Monthly Review, Asset Allocation & Outlook

August 2023

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Highlights of the Month

- August was a volatile month for global equities due to rising yields and further economic weakness in China
- MSCI All Country World Index and MSCI EM Index fell 3% and 6.4%, respectively
- Barclays EM Aggregate Index fell -1.2% from widening spreads as longer-end rates rose to GFC highs
- UST 2YR inched lower - 1bps to 4.9%, while UST 10YR added 15bps to 4.1%, inversion improved to -75bps
- Brent oil prices rose 1.5% MoM as OPEC+ extended their supply cuts
- MENA equities fell with S&P Pan Arab composite Index down 3.3% due to global macro headwinds
- We are overweight on fixed income and neutral on equities

Global Review

Global Equities: August was a rollercoaster month for global equities with volatility increasing. After falling for much of the month on rising yields, renewed stress in Chinese property market and economic weakness in China, equities trimmed losses by making a late-August comeback. The MSCI All Country World Index closed the month down 3.0%. US 10-year treasury yields spiked 40bps reaching 4.36% during the month, its highest point since October 2007 and yield curve steepened with 10-2y spread rising 16bps, on better-than-expected economic data, increased supply and Bank of Japan loosening its yield curve control.

US Retail sales advanced 0.7% in July, vs 0.4% expected. Housing starts rose 3.9% MoM beating the expectation of 1.1% and Industrial production rose 1.0% MoM vs expectation of 0.3% MoM. As a result, the Atlanta Fed revised up its Q3 2023 GDP forecast to 5.9% which further spooked investors leading 10-year yield to reach 4.36%. However, lower than expected economic data during the last week of the month calmed investor nerves and led 10-year yield to come down from its high and close the month at 4.11%. JOLTS data suggested that demand for new workers cooled in July. There were 8.8mn job openings in July (vs a peak of 12mn jobs in March 2022) which is equivalent to 1.5 open jobs for every unemployed worker vs peak of c.2x in March 2022. US Q2 2023 GDP QoQ annualized growth was revised down from 2.4% to 2.1% annualized pace in Q2.

Both Developed markets (DM) and emerging markets (EM) fell with MSCI World Index falling 2.6% an MSCI EM Index plummeting 6.4%. MSCI EM underperformance was driven by troubles mounting in Chinese property market thereby impacting investor sentiment. Country Garden, China's largest private developed delayed coupon payments and reported a record loss of $7bn in Q2 2023. CPI turned negative in July at -0.3% YoY, thereby raising deflation concerns. PPI deflation continued for the 10th month in a row. Retail sales significantly missed expectations, growing 2.5% YoY vs expectation of 4.5%. Property prices continued to contract and investment in the sector fell 8.5% YoY during the first 7 months of the year. MSCI China Index plummeted 8.5% during the month.

S&P 500 Index closed the month down declining 1.8%. The sell-off was broad with all sectors declining except for energy. Utilities, materials and financial sectors fell 6.7%, 3.2% and 2.9%, respectively. The energy sector outperformed, gaining 1.3% as WTI crude price rose 2.2%. Strong demand, production cuts and inventory drawdowns offset the concerns tied to weakness in Chinese economy.

Both US headline inflation (CPI) and core CPI for July came in line with the expectations rising 0.2% MoM. Super core inflation (services ex-housing) also rose 0.2% MoM, averaging 0.14% during the last months. Shelter costs rose 0.4% Mom in line with increase in June. Almost all the inflation came from shelter costs. Energy prices and food prices increased 0.1% and 0.2% MoM, respectively, while used vehicle prices and airfares fell 1.2% and 8.1%, respectively. On a YoY basis the CPI accelerated to 3.2% in July from 3% in June. Core CPI declined to 4.7% YoY from 4.8%.

US non-farm payrolls increased 187,000 in July slightly below consensus expectation of 200,000. Although the labor market continued to cool down, the payrolls remained strong from a historical perspective. Wages came out stronger than expected with average hourly earnings rising by 0.4% MoM and 4.4% YoY, vs the expectation of 0.3% and 4.2%, respectively. However, the Employment Cost Index, which is Fed's preferred measure as it is less volatile and includes both wages and compensation rose 1% QoQ in Q2 vs 1.2% in Q1. The unemployment rate ticked lower to 3.5% vs 3.6% in June.

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Fed Chairman Jerome Powel in his Jackson hole speech maintained a hawkish bias by committing to hiking the rates further if needed and maintaining a higher for longer narrative. However, with core PCE declines being higher than the fed expectations and real rates being in restrictive territory, Powell talked about proceeding carefully in terms of deciding about future rates. The market was quite content with his messaging as it was in line with expectations.

European equities fell with MSCI Europe ex-UK Index declining 2.2% and UK equities also fell with FTSE100 Index declining 3.4%. An uncertain economic outlook with core inflation remaining strong dragged the markets down. European equities were also dragged down by the Italian government announced a tax on banks' excess profits.

Euro area flash GDP grew by 0.3% QoQ in Q2 2023. The August composite PMI fell to 47, its lowest level (ex-Covid) since 2012. Service PMI which was holding above 50 also went into contraction mode falling to 47.9 levels. On the other hand, euro area labor markets remain very tight, with the unemployment rate dropping to a record low of 6.4% in June. The headline inflation remained sticky at 5.3% YoY in August. Core inflation fell from 5.5% YoY in July to 5.3%, however, remained high. A weakening economy on the one hand and stickier inflation on other hand makes the job tough for ECB. ECB could potentially hike one more time given high inflation.

BoE hiked its policy rate by 25bps bringing the bank rate to 5.25%. The UK Q2 GDP rose 0.2% qoq vs. a consensus expectation of it being flat. UK headline CPI eased in line with expectations to 6.8% YoY in July, down from 7.9% in June. However, labor market data spooked investors with wages rising 7.8% y/y in the period April to June 2023. Hence the market continue to expect further rate increases from the BoE this year.

