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Investment Newsletter

September 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

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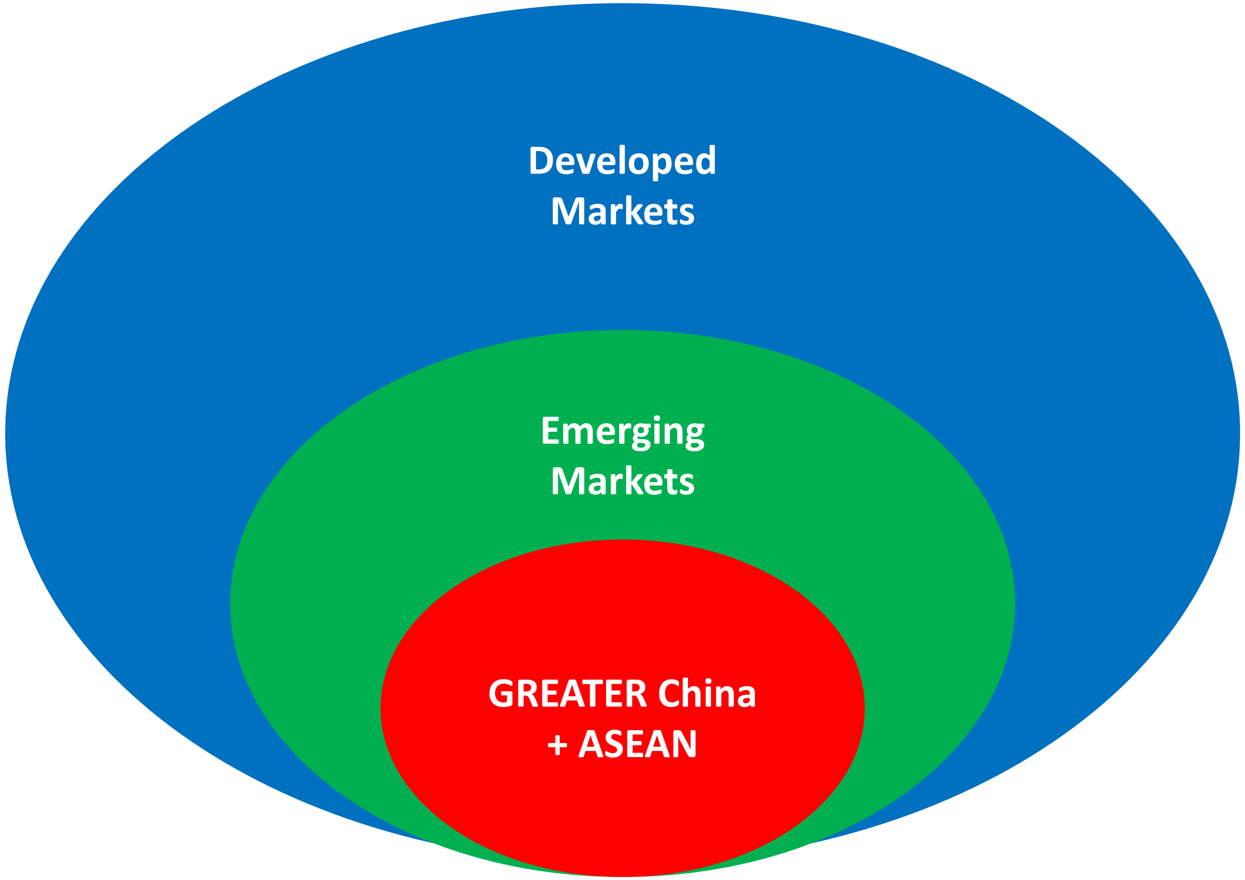
Clients	Markets	Investment Strategies	Investment Portfolios
High Net Worth Individual	China	Omni Hedge (Active)	Omni Capital Partners Inc (Public Securities)
Ultra High Net Worth Individual	ASEAN	Omni Long (Passive)	Omni Ventures Ltd (Private Investments)
Family Office	United States	Omni Momentum	
Corporates	All / Selections		
Institutions			

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

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- The risks are still there for another banking crisis, but more significantly so are the risks of recession. According to the FDIC, the total of unrealised losses, including securities that are available for sale or held to maturity, was about $62bn at the end of 2022, prior to the March banking crisis. Interest rates have since been increased four times in 2023, while lending standards have tightened and real estate markets continue to deteriorate, and defaults are on the rise. In March, the FDIC said, 'Unrealised losses on securities have meaningfully reduced the reported equity capital of the banking industry'. Falling Loans growth will have an impact on bank earnings, resulting in tighter lending standards, on top of the problems in March. Since the start of the year, Loans to the Private Sector have contracted from $3383bn in January, to $2763bn in August.

- To Raphael Thuin, head of capital markets strategies at Tikehau Capital, the consensus is too optimistic. "People are estimating the economy will rebound and that we won't have a recession. That's too optimistic. You don't need a crystal ball. There is a liquidity risk," he said, referring to the decreasing money supply, or M2. "The consumer is exhausted. There is rising credit card debt."

- Even so, a recession, according to Tikehau's Thuin, is still on the table as the lagged effects of the Fed's aggressive monetary tightening finally trickle in. "The estimate is 12 to 24 months," he said, referring to how long it usually takes for the rate hikes to hit the economy; the Fed started to raise the fed funds rate 18 months ago. "It's exactly now. We are starting to see some effects."

Investment Review and Outlook

- Markets are going to go through some trauma. That was the big takeaway from Michael Hartnett, chief investment strategist at Bank of America Merrill Lynch Global Research, at a conference held by finance journal Grant's Interest Rate Observer in New York. A concern, he said, is that government spending is high, while monetary policy is likely to become more accommodative. U.S. government spending is 44% of gross domestic product, he said, below the level during the Covid-19 pandemic but more or less in line with those seen during the 2008-2009 financial crisis. And spending is likely to remain elevated because 2024 is a critical election year, while the Federal Reserve will feel intense pressure to cut interest rates, he said. Taken together, it means "I want to be in real assets over financial assets," he said. Real assets - investments such as precious metals, real estate, and infrastructure - tend to perform best when inflation picks up.

