House View

Central Bankers Weighing Their Options As Optimism Prevails

Q3 2024

NBK Wealth

Executive Summary

- **The Landscape**
  - We maintain our constructive approach both on global economy and the broader financial market environment for second half of 2024: our base case remains one of growth resilience and moderate inflation. While tail risks of either stagflation or a temporary growth scare over the next 6-12 months can't be easily dismissed, we believe that - should unemployment show signs of rising as corporate margins compress and consumer spending falters - the Federal Reserve would not hesitate to take action even if inflation doesn't fall as fast.
  - Europe and China have shown signs of stabilization and possible turnaround. Market confidence in a continued recovery should provide support to equity multiples even through sharp but short-lived sell-off episodes. A nascent trend toward global growth plays outside of the US has already been visible in equity markets since late March.
  - While we expect modest returns from here until after the US election in early November, we suggest that an increase in public equities exposure should be considered in case of markets' weakness over the coming months.
- **Regional Outlook**

  Equities
  - We have increased our allocation to KSA and UAE in line with our strong conviction. We have trimmed down our allocation to Qatar.
  - We have added to Kuwait following the recent political developments which could improve market sentiment and may result in faster implementation of projects and reforms.

  Fixed Income
  - Activity in the MENA primary market remained robust, led by the UAE. Despite the suspension of Parliament, Kuwait's sovereign credit remained unaffected.
  - Liquidity in the Sukuk market markedly improved in Q2, following large issuances in Saudi Arabia. We maintain an agnostic approach and remain opportunistic.
- **The View**
  - To manage risks, an investment portfolio should be very accurately diversified across different asset classes - globally and regionally - as well as across public/liquid and private/illiquid markets.
  - Liquid investments should always comprise a prevailing component of your portfolio – regardless of what are your desired outcomes (income, growth).
- **The Analysis**
  - Raising capital for private market assets proved challenging, but AuMs have continued to grow. The share of Alternatives in the total universe is stable at 14.9%.
  - In Real estate, capital raised fell 41% y-o-y and returns declined due to persistent inflation and rising interest rates. Buyers have the upper hand in negotiations: yields have not been so appealing in decades.
  - Capital raising in Private credit has faced challenges from public markets. This may prove only a temporary occurrence: despite persistently high borrowing rates, demand from lenders for private credit underwriting appears healthy, with decent growth in new requests.
  - The environment for Private Equity remains mixed: newer vintages with deals completed with lower leverage and valuations should in fact benefit from resilient growth. Secondary buyouts have seen a rebound in their share of exits against a backdrop of falling total value and deals volume. There is potential for a high-deployment year.
  - Private Infrastructure fundraising fell significantly, and deal-making activity has been declining in 2023, but both are expected to turn around soon, with plans to increase commitments by more than USD 600 bln through 2027.
  - Hedge Funds AuMs reached a milestone on the back of strong performance and investor inflows. Against a backdrop of expensive valuations in certain areas of the market, Multi-Strategy/Multi-Manager funds are to be preferred within an investor's well-diversified portfolio.

The Landscape – “Not So Fast, Not So Furious”

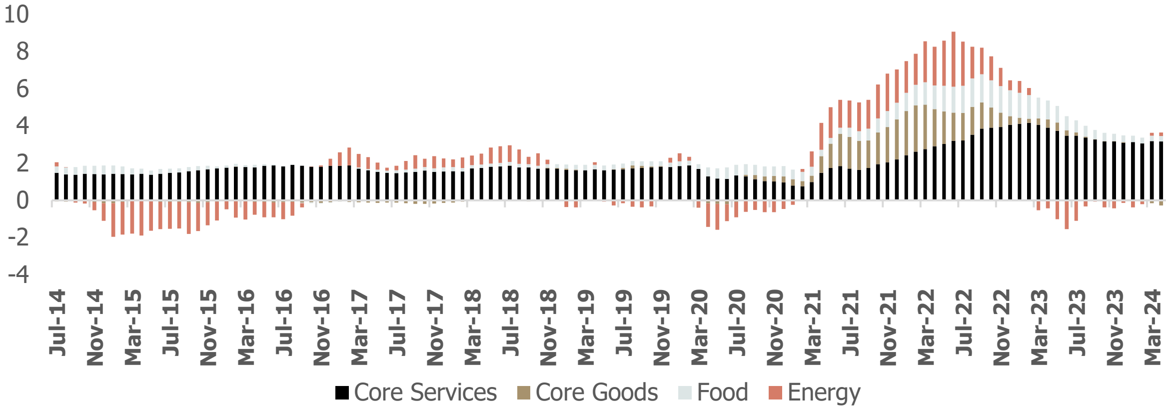
What If

- ***Assessment*:**
  - Stagflation Risks, Disinflation Opportunities

Binary outcomes are commonplace in many scientific fields, spanning from mathematics to physics, from medicine to engineering and computer science. The simplest though most accurate definition of a binary outcome is that there are only two possible solutions to a certain problem. In economic and financial jargon, those two potential results (“outcomes”) are straightforward: one positive and one negative.

When applied to the present circumstances of the global macroeconomic environment, characterized by still relatively high inflation and resilient growth - both of which driven by consumers’ demand and labour costs - the positive outcome is represented by a fall in future inflation (i.e. increasingly less negative impact on household’s incomes); while the negative one is supposed to be higher unemployment (i.e. increasingly more negative impact on household’s income).

However, a third scenario that has been making the rounds among market practitioners is predicated on the combination of the two. In recent weeks some commentators have highlighted the risk of stagflation – high inflation associated with stagnating growth - in the United States as a possible future evolution the probability of which to occur over the next few quarters is non-trivial, if not even material.