Global Fixed Income: *US Economy Softens into Sweet Spot As Consumer Spending Strengthens.* Real GDI (gross domestic income) recovered to +0.5% in Q2 after declining from the previous two quarters, while consumers spent from pandemic-era savings and greater share of disposable income (US savings rate down to 3.5% as percent DI). US personal spending accelerated again in July at +0.8%, and up from June at +0.5%, while personal income grew +0.2%. Retail sales jumped +0.7% m-o-m ahead of 0.4% estimates and 0.2% prior. Core PCE Price Index inched lower to +3.7%, from 3.8% previously at the slowest pace in two years.

Job openings declined -5.3% in July with the pace of hiring at -3.7% implying lesser confidence in the job market, which can likely dampen future consumer confidence / consumption, the engine that has been driving the US economy forward.

US Fed Expected to Pause (Again) But Remain Data Dependent on Future Path. As the Fed did not have a scheduled FOMC meeting in August, market participants were relegated to July FOMC minutes released mid-month which carried hawkish tone focused on upcoming data, while Jackson Hole Symposium headlines had a more balanced view, acknowledging recent normalizing labor market and inflation dynamics. While short-term noise is expected over next months, the broader trend of moderating inflation should favor the near end of rate hikes, particularly as high real rates, quantitative tightening, and slowing bank credit is already dampening financial conditions. As such, we expect to see Fed pause at next meeting September 19-20.

US Yield Curve Inversion Continues to De-Invert As 10YR Reaches GFC Highs. US 2YR yields inched lower -1bps to 4.86% in August, stalling their ascent since May 3.79% lows as Fed nears the end of its tightening cycle. US 10YR yields closed +15 bps to 4.11% after reaching 4.36% levels not seen since global financial crisis (GFC), with the 2/10YR inversion improving to -75bps in August, as longer end rose on repricing for better macro and term premium (in contrast to neutral rate), while shorter end remains anchored to the Fed's next decision which seems geared towards a hawkish hold. As time passes and Fed remains on pause, expect to see the dis-inversion continue as the market is still partially pricing in rate hikes later this year. The recent bear steepening in the yield curve reflects the upgrade in growth expectations in addition to credit downgrade, announced USD 1trn treasury supply, and ramifications from policy changes in Japan / China, feeding into the bearish narrative on longer end as short-end stalls.

EM Credit Trades Volatile in August on Account of Rising US Yields and Skittish Sentiment. EM credit had a volatile month, with spreads initially tightening then widened aggressively mid-month as US yields rose and risk sentiment soured. EM was also unfavorably affected by Chinese growth concerns, despite authorities' efforts at shoring up sentiment with surprise central bank easing and support measures.

EM Bond Index Rally Fizzles in August as Longer End Rises and Risk Aversion Returns. Barclays Emerging Markets Aggregate Index (EMUSTRUU Index) fell -1.20% m-o-m and gave back prior month's gains to yield 7.62% (OAS rose 13bps to +320bps) as EM spreads widened from risk aversion in addition to rising longer end US benchmark rates. Barclays EM GCC Credit Index followed suit, declining -1.05% m-o-m as OAS spreads widened +8bps to yield 5.57%. August saw major declines across the bond spectrum, with only Europe and US HY avoiding price declines m-o-m.

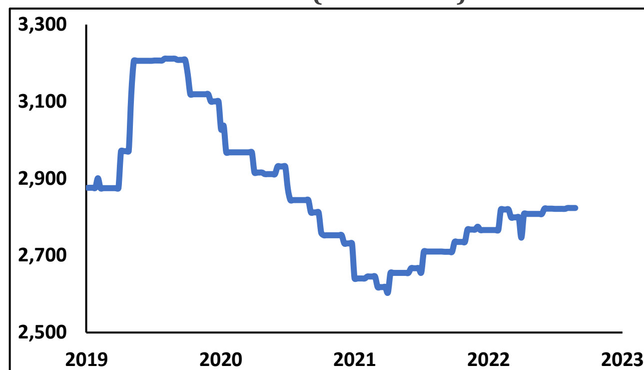
Pull Back in August Represents Opportunity to Lock in Rates Medium-Term. The sell off in August across safe-haven treasuries (and risky assets) was a healthy reset from the buildup in froth as markets climbed successive walls of worry and printed higher. With the likelihood that volatility may return, we believe there is scope to be opportunistic and buy the pullbacks as to lock in higher yields over medium-term horizon.

EM Equities: MSCI EM Index tumbled by 6.4% in August. LATAM, Asia and EMEA fell by 7.9%, 6.3% and 5.7% respectively. MSCI China plummeted 8.5% on disappointing economic data and limited stimulus. Exports were down 14.5% YoY in July, while CPI YoY was -0.3%, showing signs of deflation. Industrial production YoY came in at 3.7% (vs survey of 4.3%) and retail sales rose 2.5% YoY (vs survey of 4.0%). Tech heavy indexes MSCI Korea and MSCI Taiwan also witnessed profit taking in August, falling by 4.2% and 3.5% respectively. MSCI Brazil was the worst performer, dropping 9.3%, as a stronger dollar and worries about commodities demand from China weighed on the index.

Commodities: Oil: Brent oil closed at USD 86.9/bbl, up 1.5% MoM. Oil was relatively stable after pledges by heavy weights Saudi Arabia and Russia to extend supply cuts and demand peaking for summer.

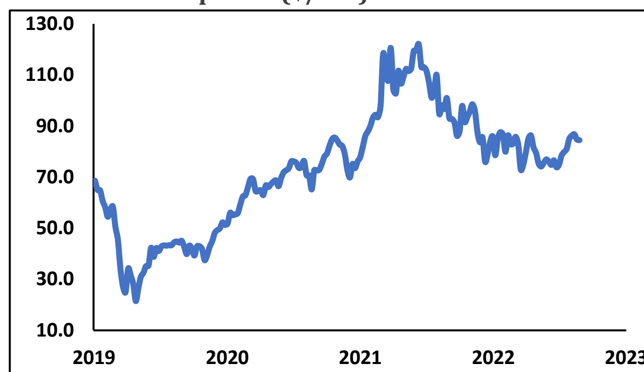
Natural gas: Henry hub prices rose by 5.1% MoM to reach USD 2.8/mmbtu. High inventories, improved energy efficiency across Europe and changes in the way gas is being consumed has led to the 38% drop in prices YTD.

