Investment Playbook Weekly Update

June 10th – June 14th 2024

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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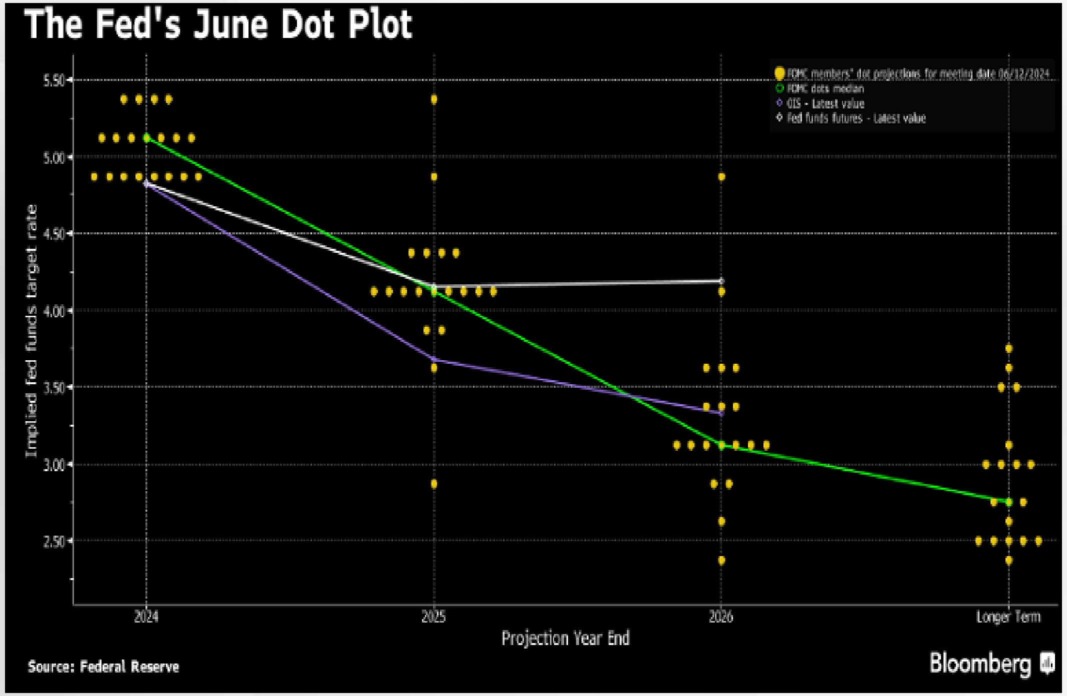
Charts of the week

1

Fed Officials Dial Back Rate Forecasts

Signal Just One '24 Cut



- At the FOMC meeting on Wednesday (12 June), Fed Reserve officials voted unanimously to keep the benchmark federal funds rate in a range of 5.25% to 5.5%.
- They penciled in just one interest-rate cut this year and forecast more cuts for 2025, reinforcing policymakers' calls to keep borrowing costs high for longer to suppress inflation.
- They now see four cuts in 2025, more than the three previously outlined.
- The Fed's "dot plot" showed four policymakers saw no cuts this year, while seven anticipated just one reduction and eight expected two cuts.

