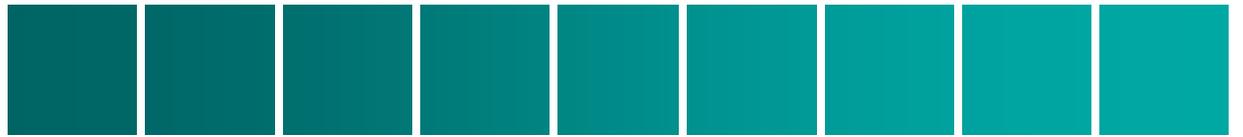


Investor Advisory Committee on Financial Markets Member Presentation Materials

April 17, 2024

systematica
investments



Topical Notes
IACFM Meeting
April 2024

Investor Advisory Committee on Financial Markets

Chair: John C. Williams

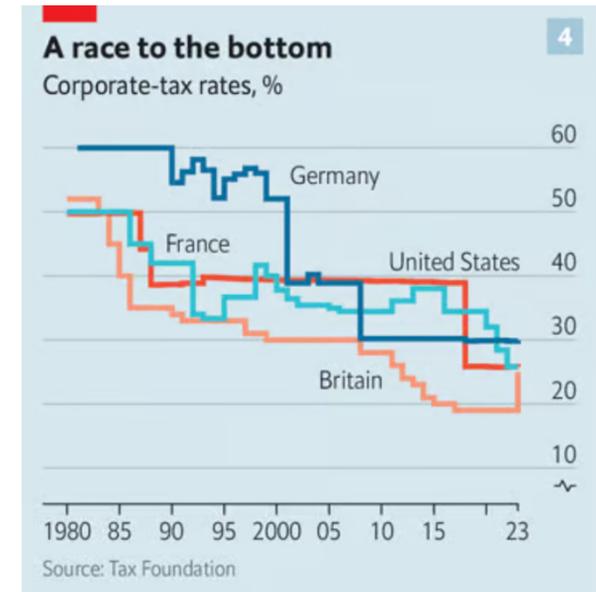
Conference Call

Wednesday, April 17, 2024; 11:00am – 1:00pm

- What are your expectations for U.S. growth and inflation, and which developments have been most important in shaping your views? What is your outlook for international economies and monetary policy?
- How do you view valuations across equities and other risk asset classes? What are the main drivers? Are there any segments of these markets where valuations look stretched or raise concerns about risks to financial stability?

Equity returns: The last ten years will not be repeated

- Plenty of focus on this topic in recent press.
- Much of the performance over last decade due to low interest rates and favourable corporate taxation (Smolyansky ¹).
- Things have changed: inflation is back, interest rates up.
- A survey of 142 countries finds that overall corporation tax rose for the first time in decades in 2022-23 ²



	MSCI World	S&P500	MSCI ex-US
Excess return	8.50%	11.8	4.40%
Volatility	14.60%	15%	15%
Sharpe	0.63	0.82	0.36

Source: Bloomberg. January 2014 to January 2024. Cash returns taken as 3m T-Bill rates.

¹ Smolyansky, Michael (2023)
² The Economist March 2nd 2024

How stretched are valuations?

- Fundamentals
- Levels of leverage and crowding
- Macro backdrop

Valuation fundamentals

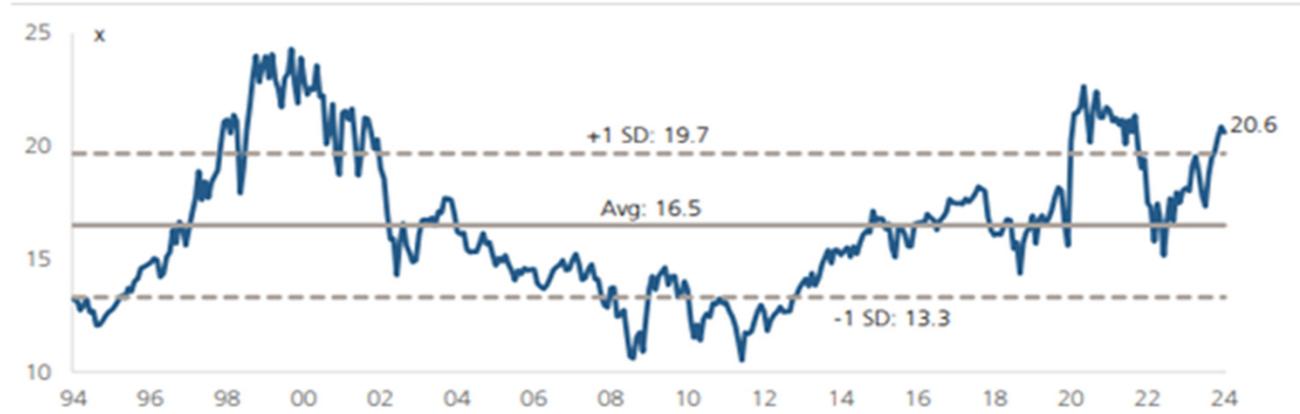
P/E close to one standard deviation from the long-term average.

