GATE Advisory
GLOBAL ALLOCATION TACTICAL EXPERTIZE

Outlook 2023

POINT BREAK

Inflation & Desynchronization

The year 2022, Ice Piloting...

Since 2016, the T.I.N.A. effect has generated a historic flow of frustration with all types of active management.

Our Outlook 2022 questioned the advent of a new era. What was in the conditional has been transformed into the affirmative. The performance of our GTO is the expression of this (+42% YTD).

Gramsci's quote has never been so cruelly actual: "The old world is dying, the new is slow to appear, and it is in this chiaroscuro that monsters arise.“ Our approach is differentiating in two ways:

Geopolitics

Science abandoned after the Second World War and rediscovered in the 80’s.

The interventions of the Central Banks have politicized finance.

The current configuration is worthy of the 70’s.

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Global Macro

Often only focused on currencies or bonds, we are cross-asset.

The monetary context justifies the integration of Global Macro processes.

Allows to feed hedging and bottom-up processes.

The questions that our Outlook 2022 had tried to answer

1 – The Dollar King and his Prince, the Yuan

Positioning 2022

Strong dollar due to decisive action by the FED and increased use of the Yuan.

End of 2022

Rate hikes and the launch of the QT strengthened the dollar. The delay of the ECB and the BOJ exacerbated this movement. The latest FOMC meeting confirmed the continuation of a restrictive policy. The Euro and the Yen have reached near historic lows. The share of the Yuan in the IMF reference currency climbs from 10.92% to 12.28% and Saudi oil purchases in Yuan are likely.

2 – Impact of Inflation and Pandemic

Positioning 2022 :

The market underestimates inflation because it is structural (aggravated by the GSE) and slow to spread. We, therefore, recommended selling US tech on any rebound as well as the US 10Y below 1.44% and avoiding cryptos and high yield. On the other hand, we recommended investing in commodities. We also warned about the negative correlation between the dollar and precious metals.

End of 2022

According to the latest comments from Powell and Lagarde: inflation is "persistent", transmitting to wages and services. Inflation is in double digits in Europe. The US 10Y will try to get back above 4% and the NASDAQ lost more than -30%. Gas prices were up +50%, oil finished close to balance, as did gold. Bitcoin, -63% YTD.

3 – Can China generate balanced growth?

Positioning 2022

PBOC desynchronization and fiscal stimulus place China favorably. The real estate sector will not be a "Lehman bis". The Yuan could fall but not collapse.

End of 2022

We clearly underestimated the stubbornness of the Chinese authorities in implementing the 0-Covid policy. Our "call the bottom" at the end of April 2022 has not been questioned. Hang Seng Real Estate rebounded +23% in Q4. The abandonment of the 0-Covid policy has created premature hopes for a quick reopening.

4 – Real estate and private equity in this context?

Positioning 2022

In a context of rising interest rates and post-pandemic, we recommended avoiding financial, commercial and office real estate. We emphasized the diversifying nature of private equity but warned of the valuation and liquidity risks associated with the reduction in allocation by certain large investors.

End of 2022

Blackstone's issues (in its real estate fund) and Carlyle's issues have confirmed our positioning. Rising mortgage rates have created significant cracks in real estate (generalized decline in sectors worldwide). Occupancy rates in office real estate never recovered to 2019 levels.

Our GTO summarizes our strategic and tactical positioning

As of December 20, 2022. Proforma performance. Past performance is not indicative of future performance..

Returns Matrix (29/12/2011 - 20/12/2022)

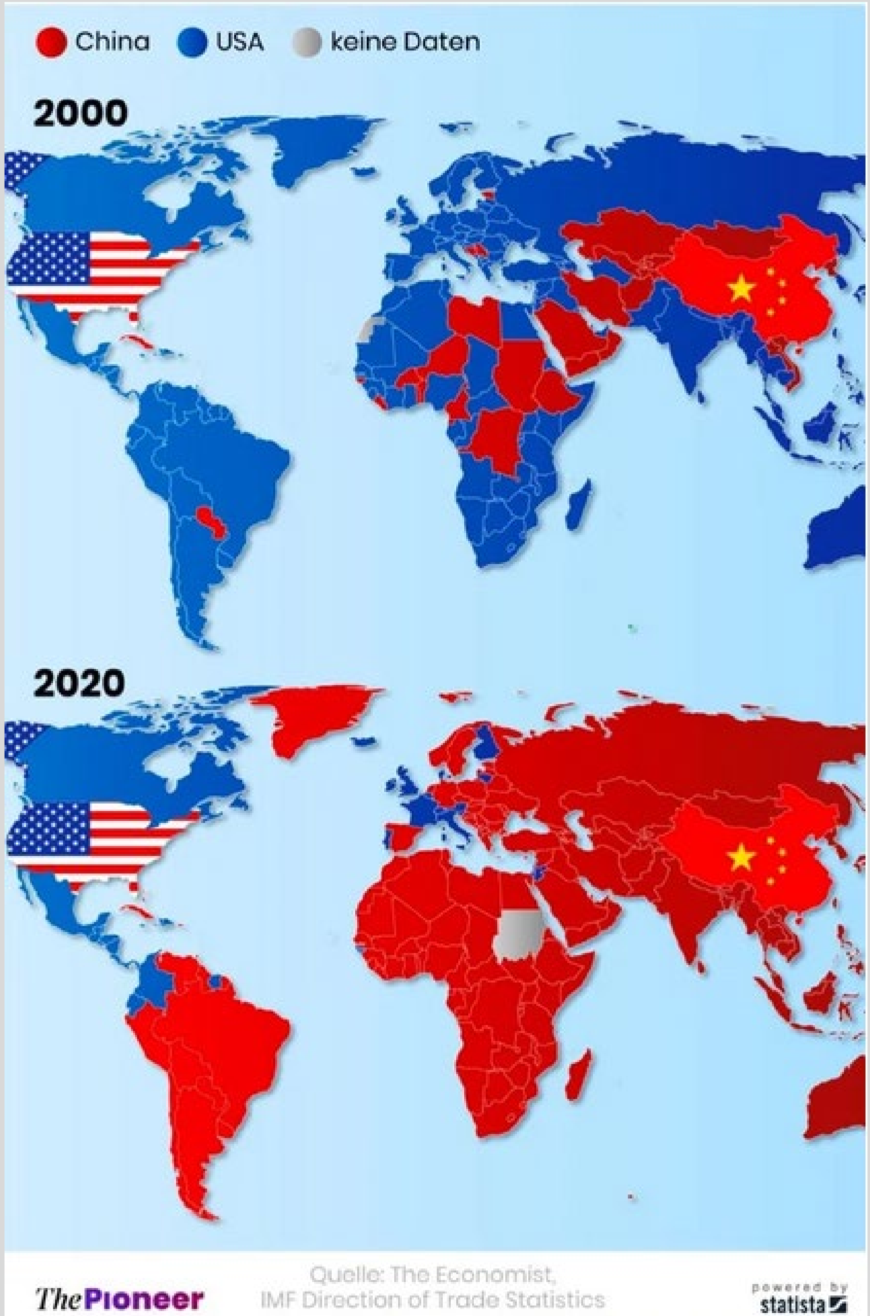
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2011												**0.55**	**0.55**
2012	7.16	5.67	-2.08	-1.43	-8.27	3.55	-0.59	2.49	3.44	-0.72	0.90	3.57	13.52
2013	3.80	-2.67	-0.28	2.48	-2.93	-4.77	3.98	-1.77	4.58	4.38	-0.63	0.76	6.53
2014	-2.69	4.60	0.18	0.83	1.34	2.18	-1.51	1.82	-4.70	1.23	1.94	0.22	5.25
2015	-0.61	3.86	0.38	1.38	1.18	-3.06	-0.11	-4.53	-2.36	5.10	-0.54	-1.74	-1.45
2016	2.04	-1.34	2.54	0.15	-1.11	4.18	2.21	-0.75	0.58	-1.84	1.20	0.17	8.13
2017	1.91	1.14	-0.23	0.81	1.91	0.53	0.95	1.39	-0.29	0.28	1.77	1.30	12.07
2018	4.00	-3.02	-0.54	-0.30	-0.13	-0.49	1.11	0.31	0.15	-2.29	0.54	-1.68	-2.48
2019	5.50	1.03	1.44	1.09	-2.16	4.29	0.54	0.17	-0.55	1.45	-0.85	2.52	15.18
2020	0.03	6.96	13.46	0.02	-1.86	2.03	5.79	-0.70	-1.68	2.09	-4.10	4.03	27.89
2021	3.10	-1.91	-3.36	-0.14	-0.11	-2.67	1.15	-1.93	2.99	-3.27	1.26	-1.97	-6.93
2022	6.32	5.41	6.40	5.99	-0.21	7.50	-0.54	2.94	1.89	1.44	-3.35	1.98	41.38

Globalization and Cold War

We are living in years of ruptures, and 2023 will perhaps go down in history. China has taken such a place that the principle of Thucydides* is at its peak. If the war in Ukraine continues, we do not believe in an invasion of Taiwan by China. On the other hand, we are much more concerned about the situation in Iran and Syria.

Accompanied by India, China has tipped the global geopolitical barycenter to the East, with the Middle East as a transmission belt between the new and the old world. This generates a rise in geopolitical tensions worthy of the Cold War.

The smart study by the Board of Governors of the Federal Reserve System (What Happens in China Does Not Stay in China.) shows that globalization is not dead.



*A concept in international relations that refers to a situation in which a dominant power goes to war with an emerging power, the former being driven by fear of the latter because of its growing power.

China's desynchronization and US recession in 2024

China has taken the place of the USA in terms of financial and political influence.

China is moving out of sync with the US in many ways: Monetary policy

- By the acceleration of patent applications
- The positioning in the 1cycle of the Covid pandemic
- The Belt & Road has no equivalent in the West, unless you consider the reconstruction of Ukraine.

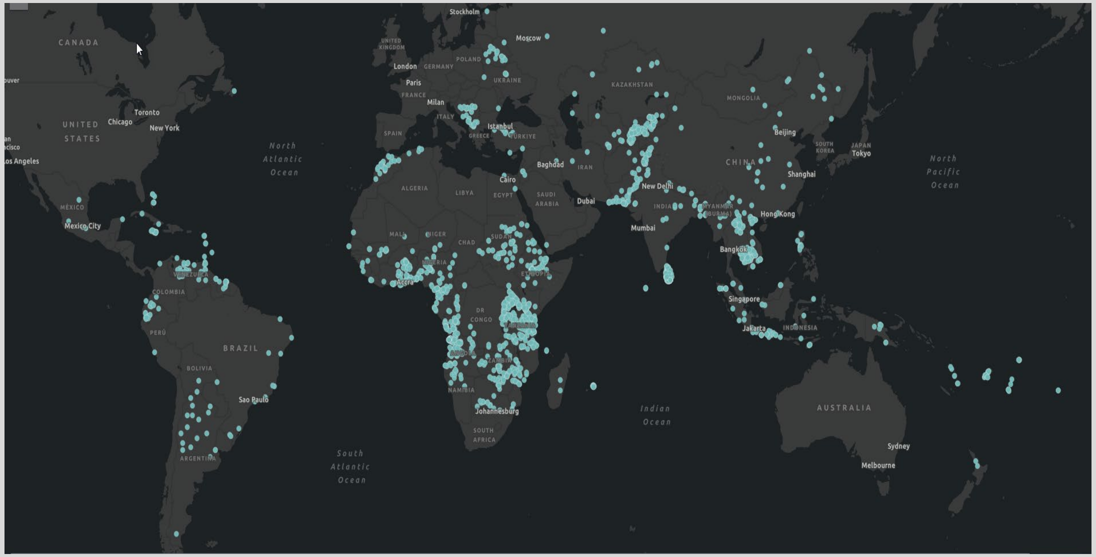
The Chinese real estate market should stabilize following the support measures announced by the government.

