The Way We See It

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INSIDE THIS ISSUE

1. Review of Developments
2. Market Outlook
3. The Way We See It

Are we in a new sustainable bull equity market? Bull market yes; Sustainable uncertain.

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments
- Global Economies

On the growth side, while the Eurozone entered a mild technical recession, the Q1 US GDP data was revised upwards. Most other developed economies continued to grow at a relatively subdued pace. In the case of China, key partial economic indicators continued to point to a decline of growth, so much so that the government had to recently intervene and ease both fiscal and monetary policies. Nonetheless, these measures appear to be too modest in magnitude to impact meaningfully on China's weak domestic economy.

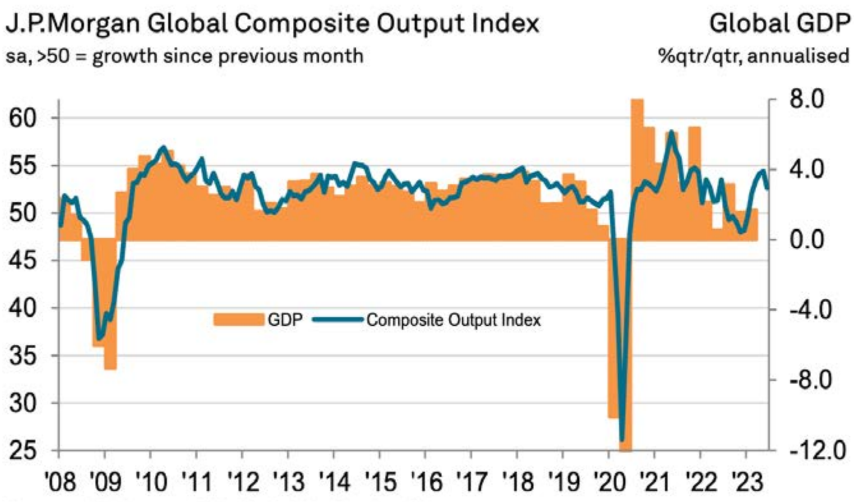
On the inflation front, in most developed economies, the trend continued to improve, with headline inflation decelerating faster (thanks to falling energy and food costs) than the core measure (structural factors including rising wages in low-skilled services, lower net immigration, green energy, manufacturing re-shoring, etc). This appeared to give central banks in key G7 countries some breathing room, since they have been aggressively raising rates over the past 18 months. In the month of June, both the US Fed and the Australian RBA decided to implement a "hawkish pause / skip", while the ECB, BoC and BoE decided to continue to raise rates.

The US Fed signaled a hawkish pause; many others would continue to raise rates.

The recent turmoil in the US and global banking sector appears to have stabilised for now. However, should the US Fed continue to maintain a tight monetary policy for another 12 months, troubles of the US banking sector could return.

Finally, about global geopolitical risks: the continuing war between Russia and Ukraine, and the potentially damaging broadening of geopolitical and trade tensions beyond semiconductor chips between the US and its partners against China.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global Market Intellidence

- Global Markets

The AI-fuelled equity rally in the US broadened out to encompass all other sectors and other Developed, and, to a smaller extent, Emerging markets as well. In brief, it was a surprisingly good month for equities, which helped to boost the total return of global equities in the first half to a strong 15.4%. The largest buying of stocks appeared to emanate from fundamental investors: the latter were reported to rush to raise their equity exposure before the end of June.

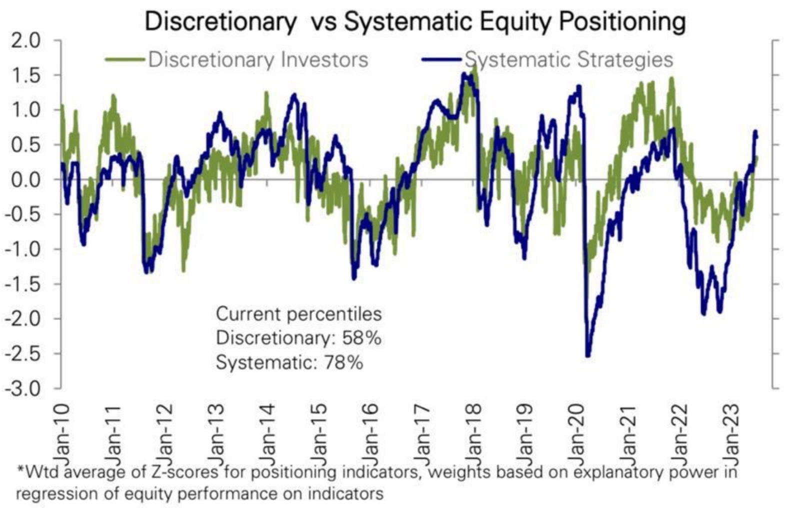
June, driven by hopes of peak inflation and interest rates, together with the fear of missing out on the strong rally.

