Investment Playbook Weekly Update

July 15th – July 19th 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

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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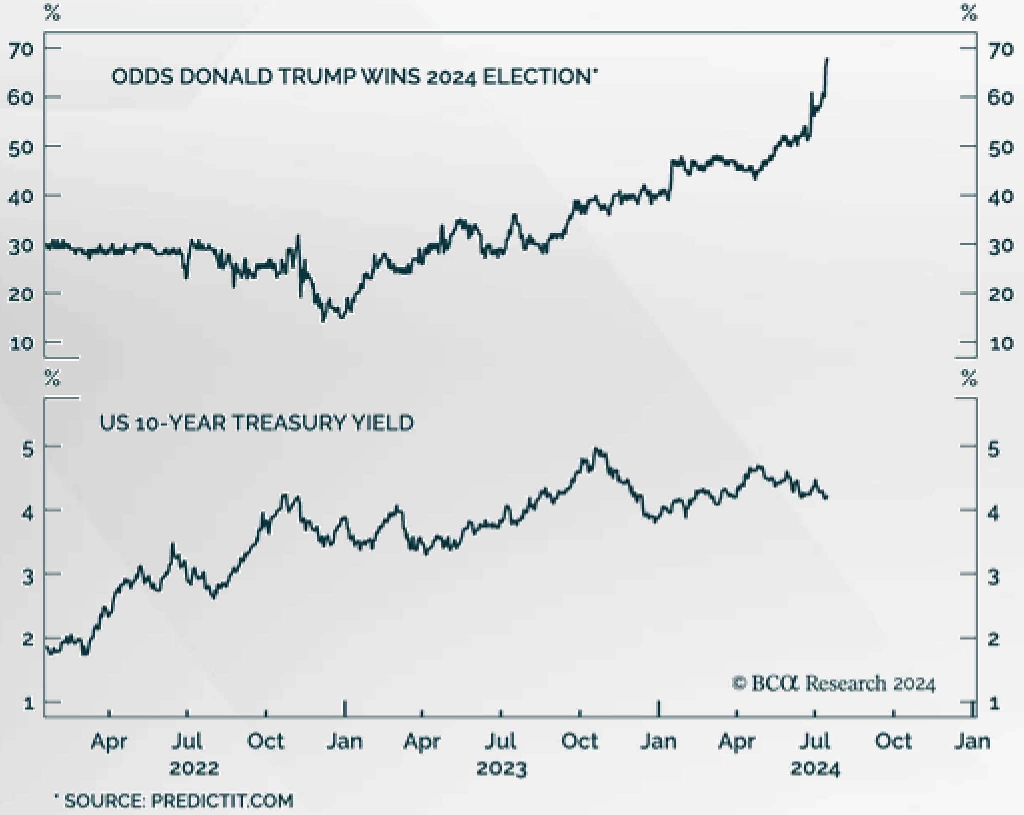
US Election Odds And The Bond Market

US Bond Yields More Likely To Be Lower On A 6-12 Month Horizon



- On Monday morning (15 July), markets reacted to the attempted assassination of Donald Trump. The betting odds that Trump will win the presidency in November rose to 67% (from 60% on Friday) and the 10Y UST yield increased by 4 basis points.
- The market narrative is that a second Trump presidency will be bearish for bonds due to hawkish trade policy, immigration restrictions, and tax cuts. This could lead to higher long-term bond yields if Trump's election odds continue to rise.
- The potential bond-bearishness of a Trump presidency must be weighed against slowing economic growth, falling inflation, and limits on further fiscal easing.
- When looking at all these factors together, according to BCA, it seems more likely that US bond yields will be lower on a 6-12-month investment horizon.

