Monthly Review, Asset Allocation & Outlook
July 2023

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Highlights of the Month

- Global equity markets continued their upward momentum in July on a strengthening soft-landing narrative
- MSCI All Country World Index and MSCI EM Index rose 3.6% and 5.8%, respectively
- Barclays EM Aggregate Index rose +1.2% from recovering spreads as rates ended flat after a volatile month
- UST 2YR remained flat at- 2bps to 4.9%, while UST 10YR added 12bps to 4.0%, inversion @ -92bps
- Brent oil prices surged 14.2% MoM as we move into a strong demand season
- MENA equities continued their up move with S&P Pan Arab composite Index rising 3.5%
- We are overweight on fixed income and neutral on equities

Global Review

Global Equities: Global equities continued their upward momentum as inflation declined and economic data showed resilience, which further strengthened the soft-landing narrative. MSCI All Country World Index rose 3.6% MoM. The rally further broadened as value and cyclical equities outperformed growth equities. MSCI All Country World Cyclical and Value Indices rose 4% and 3.9% MoM, respectively vs Growth Index rising 3.2%. In terms of sectors Banks, Energy, Communication Services and Materials outperformed rising 6.8%, 6.5%, 6.2%, 5.4%, respectively.

Emerging markets (EM) outperformed developed markets (DM) with MSCI EM Index increasing 5.8% vs MSCI World Index gaining 3.3%. Lower than expected CPI data in US accompanied by softening inflation in EM, economic growth remaining resilient in EM and Chinese authorities announcing support for property sector and pledges to boost consumption underpinned the EM outperformance.

In the US, S&P 500 Index closing the month up 3.1% with the performance being broad based across sectors. Nasdaq outperformed Dow Jones gaining 4% vs Dow rising 3.3%. Small Caps outperformed with Russell 2000 Index surging 6.1%. Both US headline inflation (CPI) and core CPI for June came below expectations rising 0.2% MoM vs the expectation of 0.3%. Shelter inflation slowed down further rising 0.4% Mom vs 0.6% in May. Energy prices and food prices increased 0.6% and 0.1% MoM, respectively, while used vehicle prices and airfares fell 0.5% and 8.1%, respectively. On a YoY basis the CPI decelerated to 3% in June, the slowest pace in more than 2 years, from 4% in May. Core CPI declined to 4.8% YoY from 5.3% in May. Super core inflation (services ex-housing) also came down declining to 4% YoY and almost flat MoM.

The FOMC announced its 11th rate hike raising the fed funds rate by 25 basis points (bps) to 5.25%-5.50%. In the post-meeting press conference, Jerome Powell did not commit to a pause or continuation of rate hikes in the coming meetings. Instead, Powell reiterated data dependency regarding the path of future Fed policy. The yield curve bear steepened as 2Y-10Y inversion reduced by 14bps MoM to reach 92bps, this was driven by economic growth being better than expectations leading investor to ask higher premium for holding 10 year securities.

US non-farm payrolls increased 187,000 in July slightly below consensus expectation of 200,000. Although the labor market continued to cool down, the payrolls remained strong from a historical perspective. Wages came out stronger than expected with average hourly earnings rising by 0.4% MoM and 4.4% YoY, vs the expectation of 0.3% and 4.2%, respectively. However, the Employment Cost Index, which is Fed's preferred measure as it is less volatile and includes both wages and compensation rose 1% QoQ in Q2 vs 1.2% in Q1. The unemployment rate ticked lower to 3.5% vs 3.6% in June.

US ISM Services PMI slowed to 52.7 in July from 53.9 in June. Manufacturing PMI rose to 46.4 in July from 46 in June, however, the manufacturing activity continued to contract. The divergence continued between Manufacturing and Services PMIs as consumers favor spending on experiences while limiting discretionary merchandise purchases. 2Q GDP surprised on the upside with QoQ annualized growth rate of 2.4% vs expectation of 1.8%. The downside surprise in inflation and resilient economy with labor market conditions remaining above normal raised hopes for a soft landing.

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European equities gained with MSCI Europe ex-UK Index gaining 1.3% and UK equities also rose with FTSE100 Index rising 2%. The European Central Bank (ECB) raised rates in July, increasing the deposit rate 25bps to 3.75% in line with its earlier guidance. ECB president Christine Lagarde in post-meeting press conference indicated to be data dependent regarding the path of the future policy. The central bank's dovish shift was tied to falling eurozone inflation and weaker economic data data leading up to its July meeting. Eurozone headline inflation (CPI) fell to 5.5% YoY in June from 6.1% in May. July flash CPI data indicated that inflation further fell to 5.3% YoY. However, core inflation continued to be sticky at 5.4%, coming in line with the June levels. The Eurozone manufacturing PMI fell to 42.7 vs 43.4 in June, thereby continuing to reflect contraction in manufacturing activity. Services PMI slowed to 50.9 from 52. UK headline inflation in June fell to 7.9% from 8.7% in May, vs the expectation of 8.2%. Core inflation remained sticky, declining slightly to 6.9% from 7.1%. Wage growth remained elevated with average earnings growing by 7.3% YoY. However, the unemployment rate ticked up to 4% from 3.8%.

Japanese stock market continued to move higher with TOPIX Index rising by 1.5%, there by gaining 23% YTD. Given the strong inflation data, at its July meeting the BoJ loosened its yield curve control framework by turning its current 0.5% yield ceiling from a hard limit into a reference point. The bank will now offer to buy 10-year Japanese government bonds at up to 1% through fixed rate operations.

Global Fixed Income:

US Economy Strengthens in July Driven by Consumer and Investment. US economy rose at a stronger clip in Q2 at +2.4% (QoQ, ann.), ahead of prior period and expectations, boosted by resilient consumer spending and strong business investment, with another jump in durable goods (+4.6% m-o-m), firming the Federal Reserve's chances of avoiding a recession and engineering a soft landing, despite its current restrictive rate policy. Core PCE Price Index also moderated at +3.8%, from 4.9% previously.

