Investment Playbook Weekly Update

March 18th – 22nd 2024

LIGHTHOUSE CANTON

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

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

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

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S&P 500: Bull Market Is Intact

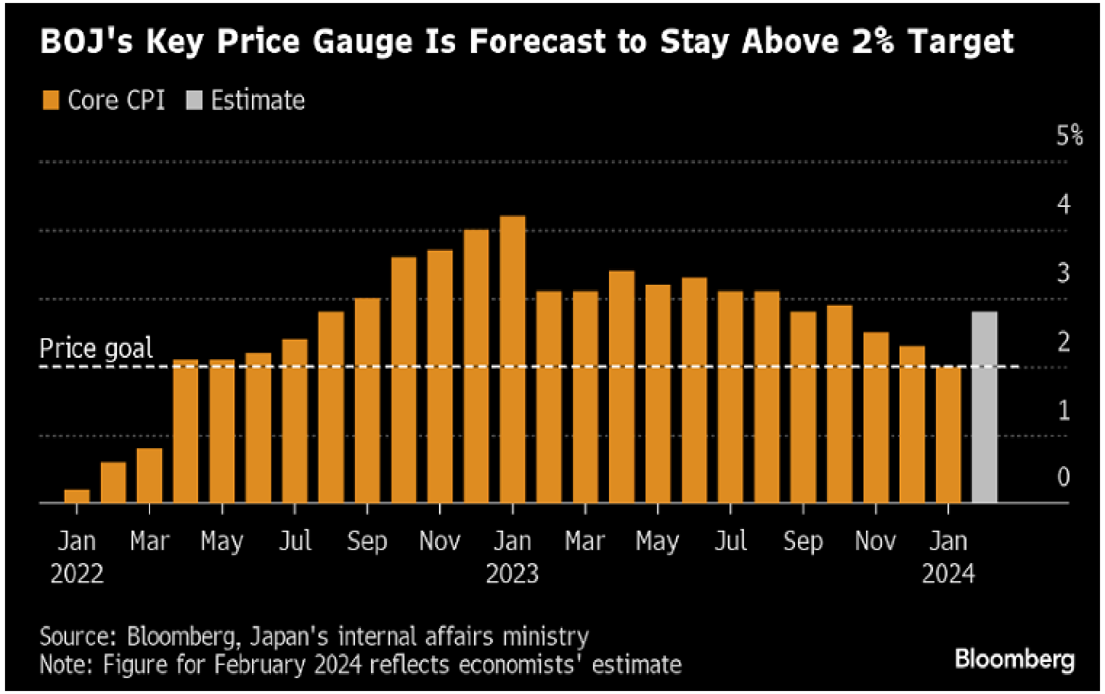
Technical analysis underscores the continuation of the bullish momentum

- The technical assessment underscores the continuation of the bullish momentum in the S&P 500 index.
- After experiencing a temporary stall due to the resistance level at 5,200 points over the preceding two weeks, market participants have reignited their stock purchasing following the March 20th Federal Open Market Committee meeting. During this session, Federal Reserve Chair Jerome Powell confirmed that the Fed's anticipated path for 2024 predominantly includes three interest rate reductions.
- Given the index's operation at historically high levels, with market valuations exceeding the average long-term figures by 20%, and the prevailing low volatility cost, we recommend the adoption of a hedging strategy via put options to protect downside risks.

