August Lull

Commentaries: August 2023

Return (%)	August 2023	Year-To-Date	Since Inception (TSF: Nov 22)	Since Inception (PM: Apr 22)
Tradeview Sustainability Fund (TSF)	-0.9%	1.2%	1.9%	N/A
Discretionary Private Mandate (PM)	-0.9%	6.6%	N/A	11.2%
FBM KLCI Index	-0.5%	-2.9%	0.2%	-8.7%
FBM 100 Index	0.2%	-0.1%	4.0%	-5.5%
FBM Small Cap Index	3.1%	7.7%	11.9%	-3.5%

KLCI took a breather following a good month, registering a modest 0.5% MoM decline. While FBM100 Index remained relatively stable, showing a 0.2% MoM growth in August, the overall decline mirrored lackluster performances in developed markets and was largely influenced by heightened concerns on China's economic condition. Weakness in credit, property sector, and deflation data, coupled with unexpected events like a rate cut and rule changes in equity trading, contributed to this downturn. Additionally, factors such as low consumer confidence, mortgage rate cuts, restrictions on accessing youth unemployment data, and the bankruptcy filings of major real estate developers weighed on market sentiment. Furthermore, the uninspiring corporate results reported in August added to the reasons behind KLCI's decline, a risk we had anticipated earlier (refer to our July newsletter).

The Utility, Property, and Construction sectors stood out as top performers for the month. This can be attributed to the launch of the National Energy Transition Roadmap (NETR) and possible sector rotations into previously lagging areas, notably property and construction. These sudden moves were influenced by news of the revival of the high-speed rail project and Malaysia's progress toward becoming a regional data center hub, sparking speculation about more favorable government policies and incentives related to renewable energy, land, and the digital economy ecosystem. Our performance for the month benefited from some of our investments in solar EPCCs, construction materials, financials (insurance), and airlines. However, our portfolio did encounter some cash drag due to our defensive positioning. On a positive note, we observed more fund inflows during the month.

On the macroeconomic front, Fitch Ratings downgraded the U.S. government's credit rating from AAA to AA+ at the beginning of the month, citing rising debt at federal, state, and local levels, along with a "steady deterioration in standards of governance" over the past two decades. Furthermore, the U.S. Federal Reserve reported a significant increase in American credit card debt over the past two years, exceeding the USD$ 1 trillion mark for the first time. This surge in credit card usage may signal that consumers are depleting their savings, potentially impacting future discretionary spending. With the average credit card interest rate now exceeding 20%, it poses a further challenge to future spending. The report also highlighted that delinquency rates are at an 11-year high, indicating deteriorating overall financial health. This lends support to the thesis of a potential soft landing for the economy soon, suggesting a need for a moderately balanced portfolio positioning. We are also wary of the market euphoria in the US despite its lack of continuing catalyst in the event the US Fed continues its hawkish position. There is no incentive to put funds into risk assets given the attractiveness of risk-free rates and elevated yield of US Treasuries.

With the political uncertainties and the weak corporate results season now behind us, our focus will shift toward macroeconomic data in the coming months. We continue to keep an eye on both the industrial production and technology sectors, as both have experienced price lags compared to their global peers.

Still, the ongoing underperformance of China's economic recovery has somewhat tempered our outlook. Despite these concerns, there remains potential for a future resurgence. This could be driven by recent economic stimulus measures announced by the Chinese government to stabilize the fragile economy. In response, we are maintaining our exposure to a China ETF and considering increasing our direct stock exposures in the coming months.

Sincerely,

Tradeview Capital