Global Markets Asset Allocation & Outlook 2024

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Highlights

- We expect 2024 to be another good year for risk assets with soft landing as our base case scenario
- We stay overweight fixed income & equal weight equities as equity risk premium is lowest over the last 15 years
- Prefer EM vs DM across both fixed income and equities on peak dollar expectations and better GDP growth
- Profit booking is expected in January 2024 as market consolidates after a strong last two months of 2023
- Equities performance to broaden out with cyclicals, healthcare and utilities participating
- Technology sector should continue to be a major holding in portfolios
- We expect equity market performance to be driven by earnings growth rather than multiple expansion
- Fixed income to continue to provide strong opportunity to lock in high yields
- Most fixed income return to come from rates declining with credit spreads tight in both IG & high yield space
- EM credit spreads still have more scope to contract in comparison to DM
- We advocate a quality bias and strong active management approach to take benefit of market volatility and selective security picking, focusing on balance sheet quality and cash flows visibility
- In the GCC, we are overweight equities and neutral fixed income. We see higher return potential in equities on strong earnings growth tied to solid non-oil GDP growth

Global Outlook

Soft landing expectations mounted by the end of 2023: Despite a strong interest rate hiking cycle, global economic growth outperformed consensus expectations in 2023 and a widely anticipated DM recession did not arrive, while inflation cooled significantly. **Global real GDP growth is on track to beat the consensus forecasts by 0.9% by ending the year at 2.8%**. A continued fiscal impulse and resilient consumer spending tied to a strong labor market and solid wage growth drove stronger than expected GDP growth. US economic growth is expected to outperform forecasts by 2%. Although Euro Area growth slowed down sharply, it is expected to escape a recession. In US, there was a rolling recession in housing and manufacturing sector is still under recession, however, a strong service sector underpinned by resilient consumer spending continued to drive economic growth.

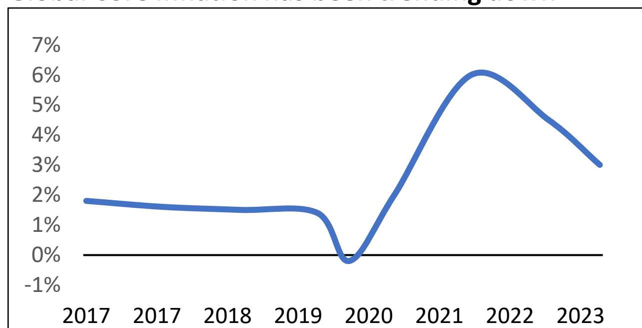
If the Fed can raise interest rates just enough to slow the economy and reduce inflation to its target without causing a recession, it will achieve a soft landing. **GDP weighted average global unemployment rate is about 0.5% below its pre-pandemic level.** Improvement is also seen in economies, such as Euro Area, that witnessed a very low GDP growth. GDP weighted average core inflation in G10 economies ex Japan plus EM early hiker economies has fallen from 6% to 3%.

2023 Global GDP beating expectations

Real GDP %	2023e	2023
Global	1.8	2.7
US	0.4	2.4
Euro Area	-0.1	0.5
UK	-0.5	0.3
Japan	1.4	1.9
EM	3.7	4.1

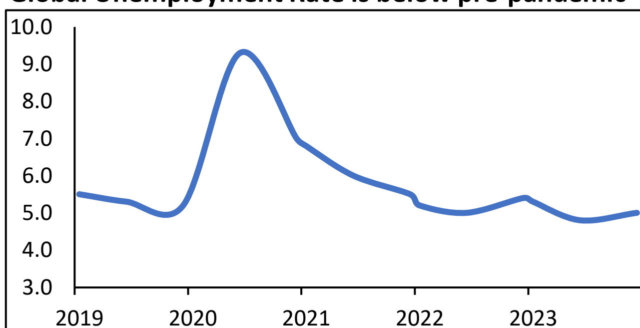
Source: Bloomberg, Daman Investments

Global Core Inflation has been trending down



Source: Bloomberg, Daman Investments. GDP-weighted of G10 economies ex. Japan + EM early hikers

Global Unemployment Rate is below pre-pandemic



Source: Bloomberg, Daman Investments

Inflation to moderate further: Inflation globally moderated as supply chains improved and higher rates took out excess demand from the economy. In US, Energy prices and used car prices fell and food prices moderated. Shelter continues to remain the main driver of inflation along with car insurance and medical services. We expect shelter inflation to moderate further and reach 3% in 2H2024. Historically, shelter inflation growing at 3% is consistent with a 2% CPI. We expect US core PCE to reach 2.5% by the end of 2024, which is close to the Federal Open Market Committee's (FOMC) median projection of 2.4%. Recent geopolitical escalation in the Red Sea has led to a sharp spike in the container prices on the Asia-Europe route. We see such exogenous events as a key risk to our expectation of a further moderation in inflation.

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Global Q4 CPI YoY

	2017-19	2021	2022	2023
Headline	1.8	5.2	7.9	3.7
Energy	1.3	24.3	18.9	-4.6
Food	2.3	4.4	11.2	5.2
Core	1.8	3.6	5.9	4.1
Goods	0.7	5.5	5.6	2.2
Services	2	2.7	5.6	4.9

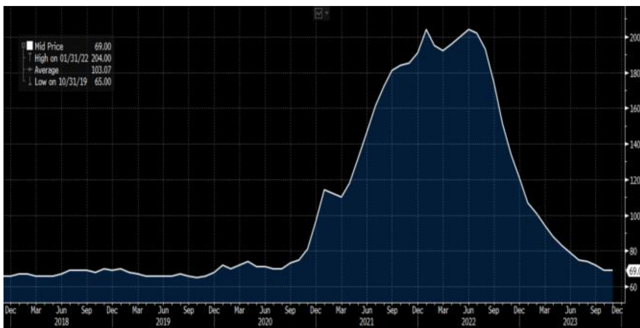
Source: Bloomberg, Daman Investments

FOMC median projections (%)

	2023	2024	2025	Longer run
Change in real GDP	2.6	1.4	1.8	1.8
September projection	2.1	1.5	1.8	1.8
Unemployment rate	3.8	4.1	4.1	4.1
September projection	3.8	4.1	4.1	4.0
PCE inflation	2.8	2.4	2.1	2.0
September projection	3.3	2.5	2.2	2.0
Core PCE inflation	3.2	2.4	2.2	
September projection	3.7	2.6	2.3	

Source: The Federal Reserve

Global container prices back to pre-pandemic levels

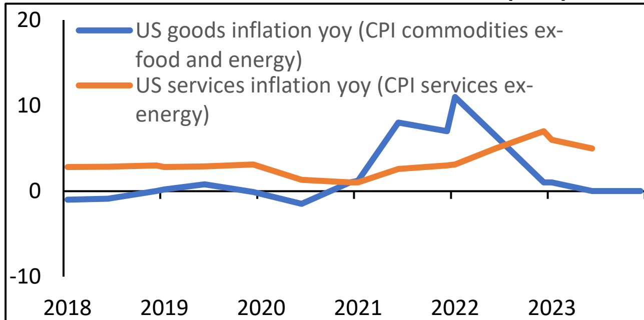


Source: Bloomberg, Daman Investments

US Shelter Inflation, CPI and Core PCE (YoY)

Source: Bloomberg, Daman Investments; Shelter CPRHOERY Index

US Goods Inflation and Services Inflation (YoY)



Source: Bloomberg, Daman Investments

Rate per 40 Foot Box Drewry (USD)

Source: Bloomberg, Daman Investments

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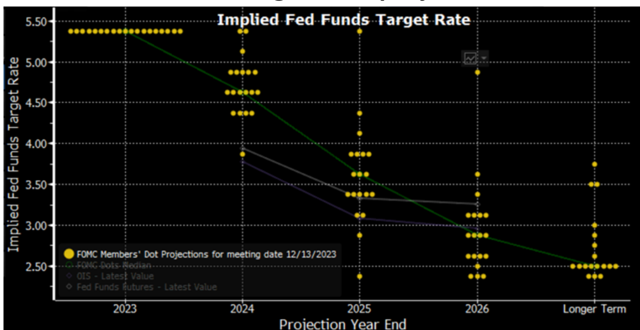
Fed put is back and we expect the Fed to cut the rate by 75bps in 2H 2024: Fed made a dovish pivot in its last meeting in December 2023 as:

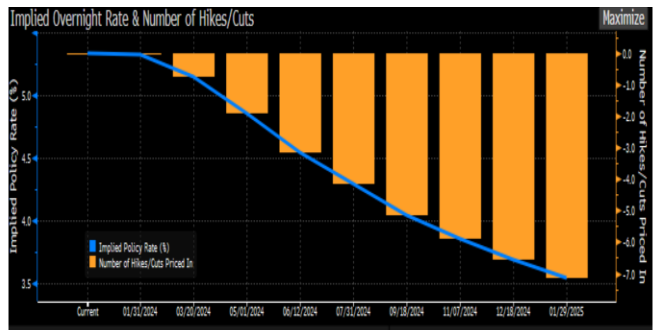
- The FOMC's median projections did not have any further rate hikes
- The projections of rate cuts in 2024 increased to 3 from 2 previously
- The Committee added the word "any" to describe additional policy tightening to reflect the rising probability that we are at or near the peak of the policy rate without taking the possibility of addition rate hikes completely off the table
- FOMC recognized the easing in inflation over the past year as well as the labor market and the slowing in growth relative to the third quarter
- Chairman Powell in the post meeting press conference talked about cutting rates before inflation reaching to 2% so not to keep financial conditions unnecessary tight
- He also mentioned that rate cuts were part of the discussion in the meeting and the risk of overtightening and under tightening have become more balanced

Median Fed Funds Target Rate projection



Source: The Fed

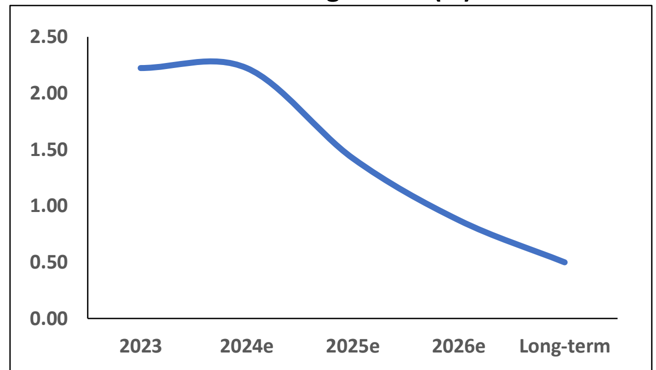
Market expecting 6 rate cuts in 2024



Source: The Fed

We believe the Fed is trying to engineer a soft landing and there is a narrow path to that, hence, with the inflation cooling off they have started to focus back on the second part of their mandate which is to backstop growth and employment risks. The current real rate stands at 2.2% (Fed Fund Rate – Core PCE). With inflation coming down further in 2024 the real rate will get higher which will tighten the financial conditions further and could pose risks to financial and macroeconomic stability. Therefore, we expect the Fed to cut rates 3 times in 2H2024 with each cut being 25bps. However, the market is pricing in 6 rate cuts in 2024, which we see as quite aggressive as the Fed does not want to make a mistake by cutting rates too early. Six rate cuts could be a possibility if the economy slows down much faster than the expectations or goes into a recession. Although the ECB has sounded more hawkish than the Fed, given the much weaker ongoing and expected economic growth in Euro Area vs US, we believe the **ECB may need to cut sooner than the Fed.**

Real Median Fed Fund Target Rate (%)



Source: The Fed, Bloomberg, Daman Investments

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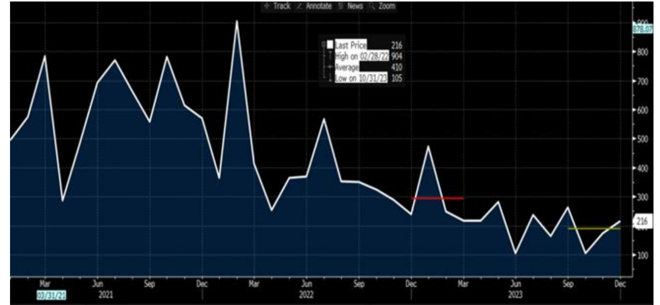
Monthly Nonfarm payrolls (NFP) to moderate further: For the soft landing to become a reality labor market needs to cool down, otherwise service inflation could become stickier, and the Fed would not be able to cut rates or would be forced to hike further. Nonfarm payrolls have come down considerably averaging 190k in Q4 2023 vs 294k in Q1 2023. We expect NFP data to moderate further and get closer to the long-term average of 110k on a lag effects of rate hikes on the economy.

