



GOLDEN HORSE  
FUND MANAGEMENT  
金馬投資管理

# 2019 May Report

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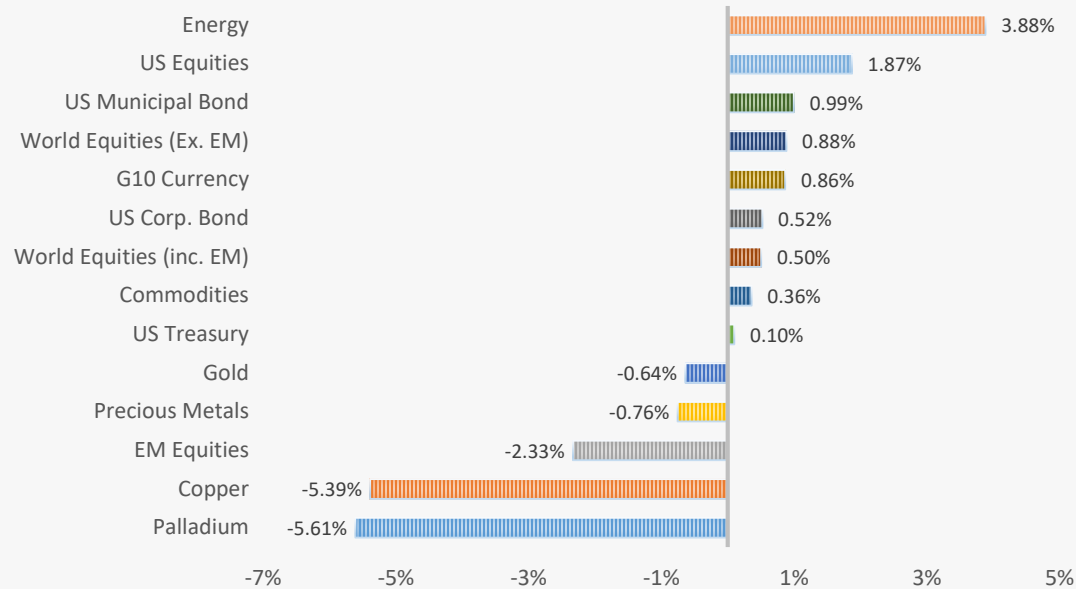
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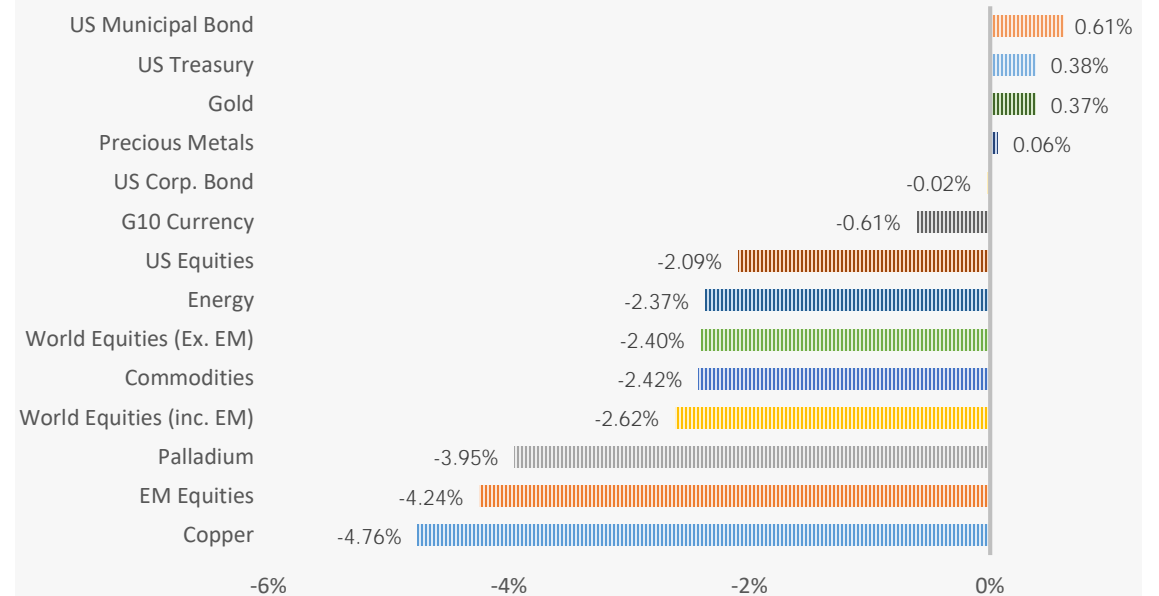


# Asset Class Performance

## QUARTER-TO-DATE (Q2)



## MAY RETURN



### May

- The second quarter saw a broad-based increase across different asset classes. Stronger-than-expected job growth and wage gains reported for April, coupled with a low inflation, contributed to this increase.
- However, the escalated trade war between US and China in the

first half of May resulted in poor performance in most assets. Only risk-off assets such as US Municipal Bonds, US Treasury and gold showed increase in May.

### Looking Forward

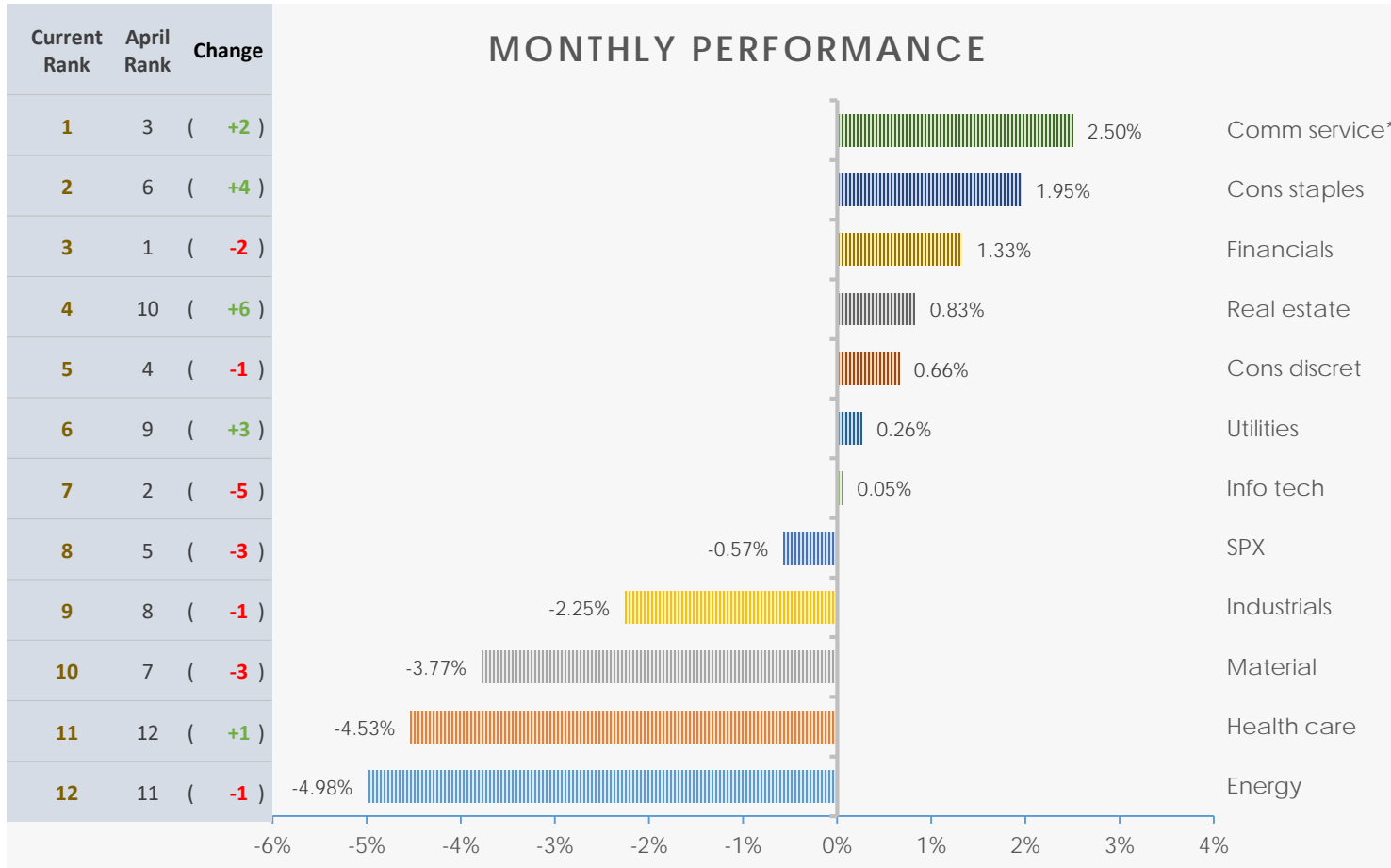
- Our expectation that energy will see a mean reversion towards the downside due to the overextension in price was validated in

