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OMNI CAPITAL PARTNERS

Investment Newsletter

November 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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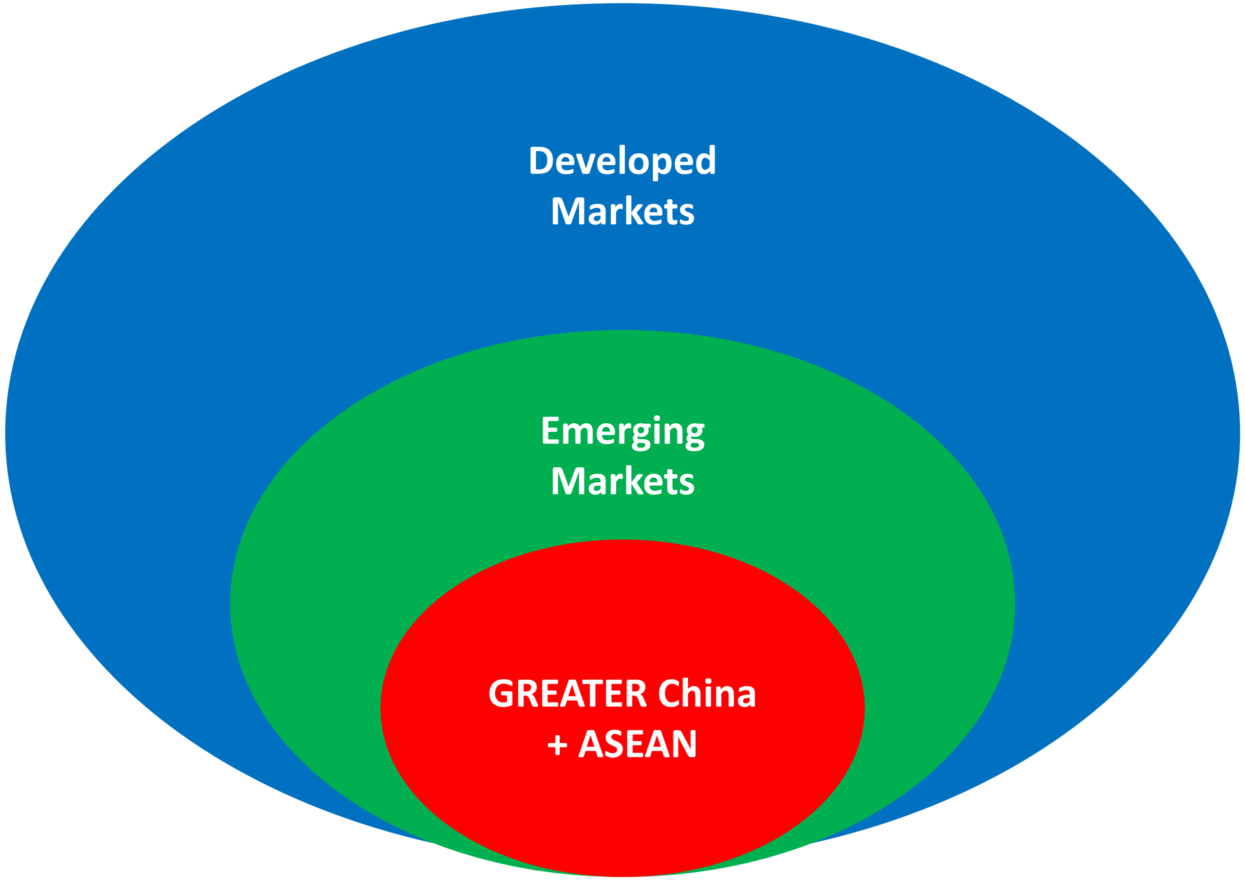
Clients	Markets	Investment Strategies	Investment Portfolios
High Net Worth Individual	China	Omni Hedge (Active)	Omni Capital Partners Inc (Public Securities)
Ultra High Net Worth Individual	ASEAN	Omni Long (Passive)	Omni Ventures Ltd (Private Investments)
Family Office	United States	Omni Momentum	
Corporates	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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- According to the White House Council of Economic Advisers (CEA), The study suggests that in 2020, approximately 80% of the inflation rise was attributed to supply shocks. However, in 2021, a notable improvement in supply chains played a crucial role in causing a decline in the inflation rate. The study highlights that this enhancement in supply chains acted as a force to reduce inflation, as measured through sector-level supply shocks, particularly in the latter part of 2021 and throughout 2022. From a policy perspective, the researchers draw a significant implication, asserting that in a world characterized by more frequent supply shocks, whether at the sectoral or aggregate level, higher inflation is expected. This holds true even in the presence of restrictive monetary policies. The study challenges the effectiveness of sustained high-interest rates, as imposed by the Federal Reserve, in mitigating inflationary pressures. The assertion is that the conventional approach, often referred to as 'going the last mile' to achieve the Federal Reserve's target of 2% annual inflation, may prove challenging given the current economic dynamics. Furthermore, the study indicates signs that inflation may be on the rise again, despite the ongoing high-interest-rate environment.

