25 Years سنة

1998 2023

ضمان للإستثمار
DAMAN INVESTMENTS

# Monthly Review, Asset Allocation & Outlook
September 2023

## Highlights of the Month

- Global equities witnessed their worst month of 2023 on a steep rise in 10-year US treasury real yields
- The Fed's higher for longer rates stance tied to strong labor market and CPI led to rise in long-term yields
- MSCI All Country World Index and MSCI EM Index fell 4.3% and 2.8%, respectively
- Barclays EM Aggregate Index fell 2.3% from widening spreads as longer-end US rates rose to GFC highs
- UST 2YR rose 18bps to 5.0%, while UST 10YR added 46bps to 4.6%, inversion improved to -47bps
- Brent oil prices rose 9.7% MoM on strong demand and inventory drawdown in US
- MENA equities fell with S&P Pan Arab composite Index down 3.3% due to global macro headwinds
- We are overweight on fixed income and neutral on equities

## Global Review

**Global Equities:** Global equities witnessed their worst month of 2023 on a steep rise in 10-year US treasury nominal and real yields. MSCI All Country World Index fell 4.3% MoM%. 10-year nominal yield rose 46bps to end the month at 4.57% and real yield rose 36bps to end the month at 2.23%. Strength in labor market and higher than expected CPI led the US Federal Reserve (Fed) to maintain a hawkish bias by indicating higher for longer rates with median dot plot projecting one more rate hike this year and fewer cuts next year. This led to a sharp spike in long-term yields as investor priced in a higher term premium.

Both Developed markets (DM) and emerging markets (EM) closed the month down with MSCI World Index dropping 4.4% and MSCI EM Index falling 2.8%. MSCI EM outperformed on resilience of major markets such as India and Brazil, thereby partially offsetting decline in Chinese, Korean and Taiwanese markets. The Fed held interest rate as expected but hinted at one more rate hikes this year and fewer cuts next year. September median dot plot moved higher projecting only 2 rate cuts in 2024 vs 4 rate cuts projected in June. Given the resilient economy, GDP growth projections also moved higher at 2.1% and 1.5% for 2023e and 2024e vs 1% and 1.1%, previously. A potential government shutdown was averted by a last-minute Senate funding deal through to mid-November.

CPI increased in line with expectation at 0.6% MoM in August vs 0.2% in July, its biggest monthly gain of 2023 on higher energy prices and food prices. Energy price rising 5.6% MoM was the key contributor to a strong MoM gain for the CPI. Food prices rose 0.2% MoM, shelter prices rose 0.3% and airfares jumped 4.9%. YoY CPI increased 3.7% above the expectation of 3.6% vs 3.2% in July. Core CPI rose 0.3% MoM and 4.3% YoY against the expectation of 0.2% and 4.2%. Core CPI was up 0.2% and 4.7% in July. Core PCE Fed's preferred inflation gauge, 0.1% MoM and 3.9% YoY against the expectation of 0.1% and 3.9%. It was up 0.2% and 4.3% in July. Consumer spending rose 0.4% MoM vs 0.9% in July.

S&P 500 Index closed the month down declining 4.8%. The sell-off was broad with all sectors declining except for energy. Real estate, information technology and industrials were the worst performing sectors, falling 7.8%, 6.9% and 6.1%, respectively. The energy sector outperformed, gaining 2.5% as WTI crude price rose 9.7%. Oil prices rose on a strong demand and OPEC+ extended the voluntarily supply cuts to December.

US retail sales advanced 0.7% in July, vs 0.4% expected. However, retail sales ex-auto and gas was up 0.2%. Housing starts fell 11.3% MoM versus the expectation of -0.9% and Industrial production rose 0.4% MoM vs expectation of 0.1% MoM. JOLTS data suggested that demand for new workers cooled in July. There were 8.8mn job openings in July (vs a peak of 12mn jobs in March 2022) which is equivalent to 1.5 open jobs for every unemployed worker vs peak of c.2x in March 2022. Both University of Michigan sentiment and consumer confidence fell to 67.7 and 103 from 69 and 105.5. US non-farm payrolls increased 187,000 in August above consensus expectation of 170,000. July and June estimates were revised down by 30,000 and 80,000 to 157,000 and 105,000. Average hourly earnings increased 0.2% for the month and 4.3% from a year ago. Both were below the respective forecasts of 0.3% and 4.4%. Increase in labor force participation to 62.8% from 62.6% could be behind the slowdown in wage growth. The unemployment rate significantly moved higher to 3.8% vs 3.6% in July.

@Copyright Daman Investments 2023

European equities fell with MSCI Europe ex-UK Index declining 2.5%. Slowdown in GDP growth driven by high interest rates negatively impacted investor sentiment. European Central Bank raised rates by 25bps to 4% but signaled a potential pause amid weakening inflation and slowing down economic growth. Eurozone CPI and core CPI in September fell to 4.3% and 4.5%, respectively, from 5.2% and 5.3% in August. Eurozone September Flash Composite PMI came in at 47.1 slightly above expectation of 46.5, thereby continuing to reflect contraction. Service PMI came in at 48.4 and Manufacturing PMI at 43.4.

UK equities closed higher with FTSE 100 Index rising 2.3%, boosted by better-than-expected economic data. UK inflation slowed to 6.7% in August from 6.8% in July, driven by falling food prices, reduced air fares and accommodation costs. Core inflation fell to 6.2% in August from 6.9% in July. With core inflation sharply falling the Bank of England (BoE) held interest rates at 5.25%.

