Investment Playbook Weekly Update

May 6th – May 10th 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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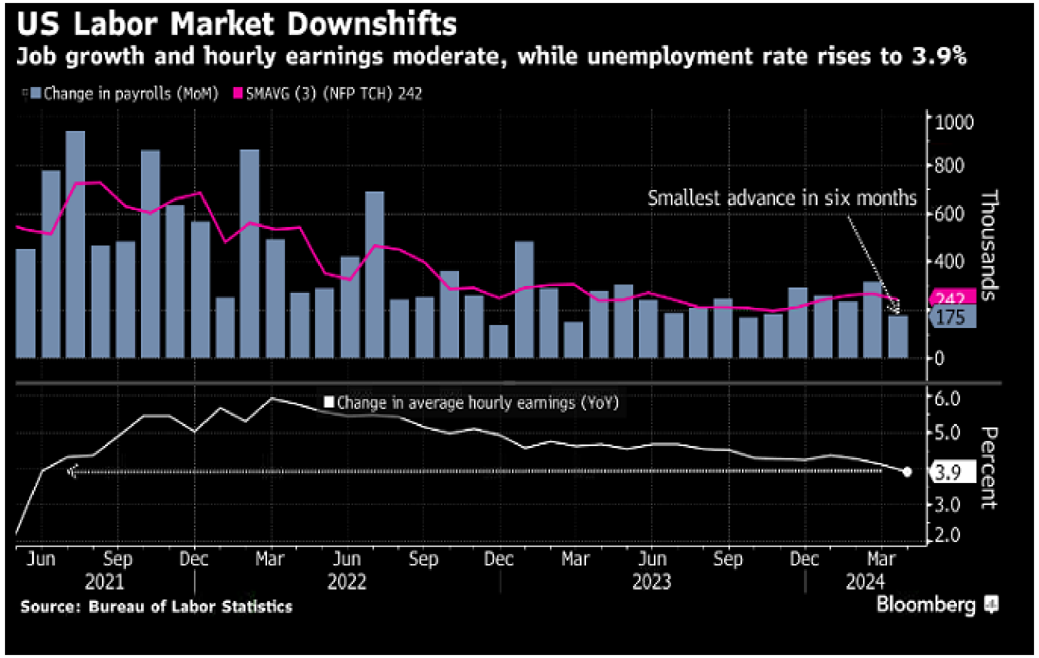
US Jobs Post Smallest Gain in Six Months

