Monthly Investment Memo

January 2022

www.lighthouse-canton.com | ir@lighthouse-canton.com

Disclaimer

IMPORTANT DISCLAIMER:

The contents of this document are confidential and are meant for the intended recipient only. If you are not the intended recipient, please delete all copies of this document and notify the sender immediately.

This document, provided as a general commentary, is for informational purposes only and is not to be construed as an offer to sell or solicit an offer to buy any financial instruments in any jurisdiction. This does not constitute any form of regulated financial advice, and your independent financial advisor should be consulted prior to taking any investment decision(s). This document is based on information from sources which are reliable but has not been independently verified by Lighthouse Canton Pte. Ltd. and its subsidiaries ("LC"). LC has taken reasonable steps to verify the contents of this document and accepts no liability for any loss arising from the use of any information contained herein. Please also note that past performances are not indicative of future performance.

Information contained herein are those of the author(s) and does not represent the views held by other parties. LC is also under no obligation to update you on any changes made to this document.

This document is prepared by Lighthouse Canton Pte. Ltd. and its subsidiary, Lighthouse Canton Capital (DIFC) Pte. Ltd., which are regulated by Monetary Authority of Singapore ("MAS") and Dubai Financial Services Authority ("DFSA") respectively. MAS and DFSA have no responsibility for reviewing, verifying and approving the contents of this document and/or other associated documents. The contents of this document may not be reproduced or referenced, either in part or in full, without prior written permission from LC.

This document is only intended for Accredited Investors and/or Professional Clients, as defined by MAS and DFSA.

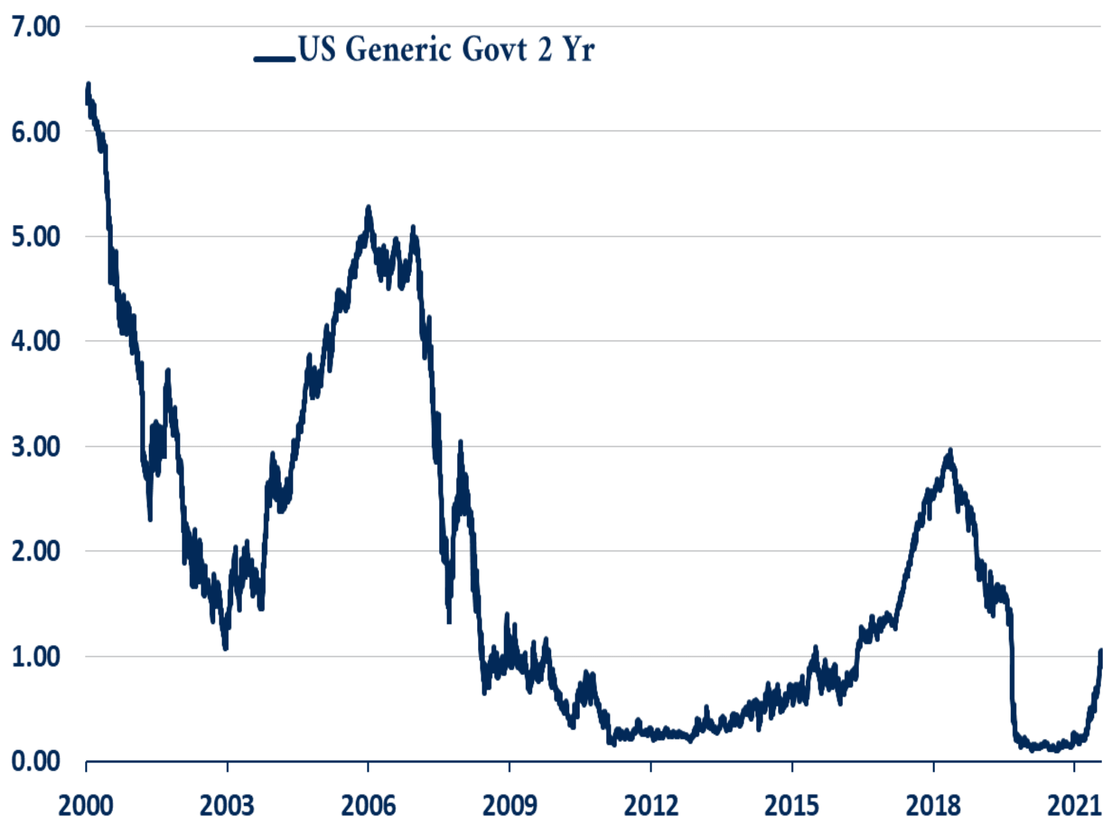
Introduction

The sharp climb in US Treasury yields so far this year has sent a ripple through equity markets, especially among interest-rate sensitive sectors such as real estate and technology. On the opposite, value stocks are outperforming growth ones – which is in line with what one would expect when yields rise. On the bright side of things, the healthy economic environment should support corporate earnings and prevent large equity losses this year.

The main performance driver in 2022 is likely to be interest rates. Whereas 4 hikes are fully priced by market participants as far as the U.S.A are concerned, the impact of the quantitative tightening is not. If BCA Research is right and that the 10-year Treasury yield finishes the year around 2.25%, then equities could easily lose another 10% from current level.

Higher rates will also impact other parts of the economy. The most indebted corporates may face issues rolling over their debt, real estate prices are likely to cool down and gold, which does not bring any income, may start underperforming.

