Investment Playbook Weekly Update

March 4th – 8th 2024

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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Charts of the week

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Credit Froth Shows Market Can Withstand Higher Rates

Bolsters The Case For The Fed To Hold For Longer – Possibly Even To Hike

- When the Fed embarked two years ago on its most aggressive tightening campaign in decades, fears that the flow of credit could be disrupted were seen as a moderating influence on policymakers. A high-grade US bond spread above 150 bps was viewed as a level that might prompt the Fed to take its foot off the accelerator — but that level has barely been tested.
- The growing signs of froth, will only worsen if money gets easier. First, demand for corporate debt has been massive, squeezing spreads to multi-year lows, crushing new issue concessions and dramatically inflating order books.
- In addition, there's a distinct lack of discrimination between borrower quality at the low end of junk — another sign that there's too much cash in the system. The gap between spreads on BB and B rated bonds is the tightest since 2014. At 88 bps, the difference far below the 10-year average closer to 150 bps.
- Froth creeping back into credit markets bolsters the case for the Fed to hold for longer — and possibly even to hike. And credit might be set up for disappointment again this year.

Source: Bloomberg, March 2024

China Sets Ambitious 2024 Economic Targets

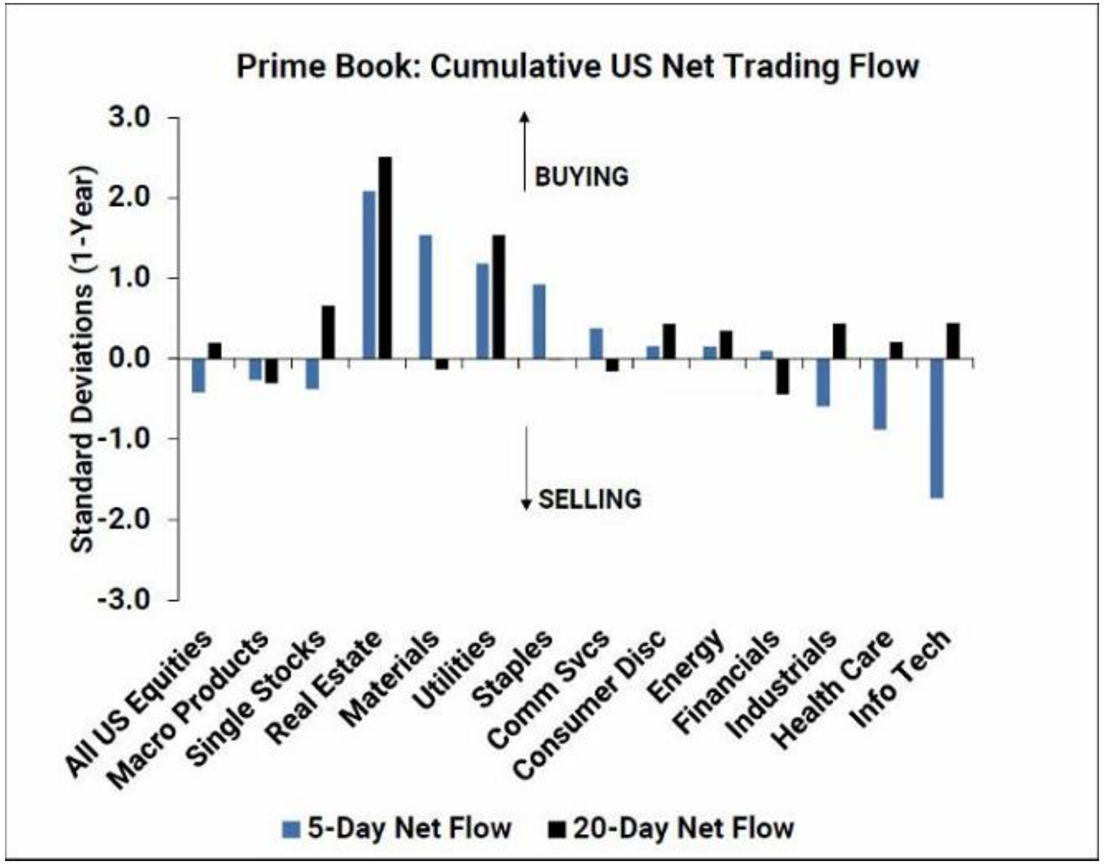
Big Question Is How Is It Will Reach Those Goals

- The “around 5%” growth target announced by Premier Li Qiang at the opening session of the annual National People’s Congress (NPC) Tuesday is the same as that for 2023. But unlike last year, when Beijing’s abrupt exit from Covid Zero provided a boost to economic activities in the first half, there is no powerful tailwind in China’s favor this time. In addition, the government continues to see inflation at around 3%, even as the statistic bureau reports the economy is slipping into deflation.
- Furthermore, official budget deficit is set at 3%, on par with the level a year earlier.
- To make things worse, the government’s decision not to hold a press briefing for the premier this year, breaking with 30 years of tradition is not instilling a lot of confidence for investors regarding its policy direction, especially at a time when it most needed it.

