Annual Outlook

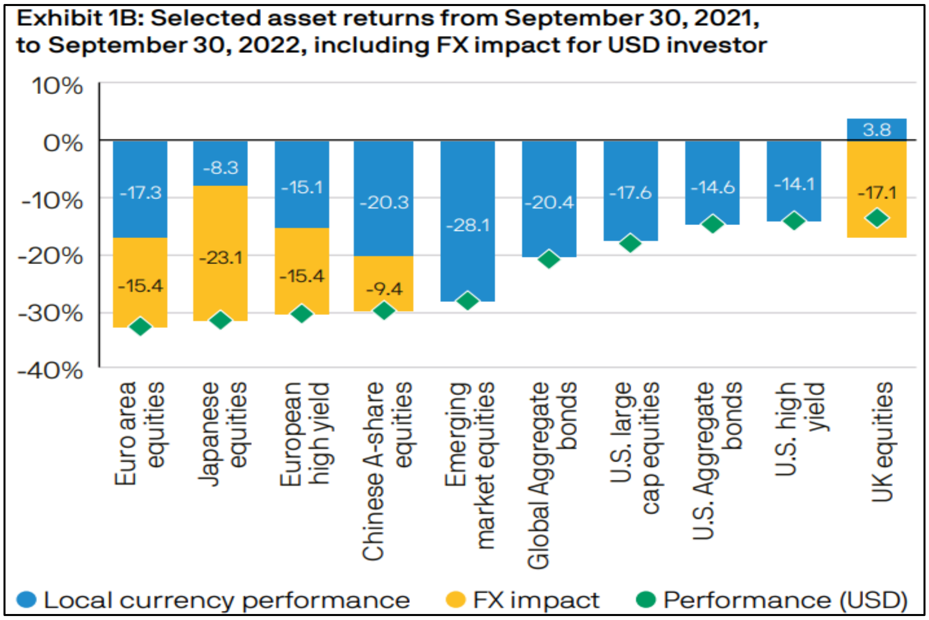
2023

Welcome to the year of Roller coasters!!!

As the much-respected Ed Heyman of Evercore recently quipped: "The ability to know the future is difficult."

2022 in a Nutshell

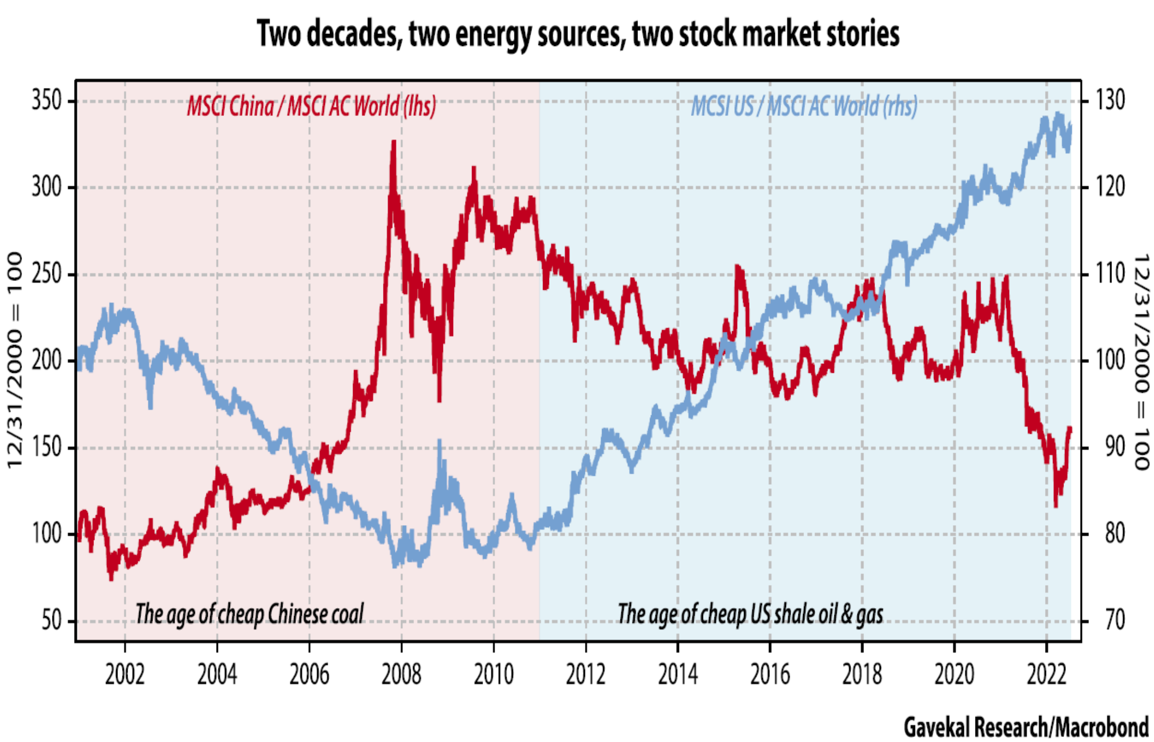
It has been a bleak year for most investors. Global investors lost $23tn of wealth in housing and financial assets in 2022, according to cross border Capital estimates. That is equivalent to 22% of global gross domestic product and uncomfortably exceeds the lesser $18tn of losses suffered in the 2008 financial crisis.



