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OMNI CAPITAL PARTNERS

Investment Newsletter

July 2024

“ Omni Alpha: ”
Profit From Disruptions

Why Omni Investment Services



“

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.

”

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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

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Family Office

Corporates

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Markets

China

ASEAN

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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



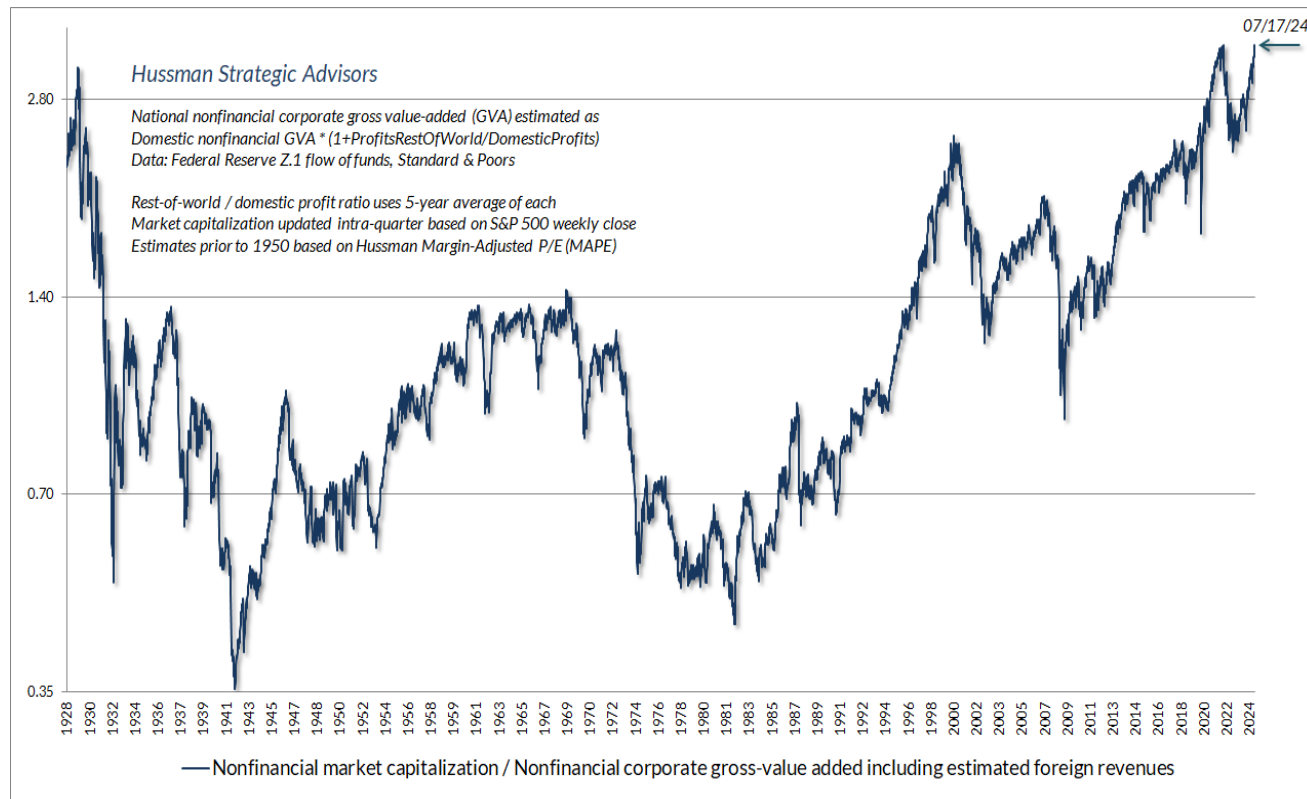
- John Hussman emphasizes the unprecedented extremity of current US financial market conditions, comparing them to historical peaks in 1929, 2000, 2007, and 2022. He notes that while these conditions are more consistent with a major peak than at any other point in history, this does not guarantee the market is at a peak. Nevertheless, he believes the US stock market is forming the extended peak of a speculative bubble.
- For much of the past 4 months, Bank of America chief strategist Michael Hartnett has been pounding the table on why going long bonds will be the top trade of the second half of 2024. Hartnett's thesis is simple: with the US economy already sputtering and with fiscal stimulus "as good as it gets" since it will be virtually impossible to pass another massive fiscal stimulus in the years to come.
- The government of Japan is engaged in one massive \$20 trillion carry trade: here is the toxic dilemma faced by the Japanese central bank now that it has reached the end of the road: on one hand, if the Bank of Japan (BoJ) decides to tighten policy meaningfully, this trade will need to unwind. On the other, if the BoJ drags its feet to keep the carry trade going, it will require higher and higher levels of financial repression but ultimately pose serious financial stability risks, including potentially a collapse in the Yen. As DB's chief FX strategist George Saravelos puts it, "Either option will have huge welfare and distributional consequences for the Japanese population: if the carry trade unwinds, wealthier and older households will pay the price of higher inflation via rising real rates; if the BoJ delays, younger and poorer households will pay the price via a decline in future real incomes." Ultimately, someone will have to pay the cost of inflation "success."

