YAD House View

Welcome to the final 2023 update of YAD Capital's House View.

What changed in our active allocations?

Equity - Geography

We decreased our exposure to Japan moving from overweight to neutral and the US to underweight from neutral in Growth portfolio. We increased our allocation to Israel from underweight to overweight.

Equity - Sector

We decreased our allocation to Communications from neutral to underweight.

Fixed Income

Our fixed income portfolio has an average yield to maturity (YTM) of 6.32 vs. 7.81 modified duration in the Growth portfolio, 6.85 YTM vs. 5.78 modified duration in the Yield portfolio and 4.62 YTM vs. 7.44 modified duration in the Return portfolio.

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-/BBB+ for Return.

Our current active allocations:

Underweight:
Regions: Australia and US
Sectors: Consumer Staples, IT and Real Estate

Overweight:
Regions: Switzerland, France, India, and emerging markets in general
Sectors: Healthcare, Industrials and Utilities

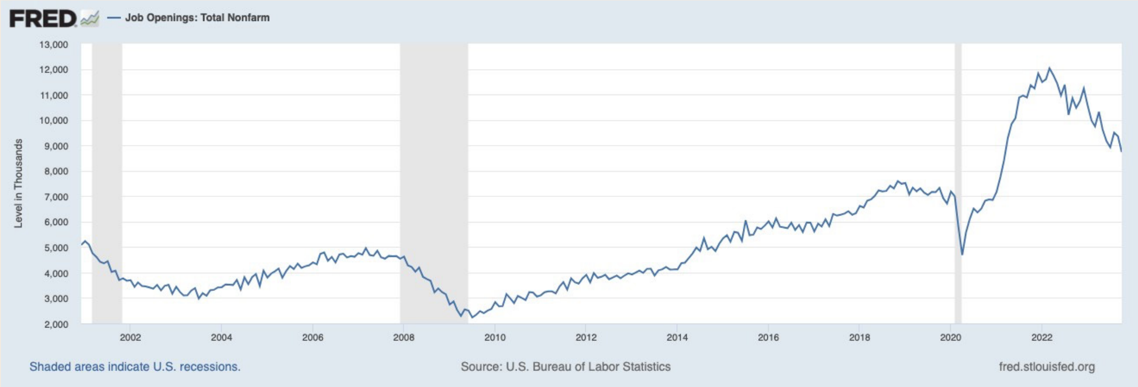
INDEX	YTD PERFORMANCE	CURRENCY	YTD PERFORMANCE
Euro STOXX 50	17.1%	USD.ILS	2.4%
Tel Aviv 125	3.7%	USD.CHF	-6.7%
Nasdaq 100	52.4%	USD.JPY	9.2%
S&P 500	22.9%	GBP.USD	4.3%
iShares $ Corp Bond UCITS ETF (LQDA)	8.2%	EUR.USD	2.4%

Data from 21 December at 10 am CET

Our Macro Analysis

Despite a dip in the US's November Year-over-Year Consumer Price Index to 3.1%, with further reductions anticipated due to diminishing demand and declining energy costs, it's crucial to address the US labor market's enduring strength, albeit with signs of weakening. The graph below shows the number of insured unemployed has risen by approximately 600,000 since September 2022.

