Lighthouse Canton Monthly Investment Memo

July 2023

LIGHTHOUSE CANTON

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

lighthouse-canton.com

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 ("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 subsidiary, 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.

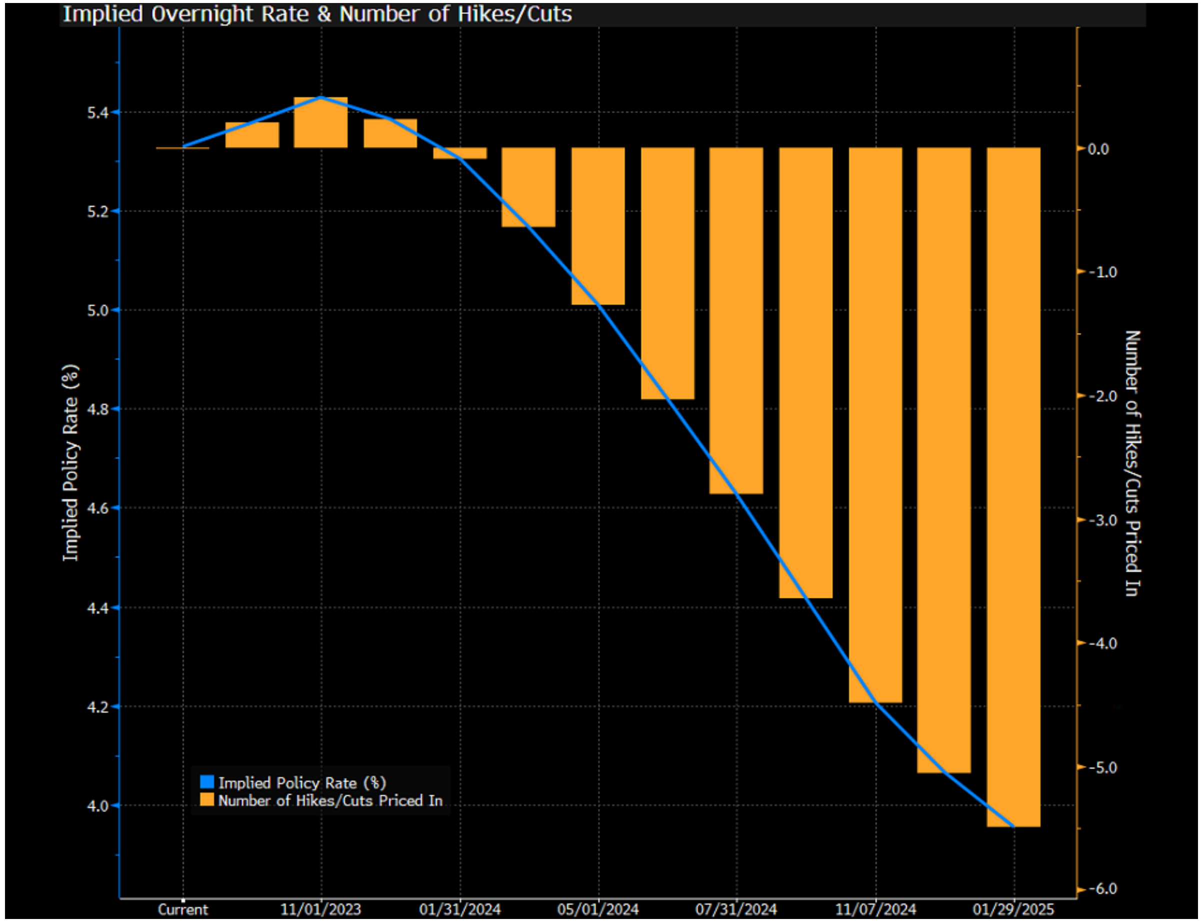
This document is confidential and is only intended for Accredited Investors and/or Professional Clients, as defined by MAS and DFSA.

SpotLight

1

Markets Pricing in 5 Rate Cuts Next Year

Probability of a Rate Hike in September Fell



Source: Bloomberg, July 2023

- The 25bp hike at the July FOMC meeting was as expected.
- Chair Powell's tone was somewhat dovish, suggesting a willingness to skip a hike at the September meeting, provided inflation data continue to be soft.
- Markets currently priced in a pause in September and 5 rate cuts next year.
- However, Powell continued to stress the Fed's determination to bring inflation back to the 2% target, hence, we urge against complacency in assuming this hike would be the last of this cycle.

