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Sailing Through Choppy Waters

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TABLE OF CONTENTS

CIO View (1/6)

The global economy faces heightened uncertainty, characterized by slowing growth, persistent inflationary pressures, and escalating trade tensions. The OECD projects global GDP growth to decelerate to 3.1% in 2025 and 3.0% in 2026, with notable slowdowns anticipated in the United States and the Euro area.

A significant contributor to this downturn is the recent escalation in U.S. import tariffs, which are expected to dampen global economic activity and elevate inflation rates. These protectionist measures have led to a reassessment of growth forecasts, particularly for North American economies, with Canada projected to enter a recession by mid-2025.

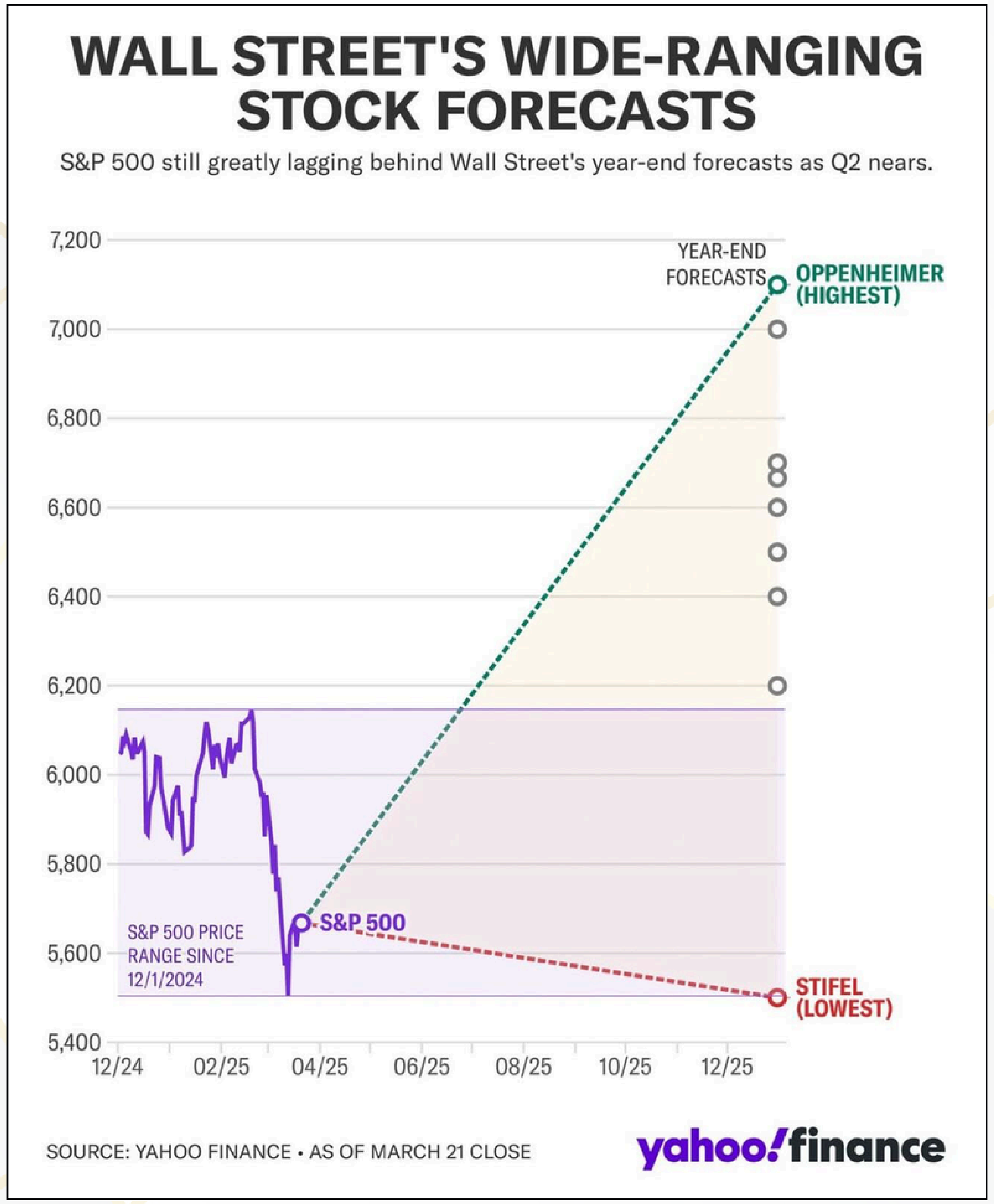
In response to these challenges, major economies are implementing fiscal measures to mitigate the adverse effects of trade tensions. For instance, Germany has announced increased defense spending and infrastructure investments to stimulate domestic demand.

United States

The U.S. economy is experiencing a period of moderated growth. **Recent projections indicate a downward revision in GDP growth, with expectations now at 1.7% for 2025, down from previous estimates of 2.1%.**

One factor that this adjustment is attributed is a decline in labor-force growth, partly due to reduced immigration rates. Goldman Sachs estimates that net immigration will fall to 500,000 by the end of 2025, contributing to the labor supply constraints.

Consumer spending has shown mixed signals, with some indicators pointing to increased financial pressures on households. For instance, there has been a notable rise in the use of financing options for everyday expenses, suggesting that consumers are becoming more cautious in their spending habits.



CIO View (2/6)

U.S. equity markets have experienced volatility, with the S&P 500 down by 3.42% since the beginning of the year and 10% from its recent highs. Trillions of dollars have been shaved from US equity values in the past month as concerns over an economic slowdown, the impact of tariffs, geopolitical risks and questions about lofty tech valuations have unnerved investors.

After two years of leading stocks' rallies, the market's largest technology companies are now leading the major indexes lower. With just two weeks left in the quarter, the Magnificent Seven are tracking for the worst performance against the S&P 500 since the fourth quarter of 2022. The issue for the S&P 500 is that if large-cap tech stocks are falling more than the other 493 stocks, the Magnificent Seven's outsized market cap weighting will bring the rest of the index down with it. The combination of stocks makes up about 30% of the S&P 500's market cap, not far off the group's mid-30% peak weighting seen in 2024.

At a high level, **there's also been a sentiment shift,** with strategists now arguing that markets might no longer trade at the extended valuations seen over the past two years, and therefore the benchmark S&P 500 likely won't rise as much.

At its recent meeting, the US Federal Reserve kept the federal funds rate at a range of 4.25% to 4.5%, a decision that was widely expected. That said, the Fed kept its outlook at two rate cuts coming in the remainder of this year.

