Investment Playbook Weekly Update

July 18th – July 22nd, 2022

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

LIGHTHOUSE CANTON

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Macro Highlights

1

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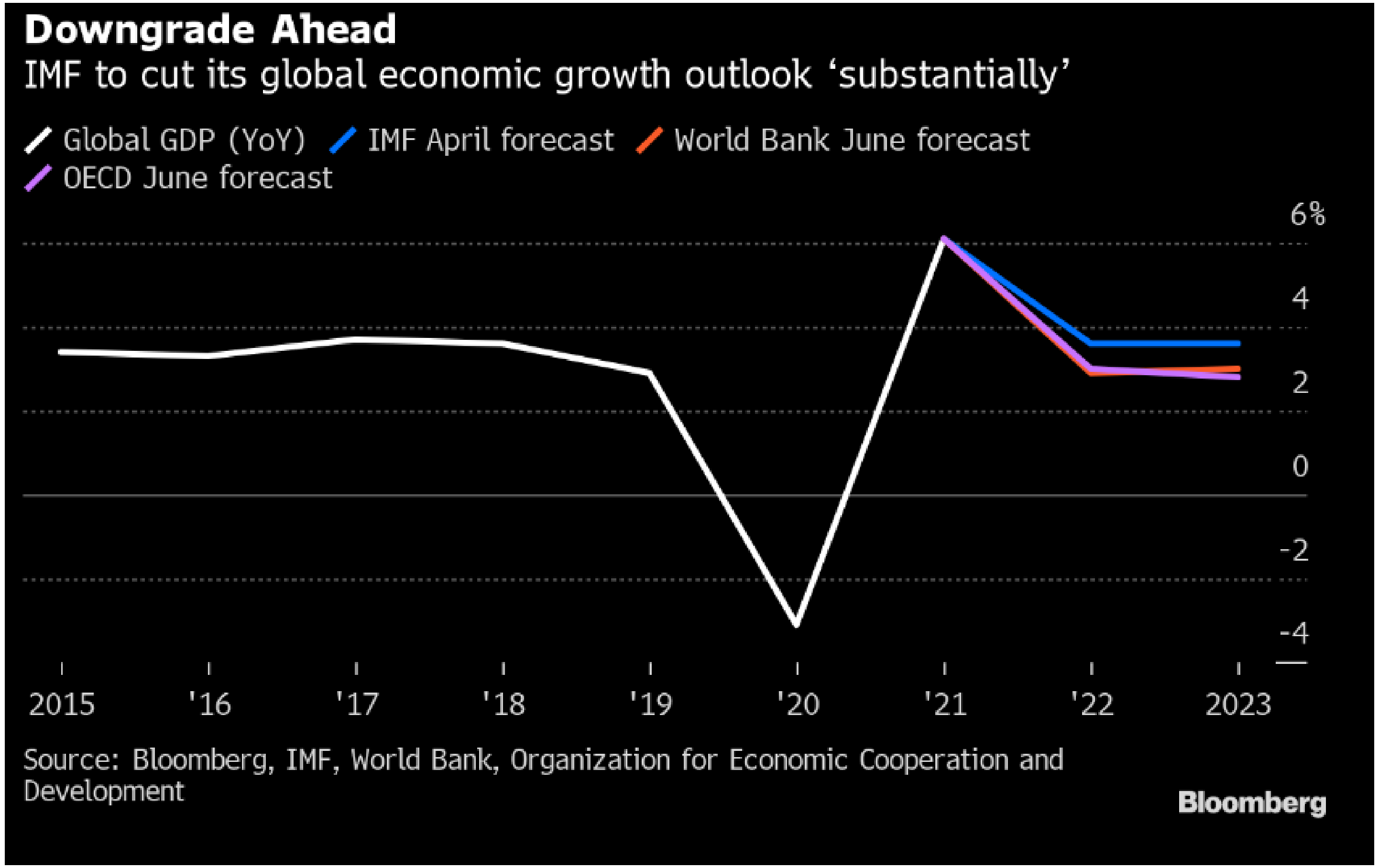
Global economic growth -

The IMF is set to cut their growth forecasts further during their July review



Source: Bloomberg, July 2022

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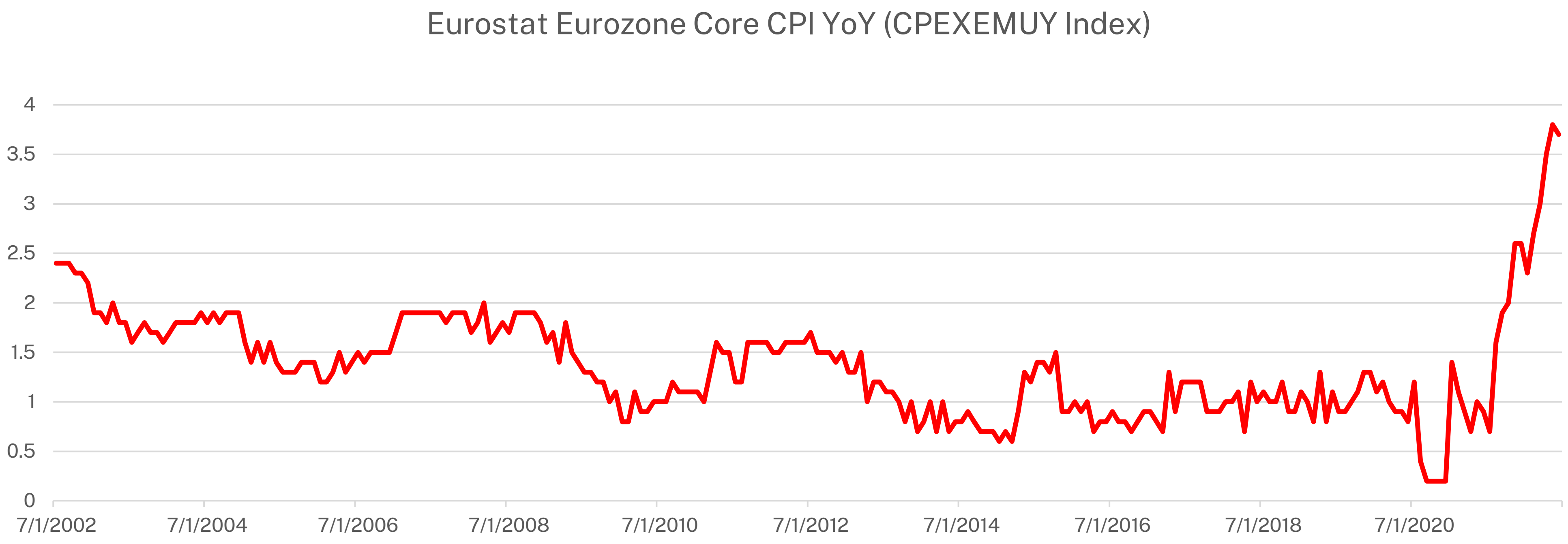
EU CPI- More Pain Ahead

