Julius Bär

INVESTMENT GUIDE

Market Outlook Year-End 2022

Marketing Material
Publication date: 8 September 2022, 16:00 CET
Please find important legal information at the end of this document.
Source: Bank Julius Baer & Co. Ltd. (Julius Baer), unless explicitly stated otherwise.

Julius Bär

Editorial

Dear reader,

Given our economic outlook, the headwinds for risk assets like equities should eventually ease, but it will likely take time to restore shattered confidence. A (re)test of the 2022 lows would be in line with previous tightening cycles. Although this may be perplexing to some at first glance, we continue to advise investors to remain fully invested or even stock up on investments now. Risk-averse investors may want to accompany these investments with a short-term hedge.

In this edition of the Market Outlook Investment Guide, we focus on portfolio construction and explain why we remain constructive on financial markets overall over the next 9 to 12 months. Real assets like equities should remain at the top of the list, although we acknowledge that fixed income markets have become more attractive too, competing with equities for income-seeking investors. Furthermore, the market rout in the first half of the year has proved the value of holding alternative assets as well.

We are convinced that the secular equity bull market is continuing and that the coming months bode well in the search for new investment opportunities over the next three to five years. In this Investment Guide, we provide an overview of attractive topic-based investment opportunities across asset classes and risk budgets.

We thank you for your continued trust in Julius Baer in these times of change and wish you peace and success for the months to come.

Yours faithfully,

Yves Bonzon
Group Chief Investment Officer
Member of the Executive Board

Christian Gattiker
Head of Research

Contents

A brief review

Central banks have made it increasingly clear that they want to bring inflation down. The resulting tightening of monetary policy has increased the headwinds for economic growth. In fact, over the summer of 2022, investors shifted from fearing inflation to fearing growth. Investors partly digested the tightening, and markets rebounded from their June lows, with some calling it a bear market rally, while others saw it as a new bull market. If history is any guide, markets (re)test their previous lows during tightening cycles. The US dollar has stood out so far in that it has risen throughout the year, irrespective of the overall investor risk appetite.

Market review

After equity and bond markets had sold off in unison in the first months of the year, markets entered a summer rally in mid-June, following a perceived shift in the inflation stance by the US Federal Reserve. Growth and inflation dynamics are likely to be the dominant drivers of investor risk appetite into year end. Also, some volatility can be expected in the process, but eventually headwinds for risk assets should ease.

Equity regions

	2018	2019	2020	2021	YTD	5-year annualised
Switzerland	-8.03%	29.98%	1.07%	19.51%	-15.62%	5.98%
Eurozone	-10.57%	26.05%	-3.32%	21.54%	-12.28%	4.67%
USA	-5.04%	30.88%	19.70%	25.75%	-17.86%	11.20%
Japan	-15.15%	18.48%	10.23%	12.93%	-3.16%	6.78%
UK	-8.82%	16.37%	-13.93%	15.13%	2.11%	3.54%
China	-19.45%	24.34%	29.49%	-19.30%	-18.99%	-2.33%
Emerging markets ex. China	-12.43%	16.23%	12.55%	7.87%	-16.98%	2.25%

The best

After a disastrous first half of the year, equity markets enjoyed a strong summer rally. Commodity-exposed markets continue to post the best performance year-to-date, most notably the British market, and Japanese equities have benefited from a weak currency.

The worst

China, where we see the greatest uncertainties regarding growth, remains the underperformer this year. Still suffering from its zero-Covid-19 strategy and a meltdown in the real estate sector, the economy is only expected to grow 3% versus the Chinese government's initial target of 5.5%.

Equity styles

	2018	2019	2020	2021	YTD	5-year annualised
Quality	-5.50%	36.08%	22.20%	23.24%	-22.29%	10.84%
Value	-10.78%	21.75%	-1.16%	18.42%	-11.07%	4.66%
Growth	-6.74%	33.68%	33.83%	19.33%	-25.16%	10.43%
Large cap	-7.75%	27.73%	15.94%	20.04%	-17.87%	8.30%
Small cap	-13.86%	26.18%	15.96%	12.09%	-18.58%	5.46%
Cyclicals	-9.83%	31.54%	19.30%	25.80%	-19.20%	9.80%
Defensives	-4.94%	21.69%	1.60%	21.70%	-0.70%	8.60%
High dividend	-7.56%	23.15%	-0.03%	12.07%	-9.93%	4.74%

The best

Defensive stocks have been the best place to hide in this year's market turmoil, despite the equity market rally over the summer months amid peaking interest rates and a reassuring second-quarter earnings season. Our preference remains for defensives given further downside revisions in earnings, which tend to hit cyclicals the most.

The worst

Growth and quality stocks were favoured by investors for many years, but rising interest rates have led them to underperform so far this year. Going forward, there is a tactical opportunity in growth stocks given the limited upside for bond yields, while structurally higher inflation underpins the case for value stocks. Thus, a barbell approach to investing seems well warranted, balancing value with growth.

Equity sectors

	2018	2019	2020	2021	YTD	5-year annualised
Information technology	-2.60%	47.55%	43.77%	28.21%	-25.74%	17.03%
Materials	-16.92%	23.35%	19.93%	12.19%	-16.25%	5.47%
Oil & gas	-15.84%	11.45%	-31.46%	37.71%	32.72%	7.11%
Industrials	-14.54%	27.77%	11.68%	14.10%	-17.51%	4.98%
Communications	-10.02%	27.39%	22.98%	13.02%	-29.06%	3.34%
Healthcare	2.52%	23.24%	13.52%	15.52%	-12.16%	8.85%
Financials	-16.97%	25.51%	-2.84%	24.80%	-15.93%	3.76%
Consumer cyclical	-5.51%	26.57%	36.62%	15.67%	-26.32%	9.75%
Consumer defensive	-10.10%	22.80%	7.79%	9.85%	-8.86%	5.13%
Real estate	-6.36%	22.96%	-4.99%	24.11%	-17.98%	3.40%
Utilities	1.97%	22.53%	4.76%	6.09%	-2.37%	6.27%

The best

Oil & gas stocks stand out in terms of overall performance this year on the back of higher energy prices. The strongest performers over the past months, however, have been information technology, healthcare, and utilities. We remain Overweight on the former two, although given our more defensive tilt, we set the focus on profitable companies.

The worst

Given lower growth and higher interest rates, sectors with a growth and/or cyclical tilt have experienced a strong underperformance this year. By a close margin, communications is the worst-performing sector. Absolute earnings growth is well below market levels, while valuations remain demanding. We thus have a Neutral rating on this sector.

Fixed Income

Developed markets	2018	2019	2020	2021	YTD	5-year annualised
Government bonds	-0.38%	5.59%	9.32%	-6.04%	-16.38%	-2.27%
TIPS	-4.11%	8.04%	12.03%	3.54%	-18.81%	-0.25%
High quality IG	-3.54%	6.33%	11.89%	-7.17%	-22.10%	-3.58%
Low quality IG	-3.90%	12.52%	11.56%	-4.42%	-18.40%	-1.10%
High yield	-4.06%	12.56%	6.91%	0.36%	-14.63%	0.19%

Emerging markets	2018	2019	2020	2021	YTD	5-year annualised
EM hard currency	-3.02%	12.13%	7.02%	-2.48%	-17.22%	-1.14%
EM local currency	-3.40%	9.47%	5.29%	-2.53%	-9.22%	0.18%

The best
In this year's ever-higher interest-rate cycle, the one fixed income segment to be in is higher-quality floating-rate products, as they are the primary beneficiaries of the steady interest-rate increases. As can be observed in the 'Scoring our calls' section on the following page, this segment has also been the outperformer over the most recent months.

The worst
Long-duration, high-quality investment-grade bonds have been hit the hardest, as central banks around the world have been in the sharpest tightening mode of at least a generation. Yet abating inflationary pressures and slower growth could well mean attractive entry points ahead for the segment.

Commodities

	2018	2019	2020	2021	YTD	5-year annualised
Brent crude oil	-19.55%	22.68%	-21.52%	43.61%	24.06%	12.99%
US natural gas	-0.44%	-25.54%	15.99%	49.43%	144.69%	24.58%
Gold	-2.14%	18.87%	24.42%	-5.74%	-6.11%	5.42%
Silver	-9.36%	15.32%	47.38%	-15.61%	-23.94%	0.32%
Platinum	-14.80%	22.05%	10.71%	-14.02%	-14.25%	-3.70%
Aluminium	-19.28%	-1.84%	10.61%	34.93%	-15.64%	2.37%
Copper	-20.28%	6.31%	25.81%	21.63%	-21.17%	2.70%
Iron ore	10.76%	28.58%	55.25%	-39.48%	12.28%	5.11%

The best
Things continue to move at warp speed in the commodity space, and the energy crisis in Europe remains top of mind. In fact, energy prices in the region have topped an unprecedented EUR 1,000 per megawatt hour. US natural gas has also outperformed the segment, primarily due to a very hot summer, which has increased power demand.

The worst
After a strong start to the year brought on fears of supply squeezes because of the war in Ukraine, a combination of deflating market sentiment, stagnant demand, and rising supplies has applied downward pressure on commodities, such as oil. Silver's underperformance this year mirrors rising recession risks and a deterioration in market mood. Over time, silver should be mostly moving in gold's slipstream.