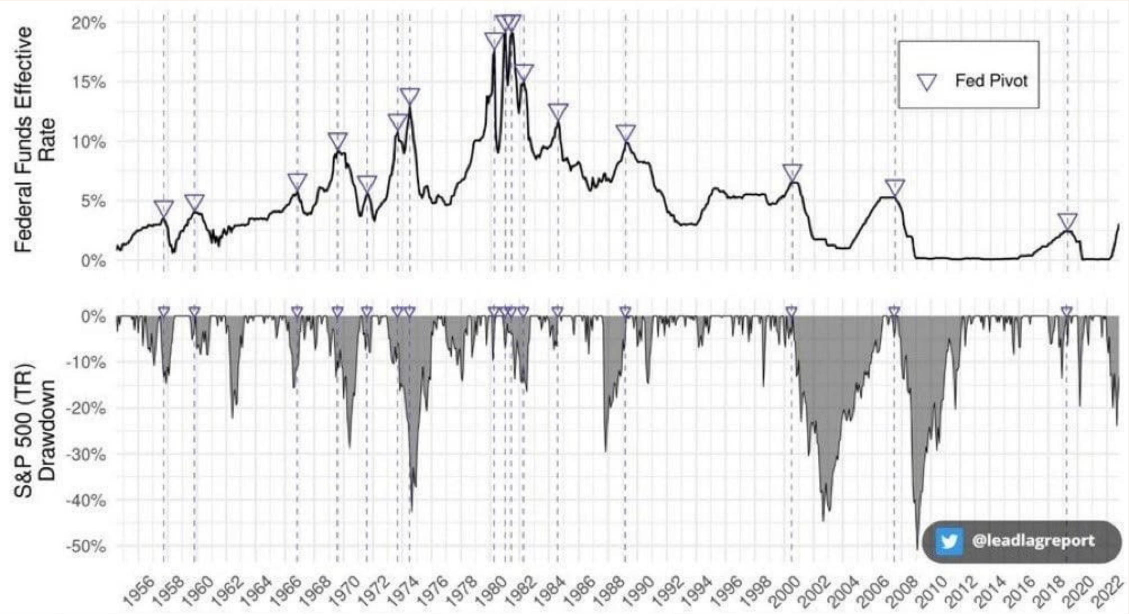
In October 2023, the number of job openings experienced a decline of 617,000 from the previous month, totaling 8.7 million. This figure represents the lowest level of job openings since March 2021 (see below).



The graph illustrates the trend in WTI (West Texas Intermediate) oil prices over the past 12 months, highlighting a significant decline in the last three months, despite OPEC+ efforts to cut supply. A recent development posing an upside risk is the disruption of maritime trade caused by attacks on ships in the Red Sea by Yemen's Iran-aligned Houthi militants. As a result, BNP has ceased sending oil tankers through this route. The importance of major shipping channels like the Suez Canal in the global supply chain was underscored in May 2021, when a blockage there caused significant disruptions. Data from Lloyd's List indicates that the Suez Canal blockage delayed approximately $9.7 billion worth of goods daily. Such disruptions can exert upward pressure on prices, as evidenced by the recent increase in oil prices following the negative news from the Red Sea and Yemen.

Despite a rise in European gas prices following the bad news from the Red Sea, they remain considerably lower than last month and notably lower than levels seen a year ago. Factors such as the mild weather in Europe and a sluggish economy are contributing to the reduction in prices. This trend is expected to further aid in the process of disinflation within the Eurozone. Given our current economic scenario, it is anticipated that the Eurozone has entered a recession. Consequently, it is projected that the European Central Bank (ECB) will implement rate cuts in either the first or second quarter of the next year. These measures aim to stimulate the economy and prevent excessively low inflation or deflation, like the situation in China. The Consumer Price Index (CPI) for November registered at just 2.4% on a year-over-year basis.

The graph provided illustrates the S&P 500's drawdowns following the Federal Reserve's policy shifts, commonly referred to as FED pivots. Contrary to what might be expected, historical data since 1956 reveals that stocks did not consistently rally after these pivots, rather they fell. This pattern is one of the key factors influencing our current investment strategy, which involves underweighting equities and favoring long-duration investment-grade bonds.



To summarize, we expect the GDP growth and inflation to slow down in the next quarters. Therefore, the FED and ECB could start cutting rates in Q1 or Q2 of 2024 giving a boost to long duration investment grade bonds.

Our investment strategy is aligned with this outlook, as we have allocated our equity and fixed income positions accordingly, while simultaneously diversifying our portfolios with alternative investments.

YAD CAPITAL AG
INVESTMENT ADVISORY