

January, 2023

# Wen Futures Capital

## Market Report

WEN FUTURES CAPITAL MANAGEMENT  
COPYRIGHT 2023

# Wen Futures Capital

## January 2023 Newsletter

Business letter Jan15

### Between hope and fear

Dear investors,

Happy 2023 Year!

This is the year for a sea change, a complete transformation. Howard Marks, who is co-founder of Oaktree Capital Management, wrote on his memos:

*In my 53 years in the investment world, I've seen a number of economic cycles, pendulum swings, manias and panics, bubbles and crashes, but I remember only two real sea changes. I think we may be in the midst of a third one today.*

What are the factors that gave rise to investors' success over last 40 years?  
The answer is from the following charts

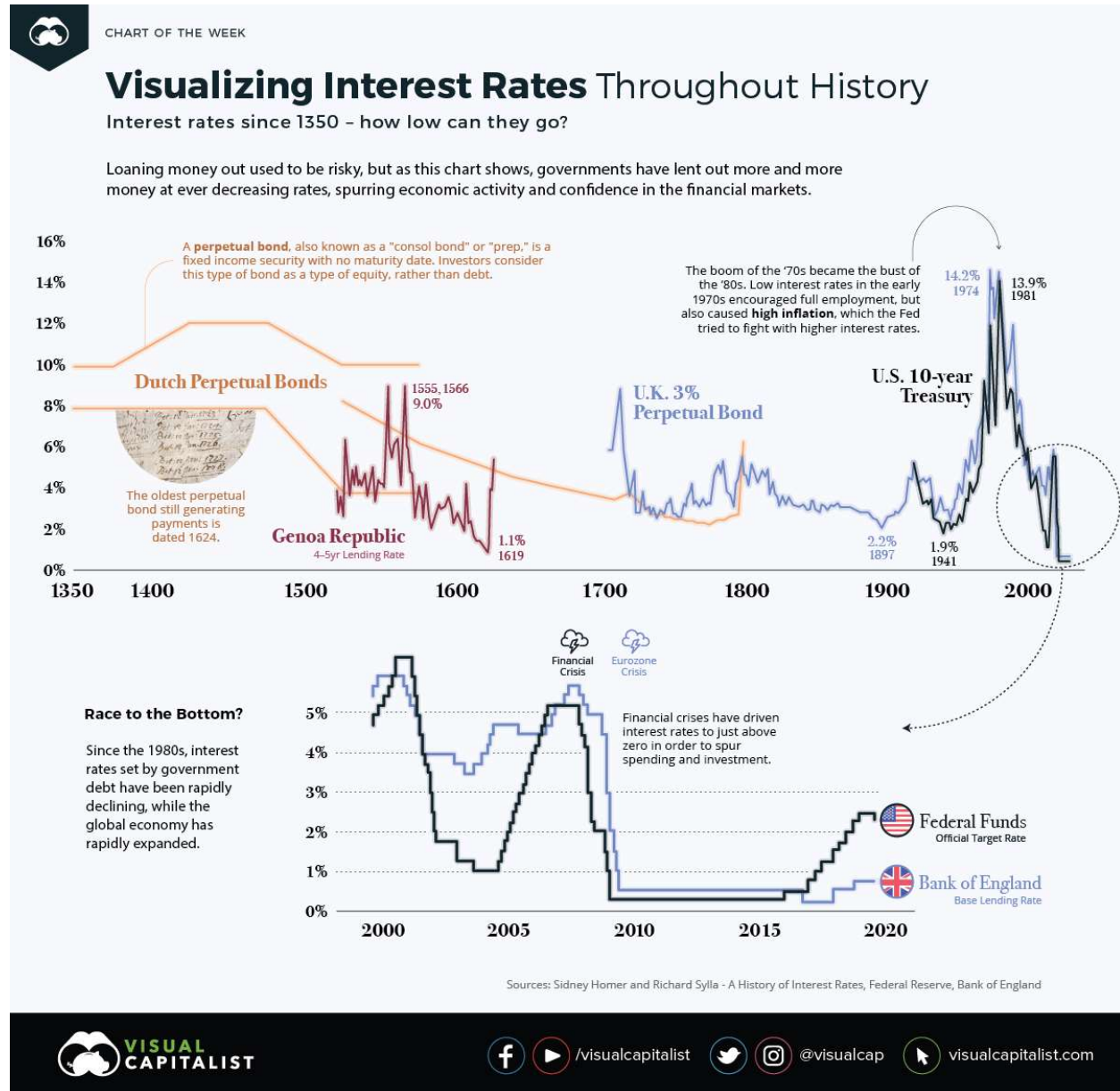
### 10 Year Treasury Rate - 54 Year Historical Chart



