October '22

To:	Our Valued Investors
From:	CIO
Letter:	Managed Account, M02/2022/10
Date:	5 October 2022
Re:	Investor pessimism, as we move from inflation to disinflation. Recession, liquidity crunch (?) at the transit point. Weighing downside vs opportunities. Portfolio movements.

Investor Pessimism

It appears that most people are talking about the "dollar wreck". The media in September seems to be obsessed with the stuffs that we were obsessed with in November 2021. Internally, we are receiving requests to invest in very low-return securities. Client feedback on our cash holding is at a historic low.

In the last few days of September, we are observing short-covering in several places ... some commodities, gold, stocks … but will there be another round of more severe shorting? Can this be the time to buy?

Signals from the Treasury and forex markets, as well as yield curves, are similar here, as compared to March and June. One (March) resulted in more downside for stocks. The other (June) resulted in a rally.

We examined the likely damage that a repeat of 2008 or 2020 might do to our holdings, and decided a rebalancing of our portfolios to minimize the impact if a liquidity crunch grips us. Also, market movements in the last 10 months have changed expected valuations.

As a bear market, we are at the low point, on a simple average basis in terms of time.

From Inflation to Disinflation, Recession

The difficulty in understanding why there is a shortage of USDs is because we normally hear of the Fed printing too much money. First, most USDs are created by the global banks, rather than the central banks or the Fed. Second, collateralized lending became the norm from 1997. The normal use of US Treasuries as collateral, as compared to the much larger amounts of USDs created by the global banking system since the 1950s, results in US Treasuries being lent multiple times. Third, during nervous times, lending rules are tightened, which have led to liquidation of portfolios that could not raise the necessary collaterals. When such reaction become contagious, financial markets fumble.

There are several ways that tell us such a situation may be underway.

One is when US Treasuries are sold at substantially lower yields (higher prices) than what financial institutions can get at the 'risk-less' RRP (reverse repo). This means there is heavy demand for Treasuries for its function as collateral. Today, RRP rate is 3.05% (3% rate hike plus original 0.05%), while 4-Week Treasury traded at 2.65%. In March, 0.30% RRP rate vs same Treasury yields below 0.20%. Second half of June, 1.55% RRP rate vs same Treasury yields below 1.20%.

Two is when USD moves higher against currencies, which countries announced certain floors to protect. Examples in September were India and China. Of course, these floors were broken. In banking terms, bank assets (in currency) shrink relative to liabilities (in USD). This would limit loan expansion, or result in loan contraction. This means disinflation. Put it mildly, this means lack of economic growth. This means these countries lost forex reserves, and experienced capital outflows.

Three is the German yield curve inversion. Certain parts invert for the first time in history. Recession will get broader. Will it get deeper than what politicians think? Data from Nike and FedEx surely points to that. More generally, decreasing new orders, and increasing inventories.

Four is inflation expectations. TIPS 5-, 10-year break-evens fell from 24 August from 2.79% to 2.14%, and from 2.6% to 2.15% respectively. Is this enough? This is unlikely to benefit energy. Disinflation or lack of economic growth. This will likely benefit S-Reits. Falling yields.

Liquidity Crunch

Hope we can skip this. But we need to weigh the risks, especially dealing with S-Reits. In 2008, most dropped more than 60%. In 2020, most dropped more than 30%. In 2022, the drop from the August plateau is 13% for the iEdge S-REIT index.

The reduction in holdings of S-Reits in September was applied to accounts of customers, who are less willing (some have let us manage their retirement money) to see substantial drops. For customers, who go for Reits only, and are familiar with, and able to stomach such drops, we sold just one holding.

For non-Reits, we assessed previous price behavior, and lightened percentage invested.

Portfolios' Performance

Last month, we said we would watch JPM and GS. Both did not break supports.

Both Nasdaq and S&P500 did. The September losing streak continues into the fifth year. The gains from the June lows were erased in September.

Our reference indexes', and ETFs' performances in 2022:

iEdge S-Reit index	-7.6% (Sep)	-14.6% (YTD)
Straits Times index	-2.8% (Sep)	+0.2% (YTD)
S&P 500 index	-9.3% (Sep)	-24.8% (YTD)
Nasdaq index	-10.5% (Sep)	-32.4% (YTD)
Hang Seng index	-13.7% (Sep)	-26.4% (YTD)
Shanghai index	-5.6% (Sep)	-16.9% (YTD)
VG Total World Stock	-10.0% (Sep)	-26.6% (YTD)
VG Total World Bond	-3.7% (Sep)	-14.6% (YTD)
VG Energy	-10.5% (Sep)	+30.9% (YTD)
VanEck Gold Miners	+1.3% (Sep)	-24.7% (YTD)
VanEck Junior Gold Miners	-0.5% (Sep)	-29.7% (YTD)
SPDR Materials	-9.8% (Sep)	-24.9% (YTD)

Our holdings that suffered drops of near 10% or more in September (mostly S-Reits) are:

Ascott Reit	-10%
Daiwa House Log	-10% (cut)
Elite Commercial	-20%

ESR Logos	-13%
Frasers L&C	-10% (cut)
iReit Global	-11% (cut for some)
IX Biopharma	-21%
ManulifeReit	-11%
ParkwayLife	-12%
Prime US	-14%
Q&M Dental	-13% (cut)
Straits Trading	-25% (ex-special issue price)

There was no holding that gained 10% or more, in September.

