NEW DIMENSIONS CAPITAL

WEEKLY BULLETIN

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Quote of the Week.

The stock market is the story of cycles and of the human behaviour that is responsible for overreactions in both directions – Seth Klarman

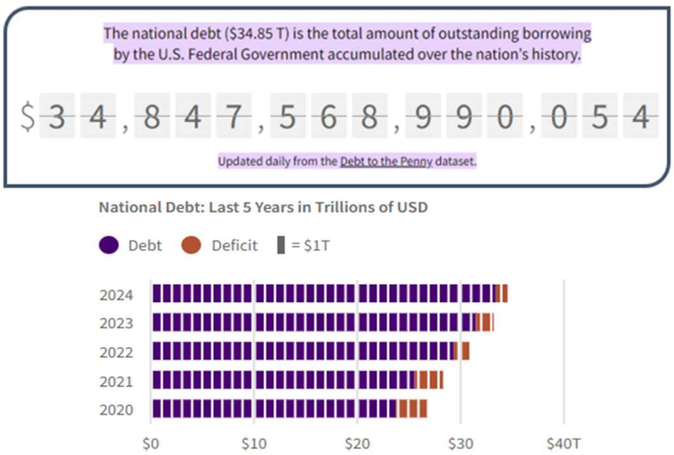
The first week of July witnessed another robust start for the S&P 500 and Nasdaq, driven by the relentless upward trajectory of Mega-Tech, carrying forward from a strong June performance. Despite the Federal Reserve delaying rate cuts and President Biden's terrible debate performance that boosted uncertainty on US elections, these factors did not dampen the stock market's fervor. However, beneath this exuberance lies a more troubling narrative, as highlighted by a recent IMF report.

IMF's Stark Warning

The IMF has issued a stark warning to Washington about its rising deficits, projecting that the U.S. debt-to-GDP ratio could reach an alarming 140% by the end of the decade. According to the IMF, "such high deficits and debt create a growing risk to the U.S. and global economy, potentially leading to higher fiscal financing costs and jeopardizing the smooth rollover of maturing obligations." Additionally, the IMF has pointed out that intensifying U.S. tariffs and other trade barriers, along with industrial policies favoring domestic firms, pose significant downside risks. These measures could distort investment flows and undermine the global trading system, affecting not only the U.S. but also its allies' economies.

The Growing Debt Concern

A quick search reveals that the U.S. national debt is now approaching a staggering $35 trillion, up from $33.17 trillion at the end of 2023. In 2024, the federal government spent $1.67 trillion more than it collected, even in the absence of a major crisis. This raises questions about the sustainability of such spending practices and their impact on the stock market.



Market Implications

While I am not advocating that the market will undergo a sharp unwinding in the coming weeks, it's essential for prudent portfolio managers to constantly assess the environment for signs that could derail the current euphoria, especially during periods of high valuation and rampant 'fear of missing out' sentiment. At this juncture, it's crucial to provide a balanced perspective on why I am refraining from significant investments in U.S. markets despite the current upward momentum. The pattern of unchecked U.S. spending may not be sustainable in the long term, particularly as more countries choose not to hold U.S. debt. If the U.S. were to curtail its spending, it could trigger significant market risks. While the market's short-term outlook appears bullish, long-term risks are mounting. Therefore, diversification and risk management should be at the forefront of any investment strategy in these uncertain times.

Last Week 's Notable Events.

US Economy/Politics

- IMF blasts US for risky deficits, debt, trade and bank rules – 27th Jun
- Most voters want Biden to step down, but don't agree on suitable alternative – 1st Jul
- Fed minutes report cites high inflation and economic risks in decision to hold rates – 4th Jul
- US Nonfarm Payrolls 209k vs expectation 190k, last 272k adjusted to 218k – 5th Jul
- US Unemployment rate 4.1% vs last 4.0%, exp 4.0% - 5th Jul

Europe Economy/Politics

- European central bankers have warned that risks including trade tensions and high government debt are piling up for the region – 4th Jul
- UK Labour sweeps to power as leader Starmer vows to bring change – 5th Jul Reuters

Asia Pacific Economy/Equity

- South Korea's Export growth accelerates on record chip sales – 1st Jul
- India regulatory response shows NY fund profited most from short Adani – 3rd Jul
- China's BY opens EV factory in Thailand, first in South-East Asia – 5th Jul
- Malaysia and Thailand joining BRICS affirms the global south strategy – 5th Jul

Weekly Data Monitor.

Performance

- US market leading with significant gains.
- APAC Real Estate rebounds from lows.

Weekly chart:

- Oil inched higher on geopolitical risks and supply fear.
- Renewed Fed cut expectation and USD weakness push Gold back to 6 week high.

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

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	1.94	1.98	13.50	23.37	19.95	68.94
S&P500	1.92	1.95	16.72	26.56	28.85	87.07
Global Real Estate	0.15	0.15	-2.85	5.08	-10.95	5.65
US Real Estate	-0.26	-0.25	-3.12	4.40	-7.66	12.86
APAC Real Estate	1.64	1.67	-4.21	0.51	-26.82	-28.11
Investment Grade	0.28	0.28	2.87	11.42	4.94	21.25
High Yield Bonds	0.68	0.69	-2.50	2.29	-15.62	-8.70
Global HY ETF	2.06	0.03	5.23	12.31	16.89	30.62
ASIA Real Estate ETF	0.16	-1.60	-14.68	-12.66	-30.57	-35.59
USD Index	-0.94	-0.89	3.54	2.59	13.53	7.74
Gold	2.73	2.50	15.60	23.87	32.29	70.90
WTI Oil	1.95	1.73	15.77	12.31	13.72	43.86

Chart of the Week.

As the US market continues to reach new heights non-stop, valuation-conscious investors are eager to spot early signs of a major correction. If I had to pick one economic data point likely to trigger a sell-off and jolt the market out of its euphoria, it would be the US unemployment rate. This rate has been subtly rising: 3.8% in March, 3.9% in April, 4.0% in May, and now 4.1% in June. This creeping increase could be the pin that pops the balloon of the current bull market. Keep this on your radar—it could be the game-changer in the coming months.