Will the JPY carry trades go?

To:	Our Valued Investors
From:	CIO
Letter:	Managed Account, M02/2024/08
Date:	7 August 2024
Re:	JPY carry trade unwinds. NISA money. Quadrillion JPY. N225 crashed and crashed. Dollar weakens. MOVE spikes. RRPs subsided. Global liquidity grows. Portfolios' 1M performance. YTD, best Customised +9.7%.

So, it is the JPY carry trade unwind. Global consensus, for a change. If JPY were to gain against USD as the spread between their respective rates narrows more, then there may be further unwind. From Mr Ueda's press conference, it appears that rate hikes would not stop here. Across the Pacific, the market is looking at rate cuts. So, the spread would narrow.

Will a US election year prevent more market turbulence? We think it depends on how the players in the carry trade react. We want to look at a small group of these "carry traders": the NISA (Nippon Individual Savings Accounts) holders investing out of Japan. Small, as at now.

At JPY 1T per month since the start of the year, this is small change (about US$50B). They may be part of the group unwinding. But looking at the potential of JPY 1.11Q in total that could invest out of Japan, the future is bright.

Let's stomach the current volatility, buy some insurance, and continue to follow this under-the-mattress money. Yet we keep in mind that they play safe (sell when there is little trouble) and will invest in a stronger currency (USD vs JPY) i.e. more investment if JPY weakens.

The crash of Nikkei225 had damaged our AOM performance, and we stuck to discipline, and cut loss. In July we had lost 2.3% due to the strengthening of JPY from 161 to 154. We lost more in August.

The Dollar index dropped from 106 to 104 in July and is now in the 103s due mainly to JPY strengthening.

The MOVE index was mainly in the 90s in July. Now, it is at 120. Our Returns Enhancer (investing in fixed income UTs) has been 100% cash since 1 August.

RRPs subsided.

Global liquidity has grown for 5 consecutive weeks. China is the contributor. US has stalled.

On our monthly performance (in SGD):

The top gainers are Singapore Equity Yield +5.3%, Singapore Growth +3.8%, and Malaysia +2.6%.

The top losers are Hong Kong -9.0%, SMART US -5.5%, and Blue Chip Equity Yield -4.1%.

Portfolio management

We still see positive liquidity outcomes that may feed into the risk markets. We remain value-conscious in stocks. Our bond exposure will be minimal, and will be for capital gain instead of income.

Portfolios' Performance

Our reference country/sector performances (in SGD terms):

S-REITs	5.3%	(1M)	-9.5%	(YTD)	-9.6%	(12M)
Singapore	3.7%	(1M)	6.7%	(YTD)	2.4%	(12M)
US Big	-0.3%	(1M)	17.0%	(YTD)	20.8%	(12M)
US Tech	-3.1%	(1M)	16.3%	(YTD)	23.4%	(12M)
Hong Kong	-3.7%	(1M)	2.9%	(YTD)	-13.3%	(12M)
Shanghai	-1.8%	(1M)	-1.7%	(YTD)	-11.2%	(12M)
Japan	4.2%	(1M)	11.8%	(YTD)	13.0%	(12M)
Korea	-1.6%	(1M)	-0.8%	(YTD)	-1.4%	(12M)
Taiwan	-6.2%	(1M)	17.8%	(YTD)	25.7%	(12M)
Australia	0.7%	(1M)	3.8%	(YTD)	7.0%	(12M)
India	2.3%	(1M)	15.5%	(YTD)	25.2%	(12M)
Malaysia	3.7%	(1M)	13.2%	(YTD)	10.2%	(12M)
Thailand	3.3%	(1M)	-9.9%	(YTD)	-18.5%	(12M)
Global Stock	0.5%	(1M)	12.8%	(YTD)	14.7%	(12M)
Global Bond	0.5%	(1M)	1.3%	(YTD)	2.2%	(12M)
Gold Miners	10.3%	(1M)	23.5%	(YTD)	21.2%	(12M)
Materials	2.9%	(1M)	8.9%	(YTD)	8.0%	(12M)
Energy	1.0%	(1M)	12.6%	(YTD)	7.4%	(12M)

(1) Phillip Singapore Equity Yield (in SGD)

Portfolio	5.3%	(1M)	5.5%	(YTD)	7.9%	(12M)
S-REITs	5.3%	(1M)	-9.5%	(YTD)	-9.6%	(12M)
Singapore	3.7%	(1M)	6.7%	(YTD)	2.4%	(12M)

We sold the remainder of YZJ Ship. On balance, we are doing better than the referenced indexes.