Unemployment Rate Rises

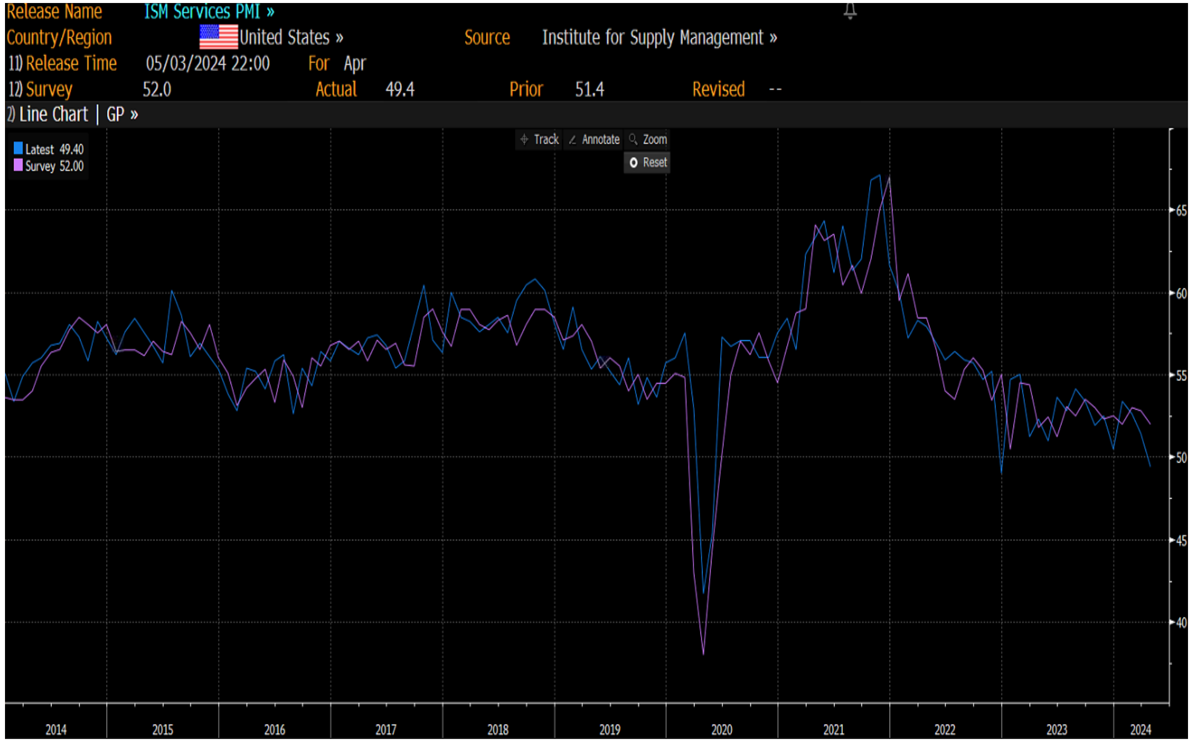


- US employers scaled back hiring in April and the unemployment rate unexpectedly rose, suggesting some cooling is underway in the labor market after a strong start to the year.
- Nonfarm payrolls advanced 175,000 last month, the smallest gain in six months, a Bureau of Labor Statistics report showed Friday. The unemployment rate ticked up to 3.9% and wage gains slowed. Average hourly earnings climbed 0.2% from March and 3.9% from a year ago, the slowest pace since June 2021.
- Treasury yields and the dollar fell, while the S&P 500 opened higher. Investors returned chances of a rate cut in September to above 50%.

Source: Bloomberg, May 2024

April US Services Activity Unexpectedly Contracts

Ending A Period Of Steady Expansion Since December 2022

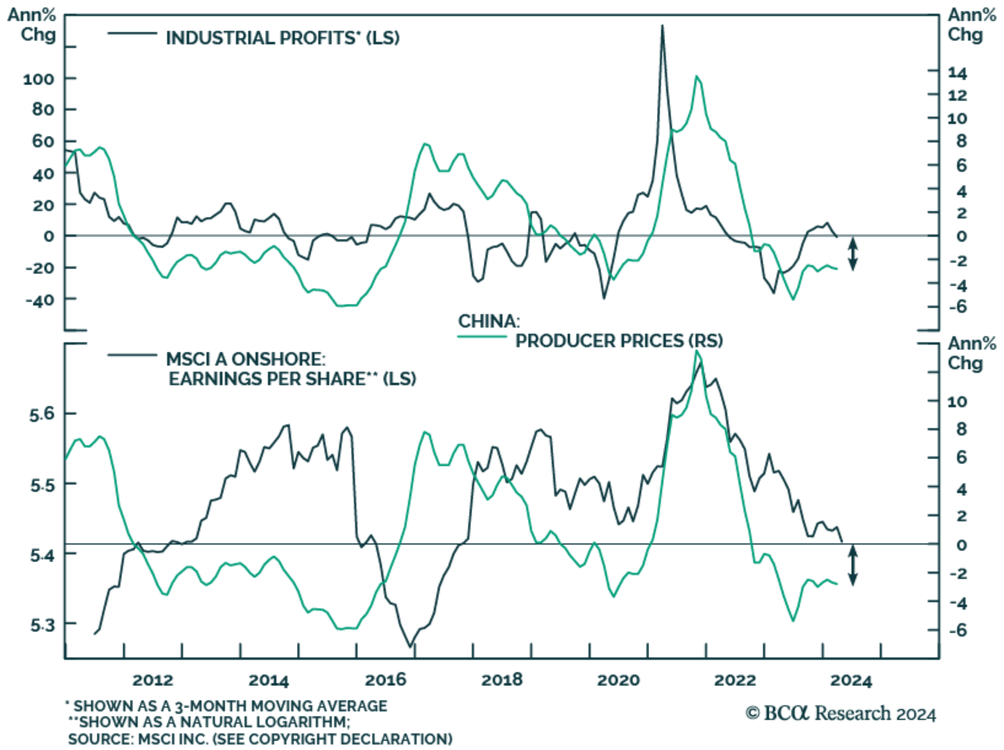


- The ISM Services PMI fell into contractionary territory for the first time since 2022 at 49.4 (vs. 51.4 prior) in a surprise move.
- The business activity or production index slipped to 50.9 in April from 57.4 the previous month, while new orders dropped to 52.2 from 54.4.
- All pointing to an economic slowdown ahead.

