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Q1 2024 FX Market Outlook

January 2024

FX Markets Update

- Majority of the currencies moved little in 2023
- Changing geo-political landscape, Carry, positioning and exposure to China were the main drivers of returns in 2023
- Major economies are running somewhat similar monetary policy, which reduces FX volatility; Japan is an exception
- USD sold off sharply in Q4 2023 as Fed pivoted to cutting rates and demand for safety decreased

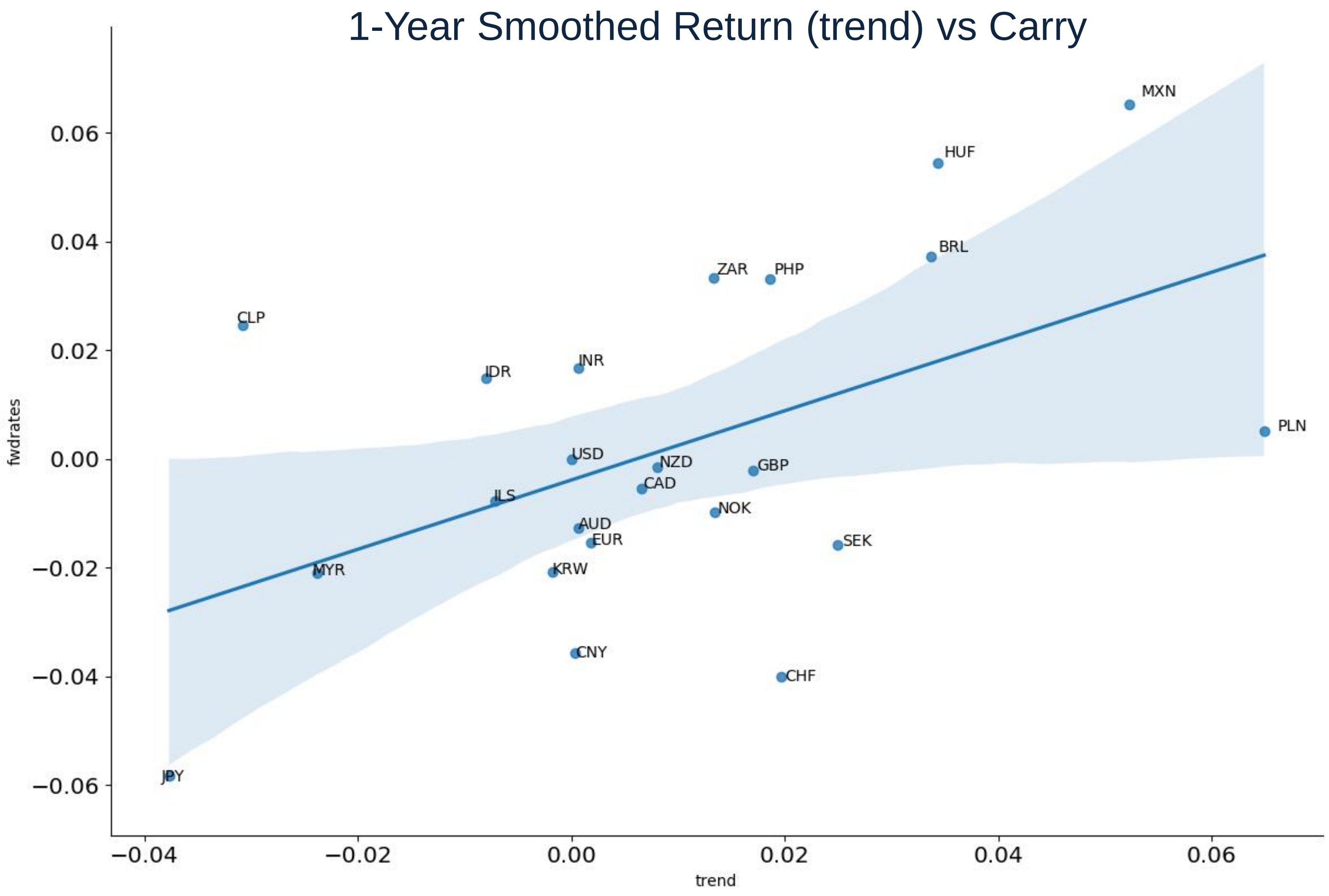
FX Performance as of Dec 31, 2023

	EUR	GBP	JPY	AUD	CAD	BRL	INR	KRW	MXN	ZAR
Q4 2023	4.2%	4.5%	4.5%	5.8%	2.4%	4.4%	0.3%	3.6%	4.3%	4.3%
2023	1.3%	5.0%	-12.2%	-1.1%	1.9%	15.8%	1.3%	-4.8%	23.5%	-3.5%

Source: Bloomberg, SECOR.

Carry Continued to Perform in 2023

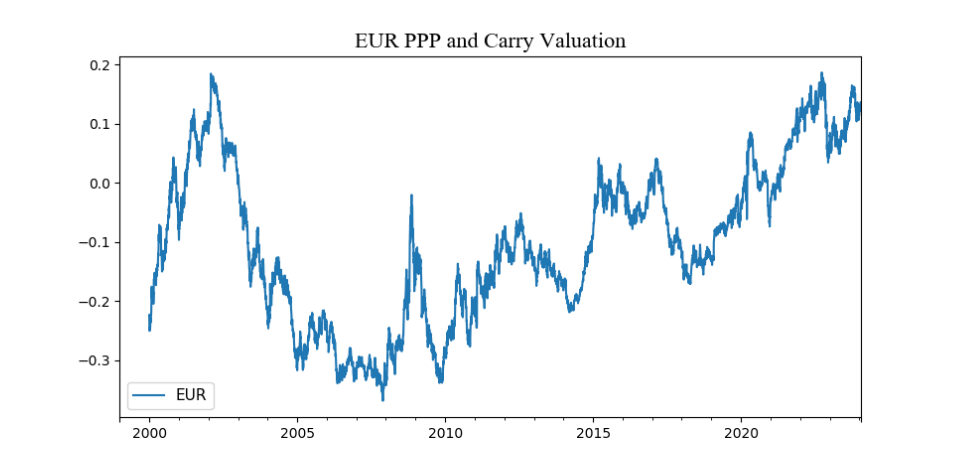
- Carry was one of the best-performing factors in FX in 2023

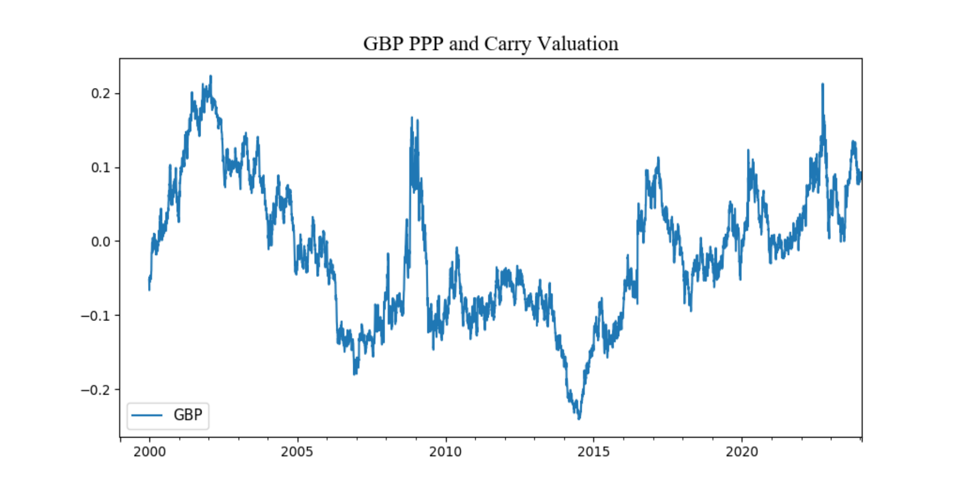


Source: Bloomberg, SECOR. As of December 31, 2023.