Source: Bloomberg, June 2024

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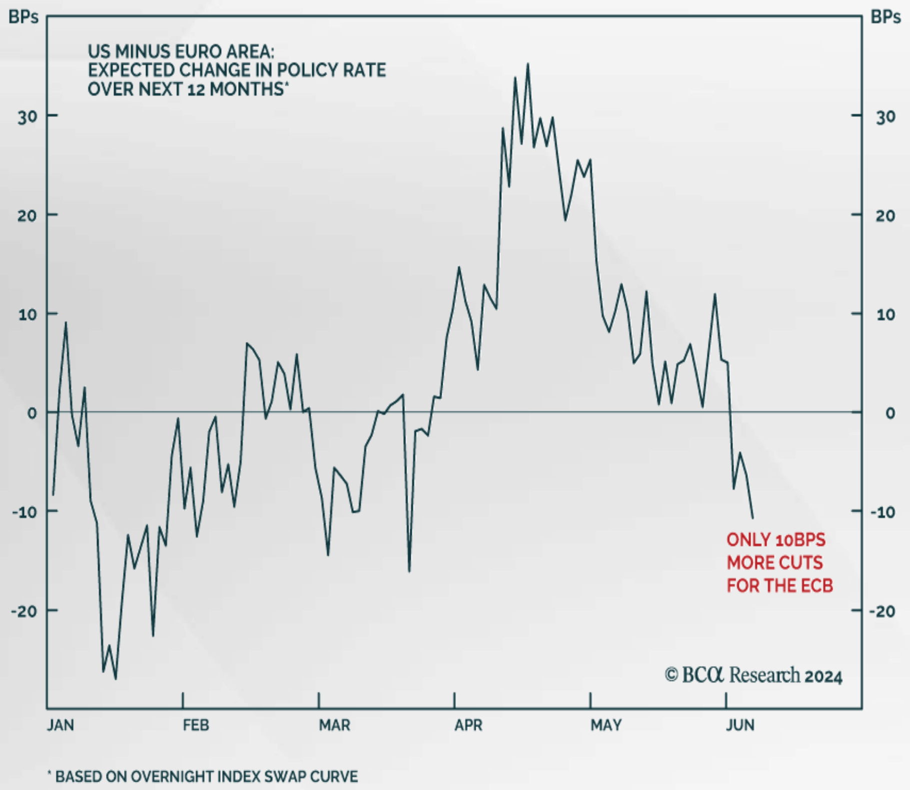
ECB Cuts Rates But Hikes Inflation Forecast

Representing A Moderation In The Degree Of Restriction Rather Than An Outright Pivot