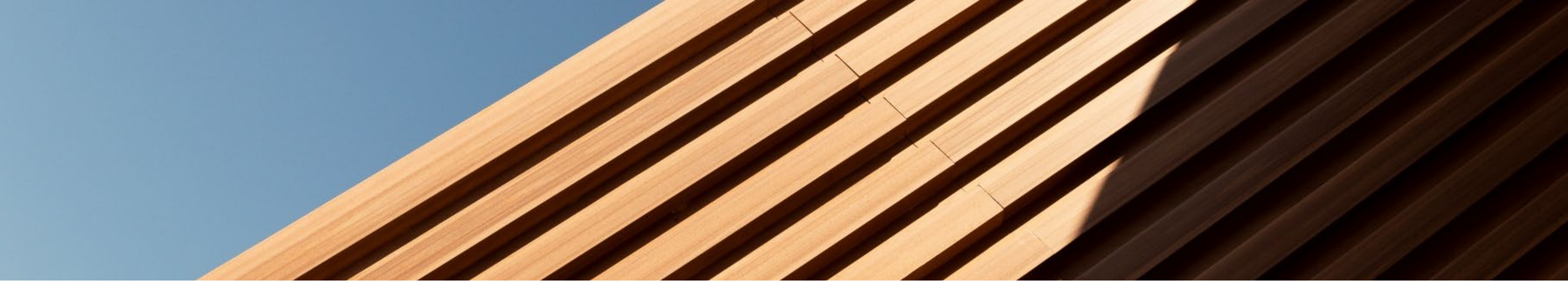
Source: Bloomberg Economic Analysis

How likely is such an outcome, though?

In recent months, consumer spending on services in real terms has surged despite elevated inflation as further evidence of robust demand. To some, the key risk to watch is a re-acceleration in demand, not "stagflation." But this is not our base case for now.

We maintain our constructive approach both on global economy and the broader financial market environment for second half of 2024: our base case remains one of growth resilience and moderate inflation. In fact, we still believe that - should unemployment show signs of rising as corporate margins compress and consumer spending falters - then the Federal Reserve would not hesitate to take action even if inflation doesn’t fall as fast.

Ultimately, as we flagged in our 2024 Year Ahead Market Outlook, a temporary growth scare is still in the realm of possibilities over the course of the next 6-12 months: but while this might frighten some, it would just prove to be the catalyst for inflation to slow down over time and for the Fed to start the easing cycle in earnest.



- *Tailwinds:*
  - Growth Tractions

The threat of a global, US-driven recession has been receding of late as Europe and China have shown signs of stabilization and possible – albeit sluggish – turnaround.

Markets' response to shifting interest rate expectations has positively surprised: global equity prices have been hovering around record highs on the back of corporate earnings growth consensus at +9% EPS (Earnings Per Share) growth for the whole of this year and at +14% for next one.

While we expect modest returns from here until after the US election in early November, we suggest that an increase in public equities exposure (based on individual risk tolerance) should be considered in case of markets' weakness over the coming months. Demand for hedges against sudden market declines has surged of late as volatility in the US Equity market has dropped to historically low levels. The signal coming from options trading suggests that - while the risk of a deep correction in the very short term is still deemed as less likely - what in fact keeps markets worried about are significant albeit temporary spikes in volatility on the horizon.

It is therefore unlikely that the recovery in growth outside the US will lead to a resurgence in inflation, as the improvement is very gradual and indeed from a low starting point after years of deflation in China as well as in Europe – despite the war-driven energy inflationary shock in 2021 and 2022. To be sure, China's export and producer prices are contracting, nominal GDP has been flat over the past year and the current account in surplus.

- *Headwinds:*
  - Global Ructions

Despite tentative signs of a rotation taking hold in consumer spending as well as in manufacturing from the US and China to Western Europe and Japan and across Emerging Asia, the sharp lag between the improvement in household spending and that in confidence has had some refer to it as the emergence of a feeling dubbed "vibecession" (described as depressed levels of confidence despite clear evidence of improving economic conditions).

However, available data suggests that a rise in inflation negatively more than compensates for an equally large growth in nominal income, especially in the UK and Euro area. This asymmetric impact can be explained by the perception that at a time of heightened inflation households feel that while they have indeed "earned" their income gains through hard work (which they are mostly in control of), they definitely do not "deserve" to be punished by a higher cost of living (which is mostly not in their hands).

Even as households see meaningful gains to real income as wages rise and inflation moderates, European consumers have not exhibited the same boost in spending that we've seen in the US. The pickup in GDP growth last quarter could invigorate households. This should, in turn, reinforce the growth pickup as consumer spending bounces back in line with its fundamental drivers.

Fed Chair Jerome Powell has reiterated that the Central Bank's dual mandate is to keep one eye on inflation and the other on unemployment. This sends the message that in reality it is only a matter of when interest rates will be cut, not if. "Longer" doesn't equate "forever".

Regional Outlook

❑ Crosscurrents

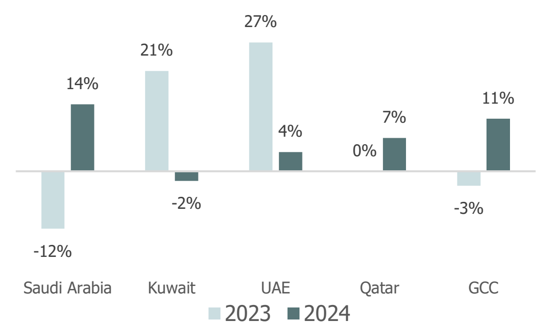
▪ MENA Equities (Q3)

Since our last update we have increased our allocation to Saudi Arabia and United Arab Emirates in line with our relatively strong conviction in these two countries. On the other hand, we have trimmed down our allocation to Qatar. We have added to Kuwait following the recent political developments which could improve market sentiment and may result in faster implementation of projects and reforms.

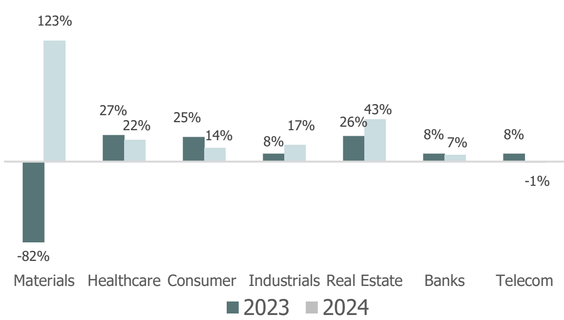
We have increased our positioning in the Saudi Banking sector given it screens as the most attractive within the GCC Banking universe. We expect relatively strong credit growth backed by momentum in corporate lending. In addition, corporate-focused banks are less sensitive to interest rate declines than before given meaningful migration from non-interest-bearing deposits to interest-bearing ones. On the other hand, consumer-focused banks should benefit from rate cuts given lagged impact on retail lending rates. We have also added slightly to UAE banks on valuation grounds.