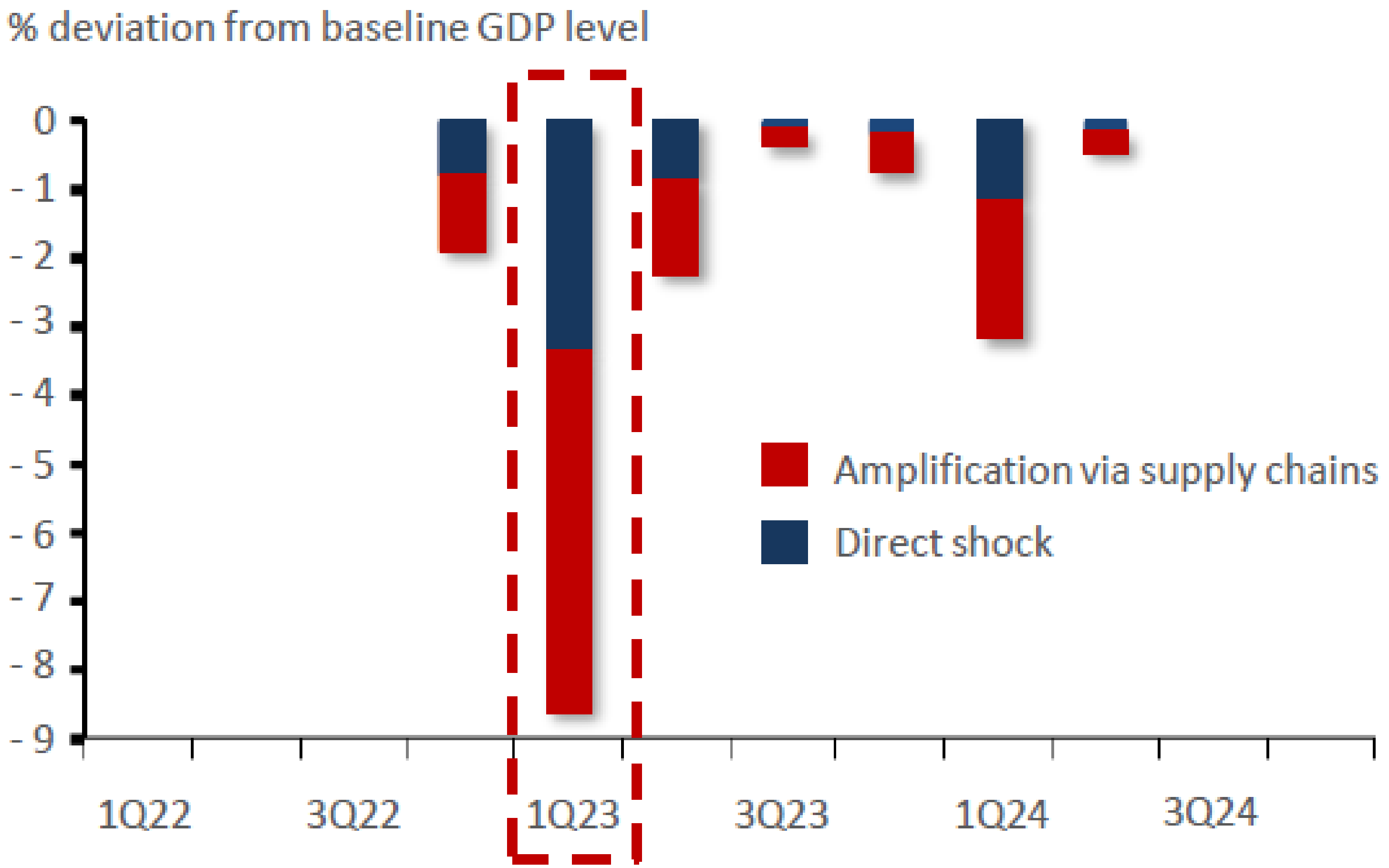
Headline CPI grew 8.6% YoY .Core CPI grew by 3.7% YoY. Supercore CPI at 4.6%



