

# Monthly Investment Memo

November 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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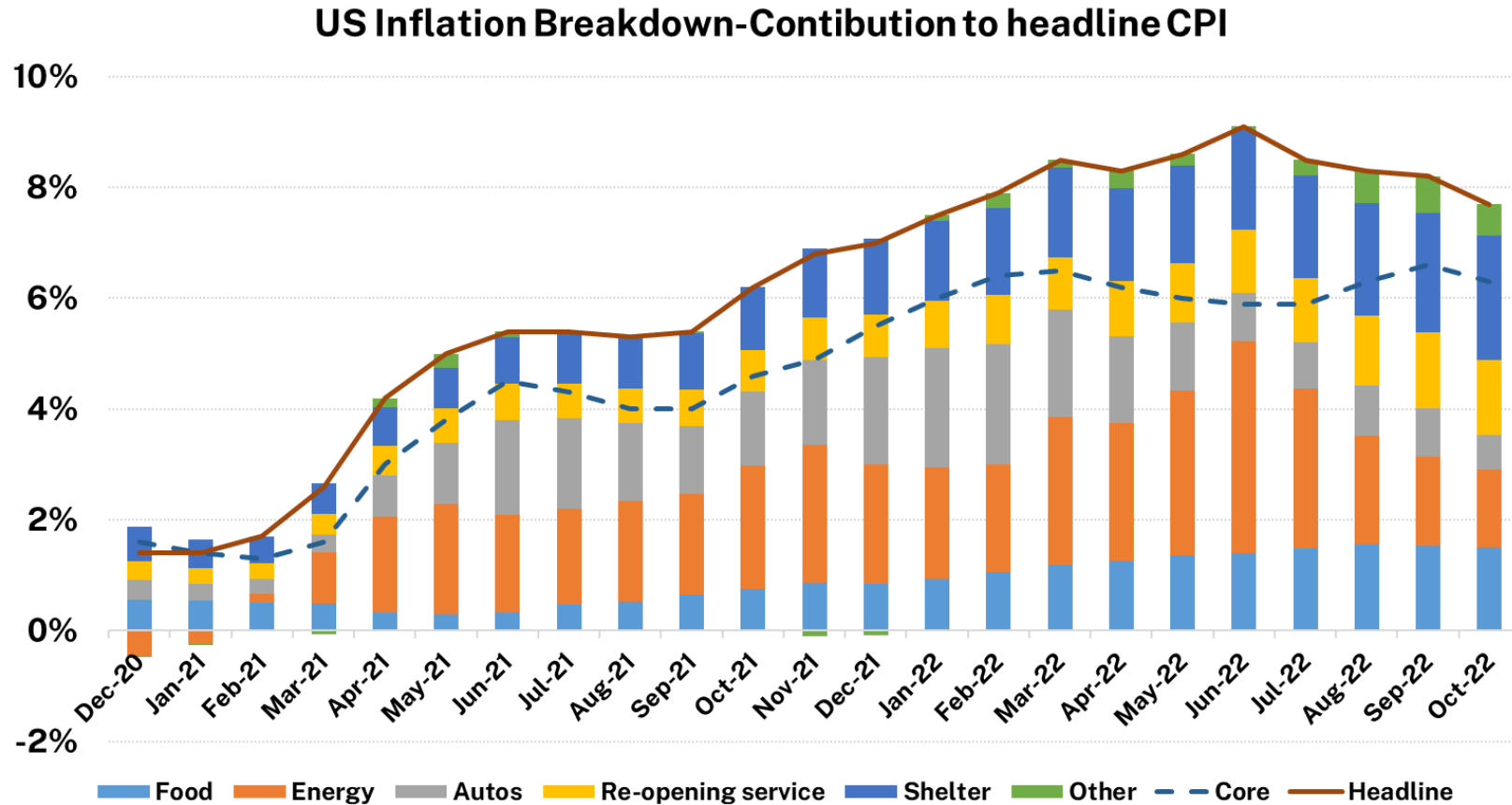
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# Macro