- Goldman Sachs, which issued a study projecting that, by 2035, emerging markets' equity valuations will overtake those of the U.S., which currently has 42% of stock capitalization, compared with 27% for the EMs. Come 2035, EMs and the U.S. will both have 35%, but the EMs will have a smidgen more. By 2050, the developing world, will command 47% of world market cap to the U.S.'s 27%, per Goldman. By 2075, EM stocks will reach 55%, and the U.S. will fall to 22%.

The Greatest Treasury Bear Market of All Time

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History of US Treasury bond bear markets

Date of Market Peak	Date of Market Trough	Peak to Trough Performance	Recovery One Year from Trough	Duration of Bear Market (mos)
7/31/2020	10/31/2022	-24.7%	0.0%	28
06/30/1860	05/31/1861	-18.7%	32.4%	12
05/31/1835	12/31/1839	-16.1%	19.0%	56
06/30/1979	02/29/1980	-15.8%	8.2%	9
05/31/1931	01/31/1932	-15.4%	18.5%	9
06/30/1980	09/30/1981	-14.6%	43.1%	16
09/30/1833	03/31/1834	-13.7%	16.5%	7
05/31/1811	03/31/1813	-11.3%	6.8%	23
02/28/1987	09/30/1987	-10.5%	14.7%	8
10/31/1993	11/30/1994	-10.2%	25.1%	14
7/31/2012	12/31/2013	-10.1%	10.8%	18

BofA resident bear Michael Hartnett: after peaking in July 2020 and in the subsequent 28 months drawing down by a record 25%, this is now the single greatest bond bear market of all time!

Note: Information as of October 2023
Source: BofA Global Investment Strategy

The Q3 Sell-off in Rates Could Push Bank's Unrealized Losses Back to Their Highs

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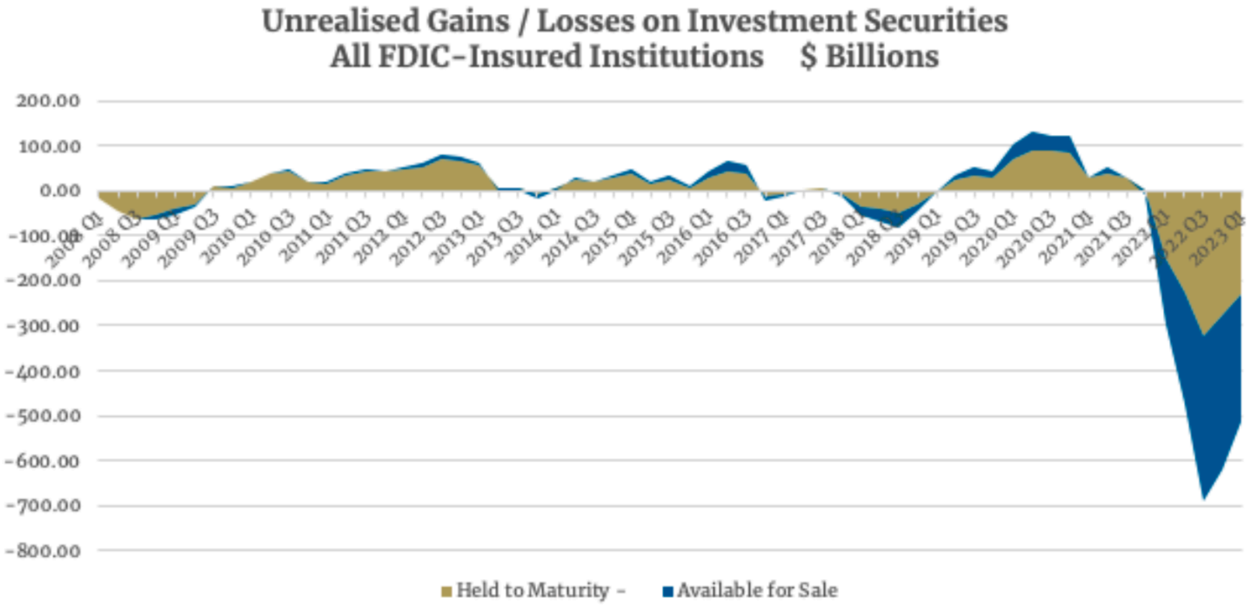
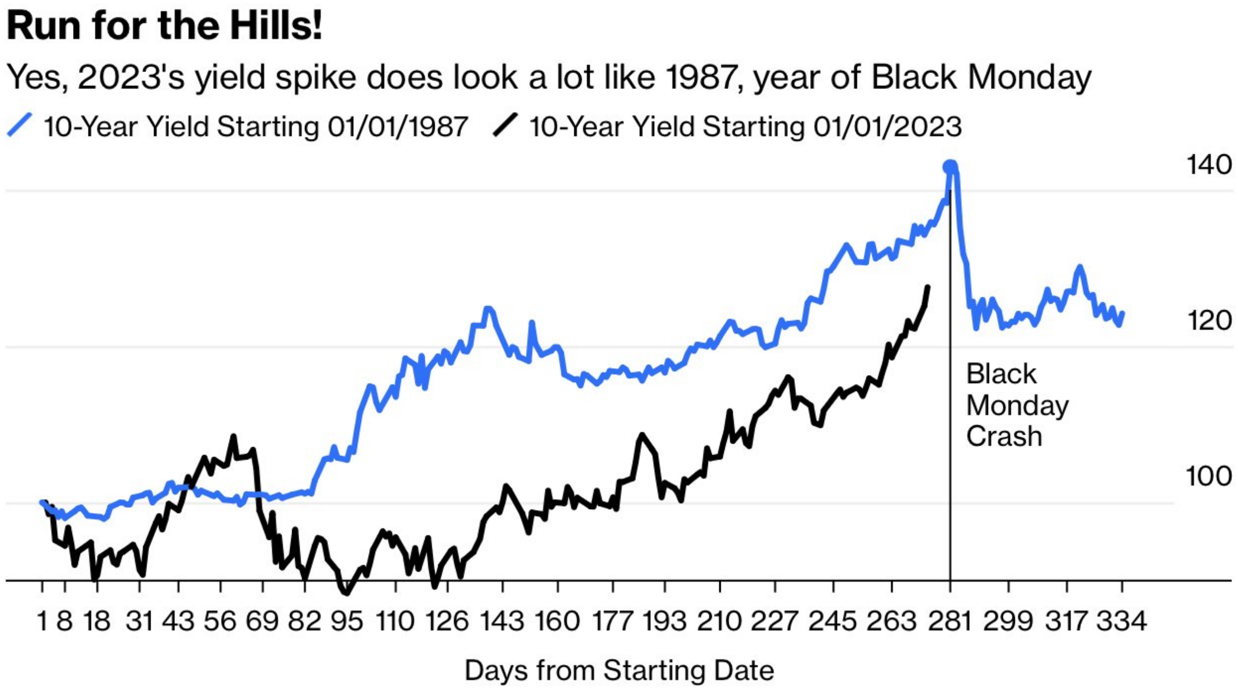