Source: Lighthouse Canton, March 2024

BOJ Ends Era of Negative Rates

Central Bank Signals Easy Financial Conditions To Continue

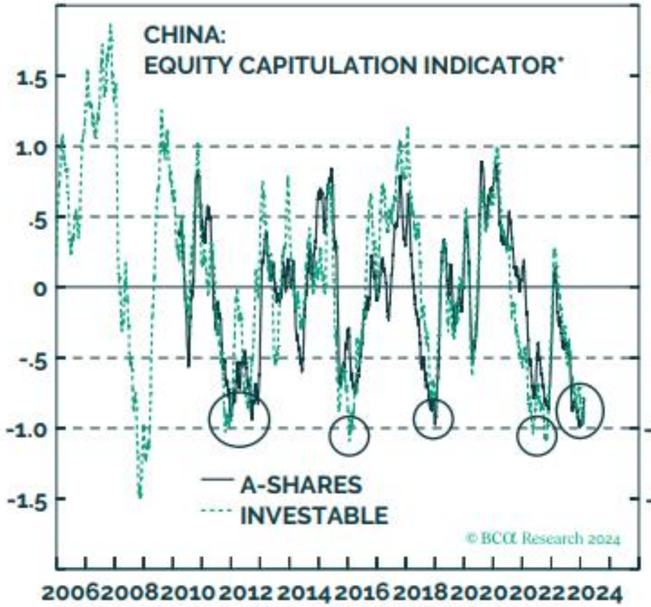


- The Bank of Japan scrapped the world's last negative interest rate, ending the most aggressive monetary stimulus program in modern history, while also indicating that financial conditions will stay accommodative for now.
- The bank's board voted 7-2 to set a new policy rate range of between 0% and 0.1%, shifting from a -0.1% short-term interest rate. The BOJ also scrapped its complex yield curve control program while pledging to continue buying long-term government bonds as needed, and ended purchases of exchange-traded funds.
- However, the lack of signaling on any future rate hikes weighed on the yen — which slid past the closely watched 150 mark versus the dollar — while benchmark government bond yields edged lower.

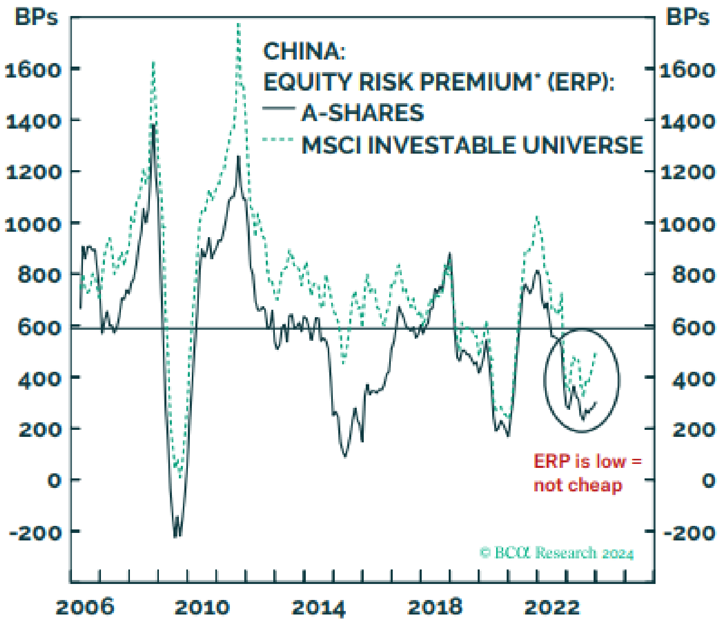
Source: Bloomberg, March 2024

Chinese Stocks Are Oversold

But Valuations Are Still Not Cheap



*EQUALLY-WEIGHTED AGGREGATE OF COMPOSITE MOMENTUM INDICATOR, SECTOR BREADTH, A/D LINE, AND NET EPS REVISION; STANDARDIZED AND SHOWN AS 22-DAY MOVING AVERAGE;
SOURCE: MSCI Inc. (SEE COPYRIGHT DECLARATION), REFINITIV IBES, AND BCA CALCULATIONS



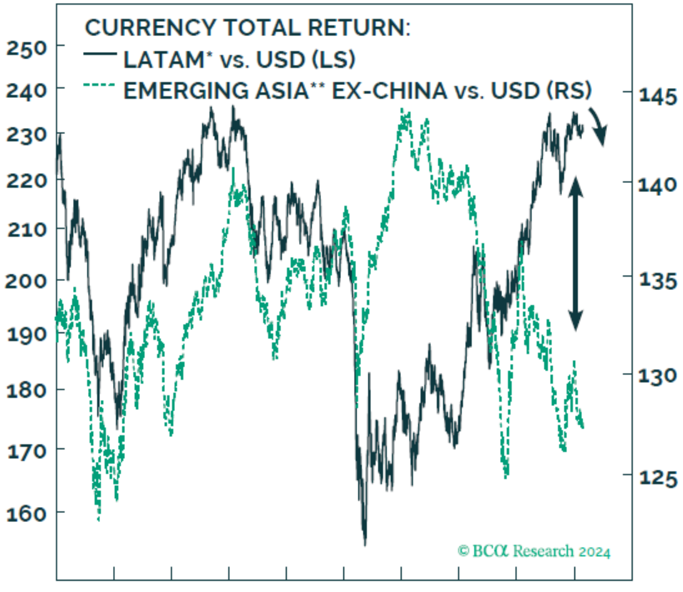
*TRAILING EARNINGS YIELD MINUS REAL LOCAL BOND YIELD DEFLATED BY GDP DEFLATOR;
SOURCE: MSCI Inc (SEE COPYRIGHT DECLARATION) AND BCA CALCULATIONS

