



Investment Newsletter

March 2023

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

Why Omni Investment Services



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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.

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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.

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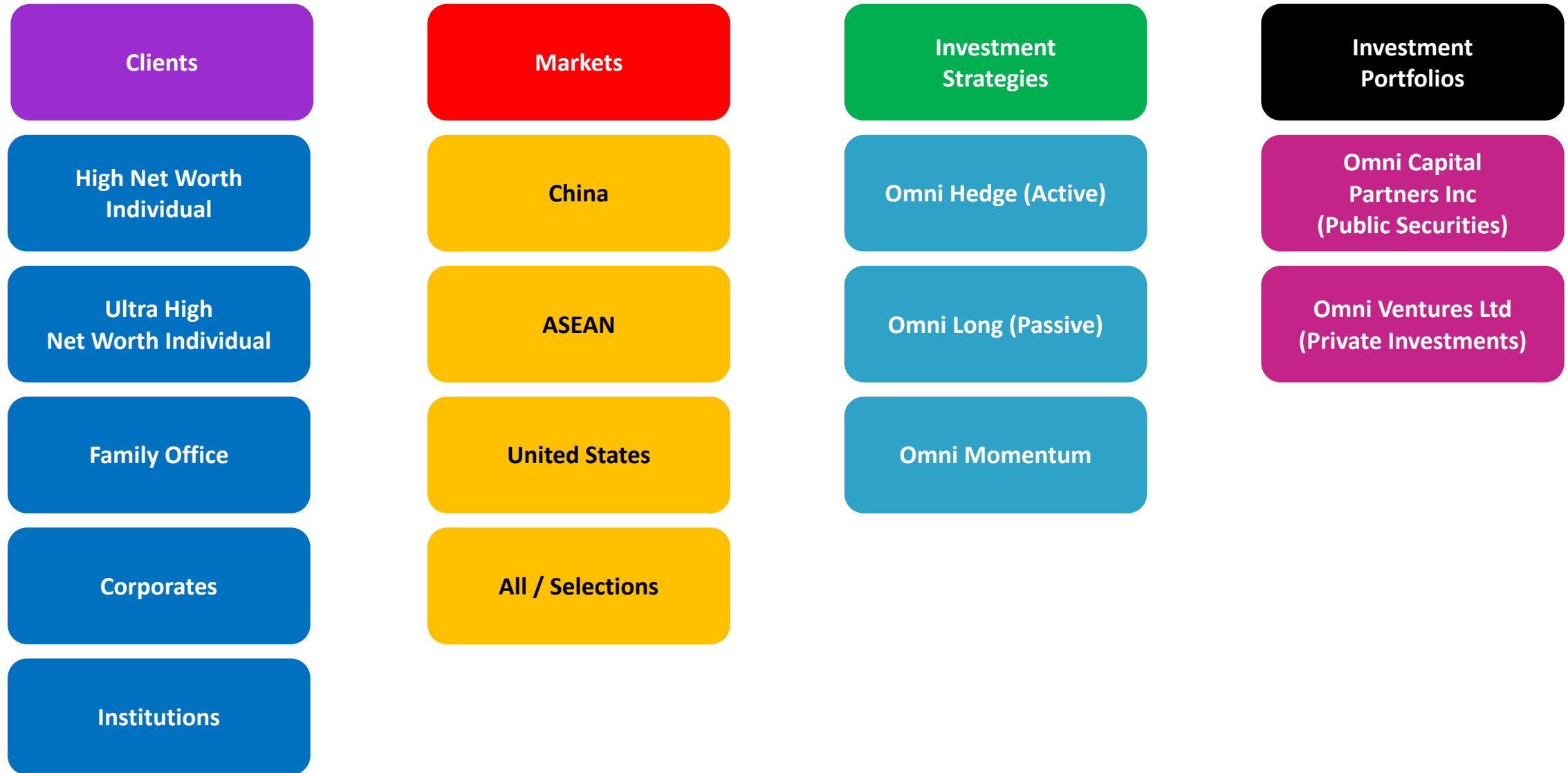
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Impressive Track
Records

