INDOSUEZ
WEALTH MANAGEMENT

Marketing Material

MONTHLY HOUSE VIEW

October 2023

Sustainable finance: a summer of paradoxes

Architects of Wealth

• Table of contents

01• Editorial P3
"GOLDILOCKS"

02• Focus P4
SUSTAINABLE FINANCE:
A SUMMER OF PARADOXES

03• Macro economics P6
AT A CROSSROADS

04• Fixed Income P8
IT OFTEN TAKES TEAMWORK TO GET A TRY!

05• Equities P10
A LONG-TERM HIGH-RATE ENVIRONMENT?

06• Forex P12
FORCES IN BALANCE

07• Asset Allocation P14
INVESTMENT SCENARIO
AND ALLOCATION CONVICTIONS

08• Market Monitor P16
OVERVIEW OF SELECTED MARKETS

09• Glossary P17

Disclaimer P18

01 • Editorial
"GOLDILOCKS"

Alexandre
DRABOWICZ
Chief Investment Officer

Dear Reader,

I hope you had a great summer, whether you spent it with family or friends, in the sun or looking for cooler temperatures, or away from social media in order to be fully present in the moment.

Not too hot, not too cold: that's how we can describe the state of the US economy with a nod to the "Goldilocks" economic scenario. With summer comes a time to pause and reflect: a year ago, who would have thought that the Federal Reserve (Fed) would be bringing the US economy in for a landing, thus avoiding an unavoidable recession? The US economy has indeed continued to surprise since the beginning of the year. As proof, forecasts for US GDP growth for 2023 were close to zero at the beginning of the year, and now stand at around 2%. We ourselves began to raise our forecasts in the second quarter without becoming overly pessimistic. Maybe "The Recession That Never Was" will be on the bestseller list next summer.

The summer was ultimately (too) hot for US long-term rates. The rate on the 10-year bond has gone from 3.7% to 4.3% as of late September. However, the main contributing factor has actually been the real rate. The first rate hike phase was related to the tightening of monetary policy in response to inflationary shocks. But this recent rise in real rates led to a stabilisation of inflation expectations, which are now hovering at around 2.3% (10-year breakeven), while nominal rates have continued to rise. The Fed restored its credibility in its fight against inflation, sticking to its message that rates will remain high for longer, with the market pushing back and revising its expectations for the first rate cuts. So the first explanation for the rise in long-term rates relates to the vigour of the US economy, justifying a higher real rate. The second is the return of the term premium investors require: in other words, a higher rate of return to compensate them for the risk of holding long-term government bonds rather than short maturities. There has been a constant deluge of supply (issuance by the US Treasury to finance the public debt): the national debt is approaching 32 trillion dollars, up by 50% in five years and by 1.5 trillion dollars since the debt ceiling deal was reached in June.

Additional investments are needed to fund the deficits related to the war and the energy transition, and to support consumption. On the demand side, the investors who usually buy bonds to invest their dollars are spurning the greenback. Some are doing so to diversify or because of a change in domestic monetary policy, others for political reasons, presumably to reduce their dependence on the United States. Just like the supply/demand equation, the question now will be where the *equilibrium* point lies.

This question is crucial for portfolio management. In recent months, the correlation between the equity and bond markets has turned positive again: equities are falling because rates are rising (bond prices are falling at the same time). An investor who bought a US 10-year bond this year is seeing a negative performance. The performance of 50/50 diversified funds is suffering because of this, as are flows: 20 billion euros in outflows at end-June according to Morningstar, versus 100 billion euros in inflows for bonds (mainly with short maturities) and money-market funds. For private clients, this volatility on long-term rates is not sustainable. That being said, an *equilibrium* point will make long-term bonds attractive again, and provide the necessary diversification to increase the appeal of diversified portfolios.

Overall, we are close to neutral in terms of duration, but continue to favour carry for up to five years. We turned positive on equities at the beginning of the summer and maintain a constructive view. Within equities, it was a tough summer for renewable energy stocks: the rise in long-term rates had a significant impact on long-term investment plans for these projects, coupled with cost inflation, changes in regulations in the United States, and defect issues with the existing stock. On this topic, I encourage you to read the fascinating article in this issue titled "Sustainable Finance: A summer of paradoxes", as well as our experts' comments on the different asset classes.

Happy reading!

02 • Focus

SUSTAINABLE FINANCE: A SUMMER OF PARADOXES

Nicolas MOUGEOT
Head of Investment Strategy
& Sustainability

Fabrice DE SOUSA
Portfolio Manager

Renewable energy companies had a tough summer, with some suffering significant losses. While heightened awareness after a historically hot summer does not appear to have been a boon in the short-term, public initiatives remain strong and should provide significant support in the long-term.

2023:
The HOTTEST
summer on record

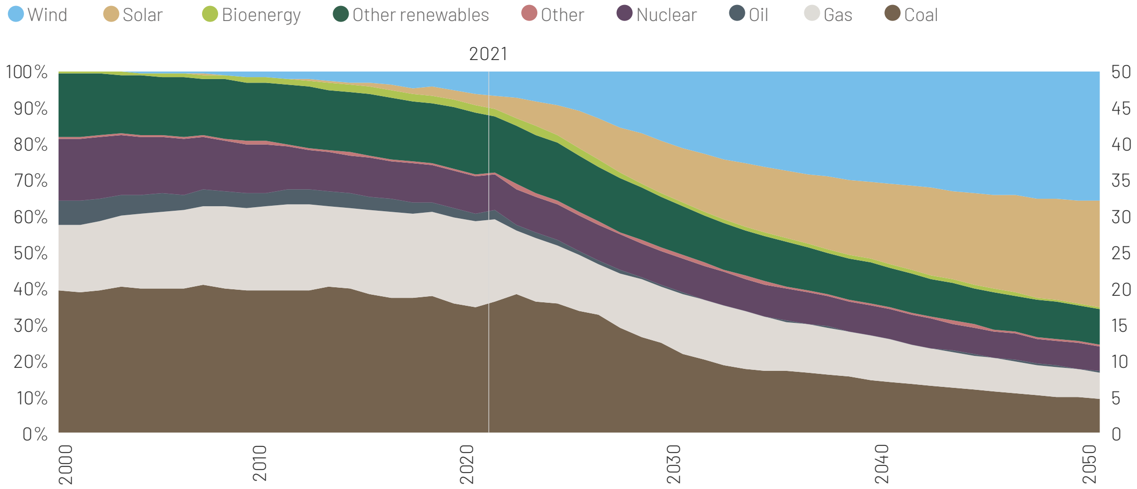
The summer of 2023 may have been a watershed moment for global warming awareness due to the sheer number of exceptional climate events. Canada was ravaged by fires that emitted more CO_2 than Japan does in a whole year. For the first time ever, heat alerts were issued in Europe in the month of September. And, more generally, the June/July/August period was the hottest on record with an average temperature of 16.77°C.

