JUL 2023 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- June saw global equities rising by 5.84% while global bonds were flat at 0.01%.
- The S&P 500 and Nasdaq took center stage in the markets, buoyed by the narrow rally of several mega-cap tech stocks such as Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla (also known as the Magnificent 7).
- Narrow rallies that happened in the past did not continue for long. They lead to either a decline in the prices of mega-cap stocks that have rallied or a catch-up in the prices of other stocks.
- Investors may be tempted to buy into these winners, but they often present a poor risk-reward investment; history has shown that they can plunge by as much as 80%.

Positioning for Recovery

- History shows that periods of narrow leadership (where only a small number of stocks are rising) eventually broaden to equity gains in other parts of the market.
- One clear beneficiary is small-caps, which have consistently outperformed following similar periods in the past. They have also rebounded strongly, outperforming large-cap equities by 30% on average.
- Our recovery-themed positions; US small-cap, Emerging Market, and China 'A' equities offer strong recovery potential on the back of attractive valuations.

- Investors can still find opportunities that offer strong return potential, without exposing themselves to the risk of sharp declines when investing into stocks with sky-high valuations.

Late Cycle Stability

- The starting valuations of investments play a critical role in determining if an investment will be profitable in the future. This applies even to the fastest-growth stocks.
- Investing in a good company does not guarantee a good investment. Past examples like Microsoft, Intel, and Cisco show that investing at their peak dominance would have resulted in losses on two out of three names.

- With major economies in the late stage of their economic cycle, and with a recession looming, we maintain our portfolio resilience with Healthcare equities and Government bonds positions.

Capturing High Yields

- Cash has emerged as an appealing investment choice amidst rising interest rates. However, the current high returns associated with cash investments will be short-lived when interest rates decline.
- More favorable opportunities such as Asian High Yield (AHY) exists, offering the potential for high double-digit returns over the next 3 years.
- Despite recent negative headlines, AHY's reality is less one-sided. There continue to be reasons to like AHY for investors that can withstand near-term price swings.

- With today's high interest rates, there are now attractive opportunities even beyond cash that investors can consider, and which may be more 'lasting'.

Read the full commentary here

Finexis Asset Management