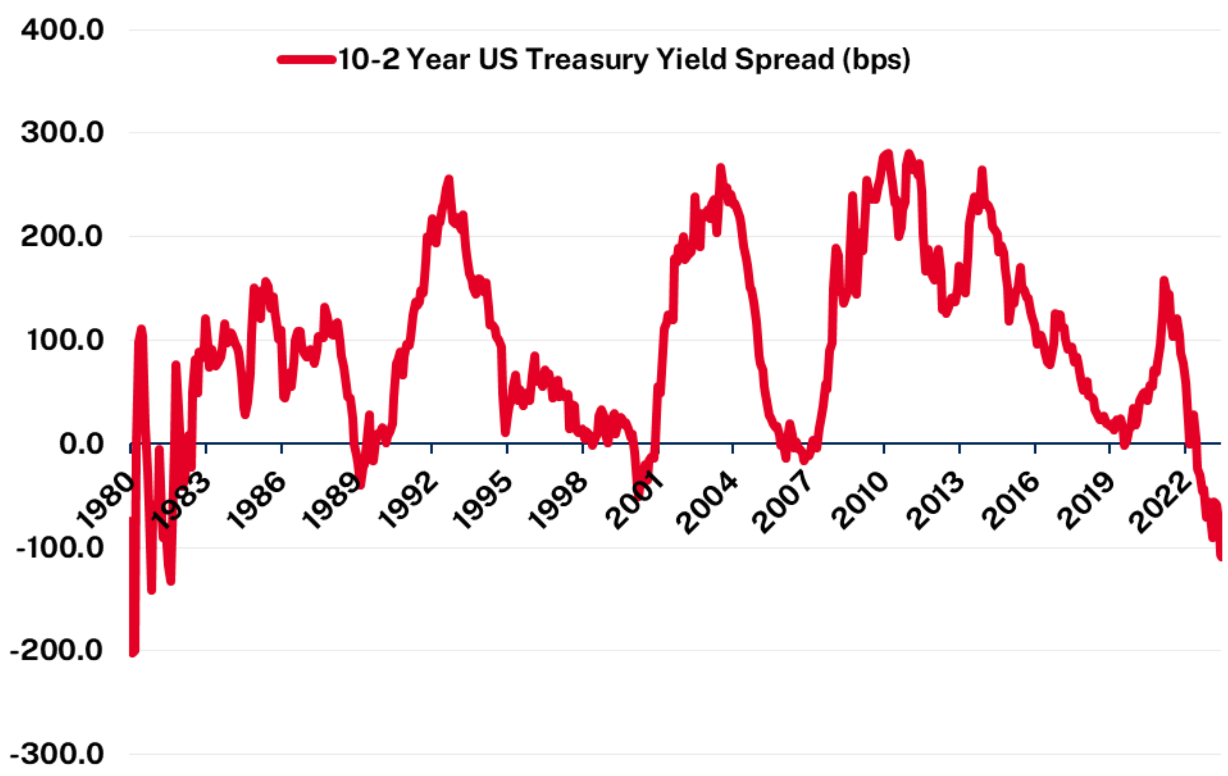
Market Updates

2

LIGHTHOUSE CANTON

US Yield Curve Most Inverted Since 80s

Fed tightening points to future economic weaknesses



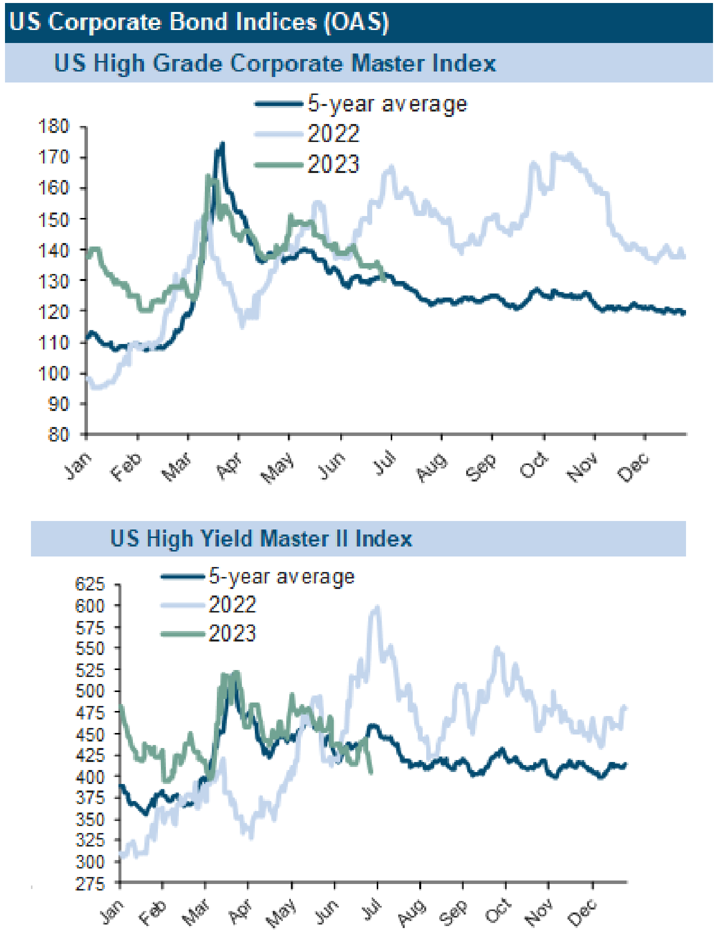
Source: Bloomberg, July 2023

- In the US Treasury market on Monday, a significant yield curve inversion occurred, reflecting traders' expectations of tighter Federal Reserve policies. Yield curve inversions happen when long-term bond yields, like the 10-year note, fall below short-term bond yields, such as the two-year note. This is uncommon since investors typically demand higher returns for longer-term investments due to increased risk. Inversions indicate anticipated economic weakness or future central bank policy easing. The two-year note yield exceeded the 10-year rate by a noteworthy 