Catch-22

To:	Our Valued Investors	From:	Chan Wai Chee
Letter:	M02/2022/01	Dept:	Managed Account
Email:	MAenquiries@phillip.com.sg	Date	4 January 2022
Re:	No-tantrum, Catch-22, China 2.0, Crude Oil, Semicon, USD, Gold, US	Re:	Functions, as fundamentals

No-tantrum Taper

US Treasury bond yields**,** between 4 August and 29 December, rose 58 bps (2-year), 62 bps (5-year), 36 bps (10-year), and 13 bps (30-year). The curve is flattening. It is doubting economic growth over the longer term. Between 15 December (FOMC) and 29 December, these yields rose 6, 3, 8, 10 bps respectively, giving a little respect to taper/rate hikes – hardly any tantrum over the multiple taper/rate hike announcement.

Meanwhile, the Eurodollar yield curve has been slightly inverted (between 20-year and 30-year) since November.

Since 1998, stocks have risen as yields rise; and, stocks have fallen as yields fall. We are therefore staying invested until yields fall. As yields rise, banks will benefit, but REITs can be taken selectively.

But we are increasing diversification in our portfolios. This has come about due to rich valuations, changing government pursuits taking root (not infrastructure), disfavored sectors that have become detested (e.g. crude oil), and opportunities in excellent businesses in disfavored sectors (e.g. home building).

In 2022, we still have a Catch-22 situation. We have percentages in portfolios to catch up to. We are finding quite a number of stocks to catch.

Catch-22

USD financing is a collateral-based system. Because the collateral is the US Treasury (very short in supply relative to the USD loans), it is a Catch-22 situation. The US debt ceiling recently increased by $2.5T to $31.4T. The collateral (US Treasury) multiple (number of times re-lent) is between 6X and 9X. Will this miserly $2.5T make a difference? To have more US Treasuries **for the world**, the US needs bigger deficits, as replacing retiring debt will not be sufficient. Deficits or debt ceilings carry legal, maybe constitutional or political obstacles.

Lending to large corporations to invest in capital markets is easier to manage versus lending to smaller enterprises in the growth part of the economy. The low interest rates, and the monopolies created globally might have been the main results. Except for China, from this point forward.

China 2.0

Over the next four years, around $400B USD bonds issued by Chinese firms will come due. The lack of dollars has made refinancing difficult. Default risk therefore looms large, especially in the properties sector. “Common prosperity” might not have been a choice of President Xi. The global financial system hiccups whenever there is an unseasonal demand for collaterals. The global financial system breaks down when there is a run on collaterals. “Common prosperity” may allow the **substitution** of the corporate borrower (in USD) by the householder borrower (in RMB). It may provide the resurgence of competition to challenge the monopolies, if small enterprises are able to get loans, due to government persuasion.

Our investments in China will have this focus. We do not hope for fiscal measures.

As for what to avoid, we have learned the hard way. We will not forget Executive Order 13971 that Trump signed on 5 January, 2021, which the Biden Administration has not abandoned.

Crude Oil

Because of the rush to invest in renewables and ESG, absurdities in reporting abound. Reports are about why oil properties were sold, but none is written about why these were bought. Reports are about the smaller target number of barrels per day of crude we are going to use in 2050, but none talks about the capex needed to get there (because the existing oil fields cannot be producing the 2050 demand).

Yes, this is hate. We are finding value. With little digging.

Semicon

Before we comment, there are some keynote conferences to catch in the next few hours: Qualcomm, Intel, Nvidia, AMD … at the CES.

Forex

USD Index was between 96-96.5 in December.

Gold

Gold has gone above $1800, but Silver has remained below $24.

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 lower percentage than before. Until Silver catches up.

US

CFNAI for November is +0.37, 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 market is doubtful, though.

Thank you

Keep your immune system up, even if it moves from Omicron to Chi.

We are grateful for your trust, and continuing support.

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