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OMNI CAPITAL PARTNERS

Investment Newsletter

May 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.

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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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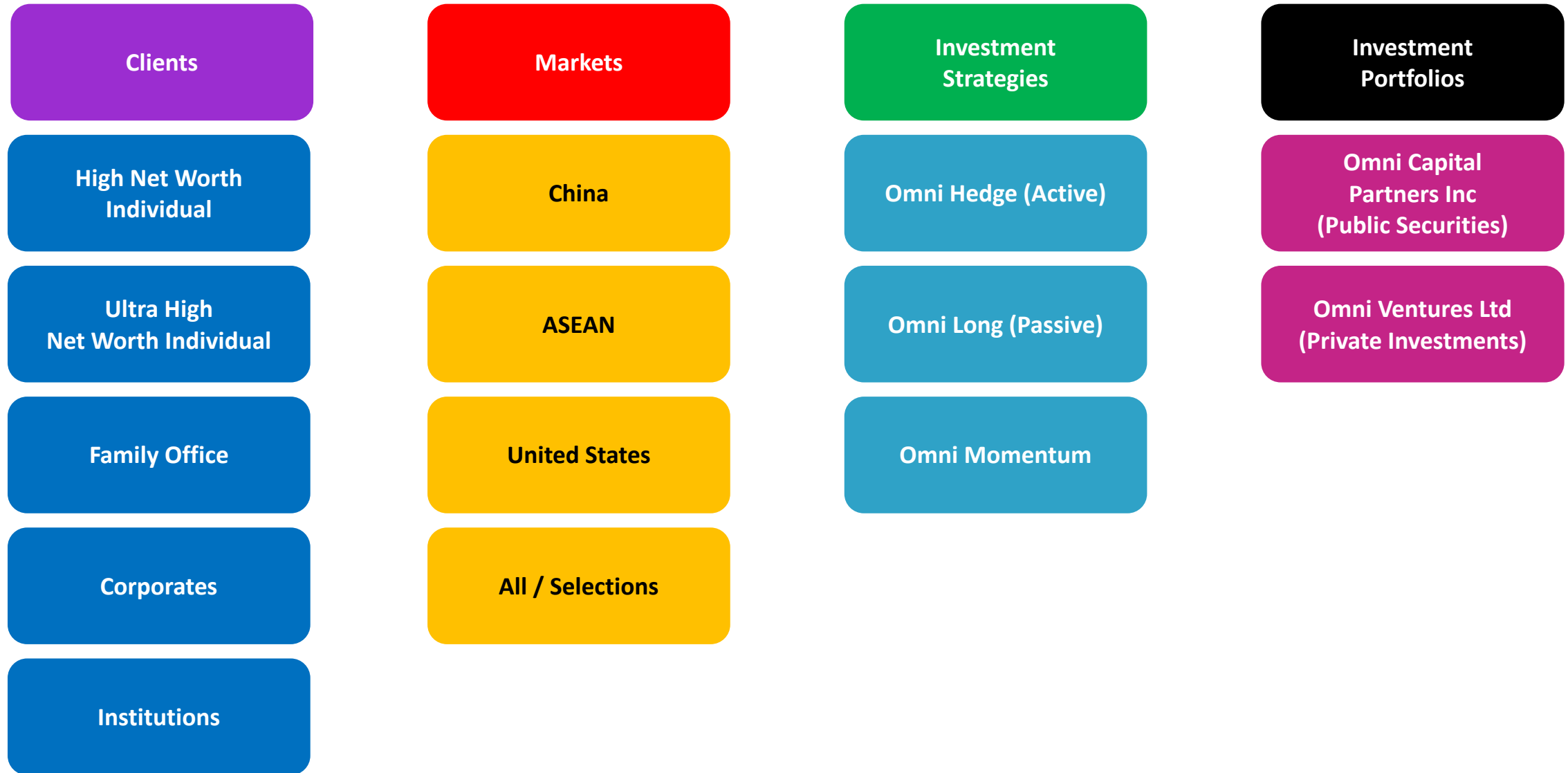
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Omni Investment Advisory



