Investment Playbook Weekly Update

September 2nd – September 6th 2024

GLOBAL Private Banking INNOVATION AWARDS 2024
BEST FAMILY OFFICE - UNITED ARAB EMIRATES

GLOBAL Private Banking INNOVATION AWARDS 2024
BEST FAMILY OFFICE - MIDDLE EAST

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

PRIVATE BANKING AWARDS 2023 ASIAMONEY
RISING STAR, SINGAPORE

2022 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER ASIA PACIFIC

2021 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER WEALTH PLANNING SERVICES

2021 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER INVESTMENT ADVISORY

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

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Charts of the week

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Oil Plunges as Rising Supplies, Tepid Demand Intensify Gloom

CTAs Have Increased Their Net Short From 46% To 64%

- Global benchmark Brent plunged as much as 4.7% yesterday (3 September) to the lowest intraday price since mid-December 2023 amid worries about demand in the US and China.
- A significant supply outage in Libya helped stall oil bears, but a potential deal to restore the nation's production and the possibility OPEC+ will increase output next month have inflamed negative sentiment.
- Commodity trading advisers (CTAs), which are trend-following algo strategies, are extending their short exposure in Brent. They are now accelerating their activity across the near-end of the futures curve, with selling in the November, December and January Brent contracts.

Source: Bloomberg, September 2024

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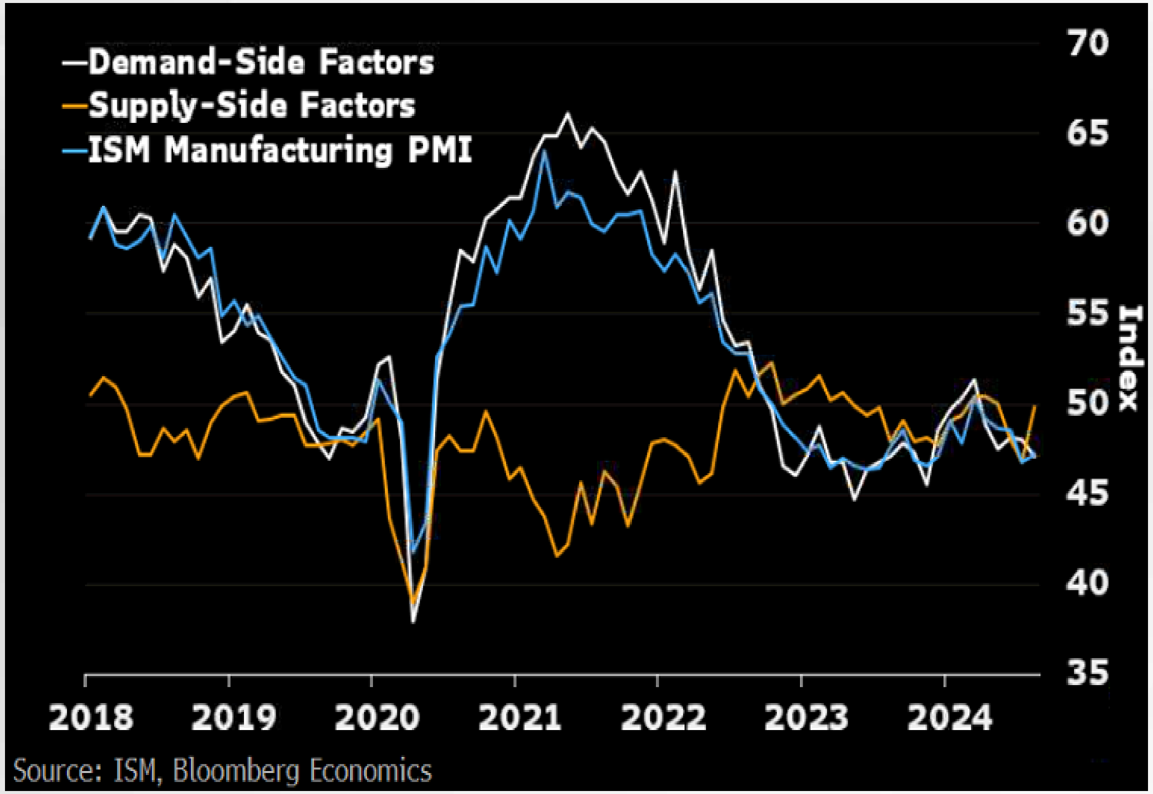
ISM Details Show Weakness Despite Headline Improvement