# 1

# Inflation Seems To Be Receding

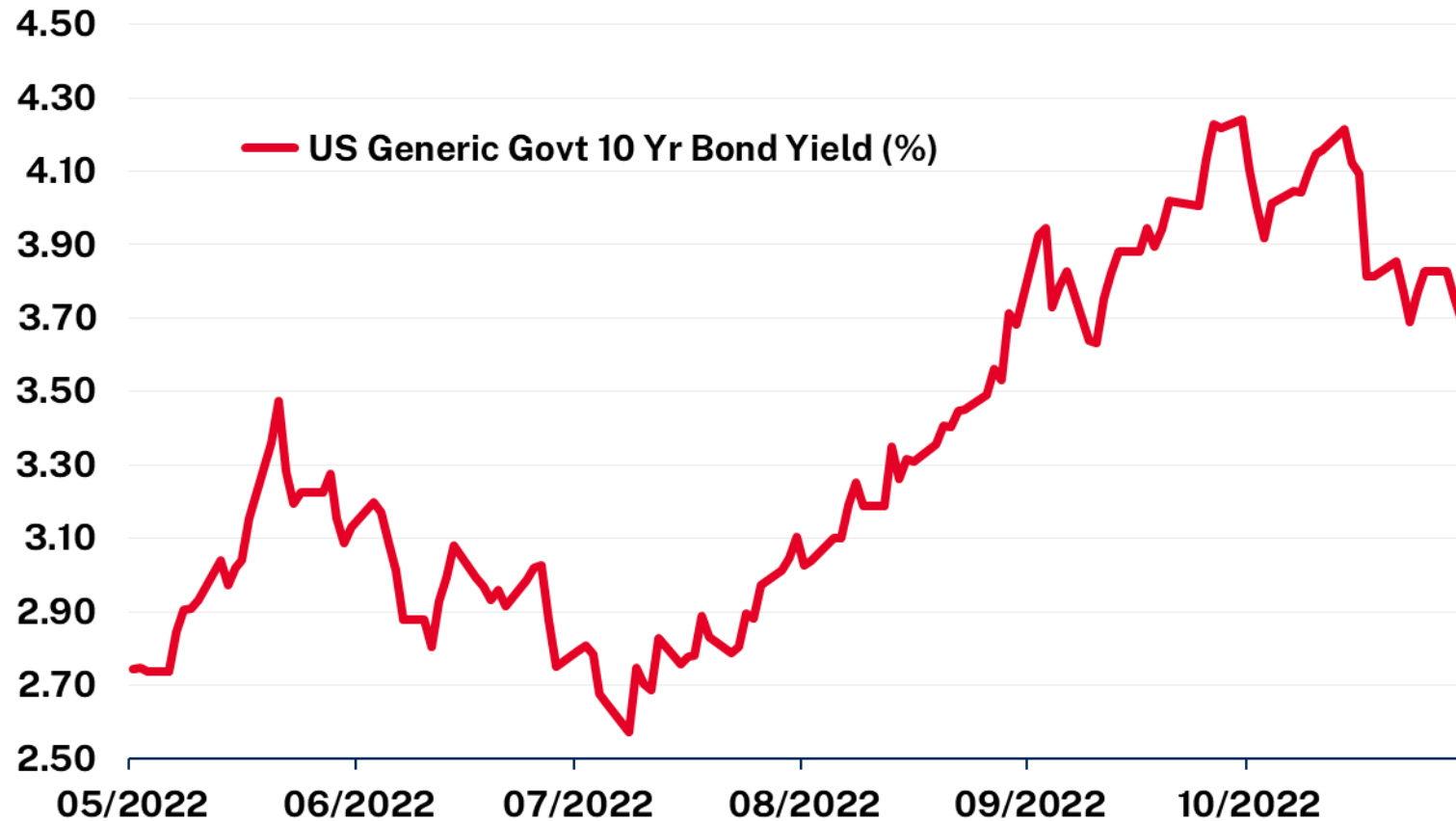
Headline Inflation has decreased consistently over the last 5 months which is rather good news



