The impact of the Russia-Ukraine war and its impact on portfolios

March 4th, 2022

LIGHTHOUSE CANTON

lighthouse-canton.com

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 the reasonable steps to verify the contents of this document and accept 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 has 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 confidential and is only intended for Accredited Investors and/or Professional Clients, as defined by MAS and DFSA.

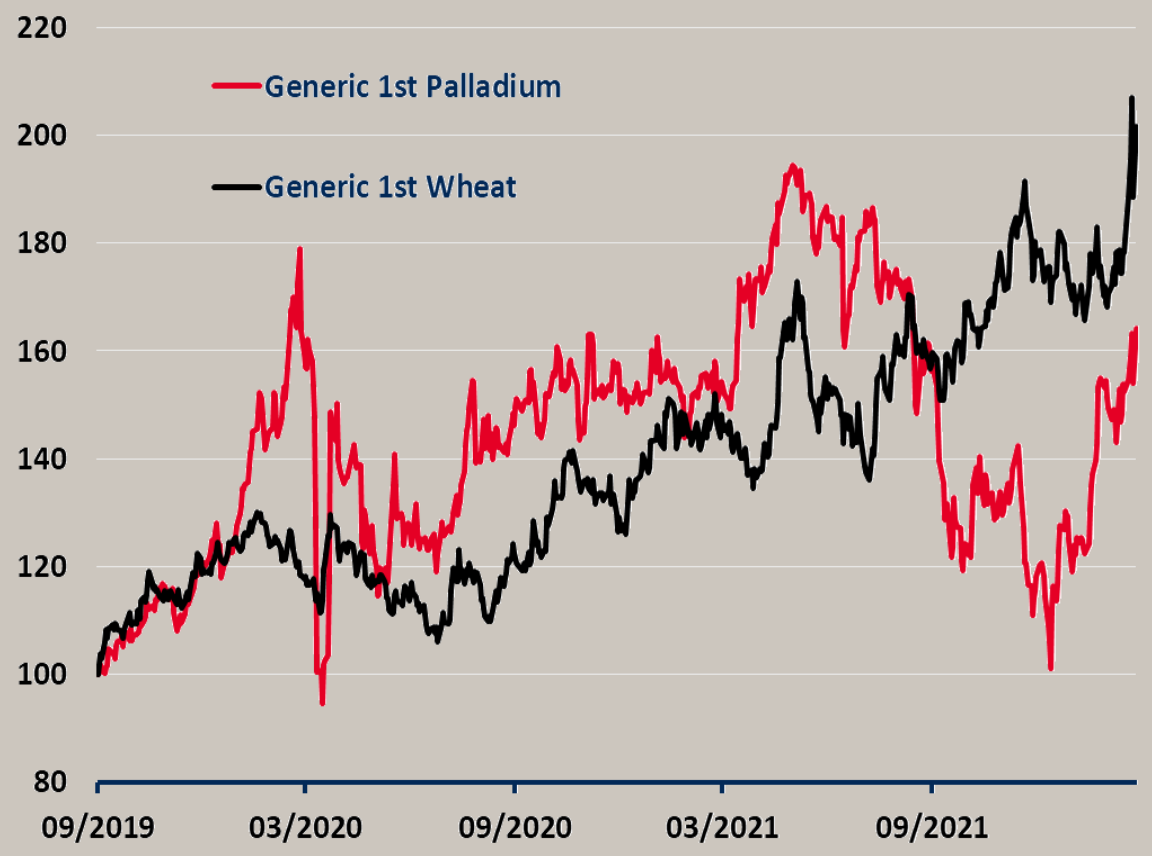
LIGHTHOUSE CANTON

The impact of the Russia-Ukraine war

Commodity prices are rising quickly

- Russia's invasion of Ukraine could push U.S. food prices even higher, as the region is one of the world's largest producers of wheat and some vegetable oils. And the disruptions could drag on for months or even years, as crop production in the area could be halted and take a long time to restart.

- Oil, palladium and wheat surged more than 5% amid heightened concerns the Ukrainian conflict and Russian related sanctions would disrupt commodity supplies.