Dollar remains expensive but…

- Long-term measures of valuation indicate that USD is expensive versus EUR and, to a smaller degree, versus GBP
- At the same time European region is more exposed to macro risks
- Main concern for the USD is that the US exclusivity / higher growth rate / innovation / better stock market, etc. have been mostly priced in
- USD remains the reserve currency and this status is unlikely to go away unless inflationary pressures in the US become more severe than in Europe

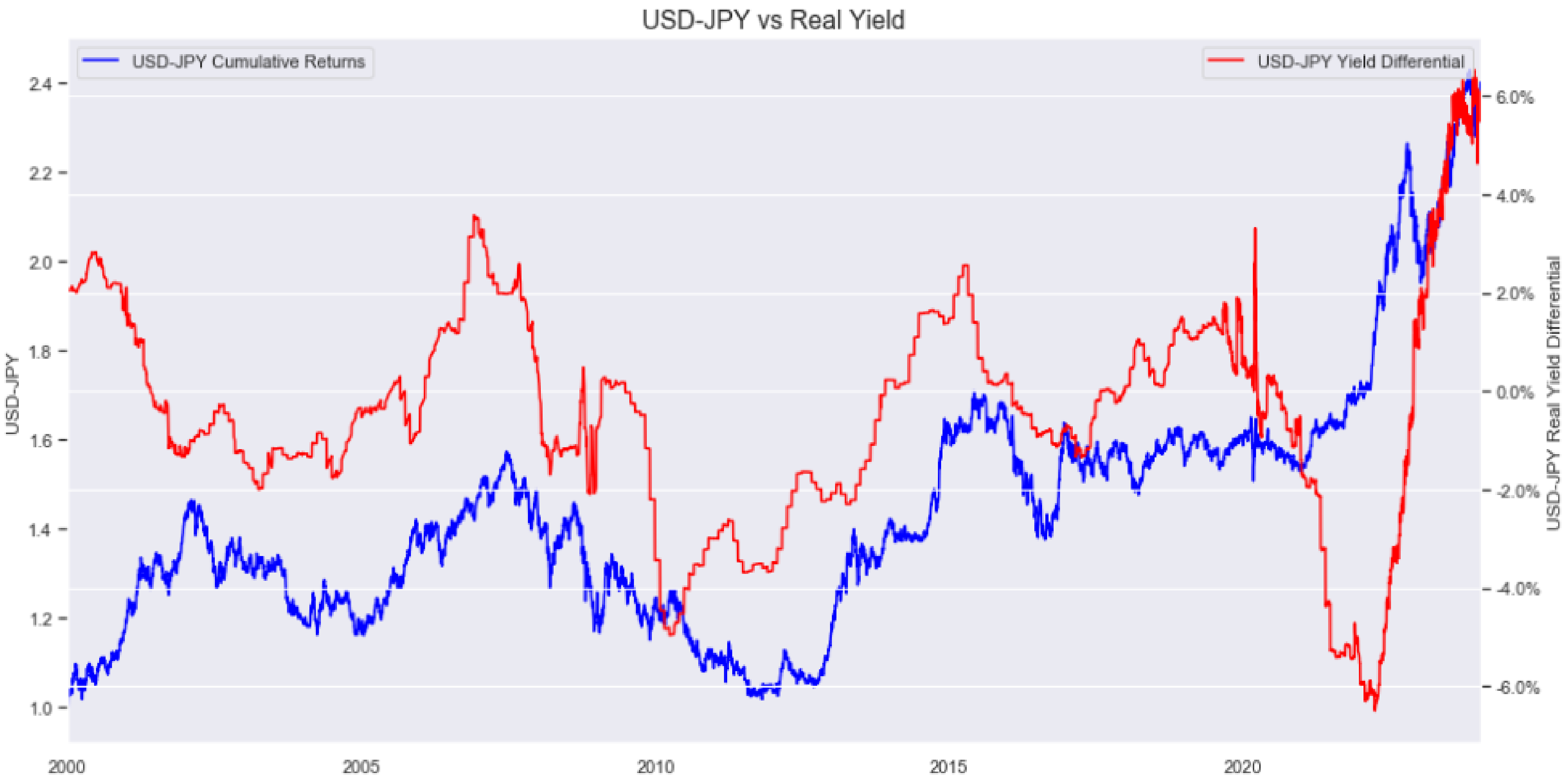




Source: Bloomberg, SECOR analytics

JPY is cheap but real yield differential will keep it cheap

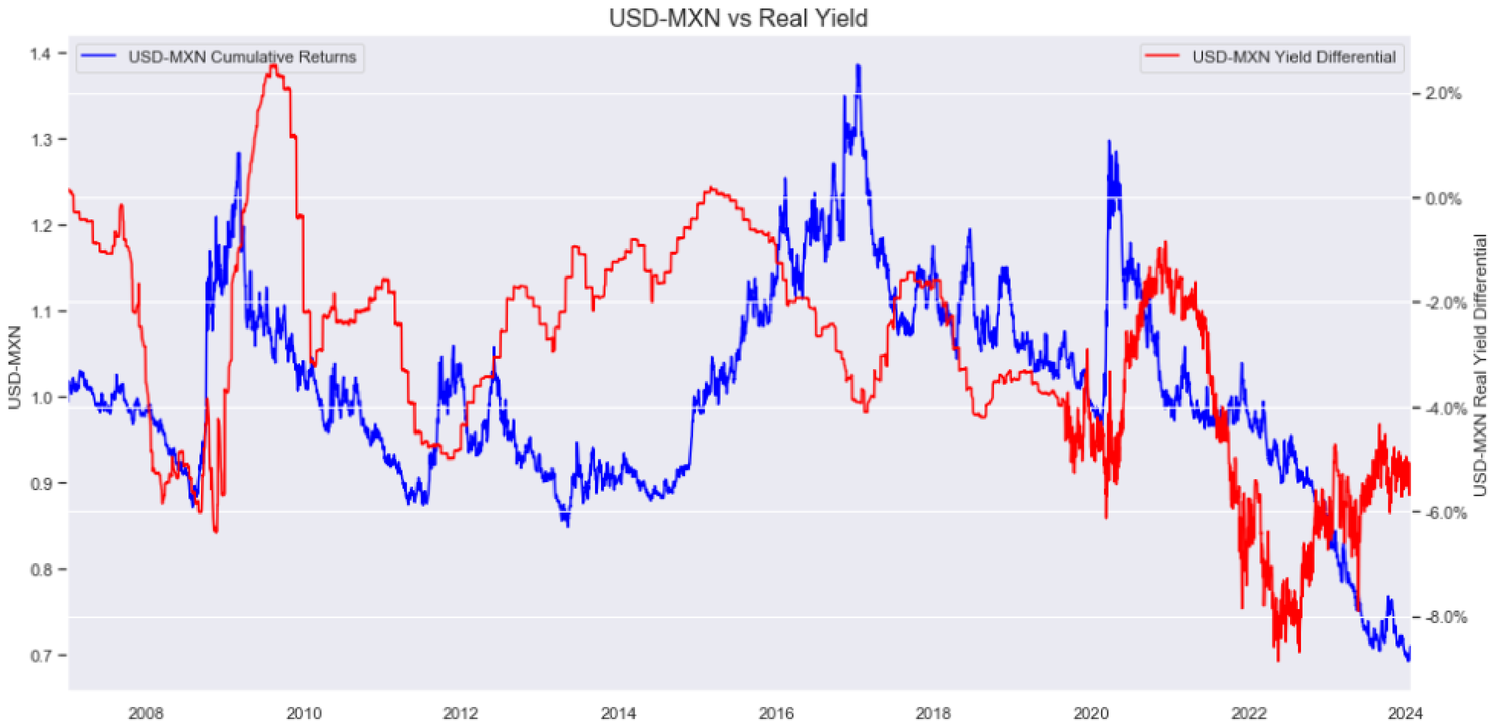
- Real Yield differential between US and Japan is outside of the previous 25-year range (positive in the US, negative in Japan)
- This should pressure JPY and help Japanese stock market



