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Regulated by the DFSA

Going Parabolic

March 2024

This presentation is for discussion purpose.

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Ten weeks into 2024, and where do we stand compared to the beginning of the year?

As of March 7th 2024, S&P 500 is up 8% and at its all-time highs of 5,161.

Nvidia has soared – up 87%! (more on this later)

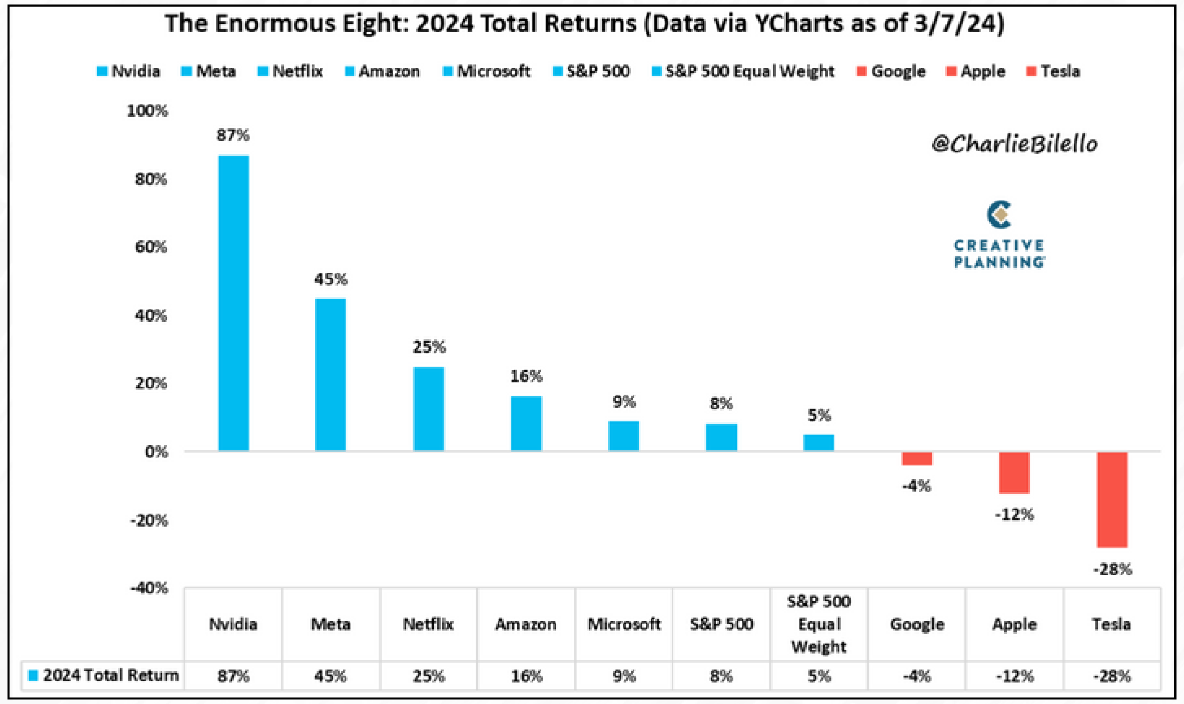
Of the remaining 'Magnificent Seven' stocks:

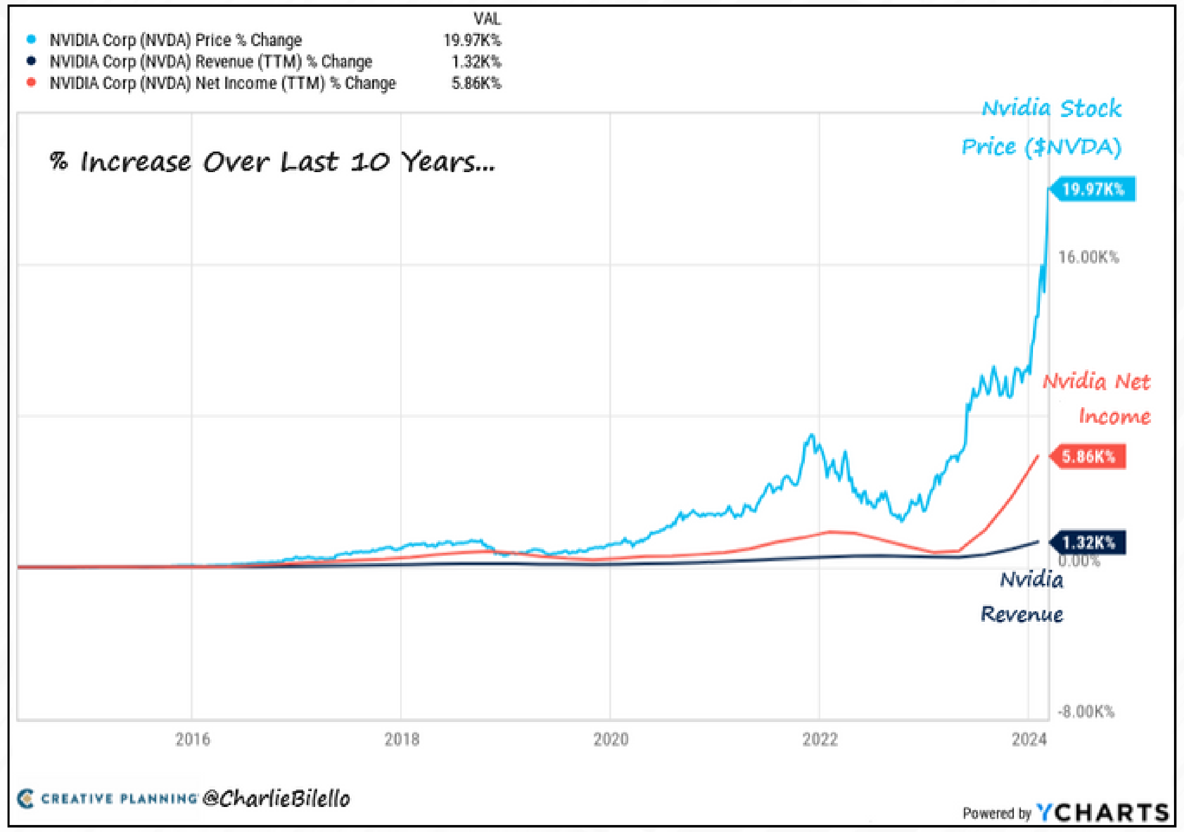
- Alphabet is down 4%
- Amazon is up 16%
- Apple is down 12%.
- Meta is up 45%
- Microsoft is up 9%
- Tesla is down 28%

What about the remaining 493 stocks? **Dating back to the end of 2022, the median return of the 493 S&P components not included in the Magnificent Seven is 13%**, far below the S&P's 35% return owing to the magnificent seven's average return of 154%. Small wonder, then, that the average retail investor in the US equities is still down 6% despite the blistering rally over the last several months.

Stocks associated with the 'AI mania' have performed particularly well. Apart from NVDA, some other stocks that have been caught up in the rising tide are AMD (+53%) and SMCI (+401%!!!)

Coming back to Nvidia, after blowing past both Google and Amazon, its market cap of $2.3 trillion is now within $300 billion of Apple, which has over 6.3x the revenue and 3.3x the net income of Nvidia.





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Nvidia's fundamental growth has been nothing short of incredible, with a 5,680% increase in net income and 1,320% increase in revenues over the last decade. **But the increase in its share price has exceeded these gains by an enormous margin, with the stock advancing nearly 20,000%.**

Which means that investors are betting on much more fundamental growth to come. As an example, Nvidia ($NVDA) astounding 87% gain in a little over 2 months already exceeds its projected revenue growth for the entire year (81%).

