Asset Management Department

Market Perspectives

Improving Sentiment

November 2023

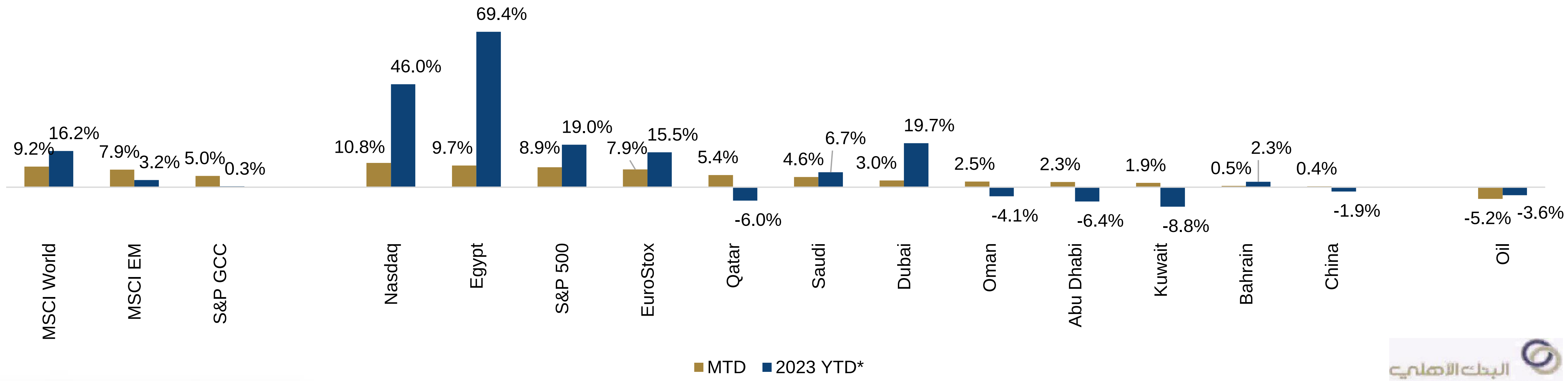
Section 1

Markets Performance

Equity Markets Performance

- In November, global markets surged amid renewed speculation of a dovish shift by the Federal Reserve. The positive momentum was fueled by the November FOMC meeting, signaling possible peak in rates given commentary on “restrictive” financial conditions. A lower-than-expected US CPI report for October and an upward revision of Q3 US GDP further boosted confidence.
- As a result, global bonds flourished, marking the strongest month since the 2008 financial crisis. The Bloomberg US aggregate bond index recorded its best month since May 1985, with a +4.5% gain. Simultaneously, risk appetite rose, with the S&P 500 and NASDAQ posting significant gains, and the VIX index experiencing its largest monthly drop since the previous November.
- Taking a cue from the risk-on sentiment, GCC markets also closed +5% higher MoM, driven by gains in Saudi, Dubai and Abu Dhabi.
- We turned incrementally positive on regional and global markets driven by resilient economic data and cooling inflation. In our view, lower rates and modestly rising earnings will help equities build on this year’s gains. We see an opportunity for laggards to catch up as the headwind of rising yields subsides. Our preferred markets continue to remain Saudi and UAE in the region with selective exposure to US and Chinese equities

Global and Regional Equity Market Performance (ranked by YTD performance)

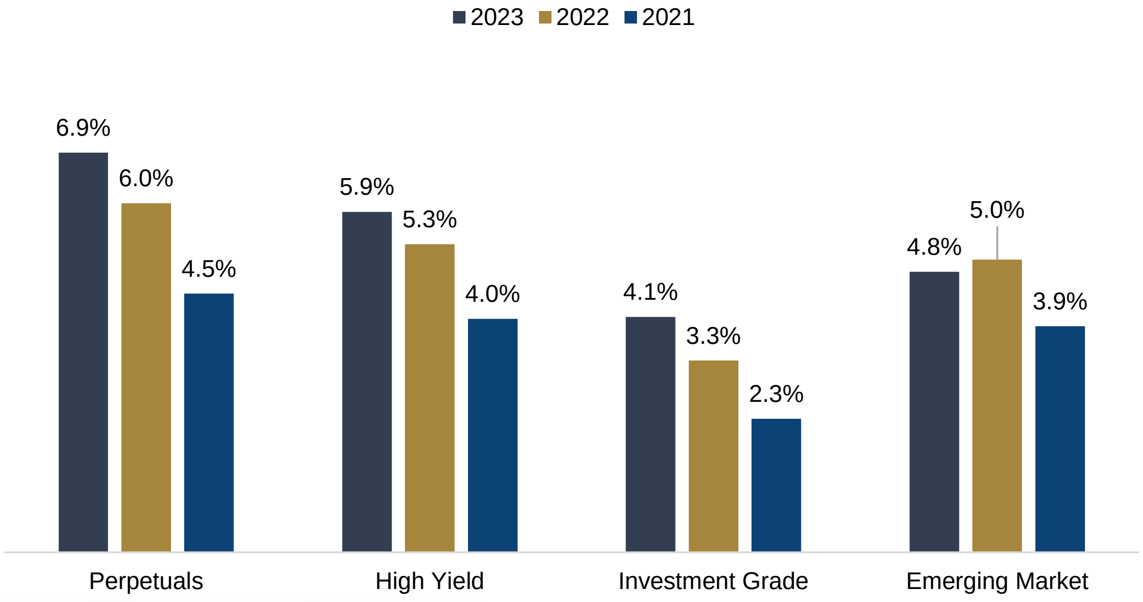


Source: ahlibank AMD, Bloomberg as of November 30th 2023

Fixed Income Markets Performance

- Encouraging trends in both US Inflation and Employment along with comments from the Fed that elevated long end rates were making the Fed's fight against Inflation a bit easier, all caused a huge move in the US Interest rate market.
- We continue to believe future direction to be data dependent, but we believe we are unlikely to break the highs that we saw in long end rates in late October when the 10 Year UST briefly broke above 5% and the 30 year hit a high of 5.18%. In our view it would require a material reacceleration of inflation and a reversal in the employment market, for long end rates to move materially higher from here. Given current data, we believe that it is unlikely to happen, at least on a sustained basis.
- Our conviction going into 2024 continues to be in the long duration IG space. Although talks of a recession are on the table, the strength in the US economy continues to showcase resilience corporate earnings continue to be robust. We are aware of possible widening in spreads however the degree of which should be limited given by resilient economic data.
- In terms of regional credits, we maintain our view, that total returns will be driven by declining yields, which will more than compensate for widening spreads resulting into a probable high single digit capital gain returns in 2024.

