Investment Playbook Weekly Update

21st to 25th August 2023

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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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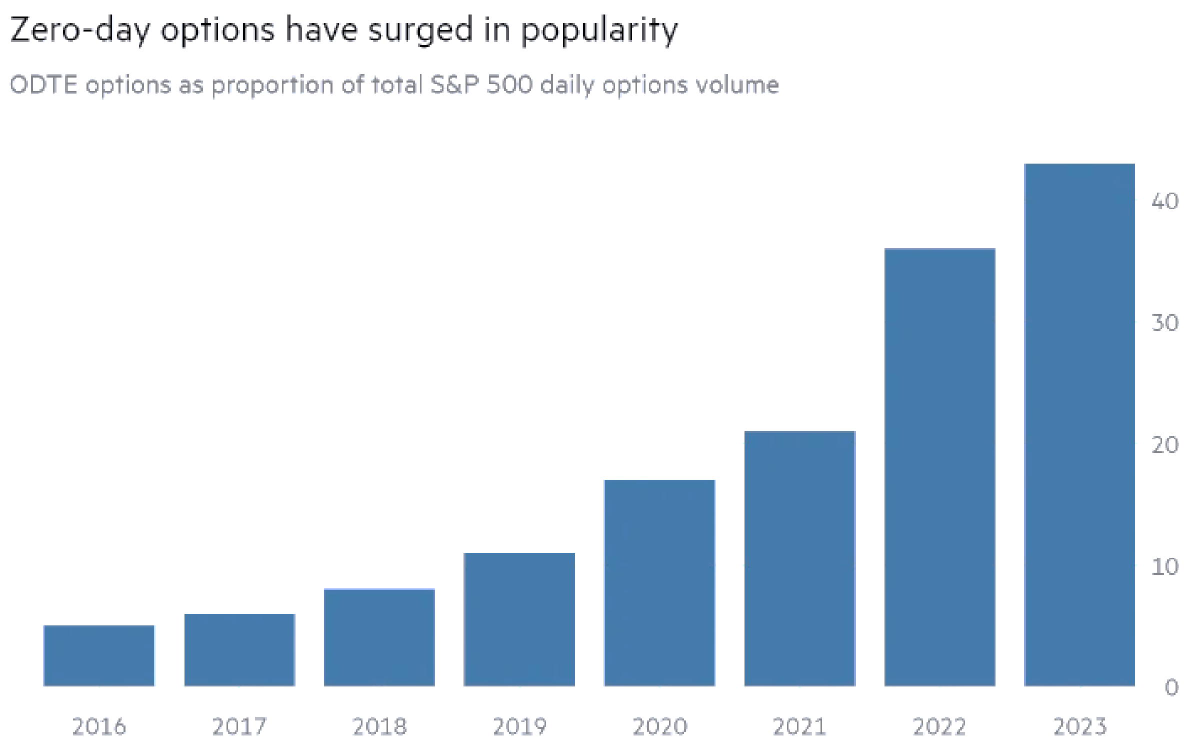
Zero-Day Options Sparks fear Over Market Volatility

Very short-dated options account for 43% of volume in S&P 500 options



Source: CBOE, Financial Times, August 2023

- So-called zero-day options, which allow traders to take targeted positions in stock markets around events such as economic data releases or monetary policy meetings, have surged in popularity and now account for 43 per cent of overall S&P 500 options volume, compared with just 6 per cent in 2017, according to data from Cboe Global Markets.
- Record-high purchases of zero-day options have been "a clear contributor to the intraday volatility we're seeing [month to date] thus far", said Charlie McElligott, an equity derivatives strategist at Nomura. Their overuse raises the chances that a 1 per cent sell-off turns into a 3 per cent decline, he added.

