Lighthouse Canton Monthly Investment Memo

June 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

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SpotLight

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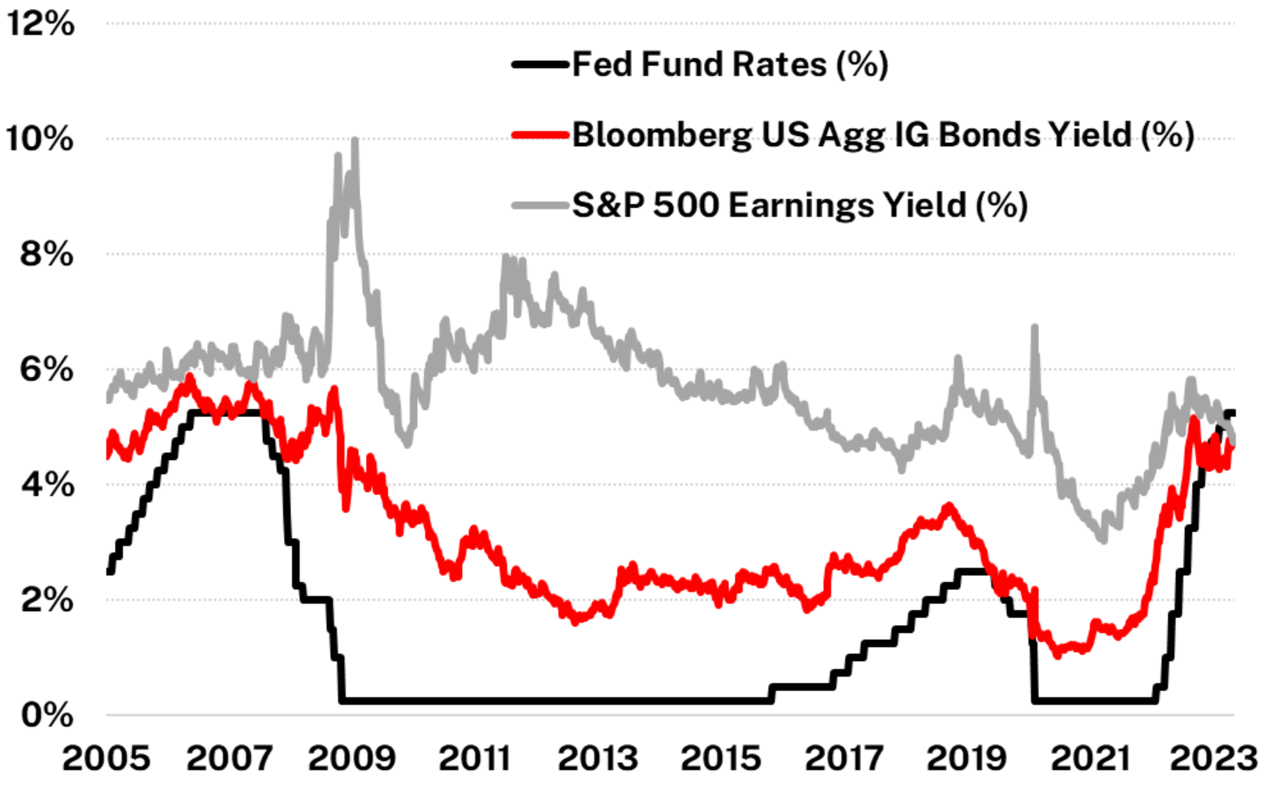
Equities & Bonds Yield Less Than Treasuries

Little to no reward in buying equities



- The outperformance of S&P, contributed mostly by 7 stocks, has driven S&P Index earnings yield to 4.76%. Much lower than the yields one could get from investment grade corporate bonds ETF (5.32%) and 3m UST (5.23%).
- Even if we compare it with equal weighted S&P index, the earnings yield at 5.57% is only 25bps higher than that of IG bonds ETF and 34bps higher than that of 3m UST.
- On a risk-adjusted basis, equities are offering very little reward currently, hence, we recommend to be overweight in bonds.