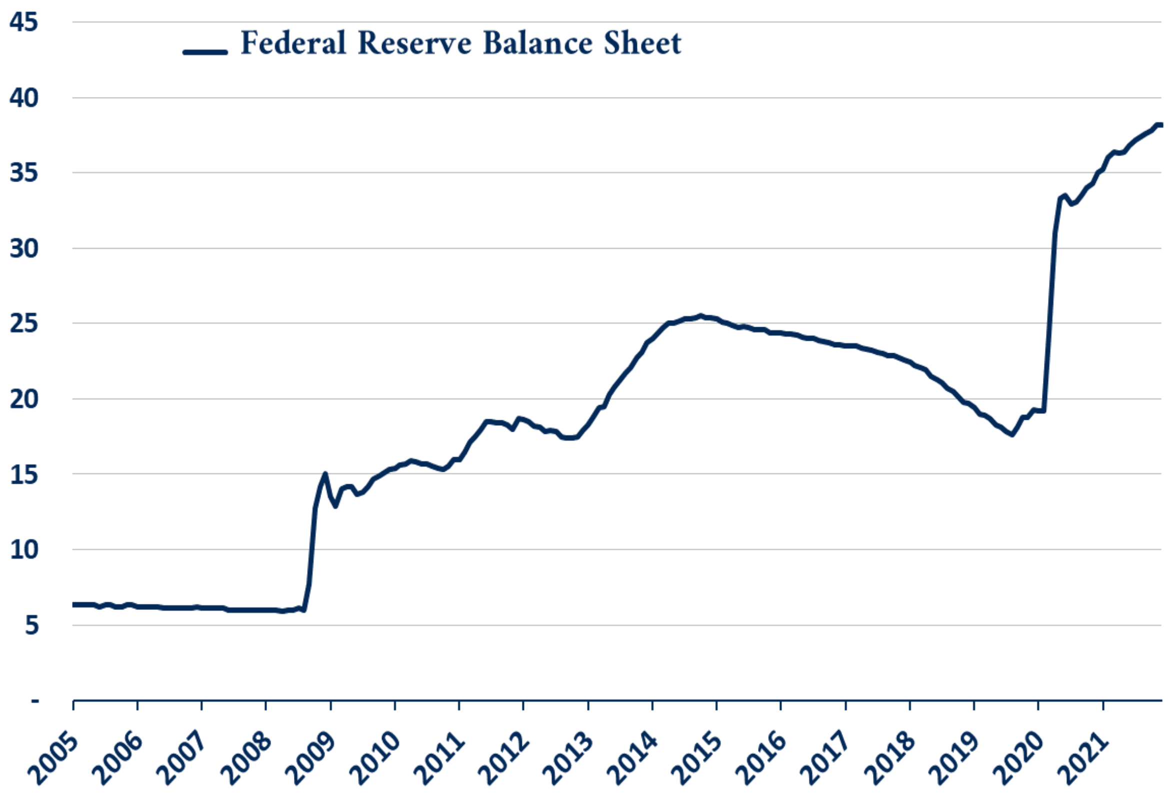
USD Interest Rate: 4 hikes priced in



Source : Lighthouse Canton, Bloomberg 27th Jan 2022

- The yield for a 2Y maturity US government bond has surged from 0.20% to 1.17% over the last 4 months, implying that the market expect 4 hikes (0.25% each) throughout the year.
- A more hawkish tone by the Fed or inflation not cooling down quickly could potentially send yields much higher globally.
- Getting interest rates right is of utter importance as it impact all valuations (bonds, equities, real estate, etc.)

Federal Reserve Bank Balance Sheet as % of GDP



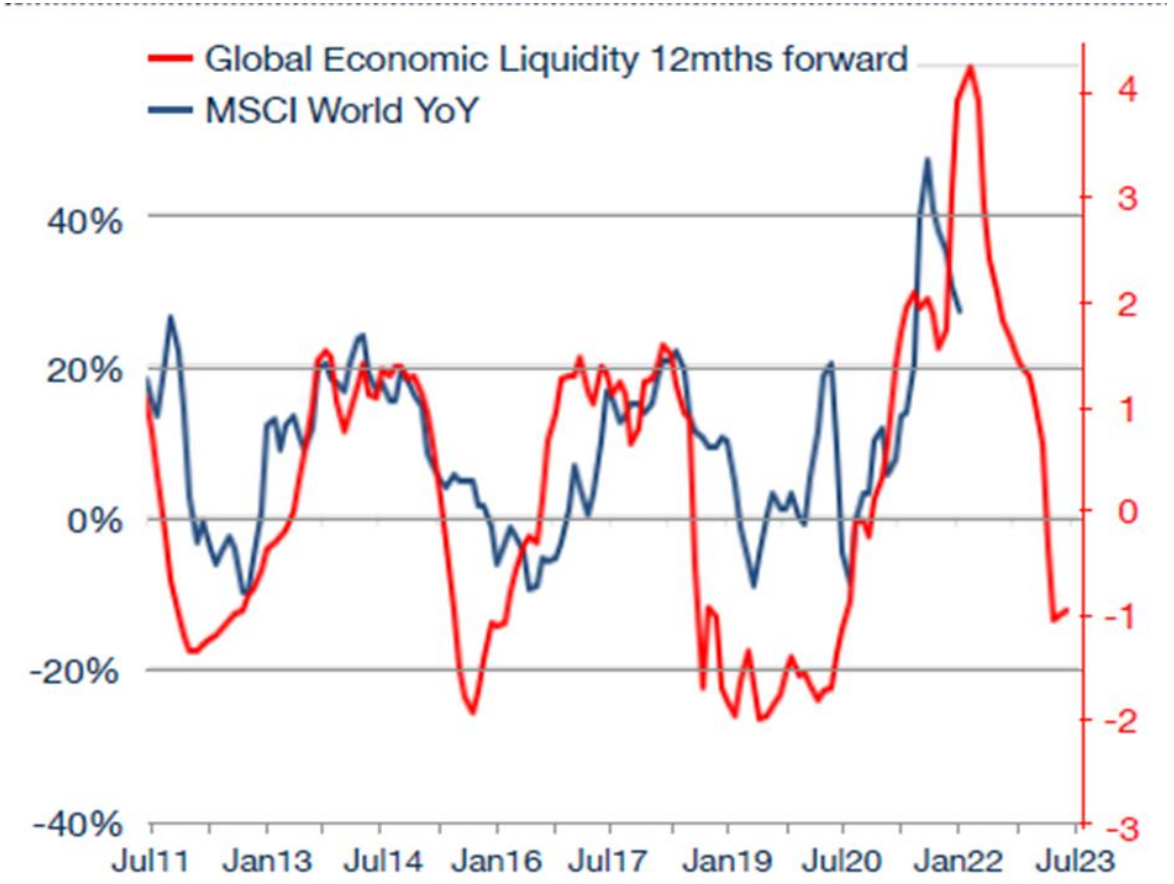
Source : Lighthouse Canton, Bloomberg 14th Jan 2022

