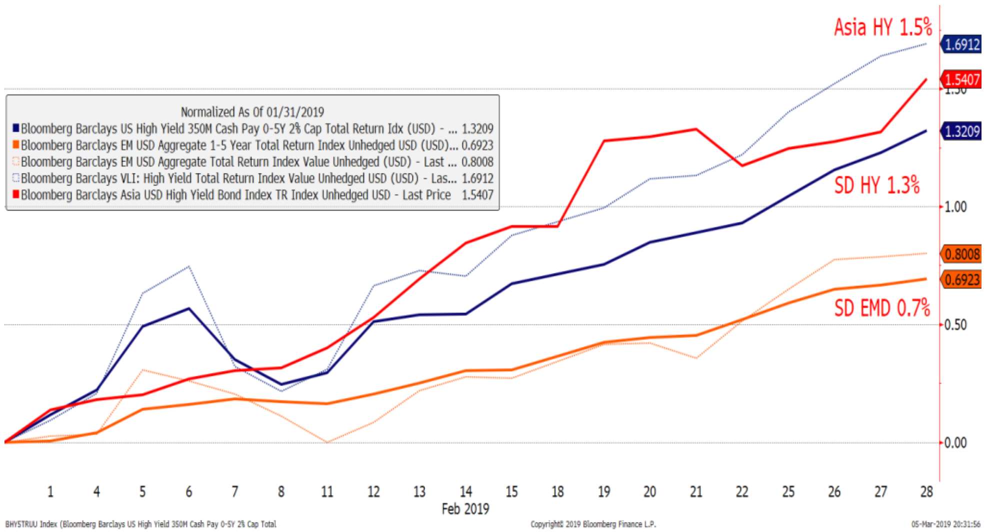
Monthly Investment Update
March 2019

Market Review: Fixed Income

The positive run for 2019 continued into February, albeit at a more moderate pace. The risk-on environment persisted, though not like January when everything went up; safe-haven assets (government bonds) detracted while credits and equities rallied.

In two months, global equity markets have recovered last year's losses. Sovereign bonds, which have been facing downward pressure due to rising rates but serve as a portfolio buffer during stress, ended up flat in the 14 months till February.

Short duration debt kept pace with broader markets



Source: Bloomberg

Few people like to be flat after investing for a year or so, but in the context of risks from geopolitics, slowing economies, uncertain monetary policy, it's a fair outcome.

Unhedged sovereign bonds (which anchor many benchmark-sensitive funds) were -0.6%. **Investors familiar with our portfolios will know we have been holding currency-hedged bonds (+0.12%) for some time as we feel it plays a better safe-haven role**.

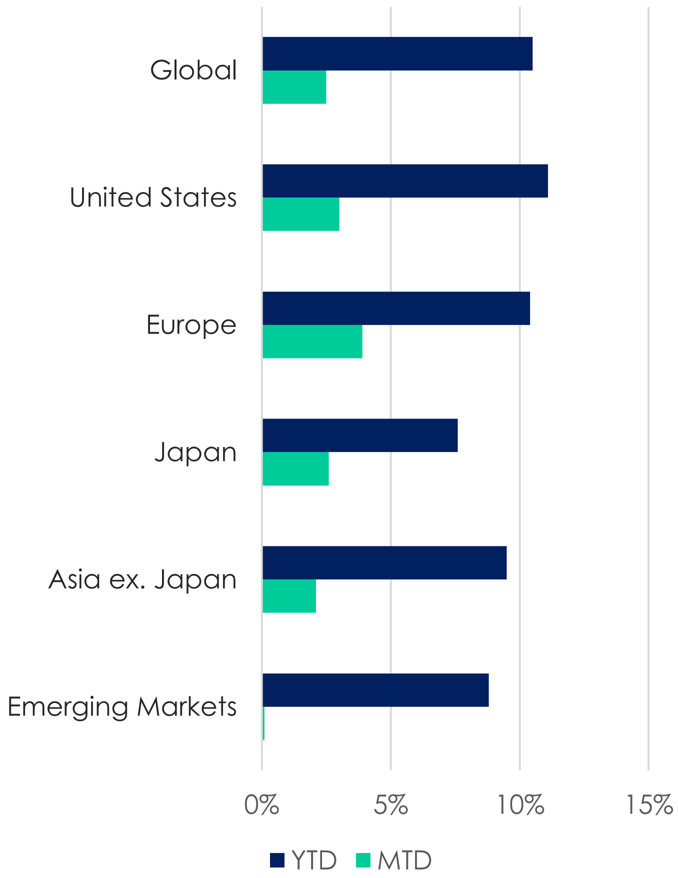
In a manifestation of the risk appetite, all credit markets were positive. Short duration credits in high yield and emerging markets gained between 0.7% to 1.3%, lagging their respective markets (as shown on the chart), but to a lesser extent compared to January. **Asian high yield, which we went into in Q4 last year after years of patiently waiting for valuations to be compelling, clocked in 1.5%, bringing YTD gains to 5.2%.**

The US economy is going through its longest economic expansion since 1854, and propping up the rest of the world. Everyday that markets continue to rise, there are opposing views on how long this will persist. It's pretty interesting how people feel that some pull back is inevitable yet don't want it to happen.

