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SG Weekly (27/10 - 02/11/22) - How low can you go?

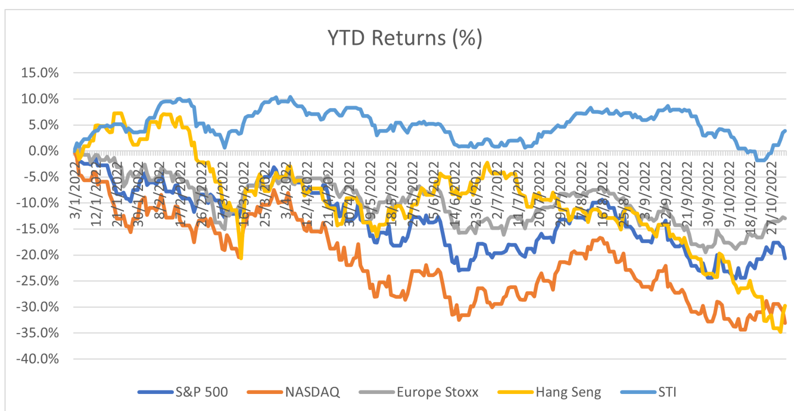
Dear Client,

Our SG Weekly is written with you in mind. As we pen our thoughts, we hope to hear from you too. From feedback on our notes to any questions on the market/companies, we will endeavour to deliver the most comprehensive answers in subsequent instalments of our SG Weekly. Please write to us at research@saccapital.com.sg. Looking forward to hearing from you. Thank you.

Matt Chan
Equities Research

How Low Can You Go?

The current market malaise brings to mind Chubby Checker's 1962 hit "Limbo Rock" where he sings: Limbo lower now…how low can you go? (And no, it's not my era, the song is in my dad's playlist). Year-to-date, the major indices in the US and Asia have yielded negatively, between -14 to -32%. Against this backdrop, Singapore is the Fort Knox at +3.9%.



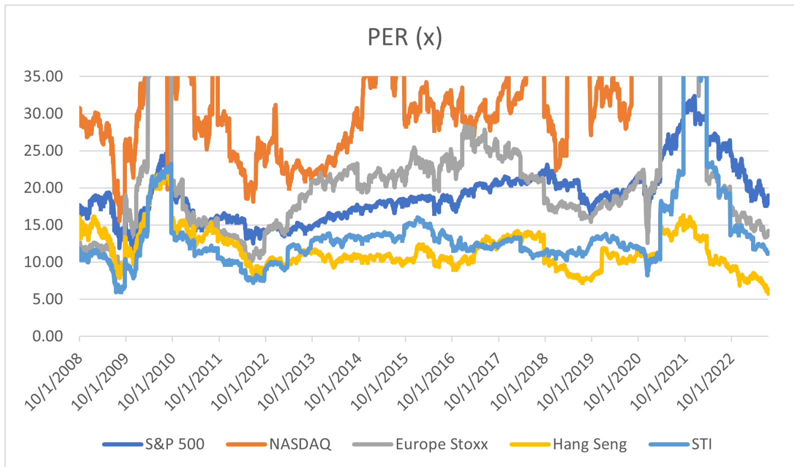
Source: Bloomberg / SAC Capital

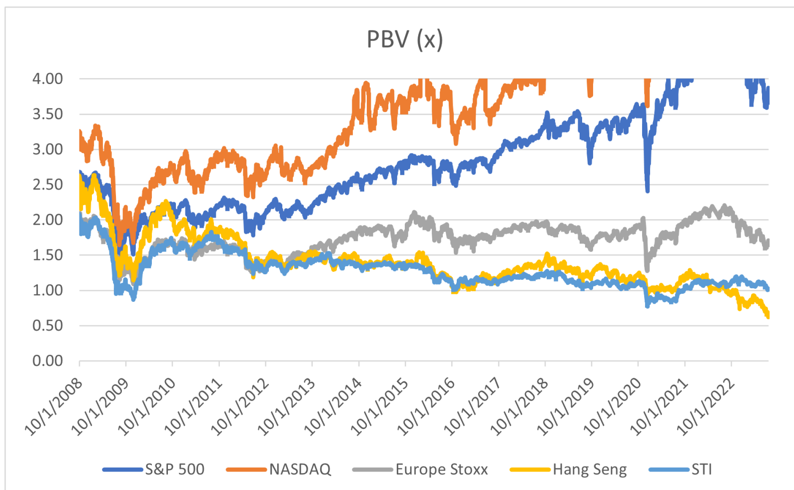
So with the omnipotent Fed Funds Rate still on the uptrend, how much lower can the market go? Mark Twain once said: History never repeats itself, but it often rhymes. Twain is quite a smart chap so we are just going to assume he's right. Using PER, PBV and dividend yield, we are going to compare current valuations against those at various stops in recent history.