Paradoxically, at the same time, share prices of many renewable energy companies fell even as temperatures rose. For example, the Solactive European Renewable Index lost 10% in the summer months while the STOXX 600 global index was virtually unchanged. Why are renewable energy companies not emerging as the big winners from global warming?

Orsted and Siemens Energy both offer good illustrations of the sector's problems and the crisis of confidence it is experiencing. First, these are young companies facing a growth crisis in which quality and standards have not been up to par. The market capitalisation of Siemens Energy shed more than 7 billion euros at the end of June after the company announced an additional 1.3 billion euro provision for the wind power division acquired in the Gamesa transaction. The quality of some of the turbines, mainly from the new assembly platform, is at issue. With 63'000 turbines potentially affected, this is a large-scale problem.

The larger issue is that the renewable energy sector's business model as a whole has been called into question. At the end of August, it was Danish renewable energy leader Orsted's turn to lose nearly a quarter of its value in a single day due to three factors: ongoing post-COVID supply chain issues, a higher cost of debt due to rising interest rates, and the failure of public aid, such as tax credits, to meet investors' and Orsted management's expectations.

CHART 1: ELECTRICITY GENERATION BY TECHNOLOGY, %



Note: represents the percentage share of electricity generation by technology in BNEF's net-zero scenario, a path to net-zero emissions by 2050. Includes electricity generation for hydrogen production. "Other" includes geothermal energy and bioenergy.

Source: BloombergNEF, Indosuez Wealth Management.

USD 40 BILLION IN WIND TURBINE orders in first-half 2023

HOW CAN THE NET-ZERO TARGET BE MET?

While the wind power sector is now facing very strong headwinds, it nevertheless remains a key component of the energy transition and investments are likely to remain substantial. According to Bloomberg, renewable energies, with solar and wind leading the pack, are expected to represent more than 75% of global electricity generation if the net-zero target is to be met (Chart 1, page 4).

RENEWABLE ENERGIES: A GEOPOLITICAL ISSUE

The energy transition also remains a geopolitical issue. Behind the relatively weak official comments out of the most recent G20 and COP 27, the major powers are competing to dominate the renewable energy sector. According to a report from the Wood Mackenzie consulting firm, wind turbine orders rose 12% to more than 40 billion dollars in the first half of 2023. While China remains the largest buyer, the United States quadrupled its purchases due to the Inflation Reduction Act (IRA), a Biden administration initiative that passed last year.

Europe initially took the lead with its Green Deal, which in 2020 was supposed to both stimulate and green the economy. But the European Green Deal mechanism is cumbersome and financing-based, while the IRA favours direct tax incentives in the form of tax credits. The European Union (EU) therefore responded to the IRA with the introduction of the Net-Zero Industry Act (NZIA) in January of this year. This new initiative aims to strengthen the European manufacturing capacity of net-zero technologies. As seen in Chart 2, it covers a very wide range of technologies that go well beyond renewable energies, including batteries, electrolysers and biogas.

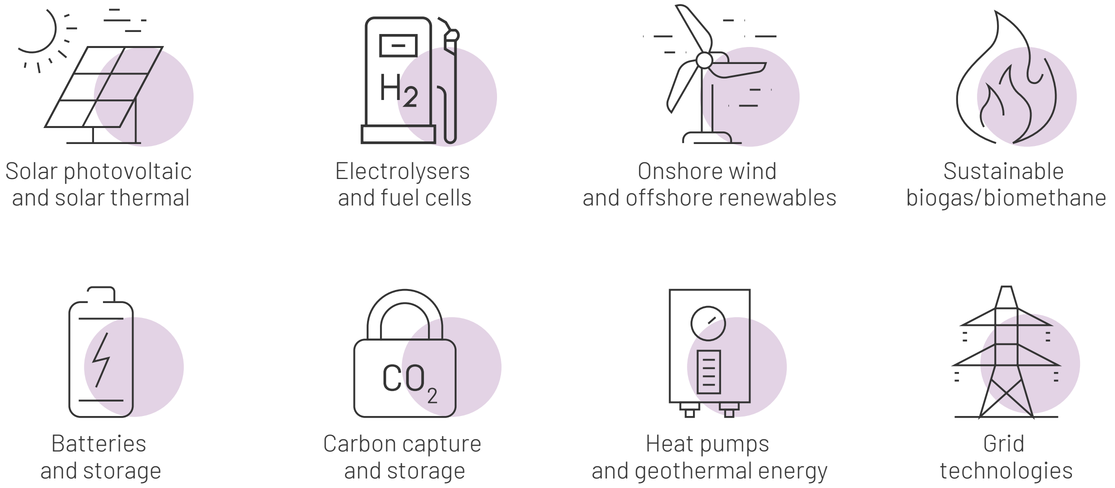
Both the IRA and the NZIA therefore address a variety of technologies to combat global warming in different ways. The same is true for renewable energies: portfolios should be diversified through investments in multiple subsectors, whether wind, batteries, hydrogen or electrical grids.

Remember that, at the beginning of the 20th century, electric cars accounted for nearly a third of the admittedly nascent automotive market and that the "Jamais Contente" was the first car to reach the 100 km/h mark in 1899. Combustion engines then came to prevail mainly due to the abundance of oil and its very low cost.

Today, electric vehicles still offer cutting-edge performance, and the renewable energy capacity added last year cost less than the electricity generated from fossil fuels in the same span, according to the International Renewable Energy Agency (IRENA).

Unfortunately, every day brings new evidence of climate change, and renewable energies are an integral part of the solution despite the air pocket they were caught in over the summer. They will likely be a tremendous source of growth in the coming decade.

CHART 2: NET-ZERO INDUSTRY ACT


H2
Solar photovoltaic and solar thermal
Electrolysers and fuel cells
Onshore wind and offshore renewables
Sustainable biogas/biomethane
CO2
Batteries and storage
Carbon capture and storage
Heat pumps and geothermal energy
Grid technologies

Source: European Commission, Indosuez Wealth Management.

03 • Macro economics
AT A CROSSROADS

Lucas MERIC
Investment Strategist

Our post-summer changes to the scenario highlight the divergence in recent months between the resilient US economy, now flirting with the possibility of a soft landing, and the Chinese economy, whose poor *momentum* justified the authorities' implementation of a number of measures. The horizon darkened somewhat in Europe this summer but we do not expect a contraction in the Euro Area.

