SEPTEMBER 2022 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- Markets resumed their decline in August. Global equities and bonds fell by 3.64% and 3.95% respectively.
- Long-term investors should not be overly concerned about current market weaknesses because volatility and declines are a normal part of investing. The key is to zoom out and see how markets have progressed positively over the decades.
- Investors may be tempted to cut losses or time the market. As appealing as it seems, doing so creates more harm than good.
- Periods of market weakness are frequently the best times to pick up bargains, which is also what many successful long-term investors (such as Howard Marks) do.

Positioning for Recovery

- Given how actively global central banks are raising interest rates, economies may slip into recession sooner than later.
- Higher interest rates do not necessarily mean there is no more money to be made. Historically, equities have also tended to rise during rate hike cycles.
- Exiting simply because of short-term pain rules out this possibility and means foregoing higher expected returns in the future.
- Our portfolios retain strong recovery potential and higher long-term expected returns due to investments with strong fundamentals and valuations (e.g. US small-caps and China A equities).

Stability Amid VUCA

- Forward-looking markets may rise during a recession and fall during an expansion – it is extremely difficult to predict market's movements, and often better to prepare for different scenarios.
- Time in the market is far more important than attempting to time the market. In today's volatile environment, missing a few good days can meaningfully reduce long-term returns.
- To complement recovery-themed positions, our stability-themed positions provide meaningful diversification to ensure our portfolios are resilient during challenging times such as a recession.

Search For Yield

- Bond prices are falling as interest rates rise (recall that bond prices move inversely to interest rates), but they also present opportunities to invest in high-yielding bonds such as Asian High Yield.
- With the normalization of (higher) interest rates, it is now a better environment for bond investing. Investors can now earn about 3% on their savings, compared to 0% previously. Other bond investments provide even higher returns on top of this base cash returns.
- With shorter-duration bonds that are less rate-sensitive and higher-yielding bonds with appealing valuations, our portfolio was able to mitigate the impact of rising rates.

Read the full commentary here

Finexis Asset Management