Investment Playbook Weekly Update

July 1st – July 5th 2024

GLOBAL Private Banking INNOVATION AWARDS 2024
BEST FAMILY OFFICE - UNITED ARAB EMIRATES

GLOBAL Private Banking INNOVATION AWARDS 2024
BEST FAMILY OFFICE - MIDDLE EAST

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

PRIVATE BANKING AWARDS 2023 ASIAMONEY
RISING STAR, SINGAPORE

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

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

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

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

LIGHTHOUSE CANTON

lighthouse-canton.com

Disclaimer

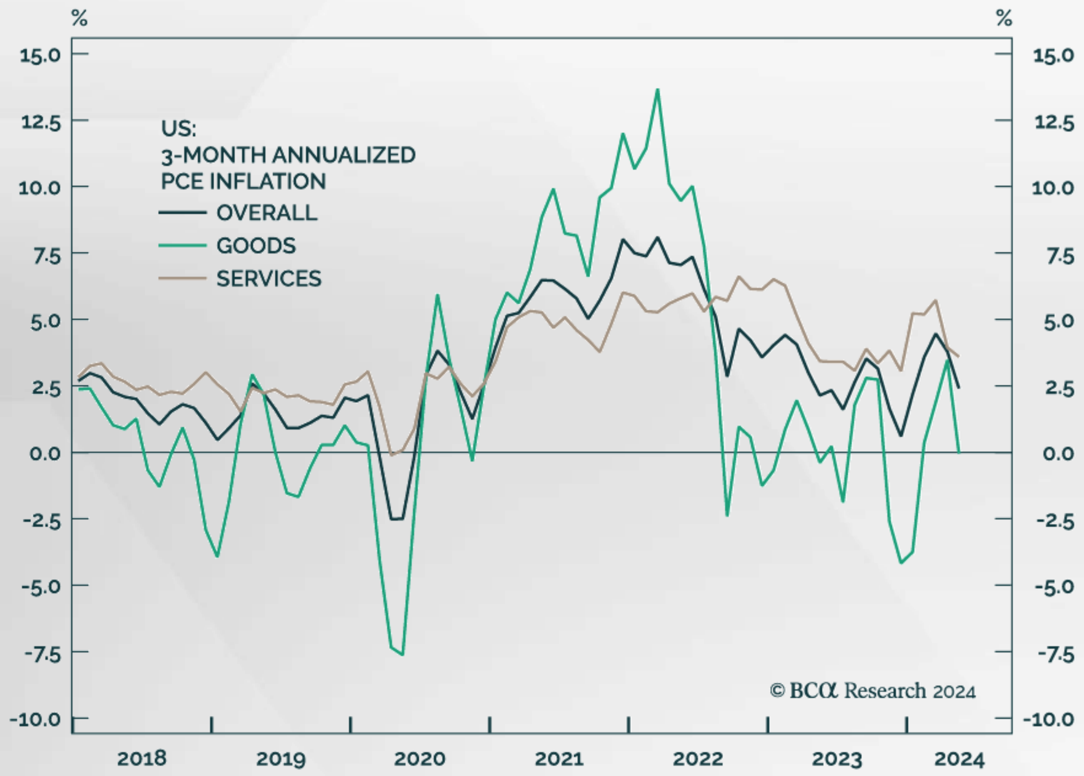
- The contents of this document are confidential and are meant for the intended recipient only. If you are not the intended recipient, please delete all copies of this document and notify the sender immediately.
- This document, provided as a general commentary, is for informational purposes only and is not to be construed as an offer to sell or solicit an offer to buy any financial instruments in any jurisdiction. This does not constitute any form of regulated financial advice, and your independent financial advisor should be consulted prior to taking any investment decision(s).
- This document is based on information from sources which are reliable but has not been independently verified by Lighthouse Canton Pte Ltd or its affiliates (collectively called "LC"). LC has taken the reasonable steps to verify the contents of this document and accepts no liability for any loss arising from the use of any information contained herein. Please also note that past performances are not indicative of future performance.
- Information contained herein are those of the author(s) and does not represent the views held by other parties. LC is also under no obligation to update you on any changes made to this document.
- This document is prepared by Lighthouse Canton Pte Ltd and its affiliate company, Lighthouse Canton Capital (DIFC) Pte Ltd, which are regulated by Monetary Authority of Singapore (“MAS”) and Dubai Financial Services Authority (“DFSA”) respectively. MAS and DFSA has no responsibility for reviewing, verifying and approving the contents of this document and/or other associated documents. The contents of this document may not be reproduced or referenced, either in part or in full, without prior written permission from LC.
- This document is confidential and is only intended for Accredited Investors and/or Professional Clients, as defined by MAS and DFSA.