REAL ESTATE indirectly represents MORE THAN 20% OF CHINESE GDP

CHINA: ALL EYES ON REAL ESTATE

After several months of disappointing macroeconomic data, China had a busy summer with the authorities implementing multiple fiscal, quasi-fiscal, and monetary measures. The goal was to stimulate an economy facing multiple headwinds: a modest recovery, near-zero inflation, a downward trend in credit creation, mounting uncertainties about the financial position of certain Chinese real estate developers, and a global economic slowdown that has been unfavourable for Chinese exports. We believe these measures are a step in the right direction, but for now they have not been able to stabilise a fast-contracting real estate sector that is dampening confidence within the Chinese economy.

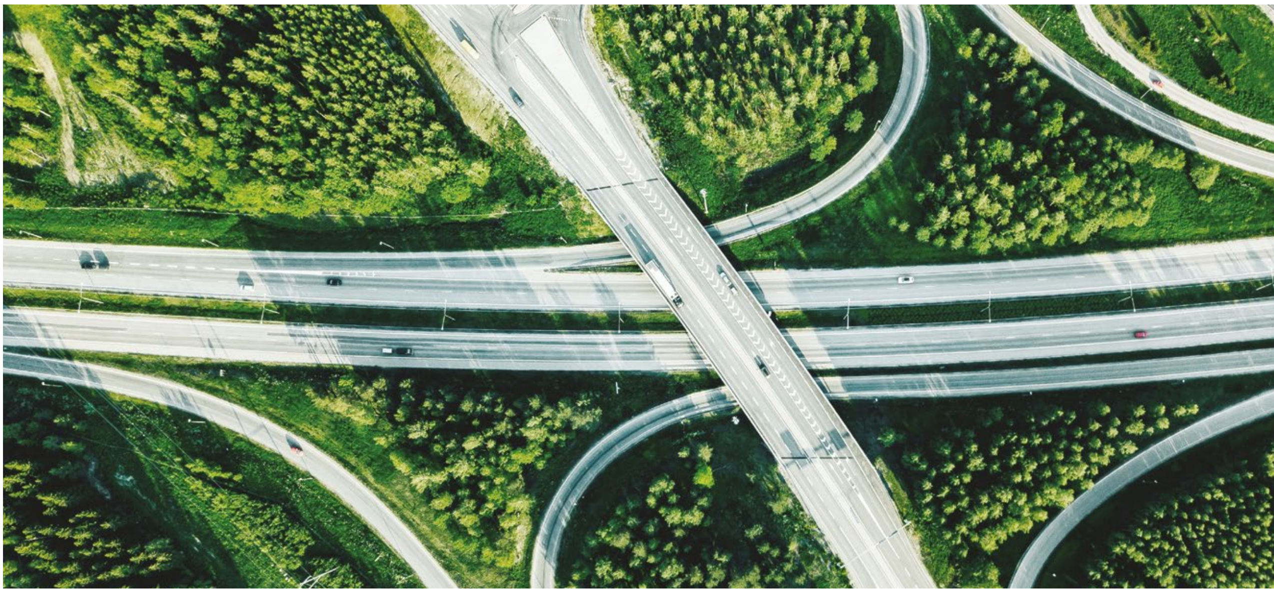
The data from August was a bright spot, showing the first signs of stabilisation. Retail sales and industrial production surprised to the upside and accelerated, while exports contracted to a lesser extent, benefiting from the gradual end to the global destocking cycle and from more favourable base effects. Nevertheless, real estate remains a drag on investment, while new home sales continue to contract and the price of homes in Tier 3 and Tier 4 cities shows no sign of stabilising, in contrast to larger cities. In a country where real estate indirectly represents more than 20% of GDP, accounted for 60% of household assets before the pandemic, and is the source of nearly 30% of the government's revenues due to the land sales and tax on real estate transactions, we believe it is crucially important for the authorities to employ the resources needed to stabilise the sector. In this environment of low confidence and poor consumption *momentum*, we are lowering our Chinese growth and inflation forecasts for 2023 and 2024, with growth this year expected to stand just above the 5% target set by the Chinese government last March (Table 1).

TABLE 1: MACROECONOMIC FORECAST 2023 - 2024, %

● Revised down since last month ● Revised up

	GDP		INFLATION	
	2023	2024	2023	2024
United States	1.8%	0.5%	4.1%	2.6%
Euro Area	0.5%	0.8%	5.5%	2.8%
China	5.1%	4.5%	0.4%	1.8%
Japan	1.3%	1.1%	2.8%	2.0%
India	6.0%	5.5%	5.5%	5.9%
Brazil	2.6%	1.3%	4.8%	4.0%
World	**2.8%**	**2.6%**	-	-

Source: Indosuez Wealth Management.



UNITED STATES: RESILIENCE TESTED BY HEADWINDS

The situation is much different in the United States, where the economy remains resilient, kept afloat by accumulated excess savings, which have continued to support consumers, and investment support policies in recent months. At the same time, the tightness in the US labour market (at the beginning of the year, companies' demand for work was twice as great as the supply of workers) has slowly continued to ease, with the number of job openings gradually decreasing, while job cuts remain in check (initial jobless claims remain well below the pre-pandemic level). This is a positive trend which, over the summer, fuelled expectations of a soft landing for the US economy, particularly as inflation slowed to 3% in July before rebounding slightly due to base effects on energy. However, we continue to believe that consumption will contract slightly at the end of the year, as it will be affected by dwindling excess savings (the San Francisco Fed estimates that this surplus will be fully spent at the end of the third quarter), a high rate environment (US households are increasingly turning to credit cards) and the resumption of student debt repayments starting in October.

That being said, we do not expect consumption to collapse. The job market remains resilient and purchasing power should be supported by disinflation, although the latter will be uneven (inflation is expected to rebound slightly at the end of the year because of the energy component), while households are in a healthy financial position due mainly to positive wealth effects since the pandemic, whether through real estate, the equity markets or high returns on savings.

EURO AREA: RISKS ON THE HORIZON BUT NO CONTRACTION

Growth *momentum* was somewhat tepid in Europe this summer, as the slowdown in the manufacturing sector spilled over into the services sector. However, the contraction was greater in Germany and France than in Southern European countries. The consumption recovery in Europe is, in our opinion, more modest than expected, consumer confidence continues to deteriorate, and we believe real wages will take longer to rebound, as nominal wages have shown some signs of deceleration in recent months. Against this backdrop, we have slightly lowered our growth forecast for 2024, but have left our scenario of modest and gradual growth in the Euro Area unchanged. In the coming months, European consumers are expected to benefit from the current disinflation (driven in particular by the deceleration in the food and services components) and a strong labour market. In 2024, the Euro Area is also expected to be supported by the stabilisation of the manufacturing cycle and the reduced impact of monetary policy on the economy.

