

# Investment Playbook Weekly Update

July 11<sup>th</sup> – July 15<sup>th</sup>, 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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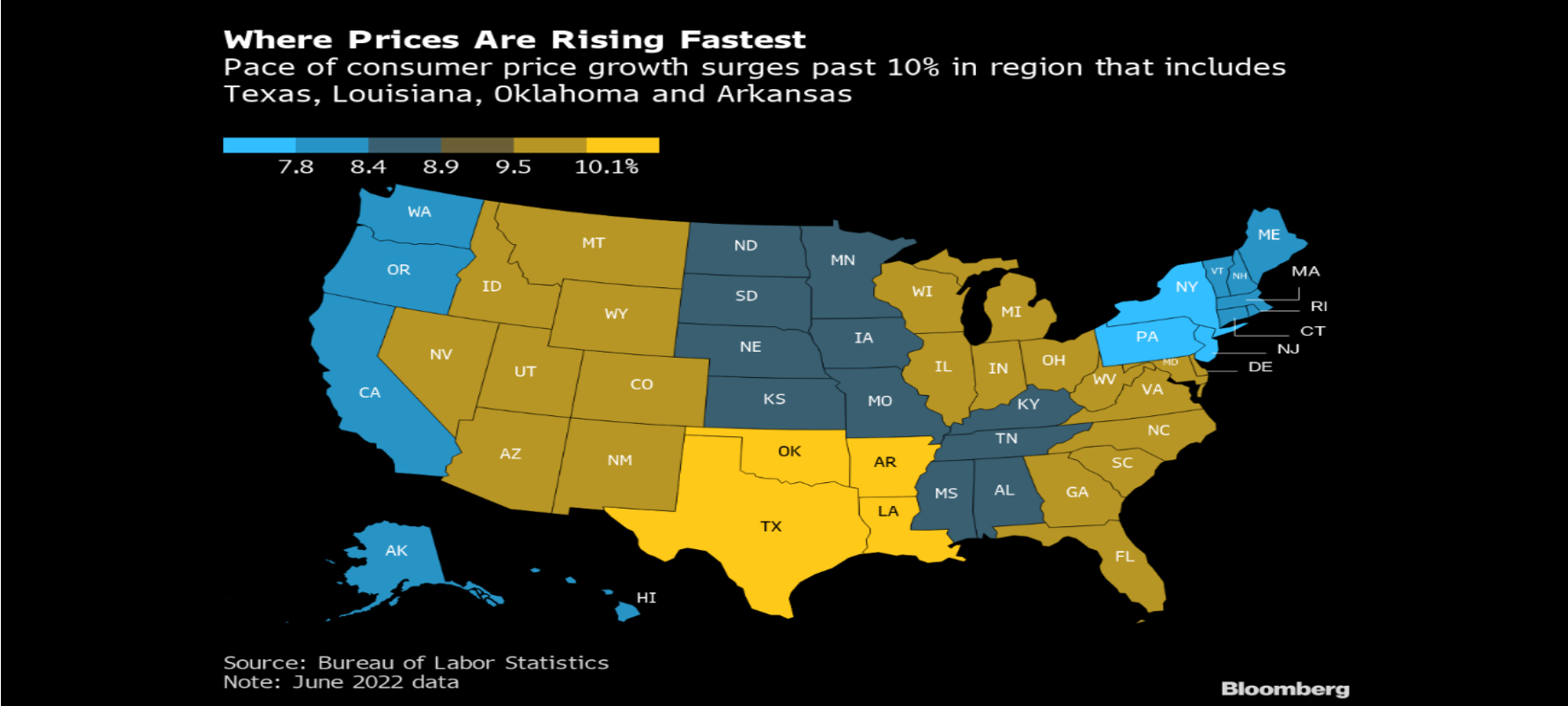
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# Macro Highlights

