Investment Playbook
Weekly Update

15th – 19th January 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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Q4 Summary Of Earnings Expectations

Sales are expected to grow 2.6% YoY & Earnings are expected to grow by 4.4% YoY.

Expected Sector Earnings And Sales Growth

Q4-2023 SECTOR YOY GROWTH		
	EARNINGS	SALES
UTILITIES	49.1%	4.0%
COMM. SERVICES	48.6%	4.9%
CON. DISC.	22.3%	3.0%
TECHNOLOGY	16.7%	6.2%
REAL ESTATE	10.9%	6.7%
FINANCIALS	5.3%	4.8%
S&P 500	**4.4%**	**2.6%**
CON. STAPLES	1.8%	3.0%
INDUSTRIALS	-1.2%	1.5%
HEALTH CARE	-19.0%	4.9%
MATERIALS	-21.5%	-5.9%
ENERGY	-26.5%	-8.5%

SOURCE: REFINITIV IBES.

- 7 of 11 sectors are expected to report positive earnings growth. Consumer Discretionary, Information Technology, and Communications are leading the recovery thanks to a favorable base effect. In addition, a decline in input costs, which is a gloom for Energy and Materials sectors, is a boon for the rest
- Sales growth is expected to be 2.6% YoY. While 9 of 11 sectors are expected to grow sales in nominal terms, only six sectors are expected to see sales grow in real terms.
- Factset projects that net profit margins will decline from 12.2% in Q3-23 to 11% in Q4-23, on the back of fading pricing power and sticky wage growth.

Source: BCA Research, January 2024

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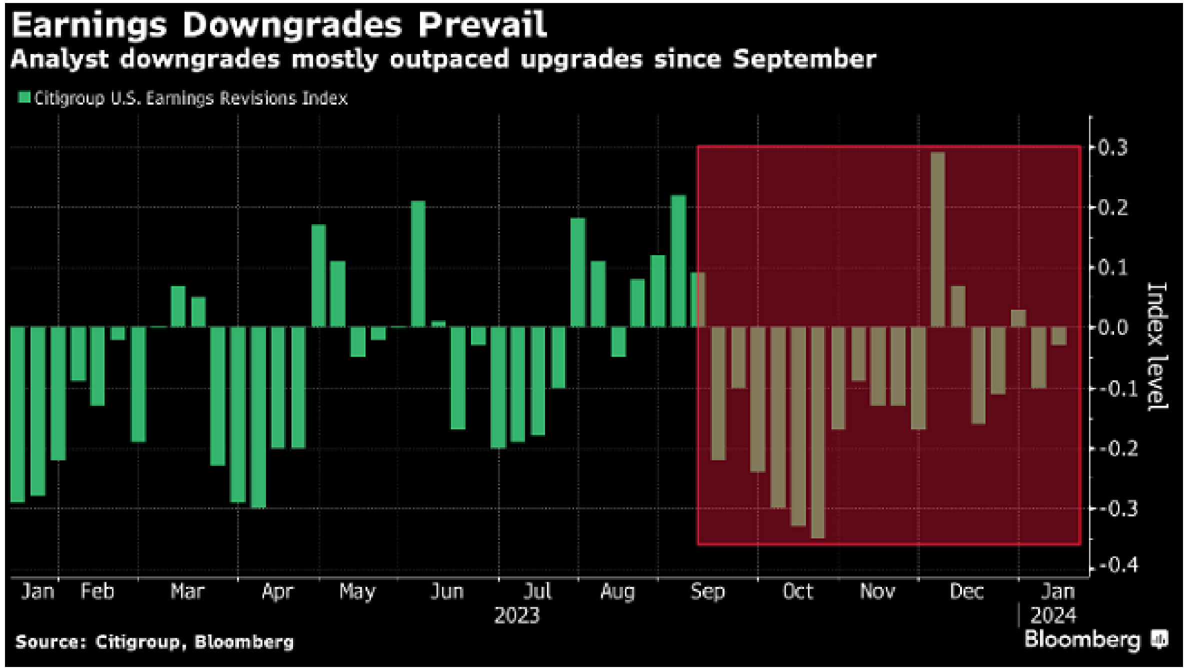
Q4 EPS Estimates Have Been Revised Lower Since September

EPS estimates have been slashed by more than 7% over the last 3 months



- The street is expecting Q4 YoY sales growth of 2.6% and earnings growth of approximately 4.4% for the S&P 500.
- Earnings estimates have been cut by a significant 7% over the last 3 months, down from the original expectations of close to 12% YoY growth for the quarter.
- The above sets up a low bar for the quarter, which could result in another quarter of mid-single digit earnings per share beat rate.
- We however believe that the street is likely to place greater emphasis on Q1 2024 and full year guidance, given that current 2024 estimates are extremely demanding, at around 12% YoY earnings growth.

