Monthly Review, Asset Allocation & Outlook

November 2023

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Highlights of the Month

- Risk assets witnessed a sharp rally due to a fall in 10-year US treasury real yields and slowing inflation
- The rally in yields across the curve was largely driven by the expected end of Fed's hiking cycle
- MSCI All Country World Index and MSCI EM Index rallied 9.1% and 7.9%, respectively
- Barclays EM Aggregate Index rose 5.3% echoing moves in global bond markets from dovish Fed expectations
- US 2YR and 10YR Treasury yields fell 41bps and 60bps, respectively, to end the month at 4.7% and 4.3%
- Gold rallied marginally by 2.6% on lower yields and falling dollar
- MENA equities rose with S&P Pan Arab Composite Large Mid Cap Index up 5.0%
- We are overweight on fixed income and neutral on equities

Global Review

Global Equities: Global equities surged in November breaking 3 months losing streak and witnessed their best month since November 2020 with MSCI All Country World Index rising 9.1%. Moderation in inflation caused the Fed to remain on hold and US treasury yields to drop which drove a strong rally in risk assets. US 10-year and 2-year Treasury yields fell 60bps and 41bps to end the month at 4.33% and 4.68%, respectively. US 10-year Treasury real yield dropped 43bps to end the month at 2.09%. Investors started to price in rate cuts starting May 2024.

The US CPI was flat MoM and rose 3.2% YoY in October with both metrices coming below street expectations of 0.1% and 3.3%, respectively. As a comparison CPI rose 0.4% MoM and 3.7% YoY in September. The flattish MoM reading was tied mainly to a 2.5% decline in energy prices and housing inflation slowed down with shelter costs rising 0.3% vs 0.6%. New vehicle prices declined 0.1%, while used vehicle prices fell 0.8% and were down 7.1% YoY. Airfares declined 0.9% and are off 13.2% YoY. Core CPI rose 0.2% MoM and 4% YoY, both data points came in line with expectations. As a comparison core CPI rose 0.3% MoM and 4.1% YoY in September. Super core inflation (Core CPI services less housing) increased 0.2% MoM and 3.75%. As a comparison core CPI rose 0.6% MoM and 3.9% YoY in September. The Core PCE Fed's preferred inflation gauge rose 0.2% MoM and 3.5% YoY; both measures were in line with expectations and were below September's levels of 0.3% and 3.7%.

While the economic data remained resilient, there were some signs of moderation. The US 3Q 2023 real GDP was revised to a rate of 5.2% from its first reading of 4.9%. US non-farm payrolls dropped to 150,000 in October vs 297,000 in September, below consensus expectation of 180,000. Average hourly earnings moderated to 0.2% MoM from 0.3% in September and 4.1% YoY from 4.2%. The unemployment rate rose slightly to 3.9% from 3.8%. University of Michigan sentiment dropped to 60.4 in November from 63.8 in October. Job openings dropped to 8.7mn in October from 9.4mn in October.

Retail sales fell 0.1% MoM in October after rising 0.9% in September. ISM manufacturing PMI at 46.7 continued to be in contraction. Services PMI continued to remain in expansion mode rising to 52.7 from 51.8. Fed speakers indicated that they continue to remain data dependent and to remain on the sidelines due to moderating inflation, however, signaled keeping an option open to raise rates in case inflation becomes stickier or start to trend upwards, while generally pushing back against talking about cutting rates next year.

Cooling down inflation and forward indicators reflecting a slowing down economy raised hopes of soft landing, which led both developed markets (DM) and emerging markets (EM) close the month up with MSCI World Index and MSCI EM Index surging 9.2% and 7.9%, respectively. S&P 500 Index closed the month up 8.9%. The rally broadened out with small cap and cyclical sectors performing strongly. The Russell 2000 Index was up 8.8%. Real Estate, Financials, Industrials and Materials rose 12.3%, 10.7%, 8.5% and 8.1%, respectively.

European equities rallied with MSCI Europe ex-UK Index rising 7.3% on steeper than expected drop in inflation and investors expecting rate cuts by April next year. However, ECB continued to push back against any rate cuts early next year. Eurozone CPI fell to 2.4% in November from 2.9% in October. Real estate, industrials and IT were the top gaining sectors. Euro Zone October Manufacturing flash PMI continued to remain in contraction from the last 17 months reaching 43.8 level and Services PMI also remained in contraction at 48.2 levels.

UK equities rose with FTSE 100 Index rising 1.8% but lagged other DM markets. However small cap and midcap rose on expectation on dropping inflation and peaking interest rates. CPI dropped sharply to 4.6% YoY in October, below 6.7% reading for September.

Fixed Income: *The US Fed fund's rate decision on 1 November further reiterates that rate hikes are well behind us.* The case for a potential soft landing remains strong with inflation data for October coming in below expectations. CPI was 0.0% m-o-m and 3.2% y-o-y in October with inflation settling substantially lower from the 40-year highs recorded in 2022. Meanwhile, core CPI (0.2% m-o-m and 4.0% y-o-y) also surprised on the downside which is largely seen as a better gauge of underlying inflation than the overall CPI. Wages continued to grow softly at the same rate 0.2% m-o-m in October, while advance retail sales declined by 0.1% m-o-m better than market expectations depicting that consumer confidence remains strong.