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



- For U.S. stock markets, CCB International believes that "Scenario 1" is the most likely scenario, where few large stocks continue to be highly concentrated. These stocks are the pioneers of internal changes within AIGC, but the composition of this leading alliance may undergo reshuffling. CCB International has three reasons to believe that the "Scenario 1" of tech giants will occur. First, similar market shifts have been seen before, from FAANG (Facebook, Amazon, Apple, Netflix, and Google) to GAMMA (Google, Amazon, Microsoft, Meta, and Apple), and now to the "Seven Giants." The media has already been brewing the concept of the Fab Four (Nvidia, Amazon, Meta, and Microsoft). Second, the high cost of innovation, which has risen sharply over time, creates entry barriers that make it unlikely for new players to enter the game. Lastly, several catalysts have contributed to this situation, including the increasing belief in the "higher rates for longer" monetary policy and technological breakthroughs like ChatGPT and SORA making headlines.
- Although the phrase "this time is different" can be dangerous and costly, CCB International believes that this time might indeed be different. Despite the market's concentration in the "Seven Giants," CCB International believes that the solid financial conditions and ample cash flow of tech giants, along with the possibility of the U.S. shifting to a looser monetary policy, may lead the market down a different path, avoiding a bubble burst. It is expected that the U.S. stock market will form a U-shaped trend in 2024. Other recent downside catalysts include potential geopolitical conflict escalation, uncertainty during the U.S. election season, and downside surprises in earnings season.

Investment Review and Outlook



- Currently, the global economic recovery is sluggish, with frequent regional conflicts and unrest. Unilateralism and protectionism are on the rise. Some countries or regions have begun to build trade barriers through tightening regulations to protect their domestic industries. This is manifested in mandatory decoupling and supply chain disruptions or the imposition of various forms of tariffs. In the short term, this wave of anti-globalization has negatively impacted related industries in China to some extent, bringing challenges to the operation and development of enterprises. However, from a long-term perspective, the wave of anti-globalization has also accelerated the timely resolution of deep-seated issues in China's economic development process, providing an opportunity to reassess and adjust the economic structure.
- Regarding mandatory decoupling and supply chain disruptions, on the one hand, it has stimulated a sense of urgency for independent innovation in China to some extent. It has become a key factor in enhancing independent innovation capabilities. Under the pressure of the external environment, China is placing greater emphasis on independent research and development, accelerating technological breakthroughs, and striving to build an independent and controllable technological system. On the other hand, it has also promoted further opening and deepening of the domestic market, accelerating the pace of Chinese enterprises going global. In the face of international market uncertainties, Chinese enterprises are more actively exploring overseas markets through mergers, acquisitions, joint ventures, and other means to achieve global resource allocation.

Investment Review and Outlook



- The U.S. yield curve inversion reached a significant milestone, becoming the longest duration since 1920. Historically, the yield curve has accurately predicted 9 out of the last 10 US recessions over the past 70 years. However, this time it has not followed the same pattern due to several factors, including excess global liquidity, market QE/YCC influences, extended monetary lags from fixed-rate mortgages and refinanced corporate debt, and over-capitalized banks due to regulation. Despite the current state, the yield curve inversion is gradually becoming less pronounced. Historical trends suggest that the lag in response is only temporary. If macroeconomic conditions reveal that the Federal Reserve is "behind-the-curve" and needs to implement sharp rate cuts, the yield curve will steepen quickly. Every 2s10s steepening cycle has historically led to a credit bear market. Investors should be aware that a suddenly steeper yield curve, along with weaker bank and PE stocks, serves as early warning signs. These indicators are crucial for anticipating potential market downturns and adjusting investment strategies accordingly.

Nifty Fifty Era (1970 – 1975)

Background:

- During the 1960s and 1970s, the U.S. experienced loose monetary policy and rising consumer prices, a period later known as "The Great Inflation." This environment helped propel the stock market into a bull run. The market reflected U.S. economic growth and the development of new technologies. Certain well-established companies, known as the "Nifty Fifty," became the favorites of institutional and individual investors and were seen as "one-decision stocks"—buy and never sell. From December 1970 to December 1972, the S&P 500 rose by 30%, and the Dow Jones Index increased by 23%.