Source: Bloomberg, May 2024

Remain Neutral On Chinese Equities

China's Fundamentals Remain Weak



- Chinese investable stocks have rallied on a combination of investors' hopes for stimulus, revival in the global manufacturing cycle and cheap valuations. The MSCI China index and the Hang Seng have both gained close to 15% since mid-April.

- However, according to BCA, the stimulus efforts have thus far been insufficient to meaningfully revive domestic demand, given the private sector's heightened pessimism and domestic housing market worries. Meanwhile, disinflation remains a potent headwind to corporate profits. Producer prices contracted by 2.8% y/y and consumer prices rose by only 0.1% y/y in March.

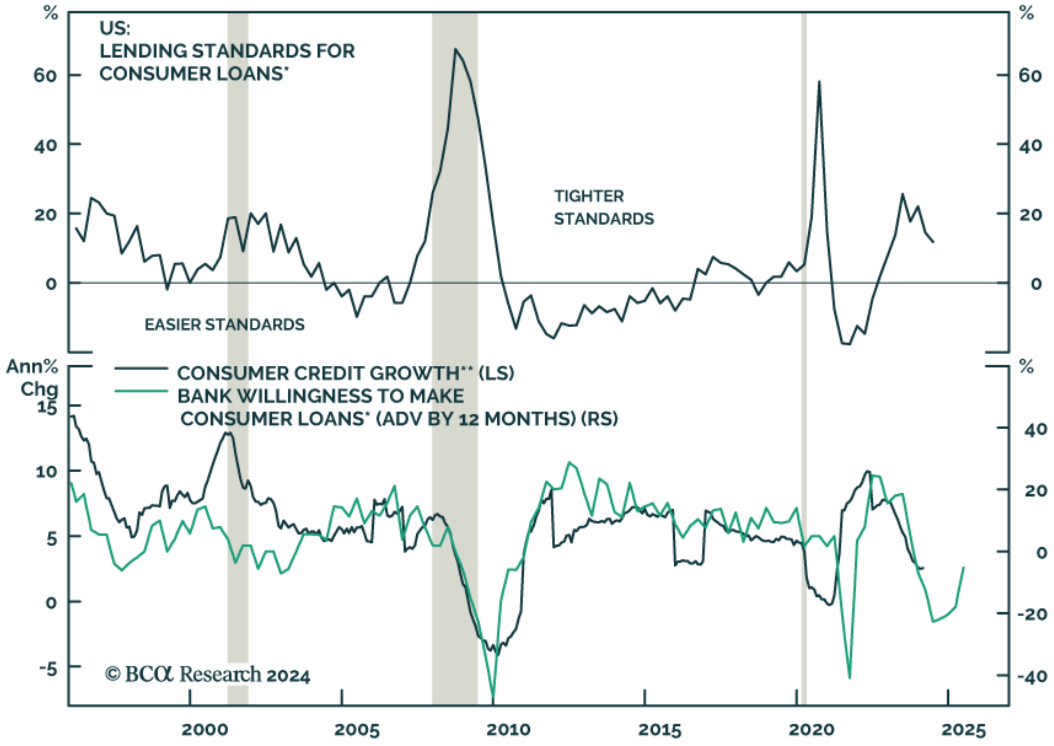
- Furthermore, BCA expects US to enter into a slowdown later this year plus economic tensions between both powerhouses are mounting.

- Overall, we recommend to remain neutral on Chinese equities.

