Investment Playbook Weekly Update

July 8th – July 12th 2024

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

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

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

PRIVATE BANKING AWARDS 2023 ASIAMONEY
RISING STAR, SINGAPORE

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

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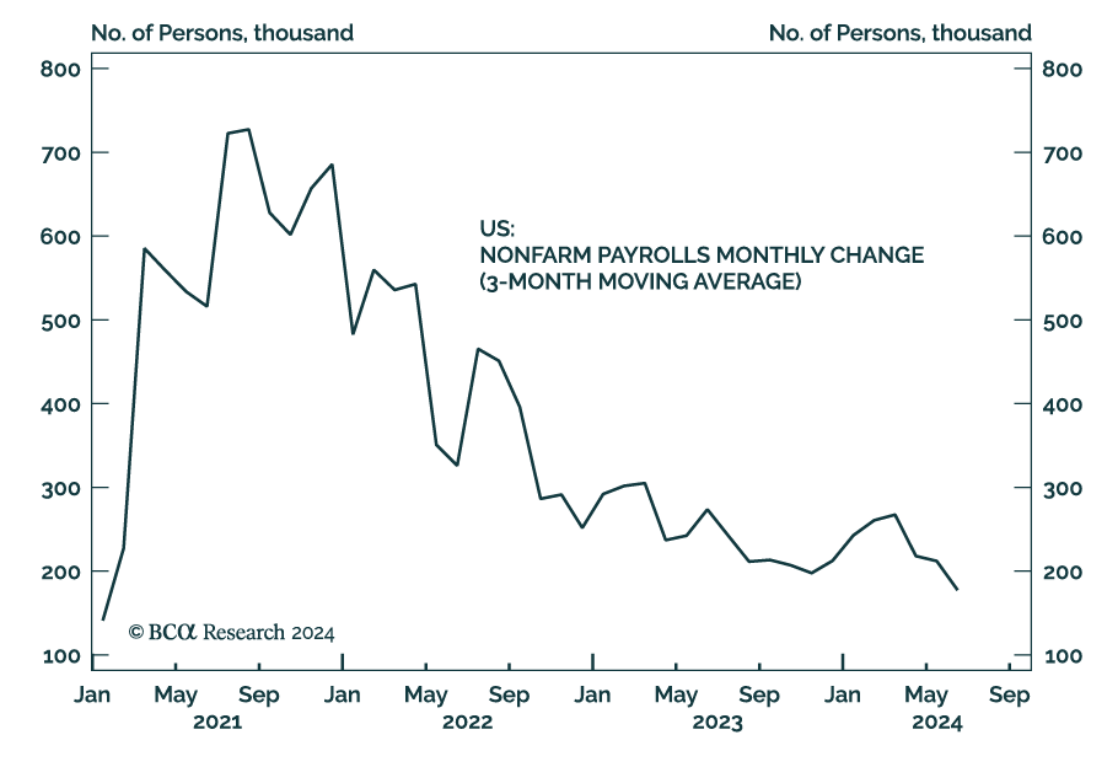
Charts of the week

1

The US Labor Market Continues Its Slow Cooling

Chance Of A Fed Rate cut in September Is Rising



- June nonfarm payrolls expanded by 206,000 workers, topping the 190,000 consensus expectation, but downward revisions of 111,000 jobs in April and May pulled the 3-month moving average down 177,000, its lowest level since Jan 2021.

- The unemployment rate ticked higher for the third consecutive month and its three-month moving average is now at 4%, a half of a percentage point above the cycle low it set early last year. Wage growth was in line with expectations and average weekly hours were unchanged.

- There is no sign that a recession is imminent, however, BCA thinks the recent labor market data makes it highly likely that the FOMC will lower the fed funds rate at its September meeting.

