NOV 2023 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- The withdrawal of market liquidity and rising interest rates have led to continued market volatility, with recovery expectations pushed back due to persistent rate hikes and mixed global economic signals. The Fed's recent rate pause has sparked a market rally, yet caution is advised as the impact of high rates are still flowing through the economy.
- Investors who thrived in the era of abundant liquidity must now question whether their success can be replicated in a higher interest rate landscape.
- While cash is now more attractive than before, it is barely keeping up with inflation. In a high-rate regime, there are other investments that offer better returns for those with the risk tolerance.

Positioning for Recovery

- Investors often chase markets with compelling stories or recent success, but this approach can lead to disappointment and a cycle of buying high and selling low.
- The concept of a 'lost decade,' such as the one the US S&P 500 experienced from 2000 to 2009 with virtually no returns, is not a one-off but a recurring phenomena in stock markets.
- Current trends show tech mega-caps dominating, but their high valuations suggest limited future growth compared to small-caps, which may benefit as interest rates stabilize. Emerging markets, including China, show signs of stabilization, and current pessimism may offer rebound opportunities, supporting a cautious yet opportunistic investment stance.

Late Cycle Stability

- To mitigate prolonged market downturns, investors should:

1. Invest Wisely: Choose markets with strong fundamentals and reasonable valuations to avoid long-term stagnation.
2. Invest Regularly: Continue investing during downturns to lower average costs and hasten portfolio recovery.
3. Diversify: Spread investments across various assets and regions to balance risks and maintain growth even during tough times.

- A diversified portfolio that aligns with personal risk tolerance and investment horizon is key to navigating market unpredictability and achieving long-term success.

Capturing High Yields

- Early expectations for US 10-year rates at 3% were shattered as they reached nearly 5% by October. Investors are divided into (1) those content with safe, low returns, and (2) those seeking to outperform inflation with higher risks.
- After earlier uncertainty, Emerging markets, especially in Asia, are now appealing for their growth and stability. China's pivot to high-tech industries and Southeast Asia and India's stable environments offer lucrative credit investment opportunities.
- The combination of US large cap stocks experiencing earnings and valuation headwinds, the strength of the consumer, and the absence of a credit squeeze suggest that corporate revenues may benefit bond investors more than shareholders.

Read the full commentary here

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