- Despite the rate hikes being priced in by market participants, the real unknown is the impact of the reduction of Central Banks' Balance Sheets on financial assets.

Bank Balance Sheets as % of GDP:

	Dec-21	Dec-19	Change (%)
ECB	69.9	39.1	+78%
FED	38.2	19.3	+97%
BoJ	135.1	102.6	+32%
BoE	42.0	21.1	+99%

Global Equities: mind the gap



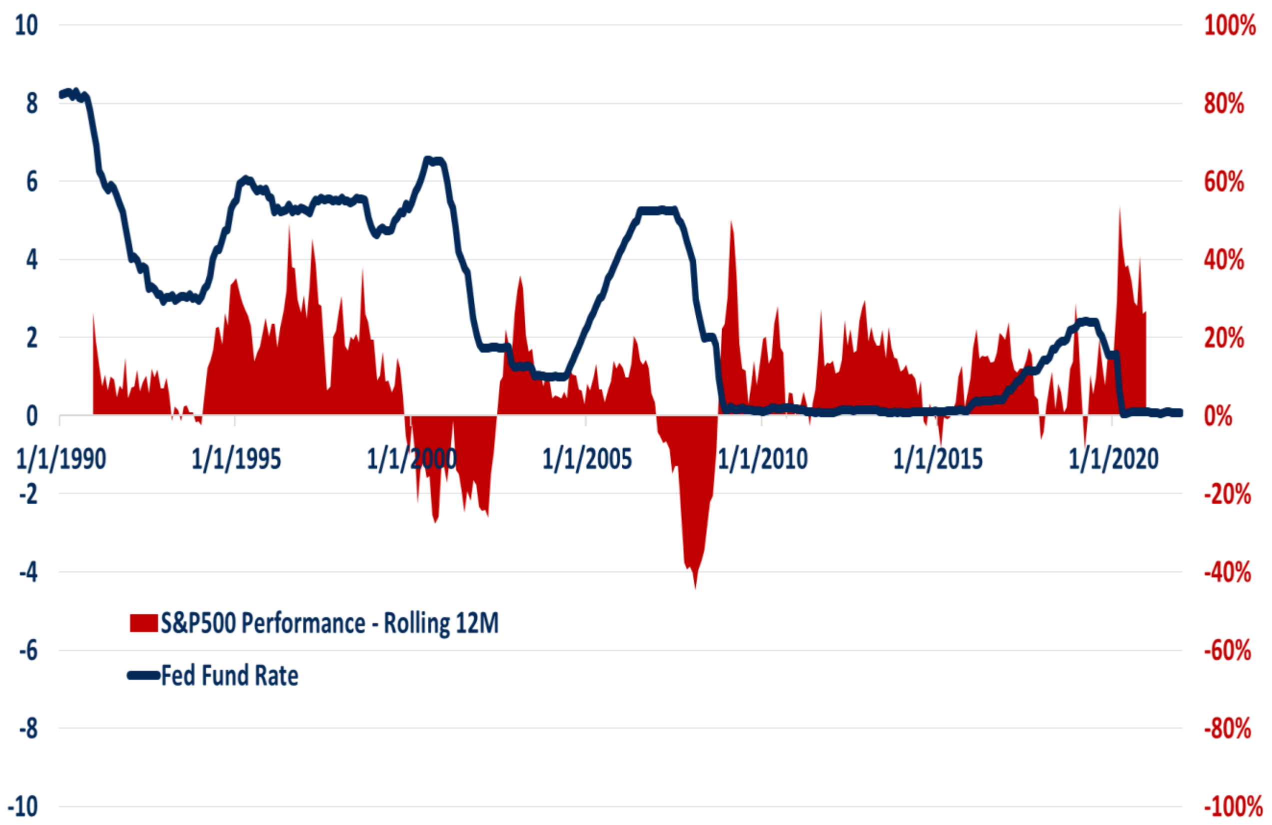
Source : Element Advisors 14th Jan 2022

- The leading indicator (Liquidity 12M forward) is in negative territory which does not bode well for global equities.

- Judging by elevated valuations, global equities are likely to trade sideways or potentially decrease in the coming months.

Equities: History probably not a good guide

S&P 500 12M rolling Performance Vs Fed Funds Rate



Source : Lighthouse Canton, BCA Research 17th Jan 2022

- U.S. Equities have generally performed well during interest rates hikes: Signal measures of economic activity – hiring, lending, spending and GDP – grow well above their through-the-cycle pace while the Fed is tightening policy.
- Past comparisons are misleading:
  - **Real Rates** were not that negative in the past.
  - **Valuations** were not as elevated as today, except for 2000, when equities crashed during the Fed's tightening.
  - **Corporate leverage** is higher today.

