Investment Playbook Weekly Update

July 29th – August 2nd 2024

2023
ASIAN PRIVATE BANKER
13th AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER ASIA PACIFIC

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

2023
ASIAN PRIVATE BANKER
13th AWARDS FOR DISTINCTION
HIGHLY COMMENDED INDEPENDENT WEALTH MANAGER INDIA

PRIVATE BANKING AWARDS 2023
ASIAMONEY
RISING STAR, SINGAPORE

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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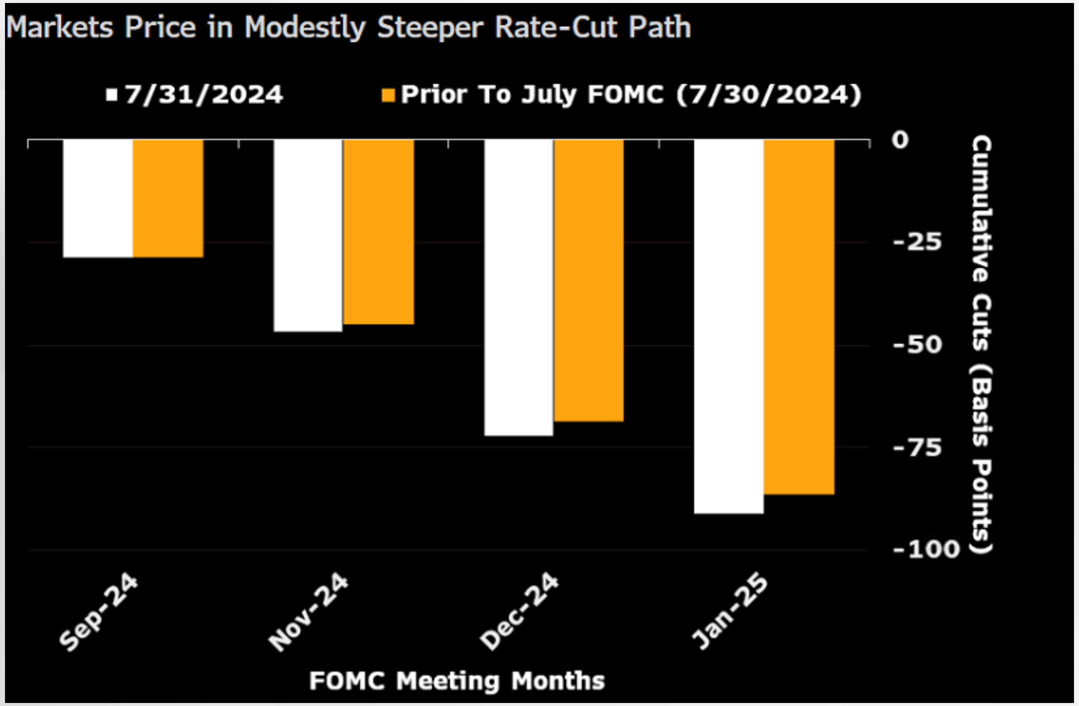
Charts of the week

1

Fed Committee Decided To Hold Rates

In The July FOMC



- Fed kept rates stable in July, opted unanimously to hold rates at 5.25%-5.50%, in-line with expectations. Officials also tempered their assessment of the labor market, noting job gains had moderated and the unemployment rate has moved up, but is still low. They said inflation has eased over the past year but remains “somewhat elevated.”

- Fed Chair Jerome Powell said a first-rate cut could come as early as September if the data warrant - we expect further disinflation, and a cooling labor market will prompt policymakers to kick off their easing cycle then. Market now priced in almost 3 rate cuts for 2024.

