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OMNI CAPITAL PARTNERS

Investment Newsletter

April 2024

“ 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



- Higher long-term yields will lead to the government having to borrow yet more to pay its spiraling interest-bill on its outstanding debt. But that points to fewer reserves and falling reserve velocity, effectively undoing the work of the Yellen pivot and leaving the stock market in a precarious spot. The Fed is thus likely to cut rates in a quid pro quo with the Treasury. This would not only help the government fulfill its borrowing requirements at a non-usurious cost, it also helps the Fed with its responsibility for financial stability by taking the pressure off risk assets and reducing the likelihood of a funding squeeze. Even though such a move would be unwise, it doesn't mean it won't happen. Cutting rates before inflation has been snuffed out threatens to intensify structural risks for price growth. But in the heat of liquidity drying up, funding risks rising, markets on increasingly shaky ground, and the government locked in an issuance doom-loop as its interest costs soar, the Fed is likely to cut rates as an easy first move to ease the pressure, an outcome made even more likely with an election looming.
- The largest firms in the US are unsurpassably pulling ahead of their smaller rivals by earning more, investing more, holding more cash and buying back more of their stock. The widening leadership that the largest firms already enjoy extends beyond the monopolies or oligopolies that benefit many of them. They are also bolstering their financials and investing in the future in such a way that they are leaving their smaller brethren in the dust, rendering their lead invulnerable. The bull market is thus likely to remain historically lackluster and less robust as smaller companies continue to lag their bigger counterparts.

Investment Review and Outlook



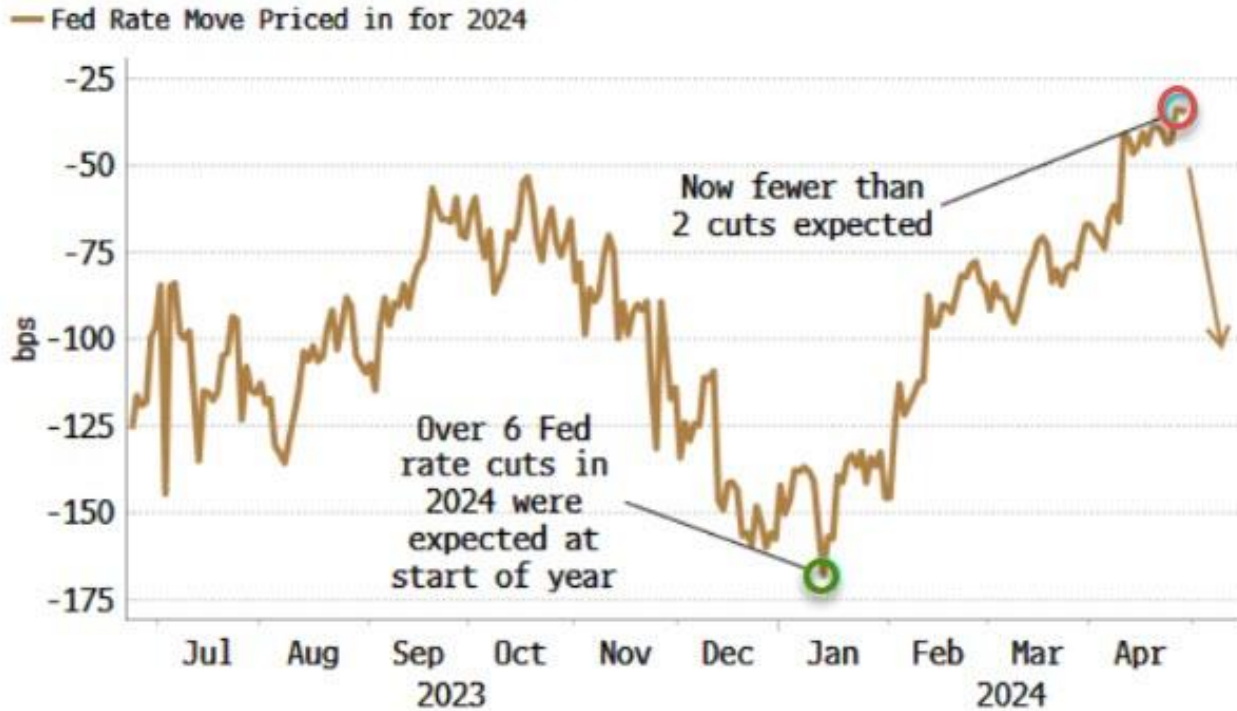
- Under the expectation of interest rate cuts, if combined with looser global financial conditions, global equity markets will likely rise. Since 2000, if global central banks successively "inject liquidity" under the global economy "relative difference" logic, similar to the periods from November 2006 to May 2007 and from January 2019 to July 2019, it will lead to a decline in the OFR Global Financial Stress Index. This signifies abundant global liquidity, remaining idle in the financial markets, thereby boosting the valuation expansion and rise of global equity assets. During this time, the MSCI Emerging Markets Index averaged a gain of 11.6%, significantly outperforming the MSCI Developed Markets Index at 7.6%.
- Interest rate cuts combined with the U.S. "Liquidity Trap" will likely lead to a correction in global equity markets. Two scenarios are observed: (1) A soft landing, where the U.S. economy maintains rapid growth during the interest rate cut period, such as in 1995, 1998, and 2019, during which global equity markets rose, with the MSCI Developed Markets (average 14.4%) outperforming the MSCI Emerging Markets (average 8.4%). (2) A hard landing, where the U.S. economy declines during the interest rate cut period, such as in 1990, 2000, 2006, and 2020, during which global equity markets fell, with the MSCI Developed Markets (average -12.8%) underperforming the MSCI Emerging Markets (average -6.7%).

