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Regulated by the DFSA

Search for Direction

May 2024

This presentation is for discussion purpose.

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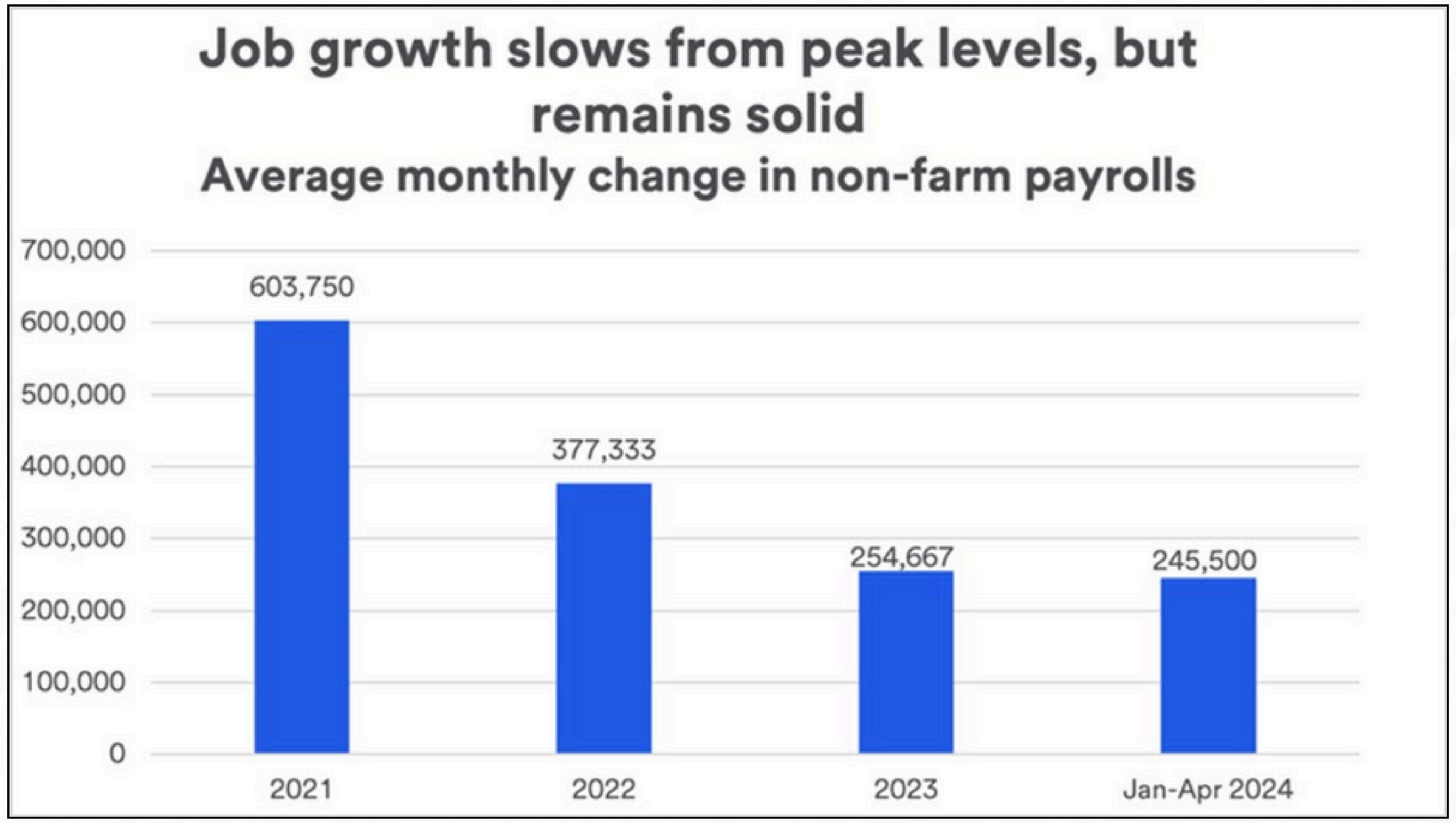
CIO Speaks

After a surprisingly strong 2023 that belied widespread expectations of a recession in the US, things seem to be leveling off for the economy.

The Gross Domestic Product (GDP) release for the first quarter of 2024 showed the economy growing at a modest 1.6% annualized rate. Though below the market's expectations and appearing to indicate tapering economic growth, the data did not raise any immediate concerns about the economy's health.

On the one hand, consumer spending. which accounts for almost 70% of the economy, increased to USD 15.68 Tn in the first quarter of 2024. At the same time, the number of credit card accounts also increased to 594.75 Mn in the fourth quarter of 2023, and credit card debt rose to USD 1.13 Tn. All of these are at all-time high levels. The average delinquency rate for credit cards came in at 2.92% in March, higher than the pre-pandemic 2.76% recorded in March 2019.

The University of Michigan consumer sentiment fell to 67.4 in May 2024 from 77.2 in April, the lowest in six months.



Source: Factset

Signs have emerged of a possible U.S. labor market slowdown !

The April Employment Situation Summary from the U.S. Bureau of Labor Statistics shows payroll employment growth slowed from previous months. April saw the creation of 175,000 new jobs compared to an average of 245,500 jobs per month so far in 2024, well below expectations and 2024's slowest month. The most notable April job gains occurred in health care, social assistance, transportation and warehousing, and retail. The unemployment rate rose slightly to 3.9%, though one must acknowledge that unemployment has remained below 4% for 28 consecutive months, the longest month-to-month stretch of below 4% unemployment since 1967 to 1970.

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In the most recent report, issued May 2, 2024, initial jobless claims stood at 208,000. It has lingered in the low 200,000 level for most of 2024. It shows companies are generally hanging onto their employees, At the same time, recent reports show people aren't leaving jobs at the rate they once were. Average monthly wage growth, dropped below 4% for the 12-month period ending in April 2024, to 3.9%.

The labor force participation rate, representing the percentage of the population currently in the workforce, held at 62.7% in April, matching March's number.

That signals a slightly softer labor market. Nevertheless, job layoff activity appears stable.

The number of job openings has declined modestly in recent months, but there are still approximately 1.3 jobs for every unemployed person seeking work.

Somewhat worryingly, signs of slower economic growth have not translated into reduced inflation. **The most recent reading of the Consumer Price Index showed inflation at 3.5% for the 12 months ending in March 2024. Inflation has lingered between 3% and 3.7% since June 2023.**

