

Investment Playbook Weekly Update

12 August, 2022

**LIGHTHOUSE
CANTON**

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
WEALTH PLANNING SERVICES



2021
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION

BEST INDEPENDENT WEALTH MANAGER
INVESTMENT ADVISORY

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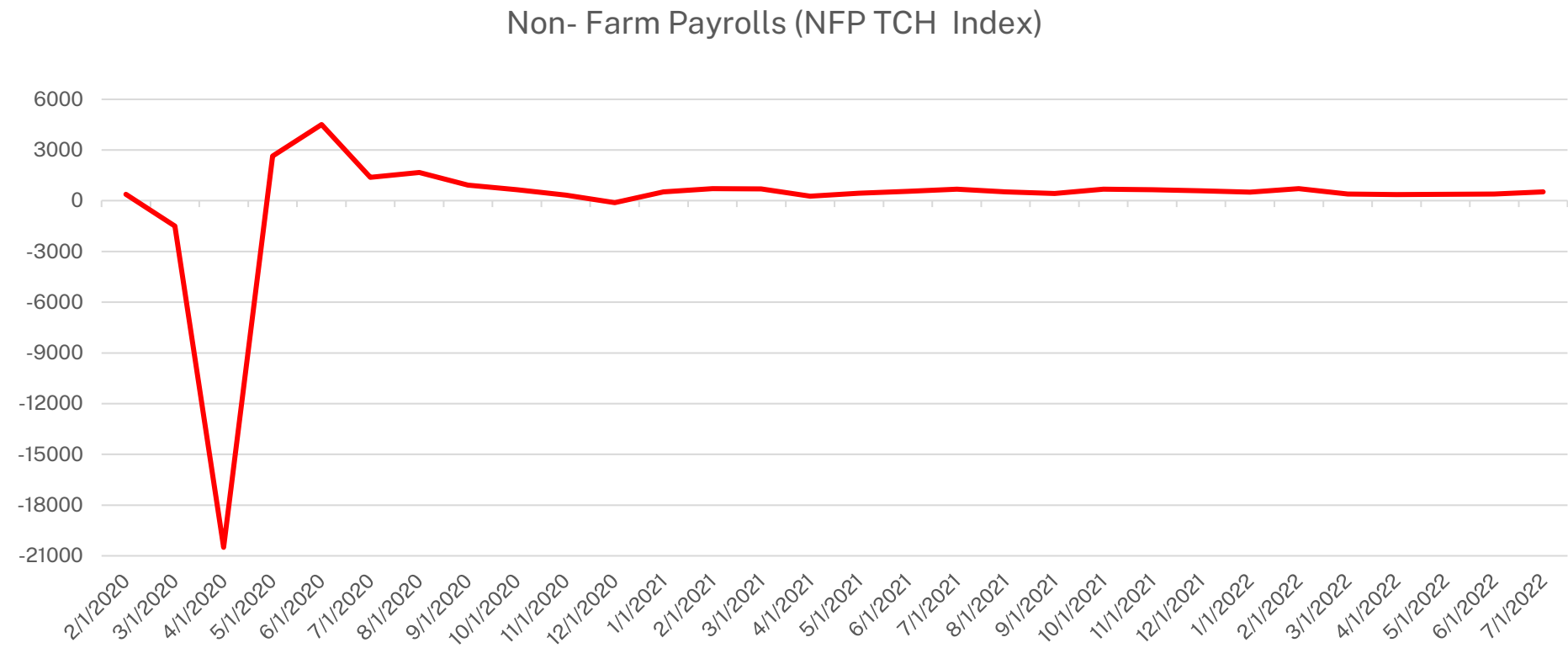
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Macro Highlights

1

US Non-Farm Payrolls- Surprised?

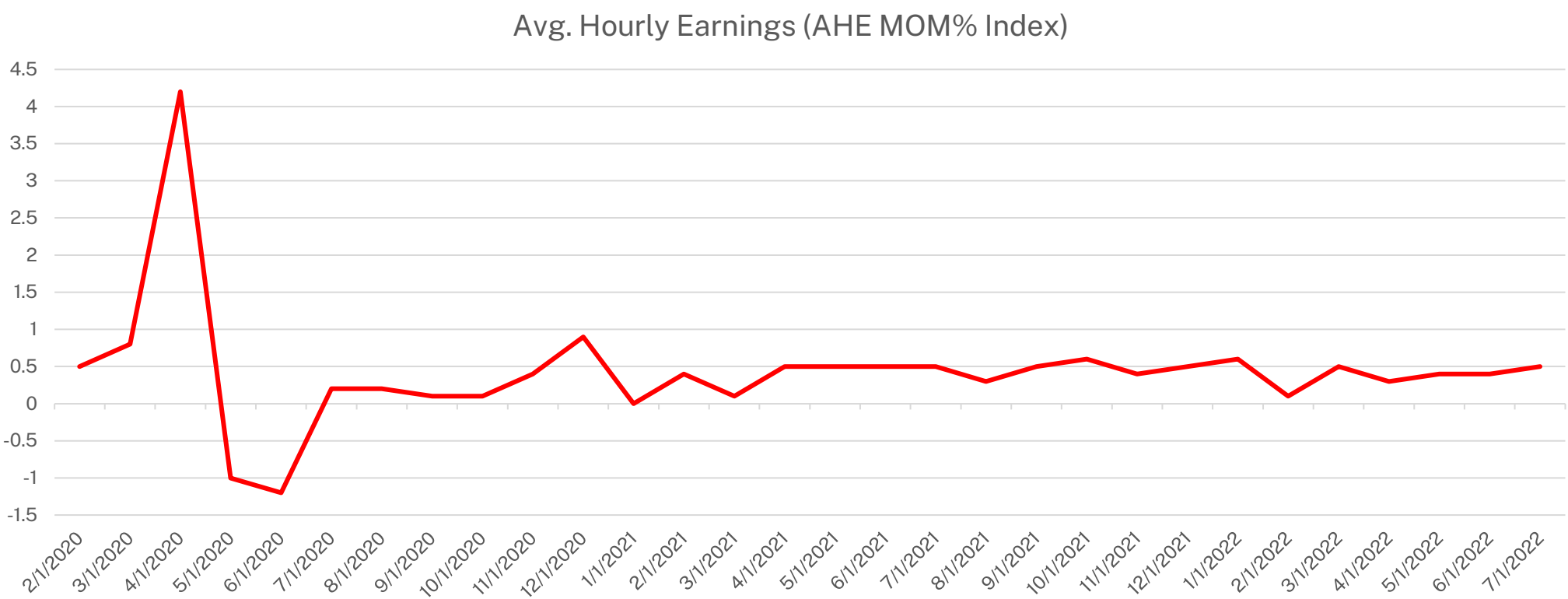
Data came in at 528,000 additions in Jun against expectations of 250,000



