Investment Playbook Weekly Update

17 – 21 June 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

1

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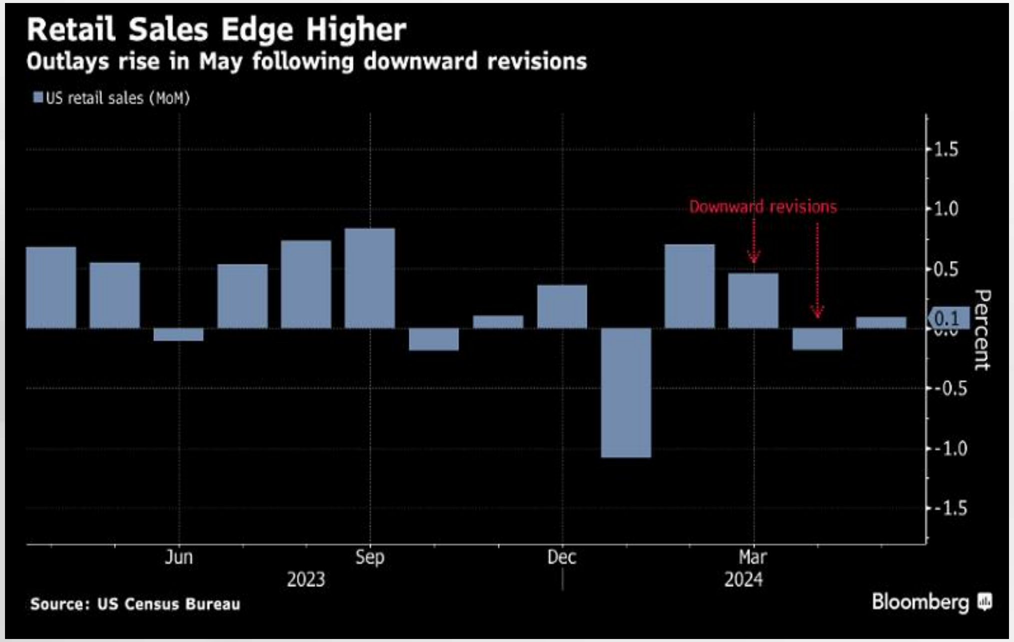
Weak Retail Sales Consistent With Slowing Economy

US Retail Sales Barely Increase in Sign of Consumer Strain



Metric	Actual	Estimate
Retail sales (MoM)	+0.1%	+0.3%
Sales ex. autos, gas (MoM)	+0.1%	+0.4%
'Control group' sales (MoM)	+0.4%	+0.5%

- US retail sales barely rose in May and prior months were revised lower, pointing to greater financial strain among consumers.
- The retail report showed so-called control-group sales — which are used to calculate gross domestic product — climbed 0.4% in May. It fell 0.5% in the prior month, which was the most in about a year. The measure excludes food services, auto dealers, building materials stores and gasoline stations.
- The figures underscore a notable downshift in consumer spending after stronger readings earlier in the year. Economists expect a moderate pace of spending going forward as Americans exercise greater prudence given persistent inflation, a gradually cooling job market and emerging signs of financial stress.