 Source: Bloomberg, July 2024

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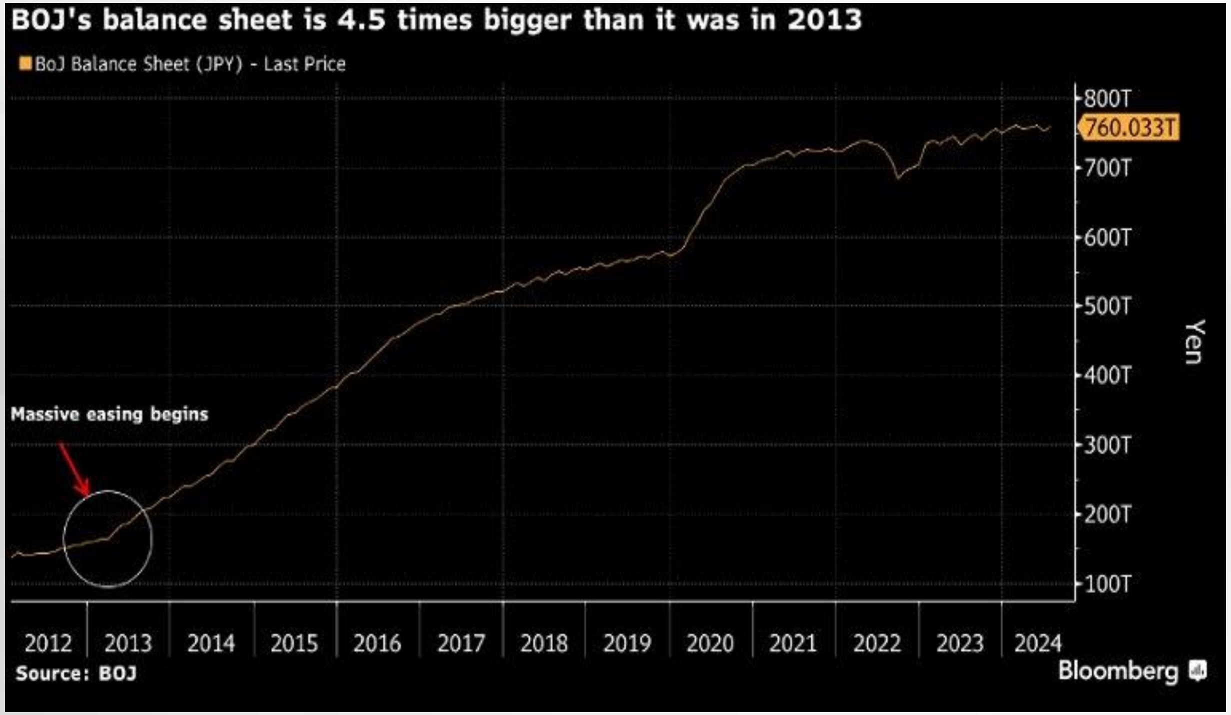
BOJ Raises Overnight Call Rate to 0.25%

Reduces Bond Purchases



- The Bank of Japan raised its key rate to around 0.25%, from a range of 0% to 0.1%, and said it will reduce its monthly pace of bond buying to around ¥3 trillion ($19.6 billion) by the first quarter of 2026, signaling a reduction in purchases by about ¥400B each quarter.
- Only 14 of 48 economists had predicted the rate hike, though almost no one ruled out the possibility. In terms of its bond buying plan, the reduction in bond buying was less than some investors expected, putting pressure on the currency.
- The yen whipsawed after the announcement, eventually being little changed, while stocks fluctuated.