NFP rebounded in December to 216K from a downwardly revise figure of 177K in November, thereby raising concerns related to inflation being stickier. The data could be strong on a milder winter weather. However, ISM Services employment data weakened sharply and went into a contraction mode during December.

Job opening have also come down sharply over the last 6 months and the number of quits have gone down thereby indicating balancing demand and supply conditions. Number of job openings (JOLTS) per unemployed person has come down to 1.3x vs 2x in March 2022. Quit rate, which signifies the number of people quitting jobs, have gone from 3x in April 2022 to 2.2x in December 2023.

US Job market is normalizing –Non-Farm Payrolls



Source: Bloomberg, Daman Investments

US ISM Services Employment

Source: Bloomberg, Daman Investments

Job openings (JOLTTOTL, RHS) & quits rate (JOLTQUIS)

Source: Bloomberg, Daman Investments

US LEI Index

Source: The Conference Board

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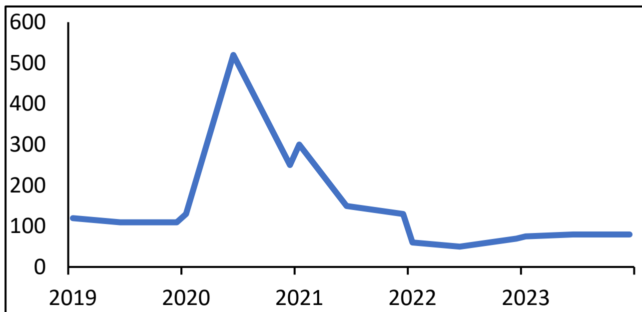
Consumer spending to weaken but remaining strong enough to drive a positive real GDP growth: A strong consumer underpinned the economy in 2023 owing to:

- Labor market remaining resilient
- Consumer digging into their $2.1tn of excess savings; savings rates fell sharply in 2023
- During Jan 2020 - March 2022, US households net worth increased by $35tn on higher house prices and strong rally in stock markets during 2020-21
- Many of the consumers refinance loans in 2021 at lower rates in anticipation of rate hikes which helped in keeping debt service burden low and refinancing need low during the high interest rate environment
- Unlike in Europe and Canada, almost 70% of the outstanding mortgages are fixed in US which reduced the high interest rate burden on most of the mortgagers

As the economy, employment & wage growth slows, we expect consumer spending growth to slow. **However, with declining inflation, real wage has started to turn positive which should lead to positive real GDP growth.**

US Household Savings below pre-pandemic levels



Source: Bloomberg, Daman Investments

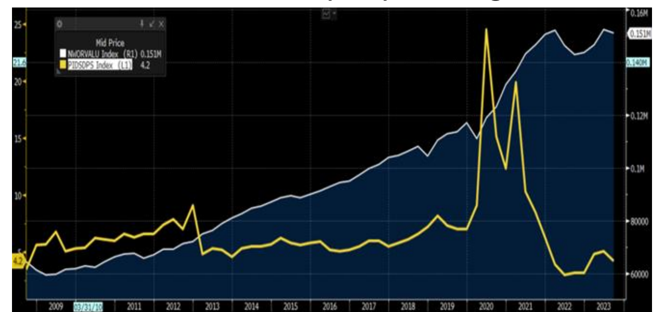
US household Debt Service Ratio still not stretched

Source: Bloomberg, Daman Investments

US Household Net Worth to Disposable Income

Source: Bloomberg, Daman Investments

US Household Net Worth (RHS) & Savings Rate (PIDSDPS)

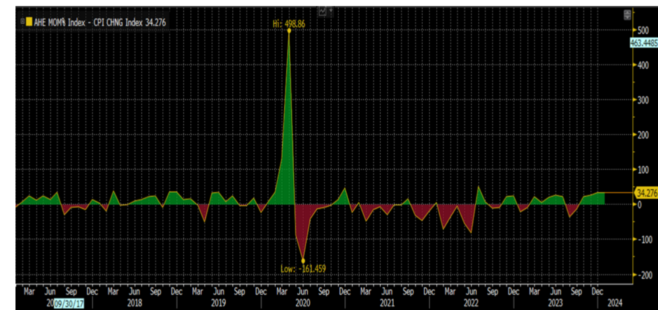


Source: Bloomberg, Daman Investments

Real Wage Growth YoY has turned positive

Source: Bloomberg, Daman Investments

Real Wage Growth QoQ



Source: Bloomberg, Daman Investments

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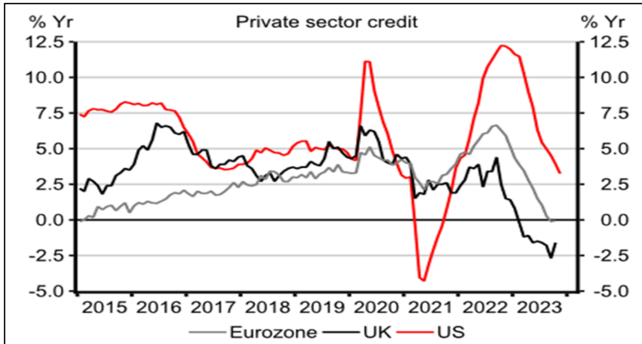
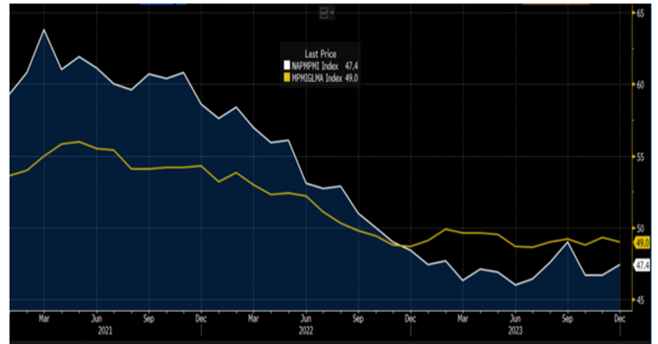
Manufacturing PMIs to bottom out: As consumer spending gradually shifts from services to goods spending and the rate cuts in 2H 2024 would stimulate credit growth and capex spending.

A lukewarm Private Sector Credit Growth (YoY)



Source: Respective central banks, Daman Investments

ISM US (NAPMPMI) & JPM Global Manufacturing PMI



Source: Bloomberg, Daman Investments

We see soft landing as the highest probability scenario:

- We expect global inflation to come down with further reduction in services inflation and real GDP growth to slow down but remain positive.
- Growth in real wages will continue to drive the real economic growth.
- Global real GDP growth is expected to decline to 2.1% in 2024 from 2.7% in 2023. US will slow down but growth will be better than its peers
- Consumer Confidence/Sentiment Indices are bottoming out as inflation subside & real wage growth picks up
- LEI indicator is not providing the right signals as it is not giving much weight to services side of the economy
- Credit spreads do not signal recession risks
- Yield curve comeback to its normal shape

Consensus Real GDP Growth forecast

Real GDP growth	Consensus		
%y-o-y	2023e	2024e	2025e
US	2.4	1.0	1.8
Euro Area	0.5	0.7	1.5
Germany	-0.4	0.5	1.5
France	0.8	0.8	1.4
Italy	0.7	0.6	1.2
Spain	2.3	1.4	2.0
Japan	1.9	1.0	1.0
UK	0.4	0.4	1.3
Canada	1.1	0.6	2.0
Australia	1.8	1.5	2.2
China	5.2	4.5	4.5
India	6.5	6.1	6.4
Brazil	3.0	1.6	2.0
Russia	2.0	1.3	1.2
Global	**2.7**	**2.1**	**2.7**

Source: Bloomberg, Daman Investments

Consumer Confidence & Sentiment Indices rebounding

Source: Bloomberg, Daman Investments; Conference Board Consumer Confidence Index (CONCCONF Index, LHS) and University of Michigan Sentiment Index (CONSSENT Index)

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US Corporate IG (LUACOAS, LHS) & HY credit spreads

Source: Bloomberg, Daman Investments

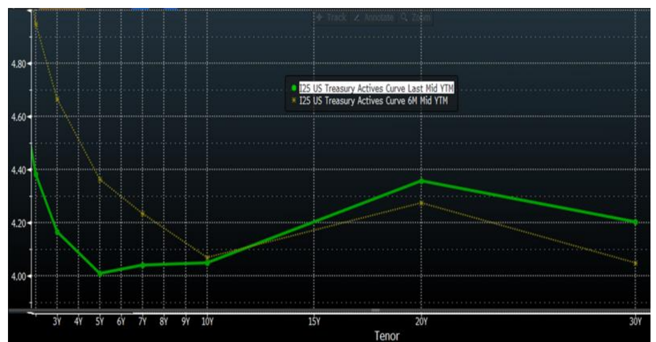
Global agg. (RHS), HY & EM aggregate credit spreads

Source: Bloomberg, Daman Investments; Global Aggregate – LGCPOAS Index, Global HY – LG30OAS Index

Yield curve un-inverting (10Y-2Y treasury spread)

Source: Bloomberg, Daman Investments

Yield curve current vs last 6 months



Source: Bloomberg, Daman Investments

Key Risks:

- **Inflation remaining sticky**: We see risks in two forms - either service inflation remaining sticky due to job market continuing to remain tight or commodity prices starting to rally again on supply concerns. This would push Fed into raising rates above our expectation of 5.25% or keep the rates higher for longer, which could ultimately bring in a hard recession.
- **Election risk**: US heads for a Presidential election in November 2024 and any election related volatility could result in higher yields along the long-end of the curve.
- **Consumer spending being much weaker than expected leading to a recession in 2H 2024.**
- **Geopolitical escalations**: War aggravating further in Europe between Russia and Ukraine. A fight for dominance between US and China. A broadening of Israel-Hamas conflict.

Key Themes:

- **Near shoring:** De globalization in form of near shoring manufacturing and supply chains. This will benefit countries such as Vietnam, India, Mexico, etc.
- **Clean energy:** Global economies will continue to invest in clean energy linked technologies such as EVs, batteries, green and blue hydrogen, solar and wind energy.
- **Increased Market Volatility**: The expected increase in volatility across both equities and fixed income will provide opportunities to trade VIX related strategies and higher volatility will also make structured products such as autocallables interesting.
- **China to increase share of consumer spending in its GDP**: With China looking to rely more on domestic consumption than manufacturing and exports, a lot of global discretionary companies will benefit from exporting their goods to China.

