Investment Playbook Weekly Update

April 15th – 19th 2024

LIGHTHOUSE CANTON

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 and its subsidiaries or affiliates ("LC"). LC has taken the reasonable steps to verify the contents of this document and accept 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.

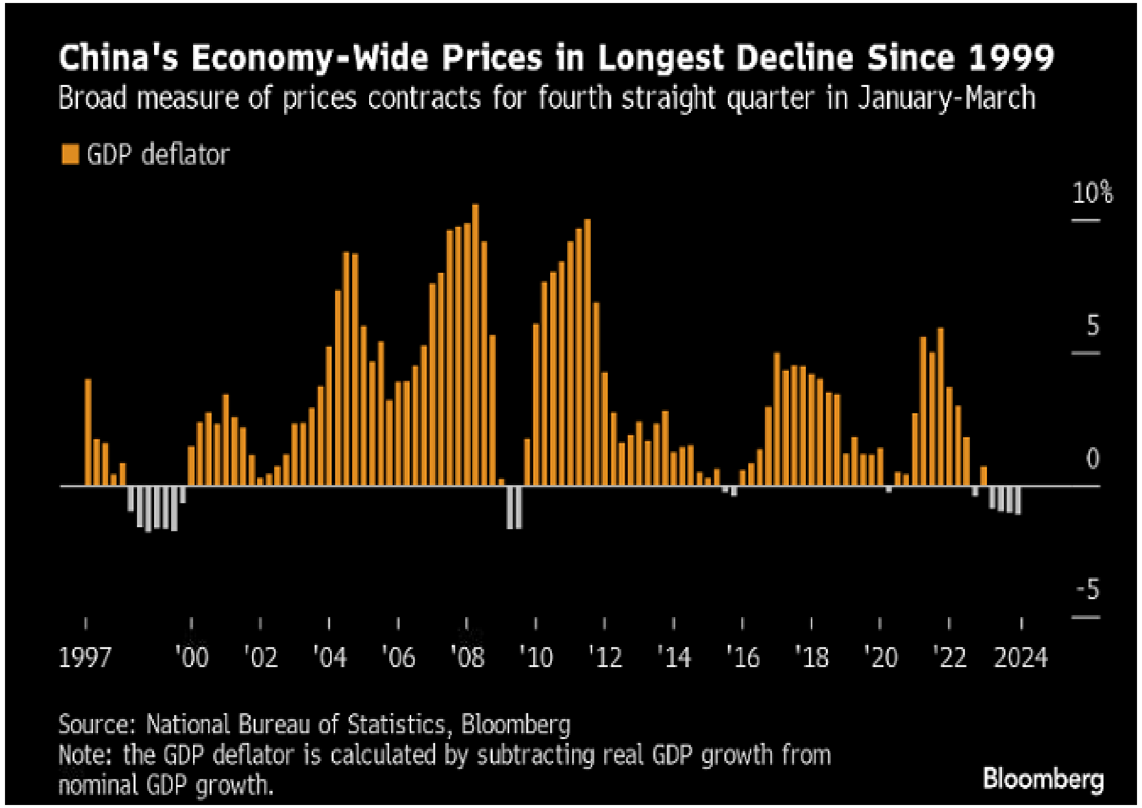
Charts of the week

1

LIGHTHOUSE CANTON

China's 1Q24 Economic Growth Beats Forecast

However, March Data Suggest Challenges On The Horizon



- GDP climbed 5.3% in 1Q24, accelerating slightly from the previous quarter and beating estimates. But much of the bounce came in the first two months of the year. In March, growth in retail sales slumped and industrial output fell short of forecasts, suggesting challenges on the horizon.