Heavily weighed up by Magnificent Seven (M7).

M7 have solid balance sheets and therefore relatively low risk of crash.

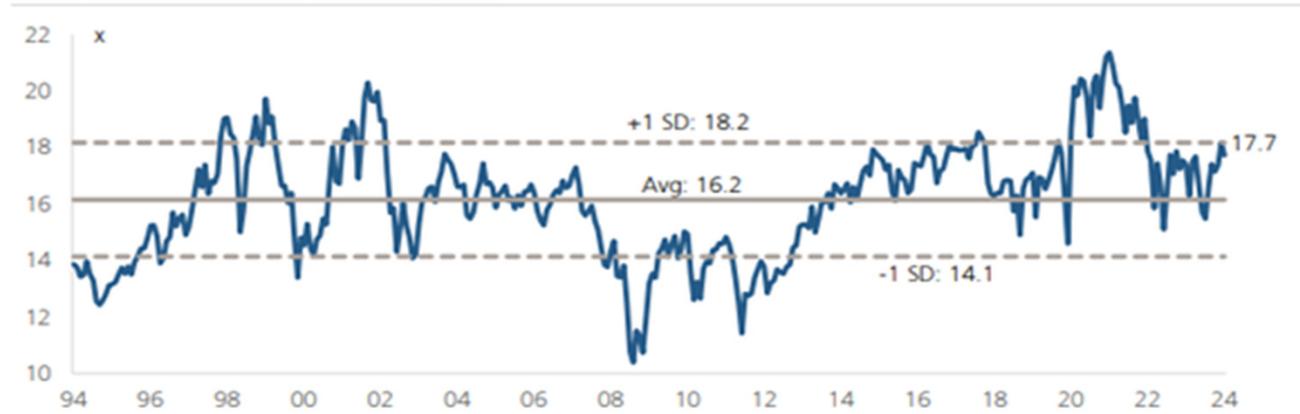
Market Valuation

