January 2024

QCAM MONTHLY

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Review & Outlook

QCAM Currency & Money Market Management

Interview with Thomas Suter, CEO
QCAM Currency Asset Management AG

Thomas Suter, how would you sum up the foreign exchange market in 2023?

Geopolitical tensions, high key interest rates and persistent inflation have led to considerable uncertainty in the markets. After the broad dollar rally in 2021/22, there were few stable trends and very different currency developments in 2023. The CHF, for example, has appreciated strongly, while the JPY has fallen. We expect the nervous mood to continue in 2024, also due to the upcoming elections in the US, Germany and other countries. It will therefore remain exciting and challenging. The increased volatility has made the importance of professional currency management clear even to cautious market participants.

What political developments do you expect in the USA?

The outcome of the presidential elections is still uncertain, but the division in politics and society is continuing. I therefore believe that even after the election it will become increasingly difficult to find bipartisan solutions to the major challenges. I am particularly concerned about the budget deficit and national debt. A debt crisis is not immanent, but if things continue as they are, debt sustainability will be called into question in the long term. This is also a problem for the Fed and could limit its ability to act in the long term and make it more difficult to combat inflation.

How do you assess the development of the leading currencies in view of the uncertainty?

If global uncertainty persists, we expect investors to seek protection in both the Swiss franc and the US dollar. Although the US dollar remains overvalued by fundamental standards, it received a boost in 2023 from rising interest rates. That support is likely to fade this year if the Fed starts to cut interest rates. Nevertheless, the US dollar remains the main currency of account in global trade. We forecast a moderate strengthening of the euro if Europe manages a recovery along with the global economy. Finally, we expect that the yen should make a comeback if and when the BoJ starts to normalize monetary policy.

What added value does professional currency management offer in this environment?

Professional, systematic currency management requires comprehensive knowledge of financial, economic and technical analysis, whereby human skills are also of crucial importance. At QCAM Currency Asset Management, we have experienced specialists who offer tailor-made solutions, from passive currency overlay with a focus on risk management to dynamic currency overlay aimed at additionally optimizing returns. The added value is that you as a client receive currency management that meets your specific needs.

How do you see developments in money market management and what added value do you offer investors in this area?

With the rise in interest rates over the past two years, interest and a general willingness to hold a certain investment quota in cash has increased dramatically. This is also reflected in the substantial net inflows in this area. We have been very successful in this area for a long time and have consistently outperformed our competitors for years, not least due to our comprehensive client focus and our 100% best execution approach.

How can investors benefit from QCAM's money market management expertise?

We are currently developing a money market fund with the involvement of seed investors. The launch is planned for the first half of the year. The fund vehicle will enable investors to easily participate in our successful strategy. Investors benefit from more attractive returns compared to other funds, as well as fixed-term deposits.

QCAM stands for "independent, transparent and with integrity". How do customers and partners experience these special features of your company?

QCAM combines modern technologies with many years of experience in currency and asset management. Our strong focus and the integration of new talent into our core team contribute to our continuous development. We focus on personal relationships instead of anonymity and call centers. Clients appreciate the direct access to our experts who are responsible for investment decisions and mandates. Our values - loyalty and humanity - are sacrosanct.

Last but not least, I wish you all a great 2024, both privately and professionally, and look forward to continuing our dialogue with you all.

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QCAM Special

FX BIAS 2023 Review

Bernhard Eschweiler, Senior Advisor
QCAM Currency Asset Management AG

2023 was a difficult year in FX markets with no lasting trends and much volatility. FX BIAS[1] navigated the ups and downs well through October but lost about half of its gains in the USD sell-off in November. Changes in market expectations on the direction of central bank policies created volatility around business cycle trends. Nevertheless, we believe the performance of FX BIAS in 2023 continues to validate the value of business surveys in FX trading.

From trend to volatile range

FX market dynamics were different in 2023 compared with the prior two years but not less challenging. There was no shock similar to the outbreak of the Ukraine war but FX markets lagged clear trends compared to the broad USD rally in 2021 and 2022 (see chart). Indeed, moving in a range of +/- 3.5% the USD changed direction 6 times during 2023. There have been several sources behind the volatile market dynamic including economic data surprises and stress periods like the failures of several mid-sized US banks in March and April.

The main driver, however, were changes in market expectations on the direction of central bank policies, especially from the Fed. At the start of the year, markets were optimistic that the tightening cycle was nearly over. That optimism faded in the spring on the back of more stubborn inflation figures. Hawkish Fed commentary further undermined sentiment in the third quarter boosting bond yields and the USD. In November, however, sentiment switched rapidly to risk-on on the back of a better-than-expected US inflation report for October and more dovish Fed commentary and the USD reversed all prior gains.

A good run through October

FX BIAS started the year modestly short USD (see chart again). The short USD position increased further at the time of the US bank failures in March and April and then shifted to neutral in May and June. In July, the FX BIAS position changed to long USD, which it maintained at different levels through the end of the year. FX BIAS navigated the market swings well through October thanks to the gradual shift from short to long USD. Over the first 10 months of the year, the FX BIAS USD certificate returned 6.6% with a volatility of just 3.7% implying a sharp ratio 1.8.

Performance was also strong across most single currencies with the highest returns from the positioning in the SEK (+9.8%), the EUR (+9.3%), the AUD (+8.3%) and the CHF (+8.2%). The main disappointment was the JPY (-3.2%). The momentum of Japanese business surveys was stronger than that of US business surveys most of the time but the long JPY position underperformed thanks to the BoJ's reluctance to normalize monetary policy. In our view, the poor performance of the JPY position is due to the special circumstances of the Japanese policy transition and not yet a sign that the business sentiment approach is generally not working for the JPY.

1 For more detail on FX BIAS and its evolution see: Introducing FX BIAS, QCAM Monthly December 2020; One year of FX BIAS, QCAM Monthly December 2021; Expanding FX BIAS, QCAM Monthly August 2022; FX BIAS 2022 Review, QCAM Monthly January 2023.

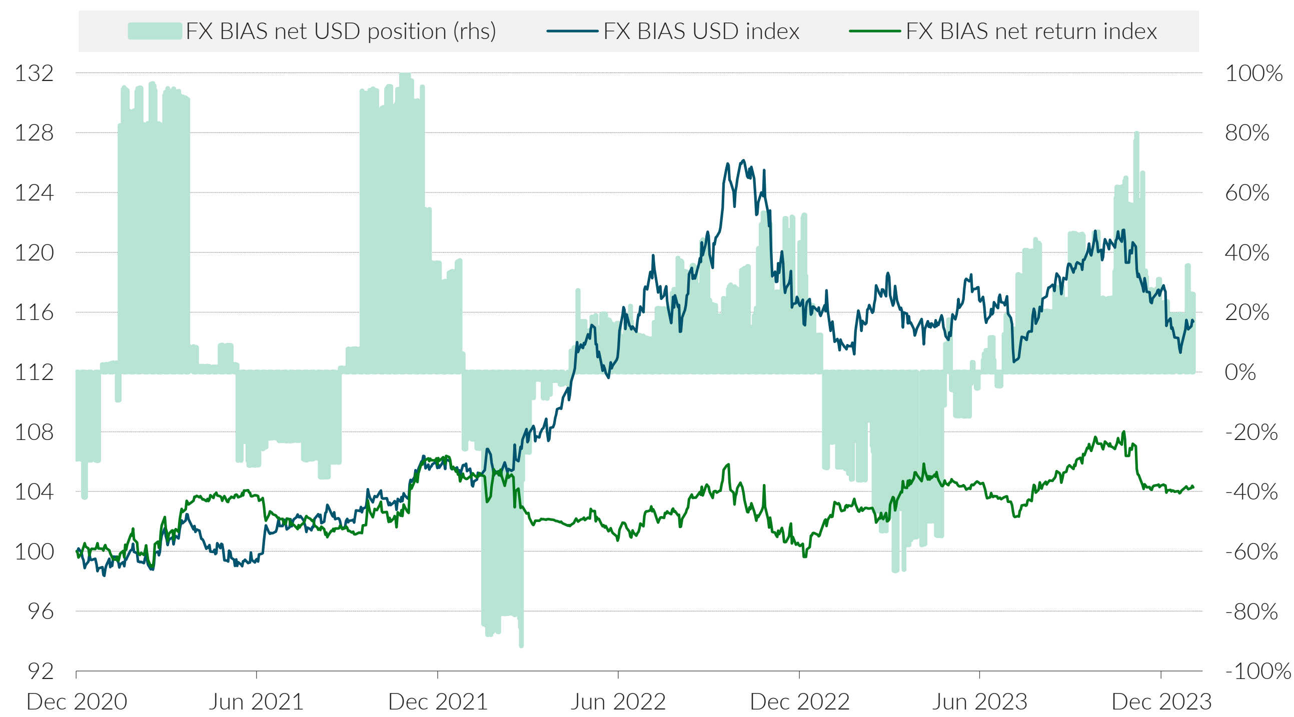
November setback
The sudden shift from risk-off to risk-on in early November and the USD selloff was painful for the long USD position of FX BIAS. The FX BIAS USD certificate lost 3.3% in November and triggered the 3% stop-loss. In response, the risk management committee decided to reduce the leverage ratio temporarily from 1.5 to 0.5. The year-end setback is similar to the end of 2022, when the so-called "Fed pivot" also triggered a sudden USD sell-off while FX BIAS was still long USD. In hindsight, the market's "Fed pivot" euphoria proved premature, which may happen now again.