(Source: JP Morgan)

How are we starting the year 2023 – 'Liquidity' remains the key focus

The two most important central banks driving the global liquidity cycle are the US Federal Reserve and the People's Bank of China. Think of the Fed as mainly controlling the tempo of financial markets, given the dominance of the dollar, whereas China's large economic footprint gives the PBoC huge influence over the world business cycle. ***In short, as Mike Howell writes the stock market's price-earnings multiple is determined in Washington and its earnings in Beijing.***



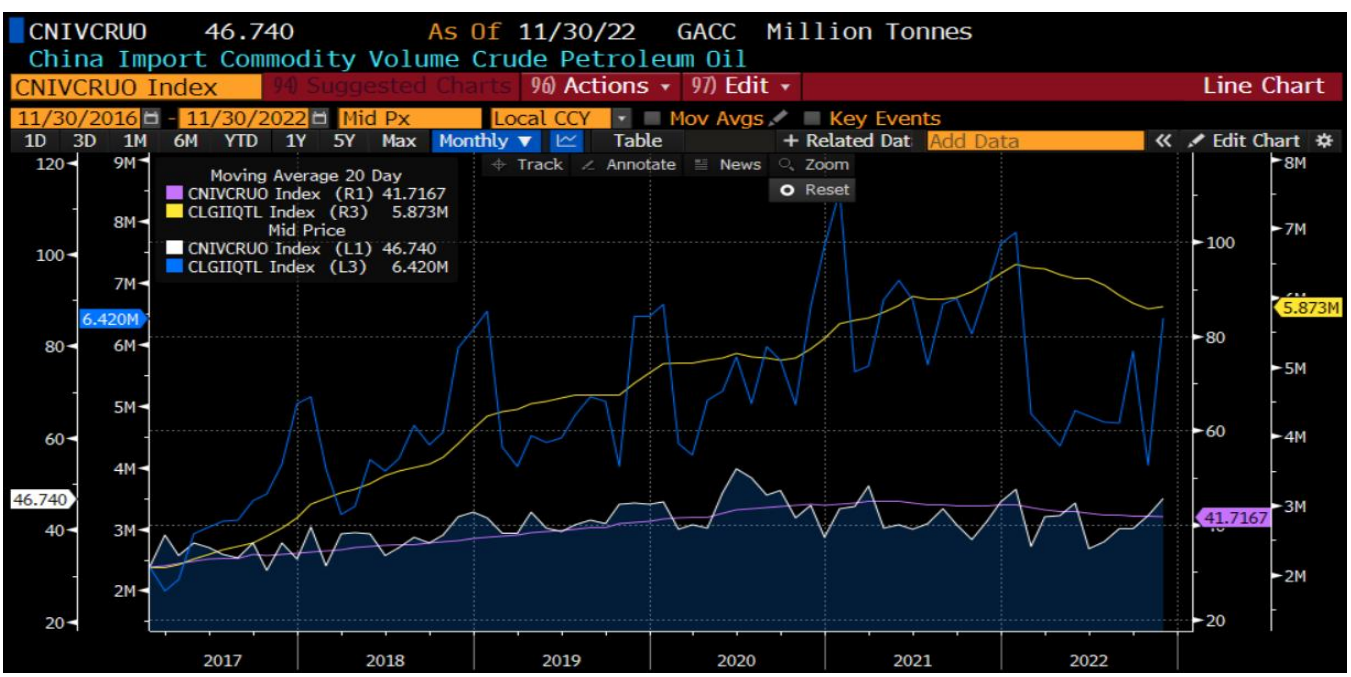
10-year yield and Fed Fund rate is telling Fed that the mistake has been made

"Overall, we expect Wall Street liquidity down a little over $500bn this quarter". This is an extremely aggressive tightening. *(Macro strategy Partnership)*

Chart 1: US 10-yr Treasury yield less Fed funds effective rate (%)

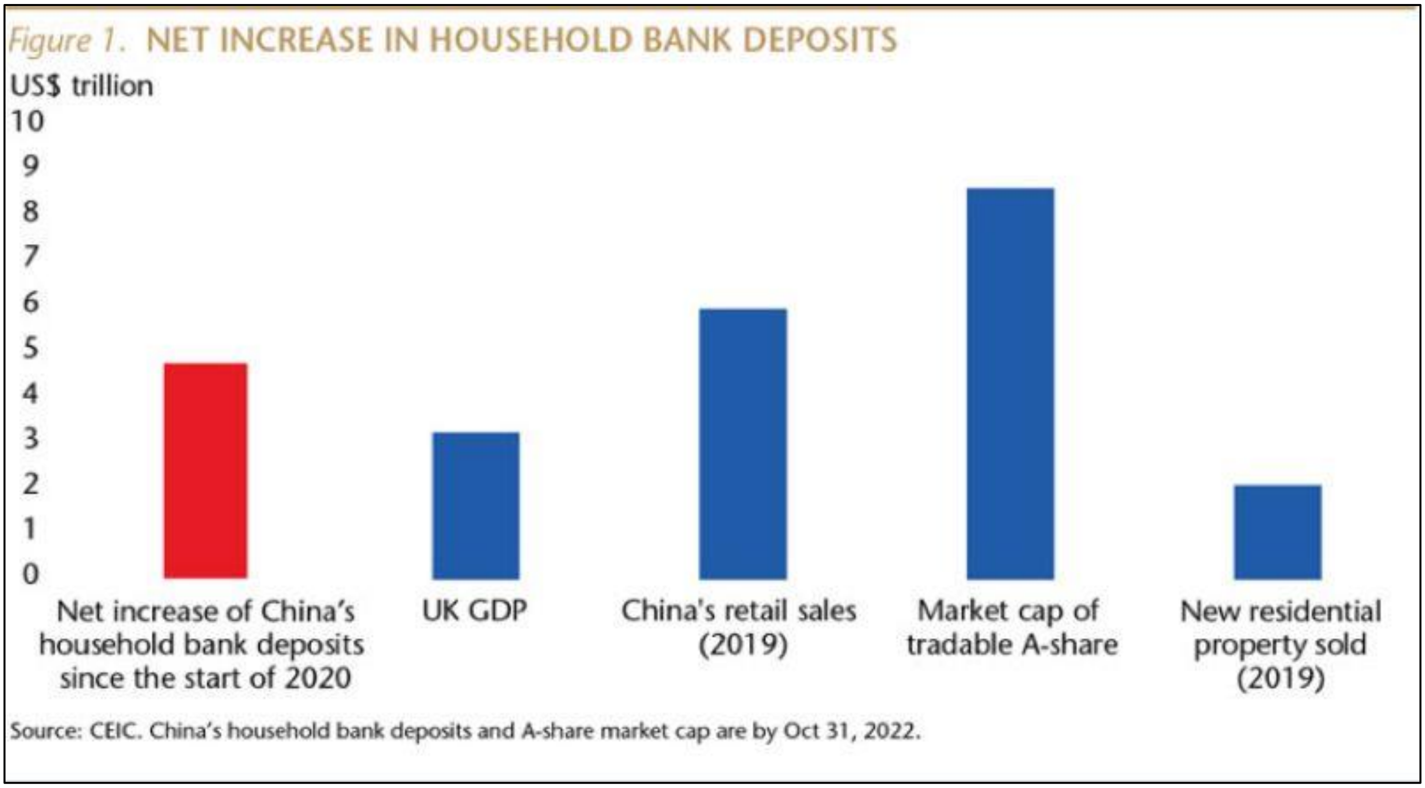
China easing of restrictions adds a layer of uncertainty

