Monthly Review, Asset Allocation & Outlook

March 2024

ضمان للإستثمار
DAMAN INVESTMENTS

Highlights of the Month

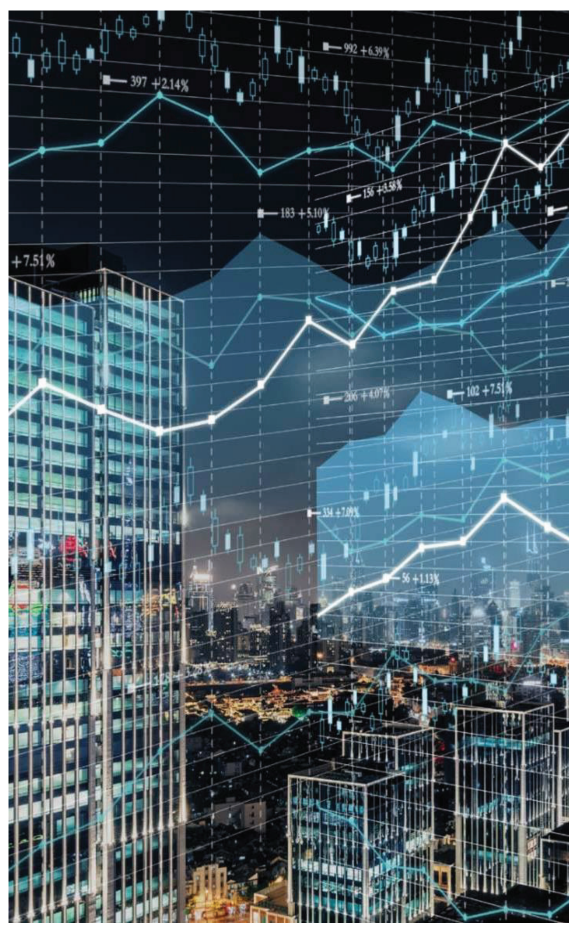
- Performance was strong across both equities and fixed income on dovish messaging from the Fed
- In equities, MSCI All Country World Index gained +2.9% while MSCI EM Index rose by +1.9%
- Bonds sentiment was positive as long end yields compressed, as the market and Fed reached consensus
- In fixed income, Barclays Global Aggregate Index rose by +0.6%, while Bloomberg EM Aggregate Index rose by +1.7%
- Brent rose 6.4% MoM to close at USD 87.5/bbl on improved fundamentals in China and escalation of geopolitical risks
- Base metals rose, as demand concerns alleviated; Bitcoin continued to rally, posting gains of +15.3% during the month
- MENA equities were sluggish during March, and the index was down -3.2%
- We remain overweight on equities and maintain neutral on fixed income

Global Review

Asset classes witnessed a positive performance during the month on dovish messaging from the Fed during its March meeting despite higher-than-expected inflation prints. Median dot plot continued to indicate 3 rate cuts in 2024, despite higher economic growth and inflation projections vs previous forecasts in December 2023. Chairman Powell in post meeting conference said that the Fed sees inflation coming gradually down to 2% on a sometimes-bumpy path. 10-Year and 30-Year US Treasury yields closed the month down 5bps and 4bps, respectively. Global equities benchmark MSCI All Country World Index rose 2.9% on an improved global macroeconomic situation and higher than expected earnings growth while global fixed income benchmark Barclays Global Aggregate Index rose 0.6%. High yield bonds which are strongly correlated to equities continue to outperform investment grade bonds. Commodities also witnessed a strong month on stronger-than-expected industrial production and manufacturing PMI data in China with Bloomberg Commodity Index rising 2.9%.