Most single currency positions produced negative returns over the last two months of the year. Worst performer was the short SEK position (-12.3%). After holding up well for most of the year, Japanese business surveys lost momentum in the last quarter switching the position to short JPY just before the JPY started to rally. Only the AUD and the NZD positions managed to stay flat as they were on balance neutral.

Overall, the FX BIAS USD certificate returned 2.8% in 2023. In terms of single currency positions, the best performer was the AUD (+8.0%) followed by the CHF (+5.4%) and the EUR (+4.2%) and the worst performer was the JPY (-8.1%) followed by the GBP (-6.0%).

Back to full leverage
The risk committee decided at the start of January to raise the leverage ratio back to its normal level of 1.5. We are working on the risk management framework to reduce the impact of setbacks as seen last November. We believe that the performance of most individual currency positions validates the value of business surveys as FX trading signals. The main exceptions in 2023 were the JPY and the GBP. In the case of the JPY, we are optimistic that disruptions caused by the policy transition will gradually fade. More challenging is the GBP, which seems to respond more to swings in risk sentiment than to business cycle indicators.

QCAM FX BIAS net USD position and return versus USD index since launch



Source : QCAM; The returns refer to the USD based FX BIAS certificate since its launch on December 9th 2020 and are net of costs and fees.

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QCAM Insight

An odd couple

Bernhard Eschweiler, Senior Advisor
QCAM Currency Asset Management AG

The USD sell-off has faded at the turn of the year. Soft-landing is favored by the market but that is priced in and uncertainties remain large. As a result, we expect range-trading for G10 currencies in the near-term. Besides the main direction of FX markets in 2024, an interesting question is whether the high correlation between GBP and CHF will persist.

The USD continued to weaken in December with the DXY down another 2% by the end of the month, but the risk-on rally in asset markets and the USD sell-off have faded at the start of the year. The "soft-landing" scenario and the hope that the Fed will be the first to cut interest rates remain favored by the market. However, that is priced into fixed-income, equity as well as FX markets. Moreover, the balance of US data (notably the latest employment report) as well as the minutes of the December FOMC meeting make a Fed rate cut in the first quarter highly unlikely.

While "soft-landing" is currently in the lead, uncertainty over the final outcome remains high with recession as well as upside inflation surprises both remaining significant risks. As a result, we expect range trading in the near-term, with data surprises likely to move markets in either direction. Political uncertainty is also a wild card that could move markets. An underappreciated risk, in our view, is the election in Taiwan on January 13th. A strong pro-independence outcome could trigger hostile reactions by China. Against that background, we have kept our Macro positions at neutral except for the long JPY position. Business Sentiment positions in FX BIAS have also consolidated with only the EUR and the GBP still short versus the USD, while the balance of Technical positions is modestly short USD.

The GBPCHF puzzle

Even more uncertain besides the general direction of the FX market in 2024 is the performance of individual currencies. A surprise at least to us was the strong showing of both the CHF and the GBP in 2023. The CHF performed best among G10 currencies versus the USD (+9.9%) and the GBP came in second (+6.0%, see chart). In 2022, the picture was quite different, with the CHF only slightly behind the USD (-1.0%) but the GBP among the G10 underperformers (-10.5%). The correlation between CHF and GBP reached 70% in 2023, a level last seen in 2013 and well above the 10-year average of 40%.

The CHF and the GBP are widely viewed as opposites. The CHF is seen as the premier safe haven with strong economic fundamentals and no significant idiosyncratic risks. The GBP is basically the opposite among G10 currencies. It is a high-beta (high-yield) currency with weaker and volatile economic fundamentals and high idiosyncratic event risks that go beyond political uncertainties (e.g. BREXIT). Not surprisingly, FX market players like to trade CHF and GBP against each other. Such arbitrage attempts were largely frustrated in 2023.

No fundamental conversion ...

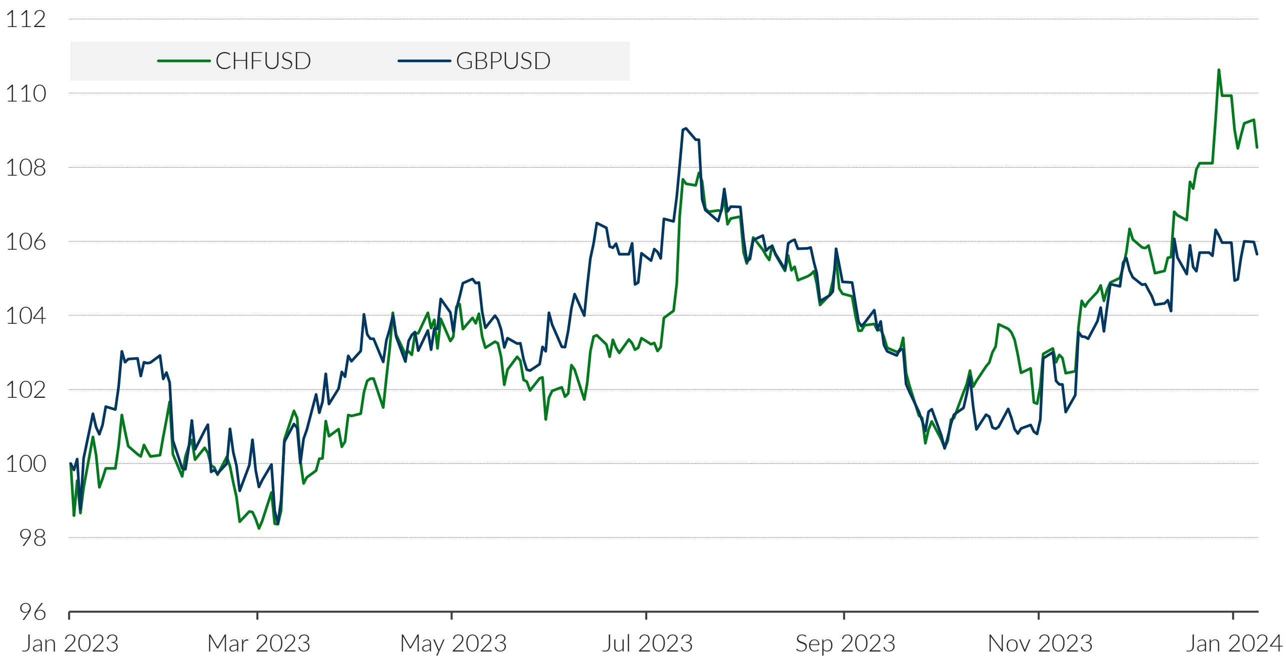
There has been no visible conversion in economic fundamentals that could explain the high co-movement between CHF and GBP. Both economies had sluggish growth but UK business surveys flashed red through-out the year while Swiss business surveys were more balanced. The UK struggled for most of the year with inflation close to double digits yet inflation in Switzerland only topped 3% for a short while and was already below 2% by the middle of last year. The contrast in terms of external and fiscal balances also remained big. The UK continued to run twin deficits with government debt above 100% of GDP, while Switzerland boasted a large current account surplus, a balanced fiscal budget and government debt below 40% of GDP. Moreover, the UK has not suddenly become a posterchild of political stability or otherwise a typical safe-haven currency.

... but favorable external conditions for both

Instead, the strong performance of both CHF and GBP was probably the result of particular external market conditions and behavior. The GBP clearly benefitted from the overall decline in risk aversion. Despite some volatility, the VIX fell from above 20 at the start of last year near to its historical lows at the end of last year. Interestingly, the risk-on rally did not boost the UK stock market, which was a clear underperformer in 2023. Instead, the flows seemed primarily attracted by high UK interest rates. The GBP performance was probably also helped by the oversold speculative positions at the start of the year and the GBP undervaluation (see also page 9).

It seems odd that the CHF also rallied in an environment of falling risk aversion but the link does not run both ways. The CHF outperforms in times of high risk aversion. In times of low risk aversion, however, the performance of the CHF depends more on the role the CHF plays in investor portfolios. In our view, investor uncertainty remained high last year despite the fall in risk aversion. Thus, the CHF was a hedge similar to gold, which also performed well last year. And importantly, the SNB stayed on the sidelines and allowed the CHF to appreciate. Whether the odd couple of CHF and GBP will continue to outperform in 2024 is uncertain. We like to be on the safe side and favor the CHF.