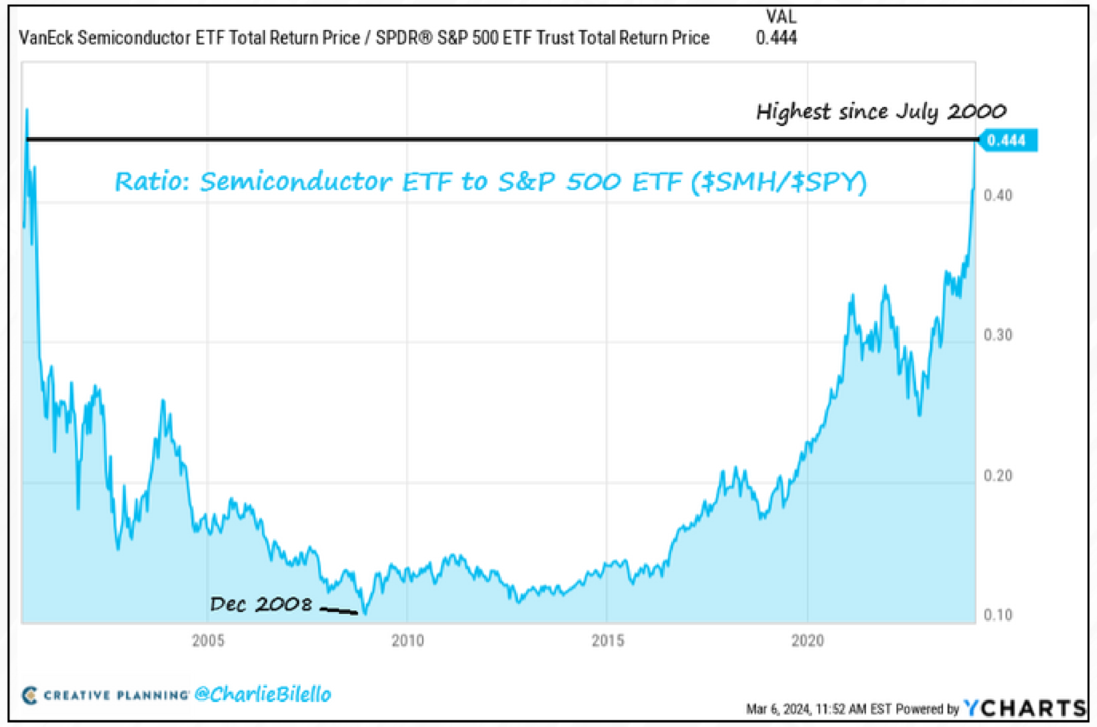
Led by Nvidia, Semiconductors ($SOXX ETF) have trounced every other industry group in the last 10 years, rising 10x. **The outperformance of Semiconductors relative to the broad market has gone parabolic, with the ratio at its highest level since 2000.**

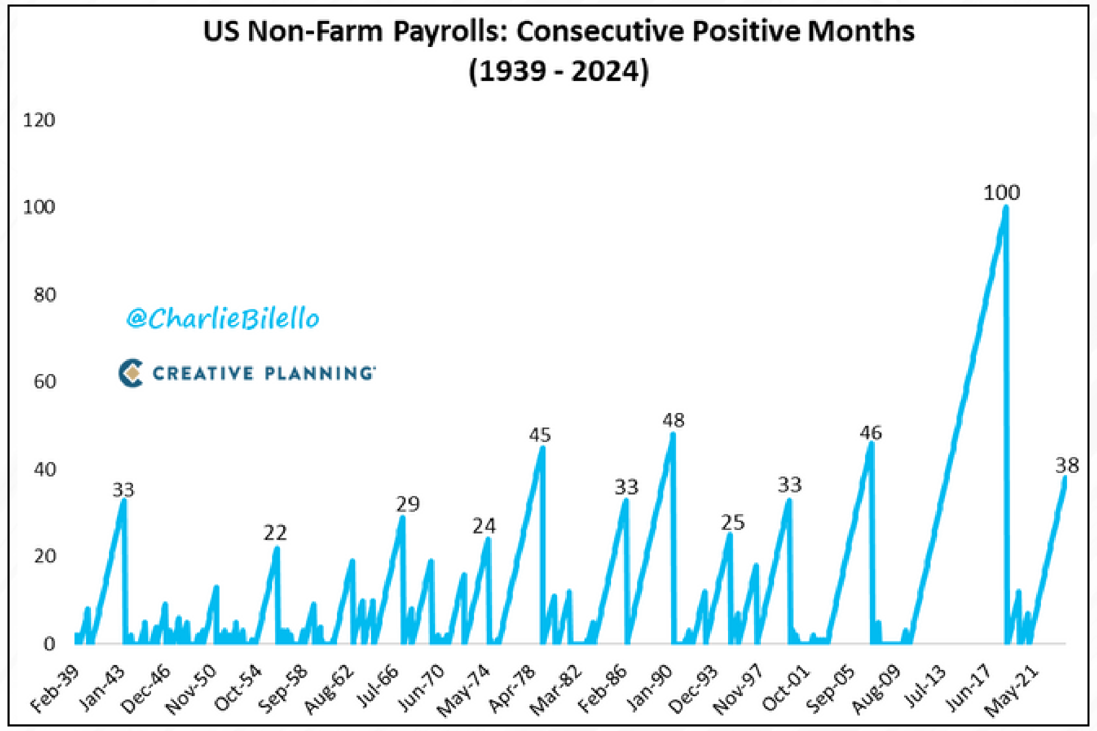
What's driving the bullish behavior in the markets?

One is the still-strong employment numbers. **275,000 US jobs were added in February (vs. 190k consensus estimate), the 38th consecutive month of jobs growth.**

While the Unemployment Rate did move up to 3.9% in February (vs. 3.7% consensus), this was the 25th consecutive month with an Unemployment Rate below 4%, the longest streak since the late 1960s.

Average Hourly Earnings increased 4.3% over the last year, the 32nd consecutive month above 4%.





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There are some signs that this very strong performance is starting to fray at the edges. The labor force participation rate among 25-54 year olds (prime working age) moved up to 83.5% in February. The percentage of US workers quitting their jobs has moved down to 2.1%, the lowest since August 2020. And total jobs in the US increased 1.8% over the last year, the lowest YoY growth rate since March 2021.

Overall, the market as a whole is starting to feel quite richly valued.

The total market capitalization of the U.S. stock market is ~ $ 51 Trillion. **That is ~ 1.82x its 2023 GDP** of USD 27.9 Trillion, which is approximately 51.3% above the historical trend line.

As per Fact set, the forward 12-month P/E ratio for the S&P 500 currently stands at 20.7. This is above the 5-year average (19.0) and above the 10-year average (17.7).

Investor sentiment is also quite optimistic. **Share of adults investing money in the stock market in the United States has gone up to 61%, levels last seen in 2008.** The CNN Greed & Fear Index currently stands at 67, just shy of “Extreme Greed” levels. The VIX – often called the “fear Index” - is cruising along at ~ 15.

The U.S. Federal Reserve is now expected to cut its key interest rate in June, as the central bank waits for more data to confirm whether inflation is headed convincingly toward its 2% target. After a brief period of betting the first cut would come in March, and then shifting bets to May, financial market traders are more in line with comments from Fed officials, with rate futures also now priced for a first rate reduction in June. **Expectations are for three cuts of 25 bps each**, though there is some risk that the number of cuts could be fewer.

