MONTHLY BULLETIN October 2023

Thought of the Month

For the month of September 2023, the main themes that affected our portfolios and underlying allocations are the high US interest rates and Wall Street analysts downgrade on real estate and high dividend related stocks:

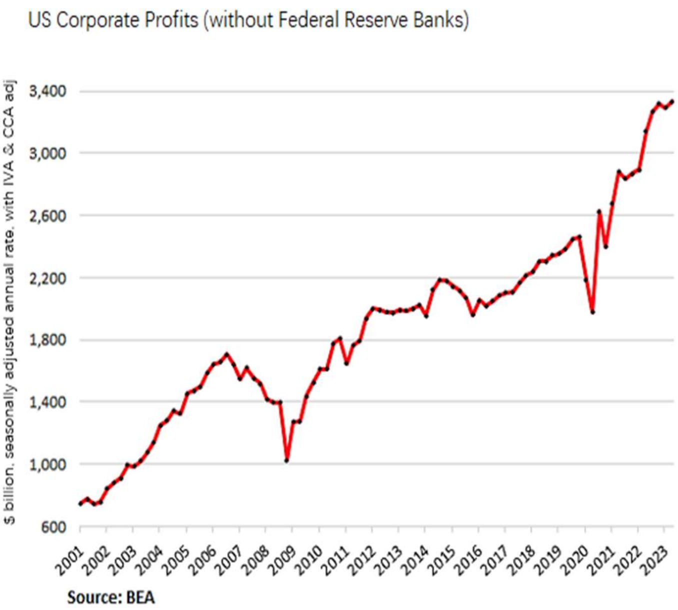
The US equity market in the second half of 2023 has been marked by turbulence and uncertainty. From a sharp surge in equity prices driven by a robust earnings season, to a subsequent whipsaw effect in August over concerns of a potential recession versus a soft landing, and the subsequent sharp correction following the Fed's hawkish pause in September, the market has been on a roller-coaster ride. These events were further exacerbated by issues like rising oil prices, union strikes in the US auto industry, and renewed government shutdown risks.

In the Asia-Pacific region, markets have been on the back foot, impacted by the hawkish stance of the Fed, a strong USD, and concerning economic news from China. The Asia-Pacific market seems split into 2 groups, one doing relative well on US directed inflows such as Japan and India benchmark while China and Hong Kong benchmark suffers from foreign outflows on the back property woes.

Despite these challenges, the US S&P500 index remains in positive territory for 2023, driven primarily by the performance of mega Tech stocks while MSCI Asia Pacific Index has been on a sliding down month.

Identifying Key Pillars:

Adhering to the wisdom of legendary investor Peter Lynch, the US market seems to be differentiating between valid concerns and mere noise. After a careful analysis, we've identified three main pillars of concern that continue to support the US equity bull. These pillars are strong employment data, above-average consumer confidence, and a GDP run-rate exceeding 2%. These factors instill confidence in the expectation of a soft landing for the US in 2023. Furthermore, US corporate earnings (chart on the right) have consistently outperformed expectations, further bolstering investor confidence. US Corporate profits has rose 1.3% from prior quarter and 6.2% year on year, to a seasonally adjusted annual rate of $3.33 trillion in Q2, according to the Bureau of Economic Analysis.



Despite prevailing worries and uncertainties, investors are drawn to US stocks due to these strong pillars of support. The strategy for navigating this turbulent market involves understanding the distinction between significant concerns and market noise. We anticipate a potential government shutdown to serve as a catalyst for a healthy correction in the overshot S&P500 and Nasdaq. However, as long as the three key pillars supporting the market remain steadfast, we anticipate a 'buy on dips' sentiment to return, especially once Congress finds a resolution to keep the US government operational and Q3 corporate earnings season to the rescue.

