a certain resilience to date and confidence has improved, it is worth noting that the effect of higher rates has been felt only partially so far.

The structure of the UK mortgage market, with the percentage of fixed-rate mortgages having increased significantly since the global financial crisis of 2007-2008, has limited this impact to date (see chart 14). But unlike the US market, with its dominant share of long-term fixed-rate mortgages, the vast majority of UK mortgages reset to a variable rate in the near term (see chart 15). With the BoE likely to raise the bank rate above 5% and keep it there for an extended period of time, a significant hit to disposable incomes looks inevitable as an increasing share of mortgages reset. With the BoE also reaching peak rates later than the Fed and the ECB, and in turn starting to consider easing policy later, we expect growth to only start improving meaningfully around the middle of 2024.

14. As the share of fixed-rate mortgages in the UK has increased…

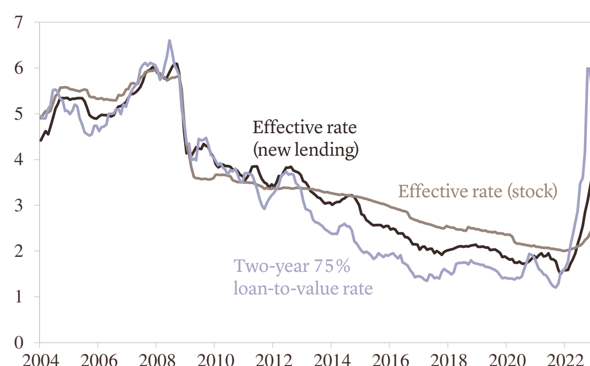
Market share by mortgage type (in percent)




Sources: Bank of England, Lombard Odier

15. … the impact from rising rates takes longer to be fully felt

Key UK mortgage rates (in percent)




Sources: Bank of England, Lombard Odier

# Japan
## Solid fundamentals

*Homin Lee, Senior Macro Strategist*

### Key takeaways

- Japan's economic fundamentals remain healthy despite a challenging external environment. Inflation is set to overshoot the Bank of Japan's target for the second consecutive year
- The Bank of Japan is likely to end its yield curve control in 2023
- The Kishida cabinet might call a snap election to justify potential revenue enhancement measures, but this is unlikely to change the country's policy outlook for now.

Japan's economic fundamentals remain solid. Thriving service sector and resilient private sector investments lifted growth to 1.6% in Q1 despite a double-digit decline in real exports. In our view, there is enough momentum in domestic demand for the country to match or even outperform US and European growth rates in 2023. A trend towards 'friend-shoring' (shifting supply chains to geopolitical allies) is boosting Japan's long-term outlook as advanced manufacturers explore the possibility of building capacity in the country.

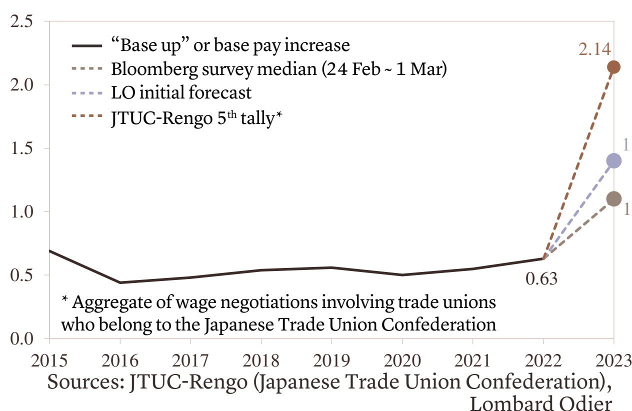
We also expect another year of above-target inflation in 2023. Although wage growth has moderated somewhat from the sharp spike seen at the end of 2022, it will likely bounce back again as spring wage negotiations deliver one of the highest base pay raises in recent decades (see chart 16). Headline inflation has begun to rebound, and April's core inflation reached its highest level in four decades (see chart 17). Survey-based indicators suggest part of this is driven by a shift in long-term inflation expectations.

We expect the Bank of Japan (BoJ) to respond to these signs of genuine reflation by ending its targeting of 10-year Japanese government bond yields (or 'yield curve control') later this year. This policy has been a source of discomfort for policymakers as it tends to trigger outsized yen weakness and subsequent consumer unhappiness with lower real wages. New BoJ Governor Kazuo Ueda has so far refrained from making such changes and has launched a vaguely defined review of policy for the next 12-18 months. We still expect the BoJ to end yield curve control before this review is over.

On the fiscal front, the government appears to be readying revenue-boosting measures to fund a 50% hike in defence spending over the next five years as well as new childcare measures and initiatives to boost the birth rate. With a big rise in his approval rating after a string of diplomatic successes, Prime Minister Fumio Kishida might call a snap election this summer, to gain a new mandate for the additional taxes to fund planned spending, and to strengthen his position within the ruling Liberal Democratic Party. However, we believe this will not change the policy outlook as the opposition remains too feeble to pose a genuine threat.

**16. A large raise in spring wage negotiations**

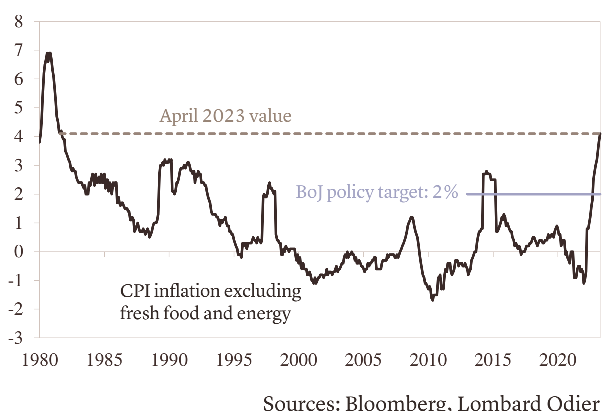
Reported base pay increase in *shunto* negotiations, %




Sources: JTUC-Rengo (Japanese Trade Union Confederation), Lombard Odier

**17. Core inflation now at its highest level since 1981**

CPI inflation excluding fresh food and energy, % YoY




Sources: Bloomberg, Lombard Odier

# China
## Waiting for credit easing

*Homin Lee, Senior Macro Strategist*

### Key takeaways

- A robust services sector should help China achieve 5.5% growth in 2023 despite weak overseas demand and industrial sector struggles
- We expect additional tweaks in credit and monetary policy to anchor growth after the reopening boost fades. The stance of the new financial regulator will be a key variable to watch
- China's gradual transition to a 2~3% growth pace in the long run should not be a big surprise given its well-known demographic headwinds. What matters more is qualitative: vibrancy in its private sector.

China's growth is showing some signs of weakness after a strong first quarter driven by a rapid reopening from stringent Covid restrictions. The services sector, which represents slightly more than 50% of China's economy, will remain the main driver for growth, with relevant indicators showing healthy expansion into Q2 (see chart 18). In our view, this will be sufficient to help the country achieve 5.5% growth this year despite headwinds from weaker overseas demand. Market sentiment has nevertheless become more negative in response to signs of fragility in manufacturing and inflation data.

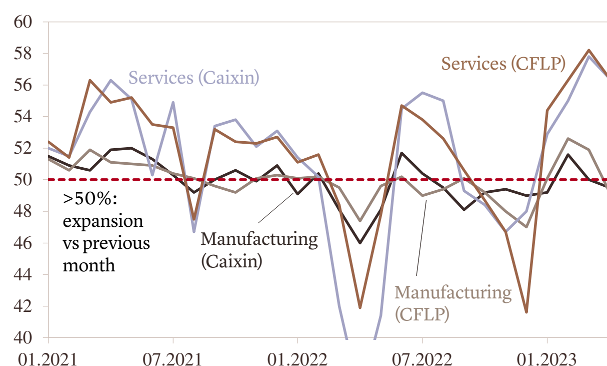
We expect additional macroprudential and monetary policy tweaks from Chinese authorities in the coming months, in a bid to maintain positive economic momentum. Diverging trends in credit and money supply suggest that deleveraging pressures may be hampering the impact of monetary easing (see chart 19). Homebuyers' lingering anxieties on real estate investment are likely a key factor. Further relaxation of borrowing conditions for homebuyers and property developers or cash compensation schemes for shantytown redevelopment could counter this behaviour without putting significant new strains on local government finances. As long as inflation remains well below 3%, the People's Bank of China can keep its interest rate low, offer targeted liquidity support, and tolerate a weaker yuan.

