



# Mashreq Capital

## Market Outlook and Strategy

Q1 2024



# Fixed Income

## MARKET OVERVIEW

### BULLS OR BEARS

2023 was a year of redemption for bonds after two prior soft years. All the major benchmarks from safe-haven US treasuries to EM bonds posted positive returns as stronger than expected economic growth led to spread compression.

### DEVELOPED MARKET FIXED INCOME

Volatility signified developed markets' yields where US markets oscillated between strong economic data and expectations of rate cuts while bets on abolishment of YCC kept Japanese yields volatile. US10Y yields ended the year almost flat while US HY outperformed US IG.

### EMERGING MARKET FIXED INCOME

EM bonds witnessed a strong year with sovereigns and corporates posting a return of 11% and 9%, respectively. Spread compression contributed the most towards the return particularly as HY and distressed names rallied on the back of positive developments.

### GCC FIXED INCOME

GCC fixed income lagged the broader emerging market with investors preferring HY names over IG while supply in the region also remained high during 2023. JPM's GCC index posted a return of 6.1% during the year.

### NORTH AFRICA AND TURKEY

Turkey and Egypt were among the outperformers for last year with positive economic progress related news coming from both.

## MARKET OUTLOOK

### SUMMARY

2024 is expected to be dominated by central bank easing and a growth slowdown in the US. Within 1H, we expect markets to come to terms with inflation still being higher than Fed's target however as growth slowdown becomes prominent, bonds are expected to rally.

### GROWTH

Higher rates are expected to have a pronounced impact on growth of DM economies, particularly towards the latter part of the year. For EM, while China is likely to tread a similar path as 2023, we expect broader slowdown in other economies.

### MONETARY POLICY

The US Fed has finished hiking but has a cautious stance regarding policy easing until inflation comes down materially. With rates being restrictive and inflation coming down we expect rate cuts to commence in 2Q24. Select EM economies have already started cutting rates and we expect the trend to become broad based in 2024.

### SENTIMENT

Sentiment is expected to become increasingly positive for fixed income as we move deeper into the year and data start to display a slowdown in inflation and economic growth.

### VALUATIONS

We expect carry to be the main attraction for 2024 with current levels looking attractive for both EM sovereigns and corporate bonds.

## MARKET WATCH

Yields (%)	12/29/23	12/30/22
3-Month USD Libor	5.59%	4.77%
US Treasuries 2-Year	4.25%	4.43%
US Treasuries 10-Year	3.88%	3.87%
US Treasuries 30-Year	4.03%	3.96%
German Bunds 10-Year	2.02%	2.57%
Spreads (bps)	12/29/23	12/30/22
DM IG Corporates	98	130
DM HY Corporates	323	468
EM USD Sovereigns	384	453
EM USD Corporates	281	322
Returns (%)	QTD	YTD
EM USD Sovereigns	9.16%	11.09%
EM Local Sovereigns	6.93%	10.91%
EM USD Corporates	5.52%	9.08%
Middle East Composite	6.29%	6.11%
Sukuk	4.74%	6.50%

\*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

## 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

The fourth quarter of 2023 brought relief to investors as yields dropped, and equity markets rallied, in anticipation of a series of rate cuts in 2024. Two themes will 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 the Middle East conflicts. The S&P 500 Index returned +11.2%, the NASDAQ 100 Index returned 14.5%, Euro Stoxx 50 posted a return of +8.6%, and MSCI Emerging Markets Index posted a return of +7.5%. The SPACPIX Index posted a return of +6.1% for the quarter.

### DMEQUITIES

Performance during Q4 for DM equities was healthy, as markets subbed out their views of "higher for longer", with "higher for shorter" - markets are now pricing seven cuts from March 2024 till December 2024. During the quarter, the S&P 500 delivered the best returns. Valuations continued to climb higher in DM equities and are now trading slightly above their 5-year average.

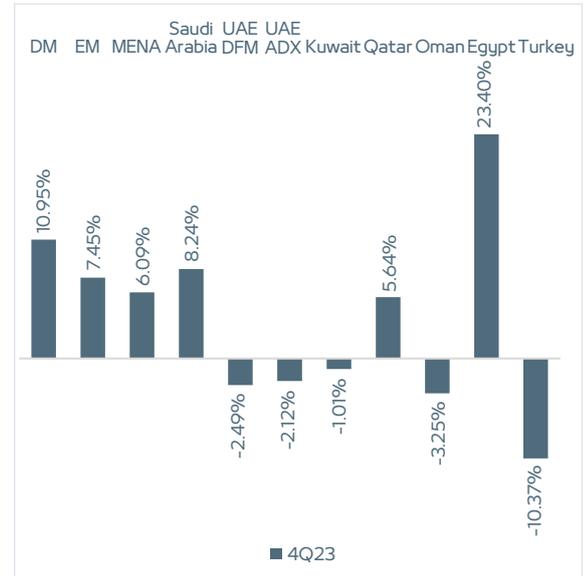
### EMEQUITIES

EM equities continued to underperform US equities; YTD EM equities were only up +7.0% (vs. +24.2% for SPX Index and +55.1% for NASDAQ 100 Index). Emerging market valuations continue to remain suppressed and offer multiple investable opportunities. Within the EM space, the top performer during 2023, were Egypt and Turkey.

### MENA EQUITIES

The sentiment during the latter half of Q4 was positive for MENA equities, as the market digested the spike in geopolitical tension between Israel and Hamas. The top performers in the MENA region were Egypt, and the Dubai Financial Market.

## PERFORMANCE OF KEY MARKETS



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

## MARKET OUTLOOK

Fresh data continues to suggest that the US economy continues to remain healthy. We expect the US economy to remain robust during 2024, as low gasoline prices and fiscal support initiatives continue to drive consumer spending. Although the market is factoring in rate cuts totaling approx. 150bps during 2024, the pace could be slower given the strength of the economy. We continue to remain bullish on equities, as we believe there is further room for upside.

### 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. Emerging markets, although riddled with their own specific issues at an individual level - offer attractive opportunities due to cheap valuations and favorable demographics. As US rates come off from their peak, and oil prices hover around \$75-80 handle, we expect some level of easing on EM funding costs and balance sheets.

### MENA EQUITIES

We are optimistic for the MENA region during 2024, as the region continues to benefit from growing income per capita, a booming consumer, energy sector expansion and net migration. Extension or escalation of the ongoing regional conflict is still a headline risk, which would weigh in on valuations. We see opportunities in Saudi Arabia, UAE and Qatar, 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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