THINK DIFFERENTLY

TO GET DIFFERENTIATED RESULTS

Monthly Investment Update

Investors were once again greeted with declines across equity and bond markets in April. Previously resilient segments (such as Brazil and Energy equities) were in the red, and US equities ended up one of the worse performing major markets this year. Bonds faced a similar fate and recorded their worst month on record. Investors, however, should take heed that intra-year declines often pave the way to positive returns if they remain invested and refrain from timing the market. In contrast, investors in Alternatives would have seen gains.

Markets are on the cusp of a major change in leadership, with China being one major contender likely to leapfrog the US. The Chinese government has pledged to embark on easy monetary policies and favourable fiscal measures to boost the economy; on the contrary, economies such as the US are undergoing a tightening of policies. Here, we are reminded of the need to be forward-looking and opportunistic when investing than to simply settle for the status quo. Nonetheless, pockets of opportunities still exist in the US market (such as small caps) for investors to capture.

The thought of an impending recession, conjured up by news headlines and the infamous inversion of the yield curve, can coax investors into timing their exits and entries. But history has shown that investors who attempt to do so end up with lower returns than if they remained invested – equities delivered on average double-digit returns in the next 12 months following the inversion of the yield curve. Hence, investors would be better off staying fully invested given the negative trade-off between market timing and returns.

Many investors often look to enter at the bottom of the market to better their investment returns. Calling the bottoms, however, is near impossible let alone doing it consistently. But one can be cognizant when markets are closing to the bottom. It is by actively investing in these periods that investors are rewarded with returns greater than a buy & hold strategy. Such is the case with Asian High Yield markets today. Having endured weaknesses, they are primed to deliver positive returns going forward as informed by similar occasions in the past.

Finexis Asset Management

MARKET REVIEW

Investors literally had no place to hide in April. Even segments such as Brazil and energy equities that had held up in Q1 were in the red. US equities have gone from best regional market last year to worst this year. Such is the swing of the pendulum.

Bonds provided little refuge as the global benchmark for many bond investors, the Global Aggregate, saw its worst month on record, down 5.48%.

With these declines, some might ask: "Will it get worse?" "Will there be a recession?" These questions are not a surprise. After all, it is natural to ask when things seem to go against expectations. But in asking these questions, is one trying to find reasons to sell?

We recently explained how we separate the questions we have into *Known Knowns, Known Unknowns, and Unknown Unknowns*. This is so we have clarity on what to address in order to help investors get the returns they deserve.

"Should I invest now?"
To answer this, let's look at one of the *known knowns* in the chart: Markets have dropped every year with average intra-year declines of 14%. The grey bars show the yearly return for equities, which have delivered meaningful returns for buy & hold investors.