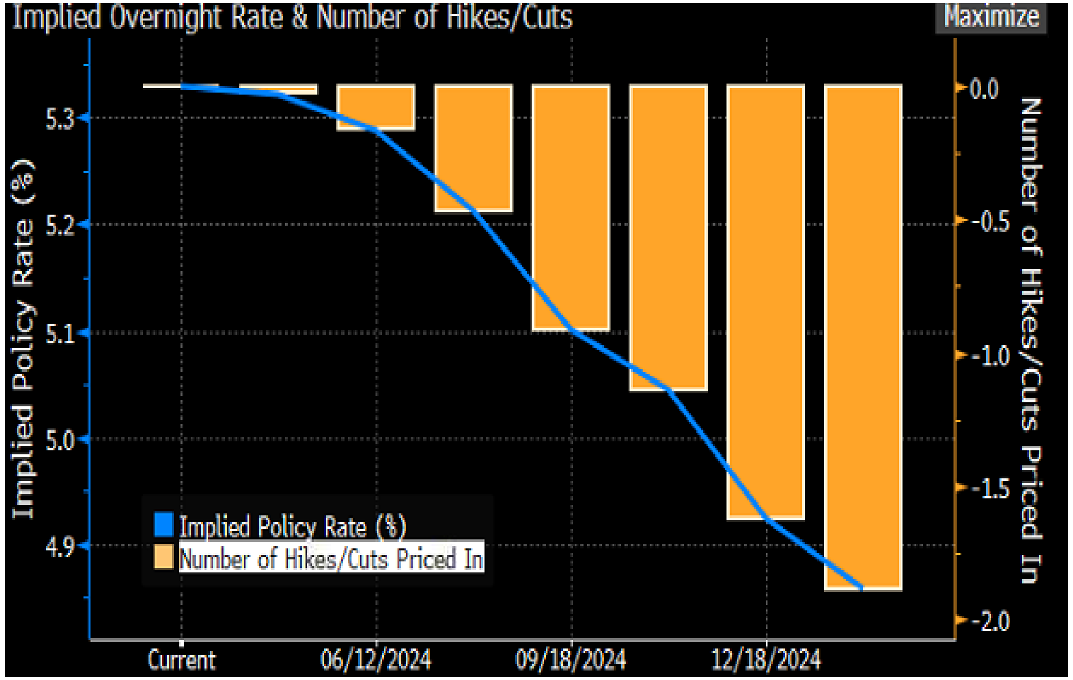
- Manufacturing is holding up, but a prolonged real estate crisis is weighing on confidence, factory prices have been in decline for more than a year and a broad measure based on Tuesday's data showed the economy slipping deeper into deflation — all reflecting anemic domestic demand.

- Economists say China is on track to meet its 5% growth goal but urge more action on stabilizing property markets and boosting consumer spending. Focus turns to the upcoming Politburo meeting in late April for economic policy decisions.

Source: Bloomberg, April 2024

Powell Signals Rate-Cut Delay

Fed Could Keep Rates Steady For “As Long As Needed”