Source: Factset

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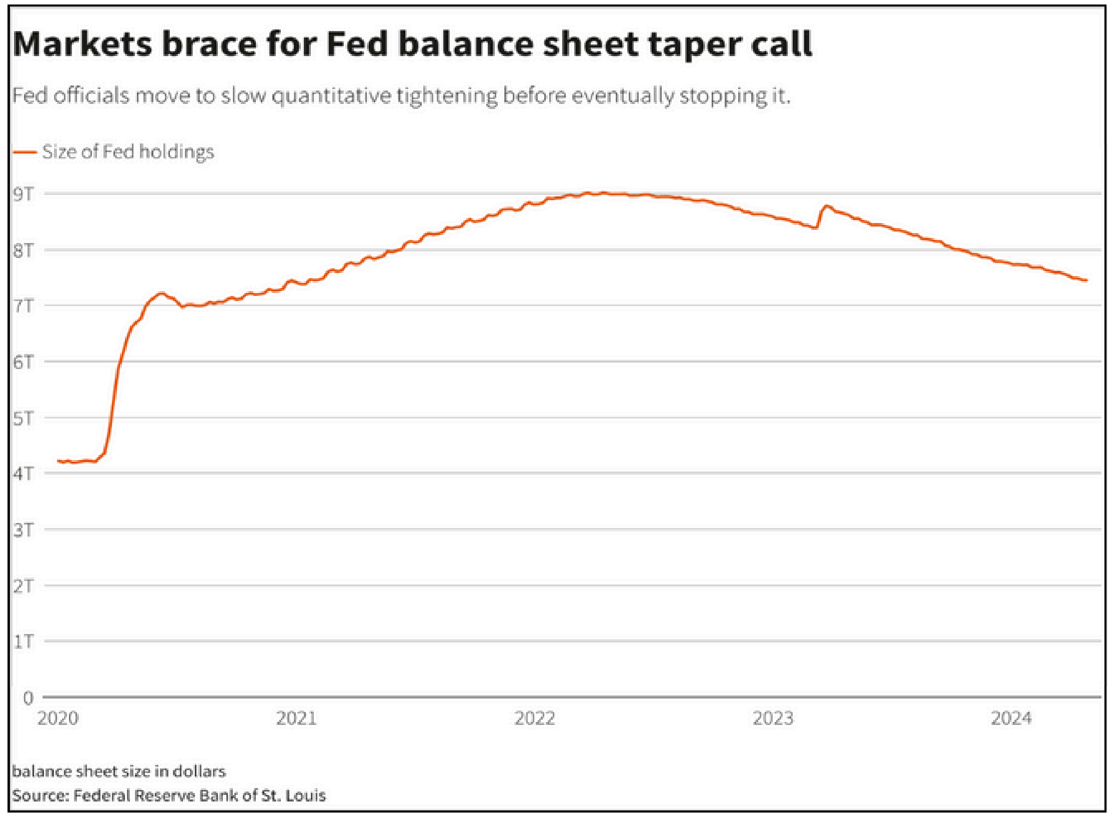
Unsurprisingly, **the Federal Open Market Committee left the Fed Funds rate unchanged at its May meeting!**

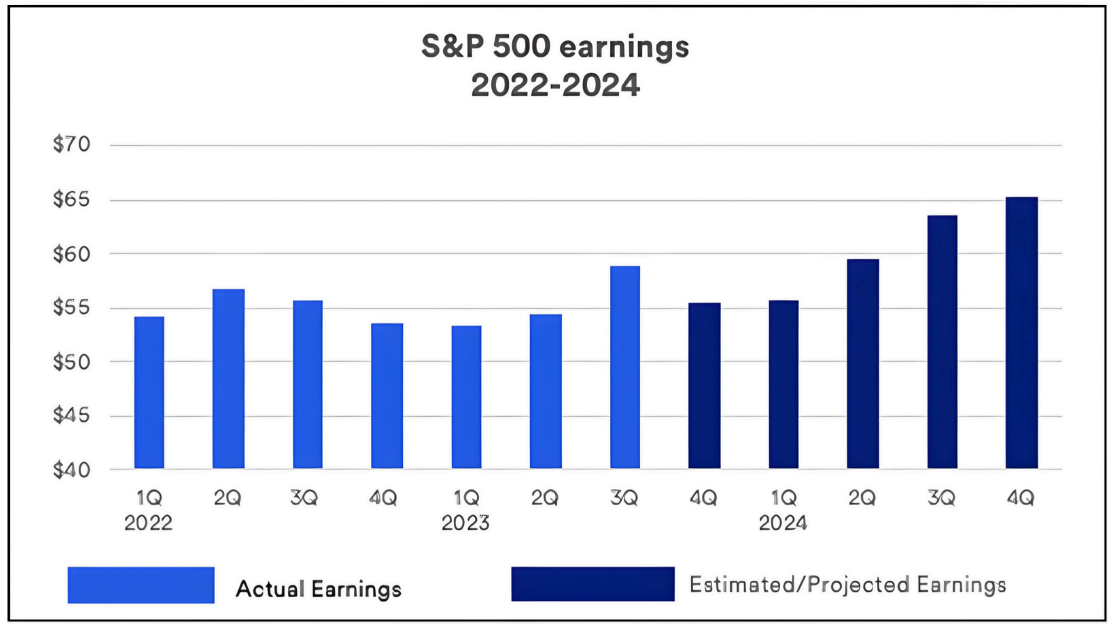
It did, however, announce plans to slow the speed of its balance sheet drawdown to ensure this process does not create undue stress in financial markets. **The Fed said that starting on June 1 it will reduce the cap on Treasury securities it allows to mature and not be replaced to $25 billion from its current cap of up to $60 billion per month**. This will help to inject some liquidity into bond markets.

Corporate earnings of publicly traded companies have started 2024 on a positive note. When all first quarter financial reports are in (sometime in June), consensus analyst projections indicate S&P 500 earnings will grow 5% compared to the first quarter of 2023.



Corporate bottom lines benefited from the economy's surprising strength. The US consumer's ability to spend remains a constant that benefits most corporations. **Four sectors — Communication Services, Utilities, Consumer Discretionary and Information Technology, generated the strongest earnings growth for the quarter.**

Based on analysts' estimates as of March 2024, S&P 500 earnings are projected to come in above $240 per share in 2024 — about a 10% improvement from 2023. We believe there is a risk of downward surprise to these numbers. On balance, we are neutral but cautious on US equities and reiterate our call for overweight in high-quality fixed income with intermediate duration.