China's easing of restrictions has two opposing impacts, which can complicate Fed's task. First, it can improve supply constraints thereby can have a downside impact on overall prices, and second, bottoming out of China's economic growth can increase demand for commodities (rebuilding the economy), especially crude oil prices due to increased global travel. If the upside risk to commodity price overweighs the downside, then the task for the US Fed and other central banks can get further complicated. Such an outcome can increase market uncertainty in our view.



Next leg of Inflation could be from China's pent-up savings

Pandemic excess savings in the West will be gone few months from now, but there is sizable amount of excess savings waiting to be spent in China Big enough to fuel inflation in 2023?



Winners of this decade could be different…

The chart below shows every decade has a new winner and portfolio allocation decision based on past winners may not hold right.

The World's Top Ten Largest Companies by Market Capitalization (ex Aramco)				
1980: Peak Oil	1990: Japan will take over world	2000: TMT bubble	2010: China will take over world	2021: Only tech can deliver growth
Malthusian Bull	Ricardian Bull	Schumpeterian Bull	Malthusian/Ricardian Bull	Schumpeterian Bull
IBM	*NTT*	*Microsoft*	*Exxon Mobil*	*Apple (US$ 2.43tr)*
AT&T	*Bank of Tokyo-Mitsubishi*	General Electric	*PetroChina*	*Microsoft (US$2.25tr)*
Exxon	*Industrial Bank of Japan*	*NTT DoCoMo*	Apple Inc.	*Alphabet/Google (US$1.88tr)*
Standard Oil	*Sumitomo Mitsui Banking*	*Cisco Systems*	*BHP Billiton*	*Amazon (US$ 1.73tr)*
Schlumberger	*Toyota Motors*	Wal-Mart	Microsoft	*Meta/Facebook (US$ 975bn)*
Shell	*Fuji Bank*	*Intel*	*ICBC*	*Tesla (US$745bn)*
Mobil	*Dai ilchi Kangyo Bank*	*NTT*	*Petrobras*	*Berkshire Hathaway (630bn)*
Atlantic Richfield	IBM	*Exxon Mobil*	*China Construction Bank*	*TSMC (US$602bn)*
General Electric	*UFJ Bank*	*Lucent Technologies*	*Royal Dutch Shell*	*Tencent Holdings (570bn)*
Eastman Kodak	Exxon	*Deutsche Telekom*	Nestlé	*Nvidia (562bn)*

(Source: Gavekal Research)

China + 1 strategy

China is peaking and losing out on its economic competitiveness. Industries that have moved out of China in past 4 years have seen relatively lower replacement costs. Chinese labour has aged out and their costs have gone up. The only reason China is thought of as a manufacturing superpower is because of the admittedly large sunk costs of the investment.

> **Peter Zeihan**: Reshoring... nearshoring... friendshoring... whatever you want to call it. There is not an industrial sector that has moved away from China in the last four years where the replacement system is less efficient than what it left. The Chinese have aged out. Their labor costs have gone up by a factor of 15 since the year 2000.
>
> They are not economically competitive in anything. And the only reason we still think of China as a manufacturing superpower is because of the admittedly large sunk cost of the investment at this point. But it's all going to be lost anyway, and it's almost all going to be lost in the next three years.

Countries like Vietnam, India, Brazil, Mexico could be beneficiary given demographic advantage and impending industrialization as China takes a back seat from begin tagged as 'World's factory".

