



# Investment Newsletter

July 2022

“ **Omni Alpha:** ”  
Profit From Disruptions

# Why Omni Investment Services



“

By entrusting us with your investments via this **discretionary mandate offering**, you can relieve yourself from the day-to-day burden of managing your assets, allowing you to have more time for other meaningful pursuits.

”

“

Your investments will be **expertly and professionally managed** according to your specific investment goals and risk tolerance, whether investing in private, public or both. Besides, your investment will be supported with timely updates and meaningful reporting to make sure you are well informed.

”

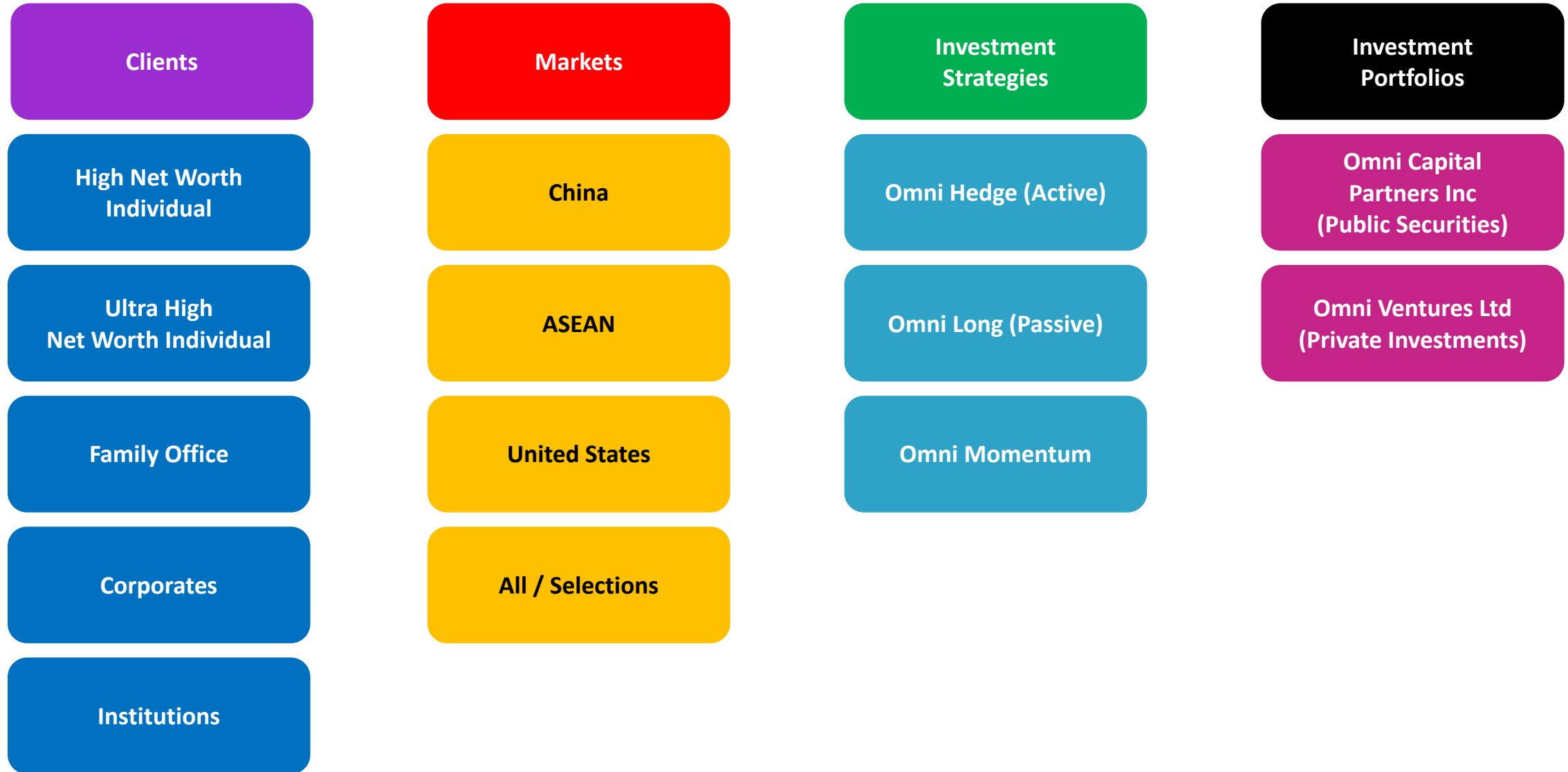
Experienced with  
Impressive Track  
Records

Different Approach,  
Perspective and  
Ideas

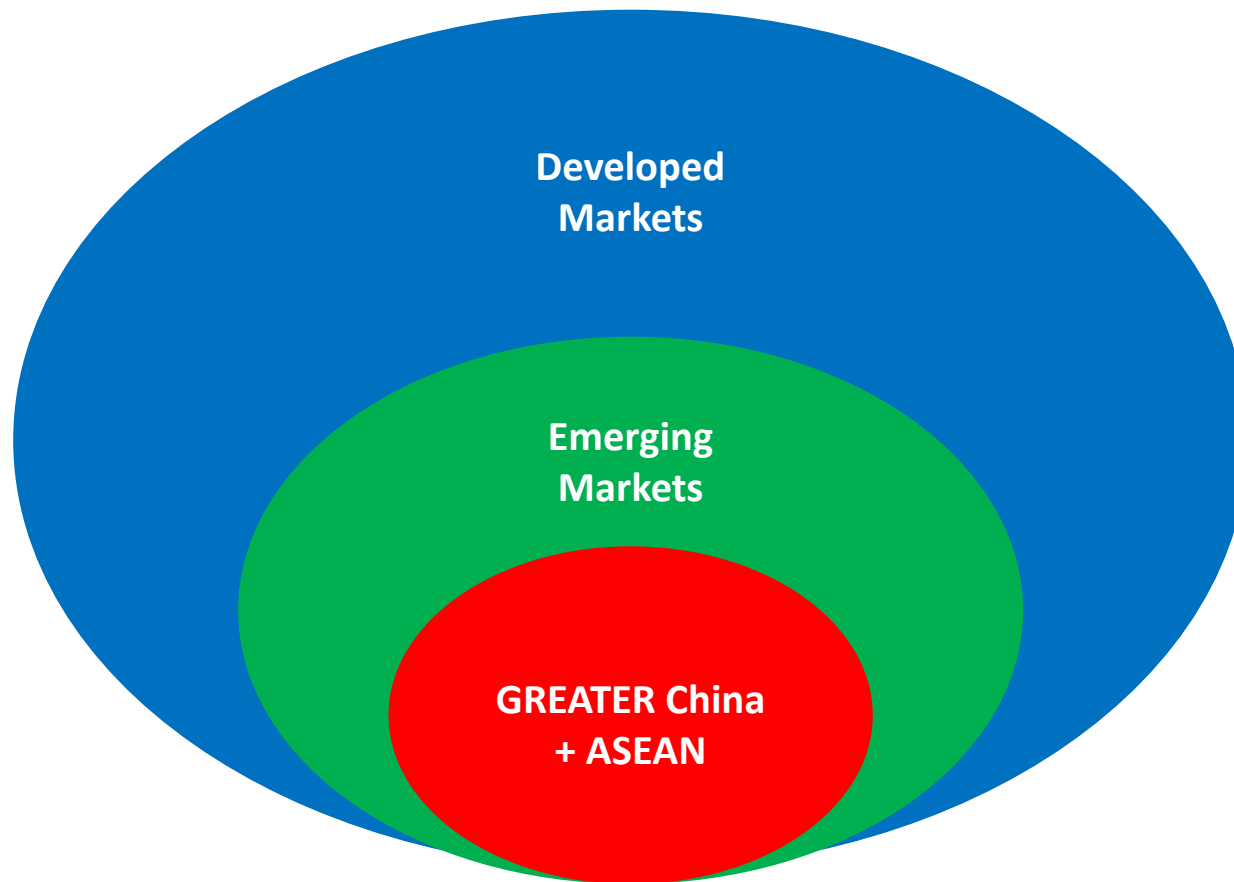
Global Investing  
with focus on  
China, ASEAN, and  
United States

Thematic Investing  
with focus on  
Disruptive  
Technology

# Omni Investment Advisory



# Omni Investment Focus



## Asset Classes

### Public Securities:

- Public Equity
- Digital Assets
- Forex
- Commodities

### Private Investments:

- Startups
- Venture Capital
- Private Equity
- Direct Investments

# Omni Hedge Overview



## Omni Hedge®

### Principal Objective

- This strategy seeks to maximize long-term returns and protection of capital.
- Invest primarily in public securities in China (at least 50% of its assets), ASEAN and United States companies:
  - That will ride the emerging global trends
  - That have strong management team and resources
  - That have explosive growth potential
  - That will use transformative technologies for high impact
  - That have superior business and earnings model
- Trading in markets with volatility and liquidity as they give opportunities.