Global Equities: Within equities, developed markets outperformed emerging markets with MSCI World Index rising 4.6% while MSCI World Index rising 4.1%. Market breadth broadened with cyclical and value sectors performing strongly. Value outperformed growth with MSCI All Country World Value Index rising 4.0% while Growth Index rising 1.9%. S&P 500 Index rose for the fifth consecutive month rising 3.1% on stronger than expected economic growth and better-than-expected earnings. S&P 500 performance continued to broaden on resilient economy with cyclical sectors outperforming. Energy, Materials, Financials and Industrials gained 10.4%, 6.2%, 4.7% and 4.3%, respectively. Utilities and staples also did well and gained 6.3% and 3.2%, respectively. February core CPI rose 0.4% MoM and 3.8% YoY. Both measures were above estimates of 0.3% and 3.7%. As a comparison core CPI rose 0.4% MoM and 3.9% YoY in January. Airline fares recorded a 3.6% increase, apparel prices rose 0.6% and used vehicles were up 0.5%. Medical care services, which was a key contributor towards a higher-than-expected CPI increase in January, decreased 0.1% last month. Supercore inflation (CPI core services less housing) subsided but still remained high, after a strong increase in January, rising 0.5% MoM. Core PCE was inline rising 0.3% MoM and 2.8% YoY.

Personal spending rose 0.8% MoM vs 0.5% expected. Nonfarm payrolls rose 275,000 in February 2024 vs expectation of 200,000, however, a favorable swing in the weather added 50,000 to overall payroll growth. Health care led with 67,000 new jobs. The government continued to remain a major contributor, with 52,000, while restaurants and bars added 42,000 jobs. However, January and December figures was revised sharply lower by 124,000 and 34,000, respectively. The unemployment rate jumped to 3.9% from 3.7%, its highest rate in two years. Wages rose 0.1% MoM vs 0.2% expected and grew 4.3% YoY, down from 4.5% in January and below 4.4% estimate. The February ISM Manufacturing Index fell to 47.8 from 49.1 in January, while Services Index dropped to 52.6 from 53.4.



European equities rallied with MSCI Europe ex-UK Index rose 3.4% led by Financial and Energy sectors rising 7.2% and 6.2%, respectively. Rally was led by moderating inflation and expectation of rate cuts in June. February CPI further moderated to 2.6% YoY from 2.9% in January. UK equities rallied with FTSE 100 Index rising 4.2% as inflation came down and market priced in rate cuts starting June. CPI came down to 3.4% in February from 4% in January. Japanese equities rallied further with Nikkei 225 gaining 3.1% MTD and 20.6% YTD. Japanese Central Bank increased its short-term policy rate for the first time since 2007 to 0-0.1% from -0.1% ending eight years of negative interest rates policy. Wage growth gave confidence that it can sustainably obtain a 2% inflation.

Fixed Income: With hotter than expected inflation data and mixed signals from FOMC members, the broader market remains resilient. In March we saw yield curve bull flattering with a long-term rates decreasing at a faster pace than short-term rates. US 2s10s spread lowered 5 bps in March.

The last meeting of Fed kept interest rates unchanged and reiterated a view of 3 rate cuts for 2024 year, which are in line with a broader marker view and mainly priced in. Elevated and sticky inflation, as well as strong US consumer data is a main risk and could push Fed for “higher for longer” with rate cuts shrinking this year.

This stance, paired with a view that rates have probably peaked for this cycle and the growth outlook remains healthy thanks to strong consumer balance sheets and solid levels of business investment , could be a potential buying opportunity for a fixed income investors to lock in higher yields, as in our opinion this combination should keep corporate defaults low.

We can see “risk on” mode evidence in March 2024 with a significant EM outperformance and HY bonds overpassing its IG peers by almost 1%. The outperformance of HY signals confidence of investors in the economy growth and avoiding recession scenario.

The largest deals globally in March were led by Deere $10.5B, Walt Disney $8.25B, and KFW deals, followed by sovereign issues from EU, Canada. Besides these, big banks also topped the tables including JPMorgan's $2.5B, Goldman $2.25B and Barclays $2B deals. In the GCC region major issues were represented by Mubadala 10Y sukuk, QNB Finance 5Y bond and Al Rajhi 5Y sukuk all issued at $1B size.

Companies are rushing to meet their financing needs before the US election this year, in a bid to get ahead of potential market volatility in the final stages of the presidential race. Bankers and investors said companies were being motivated to borrow by the lowest spreads in years. New issues in the investment grade corporate market was $142 billion in March, by far the most this year. The pace should slow somewhat in April, as many issuers have merely been accelerating plans to issue new bonds. Consensus expectations are for around $100 billion for the next month.