Source: Bloomberg Finance L.P., Julius Baer Investment Writing
Note: Please see the 'Further Information' section of this Guide for more details on the indices used. Annual performance numbers are in USD, except for equity regions that are calculated in local currency. Year-to-date (YTD) numbers are as at the close of business on 31 August 2022. IG = investment grade; EM = emerging markets; TIPS = Treasury inflation-protected securities. Past performance is not a reliable indicator of future results. Returns reflect all ongoing charges excluding transaction fees. All investments have inherent risks, and investors may not recover their initial investment.

Scoring our calls

In this section, we show how our key investment ideas for mid-2022 have played out until 31 August 2022.

Topic	Investment idea	Return*
The big picture	Swiss equities	-4.86%
	Stocks for capital returns	-5.41%
	Healthcare stocks	-4.90%
	Information technology stocks	-4.76%
Spotlight on inflation	Financials	-5.77%
	Value stocks	-1.45%
	Commodity stocks	-6.58%
	Macro hedge fund strategies	-0.54%
Fixed income	Low-investment grade	-0.76%
	Better-quality high yield	-4.31%
	Floating rates	+0.41%
	Flexible fixed income	-3.68%
Sustainability matters	Future Cities	-6.57%

Source: Julius Baer Investment Writing
Notes: *Return numbers are for the period between 8 June 2022 and 31 August 2022. The performance of our calls was evaluated on the basis of the performance of a representative benchmark index, which we consider the best fit to our call. Certain calls may not be reflected due to the lack of an appropriate benchmark. More information on these benchmark indices is shown in the 'Further Information' section of this Guide. Past performance is not a reliable indicator of future results. Returns reflect all ongoing charges excluding transaction fees. All investments have inherent risks, and investors may not recover their initial investment.

Thoughts from our CIO

The first half of 2022 delivered one of the most brutal bear markets in history. The worst inflation flare-up in half a century and a liquidity contraction that followed one of the most extraordinary periods of stimulus caused a massive market decline. At the same time, we witnessed the unravelling of a decades-old trend of relative peace, globalisation, and supply-chain expansion. Nevertheless, we have been encouraging investors to stay invested – and we intend to stay the course. Read on to find out why.

Stay invested with a hedge

It may be perplexing to some of our readers that we continue to recommend that investors stay invested. After all, a six-month market decline with little to no place to hide would most likely have justified going into cash sooner or later. And indeed, we would have been happier had we managed to capture less of the bear market. Nonetheless, we are convinced that we are currently in an 'expansion' regime where staying invested is the way to go.

The basis for our determination to stay the course is our fundamental investment philosophy. At its very core, the Julius Baer investment approach relies on one simple fact: most of the time, the market is in an uptrend. So, most of the time, the best thing that investors can do is to stay invested, rebalancing their portfolio and adjusting its components as needed, without drastically increasing or reducing their exposure to risk assets as market sentiment invariably moves prices up and down. What we have just described is the so-called 'expansion' regime within our Julius Baer investment approach.

The rest of the time, there are essentially three different regimes where a significant increase or decrease in portfolio risk would be suitable: 'external shock', 'systemic issue', and 'economic contraction'. We take a closer look at these three regimes later in this chapter.

Certainly, investors may try to time market swings using a variety of methods, and we have no doubt that some individual investors have done just that on many occasions and have generated a profit. But when it comes to a consistent, multi-year investment strategy, actively timing the market is – at least in our experience – a futile exercise. At the end of the day, timing the market is a matter of trading, not investing (i.e. preserving and growing capital). Trying to time the market is futile, not only because it is extremely difficult to do so, but also because investors who exit the market need to re-enter it at some point, which is no less difficult and carries the risk of missing out on price increases that may be decisive for locking in future returns. In addition, the constant selling and buying of assets heavily compromises portfolio construction, which, if well balanced, is key to portfolio resilience and long-term overall returns.

Although 'staying invested' may seem to be merely a passive exercise at first glance, a portfolio needs to be continuously monitored and reviewed in comparison to its objectives. Furthermore, portfolio construction (including exposure to different investment factors, geographies, and sectors) needs to be adjusted to reflect the market environment. The first half of 2022 is an excellent example of this. As markets plunged from January onwards, we took the opportunity to steer our portfolios to survive in a higher-inflation world, notably by buying assets that are more exposed to inflation and commodity prices.

Staying invested is not a passive exercise.

Today, the talk on the streets is all about recession. According to many observers, the US Federal Reserve (Fed) is zealously determined to continue its rate-hiking cycle until inflation is brought down to its 2% target, which, most agree, implies a severe US economic downturn. Nonetheless, the market anticipates what has been described as a 'soft landing' – or merely a slowdown in growth – with rate hikes halting in the first half of 2023. We generally agree with this view and expect that the decline in energy prices and the moderation in peak inflation rates will allow the Fed to pause its rate hiking earlier.

Therefore, despite the very uncertain outlook, we maintain our view that we are in the midst of a cyclical, rather than a secular, bear market and that investors should not only stay invested but also search for new investment opportunities for the next three to five years given attractive equity prices and partially normalised yield levels.

This is the time to search for new opportunities for the next three to five years.

In the shorter term, we cannot ignore the huge market rally that started in mid-June when the market bottomed. By-mid August, the market peaked once again, suggesting that what we experienced was a bear market rally. Absent an unexpected flow of good news, such as surprisingly low inflation readings or a sudden ceasefire in Ukraine, this suggests a high probability of revisiting the June lows.

Investors worried about a further significant market decline may be tempted to exit the market at this stage. However, as suggested above, this can be detrimental to both portfolio construction and future returns given the difficulty of timing the market. A possible solution to this conundrum would be to hedge at least part of the portfolio by 'shorting' the portfolio's underlying index, e.g. by using futures contracts.

More specifically, an investor can enter a short position by borrowing shares (or futures) of the underlying index and selling them at the market price. The investor, expecting the market price to decline, could then buy them back at a lower price, returning the borrowed assets and making a profit on the operation.

A possible solution for worried investors would be to hedge.

By using hedging strategies, the portfolio composition remains untouched, and the investor stays fully invested. Moreover, the psychological challenge of trading is reduced, as it is much easier taking profits from a short position rather than trying to find the psychological strength to redeploy fresh money, especially as the news flow is usually at its most negative when the market reaches a bottom.


MOVING
MARKETS
Want to know what's moving markets today?
Tune in to Moving Markets, our daily podcast series where our experts discuss the latest market developments and put the headlines in perspective to set you up for the coming day.
www.juliusbaer.com
SPOTIFY
APPLE
GOOGLE
Julius Bär
YOUR WEALTH MANAGER

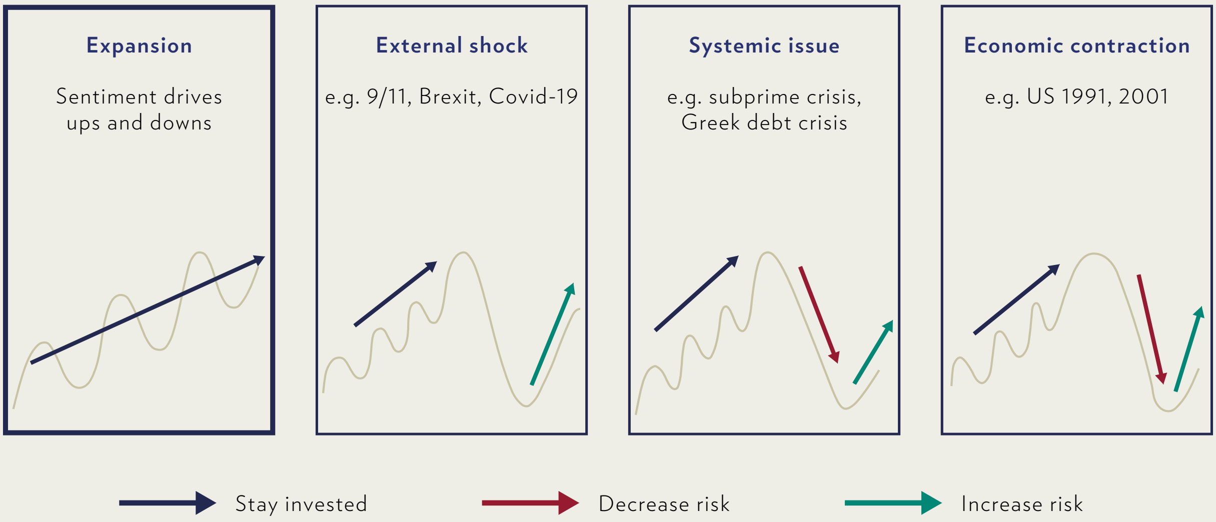
What happens when the market leaves the expansion regime?

Market regimes are clusters of persistent market conditions that must be continuously identified to adjust the risk load in portfolios as required. While most of the time the prevailing regime is ‘expansion’, which we discussed earlier, our investment approach distinguishes between four main market regimes: ‘expansion’, ‘external shock’, ‘systemic issue’, and ‘economic contraction’. Here is how we define the latter three.

External shock

An external shock occurs when something outside of the market ecosystem unexpectedly impacts asset prices. Examples include the terrorist attacks in the US on 11 September 2001, Brexit, and, more recently, the Covid-19 pandemic and the war in Ukraine. External shocks essentially include everything in the space of politics, geopolitics, and the natural world and are, by definition, unpredictable, so there is little that investors can do to prepare for them. In general, when a negative piece of news hits the market, it initially overreacts to it. The key is to take advantage of this overshoot in risk premium (or an excessive decrease in prices) by increasing portfolio risk (typically by buying equities) following the shock. That said, some external shocks may prove to be more long-lasting or have the effect of increasing the risk of a recession, in which case increasing portfolio risk may not be the right move.

