August '22

To:	Our Valued Investors
From:	CIO
Letter:	Managed Account, M02/2022/08
Date:	5 August 2022
Re:	Yield Curve, Forex & Collaterals, Bonds, Old definition of Recession, Oil, Stock markets, Our Portfolios.

Yield Curve – worse than before GFC

The Eurodollar futures yield curve inverted by as much as 120 bps. At its worst, back in September 2007, the inversion was just 40 bps.

Of course, history does not repeat itself. However, we will expect some kind of liquidity crisis. We will increase our cash holdings; and, disregard the reflation trade the markets are now trying to carve out.

Forex & Collaterals

USDJPY reached 139 in July, but now is down to 133. An improving sign. However, the Shanghai and Hang Seng indices lost about 8% in July. Nothing moves in a straight line, so we will see another month's action before we conclude.

TIC data (May data released only in mid-July) showed China sold much US Treasuries. We assume a shortage of USDs in China. In May, the USDCNY went from 6.4 to 6.8. It is now at 6.75.

Securities (i.e. US Treasuries) held in custody for foreign official & international accounts have been in a decline since 9/6/2021, coinciding with the rise of the USD Index. This smells of a lack of collaterals.

Bonds

Now that recession has been redefined, and the Fed's language has shied away from labour to focus on CPI, we need to regulate our entry into TLT. Labour statistics is so lagged that jobs lost may come later than the September or November FOMC meetings, but CPI meanwhile can remain high.

Also, we have not forgotten about the August 4 switch of the last two years, when UST yields reversed path and rose from exactly the same day.

Other than the above, we take comfort from research paper - https://www.nber.org/papers/w30089 - that foreign investors (non-US government) have a loss-making record since 1980. These foreign investors just sold a lot in May, and have continued to reduce their UST holdings.

The reason probably is because when there is a liquidity crisis, they will pay high prices for these collaterals. And, sell when the crisis is over so that they can buy other higher-yielding securities.

Their behavior shall be our gain.

Old Definition of Recession

Using the old definition of 2 straight quarters of negative growth, we shall need to avoid most commodities. To this, we will reduce exposure.

We shall even reduce for gold if there is little chance of a takeover/merger.

Oil

Although the supply side favours holding on to our oil stocks, we noticed that the massive backwardation in the oil futures curve had been reduced quite substantially. The old definition of recession may even lower demand further than now. So, weighing between what is left of the backwardation and the difficult-to-erase memory of negative oil prices, we shall only keep the oil stocks that have that privatization or super-high dividend-paying probabilities.

Stock markets

Repeating last month's letter: "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."

There should be many distressed situations.

When the growth ones stalled, S-Reits will take over.

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 gained 1.4% in July, and gained 0.7% YTD. STI gained 2.8% YTD.

(2) Phillip Asian Opportunities Equity

Currently, we have 8 holdings: 33% in Singapore, 17% in China/HK; and, 50% in cash/PMMF. We are looking at a few replacements, with a small change in cash/PMMF. In the last 3 months, we sold Agricultural Bank, China Feihe, SMIC, SATS, ST Engineering and UOB. This portfolio lost 0.2% in July, and lost 0.9% YTD. STI gained 2.8% YTD. HSI lost 13.9% YTD, and SCI lost 10.6% YTD.

(3) Phillip Managed Singapore Equity

Currently, we have 19 holdings: 7 are in REITs/BTs, 3 with efficient business models, 4 with family influence, and 1 on possible M&A. We are looking at limited replacements, with a small change in cash/PMMF. In the last 3 months, we bought Frasers L&CT and Hongkong Land, and sold AEM. This portfolio gained 1.2% in July, and lost 0.2% YTD. STI gained 2.8% YTD. This has the best since-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 10 holdings: 44% in Singapore, 13% in China/HK; and, 42% 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 0.8% in July, but gained 0.5% YTD. STI gained 2.8% YTD. HSI lost 13.9% YTD, and SCI lost 10.6% YTD.

(5) Phillip Managed Gold & Resources Equity

Currently, we have 24 holdings: 23% in Precious Metals, 23% in Energy, 17% in Industrial Materials; 5% in Soft Commodities, 5% in US Treasuries; and, 27% 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 2 Energy stocks – Valaris, and iShares O&G Exploration & Production, and bought iShares 20+ UST. This portfolio gained 2.4% in July, lost 9.5% YTD. Van Eck Gold Miners/Junior Gold Miners ETFs lost YTD 18% and 20% respectively. The Vanguard and SPDR Energy ETFs are both up YTD 41%. Both Vanguard and SPDR Materials ETFs are down YTD 14%.

(6) Phillip Global Funds

Currently, we have 8 holdings: 13% in Singapore REITs/BTs, 4% in Vietnam/Thailand, 3% in iShares UST 20+; 10% in Schroders Singapore Fixed Income, 10% in JPM US Aggregate Bond; and, 60% in cash/PMMF. We are looking to add more REITs/BTs, bond unit trusts, and later on distressed situations. Apart from Thailand/Vietnam and one Reit, the above were added in July. In the last 3 months, we also sold Blackrock Energy UT, bought 2 REITs, and traded 2 other UTs. This portfolio gained 0.4% in July, and lost 1.0% YTD. Vanguard Total World Stock fund lost 15% YTD, and the Vanguard Total World Bond fund lost 8.2% 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. These 2 additions were the only transactions in the last 3 months. This portfolio gained 0.3% in July, and lost 1.25% YTD. Vanguard Total World Bond fund lost 8.2% YTD.

(8) Phillip SMART Portfolio – Income

Currently, we have 9 holdings: 40% in equity UTs and 60% in bond UTs. This portfolio gained 1.0% in July, and lost 4.2% YTD. Similar percentages in Vanguard Total Bond fund and Vanguard Total World Bond fund lost 10.9% YTD.

(9) Phillip SMART Portfolio – Income & Growth

Currently, we have 9 holdings: 60% in equity UTs and 40% in bond UTs. This portfolio gained 0.4% in July, and lost 8.4% YTD. Similar percentages in Vanguard Total Bond fund and Vanguard Total World Bond fund lost 12.4% YTD.

(10) Phillip SMART Portfolio – Growth

Currently, we have 9 holdings: 70% in equity UTs and 30% in bond UTs. This portfolio gained 0.1% in July, and lost 9.9% YTD. Similar percentages in Vanguard Total Bond fund and Vanguard Total World Bond fund lost 13.0% 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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