(2) Phillip Asian Opportunities Equity (in SGD)

Portfolio	-2.3%	(1M)	-6.4%	(YTD)	-13.3%	(12M)
Japan	4.2%	(1M)	11.8%	(YTD)	13.0%	(12M)
Korea	-1.6%	(1M)	-0.8%	(YTD)	-1.4%	(12M)

There were 2 bad fall days with N225 and our portfolio on 18th and 25th, mainly due to currency volatility. In July, we bought Screen and Next Funds, and sold NEC and Mitsubishi Heavy.

We stuck to discipline and cut loss when Japan crashed in early August.

(3) Phillip Managed Singapore Equity (in SGD)

Portfolio	3.8%	(1M)	15.0%	(YTD)	15.1%	(12M)
Singapore	3.7%	(1M)	6.7%	(YTD)	2.4%	(12M)

We sold the remainder of YZJ Ship and took profit on half of ValueMax. We cut IX BioPharma during its rights issue, when there was sufficient volume to do so.

We are near par on 1M, and outperformed YTD and 12M.

(4) Phillip Blue Chip Equity Yield (in SGD)

Portfolio	-4.1%	(1M)	7.3%	(YTD)	8.1%	(12M)
Hong Kong	-3.7%	(1M)	2.9%	(YTD)	-13.3%	(12M)
Singapore	3.7%	(1M)	6.7%	(YTD)	2.4%	(12M)
Australia	0.7%	(1M)	3.8%	(YTD)	7.0%	(12M)

In July, we lost in Hong Kong as we are overweight (36%) there. We are still far ahead at YTD and 12M. We sold the remainder of YZJ Ship; and received dividends from 4 companies.

There was negative guidance (lower profit) at China BlueChem, OOI and Pax Global, and positive guidance at China Non-Ferrous Mining. Overall sentiment was weak.

(5) Phillip Managed Gold & Resources Equity (in SGD)

Portfolio	0.0%	(1M)	4.8%	(YTD)	2.1%	(12M)
Gold Miners	10.3%	(1M)	23.5%	(YTD)	21.2%	(12M)
Materials	2.9%	(1M)	8.9%	(YTD)	8.0%	(12M)
Energy	1.0%	(1M)	12.6%	(YTD)	7.4%	(12M)

We stay very patient with very under-valued Canada-listed commodity stocks.

(6) Phillip Global Funds (in SGD)

Portfolio	0.6%	(1M)	6.2%	(YTD)	7.7%	(12M)
Global 70/30	0.5%	(1M)	9.4%	(YTD)	10.9%	(12M)

Hong Kong is the sole distractor in July. We are still out of US.

(7) Phillip Returns Enhancer - Bond UTs (in SGD)

Portfolio	0.3%	(1M)	3.0%	(YTD)	5.3%	(12M)
Global Bond	0.5%	(1M)	1.3%	(YTD)	2.2%	(12M)

Our performance is helped by UOB United Asia Income fund. On 1 August, we exited all funds to be in 100% cash, to avoid any negative arising from window dressing, if any.

