July '22

To:	Our Valued Investors
From:	CIO
Letter:	Managed Account, M02/2022/07
Date:	6 July 2022
Re:	Bitcoin, Forex, Gold, Commodities, Recession, Fed to cut Rates, Bonds, Stock markets, Our portfolios.

Bitcoin

The price of Bitcoin has fallen back to late 2020 levels. In terms of momentum (40-week moving average), it is near its minus-50% of March 2020. To break some overhead structure, we need to see a 35% upside. With troubles like Three Arrows looming, this seems unlikely. We will keep a look-out for any contagion type of liquidation.

Forex

USDJPY has gone as far as almost 137. Now, 1.5 better. Last month, we were looking for but did not find any liquidation from China. Bond funds are not performing better in June, but the stocks of Shanghai and Hong Kong rallied 5% (relaxing Covid controls, or rebounding from 22% one-year loss). CNY and HKD improved from their recent worst.

Gold

The sell-off to under $1800 was quickly bid back up. There was some congestion in the December-January period around the 10-week moving average $0 momentum. For July, the break out (up) weekly-close numbers are between $1848 and $1820.

Gold did not do well in previous prolonged recessions of 1981-82 and 2008-09.

Commodities

In these 2 recessions, copper and iron ore prices also fell. Almost all commodity prices fell – energy, grains, or animal products. A few soft commodities did well.

YTD, copper and iron ore prices have fallen about 25%.

Economies

Why do we mention prolonged recessions?

On June 17 2022, the New York Fed's dynamic stochastic general equilibrium (DSGE) model forecasts negative GDP growth of -0.6% in 2022, and -0.5% in 2023. This model also predicts elevated prices in 2022. However, five days later, their boss J Powell said that the American economy is very strong and well positioned to handle tighter monetary policy.

PMIs, inventories build-up and sentiment surveys across the globe are all weak. China's slight improvement in June could be due to the recovery from Covid lockdown.

The Eurodollar futures curve was inverted in mid-January at the 1H25 contracts. Three weeks later, it flattened at the 1H24 contracts. In mid-March, inversion happened at the 3Q23 contracts. In late May, inversion moved to the 1Q23 contract. End June, inversion was at 4Q22. J Powell will cut rates in 2022? Think, yes.

US Oil

According to the 23 June Dallas Fed Energy Survey of oil producers, we learned of their higher costs and supply chain delays. On expected production, about half of the 70% surveyed expect increase of 2022/2021 to be not more than 0.8mb/d, and the other half expect increase of between 0.8mb/d and 1.0mb/d.

Other notable feedback – “government animosity toward the industry makes (the producers) reluctant to pursue new projects”; and, “the real energy crisis isn’t even here yet”.

Bonds

With rate hikes already priced in by Eurodollar futures, a likely recession, and if inflation expectations come down, then bonds will likely rebound even before the Fed starts to cut rates. We will look for entry into TLT, then followed by some credit-protected high yield ETFs to take advantage of the carry; or, corporates. For now, we will avoid sovereigns due to the strong USD.

Stock markets

Looking to previous bear markets, we expect bounces. Strong ones, too. Looking to the downside, by flipping the top structures reached around, we are looking at 8000 for NASDAQ, and 3300 for S&P500.

On China/HK, the SCI and HSI lost 30% and 25% respectively in 2018 (12% and 35% respectively now). The 2019 rebounds were 31% and 22% then. The rebounds, so far, achieved 13% and 10%. Perhaps, another 10% from here, and then rejoin the global recession agenda?

We will KIV “In Search of the Origins of Financial Fluctuations: The Inelastic Markets Hypothesis” by Xavier Gabaix and Ralph S.J. Koijen, published on May 12, 2022, which should come into play again after the bear market runs its course. Barring, no change in the universal 60-40 asset allocation.

For now, we look out for distressed situations overwhelming fundamentals to lock in value (e.g. 20% dividend yield). Other areas that interest us would be sustainable distributions from REITs, and corporate actions.

Our Portfolios – what we did

Your portfolio may not have the same numbers indicated, due to holding round lots. All performance numbers are net of all fees and transaction costs.

(1) Phillip Singapore Equity Yield

Currently, we hold 12 REITs and BTs, and UOL; and, 37% cash/PMMF. In the last 3 months, we sold SATS, ST Engineering, StarHub and UOB. In the near future, we may sell a few REITs/BTs, and buy a deeply-discounted company, to increase cash/PMMF to 55%. This portfolio lost 1.7% in June, and lost 0.7% YTD. STI lost 0.7% YTD.