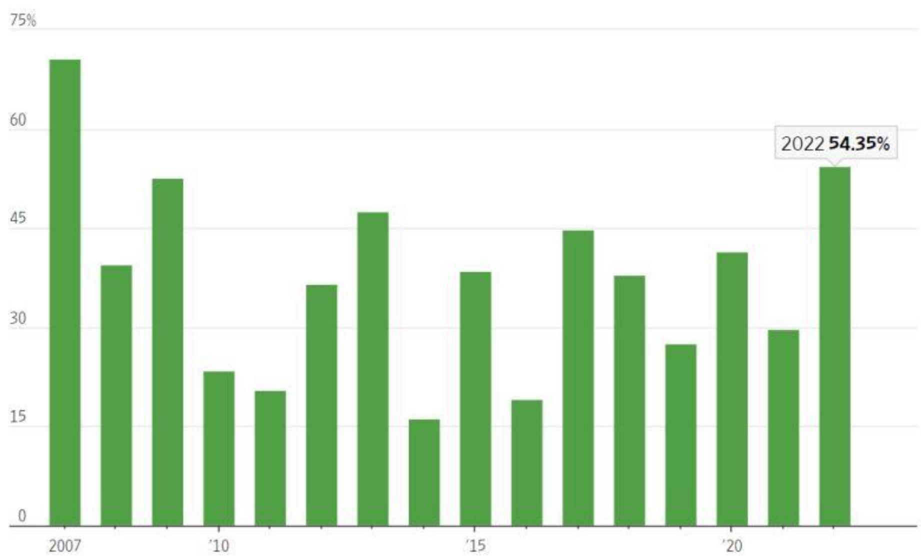
Something is changing in Active vs. Passive universe...

Performance over active funds, low fee and liquidity motivated the movement to passive. But, will this performance sustain in a rising/volatile interest environment?

Low interest rate gives birth to momentum markets; where, cheap money chases momentum stocks – which due to demand increases in value, attracts even more capital and the cycle keeps repeating. Index funds are inherently momentum investors, forced to buy more as stock prices rise, magnifying the risk of overvaluation of the index components.

But what if this is a decade for volatile interest rates? Momentum strategy breaks.

Percentage of large-cap U.S. mutual funds beating benchmarks

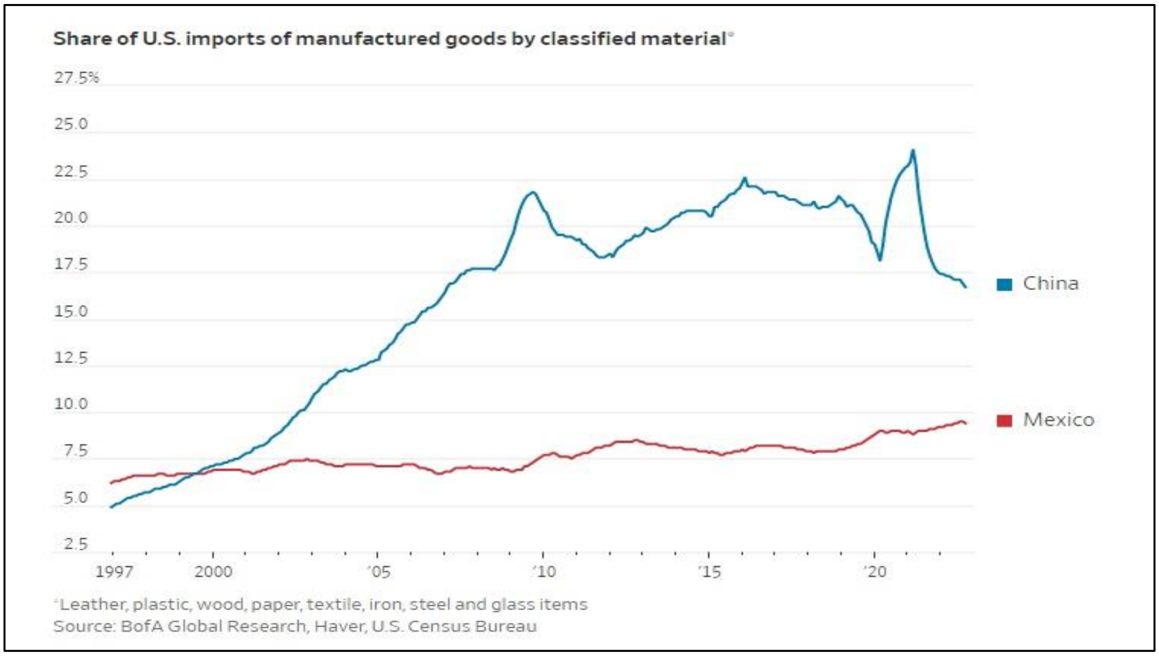


Note: Data for 2022 through Nov. 16
Source: Goldman Sachs

About 55% of U.S. actively managed large-cap mutual funds are on pace to beat their benchmarks this year. While the winners of next decade cannot be predicted but one thing sure can be estimated at this point. Geopolitical disturbances, high inflation and interest rates may keep markets across asset classes volatile and will necessitate investors to rebalance their Asset allocation <u>actively</u>.