Whether or not China embarks on this policy path of modest reflation will be a key issue in the next few months. Rhetoric from the new State Administration for Financial Regulation (SAFR) – which will assume responsibility for financial sector regulation, supervision, and consumer protection – will provide important clues regarding Beijing's thinking on economic stabilisation needs, ahead of the reform-themed third plenum for the Chinese Communist Party this autumn.

Although poor demographics and economic maturation will bring China's growth to around 2~3% by the end of the 2020s, the country has a chance to cushion the decline through higher urbanisation, technology, and financial market liberalisation. China's remarkable market share gains in electric vehicles and clean energy sectors demonstrate the significant potential of its industries. Genuine pro-growth policies that lift the outlook for these industries would help China counter growing negative external perceptions of the country, but the window will not remain open forever.

**18. Services sector activity still expanding solidly**

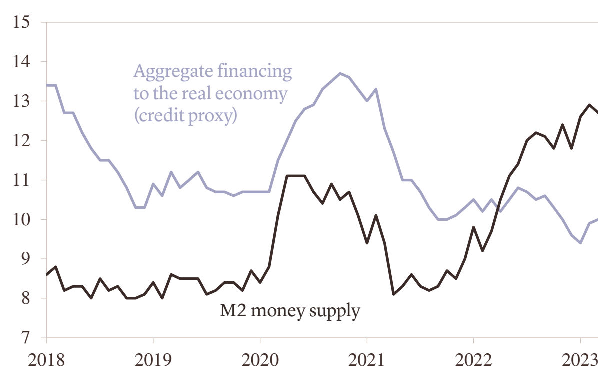
Purchasing manager indices




Sources: Bloomberg, Lombard Odier

**19. Credit growth has been muted despite rebounding money supply**

Aggregate financing and M2 money supply growth, % YoY




Sources: Bloomberg, Lombard Odier

Please read the important information at the end of the document.

# Emerging markets ex-China
## Financial calm despite growth slowdown

*Homin Lee, Senior Macro Strategist*

### Key takeaways

- Financial markets have been mostly calm in key emerging markets outside China as softening inflation and peaking local rates have stabilised the medium-term growth outlook
- 2024 will be a crucial election year for many large emerging economies. Domestic political developments will come into investors' focus in the remainder of 2023
- Friend-shoring trends could provide additional support for 'China-alternatives' such as India, Indonesia, Vietnam, Mexico, and Poland.

Emerging markets (EM) outside China have enjoyed a degree of financial calm this year despite a global growth slowdown and US banking sector fragility. Although this partly echoes a general market stabilisation after a difficult 2022, we believe economic fundamentals also played their part. Declining global commodity prices and slowing growth are contributing to a steady softening of domestic inflation for all key regions (see chart 20). Weak exports are being cushioned by less costly imports, e.g. energy, and service sectors remain resilient, as they are in other economies. Stagflation that drove market volatility last year is slowly turning into a more manageable slowdown.

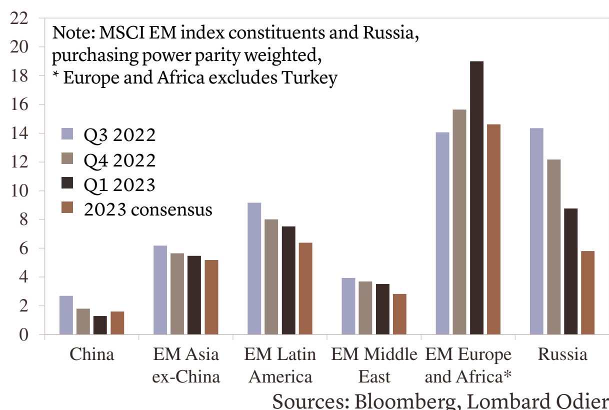
Local interest rates are already at their peak, except in Turkey and Egypt where anxieties about currency weakness will likely lead to additional hikes. In emerging Asia, the Malaysian central bank's May rate hike likely marked the end of the region's tightening cycle, with inflation already within target ranges or steadily declining to more comfortable levels. In other regions, elevated inflation is an issue, but interest rates are more or less on hold as central banks in countries such as Brazil gain more confidence on the medium-term disinflationary outlook. Ebbing pressures on local currencies, as hinted at by the recent stabilisation of foreign reserves at EM central banks, should add to such confidence (see chart 21).

On the political front, 2024 will matter more than 2023. Domestic political developments in India, Indonesia, South Korea, Taiwan, Mexico, and South Africa will increasingly come into investors' focus ahead of crucial electoral contests next year. This year's elections in Turkey and Thailand have received market attention due to the unexpected struggles of the ruling parties but are unlikely to alter the two countries' economic trajectories. Polish and Argentinian elections later this year have a chance to produce more market friendly outcomes, but predictions remain difficult at this juncture.

Looking further ahead, the global trend towards friend-shoring could provide some support for industrial capacity building. A global race to build this capacity should anchor demand for industrial metals in the next three to five years, supporting their exporters in Asia and Latin America. Meanwhile, India, Indonesia, Vietnam, Mexico, and Poland look well positioned to become alternative manufacturing hubs to China.

**20. Inflation set to decelerate further**

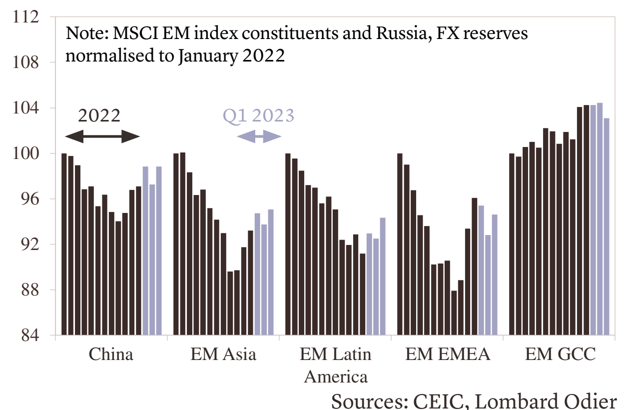
CPI inflation and Bloomberg consensus forecast (as of 31 May 2023), % YoY




Sources: Bloomberg, Lombard Odier

**21. FX reserve levels have rebounded for key regions**

USD value of FX reserves, January 2022 level = 100




Sources: CEIC, Lombard Odier

forward.

We're living through a perfect storm of uncertainty: Climate. Geopolitics. Inflation. Recession.

But it's for times like these we exist.

With over 225 years of experience, we know there is only one way through this storm: forward.

For an unstoppable sustainability transition is already well underway, revolutionising Energy, Food, and Materials systems.

Transforming our entire economic model far more fundamentally than many imagine.

With forward-minded investment solutions our role is to calmly guide our clients.

Towards a future that has already begun.

Find out more at **LombardOdier.com**

rethink everything.®

LOMBARD ODIER

LOMBARD ODIER DARIER HENTSCH

PRIVATE CLIENTS
ASSET MANAGEMENT
TECHNOLOGY

Investments are subject to a variety of risks. This is a marketing communication. Please refer to the prospectus, the KIID of LO Funds SICAV and your investment advisor before making any final investment decisions. Lombard Odier (Europe) S.A. UK Branch is authorised and regulated by the Commission de Surveillance du Secteur Financier ('CSSF') in Luxembourg and is authorised in the UK by the Prudential Regulation Authority ('PRA'). Subject to regulation by the Financial Conduct Authority ('FCA') and limited regulation by the PRA. Financial Services Firm Reference Number 597896. Lombard Odier Asset Management (Europe) Limited - authorised and regulated by the FCA in the UK. ©2022 Lombard Odier

# Asset allocation – False positive, or fresh dawn?

*Christian Abuide, Head of Asset Allocation*

Markets have largely brushed off still-high inflation, slowing growth, banking sector and geopolitical risks, focusing instead on a potential monetary policy pivot and a technology sector seemingly unaffected by credit tightening.

We expect the slowdown in growth and inflation to continue and central banks to maintain rates at high levels despite a mild US recession in late 2023 and subpar growth elsewhere in developed markets.

We see attractive risk-reward in high grade fixed income, and prefer equity markets outside the US as earnings downgrades unfold.

