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Regulated by the DFSA

A Year of Two Disappointments

December 2023

This presentation is for discussion purpose.

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CIO Speaks

2023 has been a year of two disappointments!

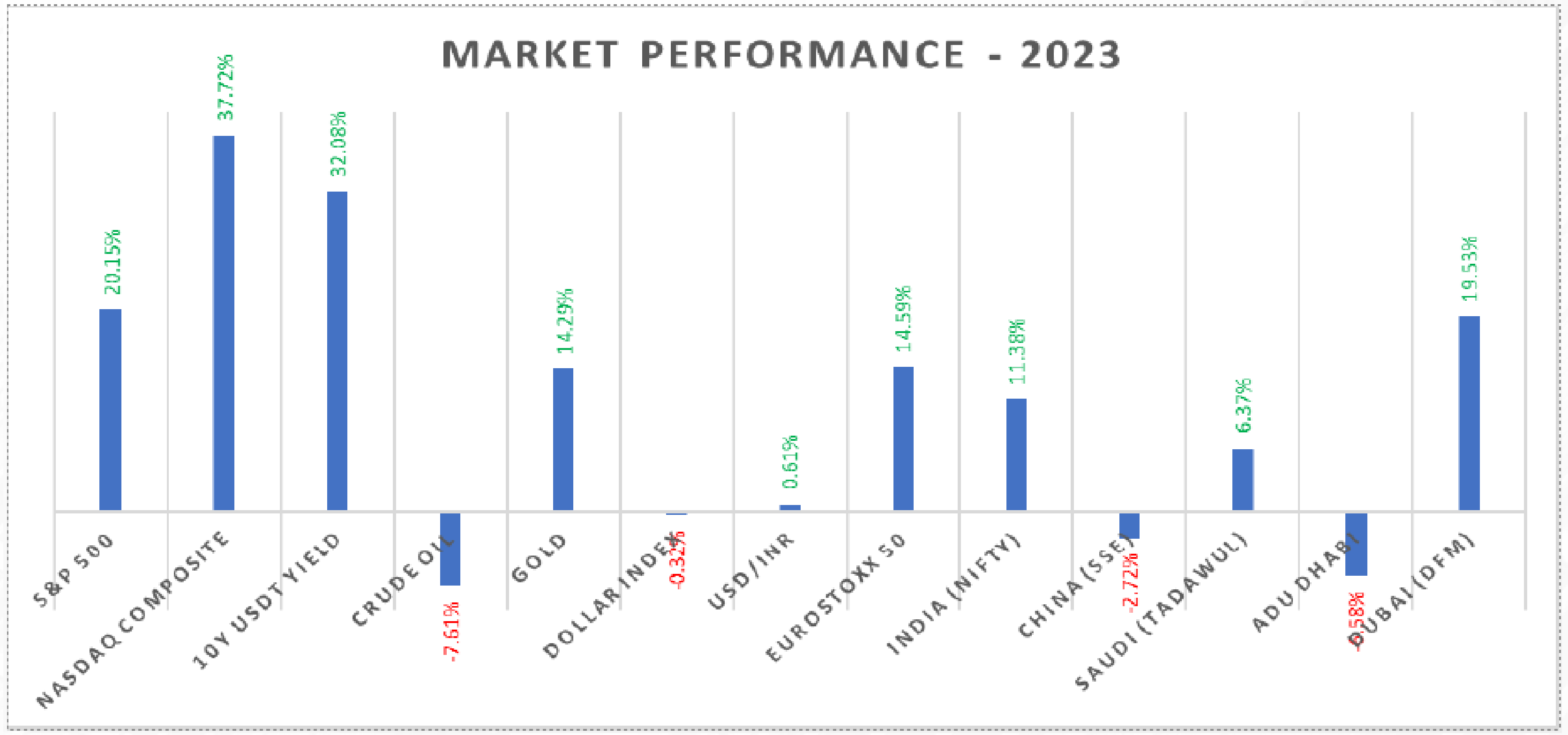
At the beginning of the year, **the dominant narrative was that the rapid rise in US interest rates that started in March 2022 would cause something to ‘break’ and lead to a recession in the early part of the year.** This would cause stocks to perform poorly in the first half. The stress would force the Federal Reserve to reverse course and cut rates, which would in turn goose up stock prices. Bonds, particularly with long duration, were expected to go up sharply in response to the drop in yields.

The other theme was that of **China reopening after a 3-year COVID-19** lockdown. The resulting resurgence of demand was expected to drive up prices of everything from oil and commodities to stocks of companies selling to the Chinese consumer.

As it happened, the US economy and the Federal Reserve refused to play ball. The GDP continued to grow, albeit at a glacial pace. Corporate earnings were not the disaster they were expected to be. Employment refused to come down materially from historically high levels. And the consumer, the bedrock of the US economy, continued to spend.

The Federal Reserve kept raising rates for the greater part of the year and reiterating its mantra of ‘higher for longer’ interest rates.

Even the failure of three of the largest banks in the country within weeks of each other barely caused a ripple and quickly became a memory, to be replaced by the euphoria about all things AI.



CIO Speaks

Despite high rates, the S&P 500 reached within a whisker of its all-time highs. Long-duration bonds, on the other hand, suffered as the promise of lower yields and high capital gains did not bear fruit.

In China, instead of the country's emergence from its COVID-19 controls being the biggest economic event of the year, the reopening has been a flop. Consumer spending has been weak, and troubles in its embattled property sector have persisted even as the policy response has been anemic and lackluster. Fund managers in Asia are expressing "fatigue and frustration" with China's weak growth and the lack of a concerted government response.

How did we do?

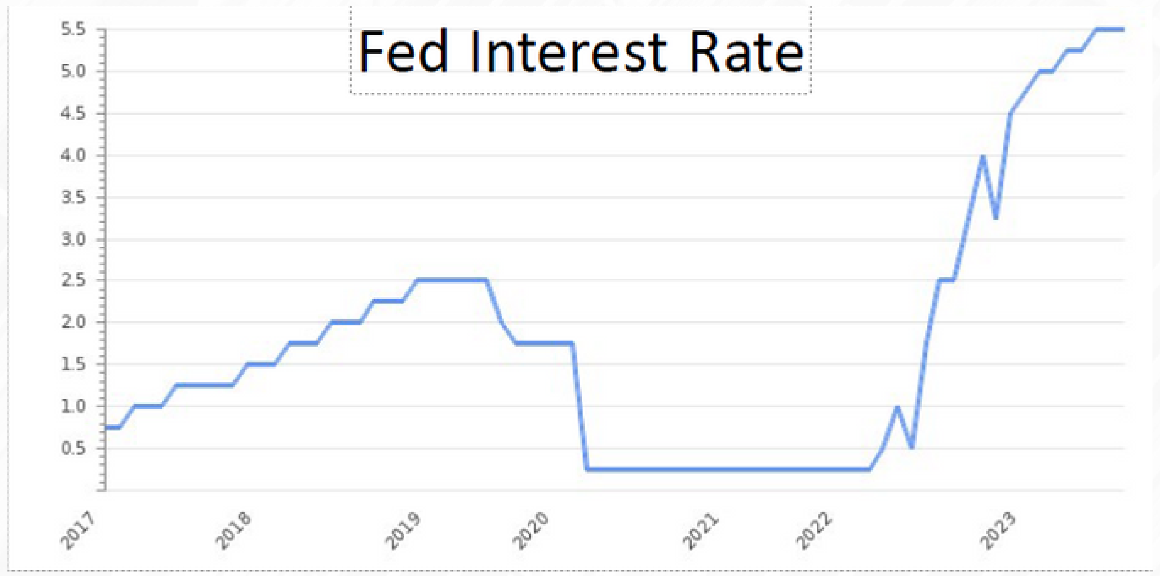
In our newsletter last year, **we had expressed our belief that market expectations were unlikely to play out**. We also took the view that a change in regime in inflation and interest rates was underway and was likely to result in increased volatility in financial markets. Given our role as advisor and protector of client investments, we believed this warranted an overall cautious approach, while being ready to take advantage of tactical opportunities where we could identify them.

