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Market Outlook and Strategy

Q2 2024

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Fixed Income

MARKET OVERVIEW

BULLS OR BEARS

Q1 saw a dispersion of returns across indices with higher risk areas of the market outperforming, driven by spread tightening despite a rise in US Treasury yields. High quality areas of the market which are more sensitive to the move in rates saw mixed returns.

DEVELOPED MARKET FIXED INCOME

Q1 saw the gradual pricing out of some of the rate cut optimism that occurred during the end of 2023 which was due to stronger than expected growth and stickier inflation. US Treasury yields rose with the 10yr yield ending the quarter at 4.2%.

EMERGING MARKET FIXED INCOME

EM performed well with Sovereigns and Corporates returning 2.0% and 2.3% respectively over the quarter. This was driven by spread tightening particularly in the distressed HY bucket that saw a number of idiosyncratic names outperform.

GCC FIXED INCOME

GCC Fixed Income lagged broader EM, returning -0.1% over the quarter as GCC fixed income has a higher quality bias and HY outperformed IG.

NORTH AFRICA AND TURKEY

Egypt was one of the best performing counties over the quarter, due to significant UAE investment and an outsized IMF deal. Turkey lagged however partly due to upcoming local elections in April.

MARKET WATCH

Yields (%)	03/28/24	12/29/23
3-Month USD Libor	5.56%	5.59%
US Treasuries 2-Year	4.62%	4.25%
US Treasuries 10-Year	4.20%	3.88%
US Treasuries 30-Year	4.34%	4.03%
German Bunds 10-Year	2.30%	2.02%
Spreads (bps)	**03/28/24**	**12/29/23**
DM IG Corporates	93	122
DM HY Corporates	327	392
EM USD Sovereigns	342	384
EM USD Corporates	276	312
Returns (%)	**QTD**	**YTD**
EM USD Sovereigns	2.04%	2.04%
EM Local Sovereigns	(2.24%)	(2.24%)
EM USD Corporates	2.32%	2.32%
Middle East Composite	(0.02%)	(0.02%)
Sukuk	0.73%	0.73%

*EM USD Sovereigns= JPM EMBI Global Diversified Index, EM Local Sovereigns= JPM GBI- EM Global Diversified Index, EM USD Corporates= JPM CEMBI Diversified Index, Middle East Composite= JPM MECI Index, Sukuk= FTSE Sukuk Index

MARKET OUTLOOK

SUMMARY

Looking ahead we see the narrative for fixed income markets being driven by the 'optionality' of rate cuts, given that cuts aren't a necessity due to US economic strength. We anticipate cuts starting in June, helped by a Dovish tone coming from Powell's reaction to higher-than-expected inflation.

GROWTH

We expect growth this year to be lower than that of 2023 but still relatively high in the context of restrictive policy in most developed markets. US outperformance has been driven in part by fiscal stimulus and will likely continue.

MONETARY POLICY

Trends remain favorable for tightening, the median FOMC member's expectation is to cut rates remains three times for 2024.

SENTIMENT

Market conditions have turned somewhat less favorable since the start of the year which saw record EM Sovereign bond issuance in Q1. Rising Oil prices and geopolitical risks have reminded investors of the risk to the downside. Despite this we see good opportunities to take advantage of higher yields ahead of rate cuts.

VALUATIONS

Spreads have continued to tighten, particularly in EM, however despite the apparent rich valuations there is still further room to tighten in 2024. Spreads can remain supported with upside coming from distressed credits which still trade wide relative to history.

ASSET CLASS VIEWS

	Under Weight	Neutral	Over Weight
DM Sovereigns	○	○ →	●
DM IG Corporates	○	●	○
DM HY Corporates	○	●	○
EM USD Sovereigns	○	●	○
EM Local Sovereigns	○	●	○
EM USD Corporates	○	●	○
GCC	○	●	○
North Africa & Turkey	○	●	○

Equity

MARKET OVERVIEW

Equities continued their run into 2024 even with increasing yields in the backdrop as strength displayed by US economy continues to fuel the expectations of soft landing. Moving forward, two themes may continue to dominate headlines in 2024: 1) Fed monetary policy and the potential for rate cuts and 2) Geopolitics, especially Sino-US normalizing its relationship and Middle East conflicts. The S&P 500 Index returned +10.2%, the NASDAQ 100 Index returned 8.5%, Euro Stoxx 50 posted a return of +12.4%, and MSCI Emerging Markets Index posted a return of +1.6%. The SPACPUX Index posted a return of +1.3% for the quarter.