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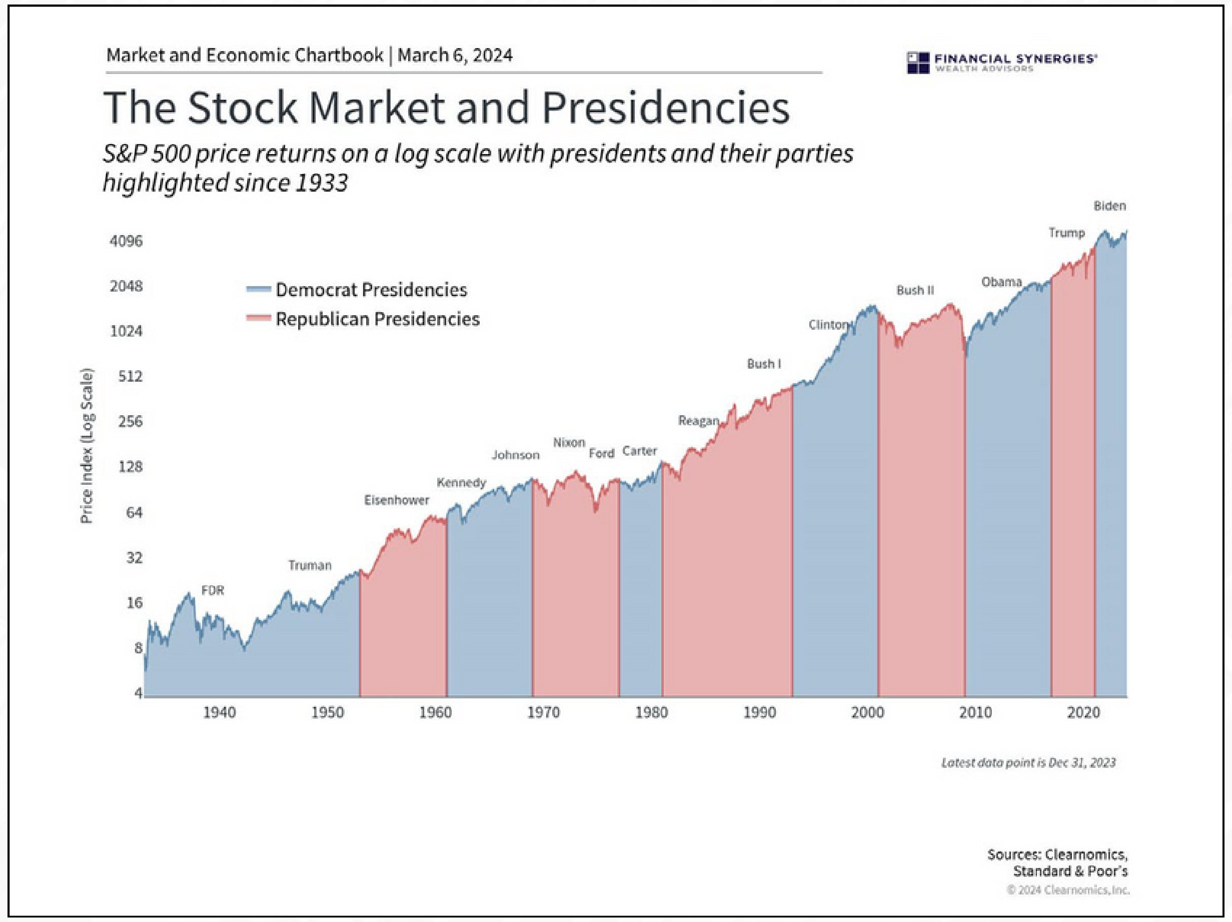
Meanwhile, the 2024 presidential election season is heating up. However, a lot can happen between now and November, and in general, long-term investors should be wary of claims that one candidate or another will “kill the market” or “ruin the economy.”

Clearly, **the economy and stock market have performed well across both parties.** For example, from 2008 through 2020 across the Obama and Trump administrations, the S&P 500 generated a total return of 236%.

Certainly, good policy matters. Policies on taxes, trade, industrial activity, antitrust, and more can have important impacts on specific industries which can then affect the broader economy. However, not only do policy changes tend to be incremental, but history shows that it is very difficult to predict how any particular policy might affect the economy and markets, despite conventional wisdom about each party. Stock prices account for new policies quickly and companies and industries tend to adjust and adapt.

On a short-term basis, however, elections do have the power to move markets and create stock market volatility. Markets dislike uncertainty, and especially when the approval ratings of the incumbent are as low as they are currently, worry about what the alternative could look like.

All things taken together; **we are of the view that US stock markets are likely to correct by 7-10% by the summer of 2024.** Unless we see definitive evidence of a sharp and sustained resurgence in inflation, which is not our base case, we believe the overall bull trend will remain in place, but returns are likely to be muted.



CIO Speaks

After advancing much faster than expected earlier this year, **the Nikkei Stock Average could slow in the very near term if the yen continues to strengthen against the greenback.** The Bank of Japan has stated that "a virtuous cycle of wages and prices is in sight" and there is "steady progress" in achieving a 2% inflation target -- sparking a rally in the yen. Global investors had been piling into Japanese stocks, betting on improved corporate governance, an updated tax-saving scheme and a boom in artificial intelligence stocks but have slowed down their purchases of Japanese equities since late last month partly due to the limited upside potential of the dollar-yen rate. That said, the correction is likely to be short-lived as long as retail investors are leaning bullish on equities.

Chinese stocks have recently shown signs of a bounce. Since the start of February, the CSI 300 index is up about 11 per cent. That followed a long 44 per cent decline from 2021 highs. However, despite the recent uptick in Chinese stocks, the interest of foreign investors seems predominantly tactical, more focused on quick profits than long-term investment opportunities. While this is an improvement from its recent “uninvestable’ status, these speculative “tourist flows” are not a leading indicator for more stable, long-term “resident flows”. To attract the latter, the government needs three elements: decisive reform measures to facilitate critically-needed economic transitions, reduced tensions with the US, and a shift away from the expensive expansion of international economic and financial influence.

As we had predicted in earlier newsletters, **Indian stock markets have been relatively flat so far this year and have underperformed other markets,** including China. Several factors are at play in our view. One is valuation, which is quite high both in historical terms and in comparison to other emerging markets. Now that the market capitalization of Indian stock markets at above $ 4 Trillion is the fourth largest in the world, the ‘Buffett Indicator” is also meaningfully higher than 1. Small cap stocks seem particularly frothy. Other factors include concerns over spillover effects of higher interest rates, absence of near-term triggers and some profit booking ahead of the financial year-end in March.

CIO Speaks

Another asset that has performed very well in recent months, though not quite as spectacularly as semiconductor stocks, is Gold. It's back at an all-time high, up 19% over the last year. Gold peaked in 2020 when interest rates were near historic lows. The rise in rates from there caused problems for both asset classes, but Gold has now fully recovered.

According to data by the World Gold Council, central banks' acquisitions of gold in 2023 amounted to 1,037 tones, falling slightly short of the record established in 2022. **This trend is likely to continue this year amid geopolitical tensions and uncertainty on the macroeconomic front** and act as a soft support for gold prices.

The semiconductor industry : Integrated but independent!

SOXX (iShares Semiconductor ETF) is up 69% YoY and 9% MoM

There are overall 67+ listed semiconductor stocks and most of them specialize in a particular area of the wider semiconductor industry. Most of these companies depend on each other as compared to competing!