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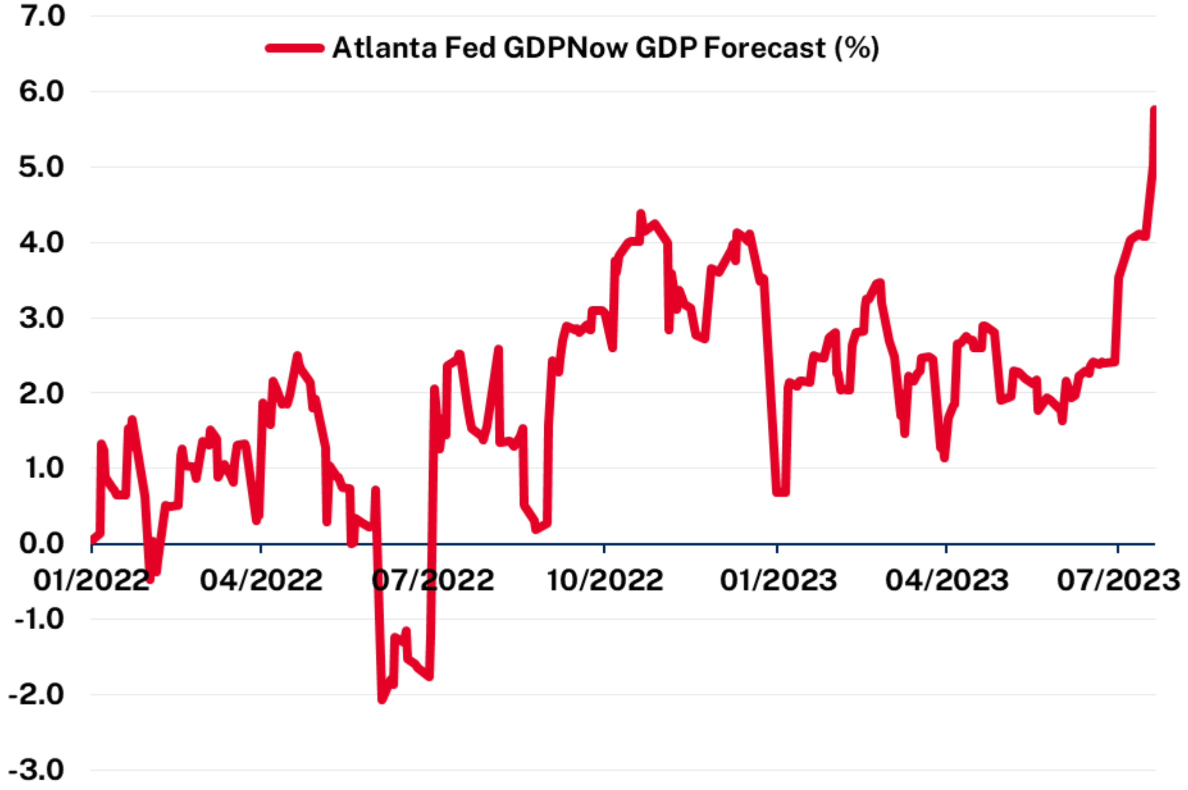
US GDP Growth Estimates Have Doubled Since July

Atlanta Fed GDP Now above 5% makes argument for higher rates



Source: Bloomberg, Fed, August 2023

- Last week, Altana's projection for 3Q GDP growth was revised to 5.8%, a significant increase from the 2.4% predicted prior to the July Federal Reserve meeting. This upward adjustment can be attributed to a surge in demand in the second half and robust consumer spending. Given these conditions, the Federal Reserve may continue to raise interest rates.

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Can the HSCEI stay above 6,000?

