Investment Playbook Weekly Update

April 1st – 5th 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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Treasury Yields Extend Climb

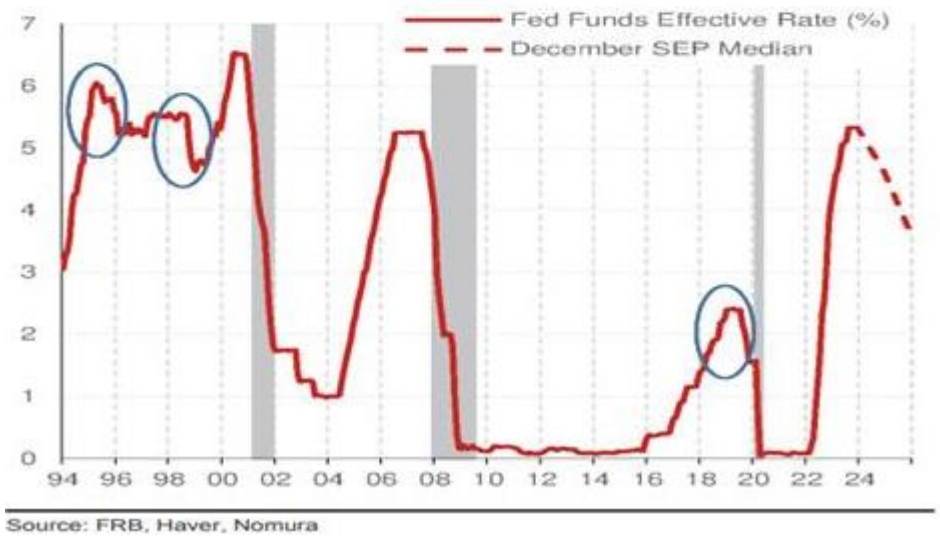
Strong ISM Factory Gauges

- Treasury yields surged at least 10 bps, for 5- to 30-year Treasuries, on Monday as US ISM manufacturing rose unexpectedly to 50.3 in March (est. 48.3, vs. 47.8 in February), halting 16 straight months of shrinking activity, indicating a sign of revival for US manufacturers.
- In addition, last Friday's developments included personal income and spending data for February showing that consumption remains strong while progress toward lower inflation has stalled.
- After the ISM readings the amount of Fed easing priced into swap contracts for this year ebbed to less than 70 basis points.
- The resilience of the US economy enables the Fed to be patient and for the bond market, that means rates may stay "higher for longer" and hence, we recommend to stay neutral on duration.