Many indicators point to a dim economic outlook for the coming months. But for now, the US and many other developed economies continue to avoid recession. Tight labour markets and consumers drawing down on Covid-era excess savings have supported spending, economic activity, and risk assets (see chart 22, page 20).

Could central banks cut rates and support markets as the economic outlook darkens? We think this is unlikely without a rapid fall in inflation. We expect the Fed and ECB to pause yet keep policy rates tight in 2023. Rapid cuts could follow under a more severe recession scenario than we expect, or one that sees further banking stress; neither of which would be obviously positive for risk assets. In other words, disinflationary efforts will succeed, but at the cost of inflicting pain on the economy. How much remains to be seen.

The expectation of a pause in rate hikes has also lent support to risk assets to date; but historically, equity market performance after a peak in US interest rates has been mixed, depending on the subsequent trajectory of inflation and particularly growth. When inflation was under control, and growth stabilised, equities did well (e.g. 1995, 2006). When inflation was problematic and/or recession followed, equities suffered (e.g. 1981, 2000). Markets have already priced in a pause, which has supported growth stocks and sectors in recent months, and now leaves some room for potential disappointment. And while equities have been resilient overall at a headline index level, this has been driven by a narrow set of stocks, something not uncommon in late-cycle environments (see chart 23, page 20).

**What does this mean for portfolios?**

Overall, we maintain a neutral exposure to risk, and equities, within portfolios and a defensive tilt within asset classes. So far this year, still-strong consumption and fairly resilient corporate results have wrong-footed a generally cautious positioning among the investment community. This could endure for longer. Alternatively, equity market resilience could be put to the test in a downturn. Given the broad range of outcomes, we want to avoid narrowly pre-positioning portfolios for either a ‘soft landing’ or a pronounced recession.

Within **equities** and equity styles, quality has historically done well relative to other ‘factors’ (e.g. value, growth, small-caps) in late-cycle expansions and the following slowdowns, and we retain a preference for quality stocks, and the typically defensive businesses found in the consumer staples sector.

Economic recessions typically see earnings per share (EPS) estimates fall by 15-20%. Equity analysts’ consensus forecast is now consistent with a 1% earnings decline for the S&P 500 in 2023, and 9% growth in 2024, whereas we believe an 8% fall this year followed by a 13% gain in 2024 is a more likely outcome[1]. We thus remain cautious on US equities for now, favouring markets outside the US (see chart 25, page 22). These include China, where we expect double-digit growth in corporate

[1] Data as of 13 June 2023

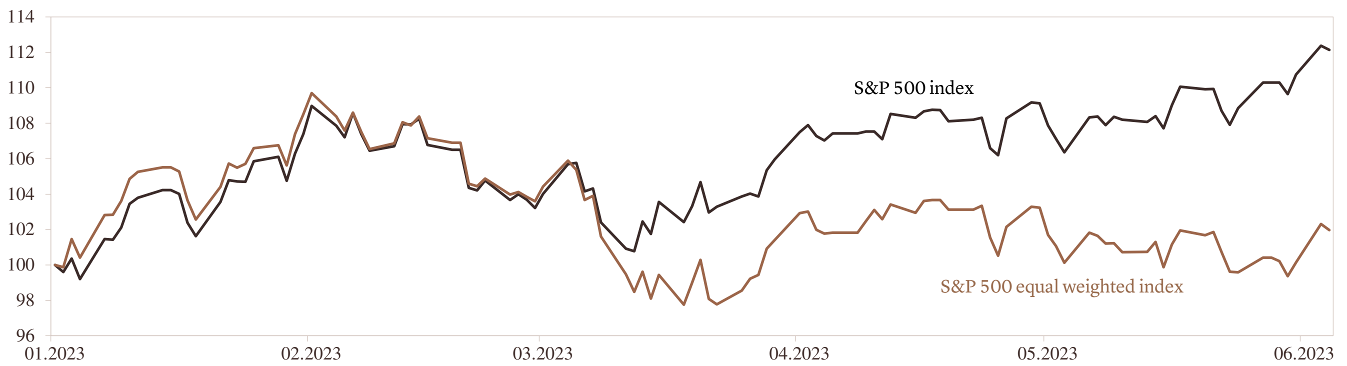
## 22. Equities are discounting a cyclical recovery in activity indicators

Large gap between resilient current activity and weak leading indicators

Sources: Bloomberg, Conference Board, Lombard Odier

## 23. Highly concentrated index performance

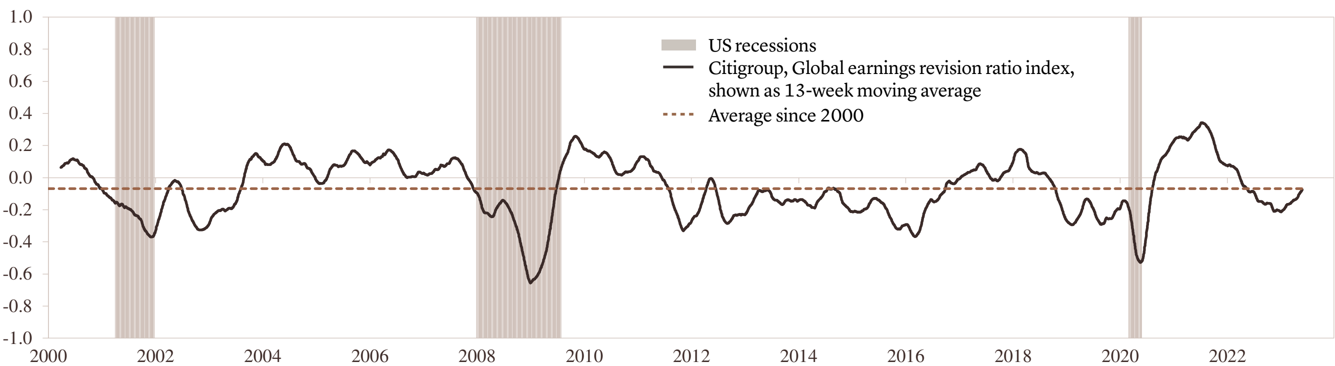
Led by mega cap stocks in the US




Sources: Bloomberg, Lombard Odier

## 24. Slowing activity keeps corporate earnings under pressure

Momentum is weak but improving




Sources: Bloomberg, Citigroup, Lombard Odier calculations

earnings in 2023, with scope for margins to rebound. While our core scenario does not expect Chinese stock valuation multiples to increase, they remain attractive. Meanwhile, regulatory forces should prove less of a headwind this year, and further monetary policy easing may be on the cards.

We maintain an overweight allocation to **fixed income** for diversification and capital preservation purposes. We prefer high quality government bonds, which are benefiting from higher yields, decelerating inflation, and policy rates at or near peak levels. We also favour liquid investment grade credit, as we think this could do well under most scenarios, over high yield, where we see further spread widening ahead (see chart 26, page 22).

Relative valuations and slower growth should support high quality bonds over equities (see chart 27, page 22), especially in the US where our expectations for earnings growth remain below consensus. We also believe sovereign bonds can once again offer diversification benefits after a terrible 2022: recent correlation in returns points in this direction (see chart 28, page 23).

We retain a neutral duration stance, with a bias to lengthen duration as rate cuts approach. In this context, US Treasuries, investment grade (IG) corporate bonds, floating rate notes and even cash can all play an important role in building an allocation that earns attractive risk-adjusted returns without unduly elevated interest rate duration risks (longer-term bonds are typically more sensitive to interest rate moves).

**Emerging market debt** should remain supported in 2023 and local currency debt looks increasingly attractive. Emerging market central banks started raising rates aggressively well ahead of their developed market peers, and most of these rate-hiking cycles are now effectively over as inflation is falling (see chart 29, page 23). New debt issuance has been limited while valuations and income are attractive in pockets such as Latin America. We keep a selectively positive view on Brazilian sovereign bonds, and a negative one on Chinese sovereign bonds, where we see room for currency weakness to persist.