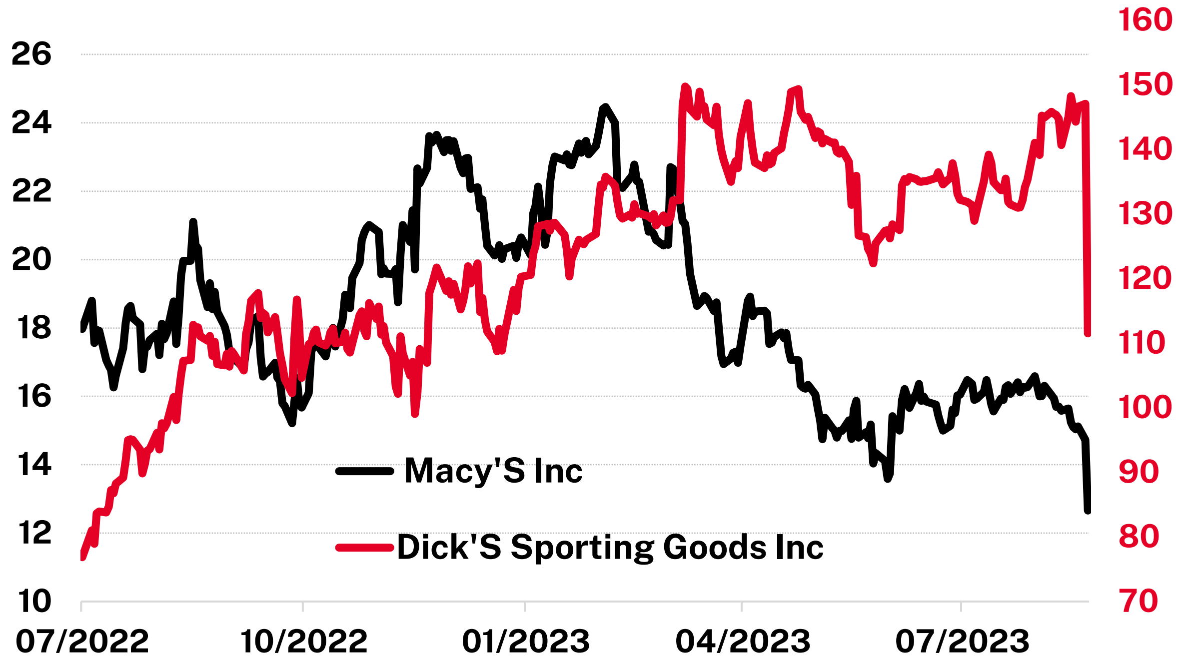
The sell off in Chinese assets has continued this month, with the HSCEI currently testing a crucial support

Source: Bloomberg, August 2023

- We believe that the Chinese economy has recently entered a deflationary environment, primarily caused by an elevated savings rate, which has resulted in significantly lower demand for goods & services.
- Additionally, the stress in the Chinese property industry and looming policy uncertainty has resulted in lower demand for credit, as the general public has not been buying houses and there has also been a significant decline in private investment, even after the PBoC has eased monetary policy repeatedly this year, pointing towards a liquidity trap situation, where even lower interest rates fail to kickstart the economy.
- We expect the Chinese economy to continue struggling over the next 3-6 months from a fundamental perspective and would expect the Hang Seng to continue breaking down if the strong psychological support of 6,000 is taken out.

Signs of slowing consumer spending

Retailers have started to come across a more cautious consumer, which has led to declining topline and profitability



Source: Bloomberg, August 2023

- Retailers like Macy's and Dick's sporting goods have started to flash warning signs on US consumer spending. Macy's reported a decline in sales primarily caused by markdowns to clear inventory, for the June quarter and noted rising credit card delinquencies. On the other hand, the sporting goods retailer missed Q2 earnings expectations; slashed its full year outlook and posted elevated inventory numbers. Both shares corrected by 14% and 24% respectively, on Tuesday.
- Nike posted a record 9 day losing streak as of 22nd August, on the back of sluggish Chinese consumer spending recovery and elevated inventory levels, which have continued to weigh on profitability.

