2023 Outlook

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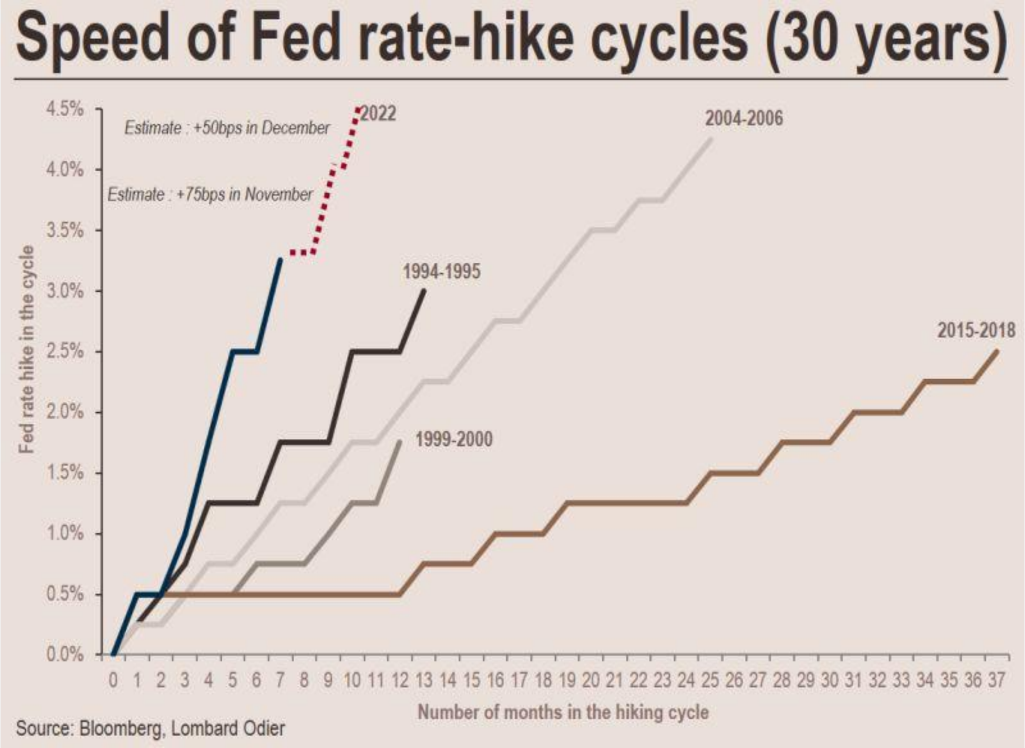
Replay conclusion last year

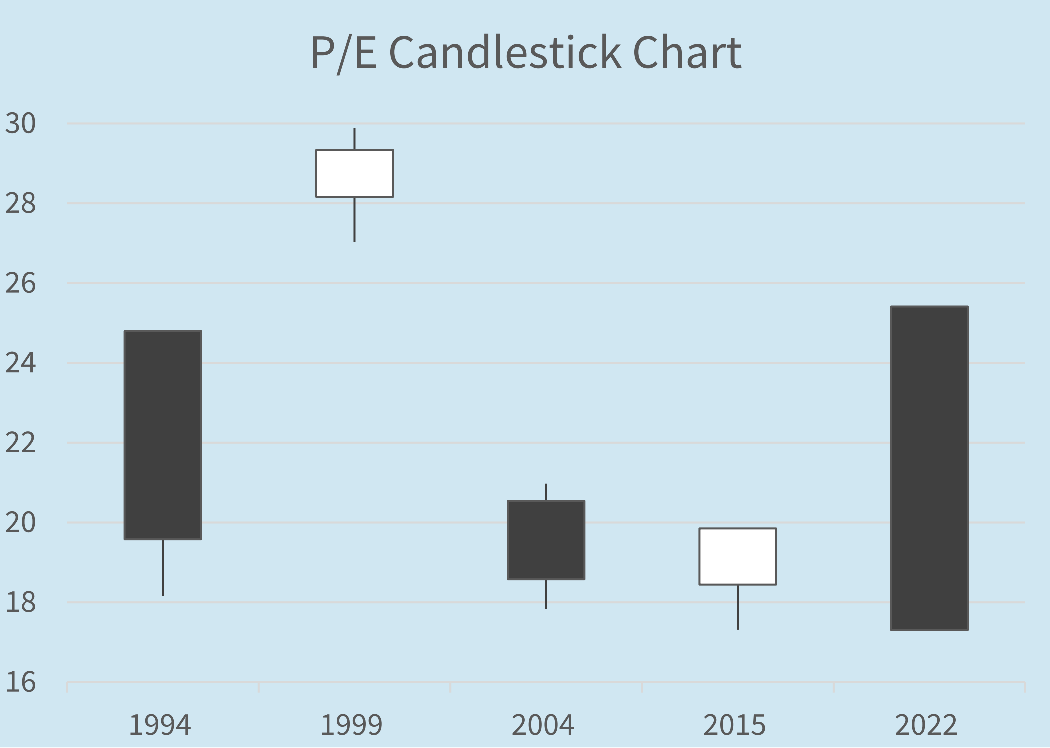
- Would be a tough year in general
- Inflation high, FED tighten, stock market with thin cushion from earning growth