Source: Bloomberg, November 2022

# US Rates Are Receding too

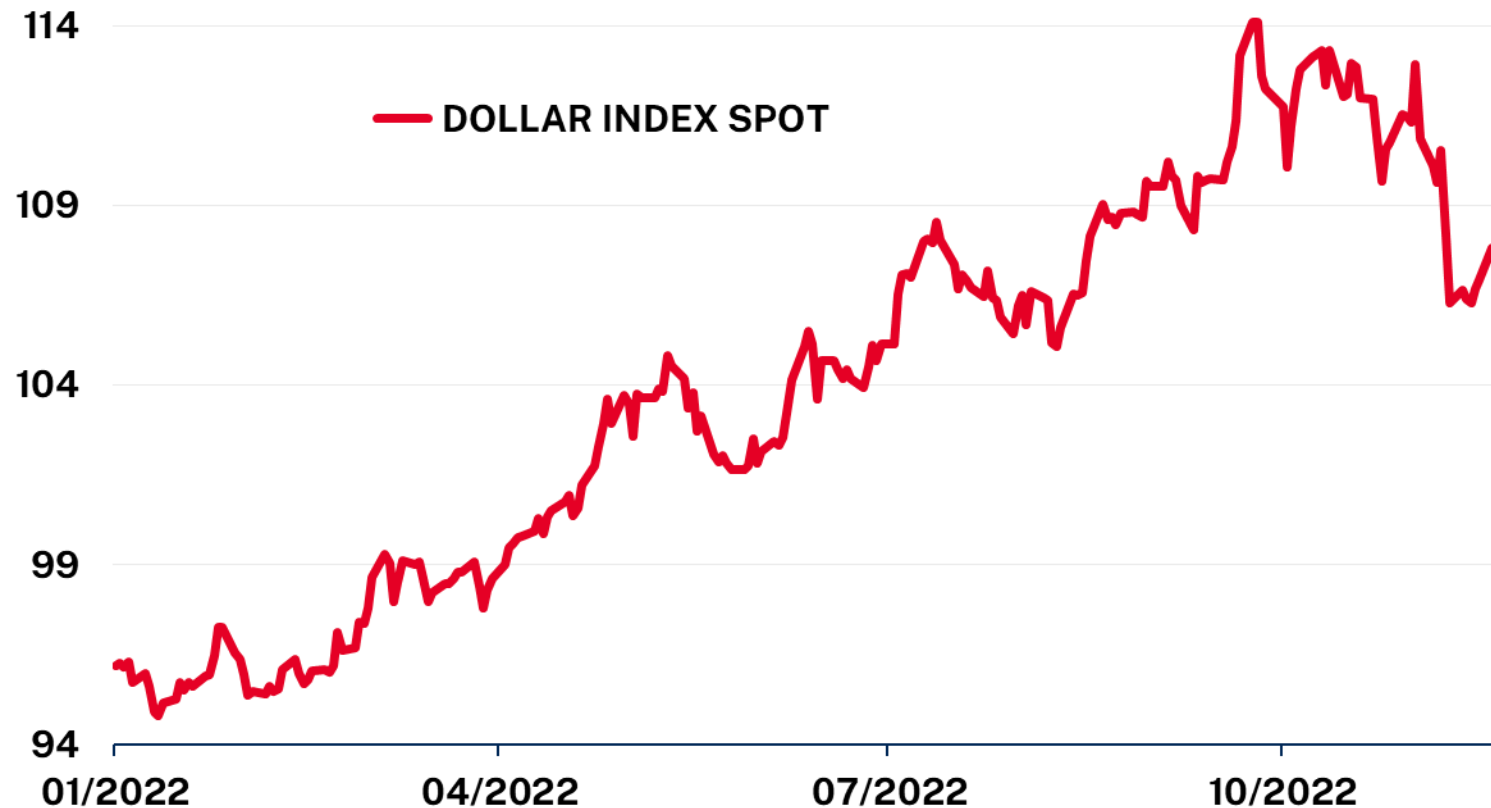
US 10-Year government bond yield have dropped by 50 bps (to 3.7%) from their recent peak



Source: Bloomberg, November 2022

# US Dollar Index Is Receding too

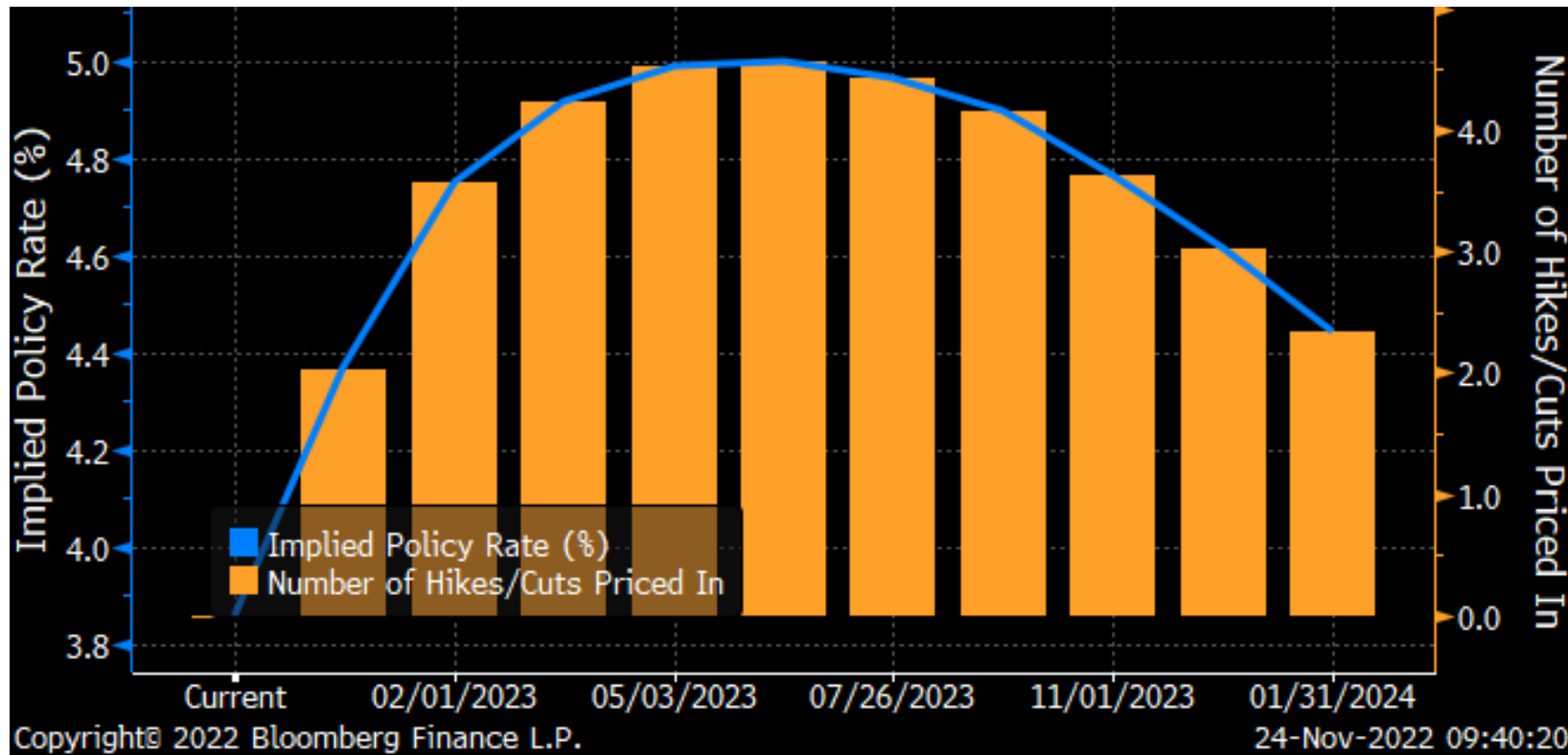
The US Dollar (Index) has corrected 7% against a basket of major currencies over the last 2 months