Source: Bloomberg, March 2024

Hedge Funds Unload Tech Stocks

Data Suggests Traders Are Booking Profits On Their Tech Wagers After Going All In Before Nvidia's Results

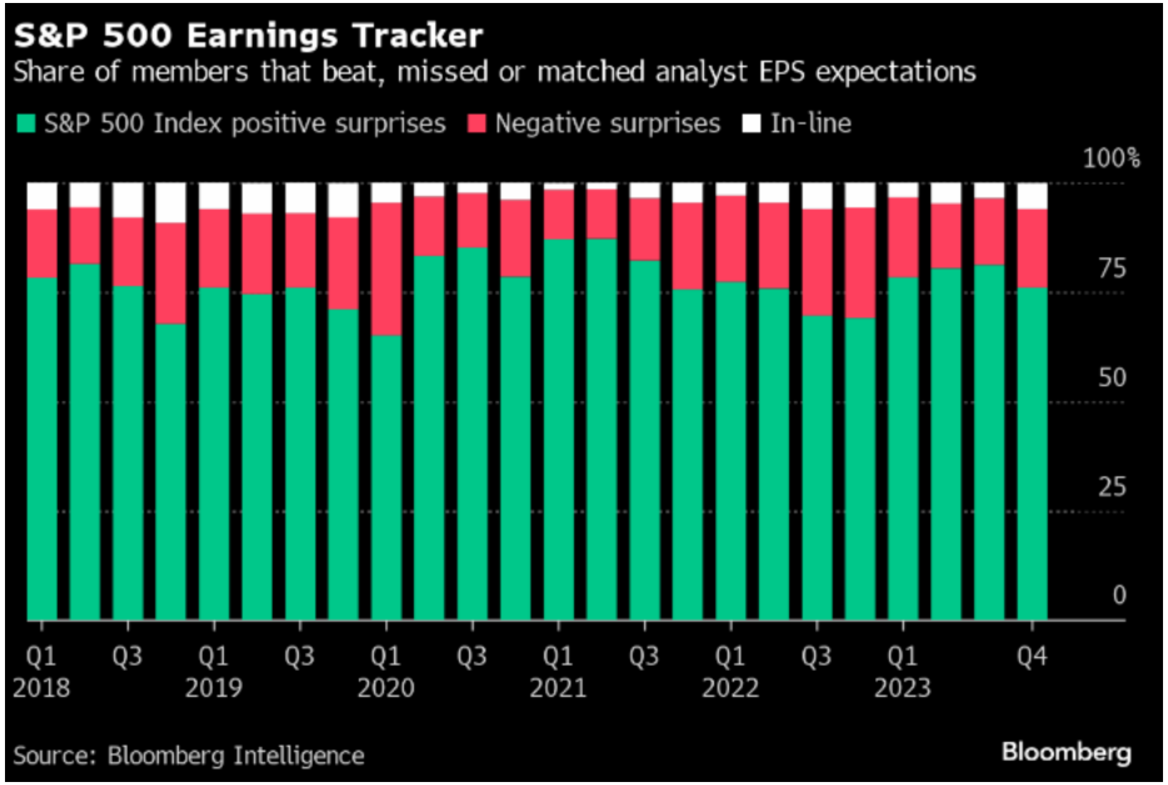


- Professional managers offloaded their positions for four straight sessions last week, including Thursday, the day after Nvidia posted results, according to data from Goldman Sachs Group Inc.'s prime-brokerage unit. The intensity of the selling ranks in the 98th percentile of the past five years.
- The data suggests traders are booking profits on their tech wagers after a six-week buying streak and putting that extra cash into less volatile stocks, such as consumer staples. Companies that make household products saw the most net buying in 10 weeks.

