Asset Management Department

Market Perspectives

Higher for Longer – Adjusting to a New Normal

April 2024

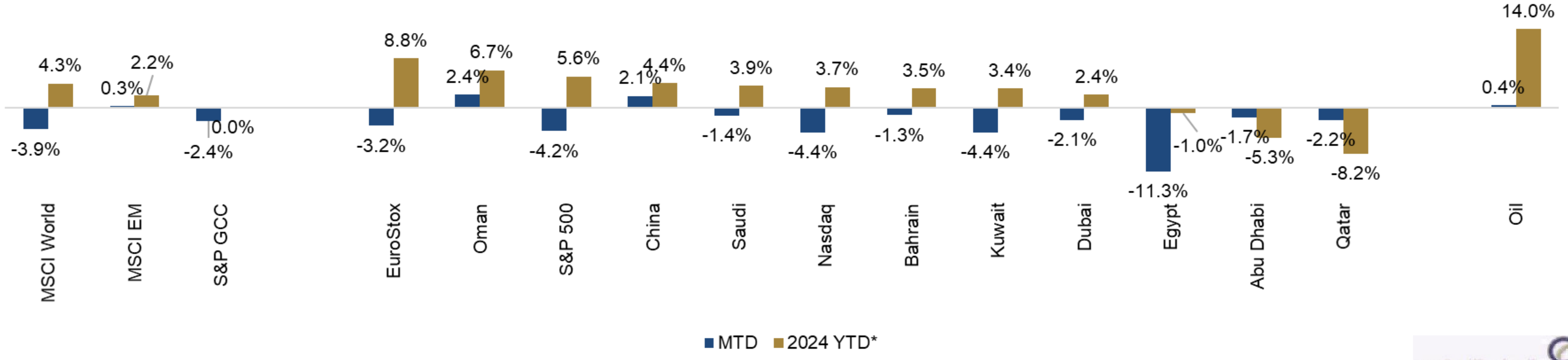
Section 1

Markets Performance

Equity Markets Performance

- April marked a challenging period for both equity and fixed income markets, primarily driven by concerns surrounding persistent inflation. Hot US inflation data, coupled with a resilient private demand despite weak first-quarter GDP figures, led to fears that central banks might delay monetary policy easing. Consequently, global bonds fell by 2.5%, while developed market equities experienced a decline of 3.7%.
- Federal Reserve Chair Jerome Powell's recent remarks underscored the evolving monetary policy landscape. Powell kept the possibility of interest rate cuts alive, signaling a cautious approach amidst lingering inflation concerns.
- The changing interest rate environment significantly impacted interest rate-sensitive sectors such as small caps and REITs. Small caps ended the month down by 5.1%, and REITs experienced a decline of 6.3%, notably trailing the overall large-cap market return.
- Regional equities also came under pressure due to the macro-overhang and heightened geo-political risk. All GCC markets closed in the red with the exception of Oman which was up 2.4% MoM.

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

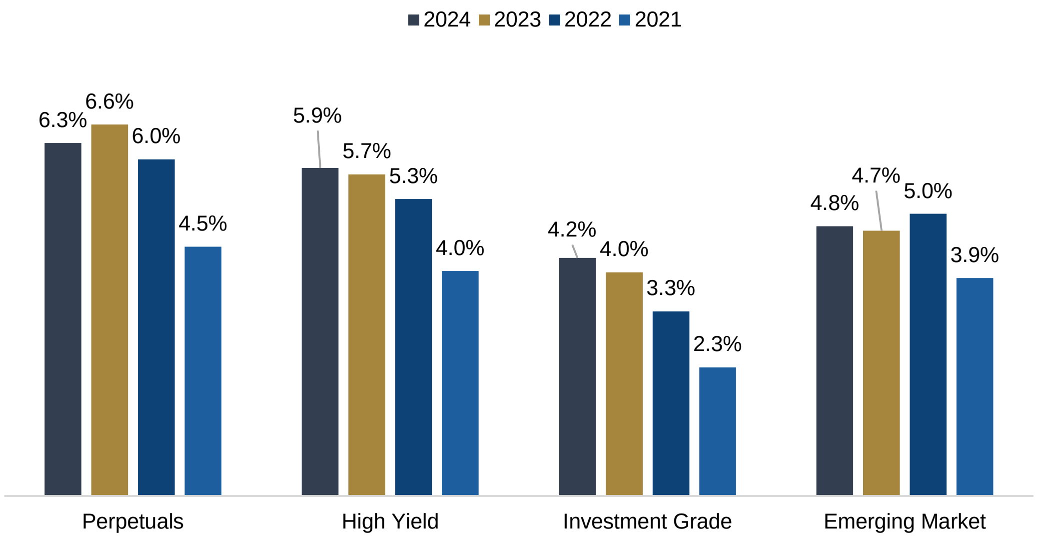


 Source: ahlibank AMD, Bloomberg as of April 30th 2024

Fixed Income Markets Performance

- Fixed income markets reacted to the changing rate expectations, with markets pricing out anticipated rate cuts in the US for the year. Notably, 2-year Treasury yields rose by 40 basis points to 5.0%, and 10-year Treasury yields increased by 47 basis points to 4.7%. Despite these shifts, euro sovereigns outperformed US Treasuries and UK Gilts, with euro high yield being the only major sector to avoid negative returns.
- The Federal Reserve's monetary policy stance continues to be a key driver. While Chair Powell reiterated the possibility of rate cuts later in 2024, concerns about inflation persist. March's Consumer Price Index (CPI) data confirmed a continuation of inflationary pressures.
- Amidst the uncertainty surrounding the timing and path of Fed policy, we continue to advocate for quality and medium duration to protect against adverse movements in rates and spreads.
- We expect EM credit is expected to become more attractive in the longer term once investors are convinced of disinflation's progress toward the target level of 2%, justifying potential monetary loosening.