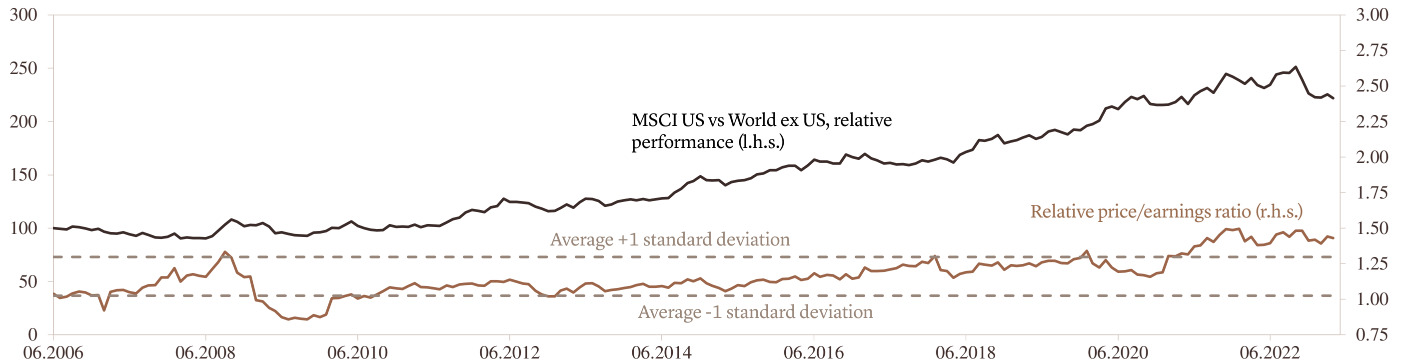
**In currencies**, we expect modest US dollar weakness and remain underweight. We believe that the dollar remains expensive from a valuation perspective and that the growth premium relative to the rest of the world will erode in the coming months, as will the yield advantage of US rates versus the rest of the world as the Fed starts cutting rates earlier than other developed market central banks. The Japanese yen and Swiss franc are our most preferred currencies, while we also see relative value in the euro.

**Commodities** experienced a bumpy first half, underperforming other major asset classes. Performance within commodities diverged, with gold outperforming thanks to its safe-haven nature and oil lagging, primarily owing to higher than expected supply, and recessionary concerns. Looking ahead, we see further upside potential for gold with room for prices to reach USD 2,100/ounce by early 2024 on robust demand, a peak in real rates and a weaker US dollar. Oil, in turn, has the potential to rise towards USD 90/barrel as the Organization of the Petroleum Exporting Countries and key non-members (OPEC+) actively manages production to stabilise prices, and low inventories make it more likely that markets will return to a deficit in the second half of 2023.

**Real estate** is a clear example of the financial pain inflicted by higher interest rates, but we think there are somewhat different dynamics, and prospects, to keep in mind within the asset class. Some areas are well supported by fundamentals, e.g. a lack of supply (logistics and apartment buildings, hotels) or valuations (Europe), while some are more structurally challenged (the lower quality segment of the office market, weaker developers). Overall, we think the asset class offers attractive return prospects and diversification benefits to investors with a long-term horizon. The high dispersion of returns we are seeing in markets also offers opportunities for **macro and trend-following** hedge fund strategies, and we continue to suggest an allocation here for further portfolio diversification.

## 25. US earnings dominance has resulted in premium valuations

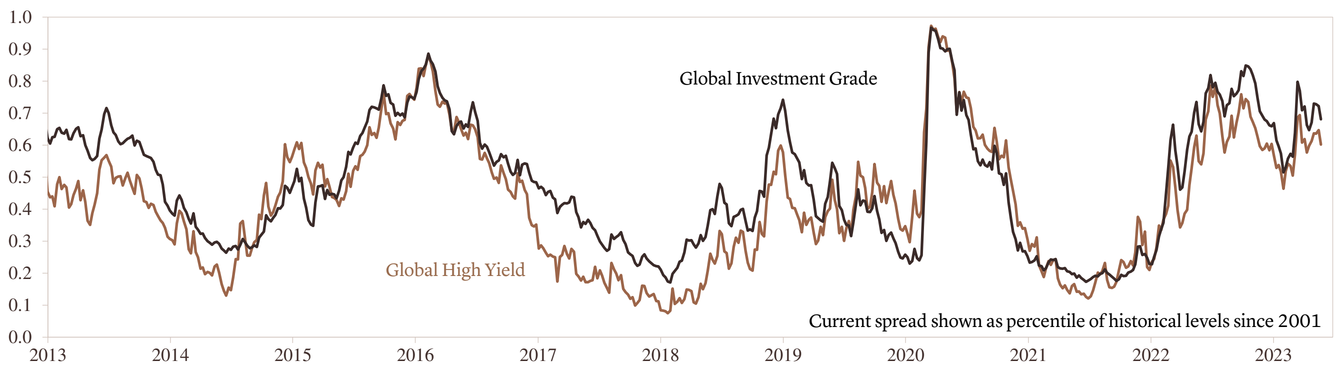
Is this at risk as rest of world's earnings catch up?




Source: Bloomberg

## 26. Investment grade credit remains attractive

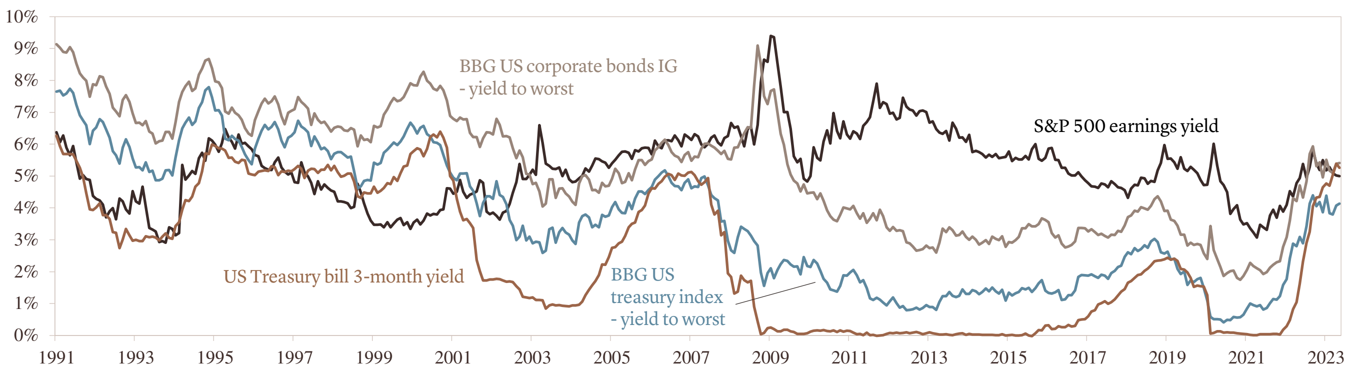
We prefer it to high yield at this juncture