US hiring cools in October depicting a change in trend. US October jobs declined to +150,000 while hourly wages continued to rise at +0.2% m-o-m and unemployment rate increased marginally to 3.9%. The gradual cooling in labor market would augur well for the US Fed to continue to remain on a pause and see a potential start of rate cuts in 2024. Decline in monthly industrial and manufacturing production numbers. US industrial production declined by 0.63% m-o-m vs 0.1% m-o-m, largest decline since December 2022. Additionally, manufacturing production also declined by 0.7% thereby showing a decline on a monthly basis for the first time in the past 4 months. We believe US economy could well be showing the first signs of a potential decline in major economic variables, which had been supported by robust spending from post pandemic excess savings and fiscal impulse.

US Fed delivered another pause as focus now turns to the December meeting. Fed met on November 1st and unanimously held policy rates at current 5.25 - 5.50% with markets now pricing-in no change in Fed Fund rate for the next two meetings i.e., December 2023 and January 2024. We expect the Fed to have much more clarity in the coming few months in terms of a weakening or strengthening consumer demand to either keep rates at its current level or consider rate cuts in 1H24. As of now, Fed fund futures rates are currently pricing-in a cumulative 124bp of easing by YE 2024, with nearly 18bp of rate cuts in March 2024 and 35bp in May 2024. The Fed will need enough supportive data primarily from a PCE (core and non-core) and labor market point of view to ensure a soft-landing scenario in 2024 doesn't have a detrimental effect.

US yields rally in November across the curve. The US treasury's advance in November was the biggest since the financial crisis in 2008 and the markets first gain since April 2023. Large decline in yields were led by dovish Fed expectations, inflation coming in lower than expected, rise in unemployment, quits rate trending down and Fed's Waller signaling hiking cycle maybe behind us. During the month, US 2YR yields edged 37bp lower to 4.68%, while US 10YR declined by 60bp to 4.32%, as markets priced-in a lower for longer stance. The 2s10s UST spread moved from-37bp to -60bp during the month. It is important to remember that historically bull flattening is a precursor to a recession. This is mainly due to a flight to safety trade, and/or a lowering of inflation below expectations.

EM Bond Index gives handsome returns in November driving the YTD returns into positive territory. Barclays Emerging Markets Aggregate Index (EMUSTRUU Index) returned 5.3% m-o-m and into positive YTD territory 4.69%, to yield 7.62% (OAS down 29bp m-o-m +307bp) as US benchmark rates declined, and rate volatility declined. Meanwhile, Bloomberg EM GCC USD Sukuk Index (I30740US Index) returned 2.6% during the month, thereby taking the YTD return to 3.1%.

EM Equities: MSCI EM Index surged 7.9% in November. MSCI LATAM led the rally, rising by 13.0% and notching their best month since 2020, on a weakening USD and hopes that US interest rates had peaked. MSCI Asia and MSCI EMEA also rallied, rising by 7.5% and 6.3% respectively. In Asia, Tech heavy MSCI Korea and MSCI Taiwan gained 11.0% and 9.0% respectively, on falling yields and risk on sentiment. MSCI China was a laggard, riding by 2.3%, as investors continued to shy away from China due to a slowdown in growth, debt overhang and the burgeoning property crisis. Chinese equities are now trading at their biggest discount to EM peers in a quarter of a century.

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Commodities: Oil: Brent oil closed at USD 82.8/bbl, down 5.2% MoM. Prices fell on a weak economic outlook and rising supply from the US, where output levels are near record highs of 13mn bpd. Natural gas: Henry hub prices fell by 21.6% MoM, giving up nearly all their gains from the previous month, to reach USD 2.8/mmbtu, due to poor demand and above-average inventories.

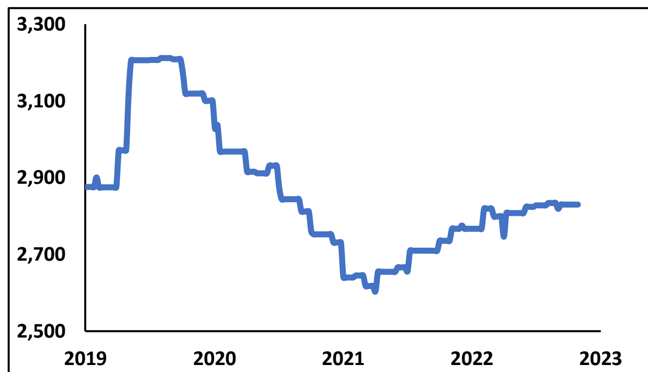
Petchems: SE Asia HDPE, PP, LDPE and LLDPE fell by 5.8%, 4.6%, 2.9% and 2.0% respectively. SE Asia MEG was up 2.1% MoM.

