Investment Playbook
Weekly Update

4th December – 8th December 2023

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

1

S&P 500: What To Expect Next Year?

"Too hot'' and "too cold" scenarios are negative for equities and together constitute 85% of outcomes

S&P 500 TARGET						
	FORWARD EPS GROWTH ESTIMATES					
FORWARD P/E	-10%	-5%	0%	5%	10%	15%
14	3091	3262	3434	3606	3778	3949
15	3312	3496	3680	3863	4047	4231
16	**3532**	3729	3925	4121	4317	4514
17	3753	**3962**	**4170**	4379	4587	4796
18	3974	4195	**4415**	**4636**	**4857**	**5078**
19	4195	4428	4661	4894	5127	5360
20	4415	4661	4906	5151	5397	5642

Source: BCA Research, December 2023

In 2024 the market will reprice the probabilities of the three potential economic outcomes.

- Doomsday (60% probability): Tight monetary policy exerts pain on businesses and consumers, and the recession is imminent. The price target is 3,500-3,950.
- "No landing" (25% probability): Interest rates will stay elevated if growth or inflation surprises on the upside. The Fed will maintain a hawkish stance. The price target is 3,050-3,500.
- Soft landing (15% probability): Disinflationary trends continue while growth remains strong. The Fed also succeeds in staving off a recession. The price target is 4,850 to 5,100.

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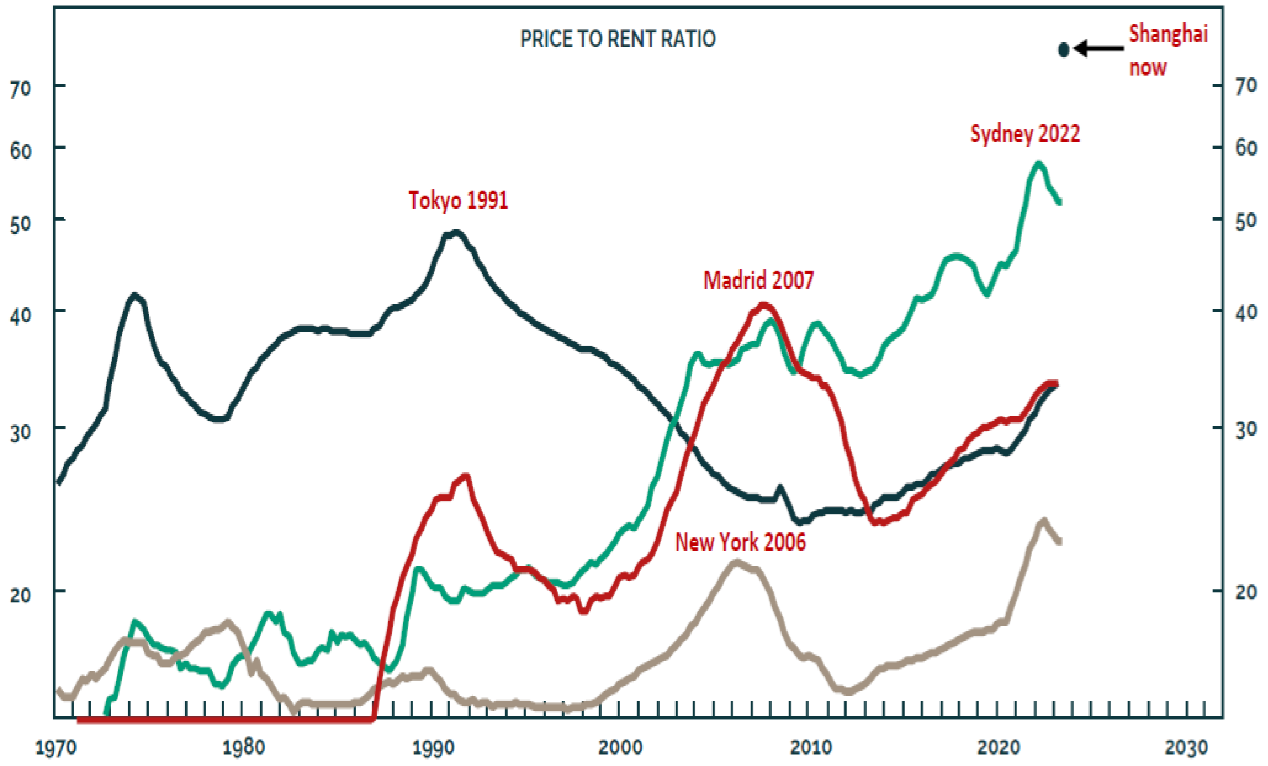
China's Housing Bubble Is The Biggest In History