Source: Bloomberg, June 2023

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Market Updates

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The Fabulous 7

75% of the S&P 500 performance in 2023 is explained by 7 stocks only

Name	Market Cap. as of 31st Dec. 2022	Market Cap. as of 27th June 2023	Difference	Performance	Index Weight
Apple Inc	2,059,409,302,670	2,957,939,698,120	898,530,395,450	45.2%	7.6%
Microsoft Corp	1,765,886,923,521	2,487,691,077,968	721,804,154,446	40.2%	6.4%
NVIDIA Corp	371,699,589,375	1,034,337,200,000	662,637,610,625	186.6%	2.7%
Amazon.com Inc	872,992,024,391	1,325,432,414,267	452,440,389,876	53.8%	3.4%
Meta Platforms Inc	308,964,079,913	735,632,199,076	426,668,119,164	138.5%	1.9%
Alphabet Inc	1,116,142,795,627	1,506,730,210,000	390,587,414,373	34.1%	3.9%
Tesla Inc	406,568,287,288	793,041,671,153	386,473,383,866	103.1%	2.0%
			3,939,141,467,866	**68%**	**27.9%**
S&P 500 Index	33,498,108,420,000	38,907,061,158,544	**5,195,915,824,176**	**14%**	**100%**

Source: Lighthouse Canton, May 2023

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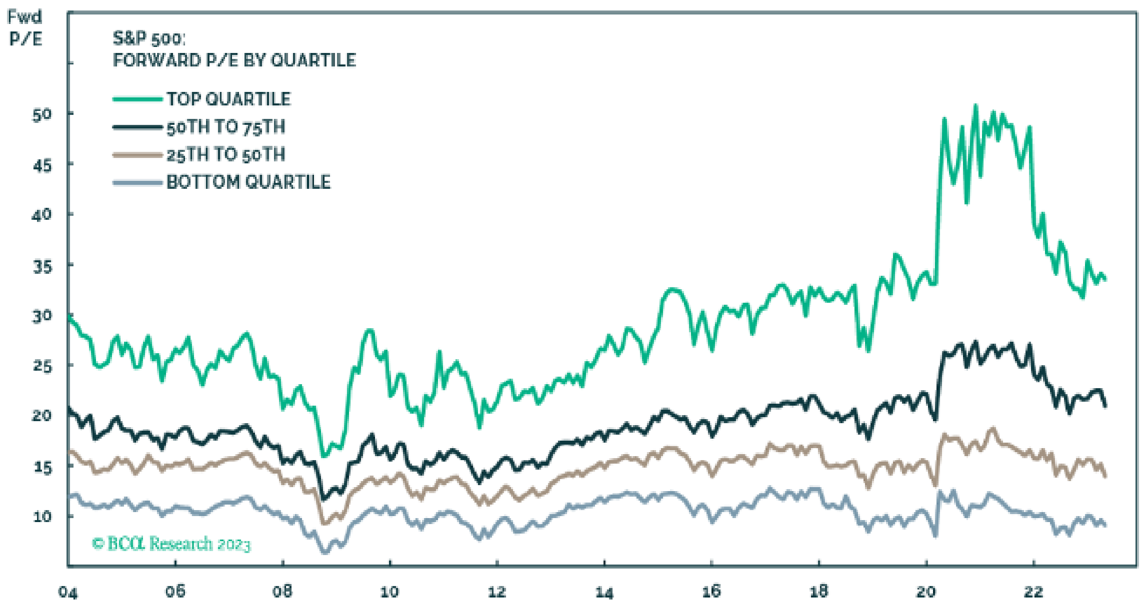
Valuations are Overall Expensive

Not just The Top of the Market



- A popular market narrative has been that only the 'top crust" is expensive. While the top quartile is indeed expensive, trading at 33.5x forward earnings, the second quartile is expensive too, trading at 20.9x. The bottom quartiles are outright cheap, trading at 13.9x and 9.1x, which is consistent with history.
- In other words, while the top quartile of the stocks is unusually expensive, the rest of the S&P 500 is either not cheap or not unusually cheap.

