Investment Playbook Weekly Update

August 19th – August 23rd 2024

GLOBAL Private Banking INNOVATION AWARDS 2024
BEST FAMILY OFFICE – UNITED ARAB EMIRATES

GLOBAL Private Banking INNOVATION AWARDS 2024
BEST FAMILY OFFICE – MIDDLE EAST

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

PRIVATE BANKING AWARDS 2023 ASIAMONEY
RISING STAR, SINGAPORE

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

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

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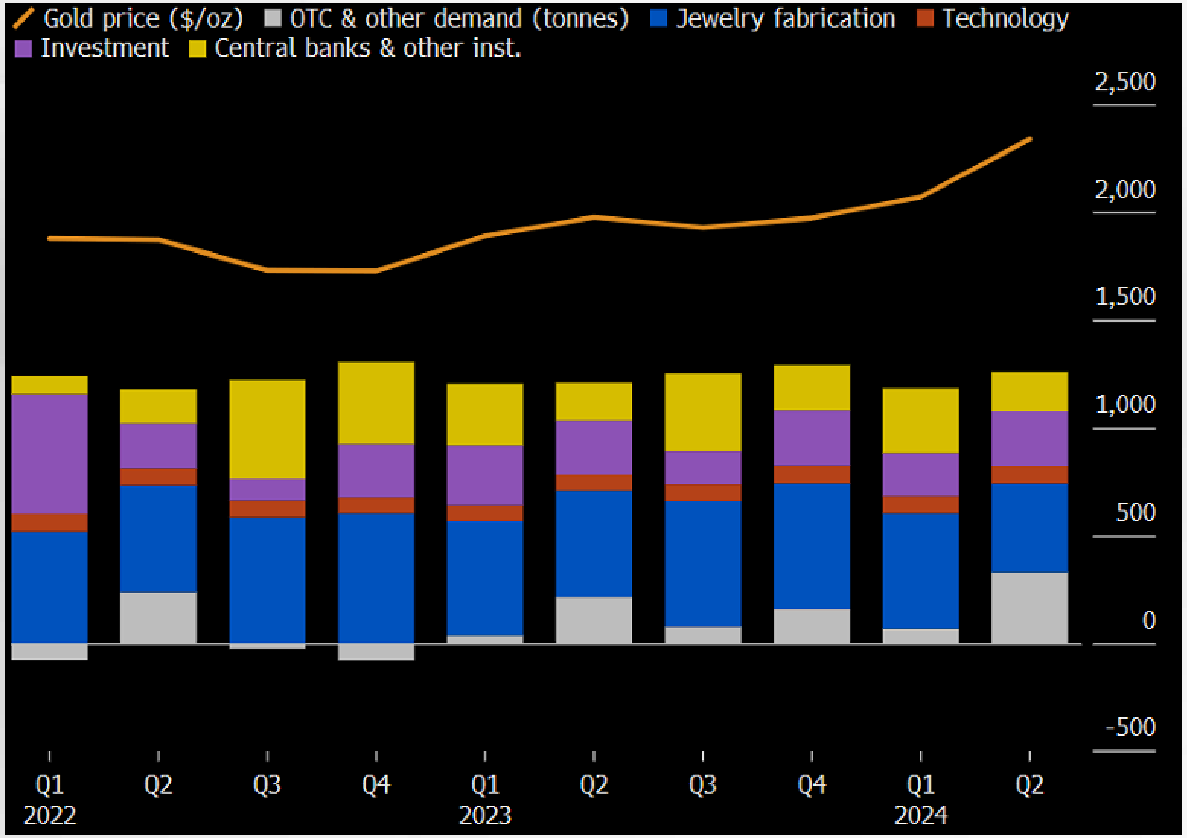
Surge In OTC Buying Carried Demand For Bullion

Jewelry Fabrication, Long A Key Driver Of Demand, Slows On Higher Costs



- Gold is in record-setting form, topping $2,500 an ounce on expectations that the Federal Reserve is poised to cut US interest rates as early as next month.
- The precious metal's 21% year-to-date surge has made it one of the best performing major commodities in 2024.
- Demand in the over-the-counter (OTC) market may be hard to track, but it's been an important feature this year.
- Strong physical bar-buying, particularly by family offices in Asia, helped gold consumption to register its best second quarter in at least 25 years, according to the World Gold Council. The association of producers says further demand growth in the OTC market is expected to be a key driver of gold's rally.

