MONTHLY BULLETIN

September 2023

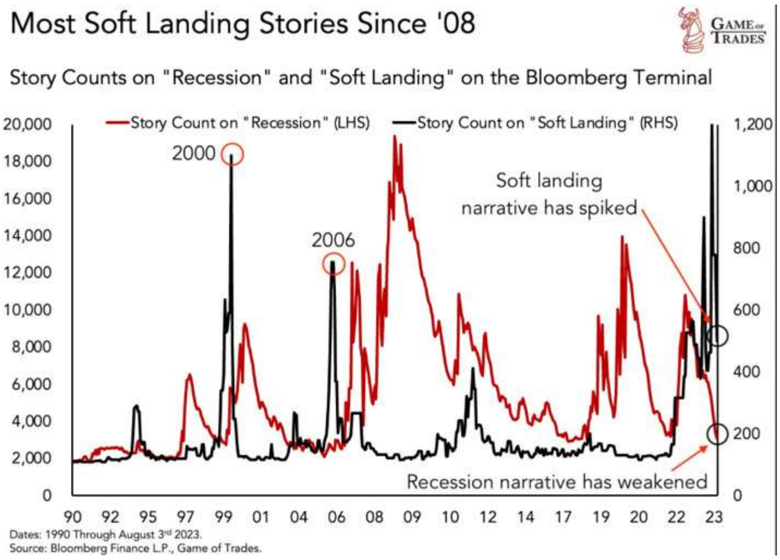
Thought of the Month

For the month of August 2023, the main themes that affected our portfolios and underlying allocations are:

1 – How reasonable is to consider a soft-landing or no recession at all, at this point in time.

We initiate this commentary with the same Goldman Sachs 's reporting their belief that recession probability is only 20% (while consensus hovers around 60%).

As compiled by "Game of Trades", stories mentioning the "soft landing" narrative become dominant not many months before the recession-event starts. Additionally, the number of "soft landing" stories in 2023 is the highest since '90s when this analysis started.



All the recent data looks like the result of a self-enforced learning algorithm, where data is generated and designed in such a way that markets and investors believe that hiking rates is not necessary (or better not happen), followed by transcending this view into the FEDs minds too. While pointing to a clear inflation cool-down trajectory and monitoring the unemployment, manufacturing, housing starts numbers that started to point down, makes "perfect sense" to conclude that hiking rates in not only not necessary, but also advisable should we want to avoid recession.

The fact is the situation in US is not exactly rosy. Unemployment ticked up at the end of August, PMI is not improving, card delinquency rates are at all times high for non-large banks (7.2% now, compared to 7.15% in 2020 or 6.5% in 2003), auto-loans performance deteriorated continuously since May 2023, US Nominal Non-mtg Interest payments index (Y0Y) is at all times high (47.8%) while wages have not recoup the pre-covid levels (currently at 4% under the US Real Employment Cost Index at pre-pandemic levels).

We are regarding the following FOMC meetings as very important, and it should provide us with a view on how much FED were influenced by the current narratives and whether the recession fears win against the inflation trajectory. We need to be cognizant of the fact that the FED job description is to stabilize markets and control inflation, not necessarily avoid recession. Several important figures in the financial economic spectrum in US are voicing the 'necessity" to create recession as means to solve the current economic and financial conundrum.

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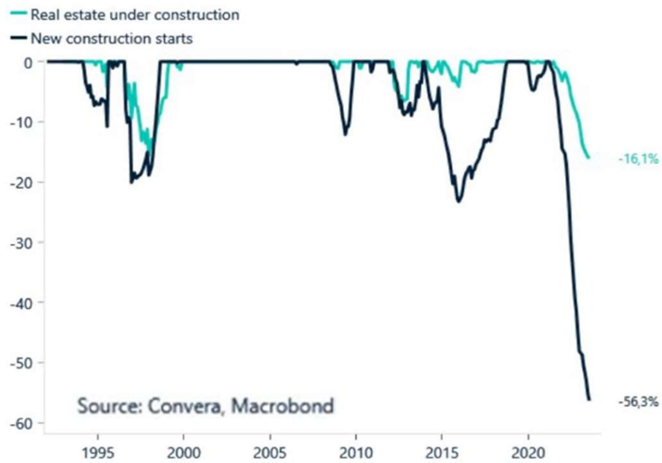
2 – Have investors became too bearish on China?

