Boubyan Multi Asset Holding Fund

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

30 June 2025

SUB-MANAGER'S COMMENTARY

Market Overview

Global equities rose in June, adding to gains in May, as several major indexes exceeded or moved close to all-time highs. Stocks have consistently navigated pockets of volatility to move higher, fuelled by resilient macro data and positive news flow around trade negotiations. Emerging market (EM) stocks led gains, but developed markets also posted robust returns, led by US stocks, which shrugged off continued policy uncertainty.

US macro data, including indicators of inflation, growth and employment, remained relatively robust, while soft data also improved. Leading growth indicators strengthened, while confidence among consumers and corporate chief executive officers stabilised in June, following the shock of "Liberation Day" tariffs that have largely been rolled back. US annual Consumer Price Index inflation remained subdued in May at 2.4%, while annual core inflation (less energy and food) was slightly higher at 2.8%. Employment remains resilient, with job openings rising in May and layoffs declining, while non-farm payrolls increased by 139,000. However, there are signs that global economic uncertainty has had an effect, notably among indicators of business activity. New orders, backlogs and employment all contracted in the US manufacturing sector during June, according to the Institute for Supply Management. Tariff confusion, rising material costs and geopolitical uncertainty appear to be the main causes, negatively impacting strategic planning.

Against this background, US stocks rose, led by the information technology and communication services sectors. Elsewhere, US Treasury yields fell across the period amid weak inflation and increased expectations of imminent interest-rate cuts from the US Federal Reserve (Fed). However, resilient macro data makes policy stimulus less likely.

European equity markets were also higher, in US dollar terms, helped by the weak greenback. European stocks benefitted from outflows from the United States during June, notably defence stocks, which are direct beneficiaries of increased fiscal stimulus. However, the lack of a US trade deal impacted growth, leading to earnings downgrades for European companies, despite a recent interest-rate cut from the European Central Bank (ECB) in support of the economy. The ECB projects growth in the region to average 0.9% in 2025, rising to 1.1% in 2026, as trade policy weighs on business investment and exports.

European manufacturing activity stabilised in June, according to Purchasing Managers' Index data from S&P Global but may have been impacted by tariff front-running ahead of the 9 July deadline for a deal. German Bund yields rose during the month, despite dovish rhetoric from the ECB.

Emerging markets equities posted gains in June, helped by a strong performance from markets in South Korea and Taiwan. Positive trade developments boosted Asian stocks, notably in the semiconductor sector. Earnings growth expectations are also positive from the region, helped by the potential for stimulative central bank policy. Markets in Brazil and eastern Europe also rose, helped by global trade optimism.

The MSCI ACWI Islamic Index returned 4.54% (in US dollar terms) during June, while the Dow Jones Sukuk Index returned 0.99%. Gulf Cooperation Council (GCC) bonds rose in June, with the FTSE MENA Bond – GCC Index posting a 1.46% return in US dollar terms.

Performance and Positioning

The portfolio posted a net return of 2.05% (in US dollars) during June, marginally behind its custom benchmark, which returned 2.16% (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 an underweight to fixed income, relative to the benchmark, balanced by off- benchmark positions in cash and gold. Our equity allocation was broadly neutral, including the equity element of a position in Franklin Shariah Global Multi-Asset Income Fund. This positioning proved additive, in aggregate, amid ongoing "risk-on" sentiment.

Our EM equity holdings benefitted relative results, outperforming the global benchmark, while our multi-asset holdings also boosted relative performance, helped by equity exposure.

Our Sukuk holdings added relative value in aggregate, notably Franklin Global Sukuk Fund, which benefitted from a longer duration profile than the benchmark, as US Treasury yields fell across the curve. Elsewhere, exposure to gold shares detracted amid price stabilisation linked to lessening trade tensions, while cash also proved a drag.

Outlook

Leading indicators of economic growth appear to have strengthened during the past month, suggesting that the global economy may avoid a recession. However, significant trade and geopolitical uncertainty remains, and has yet to be fully reflected in asset prices, in our view.

Quantitative indicators validate our decision to neutralise risk until tariff and geopolitical developments unfold. The current level of the S&P 500 Index is above short-term moving averages, indicating favourable momentum for stocks, but headwinds include elevated bond yields, inflation expectations and some negative seasonality effects. We believe fiscal and monetary stimulus are likely to play an increasingly influential role in supporting global growth as we move into 2026, but not until the inflationary impact of tariffs is fully understood.

Equity markets are likely to become choppier in the near term, in our view, as factors such as energy price volatility and tariff deadlines increase the possibility of corrections. However, a recession-led drawdown appears more remote to us than it did last month. As a result, we retain our neutral positioning in equities at a cross-asset level, preferring to add risk within our regional allocations.

In contrast, we hold a more pessimistic view of fixed income, as monetary policy expectations across many economies have become more dovish and have reduced the attractiveness of current yields. US fiscal deficit concerns also influence our decision, along with tight credit spreads, which do not appear to fully reflect economic vulnerability. Consequently, we prefer cash as a low-risk way to earn yields that are comparable to longer-duration bonds.

Within our Sukuk portfolios, we remain acutely aware of the persistence of 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 issues.

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. We have increased cash allocations to maintain flexibility and manage volatility, while opportunistically exiting positions showing signs of softening fundamentals or rich valuations.

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