Monthly Newsletter

July 2020

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New Leaders for 2H

PIER 8 – Thematic Opportunities (TO)

PIER 8 Thematic Opportunities equity long short portfolio’s performance was driven by the “clicks vs bricks” theme where positions in WFH (work from home) beneficiaries attributed to the gains.

The easy half of 2020 is now behind us and looking ahead, investors have a more challenging terrain to navigate through. The ongoing pandemic, social unrest, economic suppression, deterioration of Global – China relations, 2020 US elections & Hong Kong elections, and a lingering global recession are some of the “known” obstacles that the market will be faced with.

Thematic Ops is in the view that in order for risk assets to continue their upward trajectory to defy all the aforementioned obstacles, sectors that have been lagging (i.e. value) will need to take over and lead in the second half, namely infrastructure and financials.

PIER 8 – Quantamental (QM)

In June, Hang Seng staged a reversal of its loss in May at 6.4%, followed by Europe up 6% with Japan and US up 1.8% each. QM was heavy in its equity length in Asia Ex Japan, reversing its losses in May. The Option book grew in exposure through the month, benefitting from the strong rally we’ve seen for European equities over May and June. QM continues to be constructive risk through July, mainly from macro signals e.g. contango in VIX Futures and the US Yield Curve. Recognising that we had a strong rally mid-July, we switched most of our outright calls positioning into Call Spreads and Call Flys, for a decline in realised volatility as the upward momentum of HK and European market waned into a grind.

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"Time in the Market" vs "Timing the Market"

Credit markets remained firm in June despite record breaking issuance in the US. Despite the rise in equity markets, the 10-year US treasury remains at the low-end of the range, with investors still seeking safe-haven assets with the resurgence of COVID-19 hotspots in the US.

As countries race to find a vaccine, it is easy to imagine a divided world based on access. Some reports have shown countries such as the US, UK, China and Russia may be the first to have accessible vaccines. Daily headlines of various stages of vaccine progress has kept investor sentiment positive and with the Fed providing liquidity with low rates, investors are back to seeking yield.

The Barclays Aggregate US investment grade corporate index is now showing a yield-to-worst of 1.9%. The index includes over 6,500 names with an average duration of 8.7 years. During the March sell-off, the same index reached nearly 4.5%. With over 200bps of yield improvement, it is difficult to see this move to be repeated in the 2nd half of the year. It is more likely that the returns from the 2nd half will be driven by carry rather than capital appreciation. That said, there are opportunities in European bank capital and Asia credit, where we see the potential for individual names to outperform.

Corporate credit yields are much lower compared to March levels, but so are treasury yields, which are expected to remain low until 2022. In fact, the bond market does not price in a 25-basis point rate hike until the end of 2023. With modest growth and muted inflation, investors are still being paid to stay invested. So even though the entry point may not be ideal for credit investors, the mantra "time in the market" outweighs "timing the market".

Asia BB and B rated bonds yield at approximately 6.1% and 11.0% respectively with bond duration of ~2.7 years. B rated bond yields tightened by 2.9% from last month, outperforming BB rated bonds, which has its yield tightened by 0.9%. In the Chinese HY property market, investors have extended their duration to chase yield. Evergrande 2025 and Kaisa 2024 note both traded up by 5-6pt, with yields still at low double digits. Agile 2022 paper was up by 2pt, yielding 4.7%. In India, Tata Steel 2028 and Greenko 2024 paper both traded up by 2-3pt, yielding 6.6% and 5.5% respectively.

RACS Portfolio

As the market continue to recover, we have continued to deploy our cash to add on more risk. Cash level reduced from 17% as of May-end to 3% as of June-end. Long short ratio is 89:11.

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