Investment Playbook Weekly Update

20th November – 24th November 2023

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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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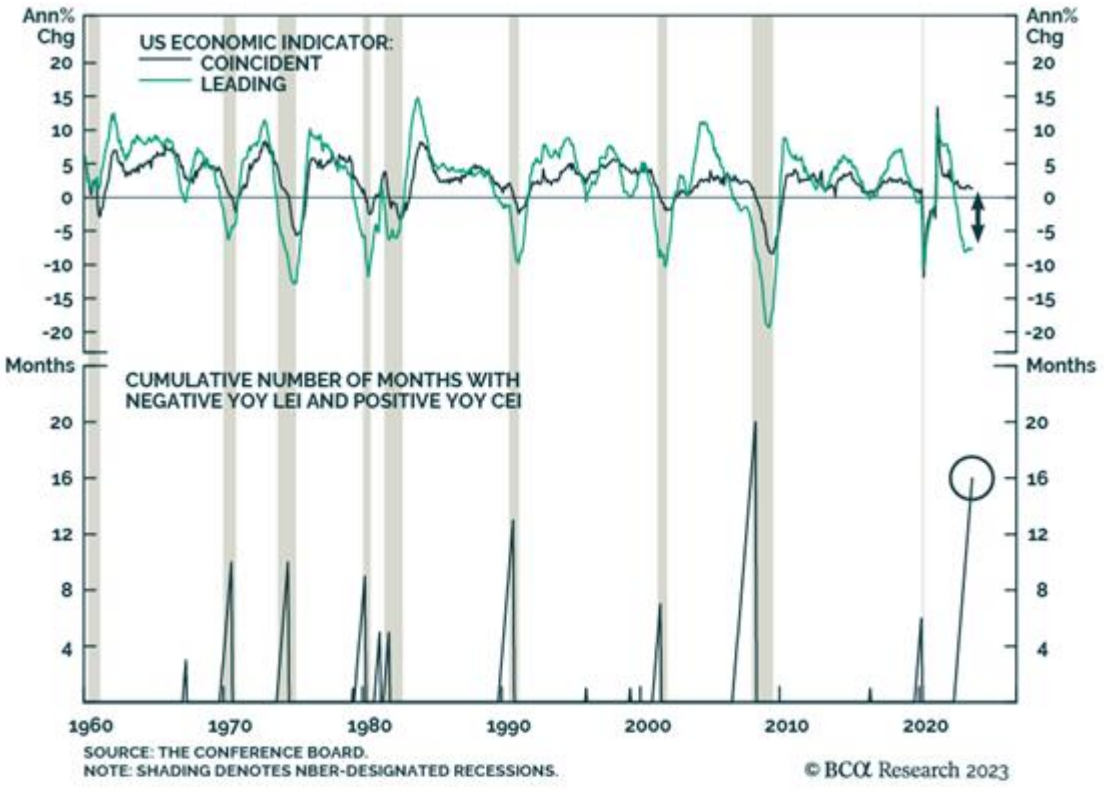
US LEI Continues To Signal Recession Ahead

US Conference Board's Leading Economic Indicator continues to send a poor signal about the economy