 Source: Bloomberg, June 2024

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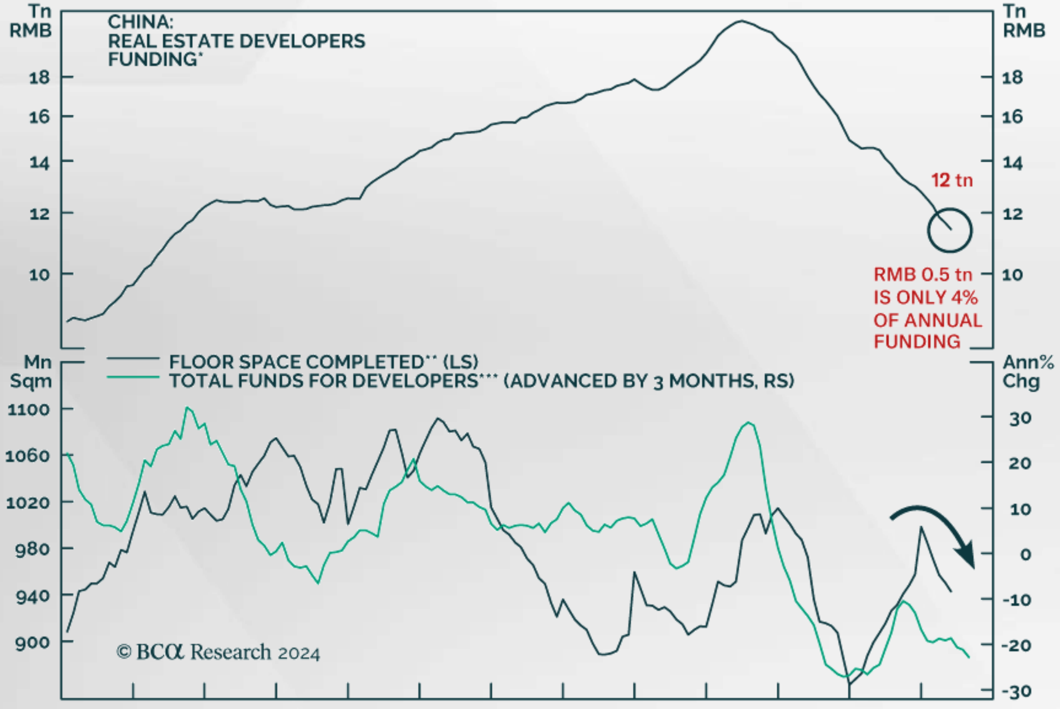
China Property Slump Worsens