Credit spreads have remained defiantly low, last pegged at about 91 basis points for investment grade credits and 317 basis points for high-yield. Calls are growing for both to widen. Goldman Sachs researchers a week ago revised their spread forecasts to 110 basis points for investment grade and 380 basis points for high yield, respectively, for the second quarter. **Readers of this newsletter would recall our repeated warnings about this in previous issues.**

Change in Fed Projections

Percent

Variable	Median[1]			
	2025	2026	2027	Longer run
Change in real GDP	1.7	1.8	1.8	1.8
December projection	2.1	2.0	1.9	1.8
Unemployment rate	4.4	4.3	4.3	4.2
December projection	4.3	4.3	4.3	4.2
PCE inflation	2.7	2.2	2.0	2.0
December projection	2.5	2.1	2.0	2.0
Core PCE inflation[4]	2.8	2.2	2.0	
December projection	2.5	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.9	3.4	3.1	3.0
December projection	3.9	3.4	3.1	3.0

Source: Financial Times

CIO View (3/6)

Europe

Sell-side research notes from the end of last year had plenty of analysts crowing about "US exceptionalism", China's "uninvestability" and Europe's dull stock markets. **This newsletter can proudly claim to be one of the exceptions.**

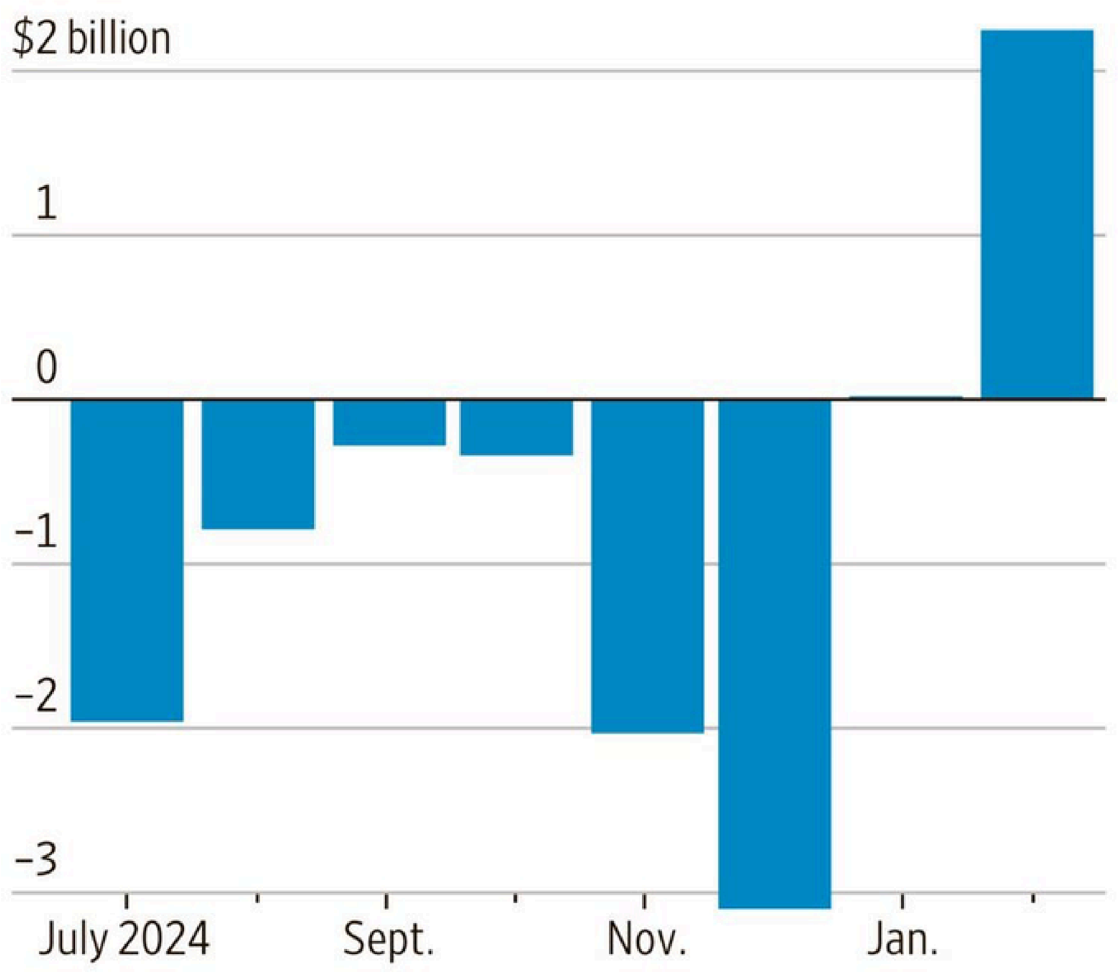
In the two months since President Donald Trump's inauguration, that's all changed. The White House's tariff-raising agenda, America-first foreign policy and all-round unpredictability has dramatically altered the economic assumptions underpinning long-held market narratives. At home, Trump's determination to raise import duties, despite concerns over higher prices and supply chain disruption, is sapping business confidence. Understandably, investors are looking for somewhere else to put their cash. A Bank of America survey of fund managers this week revealed that equity allocations to the US had fallen by the most on record in March.

Money has been flowing rapidly west to east. The valuations of European and Chinese companies finally have uplift.

Europe's economic landscape has been influenced by global trade dynamics and internal policy shifts. The region and its stock markets have benefited from increased defense spending and technological advancements, attracting investor interest.

However, European economies are also contending with challenges such as stagflation concerns and uncertainties in monetary policy. Investors should also remind themselves that in terms of size and influence, European markets are dwarfed by their American counterparts.

Net flows into U.S. based ETFs that invest predominately in European stocks



Sources: Morningstar (net flows); FactSet (performance)

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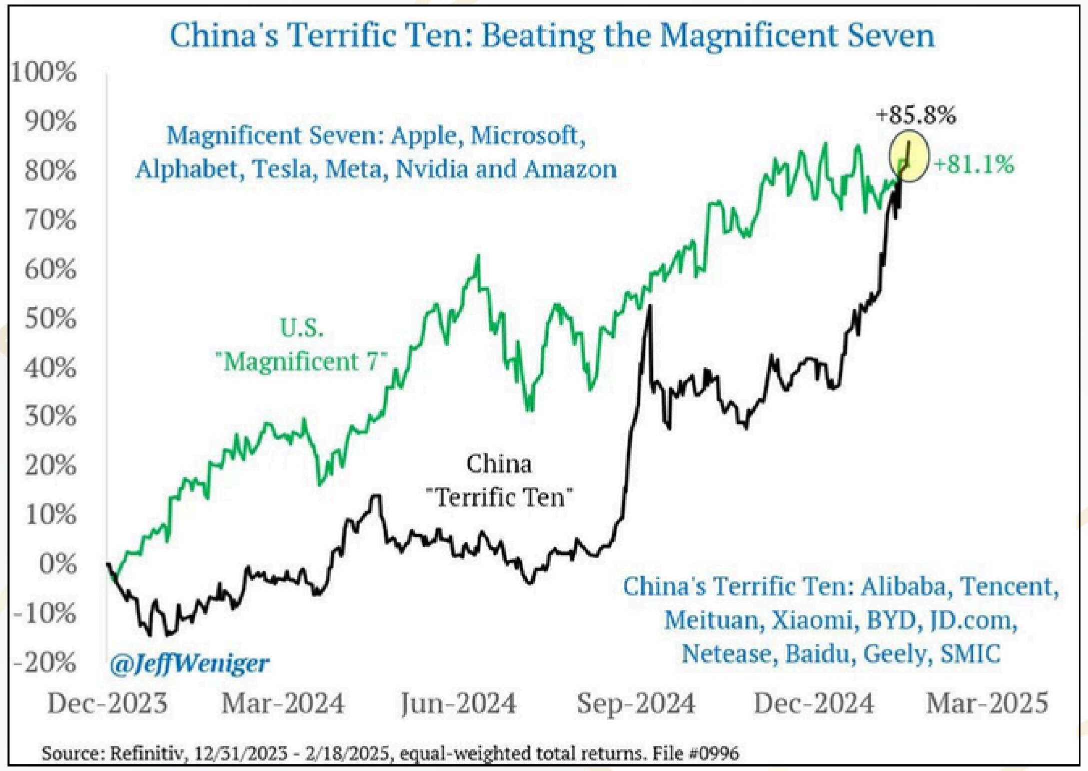
CIO View (4/6)

