Investment Playbook Weekly Update

June 3rd – June 7th 2024

2023 ASIAN PRIVATE BANKER 13th AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER ASIA PACIFIC

2023 ASIAN PRIVATE BANKER 13th AWARDS FOR DISTINCTION
HIGHLY COMMENDED INDEPENDENT WEALTH MANAGER INDIA

2022 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER ASIA PACIFIC

PRIVATE BANKING AWARDS 2023 ASIAMONEY
RISING STAR, SINGAPORE

2021 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER WEALTH PLANNING SERVICES

GLOBAL Private Banking INNOVATION AWARDS 2022

2021 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER INVESTMENT ADVISORY

OUTSTANDING DIGITAL TRANSFORMATION IN COVID 19 BY A FAMILY OFFICE

BEST FAMILY OFFICE – MIDDLE EAST

BEST FAMILY OFFICE – UNITED ARAB EMIRATES

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Charts of the week

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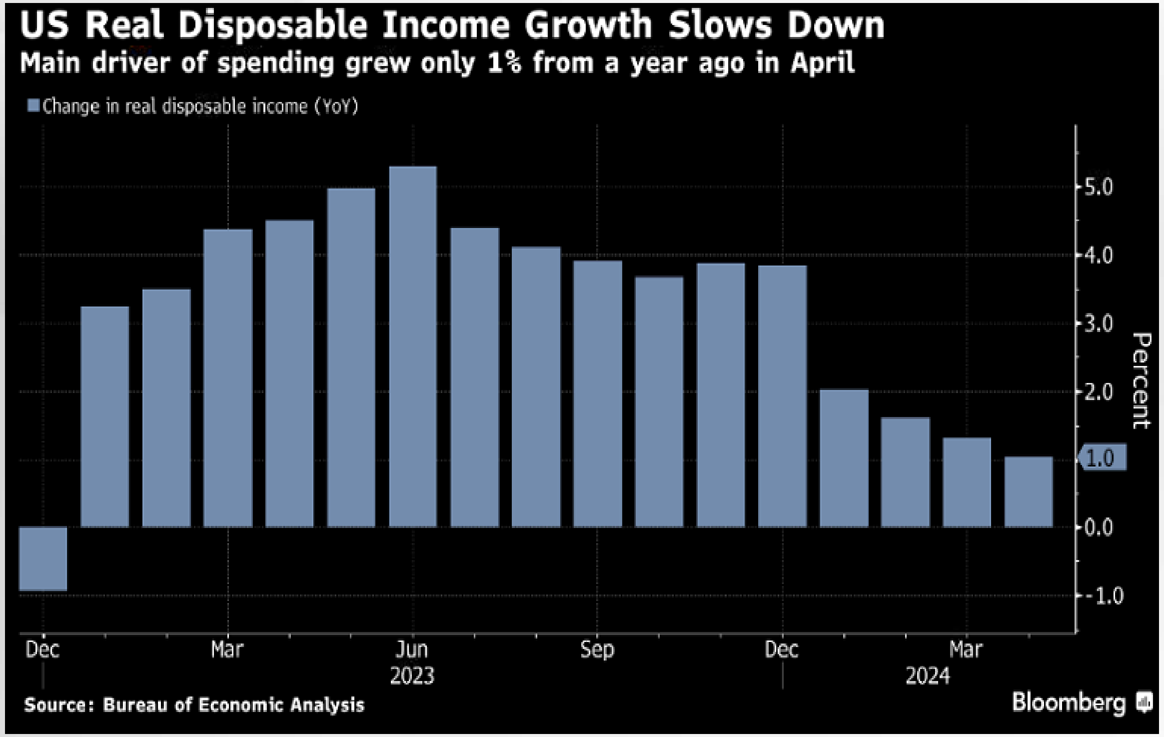
Key Engines of US Consumer Spending Losing Steam