Source: Factset

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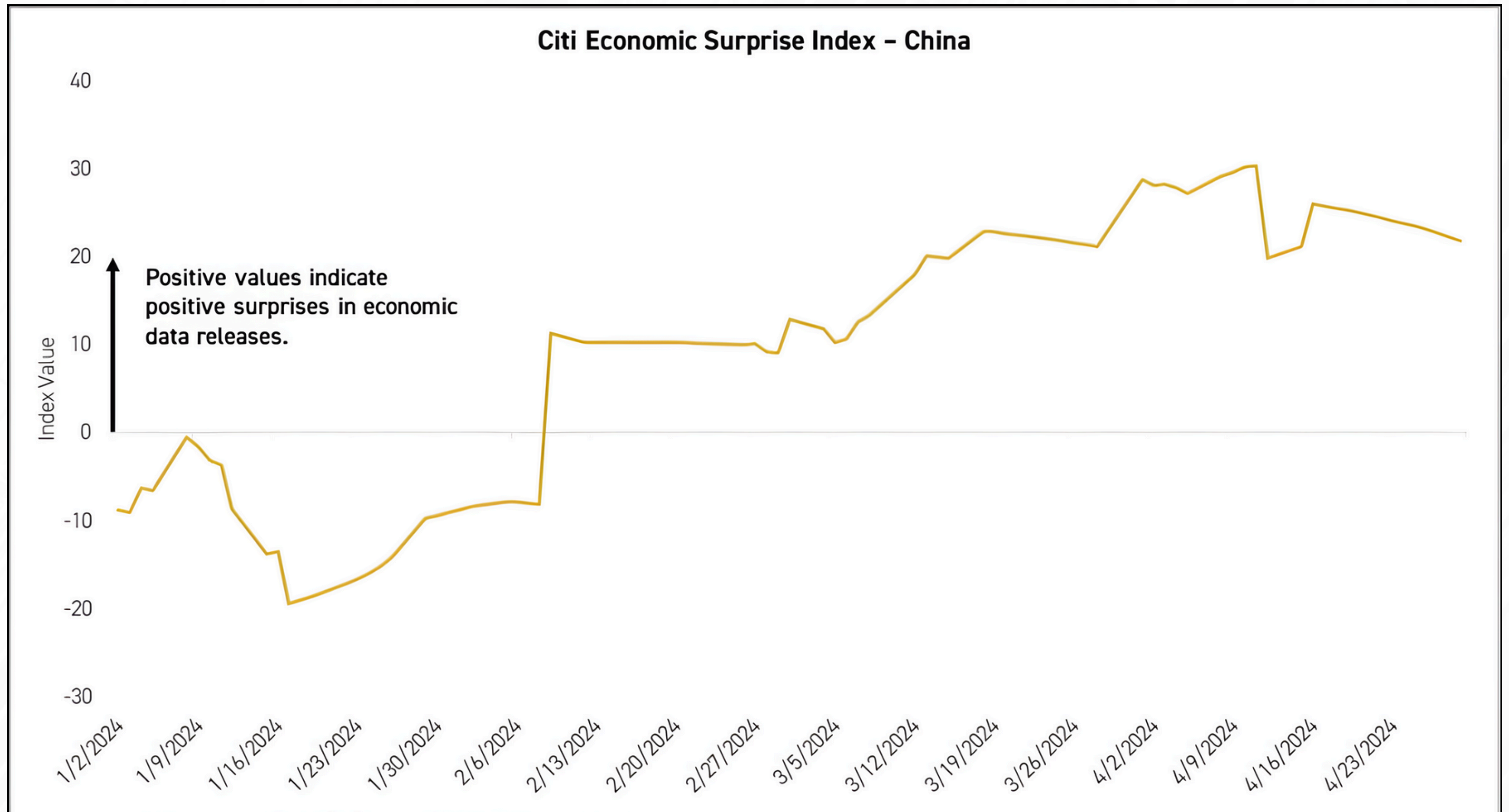
China may be turning the corner !

Several factors are slowly starting to work in favor of China :

For one, the government seems to be somewhat more focused on capital markets than previously. **It is buying mainland stocks to stabilize the domestic stock market and influence stock market indices**. Mainland China lacks market circuit breakers, so during periods of volatility, government related entities act as buyers of last resort. In the past, government buying was done discretely without much publicity, **but this time China is being much more public with its stock purchases.**

On April 12, **the State Council issued "9 Key Points" to improve China's capital markets,** a rare document to come out of that body, which usually does not comment on markets. Among the measures are initiatives to control the supply of IPOs, encourage companies to pay dividends and improve their corporate governance, and promote bank and trust products to allocate more to equities



Data from Bloomberg, Citigroup as of 4/30/2024. Please see below for index definitions.

China's economic cycle is improving, as evidenced by Q1 2024 GDP, which came in at 5.3% versus an estimated 4.8%, representing an improvement of +1.6% compared to Q4 2023. **Consumer confidence is slowly improving**, though Chinese households maintain their high historical savings rate. Unleashing these savings would likely produce a significant economic boost.

Low valuations paired with improving earnings could be a catalyst for continued outperformance in certain sectors in China. Although investors have yet to recognize the attractive valuations in China equities, many companies are taking the matter into their own hands by buying back their stock, mostly in the internet sector. Investor re-allocations to China's equity market could occur as local Chinese investors return first, followed by Asian investors and then European and American investors

CIO Speaks

Japanese stocks still have headroom

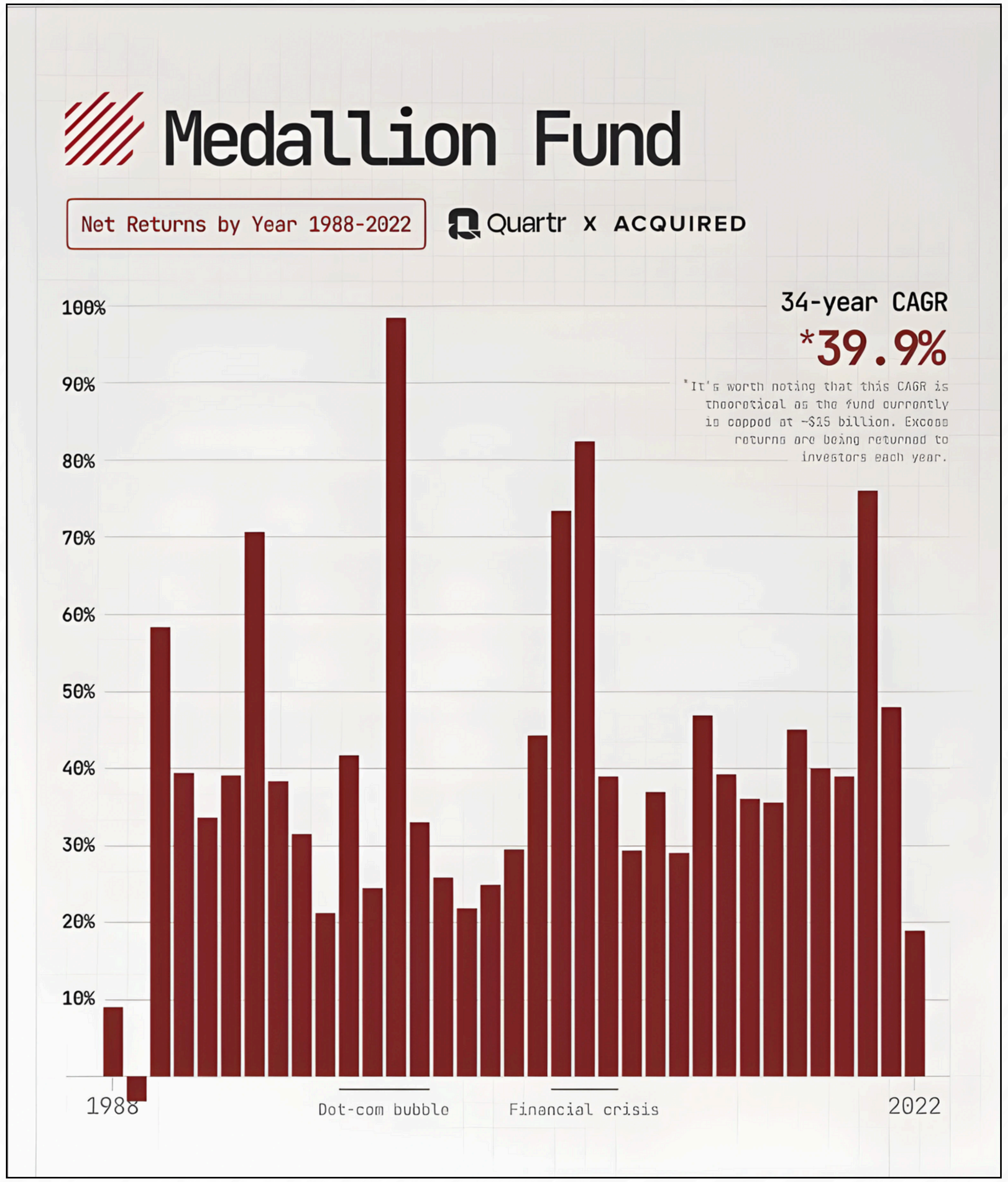
Although the Nikkei has given back some of the gains it made on its run-up to 41,087, **the index is up about 16% year to date, ahead of the S&P 500 index's roughly 9% return.** In our view, the rally is well founded, Government initiatives to support Japanese companies' ongoing efforts to improve profitability and efficiency, a weak Japanese Yen, increase in investor activism and Warren Buffett's surprise visit to the country in 2023 after he took positions in five major Japanese trading firms, have all helped to attract the world's notice.