Development Trend:

- There was never a fixed list of the "Nifty Fifty," but popular versions exist. According to research by Jeremy Siegel of the Wharton School, the original "Nifty Fifty" included well-known companies like General Electric, Coca-Cola, and IBM, which remain market giants today, as well as companies like Xerox, which now struggle. The "Nifty Fifty" covered industries ranging from pharmaceuticals, computers, and electronics, to photography, food and tobacco, and retail. In 1972, these stocks had an average P/E ratio of 41.9, more than double the S&P 500's P/E ratio of 18.9.

How it Ended:

After the bull market peaked in December 1972, several deteriorating factors dragged down the stock market:

- The collapse of the Bretton Woods system led to a devaluation of the dollar.
- Conflicts in the Middle East caused oil prices to soar.
- The Federal Reserve raised interest rates to combat inflation.
- As a result, the stock market crashed. From its peak in December 1972 to December 1974, the S&P 500 dropped by 43%, and the Dow Jones fell by 41%. From their peaks in 1972-1973 to their lowest points in 1974, Xerox fell by 71%, Avon by 86%, and Polaroid by 91%.
- Not all stocks fared the same: while several stocks peaked around 1972 and performed poorly thereafter, some "Nifty Fifty" stocks showed annual returns from 1972 to 1998 that outperformed the S&P 500 and maintained long-term growth, remaining strong today.

Note: Information as of May 2024

Source: CCB International

Internet Bubble Era (1995 – 2000)



Background:

- In the late 1990s, the expansion of the U.S. economy and the easing of monetary policy following the Asian financial crisis supported the market. The development of internet technology and communication services globally, along with the rapid adoption of personal computers, led investors to believe that the U.S. economy had entered a new growth phase due to a technological revolution. Consequently, from 1995 to the peak in March 2000, the NASDAQ index rose by 400%, as investors drove up the value of internet stocks and technology companies.

Development Trend:

- The market was heavily concentrated in the technology and communication sectors. By the end of 1999, the technology sector accounted for approximately 28% of the S&P 500, and communication services accounted for 13%.
- Tech giants took up more market share: by the end of 1999, about half of the top 10 companies in the S&P 500 were tech companies, and the top 10 companies accounted for 25% of the S&P 500's total market share (up from 19% in 1995).
- Newly established tech companies lined up for their initial public offerings, with investors willing to buy any company related to the "World Wide Web" or ending in ".com." According to data from the University of Florida, from 1995 to 2000, the U.S. stock market averaged about 460 IPOs per year, compared to an average of 196 IPOs per year from 1980 to 1990, doubling the number of IPOs during the internet bubble period.

How it Ended:

- Authorities did not ignore the market frenzy. Former Federal Reserve Chairman Alan Greenspan warned of "irrational exuberance" causing asset values to rise excessively in a 1996 speech. The Federal Reserve eventually intervened, raising interest rates multiple times from June 30, 1999, to May 16, 2000, from 5.00% to 6.50%.
- As startups faced financial difficulties, venture capital and IPOs dried up, increasing market concerns and exacerbating the subsequent sell-off. In March 2000, Barron's published a cover story titled "Burning Up; Warning: Internet Companies Are Running Out of Cash Fast," highlighting that 74% of internet companies had negative cash flow and predicting many would go bankrupt. These news stories made investors reconsider their investments and the valuation of tech stocks.

Note: Information as of May 2024

Source: CCB International

Seven Giants (2022 – Present)



Despite the strong and popular reputation of the "Seven Giants of U.S. Stocks," their stories are not all rosy. Even the most ardent supporters of these tech giants must admit that today's tech behemoths sometimes remind investors of past stock market bubbles: the S&P 500 Index is highly concentrated in the top ten companies, and industry data shows that the tech market's capacity is growing relative to other sectors. The concentration on tech giants in the market seems more severe than during the dot-com bubble. In 1995, the tech sector accounted for 10% of the total market value of the S&P 500 Index. During the 2000 dot-com bubble, it rose to 20% of the total market value, but in the post-bubble 2010s, the tech sector's share fell to around 15% in most years. However, in the 2020s, the tech industry's share of the total market value of the S&P recently exceeded 30%. Similarly, the top ten stocks accounted for 19% of the total market value of the S&P 500 Index in 1995, rising to 23% during the 2000 dot-com bubble, and falling to 20% in the 2010s. By 2020, the top ten stocks accounted for 30% of the S&P 500 Index's total market value, reaching 35% by March 2024.