Investment Review and Outlook



- The Nikkei and Topix experienced the largest point crash in their history, surpassing even Black Monday. This crash underscored the political pressures that led the BoJ to abandon its rulebook and spike the Yen to curb inflation, resulting in a 20% stock market drop over three days. Unexpectedly, the BoJ's Deputy Governor, Shinichi Uchida, sent a strong dovish signal amidst this historic market volatility. Less than a day after the crash, Uchida pledged to refrain from hiking interest rates during unstable market conditions, effectively signalling the end of rate hikes. This announcement came after a small 10-25 basis point rate increase the previous week had triggered a global deflationary wave and further destabilized Japan's market. In a speech on August 7, 2024, to business leaders in Hakodate, northern Japan, Uchida stated, “I believe that the bank needs to maintain monetary easing with the current policy interest rate for the time being, given the extreme volatility in financial and capital markets both domestically and internationally.”

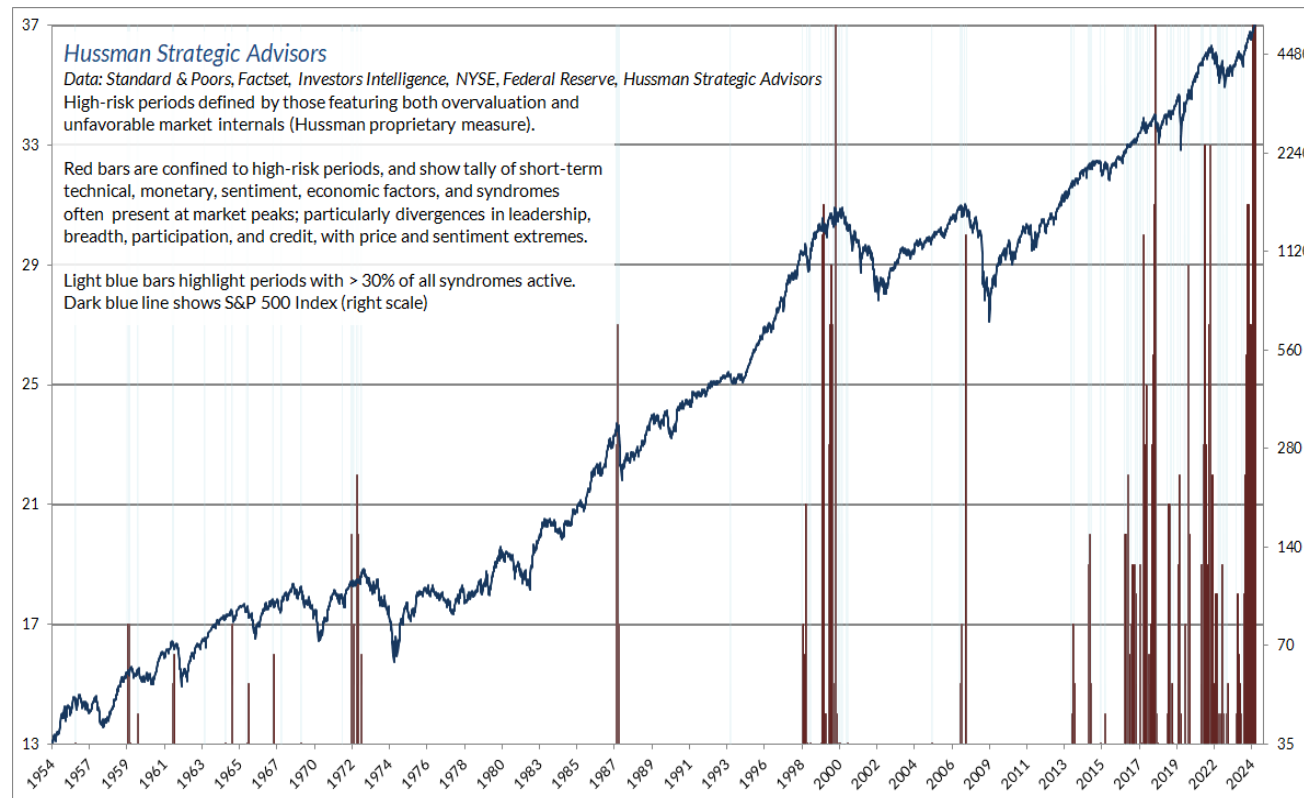
Investors Disregard Valuations During Speculative Episodes