Investment Review and Outlook



- With the resolution of the U.S. "Liquidity Trap," the MSCI Emerging Markets will likely increase significantly. Once the U.S. "liquidity trap" is resolved, the excess currency created in the next six months will naturally flow into emerging market countries, boosting equity markets with better fundamentals. Even if developed countries still undergo a "hard landing," the MSCI Emerging Markets' average gain can reach about 14%, only slightly lower than the average level of about 18% in a "soft landing" scenario.
- With the conclusion of the U.S. interest rate cut cycle, the MSCI Emerging Markets will also increase significantly. Once the U.S. interest rate cut cycle ends, developed economies will recover in the next six months, while emerging markets will exhibit greater resilience in fundamentals. Therefore, the MSCI Emerging Markets Index achieves an average return of up to 16% in this interval. Notably, if the U.S. economy previously experienced a "hard landing," the fundamentals change logic will be stronger and more flexible, resulting in the MSCI Emerging Markets gaining up to 27%. Conversely, if it was a "soft landing," the result is less impressive, with only about a 2% increase.

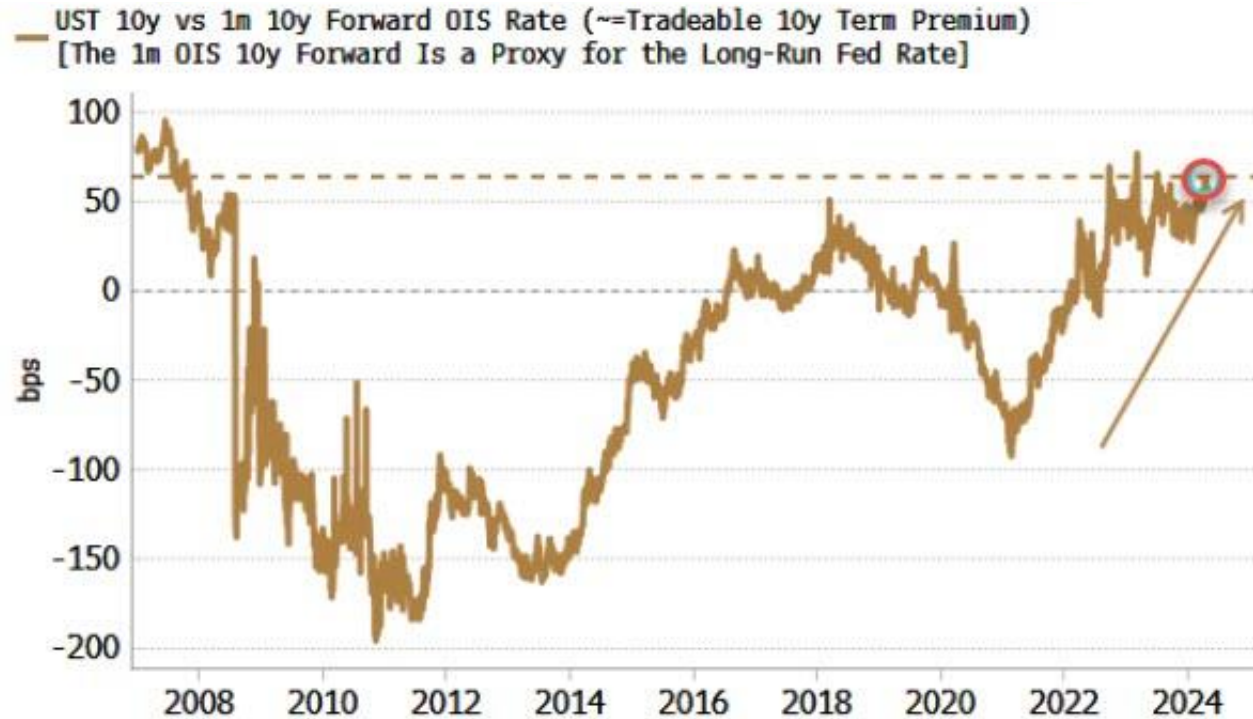
More Prone to a Dovish Repricing



The Federal Reserve's next move this year is likely to be a rate cut - despite the re-emergence of inflation - leaving markets at risk of a dovish repricing.