Will this time be different, or will everything turn into a bubble? CCB International has reasons to believe that the "Seven Giants of U.S. Stocks" can avoid a fate similar to the "Nifty Fifty" and the dot-com bubble:

- First, the U.S. tightening cycle is over. While the market and policymakers are quickly changing their views on the pace of interest rate cuts, few expect a new round of rate hikes this year. This contrasts sharply with previous bubble bursts, where the transition from easing to tightening played a significant role in the demise of the "Nifty Fifty" and the dot-com bubble, as the Federal Reserve raised interest rates, increasing downward pressure on the stock market.
- IPO data suggests that this market is more rational. Although the AIGC theme has spawned new tech startups, the IPO frenzy of the dot-com bubble period has not resurfaced. According to research by Jay R. Ritter of the University of Florida, the average number of IPOs per year from 2020-2023 was about 135, with an average first-day return rate of about 11.90% in 2023, far from the 400 IPOs per year from 1990 to 2000 (with an average first-day return rate of about 56.30% in 2000).
- The stocks of the "Seven Giants of U.S. Stocks" are financially sound, cash-rich mature companies. Unlike the dot-com bubble, where we faced startups still burning through venture capital and IPO money, the "Seven Giants of U.S. Stocks" are tech giants with efficient tools and proprietary technologies, supported by ample funding channels for their R&D.

Note: Information as of May 2024

Source: CCB International

Scenario 1: Differentiation & Reshuffling



How the Current High Concentration and Rapid Price Increase in the U.S. Stock Market Might Develop?

- Market trend: The trend of market value concentration in a small number of stocks continues. Prices of these pioneering technology stocks rise, but this does not constitute a bubble. Several reasons make this scenario likely: Similar market shifts have been seen before, such as from FAANG (Facebook, Amazon, Netflix, Google) to GAMMA (Google, Amazon, Microsoft, Meta, Apple), and recently the "Seven Giants" (Nvidia, Google, Amazon, Microsoft, Meta, Apple, and Tesla).
- High innovation costs and rapidly increasing costs over time create entry barriers for new players. For example, Google's Transformer model in 2017 cost only \$930 to train, but by 2023, training costs for models like GPT-4 have skyrocketed to about \$80 million, with daily running costs of approximately \$700,000. This cost deters new entrants, explaining why most of today's developed models belong to industry tech giants.
- Catalysts such as the acceptance of "higher rates for longer" monetary policy and technological breakthroughs like ChatGPT and SORA dominate the headlines. Tight monetary policy limits funding and R&D for small market players. When technological breakthroughs make headlines, people tend to invest in large tech companies that will surely benefit, similar to the "selling shovels during a gold rush" phenomenon.
- The media has already been brewing the concept of the "Fab Four" for 2024, consisting of Nvidia, Amazon, Meta, and Microsoft, while Apple, Tesla, and Google seem to lag behind starting in 2024.
- Leading companies face challenges from fierce competitors, often other tech giants. For example, Intel and AMD are closely following Nvidia, with AMD introducing the MI300 and Intel the Gaudi 3, positioning their products as direct competitors to Nvidia's H100 to meet the needs of generative AI workloads.

*Note: Information as of May 2024
Source: CCB International*

Scenario 2: Expansion & Ebbing



How the Current High Concentration and Rapid Price Increase in the U.S. Stock Market Might Develop?

- In this scenario, as more companies join the rally, the "Seven Giants" lose momentum. Investors begin to look for other companies, such as AMD, and even targets in other markets. Consequently, market concentration gradually decreases over time. This is more likely to happen if: Monetary policy eases, improving market liquidity, making people more willing to try different investment portfolios.
- The integration of AI with different industries deepens, known as "AI+." This would allow AI to help companies across various sectors improve profit margins, benefiting not just the most advanced tech giants. According to a McKinsey survey in 2023, 79% of respondents from various industries reported some interaction with generative AI, with an average of 22% of respondents across industries frequently using it in their work.
- If open-source AI models become widely available, a vibrant open-source AI ecosystem will be created, enabling small businesses to access industry-leading production technology. An IMF report described this as a "low concentration future," and some Google researchers have predicted this trend.
- However, this "expansion and ebbing" trend is seen as a long-term structural change rather than a short-term market trend. For example, while nearly all phones can now access the internet, and we enjoy various applications from different companies, this technology penetration and ecosystem development took years to achieve. Similarly, the development of AI/AI+ is expected to follow this trend, requiring time for technology penetration and ecosystem development.