- Presently, while it would be unprecedented for the Fed to implement another rate hike after a prolonged period, it's essential to acknowledge the possibility of such a move. The prospect of inflation persisting at levels that are more enduring than initially anticipated may necessitate a shift toward a more stringent monetary policy. Consequently, this scenario suggests that yields are positioned at the lower end, influenced by the upward pull from increased short-term rates and the persistence of robust nominal GDP figures.

Investment Review and Outlook

- During periods when the Federal Reserve is raising interest rates, stocks often experience positive performance, and bond yields typically increase. This trend is indicative of an economy running above its trend, leading the Fed to raise rates as a precaution against inflation. The primary objective during such rate-hiking phases is to moderate economic growth and bring it back to a sustainable trend. Given that the economy is heavily reliant on debt, higher interest rates usually result in growth below the trend and, in some cases, lead to a recession. The term "soft landing" is commonly used to describe the desired outcome during rate hike cycles, despite the recurrence of such cycles over time.

- When the Fed transitions to rate cuts, stocks typically exhibit poor performance, and bond yields continue to decrease. This outcome is expected because the Fed's previous rate hikes may have been excessive, leading to a shift from a hoped-for soft landing to a more challenging economic scenario, possibly a hard landing. This historical pattern highlights the delicate balance the Federal Reserve seeks to strike in managing the economy through interest rate adjustments.

- BofA's Michael Hartnett has repeatedly made in his Flow Show notes, namely that 2024 will see elections in countries covering around half the world’s population. In today's Chart of the Day by the Deutsche Bank strategist, he looks at this back over 220 years and shows that this is set to be the year with the biggest percentage of elections across the globe. Also interestingly, it will be the polar opposite of 2023 which was one of the lightest years in the last four decades.

