December 2022 Published 14.12.2022

WealthBriefingAsia EAM AWARDS 2022 PORTFOLIO MANAGEMENT SOLUTION — WINNER — Sunline Wealth Management

WealthBriefingAsia EAM AWARDS 2022 THEMATIC INVESTMENT PROPOSITION OR STRATEGY — WINNER — Sunline Wealth Management

WealthBriefingAsia EAM AWARDS 2022 WEALTH PLANNING — WINNER — Sunline Wealth Management

## MARKETS CONTINUED THEIR REBOUND IN NOVEMBER

The expectations of a December 'pivot' of the US Federal Reserve, confirmations that the peak in inflation is behind us, renewed help with the beleaguered real estate sector in China, an expectation of a gradual relaxation of its Zero Covid Policy, and decent Q3 earnings publications, helped the market power higher, led by technology and consumer discretionary. At a regional level, Europe outperformed the US yet again: taking a broad index like the Stoxx600 - which includes underperforming midcaps - it outperformed by almost 7% year to date versus the S&P 500. At the index level, the crown belongs to the Hang Seng Tech index, up 33% for the month. In fixed income, government bond yields declined, and credit spreads tightened, while Emerging debt, in hard currency, rallied over 6% during the month. The USD index weakened by 5%, as Gold surged by 8% and crude oil dropped 7%.

While the outperformance of Europe might be surprising to some, due to the energy crisis and its vicinity with war-ravaged Ukraine, it is understandable: in many ways the industrial sector in Europe did exceptionally well to cope with the gas crisis, as many companies managed to switch from gas to oil. This is obviously not the case for several sectors with ageing plants, (and therefore difficult, expensive, and lengthy to switch), with thin margins for the likes of steel, paper, and fertilizer manufacturing. 'Energy solidarity' has been steadfast in Europe, contrary to what happened during the pandemic, with mask procurements or vaccines, helping to redistribute and share the pain from Russian-gas dependency for some countries, (Germany and Italy). Also, Europe continues to be rather cheap and trades, even after the recent recovery, at recessionary levels: the index of the 100 largest European companies trades at next year 11 times earnings, while the S&P trades at close to 18 times. Earnings and operating margins estimate probably need to come down further for next year, but that is true for both regions, so the outperformance might continue. We continue thus to have a more favorable view of European equities, compared to US ones. A reopening of China would also be a positive for Europe, due to its commercial ties.

The rally in risk assets has also left us with two uncomfortable situations:

- The US 2 year / 10-year yield curve is the most inverted in 40 years: in recent decades every recession has been preceded by an inversion. And yes, even in 2019 the curve briefly inverted, as global manufacturing was slowly sliding into recession.

- With the rally in risk assets, US financial conditions eased and are now close to neutral, which is an unwanted outcome for the US central bank: the risk is that the US Fed might have to tighten more, i.e., a higher terminal rate, to keep the economy on a below-potential path.

## Global Economy: Probably Weaker

While it looks like the most anticipated recession is on its way, it is difficult to evaluate the scale of the slowdown required to bring inflation back in check, with economic indicators giving more mixed signals, while governments are providing consumers and industries with fiscal policies to soften the energy hit.

If we look at Asian exports, it is obvious that the Western consumer goods' binge post covid reopening is over: China's exports are flat YoY, down 13% for Taiwan and 14% for South Korea.

In general, macro numbers in Europe were weaker, with Germany and Italy likely contracting or barely flatlining, whilst the Autumn tourist boost for France's services is over. In the US, the signals are more mixed, with the ISM manufacturing down, jobs created up, led by services, while the number of 'job openings', (JOLTS index), an indicator of how plentiful jobs are, is coming down: this is a sign that the red-hot US job market might be cooling. On the inflation front, the PCE indicator is coming down, while the latest labor cost figures also indicate progress.

While Europe might delay its recession by using its fiscal power, the world economy growth path in general will depend on the US consumer and China.

## Is The US Consumer Really So Healthy?

General consumption has held up in the US, despite sky high food and services' prices, helping the general narrative of the healthy consumer: it has a healthy balance sheet, helped by generous checks from Uncle Sam and an 18-months hiatus in spending during the pandemic, plentiful jobs to choose from, and rising salaries. Well, we believe the average consumer is no longer so healthy, and it might soon restrain spending. Recent data shows that:

- The personal saving rate, as a percentage of disposable income, continues to drop, and has now reached a 17-year low at 2.3%.
- Personal savings dropped to a 14-year low.
- As consumers' reserves melt away, they reverted to maxing out their credit cards, certainly helped by the prospect of job security: the New York Fed report said that during the third quarter there was a 15% increase in credit card balances, which was the largest such increase in more than 20 years. The bank also said that Americans' credit quality remained pretty good, with overall delinquency rates holding steady during the third quarter at "very low" levels. The total outstanding credit card balances is back to its pre-pandemic level of around 930 billion USD, having been as low as 770 billion, as during the pandemic consumers paid down their debt.

