Investment Playbook Weekly Update

August 5th – August 9th 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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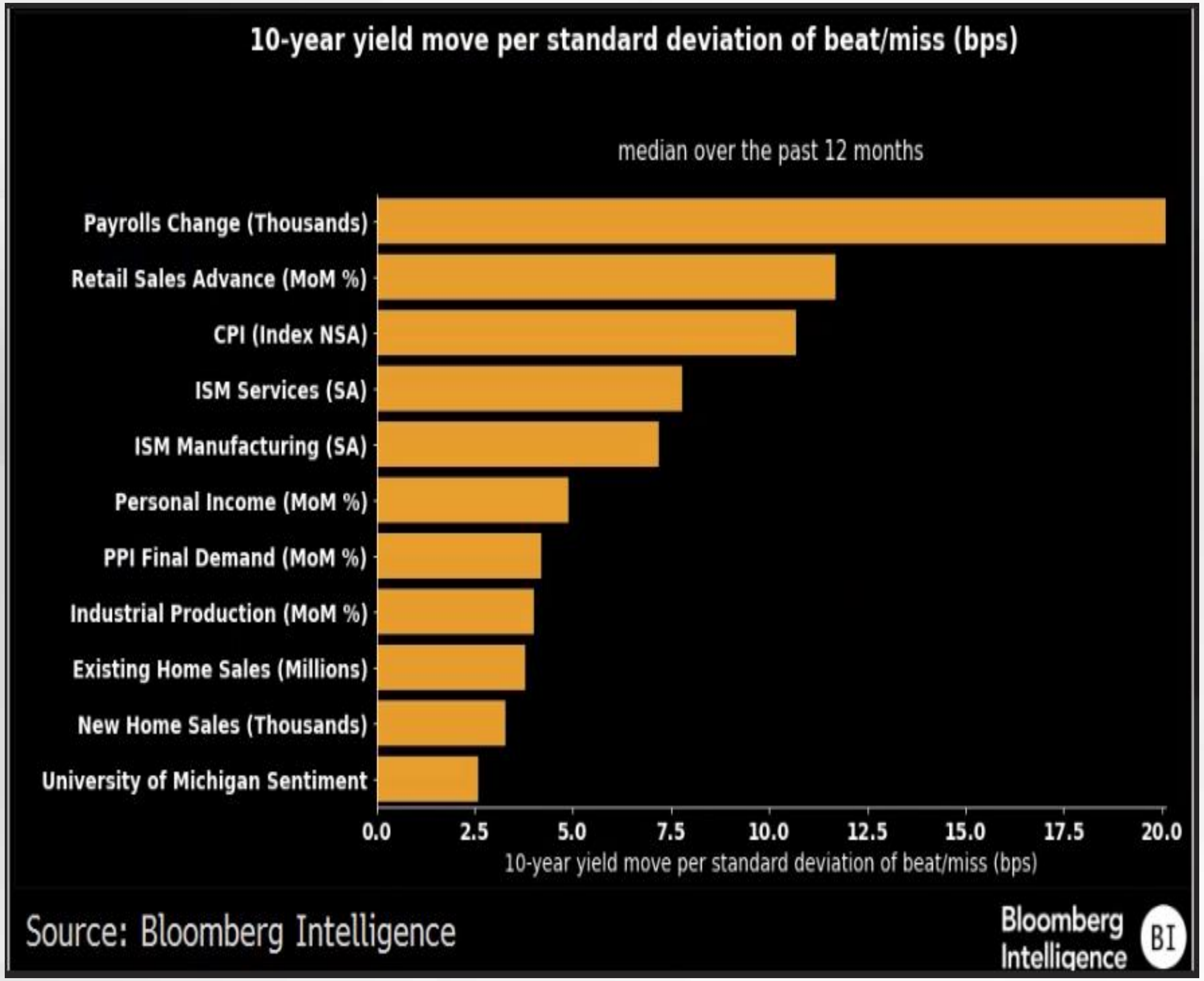
What moves the US Treasury?

It is most sensitive to Non-Farm payrolls



- In last 12 months, US treasury (10Y UST) moved by 20 bps per standard deviation of NFP beat/miss. Most sensitive.
- Not a surprise since the US economy is consumption driven and hence labor market health has a strong influence on US GDP .
- Retail sales MoM% is what moves the UST next again in line with the consumption dominance of the US GDP construct.

