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EQUITIESFIRST Progressive Capital

2023 GLOBAL MARKETS MID-YEAR REVIEW AND OUTLOOK

REVIEW OF EVENTS IN 1H23

- We have observed that the US and Japan markets performed well
  - Nikkei 225 Index reached its highest point since the 1990s bubble
  - Nasdaq Index increased 31.7% in 1H23, marking its best **first-half performance** since 1983 (40 years)
- CPI is falling, but core CPI dropped a mere 0.2%
- Collapse of some banks due to higher interest rate
  - Fed rescued some of the banks by setting up the Bank Term Funding Program (BTFP)
- JPY and CNY weakened due to higher US interest rates and lower domestic rates

OUTLOOK FOR 2H23

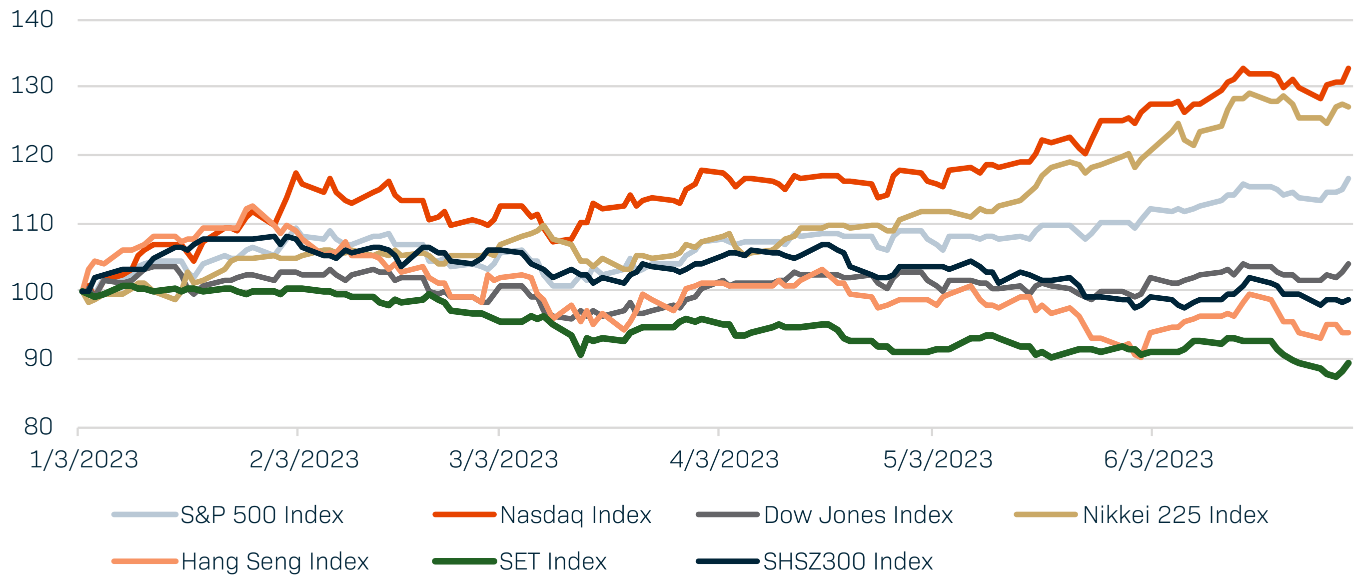
- The Fed will likely keep interest rate high and may even possibly increase it further
  - Higher borrowing costs may harm some corporates
- Concerns regarding economic contraction has gained momentum

STOCK MARKET REVIEW

There is a divergence among the different markets' performances around the world in 1H2023. Hang Seng Index, Stock Exchange of Thailand SET Index, and Shanghai Shenzhen CSI 300 Index fluctuated and ended the first half with a slight decrease. This was primarily due to the higher interest rate and concerns about an economic recession.

On the other hand, the US and Japan markets still performed surprisingly well amidst the general economic malaise. The meteoric rise of ChatGPT attracted investors' attention to invest in AI-related stocks, allowing Nasdaq index to perform one of its best years. Meanwhile, Warren Buffett's bet on the Japanese market based on their stable profitability and dividend policy boosted its performance and eventually exceeded its previous high in 1990.