The US and global bond markets continued to trade sluggishly. Corporate bonds slightly outperformed their government counterparts. Government bond markets' weakness can be explained by the fact that while there has been some improvement in the headline inflation rate, central banks' number one priority is to continue to maintain a tight monetary policy to fight against a stubbornly high core inflation rate.

In terms of flow and positioning, both fundamental and quantitatively-driven funds continued to buy US and foreign equities, with the former being the dominant party in June.

Both Fundamental and Quant-driven funds continued to allocate into equities.

Discretionary vs Systematic Equity Positioning
- Systematics Buying vs Discretionary Selling



Source: Deutsche Bank Asset Allocation

In Global Equities, in June, the US again led, boosted by investors' continuing interest in the high-growth Technology, Semiconductors and Social Media/ Internet sectors. The Emerging equity universe also benefited from the positive sentiment in equities. For the first half year, led by the US, Developed markets outperformed Emerging by a wide margin, as China faltered.

Global Fixed Income markets were more sluggish, for reasons elaborated above. Cash out-performed government bonds in June. For the first half year, thanks to a strong US Dollar, US fixed income markets outperformed their global counterparts. All major fixed income markets underperformed their equity counterparts.

The Commodities complex was mixed in June, but ended a bit firmer, overall. Their performance in the first half was negative, affected by poor growth data in China and the rest of the global manufacturing and trade sectors.

The US Dollar fell slightly over the month, as investors began to price in the near-peak rate in the US, while other major central banks are expected to continue to do more tightening.

Near-term performance of various asset classes

as at 30/6/2023

Asset Class	US Equities	Global Equities	GEM Equities
Index	MSCI USA	MSCI World	MSCI EM
1 month	6.67%	6.09%	3.89%
3 months	8.72%	7.00%	1.04%
YTD	17.13%	15.43%	5.10%
FY 2022	-19.46%	-17.73%	-19.74%

Asset Class	US Corporate	US Treasury	US Aggregate
Index	Bloomberg US Corporate	Bloomberg US Treasury	Bloomberg US Agg
1 month	0.41%	-0.75%	-0.36%
3 months	-0.29%	-1.38%	-0.84%
YTD	3.21%	1.59%	2.09%
FY 2022	-15.76%	-12.46%	-13.01%

Asset Class	Global Govt Bonds	Global Aggregate	Global Commodities
Index	Bloomberg Global TSY	Bloomberg Global Agg	CBR
1 month	-0.31%	-0.01%	3.21%
3 months	-2.44%	-1.53%	-2.14%
YTD	0.57%	1.43%	-5.67%
FY 2022	-17.47%	-16.25%	19.53%

Asset Class	Asia ex Japan Equities	China Offshore	China A
Index	MSCI AC AxJ	MSCI China	MSCI China A Onshore
1 month	2.81%	4.02%	-0.60%
3 months	-1.14%	-9.65%	-9.78%
YTD	3.19%	-5.39%	-4.30%
FY 2022	-19.35%	-21.80%	-27.09%

Source: GOJI, MSCI, Bloomberg

US equities led DM over EM in H1; US bonds outperformed others with strong USD.

Market Outlook
- Global Economy

While there are both positive and negative factors operating in the US and the world economy, the potential growth positives are likely to narrowly win out, but not by much, in the rest of the calendar year. Unless there is a sudden change in the Fed's monetary policy towards easing, the second half may feel the adverse impact of past monetary tightening and a potential normalisation of consumption to a more modest growth path.

Rest of year may feel adverse impact of past monetary tightening.

In China, despite the re-opening of its economy, growth appears to be decelerating fast, thus forcing the government to ease both fiscal and montage policies. The latter's too-timid expansionary effort should be strengthened further to convince market participants that China has passed its worst.

In brief, the US and world economy are expected to continue to grow, but at a sub-par rate. Having said that, we continue to attach a small probability to a mild US recession, since we are still somewhat concerned that, after a decade of almost zero interest rates and trillions of QE and fiscal pumping, the abrupt reversal of these super-easy monetary and fiscal policies has and is likely to continue to cause unexpected financial crises and/or recessionary conditions. Net, net, the world economy, in our opinion, remains fragile (financial accidents have and can continue to happen!).

The Way We See It
- Global Markets and Investment Thematics

The above economic, monetary, and geopolitically unbalanced backdrop is expected to prevail in the remaining of the year.

GOJI's view remains - sensible to adopt a neutral-risk & quality-focused strategy.

