CROSSINVEST

Wealth & Asset Management
Private Equity & Venture Capital
Family Office Services
Since 1985

Quarterly Outlook Q3 2021

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About Us

We are a privately-owned financial institution, with over 35 years of Swiss heritage that exemplifies the finest wealth & asset management traditions.

Our key business areas are asset & wealth management, private equity & venture capital and family office services. We work exclusively with high & ultra-high-net-worth individuals, families and institutions.

As an award-winning independent asset manager, we are keenly aware of the importance of considering the cross generational impact of investment and wealth-management decisions.

We appreciate that every client is unique, and every need is different. This leads us to create tailored solutions to meet our clients' goals while maintaining institutionalized processes of asset management.

Our Mission

Our clients' wealth is the result of the time they sacrificed away from their families to ensure their financial security; it is our mission to protect and build on this sacrifice.

We achieve this through

- Establishing long-term relationships
- Our independence
- Operating as a dedicated fiduciary advisor
- Our commitment to provide the best investment solutions & services
- Crafting the best solutions for our clients' individual needs

CLIENT & INVESTMENT TEAM

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Cem Azak
Chairman & CEO

"Knowing what you don't know is more important than what you think you know"

Vishal Nanwani
Chief Investment Officer

"Minimizing negative outcomes over the short term maximizes long term gains"

Nicholas Moraitis
Managing Director- Private Clients

"With creativity there is a solution for nearly any problem"

Marcus Tan
Portfolio Manager

"Capital enhancement and preservation is a marathon, not a sprint"

Tengiz Kharaziia
Analyst, Risk & Monitoring

"An open mind is essential for an investor as you will always be tested by markets"

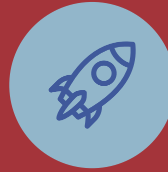
Alchemy, Financial Markets and the Real Economy

Returns on fiscal spending can be multi-fold in the years to come

Three Key Market Drivers

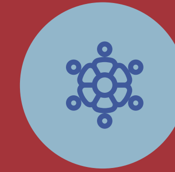
Economic Recovery & Government Policies

Advanced economies will continue to benefit from the large injection of fiat currencies by governments which will flow into the economy as global reopening continues.



Extreme Valuations

Credit spreads and equity valuations have reached very expensive levels; largely driven by valuation expansion in 2020.



Prolonged Impact of COVID

New waves and strains have adversely impacted developed economies while developing countries suffer from a lack of access to vaccines

Overview

During the past quarter we reduced our cash allocation further to take advantage of the pull back that had occurred in June and July to grow our equity positioning but maintained a low duration and credit risk focus in our income portfolios. We also increased our exposure to financials and energy while reducing positions in emerging tech. The key driver of this decision is the expectation of a longer and more mature growth cycle and that the Fed would taper their purchases in the 2nd half of the year. We discuss our outlook and the factors we see as key to drive markets going forward below.

Economic Recovery & Economic Policies

The latest market narratives swirl around concerns of slowing growth rates. This comes just a quarter after the biggest worry was too much growth and inflation. We rather think there is a middle ground which is decent growth and moderate inflation over the next 12-18 months. We acknowledge that nothing is set in stone and much depends on how policy makers continue to act going forward. While we remain flexible and stay open to changes, we sum up the reasons for our current views in the following slides.

Economic Recovery & Economic Policies

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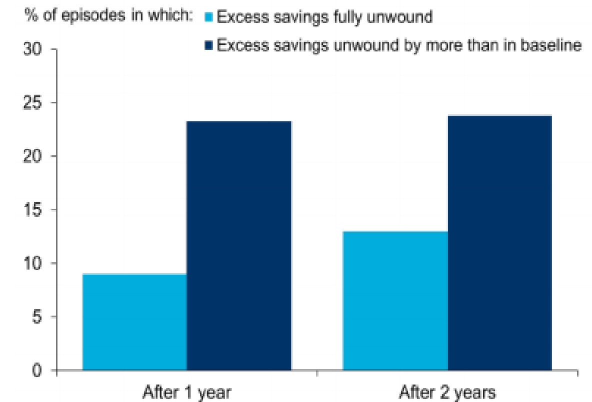
1. Households in advanced economies continue to hold elevated levels of savings which will allow for further growth in GDP as these monies make its way into the economy.