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Global Asset Allocation

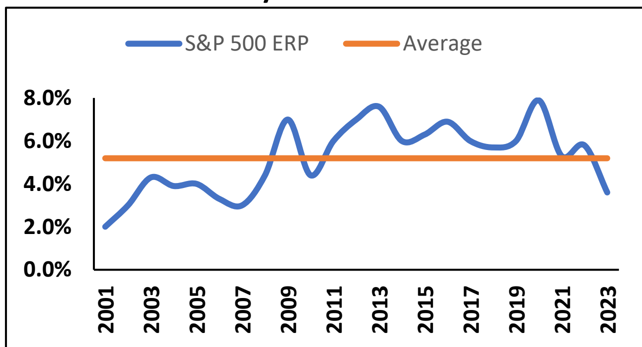
- With soft landing being our base case, we see 2024 to be a good year for risk assets
- Profit booking is expected in January 2024 as market consolidates after a strong last two months of 2023
- We stay **OW fixed income and EW equities** as equity risk premium (ERP) is lowest over the last 15 years
- We expect equity market performance to be driven by earnings growth rather than multiple expansion
- **Performance to broaden out with cyclical sectors, healthcare and utilities participating** which were laggard in 2023. We still see technology sector to be a major holding in portfolios
- **Fixed income** to continue to provide strong opportunity to **lock in high yields**
- Most fixed income return to come from rates declining with credit spreads tight in both IG & high yield space
- **EM credit spreads** still have more scope to contract
- What can make us overweight equities: better than expected growth in the tech sector and inflation falling faster than expectations thereby justifying much lower-than-expected rates
- We continue to advocate **a quality bias and strong active management approach** to take benefit of market volatility and selective stock picking focusing on balance sheet quality and cash flows visibility
- We still do not advocate into the higher risk sides of the capital structure such as unprofitable tech, etc.
- **In the GCC we are overweight equities and neutral fixed income**. We see higher return potential in equities on strong earnings growth tied to solid non-oil GDP growth

	Underweight	Neutral	Overweight
By Asset class:			
Equities		■	
Fixed Income			■
Alternatives		■	
Cash	■		

RSI - Markets became overbought by end of 2023

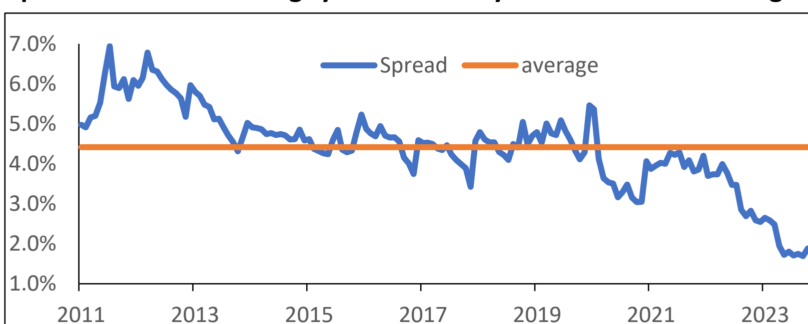
Source: Bloomberg, Daman Investments

S&P 500 ERP at a 15-year low



Source: Bloomberg, Daman Investments

Spread between earnings yields & bond yields at 2 SD below avg



Source: Bloomberg, Daman Investments

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Global Equities

Despite headwinds tied to higher rates and yields, global equities witnessed a strong performance in 2023 on better-than-expected earnings and real yields declining as inflation fell more than expectations and market started to price in 6 rate cuts in 2024. Volatility in the market remained high during the first 10 months of the year. The market got spooked in March due to failure of regional US banks tied to asset liability mismatches, however, the market recovered strongly in 2Q on the Fed, US treasury and FDIC backstop. The market took a hit again during August to October on 10-year US treasury yield touching 5%. However, as inflation cooled further and labor market showed signs of slowing down the Fed made a dovish pivot, leading market to rebounded strongly during November and December. VIX Index, a measure of S&P 500 volatility, closed the year at 12.5 after rising to a level of 30 in March.

MSCI All Country World Index closed the year up 20.1%. DM outperformed EM by 14.8% with MSCI World Index and MSCI EM Iex rising 21.8% and 7%, respectively. The US was a key contributor to both MSCI All Country World and MSCI World Indices performances as MSCI US Index and S&P 500 Index rose 25.1% and 24.2%, respectively. US large cap tech names were the key drivers of global performance during the first 10 months of the year on a strong earnings growth and AI linked euphoria. However, the rally broadened during the last 2 months of the year with the laggards such as Industrials, Financials, Materials and Real Estate participating. EM underperformance was tied to MSI China Index falling 13.3%. However, other key emerging markets performed strong with MSCI India, MSCI Taiwan, MSCI Korea, MSCI Brazil, MSCI Saudi Arabia rising 19.5%, 25.6%, 24.1%, 33% and 5.3%, respectively.

Based on our base case scenario of soft landing we expect a 8% upside in global equities in 2024. We have a year end target of 785 on MXWD Index which is 16.4 times 2025 EPS of 47.9 We expect the market performance to be driven by earnings growth given that MSCI All Country World Index trades at a 1 year forward PE multiple of 16.7x which is more than 1 standard deviation above its long-term average of 14x. **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**. The volatility will continue as the market would need to navigate through inflation and macro data and as optimism about 5-6 rate cuts in 2023 subsides.

MXWD 1 Year Fwd. PE above its long-term average

Source: Bloomberg, Daman Investments

Index	1 Yr. fwd PE	Earnings CAGR (2023-25e)
World	16.7	10.3%
DM	17.6	9.0%
EM	11.6	18.7%
S&P 500	19.7	11.4%
Nasdaq	29.1	28.1%
S&P Midcap 400	14.4	10.6%
Russell 2000	21.5	28.0%
Eurozone	12.4	5.1%
China	8.7	17.9%
India	22.4	22.7%
South Korea	10.5	43.0%
Indonesia	13.9	14.8%
Mexico	12.9	11.7%
South Africa	9.4	9.3%
Brazil	8.0	4.7%
KSA	17.5	17.3%
UAE	10.7	10.0%
Qatar	9.4	9.0%
Egypt	7.7	29.3%
Kuwait	14.9	5.1%
Morocco	16.9	97.6%
Turkey	4.5	7.7%
Pakistan	3.3	8.8%

Source: Bloomberg, Daman Investments

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- 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
- A diversified portfolio with a dividend yield cushion will 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 & utilities participating (2023 laggards)
- 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
- Avoid names on higher risk sides of the capital structure such as unprofitable tech and biotech names, etc. We prefer to wait till the 2Q 2024 to get further clarity on path of monetary policy

	Underweight	Neutral	Overweight
Equities - by region:			
DM	■		
US		■	
Japan			■
Euro Area	■		
EM			■
EM Asia		■	
EM Europe	■		
EM MENA			■
EM LatAm			■

We maintain equal weight on the US on stretched valuation. S&P 500 trade at 1 year forwards PE of 19.7x which is 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 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.

Our preferred picks include:

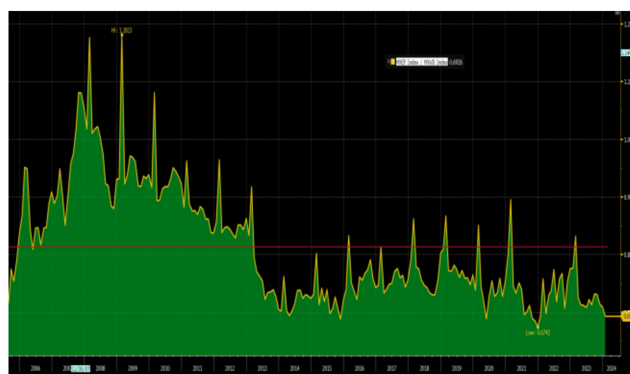
- **Technology & communication services:** Alphabet, Microsoft, Nvidia, AMD, Amazon, Adobe, Sales Force, META, Netflix
- **Healthcare:** Pfizer, Merck
- **Industrials/Auto**: GM, Ford, Caterpillar, Deere, Honeywell
- **Financials:** Visa, Mastercard
- **Airlines:** Delta Airlines, United Airlines
- **Utilities:** Nextra Energy
- **Consumer Staples:** Walmart

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 (12.5x vs 19.7x)

We remain overweight on Japan given the start of a strong capex cycle - driven by both domestic and foreign driven investment, and expectation of a strong corporate profit growth.

We stay overweight on EMs as we see strong upside catalysts during 20223 in the form of dollar peaking, central banks expected to cut rates and better earnings and real GDP growth vs DM. Consensus expects EM real GDP to grow at 4% vs 0.8% for the DM. **MSCI EM 2023-25e earnings CAGR is 18% vs 9% for DM.** MSCI EM index is trading at a 29% discount to MSCI World Index on a forward PE basis vs a long-term average of 21%.

Relative PE (EM vs DM)



Source: Bloomberg, Daman Investments

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As EM economic growth trends are diverging from the DM and there are strong structural domestically driven economic growth stories such as India, Indonesia, Mexico and Brazil.

India: Indian market will be driven by continued policy continued on another potential win for the Modi government, a continued foreign inflow, increased retail and mutual funds participation and strong structural growth reforms driving economic growth. We continue to see India as a beneficiary of declining commodity prices, gradual movement of supply chains away from China, a continued domestic consumption and government's focus on increasing manufacturing and focusing on infrastructure development (roads, airports, railway to improve efficiency and improve exports. Economic growth is expected to be 6% in FY 2023 and consensus 2023-25e EPS CAGR of 23%. India's forward PE multiple of 23x, implies a 90% premium to EM vs a long-term average of 43%.

Our preferred picks include:

- **Financials:** HDFC, ICICI Bank, Bajaj Financials
- **Auto:** Eicher, Tata Motors, Mahindra & Mahindra, Ashok Leyland
- **Industrials:** Ultratech Cement, Adani Ports
- **Infra:** JSW Infra, GMR
- **Real Estate:** Godrej, Mahindra, Sobha
- **Healthcare:** Apollo Hospitals, Aster Healthcare

Mexico: Mexico will benefit from the **near shoring theme** as US companies move supply chain close to US borders. Mexican economy has already started to see an improvement due to this long-term theme. FDI is up 45% YTD in 2022 vs 2021. US companies represents 45% of the overall FDI. The auto industry represents 50% of the FDI. Other manufacturing sectors linked to renewable energy and other manufacturing subsectors are likely to be expanded. Transportation sector will be a key beneficiary. Mexico currently trades at a forward PE of 12.9x, which is an11% premium to EM on a forward PE basis vs a long-term average of 27%.

Preferred Picks: America Movil, Benorte, Arca Continental, Banco del Bajio

Brazil: Brazil central bank has front loaded interest rate tightening and could be amongst one of the first central banks to loosen policy. Valuation also is quite attractive with MSCI Brazil Index trading at a forwards PE of 8x at a 31% discount to EM vs a long-term average discount of 8%. Additionally, the rate cuts in 2024 should help reduce borrowing costs and enable companies to rollover the existing debt at lower costs. Besides, structural reform proposals like tax and fiscal reforms will be a positive at these could help increase government coffers.

Preferred Picks: Ambev, Banco De Brasil, Rumo, Aeroportuario Del Centro

Indonesia: Indonesian economy will continue to benefit from **resilient domestic consumption and strong FDI inflows.** There are also structural tailwinds from reform agendas in green energy transition and EV ecosystem. In the past cycles, the Indonesian equities outperformed after a peak in Fed rates, and we believe this factor could extend support in 2024 once the election-related uncertainties. **MSCI Indonesia Index trades at a forward PE of 15.2x at a 20% premium to EM inline with long-term average premium.**

Preferred Picks: Bank Rakyat, Indo Food, Mayora Inda, Indosat.

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Global Fixed Income

US: Overweight (rates)

Fed to carry out 3 rate cuts in 2024: We expect the fed to bring down the Fed fund rates by a cumulative 75bp in 2024, with the first rate cut likely to take place in early 3Q24. At the 12-13 December policy meeting, FOMC voted unanimously to leave the Fed funds target range unchanged at 5.25-5.50%. Significantly, Fed Chair Powell replied to a question about possible rate cuts by saying that the Committee had commenced a discussion about when it will become appropriate to begin dialing back the amount of policy restraint that is in place. Furthermore, we also expect the Fed to continue to carry out its balance sheet reduction policy at least till 1H24. The Fed has been reducing its balance sheet by electing not to reinvest some or all of the principal when securities mature by c.USD80bn per month since mid-2023.

Labor market data have continued to show signs of gradual cooling. In November, the 6-month average increase in nonfarm payrolls was 186,000, down from 376,000 one year ago, and 680,000 two years ago. The "jobs-worker gap" peaked at over 6.1 million in March 2022 but fell to 2.2 million in October 2023, as the number of job vacancies declined, and the size of the labor force expanded.

Core PCE inflation has slowed noticeably in recent months, a key reason why Powell noted in December that FOMC policymakers no longer consider additional policy rate hikes as "likely." The Core PCE slowed to 3.15% y-o-y in November vs 3.39% y-o-y during the preceding month. Meanwhile, headline inflation fell to 3.8%y-o-y vs 4% prior. We expect inflation to continue to slide lower, but core PCE inflation should remain above Fed's target level of 2% in 2024.

Other developed markets like UK and Eurozone should also have room to cut rates in 2024 with eurozone having a higher headroom to lower rates.

