TRADEVIEW
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Are we done with Octo-BEAR?

Commentaries: October 2023

Return (%)	October 2023	Year-To-Date	Since Inception (TSF: Nov 22)	Since Inception (PM: Apr 22)
Tradeview Sustainability Fund (TSF)	-0.7%	0.9%	1.6%	N/A
Discretionary Private Mandate (PM)	-1.3%	5.6%	N/A	10.2%
FBM KLCI Index	1.3%	-3.6%	-0.5%	-9.3%
FBM 100 Index	0.7%	-1.0%	3.0%	-6.4%
FBM Small Cap Index	-2.0%	6.3%	10.4%	-4.7%

The final quarter started with a hitch as most sectors experienced a sell-off; this brought the KLCI's 10M2023 decline to -3.6% year-to-date. The only ones bucking the trend were the Finance and Construction sectors, providing a much-needed boost to the KLCI. Industrial production, Plantation, Healthcare and Transportation sectors posted modest gains. In comparison, our fund had a minor stumble with our Private Mandates notching a -1.3% and Tradeview Sustainability Fund a -0.7% decline for the month. Our dismal Ringgit performance due to devaluation coupled with the appreciation of the USD continued to influence fund flows. As a result, the tech sector and related counters underwent a decline with big tech companies leading the charge having reported subpar earnings.

The much-anticipated Budget 2024 announcement had a focus on fiscal consolidation and policy continuity (in line with other master plans that were previously announced). Sectors which stood to gain the most were Construction (Mega projects), Automotive (EVs) and Utilities (RE transition) – which was consistent with what was highlighted in our September memo. Infrastructure projects are expected to accelerate due to a higher development expenditure budget of RM90bn. Among key revenue measures included raising the service tax to 8%, implementing a 10% capital gains tax on unlisted shares, increasing sugar tax, and introducing a 5-10% tax on luxury goods. Expenditure changes included a shift to targeted subsidies, resulting in a 25% reduction in the expected subsidy bill between 2022 and 2024. We also laud the Government willingness to place emphasis to produce a fiscally responsible budget instead of overly populist measures. Overall, these measures were anticipated to have positive effects on investments, job creation, incomes, and consumer sentiment; what remains is the execution which will be crucial in the coming years.

Global markets faced challenges due to the US Fed's consistent hawkish stance on inflation, softer economic data from China, and an escalation of conflict in the Middle East – further increasing geopolitical risks. The Israel-Palestine war is evolving into a humanitarian crisis and dragging in various superpowers around the world with conflicting position. If not handled with care, it may be blown out of proportion and potentially become the catalyst for a major conflict in the region.

Quarterly earnings from US major tech companies, known as the "Magnificent Seven," were muted, with a subdued growth guidance for the next quarter reflecting a flat outlook. Investors were increasingly betting on the economy to slow down due to sustained high interest rates. This was further echoed by the 10-year Treasury yields reaching a 16-year high, indicating expectations of higher interest rates amid persistent inflation and a resilient economy. Consumer spending will likely slow down as stimulus initiatives such as the student loan relief ended recently. Safe-haven assets like gold gained traction as investors feared the conflict between Israel and Hamas spilling over regionally.

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The outlook for the world's second largest economy continues to be dour as recent surveys indicated slowing construction activity and shrinking factory orders[1]. To address its downtrodden economy, China approved a plan to raise 1 trillion yuan (~USD 136 billion)[1] in additional sovereign debt which was mainly for infrastructure initiatives as a result of the recent spate of natural disasters such as the immense flooding (especially in Hebei). This was part of a series of initiatives that the country has already enacted such as the lowering of mortgage costs and interest rate cuts. This further affirms that the current overall policy stance continues to be supportive in nature and not a catalytic direct intervention. This could possibly be achieved by spurring consumption in the form of direct or indirect wealth transfer to households. We will continue to monitor any significant moves that China may make – as mentioned previously, their recovery would be a boon for our nation's wellbeing, not forgetting our portfolio.

Although we experienced a slow start to the final quarter, we are optimistic about finishing the year on a strong note. For the month, we continued building on the strategy of entering names that stood to gain from thematic tailwinds – especially the ones that had an additional boost from budget announcements. Our portfolio remains diversified, as the team continues to utilize our proprietary bottom-up approach to look for undervalued names coupled with opportunistic stock-picking.

Sincerely,

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[1]China's PMI for manufacturing declined to 49.5 in October from 50.2 in September; a reading above 50 is construed as an expansion in activity whilst below 50 can be taken as a contraction.

[2] To put in context, 1 trillion yuan in sovereign bonds make up less than 1% of China's GDP; in comparison during the 2008 financial crisis, the stimulus launched was 12% of GDP at the time.