Note: Information as of April 2024
Source: Bloomberg, Macrobond

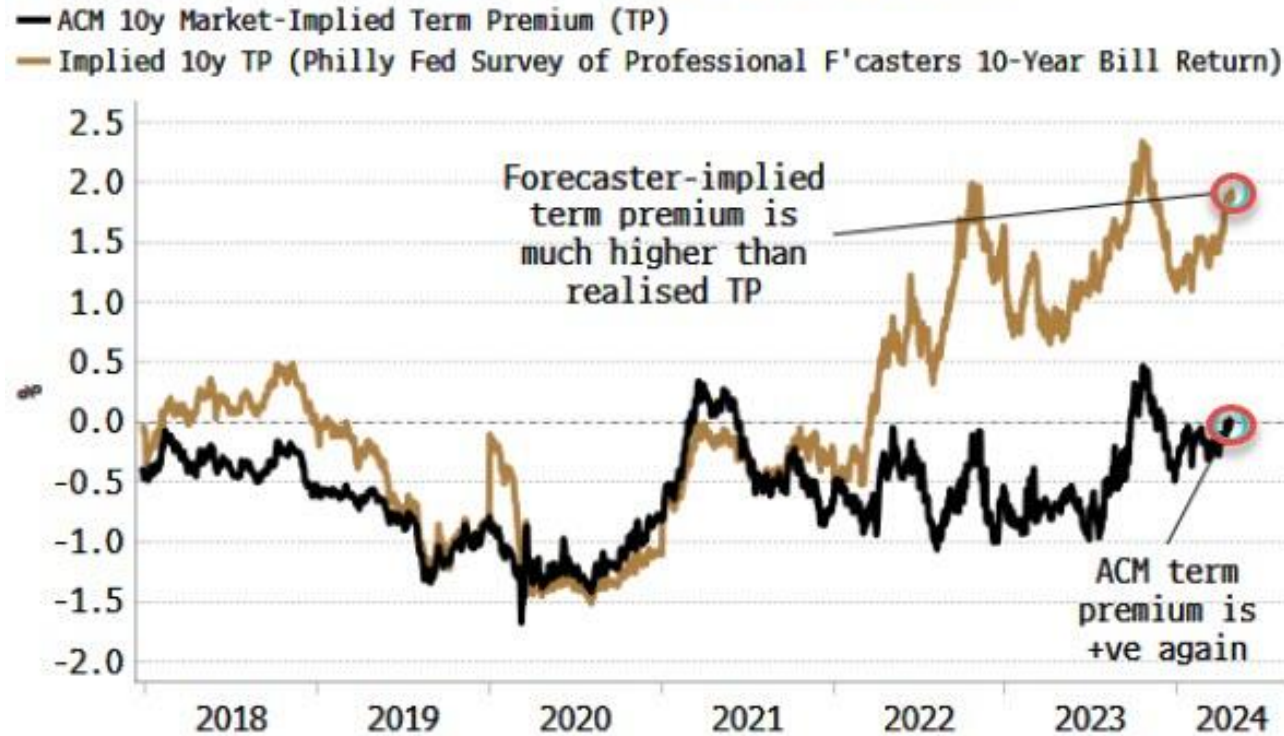
UST Buyers Demanding More Inflation Protection



The chart shows a tradeable proxy for term premium - the difference between the 10-year yield and the 1-month Overnight Index Swap (OIS) rate 10-years forward - that is as high it's been since the GFC.

