Investment Playbook Weekly Update

May 13th – May 17th 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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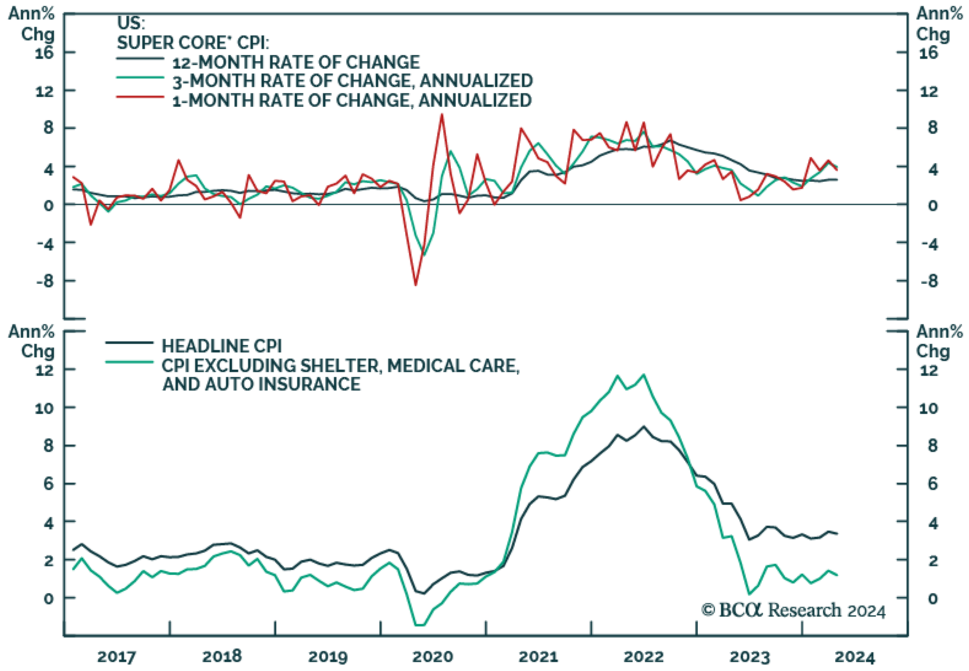
US CPI Inflation Eases in April

Expect Continued Easing Of Price Pressures



- US headline CPI inflation decelerated to a softer-than-expected 0.3% m/m (3.4% y/y) in April, from 0.4% m/m (3.5% y/y). Core CPI eased from 0.4% m/m (3.5% y/y) to 0.3% m/m (3.4% y/y).

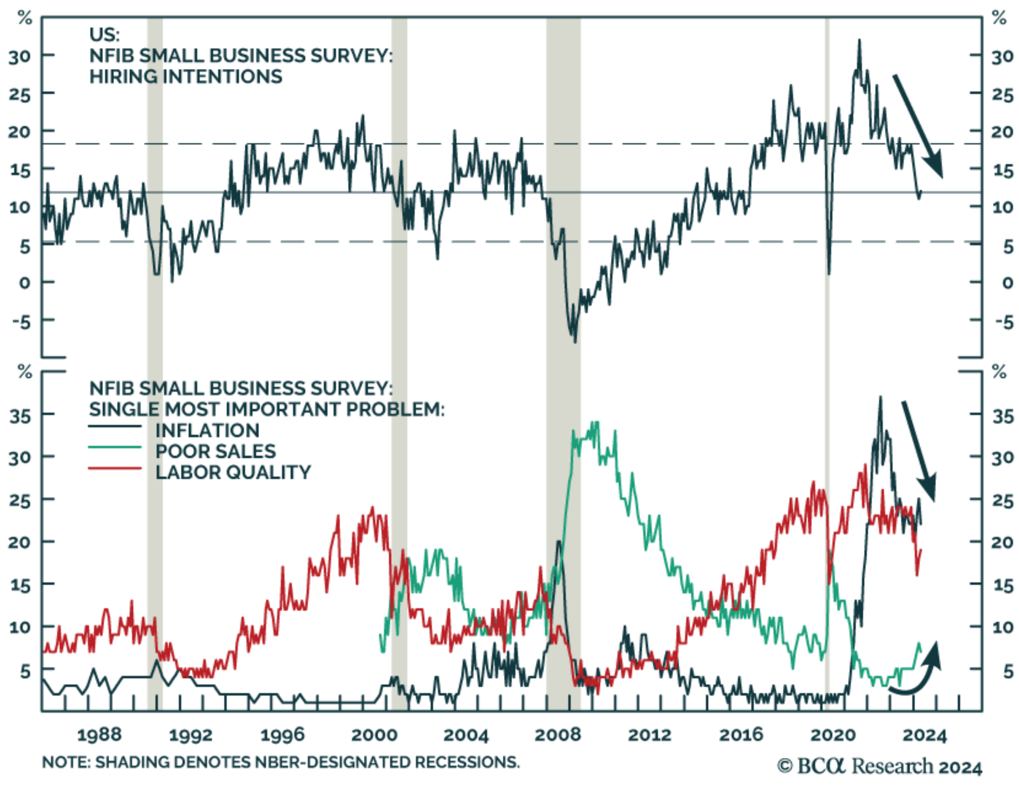
- Declines in new (-0.4% m/m) and used vehicles (-1.4% m/m) prices largely explain easing core price pressures in April, while shelter grew at a steady pace (0.4% m/m). The "super core" measure (core services ex-shelter) thus ticked lower (0.4% m/m to 0.3% m/m).

