Monthly Review, Asset Allocation & Outlook

February 2024

Highlights of the Month

- Performance was varied across asset classes in February with equities rising and bonds witnessing a mixed sentiment
- In equities, MSCI All Country World Index gained 4.2% while MSCI EM Index rallied by 4.6%
- Bonds showcased mixed sentiment due to rising 10Y US treasury yields and rate cuts expectations getting pushed out
- In fixed income, Barclays Global Aggregate Index fell by 1.3%, while Bloomberg EM Aggregate Index increased by 0.8%
- Brent oil rose 2.3% MoM to close at USD 83.6/bbl on continued geopolitical concerns
- Base metals fell on demand weakness, while Bitcoin surged 45% on a continued inflow into the ETFs
- MENA equities rallied with S&P Pan Arab Composite Large Mid Cap Index increasing by 3.7%
- We remain overweight on equities and maintain neutral on fixed income

Global Review

Asset classes' performance continued to remain varied in February with equities gaining further and fixed income declining. 10-Year and 2-Year Treasury yields rose 37bps and 42bps, respectively as market repriced its 2024 Fed rate cuts expectation lower on stronger than expected US CPI print and non-farm payrolls data. After hotter than expected macro data several Fed speakers pushed back against early rate cuts. Despite rising yields, equities were able to outperform on stronger than expected earnings and resilience in the US economy. Global equities benchmark MSCI All Country World Index surged 4.2% while global fixed income benchmark Barclays Global Aggregate Index fell 1.4%. Within equities, emerging markets outperformed developed markets on a rebound in Chinese equities with MSCI EM Index rising 4.6% while MSCI World Index rising 4.1%. Within fixed income divergence continued with Barclays Global High Yield Index and Barclays Emerging Markets Hard Currency Aggregate Index gaining 0.8% and 0.4%, respectively, as credit spreads tightened further. Growth equities continued to outperform value with MSCI All Country World Growth Index rising 5.9% while Value Index rising 2.4%. Commodities were mixed with Oil and petrochemicals gaining while base metals and agricultural commodities dropping.

Global Equities: Earnings continued to come stronger than expected. With over 90% of S&P 500 firms having reported, nearly three quarters have beaten consensus earnings forecasts and earnings rose 7% YoY vs expectation of 2%. Top tech names also came out with stronger than expected earnings reports. Nvidia reported solid quarterly revenue and earnings that topped Wall Street estimates. The company also increased its 1Q revenue guidance to $24bn, which was 8% above consensus estimate on robust demand for its chips, which are used in artificial intelligence application. The stock added $450bn in valuation during the month and now is the third largest stock in S&P 500 Index. The Index rose for fourth consecutive month surging 5.2% on better-than-expected earnings and solid rally in Mega Cap Tech names. Technology stocks generally produced better-than-expected results and AI driven names gave strong earnings outlook for 2024. Magnificent 7 performance diverged with Apple and Tesla underperforming on declining sales in China. S&P 500 performance continued to broaden on resilient economy with cyclical sectors also performing strongly. Consumer Discretionary, Industrials, Materials and Financials gained 8.6%, 7%, 6.3% and 4%, respectively.

The US CPI rose 0.3% MoM and 3.1% YoY in January with both metrices coming above street expectations of 0.2% and 2.9%, respectively. As a comparison CPI rose 0.3% MoM and 3.4% YoY in December. Shelter costs, food prices and airfares rose 0.6%, 0.4% and 1.4%, respectively. Energy, used vehicle prices and apparel costs fell 0.9%, 3.4% and 0.7%, respectively. Core CPI rose 0.4% MoM and 3.9% YoY, compared with respective estimates of 0.3% and 3.7%. As a comparison core CPI rose 0.3% MoM and 3.9% YoY in December. Super core inflation (Core CPI services less housing) increased 0.85% MoM and 4.3% YoY. The Core PCE, Fed's preferred inflation gauge, rose 0.4% MoM and 2.8% YoY both nos. came inline with expectation. Stronger than expected CPI growth can be tied to the seasonality as employers increase wages during the beginning of the year which caused services inflation to shoot up sharply MoM.

The US economy continued to remain resilient. Non-farm payrolls of 353k came above expectation of 185k. The unemployment rate remained steady at 3.7% and average hourly earnings (AHE) increased to 0.6% MoM and 4.5% YoY. Bad weather contributed to the strong AHE growth. January ISM Manufacturing Index fell to 47.1 from 47.5 in December, while Services Index rose to 53.4 from 50.5. January retail sales declined 0.8% for January, down from a 0.4% gain in December and worse than the estimate for a 0.3% drop.

European equities continued to advance with MSCI Europe ex-UK Index rose 2.3% led by consumer discretionary, industrials and informational technology (IT) sectors. Utilities and real estate were the laggards on diminishing hopes of early rate cuts. The gain in consumer discretionary sectors were driven by automotive and luxury goods companies. The move in information technology was driven by momentum tied to AI. European IT companies also reported strong earnings.