Note: Information as of April 2024
Source: Bloomberg, Macrobond

US Funding Costs at Risk of Moving Much Higher

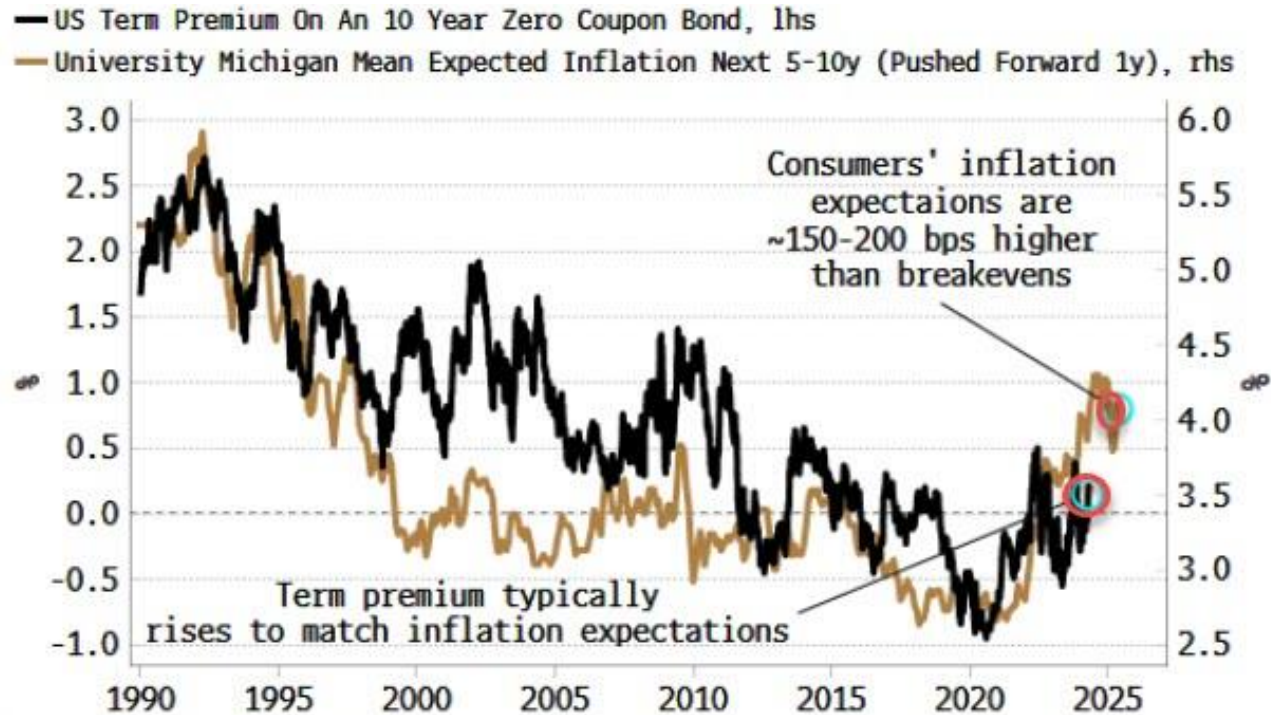


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The ACM term premium has gone back into positive territory, while implied measures of term premium based on forecasters' estimate of the 10-year bill rate are already 150 bps higher than the OIS-based term premium shown above. Even if Treasuries are not as overpriced as this infers, the government still has a problem.

Note: Information as of April 2024
Source: Bloomberg

Yield to Rise with Household as Main UST Buyer



Consumers' long-term inflation expectations typically lead term premium. The market's view of longer-term inflation, i.e. breakevens, is about 150-200 basis points lower than households' outlook. As the UST buyer of last resort, households will increasingly set the price, one that's likely to be lower than it is now.