Recent Stimulus Efforts Ineffective

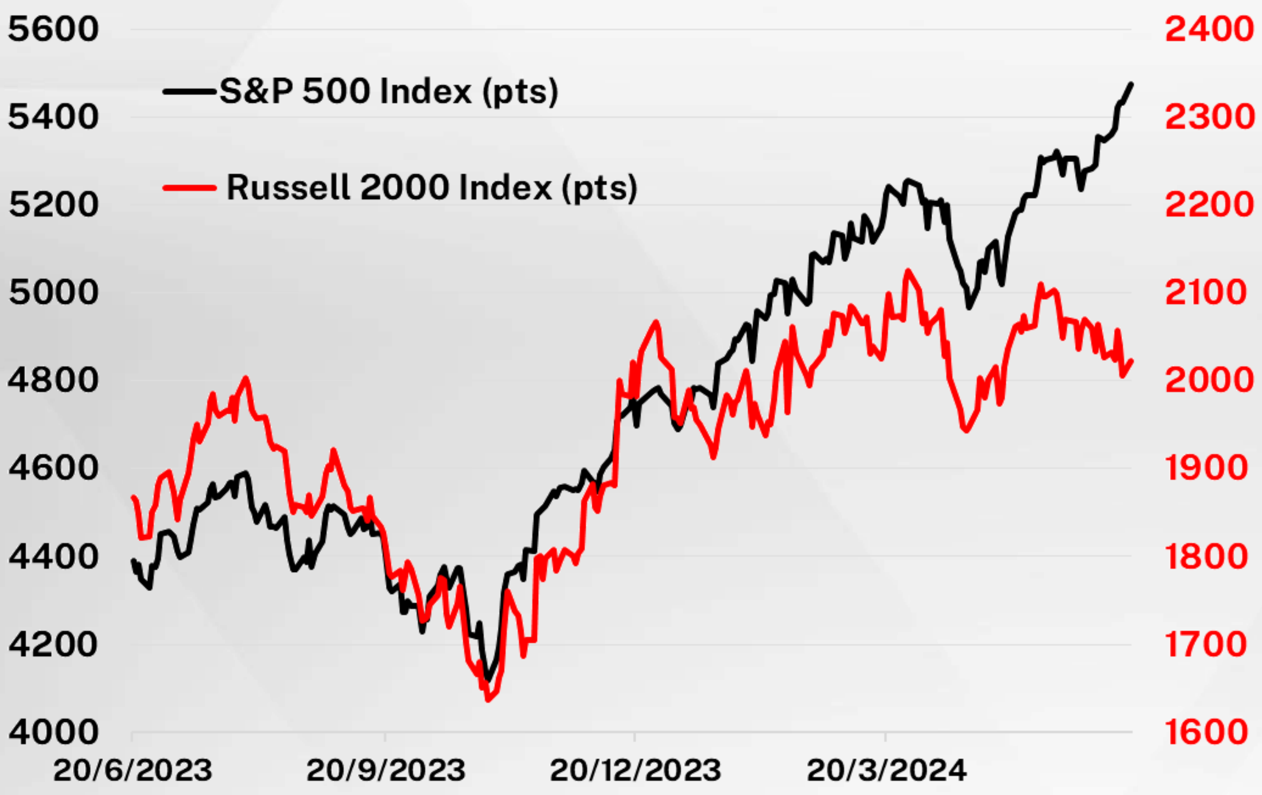


- Declines in Chinese new and used home prices accelerated in May to 0.71% m/m and 1.00% m/m respectively, and the contraction in residential investment deepened to 10.1% YTD y/y. These figures come on the heels of relaxed purchase and mortgage rules, as well as a government housing rescue package.
- The challenges in the housing market significantly impact consumer sentiment, and the pessimistic outlook for home prices poses a challenge to Chinese domestic demand. Consequently, the authorities are depending on exports to achieve their growth objectives. However, the external environment is unfavorable due to escalating trade tensions and the temporary stabilization of the global manufacturing cycle.
- China will not be able to fill the void from receding US demand. We remain neutral on China equities in the near term.