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

Investment Review and Outlook



- Biden's dramatic visit to Kyiv on 20 February 2023, amid wailing air raid sirens and his soaring speech in Warsaw a day later reinforced the West's remarkable support for Ukraine's resistance to Russia and directly repudiated President Vladimir Putin. But Putin issued his riposte in an annual address, framing the war in Ukraine as a wider existential battle against the West. After Biden vowed the US will be with Ukraine for as long as it takes, Putin's speech underlined just how long that may be, raising the possibility of more years of war that will stretch the commitment of Western governments and populations to the cause. China is meanwhile injecting its own strategic play into this widening great power. China sent its top diplomat Wang Yi to Moscow for high-level talks, even with US warnings not to send Russia arms to use in Ukraine.
- A lower valuation for China stock markets would provide the downside protection and the improvement of corporate earnings are expected to support the recovery. At the same time, considering the external and internal uncertainties as well as the lack of more new domestic policies, it is believed that the market may continue to be in a consolidation phase. Overall, the uncertainties are more likely to dent than to derail the structural positive forces in China economy.
- In the longer run, China-US interest rate differentials are expected to narrow, and the capital market should maintain healthy development and further promote opening-up. Despite China's monetary policy will remain moderately loose in the process of urgent economic recovery, it remains difficult for foreign investors to increase holdings of yuan-denominated bonds if the US Federal Reserve does not ease its policy anytime soon.

Investment Review and Outlook



- Stocks have posted a convincing rebound in 2023. After 2022's more than 19% plunge, the S&P 500 has soared 8% so far this year, defying deteriorating earnings estimates and signs that the Fed will have to continue tightening policy to combat still-hot inflation. US stocks still look expensive and offer relatively low potential returns for the risk of owning them. Price-earnings ratios are above 18, versus around 15 in October 2022. Importantly, the equity risk premium or the extra return an investor can expect for investing in the stock market instead of risk-free 10-year Treasuries, is at its lowest level in about 20 years. In fact, over the past two decades, this risk premium has sat between 300 and 350 basis points; currently it's at 167. This isn't much different from what an investor might expect to earn from investment-grade credit, which generally is considered less risky than stocks. What's more, the S&P 500's dividend yield is just 1.7%, compared with the 6-month Treasury bill, offering a yield greater than 5%. Hence, valuation look unattractive.

A Long Term United Front Between Moscow & Beijing



Even as it confronts Russia in Ukraine, the US is seeking to dampen its latest crisis with China - over what Washington says was a Chinese spy balloon that wafted over the continental US earlier this month. The two showdowns came closer to a linkage this week as the US warned China not to supply Russia with arms that it could use in the war in Ukraine and as Wang headed to Moscow.

Russia and China agreed on a friendship with “no limits” before Russia’s invasion last year, playing into long term US fears of a united front between Moscow and Beijing. The Chinese foreign ministry bristled that Washington, which has sent a stream of high-tech weaponry into Ukraine, was in no position to lecture China on the issue.