Source: Bloomberg, July 2024

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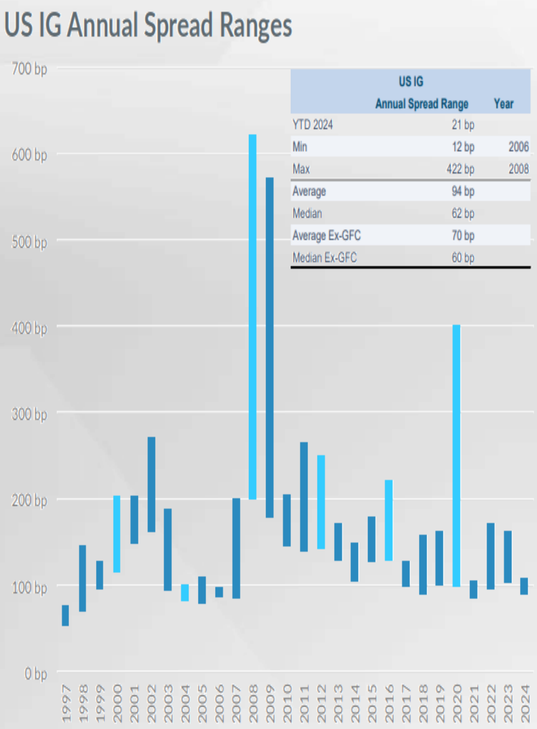
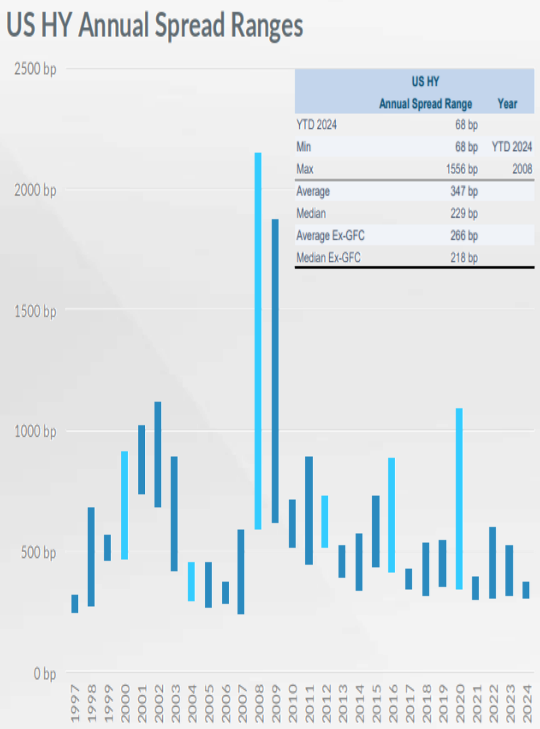
Limited Spread Volatility (So Far)

Caution Is Warranted In The Corporate Bond Market



US IG	Annual Spread Range	Year
YTD 2024	21 bp	
Min	12 bp	2006
Max	422 bp	2008
Average	94 bp	
Median	62 bp	
Average Ex-GFC	70 bp	
Median Ex-GFC	60 bp	



US HY	Annual Spread Range	Year
YTD 2024	68 bp	
Min	68 bp	YTD 2024
Max	1556 bp	2008
Average	347 bp	
Median	229 bp	
Average Ex-GFC	266 bp	
Median Ex-GFC	218 bp	

Note: Election years in bright blue

- The YTD annual spread range in the US investment grade (IG) space has approached the low set in 2006 and in the high yield (HY) space, the range is at its all-time low. Additionally, despite this year being an election year, volatility has remained notably low.

- Some contributing factors could be the expectations of a US soft landing and Fed rate cuts this year and also a lower-than-average new issues supply seen in 2022 and 2023 which was followed by the higher-than-average new issues supply seen in the prior two years.

- For 2024, US IG issuances are projected to be around USD 1.5 trillion, which, while lower than the figures from 2020 and 2021, is still about 15% higher than the average issuances over the past two years. Consequently, investors should anticipate increased volatility from now until the end of the year.

