NEW DIMENSIONS CAPITAL

WEEKLY BULLETIN

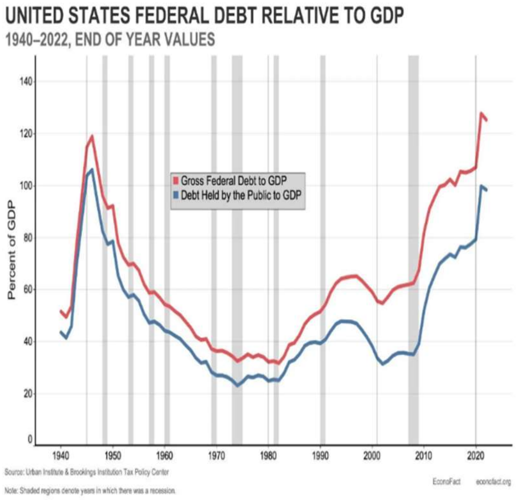
August 2023: Issue #1

Thought of the Week.

Is the US equity market approaching correction level? .

Up until July 2023, the US equity market has displayed robust performance despite facing challenges such as Federal Reserve tightening rates, regional banking collapses leading to credit tightening, and a notable 10% rise in US bankruptcy filings by the end of June 2023. Notably, a major driver of the market's upward trajectory has been the remarkable gains achieved by a select group of mega-cap growth stocks lifting the overall sentiment.

However, the pressing question on many investors' minds is whether a correction is looming on the horizon after 5 months of gains. Recent fiscal data from the US Treasury reveals a substantial increase in total public debt, reaching $32.659 trillion on July 27, with a significant rise of $392.75 billion compared to the previous month. The initial market response to this debt increase was relatively subdued, but things changed when Fitch downgraded the US credit rating from AAA to AA+. This downgrade triggered a risk aversion response, leading investors to sell equities across the board to secure their gains.



While some Wall Street bankers are downplaying the risk of a US default, the topic of US default risk is expected to gain more attention towards the end of October when another debt ceiling meeting will be looming. It is important to note that while a material blow-up on credit risk may seem unlikely, this issue could still impact market sentiment and behaviour.

Next we look at the historical data on the chart on the right hand side showing cyclical stocks tend to outperform when there is a sharp improvement in the pricing of economic growth.. The latest reported GDP stands at 2.4% and market consensus predicts around 1.0% growth ahead, which has led to a soft landing bias that is favorable for equities.

When equities have reflected a sharp upgrade to the economic growth outlook, less than 1% incremental upside remained for cyclicals during the next 12 months in the median experience. By historical comparison, after the sharp spike, we expects limited upside from here and warrant some pullback until there is another significant economic upgrade.

To examine episodes of sharp improvement in pricing of economic growth, we analyze 95th-percentile rallies in the GS US Cyclicals vs. Defensives ex. Commodities basket (ticker: GSPUCYDE) since 1973 that occur at least one quarter apart from each other.

Last Week 's Notable Events.

US Economy/Politics

- US debt explores to $392.75 billion in just 30 days, Think Tank warns unsustainable spending is now National Security issue – 30th Jul.
- US loses AAA credit rating from Fitch on mounting debt and erosion of governance – 1st Aug.
- White House blames GOP after Fitch downgrades US credit rating – 2nd Aug.
- US Nonfarm Payrolls +187K vs +200k expected.

Europe Economy/Equity

- UK economy struggles with inflation – 31st Jul.
- Germany expected to be only major economy not to grow this year – 31st Jul.
- Eurozone returns to economic growth as inflation falls – 1st Aug.

Asia Pacific Economy/Equity

- Australia RBA holds rates steady, might be done tightening – 1st Aug.
- New Zealand adds capital to RBNZ, boosting intervention capacity – 2nd Aug.
- China tries to boost economy with local bond sales, mortgage rate cuts – 2nd Aug.
- Thailand jobless rate steady at 1.1% in Q2 as economy recovers – 2nd Aug.
- India's services sector growth at 13-year high in July on strong demand – 3rd Aug

Weekly Data Monitor.