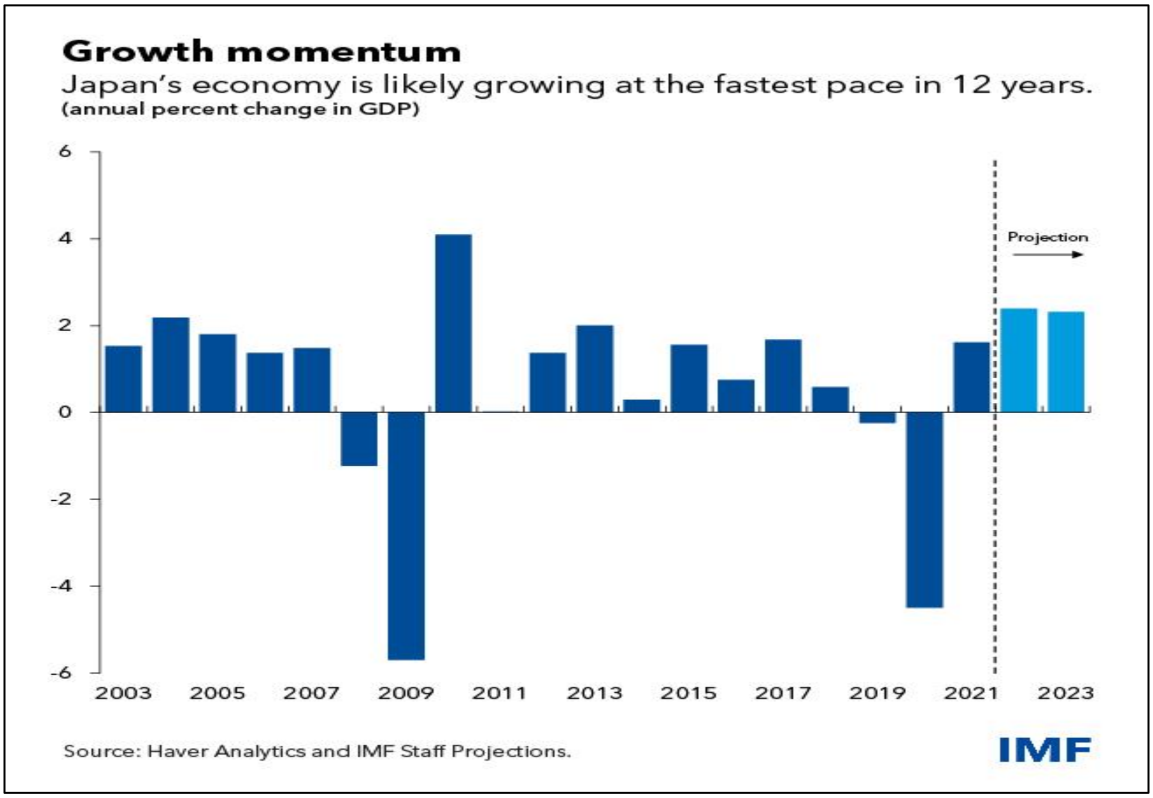
Mexican equities and Peso could be the best performing equity markets and currency in North America

Big winner in the U.S.-China trade war could be Mexico. It has lower wages than China, better demographics, an established manufacturing sector anchored by the automotive industry, and the perfect geographic position for serving the U.S. market. We believe that Mexican equities and Peso is the best way of playing US near shoring theme.



Nikkei could be the best performing equity market in G-7

US infrastructure investment is expected to increase & Japan is not only a 'capital goods' intensive country; but, also ally with the 'West'. US could prefer 'friend shoring' from Japan rather than from likes of China (Russia ally). Japan is the only G7 country not grappling with high inflation, so they can continue with monetary & fiscal stimulus. Rising yields favors 'Value' over 'Growth' & Japan with exposure to deep real assets backed industrial economy stands to benefit from this transition.



Clean and Green Energy

Battery metals could see a huge bull market and nuclear energy will gain wide acceptance as green and clean energy driving Uranium prices higher.

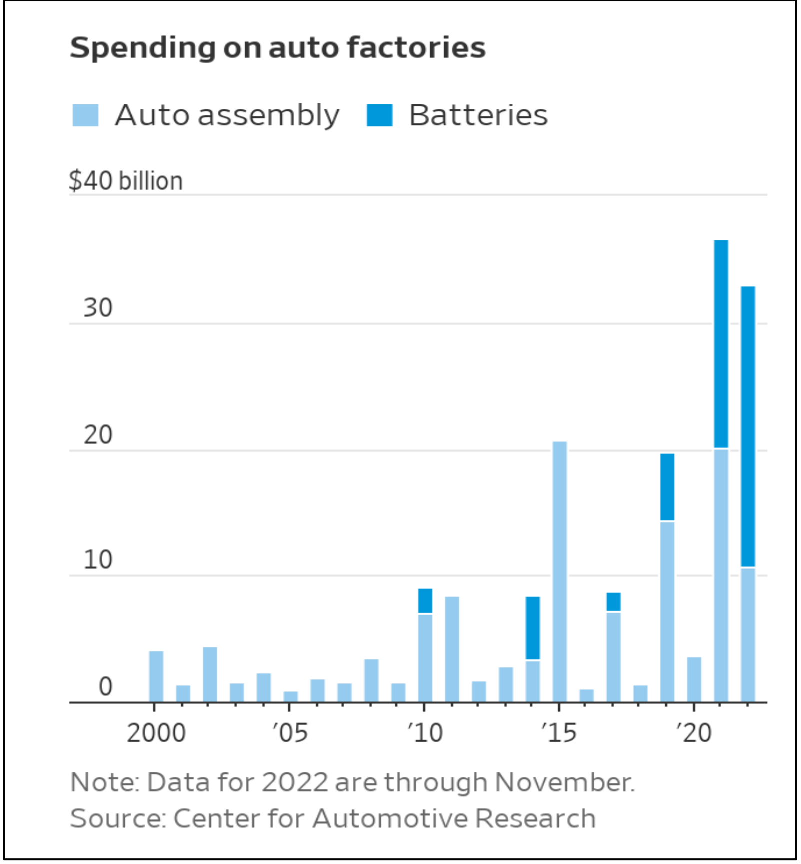
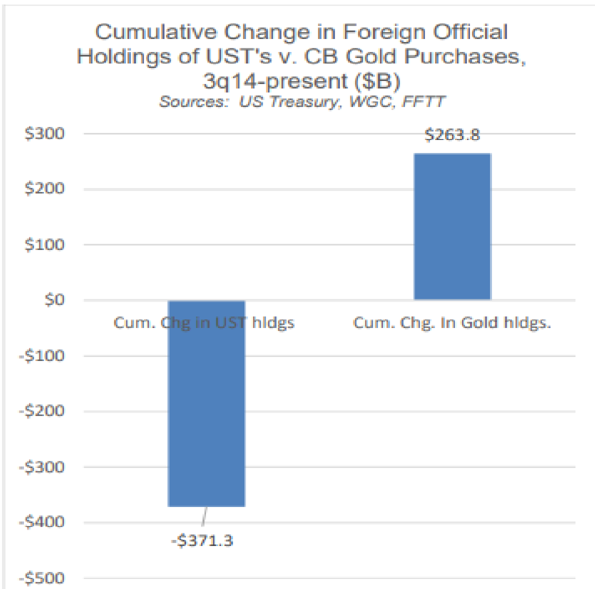