Source: CreditSights, July 2024

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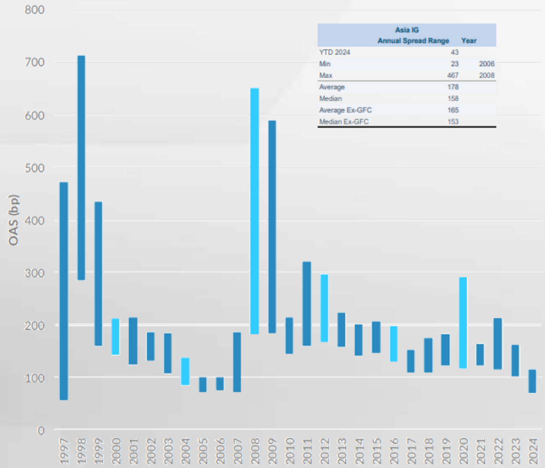
Asia Spreads: Higher Volatility

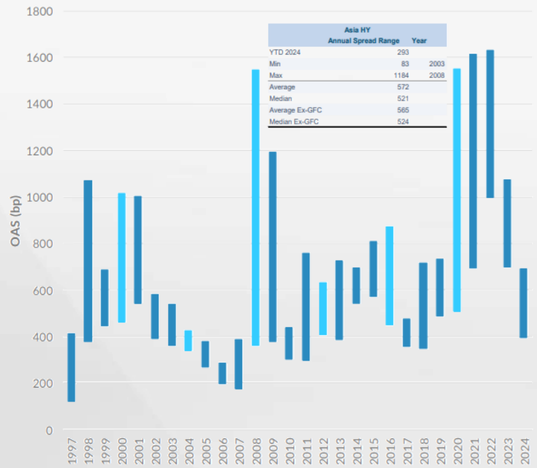
But Lower Than Historical Levels

Asia IG Annual Spread Ranges



Asia IG	Annual Spread Range	Year
YTD 2024	43	
Min	23	2006
Max	467	2008
Average	178	
Median	158	
Average Ex-GFC	165	
Median Ex-GFC	153	

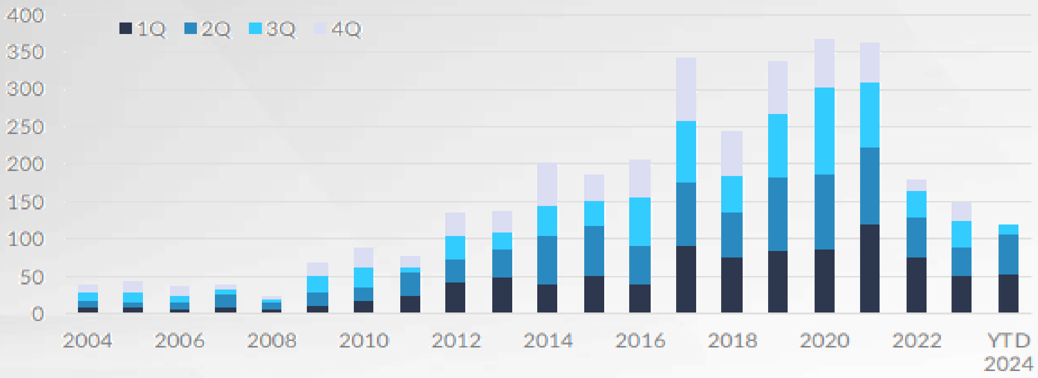
Asia HY Annual Spread Ranges



Asia HY	Annual Spread Range	Year
YTD 2024	293	
Min	83	2003
Max	1184	2008
Average	572	
Median	521	
Average Ex-GFC	565	
Median Ex-GFC	524	

Note: Election years in bright blue

Asia $ New Issues ($ bn)



- Similar story can be seen in the Asia space for both IG and HY. Particularly, in the Asia HY space, even though volatility is higher, it is still lower than historical levels.
- Asia new issues are picking up YTD but remained well below historical.