From the News Desk to the Investment Team

- US August Nonfarm Payroll +187K vs exp +170k – 1st Sep.
- US ISM Manufacturing 47.6 vs exp 47.0 – 1st Sep
- US ISM Services 54.5 vs exp 54.5 vs exp 52.5 – 6th Sep.
- US August CPI 3.7% y/y vs exp +3.6%, Core CPI y/y 4.3% as expected – 13th Sep.
- Logistics robots coming into wider use in Japan – 18th Sep.
- Bank of Indonesia to hold rates at 5.75% for rest of 2023, cut early next year = 19th Sep
- Fed holds US rates steady, but markets are reluctant to buy into the move hawkish messaging – 20th Sep.
- China, resource rich East Timor upgrade bilateral ties – 24th Sep
- China's world bank plans to triple climate changing lending by 2030 – 24th Sep.
- South Korea seeks Xi visit to mark improving Chin ties as Seoul aligns with US – 25th Sep.
- Gatwick cancels flights due to sickness and Covid – 26th Sep.
- UK and Germany sign hydrogen energy collaboration – 27th Sep.
- US economy growth on track to reach 2.1% - 28th Sep.
- Singapore Temasek unit raises US$3.3 billion in flagship fund investing in China – 28th Sep.
- IMF sees signs China stabilizing, says reform can boost medium-term growth – 28th Sep.
- NATO's secretary-general meets with Zelenskyy to discuss ending Russian's aggression – 29th Sep.
- China international trade in goods, services top CNY 4 trillion in August – 29th Sep
- Global bond investors fear more declines after vicious quarterly sell-off – 29th Sep.
- Japan monitoring forex volatility, JPY falling sharply – 29th Sep.
- Congress has less than 3 days to avoid a government shutdown – 30th Sep.

Investment Views

Following a surprising recovery at the end of August, fuelled by optimistic expectations of a gentle landing, market sentiment turned cautious when the Fed indicated a significant pause in its hawkish approach during the September FOMC meeting. The announcement of a prolonged high Fed rate sent ripples through the market, prompting investors to aggressively sell stocks, exacerbated by concerning news of union strikes in US auto industries and the looming possibility of a government shutdown. This confluence of events clouded market sentiment. However, with the release of US GDP exceeding 2.0% near the end of the month, selling momentum subsided as hopes of a soft landing encouraged more buybacks, allowing the month to conclude on a higher note, moving away from the weekly lows.

In a broader year-to-date context, the subsequent pullback witnessed in September appeared more as a corrective measure rather than a complete reversal of the ongoing bull trend, as gains from June and year-to-date remained intact. As October commenced, early indicators hinted at a potential positive shift. However, the true test lies in overcoming the critical hurdle of closing the gap at 4375.70 for the bullish momentum to persist higher. Looking forward, 4,200 stands out as the next critical support level, offering valuable insights into the market's future direction.

Shifting our focus to analysing S&P 500 stocks by sector to discern market trends, emerging opportunities, and strategic portfolio allocation—despite the September pullback—it is evident that the Communication, Technology, and Consumer Discretionary sectors have remained favoured among investors. These sectors showcased remarkable year-to-date performance, yielding returns exceeding 20%. Their resilience and potential for further growth are noteworthy. On the other hand, the Industrials and Materials sectors positioned themselves as defensive sectors, displaying smaller but positive gains in year-to-date performance, indicating stability amidst fluctuating market conditions and forming a reliable foundation for a diversified portfolio.

Movers or Shakers	ETF	1M%	YTD%
Biotech	XBI US	-10.00	-12.02
Communication	XLC US	-2.28	36.63
Consumer Disc	XLY US	-5.12	24.64
Consumer Staples	XLP US	-4.62	-7.70
Energy	XLE US	-0.39	3.34
Financial	XLF US	-4.38	-3.01
Healthcare	XLV US	-3.62	-5.23
Industrials	XLI US	-6.82	3.23
Materials	XLB US	-6.29	1.12
Real Estate	IYR US	-8.49	-7.19
Technology	XLK US	-6.96	31.73
Utilities	XLU US	-5.92	-16.41
S&P Midcap400	IJH US	-6.57	3.08
S&P Smallcap600	IJR US	-7.35	-0.33
Russell 1000	IWB US	-5.46	11.59
Russell 2000	IWM US	-7.39	1.37
Russell 3000	IWV US	-5.49	11.05

The Energy sector is regaining interest, primarily due to oil prices surging above $90 a barrel. However, certain sectors like Utilities, Biotech, Real Estate, and Consumer Staples have faced challenges, likely due to shifts in consumer behaviours,

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high interest rates, or changes in market dynamics. They will likely underperform if Fed maintains a hawkish stands in the near term.