Figure 2: S&P 500 NTM P/E – Cap-Weighted



Source: Standard & Poor's, Refinitiv, FactSet, UBS

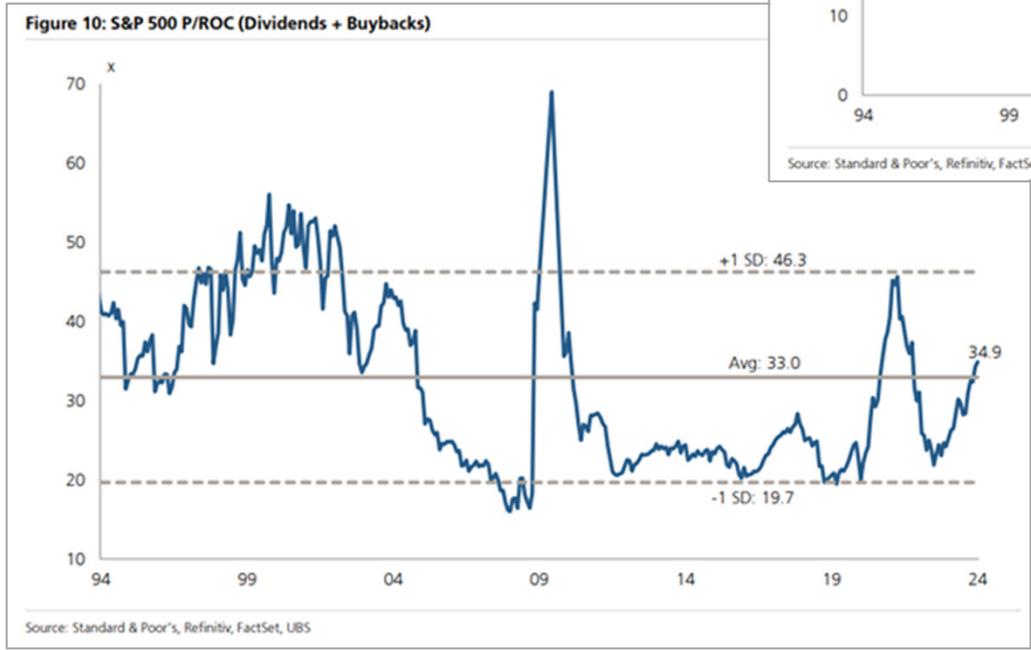
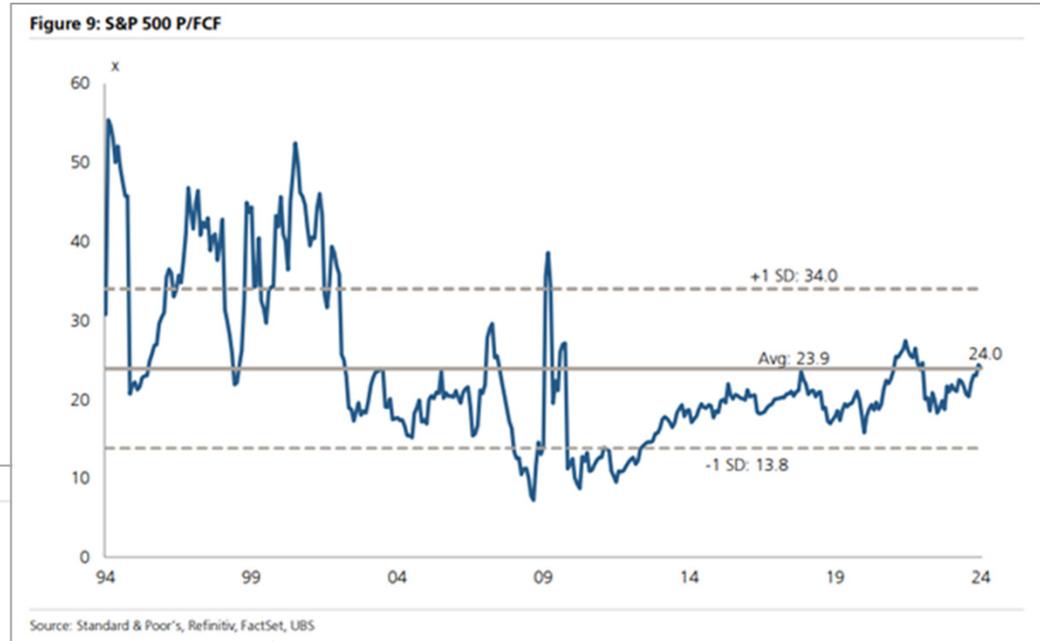
Figure 3: S&P 500 NTM P/E – Equal-Weighted