Euro area February CPI declined to 2.6% from 2.8% in January. President Lagarde continued to push back against early rate cut expectations. The Composite Flash PMI for February improved to 48.9 from 47.9 in the previous month. However, it continued to remain in contraction from the last 18 months.

UK equities remained unchanged during the month. UK economy fell into a technical recession with two consecutive quarters of decline in GDP, 4Q (-0.4% QoQ) and 3Q (-0.1% QoQ). January CPI and core CPI remained steady at 4% and 5.1%, respectively, vs expectation of a slight increase. Labor market remained resilient with wages growing 5.8% YoY in 4Q 2023 above the market expectation of 5.6%. Despite a lower inflation, Bank of England Governor Bailey struck a cautious tone on cutting rates as wage growth continued to remain strong.

Japan market continued to rally with Nikkei 225 rising 7.9% and exceeded its all time high which was recorded in 1989. Strong performance was supported by solid earnings reported by the large cap stocks across different sectors. Investors also became more relaxed about policy action from BoJ which is expected to move out of its negative rate regime in March or April. Market was not concerned on weak GDP and consumer spending data.

Fixed Income: February saw the Treasury yields moving higher resulting in a curve bear flatten, with short-term rates rising more than long-term rates as markets repriced their expectations of Fed rate cuts in 2024 as fears of sticky upward looking inflation persists. Yields on the 10-year Treasury rises 37 bps in February to 4.3% and the two-year gains almost 42 bps to 4.6%. The US economy continued to show resilience and is steadily drifting away from recession fears to goldilocks scenario with strong NFP and GDP data:

Abovementioned strong employment data paired with fairly strong GDP add fears in an upward acceleration of inflation, which cannot break the resistance level of June 2023 2.9%. Another firm read or even stickiness at high levels on input costs within CPI would further reinforce the FOMC's reluctance to deliver near-term rate cuts, which will keep the yield curve flattening and will lift short-term rates more than their longer-dated peers.

That's leaving Treasury steepeners at risk of further unraveling. Treasury investors have started to take profits on steepeners as it becomes clearer that the Federal Reserve is in no rush to cut interest rates.

Following the continued upbeat data, the FOMC's January meeting minutes and several Fed speakers hinted a delay in rate cuts in their public appearances in February. The market repriced its expectations of Fed rate cuts in 2024. Whilst beginning the month expecting almost 6 rate cuts, at the end of the month markets expected only 3.4 rate cuts. Fed officials indicated at their last meeting that they were in no hurry to cut interest rates and expressed both optimism and caution on inflation, according to minutes released on 21/02/2024. Policymakers not only decided to leave their key overnight borrowing rate unchanged, but also altered the post-meeting statement to indicate that no cuts would be coming until the rate-setting Federal Open Market Committee held "greater confidence" that inflation was receding. Officials are watching to see whether January's surprise jump in consumer prices was a fluke or a roadblock on the way toward lower inflation.

Yield curve dynamics: We expect the US yield curve (2s10s) to start steepening from its current level once the US Fed start its easing cycle or shows signs that the easing cycle is about to begin. If we see a no landing scenario then in that case the 2s10s UST could show a flattening bias. *Base case scenario*: We see soft landing as the highest probability scenario: In the case of a soft landing, we expect a lower 10y UST and a bearish dollar. This scenario we believe will drag 10y yields closer to 3.5% by YE-2024.

EM Bond Index gave positive returns in February. Barclays Emerging Markets Aggregate Index (EMUSTRUU Index) returned 0.4% m-o-m, to yield 7.22% (OAS decreased by 27bp m-o-m +275bp) as US benchmark rates spiked, and rate volatility increased. Meanwhile, Bloomberg EM GCC Credit + HY Index (BGCCTRUU Index) returned -0.3% during the month, while Bloomberg Global Aggregate Index (LEGATRUU INDEX) was down 1.3% in February.

EM Equities: MSCI EM Index rose 4.6% in February, recouping its January losses. Asia largely contributed to this gain, rising by 5.8%. EMEA was up 1.6% during the month while LATAM was down 0.5% MoM. In Asia, Chinese markets started the Year of the Dragon on a positive note after a rise in consumer spending and travel during the holiday period helped provide a much needed boost to the local economy. Chinese authorities took further actions to rebuild investor confidence, including placing restrictions on equity net sales, purchasing stocks by state funds, and clamping down on quantitative based trading. As per UBS, China's state-backed funds have injected more than USD 57bn into onshore shares this year in a bid to prop up the market. Foreign investors also bought a net USD 8.4bn of onshore shares in February through the Stock Connect programme, ending six months of selling. This marked the end of USD 28bn worth of sales from August to January. For the month of February, MSCI China was up 8.5% followed by MSCI Korea which gained 6.9% and MSCI Taiwan, which was up 6.5%.

Commodities: Oil: Brent oil closed at USD 83.6/bbl, up 2.3% MoM. Oil traded in a tight range during the month on varied economic data, geopolitical tensions as well as controlled supply from OPEC+. Natural gas: Henry hub prices fell by 11.4% MoM to reach USD 1.9/mmbtu, due to poor demand and above-average inventories.