The chart shows the most reliable valuation measure, based on its correlation with actual subsequent S&P 500 total returns in market cycles across history, in data since 1928. The blue line shows the market capitalization of U.S. nonfinancial equities as a ratio to their gross value-added, including Hussman estimate of foreign revenues. MarketCap/GVA now stands above both the 1929 and 2022 extremes, and is also easily above the 2000 and 2007 peaks.

Note: Information as of Aug 2024
Source: Hussman Funds

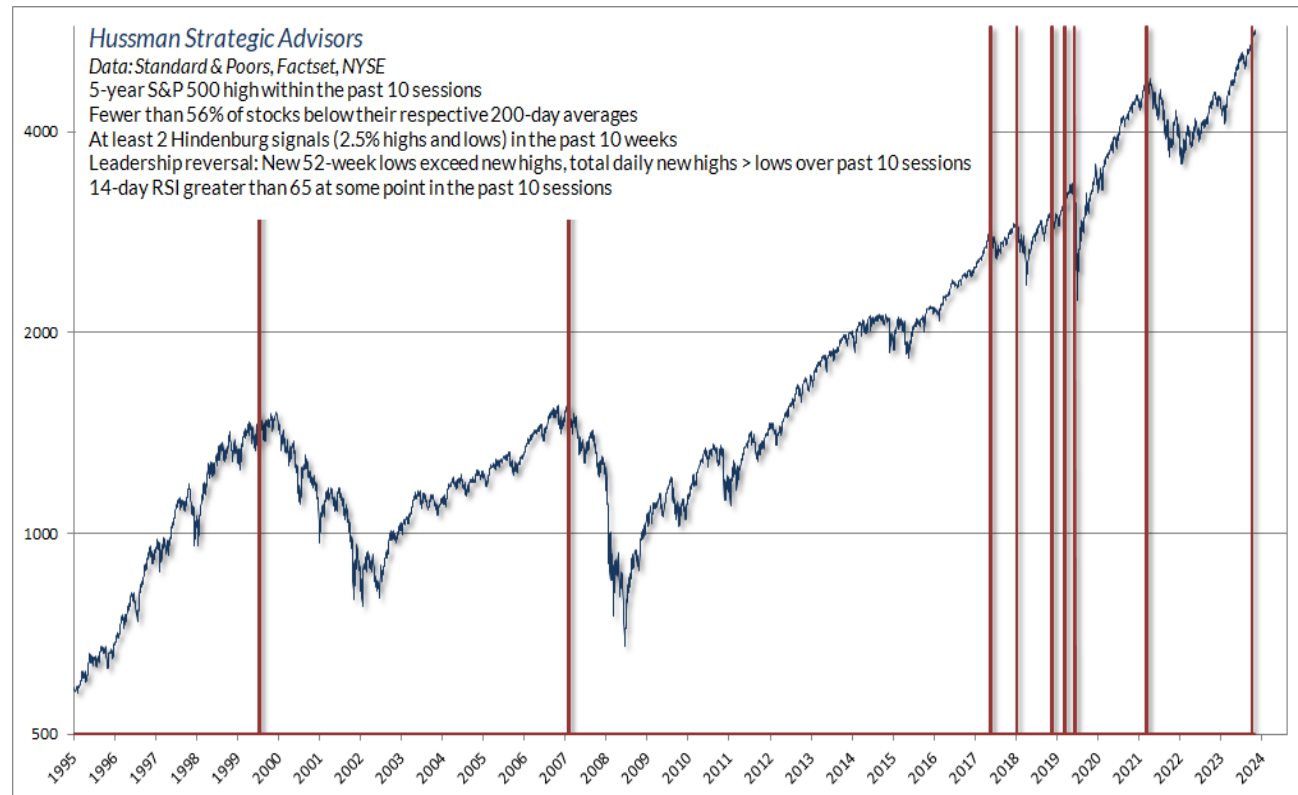
Warning Flags in Weekly Data



The chart below shows the tally of overextended warning syndromes that we observe in weekly data. The recent set of extremes has persisted