110.8 basis points, nearing the peak of 110.9 basis points in March, last observed in the early 1980s according to Bloomberg data.

LIGHTHOUSE CANTON

US Corporate Bond Spreads Grinding Tighter

Caution in the Junk Bond Market is Warranted



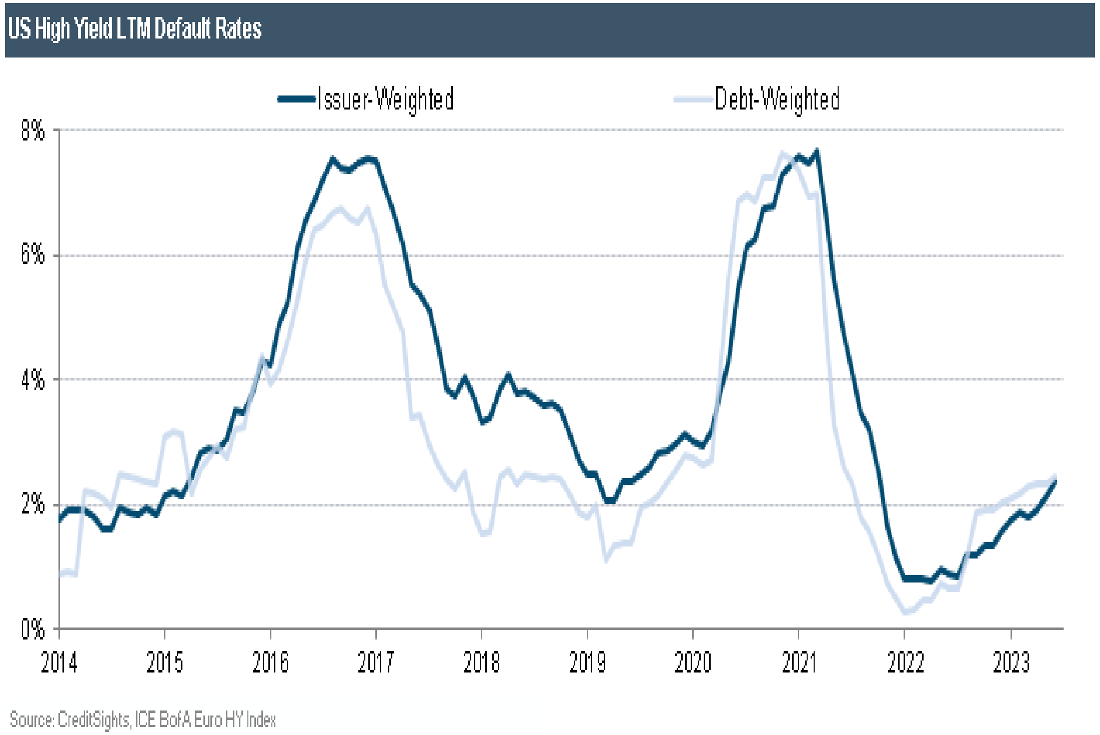
- Despite concerns over the health of the US economy, HY spreads (average 410bps as of end June) have fallen since highs last autumn and have been tightening in recent months.
- One reason could be the scarcity of supply, following a dealmaking frenzy during the height of pandemic, when companies took advantage of ultra-low interest rates to borrow cheaply and push out payment dates.
- We remain cautious and selective in HY bond issuers, as we expect the HY market to “normalize” and eventually reflect macroeconomic reality.