Source: Bloomberg, Aug 2022

Wage Growth- Also a Big Surprise

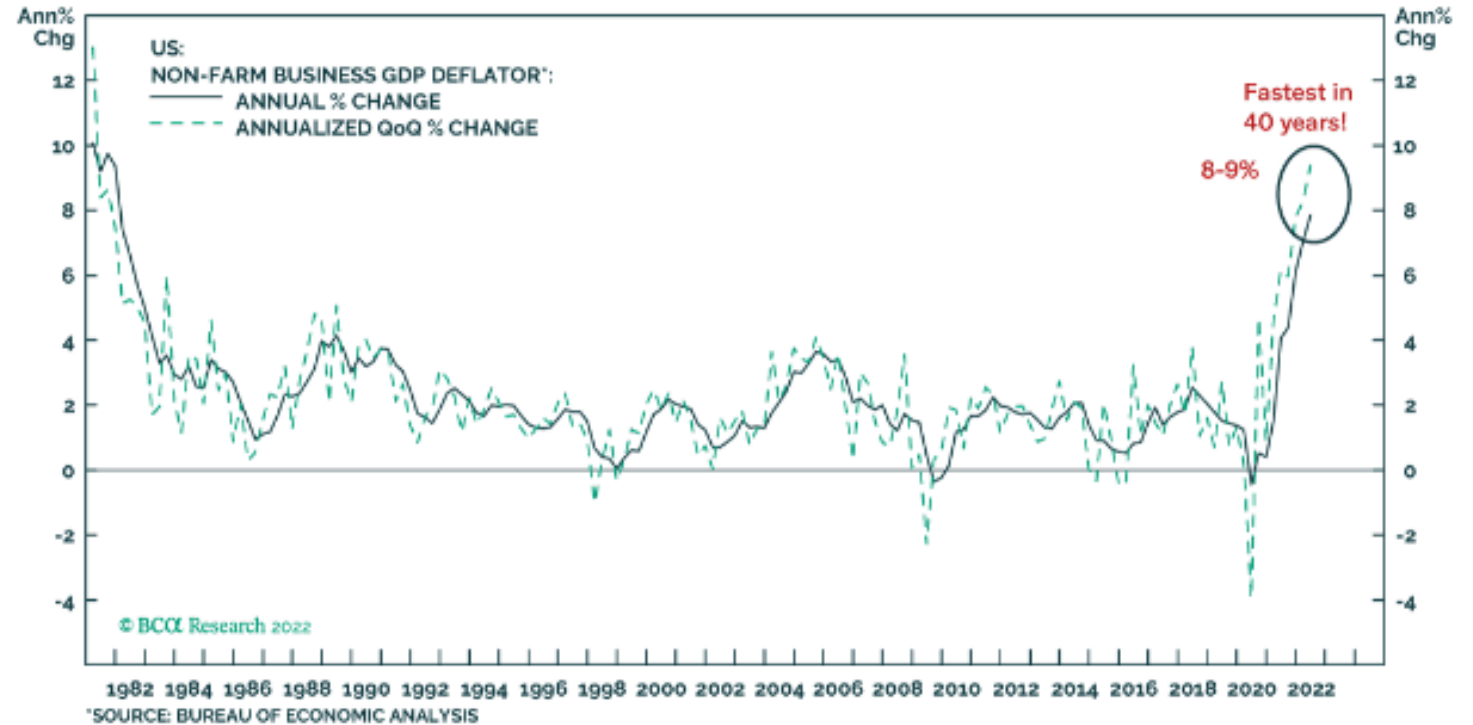
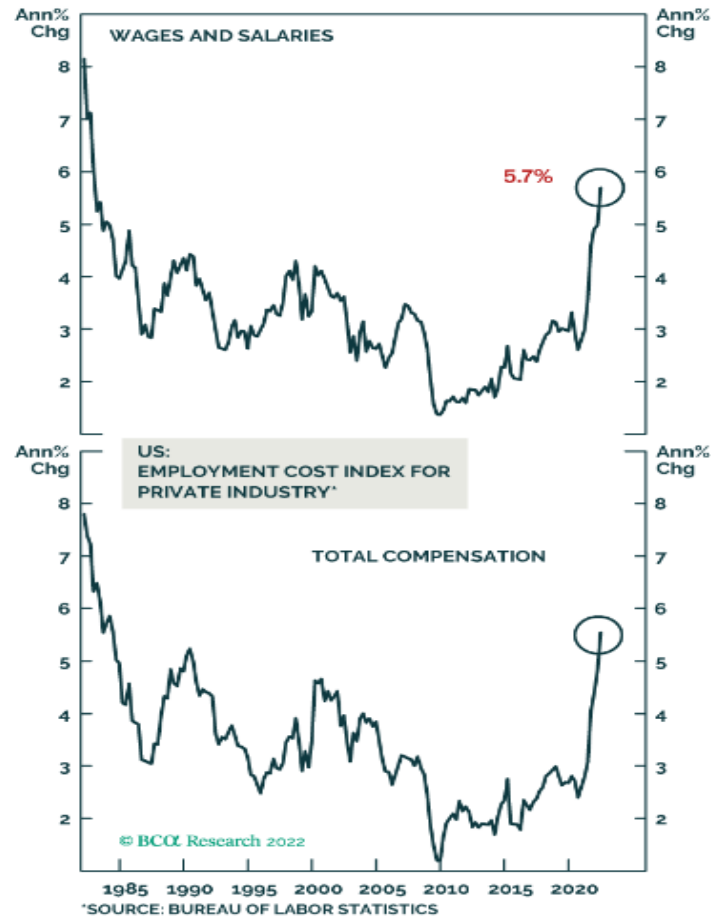
Growth of 0.5% MoM in Jun against expectations of 0.3%



Source: Bloomberg, Aug 2022

Wage Pressures in the U.S.

Despite softening of commodity prices, wages are likely to drive core inflation higher

