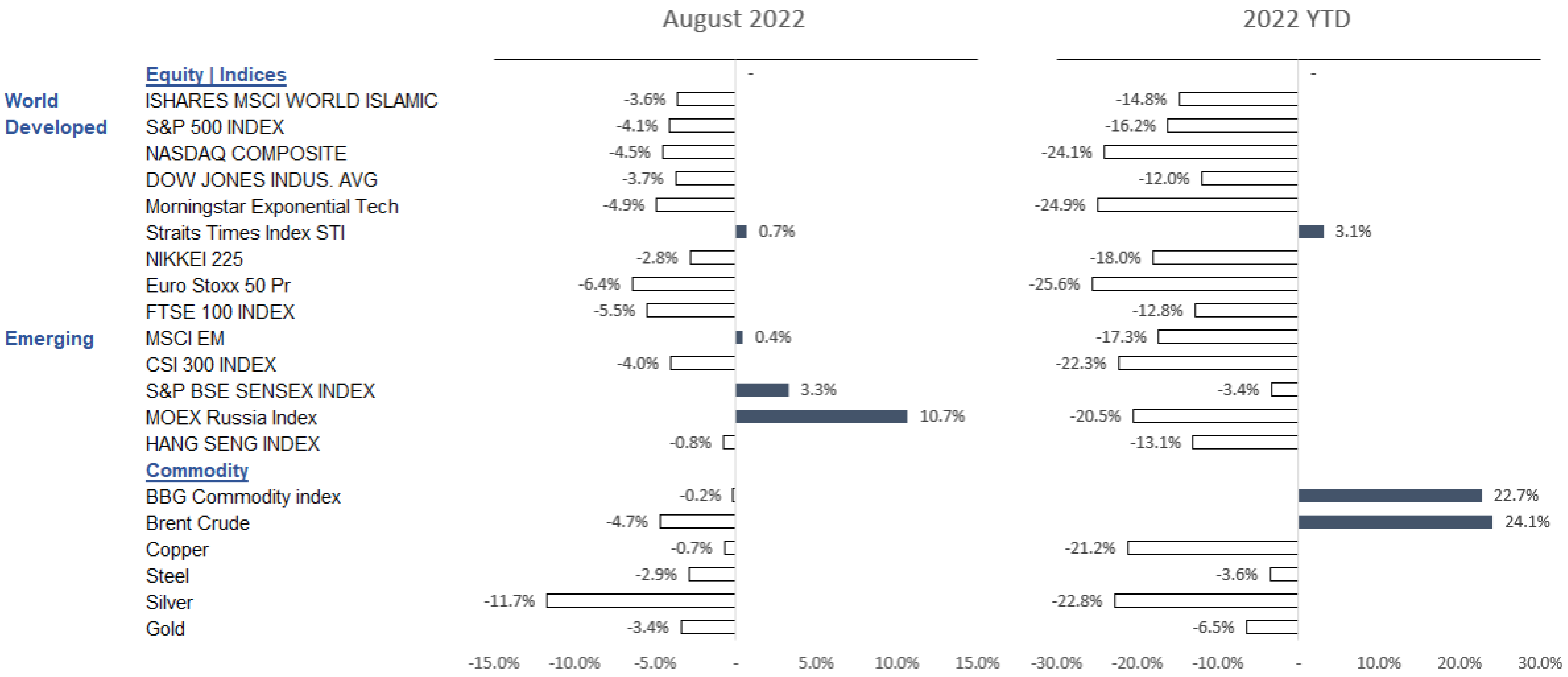
VINDICATED… SO FAR… AND A PEAK DOWN THE ‘RABID’ HOLE

Macro and Market Update

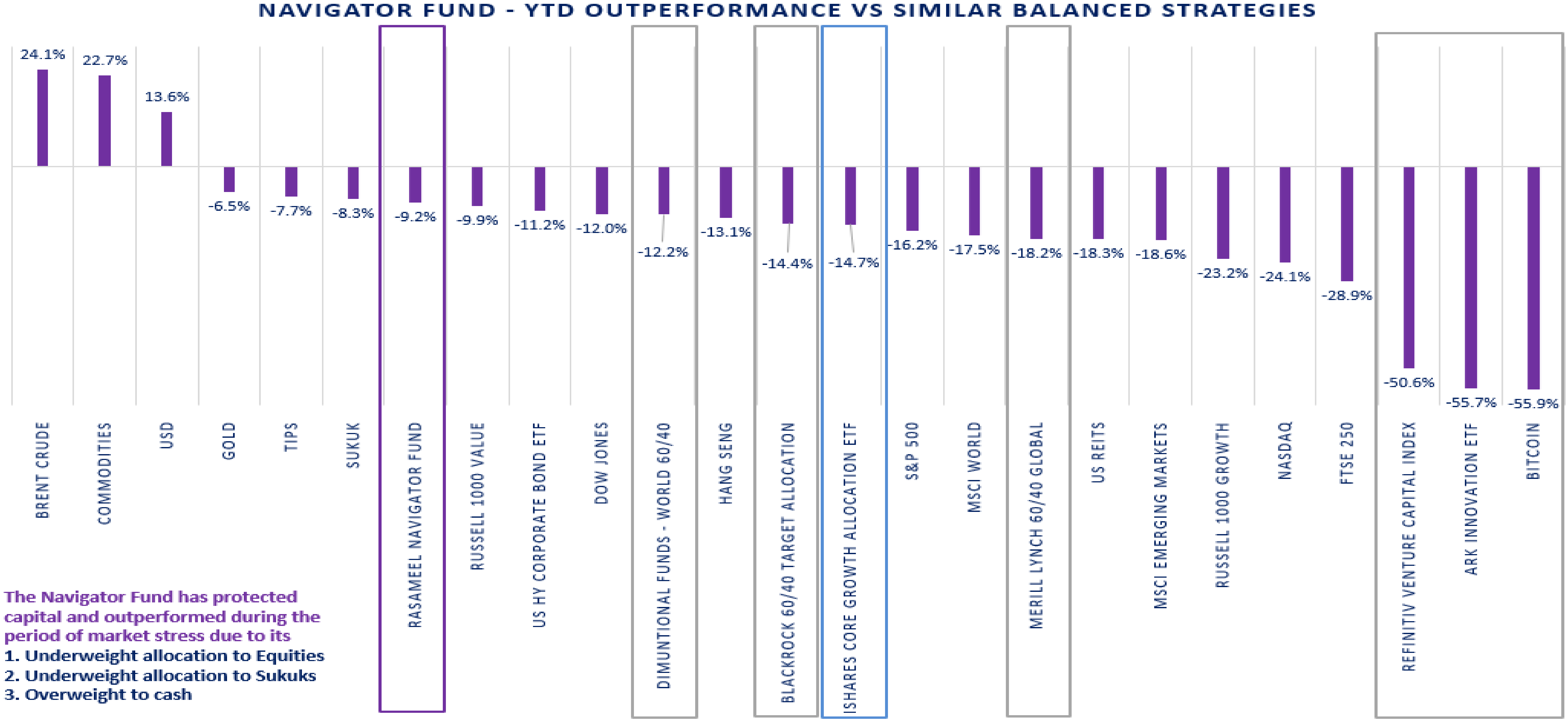
September 2022

إدارة الأصول
Asset Management
RASAMEEL

Global Market update – August 2022



Navigator Fund vs International peers – YTD performance



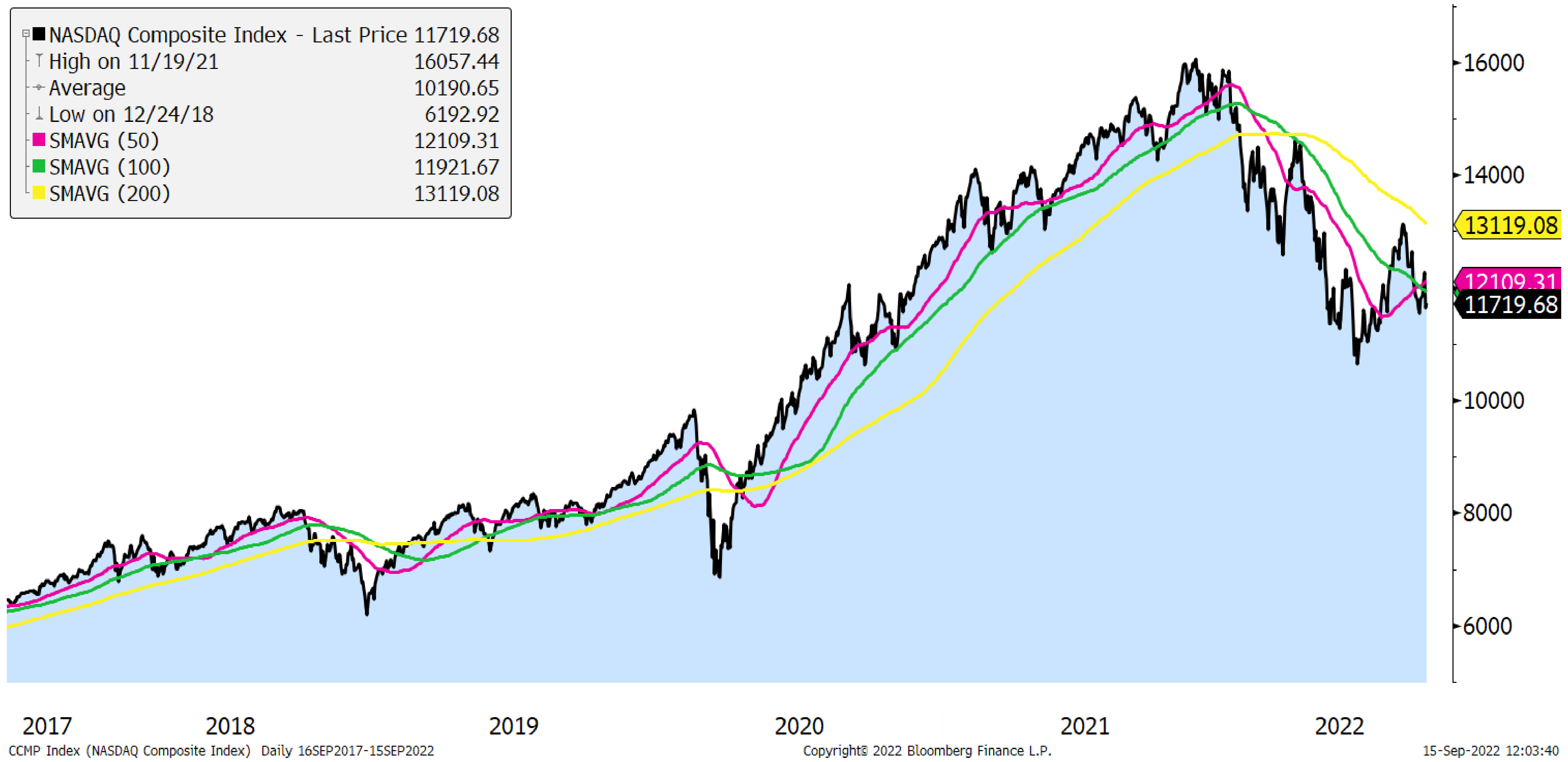
The Navigator Fund has protected capital and outperformed during the period of market stress due to its
1. Underweight allocation to Equities
2. Underweight allocation to Sukuks
3. Overweight to cash

Reported numbers as of 31st August 2022

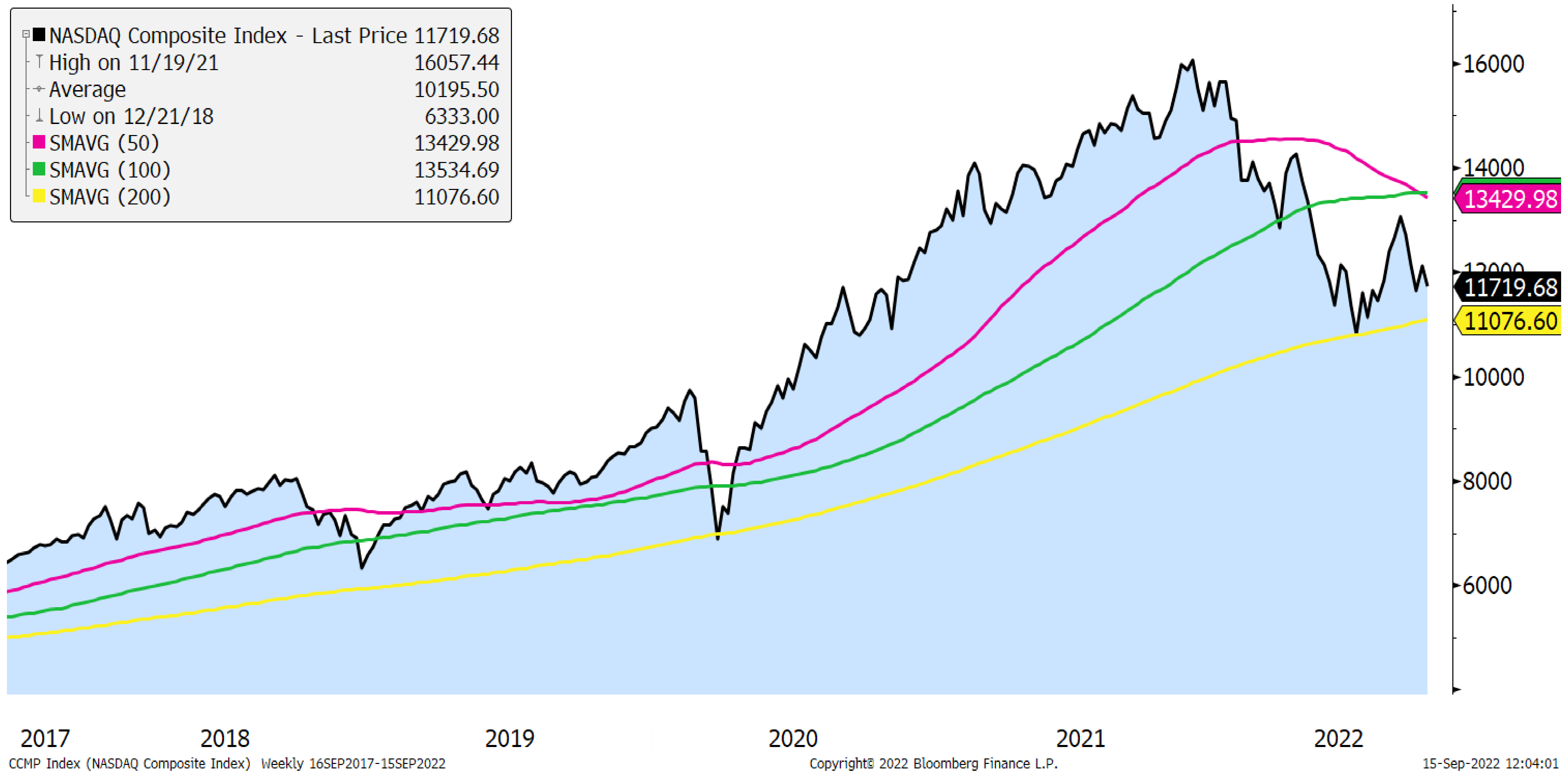
Nasdaq Technicals – Failed to breakout

Will it fall through the support of the 200wma?

