CARDIF LUX VIE
BNP PARIBAS GROUP

GENERAL FUND
CARDIF LUX VIE

FINALISED ON 15 JANUARY 2024

THE CENTRAL BANKS' PIVOT: TIME TO LET OFF THE FIREWORKS OR A DAMP SQUIB?

With their spectacular rally in November and December, the markets were unanimous in their reaction to the central banks' rate-cut pivot. The prospect of interest rate cuts was greeted much like the arrival of the new year is marked with spectacular firework displays around the globe. But while the fireworks all go off at midnight, clocks across the world don't all strike midnight at the same time! And the same can be said for the actors on the economic stage; the markets began celebrating the arrival of 2024 and lit the fuse long before the central banks, which appear to be operating in a different time zone.

But beyond this momentum lag, I feel that there is no escaping reality: the labour market is showing signs of weakness, corporate earnings are not as good as expected, and recession is either looming or already with us. All of the leading indicators point to a more obvious downturn in activity, despite massive budgetary support. And although headline inflation is easing, it is still higher than the central banks' targets, which means they are likely to remain cautious in the short term, not embarking on any programme of short-rate cuts until the middle of 2024 at the earliest. Too late? For some investors certainly not soon enough, and definitely a case of too little, too late. A damp squib!

The year therefore begins with the definite prospect of a cut in central bank interest rates, albeit with the timing and scale still unknown. It is this uncertainty that could trigger expectation and disappointment, and subsequent volatility on the market.

For our part, our successful management choices in 2023 have boosted the solidity of our fund and we have created greater room for manoeuvre, which we will exploit to take advantage of opportunities as they arise. We therefore face 2024 better placed than ever to achieve our goal of medium-term value creation for our policyholders.

MACROECONOMIC ENVIRONMENT

All it needed was a spark, a small gesture, to set the markets alight! Good inflation figures and the conciliatory tone of the central banks are the reasons behind the sharp fall in long-term rates. The market has found its Holy Grail: the pivot is here and within our grasp! Christine Lagarde has stated on several occasions that rate increases are over in Europe. Meanwhile, Jerome Powell has talked about forthcoming rate cuts in the USA. The scale and speed of the rally on the markets made things a bit awkward for the central banks, and their more reserved comments at the start of 2024 have dampened market enthusiasm again. The banks' reticence is based on fear that acting too dramatically and too quickly to ease financial conditions could inject a premature rush of air into the economy.

In the USA, the monetary authorities are at pains to achieve a soft landing. The current likelihood of such a scenario is high but, according to the Fed, requires vigilance: giving the impression that the fight against inflation has been won could spark a revival in confidence, pushing up consumption and investment as a result. Such a bounce could be badly perceived by the markets given that the economic slowdown is not sufficiently strong.

In Europe, the economy has been sluggish for several quarters, if not in recession, as is the case in Germany. The ECB is not looking to encourage this slowdown, but is keeping its eye on global inflation, which is still being fuelled by wage rises. Vigilance is also the order of the day, and any decision to cut rates is therefore likely to be deferred until the second half of 2024.

The long-awaited pivot by the US and European central banks is here, but all we can report to date is a "half-hearted pivot".

As far as the Chinese economy is concerned, the engine of the global economy until just recently, it is struggling to recover from the lifting of draconian Covid restrictions, impeded by a property sector in the midst of a slump.

CARDIF LUX VIE Société Anonyme | Siège social : 23-25 avenue de la Porte-Neuve - L-2227 Luxembourg
Adresse postale : B.P. 691 - L-2016 Luxembourg | TVA : LU163 196 59 | RCS Luxembourg N° B47240
Tél. : +352 26 214 - 1 | Fax : +352 26 214 - 9371 | info@cardifluxvie.lu | www.cardifluxvie.com

A highly deflationary environment, weak growth and falling prices per square metre in virtually every city in the country have forced the politicians to act. So far, however, they have stuck solely to targeted measures on a small scale. Hard choices will have to be made in 2024, with additional rate cuts and budgetary stimulus measures.