Source: Citigroup & Bloomberg, January 2024

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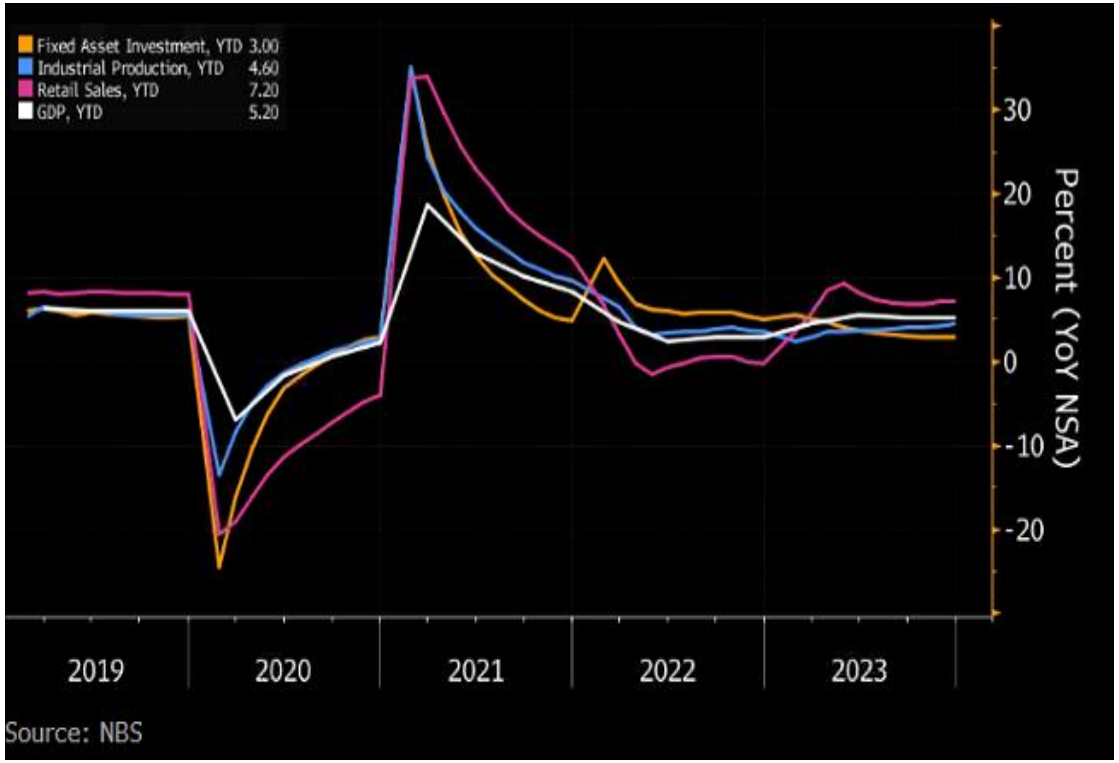
China : GDP Undershot And Soft Activity Registered

