RAFFLES

FAMILY OFFICE

QUARTERLY INVESTMENT LETTER

4th Quarter 2020

DECEMBER 2020

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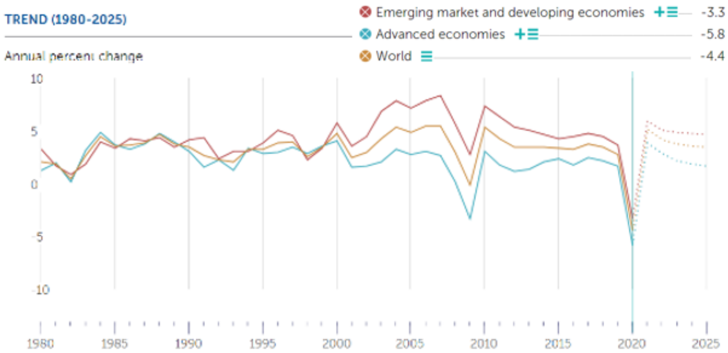
Economic Overview

Global economy

Chart 1: Global real GDP growth and Inflation rate projection

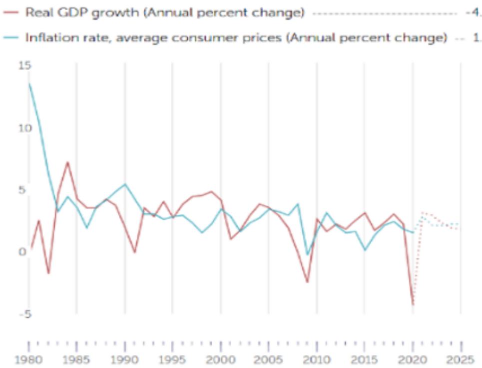


Source: IMF

- The COVID-19 pandemic is expected to result in a 5.2 percent contraction in global GDP in 2020—the deepest global recession in eight decades, despite global stimulus support.
- The unemployment rate fell from 6.9% in October to 6.7% in November. While the number of people reporting that they were unemployed (actively seeking but not finding work) fell sharply, the number of people reporting that they were unemployed for more than six months increased sharply once again. This suggests that many businesses are either shutting down or permanently downsizing.
- Per capita incomes in the vast majority of emerging market and developing economies (EMDEs) are expected to shrink this year, tipping many millions back into poverty. Due to the economic repercussions of COVID-19.

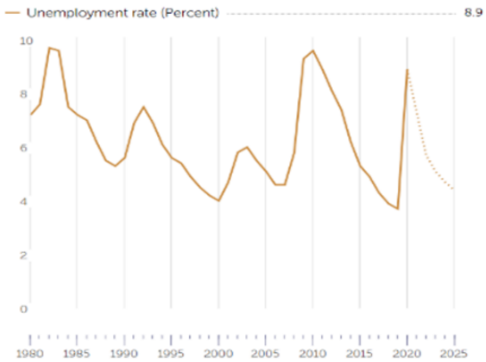
US Economy

Chart 2: US real GDP growth and Inflation rate



Source: IMF

Chart 3: US Unemployment rate

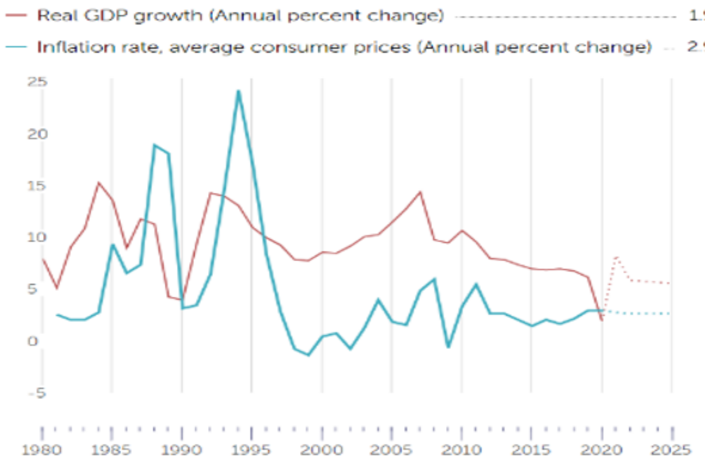


Source: IMF

- After falling sharply during the first half of 2020, consumer inflation bounced back in Q3. Due to QE infinity as well as the stimulus injections to float the economy Expected 30-year annualized CPI is less than 2%, a stark contrast from a decade ago when the market expected monetary accommodation to eventually lead to higher inflation.
- In November, there were 245,000 new jobs created, a sharp decline from the 610,000 created in October and the 711,000 created in September. This was the smallest job gain since the big decline in employment in April. In November, government employment declined by 99,000, mostly due to the dismissal of temporary census workers.
- The labor force contracted by 400,000 people in November, leading to a decline in the rate of participation. In addition, participation fell sharply for those with a high-school education while participation increased for those with a university education. The result was that the unemployment rate fell from 6.9% in October to 6.7% in November.
- The PMI increased to 58.4, the highest level since 2015 and indicating rapid growth due to the tech boom in recent times as well as a recovery from the historic sell-off in March.