Source: Bloomberg, November 2022

# Another 100 bps Hike Priced By Markets

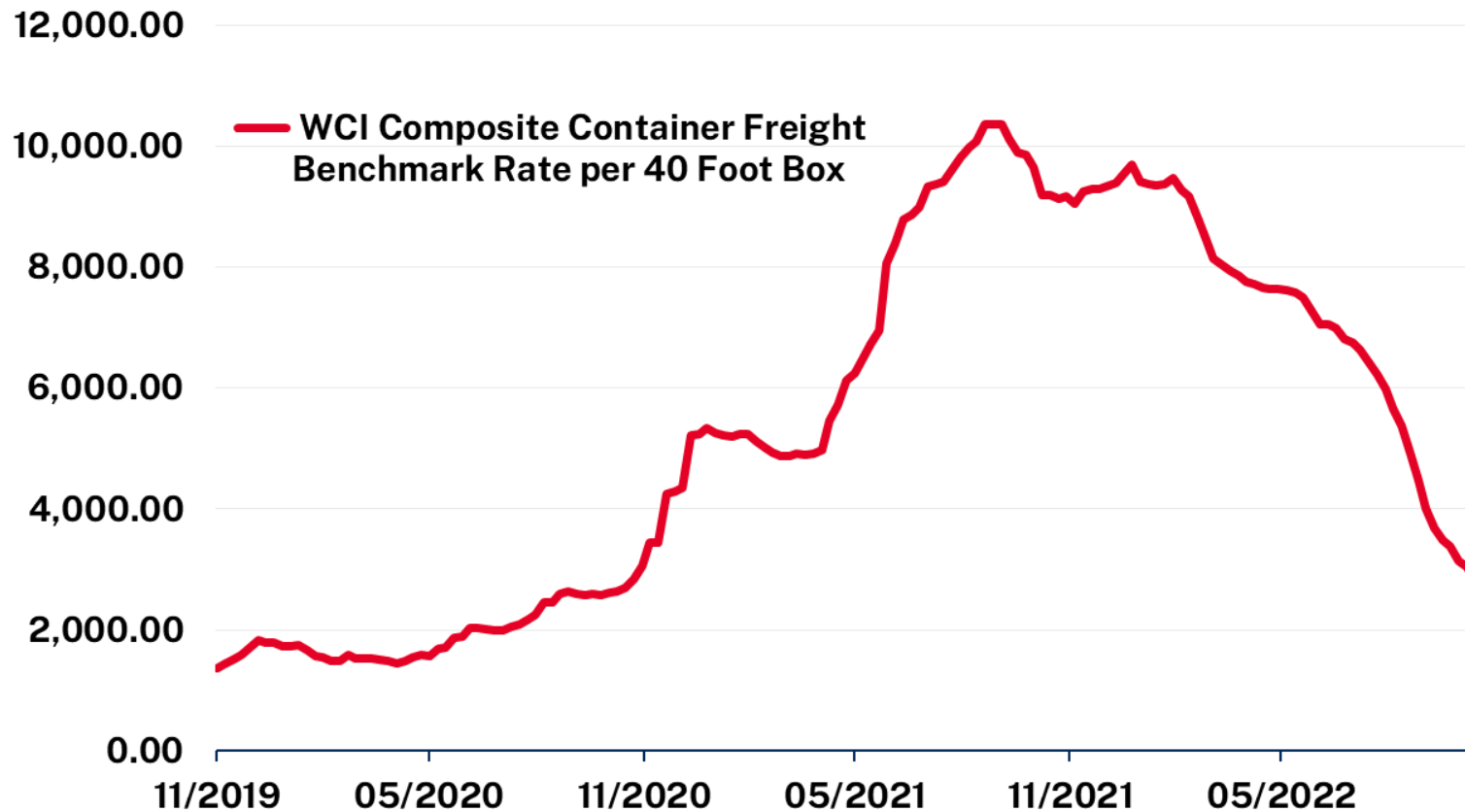
Investors are expecting the Fed to deliver another 100-bps hike (by Q2 2023), before pausing



Source: Bloomberg, November 2022

# Freight Prices Are Decreasing Sharply

Freight prices has corrected 75% from their peak, a sign of re-opening as well as deglobalisation



Source: Bloomberg, November 2022



# Fixed Income

# 2

# Are stocks still a good yield enhancer?

Bond yields are at multi-year highs against dividend yields.



