Investment Playbook
Weekly Update

16 September, 2022

LIGHTHOUSE
CANTON

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
WEALTH PLANNING SERVICES

2021 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION

BEST INDEPENDENT WEALTH MANAGER
INVESTMENT ADVISORY

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Macro & Fixed Income

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Macro – Executive Summary (1/2)

		Current Quarter	Market Expectations (4Q22)	Δ*	Market Expectations (2Q23)	Δ*	LC Views
US	Real GDP Growth (YoY)1	1.7%	0.1%	-	1.0%	+	▪ Inflation surprised to the upside with core inflation continuing to show signs of upward pressures. Shelter costs inched up and food prices remained sticky. ▪ Upbeat economic data that came in last week (labor market and manufacturing and services activity) surprised to the upside and reinforces this view although the labor market might be showing first signs of easing. ▪ Guidance from Jackson Hole is loud and clear: the central bank is committed to ensuring that inflation returns to target. Consequently, **we do not believe that the Fed will reverse its policy and start decreasing rates next year**, as implied by the Futures market.
	Inflation (YoY)[2]	8.3%	7.2%	-	3.9%	-	
	Unemployment (YoY)[3]	3.7%	3.7%	NC	4.1%	+	
	Probability of Recession[4]				50.0%		
	Policy Rate[5]	2.5%	3.8%	+	3.8%	+	
EU	Real GDP Growth (YoY)[6]	4.1%	1.0%	-	0.3%	-	▪ On September 8th, the ECB raised the deposit rate by 75bps to 0.75%, the highest level since 2011. ▪ The revised economic projections include an increase to the inflation forecasts with an average inflation rate of 8.1% this year and a decrease to the GDP growth forecasts from 2.1% to 0.9% in 2023. ▪ **We think risk of policy error is high and the possibility for upside rate surprises should not be underestimated.**
	Inflation (YoY)[7]	9.1%	8.9%	-	5.1%	-	
	Unemployment (YoY)[8]	6.0%	6.9%	+	7.1%	+	
	Probability of Recession[9]				60.0%		
	Policy Rate[10]	0.7%	1.5%	+	1.7%	+	
UK	Real GDP Growth (YoY)[11]	2.9%	0.4%	-	-0.2%	-	▪ We are in line with the market view that **Bank of England may continue to raise interest rates aggressively with at least 6 more rates hikes** of 25 bps each over the next 12 months.
	Inflation (YoY)[12]	9.9%	11.4%	+	7.5%	-	
	Unemployment (YoY)[13]	3.6%	4.0%	+	4.4%	+	
	Probability of Recession[14]				60.0%		
	Policy Rate[15]	1.8%	2.9%	+	3.0%	+	

**Change from previous period column*

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Macro – Executive Summary (2/2)

<table>
<tr><th></th><th></th><th>Current Quarter</th><th>Market Expectations (4Q22)</th><th>Δ*</th><th>Market Expectations (2Q23)</th><th>Δ*</th><th>LC Views</th></tr>
<tr><td rowspan="5">China</td><td>Real GDP Growth (YoY)[16]</td><td>0.4%</td><td>4.4%</td><td>+</td><td>7.3%</td><td>+</td><td rowspan="5">Although policymakers have ramped up stimulus measures, poor housing market dynamics, weak domestic demand, an impending contraction in exports due to a strong dollar and the zero-covid policy will limit the effectiveness of these efforts.
The main economic risk for China is deflation and the continuation of underwhelming economic growth. Core and service consumer price inflation are both below 1% and property prices are deflating. Falling prices amid high debt levels is a recipe for debt deflation. - BCA (15 Aug)
We think policy easing is a matter of when not if. This is difficult to predict as the CCP is unlikely to take any dramatic policy action leading up to the National Congress on 16 October. Any meaningful support is likely to come in only after the event and even then, timing of new policy implementation remains uncertain.</td></tr>
<tr><td>Inflation (YoY)[17]</td><td>2.5%</td><td>2.8%</td><td>+</td><td>2.2%</td><td>-</td></tr>
<tr><td>Unemployment (YoY)[18]</td><td>4.0%</td><td>4.0%</td><td>+</td><td>4.0%</td><td>-</td></tr>
<tr><td>Probability of Recession[19]</td><td></td><td></td><td></td><td>20.0%</td><td></td></tr>
<tr><td>Policy Rate[20]</td><td>4.4%</td><td>4.3%</td><td>-</td><td>4.3%</td><td>NC</td></tr>
<tr><td rowspan="5">India</td><td>Real GDP Growth (YoY)[21]</td><td>13.5%</td><td>4.9%</td><td>-</td><td>5.9%</td><td>+</td><td rowspan="5">Q1FY23 real GDP growth of 13.5% surprised on the downside. Compared to pre pandemic levels, growth was quite tepid, specially in the services sector.
RBI is expected to hike rates in the next two policy meets by 35 bps to 60 bps and then pause to assess the impact on growth and inflation. The future policy direction will depend on the RBI's timeline to bring inflation down to its 4% target and prevailing growth conditions.</td></tr>
<tr><td>Inflation (YoY)[22]</td><td>7.0%</td><td>6.2%</td><td>-</td><td>4.8%</td><td>-</td></tr>
<tr><td>Unemployment (YoY)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Probability of Recession[23]</td><td></td><td></td><td></td><td>0.0%</td><td></td></tr>
<tr><td>Policy Rate[24]</td><td>5.4%</td><td>6.0%</td><td>+</td><td>6.1%</td><td>+</td></tr>
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**Change from previous period column*