China economy

Chart 4: China real GDP Growth and Inflation rate



Source: IMF

- For this year despite the pandemic outbreak, China was the first country to recover as well as being the only country with positive GDP growth for 2020. As seen on the graph it is anticipated for China to have further growth in 2021.
- China continues to outperform the world's major economies, this time with extraordinary growth of exports. Specifically, Chinese exports (evaluated in US dollars) increased 21.1% in November versus a year earlier, the fastest growth in nearly three years. This was up from 14.1% growth in October.
- Growth is anticipated to pick up to 8.4% in 2021, as the global economy is set to recover from the pandemic.
- Retail sales increased 4.3% in October versus a year earlier, the fastest rate of growth since December of last year. Several categories grew at a breakneck speed, reflecting a significant rebound in consumer demand. These included automobiles (up 12.0%), garments (up 12.2%), personal care products (up 11.7%), cosmetics (up 18.3%), jewelry (up 16.7%), and telecoms (up 8.1%). Sales of oil and oil-based products were down sharply. The surge in cosmetics, jewelry, and garments suggests that domestic consumption is healthy and picking up the slack in international trade growth.
- Imports rose a more modest 4.5% in November versus a year earlier. The result was that China's trade surplus soared to a record level. All this has happened despite a sharp rise in the value of the renminbi in the past year. However, currency movements tend to influence trade flows with a lag. Thus, it could be that the negative impact on exports from a rising renminbi will not be felt until 2021.

Market Performance

Equity

1) Americas	Value	Net Chg	%Chg	Δ AVAT	%Qtd	%QtdCur
DOW JONES	30606.48	196.92	0.65%	-22.49%	0.00%	-0.17%
S&P 500	3756.07	24.03	0.64%	-21.22%	0.00%	-0.17%
NASDAQ	12888.28	18.28	0.14%	-9.58%	0.00%	-0.17%
2) Asia/Pacific						
NIKKEI	27082.92	-361.25	-1.32%	15.37%	-1.32%	-1.33%
HANG SENG	27087.13	-144	-0.53%	128.49%	-0.53%	-0.70%
CSI 300	5211.29	97.58	1.91%	123.05%	0.00%	-0.17%

The tech-heavy NASDAQ composite index enjoyed a dizzying run of roughly 20% through early September, but bled the gains during the month, ending the quarter up 11.2%. The large and mid-cap Russell 1000 index and the small-cap Russell 2000 index both enjoyed smaller but robust runs, jumping roughly 16% and 11% respectively through early September, before settling to gains of 9.5% and 4.9% at quarter's end. For the year through September 30th, the Russell 1000 index was up 6.4% and the Russell 2000 index was down 8.7%.

For Hong Kong and Mainland stock markets, although the Sino-US tensions and the unpredictability of the pandemic remain a major risk, the positive fact is that the Mainland economic growth will assumingly improve further in 2H2020, and this should support the equities. Going forward the major catalysts would be vaccines development in China or potential improvements in Sino-US relationship. Consumer sector will remain the primary focus of the stock market during the quarter. In addition to online shopping platform which has been welcome much by investors so far this year, we expect beverages manufacturers, restaurants, athletic goods and auto stocks are among those benefiting from the domestic economic recovery and the internal circulation theme. Leading brands associated with high quality products and higher margin business models will benefit from consumer demand for consumption upgrade and improving awareness of health conscious.