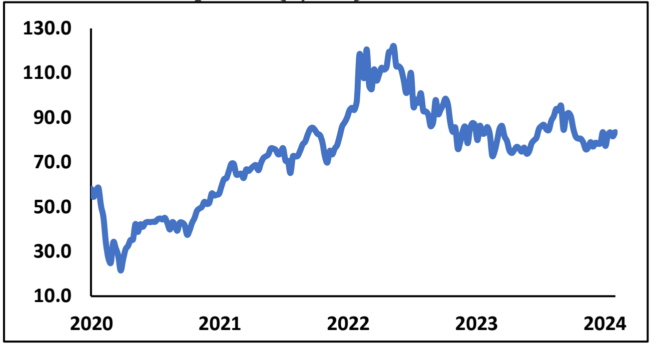
Petchems: SE Asia LDPE, LLDPE, HDPE and PP rose by 3.7%, 2.0%, 1.0% and 1.0% MoM, respectively. SE Asia Methanol was up 5.9% MoM. Prices were up due to growing demand and an uplift in oil prices.

Metals: Nickle rose 10.3% MoM while copper and aluminum fell 1.2% and 2.4% respectively. Precious metals: Gold prices rose by 0.2% during the month.

Currencies: EM currencies (MSCI EM Currency Index) rose by 0.2%, while the US Dollar (DXY Index) rose by 0.9%. The Chilean Peso (-3.7%) and Turkish Lira (-2.9%) were the worst performing EM currencies. The Mexican Peso (+0.9%) and the Peruvian Sol (+0.8%) were the best performing ones.

Given our expectation of a slowdown in global economic growth, we continue to avoid exposure to base metals. We also remain cautious on petrochemicals due to a slowdown in the Chinese economy. We expect Brent oil price to average $83/bbl in H1 2024, given continued geopolitical tensions, and OPEC+ maintaining supply cuts to offset weak demand. However, OPEC has put a floor on Brent crude oil prices around $75/bbl due to its voluntary production cuts.

Brent crude oil prices ($/bbl)



Source: Bloomberg, Daman Investments

MENA Equities: Most GCC markets posted gains during the month of February, with the S&P Pan Arab Composite Large Mid Cap Index gaining 3.7%. Within the GCC, the Saudi's Tadawul All Share Index outperformed, gaining 7.1%. Qatar's DSM rallied 3.8% followed by DFMGI gaining 3.4% and the Kuwait All Share Index gaining 2.4%. The FTSE ADX General Index continued its underperformance, losing 2.7%. Regionally, Pakistan's KSE 100 Index was up 4.3% after a disputed election led to PML N coming to power. Turkey's XU100 Index gained further momentum, with the YTD gains now of 23.1%.

In the UAE, DEWA's Q4 earnings grew by 14.6% YoY on robust demand for services but FY 2023 earnings were down 1.4% YoY due to higher finance costs. The demand for power soared to a high of 56.5 TWh in 2023 marking a 6.3% increase YoY. Notably, DEWA generated 6.2 TWh of clean power during the year, which is a 32.7% increase YoY. The desalinated water demand in 2023 grew by 5.2% YoY. Empower's net income grew by 1% but recurring income was down 4% YoY due to higher finance costs. For the year, Empower's connected capacity grew by 7.6%. Margins compressed as the acquisition of Dubai Airport's district cooling assets led to a tilt towards lower margin consumption charges vs higher margin capacity charges previously. Salik's Q4 earnings were flat YoY, due to higher finance expenses. During 2023, revenue generating trips grew by 11.7% YoY while active registered accounts and vehicles increased by 16.0% and 8.3% respectively, YoY. DTC's earnings dropped 13% YoY in Q4 2023, on higher finance costs, despite improved fleet utilization and higher revenue generating trips. DTC also announced the expansion of its taxi fleet at Dubai Airports with the addition of 350 taxis, effectively doubling its airport service capacity and taking its overall market share to 45%. Although finance costs weigh on most of these companies, the operating profits continued to show strong growth.

TECOM's Q4 earnings grew by 259% YoY driven by robust growth in occupancies and leasing rates across its portfolio. Occupancy levels in commercial and industrial assets rose to 89% while occupancy in the land leasing portfolio touched 94%. Following an independent valuation exercise, the market value of the Group's real estate investments portfolio increased by 7.7% YoY to reach AED 23bn.

On the real estate front, Emaar Development reported contacted sales of AED 8.5bn, up +12.6% YoY, while sales backlog rose to AED 57.1bn that would be recorded over the coming years. Net income for Q4 2023 rose to AED 2.6bn, +177% YoY. For 2023, contracted sales grew by 21.8% YoY to AED 37.4bn, while net income rose by 74% to touch AED 6.6bn. Emaar Development also launched two new master developments with a total GDV of AED 96bn spanning across 141m sqft of land, featuring villas, apartments, and mix-use amenities. Emaar Properties revenue grew by 39% YoY in Q4 to reach AED 8.4bn while adjusted net profit grew by 150% YoY to reach AED 2.6bn. For the year, Emaar's net profit reached AED 11.6bn, up 70% YoY. Emaar Properties' overall sales backlog grew to AED 71.8bn while occupancy in prime mall assets reached 97%. Aldar Properties Q4 contracted sales grew by 65% YoY to reach AED 8.5bn. Net income rose 39% YoY to reach AED 1.4bn. Occupancy of retail assets stood at 93%. For the full year, Aldar reported contracted sales of AED 27.9bn (+94% YoY), with AED 24.3bn coming from the UAE. Revenue backlog stood at AED 36.8bn, to be recognized over the next 2-3 years. Aldar has guided for sales of AED 29 -31bn in 2024.