Source: Goldman Sachs, February 2024

Q4 2023 Earnings Summary

The S&P 500 Notched A Sales Growth Of 3.9% YoY And Earnings Growth Of 7.8% YoY, Both Exceeding Expectations



- During the quarter 76% of the companies managed to exceed street expectations, which is actually better than the 10-year average of 74%.
- Sales and earnings managed to easily surpass expectations which had been dialed back drastically leading up to the earnings season, notching a positive surprise of 1.2% and 7.3%, respectively.
- Overall, Q4 turned out be yet another quarter of resilient earnings with profit margins remaining stable primarily on the back of cost discipline being exercised by corporates across the country.

Source: Bloomberg, February 2024

A Whiff Of Bad Breadth

The Rally Remains Quite Narrow, Led By Only A Few Stocks

Source: BCA Research, February 2024

- The Nasdaq advance-decline line, which tracks the number of advancing stocks versus the number of declining ones, suggests that the current rally lacks breadth, indicating that it's not being supported by a wide range of stocks. Similarly, the proportion of NYSE stocks trading above their 200-day moving average has declined from 69.3% at the end of last year to 59.5%.
- According to FactSet, the earnings performance of the S&P 500 is heavily influenced by the top six tech firms, which have reported a remarkable earnings growth of 53.7% year-over-year in Q4. In contrast, the remaining 494 companies experienced a significant earnings contraction of 10.5% year-over-year during the same period.

Winners Take All

Handful Of Stocks Explain Majority Of Gains (Again) This Year

Name	Market Capitalization 29/12/2023	Market Capitalization 27/2/2024	Change	Index Weight	Stock Contribution	Cumulative Contribution
NVIDIA Corp	1,223,193	1,977,300	754,107	4.4%	29.9%	29.9%
Meta Platforms	909,629	1,228,584	318,955	2.8%	12.6%	42.5%
Microsoft Corp	2,794,828	3,028,200	233,372	6.8%	9.2%	51.8%
Amazon.com Inc	1,570,153	1,814,987	244,834	4.1%	9.7%	61.5%
Eli Lilly & Co	553,370	733,451	180,081	1.7%	7.1%	68.6%
Berkshire Hathaway	776,892	884,975	108,083	2.0%	4.3%	72.9%
Broadcom Inc	522,562	612,857	90,295	1.4%	3.6%	76.5%
Merck & Co Inc	276,259	326,306	50,047	0.7%	2.0%	78.4%
Visa Inc	536,849	585,631	48,782	1.3%	1.9%	80.4%
Advanced Micro Devices	238,141	284,395	46,254	0.6%	1.8%	82.2%