the month of May.

- We see that Energy and US equities remain the top performers quarter-to-date (Q2). We remain cautiously optimistic that US equities is likely to recover from the temporary correction in the coming month, barring any sudden rise in tension.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# US: Sector Performance



\* Telecom Service is transformed to Communication Service by pulling some stocks out of the consumer discretionary and technology sectors

## May

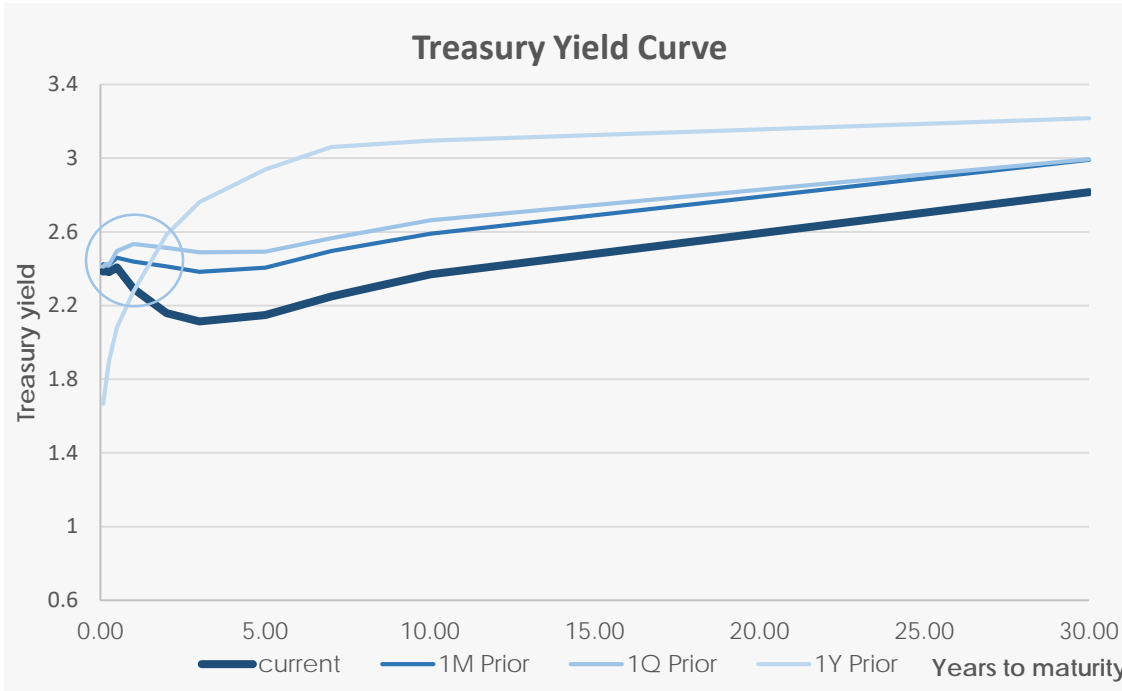
- Most sectors performed relatively well in May. Communication service saw the highest gain of 2.5%, while energy showed the largest fall of 4.98%.
- Real Estate and Info tech saw the biggest change in rank, climbing 6 places and declining 5 places respectively.

## Looking Forward

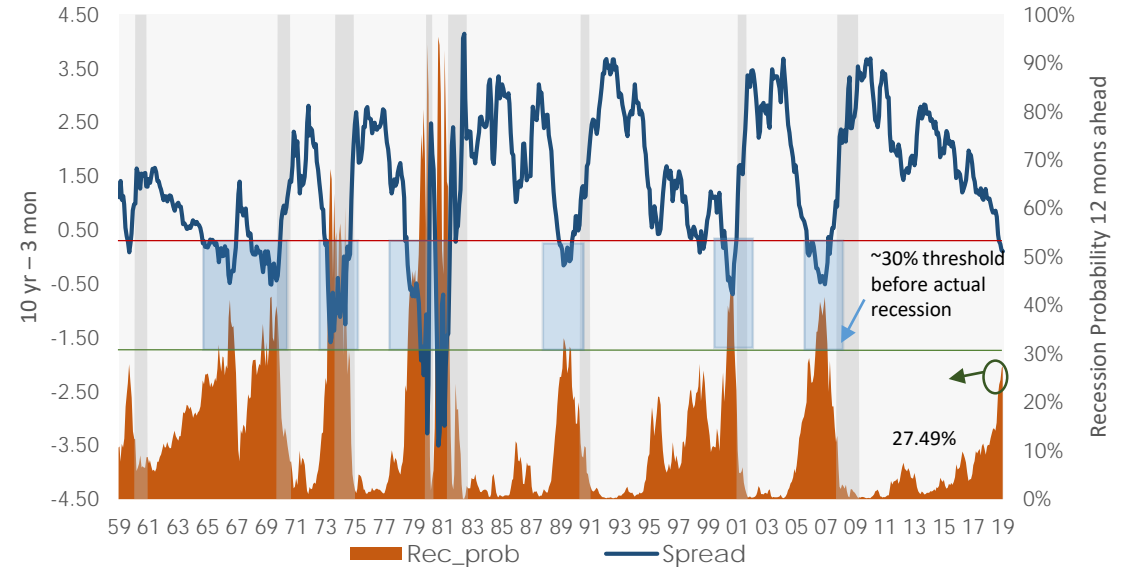
- We maintain our view that diversification across the cyclical and defensive sectors would help investors in achieving better risk-adjusted returns and our preference for the info tech and utilities sector – the current selloff has demonstrated that the utilities sector would protect returns during period of volatility spikes.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# US: Treasury Yield Curve



**Yield Spread and recession probability 12 months ahead, 10 yr yield - 3 month yield**



**May**

- The US treasury yield curve inversion has become more pronounced within the 0 – 5 years’ region, indicating that investors are more pessimistic about future global economy due to the intensified US – China trade war.

- The probability of a recession one year ahead as predicted by the US Fed has increased from 27.08% to 27.49%.