Source: Bloomberg, July 2022

Euro's recession probably inevitable

Greatest impact from gas rationing likely to be felt in 1Q23



Source: Bundesbank, JP Morgan, July 2022

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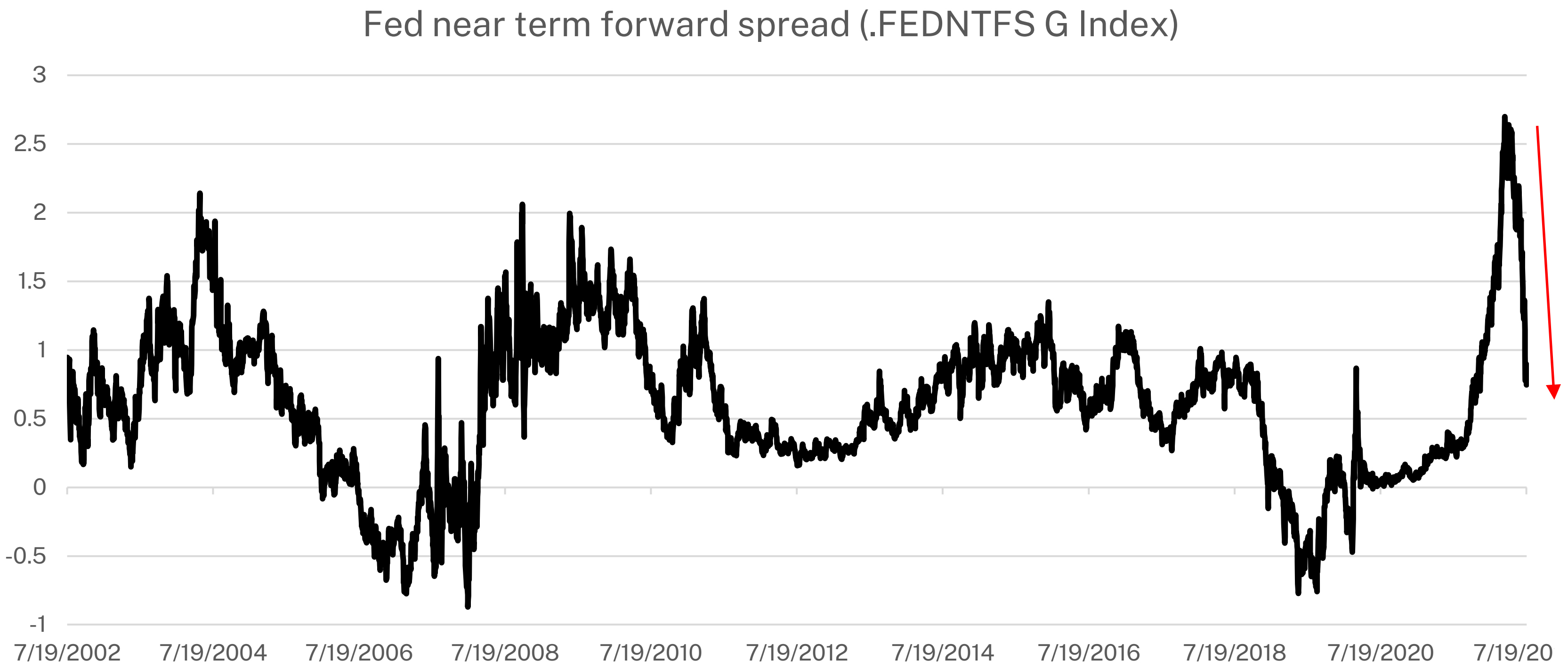
Looming Recession in US

Shrinking spread in Fed's preferred recession indicator throwing a warning.



Source: Bloomberg, July 2022

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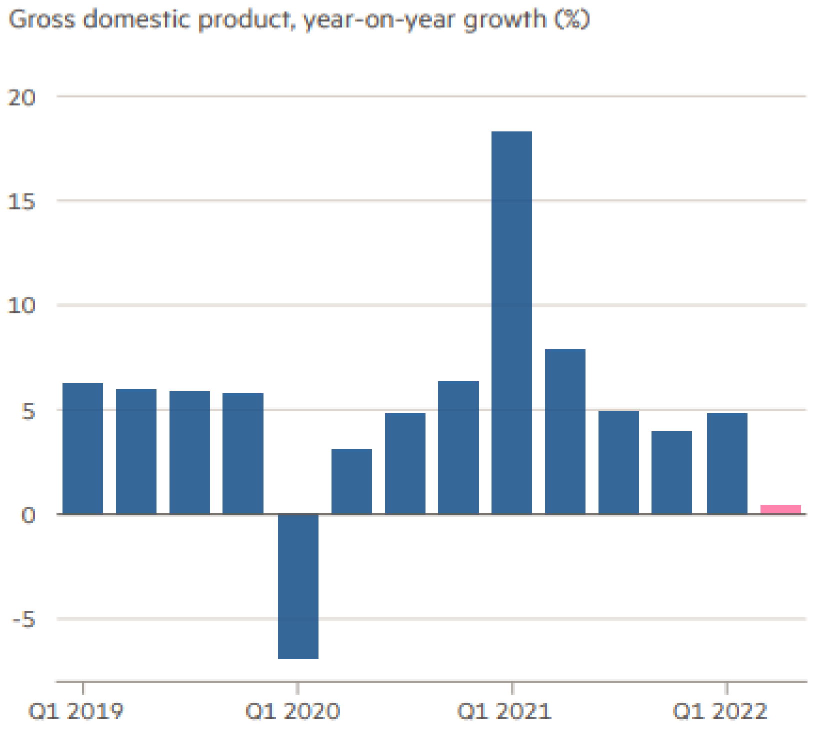
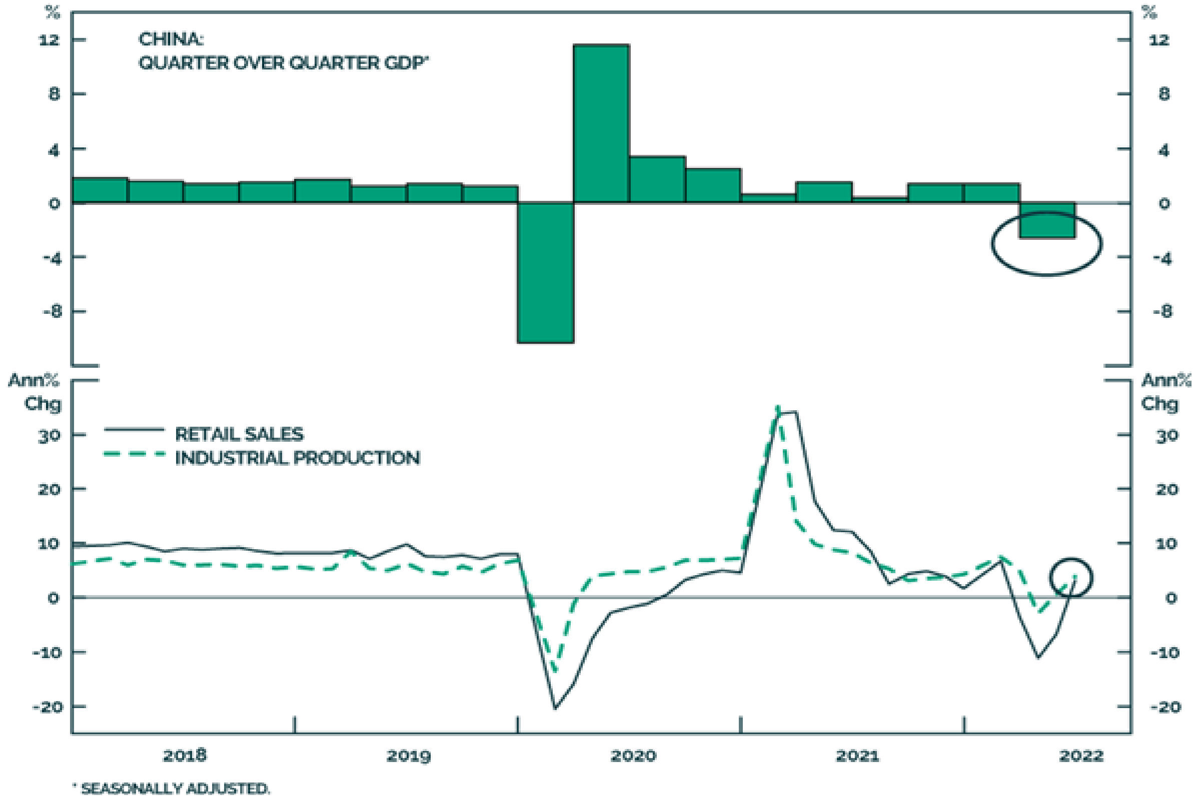
China Narrowly Avoided a Recession in Q2

