



全创资本

OMNI CAPITAL PARTNERS

Investment Newsletter

August 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.

”

“

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



Clients

High Net Worth Individual

Ultra High Net Worth Individual

Family Office

Corporates

Institutions

Markets

China

ASEAN

United States

All / Selections

Investment Strategies

Omni Hedge (Active)

Omni Long (Passive)

Omni Momentum

Investment Portfolios

Omni Capital Partners Inc (Public Securities)

Omni Ventures Ltd (Private Investments)

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



- The yield curve is very inverted today, usually indicating economic stagnation; however, stock market crashes and recessions do not usually occur until sometime after curve inversion happens, averaging around fifteen months. The curve inverted in July of 2022, fourteen months ago, implying we're in a prime time for a recessionary crash. Most often, the yield curve rapidly steepens during the crash as the Federal Reserve reduces its interest rate outlook due to disinflation-created recessions. Long-term rates are comparably less sensitive to recessions than short-term rates driven by Federal Reserve management. However, despite historically high recession odds, the Fed is not keen on cutting rates, likely because fundamental inflation levels are well above their target.
- The Philadelphia Fed GDPplus measure, a blend of GDP and GDI, is flashing a signal that recession has already started. The Fed's latest Beige Book suggests the U.S. economy is slowing and consumers are growing more price sensitive, a potentially cautious sign for corporate earnings reports in the back half of this year. The Beige Book contained 15 references to recession, up from three in the July report, and that most districts reported higher delinquencies on consumer credit lines. While inflation expectations have remained stable and the job market largely resilient for now, Americans are growing more pessimistic about the economy.
- Historically in inflationary recessions, nominal returns of stocks mask the true damage done to equity portfolios; bonds rise in nominal terms, but in real terms they start selling off long before the recession begins; and commodities don't fall in price, they rally.

Investment Review and Outlook



- High positive gaps between earnings and bond yields have been extremely bullish for stocks and credit, citing March 2003, 2009 and 2020. By contrast, when the gap has turned negative, as in August 2000, or has narrowed to a low, like in July 2007, it has triggered “not so great” periods for these risk assets.
- A stronger dollar adding to yuan pressure is an ongoing risk to liquidity in China and the rest of the world. The yuan fell versus the dollar overnight, with USDCNY nudging near 15-year highs. This is not something welcomed by Chinese policymakers, as evidenced by the gap between USDCNY and the official fixing at near-historical extremes.
- Global money growth will remain under pressure while China refrains from comprehensive easing, posing a potential secular headwind for risk assets and economic growth around the world. Money makes the world go round. Nowhere is that more true than in markets. No money, no liquidity, no transactions. Any impediments to money are thus a big deal for asset prices and economies. Money has been in great abundance for most of the last 20 years. But that is in large part due to China. Its current travails therefore pose a significant risk to money’s path in the coming months and years.

The Beginning of Steepening Yield Curve?