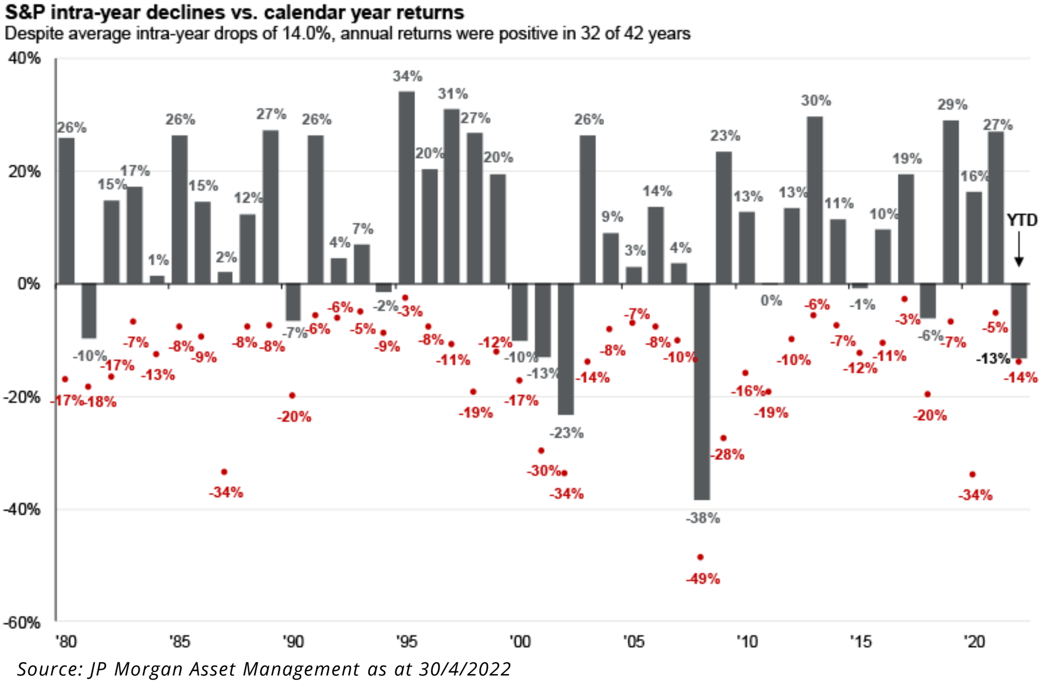
Imagine an investor who sold their investments during every decline. They would crystallize losses and certainly fare worse than a Buy & Hold investor.

Imagine an investor who added at each of the intra-year bottoms. The return would be astounding, alas consistently picking bottoms is an unattainable scenario. What is attainable for us is to add on declines without trying to pick the bottoms so that we fare better.

"Will bonds continue to drop with equities?" Those who understand equity and bonds dropping together are short term effects which are not reflective of long term outcomes will accept this *known unknown* and sit through it. When interest rates normalize at higher levels, bonds can resume their role in portfolios. But even if investors understand it logically, it is hard to accept emotionally.

Our logical response to this (which also helps address the emotional side): True Diversification through alternatives.

Alternatives gained 5.79% in April, reducing portfolio declines in periods when many portfolios comprised of only the two major asset classes have little place to hide. Today, True Diversification matters more than ever.
Source: Bloomberg. Alternatives: SG CTA Index



Source: JP Morgan Asset Management as at 30/4/2022

POSITIONING FOR ECONOMIC GROWTH

Think of the market as different players in a game of leapfrog. When one player leaps in front, they enjoy leadership position for a while. In the case of human leapfrog, the leapfrogging takes place in a matter of seconds. When it comes to markets, the leadership cycle can span years.

Markets are on the cusp of a major change in leadership. Yesteryear's leaders are being leapfrogged and giving way to a crop of new leaders amid big shifts in macroeconomic factors: The US is embarking on its biggest tightening cycle after 15 years of QE. Then there is China easing policy, standing out amidst the major economies.

Why are we so interested in this leapfrogging process? "For those of us holding on to the leaders from the previous status quo, this transition will be painful. But if we're attentive and looking out for new market leadership, this could be a rewarding and exciting time.*"

QT is not just affecting bond investors. Netflix reported earnings above expectations but still tanked 35% in a single day as its subscriber numbers dropped. Netflix is not alone; it joins "disruptive" new economy names such as Zoom, Peloton, Shopify whose stock prices have tanked since late last year, just as interest rates start rising.

This is no coincidence. When interest rates and cost of capital were low, high growth companies with poor profitability enjoyed lofty valuations. In an era of higher interest rates, investors are no longer so forgiving.

*https://www.bloomberg.com/news/newsletters/2022-05-03/the-next-bull-market-is-looking-for-a-new-leader?