- Bank of America and Wells Fargo recently also mentioned that card volumes were slowing down.

We therefore think that the average American is likely to start cutting back on spending, which could help bring prices down, and/or exhaust their savings by spending their income on essentials. Such a scenario could potentially help the central bank to rein in inflation much faster than currently expected.

## CHINA

Until just recently, China observers expected a gradual exit from strict Zero Covid Policy (ZCP) sometime next year, between March and June. Following the mass protests of recent weeks, the government abruptly decided to essentially cancel all restraint measures. It is even suspending its tracing application, although we do not know what will happen with all the data. This, coupled with some more vigorous measures to help the ailing real estate sector, is certainly good news for the world economy and the domestic stock market. But that will not be enough to restore consumer confidence. As the government clamped down on many industries for the so-called ‘common prosperity’, many companies resorted to firing young employees: the youth unemployment rate in urban areas soared to 20% from 12% pre-Covid, (last month it settled a bit lower at 18%): this is an issue that clearly needs to be addressed quite urgently. Also, financially supporting the real estate developers, helping them restructure their debt and asking financial intermediators to support the debt market, might be very good news for the financial markets but will not help restore consumer confidence. What will help is to finish all those projects that had been suspended and start those that never started and on which mortgages are already running.

The abrupt end to China’s stringent ZCP, removing almost all restrictions, is not without risks. The country has probably not attained herd immunity, and its vaccines are apparently not very efficient to deal with the latest omicron variants. It is thus potentially facing a Covid wave that could cripple its economy, at least in the short term.

## STRATEGY

During the month we took profits on about 2/3 of our call warrants on the S&P 500, as with the markets' rally, taking them into consideration, our synthetic positioning became overweight. Our current positioning is thus neutral equities, when delta adjusted for the remaining warrants that we own.

## POSITIONING

**Overall Exposure**

We are Underweight Equities, and neutral Fixed Income, with a Gold position, fully USD hedged, long a call warrant on the S&P500

**Equity: Underweight**

Overweight Continental Europe, Neutral UK, Underweight US, Neutral Japan, Overweight Asia ex Japan

**Thematic Equities**

Health Improving Technologies and Services, Asian Technology, European Family Holdings, European COVID Recovery, the UN's 17 Sustainable Development Goals, Emerging Markets Healthcare

**Fixed Income: Neutral**

Underweight High Yield in EUR and USD. Overweight Investment Grade EUR and USD Bonds, Underweight Sovereigns. Long US Municipal Infrastructure Bonds, Long Hybrids, long financial credit & Long Asian Bonds.

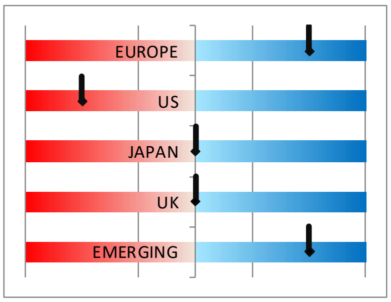
**Currencies**: Portfolios are fully USD hedged