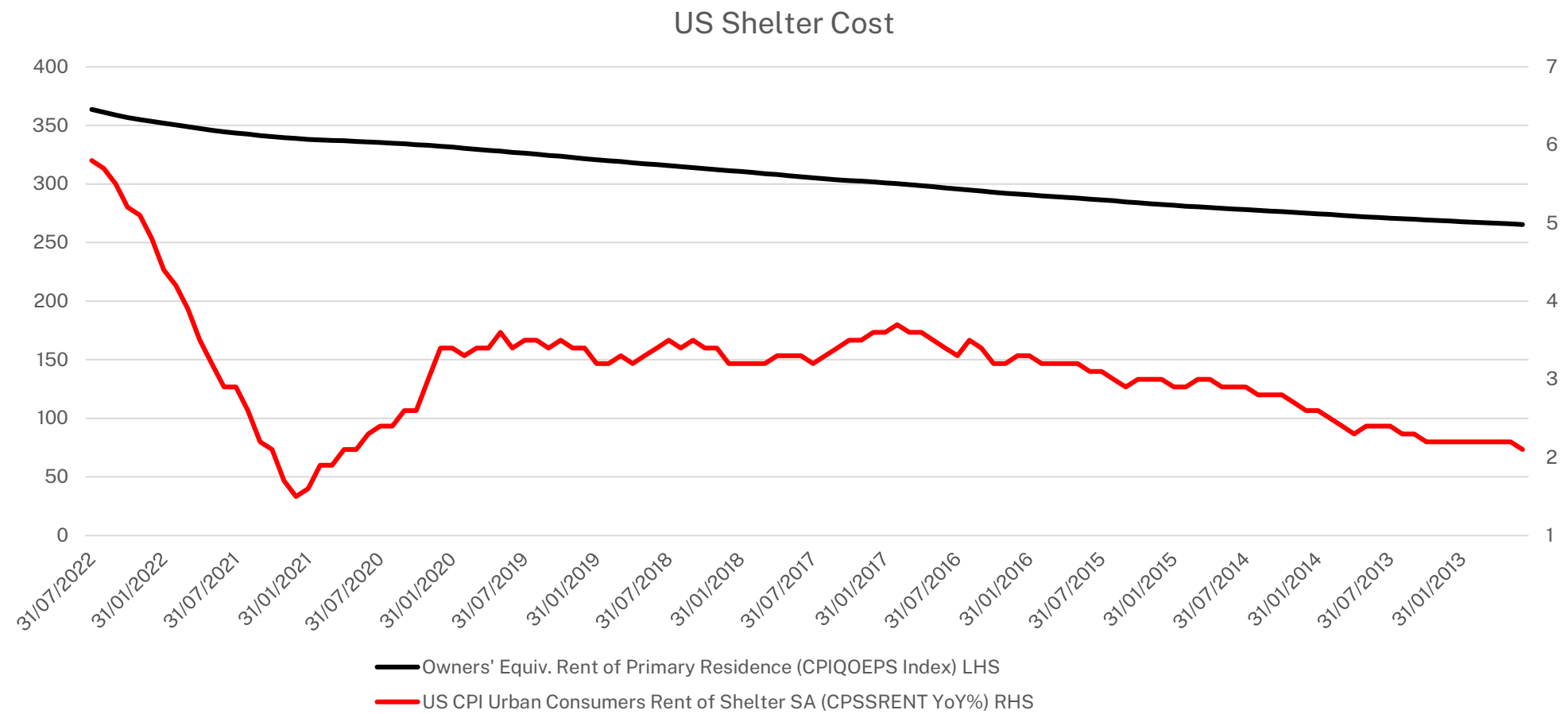


Source: BofA, August 2022

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US CPI- Down but not Out

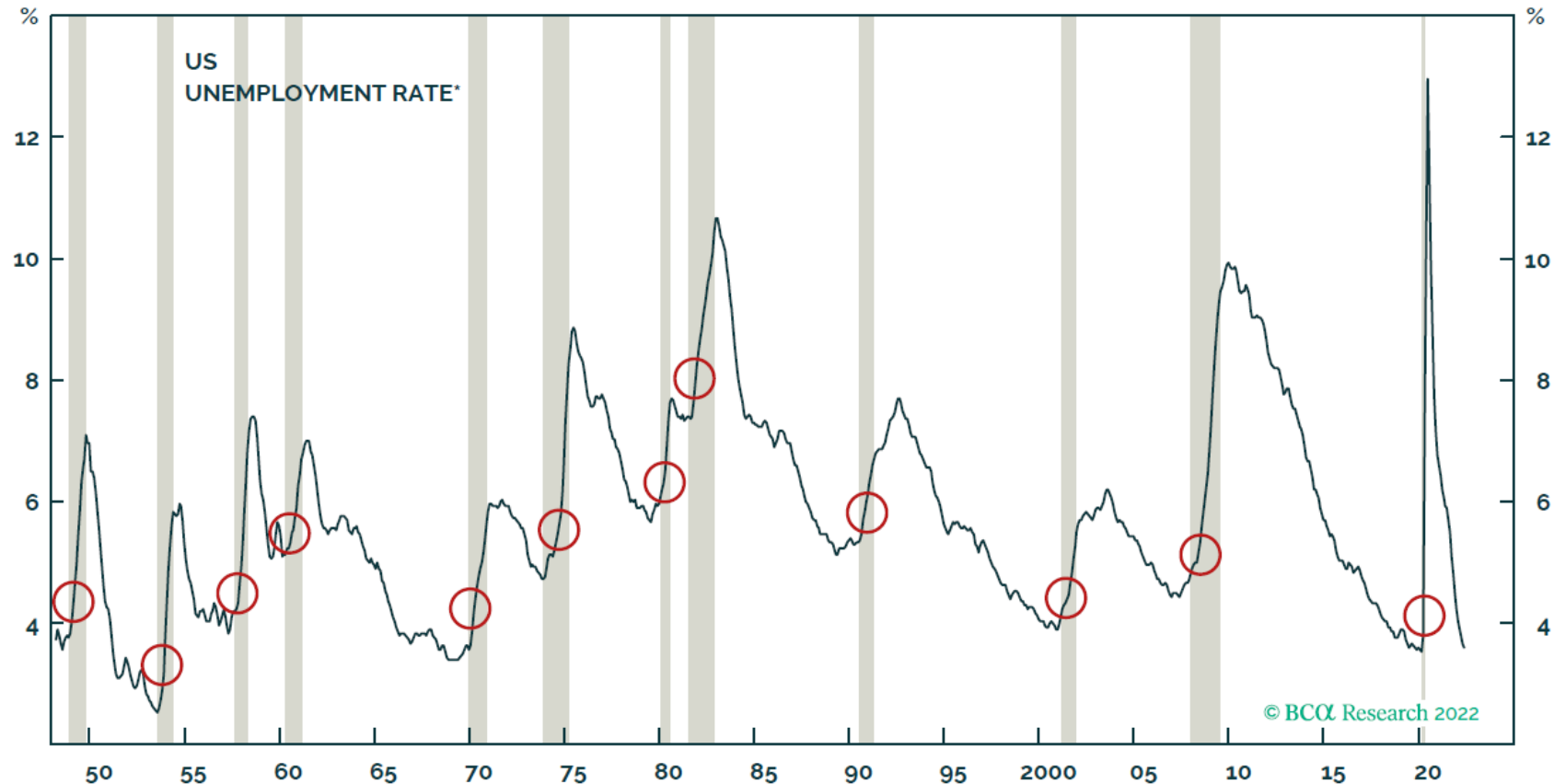
CPI print shows easing but lot of stickiness still left



Source: Bloomberg, Aug 2022

Watch Unemployment in the US

UE rate has never risen by more than 0.33% without triggering a recession



* SHOWN AS A 3-MONTH MOVING AVERAGE.

NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS; CIRCLES IN THE CHART DENOTE THE TIMES WHEN THE 3-MONTH MOVING AVERAGE OF THE UNEMPLOYMENT RATE INCREASED BY MORE THAN ONE-THIRD OF A PERCENTAGE POINT FROM RECENT LOWS.

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FOMC Sept- 50 bps hike?