Four investment regimes ruling our investment approach



Source: Julius Baer CIO Office

Systemic issue

This refers to the situation when financial imbalances threaten the integrity of a financial system. It is typically linked to excessive leverage in the private or public sectors, as was the case during the subprime mortgage crisis in the US and the European sovereign debt crisis. When the market is faced with a systemic problem, the investment approach guides investors to reduce portfolio risk. In frequently self-reinforcing and destructive systemic risk episodes, an appropriate policy response is needed to get markets back on track. This is when it is appropriate to normalise the portfolio's risk load.

Economic contraction

As the name suggests, this refers to a market downturn that is linked to an impending, significant economic slowdown or a recession. For the past half-century, this has mostly referred to the US economy, given its disproportionate influence on global activity and financial markets. The playbook here is not dissimilar to that of a systemic issue, although the indication that the tide has turned may require different policy, financial, and economic signals.

Final note

None of these situations are market-timing exercises. We do not claim to have a sophisticated manner of finding the bottom following, say, an external shock. However, it is essential to assess in what regime we are operating by conducting a holistic market assessment using both qualitative analysis and quantitative signals, so as to guide us in our assignment of risk load within portfolios.

The big picture

The economy needs to digest the tighter monetary regime. Applying the usual economic lags following a period of monetary tightening, a low in economic activity in this post-pandemic cycle is likely to occur sometime in the second half of 2023. Importantly from an investor's perspective, however, looking at the usual sequence of events in financial markets and the economy, the low in financial markets tends to precede the low in the economy.

Look for lows but stay open-minded

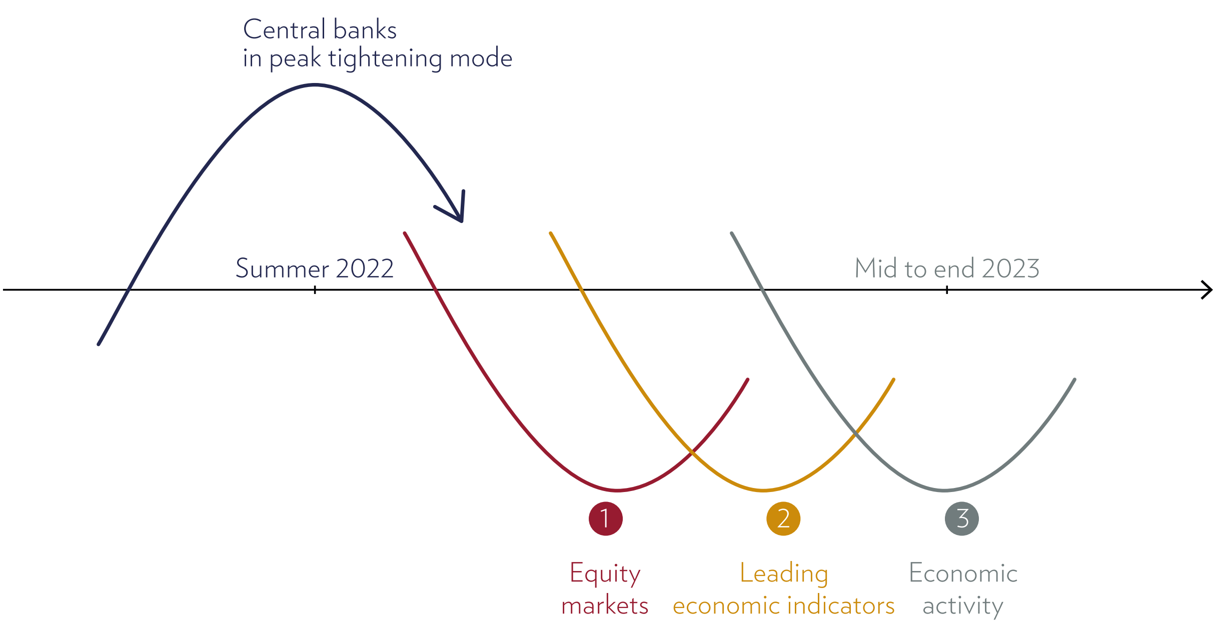
We asked Julius Baer's opinion leaders how they see the final months of 2022 evolving from both an economic and investment perspective.

On the big picture

Given the economic outlook, the headwinds for risk assets should eventually ease, but it will likely take time to restore shattered confidence. A (re)test of the 2022 lows would be in line with previous tightening cycles and open medium- to long-term entry points.

Christian Gattiker, Head of Research

Opportunities can open up before the economy reaches a low



Source: Julius Baer Investment & Wealth Management Solutions

A bird's eye view on the global economy

On central banks fighting inflation

The big question is whether central banks will overshoot in their inflation fight. Our view is that central banks have been in peak-tightening mode over the summer months and that inflation, while volatile, is mostly past its peak. Drivers of abating inflationary pressures are the sharpest global monetary tightening in 40 years, broadly lower commodity prices, a relaxation in supply-chain pressures, and the growth slowdown. Thus, we expect central bank tightening measures to level off and largely avoid an overshooting.

David Kohl, Chief Economist

On growth concerns

The global economy has to digest the tighter monetary policy conditions. We expect that a recession can be avoided. US growth is supported by a strong labour market and private balance sheets in decent shape. In Europe, higher fiscal spending is helping to offset the headwinds from high energy prices and from China's economy growing below potential. The downturn in the real estate sector is the biggest concern for the latter.

Sophie Altermatt, Economic Research

On commodities

Commodity markets went into a state of shock with the war in Ukraine, driving inflation globally higher. Yet, businesses are adjusting, and supply chains are being rearranged. Nowhere can this be observed more closely than in Europe, as it is grappling with reduced Russian energy supplies. Overall, we are likely past the shock's peak, while being fully aware of the volatile nature of commodities.

Norbert Rücker, Head of Macro and Next Generation Research

Our investment focus

On the varied opportunities in developed markets
Defensives with a focus on Swiss, healthcare, and high-dividend stocks are more attractive than cyclicals given slower growth and earnings weakness ahead. Limited upside to bond yields means that there is a tactical opportunity in profitable growth stocks. Yet, value stocks still have their place in every portfolio, given structurally higher inflation.

Mathieu Racheter, Head of Equity Strategy

On emerging market equities
We have a Neutral rating on emerging markets due to global growth headwinds and the strong US dollar, but the segment is no monolith. Investors looking to gain exposure can focus on Southeast Asia due to the unleashing of pent-up demand as Covid-19 restrictions have only been lifted recently. Secular growth themes are our preferred venue for Chinese equities, in particular the environment, high-end manufacturing, and mass consumption.

Mark Matthews, Head of Research APAC

On the sweet spot in fixed income amid a slowing economy
Central banks wary of high inflation and growth concerns can mean some volatility in fixed income. Thus, our more prudent approach calls for exposure to euro and US dollar low-investment-grade bonds with medium duration (three to five years). This segment offers the combination of attractive income generation and reduced credit-risk sensitivity. US Treasuries are attractive on weakness.

Dario Messi, Fixed Income Research

On why the best of the US dollar bull may soon be behind us
The US dollar has rallied this year, but its interest-rate advantage is largely becoming priced in. However, some upside may still be warranted towards year end, as other major currency blocks are facing challenges. For example, the euro suffers from high energy prices, even as the European Central Bank tightens more aggressively. Upside pressure on the Swiss franc prevails, but the Swiss National Bank may become uneasy about its strength and limit the upside with renewed foreign exchange interventions.

David Alexander Meier, Senior Economist

On why global macro strategies are attractive now

In the alternative space, the ability of macro hedge funds to flexibly take long and short positions across equities, fixed income, commodities, and currencies has allowed them to successfully navigate a volatile environment this year. With growth and inflation expectations varying widely, an allocation to macro funds in a diversified hedge fund portfolio context can offer the combination of return potential and diversification that is currently missing in many other investment types.

Adrienne Jaersvall, Head of Fund Specialists

On the beauty of volatility

This year's elevated volatility and higher yields mean that it is a good time to add structured products to a portfolio in the coming months. Yield-enhancement notes for their juicy coupons but also capital-protected notes come to mind. For those wishing to tiptoe their way into equity markets, a staggered approach via drop-back certificates may be a choice.

Mischa Anand, Head of Investment Advisory, Zurich

Interested?

Please contact your Julius Baer representative for further information on products that best suit your needs.

The future is green

The transition towards renewable energy sources has shifted up another gear as a result of the current energy crisis, with Europe now planning in earnest to reduce its dependency on oil and gas from Russia. In the clean-energy space, governments and companies alike are talking more and more about the importance of switching to renewables. Furthermore, within mobility, the trend away from traditional combustion-engine vehicles towards electric vehicles has been strong and is set to continue.

