



全创资本

OMNI CAPITAL PARTNERS

# Investment Newsletter

September 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.

”

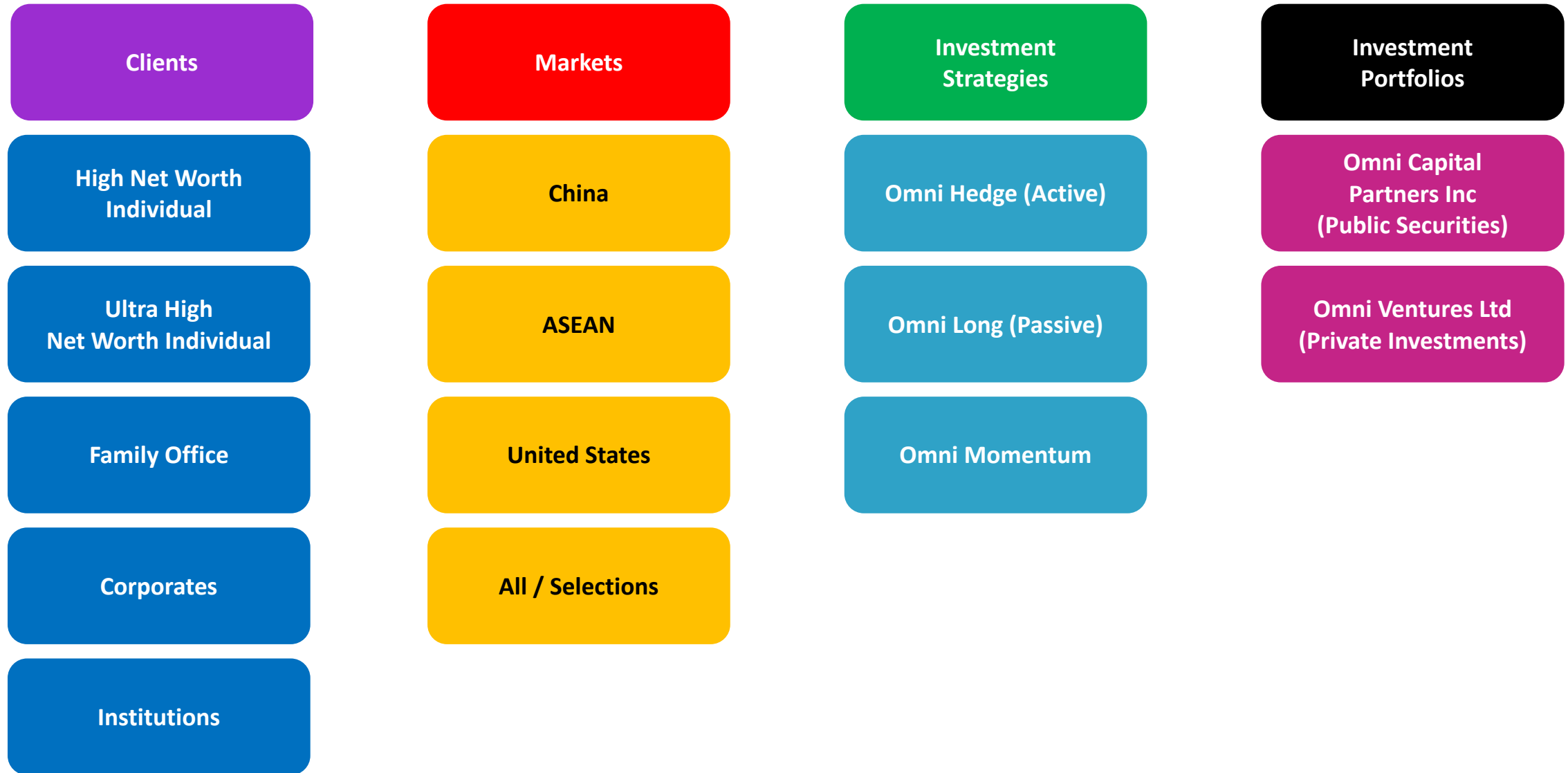
Experienced with  
Impressive Track  
Records

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



# Omni Investment Focus



## Asset Classes

### Public Securities:

- Public Equity
- Digital Assets
- Forex
- Commodities

### Private Investments:

- Startups
- Venture Capital
- Private Equity
- Direct Investments

# Omni Momentum Overview



## Omni Momentum®

### Investment Objective

- This strategy seeks maximum returns and protection of capital.
- Invest in global public securities.
- Trading in markets with volatility and liquidity as they give opportunities.

