NEW DIMENSIONS CAPITAL

WEEKLY REPORT

Week of 19th December, 2022

Thought of the Week.

The turning of the calendar signals the time to look ahead to where we think the economy and markets may be headed. Disinflation, de-globalization, recession, and markets' reaction to Fed 's activity are main vectors of thought for 2023.

Inflation and interest rates are highly likely to reign the considerations influencing all investors for the next couple of years. Inflation is expected to remain higher than what we became used to after GFC and cause Fed to doubt its capacity to help it settle at 2% target and postpone the return to a stimulative policy.

Globalization is slowing or reversing, potentially slowing its deflationary influence (consumer durables prices in US declined by 40% between 1995-2020 due to less expensive imports). For the next year it is unlikely to see the optimism and ease that marked the post-GFC period, due to persistent nonaccommodative credit market conditions, corporate earning deterioration and investors fear of a pending recession.

The base case scenario as discussed in our previous reports, is slowing economic activity resulting in a mild recession by mid-end 2023, a GDP growth of 0-1%, unemployment hovering at 4% level but with the core PCE still above the 2% Fed target, The Fed needs to deal with its balance sheet, which grew 1.25x to US$9tln due to bond purchasing activity. Allowing the bonds held to mature and roll off would slow growth even further by draining market liquidity.

Expectations are for a volatile year in equities, with earnings estimates seemingly not yet adjusted for recession fears and the respective disinflation. The expected deterioration of economic activity and loosening of labor markets are red flags for certain areas of equities, especially companies in the consumer discretionary sector. For high yield bonds, our view is that default rates may likely stay around 3.6%, the average annual default rate of such bonds between 1978 and 2009.

Events Summary for Previous Week.

US Economy/Politics

- FTX co-founder Sam Bankman-Fried arrested in the Bahamas – Dec 13th.
- WHO Director-General's opening remarks at the media briefing – Dec 14th.
- Fed rise rates 50bs and CPI slows to 7.1% -Dec 14th.

Europe and UK Economy/Equity

- EU institutions agree on joint priorities for 2023 and 2024 - Speech by President von der Leyen at the EP Plenary.
- Global Gateway: EU and its Member States to mobilise €10 billion for South-East Asia.
- UK adopted the Russia Sanctions (EU Exit) which implements new financial and trade sanctions – Dec 15th.

Asia Pacific Economy/Equity

- 18 China bombers violate Taiwan air defence zone - AFP for The Daily Star.
- HK scraps all COVID-19 curbs for arrivals - China Daily.
- S.Korea-China talks expose lingering differences over NK - Korea Herald.

The Week Ahead.

- Barron's publication's preview of 2023 for the US stock market (top 10 picks for 2023)
- US: Initial jobless claims, Core PCE, QoQ GDP.

Weekly Data Monitor.

Performance

- Weakness across the board
- APAC RE slightly more resilient
- Bonds slightly positive, in a natural decorrelation from equities

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	-2.16	-4.37	-18.73	-16.67	12.50	28.97
Global Real Estate	-1.97	-5.41	-26.92	-23.84	-4.51	15.02
US Real Estate	-2.10	-5.77	-25.98	-22.91	-1.39	23.00
APAC Real Estate	-0.95	-1.80	-16.73	-15.58	-27.92	-21.38
Investment Grade	0.03	0.13	-10.51	-10.01	1.10	13.21
High Yield Bonds	-0.09	1.34	-15.59	-15.47	-11.62	-6.50
Global HF Real Estate	-0.15	-0.27	-4.60	-4.00	5.96	7.48
Global HY ETF	-1.63	-0.03	-11.84	-10.15	-2.91	-12.30
ASIA Real Estate ETF	0.22	-0.55	-17.82	-15.83	-38.03	-19.45
USD Index	-0.59	-1.77	8.79	7.86	6.54	11.58

Weekly chart:

- Broad weakness
- Gold only close to highs of the week
- Oil flat (brent).