Below is our "report card"

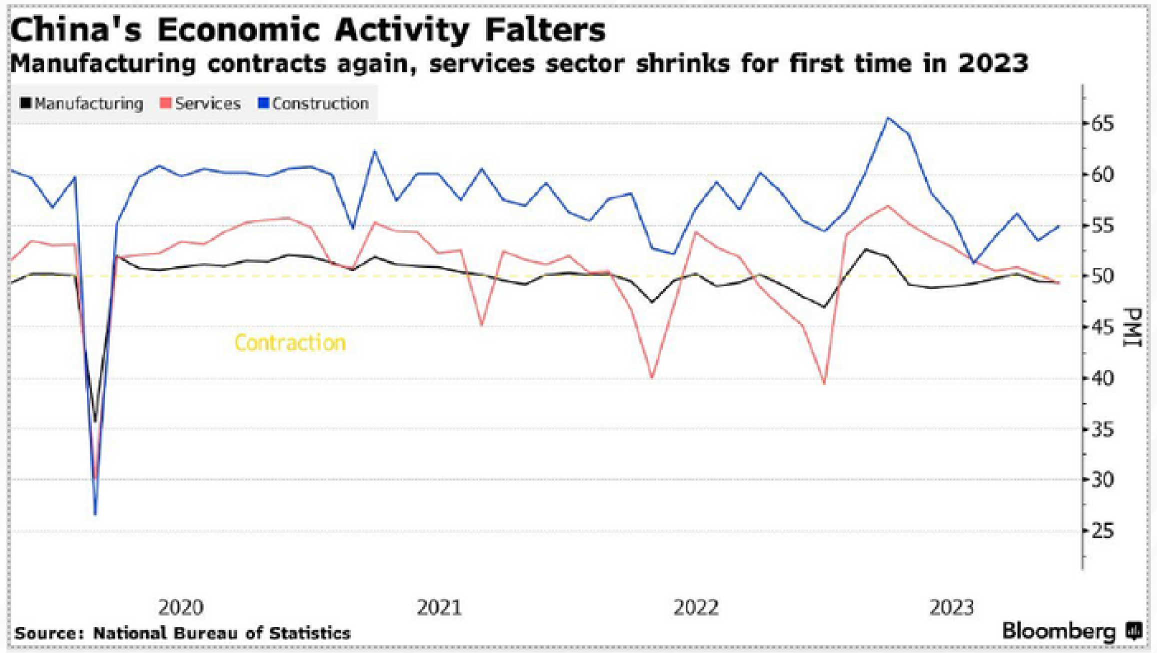
Bonds

Our most consistent and strongest call through 2023 has been that the best risk-reward for investors is in high-grade bonds of intermediate duration (up to 10 years). As of end November 2023, there has been no credit stress in any bond recommended by us. In some cases, prices have come down somewhat due to increase in market yields, but the total return including coupons earned is positive for all but four bonds.

Our call to go long TLT was a bit early, and we are relieved to see that prices have recovered to the level at which we made the call and total return on those holdings have been positive.



Source : take-profit.org



CIO Speaks

Equities

We called for a 7-10% correction in S&P 500 in August. The index dropped by ~11% before bottoming in late October.

We also correctly **called the subsequent rally**, which is still ongoing.

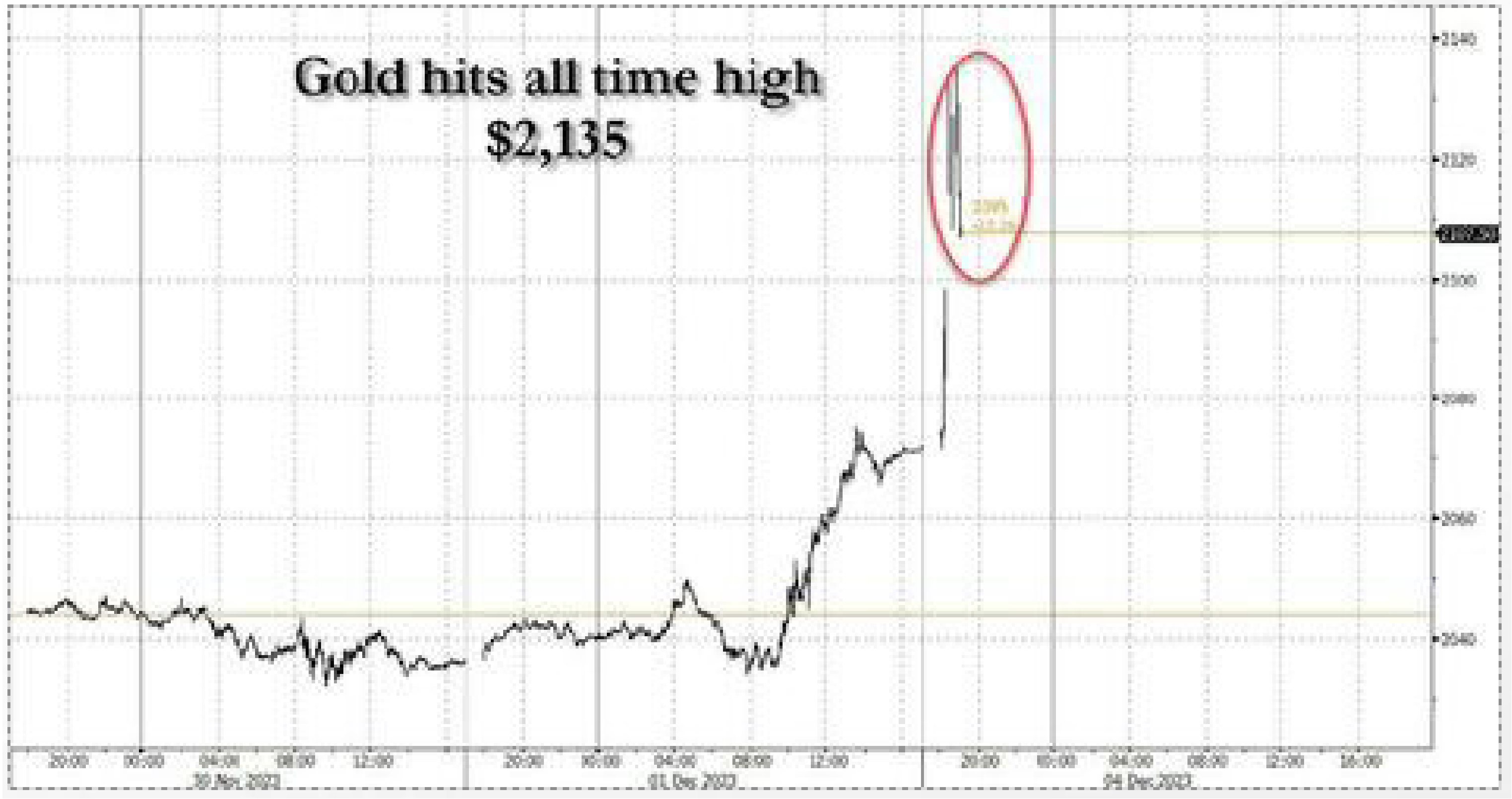
We **flagged the drop in VIX in early September** as a trading opportunity heading into October.

Structured Products

We recommended 40 structured products in 2023, which translates to an average of one per week. We took care to ensure that assets or themes selected were in line with our market view, and provided a return that we believed was commensurate to the risk. The result is that fully **35 out of 40 have delivered returns in line with expectations.** In four cases, while we did not correctly anticipate the movement in the underlying asset, the investor did not lose money as we had opted for capital-protected structures. In one structure, the barrier was triggered and the investor has to take delivery of the stock.

