

# LC Investment Playbook Weekly Update

10 June, 2022

**LIGHTHOUSE  
CANTON**



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

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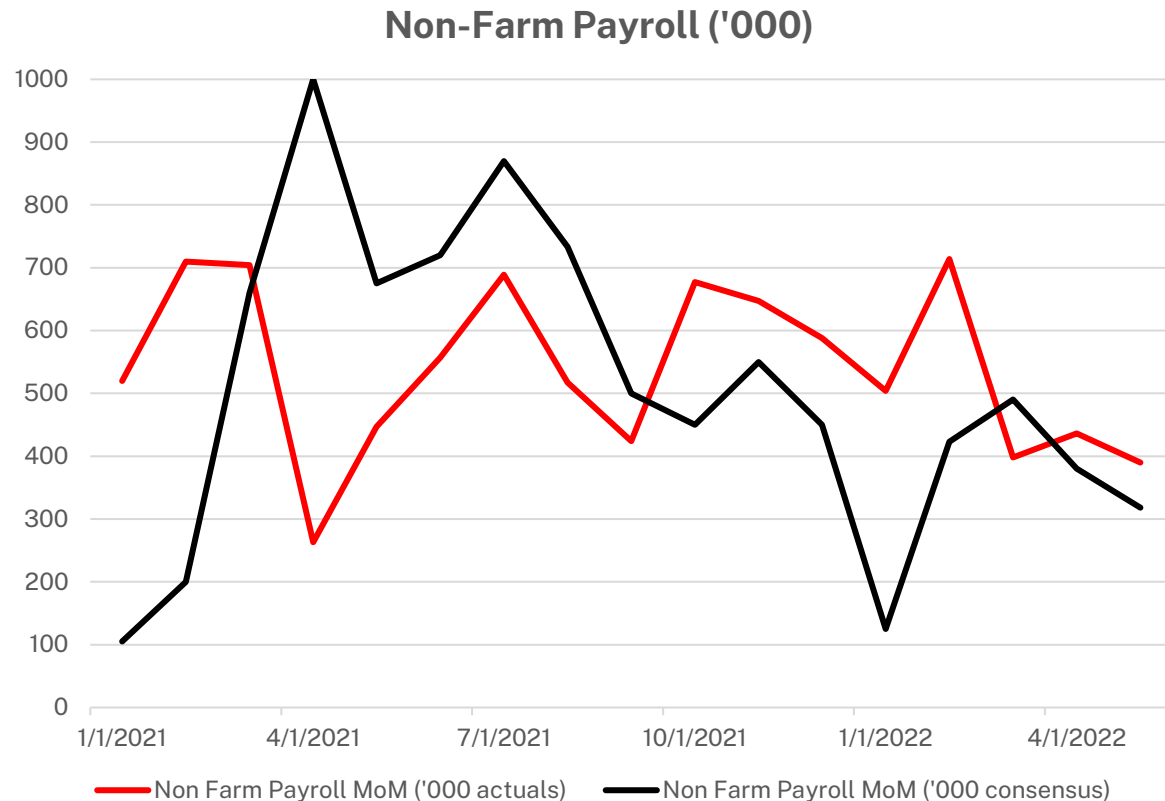
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# Macro Highlights