somewhat longer than the extremes we observed in 1972, 1987, 2000, 2007, 2018, and 2022, but as observed over the years, the deferral of consequences should not be confused with the absence of consequences.

Note: Information as of Aug 2024
Source: Hussman Funds

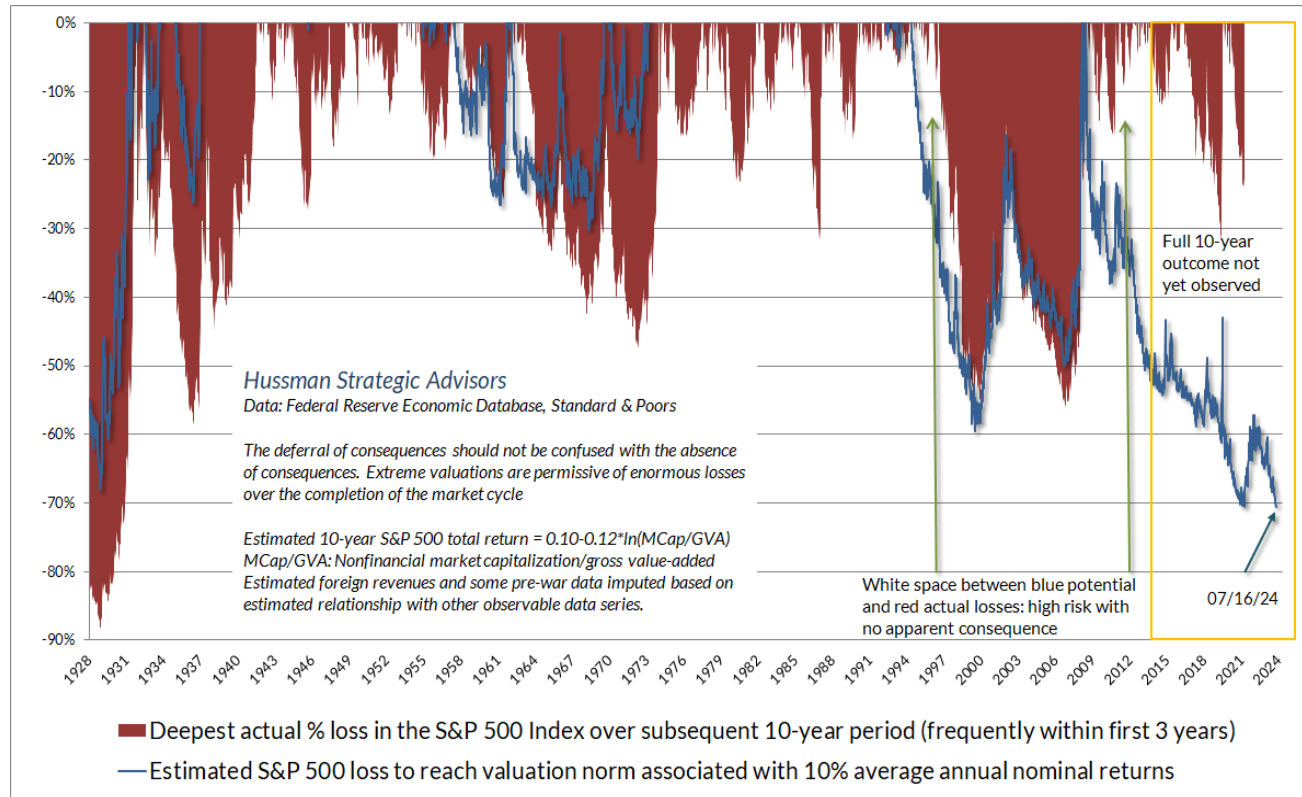
Warning Flags in Daily Data



The chart shows another warning flag in daily data, and captures what is often described as a “phase transition” – an overextended period followed by a quick reversal from a majority of new highs to a majority of new lows shortly after a market peak. Though we saw one of these a few weeks ago, our attention would perk up if we were to see another such reversal in the next week or two.