- Total loans and leases in 2023 grew 8.7% in Q2
- Net income in Q2 decreased by $9.0bn (11.3%) from Q1 2023
- Unrealised losses on securities totalled $558.4bn in Q2, up $42.9bn (8.3%) qoq
- Unrealised losses on held-to-maturity securities totalled $309.6bn in Q2
- Unrealised losses on available-for-sale securities totalled $248.9bn
- Total Deposits declined for a fifth consecutive Quarter

Note: Information as of October 2023
Source: FDIC, Deutsche Bank

Shades of 1987

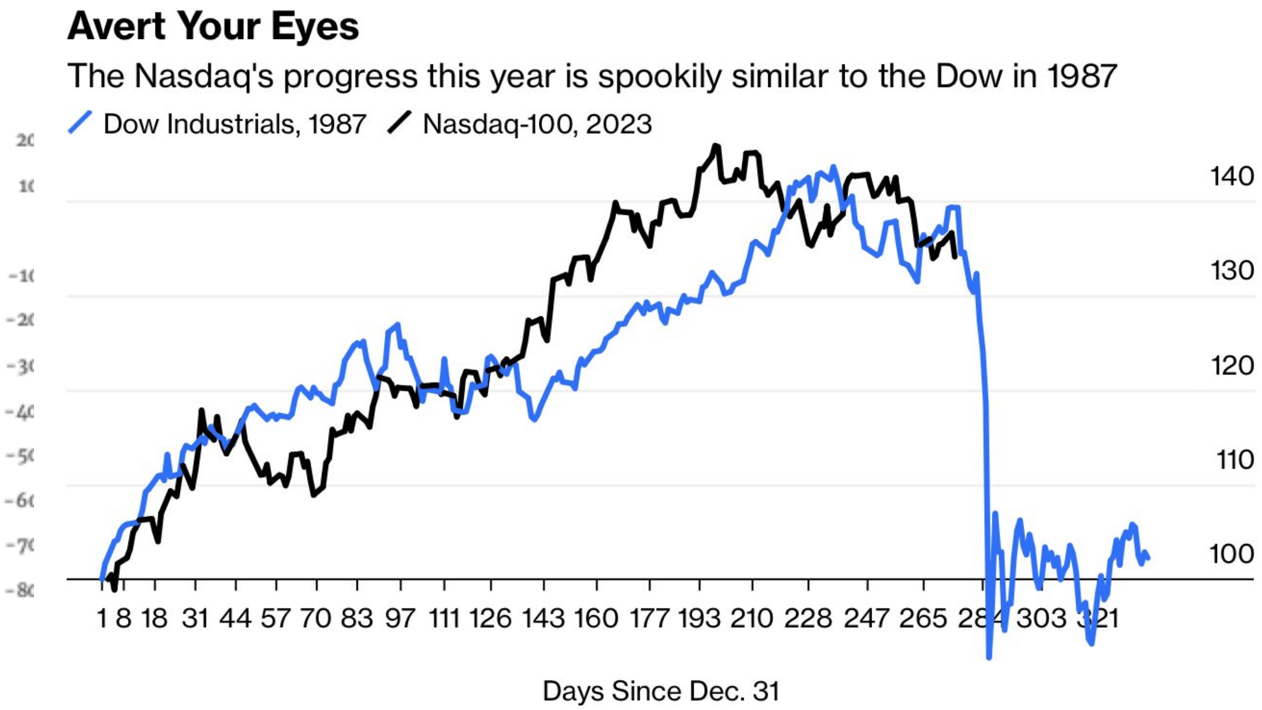


To illustrate just how quickly yields reversed on Oct. 19 when the stock market tanked 20%, and how similar it looks to 2023, here's an overlay chart of the percentage increase in the 10-year yield from the start of each year:

Chris Verrone of Strategas Research Partners sees "shades of 1987." Treating Sept. 20 (when Jerome Powell surprised the market with his hawkishness after an Federal Open Market Committee meeting) as a "breakout day" analogous to Aug. 27, 1987, when yields broke upward, he calculates that they peaked 33 trading days later on Oct. 15 at 10.23%. Today, he says, "that would be the equivalent of roughly 5% on the 10-year by early November."

Note: Information as of October 2023
Source: Bloomberg

Stocks Have Run Into Trouble



This is how the Nasdaq-100 has fared so far this year, compared with how the Dow Industrials did from the beginning of 1987. This is normalized; there's no trickery with double scales or anything:

Should anyone deploy any money on the basis of overlay charts like this? Of course not. The illustration above does not prove that the Nasdaq will crash next Monday. Starting points for these charts are arbitrary, and all other conditions may not be the same. That said, they can spook people.