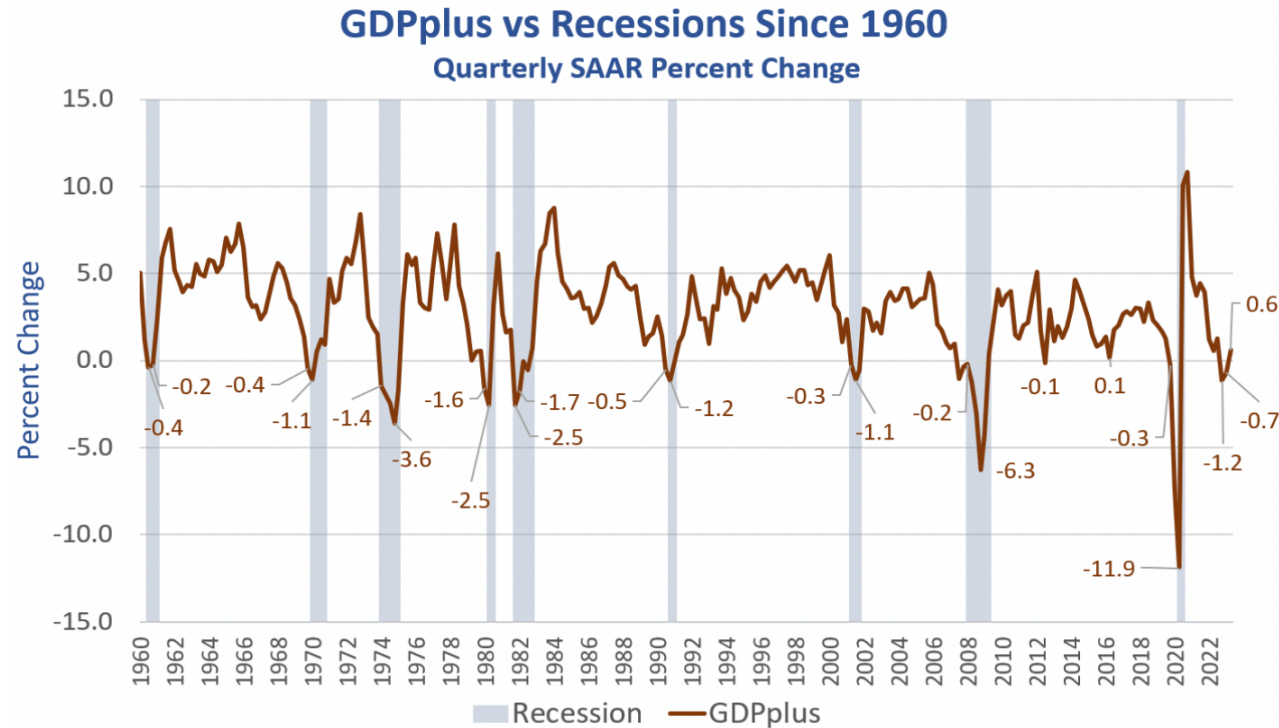


After nearly 18 months of consistent interest rate hikes by the Federal Reserve, signs of cooling labour market are emerging, prompting major bond investors to speculate that the tightening cycle could be coming to an end. There was an increase in the unemployment rate to 3.8% in August, a level last observed in February 2022.

The labour market is on the brink of rapidly deteriorating Yield curve steepening from inverted levels has coincided with sharp rises in the unemployment rate.

Note: Information as of September 2023
Source: GoT

GDPplus Suggests US Started Recession in Q4 2022



GDPplus is a measure of the quarter-over-quarter rate of growth of real output in continuously compounded annualized percentage points.

In 100% of the cases, with no false signals, no misses, and no lead times more than two quarters, every time GDPplus had two consecutive quarters of negative growth, the economy was in recession.

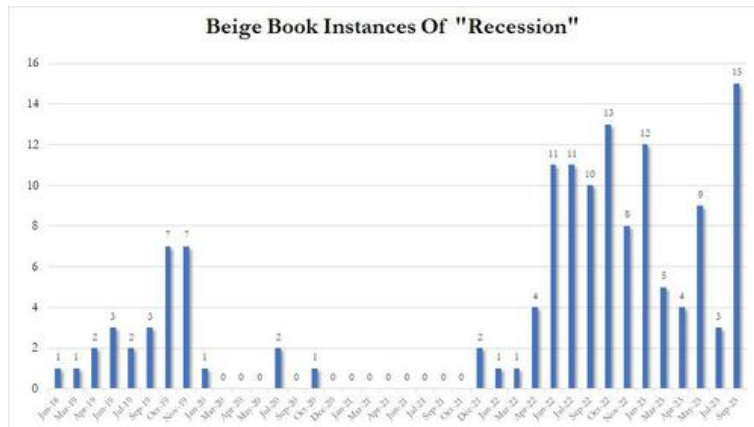
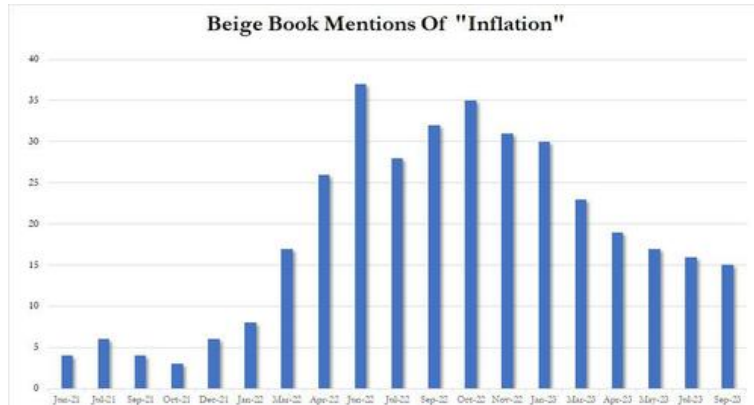
GDPplus was on time 4 times, early by a quarter 3 times, and early by 2 quarters twice.