### Inception Date

- 1 July 2021

### Current Number of Holdings

- 4

### Team

- Scott (Strategy / Asset Allocation)
- Derrick (Macro / Theme)
- Analysts (Micro / Sector)

### Momentum Strategy

The key of momentum investing is to know when to enter into a position, how long to hold it for, and when to exit. We can also react to short-term, news-driven spikes or selloffs.

### Purpose

To minimise the risk of adverse movements in prices and to work with volatility by finding buying opportunities in short-term uptrends and then sell when the securities start to lose momentum.

### Characteristics

- Define success in absolute terms
- Active adjustment on correlation to market movements
- Volatility is key
- Performance depends on generation of alpha
- Versatile investment options to optimize the performance

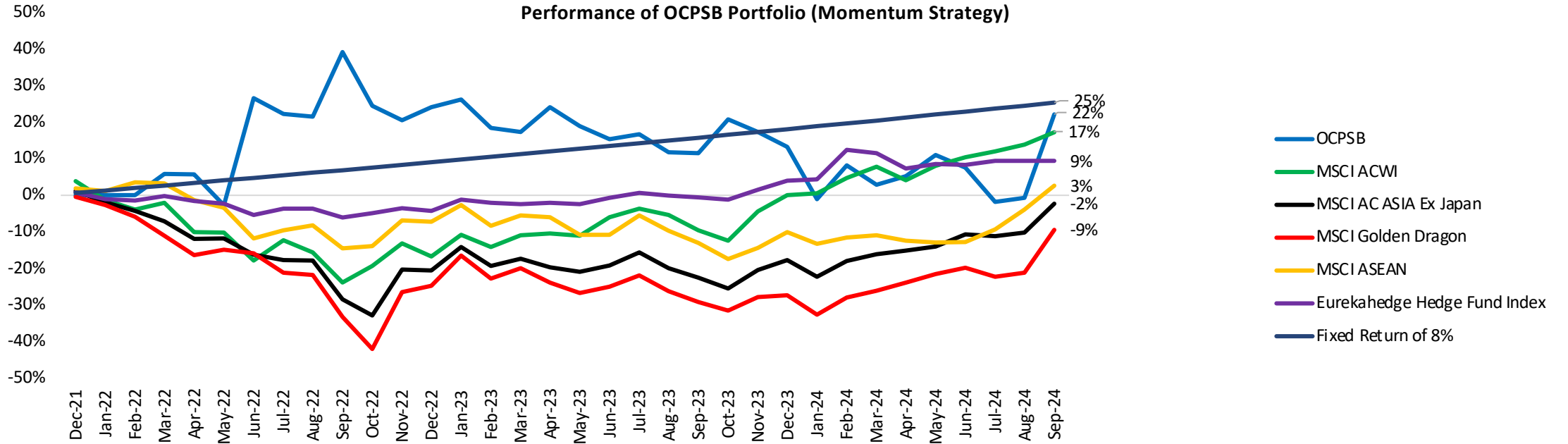
### Features

- Directional
- Arbitrage
- Long / Short
- Event Driven

# Omni Momentum Portfolio



Performance of OCPSB Portfolio (Momentum Strategy)



	1 Month	3 Months	6 Months	YTD	Since Inception
OMNI Momentum	23%	13%	19%	10%	22%
MSCI ACWI	3%	6%	9%	17%	17%
MSCI AC ASIA Ex Japan	9%	9%	16%	19%	-2%
MSCI Golden Dragon	15%	13%	23%	25%	-9%
MSCI ASEAN	7%	18%	15%	14%	3%
Eureka Hedge Fund Index	0%	1%	-2%	5%	9%
Fixed Return of 8%	1%	2%	4%	6%	25%

Note: Information as of 30 September 2024

Asset Class Breakdown	
Equity - China	99%
Equity - ASEAN	-
Equity - United States	-
Commodity	-
Digital Asset	-
Other	-
Cash	1%

Liquidity / Market Cap	
Mega (USD 100 Billion +)	-
Large (USD 10 to USD 100 Billion)	71%
Medium (USD 2 to USD 10 Billion)	28%
Small (USD 0.3 to USD 2 Billion)	-
Micro (USD 50 to USD 300 Million)	-
Cash	1%