**Commodities: Overweight**

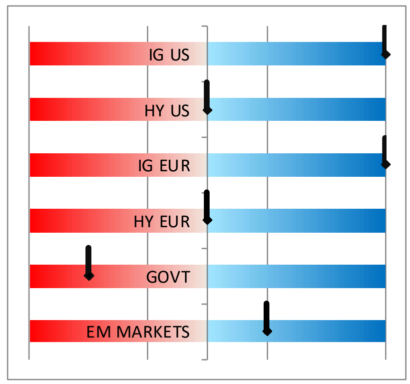
Long Gold

## Conviction Thermometer

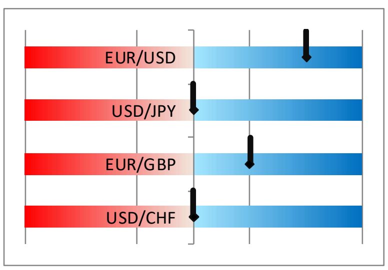
**Equities**



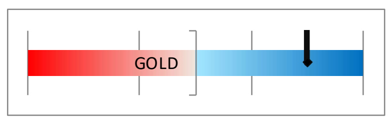

**Bonds**




**Currencies**




**Commodities**




*Negative view / Positive view

# Market Overview as of 30th November 2022

| EQUITIES (local ccies) | Level | 5D | MTD | YTD | 2021 |
|---|---|---|---|---|---|
| MSCI WORLD | 2 720,89 | 0,91% | 7,00% | -14,09% | 22,38% |
| GERMANY DAX | 14 397,04 | -0,21% | 8,63% | -9,37% | 15,79% |
| FRANCE CAC40 | 6 738,55 | 0,93% | 7,60% | -3,02% | 31,88% |
| UK FTSE100 | 7 573,05 | 1,57% | 7,12% | 6,15% | 18,40% |
| BELGIUM BEL20 | 3 684,98 | 0,81% | 3,55% | -11,91% | 21,86% |
| SWISS MARKET INDEX | 11 127,77 | 0,30% | 2,77% | -11,11% | 23,73% |
| EUROPE EURO STOXX 50 | 3 964,72 | 0,48% | 9,73% | -4,70% | 24,10% |
| US S&P500 | 4 080,11 | 1,35% | 5,59% | -13,12% | 28,68% |
| NASDAQ 100 | 12 030,06 | 1,63% | 5,62% | -25,69% | 27,51% |
| RUSSELL 2000 | 1 886,58 | 1,28% | 2,31% | -14,94% | 14,78% |
| JAPAN TOPIX | 1 985,57 | -0,46% | 2,92% | 2,18% | 12,77% |
| MSCI EMERGING | 972,29 | 4,32% | 14,85% | -18,71% | -2,32% |
| BRAZIL IBOVESPA | 112 486 | 3,35% | -3,06% | 7,31% | -11,93% |
| MEXICO MEXBOL | 51 684,86 | -0,50% | 4,02% | -0,13% | 24,07% |
| HS TECH | 3 798,19 | 6,89% | 33,21% | -32,55% | -32,47% |
| CHINA CSI 300 | 4 563,77 | 2,11% | 9,83% | -20,34% | -3,51% |
| INDIA SENSEX | 63 099,65 | 2,58% | 3,92% | 9,69% | 23,23% |
| KOREA KOSPI | 2 663,34 | 2,25% | 7,80% | -16,40% | 5,56% |
| HONG KONG HANG SENG | 18 597,23 | 6,16% | 26,79% | -17,81% | -11,84% |
| AUSTRALIA ALL-SHARE | 4 139,65 | 1,07% | 7,13% | 1,67% | 18,29% |
| SAUDI ARABIA TADAWUL | 10 896,91 | -0,62% | -6,40% | -1,28% | 33,19% |

| US: Sectors | Level | 5D | MTD | YTD | 2021 |
|---|---|---|---|---|---|
| COMMUNICATION SVCS | 172,94 | 2,23% | 6,85% | -34,77% | 21,57% |
| CONSUMER DISCRETIONARY | 1 133,65 | 2,56% | 0,99% | -29,04% | 24,43% |
| CONSUMER STAPLES | 804,18 | 1,29% | 6,37% | 2,26% | 18,63% |
| ENERGY | 694,30 | -1,18% | 1,26% | 70,17% | 54,35% |
| FINANCIALS | 602,43 | 0,97% | 7,04% | -5,59% | 34,87% |
| HEALTH CARE | 1 618,69 | 2,08% | 4,82% | -0,04% | 26,13% |
| INDUSTRIALS | 858,06 | 0,80% | 7,85% | -2,59% | 21,10% |
| INFORMATION TECHNOLOGY | 2 371,98 | 1,13% | 6,03% | -21,63% | 34,52% |
| MATERIALS | 519,72 | 0,47% | 11,76% | -7,11% | 27,28% |
| REAL ESTATE | 245,82 | 1,84% | 6,90% | -22,47% | 46,14% |
| UTILITIES | 361,25 | 1,36% | 7,02% | 2,10% | 17,67% |