Product activity might cool further in the months ahead



- The ISM Manufacturing PMI ticked up modestly to 47.2 from July's 46.8 in August but remains in contraction due to weak demand. The uptick, driven by higher inventories and faster supplier deliveries, suggests potential for further goods disinflation and a possible production slowdown ahead.
- Demand-side factors were mostly subdued, as new orders declined at an accelerating rate and orders for export contracted as well.
- Inventories jumped into expansionary territory, but analysts think the inventory build was likely unintentional as commentary mostly mentioned slow orders and weakening demand.
- Bottom line: Product activity might cool further in the months ahead.

Source: Bloomberg, September 2024

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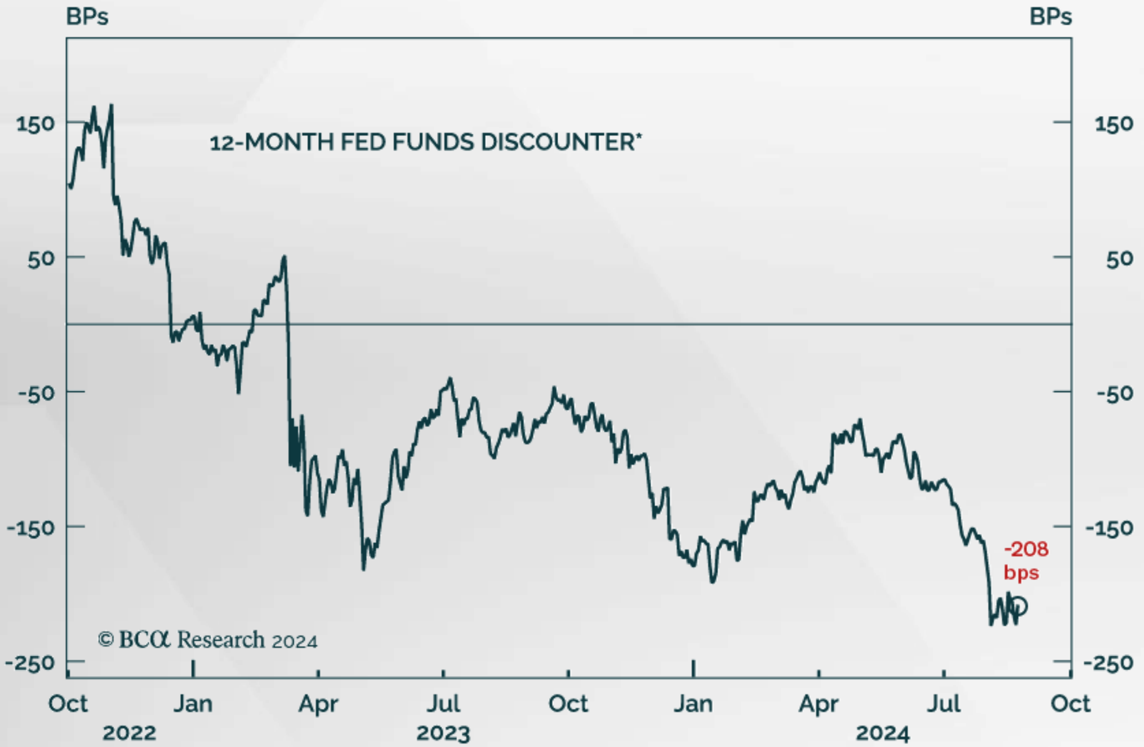
Interest Rate Cuts Ahead in U.S.