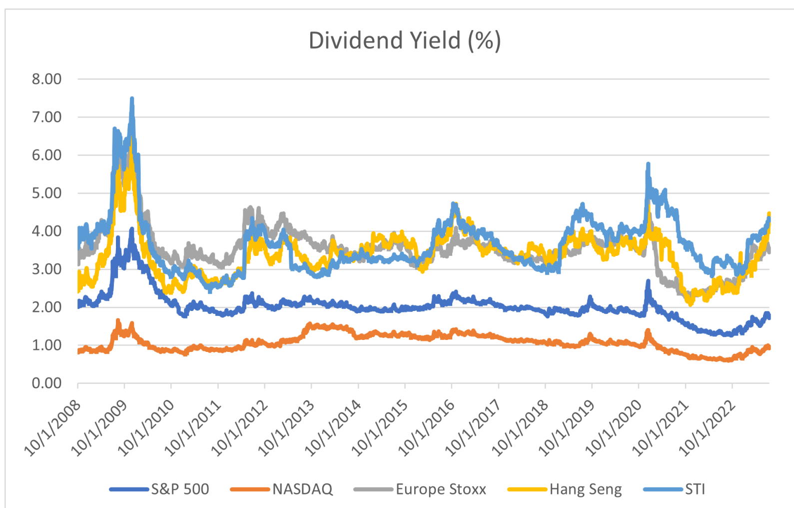
You'd be entirely reasonable to expect the indices to clock healthy ytd returns against

Covid lows. This is indeed the case for our basket save for the Hang Seng Index. Compared to even Armageddon Covid March 2020, the Hang Seng has lost 33%. Seen as a proxy to China equities, it is no wonder that the heavyweight names from the likes of Citi to UBS, Blackrock to Goldman Sachs have turned bullish on China.

Looking further back against more normal periods: pre-Covid 3-year (2017-2019), 5-year (2015-2019), 10-year (2010-2019) averages, the STI also looks inexpensive.



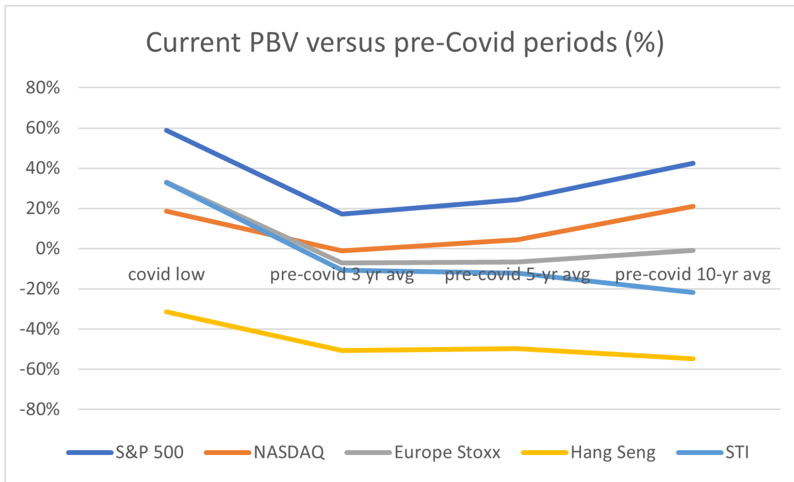


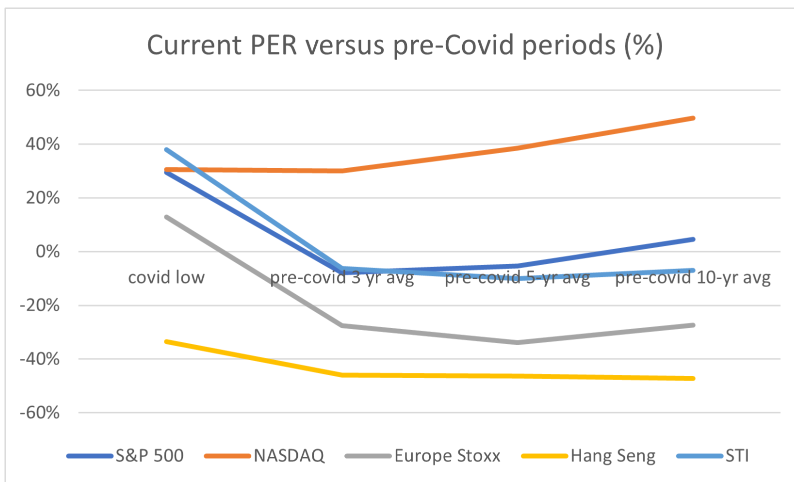


Source: Bloomberg / SAC Capital

On the PER basis, the HSI is trading at 47% discount to our selected pre-Covid averages. Based on PBV, the discount is a wider 52%. For the STI, the discounts are 8% (PER) and