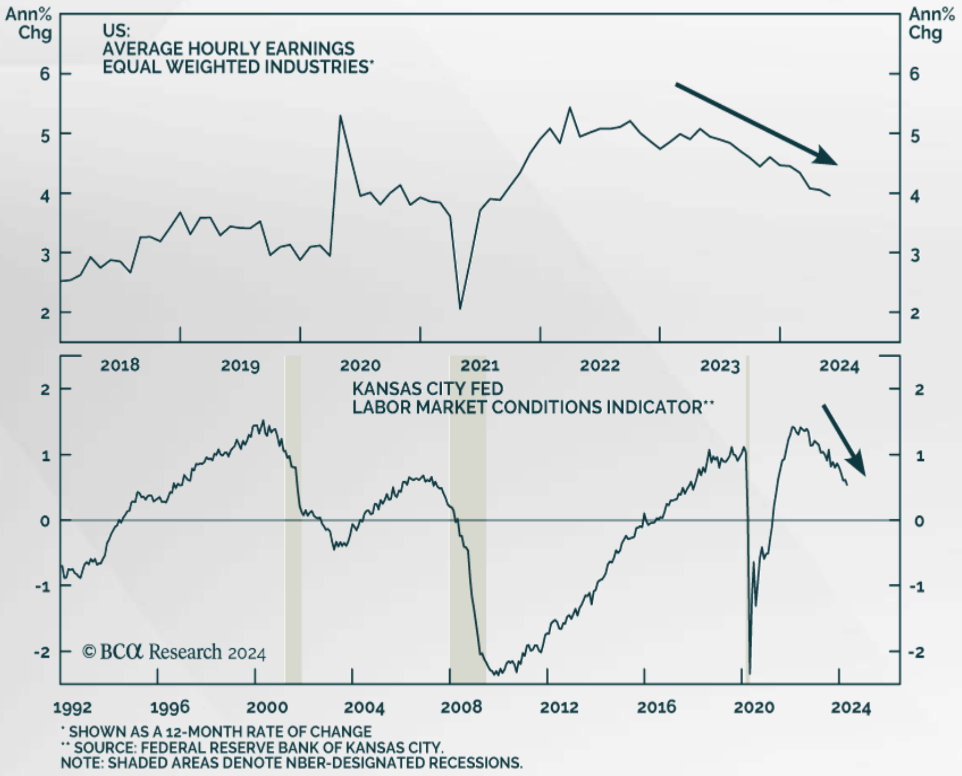


- Last Thursday (6 June), the ECB delivered on its widely expected rate cut. The Governing Council lowered all three key ECB interest rates by 25 bps, bringing the refinancing, marginal lending facility and deposit rates to 4.25%, 4.50% and 3.75% respectively.
- However, it revised its headline (core) inflation forecast higher to an average of 2.5% (2.8%) in 2024, 2.2% (2.2%) in 2025 and 1.9% (2.0%) in 2026, indicating it expects inflation to remain above target well into next year. Economic growth forecasts were slightly upgraded.
- Markets are now pricing nearly two ECB cuts over the remainder of the year and only 10bps more cuts than the Fed over the next 12 months, despite stronger growth and stickier inflation in the US. According to BCA, near-term interest rate differentials are thus neutral for EUR/USD.