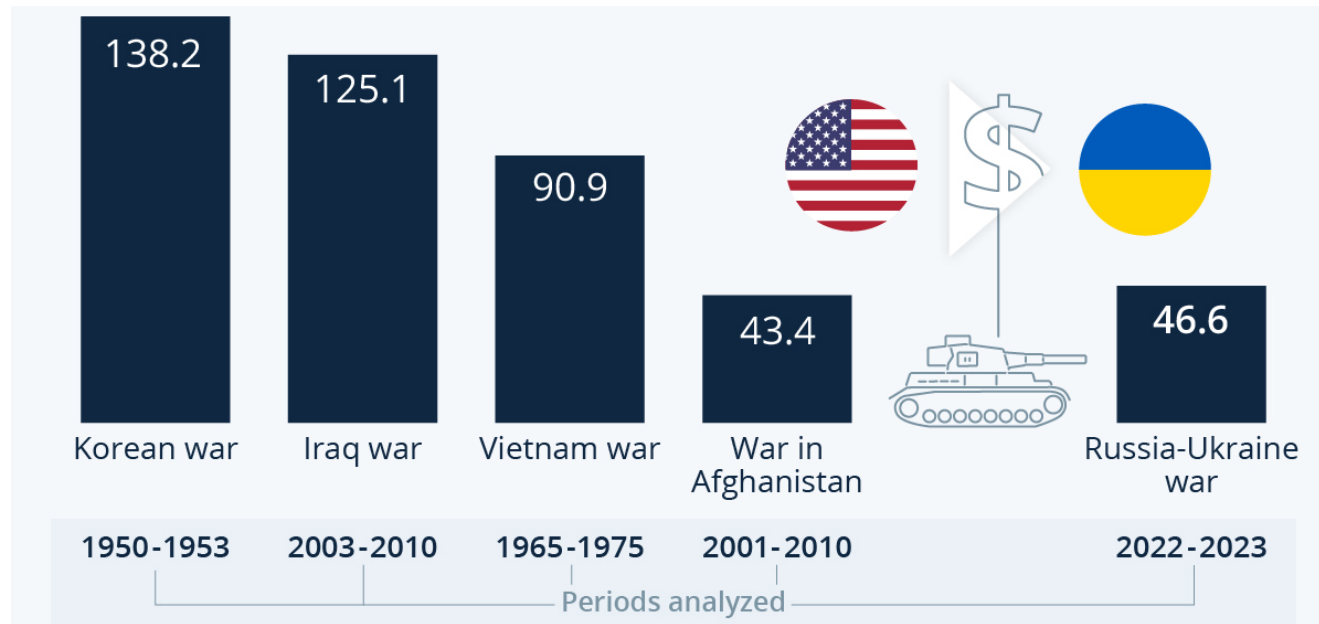
Any effort by China to supply arms for the Ukraine war would not shift the strategic balance of the battlefield, but it would be a grave and hostile new front for the US-China rivalry.

Note: Information as of 27 February 2023
Source: Reuters

Military Spending Provides A Boost To Demand In the US Economy



Annual Average US Military Spending,
By War vs US Military Aid to Ukraine (in USD' Billion, in 2022 prices)*



* Military aid to Ukraine does not include weapons and equipment.

