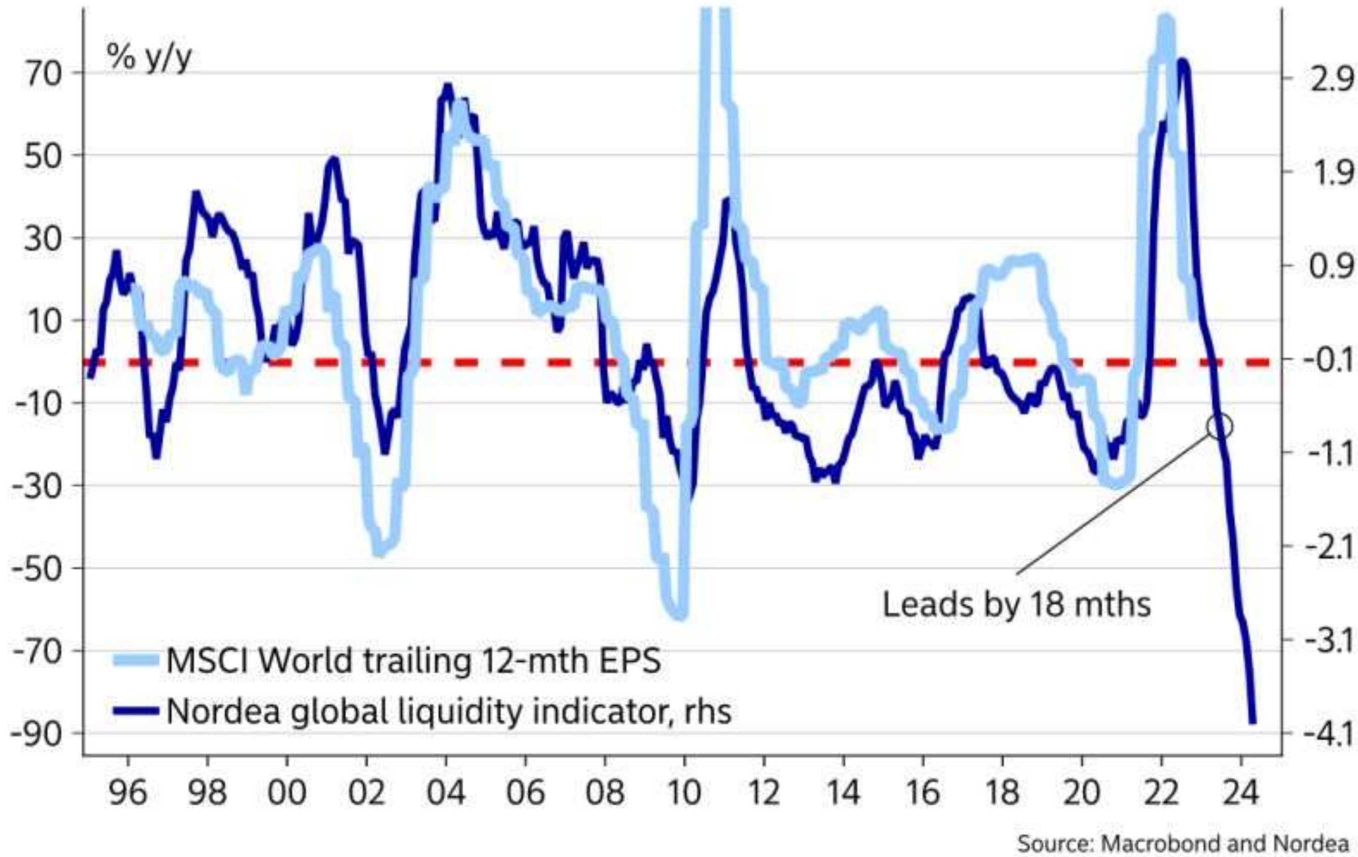
- China, second biggest economy is re-opening after having been on a lockdown for three years. Over past 3 years, China's household savings have increased by 50% to 15.5 trn. Excess savings along with record low mortgage rates will be one of the main drivers of pent up consumption demand driven inflation in 2023.
- But, as covid hits China you could see shortage of workers in next few months. Most of workforce still lives in dormitories where virus is rampant. So next quarter is going to be all about increase in demand on one hand & production dislocations on other. We have seen this playbook in West when they begin re-opening.
- While we could have seen peak hawkishness; but, we haven't yet seen peak inflation & China's reopening could further push back peak inflation. If we draw reference from 70s playbook, inflation rises due to base effects leading to wages spurt; which then slows down until you get another spurt. *Coming decade we could see Inflation shoot up to 7% & then fall back to 3% & then up to 9% & then back to 4%.*
- One way to play this theme is to own assets in countries beneficiary of Chinese demand boom like EMs & Japan. Brazil, India, Mexico etc. were outperforming in 2022 when they were facing macro headwinds, now these headwinds are turning into tailwinds: China is reopening, $ is rolling over & the Fed is pretty much done tightening. EMs are hugely under owned asset class & may see a long journey upwards from here.