Fixed Income Yields



Bloomberg indices Performance

Indices	QTD	2023 YTD
Emerging Markets	4.1%	1.5%
Investment Grade	4.2%	0.8%
Sukuk	1.3%	-0.5%
Corporate High Yield	2.7%	2.8%

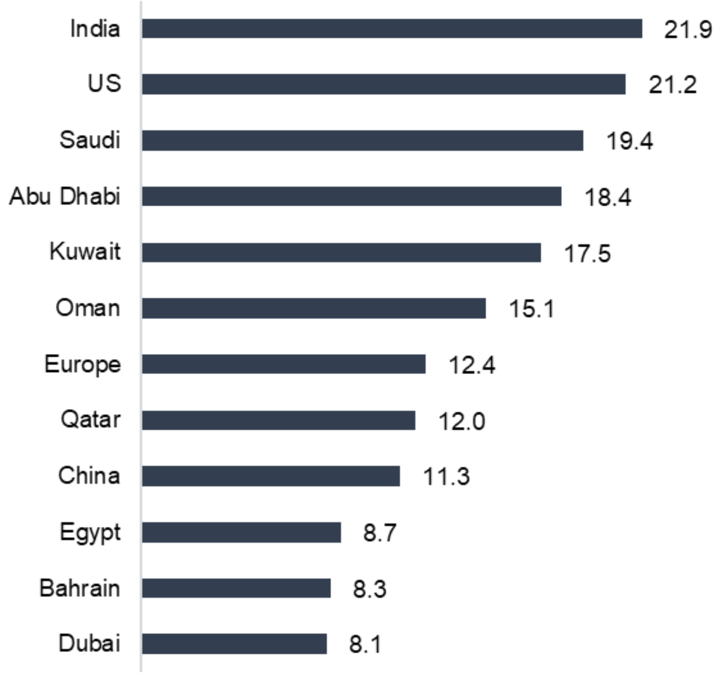
Source: ahlibank AMD, Bloomberg as of 30th November 2023

Relative Valuations

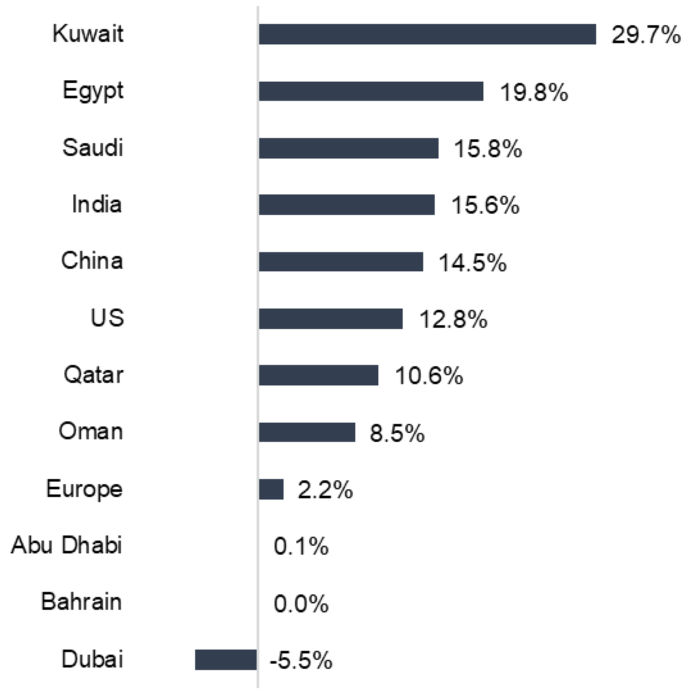
- As yields trend lower investors are pricing for growth acceleration in 2024 pushing valuations higher.
- US valuations are in line with its 5 Year average– with the majority of the valuation weight attributed to the Magnificent 7, large tech companies.
- Ex- Magnificent 7, S&P 500 valuations are at 18.1x PE, under the 5 year average.
- Regional valuations are justified given structural growth and supportive oil prices*. Higher Dividend Yields in the region also offer support to equity prices.

Abu Dhabi and Kuwait Valuations are skewed given low analyst coverage.

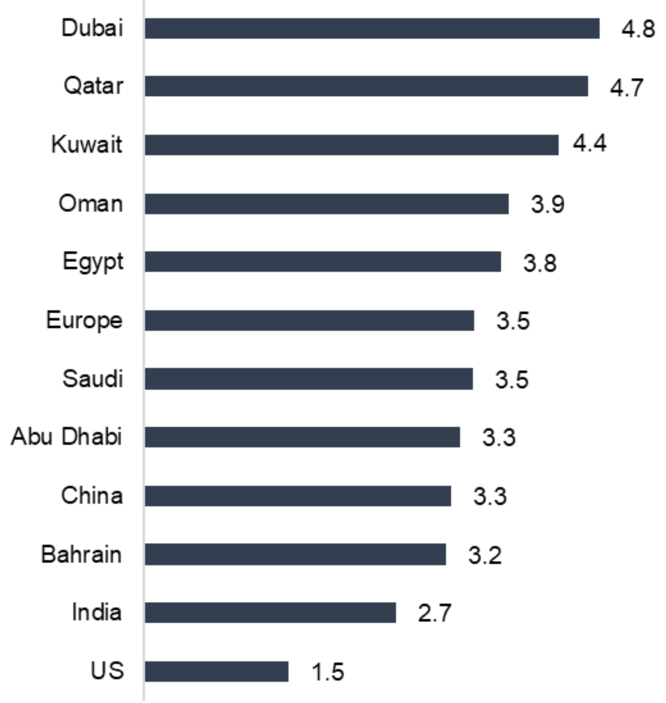
Forward PE (x)



Earnings Growth (Fwd)