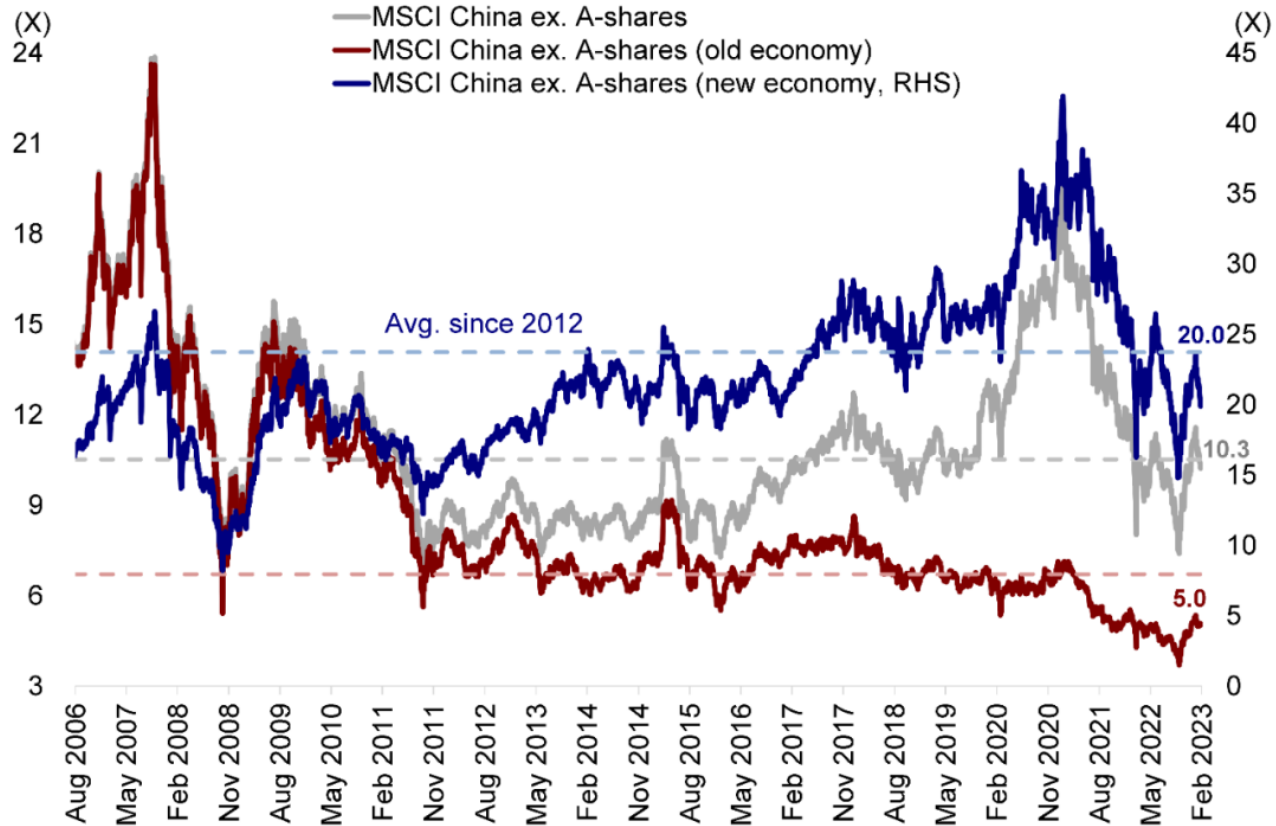
The payments to Ukraine have already exceeded the annual military expenditure of the US in the war in Afghanistan from 2001 to 2010. The US military costs in the Vietnam War, the Iraq War and the Korean War were significantly higher - according to calculations by the Kiel Institute for the World Economy as part of its Ukraine Support Tracker.

In the US, criticism of the scale of military aid to Ukraine is already coming from within the Republican ranks. Some of the US Republicans in Congress have announced that they intend to block aid to Ukraine. Nevertheless, the day after Biden's visit to Kyiv, Biden underscored his country's commitment to continued support of the Ukrainian war effort.

Note: Information as of 23 February 2023
Source: Statista, Kiel Institute of the World Economy