In the non-Banking space, we have added to our positions in Consumer, Materials and UAE Real Estate sectors. The UAE Real Estate sector continues to benefit from strong pre-sales and improved free cash flows while valuation remains supportive. The Materials sector rallied meaningfully in the first week of April 2024 before giving up all of the gains by the end of the month. This gave us an opportunity to slightly cut our underweight in the sector on valuation grounds. We also added to the exposure to the Consumer sector.

Earnings Growth by Country

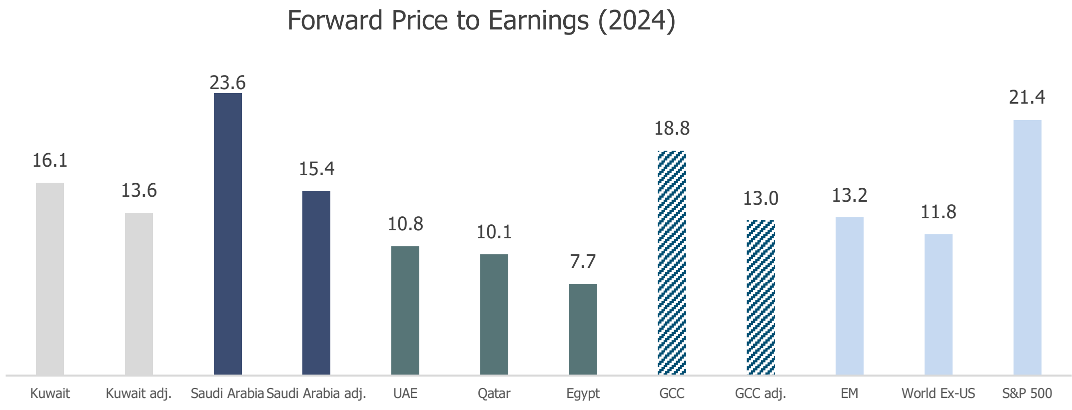


Earnings Growth by Sector



In Egypt, major short-term events are largely behind us, including the currency devaluation and reopening of the market following resumption of USD repatriation. Interest rates have increased 8% YTD which is negative for Equity markets. Also, retail stock liquidity is expected to slow down given negative impact of higher rates on margin trading. Moreover, the EGX30 index is already up 50% yoy in local currency terms over the last 12 months. Upcoming catalysts are more medium-term in nature, such as the eventual start of interest rate cuts, easing of import restrictions, and increased foreign investor participation in the bond and equity markets. There is no meaningful change in our country earnings estimates relative to last time.

Headline GCC valuations look expensive, but they are skewed by the Materials sector and very few expensive stocks. The adjusted forward PE* is at a 39% discount to S&P 500 which compares with an 18% discount (10-year average).

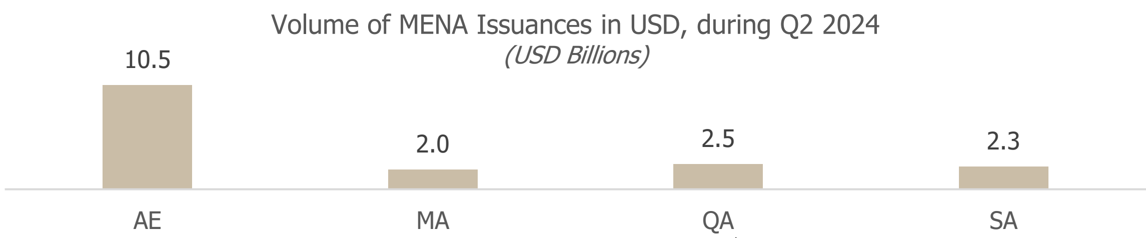


* We exclude Materials, Rajhi Bank, KFH, ACWA, Tadawul Group, Sulaiman Al Habib, Taqa and ELM to arrive at the adjusted PEs of Saudi Arabia, Kuwait and the GCC overall

** FactSet consensus / NBKW estimates, excludes Saudi Aramco, Strong earnings growth in Materials sector in 2024 is following a weak 2023 and therefore off a low base, healthcare sector excludes Sulaiman Habib Hospital*

❑ MENA Fixed-Income (Q3)

Q2 issuances in USD



Total amount of MENA international issuances in USD, starting from March until May 23rd, 2024

Activity in the MENA primary market remained robust, led by the UAE with a multi-tranche offering from the government of Abu Dhabi and an inaugural bond issuance from ADQ, one of Abu Dhabi's investment arms.

Main rating changes

In terms of corporate actions, the quarter saw several upgrades and a few downgrades, reflecting the region's improving fundamentals.

Changes of Rating on Foreign Debt (selected issuers)

Name	Agency	Action	Curr. Rating	Prev. Rating
Jordan Government	Moody's	Upgrade	Baa3	Ba1
Qatar Energy	Fitch	Upgrade	AA	AA-
QNB	Fitch	Upgrade	A+	A
Abu Dhabi Ports	Fitch	Upgrade	AA-	A+
ARADA Developments	Fitch	Downgrade	BB-	BB
Masraf Al Rayan	Moody's	Downgrade	A2	A1

Rating trends remain positive, with most issuers having a credit rating outlook ranging from stable to positive.

	S&P	Moody's	Fitch
Positive	55	120	31
Stable	199	364	303
Negative	1	5	2

Kuwait Credit

Recent developments

Despite the suspension of Parliament, Kuwait's sovereign credit remained unaffected. Technical factors such as thin liquidity on the sole Kuwaiti sovereign Eurobond and general debt credit scarcity also contributed to the muted reaction.

Note on KD Bond Issuances

In the local primary market, Burgan Bank successfully issued KD 150 million in perpetual notes to boost its capital and replace a similar security in USD. The issuance was equally split between a fixed tranche with a 7.25% coupon and a floating tranche paying 7.50% quarterly. The involved parties reported very strong local demand, particularly from private banking units across the country.

Note on the Sukuk market

Liquidity in the sukuk market markedly improved in Q2, following large issuances in Saudi Arabia across multiple sectors (government, GRE, financials) in the first half of this year, which alleviated the market drought experienced at the end of last year.