**Looking Forward**

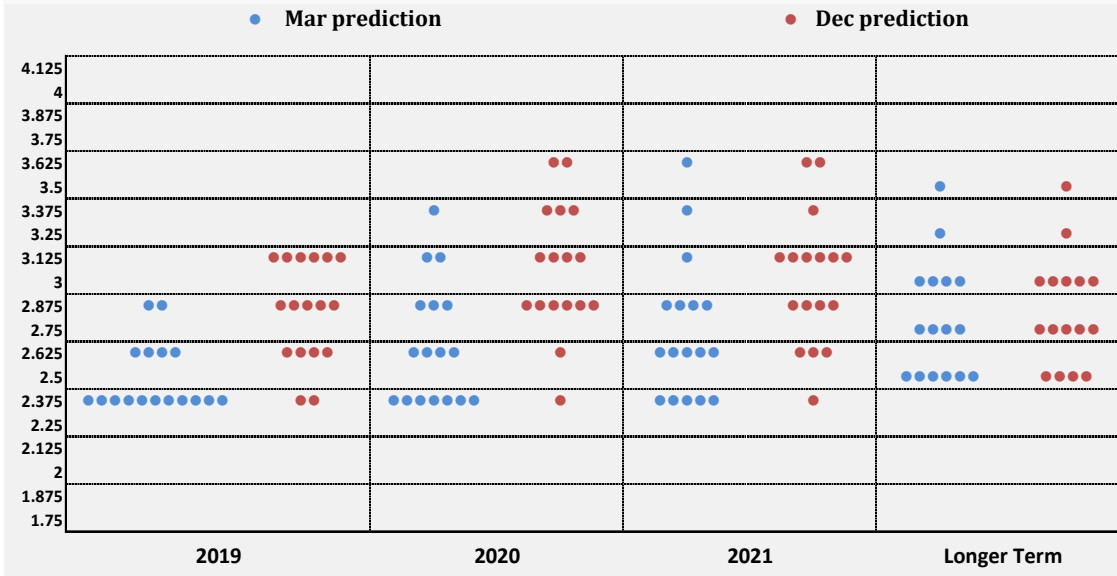
- The current 27.49% probability of recession in 12 months ahead has crept towards the threshold of 30%. We believe

this sudden increase is due to the breakdown in trade talks, and is likely to mean revert as we see that the US Federal Reserve has promised patience and sensitivity to the markets. We will continue to monitor the yield curve for any changes.

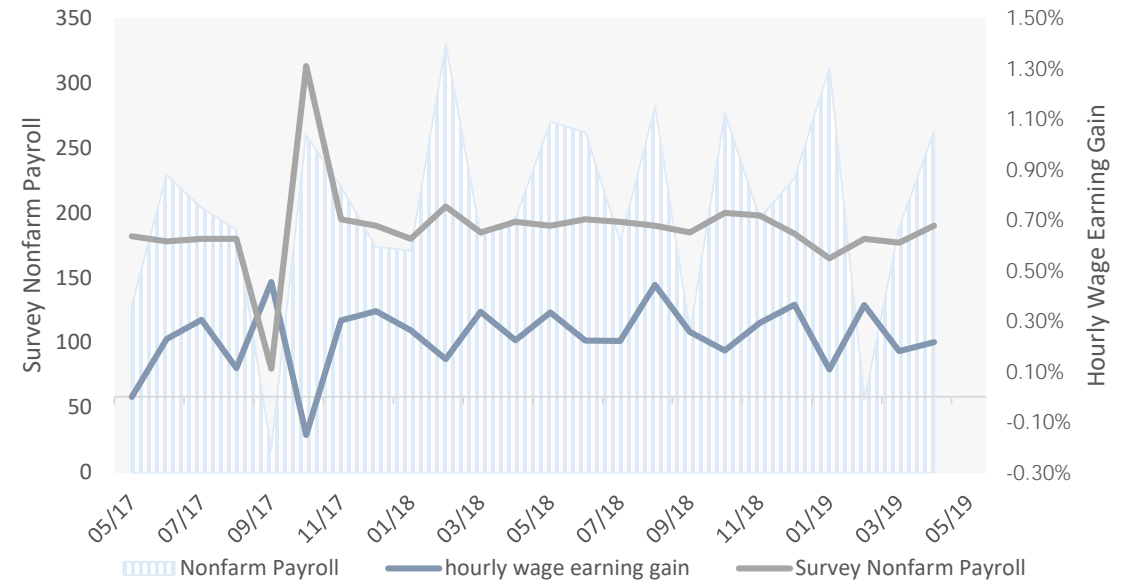
Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# US: FOMC & Nonfarm Payroll

## Fed Dot Plot



## Nonfarm Payroll and Average Wage Change



### April

- US actual nonfarm payroll data showed significant increase in April by 263,000 which is significantly higher than the surveyed value of 190,000.
- Hourly wages grew at a rate of 0.22%, slightly higher than the 0.18% growth in March.

- In the March FOMC, the US Federal Reserve adjusted its dot plot to reflect no rate hikes in 2019, an about-turn from last year's hawkishness.

### Looking Forward

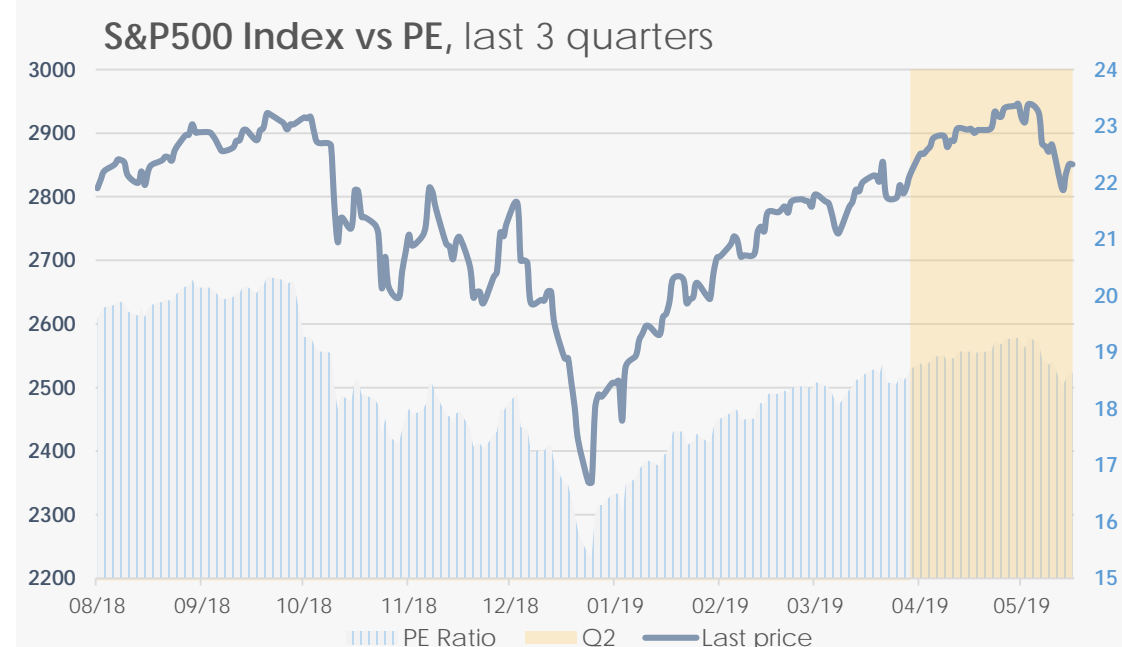
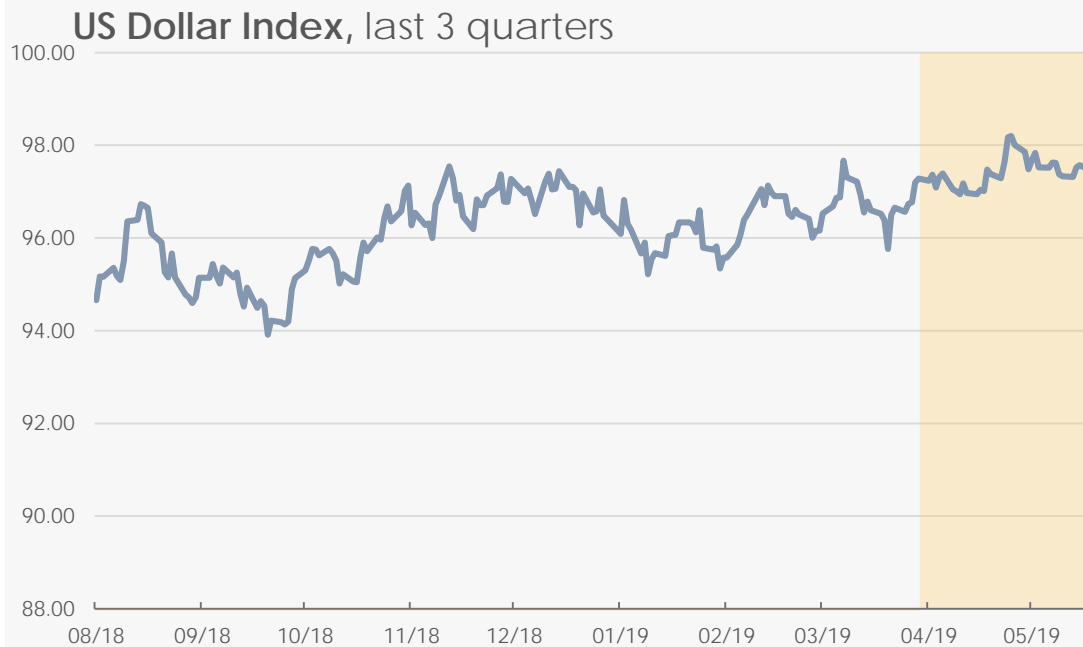
- We expect the US Federal Reserve to maintain their current dovish stance on the interest rates given the global