Gold

Another consistent call through 2023 has been to **increase allocation to gold.** The yellow metal is currently up more than 14% YTD and trading near all time highs of $ 2,152.30



CIO Speaks

Oil

Oil prices have been extremely volatile this year as the market struggles to find a balance between lower demand due to expectations of slow growth and supply constraints by major producers. While the commodity is currently trading 7.6% below its price at the beginning of the year**, our calls to go long at $67-70 are still profitable.**

Indian equities

Another of our consistently bullish calls, and one where we felt confident enough to launch our own fund. While the Nifty has done well to notch up gains of 11.38% for the year, the **Asas India Manufacturing Fund has delivered even more impressive returns of 27% plus.**

GCC equities

We have been advising clients to increase exposure to GCC markets as we believe they have a long positive runway ahead of them. As of November-end, **the Saudi Tadawul is up 6.37% YTD while DFM is up 19.53%.** ADX has not done well, but that is attributable to a couple of stocks with exceptionally heavy weighting in the index and, in our opinion, does not invalidate the overall thesis.

What is the outlook for 2024?

We are presenting in this newsletter a snapshot of forecasts from several major banks. Expectations this time are more diverse in general compared to 2023, which in our opinion makes it more balanced mix of risks. **Most banks agree that global growth is likely to slow into 2024, and US CPI is likely to drop to ~ 2.6%**. However, even though everyone expects interest rates to go down, there is considerable divergence about the magnitude of that drop. The positive case for US equities is built on the demonstrated ability of the economy to grow despite the rapid rise in interest rates; while the bearish case rests on an expected slowdown. Interestingly, everyone expects oil prices to go up. We have provided the rationale for the highest and lowest projection in each category, so that you can form your own opinion about their reasonability.

This is our last update for 2023. We thank you for your patronage and look forward to connecting with you in the New Year with our 2024 outlook.

Meanwhile, our best wishes to you and your loved ones for the holiday season. May it bring much joy and cheer into your lives.

Performance of Recommended Equities - 2023

- **29** Total securities recommended
- **8** Securities that crossed our 12-month target price
- **19** Securities with Positive performance
- **4** Securities where we have downgraded the price
- **10** Securities with negative performance
- **3** Securities not in our list anymore

Recommended sector	Weightage	Positive performance as of date
Technology	7	6
Energy	6	4
Financials	3	2
Consumer	2	1
Industrial	3	2
Healthcare	5	2
Communication	3	2

Performance of Recommended Bonds/Fixed Income - 2023

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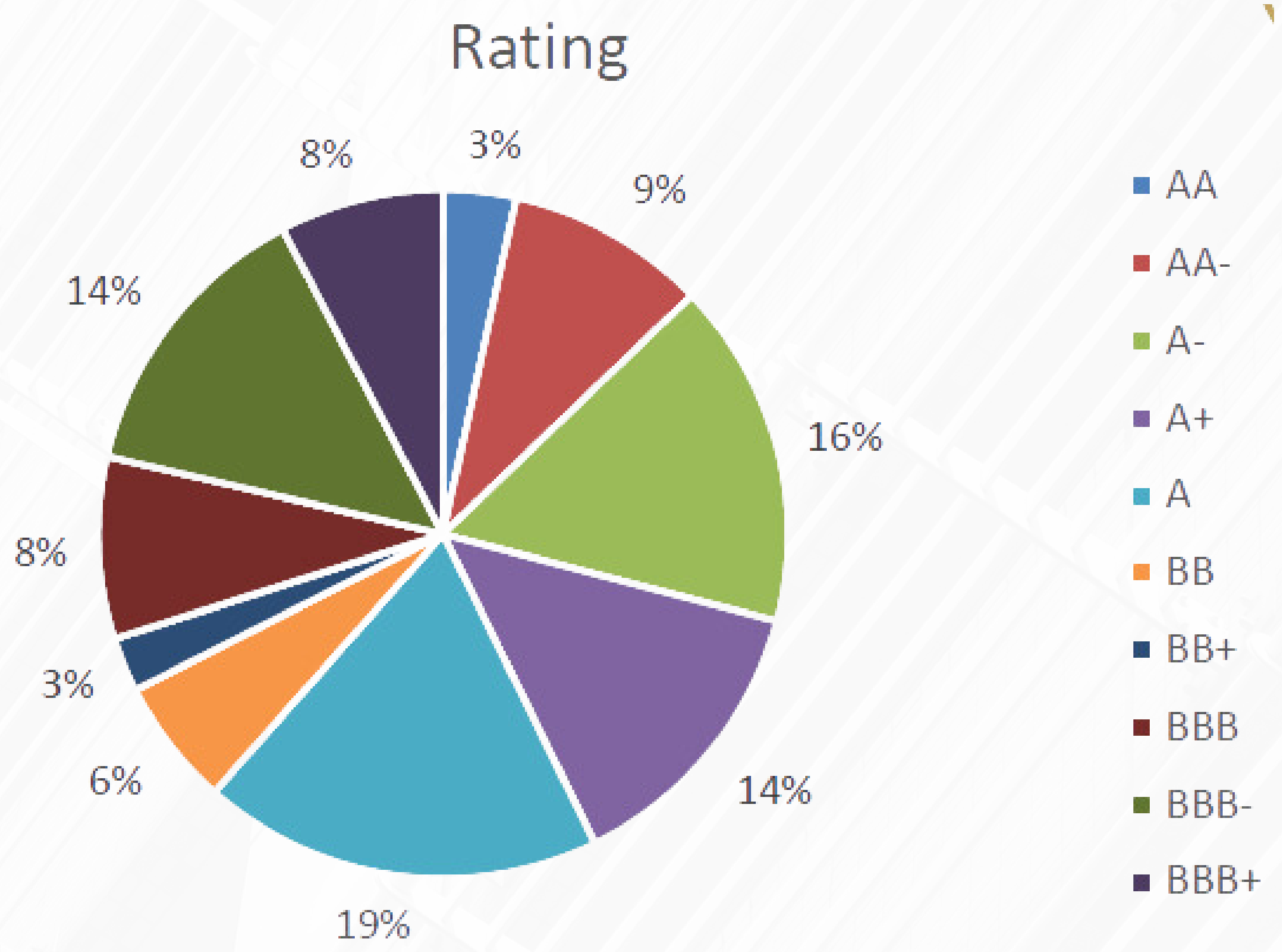
120 Total Products recommended

5.37% Coupon Suggested Range (Median)

116 Products with Positive Returns

2-11 Tenor of Maturity (in Years)

4 Products with Negative Returns



Performance of Recommended Structures - 2023

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40	Total Products recommended
58	Total Underlying with products
8%	Average Coupon Suggested
35	Products above barrier
4	Products gone against view (Capital protected)
1	Products Losing money

Types of Products Recommended

- ATHENA
- Rebound Notes
- One Star Product
- Binary Digital Note
- Capital Protected Note
- SharkFin Note
- Currency Note
- Quanto Note
- Fixed Coupon Note
- Conditional Memory Note

