September '21

To:	Our Valued Investors	From:	Chan Wai Chee
Letter:	M02/2021/09	Dept:	Managed Account
Email:	MAenquiries@phillip.com.sg	Date	2 September 2021
Re:	Taper, Cash, Forex, China, Gold, US	Re:	Functions, as fundamentals

Taper

On May 23, 2013, Bernanke said, "If we see continued improvement and we have confidence that that's going to be sustained then we could in the next few meetings ... take a step down in our pace of purchases." Bond yields rose, and stocks fell. December 18, 2013, taper actually began. Bond yields started to fall from January 2014.

In 2021, Powell said, "If the economy evolved broadly (employment and inflation) as anticipated, it could be appropriate to start reducing the pace of asset purchases this year." Bond yields remain, US stocks hit new highs. The world (US, EU, China) showed improvement in employment in 2013, and the bond market rewarded it with higher yields. Today, it seems that the bond market believes economic growth will not be sustained, or that inflation is just transitory. This is more obvious on the globally than in the US.

RRPs (overnight reverse repo, giving cash to the Fed in return for US Treasuries) have not gone below $1T since August 11, 2021 – cementing the demand for US Treasuries. Demand for bills recently saw some bids below the RRP rate of 5 bps. The US is heading into debt ceiling, and we are most interested to see how the bills situation pans out. There was no stock market crash in the last two debt ceilings. Buyers will have to weigh the risk of missed payments by government against a short-supply situation in collaterals.

Otherwise, the US Treasury 10-year yield hardly moved in August, ranging 1.19-1.36%. We assume the reflation trade continues to unravel.

Our S-REITs exposure in our portfolios remains at July levels. Since this is September (the other month of concern is March), we increase **cash**. Our cash holdings, dependent on how much REITs we hold, are: Singapore Equity Yield 15%, Singapore Growth 30%, and Blue Chip Equity Yield 19%. Most customized portfolios have between 15% and 20%. New SMART portfolios have 8% to 15%, with older accounts ready to join up.

Forex

USD weakens a bit.

China

Propaganda plays a part in how one looks at allocation by countries. The CIO tends to trust a communist country less because he was born in the 50s. The portfolio managers are younger, and are likely to have a more lenient approach.
However, if one looks to history, China has not been an aggressive country, when compared to Japan, Russia or Turkey. The industrialized part of China relies substantially on its sea route. And, this is being compromised, if one looks at the line-up of US allies. Its sour relationship with the US, currently, was not China's initiative. If the US had wanted to protect or enhance its technology by being unfriendly with China, one can say this has been quite successful (TSMC is building a fab in US).
So, the Belt and Road Initiative is China's solution. By its development, it can show the poorer part of China that its government is taking care of them. China should. After all, Mao Zedong and the communists built from Yan'an, and his soldiers mostly came from poorer China. Of course, now, Afghanistan adds to the complexity. Xinjiang and Tibet, being newer provinces, may also be more influenced by external persuasion.

Yet, this is one solution for a non-aggressive country. We should look there for more sustainable investments, especially if it could be blended with a 'green' mark. The current 'darlings' of the technology sector are being hammered with new requirements frequently. If the leaders of these tech companies are uncertain as to what comes next, are we in a better position to make the call? Yes, uncertainties mean opportunities too. Opportunities also come in cheaper prices in these alternative areas because the focus is still on tech.

Meanwhile, direct investments into China came in below expectations. PMIs, too.

For SMART's investments, we will move to less exposure to tech. For other portfolios, there is also a cap to China's tech, for now.
We still do not see the control of the means of production being transferred to the government. We do not see re-distribution of wealth, although there was some mention in the media.

Gold

We remain unchanged in our exposure to the gold sector, as we liken the current drop to 2019 (not substantial), when bond yields also fell.
We again want to say that we are invested in companies that control many stages (or the whole) of the supply chain; have NPVs of reserves (calculated at lower commodity prices) that far exceed current market capitalization); paying dividends or on the verge of paying dividends due to recent and positive cash-flows; or, other comparative advantages.
As long as the current repo-financing (collaterals vs unsecured) system remains, we need Gold as a deflation hedge (little opportunity cost). This remains in the core part of SMART and Global Funds portfolios, and some customized portfolios.

US

CFNAI for July is +0.53. So, it is positive, as far as US national economic activity is concerned. Market valuations are still high. Records continue to be broken.

Thank you

We are grateful for your continuing support.

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