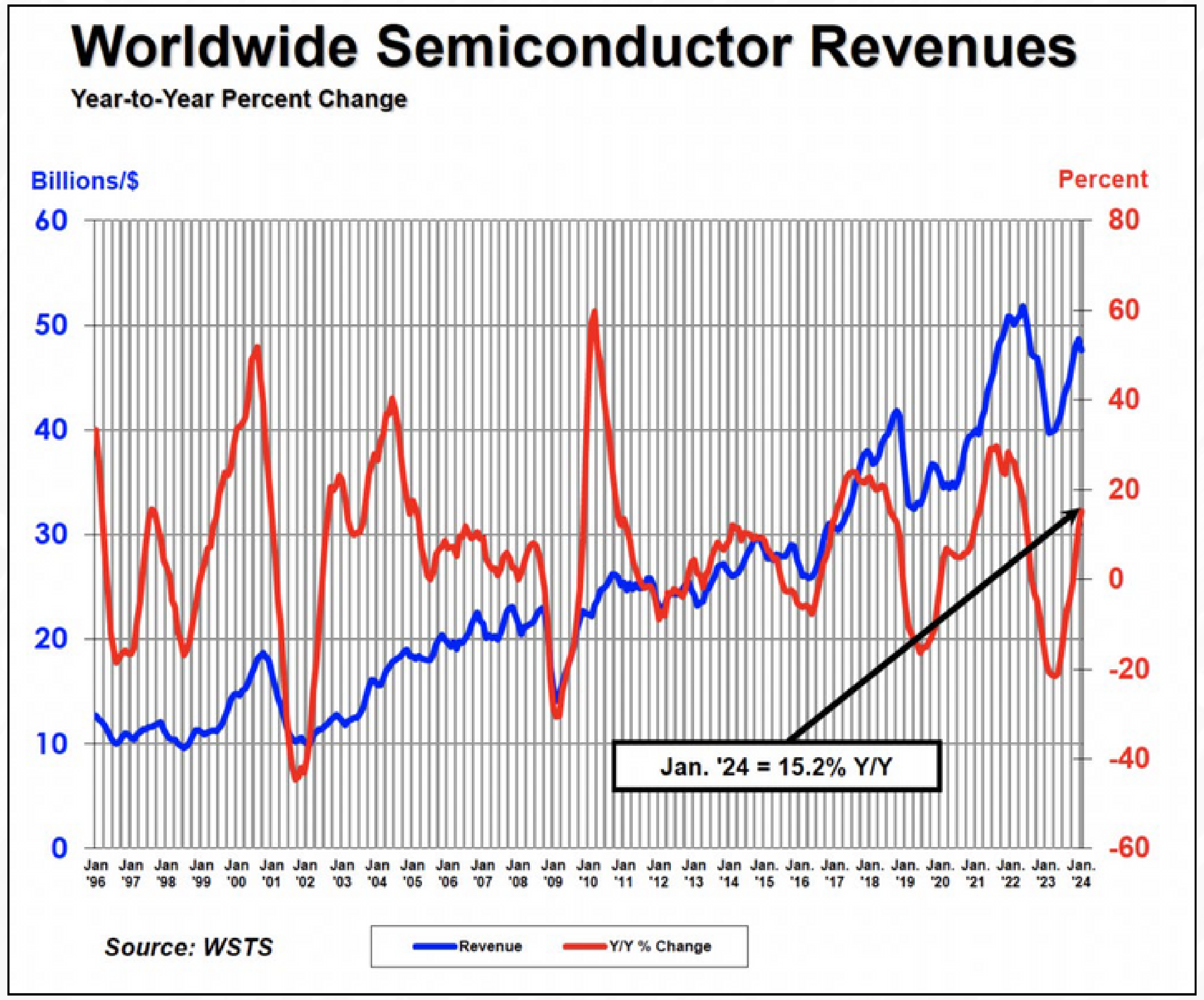
Global semiconductor industry sales totaled $47.6 billion during the month of January 2024, **an increase of 15.2% compared to the January 2023 total of $41.3 billion**. Regionally, YoY sales were up in China (26.6%), the Americas (20.3%), and Asia Pacific/All other (12.8%), but down in Japan (-6.4%) and Europe (-1.4%).

Key highlights:

- Nvidia became a $2 trillion company making it world's 3rd most important company
- TSMC is expanding to Arizona and Japan. They have already opened its first plant in Japan
- Nvidia's closest competitor AMD has produced a new chip M1300 that is intended to outshine H100 from Nvidia
- Chinese AI companies are now turning to Huawei and SMIC for chips

Is there an investment opportunity?

- We believe ASML, TSMC and NVIDIA are leaders in their specific area in the semiconductor world and may continue to hold this position for the near-term
- Bottom-up selection will be the ideal approach
- Valuations are discounting elevated earnings expectations which may or may not materialize. For prudent investors, investing via option strategy and structures with a lower strike may be better.



Source : SIA

Can Europe defend itself without America?

Where does Europe get most of its arms from? The 55% of arms imports by European states that were supplied by the USA in 2019–23 was a substantial increase from 35% in 2014–18 (Ukraine being the major contributor)
Top arms importer in the world : India (from Russia, France and US respectively)
Top arms exporter in the world : USA (40% market share)

Highlights :

- Germany has created a fund of $108bn to bolster its armed forces and aims to meet the NATO target of **spending at least 2% of GDP** on defense immediately
- States in Europe almost doubled their imports of major arms (+94%) between 2014–18 and 2019–23
- Russian exports to Europe has been impacted drastically

What is the problem Europe is facing?

- To spend more (at least 2% of GDP), Europe needs to either import more from US, make the weapons internally or import from other countries (except Russia)
- 2% may not be enough as Europe as been **underinvesting in equipment of about €550bn** (4% of the bloc's GDP) since 1991 – Ifo Institute
- With Vladimir Putin issuing threats and Donald Trump musing about withdrawing support, **Europe needs to spend more on its armed forces!**
- **The second issue arises** : How will Europe fund this spend? Either by internally amending the welfare policies, increasing taxes or borrowing!

Who will be the beneficiary?

- US defense companies that may benefit from the lost Russian exports
- Chinese arms companies
- Certain European stocks like Airbus, Leonardo, BAE, Thales and Rheinmetall can be looked at especially because of their diversification. However, this is not a short-term play!

Jurisdiction	Company	Revenue (USD Bn)	Share of defense
USA	Lockheed Martin	63.3	96%
USA	RTX Corp	39.6	59%
USA	Northrop Grumman	32.4	89%
China	Aviation industry corporation of China	31	37%
USA	Boeing	30.8	46%
USA	General Dynamics	30.4	77%
UK	BAE systems	25.2	96%
China	China North Industries Group	18	22%
USA	L3Harris Technologies	13.9	82%
China	China South Industries Group	13.5	31%
Italy	Leonardo	12.9	83%
France	Airbus	12	20%
USA	HII	10.6	100%
France	Thales	9.6	52%
China	China Aerospace Science & Tech Corp	9.6	21%