Major Banks 2024 Outlook: S&P 500

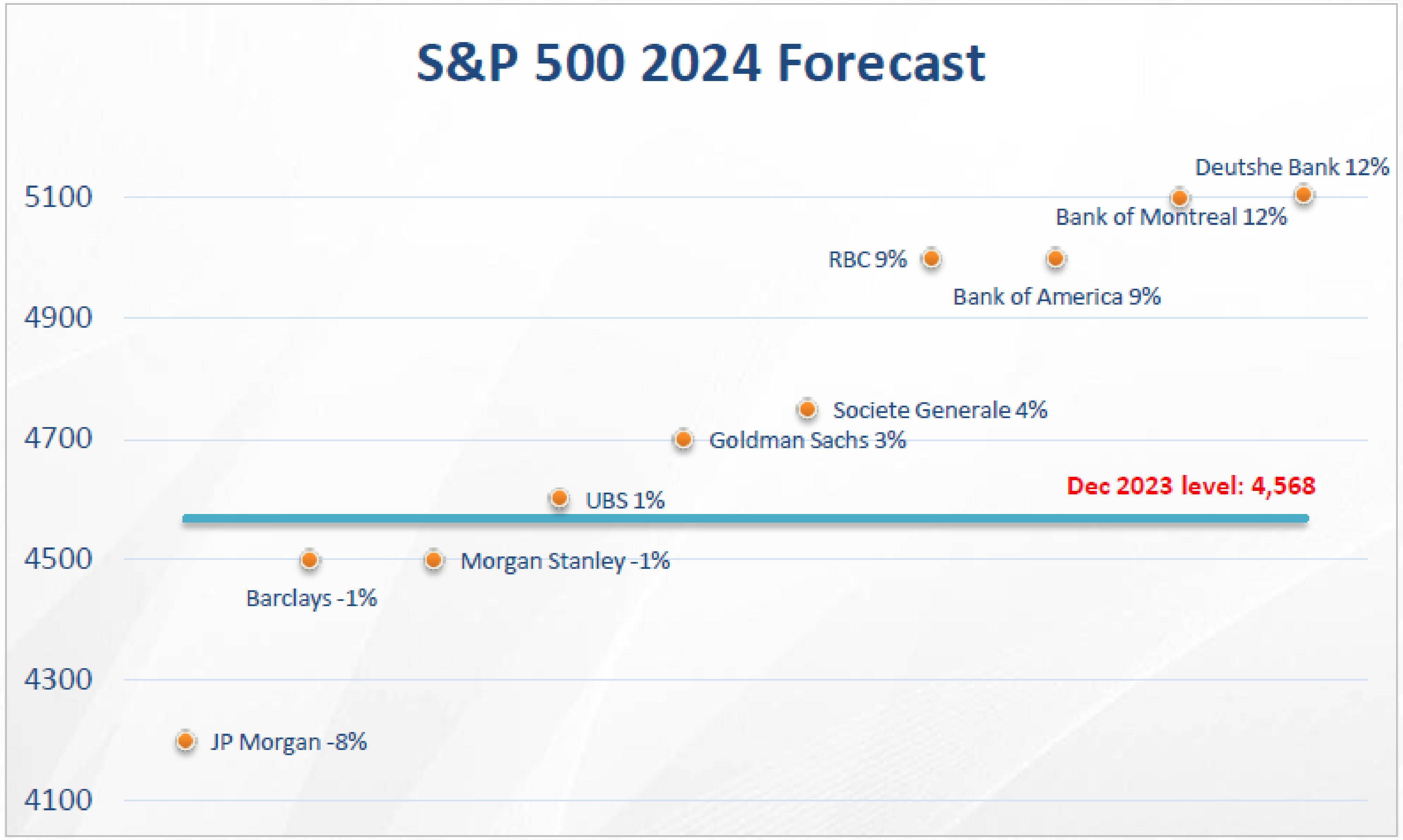
Rationale for the two opposing views:

Deutsche Bank

- US is nearing a soft-landing scenario.
- Inflation is cooling.
- Quarterly GDP growth remains strong.

JP Morgan

- Global growth decelerates.
- Household savings shrink.
- Geopolitical risks remain high with national elections.



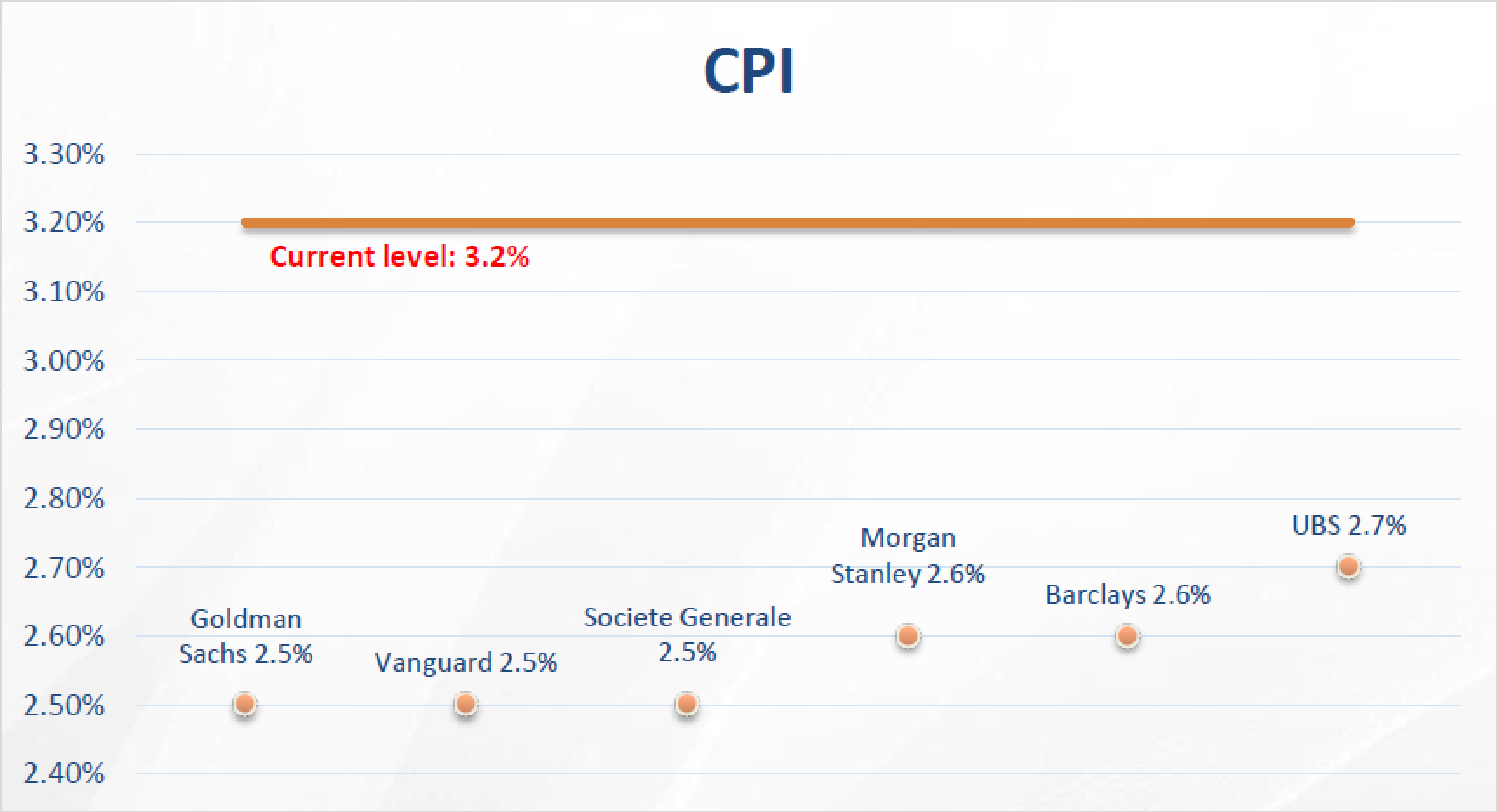
Major Banks 2024 Outlook: US CPI

Rationale for the two opposing views:

Goldman Sachs: Core Inflation figures are expected to fall further in 2024. The last mile of disinflation should not be particularly hard because:

- Supply-demand balance in the goods sector is now largely complete.
- Shelter inflation has considerably further to fall.
- Supply-demand in labor markets continues to improve.

UBS:
- The tightening monetary policies bring inflation down by weakening demand, however in the past year US GDP growth has outperformed consensus estimates
- unemployment has decreased instead of declining.
- The fall in inflation could be attributed to improvement in the imbalance between supply and demand and this balance is estimated to improve further into 2024 leading to further decrease in inflationary pressures.



