Investment Playbook Weekly Update

19th – 23rd February 2024

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

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Charts of the week

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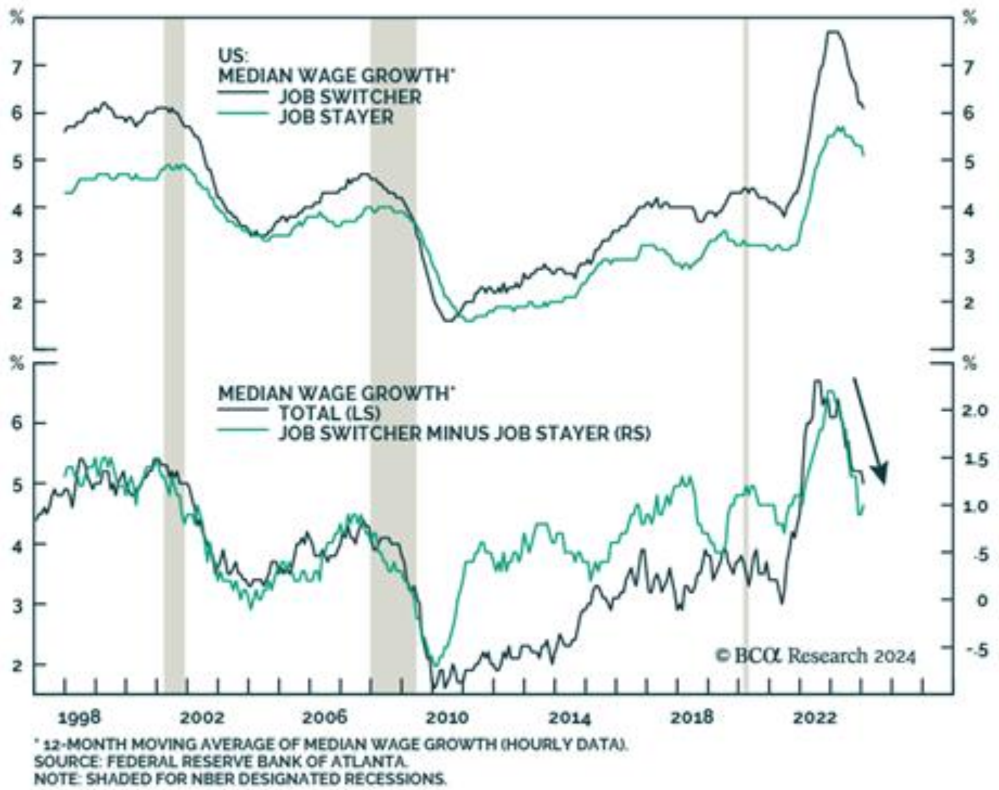
Continued Deceleration In Wage Growth

