There Is No Need To Time The Market

5 Years Autocallable Note with Memory Coupons and 65% Capital Barrier on the S&P 500

Product Overview

Issuer	A / BBB-
Maturity	Min. 2 Years - Max. 5 Years
Currency	USD
Underlying	S&P 500 (SPX Index)
Memory Coupon (p.a.)	7,16% / 9,00%
Coupon Trigger	90%
Autocall Trigger	90%
Capital Barrier	65%
Observation	Yearly (as from Year 2)
Format	EMTN (Euro Medium Term Note)

Underlying	Structured Product
100%	35,80%
90%	35,80%
80%	35,80%
70%	35,80%
60%	35,80%
50%	35,80%
40%	35,80%
30%	35,80%
20%	35,80%
10%	35,80%
0%	35,80%
-10%	0,00%
-20%	0,00%
-30%	0,00%
-40%	-40,00%
-50%	-50,00%
-60%	-60,00%
-70%	-70,00%
-80%	-80,00%
-90%	-90,00%
-100%	-100,00%

*Returns at Maturity with the A-rated Issuer

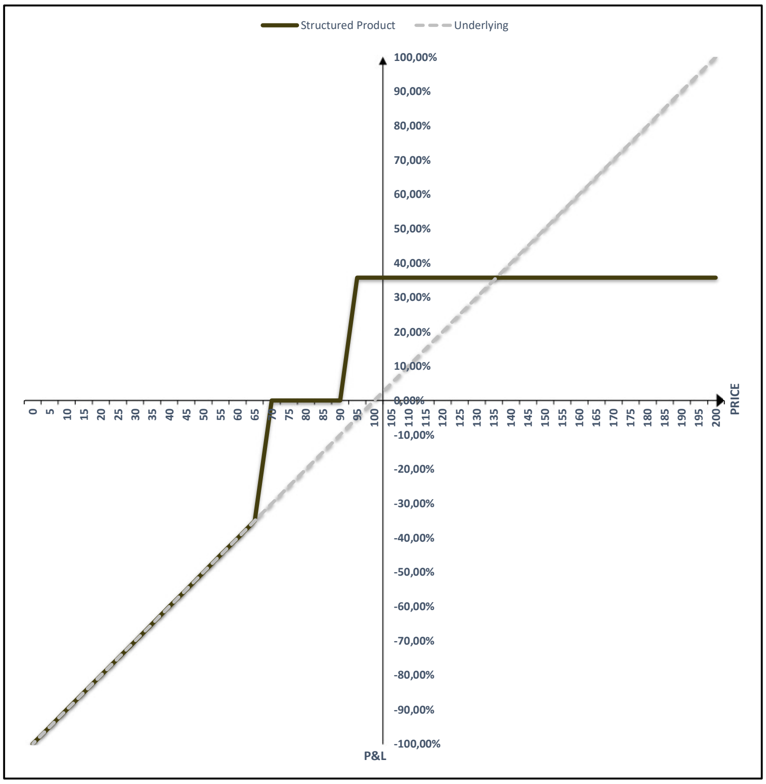

*Chart at Maturity with the A-rated Issuer

Product Description (With A-rated issuer)

This is a partially capital protected and autocallable product with the underlying being the S&P 500 (SPX Index).

5 Scenarios Possible:

1) At observation (as from Year 2), if the underlying is above 90%, the investor will receive 100% of its capital + n * 7,16% of memory coupons and the product will be called.

2) At observation (as from Year 2), if the underlying is below 90%, the product will continue for another year but a coupon of 7,16% will be kept in memory.

3) At Maturity, if the underlying is above 90%, the investor will receive 100% of its capital + 35,8% of memory coupons.

4) At Maturity, if the underlying is between 65% and 90%, the investor will receive 100% of its capital but no investment return will be achieved.

5) At Maturity, if the underlying is below 65%,the investor will realize the same performance as the underlying.

Risk Analysis

Pros:

Attractive coupons are kept in memory even if the underlying falls during the lifetime of the product.

The investor is well protected as the underlying would need to lose 35% at maturity for the product performance to be negative.