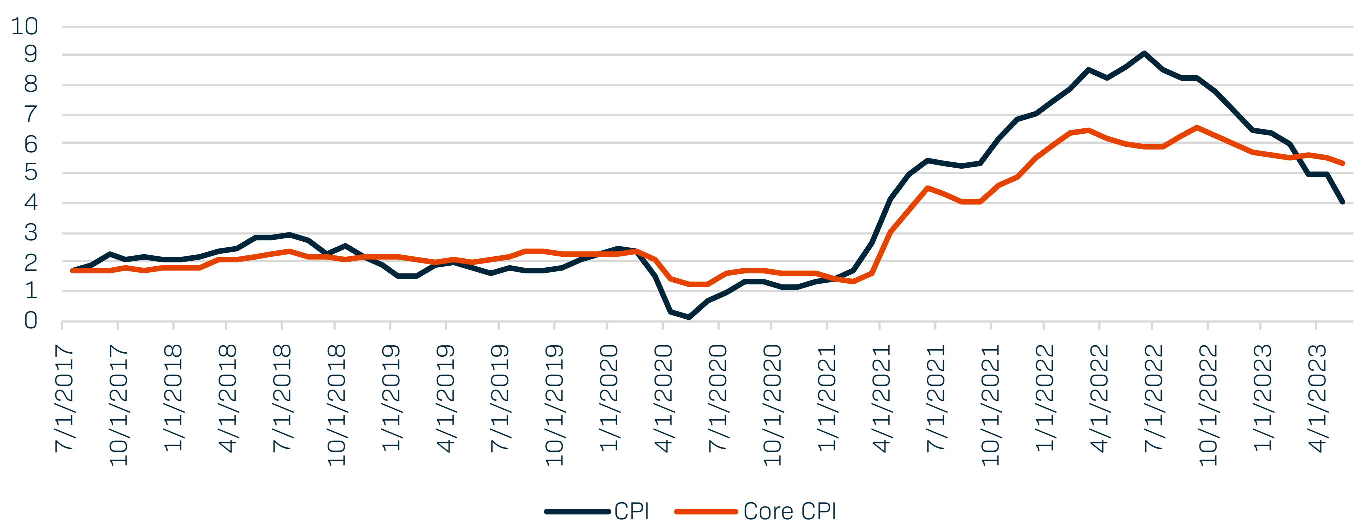
MAJOR ASIAN INDICES PERFORMANCE



SLOWLY DECREASING US CPI

Due to a series of stimulus policies and the discrepancy between demand and supply over the last two years, the YoY CPI growth rate increased to more than 9% in June 2022. It significantly exceeded the 2% target growth rate, so the Fed started increasing interest rates to cool down inflation. However, the inflation rate remains much higher than the Fed's target even when the interest rate has been ramped up to more than 5%. As core YoY CPI merely dropped by 0.2% to 5.3% in May 2023, the Fed may push for another round of interest rate hikes over the next few months to further slow down the economy.

THE US CPI YOY GROWTH RATE



Source: Bloomberg

COLLAPSE OF SOME BANKS AND THE RESCUE ACTIONS TAKEN

As the US and EU increase interest rates to cool down their economies, a few large banks such as Credit Suisse, Silicon Valley Bank and Signature Bank faced difficulties and some even went bankrupt.

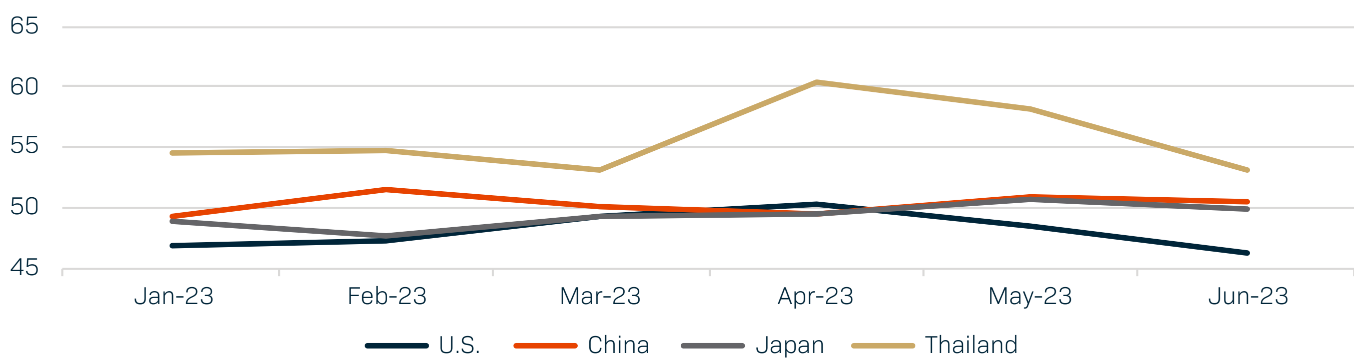
These events have caused some panic around the world especially in the banking and insurance industries. The Fed had to set up a USD 25 billion Bank Term Funding Program (BTFP) to rescue the US banks by providing capital to the banks against government bonds as collateral and value them at par.

Credit Suisse, on the other hand, was saved by the Swiss government's intervention. The International Monetary Fund (IMF) commented that it may be effective to prevent financial turbulence while the government compensation may be costly for taxpayers. At the same time "they have created a monster bank, much bigger than the Swiss state", according to the IMF.