MSCI China ex A-Shares Remains Attractive

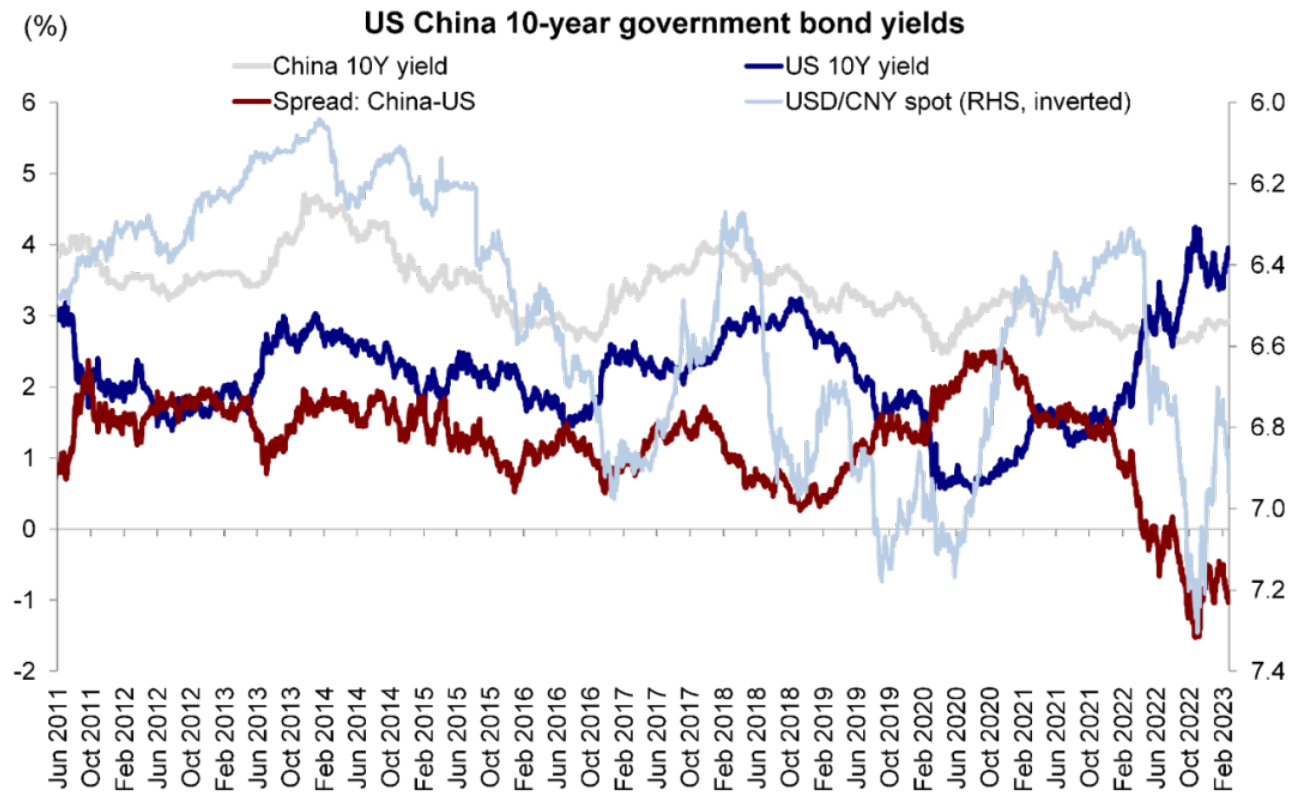


As the market continues to consolidate, worries emerge. The consolidation is expected since the rally from last November, rather than a complete reversal of the uptrend. If investors did not grasp the previous round of rapid rebound in time, they can take this pullback as an opportunity to invest.

Moreover, the attractiveness of the market is also gradually emerging. After the recent correction, the gap between the dynamic valuation of the MSCI China Index and the reasonable level supported by the current economic growth has narrowed rapidly from more than 20% to the current level of about 1%. The dynamic valuation of the Hang Seng Index has also dropped from 10.6 times close to the long-term average to about 9.5 times, which is below one standard deviation below the 10-year average.

Note: Information as of 23 February 2023
Source: CICC, Factset

US Treasury Yields Hit New Heights



Note: Information as of 23 February 2023
 Source: CICC, Factset

Currently, the tug-of-war between the Fed's policy tightening pace and inflation may continue for a longer period of time, and it will still become the main source of volatility in the Hong Kong stock market in the short term.

The CME's Fed Watch tool shows that investors are reassessing expectations for the pace of Fed policy tightening, and the market expects the Fed to continue raising interest rates by 25 basis points in the next three FOMC meetings, and eventually raise the benchmark interest rate to the range of 5.25%-5.5%.

At the same time, the minutes of the FOMC's February meeting still showed that Fed officials are determined to bring inflation down to their 2% target and that it will take some time to achieve this goal.

Finally, Investors should take into account the recent uncertainties in China-US relations (such as more restrictive new regulations) and the latest developments in geopolitical conflicts.