In the past 3 weeks, more than 400,000 news articles were published that mentioned China. More than 33,000 of them were explicitly negative. That is the highest ratio in at least a decade. The only other time that came close was 8 years ago almost to the day.

There is no doubt that China's economy faces genuine challenges or that Chinese economic growth is slowing, cyclically and structurally. But there is a strong disconnect between the price behaviour of most China-related assets, whether at home or abroad, and fears of an unfolding systemic crisis. And probably this disconnect comes from the number of negative narratives that are flowing through markets and news channels (see above).

So, what can we find and think of to shed light on what the situation is in China?



On one hand, the situation is bleak in terms of the construction starts and the market itself. The real estate projects have fallen to record lows (existing and new) and the general household finances have broken down, too. We consider demographic as one of the main reasons for the Real Estate crisis in China.

On the other hand, there are positive signs setting China on a growing development path and far from generating fears of systemic risk. Over the past year, Chinese bank shares (as measured by the FTSE China A-Share bank index) have gained 2.4 per cent (without accounting for dividends) outperforming the US banks by 12.6 per cent in dollar terms. Another unprecedented thing especially during a supposed emerging-market financial crisis is the massive outperformance of Chinese government bonds relative to US Treasuries, considered a traditional haven investment. Since January 1, 2020, long-dated Chinese government bonds (as measured by the BAML indices) have returned 17.1 per cent, while long-dated US Treasuries have delivered returns of negative 13.4 per cent.

Looking further afield from China, we still have commodity prices grinding higher. For example, iron-ore, possibly the most China-sensitive of all commodities, is up 50 per cent from its October 31, 2022, low and has actually been rising over the past few weeks even as the negativity on the Chinese economy has amplified.

The rampant negativity also overlooks some important bright spots in the Chinese economy. For example, Macau tourist arrivals have lately soared back to normal levels, and this in spite of severe staff shortages across all the major casinos. Domestic tourism is broadly picking up. Car sales in China are still up this year despite a small decline in June and July. Alibaba just reported a return to strong sales growth in its second-quarter results. Yet more signs of an economy that is not imploding.

(Data Source: Gavekal Research, Macrobond, FT)

3 – Is the bull market correction of August done?

There is a case to be made that the August sell-off was a sort of healthy correction, although it did not clear out some of the clear froth and consensus bullish ebullience. History also supports the theory (and the practice) that the correction may become "healthier" in September.

The best explanation of this bullish correction can be found at the intersection of the tightening financial conditions (strong US$, bond yields up, WTI rude up) with the overhyped tech sector.

We have the FOMC meeting later in September, but in the immediate term market-driven financial conditions tightening is probably the bigger risk to us and other investors.

In addition to that, as already touched upon, there is a seasonality effect starting end of August and ending in October, pressing the equity markets into a profit taking trance.

We have recognized the flows for the month being supportive of equities, especially through the technology and communication stocks (NASDAQ posted though its first monthly decline since February 2023) as hedge funds usual pile into the main momentum play of the market. But the same knowledge draws our attention to the quick reversal plays following such plays, for the same reason and culprits.

Another support that will disappear in September is the earnings announcements that tend to give voice to analysts. With no such support, there is a possibility that the same analysts will turn around and listen to macro news rather than evaluating company fundamentals. Employment, political-driven moves (see the student loans payments saga), manufacturing and especially inflation figures will drive forecasts and sentiments.

From the News Desk to the Investment Team

- US loses AAA credit rating from Fitch on mounting debt and erosion of governance – 1st Aug.
- China tries to boost economy with local bond sales, mortgage rate cuts – 2nd Aug.
- India's services sector growth at 13-year high in July on strong demand – 3rd Aug
- China, Saudi Arabia in talks to deepen stock exchange cooperation – 5th Aug
- US inflation gauge rose 3.2% annually in July, less than expected – 10th Aug.
- European gas price jumped nearly 40% on Australia supply fears – 10th Aug.
- Investor sentiment declines after July's Producer Price index increase 0.3% m/m – 14th Aug.
- Britain's annual inflation rate fell as expected in July to 6.8% vs last of 7.9% in June – 15th Aug.
- Japan GDP grew 6%, easily beating expectations on robust exports – 15 Aug.