We believe that the inflation regime will remain high, forcing the FED to maintain (or even increase) its restrictive monetary policy. Indeed, its slow diffusion will add to the fluctuation of the base effects.

The US could enter a recession in 2024. The reopening of China will just about keep US GDP growth afloat. But this reopening should generate a rebound in US inflation, pushing the FED to react. This last move will cause the US to enter a recession.

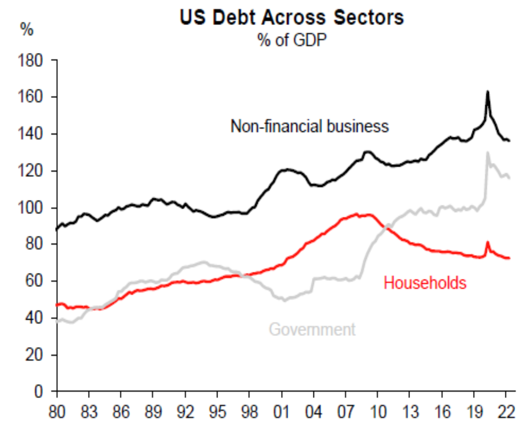
We will remain vigilant on the credit risk in the US, which will act as a warning bell. .

This map highlights projects supported by Chinese funders, including government agencies and state-owned enterprises.



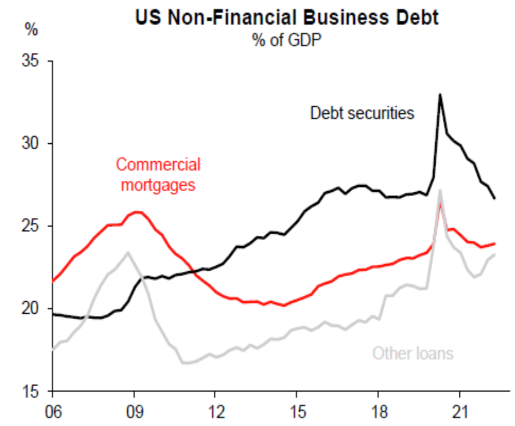
Sources : Reconnecting Asia, d'AIDDATA GeoQuery, de Boston University Global China Dataset et de NYU Shanghai.

Fig 26 After the GFC, household deleveraging has continued while business debt has expanded



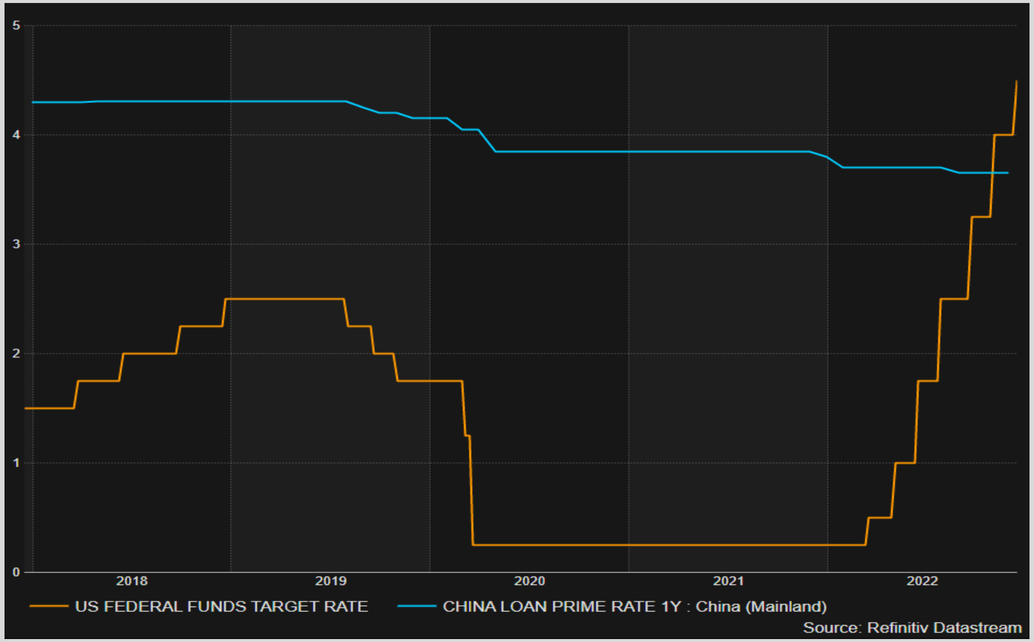
Source: Federal Reserve, Macrobond, Macquarie Macro Strategy

Fig 27 The corporate bond market has supported the significant expansion in business debt since 2009



Source: Federal Reserve, Macrobond, Macquarie Macro Strategy

Monetary Policy - Dr. Xiaochuan and Mr. Powell

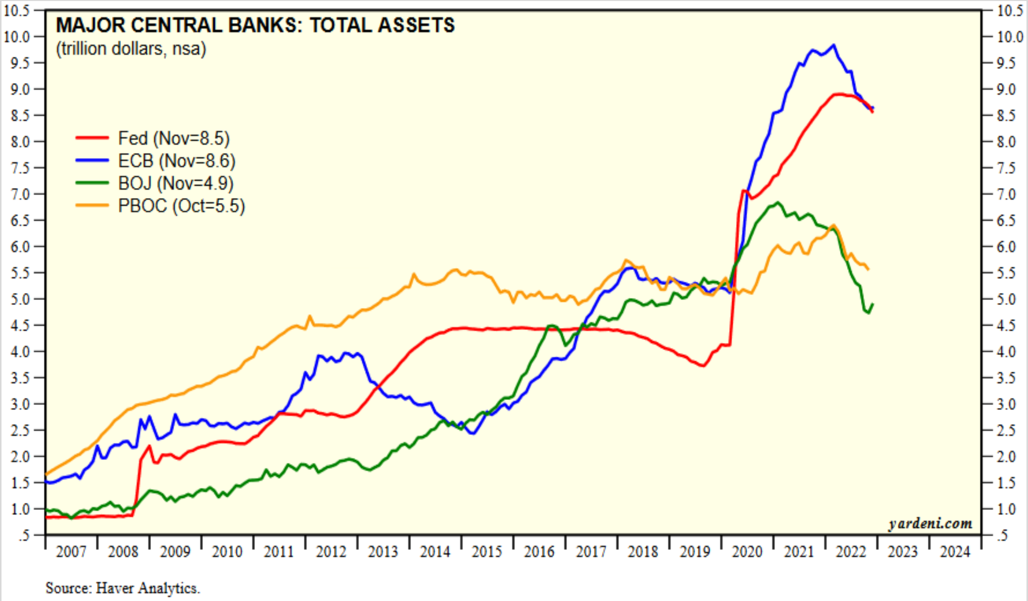


The most important desynchronization is that of the monetary policies of the FED and the PBOC. This divergence began in early 2022.

The "Don't fight the FED" has been forgotten by the markets until the FOMC in December 2022.

With PPI still negative and CPI below 3%, Xiaochuan will be able to be accommodative, even neutral. On the other hand, Powell has no choice but to be aggressive.

A significant rise in CPI at the end of 2023 in response to the reopening of the country could generate a "pivot" from the PBOC. The PBOC has always been adept at measurement.



The PBOC acts on the Prime Loan Rate 1Y to act on consumption and the 5Y for real estate and investments. The FED works on the shortest rate and lets the markets and the economy do the rest...

The PBOC has always tried to maintain its balance sheet, unlike the ECB and the FED.

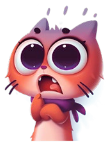
Monetary Policy - Enigmatic QT

QT (Quantitative Tightening) is the opposite of QE, but financial markets do not seem to consider its potential effects.

The FED has moved to $95 billion per month in September 2022 and the ECB has announced $15 billion per month in early 2023.

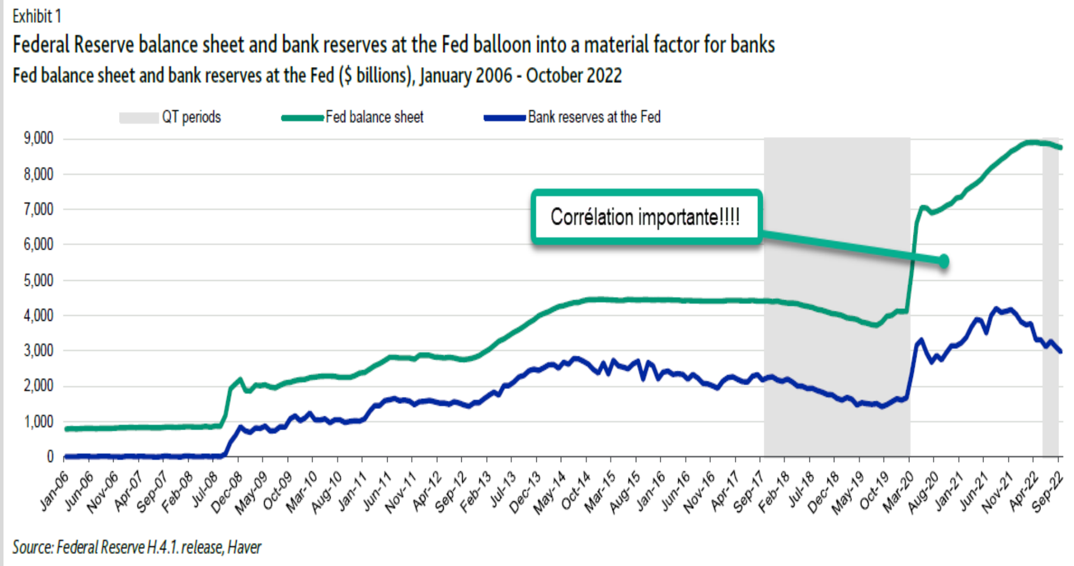
QT has a significant impact on U.S. bank balance sheets because it causes:

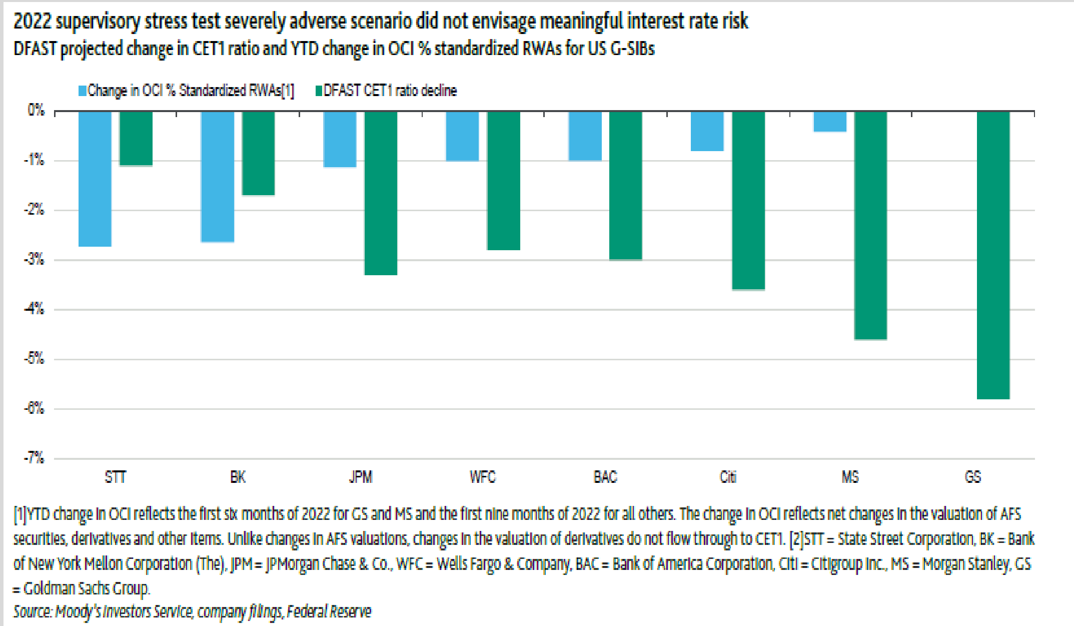
- A slowdown/drop in deposits,
- Accounting losses,
- A deterioration in the quality of balance sheets, which forces banks to reduce their investment,
- A reluctance of banks to want to do repo operations, hence the disruption in the Repo market in 2019, which reached +10%.



Overall, the QT will therefore drain liquidity from the financial markets, but it will also impact banks' balance sheets.

Furthermore, Goldman estimates that without the massive QE, the S&P would be at 1,800pts...We estimate that by 2023, the S&P could return to 3,000pts.



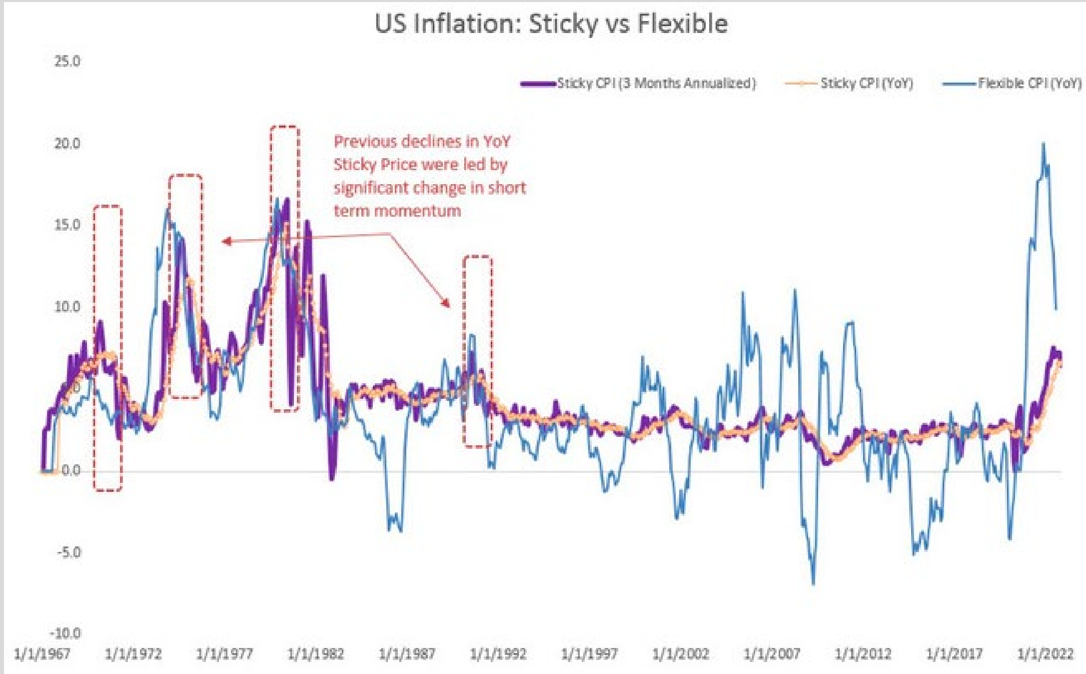


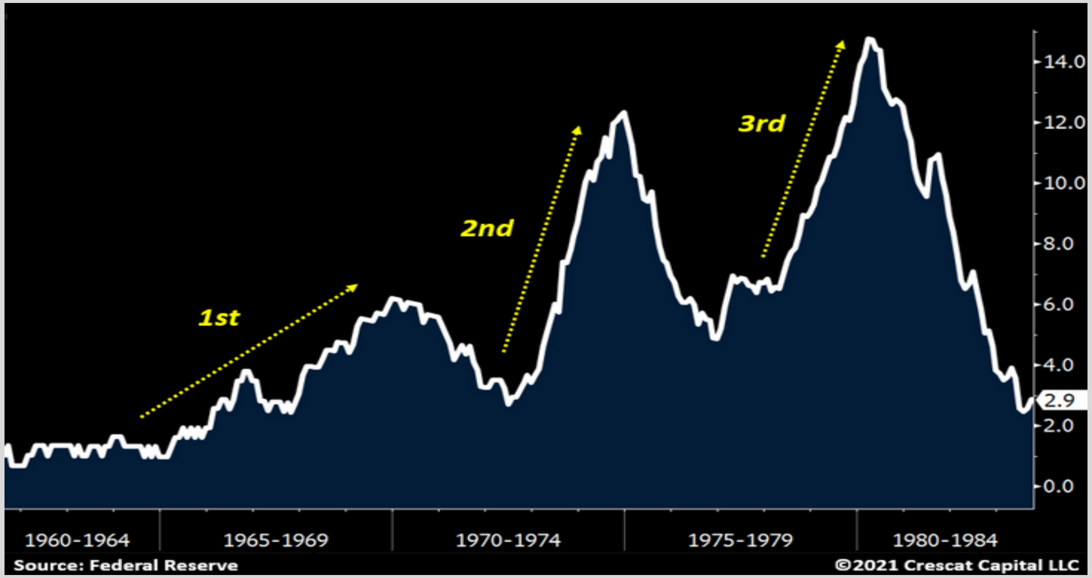
Human by nature!

Our position on inflation has not changed since 2021. It is structural (and therefore persistent), and its cruising speed is underestimated by the financial markets (anticipating an inverted V curve).

Its nature is profoundly human, and its temporality is not that of the markets:

- The problem of supply is always present, and central banks have no weapons against this type of inflation. Attempts at "reshoring". Only globalization has a deflationary effect.
- Labor force problems.
- The war in Ukraine is leading to restrictions on exports of fertilizers and seeds, resulting in a drop in future harvests.
- Inflation is transmitted to services via wages.
- The reopening of China will trigger a second wave of inflation. But the FED does not want to relive the three waves of inflation of the 1970s. US inflation has "benefited" from the effects of the Chinese health policy.
- Its speed of dissemination is not linear.
- Environmental pressure has diverted billions from sectors essential to the supply of basic raw materials.



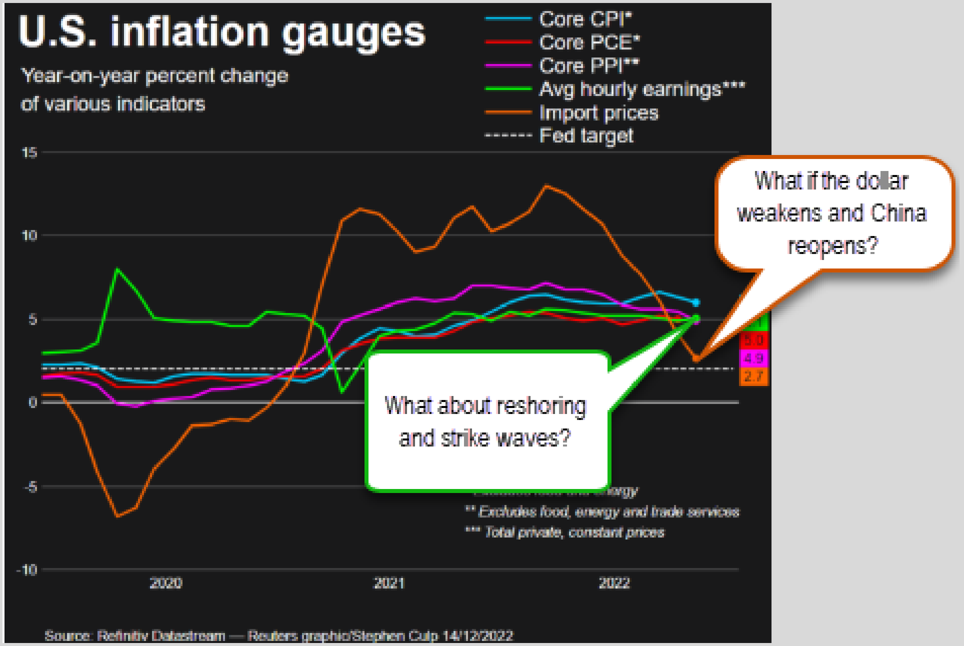


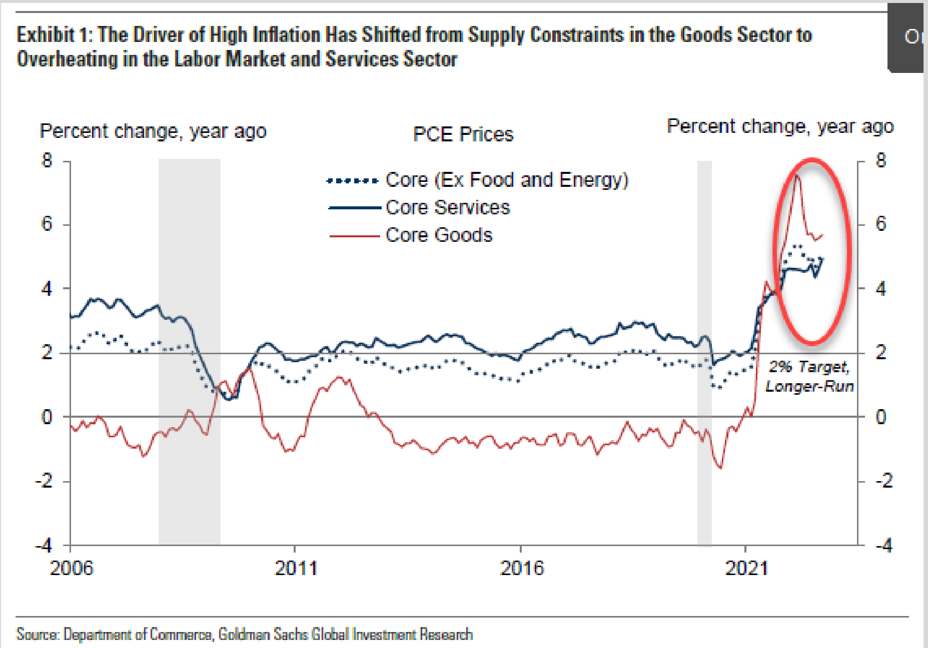
Divergences and Chinese PPI

Three divergences are critical:

1. The US PPI is higher than the CPI. This will weigh on corporate margins or, one day, be passed on to consumer prices if this divergence persists.
2. Inflation has spread to services, representing 77% of US GDP.
3. The wage component can no longer be ignored. The divergence between the slowing manufacturing CPI and the accelerating services CPI will support the Core CPI.
4. The headline CPI will undoubtedly slow due to volatile components (oil prices), but the Core CPI could remain above 6%, reinforcing the "stickiness" of inflation.