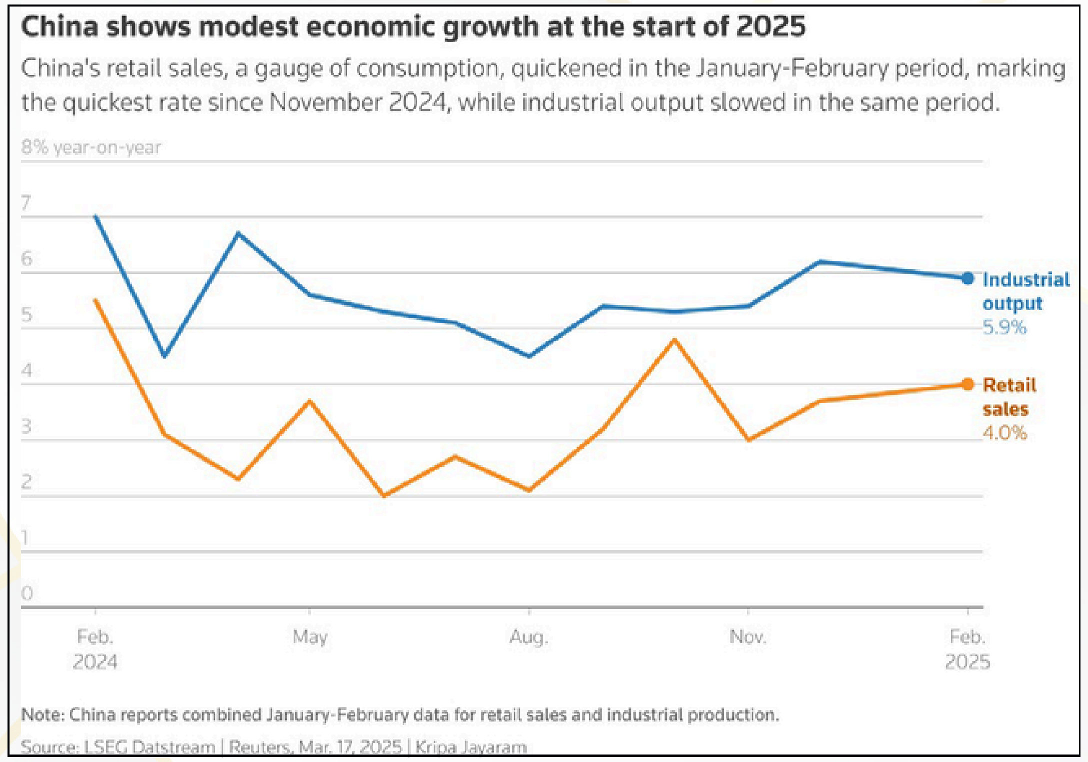
China

In the initial months of 2025, China's economy exhibited positive growth indicators despite the escalation of trade tariffs imposed by the U.S. administration. Retail sales experienced a year-on-year increase of 4% in January and February, surpassing the 3.7% growth observed in December 2024 and exceeding analysts' expectations. **This uptick was primarily driven by robust demand for household appliances and consumer electronics, bolstered by government-initiated trade-in schemes designed to encourage consumer spending.** Additionally, factory output rose by 5.9% annually during the same period, reflecting sustained industrial activity, albeit at a slightly moderated pace compared to December's figures.

To counteract the adverse effects of heightened trade tensions, the Chinese government implemented a series of fiscal and monetary measures aimed at stimulating the economy. These included increased borrowing and reductions in interest rates to mitigate the impact of reduced external demand resulting from tariffs. Furthermore, a "special action plan" was introduced to boost household consumption, underscoring the government's commitment to achieving its 5% GDP growth target by pivoting towards a consumption-driven economic model.

Chinese stock markets have been performing well so far in 2025, but we note that **the current rally is similar to the cycle a decade ago in terms of economic rebalancing, policy stimulus and reforms, and technological breakthroughs.** We also note the Chinese economy's lack of fundamental improvement in employment, deflation, and credit demand as well as the fact that negative news, including Trump's tariffs and geopolitical tensions, has largely been overlooked so far.





CIO View (5/6)

India

India’s inflation trends have been favorable, with the Consumer Price Index (CPI) inflation rate declining to a seven-month low of 3.6% in February 2025, primarily due to corrections in food prices. A strong agricultural sector and improving consumption patterns have been key drivers supporting economic growth.

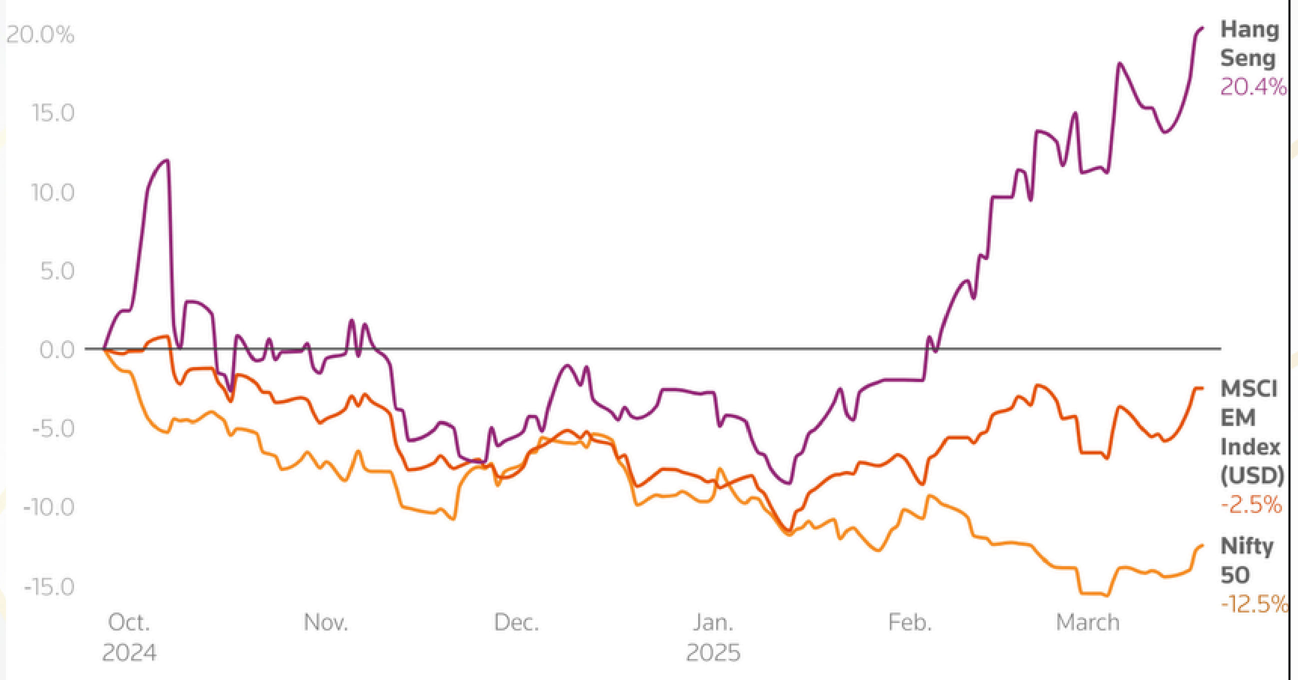
India's merchandise trade deficit narrowed to $14.05 billion in February, the lowest in over three years, attributed to a decline in imports amid global uncertainties. Conversely, exports of services continue to provide support to the external sector, underscoring the economy's resilience.

The Reserve Bank of India reduced interest rates by 25 basis points in February and is anticipated to implement a similar cut in April.

However, **the global trade environment has led to sustained foreign capital outflows, with foreign portfolio investors (FPIs) withdrawing approximately $29 billion from Indian equity markets since October 2024.** India's stock markets have experienced significant volatility, with the benchmark indices, Sensex and Nifty, declining by approximately 15-17% from their peak levels. This downturn represents one of the most severe sell-offs since 1996.

