Haute Capital Partners.

THE START OF A NEW CYCLE

February 2024

Haute Capital Partners' strategic endeavors

Expanding investment horizons: Haute Capital Partners acquires stake in MARK Investment Holding

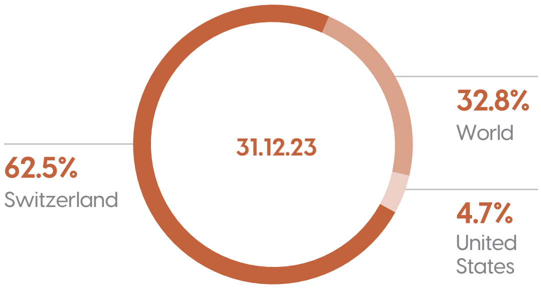
Haute Capital Partners made a significant enhancement to its financial innovation footprint with the acquisition of a 1% stake in MARK Investment Holding SA. This strategic move is driven by Haute Capital's commitment to making alternative investments more accessible, leveraging MARK's pioneering platform, Splint Invest. Based in Switzerland, Splint Invest is acclaimed for dismantling traditional barriers, allowing a diverse audience to invest in exclusive assets like whisky, watches, wine, and art.

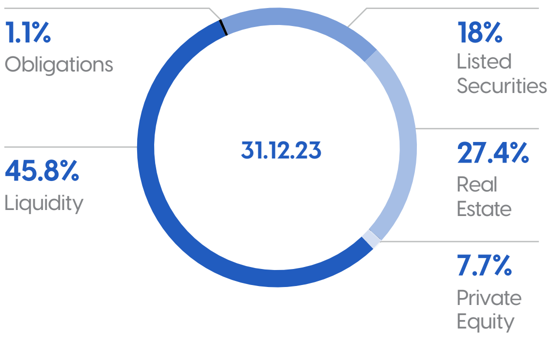
PRIVATE EQUITY PORTFOLIO ▼

- Neolido Technology SA
- Aisot Technologies SA
- PB&B SA
- MARK Investment Holding SA

Portfolio performance

The portfolio's year-to-date performance stands at a commendable 27%. Haute Capital has tactically recalibrated its investment weights, capturing profits for strategic reallocation. This adjustment exploits the attractive valuations within the Swiss market and anticipates benefits from the potential devaluation of the Swiss Franc to enhance the allure of Swiss exports.





The investment in MARK Investment Holding SA represents a diversification of their private equity portfolio and paves the way for future synergistic collaborations. The Splint Invest application's user-friendly interface and innovative features were key determinants in their decision, reflecting Haute Capital's dedication to supporting accessible financial advancements.

Thibault Leroy Bürki
Chairman & CEO of
Haute Capital Partners

Equity performance

Haute Capital Partners' investment strategy has delivered compelling results, with the company's stock achieving a 2.05% increase in February, contributing to a year-to-date performance of 7.51%, and surpassing the CHF 110 million market capitalization threshold.

Healthcare sector: attractive valuation and growth potential

Haute Capital Partners is strategically expanding its focus to the healthcare sector, attracted by favourable valuations and robust growth prospects. The sector boasts promising indicators, with an expected 24% profit increase in 2024 and a PE ratio of 30, which is substantially lower than the tech sector's PE of 50 and the market's average of 33. Such metrics spotlight the healthcare sector as an area ripe for investment.

Bond market developments

In addition to equities, Haute Capital is closely monitoring the bond market, discerning opportunities amidst the current developments. The firm anticipates that a continued disinflationary process accompanied by mildly below-trend growth will compel the Federal Reserve to embark on a significant cycle of interest rate reductions. This expected shift in monetary policy is seen as a chance to enhance the firm's bond holdings.

Anticipating market movements

We are expecting a short-term rise in long-term yields, which may lead to a moderate stock market pullback. This scenario is perceived as an opportune moment to substantially increase the weight of bonds and select stocks within the portfolio. Such strategic positioning is aimed at capitalizing on the market adjustments and reinforcing the portfolio's resilience in anticipation of favorable long-term outcomes.