Fixed Income Yields



Bloomberg indices Performance

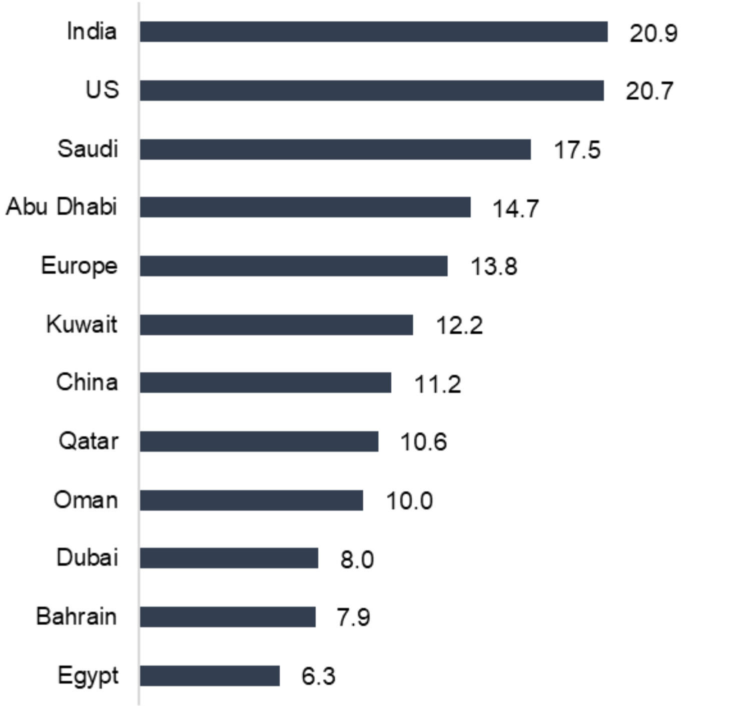
Indices	MTD	2024 YTD
Emerging Markets	-2.8%	1.2%
Investment Grade	-3.6%	-4.5%
Sukuk	-1.6%	-2.6%
Corporate High Yield	-1.9%	1.2%

Source: ahlibank AMD, Bloomberg as of April 30th 2024

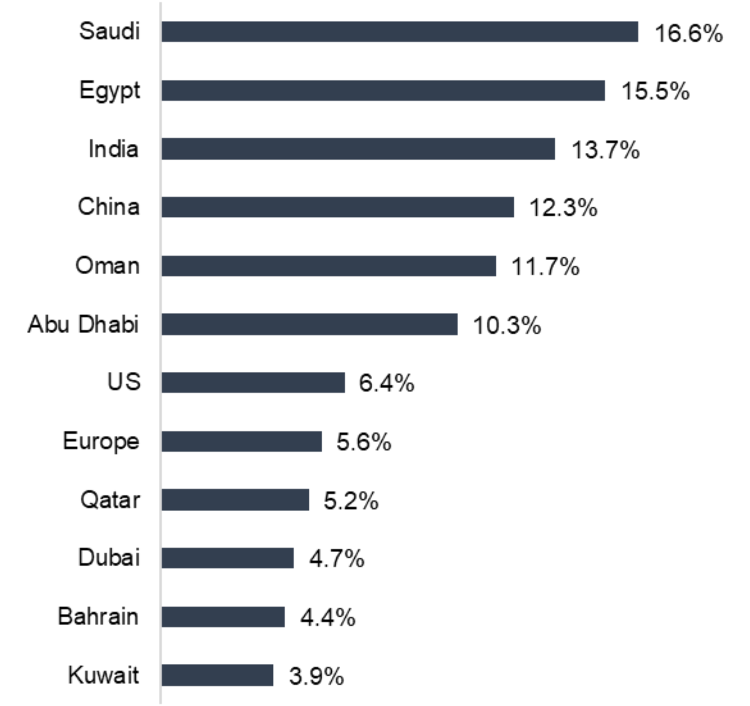
Relative Valuations

- US valuations are above its 5 Year average– with the majority of the valuation weight attributed to mega capped stocks, specifically Nvidia and large tech companies.
- Robust earnings, particularly from tech giants, lifted valuations, providing support to equity markets.
- In China, forward valuations have remained near their 10-year lows. This suggests a potential for significant upside as the country addresses its current challenges.
- Structural growth potential and supportive oil prices continue to justify regional valuations. Higher dividend yields remain a compelling long-term attraction for income-oriented investors.

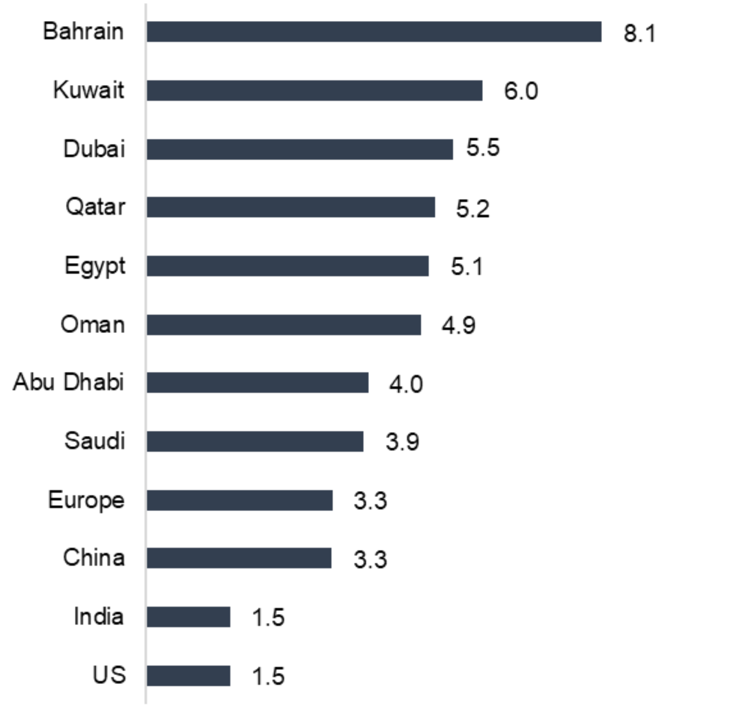
Forward PE (x)



Earnings Growth (Fwd)