CHF and GBP index versus USD



Source : Board of Governors of the Federal Reserve System, as of January 9th. 2024

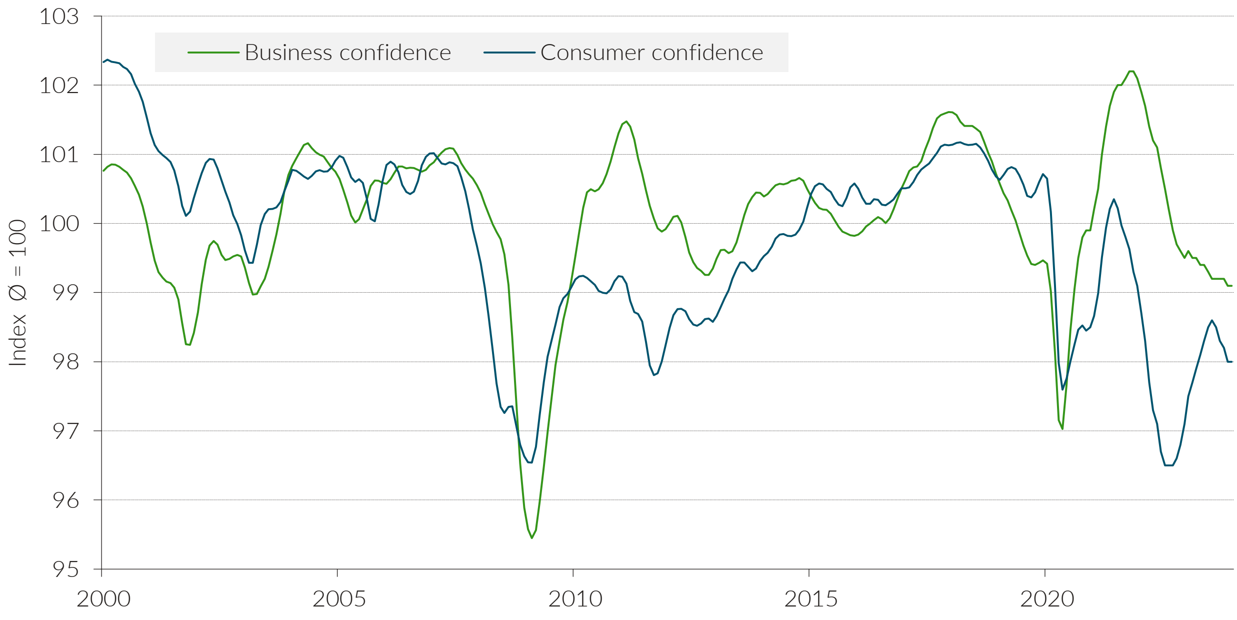
Economy & Interest Rates

Global growth conditions remained sluggish at the end of 2023 with continued US outperformance versus the rest of the world, most notably Europe. The process of disinflation continues with the notable exception of Japan. Going into 2024, "soft-landing" (lower growth and inflation) is the favored scenario of the market for the US as well as most of the rest of the world. However, uncertainty and the risk of a hard-landing remains high, leaving a range of possible monetary policy implications, especially who will cut interest rates first and how much and when will the BoJ finally give in and start raising interest rates.

	Real GDP growth[1]		Unemployment rate[1]		Inflation rate[1]		Current account[2]		Fiscal balance[2]		Public debt[2]	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
Global	2.6	2.2	n.a.	n.a.	4.5	3.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Developed	1.6	1.2	n.a.	n.a.	4.6	2.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
USA	2.5	1.5	3.6	4.3	4.1	2.5	-3.0	-3.0	-6.0	-6.0	123	127
Canada	1.2	1.0	5.5	6.0	4.0	2.5	-0.5	0.0	-0.5	-0.5	106	103
Euro-area	0.5	0.5	6.5	6.5	5.4	2.0	1.0	1.0	-4.0	-3.5	90	90
Sweden	-0.5	0.5	7.5	8.0	6.5	3.0	5.0	5.0	-0.5	-0.5	32	32
Switzerland	1.0	1.0	2.0	2.0	1.9	1.5	8.0	8.0	0.0	0.5	38	37
UK	0.5	0.0	4.0	4.5	7.5	3.5	-4.0	-4.0	-4.5	-4.0	104	106
Japan	2.0	1.0	2.5	2.5	3.5	3.5	3.0	3.0	-7.0	-7.0	255	255
Australia	2.0	2.0	3.7	4.0	5.7	4.0	1.5	2.0	-0.5	-0.5	52	55
Emerging	4.3	4.0	n.a.	n.a.	4.0	4.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China	5.0	5.0	5.0	5.5	0.2	1.0	1.5	1.0	-7.0	-7.0	83	87
India	6.0	5.5	n.a.	n.a.	5.5	5.0	-2.0	-2.0	-9.0	-9.0	82	82
Russia	3.0	1.5	3.5	3.5	6.0	7.0	3.5	3.5	-3.5	-3.0	22	22
Brazil	3.0	1.5	9.5	10.0	4.5	4.0	-1.5	-1.5	-7.0	-6.5	88	90

Source: OECD, IMF World Economic Outlook and QCAM estimates [1] In percent annual average [2] In percent of GDP

OECD business and consumer confidence*



Source: OECD and QCAM *The last observations are QCAM estimates based on other surveys

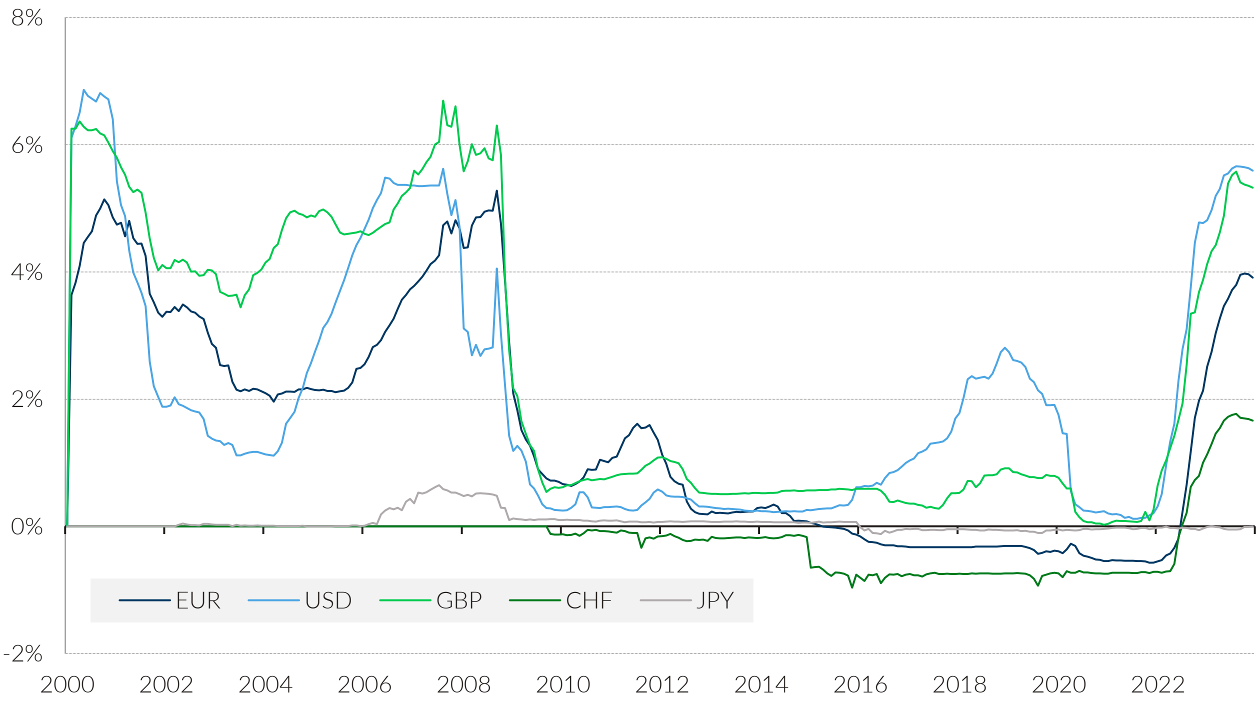
Interest Rates

Interest Rate Level Overview

	Short Term Interest Rate (3month OIS)					Long Term Interest Rate (10year Swap)				
	Current	1M ago	3M ago	12M ago	Ø 3 years	Current	1M ago	3M ago	12M ago	Ø 3 years
USD	5.31%	5.37%	5.41%	4.60%	2.47%	3.75%	4.18%	4.51%	3.83%	2.48%
EUR	3.91%	3.98%	3.95%	2.18%	1.06%	2.49%	2.93%	3.39%	3.08%	1.66%
JPY	-0.01%	-0.01%	-0.05%	-0.04%	-0.03%	0.85%	0.88%	0.94%	0.86%	0.41%
GBP	5.21%	5.23%	5.29%	3.74%	2.24%	3.29%	3.90%	4.36%	3.75%	2.37%
CHF	1.66%	1.69%	1.71%	0.99%	0.25%	1.17%	1.31%	1.80%	1.99%	0.99%
AUD	4.34%	4.37%	4.18%	3.22%	1.87%	4.18%	4.67%	4.75%	4.52%	3.20%
CAD	5.01%	5.01%	5.12%	4.43%	2.42%	3.41%	3.86%	4.50%	3.71%	2.95%
SEK	3.99%	3.99%	4.02%	2.77%	1.52%	2.36%	2.86%	3.45%	3.11%	2.02%
RUB	15.70%	7.75%	7.75%	7.55%	8.90%	9.75%	8.62%	8.62%	10.99%	8.52%
BRL	9.78%	10.17%	10.64%	12.40%	9.54%	10.18%	10.63%	11.44%	12.64%	11.14%
CNY	2.03%	2.38%	2.02%	2.10%	2.15%	2.37%	2.51%	2.56%	2.87%	2.71%
TRY	45.15%	43.45%	35.60%	10.59%	0.00%	38.04%	38.04%	38.04%	38.04%	21.48%
INR	6.79%	6.85%	6.85%	6.46%	5.13%	6.23%	6.54%	6.86%	6.53%	6.30%

Source: QCAM Currency Asset Management, as of January 9th, 2024

3-month Libor



Source: QCAM Currency Asset Management, as of end of December 2023

FX Markets

FX Performance vs. PPP

The USD DXY rally fell 2.0% in December but stabilized around the turn of the year. EM currencies underperformed, up just 0.6% versus the USD in December, thanks to further weakness of the TRY. Overall speculative USD positions moved from neutral to short with the short JPY position shrinking the most. Short-term interest rates stabilized and forwards start to price rate cuts. The cost of forward hedging versus the USD has declined but remains expensive especially for JPY and CHF. Actual FX volatilities increased but implied FX volatilities remained fairly stable close to historical levels. PPP changes continue to converge as inflation moderates but absolute differences remain large although the USD's overvaluation decreased a bit further.