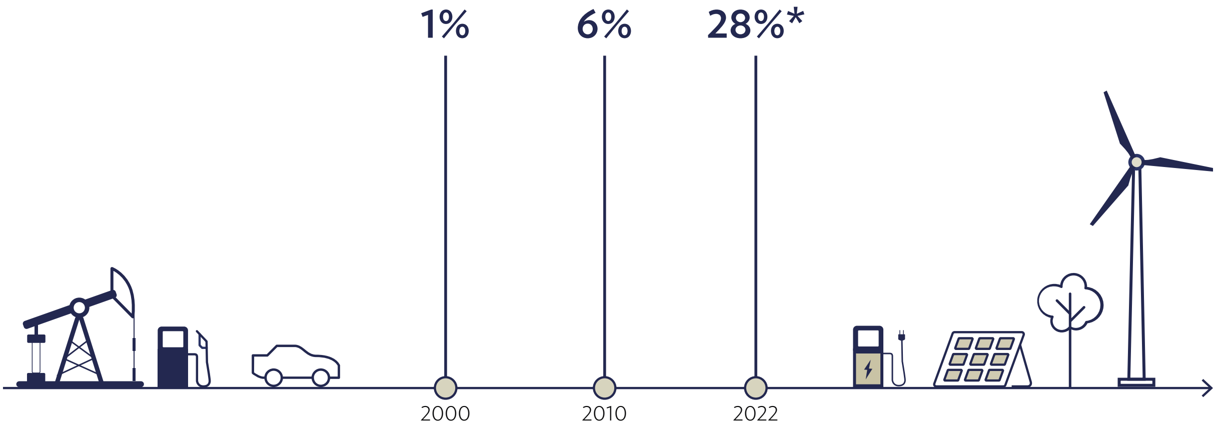
The energy transition is well underway

The energy crisis is accelerating the energy transition. During the crisis, renewables have been the stable backbone of the energy market. We have a Constructive view on both the Next Generation Clean Energy and Future Mobility subthemes.

The current energy crisis in Europe, which has ensued as a result of the war in Ukraine, is speeding up the energy transition. During the crisis, nuclear and fossil fuels have proved to be unreliable, while renewables have actually been the most reliable and cheapest energy sources. So although it is certainly not the cause of the shift to renewables, the energy crisis is accelerating the energy transition.

The energy transition is also inextricably linked to the topic of sustainability, which has become an everyday term as awareness has grown around the need to look after our planet and safely coexist with each other. From an investment perspective, we have a Constructive view on two particular sub-themes within the Next Generation Energy Transition theme: Clean Energy and Future Mobility.

Solar and wind energy as a proportion of total electricity production in Europe



Source: Eurostat, Agora, Windeurope, Solarpower Europe, Julius Baer Next Generation Research
Note: *Estimate

Clean Energy

Clean energy plays a key role in fighting climate change, and we see a number of structural tailwinds for the theme. These include the competitive costs of solar and wind power, the fact that these are now part of a mature market (i.e. both forms of power no longer need government intervention to grow), and the net-zero goals pledged by governments across the world.

Clean energy plays a key role in fighting climate change.

The cyclical aspect has also improved: inflationary pressures and supply bottlenecks are easing, funding pressure from increasing rates can be passed on due to companies' pricing power, and valuations have come down since the beginning of the year and are now at very reasonable levels. However, regulatory bottlenecks and an unwillingness by some people to have clean energy infrastructure (such as wind turbines) in their backyards are among the challenges to the expansion of clean energy.

Future Mobility

In the mobility space, there is another transition firmly underway, i.e. the move away from petrol- and diesel-powered vehicles towards electric vehicles (EVs). With the climate change topic now a firm fixture on politicians' agendas, government incentives to switch over to EVs are one factor supporting the transition. However, the main driver of the shift towards plug-in cars is the increased offering from automakers. Furthermore, continued advances in technology are enabling carmakers to improve their products, e.g. offering electric cars with greater ranges. We are convinced that the future of mobility is electric and expect plug-in market shares to rise towards 80% by 2035.

> "Electric mobility is past its tipping point and will play a part in reaching the world's net-zero goals. We maintain our Constructive view on the Future Mobility theme."

Norbert Rücker
Head of Macro and Next Generation Research

Special: Environmental challenges

Protecting biodiversity

Biodiversity refers to the variety of species living on earth and includes plants, bacteria, animals, and humans. Ecosystems are communities in which living organisms interact with each other and the surrounding environment. All of the earth's species work together to survive and maintain their ecosystems.

However, much of the earth's biodiversity is endangered as a result of human consumption and other activities that disturb or destroy ecosystems. Pollution, climate change, and population growth are all threats to biodiversity, and they have led to a significant rise in the rate of species extinction. To protect endangered species and help biodiversity to recover, many efforts will be necessary, such as producing food by using less land and generating less waste.

Reducing plastic pollution

Today, plastic objects are all around us – from the bottles of milk at the supermarket and the clothes fashioned from plastic fibres to the plastic chairs that we sit on and the plastic parts in cars. At the end of 2018, National Geographic reported that 8.3 billion metric tonnes of plastic had been produced, and of that, only 9% had been recycled. This means that the majority of plastic is ending up in landfills or the world's oceans. Given that plastic takes more than 400 years to degrade, this poses a huge challenge.

The current system in which plastic is produced, used, and discarded needs to be changed into a circular system where the value of materials is preserved, so that they can be reused. This does not only relate to plastics. More generally, a circular economy aims to transform a linear waste stream that ends up in landfill sites into a circular one that enables the reuse of resources.

Building sustainable cities

Today, more than half of the global population lives in cities, and by 2050, it is expected that two-thirds of the world will live in urban areas. This presents the question of how cities can better prepare themselves for the future, e.g. in terms of mobility, water supply, and food waste.

While cities are already relatively resource-efficient, there is plenty of room for improvement – they need to become smart and sustainable. Particularly noteworthy is the importance of digital infrastructure, as enhanced connectivity will be the key feature of a smart city.

Conclusion

One million species face extinction around the world, 20% of the Amazon rainforest has disappeared in the last 50 years, and 2.4 billion people depend on marine resources for their living. These are just three of the many compelling reasons that are pushing us to change our ways and look after the environment. As the world continues to search for ways to do this, companies whose products and services materially contribute to solving environmental challenges are expected to perform well.

Podcast

Listen to the podcast on Earth Day 2022: How can we invest in our planet?

Special: A cold, dark winter ahead in Europe?

It has been impossible to read a newspaper lately that does not make some reference to the concerns about a cold winter in Europe. Our best guess is that Russia will turn gas flows on and off and use the gas weapon to stir panic and undermine Europe's political cohesion, but we believe that the risk of a supply shortage in Europe this winter remains low. The Russian supply risk is not a one-dimensional scenario but rather a multi-dimensional stress test. As such, a real threat to the gas supply in Europe would, in our view, only materialise if a number of scenarios all coincided, in which case European gas storage could be at harmfully low levels by the spring of next year.

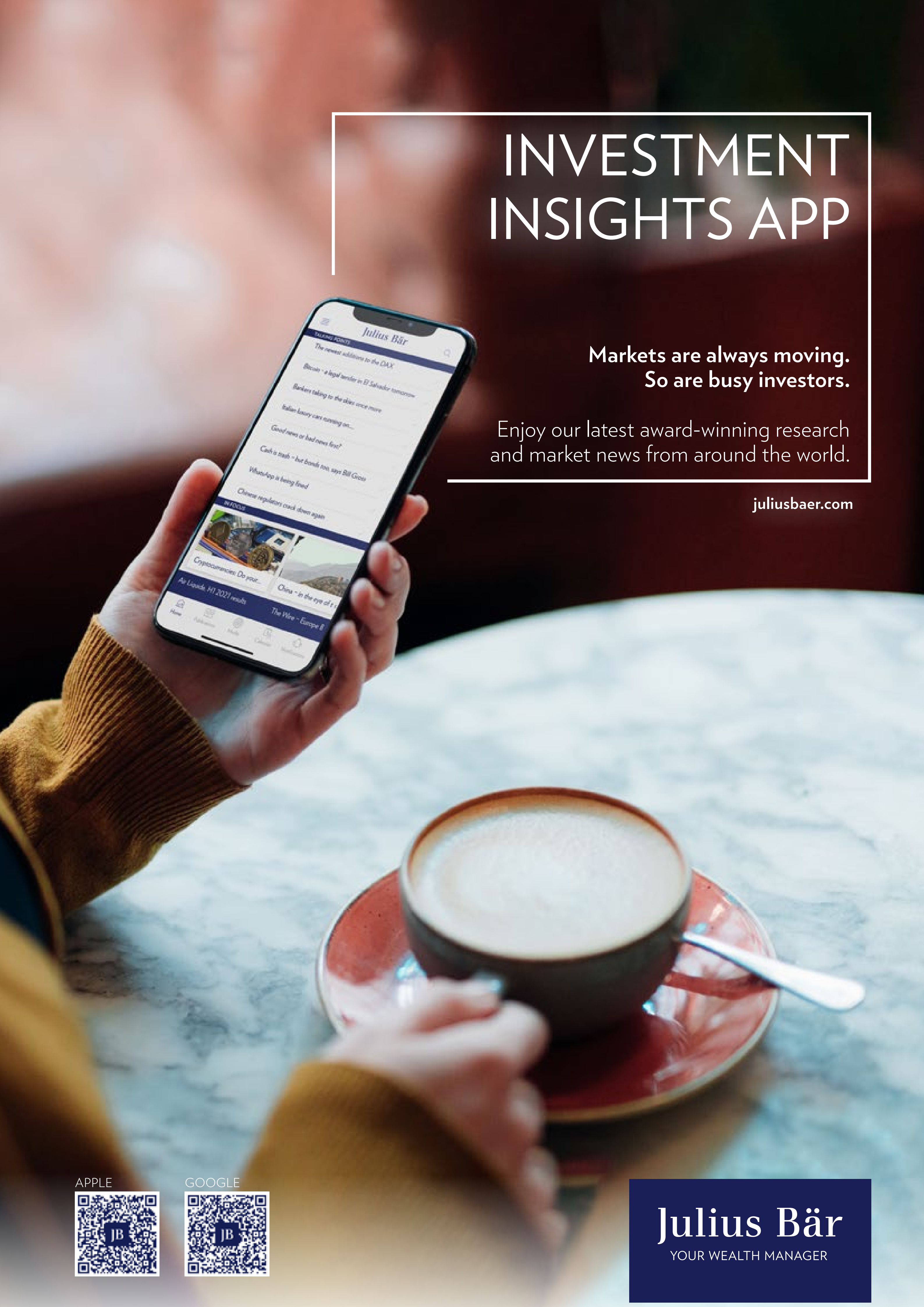
Despite the fact that Russian flows are down to a trickle, Europe's natural gas storage levels are well in line with seasonal averages and are even slightly above seasonal trends. This is because of the high level of liquefied natural gas (LNG) imports and a reduction in industrial demand. The last few months have been an extraordinary stress test for the market, and although it was not unscathed, the market did indeed pass this test. The various interconnections in the gas market offer a great degree of resilience and flexibility, and the overall resilience of the market should not be underestimated.