Source: CreditSights, July 2023

LIGHTHOUSE CANTON

US Default Rates inching higher

Healthcare and Retail Sectors Most Vulnerable



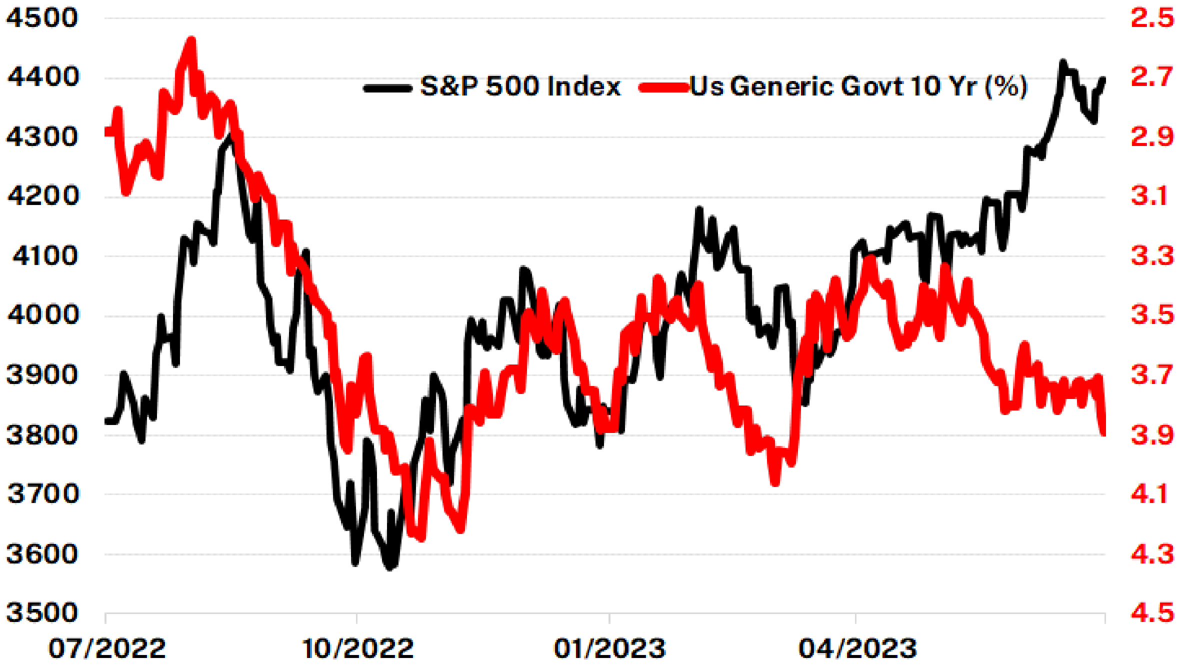
Source: CreditSights, July 2023

- US HY issuer–weighted default rate went up to 2.4% from May's 2.2% while the debt-weighted default went up to 2.5% as well.
- US HY distress ratio was at 11% . Distress is defined as bonds trading at OAS of over 1000 bps.
- Healthcare remained the most vulnerable with debt-weighted default rates of 13.8% followed by Retail at 4.3%. Healthcare had reported 14% default rates in May 2023 as well.