STRONG RECOVERY IN CHINA HASN'T COME: PMI

The Manufacturing PMI of the US indicates that its economy is gradually slowing down. The markets expected China to recover strongly following the scrapping of its strict Covid policy, but its performance has been rather mediocre. It is now implementing additional measures such as lowering the interest rate and implementing a friendly tax policy to further stimulate the economy. Southeast Asian countries are benefitting amid the relocation of supply chains away from China and the relatively cheaper currencies to boost exports. However, the market is now concerned about the demand and therefore the PMI has slightly decreased.

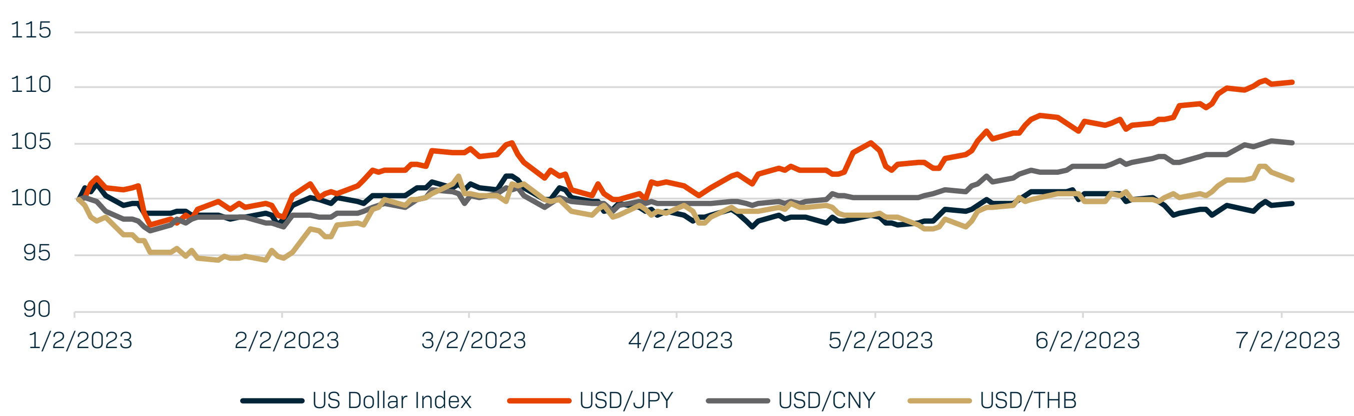
MANUFACTURING PMI OF US, CHINA, JAPAN, AND THAILAND



WEAK ASIAN CURRENCIES

As the US increases its interest rate, Asian currencies, especially for the low interest rate countries, depreciated this year. JPY depreciated more than 10% and CNY depreciated around 5% YTD. However, the US dollar index did not rise at the same time, as countries and investors are allocating their portfolio to Euros as well, given that the US dollar has been too powerful for long.