Source: Standard & Poor's, Refinitiv, FactSet, UBS

Valuation fundamentals

Other indicators
such as P/FCF
more in line
with long-term
averages

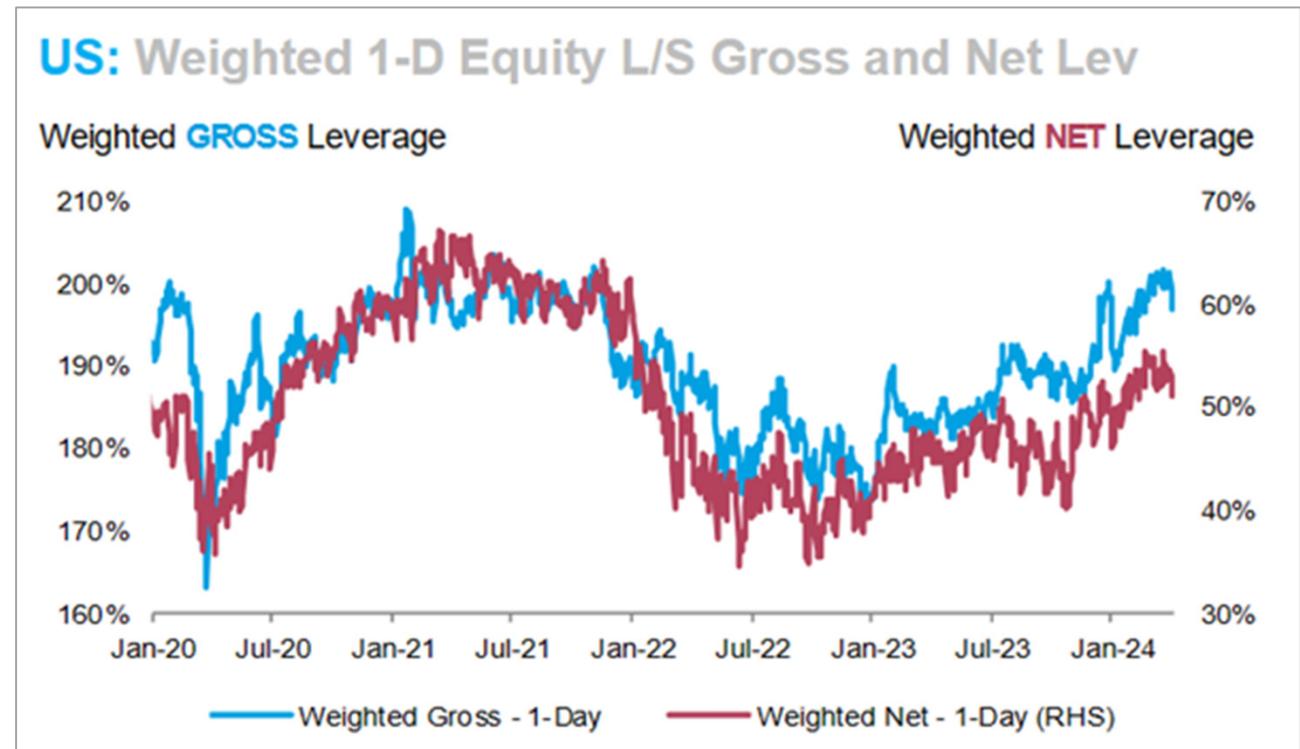


Leverage and factor crowding

Gross and net leverage are elevated (bearish sign), but they have decreased slightly at the end of March ¹.

Given strong YTD HF performance, risk of rapid deleveraging is low.

The most crowded factors are Momentum, Quality Value (i.e. Dividend Yield, Low PE) and Defensive (Low Volatility) ². Therefore, risk assets are not as crowded as quality assets and arguably the main risk for the market at the moment is a momentum unwind.



¹ Morgan Stanley Prime Brokerage, March 31st, 2024.

² UBS crowding dashboard March 2024

Macro backdrop

- Battle against inflation not quite won yet - global economies (especially US) more resilient than expected.
- Government debt levels at or close to all-time highs in many countries – according to the IMF, debt in 39 “advanced economies” debt rose from 110% of gross domestic product in the 1950s to 278% in 2022 ^{1, 2}
- US has all-time high household debt (\$17.5trillion), all-time high mortgage debt (\$12.3trillion), all-time high auto-loan debt (\$1.6trillion), all-time high credit card debt (\$1.1trillion).
- Increasing uncertainty – geopolitical conflict on multiple fronts.
- China-US relationship possibly the most important issue.

Some positives on macro

- US-China relationship “professionally managed”
- How long can China put national security over prosperity?
- Taiwan “invasion” unlikely, more likely to see sanctions and attempts to disrupt trade.

Some positives for innovation

- Significant innovations to monetise ahead:
 - AI
 - Drive towards renewables
 - GLP-1 drugs

- The main avenue for productivity growth through AI is *worker augmentation*.

- McKinsey estimates 0.1 to 0.6% per year of increase in labour productivity through use of AI and the US leads the charge. ¹

- Nvidia's annual developers' conference attended by 11,000. "Nvidia in line to build AI factories".

- Spending on global data centres was \$250bn in 2023, growing at 20% per year.

- AWS bought its first nuclear-powered data centre in March 2024.

First-hand observations

- On private equity
 - Redemptions in 2023 driven by need for cash by allocators with capital commitments and no distributions.
 - One major investor mentioned buying PE assets on the secondary market for 65-85c in the dollar.
- On AI, a healthcare and financial administrator:
 - Now deploying 1,600 digital workers
 - A new Medicaid application used to take 3-30 days, now it takes 15 minutes
- On AI, a Chief Digital Information Officer of the UK's NHS.
 - Program started in 2020
 - Firstly, used for regulatory policy reference system
 - Then invoice matching
 - now GP note-taking

Overall

- Stock markets corrected a fair amount in 2022.
- Valuations and levels of leverage are elevated, but not alarming, especially considering a variety of metrics.
- A correction, if due, unlikely to be a “crash”.
- Private equity markets sitting on \$3.2 trillion of unsold assets and remain opaque.¹
- The largest threat for risky assets is persistent inflation, forcing rates higher for longer, hurting leveraged and capital-intensive businesses and throwing a question of sustainability of debt levels worldwide.



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