IT OFTEN TAKES TEAMWORK TO GET A TRY!

Thomas GIQUEL
Head of Fixed Income

With the contribution
of the Fixed Income Team

There is one fundamental difference between open-ended or multi-strategy fund managers and maturity managers: for the former, there is still one quarter left of performance and risks after a year that mounted a respectable comeback from 2022. For the latter, every basis point increase in rates is an opportunity to crystallise return for their clients.

CENTRAL BANKS

GREECE'S RATING UPGRADED
to the edge of investment grade

The 2020s are going in a very different direction from the last 15 years. After the forced restructuring of Greece's debt at the beginning of the 2010s, part of its long economic march toward meeting European standards, the country's rating was upgraded by Moody's in September. This stands in stark contrast to the downgrade of the United States' rating in August. The Congressional Budget Office (CBO) projects a debt/GDP ratio of 195% in 2053[1]. Levels like this raise questions about debt sustainability, except for the Japan counter-example.

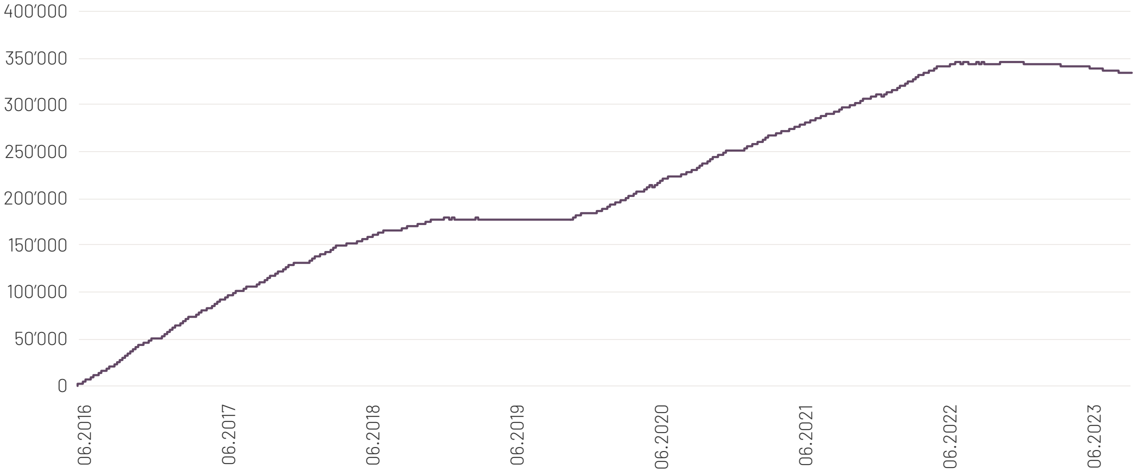
The debt burden, a measure of the annual cost paid to investors, will reach 1.429 trillion dollars, or 3.6% of GDP in 2033, also according to the CBO.

This trajectory has the effect of dampening long-term rates. The term premium has returned in the United States. Nominal and real rates are increasing for many reasons: household demand has been bolstered since COVID-19 by fiscal stimulus, inflation persists at a high level, and the US Treasury is starting to finance itself with long maturities again.

These factors have combined to push long-term rates higher, while short-term rates remain anchored thanks to the Fed's status quo.

In Europe, the recession is quietly spreading: growth is hovering at around zero, while inflation has not declined enough to give purchasing power back to consumers who have already been left without fiscal support. Moreover, the real estate development market is showing signs of major weakness. The European Central Bank's (ECB) rate hike on 14 September was no doubt the last of the cycle and a historic first: at 4%, the deposit rate has not been this high since the common central bank was created. European long-term rates are also suffering from the return of the term premium, the convergence of real rates in positive territory, and the states' funding needs. The ECB will gradually withdraw the liquidity injected through the asset purchase programmes implemented since 2015. This very gradual withdrawal will push long-term rates higher by changing investors' expectations, which will have a negative impact on bond prices (Chart 3).

CHART 3: ECB,CORPORATE PURCHASE PROGRAMME, EUR MILLIONS



Source: Bloomberg, ECB, Indosuez Wealth Management.

[1] - https://www.cbo.gov/publication/58946

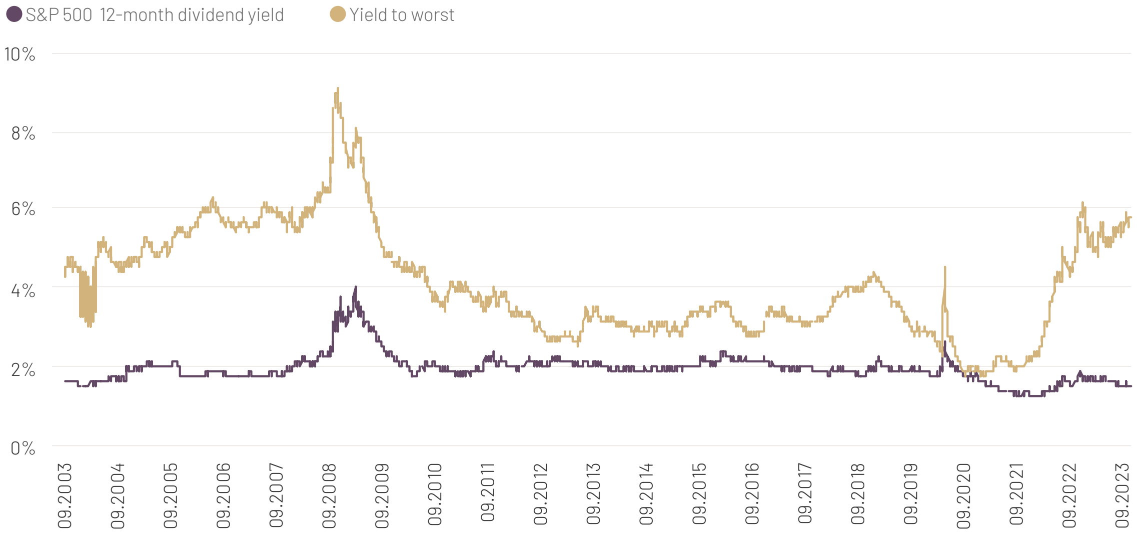
CREDIT

For investors, positive real rates mean that they are finally out-earning (expected) inflation. This line of reasoning makes more and more sense when we compare asset classes with one another. For bonds, we generally use yields on government bonds, for which there is (in principle) no credit risk, as our benchmark. If we add in the credit risk premium, bond yields are now particularly attractive when compared with the dividend yield on the US equity markets (Chart 4). On this basis alone, equities have to outperform by more than 4% per year (after fees!) to catch up to bond returns. Another positive for the bond markets is the one-year breakeven. This breakeven represents the level that the yield on a bond has to increase to in order to start to lose money on this investment. According to our calculations based on data available on Bloomberg in mid-September, breakeven for an investment in euros for 2026 is 6.6%, for a current yield of 4.3% (or more than 200 basis points of protection). This return provides a significant safety cushion compared with other asset classes.

