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EMBARKING ON THE NEXT CHAPTER

March 2024

European Economic Outlook and Swiss Monetary Policy

Europe's Stagflation Concerns Deepen

The economic landscape of Europe is navigating through turbulent waters, marked by persistent inflation and the looming specter of stagflation. Unlike the swift inflation declines hoped for, the journey from a 3% inflation rate down to the central bank's target of 2% is proving to be more challenging than initially anticipated. This difficulty prompts a reevaluation: should a 3% inflation rate be considered the new norm, in light of potentially higher equilibrium rates?

We expect a complex scenario for Europe in 2024, with the continent not expected to dodge a recession, while the risk of stagflation—characterized by stagnant growth alongside high inflation—remains a tangible possibility. This environment is reminiscent of the 1970s stagflation episodes, underscoring a crucial period for economic strategy and consumer expectations.

Swiss National Bank's Contrarian Move

GALDERMA'S CHF 2 BILLION IPO

Galderma, a company specializing in skincare products, launched its IPO on the Swiss market with an initial offer of CHF 2 billion. The share price saw an impressive 18% increase on the first day of trading, indicating a renewed appetite for risk in the IPO market and underlines confidence in Galderma's potential.

Amidst the economic uncertainty in Europe, the Swiss National Bank (SNB) made a surprising decision to cut its key policy rate by 25 basis points to 1.5% in March 2024. This marked the bank's first rate cut in nearly a decade and positioned it as the first major central bank to shift towards easing monetary policy. This move comes in response to Swiss inflation cooling to 1.2% in February, consistently within the SNB's target range for nine consecutive months, signalling price stability.

Following the Swiss National Bank's decision to lower its key policy rate, the Swiss franc experienced a 1.3% decrease in value on the forex market. This pivotal policy shift indicates the SNB's transition from primarily focusing on domestic price stability to actively combating the strength of the Swiss Franc. The move aims to enhance the competitive edge of Swiss exports by making them more attractive on the international stage, signaling a strategic pivot in the SNB's economic approach.

Apple’s market turbulence

The European Setback

In a significant regulatory action, Apple has been handed a hefty fine of €1.8 billion ($1.95 billion) by the European Union. This fine comes as a consequence of what the EU deems anti-competitive practices related to music streaming services on the App Store. The regulators have identified that Apple's dominant market position was exploited to impose restrictions that not only elevated developer fees but also resulted in higher costs for consumers.

Shifting Sands in the Chinese Market

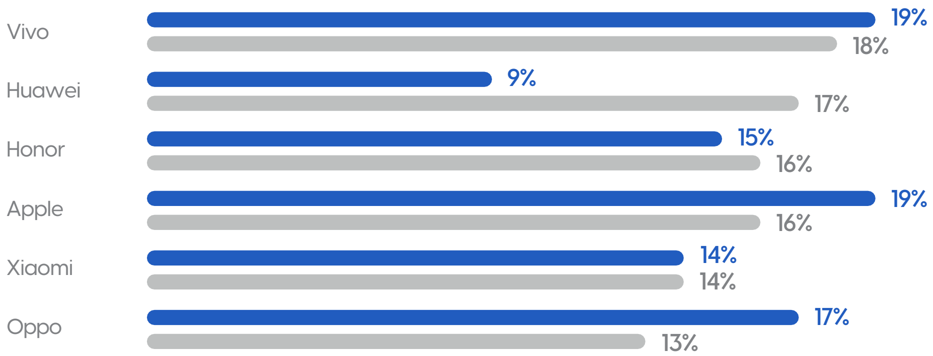
In more concerning news, the initial weeks of 2024 have witnessed Apple slipping to the fourth spot in China's smartphone market rankings—a notable descent from their prior top position. The iPhone, often a symbol of market dominance, has found it challenging to navigate the current economic climate within China. To combat the decline and rejuvenate demand, Apple has introduced uncommon discounts on its web store, with online resellers following suit, offering reductions up to USD 180.-.