2023 Q1 to Q3 Comparison:

- GDP: +2.6 percent, +2.0 percent, +2.1 percent
- GDI: -3.3 percent, -2.8 percent, +0.5 percent
- Average of GDP and GDI: -0.4 percent, +0.1 percent, +1.3 percent
- GDPplus: -1.2 percent, -0.7 percent, and +0.6 percent.

Note: Information as of August 2023
Source: MishTalk

Fed is Most Worried About Recession Today



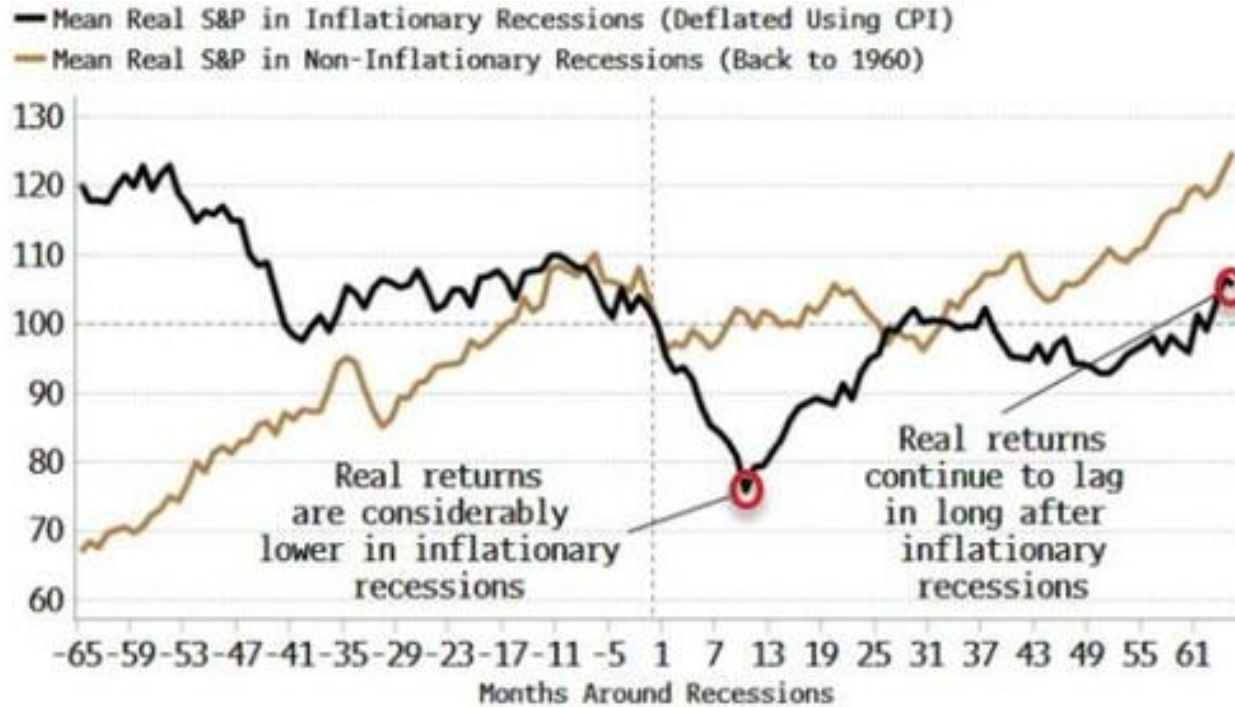
The Fed's latest beige book released was, one signalling US economic growth was "modest" during July and August.