Source: Bloomberg, April 2024

Pace And Magnitude of Rate Cuts Likely Limited

In The Absence Of Prominent Financial Stability Risks



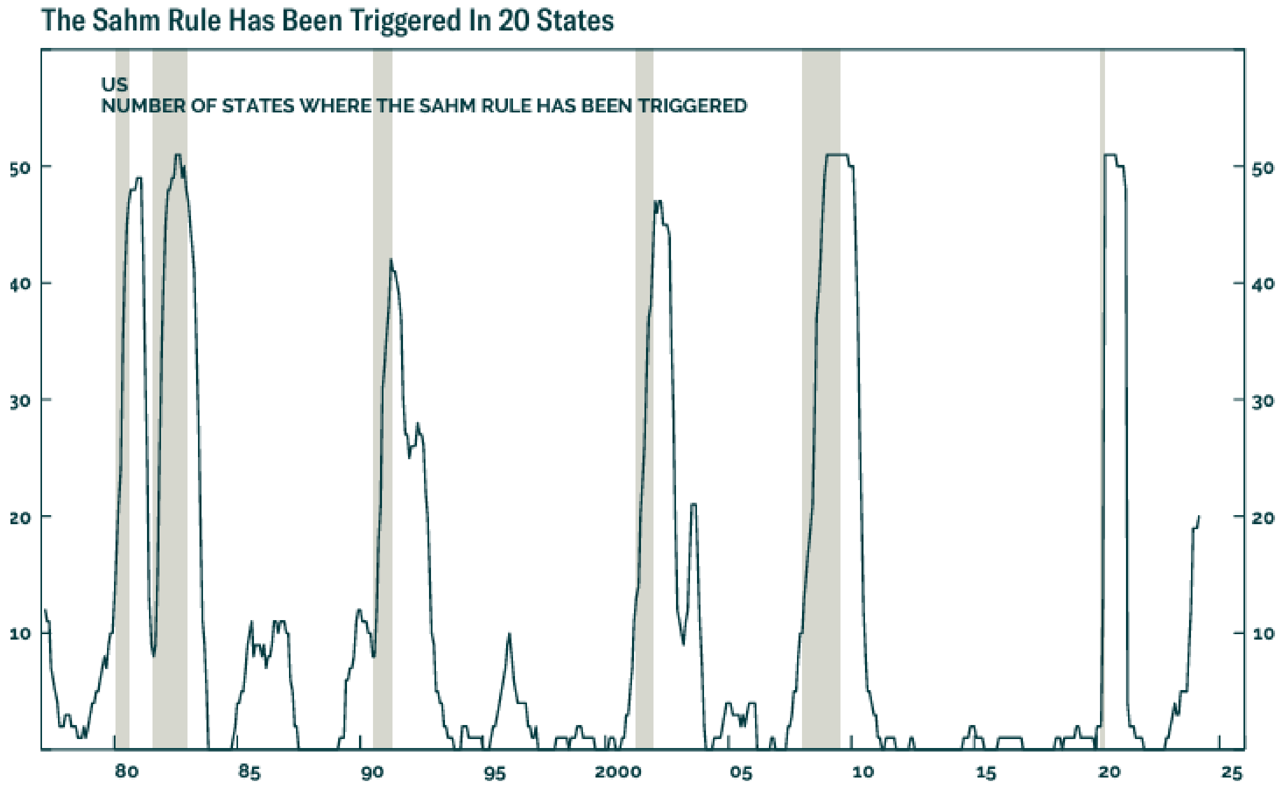
- In the past, rate cuts outside recessions have been limited, and were often preceded by financial stress. Since rate decisions were made public in 1994, there have only been three instances of non-recessionary rate cuts, in 1995, 1998, and 2019 — following the Mexican peso crisis, LTCM, and QT-related money market stress. In each case, there was only 75bp of cumulative easing.

- Without salient financial stability risks, the pace and magnitude of pre-emptive rate cuts will likely be limited.