Fixed Income

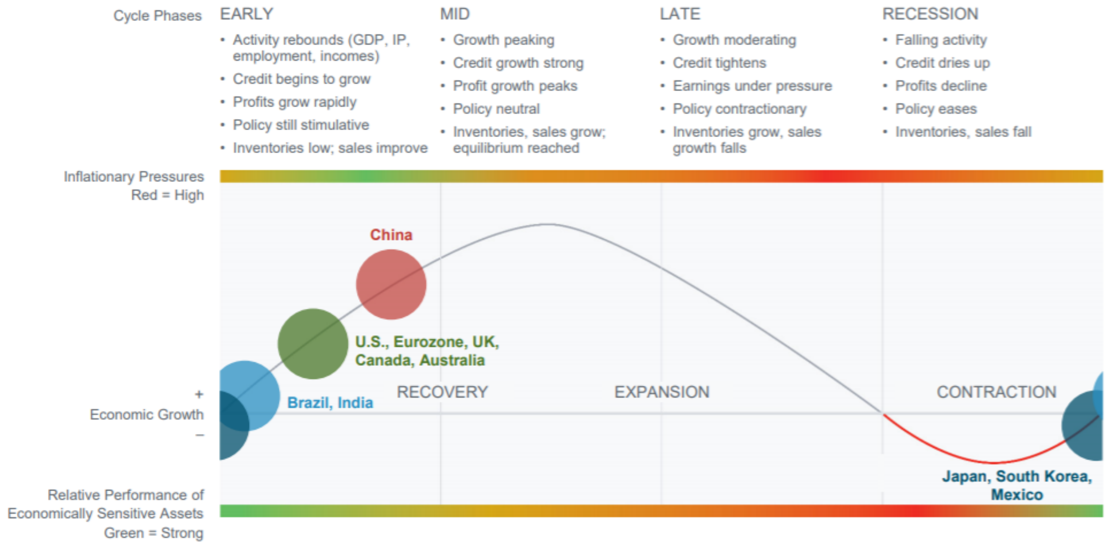
1) Americas						
Description	Ask Yield	Yield Change	Last	Prev Close	Bid	Ask
Fed Funds						
FDFD Index	N/A	N/A	0.08	N/A	N/A	N/A
Treasury Bonds						
GT2 Govt	0.13	0.2	100	100.01	99.99	100
GT3 Govt	0.17	0.5	99.86	99.88	99.85	99.85
GT5 Govt	0.38	1.3	99.99	100.07	99.98	99.99
GT7 Govt	0.67	1.8	99.72	99.88	99.70	99.71
GT10 Govt	0.95	2.7	99.34	99.64	99.32	99.34
GT30 Govt	1.68	2.8	98.73	99.53	98.68	98.73

2) China					
Description	Ticker	Curr Val	Prev Val	Prev Date	%Chg
China Govt 2 Years	GCNY2YR	2.71	2.717	12/30	-0.25
China Govt 5 Years	GCNY5YR	2.961	2.94	12/31	0.73
China Govt 10 Yr	GCNY10YR	3.166	3.146	12/31	0.63

On bond market, 10-yr US Treasury had rebounded from 0.69% as at 30 Sep 2020 to 0.95% as at 31 Dec 2020. It was mainly due to the optimism of the financial markets about the Covid-19 vaccination. There were substantial inflows of funds into bond markets after the fiscal stimulus from US Government and the abundant liquidity provided by FED. Credit spreads of investment grade bonds tightened more than 25 bps in the fourth quarter of 2020. The high yield sector followed a similar path in credit spreads throughout the quarter.

Economic Outlook

World:
Business Cycle Framework



Source: Fidelity

Global Growth Outlook and Risks

Global stocks and other riskier asset classes continued to rally during the fourth quarter.
• U.S. stocks regained their prior highs -- rebounding from the contraction in March.
• Sustained progress in economic reopening and hopes of a vaccine underpinned the financial-market rally.
• After a sharp and short-lived technical recession, most major economies are now in early-cycle recovery.
• China remains ahead of the rest of the world, in part due to of their exceptional control over the pandemic.

According to the IMF, Global growth is projected at 5.2 percent in 2021, reflecting a more moderate downturn projected for 2020 and consistent with expectations of persistent social distancing measures. Following the GDP contraction in 2020 and anticipated recovery in 2021, the level of global GDP in 2021 is anticipated to be a modest 0.6 percent above that of 2019 (pre-COVID period). The growth projections imply wide negative output gaps and elevated unemployment rates this year and in 2021 across both advanced and emerging market economies. The emergence of a new variant virus poses additional headwinds to the global economy.

US

We remain cautiously bullish about the economic outlook. The US Fed continues to maintain an accommodative policy stance for the US economy. The new Biden Adminstration brings relief and opportunities as compared to the previous administration but also potential risks with regards to existing and new policies that they may roll out.

While the economy rebounded from the contraction in the 1H2020, the following factors are likely to determine how the recovery develops in 2021 such as; i) the scale of the ongoing COVID-19 resurgance along with a variant of the virus and any resulting containment measures, ii) the resulting effects on the labor markets and household consumption and income, iii) the size and timing of additional fiscal and monetary stimuli, and iv) the progress on the COVID-19 vaccine front.