 Source: BCA, June 2024

US Small-Cap Stocks Diverging From Large Caps

Russell 2000's Flat Performance Amid S&P 500 Surge Highlights Economic Slowdown

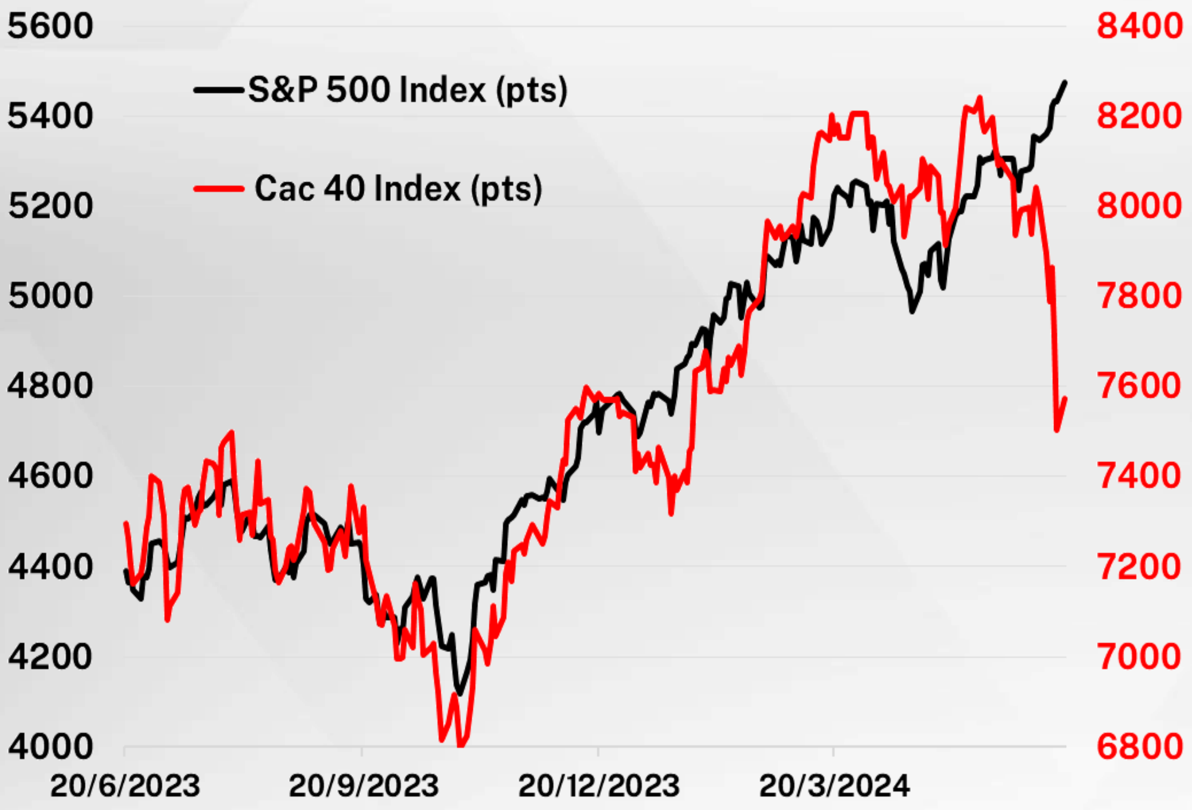


- The performance of the Russell 2000 Index, primarily composed of small caps, is flat so far this year (+0.38%, including dividends), whereas the total return of the S&P 500 Index, composed of large caps, is up +15.5%. Small caps were in high demand at the start of the year due to significant underperformance over the last three years (Russell 2000 three-year total return: -5.85% versus S&P 500: +37.6%).
- The main reason for 2024's underperformance is the slowing US economy, illustrated by lower inflation, reduced hiring intentions compared to pre-COVID levels, and progressively rising unemployment.

 Source: Lighthouse Canton, June 2024

French Stocks Stalls

Eurozone Equities: Tactical Buying Opportunity Amid French Election Volatility



- French (European) equities dropped 10% (7%) from their June 6 highs due to concerns over French legislative elections and renewed fears of populism and EU exits. Strategists believe the risk of a far-right majority is overstated and that Marine Le Pen's party, if successful, would likely focus on immigration rather than Frexit. Despite bearish cyclical fundamentals, there's a tactical opportunity for Eurozone risk-assets to outperform US equities due to global manufacturing stabilization, accelerating service-sector growth, and easing inflationary pressures. With French equities making up 40% of the MSCI Eurozone index, the current selloff offers a tactical buying opportunity.

 Source: Lighthouse Canton, June 2024

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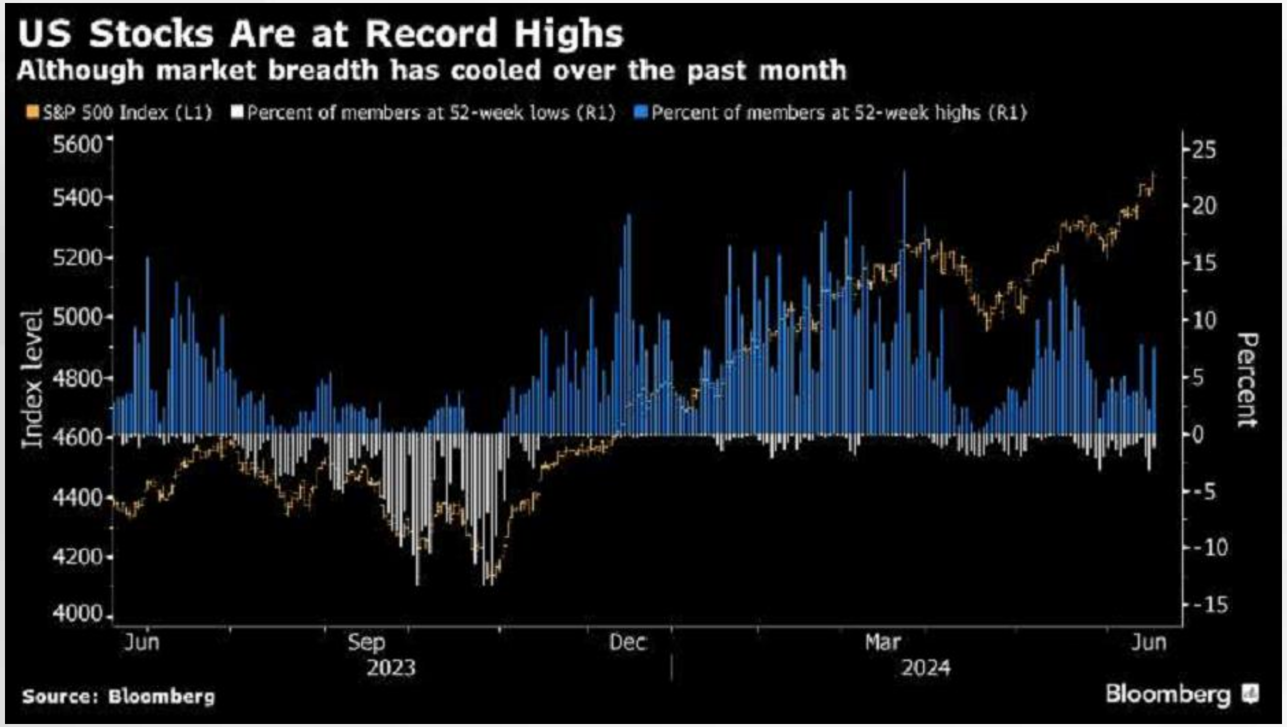
Narrow breadth of the equity rally this year

