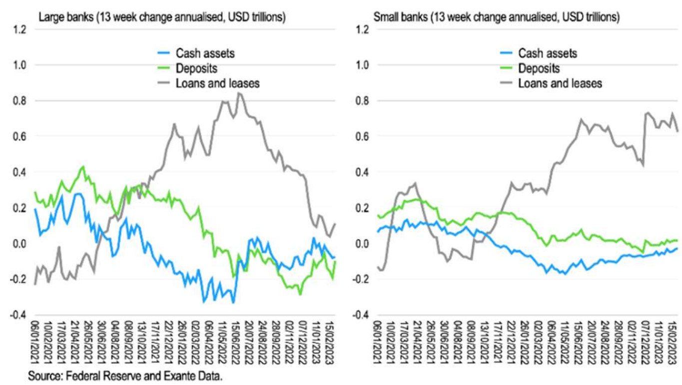
WEEKLY BULLETIN

Week of 20th March, 2023

Thought of the Week.



The Federal Reserve publishes commercial bank balance sheet data for both large and small domestic banks, where large banks represent the top 25 banks by assets. The market is particularly susceptible to a credit crunch from smaller banks now, as they have been responsible for about three-quarters of loans and leases over the past 13 weeks.

Several Universities in US and NBER analysed U.S. banks' asset exposure to a recent rise in the interest rates and its implications for financial stability. "The U.S. banking system's market value of assets is $2 trillion lower than suggested by their book value of assets accounting for loan portfolios held to maturity. Marked-to-market bank assets have declined by an average of 10% across all the banks, with the bottom 5th percentile experiencing a decline of 20%.

The point is that uninsured leverage (such as Uninsured Debt/Assets) is the key to understanding whether these losses would lead to banks becoming insolvent-unlike insured depositors, uninsured depositors stand to lose a part of their deposits if the bank fails, potentially giving them incentives to run. With this in mind, we need to be aware that 10% of banks have larger unrecognized losses than those at SVB. SVB was not the worst capitalized bank, with 10% of banks having lower capitalization. SVB had a high share of uninsured funding: only 1% of banks had higher uninsured leverage.

The analysis suggests that recent declines in bank asset values significantly increased the fragility of the US banking system to uninsured depositor runs.

Events Summary for Previous Week.

US Economy/Politics

- US Jobless Claims Fall More than Expected, fell by 20,000 from previous week – 16th Mar
- Treasury Yields Rise Past the 3.6% Mark After CPI Rose by 6% annually in Feb – 14th Mar
- Philadelphia Factory Activity Shrinks for 7th Month, Housing Starts Surge to 5-Month High – 16th Mar.

Europe and UK Economy/Equity

- ECB Hikes Rates by 50bps to Fresh 14-Year High and Adopt Dovish Tone – 16th Mar
- UK 10-Year Bond Yield Drops to 1-Month Low to 3.4% amid concerns over US banking system – 14th Mar.
- Credit Suisse had identified "material weaknesses" in its internal controls over financial reporting – 14th Mar.

Asia Pacific Economy/Equity

- FDI Into China Rises 6.1% in First Two Months of 2023, PBR Cuts Reserve Ratio by 25bps – 17th Mar.
- Japan 10-Year Bond Yield Falls to 3-Month Low at 0.3%, after the collapse of SVB – 14th Mar.
- India Trade Gap Smallest in Over a Year ($17.43bln) while Inflation Rate Eases slightly to 6.4% – 15th Mar.

Other News.

- WTI crude futures had the worst week of the year.
- FOMC Meeting and rate decision.

Weekly Data Monitor.