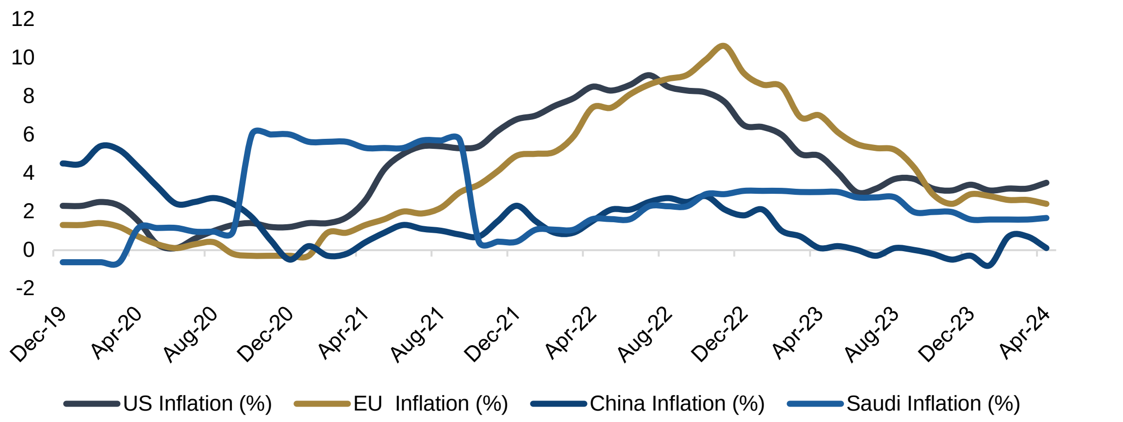


Dividend Yield (%)

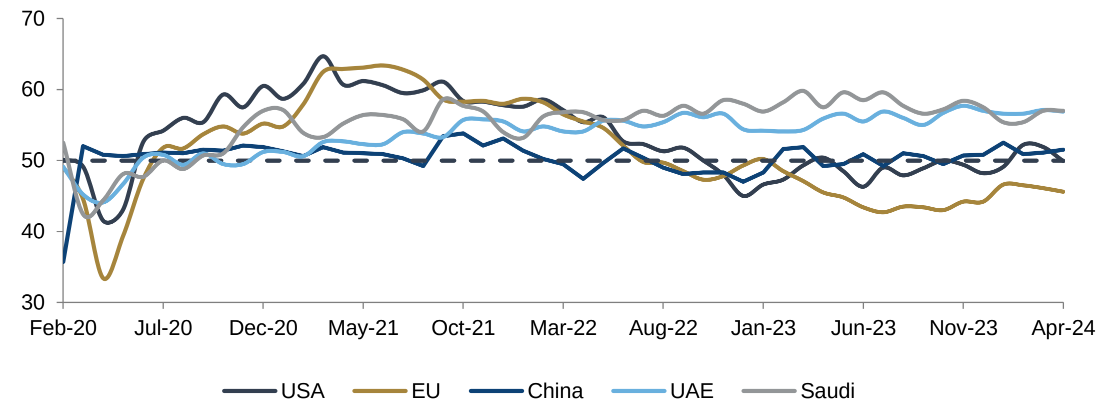


Economic Indicators

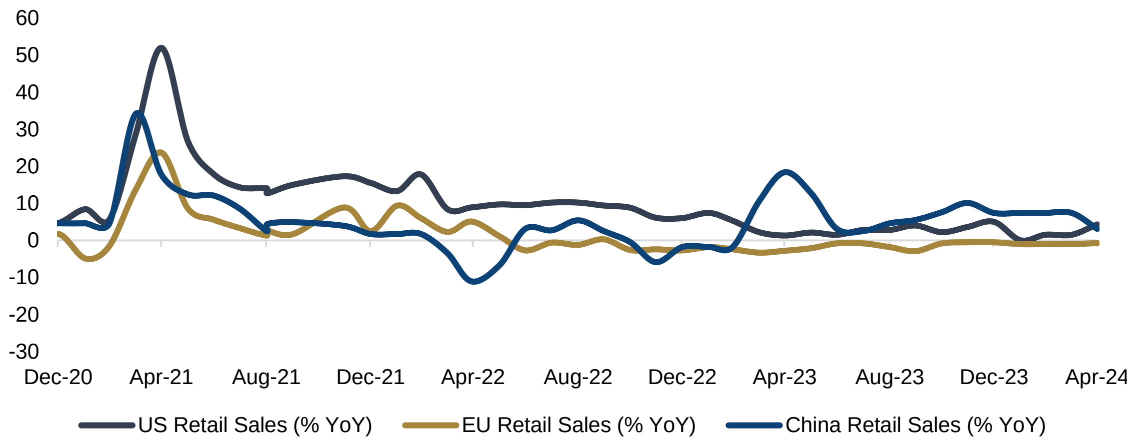
Headline Inflation (%)



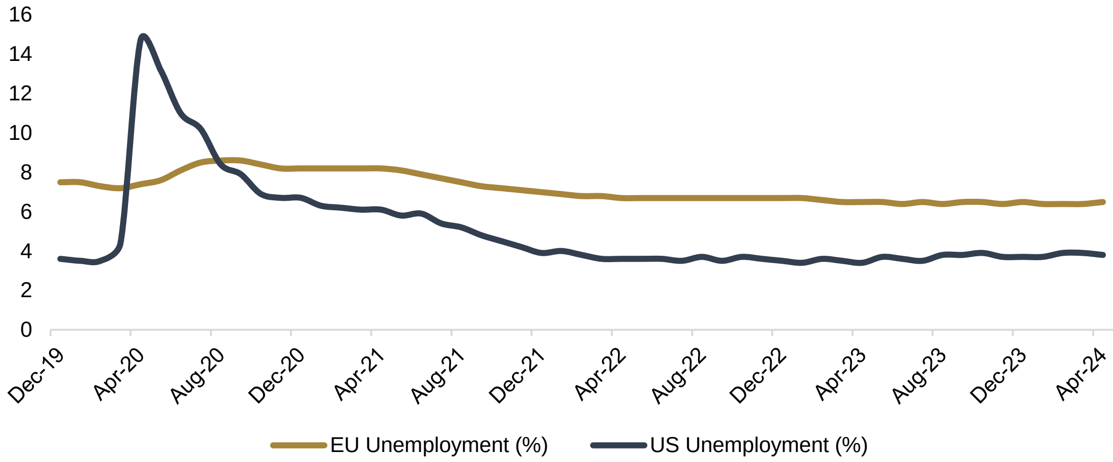
Manufacturing Purchasing Manager Index (PMI)



Retail Sales (%)