(2) Phillip Asian Opportunities Equity

Currently, we have 10 holdings: 31% in Singapore, 23% in China/HK; and, 46% in cash/PMMF. We are looking at a few replacements, with a small change in cash/PMMF. In the last 3 months, we sold China Feihe (with regret), SMIC, SATS, ST Engineering and UOB. This portfolio lost 1.8% in June, and lost 0.8% YTD. STI lost 0.7% YTD. HSI lost 6.6% YTD, and SCI lost 6.6% YTD.

(3) Phillip Managed Singapore Equity

Currently, we have 18 holdings: 7 are in REITs/BTs, 3 with efficient business models, and 4 with family influence. We are looking at limited replacements, with a small change in cash/PMMF. In the last 3 months, we bought Straits Trading. This portfolio lost 1.2% in June, and lost 1.8% YTD. STI lost 0.7% YTD. This has the best ssince-inception record of +4.7% (annualized). Inception is April 2002. STI, over the same period, returned just under 3% (annualized).

(4) Phillip Blue Chip Equity Yield

Currently, we have 11 holdings: 42% in Singapore, 15% in China/HK; and, 44% in cash/PMMF. We are looking at a few replacements, with a small change in cash/PMMF. In the last 3 months, we sold SATS, ST Engineering, StarHub and UOB. This portfolio lost 1.2% in June, but gained 1.2% YTD. STI lost 0.7% YTD. HSI lost 6.6% YTD, and SCI lost 6.6% YTD.

(5) Phillip Managed Gold & Resources Equity

Currently, we have 26 holdings: 23% in Precious Metals, 23% in Energy, 17% in Industrial Materials; 5% in Soft

Commodities, 2% in US Treasuries; and, 30% in cash/PMMF. We are looking for entry points to add at more depressed commodity prices. Many of the holdings may be taken over, so we are not reducing despite falling commodity prices. In the last 3 months, we sold 4 Energy stocks – ENI, Petrobras, Valaris, and iShares O&G Exploration & Production. This portfolio lost 10.3% in June, lost 11.6% YTD. Van Eck Gold Miners/Junior Gold Miners ETFs lost 12% and 21% respectively. The Vanguard and SPDR Energy ETFs are both up 25% YTD. Both Vanguard and SPDR Materials ETFs are down 17% YTD.

(6) Phillip Global Funds

Currently, we have 5 holdings: 12% in Singapore REITs/BTs, 4% in Vietnam/Thailand; and, 84% in cash/PMMF. We are looking to add more REITs/BTs, bond unit trusts, and later on distressed situations. In the last 3 months, we sold the Blackrock Energy UT, bought 2 REITs, and traded 2 other UTs. This portfolio broke even in June, and lost 1.3% YTD. Vanguard Total World Stock fund lost 19.3% YTD, and the Vanguard Total World Bond fund lost 9.4% YTD.

(7) Phillip Returns Enhancer MMS UTs

Currently, we have 2 holdings: 10% each in US and Singapore bond funds that are heavily weighted in government securities. We are looking to add more as the market embraces slowdown and when CPI expectations start to waver. At the start of April, we sold the Singapore government-heavy bond fund and the global short duration HY bond fund, to stay 100% in cash/PMMF. This portfolio gained 0.1% in June, and lost 1.6% YTD. Vanguard Total World Bond fund lost 9.4% YTD.

(8) Phillip SMART Portfolio – Income

Currently, we have 7 holdings: 40% in equity UTs and 60% in bond UTs. This portfolio lost 3.4% in June, and lost 5.1% YTD. Similar percentages in Vanguard Total Bond fund and Vanguard Total World Bond fund lost 13.4% YTD.

(9) Phillip SMART Portfolio – Income & Growth

Currently, we have 6 holdings: 60% in equity UTs and 40% in bond UTs. This portfolio lost 5.4% in June, and lost 8.7% YTD. Similar percentages in Vanguard Total Bond fund and Vanguard Total World Bond fund lost 15.3% YTD.

(10) Phillip SMART Portfolio – Growth

Currently, we have 6 holdings: 70% in equity UTs and 30% in bond UTs. This portfolio lost 6.5% in June, and lost 10.0% YTD. Similar percentages in Vanguard Total Bond fund and Vanguard Total World Bond fund lost 16.3% YTD.

Thank you

We are grateful for your trust, and continuing support. In these markets, we are also grateful for your patience in not rushing us to be fully invested. Our portfolios appear well-positioned, based on risks mentioned above.

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