2. Concerns around peaking growth are predicated on 3 reasons. Firstly, fiscal spending has tapered off. Secondly, a significant portion of the savings gained during the pandemic has been spent. Thirdly, rent holidays and differed payments are due.

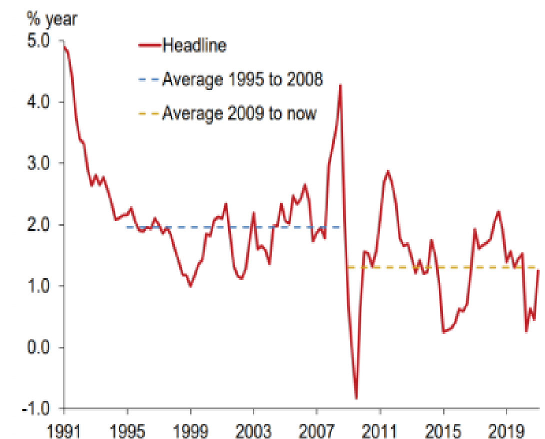
   - On aggregate, wealth in the real economy does not disappear it merely gets transferred from one to another. After the first round of spending wealth would have changed hands, but the next owner of the wealth be it enterprises or individuals (through wages or ownership of capital) will hold excess savings and that will propel the next round of spending, which in turn will propel the next in a virtuous cycle.
   - Unlike in financial markets or in the banking sector, money cannot be created or destroyed in the real economy. It exists within the system until it is extracted by savings, taxation, imports or by the central bank.
   - Nonetheless, questions exist on how strong the multiplier effect will be for the current fiscal spend. As we pass through the initial phase of recovery, the question is not whether developed economies will continue to grow but rather the rate of their growth. In our opinion, it is more likely that with prudent policy measures, developed economies will continue to grow at a modest pace over time.

3. The concerns on spiraling and uncontrolled inflation is an important risk to our base view. Inflation is likely if high rates of growth persist. The inflation seen at the start of this year was largely related to supply shortages caused by COVID. As the world accelerates reopening, supply bottlenecks have diminished, and spending has been diverted to services. Accordingly, we have seen that inflationary pressures ease off.

   - We expect a more moderate pace of growth from here onwards. While inflation may be elevated in the short term, it will eventually normalize as inflation is not a measure of price levels, but rather the measure of the change in price levels.



Source : Oxford Economics/Haver Analytics
*After quarterly savings rate jumps in excess of 2ppts in advanced economies since 1973.



Source : Oxford Economics/Haver Analytics

Economic Recovery & Economic Policies

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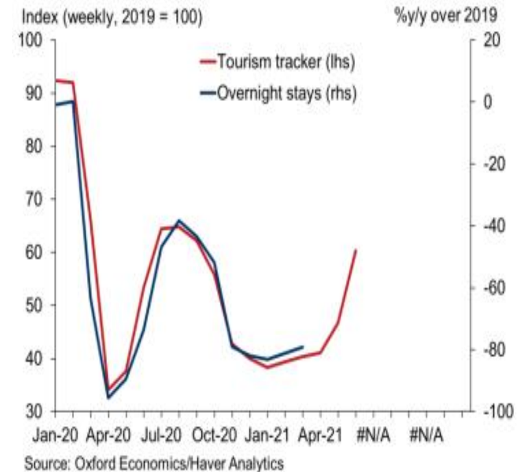
4. While there is a condition known as stagflation where you have low growth and high inflation; we do not think we are in that or heading for that dire situation. Such a result requires dependence on goods with limited supply in a weakening economy. Throughout recent history we have seen that supply shocks tend to be small and for a short time as human innovation and technological advances over time are able to increase supply very quickly where needed.