Global Markets Think The Fed Won

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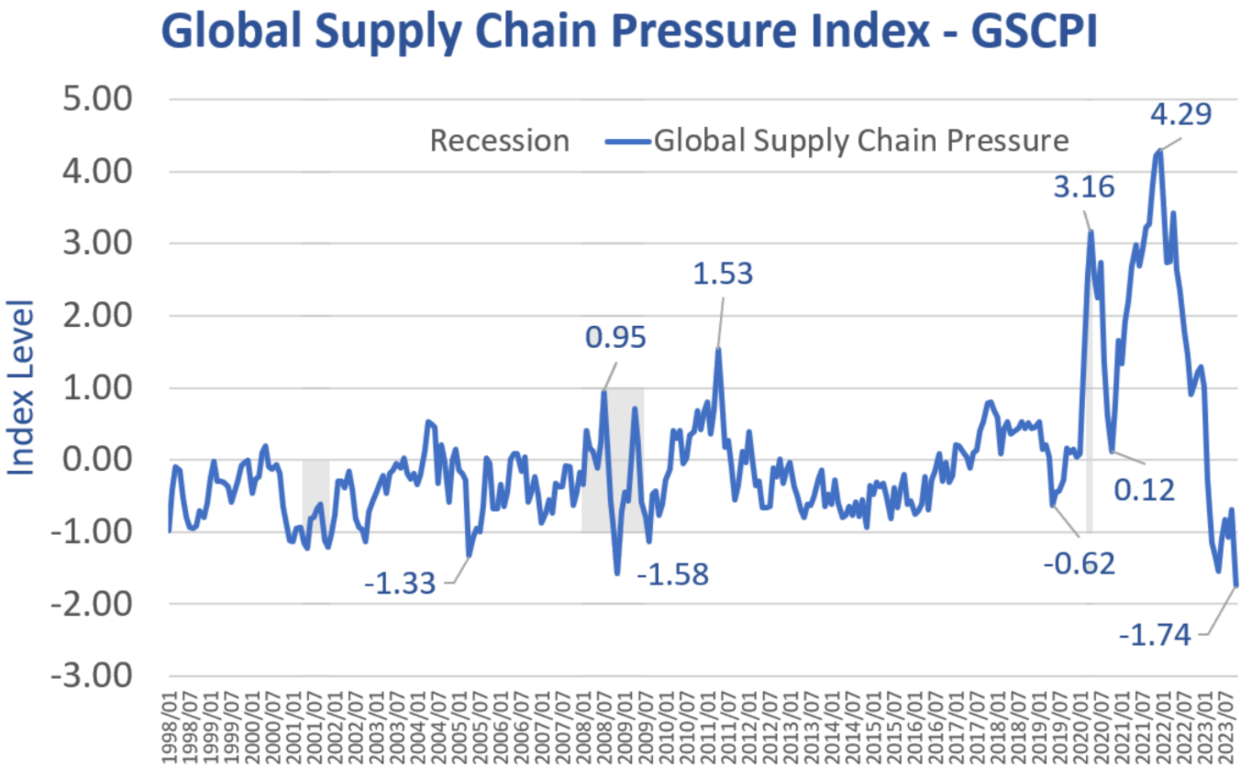
Market based expectations; Daily; Jan. 1, 2018, to Dec. 6, 2023

- Yields on U.S. government bonds have plunged since the end of September, as investors priced in slowing growth and falling inflation.
- In the market for Fed funds futures, traders are putting 60% odds that the Fed will declare victory on inflation and cut interest rates in March 2024.
- Expectations of rate cuts weaken the dollar in foreign exchange markets. The U.S. dollar index is down roughly 8% since the end of September.

Note: Information as of December 2023
Source: Factset, Axious Visuals

Lower Inflation Due to Easing in Supply Chain Pressure



According to CEA, an estimated 80% of the decline in inflation since 2022 can be attributed to more efficient supply chains, coupled with diminished demand. The CEA's assessment identifies two primary drivers of post-pandemic inflation: supply-chain bottlenecks induced by the pandemic and robust consumer demand, encompassing shifts in demand from goods to services.

It is crucial to recognize the interconnected nature of supply and demand dynamics. The CEA underscores that supply chain disruptions tend to have a more pronounced inflationary impact when they coincide with robust demand, as opposed to a scenario with weak demand where the constraints are less likely to exert significant pressure. In essence, the interaction between supply and demand plays a pivotal role in shaping the inflationary landscape, with the severity of supply chain disruptions contingent upon the strength or slackness of overall demand.