Source : Company data, 2023

Amidst China's economic deceleration, opportunities waiting to be seized

1. Aggressive Support Measures & Increased Stimulus Focus:

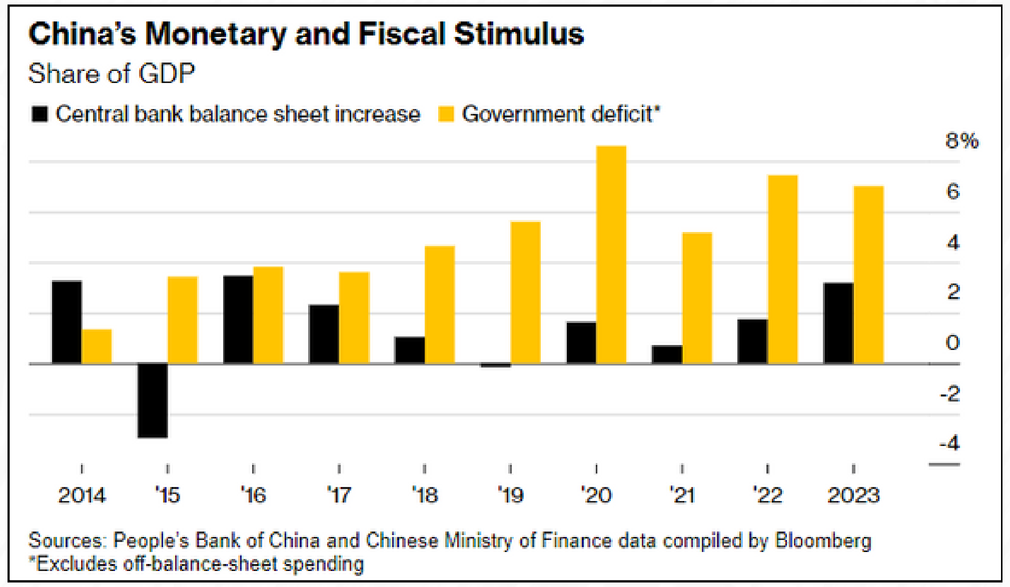
- PBOC reduced RRR by 50 basis points on Jan 24, injecting RMB1 trillion liquidity.
- NPPA withdrew draft rules, showing regulatory adaptability.
- China targets fiscal deficit exceeding 7.0% of GDP in 2024.
- Local govt. bond issuance quota set at CNY3.9 trillion, slightly higher than last year.
- Central govt. plans CNY1 trillion long-term sovereign bond issuance in 2024.

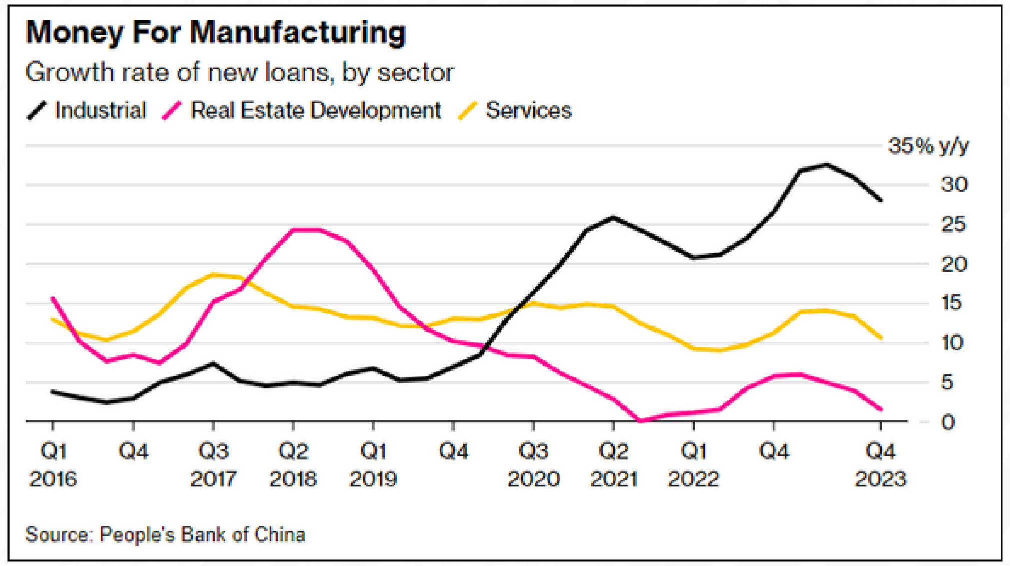
2. Fiscal Expansion and Investment Focus:

- Increased bond issuance supports industrial sectors like EVs, batteries, and renewables.
- Trade tensions may arise due to overcapacity in targeted industries.

3. Earnings Outlook and Market Dynamics:

- Consensus EPS growth for MSCI China indicates positive momentum in 2024-25.
- Challenges expected in March reporting season may limit near-term market upside.
- Margin and sales growth to recover, but pace might be slower, reflecting ongoing uncertainties.





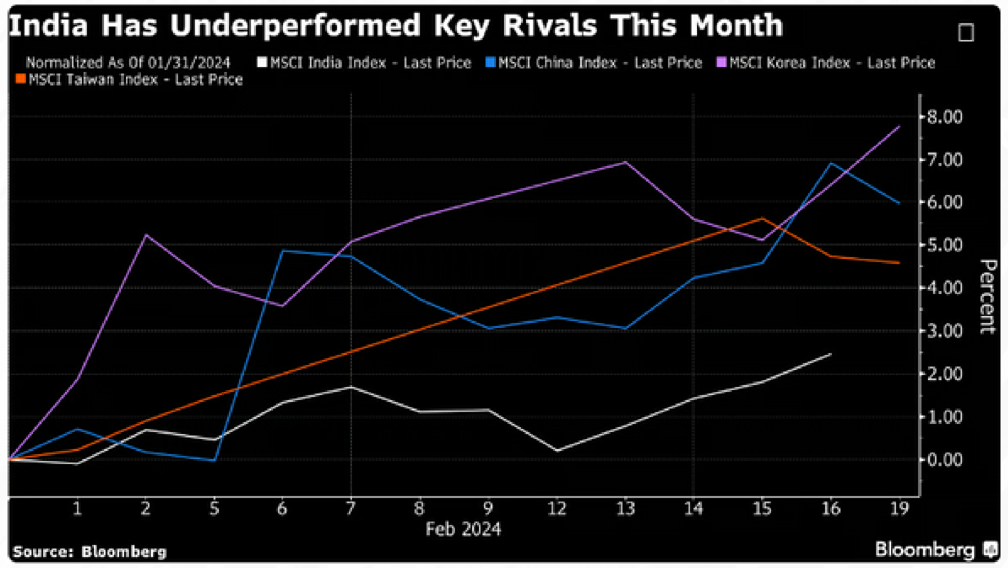
Despite the stimulus, waiting for the next trigger

Overcrowding Concerns Cloud Indian Equity Market

After a stellar run, the Indian equity market, investors' darling, faces skepticism over overcrowding concerns.

1. **Indian Stock Market Ascend**
    - India's market capitalization reaches $4.33 trillion, overtaking Hong Kong, as of January 22.
    - Over 55 million individual investor accounts contribute to the market's strength.
    - Annualized earnings growth exceeds 15%, bolstering investor confidence.
    - Favorable policy reforms, including tax cuts, further stimulate market growth.
    - Foreign investment in Indian shares surges to over $21 billion in 2023, marking a 27% increase from the previous year.

2. **Concerns Mount Over Indian Market Valuation**
    - Citi and SocGen downgrades, with $3.8B in foreign investors' local share sales, signal mounting concerns.
    - Indian stocks trade at 20x forward earnings, contrasting with China's CSI 300 Index at 10x, highlighting a significant gap.
    - Despite promising long-term prospects, near-term challenges like stretched valuations and subdued consumer demand pose hurdles.
    - The valuation gap and differing market dynamics may prompt investors to reconsider, favoring more attractive alternatives regionally.



India's LT bullish outlook counter ST concerns like overcrowding and high valuations, shaping strategies like buying on dips for portfolio growth?

Silver's price stagnation amidst supply shortages hints at possible undervaluation

1. **Demand vs Supply:**
   - Industrial demand for silver is projected to grow by approximately 5% annually, surpassing the modest mining supply increase of 2%.
   - Current supply shortages indicate a deficit of approximately 100 million ounces, highlighting potential undervaluation.