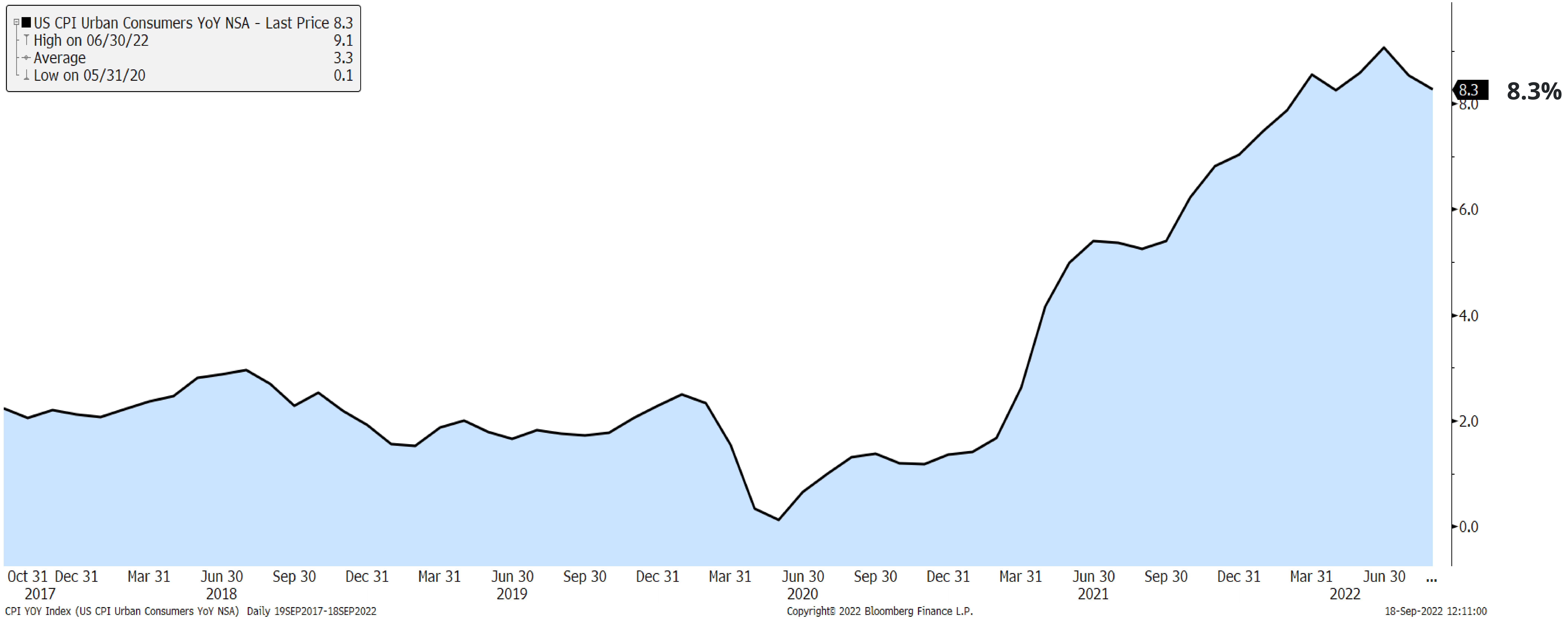
Nasdaq – Daily averages



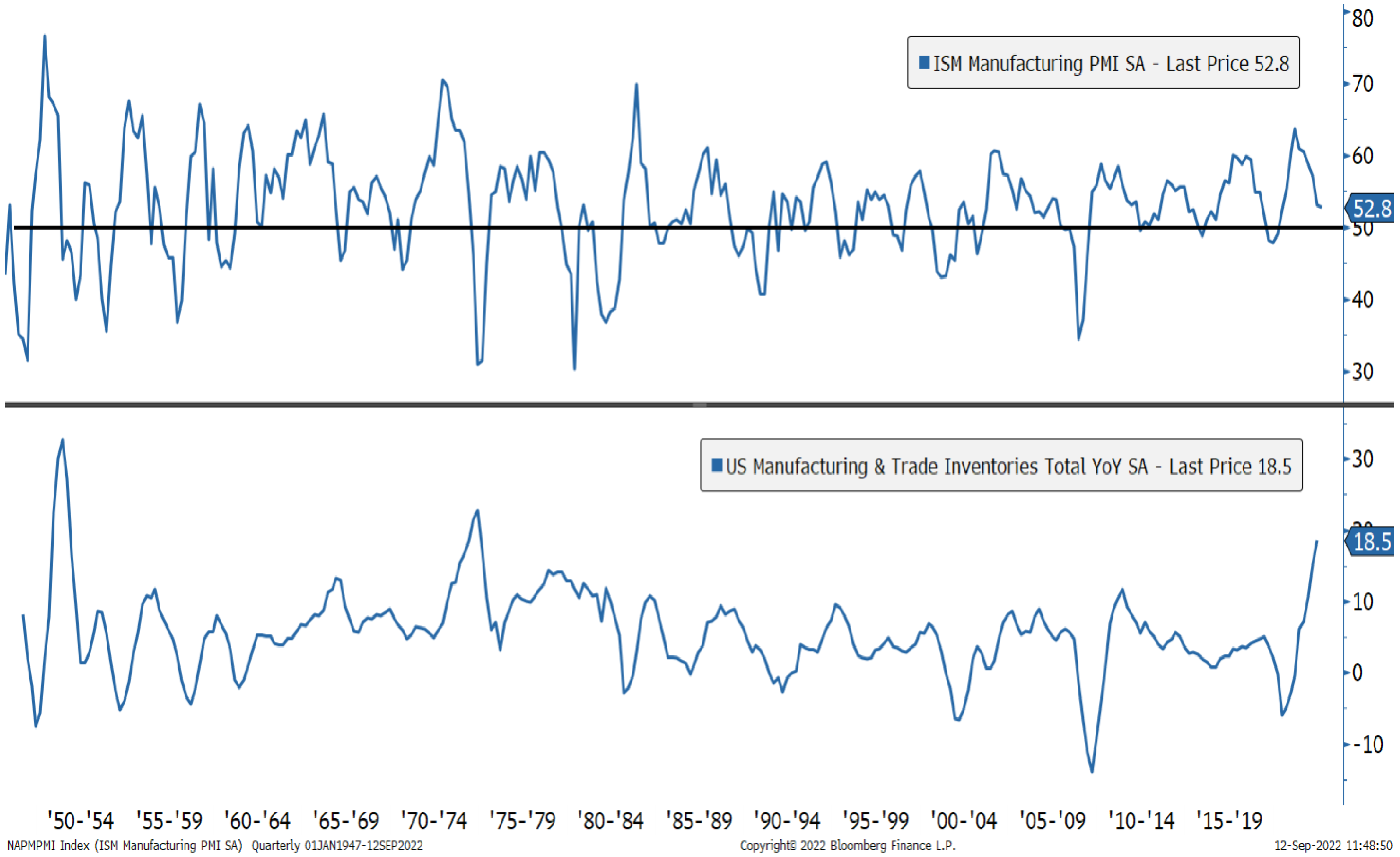
Nasdaq – Weekly averages



Higher than expected August CPI rattled markets, pushed expectations of a 75bps hike in September to 100%



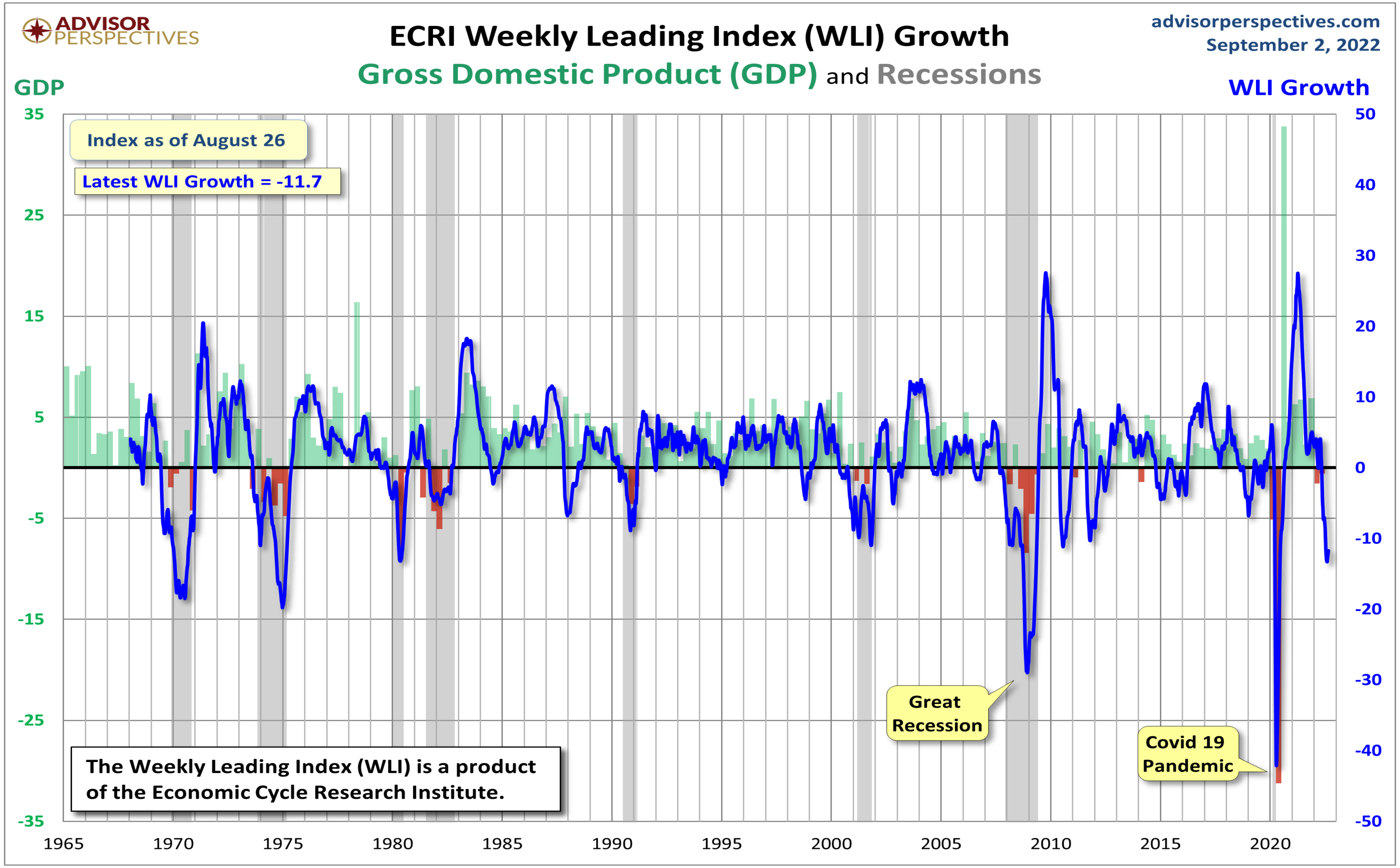
Economic Data continues to weaken, and we expect it to weaken further in 2H22 and 2023