Prepared Worst Case & Stay Optimistic For Base Case

黄金	Gold	农产品	Commodities
纳斯达克	NASDAQ	创业板	CHINEXT
标普500	S&P 500	沪深300	CSI 300
恒生科技	HSTECH	原油	Crude Oil
美国公司债	US Corporate Bond	美元指数	DXY
美国高收益	US High-Yield	恒生指数	HIS
MSCI新兴	MSCI Emerging	人民币	RMB
美国国债	US Government Bond	工业金属	Industrial Metals

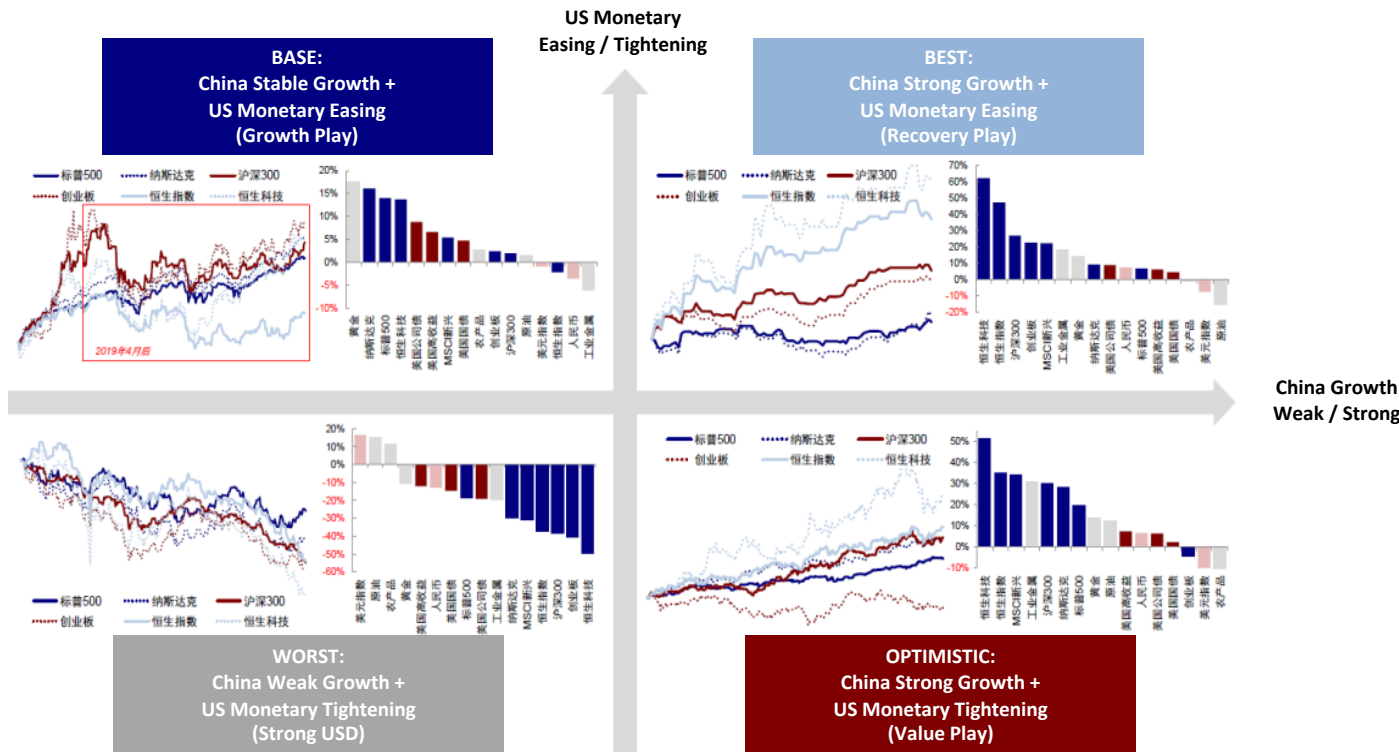
Current two variables; US Inflation and China Growth would determine the potential four scenarios:

Base: Expecting a mild or even weaker recovery from China real estate, which is similar to the "L"-shaped recovery of China's economy in 2019.

Best: This situation corresponds to the rapid recovery in the past few months since the end of November 2022, and it is also the stage where the change in the inflection point of US inflation and China's growth recovered.

