GYC Grow Your Capital

www.gyc.com.sg

GYC Investment Update

From the GYC Investment Desk

Economics

Weak manufacturing PMI reports from around the world indicate an ongoing slowdown in the global economy. Also, growth in the manufacturing sector has slowed for the third consecutive month. On the other hand, the service sector has finally rebounded. The accelerated expansion in services eased fears that the slowdown in manufacturing could turn into something worse.

Jobs were hit hard as business activity eased in the US. Non-farm payrolls gained only 54,000 jobs while unemployment insurance claims remained above 400,000. The good news is that work hours remained steady for those with jobs. Meanwhile the ISM employment sub-index indicated faster net job creation. As the largest sector in the economy, growth in hiring is needed to keep the business cycle up.

Figure 1: ISM Non-manufacturing: Employment Index (NMFEI)
Source: Institute for Supply Management

Shaded areas indicate US recessions.
2011 research.stlouisfed.org

Worries about US debt ceiling are unfounded as the recent 3-year, 5-year and 7-year bond auctions were well received (3.28x, 3.2x, and 3.24x coverage respectively). Funding continues to be a non-issue for the US government with interest cost falling over the past two months. Investors need not worry about a government shut down or a funding crisis.

Market Commentary

Produced by:
GYC Financial Advisory Pte Ltd

1 Raffles Place
#15-01 One Raffles Place
Singapore 048616
Tel: 65-6349 1441

Co. Reg. No.199806191K

Figure 2: Falling yields is a sign of easier funding for the US government

So far, there has been no indication of the need for QE3 despite current economic weakness. Ben Bernanke continues to stress the importance of maintaining the size of the Fed's balance sheet to accommodate an economy that is operating below potential.

Markets

Commodity prices have peaked for the time being. Oil, gasoline and agriculture are 13%, 12% and 10% off their peaks respectively. This would be good for the economy going forward as business cost falls and consumers have more to spend.

Risk assets are still in a corrective mode, with equities heavily oversold. Still the uptrend has to be given the benefit of doubt as we have yet to see a series of lower highs and lower lows. US corporate profitability remains on an uptrend. Given the weakness we have seen in cyclical stocks, the odds that equities will struggle in the months ahead are much higher.

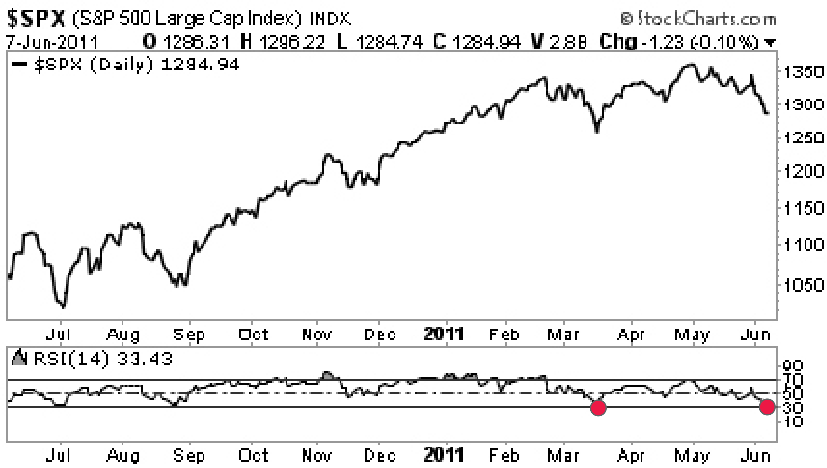

Figure 3: Red dots indicate that markets are in oversold condition, similar to March 16

