AUG 2024 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

'Markets take the stairs up… and the elevator down.'

- Volatility is back with Japan equities at the front and centre: Japan was down 12% on 5 August, the largest down day in about 40 years. Global equities followed with large swings and declines over the past week.
- Amid central bank actions in the past week (BOJ rate hike, FED signal for September rate cut), the Japanese Yen strengthened suddenly and strongly, causing an unwinding of positions globally.
- Those who had been borrowing and counting on continued cheap + weakening Yen to invest elsewhere are now facing margin calls and causing the unwind of crowded positions globally.

Don't Overreact: Economic Growth To (Still) Continue

- While the recent weakening of economic data and the triggering of the 'Sahm Rule' recession indicator have caused some anxiety, we remind investors not to overreact to one or two data points.
- Higher-frequency data points such as restaurant bookings, air travel activity, hotel demand, box office receipts are still pointing towards an economy that is humming along.
- The silver lining from the current bout of volatility and corrections is that a lot of excessive optimism that we saw has been relieved, allowing markets to focus on fundamentals.
- Current positive earnings trend provides support for markets to resume their (bumpy) uptrend as long as growth does not meaningfully deteriorate from here.

Twists & Turns: Prepare, Not Predict!

- A combination of higher rates in Japan, and expectations of lower rates in the US, coupled with weaker US economic data triggered the latest bout of volatility.
- The sudden and unpredictable nature of such moves shows that investors should prepare rather than try to time or react to such moves.
- We have prepared our portfolios to be more resilient since mid-July amid the backdrop of softening economic data and uncertainties relating to the upcoming US presidential election in November.
- Our portfolios have been more resilient in the current volatility, and we are now in a good position to navigate the markets in the coming weeks and months with confidence.

Resilient Fixed Income

- Fixed-income investors enjoyed a sense of calm even as equity markets were volatile.
- This meant that income investors with lower risk tolerance could better sit through the current market concerns. This is crucial as the reality is that investors need to stay invested to enjoy the returns at the end of the day. The other reality is that many abandon ship halfway and lock in losses.
- The resilience of income markets so far does not mean that they will not suffer declines. They are still dependent on economies and markets to do well.
- For now, the weight of evidence points to a more orderly economic slowdown that can support market gains ahead.

Read the full commentary here

Finexis Asset Management