Evolution and Convergence of spreads in the Sukuk Market

Historically, sharia-compliant investors have accepted a premium in the GCC sukuk market over conventional curves, even when it did not make sense from a fundamental perspective. This market has been dominated by buy-and-hold investors and characterized by a significant structural imbalance between demand and supply. The increased wealth in the GCC region and some Asian countries, coupled with a rise in Islamic financial institutions, has boosted aggregate demand for sharia-compliant assets, outpacing the overall supply of these assets.

As sukuk supply has increased over time, the impact of technical factors has faded, and we have seen curves normalizing close to their conventional equivalents (see table below). Some issuers still exhibit a noticeable divergence between the two types of issuances, but we expect this to converge over time as issuers should opportunistically issue where it makes more economic sense.

The implication for asset allocation is as such:

- For conventional strategies, we maintain an agnostic approach and remain opportunistic when considering sukuk. Securities are assessed against their conventional peers, and only considered when they make sense on a relative basis.
- For sukuk strategies, we prefer to avoid names that trade significantly inside their conventional curves (e.g., Bahrain and Oman sukuks), as this could reverse when the issuer starts selling more sukuk over time, likely leading to a spread convergence.

Issuer	Maturity Year	Sukuk Spread Premium(*) (in bps)
BHRAIN	2026	34
	2029	43
	2030	60
EGYPT	2026	-32
INDON	2028	5
	2030	6
	2031	-3
KSA	2027	-14
	2029	3
	2030	-2
	2033	9
	2034	-1
OMAN	2031	28
SHJGOV	2032	20

* As of June 3rd, 2024. Spread between conventional bonds and their duration matched Sukuk, issued by the same entity. A positive value denotes that the conventional bond yields more than the Sukuk

The View – "Your Best Investment Is Your Fully Diversified Portfolio"

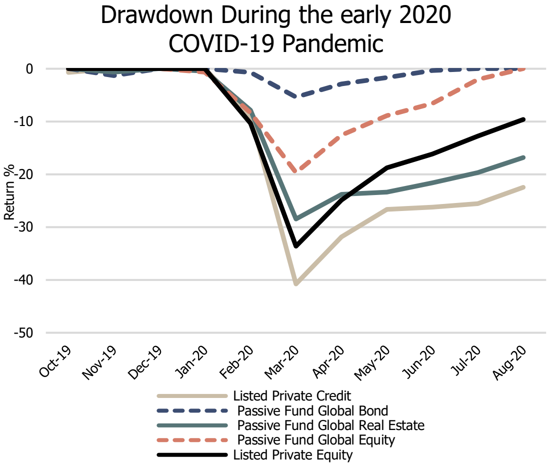
Investment Recommendations:

❑ Money Never Sleeps

▪ In A Complex World, Diversification Is King, Liquidity Is Queen

As we have argued in our recent Thought Leadership analysis ("The Importance of Liquidity in Asset Allocation Strategies", published on May 13th and available on NBK Wealth's website), the most important factor affecting an individual investor's ability to get his or her money back whenever urgently necessary or required is the ease with which an asset (e.g. an investment fund or a security like a publicly traded stock or bond, but also a real estate property or a share of ownership in a company) can be converted into ready cash. More precisely, the importance of liquidity is related to the impact that exiting an investment might have on what - at that very point in time - is supposed to be its market value, as determined by the balance between the price asked by the seller and that offered by the buyer.

In order to effectively manage the risks inherent to any financial investment, it is therefore paramount that an investment portfolio be very accurately diversified across different asset classes, both globally and regionally. Ultimately, it is the old, time-tested concept of avoiding putting all eggs in only one basket: common sense requires that the risk of seeing the value of one's money decrease on paper be minimized (unless paper losses are crystallized after selling) through allocating it to both public (i.e. liquid) and private (i.e. illiquid) markets and to different asset classes (e.g. listed equities, private equity, fixed income bonds, private debt, real estate, infrastructure, just to name a few). Besides, the recovery time after a temporary decrease in the value of any investment varies across asset classes, as clearly evidenced by what happened during and after the Covid-19 pandemic.



Source: Morningstar data and MSR-CIO Office analysis.

	Standard Deviation (%)	Maximum Drawdown (%)	Maximum Drawdown Valley Date	Maximum Drawdown Recovery # of Months	Maximum Drawdown Recovery Date
Passive Fund Global Bond	6.47	-5.40	31-Mar-20	4	31-Jul-20
Passive Fund Global Equity	17.12	-19.72	31-Mar-20	5	31-Aug-20
Listed Private Equity	28.09	-33.63	31-Mar-20	9	31-Dec-20
Listed Private Credit	31.23	-40.81	31-Mar-20	11	28-Feb-21
US Passive Fund Global Real Estate	20.43	-28.47	31-Mar-20	13	30-Apr-21

Source: Morningstar data and NBKW MSR-CIO Office analysis.

In a nutshell, the message is: always ensure that liquid investments comprise a significant and prevailing component of your portfolio – regardless of what are your desired outcomes (e.g. income generation, capital appreciation, or a bit of both). And ensure that the degree of diversification across asset classes, markets and geographies is high enough at all times. For the sake of your own finances – and for that of your Family, especially if you are planning for the Next Generation to inherit the wealth you have been building so carefully for your entire life. The more the eggs, the more the baskets…

The Analysis – "Own Goals"

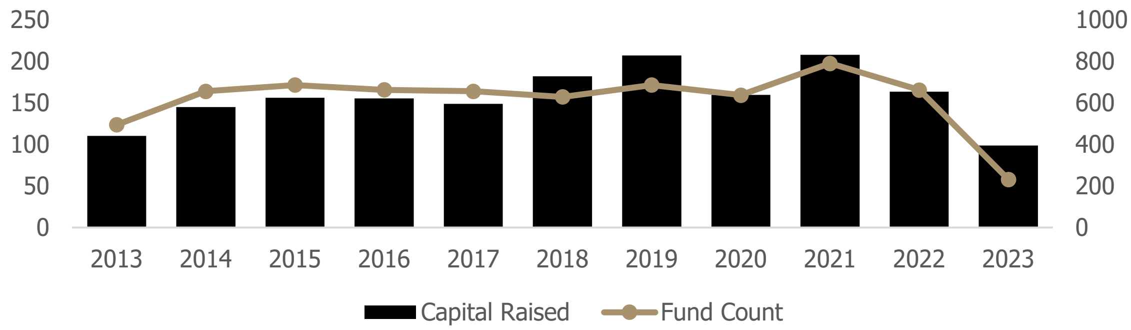
❑ Alternatives:

• The Perks Of Low Valuations And High Rates: Growth At A Reasonable Price, A Decent Income To Capitalize

Raising fresh capital for private market assets proved challenging last year, and while fundraising had a strong start in January, available cross-industry data (source: EIKON, Bloomberg, Barclays, Preqin, MSCI, HFR, J.P. Morgan) have shown a slowdown so far, bringing the year-to-date fundraising across Alternatives (incl. private equity, private real estate, private credit, hedge funds, infrastructure, digital assets) to USD 430 bln. Equalling a total USD 1,145 bln on an annualized basis, this appears to stand out as the slowest pace since 2018, with fundraising in private credit declining the most year-over-year as public credit markets – led by banks and financial institutions - have regained some of the previously lost market share. However, Assets under Management have continued to grow, now reportedly exceeding USD 30 trn in Q1 2024. It has been estimated that the share of alternatives in the total asset universe has stabilized at 14.9% in Q1 2024, a tad below the record high of 15.5% at the end of 2022.

Real estate was hit especially hard, with capital raised falling about 41% year-over-year and returns significantly declining on the back of macro-economic pressures such as persistent inflation and rising interest rates. Within the asset class, Core real estate has weakened more markedly than Non-Core, especially in the US and in Europe, led by increasingly distressed Office sector fundamentals. Non-Core returns have been equally lower in Value Added properties than in Opportunistic ones.

Real estate fundraising hits a slump in 2023



Source: PitchBook data
Geography: Global

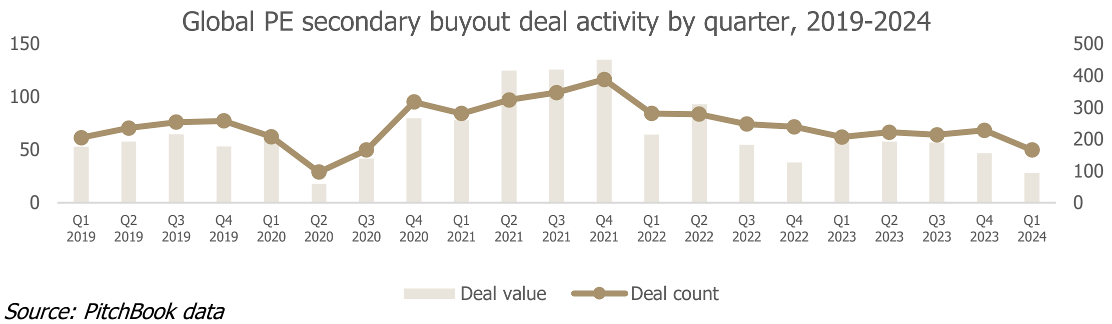
The risk/return trade-off for Core Real Estate investors is clearly becoming more appealing both near-term and long-term as valuations have slumped and the interest rates cycle – bumps along the road notwithstanding – is in its final innings. This comes at a time when the investment landscape for yields has not been so favorable in decades.

Capital raising in Private credit has faced more of a challenge from resurgent public markets, as private loans in excess of USD 13 bln have been refinanced in syndicated high-yield bonds and loans since the start of the year. Managers have raised USD 30.6 billion in the first quarter of this year, below the average of USD 35.8 bln seen over every first quarter since 2017.

However, this may prove only a temporary occurrence if we have to believe investor's preferences (source: Preqin). A recent survey shows that investors are happier with Private debt than any other alterative asset class, with 91% expecting the same or better performance this year compared with last year. While investors' top concerns are interest rates and inflation (respectively 70% and 37%,). If the economic outlook remains one of resilience and expectations for stable interest rate volatility are not derailed, improved investor confidence and stronger fundraising might be a feature of the second half of this year. A recent report observes that there is no significant concentration in any particular sector that is signalling a risk of contagion. Despite persistently high borrowing rates, demand from lenders for private credit underwriting appears healthy year-to-date, with decent growth in new requests (source: Morningstar DBRS).

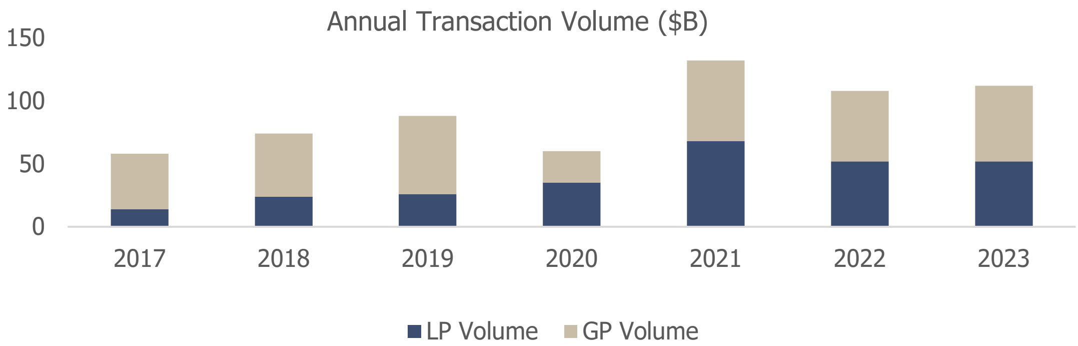
The environment for Private Equity as the most prominent Growth asset class remains mixed for the second half of the current year. Resilient economic activity, still tight labor markets and stubborn inflation have all acted as catalysts for investors to reassess the future path for interest rates. While the consequence of the "higher for longer" narrative has meant for older, high-leverage, higher-valuations vintages to delay the recovery time, newer vintages with deals completed with lower leverage and valuations should in fact benefit from resilient growth.

Pushing back the timing of realizations from existing portfolio company investments has caused many funds to extend their life cycle to avoid exiting at significantly discounted multiples. Available data (source: Pitchbook) report that 2023 has been the first year since 2015 when the median holding period of US Private Equity investments that exited their investment in 2023 has risen above 6 years to 6.4. This upcoming "maturity wall" for deals made more than 5 years ago runs the risk of pushing holding periods beyond them. One way to resolve this is for PE funds to seek liquidity in the Secondary market and make greater use of so called single- or multi-asset "continuation" funds.