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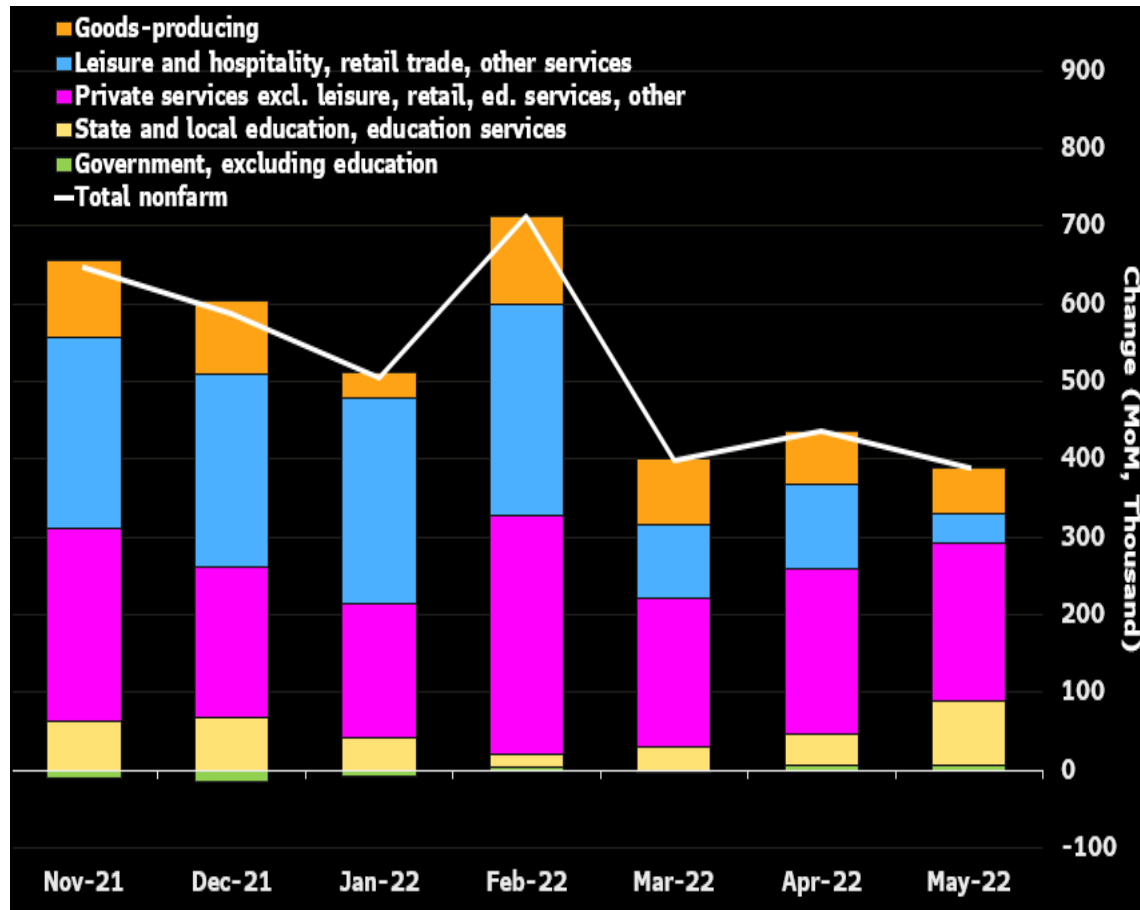
# US Labor Market (1/2)



Source: Bureau of Labor Statistics, Bloomberg and Lighthouse Canton 09<sup>th</sup> Jun 2022

- **Headline nonfarm payrolls** increased by 390k (vs 436k in April), above the consensus of 318k. Revisions showed hiring was 22k weaker in the previous two months combined than previously thought.
- Growth in **average hourly earnings** fell to **5.2% year over year** from **5.5% prior**. Hourly pay rose **0.3%** (vs **0.3% prior**), less than the consensus expectation (**0.4%**).
- Wage growth appears to have peaked, though the pace is still much faster than what's consistent with the Fed's 2% inflation target.

# US Labor Market(2/2)



Contributions to Nonfarm Payroll Employment Gain

Source: Bloomberg 03<sup>rd</sup> Jun 2022

- Hiring was robust in both goods-producing (59k) and private services-providing industries (274k). Moderation of demand on goods was the likely culprit while reorientation of demand toward services led to steady hiring in leisure and hospitality (84k vs. 83k prior).
- Notable job gains also occurred in professional and business services (75k), and in transportation and warehousing (47k).

# Fixed Income Highlights

# 2

# US High Yield- Distressed Universe

US High Yield Distressed Universe							
Sector	Index Breakdown			Stressed/Distressed Issuers and Bonds			
	Face Value (\$ mn)	No. Issuers	% Issuers	No. Issuers	% Issuers	Face Value (\$ mn)	% Face Value
Energy	178,247	118	12.7%	6	5.1%	4,268	2.4%
Media	129,652	52	5.6%	6	11.5%	8,043	6.2%
Basic Industry	114,213	33	3.5%	2	6.1%	6,317	5.5%
Healthcare	139,262	62	6.7%	11	17.7%	21,179	15.2%
Telecommunications	108,521	130	13.9%	6	4.6%	3,573	3.3%
Capital Goods	88,805	70	7.5%	5	7.1%	3,038	3.4%
Services	93,362	73	7.8%	5	6.8%	4,803	5.1%
Automotive	63,831	54	5.8%	0	0.0%	-	0.0%
Leisure	99,342	53	5.7%	1	1.9%	1,508	1.5%
Consumer Goods	71,114	56	6.0%	5	8.9%	3,834	5.4%
Retail	79,577	63	6.8%	12	19.0%	8,286	10.4%
Technology & Electronics	51,248	43	4.6%	7	16.3%	3,469	6.8%
Financial Services	65,569	22	2.4%	2	9.1%	1,020	1.6%
Utility	40,649	22	2.4%	0	0.0%	-	0.0%
Real Estate	57,074	34	3.6%	1	2.9%	1,219	2.1%
Banking	18,275	9	1.0%	0	0.0%	-	0.0%
Transportation	27,326	20	2.1%	1	5.0%	276	1.0%
Insurance	21,477	18	1.9%	0	0.0%	-	0.0%
<b>Total</b>	<b>1,447,545</b>	<b>932</b>	<b>100%</b>	<b>70</b>	<b>7.5%</b>	<b>70,832</b>	<b>4.9%</b>
BB	737,321	359	38.5%	-	0.0%	-	0.0%
B	535,013	428	45.9%	31	7.2%	28,453	5.3%
<=CCC	175,212	145	15.6%	39	26.9%	42,379	24.2%
<b>Total</b>	<b>1,447,545</b>	<b>932</b>	<b>100%</b>	<b>70</b>	<b>7.5%</b>	<b>70,832</b>	<b>4.9%</b>

Source: CreditSights, ICE Data Indices, LLC, FactSet  
Note: Distressed issuers have at least one bond trading at an OAS above 1,000 bp.

