Investment Playbook Weekly Update

6th January, 2023

LIGHTHOUSE CANTON

GLOBAL Private Banking INNOVATION AWARDS 2022

OUTSTANDING DIGITAL TRANSFORMATION IN COVID 19 BY A FAMILY OFFICE

BEST FAMILY OFFICE – MIDDLE EAST

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2021 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION

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2021 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION

BEST INDEPENDENT WEALTH MANAGER INVESTMENT ADVISORY

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Macro

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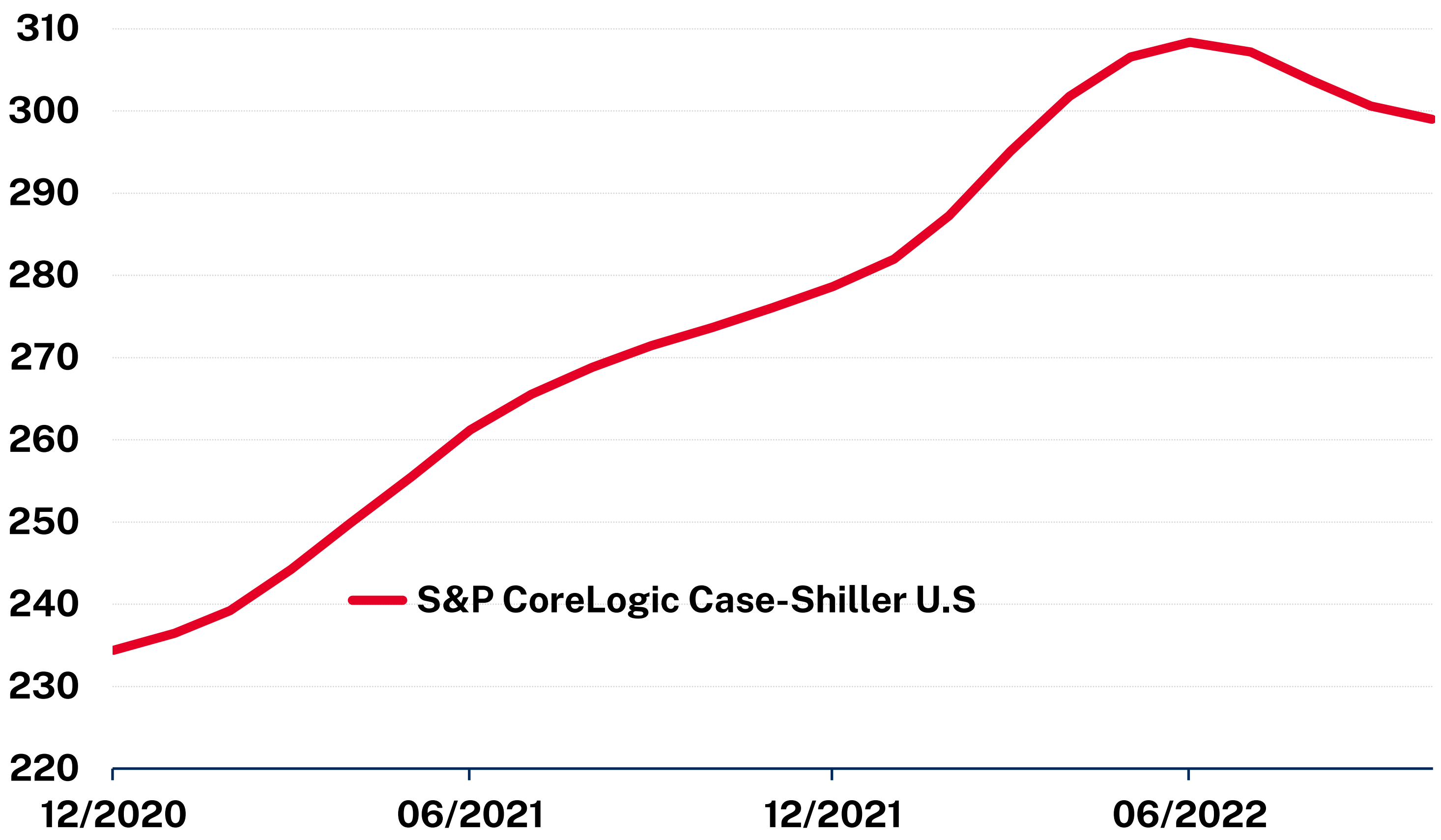
House prices continue to slip