All about speed, all about P/E, not about economics yet

The Fast and the Furious 17



SPX P/E constrained during first hike

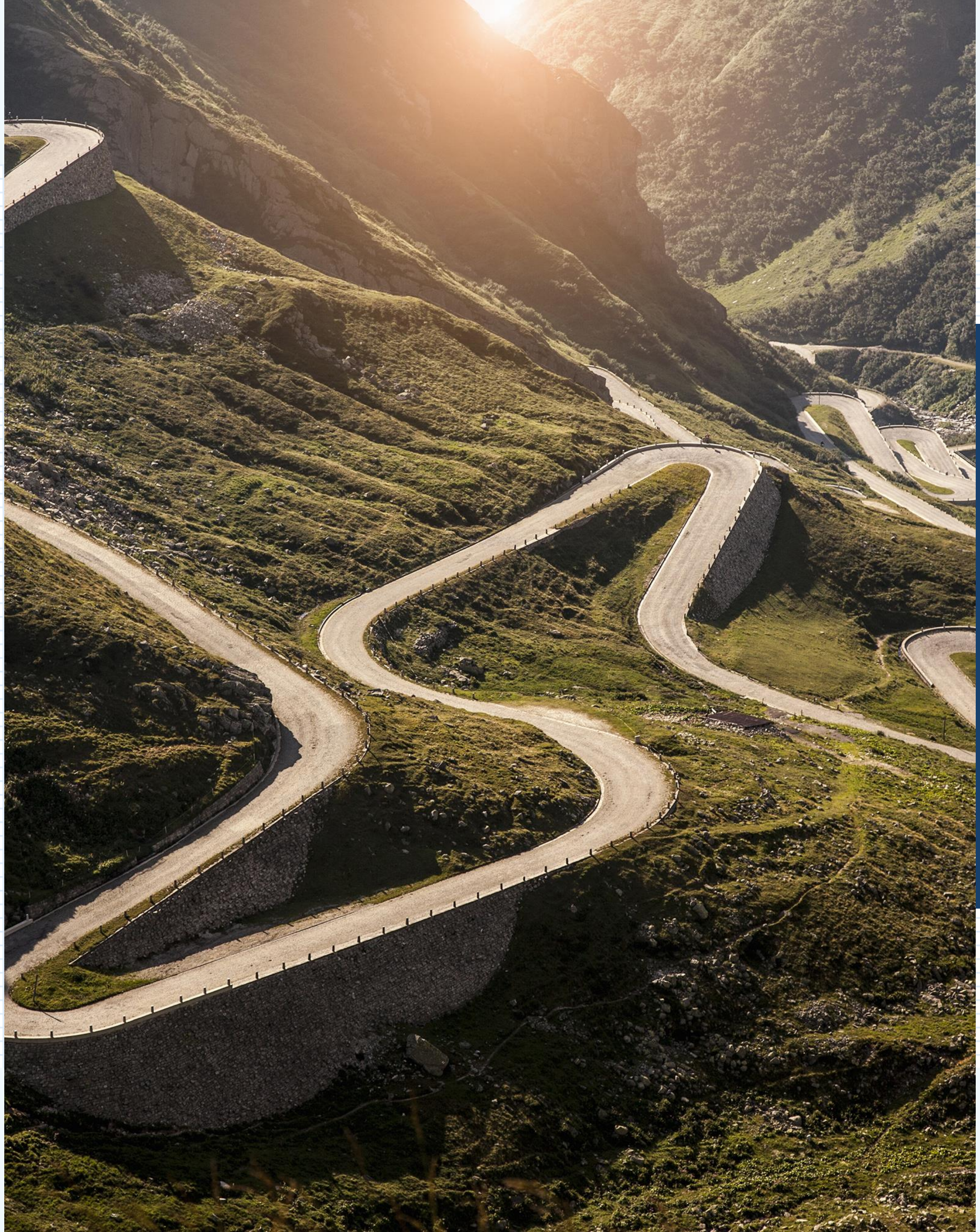


Source: Lombard Odier, Bloomberg, NAVIGATE consolidated

2022 Transcript (Hit 6 of 10)

2022 Top 10 Predictions	Field	Actual
#1 FED would hike federal fund rate at least 0.5%	Macro	V +4.25%
#2 US 10yr treasury yield won’t breach 2.25% in year	Bond	X Year high at 4.24%
#3 Commodity index still rise up	Commodity	V CRB Index +16.8%
#4 S&P 500 Index turn negative return	Equity	V -19.2%
#5 Value stock would outperform Growth stock	Equity	V -7% vs -28%
#6 EM equity would outperform US equity (MXEF vs SPX)	Equity	X -22.3% vs -19.2%
#7 Asia high yield would outperform global high yield	Bond	X -24.7% vs -12.5%
#8 S&P 500 Index 2022 max drawdown would exceed 10%	Volatility	V max drawdown -25.4%
#9 EUR would depreciate versus JPY (Short EURJPY)	Currency	X EURJPY +11.8%
#10 Bitcoin market cap share would down below 40%	Alternatives	V Actual 39.86%