And the punchline: "some Districts highlighted reports suggesting consumers may have exhausted their savings and are relying more on borrowing to support spending."

Most interesting is that mentions of recession jumped to the highest level since at least 2018. Granted, some were in a favourable context, but the fact that there have been so many mentions of a word which as recently as 2020 and 2021 barely existed in the Beige Book vocabulary, tells you all you need to know about what the Fed is most worried about today.

Note: Information as of September 2023
Source: Beige Book, Zerohedge

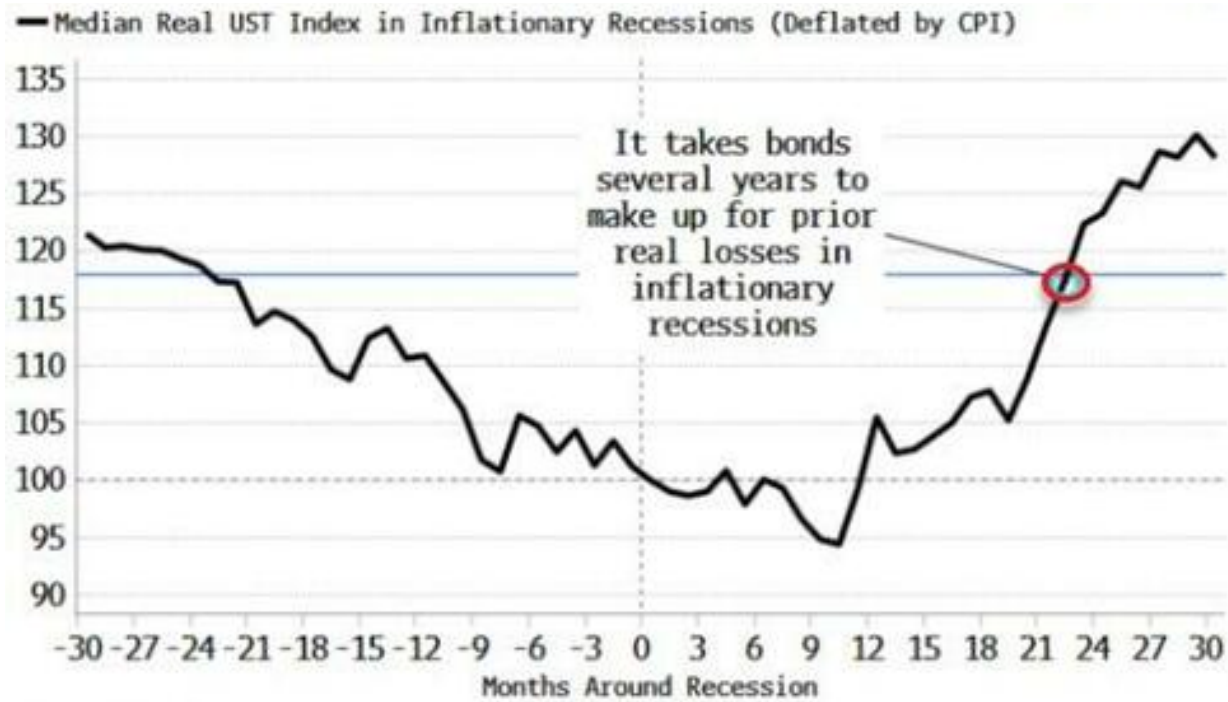
Inflation Recessions Are Bad for Real Wealth



In real terms, when inflation is elevated stocks sell off more before the recession and after it. Further, real returns continue to lag the real returns in non-inflationary recessions several years after the downturn's onset. You're poorer for longer.