- Equity capitulation indicators for both A-shares and Investable (primarily H-shares) have fallen to 1-standard deviation below its mean, which historically indicates buying opportunity.
- However, the equity risk premium is currently low due to the high real bond yield resulting from deflation in China. Consequently, valuations are not considered cheap.
- Hence, we remain underweight in Chinese equities.

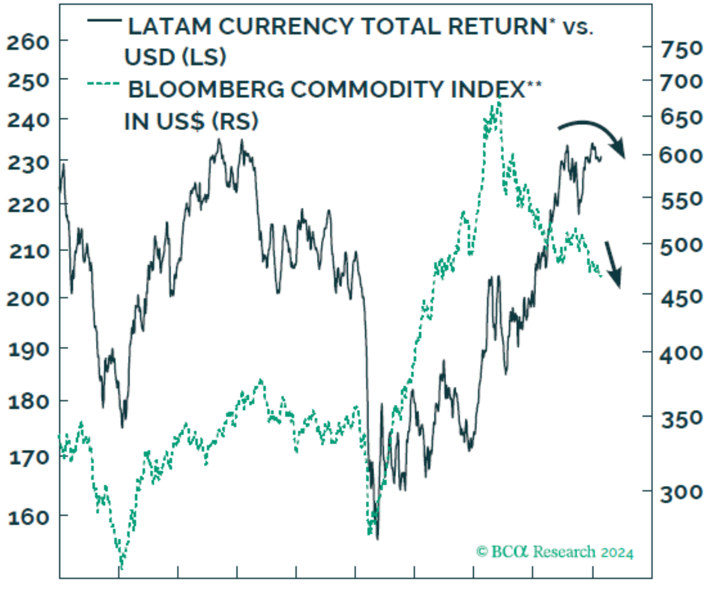
Source: BCA, March 2024

Latam FX vs. Asian FX And Commodity Prices

Signals Latam FX Might Be Shakey In The Near Term



*EQUITY MARKET-CAP WEIGHTED AVERAGE OF BRL, MXN, PEN, COP, AND CLP
**EQUAL-WEIGHTED AVERAGE OF INR, IDR, KRW, SGD, MYR, THB, PHP, AND TWD



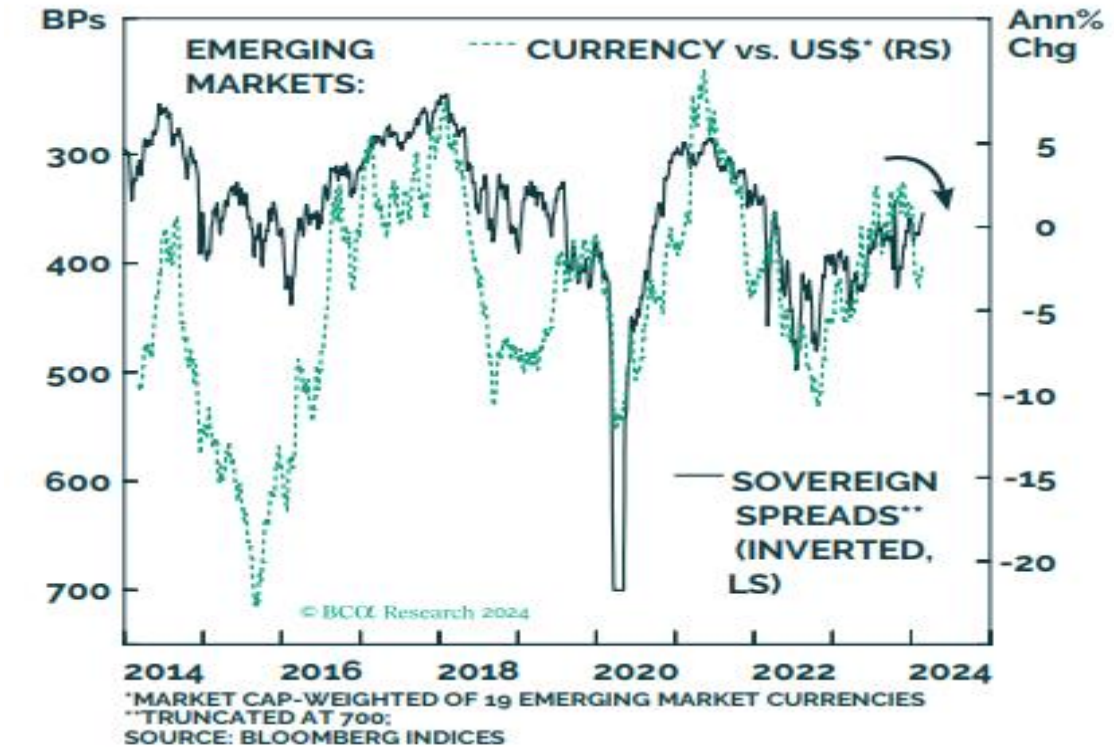
*EQUITY MARKET-CAP WEIGHTED AVERAGE OF BRL, MXN, PEN, COP, AND CLP
**SOURCE: BLOOMBERG FINANCE L.P.