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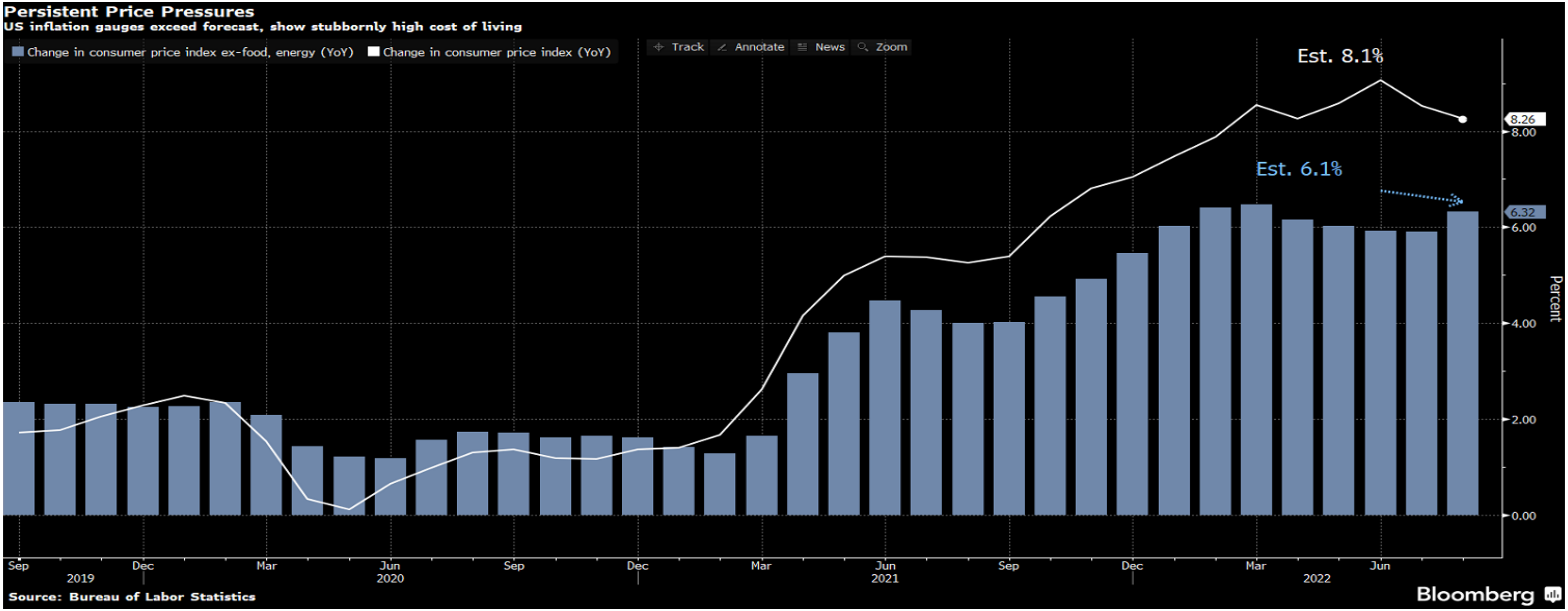
US CPI- Persistent Price Pressures

Surprise in August numbers primarily due to increased food and shelter costs



Source: BLS, Bloomberg, September 2022

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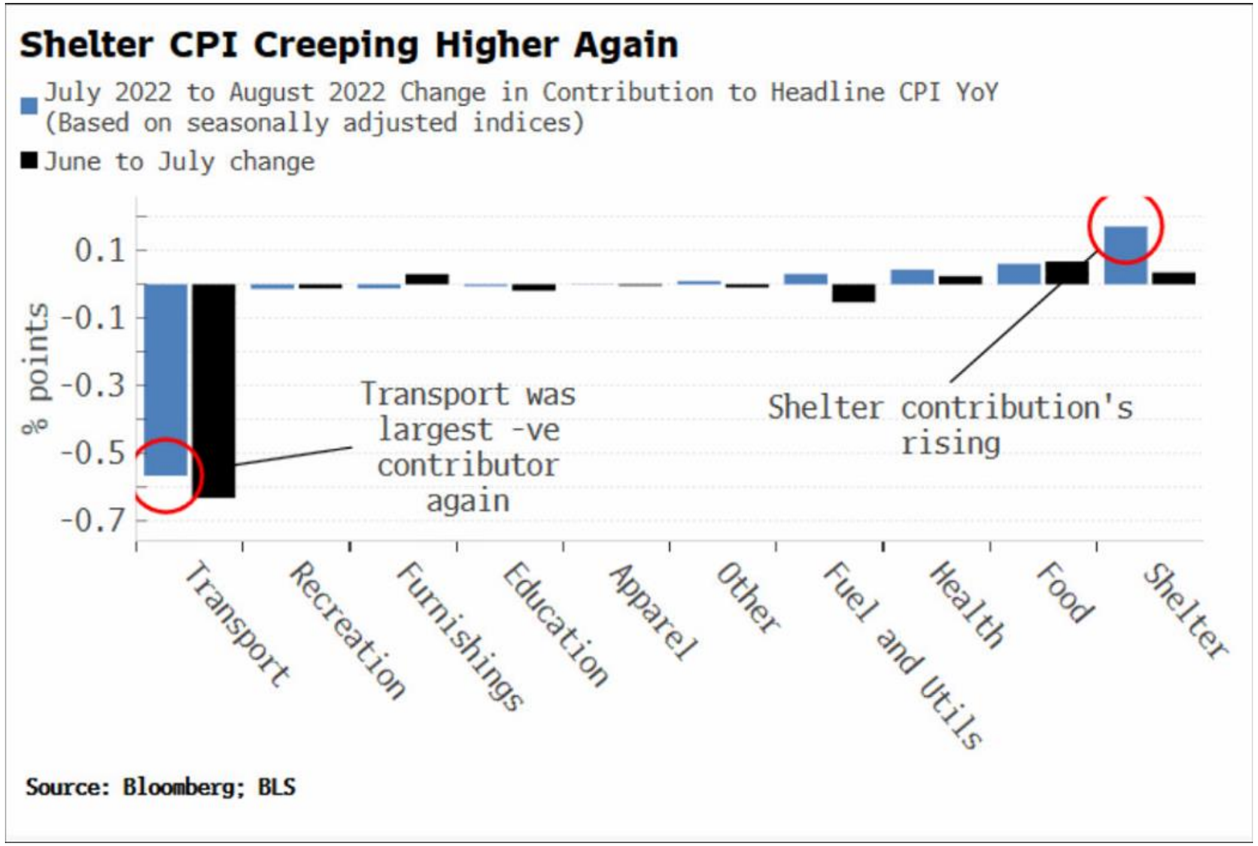
US CPI- Shelter is the pain point

Increased contribution is likely to keep CPI prints higher for long (sticky component)



Source: Bloomberg, September 2022

Macro – Executive Summary (Sources)