Note: Information as of April 2024
Source: Bloomberg, Macrobond

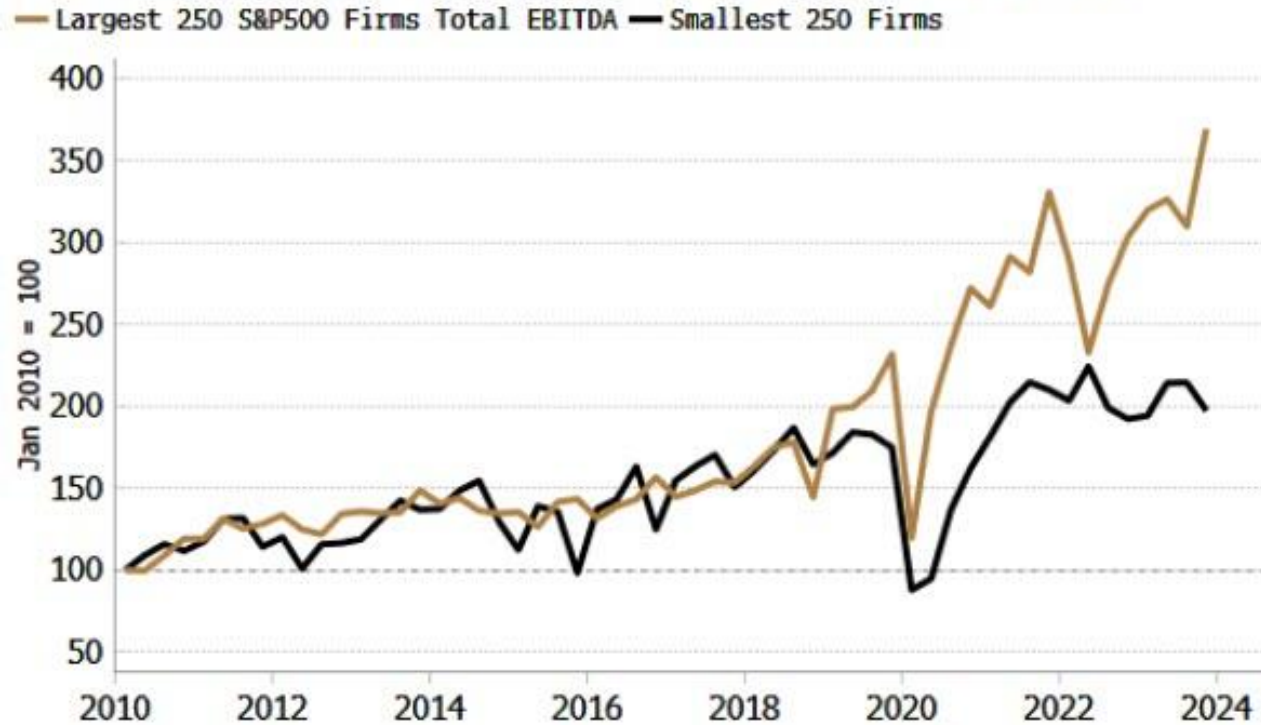
The Rich Get Richer



Large-cap indexes in the US have never been so concentrated, with the Magnificent Seven accounting for 27% of the S&P 500's market cap. The outperformance really began to take off in the pandemic. Expanding to the largest 50 stocks in the S&P, we can see these began to significantly outpace the index's smallest 250 members after 2020.

Note: Information as of May 2024
Source: Bloomberg, Macrobond

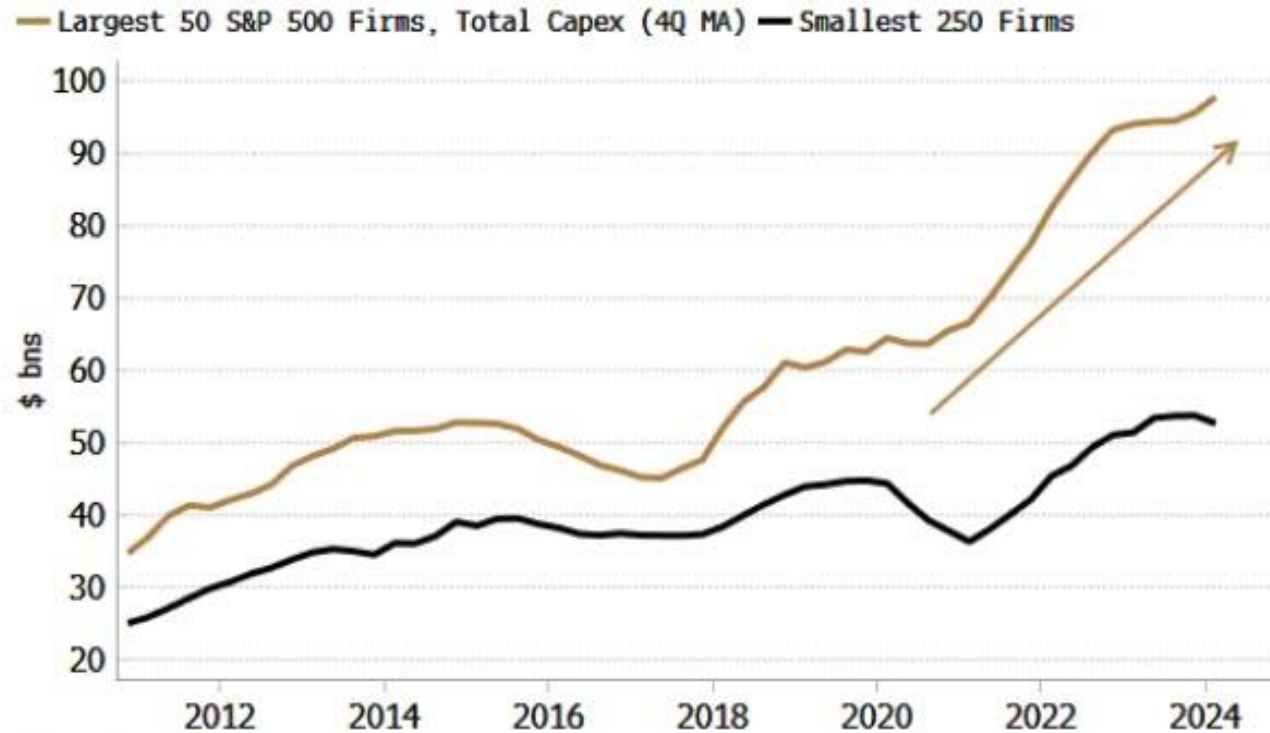
Largest Firms are Increasing Earning Advantage



Market concentration can also be seen in earnings, with the largest 50 firms accounting for 35% of the S&P's total Ebitda. An acceleration in earnings at the largest firms since the pandemic is fortifying that effect. The top 50's Ebitda has risen over 3.5x since 2020, while it has only doubled for the smallest 250 companies in the S&P.