**Fixed Income:** *US Economy Appears to be Soft Landing although Rising Gasoline Firms Up Inflation.* US economy moderated in Q2 at +2.1% (but below +2.4% preliminary reading), as strength in consumer spending drives the economy and pushes forward recessionary concerns, while not enough to force the Fed to slam on the brakes with more hikes. Real GDI (gross domestic income) recovered to +0.5% in Q2 after declining from the previous two quarters, while consumers spent from pandemic-era savings and greater share of disposable income (US savings rate down to 3.9% as percent DI). Q2 core PCE price index held at +3.7%, while both August core CPI and PCE deflator rose +0.3% and +0.1%, respectively below their respective headline prints driven by rising gasoline prices, with shelter, transportation, and food also seeing increases. We still view the economy as aggregating growing and declining sectors rather than a soft landing that is a slowdown-into-recession in disguise/

*US Job Market Softens Although Still Too Tight for Fed.* US August jobs reported earlier in September showed no change m-o-m at +187K, although 80K fewer than the previous three-month average, while hourly wages softened +0.2% m-o-m and unemployment rate rose to 3.8% from 3.5% prior. Job openings surprisingly rose +8.9% to 9.6mn in August after three consecutive declines, while the quit rate remained relatively unchanged at 2.3%, suggesting the labor market tightness remains, albeit softening. Downside risks include effects from possible labor strikes and postponed government shutdowns as Washington enters a presidential election year in 2024.

*US Personal Spending Converges towards Income Although Gasoline Drives Retail Sales Surprise.* US personal spending moderated in September to +0.4%, while personal income accelerated to +0.4%. Retail sales grew 0.6%, while core (ex-auto & gasoline) was more muted at 0.2% m-o-m. Core PCE deflator, the Fed's inflation gauge edged up +0.1% m-o-m and +3.9% y-o-y, while core CPI edged higher at +0.3 m-o-m and +4.3% y-o-y., We believe US economic resiliency remains narrow based, championed by the consumer which faces rising gasoline prices, dwindling savings, rising credit card debts, resumption in student loan repayments, and softening job prospects.

*US Fed FOMC Meeting Viewed as a Hawkish Hold on Rates and Confirmed Higher for Longer.* Members of the FOMC meeting which was held in September voted to keep federal funds at 5.25-5.50%, and while pleased with the progress on inflation and can now "really proceed carefully" on rates, their dot plot projections called for a higher for longer stance in rates, including another possible rate increase this year and moderation in easing next year to two cuts from four previously. While the Fed has been pleased with the progress on softening labor, and moderating inflation, we note the upside risks from labor disruptions, rising oil/commodities and food prices, which could drive additional volatility as the market prices in possibility for another rate hike by year end.

*Hawkish Hold Unhinges Front-end while Return of Term Premium Continues to Normalize Inversion.* US 2YR yields rose +18bp to 5.04% after three months hinged at 4.85% area, as the market previously wagered the end of current rate hiking cycle, while the US 10YR rose +46bps to 4.57%, levels not seen in sixteen years as recessions fears abated, and market priced a higher for longer Fed stance coupled with weakening US fiscal fundamentals and surge in treasury supply.

@Copyright Daman Investments 2023

As time passes and Fed remains on pause, expect to see the dis-inversion continue as the market is still partially pricing in rate hikes later this year. The recent bear steepening in the yield curve reflects the upgrade in growth expectations in addition to credit downgrade, announced USD 1trn treasury supply, short positioning, and ramifications from policy changes in Japan / China, feeding into the bearish narrative on longer end as short-end stalls.

*EM Bond Index Nearly Wipes Year-To-Date Gains as Longer End Rises and Risk Aversion Returns*. Barclays Emerging Markets Aggregate Index (EMUSTRUU Index) fell –2.28% m-o-m and gave back virtually the YTD gains to yield 8.00% (OAS flat m-o-m +320bps) as US benchmark rates rose, risk sentiment remained soft, and rate volatility spiked, although spreads remained stable. Barclays EM GCC Credit Index followed suit, declining –2.09% m-o-m as OAS spreads helped, improving -7bps to 110bps and yield 5.89%. September saw major declines across the bond spectrum, with only Europe HY avoiding price declines m-o-m, and inches towards a third consecutive loss for fixed income at this rate.

**EM Equities:** MSCI EM Index fell 2.8% in September. MSCI EMEA, Asia and LATAM fell by 3.4%, 2.8% and 2.5% respectively. MSCI China fell 3.1% due to an outflow of foreign funds amid continuing disappointing economic data. Exports were down 8.8% YoY in August, while CPI YoY was 0.1%, moving back into positive territory. Tech heavy indexes MSCI Korea and MSCI Taiwan continued to witness profit taking in September, falling by 3.3% and 2.7% respectively.

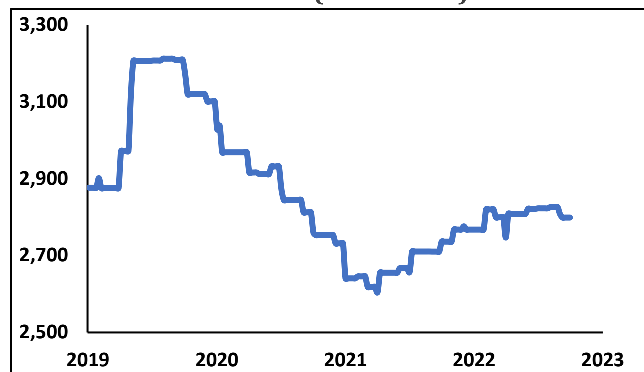
**Commodities: Oil:** Brent oil closed at USD 95.3/bbl, up 9.7% MoM. Oil rallied on the back of a higher-than-expected drop in overall US crude stockpiles.

**Natural gas**: Henry hub prices rose by 5.8% MoM to reach USD 2.9/mmbtu. A smaller than expected inventory build up and a higher usage due to hotter weather in the month of September led to the increase in prices.