# Investment Review and Outlook



- At the start of October, something concerning occurred within the US financial system: the Federal Reserve's repo rate corridor, which serves as a key anchor, broke. General Collateral repo rates surged almost 40 basis points above the reverse repo facility rate, designed to be the upper limit for the Fed's overnight rates. This rate spike is most noticeable at month and quarter-end, as banks scramble to improve their balance sheets by soaking up liquidity, a practice known as "window-dressing." On September 30, liquidity dried up significantly, exposing vulnerabilities in the financial system, can be attributed to three key factors. First, higher Treasury General Account (TGA) balances. Second, a decline in Bank Term Funding Program (BTFFP) balances. Third, quarter-end window dressing saw banks scaling back their repo activities due to balance sheet pressures, tightening liquidity at the end of the quarter. This combination of factors drained cash from the system, causing repo rates to spike, reminiscent of the COVID-19 financial market disruption. Mark Cabana, a rates strategist, has identified this liquidity challenge as approaching the "Lowest Comfortable Level of Reserves" (LCLoR), a theoretical threshold where reserves become so low that the market seizes up, leading to a liquidity crisis. Cabana estimates the LCLoR is around \$3 to \$3.25 trillion in reserves, equivalent to about 7% of GDP, based on historical trends from 2019, when the repo market previously froze. However, unlike 2019, the current system has an additional \$300 billion liquidity backstop through the reverse repo facility. Despite this, with ongoing quantitative tightening and increased Treasury issuance, it's only a matter of time before reverse repo liquidity is exhausted, and total reserves fall below \$3 trillion, potentially triggering another liquidity crisis.

# *Investment Review and Outlook*



- The Joshi rule and Sahm rule event horizons mark the point where rising unemployment usually triggers a negative feedback loop. Weak growth draws attention, leading people to cut spending, which in turn weakens sales and profits, eventually pushing the economy into recession. What makes the current US economy unusual is its 'inverted' nature, meaning output is driven by supply rather than the usual demand. This shift clarifies the unique behaviour of the economy. The recent increase in unemployment has been accompanied by robust supply-driven output growth. This growth has likely disrupted the typical negative feedback loops affecting sales and profits that often lead to a recession.
- Long-term inflation expectations are primarily influenced by long-term historical inflation trends. Unfortunately, with the pandemic's impact becoming a larger part of that history, long-term inflation is likely to trend higher. The only way to counteract this is to bring inflation as close to 2 percent as possible, or even below that threshold. Otherwise, there's a risk that inflation expectations could become unanchored. That said, without a recession, and if the Fed aims to keep inflation and inflation expectations anchored at 2 percent, it cannot reduce rates as aggressively as the market anticipates.
- The China equity market's strong performance has been fuelled by two key drivers: the implementation of more robust policy measures and an initially oversold, under-positioned market. Despite the impressive rally, China equities are projected to have an additional 15-20% upside. However, the full scope of fiscal policy responses remains uncertain. Still, there are valid reasons to expect further gains in the equity market.