Charts of the week

1

US Core PCE Slows

Deflationary Trend Has Resumed



- The PCE inflation index slowed from 0.3% to 0% on a month-on-month basis and from 2.7% to 2.6% on a year-on-year basis, both in line with expectations. Finally, core PCE inflation slowed from 0.2% to 0.1% on a MoM basis and from 2.8% to 2.6% on a YoY `basis, also in line with consensus.

- Yields declined on the back of the report, which showed a fairly broad deceleration in inflationary pressures. 3-month services PCE inflation came back down to the lows of last year following a reacceleration earlier this year. Meanwhile, the same measure for goods inflation continued to hover around zero. The one element in the report which might give pause to the Fed was income. Real personal income rose at 0.5% on a monthly basis, the highest rate in several months.

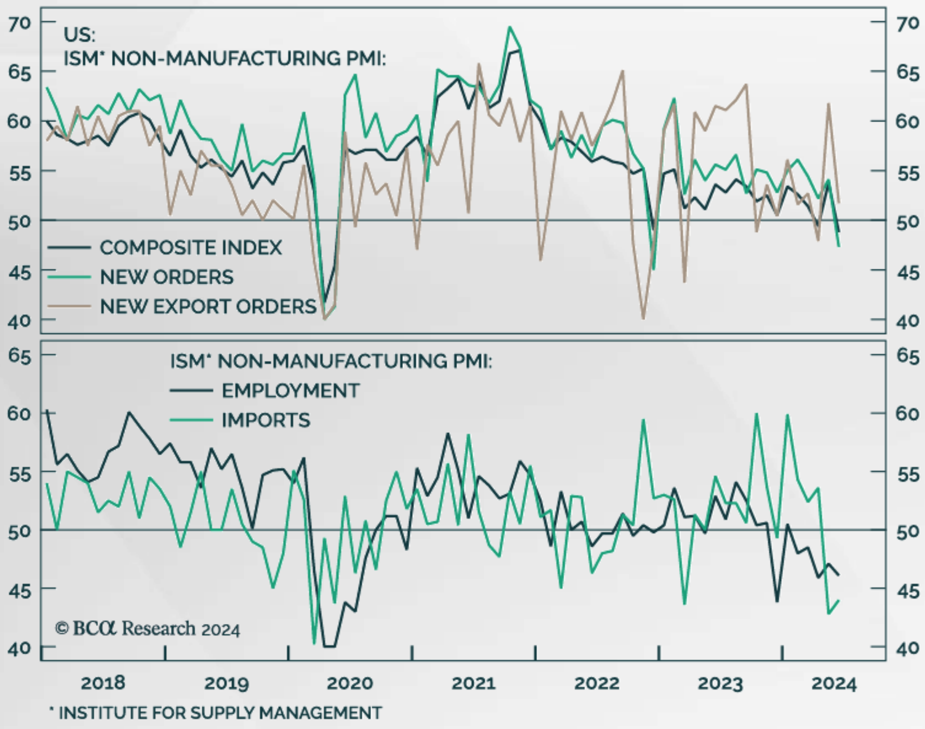
- Overall, the report confirms the disinflationary trend that stalled earlier this year has resumed. BCA expects that the Fed will begin to cut rates in September.