- Within the HY universe, 7.5% of the issuers have at least one bond trading at distressed levels (greater than 1000 bps OAS) reflecting an increase of 0.9% MoM.
- Face value of distressed bonds amount to US\$71bn approx. All these securities are rated B and CCC or lower . No distress in the BB category.
- Approximately 26% (by face value) of these distressed securities are from Healthcare and Retail sectors.



# Fixed Income – Executive Summary

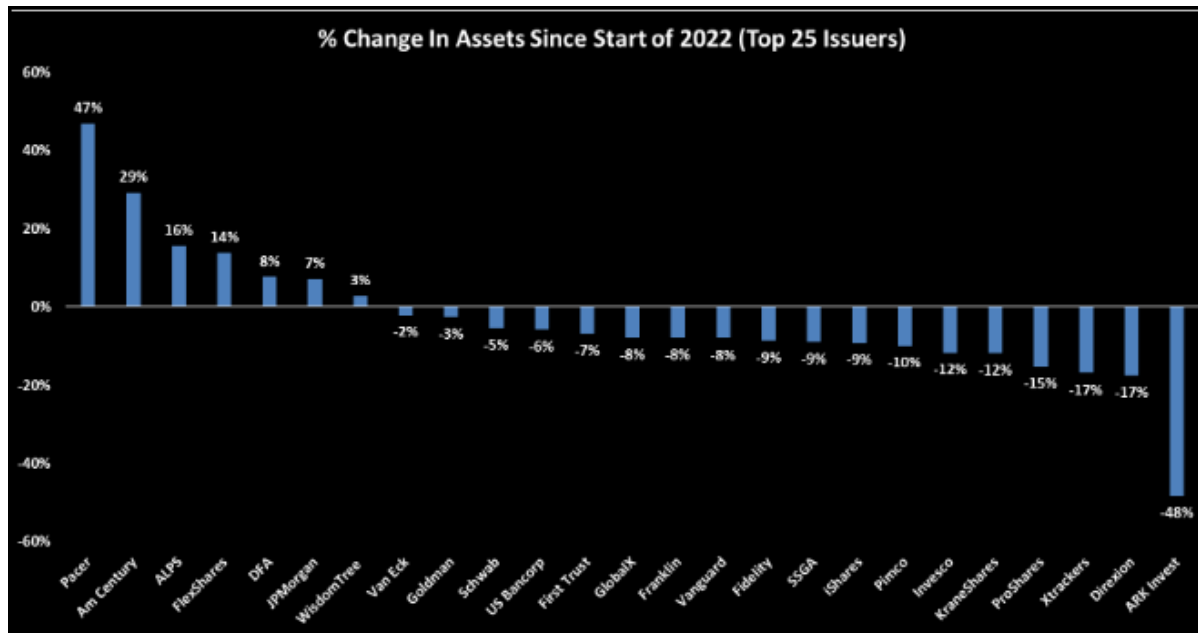
- The labor market in the **US** painted a near perfect picture. Non Farm Payrolls gained beyond consensus and the labor force participation edged up ( 62.3%) with a gain in the prime age ( 25-54 yrs.). Such a rosy picture will add pressure on the FED to contain inflation. We expect the US Yield Curve to keep on shifting upward and expect 10Y Treasuries (currently yielding 3%) to yield 3.25% by year-end and an additional 25bps (so 3.5%) by end of 2023.
- Australia's central bank surprised investors by raising interest rates by twice as much as forecast and committing itself to “doing what is necessary” to rein in inflationary pressures. Bond yields soared and stocks fell as the Reserve Bank raised its cash rate by 50 basis points -- the biggest increase in 22 years -- to 0.85%, a result predicted by just three of 29 economists.
- Hawkish officials in the **ECB** are backing the idea of a 50bps hike. Inflation in parts of the 19-member bloc are much higher than the 8.1% printed with Germany reporting an 8.5% growth YoY in headline CPI. All eyes are on ECB meeting this week to chart a future course of action.



