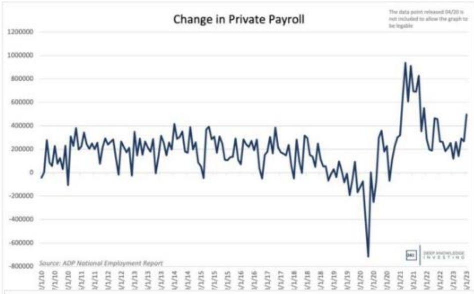
NEW DIMENSIONS CAPITAL

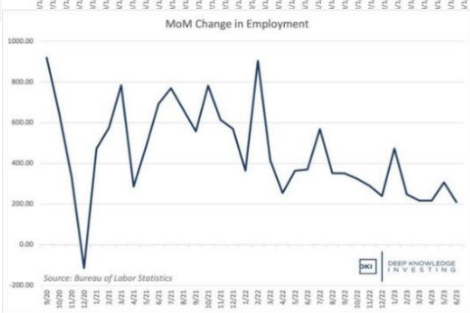
# WEEKLY BULLETIN

July 2023: Issue #1

## Thought of the Week.

We live and work in a low "signal-to-noise ratio' in the data, with narratives that do not converge around fundamentals, prompting us to keep a cautious and active stance in our stock selection and risk management process.




After a week filled with significant events and announcements, the prevailing sentiment in the US appears to be one of cautious support. While no catastrophic events have occurred, there are still lingering concerns surrounding several risky questions, such as the potential risk of a Fed rate hike and the higher reported bankruptcy rate in the first half of the US. These uncertainties have led portfolio managers to exercise caution, with still some fully committed to pursuing a growth-oriented or risk-taking portfolio theme.

Last week, Janet Yellen held 10 hours of trade and economic talks in China. The outcome was that the meetings yielded no new agreements while the fact that drew most engagement through different channels was the Beijing restaurant where Yellen dined that now offers a "God of Money" menu featuring the dishes she ordered.

Another highlight of the week was the set of employment numbers coming from US. On Thursday, we got a positive report on US private sector job growth, with 497k new jobs added (double the expectations) while the next day, the Labor Department showed June hiring at 209k jobs, below expectations for 240k. The unemployment rate fell from 3.7% to 3.6%. The job market is seasonal, while these reports come every month and implement different measures of employment calculations. This can be the reason why the numbers don't match each other.

These divergent figures are all part of a broader equation that not only market participants look at, but the Fed too. The current narrative is, surprisingly, that a negative number from employment will deter the Fed to hike rates further, therefore becomes good news for markets, especially the stock market. We are still pondering….

## Last Week 's Notable Events.

### US Economy/Politics

- Wall Street ends the first half of 2023 on a high note – 3rd Jul.
- Janet Yellen to visit China beginning July 6th, Biden administration doesn't seek decoupling – 3rd Jul.
- Oracle's cloud business in crosshairs of new Biden China rule – 6th Jul.

### Europe and UK Economy/Equity

- Britain is the only major economy where inflation is still rising – 4 Jul.
- Germany faces €31 billion budget cut, triggering coalition infighting – 5th Jul.
- Europe's economy tightens amid signs of recession – 7th Jul.

### Asia Pacific Economy/Equity

- China's economy maintains recovery momentum as consumption gains traction – 2th Jul.
- Protests in South Korea over Fukushima nuclear plant wastewater release – 6th Jul.
- MAS posts record net loss of S$30.8 billion amid rise in Singapore dollar, higher interest expenses – 6th Jul.

## Other News and Quotes.

- Fed officials were wary about slow inflation progress at Jun meeting – 5th Jul.
- India in talks to supply green hydrogen to EU, Singapore – 7th Jul.

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## Weekly Data Monitor.

**Performance**

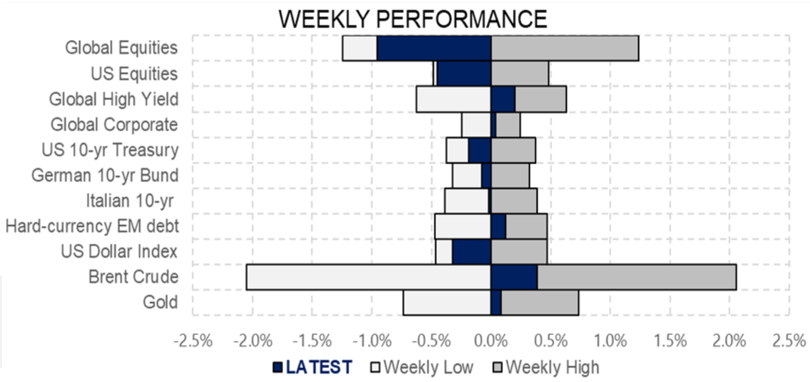
- Relative weakness across the board.
- Real Estate reversed into slight positive.
- Bonds indices weaker too.