# Wen Futures Capital

## January 2023 Newsletter

This is what 700 years of interest rate looks like in one chart



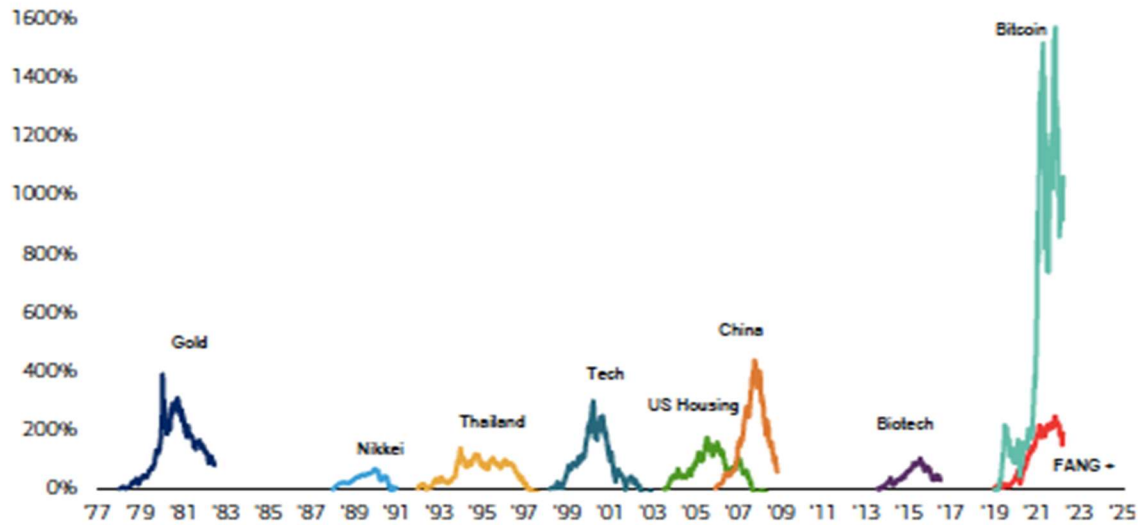
With 40 years low interest rate, and followed by monetary easing from the Federal Reserve during the financial crisis in 2008 and 2020-2021 period of the coronavirus pandemic, it created the everything bubble, which was not only notable for the simultaneous extremes in valuations recorded in a wide range of asset classes and the high level of speculation in the market.

See the charts below:

# Wen Futures Capital

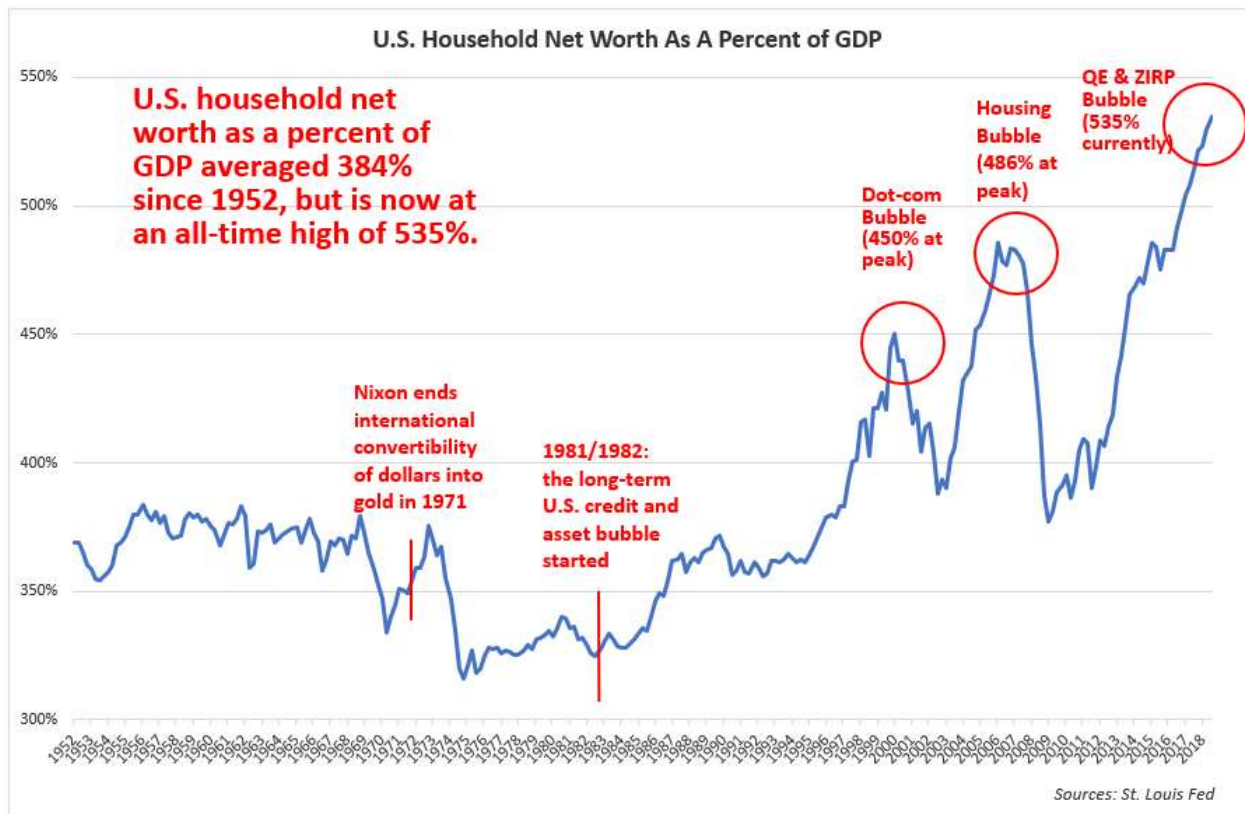
January 2023 Newsletter

## Asset bubbles past 40 years



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH



Sources: St. Louis Fed

# Wen Futures Capital

## January 2023 Newsletter

We saw the charts above, central banks' unsustainable policies have created an 'everything bubble', leaving the global economy with an inflation 'hangover'. Rising inflation did ultimately force the Fed to tighten financial conditions during 2022 (i.e. raising interest rates and employing [quantitative tightening](#)). In the same month, financial journalist [Rana Foroohar](#) told the *New York Times*, "Welcome to the End of the 'Everything Bubble'".

It is over.

Now we are facing high inflation, slow growth global economy, and more geopolitical turmoil. The beginning of the new era.

Whatever happens now, we are not returning to the trend of decades of falling rates. And how that affects asset prices over the coming decades is of critical importance to your long-term investment plans.

1. First of all, let's take a look at the stock market.

The US stock market has been untouchable in terms of performance for years. That was never going to be permanent, but it did last for long enough that some people thought it might be.

### Big Trend Ends

**The stock market has been extremely volatile since 2022, those rollercoaster-like movements could stay in months come amid the threat of a recession, slow interest hikes and economic reopening in China.**

When VIX is below 19, it suggests that investors are complacent—or at least not mindful of market risks—and that any stock rallies are likely to run out of steam. Now VIX is trading at 19.

How looks like stock market in 2023

History offers some clues:

# Wen Futures Capital

## January 2023 Newsletter

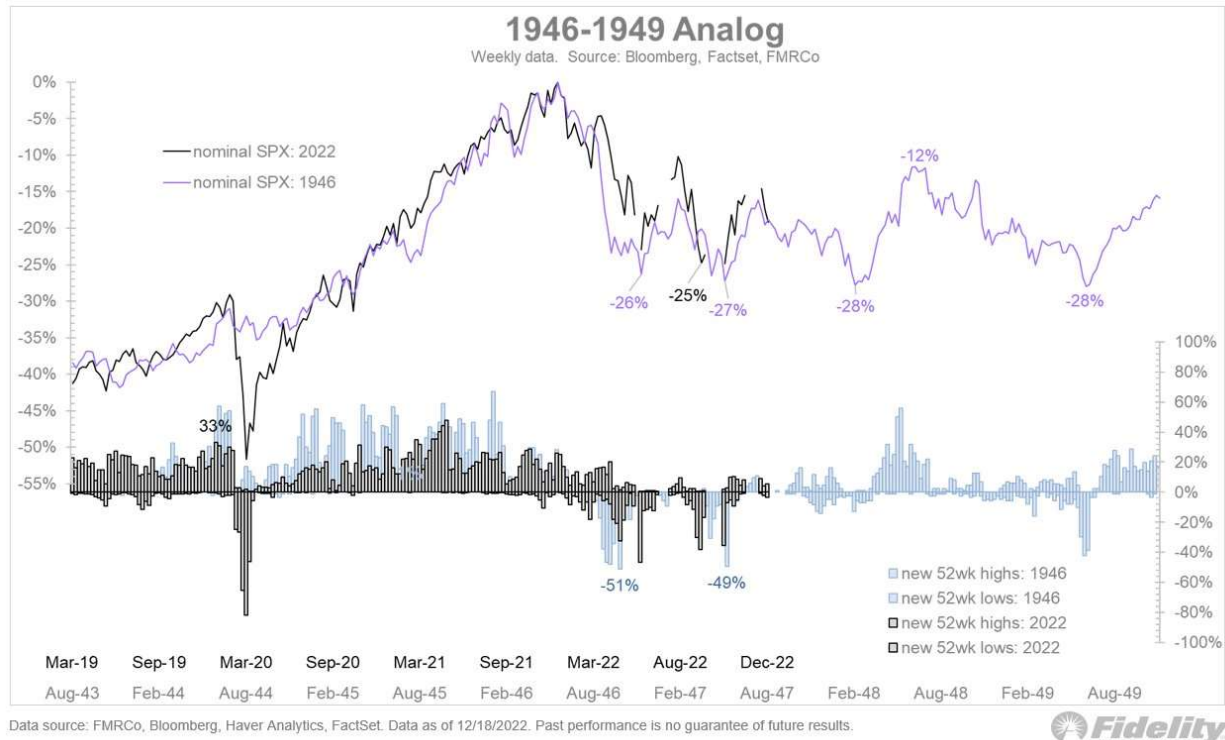


FIGURE 1. Barclays FY 2022 and FY 2023 Year-End Price Targets for S&P 500

Scenario	Barclays S&P 500 FY 2022 Estimates					Barclays S&P 500 FY 2023 Estimates				
	EPS	Growth (yoy)	PE Multiple	Price Target	Upside / Downside	EPS	Growth (yoy)	PE Multiple	Price Target	Upside / Downside
Bull Case: Soft Landing	\$224	5.9%	15.0x	3,360	-15.2%	\$222	-0.9%	19.0x	4,218	6.4%
Base Case: Shallow Recession	\$221	4.5%	14.5x	3,205	-19.2%	\$210	-5.0%	17.5x	3,675	-7.3%
Bear Case: Normal Recession	\$213	0.7%	14.0x	2,982	-24.8%	\$190	-10.8%	16.5x	3,135	-20.9%
Current S&P 500 Price				3,965						

With wild ride range in stock market, the real return could be very little or worse in 2023. And selected investments become the key point.

Usually in the middle of the bear market or early recession, the sectors like utilities, consumer staple, health care will be better performance than overall indexes.

The way play sectors is either you buy sector's ETF or individual stocks from the sector ETF holdings.

List of Health care and consumer ETF and major holdings are your reference.



