Investment Playbook
Weekly Update

April 22nd – 26th 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

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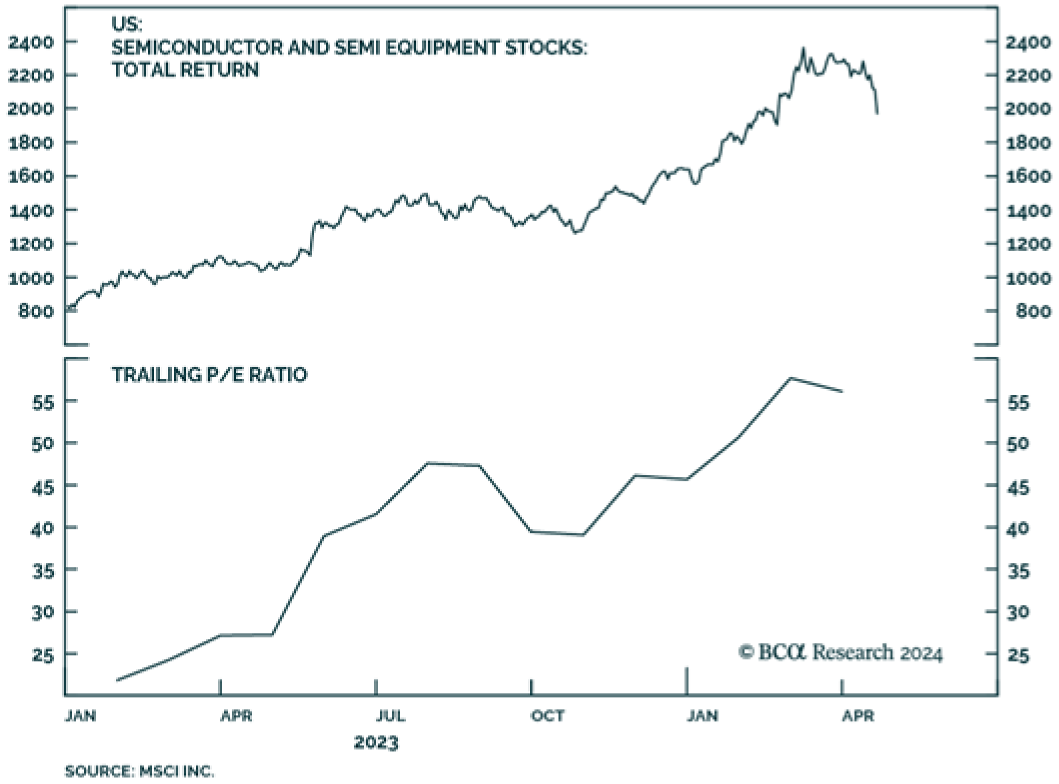
Will Semiconductors Continue To Drop?

Stable for Now: Investors Advised to Diversify Entry Points in Semiconductor Stocks