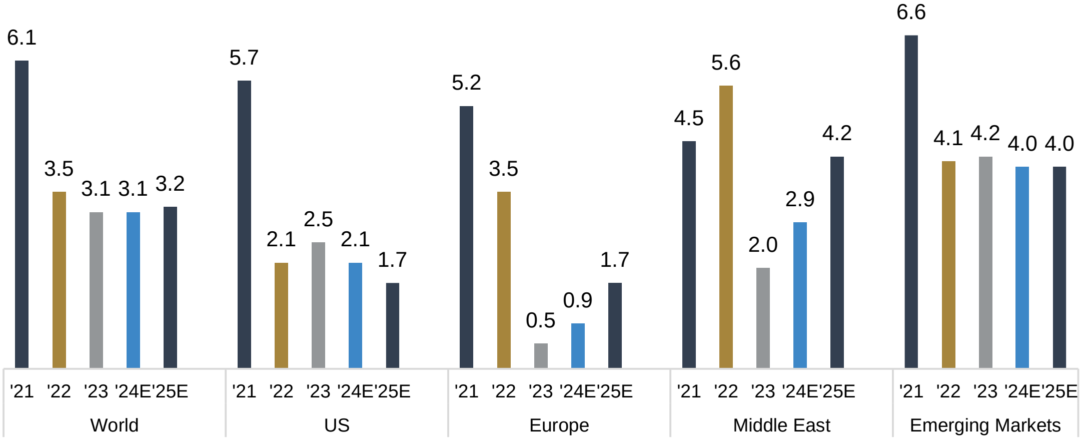
Unemployment Rate (%)



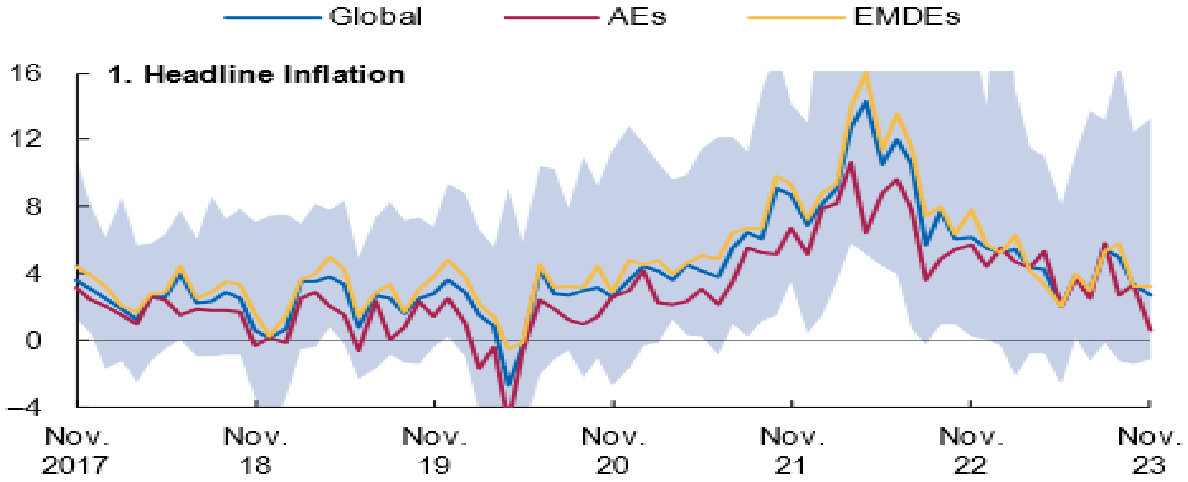
Macro Forecasts– IMF

IMF Global Growth Forecasts (%)

IMF ups global growth for 2024 and 2025

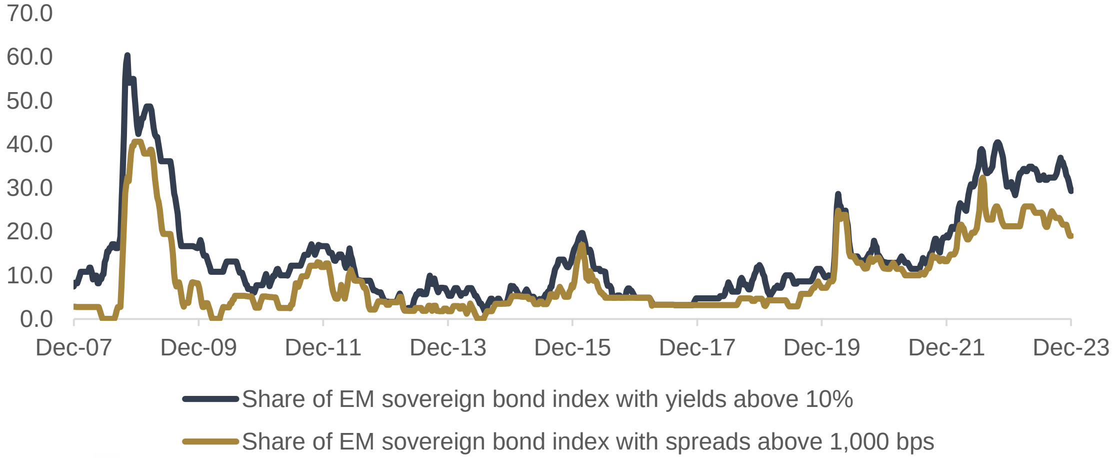


Global Inflation: Rise and Fall



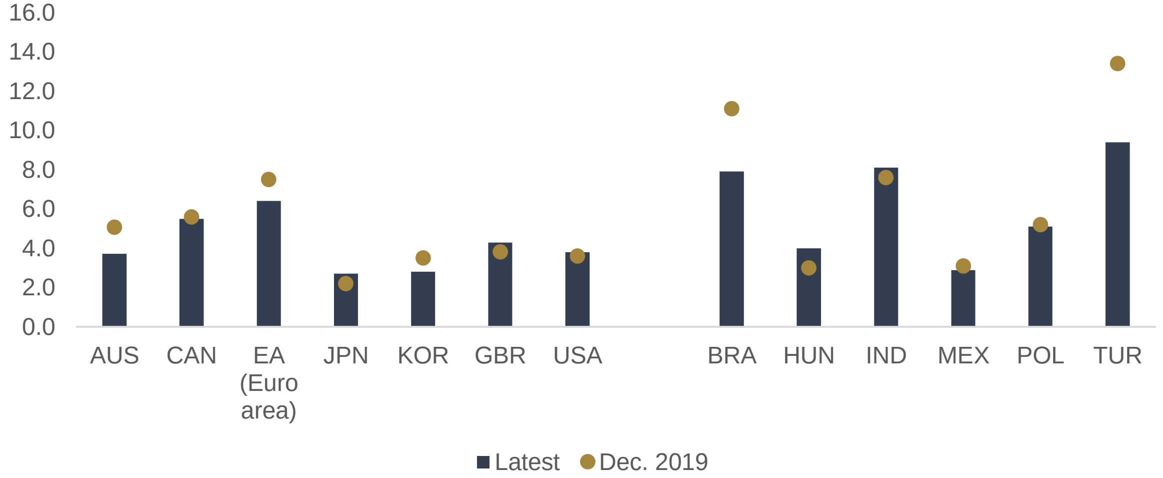
EM default spreads normalizing with yields still higher– EM is a theme for 2024