Q2 GDP had a YoY 0.4% growth but a qoq -2.6% decline. Retails sales and industrial production were back in positive in June.





Source: National Bureau of Statistics, FT Data, BCA, July 2022

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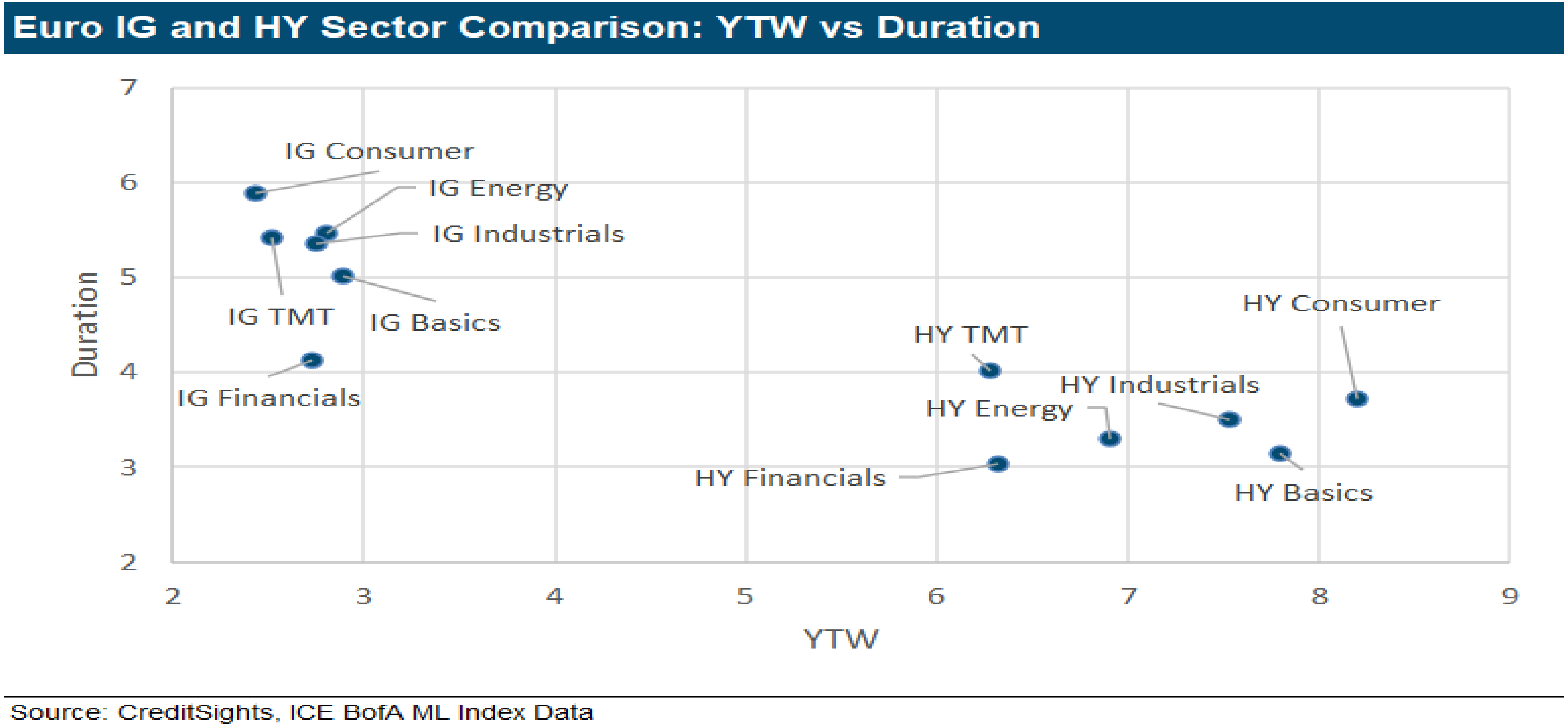
Fixed Income Highlights

2

European Credit- Clear segmentation

Risks in European High Yield (HY) credit is evident in their Yield to Worst (YTW)