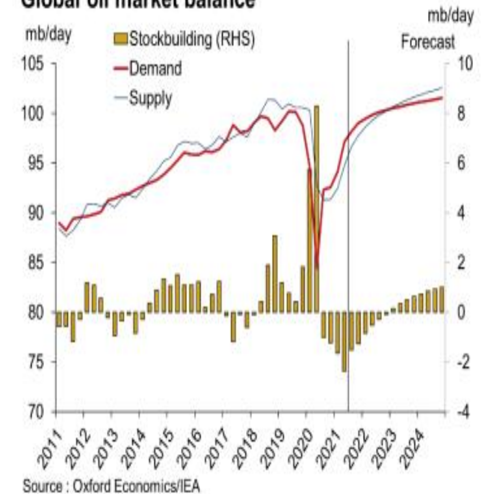
   - A poignant example would be vaccines. Although demand is high, the supply of vaccines has come onto the market much quicker than previous vaccines - not just from a research and development perspective - but from a production perspective as well.

Importantly, even as we expect growth to normalise going forward and inflation to be positive (not extreme) we do think central banks will continue to hold an easy monetary policy stance even as QE tapers off in the US.

We do expect tapering by the Fed in the coming quarters. However, this does not mean monetary conditions will be tight as real yields could remain negative; especially on the mid and short duration segments. It is in this context of expected tapering and continued issuance by the US Treasury that we see 10-year yields heading back up to 2019 levels of 2% to 2.5% over the next 12 months.

Conversely, the ECB has committed to its bond buying programme as the eurozone begins to increase their fiscal spend. Similarly, Japan remains on an easy monetary policy while China has just begun the first step to its own easing policy. Unfortunately, EM countries have had to tighten policy to stabilise their currencies given the recent strength of the dollar.





Economic Recovery & Economic Policies

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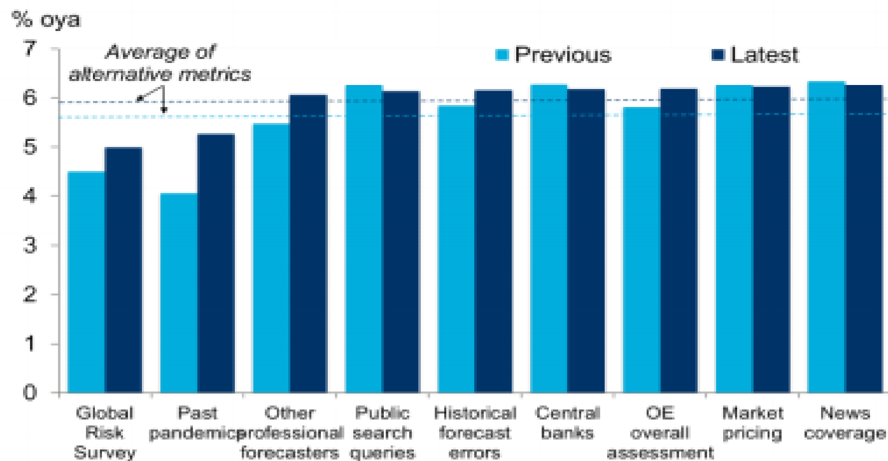