Note: Information as of May 2024
Source: Bloomberg

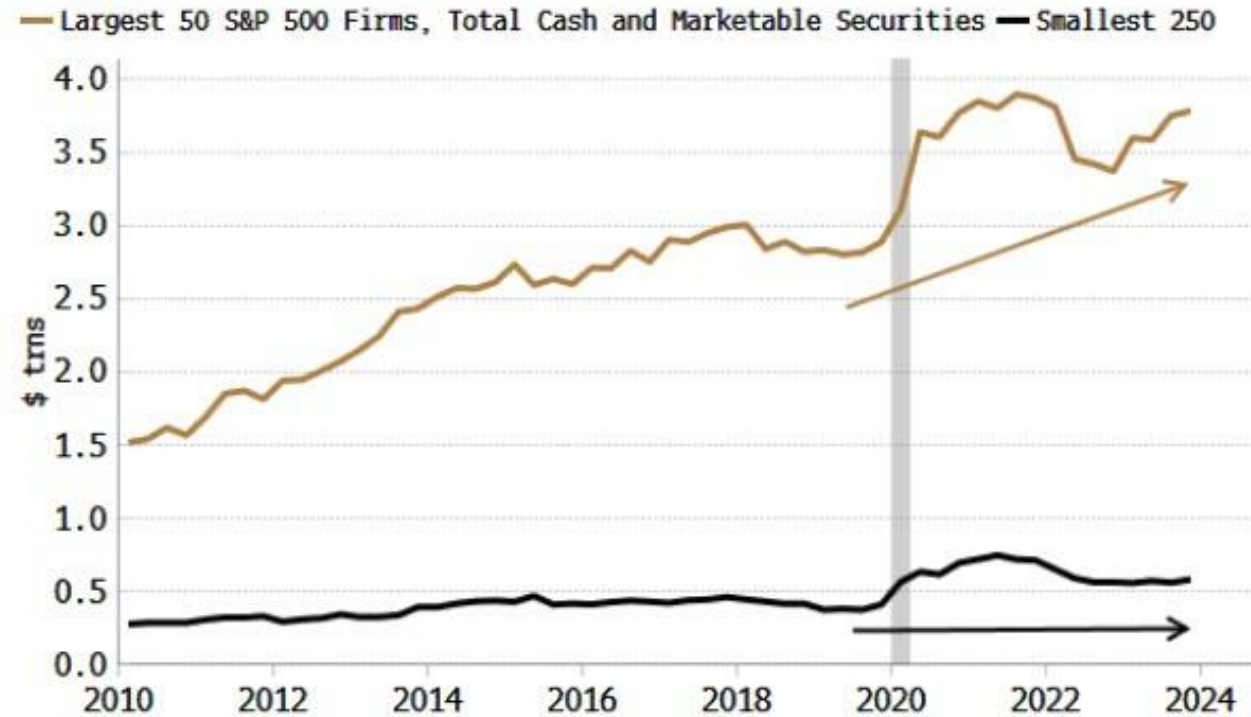
CAPEX Will Further Entrench Advantage



Those earnings are further ingraining big firms' advantage. They are now outspending their smaller cousins on future investment on an epic scale. Tech firms are ploughing money into GPU chips, data centers and energy production in a way that makes it increasingly impossible for others to ever catch up – not only in technology, but across the economy as AI gnaws away more and more at the need for many jobs.