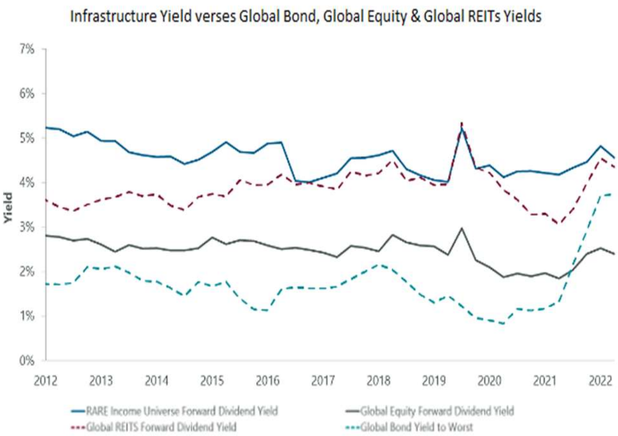
Delving deeper into an examination of the S&P 500 market capitalization, we find that the index is dominated by eight companies with substantial market capitalizations, collectively accounting for 29% of the overall index. Notably, these companies have demonstrated exceptional year-to-date market performance despite the September correction. Mega technology-related stocks have been pivotal in driving the index and shaping market sentiment, largely attributed to their strong earnings momentum. I anticipate these stocks will remain the primary focus for buying on any market dips.

Movers or Shakers	Ticker	1M%	YTD%
Apple	AAPL	-9.63	31.77
Microsoft	MSFT	-3.93	31.66
Amazon	AMZN	-7.96	51.33
Nvidia	NVDA	-10.33	197.65
Alphabet	GOOGL	-3.54	48.32
Tesla	TSLA	2.13	103.13
Meta Platforms	META	1.29	149.47
Berkshire Hathaway	BRK.B	-3.35	13.40

In light of these insights, prudent portfolio allocation should consider an overweighting towards the robust and high-performing sectors like Communication, Technology, and Consumer Discretionary, while maintaining a balanced allocation in the defensive sectors of Industrials, Materials, and Energy. It's crucial to continuously monitor market trends and adjust portfolio allocations accordingly to capitalize on emerging opportunities and manage risk effectively.

Chart of the Month

"Infrastructure is the backbone of economic growth. It improves access to basic services such as clean water and electricity, creates jobs and boosts business. – Alok Sharma, former President COP26



source: As of Dec. 31, 2022. Source: ClearBridge Investments, FactSet, Bloomberg Finance. Global Equities represents MSCI World Forward Dividend Yield; Global REITs represents FTSE EPRA/NAREIT Forward Dividend Yield; Global Bond represents the Bloomberg Global Aggregate Bond Index

In challenging times, resilient individuals rise to the occasion. A fundamental strategy to improve economic conditions is fostering job opportunities. Especially amidst the prevailing uncertainties in global growth, investing in infrastructure stands as a cornerstone of responsible governance and quasi-governmental actions. Infrastructure stocks become compelling investments during economic downturns, such as recessions or times of high inflation. Their emphasis on stable cash flows and underlying earnings makes them a prudent choice in adverse economic climates.

Infrastructure assets embody a defensive nature, characterized by consistent and resilient demand due to the essential services they provide. This characteristic reduces volatility and risk when compared to conventional equities. Furthermore, dividends from infrastructure assets act as an effective hedge against inflation. These long-term investments not only offer defensive exposure but also align with growth-oriented themes such as decarbonization and the increasing demand for data, making them highly attractive during periods of economic uncertainty.

The above chart illustrates a historical trend where infrastructure yields have consistently outperformed global bonds, equities, and REITs yields. Given the ongoing geopolitical tensions and trade disputes, it's plausible that major nations will significantly invest in enhancing their infrastructure to secure a larger share of the global growth objectives. I believe that by identifying strong growth-governor support, the infrastructure sector will be an interesting addition to any portfolio."

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In the month of September, we embrace the auspicious occasion of the Mooncake Festival, recognizing the profound significance it holds in coming together to celebrate the harvest, embrace a period of rest, and fortify the bonds of our relationships. The Mooncake Festival, also known as the Mid-Autumn Festival, is steeped in cultural importance, signifying unity and prosperity.

Traditionally, this festival signifies the culmination of the autumn harvest, a time to express gratitude for the abundant yields received throughout the year. It offers a precious moment for introspection, reflecting on personal and business growth, and expressing gratitude for the flourishing relationships we cherish.

In the spirit of this joyous occasion, we extend our warmest wishes to you, our readers and partners. May this time grant you the well-deserved respite and the chance to reconnect with your loved ones. As partners in our collective journey, we acknowledge the significance of taking a pause, appreciating our shared achievements, and eagerly anticipating the promising opportunities that await.

If you have any inquiries, require assistance, or simply wish to discuss potential collaborations during this festive season, our team is at your service..

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