Source: Bloomberg, August 2024

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Last Chance To Get 5% Yields On IG Bonds

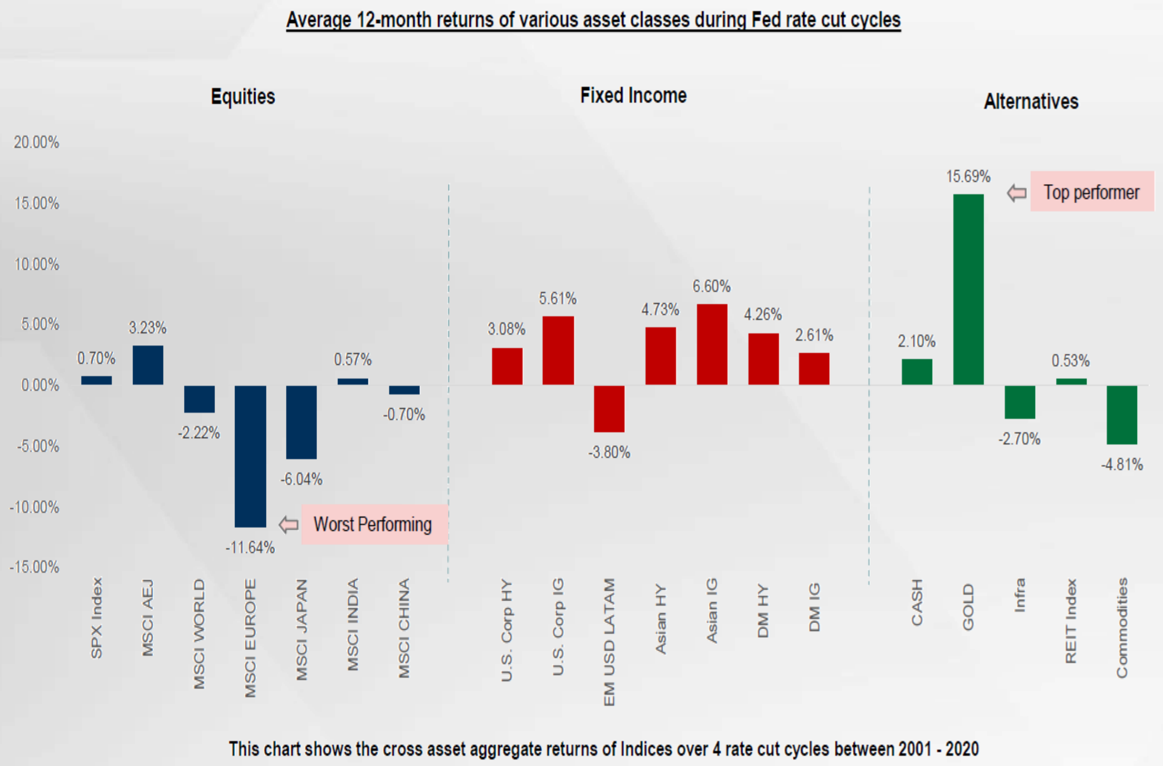
Fed Rate Cuts Will Take The Sheen Off Corporate Credit

- Investors are running out of time to bag high-quality corporate debt yielding 5%. Mounting demand for waning supply will anchor credit spreads through the next global market pandemonium.
- Blue-chip US corporate bonds yield about 5% on average, down from well over 6% in November. That's more than the 10-year average of 3.6% — and it won't last.
- Two years ago when high-grade debt breached 5% for the first time since the global financial crisis, investors didn't immediately pounce because they were holding out for more. Now, with inflation falling and central banks easing, investors fear missing out on the way back down to 4%.
- Spreads may act as something of a buffer — there's room for risk premia to widen out a bit, which would boost all-in yields. But in general, credit investors will have to get used to much slimmer pickings after two years of extraordinarily fat coupons.