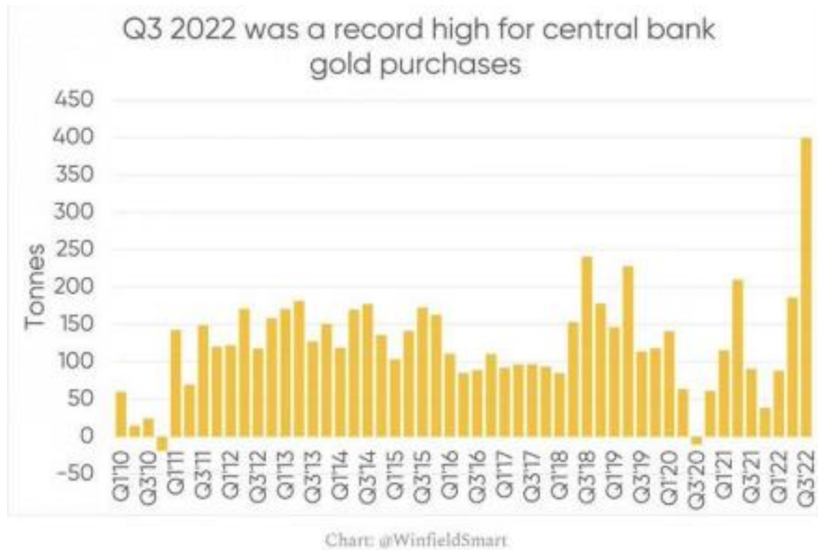
Figure 3a. Nuclear Energy Sentiment is Improving Worldwide

Dates of Publication: POWER, 7/5/2022; Financial Times, 10/15/2021; CNBC, 8/19/2022; Forbes, 8/22/2022; Fortune, 11/15/2021; Bloomberg, 6/16/2022; The Wall Street Journal, 8/16/2022.

Gold

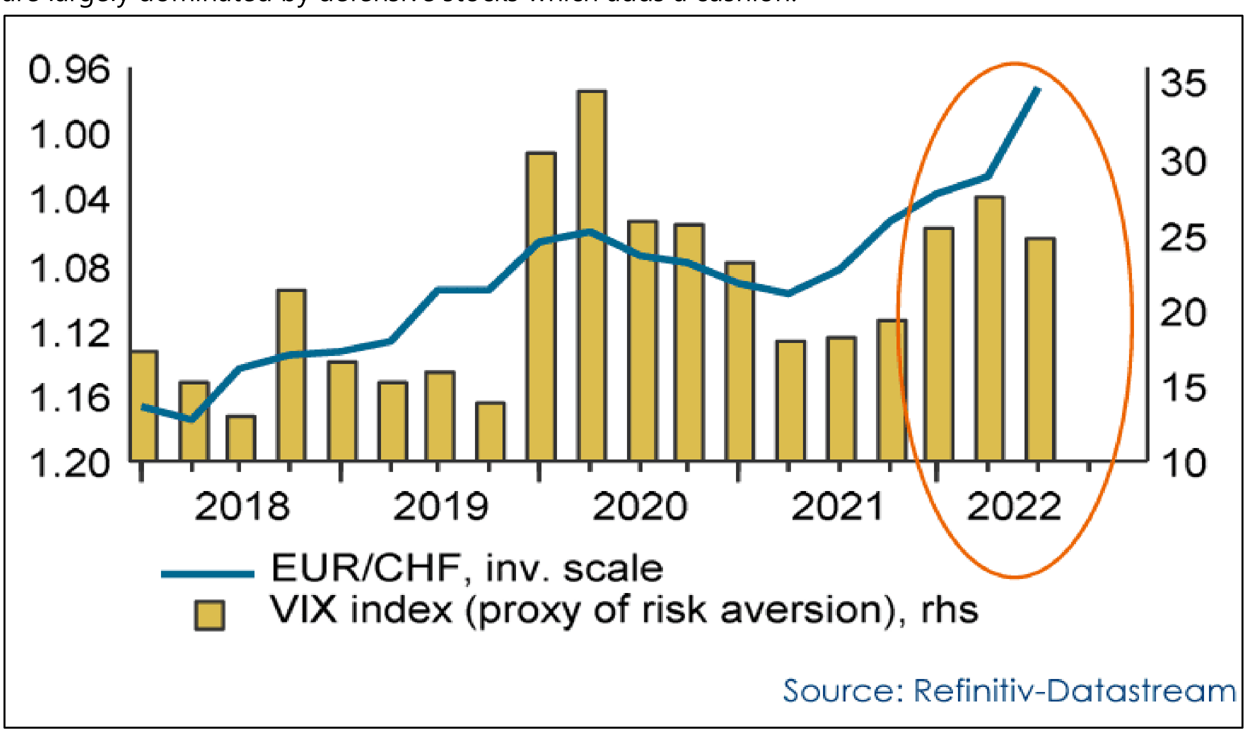
In a separate world Gold continues to shine. Weaponizing the US dollar was the biggest blunder by the US administration. Because that taught the countries that are not as friendly and close to the US that they should not hold all their reserves in US dollars. This could be the start of decline in US dollar's role as a major reserve currency. Precious metals are ready to take leadership in changing world where US hegemony is getting threatened.