US Fed Resumes Rate Hikes Following a Hawkish Pause in June and Upgrades Macro View. Ahead of GDP print, the Fed met in July and as expected, resumed their rate hikes with 0.25% to bring the fed funds to 5.25%-5.50% range, after a hawkish pause in June, and kept the door open for further hikes depending on incoming data, while upgrading the pace of economic growth at "moderate" from "modest" previously, viewed as slightly hawkish. Markets will look to the jobs and inflation reports in addition to the upcoming Jackson Hole Symposium for further clues to the Fed's next move on September 20.

Resilient US Consumer Drives Growth while Core Inflation Moderates. US personal spending accelerated in June to +0.5% from +0.2% in May (revised), while personal income dipped slightly to +0.3% from 0.5% prior month (revised), driven by employee compensation which rose +0.5%. Core PCE deflator, the Fed's inflation gauge rose +0.2% m-o-m (3% y-o-y), in line also with its reported "supercore" measure with housing services stripped out, which has been on a declining trend, at +4.0%, +3.4%, and +2.7% over past 6-m, 3-m, and 1-m annualized rates, respectively.

US Jobs Soften Although High Wages Challenges Fed's Dual Mandate. US non-farm payrolls reported earlier in July at 209k for June month, missing expectations and well below May's (revised) 306k, while average hourly earnings rose +0.4% m-o-m and 4.4% y-o-y as the unemployment rate dipped to 3.6% from 3.7% previously. The Fed will need to see continued softening in the labor market to reign in still high inflation and converge it towards its 2.0% target as part of its dual mandate. It is worth noting that holding at high interest rates in addition to ongoing QT/BS shrinkage is tantamount to tightening, and the case for an easing in rates remains premature despite near end in hikes.

US Yield Curve Inversion softens as Longer End Rises While Short End Remains Anchored. US 2YR yields edged lower -2bps to 4.88% in July, stalling their climb since May 3.79% lows as the Fed nears the end of its rate tightening cycle. US 10YR yields rose +12 bps to 3.96%, with the 2/10YR inversion improving to -92bps in July, as longer end rose on repricing for higher macro growth and term premium, while shorter end remains anchored to the Fed's next rate decisions.

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The recent bear steepening in the US yield curve reflects the upgrade in growth expectations in addition to supply / demand as US increases issuance to finance its deficits and debt servicing costs.

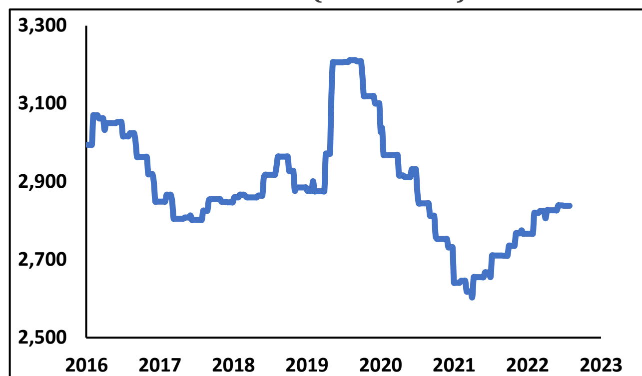
EM Bond Index Rallies in July and YTD Following Cues from Global HY. Emerging Markets Aggregate Index (EMUSTRUU Index) closed higher +1.18% m-o-m to yield 7.41% (OAS declined 18bps to +307bps) as EM spread tightening since mid-March US bank crisis, were partially offset by rising US benchmark rates. EM followed the cues of global and US high yield which rose +1.96% and +1.38% m-o-m, respectively among the best performers MTD (& YTD) as US rates volatility waned. EM could stand to benefit from improved macro as growth ticks upwards and inflation ebbs, from G20 common framework and IMF rescue packages for low-income/distressed nations, China stimulus, and policy reforms while still be vulnerable to global growth (e.g. China), financial credit conditions, commodity prices, and trade / geopolitical tensions. EMUSTRUU Index is up 4.5% on a total return basis YTD July.

While EM has not historically decoupled from global growth or financial tightening environments, it is worth noting that this time around they have built stronger reserves, were quicker to exit the pandemic, to raise rates (with expectations for rate cuts this year) and better managed their hard currency liabilities by also borrowing more in domestic currency than in previous cycles.

EM Equities: MSCI EM Index rose by 5.8% in July. EMEA, LATAM and Asia rose by 6.7%, 5.0% and 5.7% respectively. MSCI China outperformed, rising by 9.3% on optimism that the government would introduce new measures to stimulate the economy. China's GDP grew at a slower-than-expected pace of 6.3% in the Q2 compared with a year earlier, when dozens of Chinese cities were still in lockdown, but just less than 1% from Q1 2023. MSCI Brazil gained 4.8% during the month as foreigners continued to dip into the market on optimism that the Central Bank would start cutting painfully high interest rates. MSCI South Africa gained 6.0% during the month as the outlook for commodities improved.

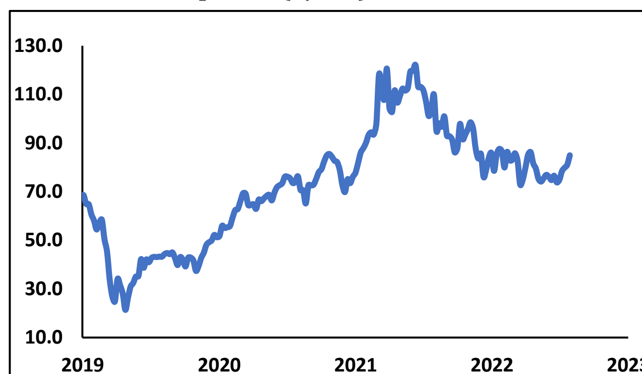
Commodities: Oil: Brent oil closed at USD 85.6/bbl, up 14.2% MoM. Oil rallied this month after pledges by heavy weights Saudi Arabia and Russia to extend supply cuts through September. Moreover, oil demand hit a record in July, touching 102.8mn barrels a day. With inventories getting depleted and demand peaking during summer, oil prices should remain well supported in August.