*Note: Information as of May 2024
Source: CCB International*

Scenario 3: Bubble Burst



How the Current High Concentration and Rapid Price Increase in the U.S. Stock Market Might Develop?

- Market trend: Prices of large tech stocks plummet, causing a market collapse, similar to the "Nifty Fifty" and dot-com bubble periods.
- This scenario is possible if several catalysts occur simultaneously: the U.S. economy experiences a hard landing or recession, geopolitical conflicts intensify leading to a new round of energy shortages, and AIGC's improvement in corporate operating profit margins falls short of expectations.
- However, the probability of this happening is very low so far. The U.S. economy has proven to be better than expected, and geopolitical conflicts have been limited to regions. Moreover, tech giants like Nvidia, Amazon, Meta, and Microsoft have raised their earnings forecasts.

*Note: Information as of May 2024
Source: CCB International*

Timeline of U.S. Tariff Imposition on Chinese Goods (Trump Administration)

Date	Action
January 22, 2018	Trump announces tariffs on solar panels and washing machines.
March 1, 2018	Trump announces tariffs on steel and aluminum imports from all countries.
April 3, 2018	U.S. Trade Representative's Office announces a preliminary list of 1,300 Chinese products subject to tariffs, including flat-panel TVs, weapons, satellites, medical equipment, aviation parts, batteries, etc.
June 15, 2018	Trump announces a 25% tariff on \$50 billion worth of Chinese goods, covering about 1,100 products, mainly in the aerospace, robotics, manufacturing, and automotive industries.
August 8, 2018	U.S. Trade Representative's Office announces a list of 279 Chinese products to be subject to an additional 25% tariff, valued at \$16 billion.
September 17, 2018	U.S. announces a 10% tariff on \$200 billion worth of Chinese goods, to increase to 25% by the end of the year.
May 5, 2019	The Federal Register publishes the U.S. Trade Representative's Office's announcement that the tariffs on Chinese goods covered by the September 2018 action will be adjusted to 25%.

In July 2018, the Trump administration announced a 25% tariff on \$34 billion worth of Chinese goods, escalating tensions in U.S.-China trade relations. Following this, both sides engaged in several rounds of tariff actions. As of January 15, 2020, the U.S. and China signed the "Phase One Trade Agreement," easing the 18-month-long trade tensions. By August 2020, the total tariffs imposed by the U.S. on Chinese goods amounted to \$550 billion, while China imposed tariffs totalling \$185 billion on U.S. goods. The U.S. tariffs on Chinese goods had a profound impact on various industries, ranging from technology and electronics to agriculture and manufacturing.

Note: Information as of June 2024

Source: The White House, China Briefing, Guoxin Securities

Timeline of U.S. Tariff Imposition on Chinese Goods (Biden Administration)

Industry/Product	Action
Steel and Aluminum	Announces an increase in tariffs on some steel and aluminum products from 0-7.5% to 25%.
Semiconductors	Announces an increase in tariffs on semiconductors from 25% to 50%.
Electric Vehicles (EVs)	Announces an increase in tariffs on electric vehicles from 25% to 100%.
Batteries, Battery Components, and Related Key Products	Announces that tariffs on non-automotive lithium batteries will increase from 7.5% to 25% by 2024; in 2026, tariffs on lithium batteries for electric vehicles will also increase from 7.5% to 25%. Additionally, tariffs on battery components will increase from 7.5% to 25% by 2024, and tariffs on natural graphite and permanent magnets will increase from 0% to 25% by 2026.
Solar Cells	Announces an increase in tariffs on solar cells from 25% to 50%.
Shore Cranes	Announces an increase in tariffs on shore cranes from 0% to 25%.
Medical Products	Announces an increase in tariffs on medical products, such as radiation therapy heads, from 0% to 50%. Certain personal protective equipment (PPE), including respirators and masks, will see tariff increases from 0-7.5% to 25%. Additionally, tariffs on surgical and medical gloves will increase from 0% to 25% by 2026.