Source: CreditSights, July 2022

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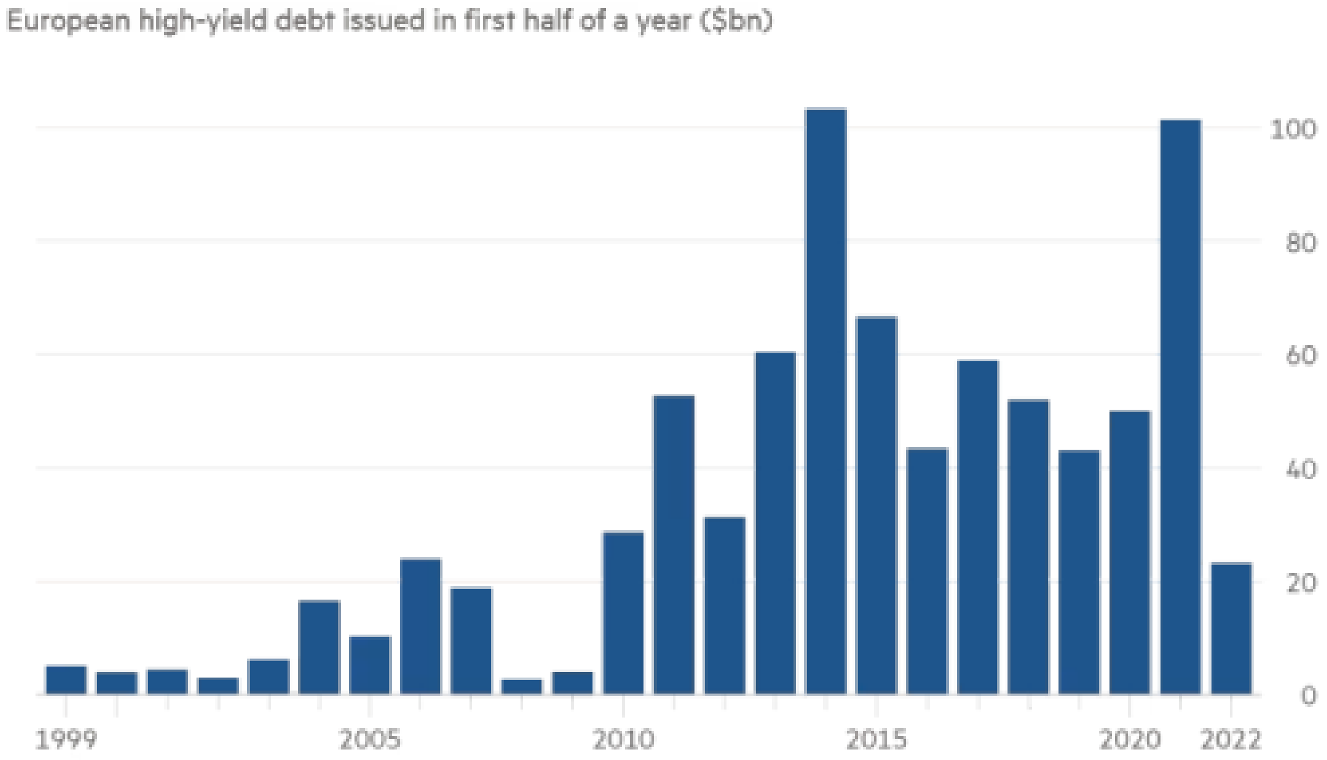
Weak Borrowers Facing Refinancing Difficulties

European high-yield debts issuance at 12-year low.



Source: Refinitiv, FT, July 2022

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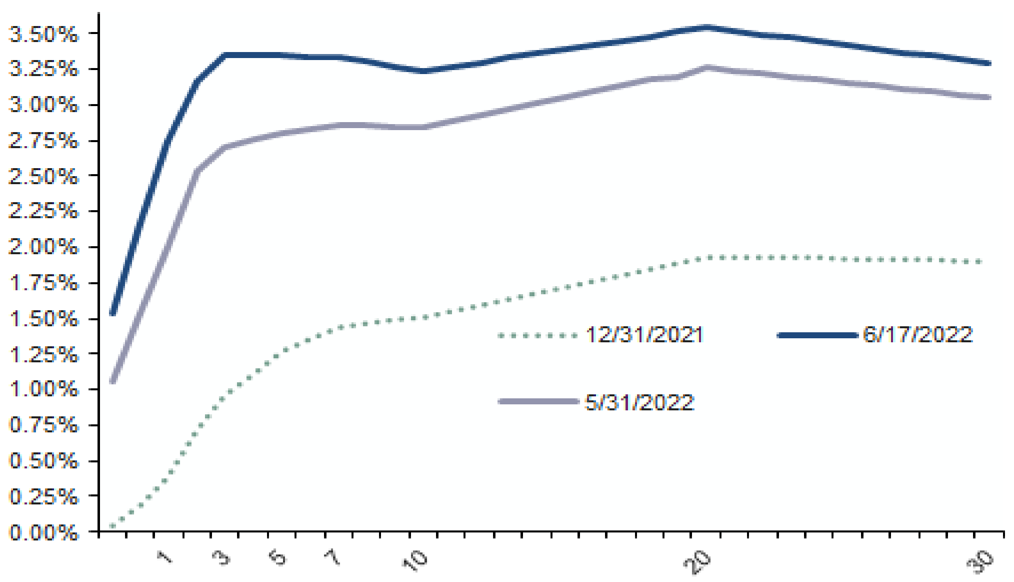
Changing dynamics-US Treasury Yield Curve

No reward for taking duration risk in US

US Treasury Curve Yields

Maturity	Current Yields	Weekly Change (bp)	MTD Change (bp)	2022 Change (bp)
3 months	1.54%	23	49	149
6 months	2.17%	25	62	198
1 year	2.75%	33	75	237
2 years	3.17%	13	63	245
3 years	3.35%	14	65	240
5 years	3.35%	9	54	208
7 years	3.34%	10	48	190
10 years	3.24%	8	40	172
20 years	3.54%	10	28	161
30 years	3.29%	10	24	139
2s-10s (bp)	6	-5	-24	-72
2s-30s (bp)	12	-3	-39	-106



Source: CreditSights, FactSet, Data as of 06/17/2022.

Source: CreditSights, July 2022

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Fixed Income – Executive Summary

- The shape of the US yield curve has been much talked about. The Fed Near term forward spread, preferred by Powell, contracted sharply reinforcing recessionary concerns. This gauge is the difference in yield of the 3M treasury 18 month forward and the current 3M treasury yield.