Sales Dive and Competitive Pressures

A closer look reveals a 24% plunge in Apple's iPhone sales, mirroring the turbulence in China's mobile sector, which itself has seen a 7% contraction. Amidst this decline, Huawei has surged to second place with a stunning 64% sales increase. It appears that Huawei's Mate 60 Pro devices and a wave of nationalistic purchases have propelled its market share from 9.4% to 16.5%. Meanwhile, Honor Device Co., once under Huawei's wing, is the only other major competitor to report sales growth. Apple's market share has diminished to 15.7% from 19% the previous year.

APPLE'S MARKET SHARE IN CHINA ▸

● 2023
● 2024



Source: Bloomberg

Apple's market turbulence

Embracing the Future with DarwinAI

In a bold move to bolster its artificial intelligence prowess, Apple has confirmed the acquisition of DarwinAI, a Canadian AI firm known for its innovative approach to AI technology. The transaction, executed earlier this year, is a significant step for Apple, aligning with their ambitious goals for the AI domain.

DarwinAI's Expertise in AI Efficiency

DarwinAI has distinguished itself by collaborating with diverse industries to enhance AI technology, particularly in streamlining the inspection of components during manufacturing. A hallmark of DarwinAI's expertise is its ability to render AI systems more efficient and more compact without compromising on speed. This capability is now poised to be integrated into Apple's suite of devices, potentially revolutionizing the user experience with increased AI capabilities.

Integration and Expectations for iOS18

With the DarwinAI team now joining Apple's artificial intelligence division, expectations are high for the upcoming iOS18 software update. This update is anticipated to showcase groundbreaking advancements in generative AI, a field that has seen exponential interest and development recently. Tim Cook, Apple's CEO, has teased the tech community with promises of Apple "breaking new ground" in AI, and hints at forthcoming updates that could further elaborate on their AI strategy.

Apple's AI Revival and the Road Ahead

Apple's acquisition of DarwinAI could mark a pivotal moment in the AI race—a space that has seen them trailing behind phenomena such as OpenAI's ChatGPT. The integration of DarwinAI is more than a mere response; it's a strategic positioning for the future. With iOS18 on the horizon, the tech world is watching with keen interest as Apple lays the groundwork for what may be a significant resurgence in AI innovation and application.

Google’s unique competitive advantage

Unmatched AI Integration

Google's unparalleled vertical integration within AI, from proprietary chips to a comprehensive app ecosystem, grants it a distinct advantage in the generative AI landscape.

Proprietary Data Powering Gemini

Using its vast data from Google Search and YouTube, Google uniquely empowers its Gemini AI model, significantly enhancing its ability to produce human-like responses.

Voice Assistants Paving the Way

Voice assistants, including Google Assistant and Apple's Siri, exemplify the potential of generative AI to redefine user interaction and command significant market presence.

Self-Sufficient Semiconductors: A Strategic Edge

Google's self-reliant semiconductor technology reinforces its competitive position, providing flexibility and efficiency that's difficult for competitors to match.

The Competitive Landscape and Revenue Implications

Amidst AI integration success, Google faces challenges from AI-driven search tools potentially disrupting its search volume and ad revenue. Alphabet has seen fluctuations in share value, with concerns over competition from OpenAI's forays into search. Despite these concerns, creating a viable competitor to Google's search dominance remains daunting, as reflected in Microsoft's continued minority share despite incorporating AI into Bing.

Generative AI: Opportunities and Concerns

The emergence of AI technologies like Google's Gemini and OpenAI's ChatGPT is groundbreaking, though it also brings challenges such as misinformation, necessitating oversight from entities like the European Commission.

Today, only one company – Google – is vertically integrated in a manner that provides it with strength and independence at every AI layer from chips to a thriving mobile app store. Everyone else must rely on partnerships to innovate and compete.

Dylan Figueiredo
Investment Analyst at
Haute Capital Partners

Continuing the Story on China

A Surge in Global Trade Activity

Despite a lower than expected Caixin Services PMI, the overall economic outlook for China remains positive, with projections suggesting a 44% expected return. February's data indicated a promising turn in global trade, with China's exports rising by 7.1%. This improvement is not isolated; similar trends have been observed in other major exporting countries like South Korea and Germany, signaling a potential upswing in global economic activity.