Source: Nomura, April 2024

The Sahm Rule Has Been Triggered In 20 States

A recession is probable in the coming months

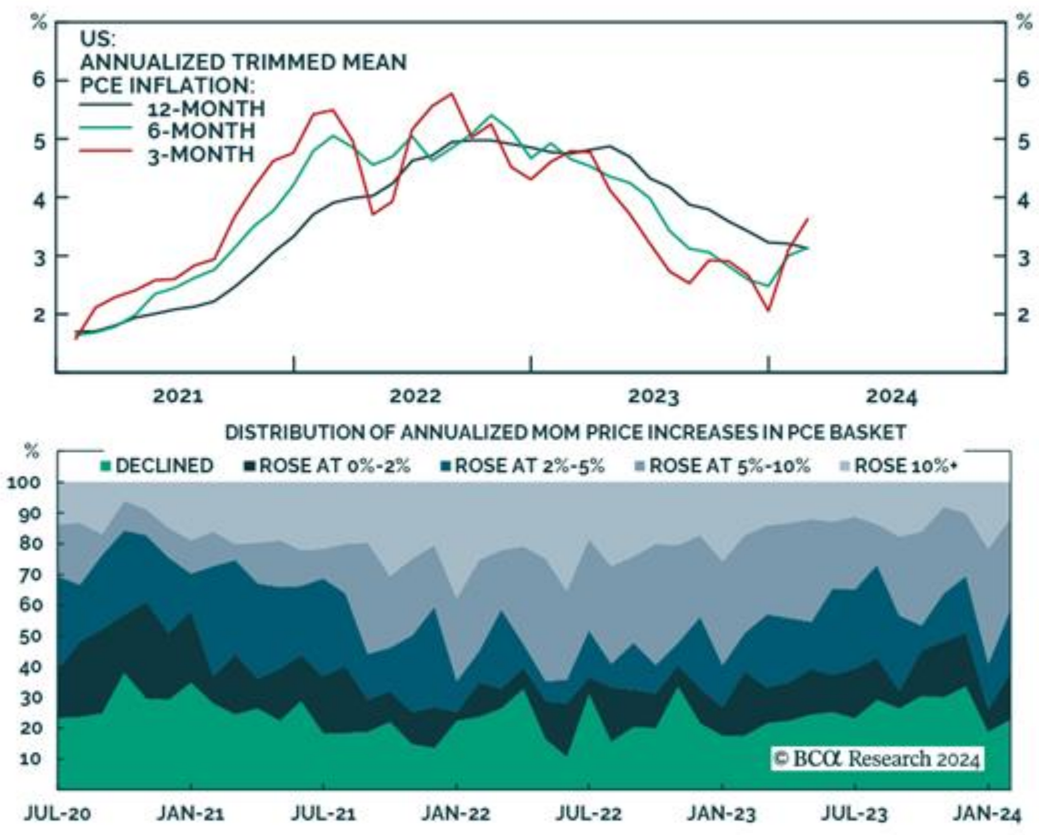


- The Sahm rule, named after former Fed official Claudia Sahm, is triggered whenever the 3-month moving average of the unemployment rate increases by more than 50 bps from its low over the prior 12 months.
- If history is any guide, the state-level Sahm rule does a good job of predicting the direction of the economy (recession periods are highlighted in grey in the chart).
- In February, the number of states that have triggered the Sahm rule rose to 20, signaling a bearish trend according to BCA Research.

Source: BCA Research, April 2024

Disinflation Is Abating

Stickier inflation may prevent rate cuts and therefore have an impact across all asset classes