We've been asked: Why not sell everything and lock in some profit? Extending our fisherman analogy from our market update last August, we continuously assess different seas for different types of fish. If certain seas are rougher and the fish not worth catching, we move to friendlier waters. If all the seas are hostile and devoid of fish, that's when we head back to base. Currently, we do not see the markets as being that hostile or devoid of opportunity.

Market Review: Equities

Regional Equity Performance



Returns in index currency terms as of 28 Feb 2019
Source: Bloomberg

Equity markets extended gains in February, as investors continued to be emboldened by the prospect of less restrictive central bank policies, as well on progress around the US-China trade negotiations.

In the US, technology stocks led gains in the past month, benefitting our allocation to US Large-Growth equities. In contrast, the defensive healthcare and consumer staples sectors lagged. Even as we observed a general rotation into cyclical sectors (sectors that usually do well with a strong economy), financial equities underperformed. Being an economically-sensitive sector, their uninspiring performance can be construed as reflecting underlying growth concerns. In January, we were more pre-emptive in reducing our financial exposures in response to a moderation in global economic activity.

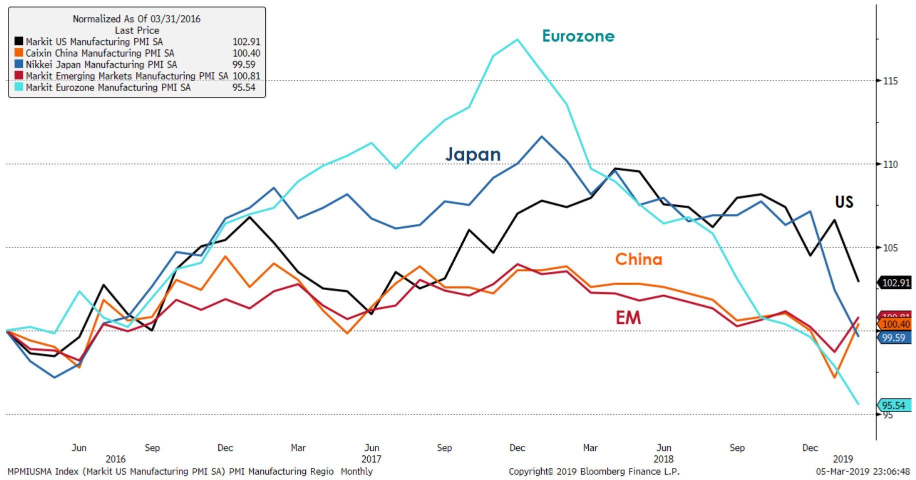
European equities posted gains of 3.9%, even as investors had to deal with weaker growth numbers. Perhaps it was a case of 'the rising tide lifting all boats', or where markets were overly pessimistic in the prior months. Despite negative reports in the past few weeks; with Germany narrowly avoiding a recession, and Italy reporting two straight quarters of declining GDP - both markets saw positive returns in February. We continue to assess the risk drivers for a case to be made in Europe.

China 'A' was the standout performer in February, gaining a blistering 14.6% in a single month. The easing of trade concerns, coupled with the prospect of more economic stimulus supported risk-taking even as economic data remained weaker. It helped that China A valuations were historically attractive coming into the year, which also guided our process in maintaining our exposures here.

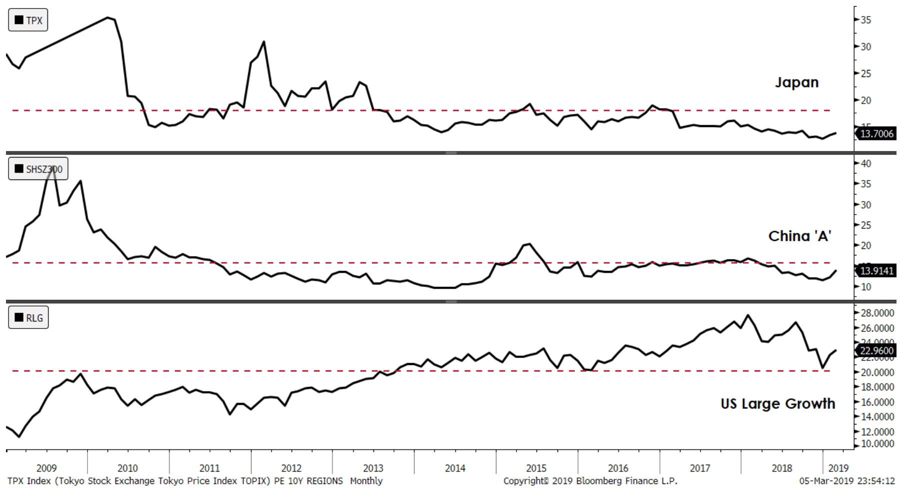
With the outsized gains seen in China 'A', it is interesting to see Asia and Emerging Market (EM) equities lagging behind. China 'H' - the largest component of EM Asia - gained a more modest 3% return in the past month. Within EM equities, South Africa and Brazil detracted after their strong performance in January.