DM EQUITIES

Performance during 1Q2024 was strong in developed markets as strength in economic data was celebrated across the board. Japanese equities made a 34-year high, supported by optimism around economy and strong earnings momentum. Despite increasing yields during the quarter, S&P500 set its focus on improvement in consensus earnings on the back of strength in the economy. Valuations continued to climb higher in DM equities and are now trading slightly above their 5-year average.

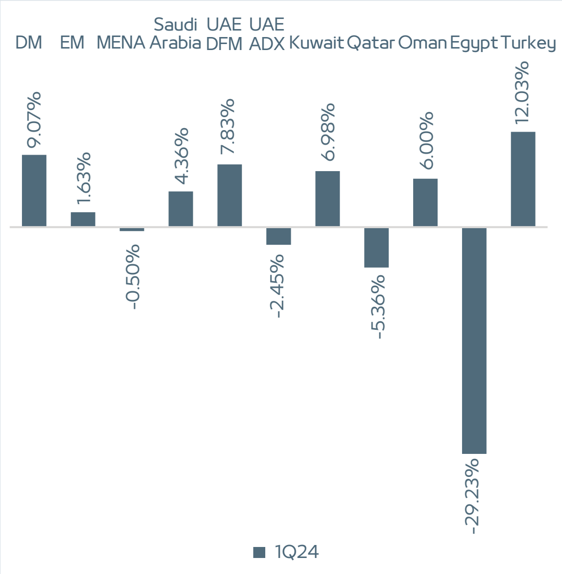
EM EQUITIES

EM equities continued to underperform US equities; YTD EM equities were only up +1.6% (vs. +10.2% for SPX Index and +8.5% for NASDAQ 100 Index). Emerging market valuations continue to remain suppressed and offer multiple investable opportunities. Within the EM space, the top performer during 1Q24, were Peru and Turkey.

MENA EQUITIES

Strong oil prices, growing economy and continued foreign inflows kept the momentum positive in MENA during 1Q24. Israel-Hamas conflict remains limited which provided comfort to investors. The top performers in the MENA region were Kuwait, Dubai Financial Market and Turkey .

PERFORMANCE OF KEY MARKETS



*Figures in USD, Total Return basis, Actual returns.

MARKET OUTLOOK

Data from US economy suggests slowing disinflation while labor market remains robust, fueling expectations of soft landing. The same will continue to support rally in US stock market which we expect may continue to lead the overall DM equities, along with Japan. Some caution might be warranted with expected rate cuts being pushed to 2H24 now and with continued economic strength, the path remains unclear. Overall, we continue to remain bullish on equities amid positive earnings momentum.

DM AND EM EQUITIES

The outlook for both DM and EM equities is favorable. DM equities, as mentioned above, will benefit from a lower discount rate, and a strong US consumer. With rate cuts being pushed towards second half, we believe the overhang on EM equities will persist as DXY strengthened again in 1Q24 after a weak 4Q23. Bull run in Gold, Copper, Oil may aid specific markets while valuations also offer attractive opportunities in pockets.

MENA EQUITIES

We remain optimistic on the MENA region where booming consumer sector and growing income per capita continues to play in the region's favor. Increasing oil prices provide additional impetus to the GCC region, particularly while we also expect continued foreign inflows to also support the rally. We see opportunities in Saudi Arabia and UAE, and continue to favor bottom-up domestic demand and infrastructure plays.

ASSET CLASS VIEWS

	Under Weight	Neutral	Over Weight
DM Equities	○	●	○
EM Equities	○	●	○
MENA Equities	○	○	●

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CONTACT US:

Mashreq Capital (DIFC) Ltd.
Al Fattan Currency House,
Tower 1, Floor 1, Office 111,
DIFC, Dubai, United Arab Emirates

Tel: **+971 4 424 4618**
Email: **MarketingTeam@mashreq.com**

www.mashreqcapital.ae