Performance

- Real Estate is weak across the region.
- Global Equity slight positive.
- USD strengthen.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	0.28	-2.47	15.19	9.55	29.56	44.94
Global Real Estate	-0.76	-2.05	1.60	-11.85	7.64	14.54
US Real Estate	-0.62	-1.86	3.93	-9.03	14.14	22.35
APAC Real Estate	-0.55	-2.57	-3.68	-7.25	-11.63	-16.77
Investment Grade	-0.20	-0.92	5.85	2.55	5.04	17.00
High Yield Bonds	-0.48	-1.41	0.69	-4.23	-17.35	-5.59
Global HY ETF	0.22	1.57	7.02	7.69	27.44	22.51
ASIA Real Estate ETF	0.11	-1.84	-6.67	-18.74	-10.63	-0.40
USD Index	1.10	0.73	-0.89	-2.93	9.87	7.82

Weekly chart:

- Brent crude rebound higher.
- Gold dip as USD rally higher.
- Hard currency EM debt plunge.

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

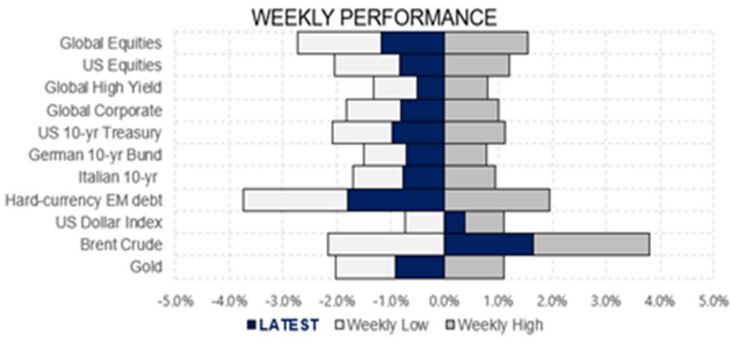
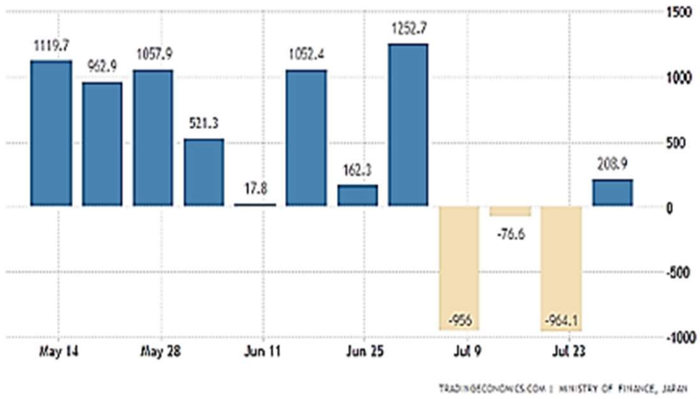


Chart of the Week.

A new risk event has emerged following Japan's release of information indicating significant sales of foreign bond holdings at the end of July, as depicted on the chart beside. This revelation, combined with the recent tweak in the Bank of Japan's policy, has led traders to speculate that Japan may have motives to reduce its foreign bond holdings and prioritize support for domestic bonds. The speculation is driven by the possibility that Japan might allow interest rates to rise more freely in the future.

Bond Investments by Japansese abroad, up to July 29, 2023 (JPY billion)



As a result of this news, there was a considerable sell-off of US Treasuries on Thursday until the Japanese authorities intervened to stabilize the market and dispel concerns about an early exit from their ultra-easy monetary policy.

It is worth noting that the recent tweak in the Bank of Japan's policy may have broader implications. For instance, news of New Zealand adding capital to RBNZ for boosting intervention could be linked to this BOJ policy adjustment since Japan holds a good amount of NZ bonds as well. The risk associated with this situation is projected to have implications for the medium term, making it essential to closely monitor its development from current to 2024.