In our view, the underlying story remains strong, and we recommend allocation to quality stocks with strong balance sheets.

Role reversal: Indian stocks struggle as Chinese stocks hog spotlight



Note: Percentage change since late-September 2024; all values rebased to zero

Source: LSEG

CIO View (6/6)

Gold

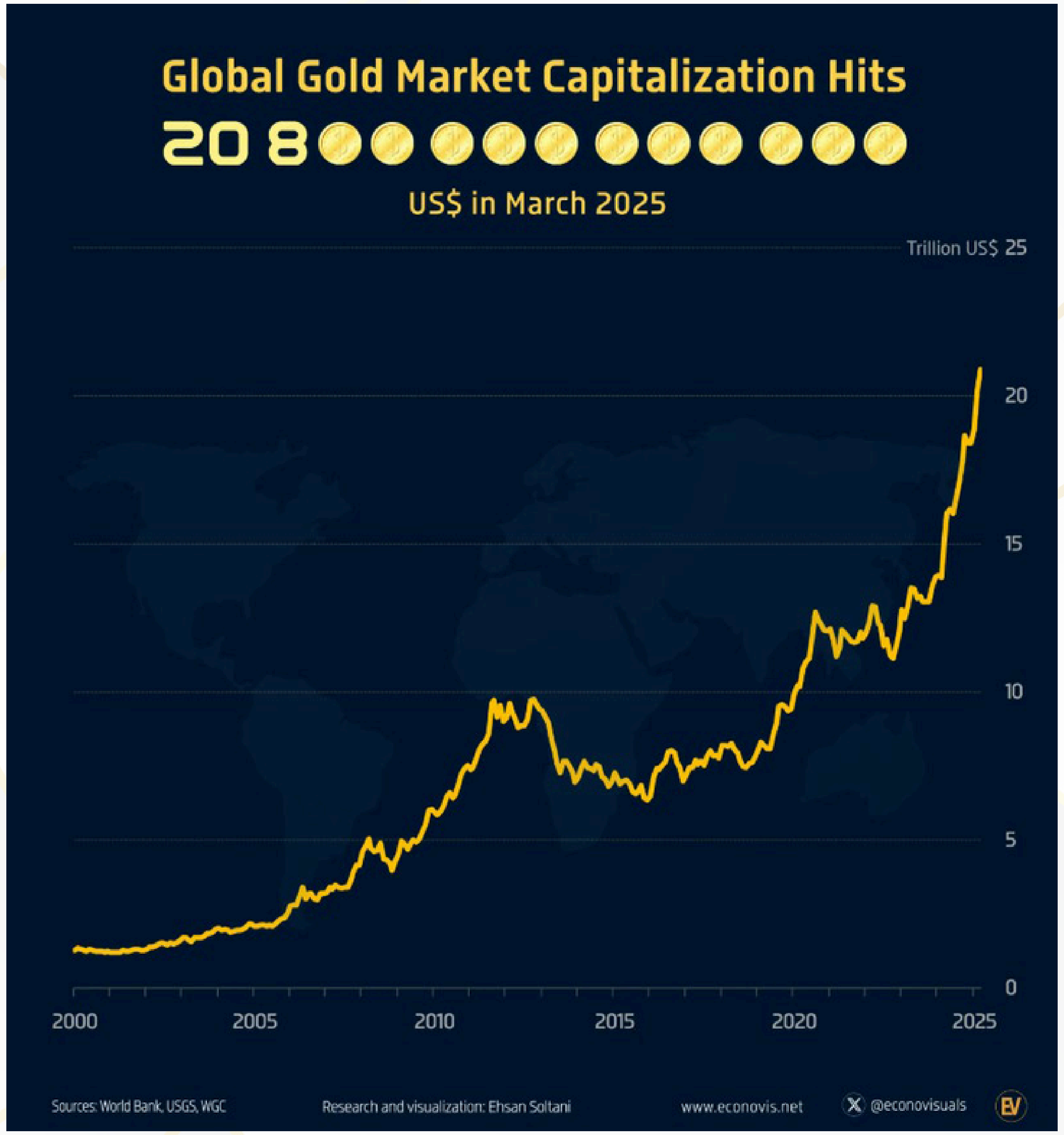
Gold prices have surged from $2,000 per ounce in early 2024 to pushing past the $3,000 mark in 2025. This historic rally is driven by central bank demand, geopolitical uncertainty, and investor appetite for safe-haven assets amid economic instability.

A key factor behind rising prices is the sharp increase in COMEX vault inventories. Between December 2024 and February 2025, gold stockpiles in the three largest COMEX vaults rose by 15 million ounces (115%), surpassing levels seen during the 2020 pandemic. This accumulation suggests banks may be covering large short positions, historically a precursor to major price shifts.

Unlike past cycles, gold's rally has coincided with strong stock market gains. The S&P 500 has performed well, suggesting investors are balancing high-performing equities with safe-haven assets. However, this raises concerns—if equities correct sharply, liquidity pressures could force gold sell-offs.

Analysts predict gold could reach $3,100 by year-end, but questions remain about the sustainability of this surge. Risks are mounting — rising COMEX inventories suggest institutional caution, while gold's correlation with equities raises market stability concerns. As gold trades at record highs, market volatility looms, requiring close monitoring of macroeconomic trends and policy shifts.

Overall, our view is that, at least until we are well into the second half of the year, this is a time of vigilance and capital preservation. The possibility of a sharp correction remains high, which should present interesting opportunities. Investors should continue to remain diversified, quality-conscious and opportunistic.



Trade Wars: Impacts And Beneficiaries

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Inflation impact

- The US economy faces inflationary pressures that could erase pandemic-era disinflation progress.
- Success hinges on whether tariff-driven domestic manufacturing growth projection of 1.7% outpaces consumer spending

Corporate adaptations

- Top 3 sectors to benefit US Domestic suppliers are – **Steel & Aluminum, Automotive and Pharmaceuticals & Medical Devices** subject to price differential
- Exploiting de minimis loopholes: **68% of Chinese SMEs** now shipping via **sub-$800** parcels to avoid tariffs
- Retailers like Amazon accelerating **inventory stockpiling** (e.g., 6-month electronics reserves)
- Auto manufacturers increasing domestic battery production to offset Mexican tariff impacts

Impact on Exporters

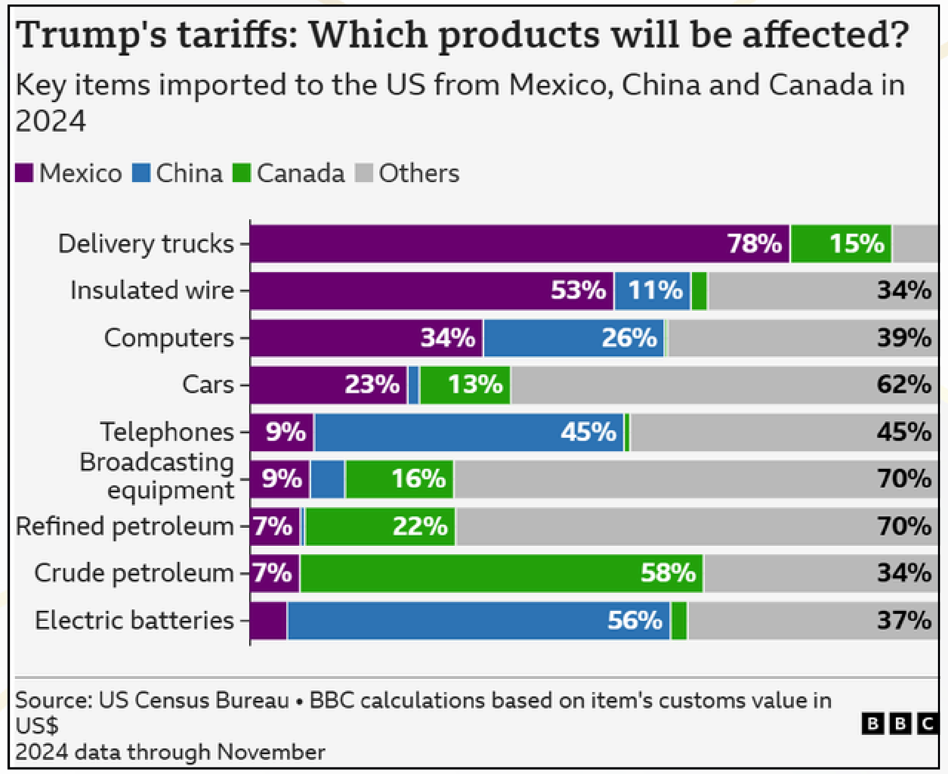
China:
- Imports expected to decline **18-25%($83B-$116B annually)** as manufacturers relocate production to avoid tariffs.
- High-tech sectors (semiconductors, electronics) will see the sharpest reductions as companies shift operations to **Vietnam and Taiwan.**