### Inception Date

- 1 July 2020

### Current Number of Holdings

- 20

### Team

- Scott (Strategy / Asset Allocation)
- Derrick (Macro / Theme)
- Analysts (Micro / Sector)

Omni Capital Partners

### Hedge Strategy

Hedging strategy involves taking an offsetting position for the related assets through versatile investment options.

### Purpose

To minimise the risk of adverse movements in prices and generate active positive returns.

### Characteristics

- Define success in absolute terms
- Active adjustment on correlation to market movements
- Volatility is relevant
- Performance depends on generation of alpha
- Versatile investment options to optimize the performance

### Features

- Global Macro & Micro
- Directional
- Arbitrage
- Long / Short
- Event Driven
- Momentum Investing

# Omni Hedge Portfolio



Industry Breakdown	
Capital Markets	22%
Internet & Direct Marketing Retail	10%
Technology Hardware, Storage & Peripherals	10%
Pharmaceuticals	9%
Electronic Equipment, Instruments & Components	8%
Chemicals	6%
Semiconductors & Semiconductor Equipment	5%
Healthcare Equipment & Supplies	5%
Commercial Services & Supplies	3%
Healthcare Providers & Services	3%
Machinery	2%
Life Sciences Tools & Services	2%
Media	2%
Food Products	2%
Cash	11%

Note: Information as of 30 June 2022

Sector Breakdown	
Information Technology	23%
Healthcare	19%
Other	15%
Consumer Discretionary	10%
Materials	9%
Industrials	6%
Digital Asset	5%
Communication Services	2%
Consumer Staples	2%
Cash	11%

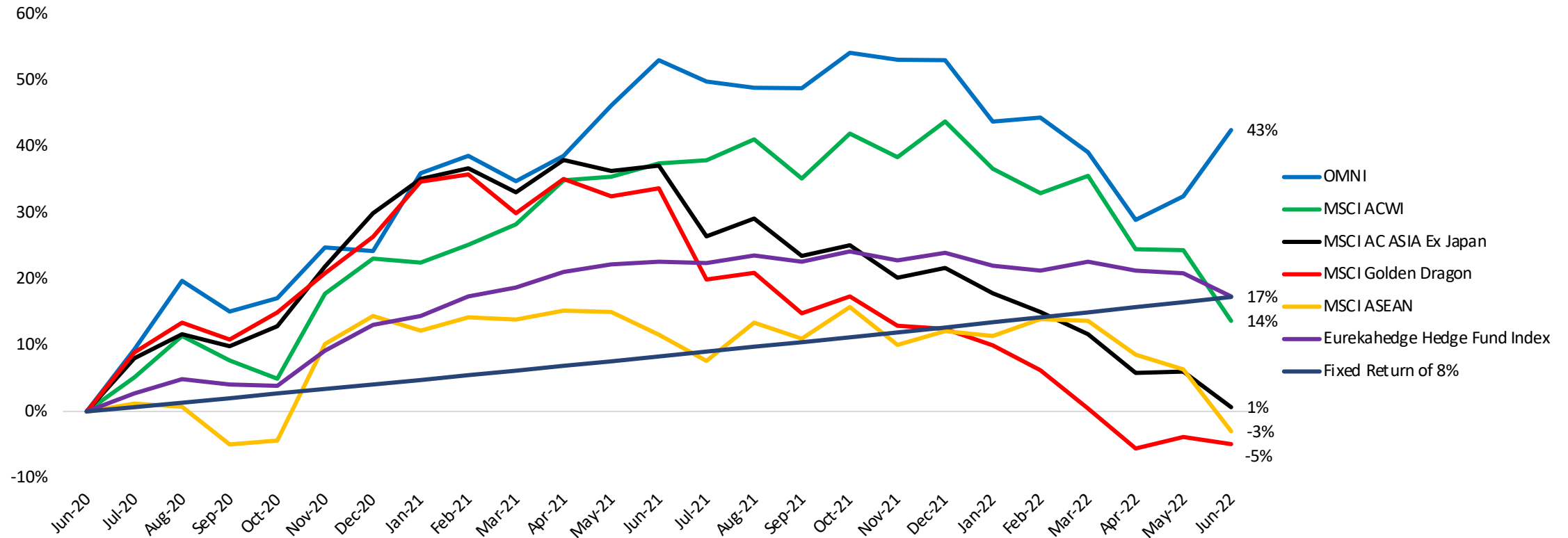
Asset Class Breakdown	
Equity - China	49%
Equity - ASEAN	10%
Equity - United States	8%
Commodity	3%
Digital Asset	5%
Other	15%
Cash	11%

Market Capitalization	
Mega (USD 100 Billion +)	16%
Large (USD 10 to USD 100 Billion)	26%
Medium (USD 2 to USD 10 Billion)	28%
Small (USD 0.3 to USD 2 Billion)	6%
Micro (USD 50 to USD 300 Million)	14%
Cash	11%

# Omni Hedge Performance



Performance of Omni's Model Portfolio (Hedge Fund Strategy)



**Note:**

MSCI ACWI captures large and mid cap representation across 23 Developed Markets and 27 Emerging Markets countries.

MSCI AC ASIA Ex Japan captures large and mid cap representation across 2 of 3 Developed Markets countries (excluding Japan) and 9 Emerging Markets countries in Asia.

MSCI Golden Dragon captures the equity market performance of large and mid-cap China securities (H shares, B shares, Red-Chips and P-Chips) as well as securities classified in Hong Kong and Taiwan.

MSCI ASEAN captures large and mid cap representation across 4 Emerging Markets countries, 1 Developed Market country and 1 Frontier Market country.

The Eureka Hedge Hedge Fund Index is Eureka Hedge's flagship equally weighted index of 1710 constituent funds. The index is designed to provide a broad measure of the performance all underlying hedge fund managers irrespective of regional mandate.

# Omni Hedge Performance



	1 Month	3 Months	6 Months	YTD	Since Inception
OMNI Hedge	8%	2%	-7%	-7%	43%
MSCI ACWI	-9%	-16%	-21%	-21%	14%
MSCI AC ASIA Ex Japan	-5%	-10%	-17%	-17%	1%
MSCI Golden Dragon	-1%	-5%	-15%	-15%	-5%
MSCI ASEAN	-9%	-15%	-13%	-13%	-3%
Eurekahedge Hedge Fund Index	-3%	-4%	-5%	-5%	17%
Fixed Return of 8%	1%	2%	4%	4%	17%

**Note:**

*MSCI ACWI captures large and mid cap representation across 23 Developed Markets and 27 Emerging Markets countries.*

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# Omni Long Overview



## Omni Long®

### Investment Objective

- This strategy seeks long-term growth of capital.
- Invest primarily in public securities in China (at least 50% of its assets), ASEAN and United States companies:
  - That will ride the emerging global trends
  - That have strong management team and resources
  - That have explosive growth potential
  - That will use transformative technologies for high impact
  - That have superior business and earnings model

### Inception Date

- 1 July 2020

### Current Number of Holdings

- 21

### Team

- Scott (Strategy / Asset Allocation)
- Derrick (Macro / Theme)
- Analysts (Micro / Sector)

### Long Only Strategy

This passive strategy involves long-term holding of investments which we believe will ride through all volatilities to produce superior returns.

