MAY 2023 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- April saw broad major markets slightly positive; with global equities and bonds up by 1.48% and 0.44% respectively. The past month saw First Republic Bank's surpassing Silicon Valley Bank to become the second-largest bank failure in the United States.
- Crisis and failures are part and parcel of markets. While shocking, large short-term swings in prices can present opportunities to accumulate good investments at attractive prices.
- Investors can mitigate the risk of permanent capital loss by investing in areas with good Fundamentals and Valuations. It is also important to have the discipline and patience to stay invested for the long term.

Positioning for Recovery

- The S&P 500 has delivered strong returns in the past decade, but investing in the S&P 600, which consists of 600 small-sized companies in the US, could deliver better returns going forward.
- US small-cap equities are particularly appealing today due to the large valuation discount to the broader markets today. Outside of the US, China equities also present another attractive opportunity due to improving fundamentals and more attractive valuations.
- We remain confident that our recovery-themed positions are better positioned to capture strong returns when markets eventually recover from temporary weaknesses.

Stability Amid VUCA

- Continued volatility is expected going forward as major economies transition from slowdown to recession to recovery. Investors should expect larger price swings but need not be overly concerned if their portfolio is well constructed.
- Valuations are particularly important to look at when investing. Subsequently, certain market segments (such as the S&P 500) are still trading at rich valuations compared to history and may be less attractive going forward.
- We continue to be protected by our stability positions, which comprise Healthcare equities and Government bonds that tend to be more resilient during periods of market stress.

Search For Yield

- A series of rate hikes by the Fed has provided a reset to the bond markets, resulting in less downside risk going forward. The rise in rates has made bond prices more attractive today.
- While Investment-grade bonds are yielding 4.35%, they are not much higher than cash rates today. Comparatively, Asian High Yield Bonds (AHY) offer a 14% yield, making them a very attractive option for investors who want to beat inflation.
- The case for AHY bonds remains clear. Amid positive restructuring in China’s property market and ongoing recovery, investors with the courage and patience to see it through would enjoy strong multi-year gains.

Read the full commentary here

Finexis Asset Management