Investment Playbook Weekly Update

9th – 13th October 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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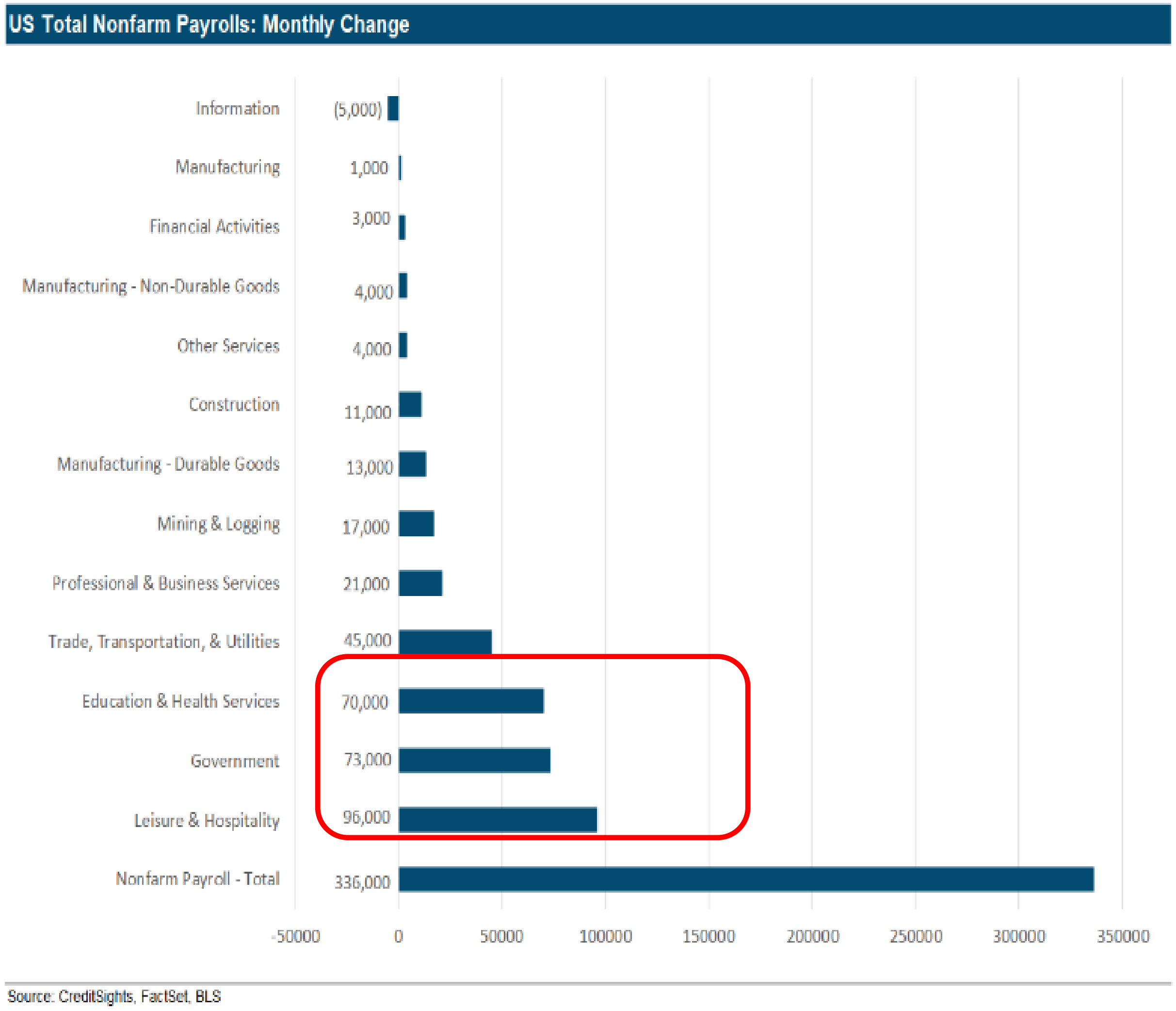
US Jobs – Who is hiring?