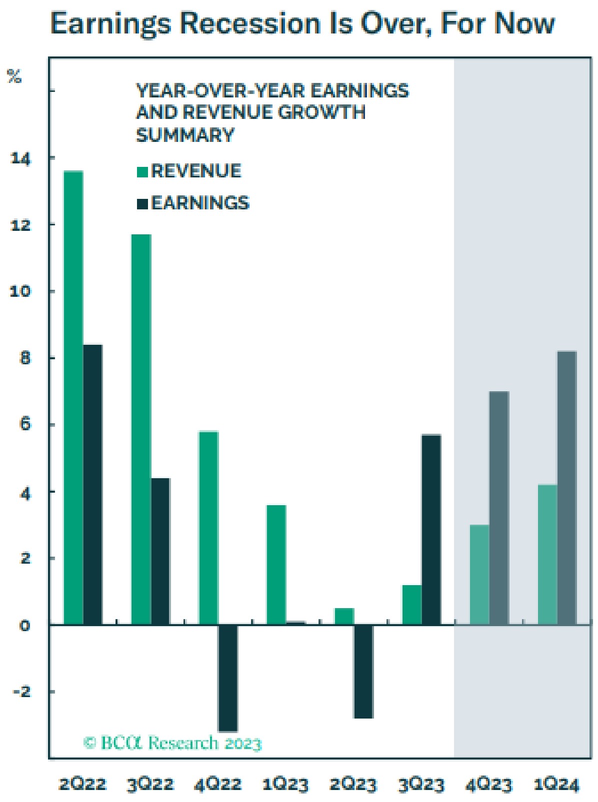


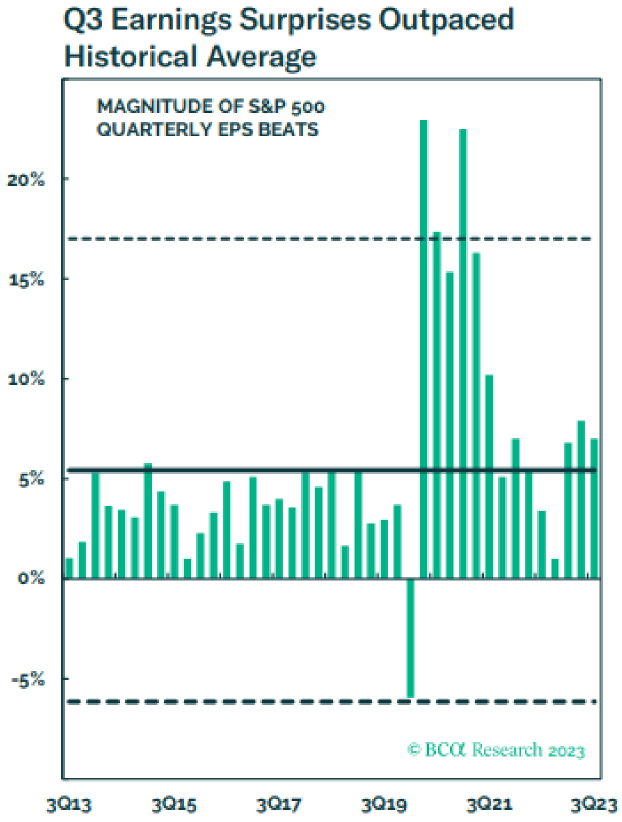
- US Conference Board's Leading Economic Indicator (LEI) is increasingly indicating a bleak economic future. In October, the rate of decline accelerated to -0.8% month-over-month, worsening from September's -0.7%.
- This decrease is widespread across the index's components. Key factors contributing to this downturn include average consumer expectations for business conditions, the ISM new orders index, more stringent credit conditions, and falling equity prices.
- This trend aligns with the Atlanta Fed GDPNow model's forecast, suggesting a deceleration in growth to 2.0% in Q4 after a robust 4.9% increase in Q3.

Source: BCA Research, November 2023

US Earnings: Recession Is Over, For Now

While Q3 earnings managed to beat expectations, Q4 estimates have been revised downwards





Source: Refinitiv – BCA Research, November 2023

- According to Refinitiv IBES, the S&P 500 is on track to deliver year-over-year earnings growth of 5.7%. Excluding the Energy sector, whose earnings have contracted by -33.9% compared to a year ago, earnings growth would be a respectable 11.1%.
- Revenue growth is currently at a blended rate of 1.2%, but without the Energy sector, it would be higher at 3.4%, which is slightly less than the current inflation rate.
- Earnings surprises were significant, with 82% of companies reporting earnings above expectations by an average of 7%, surpassing the five-year average surprise rate of 5.4%.

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Chile: First In, First Out

The Chilean business cycle has been ahead of those of major DM and EM countries.

- The Chilean business cycle is in a unique position relative to those of major EM and DM countries. While many economies worldwide are still grappling with tight monetary policies, Chile is already well underway in a recession, and its central bank was the first to reduce interest rates substantially.
- The Chilean economy is in a unique position worldwide: as it is the first to enter a recession, it will be the first to recover.