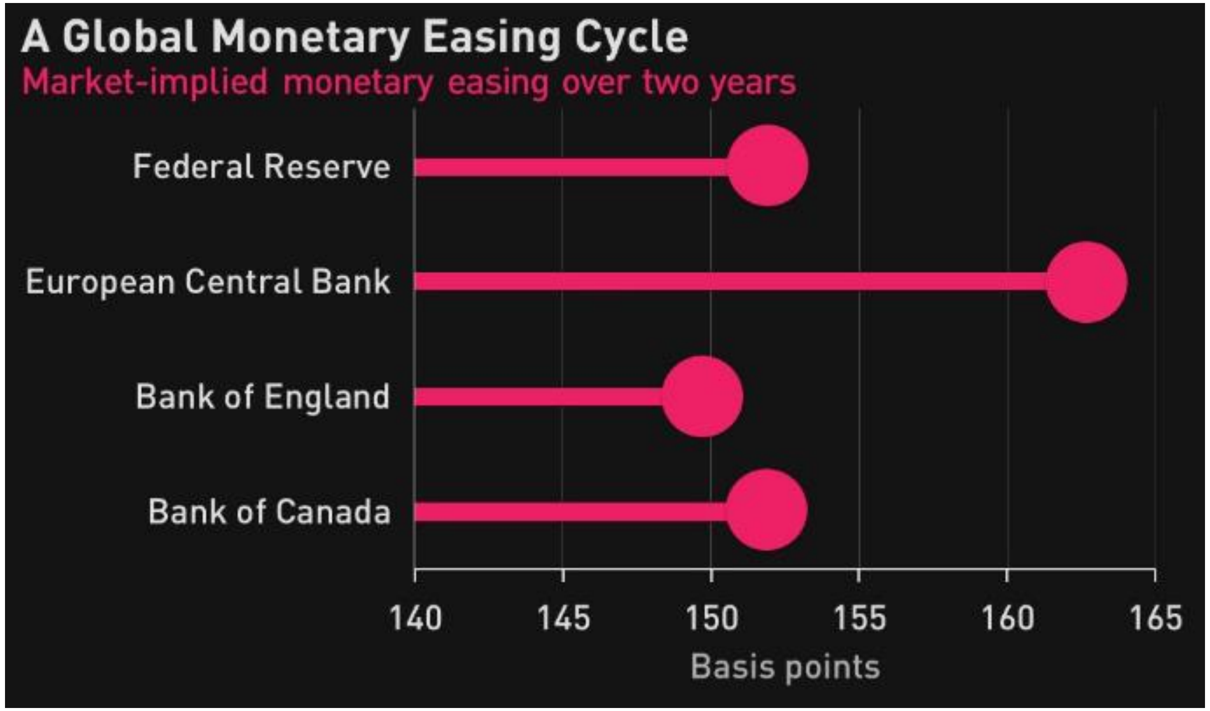


- The Dallas Fed's trimmed mean PCE inflation rate for February, which excludes extreme values from the PCE basket, suggests a moderate rise in inflationary pressures.
- Both the 3-month and 6-month rates of change indicate a potential resurgence in inflation. However, it's uncertain whether this uptick is temporary or marks the beginning of a sustained trend.
- Nonetheless, there's a heightened risk of inflation accelerating, prompting caution in asset allocation decisions.

Source: BCA Research, April 2024

Rate cut expectations – What is currently priced in

Extending duration and locking in higher yields is our recommended positioning at this point of time

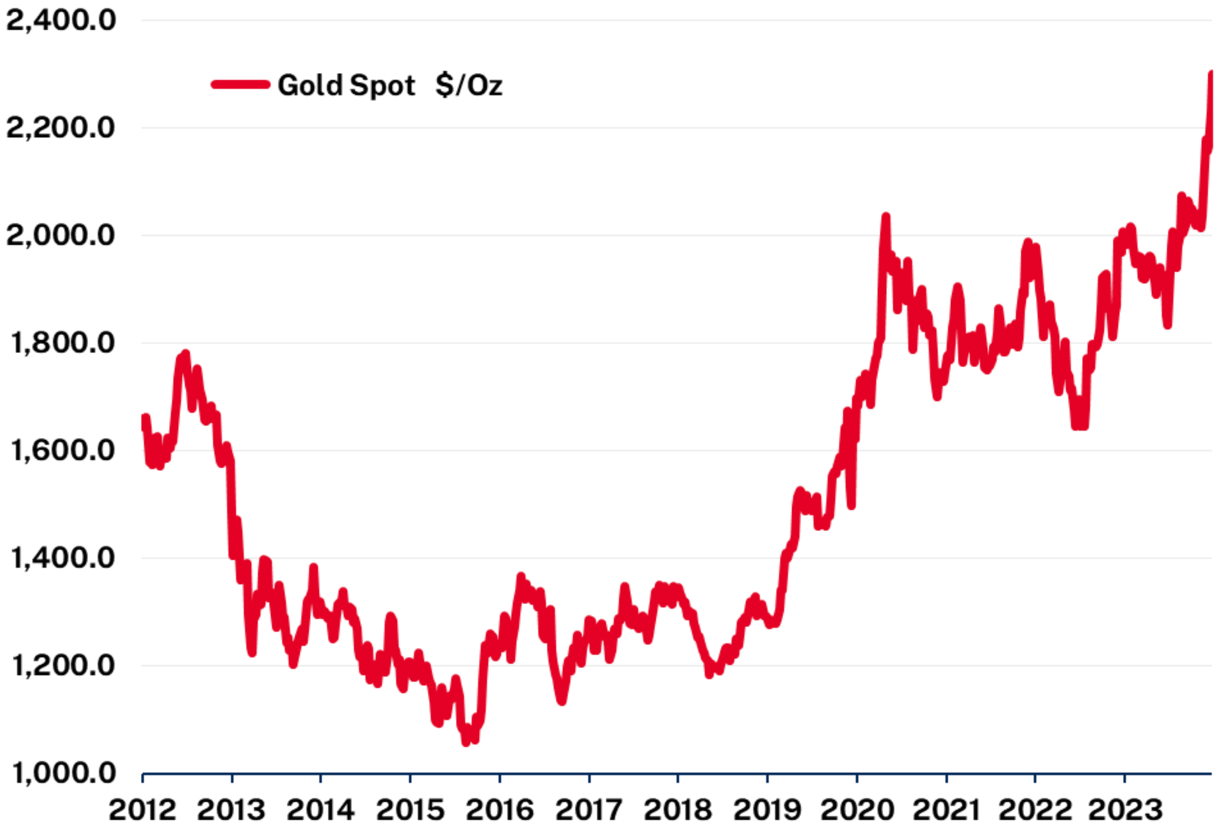


- Fixed income investors expect an average 155 basis points rate cut over the next 24 months across the central banks of developed countries, with the ECB expected to be the most aggressive with a cut of 165 basis points.
- We reiterate our view to hold bonds with a duration of up to 10 years. Indeed, in a decreasing rate environment, it is important to lock in yield for longer as the price of such bonds is likely to rise once key rates are progressively revised lower.
- We recommend sticking to high-quality bonds when extending duration and keeping your high-yield exposure with a lower duration than the high-grade bonds.