### Purpose

Buy growth company regardless of market timing.

### Characteristics

- Define success in relative terms
- No adjustment on correlation to market movements
- Volatility is irrelevant
- Performance depends on growth

### Features

- Global Macro & Micro
- Long Positions Only
- Value Investing
- Alpha Investing
- Absolute Return

# Omni Long Portfolio



Industry Breakdown	
Interactive Media & Services	12%
Technology Hardware, Storage & Peripherals	12%
Commercial Services & Supplies	7%
Internet & Direct Marketing Retail	7%
Biotechnology	6%
Food Products	5%
Life Sciences Tools & Services	5%
Semiconductors & Semiconductor Equipment	5%
Healthcare Equipment & Supplies	5%
Real Estate Management & Development	4%
Household Durables	3%
Chemicals	3%
Machinery	3%
Healthcare Providers & Services	3%
Electronic Equipment, Instruments & Components	2%
Banks	2%
Cash	12%

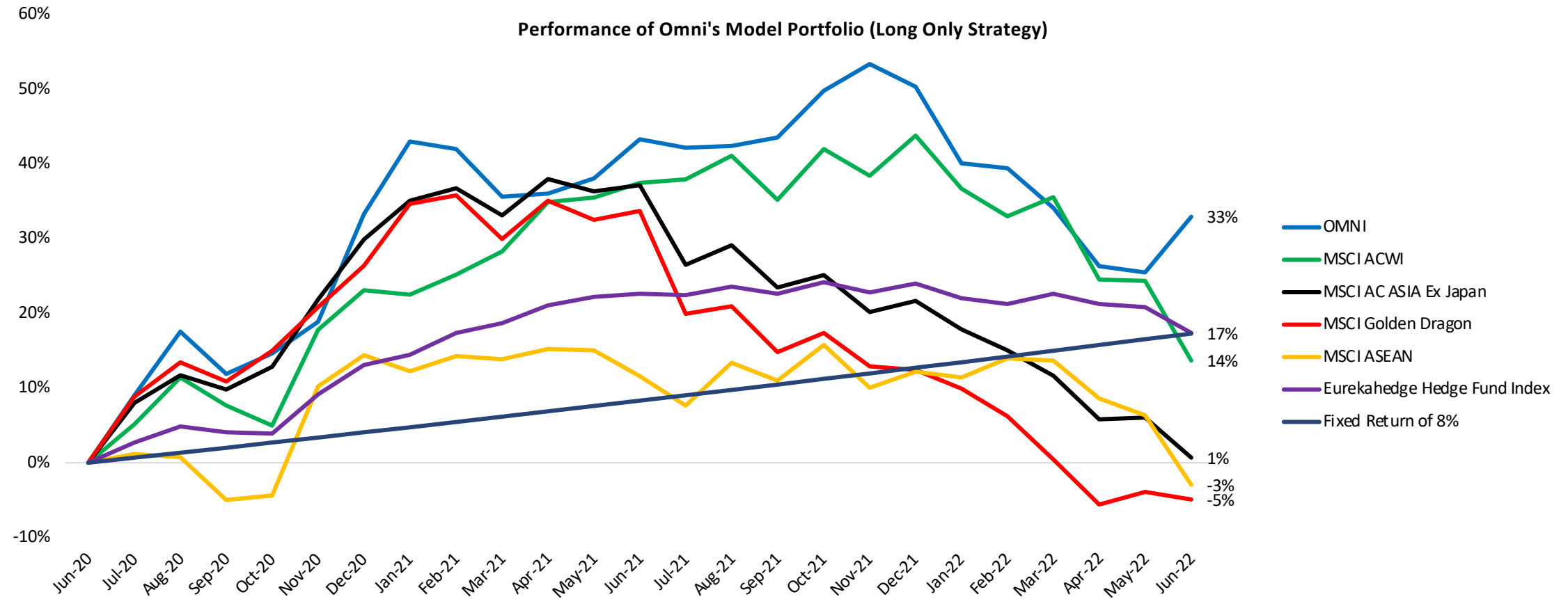
Note: Information as of 30 June 2022

Sector Breakdown	
Healthcare	20%
Information Technology	19%
Communication Services	13%
Industrials	11%
Consumer Discretionary	10%
Consumer Staples	5%
Real Estate	4%
Materials	3%
Financials	2%
Cash	12%

Asset Class Breakdown	
Equity - China	55%
Equity - ASEAN	20%
Equity - United States	14%
Commodity	-
Digital Asset	-
Other	-
Cash	12%

Market Capitalization	
Mega (USD 100 Billion +)	12%
Large (USD 10 to USD 100 Billion)	37%
Medium (USD 2 to USD 10 Billion)	23%
Small (USD 0.3 to USD 2 Billion)	6%
Micro (USD 50 to USD 300 Million)	10%
Cash	12%

# Omni Long Performance



**Note:**

MSCI ACWI captures large and mid cap representation across 23 Developed Markets and 27 Emerging Markets countries.  
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# Omni Long Performance



	1 Month	3 Months	6 Months	YTD	Since Inception
OMNI Long	6%	-1%	-12%	-12%	33%
MSCI ACWI	-9%	-16%	-21%	-21%	14%
MSCI AC ASIA Ex Japan	-5%	-10%	-17%	-17%	1%
MSCI Golden Dragon	-1%	-5%	-15%	-15%	-5%
MSCI ASEAN	-9%	-15%	-13%	-13%	-3%
Eurekahedge Hedge Fund Index	-3%	-4%	-5%	-5%	17%
Fixed Return of 8%	1%	2%	4%	4%	17%

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*The Eurekahedge Hedge Fund Index is Eurekahedge's flagship equally weighted index of 1710 constituent funds. The index is designed to provide a broad measure of the performance all underlying hedge fund managers irrespective of regional mandate.*

# Omni Momentum Overview



## Omni Momentum®

### Investment Objective

- This strategy seeks maximum returns and protection of capital.
- Invest in global public securities.
- Trading in markets with volatility and liquidity as they give opportunities.

### Inception Date

- 1 July 2021

### Current Number of Holdings

- 19

### Team

- Scott (Strategy / Asset Allocation)
- Derrick (Macro / Theme)
- Analysts (Micro / Sector)

### Momentum Strategy

The key of momentum investing is to know when to enter into a position, how long to hold it for, and when to exit. We can also react to short-term, news-driven spikes or selloffs.

### Purpose

To minimise the risk of adverse movements in prices and to work with volatility by finding buying opportunities in short-term uptrends and then sell when the securities start to lose momentum.