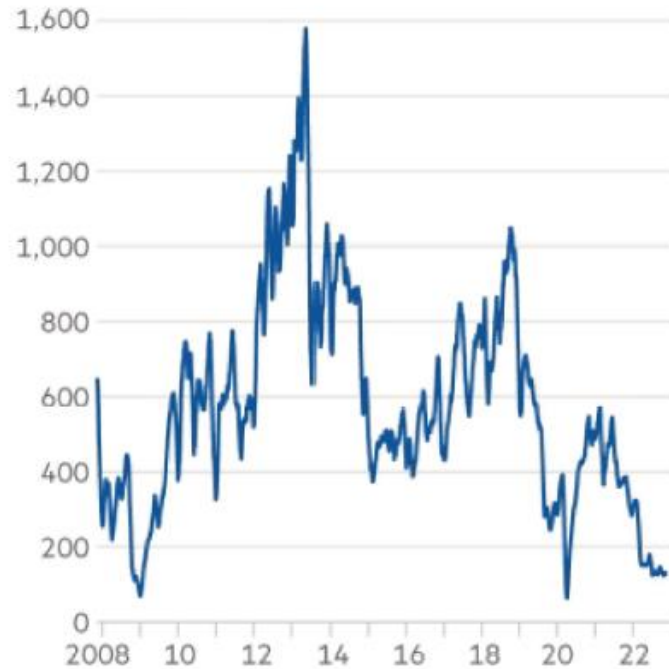
Source: LGT, November 2022

# US Treasury Market Pressure

**Liquidity in the US treasury market deteriorated to near pandemic outbreak/GFC level.**

**Hard to trade in Treasuries:**  
liquidity has deteriorated ...

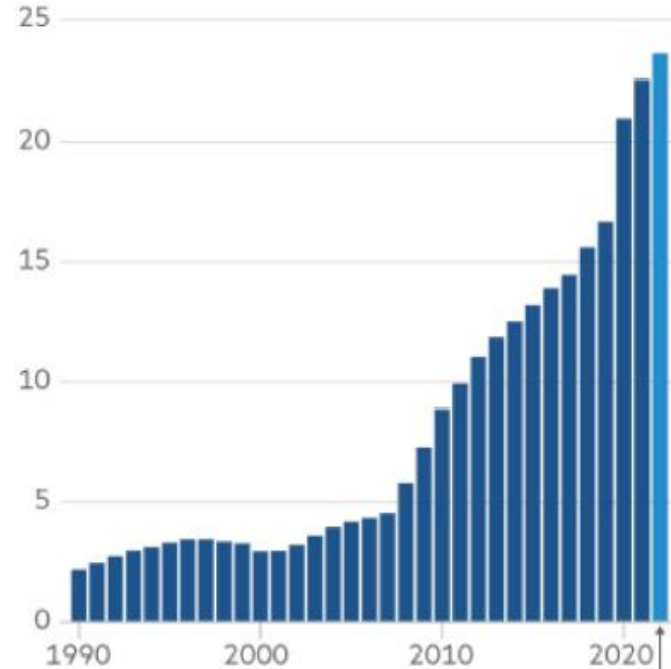
Market depth (\$mn, one-month moving average)\*



\*JPMorgan metric of depth in two-, five-, 10- and 30-year Treasuries, converted to 10-year equivalents

... in a market that has become  
vastly larger

Total amount of Treasury debt outstanding (\$tn)