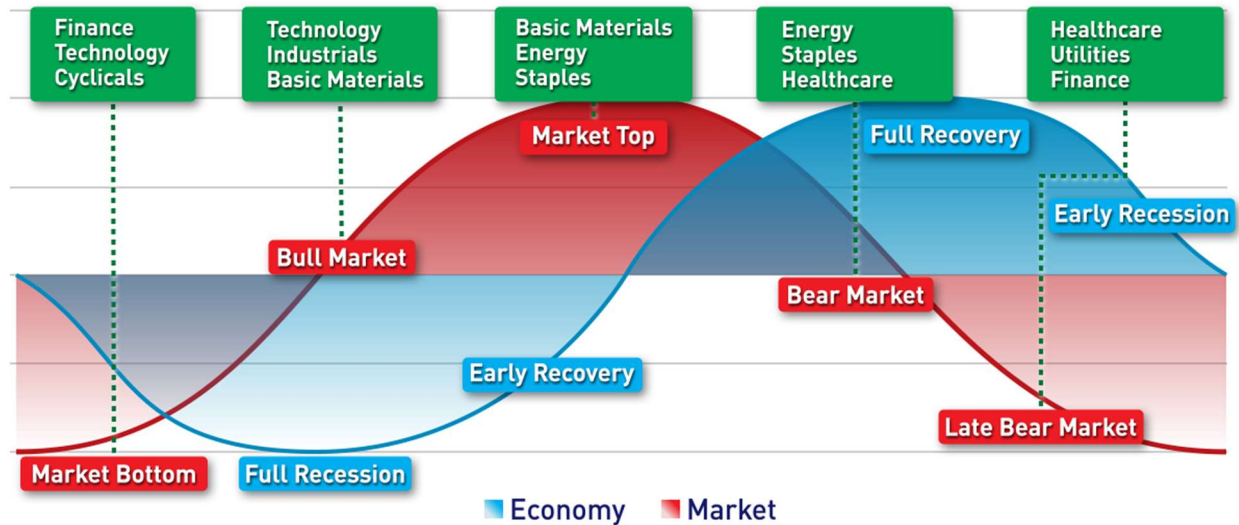
# Wen Futures Capital

January 2023 Newsletter

With wild ride range in stock market, the real return could be very little or worse in 2023. And selected investments become the key point.

Usually in the middle of the bear market or early recession, the sectors like utilities, consumer staple, health care will be better performance than overall indexes.

## SECTOR ROTATION



## The Health Care Select Sector Index

### INDEX TOP TEN HOLDINGS %

<b>Unitedhealth</b>	<b>10.39</b>
<b>Johnson &amp; Johnson</b>	<b>9.44</b>
<b>Lilly</b>	<b>5.60</b>
<b>Pfizer</b>	<b>5.40</b>
<b>Abbvie</b>	<b>5.21</b>
<b>Merck &amp; Co</b>	<b>4.79</b>
<b>Thermo Fisher Scientific</b>	<b>4.37</b>

# Wen Futures Capital

January 2023 Newsletter

## INDEX TOP TEN HOLDINGS %

<b>Abbott Labs</b>	<b>3.72</b>
<b>Danaher</b>	<b>3.72</b>
<b>Bristol-Myers Squibb</b>	<b>3.34</b>

**HealthcareETF: XLV, VHT, IBB, XBI**

**Consumer staplesETF: XLP**

## TOP 10 HOLDINGS

COMPANY	SYMBOL	TOTAL NET ASSETS
<u>Procter &amp; Gamble Co.</u>	PG	14.87%
<u>PepsiCo Inc.</u>	PEP	10.68%
<u>Coca-Cola Co.</u>	KO	10.33%
<u>Costco Wholesale Corp.</u>	COST	9.96%
<u>Walmart Inc.</u>	WMT	4.79%
<u>Mondelez International Inc. Cl A</u>	MDLZ	4.47%
<u>Philip Morris International Inc.</u>	PM	4.41%
<u>Altria Group Inc.</u>	MO	4.05%
<u>Colgate-Palmolive Co.</u>	CL	3.12%
<u>Estee Lauder Cos. Cl A</u>	EL	

There is one country need to pay attention to is China. Traders bet Chinese consumption will supercharge in 2023 rally due to rebound with China seeing the reopening happening today.