Economic conditions suggest that a resurgence in Chinese equity markets is unlikely

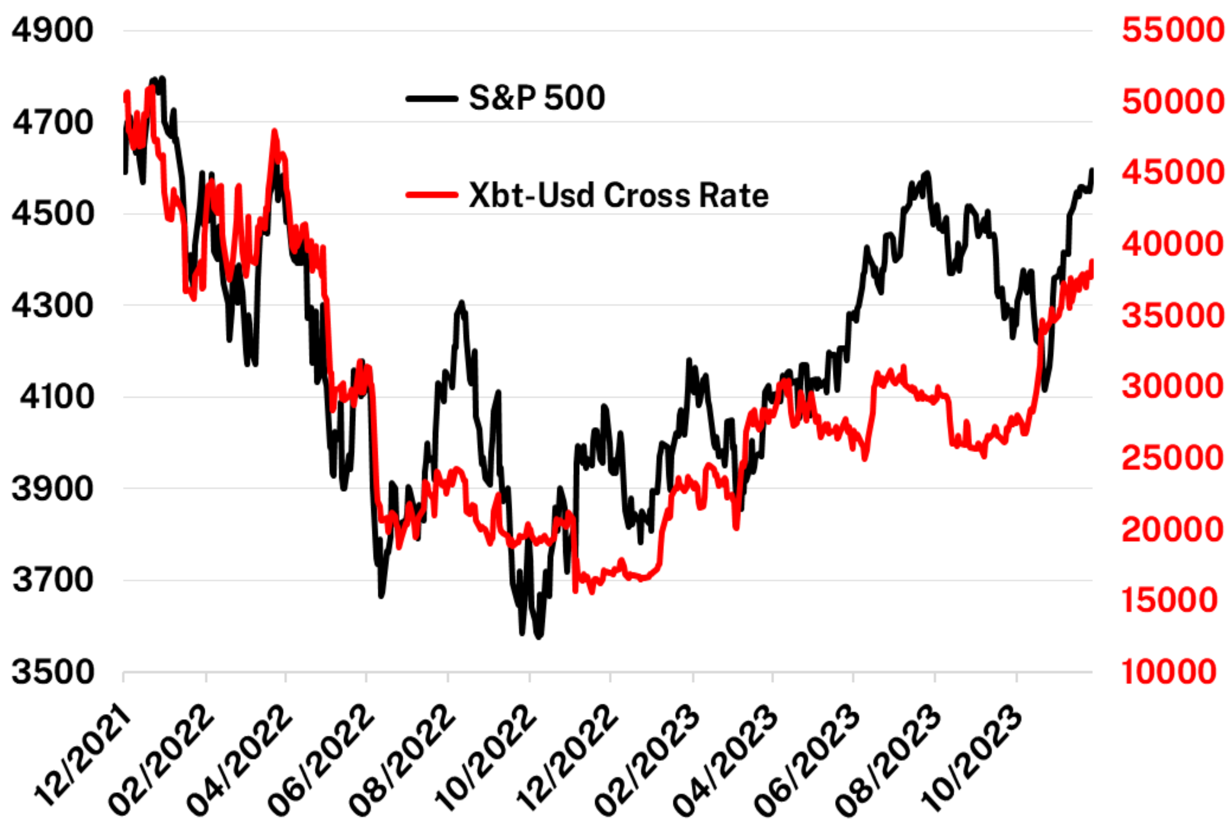


Source: BCA Research, December 2023

- BCA Research highlights that major cities in China are experiencing a significant real estate bubble, as evidenced by price-to-rent ratios exceeding 70 times. This results in rental yields of less than 1.5%, a figure lower than those observed in previous property market bubbles in cities like Tokyo, Sydney, New York, and Madrid.
- The PMI surprisingly indicated an expansion in manufacturing activity last month, surpassing the critical 50-point mark that distinguishes growth from contraction. It reached a three-month peak of 50.7, defying expectations of it remaining largely static at 49.5. However, this positive development does not signal a recovery in China's economy, which appears to have stabilized at a modest growth rate.