OECD crude inventories (mn barrels)



Source: Bloomberg, Daman Investments

Brent crude oil prices ($/bbl)



Source: Bloomberg, Daman Investments

Natural gas: Henry hub prices fell by 5.9% MoM to reach USD 2.6/mmbtu. High inventories, improved energy efficiency across Europe and changes in the way gas is being consumed has led to the 41.1% drop in prices YTD.

Petchems: SE Asia PP, LDPE, HDPE and LLDPE rose by 4.4%, 2.2%, 2.1%, and 2.1% respectively. SE Asia MEG also rose by 7.6% MoM.

Metals: Copper rose 5.7% MoM while aluminum and nickel were up 6.4% and 8.5% MoM, respectively. Precious metals: Gold prices rose by 2.4% on a weakening dollar.

Currencies: EM currencies (MSCI EM Currency Index) rose 1.6%, while the US Dollar (DXY Index) fell by 1.0%. The Chilean Peso (-4.4%), Turkish Lira (-3.4%) and Hungarian Forint (-3.1%) were the worst performing EM currencies while the Colombian Peso (+6.3%), South African Rand (5.6%) and Malaysian Ringgit (+3.5%) were the best performing currencies.

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Given our expectation of a slowdown in global economic growth, we continue to avoid exposure to base metals. However, we expect gold to benefit from increased risk aversion as global growth slows down and a fall in future yields. We remain cautious on petrochemicals due to a slowdown in the global economy. We expect Brent oil price to average $75/bbl in H2 2023. While we will enter peak demand due to the travel season in summer, we expect prices to remain volatile due to interest rates hikes and global growth uncertainties. However OPEC has put a floor on Brent crude oil prices around $70/bbl due to its voluntary production cuts.

MENA Equities: Regional equity markets rallied in July, in line with global peers as inflation continued to come down globally. Oil prices also continued their upward momentum, further boosting investor confidence. The S&P Pan Arab Composite Large Mid Cap Index gained 3.5%. Within the broader GCC, Qatar's DSM Index and Dubai's DFMGI outperformed, rising by 8.8% and 7.0% respectively. Boursa Kuwait's All Share Index, Abu Dhabi's FTSE ADX General Index and Saudi's TASI were laggards, rising by 3.2%, 2.5% and 2.0% respectively. Regionally, Turkey's XU100 Index surged by 25.3% while Pakistan's KSE100 Index and Israel's TASE 35 Index also had a strong month, gaining 16.3% and 7.0%, respectively. Egypt's EGX 30 Index however underperformed, losing 0.4%.

In the UAE, we observed low provisioning and higher non-interest income as the general trend amongst banks, which helped boost earnings. Asset quality remained resilient while NIMs were stable. Loan growth on average hovered around 2% QoQ. Banks in Dubai raised their loan growth guidance despite seeing some early repayments, due to positive offshoots in the retail and corporate segments. Deposits in the sector saw growth but CASA generally declined. We continue to be bullish on local banks, with our top picks being ENBD, ADCB and DIB. Empower posted a good set of results with earnings up 41% QoQ due to growth in capacity. The company also announced that it had closed the acquisition to operate Dubai International Airport's district cooling assets, which would add 110k RT to Empower's connected capacity. The impact of this transaction would be visible in Q3 earnings. TECOM's revenues were up 4% QoQ due to higher asset occupancy (87% vs 82% YoY). We continue to like TECOM as we remain positive on the commercial real estate space in Dubai and the name is also yielding 6.3%.

In Saudi, Al Rajhi's profits were flat QoQ as lower provisioning made up for lower non-interest income. NIMs were stable while loan growth was weak at 0.4% QoQ. Management noted that high interest rates dampened demand for retail loans. SNB's profits were also flat QoQ as lower provisioning and higher than expected non-interest income compensated for weak net interest income. Loan growth was 2% QoQ while NIMs contracted 20bps during the quarter. In Kuwait, NBK's profits grew 5% QoQ driven by higher net interest income. Loans grew 2% QoQ while deposits declined 1% QoQ.

In equities, we increased our exposure to Saudi Arabia. We added Saudi Ground Services as the name is ideally positioned to benefit from KSA's Vision 2030 tourism targets (increase Umrah/Hajj visitors, two new airlines and a new airport in Riyadh). The company returned to profitability in Q1 after three years of losses and should see margins improve as volumes continue to grow. We added Al Rajhi Bank to our portfolios. The name has underperformed due to falling NIMs and weak loan growth. We remain constructive on NIMs improving in H2 and we see the bank well positioned to benefit from loan growth once rate cuts begin. With most of its customers being government-related employees, we remain comfortable with asset quality. We offloaded SABB as NIMs peak is behind us and ROE also hitting the peak levels. We exited Ali Alghanim Sons Automotive in Kuwait after a strong rally in the name. In UAE, we took exposure to Fertiglobe.