The Chinese PPI is the world's CPI, which implies that a return to the positive territory will cause inflationary pressure in the US, especially if the dollar "forgets" to strengthen...





Effects of the reopening of China

China's health policy has frozen over 40% of GDP for months, causing the PPI to plunge and decorrelate from the US CPI.

Both data will re-correlate after Q1 2023, which will pose a problem for the FED in the summer of 2023.

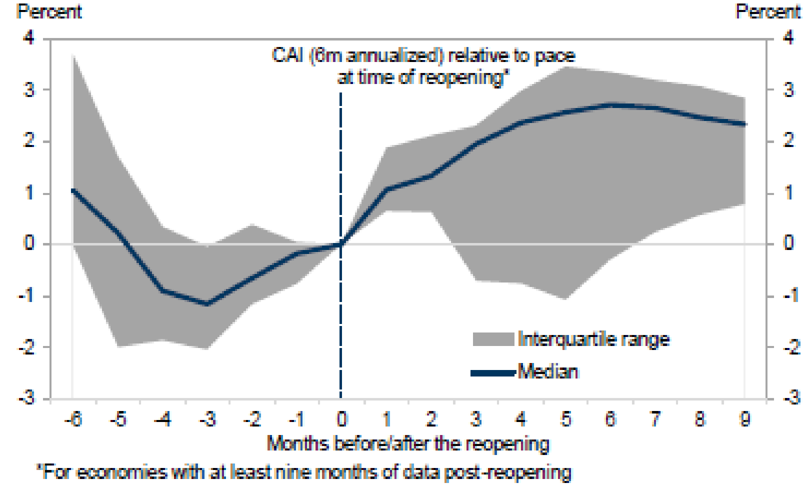
Markets are overestimating how quickly China will reopen and underestimating the inflationary push that its effective reopening will generate.

Assuming that China is fully open by mid-2023, Bloomberg Economics estimates that energy prices will rise by 20% and that the US consumer price index, which it says could fall to 3.9% by mid-year, could jump to 5.7% by year-end.

The IEA anticipates a need for an additional 3.3 million b/d for China when it fully reopens. This will account for 47% of global energy demand growth next year.

The main effect of China's reopening (GDP forecast +4.5%) will be to avoid a short-term recession in the US. However, the rebound in inflation caused by this reopening will force the FED to accelerate its QT, which will plunge the US into recession in 2024.

Exhibit 2: Noticeable demand boost normally materializes 1 to 2 quarters post the initial reopening



Source: Goldman Sachs Global Investment Research

Unresolved energy supply chain constraints.

The reopening of China will raise the issue of underinvestment in the extraction and refining of raw materials, including hydrocarbons.

The ESG is clearly an inflationary factor in this context. HSBC has announced that it will stop financing new oil and gas projects, following criticism that it has invested about $8.7 billion in new oil and gas projects in 2021.

The bank's new oil and gas policy states that it will no longer finance any oil and gas fields for which the investment decision has been made after December 31, 2021.

In just a few quarters, ESG funds have raised more than $1tn, while investment in the hydrocarbon supply chain has fallen from $900bn per year in 2014 to less than $400bn...

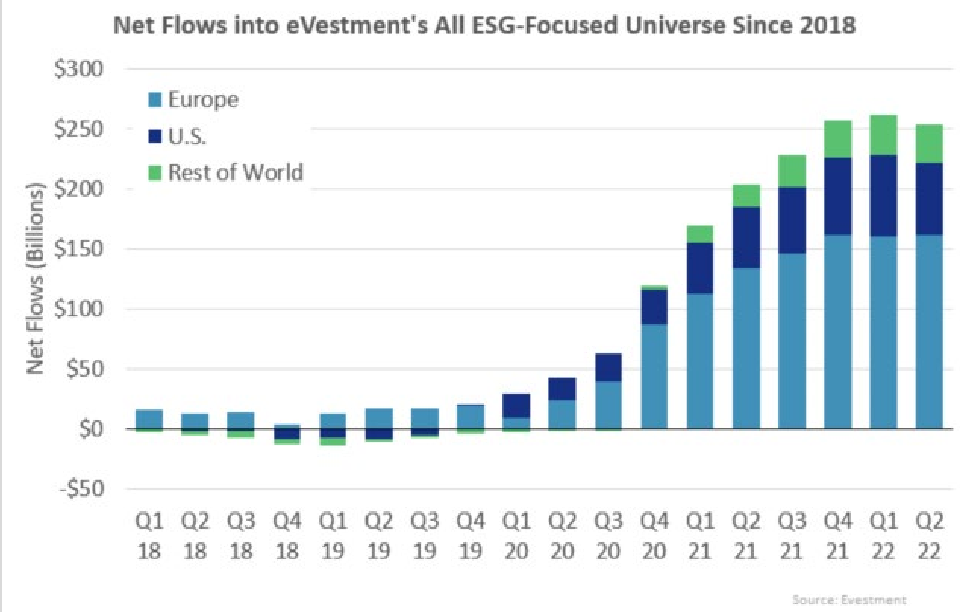
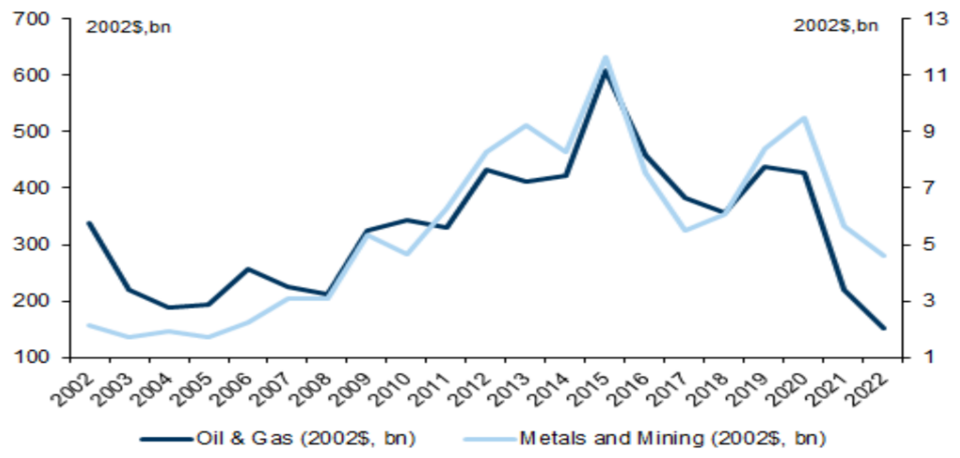


Exhibit 2 : Capex across commodities continued to fall in real terms despite higher prices

Oil & Gas and Metals and Mining (rhs) real capex in 2002 dollars



Source: Baker Hughes, Goldman Sachs Global Investment Research

From DC to AC

After decades of bullish bond markets, bonds are no longer as calm and reassuring for asset allocations. The MOVE Index has clearly shifted.

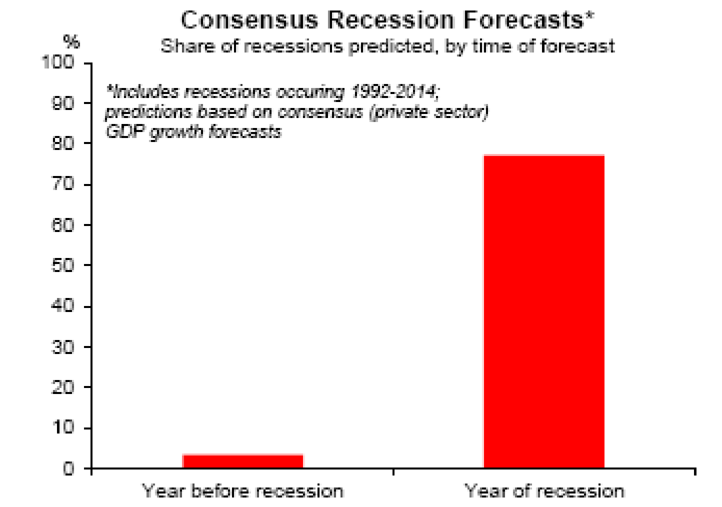
By the end of 2022, however, European and US IG credit spreads have tightened. European-listed EUR IG Corporate Bond UCITS ETFs saw a net inflow of €3.5 billion in November, the second largest inflow month in history...

Investors will have to consider the nature of inflation and especially the FED's relentless policy. Spreads between states and between bond asset classes have come back to life. This revival will force investors to integrate duration and signature risks in the coming months.

The FED's policy and expectations of a recession in the US will be crucial for the steepening of the yield curve, but also for credit and emerging countries. For the latter, the trajectory of the dollar will also be considered.

Regarding the US recession, economists have shown a constant refusal in this divinatory exercise. This supports our view of a recession in late 2023, but especially likely in 2024.

Fig 1 Economists have historically been very reluctant to forecasts a recession the following year…



Source: IMF, Macrobond, Macquarie Macro Strategy

Slope break, why not?

The curve inversion is often presented as a harbinger of a recession.

But these previous episodes are never presented as China was about to reopen its economy, and central banks were embarking on QTs.

As the recession approaches, the slope will flatten and then become more pronounced.