The S&P CoreLogic Case-Shiller 20-City Index has declined 3.04% since its highs in June



Source: Bloomberg, January 2023

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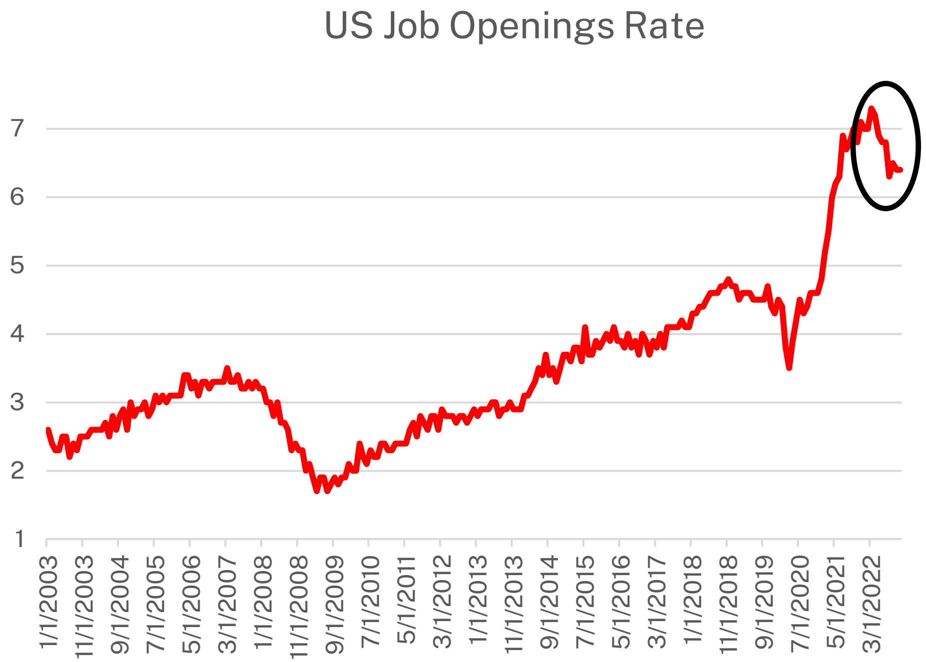
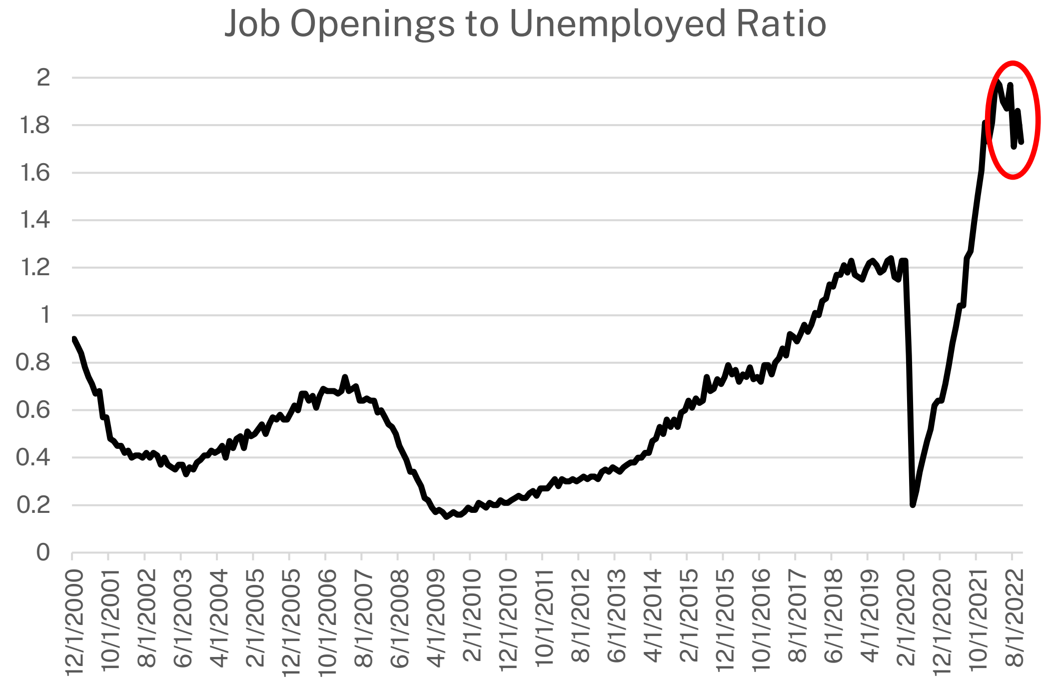
US Labour market-Weakening but still strong