Leisure & Hospitality, Govt. and Private Education & Health Services lead the pack

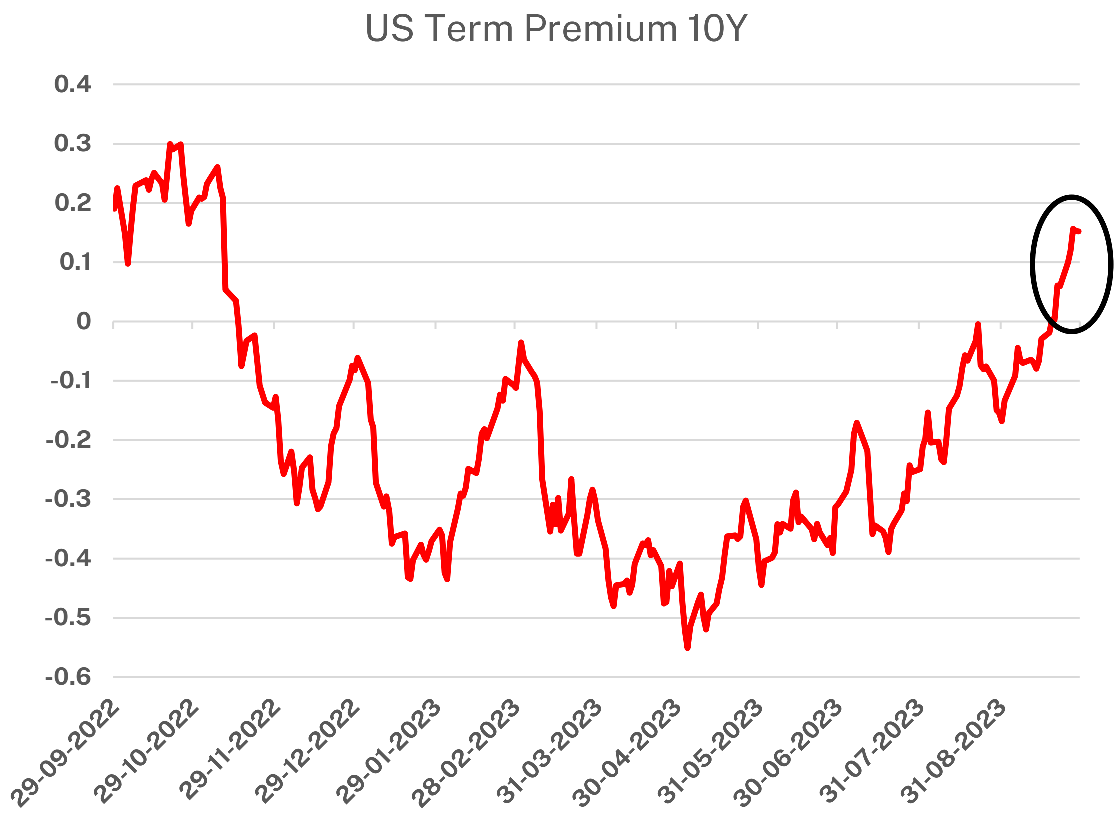


- September payrolls data blew the expectations with hiring numbers coming in at double the consensus.
- Leisure & Hospitality, Government and Private Education & Health services accounting for more than 70% of the jobs created.
- Unemployment rate held steady at 3.8%.
- The above will keep the pressure on the Fed to hike in Nov with the only silver lining being the decrease in Average hourly earnings at 4.2% YoY and 0.2% MoM.

Source: CreditSights, October 2023

Return of the Term Premium

Term premium on a 10Y US bond moved back in the positive territory and rising to 0.15.



- Term premium is the compensation received by investors for bearing the interest rate risk or in other words the extra return investors receive to hold a longer maturity paper as opposed to a shorter maturity.
- Term premium rises with the rise in inflation expectations, treasury supply and enhanced volatility around rates/lack of clarity from the Fed.