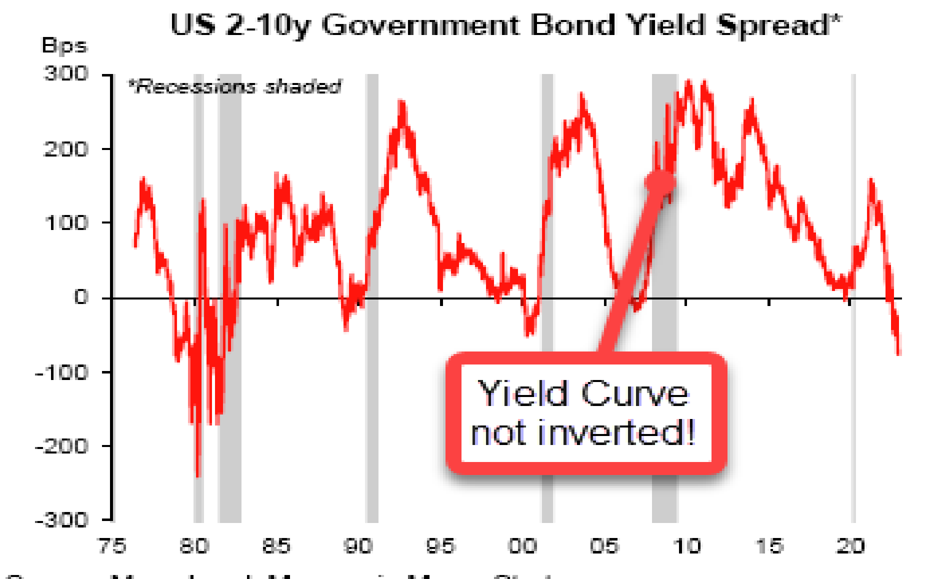
The effect of QTs will be decisive. The FED (and ECB, to a lesser extent) will pull back as the two largest foreign buyers reduce their Treasuries (TSY) holdings.

For geopolitical reasons, China (the second largest buyer of TSYs) has reduced its stock by $24bn to $909.6bn in October 2022. This is the lowest level since 2010.

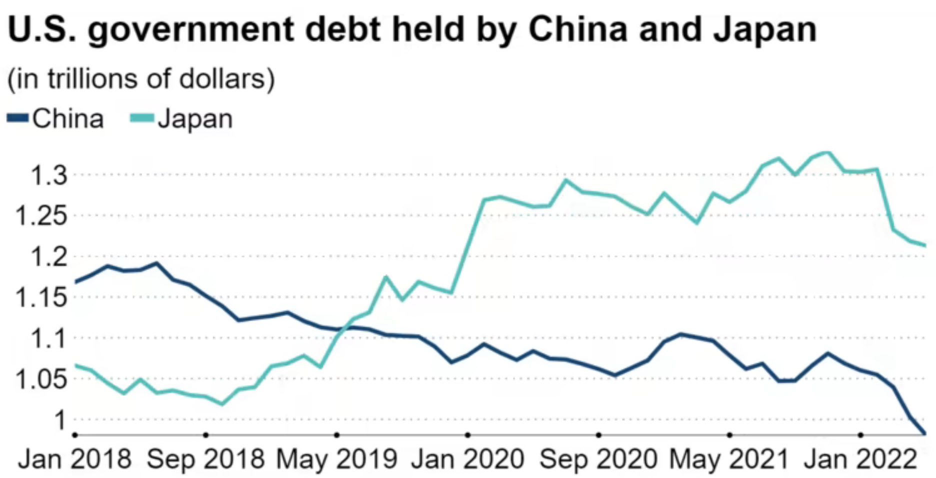
Following the forced "devaluation" of their currencies, Japan (1st buyer of TSY) and the UK (3rd largest buyer in the world) have sharply reduced their exposure, -$42bn for Japan in October 2022.

We remain short on Treasuries, as the markets are not integrating a shock related to the reduction in demand.

Fig 6 ...with the bond market expecting a 2023 recession (a more reliable recession predictor than economists)



Source: Macrobond, Macquarie Macro Strategy

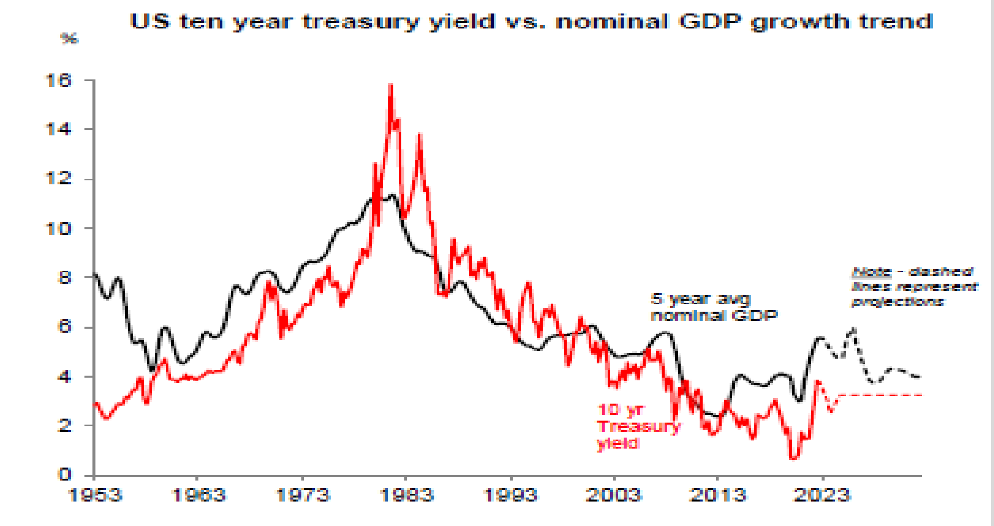


Source: U.S. Treasury Department

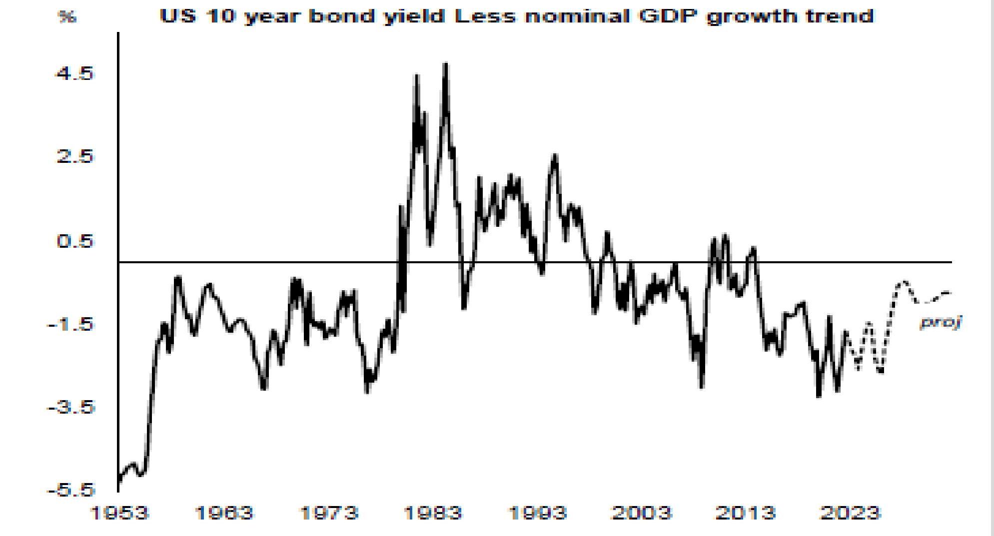
Nasty correlation

Another dimension to consider is inflation. The correlation between Nominal GDP and the 10YUS rate is the most interesting. Nominal GDP is real GDP plus inflation. Since we believe that the US recession is not for 2023 and inflation will rebound due to the reopening of China, US real GDP should be above 5%.

This correlation has an intrinsic life, and we are on significant levels of decorrelation. A simple return to neutral correlation will add further strength causing the US 10Y yield to rise.



