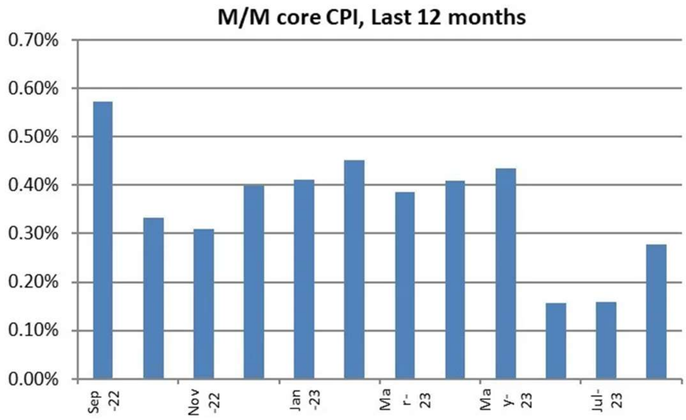
WEEKLY BULLETIN

September 2023: Issue #2

Thought of the Week.

Stocks market hangs for its life on the "Soft Landing" narrative, despite growing evidence to the contrary. What shall investors do in such economic, financial, and fiscal environment?



Most worrisome is the fact that Federal Reserve losses breached the $100 billion mark with the U.S. central bank continuing to pay out more in interest costs than it takes in from the interest it earns on bonds it owns and from the services it provides to the financial sector. A money-losing Fed has not been a surprise given its aggressive campaign to raise interest rates.

The problem we are seeing is that due to base effects, core inflation may still be lower than last year but we are entering into a new regime where the narratives transition from "inflation is coming down" to "it is going top get harder from now on".

Going back to our question about where to invest, we start from the base that in US, fiscal and monetary policies are following opposite paths. Monetary policy is trying to constrain economic activity while the impact of supportive fiscal policies is kicking in, so we should expect interest rates stay at higher levels for longer.

Fixed income assets may not be as safe as they used to be, equities markets are under the clear and present danger of a strong consolidation, commodities tend to have a mind of their own besides being denominated by US$ and inherently taking those respective risks. In our investments, we are very selective and slightly shorter term oriented.

Last Week 's Notable Events.

US Economy/Politics

- US government shutdown threatens economic risk, Treasury official – 12 Sept.
- US bank economists see a slower US economy, no recession and 100 bps of Fed cuts from May 2024 – 12 Sept.
- Wholesale inflation posts largest increase in 14 months, US PPI shows – 14 Sept.

Europe Economy/Equity

- Germany to be the only major European economy to contract this year as recession lingers – 11 Sept.
- Europe, not America is now Ukraine's largest backer – 12 Sept.
- The ECB hiked rates 25bps, taking the deposit rate to 4.00% - 13 Sept.

APAC Economy / Politics

- China's ban on foreign handsets mainly aimed at iPhones, but may also hit Samsung, LG – 11 Sep.
- Top fund managers pile into Japanese banks on BOJ tightening bets – 13 Sept.
- China financial regulators vow to not hesitate, halt bets on yuan – 11 Sept.

Notable News and Events:

- Biden to use G20 summit and Vietnam visit to highlight US as trustworthy alternative to China.
- BoE policy meeting Sept 21st (Thurs), FED meeting Sept 20th (Wed).
- Extreme heat, fires and floods threaten Europe's economy – 12 Sep.

Weekly Data Monitor.