# Treasury General Account Increased from Mid to Late September by Nearly \$200 Billion

TGA increased from mid to late September by nearly \$200b

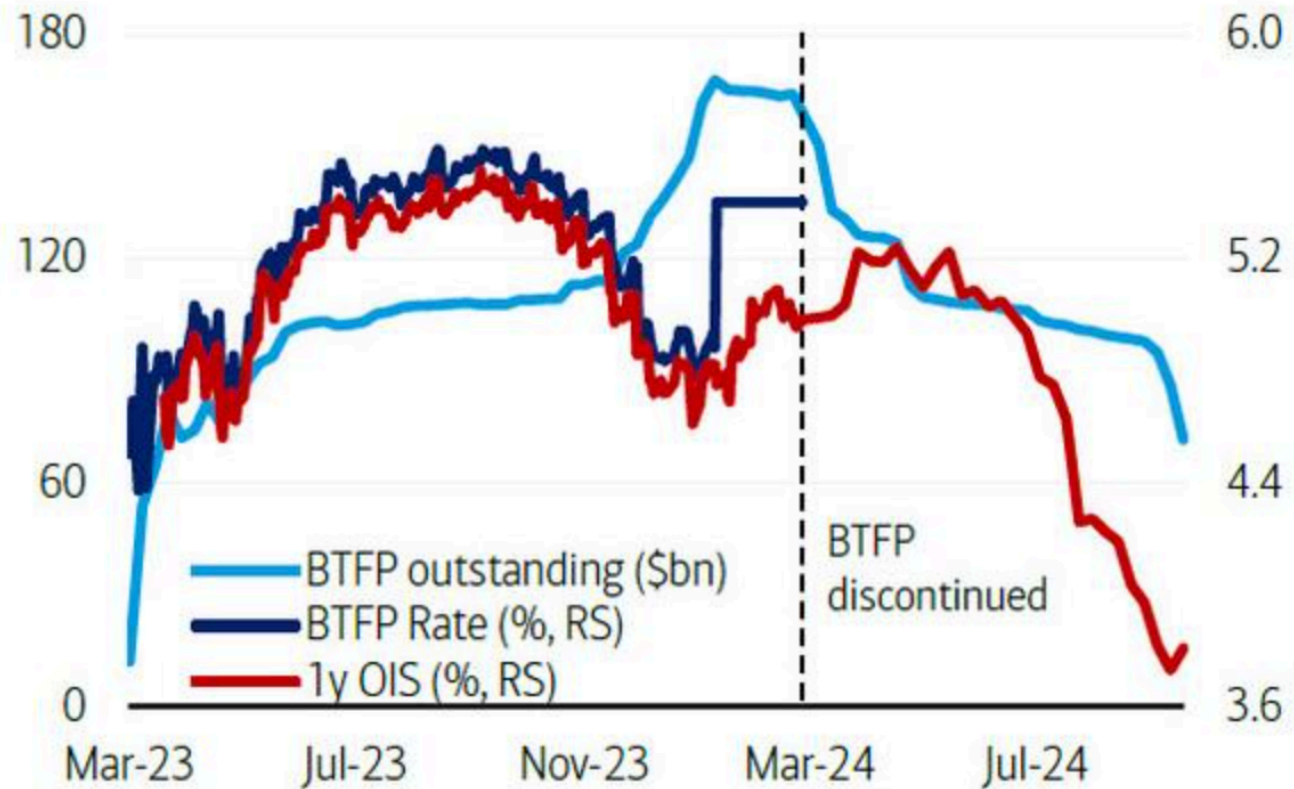


Higher Treasury General Account (TGA) balances: This increase, driven by corporate tax payments and U.S. Treasury settlements, reduced the availability of reserves.

Note: Information as of Oct 2024  
Source: BofA Research

# Decline in Bank Term Funding Program

Most of the growth in BTFP occurred at rates well above current funding levels, implying borrowers may prepay their BTFP loan for a better rate

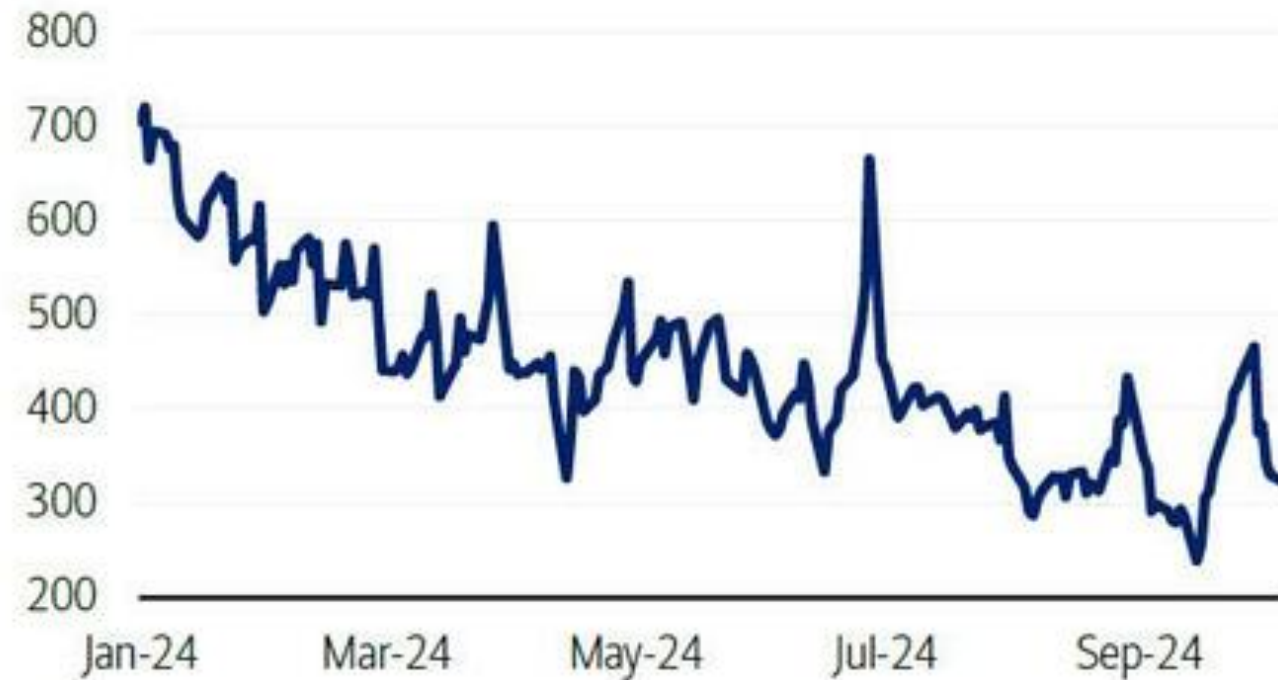


Decline in Bank Term Funding Program (BTFP) balances: BTFP balances fell by \$26 billion after the Fed's recent rate cut, causing some loans to be repaid early.