Suggests Easing Employment Conditions And Price Pressures

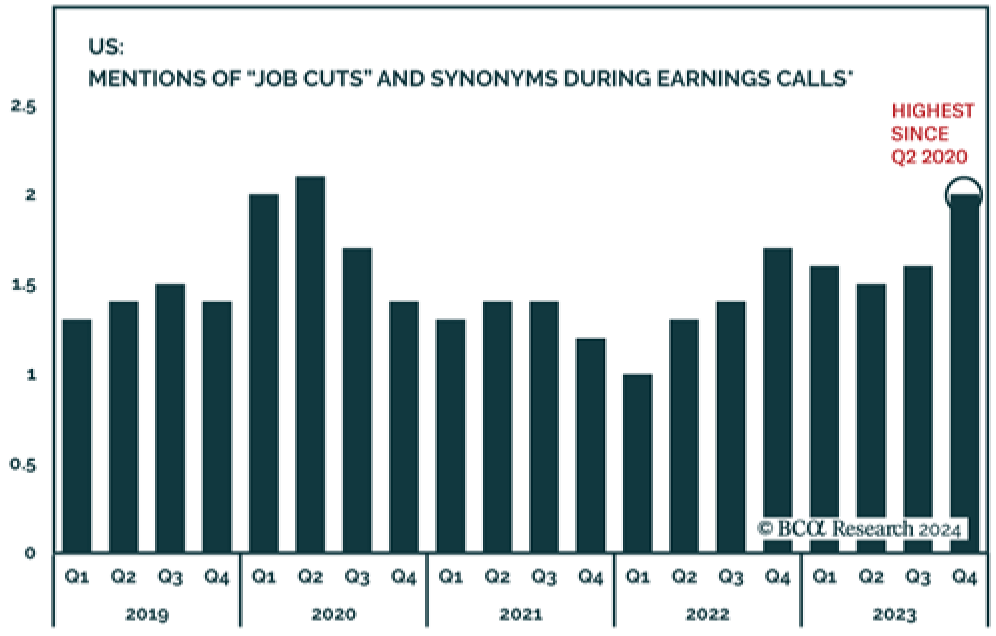


- After having surged in the second half of 2021 and early 2022, the Atlanta Fed's Wage Growth Tracker peaked in mid-2022 and has since been on a general downtrend. The latest reading of 5.0% in January is a continuation of this process, marking the lowest pace of wage increase since December 2021.
- The continued downtrend in wage growth is evident among both job switchers as well as job stayers. Notably, during the wage disinflation period over the past year, the downtrend has been more pronounced among those that have switched jobs than among those that have not. This signals that job switchers had more power during the pandemic period as compared to now, understandably, as job market is loosening.
- Thus, wage dynamics, together with signals from other key labour market indicators – declining job openings, hiring, quit rates – all point to easing employment conditions and price pressures.

Source: BCA, February 2024

A Benign Quest For Efficiency

US: Mentions Of "Job Cuts" And Synonyms During Earnings Calls Highest Since Q2020



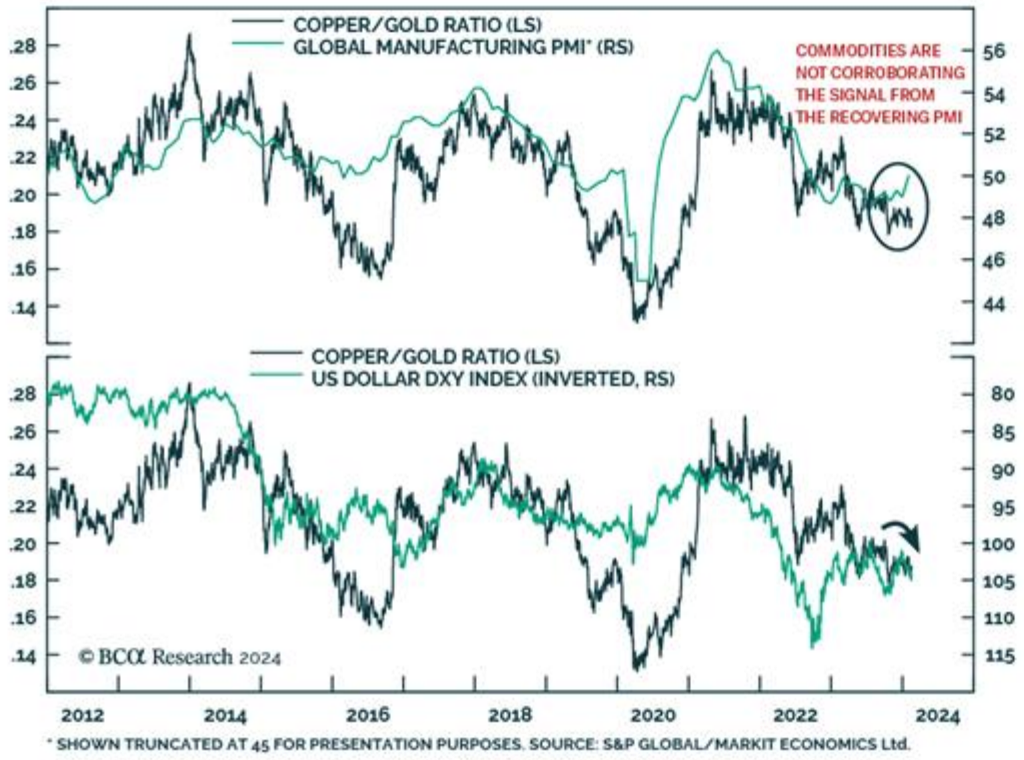
SOURCE: BLOOMBERG.

- Markets are now priced for about 100bp rate cuts down from 175 bps at beginning of the year, on the back of recent strong US employment report. Signs of economic resilience are boosting the performance of US stocks
- However, contents of Q4 earning calls are raising a potential warning about the outlook. According to Bloomberg data, mentions of job cuts are at the highest level since Q2 2020, signaling a softening in employment conditions ahead.
- There are two competing narratives that could explain the increase in job cut mentions among US firms – each with different implications for financial markets. The optimistic take is that companies are reducing headcount in a quest for efficiency that will ultimately benefit profit margins and the bottom line. The pessimistic take is that faced with reduced pricing power, sticky wage growth, and economic uncertainty, companies are shedding workers to preserve margins. While the former would present a sanguine scenario for stocks, the latter would signal a more concerning development for the economy and companies' ability to generate strong top-line growth.