The job openings rate (6.4%) and the ratio of job openings per unemployed is still elevated (1.7398)





Source: Bureau of Labour Statistics January 2023

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Macro – Executive Summary (1/2)

		Jan 23	Market Expectations (2Q23)	Δ*	Market Expectations (4Q23)	Δ*	LC Views
US	Real GDP Growth (YoY)1	1.9%	0.6%	-	-0.1%	-	▪ A Fed downshift looks imminent, but the tightening cycle is far from over. Jerome Powell hiked by 50 bps in December, and said smaller increases are less important than the questions of how much further to go and for how long. Officials need "substantially more evidence" to ensure prices are moderating, the chair added. "The path ahead for inflation remains highly uncertain." Bond traders dialed back their peak rate expectations to below 5%.
	Inflation (YoY)[2]	7.1%	4.0%	-	3.0%	-	
	Unemployment (YoY)[3]	3.7%	4.2%	+	4.8%	+	
	Probability of Recession[4]				65.0%		
	Policy Rate[5]	4.5%	5.0%	+	4.6%	-	
EU	Real GDP Growth (YoY)[6]	2.3%	-0.5%	-	0.3%	+	▪ Ms. Lagarde reiterated that further rates hikes will be as appropriate to bring inflation down to target levels. However, markets take the commentary from ECB to be dovish. ▪ 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 that the probability of an early pivot by the ECB is higher than their American counterparts.**
	Inflation (YoY)[7]	10.1%	6.8%	-	3.5%	-	
	Unemployment (YoY)[8]	6.0%	7.2%	+	7.2%	NC	
	Probability of Recession[9]				80.0%		
	Policy Rate[10]	1.9%	3.3%	+	3.4%	+	
UK	Real GDP Growth (YoY)[11]	1.9%	-1.3%	-	-0.9%	+	▪ We are in line with the market view that **Bank of England may continue to raise interest rates aggressively** over the next 12 months.
	Inflation (YoY)[12]	10.7%	7.9%	-	4.4%	-	
	Unemployment (YoY)[13]	3.7%	4.4%	+	4.9%	+	
	Probability of Recession[14]				90.0%		
	Policy Rate[15]	3.5%	4.6%	+	4.7%	+	

**Change from previous period column*

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Macro – Executive Summary (2/2)

