Investment Playbook Weekly Update

May 20th – May 24th 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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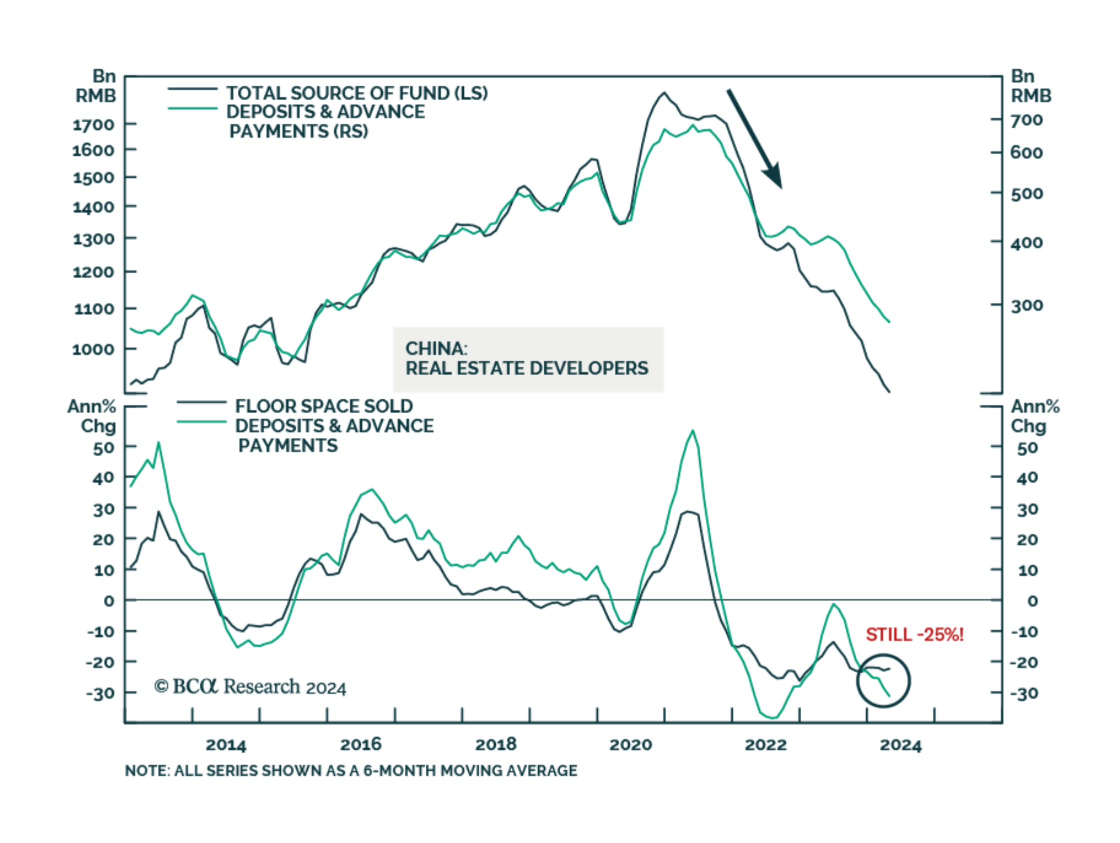
Charts of the week

1

China's Property Rescue Package No Quick Fix

But Would Open The Door To Further Measures Down The Line



- Several economic releases from China in April disappointed. Retail sales growth slowed from 3.1% y/y to 2.3% y/y, and fixed asset investment growth fell from 4.5% YTD y/y to 4.2% YTD y/y, both missing expectations. Industrial production exceeded expectations, mainly due to exports and global trade stabilization. However, the decline in new and used home prices accelerated.
- The government announced a new property market rescue package on Friday (17 May), which includes CNY 300 billion (USD 42 billion) of PBoC funding to help government-backed firms absorb excess housing inventories. The plans will also relax mortgage rules and lower downpayment requirements for homebuyers.
- However, the rescue package is unlikely to be a game changer but should further reduce the negative secondary impact of the property sector.