- The shape of the yield curve in the US does not offer higher yields to investors in longer duration bonds. **Hence, our recommendation of keeping the duration short (under 4 years)** as that will fetch investors yields like a longer dated paper.

- European credit market clearly points to the refinancing risks faced by weak issuers **.** The differential in yields offered by junk issuers over their investment grade peers points in that direction. With the impending winters, inflation prints are likely to be at elevated levels thereby forcing the ECB to be more hawkish. **We recommend avoiding European High Yield issuers for now, especially on back of 50 bps hike by the ECB and they maintaining data-based approach.**

Equities Highlights

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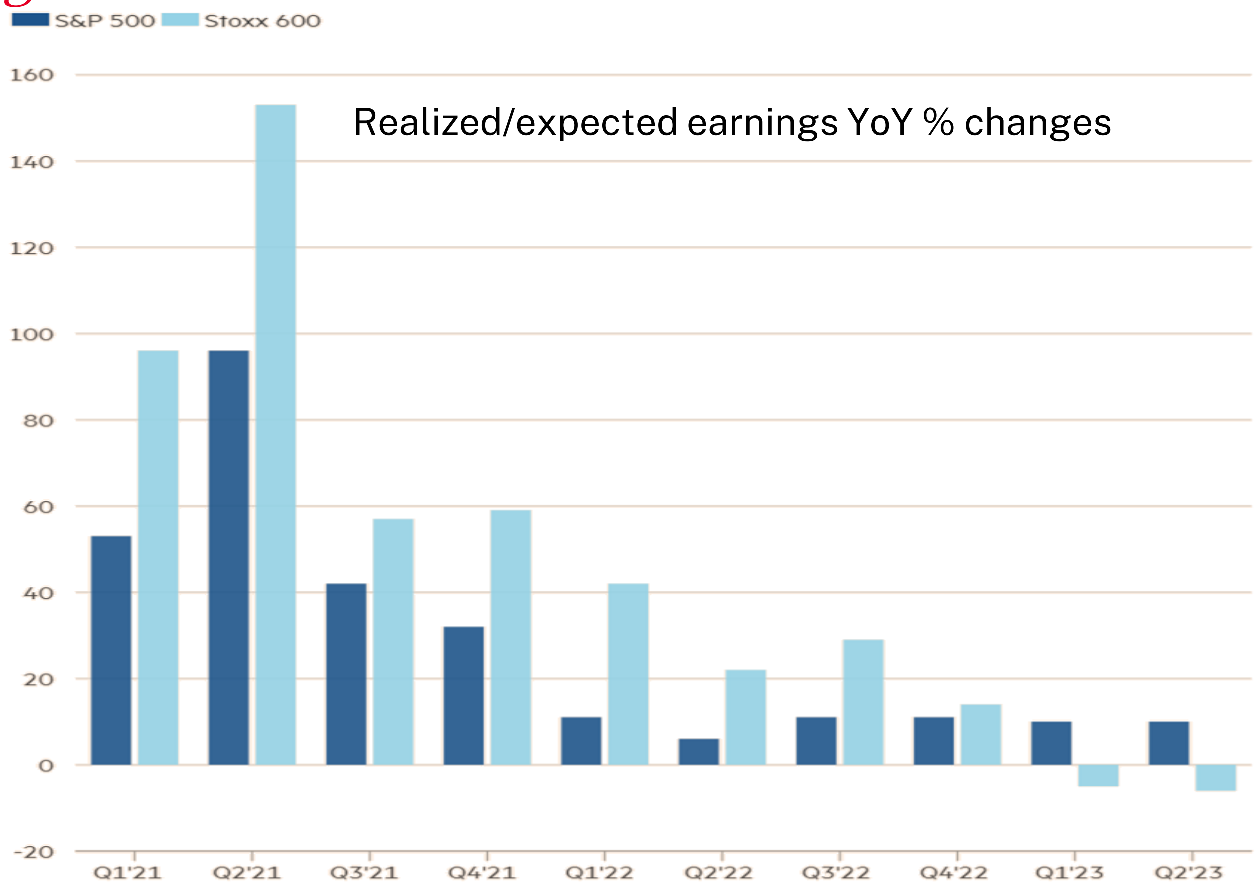
Equity Markets not Bottomed out yet

The market is still expecting double-digit earnings growth in 2H22, which are likely to be downgraded.