Key Themes: Peak growth

Economic activity has turned down meaningfully for a few countries



P/E ratios in China & Japan still below their 10 year average



Source: Bloomberg

We entered the new year with an environment vastly different from just one year ago. At the end of 2017, there was immense optimism that the synchronized growth environment would propel risk assets much higher. Since then, global growth has slowed considerably, with recent numbers even pointing towards a contraction for a few economies. Which then prompts the question: if growth has peaked, how should we invest in such an environment?

Recently, the previously resilient US economy has been showing signs of further weakness, alongside a general moderation of growth globally. Increasingly, there is a strong case that growth has peaked this cycle; and that the strongest growth is behind us. That said, we must also consider the potential effects of central bank intervention. For instance, central banks are able (and are more willing) to deploy a range of tools to manufacture a resurgence in economic activity and asset prices.

In such a uncertain environment we prefer to invest in US large-growth companies with strong earnings, low debt, and overall healthier balance sheets. These characteristics make them more resilient in a slowdown, or in a less accommodative environment; in short, less at the whim of central bank policy.

Despite the positive performance YTD, recent data showed manufacturing activity declining in Europe and Japan, and joining China in contractionary territory. **While we continue to look out for signs of further deterioration, we are positioned in areas with more valuation support i.e. in China and Japan.** The strong YTD performance of China 'A' is a good case in point: where we can harvest large gains, and at the same time lean on attractive valuations for some support.

Key Themes: Central bank tightening

"Do economic recoveries die of old age?". This very question was addressed by the Federal Reserve Bank of San Francisco in Feb 2016* when the recovery was 80 months old. Since then, the recovery has lasted 116 months and have markets rallied another 44%.

Recently, ex Fed chair Ben Bernanke said that expansions don't die of old age, but they get murdered. Well, the current Fed chair is trying his best not to be guilty of murdering the recovery.

The standard playbook prescribes that bear markets are preceded by recessions, which are in turn preceded by yield curve inversion. While we will not discuss curve inversion here, **the Fed's pause has pushed back recession (and an ensuing bear market) by at least a year.**

*https://www.frbsf.org/economic-research/publications/economic-letter/2016/february/will-economic-recovery-die-of-old-age/

Odds of further US rate hikes have diminished significantly

Date	Probability of a Fed interest rate hike at next meeting
18/12/2018	69.60%
19/12/2018	2.10%
31/12/2018	0.00%
31/01/2019	0.00%
28/02/2019	0.00%

Source: Bloomberg

Though the headwinds to fixed income in the form of continuous rising rates have dissipated, they have been replaced by increased uncertainty in the form of unexpected rate hikes. Markets are expecting no hikes (refer to table) and any deviation would cause quite a stir.

Meanwhile, continued softening in European and Japanese economies give their respective central banks less reason to raise rates. Without a buffer in the form of positive rates, they are hampered in the ability to cut rates to stimulate the economy in the event of a slowdown. Europe has also found itself dragged into the Brexit saga, with markets pricing in enough bad news that might present opportunities later this month.

Short duration: Again the focus on valuation improves our entry and exit points, and the likelihood of better investing outcomes. The US high yield short duration market is yielding 7.2% vs the broader market's yield of 6.7%. Similarly, short duration emerging market debt is yielding 5.0% with the broader market at 5.5%. Given similar yield, similar credit risk, and less sensitivity to interest rates, this is where we avail ourselves to a free lunch in investing.

Sovereign bonds: We quickly grab another free lunch in the form of diversification. However, this is intended as opposed to naive diversification. Maturing economic cycles mean higher volatility. We run a barbell approach with currency-hedged sovereign bonds as an anchor for the portfolio while extracting returns from the riskier assets. With the Fed on pause, the sovereign bonds provide coupon income with less pressure on their prices.