Source: Bloomberg, August 2024

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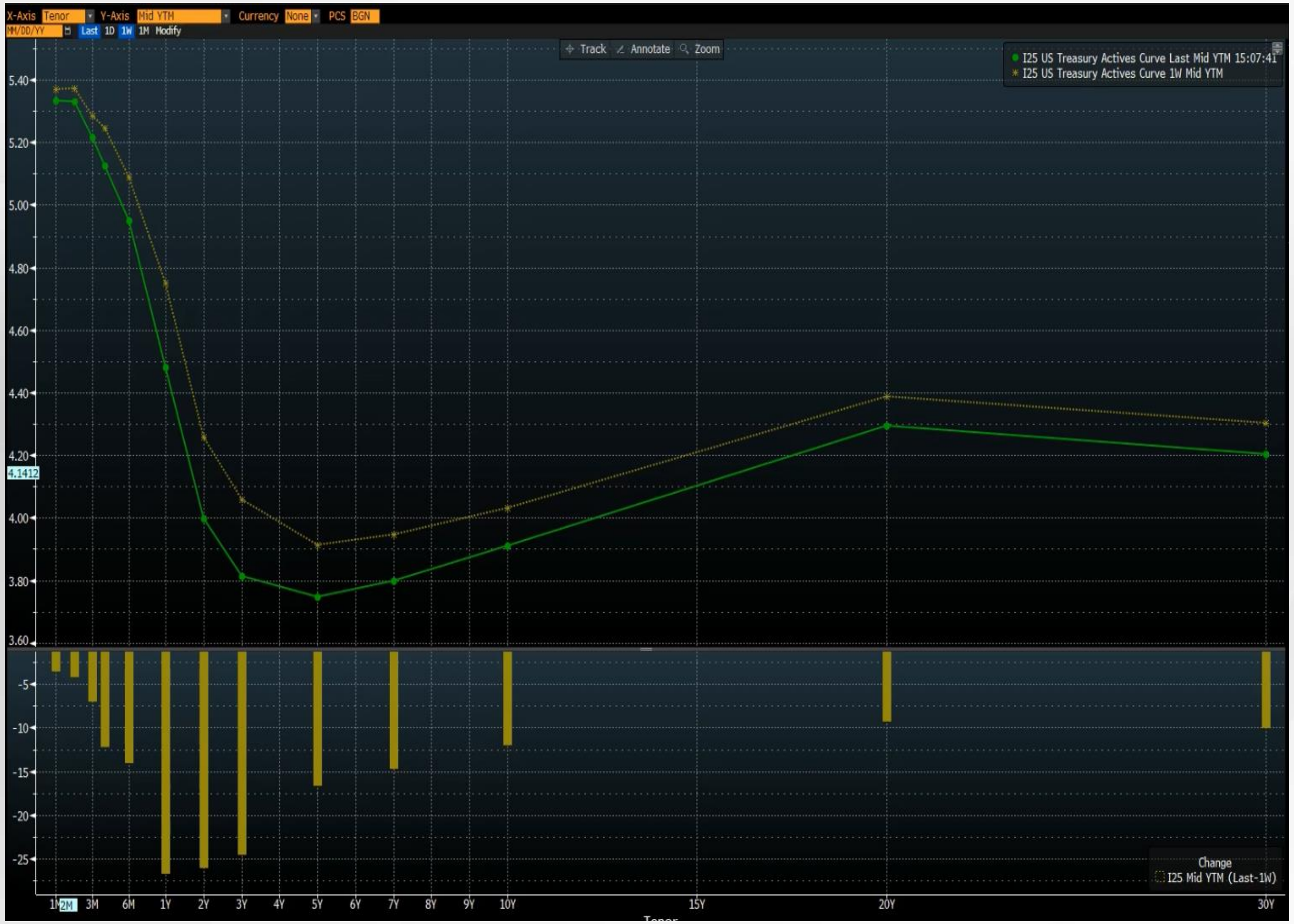
Volatility in the Bond Market

Weaker than expected payrolls data stoke recession fears in US



- Last week saw unprecedented weekly moves in the bond market with the treasury curve steepening (as seen in the chart).
- Yields plummeted across tenors with 1Y and 2Y yields falling by 25 bps and the 20Y and the 30 Y almost 10 bps last week driven by expectations of aggressive cuts by Fed to counter a slowing economy.
- This was driven by weaker than expected NFP numbers reported for Jul driving unemployment up to 4.3%, a sharp spike from the 3.7% early this year.

