Investment Playbook Weekly Update

April 8th – 12th 2024

LIGHTHOUSE CANTON

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

OUTSTANDING DIGITAL TRANSFORMATION IN COVID 19 BY A FAMILY OFFICE

BEST FAMILY OFFICE – MIDDLE EAST

BEST FAMILY OFFICE – UNITED ARAB EMIRATES

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

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Charts of the week

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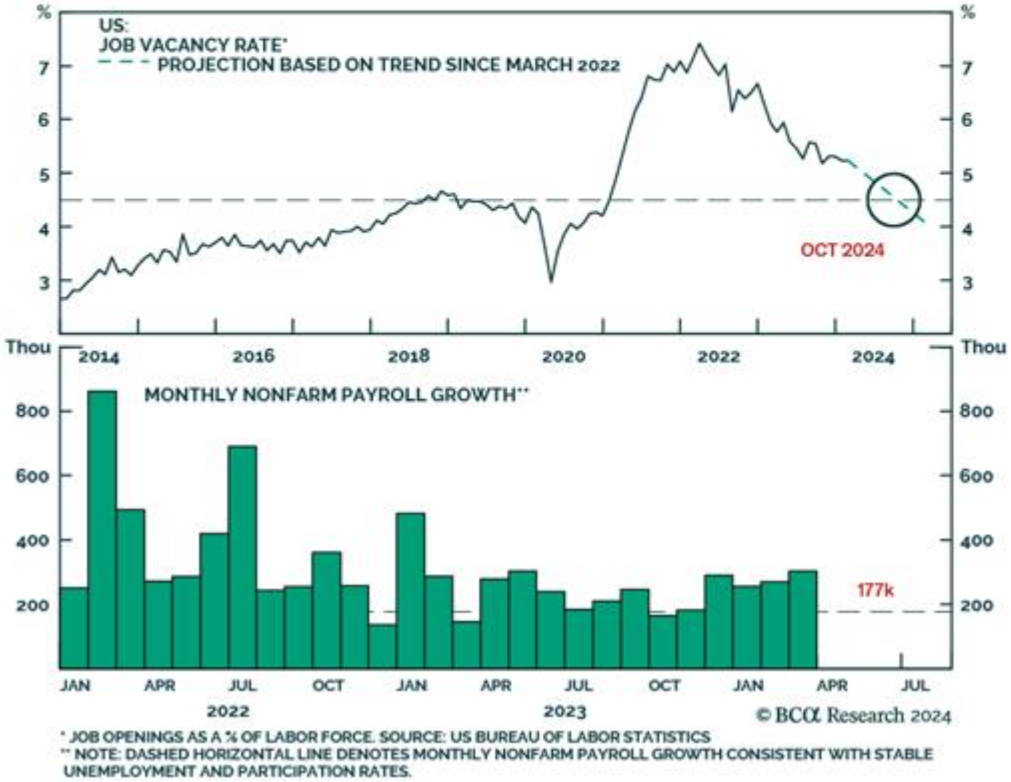
No Recession Signal From The Labor Market

Recommend To Stay Neutral On Duration



- According to BCA, until labor market cracks emerge, the path of least resistance for bond yields is probably higher but the potential near-term upside in yields is limited.

- Three indicators they are watching out for:

➢ Job Vacancy Rate: Unemployment rate will become much more likely to rise once vacancy rate falls under 4.5%- roughly the pre-pandemic high, which is likely to be in October.