Source: Bloomberg, October 2023

Fed Officials Are Wary of the Surge in Bond Yields

Market Moves are Likely to Keep Central Bank on Hold Next Meeting

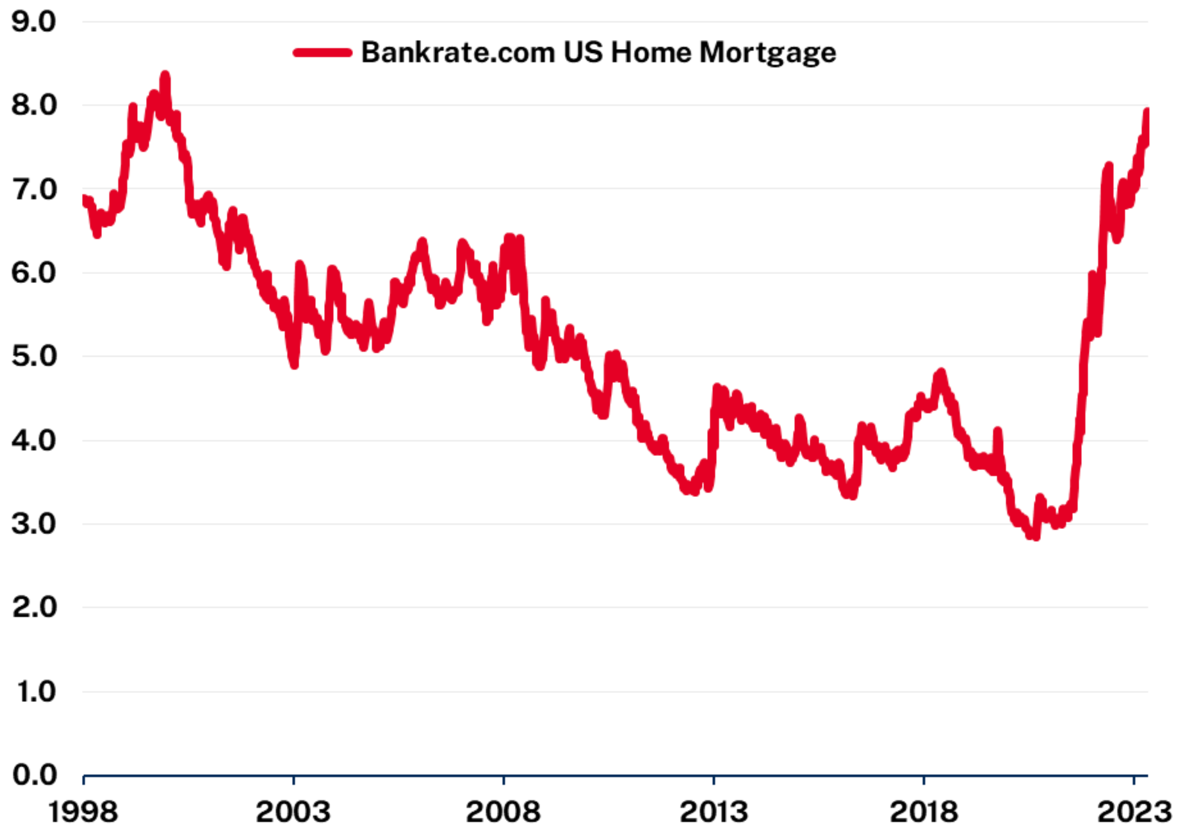
10Y Yields Rose 40bps since last FOMC

- Top Federal Reserve officials are coalescing around the idea that tighter financial conditions after a recent surge in US Treasury yields may substitute for additional increases in their benchmark interest rate.
- Yields on 10-year Treasury securities have risen about 40 basis points since the Fed's Sept. 19-20 policy meeting — to 4.8% as of Friday's close.
- Fed Vice Chair Philip Jefferson on Monday told a conference that he would "remain cognizant of the tightening in financial conditions through higher bond yields" in assessing "the future path of policy," echoing similar comments from other policymakers in recent days.

Source: Bloomberg, October 2023

US Mortgage Rates Back to Historical High

US mortgage rates are back to 7.95%, a level last seen in 2000



- The leap in US mortgage rates to 7.95%, the highest since December 2000, poses a significant threat to both the real estate market and broader economic landscape. Potential homebuyers are facing the brunt with inflated monthly payments, resulting in reduced affordability and possibly a decline in home purchases.
- The ripple effects are also felt in the rental market, where an increased demand could drive up rental prices, further straining disposable incomes.
- Construction and home improvement sectors stand on shaky ground as the rate hike could lead to reduced demand for new builds and renovations.