Source: Bloomberg, August 2024

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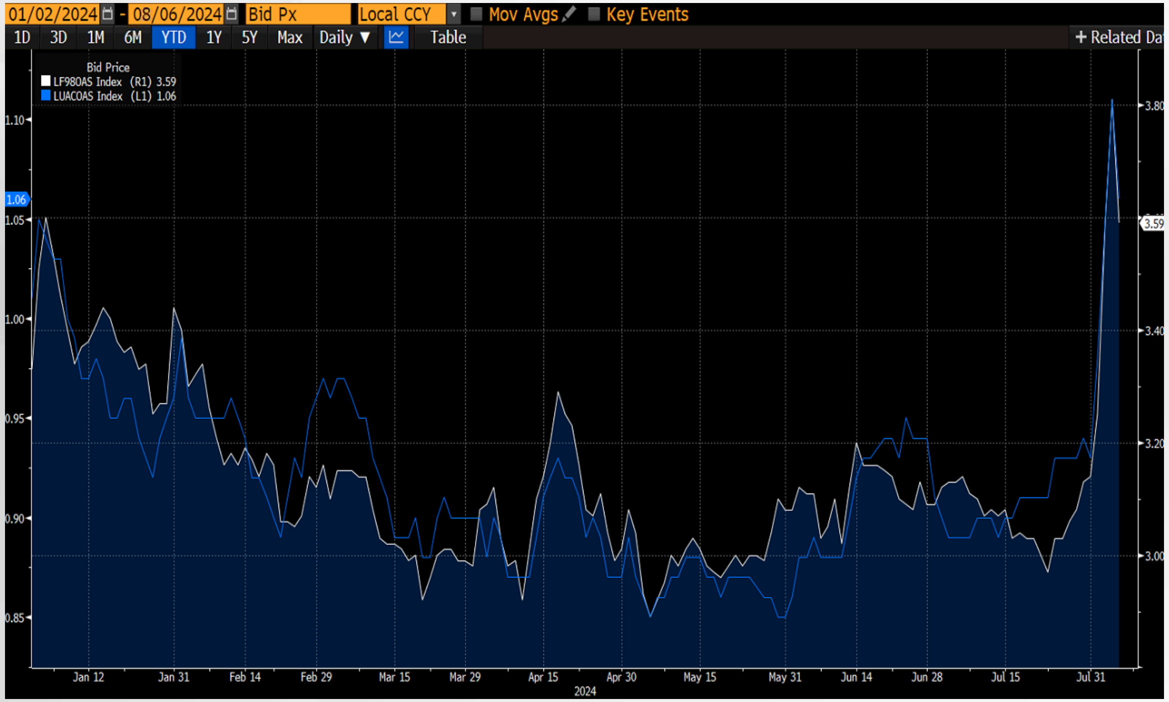
Credit Spreads Widening Caused By Recession Fears

Quality Bonds Should Form The Foundation Of Any Portfolio



- Bloomberg US Corporate High Yield Average Option-adjusted spreads (OAS) represented by the white line and Bloomberg US Corporate Investment Grade Average OAS represented by the blue line, both saw significant widening in the first 5 days of August.

