YAD CAPITAL AG
INVESTMENT ADVISORY

MONTHLY NEWSLETTER

April 2024

Welcome

Dear Reader,

In this edition, we engage in a nuanced analysis of the global investment climate, highlighting the stark differences between the economic landscapes of the United States, Japan and the Eurozone. These contrasts provide a distinctive perspective from which to assess current economic hurdles and discover potential investment avenues.

The United States holds the title of the largest economy and wields considerable influence globally. Its economic prowess appears robust, yet its substantial national debt, budget and trade deficit are significant vulnerabilities. One wonders if the resilience of the USD will continue to shield the country from market repercussions. In contrast, the Eurozone, while less burdened by debt, grapples with several weaker economies that cannot mirror the U.S. debt trajectory. Meanwhile, Japan's extremely high debt-to-GDP ratio of around 266% coupled with a declining population is already facing market consequences, as evidenced by the Japanese Yen's approximate 45% depreciation against the USD since 2021.

Our goal is to capitalize on megatrends such as urbanization, technological advancements (AI as such), and the transition to net-zero initiatives, including clean energy and zero-pollution strategies. We believe infrastructure investments will benefit significantly from these shifts.

We invite you to delve deeper into these topics with us. Our commitment is to equip you with the knowledge and insights required for making judicious investment decisions in these diverse yet equally fascinating markets.

Your faithfully,

Dan Stemmer
Partner

Ygal Abergel
Managing Partner

Damjan Csiba, CFA
Portfolio Manager

What changed in our active allocations?

Equity - Geography

We did not change our geographical equity allocation.

Equity - Sector

We did not change our sector equity allocation.

Fixed Income

Our *Growth Portfolio* has an average yield to maturity (YTM) of 6.28 vs. 7.65 modified duration.

Our *Yield Portfolio* has an average YTM of 6.78 vs. 5.70 modified duration.

Our *Return Portfolio* has an average YTM of 4.98 vs. 7.23 modified duration.

Considering the anticipation of interest rate cuts due to the US election year, a 131% debt-to-GDP ratio in the US, moderately slowing growth, and a 2.5% YoY increase in the Fed's favored personal consumption expenditures (PCE) Price Index, we have kept our holdings unchanged.

Our holdings are made up of mainly investment grade bonds from developed countries, however, we still hold small exposure to bonds from emerging markets and high yield. The average credit rating according to S&P's methodology is BBB for Yield and Growth while A- for Return. As and if yields compress, we will move further down the rating and shorter the duration.

Alternatives

We decreased our allocation to Private Equity and are increasing our allocation to Infrastructure.

Our Current Active Allocations

Asset Class	Overweight	Underweight
Equity - Geography	India, Israel, France and Switzerland	Australia and United States
Equity - Sector	Consumer Staples, Energy, Utilities and Healthcare	Financials, IT, Communications and Real Estate

Index Returns

YTD 2024

Equity	YTD Performance
Euro STOXX 50	12.58%
Tel Aviv 125	6.38%
Nasdaq 100	8.48%
S&P 500	9.99%
SPI - 215 Swiss stocks	5.01%

Fixed Income	YTD Performance
Global Crp High Yield	0.87%
US Treasury 7-10Y	-2.33%
Emerging Market ($)	0.86%
$ Investment Grade	-1.86%
€ Investment Grade	-0.95%

Alternatives	YTD Performance
Hedge Fund Index	5.47%
Gold	11.35%
Brent Crude Oil	7.04%
Bitcoin	51.99%
Global Real Estate	-4.01%

Currencies	YTD Performance
USD/ILS	2.29%
USD/CHF	7.86%
USD/JPY	7.69%
GBP/USD	-0.54%
EUR/USD	-1.74%

As of Thursday, 04 April 2024, 10:30am CET

Macro Analysis

United States

The U.S. economy has shown remarkable resilience in the face of elevated interest rates, buoyed by a robust job market with an unemployment rate at a mere 3.9%. Service sector PMIs remain comfortably above 50, indicating expansion, while the manufacturing sector, which had been lagging, surprisingly expanded in March. This prompts the question: What could possibly go wrong? A significant concern is the sustainability of growth driven by debt, given the high budget deficits (15% in 2020, 12.4% in 2021, 5.8% in 2022, and 5.9% in 2023, with an expected 6% in 2024) and government debt to GDP ratio of approximately 131.5% in 2023 (tradingeconomics.com, 2024). Continuation on this path could risk the U.S. losing its final AAA credit rating from Moody's, following downgrades by S&P and Fitch. Additionally, the substantial drop in commercial real estate prices and the impending refinancing requirements this year could lead to credit defaults, banking losses, and tighter credit conditions, ultimately slowing growth. However, we believe that the U.S. occupies a unique position that allows it to sustain a higher debt to GDP ratio than other developed nations, thanks to its highly liquid bond market, status as a safe haven, strong economic growth, the global dominance of its technology sector, and the widespread use of the USD as the world's primary currency. Despite these risks, we are optimistic about the U.S.'s short and long-term prospects, given its growing population, cutting-edge technology, leading economy, and prominent companies. Therefore, we allocate approximately 60% of our equity investments in U.S. companies and significantly invest in U.S. corporate bonds and treasuries. Our only deviation from the ACWI equity share is a slight underweighting, taking into account the aforementioned risks and high valuations.