- China's 'win-win' investment in Africa set to rise despite Western slander – 18 Aug.
- S&P downgrades multiple US banks citing tough operating conditions – 22nd Aug.
- Senior Fed official warns US interest rates may need to rise again – 24 Aug.
- No recovery yet for lack lustre German economy says Bundesbank – 22 Aug.
- Global uncertainty freezes forex markets, banks face 15% revenue fall in forex trading – 24 Aug.
- BRICS Summit: a new #BRICS currency system could be unveiled as countries strive to lessen their dependence on the US dollar for trade.

Most economists, including the staff at the Federal Reserve, no longer think the US is recession-bound. Unprecedented in modern times, inflation has fallen sharply, unemployment has not risen significantly, and the economy appears to be enjoying its third consecutive quarter, and the fourth in the past five, above what the Federal Reserve regards as the non-inflationary pace (1.8%).

Despite the extensive discussions about de-dollarization, the greenback is still ruling the roost. Illustrating this is not just its performance in the foreign exchange market, but also its use on SWIFT, which rose to a record of 46% in July. The increase in the dollar's share seems to have come at the expense of the euro, which is in second place and whose share slipped to a record low, slightly below 25%. The yuan's share was a little above 3%. The dollar rose against all the G10 currencies in August. The Federal Reserve's broad trade-weighted dollar rose by about 2% in August and peaked as Fed Chair Powell delivered his speech at Jackson Hole on August 25. It pulled back in the last week of August, snapping a four-week advance, hinting at what may be in store for it in September.

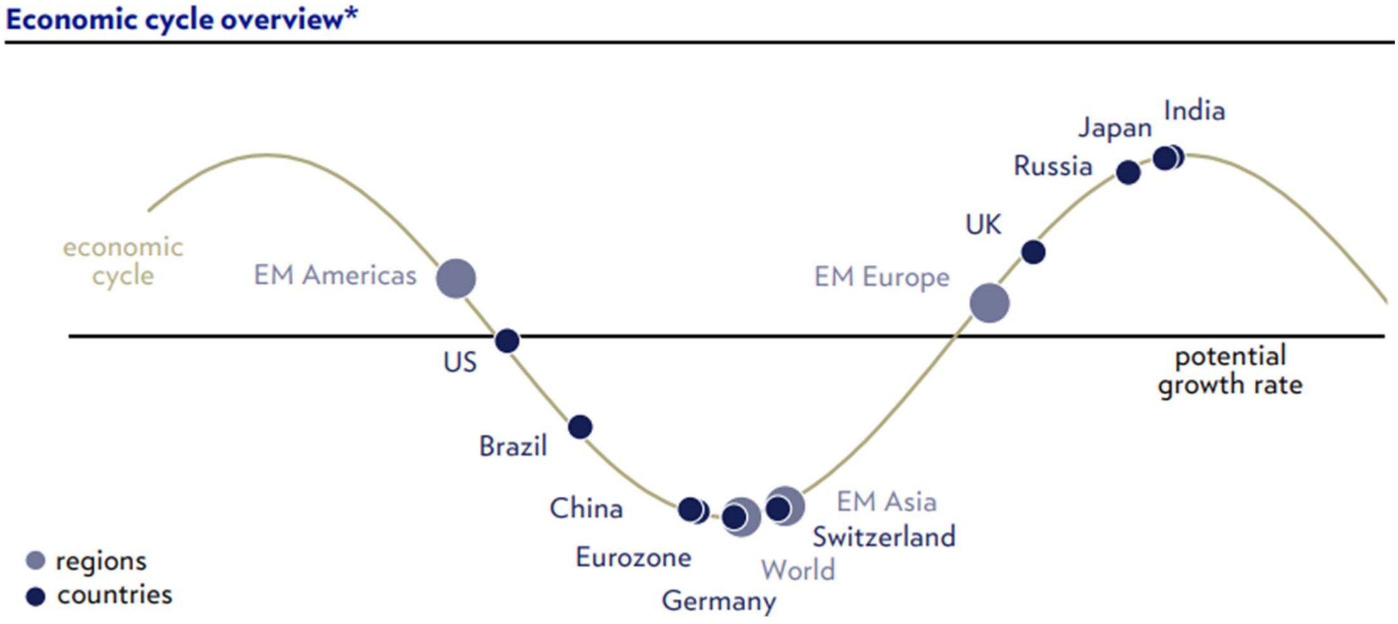
China's officials continue to make one announcement after another to support this or that sector, while the property market, which was a key engine of growth and savings, remains broken. China does not appear to be de-leveraging, though one of the largest developers appears to be on the verge of failing. New lending is being strongly encouraged. Property sales were a key source of revenue for provincial governments, and as this dried up, their fiscal straits intensified.