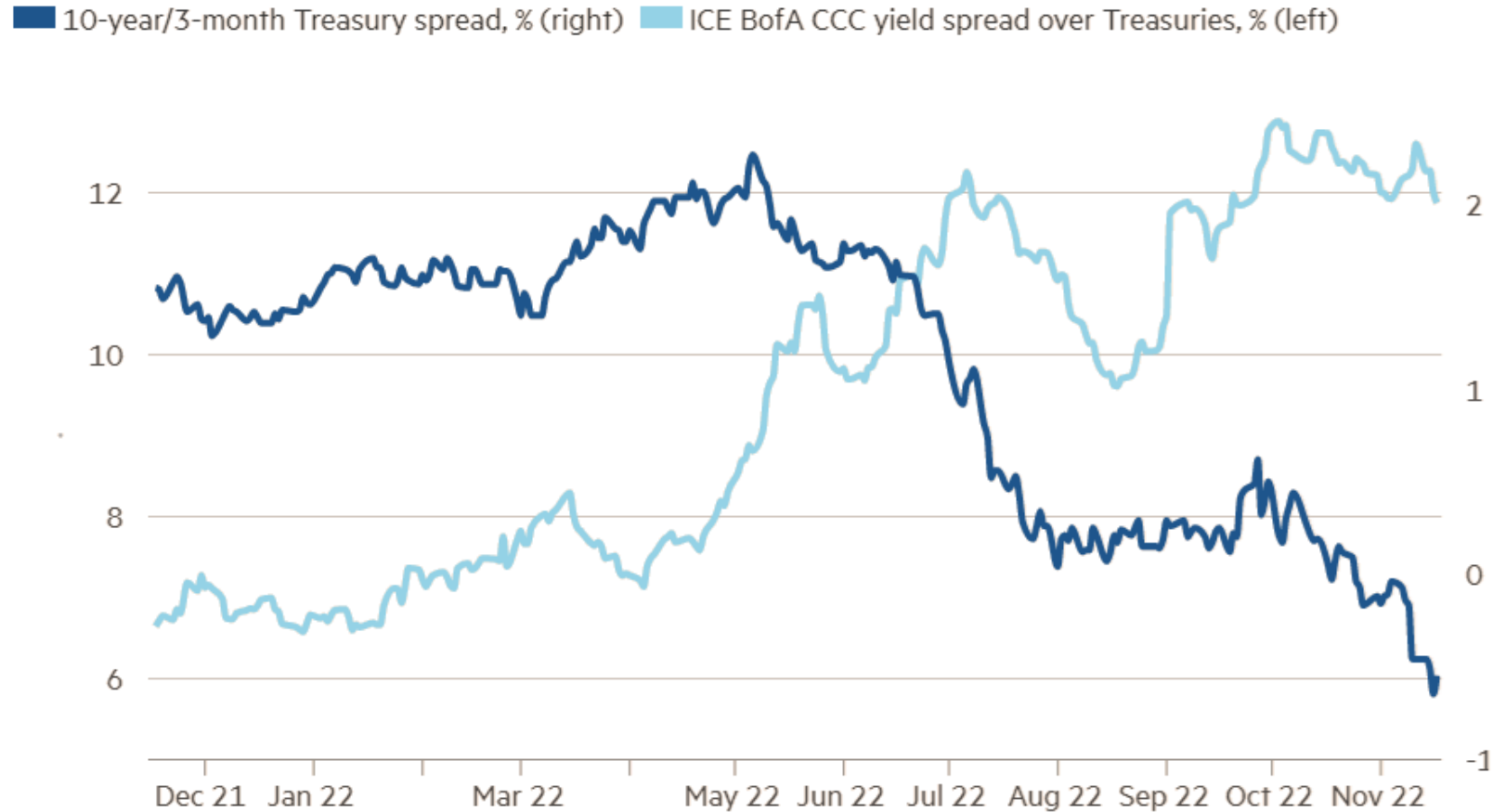


2022 is as of October

Source: JPMorgan, Financial Times, November 2022

# US Treasury 10-Year/3-Month Spread Inverted

**A recession could push Fed to pivot earlier, which could explain the tightening CCC credit spread.**



Source: Financial Times, November 2022

# Fixed Income Summary

## Key Views

- Central banks likely to **remain “reasonably” hawkish** in face of sticky inflation
- **Rates / Yields likely to drift higher** until Q2 2023
- **Recession likely to happen in 2023** in the US / Europe while China slows down quickly
- **Duration to be extended by Q2 2023**

