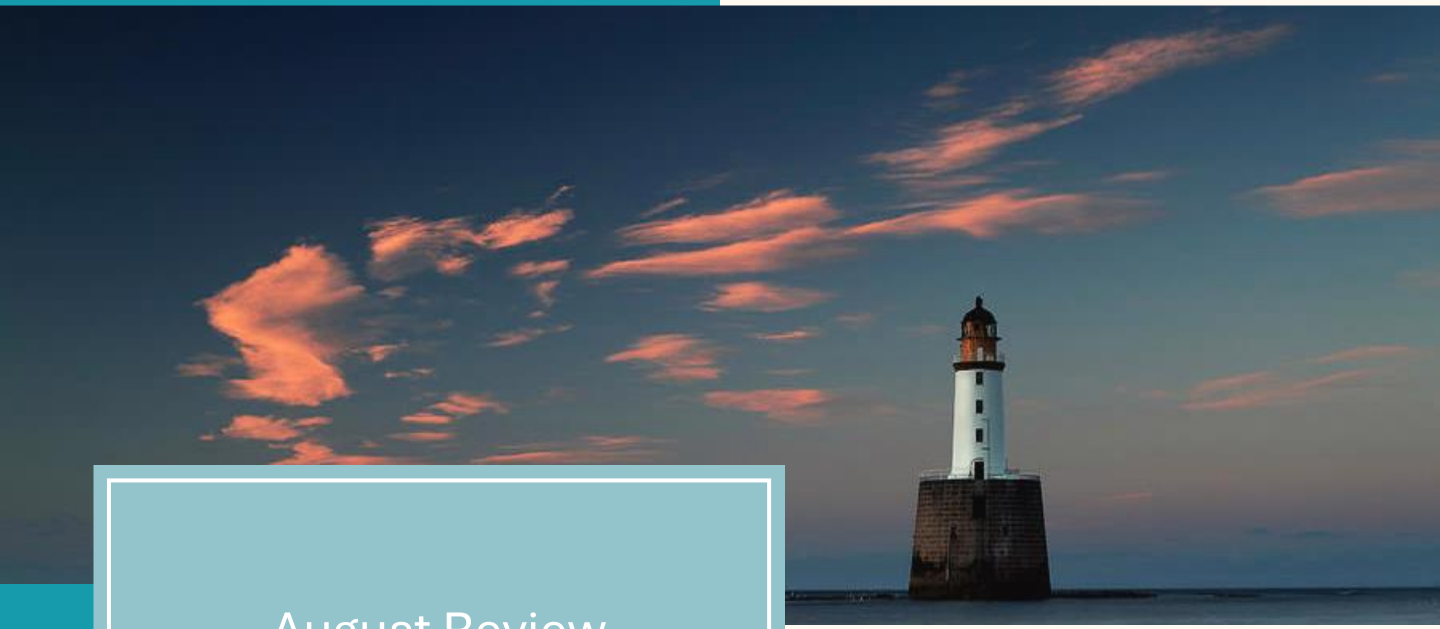
SGMCAPITAL

NEWSLETTER

AUGUST 2024



August Review

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

DESPITE A NERVOUS START, A STRONG FINISH…

Multiple levers, not least the Bank of Japan's policy normalization, led to a rocky start to the month

HIGHLIGHTS

1. **The Bank of Japan** continuing down its path of policy normalization caused local investors to throw in the towel. However, subsequent reassurances from the BoJ had a calming effect.

2. **Global investors took the cue from Japan** and panic sold in the first week. Again, by the end of the month most indices were marginally higher

3. **Tensions in the Middle East** and other geopolitical flashpoints are still firmly on our radar. Multiple international players continue to work towards a peace deal and we watch developments here with keen interest.

Global Markets Update

- Any investor who takes a look at markets only at month-ends would not have noticed the wild gyration in prices at the start of the month.