Source: BCA, June 2024

Payrolls Surged In May, Wages Accelerated

However, The Labor Market May Not Be as Strong As It Looks

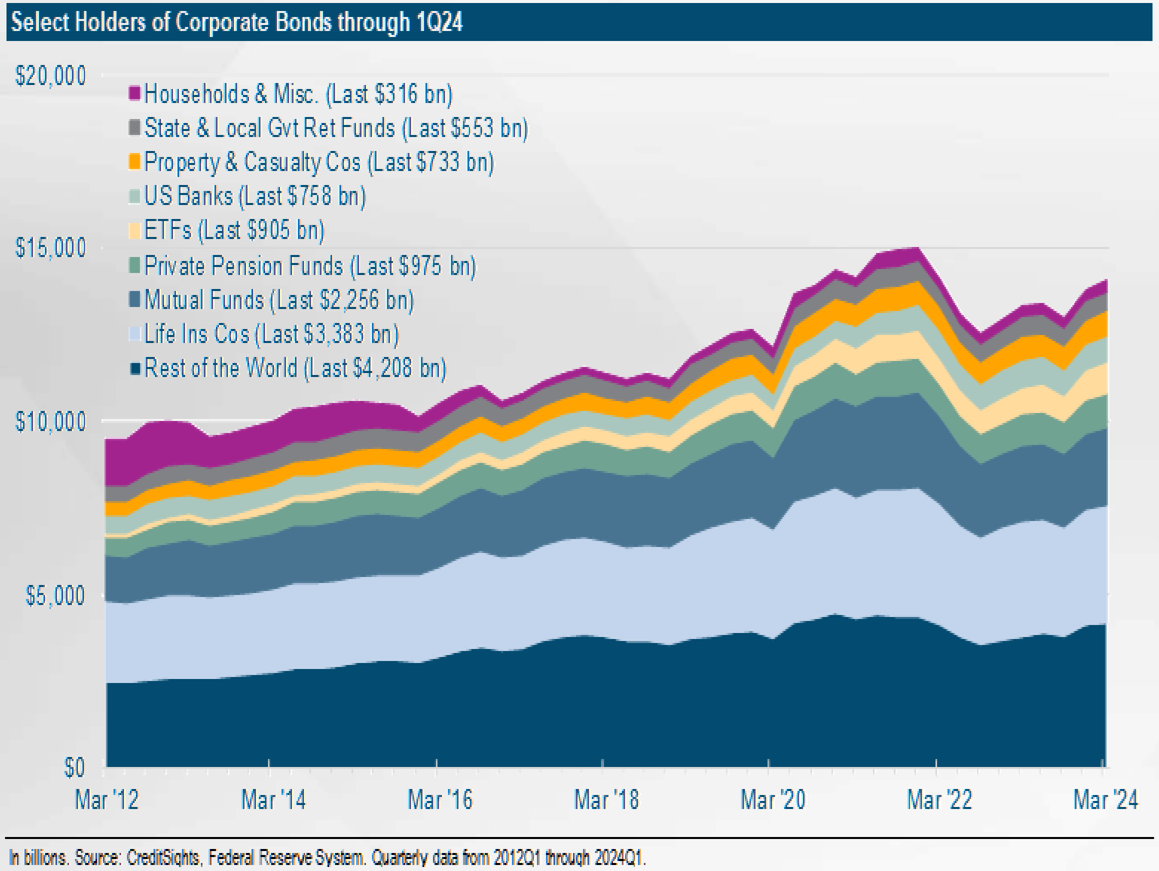


- US nonfarm payrolls (NFP) grew by 272,000 in May, surpassing the expected 180,000. Average hourly earnings increased by 4.1% yoy. However, the unemployment rate rose to 4.0% from 3.9%, and the labor force participation rate fell to 62.5% from 62.7%.
- This discrepancy between NFP and unemployment rate data is likely down to differences between the establishment survey (which measures payrolls based on responses from businesses) and the household survey (which measures the unemployment rate). One contributing factor to this anomaly is the double counting of part-time jobs in the establishment survey.
- In short, the labor market may not be as strong as May's payroll data makes it look.

Source: BCA, June 2024

US Corporate Bond Ownership

Life Insurance Companies, Mutual Funds and Rest of the world are biggest holders



- Ownership of US corporate bonds are largely held by Life Insurance Companies, Funds and Rest of World.
- They hold almost 2/3rd of the total issuances.
- Mutual Funds and Life Insurance Companies contribute almost 50% and that might lend some stability to the overall demand for the securities.

Source: CreditSights, June 2024

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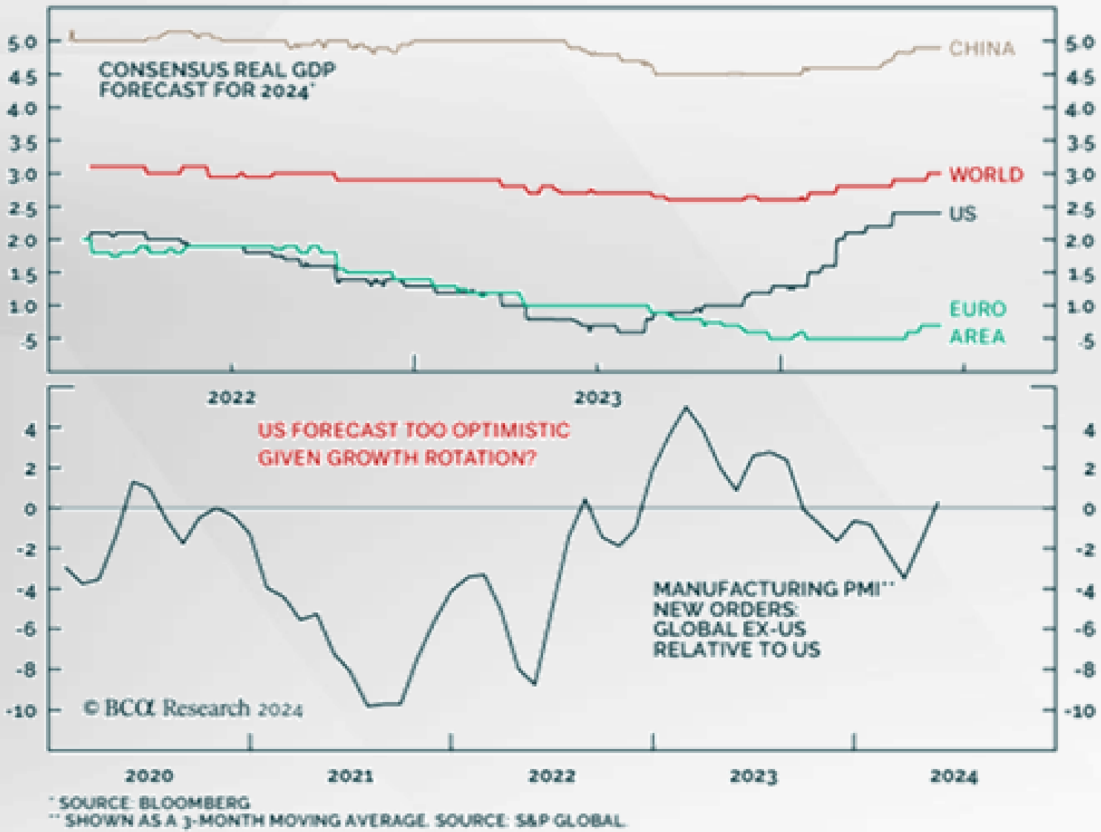
Consensus GDP Growth Forecasts Are Too Optimistic