Navigating through China's economic landscape

Equity market dynamics

The recent court-ordered liquidation of the China Evergrande Group has sent ripples through Asian equity markets, underscoring the fragility of the nation's property sector. Investors are investing cautiously as they await the repercussions on the broader market, highlighting the sector's challenging road to recovery. Despite this turbulence, valuations are becoming increasingly attractive, with Chinese stocks trading at lows relative to U.S. stocks, drawing attention from value investors. Efforts to stimulate the economy by the Chinese government and banks suggest that the worst may be behind us. Moreover, stronger-than-expected European and American economies could enhance global demand, potentially benefiting China's export industry. These factors combined offer a glimmer of optimism for a market poised for recovery, as the proactive fiscal and monetary policies begin to take effect.

Service sector performance

China's service sector continues its growth streak for the 13th consecutive month, albeit with a slight decrease in the PMI to 52.7. The sector's resilience is supported by robust underlying demand and a steady influx of new customers. Despite a modest rise in employment and the fastest expansion in backlogs of work since October, there is a notable softening in export order growth. Businesses are facing increased competition, leading to the first drop in output prices since April 2022, as discounts and promotions become more prevalent to sustain sales. Business confidence is showing signs of strain, reflected in the recent dip to a three-month low.

Supportive measures and investor sentiment

The Chinese equity market has found a backer in the Central Huijin Investment Ltd, with the sovereign fund's commitment to bolster exchange-traded funds reinforcing investor confidence. This move is seen as a strategic effort to support and stabilize local stock markets.

The Chinese equity landscape is currently experiencing a recalibration in the aftermath of Evergrande's liquidation, presenting a strategic entry point for investors as valuations reach attractive levels. Coordinated economic stimulus measures by Chinese authorities, coupled with stronger than anticipated Western economies, are poised to invigorate global demand and enhance China's export prowess.

Dylan Figueiredo
Investment Analyst at
Haute Capital Partners

Monetary developments

The People's Bank of China's balance sheet expansion by 4% in December is just one facet of China's proactive monetary manoeuvres. Record-setting new yuan loans issued in January point to a strategic push to energize the economy. The surge in total social financing to an unprecedented CNY 6.5 trillion underscores the expansive approach to credit and liquidity. However, the M2 money supply growth has tempered, and the growth in outstanding yuan loans aligns with market expectations, signalling a careful balancing act in monetary policy.

Economic recovery indicators

China's economic indicators suggest a rebound to pre-pandemic levels with revenues back to their 2019 state. The tourism sector is showing signs of vitality, with domestic travel surpassing previous highs and international travel gaining momentum.
The manufacturing sector stands on the cusp of significant growth, with the expectation of a global increase in restocking.

International trade and currency implications

The yuan is experiencing an uptick in international demand as oil transactions are increasingly settled in the Chinese currency, especially with trade partners like Russia. In the real estate sector, public banks have been proactive, allocating substantial loans to property projects, reflecting a strategic intervention to prop up the market.

A look at Switzerland's key indicators

Economic momentum gains ground

Switzerland's economy shows promising signs of recovery as we enter March 2024. The KOF economic barometer, a leading indicator for the Swiss economic outlook, has risen for the third consecutive month to 101.5 in January 2024, from an upwardly revised 98 in December, surpassing forecasts of 98.2. This marks the highest reading in a year and signifies a pivotal moment as it ascends above its medium-term average for the first time since March last year. The positive momentum is attributed to improvements in the accommodation industry and other services sectors, with manufacturing, construction, and foreign demand indicators also showing slight positivity. The consumer demand outlook remains stable, whereas the financial and insurance sectors have seen a decline.

Stability amidst global uncertainty

Switzerland's commendably low unemployment rate at 2.5% and the slowing inflation to 1.3% YoY reflect a well-balanced economic environment. These conditions have set the stage for the Swiss National Bank's anticipated rate cuts, aiming to fine-tune inflation towards its 2% target.