### Characteristics

- Define success in absolute terms
- Active adjustment on correlation to market movements
- Volatility is key
- Performance depends on generation of alpha
- Versatile investment options to optimize the performance

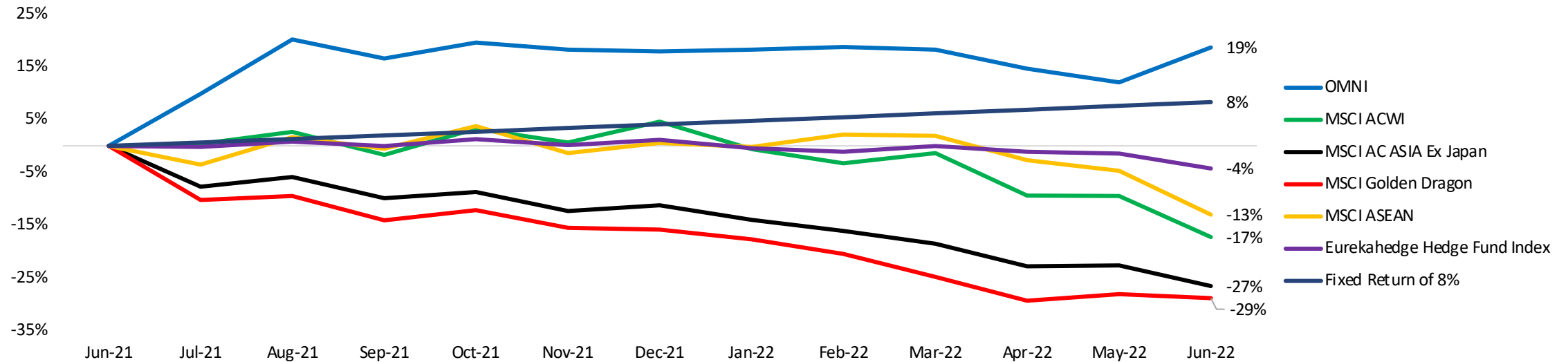
### Features

- Directional
- Arbitrage
- Long / Short
- Event Driven

# Omni Momentum Portfolio



Performance of Omni's Model Portfolio (Momentum Strategy)



	1 Month	3 Months	6 Months	YTD	Since Inception
OMNI Momentum	6%	0%	1%	1%	19%
MSCI ACWI	-9%	-16%	-21%	-21%	-17%
MSCI AC ASIA Ex Japan	-5%	-10%	-17%	-17%	-27%
MSCI Golden Dragon	-1%	-5%	-15%	-15%	-29%
MSCI ASEAN	-9%	-15%	-13%	-13%	-13%
Eureka Hedge Fund Index	-3%	-4%	-5%	-5%	-4%
Fixed Return of 8%	1%	2%	4%	4%	8%

Asset Class Breakdown	
Equity - China	19%
Equity - ASEAN	10%
Equity - United States	-
Commodity	7%
Digital Asset	5%
Other	39%
Cash	19%

Market Capitalization	
Mega (USD 100 Billion +)	13%
Large (USD 10 to USD 100 Billion)	6%
Medium (USD 2 to USD 10 Billion)	31%
Small (USD 0.3 to USD 2 Billion)	11%
Micro (USD 50 to USD 300 Million)	21%
Cash	19%

Note: Information as of 30 June 2022

# *Investment Review and Outlook*



- WHO's chief warned that the ability to track the virus is under threat as reporting and genomic sequences are declining. The optimistic mid-year deadline for all countries to vaccinate at least 70% of their populations is looking unlikely, with the average rate in low-income countries, standing at 13%. According to NUS East Asian Institute's Dr Chen Gang, Shanghai emerged from a two-month lockdown on 1 Jun 2022, to the relief of its residents. But worries about further “closed management” movement restrictions persist as all districts are required to conduct mass COVID-19 testing every weekend until the end of July. Crisis mentality has captured policymakers who would rather normalise testing than trust protection from vaccines. The focus seems to be on the worst-case scenario and the preparations and precautions that must be made to avert it – regardless of time, financial resources or emotional distress. In fact, over 1.5 million COVID-19 deaths could occur if the zero-COVID policy is dropped without additional safeguards, according to one study.
- The textbook definition of a housing bubble requires three things. First, exuberant demand boosted by speculation which rush into the housing market. Second, spiked home prices would travel well above what incomes can support and reach overvaluation levels. Third, the housing bubble pops and home prices fall. The Pandemic housing boom has sent US home prices up a staggering 41.6% since January 2020. That swift move-up in home prices (which is far above the 4.4% posted in a typical year since 1987) has economists perplexed. Despite the Pandemic Housing Boom isn't underpinned by the unsound mortgage vehicles that drove the last bubble, there are signs of top on the US housing market driven by weakening in US housing affordability as rates increase.

# *Investment Review and Outlook*



- Given that valuations remain elevated by historical measures, realizing economic recession risks requires further repricing for a coming earnings recession. That said, the problem with lower “P/E” ratio has moved, but the current “E” is yet to be priced into the market. Earnings are one of, if not the best, recession signs for investors. Given that earnings estimates remain elevated, the eventual downward revisions will require a further repricing of assets to compensate. In other words, this bear market cycle is likely not over yet. On average for S&P 500 based on historical studies, the average drop of 36.7% lasts about 17 months, while the median drop lasts 14 months is less severe at 29.6%. Finally, those wondering how long to wait for a new high, the answer is on average over 2 years.
- International investors have been pursuing Chinese assets in both the onshore and offshore markets over the past month, and this trend will continue in the coming weeks as the country's economy rebounds due to strong policy support from the investment and consumption sector. Major A-share companies will likely regain their footing and go back to a normal market value as the economy recovers gradually and more measures are put in place to spur investment and consumption. That said, China is among his preferred markets in Asia due to the recent easing in COVID-19 restrictions, government stimulus measures and lower stock valuations.

# *Investment Review and Outlook*



- It is believe that when most countries in the world are in tightening, China maintains a loose policy environment, which this is conducive to the stock market, making China's stock market in the global allocation can not be ignored. Furthermore, valuations are gaining support as the market has priced in regulatory reforms, COVID-19 disruptions and a real estate slowdown despite downward revisions to earnings forecasts over the past four months. Although the market bottom is not easy to find, the current valuation still provides a very attractive opportunity. Hence, investors can play down short-term uncertainties and focus on opportunities for a mid-to-long-term recovery, as the government response and the country's economic momentum should help it find a way through these setbacks.
- Economists have raised 2022 growth forecasts for Indonesia, the Philippines and Thailand as they expect growth in the first half of the year to be higher than forecast, thanks to a relaxation of COVID restrictions. However, there are downward revisions to forecasts for the latter half of 2022 for each country due to concerns about slowing economies following the US interest rate hike and ongoing inflation. Most central banks in ASEAN countries are moving to raise policy interest rates, followed by Malaysia and the Philippines. Overall, the steep hikes in US interest rates would likely trigger a sharp slowdown in the economy.

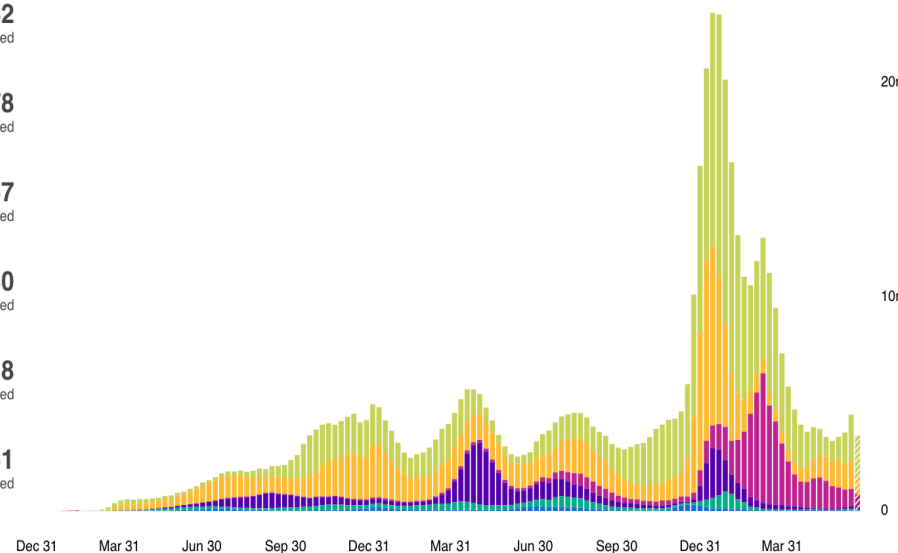
# Global Covid-19 Relatively Stable But Its Not Over



## Situation by WHO Region



Europe	228,322,452 confirmed
Americas	162,968,878 confirmed
Western Pacific	64,227,257 confirmed
South-East Asia	58,582,430 confirmed
Eastern Mediterranean	22,003,118 confirmed
Africa	9,121,651 confirmed



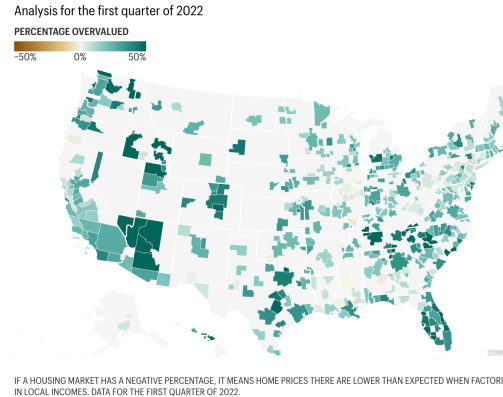
Source: World Health Organization  
Data may be incomplete for the current day or week.