 Source: BCA, July 2024

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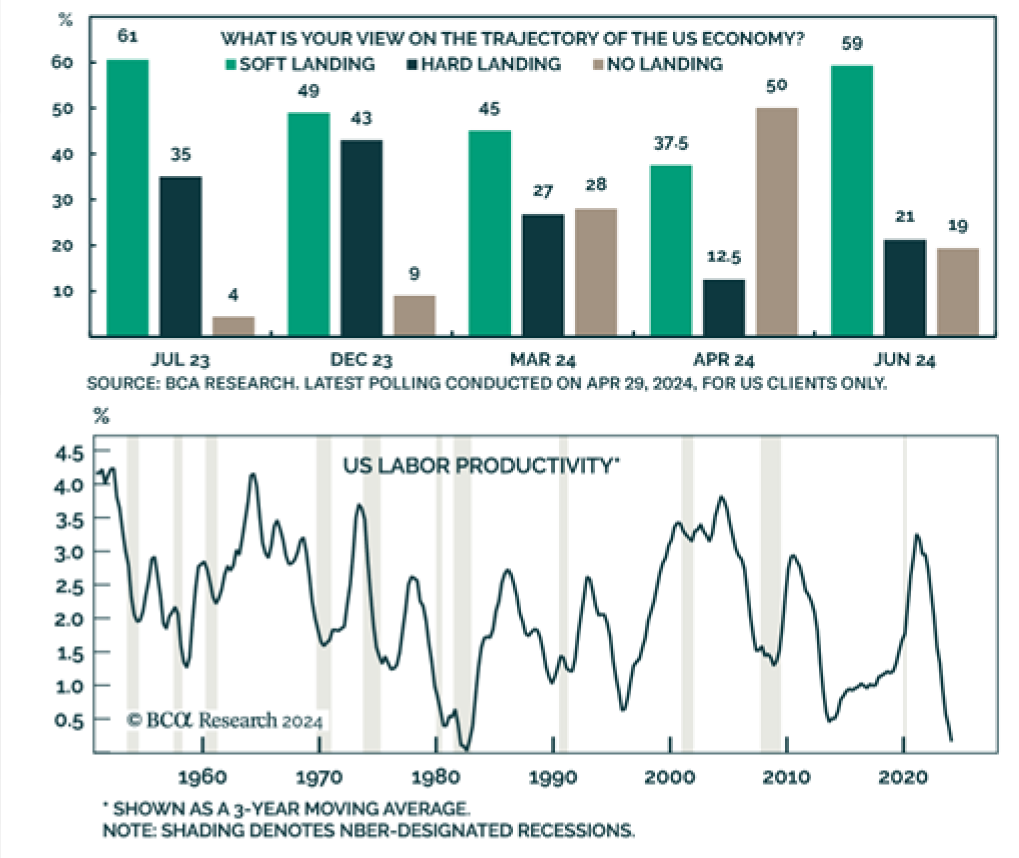
Is A Soft Landing Possible And Probable?