 Source: BCA, May 2024

Key JOLTS* Measures Are Softening

Lower job openings, quits and hirings should lead to higher unemployment by year-end

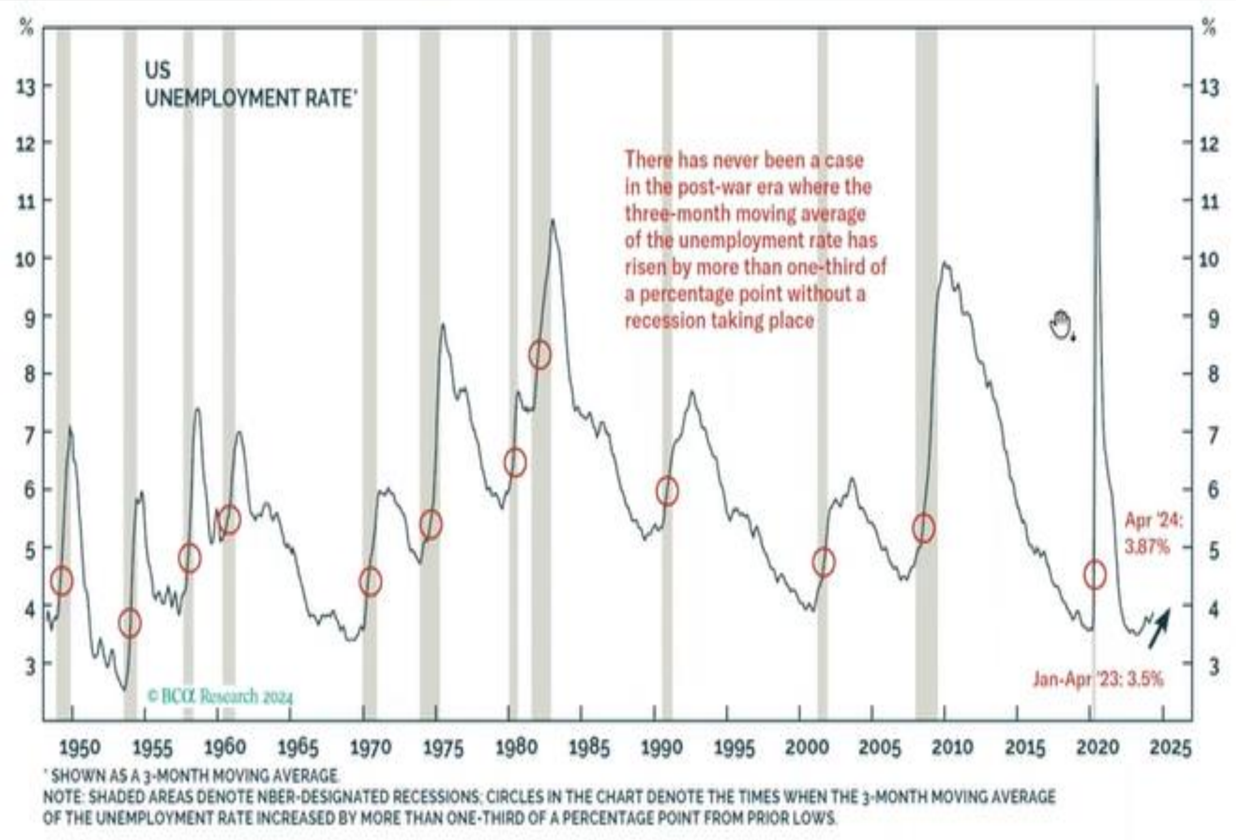
*SERIES TRUNCATED AT 5 AND 3.5
NOTE: HORIZONTAL LINES DENOTE SERIES MEANS. MEANS AND Z-SCORES REFLECT FULL SERIES HISTORY FROM DECEMBER 2000 THROUGH MARCH 2024.

- The Job Openings and Labor Turnover Survey (JOLTS) is a monthly report by the Bureau of Labor Statistics (BLS) in the United States. This survey helps economists, policymakers, and businesses understand job availability and labor movement within the economy. Key metrics in the JOLTS report include:
- Job Openings: Positions open and available but not yet filled.
- Hires: The number of hires during the month.
- Separations: Includes quits (voluntary), layoffs and discharges (involuntary), and other separations (retirements).
- Quits Rate: Quits as a percentage of total employment.
- Layoffs and Discharges Rate: Layoffs and discharges as a percentage of total employment.