OECD crude inventories (mn barrels)



Source: Bloomberg, Daman Investments

Brent crude oil prices ($/bbl)



Source: Bloomberg, Daman Investments

Petchems: SE Asia LDPE, LLDPE, PP and HDPE rose by 8.4%, 5.2%, 4.3%, and 4.0% respectively. **SE Asia MEG fell 2.0% MoM.**

Metals: Nickle, copper and aluminum fell 9.0%, 4.5% and 3.5% MoM, respectively on demand worries from China. **Precious metals: Gold prices fell by 1.3%** on a strengthening dollar and rising yields.

Currencies: EM currencies (MSCI EM Currency Index) fell 1.5%, while the US Dollar (DXY Index) rose by 1.7%. The South African Rand (-5.4%), Brazilian Real (-4.6%) and Colombian Peso (-4.1%) were the worst performing EM currencies while the Turkish Lira (+0.9%) and Hungarian Forint (+0.4%) were the best performing currencies.

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Given our expectation of a slowdown in global economic growth, we continue to avoid exposure to base metals. We remain cautious on petrochemicals due to a slowdown in the global economy. We expect Brent oil price to average $80/bbl in H2 2023. With peak demand behind us due to the travel season ending, we expect prices to remain volatile due to interest rates hikes and global growth uncertainties. However, OPEC has put a floor on Brent crude oil prices around $70/bbl due to its voluntary production cuts.

MENA Equities: Regional equity markets were mostly negative in August, in line with global peers, despite steady oil prices, as investors continued to worry about a hawkish Fed. The S&P Pan Arab Composite Large Mid Cap Index lost 3.3%, giving up most of its July gains. Within the broader GCC, Qatar's DSM Index and Boursa Kuwait All Share Index were the worst performing markets, falling by 7.0% and 3.4% respectively. Saudi's TASI fell 1.7%. UAE markets were in positive territory, with Dubai's DFMGI and Abu Dhabi's FADGI rising 0.6% and 0.2% respectively. Regionally, Turkey's XU100 Index and Egypt's EGX 30 Index surged by 9.7% and 7.3%, respectively. Israel's TASE 35 Index and Pakistan's KSE100 Index underperformed, falling by 1.3% and 6.2%, respectively.

In the UAE, Emaar Development reported property sales of AED 10.4bn in Q2 2023, taking their H1 2023 sales to AED 19bn. Revenue fell 12.4% QoQ as several projects under construction didn't hit the 20% threshold for revenue recognition. We expect the revenue to pickup from Q4 2023. The sales backlog, however, rose to AED 53.2bn, which would be recognized over the next few years. The default rate stood at 1.4%, the lowest level ever recorded in Dubai. Emaar Properties adjusted earnings beat consensus expectations. Malls recorded an occupancy rate of over 96% while hospitality assets had occupancy levels between 65-70%, with ADRs continuing to remain healthy. We continue to like both the names given robust execution of projects, strong FCF generation, potential for higher dividends and growth in recurring income.

Air Arabia's earnings were up 34% QoQ driven by higher revenue, higher contribution from JVs and a one-off receivable from a supplier. The load factor stood at 76% while yields improved slightly during the quarter. We exited our position in Air Arabia after a strong rally in the name this year. We tactically trimmed our exposure to Fertiglobe despite remaining constructive on urea/ammonia prices improving given the ongoing heat wave putting upward pressure on the crop prices and increased demand from India and Latin America.

In Saudi, we initiated a position in Mouwsat. Q2 earnings were up 6% YoY due to the ramp up of new facilities in Dammam and Madinah as well as the addition of sub-specialties. The name has been a laggard in the healthcare segment and we remain positive about the company managing cost inflation better than peers and margins to expand as the ramp up of the new hospitals finish. In Qatar, we initiated a position in QGTS. The name is trading at a discount to global peers despite 85% of revenues coming from long-term LNG transportation contracts and 70% of its debt being hedged. There also remains a possibility of fleet expansion by getting business from Qatar Energy for its north field expansion.

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Major Indices Performance

Major Indices Performance	Value	MTD Return	YTD Return	PE (x) 1Yr Fwd	PB (x) 1Yr Fwd	Div. Yield 1Yr Fwd
Saudi Arabia - TASI	11,491	-1.7%	9.7%	17.6	2.2	3.7%
Dubai - DFMGI	4,083	0.6%	22.4%	8.7	1.1	4.5%
Abu Dhabi - FADGI	9,810	0.2%	-3.9%	18.0	2.3	3.3%
Qatar - DSM	10,195	-7.0%	-4.6%	11.8	1.3	4.7%
Kuwait - All Share	7,006	-3.4%	-3.9%	14.9	0.6	4.2%
Oman - MSM30	4,799	0.5%	-1.2%	7.7	0.8	4.7%
Bahrain - BHSEASI	1,952	-2.0%	3.0%	7.3	0.7	8.6%
Egypt - EGX30	18,874	7.3%	29.3%	7.5	1.9	4.1%
Morocco - MOSENEW	11,954	-1.1%	11.5%	17.6	2.1	3.7%
S&P Pan Arab Composite	160	-3.3%	0.4%	14.5	1.9	3.9%
Israel - TA35	1,847	-1.3%	2.8%	8.3	1.5	2.9%
Turkey - XU100	7,918	9.7%	43.7%	6.7	2.0	3.1%
Pakistan - KSE100	45,081	-6.2%	11.5%	3.7	0.8	8.5%
S&P 500	4,508	-1.8%	17.4%	20.7	4.0	1.6%
STOXX 600	458	-2.8%	7.8%	12.8	1.7	3.6%
MSCI EM	980	-6.4%	2.5%	13.6	1.6	2.9%
MSCI All Country World	686	-3.0%	13.3%	17.5	2.6	2.2%
MSCI World	2,986	-2.6%	14.7%	18.1	2.9	2.1%