Note: Information as of September 2023
Source: Simon White, Bloomberg

Bonds Take Years to Recoup Real Losses in Inflationary Slump



In real terms, bonds typically sell off before the inflationary recession begins, and continue to sell off after it. It takes several years before an investor recovers their real losses, even though nominally they have had made money.

Note: Information as of September 2023
Source: Simon White, Bloomberg

Commodity Sell-off Spurs the Commodity Rally



Typically in downturns caused by a commodity shock, the shock to growth causes commodities to sell off before the recession, easing the ultimate impact on the economy.

But commodities are sensitive to the level of demand, not its rate of growth, therefore they can rally if the recession is less bad than feared.

Note: Information as of September 2023
Source: Simon White, Bloomberg

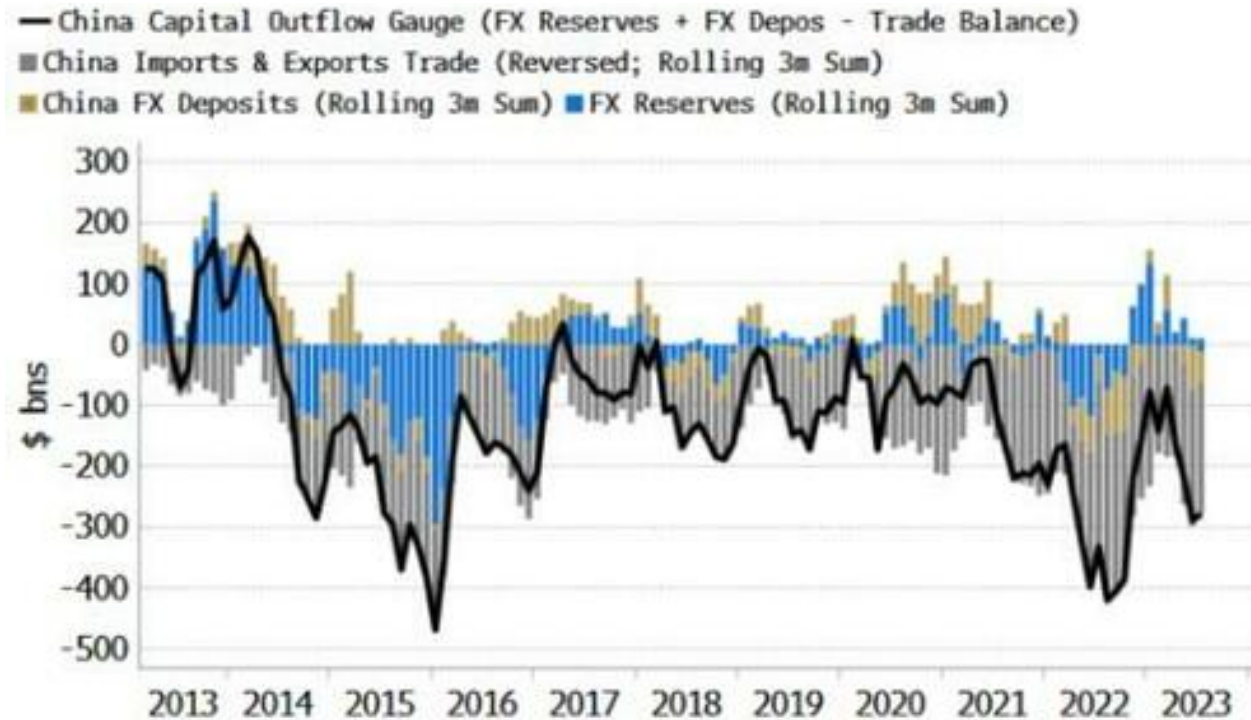
Equity Yield is Unattractive Relative to Bonds



Rising bond yields are also making stocks unattractive, with the S&P 500 earnings yield of about 4.6% offering lower returns than the three-month Treasury bill yield of 5.5%. This negative gap of -0.9 percentage points is the lowest since 2000.