Rates and duration: Overweight

Base case scenario – Soft landing: 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.

	Underweight	Neutral	Overweight
Fixed Income - Rates vs Spreads:			
Rates			■
Spreads		■	
Fixed Income - Credit:			
Global IG		■	
Global High Yield		■	
EM			■

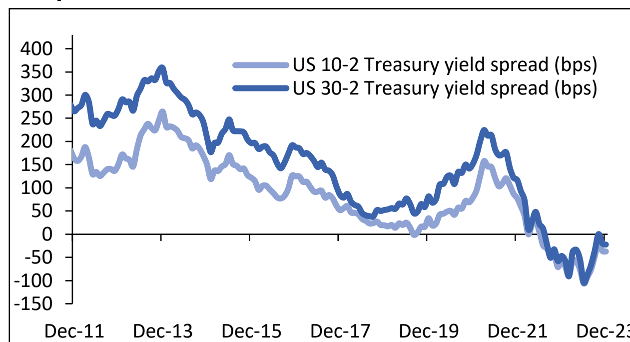
This scenario we believe will drag 10y yields closer to **3.5% by YE-2024.**

Other lower 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**.
- **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**.

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.

US Spreads remain inverted



Source: Bloomberg, Daman Investments

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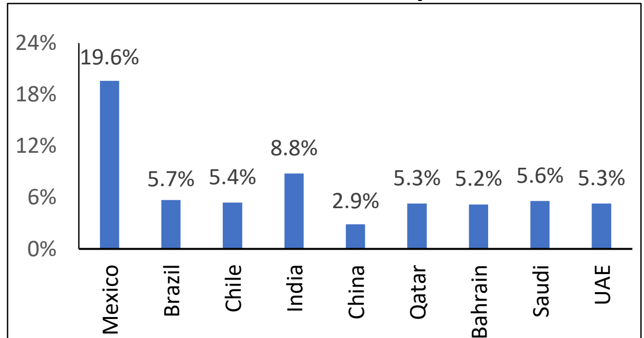
Will we see similar returns?

- We see potential for spreads to compress in EM in comparison to DM.
- In 2023, longer-dated securities gave higher returns than short-dated securities, and similarly, lower rated securities (Baa and A) had higher returns than higher rated ones like Aaa and Aa.
- The focus will largely be on quality names within EM, the ones with strong operating cash flow visibility, contained or improving net debt to EBITDA, and with a strong market visibility. We favor a barbell approach- short end trying to lock-in higher yield and at the longer end playing duration with IG bond. It is important to remember that if growth slows more than expected or recession arrives then the quality names within the long-dated tenors will help from a risk-reward aspect.
- We believe government debt remains attractive from a valuation perspective with a decline in inflation helping us realize real returns.

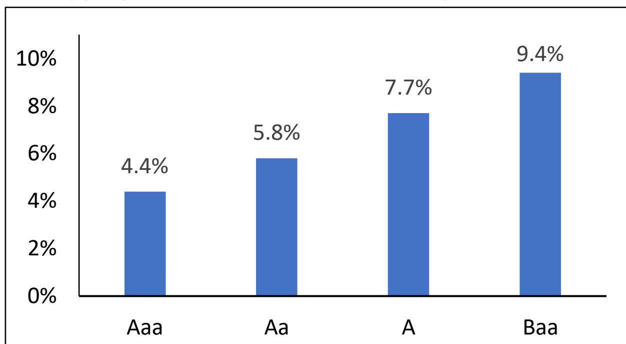
2023 Bond returns - Local currency USD returns



Source: Bloomberg, Daman Investments

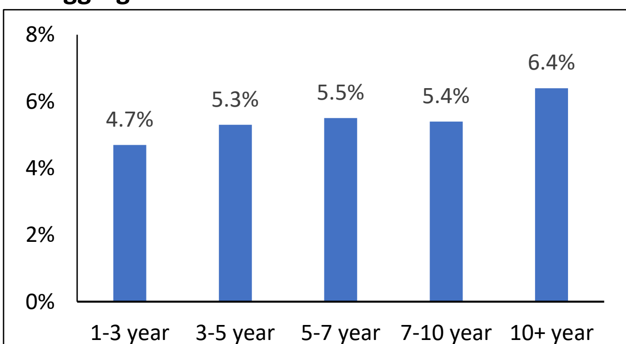
	Underweight	Neutral	Overweight
Fixed Income - by region:			
South Asia			■
Far East Asia		■	
Latin America			■
MENA			■
Sub-Saharan Africa	■		
Central & Eastern Europe	■		

US Aggregate returns in 2023: Rating wise



Source: Bloomberg, Daman Investments

US Aggregate returns in 2023: Tenor wise



Source: Bloomberg, Daman Investments

EM Fixed Income – Country Focus (EMEA)

SAUDI ARABIA: KSA remains the major market in MENA region keenly watched by investors and gave a return (I14669US Index) of 5.56% in 2023 with a large part of its returns coming in the last two months of the year. The returns were the highest seen in the region for government bonds. A continued drive towards growing the non-oil GDP (projected to grow by 4.4% in 2024e, highest in the GCC), increasing domestic consumption, and introducing reforms will provide idiosyncratic opportunities.

The country has already tapped the USD denominated debt market worth USD12bn in 2024 accounting for nearly half of its fiscal deficit projected by the government.

Rationale: The potential addition of SAR denominated bonds in 2024 to key EM indices could see more flows into the country.

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Additionally, during the year we believe the Saudi US sovereign curve can shift downwards provided the country is able to manage its fiscal deficit and on the back of a looser global monetary policy. Budget remains balanced in 2024 if we consider the dividends from ARAMCO.

Risks: Excessive spending well above the planned funding needs of SAR86bn and lower oil prices will remain a drag on both the economy and yields in 2024. It is imperative for readers to remember that the planned government deficit excludes the dividends from ARAMCO. Importantly, investors will keenly watch if spending continues to increase more quickly than tax receipts thereby bringing in long-term vulnerabilities to the economy.

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.

Rationale: UAE 2031 vision (double GDP from AED 1.5tr to AED 3.0tr), increasing oil production, structural reforms and making the capital markets robust remains our key rationale behind liking UAE.

Risks: Lower than expected oil prices

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

QATAR – *What we like:* ABQ Finance, CBQ Finance, State of Qatar, QNB Finance

OMAN – *What we like:* Bank Muscat, Oman Govt, Oman Sovereign Sukuk, OMAOIL, LAMAR Funding, OMGRID Funding

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 4.3% as of YE-2023.

What we like: KWIPKK (Kuwait Projects

BAHRAIN – *What we like:* AUB Sukuk, Bank Bahrain and Kuwait, CBB Sukuk, Kingdom of Bahrain, GFH Sukuk, Gulf International Bank, Mumtalakat Sukuk, Oil & Gas Holding

EGYPT – We believe the country will be able to successfully rollover its debt needs for the next 12 months and hence would like to caution investors about building positions at the long end of the curve.

Risks: Currency devaluation, pressure from IMF could see the country mired in a debt crisis with a high rollover debt in the next 3-4 years. Besides, limited access to fresh funding would rekindle attention back on Egypt's heavy external debt servicing requirements. Additionally, inflationary and geopolitical risks remain ones to watch out for in 2024 in the country.

What we like: Egypt' 25 and 26 (Short-dated securities only)

TURKEY – Policymakers in Turkey will continue to advocate for a soft-landing scenario in 2024 even as the country heads for local elections on 31 March. We do believe markets might see small bouts of stimulus largely as a populist measure in the lead up to the vote. From a fixed income perspective, we expect short-dated tenor bonds to be rolled over in full successfully provided market conditions allow it to. The country raised its monetary policy rate by 250bp in December to 42.5% to tame inflation which is currently close to 65% as of YE-2023.

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Rationale: We are positive on the successful rolling over of short-dated securities. Besides, we believe the central bank's approach has been a forceful one, albeit market friendly, to drive inflation lower.

Risks: External funding from UAE has been slow to materialize, low foreign inflows and a persistent current account deficit remain an overhang on Turkey's economy in 2024.

What we like: ANADOLU EFES BIR, HAZINE MUSTESARL (Turkey Sukuk), Istanbul Municipality

EM Fixed Income – Country Focus (Asia)

CHINA – On the account for solid activity and a more proactive policy stance, we expect growth numbers to surprise on the upside above 4.5% in 2024. The government's growth target for the year is 4.9%, followed by 4.5% in 2025. Consumption has continued to be a key driver for growth throughout the year and is likely to underpin sustained momentum in the coming quarters. Services-related retail sales grew 19% in the first ten months of 2023, far outpacing the overall retail sales growth of c7%. Meanwhile, policymakers are boosting stimulus, with fiscal policy leading the way. Interestingly, the country in October 2023 announced a rise in fiscal deficit to 3.8% of GDP (from 3.0%) with the issuance of RMB1trn in sovereign bonds for infrastructure spending. On the monetary side, the PBoC is largely expected to stay accommodative with the potential for rate cuts of possibly 20-25bp in total largely expected to see light in 2H24. However, the drag from the property market would continue to weigh on consumer spending and sentiment and will keep the real GDP growth below 4.5%, unless substantial handouts are provided to the Chinese by the local authorities.

Risks: Property sector remains a drag on the Chinese economy with new primary home sales having fallen by double digits y-o-y. A fiscal deficit higher than 3.8% of GDP already forecasted by the government could also be an overhang on the economy on the back of increased spending. Besides, geopolitical risks with the Taiwan elections and US elections could keep investors nervous in 2024.

Rational: We prefer to stay cautious on China, given a continued drag from property market and stretched valuation in other sectors.

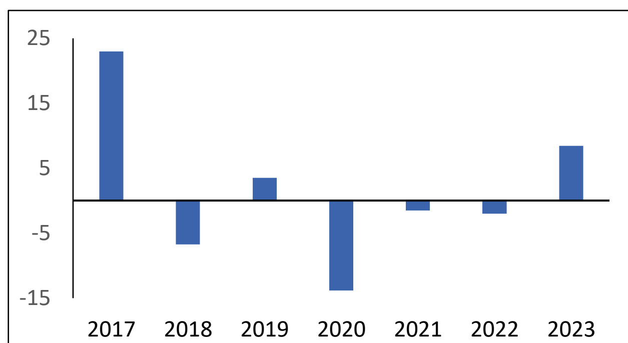
INDIA – The growth momentum story should continue to be the major theme in India in 2024. Moreover, the Central bank has raised its projection for FY24 GDP growth to 7% up from its earlier estimate of 6.5%. The country remains the fastest growing large economy and the pace of growth should continue in the years ahead. Policy rate has peaked at 6.5% with market participants waiting for signs of a potential start.

Risks: The country has a legislative election in 2024 which could see higher spending in the run up to the national election and lead to marginal fiscal slippage. Besides, inflation persistence on the back of adverse weather conditions could lead to higher rates. Oil prices remain a bone of contention for the economy with a $10 rise in prices widening current account deficit by 0.5%.

Yields: 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.

Rationale: 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.

Foreigners buying Indian bonds highest since 2017



Source: Bloomberg, Daman Investments

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

INDONESIA – The country heads for a Presidential election on 14 February with Prabowo Subianto currently leading the polls. The impending President Jokowi cannot stand again due to a two-term limit. As evidenced by tepid credit growth, GDP growth was soft (e.g. 4.9% in the September quarter versus 5.3% potential growth), led by tight fiscal and monetary policy, and exacerbated by China's soft recovery, which is an important trade partner. We believe the BI will start cutting rates once policymakers see signs of rates cuts in the US. The interest rate currently stands at 6% and we see markets currently pricing-in 1000bp of rate cut by YE24.

Risks: Subdued growth in China could filter down to Indonesia. Besides, political risks could take centerstage in the country along with the high beta play with US if USD remains strong then BI may be forced to keep rates tighter for longer, thereby hurting growth.

Rationale: The next decade's growth will be likely higher than the previous decade in Indonesia on the back of push from ores to processed metals and EVs. Macro stability also remains a central theme in Indonesia.