Overview

	Current Exchange Rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	1M	12M	5 years	PPP	Neutral Range	Deviation[3]
EURUSD	1.093	-1.17%	1.65%	1.71%	-5.19%	1.24	1.11 - 1.37	-12%
USDJPY	144.410	2.53%	-0.28%	9.60%	33.32%	98.85	87.63 - 110.07	46%
GBPUSD	1.271	-0.41%	1.32%	4.23%	-0.51%	1.55	1.38 - 1.72	-18%
EURCHF	0.931	0.28%	-1.70%	-5.81%	-17.26%	0.93	0.88 - 0.98	0%
USDCHF	0.852	1.48%	-3.30%	-7.39%	-12.73%	0.80	0.71 - 0.89	6%
GBPCHF	1.083	1.06%	-2.03%	-3.49%	-13.16%	1.05	0.96 - 1.14	3%
CHFJPY	169.567	1.02%	3.13%	18.36%	52.76%	95.72	84.70 - 106.74	77%
AUDUSD	0.669	-2.17%	1.69%	-3.60%	-6.87%	0.77	0.68 - 0.86	-13%
USDCAD	1.339	1.39%	-1.53%	0.16%	1.37%	1.21	1.13 - 1.30	11%
USDSEK	10.256	2.17%	-2.10%	-1.15%	15.52%	8.14	7.21 - 9.07	26%
EURSEK	11.213	0.96%	-0.49%	0.54%	9.51%	8.92	8.37 - 9.46	26%
USDRUB	89.722	0.26%	-2.29%	28.47%	34.43%	65.17	47.58 - 82.77	38%
USDBRL	4.899	0.95%	-0.49%	-6.73%	32.72%	3.81	2.29 - 5.33	29%
USDCNH	7.184	0.88%	-0.03%	6.06%	5.41%	7.18	6.57 - 7.78	0%
USDTRY	29.922	1.26%	3.27%	59.44%	446.25%	15.30	11.97 - 18.62	96%
USDINR	83.116	-0.13%	-0.40%	1.19%	17.76%	82.45	75.73 - 89.16	1%
US_Dollar_Inc	102.523	1.17%	-1.43%	-0.46%	7.67%	86.68	80.92 - 92.45	18%

[1] Performance over the respective period of time, in percent

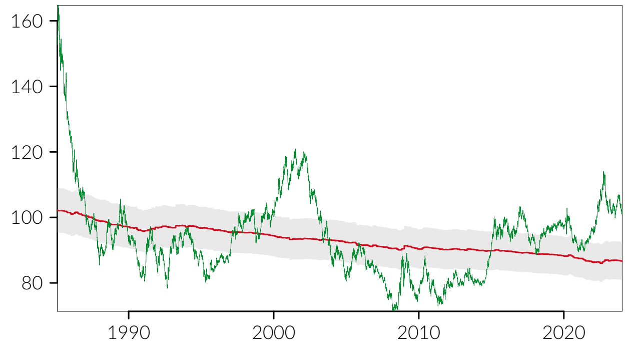
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral range is determined by ± 1 standard deviation of the historical variation around the PPP value.

[3] Deviation of the current spot rate from PPP, in percent.

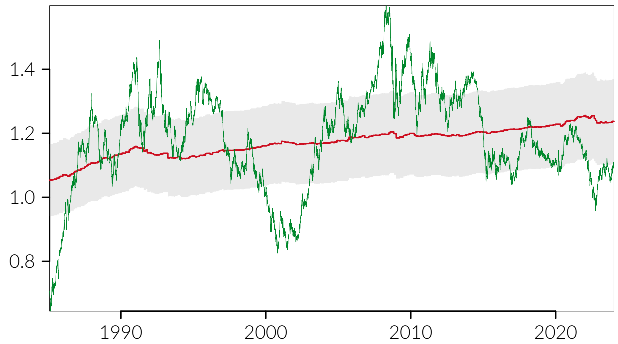
Source: QCAM Currency Asset Management, as of January 9th, 2024