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Major Indices Performance

Major Indices Performance	Value	MTD Return	YTD Return	PE (x) 1Yr Fwd	PB (x) 1Yr Fwd	Div. Yield 1Yr Fwd
Saudi Arabia - TASI	11,692	2.0%	11.6%	17.0	2.2	3.6%
Dubai - DFMGI	4,059	7.0%	21.7%	9.1	1.1	4.4%
Abu Dhabi - FADGI	9,787	2.5%	-4.2%	22.9	3.1	2.6%
Qatar - DSM	10,963	8.8%	2.6%	13.4	1.4	4.5%
Kuwait - All Share	7,254	3.2%	-0.5%	15.4	0.6	4.6%
Oman - MSM30	4,776	0.2%	-1.7%	13.1	2.1	4.6%
Bahrain - BHSEASI	1,992	1.8%	5.1%	7.0	0.7	7.7%
Egypt - EGX30	17,596	-0.4%	20.5%	7.0	1.9	4.4%
Morocco - MOSENEW	12,083	4.3%	12.7%	17.8	2.2	3.6%
S&P Pan Arab Composite	166	3.5%	3.9%	14.7	1.8	3.7%
Israel - TA35	1,871	7.0%	4.1%	8.5	1.5	2.8%
Turkey - XU100	7,217	25.3%	31.0%	6.5	1.9	3.3%
Pakistan - KSE100	48,053	16.3%	18.9%	3.6	0.8	8.5%
S&P 500	4,589	3.1%	19.5%	20.9	4.1	1.5%
STOXX 600	471	2.0%	10.9%	13.0	1.8	3.5%
MSCI EM	1,047	5.8%	9.5%	13.7	1.6	2.9%
MSCI All Country World	707	3.6%	16.8%	17.5	2.6	2.2%
MSCI World	3,064	3.3%	17.7%	18.0	2.9	2.1%

Major Indices Performance	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	174	0.4%	2.6%
FTSE MENA Broad Bond Index	158	0.7%	2.0%
Dow Jones Sukuk	97	-0.1%	0.1%
Barclays Global Aggregate Index	455	0.7%	2.1%
Barclays Global High Yield Index	1,432	2.0%	7.3%
Barclays US Treasury Index	2,215	-0.4%	1.2%
Barclays US Corporate Index	3,074	0.3%	3.6%
Barclays US Corporate High Yield index	2,335	1.4%	6.8%
JPM EM Global Bond Index	544	1.9%	5.8%
Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index	1,122	1.18%	4.5%
Bloomberg Barclays US Aggregate Bond Index	2,090	-0.1%	2.0%
Markit CDX Emerging Markets Index	96	1.0%	2.2%
Barclays EM High yield	1,311	2.6%	6.4%
Barclays EM Corporate Index	270	0.5%	3.1%
10-year US Treasury yield* (%)	3.96	12	8
30-year US Treasury yield* (%)	4.01	15	5
US Treasury 2-10 Spread*	-92.20	14	-36
US Treasury 2-30 Spread*	-87.12	17	-40
10-year US Treasury Real yield* (%)	1.59	-3	1
10-year Germany Treasury yield* (%)	2.49	10	-8
US Breakeven 10 Year*	2.37	14	8
10-year Saudi Arabia Govt USD Bond yield* (%)	4.84	-2	9
8-year Abu Dhabi Govt USD Bond yield* (%)	4.39	8	15
4-year Kuwait Govt USD Bond yield* (%)	4.53	1	92
9-year Oman Govt USD Bond yield* (%)	5.74	-20	-43
10-year Bahrain Govt USD Bond yield* (%)	6.72	-38	-65
7-year Qatar Govt USD Bond yield* (%)	4.39	6	2
10-year Egypt Govt USD Bond yield* (%)	14.56	-189	238
EIBOR 3M* (%)	5.26	10	95
QAIBOR 3M* (%)	6.00	15	72
Dubai 5 Year CDS* (bps)	35	-3	-13
Qatar 5 Year CDS* (bps)	34	-3	-14
2-year US Treasury yield* (%)	4.88	-2	45

Source: Bloomberg, Daman Investments AssetManagement

*Note: *In basis points*

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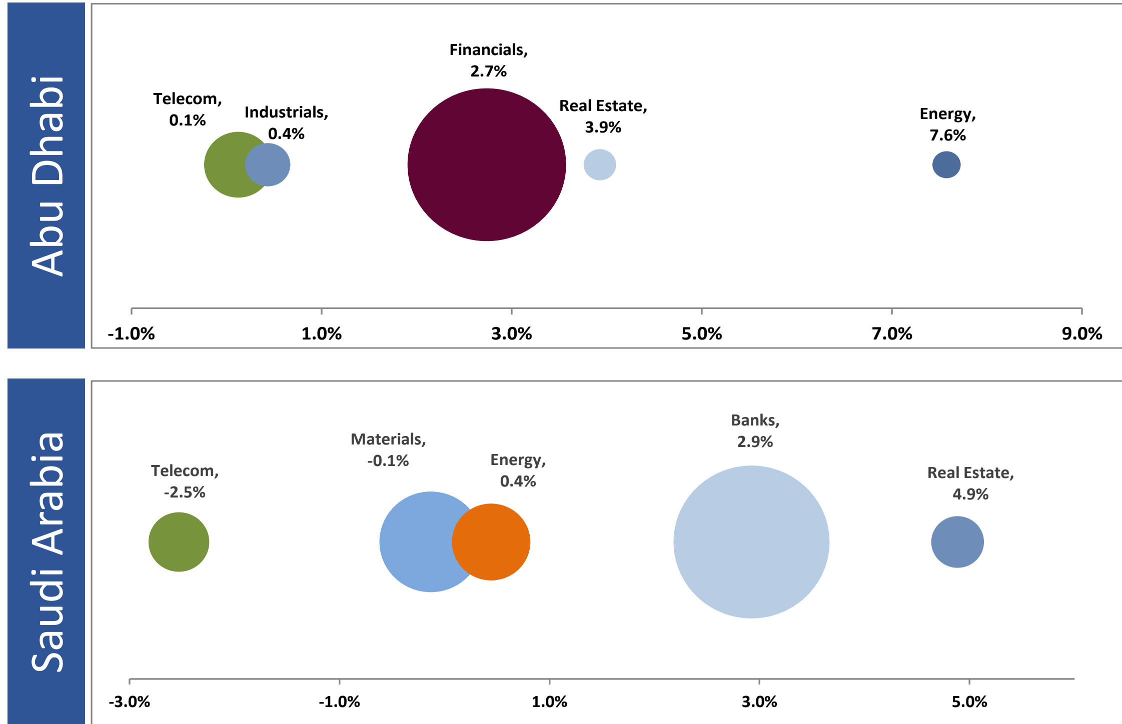
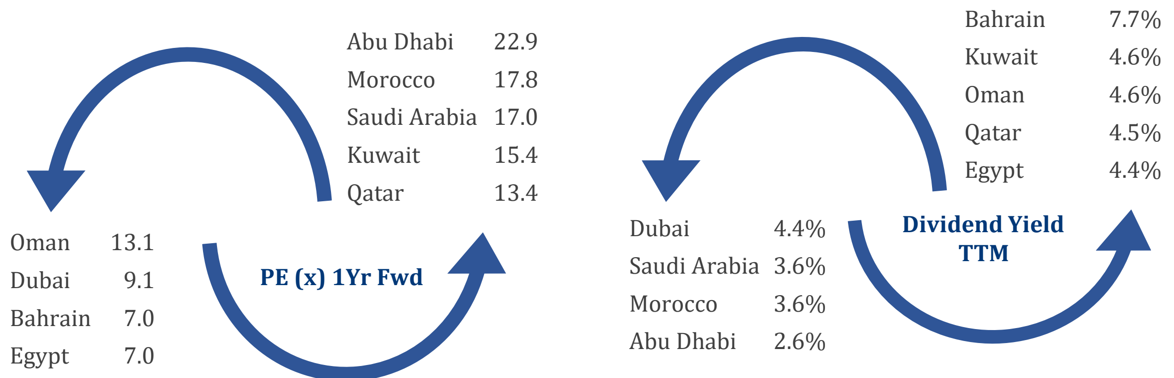
Sectors Performance of Key MENA Indices (MoM Change)