# 1

# US CPI- More Pain Ahead

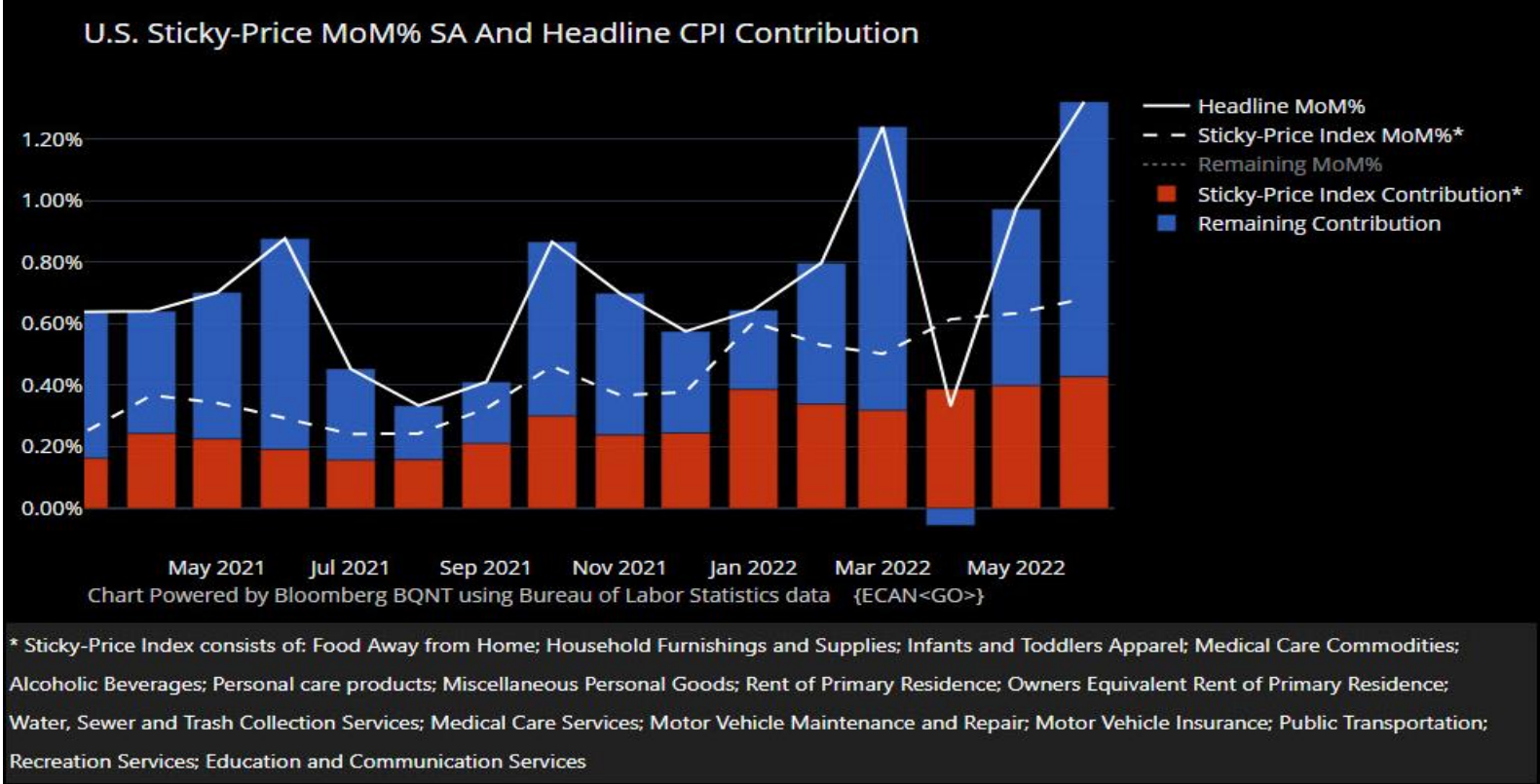
*Headline CPI grew 9.1% YoY. Core CPI grew by 0.7% MoM.*