**Petchems:** SE Asia LDPE, PP and HDPE rose by 2.9%, 2.0%, and 1.9% respectively. SE Asia MEG fell 1.0% MoM.

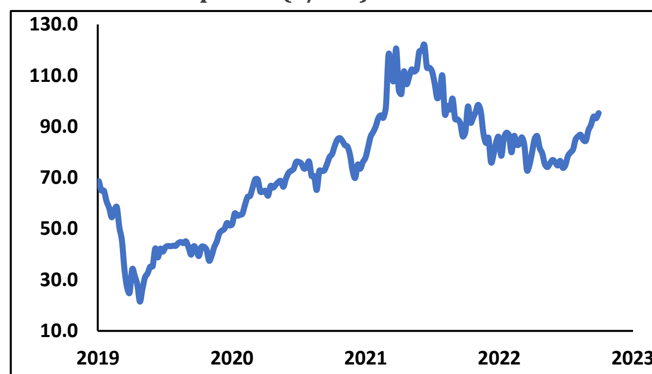
**Metals:** Nickle and copper fell 8.2%, and 2.3% MoM, respectively on demand worries from China. Precious metals: Gold prices fell by 4.7% on a strengthening dollar and rising treasury yields.

**OECD crude inventories (mn barrels)**




*Source: Bloomberg, Daman Investments*

**Brent crude oil prices ($/bbl)**




*Source: Bloomberg, Daman Investments*

**Currencies:** EM currencies (MSCI EM Currency Index) fell 0.5%, while the US Dollar (DXY Index) rose by 2.5%. The Polish Zloty (-5.7%) and Chilean Peso (-4.4%) were the worst performing EM currencies. The Pakistani Rupee (+6.3%) was the best performing currency after the government launched a crackdown against the smuggling of the USD.

Given our expectation of a slowdown in global economic growth, we continue to avoid exposure to base metals. W continue to avoid gold on higher real yields and dollar. We remain cautious on petrochemicals due to a slowdown in the global economy. We expect Brent oil price to average $85/bbl in Q4 2023. With peak demand behind us due to the travel season ending, we expect prices to remain volatile due to geopolitics, interest rates hikes and global growth uncertainties. However, OPEC has put a floor on Brent crude oil prices around $75/bbl due to its voluntary production cuts.

@Copyright Daman Investments 2023

**MENA Equities**: Regional markets continued their downward march in September, in line with global peers, as investors continued to worry about a hawkish Fed. The S&P Pan Arab Composite Large Mid Cap Index lost 2.2%, moving back into negative territory for the year. Within the broader GCC, Dubai's DFMGI outperformed, rising by 2.0%, taking its YTD gains to 24.8%. Saudi's Tadawul All Share Index and Boursa Kuwait All Share Index were the worst performing markets, falling by 3.8% and 1.7% respectively. Regionally, Egypt's EGX30 Index and Turkey's XU100 Index outperformed, surging by 6.9% and 5.3%, respectively.

In the UAE, the government created a new federal body called the General Commercial Gaming Regulatory Authority to create a regulatory framework for national lottery and commercial gaming. According to Bloomberg, if 1.6% of the UAE's GDP was based on gaming, as it is in Singapore, it could potentially generate revenue of USD 6.6bn annually. The UAE cabinet also adopted a new system to boost end of service benefits for workers in free zones and the private sector. The scheme would have three investment options: risk-free investment that maintains capital, risk-based investment where the risk varies between low, medium, and high and a sharia compliant investment. Employees would be eligible to avail themselves of the end-of-service benefits once their work relationship with the employer ended.

The Dubai government announced that it had begun repaying a USD 20bn bailout loan from Abu Dhabi and the country's central bank, as part of an effort to reduce its debt burden. The Emirate repaid USD 5.5bn, lowering its total debt to 25% of its GDP. In Abu Dhabi, ADC Acquisition Corp (ADC), the Middle East's first SPAC, announced plans to merge with ADQ owned United Printing & Publishing Company (UPP). The transaction with ADC would provide UPP with USD 100mn of new cash from the SPAC as well as another USD 200mn through a private investment in public equity transaction (PIPE), that was oversubscribed ten times. The deal's implied P/E valuation multiple for 2023e was 5.2x.

Saudi Arabia's Lumi, one of the largest rental firms in the Kingdom and a subsidiary of Seera, priced its IPO at the top end of the range, valuing the company at USD 968mn. The company raised USD 377.5mn by selling a 30% stake in the company. The institutional book was oversubscribed 94.5x and the stock rallied 30% the first day of its listing. We participated in the IPO given the company's robust growth prospects (rental and leasing business outperforming the market), solid revenue visibility (backed by secured contracts from GREs) and attractive valuation (the company priced its IPO at a 2024e P/E of 12.4x).

PIF backed oil and gas driller ADES also announced plans to sell 30% of the company through a primary and secondary offering. The IPO was priced at the top end of the range, valuing the company at USD 4bn, with a 2024e P/E of 15.1x. The institutional book was oversubscribed 62.7x. We have participated in the book building process given the company's strong track record in winning bids and deploying rigs, high rates in the offshore drilling space given poor rig availability, large backlog of USD 7.4bn allowing for revenue and cash flow visibility, and Saudi Aramco's plan to increase their oil production from 12mn bpd to 13mn bpd by 2027e.

Saudi Logistics Services Company (SAL), a majority owned subsidiary of Saudi Arabian Airlines (Saudia) announced plans to sell a 30% stake in the company. The IPO was priced at the top end of the price range after being oversubscribed 72x in the institutional tranche, valuing the company at USD 2.26bn. SAL should benefit from growing cargo handling volume given Saudi's growing focus on logistics, new contracts, and capacity increases. The company has also recently ventured into the logistics side of the business, providing end to end cargo solutions by air, sea, and land freight. The IPO was priced attractively at a 2024e P/E of 16.6x.