Unlike last year, the increased availability of LNG this year would compensate for most of a Russian shortfall. Furthermore, France's nuclear power plants should eventually return to more normal operations, which should in turn curb natural gas demand. It is also important to note that the natural gas trade between Russia and Europe brings mutual dependencies. More specifically, any lasting curtailment of gas flows to Europe would stress Russian infrastructure, because with too much natural gas in the system, the infrastructure would be prone to failure and incidents.

> "Europe's energy woes are a price crisis rather than a supply crisis."
>
> **Norbert Rücker**
> **Head of Macro and Next Generation Research**

Interested?

Please contact your Julius Baer representative for further information on products that best suit your needs.


INVESTMENT
INSIGHTS APP
Markets are always moving.
So are busy investors.
Enjoy our latest award-winning research
and market news from around the world.
juliusbaer.com
APPLE
GOOGLE
Julius Bär
YOUR WEALTH MANAGER

Ready to rumble

In a difficult market environment, defensive stocks have been among the best performers this year. While we keep a defensive tilt in our equity portfolios, we believe now could be a good time to look at battered stocks that have the potential to recover. In order to find these stocks, our analysts have identified six key characteristics that describe them.

Look at beaten-down stocks

Much has happened this year, and many stocks have been hit hard. Some stocks that have come under undue pressure, however, are now ready to show their true worth. From a bottom-up perspective, there are opportunities in many sectors, but stock selection remains key.

This year has already seen so much: a war breaking out in Europe, triggering not only geopolitical uncertainties but also fears of an energy shortage; ever-increasing inflation rates, prompting central banks around the world to rapidly raise their interest rates; and a lingering pandemic, which repeatedly causes economic uncertainties. So it comes as no surprise to anyone that the stock markets really have not had it easy so far this year.

Against this backdrop, defensive stocks have been among the best performing investment styles this year, as they tend to do well when economic growth slows and uncertainty is elevated. While we are still relatively defensively positioned in our equity allocation, it may be time to reallocate some money to stocks that have suffered this year but are now well positioned to make a recovery.

We asked our equity analysts to select their top picks, and their choices are based on six key characteristics.

1. Market-leading position: Companies that are leaders in their field are typically very important to both their customers and their suppliers, which can result in a strong bargaining position and ultimately high profitability in terms of strong profit margins.

Six key characteristics for stock selection

Source: Julius Baer Investment & Wealth Management Solutions

2. Pricing power: When companies with strong pricing power are confronted with higher input costs (e.g. due to inflation or supply-chain issues), they are able to pass on the higher prices to consumers, leaving their margins largely unaffected by externalities.

3. Growth prospects: Companies that grow faster than their competitors are generally expected to outperform their peers thanks to their future potential.

4. Earnings momentum: A company with a positive earnings momentum is one whose earnings are growing strongly, often exceeding estimates. This can lead to positive revisions to the company's future potential and ultimately to higher valuations.

5. Resilience: A company with high resilience typically has an innovative product portfolio, above-average efficiency and productivity, and a disruption-free supply chain, enabling it to cope with (almost) any economic scenario.

6. Attractive valuation: When a company's shares are trading at attractive valuations – either relative to the company's fundamentals or compared to peers or the overall sector – this is considered a good entry point. Over time, these shares are expected to approach their true value, providing upside potential and lower downside risk.

A closer look at six segments of the equity market

We also asked our equity analysts whether there are specific segments that they believe have suffered badly this year, perhaps even unduly, but now stand a good chance of recovering. Here is their list of segments that fall into this category.

Information technology – software

Enterprise software companies have been hit hard this year, with highly valued software vendors falling by as much as 75% year-to-date. Our analysts believe that large and profitable companies should continue to benefit from ongoing digitalisation and automation trends in the enterprise space, and software security providers should profit from the increase in the number of cyberattacks. In addition, they see increased merger and acquisition activity in the software space, opening up new opportunities for investors.

Communications – online travel agencies

Online travel agencies have suffered during the Covid-19 crisis. While their stocks are still down year-to-date, they have outperformed the overall US cyclical consumer index. Some companies have reported excellent results thanks to the streamlining of their cost structure and should benefit from an uptick in consumer and business travel if lockdowns are not reinstated globally.

Healthcare – life science tools

The fundamentals in this segment remain solid, as research development spending by pharmaceutical companies, as well as by universities and governments, continues to grow. Moreover, structural growth drivers remain intact, and valuations have corrected back to more reasonable levels – both of which speak in favour of the segment.

Industrials – electrical engineering with a focus on energy management

While this segment has suffered from recession fears this year, energy management companies are well positioned to benefit from structural topics such as energy efficiency. They are therefore expected to show higher growth than the overall industrial sector. In fact, the results and trends of the first and second quarters of this year point to resilient growth and margins, not least due to pricing power.

Consumer cyclical – automobiles

Shares of carmakers tend to underperform during cyclical downturns, but they should be better protected in this cycle, as low car inventories, high pricing power, pent-up demand, strong balance sheets, and easing supply-chain issues should support them.

Financials – rating agencies/analytics

This segment came under pressure in the second quarter of this year due to historically low capital market activity and depressed stock markets. However, we have been witnessing a rebound of the market since the beginning of July, which should benefit the segment. In addition, the favourable structural growth outlook for this segment remains unchanged.

Interested?

Please contact your Julius Baer representative for further information on products that best suit your needs.

Investing matters

Portfolio construction is essential to harness the long-term capital appreciation in financial markets. A well-diversified portfolio with multiple sources of potential performance drivers, revised every now and then, increases longer-term growth prospects and minimises the risk of setbacks. It is important to have a clear, precise investment strategy and stick to it. Now is the time to reassess one's strategy. The months ahead should provide an attractive entry point to prepare for the new normal of financial markets, always mindful that 'what to buy is more important than when to buy'.

What to own into year end

The main high-conviction calls usually get all the attention in a market outlook. But at the core, it is the basic setup of a portfolio, its asset allocation, and risk drivers that are decisive for the overall performance. In this chapter, we outline Julius Baer Investment Advisory's best ideas on how to build a portfolio into year end.

When put into historical context, shocks such as the Covid-19 pandemic and the war in Ukraine seem to have far fewer long-term negative consequences on a global scale than one would otherwise expect. The risk of an imminent recession hitting the world economy is real (although not our base case) and inflation has surprised to the upside time and again. Still, overall, our strategists do not see major economic imbalances or significant cracks across labour markets emerging and therefore remain optimistic that the world economy will be able to turn the corner again.

Portfolio construction is essential to harness the long-term capital appreciation in financial markets. A well-diversified portfolio with multiple sources of potential performance drivers, revised every now and then, not only increases longer-term growth prospects but also minimises the risk of setbacks. For that, the most straightforward option at investors' disposal is to assign a mandate to a professional wealth manager who has a clear understanding of their goals, a sophisticated portfolio construction approach that includes tight risk management, and the necessary investment expertise to holistically manage assets, smoothly guiding investors through the sometimes-stormy global markets.

Portfolio construction is a balancing act

Portfolio construction is a balancing act that must consider the investor's risk profile and return objectives, and regular rebalancing is appropriate.

Source: Julius Baer Investment & Wealth Management Solutions

In this section, we set out Julius Baer Investment Advisory's ideas on how to position for the coming months, based on the asset allocation of an illustrative balanced USD portfolio and with a view to building a portfolio from scratch.

Julius Baer Investment Advisory sample portfolio

Asset class	Weight	Rationale
Liquidity	**0%–10 %**	**To be deployed in case of further volatility**
Fixed income	**30%–50%**	**There is yield again in fixed income; the asset class is a portfolio stabiliser**
Investment-grade bonds	13%–22%	Core building block; the duration chosen determines the level of risk
High-yield bonds	5%–8%	Select exposure to optimise the risk/return profile
Emerging market debt	5%–8%	Maintained for portfolio diversification
Subordinated European bank debt	4%–6%	Select exposure to optimise the risk/return profile, preferred option to invest in financials, compared with stocks
Unconstrained strategies	4%–6%	Opportunistic, often benchmark-agnostic exposure to profit from all fixed-income-related performance drivers, i.e. credit, duration, and currencies
Equities	**40%–60%**	**Preferred asset class; real assets for capital gain**
Global	4%–20%	Exposure with a quality tilt, maintained through economic cycles
US	5%–15%	Core holding; structurally exposed to our most preferred topics and sectors
Europe & Switzerland	4%–7%	Swiss stocks for quality and attractive valuations, select European exposure
Emerging markets	1%–3%	Maintained for portfolio diversification; India, China (selectively), and Southeast Asia stand out
Information technology	4%–6%	The digital revolution has further legs; the sector remains attractive despite recent setbacks
Healthcare	4%–6%	The sector remains a long-term outperformer; we especially like big pharmaceutical companies, managed-care organisations, and life science tools & services
Energy transition / environment	4%–7%	Both are structural topics, partly interlinked, and both have 'de-hyped' in 2022 – unjustly, in our view
Tactical opportunities	10%–14%	Maintained for diversification – investment across sectors and topics; current exposure to the pet industry, consumer defensives, financials, oil & gas, and industrials
Next Generation	2%–4%	Core holding and long-term investment idea; Next Generation investing means investing in global megatrends
Others	**5%–20%**	**For diversification purposes; portfolio stabilisers and performance enhancers**
Alternative investments		Hedge funds, private equity/private debt, digital assets*

Source: Julius Baer Investment Advisory sample portfolio, as at 25 August 2022
Notes: Weights refer to Balanced USD portfolios, are dynamic, and rounded at the asset class level.
*Investments in digital assets are exposed to elevated risk of fraud and loss and to price fluctuations.