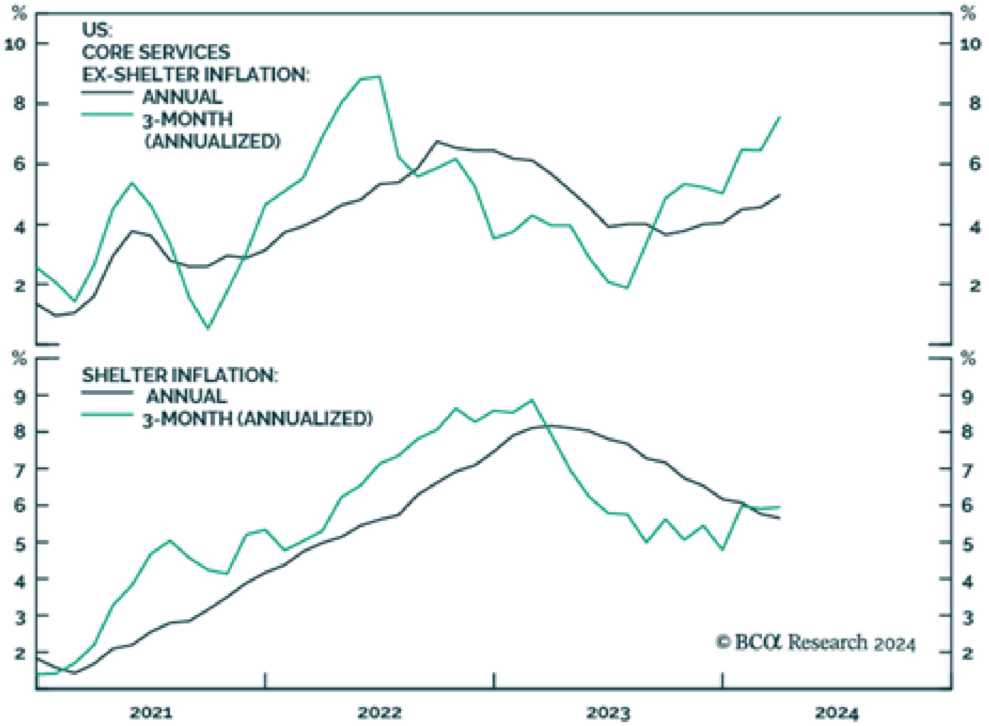
➢ Nonfarm Payroll Growth: Assuming a flat participation rate, the economy needs to add 177K jobs per month to maintain constant unemployment rate.

➢ Initial And Continuing unemployment Claims: Divergence of these series from their path over the past three years. Otherwise, unemployment will likely stay below 4%

Source: BCA Research, April 2024

US CPI Inflation Comes In Hot

Expectations of the first rates cut, initially priced for June, now pushed back to November.

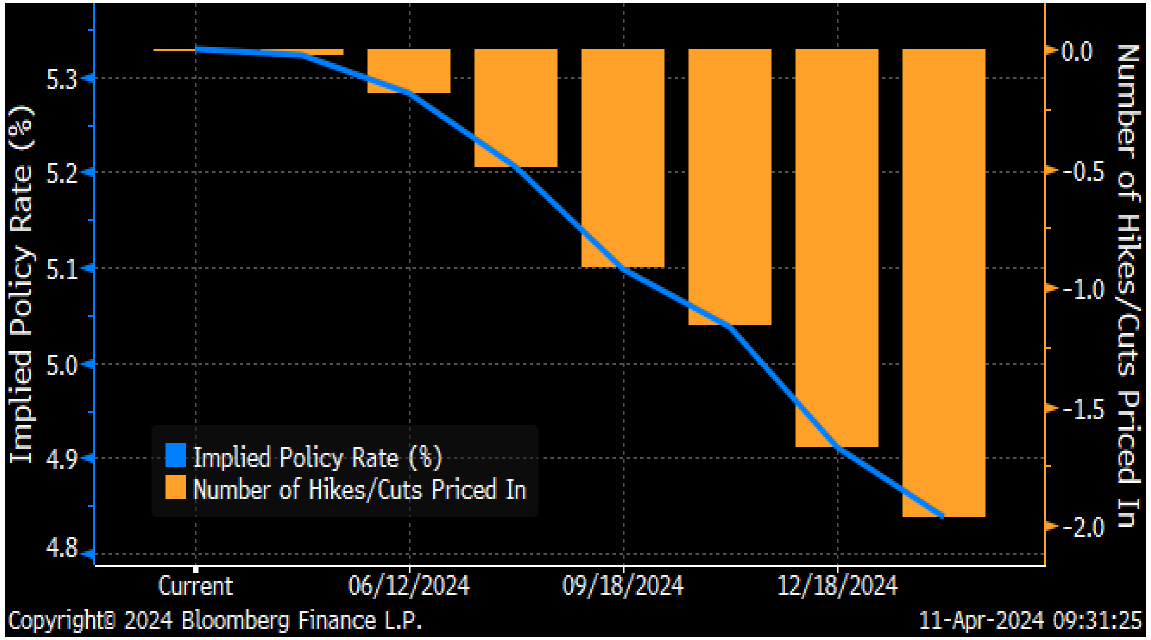


- Headline inflation beats expectations at 0.4% MoM and 3.5% YoY, with core inflation also exceeding forecasts at 0.4% MoM and 3.8% YoY. Concerns for the Fed arise from stagnant shelter inflation at 5%, hindering core CPI decline, despite expectations of a decrease. Additionally, core services ex shelter inflation surges, reaching 5.0% annually and 7.8% 3-month annualized change, primarily due to transportation services.
- Market has priced in inflation risk, with expectations of the first rates cut, initially priced for June, now pushed back to November.