| INDEX | Weekly % | MTD % | YTD % | 1YR % | 3Y % | 5Y % |
|---|---|---|---|---|---|---|
| Global Equity | **-1.34** | -1.32 | 12.43 | 12.69 | 30.61 | 42.67 |
| Global Real Estate | **0.20** | 0.20 | 1.80 | -6.78 | 11.94 | 15.70 |
| US Real Estate | **0.11** | 0.11 | 4.15 | -3.65 | 19.54 | 23.48 |
| APAC Real Estate | **-0.97** | -0.96 | -6.42 | -10.31 | -14.30 | -21.01 |
| Investment Grade | **-0.61** | -0.60 | 4.74 | 6.78 | 7.89 | 16.79 |
| High Yield Bonds | **-0.66** | -0.66 | 0.76 | -1.31 | -15.44 | -6.13 |
| Global HF Real Estate | **-0.17** | -0.17 | 0.46 | 1.79 | 6.91 | 8.27 |
| Global HY ETF | **-1.44** | 0.67 | 4.58 | 7.41 | 23.95 | 17.18 |
| ASIA Real Estate ETF | **-1.70** | -3.21 | -7.76 | -17.82 | -11.99 | -2.77 |
| USD Index | **-0.63** | -0.52 | -1.10 | -4.32 | 5.93 | 8.73 |

**Weekly chart**:

- Short week resulted in low variances.
- Equities closed at lowest levels.
- Brent crude seems out of steam.

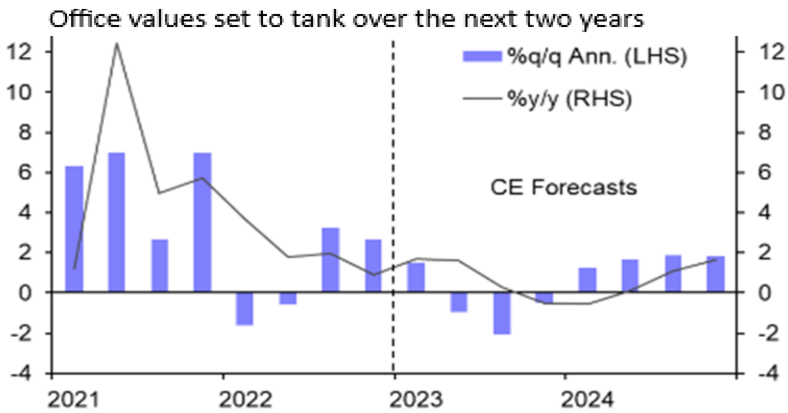
Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.




## Chart of the Week.

We covered in our Monthly Bulletin, the issue of Real Estate valuations and whether the effects of the 500bps rate hikes effected by the Fed are already priced in the market.

The general understanding is that the bad news have already been accounted for, as the sector is valued bellow the 25th percentile. Also, many REITs are well prepared to deal with a challenging credit environment, due to long Average Maturity of Debt, low leverage risk and interest coverage ratios at reassuring levels.




Although regional bank failures appear to be helping crystallize some of the risks to commercial real estate prices, the lagged effect of the rate hikes is expected to affect valuation of the commercial properties. The greatest pain will be felt in the office sector, where NOIs are expected to drop substantially on the back of remote-work driven office space reductions. As a result, office capital values will fall by over 30% and, even over a five-year basis, total returns could limp to just 0.5% p.a. (see the Chart of the Week). Retail is still the best of the bunch. Here, after this year, we think returns will average 7.5%-8% p.a. in 2024-27, on the back of gradual increases in capital values and income returns of 5.5% p.a.

The very cautious stance of Capital Economics team (described above and illustrated by the Chart of the Week) is based on REITs sector 's profitability measures. Profit margins have fallen almost 20% over a period of rising interest rates when profit margins for REITs usually grow, while operating income is negative too. These paint a dark picture for the months ahead, especially for the market participants that expect a recession ahead.

Excessive caution may not be warranted due to the strong balance sheet for REITs, but for now we are very selective and active in our allocations to this sector.