Investment Playbook Weekly Update

5th February – 9th February 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
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

1

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Strong Performance In the US HY Space So Far

Against Backdrop Of Steady Growth and Strong Labour Market

Indices

Ticker	Last Price	1D change	1WK Change	1M change	1YR change
Bloomberg US HY Index OAS	3.340	+.020	.070	-.190	-.560
US HY YTW	7.830	-.040	.120	-.170	-.220
BB OAS	2.090	+.020	.070	-.100	-.370
BB YTW	6.550	-.050	.100	-.080	-.040
B OAS	3.120	+.020	.080	-.300	-.890
B YTW	7.670	-.050	.090	-.260	-.510
CCC OAS	8.220	-.020	.140	-.190	-.210
CCC YTW	12.700	-.090	.140	-.170	+.200
Differentials					
B-BB	1.12	--	-.01	-.18	-.47
CCC-B	5.03	-.04	.05	+.09	+.71
CCC-BB	6.15	-.04	.04	-.09	+.24

- January saw a busy bond primary market, with more than USD30bn of issuance across Investment Grade (IG) and High Yield (HY) space. February could see about USD25bn in issuance size.

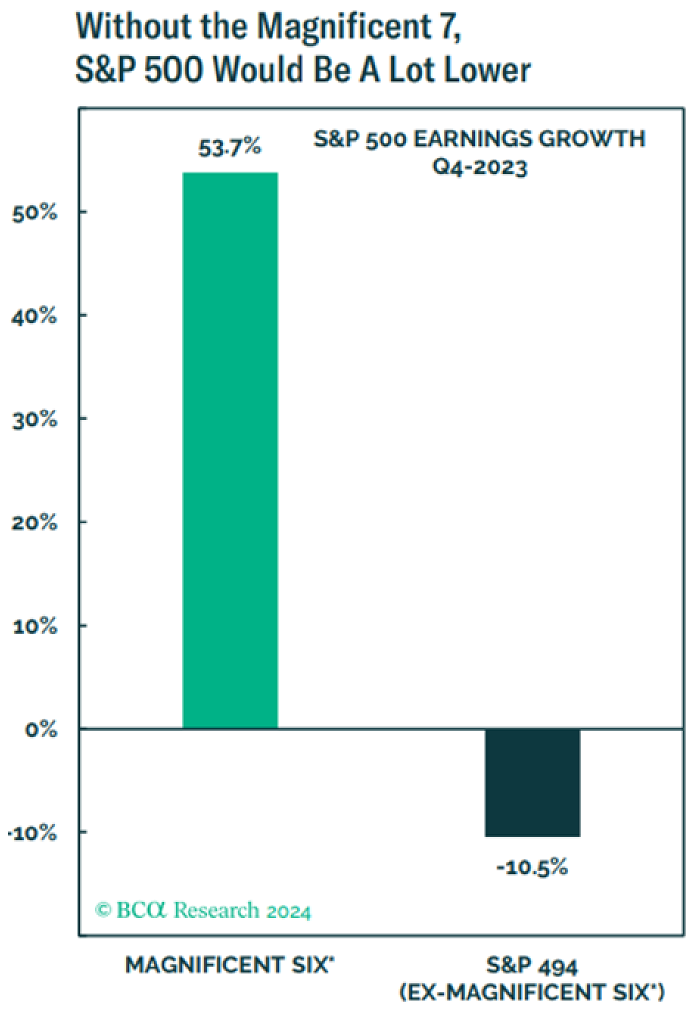
- The US HY gains extended across ratings and were only slightly pared by the surprisingly strong employment data that fueled a broad bond-market selloff by further reducing the odds of a March interest rate cut from the Fed. In the junk market, though, the strong economy has been welcomed, since it reduces the risk of defaults.

- However, we remain cautious and selective in the space and would recommend keeping duration to less than 5 years.

Source: Bloomberg, February 2024

The Mag-7 contributing magnificently

The Mag-7 more than offset the YoY degrowth posted by the other constituents of the S&P 500



- The Mag-6 (Mag-7 excluding Tesla) is expected to deliver a phenomenal 54% YoY earnings growth in Q4 2023, which will be more than enough to offset the degrowth expected from the remaining 494 companies.

- Within the Mag-7, Google and Meta contributed heavily this quarter, with both businesses lapping a slump in profit margins seen in Q4 2022.

- Tesla & Apple on the other hand seem to be falling behind the other 5, being unable to grow their topline and earnings at a reasonable rate. YTD the stock have underperformed the S&P 500's return on 4.7%, delivering -24.5% & -1.6% respectively.

Source: BCA, February 2024

LC Views - Summary

2

LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• The Federal Reserve held interest rates steady for a fourth straight meeting and signaled an openness to cutting them, though Fed Chair Jerome Powell threw cold water on investors' hopes that reductions would begin in March. The central bank's policy-making Federal Open Market Committee showed it is in no rush to reduce rates, noting in a statement Wednesday (31 January 2024) that it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%." • The decision to leave the target range for the benchmark federal funds rate unchanged at a 22-year-high of 5.25% to 5.5% was unanimous. The central bank also reiterated its intention to continue reducing its balance sheet by as much as $95 billion per month. Powell told reporters Fed officials plan to start in-depth talks about the balance sheet runoff, or quantitative tightening, at their March meeting.
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 continued their rally this week, primarily on the back of resilient earnings. Till now, 301 of the 500 companies that are a part of the S&P 500 have reported numbers and on a cumulative basis sales have grown by 4.1% YoY and earnings have delivered 5.2% 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 5,000 points hinges on expectations of a 'soft landing' for the US economy, including an approximate 10% growth in US stock earnings and an 19x 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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