NEW DIMENSIONS CAPITAL

MONTHLY REPORT – January 2023

Market Commentary

2022 was challenging for advisors and investors, as balanced portfolios were forced to contend not only with a negative performance from both equities and bonds, but also with a continued and pronounced volatility that sent markets on a rollercoaster. Dealing with high inflation, volatility, renewed fear of recession was not an easy endeavour, but we consider that the 'silent killer' for the year was the correlated performance of equities and bonds as equities were affected by inflation effects and a strong currency, while bond prices plummeted on rising rates (with bond yields soaring).

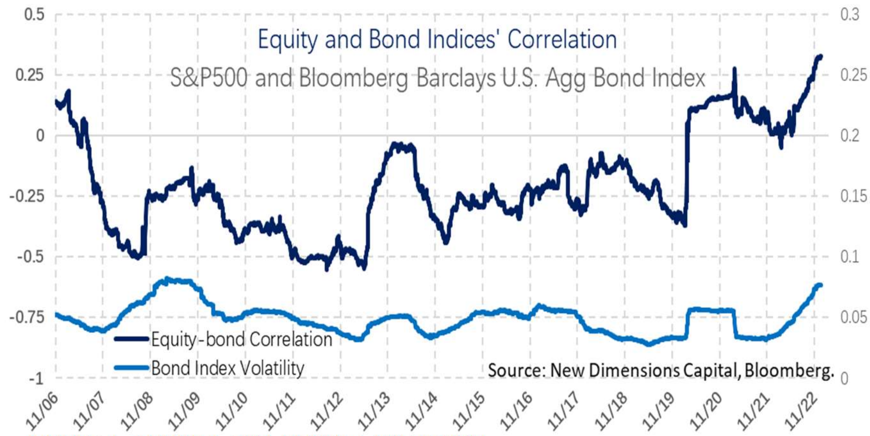


Figure 1: Equities and Bonds Correlation

The truth of the last two decades has largely been one of a negatively correlated environment where bonds offered a hedge for equity underperformance. That changed abruptly after 1Q2020 as pandemic started to unwind, and was reinforced at beginning of 2022, as inflation took off and interest rates rose, driving many advisors to seek out alternative sources of income and hedging potentials for balanced portfolios, causing significant re-allocations for their portfolios.

We have realised that, when both interest rates and inflation are high and volatile, risk premia for the related asset classes are clustering and equities-bond correlations tend to be positive. This may explain the last two decades outcome, with exception of the 2013 'taper tantrum' when the correlation was influenced by external variables. Following the line-of-thought explained by a paper by Antti Ilmanen written 10 years before the mentioned event, the spurious correlation for that specific case (see the period in the middle of Figure 1) could be explained by the fact that "the causality from bond prices to stock prices is positive (say, falling bond yields tend to also reduce equity discount rates), while the causality from stock to bond prices is negative (say, equity weakness can prompt monetary policy easing and a bond market rally)."

We think to be the case for the rising correlation during 2022, as the equities-bonds correlation tends to be high when inflation is high (or during inflationary recessions) to which we add clustering of risk premia and pro-cyclical monetary policy as extraneous factors (explaining the somehow un-expected outcome).

In conclusion, we expect equity-bonds correlation to fade once interest rates and inflation show clear signs of cooling and markets 'appreciate' it as a sustainable outcome. We continue positioning our portfolios to deliver persistent income during inflationary recession periods, while avoiding excessive drawdowns.

From the News Desk to the Investment Team

- Dec 1st - EU's unemployment rate declined to 6.5% at the start of 4Q2022, the lowest since Eurostat started recording employment data in 1998.
- Dec 2nd - EU and the G7 member states decide to impose a US$60-per-barrel price ceiling on Russian seaborne oil.
- Dec 14th - Fed slows pace of rate hike to 50 bps; brings funds rate at 4.25-4.5% range.

- Dec 19th – EU agrees to a natural gas price cap (beginning 15th Feb) contingent to defined benchmark levels.
- Dec 20th - BOJ jolts markets in surprise change to yield curve policy, allowing the 10-year bond yield to move 50 basis points either side of its 0% target.
- Dec 22st - Ukrainian President Volodymyr Zelenskyy delivered an address to US congress and thanked the US and allies for their support of Ukraine's war effort.
- Dec 23rd - Japan's internal affairs ministry reports that the country experienced its highest level of inflation since 1981 last month after core consumer prices increased by 3.7 percent from November 2021
- Dec 26th - The National Health Commission announces that China will suspend their COVID-19 quarantine requirements for passengers arriving from abroad beginning on January 8.

Although economic data points to a global easing of inflationary pressures, central banks continued to surprise in December with a restrictive outlook for their monetary policy. Equities prices ended the month on a downtrend, following the trend of the year. The US equities markets are the most sensitive to interest rate outlook, compared to the Asian ones where Central Banks showed more resilience to start with. The Chinese equities market had a strong December due to the Chinese government's changed stance on its zero-Covid policy, although performance remained weak.