Over the past 30 years, this product would have returned at least the initial capital 100% of the time if it was launched at the end of every month. It would have paid coupons 94% of the time.

Cons:

The product offers partial capital protection at maturity only.

There is a risk of capital loss.

The investor takes a credit risk on the issuer, i.e. the insolvency.

WHY NOW ?

Recent Market Rally Was Unexpected

The S&P 500 caught almost every asset manager off-guard by recording a stellar performance of 20.5% YTD while most of them were positioned for a market correction. A continuous fall in inflation readings and a resilient labor market fueled hopes of achieving a soft landing in the US, which propelled equities higher.

As the S&P 500 already posted a strong performance in the first half of 2023, the question is: how much further can it go from current levels? The average analysts year-end price target (based on the estimates of 23 financial powerhouses) for the Index has been revised upwards from 4043 (January estimates) to 4245 (July estimates). While it demonstrates more optimism from market players, it also indicates that they are still expecting a pull-back.

There is No Need to Time the Market

The current situation is rather tricky for asset managers. On one hand, the S&P 500 is now near the all-time-high it reached in 2021 which appears as a possible resistance and as an adequate level to book profits. In addition to this, various analysts suggest that stock valuations are stretched following the latest rally and that the S&P 500 could be heading lower from current levels given the elevated interest rates and the projected slowdown in GDP growth.

On the other hand, some analysts argue that if inflation keeps on falling, the labor market continues to show resilience and corporate profit remains healthy, the stock market could well rally further. From a technical point of view, if the S&P 500 continues to rise (say its break its ATH), it is likely that many short-sellers will be forced to liquidate their positions (short squeeze), in turn propelling equities higher.

This product allows investors to navigate murky waters by offering a long exposure to the market while providing a comfortable protection of 35% on the downside. While the maturity of the product is 5 years, the targeted maturity is 2 years as we expect the S&P 500 to trade at least at 90% of its current price by then (it would be autocalled).

If it is not the case, the product will continue for another year but a coupon of 7.2% (or 9.0%) will be kept in memory. If at the next observation date the S&P 500 goes back to at least 90% of its initial value, the product will be autocalled and all memorized coupon will be paid. This way, investors are not forced to try and time the market as they could get paid 7.2% (or 9.0%) per year at maturity or before, even if the market dips in the meantime.

REDEMPTION MECHANISM

Year 2 Measurement Date Is the Closing Level of the Index at least equal to 90% of its Opening Level?	Yes →	The plan matures early and you receive a gross investment return of 14.32% (or 18.00%)
No ↓		
Year 3 Measurement Date Is the Closing Level of the Index at least equal to 90% of its Opening Level?	Yes →	The plan matures early and you receive a gross investment return of 21.48% (or 27.00%)
No ↓		
Year 4 Measurement Date Is the Closing Level of the Index at least equal to 90% of its Opening Level?	Yes →	The plan matures early and you receive a gross investment return of 28.64% (or 36.00%)
No ↓		
Year 5 Final Level Is the Closing Level of the Index at least equal to 90% of its Opening Level?	Yes →	The plan matures and you receive a gross investment return of 35.80% (or 45.00%)
No ↓		
Year 5 Final Level Is the Closing Level of the Index at least equal to 65% of its Opening Level?	Yes →	No investment return is achieved but the initial capital is fully repaid.
No ↓		

Capital loss equal to the negative performance of the Index

BACKTEST

A backtest has been conducted over the last 30 years (1993-2023) to determine the historical probabilities of achieving the different outcomes offered by the product. A product has been launched at the end of each month over this period. The results can be observed in the table below.

	Observations	Probability
Total Products Launched	337	100%
Autocalled in Year 2	287	85%
Autocalled in Year 3	13	4%
Autocalled in Year 4	6	2%
Matured with Coupons payment	11	3%
Matured with Capital Repayment	20	6%
Matured with no Capital Repayment	0	0%
Product Delivers a Return	**317**	**94%**
No Investment Returns but 100% Capital Repayment	**20**	**6%**
Product Delivers Losses	**0**	**0%**

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