February '22

To:	Our Valued Investors	**From:**	Chan Wai Chee
Letter:	M02/2022/02	**Dept:**	Managed Account
Email:	MAenquiries@phillip.com.sg	**Date**	4 February 2022
Re:	Bond yields, spreads, and high-yields. 25% PAIN. Common Prosperity beat Fiscal. $100 Crude. S$NEER.	**Re:**	Functions, as fundamentals

Happy Lunar New Year!

Bond Yields, spreads, and high-yields

US Treasury bond yields: 10-year minus 2-year has been falling since end March '21.

Nominal yields are much higher now since end of March '21, for 2-year; not that much higher for 5-year, slightly higher for 10-year, and actually lower for 30-year.

Flattening of the yield curve continues. If one needed to compare, it is as flat as it was in 2018. There is not much belief that growth and inflation can sustain. TIPS is signaling lower inflation expectations.

The Fed could pay higher interest rates for IORB (Interest on Reserve Balances), or ON RRP (Overnight Reverse Repo Facility) to effect a rate hike. So, investors tend to avoid the short duration Treasuries. Demand, however, can come if there is demand for its function as a collateral.

Weighing all these, today appears to be a safer time to get back into bonds than a month ago. Certain short duration high-yield funds that are able to manage higher coupons against falling yields, are looking attractive, e.g. Neuberger.

25% PAIN

Recent stock price movements in Netflix, Paypal and Facebook were punishing.

Some technicians define a market as bear, if it had fallen more than 20%. If one had made Netflix, Paypal and Facebook report on the same day/week, then they would have conspired to make a bear. However, let's stick to the rules. No 20% yet.

On a long-term momentum basis, Nasdaq has broken major supports. Not yet for the S&P500, tough.

Even if all evolved into bear markets, one must remember that the rebounds had been strong on history, and one could get out near previous peaks.

Value investing may make a strong comeback. Many old-fashioned brick-and-mortar set-ups have made substantial progress in their e-business (contributing more than 30% of total revenue). These may be selling newspapers, running a post office or selling heavily-discounted goods. And, adding some finesse to it (like acquiring a bank or starting a fin-tech to complement its core business).

And, if nominal yields fail to rise some more, we can start to get back into S-Reits. The punishment have been somehow restricted to the bigger caps (lower distribution yields). Very few of the smaller ones had dropped in price. Nice space to be in, if one is creative – history seldom repeats here.

Certain countries (UK, Vietnam) may not be going back to lockdowns, if they could. So, there are more certainties there than elsewhere.

China, which does zero-tolerance on COVID, may not be helping its already suffering economy (producer prices and PMIs). The fiscal anticipation only helped a little in stock prices in January. Li (fiscal) seems to be losing.

One has to respect Xi for his resolve in creating common prosperity. So, this would be the space for us to continue in China. We wait for family-building incentives to be announced. Other 5-Year Plan growth areas remain intact, if these do not conflict with nation-building objectives.

Crude Oil

Some are accepting the $100 target.

If Ukraine gets resolved, there may be a good entry or re-entry point if you happened to be out, now. If one thinks of Russia trying to secure areas surrounding its borders, then don't hope. Think sanctions instead as a place to start - at a low price.

I shall not repeat the ridiculous stories told about crude by the ESG gang. Or, the hate.

Forex

USD Index hardly moved. S$NEER tightens, and we had converted other currencies to SGD.

Gold

Gold is around $1800, but Silver has remained below $24. However, if yields do not rise much more, we are adding to our position.

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 December is -0.15. Earnings have been good, generally.

Year of the Tiger

They say it's a Water Tiger. I am not sure if a tiger can roar when it is swimming. But a human being, struggling to stay afloat, can definitely shout for help. So, let's see if Tiger can multi-task.

Thank you

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