Source: Bloomberg, as of 2022/12/18

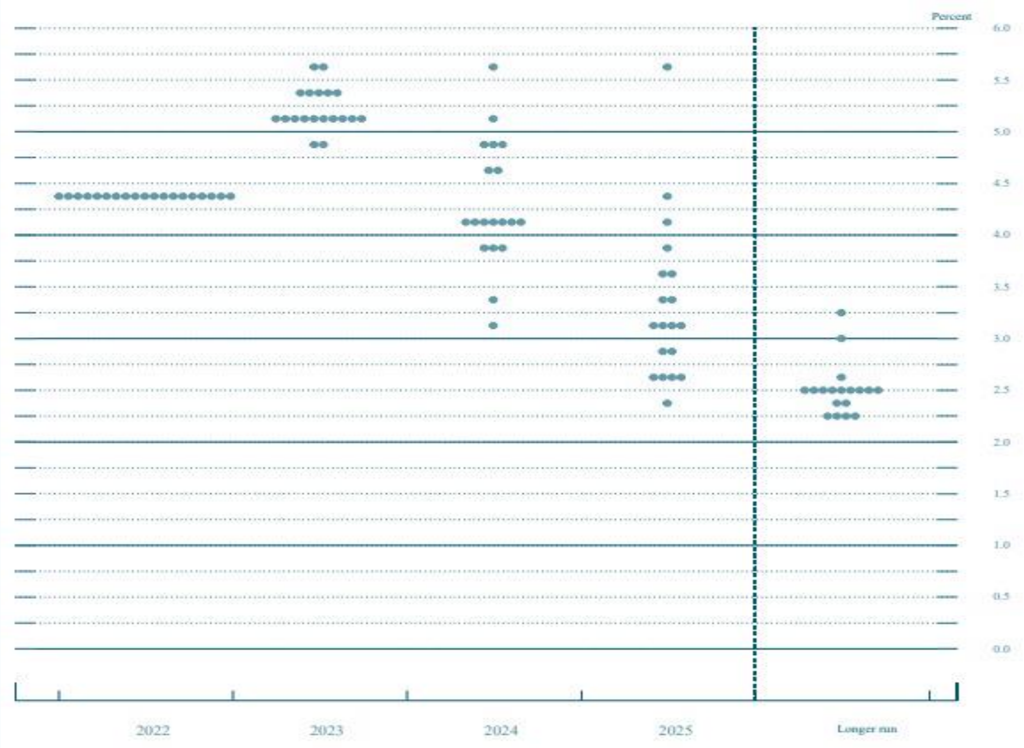


What do we know for sure

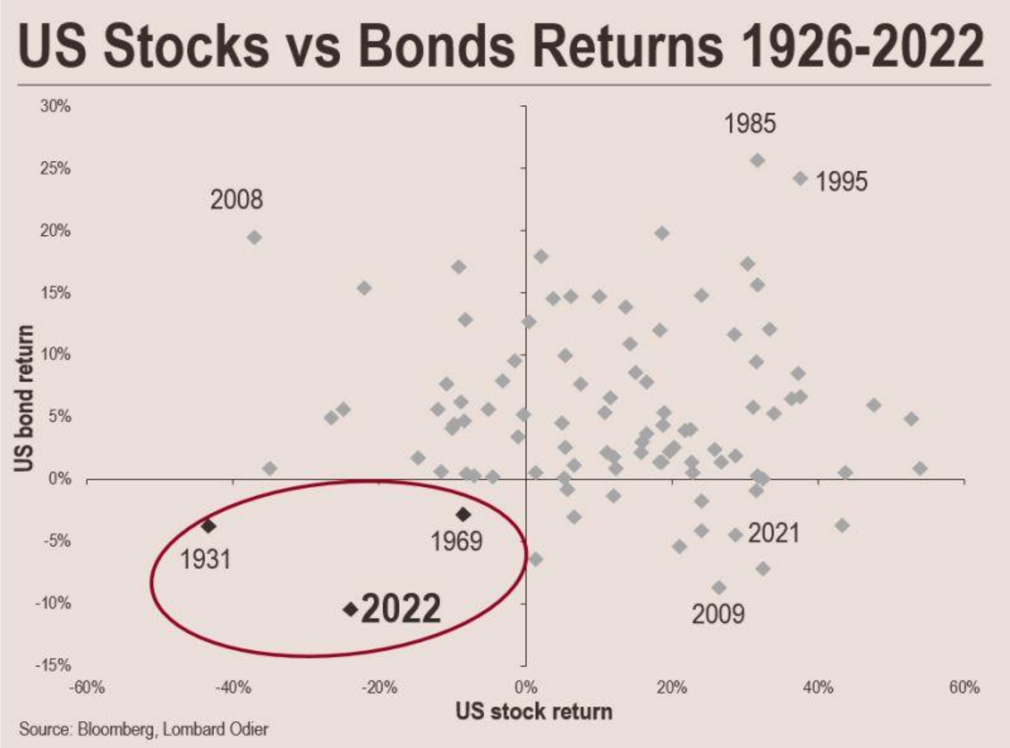
- Don’t know the terminate rate
- Don’t know how high unemployment rate
- Don’t know if recession or not
- We know nothing, actually

The only sure thing is we're almost there

The last time will be in 2023



Can't be worsen than 2022, at least



Source: Federal Reserve, Lombard Odier

2023 Top 10 Predictions

- From off-market to in-the-market
- No matter how bumping the sea, keep rolling
- May the beta be with you

Prediction #1 FED would raise fed fund rate at least 0.75%

- CPI falling gradually, however, would be still in 5%-6% high range in 2023Q1
- Labor number is resilient and unemployment rate may only higher than 4% after 2023Q1
- FOMC members assess 2-5 times 0.25% fed fund rate hike by 2023-end, the median expect 3 times, total 0.75%
- The path is hard to say, Feb 0.5%, Mar 0.25%, or 0.25% each from first 3 meetings
- Should aware the street expect 2-3 times 0.25%, and the market implied 2 times 0.25% by 2023May. Any consensus change would cause volatility.

Prediction #1 FED would raise fed fund rate at least 0.75%

Absolute level, CPI still high in 2023Q1

2023 CPI %	Q1	Q2	Q3	Q4
Barclays	5.7	3.7	2.9	2.4
BNP Paribas	6.3	4.5	3.8	3.1
Credit Suisse	6.1	4.2	3.5	3.0
Deutsche Bank	6.5	4.7	4.4	4.0
Goldman Sachs	5.7	3.9	3.0	3.2
JP Morgan	5.9	4.1	3.4	3.0
Morgan Stanley	5.5	3.5	2.4	1.9
Wells Fargo	5.7	3.8	3.0	2.7
Full Survey Median(48)	6.1	4.4	3.7	3.1