		Jan 23	Market Expectations (2Q23)	Δ*	Market Expectations (4Q23)	Δ*	LC Views
China	Real GDP Growth (YoY)[16]	3.9%	6.7%	+	5.0%	-	▪ China has significantly expedited the pace of post-covid reopening. Many large cities have suffered the first wave of infections in the last few weeks of December and are now starting to report recovering traffic volumes. ▪ A few key points to note from the Central Economic Work Conference in mid-December: 1) promote growth of the private sector; 2) support developments of digital economy and internet platform companies; 3) encourage domestic consumptions, especially in living condition improvement, new energy vehicles and elderly care; 4) increase infrastructure investments. More monetary and fiscal policy stimulus are expected in the coming months. ▪ **Market sentiments have been significantly boosted** by the reopening and policy pivot**.** However, how quickly these supportive measures can fully revitalize the Chinese economy remains to be monitored.
	Inflation (YoY)[17]	1.6%	2.2%	+	2.2%	NC	
	Unemployment (YoY)[18]	4.0%	4.1%	+	4.0%	-	
	Probability of Recession[19]				15.0%		
	Policy Rate[20]	4.4%	4.4%	NC	3.7%	-	
India	Real GDP Growth (YoY)[21]	6.3%	6.2%	-	6.0%	-	▪ In its December policy, the Monetary Policy Committee (MPC) decided to increase the policy rates by 35 bps to 6.25%. ▪ The MPC may look at another 25-bps hike in rates in its next meeting in February'23, taking policy rate to 6.5%. This could well be the terminal rate with headline CPI inflation showing signs of easing primarily owing to base effect coupled with expectations of bountiful harvest season keeping food prices in check. ▪ India's Manufacturing and Services PMI for November came in at 55.7 and 55.1 respectively posting robust growth for the month. Both urban and rural consumption demand have been steady as reflected in discretionary spends in travel, tourism and hospitality as well as sales of passenger vehicles and two wheelers.
	Inflation (YoY)[22]	5.9%	4.8%	-	5.2%	+	
	Unemployment (YoY)						
	Probability of Recession[23]				0.0%		
	Policy Rate[24]	6.3%	6.5%	+	6.5%	NC	

Change from previous period column

Macro – Executive Summary (Sources)

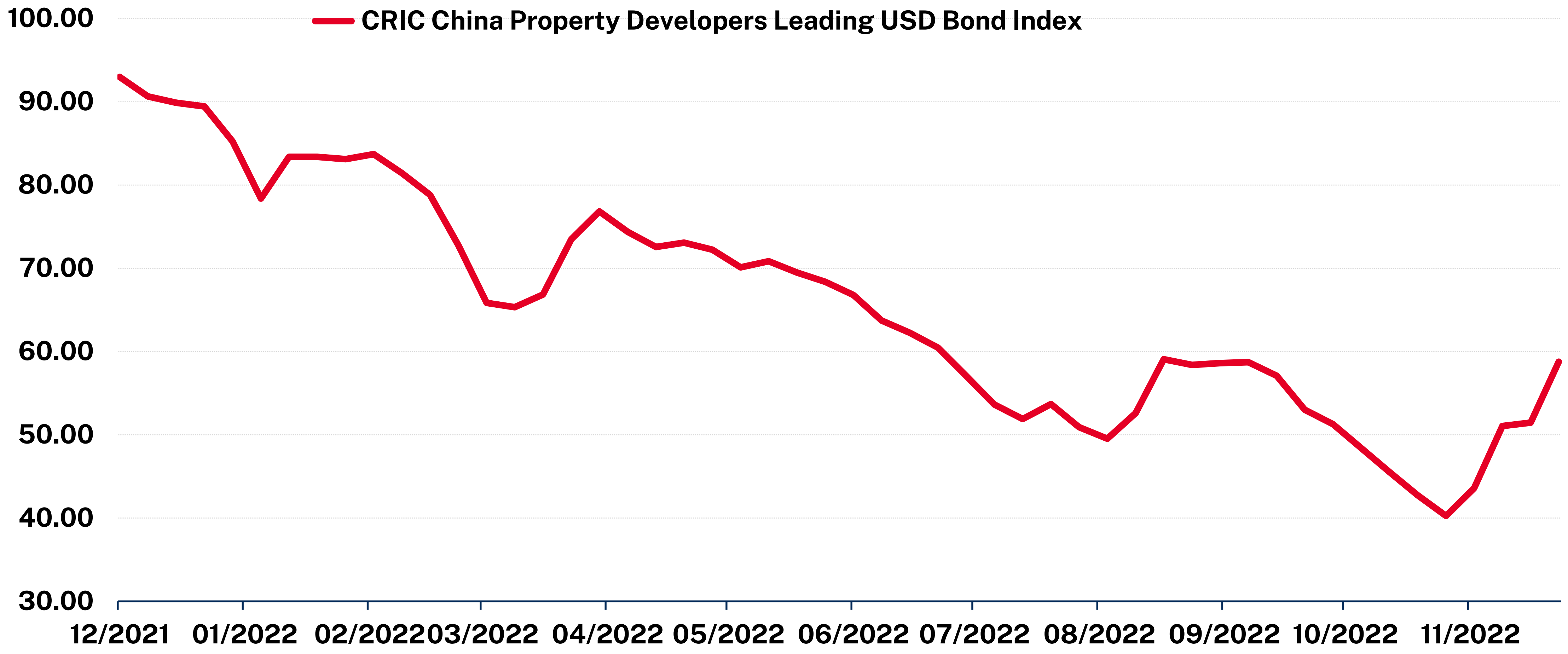
1) “GDP US Chained 2012 Dollars YoY SAAR ”, GDP CYOY Index, Source: Bureau of Economic Analysis. Forecast data derived from “GDP US Chained 2012 Dollars NSA”, GDNSCHWN Index, Source: Bureau of Economic Analysis.
2) “US CPI Urban Consumers YoY NSA”, CPI YOY Index, Source: Bureau of Labour Statistics. 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