Not Unless There Is A Resurgence Of Productivity Which Is Not Likely To Be Soon

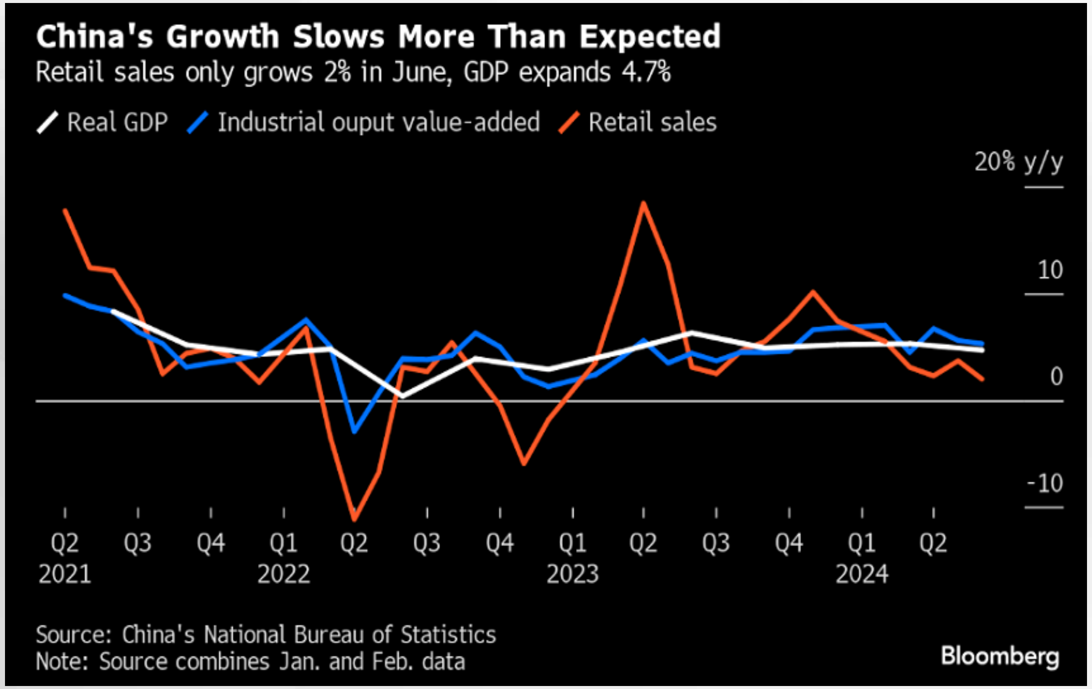


- According to BCA Research, the market is overestimating the odds of a soft landing. This number has been bolstered since the April poll by a slew of disappointing economic data and soft inflation prints.
- However, despite recent deceleration, disinflation, and a still-low unemployment rate, a soft landing is not a likely outcome. As an economic slowdown that leads to a recession will initially look like a desired cooling until it overshoots to the downside. A soft landing is easy to achieve but hard to maintain.
- The long and variable lags that took a long time to weigh on the US economy will be equally difficult to undo unless the Fed pursues a very aggressive easing campaign, which is unlikely as it is still dogged by inflation concerns. The only realistic path to a soft landing is a resurgence of productivity and AI will not have a major impact on productivity for several years.

 Source: BCA, July 2024

China's Economy Slows Unexpectedly

GDP Expansion Slowest In Five Quarters As Demand Struggles



- The economy slowed more than expected, with second-quarter GDP rising 4.7% (consensus 5.1%), the weakest pace in five quarters.
- The data offers more evidence of an uneven recovery, with industrial output climbing 5.3% in June to top estimates, and retail sales growing a much weaker-than-expected 2%.
- Home prices extended their declines in June, showing that the real estate sector continues to struggle despite the rescue package unveiled in May. Property sales and investment continued to shrink in the first half.
- Investors are pinning their hopes on the Third Plenum meeting, scheduled to run 15-18 July, to deliver policy support and bolster sentiment.