Equities: The correction has already started

LIGHTHOUSE CANTON

Percentage of equities having a positive performance

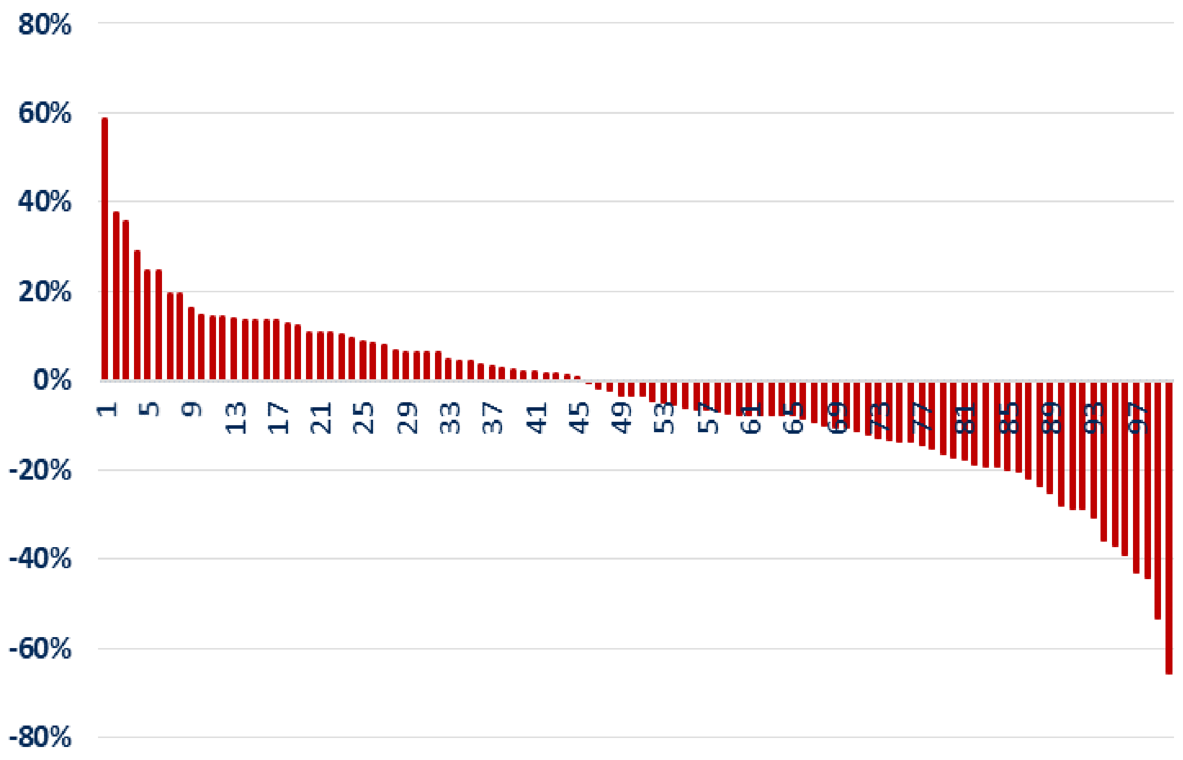
	Holdings	1M	3M	6M	1Y
S&P 500	500	26%	42%	51%	82%
Nasdaq 100	100	11%	30%	42%	62%
Nasdaq Composite	3675	19%	24%	30%	34%
Ark Innovation ETF	43	0%	0%	7%	9%

Source : Lighthouse Canton 27th Jan 2022

- Equities have started their correction. Since indices are mostly capitalization weighted, the index performance is largely impacted by top holdings which have been resilient.
- Nevertheless, looking more transparently at the index, investors can notice that only 42% of the S&P 500 is positive over the last 6M.
- Growth equities and small caps are even worse: Only 9% of Ark Innovation have returned a positive performance over the last 12 months, while only 34% of the Nasdaq composite is up over the same period.

Equities: Indices biased by largest capitalizations

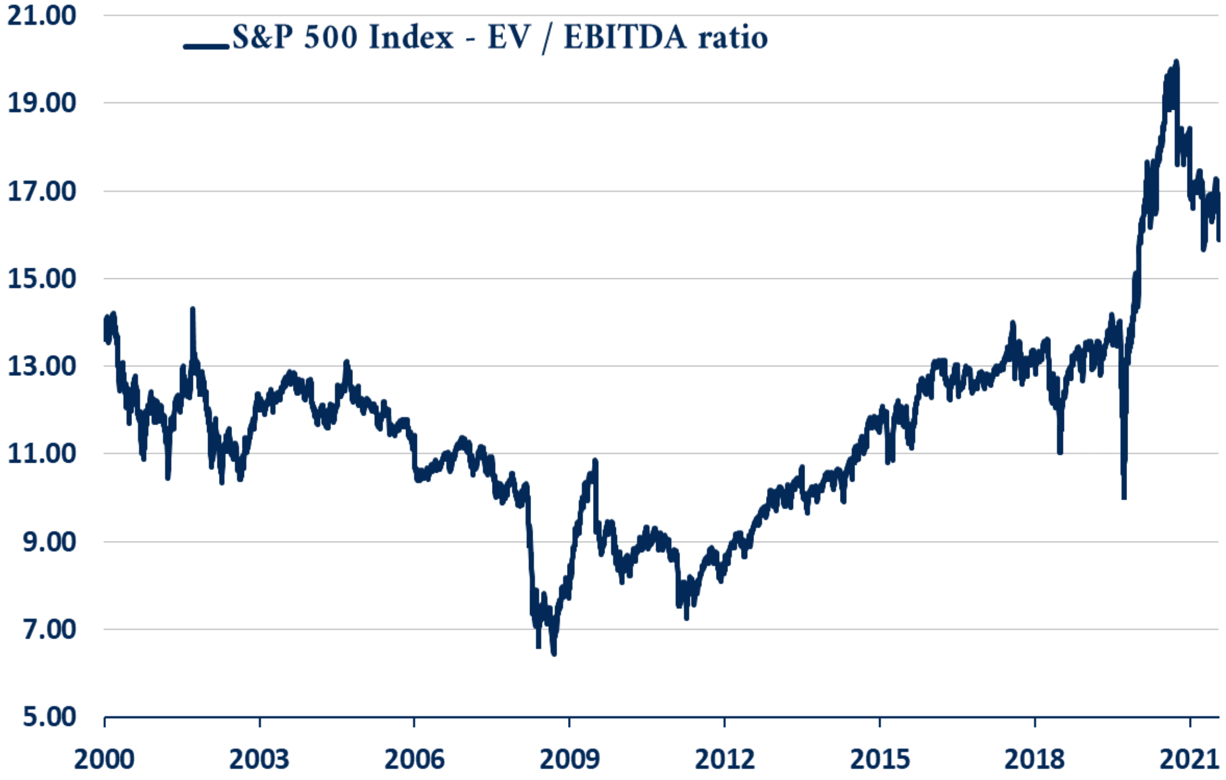
Nasdaq 100: Performance distribution over the last 6 months