Eight considerations about investing now

Here, our Head of Investment Advisory, Diego Würgler, tells us why now is the right time to invest and discusses some investment solutions based on a USD balanced sample portfolio, which investors could consider heading into year end.

1. On why now is the right time to invest

Every market correction represents an opportunity to rethink one's investment goals and reposition tactically. We acknowledge that the news flow supports bad sentiment, and a recession might potentially lead to asset prices falling further. However, the economic picture has remained stable overall, and the reporting season, especially in the US, has been better than expected. Since we do not believe that timing the market really works, we consider the current correction an attractive entry point for those who are not yet fully invested.

2. On return in fixed income

When it comes to fixed income, market action has been rather unusual year-to-date, as both corporate and government bond segments suffered heavily and in sync. The good news is that now there is income in fixed income again. This provides attractive entry points given that credit-rating trends remain positive and default rates are up only mildly. Our Research analysts hold a preference for quality high-yield bonds and deeply subordinated debt of European banks due to attractive valuations, perhaps accompanied by short- to medium-term duration investment-grade bonds to lower the portfolio's overall volatility. US Treasuries could also become an option if yields unexpectedly spike further. In addition, some exposure to emerging market bonds, both in hard and local currency, has a place in a portfolio, mainly for diversification purposes. And finally, specifically for those worried about further sudden spikes in yields, some exposure to 'benchmark agnostic' strategies might be advisable; these are strategies that can create value by exploiting the main performance drivers of the asset class: debtor quality, duration, and currencies.

3. On our preferred asset class – equities

In an environment of structurally higher inflation, we generally prefer equities to bonds. We are convinced that the current secular equity bull market is driven by advances in technology and medicine, and we therefore aim to see both sectors strongly represented in portfolios. Within the tactical equity allocation, we maintain a tilt towards non-cyclical growth stocks that have shown their ability to remain highly profitable even in challenging environments, e.g. the big US information technology companies. The currently lower valuations of such stocks represent a compelling opportunity to gain exposure to the theme, in our view.

4. On emerging market equities

While our Research analysts are currently rather neutral on emerging market equities as a whole, the segment should still be represented in a diversified portfolio. And as the segment is rather heterogeneous, there are indeed subregions or subsegments where value can be found – our analysts highlight Southeast Asia and parts of the vast Chinese market. One specific market for which our analysts hold an Overweight rating is India. They believe that the significant outperformance of India's market in US dollar terms is set to continue, fundamentally driven by increased economic efficiency and very solid earnings growth.

5. On long-term structural topics

Thematic investing has experienced a reality check over the past months. Attractive as they may be in the long term, some investment themes are down 25% or more year-to-date. However, the structural themes of our Next Generation franchise are focused on the trends that will shape our lives for decades to come; thus, exposure remains paramount. In the current environment, we find the Energy Transition theme, mainly Future Mobility and Clean Energy, as well as the Cybersecurity theme as particularly attractive, although selectivity is key.

6. On a special tactical opportunity – pets

This idea is supported by three persisting tailwinds and significant growth drivers: 1) an ageing population with more time for pets; 2) the growing pet adoption rates, further accelerated by the Covid-19 pandemic; and 3) the pets-as-status-symbol trend that is rapidly taking off in emerging markets, particularly in China.

7. On the importance of digital assets[1]

Alongside other risk assets, digital assets have staged a remarkable recovery over the summer. Although still in their infancy, we believe that digital assets will shape our future, as their underlying technology is firmly located at the heart of the next technological revolution. Admittedly, the road ahead looks rather bumpy, and investors must be prepared for this ride, but digital assets simply cannot be ignored. We believe that risk-friendly investors could allocate a small portion of their portfolio to digital assets via diversified solutions.

8. On what to be mindful of when investing

There has been no place to hide really for investors in the first months of the year. Yet, even in market downturns, it is important to have a clear, precise investment strategy, and then to stick to it. While those enjoying the benefits of a discretionary mandate are already well positioned, those actively managing their own investments now have the opportunity to reassess their strategy. The months ahead should provide an attractive entry point to prepare for the new normal of financial markets, always mindful that 'what to buy is more important than when to buy'.

Interested?

Please contact your Julius Baer representative for further information on products that best suit your needs.

[1] Investments in digital assets are exposed to elevated risk of fraud and loss and to price fluctuations.

Further information

Further information

Please find below further information on benchmarks and indices used in the review section of this Investment Guide.

MARKET REVIEW

Equity regions

Region	Index	Region	Index
Emerging markets ex. China	MSCI Emerging Markets ex. China Net TR USD	**USA**	MSCI USA Net TR USD
Switzerland	MSCI Switzerland NR CHF	**Japan**	MSCI Japan NR JPY
Eurozone	MSCI Europe Net TR EUR	**UK**	MSCI United Kingdom NR GBP
China	MSCI China Net TR USD		

Note: NR: net return, TR: total return

Equity styles

Style	Index	Style	Index
Quality	MSCI World Quality Net TR USD	**Cyclicals**	MSCI World Cyclical Sectors TR USD
Value	MSCI World Value Net TR USD	**Defensives**	MSCI World Defensive Sectors TR USD
Growth	MSCI World Growth Net TR USD	**Small caps**	MSCI World Small Cap Net TR USD
High dividends	MSCI World High Dividend Yield Net TR	**Large caps**	MSCI World Large Cap Net TR USD

Note: TR: total return

Equity sectors

Sector	Index	Sector	Index
Information technology	MSCI World Information Technology Net TR USD	**Financials**	MSCI World Financials Net TR USD
Materials	MSCI World Materials Net TR USD	**Consumer cyclical**	MSCI World Consumer Discretionary Net TR USD
Oil & gas	MSCI World Energy Net TR USD	**Consumer defensive**	MSCI World Consumer Staples Net TR USD
Industrials	MSCI World Industrials Net TR USD	**Real estate**	MSCI World Real Estate Net TR USD
Communications	MSCI World Communication Services Net TR USD	**Utilities**	MSCI World Utilities Net TR USD
Healthcare	MSCI World Health Care Net TR USD		

Note: TR: total return

Fixed income

Segment	Index	Segment	Index
DM government bonds	Bloomberg Barclays Global Agg Treasuries TR Value Unhedged USD	**DM high yield**	Bloomberg Barclays Global High Yield TR Value Unhedged USD
Inflation-linked government debt	Bloomberg Barclays Global Inflation-Linked TR Value Unhedged USD	**EM hard currency**	Bloomberg Barclays EM Hard Currency Aggregate TR Value Unhedged USD
DM high quality IG	Bloomberg Barclays Global Agg Aa TR Value Unhedged USD	**EM local currency**	Bloomberg Barclays EM Local Currency Government TR Unhedged USD
DM low quality IG	Bloomberg Barclays Global Agg Baa TR Value Unhedged USD		

Note: DM: developed markets, EM: emerging markets, IG: investment grade, TR: total return

Commodities

Commodity	Future	Commodity	Future
Brent crude oil	1st Crude Oil, Brent	**Platinum**	1st Platinum
Natural gas	1st Natural Gas	**Aluminium**	1st Primary Aluminium
Gold	1st Gold	**Copper**	1st Copper
Silver	1st Silver	**Iron ore**	1st Iron Ore

Note: 1st: front month futures contract

SCORING OUR CALLS

Topic	Benchmark index used	Topic	Benchmark index used
Swiss equities	MSCI Switzerland	**Macro hedge fund strategies**	HFRI Fund of Funds Composite
Stocks for capital returns	MSCI ACWI NR USD	**Low-investment grade**	ICE BofA 1-10Y US Corp TR
Healthcare stocks	MSCI ACWI Health Care NR USD	**Better-quality high yield**	ICE BofA Global HY Constrained TR
Information technology stocks	MSCI ACWI Information Technology NR USD	**Floating rates**	US SOFR Secured Overnight Financing Rate Compounded
Financials	MSCI ACWI Financials	**Flexible fixed income**	Bbg Multiverse TR Unhdgd USD
Value stocks	MSCI ACWI with DM Part 50% Hedged to EUR	**Future Cities**	JB Next Generation Future Cities Index
Commodity stocks	MSCI Canada NR		

Note: NR: net return, TR: total return, Unhdg = unhedged, Hdgd = hedged, ACWI = All Country World Index

Important legal information

Imprint

This document constitutes **marketing material** and is not the result of independent financial/investment research. It has therefore not been prepared in accordance with the legal requirements regarding the independence of financial/investment research and is not subject to any prohibition on dealing ahead of the dissemination of financial/investment research. It has been produced by Bank Julius Baer & Co. Ltd., Zurich, which is authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). This document series is issued regularly. Information on financial instruments and issuers will be updated irregularly or in response to important events.