Pivot in Fed's policy stance underscores continued weakness in labor market data



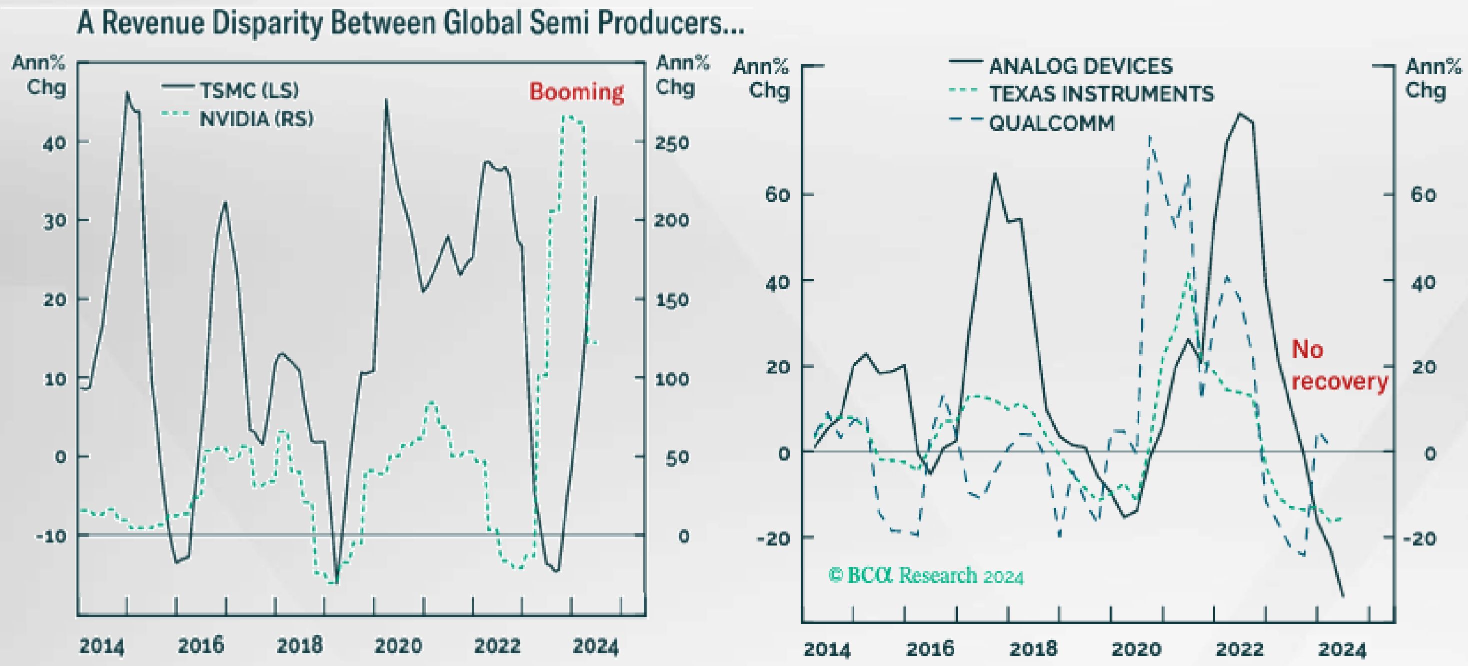
*EXPECTED 12-MONTH CHANGE IN THE FED FUNDS RATE AS PRICED IN THE OVERNIGHT INDEX SWAP CURVE.

- **Powell's Emphasis on Policy Adjustment**: At the Jackson Hole Symposium, Jerome Powell confirmed the Federal Reserve's focus on adjusting policy, particularly regarding employment. This marks a shift, as the Fed acknowledges the growing weakness in labor market conditions. Powell's remarks highlighted the need to address these concerns without further labor market cooling, suggesting the Fed may adjust rates accordingly.
- **Economic Slowdown Risks Increasing**: Despite some stabilization in job openings, the broader trend in labor demand indicators — such as gross hires and voluntary quits — shows sharp declines. These developments, alongside fading consumer spending and nascent cracks within housing and manufacturing sectors, raise significant concerns about a potential economic slowdown within the next 6 to 12 months. The trajectory of economic conditions suggests that the upcoming easing cycle may struggle to deliver a "soft landing“.
- **Investment Strategy Consideration**: Given the elevated slowdown risk and potential for a more aggressive pace of rate cuts, BCA research recommends positioning portfolios with above-benchmark duration. The Fed's anticipated policy easing could trigger opportunities in bonds, especially as current economic conditions still reflect the effects of earlier tightening. Investors should be prepared for volatility and may benefit from holding longer-duration assets.