Source : Lighthouse Canton 19th Jan 2022

- Only 45 stocks have returned a positive performance over the 6 months.
- This is a winner-takes-all market with top holdings biasing the results:
  - Average performance: -3.7%
  - Weighted Average performance: +4.9%
  - Average 10 largest performance: +12.4%
- Stock picking (Long Only) becomes increasingly complicated… Dispersion likely to help Long / Short managers.

U.S. Equities: valuations are still expensive



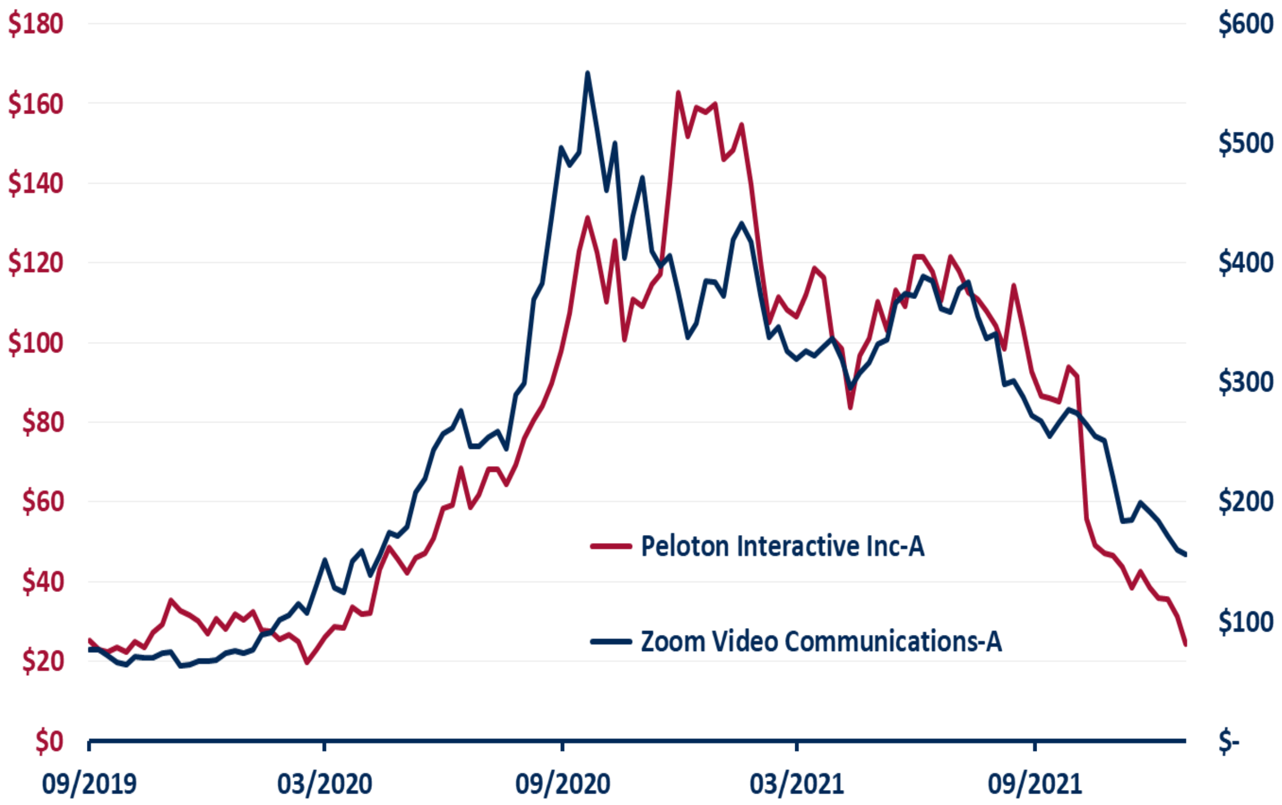
- Despite the recent correction, the S&P 500's EV/EBITDA multiple is still higher today (15.9x) than during the dot.com bubble (13.4x on average for the year 2000).

- Another 50 bps upward shift in the US yield curve could send the S&P 500 index 10-15% lower from current level.