Note: Information as of December 2023
Source: New York Fed, Mishtalk

Fed Rarely Re-Hikes After a Long Pause

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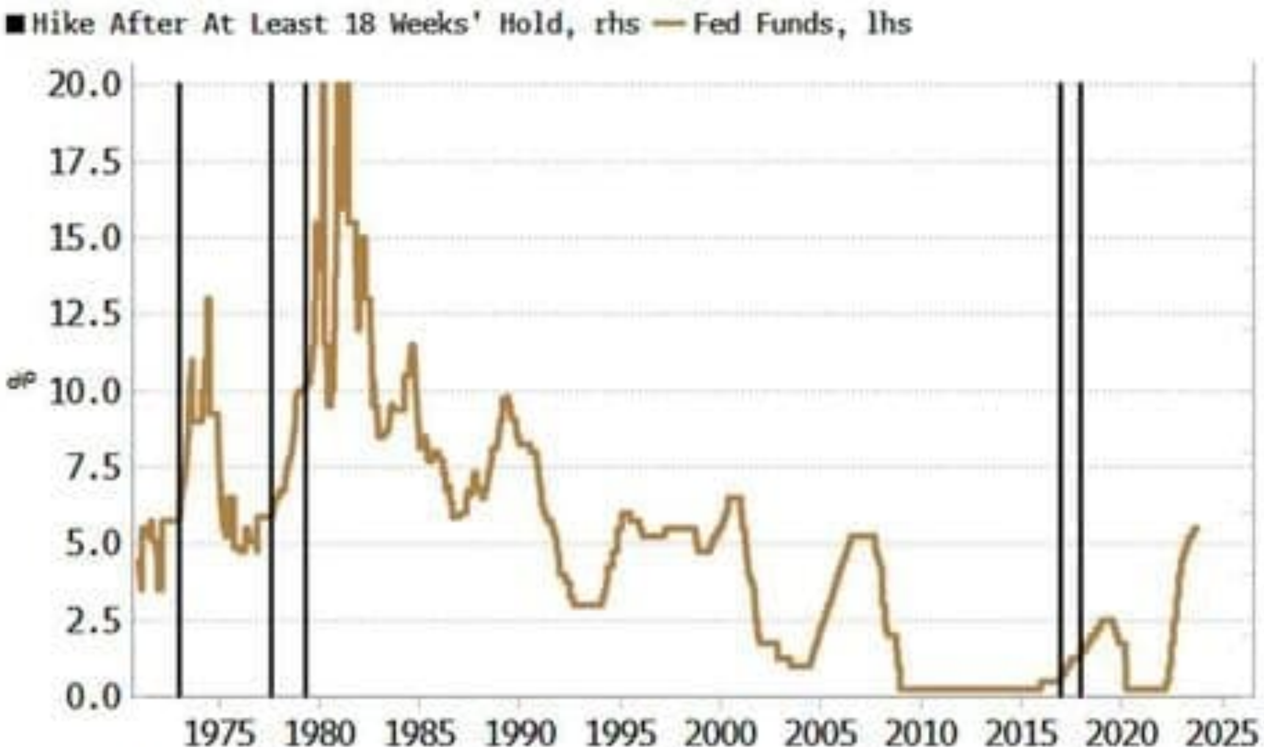

The Fed last hiked its policy rate on the July 26, 18 weeks ago. It would be rare for the central bank to hike rates again after such a lengthy pause. There have been five occasions since 1971 when the Fed has done so (specifically, hiked rates after a pause of at least 18 weeks when the last move was a hike).