Yield curve dynamics: We expect the US yield curve (2s10s) to start steepening from its current level once the US Fed start its easing cycle or shows signs that the easing cycle is about to begin. If we see a no landing scenario then in that case the 2s10s UST could show a flattening bias.

Base case scenario: We see soft landing as the highest probability scenario: In the case of a soft landing, we expect a lower 10y UST and a bearish dollar. This scenario we believe will drag 10y yields closer to 3.80% by YE-2024.

EM Bond Index gave positive returns in February. Barclays Emerging Markets Aggregate Index (EMUSTRUU Index) returned 1.72% m-o-m, to yield 7.04% (OAS decreased by 13bp m-o-m), meanwhile, Bloomberg EM GCC Credit + HY Index (BGCCTRUU Index) returned 1.2% during the month, while Bloomberg Global Aggregate Index (LEGATRUU INDEX) was up by 0.6% in March.

EM Equities: MSCI EM Index rose 2.2% in March. Asia largely contributed to this gain, rising by 2.8%. LATAM was up 0.6% during the month while EMEA was down 0.6% MoM. In Asia, Taiwan and Korea rallied, gaining 9.0% and 6.0%, respectively. The key contributors to these gains were Taiwan Semiconductor and Samsung, respectively.

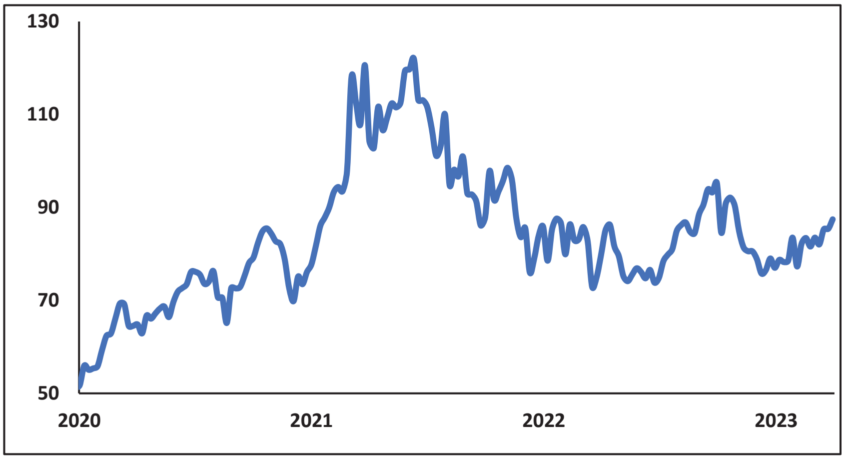
Commodities: Oil: Brent oil closed at USD 87.5/bbl, up 4.6% MoM. Oil gained on expectations that economic growth in the US and China would boost demand, geopolitical tensions as well as controlled supply from OPEC+. Natural gas: Henry hub prices fell by 5.2% MoM to reach USD 1.8/mmbtu, due to poor demand and above-average inventories.

Petchems: SE Asia LDPE, PP and HDPE rose by 2.7%, 1.0% and 1.0% MoM, respectively. SE Asia LLDPE, MEG and Methanol were down 1.0%, 2.7% and 3.3% MoM, respectively. YTD prices are up due to growing demand and an uplift in oil prices.

Metals: Nickle fell 6.2% MoM while copper and aluminum gained 4.3% and 5.0% respectively. Precious metals: Gold prices rose by 9.1% during the month, the largest monthly rise in over three years, on a continued strong demand from Central Banks and a strong demand from Chinese during Spring Festival.

Currencies: EM currencies (MSCI EM Currency Index) fell by 0.2%, while the US Dollar (DXY Index) rose by 0.3%. The Turkish Lira (-3.5%) and the Russian Ruble (-1.3%) were the worst performing EM currencies. The Mexican Peso (+3.0%) and the South African Rand (+1.7%) were the best performing ones.