More Policy Support Is Needed, Especially On The Fiscal Front

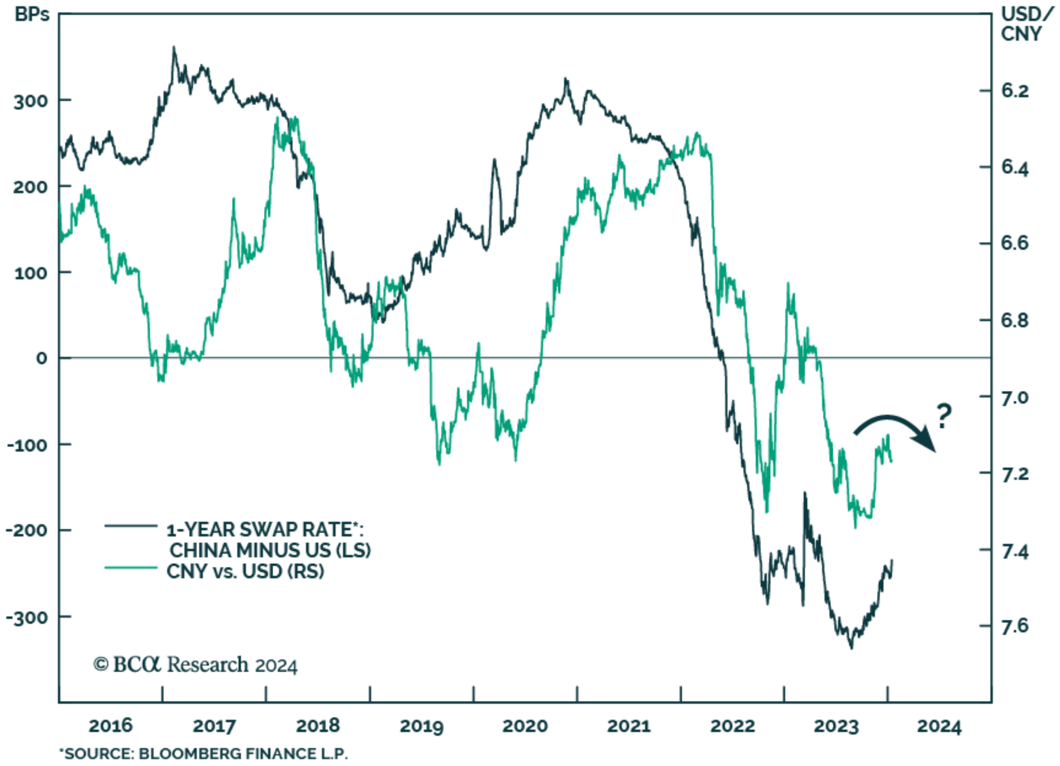


- GDP expanded 5.2% year on year, accelerating from 4.9% growth in 3Q. This was a touch below consensus (5.3%). For 2023, the economy grew 5.2%, up from 3.0% growth in 2022, but sharply below 6% expansion in 2019, before the pandemic.
- The property slump, which is dragging heavily on the economy, showed no signs of abating. The average new home price in 70 cities fell for a seventh straight month in December, marking its biggest drop since February 2015.
- In December, industrial production rose 6.8% from a year earlier, up from a 6.6% rise in November. For 2023, output climbed 4.6%, picking up from a 3.6% increase in 2022 but below the 5.7% pace in 2019.
- Retail sales slowed to a 7.4% year-on-year gain, below consensus and down from 10.1% in November. For 2023, retail sales expanded 7.2% following a contraction of 0.2% in 2022, below the 8% growth in 2019.
- Fixed asset investment grew 3% in 2023 but that was still much lower than the 5.1% increase in 2022.