Metals: Nickle and aluminum fell 8.2% and 3.8% MoM respectively, on demand worries from China. Precious metals: Gold prices rose by 2.6% due to falling yields and a weakening USD.

Currencies: EM currencies (MSCI EM Currency Index) rose by 2.8%, while the US Dollar (DXY Index) fell by 3.0%. The Polish Zloty (+5.3%) and the Korean Won (+4.7%) were the best performing EM currencies. The Turkish Lira (-2.0%) and Pakistani Rupee (-1.4%) were the worst performing ones.

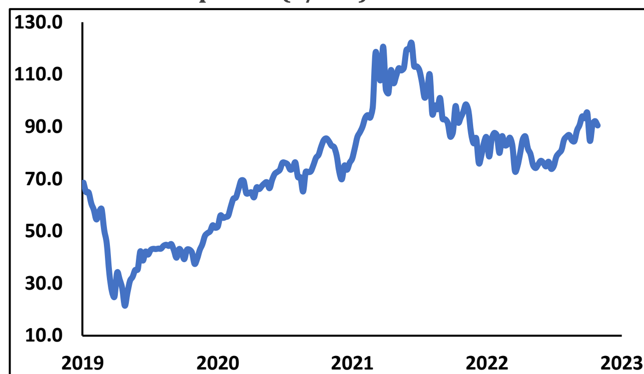
Given our expectation of a slowdown in global economic growth, we continue to avoid exposure to base metals. We remain cautious on petrochemicals due to a slowdown in the global economy. We expect Brent oil price to average $80/bbl in Q4 2023. With peak demand behind us due to the travel season ending, we expect prices to remain volatile due to geopolitics, rising supply in the US, OPEC+ cuts and global growth uncertainties. However OPEC has put a floor on Brent crude oil prices around $75/bbl due to its voluntary production cuts.

OECD crude inventories (mn barrels)



Source: Bloomberg, Daman Investments

Brent crude oil prices ($/bbl)



Source: Bloomberg, Daman Investments

MENA Equities: MENAPT markets rallied during the month of October on the back of falling treasury yields with the S&P Pan Arab Composite Large Mid Cap Index posting its largest gain in 16 months, increasing by 5.0%. The geopolitical risk also remained contained outside the boundaries of the GCC. Within the GCC, the Qatar Exchange Index recouped most of its losses from October, rising by 5.4%, followed by Saudi's Tadawul All Share Index which rose by 4.6%. In the UAE, the DFMGI gained 3.0% and the FTSE ADX General Index gained 2.3%. Regionally, Pakistan's KSE 100 Index, Egypt's EGX30 Index and Turkey's XU100 Index continued their bull run, rising by 16.5%, 9.7% and 5.8% respectively.

In the UAE, Emaar Properties recorded sales of AED 10.9bn in Q3, taking their 9M 2023 sales to AED 31.1bn. The consolidated backlog rose to AED 69.5bn, which would be recognized mostly over the next three years. Occupancy of prime assets rose to 97% while hotel occupancy during the 9M 2023 stood at 70%. We continue to like Emaar Properties and Emaar Development, given their exposure to Dubai, robust backlog, improving recurring income stream and growing liquidity which should support dividends. DEWA's earnings rose 5% YoY, due to higher water and power consumption linked to population growth. Empower's earnings fell by 7% YoY, due to higher interest expenses. Q3 saw the consolidation of Dubai International Airport (DXB)'s district cooling assets. In Abu Dhabi, Aldar's Q3 property sales doubled YoY in the UAE, with 9M 2023 sales growing to AED 17bn. The consolidated backlog rose to AED 29bn, with management raising their full year sales guidance to AED 22-24bn. AD Ports earnings grew by 20% YoY due to significant M&A activity (mainly Noatum).

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During the month, three IPOs were announced in the UAE. Investcorp Capital, the region's leading alternative asset manager, raised USD 451mn through a primary and secondary offering. Abu Dhabi-based blockchain and crypto solutions company Phoenix Group raised USD 370mn through an IPO that was oversubscribed 33x. Dubai Taxi Co. raised USD 315mn through an IPO that was oversubscribed 135x in in the institutional tranche and was Dubai government's first privatization in over a year. In Saudi, United International Transportation Company (Budget) revenue grew 25% YoY due to higher utilization of the fleet, but softer margins for used car sales lowered the bottom line. Seera's adjusted earnings (ex-Lumi IPO expenses) grew strongly YoY due to solid performance across all verticals, particularly through the Almosafer platform. Management also announced a 10% share buyback program as well as plans to deleverage the balance sheet from funds raised through Lumi's IPO. Saudi Ground Services profit grew 16% YoY due to higher aviation traffic and better operating margins. GCC-listed companies saw their earnings drop mid-double digits YoY due to lower energy and commodity prices. However, the non-oil sectors, performed strongly and reflected a strong non-oil GDP growth of +4%.