Note: Information as of Aug 2024
Source: Hussman Funds

Potential 70% Downside to the Valuation Norms, When?



The blue line shows the amount by which the S&P 500 would have to decline, at each point in history, to reach the valuation norms that associate with 10% nominal annual expected S&P 500 total returns.

The red shading shows the deepest drawdown loss in the S&P 500 over the following 10-year period. These losses often occurred within the first 3 years.

The yellow rectangle is shown because we don't yet actually know the maximum drawdown loss for points less than 10-years ago.

As of July 16, 2024, the S&P 500 would have to fall by just over 70% to reach what have historically been run-of-the-mill valuation norms.

Note: Information as of Aug 2024
Source: Hussman Funds

Sell the First Rate Cut

Returns in the 3 & 6 months following the 1st Fed rate cut

| 1 st Fed cut | Background | Recession | 10Y UST yield | | US 2s10s | | S&P 500 | |
|---------------------------|--------------------------------------------------------------|-----------------|---------------|---------------|---------------|--------------|--------------|--------------|
| | | | 3m | 6m | 3m | 6m | 3m | 6m |
| Soft landing | | | -34bps | -56bps | 37bps | 28bps | 2.7% | 10.0% |
| Oct 2, 1984 | 1 st cut (to weaken US\$)...soft landing | None | -74bps | -80bps | 125bps | 79bps | 1.1% | 10.4% |
| Jul 31, 2019 | 1 st cut...soft landing (prior to COVID crash) | None | -32bps | -51bps | 2bps | 5bps | 1.9% | 8.2% |
| Jul 6, 1995 | 1 st cut...soft landing (after bond crash in '94) | None | 3bps | -36bps | -15bps | -0bps | 5.1% | 11.3% |
| Hard landing | | | -23bps | -38bps | 61bps | 95bps | -6.2% | -3.0% |
| Sep 3, 1973 | 1 st cut preceded oil shock/recession | Nov'73 - Mar'75 | -52bps | -12bps | 17bps | -48bps | -9.9% | -8.4% |
| Jul 1, 1974 | 1 st cut as stagflation raged | Nov'73 - Mar'75 | 32bps | -23bps | 69bps | 154bps | -26.3% | -20.3% |
| Apr 1, 1980 | 1 st cut after oil shock, short recession | Jan'80 - Jul'80 | -256bps | -91bps | 302bps | 166bps | 12.5% | 24.4% |
| Jun 1, 1981 | 1 st cut preceded recession begins | Jul'81 - Nov'82 | 195bps | -9bps | -36bps | 167bps | -7.1% | -4.8% |
| Jun 5, 1989 | 1 st cut was 12 months before recession | Jul'90 - Mar'91 | -19bps | -55bps | -13bps | 14bps | 9.5% | 8.6% |
| Jan 3, 2001 | 1 st cut post-dotcom crash, preceded recession | Mar'01 - Nov'01 | -23bps | 22bps | 46bps | 77bps | -17.9% | -8.4% |
| Sep 18, 2007 | 1 st cut preceded recession & GFC in 2008 | Dec'07 - Jun'09 | -35bps | -99bps | 43bps | 138bps | -4.3% | -12.4% |
| Crash/credit event | | | -46bps | -6bps | -16bps | 3bps | 14.6% | 19.8% |
| Oct 19, 1987 | 1 st cut after stock market crash | None | -102bps | -81bps | -17bps | 5bps | 10.9% | 14.7% |
| Sep 29, 1998 | 1 st cut after LTCM collapse | None | 11bps | 69bps | -15bps | 1bps | 18.4% | 24.9% |