Americans Rely On Credit, As Disposable Income Declines

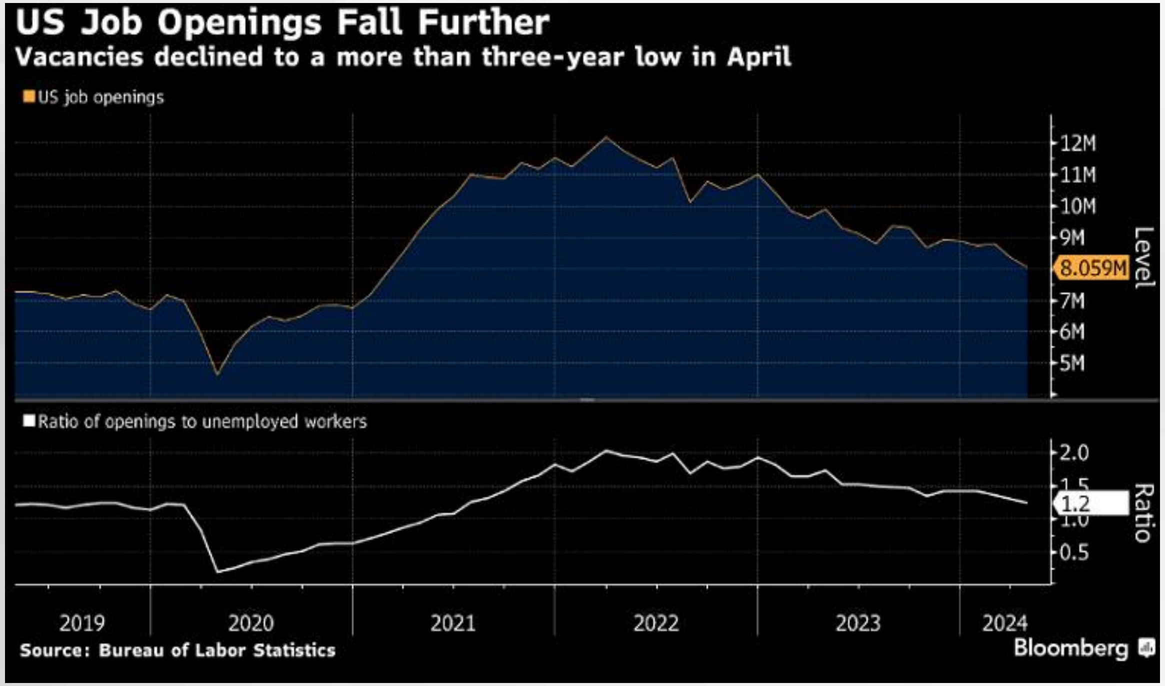


- The main drivers behind the remarkably resilient American consumer are losing steam at the same time, suggesting a recent pullback in household demand may be more than just a one-off.
- Real disposable incomes have risen only modestly over the past year. The saving rate now stands at a 16-month low as households have mostly exhausted the extra pile of cash they squirreled away during the pandemic. In turn, many Americans are increasingly relying on credit cards and other sources of financing to support their spending.
- The dip in April consumer spending reported Friday (31 May) and the recent downward revision to the government's estimate for GDP in the first quarter provide fairly convincing evidence the US economy is coming off the surprisingly strong pace it set in 2023.

