TRADEVIEW CAPITAL

Happy April Fool's Day

Commentaries: Q1, 2023 (January to March 2023)

Dear Valued Clients,

This note marks our first-year anniversary since obtaining our boutique fund management license on 31 March 2022. Over the past year, we have navigated numerous global and local market events, both positive and negative. To name a few, we witnessed the US Federal Reserve raise interest rates by 475 basis points in total since March 2022, the formation of a unity government after GE-15 in November 2022, a revised Budget 2023 in February 2023, and the banking crisis in the US and Europe that sparked sell-offs in global markets in March 2023. Given the extreme market volatility amid global uncertainties, our investment approach has required more tact and agility in order to generate positive returns while also preserving capital. We have exercised caution and remained active in seeking out opportunities, while remaining disciplined in focusing on good quality companies with healthy cash flows and solid balance sheets. We are grateful for the support and patience that our investors have shown us, which is crucial for us to achieve positive returns for your portfolio.

Turning to the market, macro events have been the driving force behind the first-quarter performance. There are rising expectations for higher US Fed rates as concerns over stubbornly high inflation persist. Although there were signs of easing inflation, the pace of the slowdown was below expectations, which was a catalyst for the US Fed's fight against inflation. Investors are eagerly awaiting signs of inflation being reined in, amidst mixed signals from the strength of the US economy and the recent banking crisis in the US and Europe.

China's economic recovery has been rather disappointing, with several economic data points coming in below expectations. Chinese authorities announced a growth target of around 5%, which new premier Li Qiang cautioned would not be easy to achieve. This implies that there could be less stimulus to boost a recovery that is still being weighed down by weak business confidence and an uncertain property market. That said, Premier Li Qiang reaffirmed China's commitment to maintaining a proper rate of economic growth while striving for better quality, while Minister of Finance Liu Kun stated that China to step up its efforts to improve efficiency and implement a proactive fiscal policy, further improve fiscal and taxation policies and measures. Hence, we continue to believe that the recovery will come gradually and foresee a better second half of 2023 for China, partially from a fund flows perspective. China's re-opening and rebounding growth should also be positive for Malaysia, given the strong trade and investment links between the two countries, in addition to the return of tourists from China.

Locally, the headwind ahead of us will be the increasing operational costs of businesses, driven by rising utility prices and labor costs. Consumer prices have been inching upward, partly attributable to the weak Ringgit and logistic costs due to elevated energy prices. While the new government continues to advance its policy reform agenda in favor of a more progressive, pro-consumer, pro-competition, and free-market approach, it will do so at a more measured pace and subtle way, ahead of the six state elections that are widely expected to be held in Jun 2023. We foresee a rather muted market in the second quarter, with limited positive catalysts in the domestic market. However, investment opportunities may arise in several sectors from time to time.

For instance, we reckon that the sell-down on banking stocks in first quarter of the year, on the heels of the banking crisis in the US and Europe, was unjustified. With our healthy level of cash, we have taken the opportunity to capitalize on some banking names during the sell down. Another investment focus in the next few months shall be on consumer sector as we believe consumer spending to stay resilient in the absence of any immediate plan by the government to rationalise subsidies or reintroduce the GST. In addition, the global trend for consumer sector move towards price increase or re-packaging (smaller size but same price).

We reiterate our view of a volatile 1H23, especially with added tail risk on the health of the US banking sector, as well as mixed growth data and economic outlook in the developed markets. More projections are accounting for a potential Fed put, which is another way of describing the US Fed's intervention to step in with accommodative policies, which would be positive for market sentiment. We continue to stay defensive and nimble with a healthy cash level to seize opportunities on companies with strong fundamentals and cash flow generation abilities.

Positive catalysts domestically include China's reopening and rebounding growth that could benefit Malaysia in terms of higher trade flows, in addition to the return of tourists from China. Additionally, the favorable conclusion of the upcoming state elections could provide more confidence for investors to deploy capital as it allows the government to implement further pro-growth policies and fiscal consolidation.

The business of fund management is not easy. It is a fool’s business. There are only two ways fund managers make money. We either make money by getting as many clients as we can which in turn increases the size of our AUM. Another way is to outperform in the stock market by making the right investments by selecting good long term fundamental companies and growing with them. We opt for the latter as there is the best way to build a reputation for ourselves and for clients to continue to stay with us. We believe with your trust and faith in our team, there will be many more years ahead for Tradeview Capital. Looking forward to celebrating April Fool’s Day with you all every year.

Sincerely,

Tradeview Capital