NEW DIMENSIONS CAPITAL

WEEKLY BULLETIN

September 2023: Issue #3

Thought of the Week.

"Central banks think they have raised interest rates enough to bring inflation down to their 2% targets in a couple of years' time," Paul Dales, chief UK economist at Capital Economics, told CNN. The view is that policymakers hope they can bring down inflation without tipping their respective economies into recession.

The ECB, which sets monetary policy for the 20 countries using the euro currency, hiked rates by a quarter of a percentage point to 4% last week, hinting that it had finished its cycle of rate rises.
However, inflation is not expected to reach the central banks' 2% targets until 2025, meaning further pain for households and risks to the outlook. The short-term inflation outlook remains grim and set to hit households hard. Macroeconomic projections for the euro area now see inflation averaging 5.6% this year, from a prior forecast of 5.4%, and 3.2% next year, from a previous forecast of 3%. In US, the dot plot is bringing the clear message that rates will stay higher for longer and reflects the continued fear about the very probable but undesired inflation 'revival'.

One point that bewildered us, probably other investors too, is the FED's explicit desire to protect economy against recession, and their striving to help a 'soft landing'. FED 's responsibility, like any other Central Bank, is to deal with inflation and price stability. Recession is not directly in their job description.

It sounds like an accountant deferring liabilities to next financial year, under management pressure, while mentioning that next year the 'books' must be cleared.

Last Week 's Notable Events.

US Economy/Politics

- FOMC decision to keep rates unchanged, Powel mentions the need to avoid recession – 20 Sept.
- Strikes affected 2,500 workers and rattled the auto industry – 19 Sept.
- NATO chief warns there will be no quick ending to the war in Ukraine – 18 Sept.

Europe and UK Economy/Equity

- BoE keeps rates unchanged – 21 Sept.
- UK PM Sunak delays crucial UK climate targets, with one eye on the next election – 21 Sept.
- King Charles makes historic speech at French senate, he hails 'indispensable' UK-France relationship - 21 Sept.

APAC Economy / Politics

- Bank of Japan keep policy unchanged, defying voices pointing to more action – 22 Sept.
- India suspends visas for Canadian nationals as diplomatic spat deepens – 20 Sept.
- China's exports of two rare minerals essential for manufacturing semiconductors fell to zero in August– 21 Sept.

Notable News and Events:

- Satellite images show nuclear test sites expansion of superpowers – CNN Exclusive.
- Poland, Slovakia, and Hungary to defy EU and extend ban on Ukrainian grain imports.
- Japan says one in 10 residents are aged 80 or above as nation turns grey.

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Weekly Data Monitor.

Performance

- FED, BoE and ECB pressure all markets.
- Real Estate weak across the board.
- Bonds' weakness continues,

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	-2.63	-3.18	11.15	16.59	24.54	37.29
Global Real Estate	-4.46	-5.01	-4.59	-5.47	4.38	8.34
US Real Estate	-4.78	-5.28	-2.82	-3.90	10.11	14.72
APAC Real Estate	-2.23	-3.07	-8.16	-6.28	-17.49	-21.47
Investment Grade	-0.71	-0.81	6.26	8.15	5.78	16.34
High Yield Bonds	-0.62	-2.13	-1.41	1.46	-18.83	-7.58
Global HY ETF	-1.45	2.42	5.41	13.63	24.89	25.89
ASIA Real Estate ETF	-2.57	-2.62	-10.60	-18.44	-14.98	-7.89
USD Index	0.21	1.86	1.95	-5.22	12.30	12.02

Weekly chart:

- Equiy markets on a serious down step.
- Brent Crude lost ground
- US$ only strong index after FED.

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

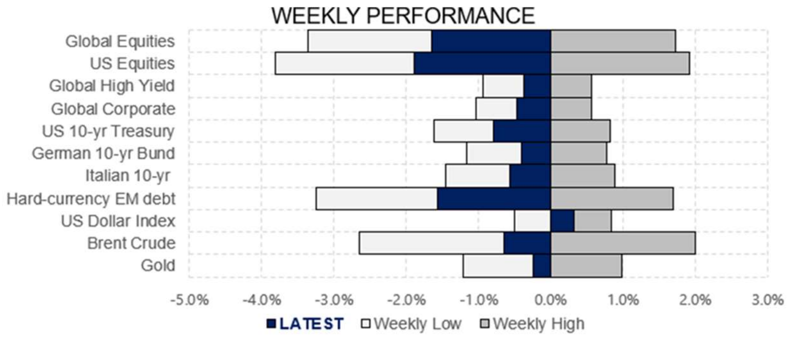
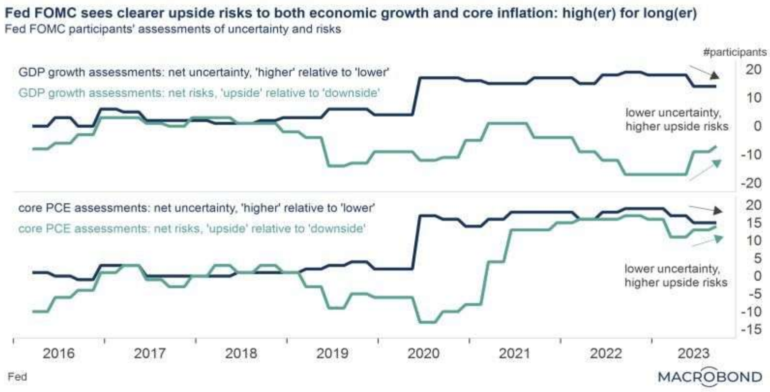


Chart of the Week.

This week's Chart of the Week comes from MACROBOND. FOMC members see more upside risk to both growth and inflation, in addition to higher uncertainty.

The view at NDC is also that we are probably in the eye of the storm, and significantly more painful action will be needed once inflation springs higher into the new year.

Projections are for core inflation to cool from 3.7% at year-end 2023 to 2.6% at year-end 2024.



History is not on FED side and forecasts for 2024 appear unlikely in historical context – major monetary policy tightening episodes have led to recessions >75% of the time. We see enough ingredients to supply a strong inflationary pressure such as tight labor markets, sticky wages, high oil prices, therefore avoiding recession is not an easy treat even for the mighty FED.

Provided the rates stay high for longer, the first effect we see in fixed income offering attractive starting levels. Recession risks are still elevated and fixed income can act as a defensive anchor in investors' portfolios, given the negative correlation between high-quality bonds and equities or other risky assets. Keeping the quality levels in bonds (investment grade) would allow investors to construct robust portfolios without surrendering much of the upside potential.

To note that, in 2022, we saw both asset classes dropping as usually happening during high inflationary shocks. So, with persisting high inflation, we may see the undesired correlation on the downside for both equities and bonds. Although environment is supportive for bonds**, it seems the pain isn't over** as Bill Gross comments for Bloomberg.