Switzerland's February MoM CPI

0.6%

Switzerland's Unemployment Rate

2.5%

Switzerland's Q4 GDP Growth YoY

0.6%

Currency valuation and its market implications

The expected SNB rate reductions are poised to adjust the valuation of the Swiss Franc, enhancing the competitiveness of Swiss exports. This strategic currency management is anticipated to invigorate the SMI index by making Swiss products more attractive on the global stage.

Real estate dynamics and production costs

The notable dip in producer and import prices by 2.3% YoY in January 2024, coupled with a slight downturn in industrial production, reflects sector-specific challenges but also opportunities for strategic investments, particularly in the real estate domain.

Forex: navigating CHF/JPY fluctuations

The CHF/JPY currency pair emerges as a critical focal point due to contrasting monetary policies between Switzerland and Japan. This scenario presents a strategic medium-term short trading opportunity, especially leading up to May 2024.

Aligning investment strategies with economic trends

The Swiss economy's recovery trajectory, characterized by strategic monetary policies and labor market resilience, presents a cautiously optimistic outlook. Haute Capital Partners remains committed to leveraging these developments, ensuring that our investment strategies are synchronized with the evolving economic landscape.

Navigating the cautious federal reserve strategy

Steady rates amidst inflation targets

The Federal Reserve's January 2024 decision to maintain the federal funds rate at its highest in nearly two decades underscores a deliberate approach towards achieving a stable inflation rate of 2%. Chair Powell's cautious tone and emphasis on data-driven decisions highlight an environment of economic vigilance, with an openness to rate adjustments later in the year, albeit with March seen as too soon for changes.

Stable rates in the wake of BTFP's conclusion

The Federal Reserve's policies indicate that high mortgage rates may persist, impacting housing affordability. However, this is tempered by the Treasury's choice to maintain current treasury supply levels, which could help stabilize or modestly enhance mortgage rates. Adding to this, the Fed's Bank Term Funding Program (BTFP), introduced during the March 2023 banking crisis to bolster bank liquidity, will end on March 11th. This closure aims to eliminate the arbitrage from borrowing at lower BTFP rates to invest at higher market rates, potentially influencing overall financial conditions.

Interest rate expectations and mortgage trends

The new highs in consumer credit card debt, accruing at interest rates surpassing 20%, adds another layer of concern for the U.S. economy, where consumer consumption accounts for approximately 70% of GDP. This uptick in high-interest debt, alongside increasing defaults both among corporations and individuals, casts doubt on the optimistic growth rates projected by some market forecasts. Furthermore, the commercial real estate sector is grappling with its own crisis, as higher interest rates persist and the renewal rates for these contracts approach. These factors, combined with expectations that interest rates will remain higher for longer, suggest that any decrease in mortgage rates will be gradual and contingent upon a complex interplay of market dynamics, consumer behavior, and Federal Reserve policies.

S&P 500 EARNINGS GROWTH (Y/Y): Q1 2024 ▼

79.9%	Amazon, Google, Meta, NVIDIA
0.3%	Other 496 S&P 500 Cos

Source: FactSet

Understanding the Federal Reserve's prudent approach

Interpreting bond and market signals

The recent rise in bond yields coupled with a wave of job cuts across significant U.S. firms, indicates the first signs of strain in the labor market, which could presage broader economic challenges. Notable companies like PayPal, Citigroup, Microsoft among others are implementing major layoffs, with reductions ranging from hundreds to thousands of jobs sector-wide. This downsizing reflects a cautious corporate response to prevailing economic headwinds and may impact future economic performance.