EM Fixed Income – Country Focus (LATAM)

COLOMBIA - The country started its easing cycle in December in a 5-2 decision to cut interest rates by 25bp to 13% with two members out of seven voting for no change in rates. Surprisingly, board members warned that the decision can't be seen as the start of a cycle of rate cuts, but that each decision will be analyzed at the time according to new information available. Headline inflation continued its decline and remains at 10.15% y-o-y in November well below the highs of 13.34% y-o-y seen in March 2023. We expect the central bank to cut rates at a higher pace in 2024 as monetary policy remains abysmally high on the back of persistent inflation driven largely by higher gasoline prices.

Risks: The possibility of adverse reforms (healthcare and pensions) remains a major cause of concern for investors which could have sizable impact on fiscal accounts. Also, foreign investors continuing to pare their holdings in local debt will also be keenly watched by market participants.

Yields: We expect the yield curve (2s10s) to continue to steepen at a faster rate once central bank rate cuts take speed and on the back of uncertainty surrounding reforms. The longer-dated tenors for now reflect the lack of clarity surrounding reforms in Colombia.

Rationale: The rally in local and external yields could help lower borrowing costs in Colombia. Also, the country faces low rollover debt pressure in the region for the next three years on the back of MoF adding duration to the curve and carrying out debt management operations. All these factors along with the potential of foreign investors returning to local debt could be a positive for Colombia in 2024.

What we like: Ecopetrol, COLOM Govt

MEXICO - The Banco de México (Banxico) is widely expected to cut rates in 1Q24 on the back of forward guidance from central bank members showing dovish signals. Inflation rose to 4.32% y-o-y in November and remains close to central banks' target level with ex-ante real rate continuing to remain high. Meanwhile, the central bank kept its benchmark rate at 11.25% for the sixth consecutive meeting in December 2023. The board further reiterated that it would adopt a meeting-by-meeting approach. We expect Banxico to closely mimic the US Fed's approach in terms of monetary policy in 2024 and any pricing of rate cuts on the higher or lower side in US to filter down to Mexico.

Risks: The country will elect a president and congress on 2 June 2024, and with US also electing a new president we should watch out for Mexico-US relationship and a potential electoral uncertainty.

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Furthermore, a higher debt rollover pressure on the back of a higher primary deficit in 2024 (1.2% of GDP as per MoF) remains a cause of concern for investors. Also, increased populist spending in 2024 which will likely result in a fiscal deficit equivalent to 4.9% of GDP will keep investors on tenterhooks.

Yields: On the back of structural and cyclical factors at play we have seen yield premium built up across the curve. We believe for an eventual yield curve decompression cyclical factors namely monetary policy easing must be supported by structural factors (fiscal consolidation, market friendly reforms).

Rationale: We like Mexico as cyclical and structural reforms remain supportive in the country with bond yields and prices remaining highly correlated to US treasuries. Besides, nearshoring, subdued inflation, lack of any adverse structural factors, potential return of foreign investors into fixed income securities keeps the country well positioned in the EM landscape.

What we like: PEMEX, CFELEC, MEX Govt

CHILE - Chilean economy is expected to grow by 2.5% in 2024 outpacing the regional average in Latin America. The Imacec index, a proxy for growth, rose 0.3% m-o-m in November above market expectations, helped largely by the mining and service sector. We believe a looser monetary policy will also aid growth expectations with the central bank board members increasing the magnitude of rate cut to 75bp in December policy meeting from the earlier 50bp trim. A multitude of factors, namely the strengthening of peso, core inflation slowing faster than expected and a rejection of the constitutional referendum have helped yields rally in the country.

Risks: The possibility of President Gabriel Boric's pushing through non-market friendly structural reforms through the Congress will be keenly watched by market participants. Surprisingly, the country's liquid assets are currently at critical level with the Treasury holding just USD1.1bn in November- lowest since 2010, while Finance Ministry's dollar balance slid to USD301mn from USD719mn at the end of October 2023. This will likely lead to the country issuing more external debt in 1H24. Besides, lower copper output could be a drag on growth in 2024 and a lower popularity level of President Boric could lead to additional spending hitting the fiscal balance on the downside.

Yields: We expect that for eventual yield decompression structural factors (fiscal & pension reforms) need to be supportive. If markets assume reforms to be less market friendly, then rates will have to find a higher equilibrium.

Rationale: Higher growth (well above regional average) and core inflation cooling faster than expected augurs well for Chile in 2024. Also, the risk for adverse reforms is low as the government doesn't enjoy an outright majority in the Congress.

What we like: CHILE Govt, CODELCO

BRAZIL – The speed and depth of monetary policy easing remains one of the major events in Brazil in 2024. DI curve is currently pricing in cumulative rate cuts worth 260bp during the year with 50bps of rate cuts for both February and March policy meeting. Meanwhile, inflation saw a slight uptick in 2H23 with prices rising at 4.68% y-o-y in November. It is imperative to remember that the country's inflation target for the year stands at 3%. We expect the country to continue the easing cycle at its current pace unless inflation falls at a much faster speed than being currently priced-in by markets. On the fiscal side, doubts continue to linger even though the country managed to approve a new fiscal framework in 2023 to replace the old spending cap rule.

Risks: Markets continue to price-in fiscal concerns in 2024 which is reflected in higher yields via long-dated tenors. Regional elections in October 2024 can lead to more populist measures in the form of additional spending which could lead to a larger deficit than is anticipated. Additionally, higher rollover debt on the back of more short-dated issuance during pandemic remains a risk for the country as the country must refinance the maturing debt at a higher rate.

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Yields: We expect the yield curve to steepen at a slower pace unless cyclical factors (slower growth and higher inflation) force markets to fine tune rate cut expectations.

Rationale: Market friendly proposals like tax and fiscal reforms will be a positive at it increases government's coffers. Besides, the cyclical factors could be supportive for lower yields in Brazil provided US Fed ends up delivering more rate cuts than being priced-in and the same filters down in terms of Brazil central bank's (BCB) expectations.

What we like: Braskem, Acu Petroleo, BRF, Petrobras

MENAPT Equities (Country level)

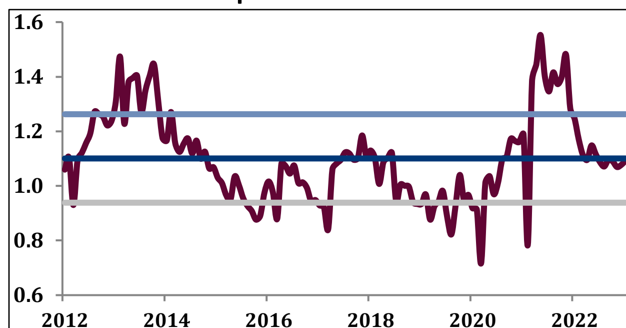
MENAPT Recap: MENA markets began the year on a cautious note given high inflation rates and the possibility of multiple more rate hikes from the Fed. Lower crude oil prices and weaker reported earnings for the last quarter of 2022 impacted sentiment, leading the broader MENA equity market into negative territory during Q1 2023. Q2 saw increased volatility, with Saudi and Dubai outperforming their GCC peers, on the back of heightened optimism that a soft landing was likely. During Q3, profit taking was witnessed despite oil prices rallying, due to a hawkish Fed. In October, regional markets plunged on the back of rising treasury yields and heightened tensions due to the Israel-Hamas war but markets turned around in the last two months on optimism that rates had peaked and the containment of geopolitical risk outside the boundaries of the GCC.

Within the GCC, Dubai's DFM General Index outperformed, rising by 21.7% in 2023. It was followed by Saudi's Tadawul All Share Index gaining 14.2%. Abu Dhabi's FTSE ADX General Index and the Boursa Kuwait All Share Index underperformed, falling by 6.2% and 6.5% respectively. The Qatar Exchange Index was UP 1.4% for the year. Regionally, Egypt's EGX30 Index, Pakistan's KSE100 Index and Turkey's XU100 Index all surged, rising by 70.5%, 54.3% and 35.6% respectively.

MENAPT outlook: GDP growth in the MENA region is expected to recover to 3.4% in 2024 from 2.0% in 2023. Oil GDP is expected to contract for GCC economies, given the output cuts by OPEC+ while non-oil GDP should pick up pace driven by higher consumption, growth in investments and fiscal surpluses. Within the GCC, UAE and Saudi Arabia should lead from the front, with real GDP projected to grow 4.0% YoY in 2024. GCC economies ex Bahrain and Saudi Arabia (KSA should be in surplus if you consider Aramco's performance related dividends) will continue to see fiscal account surpluses, with the oil price hovering around their budget breakeven levels. However, we remain cautious given a potential drop in oil price and global economic uncertainty.

We continue to see selective opportunities in the GCC due to their government's commitment towards economic diversification. Egypt and Turkey will be two other markets providing us with idiosyncratic opportunities. The S&P Pan Arab Composite currently trades at 9% premium to the EM vs its long-term average of 10%. Equities should have a good year on the back of improving GDP, compelling valuations, and a continuation of the IPO boom. However, banks and petrochemical names, which form a large weight of GCC indices, might underperform due to potential rate cuts and poor demand for petchems. We see an upside risk for regional equities if there is a strong rally in commodities tied to a soft landing in US combined with China's economic numbers bouncing back.

S&P Pan Arab composite vs EM relative PE



Source: Bloomberg, Daman Investments

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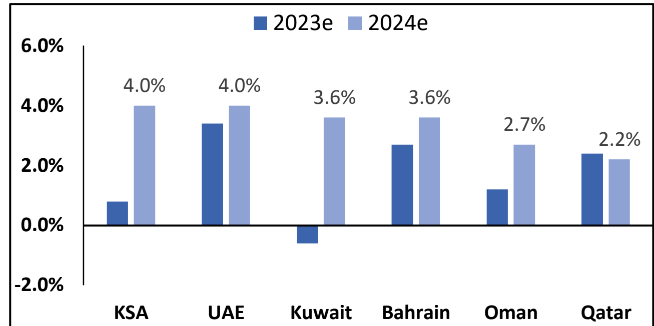
We see the following themes playing in 2024:

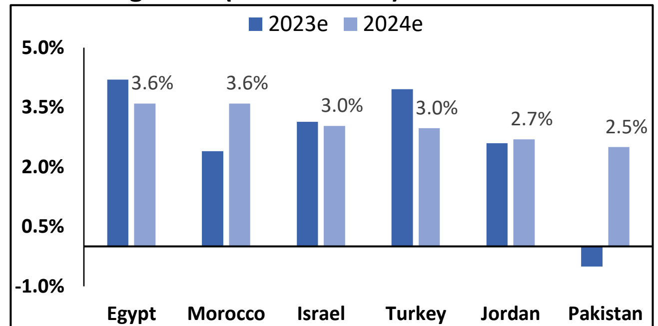
- **Oil prices averaging around $75/bbl.:** This should continue to provide stability to the current and fiscal accounts. This combined with strong reserves the government would be a major driver of capital spending and a continued FII and FDI inflows.
- **Increasing contribution of the non-oil GDP:** Governments are spending on industrialization, digitization, social welfare, fintech and logistics. At the same time, they are spending money to enhance their oil and gas production capacities.
- **Reflecting economic wealth on capital markets:** A strong inclination is towards listing key GREs and encouraging private companies to list. We see a strong IPO pipeline supported by improved liquidity and relaxed listing requirements.
- **Consolidation to improve efficiencies:** Consolidation is an ongoing theme across the GCC, especially amongst public entities, banks, and insurance companies, resulting in improved profitability and investor interest.
- **Improving representation in MSCI and FTSE:** Companies are pushing to enhance foreign ownership limits with a strong support from the government and regulators. The motive is to improve liquidity and boost valuation by entering the MSCI/FTSE Indices.
- **Interest in high dividend yield names:** With long-term rates down to 4.0%, we see value in GCC stocks, particularly some UAE names, which generate high free cash flow resulting in sustainable high dividend yields.