Source: Bloomberg, April 2024

Gold Hits Record High Level

Add gold to your portfolio with downside protection



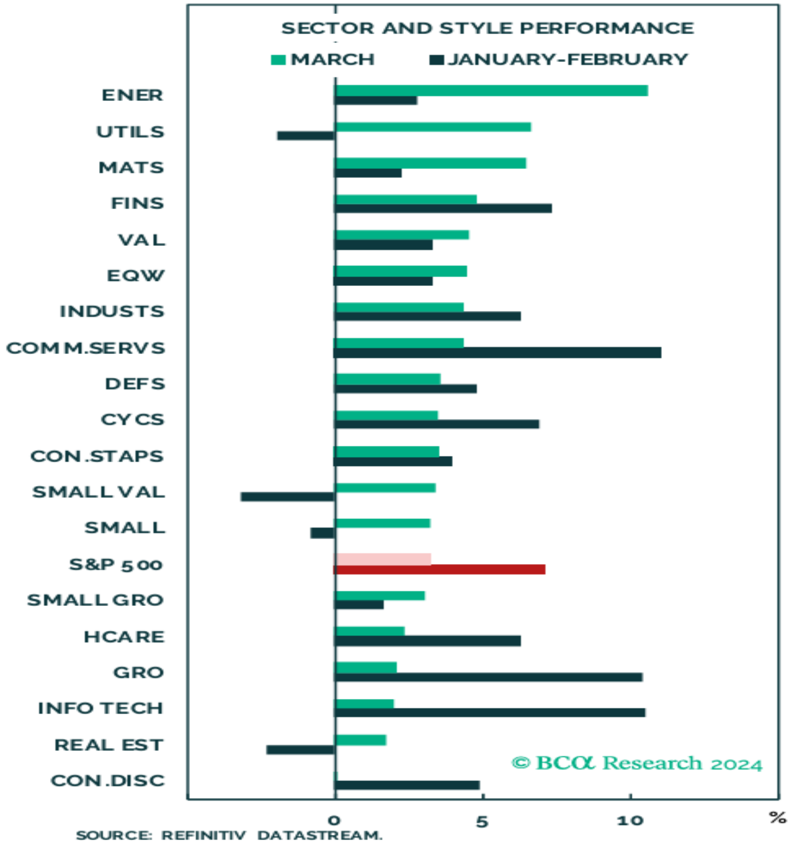
- Gold has reached $2300 for the first time in history, supported by persistent inflation, mixed economic data, and a gloomy geopolitical landscape.
- We reiterate our recommendation to hold 3-5% of gold in a defensive portfolio. Additionally, we suggest employing a one-year at-the-money put option to protect against downside risk, which can be financed by a one-year short call position with a strike price set 10% out-of-the-money. This strategy allows investors to benefit from gold's steady increase over time while mitigating potential losses during downside periods.

Source: Bloomberg, April 2024

Q1 2024 Equities – What worked and what did not

Growth stocks started the year off on a strong footing, with value staging a comeback in March

Sector And Style Performance



- Growth and quality were the driving factors in the first couple of months, driven by gains in the technology & communications sector (Meta & Google).
- Things changed quite a bit in March, when the laggards started to outperform, namely – Utilities, Materials, Energy & value as a style.
- Defensives broadly underperformed along with the small caps continuing to struggle and underperforming the S&P 500 by a reasonably wide margin.

Source: BCA Research, April 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 started Q2 2024 off on a cautious note with many on the Street concerned about the scorching rally seen since the end of October 2023. A key monitorable this week was the US labour market data, which continues to point towards a normalisation from the tightness experienced over the last couple of years but continues to be solid, making the Fed’s job tougher in terms of starting to cut rates. 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 9-10% 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.

LIGHTHOUSE CANTON

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

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