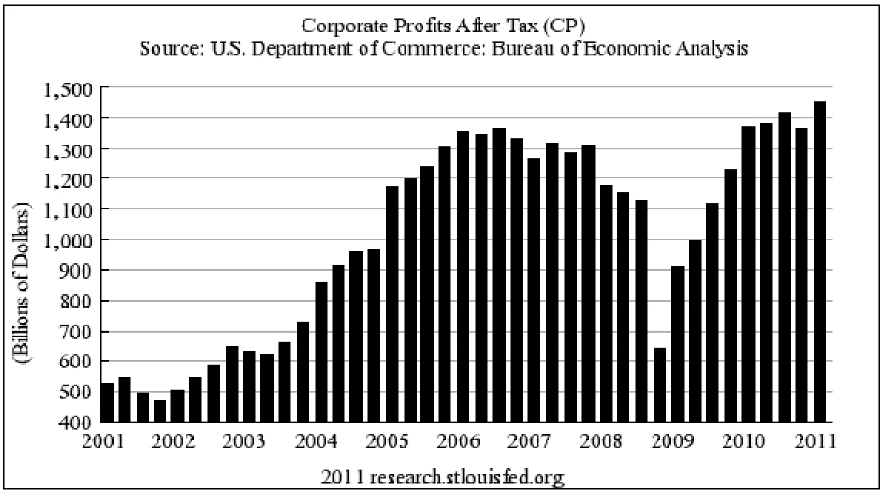

Figure 4: Profits in the US economy continue to rise

Meanwhile, the situation in Greece is easing somewhat. Yields on 10-year Greek bonds are now at 15.9%, down from 17% two weeks ago. Meanwhile, Spanish bonds continue to trade between 5.1% and 5.5%. Still, investors are worried enough to send the Euro falling against the Swiss Franc. As mentioned previously, the EU has no choice but to help Greece and the Greeks will choose the long and hard road out of their debt problem. Bailouts will continue for Greece and the rest, but the true test is when recession eventually strikes.

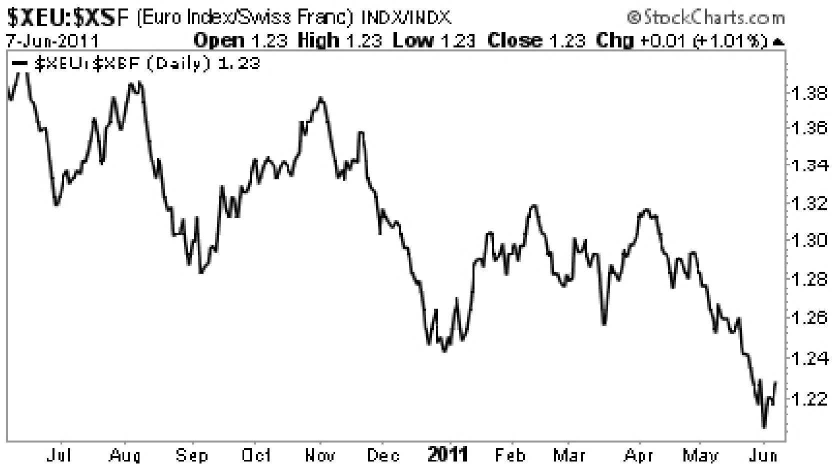

Figure 5: Euro-Swiss Franc Index

Conclusion

Given the risks in the economy and markets, we continue to advocate a less aggressive posture when investing. No further change recommended for our portfolio positions since our last call for rebalancing on 23 May 2011.

To find out how you can get started on your own investment portfolio, call or email us at:

Tel: 65-6349 1432
Email: enquiries@gyc.com.sg

If you would like to receive market updates, be kept updated on new product launches and investment opportunities, why not sign up to be on our mailing list?

Just send us an email with your name, NRIC, and contact number to:

customercare@gyc.com.sg

Change of address? Update your particulars here:

Name ____________________
NRIC ____________________
Address ____
____

Contact No. ____________________
Email ____________________

Send your updated particulars to:
GYC Financial Advisory Pte Ltd
1 Raffles Place
#15-01 One Raffles Place
Singapore 048616

Alternatively, email us at:
customercare@gyc.com.sg

GYC
Grow Your Capital