Source: Bloomberg, July 2022

# US CPI- Peaked Out?

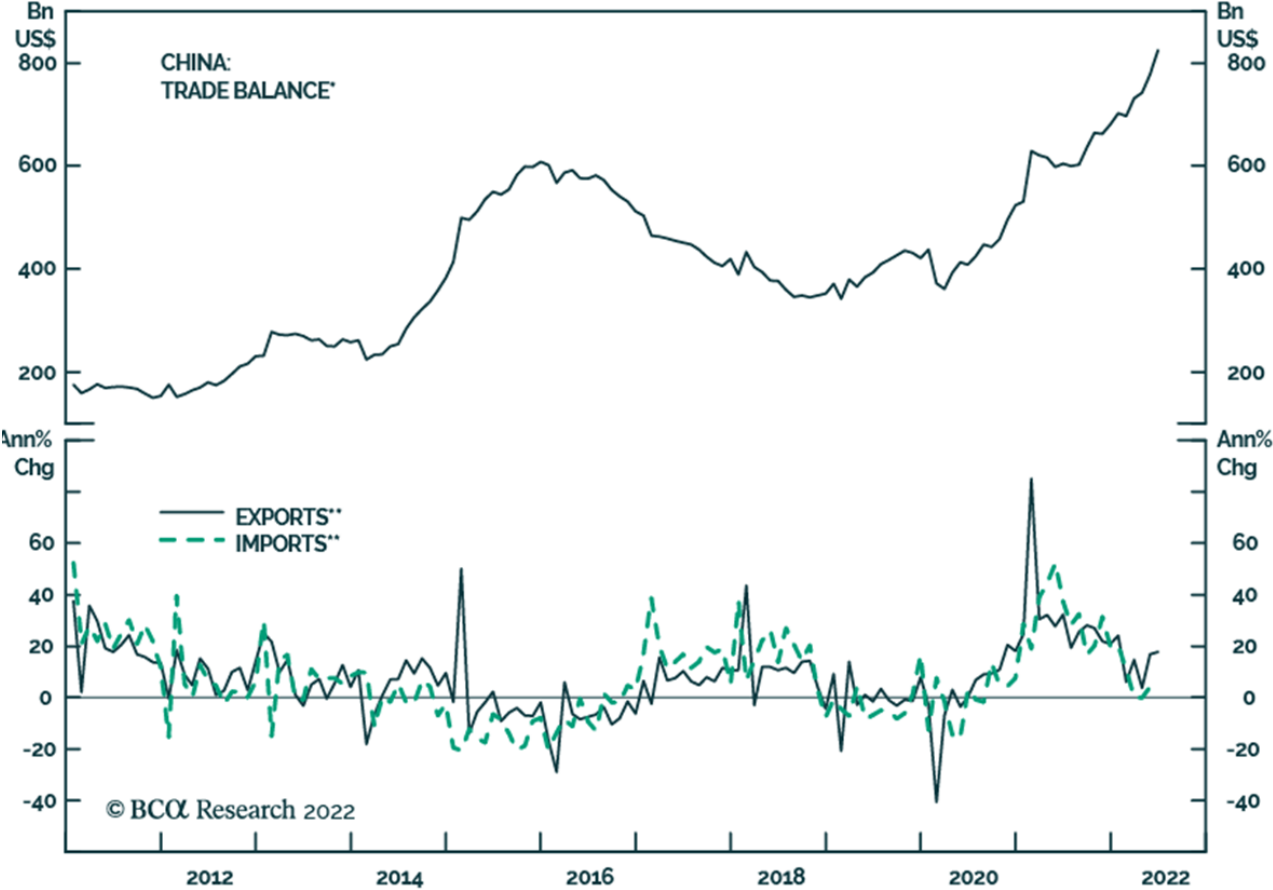
*Unlikely as contribution of sticky components gradually inch up.*