Source: BCA, February 2024

Copper-To-Gold Ratio Trending Lower

What's Weighing On It?

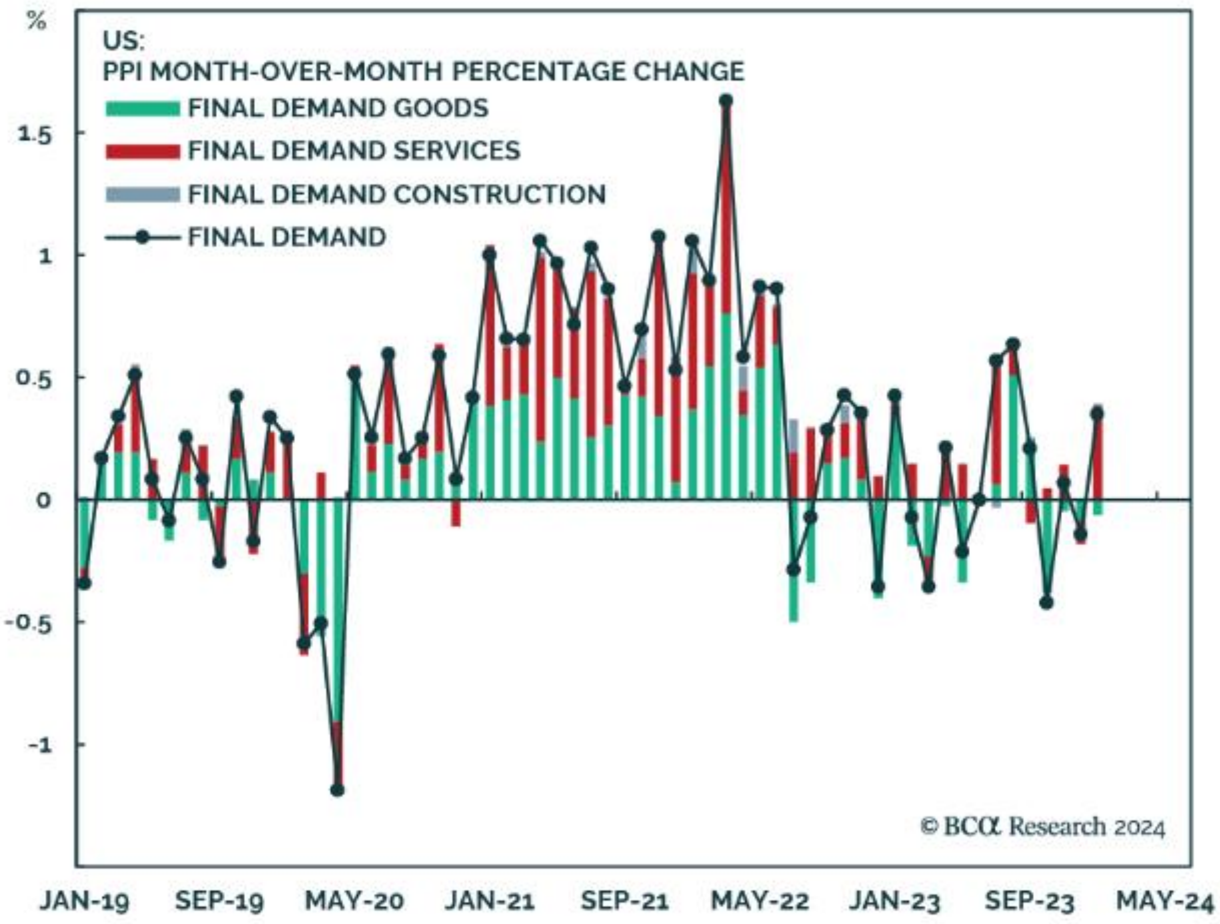


- The Global Manufacturing PMI clocked in at 50 in January – exactly on the boom-bust line. The index has been on a general uptrend since mid-2023 with the January figure marking the first non-contractionary reading since August 2022.
- However, the signal from commodity markets is not as rosy. The copper-to-gold ratio has declined over this period, failing to corroborate the optimistic message from the Global Manufacturing PMI. To the extent that the price of copper acts as a barometer of global economic activity while gold is a safe haven, an increase in the copper-to-gold ratio often signals an improvement in global risk sentiment. Hence, the ratio typically tracks the global manufacturing PMI.
- This decoupling underscores that the US is the main source of global economic resilience. While US GDP expanded by 3.3% in Q4 2023, the Eurozone economy stagnated and both Japan as well as the UK fell into recession in H2 2023. Moreover, the Chinese economy – which accounts for roughly half of global demand for refined base metals – continues to face headwinds from its struggling property market.