Labor market worsen modestly

2023 unemployment %	Q1	Q2	Q3	Q4
Barclays	4.0	4.4	4.7	4.9
BNP Paribas	4.1	4.5	5.0	5.5
Credit Suisse	3.6	3.6	3.7	3.7
Deutsche Bank	3.7	4.2	5.0	5.6
Goldman Sachs	3.7	3.8	4.0	4.1
JP Morgan	3.7	3.8	4.0	4.3
Morgan Stanley	4.0	4.1	4.2	4.3
Wells Fargo	3.9	4.0	4.4	4.9
Full Survey Median(49)	4.0	4.2	4.4	4.5

Source: Bloomberg survey, NAVIGATE consolidated

Prediction #2 FED would cut rate at least once

- It's really a tough call since FED insist would keep the rate till meet CPI target
- The street consensus didn't expect deep recession, only mild recession or no recession.
- How to define soft landing? And how the market react?
- We should get more clear economics picture and the terminal rate around Q2-Q3, leave the room for FED to revisit monetary policy
- When CPI back to 3% and the unemployment rate approach to 5%, should have chance to be dovish

Prediction #2 FED would cut rate at least once

On the edge of recession

GDP %	2022	2023	2024
World	3.0	2.2	2.9
US	1.8	0.4	1.4
Europe	3.2	-0.1	1.4
Japan	1.4	1.3	1.0
EM	3.0	4.0	4.4
CPI %			
World	7.3	5.1	3.4
US	8.1	4.3	2.6
EM	6.3	5.7	4.2

Probably in winter

Fed Fund Rate %	Q1	Q2	Q3	Q4
Barclays	5.125	5.125	5.125	4.625
BNP Paribas	5.125	5.125	5.125	5.125
Credit Suisse	5.375	5.375	5.375	4.875
Deutsche Bank	4.875	4.875	4.875	3.875
Goldman Sachs	4.875	5.125	5.125	5.125
JP Morgan	4.875	4.875	4.875	4.875
Morgan Stanley	4.625	4.625	4.625	4.375
Wells Fargo	5.125	5.125	5.125	5.125
Full Survey Median(64)	4.875	4.875	4.875	4.75
Market implied rate*	4.787	4.883	4.675	4.352

Source: Bloomberg survey, NAVIGATE consolidated , *as of 2022/12/16

Prediction #3 SPX max drawdown would exceed 13%

- The macro would be getting better or getting worsen through 2023?
- Media all talk about the storm is coming soon. However, street mostly expect the recession risk would be in 2023H2
- Don't know about the path, only could expect the volatility
- With 17 times 0.25% rate hike in 2022, SPX up and down 6 times over 10%. The volatility inertia should remain, but probably less volatile than 2022
- Would be excellent if miss this prediction

Prediction #3 SPX max drawdown would exceed 13%

SPX up and down 6 times in 2022

Start Date	End Date	Session Return	Length
Jan/3	Mar/8	-13%	2 months
Mar/8	Mar/30	+10%	1 month
Mar/30	Jun/16	-20%	2.5 months
Jun/16	Aug/16	+17%	2 months
Aug/16	Sep/30	-17%	1.5 months
Sep/30	Nov/30	+14%	2 months

Diverge economics path forecast

2023 GDP (saar) %	Q1	Q2	Q3	Q4
Barclays	0.0	-0.5	-1.0	-0.5
Deutsche Bank	1.2	0.2	-3.2	-0.4
Goldman Sachs	0.8	1.0	1.3	1.3
JP Morgan	1.0	0.8	0.5	-0.5
UBS	0.8	-0.9	-2.0	-1.6
Wells Fargo	0.6	0.0	-3.1	-2.9
KPMG	-3.7	-1.2	0.5	1.0
Moody’s	0.1	0.4	1.9	2.0
Visa	-0.3	-1.0	0.5	1.4
Full Survey Median(53)	0.0	-0.1	0.6	1.0

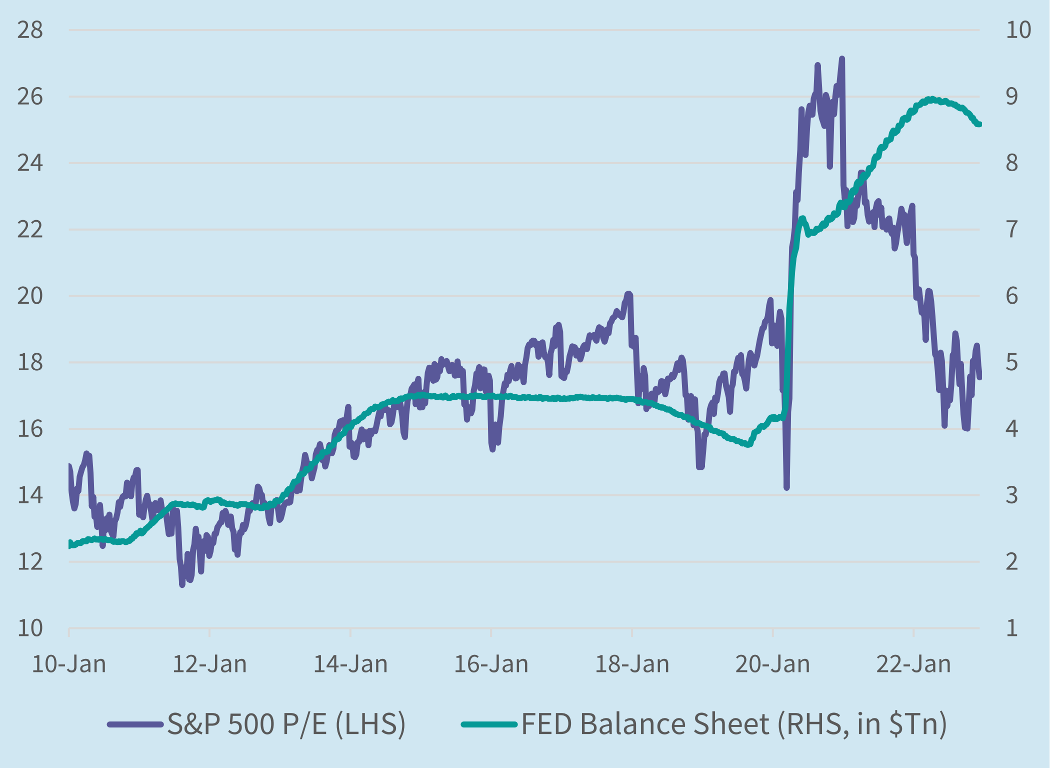
Source: Bloomberg, NAVIGATE consolidated