Source: BCA, May 2024

Tighter Lending Standards

Weaker Loan Demand Across Most Categories In 1Q 2024



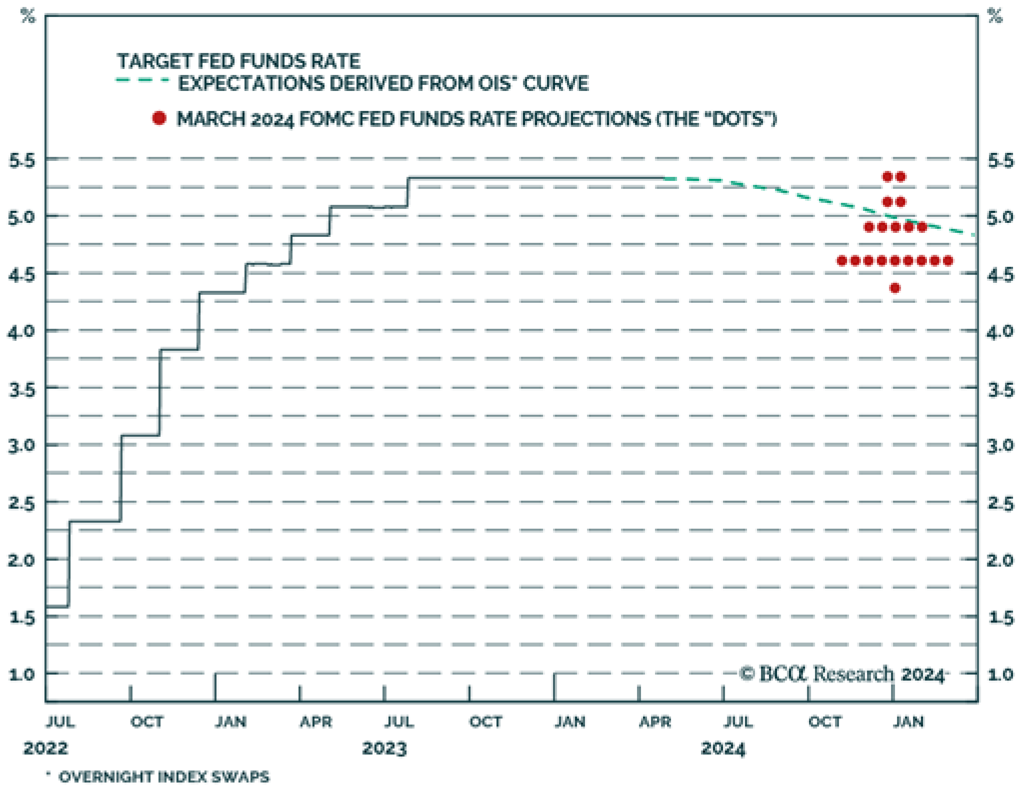
*SOURCE: FEDERAL SURVEY OF SENIOR LOAN OFFICERS
**SOURCE: FEDERAL RESERVE
NOTE: SHADING DENOTES NBER-DESIGNATED RECESSIONS

- Lending standards continued to tighten for most loan categories in Q1 2024. US banks reported tighter lending standards for commercial & industrial (C&I) and commercial real estate (CRE) loans. Meanwhile, banks tightened lending standards across all consumer loan categories, especially for credit cards.
- Moreover, banks surveyed by the Federal Reserve Senior Loan Officer Opinion Survey (SLOOS) reported weaker demand for loans across the board in Q1.
- With slowing income and wage growth, diminishing pandemic savings, and tighter lending standards reducing credit availability for consumers, we recommend investors to take a defensive approach in their investments in the next 6-12 months.