Source: Bloomberg, August 2024

Performance Of Asset Classes During Fed Rate Cut Cycles (2001-20)

Gold Outperformed While Equities Broadly Underperformed



- Gold outperformed.
- Equities outside the US tend to underperform or even generate negative returns.
- Fixed income, on aggregate, performed well.
- Commodities showed negative returns.

Source: Nomura, August 2024

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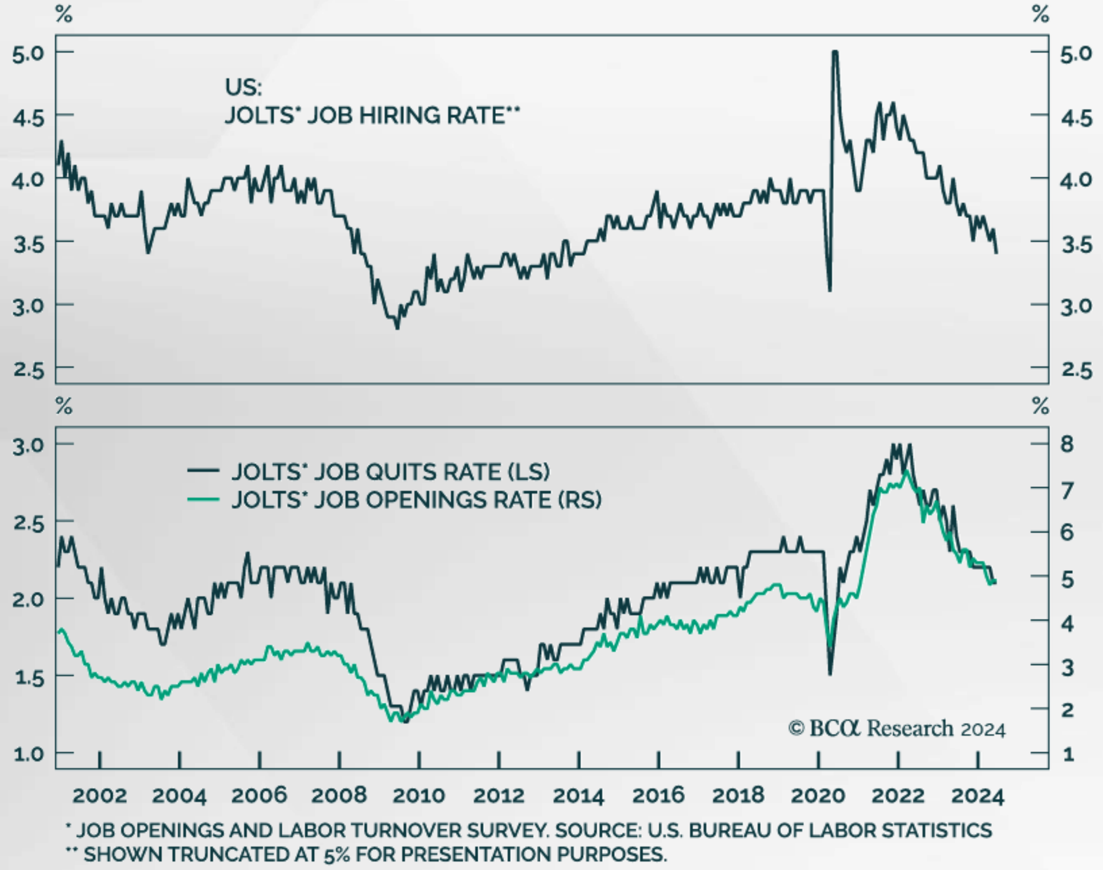
US Labor Market – Job hiring and quit rates

Historic low unemployment rate below 4.5% in the US camouflaging nascent cracks in the US labor market



- Despite the unemployment rate remaining below 4.5% for 33 consecutive months, key indicators such as the JOLTS[1] hiring rate figures reveal a significant slowdown, indicating potential stress in the labor market. Ahead of recessions, firms usually reduce the pace of hiring before they start firing.