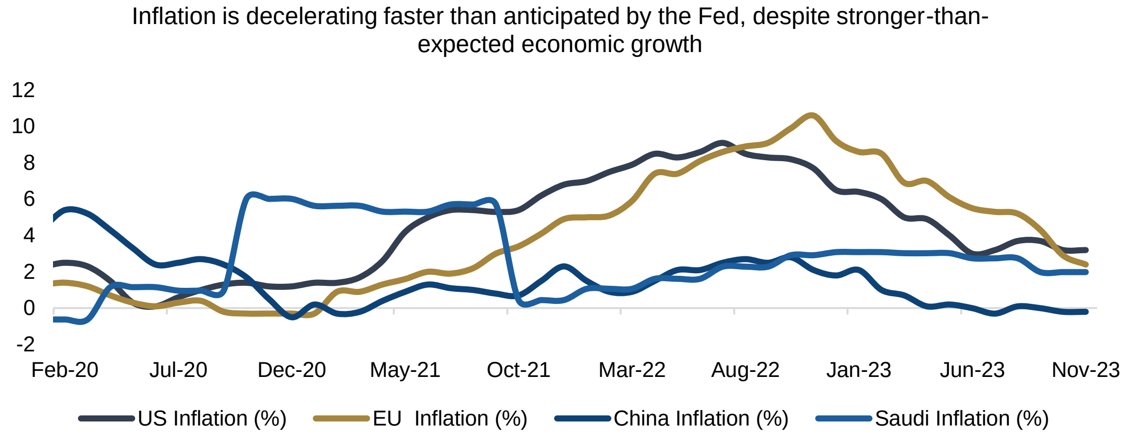


Dividend Yield (%)

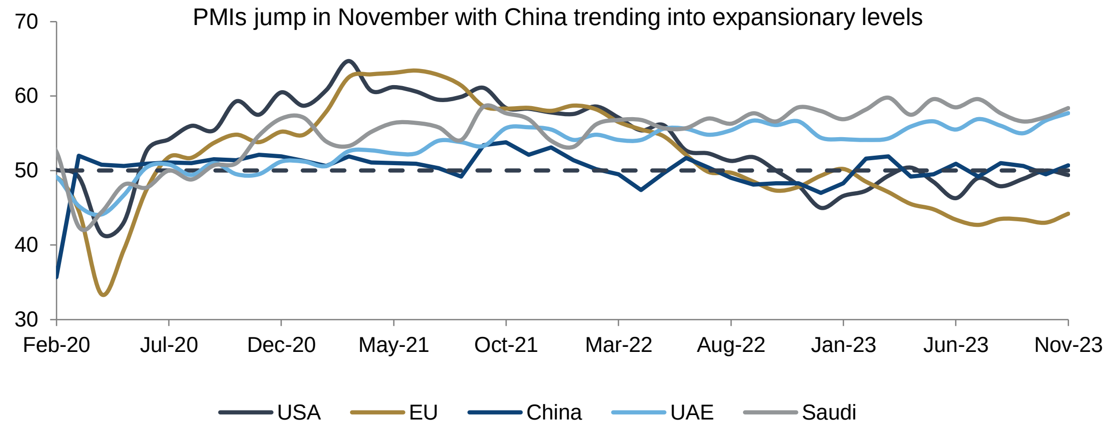


Economic Indicators

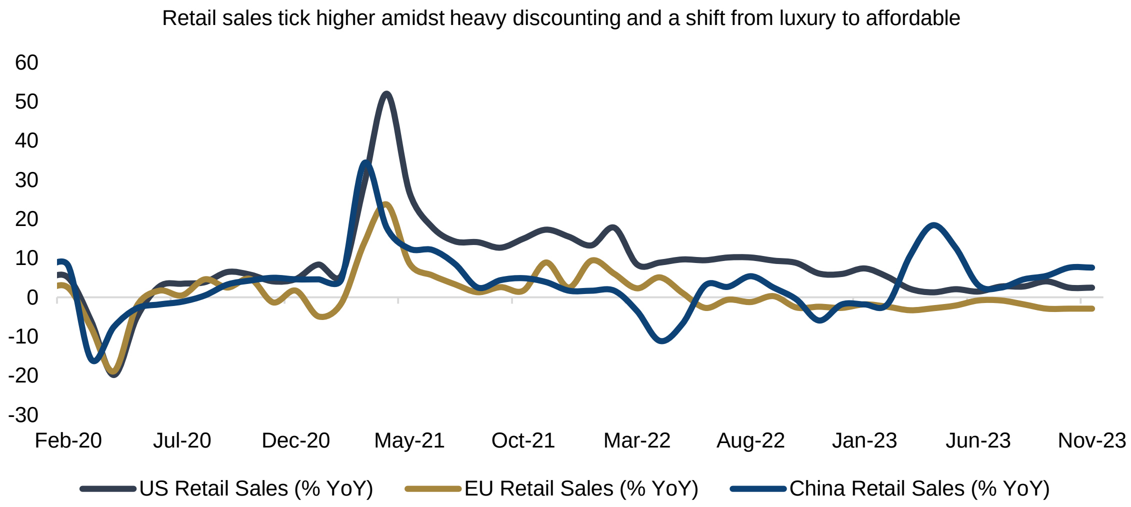
Headline Inflation (%)



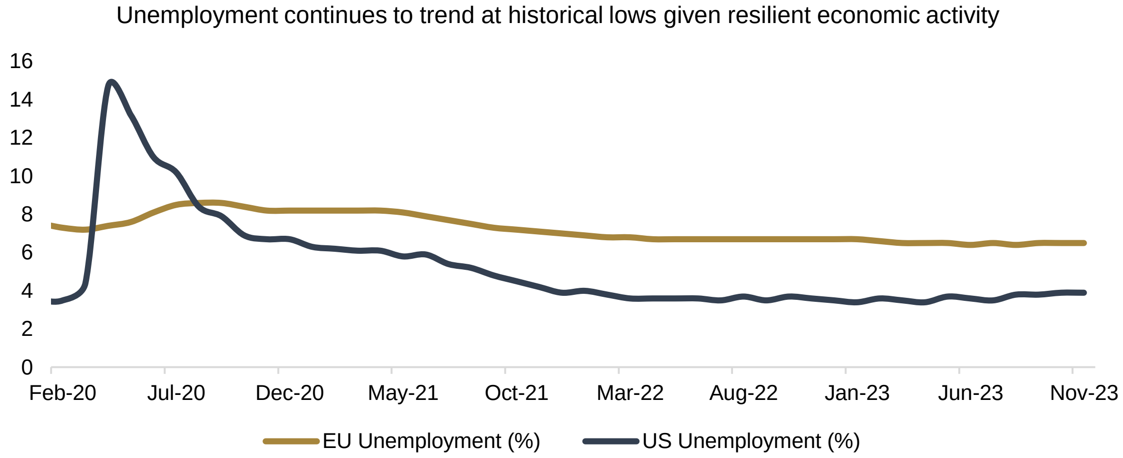
Manufacturing Purchasing Manager Index (PMI)



Retail Sales (%)



Unemployment Rate (%)