Source: BCA, July 2024

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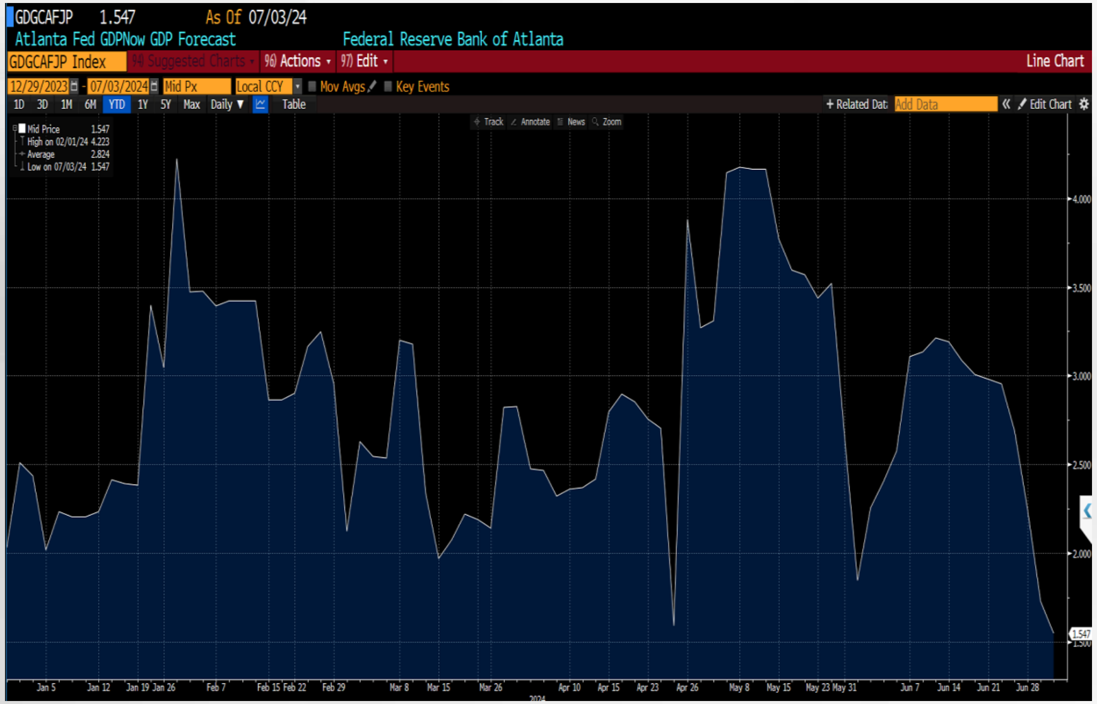
Atlanta Fed GDPNow Index Falls to 1.55%

Based On Available Economic Data For The Current Measured Quarter



- The Federal Reserve Bank of Atlanta's GDPNow index suggests U.S. gross domestic product will expand 1.55 percent in the second quarter vs 1.73 percent in its previous release on July 1.

- The Fed projection compares with the 2 percent consensus forecast of 64 economists and contributors in a Bloomberg survey.