In Saudi, Al Rajhi Bank reported profits of SAR 4.2bn in Q4 2023, down 5% YoY. For 2023, net profit stood at SAR 16.6bn, down 3% YoY. Profits fell as lower provisioning failed to compensate for weaker revenue as NIMs compressed by 50bps during the year to reach 2.8%. For 2024, the management guided for mid-single digit loan growth and NIMs of 3.1%, with a NIM sensitivity for a 25bps rate cut being 6bps of expansion in NIMs. More importantly, NIM expansion is set to continue even if no rate cuts took place in 2024. SNB reported profits of SAR 5bn, up 4% YoY. For 2023, net profit rose 8% YoY to SAR 20bn due to higher revenue (mainly non-interest income) and lower provisioning (-45% YoY). The company guided for high single digit loan growth in 2024, with NIMs set to rise in 2024.

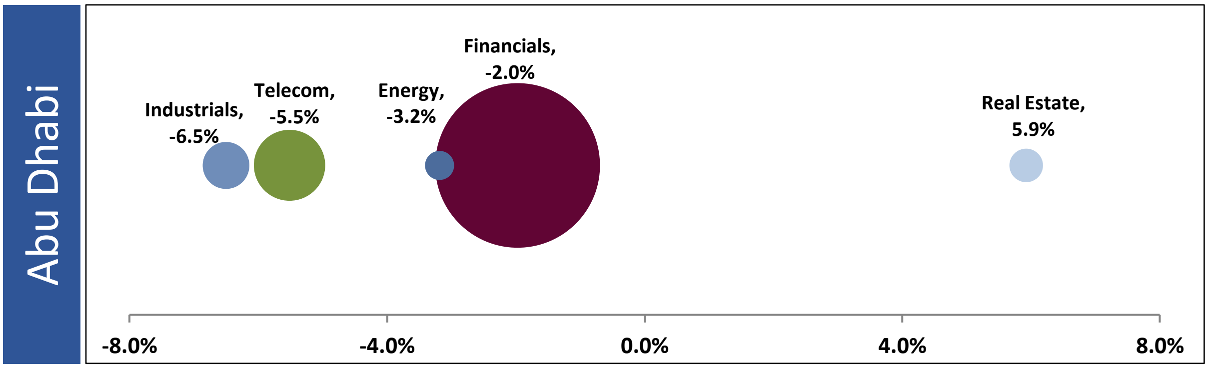
Major Indices Performance

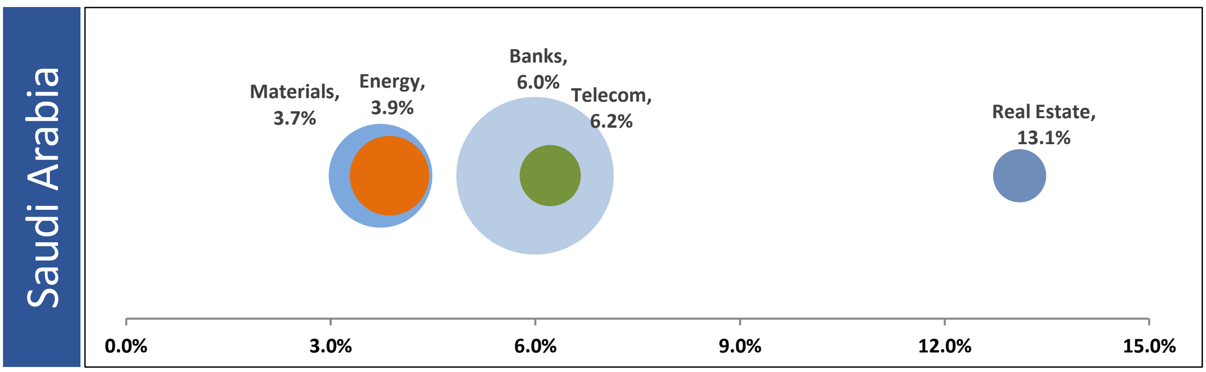
Major Indices Performance	Value	MTD Return	YTD Return	PE (x) 1Yr Fwd	PB (x) 1Yr Fwd	Div. Yield 1Yr Fwd
Saudi Arabia - TASI	12,631	7.1%	5.5%	18.8	2.4	3.6%
Dubai - DFMGI	4,309	3.4%	6.1%	8.7	1.2	4.9%
Abu Dhabi - FADGI	9,255	-2.7%	-3.4%	18.2	2.3	3.4%
Qatar - DSM	10,475	3.8%	-3.3%	11.2	1.3	4.9%
Kuwait - All Share	7,441	2.4%	9.1%	13.5	-	4.1%
Oman - MSM30	4,555	-0.2%	0.9%	7.9	0.7	4.5%
Bahrain - BHSEASI	2,005	-3.0%	1.7%	6.9	0.7	7.5%
Egypt - EGX30	28,964	2.4%	16.3%	8.1	2.6	3.5%
Morocco - MOSENEW	13,031	4.5%	7.8%	19.2	2.6	3.2%
S&P Pan Arab Composite	172	3.7%	3.2%	14.5	1.9	3.9%
Israel - TA35	1,947	6.3%	4.4%	10.1	1.4	2.6%
Turkey - XU100	9,194	8.2%	23.1%	5.5	1.4	3.0%
Pakistan - KSE100	64,620	4.3%	3.6%	3.3	0.8	8.8%
S&P 500	5,096	5.2%	6.8%	21.4	4.2	1.5%
STOXX 600	495	1.8%	3.3%	14.1	1.9	3.4%
MSCI EM	1,021	4.6%	-0.3%	14.7	1.6	4.3%
MSCI All Country World	761	4.2%	4.7%	18.2	2.8	2.1%
MSCI World	3,337	4.1%	5.3%	19.1	3.1	2.0%