Performance

- A reversal in performance from last week.
- APAC RE still weak.
- Bonds keep levels from last week.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	**1.14**	-0.02	14.78	15.67	25.18	44.09
Global Real Estate	**1.00**	-0.46	-0.03	-5.76	4.18	13.11
US Real Estate	**0.84**	-0.33	2.26	-3.98	10.07	20.19
APAC Real Estate	**-1.16**	-1.08	-6.28	-7.00	-17.36	-17.69
Investment Grade	**0.31**	0.01	7.14	7.59	5.80	17.39
High Yield Bonds	**0.03**	-1.22	-0.49	0.66	-18.29	-6.66
Global HY ETF	**2.75**	1.12	8.23	12.22	30.57	25.09
ASIA Real Estate ETF	**0.48**	0.00	-8.20	-17.40	-5.82	-3.82
USD Index	**0.22**	1.65	1.74	-4.02	13.19	10.96

Weekly chart:

- Tight range week.
- Brent Crude 3rd week of gains.
- US$ and Gold little changed, surprisingly.

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

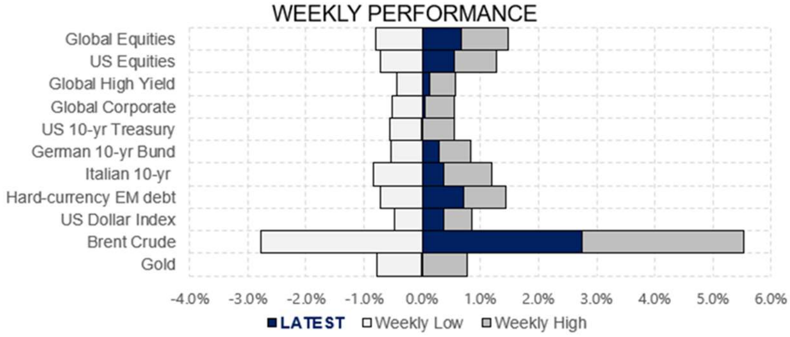
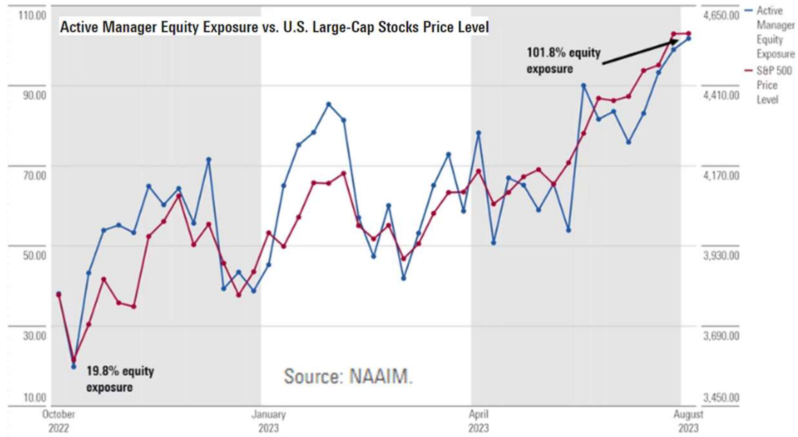


Chart of the Week.



Using data from the National Association of Active Investment Managers showing the average exposure to U.S. equity markets reported by its members, active equity managers have gone from around 20% exposure to equities in October (when the market bottomed) to a leveraged equity position, with more than 100% net exposure through the end of July,

It looks like many investors liked equities the least when they were on sale, and their attitudes flipped when prices ran up. Investor behaviour around weaker markets are main reasons for the change in risk and the increased volatility when risk is off (October 2021) and the recent low volatility.

So, is following the market and adding to active allocations an advisable thing to do?

A very practical answer comes from Morningstar research, pointing to the fact that in short term, market is obviously unpredictable.

For example, since 1970, the S&P 500 had 19 different times an annual return of at least 20%:

- Eight of those 19 years (42% of the time) saw an intra-year decline of 10% or more.
- 17 of those 19 years (89% of the time) saw an intra-year decline of 5% or more.

Given that the U.S. market is up around 20% already this year, this is good evidence that a market correction is coming. Based on specific investment horizon and targets, going forward should be based on strict risk management rules. If the investment horizon is short, it is advisable to transfer allocation from risky assets (equities) to safer ones (bonds), while allowing higher allocation to risky assets for long investment horizon,