Time To Revisit Cryptos?

Rolling 6m correlation between Bitcoin and S&P 500 has dropped from 0.8 (Sep. 22) to 0.2 (Nov. 23)



Source: Forteus, CoinGecko, December 2023

- Cryptocurrencies have performed well this year (Bitcoin +129% YTD), showing reduced correlation with traditional risk assets like the S&P 500. Major global asset managers, such as Blackrock, Fidelity, and Invesco, are demonstrating confidence in the sector by preparing to launch ETFs, potentially attracting substantial institutional investment. The cryptocurrency space has been underutilized by both institutional and retail investors since the FTX incident a year ago, leading to light investor positioning. However, there is a resurgence in activity, with increasing trading volumes and prices, and anticipation for the next Bitcoin halving in April 2024. Advancements in technology suggest a potential increase in trading activity and price trends for cryptocurrencies going forward.

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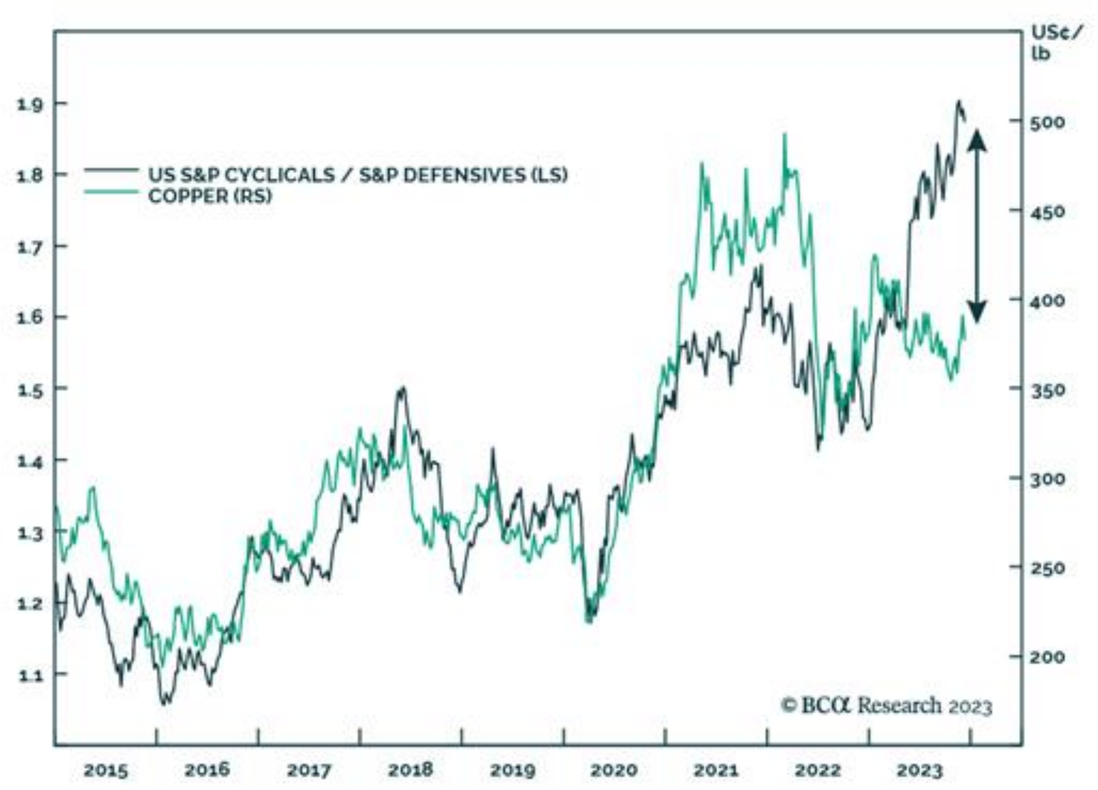
Copper Is Sending A Warning To Cyclicals

Cyclicals are vulnerable to the downside over a 12-month horizon



Source: BCA Research, December 2023

- The red metal has vast applications across many economic sectors, it is considered a reliable gauge of global economic conditions. Copper's recent rally coincides with favourable economic developments including rising economic surprise indices in the Euro Area and China.
- However, this recent trend follows a breakdown in the relationship this year whereby cyclicals have outperformed defensives despite the year-to-date decline in copper prices. BCA Research expects this divergence to be corrected with a deterioration in the relative performance of cyclicals/defensives as economic conditions worsen and it becomes clear that the US economy is heading towards recession in 2024.