According to WHO, globally, as of 29 June 2022, there have been 545,226,550 confirmed cases of COVID-19, including 6,334,728 deaths, reported to WHO. Also, a total of 11,986,040,938 vaccine doses have been administered.

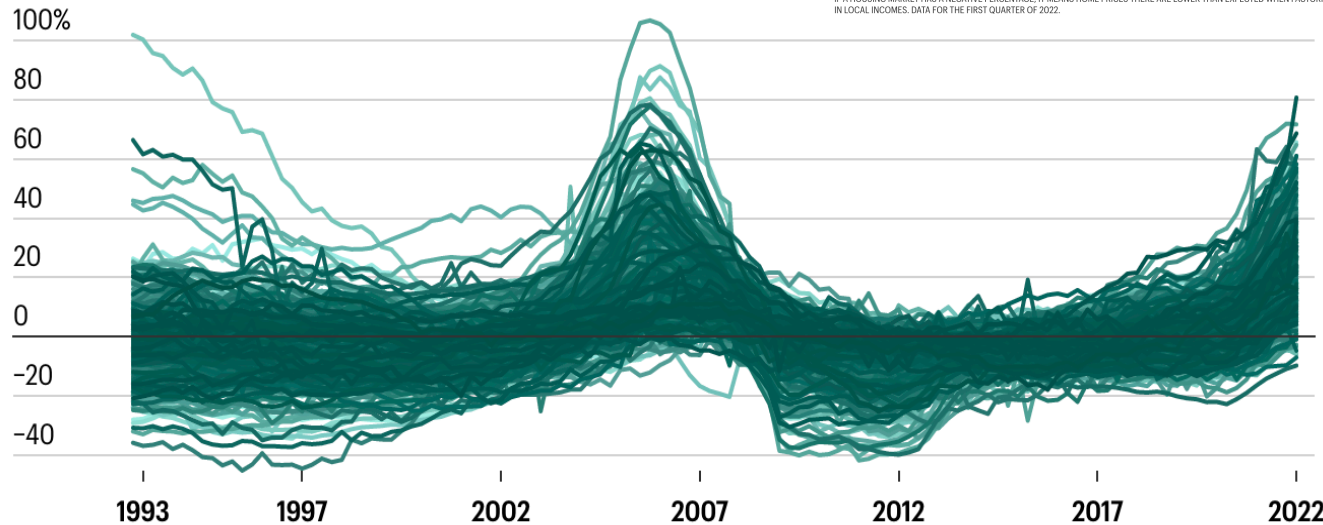
COVID-19 cases are on the rise in some 110 countries, driven by the BA.4 and BA.5 variants, said the UN health agency chief on 29 June 2022, amounting to a 20% spike overall, and a rise in the number of deaths across three of the six world regions monitored by the World Health Organization.

Note: Information as of 29 June 2022  
Source: World Health Organization

# The Degree To Which Regional Home Prices Are “Overvalued” or “Undervalued”



Assessment for around 400 regional U.S. housing markets



ANALYSIS CONDUCTED BY MOODY'S ANALYTICS. QUARTERLY ASSESSMENT BETWEEN Q4 1992 AND Q1 2022.

Note: Information as of 3 July 2022

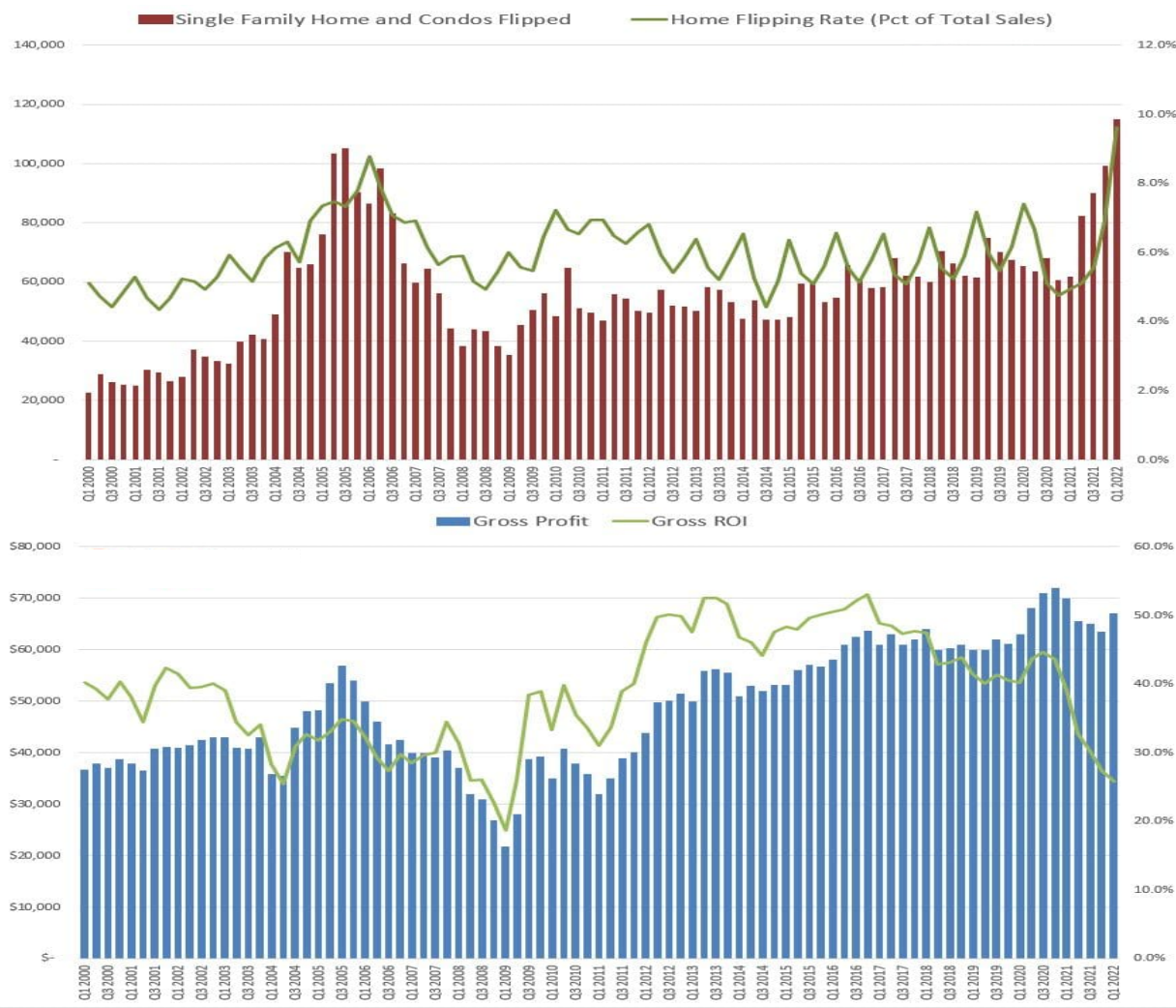
Source: Lance Lambert, Fortune, Moody's Analytics

The Pandemic Housing Boom was hardly a one-size-fits-all frenzy. As white-collar professionals realized the pandemic had given them the ability to work remotely on a permanent basis, many ditched their expensive apartments in cities like New York and San Francisco and took off for more affordable markets in places like Atlanta and Las Vegas. That saw markets like Atlanta and Las Vegas absolutely explode with buyer interest, while urban neighbourhoods in New York and San Francisco were relatively cooler.