On May 14, 2024, the Biden administration announced a significant increase in tariffs on Chinese exports, citing the need to protect American workers and businesses from "China's unfair trade practices." The announcement covers a range of products, including steel and aluminium, semiconductors, electric vehicles, batteries, critical minerals, solar cells, shore cranes, and medical products.

Note: Information as of June 2024

Source: The White House, Guoxin Securities

Rapid 2s10s Steepening = Credit Bear Market

US Treasury 2s10s yield curve cycle vs the US credit cycle

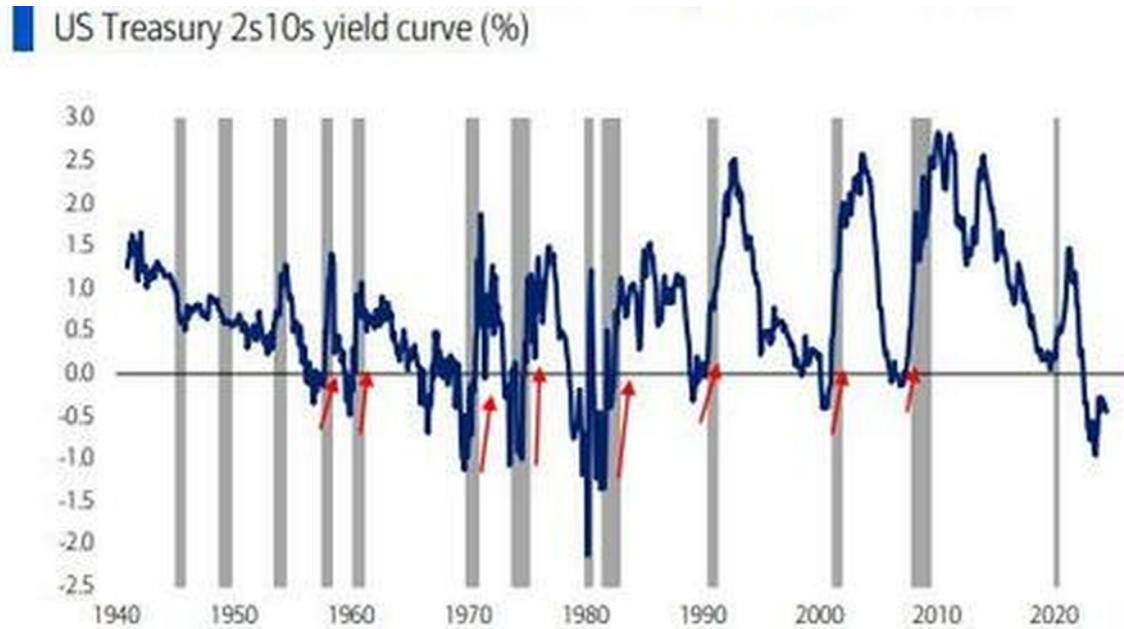
	Change in 2s10s yield curve (bps)	Change in US IG credit spreads (bps)	High/Low in US IG credit spreads (bps)
2s10s flattening (Aug'86 - Mar'89)	84bps to -32bps	302bps to 131bps	131bps (Mar'89)
2s10s steepening (Mar'89 - Sep'92)	-32bps to 250bps	131bps to 220bps	236bps (Dec'90)
2s10s flattening (Sep'92 - Aug'00)	250bps to -40bps	220bps to 243bps	129bps (Dec'94)
2s10s steepening (Aug'00 - Aug'03)	-40bps to 258bps	243bps to 257bps	379bps (Oct'02)
2s10s flattening (Aug'03 - Feb'07)	258bps to -13bps	257bps to 87bps	83bps (Feb'05)
2s10s steepening (Feb'07 - Feb'10)	-13bps to 283bps	155bps to 255bps	601bps (Dec'08)
2s10s flattening (Mar'10 - Sep'19)	283bps to 5bps	255 to 222bps	165bps (Feb'18)
2s10s steepening (Oct'19 - Apr'21)	5bps to 147bps	222bps to 197bps	347bps (Apr'20)
2s10s flattening (Apr'21 - Jul'23)	147bps to -96bps	197bps to 184bps	182bps (Jan'22)
2s10s steepening (Jul'23 - today)	-108bps to -44bps	184bps to 147bps	185bps (Aug'23)

If macro shows Fed “behind-the-curve” and needs to cut sharp, yield curve will turn steep quick and every 2s10s steepening cycle has witnessed a credit bear market.