Authors
Michael Rist, Head Investment Content & Campaigns, michael.rist@juliusbaer.com[1]
Roman Canziani, Head Investment Writing, roman.canziani@juliusbaer.com[1]
Bernadette Anderko, Investment Writing, bernadette.anderko@juliusbaer.com[1]
Lucija Caculovic, Investment Writing, lucija.caculovic@juliusbaer.com[1]
Helen Freer, Investment Writing, helen.freer@juliusbaer.com[1]
Olivier Maris, Investment Writing, olivier.maris@juliusbaer.com[1]
Jacques Michael Rauber, Investment Writing, mike.rauber@juliusbaer.com[1]

[1] This author is employed by Bank Julius Baer & Co. Ltd., Zurich, which is authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

Methodologies and glossary

Julius Baer: www.juliusbaer.com/en/legal/methodologies-and-glossary/
Morningstar: www.global.morningstar.com/equitydisclosures

Important legal information

The information and opinions expressed in this document were produced as at the date of writing and are subject to change without notice. This document is intended for **information purposes only and does not constitute advice, an offer** or an invitation by, or on behalf of, Julius Baer to buy or sell any securities, securities-based derivatives or other products or to participate in any particular trading strategy in any jurisdiction. Opinions and comments of the authors reflect their current views, but not necessarily of other Julius Baer entities or any other third party. Other Julius Baer entities may have issued, and may in the future issue, other documents that are inconsistent with, and reach different conclusions from, the information presented in this document. Julius Baer assumes no obligation to ensure that such other documents be brought to the attention of any recipient of this document. Although the information herein is trusted to be accurate and complete and data herein has been obtained from sources believed to be reliable, no specific representation is made in this respect herein. In particular, the information provided in this document may not cover all material information on the financial instruments or issuers of such instruments. Julius Baer does not accept liability for any loss arising from the use of this document. Entities within the Julius Baer Group provide advice which is not considered 'independent' within the meaning given to that term by EU Directive 2014 / 65 / EU on markets in financial instruments (known as MiFID II).

Suitability & sustainability

Suitability: Investments in the services and/or products mentioned in this document may not be suitable for all recipients and may not be available in all countries. **Clients of Julius Baer are kindly requested to get in touch with the local Julius Baer entity in order to be informed about the services and/or products available in their country.** Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Any investment or trading or other decision should only be made by the client after a thorough reading of the relevant product term sheet, subscription agreement, information memorandum, prospectus or other offering document relating to the issue of the securities or other financial instruments. **Nothing in this document constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to individual circumstances, or otherwise constitutes a personal recommendation to any specific investor.** Julius Baer recommends that investors independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax, and accounting consequences. Where a document makes reference to a specific research report, the document should not be read in isolation without consulting the full research report, which may be provided upon request.

Sustainability: Depending on the recipient's domicile or place of incorporation, this document may not adhere to any applicable existing or proposed principles, laws, rules, or regulations related to the environmental, social, and governance (ESG) criteria. For further details on ESG data, ESG methodology, and the existing legal/regulatory framework, as well as potential implications on financial return and eligible investments, please refer to the 'ESG Disclaimer': https://www.juliusbaer.com/esg-disclaimer-en

General risks

The price and value of, and income from investments in, any asset class mentioned in this document may fall as well as rise and **investors may not get back the amount invested.** Risks involved in any asset class mentioned in this document may include, but are not necessarily limited to, market risks, credit risks, political risks and economic risks. The investor may be exposed to **currency risk** when the product or underlyings of the product are denominated in currencies other than that of the country in which the investor is resident. The investment as well as its performance would therefore be exposed to currency fluctuations and may increase or decrease in value. Investments in emerging markets are speculative and may be considerably more volatile than investments in established markets. This document may include figures relating to simulated past performance. **Past performance, simulations and performance forecasts are not reliable indicators of future results.** The return may increase or decrease as a result of currency fluctuations. Shares, bank debt securities (e.g. interest-bearing bank bonds and certificates) as well as other claims against financial institutions are subject to special regulations, such as the Bank Recovery and Resolution Directive, the Single Resolution Mechanism Regulation and related national laws implementing such special regulations. These regulations can have a negative effect for the investor / contractual partner of the financial institution in case of a default and the necessity of a resolution of the financial institution. For further details, please refer to: www.juliusbaer.com/legal-information-en

Specific risks

Prospectus, key information document and other relevant documents are available free of charge from Bank Julius Baer & Co. Ltd., Bahnhofstrasse 36, CH-8001 Zurich. In addition, the key information document can be found at www.juliusbaer.com/product-information.

Contingent convertible bonds (CoCo bonds): In the European Economic Area (EEA) and the UK, references to contingent convertible securities are intended for professional clients only.
Structured products (e.g. baskets, certificates): These are complex financial products and therefore involve a higher degree of risk. They are intended for investors who understand and are capable of assuming all risks involved. Structured products may therefore only be sold to experienced investors and require additional advice regarding product-specific risks. The value of the products is not only dependent on the development of the underlying, but also on the creditworthiness of the issuer, which may vary over the term of the product. In case of the issuer's insolvency or bankruptcy, the investors may lose their entire investment in the product.
Funds: Performance values may be calculated without taking account of commissions and costs that result from selling and buying back investments.
Morningstar: © 2022 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. For more detailed information about the Morningstar Rating, including its methodology, please go to:
https://s21.q4cdn.com/198919461/files/doc_downloads/othe_disclosure_materials/MorningstarRatingforFunds.pdf

Conflicts of interest

We are required to disclose important information about our interests and potential conflicts. In order to prevent conflicts of interest from adversely affecting the interests of its clients, Julius Baer has established a policy and procedures which are designed to identify and manage such conflicts. These include organizational and administrative arrangements to safeguard the interests of clients. Julius Baer's arrangements include adequate remuneration policies (for persons involved in the production of this document) based largely on qualitative criteria (e.g. overall quality and accuracy of research) and only remotely on quantitative elements (e.g. overall performance of Julius Baer). A Julius Baer entity may, to the extent permitted by law, participate or invest in other financing transactions with the issuer of the securities referred to herein, perform services or solicit business from such issuers, have a position or effect transactions in the securities or options thereof, have any other significant financial interest regarding the issuers of the securities referred to herein and/or may have done so in the past. For further information about our interest in the investments featured in this document, see the company-specific disclosures above.

Third party information

This document may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies, and research from research providers such as MSCI ESG Research LLC or its affiliates as well as from index providers such as Bloomberg (as defined below). Issuers mentioned or included in any MSCI ESG Research LLC materials may be a client of, or affiliated with a client of MSCI Inc. (MSCI) or another MSCI subsidiary. "Bloomberg" refers to "Bloomberg®" and Bloomberg indices which are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (BISL), as well as the administrator of the index. Bloomberg is not affiliated with Julius Baer. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings or research, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings or research. Third-party content providers do not approve, endorse, review, or recommend any services and/or products mentioned in this document. In particular, credit and/or research ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold, or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes and should not be relied on as investment advice.

Important distribution information

This document and any market data contained therein shall not be redistributed to any third party, unless Julius Baer or the source of the relevant market data gives their approval. This document is not directed to any person in any jurisdiction where (on the grounds of that person's nationality, residence or otherwise) such documents are prohibited.

External Asset Managers (EAM)/External Financial Advisors (EFA): In case this document is provided to EAM/ EFA, Julius Baer expressly prohibits its redistribution or any other way of making it available to clients and/or third parties. The document is of a purely abstract and general nature and is not intended for, nor directed at, client portfolios in general or clients domiciled in the European Economic Area in particular. By receiving any document, the EAM/EFA confirms that they will make their own independent analysis and investment decisions, where applicable.
Austria: Julius Baer Investment Advisory GesmbH, authorised and regulated by the Austrian Financial Market Authority (FMA), distributes this document to its clients.
Brazil: The products mentioned in this document may not be offered or sold to the public in Brazil. Accordingly, the products mentioned in this document have not been and will not be registered with the Brazilian securities commission.
Chile: This document is for the intended recipient only.
Dubai International Financial Centre: This document is distributed by Julius Baer (Middle East) Ltd. It may not be relied upon by or distributed to retail clients. Please note that Julius Baer (Middle East) Ltd. offers financial products or services only to professional clients who have sufficient financial experience and understanding of financial markets, products or transactions and any associated risks. The products or services mentioned will be available only to professional clients in line with the definition of the Dubai Financial Services Authority (DFSA) Conduct of Business Module. Julius Baer (Middle East) Ltd. is duly licensed and regulated by the DFSA.
Germany: Bank Julius Bär Deutschland AG, authorised and regulated by the German Federal Financial Supervisory Authority (BaFin), distributes this document to its clients. If you have any queries concerning this document, please contact your relationship manager.
Guernsey: This document is distributed by Bank Julius Baer & Co. Ltd., Guernsey Branch, which is licensed in Guernsey to provide banking and investment services and is regulated by the Guernsey Financial Services Commission.
Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong SAR): This document has been distributed in Hong Kong by and on behalf of, and is attributable to Bank Julius Baer & Co. Ltd., Hong Kong Branch, which holds a full banking licence issued by the Hong Kong Monetary Authority under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong SAR). Bank Julius Baer & Co. Ltd., Hong Kong Branch is also a registered institution under the Securities and Futures Ordinance (SFO) (Chapter 571 of the Laws of Hong Kong SAR) licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities with Central Entity number AUR302. This document must not be issued, circulated or distributed in Hong Kong other than to 'professional investors' as defined in the SFO. The contents of this document have not been reviewed by the Securities and Futures Commission nor by any other regulatory authority. Any references to Hong Kong in this document shall mean the Hong Kong SAR. If you have any queries concerning this document, please contact your Hong Kong relationship manager. Bank Julius Baer & Co. Ltd. is incorporated in Switzerland with limited liability.
India: This is not a document of Julius Baer Wealth Advisors (India) Private Limited (JBWA) or any of its Indian subsidiaries under the Securities and Exchange Board of India (SEBI) Research Analyst Regulations, 2014. This document has been produced by Bank Julius Baer & Co. Ltd. (Julius Baer), a company incorporated in Switzerland with limited liability that does not have a banking license in India. This document should not be construed in any manner as an offer, solicitation or recommendation by JBWA or any Julius Baer entity globally.
Israel: This document is distributed by Julius Baer Financial Services (Israel) Ltd. (JBFS), licensed by the Israel Securities Authority to provide investment marketing and portfolio management services. Pursuant to Israeli law, 'investment marketing' is the provision of advice to clients concerning the merit of an investment, holding, purchase or sale of securities

