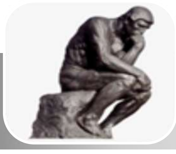
NEW DIMENSIONS CAPITAL

MONTHLY BULLETIN February 2023



Thought of the Month

In the past 30 years, the U.S. share of global output declined from 21.0% in 1991 to 15.7% in 2021, while China's rose from 4.3% in 1991 to 18.6% in 2021. In 2021, the BRICS had a combined GDP of $42.1tln (measured in constant 2017 international prices), compared with $41.0tln in the G7.

The U.S. predominance has gradually declined since 1950 mainly because other parts of the world have gradually caught up with the United States in advanced technologies, skills, and physical infrastructure.

"The essential problem with prevailing geopolitical theories is they view geopolitics almost entirely as a game of winning and losing among the major powers…" – Jeffrey Sachs, The New Geopolitics.

Geopolitical tensions are evidently raising the prospect that strategic competition and national security concerns will restrict the shared economic benefits of global trade. Half of the US imports and a third of Europe imports come from Asia. In turn, Asian countries account for almost half of global demand for key commodities. Economic fragmentation has and will have serious consequences on investment for emerging markets and open economies, and at a micro-level, companies with high level of debt. A recent IMF report shows that a typical shock to trade policy uncertainty, like the 2018 build-up of US-China tensions, would reduce investment by about 3.5% after two years. It also decreases gross domestic product by 0.4% and raises the unemployment rate by 1%.

What should investors do? We see geopolitical risks and the World fragmentation as long-term risk factors for global economies and financial markets, as decision makers refrain from taking significant steps or making relevant commitments. Industrial production, employment and trade are concomitantly affected, and such effects will ripple for a longer period than expected. Firms will adjust their employment practices and act on cutting costs. Safe heaven assets are naturally expected to outperform such periods, but practice proves that such assets are also very slow to recover after a strong risk-off regime (or systemic risk). For periods with high inflation, as we are currently experiencing, income bearing securities may be preferred, especially if they provide capital appreciation value, too (high dividend yield stocks).

From Narratives to Investments.

- Jan 4th: University of California invests $4b in Blackstone's real estate fund – FT.
- Jan 5th: Germany and Norway will build a big hydrogen pipeline – CNN.
- Jan 6th: Hong Kong to reopen China border with 60,000 quotas from Jan 8 – CAN.
- Jan 6th: BOJ to emphasise inflation index that excludes Fuel Costs, raising "core-core" price forecast.
- Jan 10th: OECD reports inflation decline to 10.3%, G20 inflation fell to 9.0% for November 2022.

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- Jan 12th: US CPI dropped 0.1% in December, to 6.5%. Core Inflation higher at 5.7%.
- Jan 14th: Europe gears up to send Western tanks to Ukraine.
- Jan 17th: Russian central bank launches Chinese Yuan swap instrument.
- Jan 17th: Goldman Sachs' profit miss expectations.
- Jan 23rd: There is no easy escape from America's debt ceiling mess, treasury to take "extreme measures".
- Jan 25th: IBM tops revenue estimates, says it will cut 3,900 jobs or 1.5% of its workforce.
- Jan 25th: Chip giant ASML sees 2023 sales surge; says China revenue to be steady despite US restrictions.
- Jan 26th: Bank of Canada increases policy interest rate by 25bps to 4.50%, but hits pause.
- Jan 27th: China-Africa trade soars on spike in commodity prices.

In January 2023, inflation data led investors to position for slower rate rises from the Federal Reserve from here. Risk appetites picked up, despite expectations of a slightly softer earnings season compared to Q4 2021. The reversal in sentiment spread to the broad market, with almost all sectors stronger over the month. Traditionally defensive areas of utilities, consumer staples and healthcare, underperformed growth names.

Eurozone shares were among the best regional performers, with best performing sectors as economically sensitive areas of the market, such as information technology and consumer discretionary. Real estate also enjoyed a rebound after poor performance in 2022. Within consumer discretionary, luxury goods stocks were particularly strong following the news of China's economic reopening.

Global government bond yields fell in January on encouraging news on inflation – particularly out of the US with the market enforcing the believe in a slower pace of rate hikes by almost all Central Banks. Credit markets outperformed government bonds both in the US and Europe and across both high yield and investment grade markets. Risk sentiment improved as signs of moderating inflation and better-than-expected growth (Europe and China mainly) saw investors dial back on their recession-hedge positions.

Commodities have not fared well in January 2023, with energy and livestock becoming the worst-performing constituents in the asset class. Industrial metals and precious metals achieved strong gains. In energy, the price of natural gas was sharply lower in the month.

Investment Views

Majority of asset classes rallied at the beginning of 2023 driven by the disconnect between the Fed's narrative and the way it is perceived by markets, only this time the positive corelation between public equities and fixed income markets proved beneficial. Equity markets seem to price in a shallow recession (the new term describing what we usually call a soft-landing) and encouraged by promising economic data, signals that higher rates for longer is an acceptable scenario.