MAJOR ASIAN CURRENCIES PERFORMANCE

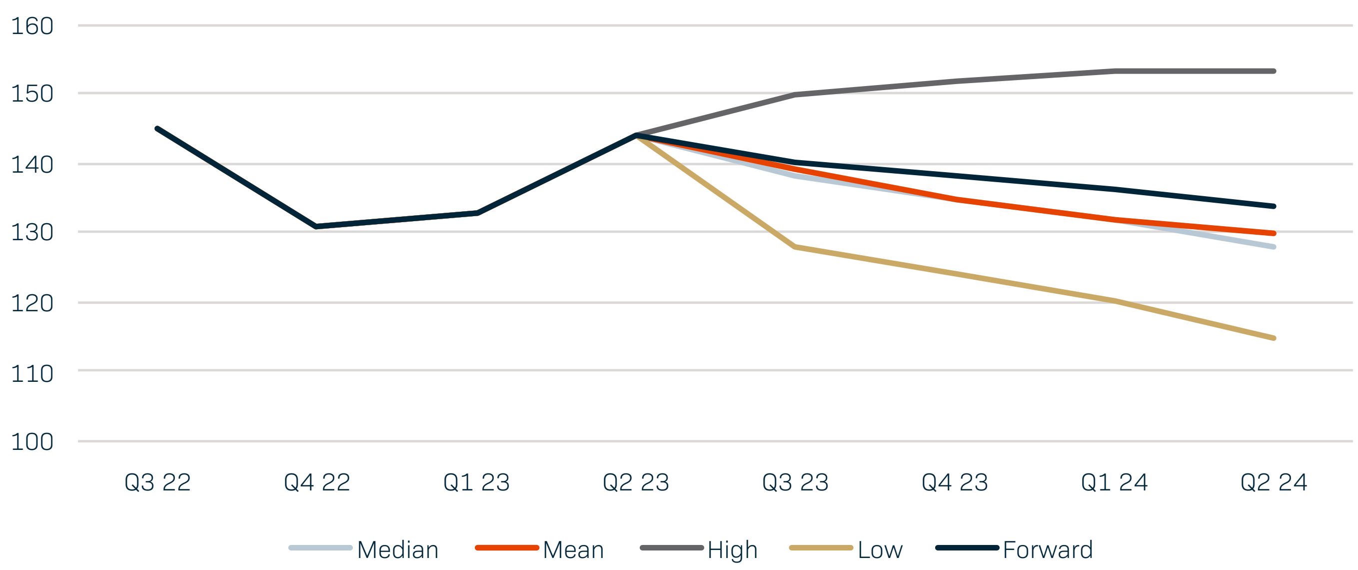


Source: Bloomberg

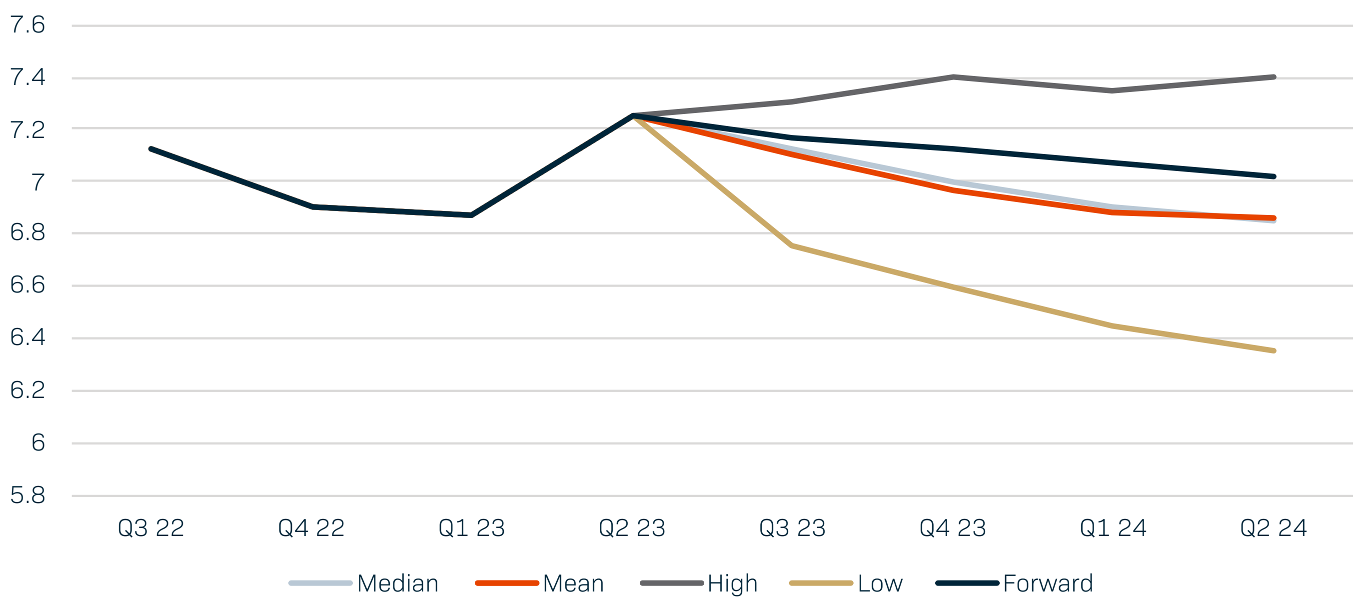
OUTLOOK FOR 2H23

Although there were lots of uncertainties in the market in 1H23, the market still performed well. These uncertainties may continue to linger in 2H23 including economic recession, interest rate rises, high inflation, and unfavorable appreciation or depreciation of currencies. These factors may result in higher borrowing costs, more conservative expansion plans, or less profits, which can eventually harm the companies and economy.

USD/JPY FORECAST



USD/CNY FORECAST



Source: Bloomberg

Nonetheless, several large banks still urge their clients to stay in the market, become exposed to the risk and earn the potential returns. As we cannot predict the market accurately, it would be advantageous to gain exposure to the market while limiting the downside risk.

EquitiesFirst's repurchase structure may offer the best solution which has the following features:

- **Upside Retention:** The borrower retains the full upside price appreciation of the collateral.
- **Margin Call Advantage:** Our margin call threshold is 80% of LTV. If the LTV is 65%, the margin call threshold would be 80% x 65% = 52%, which is more friendly than the typical margin loan (around 70% threshold).
- **Non-Recourse:** The borrower will have protection against downside, as the borrower has the option to walk away from the loan with no further liabilities, and keep the loan proceeds.
- **Low Interest Rate:** EquitiesFirst usually charges an interest rate of roughly 3% per year, even when the market interest rate has been increased to more than 5%.

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