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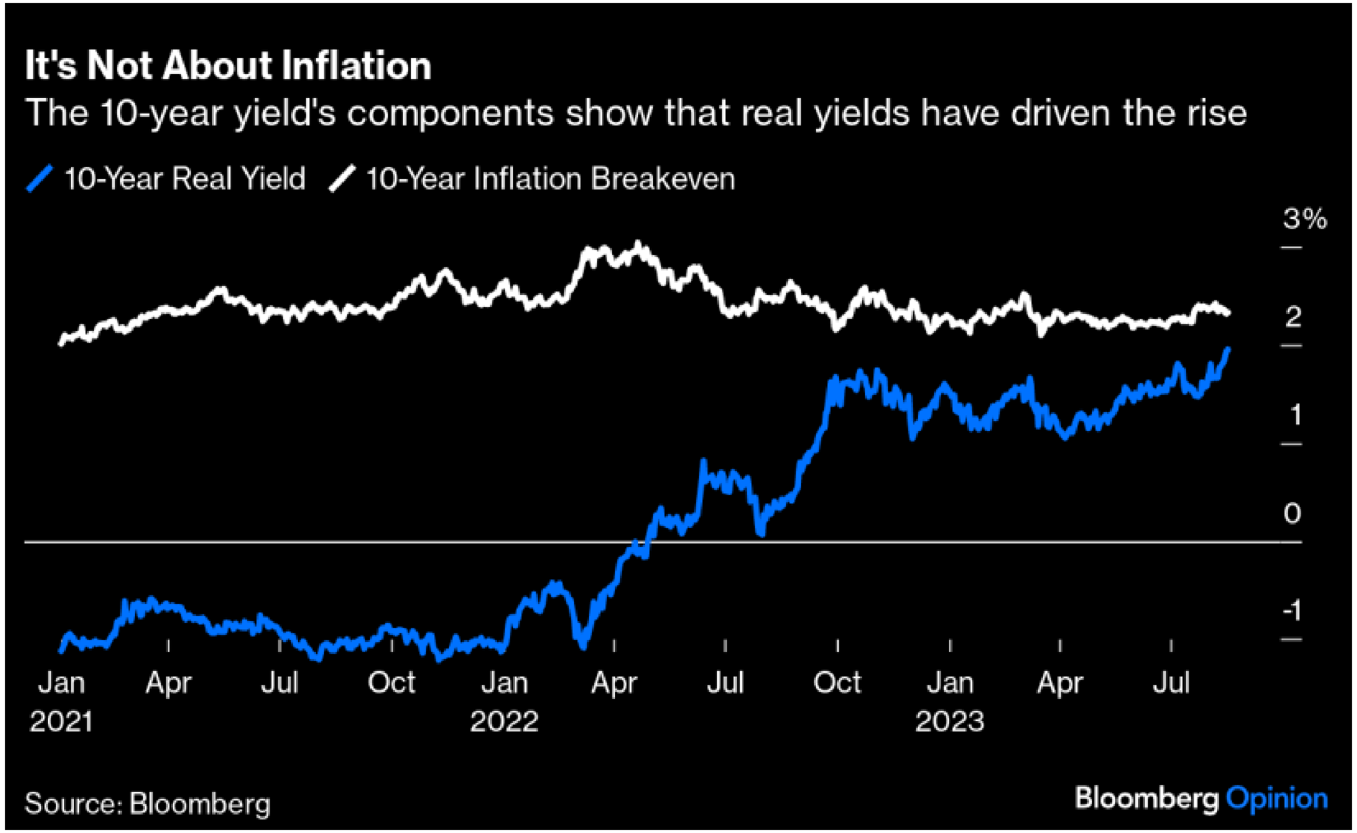
Investors are Poised for the Fall in Yields

But is it Happening?



Source: Bloomberg, August 2023

- Breaking the 10-year yield into its components 1) implicit expected inflation in the next 10 years (10Y inflation breakeven) 2) real yield, we find that shifting projections for the price levels have had more or less nothing to do with it.
- The push to higher real yields looks set in play and shows a likely structural shift away from the GFC-era levels is underway, and a spread of 2% or greater above inflation expectations makes sense for the 10Y UST.
- Reason for rising real yields could be the belief in a resilient economy in which minimal post-GFC interest rates will no longer be appropriate.

