MONTHLY BULLETIN August 2023

Thought of the Month

For the month of July 2023, the main themes that affected our portfolios and their respective strategies are:

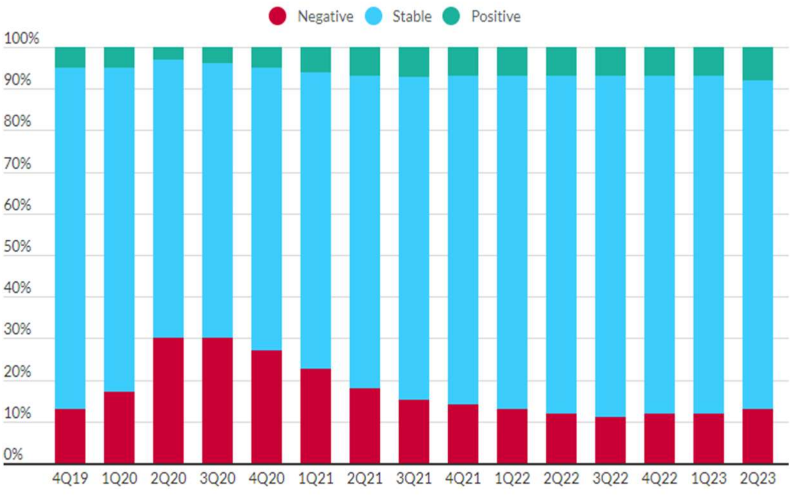
1 – Lower inflation readings prompts strategists to return to optimism. Is it realistic?

"We are more optimistic as the economy has been quite resilient. Layoffs are still very low and there has been an impressive rebound in real disposable income growth. We are also seeing less of a drag on growth from the monetary policy tightening and rate hikes," said Jan Hatzius, chief economist, and head of global investment research at Goldman Sachs.

In our mind, while falling inflation supports the expectations for a Fed pivot on monetary policy, it also poses a risk to nominal revenue growth and earnings. With price being the main factor keeping sales growth above zero for many companies this year, it would be a material headwind if that pricing were to roll over.

Investors need to focus more on top line growth acceleration to identify the winners from here. This will be harder to find due to fast falling inflation, and cost cutting or better than feared earnings results would no longer get it done, at least for the growth sectors. On the other side of the ledger, we have value stocks where expectations are quite low. In July 2023, financial stocks outperformed on earnings results that were far from impressive, but not as bad as feared. That trade is likely behind us, but with China now offering some additional fiscal stimulus in the near term, energy and materials stocks may be poised for a catch-up move using that same philosophy.

At the end of July, Fitch Ratings has published an article underlying that the share of Negative Outlooks has increased slightly for the portfolio of publicly and privately rated global non-financial corporates in the past six months, even though net rating activity was slightly positive during 2Q23. 13% of the rated portfolio had a Negative Rating Outlook, compared to 12% at 1Q23 end and 13% at the end of 2Q22. The slight uptick is driven by Fitch Ratings view on future credit metric trends in North America (NA), which represents approximately 40% of the issuers included in the analysis. EMEA, APAC and Latin America represent roughly 25%, 15% and 20%, respectively.



Note: Global includes North America, Europe, Middle East and Asia (including emerging markets) and Latin America. Includes publicly and privately-rated non-financia corporates.
Source: Fitch Ratings

2 – How real is the negative narrative around China's economic growth?

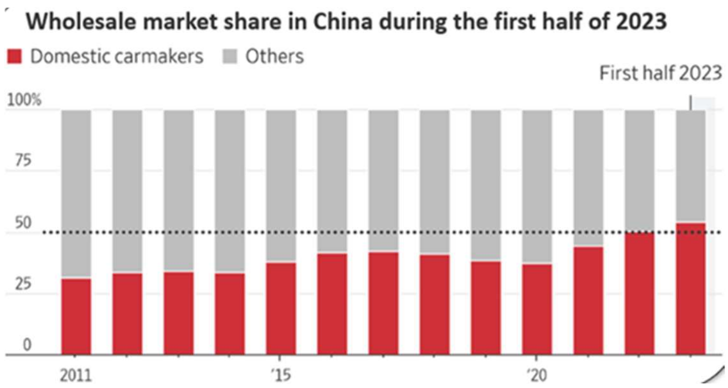
Chinese equities rallied after Beijing signalled it will provide more stimulus to support the economy. The Shanghai Stock Exchange Index gained 3.42%, while the blue-chip CSI 300 soared 4.47%. In Hong Kong, the benchmark Hang Seng Index rose 4.41%.