Source: S&P Global and BCA, June 2023

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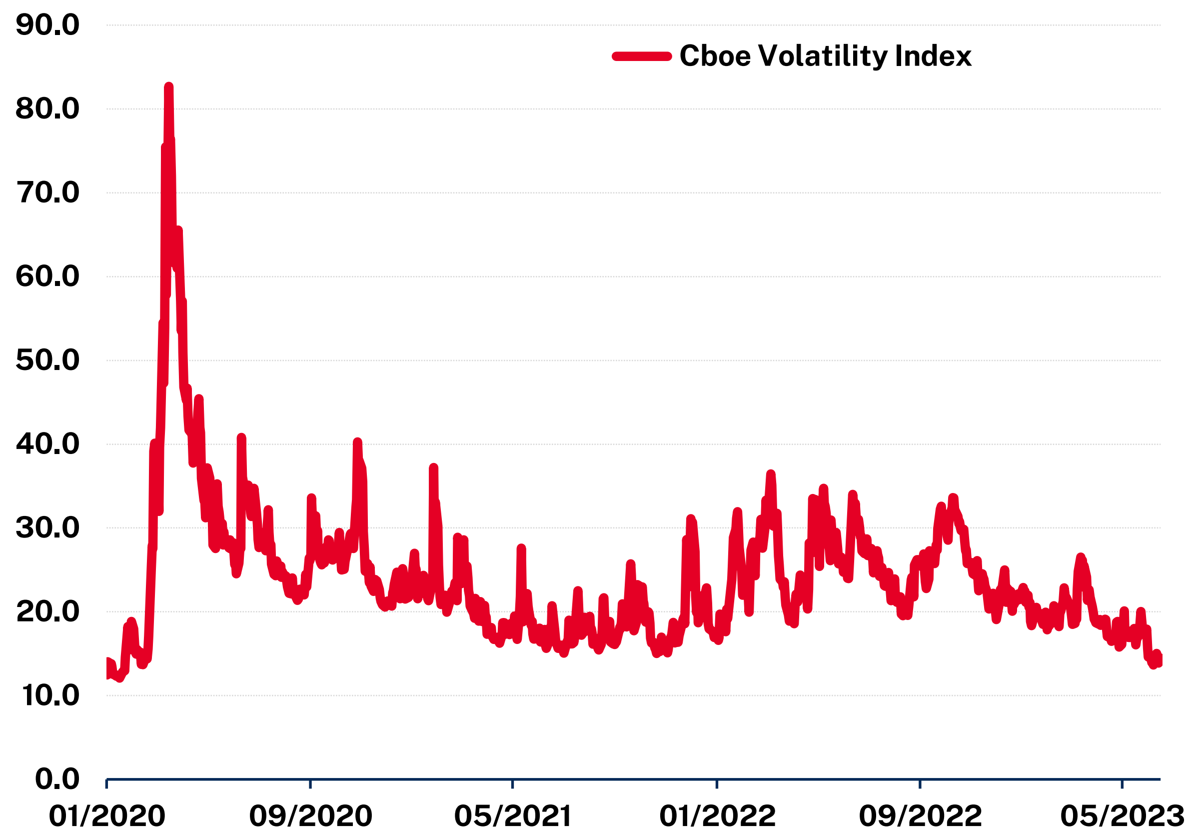
Equities Volatility Falls To Pre-Pandemic Levels

Another sign of complacency, following the recent collapse of several US regional banks.