ISM weakening

Manufacturing and Trade Inventory building up

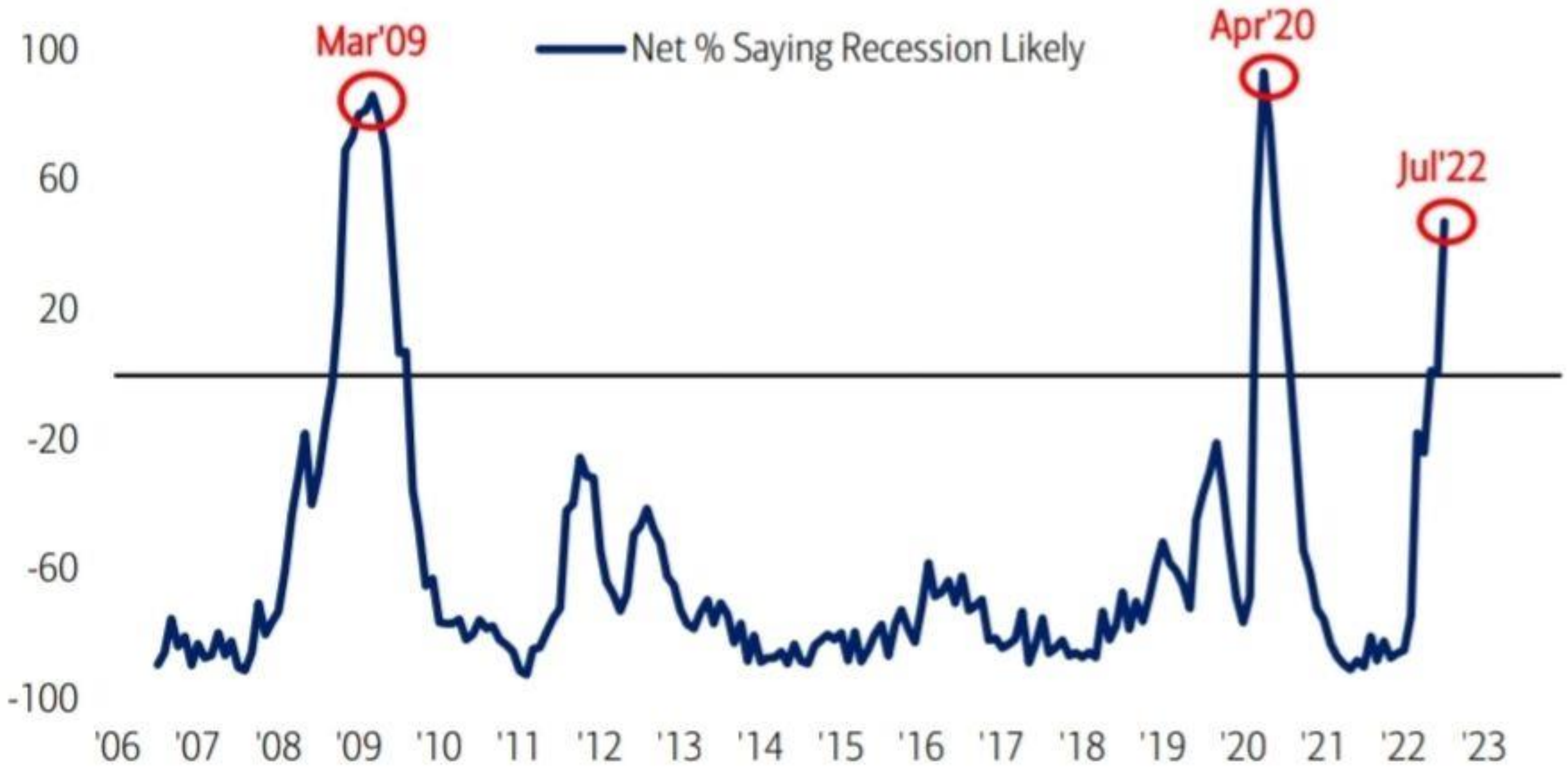
ECRI Leading indicator



Recession is now consensus

Chart 1: Recession now consensus

Net % Saying Recession Likely



Source: BofA Global Fund Manager Survey

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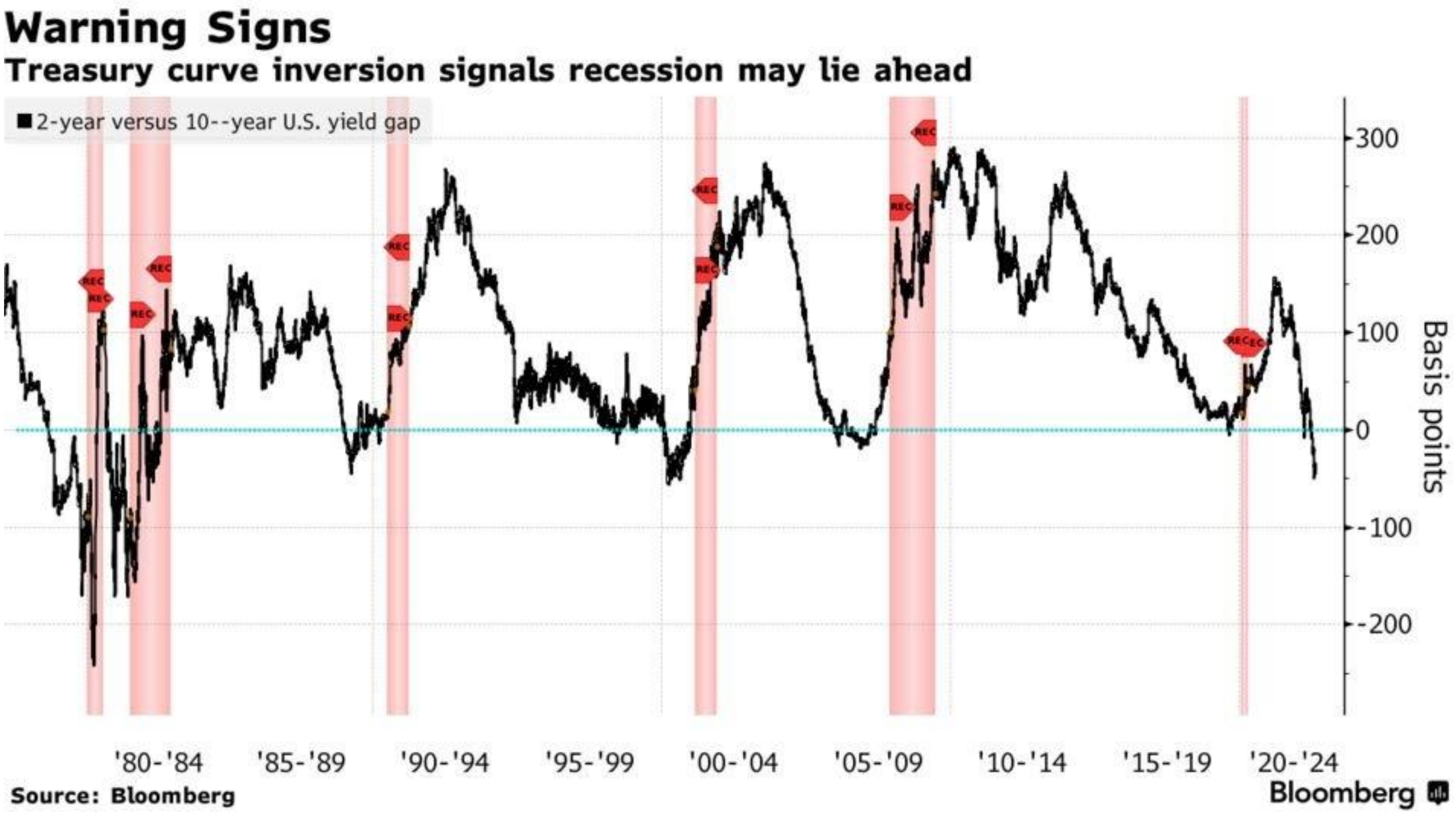
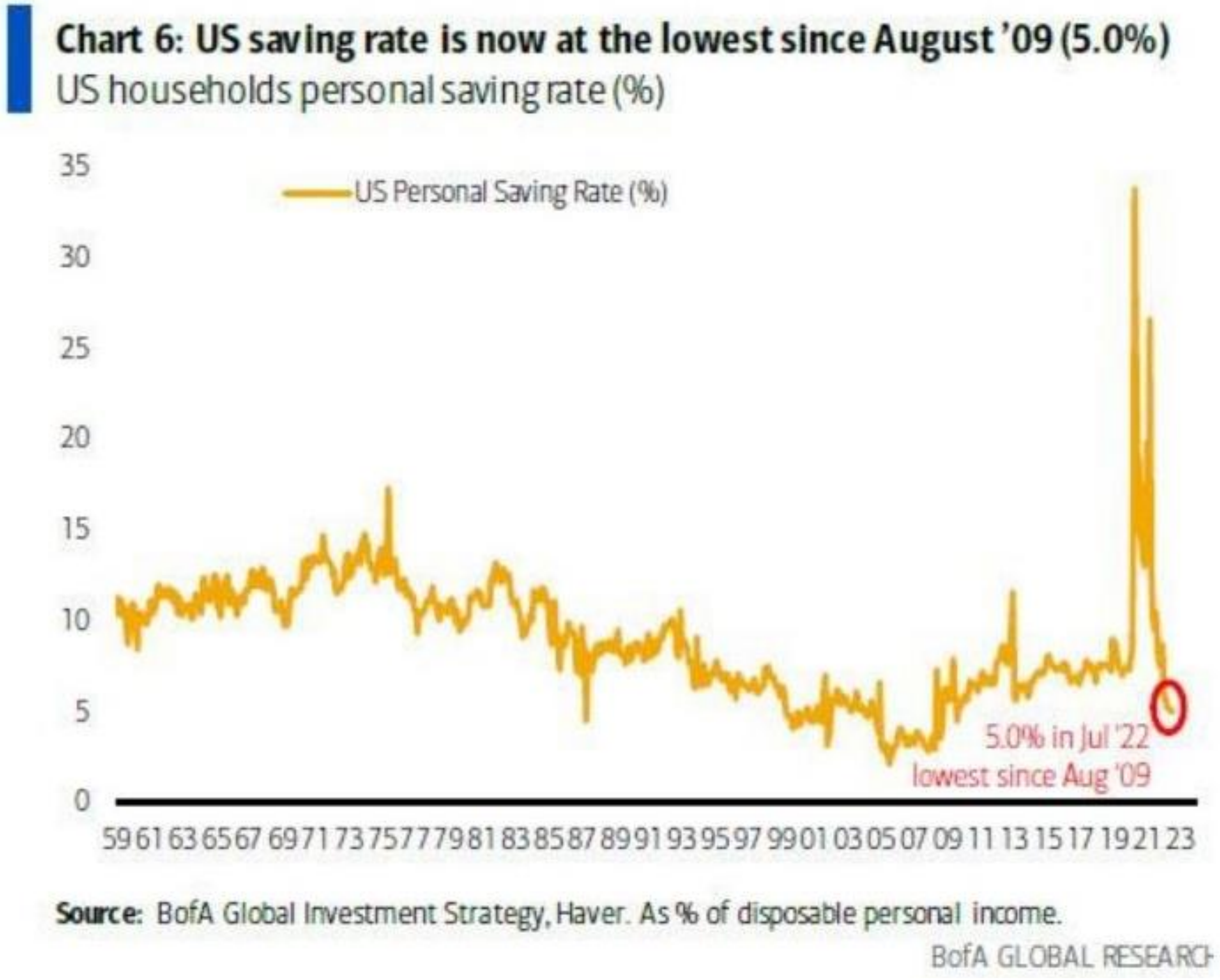
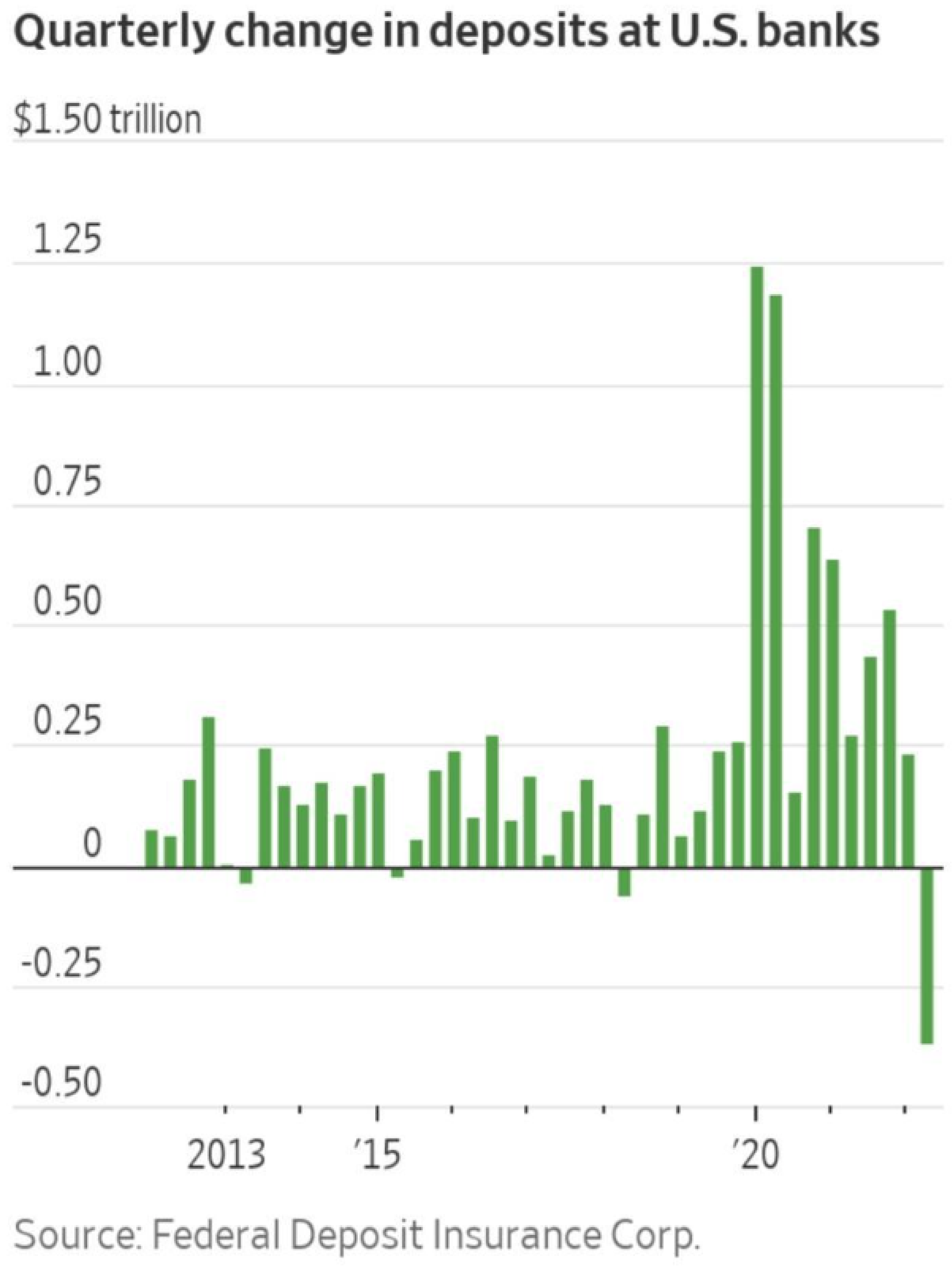
2-10 curve inversion