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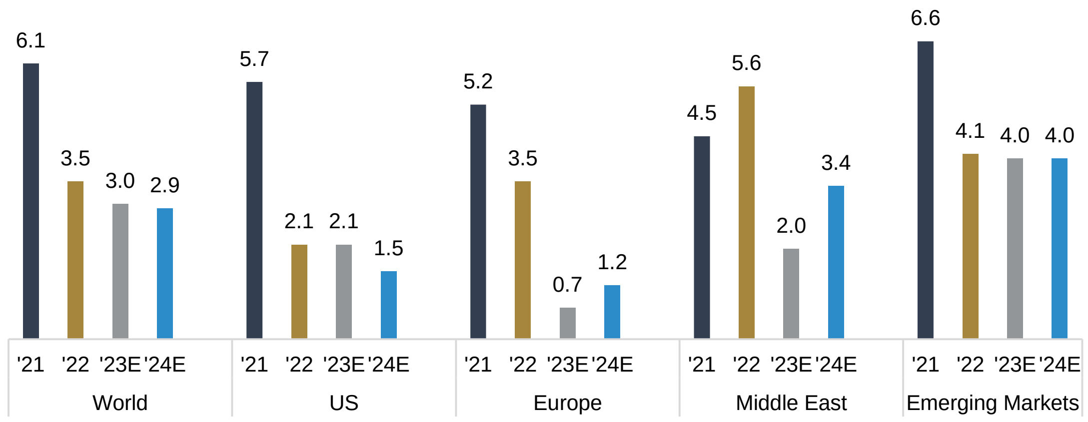
Macro Forecasts– IMF

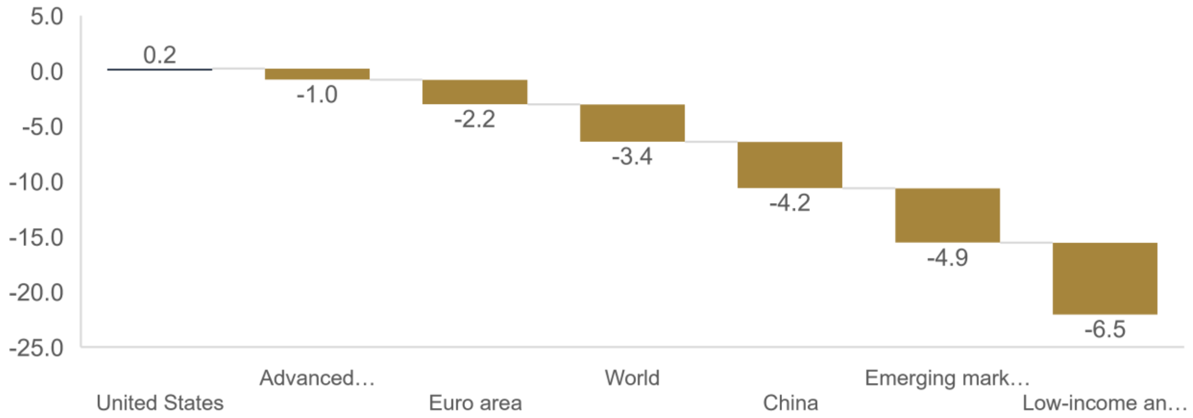
IMF Global Growth Forecasts (%)

IMF revises US growth higher whilst downgrading growth in Europe. Elsewhere stable



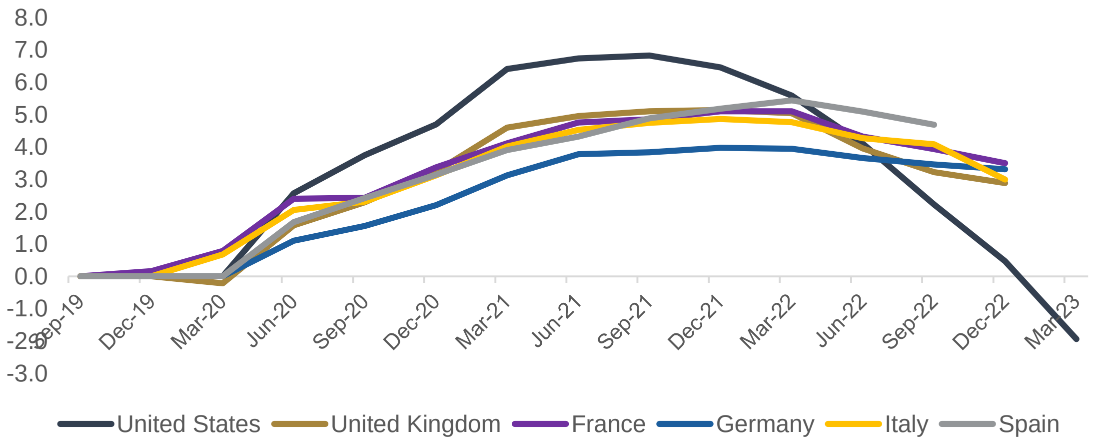
Real GDP Loss post 22' Covid Era

United States continue to be resilient amidst high interest rate regime, with low income and developing economies seeing significant loss



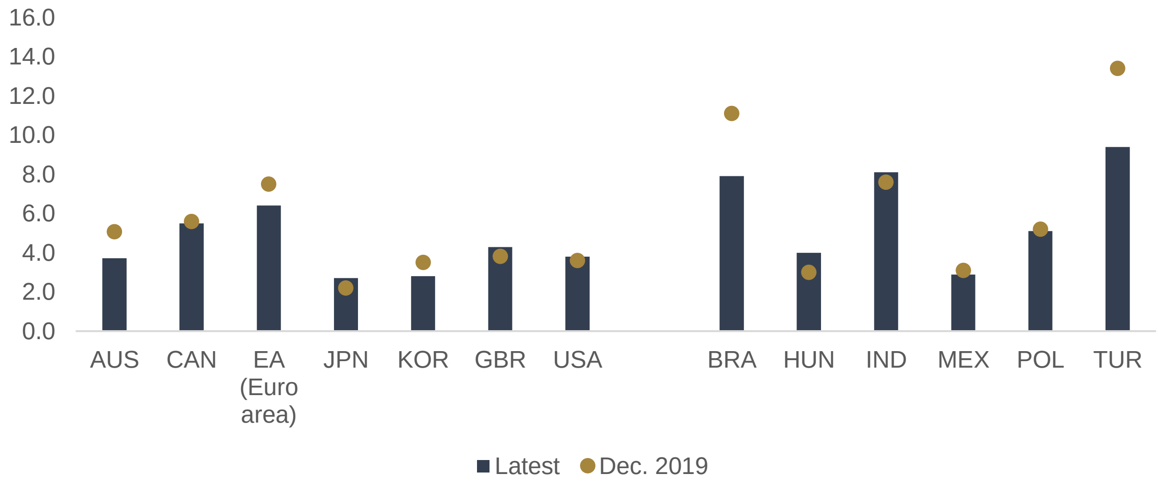
Cumulative Excess Savings in Advanced Economies

Savings decline in the US as interest rate costs burn through consumer savings.



