NEW DIMENSIONS CAPITAL

MONTHLY BULLETIN March 2023

Thought of the Month

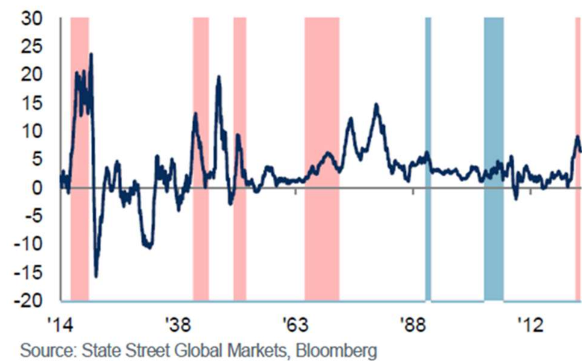
For the month of February 2023, three themes emerged as drivers of our discussions with investors and concomitantly, as factors affecting our portfolio implementation.

1 – The imperative to build resilience in anticipation of geopolitical risk.

Japan's prime minister, Fumio Kishida, stated at the 2022 Shangri-La Dialogue on global security forum "Ukraine today may be East Asia tomorrow."

A February 2023 McKinsey & Co article "Black swans, Gray rhinos, and silver linings: Anticipating geopolitical risks (and openings)" emphasizes the need to develop geopolitical resilience and frameworks that plan for risky scenarios with strategic foresight (contingency plans, forecasting models, new risk factors). If the black swans are commonly known as unpredictable events with high impact (see Russia 's full scale invasion of Ukraine), the 'Gray rhinos' are probable events with high impact that we do not know when and how much damage will cause (regional conflicts in Asia or Middle East).

There is a high probability that the Cold War II can morph into World War III, and if the world splits into power blocks there is significant tail risks for inflation (mind that Covid-19 pandemic effects are still lingering). The figure overlaps US CPI data for last 100 years to war periods (major in pink and minor in blue), yet another reason for persistent inflation.



Source: State Street Global Markets, Bloomberg

2 – The swift return to overheating from the recent recession worries.

With the large upside to US January inflation prints, better cyclical news has shifted market worries rapidly from recession back to overheating, alongside a sharp repricing of rate markets. This happened in only one month, challenging the trends that prevailed in January.

There are two lines of though regarding the reversal in latest trends. It is considered:

A – a market correction due to an exaggerated optimism about the speed of US disinflation and pessimism about US recession risks in January.

B - a shift back to a sustained period of hawkish policy and FCI tightening like we saw through much of 2022.

There are clear risks of more hawkish news in the busy lead-up to the March FOMC, particularly if the data pushes the Fed to return to larger rate hikes. These concerns about longer policy cycle and relative softening amplifying recession risks will build a bipolar market shifting between cyclical and policy picture in main regions: US, Europe, UK, China.

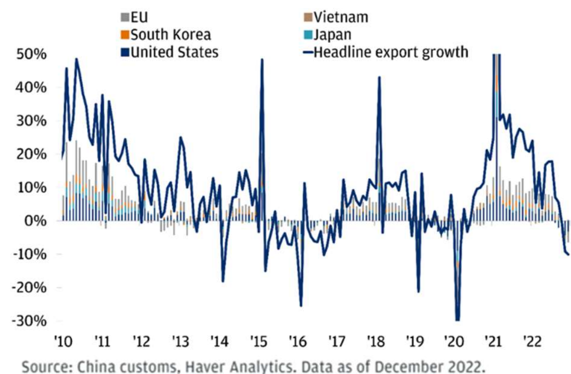
For additional information, please contact **New Dimensions Capital**:
P +65 6982 7133 **E** info@newdimensionscapital.com

This recent surge has the hallmarks of a bubble with a brief rebound of the kind that punctuated the long decline of every major bubble in the past century (US corporations in the 1960s, commodities in the 1970s, US tech in 1990s) and triggered by tightening monetary policy. We would stay invested in sectors that were not caught in the last decade bubble, selecting names that persist in delivering quality income.