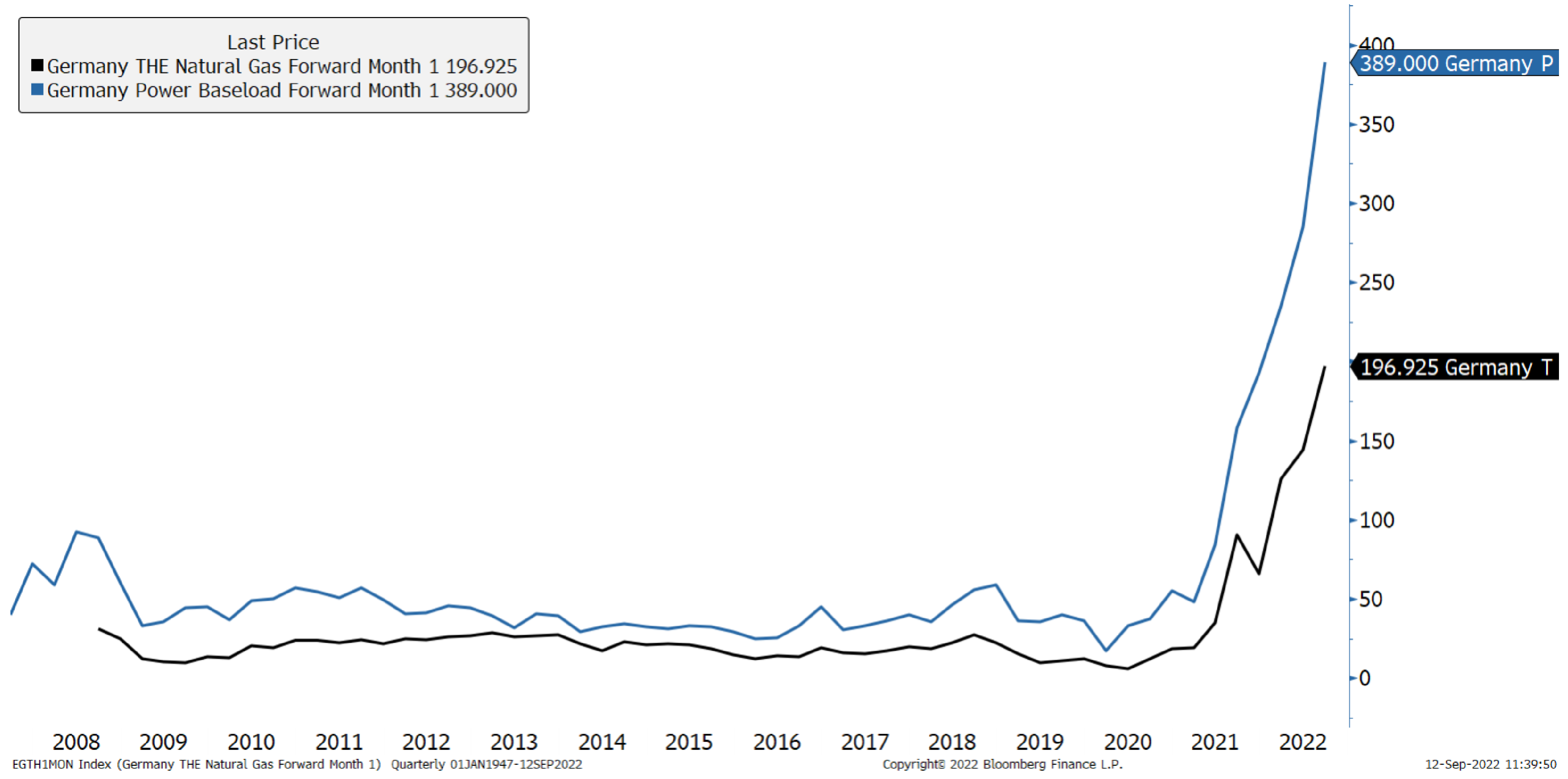
Short term yields continue to rise

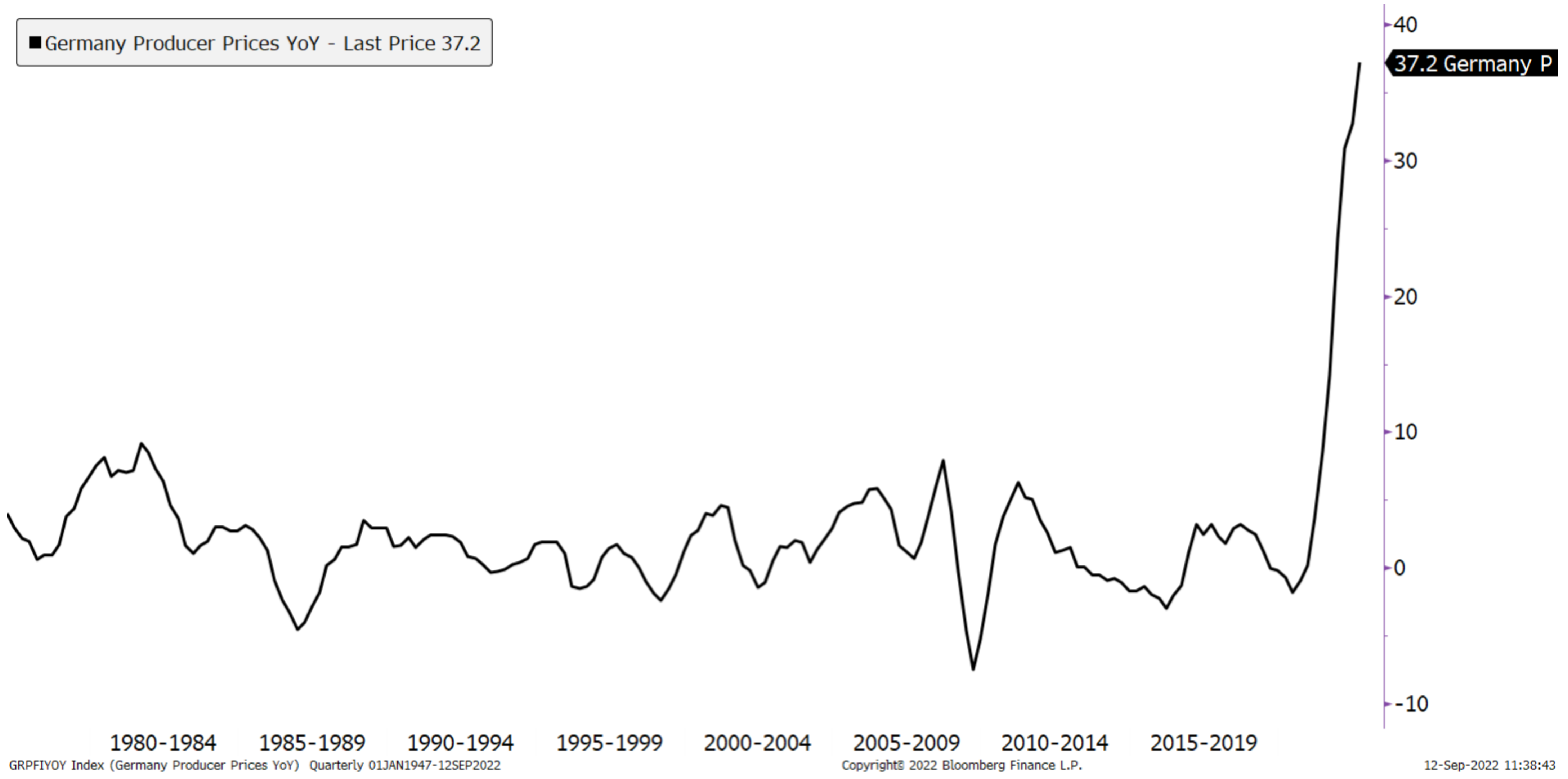
Stimulus driven high savings are evaporating in this current high inflation environment