Major Banks 2024 Outlook: Interest Rates

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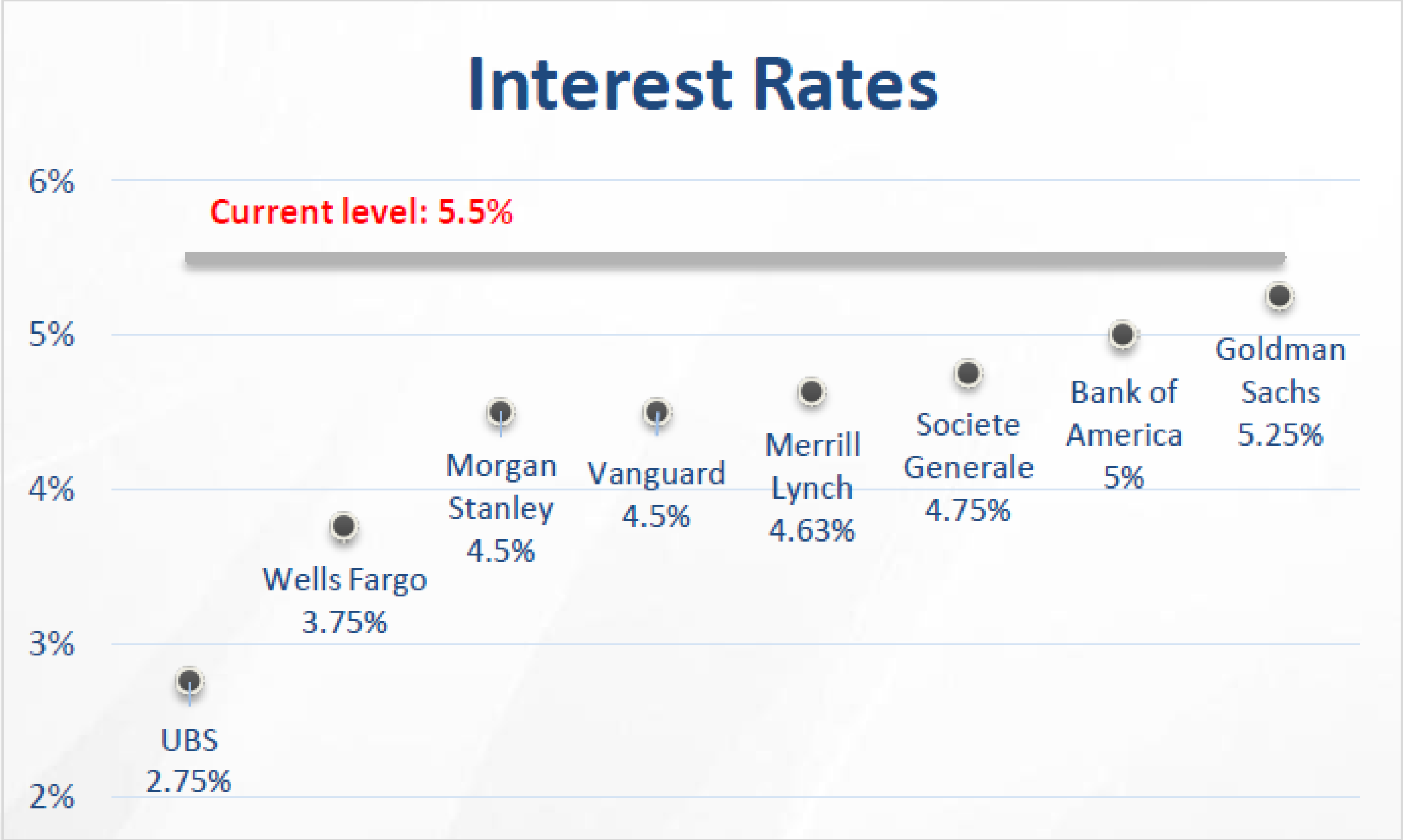
Rationale for the two opposing views:

Goldman Sachs: Cuts are coming sooner (in EM) or Later (in DM)
- Inflation to remain modestly above target, unemployment rates to remain below their long-run levels and GDP to grow at a roughly trend pace in 2024.
- Little incentive for DM banks (barring BoJ) to cut rates in 2024H1.
- US to see growth outperformance and they should see rate cuts in Q4'24.

UBS:
- If term premiums are higher, policy rates will need to be lower or financial conditions will be too tight. That offset makes it hard to justify very high real rates.
- Supply can drive an underlying trend in term premiums, but there tends to be a tremendous short-term noise created by demand swings. The supply story is likely to wane and wax through 2024.
- A large part of the US selloff seems to be higher-for-longer rather than supply, and a cyclical driver is easy to reverse.