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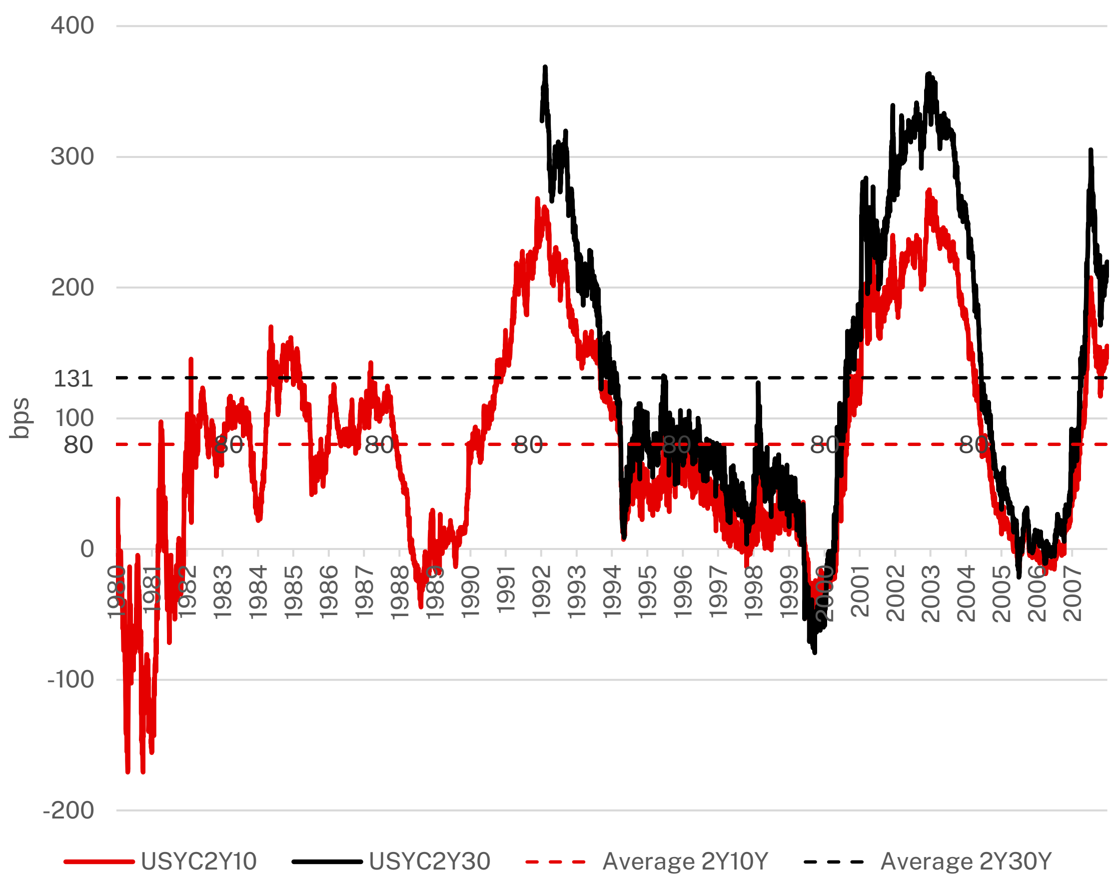
Keep Duration Below 10 Year

Extending Duration Beyond Might Not Pay-Off



Source: Lighthouse, August 2023

- Market is pricing in 4-5, 25bps rate cuts next year and a pause for 2023. At current 5.25% lower bound of Fed Fund rate, if one is to price in 5 rate cuts, Fed Fund rate would be at 4%.
- Looking at UST2Y10Y from 1980-2008, gives us an average of 80bps and 131bps for UST2Y30Y. Therefore, one could assume that if 2Y UST is at 3.5%, 10Y UST would be around 4.3% (current 4.35%) and 30Y UST at 4.81% (current 4.45%). In other words, 10Y and 30Y might not move much from these levels.
- Even if the US managed a soft landing or no landing, where no rate cut is expected, in a normalized upward sloping yield curve where the economy is resilient, one would expect the 10Y and 30Y UST yields to rise, and not fall, from here.