Brent crude oil prices ($/bbl)



Source: Bloomberg, Daman Investments

MENA Equities: GCC markets witnessed profit taking during March, with the S&P Pan Arab Composite Large Mid Cap Index falling by 3.2%. Qatar's DSM was the worst performer, losing 6.0%. Saudi's TASI was down 1.8% followed by DFMGI and the Kuwait All Share Index, with both indices down by 1.5% respectively. Abu Dhabi's FADGI was also down 0.3% during the month. Regionally, Pakistan's KSE 100 Index gained 3.8% while Egypt's EGX30 Index was down 7.2% and Turkey's XU100 Index was down 0.6%. Saudi midcaps earnings did not justify the strong rally during November 2023- Mid March 2024.

In Saudi, Riyadh Cables Q4 net profit rose by 73% YoY due to higher revenue and change in the sales mix towards higher margin products. The name continues to be a beneficiary of an increase in awards within giga projects, power generation and the infrastructure space, with the Saudi cable market set to grow at a CAGR of high single digits over the next five years. Alkhorayef Water and Power Technologies Co (AWPT) Q4 earnings were in line with consensus when adjusted for a one-off provision with revenues jumping 86% YoY due to a growing backlog and new project awards. Shaker's full year earnings doubled YoY to SAR 65mn, the highest since 2015, due to operational efficiencies, lower provisions, and other expenses. We continue to like the name given its robust balance sheet as well as growing demand for air conditioners and electronics. Mouwasat's Q4 earnings were down 1% YoY due to higher provisioning for receivables, given their increased exposure to MoH clients, despite revenue rising by 17% YoY on the ramp up of existing facilities. Budget's Q4 earnings were up by 2% YoY despite revenue surging by 48% YoY due to weaker margins across rental, leasing and car sales as well as higher finance costs. We continue remain bullish on the name given the upcoming consolidation of Autoworld's fleet and the government regulation to shift from owning to leasing vehicles.

Major Indices Performance

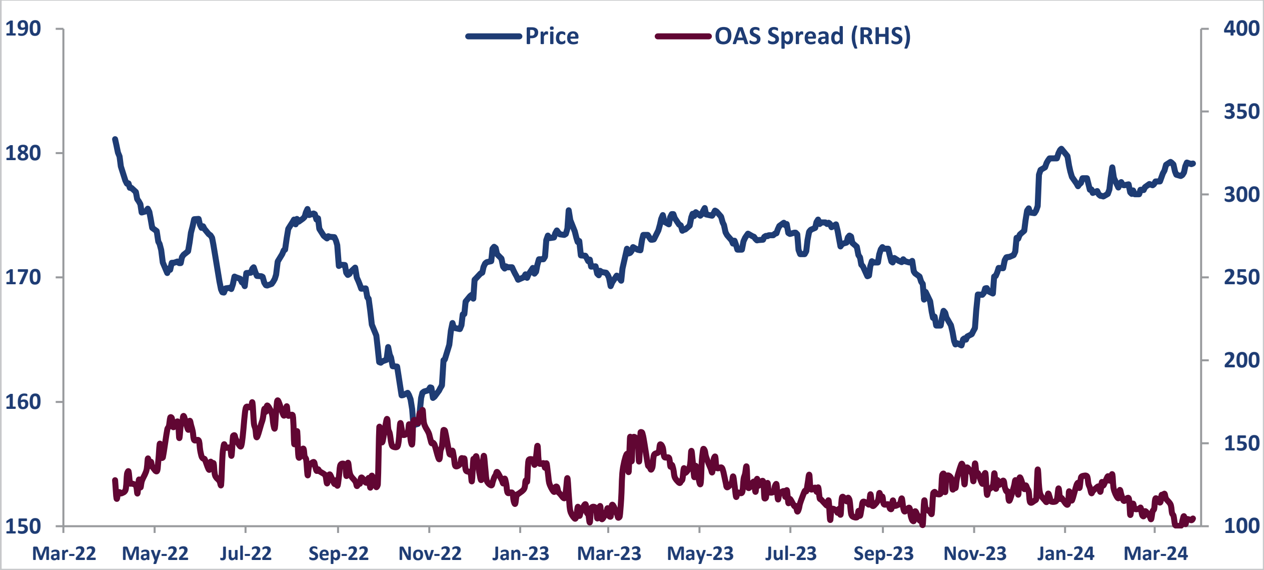
Major Indices Performance	Value	MTD Return	YTD Return	PE (x) 1Yr Fwd	PB (x) 1Yr Fwd	Div. Yield 1Yr Fwd
Saudi Arabia - TASI	12,402	-1.8%	3.6%	18.3	2.4	3.8%
Dubai - DFMGI	4,246	-1.5%	4.6%	8.5	1.2	5.1%
Abu Dhabi - FADGI	9,228	-0.3%	-3.7%	18.1	2.2	3.5%
Qatar - DSM	9,847	-6.0%	-9.1%	10.5	1.3	0.0%
Kuwait - All Share	7,327	-1.5%	7.5%	13.2	0.7	4.2%
Oman - MSM30	4,636	1.8%	2.7%	7.7	0.7	5.6%
Bahrain - BHSEASI	2,043	1.9%	3.6%	6.8	0.7	8.4%
Egypt - EGX30	26,883	-7.2%	8.0%	7.1	2.3	3.9%
Morocco - MOSENEW	13,009	-0.2%	7.6%	19.3	2.4	3.3%
S&P Pan Arab Composite	166	-3.2%	-0.1%	14.5	1.9	4.0%
Israel - TA35	2,010	3.3%	7.8%	10.5	1.3	3.4%
Turkey - XU100	9,142	-0.6%	22.4%	4.1	1.2	5.0%
Pakistan - KSE100	67,095	3.8%	7.6%	3.3	0.9	9.1%
S&P 500	5,254	3.1%	10.2%	21.6	4.3	1.4%
STOXX 600	513	3.7%	7.0%	14.3	1.9	3.4%
MSCI EM	1,043	2.2%	1.9%	12.6	1.6	3.0%
MSCI All Country World	784	2.9%	7.8%	18.3	2.8	2.0%
MSCI World	3,438	3.0%	8.5%	19.2	3.1	1.9%