Strategic considerations in a fluid economic context

The Federal Reserve's prudent policy measures in the face of economic uncertainties have led to recalibrated expectations for interest rate cuts. The markets, once leaning towards a March rate cut, now see only a 6.5% likelihood, a significant decrease from the previously estimated 88% probability. Furthermore, the anticipated cumulative rate cuts for the year have been scaled back to 134 basis points, from the 160 basis points expected a month ago. This change comes even as the stock market remains robust, fueled by the AI sector's growth and driven by the performance of the «Fantastic 4» companies. In response to these shifts, Haute Capital Partners has taken a strategic stance by realizing profits on select holdings, positioning ourselves advantageously for the evolving rate cut path now projected to commence in June rather than March, with a total of 5 rate cuts for the year, down from the 7 initially anticipated.

Bank credit and fiscal deficit report

Bank lending has grown, hinting at an increase in consumer borrowing to support spending habits at still-high interest rates, potentially setting the stage for more consumer defaults. The falling fiscal deficit suggests the Federal Reserve is moving away from supporting market liquidity through deficit spending, with the REPO market showing signs of stabilization.

Market dynamics and strategic outlook

The current market structure, dominated by a few influential 'Magnificent 7' or 'Fantastic 4' tech giants, is showing signs of limited breadth. Tesla, notably, is not in sync with its peers' growth. This skewed market landscape could prompt a realignment should there be a shift towards profit-taking in these market leaders. Such an event would likely trigger a correction, more pronounced due to the underperformance of smaller-cap stocks.

Persistent high interest rates are calling for a re-evaluation of cyclical companies' valuations, especially those buyed by the anticipation of rate cuts and the promise of AI-driven growth. Furthermore, our analysis suggests that the current yield on U.S. government bonds may soon offer attractive entry points for long-term investment positions.

At Haute Capital Partners, we are closely monitoring these developments, recognizing that a rise in bond yields could provide strategic opportunities to either initiate or reinforce positions in the sector, particularly considering a potential adjustment in the equity market.

YTD PERFORMANCE BY INDUSTRY RELATIVE TO THEIR MARKET CAPITALISATION ▼

INDUSTRY	NANO	MICRO	SMALL	MID	LARGE	MEGA	ALL
Financial Services	-0.52%	+0.72%	+0.58%	-0.51%	+3.86%	+8.56%	+0.66%
Industrials	-6.88%	-2.88%	+0.48%	+0.59%	+ 5.03%	–	+ 0.51%
Healthcare	-10.83%	+0.19%	+ 5.03%	+2.9%	+2.48%	+9.42%	-0.12%
Energy	-10.72%	-3.75%	-0.23%	+2.22%	+1.23%	+4.71%	-0.21%
Technology	-7.32%	-1.32%	-2.65%	+0.08%	+4.79%	+10.82%	-0.42%
Overall Median	-7.18%	+0.36%	-0.46%	-0.45%	+1.73%	+7.42%	-0.43%
Communication Service	-4.95%	+3.6%	-1.1%	-0.71%	-0.58%	+19.98%	-0.7%
Consumer Defensive	-10.97%	-0.84%	-5.86%	+1.74%	-0.66%	+ 5.2%	-1.54%
Consumer Cyclical	-8.58%	-6.54%	-3.35%	-1.33%	+ 3.05%	+4.56%	-2.88%
Utilities	+9.03%	-0.58%	-5.99%	-5.84%	-2.42%	+6.89%	-4.32%
Real Estate	-7.95%	-8.35%	-4.77%	-3.65%	-5.07%	-2.65%	-4.92%
Basic Materials	-8.01%	-8.97%	-8.41%	-4.46%	-2.61%	+ 5.09%	-6.03%