@Copyright Daman Investments 2023

## 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 | 11,056 | -3.8% | 5.5% | 16.8 | 2.1 | 3.9% |
| Dubai - DFMGI | 4,164 | 2.0% | 24.8% | 8.7 | 1.2 | 4.5% |
| Abu Dhabi - FADGI | 9,785 | -0.3% | -4.2% | 18.1 | 2.4 | 3.3% |
| Qatar - DSM | 10,252 | 0.6% | -4.0% | 11.6 | 1.4 | 4.8% |
| Kuwait - All Share | 6,887 | -1.7% | -5.6% | 14.2 | 0.5 | 4.4% |
| Oman - MSM30 | 4,678 | -2.5% | -3.7% | 7.7 | 0.7 | 4.7% |
| Bahrain - BHSEASI | 1,939 | -0.7% | 2.3% | 7.3 | 0.7 | 8.6% |
| Egypt - EGX30 | 20,174 | 6.9% | 38.2% | 7.2 | 2.2 | 4.0% |
| Morocco - MOSENEW | 11,865 | -0.7% | 10.7% | 18.6 | 2.3 | 3.6% |
| S&P Pan Arab Composite | 157 | -2.2% | -1.8% | 14.1 | 1.8 | 4.0% |
| Israel - TA35 | 1,845 | -0.1% | 2.7% | 7.6 | 1.4 | 3.1% |
| Turkey - XU100 | 8,335 | 5.3% | 51.3% | 6.3 | 2.0 | 2.6% |
| Pakistan - KSE100 | 46,252 | 2.6% | 14.4% | 3.8 | 0.8 | 11.1% |
| S&P 500 | 4,288 | -4.9% | 11.7% | 19.8 | 3.9 | 1.7% |
| STOXX 600 | 450 | -1.7% | 6.0% | 12.5 | 1.8 | 3.7% |
| MSCI EM | 953 | -2.8% | -0.4% | 13.2 | 1.5 | 3.0% |
| MSCI All Country World | 657 | -4.3% | 8.5% | 16.9 | 2.5 | 2.3% |
| MSCI World | 2,853 | -4.4% | 9.6% | 17.4 | 2.7 | 2.2% |

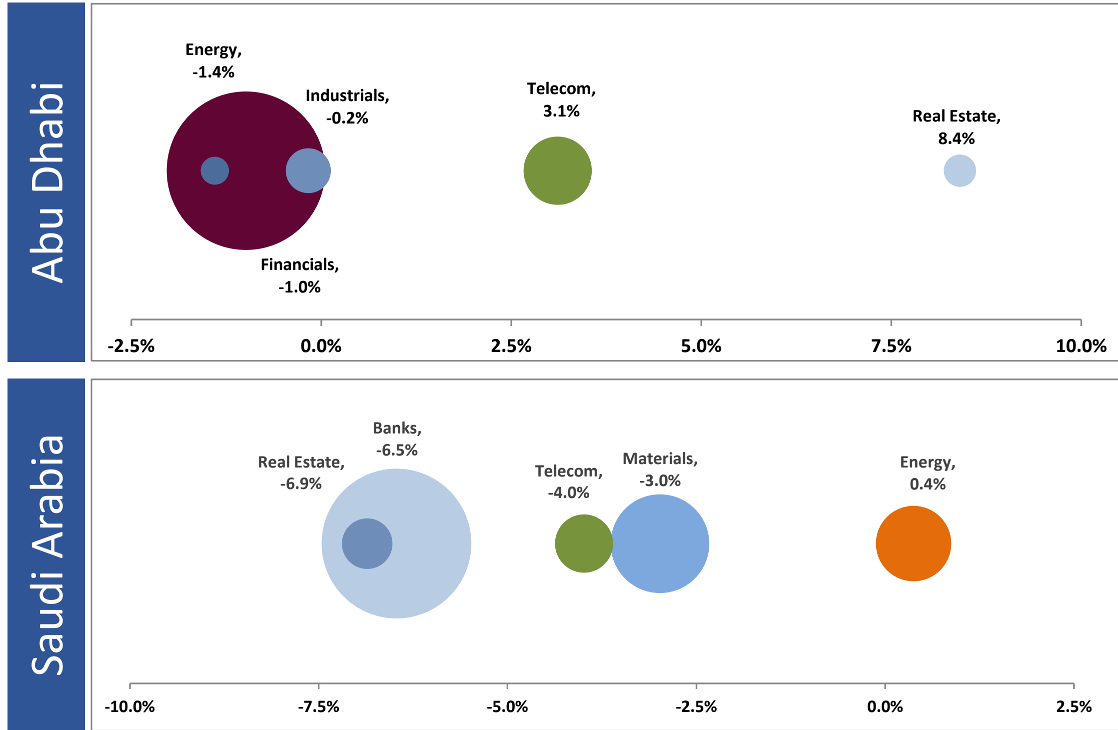
| Major Indices Performance | Value | MTD Change | YTD Change |
|---|---|---|---|
| Barclays GCC Credit +HY Index | 169 | -2.1% | -0.6% |
| FTSE MENA Broad Bond Index | 153 | -2.2% | -1.5% |
| Dow Jones Sukuk | 95 | -1.4% | -1.8% |
| Barclays Global Aggregate Index | 436 | -2.9% | -2.2% |
| Barclays Global High Yield Index | 1,402 | -1.6% | 5.0% |
| Barclays US Treasury Index | 2,155 | -2.2% | -1.5% |
| Barclays US Corporate Index | 2,969 | -2.7% | 0.0% |
| Barclays US Corporate High Yield index | 2,314 | -1.2% | 5.9% |
| JPM EM Global Bond Index | 519 | -2.9% | 1.0% |
| Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index | 1,083 | -2.28% | 0.9% |
| Bloomberg Barclays US Aggregate Bond Index | 2,024 | -2.5% | -1.2% |
| Markit CDX Emerging Markets Index | 95 | -1.4% | 0.4% |
| Barclays EM High yield | 1,270 | -1.9% | 3.1% |
| Barclays EM Corporate Index | 264 | -1.2% | 0.9% |
| 10-year US Treasury yield* (%) | 4.57 | 46 | 70 |
| 30-year US Treasury yield* (%) | 4.70 | 49 | 74 |
| US Treasury 2-10 Spread* | -47.66 | 28 | 8 |
| US Treasury 2-30 Spread* | -34.86 | 31 | 12 |
| 10-year US Treasury Real yield* (%) | 2.23 | 36 | 66 |
| 10-year Germany Treasury yield* (%) | 2.84 | 37 | 27 |
| US Breakeven 10 Year* | 2.34 | 10 | 4 |
| 10-year Saudi Arabia Govt USD Bond yield* (%) | 5.49 | 45 | 74 |
| 8-year Abu Dhabi Govt USD Bond yield* (%) | 5.01 | 45 | 77 |
| 4-year Kuwait Govt USD Bond yield* (%) | 5.08 | 31 | 147 |
| 9-year Oman Govt USD Bond yield* (%) | 6.51 | 47 | 34 |
| 10-year Bahrain Govt USD Bond yield* (%) | 7.46 | 45 | 10 |
| 7-year Qatar Govt USD Bond yield* (%) | 4.98 | 35 | 61 |
| 10-year Egypt Govt USD Bond yield* (%) | 16.43 | -10 | 425 |
| EIBOR 3M* (%) | 5.29 | 3 | 98 |
| QAIBOR 3M* (%) | 6.00 | 0 | 72 |
| Dubai 5 Year CDS* (bps) | 39 | 1 | -9 |
| Qatar 5 Year CDS* (bps) | 38 | 3 | -10 |
| 2-year US Treasury yield* (%) | 5.04 | 18 | 62 |