Indian stocks may be fully priced for now

The S&P 500 is up 9% this year, whereas the Indian benchmark is struggling to stay in the black. It appears that India's near 8% GDP growth isn't transforming into stock market returns. **Indian economy's rapid expansion has been tied together with the birth of new businesses and opportunities.** But that has also meant significant competition for the incumbents, many of which are listed on the stock market. A dip in voter turnout during the first two phases of the ongoing general elections could mean that Prime Minister Narendra Modi's BJP may win fewer parliamentary seats than expected. **The India VIX index, more widely known as a fear gauge, has risen for 11 straight days, the longest run since March 2020.**

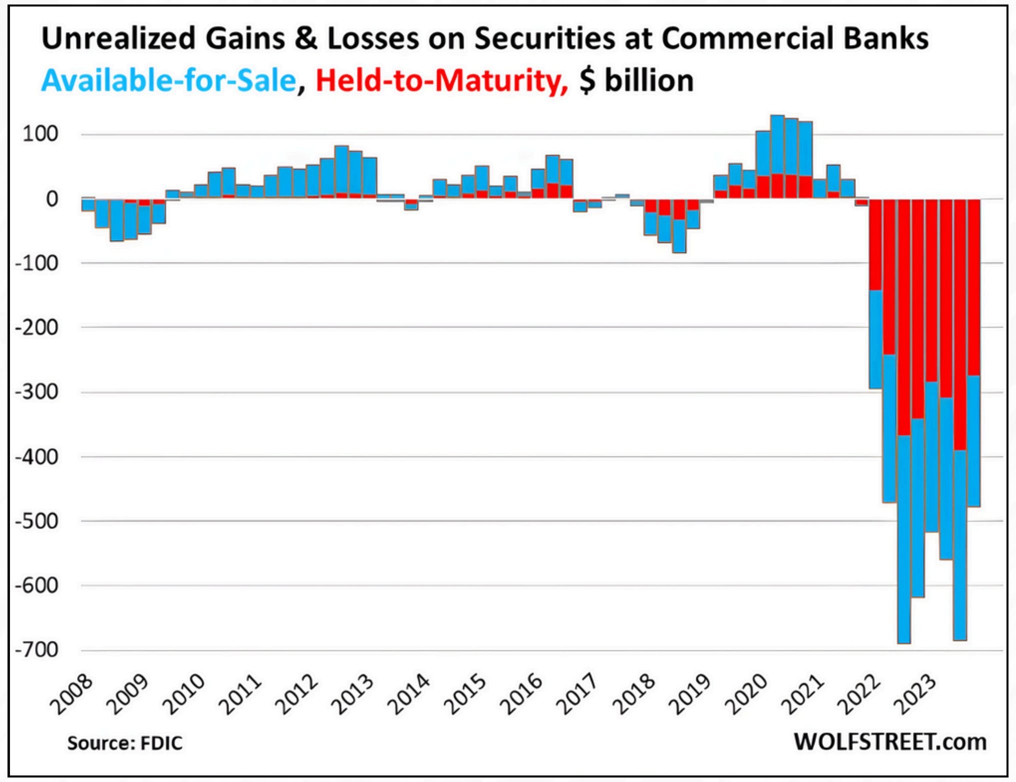
Another investment legend passes away

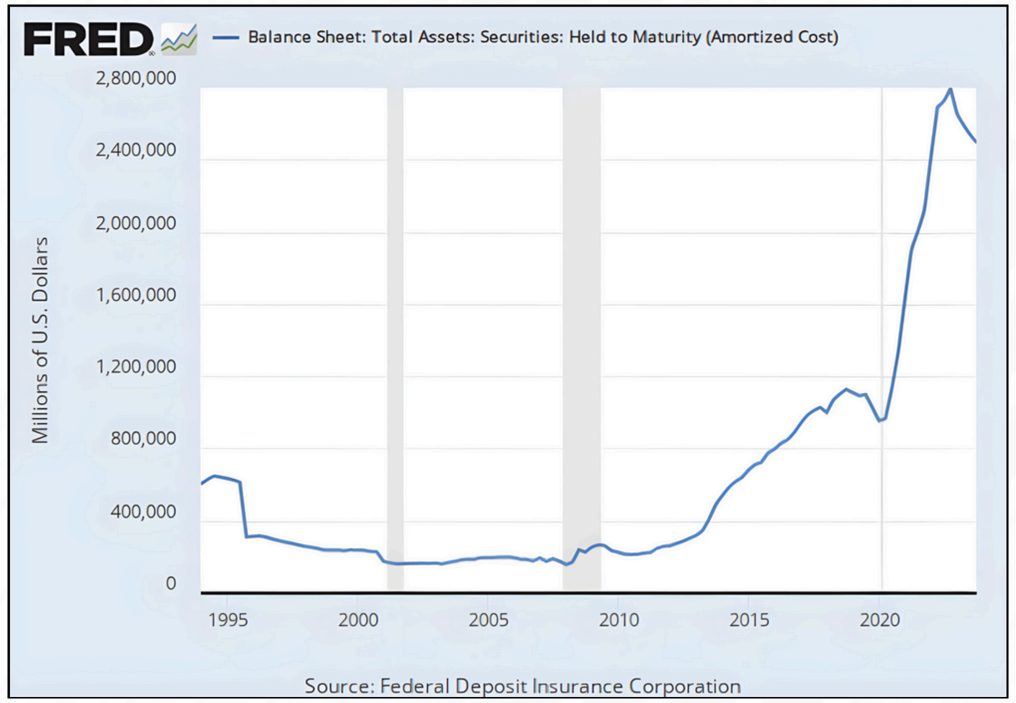
In a reminder that even the smartest and most successful among us are eventually overtaken by time, Jim Simons, founder of Renaissance Technologies, passed away at the age of 86. Simons was widely considered the pioneer of quantitative investing and the extraordinary returns of the Medallion Fund from 1988 to 2022 are the stuff of legend.