(8) Phillip SMART 1 Portfolio – Income (in SGD)

Portfolio	-0.9%	(1M)	4.7%	(YTD)	3.3%	(12M)
Global 40/60	0.5%	(1M)	5.9%	(YTD)	7.2%	(12M)

(9) Phillip SMART2 Portfolio – Income & Growth (in S$)

Portfolio	-1.4%	(1M)	5.2%	(YTD)	2.5%	(12M)
Global 60/40	0.5%	(1M)	8.2%	(YTD)	9.7%	(12M)

(10) Phillip SMART3 Portfolio – Growth (in SGD)

Portfolio	-1.6%	(1M)	5.4%	(YTD)	1.4%	(12M)
Global 70/30	0.5%	(1M)	9.4%	(YTD)	10.9%	(12M)

SMART 123 returns declined in July, primarily due to the selloff in tech stocks. Investors have been reallocating their funds from large-cap tech stocks to small-cap stocks (this is fading, though), anticipating that smaller companies will benefit more from potential Federal Reserve rate cuts. India's continued strong performance helped offset some of the losses in the tech sector. In fixed income, U.S. and global high yield funds delivered positive returns due to the expectations of rate cuts. In contrast, Asia high yield funds came in negative, indicating the challenges faced in Asian markets like China.

(11) Phillip SMART US Equities Portfolio (in SGD)

Portfolio	-5.5%	(1M)	2.8%	(YTD)	6.5%	(12M)
US Big	-0.3%	(1M)	17.0%	(YTD)	20.8%	(12M)

Pinterest -28%, Lyft -16%, and Robinhood -11% were the main losers.

(12) Phillip Hong Kong Focused Equity (in SGD)

Portfolio	-9.0%	(1M)	7.8%	(YTD)	14.3%	(12M)
Hong Kong	-3.7%	(1M)	2.9%	(YTD)	-13.3%	(12M)

Our outperforming the referenced narrowed to 28%age points from 37%age points at 12M. Negative profit guidance (lower profit) in China BlueChem, OOI, Pax Global, Fufeng more than offset positive guidance in China Non-Ferrous. This contributed to the month's loss. We received the cash from the Sciclone takeover, and dividends from many companies. We part-sold Fufeng and bought AAC technologies.

(13) Phillip Malaysia Focused Equity (in SGD)

Portfolio	2.6%	(1M)	40.1%	(YTD)	32.1%	(12M)
Malaysia	3.7%	(1M)	13.2%	(YTD)	10.2%	(12M)

Our Malaysia portfolio continued to perform. We sold ADB for a 84% profit.

(14) Phillip Thailand Focused Equity (in SGD)

Portfolio	-3.9%	(1M)	-15.5%	(YTD)	-21.7%	(12M)
Thailand	3.3%	(1M)	-9.9%	(YTD)	-18.5%	(12M)

We are still suffering in Thailand.

(15) Phillip Global Growth Leaders (in SGD)

Portfolio	-1.4%	(1M)	12.3%	(YTD)	15.7%	(12M)
Global Stock	0.5%	(1M)	12.8%	(YTD)	14.7%	(12M)

Our GGL portfolio recorded its 2nd monthly loss this year, contracting -1.4% (in SGD terms) in value. We were hit by the sell-off in Big Tech and Semiconductor stocks – which make up slightly more than 1/3 of the portfolio, as overstretched valuations and concerns over the ROI on AI spending continued to grow.

The biggest gainers for the month were Charter Communications (CHTR +27.0%) and Blackstone Inc. (BX+15.5%). CHTR rose after its 2Q24 results beat expectations on both top and bottom line, while also reducing its FY24 CAPEX forecasts. Blackstone's 2Q24 results beat expectations by 10% as its net inflows grew 31% YoY. Lululemon Athletica Inc (LULU -13.4%) was the biggest laggard after seeing some ratings downgrades from JP Morgan and Citibank analysts. For July, the S&P 500 Index was up +1.1%, while the MSCI World Index also gained +1.7%.

(16) Customised Portfolios

Because of customer-bias and our expertise bias, our heavier S E Asia exposure is bearing fruit. Top performer is a +9.7% YTD, with Asia and US exposure.

Please contact your rep or portfolio managers if you need a review. If you don't, our BDs may contact you to ask if you will need a quarterly review.

Because most clients want yield, our exposure tend to be in Singapore, Hong Kong, and Japan.

Thank you

We are grateful for your trust, and continuing support.