*Source: Bloomberg, Daman Investments AssetManagement*

*Note: *In basis points*

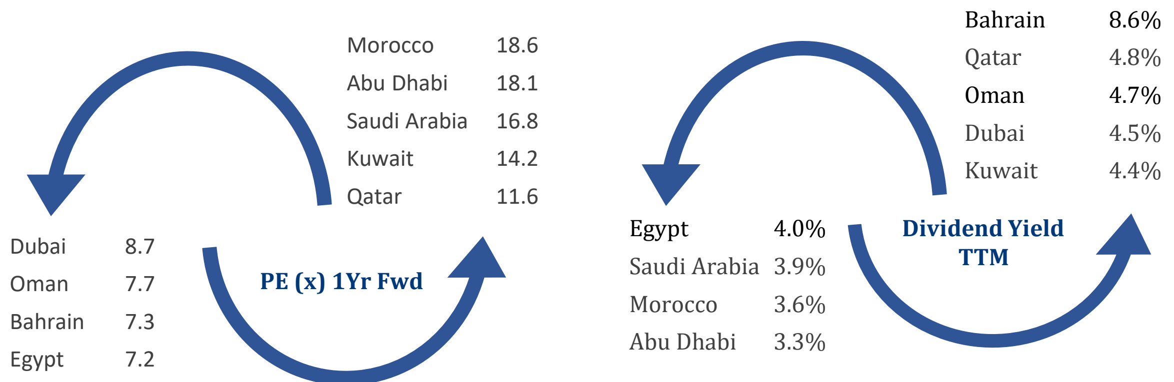
@Copyright Daman Investments 2023

## 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

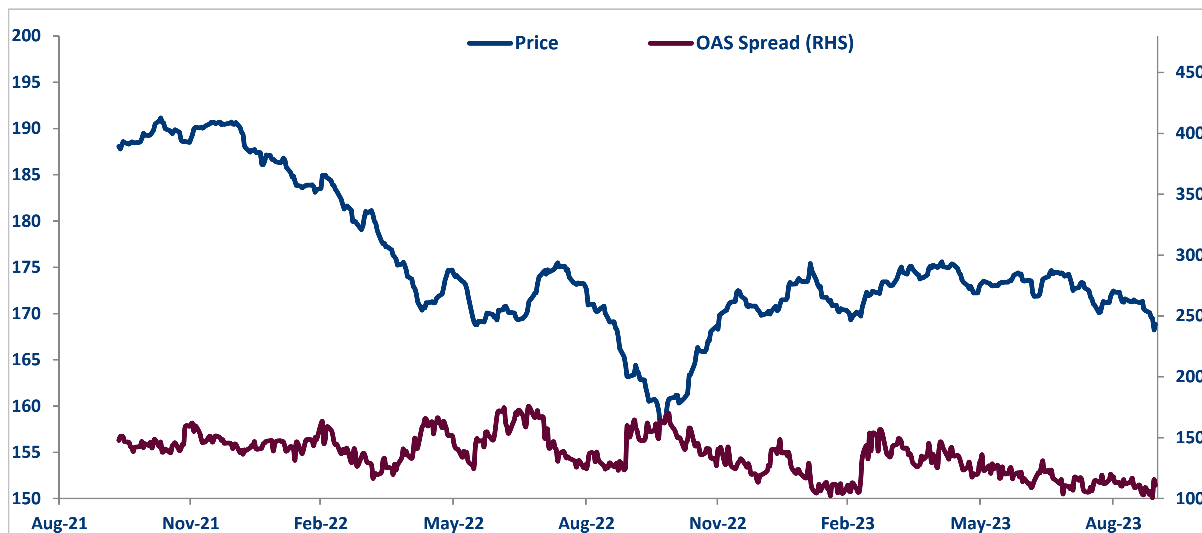



*Note: Bahrain's PE ratio is trailing*

*Source: Bloomberg, Daman Investments Asset Management*

@Copyright Daman Investments 2023

## 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) | 95.31 | 9.7% | 10.9% |
| Natural Gas (USD/mmbtu) | 2.93 | 5.8% | -34.5% |
| Gold (USD/Ounce) | 1,849 | -4.7% | 1.3% |
| Copper (USD/MT) | 8,213 | -2.3% | -1.8% |
| Aluminium (USD/MT) | 2,331 | 7.6% | -0.8% |
| Nickel (USD/MT) | 18,440 | -8.2% | -38.3% |
| Urea Middle East (USD/MT) | 383 | 0.0% | -20.3% |
| Methanol China (USD/MT) | 281 | -0.4% | -8.2% |
| SE Asia Polyethylene (USD/MT) | 1,050 | 1.9% | 2.9% |
| Polypropylene (USD/MT) | 1,000 | 2.0% | 1.0% |
| US Dollar Index | 106.17 | 2.5% | 2.6% |
| MSCI EM Currency index | 1,668.97 | -0.5% | 0.5% |
| JPM EM Currency index | 47.03 | -2.0% | -5.7% |
| EGP/USD | 0.03 | 0.3% | -19.8% |
| TRY/USD | 0.036 | -2.6% | -31.8% |
| PKR/USD | 0.348 | 6.3% | -21.2% |
| ILS/USD | 0.262 | -0.3% | -7.8% |
| EUR/USD | 1.06 | -2.5% | -1.2% |
| GBP/USD | 1.22 | -3.7% | 1.0% |
| USD/JPY | 149.37 | 2.6% | 13.9% |