Source: BCA, May 2024

May FOMC Preview

Fed expected to cut only once by year-end

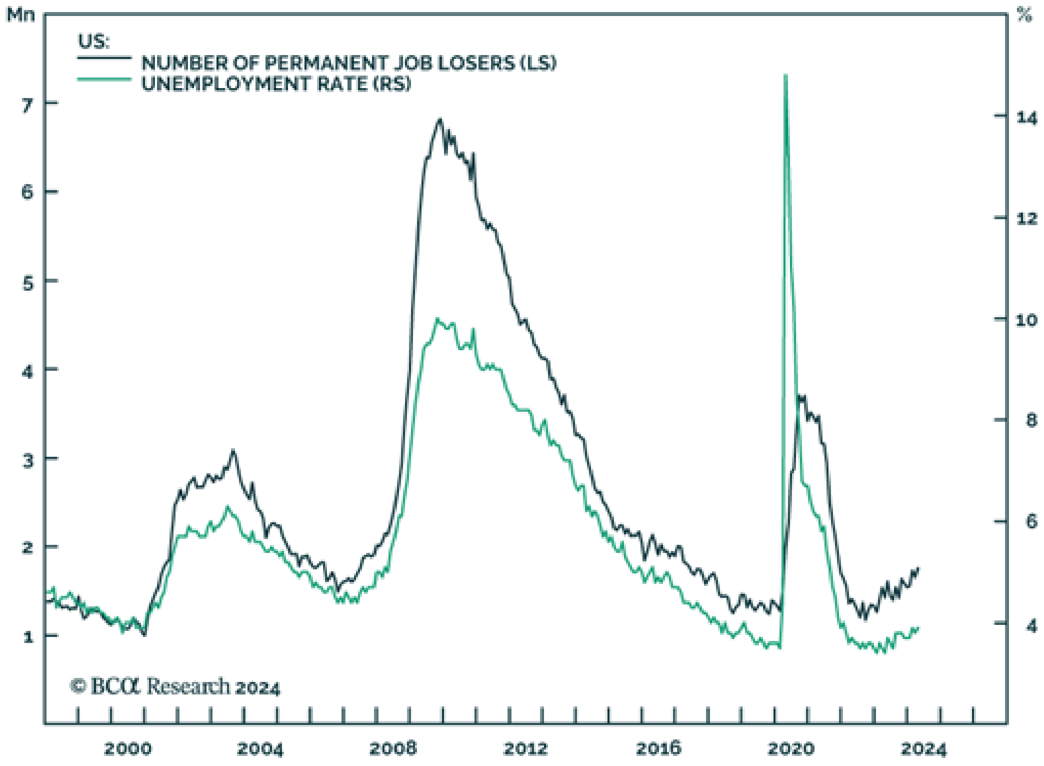


- The Fed left the policy rate unchanged following its May FOMC meeting. It also announced it would slow the pace of quantitative tightening starting on June 1, from the current $60 billion per month to $25 billion per month for Treasuries redemptions, while maintaining the pace of runoff for agency MBS.
- Chairman Powell also suggested that it was unlikely that the next move would be a hike, stressing repeatedly that the committee's focus remains on the timing of the first cut and not on the possibility of rate hikes.
- Overnight index swaps are pricing only 35 bps of rate cuts between now and the end of the year.