Our preferred plays include:

- Well capitalized banks with strong corporate exposure and strong loan growth prospects (Rajhi, SNB, ENBD)
- Consumer discretionary names which will benefit from improved travel and tourism (SGS, Seera, Budget)
- High dividend yield plays within the telecom, utilities and real estate sectors (DEWA, Empower, TECOM, Yahsat, ADNOC Drilling, ADNOC Gas, Salik)
- 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 and Emaar Dev)
- Names to benefit from the improvement in trade with EM countries (AD Ports)

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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	11,177	4.6%	6.7%	19.3	2.4	3.5%
Dubai - DFMGI	3,992	3.0%	19.7%	8.0	1.2	4.9%
Abu Dhabi - FADGI	9,560	2.3%	-6.4%	17.8	2.3	3.4%
Qatar - DSM	10,042	5.4%	-6.0%	11.4	1.3	4.8%
Kuwait - All Share	6,654	1.9%	-8.8%	14.3	0.5	4.4%
Oman - MSM30	4,658	2.5%	-4.1%	7.5	0.7	4.8%
Bahrain - BHSEASI	1,940	0.5%	2.3%	8.0	0.7	6.7%
Egypt - EGX30	24,735	9.7%	69.4%	8.8	2.5	3.8%
Morocco - MOSENEW	11,782	-2.0%	9.9%	17.3	2.4	3.8%
S&P Pan Arab Composite	158	5.0%	-1.3%	14.4	1.9	3.9%
Israel - TA35	1,774	7.7%	-1.3%	8.5	1.4	2.9%
Turkey - XU100	7,949	5.8%	44.3%	5.1	1.0	3.4%
Pakistan - KSE100	60,527	16.5%	49.7%	5.2	0.9	8.4%
S&P 500	4,568	8.9%	19.0%	21.2	4.2	1.5%
STOXX 600	462	6.4%	8.6%	13.3	1.9	3.5%
MSCI EM	987	7.9%	3.2%	13.5	1.5	3.3%
MSCI All Country World	694	9.1%	14.7%	17.8	2.7	2.2%
MSCI World	3,024	9.2%	16.2%	18.4	2.9	2.1%

Major Indices Performance	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	173	4.5%	1.9%
FTSE MENA Broad Bond Index	157	5.4%	1.5%
Dow Jones Sukuk	96	2.5%	-0.5%
Barclays Global Aggregate Index	453	5.0%	1.5%
Barclays Global High Yield Index	1,463	5.4%	9.6%
Barclays US Treasury Index	2,203	3.5%	0.7%
Barclays US Corporate Index	3,087	6.0%	4.0%
Barclays US Corporate High Yield index	2,391	4.5%	9.4%
JPM EM Global Bond Index	542	6.0%	5.5%
Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index	1,124	5.30%	4.7%
Bloomberg Barclays US Aggregate Bond Index	2,082	4.5%	1.6%
Markit CDX Emerging Markets Index	96	1.8%	2.2%
Barclays EM High yield	1,335	6.1%	8.4%
Barclays EM Corporate Index	271	4.3%	3.4%
10-year US Treasury yield* (%)	4.33	-60	45
30-year US Treasury yield* (%)	4.49	-60	53
US Treasury 2-10 Spread*	-35.80	-20	20
US Treasury 2-30 Spread*	-19.11	-19	28
10-year US Treasury Real yield* (%)	2.09	-43	51
10-year Germany Treasury yield* (%)	2.45	-36	-12
US Breakeven 10 Year*	2.25	-17	-5
10-year Saudi Arabia Govt USD Bond yield* (%)	5.12	-68	37
8-year Abu Dhabi Govt USD Bond yield* (%)	4.67	-67	43
4-year Kuwait Govt USD Bond yield* (%)	4.72	-48	111
9-year Oman Govt USD Bond yield* (%)	5.82	-96	-35
10-year Bahrain Govt USD Bond yield* (%)	7.18	-88	-19
7-year Qatar Govt USD Bond yield* (%)	4.71	-67	34
10-year Egypt Govt USD Bond yield* (%)	14.88	-178	270
EIBOR 3M* (%)	5.33	-11	102
QAIBOR 3M* (%)	6.00	0	72
Dubai 5 Year CDS* (bps)	38	-5	-10
Qatar 5 Year CDS* (bps)	42	-15	-6
2-year US Treasury yield* (%)	4.68	-41	25