Source: Bloomberg, October 2023

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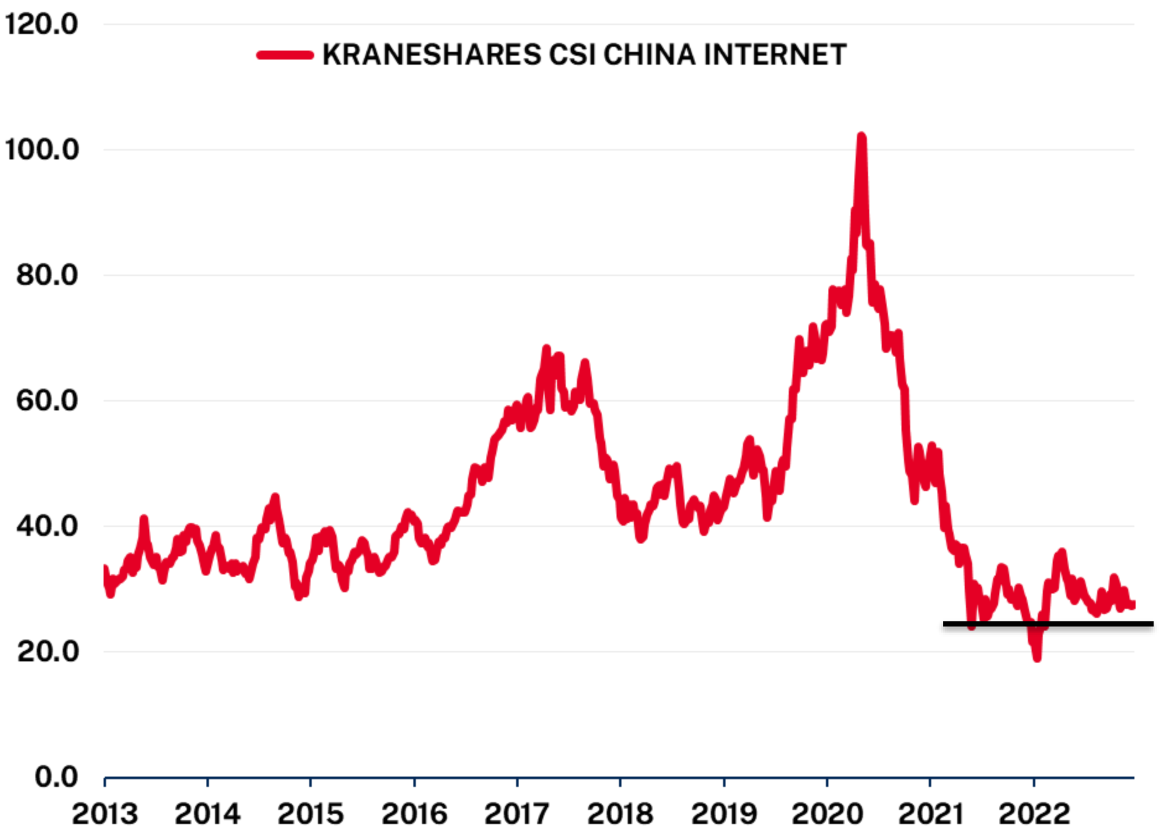
China: A New Round Of Stimulus

Chinese equities have stopped dropping despite the flurry of bad news



Source: BCA Research, October 2023

- Reports of Beijing's plan to introduce additional stimulus boosted Chinese financial assets and global China plays. Bloomberg noted that China may issue CNY 1 trillion in sovereign debt for infrastructure amid a slow economy. This follows an earlier deadline for local governments to issue the rest of this year's CNY 3.8 trillion special purpose bonds.
- We continue to back Chinese equities. Even amid a flurry of corporate defaults, these stocks have held steady over the past two years, indicating resilience and potential for a rebound. With China on the brink of becoming the world's largest economy, investors will naturally gravitate towards holding Chinese assets at some point in the near future. Tech stocks (KWEB US) are currently undervalued, presenting a prime investment opportunity for long term investors.

Investors Flee Emerging Markets

Investors are pulling money from emerging markets amidst geopolitical and economic uncertainty

- The BlackRock ETF that helped usher in passive investing for EM equities two decades ago is the biggest loser as the asset class undergoes a churn.
- About $4.6 billion has been pulled from the iShares MSCI Emerging Markets ETF since July — including $1 billion in the past five days alone.
- It's now at $17.7 billion, the least since 2020.

Source: Bloomberg, October 2023

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LC Views - Summary

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LC Views Summary (1/2)

Sub-Asset	Recommended Positioning
Rates	• 10yr UST yields jumped to almost 5% after the better than expect non-farm payroll numbers on Friday. However, the dovish comments from the Fed Reserve officials and conflict in the Middle East saw the 10yr UST yields fell as much as 18 basis points to 4.62%, due to a flight to safety, as the cash market reopened following a US holiday on Monday. Fed Vice Chair Philip Jefferson said Monday that he would “remain cognizant of the tightening in financial conditions through higher bond yields” in assessing the future path of policy. Fed official Lorie Logan said the recent rise in long-term Treasury yields may indicate less need for the US central bank to raise rates again.
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 as the risk-reward does not favor ultra-long ends. 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	• There are two potential scenarios for the global economy. First, higher interest rates could further suppress global economic growth, leading to margin compression and possibly slower growth. Alternatively, if the economy demonstrates robustness (for instance, the Atlanta Fed GDP Now is a remarkable 5.8%!), Central Bankers would be compelled to continue raising rates to align inflation with the 2% target. In either scenario, equities are poised for challenges. • The valuation of equities currently appears expensive: - Historically speaking, with a forward P/E ratio at 19x, investors might find limited opportunities for substantial returns in the forthcoming 12 months. - Even more pertinently, when compared to bonds and cash, equities seem less appealing. To illustrate, the disparity between the yield of 3-month US Treasuries and the S&P 500's dividend yield has expanded to a significant 400 basis points. Such pronounced differentials were last witnessed in 2000 and 2007, both instances that preceded major equity downturns. • Considering the uncertain trajectory for equities over the next year, coupled with their elevated valuations and their comparative disadvantage against cash and bonds, our recommendation is to underweight equities in portfolios.

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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