## Recommended Positioning

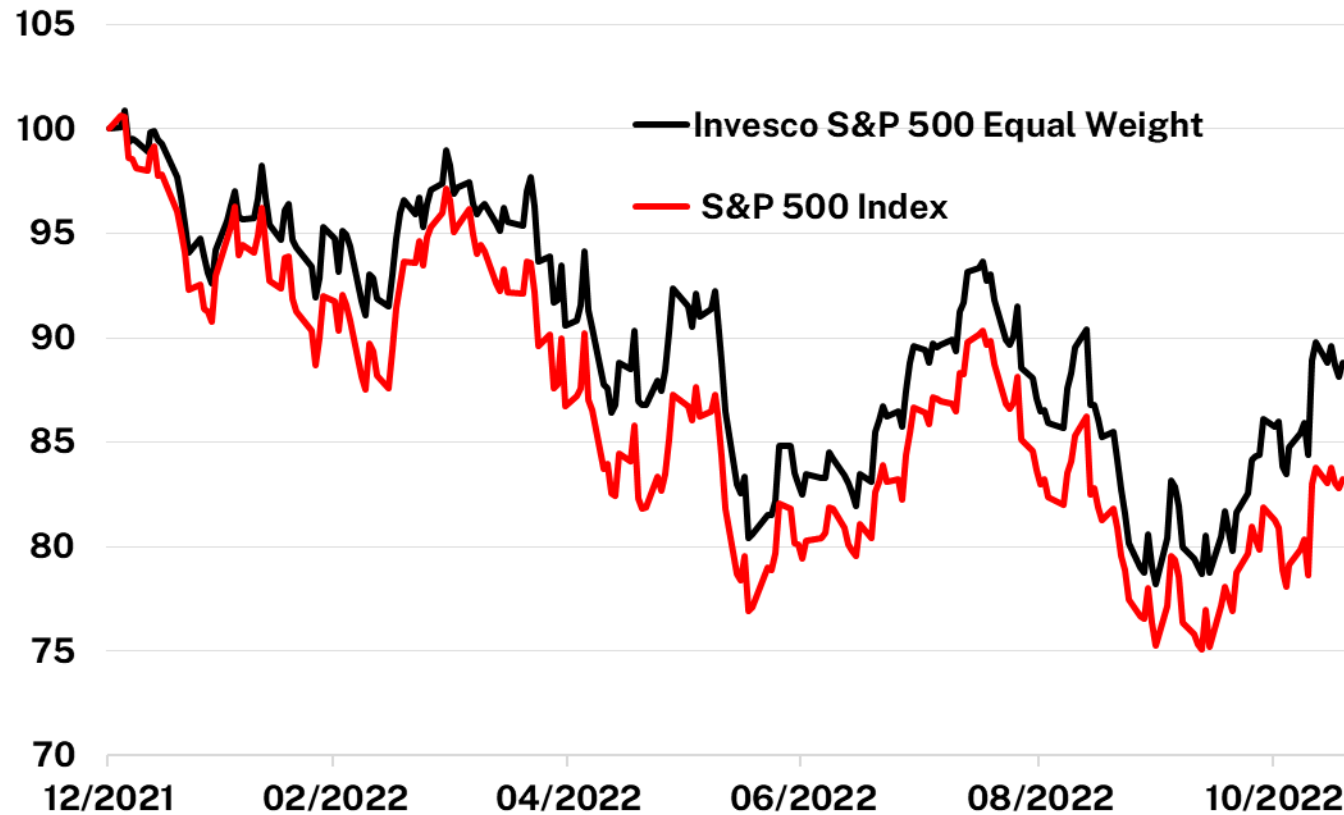
- Allocate to **Investment Grade Bonds** (Duration < 3).
- Add **Distressed managers** to benefit from dislocations and mispricing in the High Yield Space.
- Avoid **Weak Credit issuers** (BB- and lower).
- **Avoid Non-USD bonds** in likelihood of continued dollar strength

# Equities

# 3

# Mega Caps Have Underperformed YTD

The S&P 500 equally weighted has outperformed the “market cap weighted index” in 2022