headwinds and the sensitivity of the markets.

- We expect the US employment rate to remain healthy and provide a robust backdrop for the equities market to recover from the decline due to the breakdown in trade talks.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# US: Dollar Index and S&P



## US Dollar

- The US Dollar Index fluctuation in April, closing at 97.48 in the end of the month.
- From the start of May, the US Dollar Index presented a steady trend with small ups and downs, and maintained a value of 97.53.

## S&P 500

- The S&P 500 Index gained in April and the first week of May, but declined from the second week due to the breakdown in US-China trade talks and closed at 2850.96.
- For the month of May, the S&P 500 declined 2.49%.
- The PE ratio of the index is 18.64 in the middle of May.

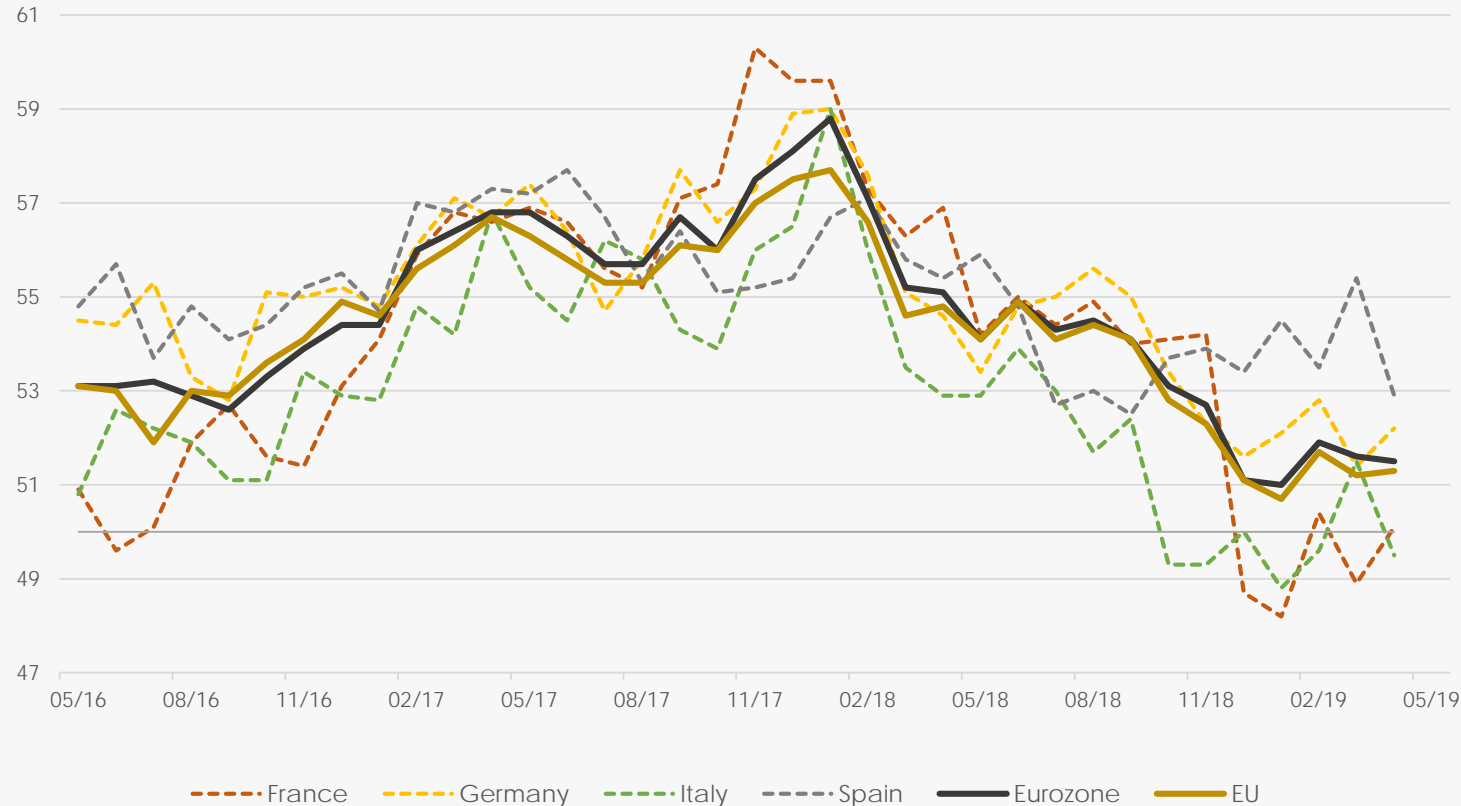
## Looking Forward

- The S&P 500 broke its previous high in May but fell due to the breakdown in trade talks. As long as the price holds above the strong psychological support of the 200-days moving average, we remain optimistic about the upside and believe that the index will recover, as the US economy remains fundamentally robust.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# Euro: PMI