Sources: Bloomberg, Lombard Odier

## 27. Equities face competition in the short term

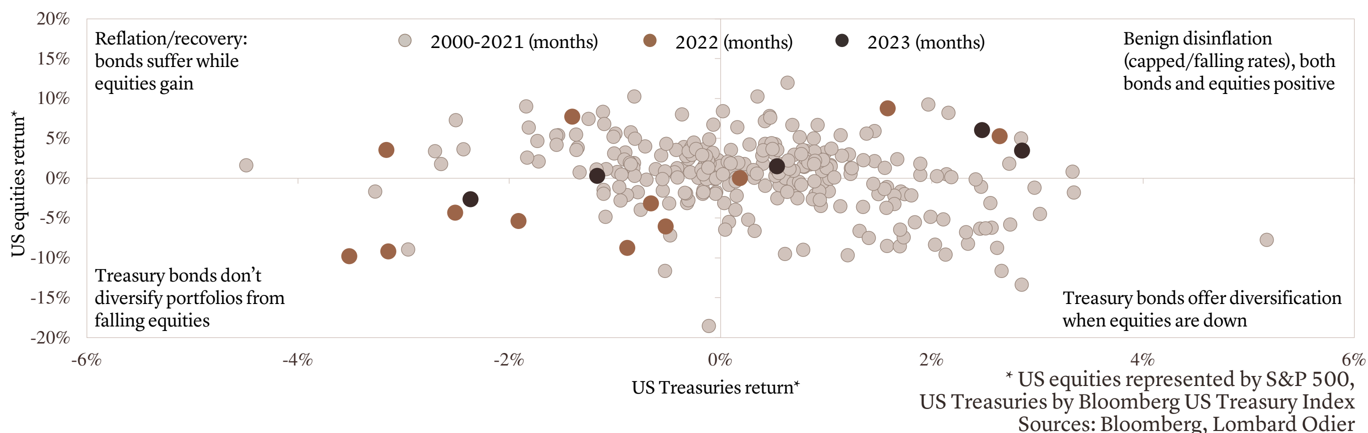
For multi-asset investors




Source: Bloomberg

## 28. Correlation between US Treasury bonds and equities

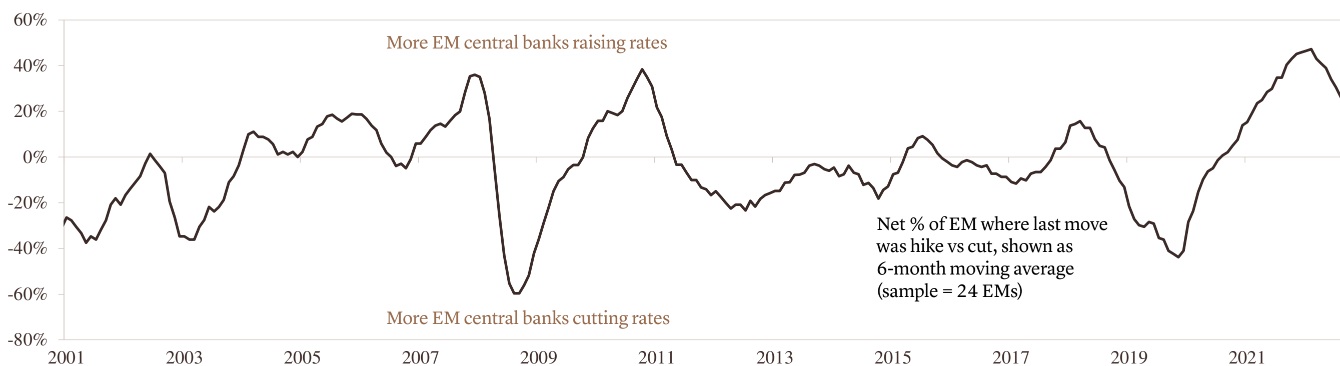
Normalisation underway




* US equities represented by S&P 500, US Treasuries by Bloomberg US Treasury Index
Sources: Bloomberg, Lombard Odier

## 29. Tightening cycle in EM well advanced and rolling over

Bodes well for countries at the forefront of the trend




Sources: Bloomberg, Lombard Odier

# Asset classes

Fixed income

Equities

Currencies

Commodities

# Fixed income
## Favouring quality

*Cyril Caillault, Senior Portfolio Manager*

### Key takeaways

- We expect the Fed and the ECB to be at or near the peak of their hiking cycles
- Given recession risks, we favour investment grade credit over high yield
- We also favour emerging market local currency debt, especially in Brazil, where the monetary cycle is well advanced.

Inflation continues to decline, a trend we expect to be slow but progressive. Central banks have significantly slowed their tightening policies, and monetary conditions are in territory that is restricting growth. We expect lower demand, increased unemployment and slowing economic growth to bring inflation back down to a level where central banks can pause their rate hikes and eventually consider cuts; the latter in early 2024.

In sovereign bonds, our base case scenario assumes lower yields in twelve months' time (3.25% for 10-year US Treasuries and 2.50% for 10-year German Bunds), despite room for an overshoot of current levels in the near term. Given better valuations and well-flagged recession risks, we believe bonds are becoming more attractive in a portfolio context. Additionally, this year they appear to have regained their 'safe haven' status, as seen during the banking crisis in March. We have therefore moved to an overweight position.

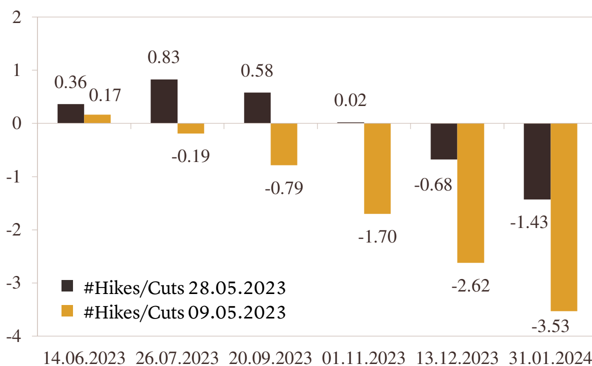
In credit, our defensive stance favours global investment grade (IG) over high yield (HY). We believe spreads for the latter are not yet consistent with a recession scenario: historically, HY spreads over US Treasuries tend to reach an average of 800 basis points (bps) during periods of economic contraction[1]. A further tightening of financial conditions would not be supportive for corporate credit profiles, as cash flows would likely be challenged by higher funding costs and lower margins. We believe that HY bonds will be more vulnerable than IG in the coming months.

Recent market stresses have confirmed our views on emerging market (EM) debt. We remain cautious on EM hard currency bonds, as we believe credit spreads are not fully compensating for fundamental risks. While spreads did increase in 2022, they are still not in line with past recession periods. We have turned more positive on local currency bonds, as the carry trade looks appealing with peaking rates in the US and upside potential for EM currencies, especially in Brazil, where the monetary cycle is well advanced and the central bank's next move should be a rate cut. Conversely, we remain cautious on China local currency debt. Despite offering portfolio diversification, it no longer offers a yield premium versus developed markets.

[1] as measured by the Bloomberg Global High Yield Corporate Option Adjusted Spread Index.

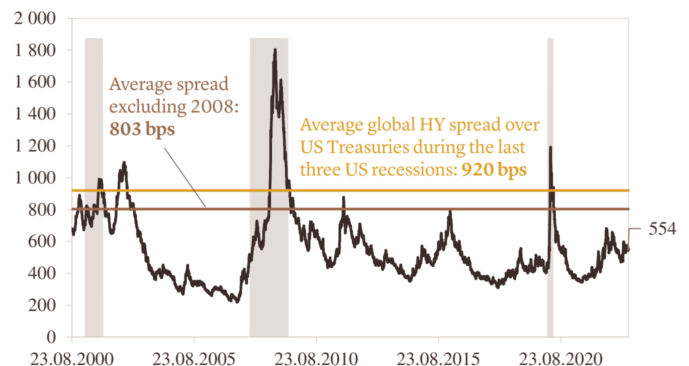
**30. Market expectations on Fed's monetary policy path**

Market is now more in line with our view of a rate cut in 2024




Sources: Bloomberg, Lombard Odier

**31. HY spreads not yet consistent with our mild US recession forecast**




Sources: Bloomberg, Lombard Odier

# Equities
## Resilient price action defies recession fears

*Edmund Ng, Head of Equity Strategy*

### Key takeaways

- We see mid- to high-single-digit upside for non-US equities, while the US market looks fairly valued
- We prefer defensive sectors over cyclical ones and retain a quality bias in our holdings
- We believe Chinese equities could outperform in the second half.

While major markets have risen year-to-date, many investors have remained on the sidelines, amid rising recession fears and financial stability concerns.

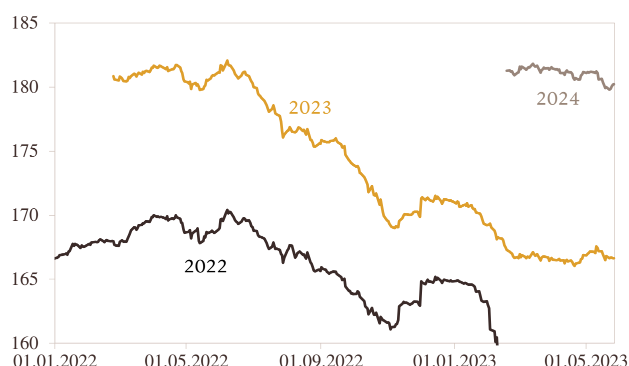
We assess equity markets via a 'four-pillar' framework, looking at macroeconomics, earnings, valuations and technical factors. We see the strongest support coming from a technical perspective, where price momentum remains strong and persistent. While investor sentiment and positioning have improved, they remain broadly neutral, suggesting the 'pain trade' – where markets move in the opposite direction to prevailing investor positioning – could continue to be upwards. The macroeconomic backdrop might also be less bad than investors had feared, and falling inflation is alleviating the pressure from higher interest rates.