Purchasing Power Parity

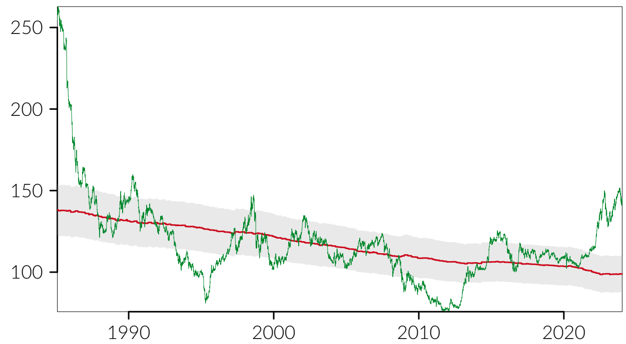
DXY



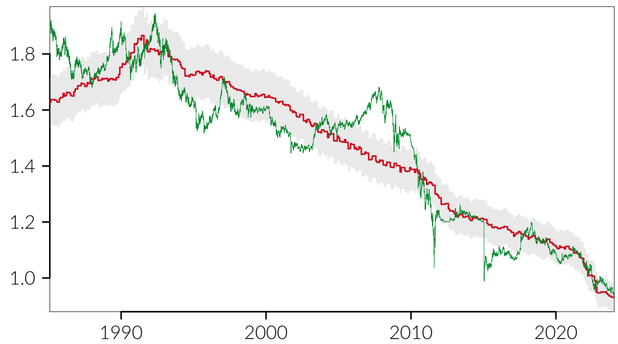
EURUSD



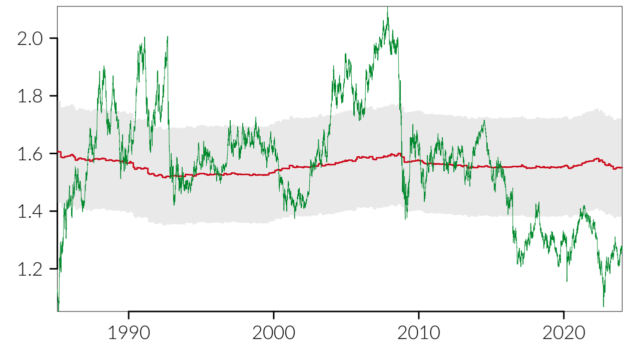
USDJPY



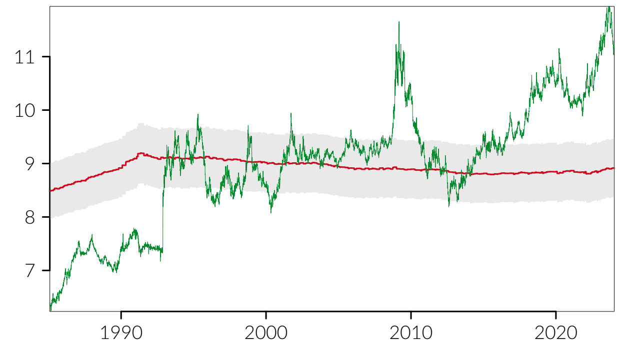
EURCHF



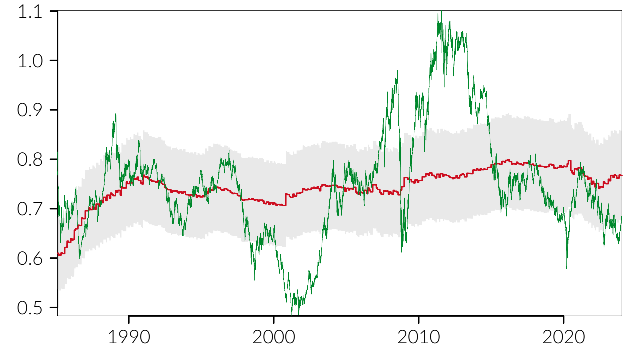
GBPUSD



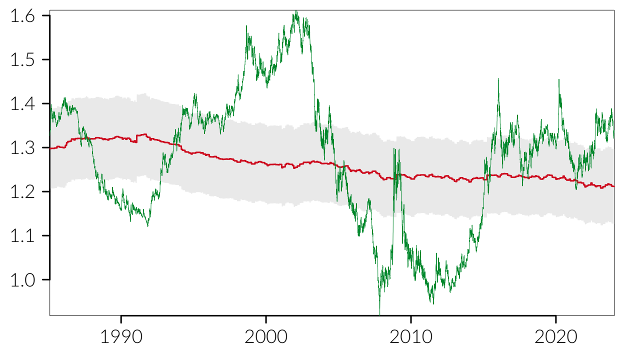
EURSEK



AUDUSD



USDCAD



Source: QCAM Currency Asset Management, as of January 9th, 2024

PPP   Spot   Neutral Range

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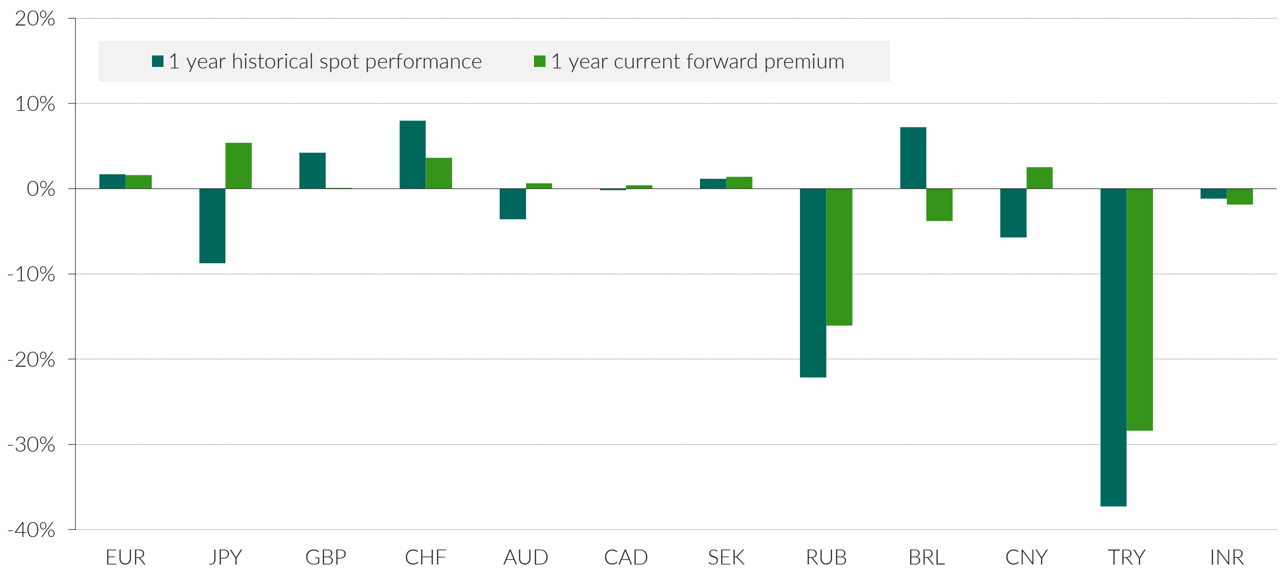
FX Spot vs Forwards

FX Forwards Level and Premium

	Current Exchange Rate	Forward Level			Premium p.a.		
		1M	3M	12M	1M	3M	12M
EURUSD	1.093	1.0948	1.0974	1.1109	1.43%	1.46%	1.57%
USDJPY	144.410	143.6710	142.3723	137.0357	-5.58%	-5.58%	-4.98%
GBPUSD	1.271	1.2713	1.2717	1.2724	0.20%	0.19%	0.10%
EURCHF	0.931	0.9293	0.9258	0.9131	-2.31%	-2.28%	-1.90%
USDCHF	0.852	0.8488	0.8436	0.8219	-3.73%	-3.73%	-3.41%
GBPCHF	1.083	1.0791	1.0728	1.0458	-3.53%	-3.54%	-3.31%
CHFJPY	169.567	169.2782	168.7645	166.7364	-1.86%	-1.87%	-1.63%
AUDUSD	0.669	0.6694	0.6705	0.6728	1.17%	1.09%	0.60%
USDCAD	1.339	1.3385	1.3375	1.3338	-0.48%	-0.48%	-0.39%
USDSEK	10.256	10.2426	10.2192	10.1153	-1.42%	-1.40%	-1.34%
EURSEK	11.213	11.2129	11.2144	11.2372	0.00%	0.05%	0.21%
USDRUB	89.722	91.0533	93.4092	106.8796	16.19%	16.26%	18.81%
USDBRL	4.899	4.9161	4.9498	5.0922	3.74%	4.11%	3.86%
USDCNH	7.184	7.1644	7.1366	7.0065	-2.46%	-2.61%	-2.42%
USDTRY	29.922	30.9792	33.0031	41.8023	38.55%	38.61%	39.05%
USDINR	83.116	83.2113	83.4610	84.6860	1.29%	1.62%	1.85%

Historical Spot Performance and Current Forward Premium vs. the US Dollar



Source: QCAM Currency Asset Management, as of January 9th, 2024

QCAM Currency Asset Management

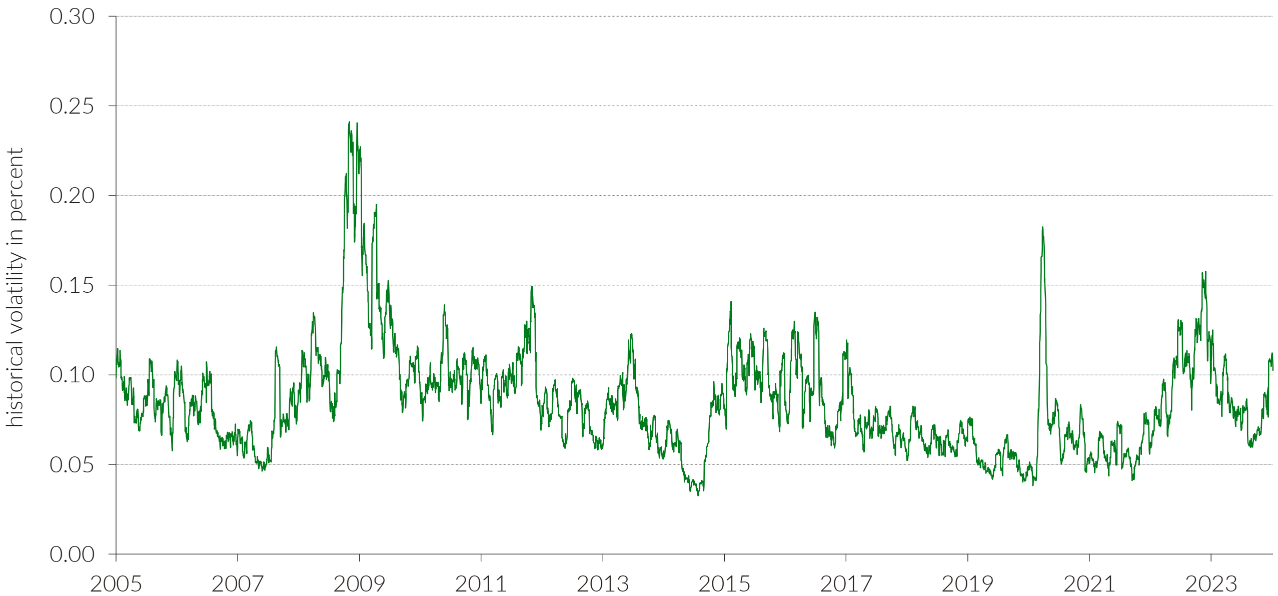
FX Volatility

Historical vs. Implied Volatility

	Current Exchange Rate	Historical Volatility [1]				Implied Volatility [2]			
		Current	1M	12M	Ø 5 years	Current	1M	12M	Ø 5 years
EURUSD	1.093	8.66%	7.93%	10.97%	7.06%	6.50%	6.73%	8.78%	6.92%
USDJPY	144.410	11.60%	9.26%	17.58%	8.05%	9.95%	9.80%	13.00%	8.16%
GBPUSD	1.271	9.41%	8.56%	16.37%	9.12%	7.28%	7.40%	10.85%	9.00%
EURCHF	0.931	5.47%	5.28%	5.22%	4.71%	5.50%	5.63%	5.85%	5.29%
USDCHF	0.852	7.62%	6.57%	11.14%	7.28%	7.13%	7.03%	8.70%	6.91%
GBPCHF	1.083	6.31%	5.60%	11.02%	7.91%	6.38%	6.48%	8.38%	8.18%
CHFJPY	169.567	9.75%	8.87%	14.32%	7.31%	9.58%	9.70%	11.68%	7.65%
AUDUSD	0.669	10.47%	11.22%	16.37%	10.25%	9.75%	9.70%	13.13%	10.01%
USDCAD	1.339	6.02%	6.03%	9.43%	6.75%	5.65%	5.68%	8.05%	6.65%
USDSEK	10.256	12.65%	11.93%	16.03%	10.19%	11.20%	10.88%	13.20%	10.00%
EURSEK	11.213	6.18%	6.55%	7.40%	6.14%	7.45%	7.15%	7.58%	6.42%
USDRUB	89.722	14.05%	14.62%	23.92%	19.99%	28.65%	28.93%	36.66%	23.02%
USDBRL	4.899	10.73%	12.01%	19.06%	15.12%	12.48%	12.80%	19.68%	16.57%
USDCNH	7.184	4.22%	3.91%	9.98%	4.84%	4.78%	4.93%	6.53%	5.42%
USDTRY	29.922	2.41%	2.05%	1.75%	14.98%	13.55%	14.23%	15.88%	21.28%
USDINR	83.116	1.61%	2.01%	5.20%	5.02%	3.10%	3.20%	5.45%	5.87%

[1] Realised 3-month volatility (annualised) [2] Market implied 3-month volatility (annualised)

QCAM Volatility Indicator[3]



[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

Source: QCAM Currency Asset Management, as of January 9th, 2024

FX Analytics

QCAM has developed an analytical framework to take scalable exchange rate positions. The QCAM exchange rate strategy for each currency pair has three principal components:

- **Macro**
- **Business Sentiment**
- **Technical**

The positioning signals from each component are aggregated into an overall positioning score for each currency pair. This score is used for the dynamic exposure management.

