The Way We See It

January 2023
Issue 12

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A Poor 2022 Ends with a Poor December – Will 2023 Shine?

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments
- Global Economies

Key US, European, Japanese and Chinese data economic releases continued to show that all major economies continued to grow, albeit at a decelerating pace, while the high inflationary pressures have subsided.

Despite this rather mixed macroeconomic backdrop, there are some positive trends:

First, from a growth perspective, the key positive driver in the US and elsewhere in the OECD world continued to be consumption, boosted by the re-opening of their economies, renewed immigration movements, positive employment and wage gains trends.

Second, as far as inflationary pressures are concerned, the significant fall in energy prices and modest easing of food and other consumer prices helped to bring the annual inflation rate down (both headline and core rates).

Third, China made a most surprising announcement to abandon the restrictive zero-Covid policy and to reopen the Chinese economy. While local residents of China do not immediately jump of joy and go out to do catch-up spending, the overall sentiment has been improving and Chinese financial markets have been rallying.

Negative newsflows include a persistently high cost of living for many, a hawkish US Federal Reserve (Fed raised cash rates by 50bps in their December FOMC meeting to 4-4.25% p.a., as expected), continuing downgrades in global GDP and corporate sales and earnings, and no let up in the war between Russia and Ukraine.

- Global Markets

The month of December was a poor month for most risky and economic-sensitive asset classes, particularly in the the US.

In Global Equities, with the announced reopening of China and the better-than-expected growth newsflows in Europe, the US underperformed the rest of the world. Tax-loss selling in the US in December exacerbated the fall.

Global Fixed Income markets performed well. Investors continued to accumulate bonds, based on their perception that inflation has peaked, growth is in a slowdown phase and nominal yields are attractive.

Commodities weakened on the basis of the global sluggish trend and a warm winter (thus depressing energy prices).

The US Dollar continued to weaken slightly as investors are pricing in the near-peak of US Fed Fund rates, together with the expected new shoots of growth elsewhere in the rest of the world, as China took steps to reopen, and Europe recovers.

Near-term performance of various asset classes

as at 30/12/2022

Asset Class	US Equities	Global Equities	GEM Equities
Index	MSCI USA	MSCI World	MSCI EM
1 month	-5.88%	-4.21%	-1.35%
3 months	7.12%	9.89%	9.79%
YTD	-19.46%	-17.73%	-19.74%

Asset Class	US Corporate	US Treasury	US Aggregate
Index	Bloomberg US Corporate	Bloomberg US Treasury	Bloomberg US Agg
1 month	-0.44%	-0.52%	-0.45%
3 months	3.63%	0.72%	1.87%
YTD	-15.76%	-12.46%	-13.01%

Asset Class	Global Govt Bonds	Global Aggregate	Global Commodities
Index	Bloomberg Global TSY	Bloomberg Global Agg	CBR
1 month	0.71%	0.54%	-0.72%
3 months	4.82%	4.55%	3.52%
YTD	-17.47%	-16.25%	-0.72%

Asset Class	Asia ex Japan Equities	China Offshore	China A
Index	MSCI AC AxJ	MSCI China	MSCI China A Onshore
1 month	-0.14%	5.21%	1.81%
3 months	11.42%	13.53%	3.75%
YTD	-19.35%	-21.80%	-27.09%

Source: GOJI, MSCI, Bloomberg

Market Outlook
- Global Economy

Tug of war continues between the positives vs the negatives.

While there are both positive and negative factors operating in the US and the world economy, the potential growth positives are likely to narrowly win out, but not by much.

Positives include: solid employment is likely to continue to boost GDP growth in the US, together with modest increased spending by the government and corporates. In China, the gradual re-opening of its major commercial cities and potential easing of Covid rules, combined with a modest easing of fiscal and monetary policies should help to modestly boost its GDP in 2023. In addition, as the majority of countries have started to re-open and encouraged tourists and foreign workers to return, this will add to GDP growth and help to alleviate the shortage of labour in many countries.