3 - China reopening and recovery expectations

The post-Chinese New Year consolidation in February is largely due to a considerable slack in the labour market, sluggish housing market, weaker exports and the overall economy. China's National Party Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) just kicked off this and will last until March 20. Over the course of these meetings the government will set major economic targets (GDP growth) and lay out key priorities and reform initiatives to revive consumer confidence.

After a rapid normalization driven by re-opening related policies, we expect China's economy to gradually recover in the coming months. Sectors with secular tailwinds, for example consumer services and industrial sectors, will likely recover faster than others, such as the property sector. Property developers are still paying down their debt and are likely still a few quarters away from fresh Capex activity.



Source: China customs, Haver Analytics. Data as of December 2022.

Although evidence suggests that production normalization has been swift after the holidays, global demand has been slowing at a rapid pace. Export figures from China and several East Asian economies (see the chart), which tend to act as bellwethers for global demand, have shown a very sharp decline. The China Containerized Freight Index, which measures the average shipping price of containers from China's 10 major ports to other parts of the world, declined by 13.9% from end-December to mid-February, while the Freightos Baltic Index, a measure of international freight rates, dropped by 11.3% over the same period.

In conclusion, we see investors focusing on the new economic leadership targeting fiscal support, monetary policy, economy restructuring, financial market reforms. With low expectations being priced in the market, surprises seem to be on the upside.

From the News Desk to the Investment Team

- 6th Feb: Fidelity says 60% of the market already in slowdown.
- 9th Feb: Germany in advanced talks with Oman for natural gas supplies.
- 10th Feb: China CPI Near 4% in 2H23 Could Temper PBOC Easing.
- 21st Feb: Australia central bank abandoned pause option for Fed rate hike.
- 21st Feb: China Blasts US for Military, Cultural 'Hegemony' as Ties Sour.
- 22nd Feb: Japan manufacturers gloomy as global slowdown hurts.
- 22nd Feb: NZ central bank hikes rates 0.50% despite cyclone's economic blow.
- 23rd Feb: US could face default as soon as June if debt ceiling isn't lifted says thinktank.
- 23rd Feb: Euro-zone inflation marginally higher in Jan, core also lifted.
- 27th Feb: China's Upcoming Congress Spurs Optimism on Mainland Stocks.

- 28th Feb: Eleven EU countries to launch alliance for nuclear power in Europe.
- 28t Feb: India GDP outpaces China despite slowdown to 4.4% last quarter.
- 28th Feb: South Korea's Yoon says Japan has transformed into a partner.

February was not a kind month to global stocks that gave up half the gains made year-to-date. Higher than expected inflation in both the U.S. and parts of Europe, as well as resilient labour markets ignited fears of more hawkish monetary policy. Forward curves in both regions now point to a higher-for-longer scenario.

The Fed slowed the pace of hiking to 25bps at the start of the month and signalled an exit from the "crisis tightening model", but it was followed by a sharp repricing of terminal rates from 4.8% to 5.5% on stronger-than-expected economic data. U.S. Treasury yields surged across the curve with the 2-year jumping +60bps and 10-year up +40bps during the month (both the largest increases since September), sending equities lower and the dollar higher. The pressure extended into this week and the S&P 500 finished the month below the 4,000 level.

The S&P Pan Asia BMI gave up most of January's gains as it plunged 5.3% in February. Mid and small caps outperformed blue chips, with the S&P Pan Asia Midcap and the S&P Pan Asia SmallCap limiting their losses to 3.7% each. Most Asian government bond indices slipped, with Markit iBoxx ALBI pulling at the rear, down 4.3%.

Looking forward:

- We monitor the impact China's reopening will have on inflationary pressures. While Chinese demand may rise, it may be offset by the further easing of supply constraints.
- Global forecasts are stronger for March 2023, building into a moderated growth for the year (market consensus around 2.5%). China just announced targeting 5% GDP growth, a cautious expectation and with higher probability to accomplish.
- A lot of direction will be taken from the US non-farm payroll and CPI announcements first half of March.