Source: Lighthouse Canton

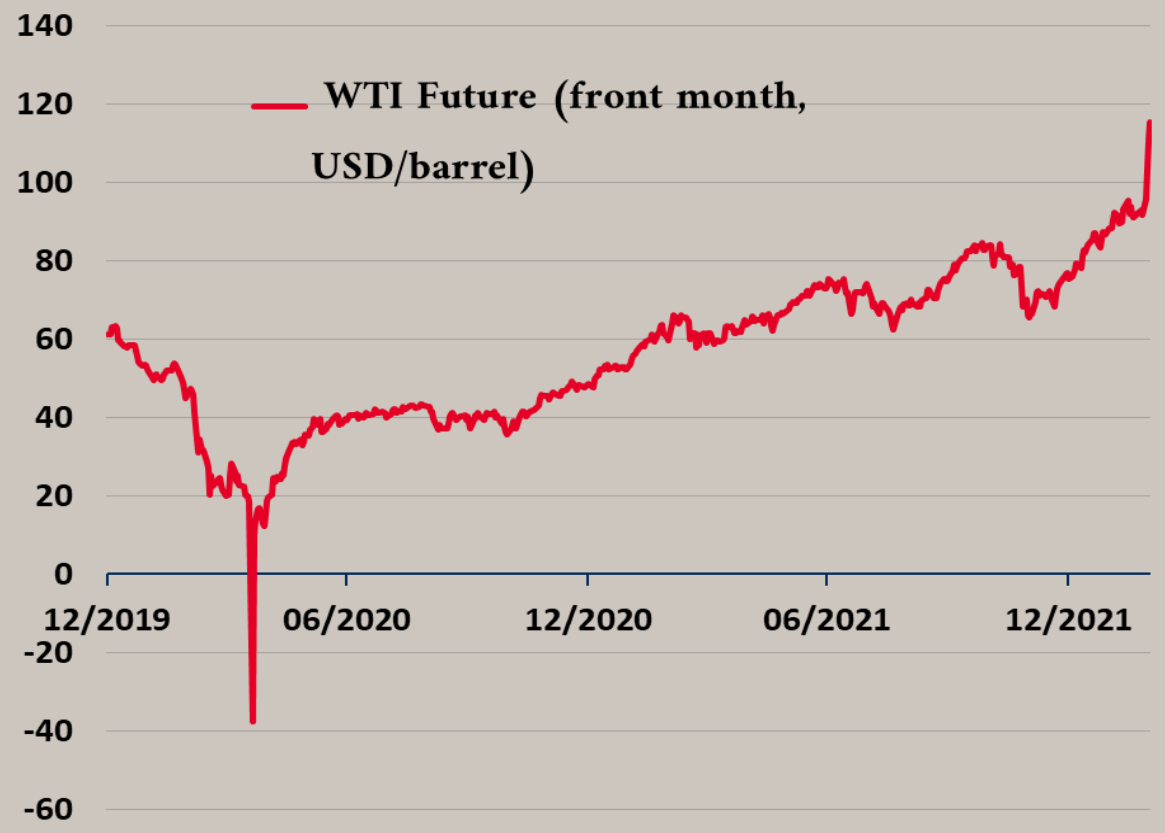
LIGHTHOUSE CANTON

Potential impact of an oil shock

For 1H22, SAAR	Baseline	Post oil shock*
Global GDP growth	+4.1%	+0.9%
Developed Markets GDP growth	+3.7%	+0.8%
Emerging Markets GDP growth	+4.8%	+0.9%
Global Inflation	+3.2%	+7.2%

Source: JPM, LGT

*Assumes that Brent crude surges from the current level of USD 85 per barrel to USD 150 over 1Q22

