SEP 2023 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- Markets continued to be highly volatile as participants were highly sensitive to both good and bad news. This leads to both markets and investor emotions going through a roller coaster in recent months.
- This is amid a transition characterized by a shift from late-stage economic growth and the repercussions of increased interest rates, with recovery themes expected to gain prominence as clarity emerges.
- Waiting for clear signs of recovery may result in missed opportunities, as markets would have already adjusted to the new information, offering less upside potential for late investors.
- Our portfolio's barbell approach combines stability and recovery themes. Stability helps investors ride out the volatility while recovery provides the long-term return.

Positioning for Recovery

- Bull markets are born on pessimism and die on euphoria, a cycle observed throughout financial history. Small-caps and China equities which have sold off significantly, fall into the pessimistic bucket, positioning them for potential bull market.
- This perspective is supported by encouraging signs in China's economic fundamentals, including a rebound in consumer-sensitive sectors and policy measures aimed at revitalizing the property sector, which have started showing positive impacts.
- We maintain our cautious optimism: continuing to assess fundamentals and valuations. Importantly, we remain flexible to make necessary adjustments based on evolving market conditions and data.

Late Cycle Stability

- Despite recent market declines, favorable inflation data and labour market resilience point towards a soft landing, although the full impact of the Fed's rapid interest rate hikes have not fully manifested.
- Current indicators show that major developed economies are not out of the woods: leading indicators are still pointing towards continued deterioration at worst, and an uneven recovery at best.
- The late-cycle market phase is often referred to as the 'most challenging stage of the cycle'. Our cautious optimism manifests in our barbell approach incorporating stable sectors like healthcare to help mitigate volatility and act as dry powder for us to seize on opportunities.

Capturing High Yields

- In the long-term, taking higher risk offers practical certainty of getting higher return. The choice between investing in Investment Grade (IG) or High Yield (HY), and Developed Markets (DM) or Emerging Markets (EM) hinges on an investor's risk tolerance and financial goals.
- The current environment offers higher yields and prospective returns compared to before. But one still needs to consider if the risk is worth the incremental reward.
- The marginal increase in reward for IG bonds over money market funds may not be worth the additional volatility and potential drawdowns. Investors in high-yield need to assess if there is sufficient margin of safety to buffer against market stresses.

Read the full commentary here

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