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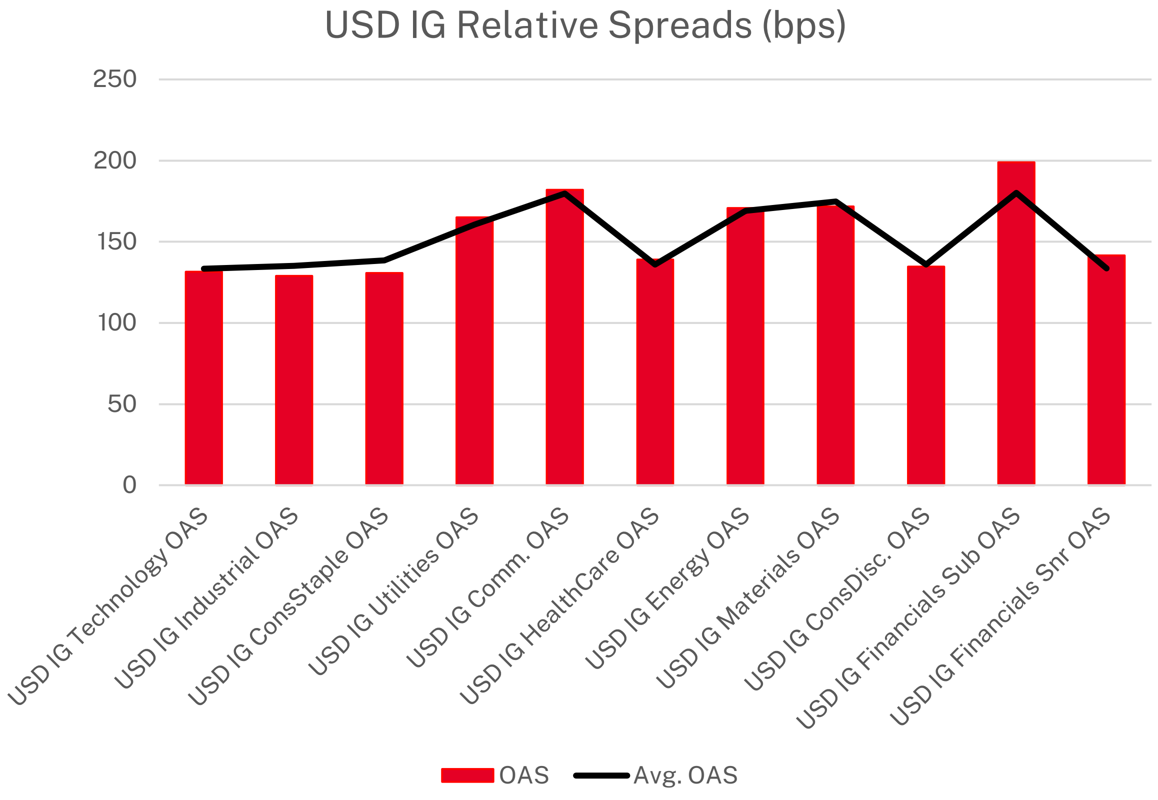
Relative Valuation – Fixed Income (1/3)

Valuations expensive relative to historical averages in the IG Corp space



Source: Lighthouse, August 2023

- Sector wise current OAS vs Avg. OAS (521D) indicate fair valuations overall.
- A deeper dive shows some value in US IG Financials Sub sector relative to its historical OAS.
- Hopes of soft-landing triggered spreads compression across sectors.