Source: BCA Research, April 2024

Rate-Cut Odds Retreated

Rates Are Poised to Stay Higher For Longer



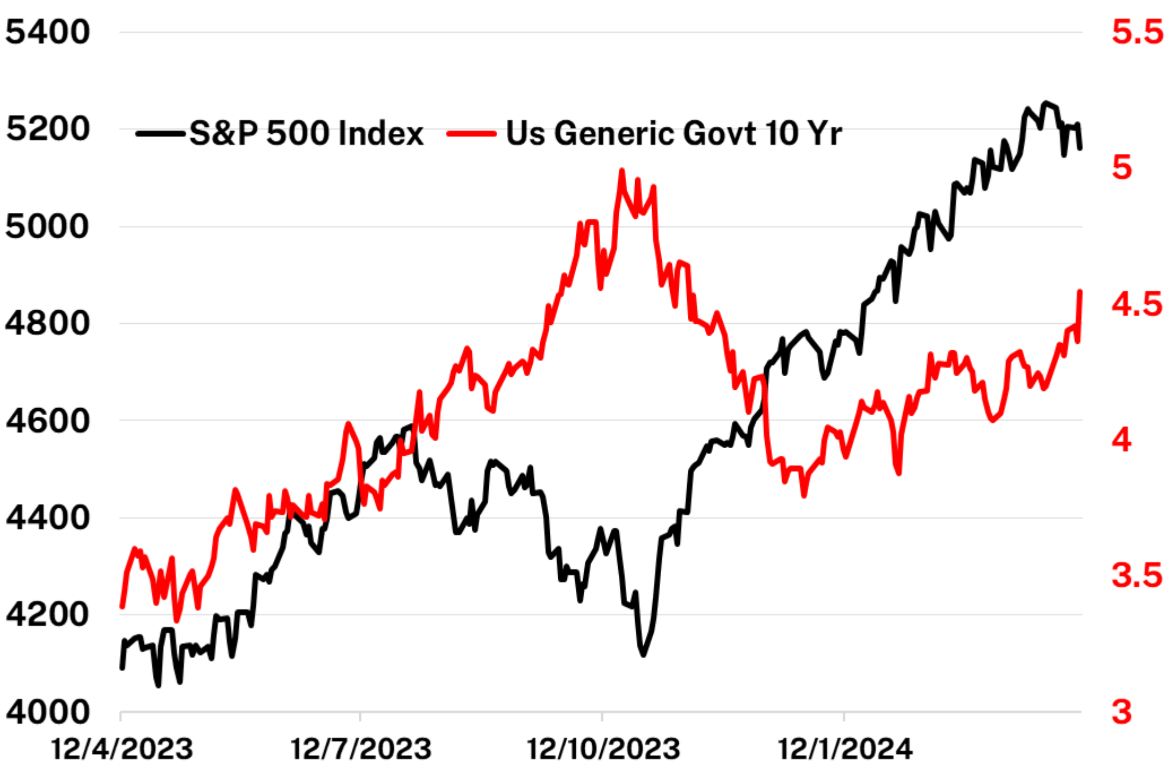
- Rate-cut odds retreated notably on the CPI report. Market participants are now pricing in less than 50bps (compared to roughly 65bps the day before the report) and less than 2 rate cuts this year.

- This is stark contrast compared to just one week ago when market was still pricing in three rate cuts this year. The sticky inflation seen in the last three months of data has diminished market participants hope of more cuts this year.

Source: Bloomberg, April 2024

Rates Are Driving Equities

30-day correlation between the S&P 500 and 10-year government bond yield is now -0.46

