# November '21

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| **To:** | Our Valued Investors | **From:** | Chan Wai Chee |
| **Letter:** | M02/2021/11 | **Dept:** | Managed Account |
| **Email:** | MAenquiries@phillip.com.sg | **Date** | 1 November 2021 |
| **Re:** | Bond yields tell, Evergrande, China, Reflation trade, Forex, Gold, US | **Re:** | Functions, as fundamentals |

**Rising bond yields tell different stories**

US 10Y yield rose from 1.48 to 1.56 (near Mar-May lows) in October. US 5Y yield rose from 0.93% to 1.18% (much higher than the highs of Mar-May). Rise in the 2Y yield is even more severe, from 0.27% to 0.5%. If we assume the Fed is able to control the shorter end of the yield curve, then this ups the chance of rate hike to certainty, and probably at an even shorter wait. We have postponed our entry into short duration bond funds.

If the longer end is telling us about economic growth, then it is far from rosy. Or, inflation is still of a transitory nature. To this, we continue with our exposure to rising energy prices, as it is trending, but wary of an over-bullish market.

The overall effect of the market seems to indicate that it is willing to play a limited reflation trade (unlike the one from August 2020 to March 2021). However, we will have to watch the flattening yield curve, to see if 2018 repeats for the stock market. If there are calls for a "global synchronized recovery", like when almost everyone called the same tune for 2018, we will reduce equity exposure.

Demand for bills remains high. The cost-beneficial way of getting the bills via the RRP, is around $1.4T, near the all-time high.

**Evergrande**

Before making the latest USD interest payment(s), Evergrande missed USD interest payments previously. It did not, however, miss the RMB payments. We believe there was a lack of USD (Eurodollar, to be precise). Snider (Alhambra Investments) suggests supply coming from the huge cash management bill auctions by the US Treasury helped solve the collateral shortage problem. Or, did it come from China selling Treasuries? We can only know later, when the TIC data is announced.

**China**

As economic indicators continue to weaken, we are limiting our exposure.

**Reflation trade**

While we see REITs not suffering as much as during the August 2020-March 2021 period, we will be gutsier than what our October letter stated. This is due to the rising yield at the longer end rising less than the shorter end.

As rising yield generally benefits financials, we have selected some financials-heavy funds for our portfolios involving funds. The LionGlobal Singapore Dividend is an example.

As far as indices that gained substantially during the rising yield period of August 2020-March 2021 are concerned, we note that Nasdaq has on several occasions jabbed at a support around 40% above the 36-month moving average. And, the S&P500 has gone below a strong support around the 40-week moving average + 10%. As such, we look further out to ones that have not gained as much, and those funds that do more active management of their holdings. The Pinebridge Global Focus is one such example.

We noted that the Thai and Vietnam indices showed good progress, especially near the start of the previous reflation trade. We have selected 2 funds that are invested there. Although the Vietnam one has gained quite substantially, our selected fund focuses on undervalued stocks. We think this will give us some advantage versus those that mirror the index components.

We are also assessing if trending commodities extend outside the energy sector, and will take appropriate action if it does.

**Forex**

RMB remains strong. But we are aware of prolonged non-volatile behavior in the past. 2008-2010 ended with RMD gaining, and 2014-2015 ended with RMB losing.

**Gold**

As we reduce gold holdings due to rising yields, these gained in price. Although we missed out some of the gains, our SMART and Global Funds portfolios' exposure is still between 6.8% and 11%.

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, but at a weightage that is lower than before.

**US**

CFNAI for September is -0.13, as far as US national economic activity is concerned. CFNAI states that above −0.7 is characteristic of periods of economic expansion, below −0.7 means increasing chance of recession, and above +0.2 means significant chance of recovery. Bond markets seem to agree.

**Thank you**

We are grateful for your continuing support.

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