CIO Insights | Do We Have a Liftoff?

Bearish narratives have to feel challenged by major US equity indices breaking new high ground. Whether driven by the absence of disaster scenarios or growth expectations, the fact of price action cannot be ignored. More importantly though, this breakout needs to sustain - ultimately price and fundamentals need to converge - either growth and earnings expectations are too pessimistic or price action will be negated - this divergence needs resolution.

As with any successful rocket launch, the upward thrust (in this case price) needs to be more than the force of gravity and air resistance (in this case fundamentals) - we surely have a launch, but whether this becomes a successful liftoff, needs confirmation. As such, rather than abandon caution, we remain advocates of using low volatility to have partial hedges in place in equities. Treasuries mostly better than corporate bonds (except European Financials) and fresh positions in gold will have to wait.

From a macro perspective, economic growth has a slowdown hue, albeit not recessionary. While tariffs threaten growth more than inflation, in our view, for now there is too much uncertainty on the direction and level of tariffs in itself, so assessing the impact, a second order effect, becomes that much more elusive. Likewise on corporate earnings - after a consensus beating 13% first quarter, 2Q'25 outlook is sombre with consensus expecting a modest 5% earnings growth and a weaker showing for the second half as well. We suspect this is a low bar to beat and its macro uncertainty that has driven estimates down, rather than actual data. Valuations are back to being expensive, but they themselves aren't a catalyst. From a fundamental outlook perspective, it would appear that markets have gotten ahead of themselves - but what can go right?

What Can Go Right?

Key Factors	Current Data & View	What Needs to Go Right	Probability
Policy Certainty	Volatile and a "make up as you go" approach	Trade deals	Trade deals - high probability
		Clarity on tariff levels and direction	Tariff clarity - low probability
Debt and Deficits	Out of control with no clear plan to address	Efficiency measures become effective	Efficiency - moderate probability
		Upside surprise on government revenues	Better revenue collections - Low probability
Goldilocks	Jobs market remains in balance	Corporate earnings stay resilient and jobs remain aplenty	Moderate probability
	Tariff led inflation spikes	Tariff impact will be a one-off	Low probability
	Stagflationary risks	Aggregate demand remains robust with no pressure from jobs market	Low proabbility
Corporate Earnings	Slowdown in 2Q'25 and rest of the year	Earnings beat expectations and revisions resume upward trend	High probability