Source: Bloomberg, July 2022

# China's New Record of Trade Surplus

*June exports jumped to 18% YoY, while imports slowed down to 1% YoY.*



\* SHOWN AS A 12-MONTH MOVING TOTAL  
\*\* BOTH SERIES ARE IN USD. EXPORTS TRUNCATED AT 85, FEBRUARY 2021 WAS 154.74%

Source: BCA, July 2022

# Fixed Income Highlights

# 2



# Credit Spreads Not There Yet !

*Credit spreads remain below levels seen during US recessions*

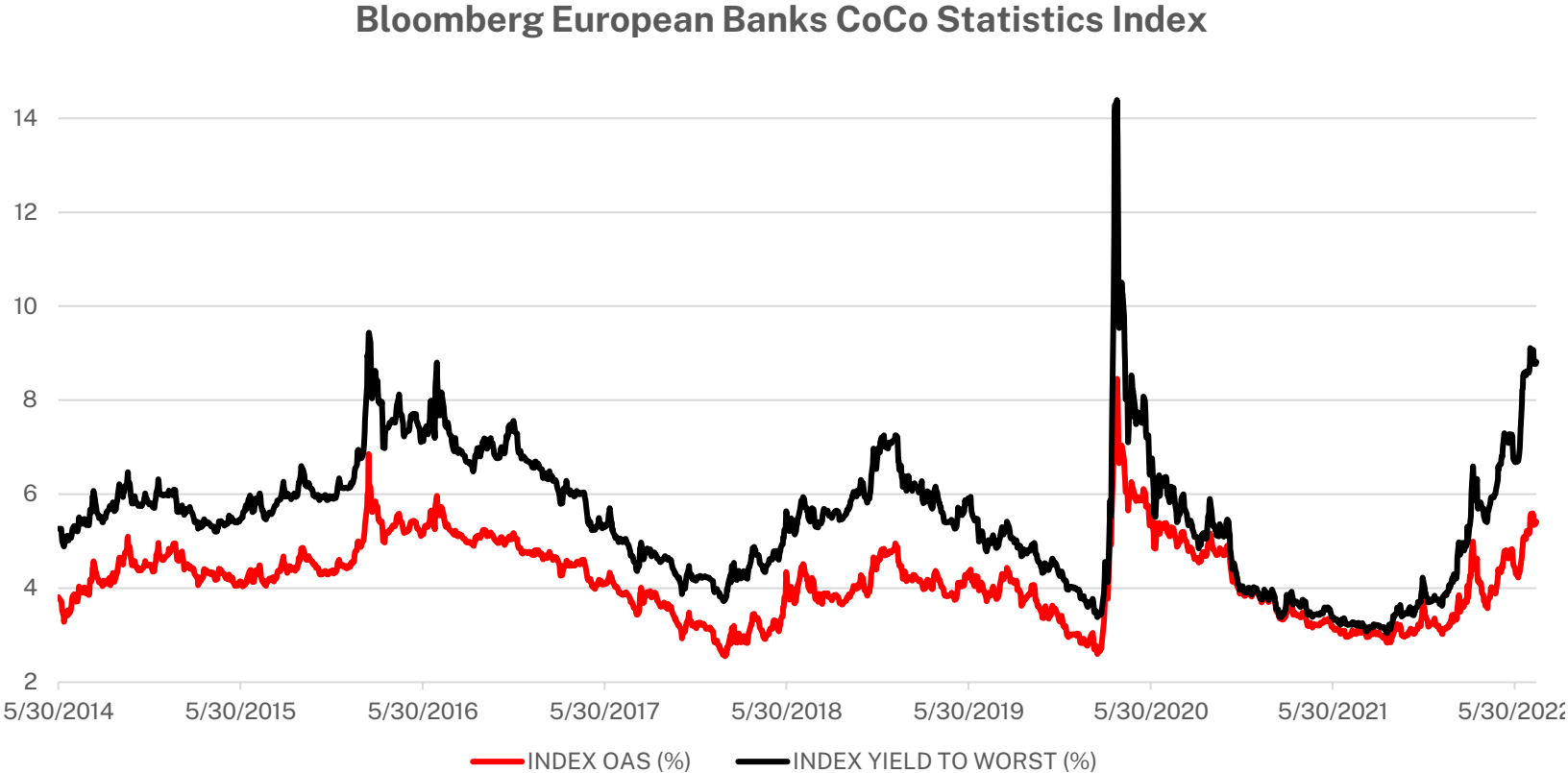


Source: Bloomberg, July 2022



# Contingent Convertibles- An Opportunity

*Spread widening despite healthier balance sheet.*



Source: Bloomberg, July 2022

# Fixed Income – Executive Summary

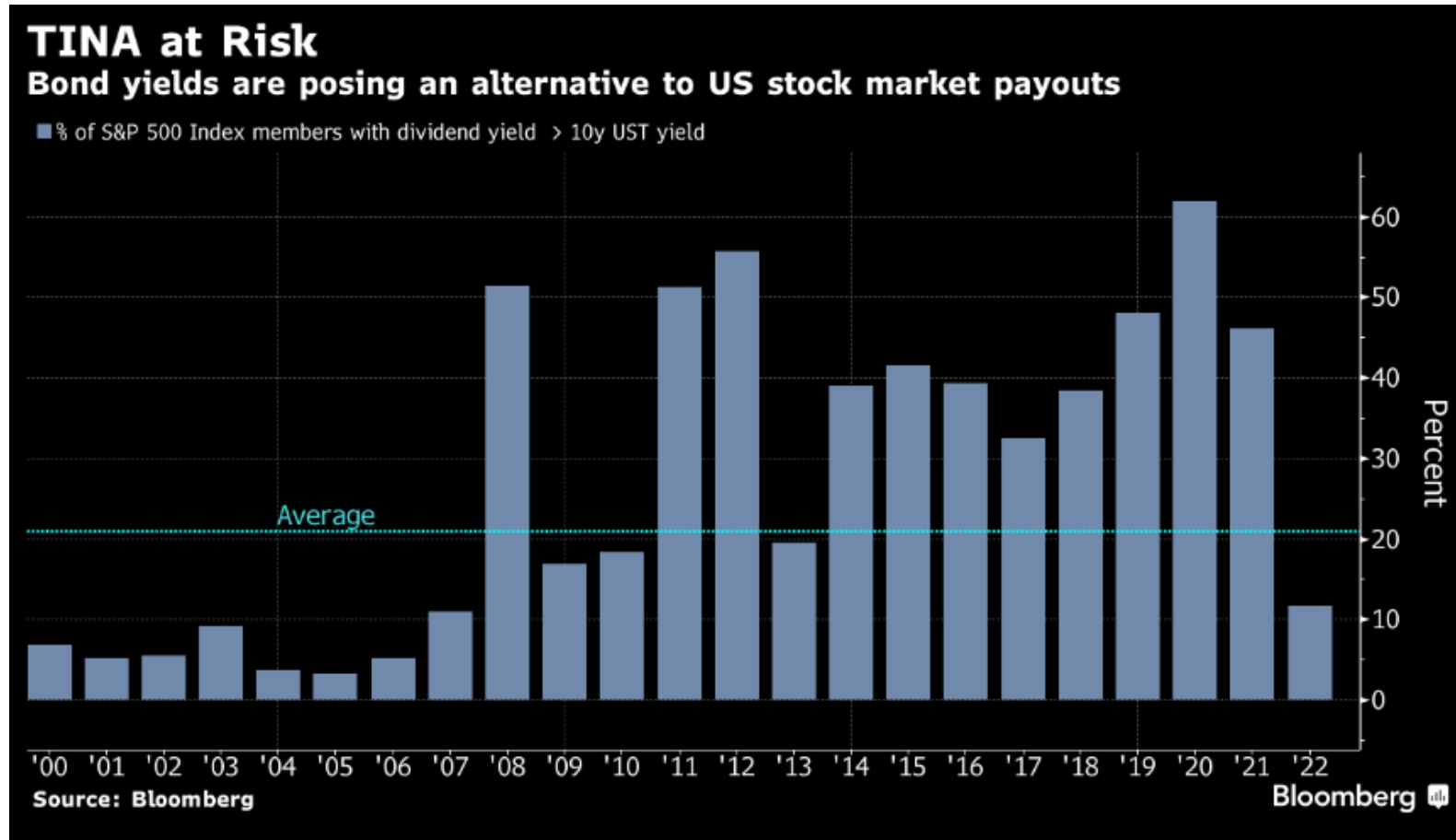
- US Treasury yields spiked sharply after hotter than expected CPI print came in for the month of June. Core CPI grew by 0.7% MoM with contributions from sticky components becoming increasingly conspicuous. UST 10Y spiked to over 3% while the UST 2Y touched 3.15% in anticipation of a more aggressive Fed. Consequentially, the 2s10s inverted by almost 17 bps, a level not seen since 2000 . 2s10s inversion are usually seen as a harbinger of recession and sustained inversion by these levels will be a clear warning of an impending recession.
- The bond markets globally though are still pricing in a mild recession in the US as can be evidenced in the current USD Corporate OAS levels . Though elevated compared to the post pandemic levels , it trades significantly lower to the levels during the 2008 or 2020. **We recommend adding high quality Investment Grade papers with duration under 4 years in the portfolio of Defensive and Balanced investors.** These offer an attractive risk reward profile in the likely event of a recession in the US.
- Yields in USD denominated Coco's of European issuers are becoming increasingly attractive. Despite healthier balance sheets the OAS widened in the recent past offering Aggressive investors an attractive risk reward profile. **We recommend adding quality Coco's of European issuers in the portfolios of Aggressive investors.**