Source: Bloomberg, Daman Investments AssetManagement

*Note: *In basis points*

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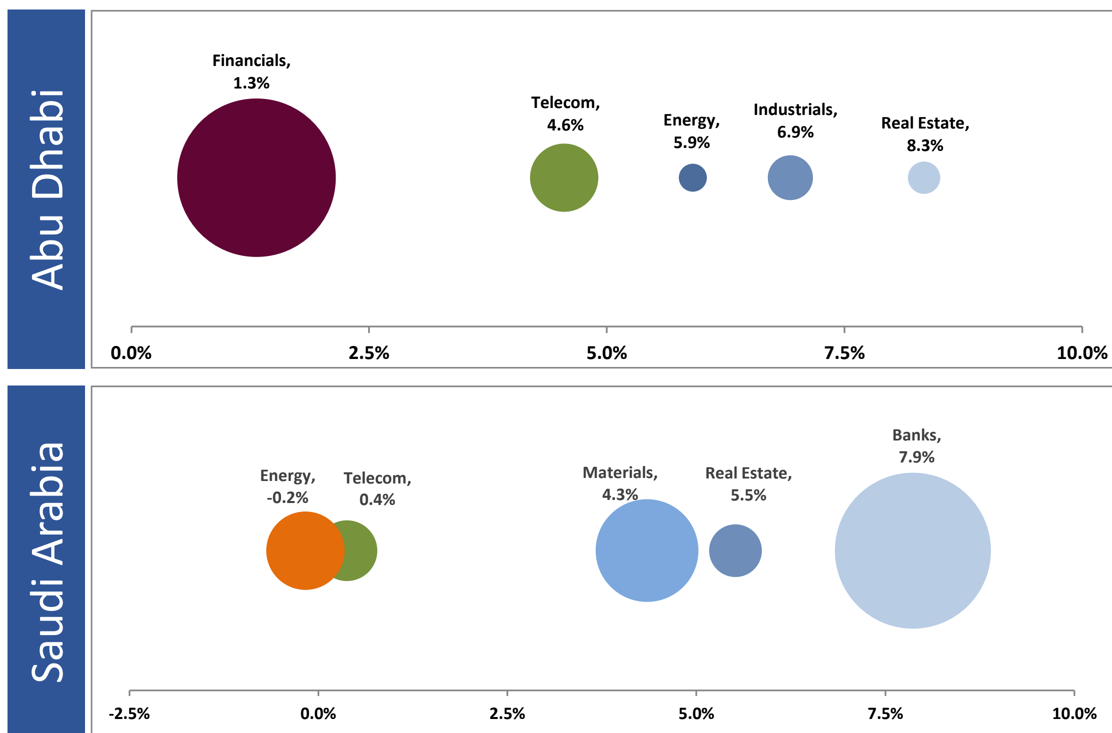
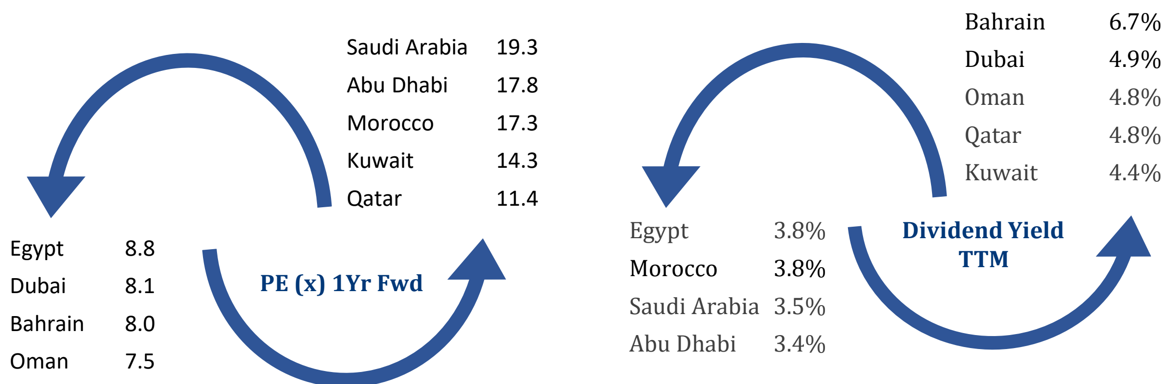
Sectors Performance of Key MENA Indices (MoM Change)



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

MENA Valuations



PE (x) 1Yr Fwd

Country	PE (x)
Saudi Arabia	19.3
Abu Dhabi	17.8
Morocco	17.3
Kuwait	14.3
Qatar	11.4
Egypt	8.8
Dubai	8.1
Bahrain	8.0
Oman	7.5

Dividend Yield TTM

Country	Dividend Yield
Bahrain	6.7%
Dubai	4.9%
Oman	4.8%
Qatar	4.8%
Kuwait	4.4%
Egypt	3.8%
Morocco	3.8%
Saudi Arabia	3.5%
Abu Dhabi	3.4%