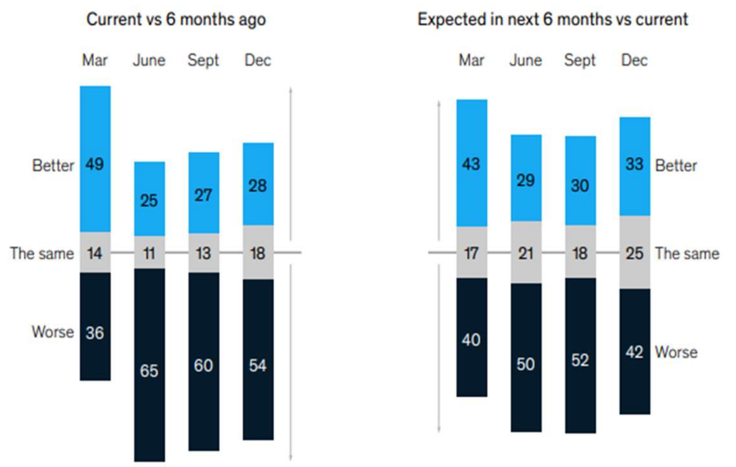
Bond yields eased during November thanks to better inflation data and reversed sharply higher in December due to central banks' hawkish stance. German 10-year yields rose over 60bps over the month to 2.5% which is slightly higher than the October high. US 10-year rates rose by 30bps to 3.87%, well below October's level.

Gold prices firmed in December, closing the year virtually unchanged (in dollar terms). However, the interest rate environment remained unfavourable for gold over the month. The weakening dollar (likely purchased by Central Banks in China, Russia) diversifying their reserves away from the dollar) and high geopolitical risks were the supporting factors.

Investment Conclusion: Advantageous prevailing valuations, better liquidity and financial conditions, lower real bond yields, energy process and US$ are positives for global equities, especially the cyclical sectors like Banks, Mining that (in addition to Real Estate and Consumer Discretionary) may benefit from China reopening theme, too. Japanese equities provide increasing quality and value, especially at current valuations (12x P/E, 2.9% dividend yield, 1.2x P/B basis) and we are considering allocations to selected sectors.

Expectations for the Next Term

Concluding an eventful 2022, we are now looking not only a month ahead but for longer term updated expectations. McKinsey Global Survey reached out to 1200 executives from all over the World for their quarterly view on economy and future of the global economy. In December, the report shows that the respondents are much more likely now than in previous 2 quarters to report improvement or stable conditions and to expect conditions to improve or stay the same over the next six months (Figure 2). They continue to point to geopolitical conflicts and inflation as the most



[1]Figures may not sum to 100%, because of rounding. In Mar 2022, n = 785; in June 2022, n = 899; in Sept 2022, n = 1,247; and in Dec 2022, n = 1,192.
Source: McKinsey Global Survey on economic conditions, 1,192 participants at all levels of the organization, Nov 28–Dec 2, 2022

Figure 2: Global economic conditions, % of respondents

pressing economic risks over the next year, while concerns about rising interest rates would develop idiosyncratically, on a regional basis.

Fitch also published their Global Economic Outlook in December 2022, underlining the global battle against inflation and the increasing fears of recession in Europe and US. Fitch Ratings lowered its world GDP forecasts for 2023 as central banks are forced to toughen up in their fight against inflation and China's property market outlook deteriorates. Fitch now expects world GDP to grow by 1.4% in 2023, revised down from 1.7% in the September Global Economic Outlook (GEO). It has lowered its 2023 growth forecasts both for the US to 0.2%, from 0.5% – as monetary policy is tightened more rapidly – and China, to 4.1% from 4.5%. Eurozone growth forecasts rose to 0.2% from -0.1% with the EU gas crisis easing.

The month of December brought a 'positive breeze' to the markets, through Fed 's softer tone and seemingly cooler inflation while employment and housing numbers do not suggest yet recession. The gloom has spread quite wide though, and the global growth at 1.4% in 2023 marks the slowest pace of global growth in 4 decades, excluding GFC and Covid periods. The breeze may turn into a calm wind should China reopening will continue as planned, and it may become one of the most important events of 2023. The effects will be felt all over Asia, boosting Hong Kong GDP, energizing travel agencies activity, reviving land and property prices, and pursuing commodity prices higher (oil, iron ore, refined copper). There are lingering worries about China re-opening fuelling inflation in other regions so we will follow the relevant headlines for any sign of such outcome.

New Dimension Capital – About Us

Year 2022 ended on a high note for New Dimensions Capital. In the words of our CEO, Elaine Foo, it was "a year of another new season.

New Dimensions Capital has launched its first proprietary fund this year. I am grateful for my long-time clients who have trusted and given me much support through the years. A big thank you to supporting partners and vendors which had assisted in setting up our fund.

The world has also resumed to the gathering of people and travel. We celebrated our company's anniversary and fund launch with many joining for the celebrations. It is refreshing to be able to connect face to face in large groups again."

New Dimensions Capital anniversary took place on the 9th of December, at the firm's office at Winsland House I. Over 45 'friends' of the firm enjoyed a business casual gathering, with all team members fully engaged to create a rewarding experience.

For additional information, please contact **New Dimensions Capital**:
P +65 6982 7133 **E** info@newdimensionscapital.com