Source: CreditSights, July 2024

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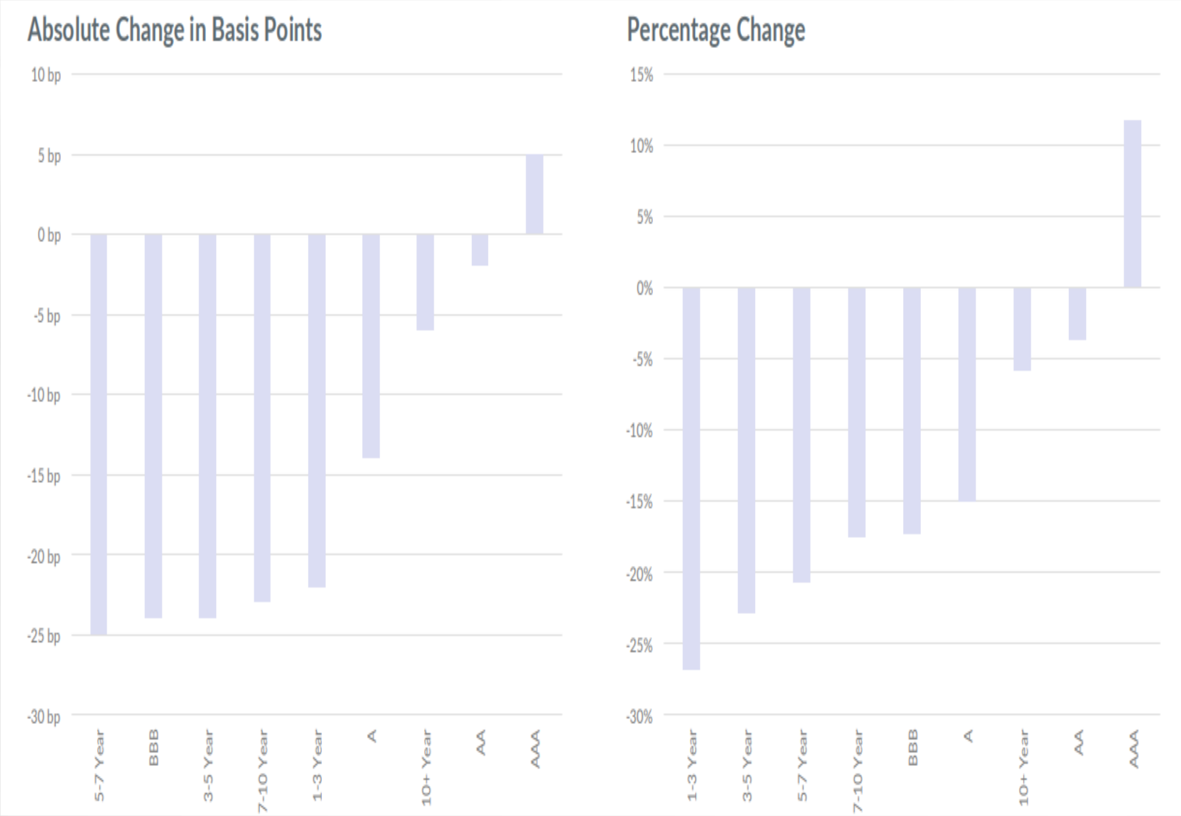
Quality And Duration Getting "Cheaper"

US IG Spread Changes Since Dec. 2023



- BBB space has outperformed YTD, with spreads tightening by nearly 25 basis points (bps). This is in stark contrast to the single-A and AA spaces, which saw tightening of approximately 13 bps and 2 bps, respectively. The AAA space performed the worst, experiencing a widening of about 5 bps in absolute change.

- In terms of tenors, the 3–7-year range has seen the most significant tightening YTD.

