Monthly Review, Asset Allocation & Outlook

May 2024

Highlights of the Month

- Global equities and fixed income rallied higher as inflation came in line with expectations for the month of April
- In equities, MSCI All Country World Index increased 3.8% while MSCI EM Index rose by 0.3%
- USTs declined on the back of increase in rate cut expectations in 2024
- In fixed income, Barclays Global Aggregate Index and Bloomberg EM Aggregate Index returned 1.3% and 1.5%
- Brent declined 7.1% MoM to close at USD 81.6/bbl on weak demand
- Base metals rose, as demand concerns alleviated; Bitcoin declined by 4.5% during the month
- MENA equities were sluggish during May with the S&P Pan Arab Composite Large Mid Cap Index down 5.7%
- We remain overweight on equities and maintain neutral on fixed income

Global Review

Both equities and fixed income rebounded during the month on US April CPI and PCE being broadly inline with consensus expectations, US economy showing signs of moderation and Fed Chairman Powell in post FOMC meeting conference pushing back against further rate hikes. However, Powell said it will take longer than expected to become confident about returning inflation to the Fed's 2% goal. 2-Year and 10-Year US Treasury yields fell 16bps and 18bps, respectively, to close the month at 4.87% and 4.50%. Expectations of rate cuts in 2024 improved with fed fund futures indicating 1.5 rate cuts at the end of May vs 1 rate cut at the of April.

Global equities benchmark MSCI All Country World Index gained 3.8% and Barclays Global Aggregate Bond Index rose 1.3%. High yield bonds outperformed investment grade bonds with Barclays Global High Yield Index rising 1.5%. Commodities witnessed another up month with Bloomberg Commodity Index rising 1.3%. Henry Hub Natural Gas, Copper and Aluminum rose 29%, 2% and 0.9%, respectively. However, oil prices fell 7.1% on demand concerns.

Global Equities: Within equities, developed markets outperformed emerging markets with MSCI World Index rising 4.2% while MSCI Emerging Index gaining only 0.3%. The underperformance of EM was driven by decline in Korean, GCC and Brazilian equities. Growth outperformed value with MSCI All Country World Growth Index gaining 5.0% while Value Index rising 2.6%. Cyclicals outperformed defensives with MSCI All Country World Cyclical Index gaining 4.4% while Defensive Index rising 2.2%.

S&P 500 Index rose 4.8% driven by strong performance of technology names as tech earnings continued to beat estimates. For the first quarter results exceeded analyst estimates by 8.5%, which is the biggest upside surprise since the third quarter of 2021, with earnings growing 5.5% YoY. IT, Utilities, Communication Services and Real estate outperformed during the month rising 10%, 8.5%, 6.6% and 5%, respectively. Russell 2000, a small cap Inde of US stocks also rebounded sharply gaining 4.9%.

For April, USI CPI came lower than expectation on MoM basis rising 0.3% vs expectation of 0.4% and core CPI was inline at 0.3% MoM. On a YoY basis, both CPI and core CPI came inline with expectations with CPI rising 3.4% and core CPI rising 3.6%. Prices rose at a strong pace MoM for hospital (+0.6%) and personal care (+1.2%) services—two labor-reliant categories. The car insurance rose 1.8% MoM. Prices declined for new (-0.4%) and used (-1.4%) cars, and the highly persistent health insurance category slowed from +1.1% to +0.3%. Super core inflation slowed from 0.65% MoM to 0.42%. PCE and core PCE came in at 0.3% and 0.2% MoM, both were inline with expectations. YoY PCE and core PCE were 2.7% and 2.8% inline with expectations as well.