Source: Bloomberg, June 2024

US Job Openings Fall To The Lowest Since 2021

Health care, Manufacturing, Government Posted Fewer Jobs

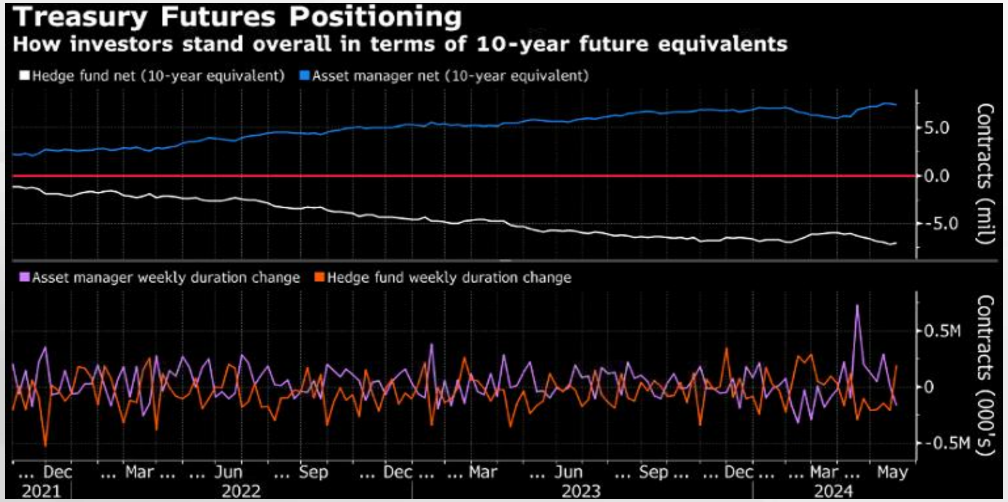


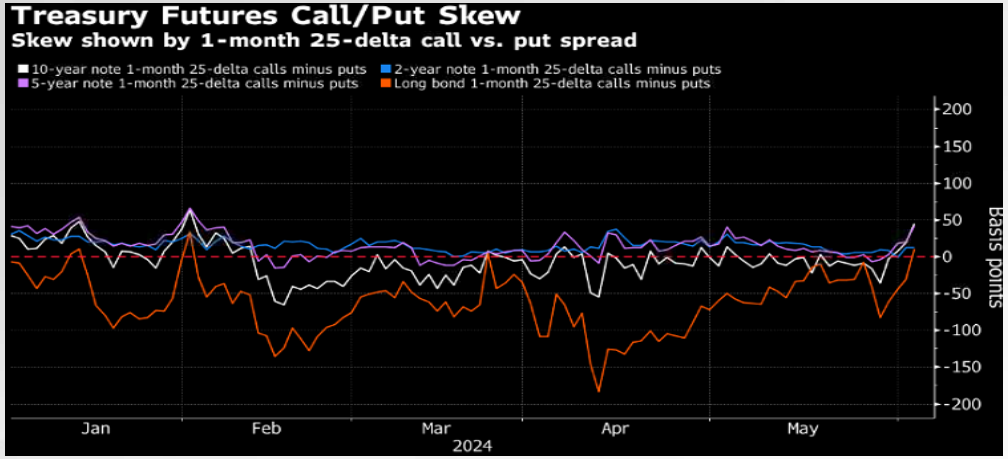
- US job openings fell in April to the lowest level in over three years, consistent with a gradual slowdown in the labor market.
- The rate of hiring and layoffs were both unchanged. While layoffs remain historically low, hiring has slowed down, suggesting companies are comfortable that their staffing levels are appropriate to meet demand.
- The so-called quits rate, which measures people who voluntarily leave their job, held at the lowest level since 2020. The recent decline could indicate that people are holding onto their current jobs because they feel less confident in their ability to find a new position.

Source: Bloomberg, June 2024

Bond Traders Pile Into Fresh Bets On Faster Fed Cuts

Dovish Options Targeted While Short Covering Seen In Futures





- Bond traders are tilting dovish again, piling into wagers that would benefit from a faster pace of Fed interest rate cuts as Treasuries rally.
- Asset Managers bucked a six-week trend of extending duration longs in Treasury futures after CFTC* data in week up to May 28 showed long liquidation — roughly 170,000 10-year note futures equivalents. The heaviest such liquidations were seen in the long end of the curve. On the flip side, hedge funds covered net shorts over the week by about 200,000 10-year note futures equivalents.
- The cost of hedging moves in Treasuries via the options market has switched to a premium being paid to hedge a rally over a selloff across all tenors, as the bond market rally extended this week. In the 10-year tenor, the cost to hedge a rally has pushed to roughly the most expensive since February.