Note: The chart shows normalised (to 100%) weekly highs and lows for the Indicator, emphasizing ((BLUE) the LATEST

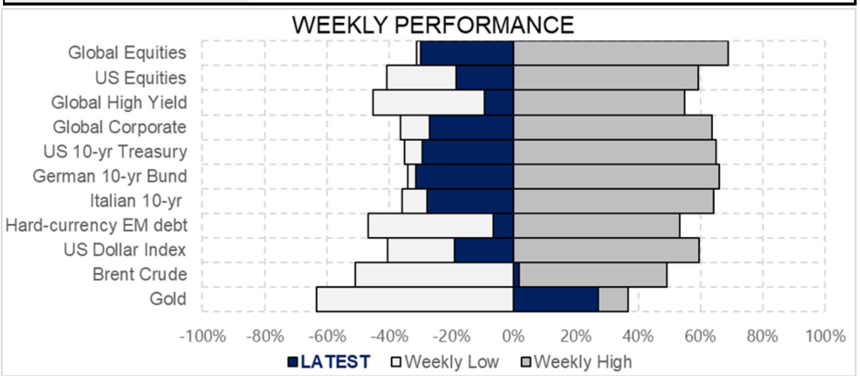
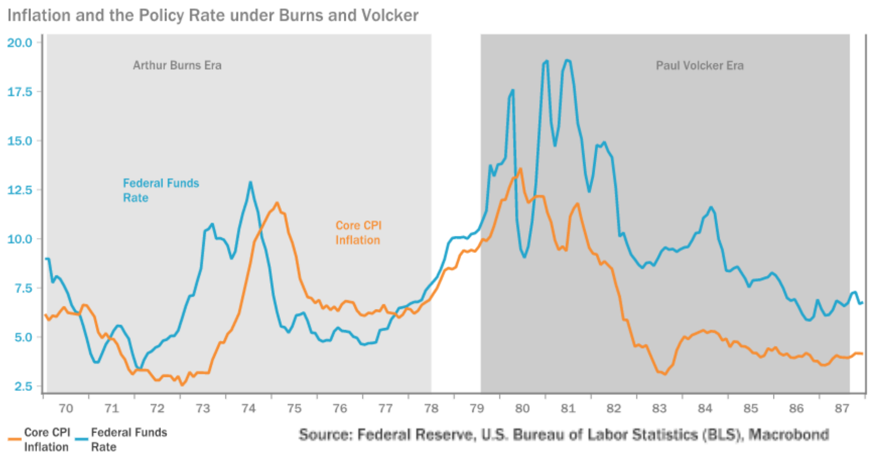


Chart of the Week.

The Lesson of the Great Inflation – Chart by Macrobond.

It started with the OPEC oil embargo of 1973-74, that caused the price of oil to jump from $24 to $65 in less than a year. The raise in cost of goods ignited inflation, and due to the unionized private sector in US, rising inflation triggered wage increases that exacerbated inflation. This upward spiral kindled strong inflationary expectations, proving its self-fulfilling nature.



The CPI rose to 11% in 1974 from 3.2% in 1972, receded to 7% range for 4 years and rounded to 11.4% in 1979 and 13.5% in 1980. No relief seemed to come from the inflation-fighting tools ranging from WIN ("Whip Inflation Now") price controls to federal funds rate as high as 13% in 1974. Chairman Burns' rate cuts following the 1973 recession prevented a sustainable moderation of inflation and likely contributed to an un-anchoring of inflation expectations as the decade progressed. Paul Volker raised the fed funds rate to 20% in 1980 to get inflation under control followed by a brief period of rate cuts. As inflation stayed stubbornly high, the Fed was forced to resume raising rates above the rate of core inflation, leading to a second recession in 1982.

One key lesson of the 1070s 'Great Inflation' is the importance of expectations in shaping outcomes. First, act forcefully to keep inflation expectations well-anchored. This has largely been accomplished. Now comes the harder part: maintaining restrictive policy even if the economy contracts and unemployment rises. Having been slow to react to inflationary pressures last year and or early this year, the Fed won't compound this error with a premature exit from restrictive policy. If the economy indeed falls into contraction next year, the Fed's hands may still be tied by elevated inflation and the lessons of the Great Inflation. If so, the contraction may become deeper than investors currently assume.