 Source: BCA, May 2024

Higher Unemployment To Trigger Next Recession

Every time Unemployment raised by 0.5 points, there has been a recession in the US



- Lower job openings, hiring intentions, and quits indicate that the job market is softening in the US and is likely to push the unemployment rate (currently at 3.87%) higher in the coming months.
- Historically, when the US unemployment rate crosses above 4%, which is 0.5% above its most recent low of 3.5% in April 2023, a technical recession is likely to materialize.
- Indeed, since the 1950s, every recession in the US has coincided with the unemployment rate rising by more than half a point.

Source: BCA, May 2024

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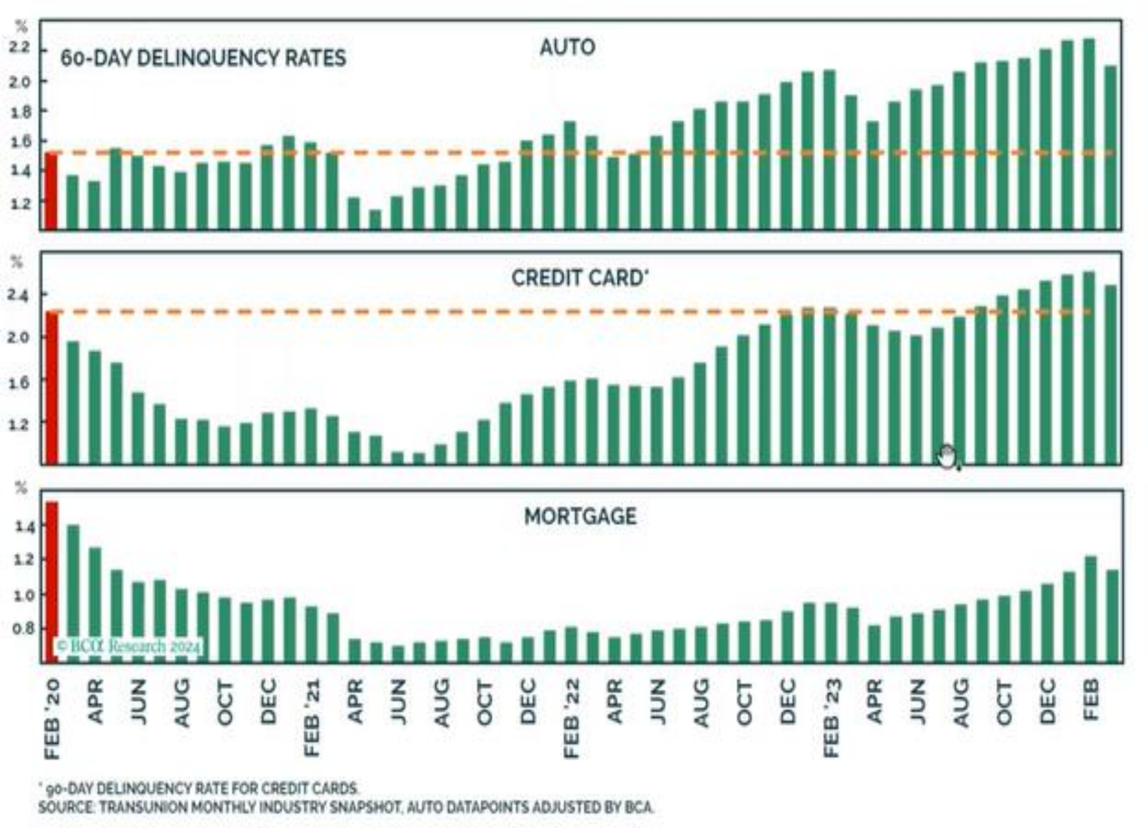
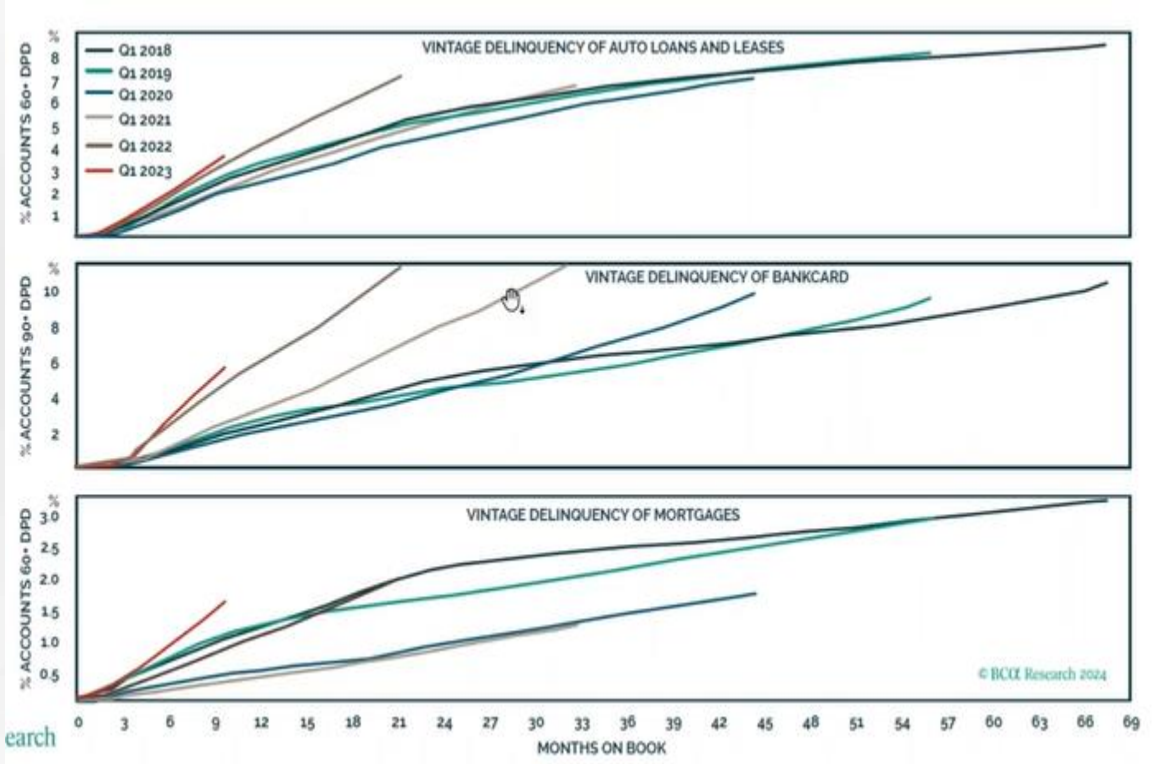
Delinquencies Are Low, But Strains Have Emerged