Source: Bloomberg, Daman Investments Asset Management - Note: Size of the bubbles represent weight of the sectors in the respective index

MENA Valuations



Note: Bahrain's PE ratio is trailing

Source: Bloomberg, Daman Investments Asset Management

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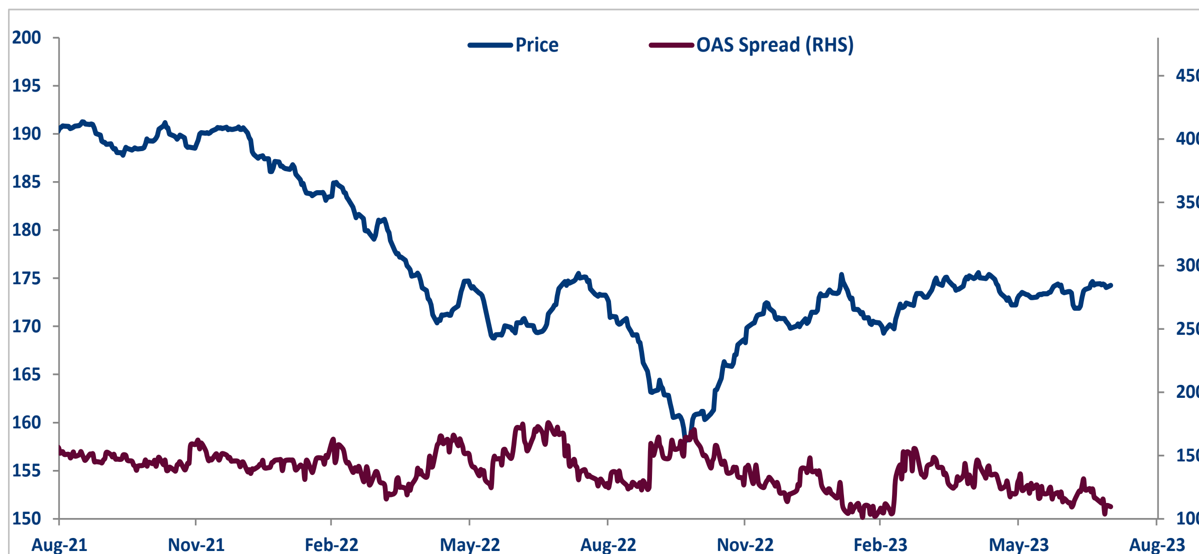
Barclays GCC Credit +HY Index



Source: Bloomberg, Daman Investments Asset Management

Major Commodities and Currencies

Performance

	Value	MTD Change	YTD Change
Brent crude oil (USD/bbl)	85.56	14.2%	-0.4%
Natural Gas (USD/mmbtu)	2.63	-5.9%	-41.1%
Gold (USD/Ounce)	1,965	2.4%	7.7%
Copper (USD/MT)	8,800	5.7%	5.2%
Aluminium (USD/MT)	2,245	6.4%	-4.5%
Nickel (USD/MT)	22,076	8.5%	-26.1%
Urea Middle East (USD/MT)	400	31.8%	-16.7%
Methanol China (USD/MT)	264	4.8%	-13.7%
SE Asia Polyethylene (USD/MT)	990	2.1%	-2.9%
Polypropylene (USD/MT)	940	4.4%	-5.1%
US Dollar Index	101.86	-1.0%	-1.6%
MSCI EM Currency index	1,703.20	1.6%	2.6%
JPM EM Currency index	48.90	-0.4%	-2.0%
EGP/USD	0.03	-0.3%	-20.0%
TRY/USD	0.037	-3.4%	-30.5%
PKR/USD	0.350	0.3%	-20.6%
ILS/USD	0.272	0.8%	-4.4%
EUR/USD	1.10	0.8%	2.7%
GBP/USD	1.28	1.0%	6.2%
USD/JPY	142.29	-1.4%	8.5%

Global Asset Allocation and Outlook

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Global Asset Allocation and Outlook

Despite a record rate hiking cycle by the Fed, the US economy has proven to be resilient which is evident in the job market remaining strong with unemployment rate near a multidecade low. This combined with inflation coming down has increased soft landing bets. Consumers spending remains resilient as wage growth is still strong at 4.4% YoY. It's not all rosy, as pent-up savings have come down from a peak of $2.1 trillion to $0.4 trillion. The most recent Senior Loan Officer Opinion Survey released by the Fed on July 31 showed continued tightening in both supply of and demand for credit in Q2, including commercial, consumer, and residential credit. Also, with core inflation still strong at 4.8% YoY and commodities prices rebounding, Fed could be forced to keep rates higher for longer despite the central bank being widely expected to be nearing the end of its rate hiking cycle.