The Macro component consists typically of economic growth, balance of payments, fiscal and monetary policy and in some cases commodity fundamentals. The positions are either discretionary or model driven.

The Business Sentiment component is a rule-based framework built on business surveys.

The Technical component consists primarily of the technical analysis of daily exchange rates (trend following and mean reversion). We also consider speculative futures positions and the deviation of exchange rates from purchasing power parity.

The summary table below and the following pages show the QCAM strategy framework and the positioning for the major currency pairs actively covered by QCAM. The tables break each of the three strategies into subcomponents with an indication of the current impact. The charts show the respective exchange rate with past QCAM positions and their scale

Current positioning - January 2024

Several key signal changes have shifted the overall USD position to neutral. All discretionary Macro positions remained unchanged but Business Sentiment changed from short JPY and CHF to neutral versus the USD. On balance, Business Sentiment is still long USD. Technical position changes were mixed but on balance short USD. Overall, the main USD long positions are versus the EUR and the GBP with a small long versus the CHF. The main USD short is versus the JPY with a small short versus the CAD. The EUR is short versus the CHF and close to neutral versus the SEK.

Overview[1]

	Macro	Business Sentiment	Technical	Comment
EURUSD	0	––	–	Technical went from neutral to modestly short EUR and the overall position is half short EUR.
USDJPY	–/–	0	–	The Macro carry model and Technical went long JPY and Business Sentiment went neutral.
EURCHF	0	––	––	EURCHF positions remained unchanged and are overall long CHF, while USDCHF went neutral on Business Sentiment and short CHF on Technical, resulting in a small overall short CHF position.
USDCHF	0	0	+	
GBPUSD	0	––	+	Technical went long GBP reducing the overall short GBP position to a third.
EURSEK	0/0	++	––	All positions flipped except for the discretionary Macro but the overall position remains close to neutral.
USDCAD	0/–	++	––	Technical shifted to long CAD and the overall position is sightly long CAD as well.

[1] The signs relate to the first currency of the exchange rate pair ; ++ or –– mean 100% long or short; */* means split position.

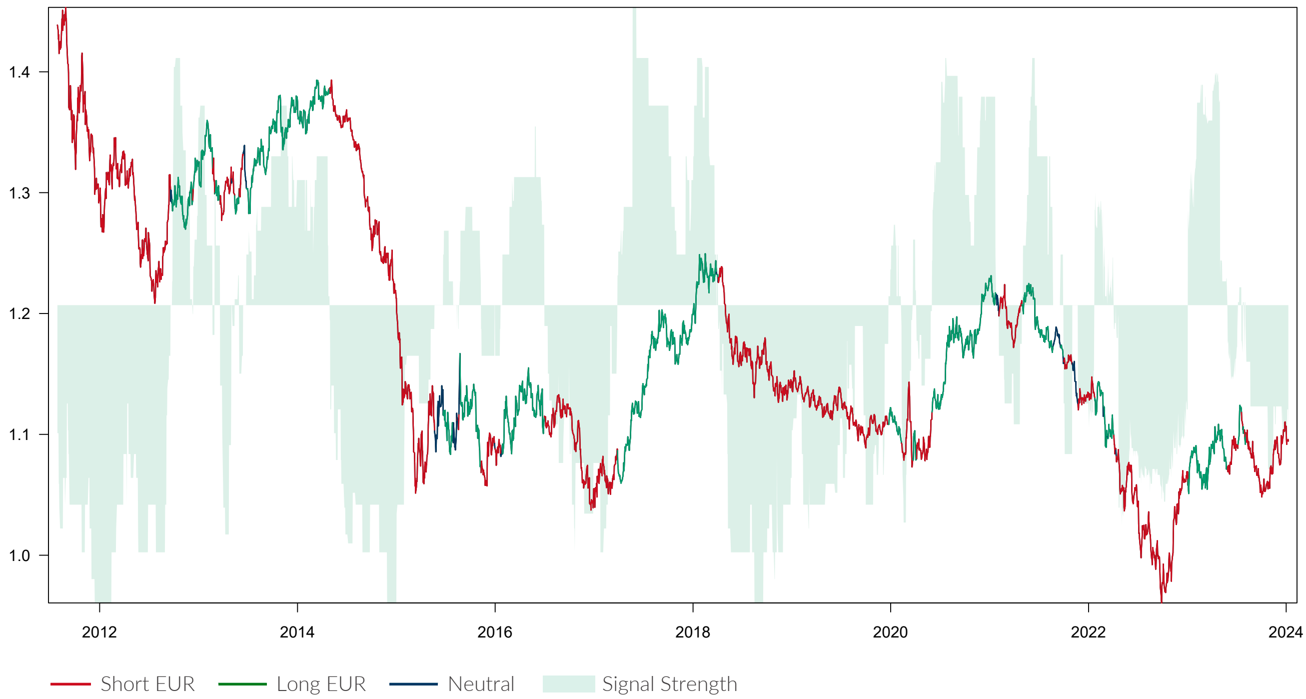
Source: QCAM Currency Asset Management

EURUSD

We kept the Macro position at neutral. Fed rate cut expectations and falling risk aversion have benefitted the EUR, but that is priced in and we view the outlook as uncertain with an equal chance that the ECB cuts interest rates before the Fed on disinflation progress and sluggish growth. The current account surplus remains a support for the EUR but growing political and fiscal fragmentation is a risk. Business Sentiment is firmly short EUR and the overall position remains 40% short EUR.

	FX Factors	EUR Impact	Comment
Macro	Current Account Balances	+	The Euro-area's current account surplus has fully recovered on lower energy prices
	Fiscal Balances	0	Euro-area and US fiscal deficits are both elevated
	Interest Rate Differentials	0/–	Expectations have moved to rate cuts on both sides with USD rates likely to stay elevated relative to EUR rates
	Oil prices	0	Oil price expected to stay in volatile range
Sentiment	Business Sentiment	–	The momentum in Euro-area surveys remains weaker than US surveys
	Risk Sentiment	0	Risk aversion is low but outlook is uncertain
Technical	Price Action	0	Price action is neutral EUR
	Spec Positions	0	Net long EUR position is unchanged and extreme
	PPP Valuation	+	EUR undervaluation is around 12%

EURUSD and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

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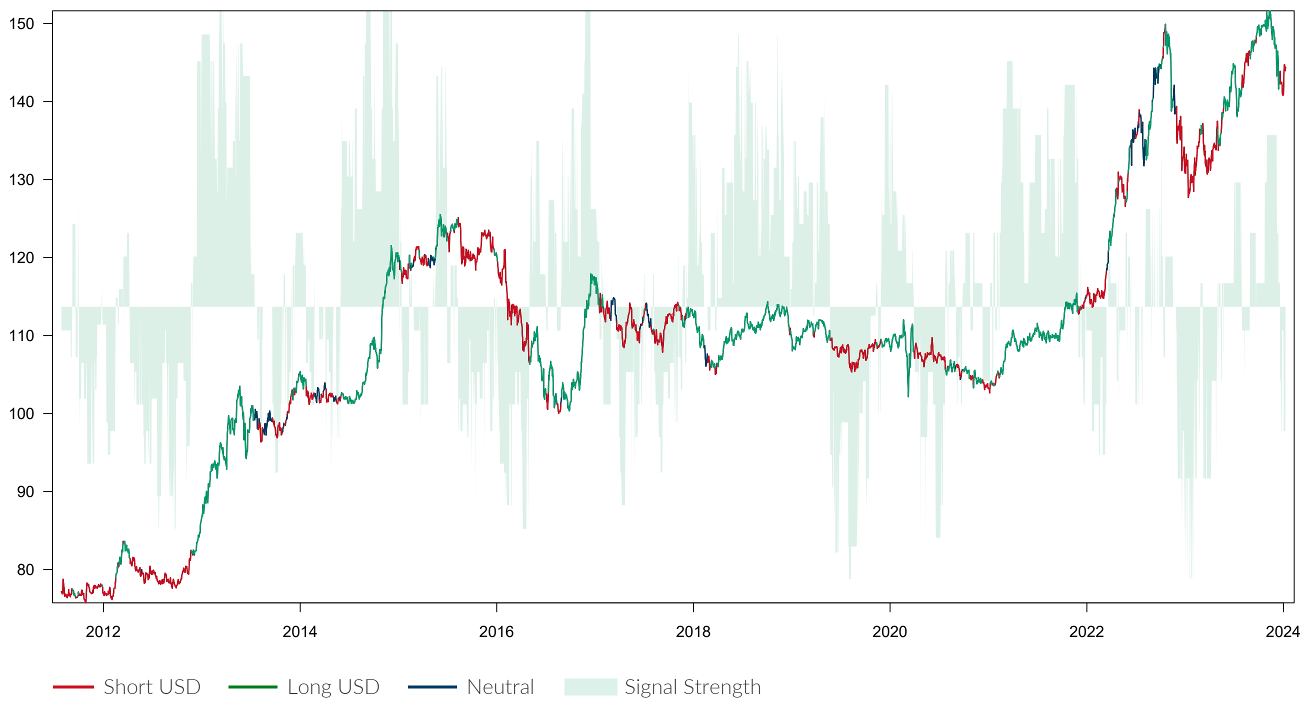
USDJPY

We keep the long JPY Macro position. Economic momentum has slowed but remains solid, while inflation pressures are not abating. The BoJ will probably move against the grain and hike interest rates in 2024, but timing remains uncertain. The risk is that the BoJ keeps dragging its feet longer, but we think the upside potential justifies taking that risk. Business Sentiment moved from short JPY to neutral and Technical and Macro Carry strategy positions went long JPY, shifting the balance of all strategy positions to long JPY as well.