## Purchasing Manager's Index (PMI)



### April

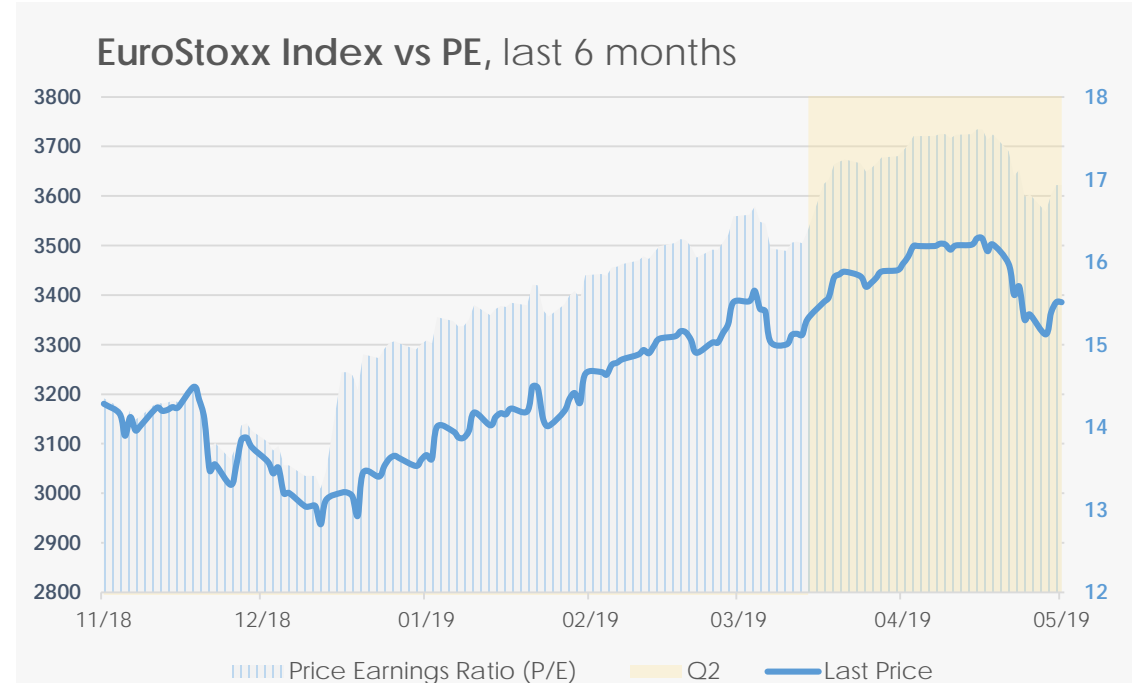
- In April, PMI value for France and Germany shown mild upward trends, while that for Spain and Italy presented Synchronous decline.
- PMI for Eurozone and EU has remained no change throughout the last two months, indicating a relatively steady economy.
- A PMI of 50-and-above signifies positive expectation for the private sector companies. We note that the PMI readings for Italy is now still a cause of concern.

### Looking Forward

- Our expectation that Italy's PMI will diverge and continue higher was invalidated – a sign that overall sentiments in Europe remain pessimistic.
- Our concern that the US may shift target to Europe if the US-China trade war were to resolve played out in inverse – the breakdown of talks between US and China has led to the US delaying auto tariffs on the EU.
- Despite that, we hold our expectation that the European economy may continue to underperform compared to the other major economies, given the general shape of its PMI since December 2017.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# Euro: EURUSD & EuroStoxx 50 VS P/E



## May

- EURUSD remained steady throughout the first half of May, with no news in the European Union generating impact on the exchange rate.
- In May, the EuroStoxx Index ended at 3385.78, showing an overall downward trend compared to 3514.62 in the previous month, falling alongside with global equities as investors

worried over the breakdown in US-China trade talks.

- The PE ratio of the Index also saw a decline, dropping about 3.86% from 17.61 to 16.93.

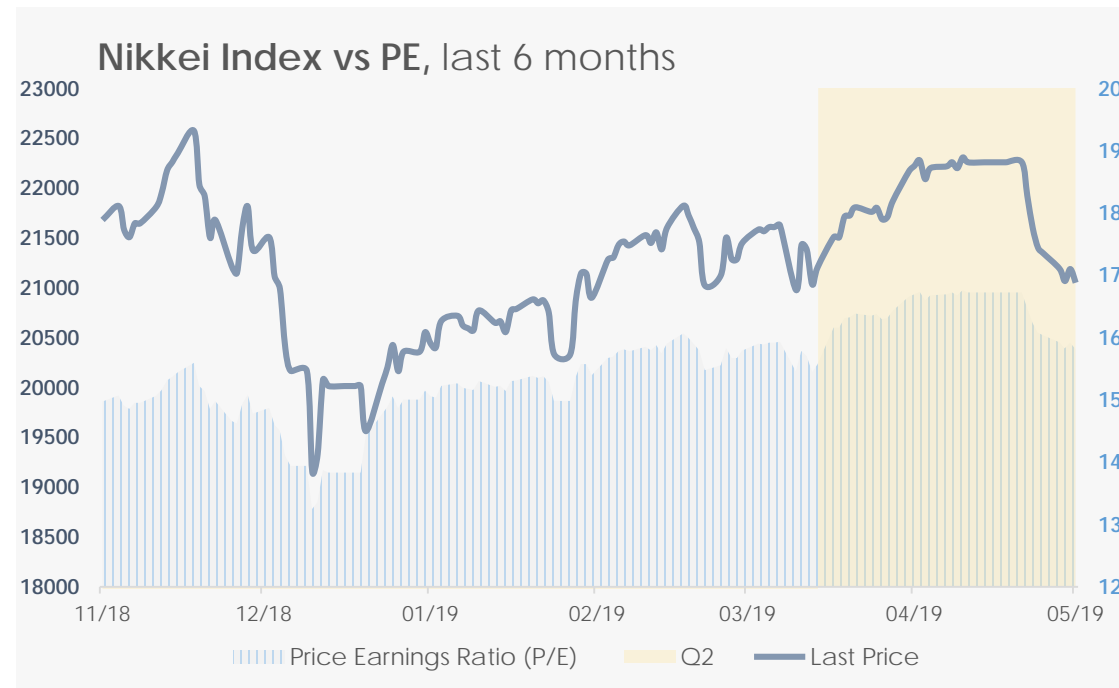
## Looking Forward

- We expect the EURUSD to continue to fluctuate sideways.
- We continue to hold our expectations that the higher political risks and the weaker European economy will weigh on the European equities resulting in their underperformance compared to US equities.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019



# Japan: USDJPY & Nikkei VS P/E



## May

- In May, USDJPY fell, due to escalation in the US-China trade war increasing demand for safe-haven currencies such as yen.
- Both Nikkei Index and the PE ratio have seen slight decline in the first half of May, following the global market's trend,