1) “GDP US Chained 2012 Dollars YoY SAAR ”, GDP CYOY Index, Source: Bureau of Economic Analysis. Forecast data derived from “GDP US Chained 2012 Dollars NSA”, GDNSCHWN Index, Source: Bureau of Economic Analysis.
2) “US CPI Urban Consumers YoY NSA”, CPI YOY Index, Source: Bureau of Labour Statistics. Forecast data derived from “US CPI Urban Consumers NSA”, CPURNSA Index, Source: Bureau of Labour Statistics.
3) “U-3 US Unemployment Rate Total in Labor Force Seasonally Adjusted”, USURTOT Index, Source: Bureau of Labour Statistics.
4) “United States Recession Probability Forecast”, ECRPUS 1Y Index, Source: Bloomberg.
5) “Federal Funds Target Rate - Upper Bound”, FDTR Index, Source: Federal Reserve.
6) “Euro Area Gross Domestic Product Chained 2010 Prices YoY”, Source: Eurostat. Forecast data derived from “European Union Gross Domestic Product Chained 2010 Prices ”, ENGKEU27 Index, Source: Eurostat.
7) “Euro Area MUICP All Items YoY NSA »”, ECCPEMUY Index, Source: Eurostat. Forecast data derived from “Eurostat European Union HICP All Items NSA”, CPALEU Index, Source: Eurostat.
8) “Eurostat Unemployment EU SA”, UMRT27 Index, Source: Eurostat.
9) “Eurozone Recession Probability Forecast ”, ECRPEU 1Y Index, Source: Bloomberg.
10) “ESTR Volume Weighted Trimmed Mean Rate”, ESTRON Index, Source: European Central Bank.
11) “UK GDP Chained GDP at Market Prices YoY ”, UKGRABIY Index, Source: UK Office for National Statistics. Forecast data derived from “UK GDP Chained GDP at Market Prices”, UKGRABMI Index, Source: UK Office for National Statistics.
12) “UK CPI EU Harmonized YoY NSA”, UKRPCJYR Index, Source: UK Office for National Statistics. Forecast data derived from “UK CPI EU Harmonized NSA”, UKRPCHVJ Index, Source: UK Office for National Statistics.
13) “UK Unemployment ILO Unemployment Rate SA”, UKUEILOR Index, Source: UK Office for National Statistics.
14) “United Kingdom Recession Probability Forecast”, ECRPGB 1Y Index, Source: Bloomberg.
15) “UK Bank of England Official Bank Rate”, UKBRBASE Index, Source: Bank of England.
16) “China GDP Constant Price YoY SA”, CNGDPYOY Index ,Source: National Bureau of Statistics of China. Forecast data derived from “China GDP Constant Price”, CNGDGDP Index , Source: National Bureau of Statistics of China.
17) “China CPI YoY”, CNCPIYOY Index,Source: National Bureau of Statistics of China. Forecast data derived from “China CPI YoY”, CNCPIYOY Index, Source: National Bureau of Statistics of China.
18) “China Qtrly Registered Unemployment Rate in Urban”, CNUERATE Index, Source: National Bureau of Statistics of China.
19) “China Recession Probability Forecast”, ECRPCN 1Y Index, Source: Bloomberg.
20) “China 1 Year Benchmark Lending Rates” , CHLR12M Index, Source: The People's Bank of China.
21) “GDP Growth Annual % India”, GDPGAIND Index, World Bank Group. Forecast data derived from “India Qtr Real GDP By Expenditure Cons 2011-12 Prices ”, IGQREGDP Index, Source: Central Statistics Office India.
22) “India CPI Combined YoY”, INFUTOTY Index, Source: Central Statistics Office India. Forecast data derived from “India CPI Combined”, INFUTOT Index, Source: Central Statistics Office India.
23) “India Recession Probability Forecast”, ECRPIN 1Y Index, Source: Bloomberg.
24) “Reserve Bank of India Repurchase Rate Policy Announcement”, INRPYLDP Index, Source: Reserve Bank of India.

Fixed Income

2

Fixed Income – Overview

	Sub-Asset	Region	IC Outlook (2Q23)	IC Comments	Recommended Positioning
Long Term Rates	**10Y Rate**	**US**	↑	▪ Long term rates are likely to trend sideways as stagflationary forces could intensify by 1H23. ▪ Fed balance sheet roll off likely to create upward pressure on long end of yield curve. ▪ Despite potential downward pressure on long term rates as a result of recessionary fears, we broadly agree with BCA's view that there is further room for longer term rates to move higher as long as the Fed maintains its resolve in combating inflation.	
		EU	↑	• Long term rates are likely to trend sideways as stagflationary forces could intensify by 1H23	
Credit	**IG Spread (bps)**	**US**	↔	• Global Corporate bonds are likely to face headwinds up until 1H23. • Policy rates in 1H23 are expected to rise across DM, while corporate spreads should widen on back of a global economic slowdown and higher refinancing rates, with HY to be the most heavily impacted.	▪ We think now is a good time to start adding fixed income exposures as yields are admittedly starting to look attractive. That said, this should be done progressively as rates are expected to trend higher in the near term. ▪ We are **selectively bullish on bonds in US IG credit**, with duration < 5 over a 12 months horizon. ▪ **Avoid PERPs, Cocos, High Yield and long Duration** (>5) bonds for the moment. ▪ **Add Distressed managers** to benefit from dislocations and mispricing.
		EU	↑		
	HY Spread (bps)	**US**	↑		
		EU	↑		

Too Early to Extend Duration

BCA's research suggests that portfolio duration should only be extended 1-2 months before the last hike.

	Months Between The Last Hike And...				
Date Of Last Hike	... The Peak In The10-Year Treasury Yield	... The Trough In TheTreasury Excess Return Index*	... The Trough In The 2-Year/10-Year Treasury Slope	... The Trough In The 2-Year/5-Year Treasury Slope	... The Trough In The 5-Year/30-Year Treasury Slope
March 1980	-1	0	-1	0	-1
May 1981	4	4	3	3	3
May 1989	-3	-2	-2	-2	-2
Feb 1995	-3	-3	-2	-2	-2
May 2000	-4	-4	-2	3	-1
June 2006	0	0	5	5	-4
Dec 2018	-2	-2	8	8	-5
Average	-1.3	-1.0	1.3	2.1	-1.7

* EXCESS RETURN RELATIVE TO A POSITION IN CASH. SOURCE: BLOOMBERG BARCLAYS INDICES.