- The April CPI print breaks from three consecutive months of stronger-than-anticipated CPI inflation and we expect price pressures to continue to ease. Indeed, income growth is a large driver of core services ex-shelter inflation. Real average hourly and weekly earnings eased in April (0.6% y/y to 0.5% y/y) and forward-looking indicators point to further deceleration.

 Source: BCA, May 2024

NFIB Survey Points To Softening Demand

Caution Of An Economic Slowdown Ahead



- The NFIB Small Business Survey released on Tuesday showed resilience, with the headline index rising to 89.7 from 88.5, contrary to the expected drop to 88.2. However, this slight improvement has not reversed the decline since the end of 2023.

- Despite a slight increase in firms planning to hire, from 11% to 12% in April, the overall trend indicates that small- and medium-sized companies are planning to hire less, suggesting a slowdown in payroll growth.

- While inflation remains the top concern, more respondents now cite poor sales as their biggest problem. The implication is that aggregate demand is softening; consumers are pushing back against price hikes, and the labor market is softening. As such, we remain cautious of an economic slowdown ahead.

Source: BCA, May 2024

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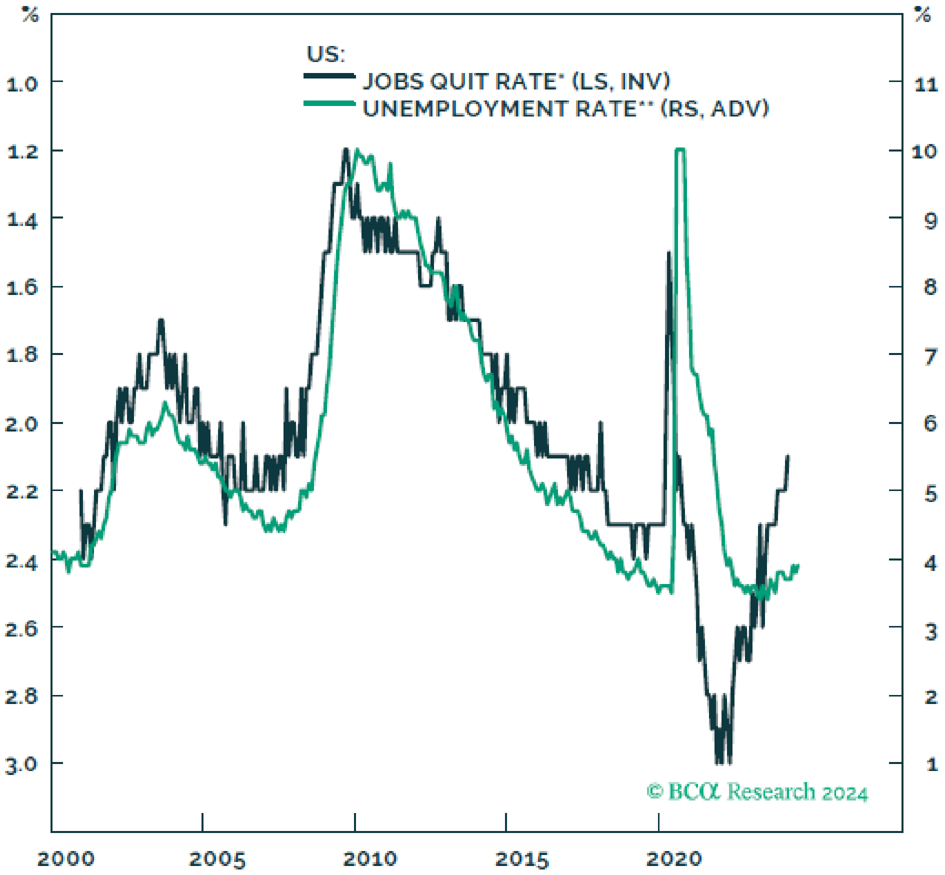
US Labor Market Showing Cracks