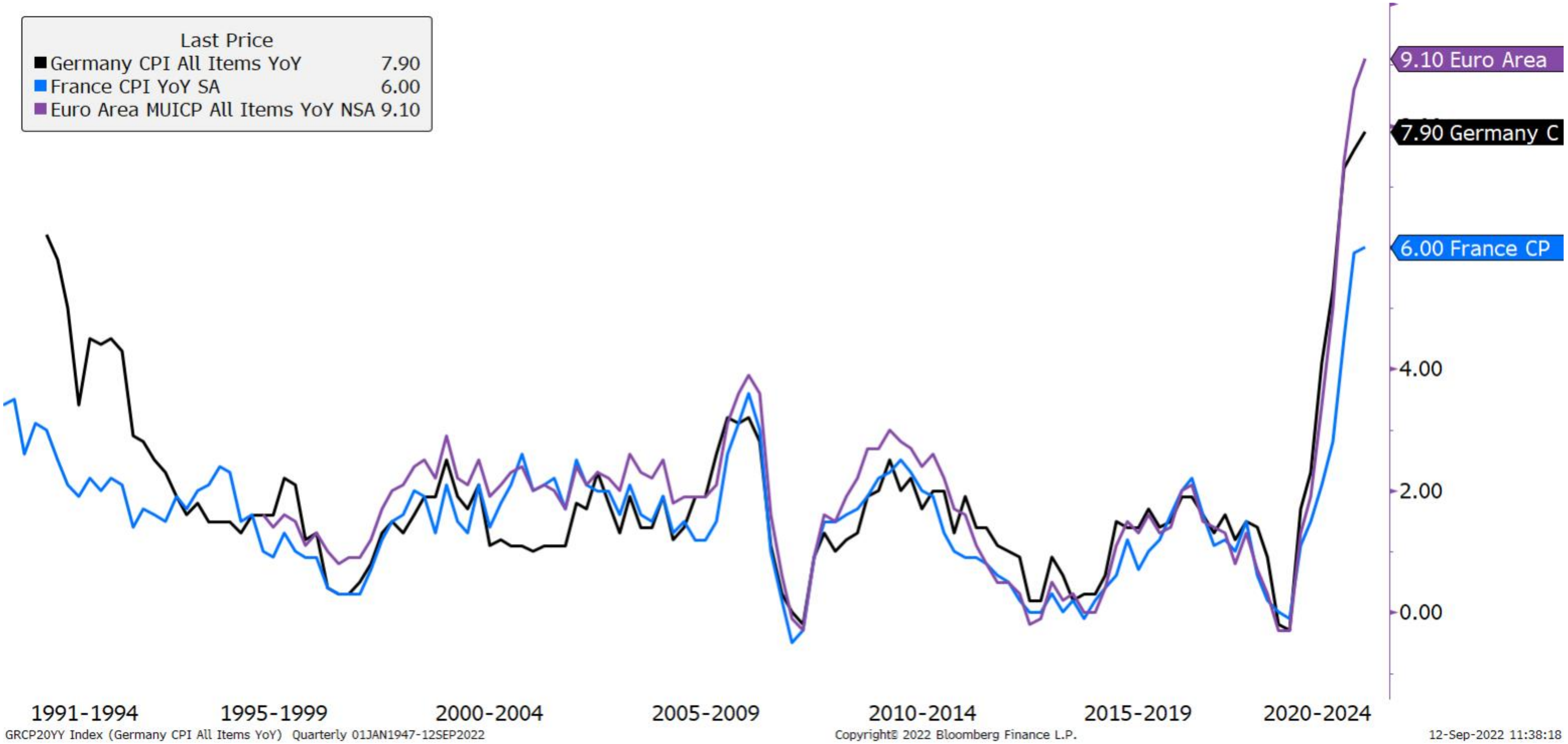


Germany Gas and Electricity prices have gone parabolic

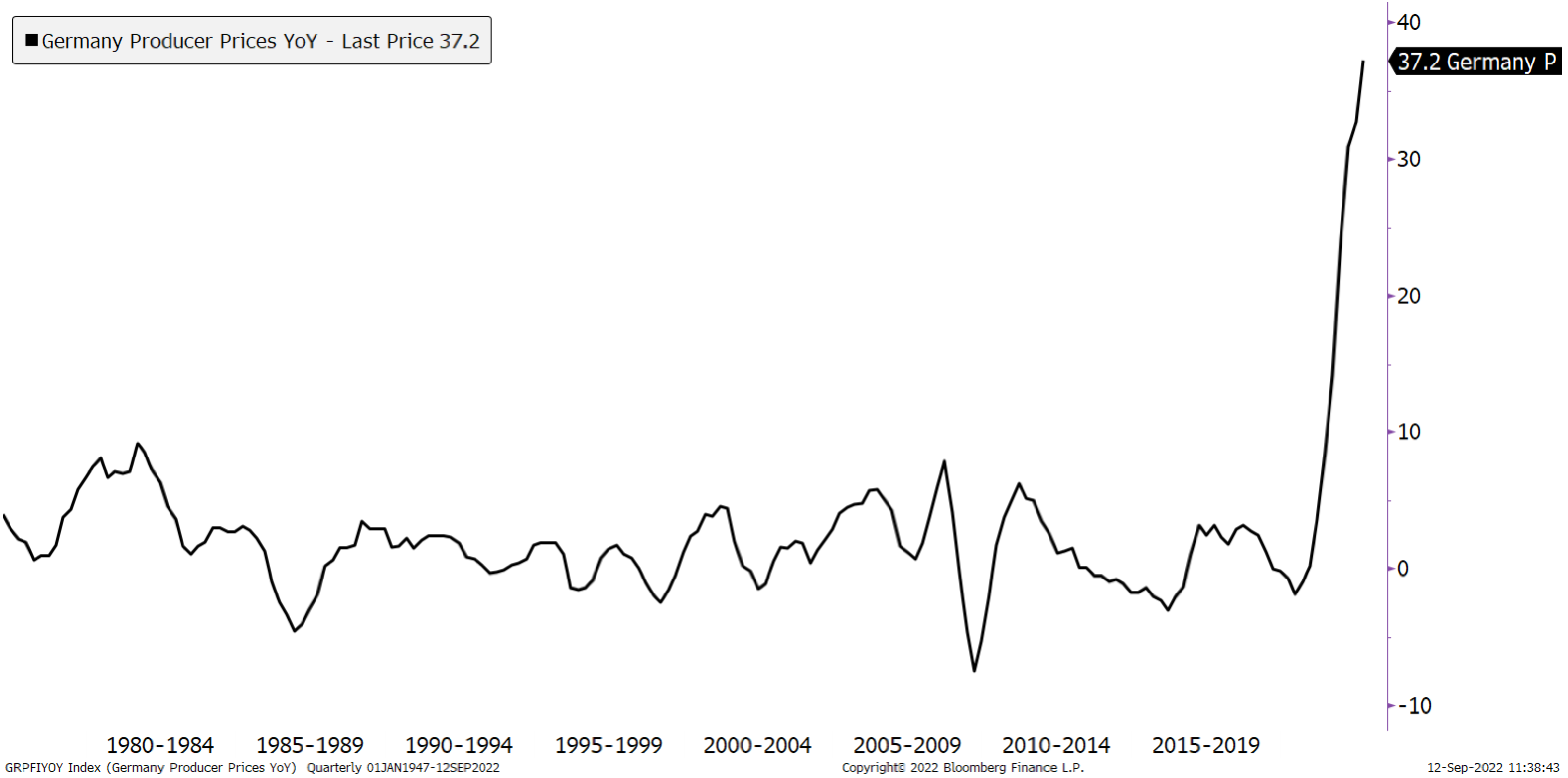




Inflation in Europe



Germany PPI



Germany Producer Prices YoY - Last Price 37.2
37.2 Germany P
40
30
20
10
0
-10
1980-1984
1985-1989
1990-1994
1995-1999
2000-2004
2005-2009
2010-2014
2015-2019
GRPFIYOY Index (Germany Producer Prices YoY) Quarterly 01JAN1947-12SEP2022
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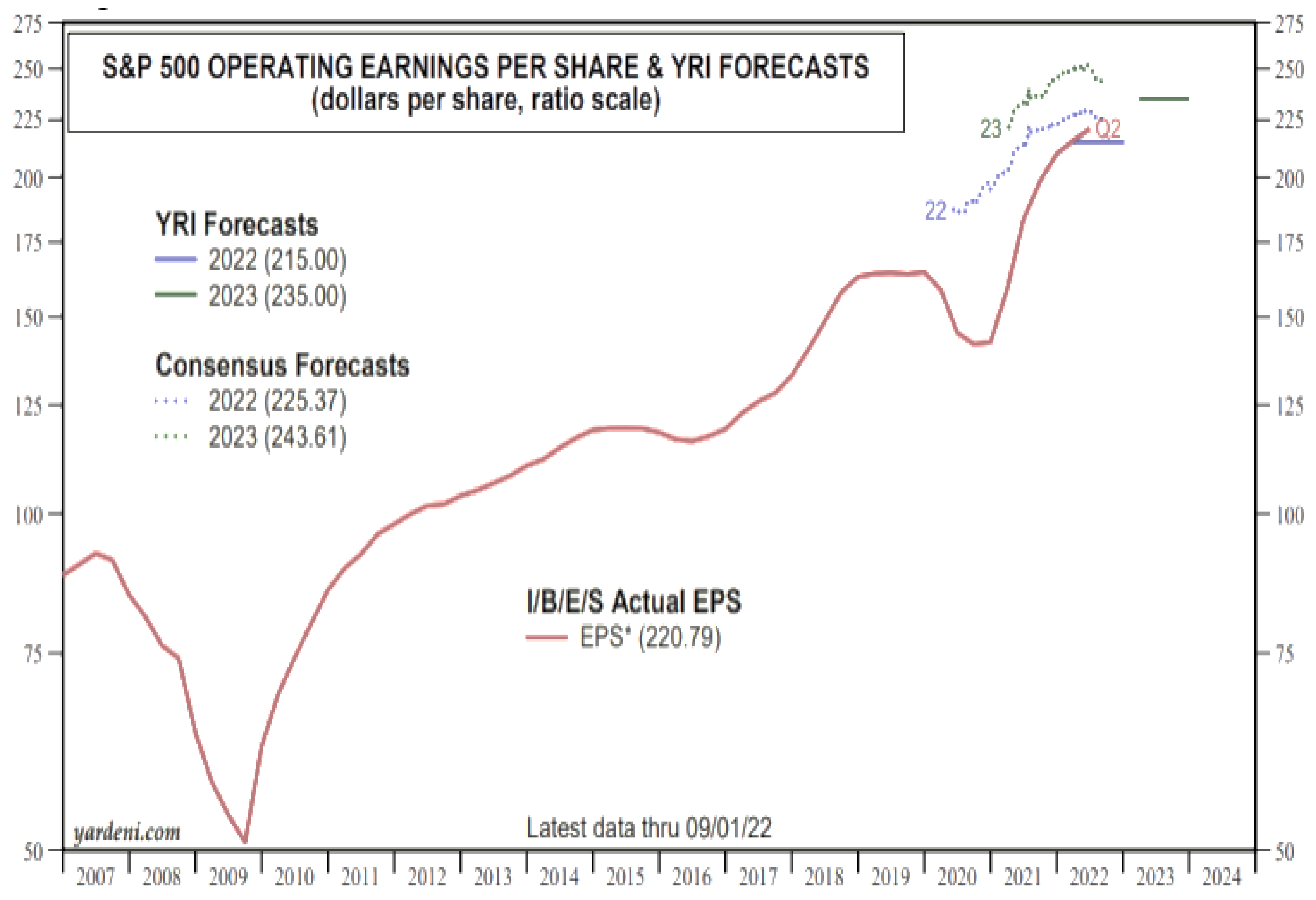
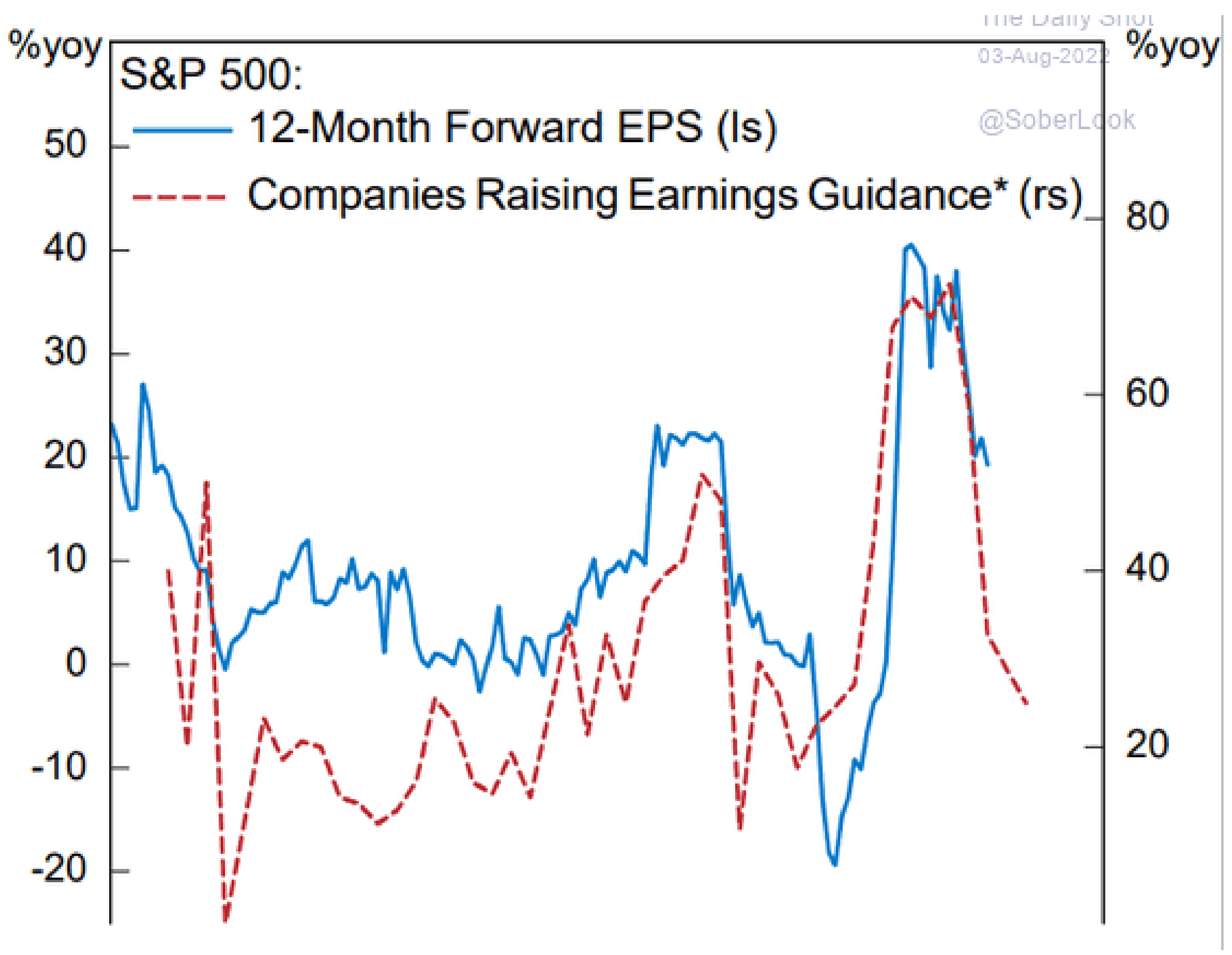
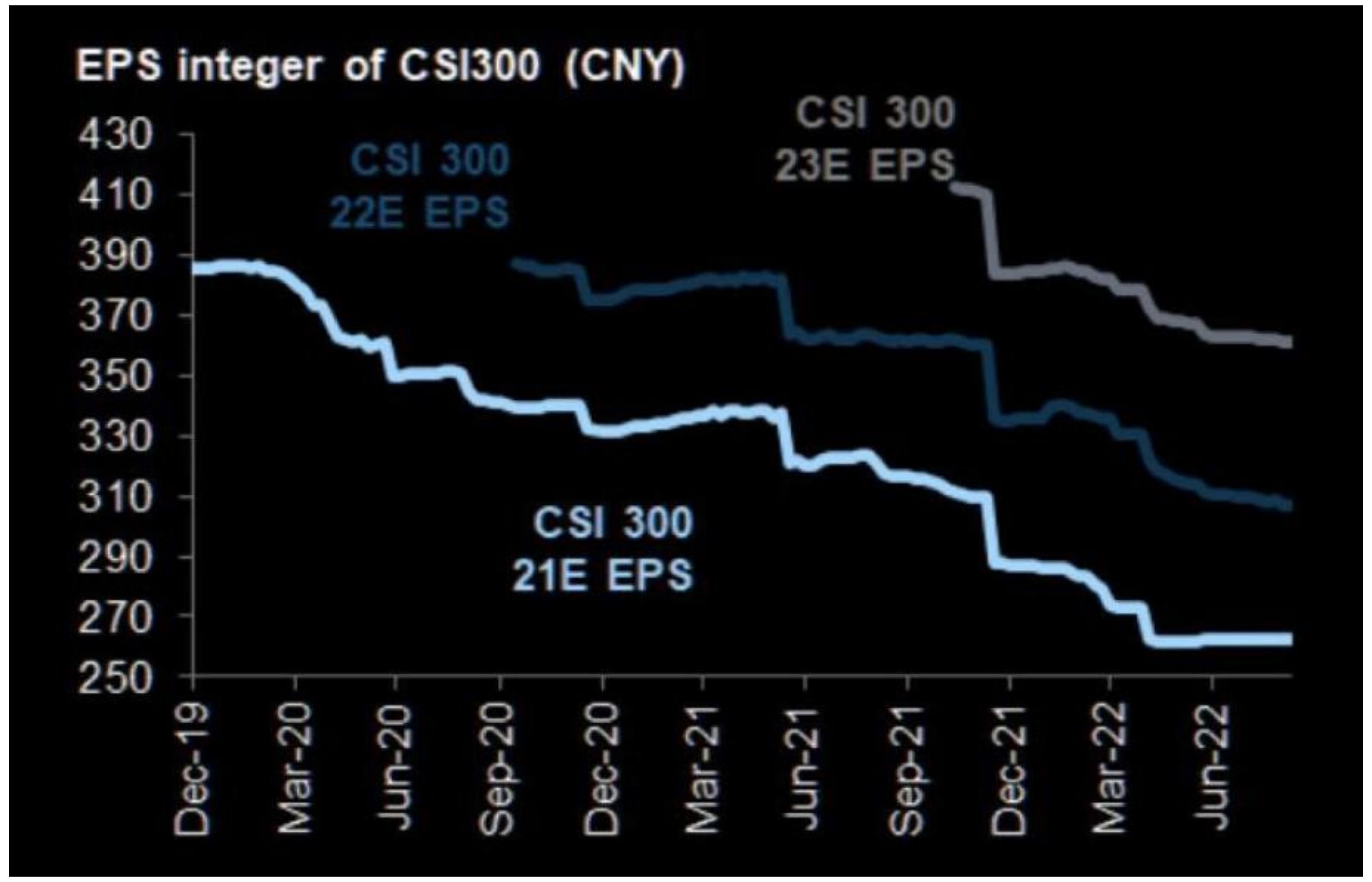
We expect Earnings expectations to fall with weaker economic data

US EPS estimates still look too optimistic for 2023. China EPS estimates meanwhile look like they are closer to a bottom.

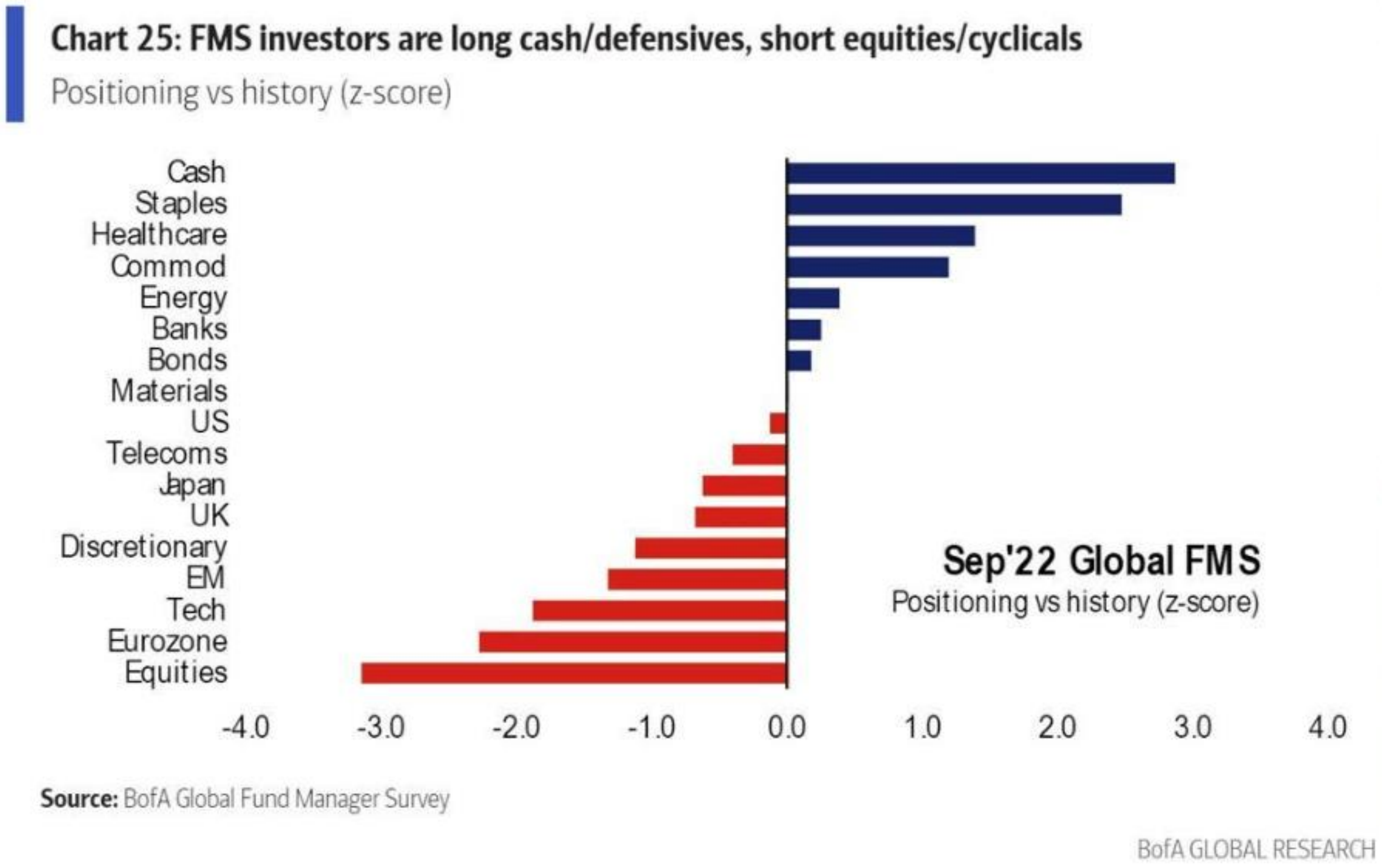


* Four-quarter trailing sum of operating earnings per share.
Source: I/B/E/S data by Refinitiv.