Source: Bloomberg, BEA, Macquarie Macro Strategy



Source: Bloomberg, BEA, Macquarie Macro Strategy

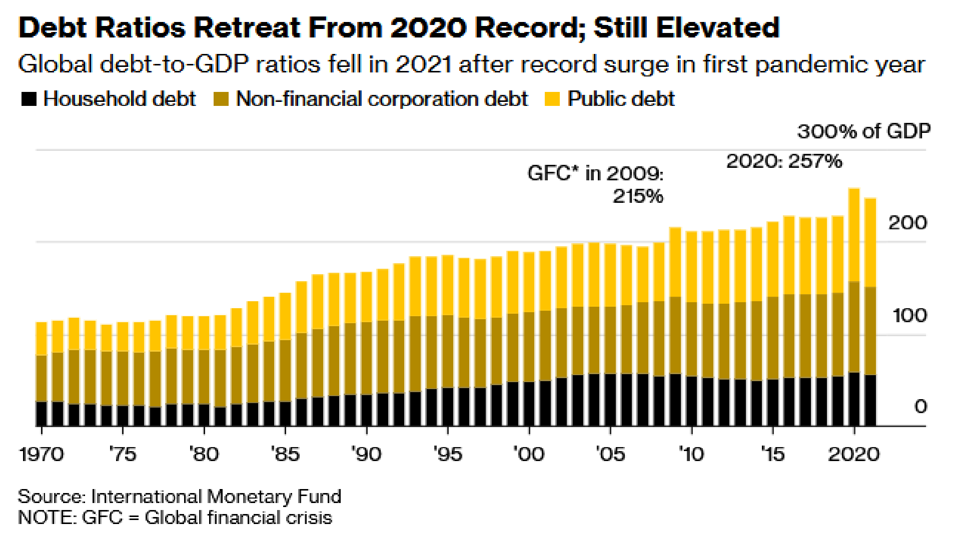
Zombie Planet

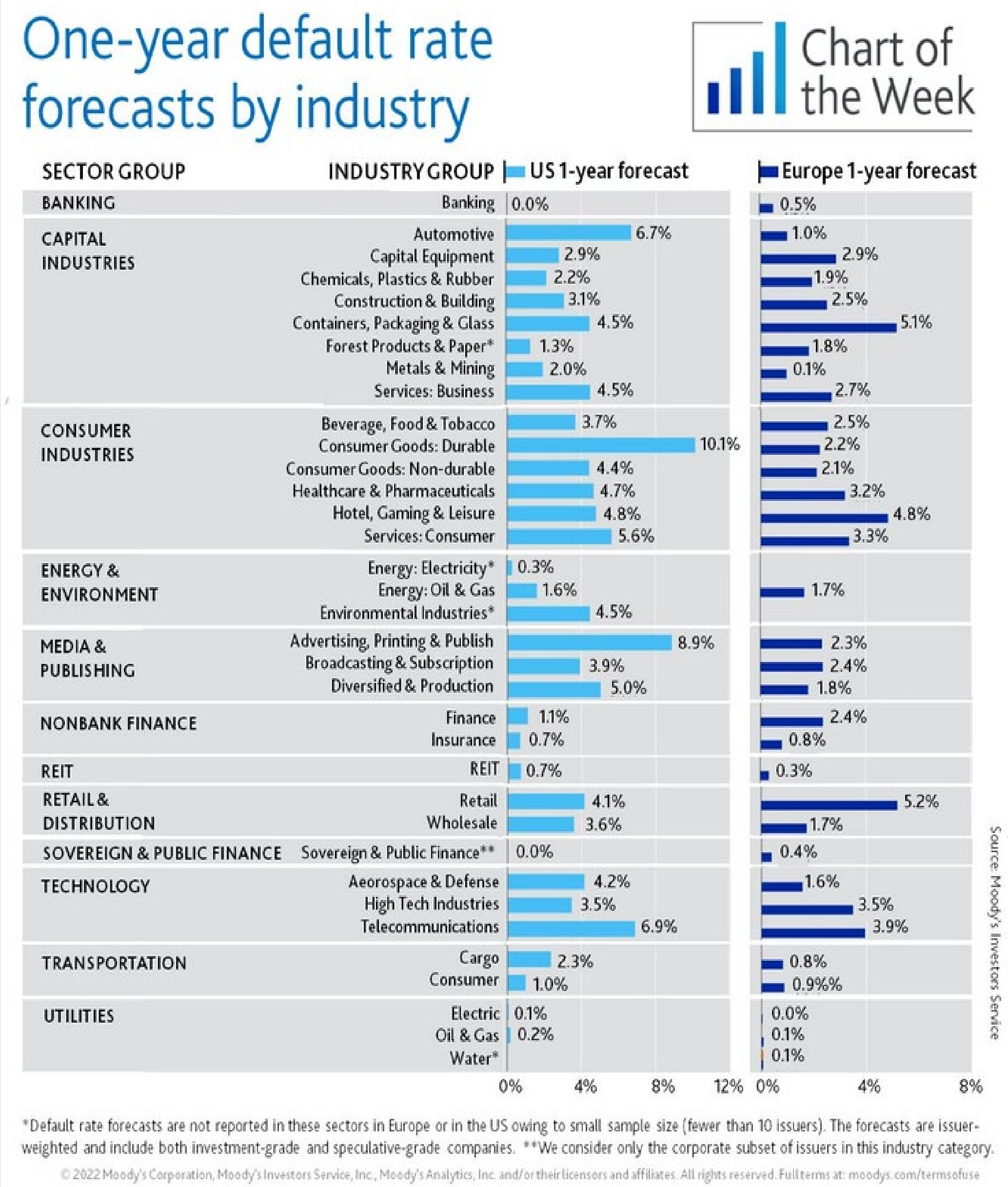
The biggest (and most likely) risk to the markets would be a credit crisis. With changes in the PPI/CPI spread, and future rate hikes (and therefore refinancing), the number of zombie companies could continue to rise.

Individuals and countries are also subject to rate and credit stress. Only one economic component around the world has continued to grow: debt.

Globally, governments and corporations have a higher debt than in 2008, unlike individuals. Only household mortgage debt in the US is higher than 2008.

In this context, the increase in the cost of capital is the match that will set the financial markets on fire.





When cross-asset counts!

Our cross-asset approach has already highlighted that :

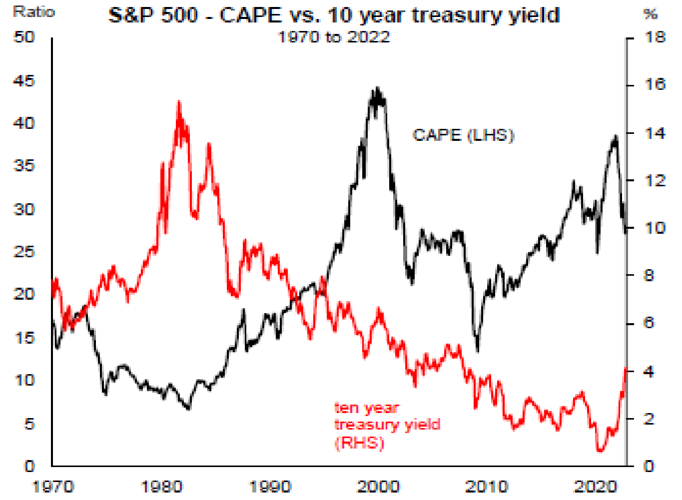
- QT will be unfavorable for the banking sector and equities in general (see the correlation between the growth of the FED's balance sheet and the rise of the S&P500).

- Rising interest rates and inflation will weigh on corporate valuations.

- Geopolitics will continue to dominate. Reshoring will have a double impact: on margin squeezes due to inflation (including wage inflation) and on increased accounting losses, as these investments could prove to be countercyclical.

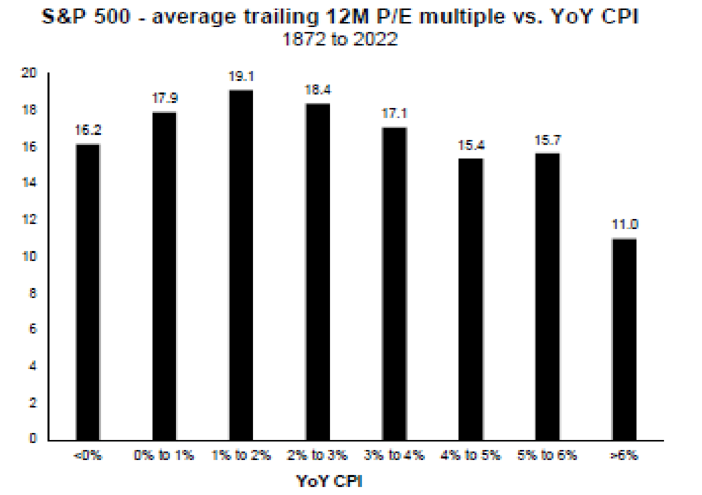
- Yet, while economists expect a recession in 2023, financial analysts expect EPS growth of +5% in 2023... No major Western stock market giant has issued an earnings warning, which shows that **credit will be a leading indicator**.

Fig 24 The upward trend in multiples since the 1980s has been fuelled by a declining 10-year Treasury yield



Source: Shiller, Macquarie Macro Strategy

Fig 25 Higher inflation could mean lower equity multiples compared to what has occurred over the past decade



Source: Shiller, Macquarie Macro Strategy

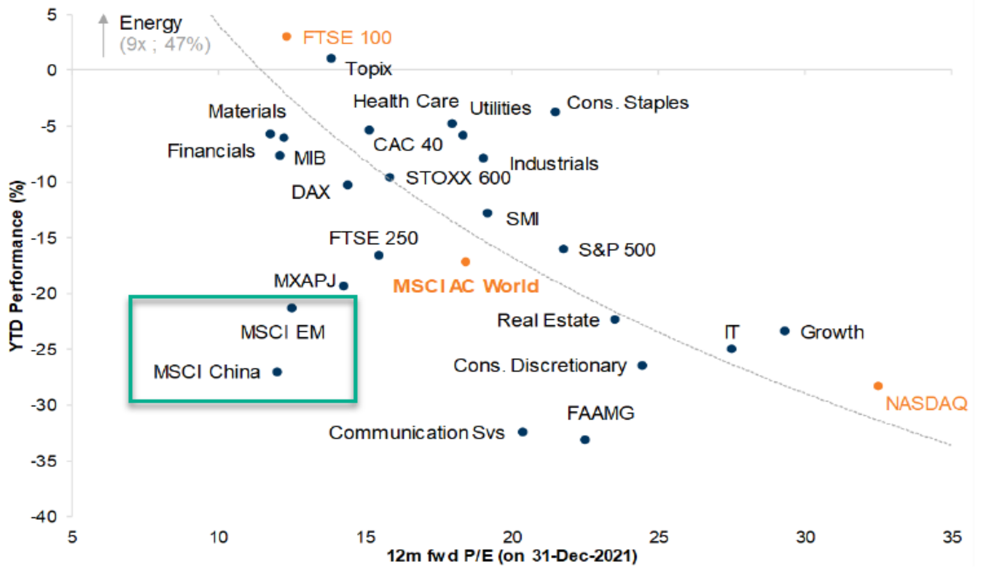
The effects of China's reopening vs. developed countries

The post-Covid reopening year will allow China to benefit from exceptionally favorable base effects that the US and the EU will not have. The growth in PEs of Chinese stocks could be +8%.

The energy crisis, the continuing war in Ukraine, inflation, and the ECB's QT are likely to undermine the outperformance of European equities in 2022.

The reopening of China will benefit the local economy. A-shares are, therefore, to be favored.

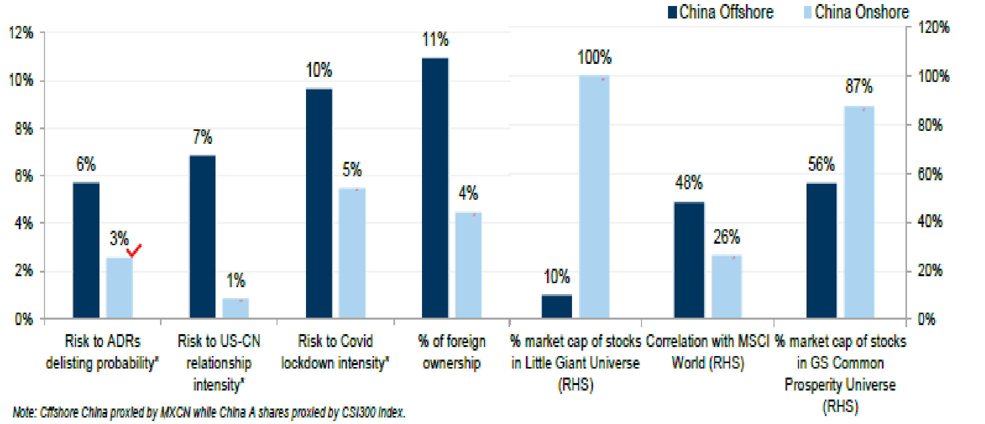
Asian countries with close trade ties to China should be included: Malaysia, Indonesia and Thailand.



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

Global Investment Research

Exhibit 37: Chinese A shares look better positioned than Offshore equities from a macro and policy perspective



Note: Offshore China proxied by MXCN while China A shares proxied by CSI300 Index.
* Numbers represent return sensitivity to 10-point drop in each index. ADR delisting probability is proxied by GSSRADRD Index; US-CN relationship is proxied by GSSRUSCN Index; Lockdown level is proxied by GS Effective Lockdown Index.

Source: Bloomberg, Wind, FactSet, Goldman Sachs Global Investment Research

Industrial and state-supported themes

Suppose we are in a geopolitical and investment environment close to the 1970s due to inflation, rising debt, and geopolitical tensions, the narrow margin of maneuver of states will force them to concentrate their fiscal, financial and political supports.

In this context, three themes emerge, all of which are industrial 4.0 (industry + technology).

Decarbonization

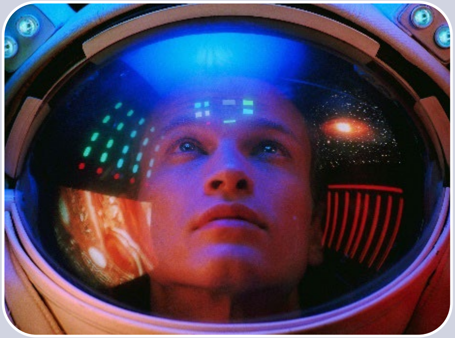
The political and economic costs are becoming too heavy

China is the main vector to play for decarbonization (local need and leadership in the green economy)

Infrastructure

Crucial investments for emerging countries

Has an important role in the decarbonization process.