Source: BCA, September 2022

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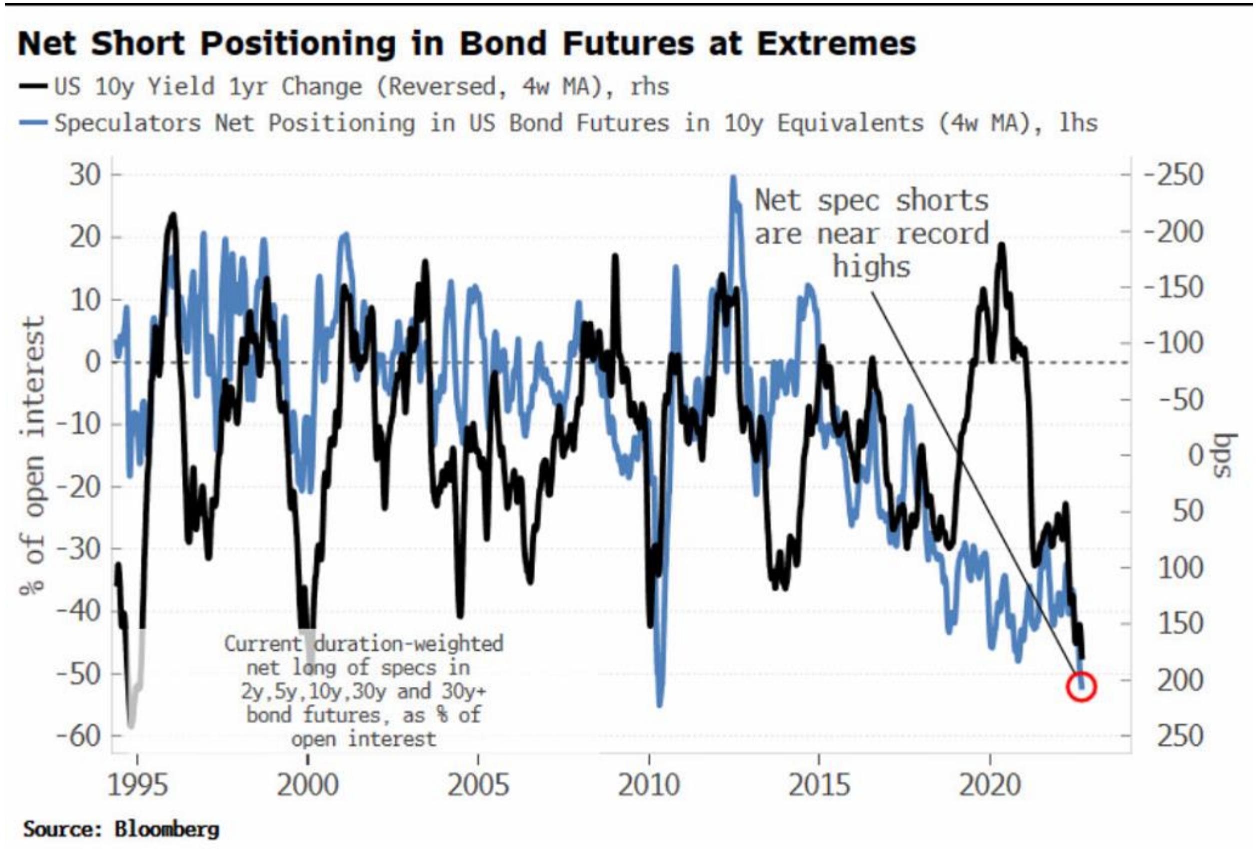
US Bond Futures- Market Positioning

Net shorts are near record high and likely to continue if CPI numbers continue to surprise.



Source: Bloomberg, September 2022

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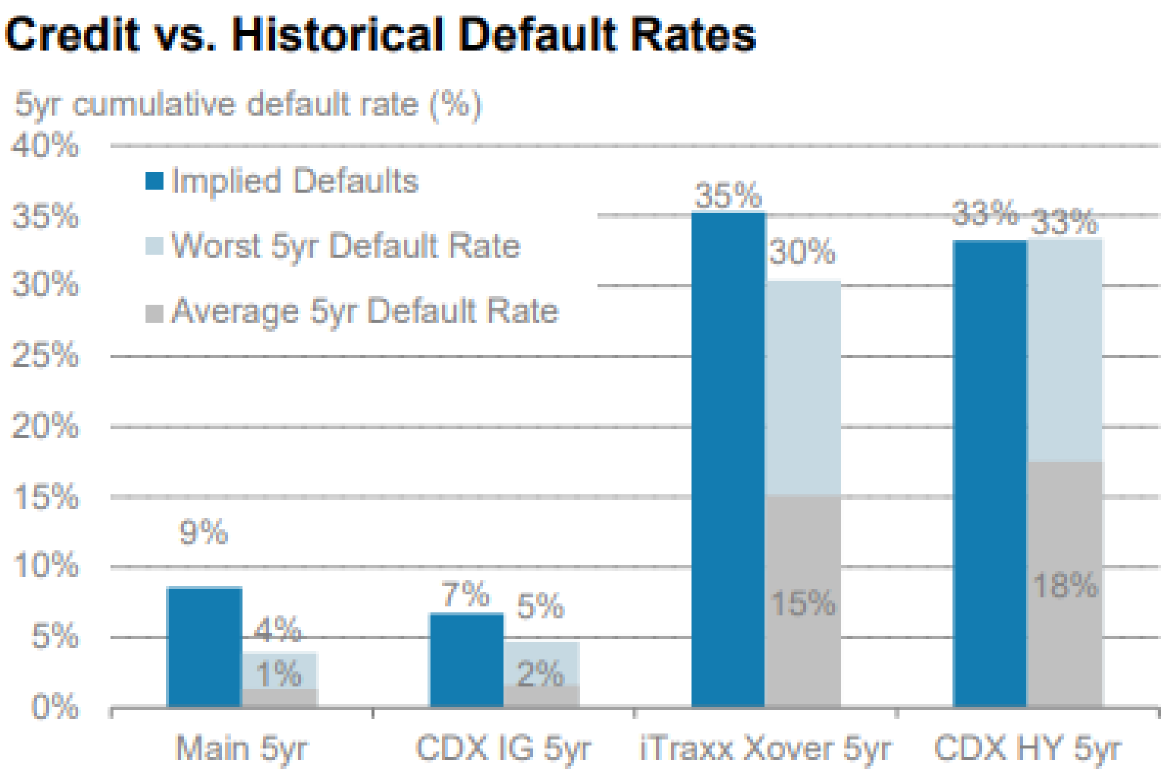
European Credit – GFC type scenario priced in

European Crossovers are pricing in a cumulative 5Y default rate of 35%



Note: Implied defaults calculated using 35% recovery rate. Historic defaults calculated using Moody's default data since 1970 and current index ratings composition. Source: Morgan Stanley Research, Bloomberg, Moody's

Source: Germany, Federal Network Agencies, September 2022

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Equities Highlights

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Equities – Overview

<table>
<tr><th>Region</th><th>IC Outlook (2Q23)</th><th>IC Comments</th><th>Recommended Positioning</th></tr>
<tr><td>US (S&P 500)</td><td>↓</td><td>▪ Analysts have been downgrading their S&P 500 earnings expectations for the past three months.
▪ We hold a bearish view on US equities over the next 6-12 months given that interest rates are expected to continue rising and economic growth, while not collapsing, is softening.
▪ Moreover, US Equities are likely to continue to be negatively correlated with long-term rates and are exposed to any hawkish comments from the FED.</td><td rowspan="2">▪ Earnings expectations continue to look optimistic across US and EU and may have room to correct further over the next 12 months.
▪ We do not think it is time to increase beta on portfolios yet and recommend a cautious stance in terms of positioning
▪ Consider adding Long/Short managers who can take bi-directional bets and who should benefit from current dispersion.
▪ There are some good quality companies which we have on our list that appear oversold with high implied volatility – making them good candidates for FCNs/ELNs structure. This is a good way to maintain a defensive stance while benefiting from high carry from coupons. <u>Do not</u> go beyond 6M in maturity.</td></tr>
<tr><td>EU (STOXX 600)</td><td>↓</td><td>▪ We think EU is in a precarious situation as it is likely to already be in recession. Elevated gas prices and energy rationing efforts would keep a lid on any growth prospects, and we anticipate corporate earnings pressure to intensify into 1H23.
▪ Despite the bleak economic situation, the consensus STOXX 600 earnings growth expectations is at >10%, a fairly optimistic scenario in our opinion. We expect more earnings misses to materialize over the next 12 months.
▪ According to Deutsche Bank, investors have redeemed $83 billion from European equities in the past 6 months.</td></tr>
</table>