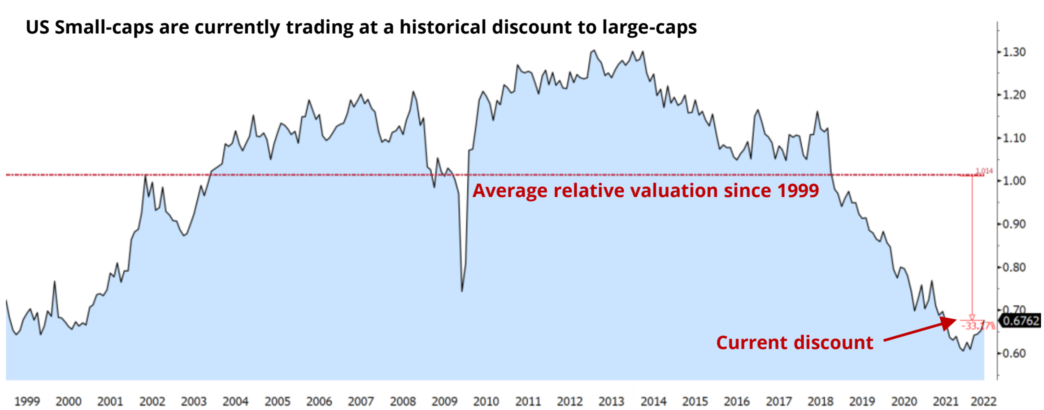
Who are the contenders for new leadership?

China remains one of the only major economies with a favourable up-cycle ahead. Put it in another way; the pain is most likely behind rather than in front of investors. Developments over the past few weeks have reinforced this view:

- Additional monetary easing: the People's Bank of China (PBOC) recently pledged to step up 'support to the real economy, especially for industries and small businesses hit hard by the pandemic.'
- PBOC and financial institutions accelerating credit support to property developers.
- Fiscal measures to support infrastructure projects and SMEs.

These factors, coupled with their relatively attractive market valuations, lead us to be cautiously optimistic on our slight overweight to China 'A' equities, though we are watching out for additional clarity over China's Covid Zero policy before turning more favourable.

Within US equities, we continue to rely on historically reliable valuation cycles to guide our positioning. One of the more interesting opportunities within the US market is within Small-caps; which are currently trading around a historical discount to their large-cap peers as shown in the chart below. The last time that small-caps were this 'cheap' to large-caps was in 2000, which preceded a stretch of outperformance.



Source: Bloomberg. Ratio of Price-to-Positive-Earnings for S&P 600 Index over S&P 500 from 31/12/1998 to 5/5/2022.

STABILITY AMID VUCA

VUCA is used to describe environments with ***Volatility, Uncertainty, Complexity*** *and* ***Ambiguity***

"Beware misleading recession forecasts, but be prepared."

The above headline was from a recent article on Forbes, which is good advice for investors figuring out how to approach the current environment. We have acted in a similar fashion; by not overreacting to news headlines which can often be fearmongering, but preparing accordingly based on facts and historical precedents.

Even if a recession is inevitable as some headlines seem to suggest, when it would happen is still very much up in the air (*known unknown* as we like to call it). Investors who stayed on the sidelines while waiting for an 'impending' recession have tended to lose out on subsequent market gains - we showed last month that equities posted double-digit gains 12 months after the yield curve inversion (an often cited recession indicator) on average. There is also the trickier question of *when* to get back into the market. Throughout history, investors who try to time a recession risk ending up with lower returns than if they had just stayed invested in the markets.

What's clear is that there is usually a trade-off between timing the market, and missing out on stronger returns over time. To further reinforce this point, we refer to a recent Bloomberg article about a fund that had 'barely lost anything in 2008' during the global financial crisis, and also had 'relatively small' losses during the Covid rout of 2020[1].