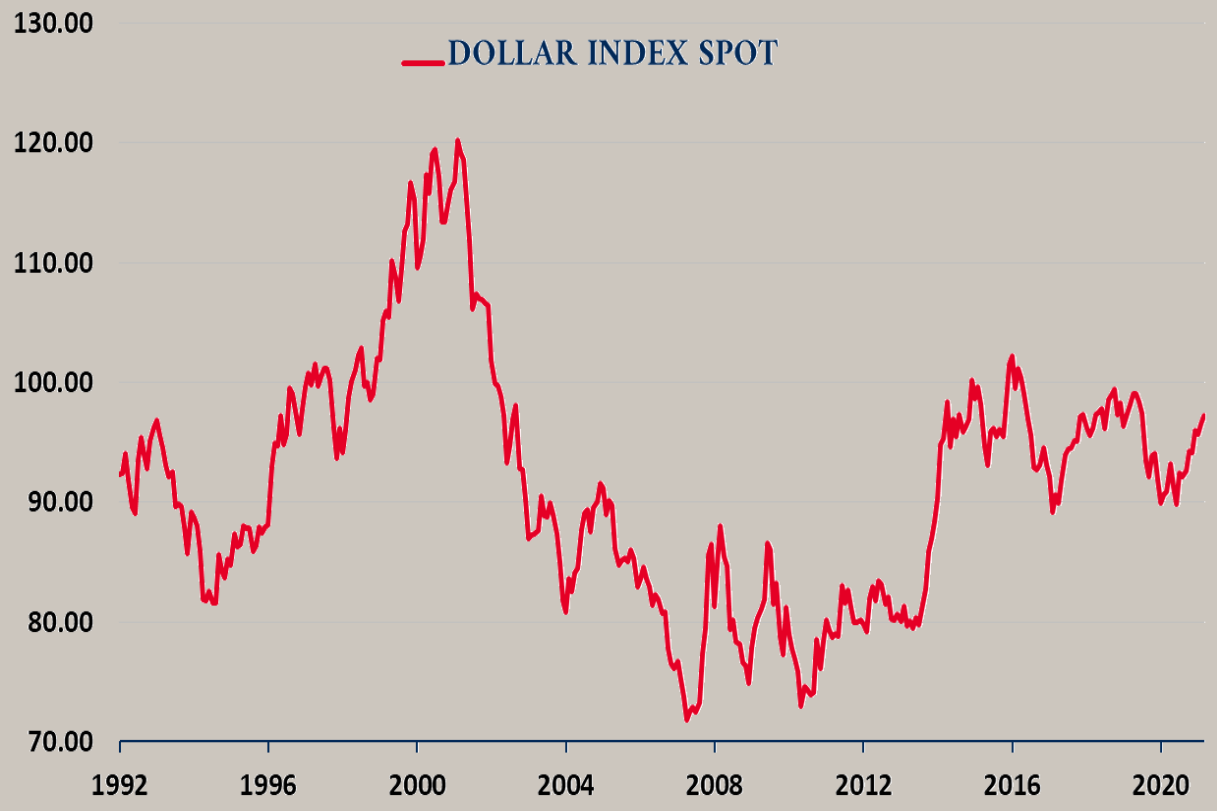


Source: Lighthouse Canton/Bloomberg

LIGHTHOUSE CANTON

Gold & USD are getting stronger

Vs USD	3rd Feb. 2022	3rd Mar. 2022	% Change
Gold	1,804.850	1,929.270	6.9%
USD (DXY)	95.379	97.543	2.3%
CNY	6.360	6.319	0.7%
JPY	114.970	115.740	0.7%
CHF	0.920	0.920	0.0%
GBP	1.360	1.337	-1.7%
EUR	1.144	1.108	-3.1%
RUB	76.531	116.363	-52.0%



Source: Lighthouse Canton/Bloomberg

LIGHTHOUSE CANTON

Implications of War and Sanctions

Sanctions revealed so far is unlikely to cost the allies too much given limited trade linkages and/or foreign claims in Russia

Key Risks Are:

- Choking of Commodity Supply Chain
  - This has led to continued surge in multiple commodity prices
  - "It does not make much sense for Russia to export gas if it is effectively barred from accessing the proceeds of its sales." – BCA
  - A supply shock could materialize if Russia's ability to trade energy products is cut off. This is likely to translate into higher commodity prices

- Growth deceleration on back of sustained inflation
  - Both an oil shock and supply chain happening at the same time could prove economically devastating for Europe given its high energy dependency.
  - US would likely feel some spillover effects which could place a small drag on inflation and growth.