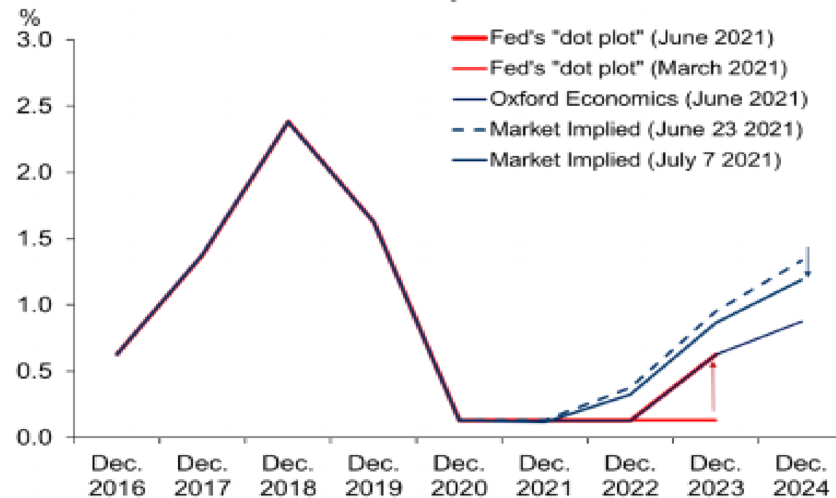

As a result, we are more bullish on European as well as Japanese assets and are seeking the right opportunities there. Asia ex-Japan remains pressured with weaker vaccination rates and spread of the delta variant. Hence, we remain tactically neutral on Asia ex-Japan.

Separately, we are underweight US assets tactically. While we remain positive on the continued growth of the US economy, we are concerned about peaking rates of growth relative to Europe and Japan, higher valuations combined with the reduction of liquidity through tapering of the bond purchase programme.

As our dominant fixed income positions are in USD denominated assets, we remain short duration there to minimise the above risk as well.

Extreme Valuations

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Valuations in major equity and fixed Income markets remain high on an aggregate basis. Our tilt to financials has the benefit of maintaining valuation discipline and positioning ourselves as beneficiaries for rising rates on the longer end of the curve.

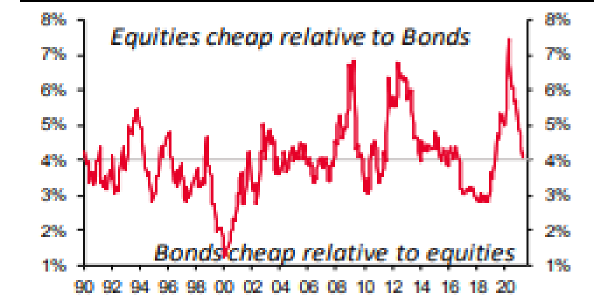
Similarly, the tilt to Europe and the energy sector allows us to lower the average equity multiple in our portfolios while still being exposed to segments we expect to outperform during the second half of this year.

Importantly, we remain optimistic on the global growth trajectory and the ongoing recovery. We believe high valuations with rising rates in the US remains the largest risk going forward. Therefore, we have reduced all our emerging technology positions and have moved up the market cap structure.

As a further expression of this view, we will be reducing our mega cap tech exposure into the 3rd quarter after the earnings cycle. This would first allow us to assess the growth in earnings as well as free cash flow yields. Our base view is that risk free rates will be north of 2019 levels given stronger growth prospects.

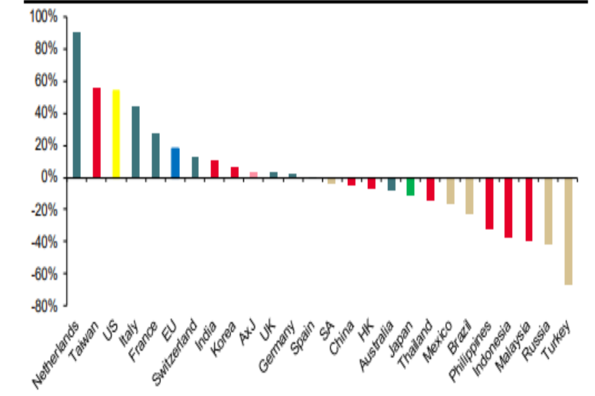
It must be noted that we respect that at the end of the early-stage recovery valuations tend to be high as earnings catch up to valuations. Therefore, we do expect a lower return profile over the next 12 months as valuations normalize.