(Source: Louis Vincent Gavekal; Chart Source: Topdown charts)

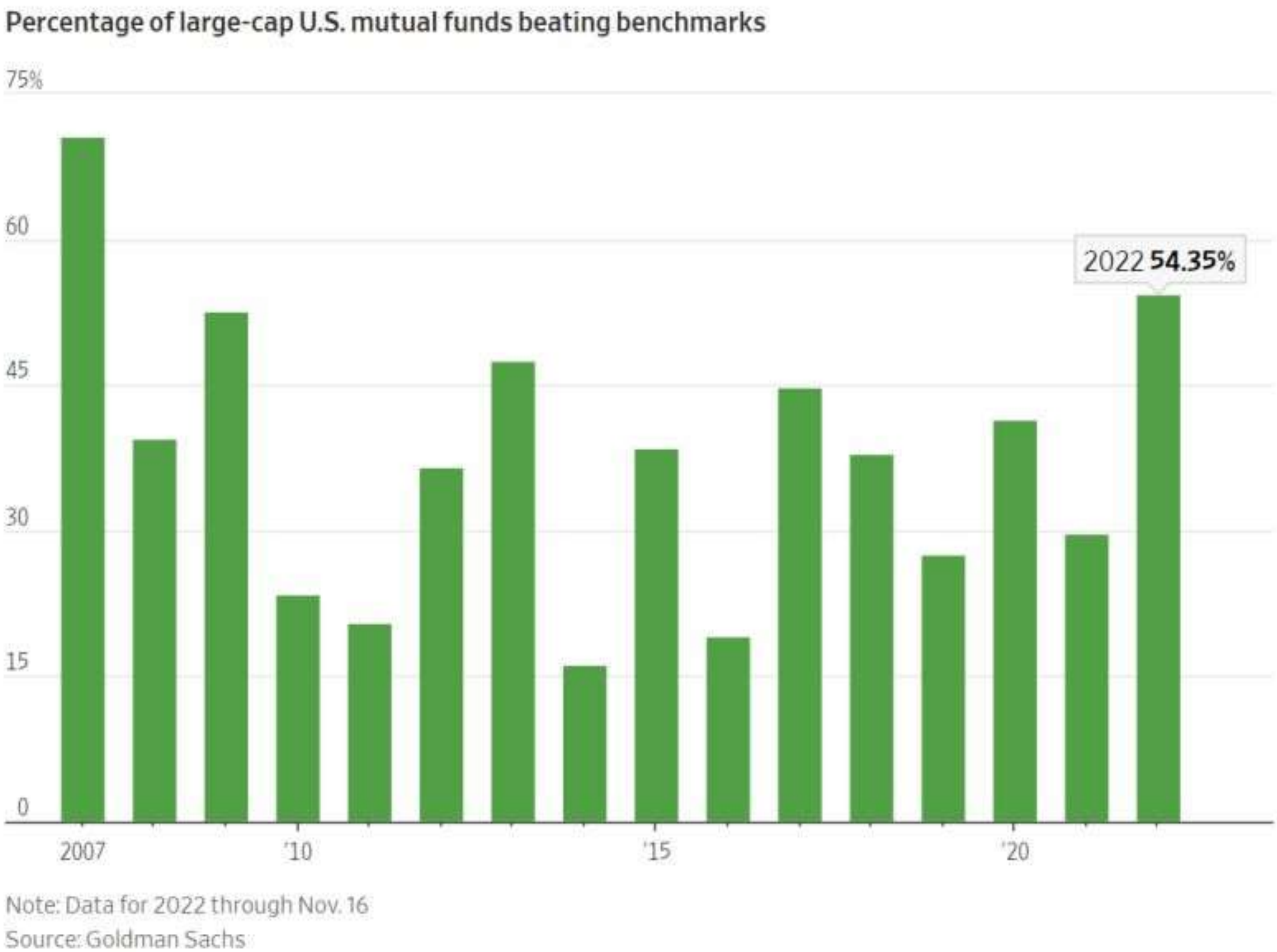
Hopes of Inflation fading in 2023 could be overdone. If inflation holds and power shifts to EMs, will we see a repeat of 2003-2007 golden era?



This chart highlights the correlation between global liquidity (as a lead indicator) and corporate profitability (as a trail indicator) with a lead time of 18 months.