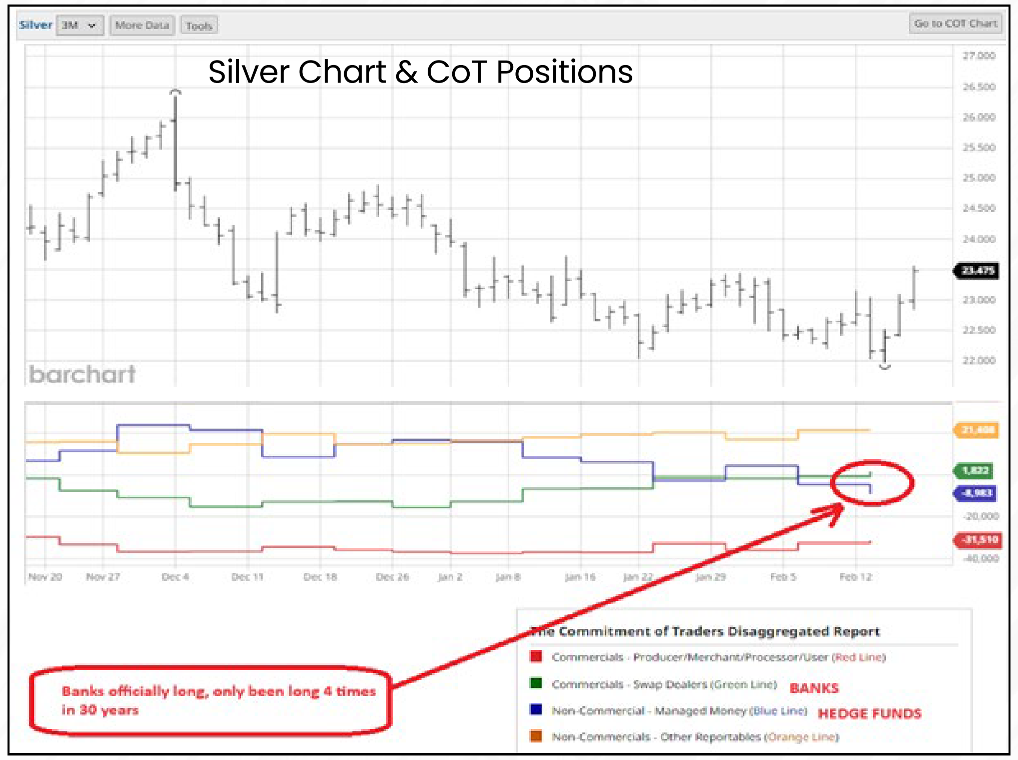
2. **Industrial Usage:**
   - Silver consumption in the solar industry surged by 10% last year, driven by expanding photovoltaic cell production.
   - Electric vehicle market growth led to a 15% increase in silver demand for battery production.

3. **Other Factor that influence Silver**
   - Gold Price: Silver prices often track gold's movements, rising when gold prices increase due to shared safe-haven status.
   - Euro (EUR) to USD Exchange Rate: Silver prices move inversely with the strength of the US dollar against the Euro, becoming more attractive as the dollar weakens.
   - Inflation Expectations (TIP): Silver serves as a hedge against inflation, rising in value during periods of expected inflation as investors seek wealth preservation.
   - Futures Market Positioning (CoT): Trader positioning in futures markets, reflected in the CoT report, impacts silver prices, with historically low positions often signaling buying opportunities and potential price increases.

Silver Supply and Demand

Million ounces	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	Year on Year 2022	Year on Year 2023E
Supply													
Mine Production	845	882	897	900	864	851	837	783	829	837	820	1%	-2%
Recycling	179	160	147	146	147	149	148	166	175	179	181	2%	1%
Net Hedging Supply	0	11	2	0	0	0	14	8	0	0	0	na	na
Net Official Sector Sales	2	1	1	1	1	1	1	1	2	2	2	13%	-4%
Total Supply	1,026	1,054	1,047	1,046	1,012	1,000	1,000	959	1,006	1,018	1,002	1%	-2%
Demand													
Industrial	460	450	457	489	526	524	523	509	559	584	632	4%	8%
Photography	44	41	38	35	32	31	31	27	28	27	26	-1%	-4%
Jewelry	187	193	203	189	196	203	202	151	182	235	182	29%	-22%
Silverware	46	53	58	54	59	67	61	31	41	74	39	80%	-47%
Net Physical Investment	301	283	309	213	156	166	187	205	274	333	263	21%	-21%
Net Hedging Demand	29	0	0	12	1	7	0	0	4	18	0	409%	na
Total Demand	1,067	1,021	1,065	992	971	999	1,004	923	1,087	1,270	1,143	17%	-10%
Market Balance	-41	34	-19	55	40	2	-4	36	-81	-253	-140	212%	-45%
Net Investment in ETPs	5	0	-17	54	7	-21	83	331	65	-126	-40	-294%	-68%
Market Balance less ETPs	-46	34	-1	1	33	23	-87	-295	-146	-127	-100	-13%	-21%
Silver Price (US$/oz, London price)	23.79	19.08	15.68	17.14	17.05	15.71	16.21	20.55	25.14	21.73	23.10	-14%	6%

Source: Metals Focus



Rising industrial demand, supply deficits, and anticipated interest rate decreases drive silver prices higher in 2024?

Case against long duration bonds

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- **Savings flattening:** Global savings is stagnating as millennials continue to save less, baby boomers begin to spend down their savings, previous savers like China are facing financial trouble, having to spend more and save less.

- **Purchasing power remains high:** Workers hourly pay has exceeded the rate of inflation. Real average hourly earnings rose by 1.4% YoY in Jan 2024 which means buying power has increased.

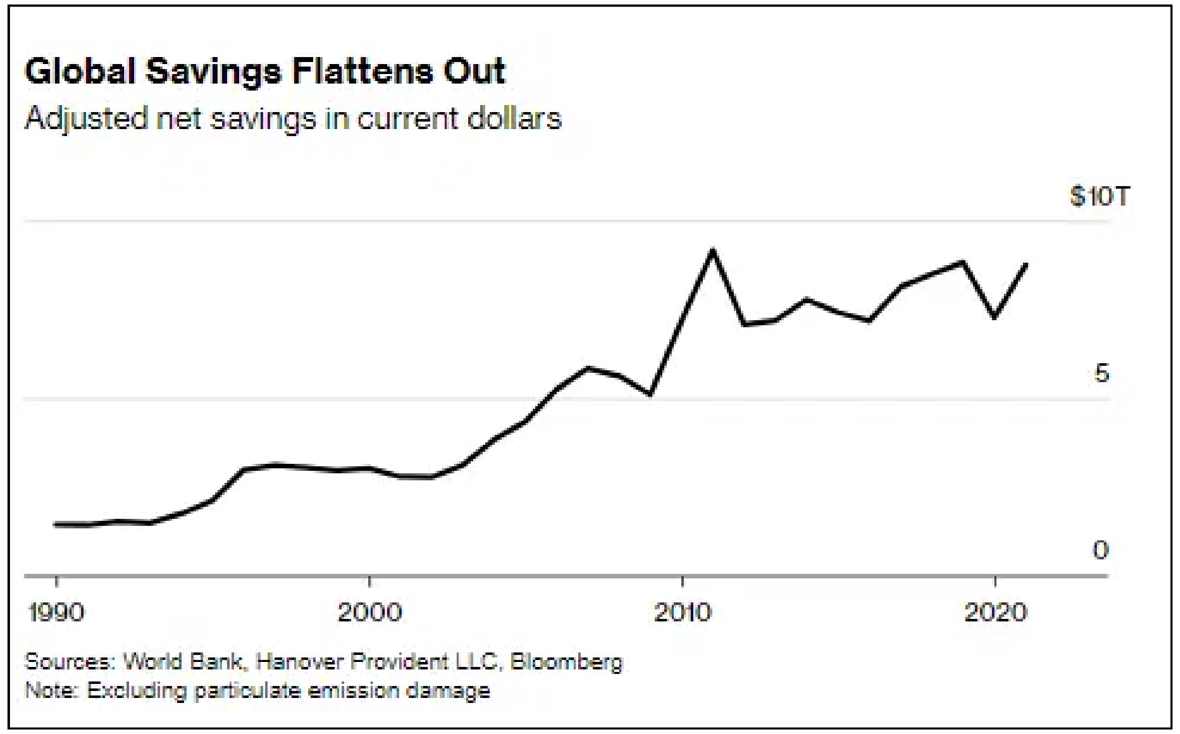
- **Housing inflation** has been a major contributor to the headline number and is still running high. Even if rates fall, the existing inventory remains very low with various estimates putting the nationwide shortfall between 1.5M to 5.5M units.