Source : Lighthouse Canton 24th Jan 2022

Equities: Sentiment vs Fundamentals

Share price evolution since 09/2019

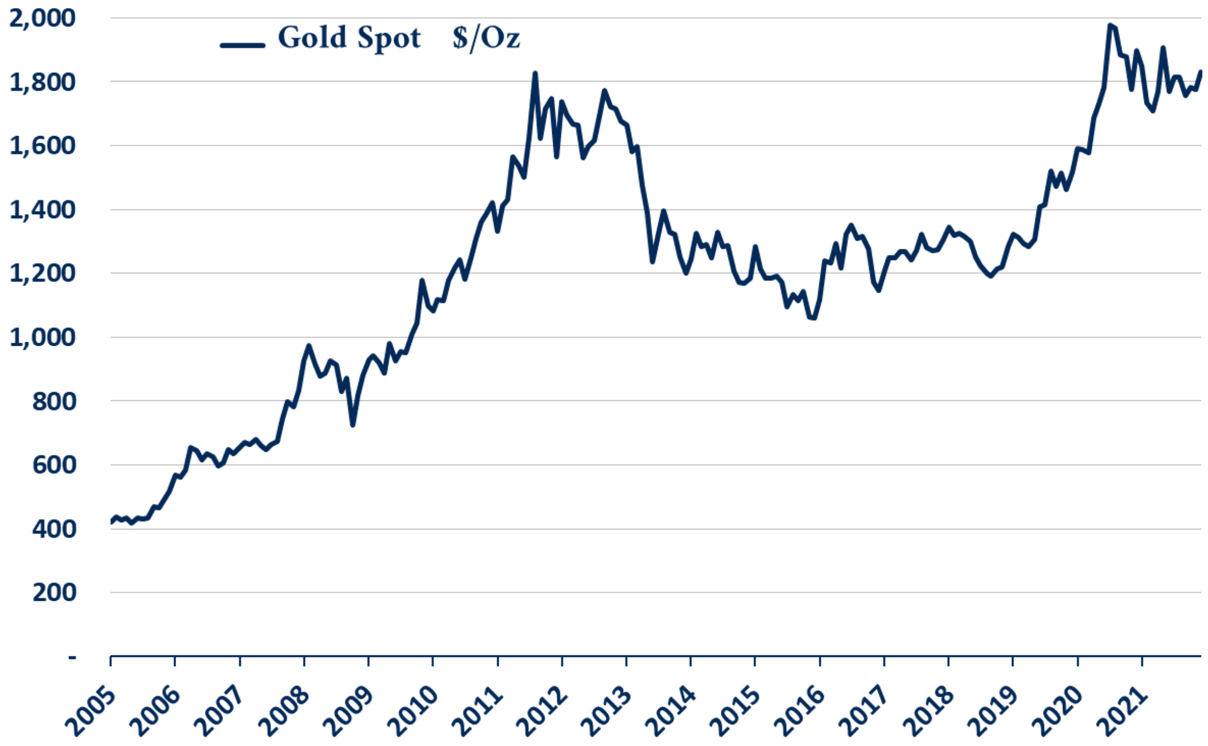


Source : Lighthouse Canton 21st Jan 2022

- Sentiment and retail investors can push the price of assets sharply upward during short period of time. Such irrational moves are not sustainable.
- In the long run, smart money (Institutional investors focusing on company's fundamentals) will dictate the valuation of the asset. Unjustifiable valuations are bound to correct.
- Investors should always back their investment with a tangible price target.

Gold: Opposing forces

Gold ($/oz) price since 2005



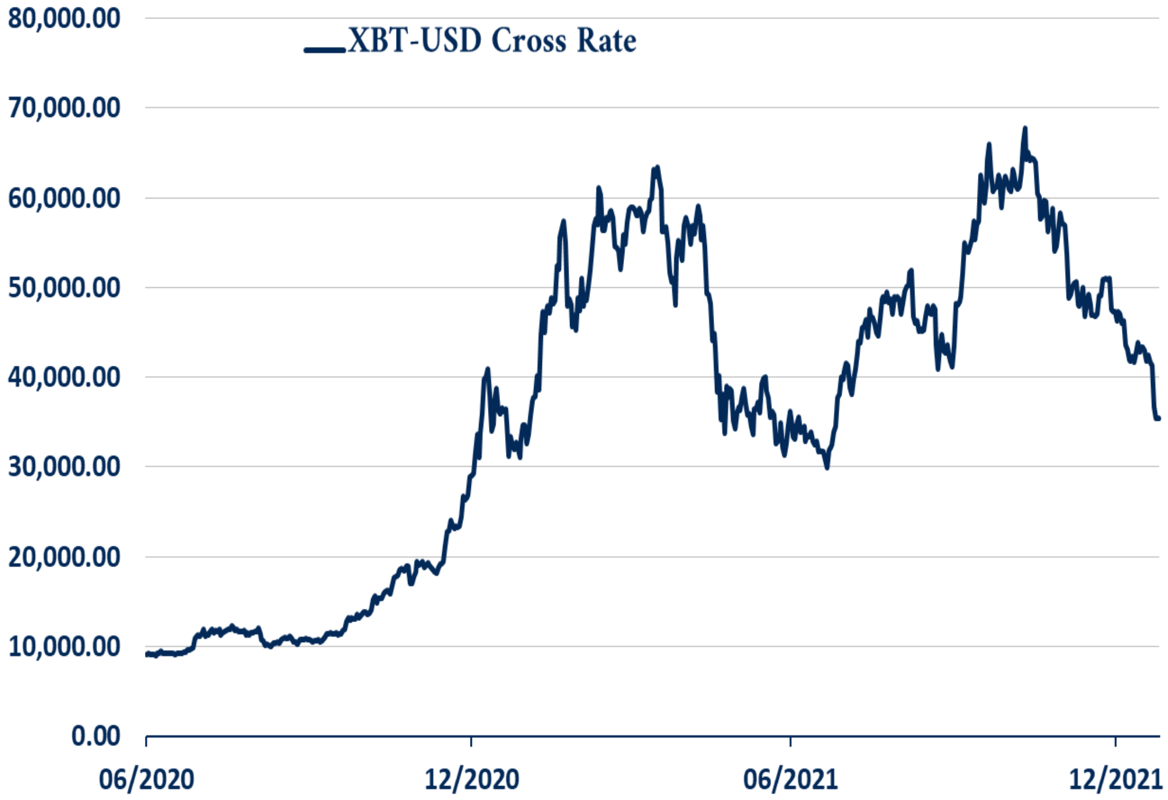
Source : BCA Research, Lighthouse Canton 21th Jan 2022

