Boubyan Multi Asset Holding Fund

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

30 November 2017

Sub-Manager's Commentary:

Market Overview

Financial markets experienced a broad-based decline in the early weeks of November, as weakness in corporate bonds and a short-lived correction in stocks coincided with a rise in volatility. Economic indicators remained strong but continued uncertainty over the path of inflation towards central bank targets maintained a balance of sentiment towards bonds, which traded in established ranges over the month. However, sovereign yield curves continued to generally flatten, notably in the US Treasury market, as shorter-term yields increased but those on long-dated bonds declined somewhat. The US dollar corrected recent gains, falling 2.30% against the euro, and by a smaller margin relative to emerging-market currencies generally. US stocks recovered to post new highs and ended the month up 3.04% higher. European stocks did not recover as much, gaining 0.24%, as the MSCI World Index returned 2.22%, in US-dollar terms.

Economic data in developed markets continued to exceed expectations, particularly in Europe. Confidence indicators, especially in manufacturing, and consistent employment gains help support the outlook for growth into next year. However, wage increases and consumer price index (CPI) inflation have remained subdued – increasingly a global phenomenon. Core CPI inflation remained at 0.9% in the year-to-November, still well below the European Central Bank's target of close to 2.0%. This combination of sustained growth and easy monetary policy supported asset markets generally and saw 10-year German Bund yields rise by just one basis point (bp), to 0.37% by November-end. Japanese government bonds ended the period modestly stronger, with 10-year yields at 0.04%, reflecting the Bank of Japan's commitment to hold yields close to zero.

In the United States, stocks remained well supported by strong corporate earnings generally and by confidence regarding the delivery of tax cuts. The US Federal Reserve (Fed) is expected to continue to normalise monetary policy despite uncertainty over the path of inflation. However, the US Treasury announced that it will reduce the proportion of longer-dated bonds that it issues, offsetting to some extent the Fed's move to shrink its balance sheet, supporting a flatter yield curve overall. The 10-year note yield ended the month 3 bps higher at 2.41%. Corporate bonds followed Treasury prices lower and yield spreads widened. High-yield bonds led the sell-off early in the month and underperformed investment-grade corporate bonds. The Dow Jones Sukuk Index also declined somewhat, down 0.22% in November.

Emerging-market stocks underperformed developed-market peers as economic data disappointed expectations. Declines in local-currency terms were offset by emerging-market currency appreciation against the US dollar, and stocks gained 0.21% in dollars. The strongest returns were in the EMEA category, where stocks advanced 3.44% in dollars, led by gains in South Africa, as the rand recovered. However, in-line with emerging-markets more generally, EMEA markets showed an unusually wide dispersion of returns. Turkey was amongst the weakest markets as the Turkish lira remained under pressure. Asian markets performed broadly in-line with emerging-markets generally. Latin America saw the weakest performance as both Mexico and Brazil fell sharply. Emerging-market hard-currency bonds modestly outperformed developed-market equivalents, despite a default by Venezuela. Similarly, local-currency emerging-market sovereign bond yields rose in the early part of the month before recovering. These investments appreciated modestly, outperformed hard-currency debt and posted currency gains against the US dollar.

Oil prices continued to rebound reflecting a better balance between production and demand, which itself seems to be growing strongly. Brent crude oil remained above US$60 per barrel in November, ahead of the decision by the Organization of the Petroleum Exporting Countries (OPEC) to extend production cuts until December 2018, to reduce the level of inventories. Overall, commodities were weaker and the Bloomberg Commodity Index declined modestly.

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Boubyan Capital

Sub-Manager’s Commentary:

Outlook

Leading indicators suggest 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 moderate growth overall, but with greater stability evident in key emerging markets.

• Markit's global Purchasing Managers’ Indices (PMIs) continue to show signs of a robust expansion.

• Measures of corporate earnings growth, positive surprises and momentum remain strong. 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.

• The outlook for inflation is mixed, with persistently below-target core inflation in the developed economies, whilst wage growth has disappointed expectations given the employment growth seen generally.

• Central banks in developed markets appear constrained in their options, as a desire to unwind unconventional policies and normalise interest rates is balanced by a continued need for stimulus measures.

• 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 trade policies from the United States could present headwinds to emerging-market investments.

• A period of uncertainty about the pace of monetary policy tightening, fiscal developments and ongoing geopolitical risks suggest that market measures of volatility, which are currently subdued, 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.