The eurozone is struggling with two shocks, energy and China. But unlike Beijing, there seems to be little political will to offer new supportive measures, and there is risk that the monetary tightening cycle is not over.

Japan surprised with 6% annualized growth in Q2, but consumption contracted, and business spending stagnated. Net exports explain the growth of the world's third-largest economy. Subsides for gasoline, kerosene, and fuel for fishing vessels will be extended by three months until the end of the year, and a supplemental budget is expected in September.

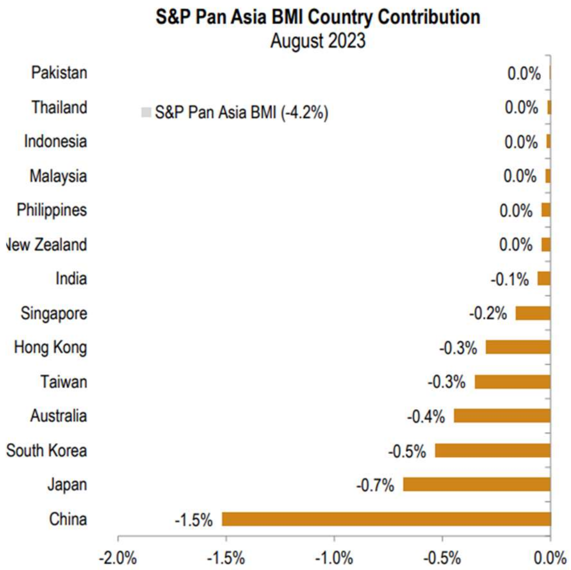
After a light August for G10 central banks, most meet in September. The central banks of Sweden and Norway have already signalled intentions to rise rates at least one more time. The Norges Bank has signalled a September move. Outside of Scandinavia, the Bank of England is recognized as the most likely to hike. Doubts about a move had crept in early last month, but the strength of labour earnings growth and little meaningful decline in the core CPI helped to persuade the market that it is not the Bank of England alone that will hike.

We are calling again on Julius Baer 's research and macro analysis on global economies and the position of their economies in the business cycle. The general understanding is that global economy will stagnate until the end of 2023. Major changes in 'position' are US sliding over the economic cycle top and sliding down to a slow GDP growth (from a pre-top position) but enveloped in a 'no-recession' narrative. UK seems to have dodged recession, but due to inflation pressures we should see certain impact of monetary tightening later 2023 or beginning 2024. Japan economy proves resilient, unlike Germany that seems to have slide to the bottom of the business cycle.



Source: Julius Baer; EM = emerging markets; status: August 2023. * Relative position of economies: a) within their respective business cycle, b) relative to the cycles of peer economies, and c) relative to their own long-term growth potential (horizontal line).

Turning our attention to Asia, we are looking at S&P Dow Jones indices for a broad understanding of main indices' performance. Equity indices were weak across the board, with S&P Pan Asia BMI erasing most of its QTD gains after plunging 4.2% over the month of August. China was the largest detractor from the regional benchmark's return, with -1.5% while sector wise, while sector wise the damage was between 2.4% Consumer Staples and 6.9% for Communication Services. Higher yielding names indexed under the Dividend Aristocrats drew almost 6%.