Property Sector and Personal Savings: A Dual Focus

The property sector, which accounts for a significant 20% of China's GDP, has seen stabilization efforts through government incentives for home renovations. This move aims to revive consumer confidence in the real estate market, crucial for overall economic health given the high percentage of per- sonal wealth tied to property ownership. With personal sav- ings and deposits at record highs and the central bank cutting interest rates on deposits, there's an anticipation of increased investment in equities and a subsequent boost in consumption.

Employment and Industrial Production: Signs of Resilience

Despite a slight uptick in the urban surveyed unemployment rate to 5.3% in early 2024, China's industrial production and fixed-asset investment have shown robust growth. Industrial output surged by 7.0% year-on-year in the first two months of 2024, outpacing expectations and marking the fastest expansion in nearly two years. Additionally, fixed-asset investment grew by 4.2% year-on-year in the same period, surpassing market forecasts and indicating sustained economic momentum.

Continuing the Story on China

Retail Sales and Economic Forecasts

Retail sales in China also exceeded expectations, growing by 5.5% year-on-year in January-February 2024. This continued growth in retail trade underscores the resilience of consumer demand, an essential driver of economic recovery.

Looking ahead, China's economic growth is projected to moderate, with the World Bank forecasting a slowdown to 4.5% in 2024. This outlook reflects ongoing challenges in the real estate sector and global demand weaknesses but also highlights the importance of sustained policy support and structural reforms to revive growth momentum (World Bank) (World Economic Forum).

In summary, while certain sectors like real estate and services have faced challenges, the broader economic indicators suggest a path to recovery, underscored by strong exports, industrial production, and retail sales. The government's targeted measures to stabilize the property market and stimulate investment and consumption are pivotal in navigating the current economic landscape, aiming for sustainable growth and stability.

CHINA CREDIT IMPULSE INDEX

Strategic Outlook on Commodities

Inflation and Global Economic Trends Fuelling Optimism

The company's optimistic perspective on the commodities market is rooted in a comprehensive analysis of global economic trends, with a particular focus on inflationary pressures and the business cycle's resurgence. The historical performance of commodities in 2022, emerging as the top-performing asset class, underscores the positive impact of inflation on commodity prices. This trend is expected to continue, fueled by the dual forces of inflationary trends and the business cycle's momentum, particularly evident in China and other major commodity producers.

A significant factor contributing to this optimistic outlook is the anticipated pickup in the business cycle, marked by initial signs of recovery and expansion in China and leading commodity-producing nations. This revival is poised to elevate demand for commodities, especially industrial ones, signaling robust growth potential in the sector.

Compounding these factors is the expected decrease in the dollar's utilization as the global trading currency. This shift, coupled with a procyclical economy buoyed by increased spending, creates a conducive environment for commodities to thrive. The company's analysis points to a synergistic effect of these economic dynamics, projecting a favorable trajectory for commodities in the upcoming periods.

Copper

With its critical role in renewable energy and EVs, we expect copper's demand to surge, supported by rate cuts in China boosting manufacturing. Despite a forecasted surplus in 2024, the long-term demand, especially from the green technology sector, underscores a bullish outlook.

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Natural Gaz

The current surplus and below-break-even prices present an investment opportunity, especially considering the anticipated up- tick in demand as the business cycle recov- ers.

Palladium

The metal vital for its industrial applications and investment appeal, is set to see demand growth driven by technological advancements and shifts in consumer and industrial consumption patterns.

Silver

With its extensive industrial applications and investment appeal, Silver remains a commodity to watch. Its role in photovoltaic cells for solar panels and its traditional value as a safe-haven asset create a dual demand that can drive prices.