Major Banks 2024 Outlook: Real GDP

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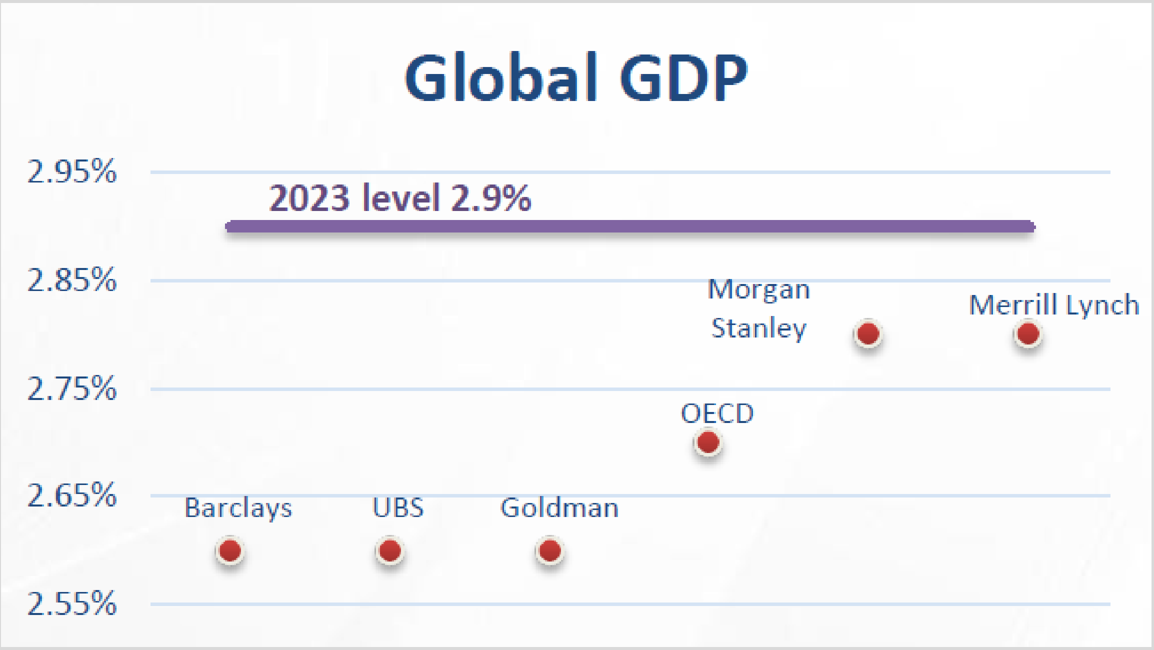
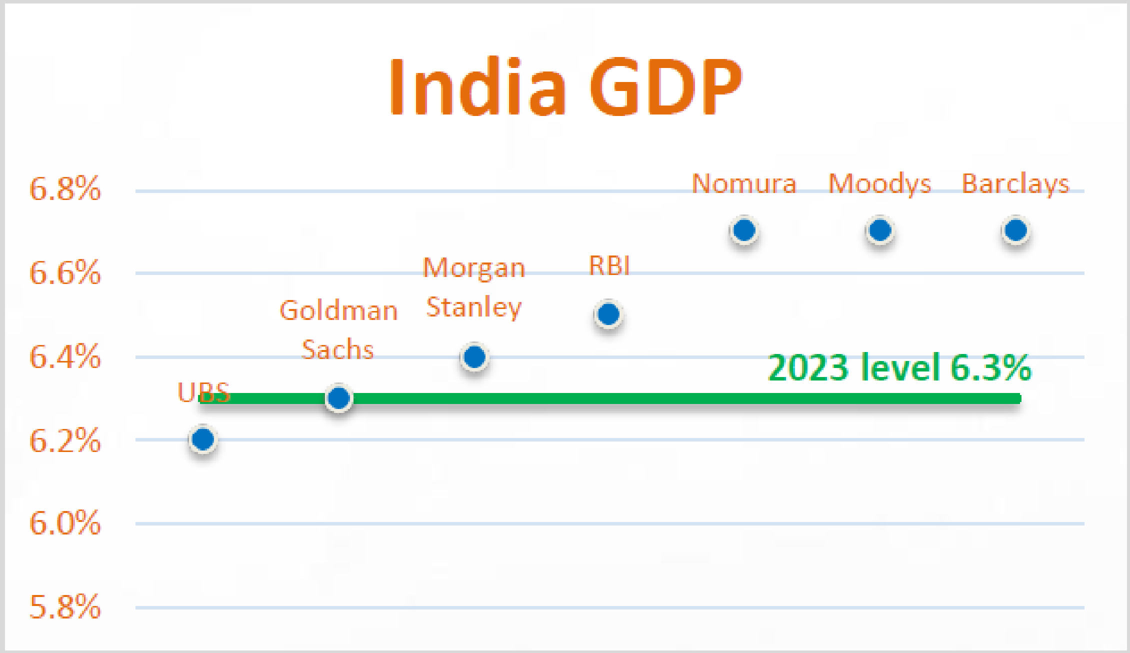
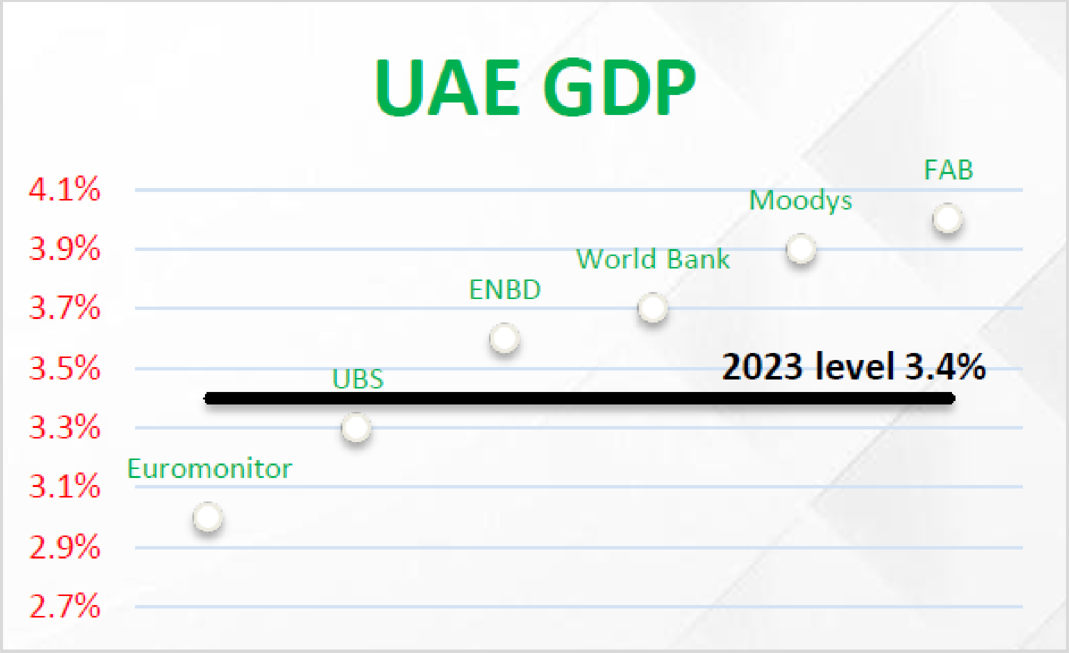
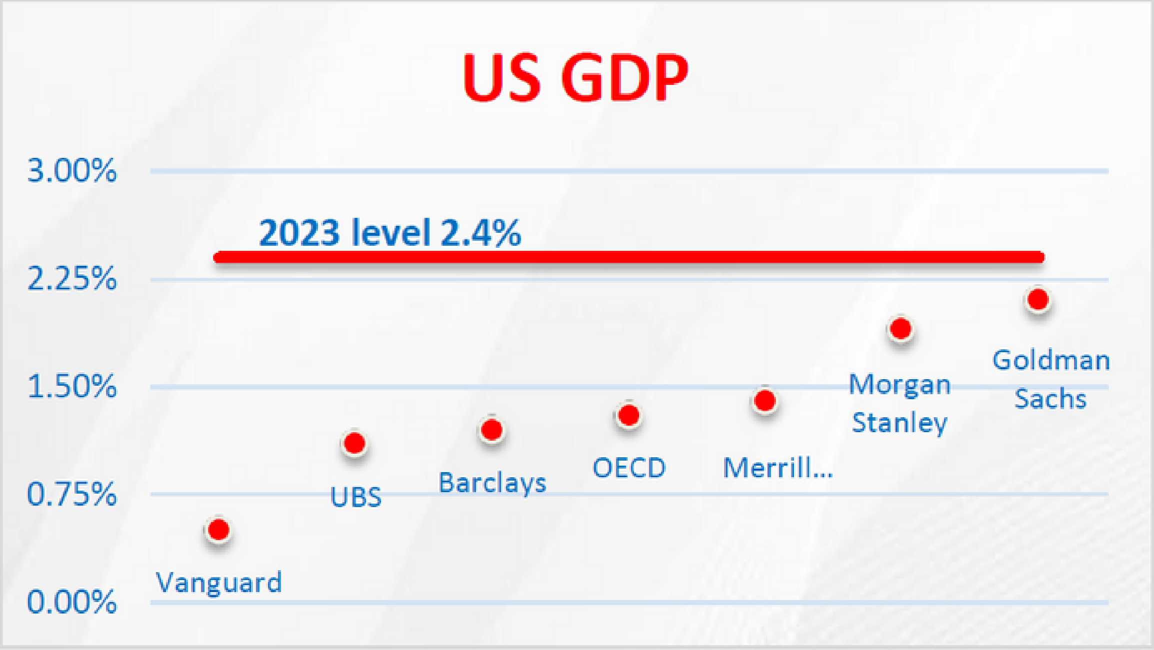








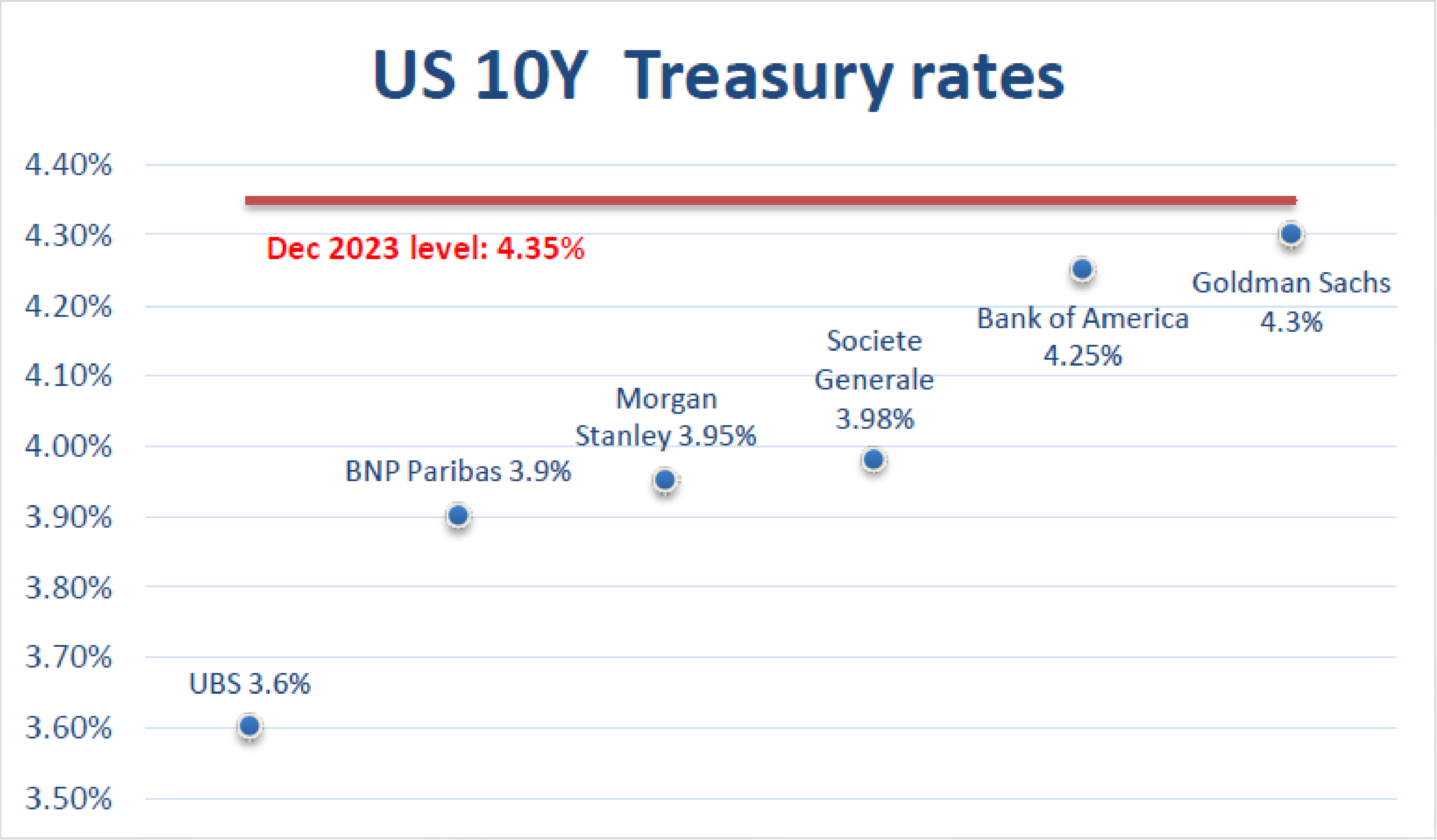
Major Banks 2024 Outlook: US 10Y Treasury rates