Prediction #4 SPX would generate positive return

- The multi-years central bank balance sheet expansion certain level of money illusion and boost multi-years bull market
- Low risk-free rate, too much money, equity valuation is reasonably benefited
- FED is just on the initial way to pull back the money. Don't see any chance to get to back the level of pre-COVID
- Valuation and abundant money is good cushion for market
- And the last stand, we always could expect FED put

Prediction #4 SPX would generate positive return

Reasonable P/E level in the illusion



In FED put, we trust

Year	Max Drawdown	Year Return	Remark
2000	-17%	-9%	Tech Bubble
2001	-29%	-12%	Recession
2002	-33%	-22%	Enron Fraud
2003	-14%	**26%**	FED cut rate to lowest
2008	-48%	-33%	GFC
2009	-27%	**27%**	Recession End/QE
2010	-16%	**15%**	QE2
2011	-19%	**2%**	EU Debt Crisis
2018	-19%	-4%	Trade War
2020	-34%	**18%**	COVID/FED Cut/QE
2022	-25%	-19%*	Inflation/Hawkish

Source: Bloomberg, NAVIGATE consolidated, *as of 2022/12/16

Prediction #5 US 10yr yield would break 4.25% in year

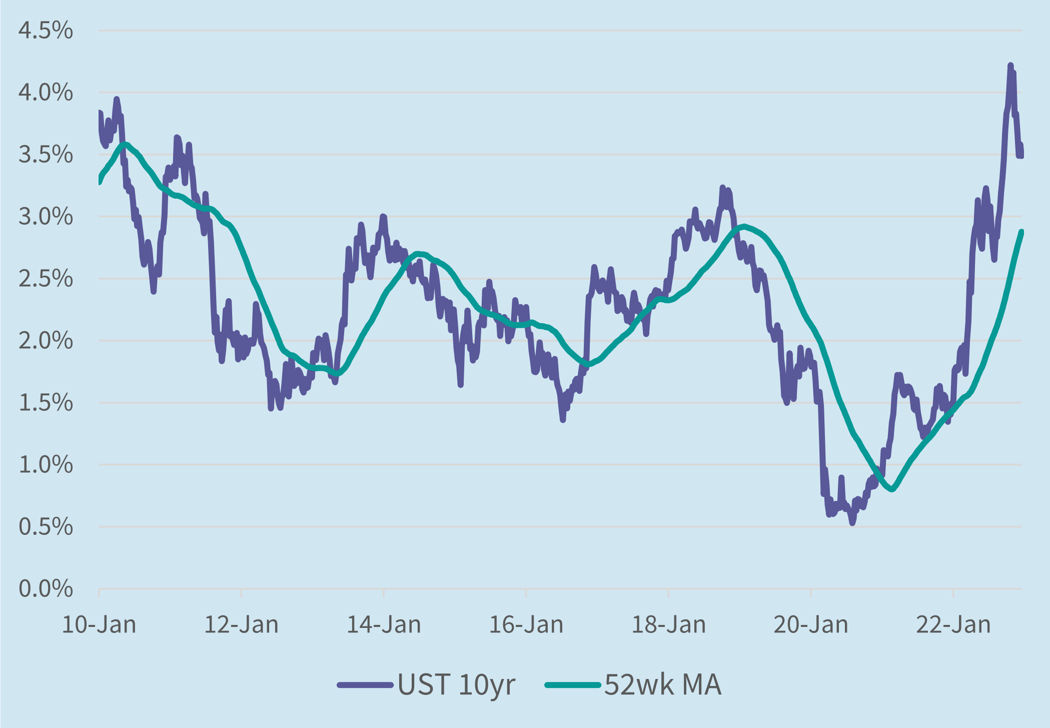
- Supposed we expect the last 2 times 0.25% hike by 2023Mar, and FED fund rate would be 4.75%-5% then
- Reference for the last 4 cycle 0.5% to pivot, US 10yr yield all higher than FED fund rate during the last mile period (2month to 6 months) averagely
- FED fund rate is 4.25%-4.5% now, even though market expect recession next year, US 10yr yield is too low now. Especially we have not done yet.
- May not rise 200bp like 2022 nightmare, but US 10yr break through 2022 level high is possible

Prediction #5 US 10yr yield would break 4.25% in year

UST 10 yr/Fed Fund Rate Spread

Year	Length*	Fed Fund Rate	Average	High	Low
1994	3months	5.5%-6.0%	223bp	251bp	150bp
2000	2months	6.0%-6.5%	12bp	51bp	-15bp
2006	3months	4.75%-5.25%	15bp	35bp	-11bp
2019	6months	2.0%-2.5%	85bp	106bp	29bp
*the period from the first time 0.5% to cycle pivot to last hike ** Said we only left 2 times hike total 0.5% before 2023Mar, but now the 10 yr/Fed fund rate spread is -100bp					