Source: Bloomberg, July 2024

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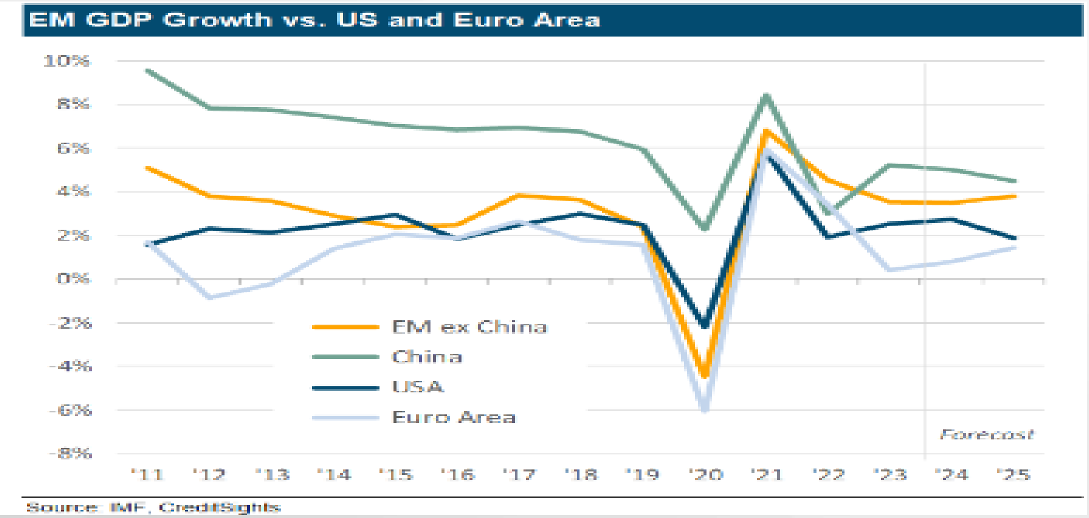
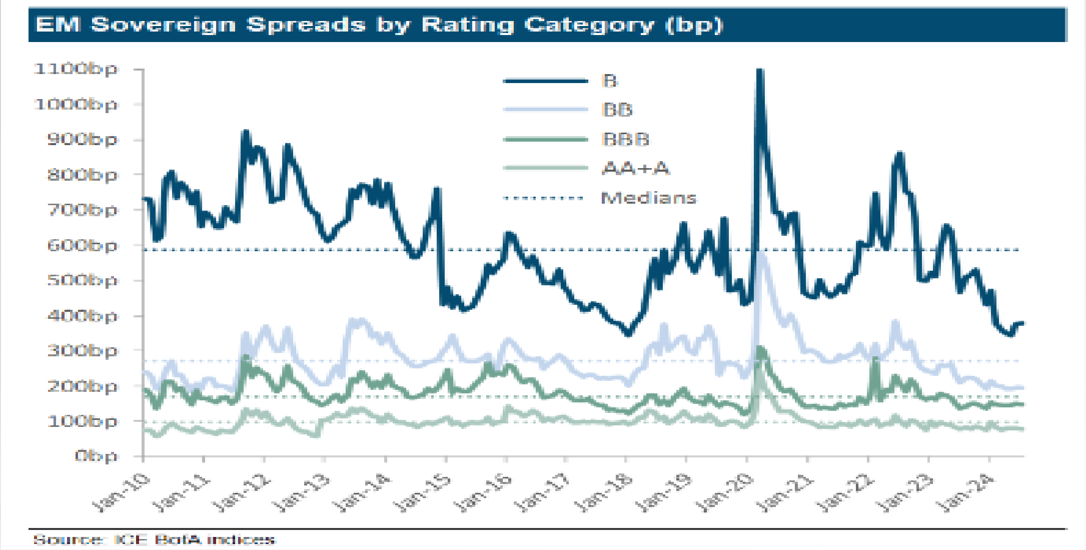
EM Macro Fundamentals Improving

Fiscal Deficits Remain Sizable But Contained





- Economic activity has picked up in most EMs, and prospects remain better than in developed markets. Overall, EM inflation is still on a downward trend, which opens the door for rate cuts, notably in Latin America and Central Europe.

- EM external accounts continue to improve. According to CreditSights, going forward, EM current accounts should be relatively well-supported, underpinned by favorable terms of trade. Improve current accounts and elevated real interest rates should contribute to restore FX reserves.

- Against this positive backdrop, fiscal deficits remain sizable as government expenditures have stabilized at relatively high levels. However public debt and external debt are contained, which according to CreditSights, limits the risk pf credit events.