In their expectations for the coming months, Indosuez's managers take into account the rise in rates and favour short maturities (two years) to benefit from the carry on government bonds. Long-term rates remain underweight in the context of the upwards pressure described above. Credit market valuations, measured by risk premiums, are not attractive, particularly in the high yield segment. However, the overall return leads us to believe that the volatility-adjusted performance could be greater than that of the other asset classes.

Lastly, the long correction on the Asian market is not yet over, global investors are steering clear, and Indosuez's managers in the region remain cautious.

CHART 4: S&P 500 DIVIDEND YIELD AND US CREDIT YIELD, %

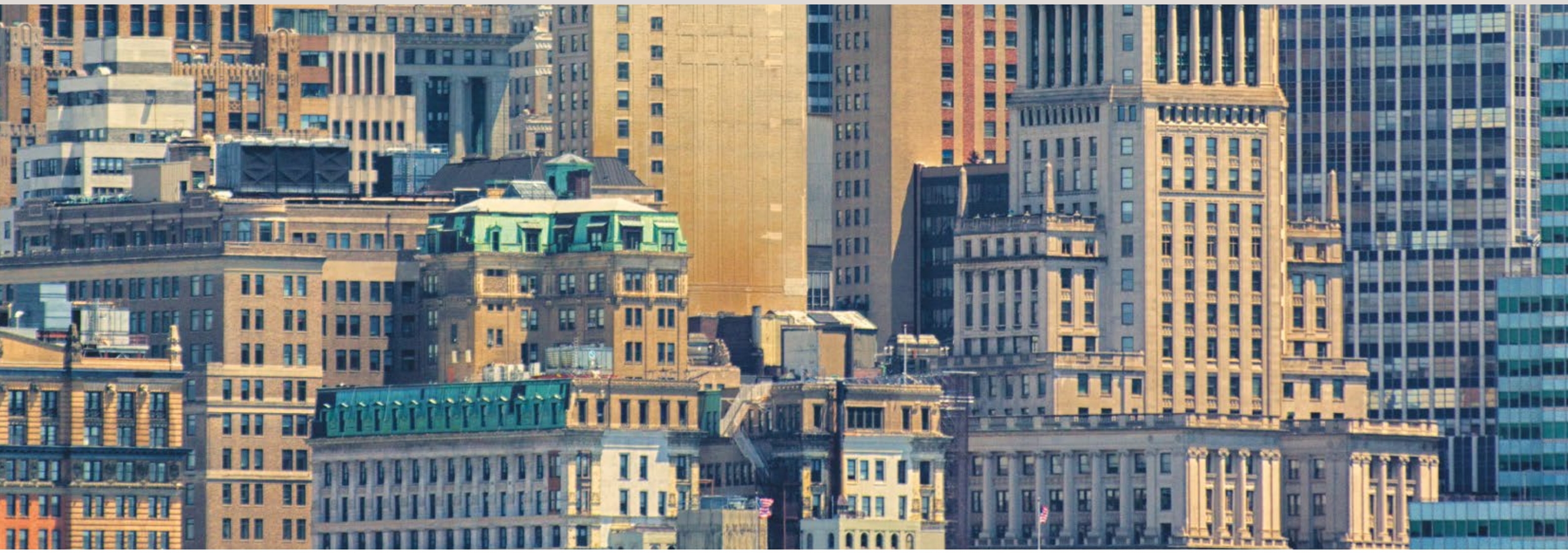


Note: S&P 500 dividend yield versus US corporate bond yield.

Source: Bloomberg, Bloomberg Barclays Indices, Indosuez Wealth Management.

05 • Equities

A LONG-TERM HIGH-RATE ENVIRONMENT?



Laura CORRIERAS
Equity Portfolio Manager

With the contribution of the Equity Team

Long-term rates continue to rise and have already reached their highest levels since 2008 (for the US 10-year)!

This has not dampened investors' risk appetite, particularly for US growth stocks, which continue to lead the race. This performance is supported by earnings revisions, which are also improving in the United States. Performances and earnings revisions are more mixed in Europe and Asia.

EUROPE

Sector performances for European equities have been very uneven since the beginning of August, with an underperformance by consumer discretionary (by luxury goods in particular) and tech stocks, while energy has outperformed.

The latest macroeconomic data coming from Europe was underwhelming: despite a slight slowdown in the inflation rate in August, the recent increase in oil prices could weigh on European consumers in the coming months, and the ECB recently lowered its growth forecasts for the Euro Area for 2023 and 2024.

However, in terms of valuations, European equities remain attractive and continue to trade at a record discount to US equities.

ECB: GROWTH FORECASTS LOWERED
for 2023 and 2024

UNITED STATES

After a particularly bullish first half of the year, the US equity market is now in a lateral phase. The S&P 500 and/or the Nasdaq are no longer able to hit their highs. This configuration is fairly consistent with historical standards, with the summer often relatively weak. Now that the latest corporate earnings season is over, investors are focused on macroeconomic data and on the US central bank's monetary policy outlook. The market's valuation is not supportive compared with historical data or relative to rates, which are at high levels. Investors are no doubt waiting for the third-quarter earnings season to begin in mid-October before reinitiating positions.

EMERGING MARKETS

Uncertainty and volatility remain high on the Asian stock markets for now. Pessimism and negative sentiment towards China persist. The recent inflows into the Chinese stock markets, coupled with accommodative monetary and fiscal policies, have failed to break the equity markets' downward trend. It should be noted that there are still serious structural concerns: the private sector's lack of confidence, insufficient domestic demand, and ongoing real estate tension continue to fuel foreign investors' fears. However, Chinese authorities recently accelerated the pace of their stimulus measures (monetary easing and support for the real estate sector, in particular) and the fundamentals of certain Chinese companies are attractive, in terms of both earnings expectations and valuations. We also favour certain Korean and Taiwanese companies (mainly Artificial Intelligence (AI)-related technology supply chains).