On the Single Market Fixed Income side, three countries kept outperforming for the month and quarter as well: in this order, China, India and Australia government bonds ended the month in the positive territory.

Oil was the only outperformer commodity, S&P GSCI Crude Oil Index ending at 3.42% over the previous month, preparing for a trend that continued the first days of September.

Looking forward:

With a month of August unconvincing in the Fixed Income space and clearly weak in the Equities one, we re convinced that we are in the late economic cycle. Stock market at all-time highs despite the inverted yield curve, tight credit spreads, high leverage and greed, tightness across commodities, collapsing sales at retailers' side, corporate profits topping over confirm the position in the economic and business cycle.

- We would look at buying energy and materials (classic late cycle plays) but avoid Real Estate and Regional banks (other late-cycle plays), due to the uncertainties for the sector. Investing in consumer staples and selective healthcare should provide a relative defensive play, too.
- From a risk management perspective, we continue to hedge according to our predefined pattern and levels, following a combined and trade-oriented approach to portfolio rebalancing (short at pre-defined levels on strong markets and build inventories on weaker days, deeper under the market). We see this period to year end, a rather trading period than a long-term inventory building process.

Investment Views

We started our last month's commentary with:

"The 3-month to 10-year US treasury spread inversion - traditionally a harbinger of recession – holds at deep levels of inversion for a long period already. This is due to the short end rising as bond investors reprice for further rate hikes this year having expected three cuts just two months ago. The longer end is falling because investors are parking capital in safer areas and seeking duration exposure if a recession is in store."

Sector and broader indices were showing investors still optimistic in July 2023 about the state of economies around the World, furthering their attention to tech stocks while quality measures were further considered. In August, we see a rare cool-down in Growth and Tech sectors, a month that we can define as weak across the board. Even longer duration Investment Grade bond issues were not significantly encouraged by weak equity markets.

It supports our belief that we are in a risk off regime, with the only question being whether it will last more than the profit taking period we are currently experiencing. Having the earnings season a matter of the past, attention tends to switch towards macro and other top-down signals. Earnings season echoes seem to have supported the US market as a whole, with a special consideration given to Consumer Discretionary and Communication Services sectors that benefited from best outlook. On the other hand, Healthcare and Energy (add Materials, too) sectors have been trailing expectations with negative revisions.

Sector	1-Month Changes EPS Est.	3-Month Changes EPS Est.	2023 EPS Est. 1M Upgrade to Downgrade Ratio	2023 EPS Est. 3M Upgrade to Downgrade Ratio
Consumer Discretionary	3.23	4.58	1.32	1.16
Consumer Staples	0.81	-0.65	3.20	2.33
Energy	-5.24	-9.76	1.17	0.64
Financials	-0.20	4.61	2.14	1.03
Health Care	-4.72	-5.16	4.10	3.07
Industrials	0.38	1.86	3.33	2.24
Information Technology	0.59	2.56	1.89	1.81
Materials	-2.25	-4.70	0.82	1.15
Communication Services	4.49	3.87	0.82	0.47
Real Estate	0.51	1.55	3.40	2.22
Utilities	-0.07	0.13	5.00	3.50

Source: FactSet as of 31 July 2023. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Sectors shown are as of the date indicated and are subject to change. This information should not be a recommendation to buy or sell any security or sector shown. It is not known whether the sectors shown will be profitable in the future. Projected sectors are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

This report by State Street includes earnings forecast as well, showing higher expectations from three sectors: Information Technology, Industrial and Communication while Energy and Materials are expected to lag expectations.