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Equities – Overview

Region	IC Outlook (2Q23)	IC Comments	Recommended Positioning
China (CSI 300)	↔	▪ We reckon that Chinese valuations are attractive, but equities are likely to stay undervalued as growth is expected to slow down with Zero Covid Policy placing a lid on economic activity and profit outlook. ▪ A preliminary deal between the US SEC and China PCAOB has been reached allowing American accounting regulators to inspect the audit records of Chinese companies listed in New York. However, because of the structural nature of the US-China geopolitical rivalry, the road to success will be long and full of obstacles. ▪ We think markets are likely to trend sideways. Supportive policies and relaxations to ZCP would be key recipes to an eventual tailwind for market sentiments. Visibility remains very low on this front.	▪ Investors should **continue to remain invested in low beta long short managers** (FengHe, Luxence) for now. Indeed, we **do not recommend taking on full beta risk just yet**. ▪ For direct stocks, we **prefer bottom-up picks with strong earnings** this year and clear growth trends ahead.
India (NIFTY 50)	↔	▪ India's economy seems to be holding up well despite higher oil prices. ▪ Recent correction in commodity markets (especially energy) and renewed FII buying has led to a strong rally in Indian equities (Nifty 50) In July and Aug 2022. ▪ Valuations on equities are slightly higher than their 20Y average but not at unrealistic levels. ▪ Despite the sanguine view on the region, we think a strong dollar serves as the biggest headwind to any meaningful upside to Indian equities.	▪ We recommend a **cautious and staggered approach** when it comes to allocating to Indian equities, as we await further clarity with respect to how the global macro situation unfolds and whether Indian corporate earnings can hold up in an increasingly tougher macro environment and a more restrictive monetary stance being taken by the central bank.

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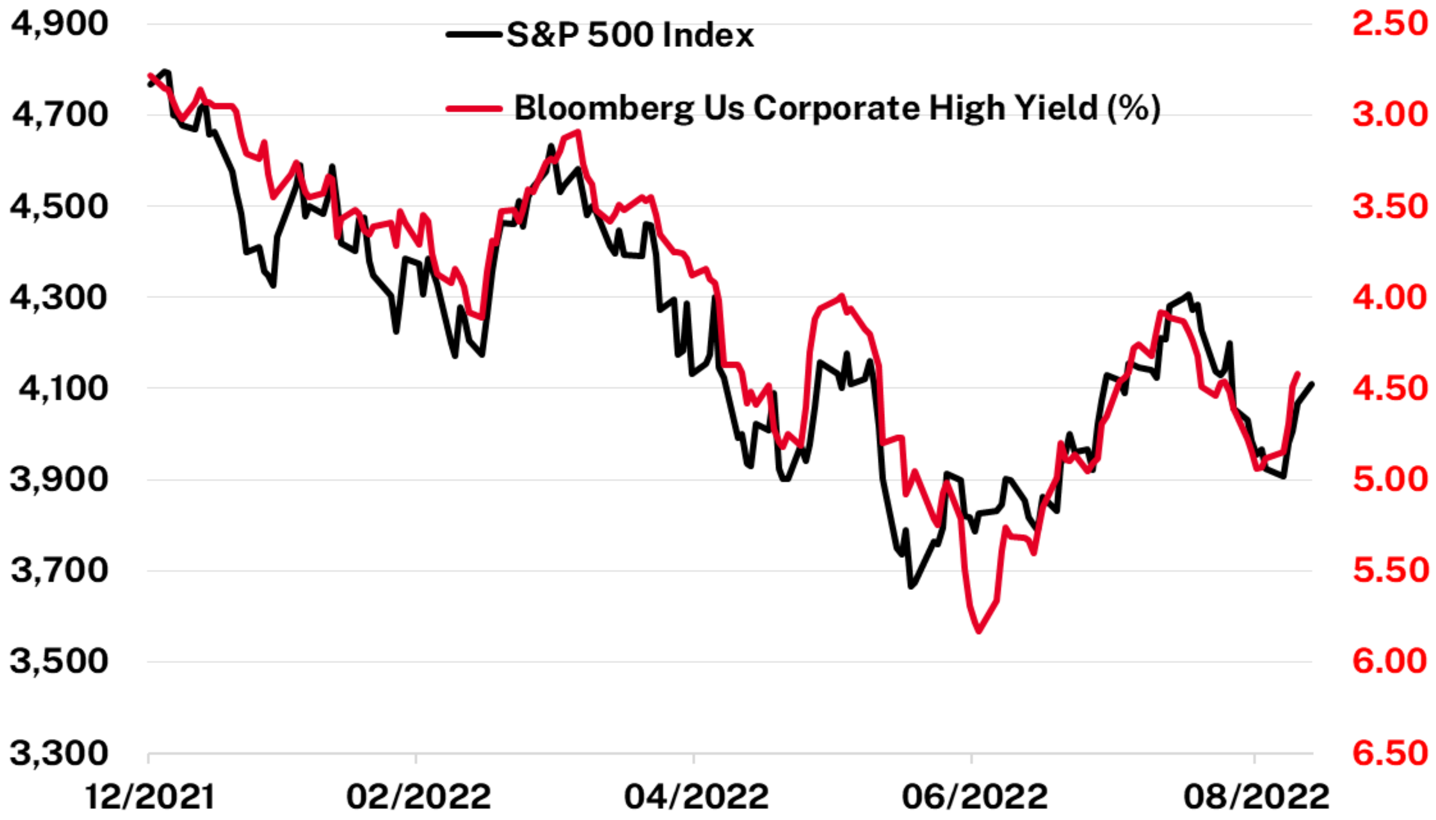
Equities And High Yield At Record Correlation

3M Correlation between S&P 500 and US High yields is -0.75 so far in 2022 (Weekly obs)