Revising Global Growth Projections Amid Potential US and China Slowdowns



- Global growth expectations for 2024 have been revised up to 3% from 2.6%, driven by a 1.1% upward revision in US growth and a slight increase in Chinese growth forecasts. However, this optimism may be misplaced according to BCA research. Recent US economic data suggest a slowdown, likely leading to a recession by early 2025. In China, deflationary pressures persist, and the PBoC's stimulus is insufficient.
- As a result, a US downturn could trigger a global recession. While ex-US growth shows signs of revival, it depends heavily on US-led stabilization in the global manufacturing cycle. BCA recommends Investors to remain underweight global equities.

Source: Bloomberg, June 2024

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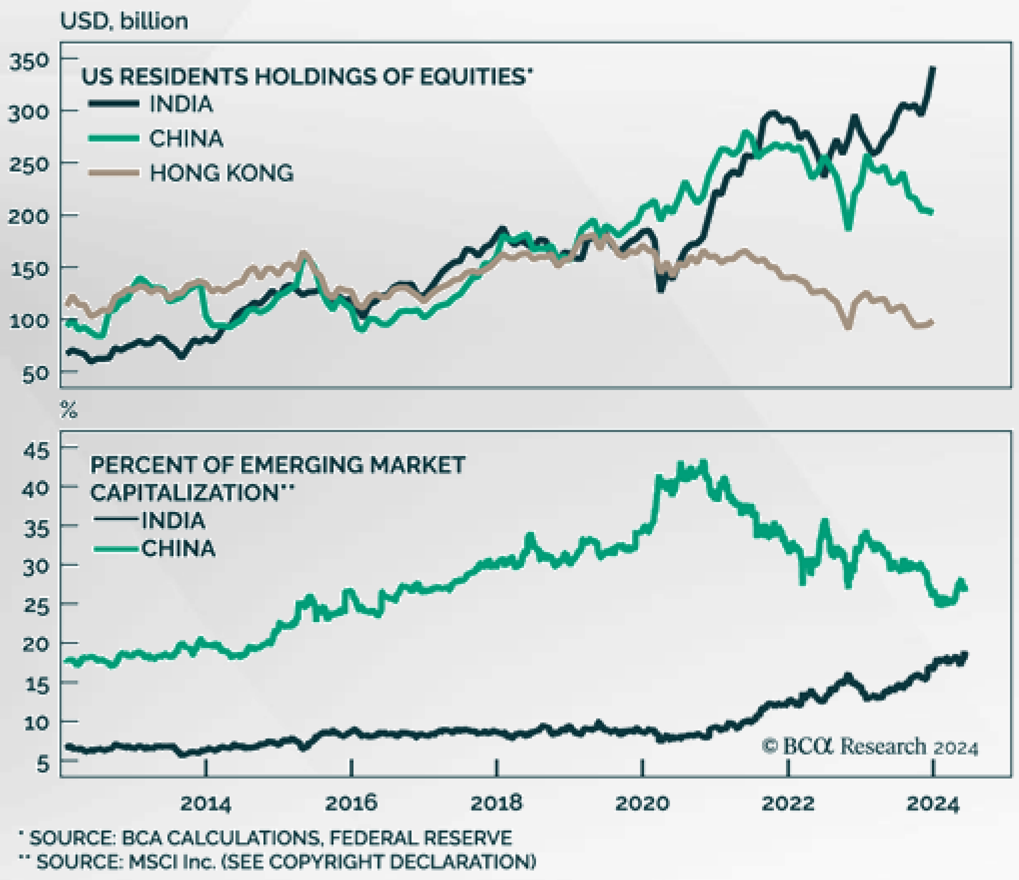
India Attracts Capital Inflows At China's Expense