**Stocks like: TCOM, BABA,PDD...**



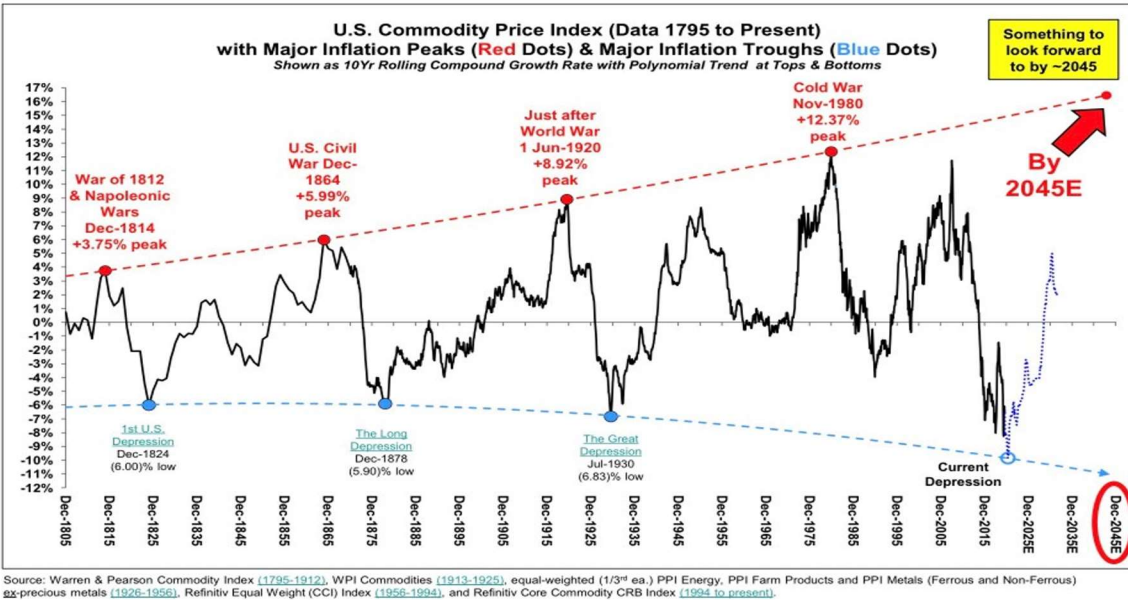
# Wen Futures Capital

January 2023 Newsletter

## 2.Commodity Supercycle

Long commodity cycles also point to the early 2040s as when currency debasement/inflation may be its highest

A commodity super-cycle peak is possible to 2045 (last red dot), part of a long cycle wave every ~55 years (growing 5 years longer in each cycle for 200 years), indicating the next peak is 2045E (65 years after 1980 peak)



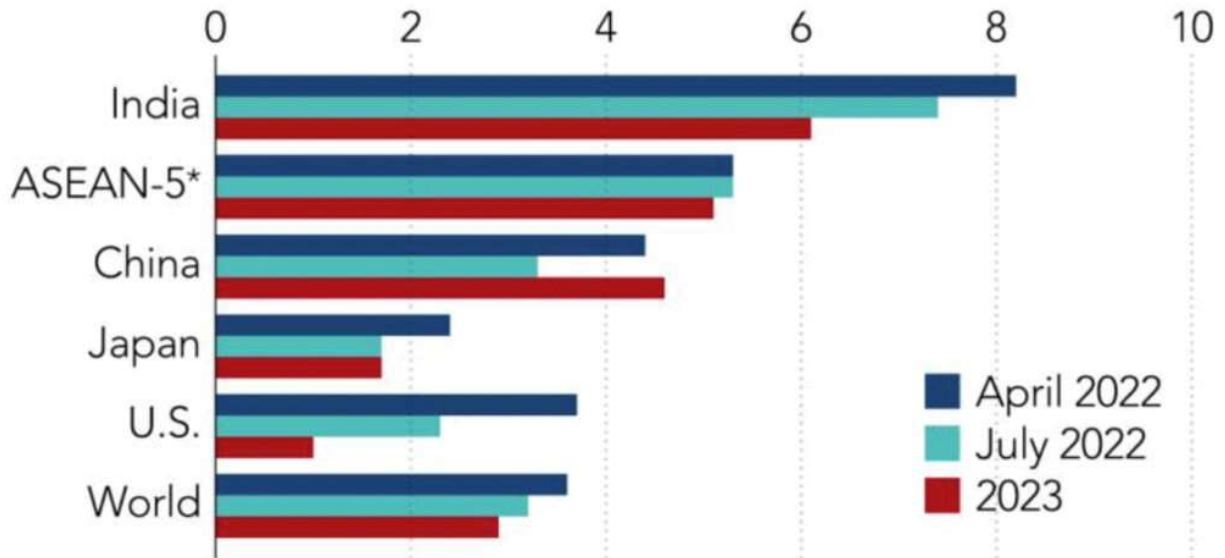
Looking at the commodity cycles above, it shows the long term cycles bottom hit in 2020, and begin a new commodity super-cycle.