BCA Research forecasts a 50% chance of a recession in the US over the next 12 months



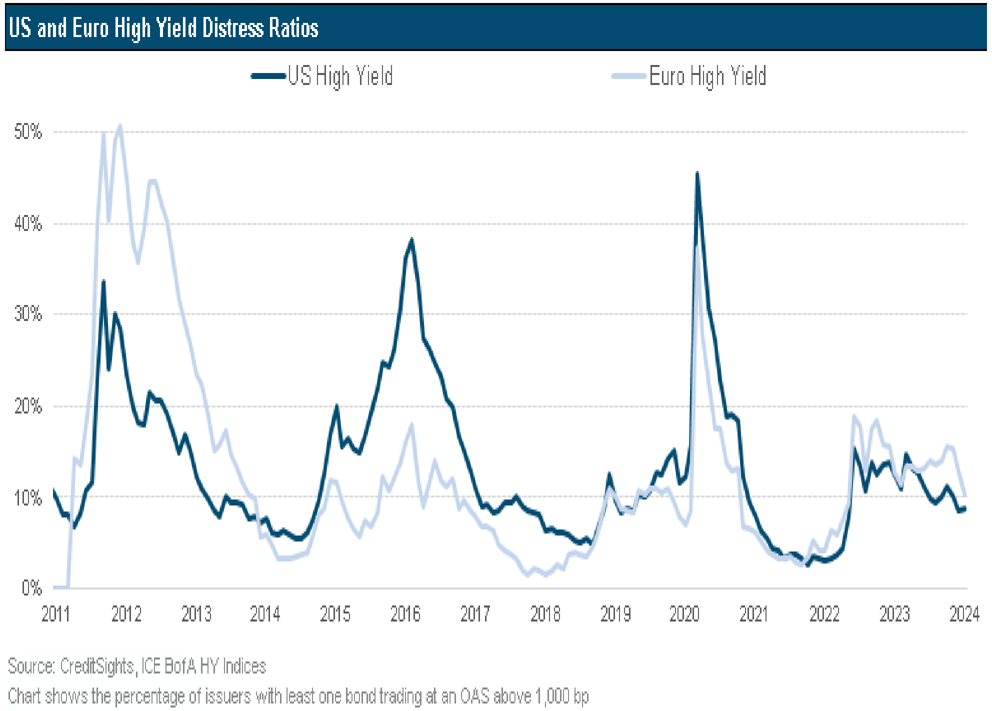
* SOURCE: US BUREAU OF LABOR STATISTICS.
** ADVANCED BY 3 MONTHS; TRUNCATED AT 10%.

Source: BCA Research, May 2024

- The US job quit rate, which serves as a three-month leading indicator for the US unemployment rate, is rapidly surging, indicating potential economic instability. Coupled with the fact that the number of job openings has declined to 848,000 in March 2024, down from 963,000 in March 2023, this trend suggests a likely increase in US unemployment in the coming months.
- Importantly, according to the Sahm Rule, there is a statistically significant likelihood of a recession when the US unemployment rate increases by 0.5 percentage points. With the unemployment rate approaching the 4% mark, this increase aligns with the Sahm Rule's threshold for predicting recessions.
- BCA Research forecasts a 50% chance of a recession in the US over the next 12 months, with a 40% likelihood of no recession and a 10% chance of a soft landing.

US HY Markets Likely to Remain Sanguine

Distressed ratios are currently at 8.6%, 470bps below their post-GFC averages.