Source: BCA Research, May 2024

The Labor Market Is Cooling

Too early to conclude that a US recession is at our doorstep

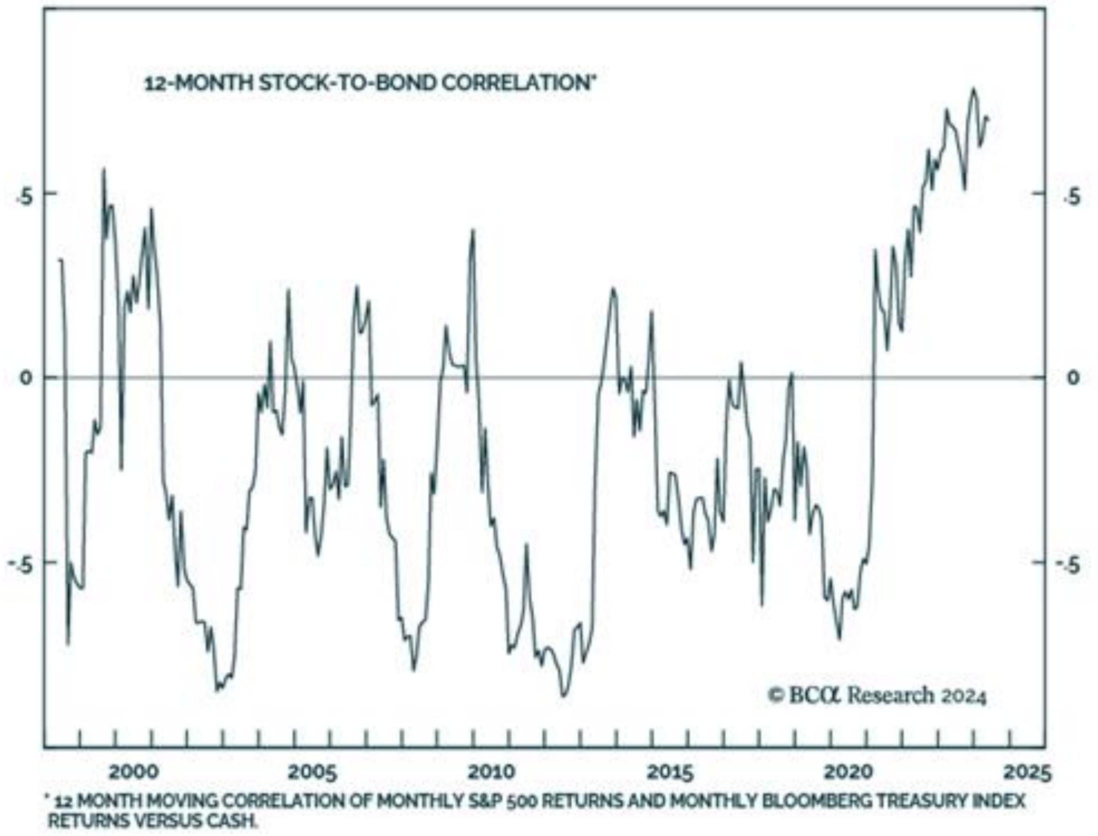


Source: BCA Research, May 2024

- Average hourly earnings growth slowed to 0.2% m/m in April from 0.3% m/m in March and came in below expectations. On a year-on-year basis, they decelerated from 4.1% to 3.9%, the lowest since June 2021 and below expectations of 4%. Nonfarm payrolls growth also declined substantially, from 315 thousand to 175 thousand, below expectations of 243 thousand. Finally, the unemployment rate rose from 3.8% to 3.9%, surprising expectations it would remain stable.
- The number of permanent job losers increased. It has historically been a reliable leading indicator of the direction of the unemployment rate. While this latest data point points to a weakening labor market, it is too early to conclude that a recession is at our doorstep.

Stock-Bond Correlation At Record High

Monitoring stock-to-bond relationship for yield predictions

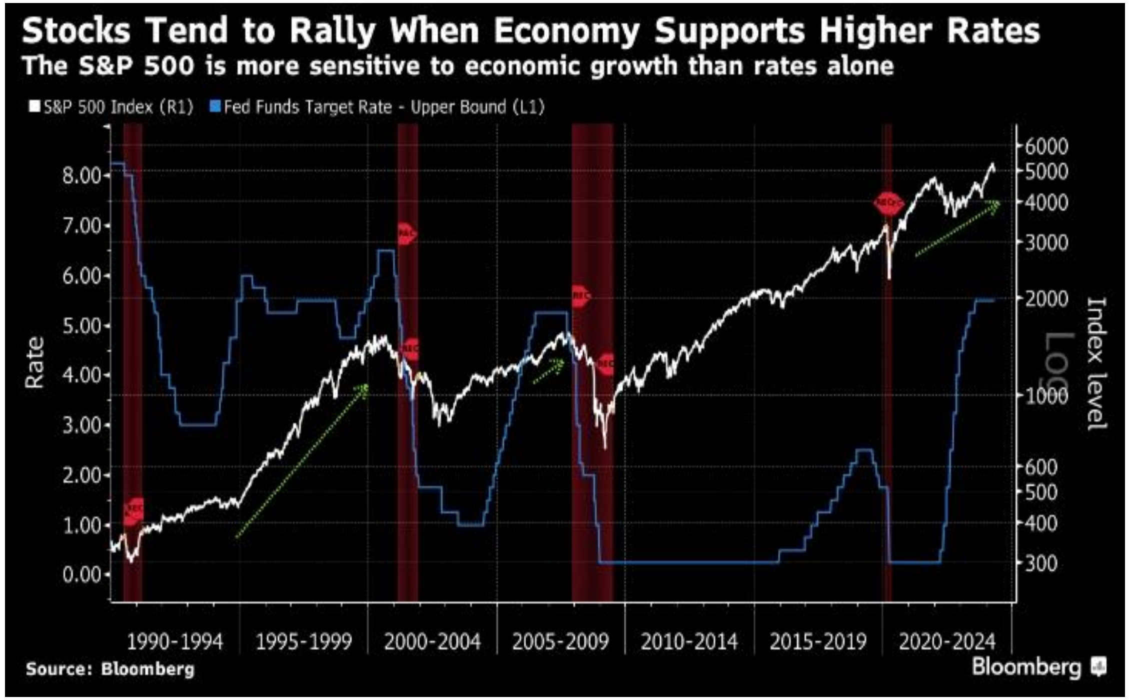


Source: BCA Research, May 2024

- The positive correlation between stock and bond returns, characteristic of the inflationary post-COVID environment, has maintained bond yields within a certain range since last October.
- This relationship influences financial conditions; increases in Treasury yields paired with equity selloffs tighten conditions, slowing growth and inflation, which in turn caps yield increases. Conversely, decreases in yields coupled with rising stock prices ease financial conditions, promoting growth and limiting yield drops.
- For effective timing, investors should note instances when rising yields do not accompany falling stock prices, and vice versa, as these may indicate more sustained movements in yields.