Will this correlation hold in 2023 as well? And if yes, does that mean market corrections have just begin (assuming here markets will follow the earnings reporting and have not bottomed out yet).

(Chart Source: Mikaelsarwe)

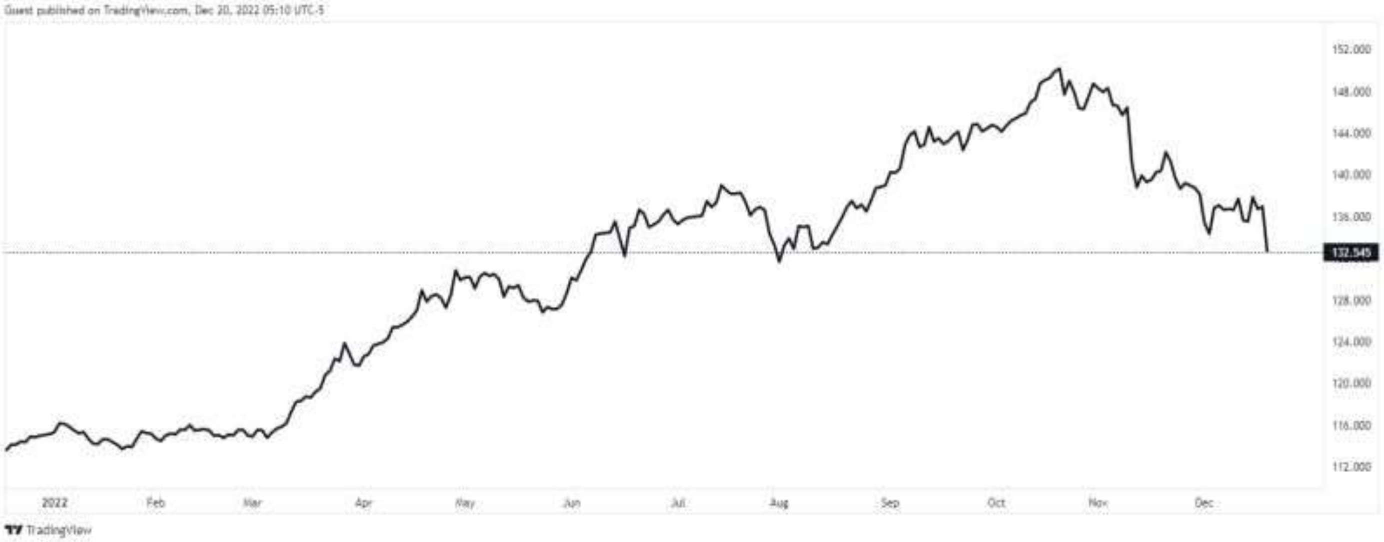


Something is changing in active vs. passive....

About 55% of actively managed large-cap mutual funds are on pace to beat their benchmarks this year. 2022 was highly volatile year and during volatile times active management outperforms passive.

(Chart Source: WSJ)

Charts that Matter!



Powell is Hawkish... Lagarde turned hawkish last week...Here comes Kuroda!!!!

Few Central bankers are making moves suddenly showing that they are 'concerned' about inflation. US 10Y is UP 20 bps this week, because now JAPAN is worried about INFLATION.

Bonds market discounted much of Powell's hawkishness and actually understood the seriousness only when retail data was out. Now, Japan 'Tightening' is like hitting below the belt.

Yen was the worst performing major currency for the year (-16%) until today; when BOJ reversed course. Will USD get crushed under Yen? With Japan getting yield again, should that drive funds back to Japan?

Mr. Ritesh Jain

Co-Founder

Master of Business Economics (MBE)
Executive MBA - Haskayne School (Calgary)

He has held many senior leadership roles including CIO – BNP Paribas Mutual Fund, where he was responsible for managing US$1.2 billion of AUM and also has served as the CIO of Tata Mutual Fund, where he was responsible for managing AUM of 6 billion.

In 2019, LinkedIn rated him among the top three influencers in the world of Economy and Finance. He is also a recipient of numerous national and international awards in the field of fixed income and equity investments.

Ms. Chanchal Agarwal

Head - Products

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She brings with her about 12 years of Industry experience spanning across verticals like Family Office Investment Advisory, Equity management, Investment banking, etc.

In 2020, AIWMI recognized her amongst the 'Top 100 women in Finance". She has featured in the Audio talk series 'Show me the Money' by Meghna Pant (available on Audible Suno). Her article reflecting on 'What stops women from investing' was published in The Hindu Newspaper.

Mr. Rohit Pandey

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During his career span, he has gained experience working as a macro consultant and in creating products for algorithmic financial planning and healthcare analytics. He is currently pursuing a Masters in Data Science from Northwestern SPS.

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