Mexico:
- Short-term exemptions for USMCA-compliant goods until April 2025 will delay full impact.
- Automotive imports($130B/year) face 25% tariffs, potentially reducing shipments by 30% as production shifts to Thailand and Southeast Asia

Canada:
- Energy imports (61% of US-Canada trade) could drop15-20%due to 10% tariffs on crude oil and natural gas.

Biggest Beneficiaries

Country/Region	Key Advantages	Sector Gains
Vietnam	Lower labor costs, existing tech infrastructure	Electronics, textiles
Mexico	USMCA compliance window, geographic proximity	Automotive, machinery
ASEAN (excluding Vietnam)	Diversified manufacturing base	Auto parts, consumer goods
India	Emerging low-cost labor hub	Pharmaceuticals, textiles



Vietnam and India could emerge as true beneficiaries of the US Trade War

Credit Spreads Widen With Increasing Fears Of Recession

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President Donald Trump said he can't rule out the possibility of recession. Cabinet members indicated that a "detox period" is ahead and that the administration's sweeping policies — including steep tariffs, mass deportations and drastic cutbacks in federal employment and spending — would be "worth it," even if they trigger a recession.

Credit Spreads:

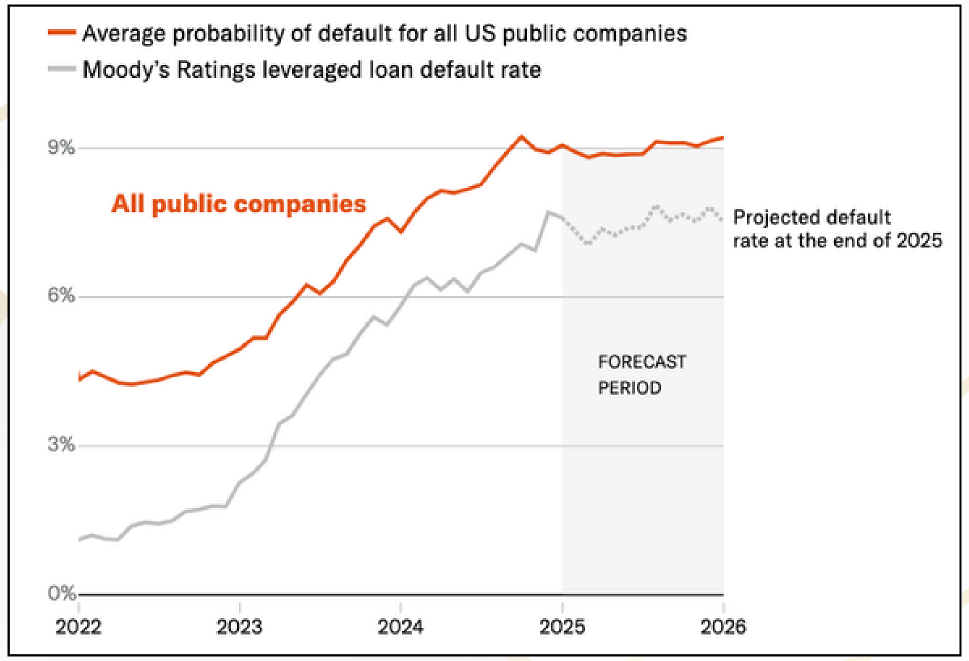
- Credit spreads in bonds have seen the highest widening in the past 6 months; however, corporate bonds spreads are still tight on a historical basis.
- According to the ICE BofA Corporate Index, U.S. investment-grade bond spreads hit 94 basis points on March 11, their widest level since Sept. 18
- According to the ICE BofA High Yield Bond Index, junk bond spreads widened to 322 bps, also their widest since Sept. 18

Fears of corporate defaults:

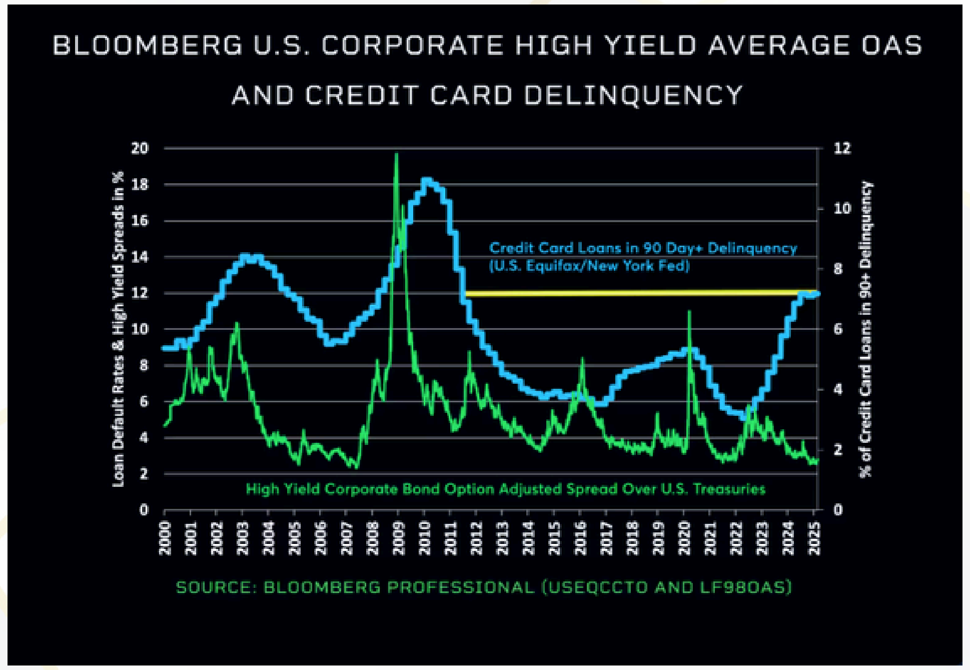
- Since 2021, the average risk of default for US companies has more than doubled from 4.1% to 9.2%.
- Roughly 30% of the distressed restructurings in 2024 were from three sectors: healthcare/pharmaceuticals, business services, and high-tech industries. It is predicted that the same sectors continue to show the highest risk in 2025

Rising Delinquency rates:

- Delinquency rates on credit card loans have soared to their highest levels since 2011
- Auto loan delinquency rates have risen to their highest levels since 2010
- However, not every kind of loan delinquency is at alarming levels: mortgage and business loan default rates remain relatively low, although both have also been rising.