2023 points to much higher delinquencies than previous vintages at the same period.

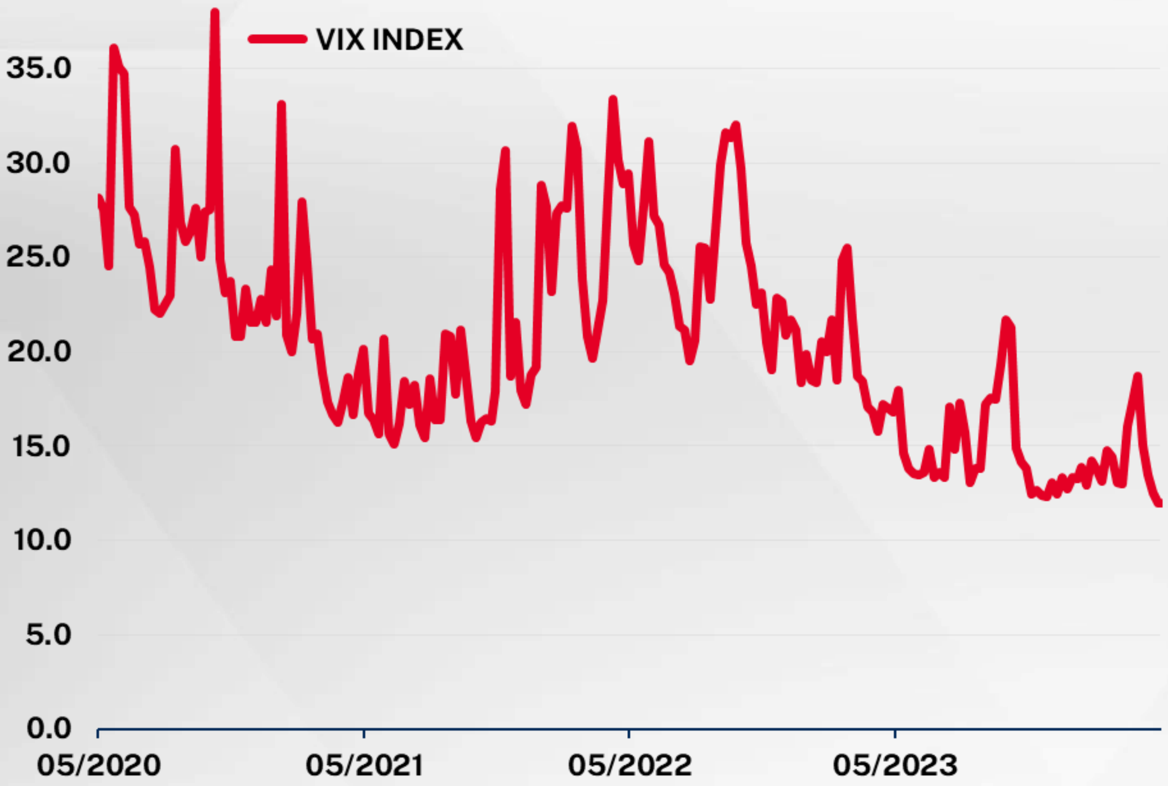




Source: BCA, May 2024

VIX Index Below 12.0

At 11.99 on May 17th, the "fear gauge" shows no signs of stress on equities



- Often dubbed the "fear index," the VIX closed on May 17th at 11.99, marking a four-year low and indicating a lack of stress in US equities. However, we believe this complacency is misplaced.
- While we acknowledge the resilience of the US economy and the current control over inflation, early signs of an economic slowdown are emerging, as evidenced by the rising US unemployment rate. Therefore, caution is warranted.
- We reiterate our recommendation to hedge an equity portfolio for several reasons: record high levels in US equities, above-average valuation multiples, inexpensive volatility/hedging costs, and the potential for a recession in 2025.

Source: Bloomberg, May 2024

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Q1 2024 Earnings Summary (1/2)

Corporate America delivers yet another resilient set of earnings

Range Current Season CQ1 Ending: 2/16/2024 - 5/15/2024 Periodicity Quarter

S&P 500 INDEX

Surprise Growth

Sector (BICS)	Reported	Sales Growth	Earnings Growth
11) All Securities	476 / 500	4.08%	7.73%
12) > Materials	28 / 28	-5.25%	-21.50%
13) > Industrials	71 / 71	2.88%	4.20%
14) > Consumer Staples	31 / 38	2.66%	8.51%
15) > Energy	24 / 24	-3.77%	-25.40%
16) > Technology	74 / 81	7.98%	24.72%
17) > Consumer Discretionary	45 / 52	5.69%	27.22%
18) > Communications	23 / 23	7.00%	40.94%
19) > Financials	58 / 58	7.93%	11.40%
20) > Health Care	61 / 64	6.02%	-26.22%
21) > Utilities	31 / 31	-9.23%	30.50%
22) > Real Estate	30 / 30	7.29%	11.27%

- The S&P 500 saw its earnings grow by 7.73% YoY and sales increase by 4.08%, which translates into a positive surprise of about 8.4% and 1%, respectively.
- 7 out of the 10 sectors reported positive YoY growth, while the cyclical sectors (Materials & Energy) reported a drop in earnings and Healthcare was the biggest laggard this quarter.
- Earnings growth is expected to broaden out in the coming quarters, with growth in Tech likely to come off, lapping tougher comps and Healthcare & Materials making a comeback in Q2.
- Overall, we see Q1 as a solid quarter, with Tech managing to surpass the high bar set by the Street, which has helped the Index reach new record highs in May.