 Source: Bloomberg, January 2024

PBoC Unexpectedly Holds Rate Steady

Signifying Marginal Rate Cuts Would Do Much To Boost Economic Conditions

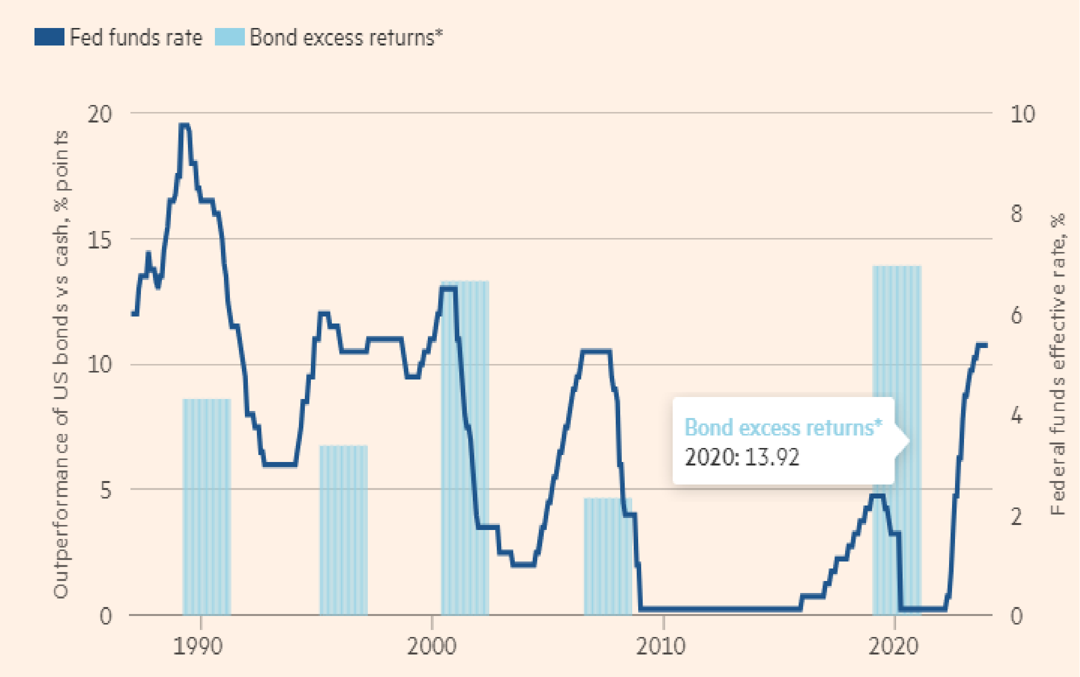


- China's central bank unexpectedly held the medium-term policy rate unchanged at 2.5% on Monday, surprising expectations of a 10 basis point cut. Given that deflationary forces dominate China's economy, the decision to stand pat underscores that policymakers remain concerned about FX dynamics. After having appreciated *vis-à-vis* the USD in the last two months of 2023, the CNY has weakened so far this year.
- In addition, the decision to keep rates unchanged also suggests that policymakers are unconvinced that marginal rate cuts will boost economic conditions. Depressed private sector sentiment amid the weak property market is dampening the effectiveness of policy stimulus.

 Source: BCA, January 2024

The Appeal of Cash Is Being Tested

Investors Should Not Missed Out The Opportunities in Fixed Income



*How much the Bloomberg US Aggregate index outperformed cash over the 2 years from the rate peak

- Cash is always king at times of market anxiety. But last year in particular, this asset class delivered its best returns in a generation thanks to the rapid ascent of benchmark interest rates. Investors were paid a reasonable rate of return worrying about an economic crash that never materialised.
- Since the Fed changed its tune in mid-December and pointed to a willingness to cut interest rates — the prime driver for bond price gains that we have already seen on a huge scale — this has played out well. In addition, the view now is that with monetary rates to be cut, investors [staying in cash] will expose themselves to reinvestment risk.
- In simple terms, every dime heading in to cash now will earn lower and lower returns, assuming central banks do start chopping back rates. Now is the time to be in bonds or increase allocation in bonds, if you have not already done so.

 Source: FT, January 2024

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LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• On Tuesday, Wall Street pared its bets on Federal Reserve rate cuts on speculation the dovish bid emboldening stock and bond bulls has gone too far. Equities fell, while Treasury yields climbed with the dollar as Fed Governor Christopher Waller appeared to push back against expectations for as many as six rate cuts this year. • Waller said the US central bank should take a cautious and systematic approach when it begins cutting interest rates, a process that can start this year absent a rebound in inflation. The Fed governor offered some of the most detailed remarks to date around the Fed's intentions to ease policy this year. While Waller showed an openness to cutting rates, his comments also appeared to push back against market expectations for as many as six rate cuts this year - prompting a recalibration of interest-rate wagers.
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 started off 2024 on a cautious note, with the S&P 500 down by about 0.6% MTD, primarily on the back of some hawkish Fed speak, trying to push back on the current market anticipation of 6 rate cuts for the year. A combination of hawkish commentary and stronger than expected retail sales this week led to a sudden spike in 10Y UST yields, which now stand at 4.1%, which has ended up weighing on the equity markets, given that much of the run up in December 2023 was caused by expectations of a Fed pivot. • We continue to believe that the equity market resurgence seen since October 2023 may be transitory. The S&P 500's ascent to 4,740 points hinges on expectations of a 'soft landing' for the US economy, including an approximate 10% growth in US stock earnings and an 18x forward P/E ratio. Markets may be underestimating both upside risks to inflation and downside recessionary risks. Accordingly, we outline four scenarios for 2024:

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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. We expect Q4 earnings to drive the market over the coming 3-4 weeks, as wall street recalibrates its 2024 earnings expectations based on early guidance from the companies.

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.

LIGHTHOUSE CANTON

info@lighthouse-canton.com

service@lighthouse-canton.in

Lighthouse Canton

Singapore

Lighthouse Canton Pte Ltd

16 Collyer Quay #11-02
Collyer Quay Centre
Singapore 049318
Phone: +65 67130570

Dubai

Lighthouse Canton Capital DIFC Pte Ltd

The Exchange
Gate Village 11, Unit 204
Dubai International Financial Centre
PO Box 507026
Dubai, UAE
Phone: +971 45 861500

India

LC Capital India Private Limited

First Floor, Aloft hotel,
Asset no. 5B, Hospitality District, Aerocity
New Delhi, 110037 (India)

Balrama Premises Co-Op Society LTD
Office no. 606-607, 6th Floor,
BKC Bandra East
Mumbai 400051

Phone: +91 9650473961