That regional divergence also means that some housing markets remained priced closer to fundamentals while others became bubbly. Look no further than the New York City metro. In the first quarter of 2006, it was "overvalued" by 39.3%. However, now it's "overvalued" by 8%. Meanwhile, frenzied Las Vegas is now "overvalued" by 53.3% just slightly below its 2006 first quarter reading of 54.2%.

Among the 414 housing markets that Moody's Analytics assessed, 27 markets are "overvalued" by at least 50%.

# Home-Flipping Rate Jumps to Highest Level This Century; But Typical Profit Margins On Flips Decline To Lowest Point Since 2009



Note: Information as of 3 July 2022  
 Source: Lance Lambert, Fortune, Moody's Analytics

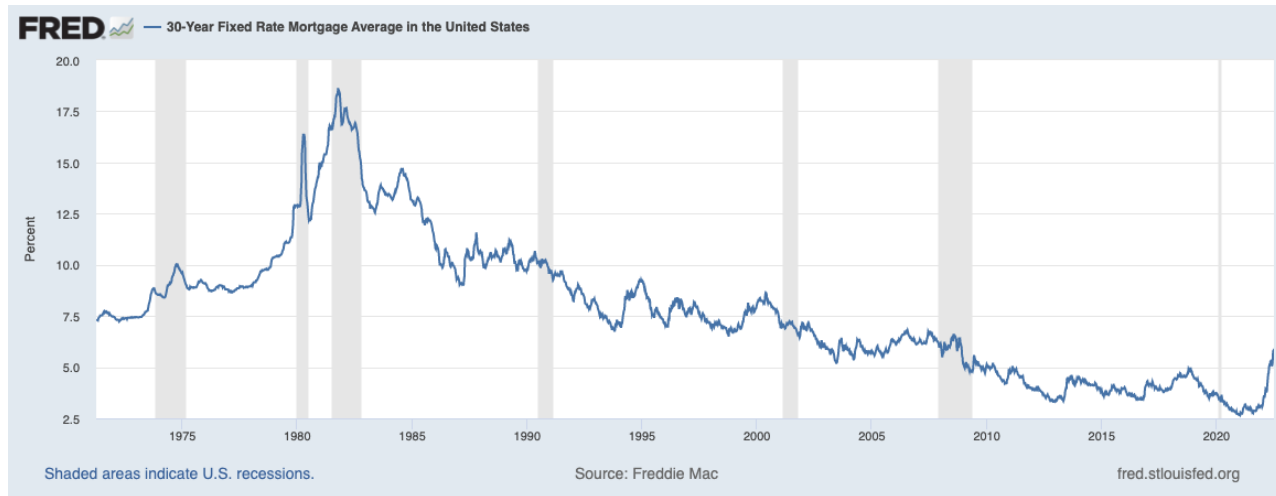
Those low rates, which saw the average 30-year fixed mortgage rate bottom out at 2.65% in January 2021, were too good of a deal for investors to pass up on.

A study published by the Harvard Joint Center for Housing Studies found that investors' purchases of single-family homes hit an all-time high of 28% earlier this year 2022. A separate analysis by Redfin found that investor purchases shot up this year in 31 of the 33 major housing markets it measured.

It wasn't just long-term investors who jumped in. Short-term flippers, attracted by record levels of home price appreciation, got in too. Indeed, a total of 114,706 homes were "flipped" in the first quarter of 2022, according to ATTOM data. That's higher than any quarter in the years leading up to the 2008 bubble.

A rush of investors buying up homes tells us that speculation and FOMO returned to the US housing market.

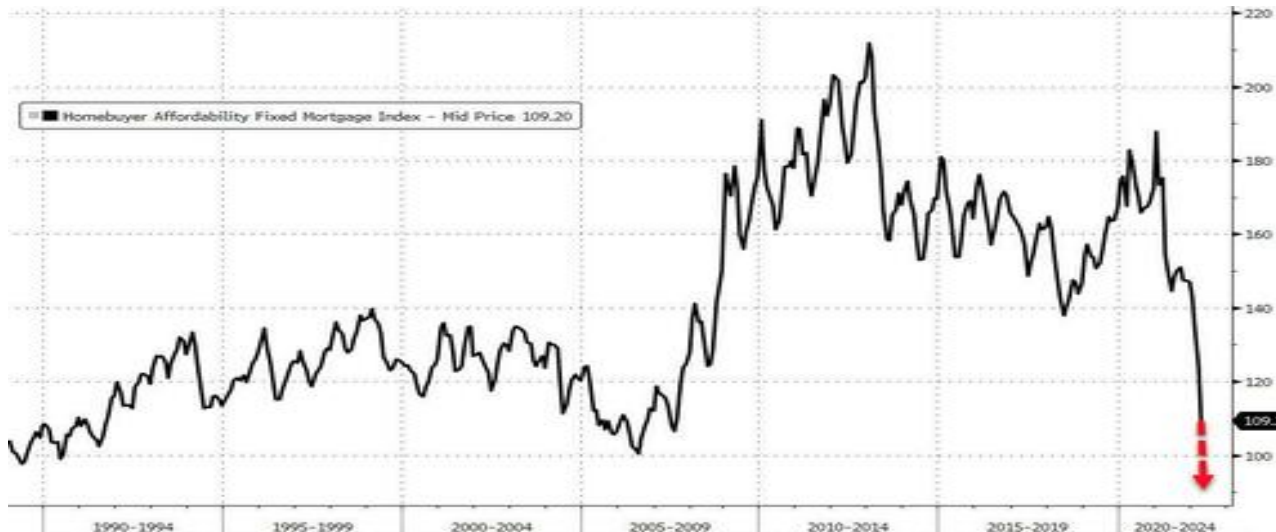
# US Housing Affordability To Reach Record Low



Back in March 2022, when the average mortgage rate was still "only" 4.5%, it is anticipated the coming rate explosion. Fast forward to June where the latest 30Y average mortgage has just surged to a stunning 5.81% from 3.22% at the start of the year.

The housing affordability is expected to drop to the lowest as soaring mortgage rates means many would-be borrowers, who must meet banks' required debt-to-income ratios, have lost their mortgage eligibility. While buyers who are undeterred will simply have to pay more a lot more.

In America's 100 largest regional housing markets, the typical new mortgage payment has spiked 52% over the past six months. That's according to data that Zonda, a real estate research company, provided to Fortune this week.



Note: Information as of 14 June 2022  
Source: Fred, Bloomberg



# Signs of Top On The US Housing Market



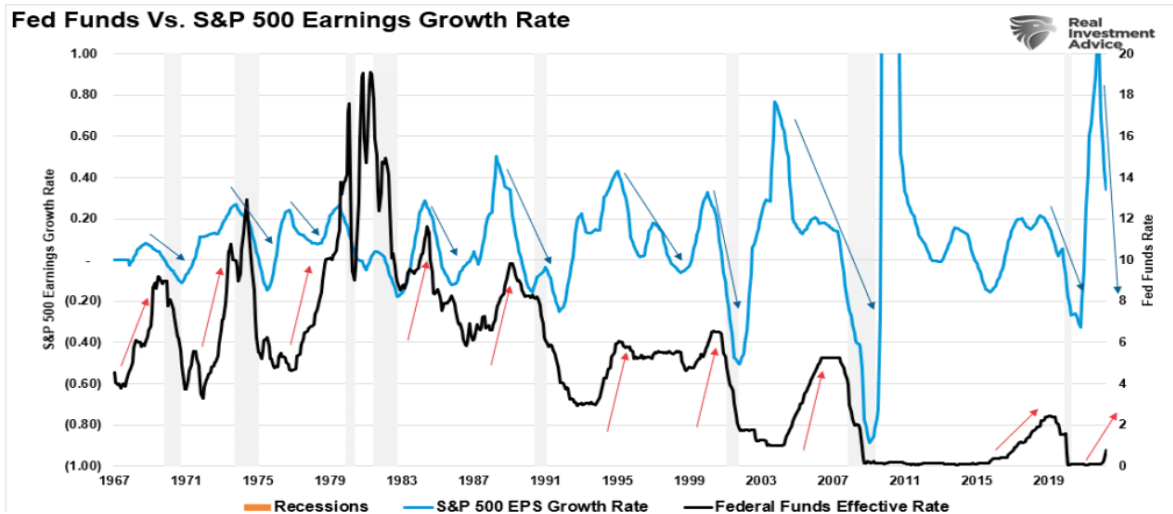
Note: Information as of 4 July 2022  
Source: ZeroHedge, Bloomberg

Mortgage applications and pending home sales are down, which suggests the jump in the 30-year fixed-loan mortgage rate from 3% to over 6% this year is quickly cooling the market. Next, we should first see price declines in areas that were red hot during the early days of the pandemic.