Source: Bloomberg, June 2024 *Commodity Futures Trading Commission

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Pricey Tech

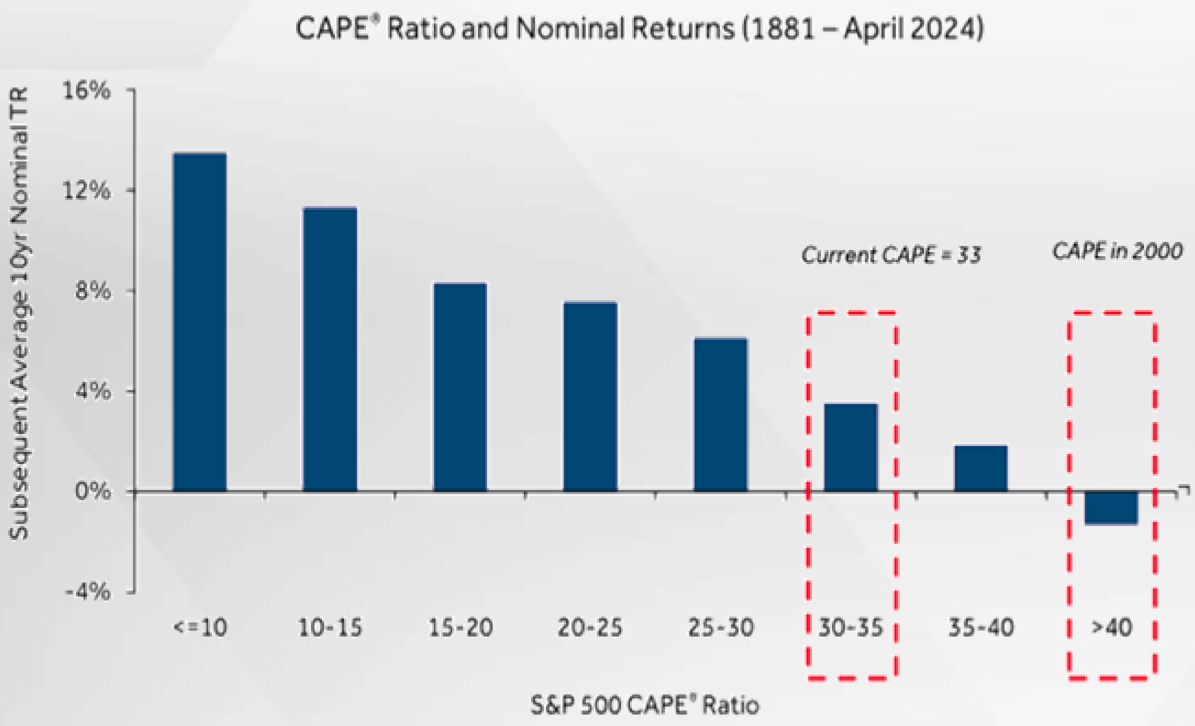
S&P 500 Information Technology sector is as expensive today as during the dot-com bubble

- The S&P 500 Information Technology sector's blended forward 12-month P/E ratio has reached levels comparable to the dot-com bubble, indicating high valuations. Such elevated ratios can signal potential overvaluation, increasing the risk of a market correction. During the dot-com bubble, similarly high P/E ratios led to significant downturns. Investors should be cautious and consider historical valuation contexts.
- While tech advancements and strong earnings might justify higher multiples, current valuations warrant careful scrutiny. Diversification and thorough evaluation of stock fundamentals are essential to mitigate risks in this environment.

 Source: Bloomberg, June 2024

CAPE Ratio Points To Subdued Performance

At 33x, the CAPE Ratio signals caution for long-term market returns



- Barclays illustrates the historical inverse relationship between the CAPE® (Cyclically Adjusted Price-to-Earnings) ratio and subsequent 10-year nominal returns. Data from 1881 to April 2024 shows that lower CAPE ratios correspond to higher average returns, with a strong -54% correlation.
- Currently, the CAPE ratio stands at 33, indicating elevated market valuations. Historically, CAPE ratios above 30 have been associated with lower subsequent returns, highlighting the potential for subdued long-term market performance. Investors should be cautious and consider the implications of high CAPE ratios on future equity returns.

Source: Barclays, June 2024

Equity Markets Seem To Be Approaching Manic Levels

Bloomberg's Market Pulse Index is indicating potentially overbought levels

- Bloomberg Intelligence's market pulse index has a good track record in being able to predict short term (1-3 months) equity market moves.
- Historically, whenever this reading has reached manic levels, returns over the next 3 months have been rather subdued and indicate potentially overbought levels.
- With the S&P 500 notching its 25th record high this year, we recommend adding hedges to protect against any unforeseen events / a broad based shift in the market's outlook on the macro-economic situation.