Source: Bloomberg, SECOR analytics

Significant Dispersion among EM currencies

- Real Yield differential between US and Japan is outside of the previous 25-year range (positive in the US, negative in Japan)
- This should pressure JPY and help Japanese stock market



Source: Bloomberg, SECOR analytics

CNY is at risk of further depreciation

- CNY is an expensive currency with unattractive nominal and real yields, deteriorating economy and a communist government, which suppresses private sector

Source: Bloomberg, SECOR analytics

Conclusions

- USD is expensive but macro-factors are likely to keep DM FX rates range-bound
- CNY is at risk of a further depreciation
- MXN and BRL are at risk of a pull-back

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Considerations and risks related to asset classes:

Equity investments involve a high degree of risk. Equity securities may decline in value due to factors affecting securities markets generally, and equity securities generally have greater price volatility than debt securities/investments. Equity securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Debt investments (such as, but not limited to, investment grade, high yield, emerging market debt, asset backed securities and insurance linked securities) involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

LDI and equity overlay strategies may invest and trade in many different market strategies and instruments (including securities, non-securities and derivatives) and may employ different investment, hedging, leverage and arbitrage methodologies, so the risks of those would be material to understanding the risks and benefits of the portfolio. Counterparty and ISDA arrangements may pose potential risk. Furthermore, derivative strategies may be exposed to the risk of market disruptions, volatility, and governmental interventions.

Illiquid investments (such as, but not limited to, private credit, private equity and infrastructure):

General/Loss of capital. Investment involves a high degree of risk. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Limited liquidity. Investments in private markets may result in restricted liquidity since withdrawal rights are limited and interests are not freely transferable or redeemable. There is unlikely to be a secondary market for private market investments interests.

Volatility. Investment techniques used may include the use of leverage and derivative instruments such as futures, options and short sales, which could amplify the possibilities for both profits and losses and may increase volatility.

Hedge Fund investing is speculative and involves significant risk including the risk of losing some or all of the invested capital. Hedge fund strategies may participate in the buying and selling of equity and debt securities, private investments funds, non-readily realisable investments, illiquid investments suspension of trading, concentrated investments, developed and emerging market investments. Hedge fund strategies may be exposed to risks stemming from usage of leverage, derivatives, futures, options, over-the-counter derivative transactions. Counterparty and ISDA arrangements may pose potential risk. Furthermore, hedge fund strategies may be exposed to the risk of market disruptions, volatility and governmental interventions.

Modelling Assumptions:

Forward looking return, volatility, and correlation assumptions have been derived by SECOR, and are based on a combination of: a) the historic performance of each asset class based on what we consider to be appropriate indices or suitable proxies, and over a period that we consider to be appropriate in light of prevailing market conditions (typically 10 years); and b) our judgement in relation to how historic performance, and its various components, may differ in the future. This may include, for example, ad-hoc adjustments to reflect our view that markets are over or under valued.

The resulting assumptions are assumed to be appropriate for asset and liability projections over the medium to long term i.e. 10 to 20 years or longer, and are net of all ongoing management costs and fees.

Expected returns for an asset class are generally built up from and include an allowance for our projected return on cash, inflation, spreads, risk premiums, liquidity premiums, potential losses, valuation adjustments, alpha for active management, management fees, other ongoing costs, and any other factors that we may consider are appropriate for the asset class and/or prevailing market conditions. Expected returns generally do not allow for SECOR advisor or fiduciary management fees, or any transition or rebalancing costs between asset classes or an existing portfolio.

A material risk factor is that the projected returns modelled are underpinned by historic market returns combined with SECOR's assumptions on future market returns, meaning that the projected net returns used for modelling portfolios may not be realised within expected timeframes.

Further details are available on request.