OCT 2023 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- Recent market volatility reflects the shift from the era of low interest rates. The effect of rate hikes, which impacted financial markets initially, are flowing through to the real economy.
- Central banks face the challenge of guiding their economies through this transition, with two potential outcomes: a soft landing that propels the U.S. economy into its next growth phase, or a hard landing arising from excessive rate hikes by the Fed push.
- For investors, the emphasis should be on long-term strategies and factors influencing sustained market returns, rather than getting swayed by short-term market sentiment.

Positioning for Recovery

- Long-term investment returns hinge on two key ingredients: fundamentals (earnings growth) and valuations.
- Most investors find it hard to stick to the recipe of success due to emotional investing; by buying only after strong performance and selling after a decline.
- 2023 exemplifies the challenges of staying invested: returns have been concentrated around mega-cap stocks, with less consideration of their fundamentals and valuations.
- Potential catalysts in the form of stabilization of economic activity could indicate better times ahead for our recovery positions, but perhaps there is a third key ingredient required for long-term investment returns: patience.

Late Cycle Stability

- The S&P 500's positive performance year-to-date belies the fact the potential economic challenges. Even with more calls for non-recession in the past quarter, markets did not respond positively.
- There are signs that indicate a hard landing is not off the table: record-low unemployment which can be construed as a positive, actually tends to precede recessions.
- Other indicators that we monitor also indicate that caution is warranted: tighter lending standards by banks, depleting savings for 80% of the population, and consumers increasingly seeking bargains hinting at strained household budgets.
- Investors need to exercise caution and prioritize strategic portfolio resilience over short-term gains.

Capturing High Yields

- The shift from 0% to 5% yields in cash portfolios definitively marks the end of the era of free money.
- To gain a real edge in purchasing power, investors should look beyond cash/money market into the credit markets for higher-yielding opportunities.
- Current credit spreads indicate that certain markets such as Emerging Market high-yield bonds offer adequate compensation for the additional risk taken by investing beyond cash.
- As the Fed nears the end of its rate hikes, historical data suggests that such transition periods present a fertile hunting ground for opportunistic credit investors.

Read the full commentary here

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