Note: Information as of Oct 2024  
Source: BofA Research

# Reduced Repo Activities Due to Balance Sheet Pressures

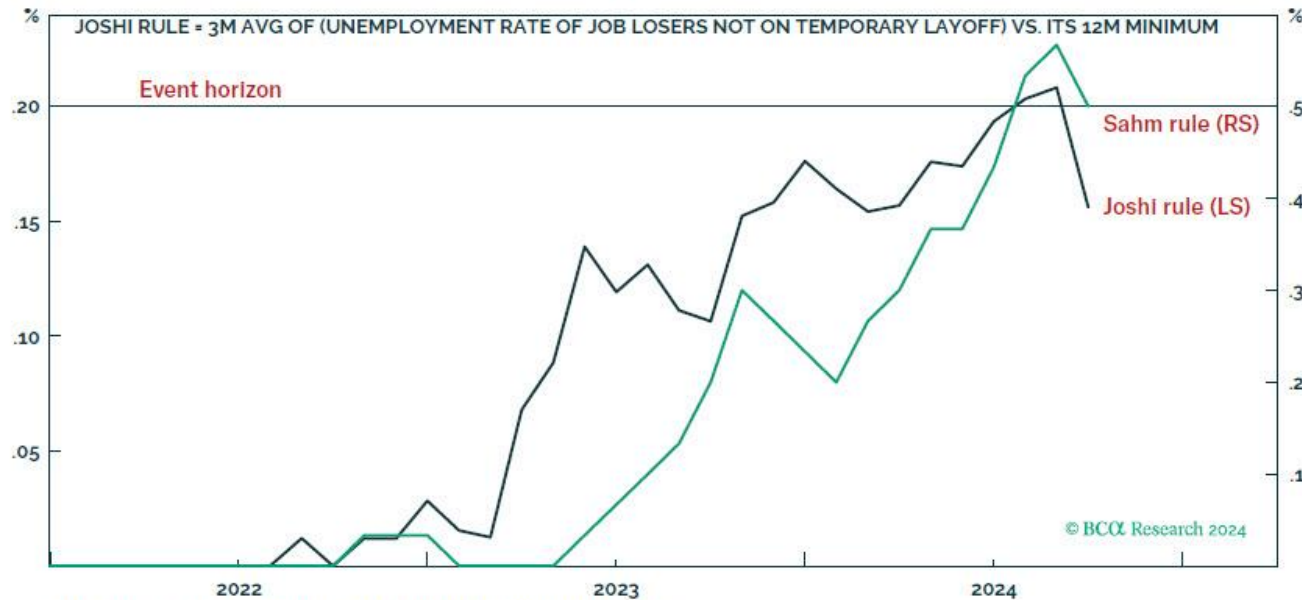
Dealer repo likely declined into Q/E due to bal/s pressures, consistent with ON RRP jump



Quarter-end window dressing: Banks reduced their repo activities due to balance sheet pressures, tightening liquidity at the end of the quarter.