 Source: Bloomberg, July 2024

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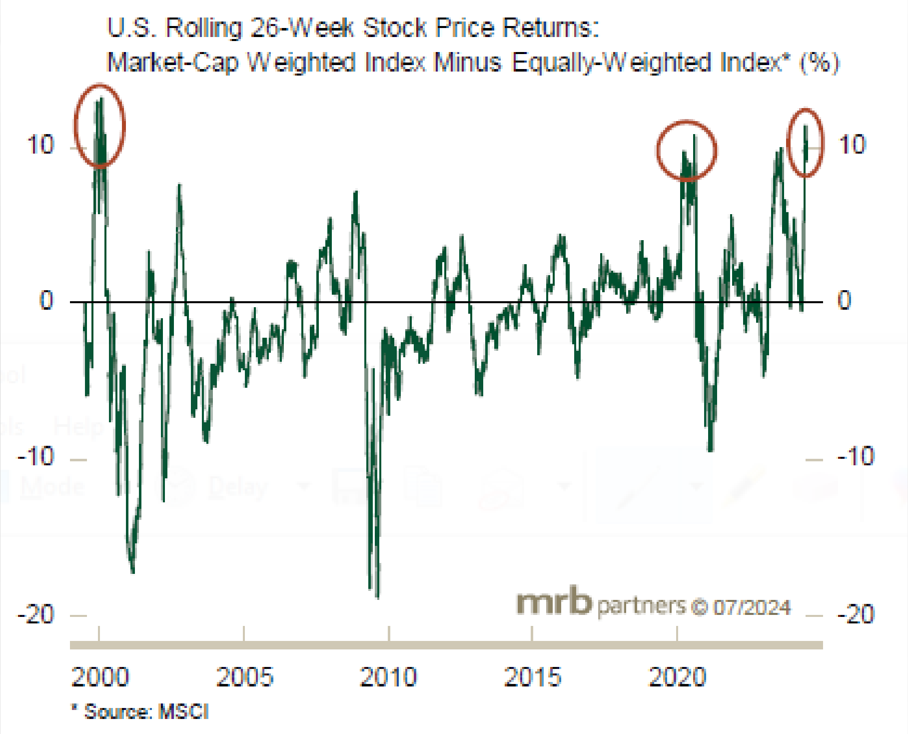
Large Cap Outperformance Looks Stretched

Market Cap vs. Equal Weight: Understanding the Elevated S&P 500 Spread



- The ratio between the S&P 500 index's market-cap weighted and equally-weighted versions, currently at 10%, appears unsustainable over the short term. This ratio implicitly measures the spread between the largest companies in the index and the rest, particularly smaller capitalizations, which receive a higher weight in the equally-weighted calculation.
- Historically, a 10% spread is elevated and seems quite stretched. While large caps are likely to remain resilient in the coming weeks, it could be prudent to take partial profits or hedge against larger cap exposure. At some point, small caps may outperform large caps, but initiating this trade now seems premature.

Source: MRB Partners, July 2024

Large Cap Growth Vs Small Cap Value

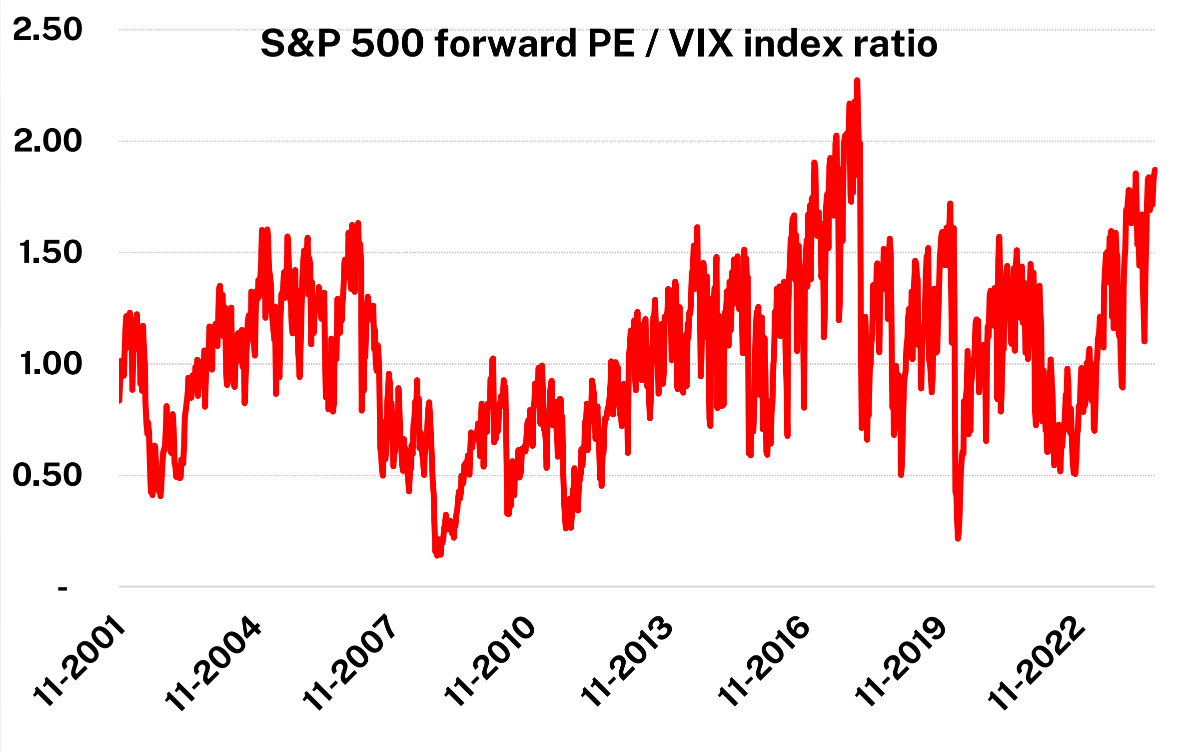
Riding the AI Wave: Growth Stocks Reach Dot-Com Era Highs