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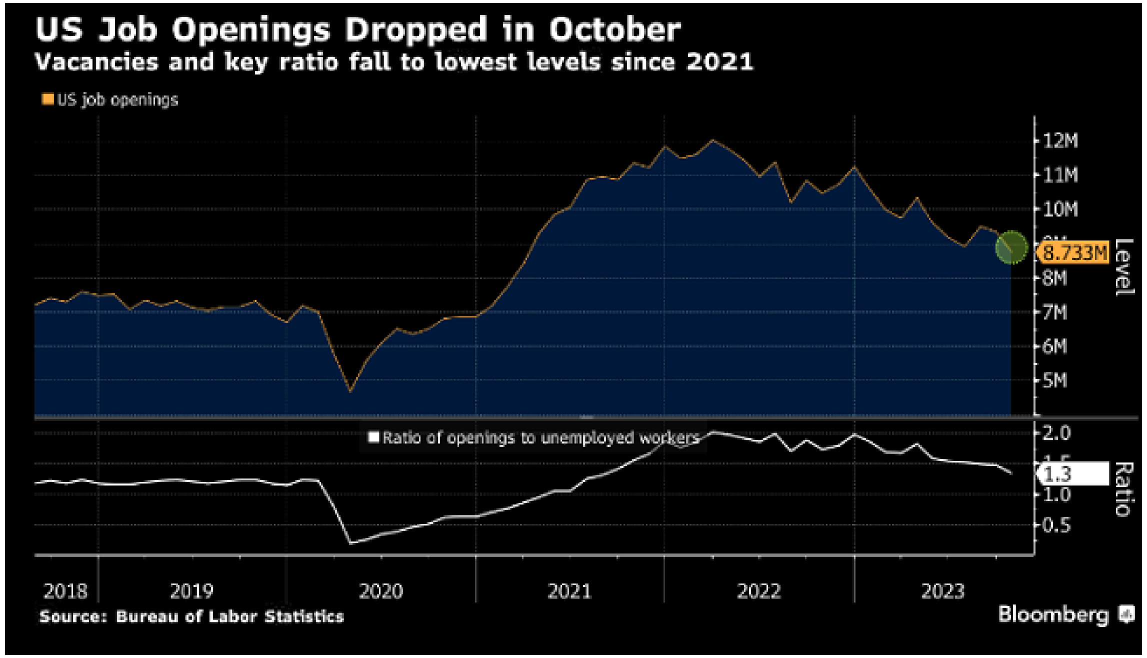
US Job Openings Fall To Lowest Since 2021