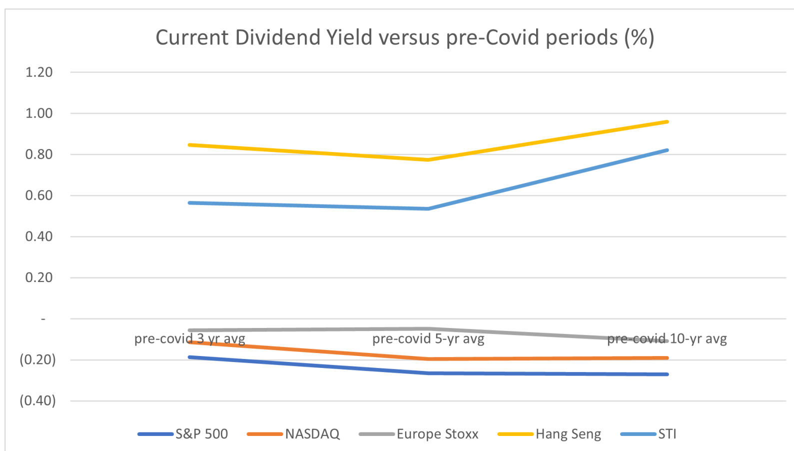
15% (PBV), respectively. The wider discount on a PBV valuation is likely due to the significant underperformance of the real estate and REITs sectors ytd; they are the most sensitive to interest rate movements.





Source: Bloomberg / SAC Capital

Current dividend yields paint a similar picture. HSI and STI yield an average of about 86 and 64 basis points higher than pre-Covid periods, respectively.



Source: Bloomberg / SAC Capital

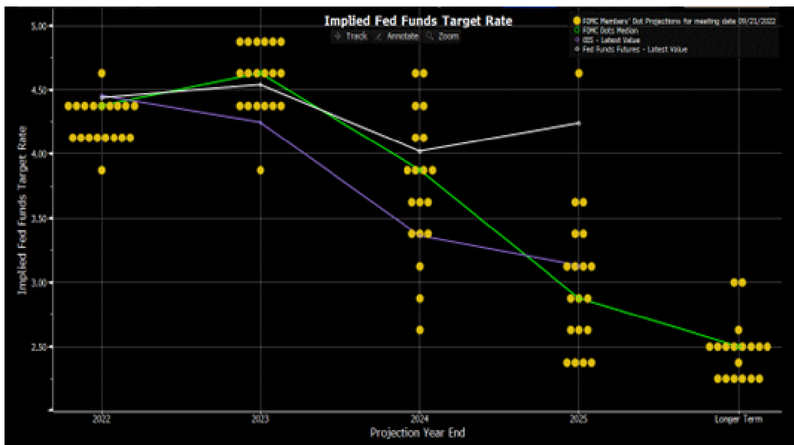
On these metrics, the HSI and STI are looking very interesting. But are we catching a

falling knife? Can cheap get cheaper? Vis-à-vis the Fed Funds Rate increases, when can we start nibbling at the market? Again, let's do the "Twain" experiment.

Two distinct inflexion points in the Fed Funds Rate give us a clue as to how the market will react. You'd think that following conventional wisdom, the market will react ahead of the directional change in the Fed Fund Rate. Well, surprise, surprise…

The first period is the drop of the Fed Funds Rate in late 2007 which led to a sustained low interest rate environment for the next decade. The other is of course the recent rapid-fire approach by the Fed from March to stem runaway inflation. In both instances, the market inflected at almost the same time as the rate directional change.

Market consensus is for rates to peak at 4.5-4.75% by end-2023 and to come off gradually in subsequent years. Based on past market moves, it would mean that the market rebound will occur only end of next year. But there is also a possibility that the US economy and employment are negatively impacted by rising rates and the Fed reverses course earlier than expected.



Source: Bloomberg / SAC Capital

There is no sure way of knowing the market inflexion so it's best to fall back on valuations. On that note, based on PER, PBV and dividend yield, Hong Kong (as a proxy to China) currently looks attractive followed by Singapore.

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TOTM Technologies <Placement> | The Group announced a placement of 71m new shares at S$0.115, an 8.87% discount to VWAP, to raise S$8.2m. These new shares account for 7.44% of enlarged issued shares, diluting of 8%. The net proceeds will be used for working capital and business expansion.
The Group is trading at a PB of 1.9x. (Yeo Peng Joon).

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