Overall, the global environment, with a worldwide recession averted and falling inflation, is relatively favourable for financial assets. This is what triggered the rally in November and December after the turbulent months of September and October. However, these peaks in volatility could rear their heads again in 2024, still driven by interest rates but also by corporate earnings, which we can expect to see starting mid-January. Margins and the business outlook will be crucial to how the equity markets perform in early 2024.

BONDS STRATEGY

The term "back to basics" could be used to sum up our 2023 strategy, even though it conceals a host of management actions.

We significantly increased the duration of our portfolio in autumn 2023, particularly at the peaks in October when the German 10-year (Bund) was nudging 3%. These purchases of mainly core European sovereigns rose sharply during the rally at the end of the year. In Q4 in Europe, sovereign bonds outperformed investment grade bonds, which in turn outperformed high yield bonds. The markets engaged in mechanical bond buying, pushing prices up and rates down.

Investors' motivations differed widely and were uncorrelated, with perhaps the only common factor being that the absolute rate was significant and that the end of the year was fast approaching, reminding those who had preferred to spend 2023 waiting it out that time was marching on! Many buyers bought without necessarily looking at the relative rate compared with what the bonds could have yielded in the past, and without choosing the precise point on the curve or the bond category with the highest yields.

At the beginning of the year, the "undifferentiated market" and emergency buying came to an end and a very abundant primary market established itself. A significant part of the tightening at the end of the year quickly evaporated, causing bond performances to slip

Yields have climbed on all fronts: the German 10-year Bund has risen from 1.90% to 2.30% since its December low, the US 10-year from 3.80% to 4.10%, and the average credit premium on the crossover segment, which represents mid-quality companies, has climbed from 310 to 335 basis points. All in all, therefore, investments at the start of this year can generate between 30 and 60 basis points of additional annual return compared with the very end of last year, even though nothing has really changed apart from market sentiment...

This is not a warning that bonds are no longer attractive, but rather a reminder that the end of last year was excessive.

The markets have already cancelled one of their many expected rate cuts, as the US and European central banks warned that a cut at the end of Q1 was unlikely. Meanwhile, economic data in general and US inflation in particular have also helped to keep exaggerations in check by showing that certain sectors continue to be inflation drivers, notably rents in the real estate sector.

Although credit remains expensive, we are nevertheless taking advantage of the abundant primary market to gradually increase our exposure in line with the ongoing rise in yields. Otherwise, our stance on the primary market is extremely selective. While these new bonds appear to be very easy to place, this does not mean that they are attractive to investors: credit premiums are low, between 10 and 30 basis points, despite yields narrowing by more than 200 basis points in the final quarter. So there are very few good deals to be had at the moment, with returns being generally lower than they were at practically any point in 2023.

EQUITIES STRATEGY

The main equity indices are close to their highest levels, but some of their movements are misleading. As far as the S&P500 is concerned, the "Magnificent 7" account for nearly all of the increase. The 493 other stocks are stagnating on average and many stocks are still a long way off their all-time high. And at the other end of the spectrum, small and mid caps have been hit hard. Monetary tightening, rising long-term interest rates, declining liquidity and the toughening up of banks' lending criteria are bound to leave their mark.

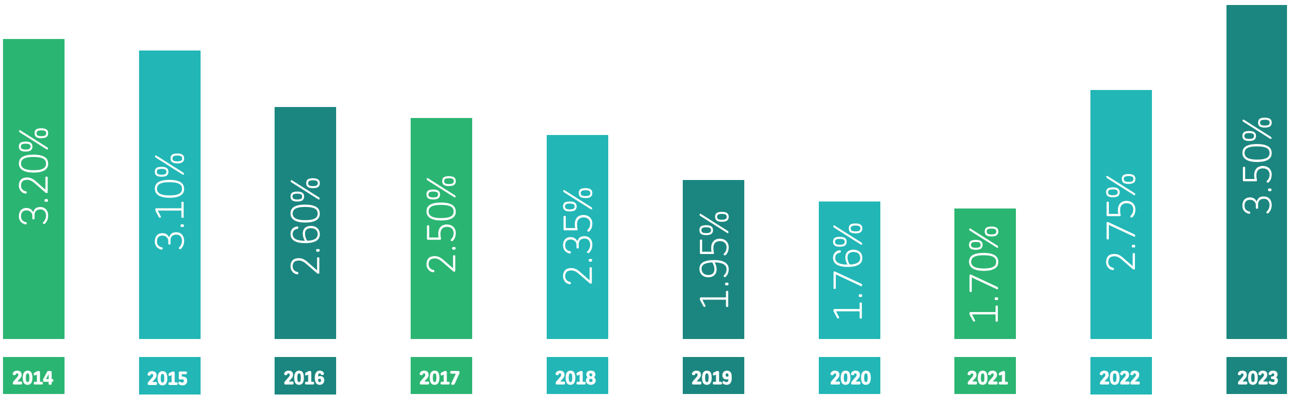
In our view, 2023 has borrowed some of the growth from 2024 and the markets have bought future earnings that will not exist, hoping for a miraculous yet unlikely recovery. The feverish state of the stock markets in early January suggests that some investors are beginning to take a step back.