Source: Bloomberg, September 2022

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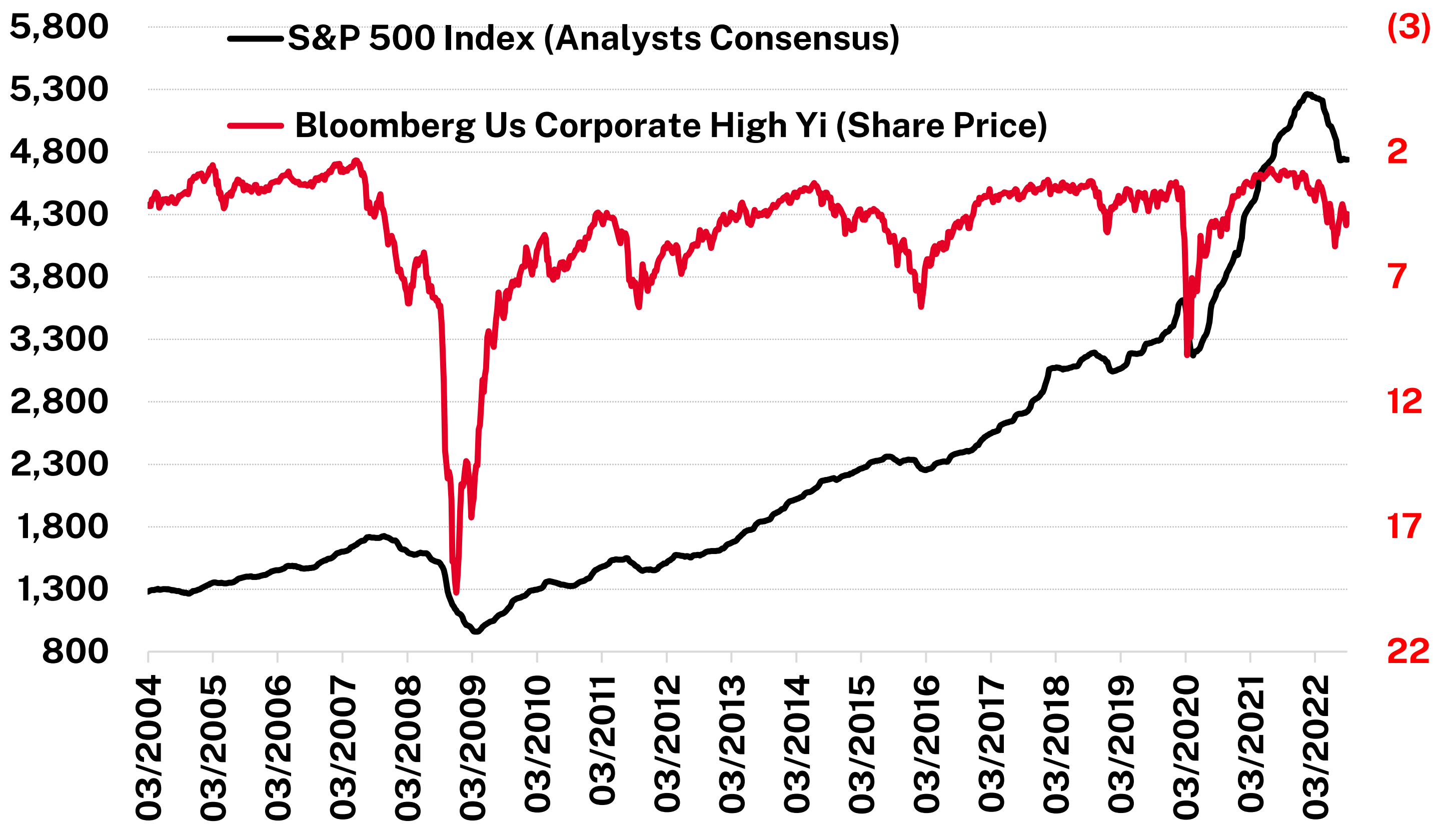
Equity Markets Will Track High Yield Spreads

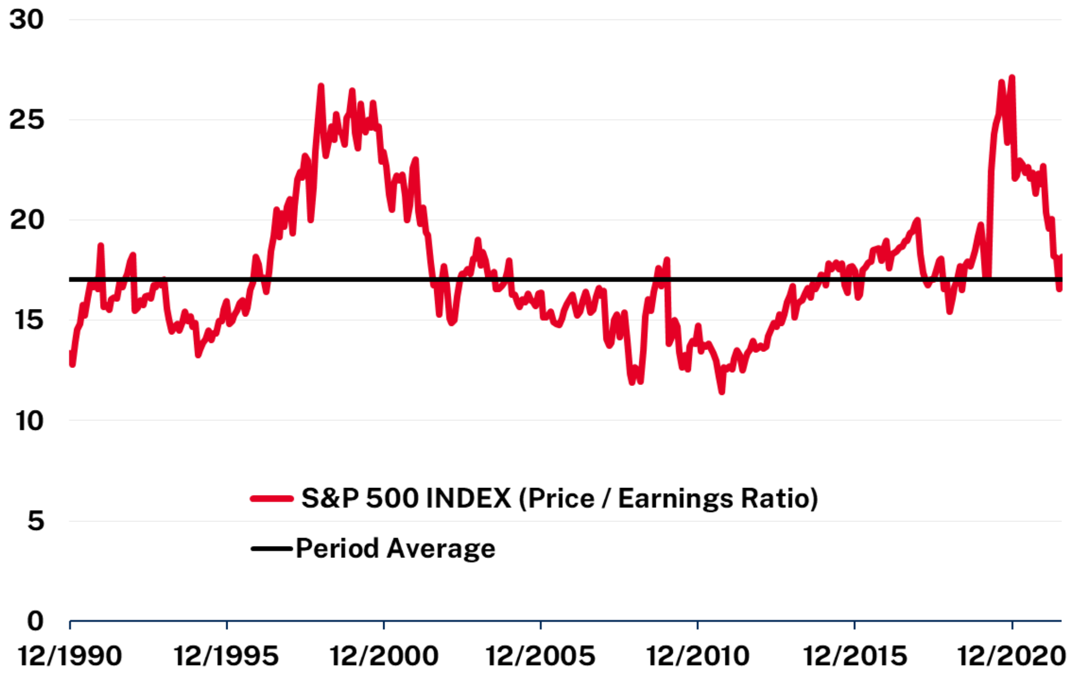
Recovery and stabilization HY Spreads will likely be required for equity recovery to be sustained

