Boubyan Multi Asset Holding Fund

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Boubyan Capital

SUB-MANAGER'S COMMENTARY

Market Overview

Global equities fell in October, in US dollar-terms, losing ground late in the month amid uncertainty around the outcome of the US election. Despite this, US markets were relatively resilient across the period, drawing strength from healthy macro and corporate fundamentals and Chinese stimulus measures. In contrast, weaker macro data in Europe and the Pacific region held back stocks, while emerging market (EM) equities also lost ground.

The US Federal Reserve's Monetary Policy Committee did not meet in October, but market expectations for future interest-rate cuts were scaled back during the month as US economic data remained robust. The Federal Reserve Bank of Atlanta's GDPNow model for October end estimated that the US economy was growing at a 2.7% rate, driven by consumer spending and non-residential investment. Headline Consumer Price Index inflation fell slightly to 2.4% (year-on-year) in September, but core inflation (less food and energy) remained sticky at 3.3%, offering an argument against further rate cuts. Elsewhere, non-farm payroll additions for October were unexpectedly weak at 12,000, bolstering the case for easier policy, but this was likely to be adversely impacted by the destruction caused by Hurricanes Helene and Milton.

Leading indicators of US business activity were relatively positive, despite a continued divergence between the manufacturing and services sectors. Purchasing managers' index (PMI) data from S&P Global showed the ongoing contraction of the goods-producing sector was slowing as softening inflationary pressures led to increased business confidence. The service sector continued to expand among strengthening activity and rising domestic demand. Against this background, yields rose across the US Treasury yield curve, responding to interest-rate dynamics and an elevated term premium linked to concerns about US fiscal deficits. Elsewhere, US corporate bonds also fell, despite broad spread tightening.

The European Central Bank (ECB) lowered interest rates in October, responding to subdued inflation and weak macro conditions in the region. Euro area annual inflation rose slightly to 2.0% in October, impacted by higher prices for services and food, while core inflation remained slightly elevated at 2.7%. Elsewhere, leading indicators broadly point to below trend growth in Europe, given a weak manufacturing sector, fragile labour conditions and an anaemic annual economic growth rate of 0.9%. PMI data for October, from S&P Global, showed that the manufacturing downturn continued into the fourth quarter, weighed down by falling factory output in Germany and France. Services sector expansion also slowed amid waning international demand, subduing business confidence. Against this background, German Bund yields rose across the curve, following US Treasury yields higher, despite policy easing from the ECB. European high-yield corporate bonds rose slightly, amid narrowing spreads.

EM stocks fell across the period, as most markets were impacted by uncertainty caused by geopolitical tensions and the threat of US protectionism. Stocks in China retraced during October, following recent gains linked to fiscal and monetary policy stimulus measures designed to bolster the property sector and stock market liquidity. PMI data from Caixin suggested that manufacturing and services activity improved in October, although the sustained impact of policy stimulus remains unclear. Elsewhere, Indian stocks fell, as did markets in South Korea and Mexico and Brazil, while Taiwanese stocks gained ground. The MSCI ACWI Islamic Index returned -4.38% (in US dollar terms) during October, while the

Dow Jones Sukuk Index returned -1.47%.

Performance and Positioning

The portfolio posted a net return of -2.00% (in US dollars) during October, outperforming its custom benchmark, which returned -2.47% (also in US dollars).

An underweight to Sukuk detracted slightly, as the asset class fared better than equities, while our off-benchmark cash position proved additive.

Our defensive holdings contributed to relative performance, in aggregate. An allocation to gold shares was a strong positive, as gold prices rose throughout the month, responding to rising geopolitical tensions and US election uncertainty. Elsewhere, our Sukuk holdings broadly matched the benchmark Dow Jones Sukuk Index.

Equity fund selection detracted slightly from relative results, held back by exposure to European and EM equities, which underperformed the broad global equity benchmark. However, this was largely offset by our US and global exposure, which fared better than the benchmark.

Outlook

Investor sentiment has turned more positive, in our view, against a backdrop of improving macro and corporate fundamentals and the promise of seasonal tailwinds for risk assets.

Leading indicators of global growth have strengthened during the past month, as positive US economic data reduces recession risks and fuels renewed hopes that the US economy can achieve a soft landing.

Strengthening US macro data have translated into healthier corporate fundamentals including sales, earnings per share (EPS) and return on equity, helping to justify higher valuations. In recent weeks, our forecasted EPS growth in the United States has moved higher, while corporate bond spreads remain tight. In this context, US equity price momentum over trailing three-, six- and 12-month periods has improved relative to other global regions, informing our positive sentiment toward US equities.

Stronger data have also raised questions about Fed policy and pushed US Treasury yields higher across the curve. As market expectations for future interest-rate cuts retrace, 10-year US Treasury yields have moved back above 4.30%, prompting us to upgrade our outlook on US government bonds to neutral and reposition exposure across the curve, increasing duration slightly. Markets are clearly weighing competing narratives around the direction of travel for US Treasuries, as a rising term premium linked to fiscal deficits raises the potential ceiling for longer-term yields still further.

Outside the United States, we note regional divergences within the global economic landscape that also influence our portfolio positioning. Despite the stimulus-induced boost to Chinese equities, questions persist around whether this will translate into stronger macro and corporate fundamentals in the near term, meaning we remain neutral on China but cognizant of the potential for stocks to rise further.

In Europe, leading indicators broadly point to below-trend growth, as a weak manufacturing sector, fragile labour conditions and an anaemic annual economic growth rate of 0.9% are curtailing our optimism toward equity markets. Additionally, we have downgraded our view on UK equities, where below-trend growth and our enhanced attitude toward risk lead us to find the defensive nature of this market less appealing.

Elsewhere, the evolving political situation in Japan may result in tax cuts and spending that proves supportive to equities, but we retain our cautious positioning into November amid the current weak macro environment.

Our Sukuk portfolio has increased credit quality recently. Where we do take on higher-risk positions, they are increasingly selective and idiosyncratic and, in our view, compensate us for the elevated risks involved.

Interest-rate volatility is likely to remain elevated as incoming economic data fuel conflicting growth and inflation narratives. Our outlook continues to support overweight duration positioning and an increase in defensive allocations to higher-quality fixed income sectors as rate cuts continue unfolding in 2024.

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