The space

New territory for geopolitical struggle

Generating technological leaps

Reducing land-based mining activity

Private Equity between diversification and disillusionment

At GATE, we favor *endowment-type* asset allocations, i.e., approximately 50% alternative assets. Simply put, there is no alternative to alternative. Bain Consulting data shows that private equity investors have consistently outperformed the long-term averages in the years following a sharp downturn.

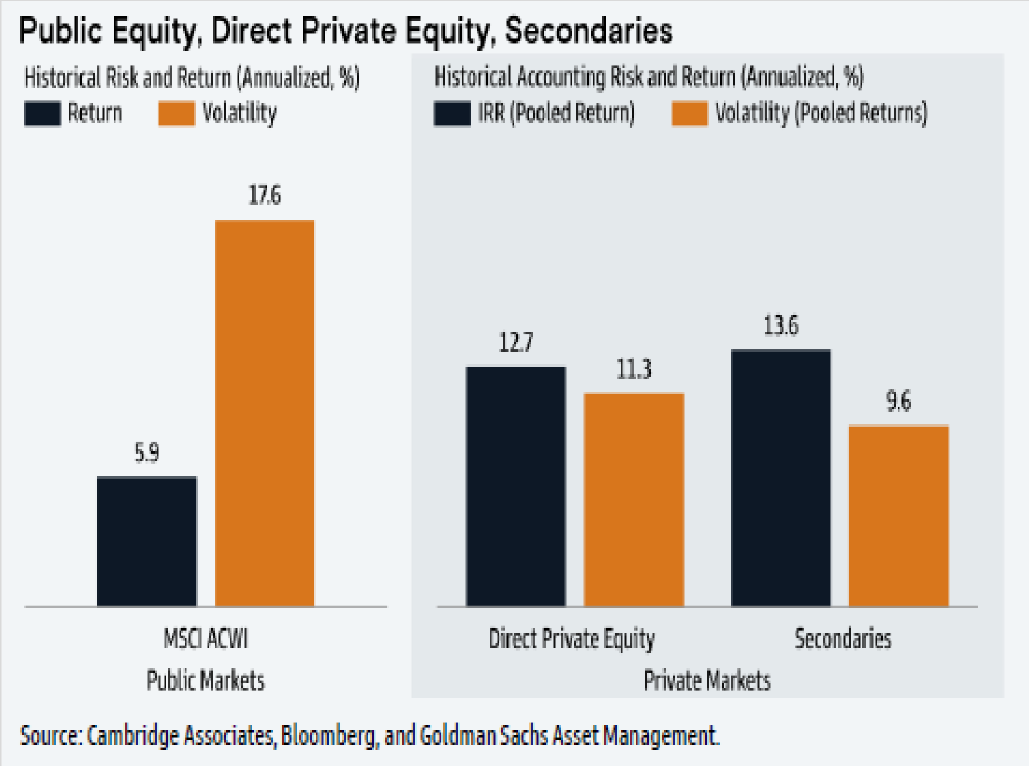
As with other asset classes, an allocation must be made within the various private equity profiles. QE has made it easier for GPs to raise money, and some have overpaid for assets. Bain Consulting's comments are valid coming out of recession if you consider buyout funds, but in the current environment, secondary funds are to be preferred...

Especially after the announcements below:

- Blackstone warned of a potential delay in the launch of a new private equity fund for high-net-worth individuals,

- Blackstone limited withdrawals from its $125 billion real estate investment fund following an increase in redemption requests as investors scramble (need for liquidity and concern about the long-term health of the commercial real estate market. In November, The group approved only 43% of redemption requests in its Blackstone Real Estate Income.

- Carlyle is struggling to raise the $22 billion it set out to raise for what it hopes will be its largest fund as it grapples with a succession crisis and a market slowdown.

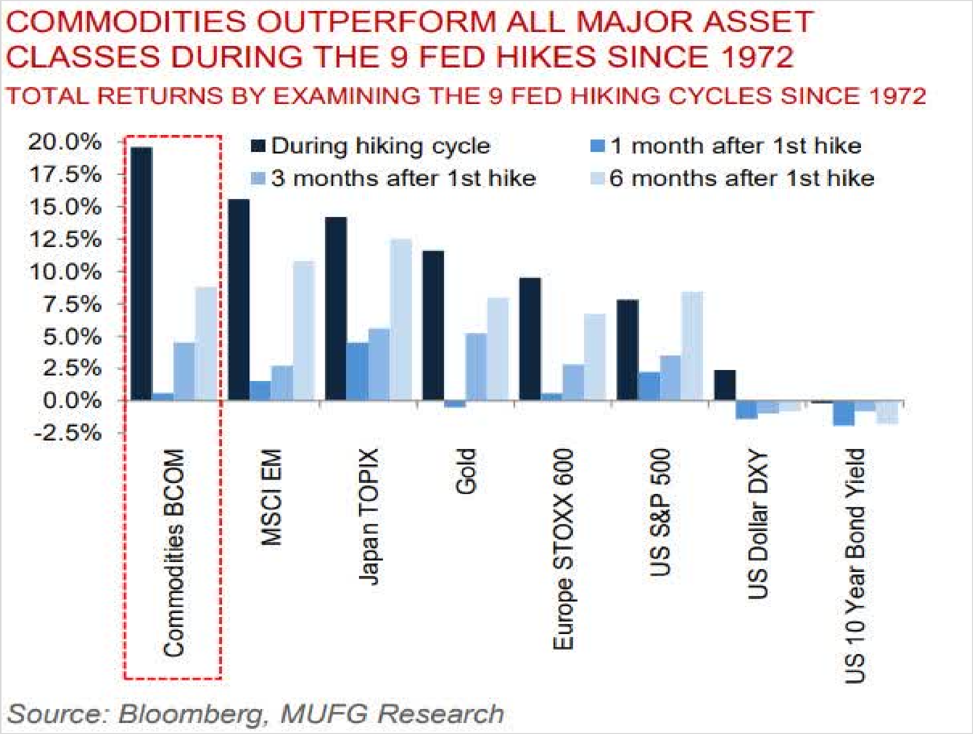


Supercycle and new entrants!

The commodity Supercycle is just beginning. Oil and gas will have a volatile run, but commodities have consistently outperformed during rate hike cycles.

With the advent of ESG, we are looking at two new entrants. One is being considered by default: Uranium. About 60 reactors are currently under construction in 15 countries, including China, India, and Russia.

The new commodity we could include in our GTO is carbon via ETFs investing in emissions trading.



Les effets mirages de l'inflation

Investors often attribute to commodities a protective role against inflation. The table below shows that the nature of the commodities is essential. The more commodity indices are loaded with hydrocarbons, the stronger the correlation with inflation.

The rise in commodity prices often generates inflation and not the opposite. The current problem is centered around the issue of supply and not demand.

Gold is often presented as the perfect protection, but according to our study, the yellow metal serves as an airbag in case of market stress but not as a protection.

Correlations Between Commodity Price Changes and Measures of Personal Consumption Expenditures Inflation

12-Month percent changes, Jan 1995 to Dec 2019

		Personal consumption expenditures inflation measures					
Commodity price index	Energy weight in index	Headline (all items)	Durable goods	Nondurable goods	Services	Core	Trimmed mean
Bloomberg	36.1	0.79	0.17	0.76	0.60	0.55	0.21
FIBER	8.1	0.58	0.07	0.61	0.35	0.39	-0.15
S&P GSCI	53.9	0.83	0.18	0.87	0.49	0.52	0.17
CRB	0.0	0.59	0.13	0.58	0.40	0.44	0.00
Average correlations		0.70	0.14	0.70	0.46	0.47	0.06

NOTE: See appendix for more details.

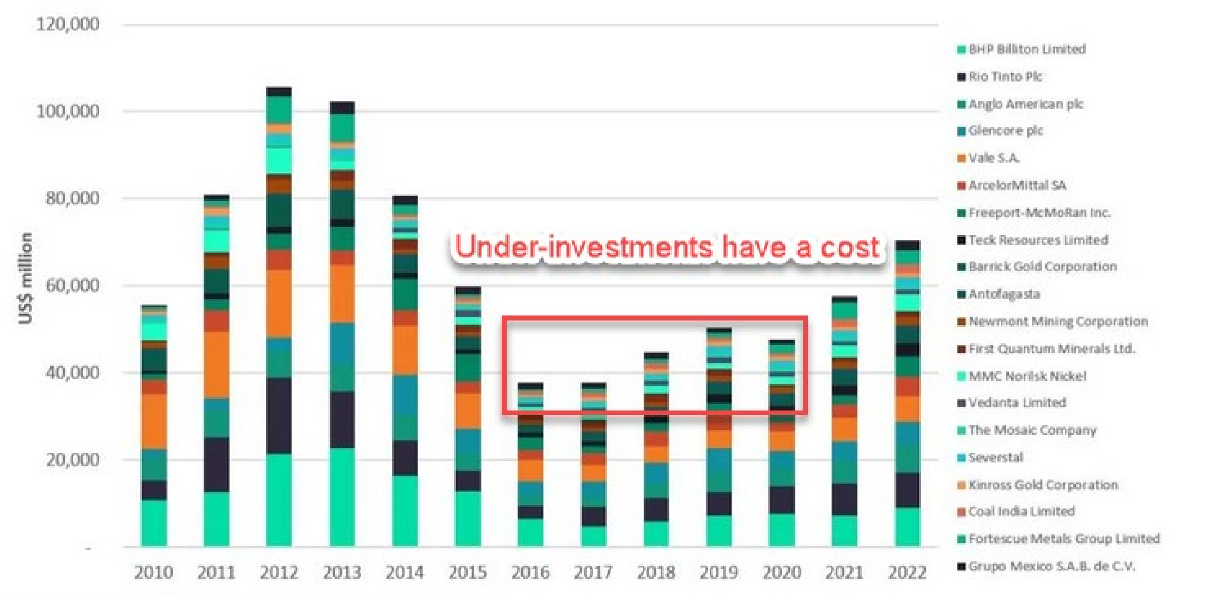
Back to basics

It will be all about the reopening of China and infrastructure investment. The GSS has put enormous pressure on the sector. If CAPEX goes back up, there are two things to consider:

1. There is a lag between spending and improvements or expansion of production capabilities.
2. But more importantly, after rising 20% in 2021, capital expenditure (Capex) by the top 20 mining groups is expected to rise again in 2022 to $70.4bn, up 22% and the highest level since 2014.

The growing investments are being devoted to decarbonization efforts, with companies striving to meet near-term targets, typically a reduction of around 30% in greenhouse gas emissions by 2030, and their long-term goals of net zero...