Source: BCA, February 2024

The Signal From US PPI Data

BCA Expects Fed To Deliver 75-100 bps Of Rate Cuts This Year If There Is No Recession

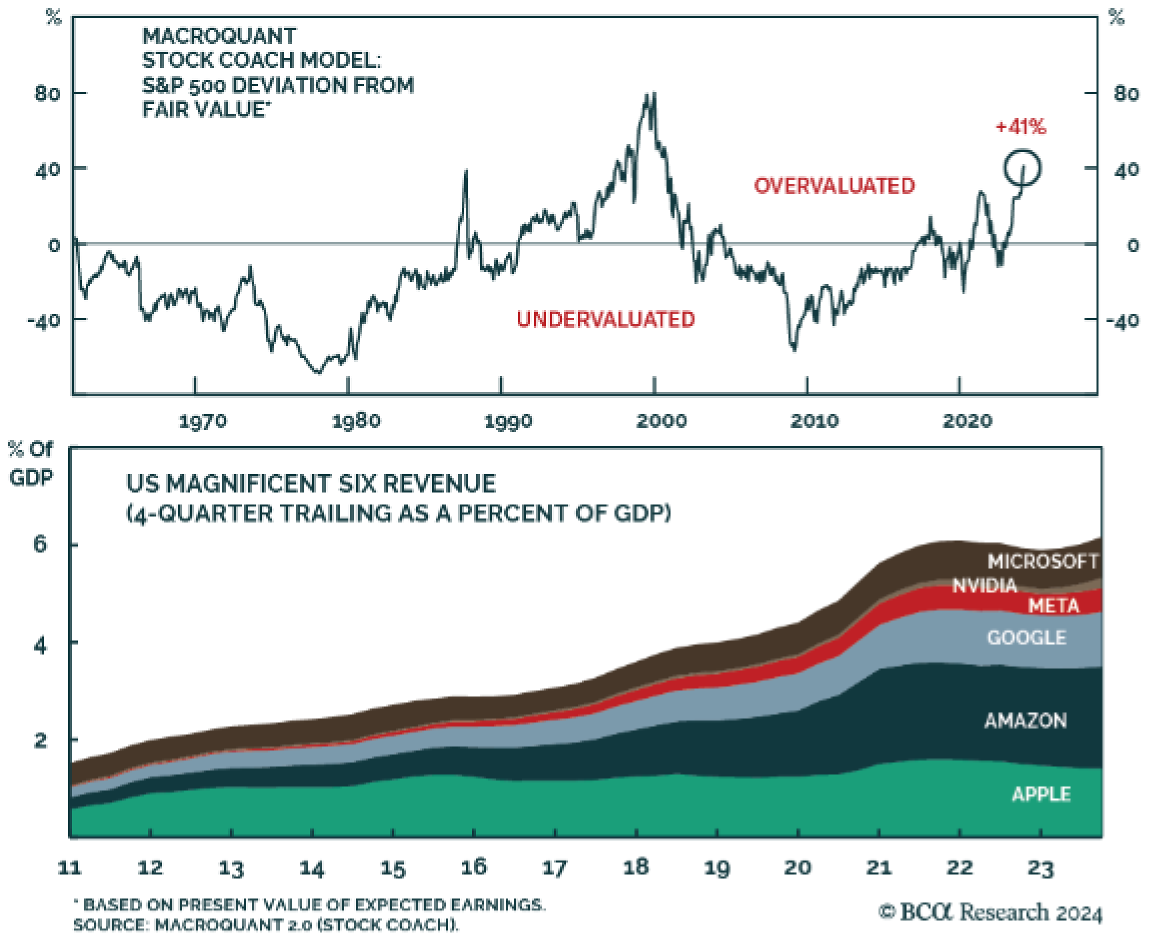


Source: BCA, February 2024

- The hotter-than-expected US PPI report for January drove a Treasury selloff as both headline and core PPI exceeded forecasts.
- This reinforces the view of sticky price pressures, suggesting a strong January PCE index – the Fed's main gauge for inflation.
- Market expects no Fed easing in March but consider it possibly happening in May. Long TIPS favored for inflation hedge due to its attractive pricing.