Labor Market Cools

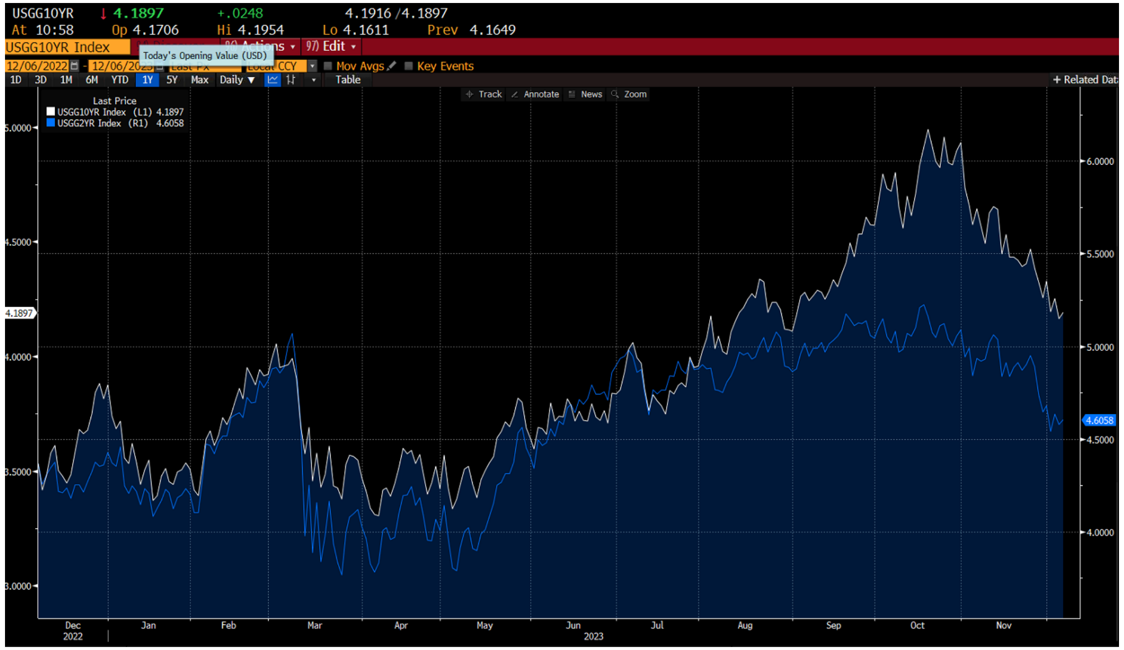


- US job openings slumped in October to the lowest level since March 2021, adding to evidence that the labor market is cooling.
- Available positions decreased to 8.7 million from a downwardly revised 9.4 million in the prior month. Hiring edged lower. Layoffs were little changed.
- With employers scaling back hiring and wage growth decelerating, it's unclear how much longer the job market will underpin strong consumer spending.
- Treasury yields fell after the release.

 Source: Bloomberg, December 2023

Treasury Yields Remain Elevated After Nov Boom

Investors Can Still Lock In Yields Well Above 4%



- A torrid bond-market rally shows traders are convinced the Federal Reserve's rate-rising cycle is over.
- Even after a 60 basis-point drop last month, benchmark Treasury yields remain notably above the lows set earlier this year, when recession fears were fanned by US bank failures.
- There is a sense that yields have peaked for the cycle, and that softening data will at some point compel a chunk of the near $6 trillion of record cash sitting in money market funds into longer-dated Treasury yields above 4%.
- For investors who did not have any bonds or have limited bonds in their portfolio, now is still a good time to add.

 Source: Bloomberg, December 2023

LC Views - Summary

2

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LC Views Summary (1/2)

Sub-Asset	Recommended Positioning
Rates	• In a speech in Atlanta last Friday, the Fed chief signaled that policymakers expect to leave interest rates steady when they meet Dec. 12-13, giving themselves more time to evaluate the economy after raising rates aggressively from near zero in March 2022 to above 5% in July. • On Tuesday, US job openings slumped in October to the lowest level since March 2021, adding to evidence that the labor market is cooling. This further re-emphasized that Federal Reserve officials are expected to leave interest rates unchanged when they meet next week and according to futures, investors expect rate cuts to begin as soon as March.
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 have witnessed a remarkable resurgence this month, propelled by the plummeting interest rates. To illustrate this point, the yield on a 10-year US government bond, which stood at 5% on October 23rd, has now dipped to 4.4%. This substantial shift, a 50-basis-point drop over just two weeks, has been a pivotal factor behind the S&P 500 index's impressive 10.7% rebound since October 27th, and the VIX volatility index has plunged below 13, signalling a remarkable lack of anxiety among equity investors.However, we hold the view that this resurgence may be transitory: Equities continue to appear less enticing than bonds, particularly in the context of a potential US recession looming next year (with a 55% likelihood, as per the Federal Reserve's assessment). • The current valuation of equities raises concerns on multiple fronts: Historically, with a forward price-to-earnings (P/E) ratio of 19x, investors may confront limited opportunities for substantial returns over the next 12 months. • More critically, when contrasted with bonds and cash, equities appear less attractive. For instance, the disparity between the yield on 3-month US Treasuries and the dividend yield of the S&P 500 has expanded significantly, reaching 400 basis points. Such notable differentials were last observed in 2000 and 2007, both instances that foreshadowed major equity downturns. • Given the ambiguous outlook for equities in the coming year, their lofty valuations, and their unfavourable standing compared to cash and bonds, we recommend underweighting equities in portfolios.

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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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