Worst: This situation is actually 2022, arguably the risk of this situation has been largely eliminated since November last year. It is expected on the emergence of periodic disturbances.

Optimistic: Expecting a strong recovery from China real estate. In 2017, China's economy recovered strongly driven by supply-side structural reforms.



Note: Information as of 27 February 2023
Source: CICC, Bloomberg, Factset



12-Trailing Months EPS at Peak Level



Corporate earnings have been trending in an upward channel for 70 years. Every time profits reached the upper band of this range, an earnings recession followed.

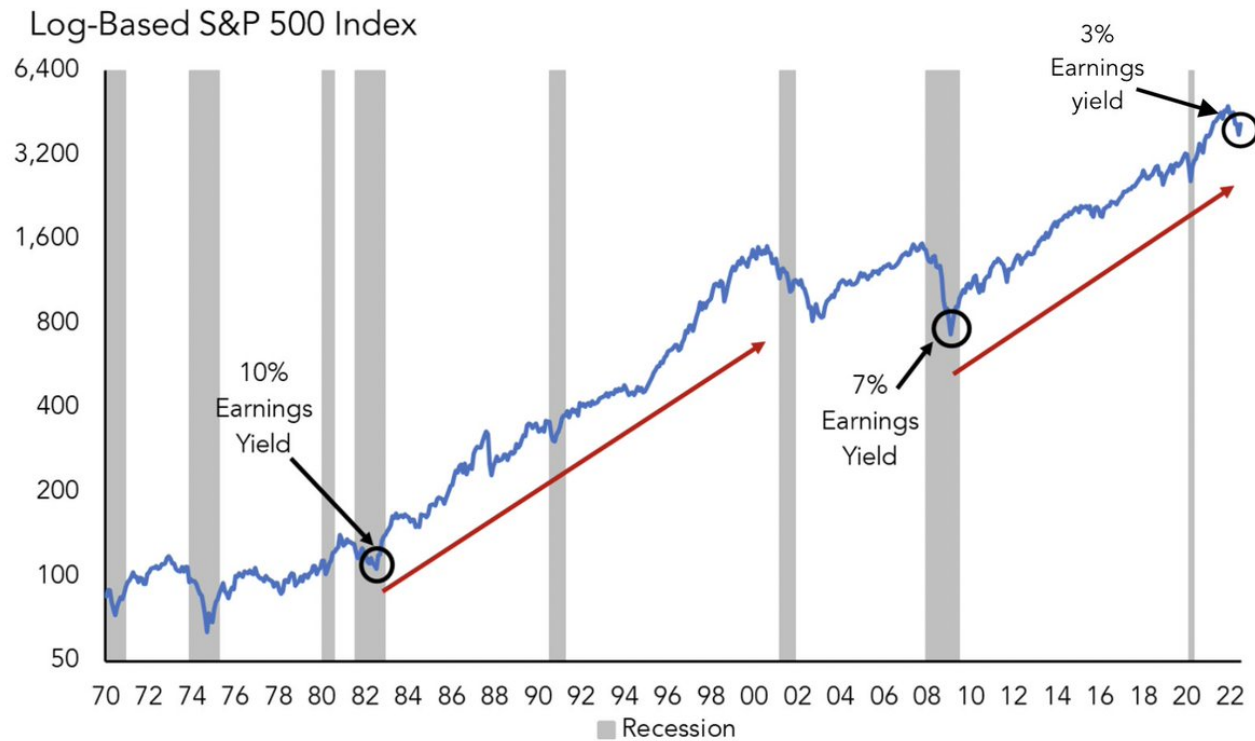
At peak levels, currently at a critical juncture once again. This is an important consideration, particularly at a time when almost every analyst on wall street expects double-digit growth for the next couple of years.

Below all factors are likely to impact margins going forward:

- Wage price spiral
- Elevated material costs
- Rising deglobalization trends
- Higher cost of capital

Note: Information as of 19 February 2023
Source: Bloomberg, Tavi Costa

Low Earning Yields In US Do Not Foster Secular Bull



Dates: 1970 Through July 2022

Note: Information as of 25 February 2023
Source: NBER, GoT

It's the earnings per share for the most recent 12-month period divided by the current market price per share. It serves as a better indicator of the market's value over time than the traditional P/E ratio.