Source: PitchBook data

The secondary market recorded its second-highest transaction volume in history at USD 112 bln in 2023. Looking ahead to the second half of this year and to next one, there is potential for a high-deployment year and the likelihood that major secondary buyers, having raised record funds in 2023, will not engage in new significant fundraising efforts for the next two years, making current valuations even more attractive.

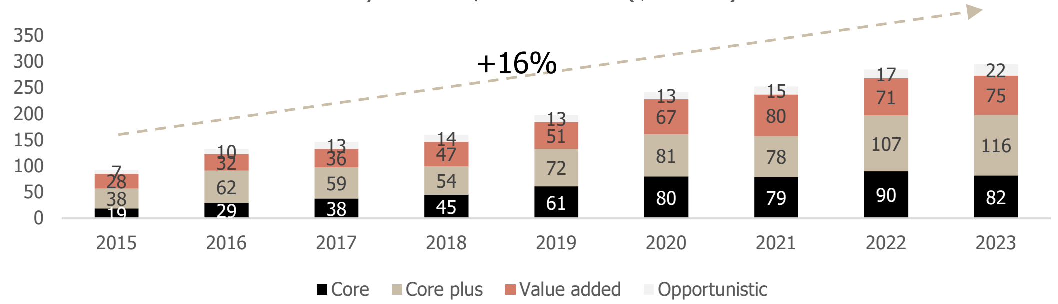


Source: Jefferies - Global Secondary Market Review

Private Infrastructure AuMs (Assets under Management) grew 18% C.A.G.R. (Compound Annual Growth Rate) from 2018 to 2023 - surpassing Private Equity's. While the appeal of this asset class to investors are numerous (stable returns, low correlation with the economic cycle, ability to pass through cost inflation, predictable operating environment, strong asset base, high barriers to entry), fundraising did fall significantly in 2023 to just USD 89 bln from a high of USD 176 bln in 2022. Similarly, deal-making activity has been declining (just above 2,000 deals completed in 2023 as compared to the peak of nearly 3,400 in 2017), despite deal size remaining pretty much unchanged.

While higher interest rates have somewhat slowed down the financing activity, the fortunes of both capital raising and deal-making are expected to turn around sooner rather than later. GPs (General Partners) are in need to return money to current LPs (Limited Partners) at a time when dry powder (i.e. the amount of committed capital awaiting investment) remains high at almost USD 300 bln, mostly concentrated in Core Plus and Value Add strategies, and with plans to increase commitments to the asset class by more than USD 600 bln through 2027 (source: BCG).

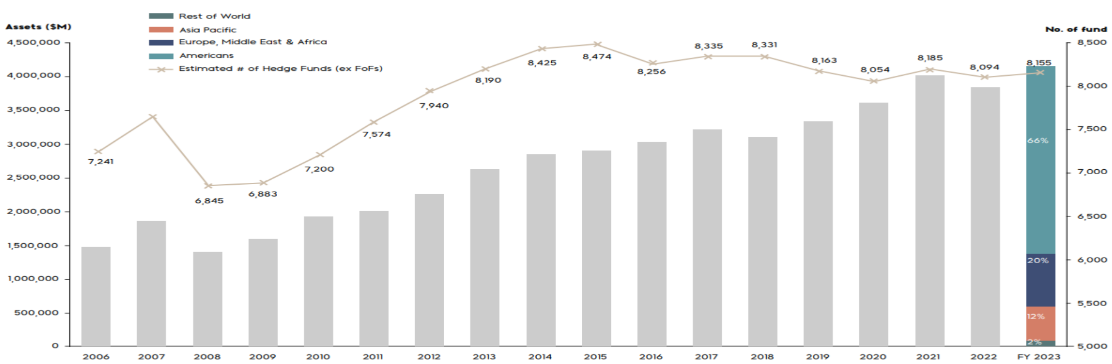
Dry Powder, 2015-2023 ($billions)



Source: Preqin, BCG analysis
Note: Exclude funds of funds, debt, and secondaries

Hedge fund capital has surpassed the USD 4.3 trn AuMs (Assets under Management) milestone in Q1 2024 on the back of strong performance and investor inflows, against a backdrop of improving economic outlook and acceleration of M&A (Mergers and Acquisitions) activity at the same time when geopolitical risks are heightened in conjunction with higher interest rates and macroeconomic uncertainty.

AUM and fund growth since 2006



Source: JP Morgan Asset Management

According to Preqin, net inflows have remained positive during 2023 at over USD 6.4 bln after net outflows in 2022 due to increased redemptions from institutional investors. However, the impact of flows on performance can vary: Macro strategies are typically less impacted by asset growth due to the emergence of broader cross-asset opportunities. Multi-Strategies funds are still in vogue, attracting more than USD 3 bln this year while producing positive excess returns for the fifth year in a row so far in 2024. Against a backdrop of increasingly expensive valuations in certain areas of the market, Multi-Strategy/Multi-Manager funds are to be preferred within an investor's well-diversified portfolio.