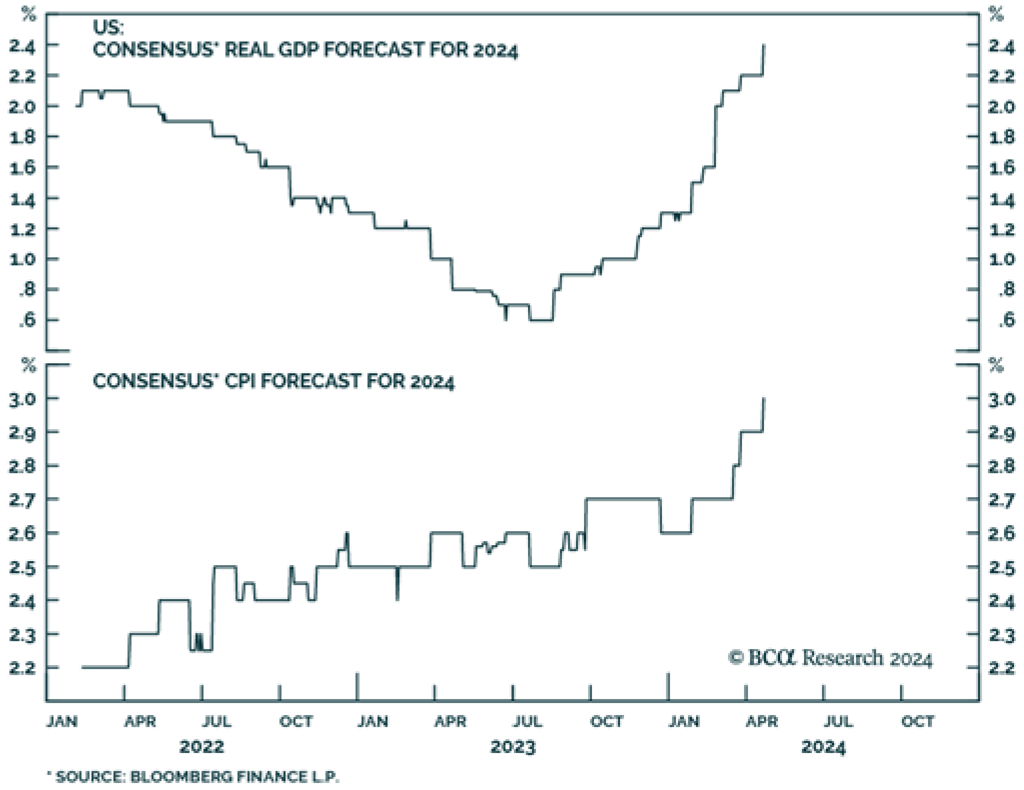


- Over the past weeks, U.S. semiconductor stocks have dropped by 17%, despite a robust year-to-date gain of over 20%. The sector, previously valued highly with a PE ratio of 56 in March, has been affected by rising rate expectations and geopolitical concerns.
- BCA Research expressed neutrality towards buying or selling these stocks, citing temporary inflation pressures that might soon ease.
- Long-term, the sector faces challenges from increased competition, especially in AI, where companies like Meta are starting to develop their own technologies.

Source: Bloomberg, April 2024

Probabilities Of A No Landing Are Shooting Up

Stable for Now: Investors Advised to Diversify Entry Points in Semiconductor Stocks



- By the end of 2023, financial markets embraced a "soft landing" scenario, recovering from a banking scare and anticipating a phase of steady growth with declining inflation. This optimism boosted the S&P 500, which saw a 24.2% rise throughout the year.
- In contrast, 2024 has shifted towards a "no landing" outlook, where growth and inflation are expected to remain robust, as evidenced by changing investor expectations and rising CPI forecasts.
- Consequently, market anticipation for Federal Reserve policy has adjusted from expecting multiple rate cuts to now only two. Amidst these economic shifts, bond markets have reacted negatively, although some strategists suggest potential overweight positioning in Treasurys given the current rate environment, despite emerging weaknesses in the labor market and rising loan delinquencies.

Source: Bloomberg, April 2024

LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• At the "Washington Forum on the Canadian Economy," Fed Chair Jerome Powell signaled policymakers will wait longer than previously anticipated to cut interest rates following a series of surprisingly high inflation readings. Powell pointed to the lack of additional progress made on inflation after the rapid decline seen at the end of last year, noting it will likely take more time for officials to gain the necessary confidence that price growth is headed toward the Fed's 2% goal before lower borrowing costs. • Treasury yields reached fresh year-to-date highs — with the two-year note's briefly exceeding 5% and reaching the highest level since November — after Powell signaled the Fed is in no hurry to cut rates.
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 on back of near peak yields. • 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	• Last Friday marked the official start of the Q1-24 earnings season. While earnings growth is expected to dip compared to Q4-23, it is to reaccelerate as the year progresses. BCA Research posit that most of the positive earnings growth expectations have already been priced in. As such, only supersized earnings surprises could potentially propel US equities higher. Meanwhile, investor confidence had waned over the last couple of weeks due to geopolitical risks, increasing interest rates (US), a cautious Federal Reserve, and persistent inflation concerns (US), which gave bears an upper hand in the market that was however reversed this week, with the market rebounding from oversold levels, on the back of resilient earnings from most corporates that have reported numbers yet. • We anticipate that developments in Artificial Intelligence (AI) will be pivotal over the next 6-9 months, particularly given the significant role the tech sector has played in this year's market rally. Despite lofty valuations, demand for AI products and services remains strong, suggesting continued support for these sectors. Anticipated releases such as Llama 3 (Meta) and GPT5 (OpenAI) are expected to further drive-up tech stocks. • While leaders in the AI space, such as Nvidia and Microsoft, may continue to perform well, other sectors, such as consumer discretionary and retail, show signs of weakness. Examples like Tesla and Lululemon, once investor favorites, have already seen a 30% decline year-to-date. We expect such disparities among stocks to persist throughout the year. • 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 23.4 and a 1-year forward P/E of 21.5, there is a risk of a sharp market decline due to overvaluation, if economic sentiment shifts. While investor optimism may prevail until clear recession signs emerge, we advise maintaining a significant 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 (153) 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 the last three months. 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	• 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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