MARCH 2024

Monthly Commentary

GOLDENHILL ASSET MANAGEMENT

How did markets move?

Risk assets continued to do well in March, with several new all time highs including US Nasdaq and Nikkei, while credit spreads continued to tighten marginally despite the higher than expected inflation prints. Relatively speaking, China and Hong Kong markets remained lacklustre on a multi-year spectrum. Bitcoin continued its rally above 70,000 usds driven by massive inflows into the BTC ETF. US treasuries were little changed month on month, with markets highly sensitive to US economic data point and officials' comments.

Figure 1: Equity Indices Return (Gross Performance)

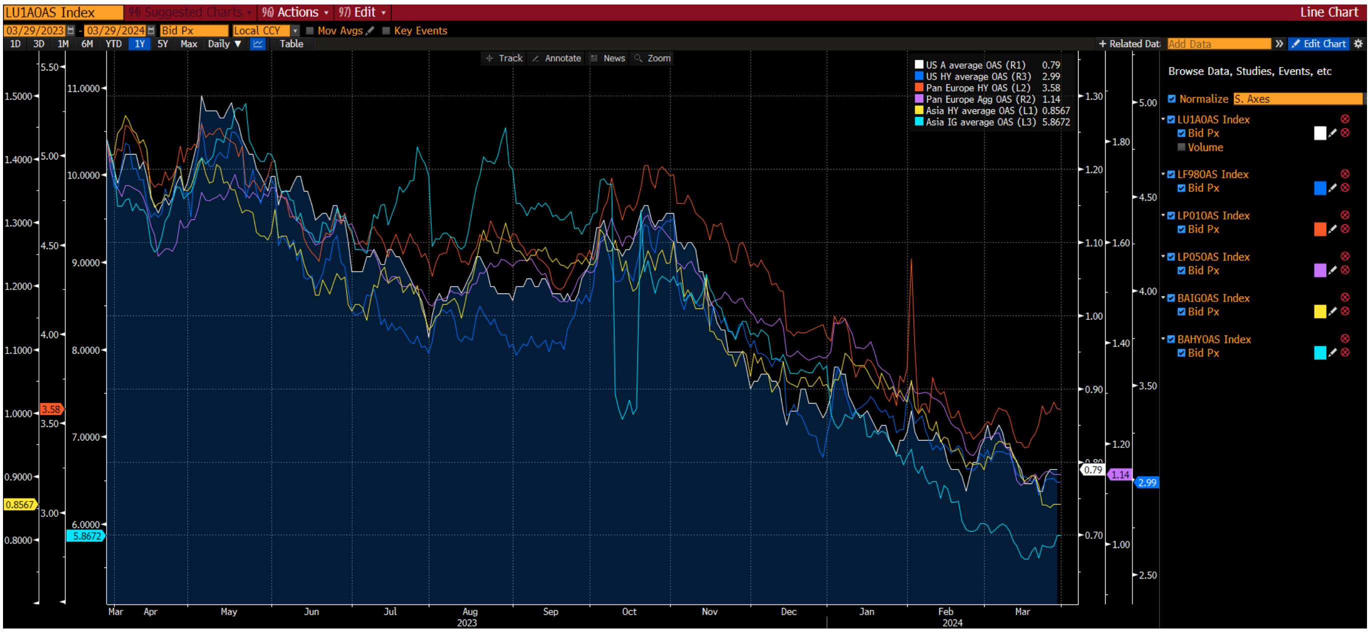
Gross Performance	1M	YTD
MSCI World Index	3.01%	8.47%
S&P 500 Index	3.10%	10.16%
Nasdaq Composite	1.79%	9.11%
CSI 300 Index	0.61%	3.10%
Hang Seng Index	0.18%	(2.97)%
Straits Times Index	2.62%	(0.50)%