INVESTMENT STYLES

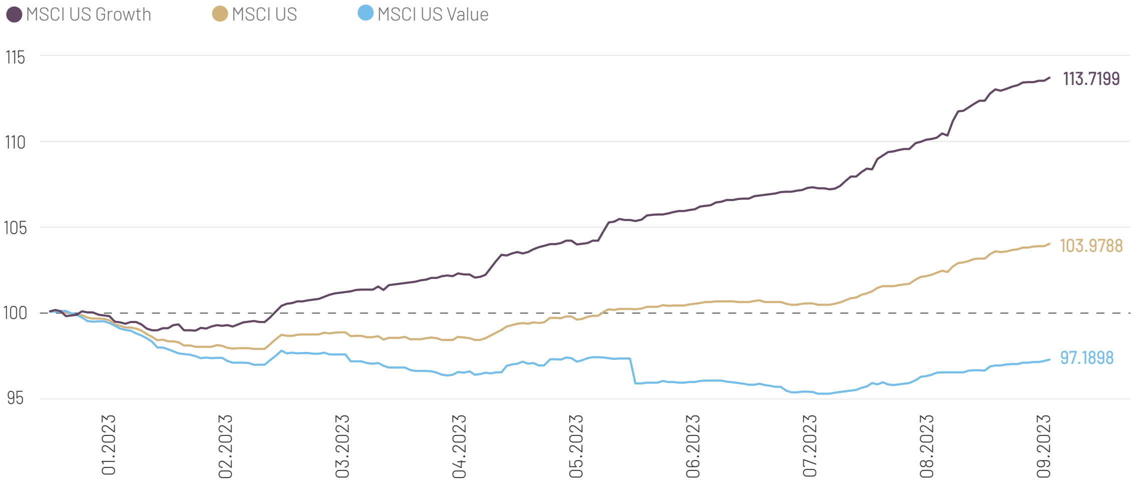
The performance of investment styles in the United States and Europe diverged quite sharply last month. In the United States, growth continues to lead the race. This trend has been confirmed by the acceleration in earnings revisions (Chart 5).

In Europe, the Growth style remained stable, mainly because of difficulties in the luxury goods sector and EU companies' lower exposure to AI. In contrast, the Value style remained stable in the United States but outperformed in Europe, where the trend is once again more bullish. This was mainly due to the larger weight of the banking and energy sectors in the European index.

We therefore remain constructive on growth, particularly in the United States. US growth stocks continue to attract investors looking for key AI players in an environment where the macroeconomic outlook remains strong.

In Europe, the Value style benefited from the rebound in long-term interest rates. Value stocks are also very attractive in terms of valuation, on both an absolute value basis and a relative basis compared with other styles. However, we remain more cautious on the cyclical component of the segment, which has traditionally tended to underperform when inflation normalises. In contrast, some of the Value segments remain attractive, mainly banks and energy, which are benefiting from the rebound in oil prices.

CHART 5: EARNINGS REVISIONS IN THE UNITED STATES



Source: Bloomberg, Indosuez Wealth Management.

06 • Forex

FORCES IN BALANCE

Maxime GARCIA
Investment Strategist

The environment remains buoyant for the US dollar, but we believe that a number of positives have already been factored into the price and the outlook now looks more balanced for the EUR/USD pair. The Swiss franc's fundamentals are now less favourable. Gold continues to be caught between rising real rates and central bank purchases.

USD

A favourable environment but clouds on the horizon

The dollar king continues to reign supreme on the forex markets (+2% this month based on the DXY Index, Chart 6), and its advantage in terms of growth and yield differentials, as well as demand for high yield safe havens, could continue to support the currency. However, we believe that a number of positives have already been factored into the price of the greenback and some clouds are gathering on the horizon. In the short-term, the risk of a US government shutdown is increasing and we note that the dollar has historically tended to lose ground when this happens. In the longer term, the end of the Fed's tightening cycle is expected to weigh on the dollar. We therefore believe the greenback has limited appreciation potential, but take a less negative view on the currency.

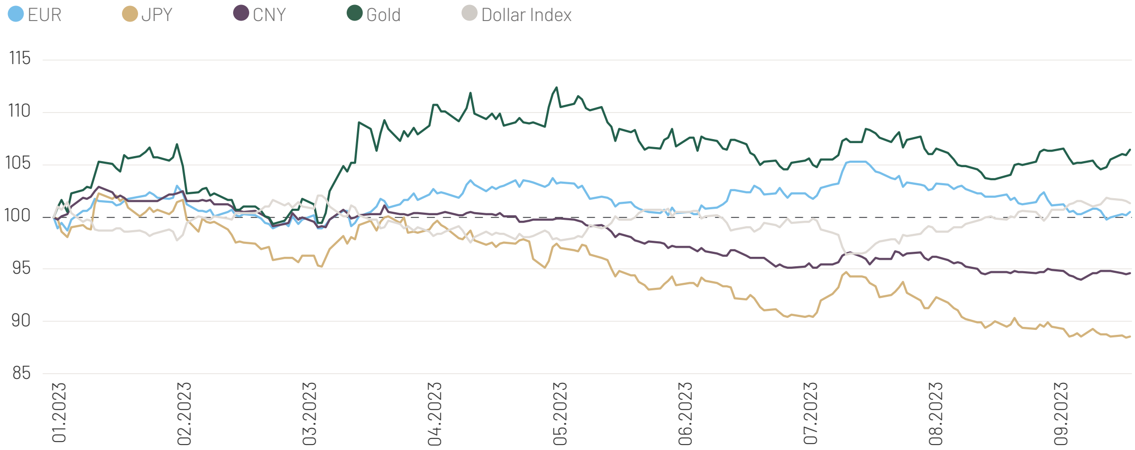
We believe the outlook for the EUR/USD IS MORE BALANCED

EUR

Pessimism already factored in

Strong US data and concerns about the growth outlook for the Euro Area weighed on the single currency while the flows that supported the euro in 2023, mainly due to the improvement in the trade balance, have started to ebb. However, positioning data indicate that the euro has been oversold since the beginning of the month, and we also note that a number of negatives, particularly at the macroeconomic level, have already been factored into the price of the euro. We therefore believe the outlook for the EUR/USD is more balanced and expect the currency to trade between 1.06 and 1.09 in the medium-term.

CHART 6: CURRENCY PERFORMANCE, 100 = 31.12.2022, USD



Source: Bloomberg, Indosuez Wealth Management.

CHF

Less supportive fundamentals

The Swiss franc has maintained its top ranking among G10 currencies for the last year. It has its central bank to thank for supporting the currency through direct intervention on the forex market and the adoption of a restrictive tone on monetary policy. We note, however, that fundamentals are now expected to be less supportive. Inflation is now within the central bank's target and the markets expect the tightening cycle to come to an end. The currency could also be affected by its carry disadvantage and there is no indication that the Swiss National Bank (SNB) will continue to intervene on the forex market. We therefore take a more neutral view on the CHF and anticipate a USD/CHF price of around 0.90 and a EUR/CHF price of 0.95 to 0.97.

JPY

Will there be an intervention?