Note: Information as of September 2023
Source: BofA, Bloomberg

Capital Outflow From China Has Risen in 2023

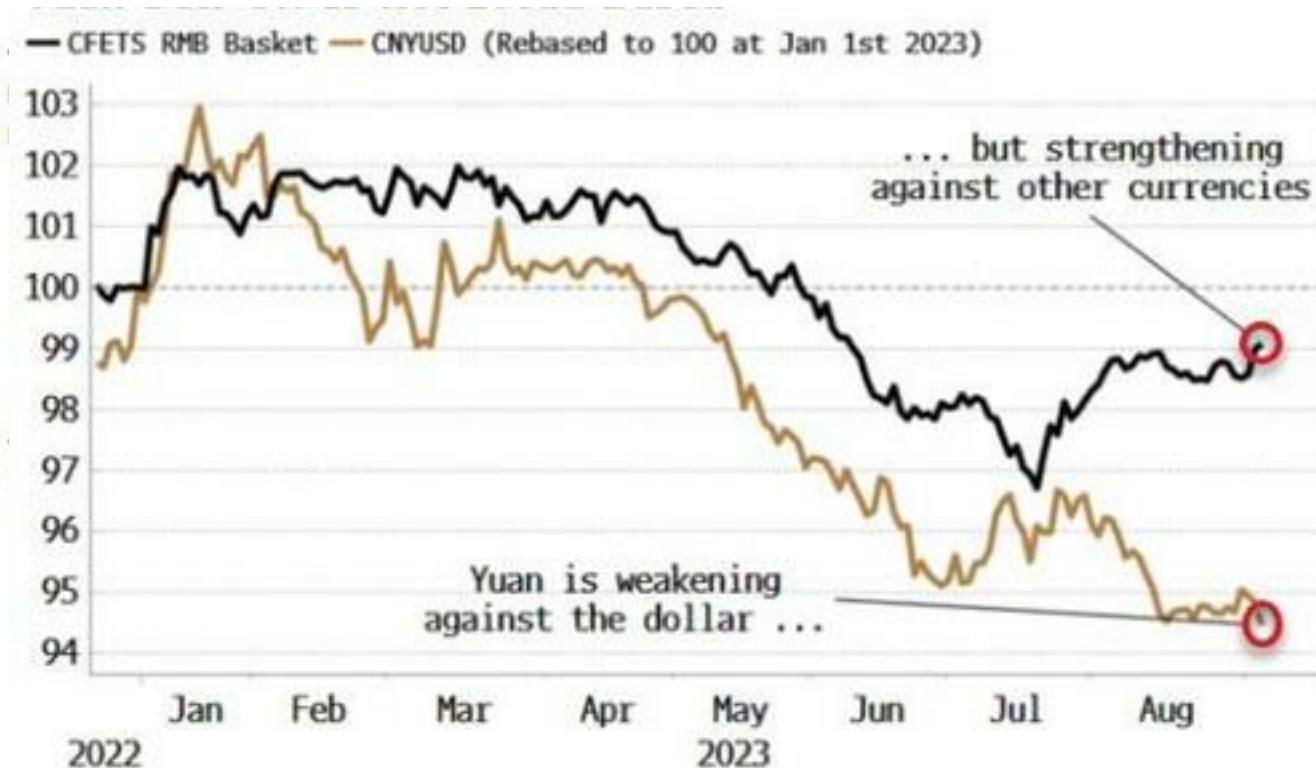


The difference between official FX reserves, FX deposits at banks and the trade balance. In theory, the net proceeds from trade should end up either as FX reserves or deposits. Therefore, what doesn't can be attributed to capital leakage.

Capital outflow has weakened this year, but is not as high as it was in 2022. This is one sign that, while things in China are not in good shape, they are perhaps not as bad as some of the more recent negative reports in the media have portrayed.