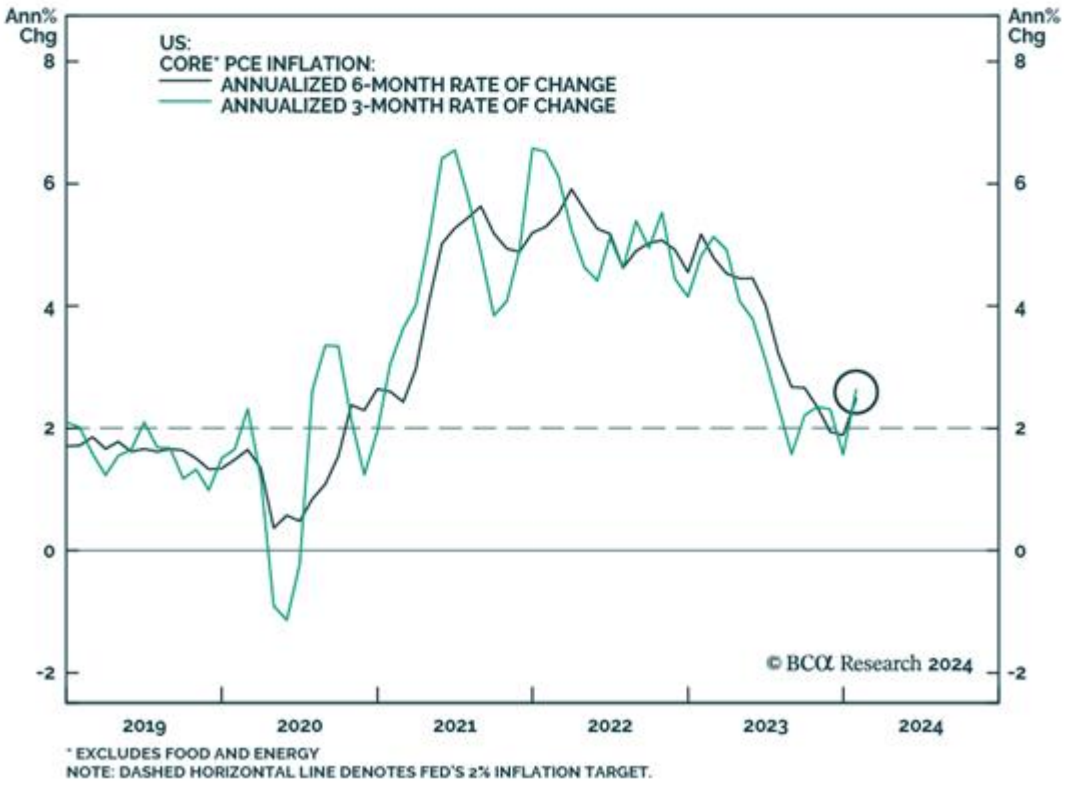
Figures in m USD

Source: Lighthouse Canton, February 2024

- In 2024, the market capitalization of the S&P 500 surged by an impressive $2,538,891 million USD. Notably, Nvidia contributed significantly to this growth, boasting a market cap of $754,107 million USD, which accounts for 29.9% of the overall increase.
- Furthermore, the collective profits of Nvidia, Meta, and Microsoft alone constitute more than half of the index's total gains this year, amounting to 51.8%, while the top 10 movers explain over 82% of the increase in capitalization thus far this year.

US Core PCE Inflation Accelerates

Data Suggests Core PCE Is Still Hot

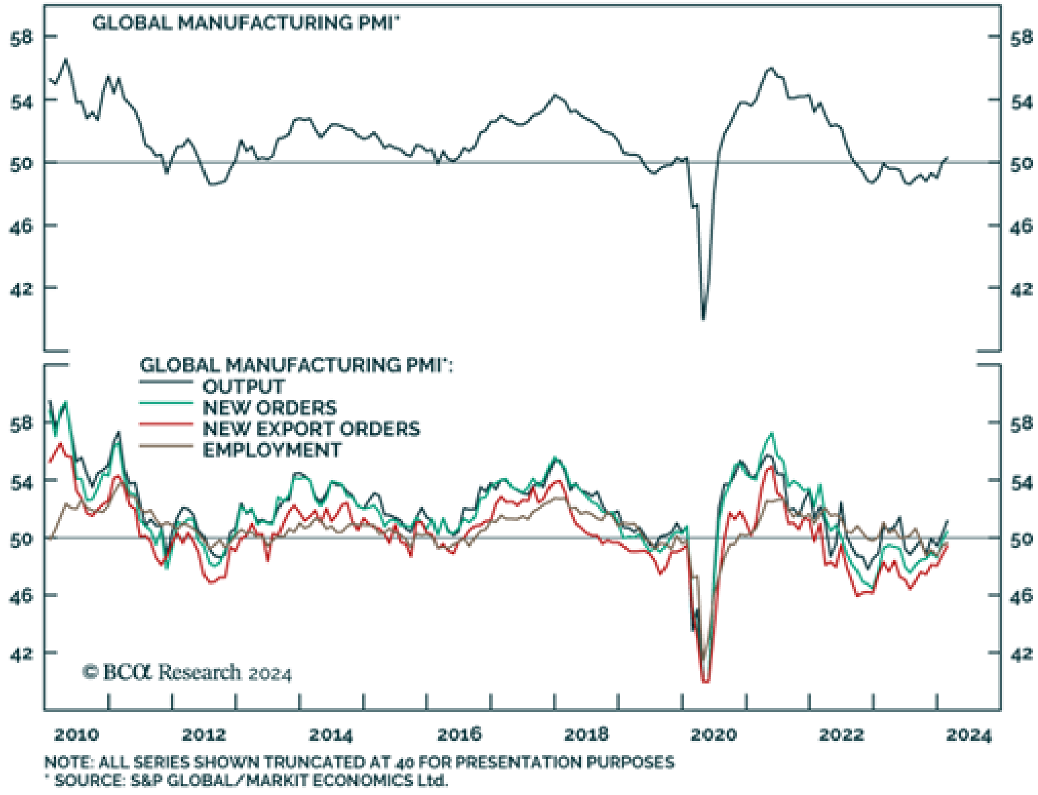


Source: BCA Research, March 2024

- The Fed's favored inflation gauge corroborated the signal from the hotter-than-anticipated CPI release. Although the core PCE deflator decelerated slightly from 2.9% to 2.8% on a year-over-year basis, it accelerated from 0.1% to a 12-month high of 0.4% on a month-over-month basis. In addition, it jumped to 2.5% on a six-month annualized basis after having fallen below the Fed's 2% target in December.
- Persistent price pressures would delay the Fed's easing of monetary policy. However, investors have already revised their rate cut expectations, bringing them closer in line with the December Fed projections.