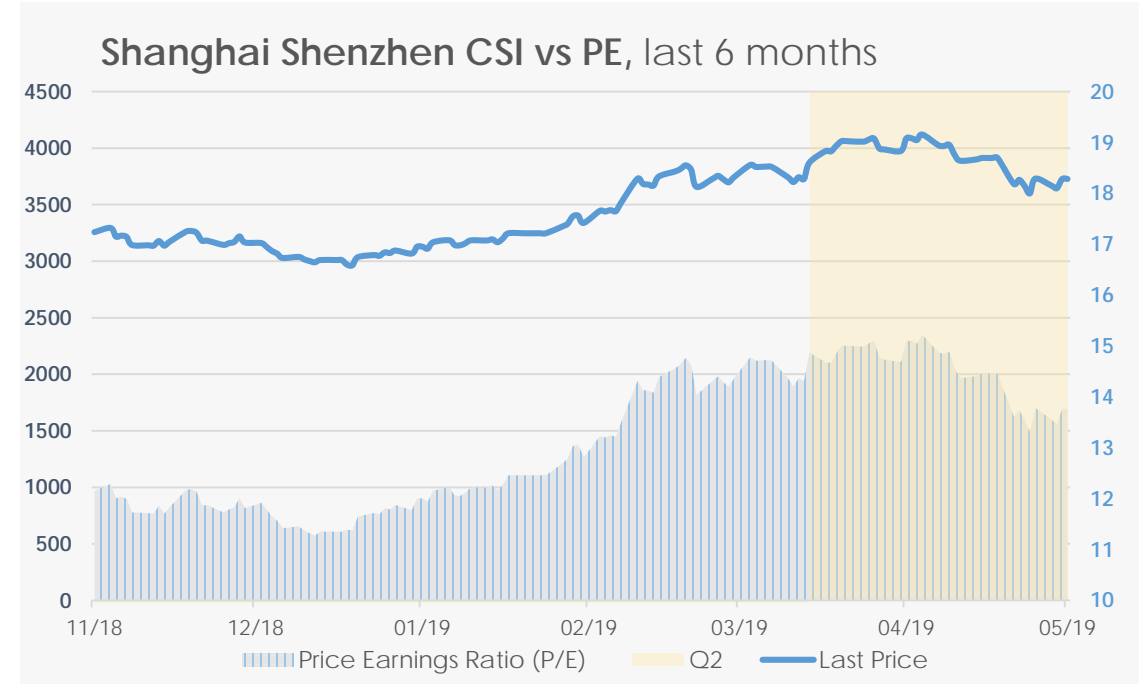
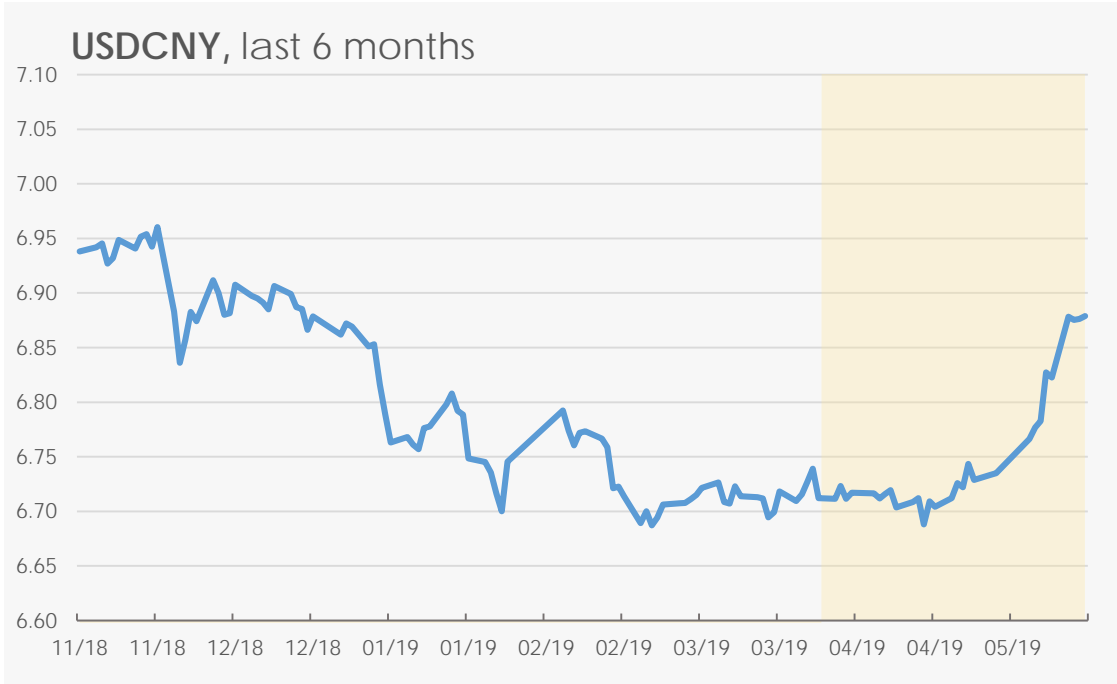
indicating the influence of US – China trade war on the Japanese financial market.

## Looking Forward

- We expect the USDJPY to recover after the steep sell-off as investors regain their risk appetite, and the Nikkei Index to continue to move in accordance with the US equity markets.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# China: USDCNY & Shanghai Shenzhen CSI 300 Index VS P/E



## May

- USDCNY surged up to 6.88 in the middle of May, after the hawkish Trump administration declared additional trade tariffs on China.
- The CSI 300 Index and its PE ratio fell as well due to the breakdown in trade talks, but stabilized on the third week of

May.

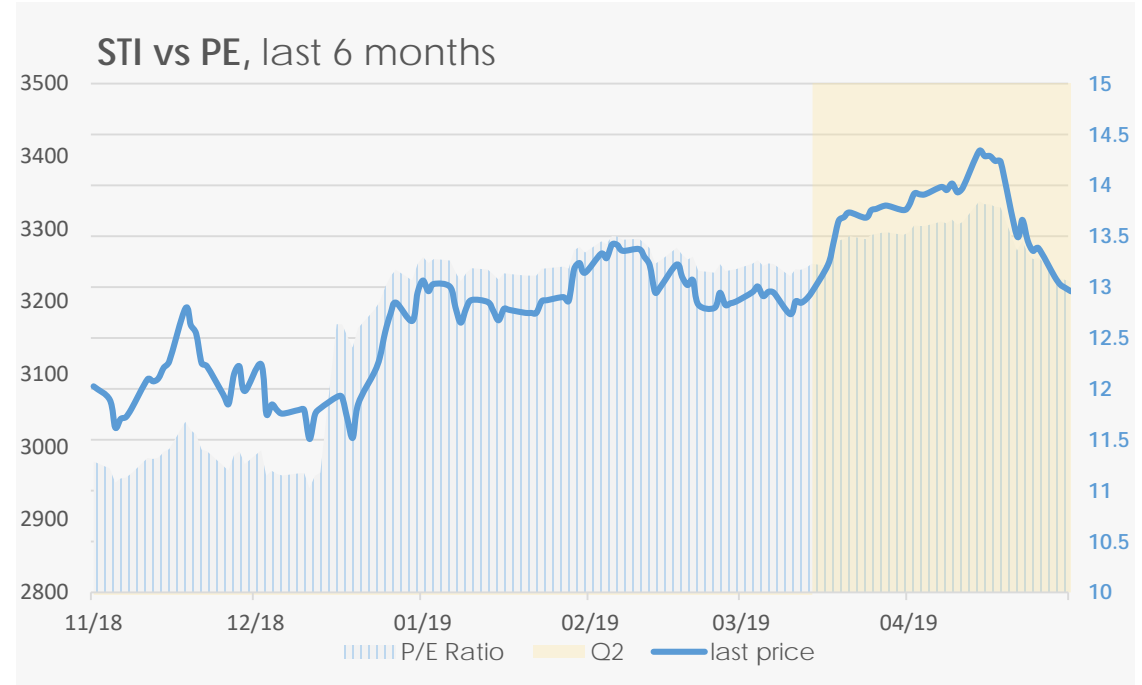
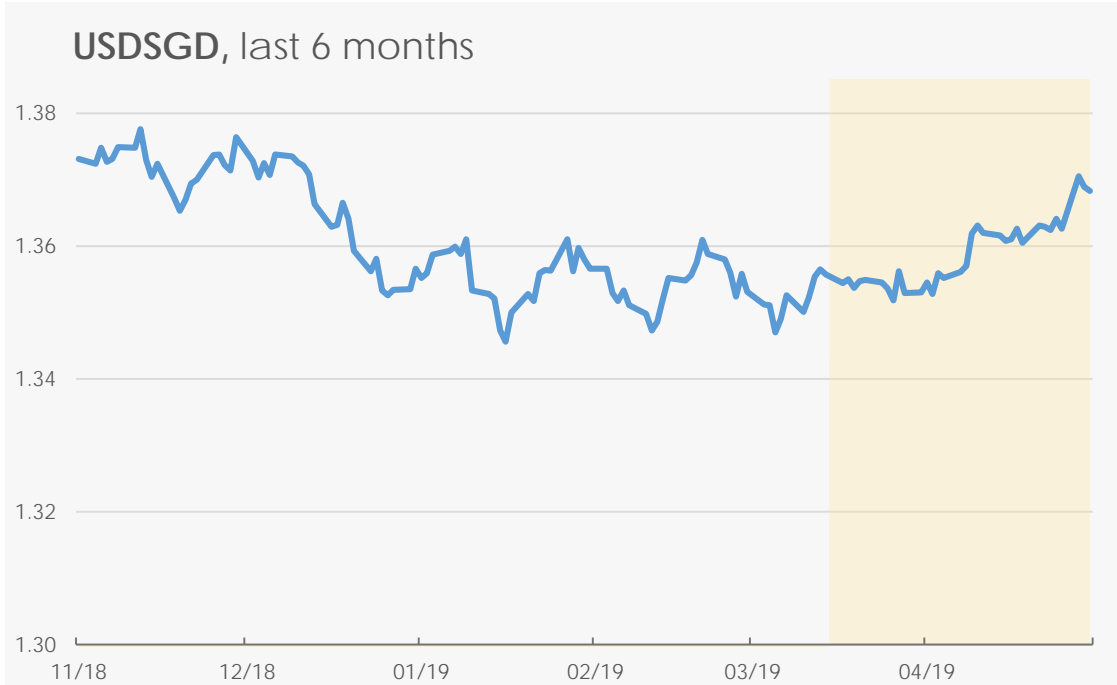
## Looking Forward