LIGHTHOUSE CANTON

Rates And Equities On Different Pages

Caution Warranted on Equities



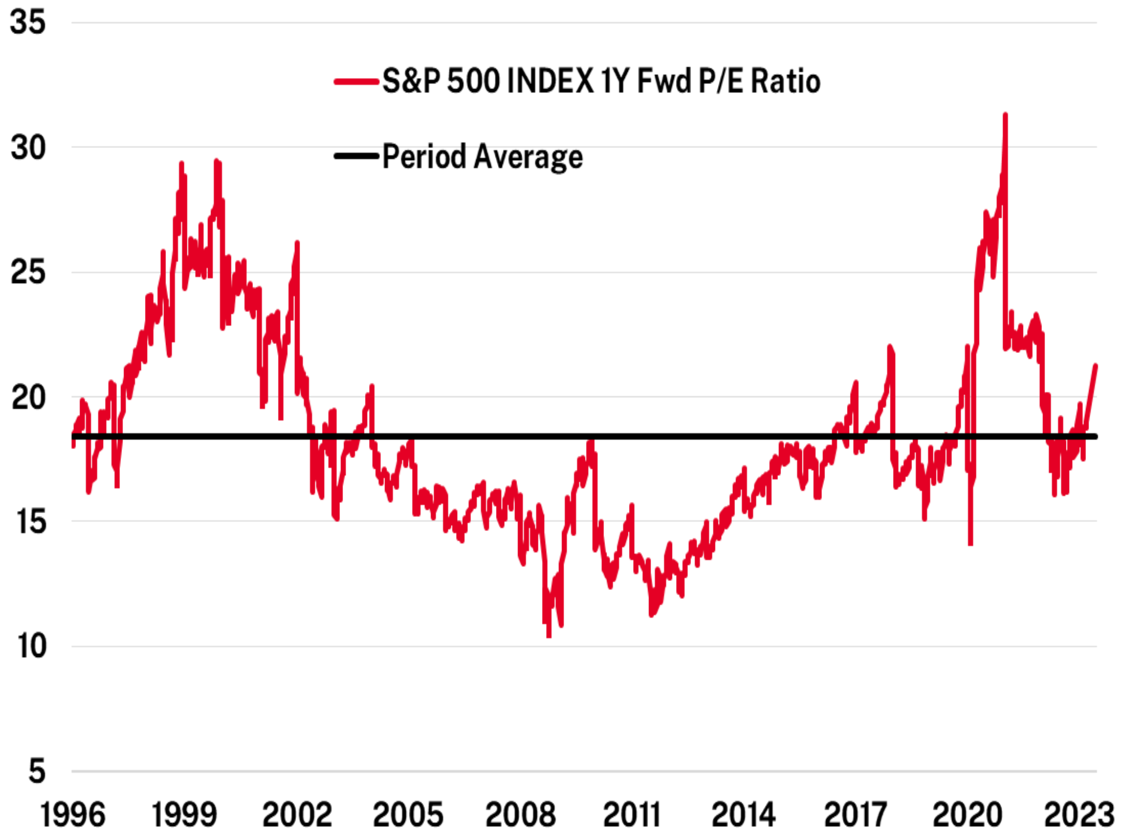
Source: Bloomberg, July 2023

- Over the past year, US rates and US equities have maintained a compelling inverse relationship, notably seen between July 2022 and May 2023.
- However, recent developments have seen these trends starkly diverge. In the last two months, the US 10-year yield has spiked 60 basis points from 3.3% to 3.9%, while the S&P 500 surged from 4100 to 4400 points, driven by AI-fueled tech stocks.
- We maintain a cautious stance on equities based on expensive valuations, the specter of another rates hike and the fact that 80% of the S&P 500 performance in 2023 is only explained by few stocks.