Unemployment rate (%)

Labor market still tight but easing

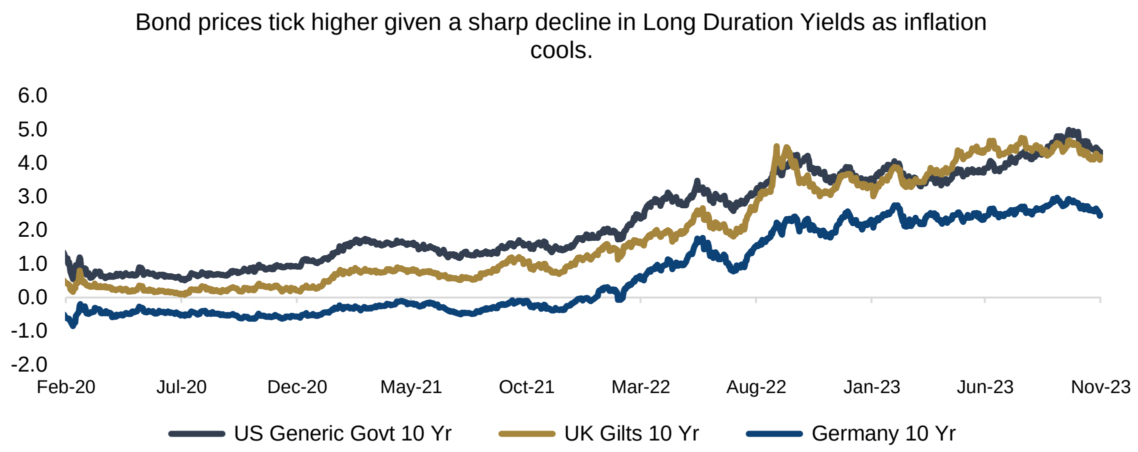


Source: ahlibank AMD, Bloomberg as of November 30th 2023

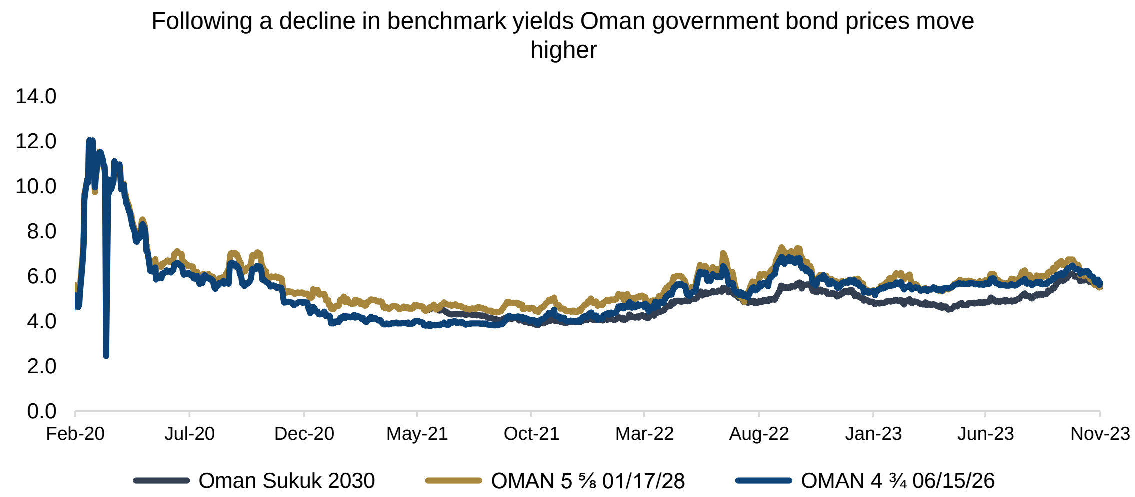
Fixed Income Monitor

Credit Default Swaps	Yields	MTD Change	YTD Change
Global High Yield To Worst	9.01%	-0.98	-0.40
EM USD Aggregate YTW	7.62%	-0.75	0.10
ABUDHAB CDS USD SR 5Y D14	40.03 bps	-10.16	-5.74
DUBAI CDS USD SR 5Y D14	63.54 bps	-18.80	-20.50
BHRAIN CDS USD SR 5Y D14	221.72 bps	-33.29	-27.53
QATAR CDS USD SR 5Y D14	42.42 bps	-15.45	-5.81
KSA CDS USD SR 5Y D14	51.18 bps	-16.63	-10.55
OMAN CDS USD SR 5Y D14	127.70 bps	-25.41	-57.48