- In our Q1 report, We forewarned that USDCNY could revisit the 7.00 level if trade tensions between US and China were to worsen and also warned of a possible consolidation for the CSI 300 in the short-term.

- While we think that the level of 7.00 could be broken for USDCNY, we do not think that China will use its currency as a weapon in the trade war as it would affect China's other policy goals such as increasing the international use of the yuan and encouraging businesses to move up the value-added chain.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# Singapore: USDSGD & STI VS PE



## May

- USDSGD rose sharply in May to 1.37 as the SGD fell due to the breakdown in US-China trade talks.
- The STI Index decreased from 3400.2 at beginning of May to 3214.26, the corresponding PE ratio decreased from 13.82 to

13.05, decreasing by 5.47% and 5.57% respectively.

## Looking Forward

- In our previous Q1 report, we held a slight bias for the downside for USDSGD due to the positive progress in US-China trade negotiations. However, the breakdown in talks

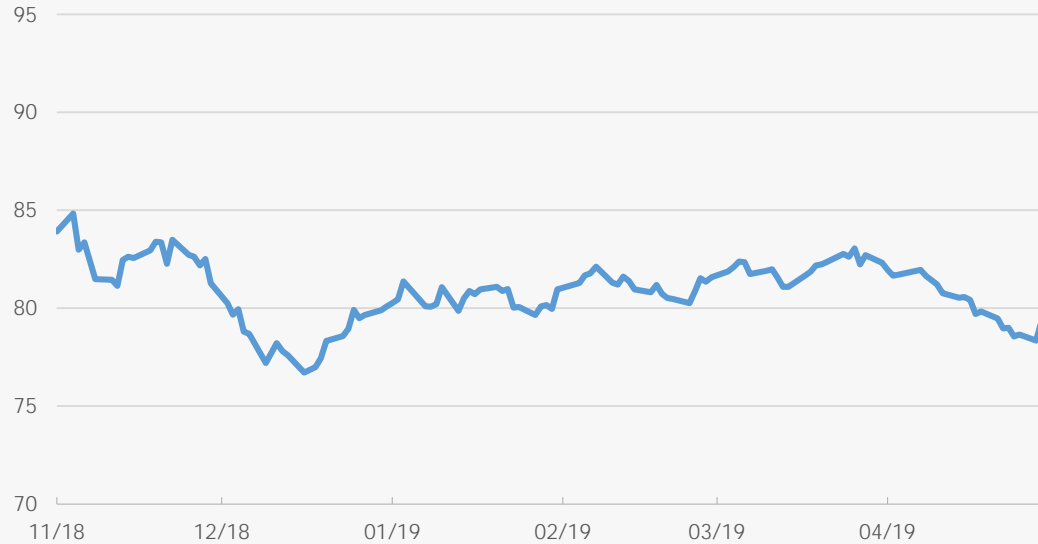
saw the USDSGD going up.

- Given the change in direction for the trade talks, we believe that the SGD is likely to continue its weakness and the STI to remain sensitive to global trade tensions.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# Commodity: BBG Commodity Index

BBG Commodity Index, last 6 months



BBG Commodity Index, last 3 quarters



## May

- The Bloomberg Commodity Index fell in first two weeks of May before rebounding slightly in the third week, suggesting a lack of growth in demand.

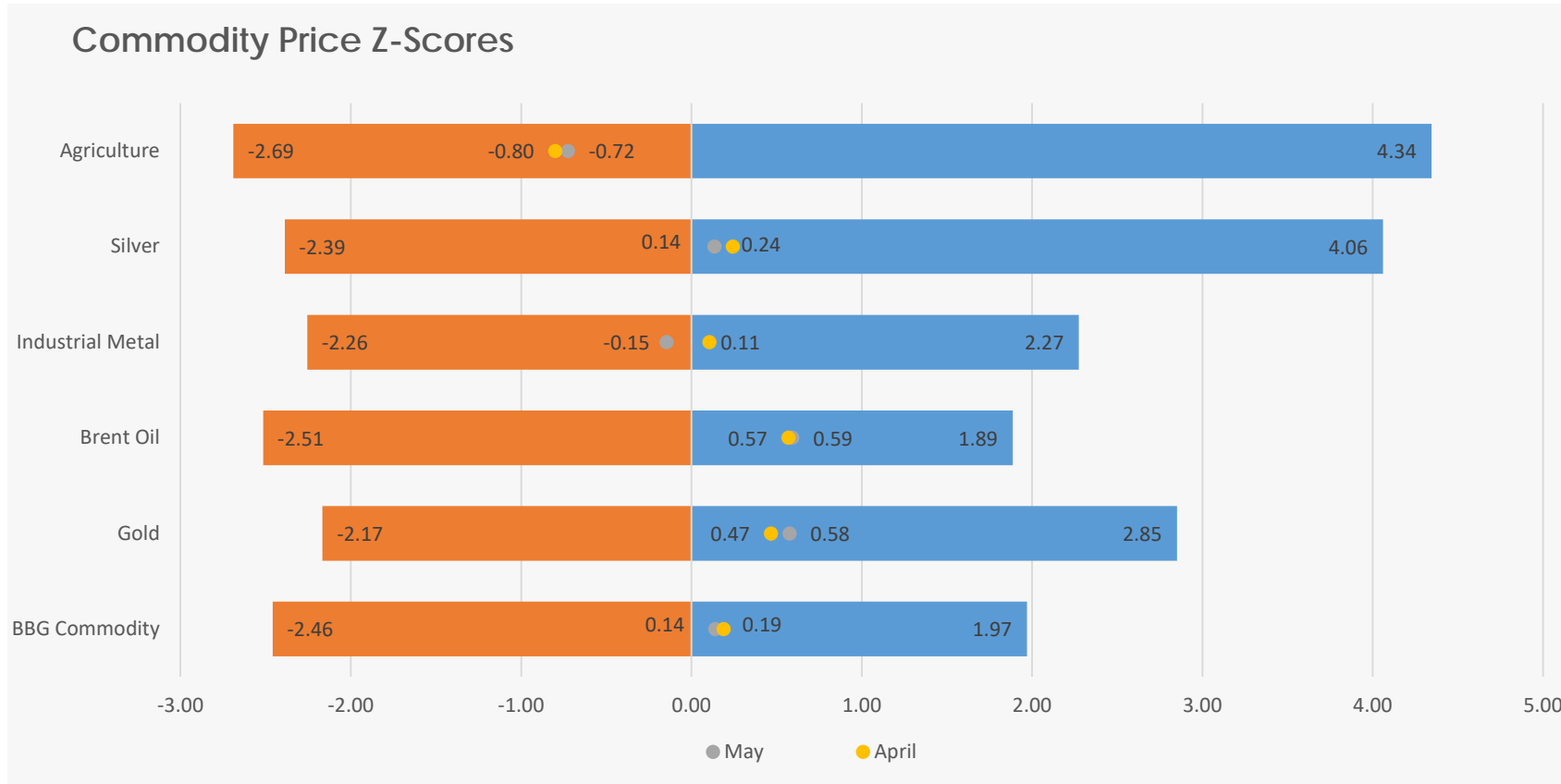
## Looking Forward

- We expect the price of commodities to remain muted as global demand remain low.
- The price of commodities will highly depend on the changes in the trade war. Although less likely now, if the trade war

