ONE HERITAGE CAPITAL MANAGEMENT SINGAPORE

1H Strategy Snapshot

THE PATH FOR RATE CUTS AMID STRONG EMPLOYMENT

January 2024

Global Equities	Price	YTD	1M	1-Year
MSCI World	3,205	4.8%	4.8%	15.1%
S&P500	4,846	1.6%	1.6%	19.0%
Nasdaq	15,164	1.0%	1.0%	30.5%
Dow Jones Industrial	38,150	1.2%	1.2%	11.9%
STOXX Europe 600	486	1.4%	1.4%	7.2%
FTSE 100	7,666	-0.9%	-0.9%	-1.8%
Shanghai Composite	2,789	-6.3%	-6.3%	-14.4%
Shenzhen Composite	1,545	-15.9%	-15.9%	-27.9%
Hang Seng	15,485	-7.8%	-7.8%	-29.1%
Straits Times	3,153	-2.7%	-2.7%	-6.3%
India Sensex	71,752	-0.7%	-0.7%	20.5%

S&P500 Sectors	Price	YTD	1M	1-Year
Technology	3,530	3.9%	3.9%	48.7%
Health Care	1,636	1.1%	1.1%	5.3%
Comm. Services	1,368	-3.6%	-3.6%	18.3%
Financials	645	2.9%	2.9%	6.0%
Comm. Services	258	4.8%	4.8%	41.7%
Industrials	956	0.9%	0.9%	10.9%
Consumer Staples	773	1.4%	1.4%	-0.6%
Energy	637	-0.5%	-0.5%	-7.8%
Utilities	313	-3.1%	-3.1%	-11.1%
Real Estate	240	-4.8%	-4.8%	-6.2%
Materials	518	-3.9%	-3.9%	-2.8%

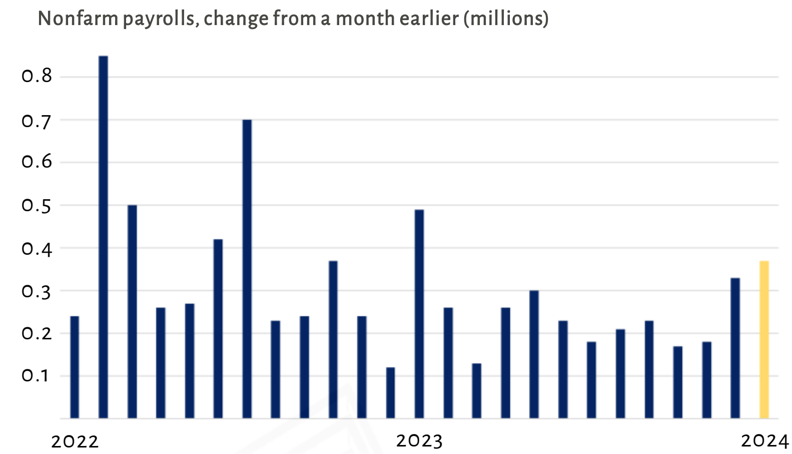
Hang Seng Sectors	Price	YTD	1M	1-Year
Commerce & Industry	8,181	-11.4%	-11.4%	-33.4%
Financials	28,286	-5.2%	-5.2%	-19.7%
Property	15,650	-14.6%	-14.6%	-42.8%
Utilties	32,320	-1.7%	-1.7%	-16.3%

The January US employment report was a real blockbuster. The initial estimate for the number of jobs added was over 350k, nearly twice the forecast. Moreover, the jobs data for December was revised upwards by over 100k. While employment is a lagging economic indicator rather than a forward one, this level of jobs growth is certainly a remarkable (and surprising) feat in the face of over 500bps of rate hikes. Chart 1 on the next page shows the monthly jobs data over the past 2 years.

Despite the surge in new jobs and Jerome Powell stating that the Fed would proceed “carefully” in terms of rate cuts, the US 10-year Treasury yield has been well-behaved, now at 4.06%. As February approaches, the market still expects 1% - 1.5% of rate cuts in 2024. We put our money on June for the first rate cut. From a portfolio perspective, this matters as peak rates and, therefore, peak deposit rates (which have been successfully sucking funds from other asset classes), will move into the rear-view mirror. The outlook for USD investment grade bonds is particularly attractive due to the prospective tailwind of falling interest rates.