Note: Information as of June 2024

Source: BofA Global Investment Strategy, Bloomberg

Largest Inversion of UST 2s10s Yield Curve

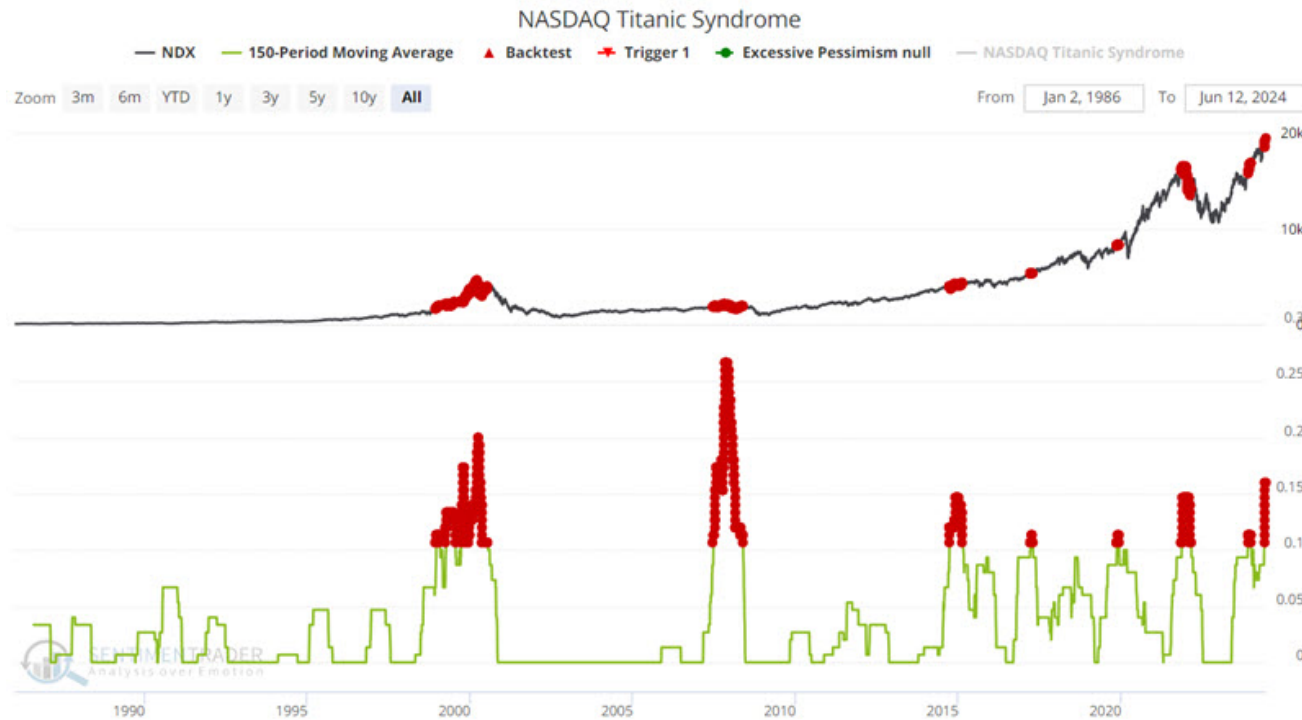


We passed another milestone when the US yield curve inversion became the longest duration since 1920.

Note: Information as of June 2024

Source: BofA Global Investment Strategy, Bloomberg

Titanic Syndrome



Titanic Syndrome, the rule of thumb is that the market must have reached a new high in the past seven sessions and then suddenly more stocks hit 52-week lows than 52-week highs.

Note: Information as of June 2024
Source: SentimenTrader

Contact Info



For further enquires, please contact:

Omni Capital Partners

V02-03-03, Lingkaran SV,
Sunway Velocity,
55109 Kuala Lumpur, Malaysia.

Website: www.ocpi.io

Email: info@ocpi.io

Mobile No: Scott: +6012 210 9119 / Derrick: +6011 1669 4250



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