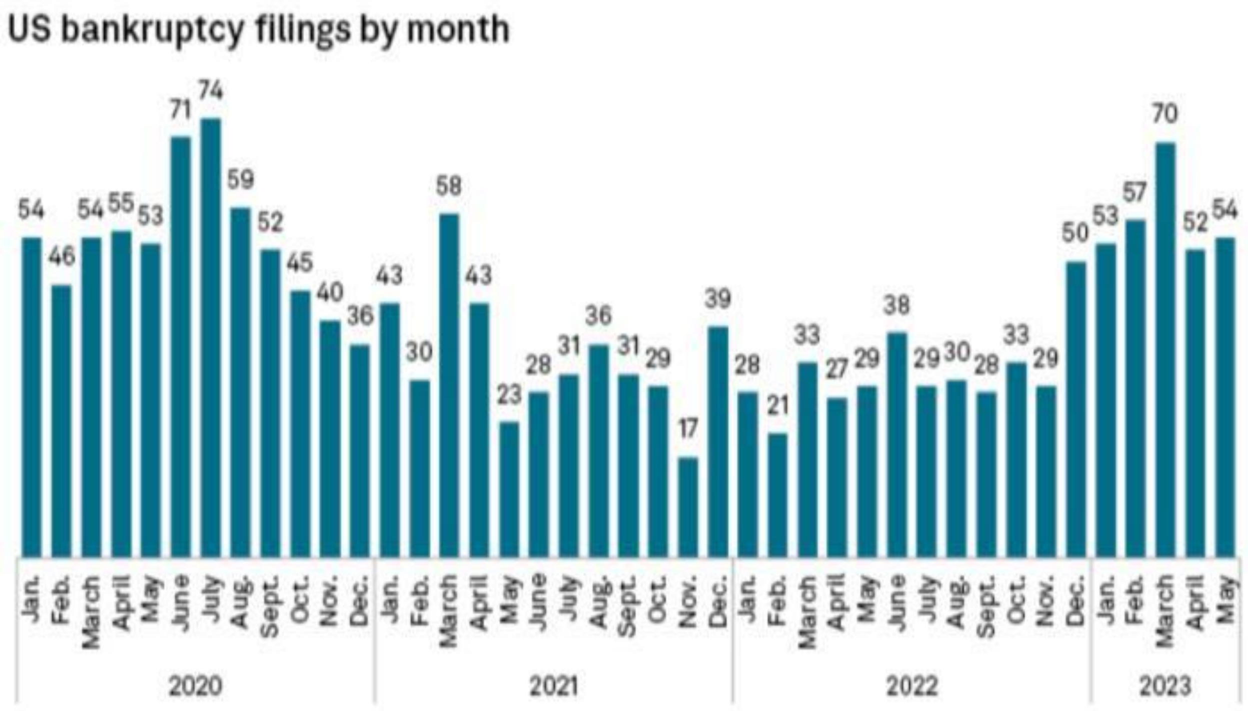


- The VIX index, a measure of US stock market volatility, has reached its lowest level since the beginning of the pandemic, even as investors fret over the direction of interest rates and inflation.
- The index fell to 13.5, the lowest since January 2020, despite rising interest rates, the collapse of several US regional banks in March and widespread uncertainty over the future path of inflation, which remains far above the 2 per cent target set by many central banks on either side of the Atlantic.

Source: FT.com, Bloomberg, June 2023

Stress At The Edges

We have not seen the full impact of higher rates yet



- There is growing concern over increasing US bankruptcy filings. Leveraged loans defaults (floating rates) are rising quickly and provide insights into potential future defaults on (fixed-interest) bonds. The commercial real estate sector is particularly worrisome, with approximately $1.5 trillion in commercial mortgages due within the next three years. Over the past five years, over three-quarters of loans in commercial mortgage-backed securities have been interest-only, adding to the challenges faced by building owners struggling to refinance their debt due to lower occupancy rates and building values.

Source: S&P Global , FT.com, June 2023

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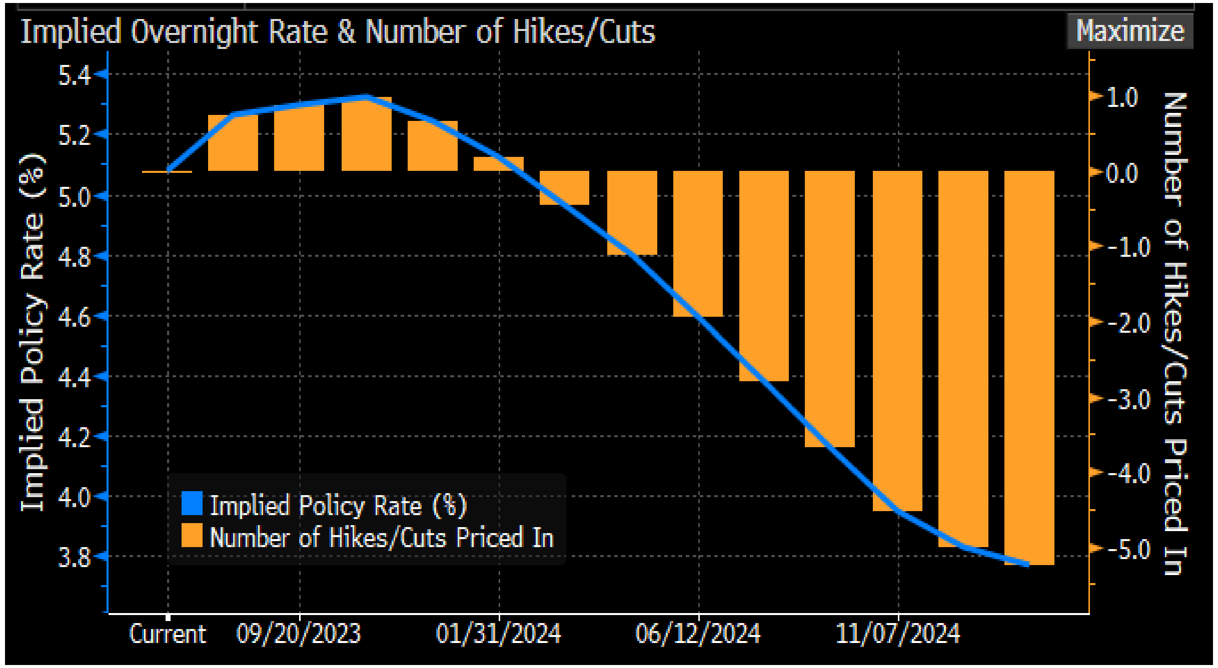
Investors Are Giving Up On Fed Rate-Cut Bets