# Equities Highlights

# 3

# End of “There is no alternative” (TINA)

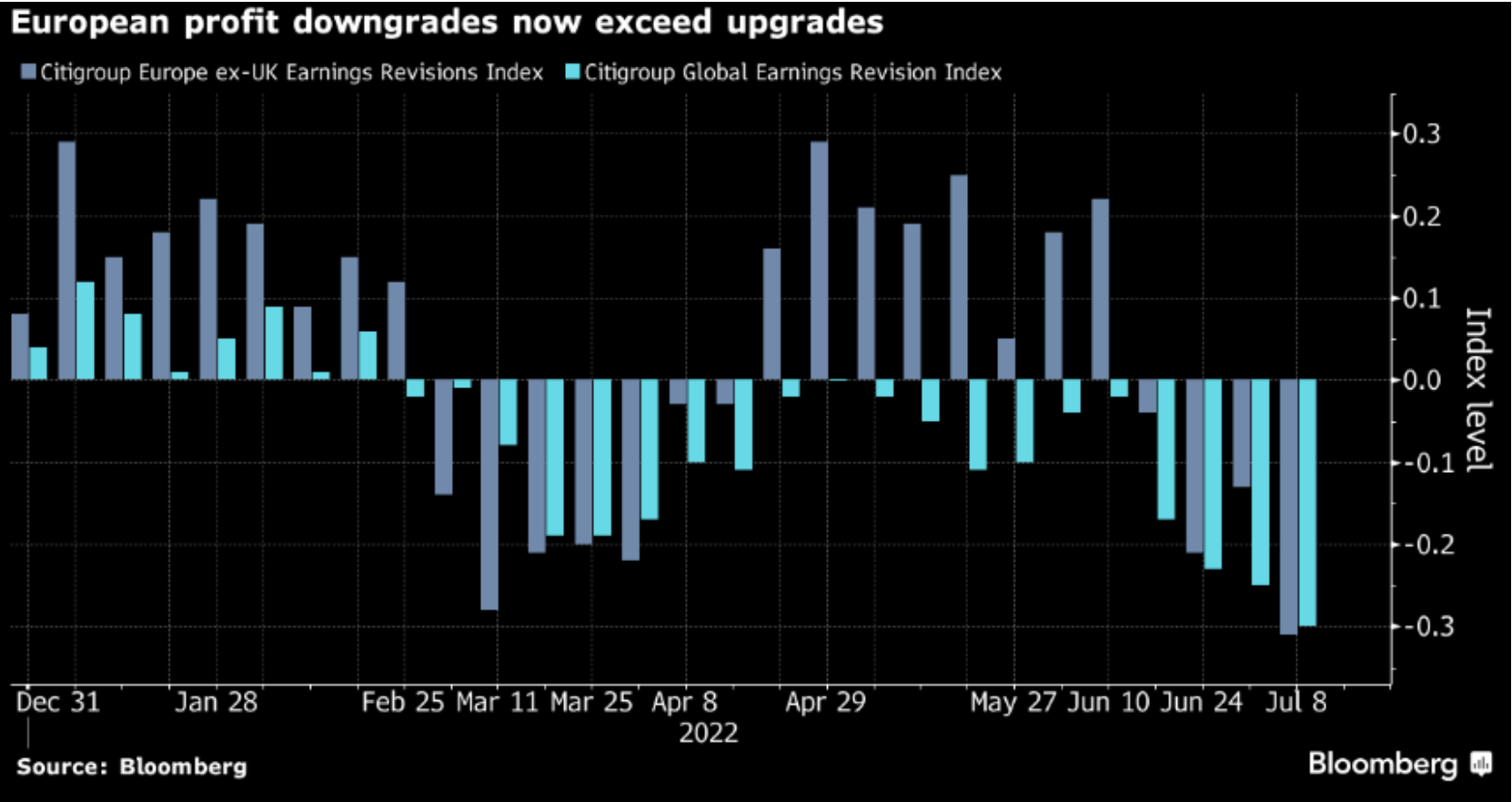
*Bonds yields are increasingly looking more attractive, compared to equities*



Source: Bloomberg, July 2022

# Earnings downgrades outpace upgrades

*Earnings downgrades for European stocks coming thick and fast*



Source: Bloomberg, July 2022

# Equities – Executive Summary

- **US CPI increased 9.1% in June on a YoY basis**, coming in above expectations, which prompted the markets to not only be assured of a 75-bps rate hike in the upcoming FOMC meet, but also price in a **one in three chance of a full percentage rate hike**. Additionally, **US real average weekly earnings contracted 4.4% YoY**.
- We reaffirm our view of analyst expectations of corporate margins being overly optimistic, and with the given contraction in real earnings and record high inflation eating into pandemic era household savings, **we do not see corporate earnings growing at the pace that has been priced in** and expect earnings expectations to be revised lower post the release of Q2 earnings.
- Chinese Q2 GDP growth data will be released on Friday, with the current estimates being that of a 1.2% expansion, many analysts however say that they won't be surprised by a **negative growth** reading, going by the high frequency indicators. **Chinese markets cooled off this week by approximately 3.5%**, after **fresh fines were imposed on Alibaba and Tencent**.