WIRP Est. Change from Current Rate US- Futures Model points to a 50-bps hike



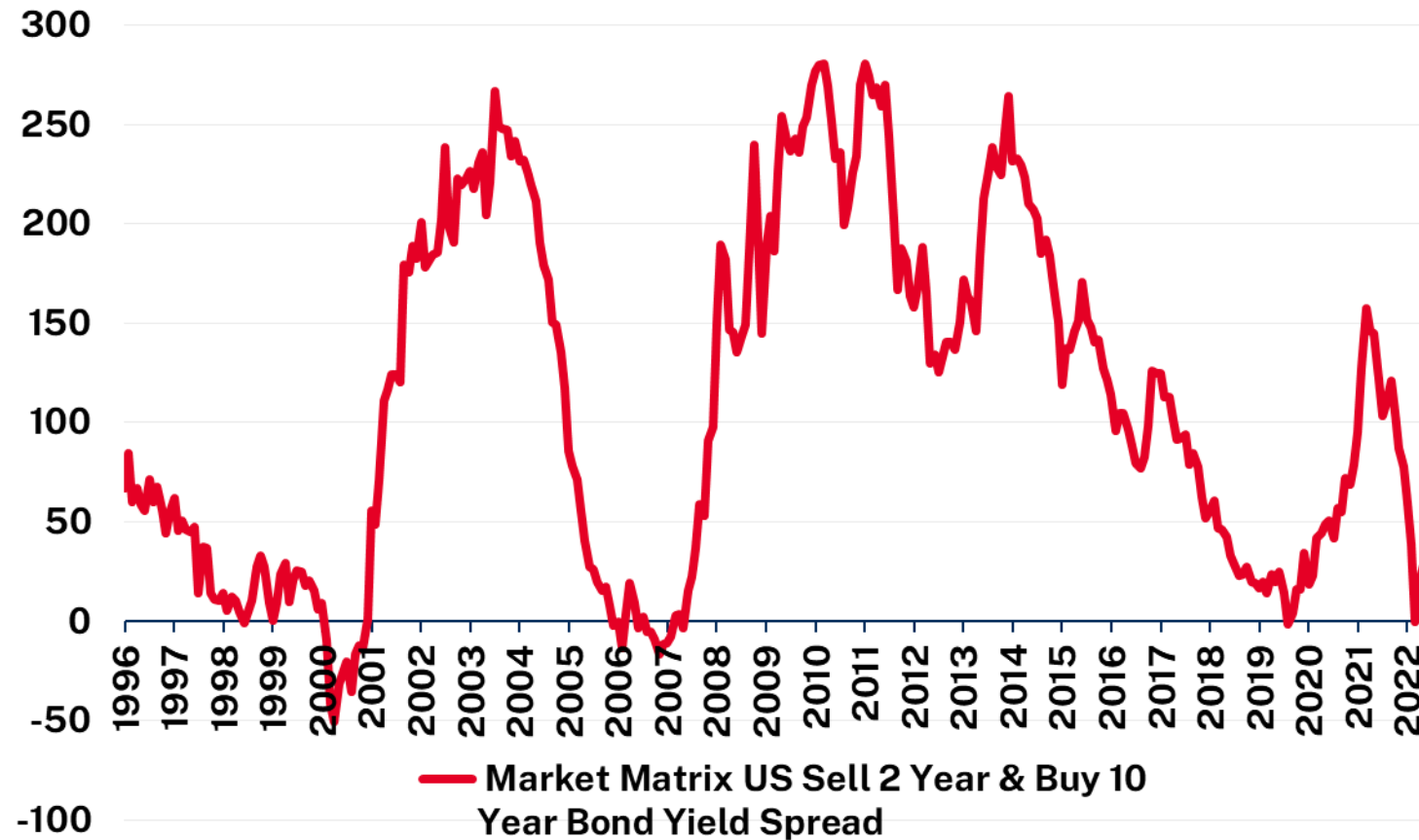
Source: Bloomberg, Aug 2022

Fixed Income Highlights

2

2Y/10Y Spread Most Inverted Since 2000

10-2 Year Treasury has widened to -45 bps, its lowest since the dot.com bubble



Source: Bloomberg, August 2022

US Recession: 40% Chance Over Next 12 Months

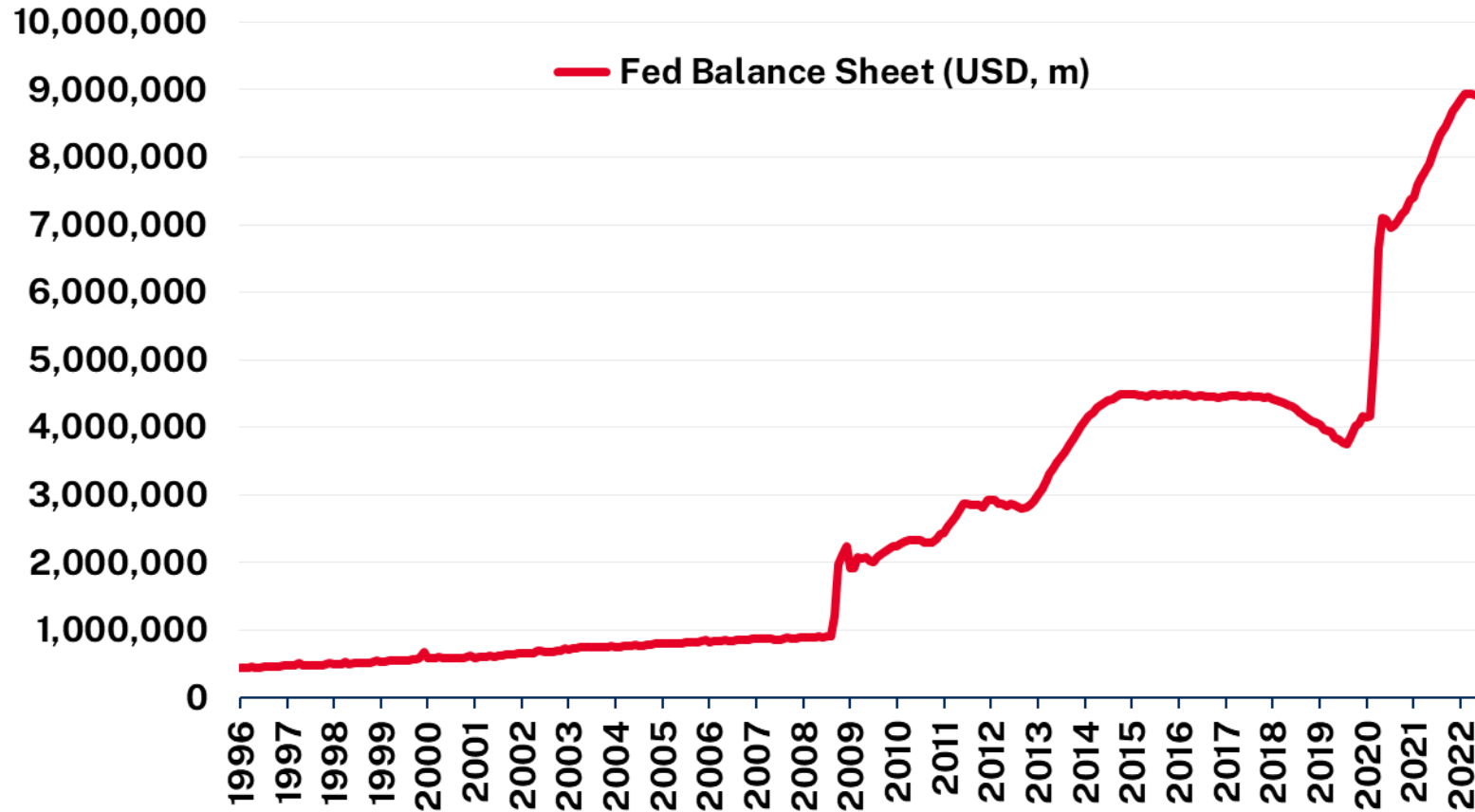
Bloomberg model points to 40% probability of a US recession over next 12 months



