OCTOBER 2022 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- Markets declined in September on the back of further rate hikes and recession fears. Global equities and bonds fell 9.53% and 5.14%, respectively.
- High levels of inflation are not without good reason - they are a combination of strong economic growth following COVID, supply chain disruption, and geopolitics.
- Holding cash may be tempting amid the current slowdown in the economy, but inflation gradually reduces its value over time.
- Our portfolios are positioned defensively in markets that are overpriced and aggressively where risk have been priced in.

Positioning for Recovery

- The best investment opportunities tend to be "tennis ball" investments with strong rebound potential.
- Buying into markets with poor short-term performance may seem counterintuitive but necessary to attain above-average returns - what is uncomfortable is often very profitable.
- Selling after declines or buying "bowling ball" investments that crash rather than bounce ensures below-average returns.
- Our "tennis ball" investment comprises US Small-caps, Emerging Market & China, and Europe where the current attractive valuation presents good risk-to-reward.

Stability Amid VUCA

- Investors can expect more volatility ahead as the odds of a recession have gone up; given how aggressively central banks around the world are raising rates.
- A swift "V" shape recovery in markets is unlikely; a prolonged "U" or “W" shape recovery is more likely.
- At the same time, markets are now offering long-term investors better return expectations going forward (after declines).
- We have consolidated our current stability positions into a larger Healthcare allocation where we have higher confidence that it will outperform in the event of a prolonged downturn.

Search For Yield

- Crises often present the best opportunities to invest for better future returns - within crisis comes opportunities – but knowing what to avoid is as important as investing opportunistically.
- Rising rates have depressed bond prices, but they also throw up opportunities to invest in shorter-duration bonds that are less rate-sensitive and high-yield bonds that have good risk-to-reward at current valuations (e.g. Asian High Yield)
- We remain confident that AHY presents meaningful upside for patient investors while allowing one's portfolio to be less affected by Fed rate hikes.

Read the full commentary here

Finexis Asset Management