It's only a matter of time before the Case-Shiller (newly minted S&P CoreLogic CS) home price index data turns.

# Are Recession Risks Fully Priced In?

**Philly Fed suggesting that US EPS are set to collapse**



Note: Information as of 3 July 2022

Source: Real Investment Advice, Macrobond & Nordea

Stocks currently remain under selling pressure due to a variety of issues causing a repricing of valuations;

- Surging inflation
- Aggressive Fed rate hikes
- Reduction, or tapering, of the Fed’s balance sheet
- Lack of stimulus support from the Government
- Rising inventories
- Weakening retail sales / consumer sentiment
- Declining real disposable incomes
- High gas and food prices weighing on consumption

On the other hand, “Earnings Recession,” as the Fed hikes rates to slow economic growth, Fed risk pushing the economy into a contraction. With consumers dependent on low rates to support economic growth via debt, the risk of a policy mistake remains elevated.

Since earnings remain highly correlated to economic growth, earnings don’t survive rate hikes. Hence, Fed rate increases lead to earnings recessions.

# Expect More Than Corrections & Long Way To Go



S&P 500 Corrections & Time To Recover The Prior High: 1929 to Present

Secular trend	Correction start date	Correction end date	Number of months for correction	Downside correction	Date of new closing high	Number of months to achieve new high	Rally back to high
Bearish	9/30/1929	6/30/1932	33	-86.17%	9/30/1954	300	623.18%
Bearish	3/31/1937	4/30/1942	61	-59.99%	4/30/1946	109	149.93%
Bearish	5/31/1946	6/30/1949	37	-29.61%	9/30/1950	52	42.07%
Bullish	8/31/1956	10/31/1957	14	-21.63%	9/30/1958	25	27.60%
Bullish	12/29/1961	6/29/1962	6	-27.99%	10/31/1963	22	38.86%
Bearish	2/28/1966	10/31/1966	8	-22.18%	7/31/1967	17	28.50%
Bearish	11/29/1968	5/29/1970	18	-36.06%	5/31/1972	42	56.40%
Bearish	1/31/1973	10/31/1974	21	-48.20%	7/30/1980	90	93.06%
Bullish	11/28/1980	8/31/1982	21	-27.27%	12/31/1982	25	37.50%
Bullish	8/31/1987	10/30/1987	2	-35.94%	7/31/1989	23	56.10%
Bullish	7/31/1990	10/31/1990	3	-20.36%	3/31/1991	8	25.56%
Bullish	7/31/1998	10/30/1998	3	-22.45%	12/31/1998	5	28.95%
Bearish	3/31/2000	10/31/2002	31	-50.50%	3/31/2013	156	102.03%
Bearish	10/31/2007	3/31/2009	17	-57.69%	4/30/2013	49	136.37%
Bearish	5/31/2011	10/31/2011	5	-21.58%	3/31/2012	5	27.52%
Bullish	9/30/2018	12/31/2018	3	-20.21%	4/30/2019	4	25.33%
Bullish	2/28/2020	3/21/2020	1	-35.41%	8/31/2020	5	54.82%
Bullish	1/31/2022	6/30/2022	5	-24.52%			
		Average	17	-36.66%		55	91.40%
		Median	14	-29.61%		25	42.07%
		Maximum	61	-20.21%		300	623.18%
		Minimum	1	-86.17%		4	25.33%

The first table shows the key statistics around the biggest drawdowns that the SPX has seen throughout the years. The average drop of 36.7% lasts 17 months, while the median drop lasts 14 months and is less severe at 29.6%. Rallies from big lows take a while to recover the prior high. The data for all pullbacks back to the late 1920s suggest that the rallies from big correction lows to a monthly close above the prior intra-month high happen 55 months later on average on an average rally of 91.4%. The median rally from the low to a close above the prior monthly high is 42.1% and takes 25 months.

S&P 500 Corrections & Time To Recover The Prior High In Secular Bull Markets From 1950-1966, 1980-2000 and 2013 to Present: 1929 to Present

Secular trend	Correction start date	Correction end date	Number of months for correction	Downside correction	Date of new closing high	Number of months to achieve new high	Rally back to high
Bullish	8/31/1956	10/31/1957	14	-21.63%	9/30/1958	25	27.60%
Bullish	12/29/1961	6/29/1962	6	-27.99%	10/31/1963	22	38.86%
Bullish	11/28/1980	8/31/1982	21	-27.27%	12/31/1982	25	37.50%
Bullish	8/31/1987	10/30/1987	2	-35.94%	7/31/1989	23	56.10%
Bullish	7/31/1990	10/31/1990	3	-20.36%	3/31/1991	8	25.56%
Bullish	7/31/1998	10/30/1998	3	-22.45%	12/31/1998	5	28.95%
Bullish	9/30/2018	12/31/2018	3	-20.21%	4/30/2019	4	25.33%
Bullish	2/28/2020	3/21/2020	1	-35.41%	8/31/2020	5	54.82%
Bullish	1/31/2022	6/30/2022	5	-24.52%			
		Average	7	-26.41%		15	36.84%
		Median	3	-24.86%		15	33.22%
		Max	21	-20.21%		25	56.10%
		Min	1	-35.94%		4	25.33%

The data during secular bull markets suggest that the rallies from big correction lows to a monthly close above the prior intra-month high average 15 months on an average rally of 36.8%. The median rally from the low to a close above the prior monthly high is 33.2% and also takes 15 months. However, the rallies from the lows in 1957, 1962, 1982 and 1987 took 22 to 25 months to surpass the prior high, while those from lows in 1990, 1998, 2018 and 2020 took only four to eight months to achieve a new high.