Following the PMI announcements in July, investors are excited about the US growing at 2.6% rate. This is nothing better than China 's 6.3% GDP growth, even if considering the lower base. Some of the issues that China faces, are also not much worse than the ones in US. Demographic problem caused by aging population and shrinking manpower is not much worse that in the US (only Africa and the Middle East do not face such problems). The 'overbuilt' real-estate is a long-term issue in China and so it is in other regions too – US and Europe face similar issues with commercial Real Estate.

A significantly good sign is the fact that Chinese government is turning pro-business. China's largest tech companies, including Tencent and Meituan, have been asked by the Ministry of Commerce and the National Development and Reform Commission to provide case studies of their successful startup investments in consumer, telecom, and media companies. This indicates a potential easing of restrictions on such deals after a crackdown two years ago. While the reasons for the new requests are not specified, any broadening of favourably viewed investments could signal a reversal of the previous crackdown on "disorderly capital."

In response to the news, shares of Meituan and Tencent rebounded, and the Hang Seng Tech Index also rose to its highest level since February 2023.

Chinese export of technology grew 4-times during the last decade, based on an article by tenviz.com. Additionally, China's homegrown passenger-car brands are gaining significant traction, consistently outperforming Western rivals in the country's wholesale car market. Local brands accounted for 54% of sales in the first half of 2023, up from 48% the previous year with the sales in EV growing significantly recent years.



There is a growing talk of Chinese EV automakers exporting their EV cars to Europe, Asia and possibly even the US. In fact, some China-built cars are already for sale in the US under Western brands, including the Buick Envision, Polestar 2 and soon, the Lincoln Nautilus (source tenviz.com). China's BYD is already electrifying the bus fleets in North America, although recent regulations seem to stop this trend.

From the News Desk to the Investment Team

- 7th July - President Xi urge Jiangsu to take lead in advancing Chinese modernization.
- 8th July - Lawrence Summer warn on inflation complacency, sees more bond declines.
- 8th July - Yellen met with China's new economic policy leaders and toned-down US talk of "decoupling."
- 11th July - China June new bank loans jump more than expected on policy support.
- 13th July - Japan government pensions fund invests $500 million in Black stone real estate fund.
- 14th July - US budget deficit nearly triple through June 2023.
- 17th July - PBoC rolled over maturing medium-term policy loans and kept the interest rate unchanged.
- 18th July - Private equity fundraising declines for third consecutive quarter.
- 18th July - EU plans €20 billion fund to stock Ukraine's miliary for years.
- 19th July - UK inflation rate slides to 7.9% in June, below expectations 8.0%. CPI in Europe at 5.5%.
- 19th July - Saudi Arabia is the biggest recipient of VC investments in MENA for H1.
- 20th July - Goldman profit tumbles on real estate hits, dealmaking slump.
- 24th July - Euro Zone July Composite Flash PMI 48.9 vs exp 49.7.
- 24th July - US July Manufacturing PMI 49.0 vs exp 46.2, Services PMI 52.4 vs exp 54.0.
- 25th July - China securities regulator vows to further open up capital markets.
- 26th July - China's Youth unemployment threatens Xi's economic vision.
- 27th July - Fed lift rates, Powell leaves door open to another hike in September.

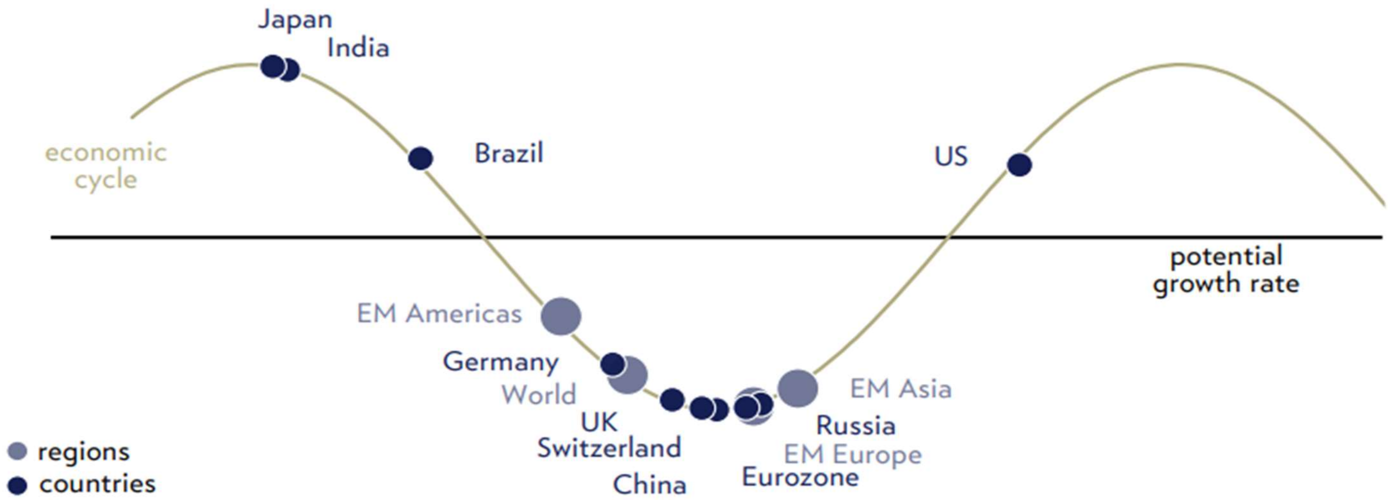
World economies are cooling as the rapid monetary policy tightening is starting to bite. The impact will be more strongly felt later in the year when we expect global growth to slow and stagnate towards early 2024. Challenged by high inflation, central banks have raised policy rates to levels above neutral and look like peaking in most economies, since inflation cools, and economic activity is slowing.