Note: Information as of May 2024
Source: Bloomberg

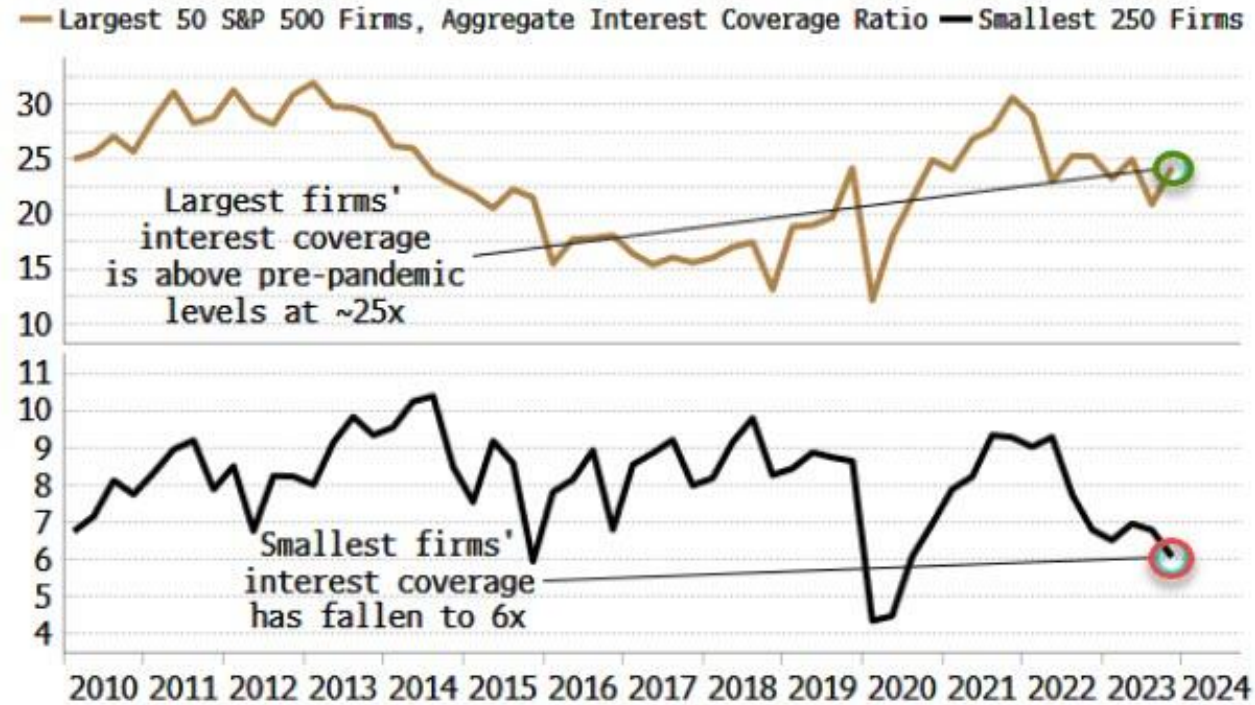
Cash Protects Largest Firms From Shocks



The largest firms are also bolstering their cash positions. While smaller companies' cash and marketable securities is up only marginally since the pandemic, the pile at large firms is going from strength to strength and is on a strong upward trend. The biggest 50 companies in the S&P hold 53% of the index's total corporate cash, compared to only 8% for the smallest 250.

Note: Information as of May 2024
Source: Bloomberg, Macrobond

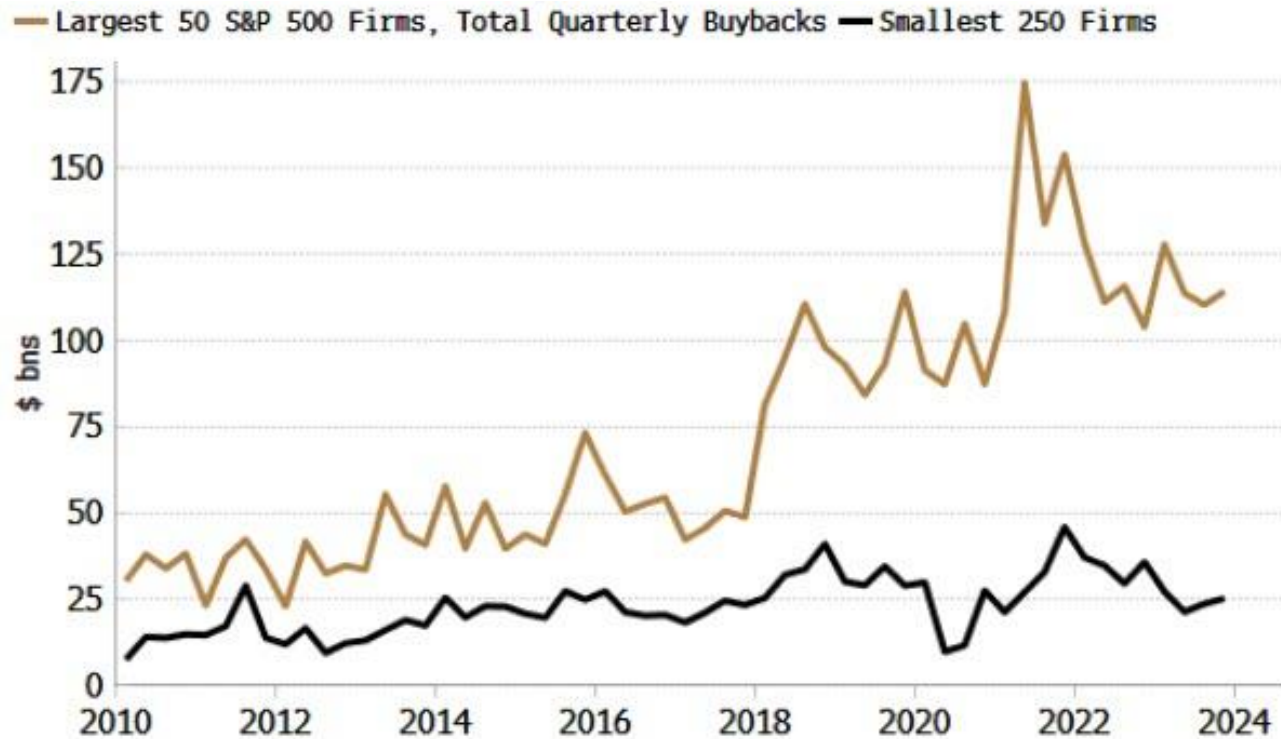
Largest Firms Are Better Weathering Higher Rates



The largest firms come out on top. If we look at interest coverage, i.e. the ratio of Ebit to interest expense, the biggest companies' coverage has been pretty stable, while the ratio for the smallest has been falling. In level terms, the difference is even more stark, with the biggest companies' earnings covering their interest 25 times, versus only six times for their smaller counterparts.