Note: Information as of Oct 2024  
Source: BofA Research

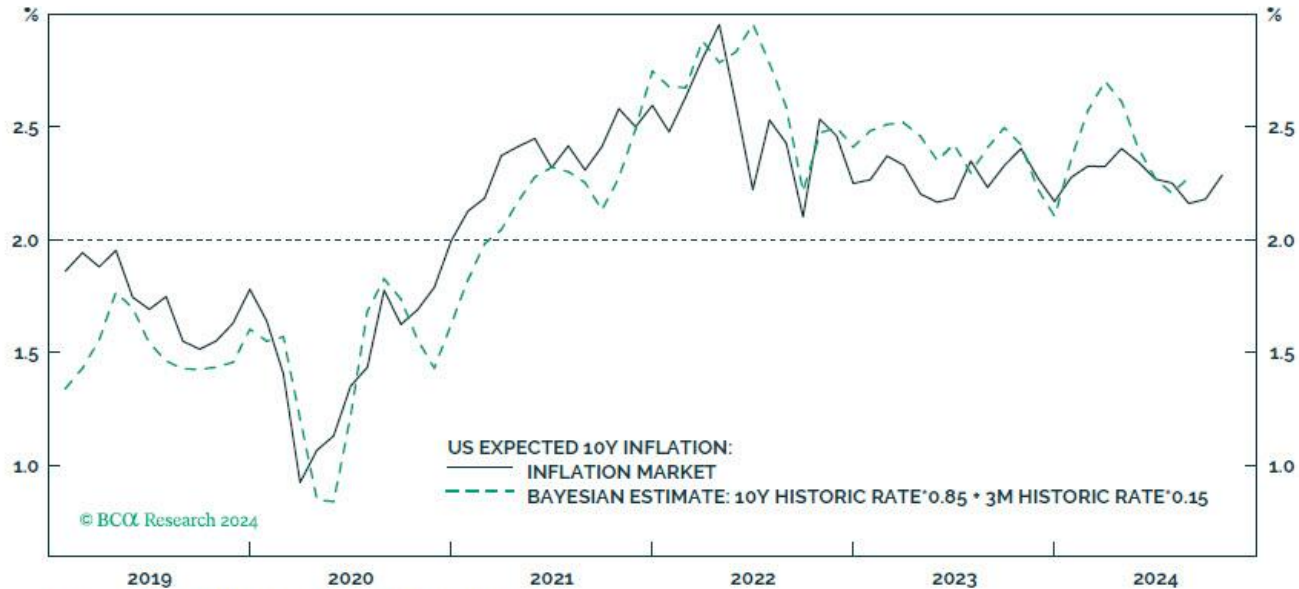
# The Joshi & Sahm Rules Have Backed Off Their Event Horizon



Both the Joshi rule and Sahm rule recession indicators have backed off their event horizons. This is very unusual, as typically, crossing the event horizon signals a sharp increase in unemployment. Yet, instead of accelerating, US unemployment appears to be levelling off.

Note: Information as of Oct 2024  
Source: BCA Research

# Inflation Expectations Have Ticked Up



At this stage, inflation is at the beginning of what is expected to be an aggressive Fed easing cycle, which typically marks the low point of the inflation cycle. However, this cycle low would imply that the average inflation – the Fed's target – will be significantly above 2 percent. It's also important to note that inflation expectations, based on both market data and consumer surveys, have risen. The 10-year 'breakeven' inflation expectation now stands at 2.3 percent.

Note: Information as of Oct 2024  
Source: BCA Research

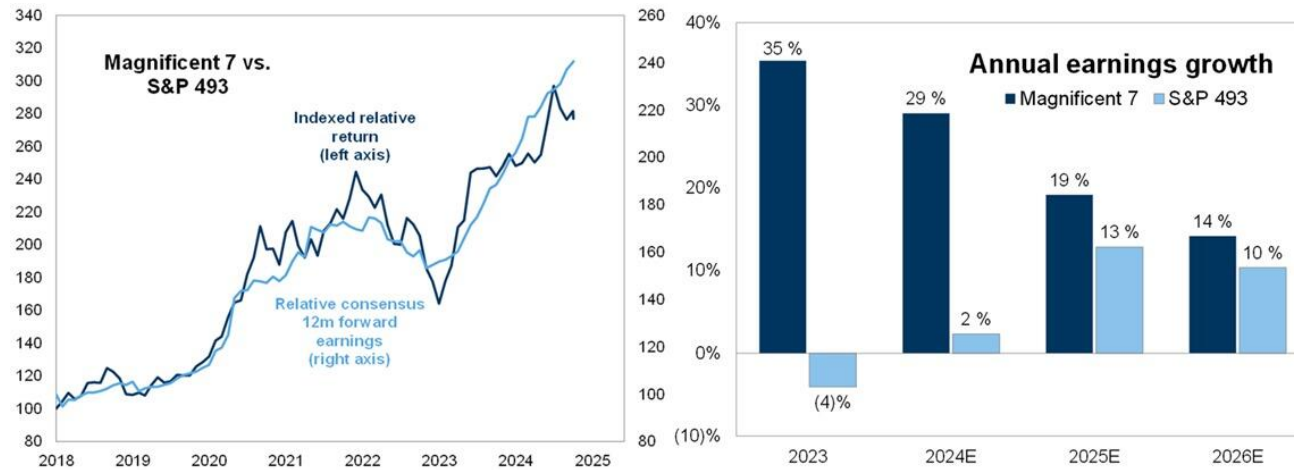
# The Real Risk for US Stock Markets is a Valuation Recession



Overweight undervalued small caps (Russell 2000) versus overvalued mega-cap tech (Nasdaq). And overweight the undervalued non-US versus the overvalued US.

