Boubyan Multi Asset Holding Fund

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

31 May 2025

بـوبـيـان كـابـيـتـال
Boubyan Capital

SUB-MANAGER'S COMMENTARY

Market Overview

Global equities rose during a period in which positive developments around US trade negotiations helped reduce market volatility. This contrasted with April, when President Donald Trump's tariff policy ignited a trade war, negatively impacting risk assets. Near-term optimism on trade and the resilience of large-cap technology names helped US stocks to lead gains, while international and emerging markets (EMs) also rose.

In the United States (US), robust hard economic data contrasted with weaker forward-looking indicators that highlighted slowing growth and elevated uncertainty. Headline annual US Consumer Price Index inflation fell slightly to 2.3% in April, while annual core inflation (less food and energy) stood at 2.8%. The Atlanta Fed forecast of real economic growth (GDPNow) stood at a healthy 4.6% in early June, while job openings and labour turnover were broadly static in April. (There is no assurance that any projection, estimate or forecast will be realised).

Against this background, US Manufacturing Purchasing Managers' Index (PMI) data from S&P Global confirmed that tariffs are yet to fully manifest in the real economy, influenced by efforts to front-run higher prices. This assertion was supported by leading indicators of US growth, which moved into regimes synonymous with negative equity returns. Consumer sentiment still appeared weak, despite improving in May, while inflation expectations remained elevated. Elsewhere, wide-ranging tax cuts put forward in Trump's new bill are likely to be inflationary, making it harder for the US Federal Reserve (Fed) to stimulate the economy in the event of slowing growth. The US Treasury yield curve steepened against expectations for a widening fiscal deficit, as yields rose across maturities. Corporate bonds fared better than their government counterparts, amid narrowing spreads linked to improved risk appetite.

European equities also rose in May, despite ongoing tariff tensions and no concrete progress on a US trade deal. The reversal of the US exceptionalism trade supported European stocks, while the possibility of expanded fiscal stimulus linked to defence spending provided a further boost. Eurozone inflation remained subdued, as did growth, offering the European Central Bank more latitude than the Fed to provide support to the bloc's economy. Euro area annual inflation is expected to fall to 1.9% in May, while annual core inflation is slightly higher at 2.3%. Elsewhere, euro area growth remains relatively anaemic at 1.2% (year-on-year). PMI data showed a slowing pace of growth in the region in May, as business activity was restrained by weak demand for goods and services. German Bund yields rose across the curve, which flattened slightly.

EM equities gained, led by Asia, as Chinese stocks rose following the de-escalation of US tariffs. However, ongoing trade uncertainty and weak domestic demand led to declining manufacturing output in May, according to Caixin. Elsewhere, stocks in South Korea and Taiwan rose sharply amid an anticipated rollback of punitive US tariffs. European markets also posted gains, benefitting from proximity to the euro area, while Mexican equities were boosted by the prospect of partial tariff exemptions under the US-Mexico-Canada Agreement.

The MSCI ACWI Islamic Index returned 6.96% (in US dollar terms) during May, while the Dow Jones Sukuk Index returned -0.02%. Gulf Cooperation Council (GCC) bonds fell marginally in May, with the FTSE MENA Bond – GCC Index posting a -0.16% return in US dollar terms.

Performance and Positioning

The portfolio posted a net return of 2.28% (in US dollars) during May, ahead of its custom benchmark, which returned 2.27% (also in US dollars).

The equity element of the custom benchmark was changed to MSCI ACWI Islamic Index on 8 May, when the previous benchmark (MSCI ACWI Islamic ex-Japan Index) was decommissioned.

The fund held a slight underweight to equities, including the equity element of a position in Franklin Shariah Global Multi-Asset Income Fund. Fixed income allocation was also underweighted relative to the benchmark, balanced by off-benchmark positions in cash and gold.

Our equity holdings contributed to relative results, notably exposure to US stocks, which fared better than the broad global benchmark. Our multi-asset holdings also boosted relative performance, helped by equity exposure amid broad "risk-on" sentiment.

Our Sukuk holdings added relative value in aggregate, notably Franklin Global Sukuk Fund, which posted positive absolute returns. It benefitted from lower-quality holdings relative to the benchmark, as spreads narrowed and US Treasury yields rose across the curve. Elsewhere, exposure to gold shares detracted slightly amid price stabilisation linked to lessening trade tensions, while cash also proved a drag.

Outlook

Despite recent positive news flow, much economic uncertainty remains across the medium-term horizon. Hard US economic data for employment, growth and inflation looks resilient, but forward-looking indicators are weaker, suggesting that tariffs are yet to fully manifest in the real economy. Leading indicators of US growth have moved into regimes synonymous with negative equity returns. Consumer sentiment and chief executive officer confidence remain weak, and inflation expectations have risen.

One likely explanation for this disconnected data is that importers were successfully front-running tariffs by stockpiling inventory before tariffs were implemented. Forward-looking negativity also reflects the reality that, despite broad positivity since "Liberation Day," the volatility of trade policy and uncertainty has not waned. Similarly, despite some progress, the effective tariff rate applied to imports into the United States has still increased substantially.

A new dimension adding further uncertainty to the investment equation is the wide-ranging tax cuts that Trump hopes will offset any drag on growth from tariffs. This level of stimulus is likely to be inflationary, especially in the first few years, as much of the projected tax revenue from the "One Big Beautiful Bill Act" is expected to be raised in the latter part of its 10-year reconciliation window. This may reduce the Fed's ability to cut interest rates in support of the US economy. The tax cuts are also unlikely to be fully funded by tariffs, in our view, expanding the fiscal deficit and adding further upward pressure on long-term US Treasury yields.

Against this background, we remain neutral on equities as we assess the impact of ongoing tariff policy. Elsewhere, we favour cash over fixed income, as deficit concerns add uncertainty and erode the attractiveness of US duration.

Within our Sukuk portfolios, we remain acutely aware of the persistence of lower oil prices, weaker US dollar exchange rates, and fragile demand for long-dated US Treasury bonds. Valuations, therefore, still favour benchmark rates over credit spreads and risk assets, and our outlook continues to support an increase in defensive allocations to higher-quality fixed income sectors such as Sukuk.

Against this background, we have been actively managing duration amid rate volatility by trimming exposure during rallies and re-entering as yields rose. We have taken the opportunity to participate selectively in the primary market, focusing on high-quality issuers offering relative value, such as banks (senior and subordinated) and new government-related entities.

Past performance is not an indicator or a guarantee of future performance.