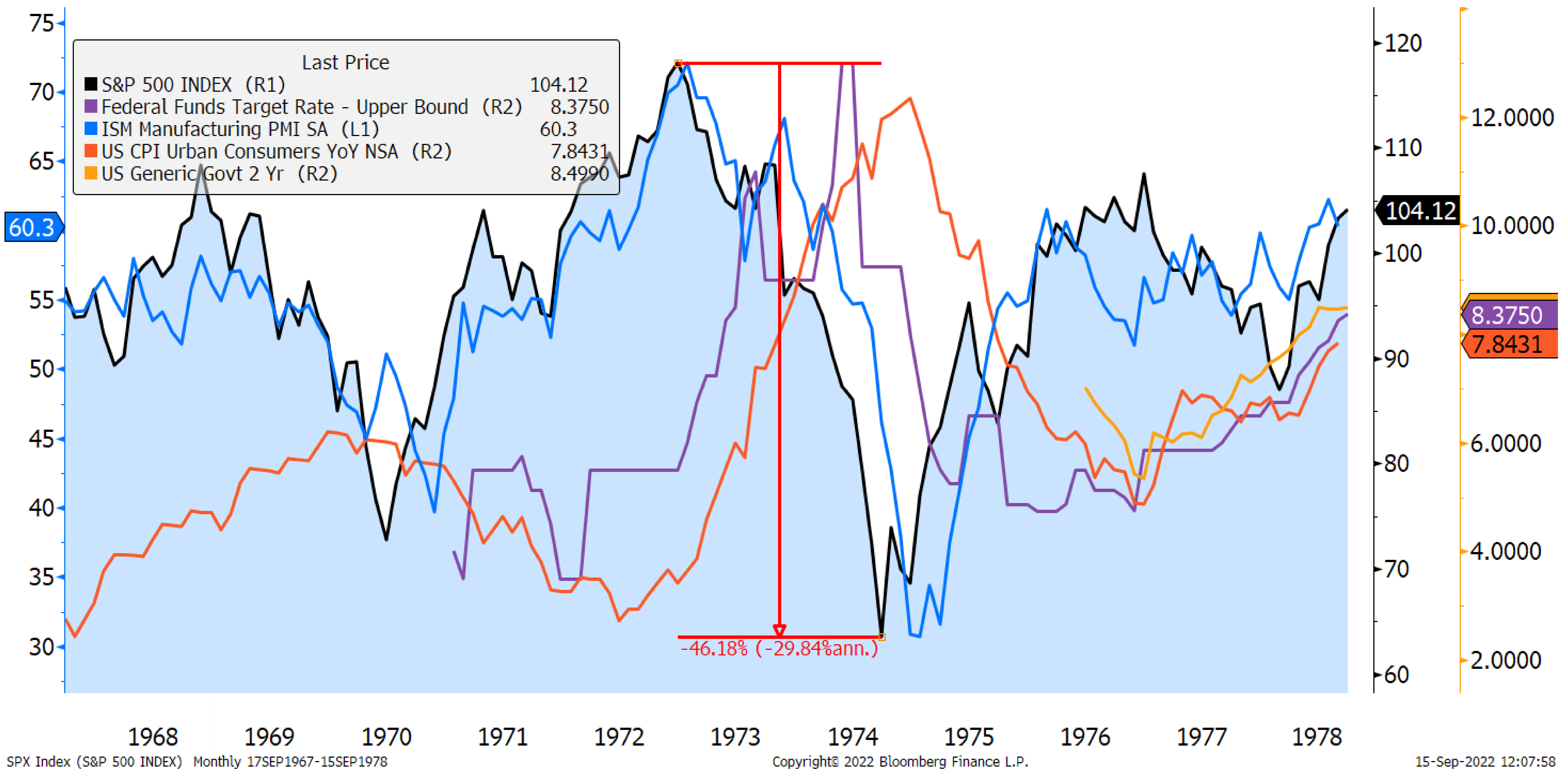




Institutional investors continue to remain underweight equities



1970s may be best historical comparison



Inflation in the US ramped all the way up to around 12% in 1974, the Fed raised to 13% and the economy fell off a cliff.

It was way worse back then in terms of inflation levels. Debt levels today though are far higher so the economy can't manage higher rates as easily.

In the 70s inflation bust, the S&P fell around 47% peak to trough. We don't expect this market to be as bad. But certainly, there will be a similar trend.

ASSET ALLOCATION

Equity Markets: At this stage, we feel it is unwise to bet against the Fed and other central banks. When central banks are tightening, it is wiser to reduce risk exposure. So, we continue to expect the markets to be volatile and downward, at least until we see the Fed take a more dovish view. Given they have painted themselves in a corner, we see the odds of this being less than just a few months ago.

Preferred sectors: No change of view here. We like defensive sectors such as Healthcare and are underweight areas such as IT, economically sensitive Industrials, Materials and traditional forms of Consumer Discretionary. We like Energy, especially, its free cash yield, and are overweight in most strategies except for global where we are marginally less than benchmark (Energy is some 17% of the MSCI World Islamic).

Country allocation: we have an overweight to China (eCommerce names only) and are underweight the US and especially Europe. Why do we still overweight China? The Central bank there needs to support their local market and we expect this will flow into the financial markets. M2 has already moved higher. It reminds us of 2009, when China was the first major nation to undertake significant QE coming out of the GFC.

USD: The USD and the US economy are the cleanest shirt out there. The Fed is already at over 2% rates, while the ECB has only just raised to 75bps. We expect the USD to continue to strengthen, and significantly so if we see a flight from risk assets. We are not there yet. But soon.

Crypto: Longer term we believe crypto assets will make new highs. With fiat currency moving towards the blockchain, it is only natural that crypto will also become mainstream. While it is correct to fear that governments will want to ban crypto in favor of CBDC, we would argue that CBDC will only encourage consumers to increase their holdings of alternative assets such as crypto. In terms of timing, we would expect the asset class to remain under pressure, at least until we see a reversal of tight monetary policies. So, this could be potentially as early as the first half of '23, should the economy weaken as we predict.

While we paint a fairly bleak picture for the next few months – with inflation, rising rates, potential EU gas shortages and uncertainty around China policy – we are optimistic as investors and are positioned to take advantage of any significant sell off in the markets.

'In the midst of every crisis, stands great opportunity". One just needs to be prepared for it.

Late Cycle dynamics at play – hence like Healthcare and Cash

S&P 500 sector excess price return relative to the S&P 500 Index

Position of economic cycle (ISM Manufacturing Index)	S&P 500 Materials	S&P 500 Industrials	S&P 500 Consumer discretionary	S&P 500 Financials	S&P 500 Information technology	S&P 500 Energy	S&P 500 Health care	S&P 500 Consumer staples	S&P 500 Utilities	S&P 500 Real estate
Early cycle	0.760%	0.144%	0.964%	0.513%	1.659%	-1.464%	-1.020%	-0.554%	-1.433%	-1.243%
	0.110%	0.142%	0.027%	0.682%	-0.533%	0.516%	0.119%	-0.206%	-0.439%	0.603%
Mid cycle	0.301%	0.131%	0.120%	-0.100%	1.477%	-0.133%	-0.504%	-0.643%	-1.371%	-0.349%
	-0.509%	0.340%	-0.075%	-0.452%	0.692%	-0.213%	-0.184%	-0.285%	1.280%	0.562%
Late cycle	-0.666%	-0.140%	0.249%	-0.014%	0.515%	-0.042%	0.620%	0.314%	0.152%	0.486%
	-0.276%	-0.095%	-0.095%	-0.490%	-0.818%	0.317%	1.524%	1.440%	0.267%	-0.539%

Fed Cycle - Dec 2015 - Dec 2018

	3M	6M	1Yr
Start	01/01/2019	01/01/2019	01/01/2019
End	01/04/2019	30/06/2019	01/01/2020
S&P 500 ENERGY INDEX	18.0%	13.1%	11.8%
S&P 500 MATERIALS INDEX	11.9%	17.3%	24.6%
S&P 500 INDUSTRIALS IDX	19.6%	21.4%	29.3%
S&P 500 CONS DISCRET IDX	17.1%	21.8%	27.9%
S&P 500 CONS STAPLES IDX	11.8%	16.2%	27.6%
S&P 500 HEALTH CARE IDX	6.8%	8.1%	20.8%
S&P 500 FINANCIALS INDEX	11.2%	17.2%	32.1%
S&P 500 INFO TECH INDEX	21.5%	27.1%	50.3%
S&P 500 UTILITIES INDEX	10.1%	14.7%	26.3%
S&P 500 COMM SVC	15.6%	19.1%	32.7%
S&P 500 REAL ESTATE IDX	17.2%	20.4%	29.0%
S&P 600 SMALLCAP INDEX	13.0%	13.7%	22.7%
S&P 400 MIDCAP INDEX	16.1%	18.0%	26.2%
MSCI US LARGE	14.8%	18.3%	31.8%
S&P 500 Value	13.7%	16.7%	31.9%
S&P 500 Growth	16.1%	20.2%	31.1%

Fed Cycle - June 2004 - June 2006

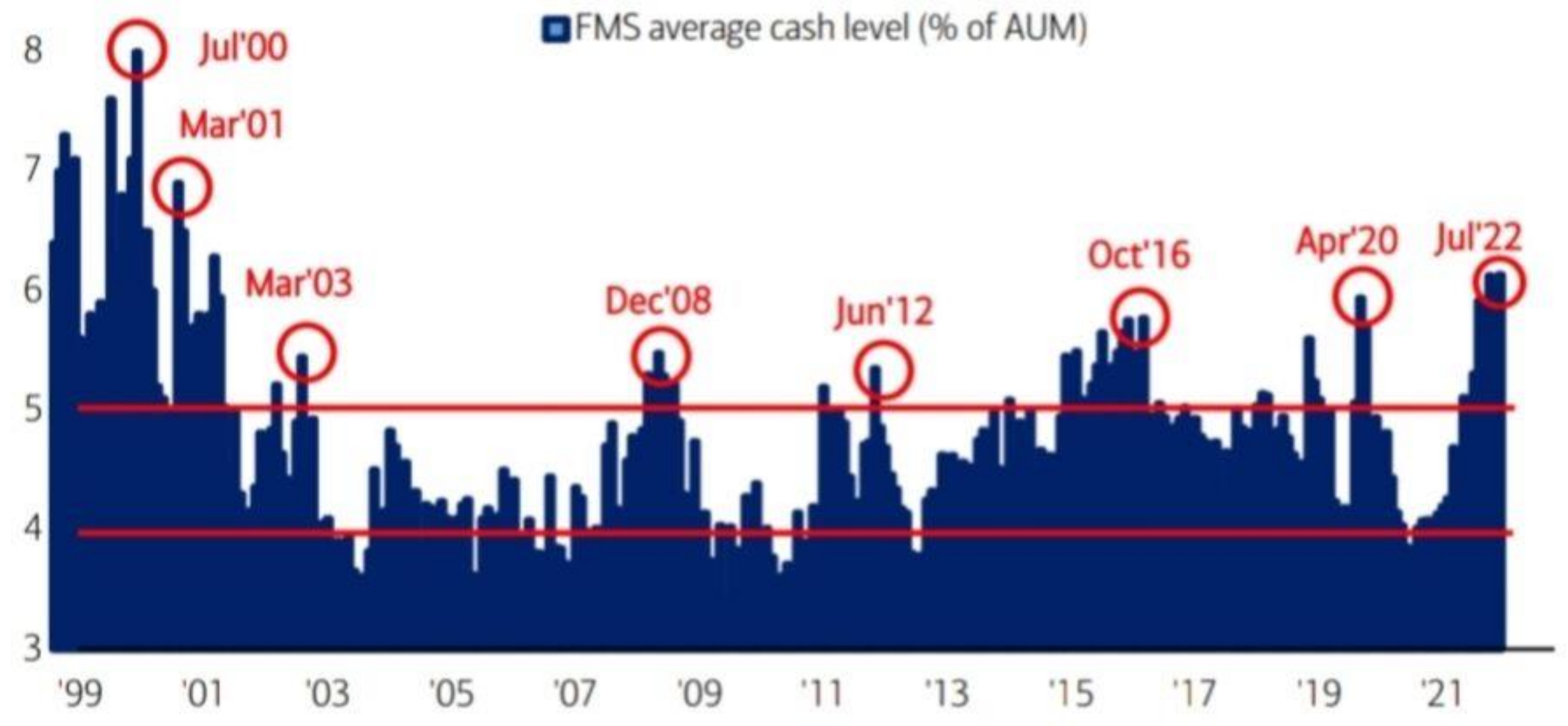
	3M	6M	1Yr
Start	01/07/2006	01/07/2006	01/07/2006
End	29/09/2006	28/12/2006	01/07/2007
S&P 500 ENERGY INDEX	-1.7%	10.3%	28.0%
S&P 500 MATERIALS INDEX	-0.6%	11.3%	29.1%
S&P 500 INDUSTRIALS IDX	-0.1%	6.4%	17.4%
S&P 500 CONS DISCRET IDX	5.0%	16.2%	19.1%
S&P 500 CONS STAPLES IDX	5.7%	9.9%	14.8%
S&P 500 HEALTH CARE IDX	10.2%	12.1%	18.6%
S&P 500 FINANCIALS INDEX	8.0%	16.3%	14.7%
S&P 500 INFO TECH INDEX	8.5%	15.4%	25.9%
S&P 500 UTILITIES INDEX	6.1%	16.0%	26.1%
S&P 500 COMM SVC	10.6%	19.8%	38.8%
S&P 500 REAL ESTATE IDX	9.7%	21.5%	11.7%
S&P 600 SMALLCAP INDEX	-0.9%	7.8%	16.0%
S&P 400 MIDCAP INDEX	-1.1%	6.6%	18.5%
MSCI US LARGE	5.7%	12.7%	18.5%
S&P 500 Value	5.3%	13.9%	21.7%
S&P 500 Growth	6.1%	12.5%	19.4%