Real GDP growth (GCC YoY)



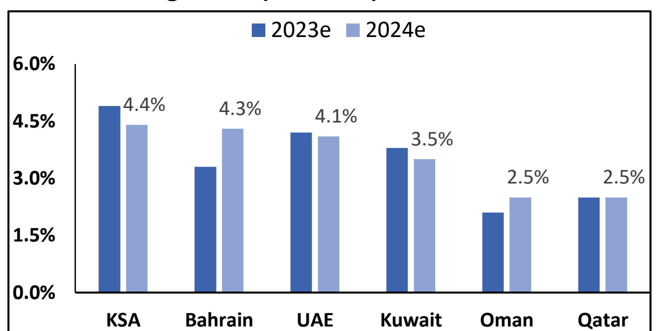
Source: IMF, Daman Investments

Real GDP growth (MENAPT YoY)



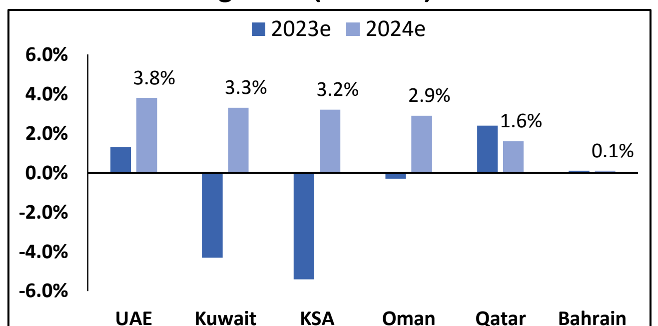
Source: IMF, Daman Investments

Real oil GDP growth (GCC YoY)



Source: IMF, Daman Investments

Real non-oil GDP growth (GCC YoY)



Source: IMF, Daman Investments

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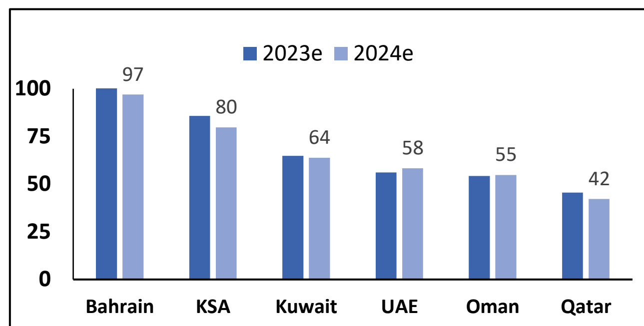
Saudi Arabia: Foreigners net bought USD 4.1bn worth of equities in 2023, down from an extraordinary 2022 when Russia was removed from the EM Index. Overall value traded in KSA was down 22% YoY. Small and mid-caps outperformed, gaining 26%. Large caps were up by 6.0%. At the end of 2023, large caps were trading at a 1Y Fwd P/E of 16.4x vs 22.6x for small and mid-caps. The consensus earnings CAGR for 2023-25e stood at north of 30% for small and mid-caps vs 10% for large caps. Loan growth stood at 10% YTD at the end of November while mortgages were down 37% YoY. Consumer spending was up 4.6% YoY. The Saudi cabinet projected a fiscal deficit of SAR 79bn for 2024 (1.9% of GDP). Projected expenditure for 2024 was down 1.9% vs 2023e expenditure. However, it is worth highlighting that a lot of spending is happening outside of the national budget, with PIF spending SAR 118bn in 2023, accounting for nearly a quarter of total spending by SWFs worldwide last year. We see selective opportunities in KSA, given that Saudi names are trading at a 42% premium to their EM counterpart's vs their historical average of 27%. However, a continued drive towards growing the non-oil GDP (projected to grow by 4.4% in 2024e, highest in the GCC), increasing domestic consumption, and introducing reforms will provide idiosyncratic opportunities.

We see the following macro drivers for Saudi Arabia:

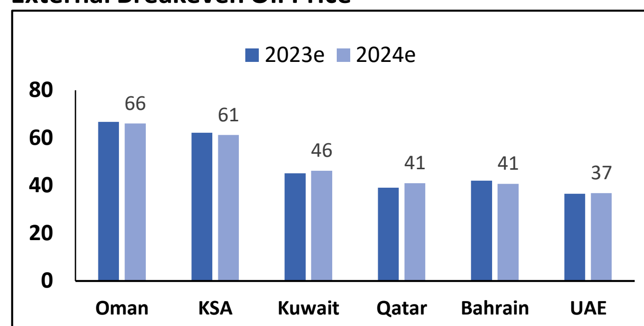
- Progress towards Saudi Vision 2030 (lower the rate of unemployment from 8.6% currently to 7.0%, move from 19th largest economy in the world into the top 15)
- Execution of giga projects ($700bn worth, including Neom, Read Sea Project, Al Ula, etc.)
- Growth in the cultural and entertainment sector (increase household spending from 2.9% to 6.0%)
- Riyadh Expo 2030 and FIFA World Cup 2034 (building and construction, banks, insurance, hospitality/tourism sectors)
- New listings on the stock exchange (increase PIF's assets, from SAR 600bn to over 7 trillion)
- Increase in exposure of KSA equities from active EM funds (currently 1.5%, underweight) in EM to 4.3% (weight of KSA in MSCI EM)

Fiscal Breakeven Oil Price



Source: IMF, Daman Investments

External Breakeven Oil Price



Source: IMF, Daman Investments

Our preferred plays include - We prefer domestically focused names:

- Banks which should benefit from a cut in interest rates and a return in loan growth (SNB, Al Rajhi)
- Names which will benefit from the improved travel and tourism (Seera, SGS, Budget, Lumi)
- Healthcare provider which will continue to see strong patient and capacity growth and an improvement in margins and earnings (Mouwasat)
- TMT players with solid balance sheets and M&A appetite that should see cash collection improve, realize one-off gains and benefit from a growing ICT market (STC, Solutions by STC)
- Water Infrastructure player with large backlog that should continue to win long-term O&M contracts and project services awards (AWPT)
- Consumer staples that should benefit from easing of supply chains which had led to inflation and the introduction of newer products (SADAFCO)

UAE: Dubai equities outperformed in 2023, thanks to an economy that saw strong growth in hotel occupancies, real estate transactions as well as tourism numbers. Valued traded was up for a fourth consecutive year, increasing 7.4% YoY while foreign inflows stood at USD 1.1bn. Abu Dhabi was buoyed down by heavyweights IHC, FAB, Etisalat and Alpha Dhabi, which constitute over 70% of the index and were all down YoY in 2023. Valued traded was also down 31% YoY. 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. Dubai is trading at a 1Y fwd P/E of 8.7x vs its 10Y historical average of 10.8, at a deep discount to the GCC average while Abu Dhabi is trading at 1Y fwd P/E of 18.1x vs its historical average of 14.4x. We see valuations in Dubai to be more attractive compared to Abu Dhabi. We also continue to see a strong IPO pipeline in the UAE (Parkin, SEE Holding, Spinneys, Lulu Group). The median increase in 2024e earnings for Dubai equities in the MSCI UAE Index was 16% compared to 5% for Abu Dhabi names.

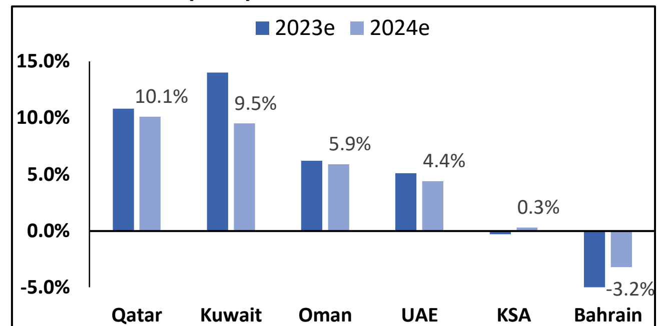
We see the following macro drivers for UAE:

- 10Y "Industrial strategy" to increase the industrial sector's contribution to AED300bn (10% of 2031 GDP) from AED133bn (8% of 2022 GDP) with a focus on manufacturing, infrastructure, technology, healthcare and food security.
- UAE Tourism Strategy 2031 (40mn hotel guests vs 25mn in 2020, raise the tourism sector's contribution to the GDP to AED 450bn, with an annual increase of AED 27bn).
- UAE 2031 vision (double GDP from AED 1.5tr to AED 3.0tr, increase foreign trade to AED 4tr)
- Increase oil production to 5mn bpd by 2025 from 4.5mn bpd currently.
- Deepen capital markets through drive dual listings, increased diversification and family businesses listing. IPO pipeline includes Parkin, Lulu Group, Advanced Inhalation Rituals, SEE Holding, etc.
- Continuous effort to improve the business environment by spending on innovation, fintech and digitalization. Reforms have led to several family offices & hedge funds relocating to the UAE.
- Dubai 2040 Urban Master Plan which sees the city's population grow from 3.6mn currently to 5.8mn.

Our preferred plays include:

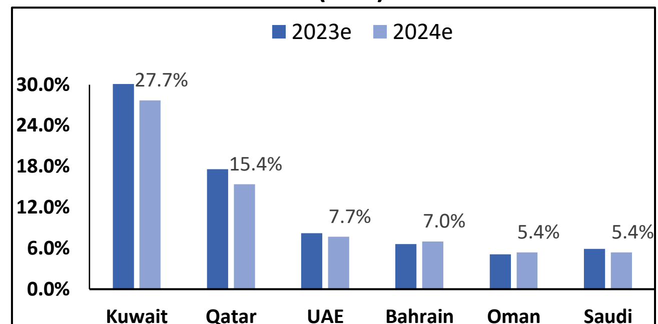
- Banks which should benefit from loan growth and an improving macro environment (ADCB)
- High dividend yield plays within the utilities and real estate sectors (DEWA, Empower, TECOM, Salik)
- Real estate names which have strong brand names and balance sheets, and which would benefit from execution of solid backlogs (Aldar, Emaar Properties, Emaar Development)
- Names to benefit from the improvement in trade with EM countries (AD Ports)
- ADNOC names that would benefit from an increase in oil and gas production (Drilling, Gas)

Fiscal Balance (GCC)



Source: IMF, Daman Investments

Current Account Balance (GCC)



Source: IMF, Daman Investments

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Qatar: The LNG expansion story remains the key play for Qatar in 2024 as the World Cup and related capex are behind us. The 2024 state budget had expenditures growing at only 1% YoY given the reduction in capex spending after the competition of key projects relating to sporting and infrastructure. Accordingly, we see a more muted non-oil GDP growth of 2.5% and loan growth of 5.8% (vs 6.6% in UAE and 9.7% in Saudi Arabia) and only see limited opportunities to invest in. Market volume continued to decline with value trade down 22.5% YoY in 2023 while foreign inflows also slowly, reflecting disappointing results in the banking, petchems and materials sector.

The government officially started construction in Q4 2023 on the North Field expansion project, to increase LNG production capacity from 77mtpa to 126mtpa by 2026. Natural gas demand should increase in the decade ahead and outpace growth in other hydrocarbons as industries switch towards cleaner fuels. The most direct play for this should be QGTS and Qatar Navigation, which could benefit from long term charters. Banks such as QNB should benefit from loan growth as activity picks up, however for 2024 we expect a muted loan growth as the government continues deleveraging on fiscal surpluses. The DSM Index is trading at a 1Y fwd PE of 12.0x vs its 10Y average of 13.0x. The 2023-25e earnings CAGR stands at 9.0%

Potential mid-term catalysts:

- Pickup in spending pertaining to natural gas and Qatar's National Vision 2030
- A growing tourism/sporting sector
- Consolidation of QIA's and GRSIA's $3bn local stock holdings under a separate entity to actively manage and trade securities.

Kuwait: 2023 was a difficult year, with the index showing the second biggest decline in the GCC at -6.5%. Volumes and foreign flows declined, with value traded down 30.5% YoY. A new prime minister has been recently appointed to fast track the implementation of vital economic reforms. If he is successful in resolving the political paralysis in Kuwait, which has become an all-to-familiar situation, it could potentially lead to project activity gaining momentum, which has been progressing very slowly in recent years.