Major Indices Performance	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	177	-0.3%	-1.6%
FTSE MENA Broad Bond Index	163	0.5%	-0.6%
Dow Jones Sukuk	97	-0.6%	-1.3%
Barclays Global Aggregate Index	459	-1.3%	-2.6%
Barclays Global High Yield Index	1,531	0.8%	0.6%
Barclays US Treasury Index	2,241	-1.3%	-1.6%
Barclays US Corporate Index	3,167	-1.5%	-1.7%
Barclays US Corporate High Yield index	2,487	0.3%	0.3%
JPM EM Global Bond Index	568	1.0%	-0.3%
Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index	1,169	0.38%	-0.2%
Bloomberg Barclays US Aggregate Bond Index	2,126	-1.4%	-1.7%
Markit CDX Emerging Markets Index	97	0.8%	0.2%
Barclays EM High yield	1,420	2.1%	1.9%
Barclays EM Corporate Index	282	0.4%	1.1%
10-year US Treasury yield* (%)	4.25	34	37
30-year US Treasury yield* (%)	4.38	21	35
US Treasury 2-10 Spread*	-37.06	-7	0
US Treasury 2-30 Spread*	-24.19	-20	-2
10-year US Treasury Real yield* (%)	1.93	26	22
10-year Germany Treasury yield* (%)	2.41	25	39
US Breakeven 10 Year*	2.32	8	15
10-year Saudi Arabia Govt USD Bond yield* (%)	5.14	26	57
8-year Abu Dhabi Govt USD Bond yield* (%)	4.66	33	48
4-year Kuwait Govt USD Bond yield* (%)	4.57	24	34
9-year Oman Govt USD Bond yield* (%)	5.89	20	50
10-year Bahrain Govt USD Bond yield* (%)	7.12	6	27
7-year Qatar Govt USD Bond yield* (%)	4.56	15	37
10-year Egypt Govt USD Bond yield* (%)	10.32	-343	-332
EIBOR 3M* (%)	5.29	5	-4
QAIBOR 3M* (%)	6.00	0	-25
Dubai 5 Year CDS* (bps)	32	-2	-4
Qatar 5 Year CDS* (bps)	39	-11	-6
2-year US Treasury yield* (%)	4.62	41	37

Source: Bloomberg, Daman Investments AssetManagement *Note: *In basis points*

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

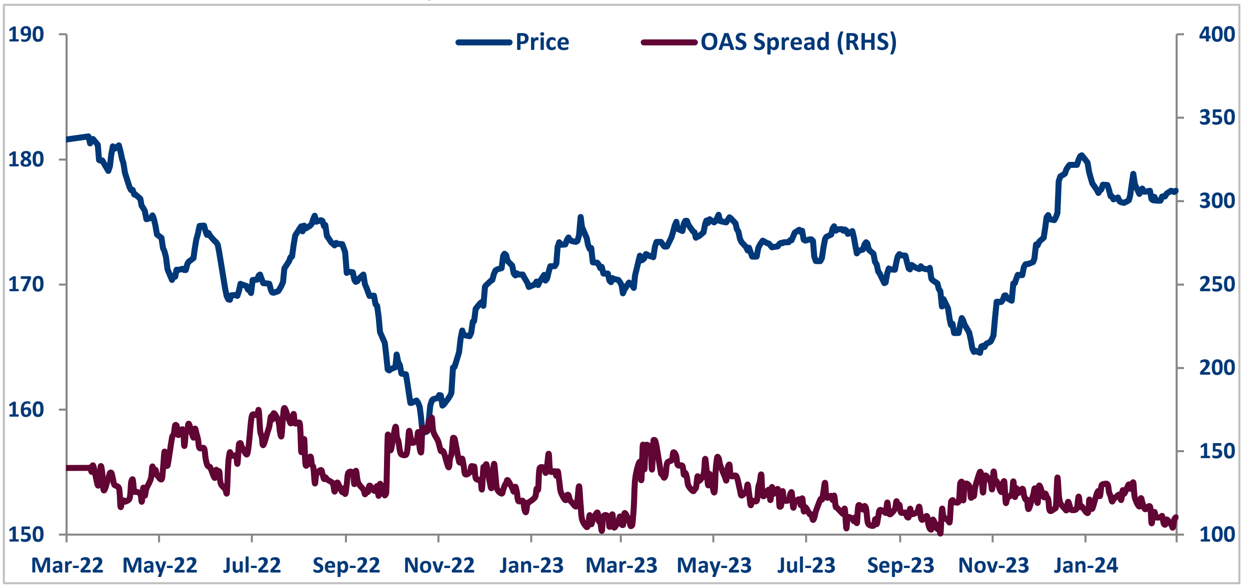
Morocco	19.2
Saudi Arabia	18.8
Abu Dhabi	18.2
Kuwait	13.5
Qatar	11.2
Dubai	8.7
Egypt	8.1
Oman	7.9
Bahrain	6.9