Source: BCA Research, November 2023

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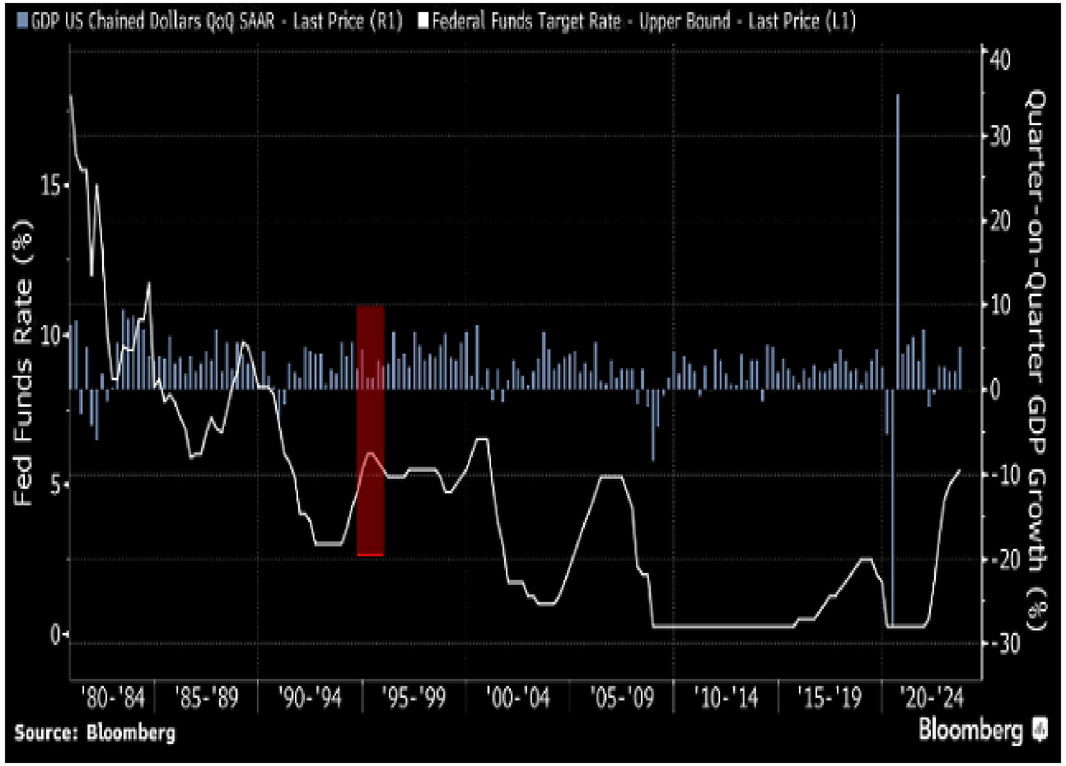
43 Years, One Soft Landing

The mid-1990s Remains the Only Clear-Cut Example Since 1980



- There are many definitions, but if we say that a soft landing is a period of rising rates that doesn't lead to even a quarter of negative economic growth, then there has been precisely one post 1980. That came in the mid-1990s, after the Fed under Alan Greenspan hiked unexpectedly hard in 1994, created a brief but brutal bond bear market, and sparked a series of credit and devaluation crises in the emerging markets. In the US, however, growth never went negative.
- That soft landing came while globalization was taking hold as the Clinton administration feasted on the "peace dividend" from the end of the Cold War and moved the federal budget into surplus. None of those things apply now, so a soft landing looks implausible.

 Source: Bloomberg, November2023

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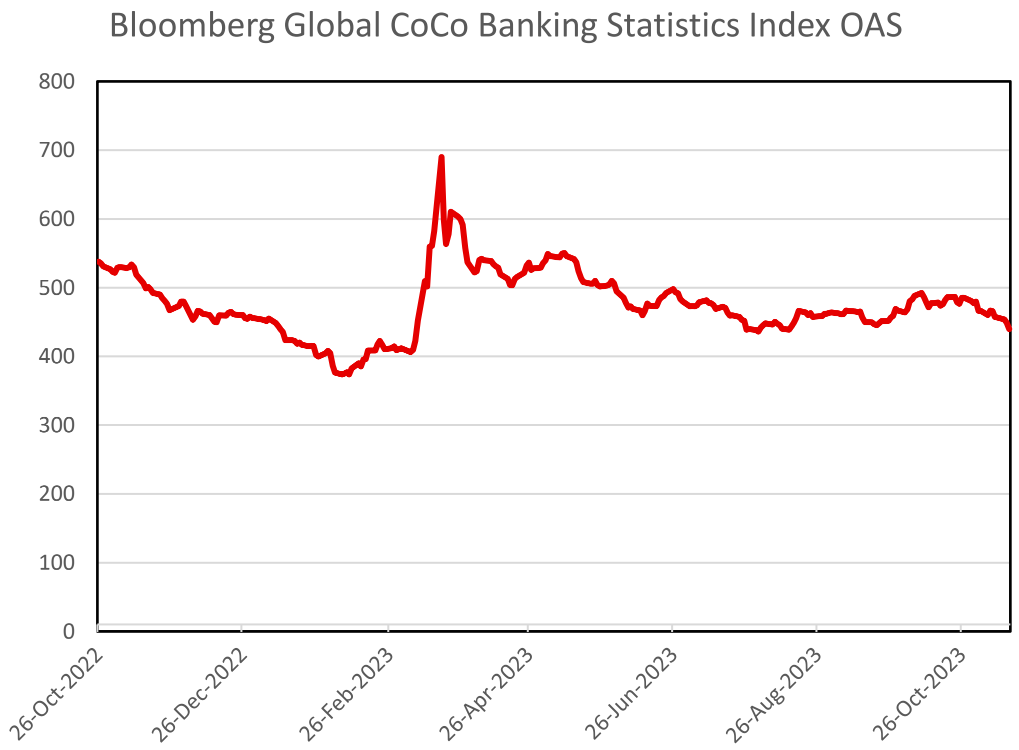
Average Spreads of Banks' CoCo Bonds Narrowed