Note: Information as of Aug 2024
Source: BofA Global Research

- 12 occasions since 1970 that the Fed has cut rates for the "1st time"; illustrates 3 types of Fed cuts;
- "Panic cuts": Fed cutting in response to Wall St crash/credit event, e.g. 1987 & 1998; panic cuts = risk-on (S&P 500 up 20% on average 6 months post 1st cut) so long as Wall St "event" not felt on Main St (e.g. LTCM in '98 was not, whereas Lehman in '08 was);
- "soft cuts": Fed cuts into "soft landing", e.g. 1984, 1995, 2019; +ve for stocks (S&P 500 up 10%) and bonds (10-year UST yield down 56bps in 6 months after 1st cut);
- "hard cuts": Fed cuts into "hard landing", e.g. 1973, 1974, 1980, 1981, 1989, 2001, and 2007; -ve for stocks (S&P 500 -6% in 3 months) and +ve for bonds (10-year UST yield down 38bps in 6 months), plus big yield curve steepening (95bps for 2s10s yield curve in 6 months after).

The Run-up to the First Rate Cut

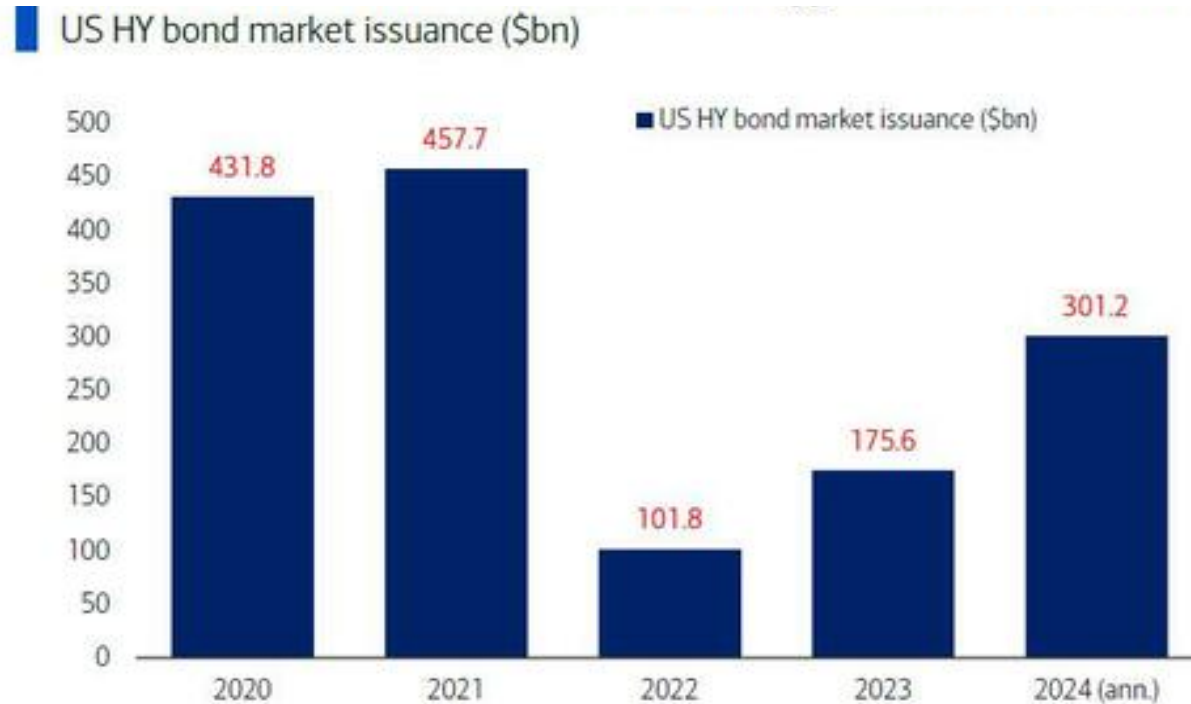
Price action in the lead up to the 1st Fed rate cut (returns in the prior 3, 6, and 9 months)