Major Indices Performance	Value	MTD Change	YTD Change
Barclays GCC Credit +HY Index	172	-1.0%	1.5%
FTSE MENA Broad Bond Index	156	-1.3%	0.7%
Dow Jones Sukuk	96	-0.6%	-0.4%
Barclays Global Aggregate Index	449	-1.4%	0.7%
Barclays Global High Yield Index	1,425	-0.5%	6.7%
Barclays US Treasury Index	2,204	-0.5%	0.7%
Barclays US Corporate Index	3,050	-0.8%	2.8%
Barclays US Corporate High Yield index	2,342	0.3%	7.1%
JPM EM Global Bond Index	535	-1.6%	4.1%
Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index	1,109	-1.20%	3.3%
Bloomberg Barclays US Aggregate Bond Index	2,077	-0.6%	1.4%
Markit CDX Emerging Markets Index	96	-0.4%	1.8%
Barclays EM High yield	1,294	-1.3%	5.0%
Barclays EM Corporate Index	267	-0.9%	2.1%
10-year US Treasury yield* (%)	4.11	15	23
30-year US Treasury yield* (%)	4.21	20	25
US Treasury 2-10 Spread*	-75.89	16	-20
US Treasury 2-30 Spread*	-65.54	22	-19
10-year US Treasury Real yield* (%)	1.87	28	30
10-year Germany Treasury yield* (%)	2.47	-3	-11
US Breakeven 10 Year*	2.24	-14	-6
10-year Saudi Arabia Govt USD Bond yield* (%)	5.04	19	29
8-year Abu Dhabi Govt USD Bond yield* (%)	4.56	17	32
4-year Kuwait Govt USD Bond yield* (%)	4.77	24	117
9-year Oman Govt USD Bond yield* (%)	6.04	30	-13
10-year Bahrain Govt USD Bond yield* (%)	7.01	29	-36
7-year Qatar Govt USD Bond yield* (%)	4.62	23	25
10-year Egypt Govt USD Bond yield* (%)	16.53	197	435
EIBOR 3M* (%)	5.26	-1	95
QAIBOR 3M* (%)	6.00	0	72
Dubai 5 Year CDS* (bps)	38	2	-10
Qatar 5 Year CDS* (bps)	35	1	-13
2-year US Treasury yield* (%)	4.86	-1	44

Source: Bloomberg, Daman Investments AssetManagement *Note: *In basis points*

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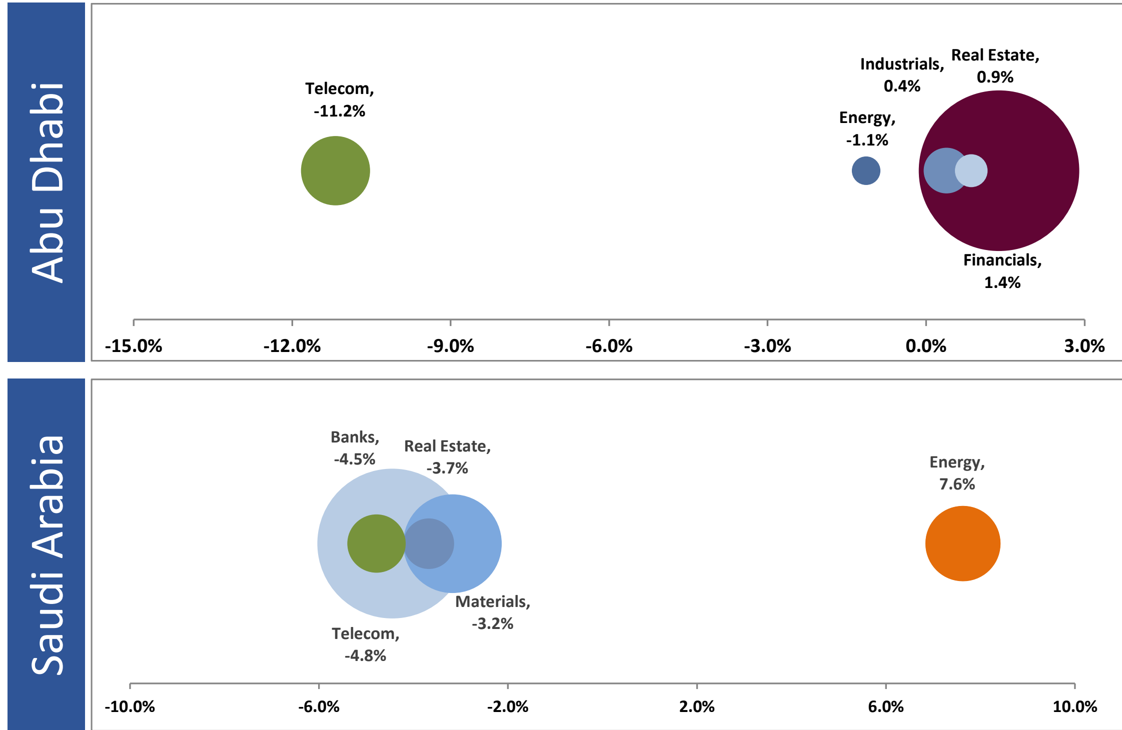
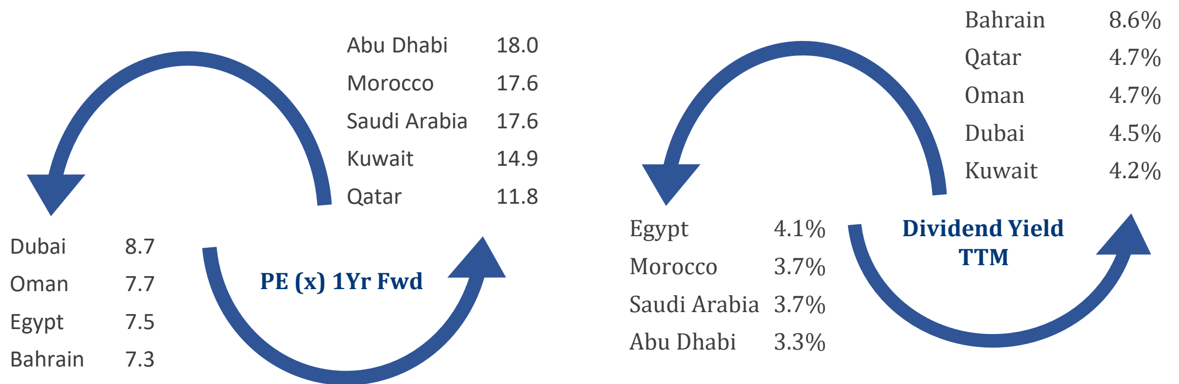
Sectors Performance of Key MENA Indices (MoM Change)