LIGHTHOUSE CANTON

Price/Equity Ratio Back To Expensive Territories

Caution Warranted on Equities



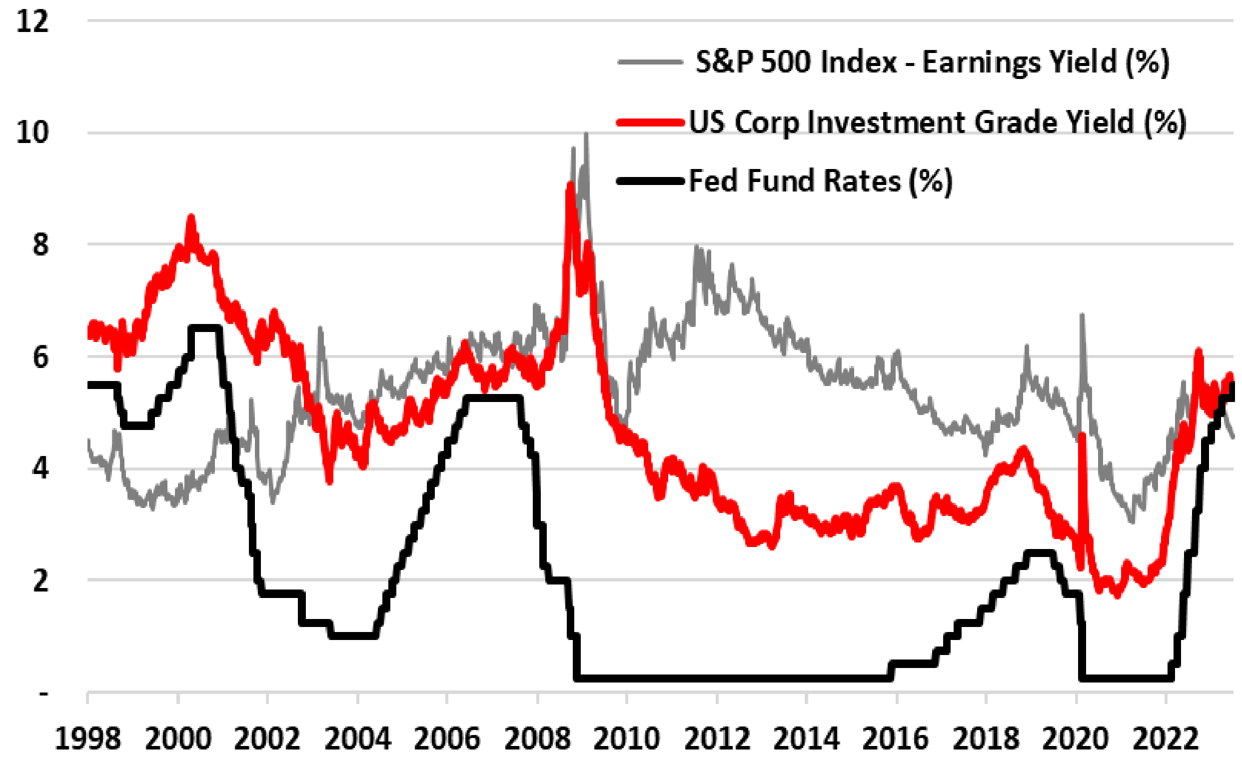
Source: Bloomberg, July 2023

- The current forward price-to-earnings ratio has surged to 21.2x, nearly 3 points above its 25-year average of 18.4x. Investors are willingly paying a premium to hold equities, indicating potential complacency in light of the anticipated recession next year, as suggested by fixed income investors.
- Although a goldilocks scenario, characterized by a robust economy and declining inflation, remains a possibility, the current rates, now at a 22-year high of 5.5%, are likely to exert an eventual slowdown on the economy.

LIGHTHOUSE CANTON

Equities & Bonds Yield Less Than Treasuries

Little to no reward in buying equities



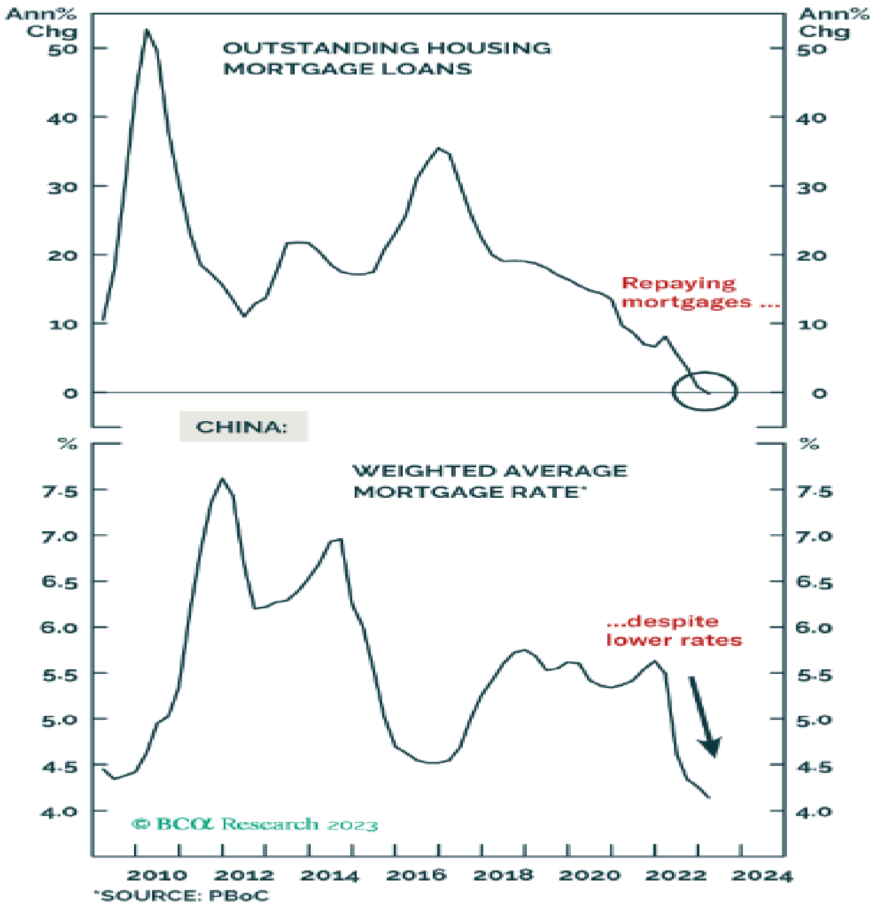
Source: Bloomberg, July 2023

- As of yesterday, the earnings yield of US equities, represented by the S&P 500 index, stands at 4.5%. While equities historically have been a favorable asset class, it's important to note that the current earnings yield falls well below the yields offered by investment grade corporate bonds ETFs at 5.4% and the Federal Fund Rates at 5.5%.
- Considering risk-adjusted returns, equities offer limited reward. Our preference order: cash (fixed deposits), bonds, alternatives, and equities.

