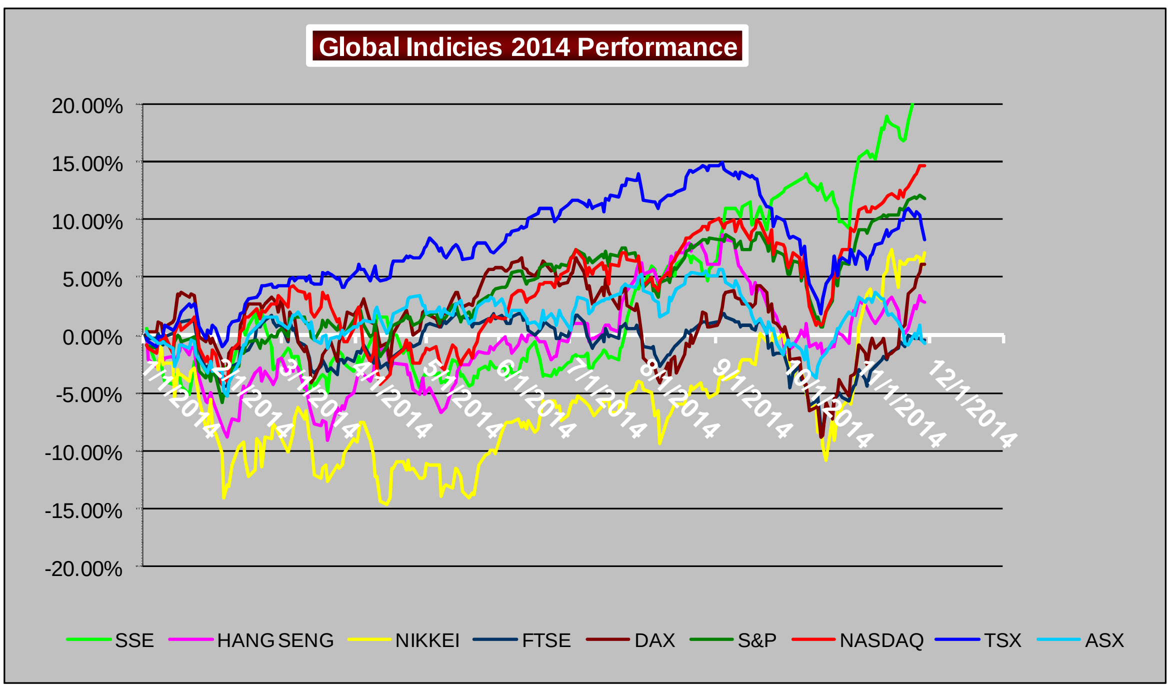
GDB December 2014 Newsletter

Monthly Market Summary:

2014 November Market Activity		
SSE COMPOSITE	***2,682.83***	+262.65 (+10.85%)
HANG SENG	***23,987.45***	-10.61 (-0.04%)
NIKKEI 225	***17,459.85***	+1,046.09 (+6.37%)
FTSE 100	***6,722.60***	+176.10 (+2.69%)
DAX	***9,980.85***	+653.98 (+7.01%)
DOW	***2,067.56***	+437.72 (+2.52%)
S&P 500	***1,805.81***	+49.51 (+2.45%)
NASDAQ COMPOSITE	***4,791.63***	+305.70 (+6.81%)
ASX 200	***5,313.00***	-213.60 (-3.86%)
TSX COMPOSITE	***14,744.70***	+134.40 (+0.26%)



Investment Themes:

It's that time of the year again. GDB Capital's last Newsletter of 2014 is our self-assessment of the predictions we have made throughout the year. Here is our 2014 annual report card:

	Call	Comment	Score
January	ASEAN countries will have more prominent role in the global economy. To participate in the growth of these countries, property investments in Thailand and Vietnam are attractive.	The Bank of Thailand Condominium Index was at 155.4 at the end of October 2014. A growth of 7.5% YOY and up 9.4% from the end of December. Jones Lang LaSalle *Vietnam Property Market Brief –Q3 2014* confirmed prices were largely up in the secondary market with apartments up 2.5% YOY and villas/townhouses up 0.9% YOY.	✓
February	China is the top five trading partner to emerging markets such as Ukraine, Argentina, Brazil, and South Africa. As China's economy cools, it will have a consequential impact to these EM countries. Brazil and South Africa have the largest export exposure to China. While Brazil is shielded with a large currency reserve,	USD/ZAR closed at 10.75862 at the end of February. It depreciated 5.76% to USD/ZAR 11.37808 on December 7.	✓