Eurozone

The debt-to-GDP ratio in the Euro Area, at around 90%, is not as daunting as those of the U.S. or Japan, but there is a pressing need for member countries to exercise greater fiscal discipline and further reduce their government deficits, which currently hover around 3%. The countries of the Euro Area, and the European Union in particular, are very heterogeneous compared to the homogeneous United States. Nations like Italy, Greece, and Spain are not able sustain aggressive fiscal policies for a long time, unlike the US. Such unsustainable paths could lead to a rapid increase in credit spreads, downgrades in credit ratings, an exodus of investments, and consequently, long-term economic challenges and recessions. This starkly contrasts with the situation in the U.S., though it is clear that even the U.S. cannot maintain its course indefinitely. Fortunately, thanks to relatively moderate fiscal spending and higher interest rates, inflation in the Euro Area has decreased to 2.4% as of March. This decrease may enable the European Central Bank to lower interest rates as early as June, potentially revitalizing the sluggish GDP growth rates observed in recent years and enhancing the earnings of European companies. However, a rise in default rates is anticipated in 2024 compared to previous years, particularly within the commercial real estate sector. The burden is expected to ease towards the end of 2024, following several rate cuts by the central bank.

Japan

The latest data from the Ministry of Health and Welfare reveal a troubling trend: only 758,631 babies were born in Japan in 2023, marking a 5.1% decline from the previous year and the lowest number since records began in 1899. According to worldometers.info, Japan's median age has soared from 22.8 in 1955 to 49.1 in 2023, and its fertility rate has dwindled to just 1.3—far below the 2.1 threshold necessary to maintain a stable population. Furthermore, Japan finds itself ensnared in a debt dilemma, with its debt-to-GDP ratio reaching approximately 266% by the end of 2023. In recent years, the government has significantly overspent, incurring budget deficits of 5-8%. Both fiscal and monetary policies have been aggressively expansionary; last month, the central bank increased the base interest rate from -0.1% to 0%, continuing its purchase of Japanese government bonds while ceasing its acquisition of Japanese stocks. These policies remain exceptionally loose and stimulative. Despite these measures, economic growth projections remain modest: approximately 0.7% for 2024, 1.1% for 2025, and 0.9% for 2026, according to Bloomberg. With the Japanese yen remaining exceedingly weak, inflation is anticipated to be 2.3% in 2024, and 1.7% in both 2025 and 2026, reflecting the sluggish economy and diminished demand. Without significant increases in migration or birthrates, Japan's economic and market outlook lacks a positive medium and long-term trajectory. Therefore we underweight Japan.

Population by age group, selected years

Thousands

Age	1950	1990	2020	2024	2030	2050
0-14	29,846	22,108	14,924	13,885	12,656	11,553
15-64	50,381	86,242	73,270	71,674	68,673	53,309
60+	6,438	22,151	44,396	44,584	45,429	45,305
65+	4,126	15,337	37,051	37,073	37,186	38,922
80+	469	3,138	12,347	13,588	15,866	16,233
Total	84,353	123,686	125,245	122,631	118,515	103,784

Percentage

Age	1950	1990	2020	2024	2030	2050
0-14	35.4	17.9	11.9	11.3	10.7	11.1
15-64	59.7	69.7	58.5	58.4	57.9	51.4
60+	7.6	17.9	35.4	36.4	38.3	43.7
65+	4.9	12.4	29.6	30.2	31.4	37.5
80+	0.6	2.5	9.9	11.1	13.4	15.6

Source: https://www.population-trends-asiapacific.org/data/JPN, 2024

Closing Thoughts

In a year of elections and moderate growth, our unchanged geographic and sector equity allocations reflect a strategic steadiness. Our fixed income strategy showcases a balanced approach, balancing yield with duration, and maintaining quality with an average credit rating of BBB for Yield and Growth, and A- for Return. Despite high volatility in interest rate cut expectations, we have maintained our positions, with a keen eye on credit rating and duration.

In the US, despite high debt levels and interest rates, economic resilience, backed by a robust job market and service sector, alongside potential growth drivers, underscores our confidence and significant investment in US equities and bonds. Our position, slightly underweight in comparison to ACWI equity share, acknowledges both the opportunities and the elevated risks and valuations.

The Eurozone, while less leveraged than the US or Japan, faces its own fiscal constraints. Prudence and potential rate cuts may bolster European companies, though commercial real estate default risks loom.

Japan's demographic challenges and staggering debt-to-GDP ratio highlight a more subdued outlook. Without a demographic and policy shift, its economic trajectory remains cautious.

Overall, our portfolio mirrors these regional nuances, balancing opportunity with risk, and stability with vigilance.

Good Investing.

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