LIGHTHOUSE CANTON

China in a Liquidity Trap

Credit demand is weakening despite falling borrowing costs

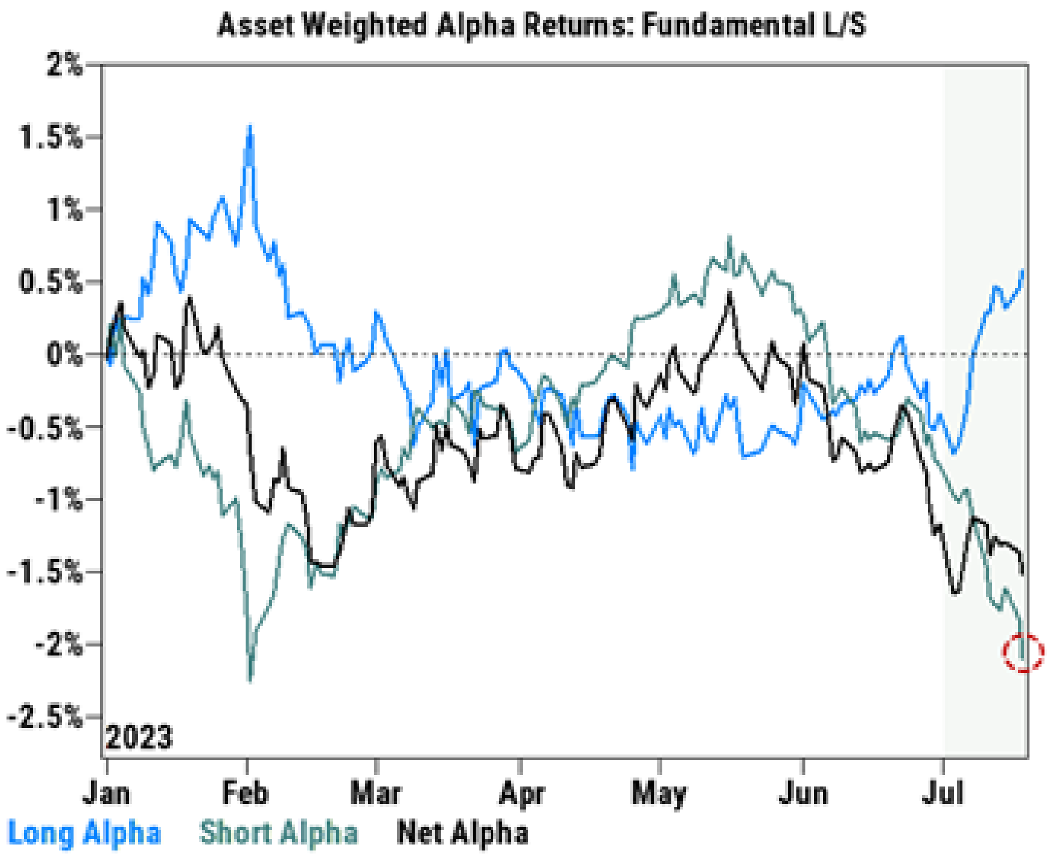


Source: BCA, July 2023

- Despite lower interest rates, credit demand has collapsed from households
- In fact households have been paying down mortgages.
- This is a symptom of a liquidity trap where households are unwilling to spend which points to a lack in conviction on the underlying economic strength today
- While policy stimulus is expected, BCA is of the opinion that the current liquidity trap issue will likely water down any stimulus multiplier until a confidence is restored in the real estate sector.
- China's investing landscape could remain rocky and therefore we think an actively managed approach to the region would be a much more sensible one.

Equity L/S Managers Have Lagged the Market

Defensive positioning and negative short alpha have been key contributors



Source: Goldman Sachs, July 2023

- According to GS Prime, Fundamental L/S managers have not been able to keep up with the YTD market rally despite generating positive long alpha.
- Most of this can be explained by negative short alpha. However, this is not the only contributor to poor YTD net alpha.
- Since fundamental managers take bottom up approach to portfolio construction, most were positioned for a weak economic scenario and earnings deterioration coming into the year.
- As the overall rally has been driven mostly by thematic (non-fundamental) trends, it is unsurprising that the vast majority did not participate in the AI rally.