Major Indices Performance	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	180	1.2%	-0.4%
FTSE MENA Broad Bond Index	165	1.2%	0.5%
Dow Jones Sukuk	97	0.4%	-1.0%
Barclays Global Aggregate Index	462	0.6%	-2.1%
Barclays Global High Yield Index	1,554	1.5%	2.1%
Barclays US Treasury Index	2,255	0.6%	-1.0%
Barclays US Corporate Index	3,208	1.3%	-0.4%
Barclays US Corporate High Yield index	2,517	1.2%	1.5%
JPM EM Global Bond Index	580	2.1%	1.8%
Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index	1,189	1.72%	1.5%
Bloomberg Barclays US Aggregate Bond Index	2,145	0.9%	-0.8%
Markit CDX Emerging Markets Index	97	-0.4%	-0.2%
Barclays EM High yield	1,460	2.8%	4.7%
Barclays EM Corporate Index	285	1.1%	2.2%
10-year US Treasury yield* (%)	4.20	-5	32
30-year US Treasury yield* (%)	4.34	-4	31
US Treasury 2-10 Spread*	-42.17	-5	-5
US Treasury 2-30 Spread*	-27.94	-4	-6
10-year US Treasury Real yield* (%)	1.88	-5	17
10-year Germany Treasury yield* (%)	2.30	-11	27
US Breakeven 10 Year*	2.32	0	15
10-year Saudi Arabia Govt USD Bond yield* (%)	4.94	-20	37
8-year Abu Dhabi Govt USD Bond yield* (%)	4.53	-14	35
4-year Kuwait Govt USD Bond yield* (%)	4.50	-7	27
9-year Oman Govt USD Bond yield* (%)	5.70	-19	32
10-year Bahrain Govt USD Bond yield* (%)	6.92	-20	7
7-year Qatar Govt USD Bond yield* (%)	4.49	-7	30
10-year Egypt Govt USD Bond yield* (%)	10.27	-5	-336
EIBOR 3M* (%)	5.21	-7	-11
QAIBOR 3M* (%)	6.00	0	-25
Dubai 5 Year CDS* (bps)	30	-1	-6
Qatar 5 Year CDS* (bps)	38	0	-7
2-year US Treasury yield* (%)	4.62	0	37