US economy showed signs of moderation with moderation in nonfarm payrolls, retail sales and consumer confidence. Nonfarm payrolls increased by 175,000 in April below the 240,000 estimate. The unemployment rate ticked higher to 3.9% against expectations of 3.8%. The more encompassing jobless rate edged up, to 7.4%, its highest level since November 2021. Wage growth rose 0.2% MoM and 3.9% YoY, both below consensus estimates of 0.3% and 4%. Consumer confidence fell to 97 vs 103.1 in the previous month. April ISM services fell to 49.4 vs 51.4 prior, employment index plunged further into contractionary territory at 45.9 vs 48.5 prior. Headline retail sales were flat m/m in April, missing the predicted 0.4% growth and markedly down from the 0.6% expansion in March.

European equities rose with MSCI Europe ex-UK Index rising 2.9% as 1Q 2024 GDP rose at 0.3% QoQ and earnings surprised to the upside. Eurozone May Flash Service PMI continue to remain in expansion rising at 53.3. Euro Area May CPI rose to 2.6% YoY from 2.4% in April. Core inflation also accelerated to 2.9% from 2.6%. UK equities gained with FTSE 100 Index rising 1.6%. UK April CPI slowed meaningfully to 2.3% YoY from 3.2% in March but services inflation remained high at 5.9%, reducing hopes of a June rate cut from the Bank of England.

Fixed Income:

Despite intermittent volatility during the month, May saw a shift lower across the Treasury yield curve. Yields initially dropped across the curve during the first two weeks, followed by a surge higher and later, a dip again towards the end of the month. The 2Y and 10Y yields ended 16bp and 18bp lower during the month, to 4.87% and 4.50% respectively.

Following the sell-off in April 2024, May proved to be a favorable month for corporate fixed income, with both HY and IG bonds showing gains. Specifically, the Bloomberg Global Aggregate Index rose by 1.3%, while the Bloomberg Global High Yield Index increased by 1.5%. Year-to-date, high-yield bonds have outperformed investment-grade bonds, which remain in negative territory. Additionally, emerging markets outperformed developed markets by 0.4%.

The primary drivers of positive returns were a weakening labor market coupled with easing inflation prints. The US economy however continued to remain resilient despite softening economic data. NFP rose 175k in April, lower than expectations of 240k. Average Hourly Earnings rose 3.9%, lower than the expected 4.0%, while the unemployment rate rose slightly to 3.9% from 3.8%. US Headline and Core CPI came at 3.4% and 3.6%, in-line with expectations, but registering a drop from the prior 3.5% and 3.6% readings respectively. Headline Retail Sales saw no growth in April while March's numbers were revised lower. Similarly, ISM Manufacturing and Services were softer than expected, with the former slipping back into contractionary territory.

As a result, markets began pricing-in 50bp of Fed rate cuts by end-2024. However, while softer than expected, the economic data was not enough to convince most Fed speakers who came out saying that they needed more confidence that inflation was indeed slowing towards their target. Markets have since, repriced their expectations of Fed rate cuts in 2024 to just over 25bp. They are currently pricing-in one 25bp rate cut in September and are unclear about a second cut after that.

Global corporate dollar bond issuances stood at $260.7bn in May, ~7% lower than April. As compared to May 2023, issuance volumes were up 15%. 81% of the issuance volumes came from IG issuers with HY comprising 18% and unrated issuers taking the remaining 1%. Asia ex-Japan & Middle East G3 issuance stood at $34.5bn, up 46% MoM and a massive 82% YoY. 84% of the volumes came from IG issuers with HY issuing 14% of it and unrated issuers taking the rest.