One final rate hike within the next three months

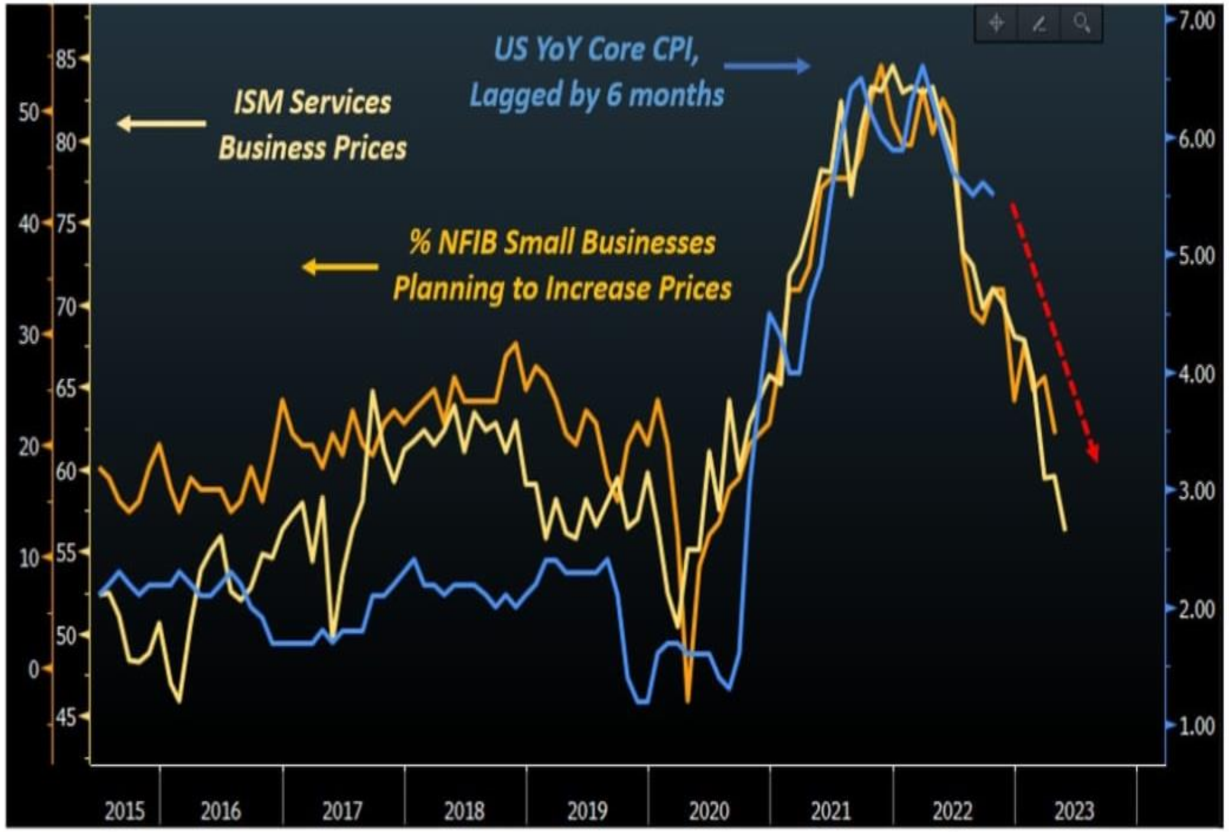


- Preliminary data from CME indicates a significant decrease in open interest at various strike points, indicating a sense of surrender following a substantial retreat from expectations of interest rate cuts. Jerome Powell's strong reaffirmation of his hawkish stance seems to have successfully influenced the short-term rates market, as traders are adjusting their predictions accordingly. Presently, investors anticipate the Federal Reserve to implement one final rate hike within the next three months, while the first rate cut is not projected to occur before the first quarter of 2024.