| EUROPE: Sectors | Level | 5D | MTD | YTD | 2021 |
|---|---|---|---|---|---|
| BASIC MATERIALS | 3 053,10 | 1,35% | 10,97% | 1,56% | 22,50% |
| CONSUMER GOODS | 4 321,77 | -0,26% | 3,63% | -4,08% | 25,09% |
| CONSUMER SERVICES | 1 344,86 | 2,59% | 11,01% | -10,70% | 22,44% |
| FINANCIALS | 767,17 | 0,41% | 8,71% | -0,46% | 29,12% |
| HEALTH CARE | 3 375,50 | 1,24% | 2,92% | -1,91% | 27,58% |
| INDUSTRIALS | 3 071,32 | -1,22% | 5,83% | -15,89% | 31,32% |
| OIL & GAS | 1 530,81 | 3,30% | 5,60% | 37,30% | 26,63% |
| TECHNOLOGY | 1 387,30 | -1,74% | 14,84% | -19,34% | 38,92% |
| TELECOMS | 533,79 | -0,70% | 0,68% | -8,59% | 16,24% |
| UTILITIES | 1 919,66 | 0,04% | 7,14% | -5,36% | 7,75% |

| WORLD: Styles | Level | 5D | MTD | YTD | 2021 |
|---|---|---|---|---|---|
| QUALITY | 3 301,19 | 1,13% | 8,27% | -18,64% | 25,66% |
| MOMENTUM | 3 297,23 | 0,55% | 5,33% | -15,73% | 14,64% |
| VALUE | 11 334,16 | 0,79% | 7,23% | -4,16% | 21,94% |
| GROWTH | 7 308,67 | 1,02% | 6,65% | -24,60% | 21,18% |
| VOLATILITY | 7 914,48 | 0,75% | 6,96% | -12,85% | 21,77% |
| SIZE | 7 387,52 | 0,70% | 7,96% | -13,17% | 18,02% |
| DIVIDEND | 4 471,33 | 0,75% | 8,59% | -7,16% | 19,40% |

| FIXED INCOME | Level | 5D | MTD | YTD | 2021 |
|---|---|---|---|---|---|
| Pan-Euro 3-5 yrs IG | 196,40 | -0,04% | 1,15% | -9,66% | -0,51% |
| Euro Aggregate | 229,94 | 0,02% | 2,41% | -14,05% | -2,85% |
| Pan-Euro HY Hedged Eur | 374,88 | 0,41% | 3,58% | -10,15% | 3,46% |
| Global Inflation hedged EUR | 239,88 | -0,37% | 2,39% | -16,59% | 4,66% |
| US Corp High Yield | 2 264,90 | 0,13% | 2,17% | -10,63% | 5,28% |
| EM USD Aggregate TR | 1 260,87 | 1,47% | 6,63% | -15,98% | -1,65% |
| EM Aggregate TR Local Ccy | 132,91 | 0,83% | 4,20% | -11,09% | -1,59% |
| EUR Banks CoCo Tier 1 | 135,33 | 0,21% | 4,02% | -13,62% | 4,65% |
| EU GOVT HEDGED EUR | 209,13 | -0,51% | 2,57% | -16,67% | -4,21% |
| Global Aggregate | 2 554,99 | -0,19% | 4,71% | -16,70% | -4,71% |

| COMMODITIES | Level | 5D | MTD | YTD | 2021 |
|---|---|---|---|---|---|
| GOLD | 1 768,52 | 1,08% | 8,26% | -3,32% | -3,64% |
| COPPER | 372,95 | 3,08% | 10,50% | -16,44% | 26,84% |
| OIL WTI | 80,55 | 3,35% | -6,91% | 7,10% | 55,01% |
| OIL BRENT | 85,43 | 0,02% | -9,91% | 9,84% | 50,15% |

| CURRENCIES | Rate | 5D | MTD | YTD | 2021 |
|---|---|---|---|---|---|
| EURUSD | 1,0406 | 0,09% | 5,30% | -8,48% | -6,93% |
| GBPUSD | 1,2058 | 0,02% | 5,14% | -10,89% | -1,01% |
| USDJPY | 138,07 | -1,10% | -7,15% | 19,98% | 11,46% |
| USDCHF | 0,9457 | 0,32% | -5,55% | 3,59% | 3,13% |
| AUDUSD | 0,6788 | 0,82% | 6,08% | -6,54% | -5,60% |
| EURCHF | 0,9841 | 0,44% | 3,63% | -4,89% | -11,08% |
| USDCNY | 7,0924 | -0,95% | 3,63% | 11,29% | 5,28% |
| USDKRW | 1 318,40 | -2,49% | 3,63% | 10,89% | 4,22% |
| USDINR | 81,43 | -0,52% | -1,64% | 10,89% | 9,15% |
| USDTRY | 18,6153 | 0,00% | 0,01% | 39,92% | 78,81% |
| BITCOIN | 17 105 | 3,84% | -16,18% | -63,08% | 59,79% |

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