Technically, still in upward trend



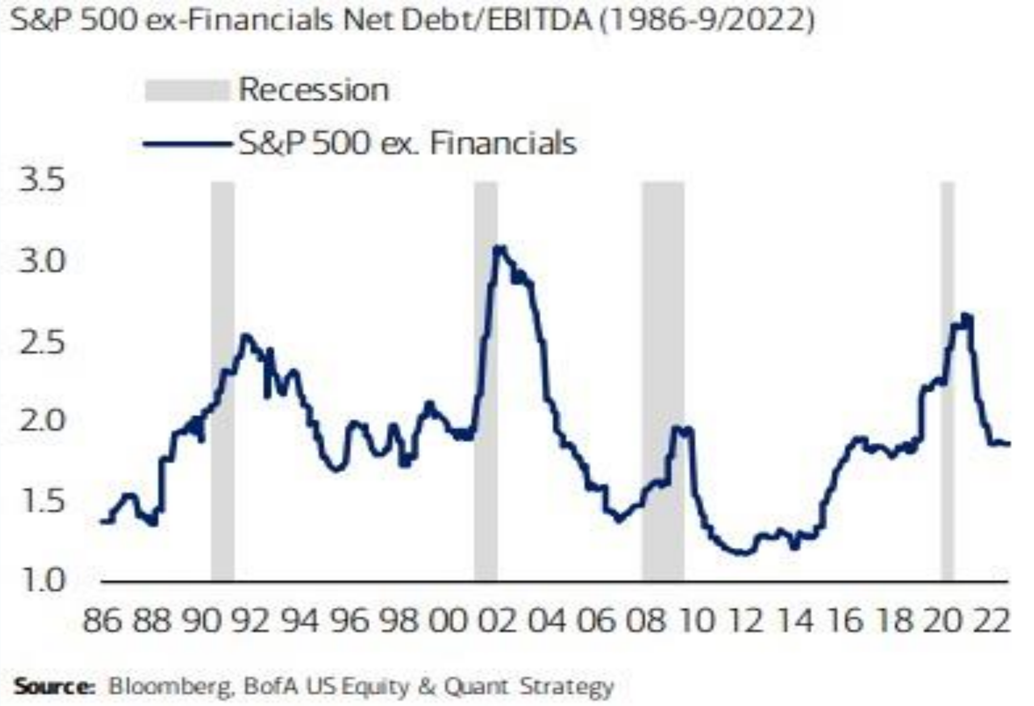
Source: Bloomberg, NAVIGATE consolidated, as of 2022/12/16

Prediction #6 HY and EMD both perform 5% above

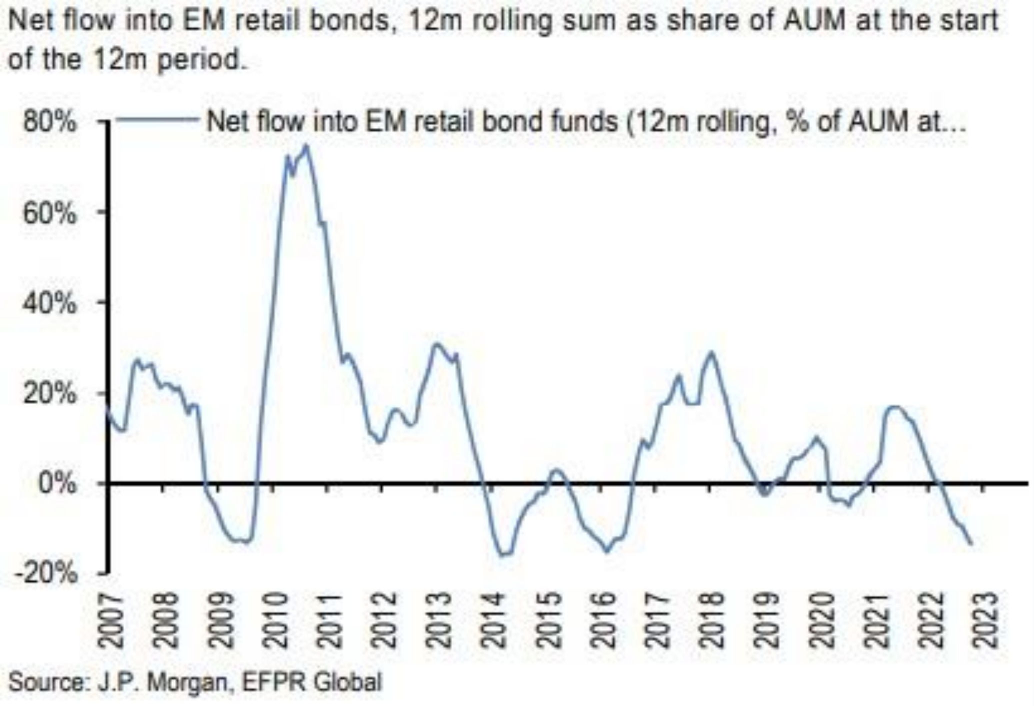
- Credit market has suffered severely in 2022 due to rising rate and recession concern, things would get better in 2023
- For HY, need to consider the risk-free rate, expected default rate (which should combine macro and corporate balance sheet), net issuance, fund flow and yield income in together
- For EMD, need to consider the risk-free rate, EM fundamental, credit spread change, net issuance, fund flow and yield income in together
- In general, after such bad year, credit market tend to rebound if not deep recession scenario