Note: Information as of September 2023
Source: Simon White, Bloomberg

Yuan Sell-off is Not Broad Based



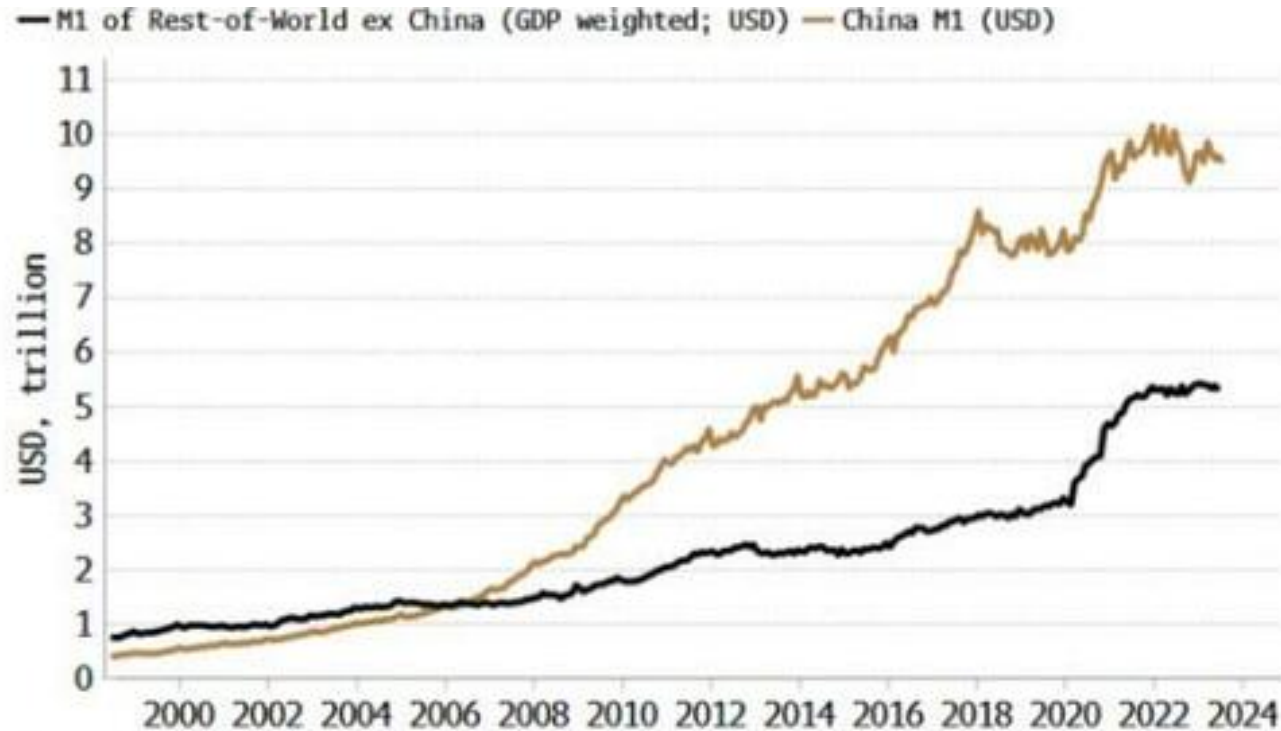
The yuan's weakness is not broad based, and in fact it has been strengthening versus the CFETS FX basket.

This is also a sign that China's dependence on the dollar is reducing, as the yuan's weakness against the USD is not creating a much worse domestic slowdown which would likely lead to broad-based weakness in the Chinese currency.

Nonetheless, the dollar's strength still matters for China, and is a risk to its domestic liquidity. Which is therefore a risk to global liquidity given's China's pivotal role in driving global money growth over the last 20 years.