Source: Moody's 2025



How Will Europe Fund Their Defense?

Europe has enjoyed years of low military spending due to US protection, allowing it to build **one of the most generous social security systems for the oldest population of any continent in the world.**

EU countries on average spent almost 20% of GDP on social security and 7.7% on health in 2022 compared to **1.3% on defence**.

Now after US has threatened to pull back protection, it is faced with an uphill to task to boost their defence.

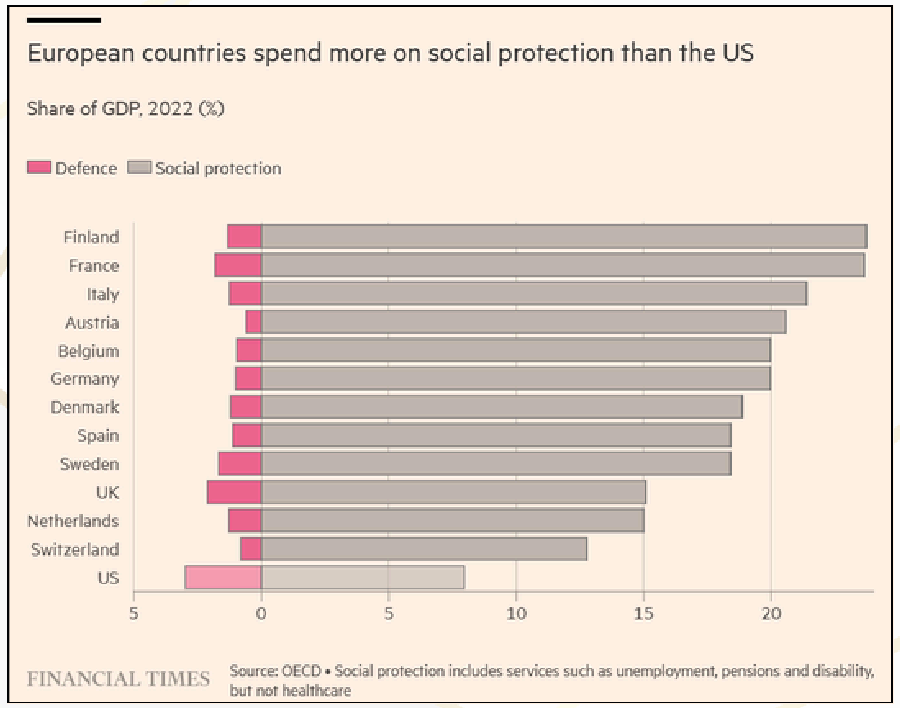
Ratings firm S&P Global estimates that **attaining defence spends of 5% of GDP would cost EU countries a total $875 billion a year.**

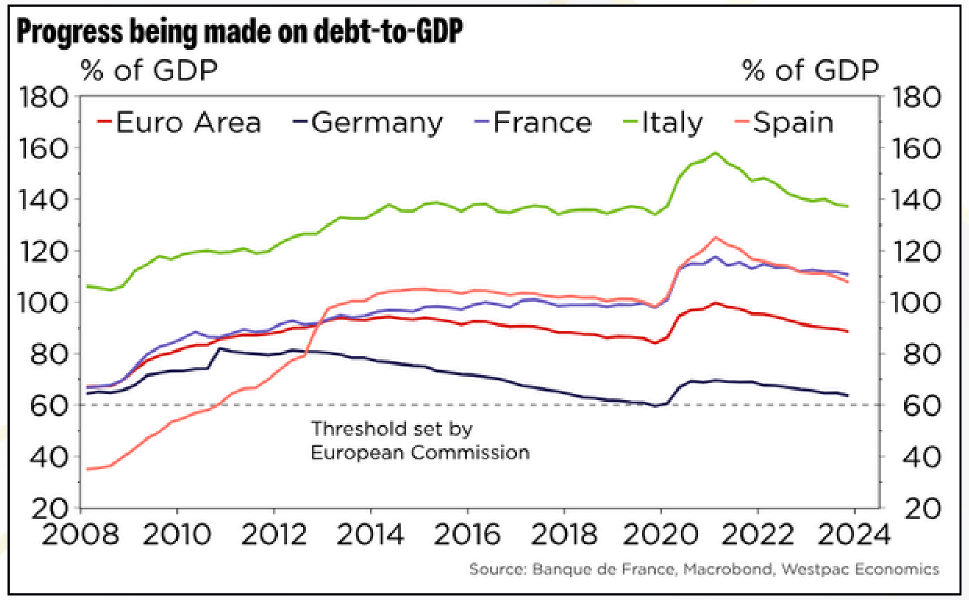
This extra spend is a real challenge for most European countries as they already **hold absolute debt which is bigger than how much they produce in a year (GDP).**

And **this gap between debt and GDP continues to widen due to:-**
declining working age populations.
in Poland and many southern countries like Italy & Portugal this is amplified by brain drain.
Cutting government spending on pensions and healthcare have largely been unsuccessful.

Europe's current low defence production capacity means that a lot of spending will result in higher imports. The European Commission estimates equipment investments to comprise **around 80% of imports**
.
Analysts at ING expect **gains of 0.1% and 0.2% of GDP for the eurozone as a whole for 2026 and 2027.**

What Europe can do to improve productivity:-
- Reduce regulation and let entrepreneurship thrive.
- Invest in AI to improve productivity.
- Improve Capital Markets.
- Better incentivize family planning.





India's Growth Story: A Balance Of Risk and Reward

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FDI & Capex

- **FDI Drop, Debt Up**: Q1 2023 **$16.6B → Q4 2024 $12.4B;** FY24 net FDI **$46B vs. $61B (FY23)**, boosting external debt.
- **Capex Cut:** FY25 down **12% YoY**, railways -**8**%, roads -**15**%, signaling fiscal consolidation.
- **Infra Steady**: Cement +**5%**, steel +**6%,** power +**7%**, diesel +**4.2%**, showing stable demand.

Consumption

- **Household spending is weak: 3.5% income rise** didn't lift demand; household loan growth **10% (Feb 2025) vs. 14% (Feb 2024).**
- **Autos & Travel Strong:** Motorbikes +**9%**, cars +**7.2%**, EVs **11.5% penetration;** air travel **+12% domestic, +8% international** (Q1 2025).
- **Retail & Digital Boom:** Credit card spends **$24.8B (Feb 2025)**, UPI **+14% YoY.**