China RE $Bonds Rebounding amid Supports

Some stronger names, e.g., COGARD & LNGFOR, are getting close to par after 400+% surges.



Source: Bloomberg, Lighthouse Canton, December 2022

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Fixed Income – Overview

<table>
<tr><th></th><th>Sub-Asset</th><th>Region</th><th>IC Outlook (2Q23)</th><th>IC Comments</th><th>Recommended Positioning</th></tr>
<tr><td rowspan="2">Long Term Rates</td><td rowspan="2">10Y Rate</td><td>US</td><td>↑</td><td>▪ The US will probably enter a "mild" recession next year that could cost more than 1 million jobs, JPMorgan said. Bank economists see the Fed raising rates at each of its first two meetings to reach a target range of 4.75% to 5% before pausing. Goldman boosted its Fed peak rate call to 5.25% from 5%, forecasting a 50-bp increase next month and 25-bp moves in February, March and May.</td><td rowspan="6">▪ Fixed income should be part of any portfolio (defensive as well as growth) as yields are admittedly looking attractive again.

▪ We are bullish on bonds in US IG credit. with duration < 3 over a 12 months horizon. Indeed, as Fed funds rates are expected to be increased by another 100bps over the next two quarters, we recommend keeping the overall duration of the portfolio low (<3y) to avoid unnecessary drawdowns.

▪ Add Distressed managers to benefit from dislocations and mispricing.

▪ "Duration is likely the first asset class to be poised for outperformance, once the US recession is confirmed" according to Pimco. We agree with this view, keeping in mind that timing the recession is simpler said than done.

▪ Avoid EU names, PERPs, Cocos & High Yield bonds for the moment. Look to add duration in a gradual and phased manner.</td></tr>
<tr><td>EU</td><td>↑</td><td>• The ECB may slow its tightening pace with only a 50-bp increase next month. Initial discussions suggest a lack of momentum for another 75 bp hike, barring another surprise surge in inflation, given mounting recession risks. The need to bargain over a start to balance-sheet reduction was also cited.</td></tr>
<tr><td rowspan="4">Credit</td><td rowspan="2">IG Spread (bps)</td><td>US</td><td>↔</td><td rowspan="4">• Global Corporate bonds are likely to face headwinds up until 1H23. High Yield spreads currently do not factor in an imminent recession and hence runs risk of widening.