Healthcare, Consumer Staples, Utilities and Real Estate do well late in the cycle

Technology, Consumer Discretionary, Communication and Materials have delivered good returns everytime the Fed paused rate hikes

Like others we are also overweight cash

Chart 8: Cash levels highest since 2001
FMS average cash balance, %



Source: BofA Global Fund Manager Survey

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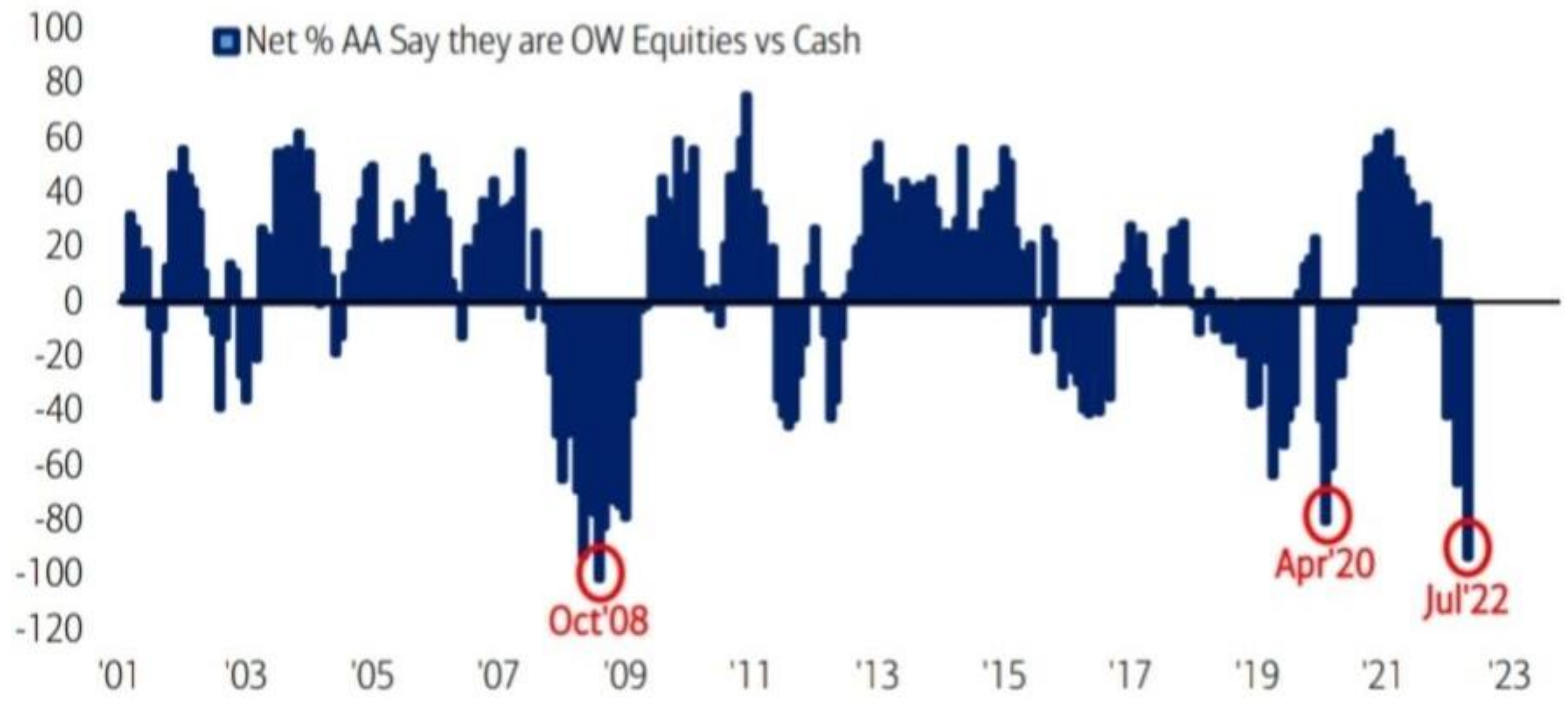
Chart 15: Equity allocation vs cash lowest since Oct'08
Net % OW Equities vs Cash



Source: BofA Global Fund Manager Survey

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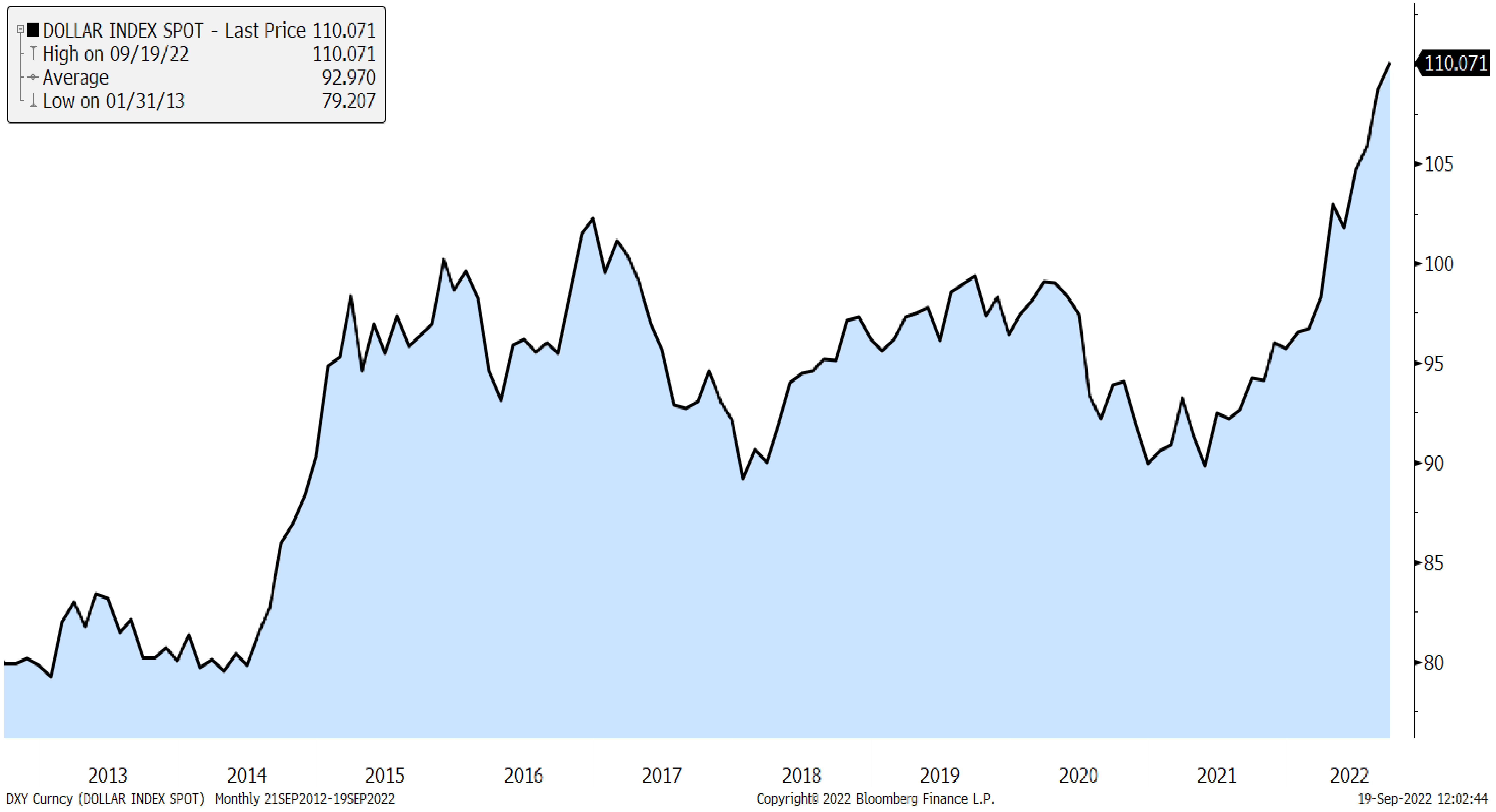
We prefer USD over other currencies DXY is at 110



We expect the USD to continue to strengthen, and significantly so if we see a flight from risk assets. We are not there yet. But soon.

Like defensive areas as well as Energy

Goldman Sachs

Sector share of S&P 500 *equity cap* since 1975

Tech accounted for 33% of S&P 500 equity capitalization at bubble peak in 2000

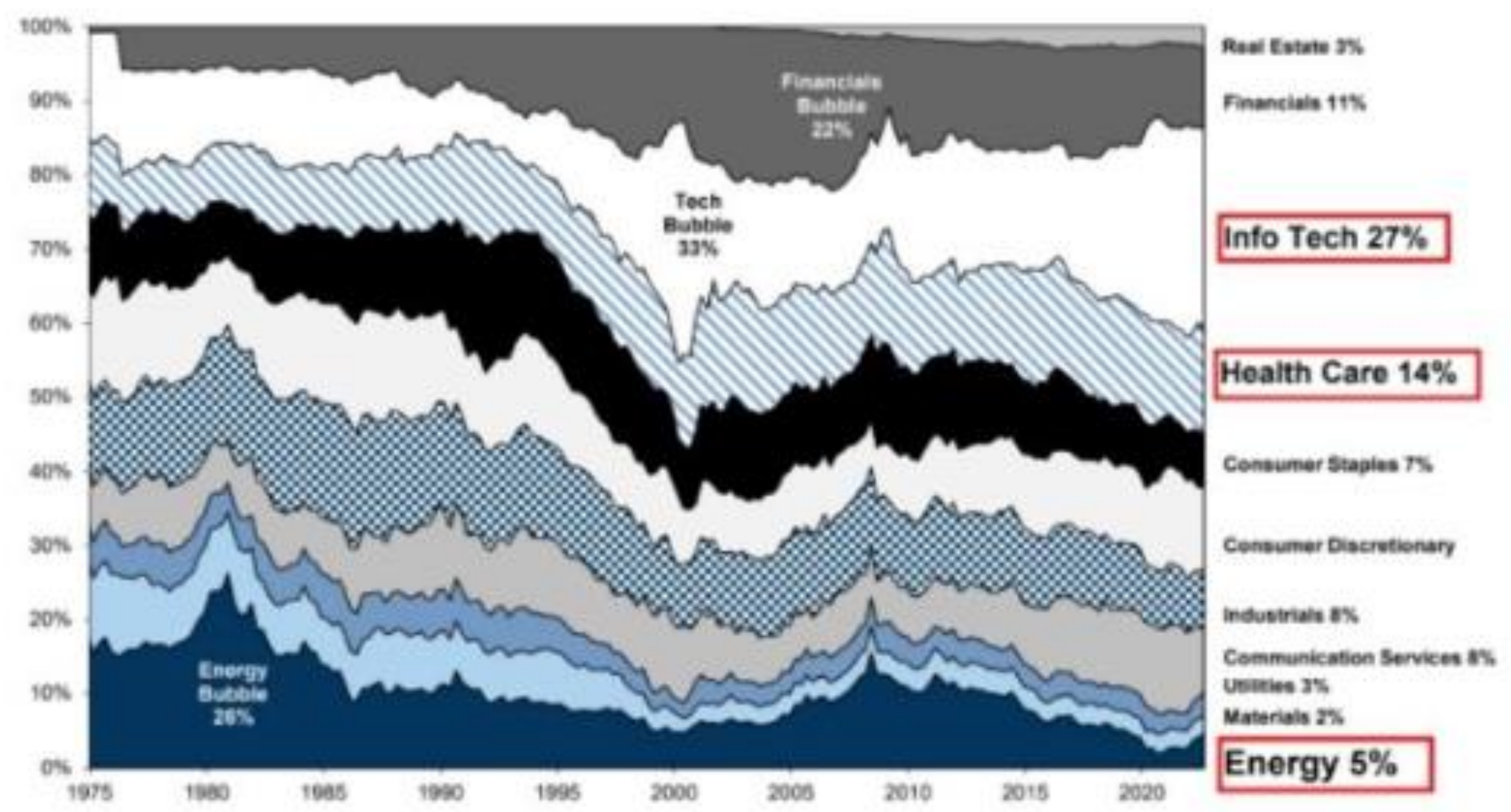
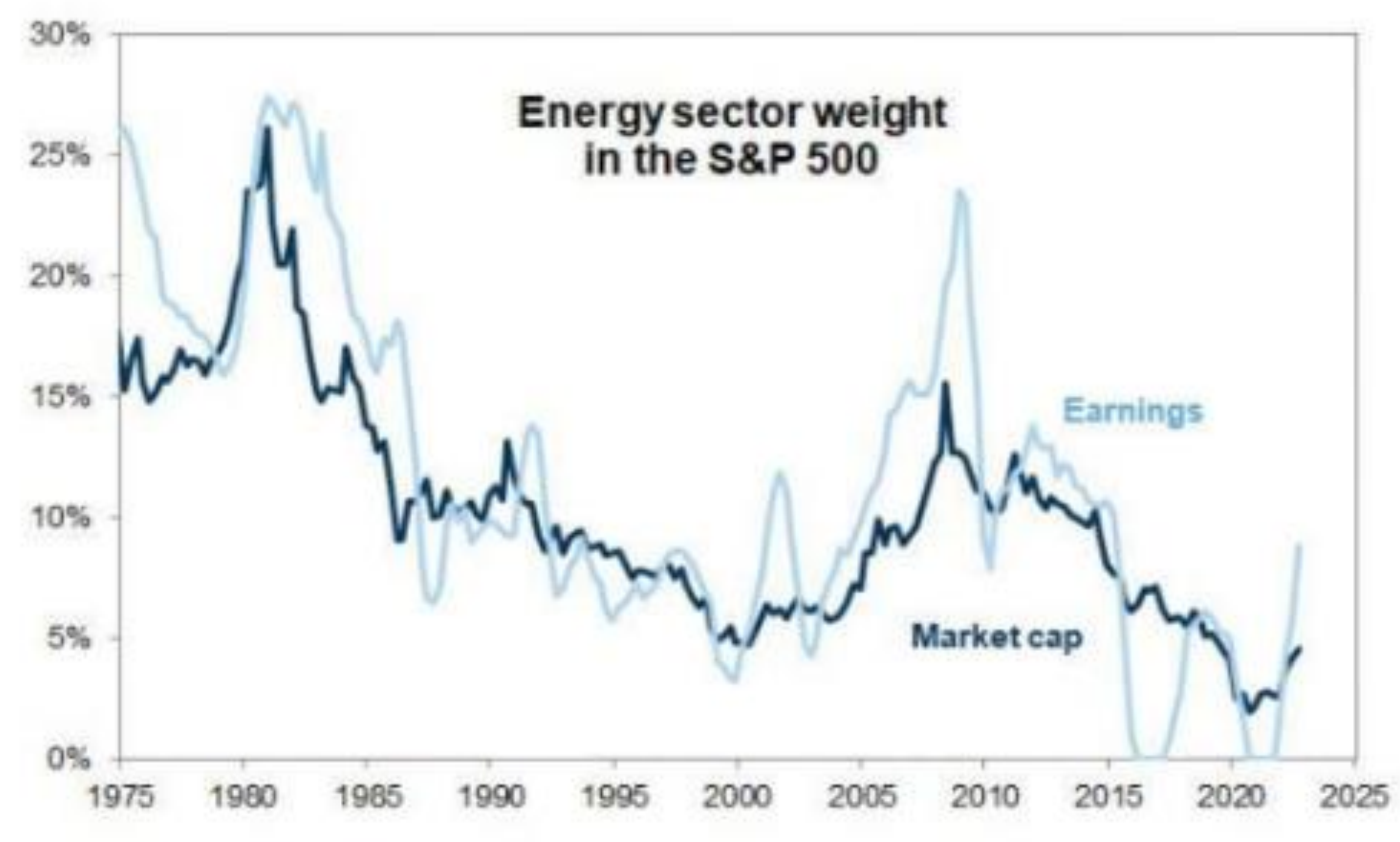