Source: BCA Research, August 2024

Not All Semiconductors Created Equal

Semiconductor Industry: A Tale of Two Markets in the AI Era



- The semiconductor industry is experiencing a clear divide between companies producing high-end AI chips and those focused on legacy or non-AI semiconductors. Demand for AI chips has surged, benefiting companies like NVIDIA and TSMC, whose revenues have grown substantially due to rising demand from data centers. However, legacy chipmakers such as Analog Devices, Texas Instruments, and Qualcomm are facing stagnation, with no significant recovery in sales.
- Despite their rapid growth, AI-related chips account for only a small portion of the overall market, which still relies heavily on segments like mobile phones, PCs, and industrial electronics, all of which face a more challenging outlook.

Source: BCA Research, September 2024

LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• Several Federal Reserve officials acknowledged there was a plausible case for cutting interest rates at their July 30-31 meeting before the central bank's policy committee voted unanimously to keep them steady. • "Several observed that the recent progress on inflation and increases in the unemployment rate had provided a plausible case for reducing the target range 25 basis points at this meeting or that they could have supported such a decision," minutes from the meeting, published Wednesday in Washington, said. "The vast majority observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting." • Since the release of the July jobs and inflation data, several Fed officials have said they are nearing the time when rate reductions will be appropriate. Futures markets are pricing in about 100 basis points of cuts over the remainder of the year.
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. We recommend a duration (in IG credits) of 5-10Y and advise against increasing duration beyond 10 years in corporate credits as the risk-reward does not favor ultra-long ends. However, on a tactical play, we recommend allocating a small position up to 5% of portfolio in iShares 20+ Year Treasury Bond ETF (TLT US) as the Fed is on the brink of an easing 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.

LC Views Summary (2/3)

Sub-Asset	Recommended Positioning
Equities	• The equity markets got off to a rocky start in September, reinforcing the seasonality that has existed historically. This sudden bout of volatility was caused by some weaker than ecxpected economic data first seen in the manufacturing PMIs and then the job openings which were reported on Wednesday. While the markets were rejoicing on the dovish comments made by Chair Powell last month, we have had a slightly more skeptical view on this stance being taken by the equity markets, given our understanding of how equity markets tend to start correcting only once the Fed has gotten going on its rate cutting spree and historically, they have been unable to manufacture a soft landing every time real interest rates have been maintained at such high levels for a sustained period of time. • We continue to believe that valuations in the market are expensive in context of their own historical average, with the S&P 500 one-year forward P/E ratio at >21x and the Tech sector (S5INFT) at about 30x and in case of any further disappointment on the macro-economic front, there is room for significant downward P/E re-rating which can lead to a steep correction in the equity markets. • While volatility levels have spiked this week, we believe that hedges in the form of index level put options are still available at reasonable prices which can be implemented in client portfolios that are heavy on equity allocation. Additional bouts of volatility may take option prices to levels that are extremely unattractive and tough to add to portfolios, leaving them fully exposed to further downside. • Overall, we recommend being long equities, especially Tech after the recent drawdown, while hedging using index level put options to insulate the direct equity holdings against any sudden drop in the markets. We have also started to see sectoral rotation into defensive names like healthcare and staples which continue to be priced attractively after having been ignored for much of the last 18 months and we believe that these can be added to portfolios to seek refuge from the currently volatile market environment.

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 22% rally year to date. The inverse relationship between gold and dollar's value has also been showcased in Q2 2024 when the dollar index slumped ~5% and gold rallied ~9%. It is also interesting to note that the biggest gains for gold when Fed's rate cuts have gone hand in hand with pronounced systemic stress. For instance, gold gain 36% through the GFC and surged 25% in 2020 when the pandemic struck. As rates and real yields come down, the opportunity cost of holding gold (a non yielding asset) is set to come down as well. • 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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