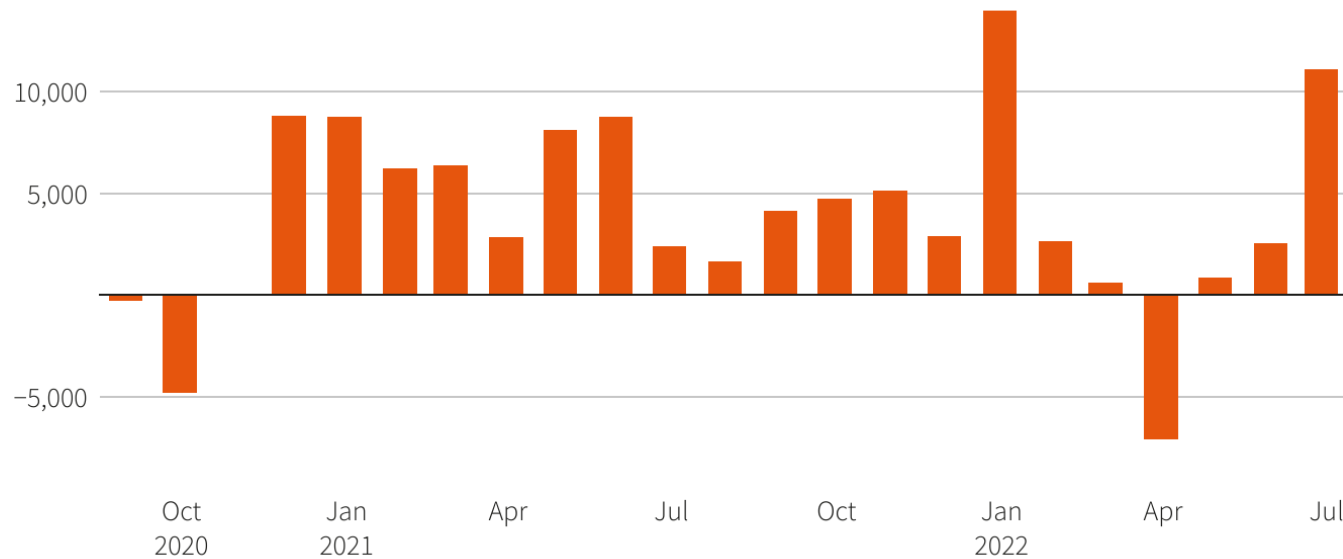
Note: Information as of 6 July 2022

Source: BofA Global Research, Bloomberg

# Foreign Flows Into Chinese Stock Markets



## Foreign flows into Chinese stocks via Stock Connect



Note: Amount in \$ millions

Note: Information as of 6 June 2022  
Source: Refinitiv Eikon

According to the Institute of International Finance (IIF), China's stock market meanwhile witnessed USD 9.1 billion of foreign inflows, compared with outflows of USD 19.6 billion in other EM markets.

According to Refinitiv data, Chinese companies' earnings are estimated to grow 12.42% in 2022 despite fallout from its lockdowns, higher than Asia's average growth of 10.9%.

Chinese companies' forward 12-month price-to-earnings ratio is at 9.62, the second lowest in Asia after South Korea, prompting some investors to think about bargain hunting.

Chinese shares faced cumulative foreign outflows of USD 465 million in the first five months of this year, much smaller than India's USD 20.1 billion, Taiwan's USD 24.8 billion and South Korea's USD 11.3 billion.

# Easing of Government Intervention



### Credit Impulse Index & China Trailing 12 Months EPS Growth %



The government's relaxation of interventionist policy followed various easing measures already put in place this year. We have seen cuts to interest rates and the reserve ratio requirement (the level of liabilities that banks must hold), an easing of property curbs and an uptick in infrastructure spending. Banks being encouraged to expand loan growth, China's credit impulse index – typically a leading indicator for future economic activity – has already started to recover.

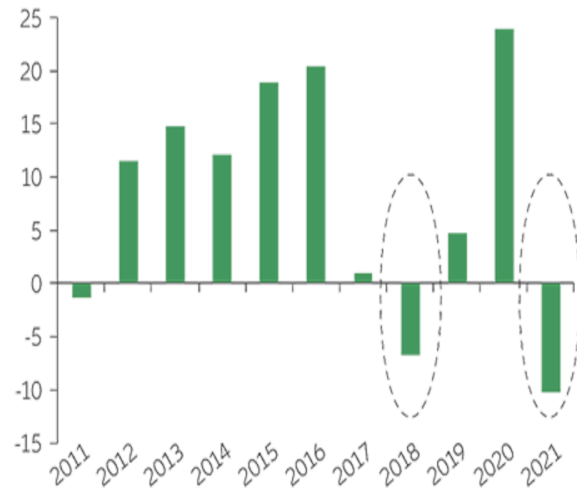
Note: Information as of 31 May 2022  
Source: Allianz Global Investors, Bloomberg

# Economic Momentum Is Sustained

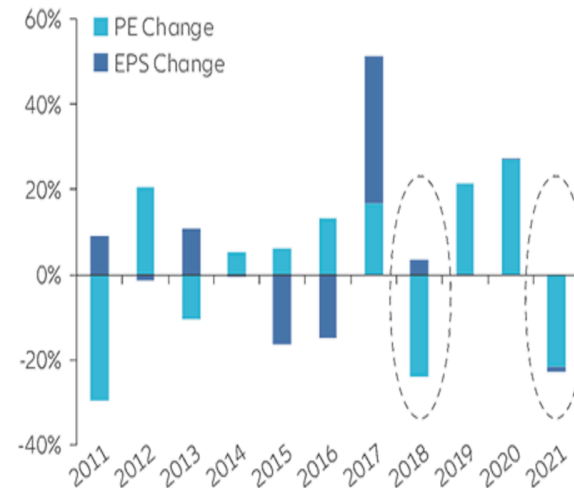


## Typically China Equities Track Domestic Credit Cycle Closely

China – change in debt to GDP ratio



MSCI China return breakdown– earnings revisions vs valuation change



There are parallels between the recent policy and market experience and that of 2018. The graphs highlight the changes in the debt to GDP ratio and P/E ratio in Chinese firms. 2018 saw a tightening of policy as China clamped down on leverage in the shadow banking sector, resulting in a major derating. But a subsequent easing of policy led to valuations recovering and Chinese equities' growth story continuing.

Again, 2021 saw another tightening of policy due to a clampdown on leverage, this time in the property sector. But starting to see a return to a more market-friendly policy setting, as China loosens monetary policy as most of the rest of the world tightens policy. This should be positive for China, as is evidenced by the recent stabilisation of A-shares performance. It is anticipated that a recovery in economic momentum in the second half of 2022 should also be supportive for equity valuations as confidence returns.

Note: Information as of 31 March 2022  
Source: Allianz Global Investors, Bloomberg

# Anticipated Risks & Scores For ASEAN Economies in Coming 12 Months



■ Risk at "cautious" level ■ Risk at "alarming" level

	June 2022		Mar. 2022		Dec. 2021	
Indonesia	1	Inflation <b>78</b>	1	Inflation <b>67</b>	1	U.S. monetary policy 55
	2	U.S. monetary policy 42	2	U.S. monetary policy 39	2	Rising govt. debt 40
	3	Domestic currency depreciates 37	2	COVID shock 39	3	COVID shock 40
Malaysia	1	Inflation <b>55</b>	1	Rise in commodity prices <b>60</b>	1	COVID shock <b>75</b>
	2	U.S. monetary policy 50	2	Terrorism/geopolitics 33	2	U.S. monetary policy 40
	3	Financial turmoil 45	2	COVID shock 33	3	Inflation 35
Philippines	1	Inflation <b>93</b>	1	Inflation <b>80</b>	1	COVID shock <b>87</b>
	2	Rise in commodity prices 53	2	Rising government debt 40	2	Inflation 42
	3	Domestic currency depreciates 40	3	Rise in commodity prices 36	3	Rising govt. debt 28
Singapore	1	Inflation <b>67</b>	1	Inflation <b>90</b>	1	COVID shock <b>67</b>
	2	U.S. monetary policy 53	2	Chinese economy slowdown 50	2	Inflation/asset bubble 53
	3	Overheated labor market 40	3	U.S. monetary policy 40	3	Chinese economy slowdown 47
Thailand	1	Inflation <b>67</b>	1	Terrorism/geopolitics <b>67</b>	1	COVID shock <b>100</b>
	1	Chinese economy slowdown <b>67</b>	2	Inflation 60	2	Inflation 47
	3	U.S. monetary policy 60	3	Rising household or corporate debt 27	3	Financial turmoil 27
				Rise in commodity prices 27		Political instability 27

The shift in potential threats to ASEAN economies was reflected in a survey of what economists think are the top risks for the coming 12 months. "Inflation" was ranked No. 1 in all six countries, while "U.S. monetary policy" was ranked as the second risk in Indonesia, Malaysia and Singapore. Almost no experts listed "COVID-19 infection" as a risk factor, except for Malaysia, where it was ranked sixth. "Chinese economy slowdown" also was ranked as one of the primary risk factors in Thailand, given the high linkage between the two economies.

Note: Information as of 6 July 2022  
Source: Nikkei

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