Over the past month, the breadth of the equity rally has shrunk quite sharply



- While the S&P 500 hit another set of record highs this week, the underlying breadth of the rally has been quite narrow.
- Tech mega-cap stocks have been responsible for approximately 60% of the rally in the S&P 500 this year, of which Nvidia alone has contributed close to 30% of the total gain.
- Out of the 500 companies that are part of the S&P 500, 293 constituents have delivered positive returns, of which only 113 have managed to beat the returns delivered by the Index.

 Source: Lighthouse Canton, June 2024

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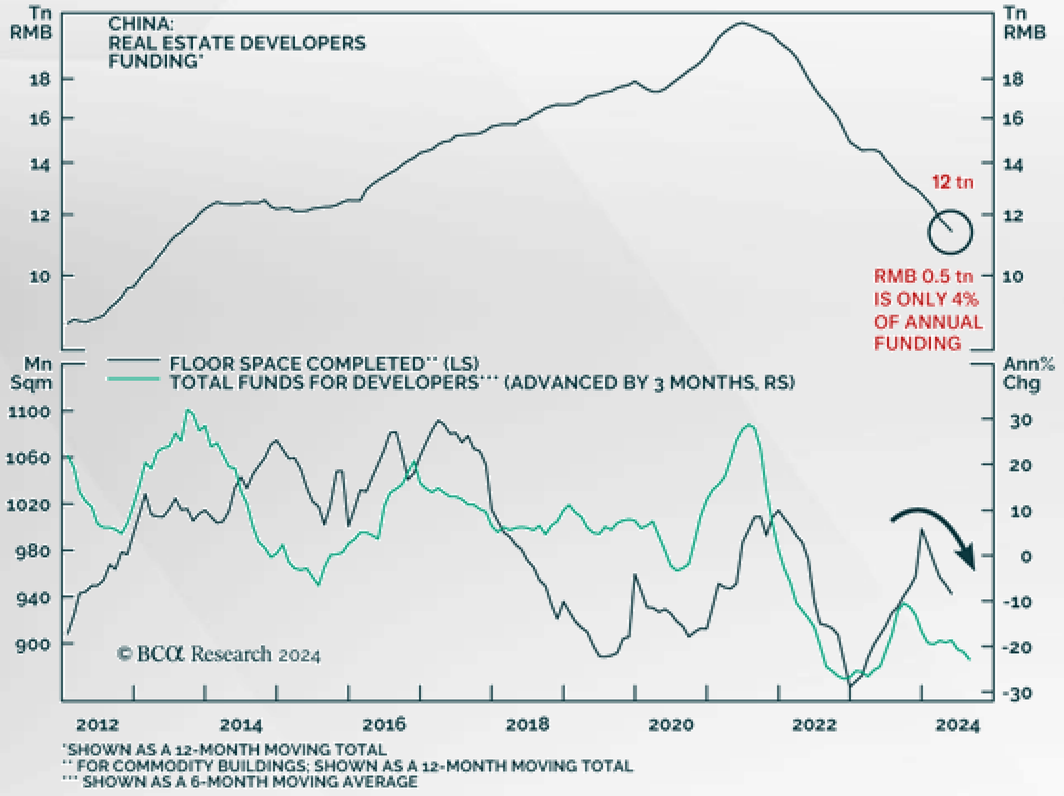
China Property Slump Worsens

Chinese Housing Market Woes Deepen Amid Insufficient Government Stimulus



- In May, Chinese new and used home prices fell by 0.71% and 1.00% month-on-month, respectively, while residential investment contracted by 10.1% year-to-date. Despite relaxed purchase and mortgage rules and a government housing rescue package, the CNY 500 billion support (4% of last year's developer funding) is insufficient for a meaningful recovery. The previous CNY 1.88 trillion package was fully disbursed last year, and the new package implies a 9.5% year-on-year decline in funding. Structural issues persist, with high developer leverage and a fragmented market of about 100,000 developers. The housing market's struggles dampen consumer sentiment and domestic demand, forcing reliance on exports amid unfavorable global conditions.