Investment Views

In our January 2023 Investment Views, we mentioned that Feds narrative and promising economic data allowed for a positive performance for both global bonds and equities. This month, stock market led the consolidation leaving market participants pondering whether this is a pause or a race.

We continue to drive our asset allocation along several strategies:

1 - Pursue sectors and stocks with high-quality operations that will generate predictable and stable cash flows during an economic slow-down (call to our last month bulletin: While inflation continues at moderate-to-high levels, free cash flows will be a better indicator of performance compared to EBITA and ROC).

We prioritize fixed income for our multi-asset portfolios, with high quality opportunities emerging at 4-6% yields, and with higher returns as investors look for safe heaven assets should the economy slowdown or tip into recession. We prefer long duration bonds and investment grade bonds, over credit. Stocks with persistent dividend distribution are considered a tactical addition to our investment solutions.

2 – For our equity allocation, APAC is looking more attractive than US due to the latter's high earnings expectations and high valuations. 2023 earnings projections for the S&P 500 Index reach consensus at around $230, a number that bakes in earnings growth of about 5%. This estimate most probably fails to account for the challenges that companies are likely to face due to tighter monetary conditions.

For the APAC region, central banks did not pursue significant quantitative easing and inflation levels remained at lower levels, prompting us to continue overweight the region especially in the equity space (see the Charts from our previous bulletin).

	GLOBAL GROWTH	APAC GROWTH	GLOBAL QUALITY	APAC QUALITY	GLOBAL MINVOL	APAC MINVOL	Global IG 1-3Y	Global IG 3-5Y	GLOBAL HY
	EQUITIES						BONDS		
1 MONTH	-1.87%	-7.47%	-2.55%	-5.42%	-3.58%	-3.79%	-0.38%	-1.36%	-1.89%
1 QUARTER	1.06%	0.31%	-1.07%	-0.52%	-3.78%	1.22%	0.48%	-0.74%	2.88%
1 YEAR	-12.93%	-15.26%	-9.04%	-14.84%	-4.54%	-10.35%	-1.20%	-6.49%	-6.21%
3 YEARS	31.17%	2.59%	33.23%	9.87%	10.79%	-2.78%	-0.71%	-8.34%	-1.90%
5 YEARS	49.81%	1.73%	56.21%	11.91%	26.77%	-8.07%	6.24%	-4.70%	4.37%
10 YEARS	167.79%	53.91%	184.06%	-	104.66%	34.42%	12.50%	0.14%	35.74%

Source: New Dimensions Capital, Bloomberg.

In the short to medium term, the market may have gotten ahead of itself, allowing for a short-term correction. We are entering a new regime so there will probably be a fair amount of back-and-forth sector rotation, but we expect quality to remain a strong allocation target. From the table above, we see performance swinging from 1 year ago, to 1 quarter ago and again, to last month in almost all reported asset classes.

With eyes still at this table, we will reiterate the last month note to conclude this investment view:

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.

New Dimensions Capital – About Us

With the echoes of the Lunar New Year celebrations fading away, the team at New Dimensions Capital has swiftly transitioned back to a busy business-as-usual program in February 2023.

The second month of the year, coinciding with the 'vintage' of NDC Stable Income Fund, was not kind to Singapore equities market, with a particular pressure point on the real estate sector. The fund outperformed the relevant benchmarks, but the short-term horizon for the interest-rate sensitive sectors does not look very bright.

We engaged with UHNW individuals and large Asian conglomerates, embracing the chance to explain in further detail about the firm's investment capabilities and newly developed products. Besides the fund and existing strategies, we have presented a novel and proprietary asset allocation strategy capitalizing on optimizing solution risk for a target absolute return.

February 2023 kept all of us on our toes, not only managing investments through 'discontent' markets but also for correctly capturing client demands that proved perceptive to the current economic and financial reality.