Source: Gurufocus

Bitcoin:
Riding the wave

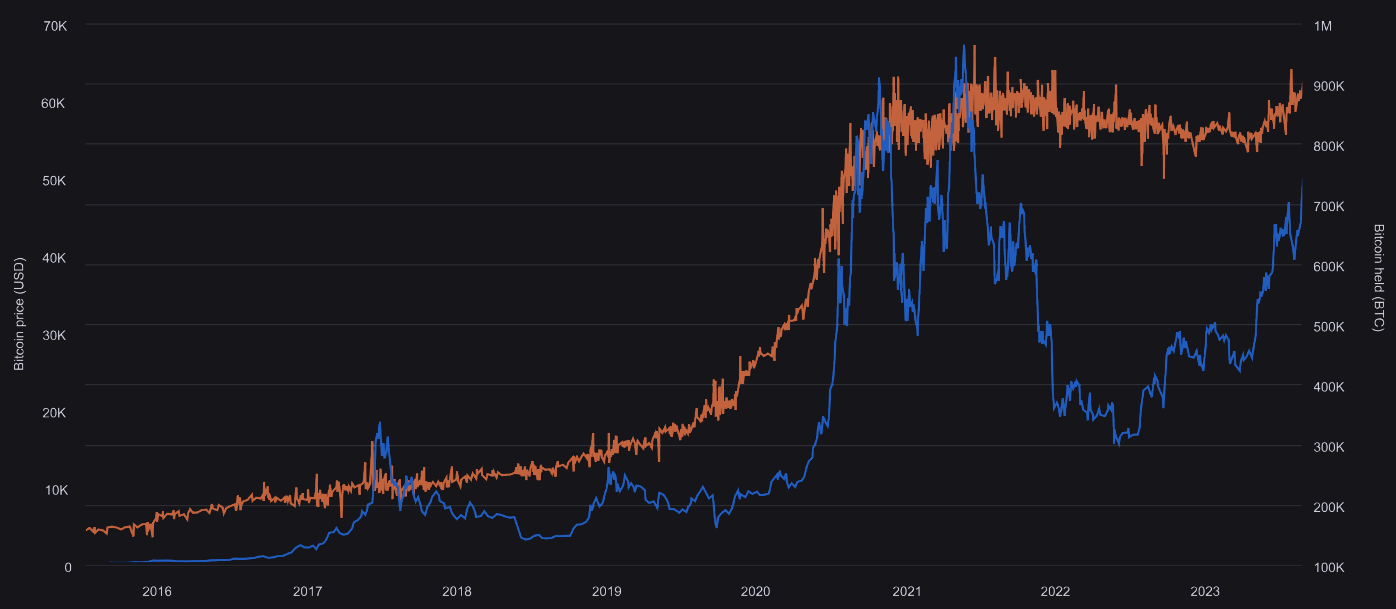
Bitcoin's break from volatility

Bitcoin has emerged from a period of stagnation, now trading above its weekly and daily range highs. This advance follows a significant phase of stability, which saw the cryptocurrency market absorbing substantial GBTC sales. The decisive move beyond an eight-week range top suggests a strong potential for sustained upward movement.

OVERALL BITCOIN HELD BY INSTITUTIONS ▼

Bitcoin held (BTC)
Bitcoin price (USD)

Source: ByteTree



ETFs fueling Bitcoin demand

The launch of Bitcoin ETFs has led to a substantial increase in demand, with an initial "sell the news" reaction quickly giving way to a pronounced bullish trend. ETFs are purchasing Bitcoin at a rate that significantly outpaces the network's production—a staggering 12.5 times the daily output—contributing to a significant appreciation in value, with Bitcoin up xx% year-to-date as of xx/02/24.

BITCOIN INFLOWS
OF CAPITAL BY INSTITUTIONS ▼

● Bitcoin flow (BTC)

Miners, halving, and the market

The daily USD 50 million sell-off from mining activities is a critical factor in the Bitcoin economy. Notably, certain miners are retaining their coins, opting not to sell at current prices. ETF inflows, averaging around USD 197 million per day, are more than enough to absorb this selling pressure. With the Bitcoin halving on the horizon, the market only requires USD 25 million in daily net ETF inflows to maintain balance with miner production.

Ethereum's rise and market liquidity

Ethereum is quickly catching up after a period of relative underperformance. The potential launch of an Ethereum ETF could further catalyse this momentum. Simultaneously, Bitcoin funds have reached an all- time high, signalling a robust accumulation phase. This scenario suggests a burgeoning liquidity in the crypto market, marking a crucial juncture for investors.