A slowdown in demand should see corporate margins and profits weaken in 2023. Yet the earnings outlook has improved marginally after companies' Q1 results, which were generally better than expected. Consensus 2023 earnings forecasts have stabilised after months of downgrades (see chart 32). Companies remain confident in their ability to retain pricing hikes with a limited impact on volumes. This and a focus on cost discipline, together with easing raw material cost pressures and supply chain disruptions, is being reflected in a tentative rebound in operating margins, which could prove an important development if sustained. Meanwhile, valuations are not sending a particularly strong signal, remaining slightly above historic averages in the US and slightly below them in the rest of the world.

We retain a neutral stance on equities versus our strategic benchmark. We prefer non-US markets, where we see mid- to high-single-digit upside on a probability-weighted basis. We see more limited upside in the US, with the S&P 500 expected to end the year roughly flat in our base case scenario, as earnings per share fall ahead of a trough in Q4. Plausible, but lower probability scenarios entail either mid- to high-single-digit earnings growth on the one hand; or a more severe economic contraction triggering deeper than expected falls in earnings and valuations on the other.

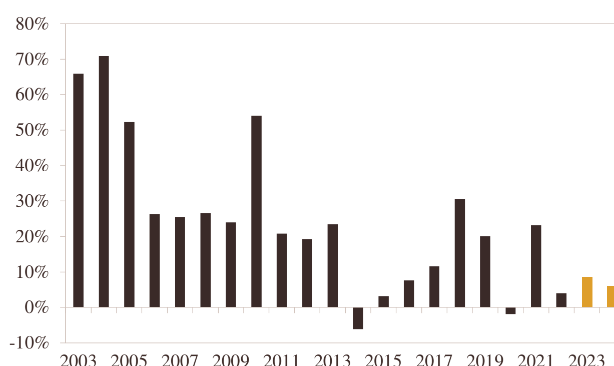
Given the uncertain macroeconomic backdrop, we prefer segments of the market that offer exposure to quality companies and reliable growth, such as consumer staples. We believe China will outperform in the second half after a period of underperformance, as companies deliver superior earnings growth for the full year relative to their developed market counterparts. We also see emerging opportunities in materials, despite recent weakness, given longer-term tailwinds (e.g. sustainable packaging, hydrogen as a fuel source, demand for metals used in low-carbon technologies).

**32. Earnings expectations for 2023 have fallen sharply**
MSCI World Index, analysts' consensus earnings per share growth




Sources: Factset, Lombard Odier forecasts

**33. We expect solid second half revenues for Chinese stocks**
MSCI China revenue growth, % YoY




Sources: Factset, Lombard Odier forecasts

# Currencies
## Differing dollar trends from Q3

*Kiran Kowshik, Global FX Strategist*

### Key takeaways

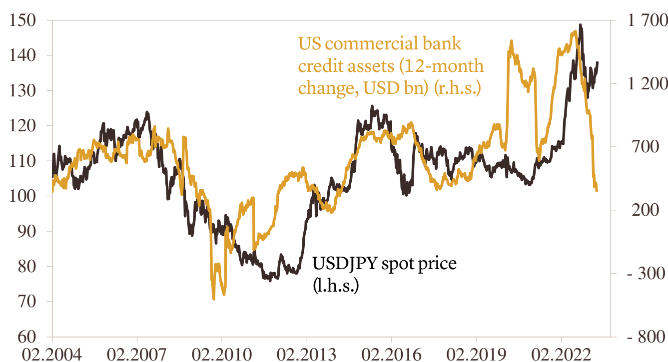
- We expect EURUSD to trade in a 1.06-1.10 range in the next few months
- From Q3 onwards, we see US dollar weakness against other major currencies, and strength against growth-sensitive currencies in Asia, including the Chinese yuan
- We favour the Japanese yen, euro, Swiss franc and Brazilian real, the latter for the carry it offers.

Back in January, our shift from a positive stance on the US dollar to a view of dollar depreciating expected this weakness to be frontloaded in the first half of 2023. However, several factors have changed since then, resulting in more support for the dollar. The US economy, and particularly consumer spending, has proved unexpectedly resilient. Markets now expect the Fed to maintain rates high for longer, while upward revisions to global growth forecasts may have peaked, amid softer than expected Chinese data. For Q3, we thus anticipate EURUSD trading in a 1.06-1.10 range.

Yet while the US dollar may receive short term support, we see diverging trends from the third quarter onwards, as the US labour market weakens and inflation moderates. With natural gas prices having fallen, the US' prior trade advantage over energy importers such as Japan and the eurozone has diminished. We expect upcoming dollar weakness against the Japanese yen, euro and Swiss franc, and strength against growth-sensitive currencies in Asia, including the Chinese yuan. Sterling also falls into this latter camp, but the currency may initially be better supported on further Bank of England tightening, before weakening as the housing market slows further. Meanwhile, recessionary concerns could support other haven assets. The Japanese yen and Swiss franc are our preferred currencies, while we also see relative value in the euro. We maintain our 12-month forecast of 120 for USDJPY, with the yen looking particularly undervalued.

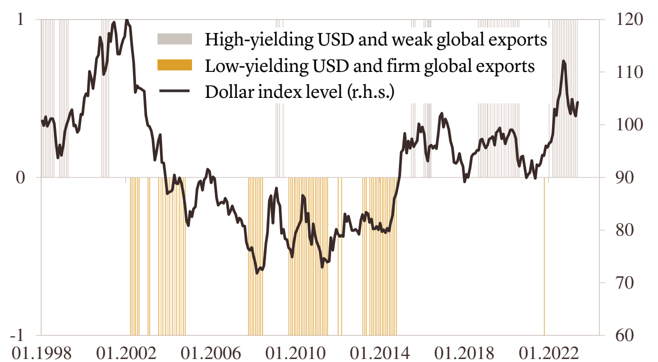
However, we do not see the ingredients for long-lasting USD weakness. Our 12-month EURUSD forecast is 1.12, with markets likely to price back in the potential for Fed easing from Q4 onwards. Further dollar weakness and a stronger recovery of the euro (to 1.20-1.25), would likely need both a stronger global trade outlook (with the new export orders component of Purchasing Managers' Indices above 50) and a lower-yielding US dollar (see chart 35). While the latter may occur in 2024, the bar for a better global trade picture may be higher and would potentially require stronger Chinese stimulus (focused on older capital-intensive industries) and a reduction in geopolitical strains between the US and China.

34. Japanese yen to outperform dollar as US lending slows




Sources: Bloomberg, Lombard Odier

35. Dollar supported in broad ranges when US yields are high and global trade weak




Sources: Bloomberg, Lombard Odier

# Commodities
## Recession risks and weaker dollar see gold shine

*Jianwen Sun, Quantitative Investment Strategist*

### Key takeaways

- Oil prices have the potential to rise in the second half given proactive production management by OPEC+ in a tight market
- We see normalising demand in China supporting copper prices
- Recession risks, peaking US real rates and a weakening US dollar should see gold reach USD 2,100/ounce by early 2024.

After a strong 2022, commodities lost their position as outperformers in the first half of 2023. Instead, in a late-cycle economic environment, they started to lag well behind other asset classes. Constructive fundamentals for oil and industrial metals have been overshadowed by recession fears and stress in the banking sector. Central banks have had to balance twin missions – controlling inflation and ensuring the financial stability– and have continued raising rates, albeit at a slower pace than last year.

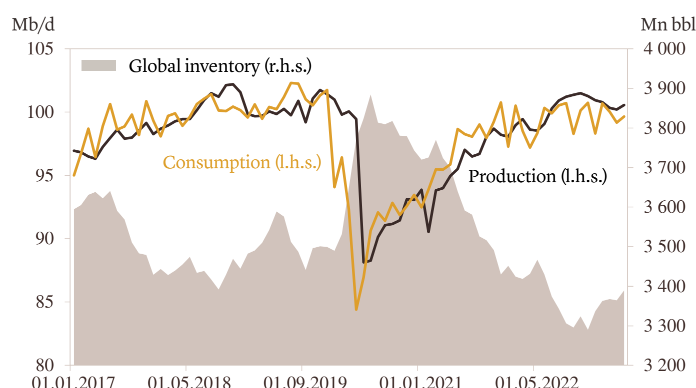
Against this backdrop, and amid recession concerns, oil prices have broadly fallen to a USD 70-80/barrel range. Production cuts by the Organization of the Petroleum Exporting Countries and key non-members (OPEC+) in April and June balanced increased supply from non-members. With weaker signs emerging on both the supply and demand sides, the market balance for oil changed little (see chart 36) and we expect it to move back into deficit in the second half, given rising summer demand in the northern hemisphere and ongoing normalisation in EM demand. While we acknowledge demand uncertainties, we expect supply to be more important in determining oil prices for the remainder of the year, as OPEC+, especially Saudi Arabia, actively manages production to stabilise prices. We see the potential for Brent crude prices to rally to USD 90/barrel towards year end.