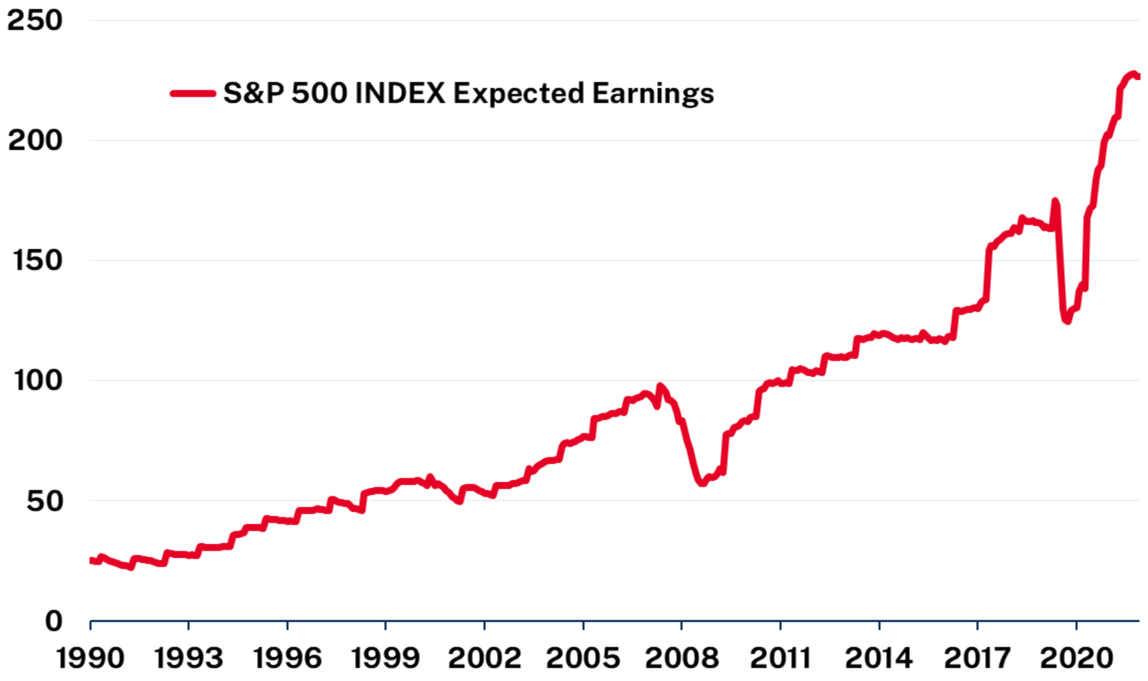


Source: Bloomberg, September 2022

US Equities: Earnings Will Be Decisive

S&P 500's P/E ratio is back to its long-term average (17.5x) but earnings are expected to decrease





Source: LGT, Sep 2022

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Forex, Commodities & Alternatives

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Commodities – Overview

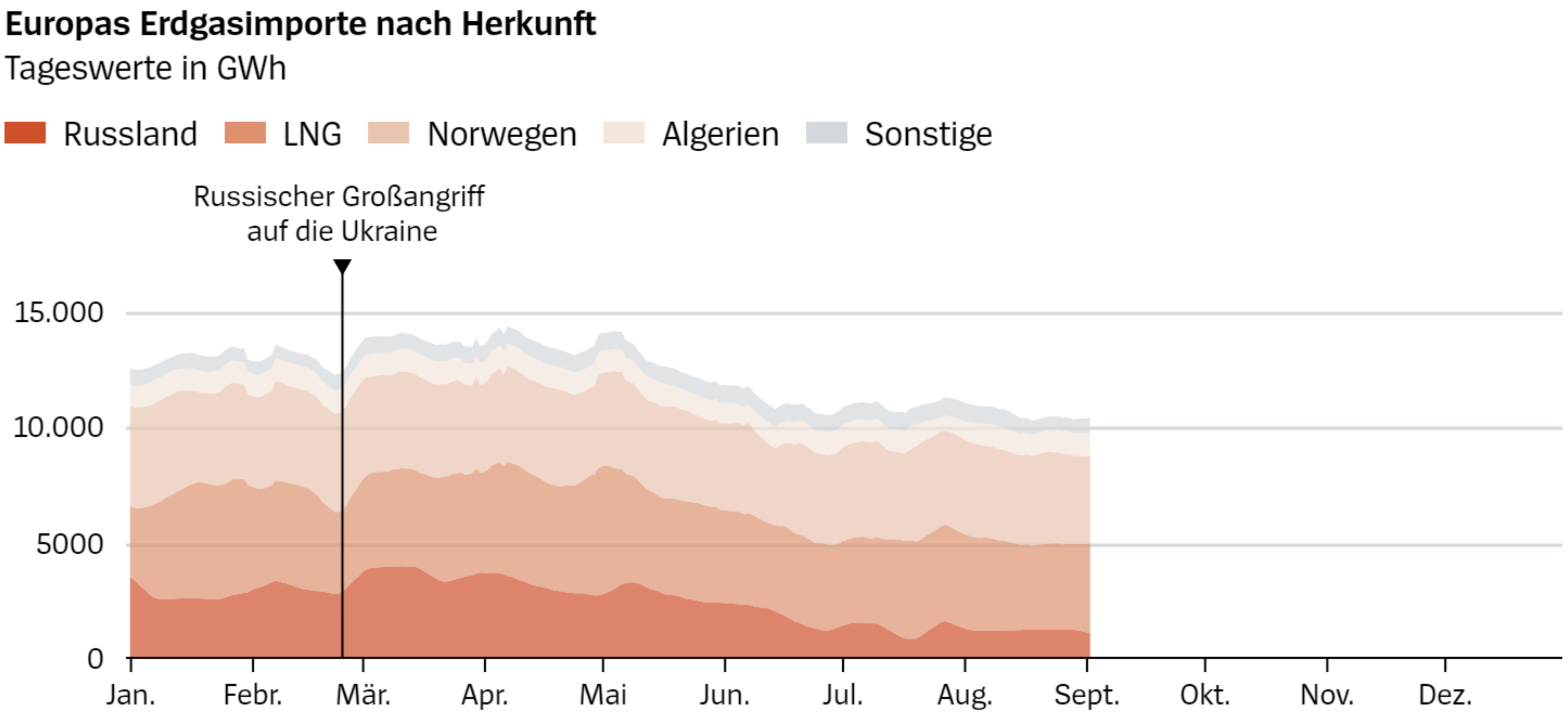
	Sub-Asset	IC Outlook (2Q23)	IC Comments	Recommended Positioning
Commodities	**Gold**	↔	▪ There are two opposite forces for Gold. ▪ On the one hand, gold is likely to face near term headwinds on back of higher rates (which is an opportunity cost for gold holders) and a strong dollar. ▪ On the other hand, increasing holdings of gold in global central bank reserves points to a de-dollarization trend which could act as tailwinds for the yellow metal.	▪ We believe that **some exposure to gold makes sense** as a means to hedge longer term inflation and geopolitical shocks. ▪ As it is difficult and extremely tricky to time and trade the yellow metal, our **recommended way to gain exposure is via external managers** (Delbrook - gold equities, Drakewood - gold futures/options)
	Oil	↔ / ↑	▪ Oil should continue to remain volatile on back of higher recession risks globally. ▪ However, geopolitics remain a wild card which makes the near-term outlook uncertain. ▪ Supply side conditions remain fairly tight and inelastic, especially with OPEC exercising some restraint on production despite high oil prices.	- N.A.