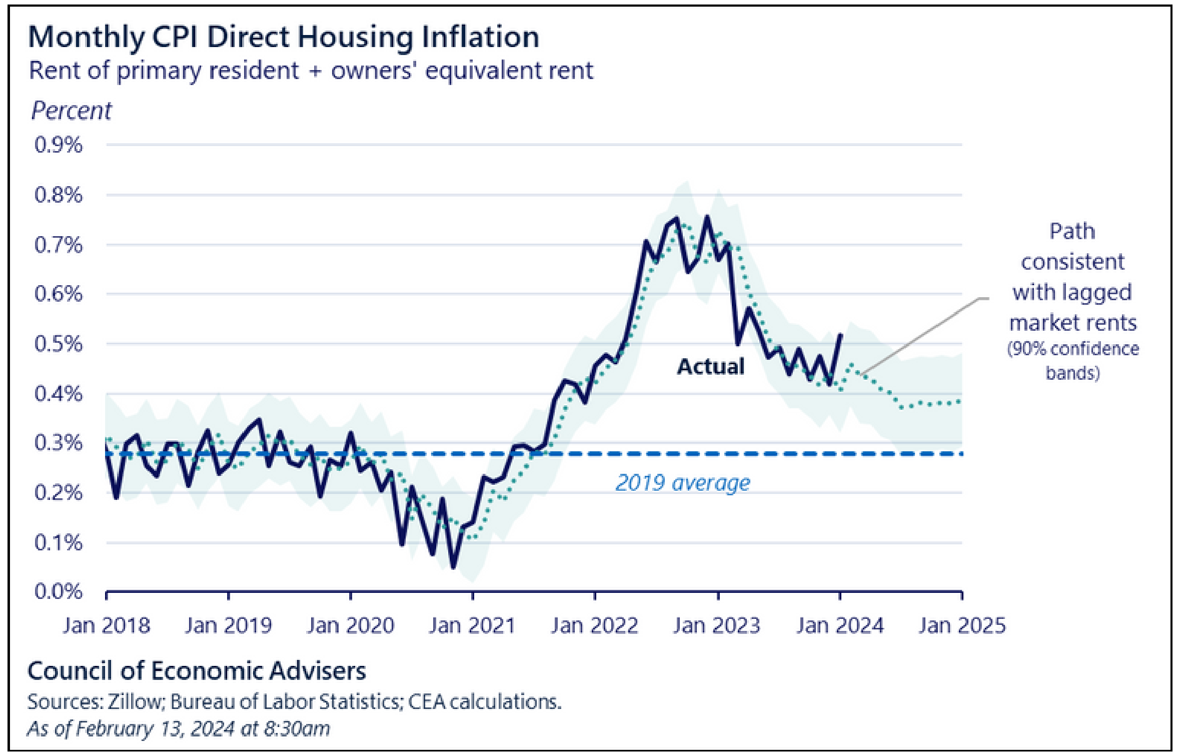
- **Near shoring:** The recent trend of near-shoring might put a floor under the prices of goods and make them more likely to rise higher.

- **Tariffs:** A Trump win could mean significant tariffs on most imports and especially high tariffs on Chinese products which would mean higher prices for US consumers.

- **Sovereign debt:** Fiscal deficits around the world would lead to over supply of bonds which would push prices lower and yields higher.

- **Upside could be already priced in:** A lot of the capital appreciation might have already played out. For instance, the TLT ETF (US long duration bonds) has already seen capital appreciation of almost 16% from last year's lows.





UAE Capital Markets

Government initiatives

- In 2021, Dubai's main Bourse stated its plans to list 10 state owned entities to **increase the size of the DFM equity index market capitalization to AED 3 Trillion**, as well as set up an **AED 2 Billion market maker fund** to encourage the listing of more private companies from a broader range of sectors.

- In early 2021, **ADX announced its plan to double market capitalization over 3 years.**

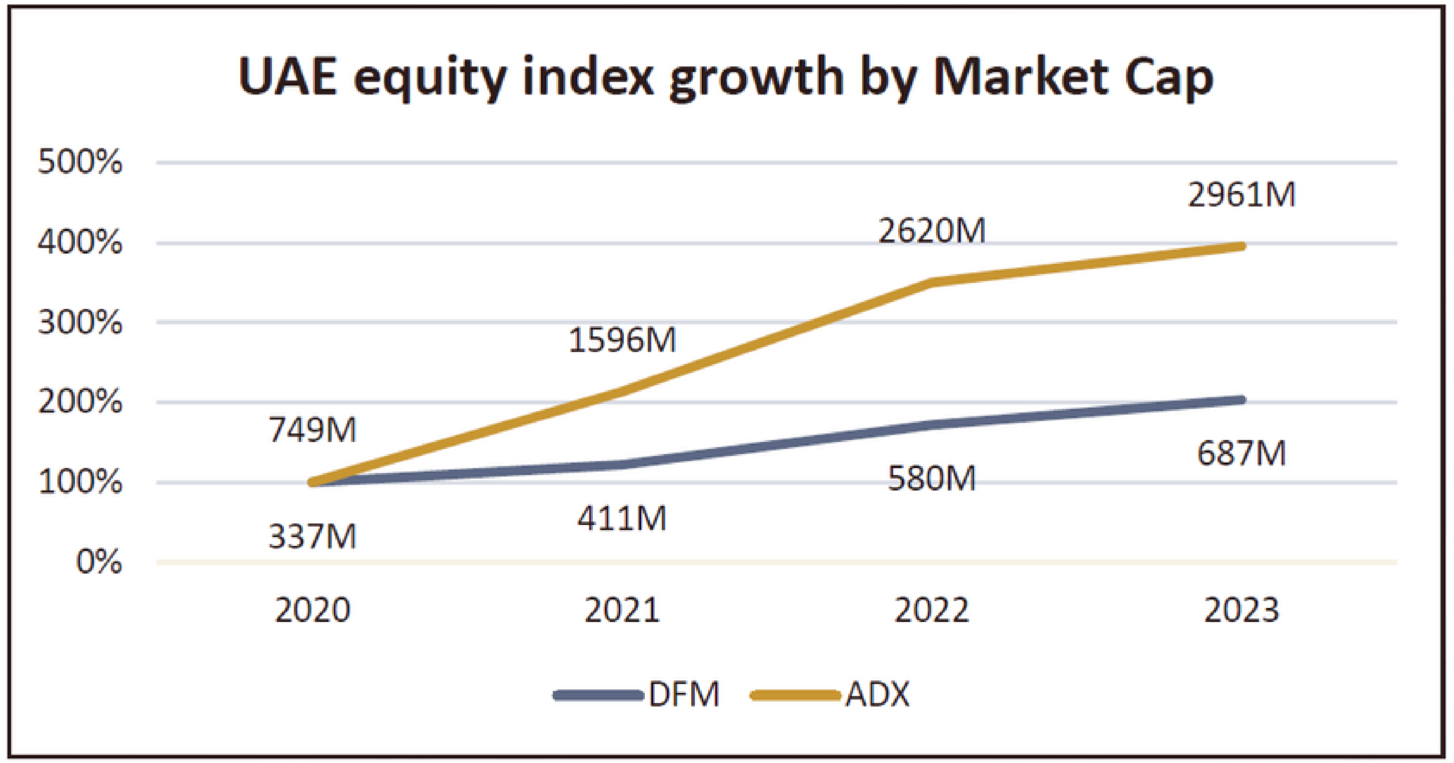
- Since then, the **DFM stock index has doubled** in terms of market capitalization to about AED 690M, and **Abu Dhabi Bourse market cap has quadrupled** to almost AED 3 Trillion.