	South Africa does not. The South Africa rand makes a good short proposition if export volume to China declines.		
March	On March 7, China's onshore bond market experienced its first default. As credit condition tightens, copper price declined to a four year low due to speculation of margin calls faced by borrowers who have used copper as collateral. Prices would rebound if condition improved. If condition worsened, government stimulus to boost infrastructure spending would boost copper prices.	Although copper prices did rebound in the middle of the year from March's low of 2.928 to 3.9275 in July. As of December 5, the price retreated to 2.9478 which is flat from the time of March's Newsletter.	✗
April	The consumption tax increase in Japan is a wealth transfer from Japanese tax payers to the social security system. Disregard the short-term impact of the tax increase, focus on the long term beneficiaries instead: Japan's healthcare sector where most of the tax revenue will be channeled to.	MSCI Japan Health Care Index was up 1.62% YTD as of the end of November, outperforming the benchmark MSCI Japan Index's YTD's return of -4.21%.	✓

May	Record low volatility signals less desire for put options to insure a market downturn. Instead of insuring portfolios through put options, investors are going long in US Treasuries to mitigate risk while earning yield. Price of US Treasury will remain strong despite the Fed ending QE.	Yield on benchmark US 10 year treasury continue to decline from 2.48% at the end of May to 2.31% in early December. Treasury prices did hold up as anticipated.	✓
June	Fed will tolerate spike in inflation as seen in May's data and withhold interest rate increase for an extended period to support US growth.	While data points to continued growth and job market improvements in the US, the Fed continues to uphold the commitment that rates will not rise for an "extended period" in their latest meeting in November. Economists are forecasting the first rate hike will not materialize until the second half of 2015.	✓
July	US equity market is getting rich in valuation. Especially the small cap sector. Premium of small cap to blue chip would normalize over time. Short Russell 2000 and long blue chips in case of a market correction.	A violent market downturn did materialize in October. The S&P was down 5.8% from July month end, while the Russell 2000 was down 9.3% from July month end to its trough on October 13.	✓

August	Hong Kong – Shanghai Stock Connect program would be a positive catalyst for the China domestic equity market as it provided another entry point for foreign capital inflows to enter the second largest economy in the world.	The Shanghai Composite Index had been on a tear since the end of August rising 32.5% from 2,217.2 on August 28 to 2,937.65 on December 5.	✓
September	GBP weakness leading up to the Scottish Referendum would reverse after the vote as the outcome became known. With the referendum out of the way and the possibility of Bank of England raising the interest rates in the horizon, a reversal in the GBP decline would be a high probable event.	The strength of the USD against other major currencies continued into the year-end. The GBP was no exception as it weakened from GBP/USD 1.624 from September month end to 1.5580 on December 5.	✗
October	Despite the violent market correction witnessed in October, there was no fundamental reason for the continuing slide. We refuted media explanations for the cause of the downturn such as European deflation fears, Ebola, and oil price correction. Forecasted that the equity markets would recover and rise	S&P rose 2.8% from 2,018.5 on October 31 to 2,075.37 on December 5. The NASDAQ Composite rose 3.8% from 4,630.74 to 4,780.76 in the same period. All other major global indices increased as well.	✓

	towards year-end		
November	BOJ fired its bazooka by increasing the size of its QE to 80 trillion yen. At the same time Shinzo Abe had called a snap election as Japan's GDP shrunk unexpectedly and the second round of consumption tax hike was put off until 2015. BOJ and Shinzo Abe are now too politically committed to their policies. Fiscal reform would be difficult to implement against insufficient public support, the only way to continue push forward is through further easing of monetary policy. JPY would continue to weaken a main mechanism to stimulate economy.	JPY continued its downward trajectory since the surprised announcement from BOJ. Since October 31, the JPY has depreciated 8.53% against the USD (till December 5).	✓

Overall, we had two strikes this year on the calls on copper price in March and reversal in GBP in September. Our own sample portfolio is down slightly at 3% in 2014 largely due to the volatility in October. We look forward to continue serving our valued clients in 2015 and to offer our valuable market insights.