Note: Information as of Oct 2024  
Source: BCA Research

# Positioning & Sentiment on Mag 7 is Increasing Sanguine

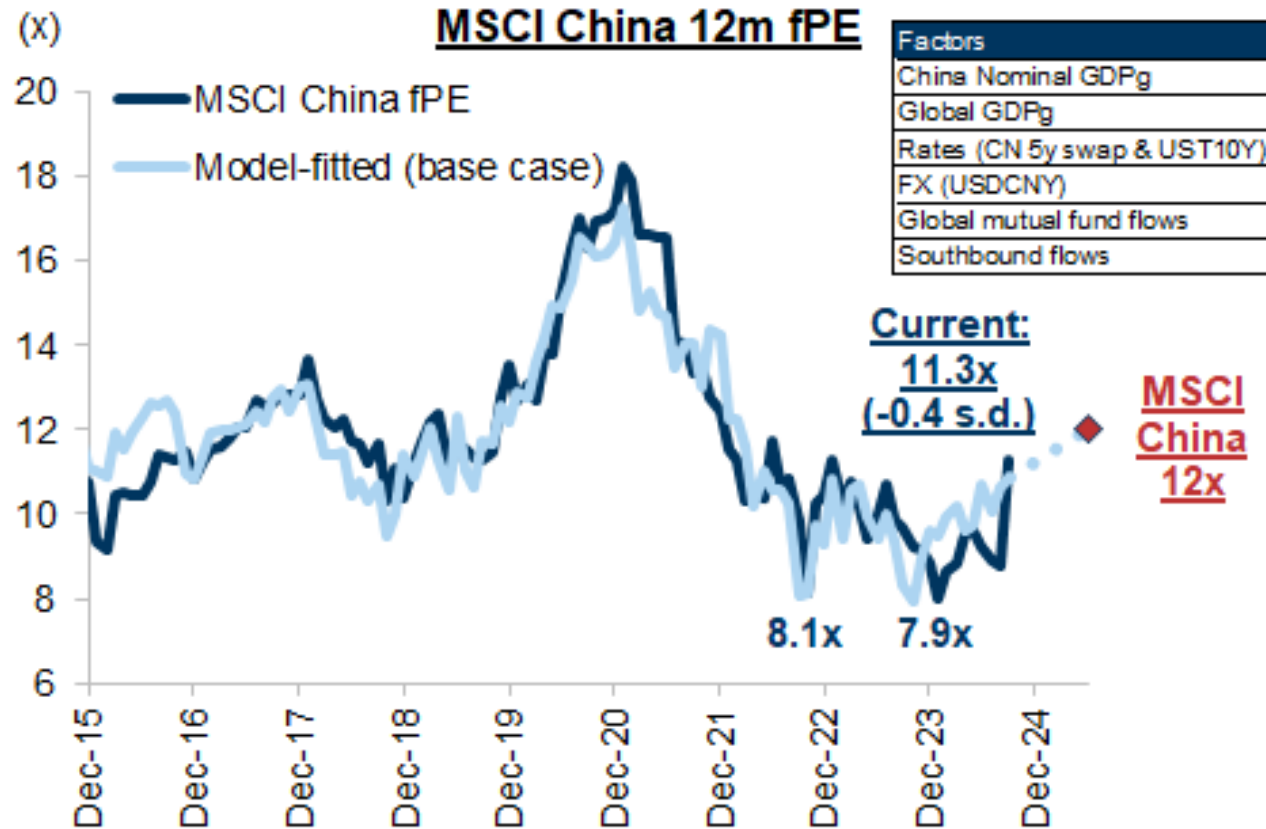


The chart on the left shows forward earnings expectations for the Mag 7 compared to the remaining 493 stocks over the past five years. To clarify, the outperformance seen in the stocks (dark blue line) has been supported by underlying fundamental expectations (light blue line).

The chart on the right suggests that the earnings per share (EPS) growth rate gap may narrow as we approach 2025.