- Joint market cap for stocks in DFM and ADX stood at about **AED 3.65 Trillion (~$1 Trillion)** at the end of 2023.

IPO Boom

- **Stellar post-listing performance** of regional companies (2023 IPO's **returning an average of 30 per cent** to investors) and **high dividend yields**, has increased the popularity of IPOs, leading to a rise in the pipeline for new public floats.

- Businesses that have registered/stated interest in going public in 2024:
  - Parkin Company PJSC
  - Lulu Group
  - Spinneys Dubai LLC
  - Advanced Inhalation Rituals
  - United Printing Press
  - Etihad Airways



Name	IPO Price	Current Price	Upside	Amount Raised	Raised on
Al Ansari	1.03	1.11	+8%	$210M	Apr'23
ADNOC Logistics	2.01	3.94	+96%	$2.5B	Jun'23
Dubai Taxi	1.85	2.30	+24%	$315M	Dec'23
Investcorp	2.30	2.07	-10%	$415M	Nov'23
Phoenix Group	1.50	2.08	+39%	$370M	Dec'23
Pure Health	3.26	3.95	+21%	~$1B	Dec'23
Presight AI	1.34	1.70	+27%	$496M	Mar'23

Source : DFM, ADX (as of 13 March, 2023)

UAE removed from FATF grey list

In 2022, due to perceived weaknesses in financial regulation and ease of investment in high-risk sectors such as high value real estate, **the Financial Action Task Force (FATF) placed UAE on the "grey list"**

<u>General impact of grey listing on countries:</u>

- **Being on the grey list does not impose restrictions on the country**, but it acts as a red flag for international counterparties such as banks, often leading them to conduct **heavier due diligence** which increases cost.
- A 2021 study conducted by IMF found a significant effect of grey-listing on capital inflows, with a **decline on avg. of 7.6% of GDP**. FDI and portfolio inflows decline by 3% on avg. and other investment inflows declined on average by 3.6% of GDP.

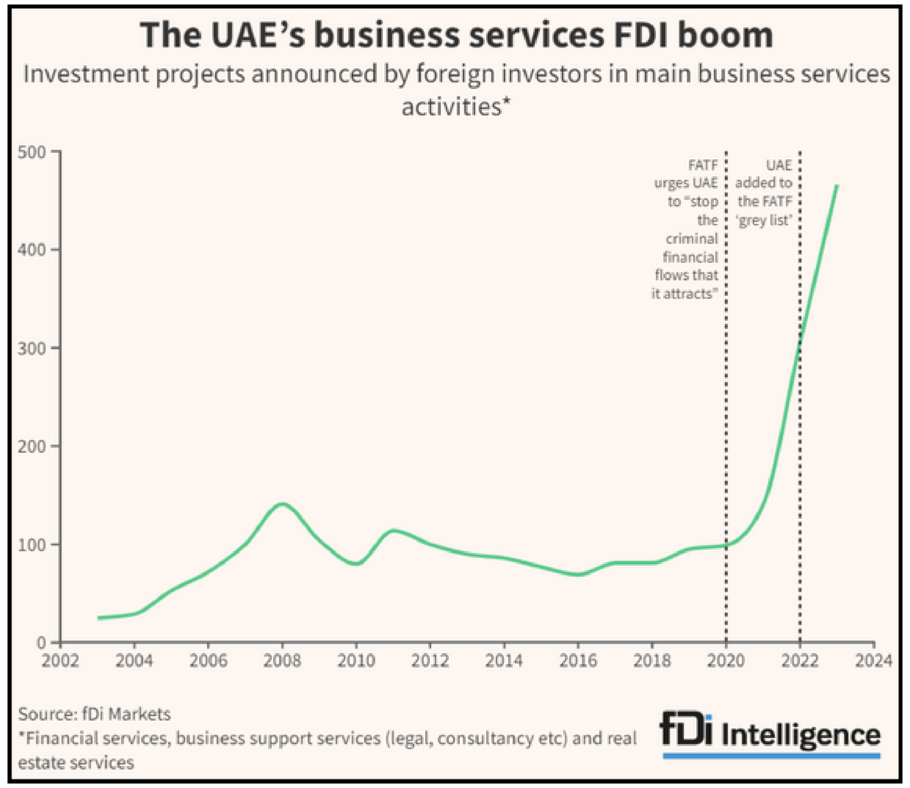
<u>How did the UAE fare:</u>

- In the 2 years when the UAE was put on the grey list, **its economy has thrived on the back of higher energy prices, with the country attracting high levels of FDI.**
- They **continued to attract the globe's wealthy** and it is an **increasingly popular destination for cryptocurrency firms and Russians in the wake of war with Ukraine.**
- **Dubai's luxury property market trailed only New York, Los Angeles and London in 2022,** while the **UAE last year overtook Belgium to become the world's trading hub for rough diamonds** – Knight Frank

<u>Impact of being removed from grey list:</u> Due to lower due diligence related costs and reduced transactional delays, countries removed from the grey list tend to see an **8 - 12% increase in payments** from the rest of the world, **5 - 7% increase in capital inflows**, leading to **better access to international financial markets and lower borrowing costs.** Furthermore, compliant status will enable global businesses to migrate their regional headquarters.

What has UAE done to be whitelisted

- Establishment of the Executive Office and a specialist court to Combat Money Laundering and Terrorist Financing.
- Adoption of new AML/CTF guidelines for financial institutions and designated non-financial businesses and professions.
- Adoption of a new Penal Code which bolstered the country's existing anti-money laundering, bribery, and corruption regulations.
- UAE banks began tightening scrutiny on various nationalities, as the government pushed to exit the list.
- Money transfers became subject to greater oversight.
- The government said it imposed almost 250 million dirhams ($68 million) in AML/CFT fines from January to October 2023, representing a more than three-fold increase from the year prior.



Convictions By Asset Class

	Strong Under Weight	Under Weight	Neutral	Overweight	Strong Overweight
EQUITIES					
Global Equity			✓		
United States			✓		
Eurozone			✓		
Japan				✓	
India			✓		
GCC				✓	
Emerging Markets			✓		
FIXED INCOME					
U.S. Investment Grade				✓	
U.S. High Yield		✓			
EM Investment Grade				✓	
CURRENCY					
EURUSD			✓		
USDJPY		✓			
GBPUSD			✓		
EM FX (vs. USD)			✓		
COMMODITIES					
Crude Oil			✓		
Copper		✓			
Gold			✓		

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