- The current job opening rate has declined sharply from post pandemic peak of 7.4% to 4.9%, highlighting continued deterioration in labor demand. In addition, households' perceptions of job availability have deteriorated as well, as evidenced by falling quits rate.

- Historical trends suggest that the 3-month moving average of the unemployment rate is highly mean-reverting. A rise of more than one-third of a percentage point from cycle lows has historically led to a recession, reinforcing BCA's expectation of a downturn in late 2024 or early 2025. This outlook suggests that while stocks may stabilize in the short term, the medium-term trajectory remains negative.

Source: BCA Research, August 2024
[1]JOLTS – Job Openings and Labor Turnover Survey

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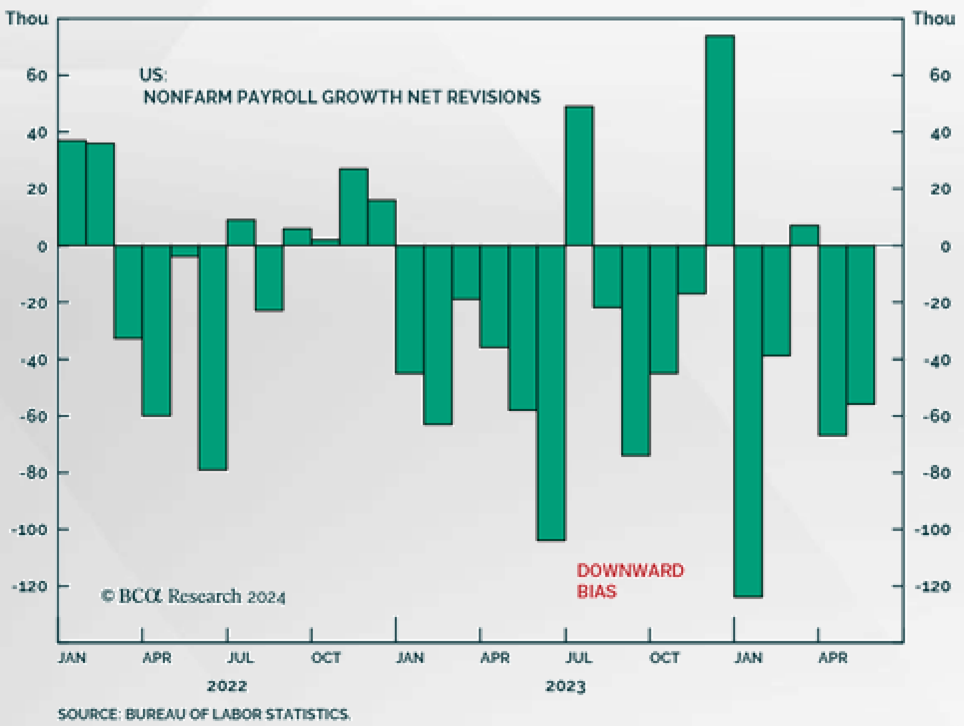
Payrolls Get Largest Downward Revision Since 2009

Downward Payroll Revisions Strengthen Case for Fed Rate Cut



- The Bureau of Labor Statistics revised down payroll numbers by 818,000 for the 12 months ending March 2024, signaling a weaker labor market than previously thought. Despite this, the initial market reaction was muted, with the S&P 500 recovering after a brief dip.

- Revisions in payroll data have been common recently, with a downward bias, raising concerns about the accuracy of the jobs report. The July FOMC meeting minutes showed that the Federal Reserve is now placing greater emphasis on labor market conditions. The weaker jobs data has solidified expectations for a rate cut in September, with analysts predicting a 25-basis-point cut, though a larger cut remains possible depending on future data.