Performance

- Equities mixed, mainly weak.
- Bonds held the level again.
- Brent Crude had worst week.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	-1.02	-0.64	3.43	-5.28	33.46	29.91
Global Real Estate	-2.09	-2.57	0.56	-17.23	0.81	22.18
US Real Estate	-2.34	-2.43	0.88	-15.60	4.97	31.83
APAC Real Estate	-1.40	-1.17	-1.51	-12.57	-20.20	-23.24
Investment Grade	0.03	-0.31	2.16	-4.19	7.60	14.98
High Yield Bonds	0.33	-0.27	-0.42	-12.24	-16.46	-8.90
Global HF Real Estate	-0.11	0.20	1.39	-0.18	8.73	8.62
Global HY ETF	-1.23	-3.37	4.06	-4.47	26.02	-6.23
ASIA Real Estate ETF	-2.00	-2.71	-2.08	-15.55	-13.21	-20.98
USD Index	0.72	0.38	1.69	6.87	9.19	16.85

Weekly chart:

A spread developed in Equities:

- Long Real Estate short Banks
- Bonds under pressure, volatile.

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

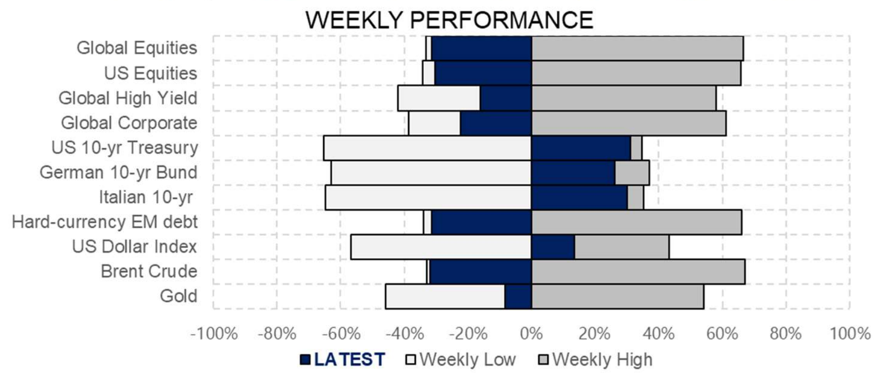


Chart of the Week.

At New Dimensions Capital we regularly monitor equity factors to build relevance into our investment portfolios. Month-to-date and Quarter-to-date factor performance had relevant characteristics for this period.

MSCI T.R. Index	World Value	World Growth	World Quality	World MinVol	World Dyield	APAC Value	APAC Growth	APAC Quality	APAC MinVol	APAC Dyield
MTD	-5.2%	-0.3%	0.3%	-0.5%	-2.3%	-1.3%	-0.6%	0.2%	-0.3%	0.6%
QTD	-4.0%	7.2%	3.8%	-2.3%	-2.9%	0.4%	0.6%	2.4%	0.0%	3.7%
1 Year	-11.3%	-16.5%	-11.8%	-9.1%	-7.7%	-10.7%	-14.7%	-14.0%	-11.1%	-8.1%
3 YEARS	39.0%	42.4%	46.4%	22.4%	37.0%	32.8%	8.9%	19.6%	19.5%	30.9%
5 YEARS	7.7%	46.3%	59.3%	26.3%	25.9%	-0.3%	-5.5%	13.3%	-1.5%	4.8%
10 YEARS	39.8%	133.1%	178.3%	93.9%	75.5%	23.5%	36.0%	67.9%	31.0%	21.2%

Source: New Dimensions Capital, Bloomberg.

February 2023 trends in factor performance became already familiar, but several point to relevant effects for investment portfolios. The unwanted familiarity came from factors weak performance together with interest rates, a strong indicator of higher rates around the World. Effects are getting clearer, especially on factors directly related to interest rates such as Fixed Income Carry.

For pure Equity factors that we are directly interested in, we experienced similar effects (see the Chart of the Week). The MSCI Factor indices showed weakness in interest rate related factors such as World Dividend Yield, which came in sharp contrast to the same APAC index. This is an effect easily explainable by the expectation for the respective Central Banks.

On the positive side, World Growth index had an exceptional first month this year and was followed by a slow reversal persisting to today. The stellar global growth stocks performance happened at the detriment of defensive stocks such as the constituents of the MinVol and Quality (views explaining a 'junk rally' in January are well supported by these factors' performance).

For the current month and feeding into our short-term views, we see Quality to take a slow but sure way back to recovery, with the Asian or APAC region showing better resilience against the global worries that are currently hurting US and the World markets. We expect high dividend yield stocks to come back in play once the Fed members are convinced that hiking rates if not necessary anymore.