Bitcoin:
A New Investment Paradigm

BITCOIN OVERTAKES SWISS FRANC AS 13TH LARGEST CURRENCY

Bitcoin has surpassed the Swiss Franc to become the 13th largest currency in the world

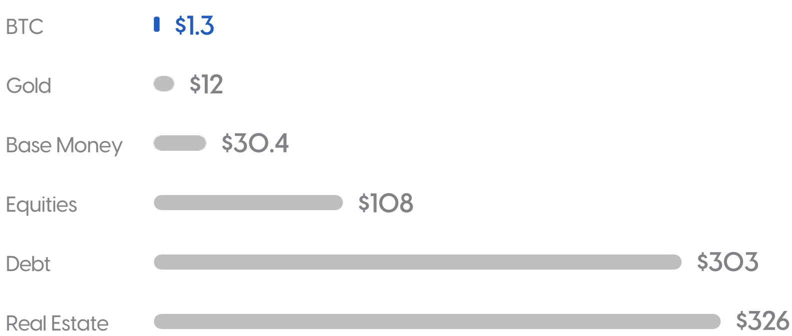
ETF Surge and Halving

Bitcoin fund inflows are poised to significantly influence its price in the upcoming months, as the cryptocurrency shatters ETF records spanning the last three decades. This surge reflects not only the broader financial community's reaction to central bank narratives and geopolitical uncertainties but also the growing interest from the world's largest asset managers. These financial giants are increasingly viewing Bitcoin both as a viable store of value and for its underlying technology, signalling a shift in investment strategies towards embracing digital assets.

The anticipation of Bitcoin's halving event will reduce mining rewards from 6.25 BTC per block to 3.125 BTC per block, posing potential revenue challenges for miners unless the price of Bitcoin doubles to offset the reduced block reward. This situation underscores the added counterparty risks and highlights the strategic advantage of holding Bitcoin directly, especially considering the high volatility (or high beta) associated with crypto miners' stocks.

Moreover, Bitcoin's current 180-day correlation to the S&P 500 stands at zero, and its correlation to the dollar index is similarly negligible. This lack of correlation with traditional financial assets positions Bitcoin as an attractive option for diversifying investment portfolios. This dynamic suggests that Bitcoin, especially in the context of upcoming halving events and increasing institutional interest, could play a pivotal role in redefining investment strategies for both private and institutional investors.

ASSET CLASSES BY MARKET CAPITALIZATION
USD TRLN



Source: Blockware

Bitcoin:
A New Investment Paradigm

Bitcoin Supply and Holder Tenacity

This analysis explores Bitcoin's supply distribution based on the time elapsed since each coin was last transacted. Our focus spans several key cohorts: those holding for over 1 year, 2 years, 3 years, and 5 years. A notable trend is the gradual decline in the 1- and 2-year cohorts, reflecting sellers who entered the market at its peak 2-3 years ago and are now exiting as Bitcoin reaches their break-even points.

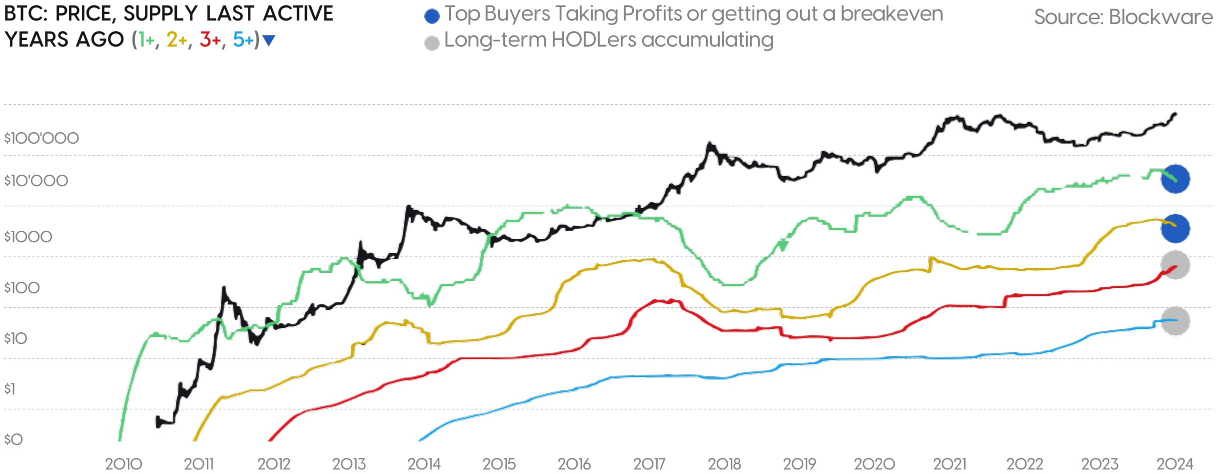
Conversely, the most seasoned Bitcoin holders, particularly in the 3+ year cohort, are demonstrating remarkable steadfastness. This group's growing numbers highlight their commitment to retaining Bitcoin through full market cycles, underscoring a strong belief in its long-term value. Historically, it's not until the 3+ year cohort begins to decrease that we observe signs of approaching market tops, indicating that as long as these holders remain steadfast, the market can expect continued supply illiquidity.