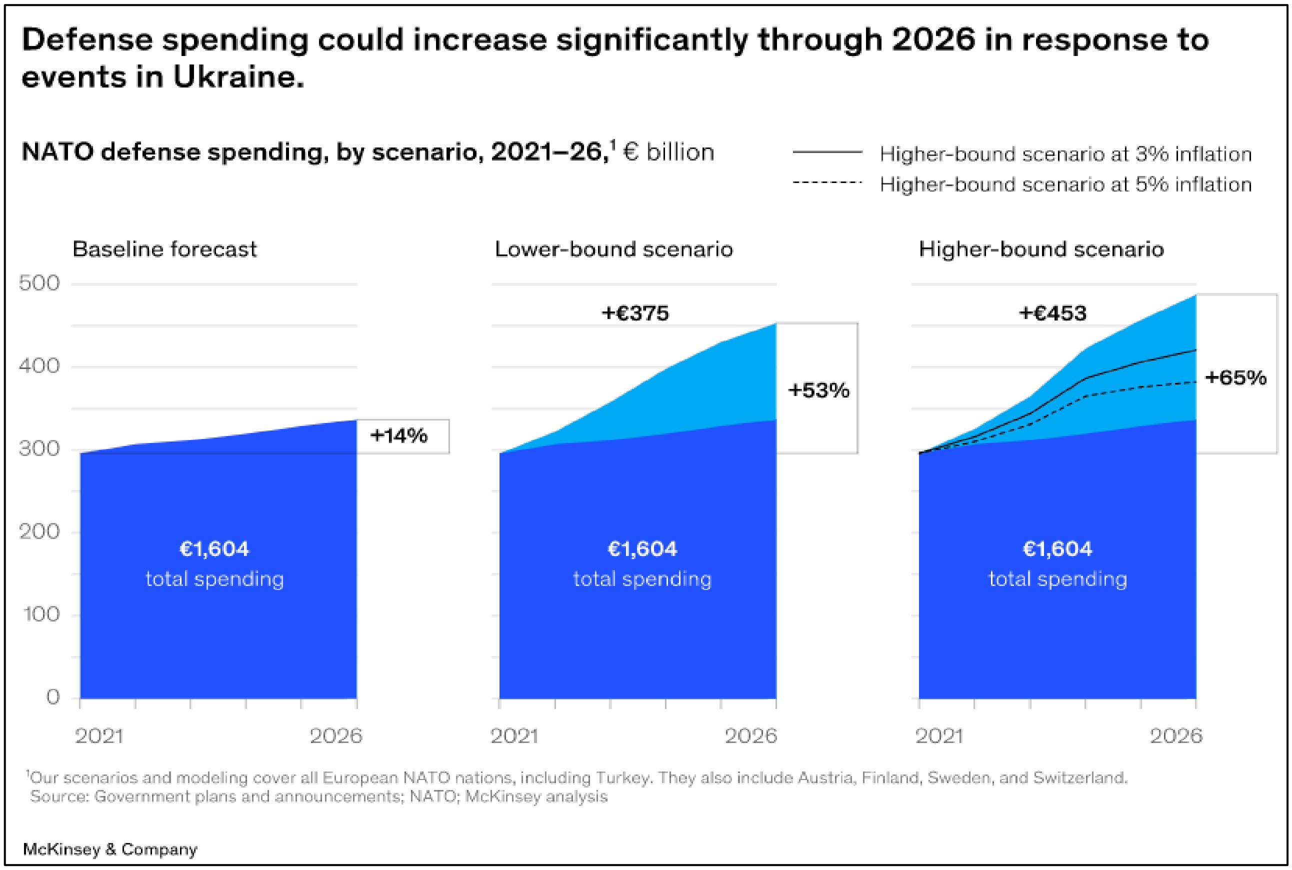
Swiss Franc could be the best performing G-7 currency

During times of uncertainty, many factors make the Swiss franc a sought-after currency. Switzerland is very stable politically, public finances are sound, inflation is low (relatively), the labour market is robust, and their equity markets are largely dominated by defensive stocks which adds a cushion.



Defense priorities change after Ukraine

A stable world does not require increasing defense spending, but priorities are changing in Europe, Japan, US and even Canada. This space will attract lot of Govt support and hence would be a great space to invest in coming decade.



Outlook

- Equity – There is a possibility that equity markets could reach a low point in early 2023, potentially due to a credit event or other major trigger that prompts central banks to loosen monetary policy. This could lead to improved conditions for financial assets in 2023. The first half of 2023 could potentially mark a major or cyclical market bottom, with growth stocks leading the initial rally and value and cyclical stocks, including energy and metals, potentially taking the lead later on.