Source: Bloomberg, Daman Investments AssetManagement

*Note: *In basis points*

Barclays GCC Credit +HY Index



Source: Bloomberg, Daman Investments Asset Management

Major Commodities and Currencies

Performance

	Value	MTD Change	YTD Change
Brent crude oil (USD/bbl)	87.48	4.6%	13.6%
Natural Gas (USD/mmbtu)	1.76	-5.2%	-29.9%
Gold (USD/Ounce)	2,230	9.1%	8.1%
Copper (USD/MT)	8,767	4.3%	3.6%
Aluminium (USD/MT)	2,295	5.0%	-2.1%
Nickel (USD/MT)	16,568	-6.2%	1.2%
Urea Middle East (USD/MT)	330	0.0%	2.3%
Methanol China (USD/MT)	295	-3.3%	4.6%
SE Asia Polyethylene (USD/MT)	1,040	1.0%	6.1%
Polypropylene (USD/MT)	1,010	1.0%	6.3%
US Dollar Index	104.49	0.3%	3.1%
MSCI EM Currency index	1,724.27	-0.2%	-0.9%
JPM EM Currency index	46.51	-0.4%	-3.4%
EGP/USD	0.021	-34.9%	-34.9%
TRY/USD	0.031	-3.5%	-8.8%
PKR/USD	0.360	0.1%	1.3%
ILS/USD	0.271	-3.1%	-1.9%
EUR/USD	1.08	-0.1%	-2.3%
GBP/USD	1.26	0.0%	-0.8%
USD/JPY	151.35	0.9%	7.3%

Global Asset Allocation and Outlook

Global Asset Allocation and Outlook

Risk assets such as equities, high yield fixed income and commodities have continued to rally on expectations of soft landing, improving demand fundamentals in China and stronger than expected earnings growth. Better economic fundamentals have more than offset concerns tied to stickier inflation, geopolitical risks and lower than previously expected rate cuts in 2024. Super core inflation subsided in February post a very strong print in January; however, it still stays strong. Fed speakers have shown no urgency to cut rates and want to see inflation on a sustainably downward path towards 2% before cutting rates. Chairman Powell message has been more balanced as he is also considerate about segments of the US economy and population which are suffering from higher rates. We believe if we see core PCE continue to trend towards 2% over the next 2-3 months then the fed can start cutting rates in July. The key risks to the risk assets is inflation moving sideways and the Fed not cutting rates this year.

While being vigilant of the risks, we still see a soft landing as our base case scenario and expect inflation to trend down. Hence, we maintain our overweight position on equities and keep bonds at neutral.

Asset Allocation

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

Global Asset Allocation and Outlook

Global Equites:

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

•We see a diversified portfolio with a dividend yield cushion to be better equipped to face market volatility. We see a barbel portfolio split between technology and cyclical sectors as well placed to navigate macroeconomic and geopolitical uncertainties that we may face in 2024

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

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

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

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

Preferred Picks:

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

Healthcare: Pfizer, Merck

Industrials/Auto: GM, Ford, Caterpillar, Deere

Financials: Visa and Mastercard

Airlines: Delta Airlines, United Airlines

Utilities: Nextra Energy

Consumer Staples: Walmart

We stay underweight on Europe as we expect earnings growth to struggle on a weaker macro - economic growth environment despite lower relative valuation vs US (13x vs 20x). We remain overweight in Japan given the start of a strong capex cycle - driven by both domestic and foreign driven investment, and expectation of a strong corporate profit growth.

We keep EMs to neutral. However, there are strong structural domestically driven economic growth stories such as India, Indonesia, Mexico and Brazil, which we continue to remain overweight on.

MENA Equities:

We have barbelled our equity portfolio by adding high dividend yield names with high beta names to provide defense to our portfolios given increased volatility. Currently, MENA markets trade at a 15% premium to the MSCI EM Index on a 1-year forward PE basis, which is above the long-term average premium of 10%. If oil trades above USD 70/bbl, we believe the MENA market will continue to trade at a premium to EM. We continue to see selective opportunities in the Saudi and UAE due to their government's commitment towards economic diversification leading to a sustained spending on infrastructure, industrial, oil and gas and tourism projects.