Higher for longer is actually good for equities

Historically, rate cuts have not been good for the equity markets

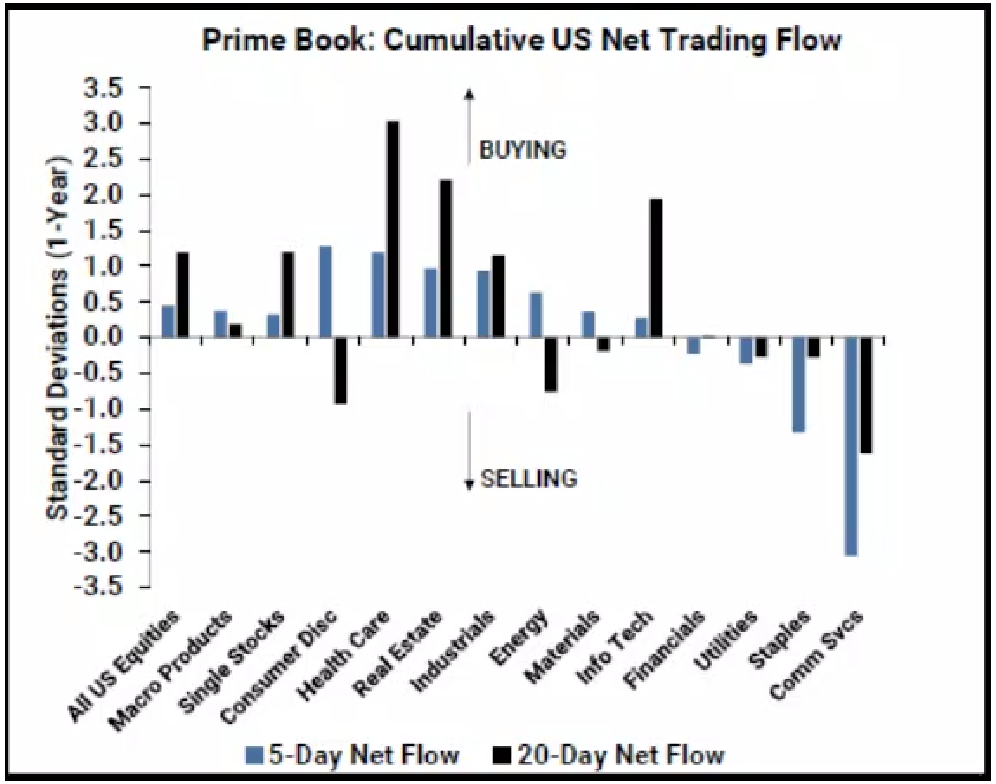


- This year equity markets have rallied every time there has been any economic data that would point towards a slowing economy that would urge the Fed to start cutting rates.
- However, historically what has happened is exactly the opposite. Equity markets tend to perform very strongly as long as interest rates remain higher, and the Fed does not start cutting rates.
- The Fed tends to cut interest rates only when the economy has started to slow meaningfully, potentially falling into the clutches of a recession. This is usually accompanied with declining corporate earnings and a sharp correction in the broader equity markets.