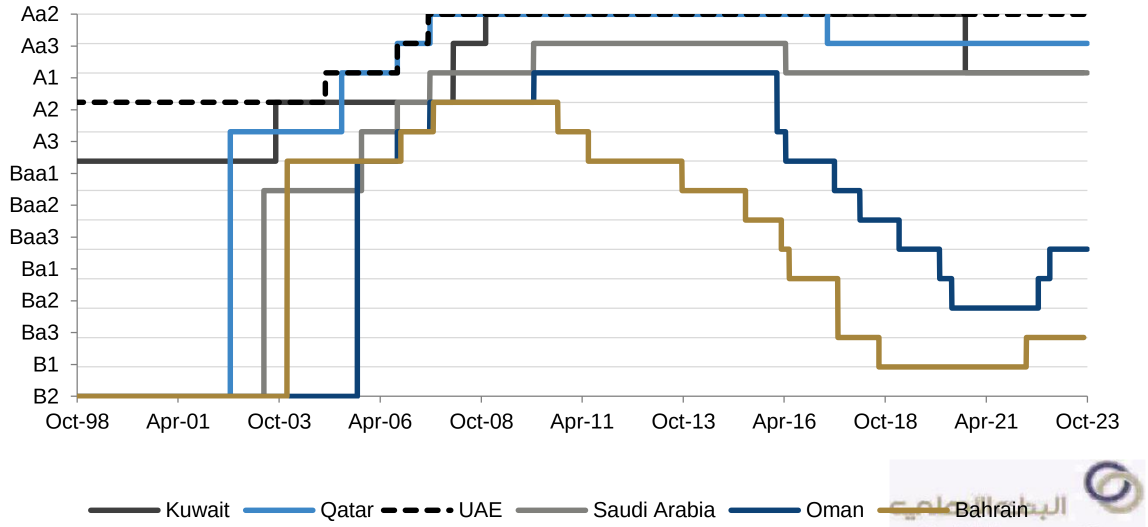
10 Year Yields



Oman Government Bond Yields



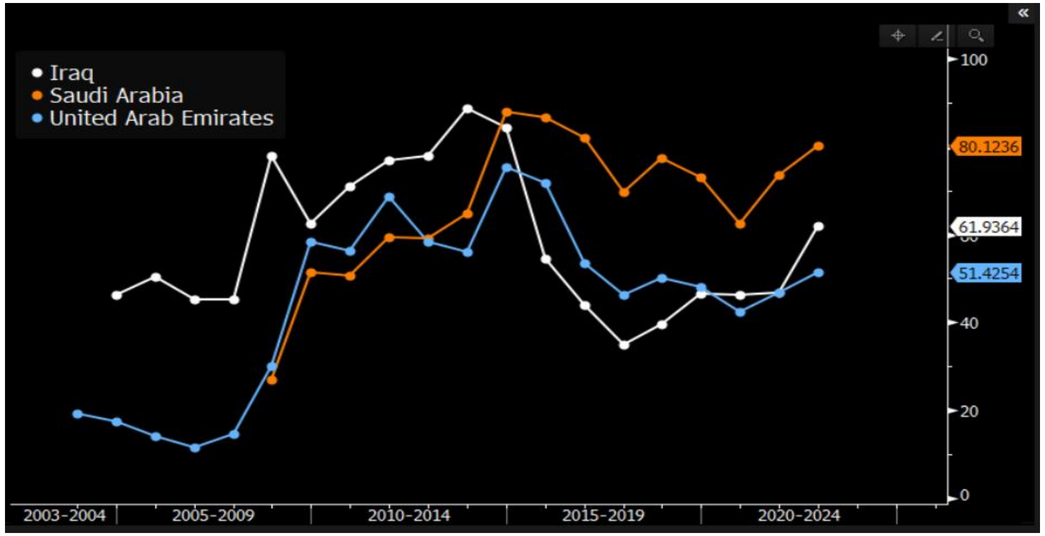
GCC Long-term issuer rating (foreign) by Moody's



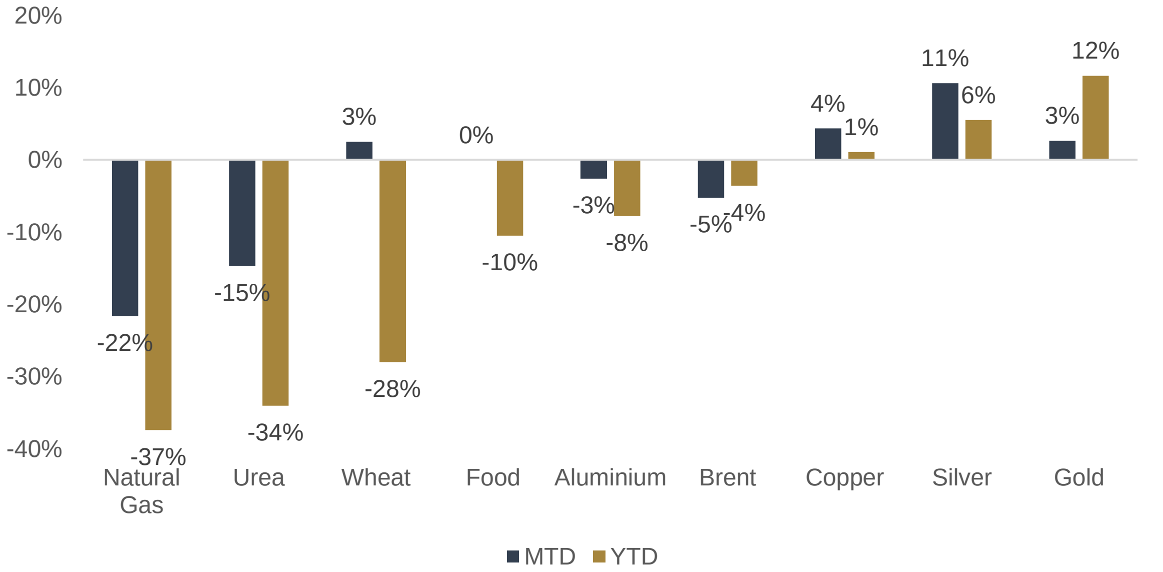
Oil Prices Remain Supported

- OPEC+ continues to manage Oil Markets by extending production cuts into Q1 2024 amidst waning demand.
- In the medium-term, investors should expect oil prices to remain in the range of $75-$90 per barrel, unless the prospect of recession and the price effects on demand growth could push oil prices below the range indicated.
- Fertilizer bi-products witness excess supply and crunched demand moving into the winter.
- Metals continue to outperform other commodities with Gold leading the way.

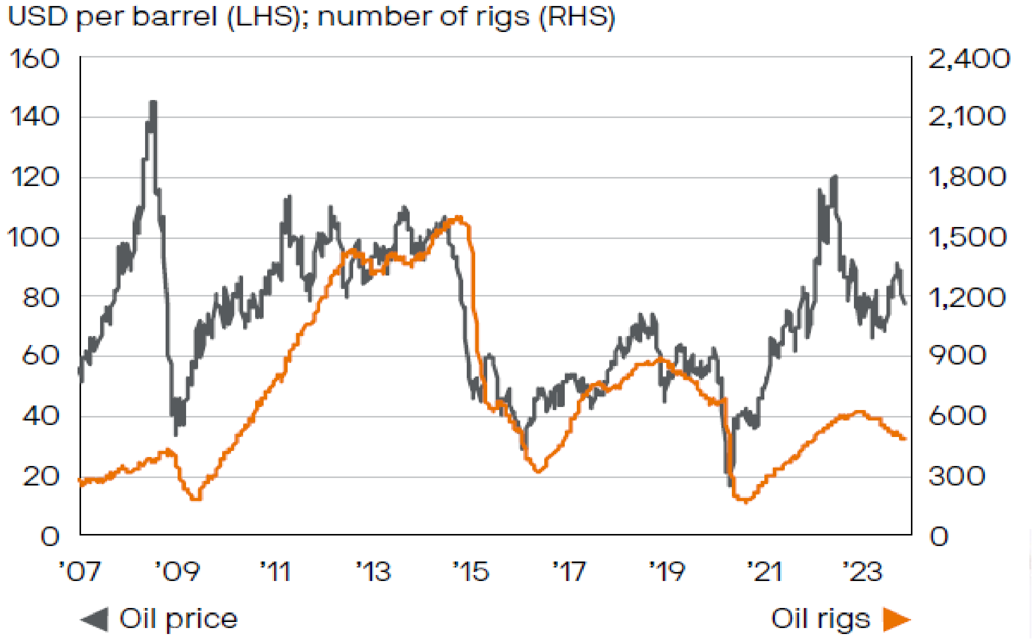
Fiscal Breakeven Prices by Country ($/BBL