Note: Information as of October 2023
Source: Bloomberg

US Excess Savings Depleted for Bottom 80% of Households

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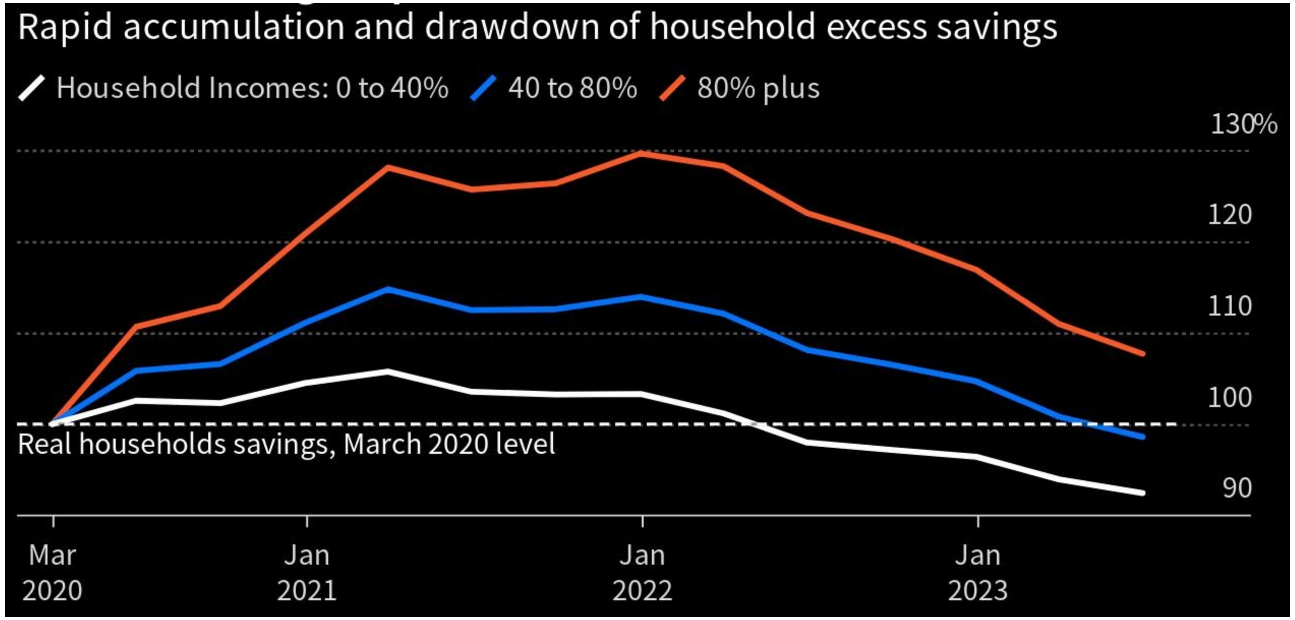


Note: Information as of October 2023
Source: Bloomberg

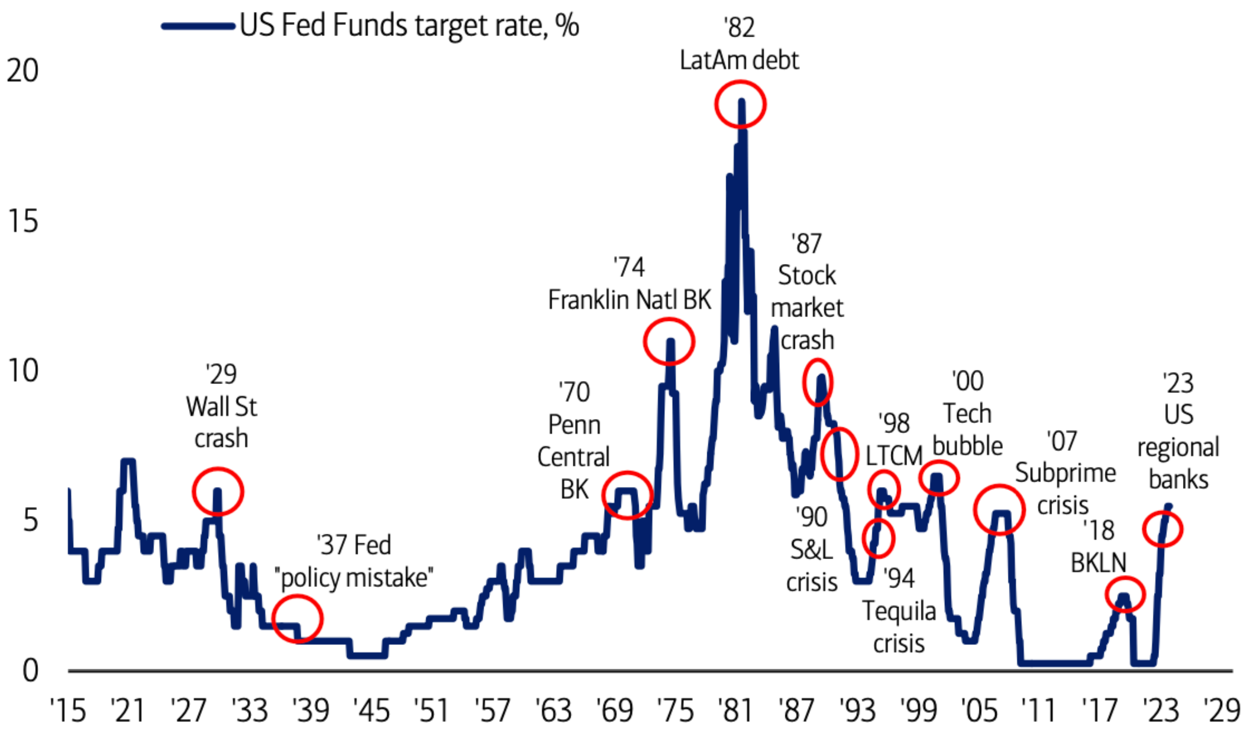
Americans outside the wealthiest 20% of the country have run out of extra savings and now have less cash on hand than they did when the pandemic began, according to the latest Federal Reserve study of household finances.

For the bottom 80% of households by income, bank deposits and other liquid assets were lower in June this year than they were in March 2020, after adjustment for inflation.

All income groups have seen their balances decline in real terms from a peak in 2021, according to the Fed survey. But among the wealthiest one-fifth of households, cash savings are still about 8% above their level when Covid-19 hit. By contrast, the poorest two-fifths of Americans have seen an 8% drop in that period. And the next 40% — a group that roughly corresponds with the US middle class — saw their cash savings drop below pre-pandemic levels in the last quarter.