Source: Bloomberg, August 2022

Quantitative tightening - A gradual process

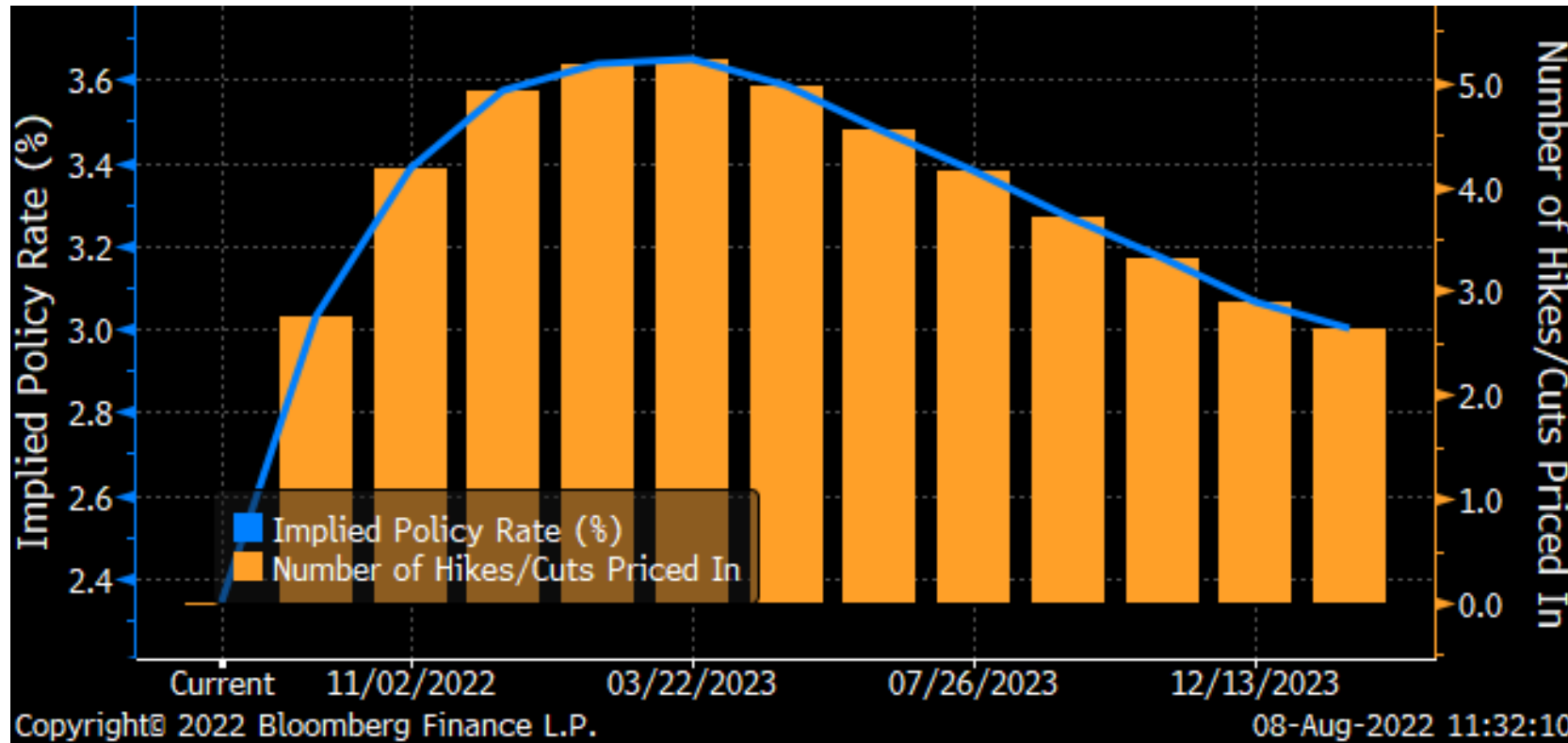
The Fed's balance sheet is just 1% below its record high level of April 2022



Source: Bloomberg, August 2022

Fed Fund Rates Expected At 3.6% By Q1 2023 (1/2)

The US Yield Curve is expected to shift by +100 bps over the next 2 quarters

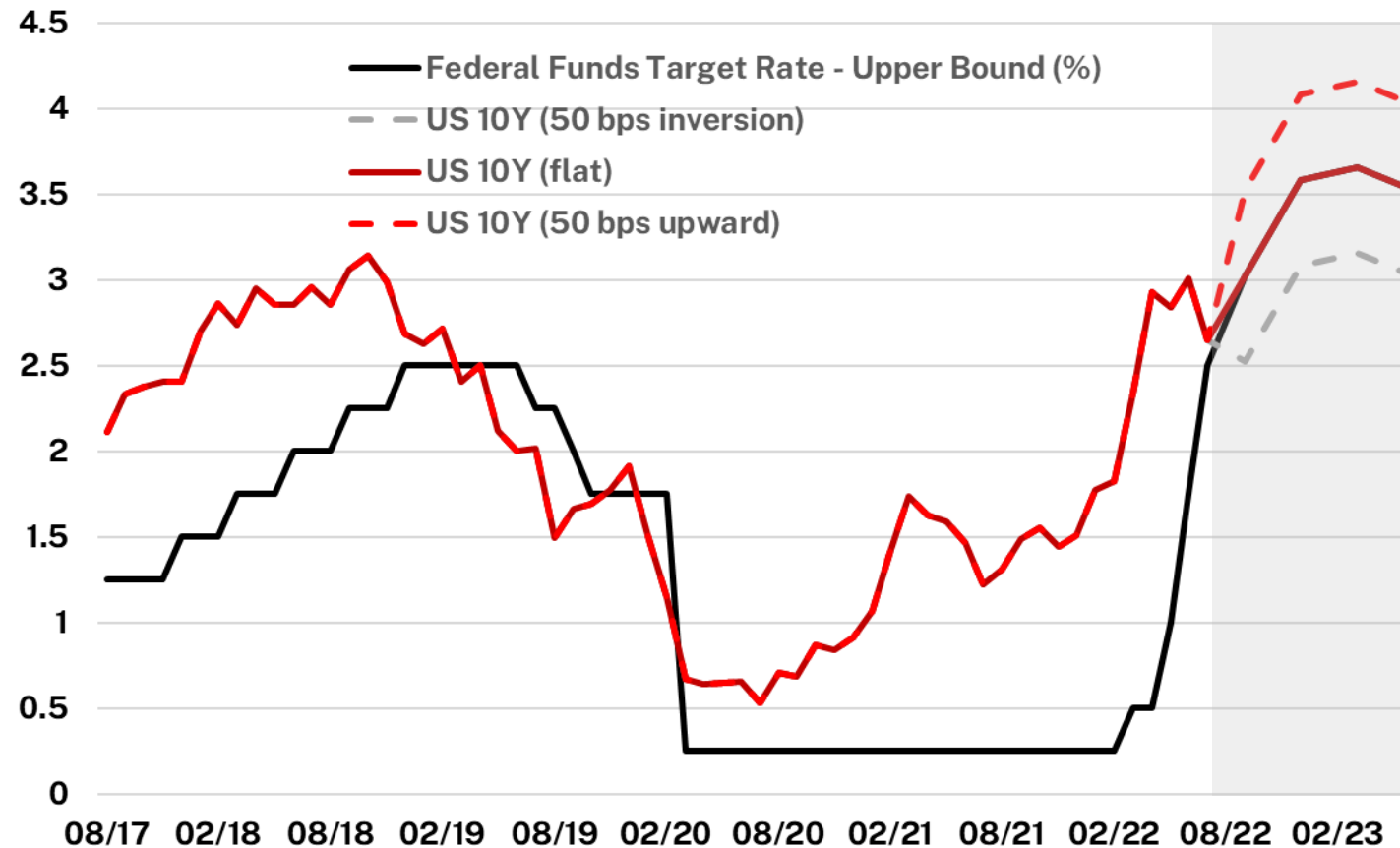


Source: Bloomberg, August 2022

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Fed Fund Rates Expected At 3.6% By Q1 2023 (2/2)