Commodity Performance (ranked by YTD Performance)



Oil and Climate events may create cost shocks and push prices higher



Source: ahlibank AMD, Bloomberg as of November 30th 2023

Section 2

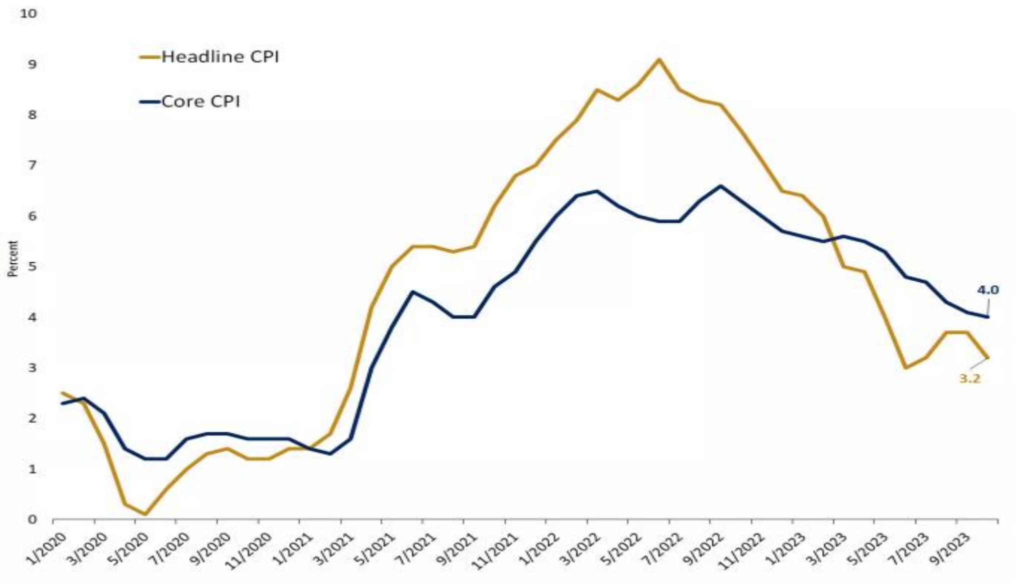
Investment Outlook

Key Themes

1 Progress on inflation continues

- Inflation is decelerating faster than anticipated by the Fed, despite stronger-than-expected economic growth.
- The headline Consumer Price Index (CPI) remained unchanged, reducing the annual rate from 3.7% to 3.2%, mainly due to a significant drop in gas prices.
- Core CPI, excluding food and energy, decreased from 4.1% to 4.0%, the lowest in two years but still above the Fed's target.
- This suggests a likelihood of policymakers revising inflation projections lower in the upcoming meeting. For context, September projections foresaw the Fed's preferred inflation measure at 3.7% for end-2023 and 2.6% for end-2024.

Inflation remains on a downtrend, taking some pressure off the Fed

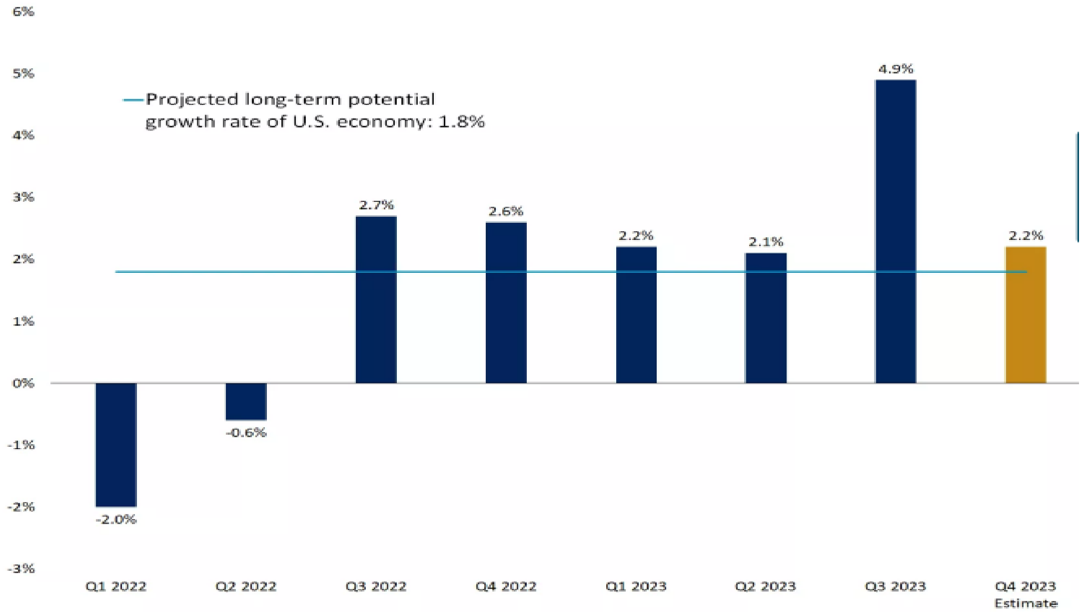


Source: Bloomberg.

2 Growth is gently slowing, with activity still expanding

- This month's consumer and employment data indicate a gradual slowdown in household consumption and a cooling labor market, aligning with the Fed's inflation-lowering efforts.
- Fourth-quarter GDP tracking estimates are normalizing after a robust third quarter, signaling a manageable adjustment rather than a worrisome downturn.
- Jobless claims rose, reaching their highest levels since August, and continuing jobless claims also increased to a two-year high. However, both remain about 30% below historical averages over the past 50 years, indicating a solid starting point.

