



Mashreq Capital

Market Outlook and Product Strategy

Q4 2024



Fixed Income

MARKET OVERVIEW

BULLS OR BEARS

Q3 continued to see lower credit quality areas of the market outperforming, driven by spread tightening and carry. US Treasury yields moved lower across the curve and underwent bull steepening. The 10yr yield ended the quarter at 3.8%, down from 4.4% in June.

DEVELOPED MARKET FIXED INCOME

As the US Yield curve moved lower and spreads within HY moved tighter, both IG and HY performed positively over the quarter, returning 5.2% and 5.3% respectively.

EMERGING MARKET FIXED INCOME

EM indices performed well with EM Corporates returning 5.27% and Sovereigns returning 7.4% over the quarter. This was driven by spread tightening particularly in the B & CCC rated buckets that saw a number of idiosyncratic names outperform.

MENA FIXED INCOME

MENA Fixed Income performed positively, returning 5.7% for the quarter but lagged broader EM due to HY outperforming and MENA being a higher credit quality region. Following a strong rally earlier in the year Turkey lagged broader EM HY, conversely Morocco and Egypt were out-performers during the quarter helped by attractive valuations and idiosyncratic events.

*IG (Investment grade), HY (High Yield), EM (Emerging market)

MARKET OUTLOOK

SUMMARY

Looking ahead we see a soft landing and a goldilocks scenario becoming ever so more likely within the US, which is supported by rate cuts, a cooling of energy prices and a gradual slowdown in growth and inflation.

GROWTH

Global growth is targeted to be 3% in 2024, which is lower than 2023 but remaining steady. Downside risks remain longer term given the rise in the possibility of additional tariffs which have been proposed by former President Trump.

MONETARY POLICY

The Fed cut by 50bps at September's FOMCs meeting, marking the start of its easing policy. There was a preference by members to maintain the strength of the labor market which in recent months has started to show signs of weakness.

SENTIMENT

The positive backdrop has been supported by an active primary market with several HY issuers coming from Global EM receiving strong demand from investors. Upgrades have also added to the positive technicals given this year we have seen the highest net positive rating actions in over a decade.

VALUATIONS

Spreads have moved close to their 5-year tight in both sovereign and corporate spaces, despite appearing optically expensive EM fixed income still offers attractive relative value compared to developed markets.

MARKET WATCH

Yields (%)	September 30, 2024	December 29, 2023
SOFR 3-Month	4.59%	5.33%
US Treasuries 2-Year	3.64%	4.25%
US Treasuries 10-Year	3.78%	3.88%
US Treasuries 30-Year	4.12%	4.03%
German Bunds 10-Year	2.12%	2.02%
Spreads (bps)	September 30, 2024	December 29, 2023
US IG	89	99
US HY	295	323
Emerging Markets	247	297
Emerging Markets: MENA	149	185
Global Agg Sukuk	78	77
Returns (%)	QTD	YTD
*US IG	5.84%	5.32%
*US HY	5.28%	8.00%
*Emerging Markets	5.82%	8.17%
*Emerging Markets: MENA	5.13%	6.41%
*Global Agg Sukuk	4.46%	5.03%

*US IG = Bloomberg US Corporate IG Index, USHY = Bloomberg U.S. Corporate High Yield Index, Emerging Markets = Bloomberg Emerging Market USD Aggregate Index, Emerging Markets: MENA = Bloomberg Emerging Market USD MENA Aggregate Index, Global Agg Sukuk Index = Bloomberg Global Agg USD Sukuk Index.

ASSET CLASS VIEWS

	Under Weight	Neutral	Over Weight
US Treasuries	●	●	●
US IG	●	●	●
US HY	●	●	●
Emerging Markets: USD	●	●	●
MENA: USD	●	●	●
Global Sukuk: USD	●	●	●

*No change in the asset class views from Q3 2024

Equity

MARKET OVERVIEW

The equity market continued its run in 3Q24 supported by increasing expectations of soft landing with softening in inflation and labor market leading US Fed to decrease interest rates by 50bps. Trajectory of US macroeconomic data will be critical in determining the future direction of market where the base case remains a soft landing. Geopolitics has flared up recently and will continue to cast shadow over market performance, along with upcoming US elections. The S&P 500 Index returned +5.6%, the NASDAQ 100 Index returned 1.5%, Euro Stoxx 50 posted a return of 5.7%, and MSCI Emerging Markets Index posted a return of 8.7%. The SPACPUX Index posted a return of 7.3% for the quarter.

DMEQUITIES

DM markets, particularly US, had a good 2Q24 where supportive narrative continued to lift the market. The rate cut cycle commenced with US Fed decreasing rates by 50bps, citing inflation moving towards the target with a stable job market. Expectations of soft landing gained more ground, leading to S&P500 closing the quarter up by 5.6%. Elsewhere, Europe and Japan posted good returns of 5.7% and 8.7%, respectively.

EMEQUITIES

EM Equities outperformed DM equities led by China as PBoC implemented comprehensive monetary easing along with urgent policy action to uplift the economy. Thailand posted a return of 12.5% during the quarter, buoyed by improved political stability and increased economic activity following elections. Weakening dollar also helped the overall region with MSCI EM posting a return of 8.8%.

MENA EQUITIES

MENA Equities posted a return of 7.2% led by UAE where optimism surrounding some index heavy names took the index higher. Qatar also made a comeback during the quarter, posting a return of 8.0%, turning the YTD return positive 4.1%.

*DM (Developed markets, EM (Emerging market), MSCIEM (MSCI Emerging Markets Index), PBoC (The People's Bank of China)

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 'soft 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, an overhang of escalating geopolitical tensions in Middle East remains and can adversely impact market performance.

DM AND EM EQUITIES

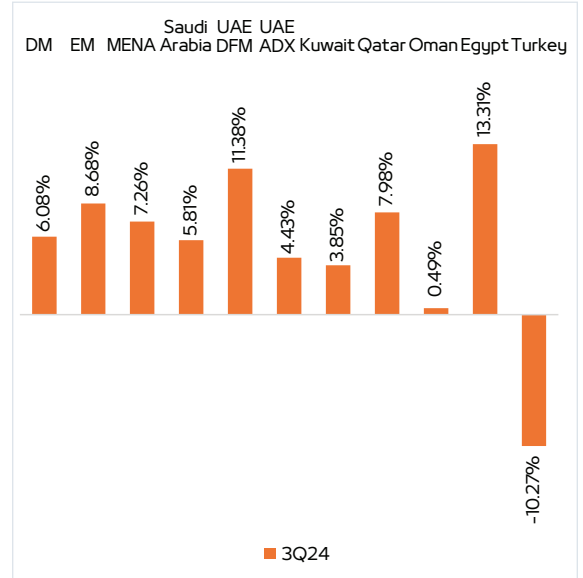
The outlook for both DM and EM equities is favorable. DM equities, as mentioned above, will benefit from a lower discount rate, and a strong US consumer. For EM equities, apart from economic strength, additional impetus will be weakening USD. The valuations in the region continue to offer attractive 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. Geopolitics remains a major concern, and any escalation will have an impact on performance. Outside GCC, continued progress on reforms in Turkey and Egypt may continue to lead the returns.

*MENA (Middle East and North Africa), KSA (Kingdom of Saudi Arabia)

PERFORMANCE OF KEY MARKETS



*Figures in USD - Total return basis, actual returns.

*UAEDFM (Dubai Financial Market), UAE ADX (Abu Dhabi Securities Exchange)

*Date: 30th September 2024

ASSET CLASS VIEWS

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

*No change in the asset class views from Q3 2024

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