October looks prime for buying, if liquidity crunch does not take place. So, we want to see some weakening of USD, and some follow-through in the UK QE momentum.

Our Portfolios – how 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

We received dividends from Mapletree Log, ESR Logos, Prime US, and ManuLife Reit.

Currently we have 10 holdings ~ 44%, and 56% in MMF.

Singapore Equity Yield	-3.5% (Sep)	-4.6% (YTD)
Straits Times index	-2.8% (Sep)	+0.2% (YTD)
iEdge S-Reit index	-7.6% (Sep)	-14.6% (YTD)

We bought Hongkong Land, and sold Mapletree Log to reduce exposure in case of a liquidity crunch.

(2) Phillip Asian Opportunities Equity

We received dividends from Capland China Trust, Genting Singapore, and China Mobile.

Currently, we have 5 holdings: 32% in Singapore, 1% in China/HK; and, 67% in MMF.

Asian Opportunities	-2.4% (Sep)	-3.9% (YTD)
Shanghai index	-5.6% (Sep)	-16.9% (YTD)
Straits Times index	-2.8% (Sep)	+0.2% (YTD)
Hang Seng index	-13.7% (Sep)	-26.4% (YTD)

We bought Hongkong Land, and sold Anhui Conch Cement, China Mobile, and ICBC to reduce exposure in case of a liquidity crunch.

(3) Phillip Managed Singapore Equity

We received dividends from Elite Commercial, and ESR Logos.

Currently, we have 11 holdings ~ 41%, and 59% in MMF.

Singapore Growth	-6.2% (Sep)	-8.5% (YTD)
Straits Times index	-2.8% (Sep)	+0.2% (YTD)
iEdge S-Reit index	-7.6% (Sep)	-14.6% (YTD)

In September, we sold Q&M, SGX, Frasers L&CT, Wilmar and Mapletree Industrial to reduce exposure in case of a liquidity crunch.

This has the best since-inception record of +4.2% (annualized). Inception is April 2002. STI, over the same period, returned just under 3% (annualized).

(4) Phillip Blue Chip Equity Yield

We received dividends from Capland China Trust.

Currently, we have 6 holdings: 30% in Singapore, 2% in China/HK; and, 68% in MMF.

Blue Chip Equity Yield	-3.5% (Sep)	-4.6% (YTD)
Straits Times index	-2.8% (Sep)	+0.2% (YTD)
Hang Seng index	-13.7% (Sep)	-26.4% (YTD)
Shanghai index	-5.6% (Sep)	-16.9% (YTD)

In September, we sold Anhui Conch Cement to reduce exposure in case of a liquidity crunch. We bought Hongkong Land.

(5) Phillip Managed Gold & Resources Equity

We received dividends from Labrador Iron Ore Royalty.

Currently, we have 20 holdings: 19% in Precious Metals, 14% in Industrial Materials; 5% in US Treasuries; 4% in Energy; and, 58% in MMF.

Gold & Resources	-5.0% (Sep)	-17.2% (YTD)
VanEck Gold Miners	+1.3% (Sep)	-24.7% (YTD)
VanEck Junior Gold Miners	-0.5% (Sep)	-29.7% (YTD)
VG Energy	-10.5% (Sep)	+30.9% (YTD)
SPDR Materials	-9.8% (Sep)	-24.9% (YTD)

In September, we sold Wilmar to reduce exposure in case of a liquidity crunch.

(6) Phillip Global Funds

We are 10.5% in S-Reits, 3.5% in Vietnam/Thailand, 2.8% in US Treasuries, and 83.2% in 2 amortization-method money market funds.

Global Funds	-1.1% (Sep)	-2.5% (YTD)
VG Total World 70/30	-10.2% (Sep)	-28.6% (YTD)

In September, we sold Mapletree Industrial to reduce exposure in case of a liquidity crunch. We added 10% in Legg Mason Government Liquidity MMF.

(7) Phillip Returns Enhancer (Bond UTs only)

We are in 2 amortization-method money market funds.

Returns Enhancer	+0.4% (Sep)	-0.9% (YTD)
VG Total World Bond	-3.7% (Sep)	-14.6% (YTD)

In September, we added 20% in Legg Mason Government Liquidity MMF.

(8) Phillip SMART Portfolio – Income

Except for the last 2 days in September, we left out the bond allocations.

SMART 1	-3.2% (Sep)	-7.4% (YTD)
VG Total World 40/60	-8.6% (Sep)	-25.8% (YTD)

(9) Phillip SMART Portfolio – Income & Growth

Except for the last 2 days in September, we left out the bond allocations.

SMART 2	-5.0% (Sep)	-12.7% (YTD)
VG Total World 60/40	-9.9% (Sep)	-28.2% (YTD)

(10) Phillip SMART Portfolio – Growth

Except for the last 2 days in September, we left out the bond allocations.

SMART 3	-5.6% (Sep)	-14.5% (YTD)
VG Total World 70/30	-10.2% (Sep)	-28.6% (YTD)

(11) Phillip SMART Portfolio – US Equities

Except for the last 2 days in September, we left out the bond allocations.

SMART 2	-5.0% (Sep)	-12.7% (YTD)
VG Total World 60/40	-9.9% (Sep)	-28.2% (YTD)

Customised Portfolios

Please contact your rep or portfolio managers if you need a review. If you don’t, our BDs may contact you to ask if you will need a quarterly review.

If your portfolio has more than 50% MMF, please do not be alarmed. We are aiming to enter at low prices very soon.

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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