Source: Bloomberg, Daman Investments Asset Management - Note: Size of the bubbles represent weight of the sectors in the respective index

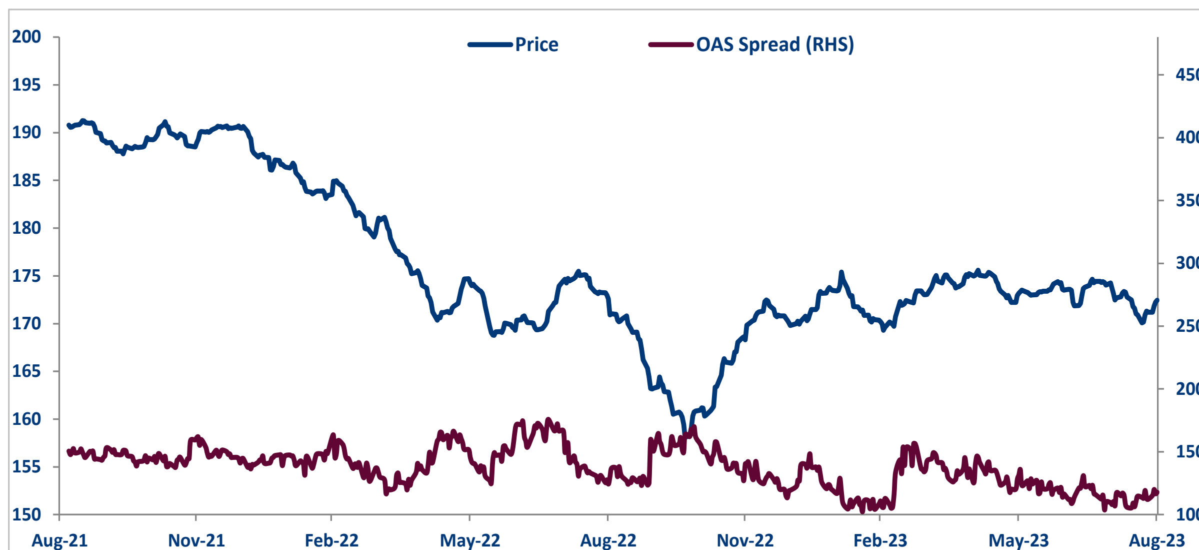
MENA Valuations



Note: Bahrain's PE ratio is trailing

Source: Bloomberg, Daman Investments Asset Management

Barclays GCC Credit +HY Index



Source: Bloomberg, Daman Investments Asset Management

Major Commodities and Currencies

Performance

	Value	MTD Change	YTD Change
Brent crude oil (USD/bbl)	86.86	1.5%	1.1%
Natural Gas (USD/mmbtu)	2.77	5.1%	-38.1%
Gold (USD/Ounce)	1,940	-1.3%	6.4%
Copper (USD/MT)	8,405	-4.5%	0.5%
Aluminium (USD/MT)	2,166	-3.5%	-7.8%
Nickel (USD/MT)	20,087	-9.0%	-32.8%
Urea Middle East (USD/MT)	383	-4.4%	-20.3%
Methanol China (USD/MT)	282	6.8%	-7.8%
SE Asia Polyethylene (USD/MT)	1,030	4.0%	1.0%
Polypropylene (USD/MT)	980	4.3%	-1.0%
US Dollar Index	103.62	1.7%	0.1%
MSCI EM Currency index	1,677.41	-1.5%	1.0%
JPM EM Currency index	47.97	-1.9%	-3.9%
EGP/USD	0.03	0.0%	-20.0%
TRY/USD	0.037	0.9%	-29.9%
PKR/USD	0.327	-6.6%	-25.9%
ILS/USD	0.263	-3.3%	-7.6%
EUR/USD	1.08	-1.4%	1.3%
GBP/USD	1.27	-1.3%	4.9%
USD/JPY	145.54	2.3%	11.0%

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Global Asset Allocation and Outlook

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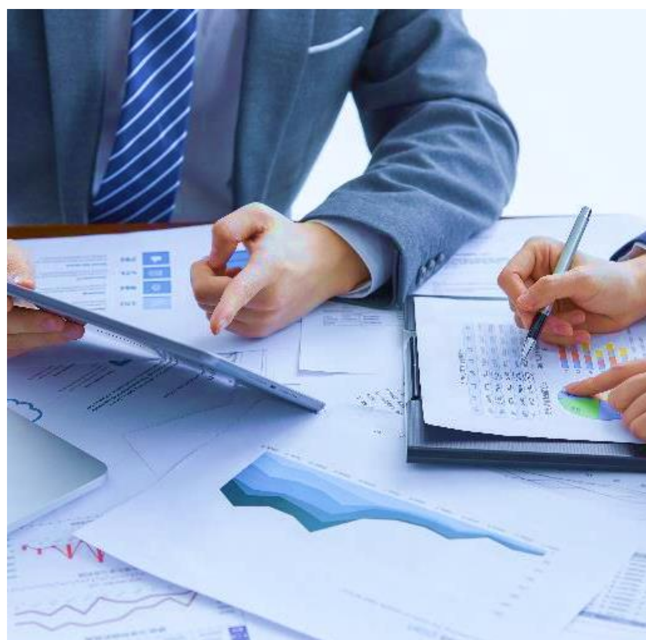
Global Asset Allocation and Outlook