| Date of 1 st Fed cut | Background | Recession | 10Y UST yield | | | US 2s10s | | | S & P 500 | | |
|------------------------------------|--------------------------------------------------------------|-----------------|---------------|--------------|---------------|--------------|-------------|--------------|--------------|--------------|-------------|
| | | | -9m | -6m | -3m | -9m | -6m | -3m | -9m | -6m | -3m |
| Soft landing | | | | | | | | | | | |
| Oct 2, 1984 | 1 st cut (to weaken US\$)...soft landing | None | 68bps | -2bps | -133bps | -54bps | -48bps | -24bps | -0.8% | 3.6% | 6.8% |
| Jul 6, 1995 | 1 st cut...soft landing (after bond crash in '94) | None | -173bps | -182bps | -104bps | -57bps | 24bps | 3bps | 22.5% | 20.3% | 9.5% |
| Jul 31, 2019 | 1 st cut...soft landing (prior to COVID crash) | None | -113bps | -61bps | -49bps | -13bps | -3bps | -9bps | 9.9% | 10.2% | 1.2% |
| Hard landing | | | | | | | | | | | |
| Sep 3, 1973 | 1 st cut preceded oil shock/recession | Nov'73 - Mar'75 | 91bps | 54bps | 23bps | -59bps | 12bps | 8bps | -11.2% | -7.2% | 0.3% |
| Jul 1, 1974 | 1 st cut as stagflation raged | Nov'73 - Mar'75 | 74bps | 71bps | 23bps | -71bps | -93bps | -1bps | -20.5% | -11.8% | -7.8% |
| Apr 1, 1980 | 1 st cut after oil shock, short recession | Jan'80 - Jul'80 | 393bps | 318bps | 219bps | -174bps | -127bps | -100bps | -0.7% | -5.9% | -5.3% |
| Jun 1, 1981 | 1 st cut preceded recession begins | Jul'81 - Nov'82 | 214bps | 54bps | -16bps | -120bps | 32bps | -36bps | 8.2% | -3.5% | 0.9% |
| Jun 5, 1989 | 1 st cut was 12 months before recession | Jul'90 - Mar'91 | -63bps | -77bps | -90bps | -60bps | -12bps | 12bps | 21.8% | 17.1% | 10.6% |
| Jan 3, 2001 | 1 st cut post-dotcom crash, preceded recession | Mar'01 - Nov'01 | -86bps | -86bps | -73bps | 71bps | 67bps | 52bps | -10.5% | -8.3% | -5.5% |
| Sep 18, 2007 | 1 st cut preceded recession & GFC in 2008 | Dec'07 - Jun'09 | -10bps | -8bps | -65bps | 63bps | 55bps | 36bps | 6.8% | 9.6% | -0.7% |
| Crash/credit event | | | | | | | | | | | |
| Oct 19, 1987 | 1 st cut after stock market crash | None | 314bps | 195bps | 174bps | 35bps | 7bps | 15bps | -16.5% | -21.6% | -28.5% |
| Sep 29, 1998 | 1 st cut after LTCM collapse | None | -117bps | -113bps | -88bps | 23bps | 23bps | 30bps | 10.0% | -4.2% | -7.9% |
| Today (Jul 31st) | | | | | | | | | | | |
| | | | -90bps | 12bps | -65bps | -7bps | 7bps | 13bps | 31.7% | 14.0% | 9.7% |

- "Sell the 1st cut" as "hard landing" risks (11% according to latest BofA Global FMS) clearly rising at a time of strong "soft" (or "no") landing consensus (86% according to FMS);
- One very important difference in 2024 is extreme degree to which risk assets have front-run Fed cuts, where stocks up 32% past 9 months vs. average of 2% in run-up to 12 occasions since 1970 of "the 1st Fed rate cut".

Note: Information as of Aug 2024
Source: BofA Global Research

US HY Bonds Overpriced? Or...



- US HY best performing fixed income market YTD (annualizing 7.4% return), leveraged companies refinancing at lower cost of debt (e.g. \$2bn Royal Caribbean debt refinanced at 6% from 8%);
- Animal spirits in credit shown by big rise in US HY issuance in '24, up from \$176bn in '23 and \$102bn in '22 ;
- Last month July 24, there is no new defaults across US HY & loans market, 1st time past 2 years.

Note: Information as of Aug 2024
Source: BofA Global Research

Or... Small Caps Undervalued

■ US HY/IG bond index relative vs. RTY/SPX price relative



Historically when HY outperforms IG bonds, small caps outperform large cap big-time. It has been the total opposite past 2 years. The lower government bond yields in next few quarters, indicate small beats large and 2024 is entry point into trade; but perfect entry point clearly delayed if HY spreads widen, signalling harder landing.