The Big Tightening

US Fed Funds target rate, %



520 central bank rate hikes past 24 months likely ain't finished breaking stuff. Stay bearish/defensive & sell the last hike.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

The Big Change

Investment Themes in the 2010s vs the 2020s

2010s		2020s
1%	→	99%
Wall Street		Main Street
Inequality		Inclusion
Capital		Labor
QE		AI
Climate change		Net Zero
Monetary excess		Fiscal excess
Tax cuts		Bailouts
Stocks & Bonds		Cash & Commodities
60-40		25/25/25/25
Financial Assets		Real Assets
Globalization		Protectionism
Democracy		Autocracy
Peace		War
Deflation		**Inflation**

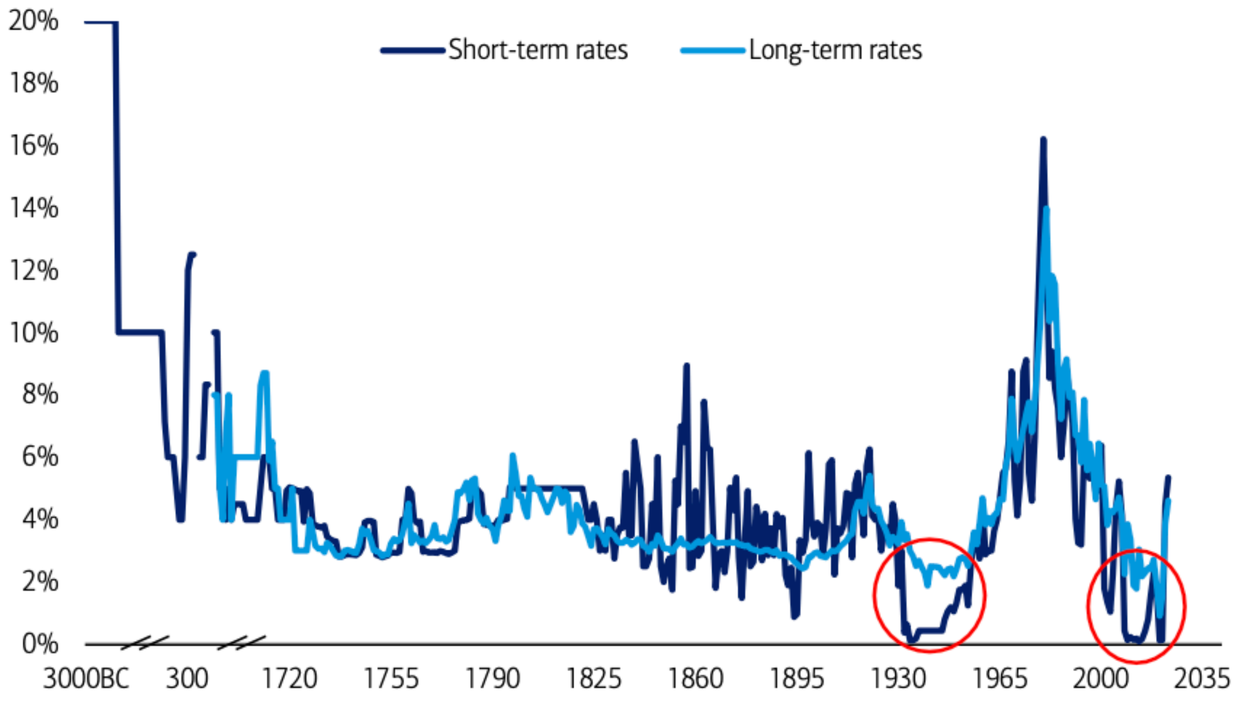
2020s: investment backdrop flipping from monetary to fiscal excess, from capital to labour, from globalization to protectionism, from democracy to autocracy, from climate change to net zero, from excess liquidity on Wall St to excess inflation on Main St.

AA: 25/25/25/25 cash/commodities/bonds/stocks "permanent portfolio" to outperform 60/40 portfolio, real assets outperform financial assets, BofA sells US dollar & deflation assets such as IG bonds & monopolistic tech/growth stocks into coming recession, BofA buys inflation assets such as commodities, real estate, value cyclicals as recession begins.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

The Biggest Change

Interest rates since 3000BC



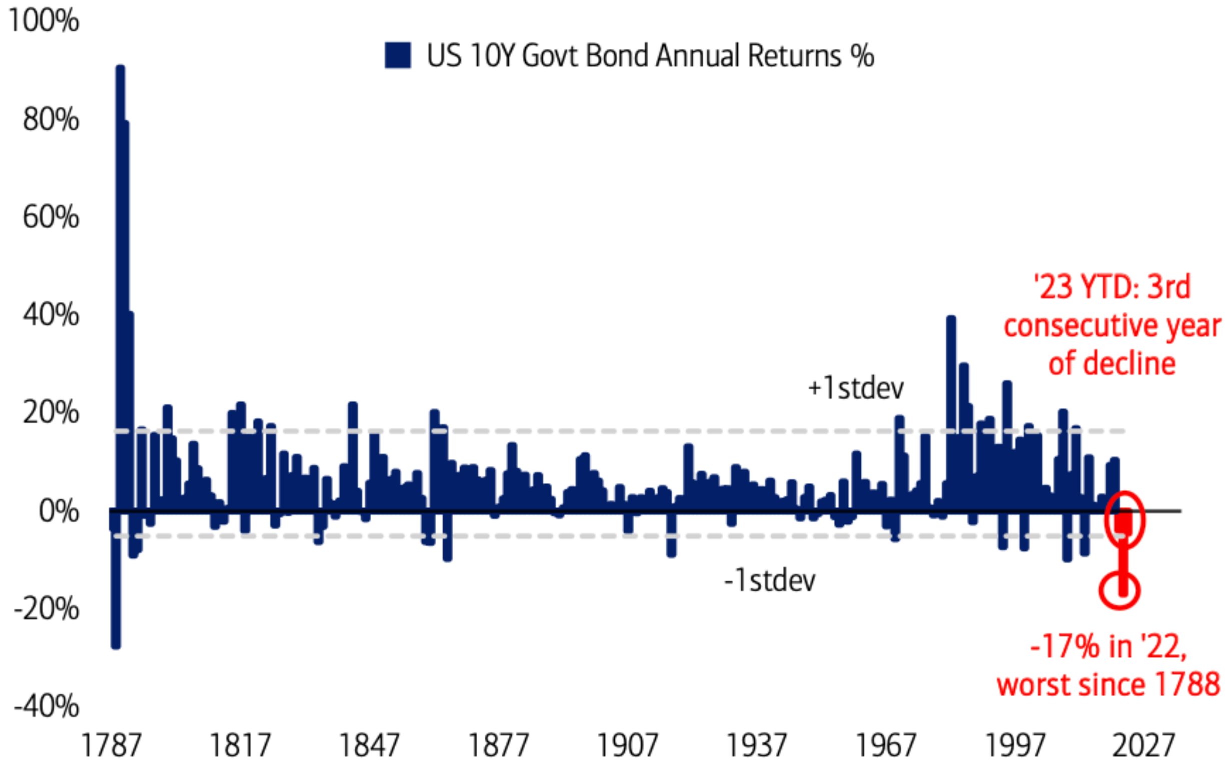
Biggest change simply that global interest rates no longer at 5000-year lows...that means end of abnormally high bond & equity returns.