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. The approval of the mortgage law would also benefit banks and ancillary industries as mortgages could be extended to individuals seeking financing for the construction of their first home. The Kuwaiti market currently trades at a 1Y fwd P/E of 13.1 vs its long-term average of 19x. Our preferred plays include high dividend names in the telecom sector (Zain) with sustainable free cash flows and top banks with high corporate exposure such as NBK. The 2023-25e earnings CAGR for Kuwait stands at -2.0%

Egypt: Annual core inflation reached 34.6% YoY in November, while the currency depreciated 20% in early 2023. Currently, the Egyptian pound is trading around 30.9 to the dollar, however the current black-market rate is north of 50. Local markets rallied in USD terms in H2 2023, as investors eyed another round of devaluation and potential interest rate cuts. We continue to watch for its currency to stabilize before making an entry into the Egyptian market. For us to be more constructive on the country, we need to see steps towards encouraging FDI and reforms to improve private sector contribution to the GDP. The EGX 30 Index is trading at a 1Y fwd PE of 7.7x vs its 10Y average of 10.5x. We prefer to gain exposure to exporters and companies that would be able to pass on inflationary pressures to end consumers such as the real estate and education sector. Other catalysts for the market could be the IPOs of various state assets.

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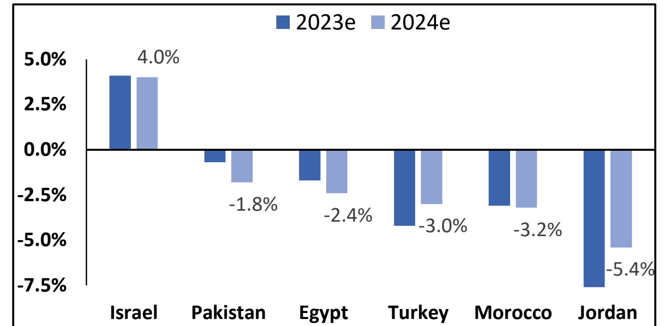
Pakistan: The country continues to be engulfed by various problems as they enter 2024 including geopolitical uncertainty, increasing terrorism and heightened inflation. Despite the equities market rallying in 2023, it is currently trading at a 1Y fwd P/E of 4.2x, a significant discount to its MENAPT peers. Equities witnessed a net inflow of $60mn in H2 2023 with foreign buying at a four year high. Foreign reserves also rose to a six-month high of $8.2bn at the end of December 2023. While the market remains cheap, we continue to avoid Pakistan until we foresee some economic stability.

Turkey: The county finally returned to conventional monetary policy in 2023, raising its key interest rate to 42.5%, a seventh consecutive hike, to combat inflation which is hovering around 65%. However, the Lira has continued to lose value, depreciating by over 35% in 2023. The Boursa 100 rallied in 2023 as domestic investors parked money in equities to hedge against inflation, given negative real interest and unattractive government bond yields. Foreign flows into equities and bonds also turned positive for the first time in six years. However, the central bank has hinted that rates are peaking, with an eye on the Turkish local elections which are scheduled to take place at the end of March. The market is currently trading at a 1Y fwd P/E of 4.1, a significant discount to its MENAPT peers and 10Y average of 7.7x. Certain sectors such as F&B and retail continue to look attractive, particularly names that have strong balance sheets, robust cash flows, resilience in a potential global slowdown and a balanced exposure to domestic sales and exports.

Current Account Balance (MENAPT)

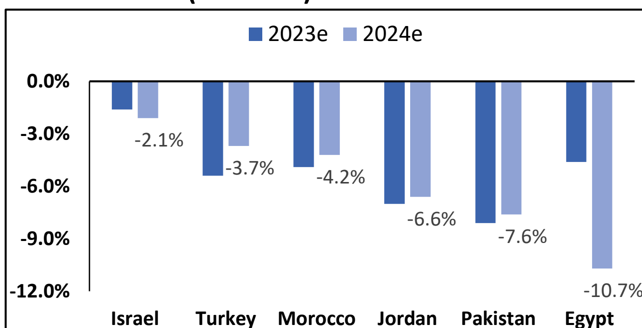


Source: IMF, Daman Investments

MENAPT Equities (Sector level)

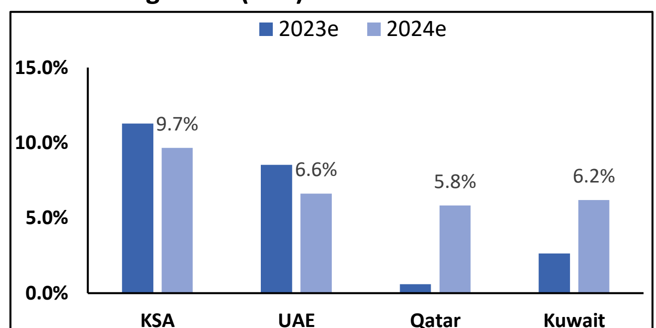
Banks (GCC): The US Fed has turned dovish, hinting that rates have likely peaked, with the FOMC dot plot indicating three potential rate cuts in 2024. We pencil in three rate cuts of 25bps each starting in H2 2024. With most GCC countries pegged to the USD, central banks should follow moves in US policy rates and cut rates locally. While NIMs should regress in 2024, the effect should be softened by growth in lending, improvement in operational efficiencies and better asset liability management. Moreover, a reduction in 10Y US interest rates should further moderate the bearing on the banking sector valuations. The macro backdrop remains supportive for the GCC (oil prices near budget breakeven, fiscal surpluses, and relatively better GDP growth vs global peers) which should keep credit quality in check and generate loan growth. M&A activity could also pick up pace in 2024, if a deteriorating macro backdrop impacts asset quality and profitability.

Fiscal Balance (MENAPT)



Source: IMF, Daman Investments

Gross loan growth (YoY)



Source: Bloomberg, Daman Investments

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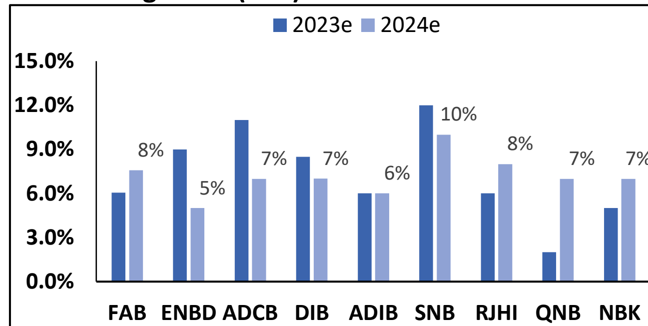
We like SNB given the bank is relatively immune to lower rates (roughly neutral 12M ALM positioning) and a higher portion of assets with delayed repricing. The bank has a current NIM sensitivity of under 2bps of change for every 25bps of rate cuts. With a balanced loan book of retail and corporate, the bank should benefit from a pickup in giga projects activity (corporate side) while strong non-oil growth and lower interest rates should drive retail loan growth.

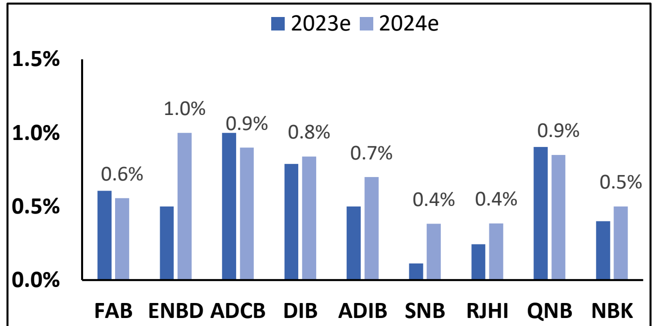
Gross loan growth (YoY)



Source: Bloomberg, Daman Investments

Al Rajhi Bank also looks appealing given its NIMs should expand in a rate cutting environment due to delayed asset repricing. The bank should also see loan growth pick up due to high retail exposure which should feed into its bottom line. 2023 saw the banks earnings fall on NIM compression and lower loan growth, particularly due to high mortgage rates. The 2Y earnings CAGR for the bank stands around 10% with its RoE also set to improve in 2024. From a 2024e P/B, the name trades at 3.5x and we believe the name could easily trade up to 4.5x given its earnings growth should pick up over the next two years.

Cost of risk



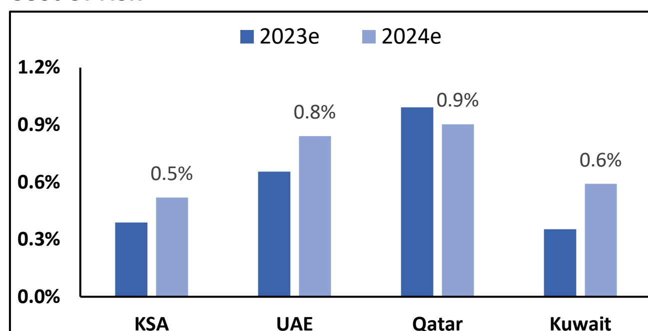
Source: Bloomberg, Daman Investments

In the UAE, we like ADCB as it will continue to witness strong loan growth of 7.0% YoY in 2024. The name also has a lower sensitivity to rate cuts in the UAE and should see NIMs compress by 8bps for every 100bps rate cut compared to 19bps for ENBD and 11bps for FAB. ENBD rallied in 2023 as NIMs improved but 2024 should see NIMs regress despite NIMs improving for its Turkey exposure. We remain neutral on the name unless loan growth picks up. DIB should also see NIMs regress and earnings decline.

In Kuwait, if we see reforms under the new Emir and the introduction of a mortgage law, our top picks would be NBK and KFH, given their strong retail exposure. The draft law would double the amount available to Kuwaitis to borrow for a new home from banks, which would be beneficial for the banking sector, given the current scheme is managed by the Kuwait Credit Bureau.

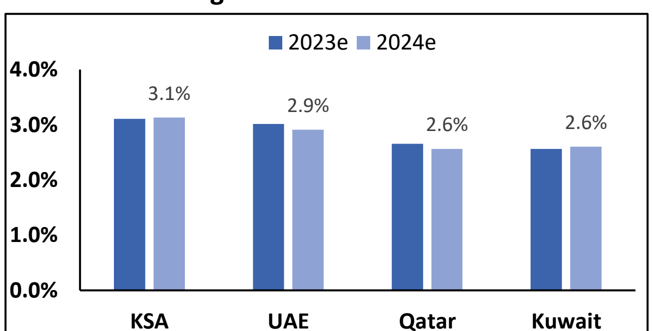
In Qatar, QNB lacks a catalyst for loan growth as LNG projects have not yet trickled down to domestic demand for lending.

Cost of risk



Source: Bloomberg, Daman Investments

Net Interest Margins



Source: Bloomberg, Daman Investments

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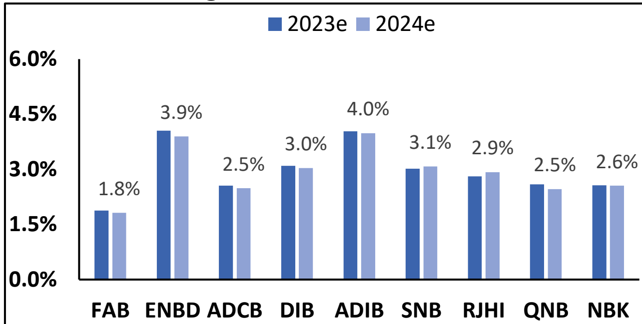
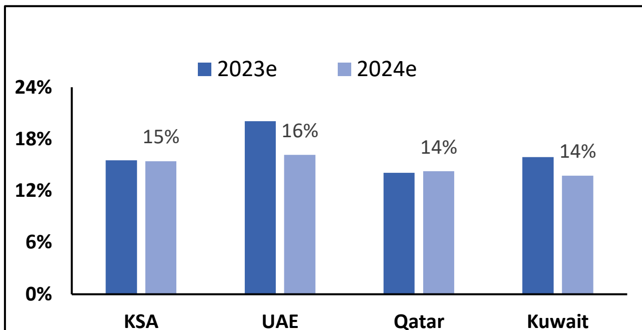
Net Interest Margins