Source: Bloomberg, Daman Investments Asset Management

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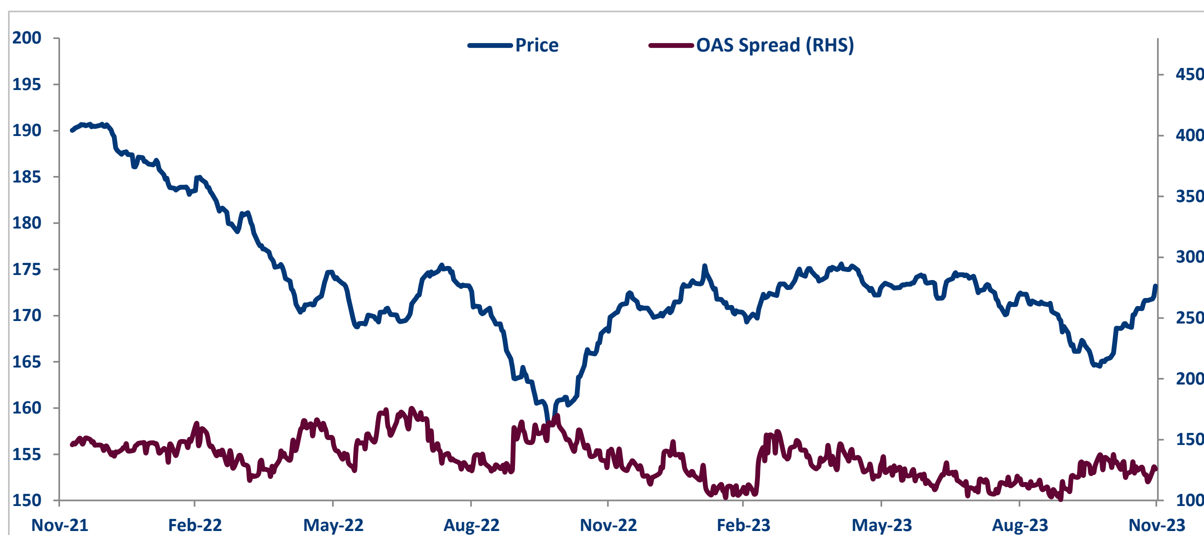
Barclays GCC Credit +HY Index



Source: Bloomberg, Daman Investments Asset Management

Major Commodities and Currencies

Performance

	Value	MTD Change	YTD Change
Brent crude oil (USD/bbl)	82.83	-5.2%	-3.6%
Natural Gas (USD/mmbtu)	2.80	-21.6%	-37.4%
Gold (USD/Ounce)	2,036	2.6%	11.6%
Copper (USD/MT)	8,388	4.5%	0.3%
Aluminium (USD/MT)	2,156	-3.8%	-8.2%
Nickel (USD/MT)	16,438	-8.2%	-45.0%
Urea Middle East (USD/MT)	386	0.0%	-19.7%
Methanol China (USD/MT)	280	1.1%	-8.5%
SE Asia Polyethylene (USD/MT)	970	-5.8%	-4.9%
Polypropylene (USD/MT)	930	-4.6%	-6.1%
US Dollar Index	103.50	-3.0%	0.0%
MSCI EM Currency index	1,717.50	2.8%	3.4%
JPM EM Currency index	47.91	2.0%	-4.0%
EGP/USD	0.03	0.0%	-19.8%
TRY/USD	0.035	-2.0%	-35.2%
PKR/USD	0.351	-1.4%	-20.5%
ILS/USD	0.268	8.4%	-5.7%
EUR/USD	1.09	3.0%	1.7%
GBP/USD	1.26	3.9%	4.5%
USD/JPY	148.20	-2.3%	13.0%

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Global Asset Allocation and Outlook

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Global Asset Allocation and Outlook

Risk assets witnessed a strong rally during November on goldilocks economics data with inflation moderating and economic indicators showing slowdown signs but not indicating recessionary concerns. Also, the market is pricing in 5 rate cuts by the end of 2024.

We believe in the near-term US treasury yields will remain volatile as any stronger than expected inflation or jobs data would cause volatility in yields as this could strengthen the probability of a rate hike next year and push further the start of the rate cut (currently expected in May 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.

We continue to 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			■
MENA			■
Sub-Saharan Africa	■		
Central & Eastern Europe	■		
Fixed Income - Rates vs Spreads:			
Rates			■
Spreads		■	
Fixed Income - Credit:			
Global Investment Grade		■	
Global High Yield		■	

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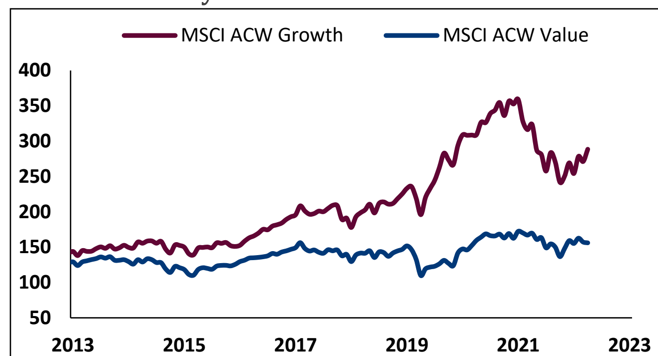
Global Asset Allocation and Outlook

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 see a barbel portfolio split between technology and cyclical sectors as well placed to navigate uncertainties that we may face in 2024 (soft landing/mild recession).

