



Mashreq Capital

Market Outlook and Strategy

Q3 2024



Fixed Income

MARKET OVERVIEW

BULLS OR BEARS

Q2 continued to see lower credit quality areas of the market outperforming, driven by spread tightening and carry. Long end U.S. Treasury yields trended higher over the quarter with the 10yr yield ending at 4.40%. High quality areas of the market which are more sensitive to the move in rates saw mixed returns.

DEVELOPED MARKET FIXED INCOME

The yield curve bear steepened over the quarter, resulting in relatively flat returns for US Investment Grade during the period. US High Yield outperformed investment grade due to higher spread carry.

EMERGING MARKET FIXED INCOME

EM indices performed well with EM Corporates returning 1.49% over the quarter. This was driven by spread tightening particularly in the B & CCC rated buckets that saw a number of idiosyncratic names outperform.

GCC FIXED INCOME

GCC Fixed Income performed positively but lagged broader EM, which is a result of the higher quality bias GCC fixed income has, given that HY outperformed IG this quarter.

NORTH AFRICA AND TURKEY

We continued to see significant primary issuance coming from Turkey which has on average been received well, as inflation within the country continues to trend lower, we expect these to outperform.

MARKET OUTLOOK

SUMMARY

Looking ahead we see global growth weakening and the disinflationary trends within Core CPI to continue. US elections are coming into view and pose to be a driver of volatility due to the risk of higher inflation with a Trump victory.

GROWTH

Global growth is targeted to be 3% in 2024, which is lower than 2023 but remaining relatively steady. However, risks remain that it could potentially undershoot now some data is suggesting the US economy is showing elements of cooling.

MONETARY POLICY

Trends for a more dovish policy stance are emerging with weaknesses in the labor market beginning to appear. The official US job openings rate has fallen from a peak of 7.4% in March 2022 to 4.9% in May.

SENTIMENT

Market conditions have turned somewhat less favorable since the start of the year which saw record EM Sovereign bond issuance. Geopolitical risks and election uncertainty have reminded investors of the risk to the downside. Despite this we see good opportunities to take advantage of higher yields.

VALUATIONS

Spreads have continued to tighten, however despite the apparent rich valuations, index level spreads can remain supported with upside coming from distressed credits which still trade wide relative to history.

MARKET WATCH

Yields (%)	6/28/2024	12/29/2023
SOFR 3-Month	5.32%	5.33%
US Treasuries 2-Year	4.75%	4.25%
US Treasuries 10-Year	4.40%	3.88%
US Treasuries 30-Year	4.56%	4.03%
German Bunds 10-Year	2.50%	2.02%
Spreads (bps)	6/28/2024	12/29/2023
DMIG Corporates	95	122
DMHY Corporates	331	392
EM USD Sovereigns	391	384
EM USD Corporates	267	312
Returns (%)	QTD	YTD
EM USD Sovereigns	0.30%	2.34%
EM Local Sovereigns	(1.43%)	(3.64%)
EM USD Corporates	1.49%	3.85%
Middle East Composite	0.48%	0.46%
Sukuk	0.86%	1.59%

*Date format: (MM/DD/YYYY)

*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	●	●	●
DMIG Corporates	●	●	●
DMHY Corporates	●	●	●
EM USD Sovereigns	●	●	●
EM Local Sovereigns	●	●	●
EM USD Corporates	●	●	●
GCC	●	●	●
North Africa & Turkey	●	●	●

*No change in the asset class views from Q2

Equity

MARKET OVERVIEW

The equity market continued its run in 2Q24 amid a volatile backdrop where market expectations regarding rate cuts by US Fed kept fluctuating, dictated by mixed US economic data. Moving forward, along with US Fed's stance, upcoming US elections will also cast their shadow on market's performance. Geopolitics will continue to remain a concern as conflict in middle east lingers on. The S&P 500 Index returned +4.5%, the NASDAQ 100 Index returned 7.8%, Euro Stoxx 50 posted a return of -1.25%, and MSCI Emerging Markets Index posted a return of 5.1%. The SPACPUX Index posted a return of -4.6% for the quarter.

DMEQUITIES

After having a stellar run from Nov'23 to Mar'24, developed markets took a breather at the start of the quarter as strong economic data dwindled down expectations of rate cuts by Fed this year. However, dovish commentary from US Fed along with strong earnings growth brought the momentum back, leading S&P to close the quarter up by 4.5%. Elsewhere, Europe and Japan had a disappointing quarter, down 1.3% and 6.1%, respectively.

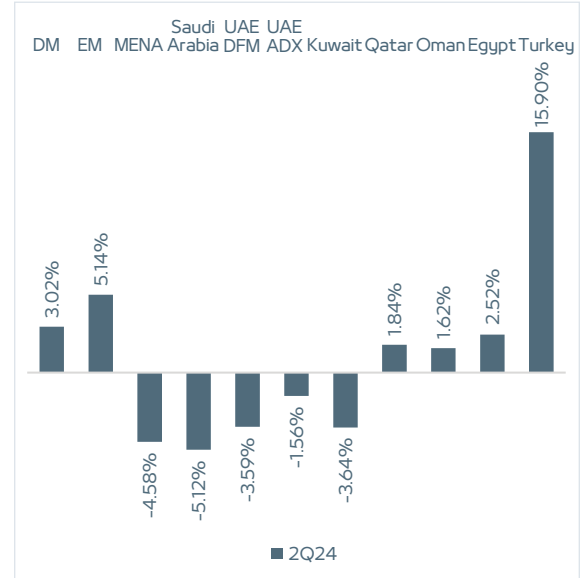
EMEQUITIES

EM equities outperformed US equities led by China, India, Taiwan, Turkey, and South Africa. China performed on the back of better-than-expected earnings turnaround and steady improvement in property market. Continued economic growth along with inflows on the back of increasing weight in Global EM index led India to be the among the best performing EM markets.

MENA EQUITIES

MENA equities were down by 4.6% for 2Q24 with KSA, Dubai and Abu Dhabi down by 5.1%, 3.6% and 1.6%, respectively, as earnings growth slowed down in 1Q24, exacerbated by continued geopolitical tensions and pressure on oil prices.

PERFORMANCE OF KEY MARKETS



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

MARKET OUTLOOK

We remain constructive on equity markets where continued economic strength and expected rate cuts will favor the market. Volatility might remain high as expectations oscillate between 'hard landing' and 'no landing' with US economic data points dictating moves. An additional factor will be the upcoming US elections which will add further impetus to volatility. That said, earnings growth is expected to remain strong and will continue to be the driving force behind the 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. For EM equities, even though DXY strengthening might be a headwind, but strong local dynamics, particularly in heavyweights like China, India, South Africa will continue to drive performance. The valuations in the region continue to offer attractive pockets of opportunities.

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. The structural reasons for growth are still present which will help in providing support to the market, particularly in KSA and UAE hence we continue to favor bottom-up domestic demand and infrastructure plays. Oil prices being under pressure will be an overhang on the sentiment however, we don't expect an outsize drop in prices while non-Oil GDP will provide support as well. Outside GCC, continued progress on reforms in Turkey and Egypt may continue to lead the returns.

ASSET CLASS VIEWS

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

*No change in the asset class views from Q2



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