Source: Bloomberg, June 2023

Lead Indicators Suggest 3% Inflation By Year-End

Core CPI expect to drop sharply by year-end



Source: Themacrocompass.com, Bloomberg, June 2023

- Based on ISM Services and NFIB Small Businesses, the US Core CPI is expected to drop significantly by year-end to 3% (from 5.5% as of April 30th).
- ISM (Institute for Supply Management) is an organization that provides monthly reports on economic indicators, including the ISM Services Index. This index measures the non-manufacturing sector's business activity and economic health.
- NFIB (National Federation of Independent Business) is a prominent organization that offers insights into small businesses. It provides data and reports on various aspects affecting small businesses, such as economic trends, business sentiment, and policy issues.

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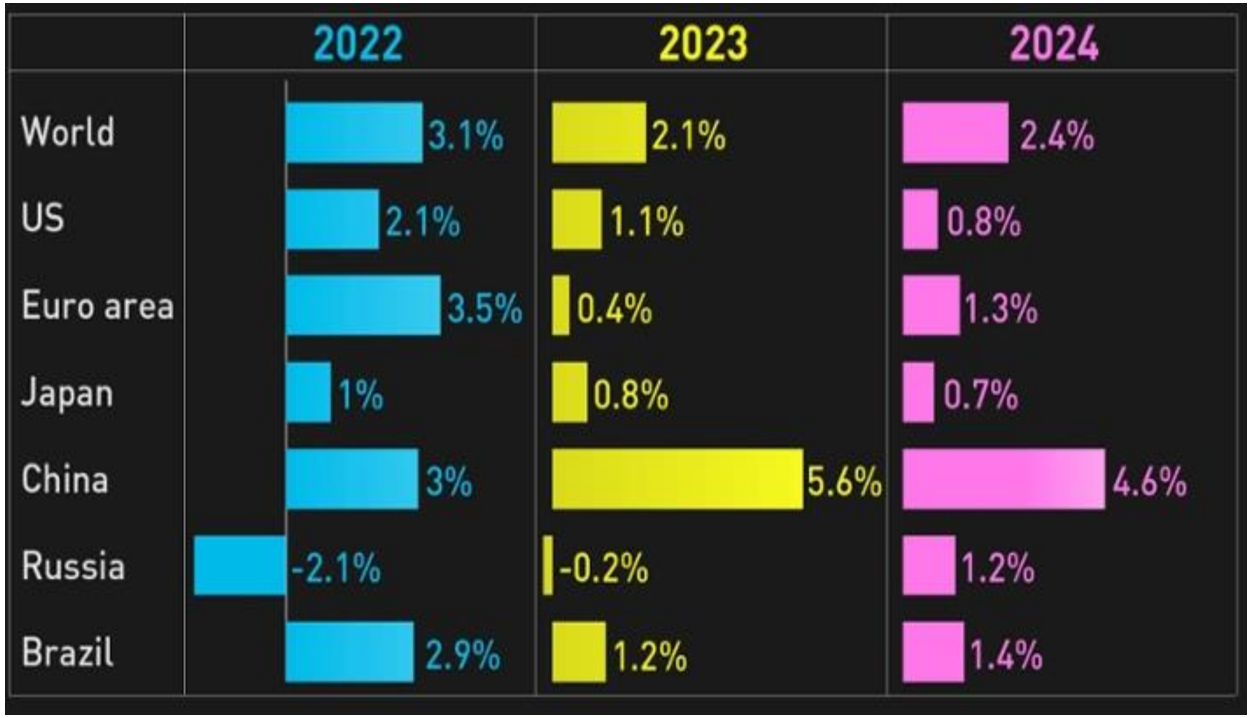
Global GDP To Remain Soft In 2024

World Bank Expects Sluggish Growth To Last Into 2024



- The World Bank cut its 2024 world GDP forecast to 2.4% from 2.7%, calling the situation "precarious." The possibility of further rate hikes and more bank turmoil keeps expectations tilted down, with the outlook for developing nations especially grim. The report noted that China's reopening after the end of Covid is beginning to lose momentum.

Source: Bloomberg, June 2023

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