We expect the US economy to slow down gradually on lag effect of the rate hikes. However, we believe in the meantime there will be a further runway for value and cyclical sectors in US, and Emerging markets where inflation has already subsided and rate cut cycle is expected to lead DMs. Hence, we move from underweight to neutral on equities and maintain overweight on fixed income. We like exposure to fixed income space as the current high yields present an attractive opportunity to lock in returns in names where we expect the credit quality to remain strong and cash flows to remain resilient.

Global Equities: In equities, we believe a proper bottom-up analysis is important to own quality stocks with strong pricing power, solid balance sheets, high free cash flows and low leverage to protect from market volatility. We avoid long duration technology names on a weaker cash flow profile. We see a diversified portfolio with a dividend yield cushion to be better equipped to face market volatility.

We stay underweight on US on an expected slowdown in economic growth and demanding valuation. 1-year forward PE of 20.9x is 30% above the long-term average of 16x and is too high relative to where the real yields are. Also, earnings estimates need to come down further. We prefer value and cyclical sectors in US as they trade at an attractive valuation vs the growth sectors. Only selective technology and communication services names offer value at current levels.

Asset Allocation

	Underweight	Neutral	Overweight
By Asset class:			
Equities		■	
Fixed Income			■
Alternatives		■	
Cash	■		
Equities - by region:			
DM	■		
US	■		
Japan			■
Euro Area		■	
EM			■
EM Asia			■
EM Europe	■		
EM MENA			■
EM LatAm		■	
Fixed Income - by region:			
South Asia			■
Far East Asia		■	
Latin America			■
GCC		■	
Africa	■		
Eastern Europe	■		
Central Europe	■		
Fixed Income - Rates vs Spreads:			
Rates			■
Spreads		■	
Fixed Income - Credit:			
Global Investment Grade		■	
Global High Yield		■	

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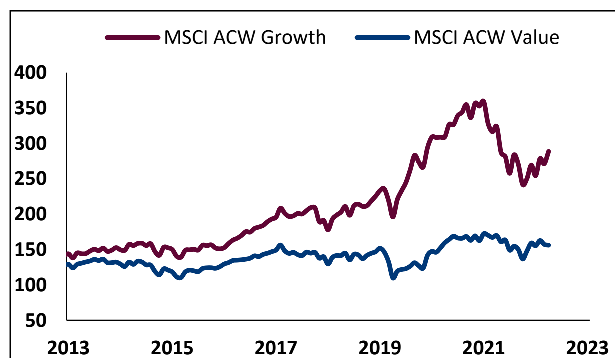
Global Asset Allocation and Outlook

We stay equal weight Europe on expectation of Eurozone avoiding a hard recession due to lower gas prices and improving trade activity with China, despite headwinds from rising rates. Despite a sharp rally YTD, valuations stay attractive (trading at a 37% discount to US vs a long-term average of 20%). We remain overweight on Japan given the start of a strong capex cycle - driven by both domestic and foreign driven investment, and expectation of a strong corporate profit growth.

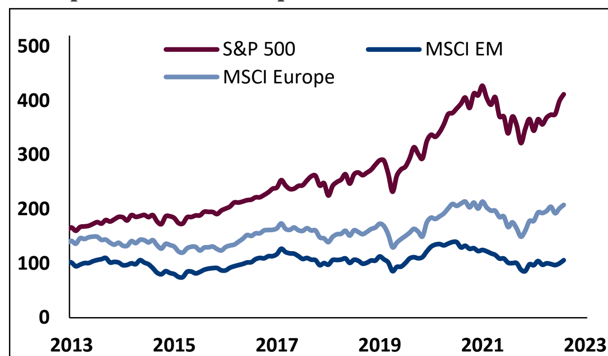
We stay overweight on EMs as we continue to see strong upside catalysts during 20223 in the form of further stimulus in China, weaker dollar, most central banks expected to end their tightening cycles and current valuations already factoring in spillover from a DM slowdown. EM economic growth trends are also diverging from the DM and there are strong structural domestically driven economic growth stories such as India, Indonesia and Brazil. MSCI EM index is trading at a 25% discount to MSCI World Index on a forward PE basis vs a long-term average discount of 25%, despite EM economies having better growth prospects than DM. Within Asia we prefer an exposure to China and Indonesia. Chinese market price in a lot of negativities and can surprise on the upside if the stimulus measure continues to boost the property market and consumer spending. We remain overweight on India as a strong consumer spending is leading to start of a new capex cycle due to the companies reaching optimum capacity utilizations. This would lead to a strong pickup in credit growth along with a benign asset quality environment.

MSCI All Country World Value vs Growth



Source: Bloomberg, Daman Investments

Europe and EM underperformance vs US



Source: Bloomberg, Daman Investments

We remain neutral on Korea and Taiwan post a strong rally YTD. Within Latam we like Mexico as the country is a key beneficiary of the near shoring theme. We upgrade Brazil due as the central bank is well placed to continue with a rate cut cycle, which it started last week, due to declining inflation, reaching 3.2% in July from a peak of 12.1%, which would benefit the consumer and cyclical plays. We stay overweight on MENA on OPEC+ managing the oil over supply risks given global macro concerns, and we continue to see strong bottom-up stock picking opportunities on structural growth driven by economic diversification. MENA markets trade at a 7% premium to EM which is below the long-term average of 10%. Recent correction in Saudi equities has exposed value in certain names which continue to report strong earnings growth and non-oil GDP growth will remain strong at north of 4%.