EM Fixed Income trade at attractive valuations



Unemployment rate (%)

Labor market still tight but easing

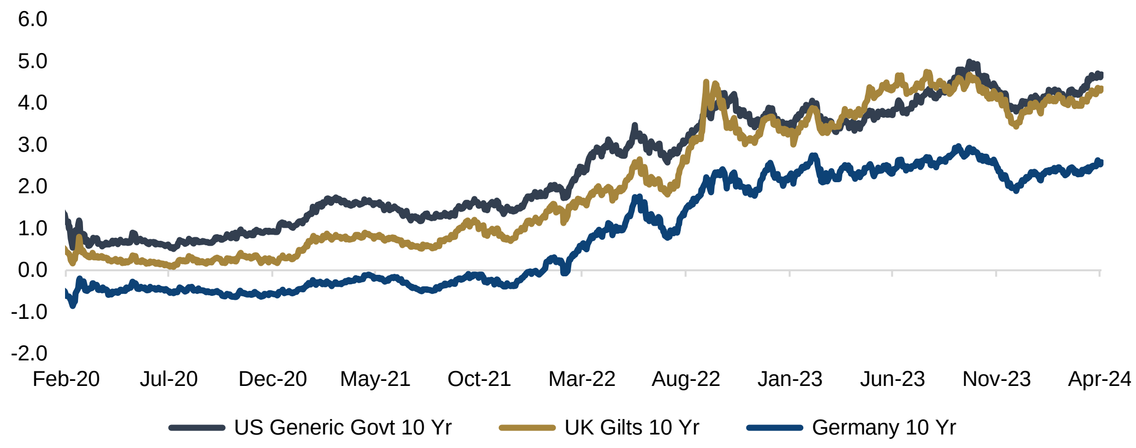


Source: ahlibank AMD, Bloomberg as of April 30th 2024

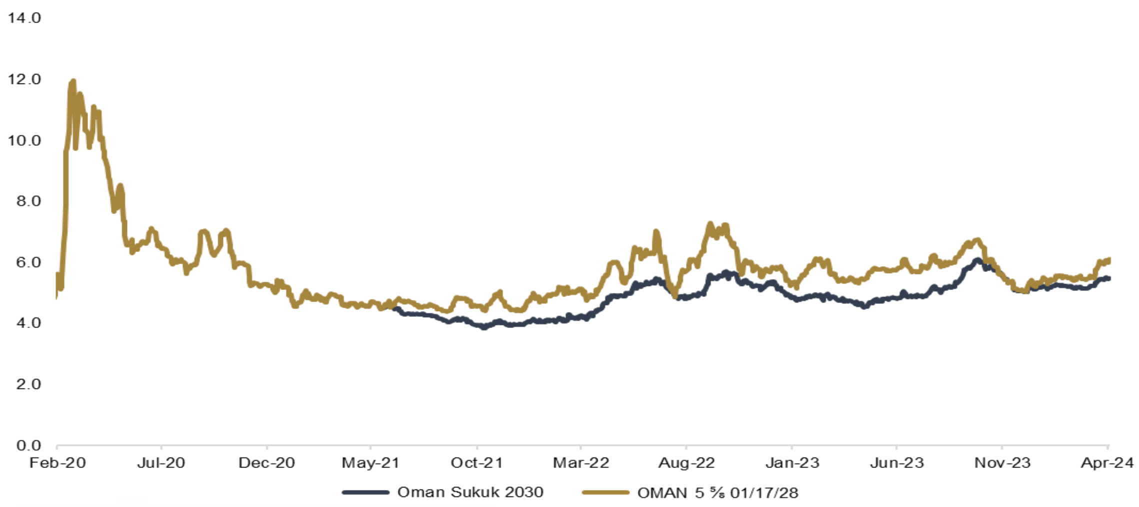
Fixed Income Monitor

Credit Default Swaps	Yields	MTD Change	YTD Change
Global High Yield To Worst	8.46%	0.37	0.26
EM USD Aggregate YTW	7.43%	0.39	0.39
ABUDHAB CDS USD SR 5Y D14	42.01 bps	4.76	0.39
DUBAI CDS USD SR 5Y D14	70.87 bps	8.22	7.64
BHRAIN CDS USD SR 5Y D14	194.58 bps	4.69	-10.65
QATAR CDS USD SR 5Y D14	43.43 bps	5.02	-1.62
KSA CDS USD SR 5Y D14	53.82 bps	2.34	1.17
OMAN CDS USD SR 5Y D14	103.52 bps	3.01	-12.98