The fact that a giant like China is waking up in 2023 when underinvestment was significant between 2015 and 2020, weakens the sector. Commodity prices of bases to become bullish unless US real estate (for example) enters a severe recession.



Source: GlobalData, company reports & announcements.
Note: Figures for BHP and Fortescue are for FY end 30 June, and Vedanta and Coal India for FY end 31 March

The king Dollar is not dead & Hurray prince Yuan!

Two opposing forces will impact the dollar in 2023. Recession expectations will negatively impact, while the FED's continued rate hike cycle and its QT will provide support for the US currency.

The dollar should be a "quiet force" next year. If the latest BOJ announcements suggest that Japanese monetary policy is close to implosion, the yen may strengthen, but only in the short term.

The Euro will benefit from the ECB's rate hikes and QT, but the FED's actions are stronger in relative and absolute terms.

At the same time, China is working to increase the renminbi adoption. On May 14, 2022, the IMF announced that it was increasing the weighting of the US dollar and the renminbi in its Special Drawing Rights (SDRs, international reserve assets designed to supplement central bank reserves). The dollar is now 43.38% and the renminbi 12.28%. The preeminence of the renminbi in reserves has increased to 2.7% since 2016, when it was included in the SDR basket and accounted for 0.8% at the time.

According to SWIFT data, in January 2020, RMB was the sixth largest settlement currency, accounting for 1.67% of all settlements, but by January 2022, RMB settlement had doubled to fourth place, accounting for 3.2% of all settlements, behind the U.S. dollar, the euro and the British pound.

China uses its geopolitical and economic strength to impose the Yuan.

- **Geopolitically**: Russia holds more than a third of its foreign exchange reserves in Yuan. All the countries in dispute with the USA on the diplomatic level are doing the same.
- **Economically**: China has become the first lender in Africa and the Belt & Road crossing Asia and part of the European continent is a vector of financing in Yuan.

The fact that Saudi Arabia is considering accepting payment for oil purchased by China in RMB will end the aegis of petrodollars and confirm the advent of RMB as a second currency in trade. In exchange, China will help the GCCs with their energy transitions through huge investments in the green economy. This news would be both a geopolitical and economic victory.

Crypto, the contagion effect?

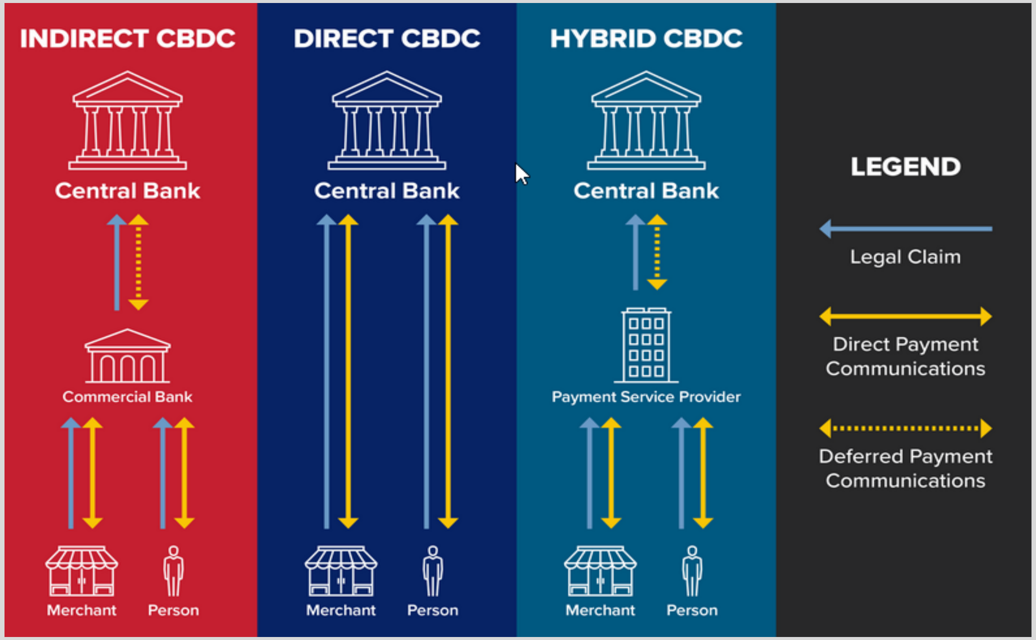
FTX's setbacks have cast an nth doubt on the world of cryptos. The advent of CBDCs (Central Bank Digital Currencies) is only a matter of time, with China being particularly ahead of the game. CBDCs will have a negative impact on payment-only cryptos and the entire banking industry.

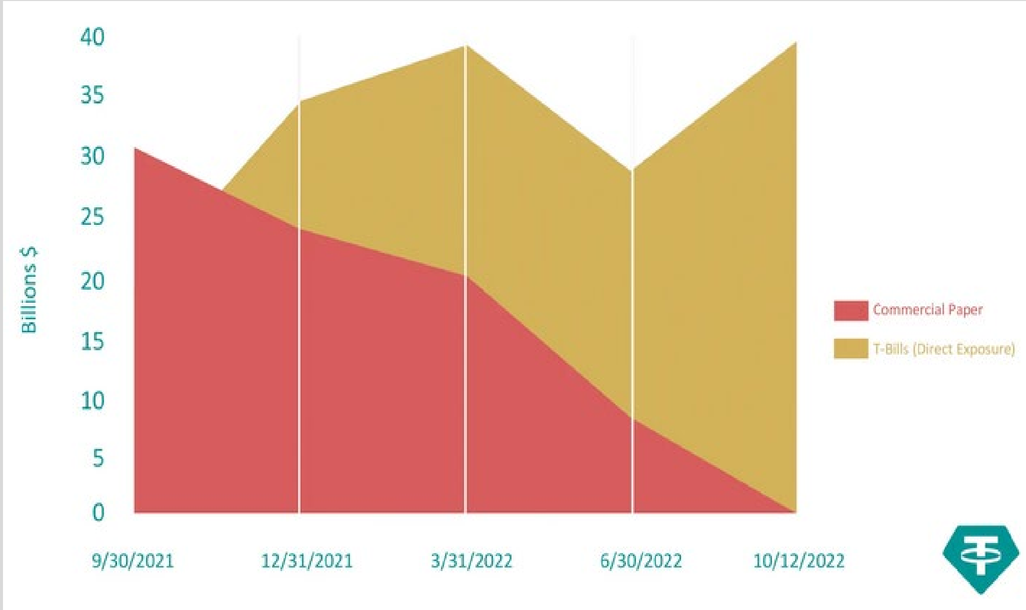
If crypto has often been considered as an asset disconnected from the regular financial markets, the FTX bankruptcy will lead to a wave of hedge fund closures and the questioning of sponsorship contracts.

The case of Tether is even more problematic. It is a stablecoin, a class of cryptoassets designed to always be worth a set value, usually $1. USDT is by far the largest stablecoin, with about $65B in circulation. Its closest rival is Circle's USDC, with about $42bn outstanding.

USDT can be traded against more than 4,000 other cryptos on centralized exchanges and perhaps an even larger number on decentralized exchanges that don't always accept regular dollars.

The problem is that USDT is the primary buyer of Commercial Papers, as it must hold over 80% of the assets in cash or cash-equivalent... The company behind Tether does not publish a financial audit... Tether has announced that it has replaced its Commercial Paper deposit with U.S. Treasuries...



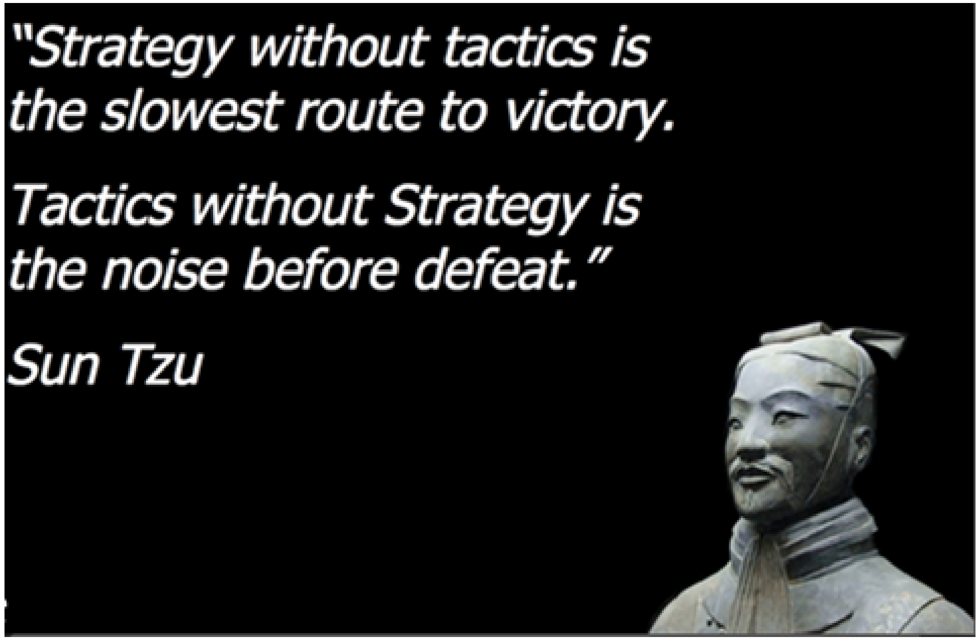


Insights

The words of the FED study "What Happens in China Does Not Stay in China" suffice to summarize our positioning:

- "Our results show that since the global financial crisis, China has been an important driver of the global financial cycle."
- "We find that China's expansionary credit policies are significantly increasing global credit outside of China, due to an increase in global risk sentiment.“
- "We argue that, unlike the U.S., which is a global financial center, China's spillover to global financial markets reflects its importance as a driver of global economic activity."
- "Specifically, we argue that expansionary credit policies in China are leading to notable increases in commodity prices, global output, and GDP outside of China due to rising Chinese demand.

Our conclusions fit with the construction of our GTO, the management processes of our DRIVE protection module and macroeconomic themes. There will be a Strategic and/or Tactical component, both of which characterize our approach to both advice and management.



Conclusion

Our Positionings

	STRATEGIC *(6 months to 1 year)*		**TACTIC** *(Less than 6 months)*	
BONDS	**LONG**	Chinese Bonds	**LONG/ NEUTRAL**	Emerging market bonds in local currency (in case of dollar weakness)
		Flattening of the US curve		US Breakeven (summer 2023)
	SHORT	Long end of the US yield curve		
		Italian BTP		
ACTIONS	**LONG**	Chinese indices in A shares	**LONG/ SHORT**	US Indices
	SHORT	DAX Index	**LONG/ NEUTRAL**	Chinese real estate sector
		US real estate stocks		Malaysia - Indonesia – Thailand Indices
				VIX
COMMODITIES	**LONG**	Oil	**LONG/ NEUTRAL**	Gas
		Base Metals		
		Carbone contracts		
DEVISES	**LONG**	Yuan	**LONG/ NEUTRAL**	Dollar
PRIVATE EQUITY	**LONG**	Secondary Fonds