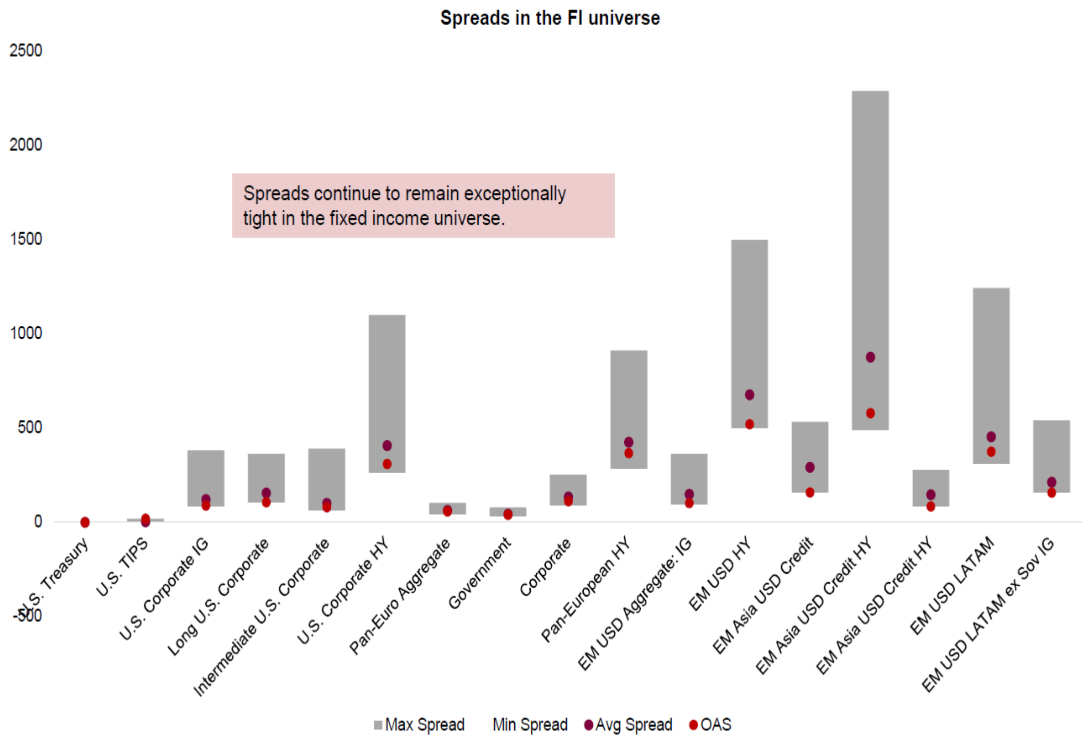


- Federal Reserve Chair Jerome Powell signaled policymakers will wait longer than previously anticipated to cut interest rates following a series of surprisingly high inflation readings.
- The US economy continues to surprise Fed officials with its resilience. Employers added over 300,000 jobs in March — the most in nearly a year — and retail sales topped expectations.
- Policymakers narrowly penciled in three interest-rate cuts in forecasts published last month, but investors are now betting on just one to two cuts this year, starting in September, futures markets show.
- All-in yields remain attractive, and we continue to recommend being overweight in quality bonds and maintaining a neutral stance on duration.

Source: Bloomberg, April 2024

No Spread Cushion In The FI World

Particularly In The EM And HY Space



- In 2023, high yield (HY) bonds have outperformed investment grade bonds in terms of total returns as investors move down the credit rating curve in search of higher yield, all on the back of a soft landing narrative.
- Spreads are exceptionally tight in the EM Asia Credit HY space, followed by EM USD HY.
- While all-in yields remain attractive, we advise caution in the bond selection going forward with a focus on quality bonds.

Source: Nomura, April 2024

Risky Assets Experience A Pause (1/3)

S&P 500 is 4.4% below its March peak

- The stock market faced its longest downturn since January, falling for four consecutive days and dropping over 4% from its peak.
- The sell-off was led by big tech companies, with chipmakers particularly hit hard after ASML Holding NV reported a significant decline in orders. Nvidia Corp. suffered notable losses among the large tech stocks. Market volatility was evident as the VIX options expired, causing fluctuations.
- Despite a strong 10% rally in Q1, investor confidence has waned due to geopolitical risks, increasing interest rates, a cautious Federal Reserve, and persistent inflation concerns, giving bears an upper hand in the market.

Source: Bloomberg, April 2024

Risky Assets Experience A Pause (2/3)