The red sea crisis: impact on global shipping and freight markets

Overview

The Red Sea crisis has introduced significant disruptions in global shipping lanes, leading to adjustments in carrier operations and impacting trade flows, especially from China. The crisis has tightened vessel capacity on longer journeys, prompting carriers to adapt by deploying more vessels and altering routes, which has implications for freight rates and container availability.

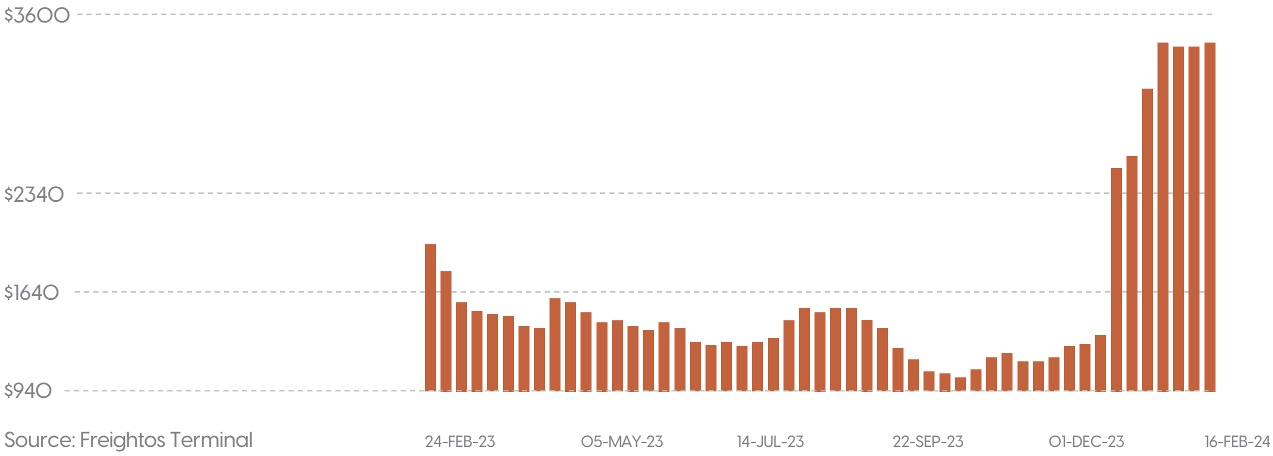
Vessel capacity and route adjustments

Tightened capacity: The extension of shipping routes has led to a decrease in available vessel capacity. Reports indicate a notable contraction in the number of available slots on ships. In response to the elongated voyages, carriers are redistributing their excess capacity to meet demand. However, the reallocation has yet to offset the overall tightening of capacity.

Container shortage and export impact

A significant shortage of empty containers has emerged, directly affecting China's export capabilities. The scarcity of containers is a direct consequence of the logistical challenges posed by the crisis, causing The market to experience a 54% volatility in freight prices.

GLOBAL CONTAINER INDEX FREIGHT INDEX ▼



Source: Freightos Terminal

Market adjustments and expectations

Most carriers faced financial losses last year; consequently, the rates observed in early December were unsustainable for companies. An upward rate adjustment was necessary. Currently, we have overcompensated due to the ongoing crisis, and a minor rate correction is anticipated.

The persistent tension in the region requires continuous adaptation by carriers and shippers. Introducing additional vessels as a countermeasure to extended transit times remains a provisional strategy. A recalibration of rates and capacities is expected in the forthcoming months.

Air cargo market response

Despite the disruptions in sea freight, air cargo rates have remained stable, suggesting that the crisis has not significantly affected air freight operations.

However, there has been speculation about a potential shift from sea to air transport, which did not materialize. While volume did increase, this was attributed merely to seasonal effects. This also indicates weak demand, as there is no urgency to rapidly deliver the merchandise to its destination.

GLOBAL AIR FREIGHT INDEX ▼

Source: Freightos Terminal

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