10Y Rates predicted between 3% and 4% next year: a headwind for risky assets



Source: Bloomberg, August 2022

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Fixed Income – Executive Summary

- Ten-year Treasuries now offer a yield of around 2.80%, compared with about 3.25% on two-year maturities, leading to a differential of minus 45 basis points. As the Fed is willing to front-load the rate hikes, that spread may invert further in the coming months as front-end bonds (3M to 2Y) sell off more than longer maturities (10Y and above). The inversion in a key segment of the US yield curve may deepen to levels not seen since the 1980s as competing concerns about higher policy rates and their economic impact play out in the markets.
- Indeed, employers stunned economists by adding more than half a million jobs in July. That print is likely to add to the Fed's conviction about the economy's resilience. Jerome Powell remarked before the report that the "strong labor market makes us question the GDP data" that pointed to a recession.
- Moreover, inflation expectations have started to recede, bringing credibility to the Fed. Various indicators such as the ISM's Prices Paid index, shipping costs, the prices of gasoline, oil, metals, and agricultural commodities all suggest that price pressures are easing, and that core inflation should stabilize at 4-5%. Further tightening will be required to bring inflation back down to the 2% target. These dynamics suggest that the Fed is likely to continue hiking interest rates in 2023, especially given that the labor market remains robust.

Equities Highlights

3

Minimum Impact From Inflation Reduction Act

US Proposed Tax Changes expected to dampen EPS by just 1.1%

Exhibit 40: We estimate a 1% hit to EPS from the proposed tax changes

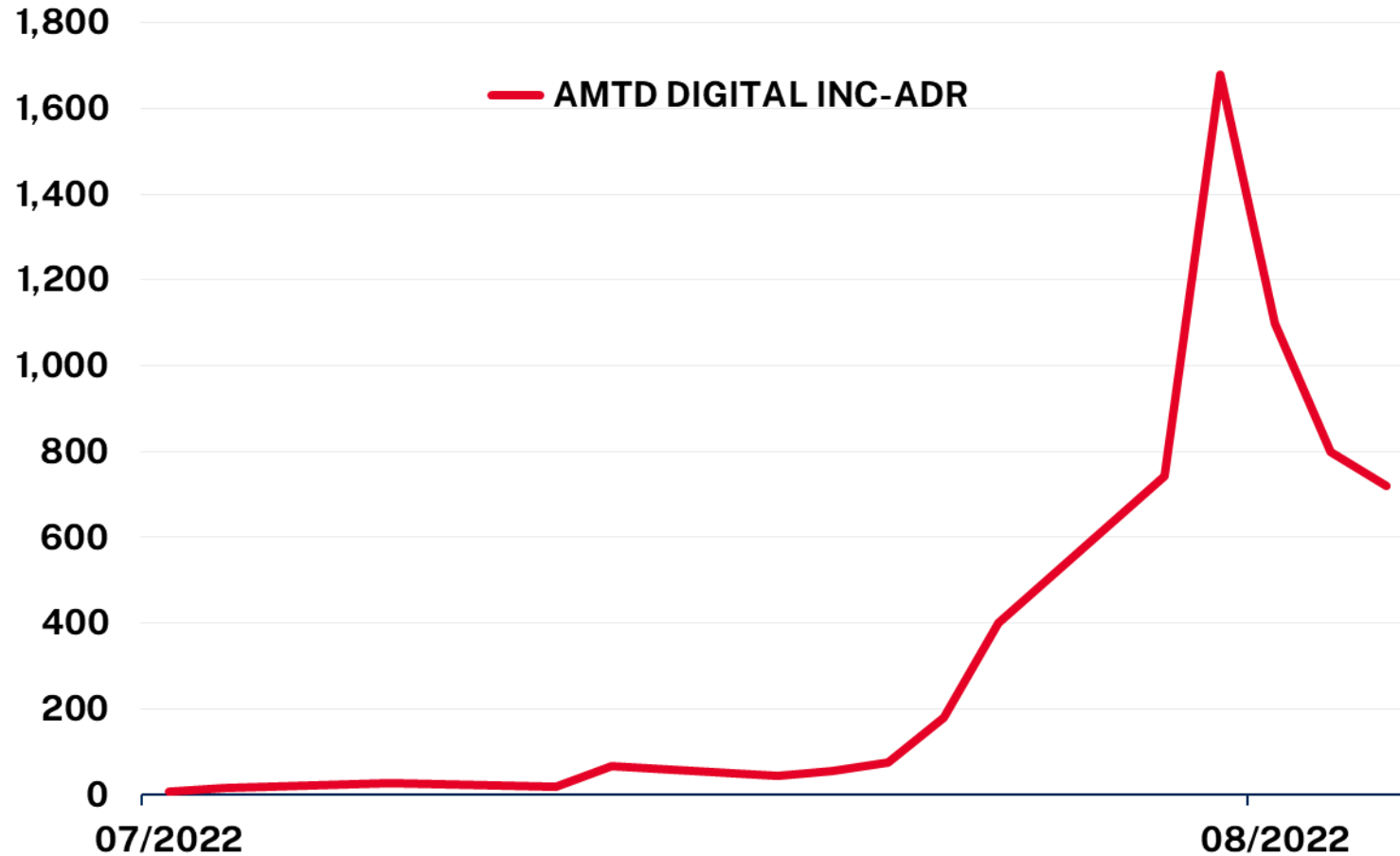
Estimated hit to S&P 500 2023 EPS from the proposed 15% minimum tax and buyback tax

Sector	Total EPS impact	15% min. tax	Buyback tax
Tech	-1.9%	-1.4%	-0.5%
Comm. Svcs.	-1.7%	-1.1%	-0.6%
Cons. Disc.	-1.4%	-0.8%	-0.6%
Health Care	-1.0%	-0.8%	-0.3%
Industrials	-0.9%	-0.4%	-0.4%
Materials	-0.8%	-0.3%	-0.5%
Financials	-0.5%	0.0%	-0.5%
Staples	-0.3%	0.0%	-0.3%
Energy	-0.2%	0.0%	-0.2%
Real Estate	-0.1%	0.0%	-0.1%
Utilities	-0.1%	0.0%	-0.1%
S&P 500	-1.1%	-0.6%	-0.4%