India is considered business and investors friendly



- BCA Research's highlights that Modi's loss of a majority government reduces the likelihood of further reforms but does not alter India's structural outlook. Despite the NDA coalition retaining a majority in the Lok Sabha, it lacks a majority in the Rajya Sabha, making joint parliamentary sessions to push reforms unlikely. The NDA's slim majority in a joint sitting may further decline due to the evolving Rajya Sabha composition. While further reforms are less likely, labor reforms passed in 2023 await implementation. Two significant events under Modi's watch include redrawing the Lok Sabha map and holding the 16th finance commission in 2026. Geopolitical factors, like US-China tensions, favor India as a rising manufacturing hub, attracting capital inflows at China's expense.

Source: BCA Research, June 2024

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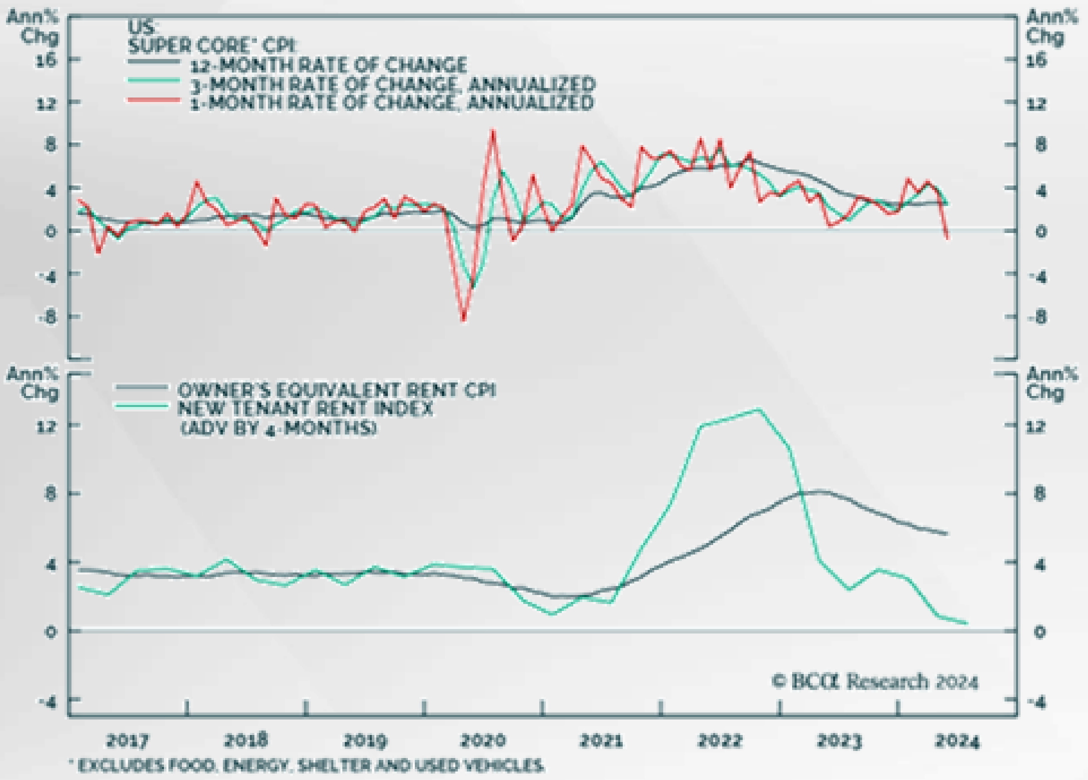
Super Core CPI Declines For First Time Over 3 years