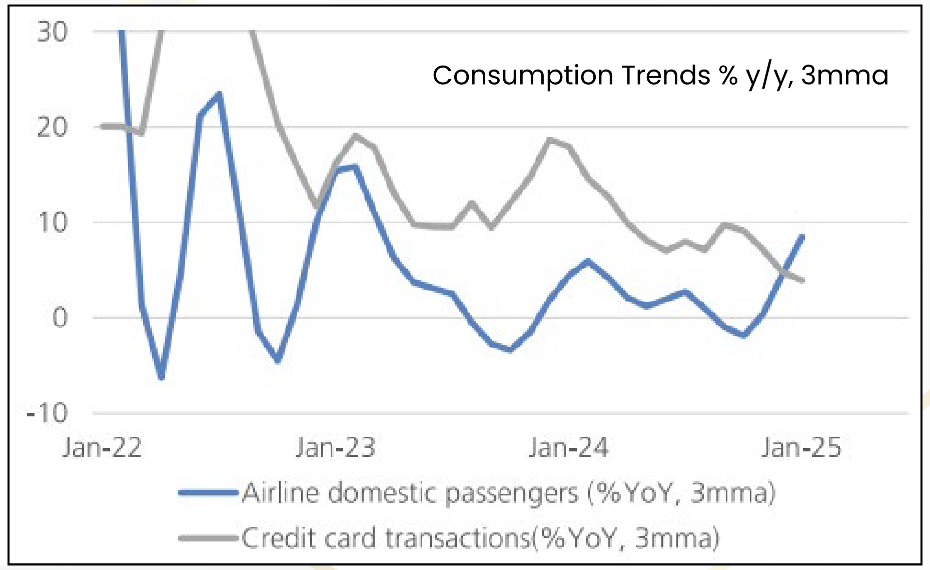
Markets & Valuation

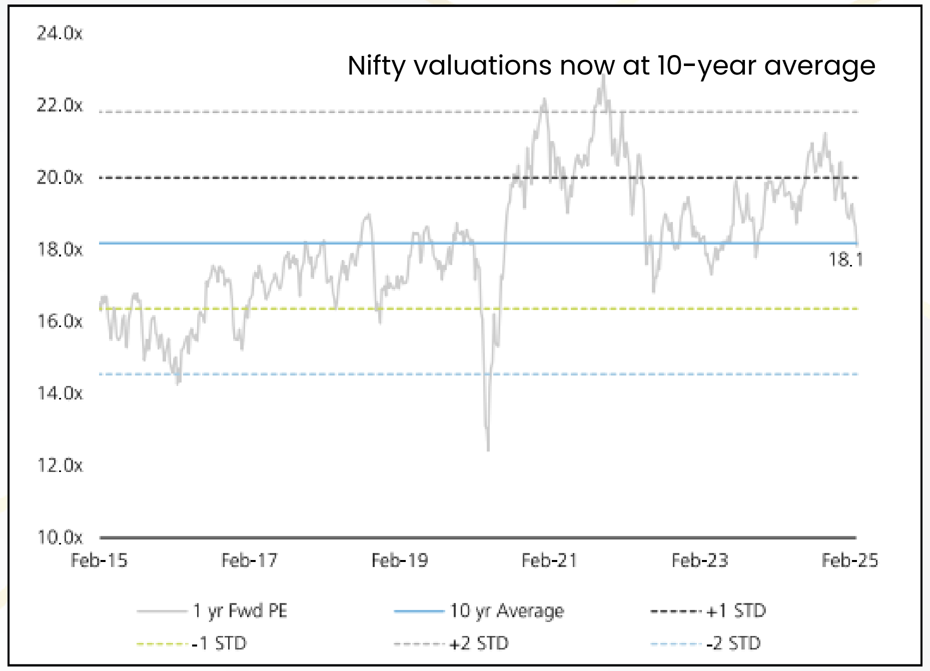
- **Market Drop:** Nifty -**15% since Sep 2024,** EPS growth **5% (FY25), 15.3% (FY26);** FIIs **-$9.8B (Q4 2024)**, DIIs **+$6.5B.**
- **Valuation & Sectors:** P/E **18.1x,** P/B **3.2x,** dividend **1.5%**; Financials: Loan growth **+11.5%**, NIMs **3.9%;** FMCG volume **+6.8%**, rural **+4.2%**; Pharma exports **+7%**.
- **Fixed Income & RBI:** 10Y G-Sec yield to fall from **7.1% (Mar 2025) to 6.25% (Sep 2025);** RBI rate cut **50 bps in 2H25,** first in **Aug 2025.**

Risks & Outlook

- **Trade Deficit & INR**: Deficit **$25-30B/month**, weak INR.
- **Fiscal Deficit: 4.5% of GDP (FY26)**, tax revenue **+9% YoY**, restricting spending.
- **Growth & Earnings:** GDP **6.3% (FY26)**, corporate earnings **+14**%, steady but cautious

Tight fiscal conditions but strong consumption and RBI support sustain GDP growth, signaling a positive long-term investment outlook.





Source: UBS, CEIC, Bloomberg as of March 25, 2025

Gold rally continues, but is a reversal imminent?

Historically, Gold prices rose when **interest rates were lower**, dollar value declined or when there was economic and geopolitical uncertainty in the market

What is happening now? Gold prices touched a new high in March 2025, cross the $3,000 level rallying >30% while S&P 500 dropped by ~15% during the same period while interest rates are high, dollar has not weakend. Global gold ETFs **AUM rose by 4.1%** for a 3rd consecutive month in March 2025 reaching $306 Bn. **In the last 25 years gold has significantly outplaced S&P500**

Factors affecting gold prices :

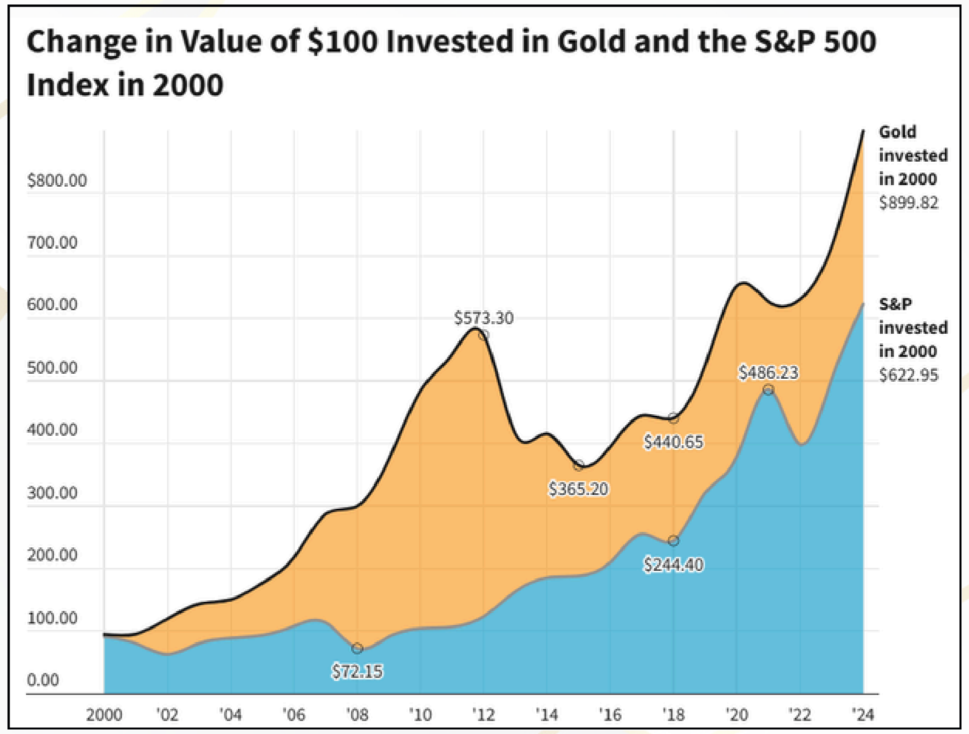
- Geopolitical instability : Fear of trump imposing tariffs
- Interest rates and inflation : Uncertainty of fed further cutting rates and inflation falling, which drives investors toward asset classes perceived as safe havens with genuine value
- Increased usage of gold in the growing technology sector
- Central banks purchase of gold : Global gold consumption hit 4,974 tones in 2024, with central banks purchasing more than 20% for the 3rd consecutive year
- Increased illegal mining (20% of total mining) adding concerns over ethical supply chain

Way forward: Our short – term out look is that gold will continue to rally before normalizing

- **Disruptive path** : Increased tariffs, trade tensions, stronger inflation, budget deficit expansion and increased economic growth risks will fuel gold buying as a debasement hedge. **Markets experience higher yields, a stronger US dollar and higher gold prices.**
- **Fed – focused path** : Even if trade tensions are contained and inflation remains under control, J.P. Morgan said the focus will shift to the Fed's easing cycle which is the more traditional outlook

How can you invest ?

