Boubyan Multi Asset Holding Fund

Fund Licensed by the Kuwaiti CMA (F/2016/0003)

30 June 2017

Sub-Manager's Commentary:

Market Overview

In June, financial markets paused for breath or corrected gains seen earlier in the year. Central bank comments towards the end of the month caused investors to question the continuation of easy monetary conditions, especially in Europe. Bond markets reversed gains seen earlier in the month, despite easing inflation expectations and a continued decline in broad commodity prices. However, yield curves remained notably flatter than at the start of the year, reflecting the reversal of reflationary trends. The US dollar continued to weaken, declining 1.40% against the euro, which continued to benefit from strong economic confidence indicators. The MSCI World Index returned 0.42%, in US-dollar terms. US stocks made new highs, gaining 0.63%, some way ahead of European equivalents that fell 1.06% in US dollars. Japanese stocks recorded strong local market appreciation, but posted more modest gains in US dollars.

Economic indicators moderated slightly across the world but confidence about the outlook for economic growth remained strongest in the eurozone. Talk of the European Central Bank (ECB) possibly discussing an exit plan from its asset purchase programme may be premature as subdued consumer price index (CPI) inflation remains the major driver of policy. Core CPI rose 1.1% in June, still well below the ECB's target of close to 2.0%. Current growth remained solid rather than spectacular at this stage, with eurozone gross domestic product (GDP) expanding by 0.6% in the first quarter of 2017. Ten-year German Bund yields remained in recent ranges, but ended the month 17 basis points (bps) higher at 0.47%. Japanese government bonds followed the global trend towards flatter yield curves and higher ten-year yields, even as the Bank of Japan showed no sign of changing its monetary policy stance.

The US Federal Reserve followed through with a widely anticipated 25 bps increase in interest rates at its June meeting. In addition it laid out plans to scale-back the size of its balance-sheet, reversing the accumulation of bonds that resulted from its earlier quantitative easing policy. The 10-year US Treasury note yield ended the month 10 bps higher at 2.30%, but the yield curve continued to flatten. The level of inflation expectations embedded in yields, the so-called "break-even inflation" rate, declined further, supporting this move. Corporate bonds reflected generally strong earnings results, and yield spreads continued to narrow modestly, with investment-grade bonds outperforming high-yield bonds for a second month. Following a modest further advance, the Dow Jones Sukuk Index corrected later in the month, to return -0.01% overall.

Emerging-market stocks continued to broadly outperform their developed-market peers, posting strong gains in local currency terms, and rising 1.07% in US dollars. Emerging-market currencies fell 0.63% against the US dollar, failing to take advantage of broad US dollar weakness for the first time this year. The strongest equity markets were in Asia, where the region as a whole rose 1.82% in dollars, led by strong performance in Taiwan and China. The Chinese renminbi continued to appreciate, reflecting policy tightening measures. The decision to include domestic "A" shares in a major index provider's broad emerging market index was also confirmed during the month, supporting sentiment for China stocks. Some of the weakest performance was in the EMEA category, where Qatar equities declined 8.12%, in dollars. Moves to isolate the Qatar government, led by Saudi Arabia, saw equity market and currency weakness. Local-currency emerging-market sovereign bonds continued to rally generally, outpacing emerging-market hard-currency bonds which lagged marginally behind the modest gains seen in developed-market credit.

Crude oil remained weak, with Brent crude falling as low as US$45 per barrel late in the month, despite the Organization of the Petroleum Exporting Countries (OPEC) showing better than normal compliance with production cuts. Commodity prices fell broadly, in spite of dollar weakness, which typically acts as a support, with the Bloomberg Commodity Index dipping to a one year low, before stabilising by month-end.

boubyancapital.com
T: 22325800|P.O box 28950, Safat, 13150

Boubyan Multi Asset Holding Fund

Fund Licensed by the Kuwaiti CMA (F/2016/0003)

30 June 2017

بـوبـيـان كابيتال
Boubyan Capital

Sub-Manager's Commentary:

Outlook

Leading indicators hint at stronger growth over the medium term, and global activity has improved. Reflecting these developments, and also in light of improving corporate fundamentals, we maintain a somewhat less cautious view of growth assets such as global equities and find limited value in developed-market government bonds. With global central banks following divergent monetary policies, we expect to find multi-asset investment opportunities.

The highlights of our analysis include the following:

• The global economy remains in a period of modest growth overall, but with greater stability evident in key emerging markets.

• Markit's global Purchasing Managers' Indices (PMIs) have moderated, but continue to show signs of a robust expansion, whilst fears over the delivery of US stimulus measures could result in disappointments.

• Measures of corporate earnings growth, positive surprises and momentum have improved. However, equities have appreciated and valuations based on price-to-earnings ratios in developed markets appear demanding and are elevated relative to their historical averages.

• Central banks in developed markets appear more constrained in their options, as appetite for unconventional policy appears to be diminishing amidst questions about its efficacy.

• The outlook for inflation is mixed, with US reflation moderating somewhat and persistently below-target core inflation in the eurozone and Japan.

• The prospect of interest rates remaining "lower for longer" continues to see developed-market sovereign bond yields trading at very low levels in many markets, presenting limited investment opportunities in sovereign bonds in our assessment.

• Although emerging market central banks appear to have more flexibility in monetary policy, the threat of protectionist measures and risks of a stronger US dollar could present headwinds to emerging-market investments.

• A period of significant uncertainty about the interaction between fiscal and monetary policy, and the pace with which these policy changes feed through to hard economic data, suggest that market measures of volatility may increase.

For now, we may continue to see stronger returns from equities, especially where earnings are improving, despite demanding historic valuations. However, we are maintaining the portfolio's balanced positioning, with relatively high levels of cash but a preference for equities over Sukuk. In the longer term, emerging-market equities may offer more attractive valuations.