- Gold benefits from investors looking to hedge against rising inflation or safeguard against **geopolitical risks**.
- A **weakening of the USD** (which has strengthened a lot recently), could also be supportive for gold.
- Real interest rates also impact the evolution of gold prices. **We expect real rates to rise this year, which is a bearish force for gold**.

Cryptos: Coming months will be crucial

LIGHTHOUSE CANTON

Bitcoin price since June 2020

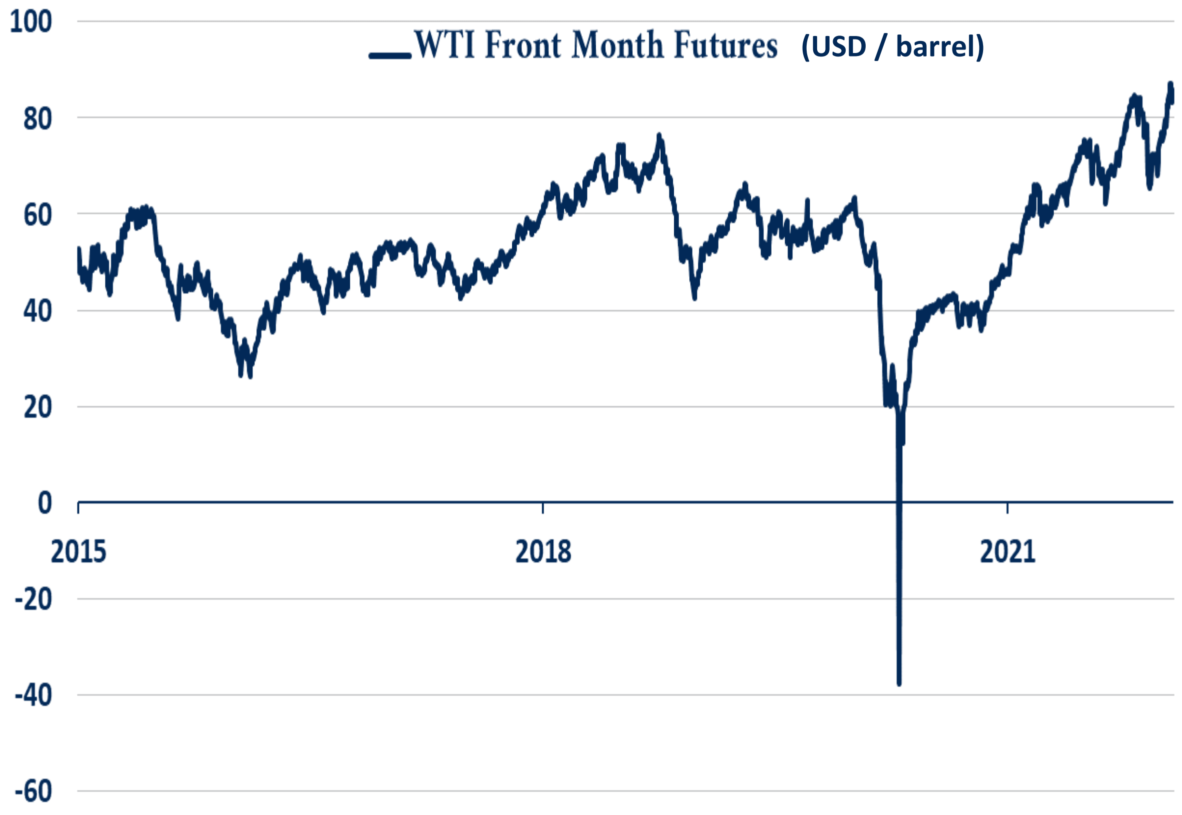


Source : Lighthouse Canton 21st Jan 2022

- Bitcoin has corrected 48% from its 2021's peak (67,734 pts) and will likely remain volatile throughout 2022.

- Positions should be calibrated so that the potential maximum loss does not jeopardize the whole year's performance.