GDP growth will likely slow in Q4 but remain near the economy's potential

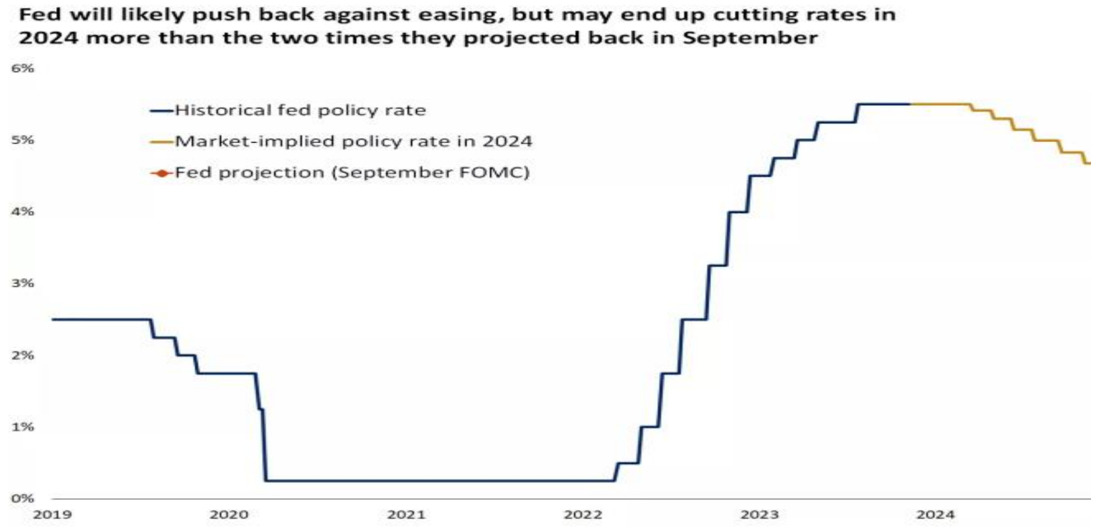


Source: Bloomberg, Atlanta Fed GDPNow Forecast.

Key Themes

3 Restrictive to cuts the new driver for capital markets

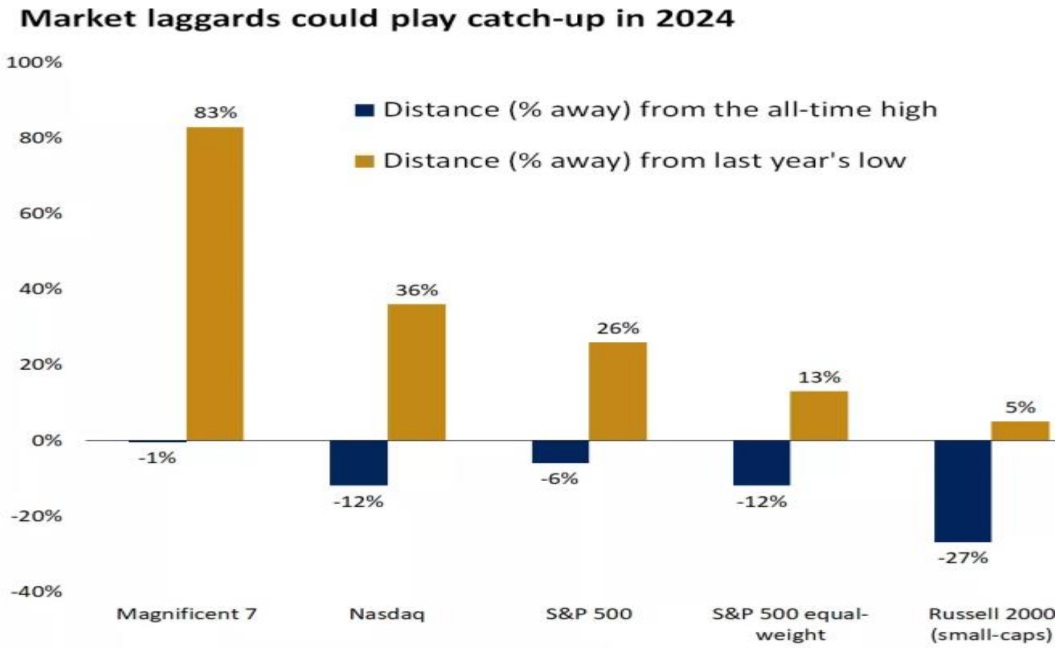
- Equity and bond markets rallied in November due to easing inflation pressures and signs of a cooling labor market, boosting confidence that the Fed has concluded its rate-hiking cycle.
- The 2-year Treasury yield, sensitive to Fed policy, dropped below 5.0%, and the 10-year yield, tied to growth, fell below 4.5%. Following the lowest core inflation in over two years, markets swiftly ruled out a December hike and factored in earlier rate cuts.
- We believe last month's rate surge may have marked the cycle peak, supporting an extended Fed pause and potential rate cuts in H2 2024. If price pressures moderate in 2024, real policy rates may become more restrictive, prompting the Fed to cut rates more than the currently projected two times.



Source: Bloomberg, September FOMC meeting projections.

4 Market Laggards could play catch-up

- Most equity gains so far have been led by a few key stocks, the "Magnificent 7“. The S&P 500 is down only 6% from its 2022 peak, while the equal-weight S&P 500 is down 12%. The small-cap proxy, Russell 2000, is down 27% from its highs.
- However, last month we saw signs of the rally broadening out. As rising yields ease, there's an opportunity for laggards like bond proxies, small-caps, and value-style investments to catch up.
- A potential smooth economic cooling allowing Fed rate cuts in 2024 could weaken the U.S. dollar, benefiting international returns. With rates peaking, extending duration in fixed income seems opportune, with bond returns likely outperforming cash in 2024.



Source: ahlibank AMD, Bloomberg as of November 30th 2023

Section 3

Investment Strategy

Near-term Outlook

Near-term Outlook	Underweight	----------------	Neutral	----------------	Overweight	Comments
Equities						
US						Cautiously optimistic for US given recent rally and underlying strong breadth.
Europe						Neutral in Europe given easing inflationary pressures and attractive valuations.
Emerging Markets						Turned optimistic on EM markets as we see dollar strength wane.
MENA						Positive driven the strength in oil prices but wary of geo-political risks.
Fixed Income						
US Treasuries						We have turned neutral in US treasuries as we see positive risk reward for non cash assets.
Global Investment Grade						We have turned positive on long duration investment grade bonds. CDS spreads widening to be key risk albeit risk is low.
Global High Yield						Turned neutral on Global High Yields given rising risk of credit defaults if growth slows
GCC Debt						Prefer Fixed Income securities linked to Sovereign or Financial Services sector

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