Source: Bloomberg, May 2024

Flow data suggests a resilient market environment

Hedge funds were net buyers of US equities over the past month

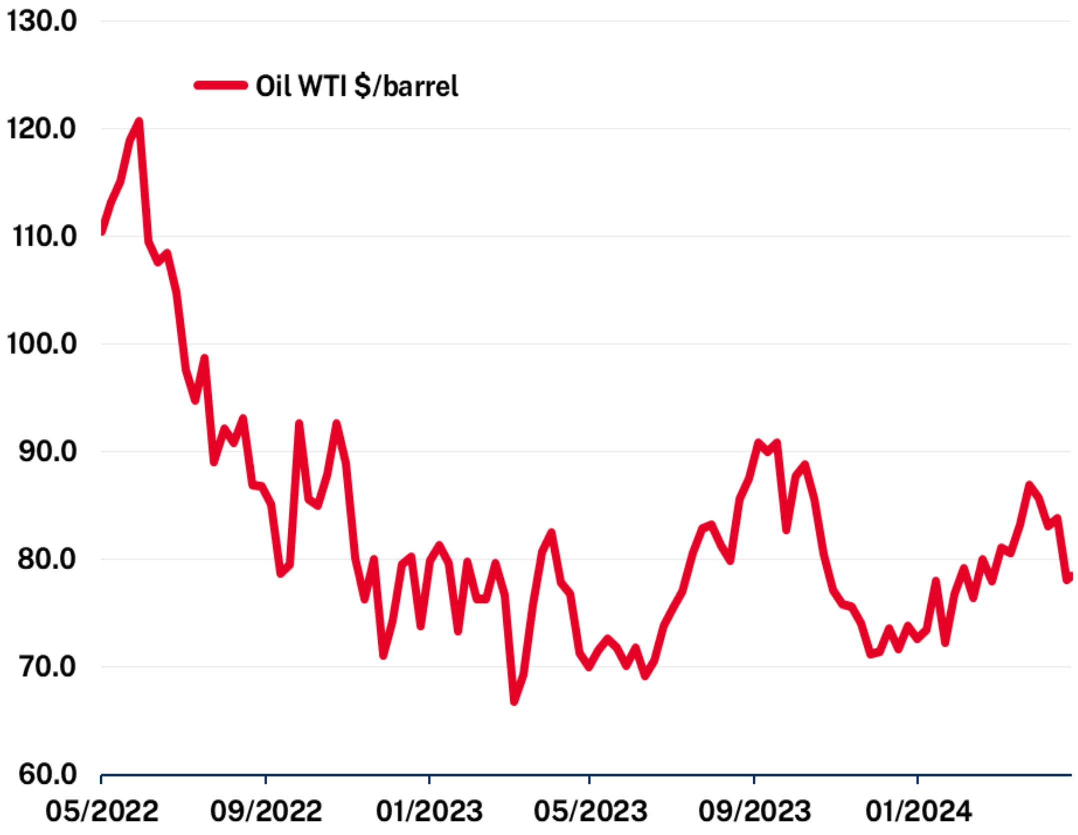


- Hedge funds are reversing their bearish stance on consumer stocks as the latest economic data and comments from the Fed revive bets on interest rate cuts.
- Information Technology stocks also saw modest buying last week and net inflows over the last 4 weeks has been very strong, indicating an increase in risk appetite across market participants.
- Overall, US Equities saw resilient inflows over both the last week and last 4 weeks, with much of the risk off sentiment that had gathered momentum during mid-April, now subsiding.

Source: Goldman Sachs, May 2024

Oil Back Below 80$

Oil Decline Amid Eased Tensions and Market Weakness



Source: Bloomberg, May 2024

- Oil has been on the decline since early last month as tensions in the Middle East eased. Softer time spreads, poorer refining margins, and options skews remaining in a bias toward puts collectively suggest a weaker global market.
- In addition, OPEC+ supply is in focus, with Russia pumping above an agreed-upon target before the cartel meets next month to decide whether to extend curbs.
- Separately, the Biden administration raised the price it's willing to pay to refill the country's emergency oil reserves. The Energy Department will pay as much as $79.99 a barrel, the first time an explicit ceiling has been set.

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 got off to a strong start in May on the back of resilient corporate earnings, after having corrected by more than 4% in April. Weak US labor data announced last Friday was more than enough for traders to re-price in some rate cuts for the year and for yields to fall by more than 10bps across the curve. This was accompanied with risk on sentiment returning to the equity markets led by the technology sector. • With Q1 2024 earnings season coming to a close, following are the results seen up until now, from 447 constituents of the S&P 500 that have already reported earnings : Sales grew by slightly more than 4% YoY, which translates into a positive surprise of more than 1%. Earnings have grown by 5.4% YoY, which translates into a positive surprise of 8.5% 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. 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 20% 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 24.8 and a 1-year forward P/E of 21.2, 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 (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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