US & UK yields have jumped from zero to 5% past couple years but 5% simply average yield of past 250 years.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

The Big Bust

US 10-year government bond annual returns since 1787



US Treasuries on course for historic 3rd consecutive year of losses (-4% in '23, -17% in '22, -4% in '21)...has never happened in history of US republic.

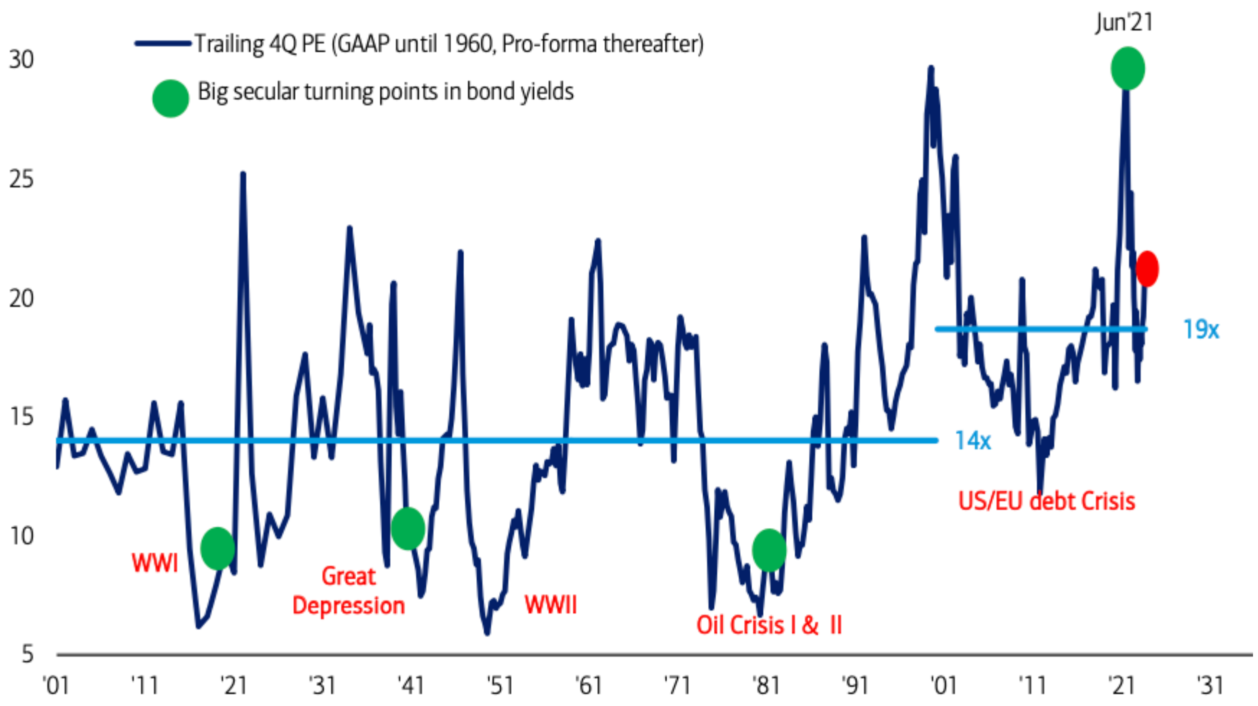
Hard landing should make long bonds most likely "biggest trade" of 2024..."humiliation" always best asset to own.

But bond investors need hard landing data and bull price action...should first recession data incite political agitation for fiscal panic and bond yields don't fall as expected...Risk is dollar debasement fears return causing US dollar gains to reverse.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

The Huge Equity Trading Range

S&P 500 trailing PE ratio since 1901



Past 100 years S&P 500 mean return 8% (was even 8% in stagflationary 1970s...though returns in real terms negative).

If 21st century equity multiple of 19x still correct then equities fine; but if new secular trends mean 20th Century multiple of 14x more appropriate (BofA thinks so) then equity returns will disappoint; note of course magnificent bifurcation between current 30x PE for Magnificent 7 tech stocks & 16x PE for rest of market.

AI baby bubble, stocks as poor man's inflation hedge, stocks front-running YCC all catalysts for new highs; more likely 3-5% rates & inflation next 3-5 years keeps SPX in 3.6-4.8k range.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

History of Bubbles

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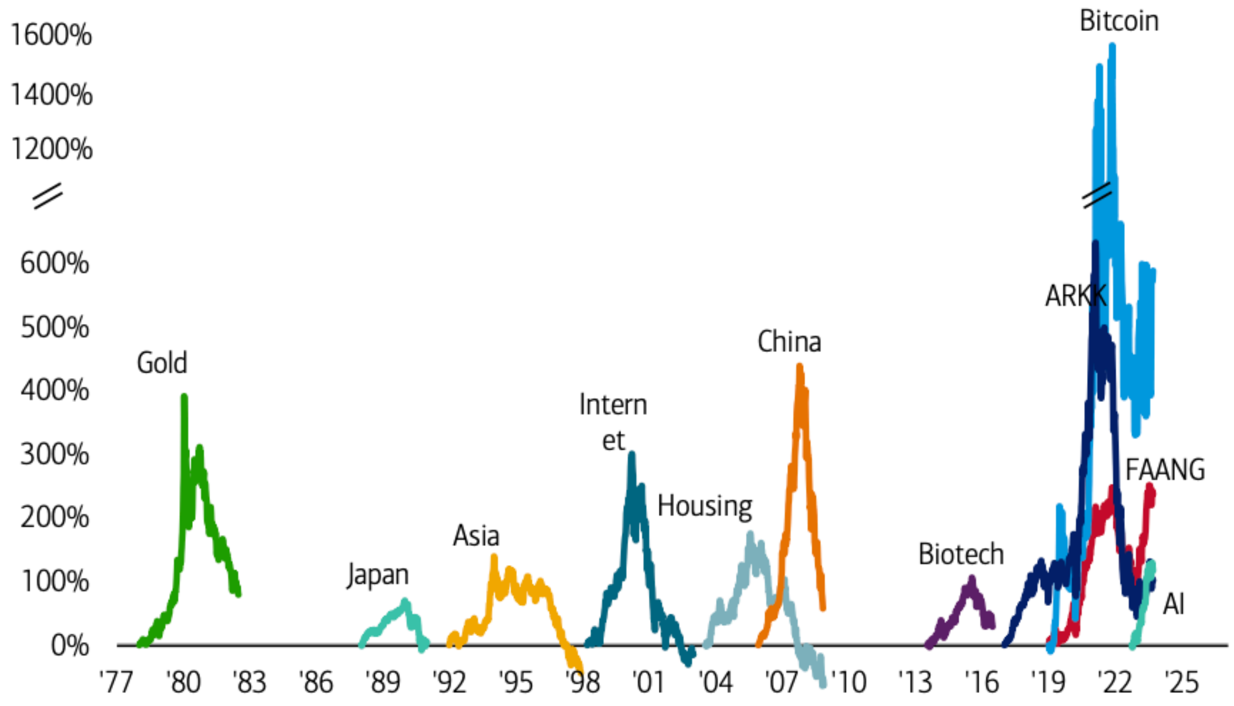
History of bubbles