- The ratio between the S&P 500 Growth Index (SGX) and the Small Cap Value Index (RUJ) is at its highest level since 2000, illustrating how investors have recently piled into growth stocks.
- This AI story is indeed reminiscent of the dot-com era, when investors rushed into tech stocks, driving valuations of certain stocks to unsustainable levels.
- Today is likely no exception. While we acknowledge that AI is poised to be a significant enabler across various sectors of the economy, we also recognize that many stocks are currently priced for perfection.

Source: BofA, July 2024

Exuberant Risk Attitudes

Exploring Market Complacency Through the P/E-to-VIX Lens



- The ratio of the market's forward P/E multiple to the VIX index serves as a measure of value versus fear, reflecting investors' risk attitudes. Currently, this P/E-to-VIX ratio is at the upper end of its historical range, indicating an exuberant equity market.
- Specifically, the ratio between the S&P 500 1-year forward P/E and the VIX index, which measures S&P 500 30-day implied volatility, highlights significant complacency.
- This ratio calculates the multiple between US equities (S&P 500) valuations (P/E ratio) and the VIX index, commonly referred to as the fear index. At present, this ratio stands at 1.9x, a level not seen since 2017, when the VIX index dropped below 10.

Source: Bloomberg, July 2024

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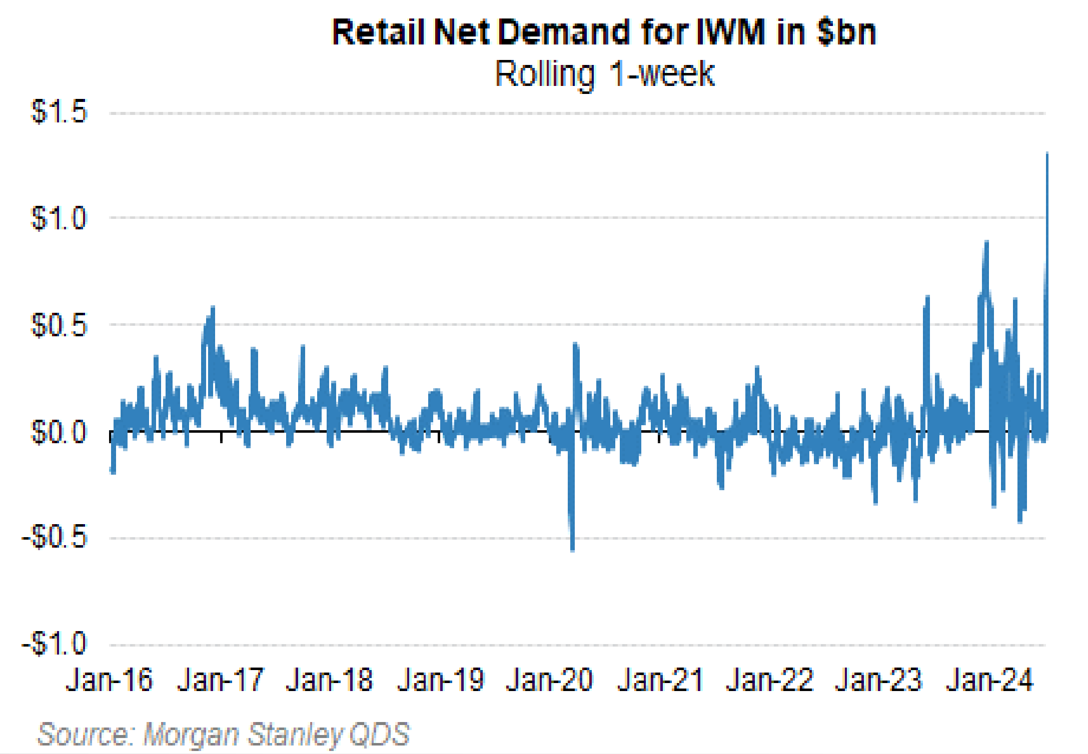
Retail Investors Pile Into Equities