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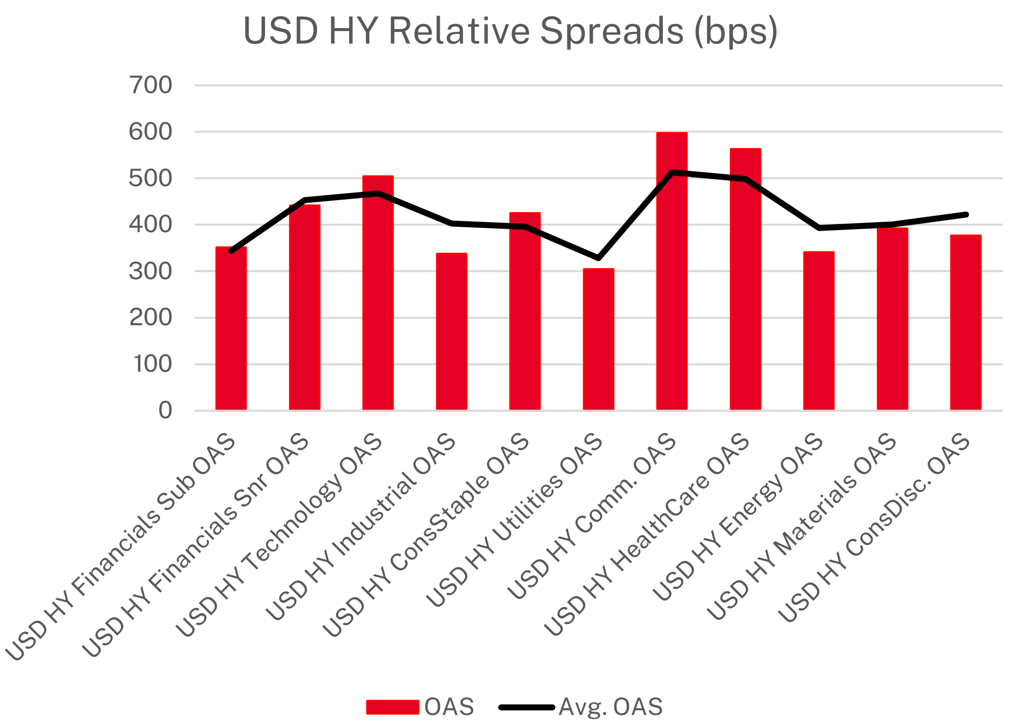
Relative Valuation – Fixed Income (2/3)