Source: CreditSights, July 2024

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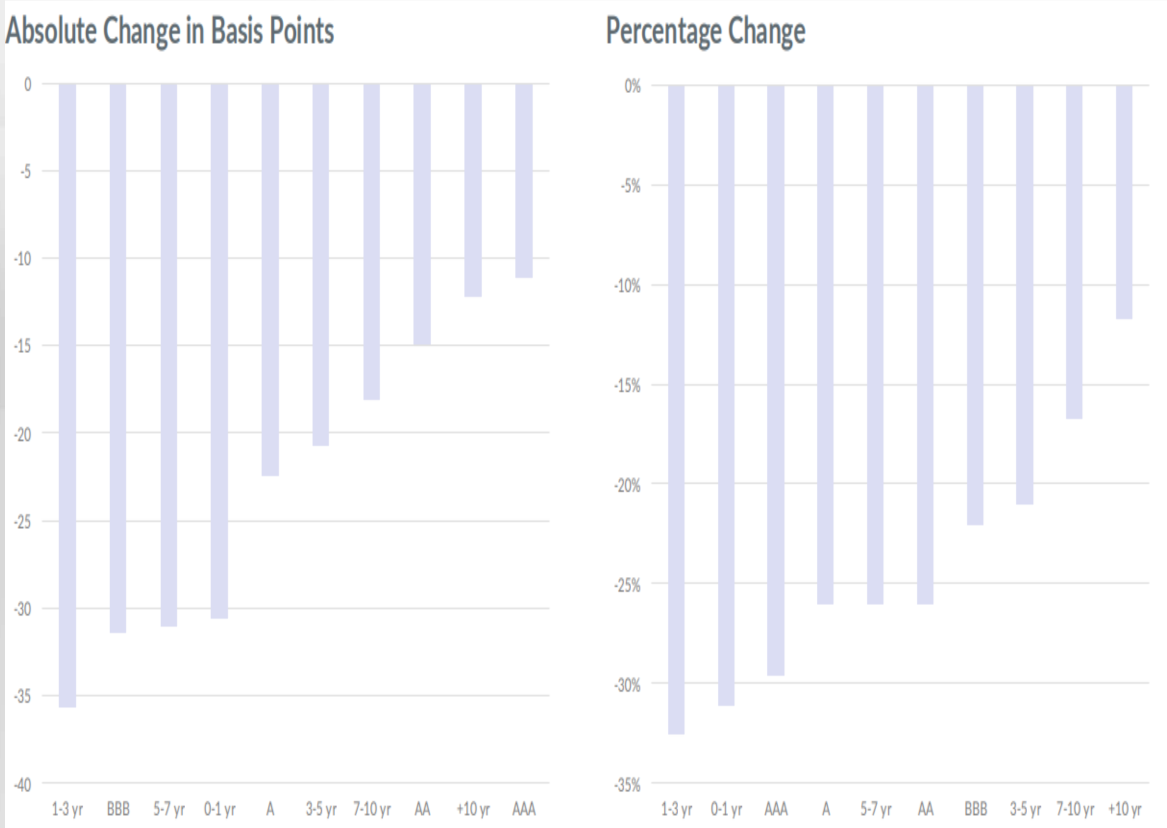
Quality And Duration Getting "Cheaper"

Asia IG Spread Changes Since Dec. 2023



- A similar trend has been observed in the Asia IG market. YTD, the BBB space has outperformed, with spreads tightening by nearly 32 bps. This is in stark contrast to the single-A and AA spaces, which experienced tightening of approximately 23 bps and 15 bps, respectively.
- In terms of tenors, the very short ends (1-3 year) and the longer end (5-7 year) have seen the most significant tightening YTD.
- Overall, high-quality and long-duration bonds have not performed as well compared to the broader market. This space is worth monitoring, especially if we are heading towards a global economic slowdown.