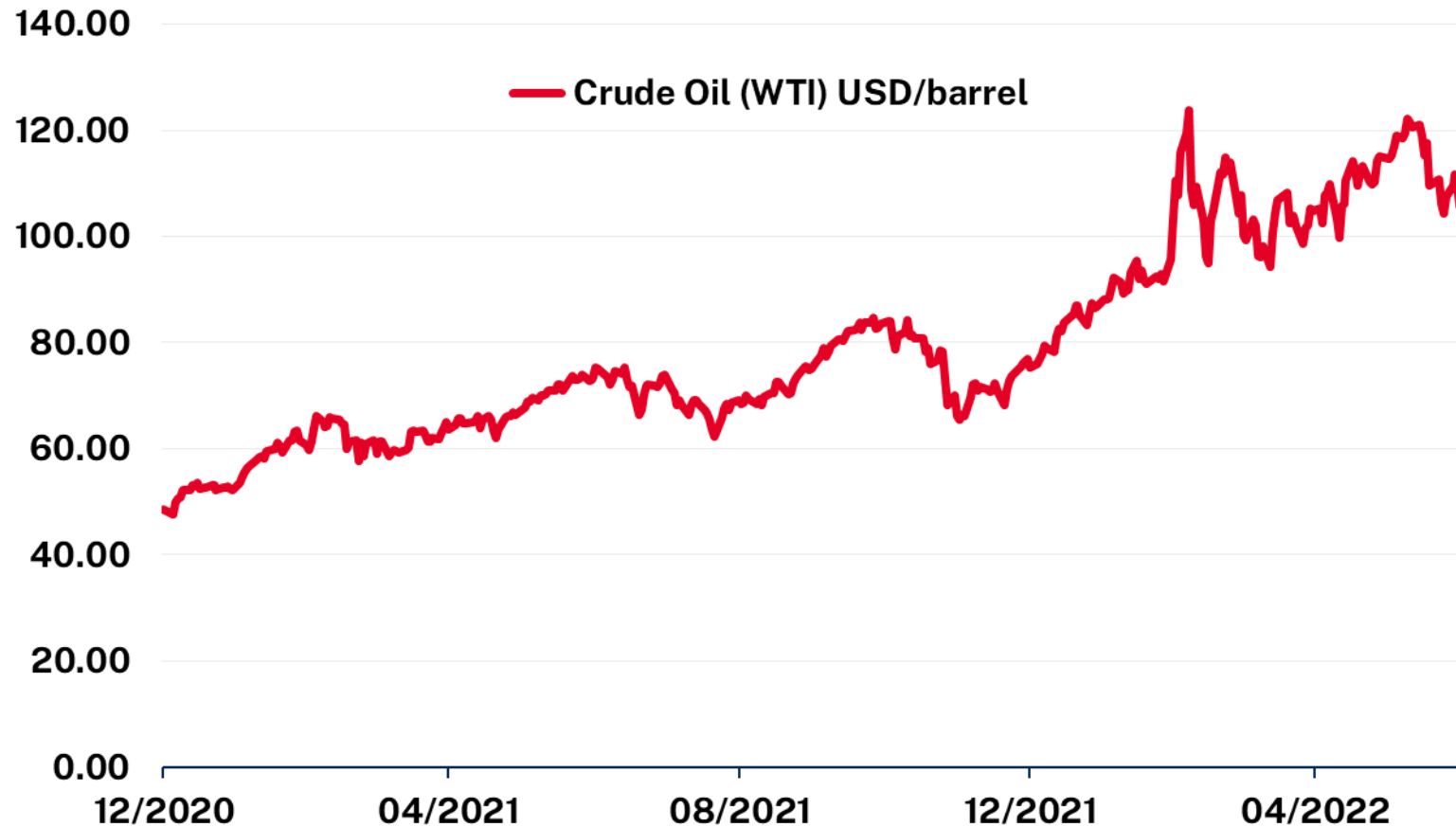
# Forex, Commodities & Alternatives Highlights