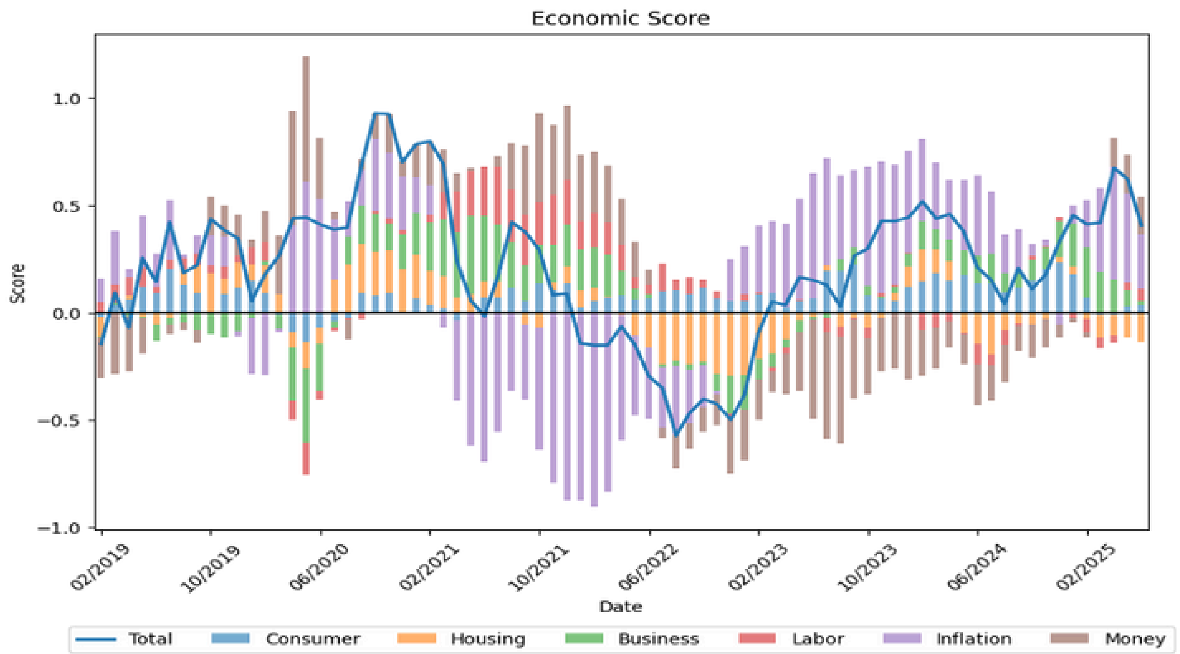
source: Lighthouse Canton

Fed Forecasts - Tempered Growth and Slightly Higher Unemployment

	2025			2026		
	Latest	Previous	Central Range	Latest	Previous	Central Range
GDP	1.4	1.7	1.2-1.5	1.6	1.8	1.5-1.8
Unemployment	4.5	4.4	4.4-4.5	4.5	4.3	4.3-4.6
Core PCE	3.1	2.8	2.9-3.4	2.4	2.2	2.3-2.7

