HEXAGONE CAPITAL

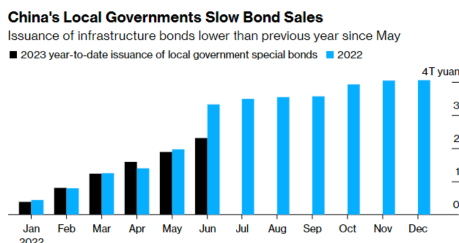
Quarterly Report
Q2 2023

ECONOMY

Current Interest Rates

country/region	current rate	direction	previous rate	change
United States	5.250 %	↑	5.000 %	05-03-2023
Australia	4.100 %	↑	3.850 %	06-06-2023
Chile	11.250 %	↑	10.750 %	10-13-2022
South Korea	3.500 %	↑	3.250 %	01-13-2023
Brazil	13.750 %	↑	13.250 %	08-04-2022
Great Britain	5.000 %	↑	4.500 %	06-22-2023
Canada	4.750 %	↑	4.500 %	06-07-2023
China	3.550 %	↓	3.650 %	06-20-2023
Czech Republic	7.000 %	↑	5.750 %	06-22-2022
Denmark	3.250 %	↑	3.000 %	06-15-2023
Europe	4.000 %	↑	3.750 %	06-15-2023
Hungary	13.000 %	↑	11.750 %	09-27-2022
India	6.500 %	↑	6.250 %	02-08-2023
Indonesia	6.500 %	↓	6.750 %	06-16-2016
Israel	4.750 %	↑	4.500 %	05-22-2023
Japan	-0.100 %	↓	0.000 %	02-01-2016
Mexico	11.250 %	↑	11.000 %	03-30-2023
New Zealand	5.500 %	↑	5.250 %	05-24-2023
Norway	3.750 %	↑	3.250 %	06-22-2023
Poland	6.750 %	↑	6.500 %	09-07-2022
Russia	7.500 %	↓	8.000 %	09-16-2022
Saudi Arabia	5.500 %	↑	5.250 %	03-22-2023
South Africa	8.250 %	↑	7.750 %	05-25-2023
Sweden	3.500 %	↑	3.000 %	04-26-2023
Switzerland	1.750 %	↑	1.500 %	06-22-2023
Turkey	15.000 %	↑	8.500 %	06-22-2023

China's weak consumer spending data



Source: Bloomberg
Note: June 2023 figure is up until June 26

China's consumption-driven recovery is showing more and more signs of losing momentum as spending on everything from vacations to cars and homes declines.
Weak consumption in mainland China is also impacting Chinese stocks, which have been highly impacted by the latest economic reports.

As of June 26th, the CSI 300 is trading at -2.01% year-to-date and -14.28% compared to one year earlier. Growing concerns about growth have fueled speculation about the possibility of increased stimulus measures this year. One fiscal measure would be to accelerate the sale of special local government bonds-a key source of infrastructure financing-to ensure that local governments exhaust most of their quota by the end of the third quarter, but local governments have been slow to exhaust their quota so far this year. China's GDP growth forecast for 2023 was lowered from 5.5% to 5.2%, reflecting mixed recovery.

EQUITIES

33-year high for the Nikkei

The Nikkei 225 is up more than 25% in the first semester, 15% away from the record-breaking level of 38,915 attained on December 29, 1989.
The easy monetary policies have caused the yen to depreciate, resulting in a surge of foreign investments in Japan's domestic market. According to data provided by the Tokyo Stock Exchange (TSE), there has been a substantial rise in foreign investors' participation in Japan's equities market.
Coincidentally, Warren Buffett's Berkshire Hathaway Inc. bolstered its investment in five of Japan's trading houses, contributing to the positive trajectory of the Japanese stock market. Berkshire now holds positions in Itochu Corp., Marubeni Corp., Mitsubishi Corp., Mitsui & Co., and Sumitomo Corp., with an average ownership exceeding 8.5%.
Experts in the industry suggest that the upward momentum in Japan's stock market may be constrained moving forward.

2023: The year of the bonds?

One of the biggest questions for 2023 is: will the Fed be successful in its attempt to keep inflation between 2% to 2.5%, while maintaining a balance between employment and price stability? Company earnings in developed markets are likely to fall short of expectations in the second half of this year while EM equities look attractive: Stronger growth, lower

inflation and easier policy in those markets, in addition to reasonable valuations, could deliver double-digit returns over the next 12 months.
But bonds now have a more attractive risk/return profile than equities. First, even if rates stay where they are, you'll get a nice positive return from the interest your bonds generate. Moreover, many see the potential for interest rates to go back down in 2023. Recessionary conditions often cause a drop in rates, and if that comes, you can add positive gains from rising bond prices to those interest payments to generate an even more impressive total return. At the moment, U.S. investment grade corporate bonds yield almost 6%, have little refinancing risk and are relatively insulated from an economic downturn.

INVESTING PRINCIPLES

How much cash should you keep?

In 2022, a mere 63% of adults in the US could cover an unexpected $400 expense, while 57% expressed discomfort with their emergency savings levels. Building a reserve of cash can serve as a safeguard against unforeseen emergencies that could otherwise lead to financial disaster. The COVID-19 pandemic played a role in raising awareness about the significance of having cash reserves. Although government assistance bolstered bank account balances, these cushions have diminished due to above-average inflation and increased debt costs. According to the Federal Reserve Bank of New York, U.S. credit card debts reached nearly $1 trillion in the first quarter. The appropriate amount of cash to maintain in a readily accessible current bank account as an emergency fund depends on various factors, but we typically recommend a minimum of 3 months of expenses, with 6 months being even better. For couples with multiple children and mortgages, a 12-month reserve is ideal. The positive news is that savers are now reaping better returns on their cash, potentially reaching 5% or more, as interest rates rise—a level not witnessed in the past 15 years.

How to retire comfortably?

A European citizen who has consistently fulfilled their tax obligations in their home country can anticipate receiving a state pension of approximately 35% of the income earned during their most prosperous 20 years of employment. Unless one intends to decrease their standard of living by 65%, European pension schemes clearly do not offer sufficient support. This highlights the importance of preparing for retirement, particularly for expatriates. The question then arises: How much money is required to retire comfortably?
As a rule of thumb, you should aim for at least the same amount as what you currently need to live comfortably. Some expenses will decrease while new ones will appear. Then, adjust this amount for inflation. When costs rise at a typical rate, inflation hits senior households harder than working-age households because seniors spend a higher portion of their incomes on healthcare and housing which tend to increase faster than the overall inflation rate. Use a good 3% yearly inflation rate for your calculation.
Once you have adjusted your expected retirement income for inflation, divide it by 4% to get the total required portfolio that will allow you to retire comfortably by withdrawing 4% from it every year. Keep in mind that the best moment to start is always 10 years ago: time in the market always beats timing the market.

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