Note: Information as of May 2024
Source: Bloomberg, Macrobond

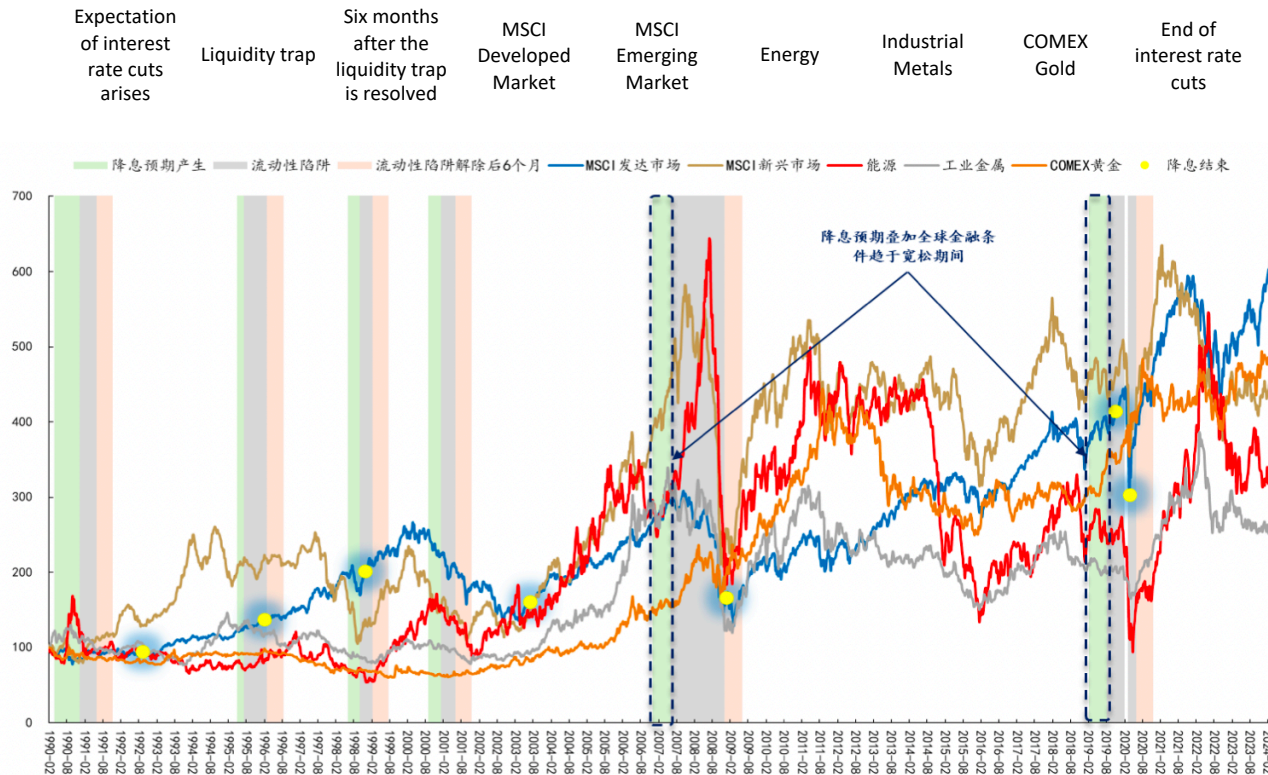
Buybacks Further Boosting Largest Firms' Shares



Largest companies are also diverting more of their accelerating earnings to buying back their stock, mechanically helping to boost their price through reducing the share count. Smaller companies have not had the wherewithal to match them, even though in the years before the pandemic total buybacks were similar for small and large firms alike.

Note: Information as of May 2024
Source: Bloomberg

Effects of US's Rate Cuts and Liquidity Trap



Once the U.S. begins cutting interest rates, a "liquidity trap" may occur. This happens when businesses prefer to borrow and stabilize operations due to weakening cash flow, while commercial banks tend to control risk and be reluctant to lend, ultimately leading to a shortage in funding supply.

In the six cycles of interest rate cuts by the Federal Reserve from 1990 to 2020, each was accompanied by an initial "liquidity trap," including:

- December 1990 to May 1991
- June 1995 to February 1996
- September 1998 to January 1999
- December 2000 to May 2001
- August 2007 to November 2008
- January 2020 to April 2020

Note: Information as of May 2024
Source: Sinolink Securities, Wind, Bloomberg

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