US Banks Holding Big Paper Losses

- During the pandemic money-printing era, **total securities held by banks soared by $2.5 Tn**, or by 57%, to $6.2 Tn at the peak in Q1 2022. By the end of 2023, the amount had dropped to $5.43 Tn.
- Once a bank has classified assets as Held-to-maturity (HTM), it doesn't need to update those assets' prices as interest rates fluctuate.
- US lenders reclassified billions of dollars of securities as HTM assets during 2021 and 2022. By the end of last year, financial **institutions accounted for 45% of their $6 Tn in securities, or $2.75 Tn, as HTM assets**, up from 33% at the start of 2022.
- Paper losses started piling up in 2022 when the Fed began tightening its monetary policy.
- At the end of 2023, it was estimated that the **total unrealized HTM losses facing U.S. commercial banks was $274 Bn**, according to FDIC. This was a significant decrease from Q3 paper losses of ~$380 Bn, as the market priced in 7 rate cuts in 2024. However, yields have risen again in 2024 and paper losses could again be close to ~380 Bn.
- Bank of America has the highest HTM holding at about $587 Bn. Paper loss on their bond portfolio most likely reached $110 Bn in Q1 2024 from $98 Bn at the end of 2023.





US banks with highest HTM holdings

Entity	HTM (in $Bn)	% of Deposits	CET1	CET1 (including paper losses)
Bank of America	587	30%	11.8%	5.3%
JP Morgan	334	14%	15%	13.3%
Wells Fargo	259	19%	11.2%	7.9%
Citigroup	252	19%	13.5%	11.8%

Investors should factor in this risk when adding exposure to related equity and CoCos

Bond Yields Search For Direction As Fed Waits On Rate Cuts

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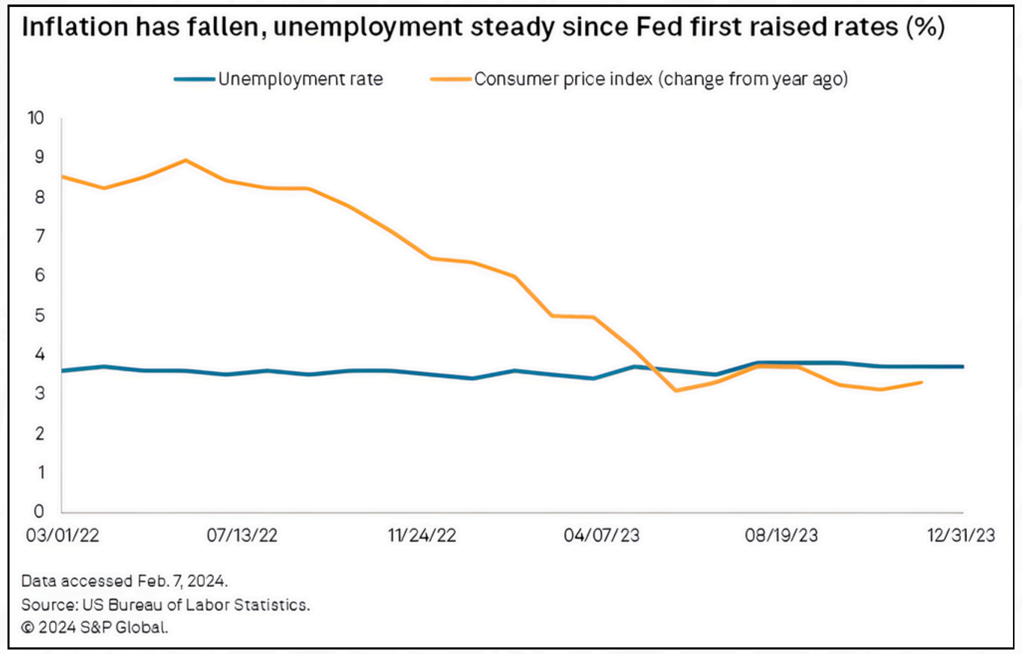
1. Fed's Rate Cut Indecision

- Benchmark 10-year Treasury yield touched at 4.6% on May. 1, up 80 basis points from Feb low.
- Strong labor demand and expansion deter rate cuts, nearing Fed's 2% inflation target.
- Fed's cautious stance amidst past volatility leaves bond market direction unclear.

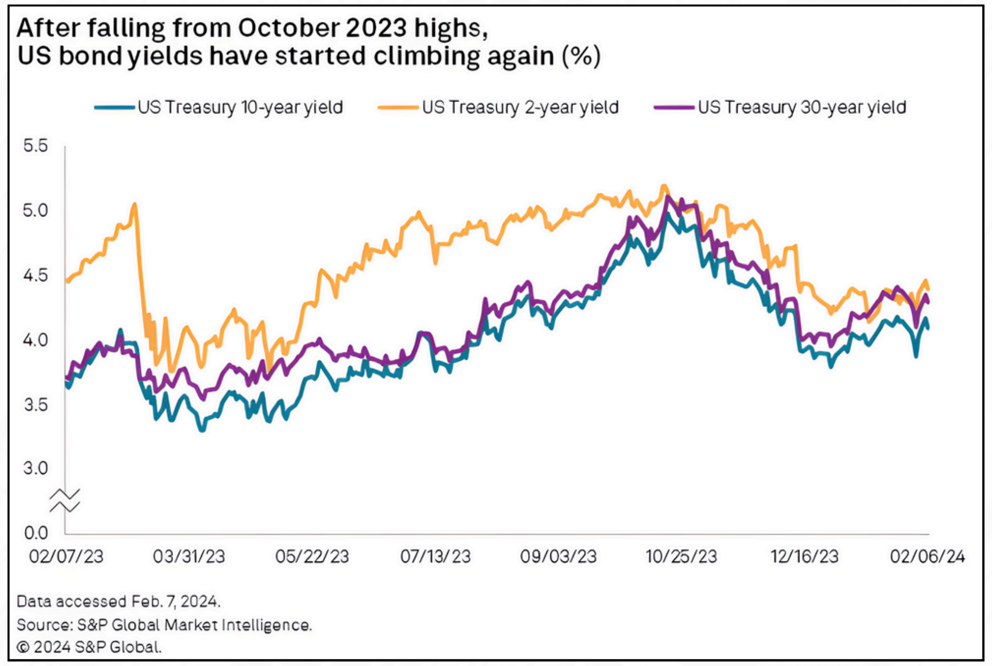


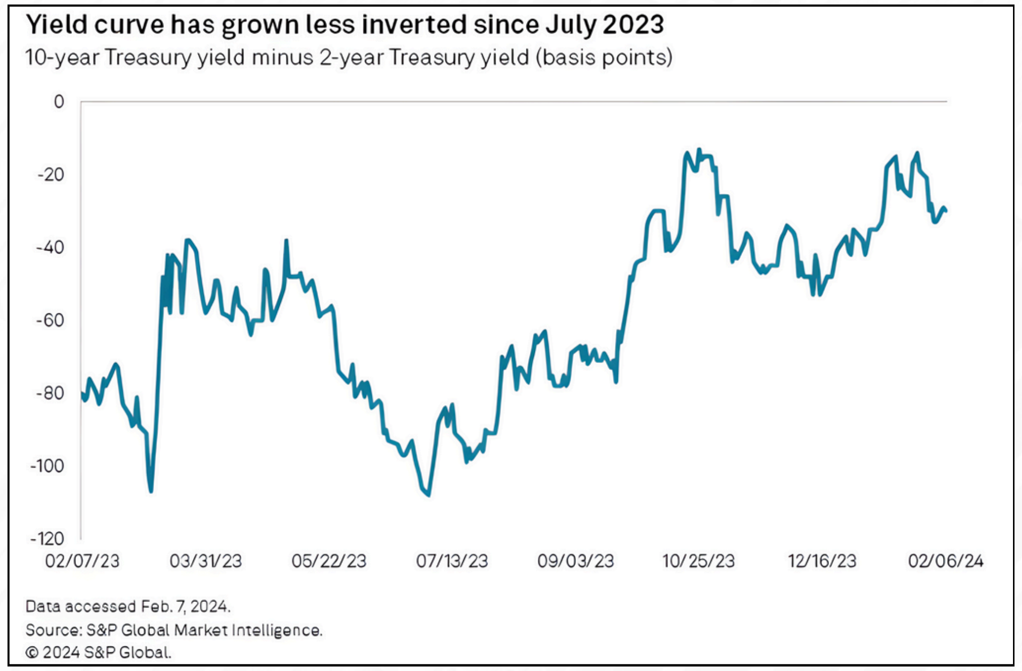
2. Market Dynamics and Uncertainty

- Bond bulls await labor market weakness for rate cuts; bond bears anticipate inflation upticks to delay adjustments.
- S&P US Treasury Bond Index down 1.6% year-to-date after 5% climb in Q4 2023.