@Copyright Daman Investments 2023

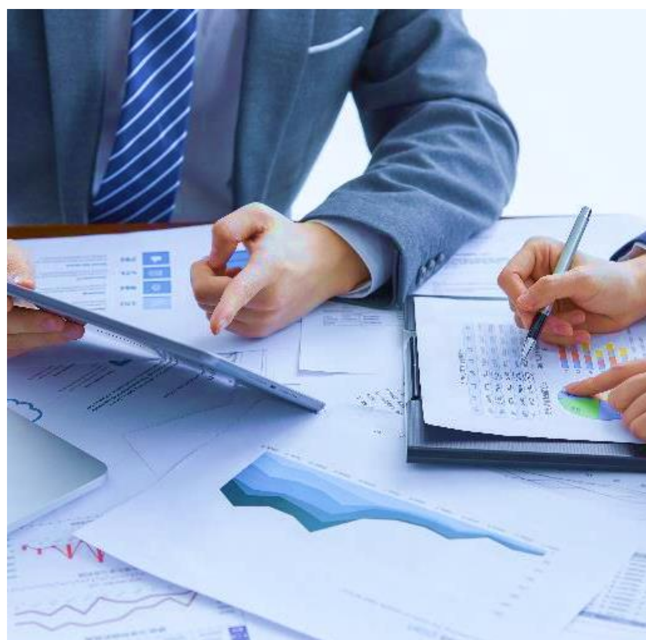
# Global Asset Allocation and Outlook

@Copyright Daman Investments 2023

## Global Asset Allocation and Outlook

Stronger than expected jobs data, rebound in oil prices, the recent uptrend in CPI and the Fed's higher for longer message has led market to reprice rate cut expectations by pushing the cuts to second half of 2024 and reprice the long-term yields higher. We believe in the near-term long-term US treasury yields will remain volatile as any stronger than expected inflation (CPI) data (despite core inflation trending down) or economic data would cause volatility in yields as this could strengthen the probability of a rate hike in December (currently standing at 18%) and push further the start of the rate cut (currently expected in July 2024). We will also watch for consumer confidence and wage growth to understand the strength of the US consumer. Inflation and consumer confidence are important data points to get a view on whether we can get a soft landing.

Despite the near-term uncertainty, we continue to remain invested, however, advocate maintaining a preference towards names with strong balance sheets, low leverages and highly visible near-term cash flows. We continue to maintain an overweight on fixed income as we see yields and rates close to a peak and 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. Also fixed income valuation remains quite attractive vs equities as differential between global equities' earnings yield (E/P) and global bond yield are below their historical average by 2 standard deviations.



For us to be more constructive on equities we need to see further evidence of the soft landing in next couple of month data points, as this will strengthen the case for earnings growth in 2024, as current real yields of 2.3% act as a valuation cap on equities if earnings do not rebound.

## 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 | | ■ | |

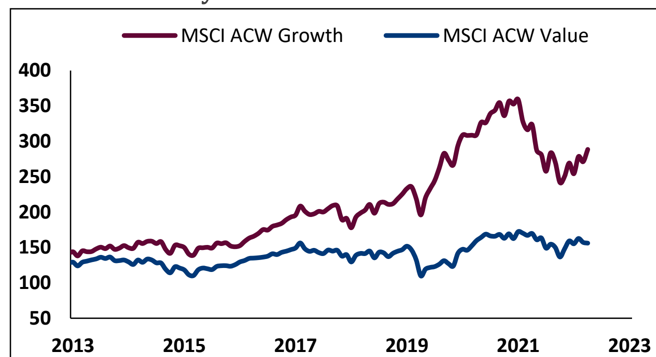
@Copyright Daman Investments 2023

## Global Asset Allocation and Outlook

**Global Equites**: 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.

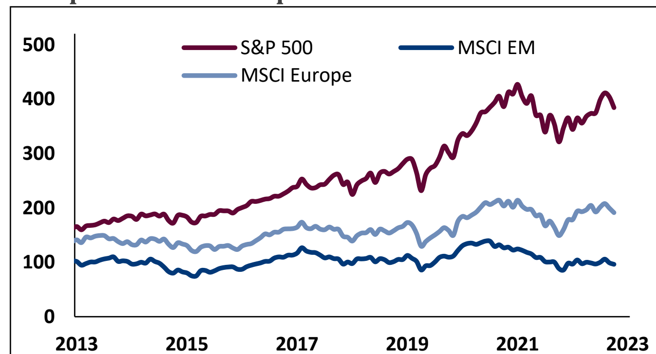
We maintain equal weight on the US and underweight on Europe. We see the US economy as holding up better than Europe in the current restrictive rate environment and the core inflation is much lower than Europe, which creates a bar much lower for the fed to stop hiking. We prefer value and cyclical sectors 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. 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.

**MSCI All Country World Value vs Growth**




*Source: Bloomberg, Daman Investments*

**Europe and EM underperformance vs US**




*Source: Bloomberg, Daman Investments*

We stay overweight on EMs as we continue to see strong upside catalysts during 20223 in the form of further stimulus in China, 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 India and Indonesia. Chinese market price in a lot of negativities and can surprise on the upside if the stimulus measure can be sizeable and 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.

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 also like Brazil 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 5% 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%.