 Source: BCA, July 2024

LIGHTHOUSE CANTON

ISM Services PMI Contracts At Fastest Pace in 4 Years

Signaling A trend Of Softening In The US Economy



- The ISM Services PMI largely disappointed in June. The headline index plunged from 53.8 to 48.8, its fastest pace of contraction since May 2020, far below expectations of 52.7.
- This series can be noisy and the June update merely reversed a surprise surge in May. The ISM services PMI has also been expanding for 46 out of the last 49 months. It is nevertheless one more point in a broad sweep of data underscoring a trend of mild softening in the US economy.
- Services account for the largest share of payrolls and the employment component of the ISM services contracted further from 47.1 to 46.1, disappointing expectations of a slower pace of decline.
- We expect that the US economy will cool enough to reach a recession tipping point by year-end/early 2025, thus depriving the rest of the world of a significant source of global demand.

Source: BCA, July 2024

LIGHTHOUSE CANTON

US Economy Shows Signs Of Slowing Amid Softer Data

Citi's Economic Surprise Index Hits The Lowest Level Since August 2022

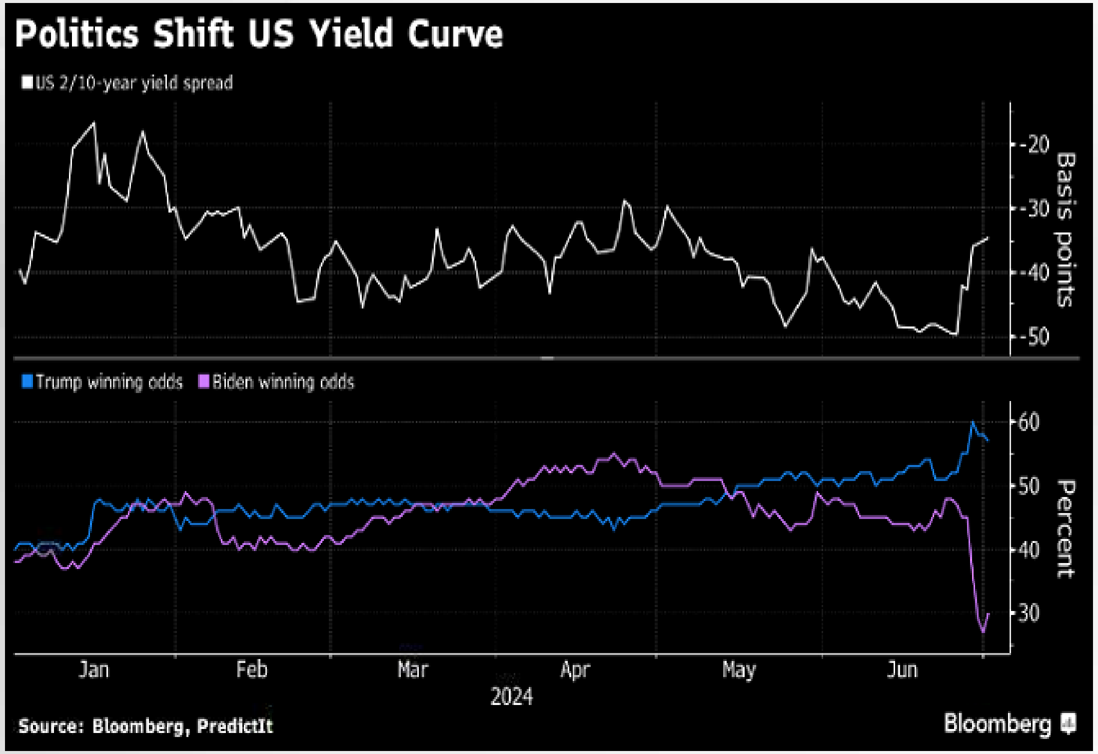
- While inflation showed signs of cooling, so did the economy, highlighting the Fed's challenge of subduing prices without causing a downturn.
- The slew of weaker-than-estimated data prints has sent Citigroup's US Economic Surprise Index to the lowest since August 2022. It all highlights how elevated interest rates are slowly but surely pressuring demand, by making borrowing more expensive for everything from consumer goods and home purchases to business equipment.