AI next great technological disruption, and with China, potential deflationary offset to inflationary trend if AI permitted to create unemployment.

Magnificent 7 big tech monopolies/oligopolies account for $3.6tn of the entire S&P 500 $3.8tn market cap gain YTD (excluding Magnificent 7, S&P 500 up just 1% YTD).

AI for now “baby bubble"...note with far lower debt levels than today, 4% real rates popped internet bubble 2000, 3% real rates popped subprime, and crypto crashed on real yield rip from - 100bps to 150bps...real UST 10-year yields now >2%. BofA remains as a seller of monopolistic tech.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

Long Main Street, Short Wall Street

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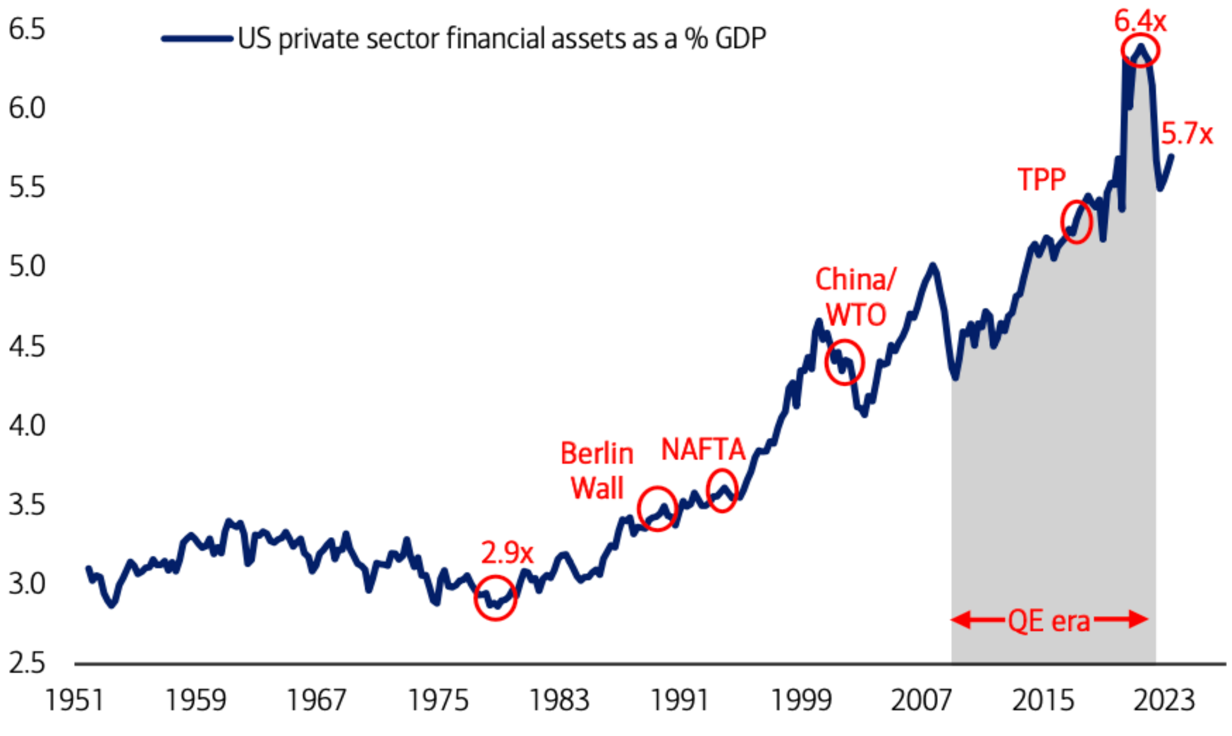
US private sector financial assets as % of GDP since 1951