Disinflationary Trends Dominate as Core CPI and Super Core Measures Decline

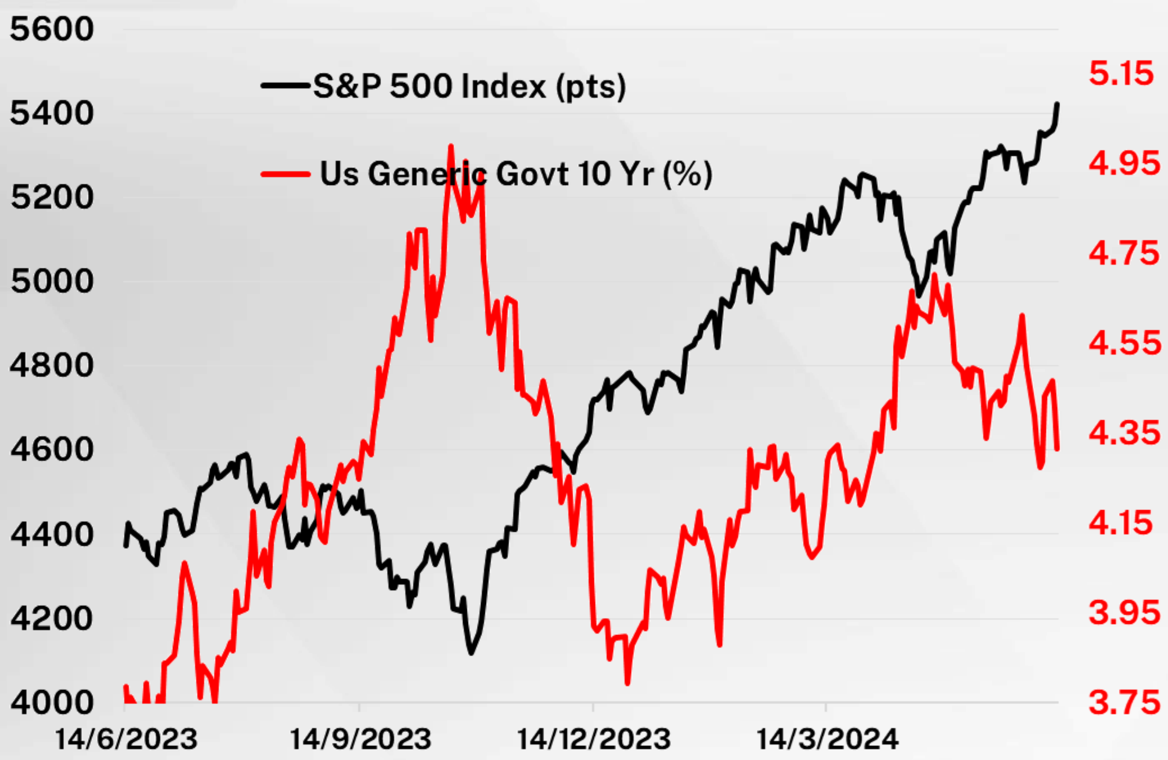


- US CPI inflation eased in May, with headline CPI stagnating month-on-month (3.3% y/y), down from April's 0.3% m/m (3.4% y/y), and below expectations. Core CPI also slowed, rising 0.2% m/m (3.4% y/y) from 0.3% m/m (3.6% y/y). Notably, the "super core" measure (core services ex-shelter) contracted 0.1% m/m, the first decline since January 2021, driven by a 3.6% drop in airline fares. New and used vehicle prices have been trending lower, suggesting further declines in auto insurance and repair prices. Income growth, a key driver of core services ex-shelter inflation, shows signs of deceleration. Shelter remains the most resistant to disinflationary pressures, but indicators point to easing ahead.