Source: Bloomberg, June 2024

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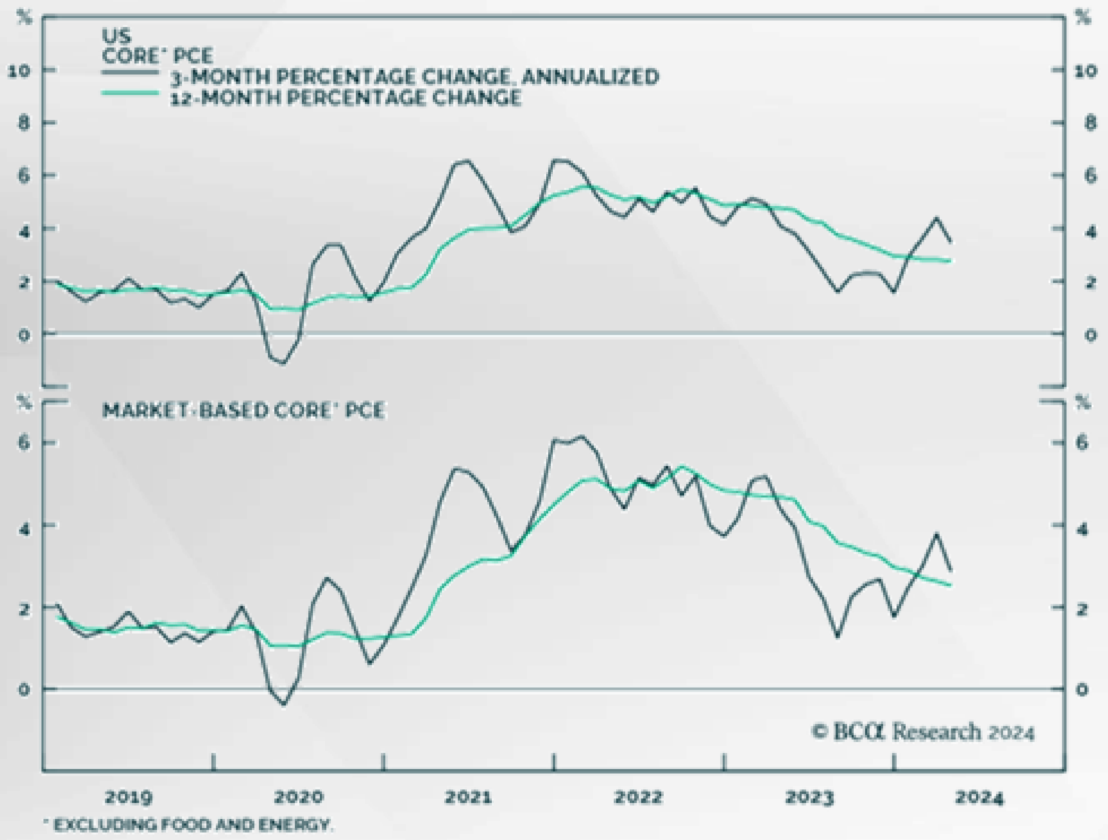
Consumer Spending Unexpectedly Contracts

Disinflation Trends Signal Potential Fed Rate Cuts in 2024



- Core PCE inflation, favored by the Fed, eased from 0.3% m/m to 0.2% m/m, with market-based core PCE showing an even larger decline. Annualized core PCE rates are 3.46% (3-month) and 2.75% (12-month), while market-based rates are lower at 2.87% and 2.52%.
- Disinflation progress is expected to enable rate cuts this year, with easing rental markets and decelerating wage growth. Consumer credit scarcity and dwindling savings will reduce upward demand pressure. BCA Research strategists anticipate rate cuts in September and December.