The yen continues to suffer from Japanese monetary policy, which has bucked the trend of other major developed economies. With the USD/JPY pair at 147, policy-makers' level of concern has intensified, as has the likelihood the authorities will intervene on the forex market, which we believe they could do at around 150 (Chart 7). This would support the yen in the short-term.

Nevertheless, the current environment will have to change for us to see any long-term appreciation in the JPY (such as a Fed pause or normalisation of the Bank of Japan's policy). This could propel the USD/JPY to the 138 to 140 range.

CNY

The government steps in

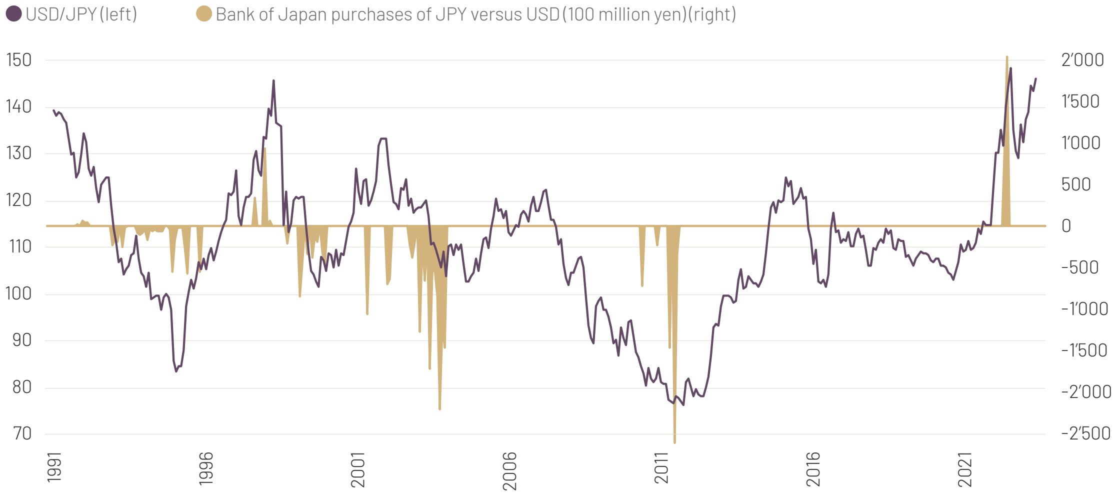
The current environment is not very positive for the Chinese currency. Weak macroeconomic dynamics, coupled with the divergence in rates between China and the United States, have pushed the USD/CNY pair to its highest level since 2016. However, we remain neutral on the currency as the People's Bank of China has ramped up its efforts to slow the pace of the CNY's depreciation and the state banks have reported selling USDs at 7.30. We therefore expect the USD/CNY to remain range bound between 7.20 and 7.40.

GOLD

Caught in the middle

Gold volatility continued to decline this month, with the yellow metal moving laterally since the beginning of the summer and posting an almost neutral performance for the month. On the one hand, the rise in yields on governments bonds and the strength of the dollar are acting as headwinds for gold. In addition, sentiment remains weak, as demonstrated by the outflows of funds from gold ETFs and the positioning, which is at its lowest level in five months. On the other hand, central bank demand for gold is higher than ever, which should continue to provide support. We expect gold to trade in a range of 1'870 to 1'970.

CHART 7: BANK OF JAPAN INTERVENTION ON THE FOREX MARKET?



Source: Datastream, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION CONVICTIONS

Grégory STEINER
Global Head of Multi Asset

Adrien ROURE
Portfolio Manager

2024:
growth forecasts
LOWERED
IN EUROPE

INVESTMENT SCENARIO

- **Growth:** our growth scenario remains unchanged overall. We maintain our view on a slight one-off contraction in the United States but with a shift to the last quarter of 2023 due to the country's highly resilient economic activity. We have lowered our growth forecasts for Europe for 2024 due to technical effects and lower than initially anticipated consumption. Lastly, we have revised Chinese growth downward due to the ongoing difficulties faced by the real estate sector this summer. However, we remain positive on growth in emerging countries as a whole.
- **Inflation:** the disinflation process is underway and is expected to continue in advanced economies, due to the deceleration in rent and food prices and favourable base effects. However, the absence of these technical effects at the end of the year and the wage catch-up are expected to keep inflation high.
- **Central banks:** the Fed and ECB rate hike cycles are now behind us. Interest rates are currently expected to remain at a plateau at least until the beginning of the second half of next year. For the Fed, we forecast 75 bps of cuts into H2 if core inflation does normalise towards 3%. For the ECB, we expect no cuts in 2024 but acknowledge that the weaker economic outlook could push the central banks to review its monetary policy. Balance sheet reductions are ongoing and could put more pressure on the long end of the rate curves.
- **Corporate earnings:** revisions continue to diverge between the United States and Japan on the one hand and Europe on the other, with earnings growth now expected to be around 12% in the United States versus 6% in the Euro Area.
- **Risk environment:** equity volatility remained range bound while rate volatility is back at its one-year low, with a number of market participants now expecting the perfect scenario of a soft landing in the United States. However, we believe that uncertainty remains high and, as such, acknowledge the benefits of option strategies to increase portfolio asymmetry.

ASSET ALLOCATION CONVICTION

Equities

- We became more constructive on risky assets over the summer thanks to the more resilient economic environment (particularly in the United States). This translates into a preference for US equities in our portfolios. While seasonality is generally unfavourable for equity markets in September, we nonetheless maintain a short-term positive tactical view on this part of the world.
- We remain neutral on European equities. Although valuations are still attractive, economic growth is not showing any clear signs of improvement at this stage while monetary tightening and the scarcity of liquidity in the Euro Area could continue to weigh on sentiment in the short-term. However, we believe that specific sub-sectors and geographic regions could become attractive again, like the UK equity market, which is trading at low valuation ratios and could benefit from the recent rebound in energy prices.
- Our conviction on emerging country equities remains strong. This segment should benefit from the growth differential in favour of developing economies versus advanced economies.

Fixed Income

- We believe that recent movements on the US and European rate curve could offer attractive entry points to reduce our underweight duration stance.
- We nevertheless continue to think that the risk remains to the upside on the long end of the curves. The change in the structure of the issues by the US Treasury in the United States (and a potential acceleration of the ECB's balance sheet reduction in the Euro Area) is expected to continue to put pressure on the long end of the curves. We therefore continue to prefer the short end of the curves, where yield levels offer attractive protection with no major volatility expected.
- However, we call for more caution on peripheral government bonds, particularly on Italian sovereign debt, against the backdrop of the supply/demand imbalance and a less propitious economic environment in the coming months.
- Regarding credit, we continue to prefer high-quality corporate debt with short maturities (as the credit curves are relatively flat) and remain on the sidelines on the high yield segment, particularly the lowest ratings, which we see as having relatively high valuations.