At 78, Investor Preps for 'Biggest Bear Market in My Life'

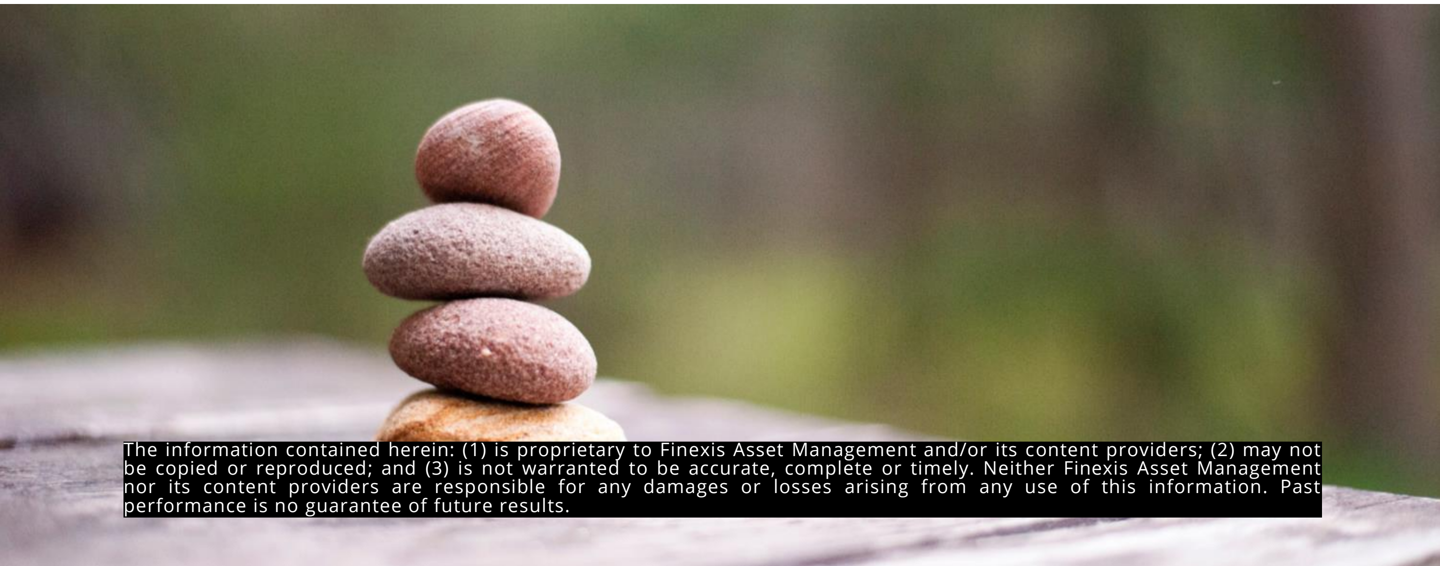
- David Wright's fund saw only small losses in 2008, 2020 routs
- It's mostly in cash and sold U.S. stocks, which are sinking

It turns out that the fund trims its positions (raising cash) in response to declines, and as of end of April 2022, more than half of its portfolio is in cash. We were naturally intrigued. Upon closer look, however, the 'trade-off' is evident in their long-term performance: an annualized return of 2.5%, compared to 9.8% for global equities over the past 10 years[2]. **As investors, you need to ask if you are willing to sacrifice most of your returns to feel good during these temporary declines.**

The benefit of being active and flexible means that there are always opportunities for us to capture across the market cycle, which is why we prefer to stay fully invested. But we do not do so with both our eyes shut: we take care to structure our portfolios to consist of different favourable themes at any one time so that we achieve True Diversification. A theme that has been particularly suitable for today's *VUCA* environment is the Stability theme, which currently consists of Healthcare and Quality Value equities that have helped our portfolios over the past few weeks when markets were volatile.

[1] https://www.bloomberg.com/news/articles/2022-05-04/78-year-old-investor-preps-for-biggest-bear-market-of-my-life?

[2] Source: Bloomberg. Fund performance from 30/4/2012 to 30/4/2022



SEARCH FOR YIELD

"When will the market bottom so I can invest more?"

This question is arguably on the minds of many investors. One can appreciate why such a question would be asked. Who wouldn't want to improve their investment outcome by being able to invest more at the bottom?

This is a hard question to answer as it contains both *known knowns* and *known unknowns*. We find it more effective to address the question in two parts.