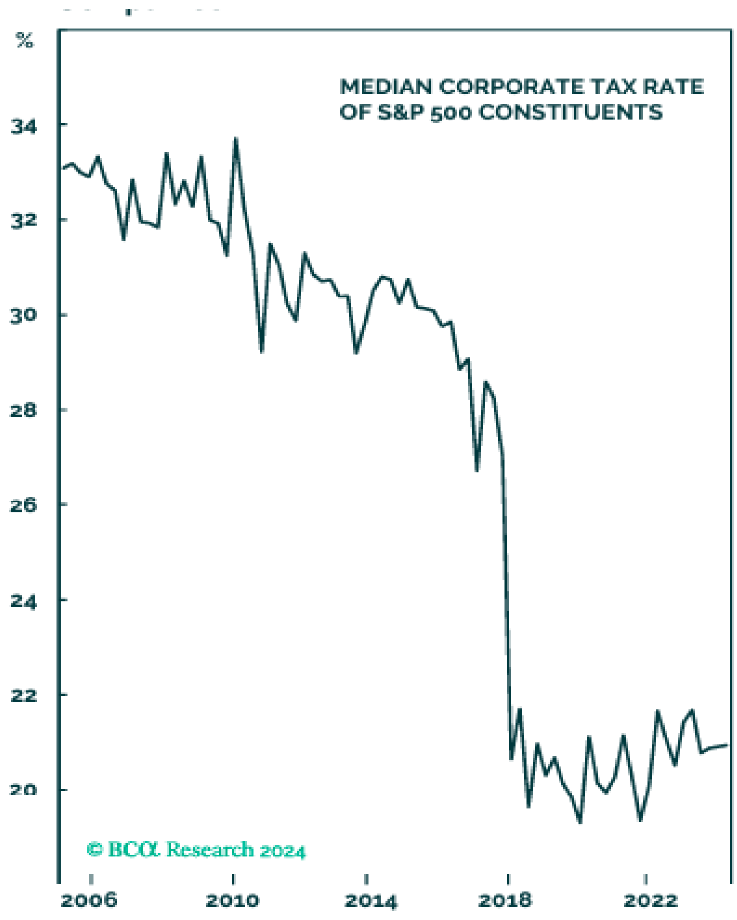


Source: CreditSights, May 2024

- Market expectations for defaults have moderated over the past 12 months as a combination of rate market stability and better-than-expected fundamentals have created clearer paths to the 'other side' of higher rates and margin pressures.
- Issuers made it through 2023 with less damage to fundamentals than 2022 distress ratios would have implied
- Historically, distressed ratios have very high correlation with default rates and therefore credit spreads.
- Current data seem to suggest that US HY credit spreads are likely to remain supported in the next 12 months.