Exploring Market Complacency Through the P/E-to-VIX Lens



- Over the past five days, retail investors have bought $1.3 billion of IWM (iShares Russell 2000 ETF), setting a record. Retail demand can be persistent and may continue for a few more days, but it is often driven by specific catalysts.
- The recent surge could be influenced by the increase in Republican election odds and the convention this week, which might lose prominence soon.
- The IWM Call/Put ratio, rolling one week, is at 1.4x, indicating a higher investor inclination towards upside participation rather than hedging. Retail investors are typically known to enter the market at the end of a bull run due to FOMO (fear of missing out).

Source: Morgan Stanley, July 2024

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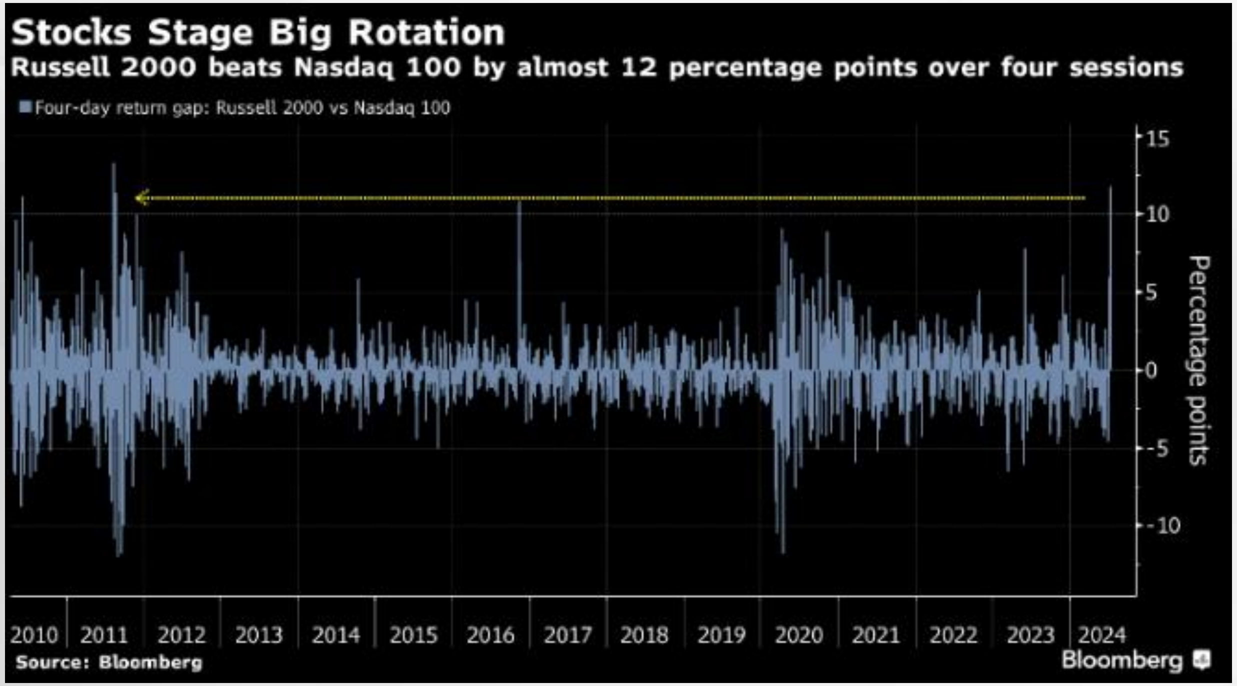
Strong showing by Small Caps