Source: BCA Research, June 2024

S&P 500 At Record High Thanks To Lower Inflation

Investors expect two Fed rate cuts this year, with the first anticipated in November



- In May, the core consumer price index (CPI) in the US, excluding food and energy costs, rose by 0.2% from April, showing a year-over-year increase of 3.4%, the slowest pace in over three years. This unexpected decline in core CPI for the second consecutive month provides hope for Federal Reserve officials seeking signs to start lowering interest rates. However, policymakers require several months of receding price pressures before considering rate cuts, despite a recent jobs report fueling debate on the restrictiveness of current policy. The market reacted positively, with stock futures and Treasuries rallying, and two- and ten-year yields dropping by about 14 basis points.

Source: BCA Research, June 2024

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LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• The US central bank's policy-setting Federal Open Market Committee decided to hold its benchmark rate steady in a range of 5.25% to 5.5%, the highest level in more than two decades, for a seventh straight meeting. Policy makers' updated economic projections, published after a two-day policy meeting in Washington on Wednesday, showed they expected to lower borrowing costs only once in 2024 instead of the three reductions penciled in previously, according to their median estimate. They also raised their forecasts for inflation, even after better data on consumer prices published earlier in the day provided cause for optimism. • The Fed chair said officials are carefully considering both upside and downside risks. He also emphasized a split within the committee: The "dot plot" showed seven officials expected one rate cut this year, while eight saw two and four expected none.
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 see further opportunity in special situations bond funds, which could provide asymmetric returns in a prolonged distressed and disruptive credit market.

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LC Views Summary (2/3)

Sub-Asset	Recommended Positioning
Equities	• Markets continued to rally in June, with the S&P 500 hitting yet another record high this week. The main catalysts this week are falling interest rates, with the US 10-year government bond yield now around 4.3%, 30 basis points lower than last month, and a correction in oil prices, with WTI falling below $78 per barrel, consequently reducing inflation fears. Additionally, the US CPI data released on Wednesday pointed towards continuing disinflation, moving towards the Fed's 2% target. This once again prompted market participants to increase rate cut bets and resulted in equity markets taking a big step higher. • We continue to witness significant dispersion among S&P 500 constituents. Despite the index trading at historical highs, 49% of its constituents returned a negative performance over the last month, indicating that not all stocks are participating in the current rally. Year-to-date, 40% of S&P 500 members are down, underscoring the outsized influence of the "Magnificent 7," which now account for 31% of the S&P 500 market capitalization. • The technology sector appears particularly expensive. With a 1-year forward P/E ratio of 32x, technology stocks are priced at levels last seen in 2021 and 2002. While we acknowledge that developments in Artificial Intelligence (AI) will be supportive over the next 12 months, we also recognize that stocks are currently priced for perfection. Salesforce, for example, fell 20% (post-market) following its earnings report, highlighting the risk of significant sanctions for companies that do not meet high market expectations. We believe many companies could face similar outcomes in the coming quarters. • The VIX at 12 is another source of concern. Despite early signs of a slowdown in the US economy, there are no signs of stress on equities. For example, US 20-year treasuries are currently more volatile than the S&P 500 index (implied volatility 16 vs. 12), which is noteworthy. 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 23.5 and a 1-year forward P/E of 22.1, there is a risk of a 10/15% decline due to overvaluation if/when sentiment shifts. While investor optimism may prevail until clear recession signs emerge, we advise maintaining an 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 (158) 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 Q1 2024, followed by a 15% correction in Q2. 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	• 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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