Revival of the AT1 Market



- Last week Barclays Plc raised $1.75 billion through an additional tier 1 bond (AT1) or CoCo bond (contingent convertible), attracting strong investor orders. Demand was over 12.5 times the size of the debt on offer.
- Two weeks ago, UBS Group AG sold AT1 notes, its first such issuance since roughly $17 billion of Credit Suisse's AT1s were wiped out as part of a UBS takeover brokered by the Swiss government. The Swiss lender pulled in roughly 10 times the bids for the debt on offer.
- Any jittery on the AT1 market has clearly faded and CoCo Bonds OAS have tightened close to its pre-March levels. We continue to recommend investors to add AT1s in their portfolio especially those of the tier 1 European banks, which are generally better capitalized than their American counterparts.

 Source: Lighthouse Canton, November2023

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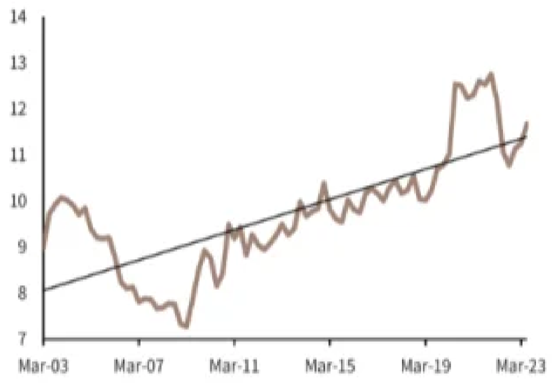
Tight Liquidity- Really?

Large amount of cash accumulation amongst US Corporates.

Figure 1. Liquid assets (% total assets)



Source: Federal Reserve, Barclays Research

Figure 2. Immediate liquidity (% total assets)

Source: Federal Reserve, Barclays Research

- Non-financial US Corporates have US$ 6.9 trn in liquid securities and cash (**Fig.1**-almost 12% of their assets according to Barclays).
- Excluding securities, liquid cash amounts to approx. 5.7% of their assets (**Fig.2**).
- Such lingering cash buffers will continue to cushion corporate balance sheets from Fed's "higher for longer" policy.

 Source: FT, November2023

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LC Views - Summary

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LC Views Summary (1/2)

Sub-Asset	Recommended Positioning
Rates	• Markets are now wagering that the Fed will cut rates for the first time in June from July, after data showed weaker-than-expected payroll numbers and rising unemployment. And the Fed will have enacted almost 100 bps of reductions by the end of 2024. The US 10-year yield has dropped from 5% to 4.50% in less than two weeks on expectations that rate hikes are over. Some strategists say the market pricing has it wrong and investors have been too hasty switching their focus to cuts. Inflation is still above target and there are scant signs of a serious weakening in the US economy so far. • Whatever the narrative is about rate cuts, in our view, the Fed is done or close to being done in its rate hikes, hence we recommend to overweight fixed income.
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 have witnessed a remarkable resurgence this month, propelled by the plummeting interest rates. To illustrate this point, the yield on a 10-year US government bond, which stood at 5% on October 23rd, has now dipped to 4.4%. This substantial shift, a 50-basis-point drop over just two weeks, has been a pivotal factor behind the S&P 500 index's impressive 10.7% rebound since October 27th, and the VIX volatility index has plunged below 13, signalling a remarkable lack of anxiety among equity investors. • However, we hold the view that this resurgence may be transitory: • Equities continue to appear less enticing than bonds, particularly in the context of a potential US recession looming next year (with a 55% likelihood, as per the Federal Reserve's assessment). • The current valuation of equities raises concerns on multiple fronts: • Historically, with a forward price-to-earnings (P/E) ratio of 19x, investors may confront limited opportunities for substantial returns over the next 12 months. • More critically, when contrasted with bonds and cash, equities appear less attractive. For instance, the disparity between the yield on 3-month US Treasuries and the dividend yield of the S&P 500 has expanded significantly, reaching 400 basis points. Such notable differentials were last observed in 2000 and 2007, both instances that foreshadowed major equity downturns. • Given the ambiguous outlook for equities in the coming year, their lofty valuations, and their unfavourable standing compared to cash and bonds, we recommend underweighting equities in portfolios.

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LC Views Summary (2/2)

Sub-Asset	Recommended Positioning
Currencies	• **Currencies** are expected to remain volatile throughout 2023. 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 risk of further correction in real estate prices should not be underestimated. There will be opportunities to pick good REITs cheaper next year. • 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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