SGMC CAPITAL

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August Monthly Review

A summary of key events and market trends during the month of August

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Global Markets Update

- Global equity markets appear to be in a holding pattern – digesting the year-to-date rally and pondering the next moves from Central Bankers.

- We have for some time not expected rates to move considerably on either side of the current levels and this view has proven to be accurate.

- Markets are pricing in the mild possibility of rate hikes – only half a hike out to November 2023 – and then around 4 rate cuts, totaling 1 percentage point, out to December 2024.

- Our base case is for the slim possibility of one hike over the next few months with rate cuts coming through only when inflation or growth come off significantly from the current still elevated levels.

- With the cost of money no longer zero, stock picking for the medium- to long-term will be key to delivering portfolio out-performance.

- The Artificial Intelligence theme continues to dominate investors' attention and separating the key players from the also rans will be an important factor for consideration.

- Earnings season is wrapping up and all sectors of the S&P 500 delivered a positive earnings surprise with Consumer Discretionary beating the most versus expectations (+ 19 %)

- The Volatility Index (VIX) continues to dwell under the pivot level of 20 and despite brief moments of frenetic activity heads to the lows since the pandemic with some ease. We look to hedge portfolios with cheap hedges given these levels.

A summer lull

The to and fro of monetary policy and central banker pronouncements keep rate market participants on their toes and have had the effect of taming some equity market bullishness

Key markets

Index	Month to Date (%)	Year to Date (%)
Topix	0.41	23.27
Hang Seng China Enterprises	-8.22	-5.56
Dax	-3.04	14.53
Euro Stoxx 50	-3.90	13.27
S&P 500	-1.77	17.40
Dow Jones	-2.36	4.75
Nasdaq 100	-1.62	41.69
US 10 Year Treasury	0.15	0.23
Bloomberg Barclays Global Aggregate Index	-1.37	0.74
Bloomberg Barclays Global Corporate Bond High Yield Index	-0.51	6.74
EUR USD	-1.40	1.29
USD JPY	2.28	11.00
Gold	-1.27	6.37

- Monetary policy from the Bank of Japan continues its dovish tilt and that buoys the equity markets while pressuring the Yen lower. Policy makers are already pointing to a lower profile for inflation over the coming years and with that a stark change in stance on policy appears to be off the cards. While we do not have significant positions in the currency and only some exposure to the equity markets we look to the evolution of the situation in Japan to discern the potential impact to global markets if and when the Bank of Japan turns hawkish.

- The negative news flow from China real estate companies continues and this is not a great assist to current sentiment. The regulators are actively looking to reduce borrowing costs and ease other factors to encourage a pick-up in activity. Having said that, we have not yet hit the tipping point where the cumulative impact of all regulatory action has resulted in the spark needed to make things work in a self-sustaining manner.

- With growth in China continuing to be lackluster the spillover impact to Europe is also resultantly negative. The last reported year-on-year GDP readings for the Eurozone was a paltry 0.6 % and with rates set at 3.75 % we will likely see economies delivering meagre growth until a boost from China consumption and investment goods demand kicks in.

SGMC Forward Views

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Asset Class	**Avoid**	**Reduce**	**Hold**	**Add On**	**High Conviction**	**Notes**
Equities						
US Equities						Use the options markets to take advantage of possible upside and create obligations to buy lower into declines
EU Equities						While geopolitical risks have not completely dissipated we note the relative resilience of this space
Chinese Equities						Despite some hiccups the country and economy seems well set on it's path to normalizing and valuations continue to be attractive
Emerging Market Equities						With the weaker US Dollar and improving risk appetite we expect the bid to return to EM equities
Bonds						
High Yield						With the heavy lifting behind us in the US levels continue to be attractive to add
Investment Grade						While we still like this space we note that spreads have tightened a fair bit and further rates could head higher in the short term. Will look to add only at better levels
Government Bonds						Prefer the risk / reward profile of corporate and financial bonds and hence continue to have a "Hold" recommendation for the Government space
FX & Alternative Asset Classes						
US Dollar Index						Have not seen the rally that we expected and given the current negative momentum will wait for better levels to go long
Commodities						Improving risk appetite balanced with deteriorating demand fundamentals
Private Equity / Hedge Funds						We believe the current flush out being seen in this space will likely linger for some further peiod and will be some time before demand picks up again
Real Estate						Rentals will continue rising providing good yields, but prices will come under pressure with increased mortgage rates
Collectibles						Uncorrelated with markets

- We are currently not making any changes to our forward views and asset allocation. Though, this could change as we assess the tone and content that comes through from the monetary policy meetings over the coming weeks.

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