or financial instruments, when the provider of such advice has an affiliation to the security or financial instrument. Due to its affiliation to Bank Julius Baer & Co. Ltd., JBFS is considered to be affiliated to certain securities and financial instruments that may be connected to the services JBFS provides, and therefore any use of the term 'investment advice' or any variation thereof in this document should be understood as investment marketing, as explained above.

Kingdom of Bahrain: Julius Baer (Bahrain) B.S.C.(c), an investment business firm which is licensed and regulated by the Central Bank of Bahrain (CBB), distributes this document to its expert and accredited investor clients. This document may not be relied upon by or distributed to retail clients. The CBB does not take any responsibility for the accuracy of the statements and information contained in this document nor shall it have any liability to any person for any damage or loss resulting from reliance on any statement or information contained herein.

Luxembourg: This document is distributed by Bank Julius Baer Europe S.A., a bank incorporated and existing under the laws of the Grand Duchy of Luxembourg, with registered office at 25, rue Edward Steichen, L-2540 Luxembourg and registered with the Luxembourg Register of Commerce and Companies (RCSL) under number B 8495, authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF), 283, route d'Arlon, L-1150 Luxembourg. This document has not been authorised or reviewed by the CSSF and it is not intended to be filed with the CSSF.

Monaco: This document is distributed to its clients by Bank Julius Baer (Monaco) S.A.M., a bank authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution (ACPR), 4 place de Budapest, 75436 Paris, France, and also regulated by the Commission de Contrôle des Activités Financières (CCAF), 4 rue des Iris, 98000 Monaco, for conduct of its financial activities. Bank Julius Baer (Monaco) S.A.M. is registered with the Monaco Register of Commerce and Industry (RCI) under number 96S03173.

Republic of Ireland: Bank Julius Baer Europe S.A. Ireland Branch is a branch of Bank Julius Baer Europe S.A. with registered branch office in 2 Hume St, South-East Inner City, Dublin, D02 FT82, Ireland. It is registered with the Dublin commercial register under the registration number 909020, authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF), 283, route d'Arlon, L-1150 Luxembourg, and is regulated for conduct of business rules by the Central Bank of Ireland (CBI), New Wapping Street, North Wall Quay, Dublin 1, D01 F7X3, Ireland. Bank Julius Baer Europe S.A. is a bank incorporated and existing under the laws of the Grand Duchy of Luxembourg, with registered office at 25, rue Edward Steichen, L-2540 Luxembourg, registered with the Luxembourg Register of Commerce and Companies (RCSL) under number B 8495. Bank Julius Baer Europe S.A. Ireland Branch distributes this document to its clients. Some of the services mentioned in this document, which are available to clients of Bank Julius Baer Europe S.A. Ireland branch, may be provided by members of the Julius Baer Group based outside of the Grand Duchy of Luxembourg or the Republic of Ireland. In these cases, rules made by the CSSF and the CBI for the protection of retail clients do not apply to such services, and the CSSF and the Irish Financial Services and Pensions Ombudsman will not be able to resolve complaints in respect of such services.

Singapore: This document is distributed in Singapore by Bank Julius Baer & Co. Ltd., Singapore branch, and is available for accredited investors or institutional investors only. This document does not constitute an 'advertisement' as defined under Section 275 or 305 respectively of the Securities and Futures Act, Cap. 289 of Singapore (the 'SFA'). This document has not been reviewed by and is not endorsed by the Monetary Authority of Singapore ('MAS'). Any document or material relating to the offer or sale, or invitation for subscription or purchase, of securities or investment funds (i.e. collective investment schemes) may not be circulated or distributed, nor may such securities or investment funds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 or 304 respectively of the SFA, (ii) to a relevant person (which includes an accredited investor), or any person pursuant to Section 275(1A) or 305(2) respectively, and in accordance with the conditions specified in Section 275 or 305 respectively of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorised or recognised by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them. Please contact a representative of Bank Julius Baer & Co. Ltd., Singapore branch, with respect to any inquiries concerning this document. Bank Julius Baer & Co. Ltd. (UEN - T07FC7005G) is incorporated in Switzerland with limited liability.

South Africa: This document is distributed by Julius Baer South Africa (Pty) Ltd, which is an authorised financial services provider (FSP no. 49273) approved by the Financial Sector Conduct Authority. Julius Baer is also licensed in South Africa as a representative office of a foreign bank.

Spain: Bank Julius Baer Europe S.A., Sucursal en España, is a branch of Bank Julius Baer Europe S.A. with registered branch office in Paseo de la Castellana 7, 2nd floor, E-28046 Madrid. It is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF), 283, route d'Arlon, L-1150 Luxembourg, and is regulated for conduct of business rules by the Bank of Spain (Banco de España), c/Alcalá, 48, E-28014 Madrid, under the registration number 1574. Bank Julius Baer Europe S.A., Sucursal en España is also authorised to provide investment services subject to the supervision of the Comisión Nacional del Mercado de Valores (CNMV), c/Edison, 4, E-28006 Madrid. Bank Julius Baer

Europe S.A. is a société anonyme incorporated and existing under the laws of the Grand Duchy of Luxembourg, with registered office at 25, rue Edward Steichen, L-2540 Luxembourg, registered with the Luxembourg Register of Commerce and Companies (RCSL) under number B 8495. Bank Julius Baer Europe S.A., Sucursal en España distributes this document to its clients.
Switzerland: This document is distributed by Bank Julius Baer & Co. Ltd., Zurich, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).
United Arab Emirates (UAE): This document has not been approved or licensed by the UAE Central Bank, the UAE Securities and Commodities Authority or any other relevant authority in the UAE. It is strictly private and confidential and is being issued to a limited number of sophisticated individual and institutional investors upon their request and must not be provided to or relied upon by any other person.
United Kingdom (UK): Julius Baer International Limited, which is authorised and regulated by the Financial Conduct Authority (FCA), distributes this document to its clients and potential clients. Where communicated in the UK, this document is a financial promotion that has been approved by Julius Baer International Limited for distribution in the UK. Some of the services mentioned in this document may be provided by members of the Julius Baer Group outside the UK. Rules made by the FCA for the protection of retail clients do not apply to services provided by members of the Julius Baer Group outside the UK, and the Financial Services Compensation Scheme will not apply. Julius Baer International Limited does not provide legal or tax advice. If information on a particular tax treatment is provided, this does not mean that it applies to the client's individual circumstances, and it may be subject to change in the future. Clients should obtain independent tax advice in relation to their individual circumstances from a tax advisor before deciding whether to invest. Julius Baer International Limited provides advice on a limited range of investment products (restricted advice).
Uruguay: In case this document is construed as an offer, recommendation or solicitation for the sale or purchase of any securities or other financial instruments, the said offer, recommendation or solicitation is being placed relying on a private placement exemption (oferta privada) pursuant to Section 2 of Law No. 18,627 and is not and will not be registered with the Superintendency of Financial Services of the Central Bank of Uruguay to be publicly offered in Uruguay. In case of any closed-ended or private equity funds, the relevant securities are not investment funds regulated by Uruguayan Law No. 16,774 dated 27 September 1996, as amended. If you are located in Uruguay, you confirm that you fully understand the language in which this document and all documents referred to herein are written, and you have no need for any document whatsoever to be provided in Spanish or any other language.

UNITED STATES: NEITHER THIS DOCUMENT NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON.

Notes

Notes

Julius Bär

Founding Signatory of:

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

Signatory of:

PRI Principles for Responsible Investment

JULIUS BAER GROUP

Head Office
Bahnhofstrasse 36
P. O. Box
8010 Zurich
Switzerland
Telephone +41 (0) 58 888 1111
Fax +41 (0) 58 888 1122
www.juliusbaer.com

The Julius Baer Group is present in around 60 locations worldwide, including Zurich (Head Office), Dubai, Dublin, Frankfurt, Geneva, Hong Kong, London, Lugano, Luxembourg, Madrid, Mexico City, Monaco, Mumbai, Santiago de Chile, São Paulo, Shanghai, Singapore, and Tel Aviv.

09/2022 Publ. No. PU00971EN