Source: IBES, Refinitiv, Barclays Research, FT July 2022

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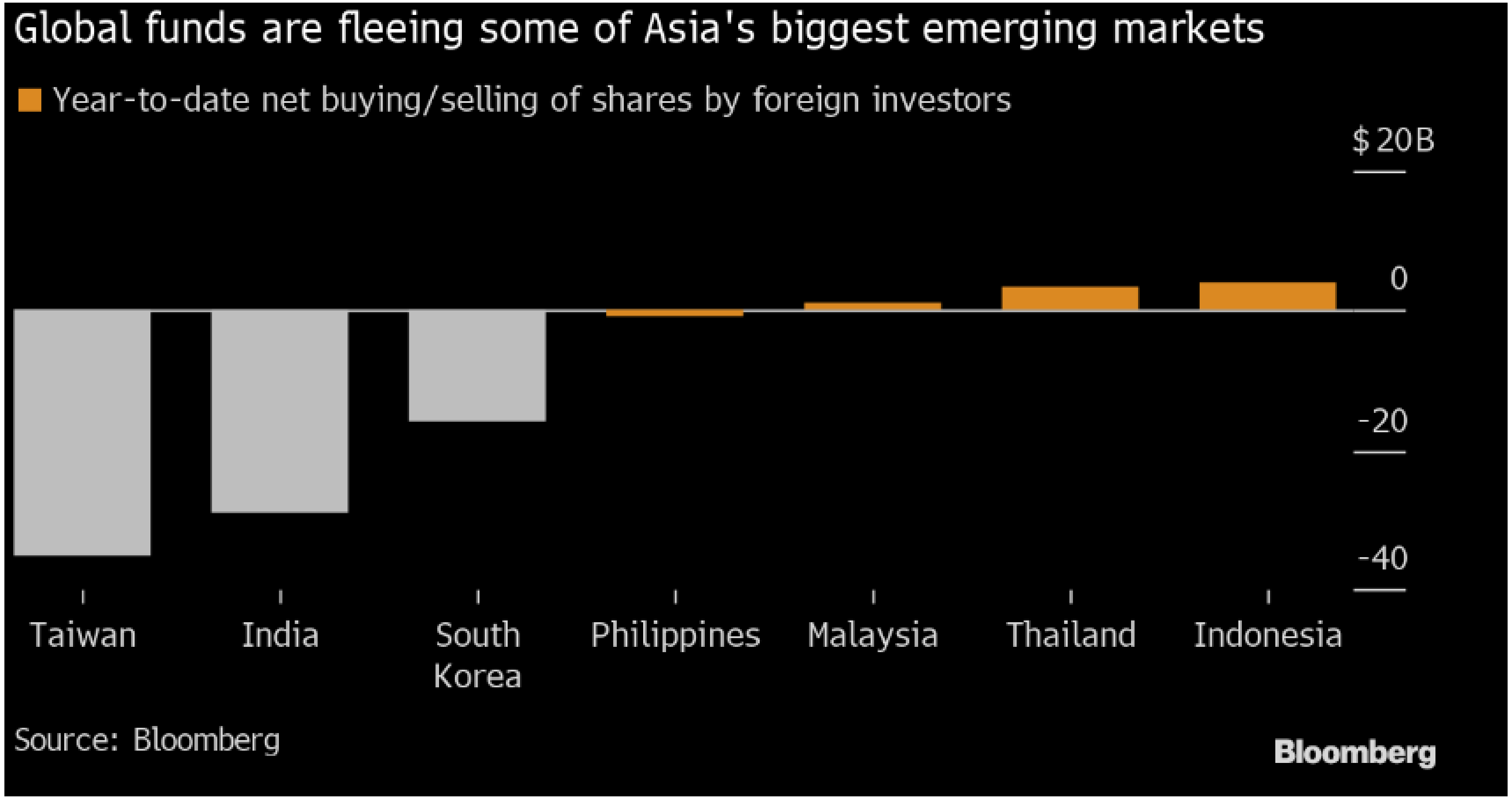
EM equities facing heavy FII outflow

The continued strength of the dollar bodes ill for EM equities



Source: Bloomberg, July 2022

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Global fund managers turn cautious

Risk appetite levels lower than those seen during 2008 financial crisis

Chart 13: Where's Lehman?
Net % Taking Higher than Normal Risk Levels

Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Source: Bloomberg, July 2022

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Equities – Executive Summary (1/2)

- **Markets rallied this week (S&P 500 up 3.3%)** on the back of multiple FOMC members giving signals that they are currently **not looking at more than a 75-bps rate hike** in the upcoming July meeting. Additionally, markets were optimistic about Russia resuming gas supplies to Europe, as the maintenance work on Nord Stream 1 pipeline is finished.

- Earnings season kicked off last Friday, with **US banks reporting a mix bag of numbers, majority of whom missed their EPS expectations**, post which target prices for most of them were revised lower. **JP Morgan and Citi also paused their buyback programs** due to regulatory capital requirements.

- We continue to see macro economic pressures affecting company earnings, especially with companies scrambling to cut their costs, **as Apple, Google and Goldman Sachs all went on record to mention that they will be slowing down their hiring.**

Equities – Executive Summary (2/2)

- Other notable earnings include :-
    - Netflix reported better than expected earnings and subscriber loss for the quarter but, the company guided for margins which were significantly below their historical average and future growth in subscribers which did not meet analyst expectations.
    - Johnson and Johnson reported better than expected earnings while cutting their full year revenue and earnings guidance primarily due to foreign exchange headwinds, which has started to become a theme across companies with a global footprint, due to the strength of the dollar.
    - Tesla reported numbers which beat expectations. However, the EV manufacturer too was seen to be dealing with some inflationary pressure as automotive gross margins were down meaningfully on a sequential basis.

- The Chinese GDP grew 0.4% against expectations of 1.2%, which now seems to put the 5.5% GDP growth target for the full year, set by the Chinese Government, a bit out of reach. Elsewhere, Didi Global is said to be fined $1 Billion, which makes close to 4% of their sales. The market however reacted positively to this as it is thought to be the end of the probe which was brought in against the company by the authorities.