Global Fixed Income:
Maintain Defensive Stance and Focus on Quality to Manage Challenges. Fixed income markets have performed well so far this year despite macro challenges, tight monetary, policy, geopolitical tensions, rates and commodity volatility, among others. Navigating markets have been difficult given that economies are rebalancing post the global pandemic, with sectors expanding while others clearly in contraction. As this rebalancing continues, we continue to position defensively across sectors, and focus on higher quality issuers with stronger cash flow and balance sheet dynamics. Whether we end with a scenario of sub-trend economic expansion or mild recession, high quality fixed income tends to outperform lower parts in the quality spectrum.

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Global Asset Allocation and Outlook

Credit Spreads Have Tightened as Macro Forecasts Have Risen While Defaults Remain Low Albeit Rising. Despite macro challenges and policy uncertainty, credit spreads have tightened across investment grade, high yield, and emerging markets, to below historical averages, while local currency emerging markets debt has tightened even further. Much of this can be attributed to the resilience of the US economy despite global challenges particularly from services as manufacturing remains in contraction. Given the aggressive rate hike policy to aim to reign in inflation, we do not believe the full effect of the tightening cycle has been felt given lagged effects and expect to see default rates to modestly rise as the economy slows, which should have an unfavorable effect on credit spreads. Even with widening spreads, we expect to see the effects of end of hiking cycle to mitigate these pressures and drive favorable returns.

Next Focus Will Be on Credit Risks as Monetary Policy Nears End. With peak inflation rates likely behind us, and monetary policy nearing an inflection point, we believe risks will transition from interest rate to credit risks in the next cycle reflecting economic weakness, tighter credit conditions, and lessened investor sentiment. While markets have been on recession watch for the past six months, we see scope for the continuation of the current rolling recession where economic cycles differ at the sector level as some expand while others contract.

Continue to Position with Barbell Approach for Carry in Short End and High-Quality Duration on Longer End. With current short term yields providing investors with positive real returns, while sheltering investors from additional term and liquidity risks, we continue to reinforce barbelling short duration lesser quality credit with adding duration exposure via high grade government or similarly rated corporates, while

maintaining some liquidity for mispriced sectors and securities, e.g. adequate yield to compensate for additional credit widening or volatility.

Expect Fed to Eventually Pause and Sit Patiently at High Rates Before Pivoting into New Monetary Cycle. While we continue to believe the nearing of the current monetary policy, we are not expecting an imminent opposite move via rate cuts. The Fed was behind the curve and resulted in having to over tighten with 10 consecutive hikes to reach +500bps prior to the June pause, and baseline dictates we should expect the same at the end of the cycle, particularly as inflation remains well above policy targets. A scenario of core inflation of 2 percent and unemployment rate above 4% would likely drive the beginning of the next rate cut cycle, again potentially driving the Fed to be behind the curve once again.

Remain Cautiously Optimistic in EM on Faster Response Exiting Pandemic. In emerging markets, we remain cautiously optimistic as the Fed maintains its hawkish yet data dependent stance, China's weak and disappointing resurgence, while EM central banks have or given indications to cut interest rates, particularly in Latin America and parts of Asia. In addition, there has been progress in debt restructuring / relief in vulnerable sovereigns including Zambia, Sri Lanka, Pakistan, and others. EM central banks and authorities had been faster to exit and drive their economies post the global pandemic, and had been more proactive at tightening monetary policy earlier than DM, with c.28,000bps in DM vs c. 5,000 in DM, providing scope for the start of monetary policy easing as inflationary pressures moderate ahead of DM.

Our Preferred EM Regions Include LATAM and Asia. In our EM preferred regions, we continue to like Mexico, Peru, Chile, Colombia in Latin America; India, Indonesia, and Korea in Asia, in addition to GCC. Not surprisingly EM LATAM has outperformed Asia and EMEA at 6% y-t-d, as investors aimed to front run the start of new monetary easing cycle. Markets had been the start of an easing cycle in Latin America including Chile, Brazil, Colombia, and Mexico as subdued growth and inflation coupled with moderated fiscal risks provides central bank authorities with scope for rate cuts ahead of global central banks. Chile began on July 28th, with a 100bps cut to 10.25%, greater in magnitude than expectations, while Colombia stood pat at 13.25%.

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Global Asset Allocation and Outlook

GCC Cyclical and High Beta Sovereigns Have Performed Well. In GCC sectors we continue to add exposure to real estate which is benefiting from a buoyant UAE property market and KSA vision. We are also comfortable with smaller states Oman and Bahrain given our expectations for a supporting oil market, while less excited by opportunities in Qatar and Kuwait. Among GCC issuers, we added exposure to Kuwait Projects and Arabian Centres which we see to be mispriced given their credit fundamentals delivering 8.5% + yields with BB composite credit ratings.

GCC PMIs Soften Yet Remain High in July. Saudi Arabia's PMI fell -2.1 to 57.7 m-o-m from weakness in new orders and moderation in employment. UAE also moderated in July by -0.9 to 56.0 m-o-m while Qatar edged up +0.2 to a low print of 54.0 with activity still strong across region.

Despite Solid YTD Run, Still See Opportunity to invest in EM Bonds. We believe there is a unique opportunity to invest in EM bonds as we near the end of the tight rate environment, while allowing investors to lock in returns in the mid to high single range in a range of sovereign and corporate EM issuers, while providing diversification in multi-asset and DM portfolios in markets that have weathered global challenges well and sometimes ahead of their developed market counterparts.