Forex

- We tactically reduced our conviction on EUR/USD parity at the beginning of the summer. Since then, the euro has returned to its May lows, in conjunction with the widening of the transatlantic interest rate differential. In the short-term, the macroeconomic environment could continue to support the dollar but the risks now seem to be more in balance, limiting the latter's appreciation potential.
- The Swiss franc has long benefited from the almost unique environment of positive real interest rates around the world, but that time has passed. We therefore remain neutral on the Swiss currency, even though the SNB should be done with its rate hike cycle.
- The yen continues to trade at all-time lows and is approaching the Bank of Japan's previous intervention levels. We would therefore not be surprised to see more volatility in the currency in the short-term, although a more structural change in the monetary environment is needed for long-term appreciation of the yen against the dollar.
- Attractive yields on government bonds discourage investors from holding gold. In contrast, strong central bank demand for the yellow metal limits the downside potential. We continue to expect gold prices to be range bound, with no major trends, as long as real interest rates remain at these levels.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
EUR 2-Year	=/+	=/-
EUR 10-Year	=/-	=/-
EUR Periphery	=/-	=/-
US 2-Year	+	=/+
US 10-Year	=/-	=
EUR Breakevens Inflation	=	=/+
US Breakevens Inflation	=	=/+
CREDIT		
Investment grade EUR	=/+	+
High yield EUR	=/-	=
Financials Bonds EUR	=	=
Investment grade USD	=	+
High yield USD	-	=
EMERGING DEBT		
Hard Currencies	=	=/+
Local Currencies	=/+	=/+
EQUITIES		
GEOGRAPHIES		
Europe	=	=
United States	=/+	=/+
Japan	=	=
Latin America	=	=
Asia ex-China	=/+	=/+
China	=/+	=
STYLES		
Growth	=/+	=/+
Value	=	=/-
Quality	=/+	=
Cyclical	=	=/+
Defensive	=/-	=/-
FOREX		
United States (USD)	=	=/-
Euro Area (EUR)	=/-	=/+
United Kingdom (GBP)	=/-	=
Switzerland (CHF)	=	=/+
Japan (JPY)	=/+	=/+
China (CNY)	=	=
Gold (XAU)	=/-	=/+

Source: Indosuez Wealth Management.

08 • Market Monitor (local currencies)

OVERVIEW OF SELECTED MARKETS

DATA AS OF 21 SEPTEMBRE 2023

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10-year	4.49%	25.70	61.94
France 10-year	3.28%	23.80	16.90
Germany 10-year	2.73%	22.40	16.90
Spain 10-year	3.79%	26.10	14.50
Switzerland 10-year	1.08%	7.20	-54.20
Japan 10-year	0.74%	8.90	32.50

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Government Bonds Emerging Markets	35.43	-2.45%	2.07%
Euro Government Bonds	195.02	-0.86%	1.22%
Corporate EUR high yield	206.57	0.93%	6.74%
Corporate USD high yield	313.03	0.12%	5.50%
US Government Bonds	295.95	-0.45%	0.19%
Corporate Emerging Markets	42.37	-0.59%	-0.91%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	0.9643	0.85%	-2.55%
GBP/USD	1.2298	-2.41%	1.78%
USD/CHF	0.9045	2.26%	-2.16%
EUR/USD	1.0661	-1.38%	-0.41%
USD/JPY	147.59	1.21%	12.56%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	17.54	0.34	-4.13

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'330.00	-1.06%	12.78%
FTSE 100 (United Kingdom)	7'678.62	4.70%	3.04%
STOXX 600	454.67	0.69%	7.01%
Topix	2'383.41	4.23%	25.99%
MSCI World	2'886.07	-0.69%	10.89%
Shanghai SE Composite	3'672.45	-1.37%	-5.14%
MSCI Emerging Markets	956.25	-2.65%	-0.01%
MSCI Latam (Latin America)	2'343.94	-2.39%	10.13%
MSCI EMEA (Europe. Middle East. Africa)	186.09	-3.63%	-3.07%
MSCI Asia Ex Japan	605.32	-2.52%	-2.25%
CAC 40 (France)	7'213.90	-0.01%	11.43%
DAX (Germany)	15'571.86	-0.32%	11.84%
MIB (Italy)	28'708.55	2.27%	21.10%
IBEX (Spain)	9'548.90	2.40%	16.04%
SMI (Switzerland)	11'084.74	0.98%	3.31%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'730.00	2.36%	-8.91%
Gold (USD/Oz)	1'920.02	0.16%	5.26%
Crude Oil WTI (USD/Bbl)	89.63	13.38%	11.67%
Silver (USD/Oz)	23.44	-3.24%	-2.48%
Copper (USD/Tonne)	8'194.00	-1.98%	-2.13%
Natural Gas (USD/MMBtu)	2.61	3.61%	-41.68%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

● FTSE 100 ● Topix ● MSCI World ● MSCI EMEA ● MSCI Emerging Markets
● STOXX 600 ● S&P 500 ● Shanghai SE Composite ● MSCI Latam ● MSCI Asia Ex Japan

BEST PERFORMING ⊕

JUNE 2023	JULY 2023	AUGUST 2023	4 WEEKS CHANGE	YTD (21.09.2023)
11.00%	0.41%	6.75%	4.70%	25.99%
7.41%	-1.77%	5.80%	4.23%	12.78%
6.47%	-2.55%	5.68%	0.69%	10.89%
5.93%	-2.79%	5.01%	-0.69%	10.13%
4.85%	-3.38%	4.48%	-1.06%	7.01%
3.23%	-5.73%	3.29%	-1.37%	3.04%
2.25%	-6.21%	3.11%	-2.39%	-0.01%
2.17%	-6.36%	2.23%	-2.52%	-2.25%
1.16%	-6.61%	2.04%	-2.65%	-3.07%
1.15%	-7.90%	1.48%	-3.63%	-5.14%

⊖ WORST PERFORMING

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

09 • Glossary

Basis point (bps): 1 basis point = 0.01%.

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates. This value is expressed in years. The longer the duration of a bond, the more sensitive its price is to interest rate changes.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to non-operating expenses.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and Euro Area member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-Year, 5-Year: A market measure of what 5-Year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

PMI: Purchasing Managers' Index.

Policy mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

Quantitative easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

TPI : An addition to the Eurosystem's toolkit that can be activated by the ECB to counter unwarranted, disorderly market developments if these pose a serious threat to the smooth transmission of monetary policy across the euro area. The ECB Governing Council approved the instrument on the 21 July 2022.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: World Trade Organization.

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