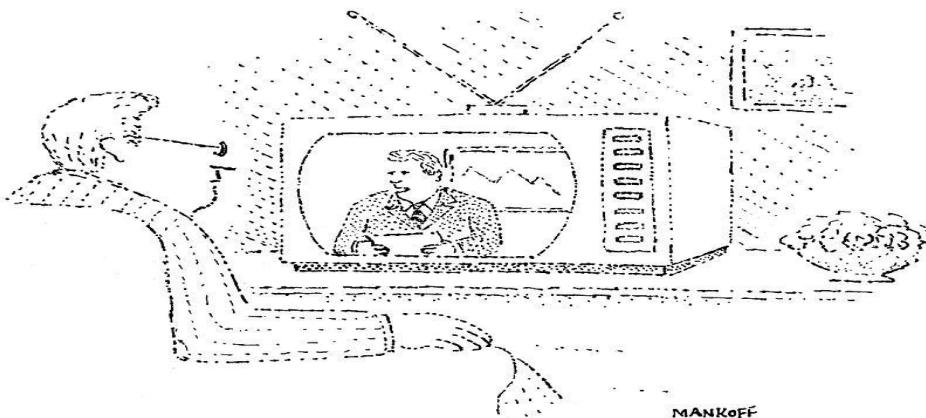


- **Are the recent regulatory interventions in China the beginning of the end?**

We don't think so. Yet it may be too early to invest given more regulatory shakeout is likely to come. The changes have indeed destroyed billions of dollars in market cap. China's goal is to achieve even, balanced, and long-term growth. Anything that is seen as monopolistic (hurting smaller players) or anti-trust (large companies enforcing exclusivity measures) or hurting social development (high cost of education has deterred families from having more children) has been under scrutiny. Unlike in the West, China tends to not regulate upfront but act swiftly when things progress in the wrong direction. Stay patient and wait for better timing, but portfolios should have some exposure to the largest source of global GDP growth.

- **Can markets continue to rise from here?**

In absolute terms, it appears that valuations in many sectors are stretched, especially if rates rise. However, in relative terms, equities are not exorbitantly overvalued given the current zero-interest rate environment. For equities to continue to rise after a blow-out earnings season, Fed policies need to remain accommodative. But can the Fed ignore the recent high US Consumer Price Index (CPI) numbers (+4.2% for April, +5.0% for May and +5.4% for June on a rolling 12-month basis respectively)?



*“On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the market down, until the realization that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to a reimposition of higher interest rates.”*

If inflation continues on the current trajectory, the Fed must act. If it is transitory, the Fed can wait. There are good arguments to support both views. The answer is “unknowable”. Investors will have to decide based on their own optimistic or pessimistic perception. We remain constructive.

- **Asset Allocation**

Apart from a tactical adjustment to increase equities based on technical data, we left our asset allocation unchanged. Regarding China we are in a wait-and-see mode due to continued and unpredictable interventions.