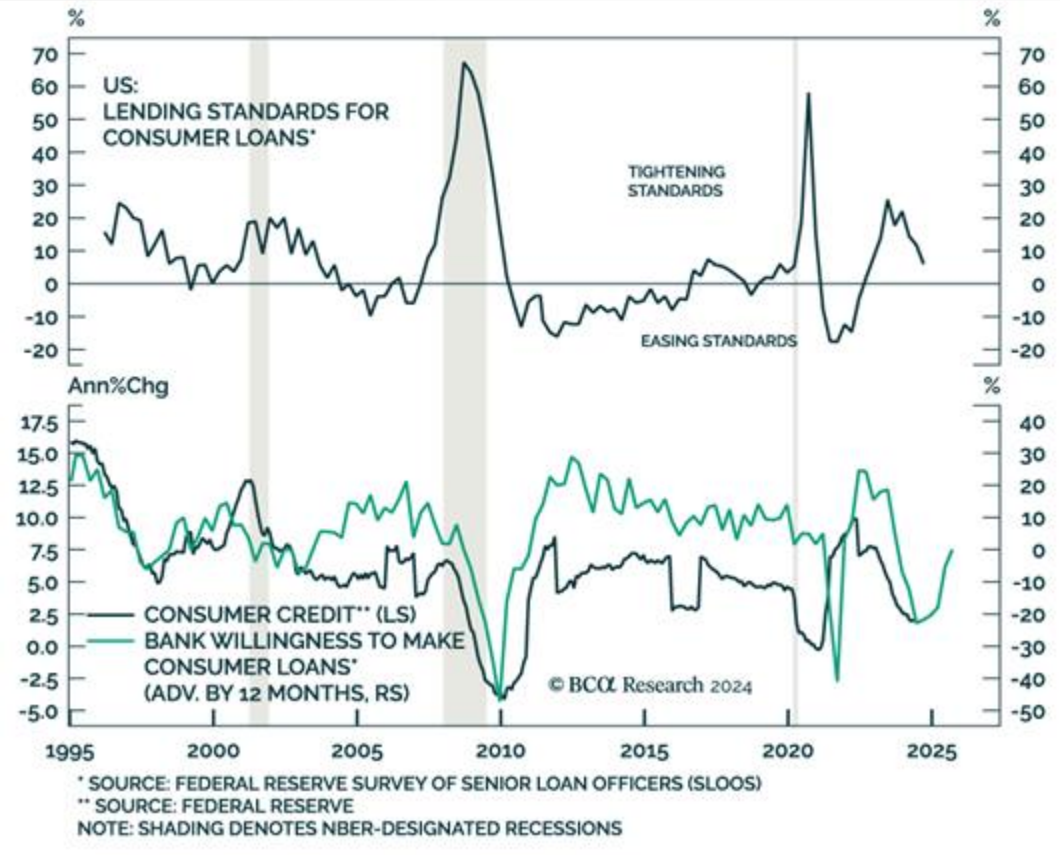
- This was due to the fear of a recession triggered by July non-farm payroll numbers and higher than expected unemployment rate.

- We advise investors to focus on high-quality bonds in anticipation of a potential recession

Source: Bloomberg, August 2024

Banks Tightened Lending Standards In Q2

Consistent With Continued Softening Economic Conditions



- Lending standards continued to tighten for most loan categories in Q2, according to the Senior Loan Officer Survey (SLOOS).
- US banks reported tightening lending standards to businesses and all commercial real estate (CRE) categories. They kept standards mostly unchanged compared to Q1 for real estate-backed loans to households and for auto loans but reported tightening standards for credit cards and other consumer loans.
- The takeaways of the SLOOS are therefore consistent with continued softening economic conditions.

 Source: BCA, August 2024

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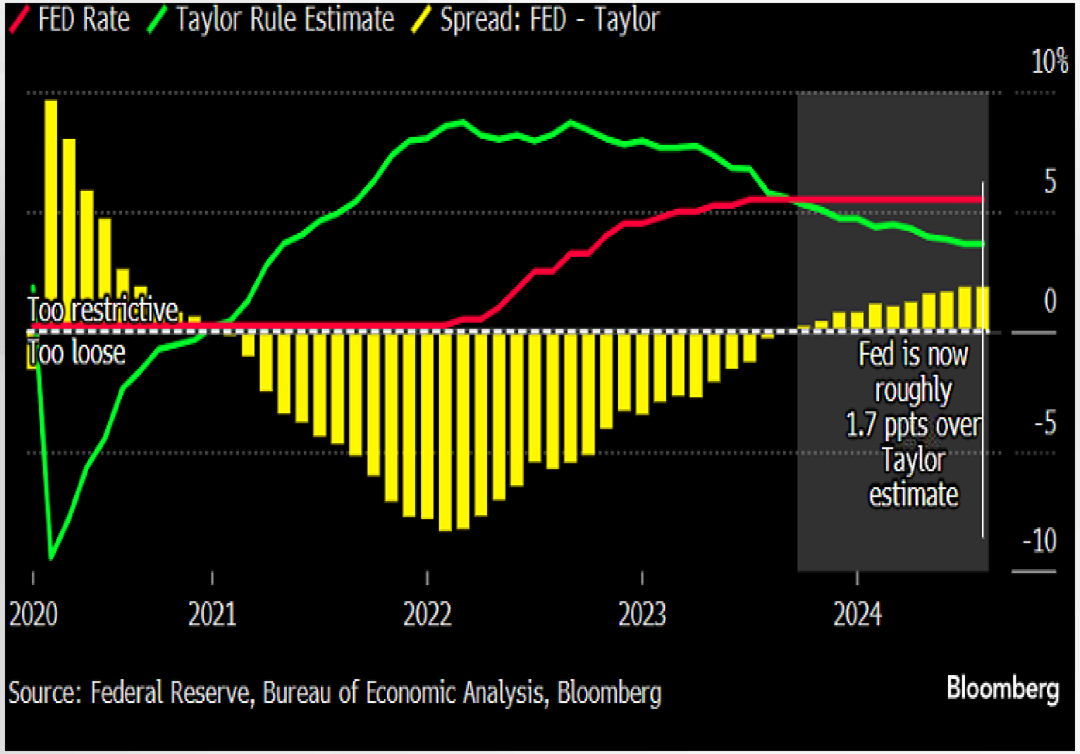
Taylor Rule Says Fed Now 7 Rate Cuts Behind The Curve