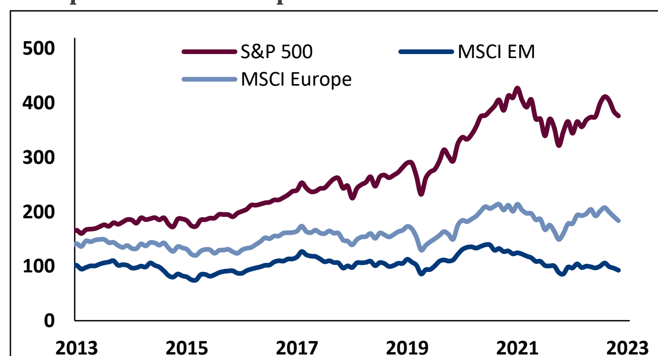
We maintain equal weight on the US and underweight on Europe. We see the US economy as holding up better than Europe in the current restrictive rate environment and the core inflation is much lower than Europe, which creates a bar much lower for the fed to stop hiking. We prefer value and cyclical sectors 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 EM economic growth trends are 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 27% 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 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 6.7% premium to EM which is below the long-term average of 10%. Recent correction in Saudi and UAE equities has exposed value in certain names which continue to report strong earnings growth and non-oil GDP growth for both the countries will remain strong at north of 4%.

Global Fixed Income: 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 when the monetary easing kicks in can continue to displease investors that are sizably long duration and should bias demand towards cash, MMFs, and short treasuries at expense of longer/riskier 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 should remain at mercy of global risk appetite and liquidity movements.

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Global Asset Allocation and Outlook

Third time lucky for Fixed Income? In October, fixed income markets (Bloomberg Global Aggregate Index) were heading for a third consecutive year of losses, but investors were in for a surprise as November turned out to be one of the best in performance for fixed income investors. YTD returns stand at 1.5% with total yearly positive returns driven by November returns of 5.0%. We believe the reversal in fortunes of fixed income investors should bode well into 2024 as markets continue to cheer data which supports a potential start in easing cycle in 2024. It is important to remember that bond market has struggled prior to November 2023 with weaker liquidity and sentiment given challenging macro backdrop and tightening conditions.

Maintain defensive stance and focus on quality to manage challenges ahead. Fixed income, and markets in general, have performed well so far this year with November helping investors despite macro challenges, tight monetary policy, geopolitical tensions, and 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 and can represent a hedge for investors.

COP28 brings with it a finance splash. UAE, host of the COP28 summit announced that it will put USD30bn into a new climate finance fund aimed at improving the flow of money into projects to reduce emissions. The country has been making big strides in the ESG arena with sustainable date issuances in 2023 more than doubling this year to USD14.2bn vs USD6.1bn during the prior year. In the first six months of 2023, sustainable bond issuances topped more than USD0.5trn, on the back of record levels of green bond issuance. Bloomberg's Global Aggregate Green, Social and Sustainability (GSS) bond (I37363US Index) has returned 6.1% on a YTD basis.

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-ing 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. We currently like a bond mix of 75:25 short-dated bonds to long-dated bonds. This portfolio in an economy sub growth scenario with Fed cutting rates at levels close to what markets are pricing will end up giving our bond portfolio handsome returns. Additionally, in the scenario of higher inflation and/or rate hikes we expect our coupons to offset any duration losses.

Rally in asset classes in November may have run its course. The rally across treasuries, credit, and riskier assets was a healthy reset from sell off seen during the prior months. 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 particularly as major central banks including US, UK, ECB & BOE have likely reached their peak in current cycle albeit higher rates may persist for longer.

Markets could be wrong once again? There have been several false dawns in markets over the past one year with investors bracing up for an easier monetary policy only for the Fed to catch them flat-footed on each instance. Markets this time around are already pricing-in 124bp of rate cuts in 2024 with investors bracing in for a possible soft-landing scenario. One thing remains a surety that the Fed will cut rates at some point in the future, the only thing that hangs in the air is the timing and amount.

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A rally for all in November. Bloomberg EM GCC USD rallied +5.2% over the last month vs EM USD AGG at +5.3%. The decline in brent crude oil on a m-o-m basis, while commodity exporters and structural growth stories have helped parts of Latin America and Asia including Mexico, Brazil, and India. We believe as rate cuts continues or becomes a reality in some of these countries, both cyclical and structural factors could become supportive for rates. While parts of LATAM were a consensus trade, they still enjoy high real rates coupled with favorable 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 indirectly shore up demand. It is imperative for investors to remember that both India and Mexico head for an election in 2024 which could drive yields higher if political uncertainty takes centerstage on the back of political outcome not priced-in by markets. Moreover, 10Y local yields in Mexico remain well above 9% on the backdrop of higher financing needs in 2024 due to a wider expected fiscal deficit and could very well scupper the effects of rate cuts on government yields.

India Bonds See Demand on Pending Index Inclusion. Foreign flows into India government bonds hit the highest level in six years with net buying worth USD1.5bn in November ahead of the securities being 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 with potential upside from inclusion from subsequent EM index peers. Markets are also awaiting a decision on India's inclusion in the Bloomberg Global Aggregate Bond index. While government bonds have already reacted favorably to the news, the inclusion should bring corporates closer to the radar of global investors. Names we like include Adani Ports, India Toll Roads, JSW, GMR Airport, Shiram & Tata. Crucially, on the back of broader rally in Indian equity markets and specifically in Adani group stocks largely due to the US government extending USD553m in funds for a container terminal in Sri Lanka, yields on Adani ports bond maturing in 2029 has rallied by 154bp in November.