3. Yield Trends and Outlook

- 10-year yield could remain increased, contingent on Fed policies and economic factors.
- Yield curve inversion since July 2022 persists, signaling potential economic challenges despite no recession.





How long will this "higher for longer" trend persist?

Japan's yen had a roller coaster week amid suspected intervention

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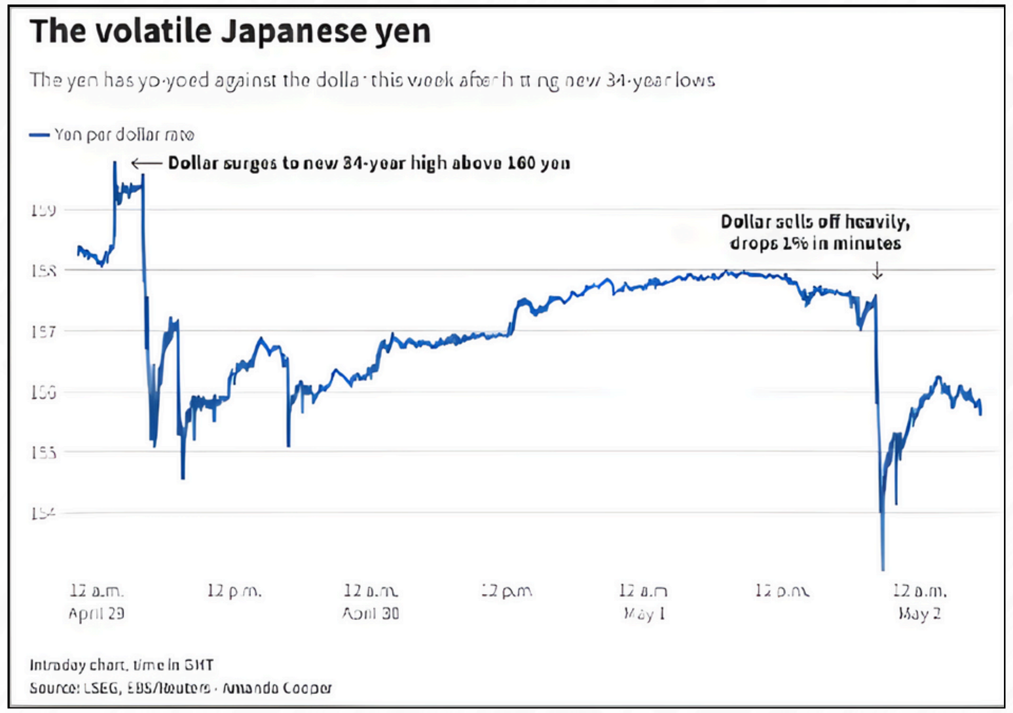
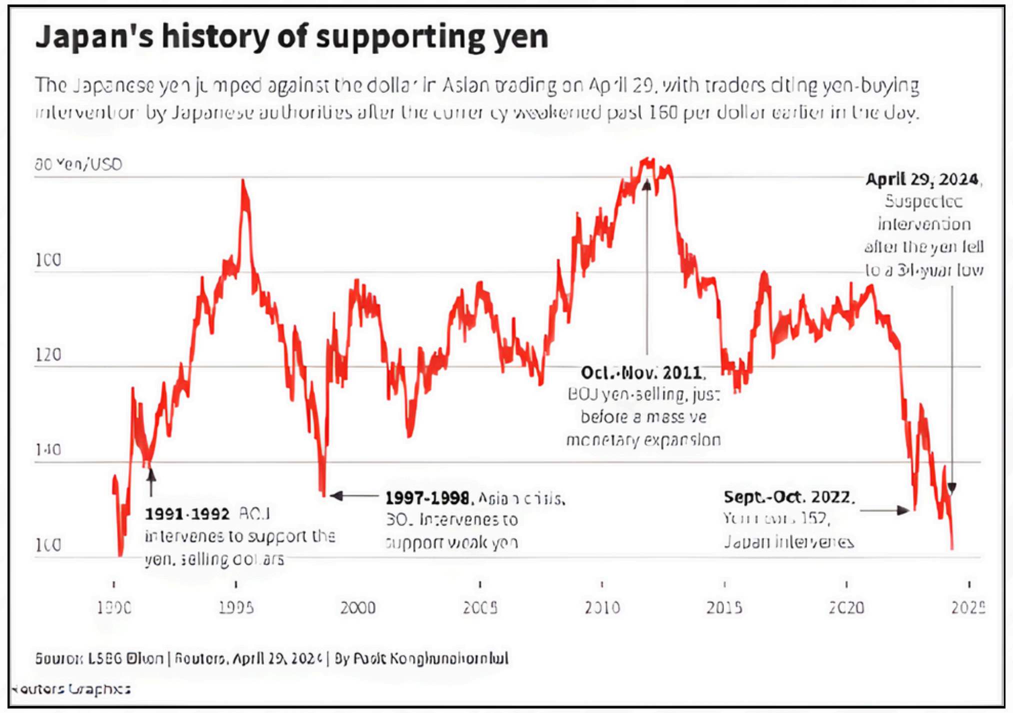
- **Initial Yen Decline:**
  - Yen's fall against USD suggests exiting negative rates eases policy, backed by rate hike from -10 bps to 0 to +10 bps.
  - Post the March rate hike by the BoJ, the yen weakened, hitting USD/JPY 160 by April 29.

- **Suspected BoJ Intervention:**
  - BoJ likely intervened, buying ¥6.2 trillion ($40 billion) yen to stabilize its value.
  - This action aimed at mitigating downward pressure, resulting in a temporary rebound.

- **Underlying Economic Factors:**
  - Japan's debt-to-GDP ratio is high, with public sector debt around 220% of GDP and total debt over 400%.
  - Core inflation stands at about 3%, contributing to uncertainties about the yen's trajectory.
  - April's $14 billion drop in foreign currency reserves signals potential intervention to support the yen.





Will BoJ further increase the rates unlike elsewhere in the world ?