	FX Factors	JPY Impact	Comment
Macro	Current Account Balances	+	The Japanese current account has returned to a solid surplus
	FDI Flows	–	Net outflows have returned to the pre-Corona level
	Interest Rate Differentials	0	JPY rates remain low but the outlook points to higher rates, while US rates are expected to fall
Sentiment	Business Sentiment	0	Momentum of Japanese Business Sentiment is similar to US surveys
	Risk Sentiment	0	Safe-haven character has been reduced
Technical	Price Action	+	Technical went long JPY
	Spec Positions	0	Net short JPY position hit a reversal point and declined
	PPP Valuation	+	The JPY is currently about 46% undervalued

USDJPY and QCAM Strategic Positioning



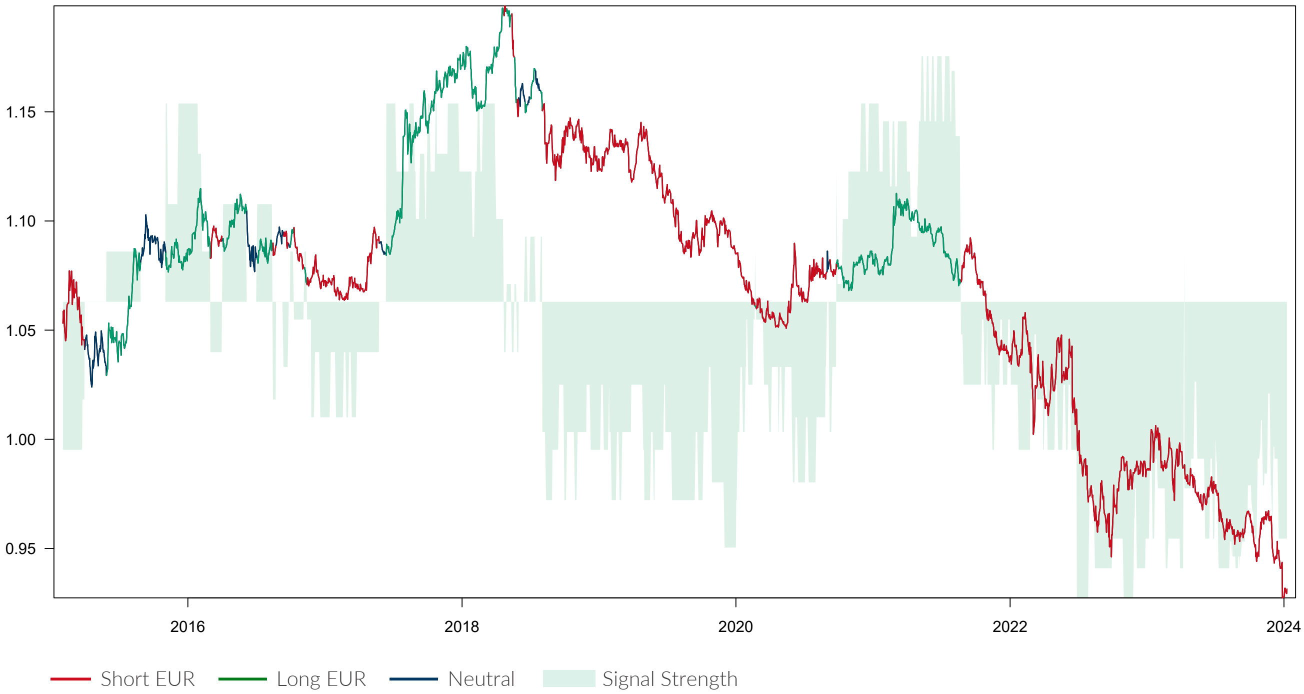
Source: QCAM Currency Asset Management

EURCHF

We keep our discretionary Macro position at neutral. The Swiss economy has slowed but remains fundamentally sound. Inflation has dropped below 2% and the SNB has finished the tightening cycle and is not active in FX markets. Less hawkish SNB policy could hurt the CHF but the safe-haven feature remains strong. The balance of all strategy positions is long CHF versus the EUR.

	FX Factors	CHF Impact	Comment
Macro	Current Account Balances	+	Surplus remains steady support for CHF
	Interest Rate Differentials	0	SNB likely to follow ECB if the latter cuts interest rates
	SNB Policy Intervention	0	The SNB is currently not active in FX markets but may become less tolerant of CHF appreciation
Sentiment	Business Sentiment	+	The Swiss economy is ahead of the Euro-area economy in the surveys
	Risk Sentiment	0	The CHF has not suffered from recent decline in risk aversion
Technical	Price Action	+	Technical is long CHF
	Spec Positions	0	Net position is close to neutral
	PPP Valuation	0	CHF is around fair-value versus the EUR

EURCHF and QCAM Strategic Positioning



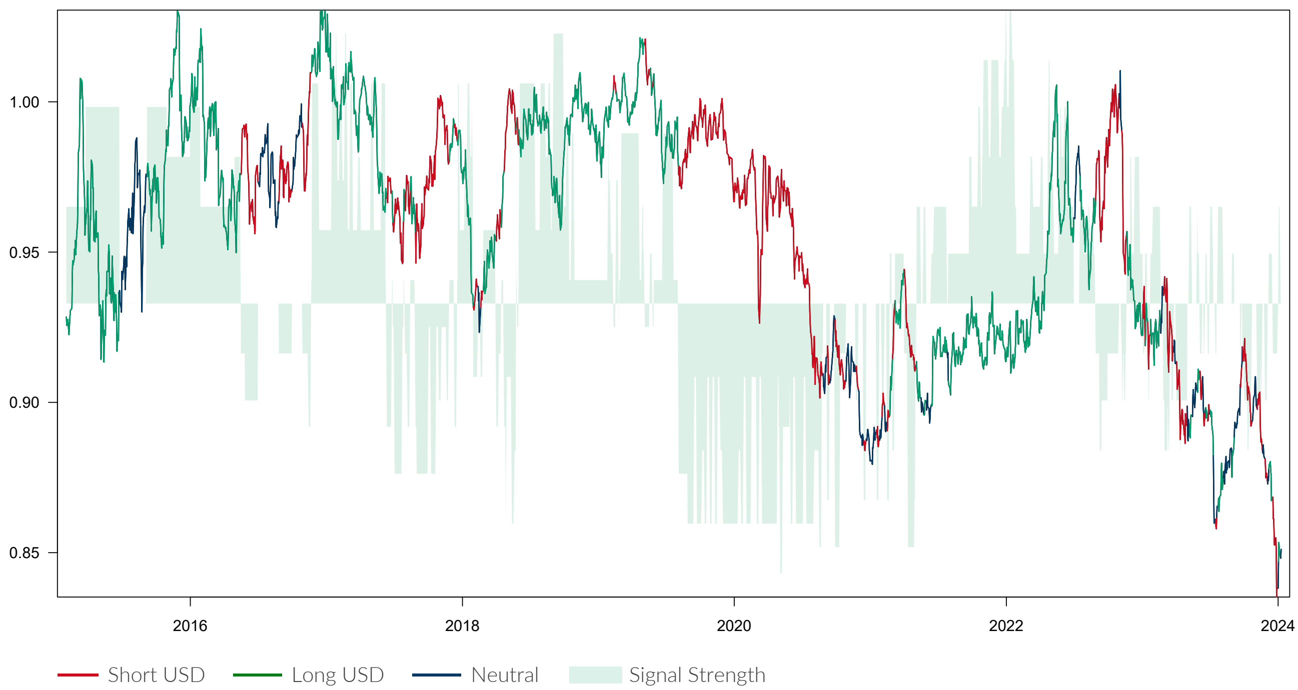
Source: QCAM Currency Asset Management

USDCHF

Our Macro positions in EURCHF (neutral) and EURUSD (neutral) imply neutral CHF vs. the USD. The Swiss economy has slowed but remains fundamentally sound. Inflation has dropped below 2% and the SNB has finished the tightening cycle and is not active in FX markets. Less hawkish SNB policy could hurt the CHF but the safe-haven feature remains strong. We expect USDCHF to shadow EURUSD with a smaller amplitude. The balance of all strategy positions is slightly short CHF.