We see a similar trend ahead for copper. After an early-year boost sparked by optimism on future demand as the Chinese economy reopened, copper's price surge has faded, amid subdued Chinese net copper imports and weakening Western demand. But while the latter will likely stagnate pending a clear pivot in central bank policy towards cutting rates, demand in China should continue to normalise to pre-Covid trends. With the expectation of China's industrial activity rebounding into expansionary territory in the second half and net imports increasing on the back of declining Chinese inventories, we maintain our constructive medium-term view on copper.

This year, gold prices have at times spiked above USD 2,000/ounce, as recessionary, banking sector and geopolitical risks have seen investors seek haven assets. Our proprietary model (see chart 37) shows that real interest rates, the US dollar, and investor positioning have all been driving gold returns again since the beginning of this year. Looking ahead, recession risks, combined with an eventual peak in real interest rates and a weakening US dollar, should continue to support demand for gold in the second half. We see the yellow metal reaching USD 2,100/ounce by early 2024.

**36. A tight oil market**

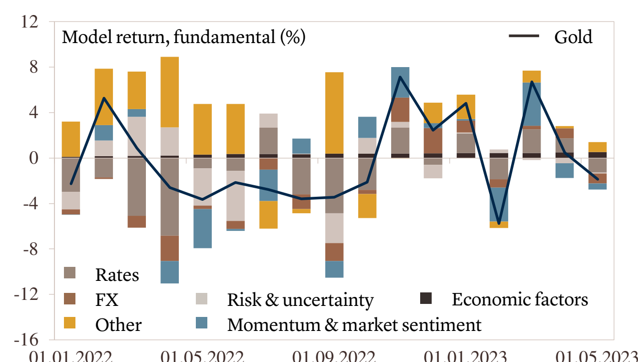
Supply, demand, and inventories of crude oil




Sources: Barclays, Bloomberg, Lombard Odier calculations

**37. Rates, investor positioning and US dollar dynamics driving gold**

Gold returns as calculated using our pricing model




Sources: Bloomberg, Lombard Odier calculations

déjà vu.

Tipping points.
We've seen them before.
From one ground-breaking innovation to the next.
Technological efficiency. Plummeting costs.
Mass adoption.
Suddenly, they're indispensable.
And it's happening again.
Fossil fuels are being replaced.
Electrification is taking off, now.
At a speed and scale that few fully appreciate.
It's one of the greatest investment opportunities of our time.
For investors there isn't a moment to lose.
History is in the making. Again.

Find out more about our Electrification Strategy at LombardOdier.com

rethink everything.®

LOMBARD ODIER
LOMBARD ODIER DARIER HENTSCH

Investments are subject to a variety of risks. This is a marketing communication. Please refer to the prospectus, the KIID of LO Funds SICAV and your investment advisor before making any final investment decisions. Lombard Odier (Europe) S.A. UK Branch is authorised and regulated by the Commission de Surveillance du Secteur Financier ('CSSF') in Luxembourg and is authorised in the UK by the Prudential Regulation Authority ('PRA'). Subject to regulation by the Financial Conduct Authority ('FCA') and limited regulation by the PRA. Financial Services Firm Reference Number 597896. Lombard Odier Asset Management (Europe) Limited - authorised and regulated by the FCA in the UK. ©2023 Lombard Odier

**Important information**

This is a marketing communication issued by Bank Lombard Odier & Co Ltd (hereinafter "Lombard Odier"). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a marketing communication.

This marketing communication is provided for information purposes only. The contents of this marketing communication have not been reviewed by any regulatory authority in any jurisdiction. It does not constitute an offer or a recommendation to subscribe, purchase, sell or hold any security or financial instrument. It contains the opinions of Lombard Odier, as at the date of issue. **These opinions and the information contained herein do not take into account an individual's specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes personalised investment advice to any investor**. Tax treatment depends on the individual circumstances of each person and may be subject to change in the future. Lombard Odier does not provide tax advice. Therefore, you must verify the above and all other information provided in the marketing communication or otherwise review it with your external tax advisors. Some investment products and services, including custody, may be subject to legal restrictions or may not be available worldwide on an unrestricted basis.

The information and analysis contained herein are based on sources considered reliable. Lombard Odier uses its best effort to ensure the timeliness, accuracy, and comprehensiveness of the information contained in this marketing communication. Nevertheless, all information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice.

**Investments are subject to a variety of risks**. Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. **Past performance is no guarantee of current or future returns, and the investor may receive back less than he/she invested**. The value of any investment in a currency other than the base currency of a portfolio is subject to foreign exchange rate risk. Exchange rates may fluctuate and adversely affect the value of the investment when it is realised and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset.

**European Union Members**: This marketing communication has been approved for use by Lombard Odier (Europe) S.A. in Luxembourg and by each of its branches operating in the following territories: **Belgium**: Lombard Odier (Europe) S.A. Luxembourg • Belgium branch; **France**: Lombard Odier (Europe) S.A. • Succursale en France; **Italy**: Lombard Odier (Europe) S.A. • Italian branch; **Spain**: Lombard Odier (Europe) S.A. • Sucursal en España. Lombard Odier (Europe) S.A. is a credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

In addition, this marketing communication has also been approved for use by the following entity domiciled within the European Union: **Spain:** Lombard Odier Gestión (España) S.G.I.I.C., S.A.U., an investment management company authorised and regulated by the Comisión Nacional del Mercado de Valores (CNMV), Spain.

**Hong Kong:** This marketing communication is distributed in Hong Kong by Lombard Odier (Hong Kong) Limited, a licensed corporation registered by the Securities and Futures Commission of Hong Kong ("SFC") to carry on Type 1, Type 4 and Type 9 regulated activities under the Securities and Futures Ordinance ("SFO") in Hong Kong.

**Singapore:** This marketing communication is distributed in Singapore by Lombard Odier (Singapore) Ltd for the general information of accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the Securities and Futures Act (Chapter 289). Recipients in Singapore should contact Lombard Odier (Singapore) Ltd, an exempt financial adviser under the Financial Advisers Act (Chapter 110) and a merchant bank regulated and supervised by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with this marketing communication. The recipients of this marketing communication represent and warrant that they are accredited investors and other persons as defined in the Securities and Futures Act (Chapter 289). **This advertisement has not been reviewed by the Monetary Authority of Singapore.**

**Panama:** This marketing communication has been approved for use in Panama by Lombard Odier (Panama) Inc., an entity authorised and regulated by the Superintendencia del Mercado de Valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.

**Israel:** This marketing communication has been approved for use in Israel by the Israel Representative Office of Bank Lombard Odier & Co Ltd, an entity not supervised by the Bank of Israel, but by the Swiss Financial Market Supervisory Authority, which supervises the activities of Bank Lombard Odier & Co Ltd.

**South Africa:** This marketing communication has been approved for use in South Africa by the South Africa Representative Office of Bank Lombard Odier & Co Ltd, an authorised financial services provider. Registration number 48505.