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

The Long Lead to the 1990 Recession

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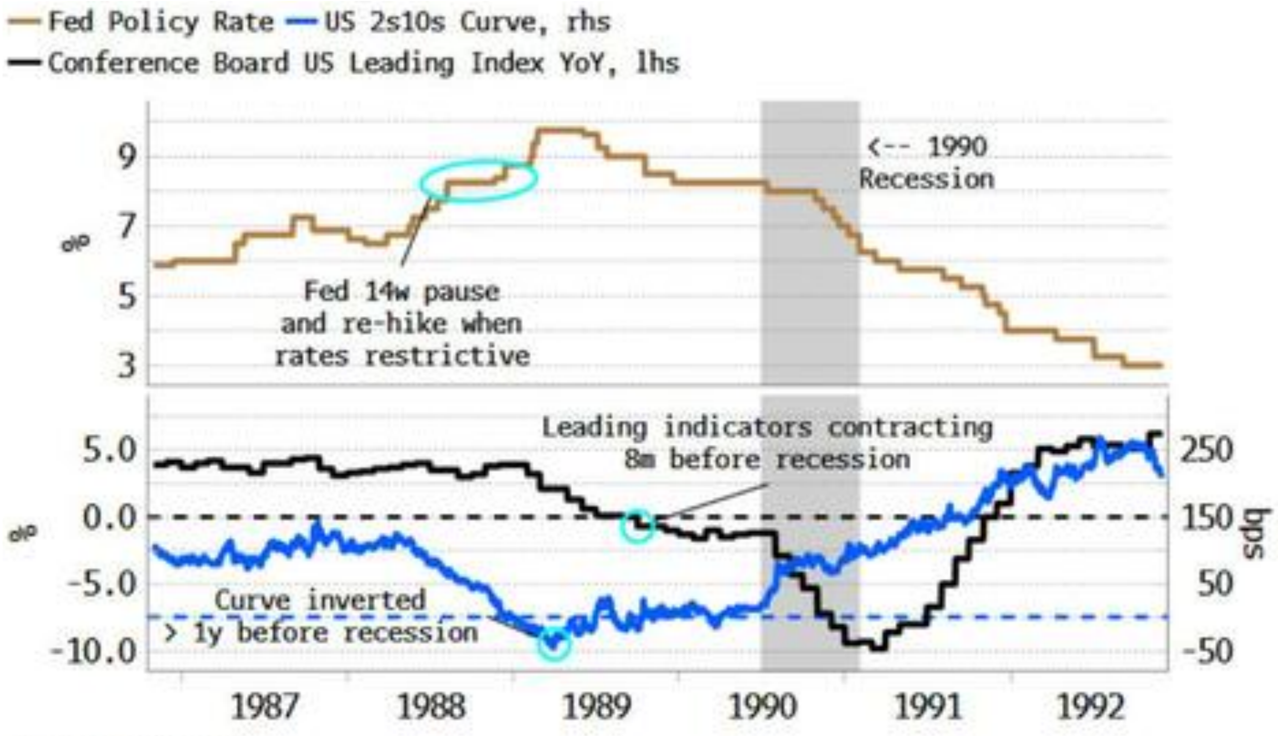
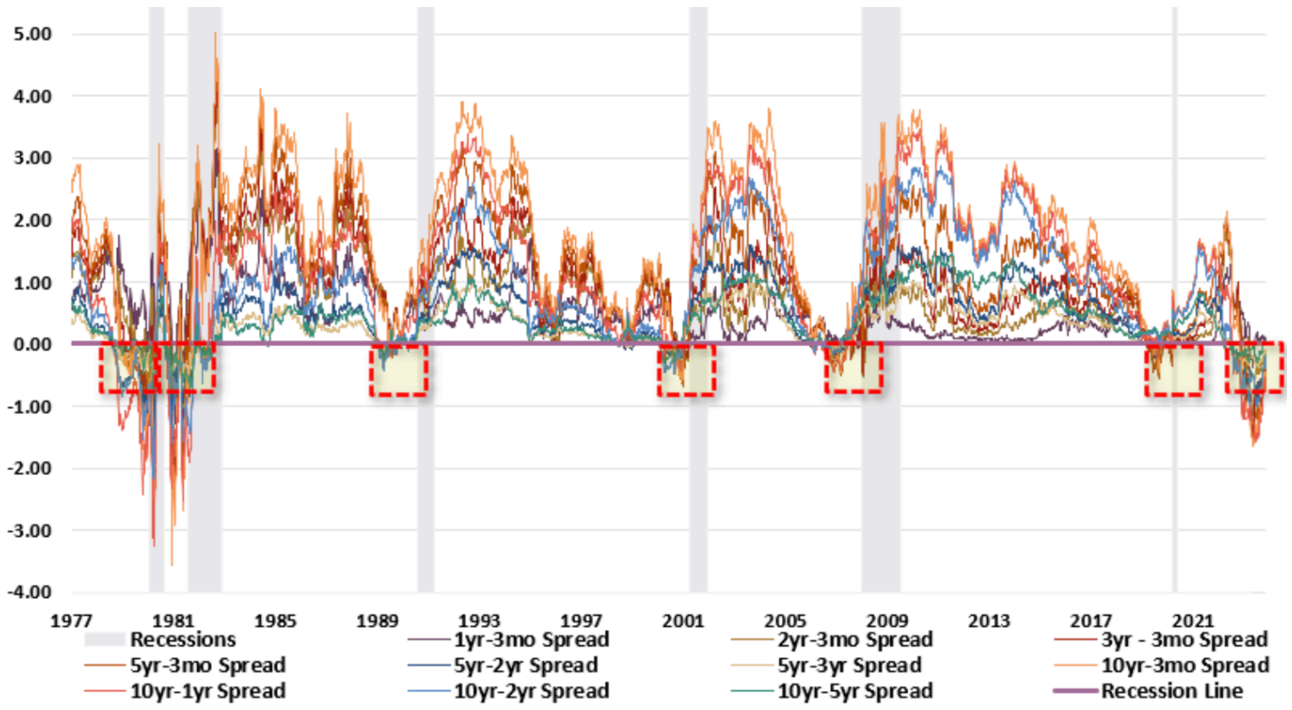