Reflect on the tumultuous events Bitcoin HODLers have weathered since March 2021 or earlier, including the Elon Musk-related FUD (Fear, Uncertainty, Doubt), China's mining ban, the record USD 69'000.- peak in 2021, and a series of high-profile cryptocurrency platform collapsesi. Add to this the FTX collapse that led to a drop to USD 16'000.-, as well as legal challenges faced by Coinbase and Binance, not to mention the excitement surrounding ETF approvals and new all-time highs. Despite these challenges, these long-term holders have not been swayed.

The resilience of these long-term investors suggests that significantly higher Bitcoin prices might be necessary to incentivize them to sell. Their continued hold reflects a deep-seated confidence in Bitcoin's value and resilience, serving as a barometer for understanding market sentiment and future price movements.

BTC: PRICE, SUPPLY LAST ACTIVE YEARS AGO (1+, 2+, 3+, 5+)▼

Source: Blockware



Bitcoin:
A New Investment Paradigm

MicroStrategy's Bitcoin Endeavor: Owning Over 1% of All Mined Tokens

MicroStrategy's foray into cryptocurrency began in August 2020 with an initial purchase of 21'454 bitcoins at USD 250 million. By March 2024, the company's aggressive investment strategy resulted in the ownership of over 1% of all bit- coins mined, now holding 214,246 bitcoins. Key acquisitions, such as the March 2024 purchase of 9'245 bitcoins for USD 623 million, have been reported in SEC filings, emphasizing their bullish position on bitcoin.

Under the leadership of co-founder Michael Saylor, an avid bitcoin proponent, MicroStrategy has seen its stock value rise by 380% over the past year, mirroring bitcoin's own 150% increase. This surge is attributed to nearly a quarter of their bitcoin holdings being acquired in 2024, showcasing confidence in the asset. Bitcoin is designed to have a cap of 21 million coins, a limit to be reached by 2140 with min- ing rewards halving every four years. The upcoming halving event in April is expected to spark another rally. MicroStrategy's latest bitcoin purchases, at an average of $67,382 per bitcoin, brings the value of its holdings to an estimated USD 13.46 billion, confirming its role as a dominant player in the crypto space.

Adding to the narrative, as of March 18, 2024, it's estimated that at least 4 million bitcoins have been lost, reducing the circulating supply to about 15.6 million BTC. This scarcity could play a role in future valuation and market dynamics, as MicroStrategy's investment could benefit from the decreased supply.

Bitcoin's Surge in Argentina: A Hedge Against Inflation Amid Economic Challenges

In Argentina, the appeal of Bitcoin has notably surged as the cryptocurrency reached record highs, offering Argentines a hedge against the country's persistent inflation, now at 276%. Traditionally, the US dollar has served as Argentina's refuge during economic instability. However, with the peso's recent 10% strengthening and President Javier Milei's monetary policies, the attractiveness of the US dollar and digital tokens tied to real-world currencies has waned, shifting more focus towards Bitcoin as a viable economic stabilizer amidst ongoing financial turbulence.

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