Key market events

The US economy continued charging along strongly with Q4 GDP of 3.4%, once again exceeding market forecast. The battle against inflation remained tenacious, with both CPI and PPI advancing 0.4% and 0.6% MoM, both also exceeding forecasts. The huge uptick in PPI raises the potential challenges from the resurgence of seller inflation via the feedthrough effect amidst strong consumer spending. Financial markets kept a close watch on key central bank meetings this month, with most major policy makers like the Fed, ECB and BOE all keeping rates unchanged, but all with a more than expected dovish tilt. Fed's projection continued to table in 3 rates cuts in 2024, despite the recent resurgence of inflationary pressure. A surprise package came from Swiss National Bank, which became the first key central bank to cut interest rates by making a surprise 25bps cut to lower rates from 1.75% to 1.50%. It cited stable inflationary pressures for its easing monetary stance. Closer to home, Japan officially ended its negative interest rates experiment, and hikes rates for a first time in 17 years. Despite all the heightened expectations, the assumed Yen strength that was anticipated to occur in reaction to BOJ's hike did not occur. Instead, the Yen collapsed further to a fresh 34 year low, triggering series of verbal intervention by BOJ officials. A full force BOJ intervention to arrest this chronic decline looks imminent.

China's two-week "Two Sessions" ended disappointedly with no major policy surprises or stimulus, but the removal of the Premier Li Qiang's Customary briefing to conclude the Two Sessions weighed on sentiment. The government reiterated its commitment to sustainable growth, aiming for a 5% GDP growth target, unchanged from last year, which is ambitious given the country's current economic state and would require additional stimulus from the government. Chinese equities rallied post-meeting, but it was short-lived without actual effective measures being announced. Trading in China and HK equities continued to be volatile, continuing the at times unexplainable ups and downs pattern, with heightened sensitivity to earnings reports as well as continued headlines revolving around the Chinese real estate sector. US Senate passage of a bill that banned Chinese biotech firms from federal contracts weighed on sentiments, and on a tit-for-tat like basis, China banned the use of US made chips like Intel, AMD in all government computers and servers, on the basis of national security. On a more constructive note, China's President urged financial policy makers to use more active monetary toolkit which must include unconventional means in injecting liquidity into the system, triggering chatters that China style Quantitative-Easing may be on the cards very soon and this boosted sentiments.

Figure 1: Credit spreads – US, Europe, Asia (source: Bloomberg)



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Fixed Income

Our constructive view on duration and yield remains, despite the rhetoric of "higher for longer" following robust US inflationary prints, particularly on Asia ex-China. We also see relative value in Europe HY/Crossovers in providing additional pickup.

In terms of policy projections, we continue to see a high likelihood of 75bps worth of cuts into H2 2024, but are cognizant that any sudden uptick in next few months' inflation prints may kick all these further down the calendar. Term premium in US Treasuries will likely continue to weigh leading to a steepening bias in US benchmarks. Top European junior subordinated bonds performed well recently and will remain as a key component of our diversified portfolio approach towards fixed income investing.

Persistent weakness in China real estate sales and recent noise around Vanke are a real concern. Restructuring efforts by defaulted names remained as a huge overhang with little progress. These will weigh on Chinese HY sentiments in the foreseeable future, but given absolute low cash prices any further significant downside is likely to be limited. We continue to anticipate more forceful targeted fiscal and monetary policies in the months ahead.

We continue to favour top European banks junior subordinated papers as providing additional pickup, given the tight credit spreads in the senior and AT2 space (Figure 1).

Equities

The "everything up" market continued in March, as global indices continue to make new highs and even offshore China has seen sentiment gradually improving as the trough of growth expectations seem to have passed. While we have seen rate expectations drop from 6 to 3 cuts over the first quarter of the year, equity markets generally took it in stride as investors took it as a sign that growth was healthy and we have seen this being baked into SPX consensus estimates, which have risen from 246 to 251 by end march. That being said, it is clear that most of the 25% gain from the Fed pivot in early November last has been almost entirely driven by multiple expansion. It is also notable that despite extremely stretched sentiment indicators in the US market, we have failed to see NDX track higher post Nvidia results in early March.