In terms of geographical preference, we are maintaining our overexposure to US markets versus Europe, partly due to the stronger resilience of US growth.

There is always the option of exploiting any weakness in the equity market in 2024 in order to increase our exposure.

Arnaud MIROUDEL
Director of Asset Management

HISTORY OF THE GENERAL FUND'S GROSS RETURNS[1]



1- Details of past returns provide no guarantee or limitation of future returns. Returns do not take account of the management costs for investment instruments..

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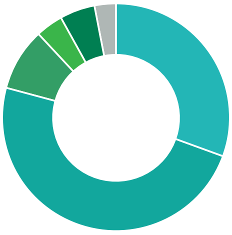
MANAGEMENT OF THE CARDIF LUX VIE'S GENERAL FUND AS AT 31/12/2023

Capitalisation of the General Fund in market value: **7,5 billion EUR.**

COMPOSITION OF THE CARDIF LUX VIE'S GENERAL FUND



- Governmental Bond & Similar: **30.6%**
- Corporate bonds: **48.7%**
- Equities & Similar: **8.8%**
- Real Estate: **3.9%**
- Diversification Assets[1]: **5.1%**
- Short Term/Cash Flow: **2.9%**

COMPOSITION OF THE EQUITIES COMPARTMENT

Share risk exposure around **8,84%.**

The equity market sensitivity (beta) of the portfolio is **6,91%.**

Equities compartment detail by geographic zone

- France: **13.8%**
- Europe outside France: **47.9%**
- USA: **26.3%**
- Peloped Countries (Excluding Europe): **12.0%**

Details of the equity sector by nature

- Share: **34.9%**
- Equity funds: **39.4%**
- Private capital and infrastructure: **25.7%**

COMPOSITION OF THE BOND COMPARTMENT

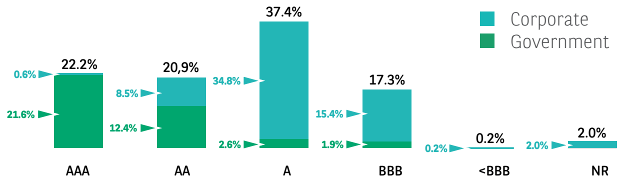
The global sensitivity to the rates of our portfolio is close to **5,6.**

Bond compartment detail by rating

The bond portfolio has an excellent quality rating with an average rating of "**A**".

Rating[2] of the Government State Bonds in portfolio at 31/12/2023 :

AAA : Luxembourg, Germany, Netherlands, USA, European agencies
AA : Finland, France, Belgium, Austria
A : Slovakia, Spain, Chile
BBB : Italy



Bond compartment detail by issuers

- Financials: **30.1%**
- Governments & Similar: **38.5%**
- Covered Bonds: **0.4%**
- Non financials: **31.0%**

Repayment schedule of the Bond compartment

- < 5 years: **29.2%**
- 5 a 7 years: **18.2%**
- 7 a 10 years: **22.1%**
- > 10 years: **30.5%**

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2- Emerging debt, high yield and alternative Funds.
3- Median rating of the 3 agencies Standard & Poor's, Fitch and Moody's.

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