But when rates are already restrictive as they are today, it would be unprecedented. The longest the Fed has held rates after last hiking them, and then raising them again when rates are already restrictive - i.e. when the real Fed rate is greater than the neutral rate (using the Holston-Laubach-Williams estimate) – is 14 weeks, between August and November 1988.

This was another time when there was a long lead into the next recession, with several reliable signals flagging a contraction many months or years in advance. As the bottom panel of the chart below shows, the yield curve was inverted more than year before the recession began in July 1990. The Conference Board’s Leading Index was contracting at least eight months before the slump.

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

Best Recessionary Indicator



While most mainstream economists focus on a specific yield curve, here tracks ten different economically important spreads from short-term consumption to long-term investments. Most yield spreads we monitor, shown below, are inverted, which is historically the best recessionary indicator. However, technically, the UN-inversion of the yield curve is the recessionary indicator.

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

Poor Stock Performance During Rate Cuts

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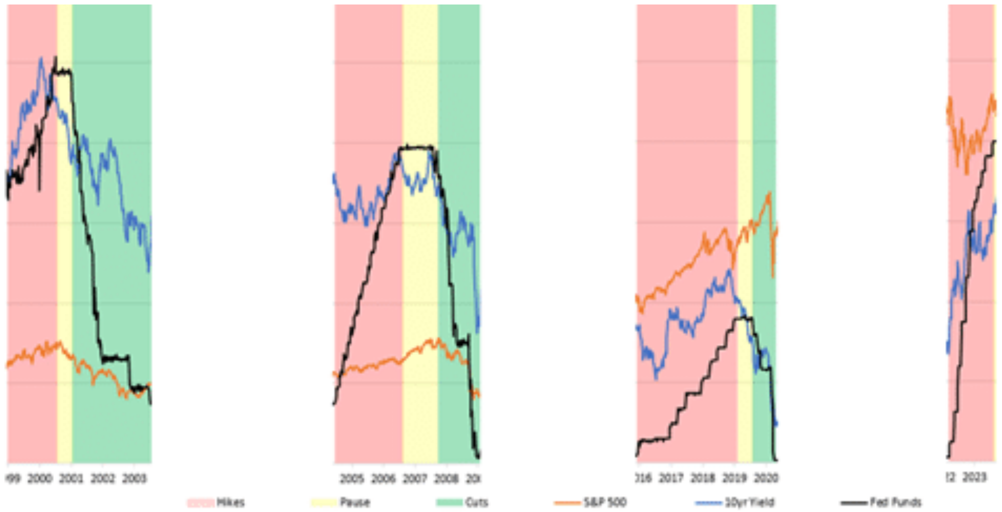


1999-2003	Hike	Pause	Cut
Stocks	16.09%	-10.94%	-26%
Bonds	1.28	-0.92	-1.67

2005-2009	Hike	Pause	Cut
Stocks	12.78%	20.45%	-44%
Bonds	0.32	-0.51	-2.14

2016-2020	Hike	Pause	Cut
Stocks	34.95%	11.74%	-15%
Bonds	0.53	-0.68	-1.28

2022-??	Hike	Pause	Cut
Stocks	2.67%	0.28%	
Bonds	1.96	0.35	

Average	Hike	Pause	Cut
Stocks	16.62%	5.38%	-28.36%
Bonds	1.02	(0.44)	(1.70)

The graph isolates the three prior and the current partial cycles to appreciate what happens during the three cycles.