Source: FT.com November 2022

# The VIX Has Not Even Reached 40 This Year

The correction on risky assets has happened without any major stress



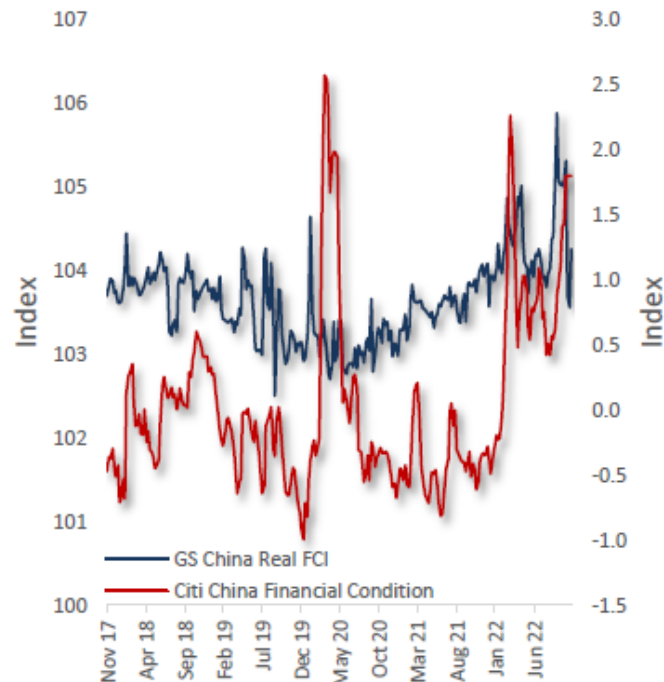
Source: CBOE, November 2022



# Restoring of Confidence Remains Key in China

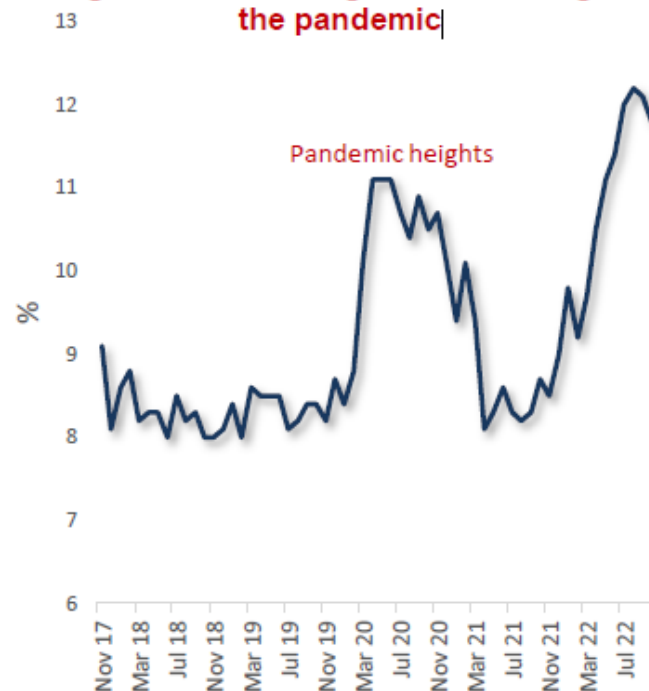
**Policy support has been ample but consumer sentiment unlikely to recover soon given RE headwinds**

**China's financial conditions are loose**



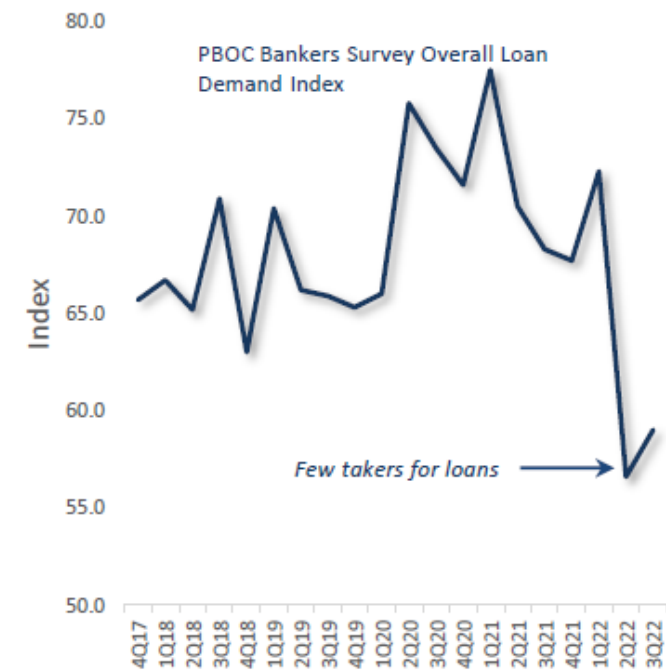
Source: Bloomberg, November 2022

**Its current M2 money supply growth is even higher than during the pandemic**



Source: Bloomberg, November 2022

**But its loan demand has collapsed**



Source: Bloomberg, November 2022

Source: LGT, November 2022

# Equities Summary

## Key Views

- Central Bankers are **deflating “the bubble” in an orderly manner.**
- Corporate **earnings (worldwide) likely to be revised lower** in 2023.
- We expect a **mild correction next year** (-10% for developed markets) with several “Bear Market Rallies”
- High **dispersion amongst economies** (US, EU, China, India) and **sectors** (Tech, Cyclical, etc.)

## Recommended Positioning

- Stay invested with **Long / Short managers** (geographical or sectorial expertise).
- **Sell options depending on volatility levels (Puts, Fixed Coupon Notes)** to get delivered good names at lower valuations.
- **Wait for earnings to bottom** before adding equities directly (probably mid-2023).
- **Quality stocks only**

# Recommendations

# 4

# Model Portfolios Composition (November 24th, 2022)

	Defensive	Growth	Comments
Bonds (Bonds, Funds)	25%	10%	Inv. Grade Bias + Short Duration
Long/Short		5%	Sectorial Expertise
Distressed	10%	10%	Strongest Conviction
<b>Fixed Income</b>	<b>35%</b>	<b>25%</b>	
Long/Short	10%	45%	Geographical / Sectorial expertise
Systematic Allocation		5%	Diversification Benefit
<b>Equities</b>	<b>10%</b>	<b>50%</b>	
Alt. Lending	15%		Income, Diversification
Macro Relative Value	15%		FX, Rates
Macro Directional	5%	10%	FX, Rates
Volatility RV	5%	5%	Diversification Benefit
Insurance	5%		Diversification Benefit
Commodities	5%	5%	Diversification Benefit
<b>Alternatives</b>	<b>50%</b>	<b>20%</b>	
Gold ETC (SGLN)	5%	2.5%	Play on peak dollar
Manulife US REIT (MUST SP)		2.5%	Play on attractive yield (13%) + cheap valuation
<b>Tactical/ Opportunistic</b>	<b>5%</b>	<b>5%</b>	
<b>Expected Return</b>	6-8%	>10%	
<b>Expected Drawdowns</b>	< 5%	< 20%	

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