Rationale for the two opposing views:

Goldman Sachs: Forecast largely reflects the Fed's stance that it won't be cutting rates any time soon. In fact, its benchmark interest rate will likely be higher for longer with another potential hike in store this year as the Fed continues to fret about inflation.

UBS: While term premiums are likely to be persistently higher due to rising supply, we think fears of dramatically higher real rates are overdone.

- If term premiums are much higher, policy rates will need to be lower or else financial conditions will be very tight.
- The supply story is more of a steeper real curve story than an all rates must be higher story.
- Demand is likely to pick up if, as we assume, bond/stock correlations turn negative again.
- Different countries face very different supply burdens, and the looming US supply shock has been pushed back to 2025 as the Treasury has indicated it will rely more on bills in 2024.



Major Banks 2024 Outlook: Oil

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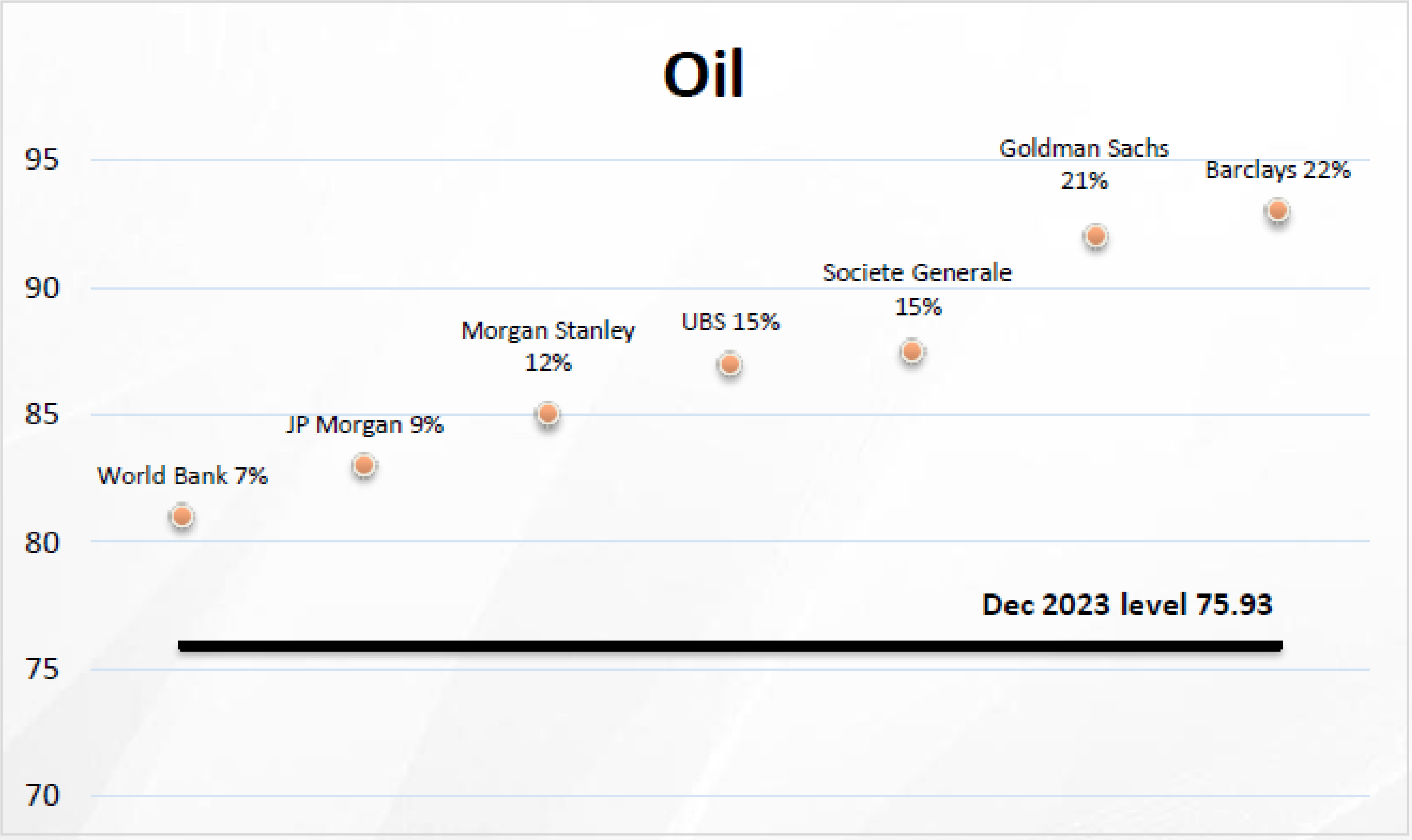
Rationale for the two opposing views:

Barclays: Demand outlook has strengthened. We have hiked demand forecast for China by 200,000 and 300,000 barrels per day for 2023 and 2024, respectively.

JP Morgan:

- Oil demand to rise next year by 1.6 million barrels per day, with next year's increased oil supply that meets this demand expected to come from producers outside of the OPEC+ — like the US.
- Despite sustained economic headwinds, JP Morgan sees demand underpinned by robust EM, resilient US and weak but stable Europe.
- Demand composition will likely flip, with two-thirds of demand gains set to come from the overall economic expansion, while continued normalization of jet fuel would contribute the rest.
- To keep the oil market balanced, the OPEC+ alliance would need to continue to constrain production.



Major Banks 2024 Outlook: Gold

Rationale for the two opposing views:

Bank of America:

- While the war in the Middle East has boosted gold in the near term, "the yellow metal ultimately remains a trade on rates, so once the Fed announces a decisive end to the hiking cycle in 2Q, new buyers should come into the market."
- If the Fed cuts earlier, they believe gold could finish 2024 at $2,400 per ounce.

Morgan Stanley:

- Gold prices have been volatile as investors balance rising yields and geopolitical risk.
- ETF inflows are picking up and short covering has taken positioning higher, but for current prices to hold, we believe that either geopolitical risk needs to remain or yields need to move lower.

Major Banks 2024 Outlook: Copper

Rationale for the two opposing views:

Goldman Sachs:

- They announced their 6 and 12 month copper price forecasts at $8900 and $10,000, stating that they expect the rise in the LME copper price to increase.
- The bank predicts a 201,000-supply deficit in the copper market for 2024.