	FX Factors	CHF Impact	Comment
Macro	Current Account Balances	+	Surplus remains steady support for CHF
	Interest Rate Differentials	0/–	The USD-CHF interest rate differential has narrowed but is still wide
	SNB Policy Intervention	0	The SNB is currently not active in FX markets but may become less tolerant of CHF appreciation
Sentiment	Business Sentiment	–	Swiss surveys have fallen behind US surveys
	Risk Sentiment	0	The CHF has not suffered from recent decline in risk aversion
Technical	Price Action	+	Technical is long CHF
	Spec Positions	0	Net position is short CHF but not extreme
	PPP Valuation	+	CHF is about 6% undervalued versus USD

USDCHF and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

QCAM Currency Asset Management

GBPUSD

We remain fundamentally bearish on the GBP given the negative Brexit fallout, persistent stagflationary pressures and risks in the property market given higher interest rates. We maintain our neutral Macro position primarily given the GBP high affinity to rally in risk-on market conditions. Business Sentiment stayed short GBP but Technical shifted to long GBP. The overall strategy position is 30% short GBP.

	FX Factors	GBP Impact	Comment
Macro	Current Account Balances	0/–	The UK deficit has declined but remains firmly in the red zone
	Interest Rate Differentials	0/–	UK interest rates remain elevated slightly below US interest rates
	Oil Price	0	Oil price expected to stay in volatile range
Sentiment	Business Sentiment	– –	Momentum in UK surveys remains below US surveys
	Risk Sentiment	–	BREXIT related economic and political uncertainties prevail
Technical	Price Action	+	Technical shifted to long GBP
	Spec Positions	0	Net position is modestly long GBP
	PPP Valuation	0/+	The GBP is 18% undervalued

GBPUSD and QCAM Strategic Positioning

Source: QCAM Currency Asset Management

EURSEK

Chances of a soft-landing and falling interest rates are good news for Sweden and the SEK but uncertainty remains large and the economy remains vulnerable. We keep the neutral discretionary Macro position. Business Sentiment turned short SEK, while Technical went long SEK, keeping the balance of all strategy positions close to neutral.

	FX Factors	SEK Impact	Comment
Macro	Current Account Balances	0/+	Sweden's surplus has largely recovered to the levels before the Ukraine war
	Interest Rate Differentials	0	The Macro interest rate model is neutral
Sentiment	Business Sentiment	–	Surveys shifted to short SEK
	Risk Sentiment	–	Concerns over the property slump remain significant
Technical	Price Action	+	Technical went long SEK
	PPP Valuation	+	The SEK is roughly 26% undervalued versus the EUR

EURSEK and QCAM Strategic Positioning

Source: QCAM Currency Asset Management

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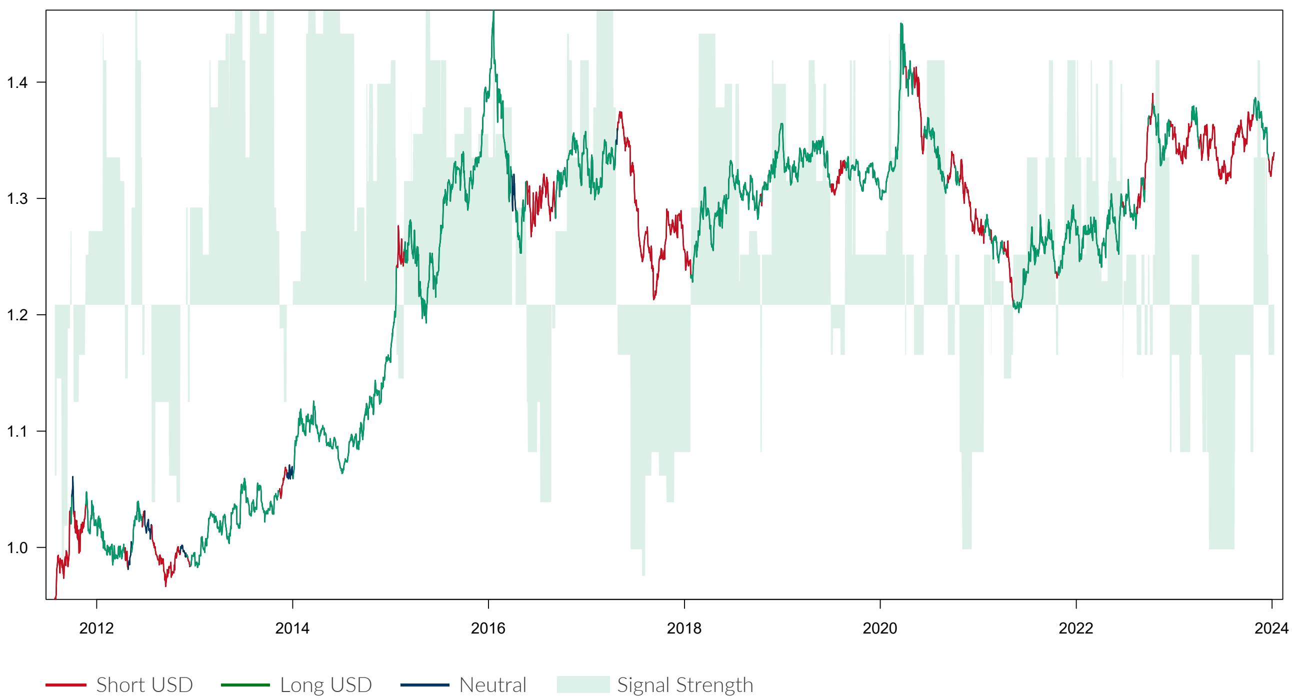
USDCAD

Canada's fundamental position remains solid although the current account dipped back into deficit and the adjustment in housing to higher interest rates creates some strains. Canadian inflation is at par with US inflation and the BoC will probably move in line with the Fed. Our discretionary Macro position stays neutral but the Macro oil price model is long CAD while Business Sentiment is short CAD and Technical turned long CAD, moving the overall CAD position to a small long.

	FX Factors	CAD Impact	Comment
Macro	Current Account Balances	0	Canada's current account fell back into deficit but remains small versus the US deficit and compared to past levels
	Oil Prices	+	The Macro oil price model is long CAD as oil prices moved below projections
	Interest Rate Differentials	0	CAD interest rates close to USD interest rates
	USD DXY Trend	0	Negative correlation with USD is small
Sentiment	Business Sentiment	–	Canada has weaker momentum versus the US in the surveys
	Risk Sentiment	0	No particular risk drivers at the moment
Technical	Price Action	–	Technical shifted to long CAD
	Spec Positions	0	Net short CAD position reached reversal point and declined
	PPP Valuation	0	CAD is about 11% undervalued versus the USD

USDCAD and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

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QCAM Products and Services

Our edge derives from a focus on professional currency management, the absolute transparency and the careful examination of risk. It is our mission to offer our clients innovative transparent solutions, in a thoughtful and risk-controlled environment, and to surpass investment goals.

Currency Overlay

Risks under control – opportunities in sight: QCAM Currency Overlay offers customised solutions for individual needs and investment goals. Our Passive Overlay focuses on risk management, reduction of transaction costs and the customer specific management of resulting cash flows.
Our Dynamic Overlay aims to generate returns based on QCAM´s proprietary FX Analytics, embedded in a strict risk budgeting framework.

FX Best Execution

With larger foreign currency transactions, even a small difference in pricing leads to a major impact on costs and revenues. While it is unattainable for most players to keep the full overview of the deals available in the market, independence and transparency are essential. We carry out a Transaction Cost Analysis for our clients to evaluate potential cost savings. Also, QCAM assists its clients in the design of an optimal mulitbank-setup and conducts clients FX transactions transparently, independently and in the client's best interests.

Money Market Management

QCAM's Money Market Plus Strategy «MMP» enhances yield via the use of the FX interbank swap-market. Also, we take advantage from excellent conditions which we receive from our large pool of partner banks and highly rated debtors for money market and currency transactions QCAM's MMP strategy has outperformed its peers for many years on a constant basis.

FX Alpha

Currencies as an attractive portfolio diversification via QCAM FX BIAS. The focus on QCAM's Business Intelligence Alpha Strategy is on business indicators which we have successfully used for many years. The strategy is market-neutral, no specific market environment necessary. Diversification via a pool of eight different currencies and their respective trading signals.

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QCAM Profile

About us

QCAM Currency Asset Management AG is an independent financial services provider with a specific focus on currency and liquidity management. QCAM brings together a team of internationally experienced Currency and Asset Management specialists, who are managing assets of institutional clients of approx. USD 5 billion.

Our core competences are Currency Overlay Services, FX Transaction Execution according to „Best Execution" principles, FX Alpha and Liquidity Management.

Long-standing customers of QCAM are pension funds, family offices, investment funds, companies, NGOs and HNWIs.

Headquarters

Zug, Switzerland

Founded

2005

Regulation

FINMA since 2007
SEC since 2014

Independent and Transparent

- Interests directly aligned with those of our clients
- Client focused solutions, tailored to each individuals requirements
- Independent selection of suitable external services providers
- No principal-agent conflicts
- Transparent fee model – no hidden costs
- Transparent reporting

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