• Policy rates in 1H23 are expected to rise across Developed Markets, while corporate spreads should widen on back of a global economic slowdown and higher refinancing rates, with High Yield to be the most heavily impacted.</td></tr>
<tr><td>EU</td><td>↑</td></tr>
<tr><td rowspan="2">HY Spread (bps)</td><td>US</td><td>↑</td></tr>
<tr><td>EU</td><td>↑</td></tr>
</table>

Equities Highlights

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U.S. Equity: Still In Bear Market

The S&P 500 is in the middle of its bear channel, waiting for a catalyst to take a clear direction

Source: Lighthouse Canton, January 2023

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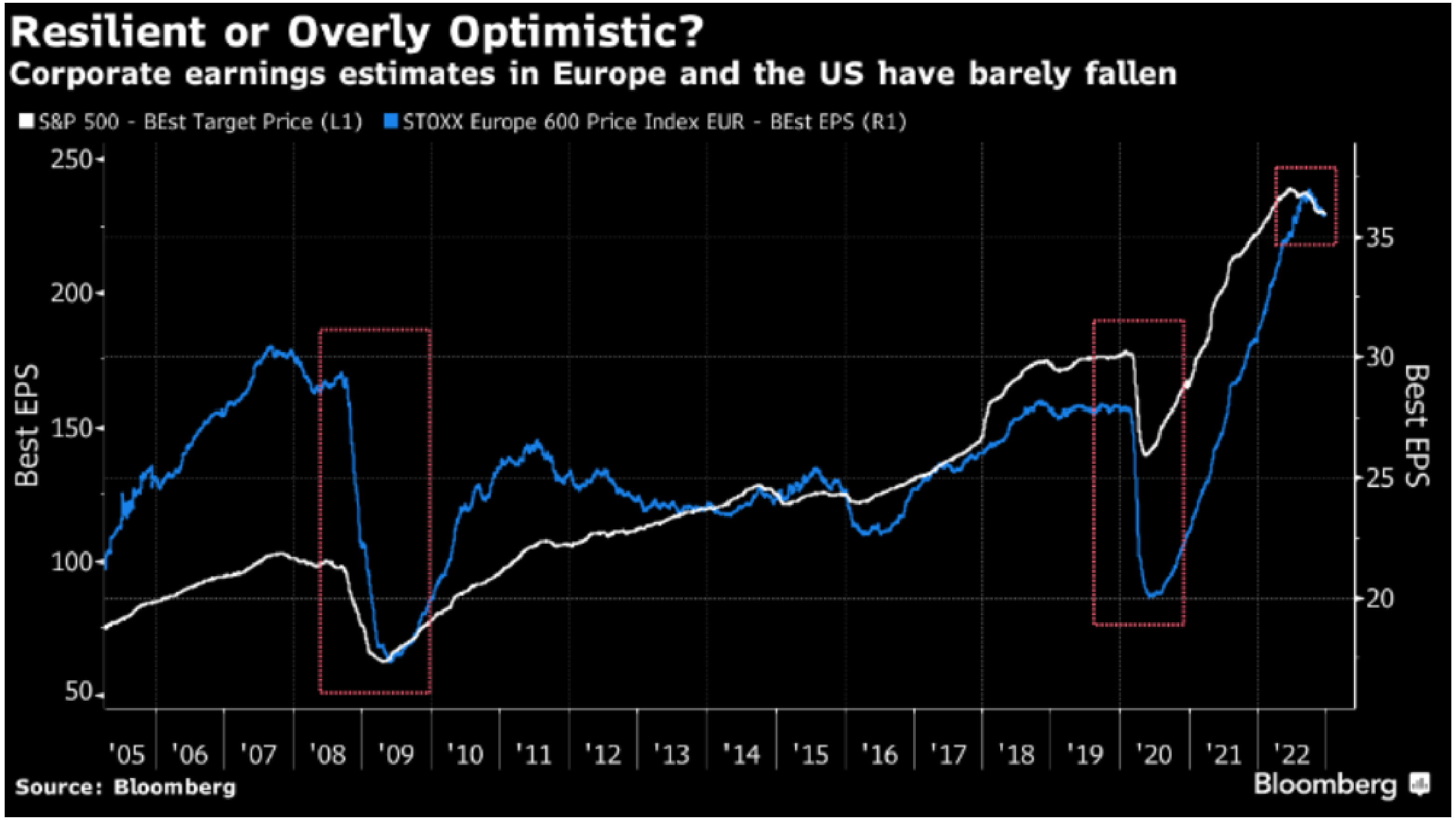
2023 EPS estimates are overly optimistic