Note: Information as of Oct 2024  
Source: Goldman Investment Research

# China's Valuation is Below Mean Even After the Powerful Rally

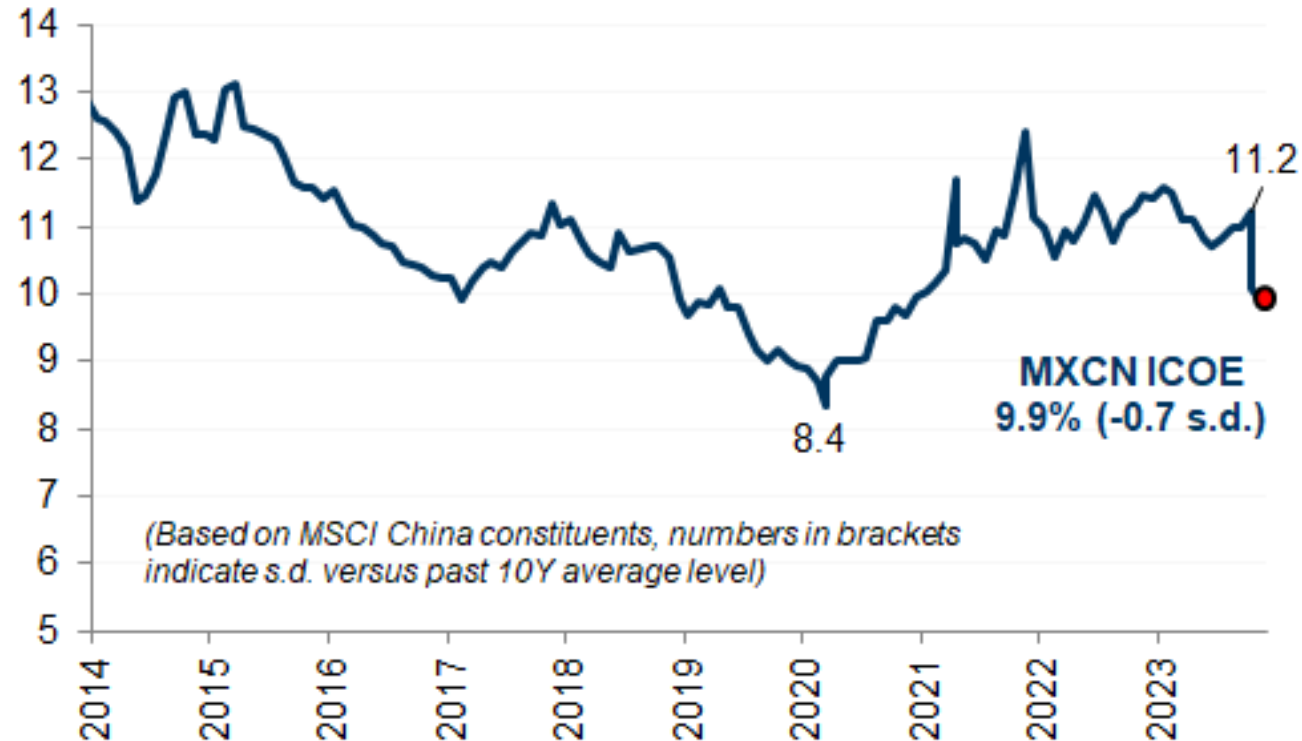


Current valuations remain below the mid-range, standing at 11.3x forward earnings, which is -0.4 standard deviations below the 5-year average of 12.1x, following a recovery from the low of 8.4x. There is room for further valuation recovery, particularly if policymakers follow through on their plans to support the economy. Historically, fiscal easing has been closely correlated with valuation expansion.

Note: Information as of Oct 2024  
 Source: Goldman Sachs Investment Research

# China's Implied Cost of Equity is Attractive

## DDM implied COE (%)



The market's rebound can be seen as a reflection of reduced left-tailed risk. According to Goldman's Dividend Discount Model (DDM), the implied cost of equity (ICOE) in the equity market was recently at elevated levels, indicating concerns about potential downside risks to growth. However, the coordinated and decisive policy measures, along with signals of further action if needed, help mitigate these risks and are expected to lower the ICOE. This, in turn, bolsters the outlook for continued valuation recovery.

Note: Information as of Oct 2024  
Source: Goldman Sachs Investment Research

# Hedge Funds Have Increased Net China Exposure But Remain Below Past Levels



Hedge funds have rapidly increased their exposure to China but remain at the 55th percentile of their 5-year range. For comparison, this exposure peaked at the 91st percentile during the height of the reopening rally in January 2023. Mutual funds, on the other hand, were 310 basis points underweight in China as of the end of August, and the market's recent sharp movements have likely increased this underweight position. Meanwhile, onshore investors have started to raise margin financing from low levels, a sign of growing risk appetite, similar to what was observed in 2015 when supportive policies were in place.

Note: Information as of Oct 2024  
Source: Goldman Sachs Investment Research

# Contact Info



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