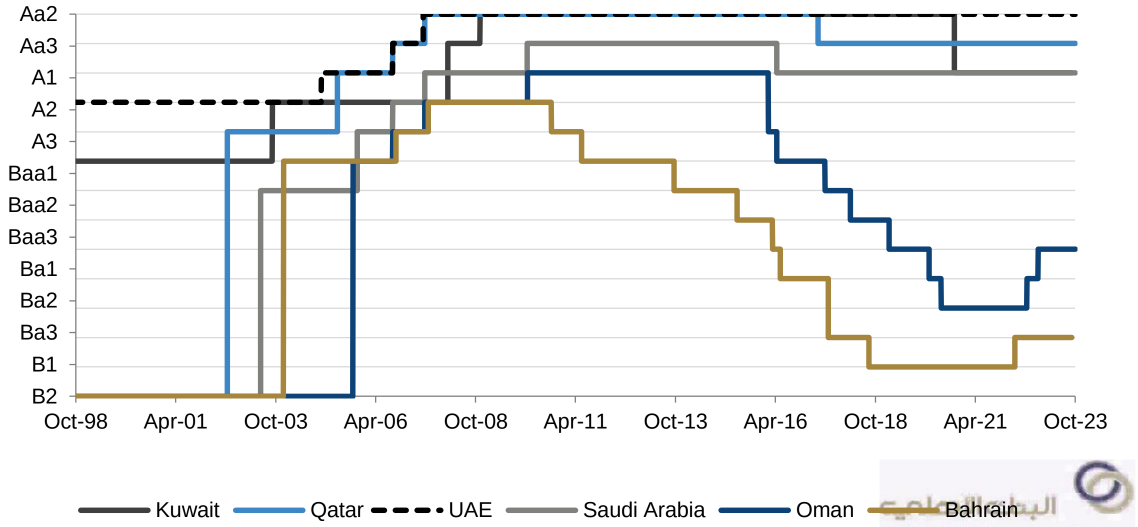
10 Year Yields



Oman Government Bond Yields



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

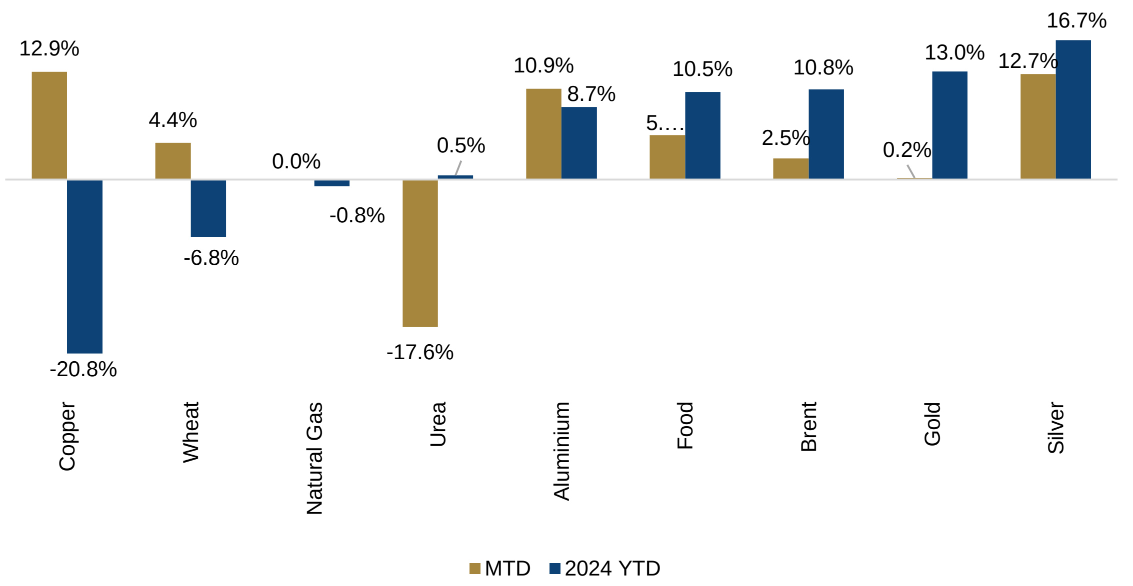


Source: ahlibank AMD, Bloomberg as of April 30th 2024

Oil & Commodity Price Outlook

- The Middle East tensions are significantly impacting key commodities, particularly oil and gold. This is contributing to an increase in commodity prices, with oil prices exceeding $90 per barrel in early April for the first time in six months.
- Copper prices have surged to a two-year peak due to concerns over supply shortages and indications of stronger global industrial output. This suggests a robust demand for industrial metals amidst ongoing economic activities.
- Despite expectations of a slight overall decline in commodity prices in 2024 and 2025, key commodities such as oil, gold, and copper are projected to see increases. Oil prices are expected to rise by 2%, gold by 8%, and copper by 5% in 2024.
- Commodity prices remain significantly elevated compared to pre-pandemic levels even with subdued GDP growth. Several factors are contributing to this persistence, including geopolitical tensions, investments in clean energy transition, and China's industrial and infrastructure investments offsetting weaknesses in its property sector.
- In our view, risks to commodity price forecasts are tilted to the upside, primarily due to the potential broadening of conflict in the Middle East. Such conflicts could further elevate global inflation and delay monetary easing.

Commodity Performance (ranked by MTD Performance)



Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

Production	2019	2020	2021	2022	2023*	2024*	2019-2024
U.S.	19.5	18.6	19.0	20.3	21.9	22.3	14.3%
OPEC	33.1	29.4	30.5	32.9	32.2	31.9	-3.7%
Russia	11.5	10.5	10.8	11.0	10.8	10.4	-9.3%
Global	**100.3**	**93.9**	**95.7**	**100.0**	**101.8**	**102.2**	**1.9%**
Consumption							
U.S.	20.5	18.2	19.9	20.0	20.3	20.4	-0.7%
China	14.0	14.4	15.3	15.2	15.9	16.3	16.1%
India	4.9	4.5	4.7	5.0	5.3	5.6	13.6%
Global	**100.9**	**91.6**	**97.1**	**99.2**	**101.0**	**102.4**	**1.5%**
Inventory Change	-0.6	2.3	-1.4	0.8	0.8	-0.3	