	Russia	Ukraine	Uses
Agriculture			
Ammonium Nitrate	42% of global exports		Crop fertilizer
Wheat	21% of global exports	10% of global exports	
Corn		13% of global exports	
Metals			
Palladium	Approx. 43% of global production		Catalytic Converters
Platinum	Approx. 14% of global production		Catalytic Converters
Aluminum	Approx. 6% of global supply		Construction, Auto, Packaging
Nickel	Approx. 11% of global production		Stainless Steel, Alloys
Chemicals			
Neon	Russia and Ukraine account for 40-50% of global production		Semiconductor production

Source: LGT

LIGHTHOUSE CANTON

How to position your portfolios

How will the Russia-Ukraine war affect portfolios?

- The war could knock $1 trillion off the world's GDP and add 3% to global inflation this year, according to the U.K.'s National Institute for Economic and Social Research. Since inflation was already considered too high globally, this is clearly bad news. In our view, the economic deceleration is likely to begin earlier than expected in view of higher oil and commodity prices which are likely to be sustained. European bond markets are now pricing in a recession, and we would recommend reducing positioning or completely steering clear from European equities and HY credits for the time being.

- International Sanctions and especially removing most Russian Banks from the international payment system (SWIFT) is likely to disturb both European and Russian economies. The political pressure is huge on western businesses to divest their Russian assets. As an illustration, western oil majors are exiting their Russian investments. This is just a start. Russia should remain *"persona non grata"* for few years and foreign investors will have to think twice before re-entering this market in the coming years.

- Except for higher inflation, the rest of the world should not be too impacted by this new crisis. As far as the US is concerned, our views remains broadly unchanged and we continue to expect five hikes in 2022 along with quantitative tightening. This will impact all economies worldwide, especially emerging countries which are more depending on supportive financial conditions.

What should investors do?

- Volatility is likely to remain elevated across risk assets. We were already expecting financial markets to be highly volatile in a context of interest rates hike and quantitative tightening. The war is just making the situation a little more unstable. We recommend investors to reduce their beta exposure as much as they can by allocating towards Cash, short duration bonds, Defensive stocks, Long/Short managers, Alternatives.

- Selling Russian bonds/equities now would translate to crystalizing a steep loss, whereas the situation will hopefully improve in the coming weeks. Time now works against Putin who does not want to be dragged in a long-lasting war. We have, unfortunately, already experienced a similar situation during the annexing of Crimea and the Georgian war. Russian companies with good governance should rebound over the long-term.

Geopolitical impact

- Russia will most likely ultimately emerge diminished, not only in reputation, but economically and militarily. Sanctions this time are more severe than during the Georgian war or the annexing of Crimea. Western businesses will find it hard to continue doing business with an international pariah state. This does not bode well for the Russian economy going forward.

- China gains in multiple ways. One is that it has just seen how the West might respond to a Chinese attack on Taiwan, and it will adjust accordingly. In particular, China will have to consider whether it is safe to park its foreign currency reserves anywhere in the West, having seen how they can be frozen overnight. A major win for China is that this war has led to Russia becoming more dependent on China. If Russia wants to continue to sell oil and gas, China is the natural destination. If it wants access to technology or imports more generally, China may send its own goods or act as Russia's blockade runner. China is Russia's lifeline.

Source INSEAD, Michael Witt

LIGHTHOUSE CANTON

Singapore

Lighthouse Canton Pte Ltd

16 Collyer Quay
#11-02
Income at Raffles
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

Synq.work, First Floor,
Aloft hotel,
Asset no. 5BHospitality
District, Aerocity
New Delhi 110037, India
Phone: +91 9650473961

info@lighthouse-canton.com

service@lighthouse-canton.in

Lighthouse Canton