A continuous gradual deceleration in the core PCE and moderation in labor market (last 3-month non-farm payrolls averaging 150,000 vs YTD average of 330,000 and job openings falling to 1.5 times each unemployed person from a peak level of 2x) has strengthened the case for soft-landing (defined as inflation moving towards the Fed's 2% goal with economy growing below trend but not going into a recession) in the US. Despite the much lower pent-up savings (coming down from a peak of $2.1 trillion to $0.4 trillion currently), the real wage growth has given more firepower to the consumer to continue to drive consumer spending and real economic growth. However, the fed wants to maintain a hawkish narrative by being ready to hike if needed and committing to remain higher for longer, until they see more data points which point towards a sustainable move of core PCE towards their 2% goal.

We believe in the near-term US treasury yields will remain volatile as any stronger than expected inflation data or economic data would cause volatility in yields as this could strengthen the probability of a rate hike in November (currently standing at 46%) and push further the start of the rate cut (currently expected in May 2024). Despite the near-term uncertainty, we continue to remain invested, however, advocate maintaining a preference towards names with strong balance sheet, low leverage and highly visible near-term cash flows.



We continue to maintain an overweight on fixed income as we see yields and rates close to a peak and the current high yields present an attractive opportunity to lock in returns in names where we expect the credit quality to remain strong and cash flows to remain resilient. Also fixed income valuation remains quite attractive vs equities as differential between global equities' earnings yield (E/P) and global bond yield are below their historical average by 2 standard deviations. For us to be more constructive on equities we need to see further evidence of the soft landing in next couple of month data points, as this will strengthen the case for earnings growth in 2024.

Asset Allocation

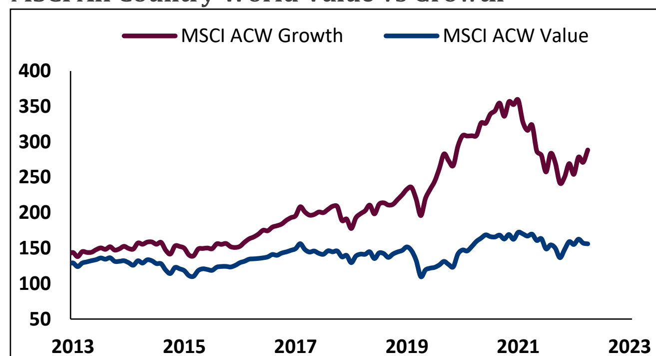
	Underweight	**Neutral**	**Overweight**
By Asset class:			
Equities		■	
Fixed Income			■
Alternatives		■	
Cash	■		
Equities - by region:			
DM	■		
US		■	
Japan			■
Euro Area	■		
EM			■
EM Asia			■
EM Europe	■		
EM MENA			■
EM LatAm		■	
Fixed Income - by region:			
South Asia			■
Far East Asia		■	
Latin America			■
GCC		■	
Africa	■		
Eastern Europe	■		
Central Europe	■		
Fixed Income - Rates vs Spreads:			
Rates			■
Spreads		■	
Fixed Income - Credit:			
Global Investment Grade		■	
Global High Yield		■	

Global Asset Allocation and Outlook

Global Equites: In equities, we believe a proper bottom-up analysis is important to own **quality stocks with strong pricing power, solid balance sheets, high free cash flows and low leverage** to protect from market volatility. We avoid long duration technology names on a weaker cash flow profile. We see a diversified portfolio with a **dividend yield cushion** to be better equipped to face market volatility.

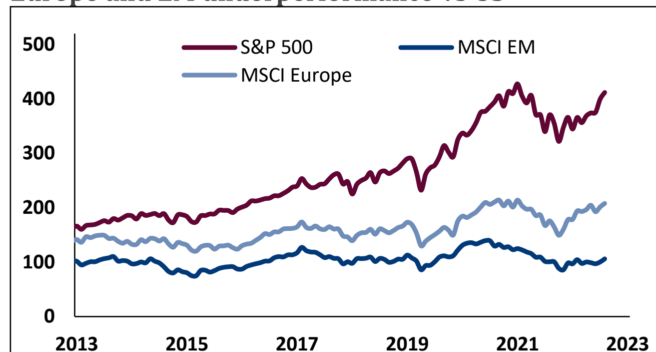
We upgrade US to equal weight from **underweight and Europe to underweight from equal weight. We see US economy as holding up better than Europe in the current restrictive rate environment and the core inflation is much lower than Europe, which creates a bar much lower for the fed to stop hiking. We prefer value and cyclical sectors in US as they trade at an attractive valuation vs the growth sectors.** Only selective technology and communication services names offer value at current levels. **We remain overweight on Japan** given the start of a strong capex cycle - driven by both domestic and foreign driven investment, and expectation of a strong corporate profit growth.