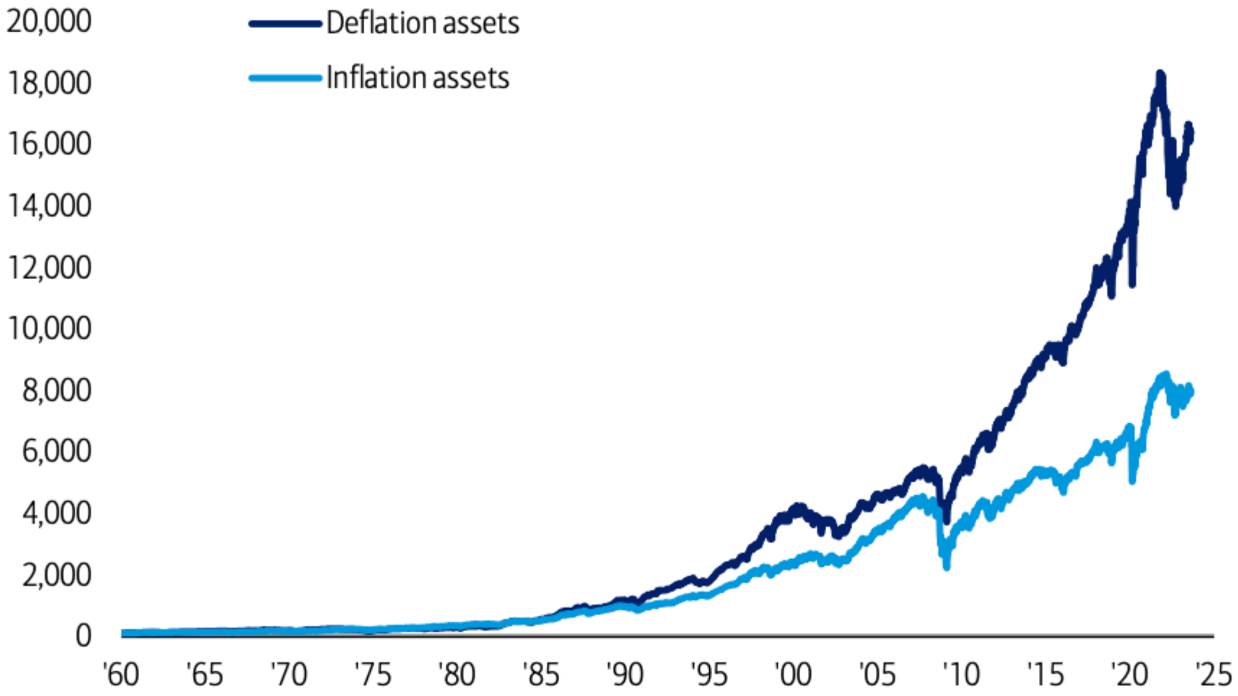
Value of financial assets (Wall Street) relative to the value of the economy (Main Street) rose from 4.5x to 6.5x past 15 years...have since dropped to 5.6x but well above the 3-4x average between 1950 & 1999.

2020s see policies of redistribution, regulation, reshoring to reverse wealth inequality, raising the value of labour relative to capital...note Biden 1st President to join trade union picket line...buy what Main St buys.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

Long Inflation, Short Deflation

"Deflation assets" relative to "inflation assets" since 1960



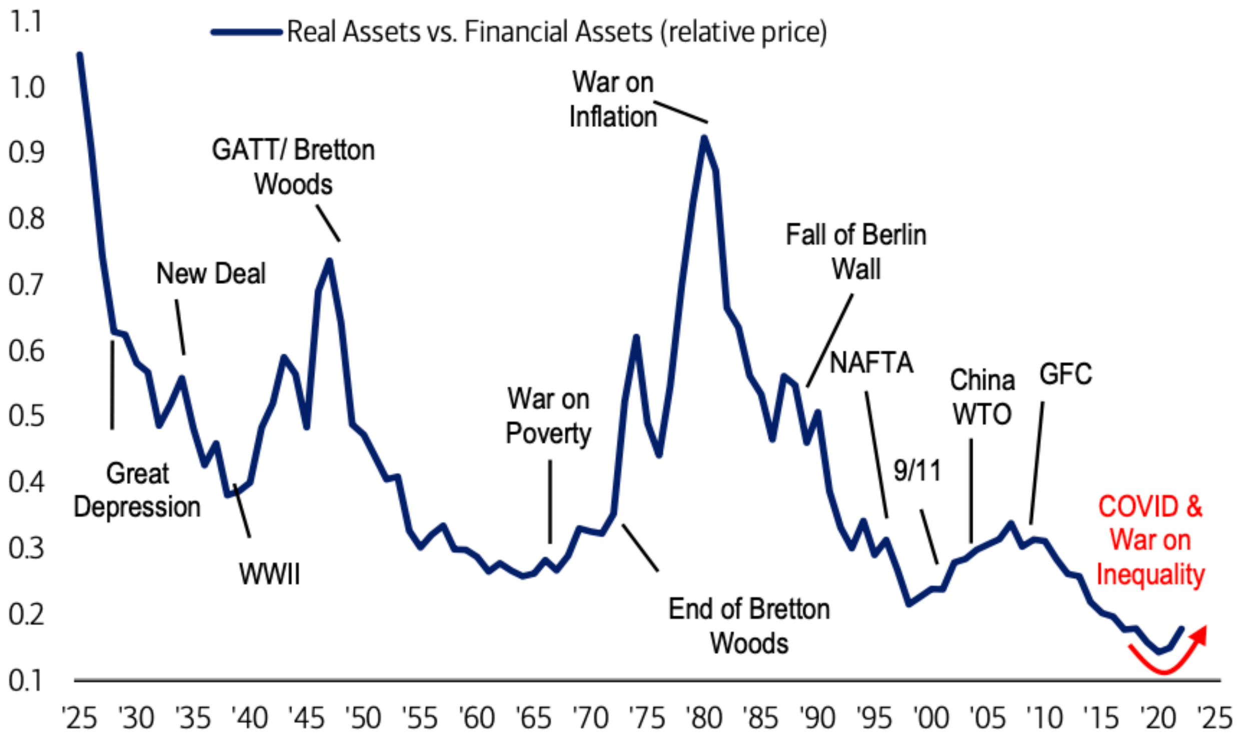
Annual returns in 2010s...10% in deflation assets (bonds, tech...), 6% in inflation assets (cash, commodities, value...); thus far 2020s...5% deflation vs 4% inflation.

BofA sells US dollar & deflation assets such as IG bonds & monopolistic tech/growth stocks into coming recession, BofA buys inflation assets such as commodities, real estate, value cyclicals as recession begins.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

Long Real Assets, Short Financial Assets

Real Assets relative to Financial Assets since 1925



Real assets are...scarce...cheap (relative to financial assets close to 100-year lows)...under-owned...a hedge against Inflation...diversify portfolios.

All individual real assets are positively correlated with inflation since 1950...diamonds, US farmland and gold have the highest correlation between change in the price and the US CPI inflation rate.

Cash is financial asset most positively correlated with inflation, and far behind are large caps and small caps both positively correlated while bonds are negatively correlated with inflation.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

Long RoW, Short US

US relative to Rest-of-World stocks since 1950

US equities at 70-year highs vs global stocks...little wonder "US exceptionalism" so consensus; best hedges for "exceptionalism" flipping to "debasement" are real assets, gold, TIPS, small cap value, EM.

Note: Information as of October 2023
Source: BofA Global Investment Strategy

Contact Info

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