Forex – Overview

	Sub-Asset	IC Outlook (2Q23)	IC Comments	Recommended Positioning
FX	USD	↔/↑	▪ We anticipate the dollar to maintain its strength throughout 22 as recessionary fears accelerate. ▪ This trend could reverse should the FED start reversing its monetary policy, which is very unlikely in the coming quarters.	• Big picture, **we do believe the dollar's strength is overstretched.** • However, **bleaker growth outlook in other regions as well as a hawkish fed will continue to support current levels.** • Despite its strength, **longer term investors may consider gradually adding DM currency exposures** (EUR or GBP) as they are looking cheap versus the dollar.
	EUR	↔	▪ The EUR and GBP will likely continue to be weak in the next few quarters on back of widened interest rate differentials with the US and weaker economic backdrop ▪ That said, central banks in both regions are expected hike rates further which may narrow the interest rate differential eventually and provide some support for the currencies	
	GBP	↔		
	CNY	↓	▪ The PBOC is very supportive and has started decreasing interest rates. The CNY is likely to be soft if the rates differential widens with other central banks ▪ Chinese export volume started to decline in August due to weaker external demands, which does not bode well for the CNY - BCA (Sept. 8). To support the currency, the PBOC cut forex reserve requirement ratio for 200 bps (from 8% to 6%) on Sept. 5. This is unlikely to fully stop the depreciation. More actions could be expected from China.	
	JPY	↔	▪ The JPY is unlikely to rebound as the rates differential increases with other central banks.	

Europe Energy – Russian Gas Contribution

At ~11%, Russia overall has a lower contribution to European important than the headlines may suggest



Source: Der Spiegel, September 2022

EU Likely Able Cope without Nord Stream 1

20% gas demand reduction required (with a cold winter) to get to 90% storage level next winter again.

Theoretical annualised demand destruction/reduction (vs. baseline of 380bcm) to reach 90% storage again by 1 November 2023

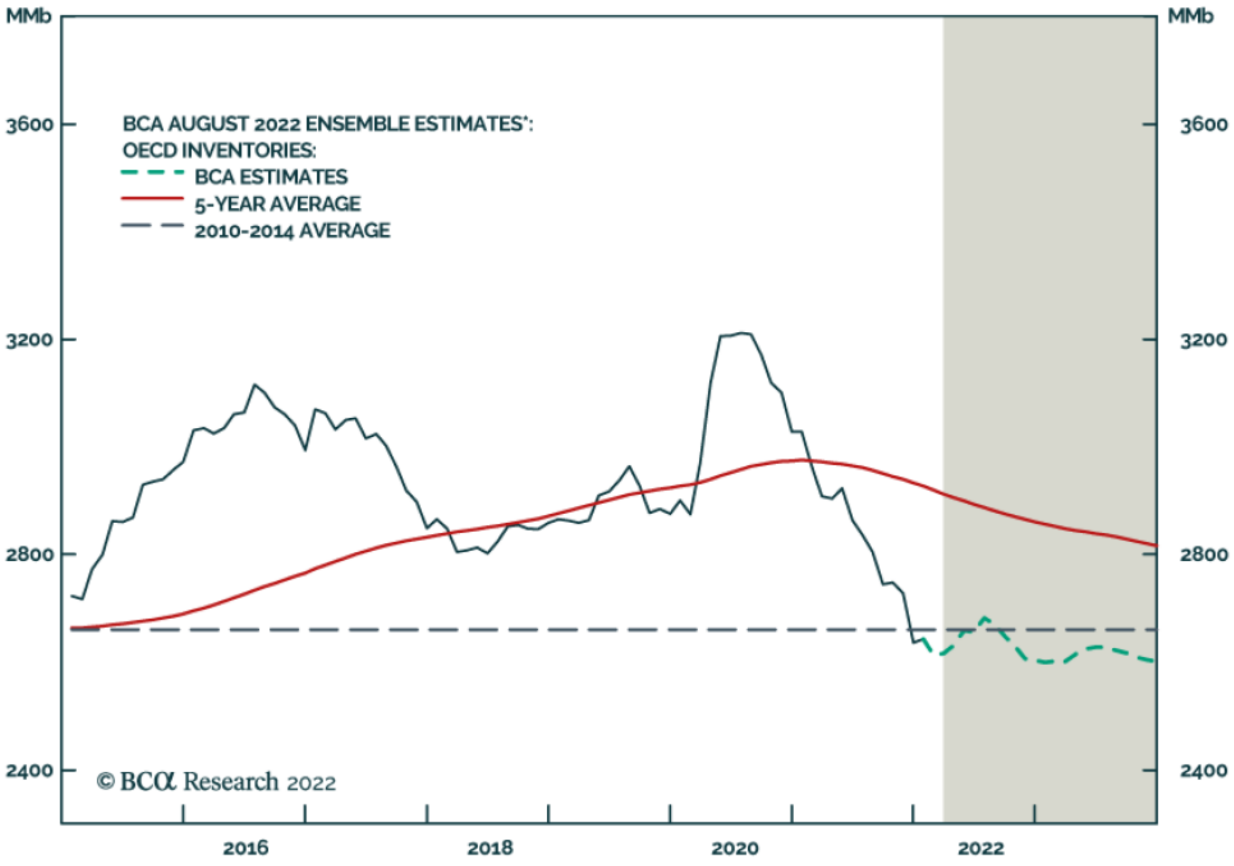
Bcm	**Scenario 1**	**Scenario 2 bis (most likely)**	**Scenario 2**	**Scenario 3**
Loss of Russian supply	-140	-125	-110	-99
Additional LNG	60	60	60	60
Additional gas pipelines	10	10	10	10
Net supply reduction	-70	-55	-40	-29
EU 27 Natural gas demand destruction/reduction needed	**-70**	**-55**	**-40**	**-29**
%	**-18%**	**-14%**	**-11%**	**-8%**
EU 27 Natural gas demand destruction/reduction needed (with a cold winter)	**-90**	**-75**	**-60**	**-49**
%	**-24%**	**-20%**	**-16%**	**-13%**

Source: Kepler Cheuvreux estimates, Scenario 1 zero Russian natural gas pipeline supplies from 1 November 2022, Scenario 2 bis: zero gas supply from Nord Stream 1 and latest Ukraine gas transit (equivalent to 15bcm on an annualised basis), Scenario 2: zero gas supply from Nord Stream 1 and Ukraine gas transit (equivalent to 30bcm on an annualised basis), Scenario 3: current Nord Stream 1 gas flows of 11bcm (annualised) corresponding to 20% capacity and Ukraine gas transit (equivalent to 30bcm on an annualised basis), or +41bcm of supply vs. Scenario 1

Source: Kepler Equity Research, September 2022

Tight Oil Supply Is Key To Price Support

Demand headwinds on weak economic backdrop (particularly in China) is balanced by tight supply



Source: BCA, September 2022

LIGHTHOUSE CANTON

✉ info@lighthouse-canton.com
✉ service@lighthouse-canton.in
in 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

First Floor, Aloft hotel,
Asset no. 5B, Hospitality
District, Aerocity
New Delhi, 110037 (India)

H9 EFC,12th Floor
Parinee Crescenzo,
G Block BKC
Mumbai 400051

Phone: +91 9650473961