 Source: CreditSights, July 2024

Q2 earnings set to be compared against a high bar

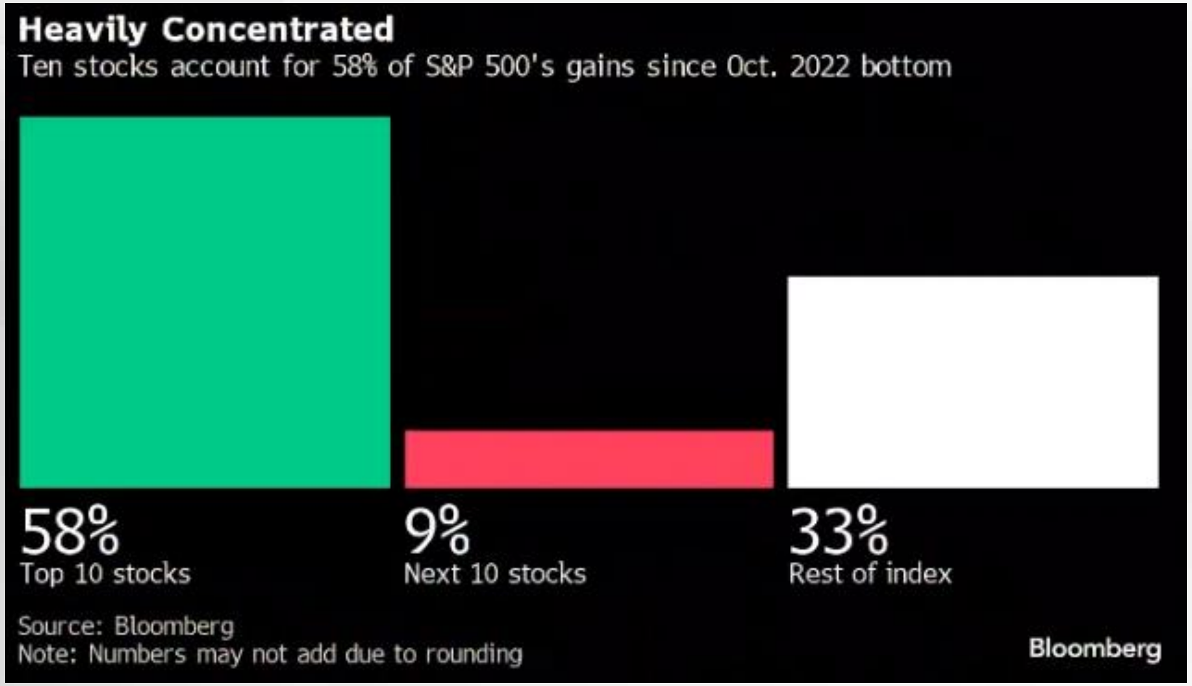
Blended 12-month fwd. earnings expectations stand at an all time high

- Contrary to the last 2 quarters, analysts' upgrades to profit estimates have outnumbered downgrades going into the earnings season. This essentially sets up a high bar for the companies to cross, in the context of already elevated valuations. The S&P 500 on a consolidated basis is expected to post earnings growth of approximately 8.6% YoY, while sales are expected to rise by 4.7% YoY. This represents the highest growth expectations set by Wall Street since Q1 2022.
- The S&P 500 is likely to remain reliant on the Mag-7 once again this quarter, given the expectation of 25.5% YoY earnings growth. Excluding the Mag-7 the growth in earnings for the S&P 500 falls to approximately 5% (from 8.6%).
- Energy & Materials sector are expected to return to positive earnings growth this quarter after posting earnings degrowth in Q1 2024.

 Source: Bloomberg, July 2024

Mega-Caps explain nearly 60% of YTD gains

Returns delivered by the S&P 500 have been heavily skewed in favor of the largest of the companies