Prediction #6 HY and EMD both perform 5% above

Corporate with healthy leverage



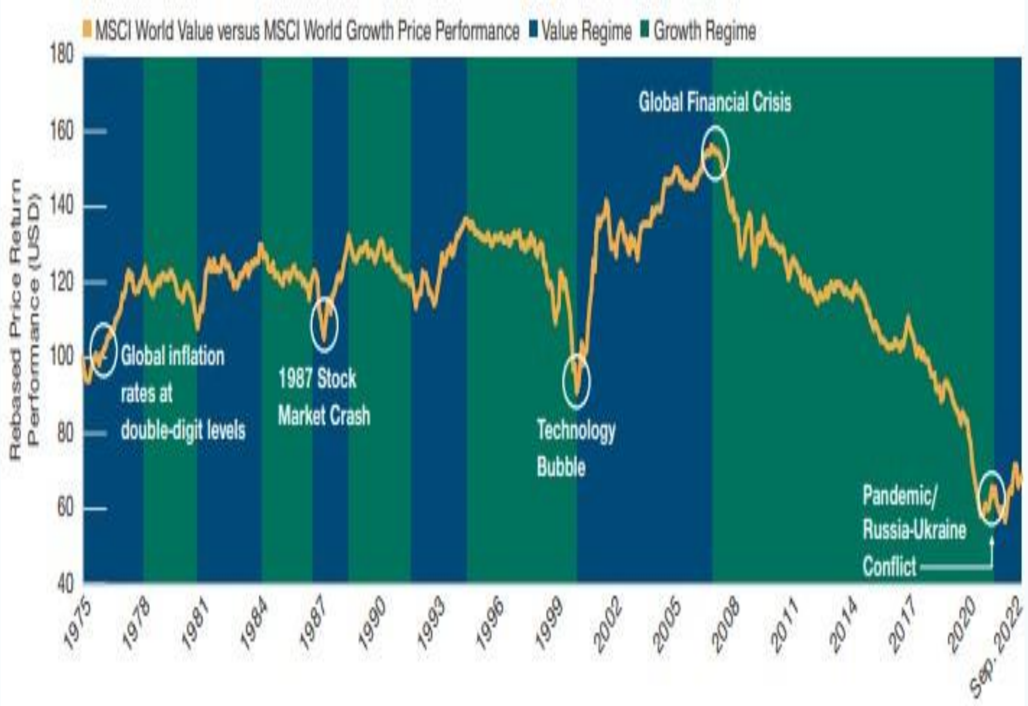
EMD rolling outflow bring new chance



Source: Bloomberg, BofA, JP Morgan, EFPR

Prediction #7 Value stock would outperform Growth stock

Still have long way could go



Rethink about value of value stock

Source: T.Rowe Price

Prediction #8 MSCI EM would outperform MSCI World

All about US vs China

If only consider earning growth

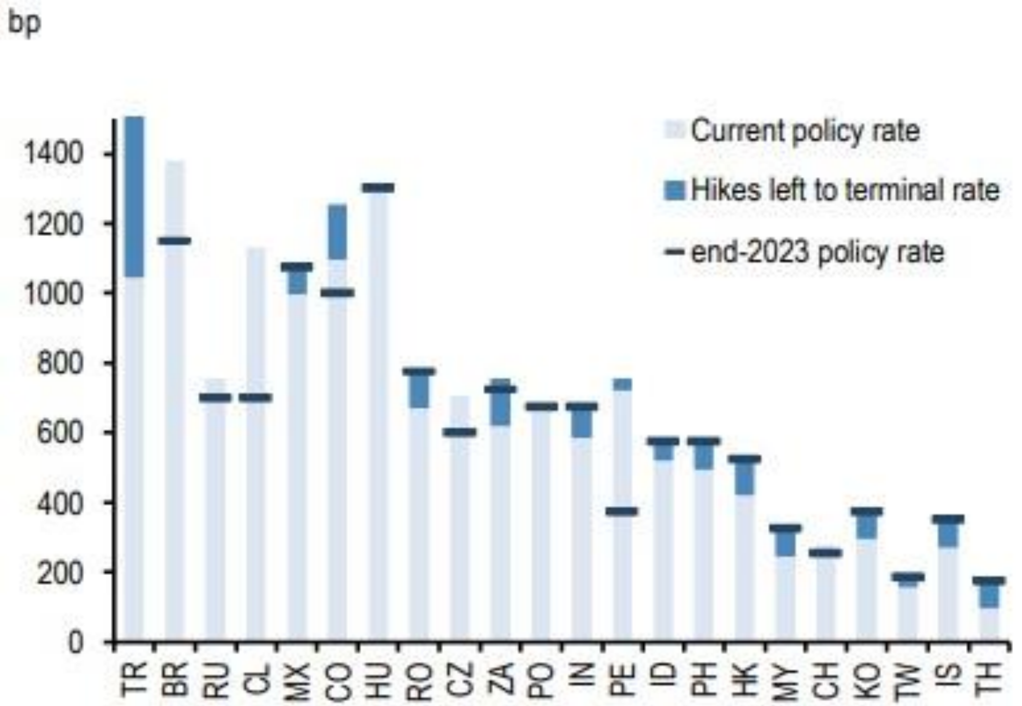
Source: Goldman Sachs

Prediction #9 EM currency would generate positive return

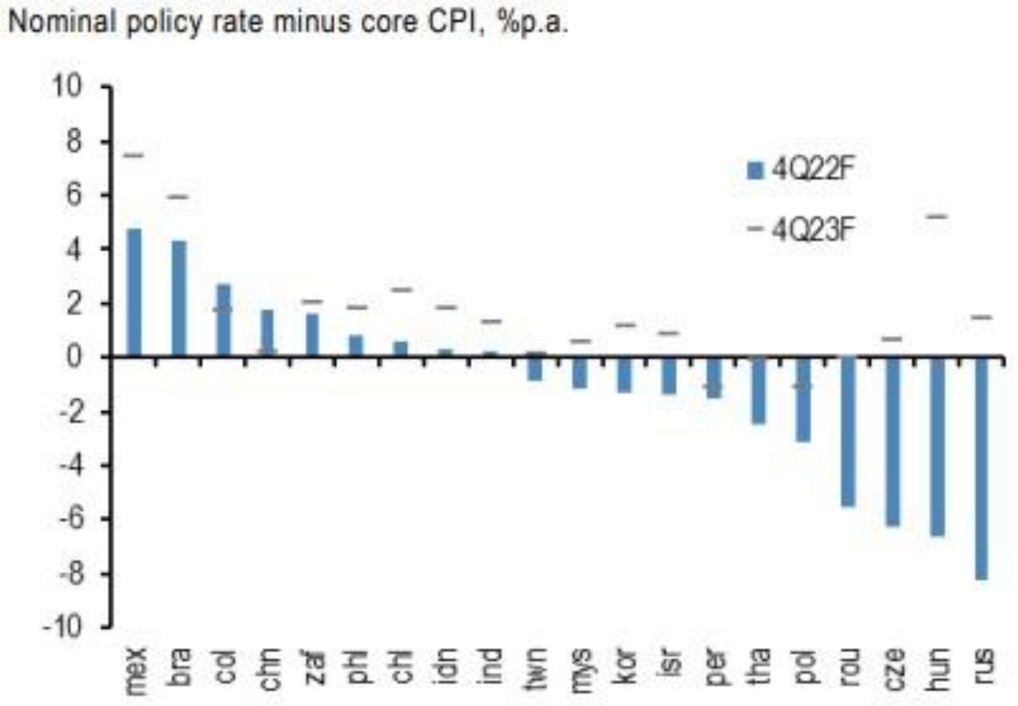
- EMFX would basically perform under low volatility, low inflation and weak dollar environment.
- For absolute level, headwind are still there, but relatively improved
- Most EM economics are close to end rate rising cycle and real rate would turn positive in 2023
- When market volatility down with FED pivot, yield seeking would benefit EMFX

Prediction #9 EM currency would generate positive return

EM Hiking Cycles Close to End



EM Real Rate Turn more Positive



Source: JP Morgan

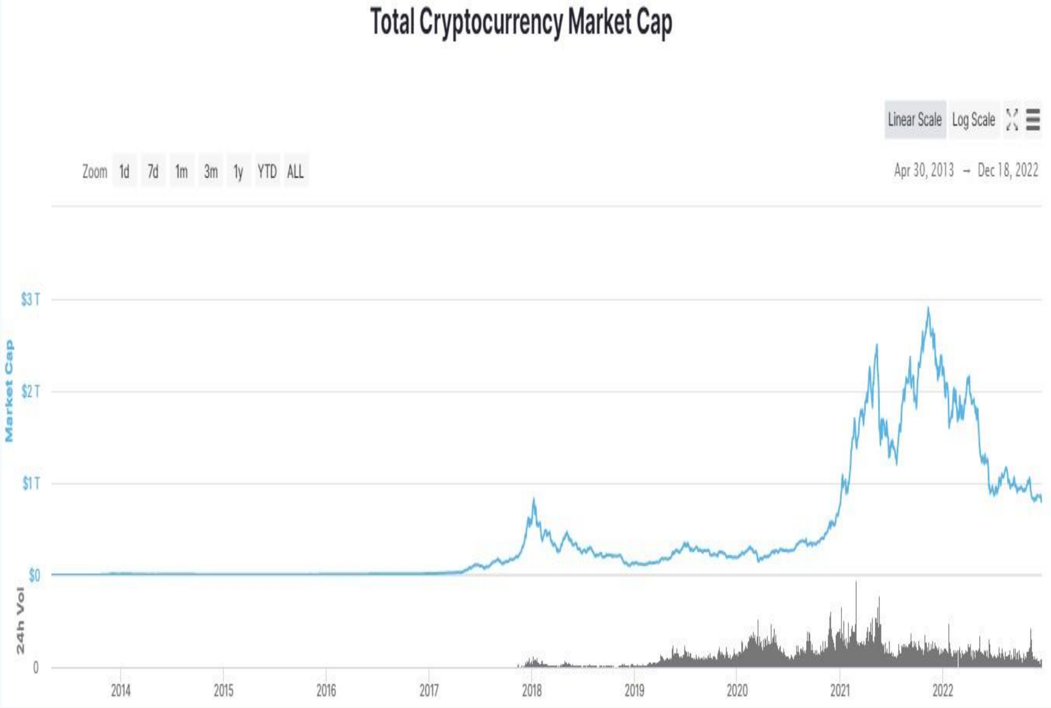
Prediction #10 Crypto Market Cap bellow $1Tn by year end

- As kind of thematic stock sector, the market cap down 70% from record high(2022Nov) is not so surprising
- We could easily call it Ponzi scheme when something melt down, Luna, FTX etc.