Key Themes: Search for yield

Asian High Yield, US & EM short duration provides attractive yields

	31 Dec 2017	28 Feb 2019
Asia HY	5.6%	**7.6%**
US HY short dur. bonds	5.7%	**7.2%**
US HY bonds	5.5%	6.4%
EM short dur. bonds	4.0%	**5.0%**
EM bonds	4.5%	5.5%

Much more attractive than what bank deposits offer today

SGD 1Y deposit	2.1%
USD 1Y deposit	2.9%

Source: Bloomberg

Last month, we compared bond investing to real estate investing, seeking out assets with better yield and potential for price appreciation (or at least less potential for price decline). Generally, our portfolios are exposed to the higher yielding credit opportunities globally, supported with positive sentiment.

US High Yield: Again, investors who have been following us for some time know of our preference for short duration high yield as it allows us to have our cake and eat it too; with comparable yield yet lower duration (less interest rate risk) than the broader market. Another good aspect of holding bonds of shorter maturity is that faster return of principal allows active reinvestment into new ideas.

EM bonds: If 2018 was when emerging markets were in the spotlight for the wrong reasons e.g. Turkey, Argentina, Venezuela, the current environment is more conducive. USD strength has moderated, easing pressure on emerging market borrowers in servicing their USD denominated debt. We continue to hold short duration EM debt which offers comparable yield to the broad index while being more insulated from interest rate risk.

Asian High Yield: The Asian high yield exposure continued to do well as yields dropped from 9% to 7.6%, which translated to a performance of 5.6%. The Chinese real estate sector, which constitutes a large part of the Asian high yield market, has rallied strongly on policy stimulus and potential relief of trade war overhang. From a valuation standpoint, there is still ample room for price appreciation.

Key Themes: How are we positioned?

Peak Growth	Central Bank Tightening	Search for Yield
US Large-Growth equities	Short duration fixed income	Asian High-yield bonds
Europe Large-Growth equities		Emerging market short duration bonds
Japan equities		
China 'A' equities		

Asset Allocation Strategy

Equity Regional	--	-	=	+	++	Allocation strategy
United States	■	Q4 2018				Large cap growth to capture late business cycle growth, and where large caps are more resilient to rising financing and wage costs. Underweight driven by higher valuations relative to other markets
Europe		■				Slight underweight as economic activity is slowing meaningfully.
Japan				■		Slight overweight as economy is supported by corporate reforms, and equities at attractive valuations.
Asia Pacific ex Japan				■		Slight overweight to China 'A' as valuations are attractive and supported by earnings growth.
Emerging Markets			■			Earnings are expected to slow, though a weaker-stable USD may help to support equities in the region.

Fixed Income	--	-	=	+	++	Allocation strategy
Sovereign			Q4 2018	■		Focus on currency-hedged global government bonds to buffer portfolio volatility during periods of stress.
Investment Grade	■					Maintaining no exposure as low incremental yield and long duration exposure are less attractive than other segments.
High Yield			■			Maintain short duration which provides better yield to broad market with less sensitivity to interest rate changes.
Asia				■		One of the most attractive yields across major fixed income markets backed by policy support.
Emerging Market Debt				■		Range-bound USD eases downward pressure on EMD. Maintain short duration to mitigate rate hike impact.

Notes: - - Underweight - Slight Underweight = Neutral + Slight Overweight + + Overweight

Current | Previous

Market Index Returns

Equity Regional	MTD	YTD
Global	2.5%	10.5%
United States	3.0%	11.1%
Europe	3.9%	10.4%
Japan	2.6%	7.6%
Asia Pacific ex Japan	2.1%	9.5%
Emerging Markets	0.1%	8.8%

Fixed Income	MTD	YTD
Global Aggregate	-0.6%	0.9%
High Yield	1.7%	7.0%
Asia	0.6%	2.6%
Emerging Market Debt	0.8%	4.0%

Currencies	MTD	YTD
USD/SGD	0.5%	-0.8%
EUR/SGD	-0.2%	-1.6%
JPY/SGD	-1.8%	-2.4%

Commodity	MTD	YTD
Gold	-0.6%	2.4%
Oil (WTI Crude)	6.4%	26.0%

Equity Markets	MTD	YTD
Australia	5.2%	9.3%
Brazil	-1.9%	8.8%
China "A"	14.6%	21.9%
China "H"	3.0%	12.3%
Hong Kong	2.5%	10.8%
India	-1.1%	-0.6%
Indonesia	-1.4%	4.0%
Korea	-0.4%	7.6%
Malaysia	1.4%	1.0%
Russia	-1.4%	4.9%
Singapore	0.7%	4.7%
Taiwan	4.6%	6.8%
Thailand	0.7%	5.7%

Equity Sectors	MTD	YTD
Gold	-1.6%	5.8%
Energy	1.9%	13.2%
Technology	6.3%	14.4%
Healthcare	1.8%	7.0%
Financials	2.2%	11.0%

Returns in index currency terms as of 28 Feb 2019. Source: Bloomberg

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