- Investors in Japan dealing with a rate hike cycle for the first time in decades threw in the towel with the broad Nikkei and Topix indices losing around 20 % in the first three trading days of the month.

- Global markets appeared to catch the contagion, although a milder strain, with the Nasdaq down around 10 % in the same period.

- The Bank of Japan came in to placate markets by stating that they would keep in consideration the impact its policies were having on financial assets.

- Over in the United States Fed Chair, Jerome Powell, has strongly indicated that rate cuts will come through in September.

- The market is now divided on whether there is a likelihood of more than a 25 basis point cut and if there will be an almost straight-line series of cuts down to the range of around 3.25 – 3.50 % over the next 12 months.

- We note that sentiment is more muted and there is some fatigue in chasing market leaders higher despite strong earnings.

- With the US elections now only two months away and polls still fairly tight we continue to stay relatively light with allocations and look for tactical opportunities to trade given this backdrop.

- The US Dollar Index had made some gains at the start of the year but with a recently dovish Federal Reserve these have been given up. At one point the Index was up around 5 % for the year. We believe that investors who are looking to build long USD positions should use the current weakness to initiate the same.

Key markets

Volatility continued to be in play this month with a large spike in the VIX at the start of the month eventually cooled in line with the Bank of Japan's message.

Index	Month to Date (%)	Year to Date (%)
Topix	-2.92	14.63
Hang Seng China Enterprises	3.67	9.75
Dax	2.15	12.87
Euro Stoxx 50	1.75	9.65
S&P 500	2.28	18.42
Dow Jones	1.76	10.28
Nasdaq 100	1.10	16.34
US 10 Year Treasury	-0.13	0.02
Bloomberg Barclays Global Corporate Bond Index	2.37	1.86
Bloomberg Barclays Global Corporate Bond High Yield Index	2.17	7.49
EUR USD	2.05	0.08
USD JPY	-2.54	3.64
Gold	2.28	21.35

The market now prices in around 8 rate cuts of 25 basis points each over the next twelve month and the market is now somewhat divided on whether any of those will be a larger 50 basis point cut. We tend to think not, unless there is a larger and faster deterioration of economic conditions.

This deterioration from the broader economy could creep into the equity markets and we are seeing some fatigue and muted reactions to even fairly strong corporate performances.

Further, given the interest rate backdrop we like to take some exposure to broad market real-estate plays in order to receive good dividend yields as well as play some upside from capital appreciation.

We have used the moves in the overall volatility markets to our advantage; selectively buying and selling options across indices and stocks to capture returns for portfolios

We treat volatility as an asset-class and this allows us to take an informed opinion about the same.

The VIX in August hit a high of around 65% and is currently back to around 15% - a very wide range and indicative of the panic that ensued at the start of the month, emanating as we have mentioned from the tightening policies of the Bank of Japan.

Volatility: what is it exactly and why is it so important?

- Volatility is a statistical measure of the dispersion of returns for a given security or market index. It is often measured from either the standard deviation or variance between those returns. In most cases, the higher the volatility, the riskier the security.

- In the securities markets, volatility is often associated with big price swings either up or down. For example, when the stock market rises and falls more than 1% over a sustained period of time, it is called a volatile market.

- An asset's volatility is a key factor when pricing options contractsOne way to measure an asset's variation is to quantify the daily returns (percent move on a daily basis) of the asset. Historical volatility is based on historical prices and represents the degree of variability in the returns of an asset.1 This number is without a unit and is expressed as a percentage.2

- While variance captures the dispersion of returns around the mean of an asset in general, volatility is a measure of that variance bounded by a specific time period. Thus, we can report daily, weekly, monthly, or annualized volatility. It is useful to think of volatility as the annualized standard deviation.

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Cboe Global Markets revolutionized investing with the creation of the Cboe Volatility Index® (VIX® Index), the first benchmark index to measure the market's expectation of future volatility. The VIX Index is based on S&P 500® Index options, considered the leading indicator of the broad U.S. stock market. The VIX Index is recognized as the world's premier gauge of U.S. equity market volatility.