- Physical gold purchase
- Invest in commodity futures
- Invest in gold ETFs like SPDR gold shares (GLD)
- Gold mining stocks : This comes with idiosyncratic equity risk
- Gold mining ETFs : VanEck Gold Miners ETF (GDX)



Crude Oil: Refining Shifts Eastward

The global oil industry is experiencing a significant eastward shift primarily in its downstream sector.This transformation is driven by increasing energy demand in Asia.

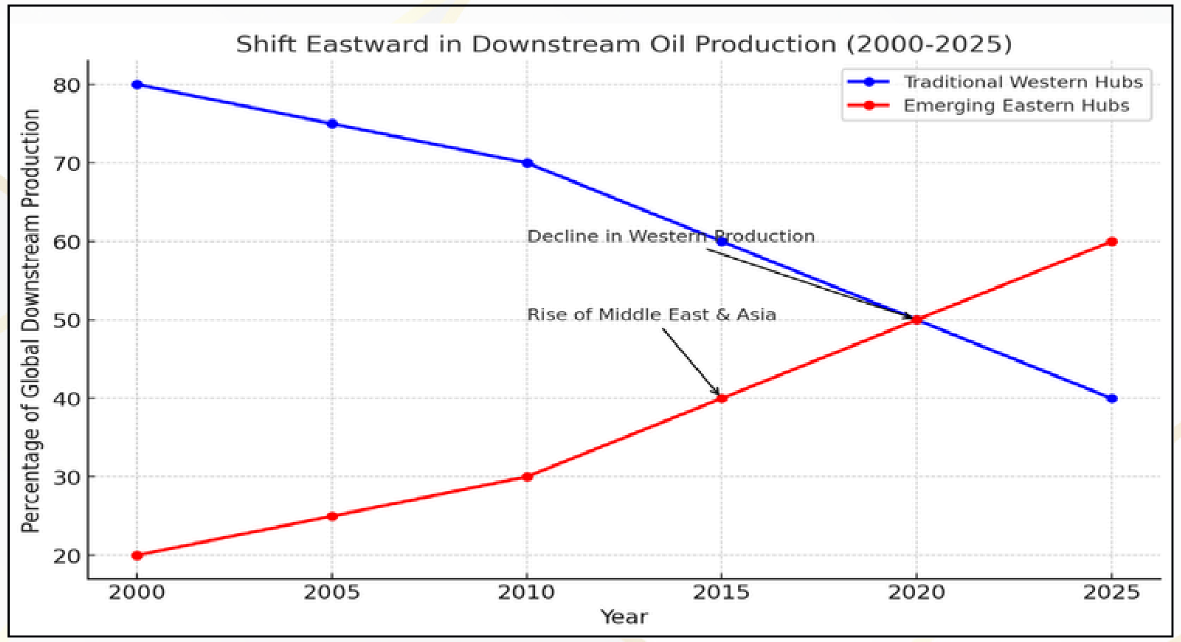
Upstream Sector: encompassing exploration and production of crude oil is now spearheaded by Non-OPEC countries such as the United States, Brazil, Guyana, Canada, and Argentina leading supply growth.

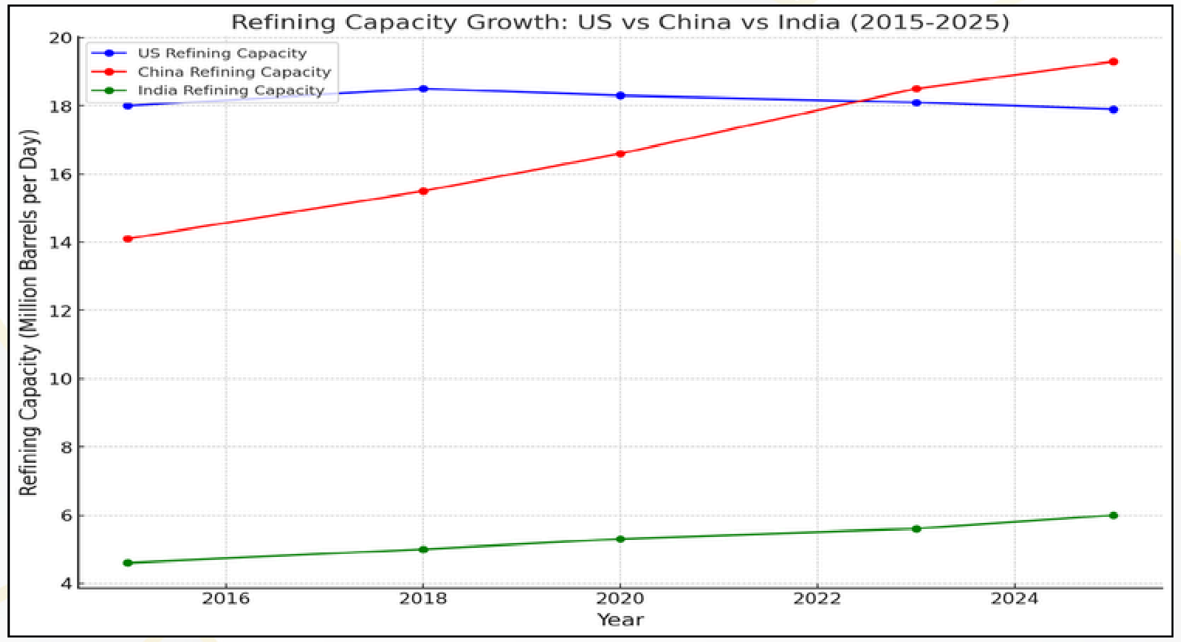
Midstream Sector: involving the transportation and storage of crude oil and refined products, is adapting to the changing production and consumption patterns via expansions of pipeline developments.

Downstream Sector: which includes refining and petrochemical production, is experiencing the most pronounced eastward shift.

Refining Capacity Growth: Approximately 90% of new refining capacity additions by 2050 are projected to be in the Asia-Pacific, Africa, and the Middle East -Puplicaitons.OPEC.

Country	Refining Capacity Growth	Capacity Projection	Key Companies	Challenges
India	+20% over next three years	6.1 million bpd	IOCL, BPCL, HPCL	Running at 100% capacity
China	+2.7% YoY	19.3 million bpd	Sinopec, CNPC,CNOOC	Potential overcapacity
United States	-3% by end of 2025	17.9 million bpd by 2025	MPC, VLO,XOM,CVX	Declining profit margins, closures





SOURCE: US ENERGY INFORMATION AGENCY(EIA)

US Space Launch Industry In Numbers

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Operational | **In Testing Phase** | **In Development**

Launcher	Electron	Falcon 9	Falcon Heavy	Starship	New Glenn	Vulcan*	Neutron	Nova	Terran R
Maker	Rocket Labs	SpaceX	SpaceX	SpaceX	Blue Origins	ULA	Rocket labs	Stoke Space	Relativity Space
LEO Payload Capacity	300 kg	22,800 kg	63,800 kg	>100,000 kg	50,000 kg	27,000 kg	13,000 kg	3,000 kg	23,000 kg
First Launch	2017	2012	2018	2025 (Expected)	2025 (Expected)	2025 (Expected)	2025 (Expected)	2025 (Expected)	2026 (Expected)
Commercial Launches (2024)	**16**	**134**	**2**	-	-	-	-	-	-
Launches (all-time)	**56**	**451**	**11**	-	-	-	-	-	-
Company revenue (2024)	436M		~13,100M**		Pre-revenue	N/A	436M	Pre-revenue	Pre-revenue

*The Vulcan is not a reusable rocket
**This is an estimated revenue figure sourced from Payload Research

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