Forex, Commodities & Alternatives Highlights

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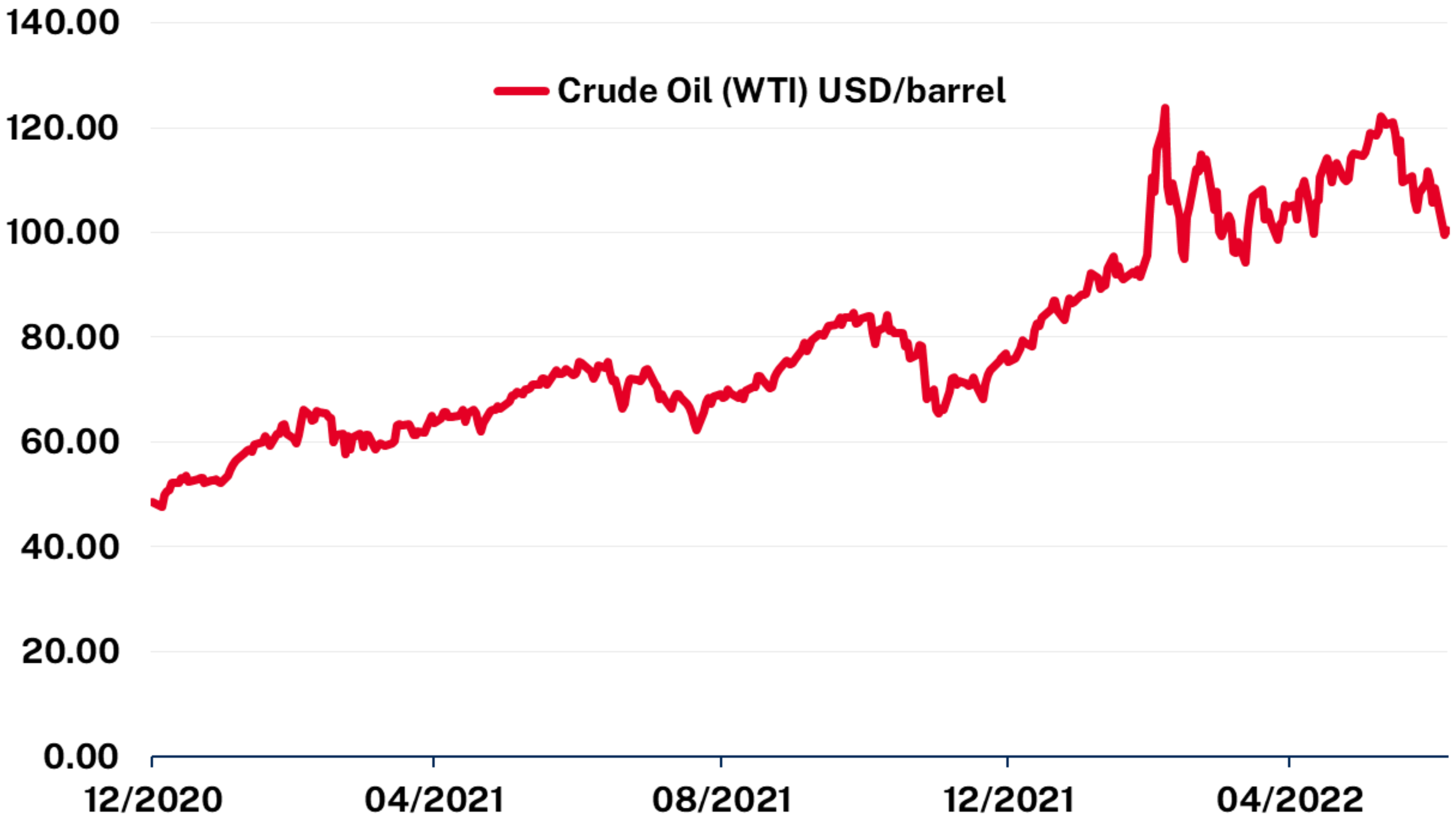
Oil back below 100$

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



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

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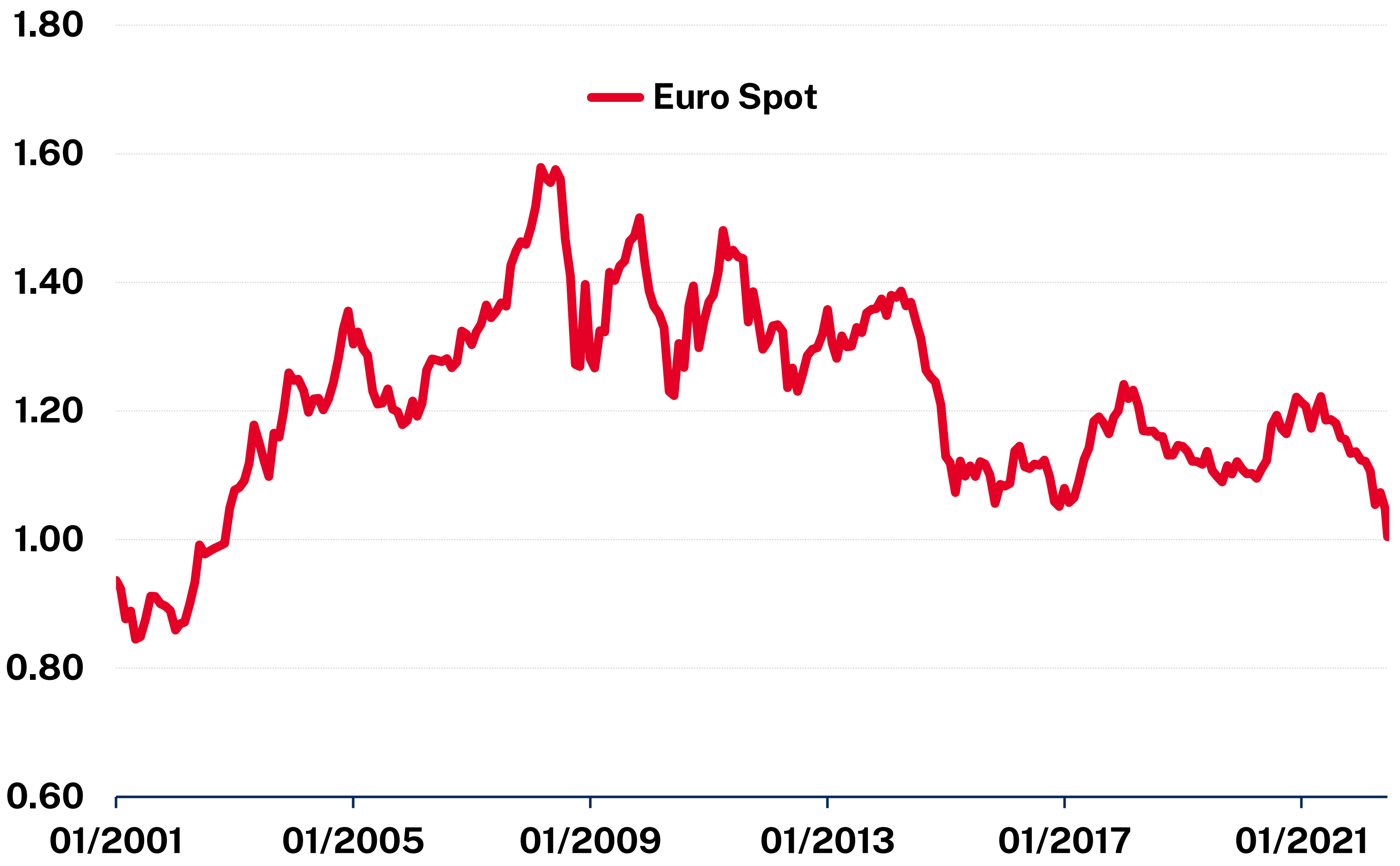
EUR/USD at Parity

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



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

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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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