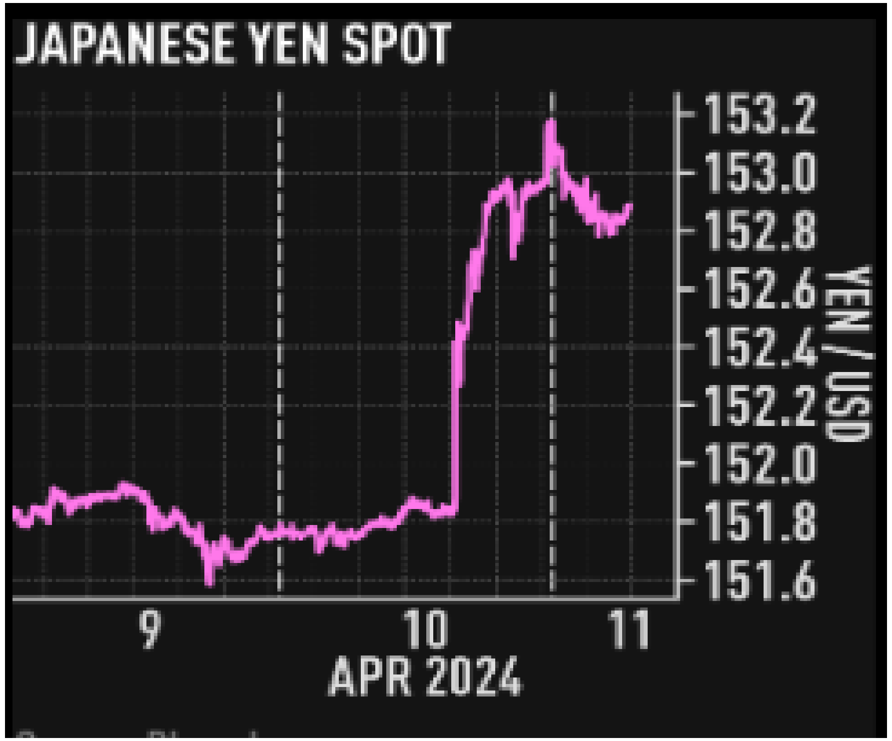


- The recent spike in the 10-year government bond yield, now at 4.55%, has cast a shadow over the S&P 500, which has dipped close to 1% twice in the last 5 trading sessions. At this stage, US equities are still within 2% of their historical peak on March 28th (5264.85 points), so it is premature to feel disheartened.
- However, the 30-day correlation between the S&P 500 index and the US 10-year government bond yield has rapidly decreased to -0.46, indicating that the recent weakness in equities is primarily attributed to higher rates. We reiterate our view to hedge equities in anticipation of potential further correction by year-end.

Source: Bloomberg, April 2024

JPY Is Hitting New Lows

Yen plunges to lowest since 1990



- The yen steadied after blowing past 153 on the hot US CPI report and touching a fresh 34-year low.
- Japan's finance minister and top FX official both pushed back on the drop, warning they were prepared to take action.

Source: Bloomberg, April 2024

LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• Federal Reserve Bank of New York President John Williams, on Thursday (11 April), said the central bank has made “tremendous progress” toward better balance on its inflation and employment goals, but added there’s no need to cut in the “very near term.” Williams, speaking to reporters after an event in New York Thursday, said inflation still has “a ways to go” to get to the Fed’s 2% goal. He added monetary policy is in a good place, and the labor market remains strong. He also pointed to signs of a more “normal” labor market, adding that he expects the unemployment rate to peak at 4% this year before moving gradually down. • Investors are signaling the central bank will cut interest rates just twice this year, starting in September, a turn of events that was unthinkable at the start of the year when markets saw roughly six cuts beginning in March.
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. While we recommend to allocate a larger portion of the portfolio in short duration bonds due to the elevated yields, we are actively extending duration (in IG credits) into the 5-7Y space with the spike in Treasury yields. 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 a small position <10% of portfolio in iShares 20+ Year Treasury Bond ETF (TLT US) to position for rate cuts this year. • 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.

LC Views Summary (2/3)

Sub-Asset	Recommended Positioning
Equities	• Stocks fell this week following the release of US inflation data, which showed a year-on-year increase of 3.5% in March 2024. This data largely dampened expectations for a Fed rate cut in June. The decline comes on the heels of a strong Non-Farm Payroll report, with 303k jobs added in March. Both indicators underscore a robust US economy, complicating the Fed's decision-making process regarding rate adjustments. While strong economic data bolsters confidence in the market's potential to achieve anticipated 9-10% earnings growth for the year, it also raises concerns about the potential for a more abrupt economic slowdown and casts doubts on equity valuations. • We anticipate that developments in Artificial Intelligence (AI) will be pivotal over the next 6-9 months, particularly given the significant role the tech sector has played in this year's market rally. Despite lofty valuations, demand for AI products and services remains strong, suggesting continued support for these sectors. Anticipated releases such as Llama 3 (Meta) and GPT5 (OpenAI) are expected to further drive-up tech stocks. • While leaders in the AI space, such as Nvidia and Microsoft, may continue to perform well, other sectors, such as consumer discretionary and retail, show signs of weakness. Examples like Tesla and Lululemon, once investor favorites, have already seen a 30% decline year-to-date. We expect such disparities among stocks to persist throughout the year. • 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 23.4 and a 1-year forward P/E of 21.5, there is a risk of a sharp market decline if economic sentiment shifts due to overvaluation. While investor optimism may prevail until clear recession signs emerge, we advise maintaining a significant equity market presence, supplemented by hedging strategies to mitigate potential losses.

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 (153) 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 the last three months. 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	• Tightening financial conditions have started to cause sharp repricing in property prices globally and threaten rental growth rates. The prospect of rate cuts this year could present opportunities to pick good REITs which are trading cheap. • 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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