From a fundamental perspective, supply and demand balances for many commodities have started to reflect years of reduced capital expenditure and underinvestment, most commodities are set up more bullish than it has been at any point since in 2020. The addition of commodities to a portfolio today is very timely given their performance, both relative and absolute as well as in periods of increased inflation and inflation uncertainty, just like the one we are experiencing today.

Keep in your mind, Commodity supercycles never move in a straight line; rather, they are a sequence of price spikes, with each high and low higher than the previous spike. Commodity prices, unlike financial markets, perform an economic function of balancing supply and demand, so once high prices have rebalanced the market in the short term, the high prices are no longer needed, and prices come crashing back down as we witnessed late last year. But ending one spike doesn't mean the end of the supercycle, long-run supply issues take years to resolve. Next commodity peak time is 2045.

### 3. Global Economy

#### IMF cuts growth projections *(Forecasts, in percent)*



\*Indonesia, Malaysia, Philippines, Thailand and Vietnam

Source: IMF World Economic Outlook Update

Going forward, the downside risks to the current growth projection for the global economy include:

- Inflation could remain stubbornly high if labor markets remain overly tight
- Tighter global financial conditions could induce a surge in debt distress
- Rising food and energy prices could cause widespread food insecurity and social unrest
- Geopolitical fragmentation might impede global trade and cooperation.

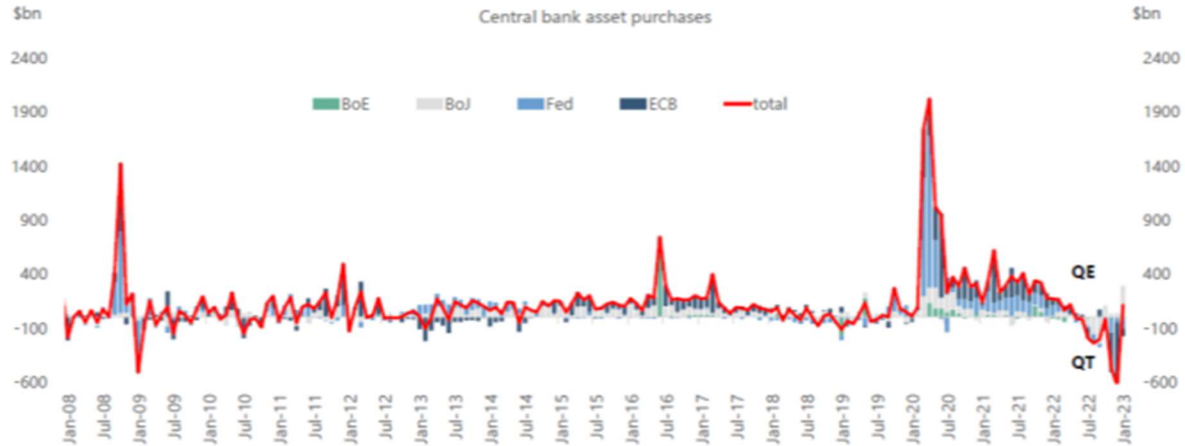
Human nature changes very slowly over time, if at all. Therefore, history is relevant because human beings will react to similar circumstances in similar ways. The trick, however, is to find the relevant piece of history on which to draw parallels. In this sense, forecasting is an art, not a science.

# Wen Futures Capital

## January 2023 Newsletter

BoJ QE is now greater than Fed QT

APOLLO



Source: Bloomberg, Apollo Chief Economist

17

BoJ purchases of JGBs to keep yields low are now bigger than Fed QT, and the result is that central banks are once again adding liquidity to global financial markets, which was likely contributing to the rally in equities and credit in January. With YCC still in place in Japan, QE will continue to support global financial markets.

The Bank of Japan's unchanged loose monetary policy will not alleviate the pressure of inflation and economic recession, and the market will be worried because of policy uncertainty, which will become the biggest variability in 2023. Regardless if Japan changes the policy or when it does that, this will impact the global financial market. In particular, the countries in the Asia-Pacific region that are closely connected with it will be even more negatively affected by the shift.