 Source: BCA Research, June 2024

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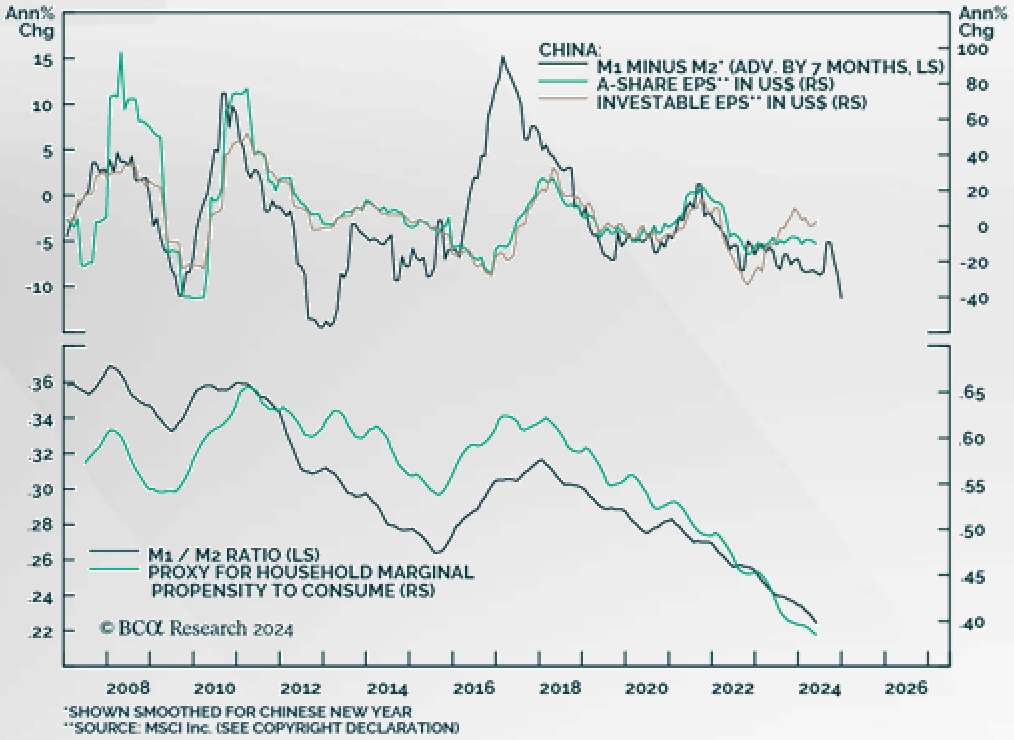
Chinese Stocks Unlikely To Rebound Yet

Weak Chinese Loan Growth and Money Supply Contraction Signal Economic Struggles



- May's Chinese new loans grew from CNY 10.2 trillion to CNY 11.1 trillion, missing expectations of CNY 11.3 trillion. The contraction in M1 worsened to 4.2% year-on-year. This decline is partly due to financial regulators cracking down on bank loan arbitrage. The persistent downtrend in money growth negatively impacts corporate profits and consumer spending.
- The spread between M1 and M2 measures of money supply reflects weak corporate and household credit demand. Minimal stimulus efforts are expected, as authorities await the effects of the latest housing market package. With domestic conditions weak, growth relies heavily on exports, despite unfavorable external conditions.

Source: BCA Research, June 2024

LC Views - Summary

2

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 this week, with the S&P 500 hitting yet another record high. The main catalysts this week are falling interest rates, with the US 10-year government bond yield now below 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 last week, and soft macro economic data (retail sales, labor market) 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 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 24 and a 1-year forward P/E of 22.4, 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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