	EPS Growth (%)		Sales Growth (%)	
	2023E	2024E	2023E	2024E
S&P 500	7	12	0	5
Info Tech	20	17	2	9
Health	8	13	3	5
Financials	10	8	1	4
Discretionary	20	16	5	7
Industrial	10	13	2	5
Communication	14	19	2	6
Staples	6	8	3	4
Energy	-28	2	-18	0
Utilities	9	9	-4	2
Property	2	8	0	5
Materials	-8	6	-5	2

Source: Bloomberg Finance, L.P., as of 31 July 2023. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Sectors shown are as of the date indicated and are subject to change. This information should not be a recommendation to buy or sell any security or sector shown. It is not known whether the sectors shown will be profitable in the future. Projected sectors are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

From the NDC research, despite the weak min vol factor performance, we consider that long-term strategies need careful hedges, including currency benchmarking and hedge. We will focus on quality and income and restrict our inventory building (portfolio construction) to a strict coordination with the hedging processes.

Aug-23	GLOBAL GROWTH	APAC GROWTH	GLOBAL QUALITY	APAC QUALITY	GLOBAL MINVOL	APAC MINVOL	Global IG 1-3Y	Global IG 3-5Y	GLOBAL HY	GLOBAL YIELD
	EQUITIES						BONDS			EQUITIES
1 MONTH	-2.05%	-2.51%	-0.96%	-3.10%	-1.51%	-2.92%	0.46%	0.15%	-0.51%	-2.31%
1 QUARTER	6.99%	6.53%	7.91%	3.13%	2.83%	1.39%	0.84%	-0.11%	4.03%	6.08%
1 YEAR	20.59%	17.86%	24.11%	4.30%	5.97%	4.87%	2.84%	-0.34%	9.38%	10.95%
3 YEARS	19.16%	14.28%	30.29%	-3.29%	10.88%	0.06%	0.70%	-8.07%	-0.59%	25.96%
5 YEARS	66.59%	58.02%	74.15%	21.13%	26.51%	-1.86%	7.70%	-3.00%	10.91%	31.41%
10 YEARS	200.55%	177.43%	222.35%	88.87%	109.64%	44.01%	14.90%	2.25%	41.11%	88.03%

Source: New Dimensions Capital, Bloomberg.

There are reports and newsletters minimizing the importance of some indicators pointing to an imminent recession. The heavily inversed yield curve that preceded without exception a period of recession wince 1967, the index of leading economic indicators at lowest levels and event the decaying job markets are subject to intense analysis targeting to balance the negative effects of such signals based on idiosyncratic effects of the post-pandemic quantitative easing and bi-polar narratives.

We are balancing our portfolios with defensive constituents and diversify from a pure high-yielding stocks into corporates and companies with multiple revenue sources. Region wise APAC is our core selection target, while US is a tactical allocation, as well as selective short positions in Europe.

We monitor closely the government and PBoC actions in China covering the state owned and private companies' growth, with a final target into supporting their own financial markets.

The market's lacklustre August performance was certainly a disappointment for investors, but September has historically been the worst month of the year for the U.S. stock market. In fact, the S&P 500 has averaged a 1.1% decline in September since 1928, the worst performance of any month of the year by a full 1% margin. We expect stock market volatility to continue in September as investors price in the possibility of an economic slowdown, especially following very worrying headlines: Earnings Slowdown, US. Recession Monitors, Interest Rates Heading Higher.

Value stocks have also historically outperformed growth stocks when interest rates are high, and August 2023 showed this trend re-starting. High interest rates have a negative impact on discounted cash flow valuations, which can hurt high-growth stocks, so avoiding the usual techs that have pulled full indices to new highs must be a leading driver for investments. Sector wise, utility, consumer staples and health care stocks are typically considered defensive investments and may be relatively insulated if economic growth slows to a crawl.

New Dimensions Capital – About Us

At the end of August 2023, we successfully completed a closed door meeting with our clients and prospects on family office and wealth management with over 40 participants.

There is a huge interest in Singapore as a financial hub for their asset allocation.

The meeting followed several enhancements and consultation papers by the local regulator, having MAS promoting purporseful contirbutions and announcing enhancements to the tax incentive schmes for Single Family Offices.

The month of August started with the unveil of a consulation paper that sets out a proposed framework for Single Family Office operating in Singapore, under which there will be qualifying criteria for class exemption from licensing under the Securities and Futures Act ("SFA"), as well as notification and annual reporting requirements.