Boubyan Multi Asset Holding Fund

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30 April 2025

SUB-MANAGER'S COMMENTARY

Market Overview

Global markets experienced significant volatility during April but ultimately ended the month higher, in US dollar terms. Equities fell sharply in response to US tariff announcements early in the month before rallying following a 90-day pause designed to allow room for trade negotiations to take place. US equities fared worst, falling slightly, while international and emerging markets (EM) rose.

Protectionist trade policy from the Trump administration exerted a heavy influence over markets in April, which were driven by news flow rather than economic fundamentals. US equities were shocked into a precipitous fall by President Donald Trump's reciprocal tariff announcements on 2 April but recovered sharply one week later when a policy pause was announced. Signs that the bond market was losing confidence in US Treasuries as a "safe haven" asset influenced the US administration to take a more conciliatory approach, boosting equities. US stocks dipped again mid-month, as rising inflation expectations prompted a continuation of hawkish rhetoric from the US Federal Reserve (Fed) despite recession concerns. However, markets rallied in the last week of April, as investors appeared to place more emphasis on positive news around trade talks rather than weak economic data.

An advance estimate of first-quarter economic growth from the Bureau of Economic Analysis showed that the annual growth rate fell to 0.3% from 2.4% in the fourth quarter. The Fed's preferred personal consumption expenditures measure of annual inflation remained subdued at 2.3% in March, with core inflation slightly higher at 2.6%. However, the potential inflationary effects of tariffs are not yet fully priced into this data.

Forward-looking indicators were more revealing, fuelling recessionary concerns linked to tariff effects. A survey from the Conference Board, released on April 30, found that US consumer confidence fell to a 13-year low based on the outlook for income, business and labour market conditions. Against this background, US Treasuries fell across the curve, which steepened as inflation and fiscal deficit concerns kept upward pressure on long-term yields, despite slowing growth. Corporate bonds were broadly flat amid spread widening.

European markets staged a strong recovery following the tariff pause, recouping losses in early April to end the month higher, in US dollar terms. An investor pivot towards Europe that began in March continued into April, as the European Central Bank lowered interest rates, referencing decelerating services inflation and a deteriorating outlook for growth linked to trade tensions. Euro area annual inflation is expected to be 2.2% in April 2025, with core inflation slightly higher, while the economy grew at an annual rate of 1.2% in the first quarter of 2025. Against this background, German Bund yields fell across the curve, while corporate bonds rose slightly, despite spread widening.

EM equities gained, in US-dollar terms, led by Europe and Latin America, while Asian markets lagged. Chinese stocks lost ground, impacted by an escalating trade war with the United States. Other large Asian markets, including Taiwan and South Korea, also suffered but proved more resilient. In Europe, Poland and Hungary benefitted from fiscal stimulus, while Mexican stocks posted double-digit gains, in US-dollar terms, as Trump diluted previous tariff threats.

The MSCI ACWI Islamic Index returned 0.58% (in US dollar terms) during April, while the Dow Jones Sukuk Index returned 0.66%. Gulf Cooperation Council (GCC) bonds fell marginally in April, with the FTSE MENA Bond – GCC Index posting a -0.01% return in US-dollar terms.

Performance and Positioning

The portfolio posted a net return of 0.36% (in US dollars) during April, slightly behind its custom benchmark, which returned 0.57% (also in US dollars).

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

Our equity holdings detracted slightly from relative results, notably exposure to US and EM stocks, which underperformed the broad global benchmark. Our multi-asset holdings also detracted from relative performance, held back by equity exposure.

In contrast, our defensive holdings contributed to relative performance in aggregate, notably exposure to gold shares, which rose amid heightened trade tensions and economic uncertainty. Our Sukuk holdings posted positive absolute returns but were impacted by duration positioning relative to the benchmark, as the US Treasury yield curve steepened.

Outlook

Measures of economic uncertainty appear to be rising as we move into May, while we are also seeing a sharp fall in employment expectations and chief executive officer confidence.

Taken together, these types of indicators are problematic because they breed caution, interfere with growth plans and curtail capital investment.

Our research team forecasts a 50% chance of a recession in the United States during the next 12 months, even on the assumption that most of the reciprocal tariffs announced on 2 April are watered down. Leading indicators of global growth have weakened materially, led by the United States, and now sit in regimes that have historically produced negative equity returns.

On the other side of the economic equation, US consumer inflation expectations have risen significantly, making it more difficult for the Fed to respond to slowing growth with policy easing. Stagflation (slowing growth and rising inflation) is a real possibility and would make the market's current prediction for four rate cuts during 2025 far less likely.

Balanced against our assessment of economic fundamentals are shorter-term, market-led factors that curtail our caution from a cross-asset perspective. Investor sentiment has fallen to extremely pessimistic levels, which is a broadly contrarian indicator suggesting to market participants, including systematic models, that now is a good time to add risk. We must also assess the possibility that positive news flow, particularly progress on a trade deal with China or memorandums of understanding with allies such as Japan, South Korea and India, might prove a catalyst for markets to recover. Having said that, we believe it would take further weakening in macro conditions from here to prompt a material de-escalation in trade policy.

Against this background, we have decided to maintain a neutral cross-asset view moving into

May. We place greater emphasis on our longer-term assessment of economic fundamentals and look for further opportunities to sell into strength, as we gradually reduce risk in our portfolios.

Within our Sukuk portfolios, we remain acutely aware of the persistence of lower oil prices, weaker US dollar exchange rates, and unusual price movements of 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 GCC bonds.

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.