Valuations expensive relative to historical averages in the HY Corp space

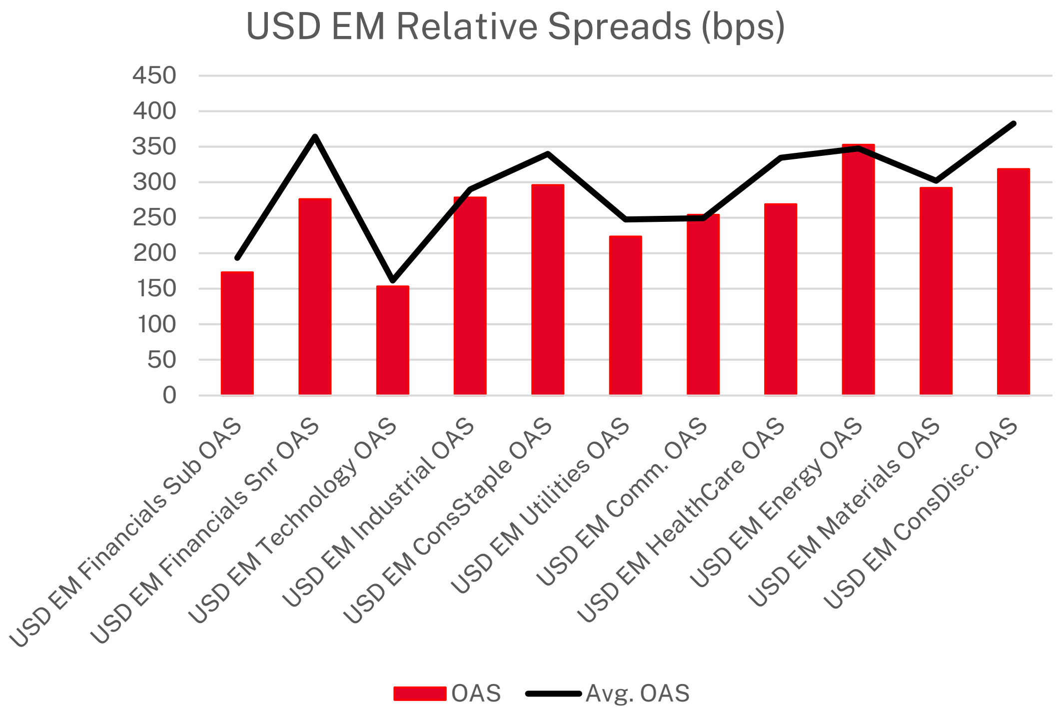


Source: Lighthouse, August 2023

- Sector wise current OAS vs Avg. OAS (521D) indicate expensive valuations overall.
- A deeper dive show some value in Technology, Staples, Communications and Healthcare relative to its historical Avg. OAS.
- Lack of supply in HY segment compressed spreads.
- Risk return trade-off in HY is a source of concern especially the rising defaults in Healthcare/Communications sector.

Relative Valuation – Fixed Income (3/3)

Valuations expensive relative to historical averages in EM Corp space



Source: Lighthouse, August 2023

- Sector wise current OAS vs Avg. OAS (521D) indicate expensive valuations overall.
- Spreads compression in EM Corporates relative to its historical averages have been the highest in the USD credit space largely driven by risk-on sentiments in the market.
- A deeper dive show some value in Energy sector relative to its historical Avg. OAS.

LC Views - Summary

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LC Views Summary (1/2)

Sub-Asset	Recommended Positioning
Rates	• The Fed issued minutes of July 25-26 policy meeting last week. Overall while the Fed saw "significant" inflation risk that may merit more hikes, some Fed Reserve officials expressed concern of a potential continuation of interest rate hikes. Despite earlier projections favoring two more rate increases in 2023, Chair Jerome Powell emphasized a meeting-by-meeting approach to policy adjustments based on sustained inflation reduction. The consensus within the FOMC regarding aggressive tightening appeared to be wavering, as some officials suggested a halt to rate increases while others advocated for more. The minutes acknowledged a need to balance policy risks.
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 as the risk-reward does not favor ultra-long ends. 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	• There are two potential scenarios for the global economy. First, higher interest rates could further suppress global economic growth, leading to margin compression and possibly slower growth. Alternatively, if the economy demonstrates robustness (for instance, the Atlanta Fed GDP Now is a remarkable 5.8%!), Central Bankers would be compelled to continue raising rates to align inflation with the 2% target. In either scenario, equities are poised for challenges. • The valuation of equities currently appears expensive: - Historically speaking, with a forward P/E ratio at 19x, investors might find limited opportunities for substantial returns in the forthcoming 12 months. - Even more pertinently, when compared to bonds and cash, equities seem less appealing. To illustrate, the disparity between the yield of 3-month US Treasuries and the S&P 500's dividend yield has expanded to a significant 400 basis points. Such pronounced differentials were last witnessed in 2000 and 2007, both instances that preceded major equity downturns. • Considering the uncertain trajectory for equities over the next year, coupled with their elevated valuations and their comparative disadvantage against cash and bonds, our recommendation is to underweight equities in portfolios.

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LC Views Summary (2/2)

Sub-Asset	Recommended Positioning
Currencies	• **Currencies** are expected to remain volatile throughout 2023. 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 risk of further correction in real estate prices should not be underestimated. There will be opportunities to pick good REITs cheaper next year. • 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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