Trump: Lower Effective Corporate Tax

The Complexity Behind Today's P/E Ratios: High Margins and Tax Reforms

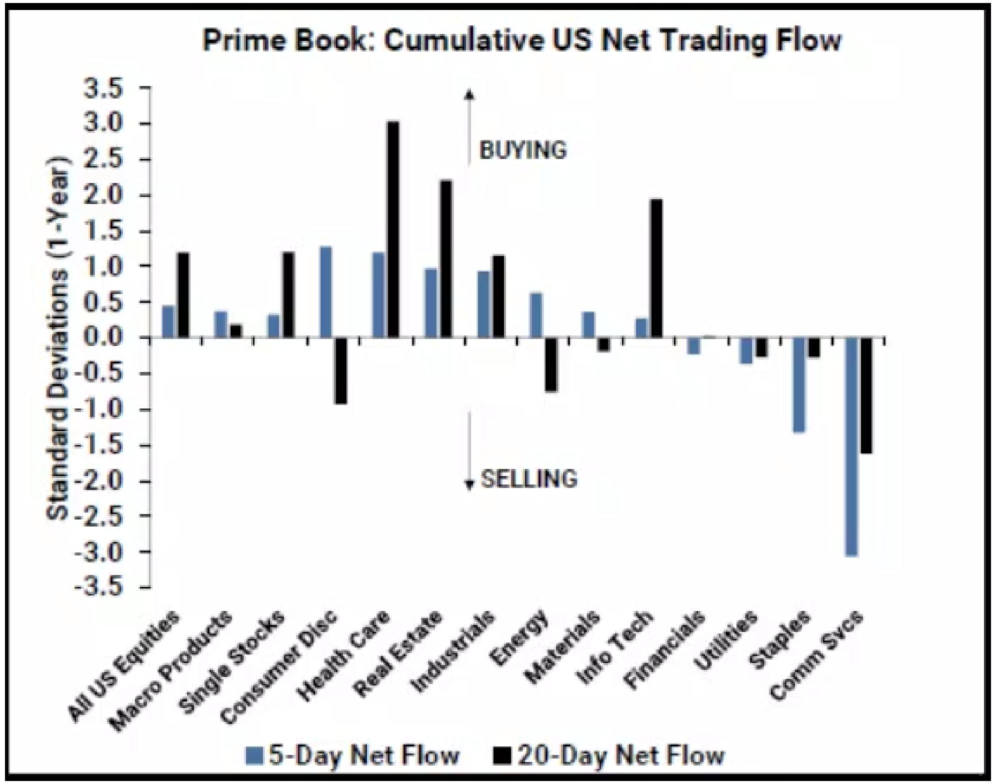


- Today's forward P/E ratio of around 20 appears more reasonable than in 2000, though it's skewed by significantly higher profit margins. Despite these margins, US stocks are still 20% more expensive on a price-to-sales basis compared to 2000.
- This increase is largely due to higher profitability in the tech sector and the effects of the Trump tax cuts, which reduced the effective corporate tax rate from around 29% to 21%. However, some profit gains might be temporary, bolstered by unusual pricing power during the pandemic.
- Current S&P 500 forward profit margins are 8% higher than pre-pandemic levels, but are expected to decline.