Source: CreditSights, July 2024

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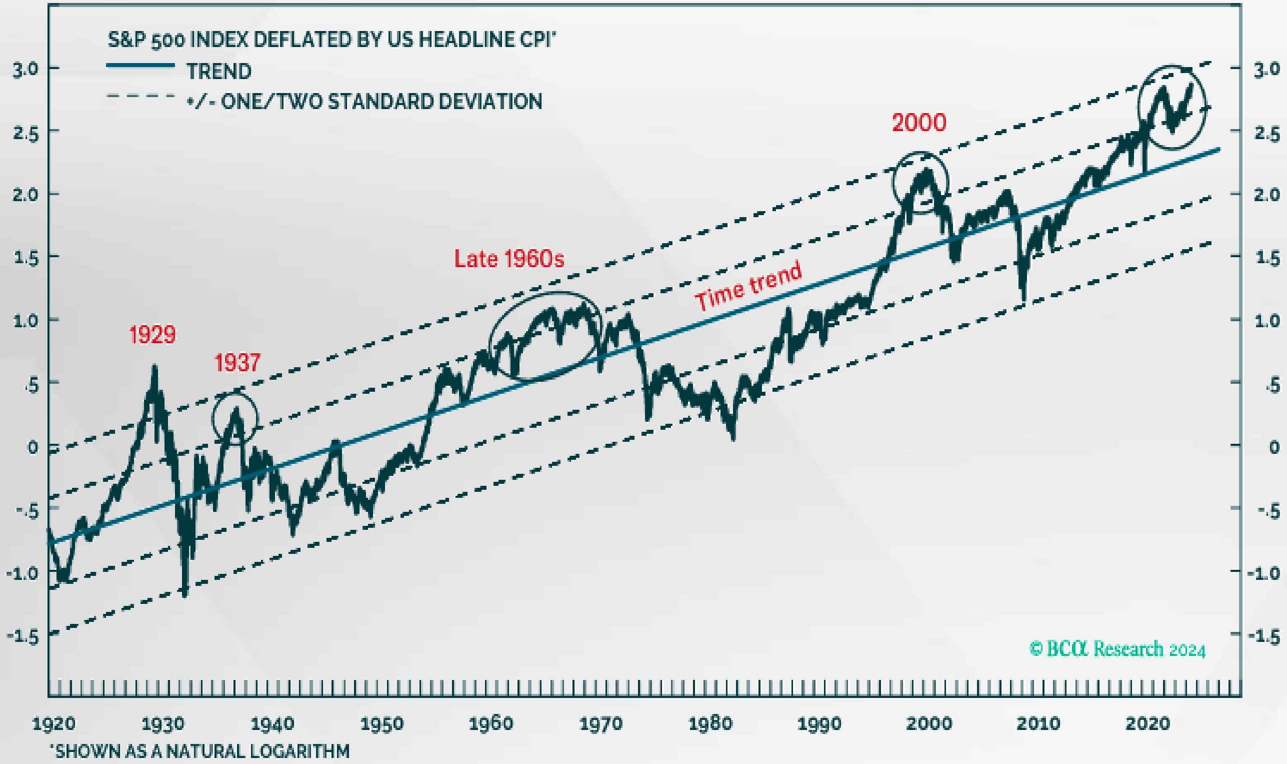
US Stocks Are Expensive By Historical Standard

Several indicators suggest that the US stock market is overstretched



- According to BCA Research, the S&P 500 index adjusted for inflation is one and a half standard deviations above its time trend, a level historically marking major market tops followed by bear markets. The US total equity market cap has reached 185% of nominal GDP, a ratio exceeded only in 2021.
- The equity risk premium, based on the S&P 500's forward P/E ratio, is very low, indicating an overvalued market. Additionally, US TMT stocks have risen significantly in real terms, comparable to previous bubbles, signaling caution for investors.