Note: Information as of September 2023
Source: Simon White, Bloomberg

China's Money Dominance

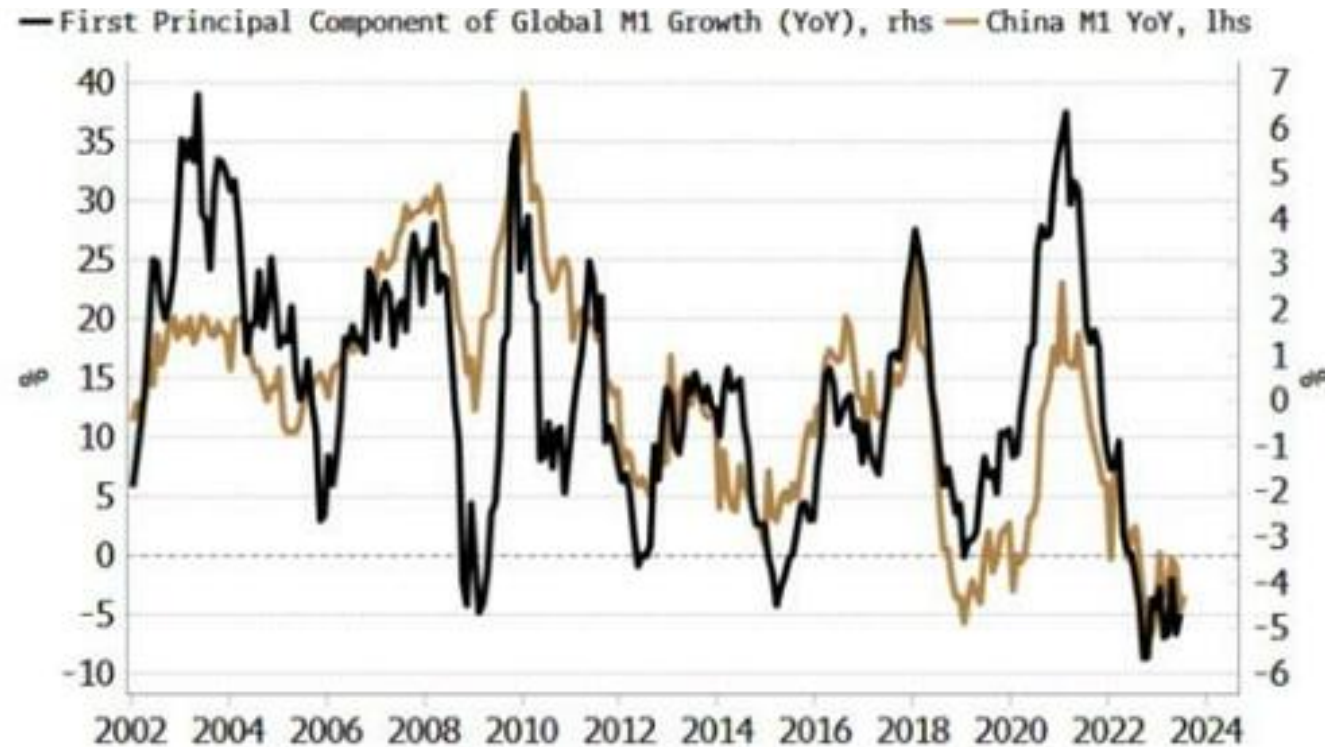


Since 2007, China's M1 in dollar terms has hugely outpaced GDP-weighted M1 in the rest of the world. M1 in China is 67 trillion CNY, or \$9.5 trillion, while M1 in the US, the country with the second largest stock of narrow money after China, is 30% lower, despite an economy that is a third bigger than China's.

That's without including the demand deposits of households. They're not part of M1 in China as they are in most other countries. Adding them in would enlarge China's M1 by more than half again.

Note: Information as of September 2023
Source: Simon White, Bloomberg

China's Pivotal Role in Global Money



China has been pivotal for global money growth over the last 15 years. That can be seen clearly if we look at the first principal component of global money growth (i.e. where there is maximum variation). This component is very close to China's money growth (and no other country's, including the US), showing that China has been the primary driver of global money trends for the last two decades.

Note: Information as of September 2023
Source: Simon White, Bloomberg

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