

HIGHLIGHTS

Market Review

- ▶ The market rally broadened in July, in line with patterns from history which show that narrow market gains do not last for long. Strong gains in our recovery positions have benefitted our investors.
- ▶ Understandably, Emerging Markets and China equity investors may doubt their prospects given the challenging environment, but history has shown that markets bottom when sentiment is at its worst.
- ▶ It is important to understand historical market patterns and have the discipline to stick to a strategy when markets are volatile.

Positioning for Recovery

- ▶ Bull markets start and grow on pessimism and skepticism, creating opportunities for investors to accumulate positions for long-term returns.
- ▶ Small-caps are up 6.11% in July, compared to the S&P 500's 3.21%, hinting at the recovery potential for small-caps.
- ▶ There has been a noticeable shift in tone from Chinese policymakers, which has been supportive and encouraging for our Emerging Market & China 'A' positions.
- ▶ The key to realizing good long-term returns is patience and the ability to see value where others don't. Warren Buffet uses a similar strategy with an impressive long-term track record.

Late Cycle Stability

- ▶ Sentiment regarding a potential US recession has improved since the start of the year, offering a glimmer of hope that an economic hard landing may be avoided.
- ▶ Investing is not about betting on a single outcome. Instead, we should think about probabilities across various outcomes.
- ▶ As more positive signals appear, we expect to be allocating more to our recovery positions as the probability of hard landing goes down.
- ▶ For now, we maintain a balanced portfolio that is able to tide through volatile markets, while capturing the medium to long-term return potential of markets. At the same time, remaining flexible to adjust in the face of unexpected developments.

Capturing High Yields

- ▶ Investors in Asian High Yield bonds have asked when, how much, and even if recovery will happen.
- ▶ Even the most 'basket case' markets have recovered, sometimes in spectacular fashion.
- ▶ Even an investor who invests at the top of markets can get the yield they entered at eventually, but we can shorten the wait by entering when yields are higher (such as today).
- ▶ In the current high interest rate environment, the potential to capture high yields exists within Asian High Yield and Emerging Market Debt for investors who can afford to be patient.

Read the full commentary [here](#)