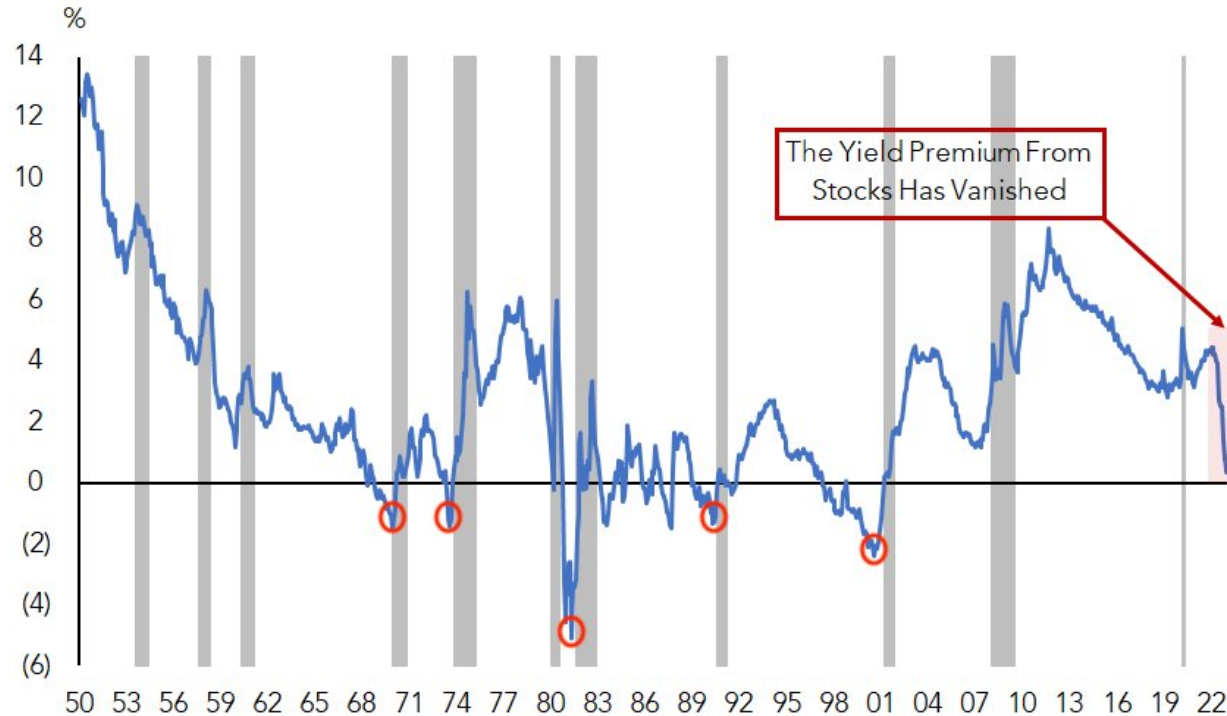
S&P 500 earnings yield today is at historically low levels of 3%. The best time to buy stocks has been when earnings yield was above 7%. High earnings yield is what drives secular bull runs.

3% earnings yield, like today, is comparable to valuations at iconic market tops: 1929, 1968, and 1999. And these low returns are in nominal terms. When adjusted for inflation, major wealth destruction takes place following these kinds of market valuations.



Cash Yield May Be More Attractive Now

S&P 500 Earnings Yield Less the Three-Month Treasury Bill Rate



Dates: 1950 Through January 2023

Note: Information as of 25 February 2023

Source: NBER, GoT

Negative spread between earnings yield to 90-day T-bill usually indicate cash is attractive.

Historically, this has happened right before recessions and marked significant market tops:

- 1968
- 1973
- 1982
- 1990
- 2000

Contact Info



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