Source: BCA Research, May 2024

Flow data suggests a resilient market environment

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

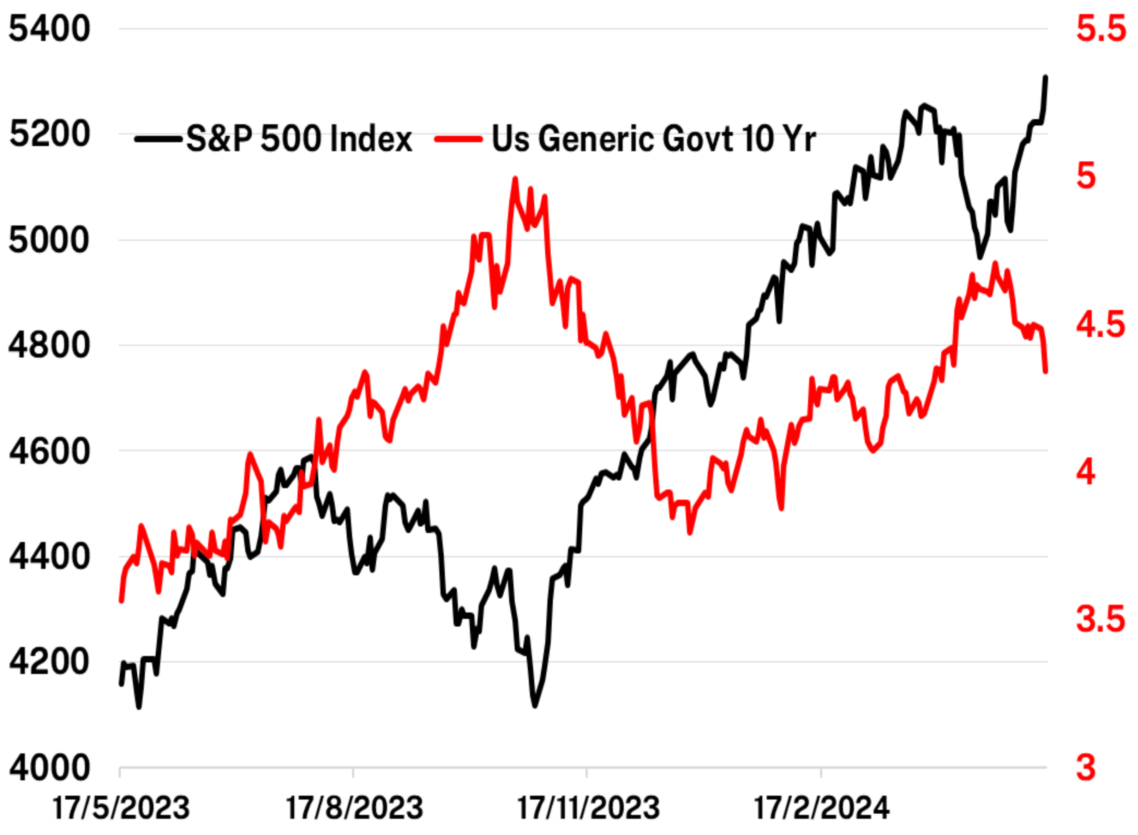


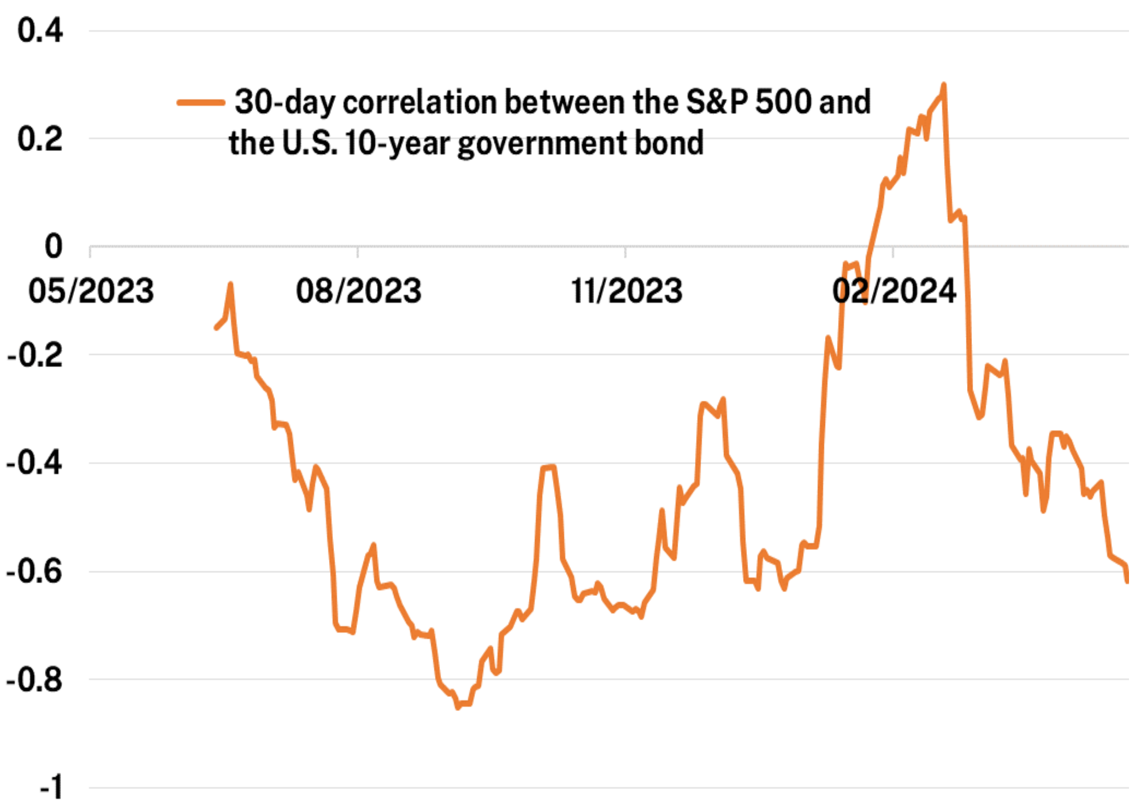
- Hedge funds are reversing their bearish stance on consumer stocks as the latest economic data and comments from the Fed revive bets on interest rate cuts.
- Information Technology stocks also saw modest buying last week and net inflows over the last 4 weeks has been very strong, indicating an increase 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: BCA Research, May 2024

US Stocks Fueled By Lower Rates

The S&P 500's 7% rise since mid-April is due to a 40-bps rate drop to 4.3%.