US equity risk premium – From all-time peak in 2020 back to long-term average



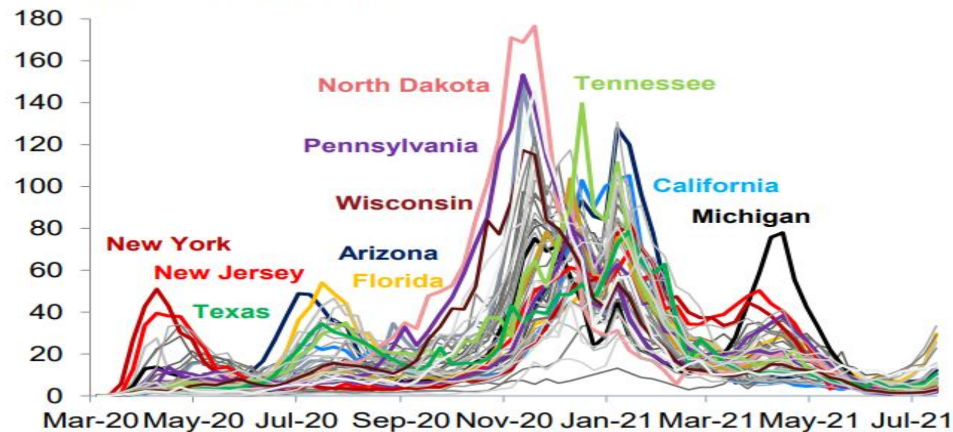
Cost of capital = Risk premium + 10Y bond yield. Source: Datastream, SG Cross Asset Research/Global Asset Allocation

Cyclically-adjusted P/E vs average *(expensive on the left, cheap on the right)*



Source: SG Cross Asset Research/Equity Strategy

Prolonged Impact of COVID



Prolonged Impact of COVID

The pandemic continues to hurt many across the globe after 20 months. The number of infections continue to increase with the new delta variant. The silver lining remains that vaccines have shown to be effective, and production capacity of the vaccines remain robust.

Nonetheless, wealthier nations have benefited disproportionately due to access to vaccines and higher vaccination rates. Developing countries will continue to grapple with the rampant spread of the virus and will take much longer to bring the pandemic under control. From an investment perspective it remains important to remain positioned in advanced economies and minimize exposure to developing economies until there is a clear path for resolution of this crisis.

There remains a Black Swan risk that should we see a new variant of the virus that current vaccines cannot offer protection for. This will force nations to shut down again. This risk has not been priced in and we remain watchful to protect our portfolios.

Key Calls

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Looking Forward

In short, we remain cautiously optimistic on risk assets.

- We remain overweight cyclical assets as they are disproportionate beneficiaries from economies continuing to reopen
- We are cognizant of long-term structural trends and take positions where market narratives or dislocations offer compelling valuations
- We remain short duration on USD assets
- We continue to monitor the risk COVID poses and asses the level of ongoing efficacy as well as adoption rates of vaccines

Our current views are as follow:

- United States: Underweight – Cautious on the growth sector due to extended valuations but positive on cyclicals and value.
- Japan/Developed Europe: Overweight – Positive on the prospects of the economies reopening and expanding global trade
- Asia ex-Japan: Neutral – Cautious due to China’s regulation of tech companies and a murky vaccination story within the region
- Emerging Markets: Neutral – Positive on the back of global growth but concerns on COVID-19’s prolonged impact remain
- USD Rates: Underweight – Increased spending, global growth and expanding free float will result in higher yields
- IG Credit, USD: Neutral – Tight spreads are unlikely to fully absorb the rise in rates
- HY Credit, USD: Positive – North Asia offer a strong risk-reward profile as current spreads have more room to absorb rising yields
- Local currency Fixed Income, EM: Underweight - Concerns on COVID-19’s prolonged Impact

CROSSINVEST AWARDS

2020

Best Asset Manager Serving Family Offices & Private Banks

Best Next – Generation Offering – Highly Commended 2020

Outstanding Independent Wealth Manager Overall

Best Asset Manager Overall

2019

Outstanding Contribution to Wealth Management

Best Discretionary & Advisory Offering

Best Client Experience Overall

Outstanding Independent Wealth Manager & Client Experience

2018

Best Independent Wealth Manager Overall

Best Wealth Manager Singapore

Best Wealth Manager Client Experience Asia

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