 Source: Citigroup, Bloomberg, July 2024

LIGHTHOUSE CANTON

Trump Ascendancy Has Wall Street Touting Steeper Curve

US Yield Curve Became Less Inverted After Presidential Debate



- The growing prospect of a Trump presidential victory is making yield curve steepeners an attractive bet as growth will likely slow and inflation quicken under such a scenario, according to Wall Street traders.
- Traders are pricing in the risk of slower growth and faster inflation as Trump has vowed to deport undocumented immigrants and ramped up threats of increased tariffs against China. The hit to the economy would likely encourage the Federal Reserve to cut interest rates, reducing short-term yields.
- US Treasury Secretary Janet Yellen had said last month that Trump's proposed tariffs would raise costs for consumers and weigh on American businesses. Faster inflation would be bad news for longer-maturity debt as it diminishes the value of their fixed payments over time.

Source: Bloomberg, July 2024

LIGHTHOUSE CANTON

LC Views - Summary

2

LIGHTHOUSE CANTON

LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• The US central bank's policy-setting Federal Open Market Committee decided to hold its benchmark rate steady in a range of 5.25% to 5.5%, the highest level in more than two decades, for a seventh straight meeting. Policy makers' updated economic projections, published after a two-day policy meeting in Washington on Wednesday, showed they expected to lower borrowing costs only once in 2024 instead of the three reductions penciled in previously, according to their median estimate. They also raised their forecasts for inflation, even after better data on consumer prices published earlier in the day provided cause for optimism. • The Fed chair said officials are carefully considering both upside and downside risks. He also emphasized a split within the committee: The "dot plot" showed seven officials expected one rate cut this year, while eight saw two and four expected none.
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 5-10Y 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 <5% of portfolio in iShares 20+ Year Treasury Bond ETF (TLT US) as the Fed is close to reaching (or even might have reached) 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.

LIGHTHOUSE CANTON

LC Views Summary (2/3)

Sub-Asset	Recommended Positioning
Equities	• Markets continued to rally this week, with the S&P 500 hitting a 33rd record high. The main catalysts this week were softer labor market data, and a ISM Services Index that came in much below expectations which are essentially pointing towards a slowing economy. This once again prompted market participants to increase rate cut bets and resulted in equity markets taking a step higher, sticking to this notion of bad news is good news. • 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 and has contributed approximately 60% of this year's returns in the S&P 500. • 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, Micron & Dell for example, fell corrected heavily following their earnings reports, 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 is low, 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 24 and a 1-year forward P/E of 22.4, 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 in the form of index level put options to mitigate potential losses.

LIGHTHOUSE CANTON

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.

LIGHTHOUSE CANTON

Singapore

Lighthouse Canton Pte Ltd

16 Collyer Quay #11-02
Collyer Quay Centre
Singapore 049318
Phone: +65 67130570

Dubai

Lighthouse Canton Capital DIFC Pte Ltd

The Exchange
Gate Village 11, Unit 204
Dubai International
Financial Centre
PO Box 507026
Dubai, UAE
Phone: +971 45 861500

India

LC Capital India Private Limited

First Floor, Aloft hotel,
Asset no. 5B, Hospitality
District, Aerocity
New Delhi, 110037 (India)

Balrama Premises Co-Op
Society LTD
Office no. 606-607, 6th
Floor,
BKC Bandra East
Mumbai 400051

Phone: +91 9650473961

info@lighthouse-canton.com
service@lighthouse-canton.in
Lighthouse Canton