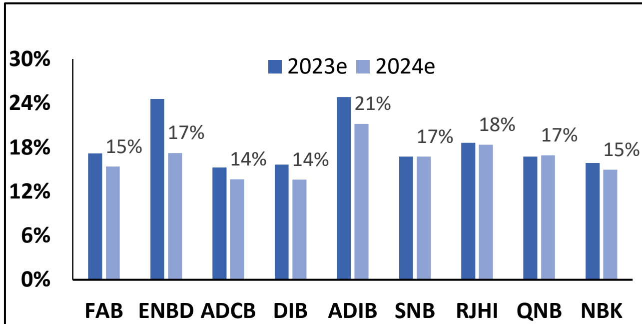
Source: Bloomberg, Daman Investments

Return on Equity



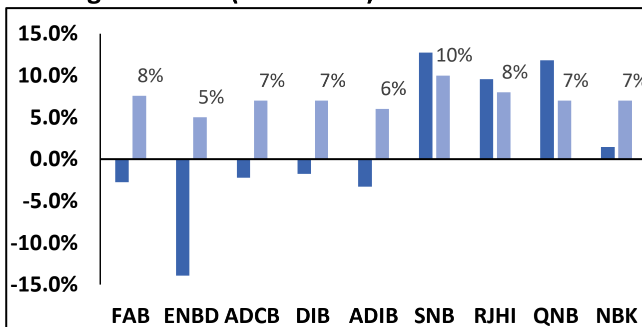
Source: Bloomberg, Daman Investments

Return on Equity



Source: Bloomberg, Daman Investments

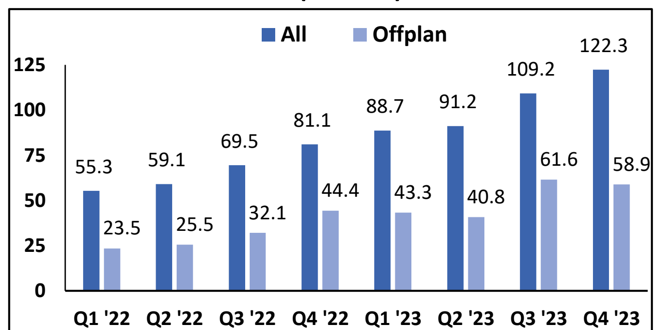
Earnings 2Y CAGR (2023-25Ee)



Source: Bloomberg, Daman Investments

Real Estate - UAE's real estate market surged in 2023, driven by strong demand from both end users and investors from India, Russia, and China. Sales in Dubai exceeded AED 411bn, up 55% YoY. Tourism rebounded strongly, with visitors crossing the number of visitors seen during the same period in 2019. Hotel occupancy in Dubai touched 76.3% compared to 73.8% in 2019, despite room inventory increasing by 22% since the same period in 2019. RevPar touched AED 373, nearly 26% higher compared to 2019 levels. In 2024, we foresee price the residential price increases in single digits, in both Dubai and Abu Dhabi, given the strong rally seen during 2023, particularly in the luxury segment. Some headwinds for the property market include a potential slowdown in the global economy. We could see an inflection point in H2 2024, where prices could stabilize. Around 40,000 residential units annually have been delivered in Dubai over the last three years. Supply of units should pick up sharply by end of 2024 and in 2025 as off plan launches in 2021 and 2022 are delivered. However, rate cuts should help increase the mortgage buyers in the market, which constitute roughly a quarter of all purchases.

Dubai Real Estate Sales (AED bn)



Source: DLD, Daman Investments

Emaar Development's backlog stood at AED 59.6bn at the end of Q3 2023, which would be recognized as revenue over the coming years. The stock remains very attractive, trading at a 2024e P/E of 5.7x with a dividend yield of 7.3%. The 2Y earnings CAGR stands at 20%. Emaar Properties recurring revenue portfolio, which includes entertainment, malls, hospitality, leisure, and commercial leasing has grown in 2023, constituting 50% of Emaar's EBITDA, which should

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provide stability to earnings and reduce volatility in down cycles. We continue to see value in Emaar, given robust revenue recognition from its sales backlog in 2024, continued growth in tourism, comfortable debt maturity schedule, and its significant discount to its NAV. The stock trades at a 2024e P/E of 7.9x.

Aldar Properties' backlog has also grown strongly, standing at AED 29.1bn at the end of Q3 2023. We continue to like the name given its diversified portfolio, diversified M&A strategy and strong investment portfolio. The company recently made investments in UK, launched a JV with Dubai Holding in Dubai to develop residential units, announced a JV with Mubadala to develop commercial assets in ADGM, increased its investments into Aldar Education (AED 350mn) and has set aside AED 1bn to invest in the logistics sector locally. Aldar Investments has been flouted as a potential subsidiary for IPO with the backdrop supportive given strong growth in capacity and number of students. The name trades at a 2024e P/E of 12.1x with a 2Y earnings CAGR of 13%.

Travel & Tourism – KSA: Consumer names should continue to see growth in 2024 on the back of a pickup in religious pilgrimage (Umrah & Hajj), increased mobility within the country and improving consumer confidence (if oil prices continue to stay at current levels). A ramp up in the execution of Vision 2030 projects should provide further impetus to this sector. The government is focused towards increasing tourism's contribution to the GDP from 3% to 10% by building mega projects worth $700bn over the next seven years and increasing international tourists to 100mn from 15mn in 2022.

KSA projects pipeline by region & sector (USD bn)

Region	Construction	Transportation	Total
Western	319.9	129.5	449.4
Northern	504.8	15.9	520.7
Central	186.7	49.4	236.1
Eastern	30.6	21.0	51.6
Southern	39.2	7.9	47.1
Total	**1,081.2**	**223.7**	**1,304.9**

Source: Meed, Daman Investments

Hotel rooms inventory is targeted to reach 300k from 130k currently while pilgrim capacity is set to rise by 50% to 30mn. The country has set an ambitious target of triple its passenger airport traffic to 300mn from 110mn pre pandemic. This will be aided by the Jeddah airport expansion, which should see its capacity increase by 50mn by the end of 2025 as well as the new airport in Riyadh which should be able to accommodate 120mn passengers annually by 2030. Two new airlines are slated to operate by the end of 2024/beginning 2025: Riyadh Air (new national airline, launched by PIF) and NEOM Airlines.

While these targets are ambitious, the commitment to deliver looks strong and we believe that even if 50% of this is met, the country should be able to achieve strong non-oil GDP growth of 4.0% over the next couple of years. Names like SGS and Seera should benefit from the launch of new airlines, airports, and increased tourism. Other names such as Budget Saudi and Lumi should benefit from improving economic growth and growing domestic tourism. Theeb was a laggard in 2023 and could outperform if utilization improves and opex decreases.

Giga projects announced by KSA

Project	Expected Spending ($bn)	Expected Completion year
Neom	500	2039
Red Sea	28.0	2030
Amaala		
AlUla	15	2028
Qiddiya	6.5	2035
Diriyah	8.1	2027

Source: Company data, Daman Investments

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Healthcare & Insurance – KSA: The long-term prospect of this defensive sector remains encouraging driven by various factors including development in public-private partnerships (healthcare constitutes 17% of the Saudi budget), better price on insurance contract renewals and growth in the insured Saudi population. The MoH transferred all its healthcare assets to a Health Holding Company (HHC) with the latter running local health clusters that would provide direct services to beneficiaries across the country. HHC and its subsidiaries have begun to award management contracts to private healthcare providers with the long-term vision being better PPP collaboration, streamlining of services, better efficiencies in the sector and a reduction the government's budget towards healthcare spending.

Key listed healthcare providers continue to execute brownfield and greenfield expansions, with a focus on increasing specializations, growing bed space and driving more insured customers. The M&A activity also continues to remain strong in the sector with the larger companies taking over the smaller players. The sector, however, continues to remain expensive and trades at 1Y fwd P/E of 30x. Our top pick Mouwasat, which underperformed its peers in 2023, trades in line with the sector average for 2024 but should see earnings growth of low double digits.

The medium-term structural growth story for the insurance sector remains strong, underpinned by growing enforcement of health and motor insurance, growth in religious pilgrims, and population growth, particularly in Riyadh. An increase in prices due to medical inflation, mandatory health insurance for domestic help and a pickup in volumes for property & causality insurance could be further catalysts.

Utilities, Transport Infrastructure & Telecom – GCC: This sector should be a beneficiary of a fall in 10Y treasury yields and a slow growth macro environment, while simultaneously offering an attractive dividend yield. Names such as DEWA and Empower remain undervalued and offer a play on Dubai's population growth as well as UAE's transition towards renewable energy. Tabreed has continued to deleverage and increase capacity while simultaneously expanding into Saudi Arabia. We continue to like Alkhorayef Water & Power Technologies (AWPT) given its growing backlog (SAR 7.5bn) and pick up in execution of projects but remain cautious due to the strong rally seen in the name in 2023. The company continues to maintain the largest market share in Saudi's water and wastewater sector and has strong earning visibility, but margins continue to compress as it onboards new EPC contracts.

Within transportation infrastructure, we continue to like Salik given it's a play on Dubai's population growth and tourism growth with further upside possible through the introduction of new toll gates, CPI-indexed tariffs, and dynamic pricing during peak hours.

Within telecom, we continue to like STC, a laggard in 2023, as it should continue benefit from population growth and improved tourism and mobility. Proceeds from tower sales & unlocking value through its subsidiaries should also be catalysts for this name.

Retail/Discretionary - KSA: 2024 could see retail spending in household and electronics return after a year where consumers spent heavily on services such as travel and entertainment. Names such as eXtra and Jarir should be the main beneficiaries of this shift in the consumer wallet. Weaker competition through reduced promotions, growth in population and an improvement in margins should help this segment. An IPO of eXtra's financial arm Tasheel could be a catalyst.

Petchems – KSA: We are underweight petrochemicals for 2024 given the projected slowdown in the global economy, and the growing incoming supply into the market (particularly in PP and MEG). Valuations remain fair and we don't see much downside from here as prices have corrected to reflect a drop in future earnings. Urea prices have come down due to a fall in crop prices and increased domestic production in India. However, we expect prices to remain above their LT average price of $300/MT due to gas prices in Europe remaining higher than historical levels. We still see value in Fertiglobe given the name has a strong dividend yield north of 8.0% and FCF yield of 12%.

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Industrials – UAE: The UAE has increased its focus on growing its non-oil GDP with AD Ports an ideal play on that. The company operates an integrated ecosystem of economic cities and free zones (EC & FZ), ports, logistics, maritime and digital services, with long-term contracts (70% of its revenue is sticky), a strong balance sheet, and an ambition to expand regionally and internationally through organic and inorganic acquisitions. The company also sits on a massive landbank of 550 sqm with the government focused on growing its EC & FZ utilization rate. The company trades at a 1Y fwd P/E of 18.3x with a 2023-25e earnings CAGR of 40%.

Oil & Gas – GCC: GCC countries continue to focus on increasing their oil & gas production capacities by spending heavily on improving output. ADNOC has committed $150bn in spending from 2023-2027 while Aramco is setting aside $50bn annually for capex spending. Qatar has also set aside $30bn to raise its LNG production capacity from 77mn mt/year currently to 126mn mt/year by 2027. Our top picks are ADNOC Drilling, ADNOC Gas and Qatar Gas Transportation Company (QGTS).

ADNOC Drilling is a play on ADNOC's rig expansion, given it's the sole provider of drilling services to its parent. The company should see earnings grow by a CAGR of 15% over the next two years and offers an attractive dividend yield of 4.5%. FCF yield should also grow with its EBITDA expanding (super margin vs peers) and capex normalizing by 2025.

ADNOC Gas is a play on Abu Dhabi's plans to raise its upstream hydrocarbon production. About 50% of ADNOC Gas' earnings come from local gas sales, which have long-term contracts, price escalation clauses and are not linked to oil price movements. ADNOC Gas' low feedstock cost, which falls within the first quartile of upstream supply, also allows the company to continue to enjoy relatively high operating leverage. The company should see earnings grow by a CAGR of 5% over the next two years and offers an attractive dividend yield of 4.7%.

QGTS is a play on Qatar's gas expansion story. The company has fixed charter rates for all of its wholly owned fleet with global demand rising for gas and should benefit strongly if it is awarded a portion of new vessels required for Qatar's North Field Expansion. In Saudi, Arabian Drilling and ADES are also beneficiaries of Aramco's spending, but their valuations remain stretched.

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Daman Asset & Wealth 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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