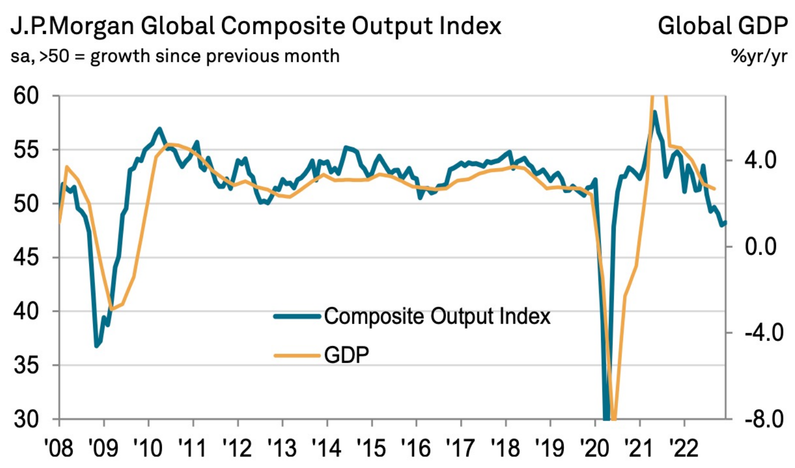
On the negative and risk side, should the Fed continue to tighten too aggressively in order to tame inflation within a short time frame, the US economy may not escape a recession scenario in the coming 6-12 months.

Other negative factors again focus on still-elevated inflation, still-tight global monetary policy tightening, and continuing selective supply bottleneck issues on certain specific production components, in particular labour. High inflationary pressures are likely to force central banks in major OECD countries to continue to raise rates in coming months. In addition, while supply-side bottlenecks appear to ease a little, the complete suspension of gas and oil exports from Russia to Germany and other European countries would continue to hurt their economies. Lastly, the difficulty in finding workers to fill low-skilled services jobs in major economies continued to cause unfavourable imbalances in demand and supply.

In brief, the world economy is expected to recover modestly, but many risks remain.

Modest recovery but risks remain.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global

The Way We See It
- Global Markets and Investment Thematics

The above economic, monetary, and geopolitically unbalanced backdrop is expected to prevail in 2023, particularly in the first half. Please refer to our 2023 Annual Investment Outlook document for a more comprehensive discussion, analysis and scenario-building.

GOJI's view - modestly defensive to neutral-risk strategy.

In the short-term, we continue to think that it would be sensible for investors to continue to adopt a modestly defensive to neutral-risk strategy. This translates into a strong focus on quality and lowly-geared assets that can deliver predictable cash flows, and, until the Fed's Chairman, Jerome Powell, truly pivots from tight to pause/ease, investors could consider holding a mild overweighting in US-dollar-denominated Treasuries and Investment Grade corporate bonds.

In addition, as selective growth stocks with strong business franchises, balance sheets and good management also fell along with the overall global markets, long-term investors should take advantage of weak periods to add into the portfolio selectively.
In terms of geographical diversification, it appears that it may pay to be neutral in the US versus other global equities. This is based on the differing growth and liquidity trends across the globe, which favour the rest of the world over the US.

From an investor's sentiment and positioning perspective, both Quantitative- and Algorithm-focused and Fundamental investors have been, and remain, underweight or short risk assets overall. This suggests that a fair amount of bad news, outlined above, has already been discounted. Therefore, any unexpected good news on the Fed's pivot from their current tight policy is likely to send prices of equities and other risky asset classes up strongly, and quickly.

To summarise, it remains our strong belief that a sustainable bull market in equities and corporate bonds will return at some stage, but it would only occur when valuations fall further to reflect the US and global sluggish growth trend, and, more importantly, when the US Fed and other major central banks are perceived to switch from the current tightening to a pause, or an easing mode.

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