Global Manufacturing PMI Returns To Growth

Global Manufacturing Rebounds: Signs of Recovery Amidst Economic Uncertainty



- The Global Manufacturing PMI rebounded to 50.3, marking growth after 18 months of contraction. New orders expanded, and the decline in export orders slowed, suggesting improved global demand. Output and employment showed signs of recovery.
- However, major DM economies like the Eurozone and UK still contract. Despite the US PMI rise, the ISM gauge fell unexpectedly, hinting at underlying fragility amid prospects of a looming US recession.

Source: BCA Research, March 2024

LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• On Wednesday, Federal Reserve Chair Jerome Powell in congressional testimony said he expects the bank to cut rates this year. “The committee does not expect that it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%,” Powell told the House Financial Services Committee, adding later that officials would approach the decision “carefully and thoughtfully.” Powell reiterated to lawmakers that while the bank is in no rush to cut interest rates until policymakers are convinced they have won their battle over inflation, he expects the Fed to cut rates this 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. 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 <10% 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.
Equities	• Equities got off to a weak start, with the Magnificent 7 correcting meaningfully on Tuesday. Apple & Tesla were the notable losers, down 5.9% & 12.9% respectively. Q4 earnings season is now behind us with 493 of the 500 companies that are a part of the S&P 500 having reported numbers and on a cumulative basis sales have grown by 3.8% YoY and earnings have delivered 7.9% YoY growth, with the Magnificent 7 making a significant contribution, more than offsetting the degrowth posted by multiple other constituents of the index. • We continue to believe that the equity market resurgence seen since October 2023 may be transitory. The S&P 500's ascent to 5,100 points hinges on expectations of a 'soft landing' for the US economy, including an approximate 10% growth in US stock earnings and an 20x forward P/E ratio. Markets may be underestimating both upside risks to inflation and downside recessionary risks. Accordingly, we outline four scenarios for 2024:

LC Views Summary (2/3)

Sub-Asset	Recommended Positioning
Equities	• Scenario #1: A soft landing materializes, leading to equities moving sideways. • Scenario #2: An increase in investor optimism ('Goldilocks scenario') drives US stocks higher. • Scenario #3: Confirmation of a recession ('Retorquing' of Scenarios 1 & 2) prompts a market correction. • Scenario #4: Inflation picks up and prompts a market correction. Given the current trajectory toward softer global GDP growth, the likelihood of a US recession, now pegged at 50%, may rise as the year progresses. Additionally, equities seem less appealing when compared to bonds and cash. The gap between the 3-month US Treasury yield and the S&P 500’s dividend yield has widened to 400 basis points, a differential reminiscent of the years preceding the significant market downturns of 2000 and 2007. Consequently, we lean towards the possibility of a market correction in 2024. Nonetheless, we acknowledge that investor optimism could prevail until a recession becomes evident, potentially by mid-year and therefore believe that investors who want to take equity risk exposure, should do so with adequate hedges in place, to minimize downside risk.

LC Views Summary (3/3)

Sub-Asset	Recommended Positioning
Currencies	• Currencies are expected to remain volatile throughout 2024. Given higher recessionary risks, the USD may strengthen over a short-term tactical horizon but for longer term investors, we continue to hold the view for a bearish USD. Exposure to JPY, EUR and GBP could be increased over time to benefit from the recent lows and a peak in dollar's strength driven by peak policy rates. We also recommend adding active managers (Macro funds) to monetize opportunities in currencies and rates.
Commodities	• Our long-term view for a bearish USD is likely to be supportive for Gold. We also like the yellow metal for structural reasons: diversification benefit, inflation hedge, geopolitical risk and de-dollarization trend. • Oil is likely to remain highly speculative this year as witnessed in March. On one hand, recessionary fears should temper demand. On the other hand, the production cut by OPEC+ members and already low oil inventories will support prices in the near term.
Real Estate	• Tightening financial conditions have started to cause sharp repricing in property prices globally and threaten rental growth rates. The prospect of rate cuts this year could present opportunities to pick good REITs which are trading cheap. • 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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