Model Using Fed Estimates Suggests Key Rate Almost 170bps Too High



- The Taylor Rule is a monetary policy guideline for setting interest rates based on economic conditions. It was proposed by economist John B. Taylor in 1993 as a way to provide a systematic and transparent approach to central banking. The rule aims to stabilize the economy by adjusting interest rates in response to deviations from target inflation rates and output gaps.

- According to the model using fed estimates, the key rate is almost 170bps higher than where it should be.

Source: Bloomberg, August 2024

Japanese Stocks Get Severely Repriced

Volatility Hits Japanese Stocks Amid Yen Carry Trade Unwind

- Over the last few days, Japanese stocks have experienced significant volatility. A key factor has been the unwinding of the yen carry trade, where investors borrow yen at low-interest rates to invest in higher-yielding assets.
- As global interest rates rise, this strategy becomes less attractive, prompting investors to sell off Japanese assets to repay yen-denominated loans. Additionally, concerns over global economic slowdown and trade tensions have contributed to market jitters. These factors have led to increased selling pressure on Japanese equities, causing notable declines.

Source: Bloomberg, August 2024

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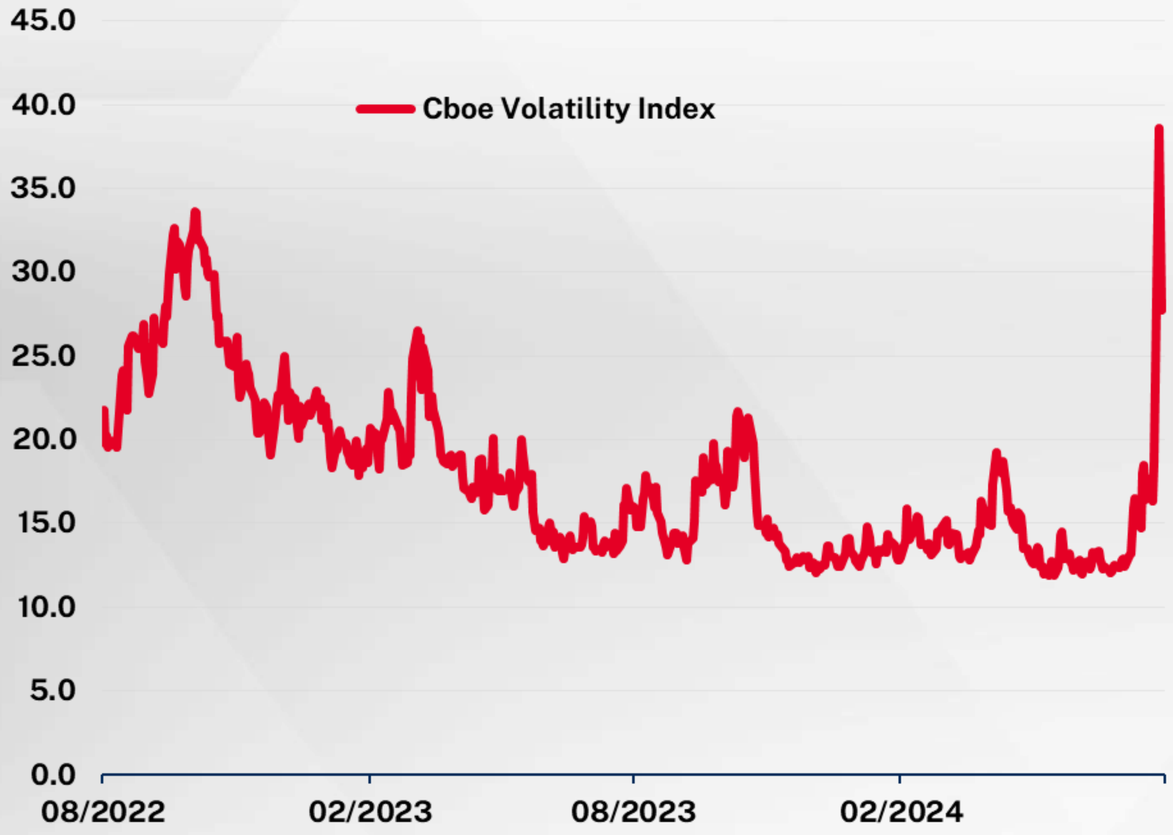
Complacency Is Over