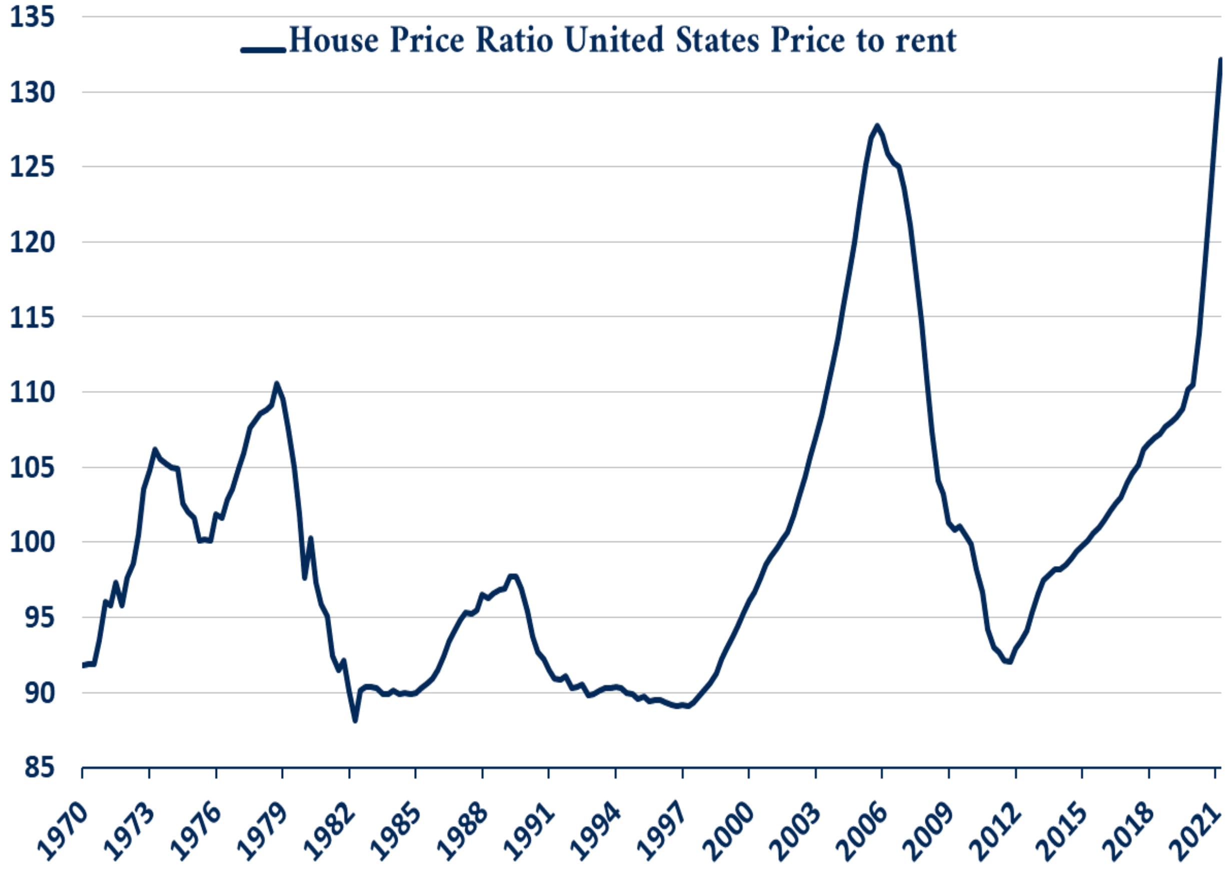
Oil: WTI trading at 7 year high



Source : Bloomberg 20th Jan 2022

- WTI hit a fresh seven-year high on January 19th as the IEA said the market looks tighter than previously thought, with global stockpiles falling rapidly and OPEC+ struggling to revive output.
- As global stockpiles fall, traders don't need to sell as many futures contracts to hedge those supplies. Producers in the U.S. have shown little sign of looking to lock in future sales. Meanwhile, speculators have turned increasingly bullish on prices, shying away from short positions.

Real Estate: House Valuations higher than pre-GFC!



Source : BCA Research, Lighthouse Canton 21st Jan 2022

- Low interest rate loans and tight inventories have propelled global property markets to record high levels.
- To hold down the size of their monthly payments as home values continue to rise, record numbers of mortgage applicants have opted to take out variable-rate mortgages.
- The Price / Rent ratio is expected to decrease as rents start going up (along with inflation).

Conclusion (1/2)

Investors will need to get interest rates right to perform in 2022. If interest keep drifting higher, as seems to be the consensus amongst fixed income investors, risky assets (bonds, equities, real estate, cryptos) are likely to trade lower in the coming quarters. As always, a valuation based on tangible cash flows will help the disciplined investors find opportunities throughout the year. Complacency and chart analysis should be avoided in the early stages of a bear market.

On equities, we expect volatility to remain elevated across both emerging and developed markets. Corrections will provide opportunities for the patient investors, once valuations get lower. The dispersion amongst stocks should be beneficial to Long/Short managers, hence our recommendation to allocate a large portion of a portfolio to such strategies. We reiterate our views to avoid loss-making corporates, especially these for which the Price / Sales ratio is still above 10x.

Conclusion (2/2)

Regarding fixed income, we recommend to keep the duration low and to avoid junk issuers for the moment. Higher rates will negatively impact the most indebted corporates and credit spreads are expected to widen further. For this reason, we recommend allocating to managers who will benefit from spread widening like Saba, Bluebay and Orchard. Higher rates should also be supportive financials, hence our recent recommendation for few Perpetual Bonds, with callability date within the next two years.

We foresee inflation to remain a source of concern for investors in 2022 and recommend real estate and commodities as hedges. Indeed, high inflation will translate in higher rents going forward which should be supportive for real estate. Commodities (oil especially) should remain well oriented and can be exploited via Long/Short strategies (Orion, Delbrook) or Oil services companies.

www.lighthouse-canton.com
www.lighthouse-canton.in

Lighthouse Canton

ir@lighthouse-canton.com
service@lighthouse-canton.in

Singapore

Lighthouse Canton Pte Ltd
16 Collyer Quay
#11-02
Income at Raffles
Singapore 049318
Phone: +65 6713 0570

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
Ground Floor, Coworks,
Worldmark 1, Aerocity,
New Delhi, 110037
Delhi (India)
Phone: +91 9650473961