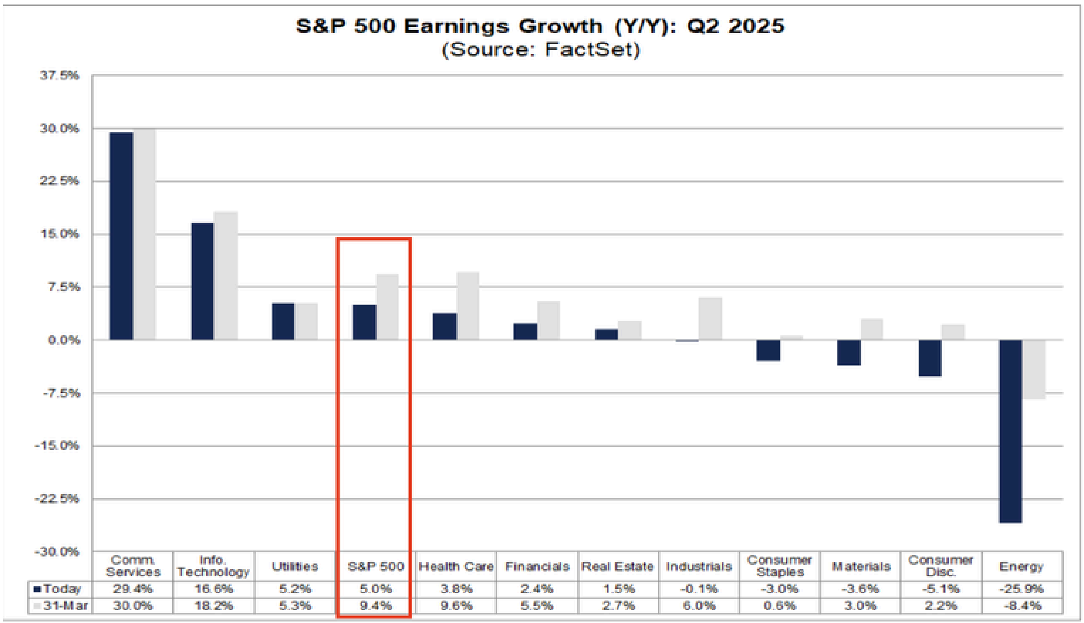
source: FED

Lighthouse Canton Econ Model Shows Moderation in Progress



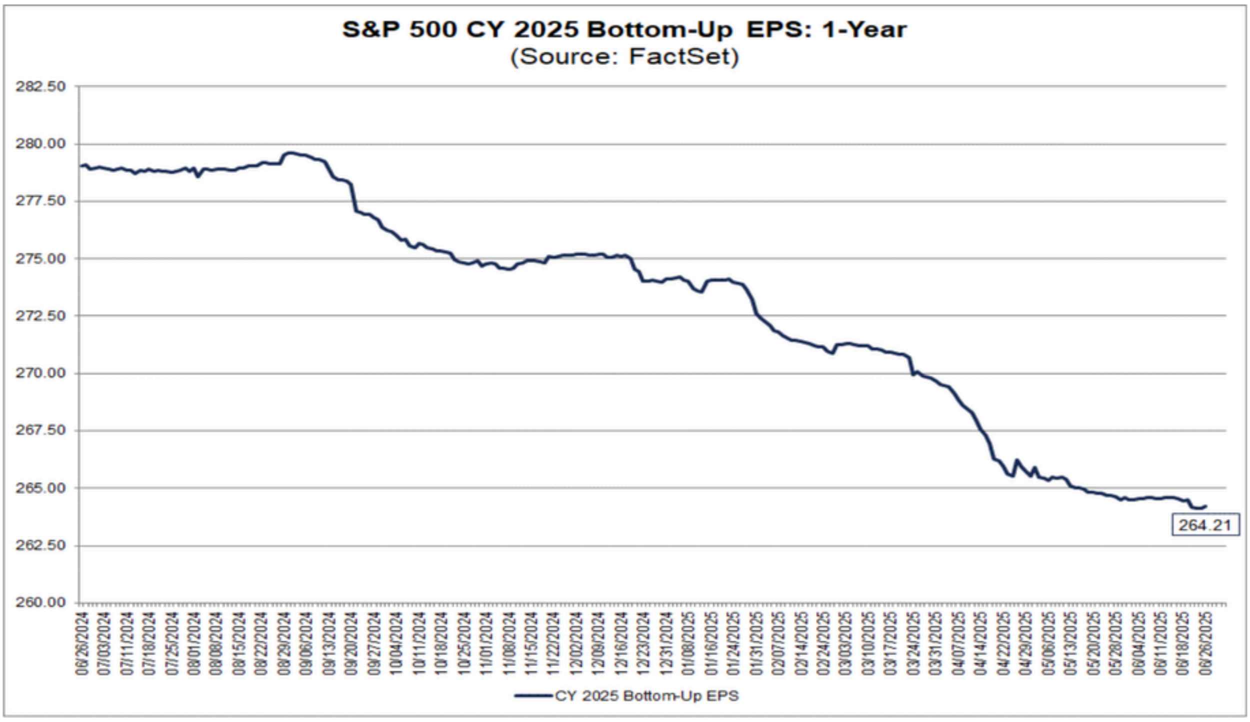
source: Lighthouse Canton

Consensus Estimates for 2Q'25 are Modest at 5%



source: Factset

...even as estimates for the full year continue to get revised down



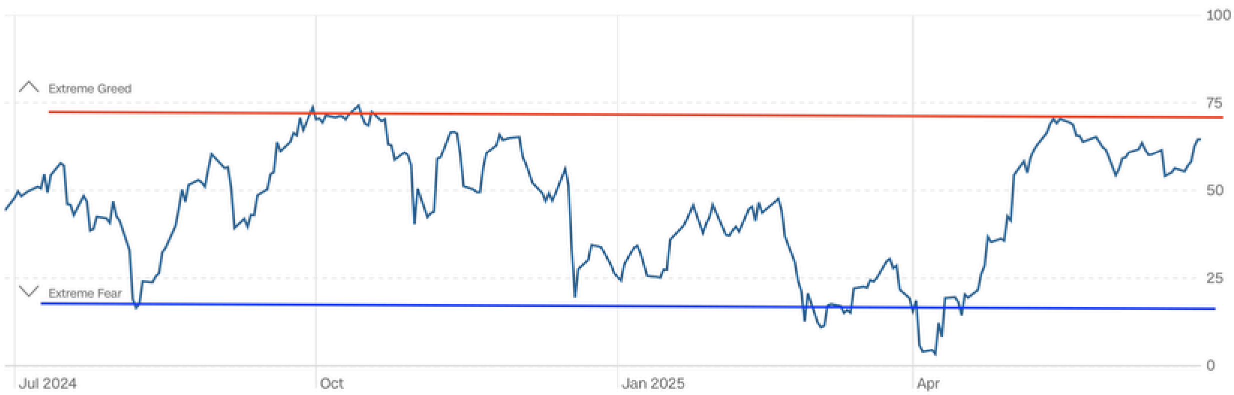
source: Factset

source: Lighthouse Canton

Price Action - SPX Breakout - BUT Not Confirmed. Trend and Momentum Indicators supportive - but stretched

source: TradingView

Sentiment Indicators are not at Extremes



source: CNN

LIGHTHOUSE CANTON

Singapore

Lighthouse Canton Pte Ltd

16 Collyer Quay #11-02
Collyer Quay Centre
Singapore 049318

+65 67130570

Dubai

Lighthouse Canton Capital DIFC Pte Ltd

The Exchange Gate Village 11, Unit 802 Dubai International Financial Centre PO Box 507026 Dubai, UAE

+971 45 861500

India

Lighthouse Canton India Private Limited

Unit No 104A, First Floor, Worldmark 2,Asset Area No. 8
Hospitality District Aerocity, IGI Airport,
New Delhi 110037

+91 9650473961

Unit 507 & 508, INS Tower,
Bandra Kurla Complex,
Bandra East,
Mumbai - 400051

+91 9650473961

1st Floor, WeWork37, Cunningham Cross Rd,
SRT Road, Vasant Nagar, Bengaluru-560001

+91 9900096873

info@lighthouse-canton.com

service@lighthouse-canton.com

Lighthouse Canton