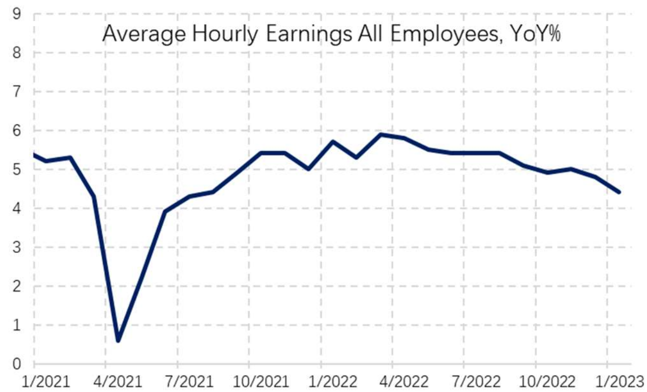

Figure 1: AHE YoY%,
Source: New Dimensions Capital, Bloomberg.

Resilience is still the name of the game, as we do take note of some of the persistent worries – manufacturing and non-manufacturing PMI numbers signalling recession, fading lustre of the recent earnings announcements, Core Inflation stubbornly high. The most recent and very well received Unemployment report for December 2023 may be affected by the weakening employee earnings for the same month (see Figure 1: index ‘Average Hourly Earnings All Employees, YoY%’), and a proof of lower real wages.

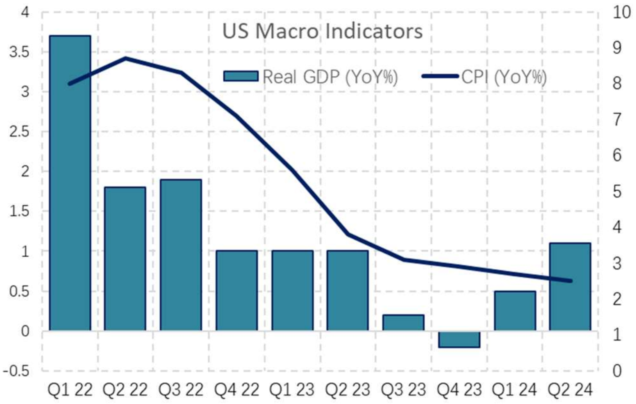

Figure 2: US Macro Indicators (YoY,%), Source: Bloomberg.

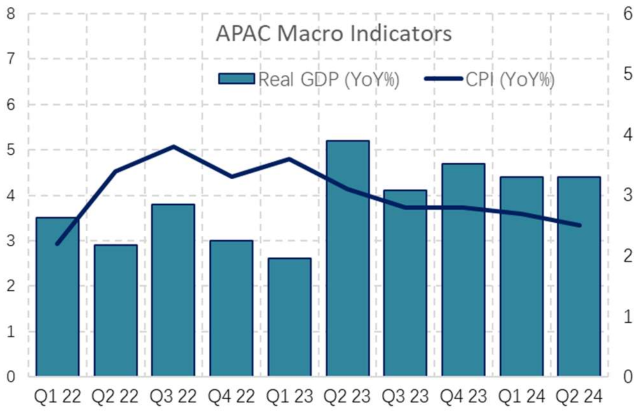

Figure 3: APAC Macro Indicators (YoY,%) Source: Bloomberg

We implement our portfolios to build resilience to persisting high rates and decelerating economic growth (See Figure 2), in addition to balancing the risks derived from current valuation levels. We would avoid pure defensive sectors and very short duration trades, concentrating on sectors with good level of protection against high costs of raising rates and slowly decaying inflation, such as Infrastructure, Utilities, Consumer Staples, and selective Energy.

For the current economic regime, we are pursuing sectors and stocks with high-quality operations that will generate predictable and stable cash flows during an economic slow-down. While inflation continues at moderate-to-high levels, free cash flows will be a better indicator of performance compared to EBITA and ROC, as stable margins and return on capital mean a backwards drifting due to prices inflation pressures.

And finally, we do keep our core allocation in APAC for the next quarter, since inflation pressures and growth decay seem to be less harmful in terms of not only historical numbers, but the forward-looking ones, as well (See Figure 3).

New Dimensions Capital – About Us

January 2023 was a month of celebrations for New Dimensions Capital team. We have dedicated the Lunar New Year celebrations to our business partners and investors, recognizing the value they all bring to us and our enterprise. The vivid atmosphere was balanced by a profound and disciplined care to managing the firm ‘s first fund that already passed its initial milestones: the first market trades under the new investment vehicle, accounting for the first realised profits. This is just the beginning, and the team is conscious of the following milestones that are of a significantly higher importance: consistent returns, resilient earnings distribution.

According to Chinese Astrology, the rabbit symbolizes patience and luck. While 2022 was a yang year (meaning it was more about action), 2023 will be a yin year and much more passive. There will be moments for reflection, rest, renewal, and we are fully committed to grow our fund’s AUM and our business.