MSCI All Country World Value vs Growth



Source: Bloomberg, Daman Investments

Europe and EM underperformance vs US



Source: Bloomberg, Daman Investments

We stay overweight on EMs as we continue to see strong upside catalysts during 20223 in the form of further stimulus in China, most central banks expected to end their tightening cycles and current valuations already factoring in spillover from a DM slowdown. EM economic growth trends are also diverging from the DM and there are strong structural domestically driven economic growth stories such as India, Indonesia and Brazil. MSCI EM index is trading at a 25% discount to MSCI World Index on a forward PE basis vs a long-term average discount of 25%, despite EM economies having better growth prospects than DM. Within Asia we prefer an exposure to **India and Indonesia**. Chinese market price in a lot of negativities and can surprise on the upside if the stimulus measure can be sizeable and boost the property market and consumer spending. **We remain overweight on India** as a strong consumer spending is leading to start of a new capex cycle due to the companies reaching optimum capacity utilizations. This would lead to a strong pickup in credit growth along with a benign asset quality environment.

We **remain neutral on Korea and Taiwan** post a strong rally YTD. Within Latam we like Mexico as the country is a key beneficiary of the near shoring theme. We **also like Brazil** as the central bank is well placed to continue with a rate cut cycle, which it started last week, due to declining inflation, reaching 3.2% in July from a peak of 12.1%, which would benefit the consumer and cyclical plays. **We stay overweight** on MENA on OPEC+ managing the oil over supply risks given global macro concerns, and we continue to see strong bottom-up stock picking opportunities on structural growth driven by economic diversification. MENA markets trade at a 6% premium to EM which is below the long-term average of 10%. Recent correction in Saudi equities has exposed value in certain names which continue to report strong earnings growth and non-oil GDP growth will remain strong at north of 4%.

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Global Asset Allocation and Outlook

Global Fixed Income:

Maintain Defensive Stance and Focus on Quality to Manage Challenges. Fixed income markets have performed well so far this year despite macro challenges, tight monetary, policy, geopolitical tensions, rates and commodity volatility, among others. Navigating markets have been difficult given that economies are rebalancing post the global pandemic, with sectors expanding while others clearly in contraction. As this rebalancing continues, we continue to position defensively across sectors, and focus on higher quality issuers with stronger cash flow and balance sheet dynamics. Whether we end with a scenario of sub-trend economic expansion or mild recession, high quality fixed income tends to outperform lower parts in the quality spectrum.

Credit Spreads Have Tightened as Macro Forecasts Have Risen While Defaults Remain Low Albeit Rising. Despite macro challenges and policy uncertainty, credit spreads have tightened across investment grade, high yield, and emerging markets, to below historical averages, while local currency emerging markets debt has tightened even further. Given the aggressive rate hike policy to aim to reign in inflation, we do not believe the full effect of the tightening cycle has been felt given lagged effects and expect to see default rates to modestly rise as the economy slows, which should have an unfavorable effect on credit spreads. Even with widening spreads, we expect to see the effects of end of hiking cycle to mitigate these pressures and drive favorable returns.

Continue to Position with Barbell Approach for Carry in Short End and High-Quality Duration on Longer End. With current short term yields providing investors with positive real returns, while sheltering investors from additional term and liquidity risks, we continue to reinforce barbelling short duration lesser quality credit with adding duration exposure via high grade government or similarly rated corporates, while maintaining some liquidity for mispriced sectors and securities, e.g. adequate yield to compensate for additional credit widening or volatility.

EM Holding Up Well Despite Global Challenges. Weaker global macro should weigh on growth for export-led economies while rising commodity prices and adverse weather should weigh on disinflationary dynamics for energy and food importers. Domestic focused economies should fare better, particularly those with less reliance on external commodity sensitive CPI baskets, including Saudi Arabia, Indonesia, Colombia, Brazil, and Mexico.

Expect EM Benefit as Front End Rates Eventually Subside. Elevated US front-end rates provide investors with incentive to remain positioned in short term debt at the likely expense of EM exposure. As front-end moderates and yield curve normalizes, expect to see broader demand for EM debt, subject to the ebb and flow of risk sentiment.

EM Local Currency Carry Trade Appeal Wanes. We see less appeal for carry trade in local currency as EM local government spreads compress over US treasuries given its crowded/consensus trade nature, and forward markets price in additional rate cuts in LATAM/CEEMEA that may be overly optimistic in time. Chile began its rate easing cycle in July, Brazil followed in August, and markets are implying forthcoming cuts for Mexico and Columbia after holding at their last CM meetings. While there is scope for rate cuts, expect EM nations to err on side of caution and not front end the Fed given their currency stability concerns.

Remain Constructive on Asia As Rates Fall and Monetary Policy Eases. We see opportunities in India as a rising economic engine in Asia, while also favoring low-beta Korea and Indonesia, which stem to benefit from declining nominal yields, pausing Fed and expected follow-thru into Asia's loosening of monetary policy. We remain cautious on China given the combination of weak macro, distressed real estate sector, underwhelming response measures, and unfavorable valuation levels.

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Added New High Yielding Issues in GCC. With the favorable current oil backdrop supporting GCC, and as their economies broaden, we have taken exposure in two new real estate issues DARALA 29s and SOBHA 28s, in addition to existing GMSEDA 26s in education, and KIPCO 27s in financials, which generate yields circa 8%+.

Despite Solid YTD Run, Still See Opportunity to invest in EM Bonds. We believe there is a unique opportunity to invest in EM bonds as we near the end of the tight rate environment, while allowing investors to lock in returns in the mid to high single range in a range of sovereign and corporate EM issuers, while providing diversification in multi-asset and DM portfolios in markets that have weathered global challenges well and sometimes ahead of their developed market counterparts.

MENA Equities: Given our near-term outlook for oil prices holding strong around $80 levels, we have become more constructive on the GCC markets. We have added exposure to the cyclical names in sectors such as cement, airlines, travel, insurance, and real estate sectors but continue to avoid exposure to petrochemicals and metals. However, to reduce volatility, **we are keeping the portfolio well diversified by having a mix of high dividend yield along with utilities to provide defense to our portfolios during the market selloffs.** Currently, **MENA markets trade at a 9% premium to the MSCI EM Index** on a 1-year forward PE basis, which is in-line with a long-term average premium of 10%. As long as oil trades above USD 70/bbl, we believe the MENA market will continue to trade at a premium to EM.