Dividend Yield TTM

Bahrain	7.4%
Qatar	4.9%
Dubai	4.9%
Oman	4.5%
Kuwait	4.1%
Saudi Arabia	3.6%
Egypt	3.5%
Abu Dhabi	3.4%
Morocco	3.2%

Source: Bloomberg, Daman Investments Asset Management

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)	83.62	2.3%	8.5%
Natural Gas (USD/mmbtu)	1.86	-11.4%	-26.0%
Gold (USD/Ounce)	2,044	0.2%	-0.9%
Copper (USD/MT)	8,402	-1.2%	-0.7%
Aluminium (USD/MT)	2,187	-2.4%	-6.8%
Nickel (USD/MT)	17,670	10.3%	7.9%
Urea Middle East (USD/MT)	330	-7.7%	2.3%
Methanol China (USD/MT)	305	5.9%	8.2%
SE Asia Polyethylene (USD/MT)	1,030	1.0%	5.1%
Polypropylene (USD/MT)	1,000	1.0%	5.3%
US Dollar Index	104.16	0.9%	2.8%
MSCI EM Currency index	1,727.62	0.2%	-0.7%
JPM EM Currency index	46.71	-1.2%	-3.0%
EGP/USD	0.032	0.0%	0.0%
TRY/USD	0.032	-2.9%	-5.5%
PKR/USD	0.359	0.5%	1.2%
ILS/USD	0.280	2.1%	1.3%
EUR/USD	1.08	-0.1%	-2.1%
GBP/USD	1.26	-0.5%	-0.8%
USD/JPY	149.98	2.1%	6.3%

Global Asset Allocation and Outlook

Global Asset Allocation and Outlook

Equities have continued to rally during the month of March on better-than-expected earnings and economic growth and the rally continues to broaden with industrials, financials, materials and energy. Investment grade bonds have shown a rebound in March, however, hotter than expected February core CPI and PPI prints have moderated the price recovery. We believe the strength in January and February inflation was driven by labor intensive services on higher wage growth. In March, the MoM impact of labor-intensive services should subside and bring inflation back down toward 0.2-0.3% MoM range. **We remain overweight on equities** on better-than-expected earnings growth and AI driven momentum. **We remain neutral on bonds.** Market volatility will continue as investors remain in rate cut resetting mode.

Asset Allocation

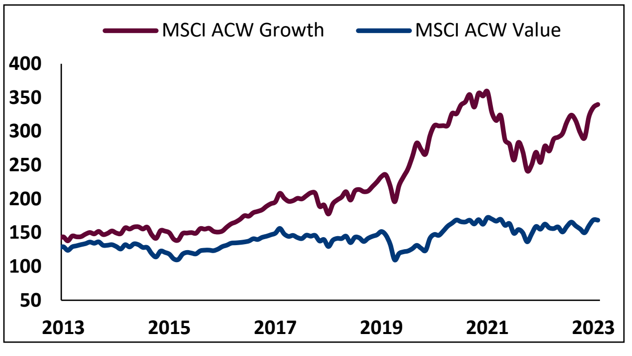
	Underweight	Neutral	Overweight
By Asset class:			
Equities			X
Fixed Income		X	
Alternatives		X	
Cash	X		
Equities - by region:			
DM			X
US			X
Japan			X
Euro Area	X		
EM		X	
EM Asia		X	
EM Europe	X		
EM MENA			X
EM LatAm			X
Fixed Income - by region:			
South Asia			X
Far East Asia		X	
Latin America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

Global Asset Allocation and Outlook

Global Equites:

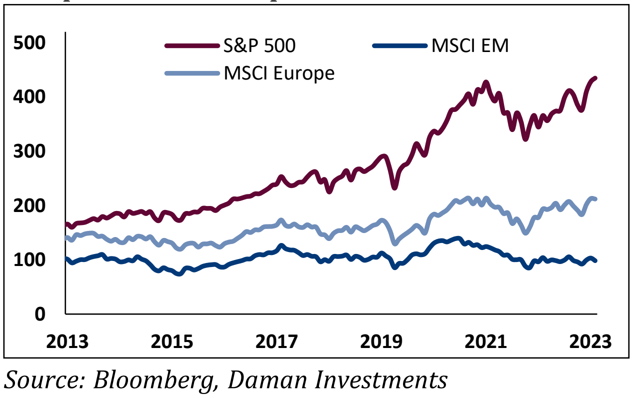
Based on our base case scenario of soft landing we expect a 9% upside in global equities in 2024. We have a year end target of 793 on MXWD Index which is 16.5 times 2025 EPS of 47.9 We expect the market performance to be driven by earnings growth with a 10% multiple compression given that MSCI All Country World Index trades at a 1 year forward PE multiple of 18.1x which is more than 1 standard deviation above its long-term average of 15.8x. **The S&P 500 has rallied 22% on average between when the Fed first paused hikes and 6 months after the Fed started cutting when a recession did not imminently materialize.**

MSCI All Country World Value vs Growth



Source: Bloomberg, Daman Investments

Europe and EM underperformance vs US



Source: Bloomberg, Daman Investments

•In equities, we believe a proper bottom-up analysis is important to own quality stocks with solid balance sheets, high operating cash flows and contained leverage to protect from market volatility tied to fluctuation in macroeconomic data and reset of rate cut expectations

•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 macroeconomic and geopolitical uncertainties that we may face in 2024

•Performance to broaden out with cyclical sectors, healthcare and utilities participating which were laggard in 2023

•We continue to prefer an exposure to large cap technology names which will continue to witness strong earnings growth (2023-25e CAGR of above 15%) driven by tailwinds tied to cloud computing, AI and data center demand

•We avoid names on higher risk sides of the capital structure such as unprofitable tech and biotech names, etc. We would prefer to wait till the 2Q 2024 to get further clarity on path of monetary policy.

We upgrade US to overweight from neutral on better than earnings and economic growth and AI driven momentum. We see the US economy holding up much better than Europe given relatively stronger consumer spending and consumer confidence. US will continue to be the driver of innovation in sectors such as AI, semiconductors, clean energy, biotech, etc. **We prefer a balanced mix of quality growth and quality cyclical in US.**

Preferred Picks:

Technology and communication services: Alphabet, Microsoft, Nvidia, AMD, Amazon, Adobe, Sales Force, META, Netflix

Healthcare: Pfizer, Merck

Industrials/Auto: GM, Ford, Caterpillar, Deere

Financials: Visa and Mastercard

Airlines: Delta Airlines, United Airlines

Utilities: Nextra Energy

Consumer Staples: Walmart

Global Asset Allocation and Outlook

We stay underweight on Europe as we expect earnings growth to struggle on a weaker macro - economic growth environment despite lower relative valuation vs US (13x vs 20x). **We remain overweight in 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 keep EMs to neutral. However, there are strong structural domestically driven economic growth stories such as India, Indonesia, Mexico and Brazil, which we continue to remain overweight on.

EM Fixed Income:

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.

Saudi Arabia. KSA remains the major market in MENA region keenly watched by investors and gave a return (I14669US Index) of -0.55% in February following negative returns of -1.98% in the prior month. The country has already raised substantial dollar debt in January 2024.

What we like:ARACEN, DAR AL-ARKAN, SAUDI Govt, SECO, KSA Sukuk

UAE. Abu Dhabi sovereign yield has one of the lowest spreads in the region. In 2024, growth should slow down YoY due to global macro headwinds and potentially lower oil prices. However, the government is likely to continue executing on key themes such as industrialization, sustainability, and infrastructure.

What we like: ABU DHABI Govt, ARADA Sukuk, DAMAC, DIB Sukuk, ENBD, EIB, EMAAR Sukuk, ESIC Sukuk, FAB Sukuk, GEMS, PD Sukuk, Sobha Sukuk, ABU DHABI National Energy, UAE Govt, ADCBUH Perp, EBIUH Perp, FABUH Perp, SIB Perp, MAFUAE Perp, DP World Perp

KUWAIT – We see the passing of the public debt law easing liquidity pressures of the government and allowing them to access much needed funding for fiscal spending. Economic reforms and market friendly policies will be keenly watched by investors on the back of the appointment of a new prime minister. The country has just one bond KUWIB 3 ½ 03/20/27 outstanding (USD4.5bn) currently yielding 4.6% as of Feb-2023

What we like: KWIPKK (Kuwait Projects)

MEXICO - The Banco de México (Banxico) revised its inflation forecasts with respect to the previous quarterly inflation report in Nov-23. Inflation rose to 4.88% y-o-y in January vs 4.66% a month back and remains close to central banks' target level with ex-ante real rate continuing to remain high. All eyes for now remains on the central bank policy meeting in March with market pricing-in the start of an easing cycle.