In the short-term, we continue to think that it would be sensible for investors to continue to adopt a neutral-risk strategy. This translates into a strong focus on quality and lowly-geared assets that can deliver predictable cash flows. In addition, until the US banking and commercial property sectors are functioning healthily and that the Fed truly pivots from tight to pause/ease, investors could consider holding a mild overweighting in US-dollar-denominated Treasuries and Investment Grade corporate bonds.

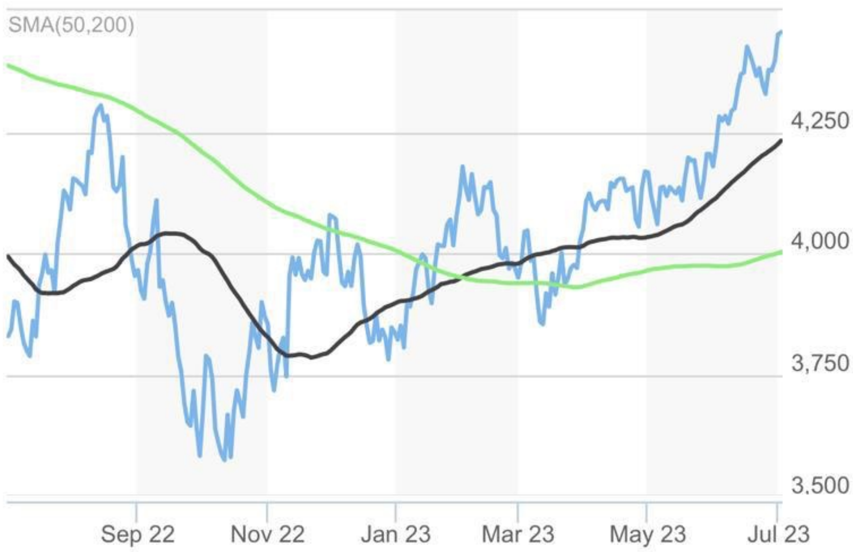
In terms of geographical diversification, it appears that it may pay to be neutral in the US versus other global equities. This is based on the differing growth, liquidity and valuation trends across the globe, which favour the rest of the world over the US.

Short-term Technical Analysis

We wish to continue to share a technical chart of the leading risk index in the world, the US-based S&P 500 stocks index. It shows that the index has been gradually rising since October 2022, within a volatile upward-trending trading range.

Importantly, the rising 50-day moving average has crossed the rising 200-day counterpart in Q1 of this year, an event which is known as a 'Golden Cross'. The latter is a positive signal (as long as they trend upwardly), suggesting higher prices ahead on a medium-term basis.

S&P 500 Stock Price Index



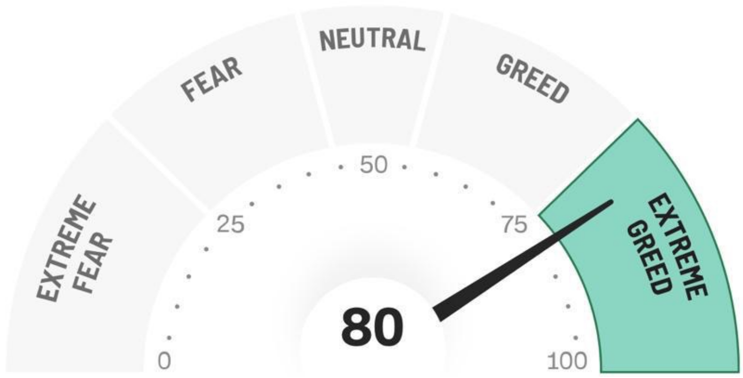
Source: MarketWatch.com

Technical: S&P500 broke the resistance level of 4200 in May and surged further in June.

In the month of May, the S&P 500 Index was successful in crossing above the significant 4200 overhead resistance level, consistent with its Golden Cross signal (we did err on the side of caution, and were thus wrong). The month of June saw an acceleration of the bull trend, which took the Index by a further 6%.

The market is technically overbought and investors' sentiment rose to the euphoric zone in the short-term. It thus appears that a consolidation phase is coming in the near months. As mentioned in our June report, we remain somewhat sceptical that the US equity market rally can be sustainably maintained. In other words, the potential for a correction and a break below the key 4200 level cannot be taken lightly.

Fear & Greed Index
- What emotion is driving the market now?



Source: CNN Business

Extreme Greed is driving the market at the moment.

To summarise, it remains our strong belief that a sustainable bull market in equities and corporate bonds will return at some stage. But it would only occur when valuations fall further to reflect the US and global sluggish growth trend, and, more importantly, when the US Fed and other major central banks switch from the current tightening to a pause, or an easing mode.

In the meantime, due to continuing macroeconomic uncertainties in the global economy, markets are likely to remain volatile. Consequently, in our opinion, a neutral-risk and quality-focused investment strategy should remain the foundation of risk-averse investors.

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