In Mexico, market participants will keenly watch the central bank meetings commentary for the 14 December monetary policy meeting. The central bank recently signaled an interest rate cut is on the table in the coming months. Inflation currently remains outside the central banks' target level of 2-4%. Besides, inflationary pressure should sustain going into 2024 with a 20% minimum wage hike announced for next year by President Lopez Obrador last week. Within Brazil, the rates show a 50bp rate cut being priced-in for the next three monetary policy meeting. Additionally, the economy surprised on the upside with GDP coming in at 0.1%y-o-y during the 3Q23. The debt levels through remain a source of concern with the President Lula not willing to cut social or infrastructure expenditures. The 10Y yields in Brazil reflect the ballooning debt level.

MENA Outlook: 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. We utilized our cash position during further this month to further build positions in high quality names (ADNOC Drilling, ADNOC Gas, Salik and Empower) which took a beating due to the escalation of the geopolitical risks and funding of the IPOs. Currently, MENA markets trade at a 6.7% premium to the MSCI EM Index on a 1-year forward PE basis, which is below the long-term average premium of 10%. If oil trades above USD 70/bbl, we believe the MENA market will continue to trade at a premium to EM and this premium would further expand.

We continue to see selective opportunities in the Saudi and UAE due to their government's commitment towards economic diversification leading to a sustained spending on infrastructure, industrial, oil and gas and tourism projects. Recent correction in Saudi and UAE equities has exposed value in certain names which continue to report strong earnings growth and non-oil GDP growth for both countries 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 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 29.2% YoY in November. 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 remained elevated at 35.8% YoY in October. We do not see strong upside catalysts in Qatar and Kuwait, barring a few idiosyncratic names.

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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 MENAPT.

	2023	Inception (30 Jul 2020) (Class I)
Total Return*	6.1%	68.1%
Annualized Return	6.6%	16.8%
Annualized Volatility	5.7%	8.4%
Sharpe Ratio	0.5	1.7

** NAV as of November 30th, 2023*

The fund gained 0.7% during the month. In terms of asset class, equities contributed to 70% of this gain while the remaining 30% came from fixed income. Geographically, UAE and Saudi Arabia contributed 57% and 26% respectively to the gains.

In equities, we participated in the IPO of Dubai Taxi and Phoenix Group. We added to our positions in names such as Empower and Salik, as value was exposed post a steep decline in the month of October on geopolitical concerns. Also took new positions in ADNOC Gas, Budget and ADNOC Drilling.

In fixed income, SOBHA ’28 and EGYPT ’24 were strongest contributors. We purchased T-Bills to generate income on its liquidity.

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*	11.5%	20.7%
Annualized Return	12.6%	7.7%
Annualized Volatility	6.2%	7.0%
Shape Ratio	1.4	0.7

** NAV as of November 30th, 2023*

The fund gained 3.4% during the month. In terms of asset class, equities were responsible for 59% of these gains while the rest came from fixed income. Geographically, UAE contributed 43% to these gains followed by Saudi Arabia with 20% and Egypt with 13%.

In equities, we participated in the IPO of Dubai Taxi and Phoenix Group. We added to our positions in names such as Empower and Salik, as value was exposed post a steep decline in the month of October on geopolitical concerns. Also took new positions in ADNOC Gas and ADNOC Drilling.

In fixed income, JORDAN ‘30, Egypt ‘33 and Egypt ’24 were the strongest contributors.

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*	3.4%	6.7%
Annualized Return	3.7%	5.1%
Annualized Volatility	9.1%	8.8%
Shape Ratio	0.0	0.1

** NAV as of December 1st, 2023*

The fund was up 1.4% for the month. We participated in the IPO of Dubai Taxi and Phoenix Group. We added to our positions in names such as Empower and Salik. Also took new positions in ADNOC Gas and ADNOC Drilling.

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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*	1.5%	-10.2%
Average Rating	BBB-	-
Average YTM**	7.7%	-
Average Duration**	2.5 years	-
Annualized Volatility	-	1.6%

Fund total return during the month was 1.5%. Among sovereigns, BHRAIN '29, KSA '29, and EGYSK '26 were the highest contributors. Among corporates, SOBHA '28, ARAMCO '31, and OILGAS '29 were highest three contributors during the month, while there were no detractors.

Fund total returns advanced 1.5% led by dovish Fed expectations, inflation coming in lower than expected, rise in unemployment, quits rate trending down and Fed's Waller signaling hiking cycle maybe behind us. This resulted in yields moving down and spreads tightening.

The Fund had no transactions during November 2023.

** NAV as of December 1, 2023*
*** Excludes cash balance*

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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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