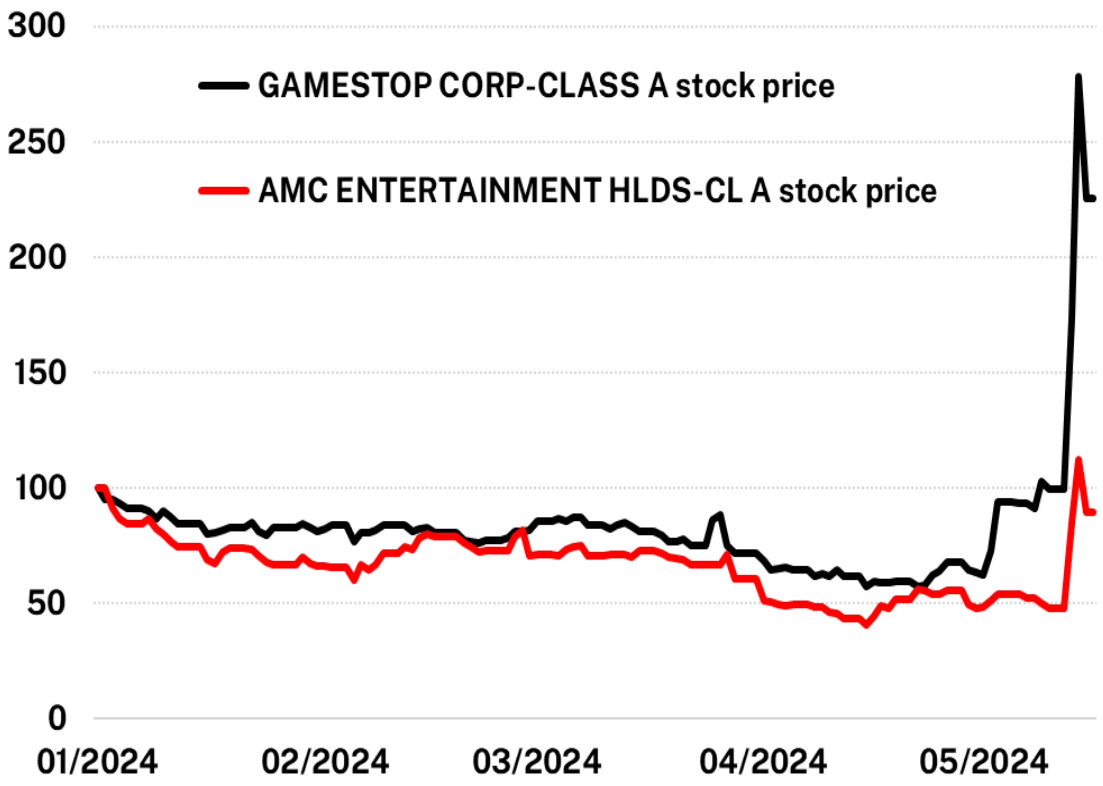




Source: BCA Research, May 2024

Meme Stocks Are Back!

FOMO around ill-managed companies is a reason to be cautious in our opinion

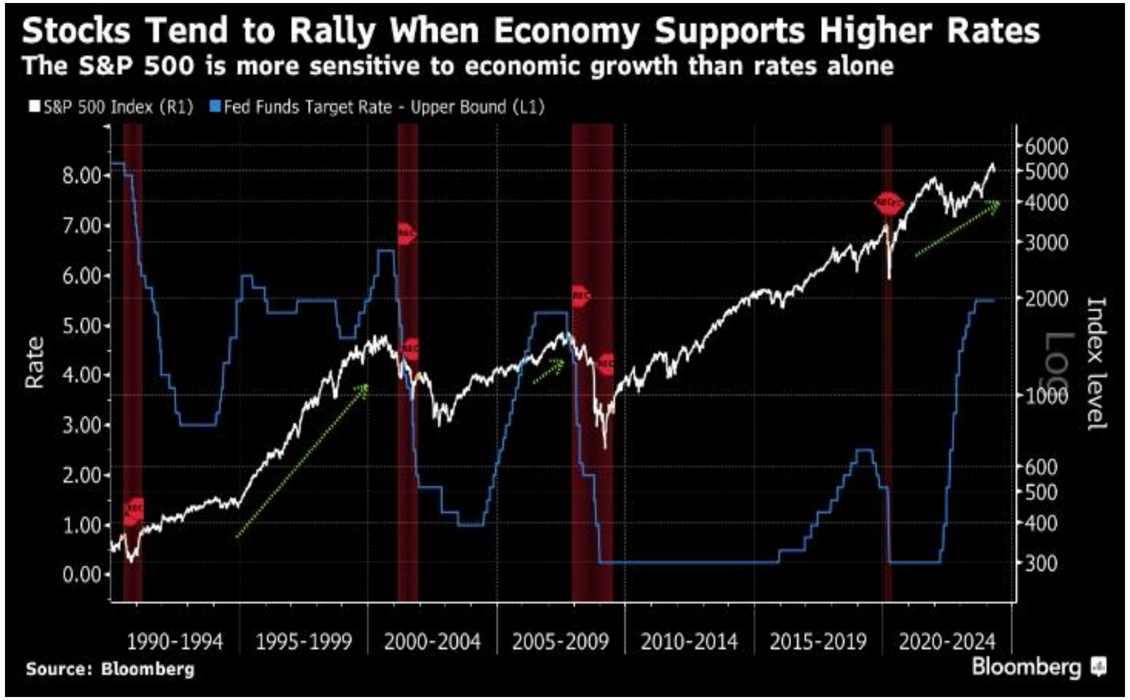


- GameStop Corp. shares surged as speculation arose regarding a return to social media by Keith Gill, the influential figure behind the 2021 meme-stock frenzy, known online as "Roaring Kitty." Despite GameStop's rapid decline yesterday, some traders continued to bet on a significant rebound, with the most-traded call options suggesting a potential 300% increase. These options had strike prices of $100 and $128, significantly higher than the $42 intraday high.
- Meanwhile, AMC capitalized on the meme stock rally by reducing its debt, agreeing to exchange $164 million of 10% notes for 23.3 million new shares.