US Market Appears Overvalued

US Tech Giants Boosting S&P 500 Valuations



Source: BCA, February 2024

- BCA Research forecasts a mild-to-moderate recession with significant financial repercussions due to market overvaluation.
- The S&P 500, trading at a 41% premium to its net present value, echoes levels last seen in October 2000. Magnificent 6 stocks, comprising 28% of the index, exhibit impressive earnings growth. Excluding these firms, the S&P 500 would trade at 18.1-times forward earnings.
- The future will reveal if current tech giants can sustain rapid earnings growth to validate their sky-high valuations or if they'll be replaced by agile competitors.

LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• US consumer prices jumped at the start of the year, tempering hopes for a continued drop in inflation and likely delaying any Federal Reserve interest-rate cuts. Core consumer price index, which excludes food and energy costs, increased 0.4% from December, more than expected and the most in eight months, according to government figures out Tuesday (14 Feb 2024). From a year ago, it advanced 3.9%, the same as the prior month. Economists favor the core gauge as a better indicator of underlying inflation than the overall CPI. That measure advanced 0.3% from December and 3.1% from a year ago. • The figures further reduce already-slim chances that Fed officials will start lowering interest rates soon, and any additional reacceleration might reignite talks that they will resume hikes. Some policymakers have said they want t see a broader easing of price pressures before cutting 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 <10% 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.
Equities	• Equities had a choppy week, with a weak start getting reversed by Nvidia's strong earnings print. Till now, 425 of the 500 companies that are a part of the S&P 500 have reported numbers and on a cumulative basis sales have grown by 3.9% YoY and earnings have delivered 7.1% YoY growth, with the Magnificent 7 making a significant contribution, more than offsetting the degrowth posted by multiple other constituents of the index. • We continue to believe that the equity market resurgence seen since October 2023 may be transitory. The S&P 500's ascent to 5,000 points hinges on expectations of a 'soft landing' for the US economy, including an approximate 10% growth in US stock earnings and an 19x forward P/E ratio. Markets may be underestimating both upside risks to inflation and downside recessionary risks. Accordingly, we outline four scenarios for 2024:

LC Views Summary (2/3)

<table>
<tr><th>Sub-Asset</th><th>Recommended Positioning</th></tr>
<tr><td>Equities</td><td>
• Scenario #1: A soft landing materializes, leading to equities moving sideways.
• Scenario #2: An increase in investor optimism ('Goldilocks scenario') drives US stocks higher.
• Scenario #3: Confirmation of a recession ('Retorquing' of Scenarios 1 & 2) prompts a market correction.
• Scenario #4: Inflation picks up and prompts a market correction.

Given the current trajectory toward softer global GDP growth, the likelihood of a US recession, now pegged at 50%, may rise as the year progresses. Additionally, equities seem less appealing when compared to bonds and cash. The gap between the 3-month US Treasury yield and the S&P 500’s dividend yield has widened to 400 basis points, a differential reminiscent of the years preceding the significant market downturns of 2000 and 2007.

Consequently, we lean towards the possibility of a market correction in 2024. Nonetheless, we acknowledge that investor optimism could prevail until a recession becomes evident, potentially by mid-year and therefore believe that investors who want to take equity risk exposure, should do so with adequate hedges in place, to minimize downside risk.
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LC Views Summary (3/3)

Sub-Asset	Recommended Positioning
Currencies	• Currencies are expected to remain volatile throughout 2024. Given higher recessionary risks, the USD may strengthen over a short-term tactical horizon but for longer term investors, we continue to hold the view for a bearish USD. Exposure to JPY, EUR and GBP could be increased over time to benefit from the recent lows and a peak in dollar’s strength driven by peak policy rates. We also recommend adding active managers (Macro funds) to monetize opportunities in currencies and rates.
Commodities	• Our long-term view for a bearish USD is likely to be supportive for Gold. We also like the yellow metal for structural reasons: diversification benefit, inflation hedge, geopolitical risk and de-dollarization trend. • Oil is likely to remain highly speculative this year as witnessed in March. On one hand, recessionary fears should temper demand. On the other hand, the production cut by OPEC+ members and already low oil inventories will support prices in the near term.
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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