 Source: Bloomberg, June 2024

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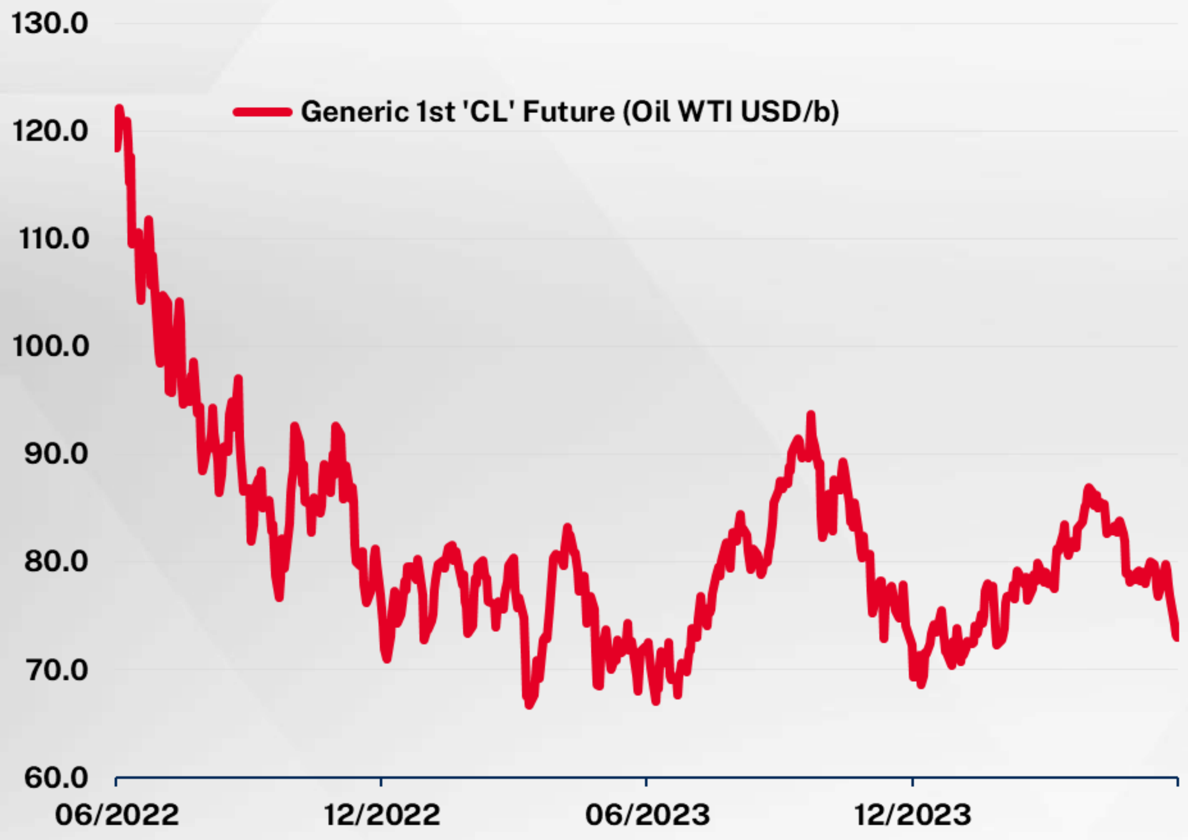
Oil Sell-Off Is Overdone According To Westbeck

WTI's recent correction to 73$ per barrel represents a buying opportunity for the oil expert



- Westbeck's June 2024 market update highlights a buying opportunity in the oil market following a significant sell-off. Despite a seasonal Q2 weakness, the fund has doubled its crude length from 35% to 70%, anticipating a strong Q3 with expected inventory draws of ~2.0 mb/d. The update dismisses recession concerns, noting low global inventories and overreacted market fears to OPEC announcements. Key points include the likelihood of oil price recovery, low gamma risk, and the U.S. SPR buybacks. The fund's current position is based on expected positive trends and historical performance patterns, aiming for substantial gains through the summer.

