TRADEVIEW CAPITAL

Patience Is "The" Virtue

Commentaries: Q3, 2022 (July to September 2022)

Dear Valued Clients,

3Q ended in September was no doubt another unpleasant quarter of 2022. Persistently high inflation, a surging U.S. Dollar, jumbo interest-rate hikes, slowing economic growth, potential recession in the developed economies, on-going war in Ukraine, a severe energy crisis in Europe, economically damaging Covid restrictions in China, slumping British pound from policy mistakes in the UK; are all the negatives we that dominated throughout the quarter, with little encouraging news flow.

The Federal Open Market Committee (FOMC) had again hiked its target range for the benchmark rate by another 150bp to a range of 3%-3.25%, the highest since early 2008, over the course of just two meetings in July and September. While concerns of an economic downturn are rising, Federal Reserve (Fed) Chair Powell nevertheless stuck to a hawkish message, indicating benchmark rates to reach as high as 4.6% (terminal rate) in 2023 to tame the stubborn inflation numbers (+8.5% YoY in August 2022 higher than market consensus estimates of +8.1% YoY). The series of big rate hikes are expected to slow down the economy and that same reason drove S&P 500, Dow Jones & Nasdaq back into bear market territory with a decline of 24.77%, 20.95% and 32.40% year-to-date (YTD) respectively. Although the intra-quarter "relief rally" occurred in July-August period when a milder inflation data was reported for July 2022 spurred positive sentiment with hope that inflation finally peaked, it wasn't enough to sustain the markets.

Locally, on top of the pessimism in the macro front, political uncertainty weighed on sentiment. FBMKLCI and FBM100 Index declined by 3.43% and 3.17% during the quarter, a relative outperformer compared to the developed markets, but underperformed among the ASEAN peers such as Indonesia, Thailand and Singapore. On YTD basis, financial sector stood out as the best performer and clear beneficiary of rising interest rate environment. Bank Negara Malaysia (BNM) raised Overnight Policy Rate (OPR) twice during the quarter to 2.5%, with 25bps each in July and September Monetary Policy Committee meeting.

During the quarter, the team adopted a more active management strategy and realized some profits from selective names in the Financial, Technology, and Oil & Gas sector prior to the correction in overall energy and commodity prices. Both Brent crude oil and Crude palm oil fell 24% QoQ and 30% QoQ respectively during the quarter. Would this be contributing to slower inflation in the months to come? Investors globally are closely watching this as well.

The major disappointment was China whereby its recovery has yet to materialize. The Chinese economy has weakened significantly in 2022 due to the COVID-19 lockdowns and the deteriorating property sector. Having said that, the team believes it is merely a timing issue. While China will be having its Politburo meeting in late October, all eyes will be for President Xi Jinping to consolidate power for a third 5-year term and then ease lockdown as well as adopting more stimulus measures than those we have seen lately such as rate cuts and infrastructure spending; though these measures have not been much adequate to reinvigorate growth.

The short-term outlook depends heavily on upcoming inflation reports. We believe the stock markets will remain volatile given the lack of positive catalysts and uncertainties surrounding the macro environment. Notwithstanding plenty of moving parts, most investors are beginning to watch for the best time to bottom fish, or to enter the market after almost a yearlong of downtrend. One thing we can be certain is that the stock market is dynamic because it is a collection of various types of participants with differing investment strategies. Thus, it is not easy for one to either catch the bottom nor to predict the peak. Essentially, invest with a longer-term horizon and nibble in tranches on weaknesses to ride on the likely “recovery” in the foreseeable future. We have been gradually deploying cash to execute this strategy, but rest assure our cash level remains substantial (50% of total portfolio).

Events that will keep investors busy in Q4 include the tabling of Malaysia 2023 Budget on 7th of October, monthly US inflation data, two more rounds of the US Fed rate decisions on 3rd of November & 15th of December, BNM’s decision on OPR on 3rd of November including a highly likely local general election in this quarter. Investors are primed for any bit of good news to help forgetting a brutal quarter for stocks. Perhaps a good corporate earnings reporting season. Remember the recovery from a better than feared US corporate earnings season which have taken place in July recently?

We continue to overweight cash and will seize any profit-taking opportunities while also adding during market weaknesses to build a more sizable position in good companies as they become cheaper. Also, we will extend our investment horizon for companies with healthy fundamentals such as strong earnings growth prospect, positive cash flow generation, net cash-to-low-debt balance sheet, and sustainable dividend payout. We believe by holding on to some of these stable, cash rich and uncrowded names, it will provide less volatility to the entire portfolio. This has served us well thus far which materialized in our continued outperformance to the market. Our focus remains to protect your capital.

Sincerely,

Tradeview Capital