NBK Wealth Asset Allocation Guide

Asset Class		Opportunity Set	View	Conviction	
Main asset classes		Equities	↔	Moderate	The global economy should moderate around growth potential. Interest rates will slowly trend downward as inflation stabilises. Binary risks to growth are a renewed inflation-driven tightening of credit standards, rising wages and unemployment creeping up due to margins compression caused by corporates' reduced pricing power. We continue to retain our mildly overweight exposure to Global Equity markets, although we anticipate increasing volatility across Q3 until the US elections. Any significant dip should be a buying opportunity so long as earnings growth estimates remain solid.
Main asset classes		Duration	↔	Low	The Fed reduces the pace of its balance sheet run-off, pre-empting some of the risks related to the US fiscal position. Avoid exposure the ultralong end of the curve (10+ years) so long as inflation is not fully in check.
Main asset classes		Credit	↔	Moderate	Keep a high-quality bias. Growth-sensitive areas of high-yield (HY) and emerging market (EM) credit present better risk-adjusted opportunities. As spreads are tight, however, there is limited upside, with high carry providing most of the expected returns.
Main asset classes		Cash	↓	High	So long as interest rates remain elevated, capital will be best allocated into higher-yielding, income-generating asset classes early in the year, while putting it at work into growth-tilted investments for the longer term before rates start going down
Preference by asset class	Equities	U.S. large cap	↔	Moderate	Despite Q1 earnings results coming in above expectations, further upside is modest in the short term. Still, the environment remains supportive, and the backdrop looks constructive through the summer months should volatility increase.
Preference by asset class	Equities	U.S. small cap	↔	Low	Low conviction for now as the valuations discount vs Large Caps does not warrant a full re-rating yet due to low quality of earnings and lack of a cyclical catalyst
Preference by asset class	Equities	Europe	↔	Moderate	While the ECB has blinked first, upwardly revised inflation forecasts make the Central Bank's job more complicated in the face of better growth prospects, tight labour markets and elevated wages. Earnings growth is expected to accelerate vis a vis fair valuations.
Preference by asset class	Equities	UK	↔	Moderate	Accelerating earnings growth and attractive valuations present a favorable backdrop but political as well as monetary policy uncertainty loom large
Preference by asset class	Equities	Japan	↔	Moderate	Earnings revisions continue to be positive, reaching new record highs driven by a weaker Yen. The market is nevertheless likely to go through a volatile environment for a while due to seasonal factors and the lead-up to the US presidential election.
Preference by asset class	Equities	China	↔	Low	The recent government program to destock property inventories is a positive factor. in addressing the structural overhang in the market. We are still wary of a possible "value trap" despite an improving perspective on the earnings side from depressed levels.
Preference by asset class	Equities	EM ex-China	↔	Moderate	Faster demand recovery in China would lend support to investors sentiment while a continued economic recovery alongside an easier monetary policy stance would benefit corporate earnings and lift valuation multiples.
Preference by asset class	Fixed Income	U.S. Treasuries	↔	Moderate	The lagged transmission of the tightening cycle over the past two years exerts downside risks to growth, keeping real yields in positive territory.
Preference by asset class	Fixed Income	DM sovereigns	↔	Moderate	The higher quality segments of the market is to be preferred, with inflation expectations anchored but conditioned by upward revisions of forecasts and policy uncertainty both in the Eurozone, the UK and Japan.
Preference by asset class	Fixed Income	EMD hard currency	↓	Low	With spreads tightening, the market is increasingly vulnerable to inflation and fiscal risks, while rising geopolitical uncertainty could affect sentiment further.
Preference by asset class	Fixed Income	EMD local FX	↔	Moderate	High nominal yields and prospects for a weaker US dollar and US policy rate cuts should support the asset class
Preference by asset class	Fixed Income	Corporate investment grade	↔	Moderate	US IG (Investment Grade) corporate fundamentals are not weakening, with limited risk of credit quality deterioration. Spreads widening should be counterbalanced by falling interest rates expectations.
Preference by asset class	Fixed Income	Corporate high yield	↔	Low	Both US and EU HY (High Yield) present improved credit quality as well as attractive yields, although spreads are on the tight side.
Preference by asset class	Alternatives	Private Debt	↑	Moderate	Positive flows continue as prospects for deep interest rate cuts fade for now. Low accessibility to credit still a plus, however competition from Banks is increasing.
Preference by asset class	Alternatives	Real Estate	↔	Moderate	Refinancing risks and high-for-longer rates are still a relative negative, but cheaper valuations are supportive of greater deal flow. Office in stabilization mode, still limited upside in the short term.
Preference by asset class	Alternatives	Infrastructure	↑	High	Income generation shields from high inflation as long-term contracts ensure steady cash flows in advanced economies' push toward energy efficiency.
Preference by asset class	Alternatives	Private Equity	↑	Moderate	Secondaries still very attractive while liquidity remains low, and primaries deal flow muted.
Preference by asset class	Alternatives	Hedge Funds	↔	Moderate	Multi-strategy approaches provide managers with enough flexibility to allocate across different factors at times of high policy uncertainty, suggesting greater directionality in trending markets.
Preference by asset class	Alternatives	Commodities	↔	Moderate	The higher-for-longer interest rates narrative adds risks around the soft-landing view. Gold and Silver are still well supported by solid demand. The oil market should remain undersupplied, with upside price risk. Industrial metals can benefit from China's recovery.
Preference by asset class	Currencies	USD	↔	Moderate	Wide trading ranges with limited upside, barring any sudden weakening of US growth.
Preference by asset class	Currencies	EUR	↔	Moderate	Cautiousness from the ECB on the future rates policy path should be sufficient to keep it within the recent trading range vs USD for a while still.
Preference by asset class	Currencies	JPY	↔	Low	The Japanese currency should continue to struggle in the short term as interest rates drivers remain weak for now.
Preference by asset class	Currencies	EM FX	↔	Moderate	High-yielding currencies should benefit from improved external and fiscal conditions.

Market Performance

Equity					
Global	**2024***	**2023**	**2022**	**2021**	**2020**
MSCI ACWI	11.17	22.20	-18.36	18.54	16.25
MSCI World	11.63	23.79	-18.14	21.82	15.90
MSCI Emerging Markets	7.17	9.83	-20.09	-2.54	18.31
US	**2024**	**2023**	**2022**	**2021**	**2020**
S&P 500	15.01	26.29	-18.11	28.71	18.40
Dow Jones Industrial Average	5.57	16.18	-6.86	20.95	9.72
NASDAQ Composite	16.98	44.64	-32.54	22.18	44.92
Russell 2000	0.84	16.93	-20.44	14.82	19.96
Developed Ex US	**2024**	**2023**	**2022**	**2021**	**2020**
Stoxx Europe 600	7.83	20.60	-15.66	16.66	7.38
FTSE 100	9.36	7.93	4.70	18.44	-11.55
DAX	9.40	20.31	-12.35	15.79	3.55
CAC 40	4.98	20.14	-6.68	31.88	-4.96
Nikkei 225	16.86	30.96	-7.34	6.66	18.26
Emerging Markets	**2024**	**2023**	**2022**	**2021**	**2020**
MSCI Asia ex Japan	9.36	5.98	-19.67	-4.72	25.02
Shanghai Composite	3.35	-11.73	-19.52	-10.06	18.85
MENA	**2024**	**2023**	**2022**	**2021**	**2020**
S&P GCC Composite (USD)	-1.96	9.98	-4.77	35.19	2.06
KSA - Tadawul All Share	-2.26	14.21	-7.12	29.83	3.58
Dubai - DFM General	-1.47	21.69	4.39	28.25	-9.87
Abu Dhabi - ADX General	-5.80	-6.20	20.30	68.24	-0.60
Qatar Exchange	-9.77	1.40	-8.13	11.40	0.10
Boursa Kuwait All Share	5.39	-3.14	6.44	29.97	-7.98
Boursa Kuwait Premier Market	4.43	-4.71	9.18	29.38	-9.37
Boursa Kuwait Main Market	10.26	3.91	-2.15	31.71	-3.89
Oman - MSM 30	2.40	-7.07	17.63	12.87	-8.10
Bahrain - Bourse All Share	3.37	4.02	5.45	20.64	-7.48
Egypt - EGX 30	8.07	70.53	22.17	10.18	-22.32

