AHAM CAPITAL
ASSET MANAGEMENT

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FUNDAMENTAL FLASH

Market Insights | Awaiting Macro Clarity

Prepared by AHAM Asset Management

Our Read-Through of Markets

This week, on Monday, August 5th, Asian markets extended its decline, accompanied by significant movements in the foreign exchange markets. The primary driver appears to be the unwinding of the Japanese Yen (JPY) carry trade following the Bank of Japan's (BoJ) decision to hike benchmark interest rates and halve its bond-buying programme.

This move prompted speculators and fast-money investors to exit their carry trades. Furthermore, growth concerns in the US and a pessimistic outlook for the semiconductor sector have exacerbated selling pressures in the US, leading to further unwinding of carry trades.

Portfolio Positioning

In recent weeks, we have been strategically de-risking our portfolios where applicable.

For domestic equity portfolios, we have raised cash through selective selling, a decision made independently of developments in the US and Japan. However, recent developments have made us accelerated this selling due to our high weighting for risk management.

For Asian equities portfolios, we have reduced exposure to tech-centric markets like Taiwan and Korea with the aim to lock-in profits amid signs of exuberance in the AI/tech sector and weaker-than-expected (albeit still positive) company guidance.

Flashpoints

- Asian markets are reeling from an unwinding of the JPY carry trade, following the Bank of Japan's decision to hike rates.
- For Asian equities, we have reduced exposure to tech-centric markets like Taiwan and Korea with the aim to lock-in profits amid signs of exuberance in the AI/tech space.
- Weak data has benefited rates, resulting in lower bond yields and rising bond prices. Still, we have gradually reduced our exposure to lower-rated credits due to tight credit spreads.
- Currently holding higher-than-normal cash levels, awaiting clearer macroeconomic signals before deploying capital.
- Historically, markets rise if rate cuts by the Fed are not followed by recession and fall otherwise.

In our fixed income portfolios, recent weak data has benefited rates, resulting in declining bond yields and rising bond prices. Nonetheless, we have gradually reduced our exposure to lower-rated credits due to tight credit spreads. Our strategy remains largely unchanged, with the bulk of our exposures allocated to Investment Grade (IG) bonds, as opposed to High Yield (HY) bonds, which are more susceptible to sell-offs in a slowing growth environment.

Market Outlook

We are frequently asked whether the current market conditions represent a buying opportunity or the start of a prolonged downturn, as well as how the market might react when the US Federal Reserve (Fed) begin cutting interest rates.

While the optimist in us continues to believe that the global economy is heading for a soft landing, we cannot we cannot ignore the significant technical damage caused by recent sharp moves, with potential fundamental damage possibly yet to emerge.

In the immediate term, we are continuing to reduce our positions and stay on the sidelines. We plan to deploy our cash reserves once the investment landscape stabilises and we have a clearer understanding of developments.

Historically, markets tend to rise when Federal Reserve rate cuts are not followed by a recession and, conversely, tend to fall when they are. While predicting a recession remains challenging, recent data and events suggest an increased likelihood of slower-than-anticipated growth.

With this in mind, we have taken prudent steps to de-risk some positions and maintain higher-than-normal cash levels, ready to invest when conditions improve.

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