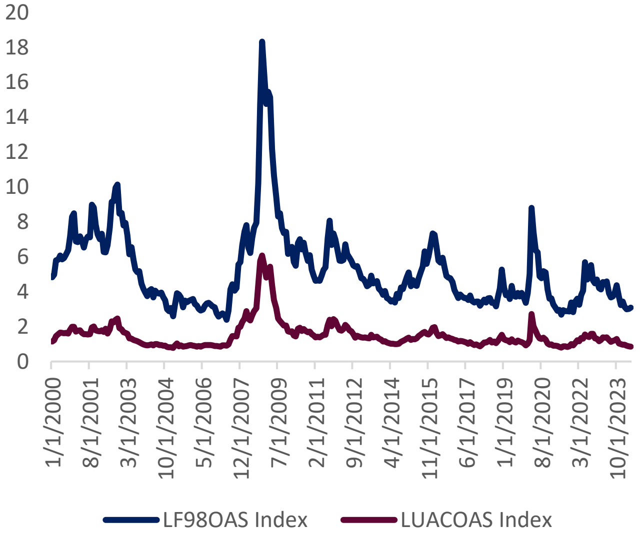
Global corporate dollar bond issuances stood at $260.7bn in May, ~7% lower than April. As compared to May 2023, issuance volumes were up 15%. 81% of the issuance volumes came from IG issuers with HY comprising 18% and unrated issuers taking the remaining 1%. Asia ex-Japan & Middle East G3 issuance stood at $34.5bn, up 46% MoM and a massive 82% YoY. 84% of the volumes came from IG issuers with HY issuing 14% of it and unrated issuers taking the rest.

Spread between HY and IG widen throughout the year to ~300 bps, but still tighter than average of more than 450 bps. Taken into consideration widening gap between HY and IG we favor front-end HY bonds against higher duration IG bonds in the belly. This strategy can underperform if spreads tighten materially from their current levels.

Yield curve dynamics: We expect the US yield curve (2s10s) to start flattening from its current level once the US Fed starts its easing cycle or shows signs that the easing cycle is about to begin.

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 3.87% by YE-2024.

The EM Bond Index gave positive returns in May. Both Barclays Emerging Markets Aggregate Index (EMUSTRUU Index) and Bloomberg EM GCC Credit + HY Index (BGCCTRUU Index) returned 1.7% during the month, while Bloomberg Global Aggregate Index (LEGATRUU INDEX) returned 1.3% in May.



EM Equities: MSCI EM Index rose 0.3% in May. Market was positively influenced by Asian equities, as Taiwan rose 4.8%, and China rose 2.1%. LATAM was down -3.9% during the month while EMEA was down -2.9% MoM.

Commodities: Oil: Brent oil closed at USD 81.62/bbl, down 7.1% MoM. Oil prices have pared most of the gains we saw on an YTD basis, with brent up approx. 5.9% YTD, and now trading at levels prior to the Israel – Hamas war. OPEC's decision to extend the voluntary cuts to 2025 will help maintain oil prices between $75-80 in the near term. Natural gas: Henry hub prices continued its gain streak, now trading at USD 2.59/MMBtu, up 29.9%, due to rising demand and an ongoing decline in output.

Petchems: SE Asia LLDPE declined by 1.0% MoM while SE Asia MEG gained 1% MoM. YTD prices are up for polyolefins due to growing demand and high energy prices.

Metals: Nickle, copper, and aluminum gained 2.0%, 0.2% and 0.9% respectively on rising demand and falling supplies. Precious metals: Gold prices rose by 1.8%, taking its YTD gains to 12.8%. Gold has rallied this years on a strong demand from global Central Banks

Currencies: EM currencies (MSCI EM Currency Index) appreciated by 0.5%, while the US Dollar (DXY Index) declined by 1.5%. The worst performing currencies in the basket were the Philippine Peso (-1.3%), and the Brazilian Real (-1.0%). The Chilean Peso (+4.6%), the Czech Koruna (+3.6%) and the Russian Ruble (+3.4%) were the best performing ones.

Brent crude oil prices ($/bbl)

Source: Bloomberg, Daman Investments

MENA Equities: The Middle East and North Africa (MENA) region, particularly the prominent Gulf Cooperation Council (GCC) markets, experienced a downward trend in May. The S&P Pan Arab Composite Large Mid Cap Index fell by 5.7%, with Saudi Arabia's Tadawul leading the decline at a steeper -7.2%, followed by Dubai (-4.3%) and Abu Dhabi (-2.3%). Egypt (+10.1%) and Turkey (+3.5%) were the only bright spots, managing to buck the downtrend.