A revival of consumption and improved investment lift growth prospects and inflation pressures in Japan. The BoJ is shifting away from its ultra-expansive stance only very gradually, lacking any decisiveness at its end of the month meeting.

In China, economic momentum has slowed markedly after the initially strong reopening boost. Growth may stay lacklustre in the absence of improving confidence and policy support. We have so far been disappointed by the economic activity stimulated by China's reopening but still expect this to improve as we continue in 2023.

For additional information, please contact **New Dimensions Capital**:
P +65 6982 7133 **E** info@newdimensionscapital.com

Julius Baer report provides a report about the state of the World economies and their place in the economic growth cycle:



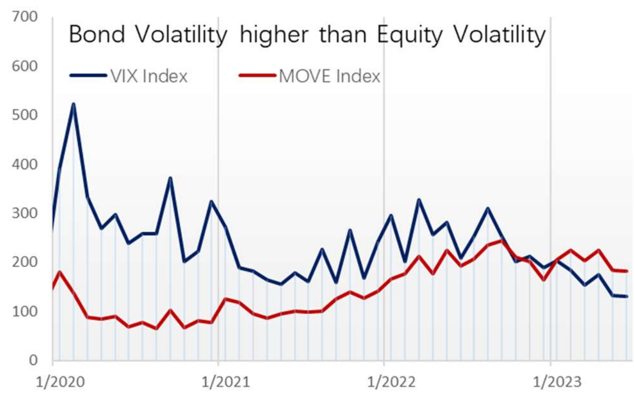
Source: Julius Baer; EM = emerging markets; status: August 2023. * Relative position of economies: a) within their respective business cycle, b) relative to the cycles of peer economies, and c) relative to their own long-term growth potential (horizontal line).

While this captures an interesting dynamic in the World economies, we are weary and worried about the representation of Japan and India at the verge of a down drop while US keeps growing, despite the respective PMI numbers (for example). The PMI numbers to be reported in August will hopefully bring the necessary confirmations.

Interest rates may have not yet peaked in the US and many other developed markets, and inflation remains sticky, particularly in the UK and eurozone. Liquidity has fallen dramatically, and we think that cracks could still appear from the strain of high debt and servicing costs. Investors still need to remain very selective.

For a further understanding of markets, implied volatilities for both US equities and US high yield bonds have continued the strange relationship, with equities volatility still at subdued levels. The ICE BofA MOVE Index tracks volatility in the (high yield) bond market and returns from levels last seen during the 2008 G.F.C. and above equity volatility (CBOE Volatility Index, or VIX, tracks equity volatility).

Sources: Bloomberg, New Dimensions Capital, as of 31st July 2023.



Looking forward:

- Equity markets kept a positive tone in July, well above our expectations. We have adjusted hedges and lowered the short equity trades while devising a process less reactive and more aligned with markets giving signs of weakness. Unless inflation readings across the developed economies heat up again, we expect the trend to continue.

- We remain convinced by the robust macroeconomic backdrop surrounding emerging market equities and believe that there is a significant amount of catch-up potential. Looking at the big picture, EMs are expected to grow by 13.3% between 2023 and 2025 cumulatively, while developed markets are forecasted to expand by only 4.1% over the same three-year period. If one is not ready to invest in China could use the MSCI EM Small Cap Index as an alternative or a complementary exposure.

Investment Views

The 3-month to 10-year US treasury spread inversion - traditionally a harbinger of recession – holds at deep levels of inversion for a long period already. This is due to the short end rising as bond investors reprice for further rate hikes this year having expected three cuts just two months ago. The longer end is falling because investors are parking capital in safer areas and seeking duration exposure if a recession is in store.