**Switzerland:** This marketing communication has been approved for use in Switzerland by Bank Lombard Odier & Co Ltd, a bank and securities firm authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

**United Kingdom:** This marketing communication has been approved for use in the United Kingdom by Lombard Odier (Europe) S.A. – UK Branch, a bank authorised and regulated by the Commission de Surveillance du Secteur Financier ('CSSF') in Luxembourg and authorised in the UK by the Prudential Regulation Authority ('PRA'). Subject to regulation by the Financial Conduct Authority ('FCA') and limited regulation by the Prudential Regulation Authority. Financial Services Firm Reference Number 597896. **Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request.**
**United States:** Neither this document nor any copy thereof may be sent to, taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person. For this purpose, the term "United States Person" shall mean any citizen, national or resident of the United States of America, partnership organised or existing in any state, territory or possession of the United States of America, a corporation organised under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income.
This marketing communication may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.
**Data protection:** You may be receiving this communication because you have provided us with your contact details. If this is the case, note that we may process your personal data for direct marketing purposes. If you wish to object to this processing, please address your objection to the Group's Data Protection Officer: Bank Lombard Odier & Co Ltd, Group Data Protection Officer, 11, Rue de la Corraterie, 1204 Geneva, Switzerland. E-Mail: group-dataprotection@lombardodier.com. For more information on Lombard Odier's data protection policy, please refer to www.lombardodier.com/privacy-policy.
© 2023 Bank Lombard Odier & Co Ltd – all rights reserved. *Ref. LOCH/LOESA/LOASIA-GM-en-032022*.

## SWITZERLAND

### GENEVA
**Bank Lombard Odier & Co Ltd**[1]
Rue de la Corraterie 11 · 1204 Genève · Suisse
geneva@lombardodier.com
**Lombard Odier Asset Management (Switzerland) SA**
Avenue des Morgines 6 · 1213 Petit-Lancy · Suisse
Support-Client-LOIM@lombardodier.com
*Management Company regulated by the FINMA.*

### FRIBOURG
**Banque Lombard Odier & Cie SA · Bureau de Fribourg**[1]
Rue de la Banque 3 · 1700 Fribourg · Suisse
fribourg@lombardodier.com

### LAUSANNE
**Bank Lombard Odier & Co Ltd**[1]
Place St-François 11 · 1003 Lausanne · Suisse
lausanne@lombardodier.com

### VEVEY
**Banque Lombard Odier & Cie SA · Agence de Vevey**[1]
Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse
vevey@lombardodier.com

### ZURICH
**Bank Lombard Odier & Co Ltd**[1]
Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz
zurich@lombardodier.com

## EUROPE

### BRUSSELS
**Lombard Odier (Europe) S.A. Luxembourg · Belgium branch**[2]
Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium
brussels@lombardodier.com
*Credit institution supervised in Belgium by the National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA).*

### LONDON
**Lombard Odier (Europe) S.A.· UK Branch**[2]
Queensberry House · 3 Old Burlington Street · London W1S 3AB · United Kingdom
london@lombardodier.com
*The Bank is authorised in the UK by the Prudential Regulation Authority ('PRA'). Subject to regulation by the Financial Conduct Authority ('FCA') and limited regulation by the Prudential Regulation Authority. Financial Services Firm Reference Number 597896. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request.*
**Lombard Odier Asset Management (Europe) Limited**
Queensberry House · 3 Old Burlington Street · London W1S 3AB · United Kingdom
london@lombardodier.com
*Investment firm authorised and regulated by the Financial Conduct Authority (FCA register No.515393).*

### LUXEMBOURG
**Lombard Odier (Europe) S.A.**
291, route d'Arlon · 1150 Luxembourg · Luxembourg
luxembourg@lombardodier.com
*Credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.*
**Lombard Odier Funds (Europe) S.A.**
291, route d'Arlon · 1150 Luxembourg · Luxembourg
luxembourg@lombardodier.com

### MADRID
**Lombard Odier (Europe) S.A. · Sucursal en España**[2]
Paseo de la Castellana 66 · 4ª Pl. · 28046 Madrid · España · madrid@lombardodier.com
*Credit institution supervised in Spain, by the Banco de España and the Comisión Nacional del Mercado de Valores (CNMV).*
**Lombard Odier Gestión (España) S.G.I.I.C, S.A.U.**
Paseo de la Castellana 66 · 4ª Pl. · 28046 Madrid · España · madrid@lombardodier.com
*Management Company supervised by the Comisión Nacional del Mercado de Valores (CNMV).*

### MILAN
**Lombard Odier (Europe) S.A. · Succursale in Italia**[2]
Via Santa Margherita 6 · 20121 Milano · Italia
milano-cp@lombardodier.com
*Credit institution supervised in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and la Banca d'Italia.*

### PARIS
**Lombard Odier (Europe) S.A. · Succursale en France**[2]
8, rue Royale · 75008 Paris · France. RCS PARIS B 803 905 157 · paris@lombardodier.com
*Credit institution supervised in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and by the Autorité des Marchés Financiers (AMF) in respect of its investment services activities. Business permit No.23/12. Registered in Luxembourg · No.B169 907.*
*Insurance intermediary authorised by the Commissariat aux Assurances (CAA) No.2014 CM002. The registration with the CAA can be verified at www.orias.fr.*

## AFRICA | AMERICAS | MIDDLE EAST

### ABU-DHABI
**Bank Lombard Odier & Co Ltd · Abu Dhabi Global Market Branch**
Al Maryah Island · Abu Dhabi Global Market Square · Al Khatem Tower · 8th floor · P.O. Box 764646 · Abu Dhabi · UAE · abudhabi@lombardodier.com
*Arranging Deals in Investments · Advising on Investment or Credit · Arranging Credit. Regulated by the ADGM Financial Services Regulatory Authority.*

### BERMUDA
**Lombard Odier Trust (Bermuda) Limited**
3rd Floor, Victoria Place · 31 Victoria Street · Hamilton HM 10 · Bermuda · bermuda@lombardodier.com
*Licensed to conduct Trust, Investment and Corporate Service Provider Business by the Bermuda Monetary Authority.*

### BRASIL
**Lombard Odier (Brasil) Consultoria de Valores Mobiliários Ltda.**
Avenida 9 de Julho No. 3624, Torre DGN 360, 6° andar Jardim Paulista · CEP 01406-000 · São Paulo · Brasil
sao.paulo.office@lombardodier.com
*Supervised by the Comissão de Valores Mobiliários of Brasil.*

### DUBAI
**Bank Lombard Odier & Co Ltd · Representative Office Dubai**
Conrad Business Tower · 12th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai · UAE
dubai@lombardodier.com
*Under the supervisory authority of the Central Bank of the UAE.*

### ISRAEL
**Israel Representative Office · Bank Lombard Odier & Co Ltd**
Alrov Tower 11th floor · 46 Rothschild Blvd. · Tel Aviv 6688312 · Israel · telaviv@lombardodier.com
*Not supervised by the Bank of Israel, but by Swiss Financial Market Supervisory Authority which supervises the activities of Bank Lombard Odier & Co Ltd.*

### JOHANNESBURG
**South Africa Representative Office · Bank Lombard Odier & Co Ltd**
4 Sandown Valley Crescent · Sandton · Johannesburg 2196 · South Africa
johannesburg@lombardodier.com
*Authorised financial services provider Registration number 48505.*

### NASSAU
**Lombard Odier & Cie (Bahamas) Limited**
Lyford Cay House · Western Road · P.O. Box N-4938 · Nassau · Bahamas · nassau@lombardodier.com
*Supervised by the Central Bank of the Bahamas and the Securities Commission of the Bahamas.*

### PANAMA
**Lombard Odier & Cie (Bahamas) Limited · Representative Office in Panama**
Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com
*Supervised by the Central Bank of the Bahamas and the Superintendencia de Bancos de Panamá.*
**Lombard Odier (Panama) Inc.**
Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com
*Supervised by the Superintendencia del Mercado de valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.*

## ASIA - PACIFIC

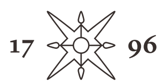
### HONG KONG
**Lombard Odier (Hong Kong) Limited**
1601 Three Exchange Square · 8 Connaught Place · Central · Hong Kong · hongkong@lombardodier.com
*A licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong.*

### SINGAPORE
**Lombard Odier (Singapore) Ltd.**
9 Raffles Place · Republic Plaza #46-02 · Singapore 048619 · singapore@lombardodier.com
*A merchant bank regulated and supervised by the Monetary Authority of Singapore.*

### TOKYO
**Lombard Odier Trust (Japan) Limited**
Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan · tokyo@lombardodier.com
*Regulated and supervised by the Financial Services Agency (FSA) in Japan. It holds a trust business license (FSA No.208) and is registered with Kanto Local Finance Bureau for Financial Instruments Business Operator (No.470).*

[1] *Private bank and securities firm authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).*

[2] *Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.*



LOMBARD ODIER

LOMBARD ODIER DARIER HENTSCH

www.lombardodier.com