Source: Bloomberg, May 2024

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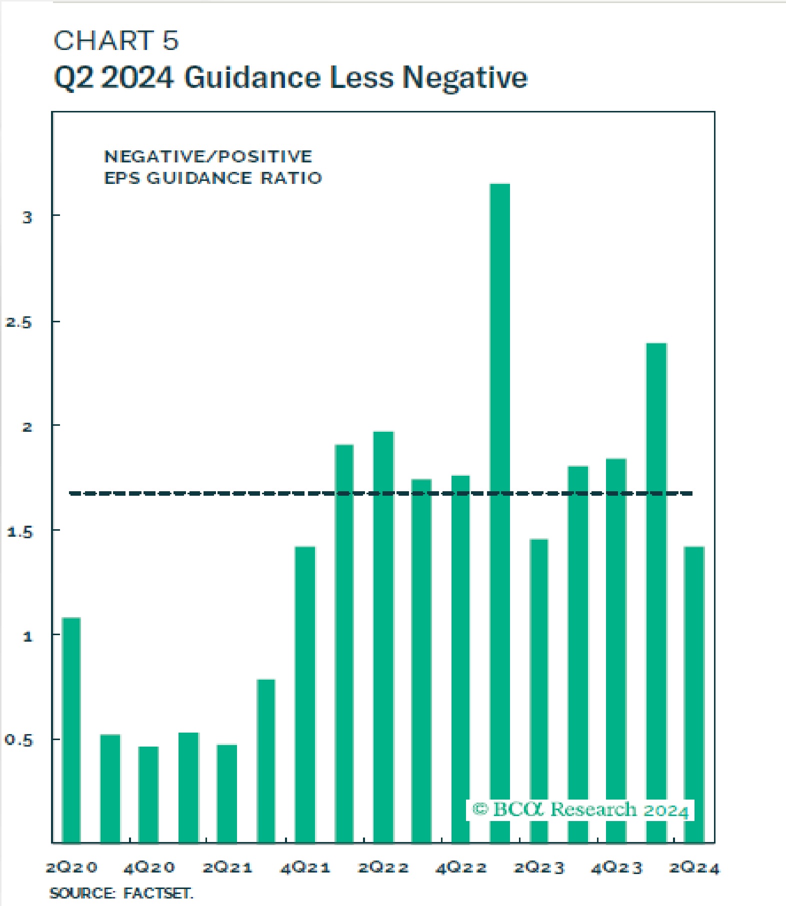
Q1 2024 Earnings Summary (2/2)

On a consolidated basis, guidance for Q2 2024 also came in stronger than expected



- According to FactSet, 87 companies have issued EPS guidance for Q2-24, 51 companies of which have guided lower, while 36 have guided higher.
- This puts the N/P (negative to positive) ratio at 1.4, well below the long-term average of slightly more than 1.6.
- Strong Q1 earnings supplemented by a better-than-expected Q2 guide points towards a resilient economy that continues to trudge along in a high interest rate environment that has started to weigh on the consumer.
- We recommend staying overweight on Technology, while moving away from Consumer Discretionary names and rotating into defensives such as Staples and Healthcare.

Source: BCA, May 2024

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LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• On 1st May FOMC meeting, the committee kept the federal funds rate target range at 5.25%-5.50% for a sixth consecutive meeting. There were two notable changes to the policy statement. One was an additional sentence acknowledging the “lack of further progress” toward the 2% inflation target over the past few months. That’s a clear indication the Fed has taken a signal from the hot inflation readings this year. Even though Powell said policymakers took a signal from three months of higher-than-expected inflation prints to start the year, his answers at the press conference suggest the signal they took was cursory. Powell insisted favorable supply-side factors can keep inflation on the right track, and said he sees “no evidence” that progress on disinflation has reversed. • The second major change in the statement was the announcement that the Fed will start tapering quantitative tightening (QT) in June. The Fed will reduce the maximum amount of Treasuries allowed to run off its balance sheet to $25 billion per month, from the current $60 billion. The monthly cap on mortgage-backed securities run off was kept at $35 billion.
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.

LC Views Summary (2/3)

Sub-Asset	Recommended Positioning
Equities	• Markets continued to rally in May with the S&P 500 hitting yet another record high this week on the back of a strong earnings print by Nvidia, which managed to surpass the high bar set by the Street. The company's results are likely to provide comfort to the broader Technology sector which has caught up with the S&P 500 in May and is likely to continue doing well in the near-term. • With Q1 2024 earnings season coming to a close, following are the results seen up until now, from 476 constituents of the S&P 500 that have already reported earnings : Sales grew by slightly more than 4.1% YoY, which translates into a positive surprise of more than 1%. Earnings have grown by 7.7% YoY (the big jump from last week comes on the back of Nvidia's earnings print being incorporated), which translates into a positive surprise of 8.4% driven by nearly 80% of the companies exceeding what analysts had penciled in. Overall, corporate America declared yet another set of resilient earnings with Technology, Consumer Discretionary, Communications & Utilities leading the way and cyclical sectors like Energy & Materials being the worst performers. • 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. Additionally, the massive capex guides provided by the hyperscalers (MSFT, GOOGL, AMZN & META) should continue to benefit AI related hardware companies. • 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 23.3 and a 1-year forward P/E of 20.7, there is a risk of a sharp market decline due to overvaluation, if economic sentiment shifts. 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 (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 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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