Surge in VIX Reflects Rising Market Uncertainty and Investor Anxiety



- The VIX index, often referred to as the "fear gauge," has spiked recently due to escalating market uncertainty and volatility. First, concerns over a potential global economic slowdown have intensified, fueled by mixed economic data and ongoing geopolitical tensions. Second, earnings reports from major companies have been mixed, adding to market unease. Additionally, the unwinding of leveraged positions and increased demand for portfolio hedging have amplified market swings.
- This combination of factors has driven the VIX higher, reflecting heightened investor concern and a shift towards risk aversion in the market.

Source: Bloomberg, August 2024

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LC Views - Summary

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LC Views Summary (1/3)

Sub-Asset	Recommended Positioning
Rates	• Treasury yields tumbled after benign jobs data stoked recession fears with markets anticipating that the Federal Reserve will be forced to cut interest rates aggressively than estimated to save the economy from sinking into recession. Most rates slid to their lowest since March, with those on two-year debt — more sensitive than longer maturities to changes in the Fed's policy outlook — sinking as much as 25 basis points last Friday to 3.88%. The odds of a 50 bps September rate cut is back into the fray after the data. The 10-year Treasury yield, which peaked above 5% last year after 11 Fed rate increases, fell sharply to lows of 3.7893% the same day. Treasury yield curve saw sharp steepening with 2s10s touch –ve 1bp intraday on Friday before normalizing at present levels of –ve 8bps (at the time of writing this). • This week, Fed Chair Jerome Powell hinted at downside risks to labor market and "implicitly" indicated Sept rate cut . During the Q&A session Powell mentioned " zero to several rate cuts" as well leading to markets anticipating almost 100 bps of cuts in 2024. The Fed has a dual mandate of seeking full employment and price stability in the US 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 <5% 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.

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LC Views Summary (2/3)

Sub-Asset	Recommended Positioning
Equities	• The risk off trade continued this week in the equity markets, with Monday specifically being a bad day, followed up with a relief rally on Tuesday. This kind of price action is typical of a bear market, where any rally in the market is used by investors as a selling opportunity. While earnings have been solid, they have not been good enough to cross the high bar that was set for them this quarter and due to this many names have seen heavy selling pressure post reporting earnings. • 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 22.9x and the Tech sector (S5INFT) at 32.1x. There has been significant sectoral rotation favoring small and mid-cap stocks. The Russell 2000 (RTY) versus S&P 500 (SPX) five-day return hit a record high of +10%. Retail investors have been notably active, with net demand for the iShares Russell 2000 ETF (IWM) exceeding $1 billion a few weeks back, the highest since 2016. The rolling one-week IWM Call/Put ratio had reached 1.4x in the last couple of weeks of July, showing a preference for participating in the upside rather than hedging. Retail investors, driven by fear of missing out (FOMO), are known to enter the market at the end of a bull run and going by what we have seen over the last few trading sessions, this time seems no different. • Almost all of the S&P 500 constituents (439/500) have reported numbers for the 2nd quarter and here's how they have stacked up till now : Sales have grown by 4.9% YoY while earnings have increased by 8.7% on a YoY basis. Till now about 78% of the companies have surpassed analyst estimates delivering a positive earnings surprise of about 3.3%, which is quite 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, the recent spike in the volatility levels provide an opportunity to short volatility in the form of writing put options on high quality stocks that one would be happy to take delivery of, 10-15% below current spot. FCNs can also be utilized for the same, given that the structure allows the investor to take a short volatility view on the stocks used as underlyings and the call option built into the structure provides the investor with a higher yield, compared to exchange traded put options.

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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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