# Equity Highlights

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# Fundamentals starting to drive valuations



Source: Bloomberg

- As seen historically, market corrections are notoriously known to correct valuation disparities compared to fundamentals.
- The above can be seen very clearly by the performance of the ARK investment ETFs this year. Known for its investments in loss making and richly valued tech companies which enjoyed lofty gains in 2021 in an era of near 0% interest rates and an abundance of liquidity.
- The ARK investment ETFs have lost close to half of their value since the start of this year, compared to the Russell 3000 which is down approximately 14.6%

# Equities – Executive Summary

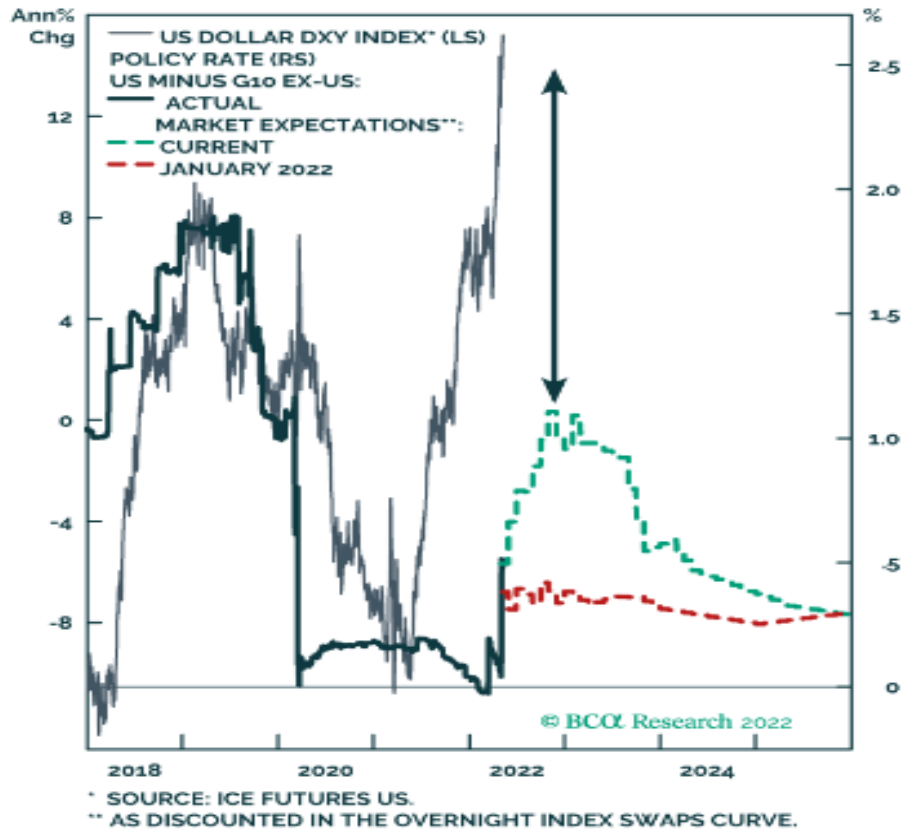
- **US-listed China stocks surged Monday to the highest since early April** on increased speculation that a year-long government crackdown on the technology industry is easing. The **Nasdaq Golden Dragon Index closed 5.4% higher on Monday** after surging as much as 8.3%, as **Chinese regulators were said to be close to wrapping up their investigation of Didi Global Inc.** Additionally Chinese financial regulators are said to have **started early-stage discussions on a potential revival of Ant Group Co.’s initial public offering.**
- **The US announced a quarter of negative GDP growth (-1.5% for Q1 2022),** making the chances of a recession in the US more likely. While inflation fears in the last few months had the market expecting a consistent stream of rate hikes at least into 2023, the slowing economic growth rates have made the situation less clear going forward as referenced in the recent **FOMC minutes where the Fed mentioned that any further policy action in 2023 will be data driven.** Additionally, the **Fed started shrinking its balance sheet from this month,** which is expected to further have an impact on asset prices in the coming quarters, as multiple members of the FOMC took note that this can have unexpected effects on the financial markets.

# Currencies & Commodities



# Exaggerated rates expectations in DXY

## The Fed And The Dollar



Source: BCA. 20<sup>th</sup> May 2022

- DXY has been one of the best performing currency YTD on back of expectations for QT and rush to safe havens on back of recessionary fears.
- BCA opines that rate expectations are overly exaggerated in DXY pricing and that the USD is like near a capitulation point given deteriorating trade balances and likelihood of inflation pressures to recede this year.

# Commodity spot prices surge to a record high



- The Bloomberg Commodity Spot Index, which tracks prices for 23 raw materials, rose 1.9% Monday to its highest-ever level. The gauge has climbed 36% this year, heading for the biggest annual gain in more than a decade.
- The commodity rally this year has been led by a jump in oil, gas and transportation-fuel prices amid a supply crunch. The Bloomberg spot energy subindex has skyrocketed more than 92% year-to-date, the most since at least 1992

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