WEEKLY BULLETIN

Issue #2: May 2023

Thought of the Week.

The University of Michigan consumer sentiment for US fell sharply to a six-month low of 57.7 in May of 2023 from 63.5 in April, well below forecasts of 63, amid renewed concerns about the trajectory of the economy.

This happens while year-ahead inflation expectations receded slightly to 4.5% after spiking to 4.6% in April.

Conventional wisdom holds that consumers get skittish and pull back on spending if they fear a recession coming. But respondents to a McKinsey survey in May seem to have continued to spend, despite economic headwinds. Household balance sheets seem to remain strong, especially for higher-income consumers, which have the capacity to spend.

Consumer spending on goods and services continues but a slower growth rate.

Same survey showed that consumers are concerned about inflation and are trading down: forgoing a more expensive brand or store for a cheaper one or changing the quantity of what they buy to get the cheapest price. Consistent with that, their spending on goods decelerated when looked at in real dollars (adjusted for inflation).

It is a different story with services. Consumer spending on services fell in 2020 as people locked down and spent their money on home goods instead. As COVID-19 has faded from the forefront of consumer concern, there has been a steady increase in the volume of services consumers utilize, and spending levels have increased beyond those of 2019 (in real terms) although 2022 and 2023 are back to pre-Covid levels.

The cautious sentiment persists, confirmed by latest OECD Consumer Confidence Index as well, coming in at 98.1.

Last Week ‘s Market Events.

US Economy/Politics

- CPI tracked a 0.4 percent increase in average prices in April, lower to 4.9% YoY – 10st May.
- Debt ceiling meeting between Bide and congressional leaders called off, postponed till next week – 11th May.
- News of 9.5% fall in deposit for PacWest Bancorp send regional US banks shares lower – 12th May.

Europe and UK Economy/Equity

- Bank of England hikes rates by 25bps, no longer sees recession – 11th May.
- Brits are being offered no-deposit 100% mortgage loans for the first time since 2008 – 10th May.
- UK sales growth holds steady in April, U.K. BRC Retail Sales at 5.2% YoY – 10th May.

Asia Pacific Economy/Equity

- China’s carmakers rose after the country released upbeat data on April’s passenger vehicle sales – 10th May.
- Japanese trading companies that Warren Buffett has invested in reached record levels – 10th May.
- China added to its gold reserves for a 6th straight month, protects its reserves from weakening USD – 09th May.

The Week Ahead.

- The ticking bomb of a potential default by the U.S. government will be front and center with investors next week.
- Earnings spotlight: May 18th - Walmart (WMT), Alibaba (BABA), Applied Materials (AMAT).

Weekly Data Monitor.

Performance

- Majority of indices weaker for the week.
- APAC real estate the weakest
- Credit issues under pressure for the week.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	-0.69	-0.76	8.02	5.10	42.58	37.42
Global Real Estate	-0.90	-1.69	0.98	-11.02	26.03	22.44
US Real Estate	-0.55	-1.76	0.69	-10.12	32.30	29.66
APAC Real Estate	-2.51	-1.16	-1.41	-6.93	-6.23	-25.35
Investment Grade	0.01	-0.43	4.15	3.24	14.34	16.88
High Yield Bonds	-0.24	-0.31	3.14	-1.66	-10.76	-3.63
Global HF Real Estate	0.10	0.00	0.33	-0.28	10.56	7.95
Global HY ETF	-1.53	0.99	6.41	1.44	27.96	16.47
ASIA Real Estate ETF	-1.77	-1.10	-1.31	-13.42	-5.13	0.29
USD Index	1.20	0.94	-0.88	-1.87	2.20	10.08

Weekly chart:

- US equity the only positive index.
- US$ and gold end week at highs.
- Brent Crude reversed for the week.

Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.

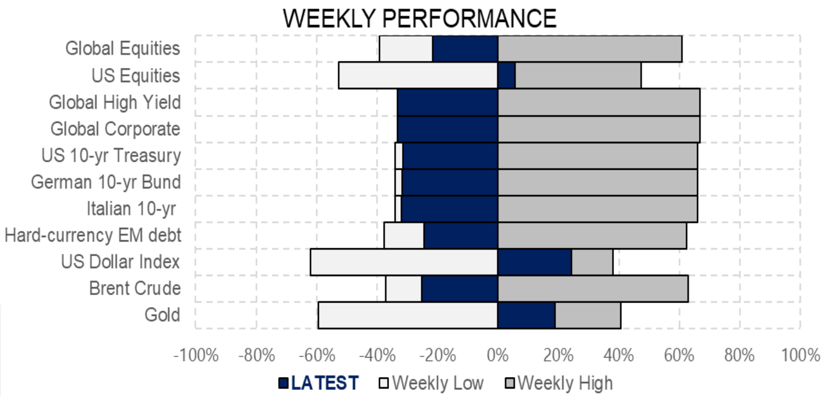
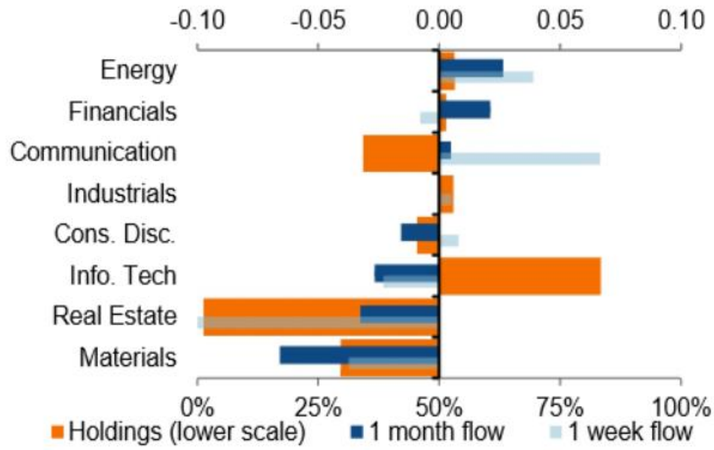


Chart of the Week.

As central banks continue unwinding years of excess liquidity through quantitative tightening and rapid rate hikes, cash becomes more valuable. Investors are more prudent in their risk taking and, in nominal terms, the risk-free rate returns something for savers.,

Fixed income assets, particularly long duration government bonds, have corrected meaningfully in 2022, and cash flows have been discounted by higher interest rates resulting in drawdowns within overvalued portions of equity markets. 2023 started on a better note, although flows continue to paint the same risk-off picture. By the first week of May, we saw a widening dispersion between global bonds and equity flows.



Source: State Street Global Markets

Global bonds saw a 6th straight week of inflows, amounting to $11bn for the week while global equities recorded the largest outflow at $6.5bn (TD Securities Report – 5th May 2023).

When looking at equity flows, while defensive tilts persist, we can still observe non-defensive sectors being bought. Last week, State Street reported (see Chart of the Week) that through their custody business they saw Energy and Financials flows turning positive on a global basis. For US, the Defensive and Financials continue to dominate, with only cyclicals sectors seeing buying being Energy and Industrials. To note the continuing outflows from the Real Estate and Materials sectors,

The above data continues to signal a risk-off regime and supports our view to invest in global dividend paying names, with a core allocation in Singapore to which we tactically add global Energy, Financials, and Industrial names.