Q1'24 Earnings Summary of the Magnificent 7

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Stock	Revenue beat/miss	EPS beat/miss	movement post earnings	Summary	Outlook
Microsoft	+1.7%	+3.9%	+2%	• Azure drove revenue with 31% YoY growth • 7% of this increase was attributed to AI	FY2025 sees double digit revenue growth. Op margins are projected to decline only one point YoY, given significant capacity and AI investments.
Apple	+0.9%	+2.0%	+6%	• 10% drop in iPhone sales • Drop in China sales was lower than expected • Services was a bright spot which grew 14.2%	June quarter sales is expected to grow in low single digits. Services to continue to grow in double digits into the next quarter.
Alphabet	+1.9%	+23.5%	+10%	• Advertising, which made up 3/4th of sales saw a 13% rise. • Google Cloud reported a 28% increase in revenue and 370% increase in operating profit • Capex mostly tied to data centers and servers totaled $12B, up 91% YoY	No guidance
Amazon	+0.5%	+18.1%	+2%	• Expenses fell due to cost cutting measures and normalization of fulfilment centers and tech investments. AWS, Ad revenue and 3rd Party seller services drove topline growth	June quarter to see high single digit revenue growth. Expect a more measured pace of growth in earnings.
Meta	+0.8%	+9.5%	-11%	• Ad revenue grew by 27% due to 6% increase in ad prices and 7% app user growth • Reality Labs division missed sales expectations at 440 Mn, while division loss amounted to 3.8 Bn	Revenue forecast for the June quarter missed estimates 2024. Expenses were raised quoting AI and related investments company said that path to monetization of its AI offerings is long
Tesla	-4.9%	-13.5%	+12%	• EV sales was down 13% due to waning demand, competition and price cuts. Announced plans to accelerate production and launch new, more affordable EV models in the second half of 2025	No guidance

US - Q1'24 Earnings Review

YoY earnings statistics:

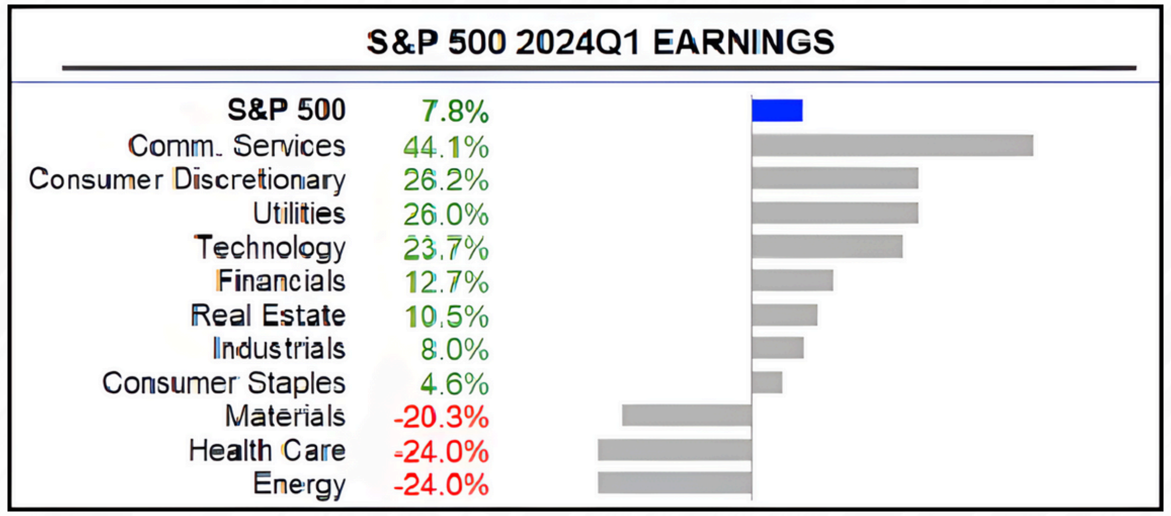
- As of 07th May, the S&P 500 is reporting a **positive Q1 2024 earnings growth of 7.8%.**
- **Amazon** (+328%) was the main driver for the Cons. Discretionary sector.
- **Meta** (117%) & **Alphabet** (57%) drove the Comm. Services sector.

QoQ earnings statistics:

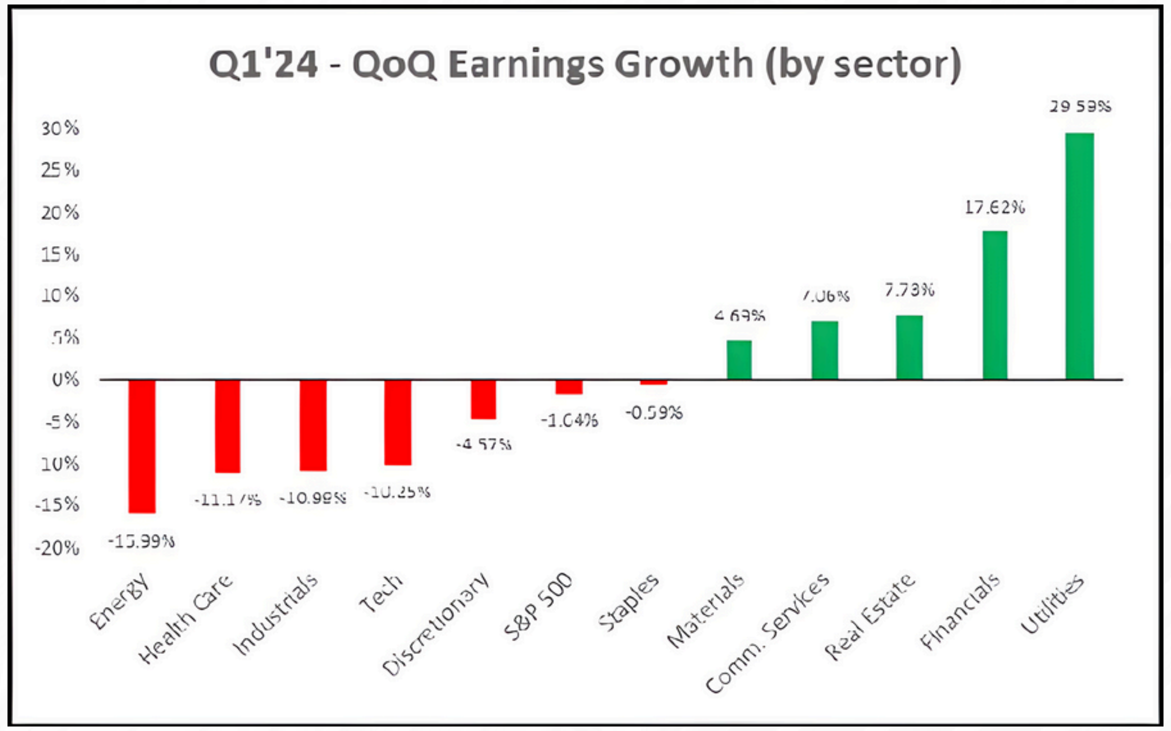
- QoQ earnings have **declined by 1.64%.**
- This decline was driven by the technology sector and more specifically **Apple** (-24%).

Other facts:

- 424 companies have reported earnings as on 07th May which is about **85% of the index.** Out of the companies that have reported **77.8% companies have beaten estimates.**
- **Trailing P/E is 22.9 (10 Yr. Avg. 21.1)**
- **Forward P/E stands at 20.4 (10 Yr. Avg. 17.8)**
- In terms of thematic, cloud computing was a big winner as **cloud revenue grew 21% YoY** equating to $76 Bn.
- LSEG noted that the first-quarter forecast has been impacted heavily by an adjustment for Bristol Myers Squibb because of a $12 Bn one-time charge related to its acquisition of Karuna Therapeutics.