Note: Information as of Aug 2024
Source: BofA Global Research

BofA Global EPS Growth Model Points to Slowing Growth

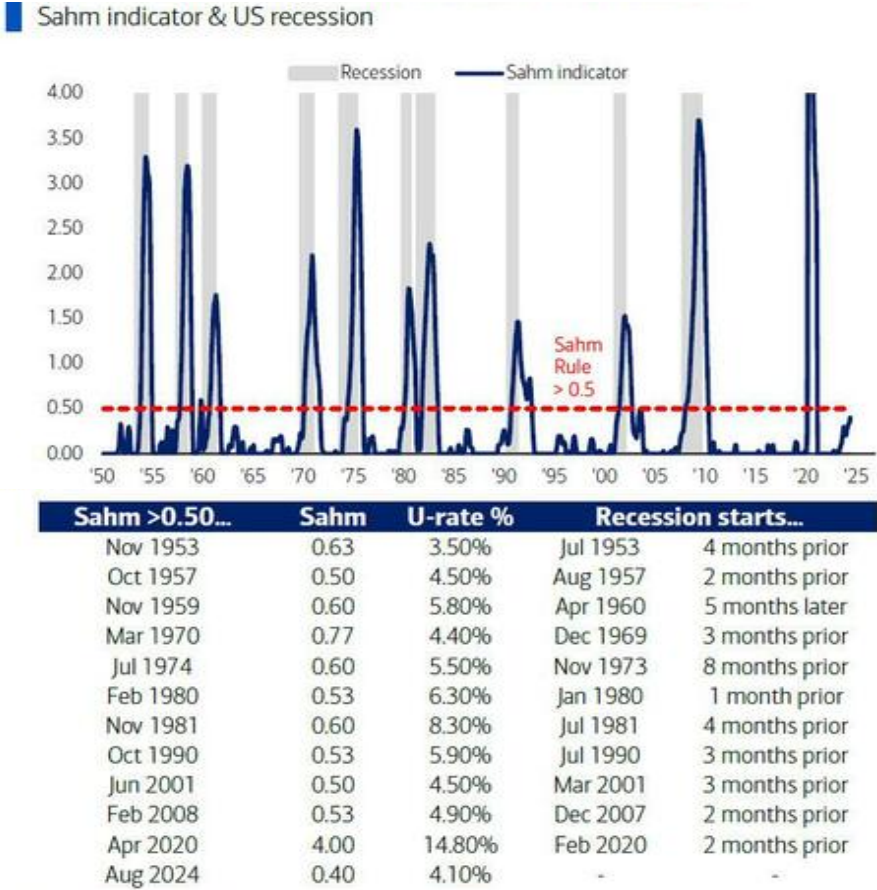
BofA Global EPS growth model vs MSCI ACWI 12m fwd EPS (YoY %)



BofA Global EPS Growth Model of global profit expectations (i.e. 12-month forward EPS) says EPS forecast to decelerate from +11% YoY in Jul'24 to 5% by Dec'24.

Note: Information as of Aug 2024
Source: BofA Global Research

Triggering of Sahm Indicator Coincides with Recession



The infamous Sahm rule was just triggered when the U-rate rose to 4.3% in July, and has either preceded or coincided with every US recession since 1950.

Note: Information as of Aug 2024
 Source: BofA Global Research

Japanese Government Consolidated Balance Sheet, % of GDP



| Assets | | Liabilities | |
|-------------------------------------|--------------|-----------------|-------------|
| Currency | 19% | Currency | 23% |
| Domestic Loans | 73% | Bank Reserves | 102% |
| Domestic Securities | 14% | Bonds & T-bills | 144% |
| Domestic Equities | 33% | Loans | 38% |
| Foreign Securities | 54% | Deposits FILF | 5% |
| Total | 194% | Total | 311% |
| Net balance sheet: | -117% | | |
| Gross size of balance sheet: | 505% | | |

On the liability side, the Japanese government is primarily funded in low yielding Japanese Government Bonds (JGBs) and even lower-cost bank reserves. Over the last ten years the BoJ has effectively swapped out half of the entire JGB stock with even cheaper cash which it created, now held by banks.

On the asset side, the Japanese government mostly owns loans, for example via the Fiscal and Investment Loan Fund (FILF), and foreign assets, primarily via Japan's largest pension fund (the GPIF). The Japanese government's net debt position of 120% of GDP when accounting for all of this is one reason why debt dynamics have not been as poor as what would seem at first sight.

Note: Information as of Aug 2024
Source: Deutsche Bank

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