Low single digit EPS growth seems optimistic to us given a recessionary environment in H1 2023



Source: Bloomberg, January 2023

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U.S. Equities: 2023 may not be that bad

The average expected performance for 2023 is just -2% on the 105 U.S. stocks we cover.

Top 20 US names (by market capitalization) that we monitor

Ticker	Name	% Index (S&P 500)	Upside (downside) LC target Price
AAPL US Equity	Apple Inc	6%	10%
MSFT US Equity	Microsoft Corp	5%	34%
GOOGL US Equity	Alphabet Inc	3%	82%
AMZN US Equity	Amazon.com Inc	2%	67%
UNH US Equity	UnitedHealth Group Inc	1%	12%
JNJ US Equity	Johnson & Johnson	1%	18%
V US Equity	Visa Inc	1%	-4%
NVDA US Equity	NVIDIA Corp	1%	8%
LLY US Equity	Eli Lilly & Co	1%	-48%
TSLA US Equity	Tesla Inc	1%	20%
MA US Equity	Mastercard Inc	1%	-25%
META US Equity	Meta Platforms Inc	1%	56%
HD US Equity	Home Depot Inc/The	1%	-18%
PEP US Equity	PepsiCo Inc	1%	-5%
AVGO US Equity	Broadcom Inc	1%	7%
COST US Equity	Costco Wholesale Corp	1%	-23%
MCD US Equity	McDonald's Corp	1%	-35%
NKE US Equity	NIKE Inc	1%	-21%
ACN US Equity	Accenture PLC	1%	-18%
ADBE US Equity	Adobe Inc	0%	-2%

Summary – LC target prices

Stocks look	%	Stocks	Average Upside (downside)
Attractive	42%	44	24%
Expensive	58%	61	-21%
	100%	105	-2%

Source: Lighthouse Canton, January 2023

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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>▪ We hold a slightly bearish view on US equities over the next 6 months given that interest rates are expected to continue rising and economic growth, while not collapsing, is softening. Equities have discounted higher interest rates, but not the decline in profits that those rates will, in time, bring about.

▪ That being said, we believe a lot of large and mega caps are now reaching attractive levels and we now recommend selling put options on names we would not mind getting 10-15% cheaper in a few months (Tesla, Amazon, Google etc.).</td><td rowspan="4">▪ We do not think it is time to increase beta on portfolios <u>yet</u> and recommend a cautious stance in terms of positioning as we continue to believe that earnings expectations are still overly optimistic (on average).

▪ 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/ELN structures. 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>▪ Despite the bleak economic situation, the consensus STOXX 600 earnings growth expectations envisage a rather optimistic scenario given the current macro situation, in our opinion. We expect more earnings misses to materialize over the next 12 months and recommend to be patient as far as European stocks are concerned.</td></tr>
<tr><td>China (CSI 300)</td><td>↑</td><td>▪ We anticipate Chinese stocks to do well in 2023 supported by the cancellation of the zero-covid policy as well as supportive measures in the real estate sector.</td></tr>
<tr><td>India (Nifty 50)</td><td>↔</td><td>▪ Indian equity performance showed resilience in 2022 and outperformed major global markets on the back of strong economic growth expectations and inflation prints not getting out of hand.