Fixed Income					
Global	**2024**	**2023**	**2022**	**2021**	**2020**
Global Aggregate	0.58	7.15	-11.22	-1.39	5.58
Global Government	0.60	6.91	-9.99	-1.62	5.00
Global Investment Grade Corp	0.84	9.10	-14.11	-0.79	8.26
Global High Yield	3.98	13.66	-11.05	2.53	5.73
Leveraged Loans	4.28	13.32	-0.77	5.20	3.12
Emerging Markets Hard CCY	2.89	10.30	-24.67	-4.52	7.05
Emerging Market Local CCY	-3.19	10.91	-10.18	-9.23	3.46
Regional	**2024**	**2023**	**2022**	**2021**	**2020**
US Aggregate	0.01	5.53	-13.01	-1.54	7.51
US Investment Grade Corporate	0.33	8.52	-15.76	-1.04	9.89
US High Yield Corporate	2.64	13.45	-11.19	5.28	7.11
Pan European Aggregate	-0.55	7.49	-18.93	-2.11	3.56
EU Investment Grade Corporate	0.84	8.84	-15.14	-0.24	2.81
EU High Yield Corporate	3.25	12.78	-11.13	4.21	1.76
Japan Aggregate	-13.54	-5.38	-17.14	-10.22	4.54
EM GCC Sukuk	1.35	5.65	-5.76	2.32	7.56
Commodities	**2024**	**2023**	**2022**	**2021**	**2020**
WTI Crude	13.93	-10.73	6.71	55.01	-20.54
Brent Crude	11.64	-10.32	10.45	50.15	-21.52
Gold Spot	13.17	13.10	-0.28	-3.64	25.12

* As of June 24, 2024

Glossary

Term	Definition
Alternatives	Non-traditional, private assets investments like private equity, private debt, real estate, infrastructure. They provide diversification and potential for higher returns compared to traditional assets like stocks and bonds but are illiquid and not traded or listed in public markets. Hedge funds invest in public markets but have limited liquidity. Physical commodities (e.g. Gold, Copper, etc.) are only traded in bulk on dedicated exchanges or represented by publicly traded certificates.
Asset Class	Groups of investments with similar characteristics and behavior in financial markets. Common ones include stocks, bonds, cash, and real estate. Diversifying across asset classes helps manage risk and potentially maximize returns.
Basis Point	A unit of measure used in finance to represent a percentage change in interest rates or other financial metrics, with one basis point equal to 0.01%.
Bond Yields	The interest rates earned by investors on bonds. They are influenced by factors like interest rates, inflation expectations, credit risk, and market demand. Higher yields indicate higher risk, while lower yields suggest lower risk or increased demand for bonds.
Bonds	Debt securities that provide fixed income and are considered safer than stocks.
Central Bank	A public financial institution that manages a country's foreign currency reserves, money supply and promotes economic stability through the supervision of the banking system.
Commodity	Tradable raw materials like oil, gold, wheat, and coffee. They're bought and sold on exchanges, and their prices are influenced by supply, demand, geopolitics, and weather.
Credit Rating	A credit rating is an independent assessment of the ability of a corporation or a government to repay a debt, either in general terms or regarding a specific financial obligation.
Credit Spread	The difference in interest rates or yields between two credit instruments, reflecting the risk premium investors demand for holding higher-risk instruments compared to lower-risk ones.
Disinflation	A decrease in the rate of inflation, achieved through monetary policy measures to reduce inflationary pressures and maintain positive economic growth.
Emerging Markets	Developing countries experiencing rapid economic growth and industrialization, offering investment opportunities but also risks.
Federal Reserve (Fed)	Is the central bank of the U.S., which regulates the U.S. monetary and financial system.
Hedge Funds	Investment funds that use various strategies to generate high returns. They are managed by professionals and can invest in a wide range of assets. However, they are typically only available to wealthy investors.
Inflation	The sustained increase in the general price level of goods and services in an economy, which reduces the purchasing power of money.
Interest Rates	The percentage charged for borrowing money or the return earned on savings or investments. They impact borrowing costs, investment decisions, and overall economic activity.
Monetary Policy	The actions taken by a central bank to control the money supply and interest rates in an economy, aiming to maintain price stability and promote economic growth.
Private Debt/Private Credit	A strategy that involves investing in privately-held debt securities, such as loans or bonds, issued by non-publicly traded companies. It offers potential income, diversification, and higher yields compared to traditional fixed-income investments.
Private Equity Secondary	A strategy that involves acquiring existing private equity investments from other investors instead of investing directly in new companies or funds. It provides liquidity, diversification, and potential value in the private equity market.
Private Equity	An investment in privately held companies, aiming to improve their performance and generate returns through active management and eventual sale or IPO.
Stocks	Ownership in a company, potential for returns through appreciation and dividends, but higher risk than bonds due to market and company fluctuations.
Stagflation	Persistent high inflation combined with high unemployment and stagnant demand in a country's economy.
Sukuk	A sukuk is a sharia-compliant bond-like instrument
Volatility	Statistical measure of the dispersion of returns for a given financial instrument, reflecting the degree of price fluctuation and uncertainty associated with its value over a specific period of time.
Vibecession	Depressed levels of confidence despite clear evidence of improving economic conditions

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