LIGHTHOUSE CANTON

Recent Ideas

3

LIGHTHOUSE CANTON

Recent Trade Ideas - Live positions

Date	Asset Class	Asset	Long/Short	Description	Cost Price	Spot Price	Target Price	Stop Loss	P&L (TR) (p.a.)	Benchmark (MSCI / LQD)	% Upside YTW (%)	Status
3-Jul-23	Equities	Long	Long	CROCS INC (CROX US)	117.06	121.87	156.50	93.648	2.3%	2.5%	**28%**	live
3-Jul-23	Equities	Long	Long	ICICI BANK LTD-SPON ADR (IBN US)	23.39	24.66	26.90	18.712	5.4%	2.5%	**9%**	Live
3-Jul-23	Fixed Income	Long	Long	BARCLAYS PLC - BACR 4 3/8 PERP - (US06738EBT10)	68.14	70.92	100.00	58.142	0.0%	0.6%	**13%**	Live
3-Jul-23	Fixed Income	Long	Long	ING GROEP NV - INTNED 3 7/8 PERP - (US456837AY94)	71.90	74.66	100.00	61.9	0.0%	4.1%	**12%**	Live
3-Jul-23	Fixed Income	Long	Long	BAT CAPITAL CORP - BATSLN 4.39 08/15/37 - (US05526DBD66)	79.79	80.65	100.00	69.791	0.0%	0.6%	**7%**	Live
6-Jul-23	Equities (FCN)	Option	Long	FCN(Baidu, Charter) , 6M, Strike @ 75%, Coupon 14.95%	100.00		100.00		15.0%	4.2%	**7%**	Live
6-Jul-23	Equities (FCN)	Option	Long	FCN(Amazon, Mercadolibre, Pool) , 6M, Strike @ 75%, Coupon 15.37%	100.00		100.00		15.4%	4.2%	**7%**	Live
6-Jul-23	Equities (FCN)	Option	Long	FCN(Target, Darling) , 6M, Strike @ 75%, Coupon 11.68%	100.00		100.00		11.7%	4.2%	**5%**	Live
6-Jul-23	Equities (FCN)	Option	Long	FCN(Paypal, Fidelity, Global Payments) , 6M, Strike @ 75%, Coupon 14.16%	100.00		100.00		14.2%	4.2%	**6%**	Live
6-Jul-23	Equities (FCN)	Option	Long	FCN(Solaredge, Enphase) , 6M, Strike @ 75%, Coupon 23.15%	100.00		100.00		23.2%	4.2%	**10%**	Live
6-Jul-23	Equities (FCN)	Option	Long	FCN(Qualcom, Arista, Epam) , 6M, Strike @ 75%, Coupon 14.51%	100.00		100.00		14.5%	4.2%	**6%**	Live
6-Jul-23	Equities (FCN)	Option	Long	FCN(Skyworks, Zebra) , 6M, Strike @ 75%, Coupon 11.09%	100.00		100.00		11.1%	4.2%	**5%**	Live
11-Jul-23	Equities (FCN)	Option	Long	FCN(Microsoft, Arista, Super Micor Computer) , 6M, Strike @ 65%, Coupon 17.26%	100.00		100.00		17.3%	3.1%	**8%**	Live
11-Jul-23	Equities (FCN)	Option	Long	FCN(Super Micor Computer) , 6M, Strike @ 65%, Coupon 16.21%	100.00		100.00		16.2%	3.1%	**7%**	Live
12-Jul-23	Equities	Long	Long	TECHNIP ENERGIES NV (TE FP)	20.02	21.05	38.23	16.016	6.6%	9.6%	**82%**	live
12-Jul-23	Equities	Long	Long	CROCS INC (CROX US)	117.06	121.87	156.50	93.648	2.3%	2.5%	**28%**	live
21-Jul-23	Equities	Long	Long	ICICI BANK LTD-SPON ADR (IBN US)	23.39	24.66	26.90	18.712	5.4%	2.5%	**9%**	Live
21-Jul-23	Equities	Long	Long	BRITISH AMERICAN TOB-SP ADR (BTI US)	32.67	33.91	40.00	26.136	6.0%	3.7%	**18%**	live
21-Jul-23	Equities	Long	Long	ELEVANCE HEALTH INC (ELV US)	475.93	475.85	561.30	380.744	-1.3%	0.5%	**18%**	Live

Source: Lighthouse Canton, 27th Jul 2023
*Target over an investment cycle

LIGHTHOUSE CANTON

LIGHTHOUSE CANTON

info@lighthouse-canton.com

service@lighthouse-canton.in

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