▪ Nifty 50 is now trading at a 12-month trailing P/E of 22.5, which is above the long-term average of 18.7 times earnings.</td></tr>
</table>

Forex, Commodities & Alternatives

4

Real Estate: More Pain For Private Valuations

Public Real Estate (REITs) has corrected sharply, Private Real Estate (B-REIT) should follow in 2023

Price of Real Estate (100: 31/12/2021)

Source: Bloomberg, FT.com, January 2023

Commodities – Overview

<table>
<tr><th></th><th>Sub-Asset</th><th>IC Outlook (2Q23)</th><th>IC Comments</th><th>Recommended Positioning</th></tr>
<tr><td rowspan="2">Commodities</td><td>Gold</td><td>↔/↑</td><td>▪ 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.</td><td rowspan="2">▪ We believe that some exposure to gold and oil makes sense as a means to hedge longer term inflation and geopolitical shocks.
▪ As it is difficult and extremely tricky to time and trade these commodities, our recommended way to gain exposure is via external managers (Delbrook - gold equities, Drakewood - gold futures/options, Aventail – Energy Equities)</td></tr>
<tr><td>Oil</td><td>↔/↑</td><td>▪ Oil looks well poised over the long term due to existing supply shortfalls as a result of almost a decade of under-investments in production capacity (driven by ESG rhetoric).
▪ We also cannot rule out some near-term downside volatility as recessionary fears continue to grow.
▪ That said, China's reopening will serve as a near-term tailwind that has the potential to offset challenges from growing recessionary fears.</td></tr>
</table>

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Forex – Overview

	Sub-Asset	IC Outlook (2Q23)	IC Comments	Recommended Positioning
FX	**USD**	↔/↓	▪ We've seen the dollar decline and that is primarily due to the Fed approaching the peak of its hiking cycle. We expect continued USD weakness going into 2023, on the back of interest rate differential reduction, relative to its developed market peers (ECB & BOE).	• We think rates are likely to peak out by 1H23 and remain elevated. As such, **we expect the US dollar to remain linked to market sentiments while maintaining a downward bias.** • **Bleaker growth outlook globally will continue to support current DXY levels in the near term.** • Both BOE and ECB are now expected to hike rates further to narrow the interest rate differential with the USD and support their currencies. **Longer term investors may consider gradually adding DM currency exposures** (EUR, GBP) as they are looking cheap versus the dollar.
	EUR	↑	▪ The EUR remains cheap and near-term upside will likely be underpinned by continued hawkishness from the ECB coupled with improving sentiment indicators which we observed for the month of November. ▪ China's reopening could also potentially serve as a tailwind for the currency in the near term.	
	GBP	↔	▪ BOE is likely to be pressured to keep the curve flat by way of 1) aggressive hikes and 2) buying long end papers to keep liquidity neutral ▪ Together with some fiscal loosening on the horizon, this should set the GBP for an eventual rebound from very depressed levels	
	CNY	↓	▪ The PBOC is very supportive and has started decreasing interest rates. Policymakers will ultimately continue to ease domestic policy to reflate the economy and the PBoC will probably cut rates further. The implication is that the CNY – which has already depreciated by 10% so far this year – is likely to continue weakening. ▪ Given that the Chinese economy faces deflationary pressures, authorities in Beijing do not have an incentive to pursue a stronger yuan.	
	JPY	↔/↑	▪ The JPY is to remain challenged as the rates differential increases with other central banks, owing to the BoJ's YCC policy ▪ That said, it currently looks extremely cheap relative to its longer-term PPP fair value.	

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