Note: Information as of December 2023
Source: RIA

Financial Conditions Imply Sizable Rate Cuts Already

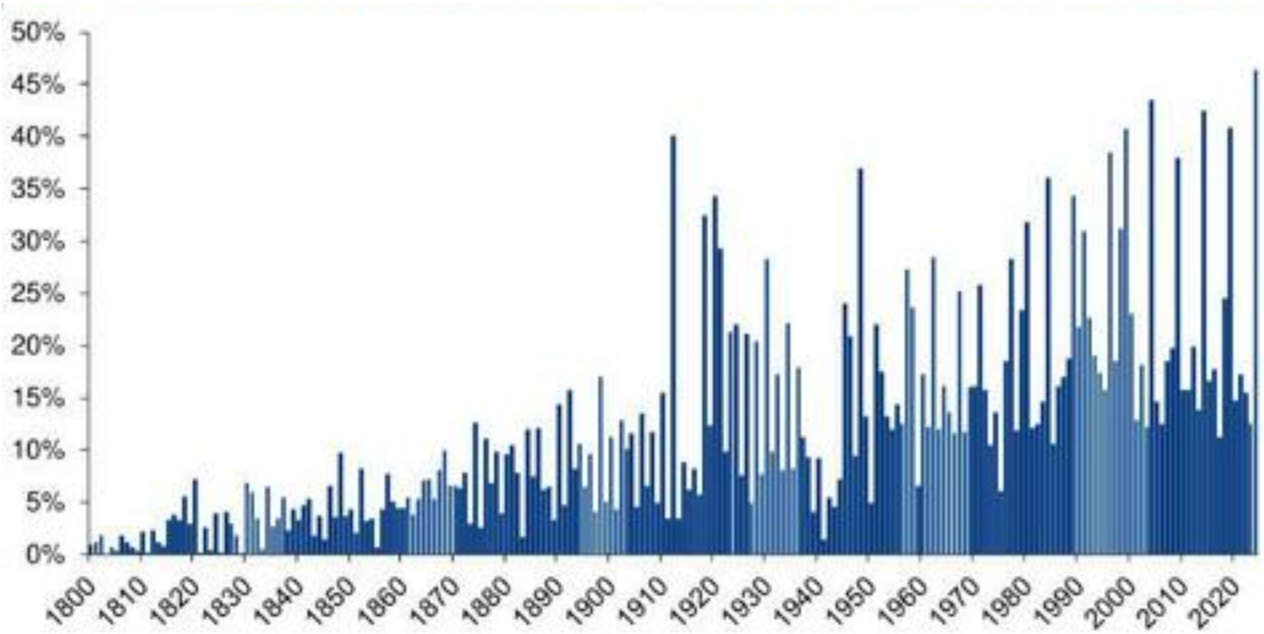
The index infers that the loosening in financial conditions is equivalent to up to 90 bps of Fed cuts over the last month.

Favourable liquidity conditions are poised to continue to provide a tailwind for risk assets, implicitly lowering rates through a further easing in financial conditions.

There is thus an increasing chance the Fed will feel compelled to hike rates again to prevent a re-acceleration in inflation.

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

Percentage of Global Population with Legislative and Presidential Elections Hit New High



The mains ones to watch in 2024 are:

- The US Presidential Election in November. A Trump victory, assuming he is the Republican nominee, plus a Republican sweep in Congress, could bring substantive policy changes.
- The Taiwanese election in January could help shape US-China relations over the next few years.
- European Parliamentary elections in June. Given the relatively high polling numbers for the far right across parts of Europe and the recent Dutch result, this election could test the capacity of the traditional mainstream parties to maintain a majority and the Commission's ability to push further EU integration, such as with the "open strategic autonomy" agenda.
- Indian elections in April/May. Political stability is behind our view that their economy will double in size out to 2030

Note: Information as of December 2023
Source: Deutsche Bank, Haver Analytics

Contact Info

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