"When will the market bottom?"

To us, this is a *known unknown*. We know bear markets are inevitable, but the bottom is unpredictable. If we look back in history, no one has been able to call the bottoms consistently.

Furthermore, even if one had the answer, they would struggle to act on it. Imagine you were going through the Global Financial Crisis in October 2008. All hell was breaking loose as stock markets were collapsing, and storied businesses such as GM, GE, AIG, Lehman were facing bankruptcy.

If a little bird were to tell you that Asian high yield markets would bottom on 29th Oct 2008, would you even have invested anything given all that was going on? The good news is you are spared the pain of making such a binary decision. Because the little bird does not exist.

Nevertheless, one can get meaningful return in such an environment if they know their *known knowns*.

"When can I invest more?"

This is a *known known* where informed and profitable decisions can be made after research is done.

For once, let's try to be rearview mirror investors. But instead of just looking at the past 1 to 3 years, let's look further back to 1997 as shown in the chart.

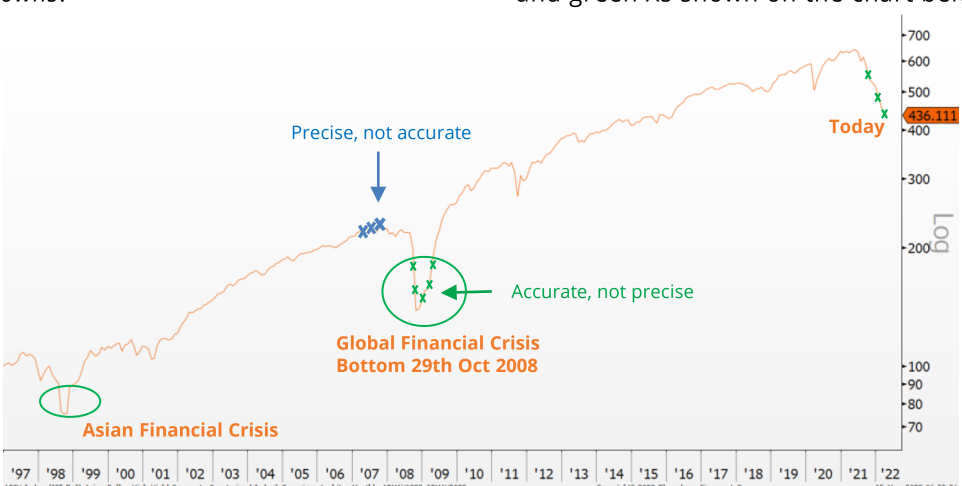
Known known #1: Asian high yield markets have gone through crises and bounced back each time.

The oval zones indicate periods before and after each market bottom, with a wide margin. There are two possibilities for anyone investing in the zone: 1. they invested before the bottom and encountered further declines before rebounding; 2. they invested after the bottom and missed the initial rebound.

Known known #2: Anyone investing in the zones will meaningfully outperform buy & hold investors over the next three years.

Known known #3: Today Asian high yield markets are presenting an opportunity not seen since the Global Financial Crisis.

What we do know is when markets are closer to the bottom. Rather than trying to pick the bottom and miss the opportunity, we are comfortable knowing that any additional investment made will do better compared to buy & hold investors. When it comes to investing, accuracy trumps precision (see blue and green Xs shown on the chart below)



Source: Bloomberg, ICE BofA Asian Dollar High Yield Corporate Constrained Index from 31/12/1996 to 30/4/2022.

HOW ARE WE POSITIONED?