Source: I/B/E/S data from Refinitiv – Data as of 07-May-24



Source: I/B/E/S data from Refinitiv – Data as of 07-May-24

Digital Advertising Revenue Surge

After struggling last year, digital advertising market appears to be on the upswing based on quarterly results from Alphabet, Meta and Amazon.

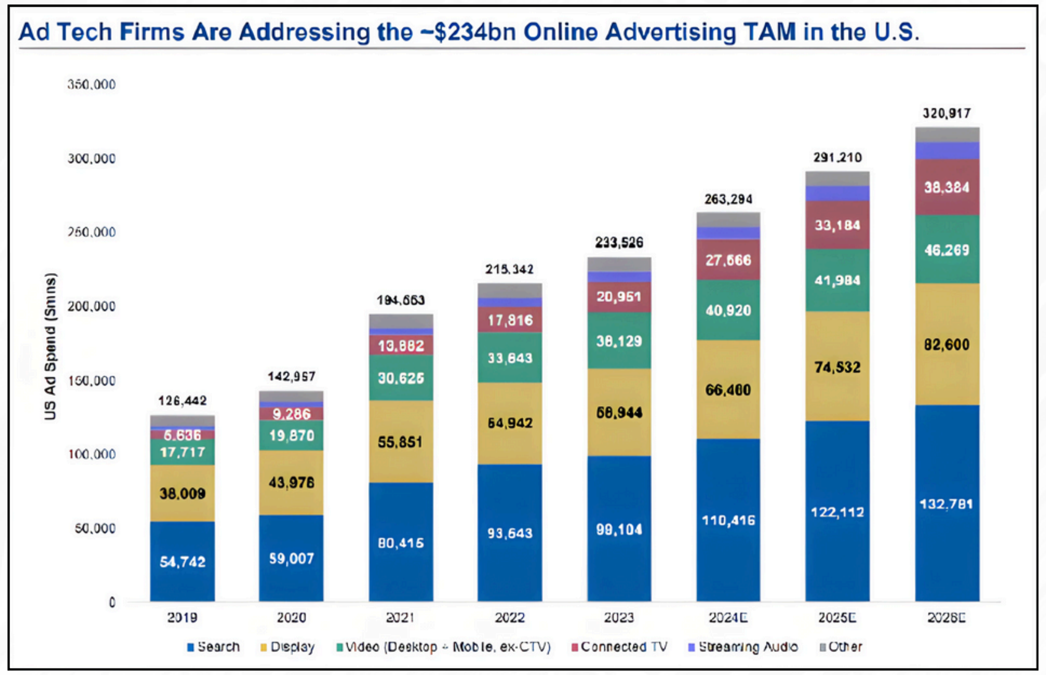
Reasons for ad revenue improvement and further growth:

- Big advertiser events like the Summer Olympics in Paris and the upcoming presidential elections will contribute to higher spending
- Businesses appear less concerned with the Russia-Ukraine conflict than in the past and are seeing a potentially more favorable interest rate outlook
- Investments by Meta and Alphabet into artificial intelligence to improve their ad platforms are paying off
- Digital advertising is continuing to eat up share of worldwide advertising

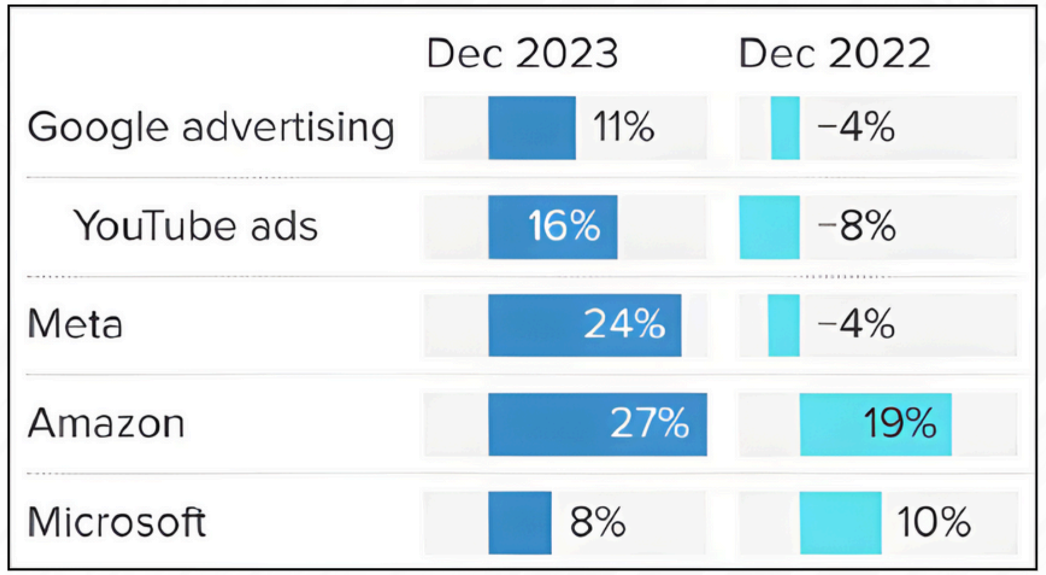
Way forward, digital advertising is here to stay and grow steadily if not rapidly. But who will benefit and where can you invest? Below are a few examples of **the eco – system** that benefits when companies start publishing ads via digital media :

Agencies : Omnicom Group, WPP, IPG etc
Publishers : Netflix, ESPN, WSJ etc
Digital Media Analytics & Data management companies: Oracle, The trade desk, Integral Ad Science Holding Corp
Ad Exchange: Microsoft, Alphabet etc
Demand side platform : Amazon, Adobe, Unity , Meta etc
Supply side platform : Alphabet, Unity etc

**DSP : software that allows an advertiser to buy advertising with the help of automation
SSP : technology used to help facilitate the selling of ad space on websites and apps based on impressions



Source : Morgan Stanley



Source : CNBC

Gold Miners vs Gold

- Gold shines in 2024, with record central bank purchases: **1,082 tonnes** in 2022, **1,037 tonnes** in 2023, and a record **290 tonnes** in Q1 2024. Prices soar.
- The debate between investing in gold miners versus physical gold continues, with gold prices hitting new highs but gold mining companies still lagging behind their 2011 peaks.
- The GDM has appreciated by 35.22% over two decades, while the price of gold (XAU) has surged by 450%.
- Labor constitutes the largest operating cost for top gold miners at 39%, followed by fuel and power at 20%, consumables at 20%, maintenance at 11%, and other costs at 10%.

Why such immense difference?

1.Production Cost: Mining companies face expenses for exploration, development, and production. Fluctuations in input costs like labor, energy, and equipment can impact profitability and stock prices.

2.Financial Leverage: Many gold mining firms use debt for operations and expansion, increasing financial risk and sensitivity to interest rate changes.

3.Hedging Strategies: Some miners hedge to manage price risk by securing future sales at set prices. While providing stability, this can limit gains during gold price increases.

Source:www.gold.org

Given the disparities between gold miners' performance and gold itself, is it wise to thoroughly assess individual gold miners' stocks/ETFs before investing?

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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