The VIX Index estimates expected volatility by aggregating the weighted prices of S&P 500 Index (SPX℠) puts and calls over a wide range of strike prices. Specifically, the prices used to calculate VIX Index values are midpoints of real-time SPX option bid/ask price quotations.

SGMC Forward Views Highlights

SGMC Forward Views						
Asset Class	**Avoid**	**Reduce**	**Hold**	**Add On**	**High Convinction**	**Notes**
Equities						
US Equities						Moving to Hold to account for the strong rally we have seen YTD as well as election / geopolitical surprises that could come up
EU Equities						With conditions deteriorating in Europe we move Eureopean Equities to reduce and take advantage of the year to date rally to further lighten exposure
Chinese Equities						Still waiting for a catalyst to move valuations higher - this will likely take more time
Emerging Market Equities						We remain positive on the area but exteremely selective. Our top picks include **India, Indonesia and Brazil**.
Bonds						
High Yield						Happy to continue selectively adding to lock in yields but with the curve having moved lower will be more selective
Investment Grade						Will look to selectively take profit here given the fairly large move down in yields in line with the market now pricing in 8 cuts over the next 12 months
Government Bonds						Continue to prefer high yield and investment grade given the rate outlook over the coming year
FX & Alternative Asset Classes						
US Dollar Index						Rangebound trading likely to continue in the short term
Commodities						As rates decline, commodities to find support.
Private Equity / Hedge Funds						We remain relatively underweight this sector
Real Estate						With a benign interest rate environment we see good potential for this sector over the coming months
Collectibles						Uncorrelated with markets

1. **We downgrade EU Equities from Netural to Reduce:** we like to take advantage of the recent recovery rally to lighten up exposure to European equities. A fragmented and unstable political environment across the region (Germany and France in particular, where extreme parties continue gathering support) together with muted growth prospects and the continued Chinese slowdown will make it hard for European equities to outperform going forward
2. **In fixed income, we downgrade high yield and investment grade corporate bonds from Add-on to Neutral:** August has been a strong month for corporate bonds, mostly thanks to a decline in interest rates due to much more dovish expectations from global investors – probably too dovish. We do not see 4 cuts before the end of the year by the Fed, and credit spreads, while not extremely tight, are not attractive either. As a consequence we will be looking to lock in some profits on longer dated paper and will wait for better entry levels prior to adding to the sector
3. **We upgrade Real Estate from Hold to Add On:** The confirmation by major central banks of declining interest rates going forward will likely support the real estate sector going forward. Depressed valuations and attractive yields add attractiveness to the asset class.

SGMC Media

LIVE TV INTERVIEW OF OUR FOUNDER & CEO MASSIMILIAN...

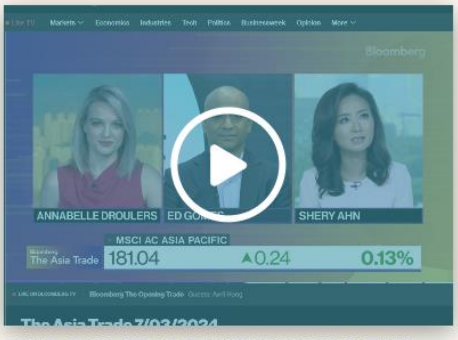
August 27, 2024 | Asharq News الشرق

OUR CIO ED GOMES DURING THE LIVE TV INTERVIEW ON B...

August 14, 2024 | Bloomberg TV

LIVE TV INTERVIEW OF OUR CIO ED GOMES WITH ASHARQ...

August 12, 2024 | Asharq News الشرق



OUR CIO ED GOMES DURING THE LIVE TV INTERVIEW ON B...

July 3, 2024 | Bloomberg TV

Bloomberg NEWS

SGMC Capital Funds update

SGMC CAPITAL

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