 Source: Bloomberg, June 2024

LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• The recent sets of economic data prints late May and early June pointed towards visible slowdown in the US economy. GDP (annualized QoQ) slowed from 1.6% to 1.3% . Real personal spending , Core PCE and JOLTS job openings all pointed towards slowdown, fueling bets of 2 rate cuts in 2024, namely Sept and Dec 2024. 10Y UST yields sharply adjusted itself from 4.6% to presently at 4.3% in a week. Non-farm payrolls and CPI data would be watched keenly before the FOMC on the 12th of June. Broad-based softening of labour markets and lowering MoM Core PCE figures are hinting towards an economic slowdown late this year and perhaps translating into a recession going into 2025. All these point to peak-rates in US and perhaps suppressed treasury yields.
Credit	• We continue to favor investment grade bonds to build a strong foundation for the portfolio and seek to compliment the latter with selective high yield bonds for yield enhancement. We are actively extending duration (in IG credits) into the 5-10Y space to capitalize on peak US rates and to benefit from likely cuts over the period of next 12 months. We advise against increasing duration beyond 10 years for the core portfolio as the risk-reward does not favor ultra-long ends. However, on a tactical play, we recommend allocating up to 10% of the bond portfolio in iShares 20+ Year Treasury Bond ETF (TLT US) as the Fed is at the peak of its rate hiking cycle. • Due to the challenging economic outlook ahead, we see further opportunity in special situations bond funds, which could provide asymmetric returns in a prolonged distressed and disruptive credit market.

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LC Views Summary (2/3)

Sub-Asset	Recommended Positioning
Equities	• Markets continued to rally in June, with the S&P 500 hitting its 25th record high this year. The main catalysts this week are falling interest rates, with the US 10-year government bond yield now below 4.3%, 30 basis points lower than last week, and a correction in oil prices, with WTI falling below $73 per barrel for the first time since February, consequently reducing inflation fears. • We continue to witness significant dispersion among S&P 500 constituents. Despite the index trading at historical highs, 49% of its constituents returned a negative performance over the last month, indicating that not all stocks are participating in the current rally. Year-to-date, 40% of S&P 500 members are down, underscoring the outsized influence of the "Magnificent 7," which now account for 31% of the S&P 500 market capitalization. • The technology sector appears particularly expensive. With a 1-year forward P/E ratio of 32x, technology stocks are priced at levels last seen in 2021 and 2002. While we acknowledge that developments in Artificial Intelligence (AI) will be supportive over the next 12 months, we also recognize that stocks are currently priced for perfection. Salesforce, for example, fell 20% (post-market) following its earnings report, highlighting the risk of significant sanctions for companies that do not meet high market expectations. We believe many companies could face similar outcomes in the coming quarters. • The VIX at 12 is another source of concern. Despite early signs of a slowdown in the US economy, there are no signs of stress on equities. For example, US 20-year treasuries are currently more volatile than the S&P 500 index (implied volatility 16 vs. 12), which is noteworthy. Although the likelihood of an immediate US recession has diminished, we maintain a cautious stance on current equity market valuations, which are notably higher than historical averages. With a trailing 12-month price-to-earnings (P/E) ratio of 23.5 and a 1-year forward P/E of 22.1, there is a risk of a 10/15% decline due to overvaluation if/when sentiment shifts. While investor optimism may prevail until clear recession signs emerge, we advise maintaining an equity market presence, supplemented by hedging strategies to mitigate potential losses.

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LC Views Summary (3/3)

Sub-Asset	Recommended Positioning
Currencies	• We anticipate continued currency volatility throughout 2024, exemplified by the Japanese Yen, which plummeted to its lowest level against the USD (158) since 1990. With global recessionary risks looming, the USD may see short-term strengthening from a tactical perspective. While exposure to JPY, EUR, and GBP could be gradually increased to capitalize on recent lows, implementing such a strategy now may be premature. Additionally, we suggest incorporating active managers, particularly Macro funds, to capitalize on opportunities arising from heightened volatility in both currencies and interest rates.
Commodities	• 2024 promises to be an intriguing year for commodities. Our structural bullish outlook on Gold, driven by factors such as diversification benefits, inflation hedging, geopolitical risks, and the de-dollarization trend, has proven positive thus far with a 15% increase. Similarly, Oil is expected to remain highly speculative, as evidenced by a 20% surge over Q1 2024, followed by a 15% correction in Q2. While recessionary concerns may dampen demand, production cuts by OPEC+ members and already low oil inventories are likely to support prices in the near term. We recommend allocating up to 5% of assets to one or two managers to capitalize on commodity trends.
Real Estate	• With the recent banking turmoil, Commercial Real Estate exposure is increasingly at risk given the large exposures the smaller banks have to the sub-sector. Clients holding on to any related exposures should consider removing them.

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