While the bond market sharply adjusts to changing macro expectations, equity markets continue to rally as an optimistic macro-outlook on better data suggesting disinflationary trends, resilient consumer spending, and a soft economic recession, outweighed the hawkish higher-for-longer narrative emanating from the global central banks.

Based on our sector analysis, growth or technology names performed well in July 2023 as well, although at a much lower pace (recall the Global Growth sectors reaching 6% in June when reading the 2.7% in July 2023). A move that attracted our attention and that we think it will continue is the increased interest in Low Volatility names (a defensive sector) that brough more than 3% for the month (after attracting no interest in May and June).

Jul-23	GLOBAL GROWTH	APAC GROWTH	GLOBAL QUALITY	APAC QUALITY	GLOBAL MINVOL	APAC MINVOL	Global IG 1-3Y	Global IG 3-5Y	GLOBAL HY	GLOBAL YIELD
	EQUITIES						BONDS			EQUITIES
1 MONTH	2.70%	2.98%	3.23%	2.95%	1.39%	3.27%	0.47%	0.33%	1.77%	3.40%
1 QUARTER	11.60%	11.18%	10.86%	7.81%	0.33%	3.04%	0.41%	-0.62%	3.16%	3.63%
1 YEAR	16.35%	15.04%	18.03%	6.03%	4.49%	5.87%	1.63%	-2.56%	8.08%	8.89%
3 YEARS	31.70%	26.15%	41.06%	2.50%	15.43%	5.57%	0.21%	-8.31%	1.36%	33.01%
5 YEARS	74.76%	65.35%	81.43%	24.77%	30.53%	0.97%	7.43%	-3.10%	10.12%	34.47%
10 YEARS	201.17%	179.10%	219.62%	92.30%	107.19%	45.40%	14.29%	1.74%	40.64%	87.62%

Source: New Dimensions Capital, Bloomberg.

To add some perspective to this factor performance analysis, we have gathered data from State Street custody business and realised that flows continued to flow into US and Global products, while Japan and Europe saw a

last half-month of outflows. Looking flows allocated to sectors, the trend continued in outflows from global financials and energy sectors, and inflows (at lower levels, though) into Consumer Discretionary and Communications. Although both cases make the case of slight risk-off moves, almost all equity markets closed at hights or near their highs, adding between 2.5% and 4% to an already successful half year. A strong week at the end of July brought MSCI China Index in the lead with almost 9% monthly return.

Our interest stays with Asia where we see several drivers of structural growth in infrastructure building (industrials), automation and digitalization (tech related spending) and to a lower extent demographics (healthcare).

Although we are reluctant investing in China for now, we expect to see some results of the government support granted to home buyers and also development companies. Investors favour the Real Estate sector for future growth which is trading above its 3-year average PE ratio. Analysts are most optimistic on the Telecom sector, expecting annual earnings growth for the sector at 39% for the next 5 years.

A strong underlying thought for the month of July 2023 was the strange divergence between the low inflation levels (the tape shows CPI = 3%) and the Fed 's reaction to it. Since the narrative is that now Fed and other Central Banks are 'data dependent', it comes as a surprise the fact that the Fed hiked rates and even mentioned of further hikes. We are bewildered by such a move, having Fed pointing to an inflation level that is not as they would accept versus the market playing an exuberant game on back of lower prices and inflation.

One more reason for us and any investor to keep our guard up and monitor any change in the current extra-positive narrative.

New Dimensions Capital – About Us

"It is better to be roughly right than precisely wrong."

— John Maynard Keynes, *father of modern macroeconomics*

Over the last seven decades, a combination of stocks and bonds (50/50 or even the famous 60/60 balanced portfolio) has never produced a negative return across a five-year rolling period.

Real-life risk management follows measurements over much shorter time periods, with risk factors anchored on events that can reduce accounting profits rapidly.

An effective risk-management program often includes a combination of financial hedges and nonfinancial levers to alleviate risk. Yet few companies fully explore alternatives to financial hedging, which include commercial or operational tactics that can reduce risks more effectively and inexpensively.

Since the inception of the income fund, New Dimensions Capital has partnered with UOB Kay Hiang and Maybank Prime Services to allow for hedging our portfolio using SP500 and MSCI Singapore Index futures. In addition to that, following an institutionalized portfolio construction methodology, we have built a short-equity position as an additional way to limit the downside of our portfolio.

The process is competed as a full integration into the investment process at New Dimensions Capital.

For additional information, please contact **New Dimensions Capital**:
P +65 6982 7133 **E** info@newdimensionscapital.com