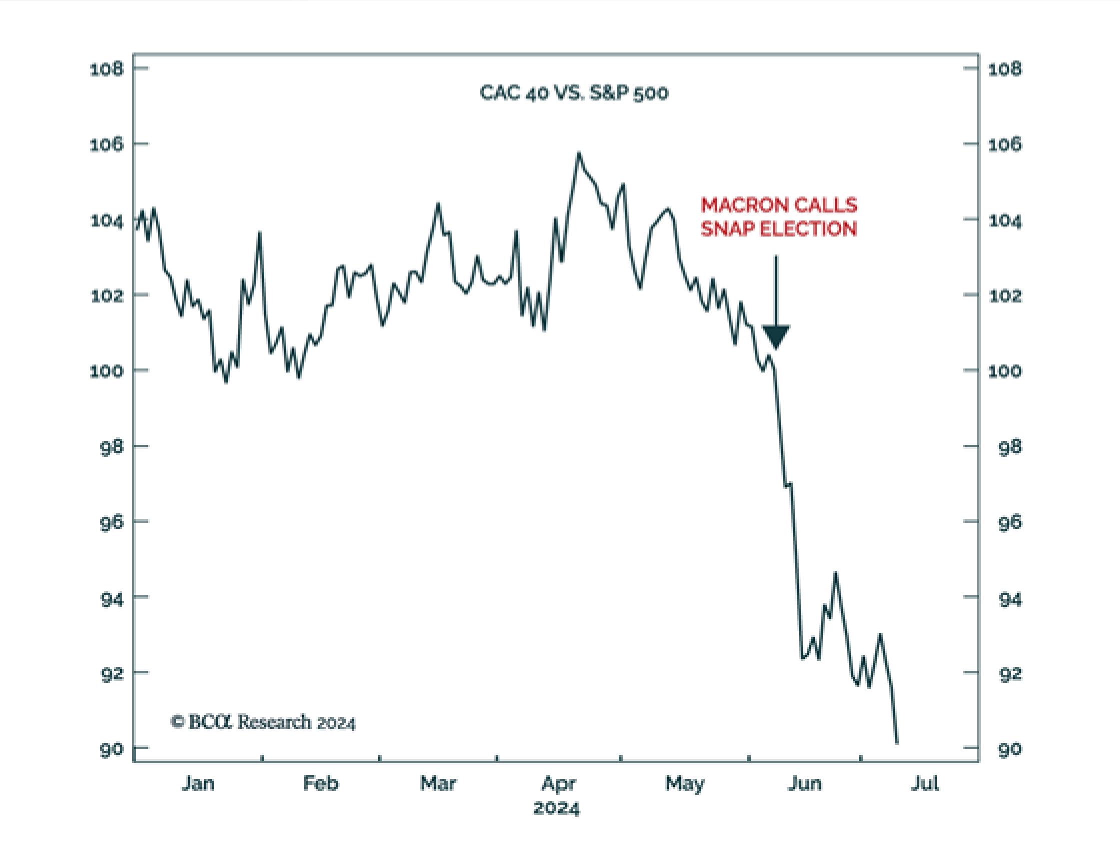


- Nearly 60% of the returns delivered by the S&P 500 have been generated by the top 10 names, of which a staggering 30% has come from the blistering 159% rally seen in Nvidia this year
- This skewed contribution towards the gain has also been well justified by the superior earnings reported by these Mega caps which have actually more than offset the combined earnings degrowth delivered by the rest of the index constituents.
- We continue to remain supportive of these names given our bullish long-term thesis on their ability to continue to generate superior economic profits and in fact grow them sustainably over time.

 Source: Bloomberg, July 2024

French Equities Are Oversold

French Equities Underperformance: A Misguided Reaction to Political Uncertainty



- BCA Research's Counterpoint service notes that the sharp underperformance of the French stock market due to political uncertainty is irrational. The CAC 40's limited exposure to French domestic economics and politics underscores this point. A significant portion of the CAC 40's market value, about one-third, is attributed to its three largest companies – LVMH, Hermès, and L'Oréal. Combined with Total, Schneider, and Sanofi, these six companies account for half of the CAC 40's market value.
- These leading firms generate nearly all their sales and profits internationally, not relying on France or even Europe. Thus, unless there is a full-blown coup d'état, French domestic issues are irrelevant to the stock market's performance.

 Source: Bloomberg, July 2024

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LC Views - Summary

2

LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• Treasury yields tumbled after benign inflation data renewed confidence that the Federal Reserve will cut interest rates at least twice this year. Most rates slid to their lowest since March, with those on two-year debt — more sensitive than longer maturities to changes in the Fed's policy outlook — sinking as much as 13 basis points to 4.486%. The odds of a September rate cut jumped from around 70% before the data. The 10-year Treasury yield, which peaked above 5% last year after 11 Fed rate increases and has since retreated to around 4.20%, can return to 4%, last seen in February. • This week, Fed Chair Jerome Powell indicated the central bank is prepared to cut rates if the unemployment rate increases from its current level of 4.1%. The Fed has a dual mandate of seeking full employment and price stability in the US economy.
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 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.

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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