Volatility Ahead
Investment Team Weekly Focus

17 December 2021
IMPORTANT DISCLAIMER:

The contents of this document are confidential and are meant for the intended recipient only. If you are not the intended recipient, please delete all copies of this document and notify the sender immediately.

This document, provided as a general commentary, is for informational purposes only and is not to be construed as an offer to sell or solicit an offer to buy any financial instruments in any jurisdiction. This does not constitute any form of regulated financial advice, and your independent financial advisor should be consulted prior to taking any investment decision(s). This document is based on information from sources which are reliable but has not been independently verified by Lighthouse Canton Pte. Ltd. and its subsidiaries ("LC"). LC has taken reasonable steps to verify the contents of this document and accepts no liability for any loss arising from the use of any information contained herein. Please also note that past performances are not indicative of future performance.

Information contained herein are those of the author(s) and does not represent the views held by other parties. LC is also under no obligation to update you on any changes made to this document.

This document is prepared by Lighthouse Canton Pte. Ltd. and its subsidiary, Lighthouse Canton Capital (DIFC) Pte. Ltd., which are regulated by Monetary Authority of Singapore ("MAS") and Dubai Financial Services Authority ("DFSA") respectively. MAS and DFSA have no responsibility for reviewing, verifying and approving the contents of this document and/or other associated documents. The contents of this document may not be reproduced or referenced, either in part or in full, without prior written permission from LC.

This document is only intended for Accredited Investors and/or Professional Clients, as defined by MAS and DFSA.
Volatility Ahead

Investors should keep an eye on corporate defaults

- Investors have allocated more to global equities over the last 12 months, than over the past 19 years combined (Graph #1, Source BoF, December 2021). This is another indication that global equities are most likely in a bubble and that inflated valuations have been driven by large inflows as opposed to improving fundamentals (higher margin and/or higher growth).

- More concerning, the second chart shows that the total Enterprise Value (i.e. the sum of total Debt and total Equity) of companies which EBIT is less than their interest expense is now amounting to 6 Trillion USD worldwide. In other words, the total “value” of companies that are currently unable to pay their next bond coupon payment has never been this high in recent history.

- With 3 interest-rates hikes likely for 2022 (Source FOMC, December 2021), we expect a surge in the number of companies having difficulties paying back their debt or even their coupons in time. Investors should be prepared for more corporate defaults in 2022 and consequently higher volatility next year.
Singapore
Lighthouse Canton Pte Ltd
16 Collyer Quay
#11-02
Income at Raffles
Singapore 049318
Phone: +65 6713 0570

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
Ground Floor, Coworks,
Worldmark 1, Aerocity,
New Delhi, 110037
Delhi (India)
Phone: +91 9650473961