@Copyright Daman Investments 2023

## Global Asset Allocation and Outlook

**Global Fixed Income:**

*Cash and Short Rates Crowds Out Riskier Bonds.* With cash and short rates yielding c.5%+, investors are content with their high nominal yields without assuming undue credit, term, and EM risks under the current challenging backdrop. While there is the issue of reinvestment risk, the lack of visibility on the eventual turn in monetary cycle can continue to displease investors that are sizeably long duration and should bias demand towards short-end Treasuries at the expense of other parts of fixed income. As term premium rises to compensate for duration and as curve inversion eases, expect to see improved positioning in longer-end in Treasuries, while credit and EM will remain at mercy of global risk appetite and liquidity movements.

*Maturing Economic and Monetary Cycle Brings Spread Volatility.* History shows that economic data is favourable towards the end of an economic cycle when credit spreads tighten. While monetary policy should accommodate a sizeable growth slowdown, spreads typically rise on rising credit risks, partially mitigated in the current cycle given higher all-in yields for investors, and better credit profile from non-financial corporates (including lowest albeit still high debt levels at c.140% of GDP in last seven years, and relatively high S&P 500 profitability at c.12% margins).

*Risk Reward in IG Credit Weakens after Rally in IG Credit Spreads***.** While US IG suffered losses over the past two months, their solid performance earlier in the year as spreads tightened over treasuries, becoming less appealing given the challenging macro and high rates impact on corporate fundamentals. While we continue to selectively seek mispricings in lower quality IG and higher quality non-IG down the credit spectrum, we would favour sovereigns over corporate paper still returning high all-in yields. Sobha Realty Sukuk was an example of corporate mispricing for a BB- local real estate developer yielding c.9.25%, who has a demonstrated track record at executing and delivering quality residential projects.

*Entering A Possible Third Year of Losses for Fixed Income.* We are now heading for a third year of consecutive losses in fixed income, which were first year driven by rising inflationary expectations and then met in second year with aggressive higher rate policy response. The bond market has struggled with weaker liquidity and sentiment given challenging macro backdrop and tightening conditions. As investors gain a better grasp of the end of tightening, rising fiscal deficits, met with attractive real rates, expect to see recovery in prices with opportunity to lock in high income over medium term.

*Maintain Defensive Stance and Focus on Quality to Manage Challenges.* Fixed income, and markets in general, 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.

*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, at least until the end of the current rate cycle. We note that sample of hiking cycles over past seven decades has resulted in a recession three quarters of the time once the cycle had ended and we remain vigilant that history does not repeat itself.

*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 barbell-ng 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.

*Pull Back in Over Summer Lull Represents Opportunity to Lock in Rates.* The sell off in August and September across safe-haven treasuries and risky assets equities was a healthy reset from the buildup in froth as markets climbed successive walls of worry and printed higher. *With the likelihood that volatility may return with smaller corrections, we believe there is scope to be opportunistic and buy the pullbacks as to lock in these high yields over medium-term horizon.*

@Copyright Daman Investments 2023

## Global Asset Allocation and Outlook

*Select EM Regions Have Been More Resilient Through Summer Doldrums.* Select parts of EM including GCC, have been resilient through the summer bond selloff. Barclays EM GCC USD declined -3.1% over past two months vs EM USD AGG at -3.5%. High oil prices and non-oil growth have supported GCC markets, while commodity exporters and structural growth stories have helped parts of Latin America and Asia including Mexico, Brazil, and India. While parts of LATAM were a consensus trade, they still enjoy high real rates coupled with favourable external accounts, manageable political risks, and policy improvements. Mexico and India are examples of near and friend shoring, which should help them integrate further with US and global economies, support production and shore up domestic demand.

*India Bonds See Demand on Pending Index Inclusion.* India government bonds will be included in the JP Morgan GBI EM index from June 2024, phased over ten months, reaching a weight of 10%, and representing GBI EM flows of USD 20-22bn, c.11% of Indian government bond supply, with potential upside from inclusion from subsequent EM index peers. While government bonds have already reacted favorably to the news, the inclusion should bring corporates closer to the radar of global investors. Corporates we like include Adani Ports, India Toll Roads, JSW, GMR Airport, Shiram, and Tata.

*EM Local Currency Debt Continues to Weaken on Higher Core Rates and Stronger Dollar.* EM local debt has underperformed facing an unpleasant mix of higher US rates and stronger USD as US real 10-year yields near 2.5%. The EM carry consensus trade into higher yielding local currencies stalled over the summer as investors question whether EM central banks can front run the Fed and not risk foreign exchange instability particularly as downtrend in headline inflation loses momentum given rising food and energy prices. While EM hard currency debt looks more appealing and should help shield investors from f/x volatility, the fact that high global core rates and global central bank balance sheet contractions (QT) should contract global liquidity into 2024 and wage performance closer to risk appetite.

*EM Longer End Tenors Become More Attractive Although Short Positioning Has Helped.* Cooling labor market and waning Inflation against recent pickup in term premium and likely Fed hold to drive longer end gains. Even with "higher for longer", expect to see yields lose steam. Likelihood for easing US treasury supply, continued moderation in core inflation, and slowing macro conditions should weigh on yields. While this may be true for US rates, the inversion in yield curves in EM keeps our positioning biased short in 2 to 3-year maturities.

**MENA Equities:** Given the global macro headwinds tied to higher real yields and rates, we have barbelled our equity portfolio by adding high dividend yield names with high beta names to reduce volatility and to provide defense to our portfolios during the market selloffs.. W e have also increased cash by partially booking profits on our profitable positions. Currently, MENA markets trade at a 5% premium to the MSCI EM Index on a 1-year forward PE basis, which is below the 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 to EM.

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%. Turkey is another 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 and continued devaluation. Headline inflation continues to remain elevated, rising to 31.4% YoY in September. For us to be more constructive on Egypt, we need to see steps towards a possible devaluation, encouraging FDI and reforms to improve private sector contribution to the GDP. Also, inflation hit 39.7% in August, a new all-time high.