Source: ahlibank AMD, Bloomberg as of April 30th 2024

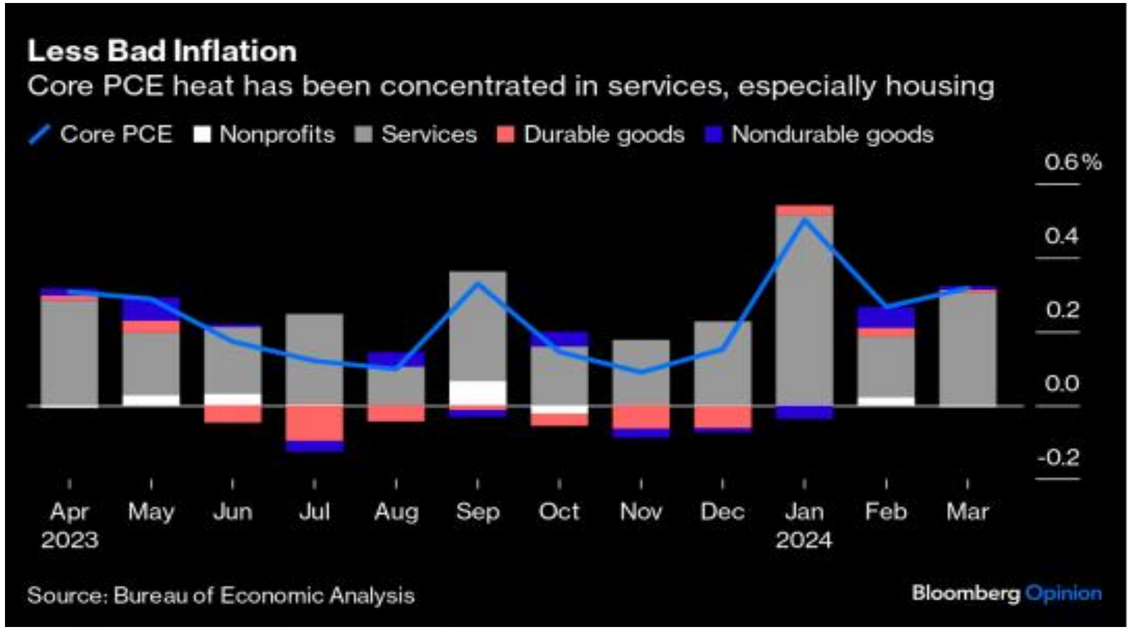
Section 2

Investment Outlook

Key Themes

1 March Inflation Data: Higher for Longer Interest Rates

- Investors are giving up on initial projections of 4-6 cuts for 2024 as recent inflation data remains stubborn. Wall street chatter is no longer about a soft-landing but instead how sticky inflation will mean higher-for-longer monetary policy.
- In March, the core personal consumption expenditure (PCE), rose by 0.3% MoM, and 2.8% YoY. Wages rose 0.7% for a second month, supporting consumer spending and signaling a robust labor market.
- Inflationary pressures means that the first rate cut is likely delayed, pushing the fed into a more hawkish stance.
- However, a high interest rate regime shouldn't necessarily signal market pessimism, as a strong economy on the other hand is evidence of robust corporate growth.



2 U.S. Earning Season

- The first three weeks of April saw US equities on a downward trend, with the major US indexes losing ground. However, mega capped tech stocks led the market recovery as earnings exceeded expectations.
- The latest wave of tech earnings during the last week of the month overshadowed worries about sticky inflation and geo-political tensions.
- Q1 results for the S&P 500 members showed an increase of +4.6% in earning growth compared to the same period last year, and 78% of them have beaten EPS estimates.
- Given elevated valuations, earnings will be a key driver of equity prices going forward

1Q24 EPS Beat, Hit, Miss, Growth Table				Relative to Preseason Day@			Relative to Reporting Day			Growth Rate	
	Report Count	% Count Reported	% MCap Reported	Beat	Hit*	Miss	Beat	Hit*	Miss	At Start of Season@	Current
S&P 500	**71**	**14.2%**	**15.5%**	**77.5%**	**7.0%**	**15.5%**	**81.7%**	**4.2%**	**14.1%**	**3.75%**	**2.44%**
Energy	2	8.7%	6.7%	0	2	0	1	1	0	-26.3%	-26.0%
Materials	1	3.6%	3.2%	0	1	0	1	0	0	-24.7%	-25.7%
Industrials	10	12.8%	10.3%	8	0	3	8	0	2	-2.0%	-2.8%
Discretionary	9	17.0%	8.3%	7	1	1	7	1	1	14.4%	14.8%
Staples	8	21.1%	28.7%	7	0	1	7	0	1	0.2%	1.1%
Health Care	5	7.8%	22.9%	5	0	0	5	0	0	-8.3%	-26.1%
Financials	27	38.0%	43.1%	20	1	6	20	1	6	3.0%	9.3%
Technology	5	7.7%	7.1%	4	0	0	5	0	0	20.0%	20.0%
Communications	2	10.5%	6.2%	2	0	0	2	0	0	26.7%	28.1%
Utilities	0	0.0%	0.0%	0	0	0	0	0	0	20.0%	19.1%
Real Estate**	2	6.5%	16.2%	2	0	0	2	0	0	1.7%	1.7%
ex-Energy	69	14.2%	15.9%	55	3	11	57	2	10	6.62%	5.17%
ex-Technology	66	15.2%	19.0%	51	5	11	53	3	10	0.09%	-1.51%
ex-Financial	44	10.3%	15.9%	35	4	5	38	3	10	3.91%	0.79%
ex-Energy & Top 5	69	14.6%	21.5%	55	3	11	56	2	10	1.64%	-0.08%

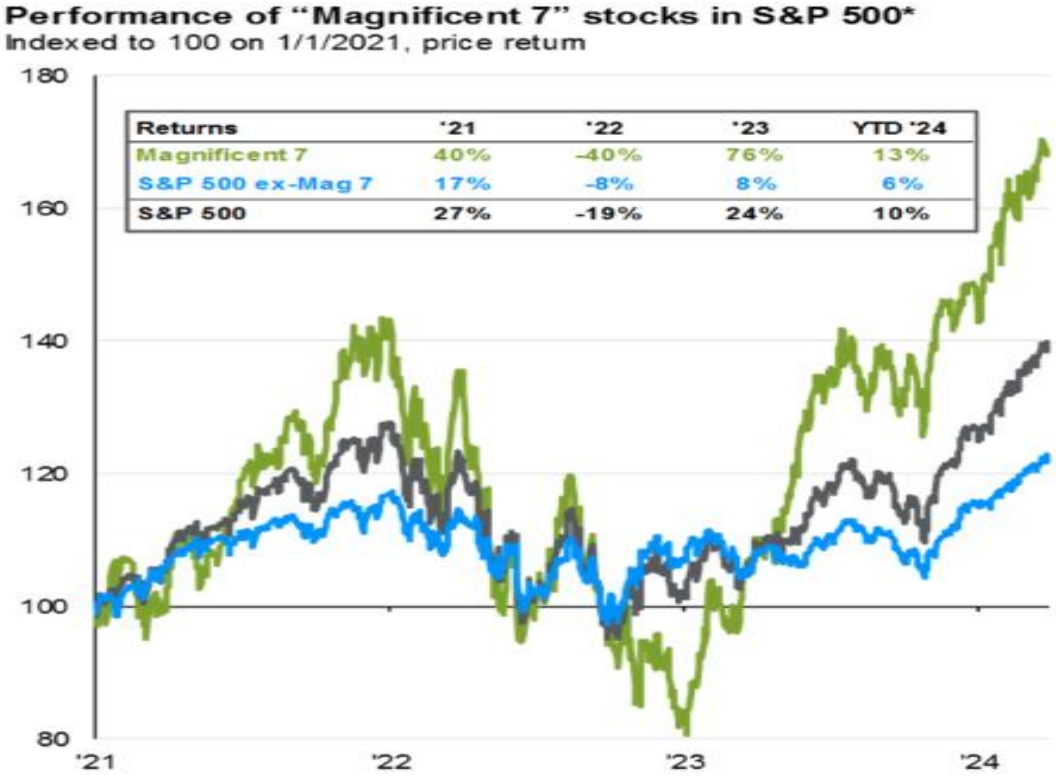
* "Hit" rate counted as within 2 decimal places (in the unit of "cent") consensus estimates on observed date.
** Beat, Hit, Miss counts are relative to FFO.
@ Uses estimates as of April 10th or prior.