Our preferred plays include:

- Banks: Al Rajhi, SNB
- Capital Goods: Riyadh Cables, Shaker
- Financial Services: Al Ansari, Investcorp Capital
- Healthcare: Mouwasat
- Real Estate: Aldar, Emaar Dev, Emaar Prop, TECOM
- Telecommunication Services: STC, Yahsat
- Transportation: AD Ports, Budget, DTC, Parkin
- Utilities: AWPT, DEWA, Empower

Global Asset Allocation and Outlook

EM Fixed Income:

Maintain defensive stance and focus on quality to manage challenges ahead. Fixed income, and markets in general, have performed well so far this year with November helping investors despite macro challenges, tight monetary policy, geopolitical tensions, and rates and commodity volatility, among others. Navigating markets have been difficult given that economies are rebalancing post the global pandemic, with sectors expanding while others clearly in contraction. As this rebalancing continues, we continue to position defensively across sectors, and focus on higher quality issuers with stronger cash flow and balance sheet dynamics. Whether we end with a scenario of sub-trend economic expansion or mild recession, high quality fixed income tends to outperform lower parts in the quality spectrum and can represent a hedge for investors.

Saudi Arabia. KSA remains the major market in MENA region keenly watched by investors and gave a return (I14669US Index) of 1.44% in March following negative returns during the last two months. The country has already raised substantial dollar debt in 1Q 2024.

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

UAE. Abu Dhabi sovereign yield has one of the lowest spreads in the region. Investors will continue to look at non-oil GDP growth in terms of signs of diversification. Additionally, the government is likely to continue executing on key themes such as industrialization, sustainability, and infrastructure.

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

KUWAIT – National election results on 4 April will be keenly watched by investors. This is the fourth parliamentary poll in a little over three years. The country needs to advance its reform agenda that includes detailed plans to enhance policymaking, address cyclical impediments to economic performance and kick-start long standing economic diversification plans. Budget deficit and lower share of non-oil revenues remain a cause of concern for the country. As of March 2024, the country has just one bond KUWIB 3 ½ 03/20/27 outstanding (USD4.5bn) currently yielding 4.5%.

What we like: KWIPKK (Kuwait Projects)

MEXICO - The Banco de México (Banxico) cut its policy rate by 25bp to 11%, in line with expectations. The rate cut was accompanied by a cautious tone with the central bank now on a data watching mode, Inflation moved lower to 4.40% y-o-y in February vs 4.88% a month back and remains close to central banks' target level with ex-ante real rate continuing to remain high. Meanwhile, general elections which are due to take place on 2 June 2024 will be keenly watched by market participants, with voters set to elect a new president.

What we like: PEMEX

INDIA – The growth momentum story should continue to be the major theme in India in 2024. Moreover, February inflation remained muted at 5.09% y-o-y, in line with market expectations (consensus: 5.04%). We believe the RBI will likely remain in a wait and watch mode, and will look for signals from US Fed before deciding the timing and magnitude of rate cuts.

What we like: INCLEN, ADANI PORTS

About Daman Investments

Daman Asset Management is a dedicated MENA specialist offering mutual funds strategies and bespoke investment products, which have been built on our independent research insights and backed with a proven track record of delivering superior risk-adjusted returns which have substantially outperformed peers and regional benchmarks. Our experienced team manages investments on behalf of local and regional institutions, family offices and high net worth individuals.

The document is issued by Daman Investments PSC, which is authorized and regulated by Emirates Securities and Commodities Authority (ESCA). To receive a list of Daman Investment's composite descriptions and any other information, please contact the Marketing & Communications Department.

Address: Daman Investments PSC, Suite 600, P.O. Box 9436 Dubai, UAE

Tel: (+971 4) 332 4140
Fax: (+971 4) 332 6465
Email: amc@daman.ae
Website: www.daman.ae

Disclaimer