The trade war between the U.S. and China is likely to be more constructive under the Biden Administration and we do not foresee a return to pre-Trump era relations with China.

China

The Chinese economy has returned to almost pre-pandemic output levels—a significant achievement given the depth of the first quarter downturn. Consumption has caught up to production and is likely to impact the outlook for government policy.

The government and People's Bank of China (PboC) have been discussing when to start reducing the amount of stimulus. The most likely outcome is a continuation of the hand-over from monetary policy to fiscal stimulus. Fiscal policy should remain supportive through 2021. More stimulus may be announced at the National People's Congress meeting (likely in March 2021) as the government continues to support consumption.

Moreover, if a vaccine is widely introduced in the coming year, it could lead to a deceleration or decline in demand for pandemic related goods. Thus, the surge in China's exports might subside. Plus, a post-pandemic world will likely entail a shift in consumer spending away from goods and more toward the products that consumers have avoided over the past year. Tourism, for example, will likely surge. A return to global travel will likely lead to a big increase in Chinese tourism, thus reducing the country's trade surplus.

Asset Class Overview
Equities

Overview	Outlook
- Global economy has recovered gradually but unevenly due to the virus outbreak and spikes in infection rates globally	
- US elections ○ Biden showed signals of having intentions to have constructive discourse with China, alleviating the pressures placed on Chinese technology companies under the Trump Administration ○ Following the win, the S&P rose significantly, breaking a new high at that time	○ US-Sino tensions are anticipated to thaw under a Biden Adminstration which is beneficial to Equities in general, in particular, Chinese Tech companies
- Pandemic ○ The extent of the pandemic escalated glboally with the US, Europe and Emerging Asia witnessing record high infection rates ○ Stock market investors remained bullish and seem to be looking forward beyond the pandemic with high hopes with the vaccine progress	○ Additional headwinds as a result of the emergence of a new Variant strain of Covid virus. Remains an overhang on Equities. ○ Further progress on the vaccine front will continue to bouy Equities
- US-China Trade war ○ The onset of of US-China tensions and the subsequent escalation created tension amongst Equities investors. With a new President, investors anticipate an easing of tensions that leads to more constructive US-Sino relations	○ The policy direction to be annomunced by the Biden Adminstration will determine the overall direction of US-Sino relations and in turn Equities at large
- Overall ○ 2020 witnessed a V-shaped recovery across Global Equities, in particular technology and healthcare sectors as major beneficiaries of home containment measures. ○ Broadly, Growth outperformed Value plays	○ We remain cautiously bullish on equities for the next year. Equities should continue to be supported by the cyclical recovery as well as the unprecedented economic stimulus. Against the backdrop of low interest rates, Equities is likely to offer better risk-returns compared to other investment alternatives ○ Sector rotation from "Big Tech" to "Cyclicals" is anticipated to continue as the valuation gap is relatively significant with opportunities across laggard sectors such as Oil & Gas, Airlines, Infrastructure & Materials

Fixed Income

Overview	Outlook
- Rates ○ The near-term outlook for interest rate duration is neutral to negative. On a structural basis, we still consider duration risk as unattractive, especially in Europe and hold minimal exposure only. We rather consider duration exposure as a portfolio diversifier, whereas we favour short-dated US Treasuries and medium-term China govt bonds	○ As global economies would recover in 2021, there would be steepening yield curves for those Developed and Emerging Market countries. Duration of the govt Bond portfolios are suggested to be short for the year of 2021
- IG ○ We hold minimal US investment grade bonds and only selective European IG bonds. Asian IG bonds trade at much more attractive valuations. ▪ High Yield: High yield bonds offer still relative and absolute attractive yields. Overall, we favour selective US short-term IG bonds, Asian IG and high quality short-dated HY bonds	○ Although credit spreads had been tightened a lot since March 2020, they are still wider than the levelss of 2019, especially for Asia credits. It is suggested to Overweight Asia IG and HY bonds in the year of 2021
- Emerging Debt: ○ Emerging market bonds offer a relative value advantage, whereas we favour hard currency bonds as spreads are still relatively wide. Nevertheless, with the USD weakness we started to buy selective local currency bonds	○ Due to the prolonged effect of the pandemic, emerging markets' interest rates would stay low of further cut to support the economies. With the expectation of the weakness of the USD, Emerging Market local currency bonds would be considered as an alternative for USD bonds