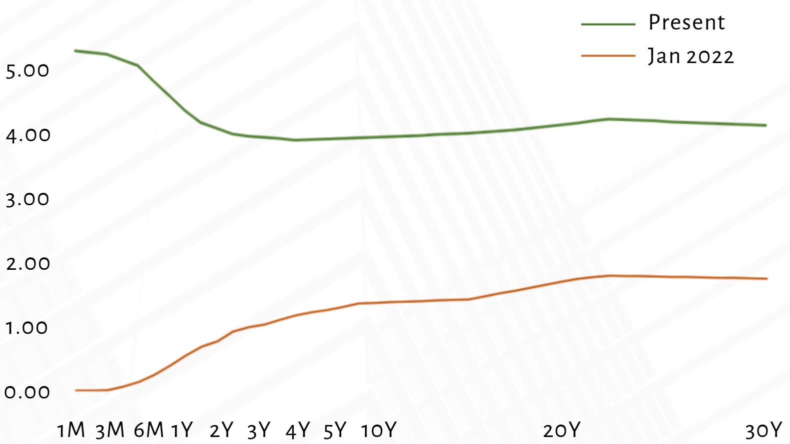
Charts 2 and 3 show the change in the US Treasury yield curve from 1) January 2022 to the present, so all the way through the rate-hike cycle; and 2) from January 2023 to present. The whole curve has moved up anything from 225bps for longer bonds to 525bps for T-bills. Of note, the curve from 2-years to 10-years was overall little changed

Chart 1: US Monthly Employment Data



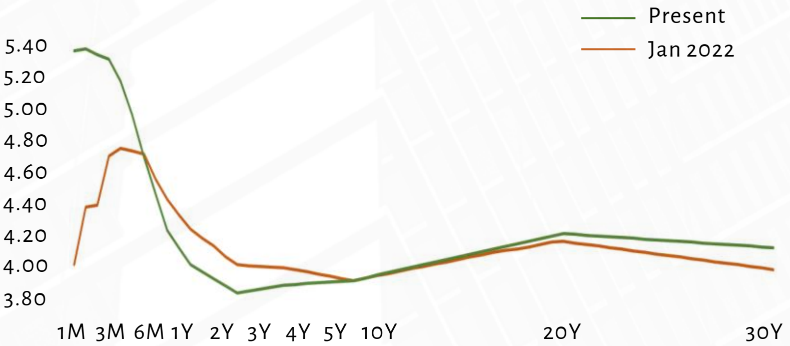
Source: U.S. Labor Department

Chart 2: US Treasury Yield Curve – Jan 2022 vs Present



Source: Federal Reserve, 1H Capital

Chart 3: US Treasury Yield Curve – Jan 2023 vs Present



Source: Federal Reserve, 1H Capital

in 2023 (10-year yields rose to 5% and then came all the way back down again). In short, the yield curve has been much more stable over the past 12 months than it was back in 2022. Moreover, this much reduced volatility in bond yields has been a boon for the equity market.

Just one month into the new year and we are already witnessing notable shifts in the equity market. "The Magnificent Seven", comprised of Alphabet (Google), Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla, is seeing some change after nearly single-handedly bolstering the U.S. equity market last year. Tesla shares have dropped by approximately 25% this year due to concerns about increasing competition from electric vehicle manufacturers in China and the company's second consecutive earnings miss. In contrast to repeating its stellar performance in 2023 which earned it a spot in the Magnificent Seven, Tesla has found itself in the unenviable position of poorest performer in the S&P 500 in January 2024. Apple is also struggling to hold on its peak of 2023 in an environment of minimal revenue growth for the company.

Many investors, ourselves included, are skeptical that the Magnificent Seven will be able to replicate the blockbuster gains of 2023, even if these stocks maintain their leadership this year. We may also see a shift from the Magnificent Seven to the Spectacular Six. Stock market leadership does not last forever. It may be worth noting that Apple's stock price has remained almost entirely flat during a month which equities have rallied.

Sentimental attachment to a stock, especially one that has performed particularly well in a portfolio, is a common but avoidable issue. Such psychological biases are best mitigated through portfolio diversification, arguably the only free lunch on Wall Street.

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