Source: BCA Research, May 2024

Higher for longer is actually good for equities

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

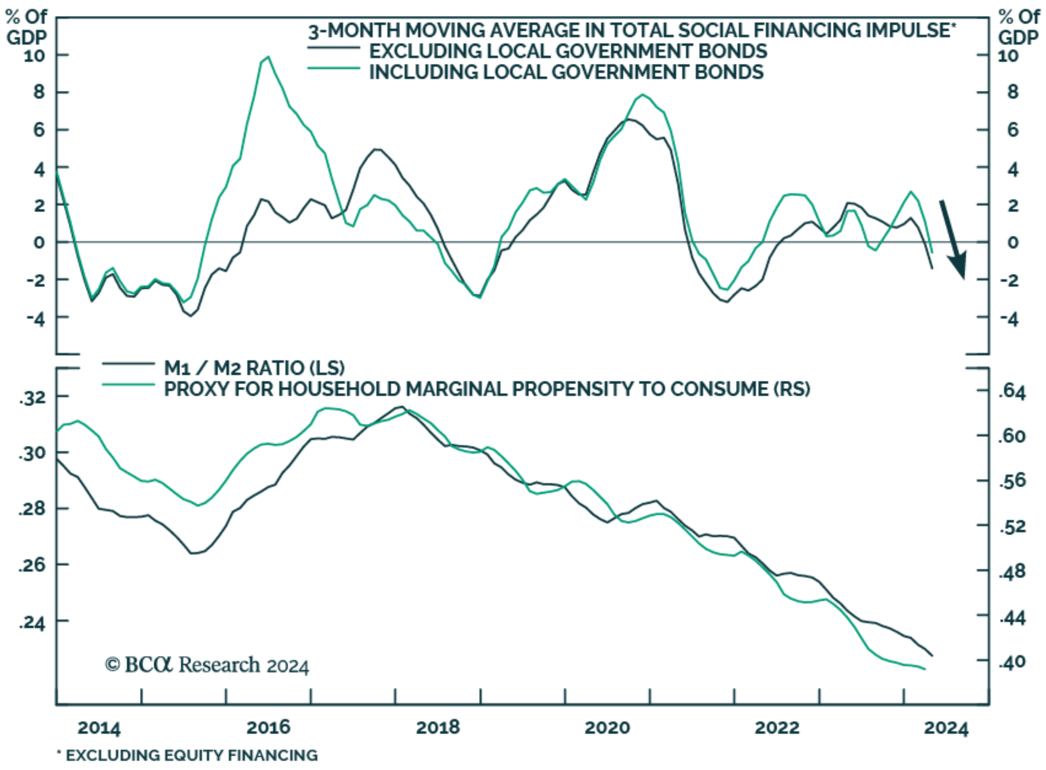


- This year equity markets have rallied every time there has been any economic data that would point towards a slowing economy that would urge the Fed to start cutting rates.
- However, historically what has happened is exactly the opposite. Equity markets tend to perform very strongly as long as interest 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: BCA Research, May 2024

China's Credit Growth Disappoints

China's Fundamentals Remain Weak



- Chinese aggregate financing, a broad credit measure, fell from CNY 12.9tr to CNY 12.7tr YTD in April, missing expectations of CNY 13.9tr. New loan growth also missed expectations. M1 shrank by 1.4% y/y against an expected 1.2% growth, and other money supply measures slowed down in April.

- The lackluster appetite for credit ultimately reflects poor domestic demand conditions. The total social financing impulse has declined on a 3-month moving average basis. Notably, the measure excluding local government bond issuance is now -1.4% of GDP and is an accurate reflection of the private sector's appetite for credit, as it is not subject to government-mandated loan quotas.

- Deflationary forces continue to dominate the Chinese economy. Supply-side stimulus has thus far failed to revive demand given poor private sector sentiment. Hence, we remain neutral on Chinese equities.

 Source: BCA, May 2024

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. This is further corroborated by the lower than estimated CPI prints for the month of April. This coupled with softer jobs numbers have brought back rate cut discussion on the table. Consistent disinflation and continued weakness in the labour market will increase the probability of rate cuts in 2024. • The second major change in the statement was the announcement that the Fed will start tapering quantitative tightening (QT) in June. The Fed will limit the maximum value 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 also 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 lower-than-expected CPI reading for the month of April. Last month's CPI reading and labor market report have increased the odds of a rate cut this year and the market has reacted positively to this and we continue to be in an environment where bad news is taken as good news. • 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 3.7% YoY, which translates into a positive surprise of more than 1%. Earnings have grown by 5.3% 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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