Source: BofA Global Research, August 2022

Meme Stocks Remain Highly Speculative

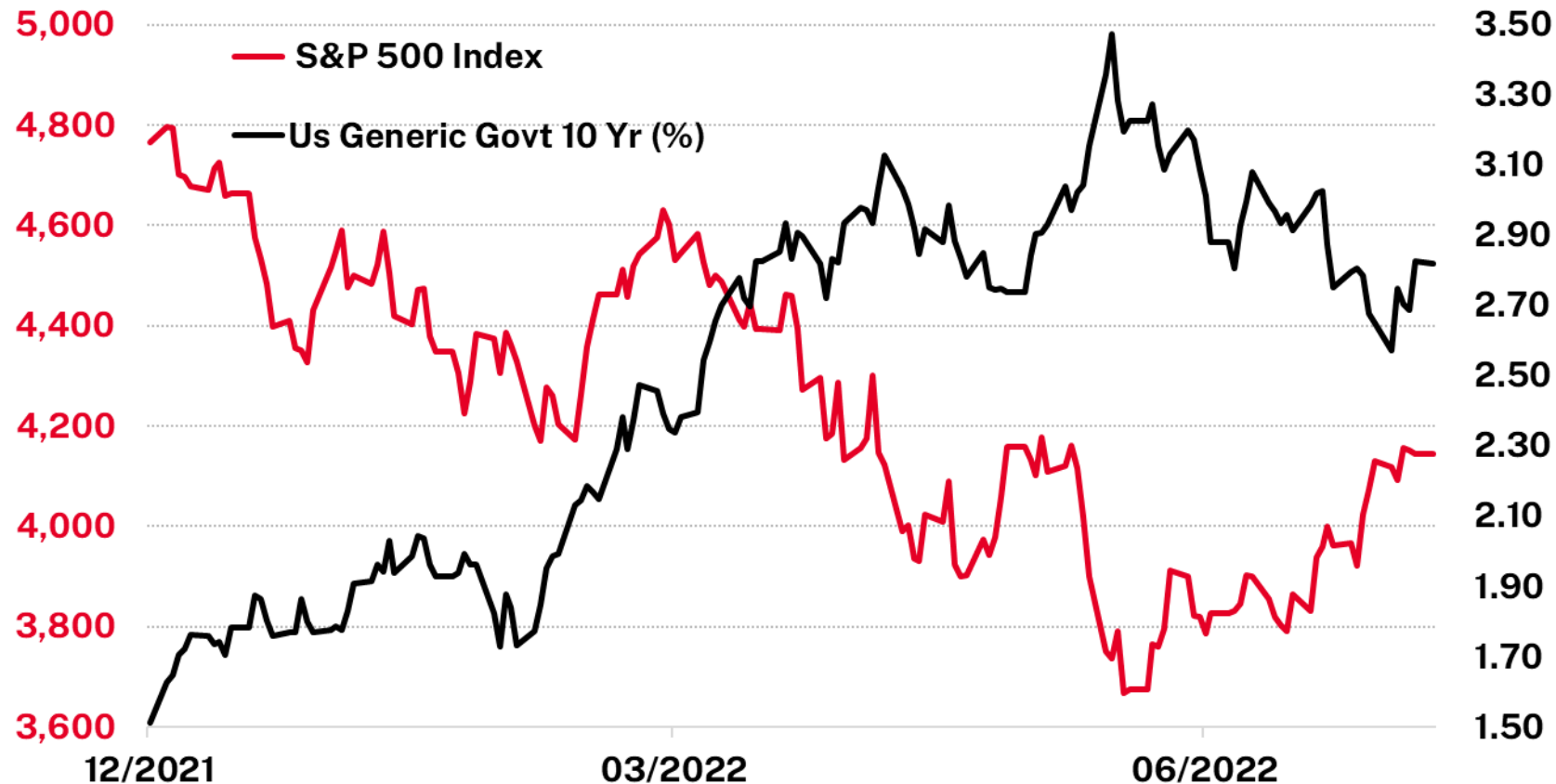
AMTD Digital's shares rose 32,000% from their IPO price in just few days



Source: Bloomberg, August 2022

Equities Performance Primarily Explained By Rates

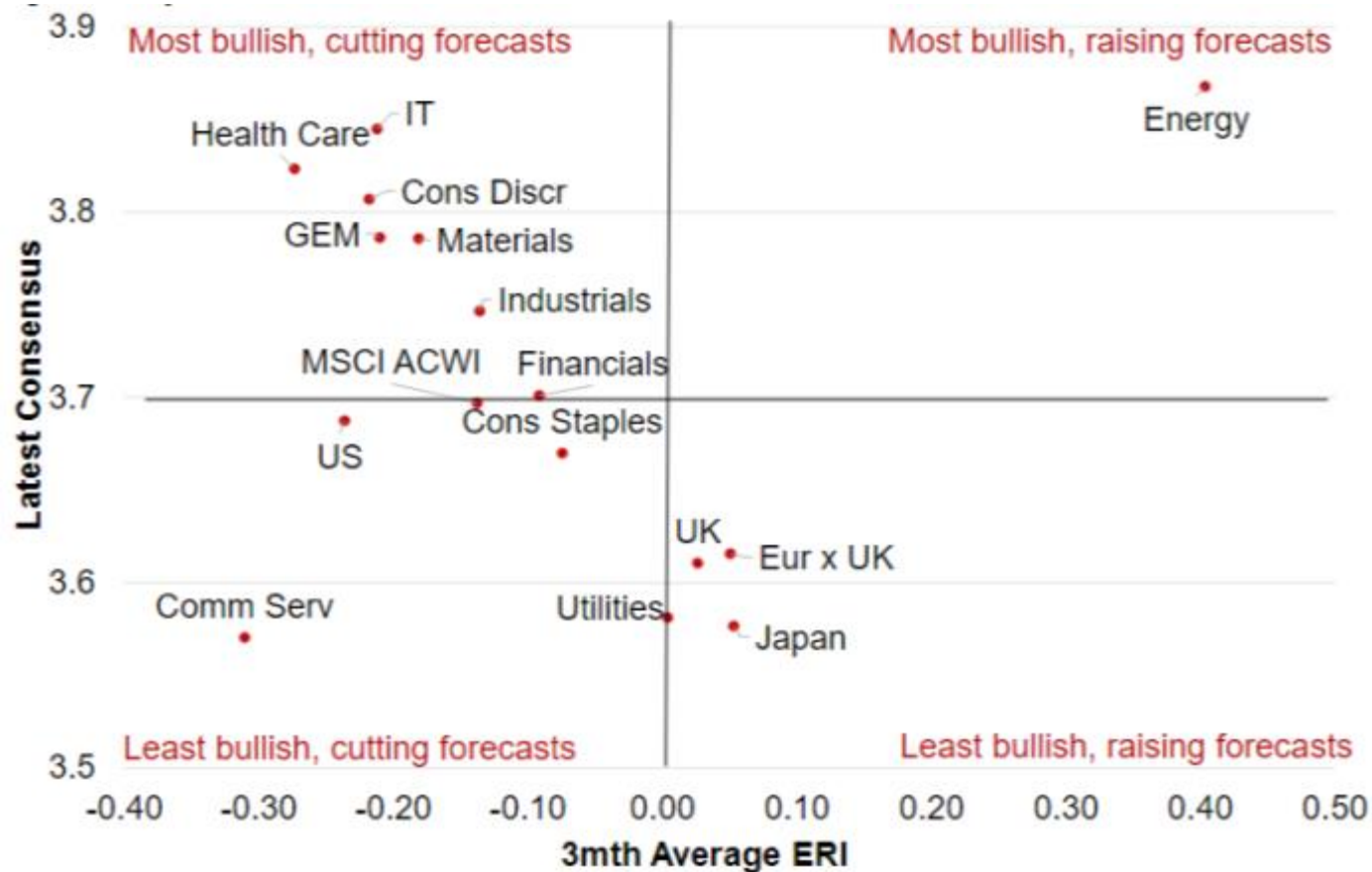
Correlation between S&P 500 and US 10Y yields is -0.5 so far in 2022 (Monthly obs)