Several factors contributed to this recent weakness in GCC markets. Firstly, a series of company earnings reports failed to meet market expectations, leading to disappointment among investors. Market performance has typically run much ahead of earnings. Secondly, a shift in investor focus on a recovering China resulted in a moderation in passive investment flows into the GCC region. Thirdly, a wave of new company listings (IPOs) and additional share offerings (secondary offerings) put pressure on existing stocks. Investors needed to free up cash to participate in these new opportunities, leading to some selling activity. Finally, the ongoing conflict between Hamas and Israel added to the regional risk premium, further dampening investor sentiment.

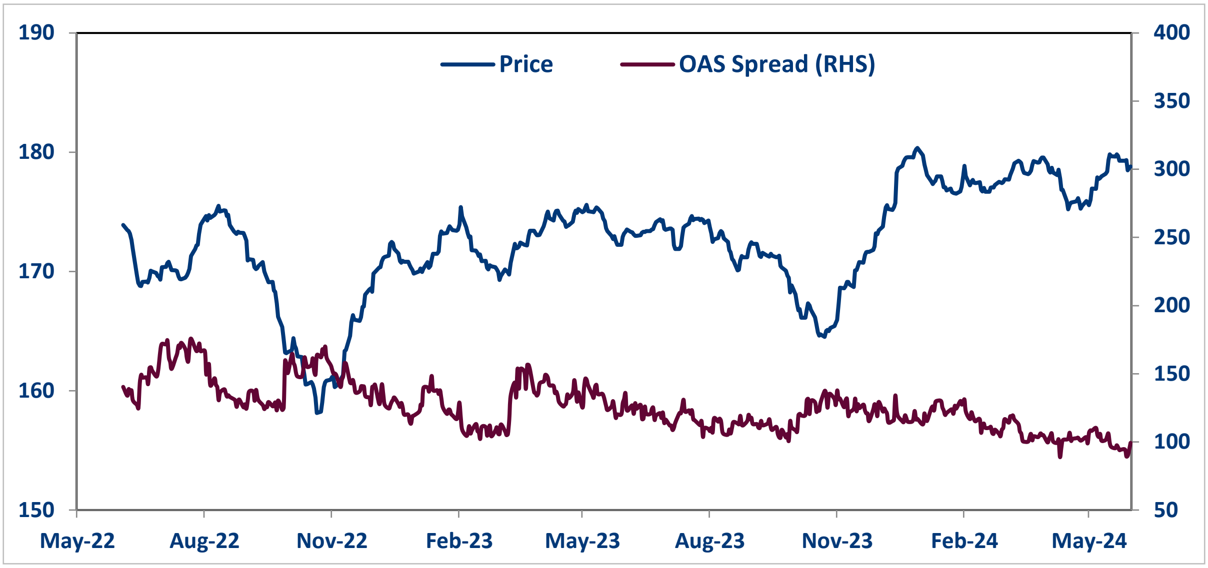
Major Indices Performance

Major Indices Performance	Value	MTD Return	YTD Return	PE (x) 1Yr Fwd	PB (x) 1Yr Fwd	Div. Yield 1Yr Fwd
Saudi Arabia - TASI	11,503	-7.2%	-3.9%	17.0	2.3	4.1%
Dubai - DFMGI	3,978	-4.3%	-2.0%	7.8	1.0	5.6%
Abu Dhabi - FADGI	8,863	-2.3%	-7.5%	14.6	1.8	4.0%
Qatar - DSM	9,319	-4.2%	-14.0%	10.3	1.3	5.0%
Kuwait - All Share	7,052	0.0%	3.4%	11.5	1.1	35.4%
Oman - MSM30	4,846	1.3%	7.3%	10.3	0.7	5.2%
Bahrain - BHSEASI	2,039	0.5%	3.4%	7.5	0.7	8.3%
Egypt - EGX30	26,923	10.1%	8.1%	6.7	1.9	4.7%
Morocco - MOSENEW	13,310	-0.1%	10.1%	17.3	2.3	3.2%
S&P Pan Arab Composite	154	-5.7%	-7.7%	13.5	1.8	4.4%
Israel - TA35	2,000	2.6%	7.2%	10.3	1.4	2.4%
Turkey - XU100	10,400	3.5%	39.2%	5.1	1.2	4.3%
Pakistan - KSE100	75,882	6.7%	21.6%	3.6	0.9	8.2%
S&P 500	5,278	4.8%	10.6%	22.1	4.4	1.4%
STOXX 600	518	2.6%	8.2%	14.5	2.0	3.3%
MSCI EM	1,049	0.3%	2.5%	12.8	1.6	2.9%
MSCI All Country World	786	3.8%	8.1%	18.6	2.9	2.0%
MSCI World	3,445	4.2%	8.7%	19.6	3.2	1.9%