Source: BCA Research, Bureau of Labor Statistics, August 2024

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U.S. Dollar Softens Versus G10 Currencies

Historic low unemployment rate below 4.5% in the US camouflaging nascent cracks in the US labor market

Country	Currency	Last	Perf. 1M (%)	Perf. 3M (%)	Perf. 1Y (%)
USA	DXY INDEX	101.23	-2.96	-3.53	-2.25
Europe (Stoxx50)	EUR CURNCY	1.11	2.34	2.98	2.77
UK	GBP CURNCY	1.31	1.21	2.93	2.81
Japan	JPY CURNCY	145.41	8.00	7.83	0.33
Australia	AUD CURNCY	0.67	1.51	1.86	4.98
New Zealand	NZD CURNCY	0.62	2.91	0.92	3.48
Canada	CAD CURNCY	1.36	1.25	0.79	-0.27
Swiss	CHF CURNCY	0.85	4.41	7.48	3.33
Norway	NOK CURNCY	10.51	4.15	1.87	1.02
Sweden	SEK CURNCY	10.20	5.16	5.32	7.23

- The U.S. Dollar Index (DXY) hit a 2024 low, down nearly 5% from its April highs, with a 3% decline in August driven by labor market concerns and expectations of Federal Reserve rate cuts. These expectations have led to a lower dollar, as investors anticipate easing monetary policy.

- Despite this, the outlook remains resilient on the dollar over a 6-to-12-month horizon due to its counter-cyclical nature. The US is more service-oriented than other economies, and in a global downturn, the dollar typically strengthens. While this pattern didn't hold in H1 2024, factors such as delayed Fed easing and global demand have shifted.

Source: Bloomberg, Lighthouse Canton, August 2024

LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• Several Federal Reserve officials acknowledged there was a plausible case for cutting interest rates at their July 30-31 meeting before the central bank's policy committee voted unanimously to keep them steady. • "Several observed that the recent progress on inflation and increases in the unemployment rate had provided a plausible case for reducing the target range 25 basis points at this meeting or that they could have supported such a decision," minutes from the meeting, published Wednesday in Washington, said. "The vast majority observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting." • Since the release of the July jobs and inflation data, several Fed officials have said they are nearing the time when rate reductions will be appropriate. Futures markets are pricing in about 100 basis points of cuts over the remainder of the year.
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. We recommend a duration (in IG credits) of 5-10Y and advise against increasing duration beyond 10 years in corporate credits as the risk-reward does not favor ultra-long ends. However, on a tactical play, we recommend allocating a small position up to 5% of portfolio in iShares 20+ Year Treasury Bond ETF (TLT US) as the Fed is on the brink of an easing 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	• The equity markets were relatively muted this week, which helped maintain the calm that returned during the week gone by. Chair Powell is set to speak at the Jackson Hole conference on Friday, which should give further clues into how the Fed is thinking, in terms of balancing its dual mandate of keeping inflation in check and maintaining maximum employment. Any dovishness by Chair Powell will add to the softer than expected PPI & CPI print we saw last week, cementing a rate cut in September (although the jury is still out on whether it will be a cut of 25bps or 50bps) which the markets think will be supportive for risk assets. We are however slightly more skeptical of this stance being taken by the equity markets, given our understanding of how equity markets tend to start correcting only once the Fed has gotten going on its rate cutting spree and historically, they have been unable to manufacture a soft landing every time real interest rates have been maintained at such high levels for so long. • 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 22.4x and the Tech sector (S5INFT) at 31.7x and in case of any further disappointment on the macro-economic front, there is room for significant downward P/E re-rating which can lead to a steep correction in the equity markets. • Almost all of the S&P 500 constituents (475/500) have reported numbers for the 2nd quarter and here's how they have stacked up till now : Sales have grown by 4.7% YoY while earnings have increased by 9.3% on a YoY basis. Till now about 80% of the companies have surpassed analyst estimates delivering a positive earnings surprise of about 5.2%, which is a bit 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. Additionally, investors can also take advantage of further gains in equities by opportunistically selling out of positions that seem over stretched / expensive from a valuation perspective.

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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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

info@lighthouse-canton.com
service@lighthouse-canton.in
Lighthouse Canton