- The dollar may strengthen in Q1 2023, potentially putting pressure on bond yields. After the dollar has peaked and bond yields have been reevaluated, it may be a good time to enter the bond market for a potential tactical rally.

- Inflation – Inflation could start to rise again in mid-2023 to 2024 due to commodity shortages in the West, potentially leading to a second cycle of high inflation. As a result, bond markets may require higher yields to compensate for the increased inflation.

- Currencies - We like economies with positive real rates. Even if we are wrong about their equities, we will make up some of it through currencies.

- There is also a possibility that the world could become less free and more controlled by governments, with the private sector potentially shrinking in relation to the government, and government will decide winners for tomorrow.

- Portfolio Positioning - We are bullish on Chinese consumption (Chinese savings waiting to be unleashed), Japan (cheap valuations), Mexico (North America reshoring play), Defense (large defense budgets) and precious metals.

  We believe no asset will be untouchable in coming year and at various points of time we could have sharp rallies in growth stocks (only to fizzle out), Sharp fall in select EM and Japanese equities (which will give us opportunities to buy), markets have a love and hate relationship with precious metals; but we think it will be more love and less of hate. We like high dividend paying stocks to compete with high bond yields. We continue to hold positions in agri commodities and energy.

Fund Characteristics

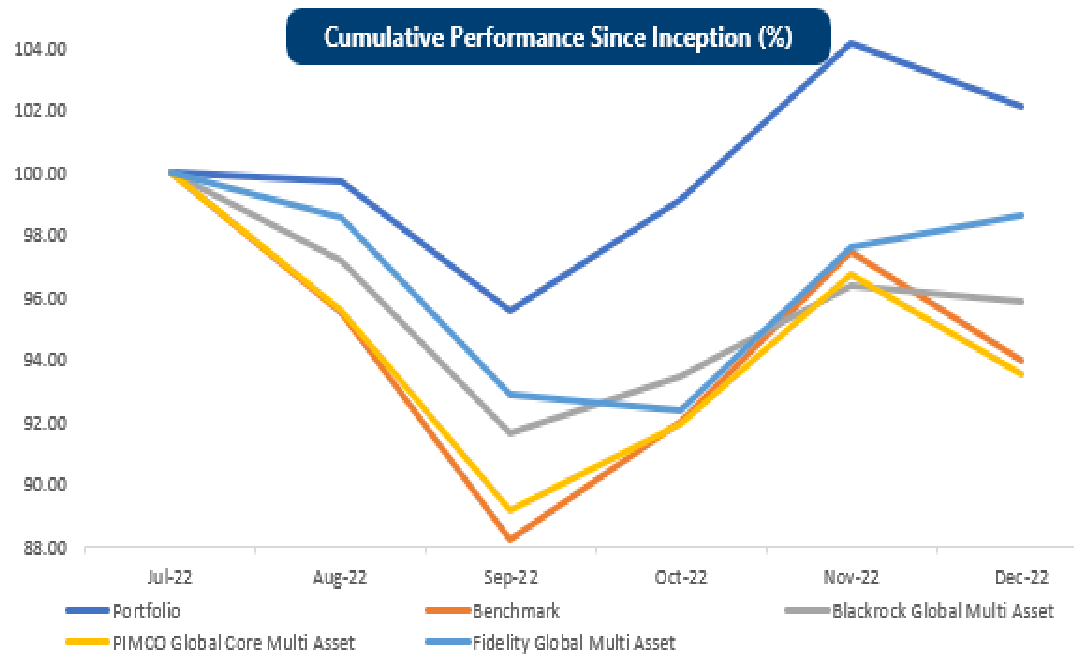
PineTree Macro

Fund Performance
(from 12th Aug'22 till 31st Dec'22)

Time	Portfolio	Benchmark
3 month	6.87%	6.5%
Inception	3.05%	-6.19%

Top 5 holdings

Theme	%
Gold ETF	8.36%
TIPS	7.34%
Japan ETF	5.7%
Uranium ETF	5.63%
Mexico ETF	4.87%



Inception date for the fund is 12th August'2022 Data prior to that period represents proprietary portfolio performance.

Benchmark Construction *- Benchmark is a blend of Vanguard total world stock Index ETF (VT) - 34%, Vanguard total bond market ETF (BND) - 33% & VanEck Inflation Allocation ETF (RAAX) – 33%. ETFs are chosen for the benchmark to reflect the diversified nature of the underlying portfolio. Peers in the space typically use a 60:40 combination of MSCI World stock Index and Bloomberg global bond Index as benchmark.*

The reason for including real asset as a part of benchmark - As early sings of multi polar currency world emerges, the efficiency of supply chains will be challenged pushing the cost of procurement upwards. As developed economies struggle through the massive debt burden creating an overhang on fiscal & monetary policies; real asset owners like commodity producers, efficient commodity procurers may emerge as winners. Inclusion of real assets in the Benchmark has increased the challenge for the fund as hard commodities act as inflation hedge.

Particulars	Remarks
Minimum Investment	$100,000
Minimum top up	$1000 and multiples thereof
Subscription	Monthly last day of each month
Redemption	Monthly, subject to 15 calendar days of notice
Exit Load	1% for exit with 12 months from investing
Management fee	1% charged monthly on daily average AUM
Performance fee	15%
Operating fee	On Actuals, capped at 0.5%
Hurdle Rate	7%
Fund Name	Anantam International SPC Fund – 6 SP (Cayman)
Investment Manager	Aparna Investment Management (Bermuda)
Auditor	RSM Cayman Limited
Administrator	Ohm Dovetail Global Admin (IFSC) Pvt Ltd

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