Source: Bloomberg, August 2022

Many sectors will likely disappoint

Analysts have cut earnings forecasts but are lagging on downgrading recommendations



Source: Financial Times, August 2022

Flurry of M&A deals help lift biotech

Recent deal flow to provide some much-needed cash, to cash strapped biotech companies



Source: Bloomberg, August 2022

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Equities – Executive Summary

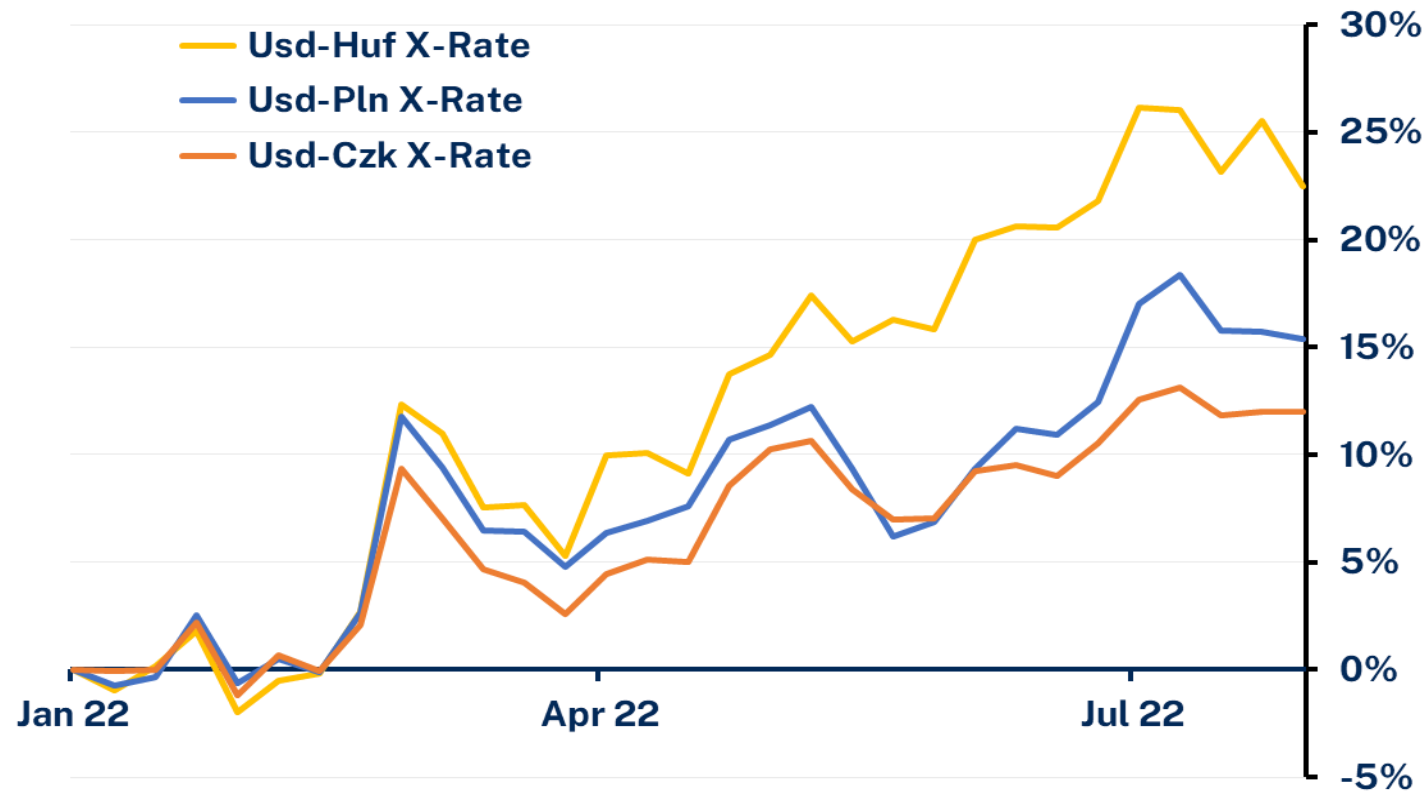
- Markets saw an increase in day-to-day volatility, primarily driven by the uncertainty related to the future of interest rates. The week started off with a flurry of **hawkish commentary from multiple FOMC members**, primarily trying to correct the market's opinion of the Fed signaling a pivot in its hawkish stance. **CPI numbers however came in lower than expected** which resulted in markets pricing in a 50bps rate hike for the September meeting, which is less than the 75bps that the market was previously working with.
- An **overly bearish view is not justified** given the (still supportive) global economic growth, significantly improved valuations, the prospect of cooling inflation later in 2022, and China reopening/policy support. In fact, this might be an **attractive entry point for growth equities** following the recent selloff and the likelihood that we are at “peak Fed hawkishness.”
- As the 2nd quarter earnings season continued, some major trends that emerged were, **cuts in guidance by major semiconductor companies like Nvidia and Micron**. Additionally, commentary from various consumer discretionary players, especially consumer electronics (mobiles, PC and gaming hardware) pointed towards a rapid slowdown in demand and roll back in guidance issued at the beginning of the year.

Forex, Commodities & Alternatives Highlights



Recession Signs for Eastern Europe Currencies

Traders are bearish on forint, zloty and koruna more than any other developing-nation currencies except the ruble and the Turkish Lira



Source: Bloomberg, August 2022

FX, Commodities & Alts – Executive Summary

- Retail Investors pulled record amounts of money out of commodity exchange traded products (ETPs) in July. About \$11.2bn was pulled from commodity ETPs globally, surpassing the combined outflows of \$9.7bn recorded in May and June and marking the third month in a row of net outflows, according to data from BlackRock. The previous record was set in April 2013 when investors withdrew \$9.5bn. However, Alessandro Sanos, global director of sales strategy and execution for Refinitiv, a data provider, said large investors were buying. “If you really want to go down the path to a low-carbon future, it will take decades to rewire the economy and the entire industrial complex as we know it,” he argued.
- Eastern Europe's main currencies are about to take another blow from a looming euro-area recession. Traders are more bearish on the forint, zloty and koruna than any other developing-nation currencies except the ruble and the Turkish lira. Others see the region suffering more than other emerging markets if the euro weakens.

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