Major Indices Performance	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	179	1.7%	-0.8%
FTSE MENA Broad Bond Index	165	1.9%	0.1%
Dow Jones Sukuk	96	0.7%	-1.8%
Barclays Global Aggregate Index	456	1.3%	-3.3%
Barclays Global High Yield Index	1,564	1.5%	2.8%
Barclays US Treasury Index	2,235	1.5%	-1.9%
Barclays US Corporate Index	3,185	1.9%	-1.1%
Barclays US Corporate High Yield index	2,520	1.1%	1.6%
JPM EM Global Bond Index	578	1.9%	1.5%
Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index	1,190	1.72%	1.6%
Bloomberg Barclays US Aggregate Bond Index	2,126	1.7%	-1.6%
Markit CDX Emerging Markets Index	97	0.7%	0.2%
Barclays EM High yield	1,473	1.5%	5.7%
Barclays EM Corporate Index	287	1.8%	2.7%
10-year US Treasury yield* (%)	4.50	-18	62
30-year US Treasury yield* (%)	4.65	-14	62
US Treasury 2-10 Spread*	-37.62	-2	0
US Treasury 2-30 Spread*	-22.96	2	-1
10-year US Treasury Real yield* (%)	2.15	-13	44
10-year Germany Treasury yield* (%)	2.66	8	64
US Breakeven 10 Year*	2.36	-5	18
10-year Saudi Arabia Govt USD Bond yield* (%)	5.26	-17	69
8-year Abu Dhabi Govt USD Bond yield* (%)	4.94	-16	76
4-year Kuwait Govt USD Bond yield* (%)	5.08	-12	86
9-year Oman Govt USD Bond yield* (%)	5.79	-36	40
10-year Bahrain Govt USD Bond yield* (%)	6.84	-42	0
7-year Qatar Govt USD Bond yield* (%)	4.87	-14	68
10-year Egypt Govt USD Bond yield* (%)	10.25	-38	-338
EIBOR 3M* (%)	5.32	1	-1
QAIBOR 3M* (%)	6.00	0	-25
Dubai 5 Year CDS* (bps)	33	-2	-3
Qatar 5 Year CDS* (bps)	38	-5	-7
2-year US Treasury yield* (%)	4.87	-16	62

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)	81.62	-7.1%	5.9%
Natural Gas (USD/mmbtu)	2.59	29.9%	2.9%
Gold (USD/Ounce)	2,327	1.8%	12.8%
Copper (USD/MT)	9,913	0.2%	17.1%
Aluminium (USD/MT)	2,607	0.9%	11.2%
Nickel (USD/MT)	19,456	2.0%	18.8%
Urea Middle East (USD/MT)	295	1.7%	-8.5%
Methanol China (USD/MT)	302	3.7%	8.2%
SE Asia Polyethylene (USD/MT)	1,020	-1.0%	5.1%
Polypropylene (USD/MT)	1,010	1.0%	7.4%
US Dollar Index	104.67	-1.5%	3.3%
MSCI EM Currency index	1,723.83	0.5%	-0.9%
JPM EM Currency index	46.66	1.1%	-3.1%
EGP/USD	0.021	1.4%	-34.6%
TRY/USD	0.031	0.6%	-8.4%
PKR/USD	0.359	0.0%	1.2%
ILS/USD	0.270	0.9%	-2.3%
EUR/USD	1.08	1.7%	-1.7%
GBP/USD	1.27	2.0%	0.1%
USD/JPY	157.31	-0.3%	11.5%