Bloomberg

Key Themes

3 Tech Stocks: Can They Continue to Drive Market Momentum?

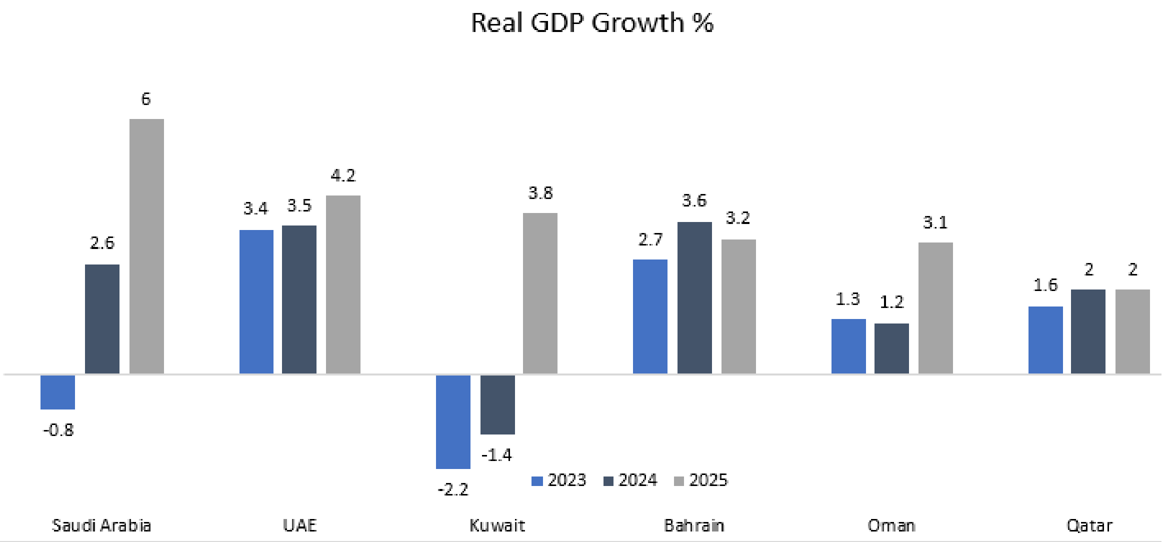
- Analysts expect the tech sector to reach a record-high net margin in FY 2024, hence, boosting earnings. From 2Q-4Q24, tech is expected to average 11.6% revenue growth, compared to the S&P 500's 4.8%.
- Tech stocks have strong cash flow duration and are less reliant on low rates due to their high interest coverage and low debt
- The outlook for tech stocks remains positive, with healthy top and bottom line forecasts making the sector less vulnerable against a high-interest-rate regime.



Returns	'21	'22	'23	YTD '24
Magnificent 7	40%	-40%	76%	13%
S&P 500 ex-Mag 7	17%	-8%	8%	6%
S&P 500	27%	-19%	24%	10%

4 GCC Economic Outlook

- Given supported oil prices and rising oil production, aligned with continued diversification efforts, the GCC region is expected to outperform the global slowdown in 2024 with GDP growth expected to reach 2-3%.
- Saudi Arabia's PIF announced a SAR 150 billion annual investment in the national economy until 2025 while aiming to reach $2 trillion in assets under management by 2030.
- In April, new bilateral agreements between UAE and Oman were established to further enhance economic and trade relations.
- UAE and Omani companies signed deals worth $35.12bn, with agreements in renewable energy, transport, and other sectors
- We maintain a positive outlook on regional markets, considering the continued growth potential and supportive oil prices that justifies current valuations.



Section 3

Investment Strategy

Near-term Outlook

- Our near-term outlook is cautious, with expectations for interest rates to remain elevated for an extended period. While we expect global growth to remain subdued, we do not anticipate an imminent recession. However, the prospect of rates staying higher for longer implies subdued medium-term growth and heightens the risk of systemic disruptions.
- Given the prevailing environment, we prioritize resilience in our portfolio. We favor investments in quality bonds and stocks characterized by low debt levels and strong cash flow visibility. This strategy aims to mitigate potential market volatility and enhance stability in the face of uncertain economic conditions.
- Our sectoral preferences align with industries that demonstrate resilience amidst challenging market conditions. Specifically, we continue to favor technology, healthcare, insurance, and consumer sectors. These sectors are expected to maintain robust performance due to their inherent stability and ability to adapt to evolving market dynamics.
- We maintain a positive outlook on the GCC markets, buoyed by the sustained support for oil prices and ongoing economic reforms. Favorable demographics, transformative initiatives, and substantial government spending contribute to the region's economic resilience. Particularly, we are optimistic about the outlook for Saudi Arabia, the UAE, and Oman, the latter being upgraded to a positive outlook due to low valuations and regulatory efforts to enhance market breadth and depth.
- We believe the current environment is a stock picker's market. Despite the cautious stance, we continue to identify several opportunities for longer-term investors. This approach underscores our confidence in selectively choosing investments that align with our investment thesis and offer compelling prospects for sustained growth and value creation.

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 by support 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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Contact Us

AMD@ahlibank.om

+968 2465 3512

PO Box 545 , PC 116 , Mina Al Fahal, Sultanate of Oman

www.ahlibank.om