We continue to see selective opportunities in the GCC due to their government's commitment towards economic diversification leading to a sustained spending infrastructure, industrial, oil and gas and tourism projects. Recent correction in Saudi equities has exposed value in certain names which continue to report strong earnings growth and non-oil GDP growth will remain strong at north of 4%. Israel and Turkey will be two other markets providing us with idiosyncratic opportunities. With a reinstatement of orthodox policy makers, we see a step change in the macro policy in Turkey. However, we are waiting for a significant portion of the FX devaluation to happen and get the right signals on the rate hike front before we enter the local stock market.

We continue to avoid Pakistan on political uncertainty tied to the upcoming elections and continued devaluation. Headline inflation continues to remain elevated, rising to 27.4% YoY in August. For us to be more constructive on Egypt, we need to see steps towards encouraging FDI and reforms to improve private sector contribution to the GDP. Also, inflation hit 36.5% in July, a new all-time high, which means disposable income continues to remain strained and could further lead to a margin squeeze for the local firms.

Our preferred plays include:

- Well capitalized banks with strong corporate exposure and strong loan growth prospects (Rajhi, SNB, NBK, ENBD, ADCB, DIB)
- Consumer discretionary names which will benefit from improved travel and tourism (Air Arabia, SGS, Seera)
- High dividend yield plays within the telecom, utilities and real estate sectors (DEWA, Empower, TECOM, Yahsat, Mobily)
- Real estate names which are witnessing strong off plan sales, have low execution risk and are also seeing impact of strong tourism and economic growth (Aldar, Emaar Development)
- Names to benefit from the improvement in trade with EM countries (AD Ports)

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Performance of our Funds

Concerto IS Daman MENA UCITS Fund (DAMENAI LX EQUITY)

The aim of this strategy is to achieve medium to long-term capital appreciation by investing primarily in securities of issuers listed in the MENAPT Region or investing in securities of issuers listed outside of the MENAPT Region but deriving most of their revenues from the MENAPT Region.

	2023	Inception (30 Jul 2020) (Class I)
Total Return*	6.0%	67.8%
Annualized Return	9.1%	18.2%
Annualized Volatility	5.3%	8.5%
Sharpe Ratio	1.0	1.9

** NAV as of August 31st, 2023*

The fund lost 1.2% during the month. In terms of asset class, equities contributed to 95% of this loss while fixed income was responsible for the remaining 5%. Geographically, Saudi Arabia contributed to 70% of this loss with the rest coming from Qatar, Kuwait and Egypt.

In equities, we booked our gains in Air Arabia after seeing a strong rally in the name post its Q2 earnings result. We also exited Seera in the build up to the announcement of the IPO of its subsidiary Lumi.

In fixed income, we sold positions in Riyad Sukuk 30s, Oman Grid 25s, Gulf International 25s, and NBK 27s, in favor for better value KWIPKK 27s, Dar Al-Arkan 29s, Arabian Centres 26s, and GEMS 26s.

Daman Balanced High Income Fund

The aim of this fund is to generate income along with achieving medium to long-term capital appreciation, by investing principally in securities of issuers located in, or deriving at least 50% of their revenue from the MENA region, South Asia and Turkey. Portfolio diversification is further achieved by adding high yield fixed income securities where market is overpricing systematic and/or idiosyncratic risks.

	2023	Inception (May 2021)
Total Return*	9.8%	18.9%
Annualized Return	15.0%	7.9%
Annualized Volatility	5.9%	7.1%
Shape Ratio	1.9	0.7

** NAV as of August 31st, 2023*

The fund lost 2.0% during the month. In terms of asset class, equities contributed to 70% of this loss while fixed income contributed the remaining 30%. Geographically, Egypt contributed to nearly 32% of this loss, followed by Qatar at 25%, Kuwait at 18% and UAE at 17%.

In fixed income, we performed a switch by selling NBK 1.627% 27s and purchasing KWIPKK 4.5% 27s. We also initiated a new position in recently issued SOBHA 8.75% 2028 which we believe trades attractive, given its credit fundamentals and exposure to UAE real estate market.

Daman UAE IPO Fund

The Fund's investment objective is to generate medium term capital growth by investing in securities issued by companies that are undertaking an initial public offering or by investing in companies that have listed on UAE exchanges in the previous 24 months.

	2023	Inception (Aug 2022)
Total Return*	5.4%	8.7%
Annualized Return	8.3%	8.3%
Annualized Volatility	7.6%	7.8%
Shape Ratio	0.8	0.6

** NAV as of August 25th, 2023*

The fund was down 0.5% for the month.

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Performance of our Funds

Concerto IS Daman Global Sukuk Fund

The Daman Global Sukuk Fund seeks to maximize total returns over the medium to long term through a prudent combination of moderate-income generation and capital appreciation by investing in Global Sukuk.

	2023	**Inception (Jan 2022)**
Total Return*	0.8%	-7.5%
Average Rating	BBB	-
Average YTM	7.0%	-
Average Duration	2.4 years	-
Annualized Volatility	-	1.5%

** NAV as of August 25, 2023*

The total return of the fund during the month was -0.5%. Turkey was the only positive contributor among sovereigns, while Damac, Qatar Islamic, and Aramco were the largest positive contributors among corporates.

Fund total returns outperformed the -0.9% monthly performance of the Dow Jones Sukuk Index, as credit spreads widened from weakened risk sentiment, and rates rose across the longer end of the yield curve as macro strengthened and term premium rose.

During the month, we added ESICSU 24s and entered new DARALA 29s and SOBHA 28s positions from available liquidity in the fund.

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About Daman Investments

Daman Asset Management is a dedicated MENA specialist offering mutual funds strategies and bespoke investment products, which have been built on our independent research insights and backed with a proven track record of delivering superior risk-adjusted returns which have substantially outperformed peers and regional benchmarks. Our experienced team manages investments on behalf of local and regional institutions, family offices and high net worth individuals.

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