JULY 2022 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- Markets remained weak in June. During the month, global equities and bonds were down 8.40% and 3.21%, respectively.
- Stretched valuations have changed the playing field for investors. The best-performing equities in 2021 (e.g. S&P 500) are now among the worst. And bonds that were once considered safe-haven assets (e.g. government bonds) are down.
- Trend-following alternatives delivered positive returns amid market weaknesses.
- Investors who avoided investing in areas with steep valuations and took actions to diversify into alternatives would have done meaningfully well despite a challenging environment.

Positioning for Recovery

- Opportunities are often disguised as pain - the best times to invest are usually when markets are fearful.
- Investing in China 'A' equities after periods of "bad news" has historically rewarded investors with meaningful returns, as they did recently with about a 14% return after a prolonged decline.
- US Small-caps are also presenting an opportunity to invest at multi-year low valuations with good risk-to-reward and margin of safety.
- We remain invested in China 'A' equities and US Small-caps knowing that it is only a matter of time before they perform as markets move in cycles – they take turns to do well.

Stability Amid VUCA

- High inflation, rising interest rates, and the possibility of a recession remain top investors' concerns for tougher times ahead. However, it is unclear when or if markets will enter such a period.
- Not obvious is the fact that markets are self-correcting, which may eventually lead to slower inflation and lower interest rates.
- Investors should be aware that uncertainties are part and parcel of investing.
- Rather than futilely time the events, we prepare by being positioned in resilient areas (e.g. Healthcare and Quality Value) that would fare well if we do end up in a period of higher inflation or slower growth.

Search For Yield

- Rising inflation and interest rates mean lower returns for fixed income investments as prices fall.
- Inflation can mean a change in spending habits (e.g. taking public transport instead of driving) in order to cope with higher prices.
- To beat inflation, one can invest in areas with a higher return such as the Asian High Yield market, which is currently yielding over 15% today.
- We have positioned our portfolios for higher rates via segments of fixed income that provide higher coupons while being less sensitive to interest rates.

Read the full commentary here

Finexis Asset Management