were to abate, we believe that there would be greater demand coming in to support commodity prices.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# Commodity: Z-Scores of Commodities



**\*Z-Score:** Number of standard deviations from a 200-day moving average. A high z-score indicates strong momentum relative to its 200-day moving average and vice versa.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

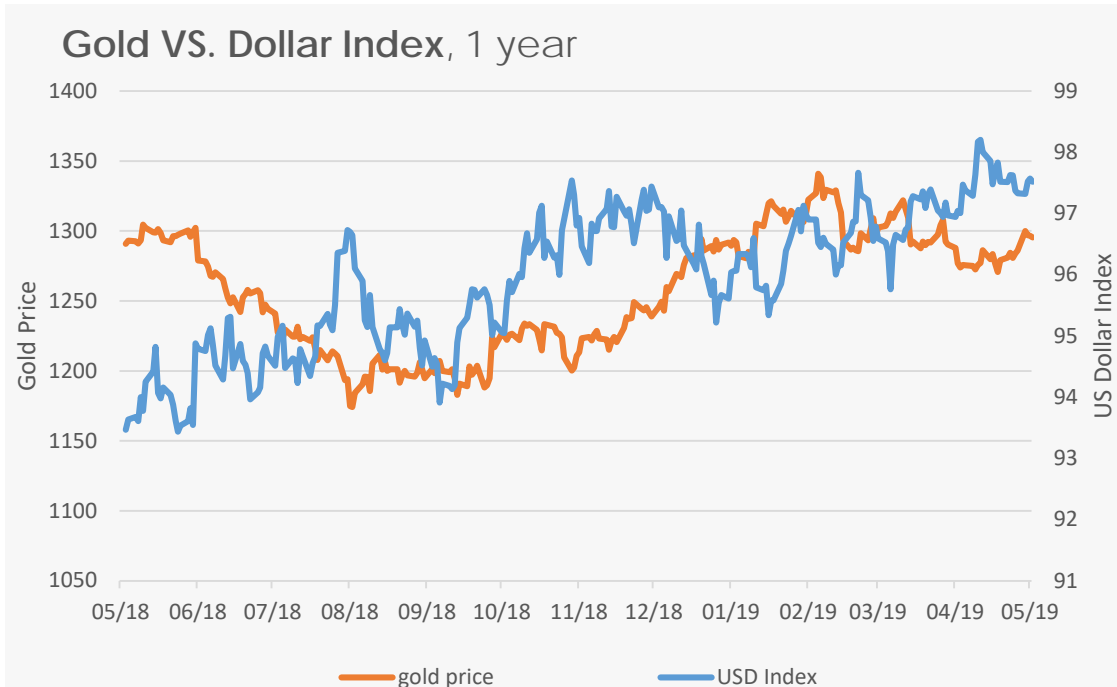
## May

- Commodities did not change much in prices in May. Our opinion that the upside potential outweighs the downside risk for commodities were justified.
- Precious metals slipped a little, as investors seek more risky investment with higher returns.

## Looking Forward

- Our expectation in our Q1 report was that the lack of global demand is likely to keep prices low, but surprise events such as a resolution to the trade war could cause a surge in commodities price.
- We continue to hold such an expectations, but note that odds of a resolution between US and China has been lowered and that any progress in the trade war is likely to be delayed as a schedule for future negotiations has yet to be confirmed.

# Commodity: Gold



## May

- In May, Gold prices gained as equities sold off as investors shifted towards safe-haven assets due to a breakdown in trade talks.

## Looking Forward

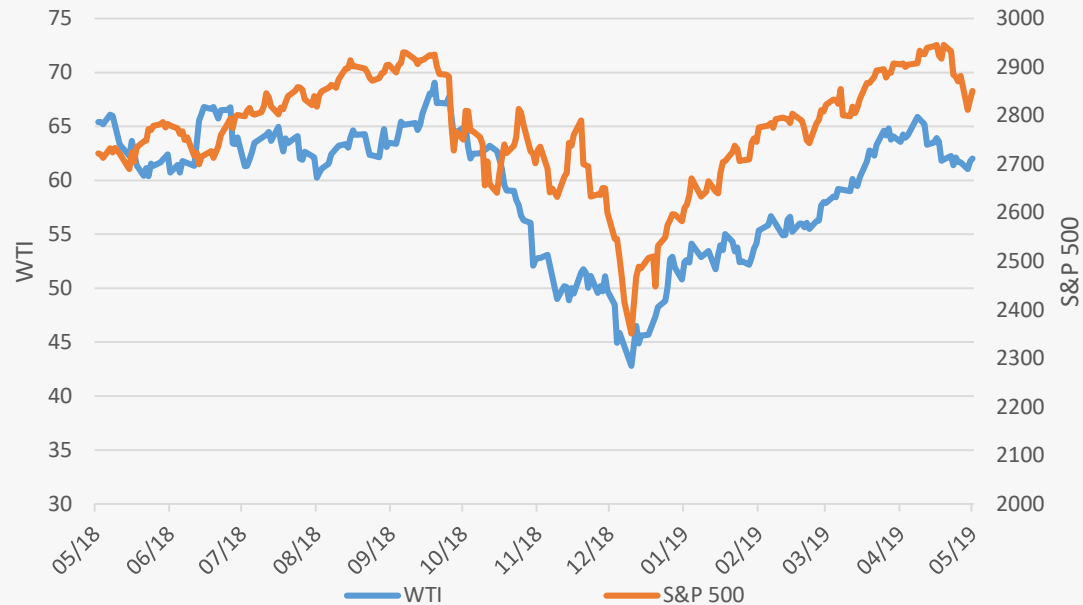
- In our quarterly report, we held a slight bearish bias for gold for Q2, which has yet to play out due to the unexpected breakdown in trade talks.
- We now expect gold to continue its choppy moves, and

maintain our slight bearish bias for the precious metal as investors' risk-off sentiments subside and as inflation rate remains low.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019

# Commodity: Crude Oil

S&P 500 VS. WTI, 1 year



S&P 500 VS. Natural Gas, 1 year



**May**

- West Texas Oil fell in May and closed at 62.41 while Natural Gas gained and closed at 2.603.

**Looking Forward**

- In our Q1 report, we expressed our cautiousness towards the surge in oil prices but at the same time believed that it could go higher while under \$70.
- On the month the report was released, WTI surged and

almost touched \$67, before turning sharply.

- For the month of June, we expect price to stabilize, barring sudden supply shocks or US-China trade deal, and expect price movements to be confined between \$67 to \$56.

Source: Golden Horse Fund Management, Bloomberg  
Data are as of May 16, 2019





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