# 4



# Oil back below 100\$

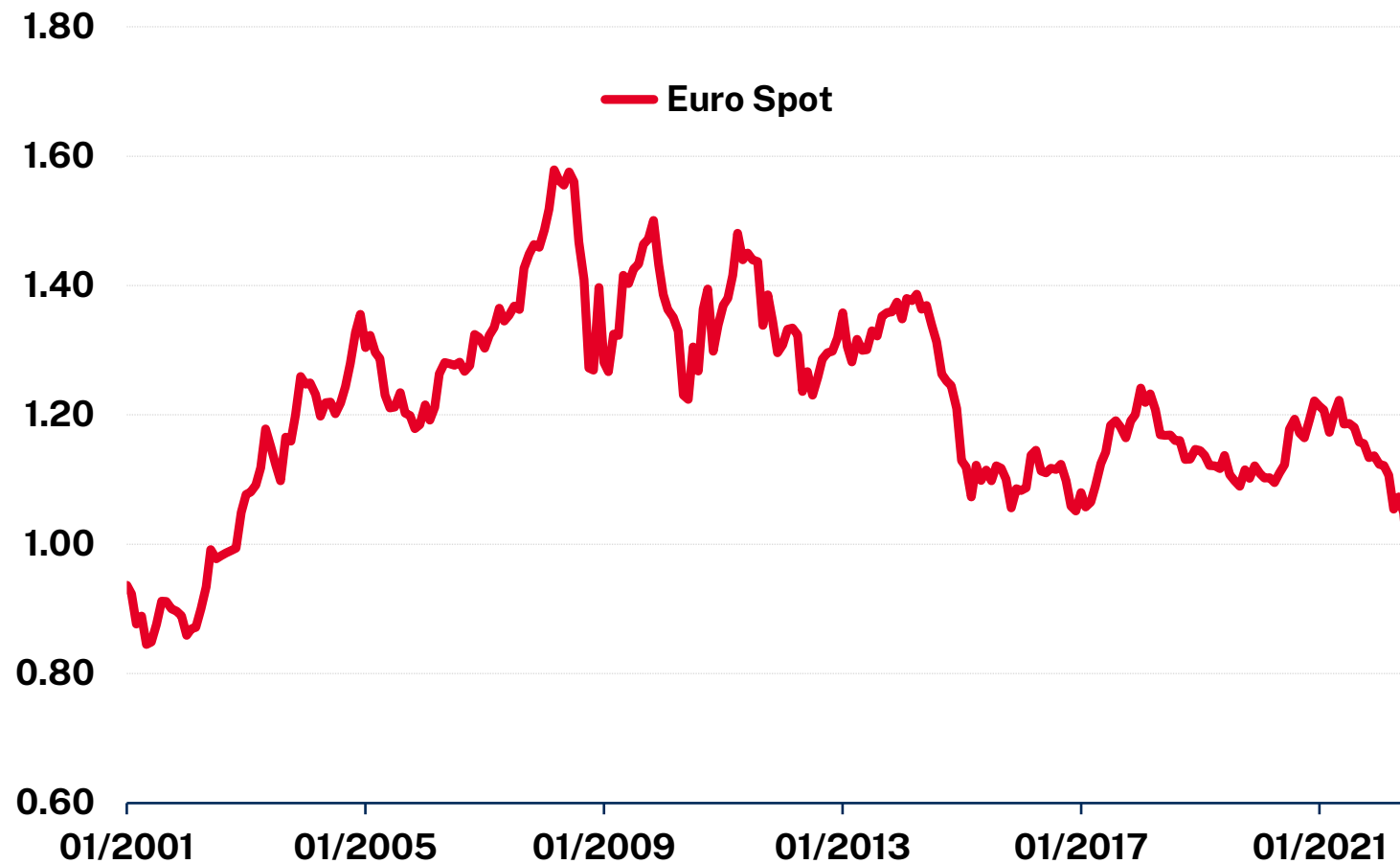
*Crude Oil trades 15% below its recent peak because of recession fears*



Source: FT.com, ICE Data Services, July 2022

# EUR/USD at Parity

*Euro trades at 20-year low and is at parity with USD*



Source: FT.com, ICE Data Services, July 2022

# FX, Commodities & Alts – Executive Summary

- **Falling commodity prices** do not reflect an improvement in fundamentals (increase in supply) but they rather **reflect financial speculators' shifting their positions in anticipation of a withering of demand**. Oil & Wheat prices have corrected back to their price before Russia's invasion of Ukraine; Copper trades at an 18-month low.
- As recessionary fear accelerate, we expect the USD to maintain its strength which should place continued pressure on most currencies, especially in EM. The EUR is now at a 20 year low and trades at parity with the USD. The list of countries which currency is trading at or close to a 5-year low is expanding quickly and now counts: Pakistan, Russia, South Korea, Hong Kong, Japan, India, Turkey, Euro-Zone, Colombia, Thailand, The Philippines, Chile and Argentina.

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