Boubyan Multi Asset Holding Fund

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SUB-MANAGER'S COMMENTARY

Market Overview

Global equities were broadly flat during February, but there was a divergence among developed economies, as European stocks strengthened while US equities lost ground. Uncertainty around the impact of US fiscal and trade policy affected US markets, while Europe benefitted from commitments to increase defence spending. Emerging markets (EMs) were up slightly, as Chinese technology stocks rallied, while the European region also rose, notably Poland.

The US Federal Reserve (Fed) left interest rates unchanged at the end of January. At the time, the Fed referenced solid economic growth and stable inflation. But inflation expectations have since risen, influenced by trade policy, while economic data disappointed. US 10-year Treasury yields fell in February, indicating that markets believed slowing growth to be of greater concern than inflation.

US consumer price index (CPI) inflation rose to 3%, year-on-year in January, while annual core inflation (less energy and food) rose to 3.3%, influenced by higher shelter costs. In addition, US consumer sentiment fell, according to a survey from the University of Michigan, as inflation expectations rose on tariff concerns. Deteriorating sentiment was visible in other data: Personal consumption expenditures decreased in January, while retail and food service sales were down by 0.9% compared to December 2024. Against this background, US equities fell, while the US Treasury yield curve flattened slightly.

European equities rose amid supportive monetary policy from the European Central Bank and signs that increased fiscal spending could become a growth driver. Euro area growth was still subdued at 0.9% year-on-year in the fourth quarter of 2024, while the latest Purchasing Managers' Index (PMI) data from S&P Global suggested that business activity in the region remained sluggish. New orders continued to fall in February amid muted demand, as services sector expansion slowed and manufacturing production fell, despite showing signs of stabilisation.

In contrast, economic sentiment readings for the euro area improved as fiscal stimulus promised to fuel growth. The ifo Business Climate Index for Germany was broadly unchanged in February, showing an improvement in manufacturing sentiment but a deterioration in the services sector. Elsewhere, euro area inflation was subdued, falling slightly to 2.4% yearon- year in February, helped by lower energy costs. Against this background, European government yields fell across their respective curves, which generally steepened against the prospect of further interest-rate cuts.

Japanese bond yields rose across the curve following a further interest-rate rise from the Bank of Japan (BoJ) in January. The BoJ expects CPI inflation to remain above 2% in 2025, fueled by wage increases and higher import prices.

EM equities rose slightly in February, largely due to a sharp uptick in Chinese stocks. The technology sector rallied amid optimism about an endorsement of artificial intelligence model DeepSeek by the Chinese government. China's manufacturing sector also expanded in February, according to PMI data from Caixin, amid higher new business inflows and improved business sentiment.

The MSCI ACWI Islamic Index returned -2.73% (in US dollar terms) during February, while the Dow Jones Sukuk Index returned 1.12%.

Performance and Positioning

The portfolio posted a net return of -0.31% (in US dollars) during February, slightly behind its custom benchmark, which returned -0.22% (also in US dollars).

The fund held a broadly neutral allocation to equities, including the equity element of a new position in Franklin Shariah Global Multi-Asset Income Fund. Fixed income allocation was slightly underweight to the benchmark, balanced by an off-benchmark position in cash. Our equity holdings detracted from relative results, notably exposure to US stocks, which underperformed the broad global benchmark.

Our defensive holdings contributed to relative performance in aggregate, notably exposure to gold shares, which rose amid heightened trade tensions. Our Sukuk holdings also benefitted from long duration positioning relative to the benchmark.

Outlook

Animal spirits continued to drive global markets in February as investors took confidence from US President Donald Trump's pro-growth rhetoric. However, uncertainty around the implications of US government policy alongside an uptick in geopolitical tensions subdued risk assets, despite a supportive macroeconomic outlook.

Leading indicators of growth and inflation remain positive for equities, in our analysis, highlighting healthy global growth and an ongoing disinflation trend. But the uncertain policy outlook influenced our thinking in recent weeks, pushing us to take a more considered approach to asset allocation, while tilting toward "risk-on" in our positioning.

Weaker US retail sales and consumer spending contributed to slowing growth, exacerbated by trade tensions and tighter immigration policies. The US economy is growing at a trend-level growth rate, but the delicate dynamic of healthy consumption driven by employment growth could be upset by immigration curbs, while seasonal elements (like cold weather and wildfires) have made it more difficult to distinguish signal from noise. Other regions, like Europe and China, are showing signs of stability in growth rates despite weak levels.

Our analysis of return forecasts provides a counterpoint to policy uncertainty and offers justification for our cross-asset view. Our allocation research team forecasts that equities will likely outperform fixed income in the next six months, in line with historic equity risk premium, influenced by strengthening earnings expectations. The recent dip in US bond yields reduced the potential upside for fixed income, while corporate earnings should remain strong due to trend growth and easy financial conditions.

Within our Sukuk portfolio, the uncertain economic and geopolitical environment we are trying to navigate continues to support an increase in defensive allocations to higher-quality issues. Our rationale for a defensive strategy is based on several interrelated themes that we believe are likely to play out during the next year.

The new approach to the conflict in Ukraine, coupled with tariffs being imposed on traditional allies of the United States, appears to be positively impacting growth expectations in Europe and Asia, while casting a shadow over US growth—both non-consensus perspectives a few weeks ago.

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