- There is no perfect economical model. Liquidity is all about management and client trust. How to compromise decentralize and supervise to build up utopia
- Crypto world would still develop, cycles are always good for forging eternal things. However, might take a break for a while after tragic 2022

Prediction #10 Crypto Market Cap bellow $1Tn by year end

For dust you are and to dust you will

Crypto from $3Tn high to bellow $1Tn



Source: coinmarketcap.com, as of 2022/12/18

Summary

2023 Top 10 Predictions	Field
#1 FED would raise fed fund rate at least 0.75%	Macro
#2 FED would cut rate at least once	Macro
#3 SPX max drawdown would exceed 13%	Volatility
#4 SPX would generate positive return	Equity
#5 US 10yr yield would break 4.25% in year	Bond
#6 HY and EMD both perform 5% above	Bond
#7 Value stock would outperform Growth stock	Equity
#8 S&P MSCI EM would outperform MSCI World (MXEF vs MXWO)	Equity
#9 EM currency would generate positive return (FXJPEMCI Index)	Currency
#10 Crypto Market Cap bellow $1Tn by year end	Alternatives

Ready to take crazy ride

- Without consensus, complex scenario analysis and overactive market sentiment
- Just take deep breath and enjoy the ride
- After up and down, eventually would back to start

2023 Outlook

Q&A SECTION

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