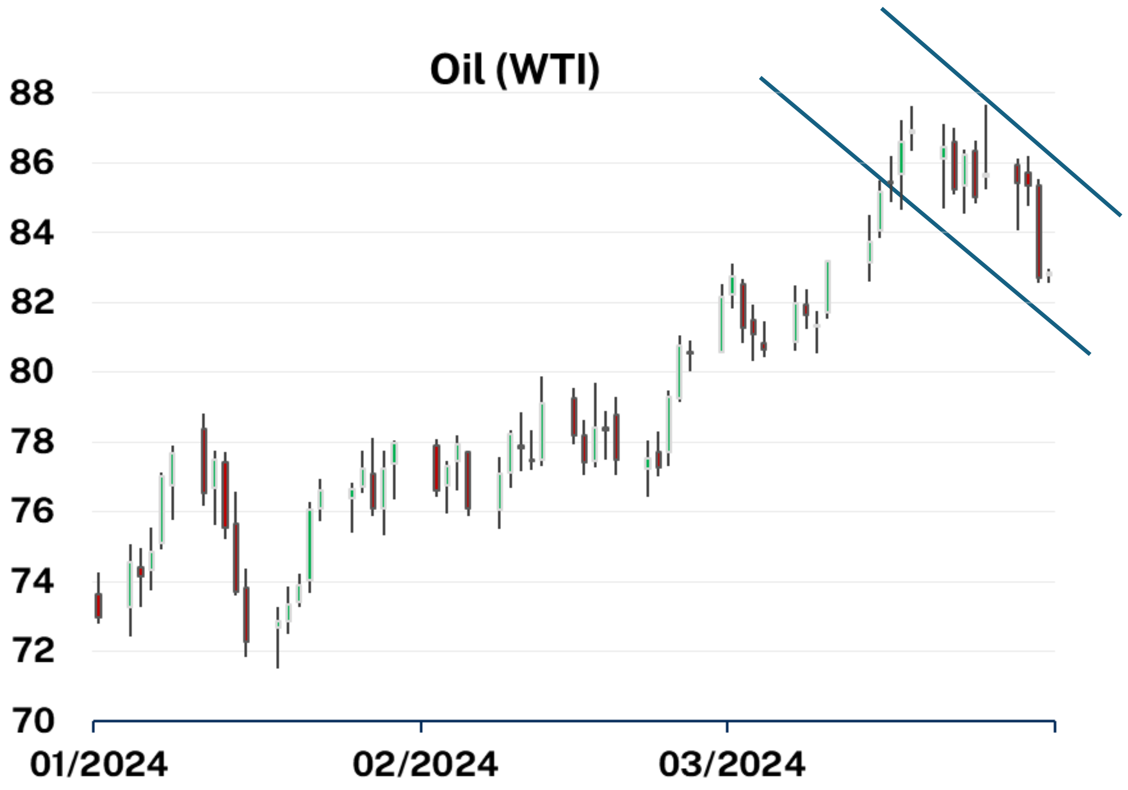
Bitcoin is 16% below its February peak

- Bitcoin reached a new record high, surpassing $73,797 for the first time, driven by ETF demand and a projected decrease in supply growth (known as “halving”).
- However, the peak was short-lived as investors began to secure profits. Nearly every Bitcoin holder saw gains, leading to widespread profit-taking.
- This year's rally has been fueled by new U.S. exchange-traded funds and anticipated supply cuts, but Bitcoin's inherent volatility remains, reflecting its boom-or-bust dynamics.

Source: Bloomberg, April 2024

Risky Assets Experience A Pause (3/3)

Oil (WTI) is 5.5% below its April peak



- Oil prices maintained most of their recent significant drop, influenced by conflicting factors such as increasing stockpiles and geopolitical tensions in the Middle East, along with renewed U.S. sanctions on Venezuelan crude.
- Brent crude hovered above $87 per barrel despite a 3% fall on Wednesday, while West Texas Intermediate stayed close to $83. U.S. crude inventories surged by 2.7 million barrels, reaching a peak not seen since the previous June, and fuel demand weakened.
- Despite geopolitical concerns, particularly regarding Iran's recent attack and potential Israeli retaliation, Goldman Sachs noted that unless tensions escalate, oil prices might decrease further.

Source: Bloomberg, April 2024

Navigating the Q1-2024 Earnings Landscape

S&P Earnings Growth Must Impress To Make Sense Of Valuations

S&P 500 TARGET						
FORWARD EPS GROWTH ESTIMATES						
FORWARD P/E	-10%	-5%	0%	5%	10%	15%
14	3091	3262	3434	3606	3778	3949
15	3312	3496	3680	3863	4047	4231
16	**3532**	3729	3925	4121	4317	4514
17	3753	**3962**	**4170**	4379	4587	4796
18	3974	4195	**4415**	**4636**	**4857**	**5078**
19	4195	4428	4661	4894	5127	5360
20	4415	4661	4906	5151	5397	5642

- BCA Research's Q1-2024 report suggests modest expectations for earnings growth at 2.7% year-over-year, with actual contraction in real terms. The market has factored in positive growth, leaving only significant surprises to boost stocks further.
- With many companies guiding lower earnings, any positive surprises may already be anticipated. Market trends will likely be swayed by macroeconomic indicators and the Fed's decisions.
- Overall, earnings alone may not be enough to propel the market higher amid concerns over inflation and interest rates.

Source: BCA Research, April 2024

LC Views - Summary

2

LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• At the "Washington Forum on the Canadian Economy," Fed Chair Jerome Powell signaled policymakers will wait longer than previously anticipated to cut interest rates following a series of surprisingly high inflation readings. Powell pointed to the lack of additional progress made on inflation after the rapid decline seen at the end of last year, noting it will likely take more time for officials to gain the necessary confidence that price growth is headed toward the Fed's 2% goal before lower borrowing costs. • Treasury yields reached fresh year-to-date highs — with the two-year note's briefly exceeding 5% and reaching the highest level since November — after Powell signaled the Fed is in no hurry to cut rates.
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	• Last Friday marked the official start of the Q1-24 earnings season. While earnings growth is expected to dip compared to Q4-23, it is to reaccelerate as the year progresses. BCA Research posit that most of the positive earnings growth expectations have already been priced in. As such, only supersized earnings surprises could potentially propel US equities higher. Meanwhile, investors confidence has waned due to geopolitical risks, increasing interest rates (US), a cautious Federal Reserve, and persistent inflation concerns (US), giving bears an upper hand in the market for now. • 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 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 23.4 and a 1-year forward P/E of 21.5, 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.

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