The Russell 2000 has rallied by 10.3% over the last 5 trading sessions, closing 4.4 S.D. above its 50-day DMA



- Dovish comments by Fed Chair J. Powell sparked a massive rally in long duration assets and small caps, which had underperformed YTD. The markets are now also fully pricing a September rate cut from the Fed, which is likely to further benefit such assets.
- On a relative basis, the Small Cap Index has outperformed the Nasdaq 100 by almost 12% in just the last 4 trading sessions which is the highest since 2011.
- We see this as a relief rally in the Small Caps which have heavily underperformed the Large Caps over the past couple of years and were trading at significant discounts to their intrinsic values. However, we have seen such false starts before (December 2023) and would like to see some further strengthening before getting more bullish on such names.

Source: Morgan Stanley, July 2024

LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• Treasury yields tumbled after benign inflation data renewed confidence that the Federal Reserve will cut interest rates at least twice this year. Most rates slid to their lowest since March, with those on two-year debt — more sensitive than longer maturities to changes in the Fed's policy outlook — sinking as much as 13 basis points to 4.486%. The odds of a September rate cut jumped from around 70% before the data. The 10-year Treasury yield, which peaked above 5% last year after 11 Fed rate increases and has since retreated to around 4.20%, can return to 4%, last seen in February. • This week, Fed Chair Jerome Powell indicated the central bank is prepared to cut rates if the unemployment rate increases from its current level of 4.1%. The Fed has a dual mandate of seeking full employment and price stability in the US economy.
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	• The market is overestimating the likelihood of a soft landing for the US economy, despite recent polls showing that 59% of respondents believe it possible due to disappointing economic data and soft inflation reports. However, achieving and maintaining a soft landing is unlikely. An economic slowdown may initially appear beneficial before overshooting into a recession. The Federal Reserve's limited capacity to manage this outcome is evident, as minor rate cuts won't prevent a recession due to persistent inflation concerns and long economic lags. The only realistic path to a soft landing is through a resurgence in productivity. While AI advancements are promising, their significant impact on productivity will take several years, similar to the computer revolution. Thus, expecting a soft landing is overly optimistic in the current economic climate. • Valuations in the market appear stretched, with the S&P 500 one-year forward P/E ratio at 23.5x and the Tech sector (S5INFT) at 35x, levels last seen during the dot-com bubble. The VIX, which was at 13 at the beginning of the week suggested a false sense of calm, while the ratio of one-year forward P/E to VIX reaching 1.9x on the S&P 500 indicates historical complacency. There has been significant sectoral rotation favoring small and mid-cap stocks. The Russell 2000 (RTY) versus S&P 500 (SPX) five-day return hit a record high of +10%. Retail investors have been notably active, with net demand for the iShares Russell 2000 ETF (IWM) exceeding $1 billion last week, the highest since 2016. The rolling one-week IWM Call/Put ratio is at 1.4x, showing a preference for participating in the upside rather than hedging. Retail investors, driven by fear of missing out (FOMO), are known to enter the market at the end of a bull run. This increased activity in small and mid-cap stocks, combined with stretched valuations and low VIX levels, points to potential complacency and risk in the current market environment.

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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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