MENA Equities: Given our near-term outlook for oil prices holding strong around $80 levels, we have become more constructive on the GCC markets. We have added exposure to the cyclical names in sectors such as cement, airlines, travel, insurance and real estate sectors but continue to avoid exposure to petrochemicals and metals. However, to reduce volatility, we are keeping the portfolio well diversified by having a mix of high dividend yield along with utilities to provide defense to our portfolios during the market selloffs. Currently, MENA markets trade at a 7% premium to the MSCI EM Index on a 1-year forward PE basis, which is in-line with a long-term average premium of 10%. As long as oil trades above USD 70/bbl, we believe the MENA market will continue to trade at a premium.

We continue to see selective opportunities in the GCC due to their government's commitment towards economic diversification leading to a sustained spending infrastructure, industrial, oil and gas and tourism projects. Recent correction in Saudi equities has exposed value in certain names which continue to report strong earnings growth and non-oil GDP growth will remain strong at north of 4%. Israel and Turkey will be two other markets providing us with idiosyncratic opportunities. With a reinstatement of orthodox policy makers, we see a step change in the macro policy in Turkey. However, we are waiting for a significant portion of the FX devaluation to happen and get the right signals on the rate hike front before we enter the local stock market. We continue to avoid Pakistan on political uncertainty tied to the upcoming elections. For us to be more constructive on Egypt, we need to see steps towards encouraging FDI & reforms to improve private sector contribution to GDP.

Our preferred plays include:

- Well capitalized banks with strong corporate exposure and strong loan growth prospects (Rajhi, SNB, NBK, ENBD, ADCB, DIB)
- Consumer discretionary names which will benefit from improved travel and tourism (Air Arabia, SGS, Seera)
- High dividend yield plays within the telecom, utilities and real estate sectors (DEWA, Empower, TECOM, Yahsat, Mobily)
- Real estate names which are witnessing strong off plan sales, have low execution risk and are also seeing impact of strong tourism and economic growth (Aldar, Emaar Development)
- Names to benefit from the improvement in trade with EM countries (AD Ports)

Performance of our Funds

Concerto IS Daman MENA UCITS Fund (DAMENAI LX EQUITY)

The aim of this strategy is to achieve medium to long-term capital appreciation by investing primarily in securities of issuers listed in the MENAPT Region or investing in securities of issuers listed outside of the MENAPT Region but deriving most of their revenues from the MENAPT Region.

	2023	Inception (30 Jul 2020) (Class I)
Total Return*	7.3%	69.8%
Annualized Return	12.9%	19.3%
Annualized Volatility	5.4%	8.6%
Sharpe Ratio	1.7	2.0

** NAV as of July 27th, 2023*

The fund gained 2.7% during the month. In terms of asset class, equities contributed to 90% of this gain while fixed income was responsible for the remaining 10%. Geographically, UAE contributed to 52% of these gains followed by Saudi Arabia with 29%. Kuwait contributed 7% while Egyptian bonds contributed another 6%.

In equities, we initiated a position in Saudi Ground Services (strong growth prospects, improving margins, recovery of traffic), and Fertiglobe (improving outlook for urea and ammonia).

Daman Balanced High Income Fund

The aim of this fund is to generate income along with achieving medium to long-term capital appreciation, by investing principally in securities of issuers located in, or deriving at least 50% of their revenue from the MENA region, South Asia and Turkey. Portfolio diversification is further achieved by adding high yield fixed income securities where market is overpricing systematic and/or idiosyncratic risks.

	2023	Inception (May 2021)
Total Return*	12.0%	21.3%
Annualized Return	21.5%	9.2%
Annualized Volatility	6.1%	7.2%
Shape Ratio	2.9	0.9

** NAV as of July 31st, 2023*

The fund gained 3.9% during the month. In terms of asset class, equities contributed 87% to this gain while fixed income contributed the remaining 13%. Geographically, UAE contributed to nearly 66% of this gain, followed by Egypt at 13% and Saudi Arabia at 10%.

In equities, we initiated positions in NBK, Al Rajhi, Saudi Ground Services and Fertiglobe. We are constructive on urea/ammonia prices improving given the ongoing heat wave putting upward pressure on the crop prices and increased demand from India and Latin America.

Daman UAE IPO Fund

The Fund's investment objective is to generate medium term capital growth by investing in securities issued by companies that are undertaking an initial public offering or by investing in companies that have listed on UAE exchanges in the previous 24 months.

	2023	Inception (Aug 2022)
Total Return*	5.9%	9.2%
Annualized Return	10.4%	9.6%
Annualized Volatility	7.8%	7.9%
Shape Ratio	0.9	0.7

** NAV as of July 28th, 2023*

The fund was flat for the month. We increased our exposure to high dividend yield names with strong FCF generation such as DEWA and Empower and initiated a position in Fertiglobe.

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Performance of our Funds

Concerto IS Daman Global Sukuk Fund

The Daman Global Sukuk Fund seeks to maximize total returns over the medium to long term through a prudent combination of moderate-income generation and capital appreciation by investing in Global Sukuk.

	2023	**Inception (Jan 2022)**
Total Return*	1.3%	-7.0%
Average Rating	BBB	-
Average YTM	5.7%	-
Average Duration	2.4 years	-
Annualized Volatility	-	1.5%

** NAV as of July 28, 2023*

The total return of the fund during the month was +0.4%. Egypt and Turkey were the biggest contributors among sovereigns, and Arabian Centres and Damac were the biggest contributors among corporates.

Fund returns outperformed the flattish performance of the Sukuk index from US rates that stalled as the Fed nears the end of its monetary tightening campaign, and as spreads had already tightened closer to post-Covid levels coming off the US bank crisis highs in March.

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About Daman Investments

Daman Asset Management is a dedicated MENA specialist offering mutual funds strategies and bespoke investment products, which have been built on our independent research insights and backed with a proven track record of delivering superior risk-adjusted returns which have substantially outperformed peers and regional benchmarks. Our experienced team manages investments on behalf of local and regional institutions, family offices and high net worth individuals.

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