Positioning for Economic Growth	Stability Amid VUCA	Search for Yield
China 'A' Equities	Healthcare Equities	Asian High-Yield Bonds
Emerging Markets Equities	Quality Value	Emerging Markets Short Duration Bonds
US Small-Cap Equities		
Europe Equities		

ASSET ALLOCATION STRATEGY

-- Underweight | – Slight Underweight | = Neutral | + Slight Overweight | ++ Overweight

Equity: Regions

United States

US **Small-caps** as relative valuations are attractive and expected to benefit as economies recover. **Healthcare** as earnings are more stable and less dependent on broader economic cycle. **Quality Value** as valuations are attractive and expected to benefit as economies recover. Quality bias to avoid potential 'value traps'.

Europe

Relative valuations are attractive and expected to benefit as economies recover

Japan

Maintaining no exposure as they are less attractive compared to other opportunities

Asia Pacific ex Japan

Maintain **China 'A'** slight overweight as deleveraging cycle has taken its course, with credit conditions expected to improve.

Emerging Markets

Neutral as valuations are attractive relative to developed markets, but where earnings tend to be less resilient

Fixed Income

Global

Focus on currency-hedged government bonds and unconstrained credit to buffer portfolio volatility during periods of stress.

Investment Grade Corporate

Maintaining no exposure as low incremental yield and long duration credit exposure are less attractive than other segments

US High Yield

Maintaining no exposure due to relative poorer valuations.

Asia

Attractive yield across major fixed income markets with room for capital appreciation and better fundamentals.

Emerging Markets Debt

Hard currency short duration focus as a more defensive credit investment amid low rates.

MARKET INDEX RETURNS

Equity Regional	MTD	YTD	10Y	20Y
Global	-7.97	-12.81	9.81	7.96
United States	-8.72	-12.92	13.66	9.09
Europe	-0.57	-6.41	9.37	5.73
Japan	-2.40	-3.60	11.37	4.79
Asia Pacific ex Japan	-5.30	-10.68	5.20	8.64
Emerging Markets	-5.55	-12.13	3.26	8.61

Equity Markets	MTD	YTD	10Y	20Y
Australia	-0.85	1.90	11.43	10.03
Brazil	-10.10	2.91	5.73	11.12
China “A”	-4.82	-18.64	6.60	7.28
China “H”	-3.02	-11.37	-0.40	10.09
Hong Kong	-4.12	-9.54	3.55	6.64
India	-2.53	-1.84	14.22	16.99
Indonesia	2.41	10.96	8.02	16.92
Korea	-2.27	-9.36	4.94	7.96
Malaysia	0.96	3.80	3.60	7.38
Russia	-9.56	-35.10	10.92	14.36
Singapore	-0.82	8.67	4.79	5.90
Taiwan	-6.17	-8.69	12.16	8.89
Thailand	-1.22	1.93	6.38	11.74

Equity Sectors	MTD	YTD	10Y	20Y
Gold	-8.18	10.17	-1.55	2.61
Energy	-1.54	36.85	4.11	7.80
Technology	-11.85	-20.76	17.79	11.27
Healthcare	-4.61	-7.66	13.28	9.00
Financials	-9.87	-11.21	12.91	4.65

Fixed Income	MTD	YTD	10Y	20Y
Global Aggregate	-5.48	-11.30	0.35	3.70
Global Aggregate (H)	-2.69	-7.53	2.49	3.78
High Yield	-3.91	-8.54	4.71	7.04
Asia	-2.32	-8.46	3.39	5.59
Emerging Markets	-4.33	-13.15	2.96	6.95

Note: (H) Currency Hedged

Currencies	MTD	YTD	10Y	20Y
USD/SGD	2.13	2.55	1.12	-1.35
EUR/SGD	-2.70	-4.93	-1.15	-0.57
JPY/SGD	6.57	12.70	4.97	0.04

Commodities	MTD	YTD	10Y	20Y
Gold	-2.09	3.70	1.31	9.51
Energy	4.40	39.20	-0.02	6.95

*As of **30 Apr 2022**. Source: Bloomberg. Total return in index local currency terms. 10 and 20 year returns are annualized.*

“In the short run, the market is a voting machine but in the long run, it is a weighing machine.”

Benjamin Graham

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