*Our preferred plays include:*

- Well capitalized banks with strong corporate exposure and strong loan growth prospects (Rajhi, SNB, NBK, ENBD, DIB)
- Consumer discretionary names which will benefit from improved travel and tourism (SGS and 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)

@Copyright Daman Investments 2023

## Performance of our Funds

**Concerto IS Daman MENA UCITS Fund**

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* | 6.5% | 68.6% |
| Annualized Return | 8.8% | 17.9% |
| Annualized Volatility | 5.0% | 8.4% |
| Sharpe Ratio | 1.0 | 1.8 |

** NAV as of September 28th, 2023*

The fund gained 0.5% during the month. In terms of asset class, equities contributed to 73% of this gain while fixed income contributed to the remaining 27%. Geographically, UAE contributed to nearly all of this gain and was offset by losses in KSA, Kuwait and Qatar.

In equities, we initiated a position in Meeza. The company manages approximately 50% of Qatar's data center capacity and should benefit from the growing demand locally for data centres and IT services. We also participated in the IPO of Lumi, one of Saudi's largest car rental companies.

In fixed income, BROPAG '25, EGYPT '24, and ARADAD '27 were strongest contributors, while KSA '29, ARAMCO '29, and ARACEN '26 were strongest detractors. There were no transactions in fixed income during the month.

**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* | 10.7% | 19.9% |
| Annualized Return | 14.6% | 8.0% |
| Annualized Volatility | 5.9% | 7.0% |
| Shape Ratio | 1.8 | 0.7 |

** NAV as of September 28th, 2023*

The fund gained 0.8% during the month. In terms of asset class, equities contributed to 66% of this gain while fixed income securities contributed to the remaining 34%. Geographically, UAE and Egypt contributed to nearly all of this gain and was offset by losses in KSA, Jordan, Kuwait and Qatar.

In equities, we exited our position in ADCB and continued to add to our position in ENBD.

In fixed income, BROPAG '25, EGYPT '24, and Egypt '33 were strongest contributors, while JORDAN '30, QPETRO '31, and SOBHA '28 were strongest detractors. The fund closed FAB Sukuk and Qatar Energy in favor of INDTLL '24 (India Toll Roads) in fixed income.

**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* | 8.1% | 11.5% |
| Annualized Return | 10.9% | 10.0% |
| Annualized Volatility | 7.7% | 7.8% |
| Shape Ratio | 0.9 | 0.8 |

** NAV as of August 25th, 2023*

The fund was up 2.6% during the month.

@Copyright Daman Investments 2023

## 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* | 0.5% | -7.5% |
| Average Rating | BBB- | - |
| Average YTM** | 7.5% | - |
| Average Duration** | 2.6 years | - |
| Annualized Volatility | - | 1.5% |

** NAV as of September 29, 2023*
** Excludes cash balance*

The total return of the fund during the month was -0.3%. Egypt '26 and Turkey '25 were the positive contributors among sovereigns, while Dar Al-Arkan '29, Emirates Strategic '24, and Arada '27 were the largest positive contributors among corporates. The largest negative contributors were KSA sovereign '29 and Aramco '31 corporate.

Fund total returns declined -0.3%, although outperformed the -1.0% monthly performance of the Dow Jones Sukuk Index, as credit spreads widened from weakened risk sentiment, and rates rose across the longer end of the yield curve as macro strengthened and term premium rose.

During the month, no transactions were performed.

@Copyright Daman Investments 2023

***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.***

*The document is issued by Daman Investments PSC, which is authorized and regulated by Emirates Securities and Commodities Authority (ESCA). To receive a list of Daman Investment's composite descriptions and any other information, please contact the Marketing & Communications Department.*

*Address: Daman Investments PSC, Suite 600, P.O. Box 9436 Dubai, UAE*

*Tel: (+971 4) 332 4140*
*Fax: (+971 4) 332 6465*
*Email: amc@daman.ae*
*Website: www.daman.ae*

## *Disclaimer*

*This document has been prepared by Daman Investments PSC and is for private use only. The document is for information purpose only and it does not constitute investment advice nor is it intended to be an offer to buy or sell or a solicitation of an offer to buy or sell any investment product(s)/asset class(es) mentioned in this document, nor an incentive to invest. The investment product(s)/asset class(es) described in this document may not be eligible for sale or subscription in all jurisdictions or to certain categories of investors. This document is intended for publication and distribution to the recipient only and may not be passed on or disclose to any other persons. This document is not intended for distribution to a person or within a jurisdiction where such distribution would be restricted or illegal. It is the responsibility of any person in possession of this document to investigate and observe all applicable laws and regulation of the relevant jurisdiction. This document may not be conveyed to or used by a third party without our express consent. Daman Investments PSC is not responsible for any error which may be occasioned at the time of printing of this document. The investment product(s)/asset class(es) described in this document is/are destined to investor(s) who possess sufficient knowledge, based on their own experience, to evaluate the advantages and the risks inherent to such investment product(s)/asset class(es). Prior to making an investment decision, you should conduct such investigation and analysis regarding the investment product(s)/ asset class(es) described herein as you deem appropriate and to the extent you deem necessary, obtain independent advice from competent legal, financial, tax, accounting and other professionals, to enable you to understand and recognize fully the legal, financial, tax and other risks arising in respect of such investment product(s)/asset class(es) and the purchase, holding and/or sale thereof. Daman Investments PSC hereby expressly disclaims any obligation, or liability whatsoever, and it shall not be responsible under any circumstances or in any way, irrespective, contractual or non-contractual for any fiduciary responsibility or liability for any consequences, financial or otherwise, or any damages and loss including but not limited to compensations, charges, expenses and /or implications, direct and/or indirect, incidental, collateral, special or exceptional related to or arising from any reliance placed on the information in this document, failures, errors, interruption, defect, delay and / or the fluctuations of prices, if any, and in any or all transactions, securities, assets, sales assumptions, and proceeds from sales or transactions and actual collections are subject to change of sales prices timing of collections whatsoever, unless a written conclusive official evidence may prove a gross negligence, fraud or willful misconduct on the part of Daman Investments PSC.*

@Copyright Daman Investments 2023