- Left chart shows since the beginning of 2023, there has been a divergence in Latam and Emerging Asia ex-China currencies.
- BCA suggests that when Asian currencies depreciate, it indicates a contraction in global exports since exports significantly influence Asian currencies. This contraction in Asian exports implies a weak global manufacturing cycle and reduced demand for commodities, which in turn affects commodity prices and leading to a decline in Latam currencies.

Source: BCA, March 2024

Potential Risk Of Widening In EM Credit Spreads

As EM FX Depreciates In The Near Term



- There exists a noticeable correlation between emerging market (EM) sovereign credit spreads (which also applies to corporates) and EM foreign exchange (FX) rates. Over time, when EM FX rates depreciate, EM credit spreads tend to widen. As BCA's view suggests that EM FX rates are expected to depreciate in the short term, hence there is a potential risk of widening of EM credit spreads, both in local currencies and USD.

Source: BCA, March 2024

LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• In the March 2024 FOMC, the Fed decided to keep rates steady as expected and stuck to 3 rate cuts this year. However, the dot plot did point to lower cuts in 2025. It is worth mentioning that the Summary of Economic Projections (SEP) pointed to a strengthening economy both in terms of GDP forecasts from 2024-2026 as well as core PCE deflator for 2024. These are supportive signals for spreads if the market continues to expect rate cuts while pricing strong growth expectations simultaneously. It will be interesting to see how the Fed balances its rate cut plans alongside a strengthening economy.
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 looks committed to its rate cuts. 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.

LC Views Summary (2/3)

Sub-Asset	Recommended Positioning
Equities	• Equities experienced a significant rally following the Federal Open Market Committee (FOMC) meeting on Wednesday. During this meeting, Chair Jerome Powell confirmed the Federal Reserve's intention to lower interest rates three times this year, while also revising upwards the economic growth and inflation forecasts for the year in their economic projections summary. This suggests a strong resilience in the U.S. economy. Consequently, this boosts investors' confidence in the broader market's potential to achieve the anticipated 11% earnings growth for the year, potentially driving a continued upward trend in equities. • We anticipate that Artificial Intelligence (AI)-related developments will play a pivotal role in the next 6-9 months, especially since a considerable part of this year's market rally can be attributed to the tech sector, which constitutes a large portion of the broader equity market indices. Despite high current valuations, there appears to be no slowdown in the demand for AI products and services, indicating that the market may continue to support these sectors for an extended period. • However, while the likelihood of a U.S. recession in 2024 seems to be diminishing, we maintain a cautious stance regarding current equity market valuations, which are notably higher than historical averages with a trailing 12-month price-to-earnings (P/E) ratio of 23.4 and a 1-year forward P/E of 21.5. In light of these factors, we anticipate the possibility of continued market growth in 2024, albeit with the risk of a sharp decline if economic sentiment shifts abruptly due to overvaluation. While investor optimism may persist until clear signs of a recession emerge, we advise investors to maintain a significant presence in equity markets, complemented by sufficient hedging strategies to mitigate potential losses.

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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