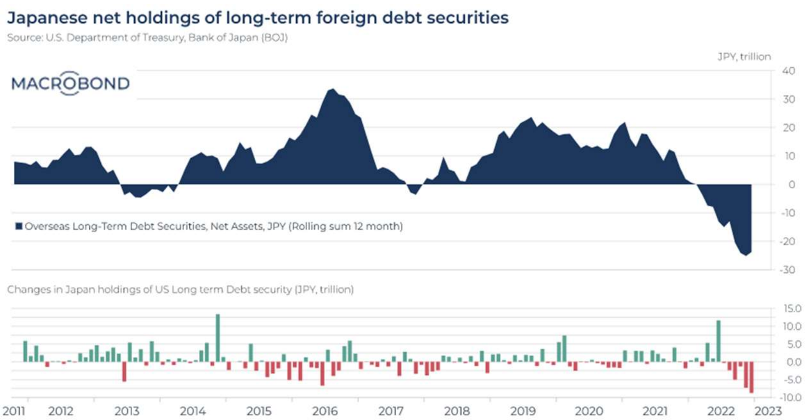
WEEKLY BULLETIN

Week of 27th February 2023

Thought of the Week.

In 2010 China's GDP overtook Japan and it's now more than four times the size of Japan's economy. But Japan is still the third largest economy in the world, and it has a significant place in the global financial system. One of the effects of the BOJ's policies is that it has flooded the world with liquidity.

If the policies that created this situation are reversed, it could have profound effects on the global financial system.



Japanese investors bought enormous quantities of foreign bonds over the last twenty years, in a natural pursue of higher yield. This trend has reversed, and we all look ahead with serious worries (the Chart shows Japanese investors reducing bond holdings since last year).

Japan's government debt has reached an astonishing 260% of GDP. While that would alarm almost all countries and central banks, it's only been manageable because Japan's interest rates have been close to zero for the last two decades. With higher rates, that debt would not be sustainable. Japan's economic growth is also very low, which means growing its way out of that debt is unlikely.

In 2016 the BOJ pivoted from quantitative easing to yield curve control. This policy was used to prevent deflation and encourage short term borrowing. Unlike similar policy tools, YCC targets specific rate bands along the yield curve, and the BOJ steps in to buy bonds when the band is breached.

This policy seems also unsustainable, and due to a very heavy balance sheet the view is that BoJ will have to abandon the policy. Such a policy change will pressure Japanese equities and support higher global yields.

Events Summary for Previous Week.

US Economy/Politics

- Goldman Sachs says Fed to lift rates by another 75bps – 21 Feb
- US could face default as soon as June if debt ceiling isn't lifted says thinktank – 23 Feb
- Jeffrey Sachs says Nord Stream pipeline destruction "Act of International Terrorism" – 23 Feb

Europe and UK Economy/Equity

- Europe hits new wind and solar record after Russian invasion of Ukraine – 22 Feb
- Euro-zone inflation marginally higher in Jan, core also lifted – 23 Feb
- Britain's Lloyds bank profits dip on bad-debt charge – 23 Feb .

Asia Pacific Economy/Equity

- Scotland and Singapore sign hydrogen MoU – 18 Feb.
- Japan manufacturers gloomy as global slowdown hurts – 22 Feb
- Alibaba ekes out sales growth despite COVID-hit quarter – 23 Feb.

Other News.

- Kazuo Ueda to start as BOJ governor in April 2023.
- US Earnings Season - NYSE: Berkshire Hathaway, Occidental Petroleum, Costco, NASDAQ: Broadcom, Zoom Video.

Weekly Data Monitor.

Performance

- Consolidation continues.
- Bonds held better this week.
- US Dollar stronger.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	**-1.49**	-1.90	5.14	-5.15	20.10	32.51
Global Real Estate	**-2.06**	-4.59	4.73	-10.95	-5.03	27.84
US Real Estate	**-2.48**	-4.42	5.12	-9.66	-2.42	38.51
APAC Real Estate	**-0.32**	-4.69	0.73	-12.99	-23.96	-21.90
Investment Grade	**0.04**	-1.54	2.21	-4.84	1.83	15.21
High Yield Bonds	**-0.47**	-2.83	0.36	-12.44	-13.31	-8.20
Global HF Real Estate	**-0.39**	-0.45	1.21	-1.68	5.50	7.48
Global HY ETF	**-0.84**	-1.46	5.66	-5.92	24.72	-6.80
ASIA Real Estate ETF	**0.11**	-3.46	0.77	-11.52	-8.89	-18.98
USD Index	**0.69**	2.43	1.02	7.66	5.26	16.35

Weekly chart:

Core Inflation figures gave direction.

- Weak equities across markets.
- Stronger Bonds, US $.

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

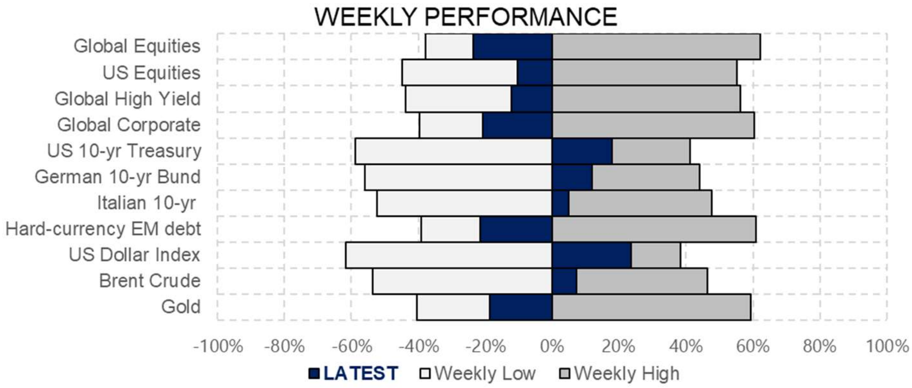


Chart of the Week.

At the end of 2021, things looked promising for the global housing sector, showing house prices growing at the fastest pace since 1970s, for all 38 countries in OECD,

Less than 2 months in 2023, headlines around the world are pointing to depressed housing markets, though there have been some signs that we may see prices stabilizing. The state of the housing market is a double-edged sword: home prices are considered too high to be affordable, while homeowners are invested in supporting the high valuations.

Nearly all countries in the Oxford Economics database are expected to experience a slowdown this year, marking the most widespread deceleration in housing price growth since at least 2000. More than half are likely to register an outright price contraction — something last seen in 2009 (see the Chart of the Week, sourced from Financial Times). In US, existing home sales dropped for the 12th consecutive month in January, with the decline continuing to weaken. The sales fell 0.7%, well better than the average of about 4% for the last 6 months. Housing starts and building permits also fell in January, despite an inventory perceived as being quite low.

The situation is not any better elsewhere, with UK house process falling the most since 2008/09 Global Financial Crisis. Across the world, rising mortgage rates made home loans less affordable, especially since majority of homeowners are paying variable rates. Budgets for homeowners get squeezed, impacting consumer spending.

Over the short term, the base case scenario is a slowdown in housing sales due to high home process and mortgage rates. The industry is very cyclical and earning valuations and respective ratios (PER) are expected to fall this year, eventually providing an opportunity for long term investors.

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