UBS:

- China's investment has fallen, but imports haven't yet. While FAI is 20.4% below a 10y trend, imports have thus far only declined to 1.8% below a similar trend.
- Imports of commodities have held up as housing completions have needed copper and steel exports have needed iron ore. This can change through 2024-2025 if investment doesn't recover.
- Imports of autos and capital goods should fall further impacting these sectors in global markets, particularly Europe.

Major Banks 2024 Outlook: Currencies

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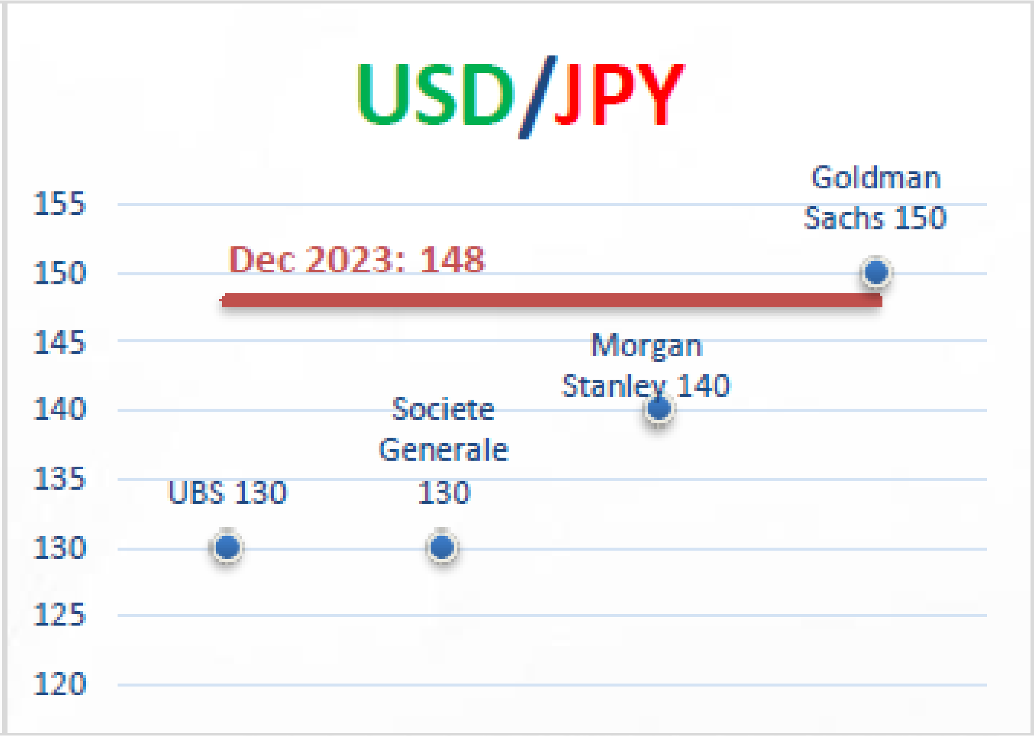

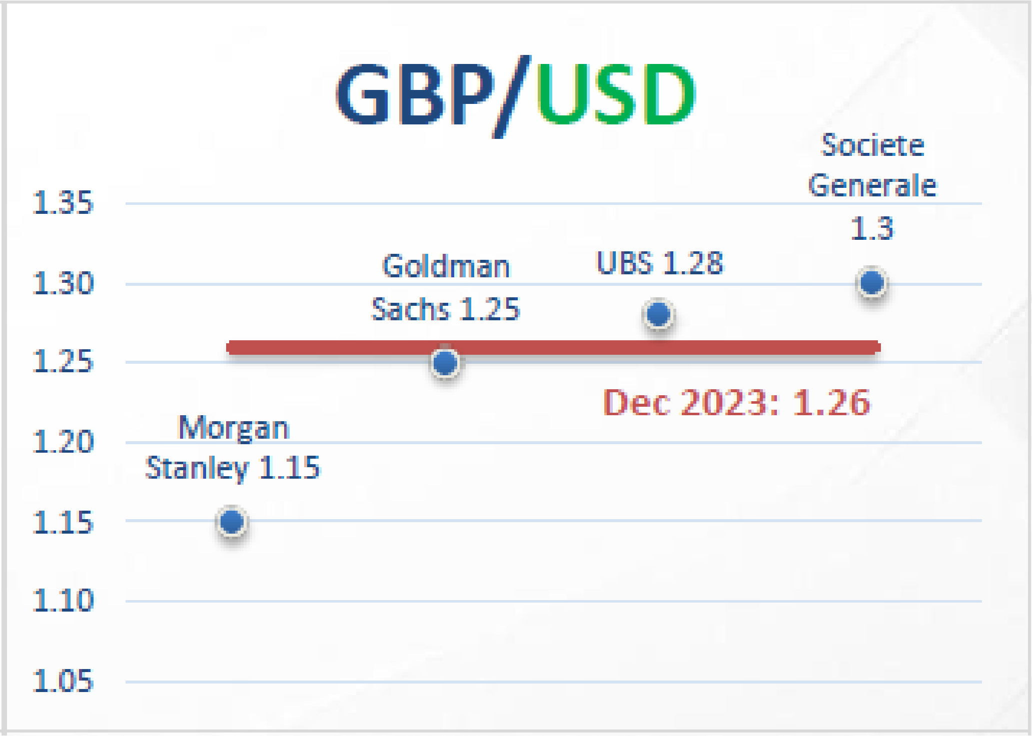

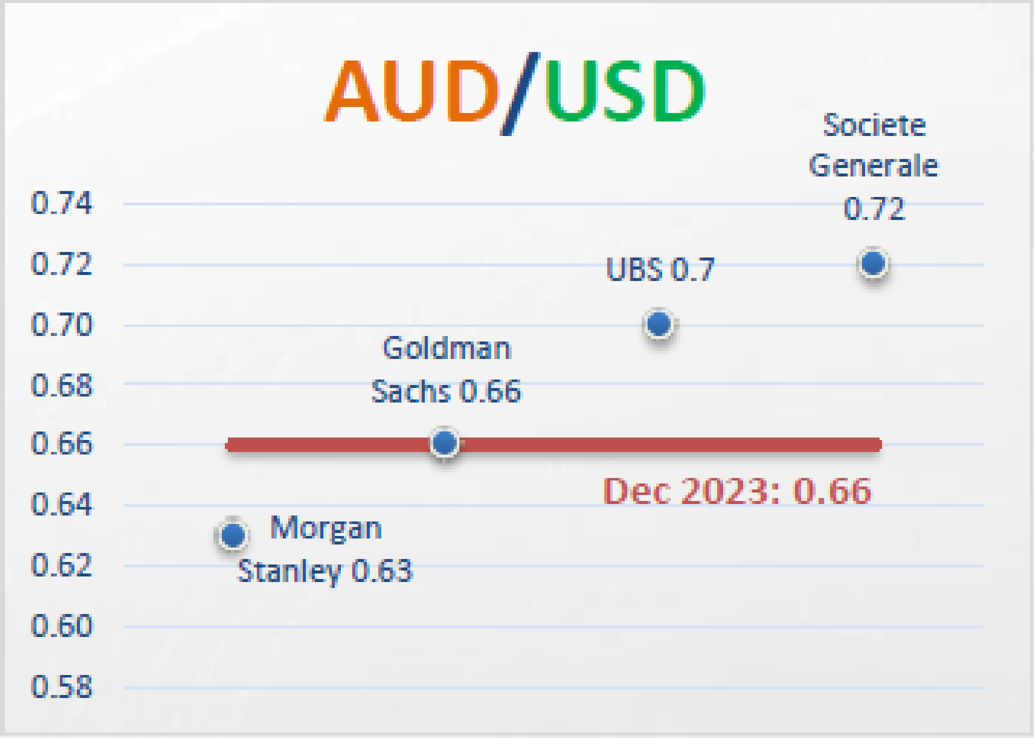

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