Global Asset Allocation and Outlook

Global Asset Allocation and Outlook

Beginning with Switzerland, DM central banks have pivoted towards cutting rates. European Central and Bank Of Canada cut rates by 25bps as inflation moderated towards 2% levels. US economy has also started to show the signs of moderation with job market cooling down as lag effect of high interest rates have started to make an impact which should bring the service and overall inflation down further. However, we believe Fed will be patient in terms of cutting rate and would like to see at least 3 more inflation readings signaling moderation before cutting rates.

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 (14.3x vs 21.5x). We remain overweight on Japan given the start of a strong capex cycle - driven by both domestic and foreign driven investment, and expectation of 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 adjusted our equity portfolios to capture value and target high dividend-yielding stocks. We continue to prioritize companies with strong financial health (quality bias) and maintain an active management approach, enabling us to capitalize on market volatility by carefully selecting individual securities based on a company's balance sheet strength and the predictability of its cashflows. During the recent sell-off, we proactively maintained a significant cash position, and now see opportunities to redeploy in to names we like.

We believe the recent market selloff has likely run its course and presents a good entry point for investors with a long-term perspective. Currently, MENA markets trade at a slight premium (6.3%) compared to the broader emerging market index (MSCI EM Index) based on one-year forward price-to-earnings ratios. This premium is currently below its historical average of 10%.

We see particularly compelling opportunities in Saudi Arabia and the United Arab Emirates due to their governments' commitment towards economic diversification. Our preferred plays include:

- Banks: Al Rajhi, SNB
- Capital Goods: Riyadh Cables, Shaker
- Consumer Staples: Tanmiah, Spinneys
- Energy: ADNOC Gas
- Real Estate: Aldar Prop, Emaar Dev, Emaar Prop, Telecommunication Services: STC, Yahsat
- Transportation: Adnoc Logistics, AD Ports, Budget, DTC, Salik,
- Utilities: AWPT, DEWA, Empower

Global Asset Allocation and Outlook

EM Fixed Income:

Maintain defensive stance and gradually add duration exposure with progress on inflation. Fixed income, and markets in general, have shown mixed signals this year despite macro challenges, tight monetary policy, geopolitical tensions, and rates and commodity volatility, among others. Barclays Global Aggregate Index is down 3.3% for the year, while High Yield Index has shown resilience (+2.8% YTD). We continue to position in quality issuers with stronger cash flow and balance sheet dynamics across both high yield and investment grade space. 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 1.9% in May following negative returns (-2.5%) during the prior month. The country has already raised substantial dollar debt in 1H24

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

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 –Budget deficit and lower share of non-oil revenues remain a cause of concern for the country. As of May 2024, the country has just one bond KUWIB 3 ½ 03/20/27 outstanding (USD4.5bn) currently yielding 5.0%.

MEXICO – Mexican peso sank after the new president Claudia Sheinbaum said lawmakers would look to pass reforms proposed by previous president Lopez Obrador. This comes on the backdrop of MORENA and its allies getting more than two-thirds of the lower house of congress and falling slightly short of that in the Senate. Meanwhile, the central bank Banxico, kept the policy rate unchanged at 11.0% during the monetary policy meeting on 9 May.

What we like: PEMEX

INDIA –The RBI kept the policy rate unchanged during the policy meeting in June and kept the "withdrawal of accommodation" stance. This was the first meeting since the general elections which resulted in the ruling government winning a lower-than-expected majority in the lower house. Meanwhile, in mid-May transferred a record high dividend of INR2.1trn (0.6% of GDP) to the government for FY24. Additionally, the growth story in the country largely remains intact. 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