What we like: PEMEX

INDIA – The growth momentum story should continue to be the major theme in India in 2024. Moreover, January CPI inflation came in at 5.1% y-o-y (down from 5.7% in December), in line with market expectations (consensus: 5.0%). We believe the RBI will likely remain in a wait and watch mode, and will look for signals from US Fed before deciding the timing and magnitude of rate cuts.

Global Asset Allocation and Outlook

India. The low beta play and yield volatility makes local yields attractive. Besides, spreads may have potential room to tighten provided we witness higher demand from long-term investors like insurance companies and pension funds.

Growth, FDI, high tech exports and service exports are the major factor driving investors towards the India story. Furthermore, we expect foreign investors to continue to lump up Indian local bonds with the expected addition of Indian bonds to the other indices in 2024.

What we like: Adani Ports, India toll roads, Shriram Finance, JSW Infra, IRFC, India Clean Energy.

Some low probability scenarios:

Hard landing: A lower than expected growth or a mild recession and inflation in 2024 could see Fed cut rates more than expected and result in hard landing thereby markets witnessing yields falling from a cliff. Our target for 10y yields in a hard landing scenario will be 2.8% by YE-2024. We believe hard landing remains a very bleak scenario

No landing: In a scenario of robust growth and persistent inflation, Fed could end up keeping rates closer to its current level which could see the "higher for longer" theme holding its fort. 10y yields in a classic case of 'no landing' will see a lot of lateral movement in USTs in 2024 and 10y UST to be closer to 4.25% by YE-2024

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 pricing-in a meagre 79bp 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.

Key event to watch out in US: US heads for a presidential election in late-2024 and this could bring-in volatility to markets.

MENA Outlook: We have barbelled our equity portfolio by adding high dividend yield names with high beta names to provide defense to our portfolios given increased volatility. Currently, MENA markets trade inline with 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 should trade at a premium to EM.

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 Abu Dhabi equities has exposed value in certain names which continue to report strong earnings growth. 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. For us to be more constructive on Egypt, we need to see steps towards currency stabilization post the devaluation, growing FDI and reforms to improve private sector contribution to the GDP. We do not see strong upside catalysts in Qatar and Kuwait, barring a few idiosyncratic names such as QNB, NBK and KFH.

Our preferred plays include:

- Well capitalized banks with strong corporate exposure and loan growth prospects (Rajhi, SNB, ADCB, DIB)
- High dividend yield plays within the energy, telecom, utilities, transportation and real estate sectors (ADNOC Drilling, ADNOC Gas, STC, Yahsat, DEWA, Empower, Salik, DTC, TECOM)
- 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 Properties, 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

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.

	2024	**Inception (30 Jul 2020) (Class I)**
Total Return*	1.9%	73.1%
Annualized Return	11.6%	16.4%
Annualized Volatility	4.2%	8.2%
Sharpe Ratio	-	1.9

** NAV as of February 29th, 2024*

The fund gained 0.3% during the month. In terms of asset class, fixed income securities were responsible for these gains. Geographically, gains in Saudi Arabia, Egypt and Qatar offset losses in the UAE. In equities, we exited KFH and NBK after the Kuwaiti parliament was dissolved, removing any catalysts for economic reforms in the near term. We exited names within the travel and tourism sector such as Lumi and Seera after they rallied strongly and crossed our fair value.

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.

	2024	**Inception (May 2021)**
Total Return*	0.9%	21.3%
Annualized Return	5.4%	7.2%
Annualized Volatility	4.2%	6.8%
Shape Ratio	-	0.6

** NAV as of February 29th, 2024*

The fund gained 1.0% during the month. Fixed income securities contributed 60% of these gains with equities contributing the other 40%. Geographically, gains in Egypt, Saudi Arabia and Qatar offset losses in the UAE. In equities, we exited our positions in Lumi, NBK and SGS.

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.

	2024	**Inception (Aug 2022)**
Total Return*	-1.5%	5.8%
Annualized Return		3.6%
Annualized Volatility		8.5%
Shape Ratio		-

** NAV as of March 1st, 2024*

The fund lost 3.5% during the month. Gains in Investcorp were offset by losses in names such as Empower, AD Ports, Fertiglobe and DEWA.

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.

	2024	**Inception (Jan 2022)**
Total Return*	0.4%	-5.5%
Average Rating	BBB-	-
Average YTM**	6.9%	-
Average Duration**	2.3 years	-
Annualized Volatility	-	2.9%

** NAV as of March 1st, 2024*
*** Excludes cash balance*

Fund total return during the month was 0.6 %. Among sovereigns, EGYSK ’26 and KSA ’29 were the highest contributors. Among corporates, ARACEN ‘26, INVCOR ‘27, and ARAMCO ‘24 were highest three contributors during the month.

Fund total returns picked up led by our bottom-up security picking. Despite increase in US treasury yields, spreads across our holdings continued to contract

During February, we sold SHARSK ’27, SNBAB ’27, MAFUAE ‘25 and added to our existing notional in EGYSK ’26 and DPWDU Perp. Besides, we bought SECO ’43 in February.

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

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