Source: BCA, July 2024

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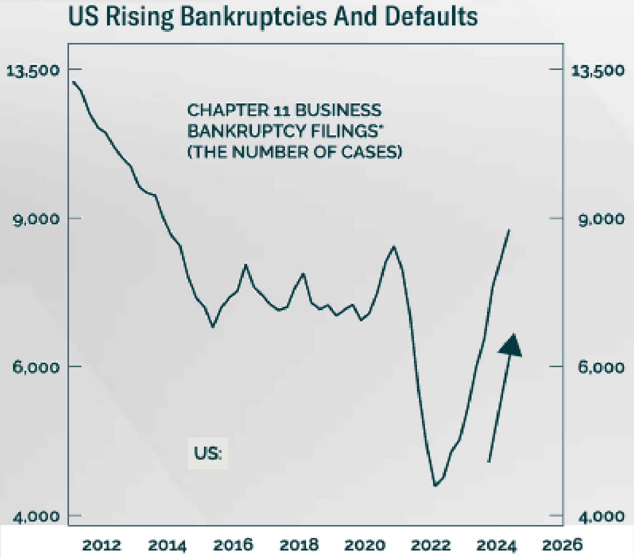
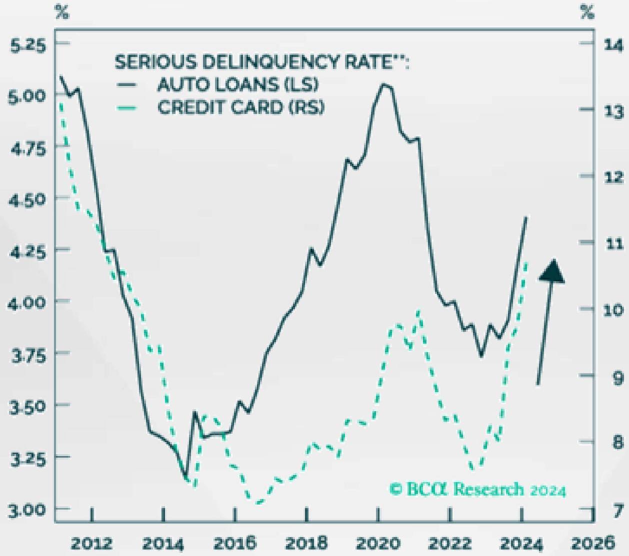
A Tipping Point?

There are cracks emerging in the US economy:





- According to BCA Research, Chapter 11 corporate bankruptcies are rising in the US, along with increasing serious delinquency rates for auto and credit card loans. US core retail sales growth is weak in nominal terms, and indicators show weakening final domestic demand in real terms. Disinflation is reducing companies' pricing power, leading to broad-based profit contraction.
- As corporate earnings shrink, businesses will begin laying off employees. Consequently, financially struggling low-income households will curb their spending, triggering a vicious cycle of job cuts, reduced consumer spending, lower stock prices, and further economic decline. Fed rate cuts will not immediately reverse these dynamics due to monetary policy lag.

Source: BCA, July 2024

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LC Views - Summary

2

LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• In the recent July FOMC meeting, the Fed committee decided unanimously to hold rates at 5.25%-5.50%. Officials also tempered their assessment of the labor market, noting job gains had moderated and the unemployment rate has moved up, but is still low. They said inflation has eased over the past year but remains "somewhat elevated." • Fed Chair Jerome Powell said a first-rate cut could come as early as September if the data warrant - we expect further disinflation, and a cooling labor market will prompt policymakers to kick off their easing cycle then. Market now priced in almost 3 cuts for 2024.
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	• After witnessing a sharp correction over the past 2, equity markets rebounded strongly this week on the back of robust earnings being reported by Big Tech companies like Google, Microsoft & Meta. This stemmed the risk of any earnings disappointment that could have fueled the recent drawdown. Based on the earnings posted and management's upbeat commentary we believe that the recent drawdown is actually an attractive entry point into the AI related tech hardware trade which has strong earnings and revenue growth visibility at this point of time and is far from a bubble as many have touted it to be. Additionally, Chair Powell's dovish tone in the post FOMC press conference was also seen as a positive for risk assets across the market. • Having said that, we continue to believe that valuations in the market are expensive in context of their own historical average, with the S&P 500 one-year forward P/E ratio at 22.9x and the Tech sector (S5INFT) at 32.1x. 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. • More than half of the S&P 500 constituents (314/500) have reported numbers for the 2nd quarter and here's how they have stacked up till now : Sales have grown by 4.2% YoY while earnings have increased by 11.4% on a YoY basis. Till now about 80% of the companies have surpassed analyst estimates delivering a positive earnings surprise of about 4.5%, which is slightly lower than the mid single digit earnings surprise that we usually see. • Overall, we recommend being long equities, especially Tech after the recent drawdown while hedging using index level put options to insulate the direct equity holdings against any sudden drop in the markets.

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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