Exhibit 1: With confidence in durability of commodity prices prices, we see potential for Energy market-cap weighting within S&P 500 to further increase

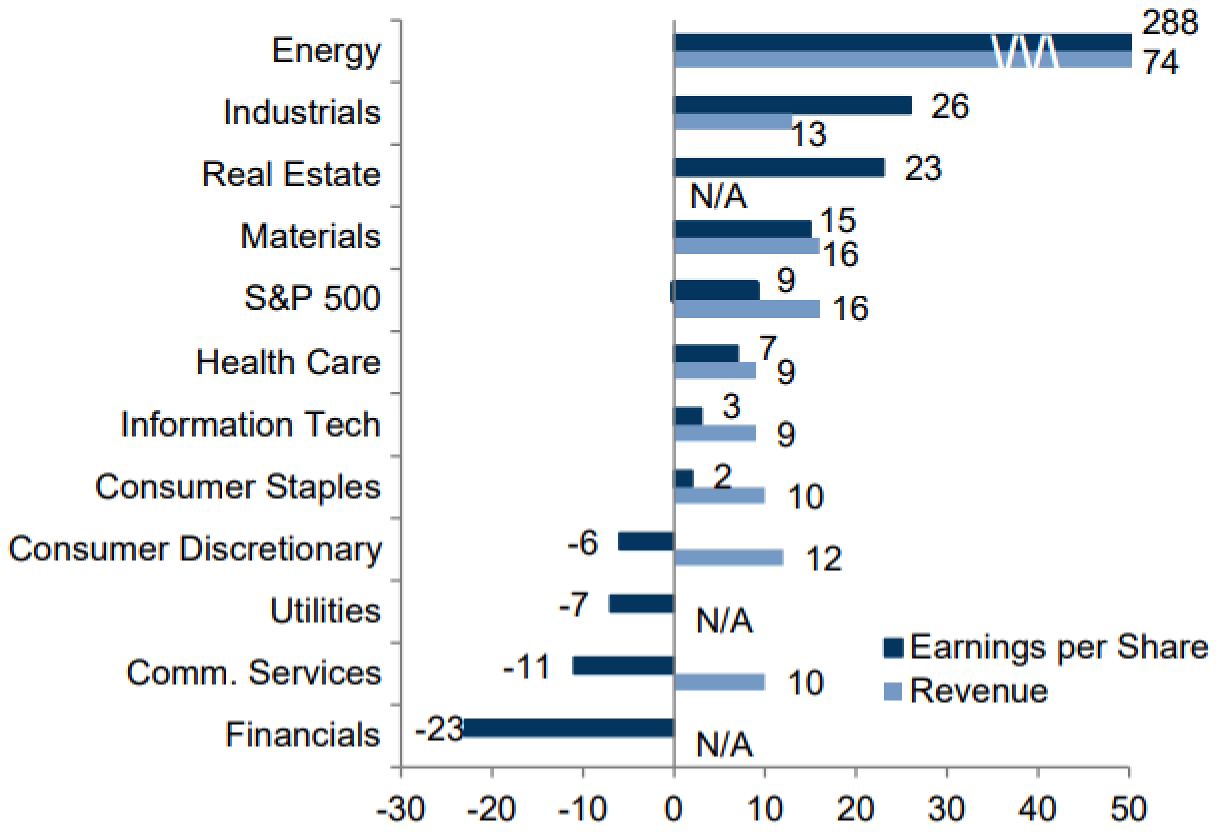
Energy sector earnings and market-cap weighting within S&P 500



Source: Goldman Sachs Global Investment Research

Earnings and revenues are still growing for most sectors

Q2 earnings results, year-on-year growth

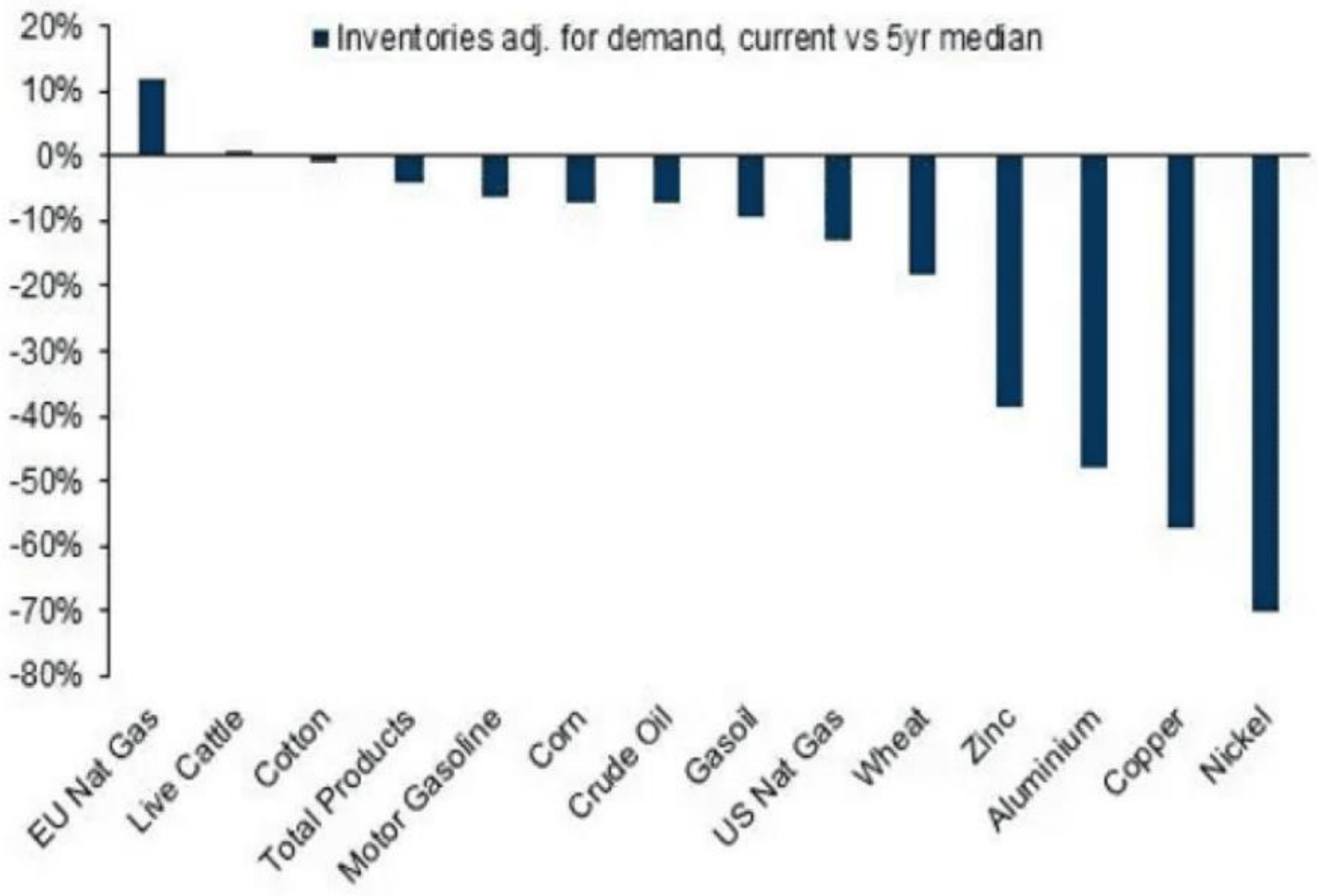


Note: Q2 earnings results for energy extend beyond axis.
Source: Bloomberg, Goldman Sachs GIR.
Special thanks to US economics team for charts.

Commodities inventories meanwhile continue to weaken

Short term we are underweight economically sensitive materials; longer term we are very optimistic

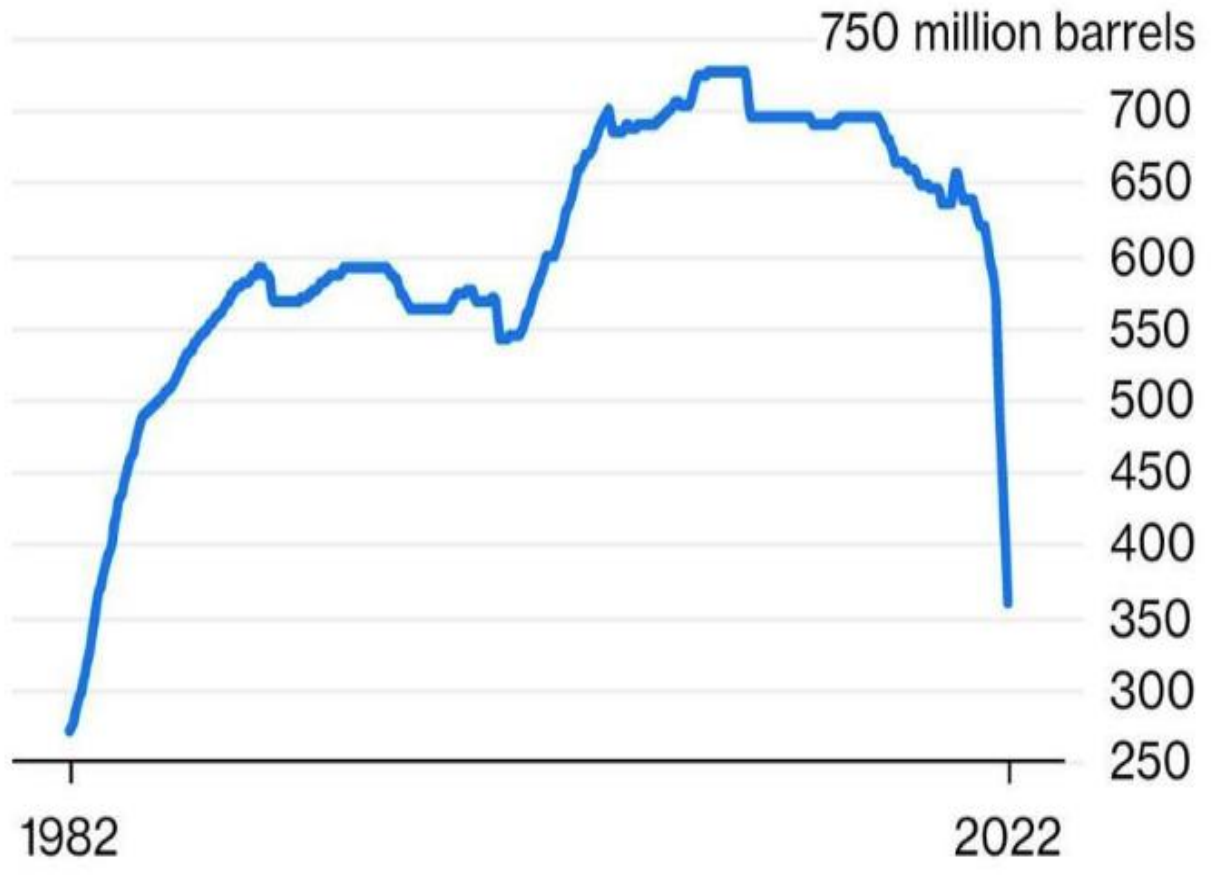
Exhibit 12 : Inventories in almost all markets are significantly below the 5-year median and at risk of depletion



Source: Bloomberg, USDA, EIA, Wind, Goldman Sachs Global Investment Research

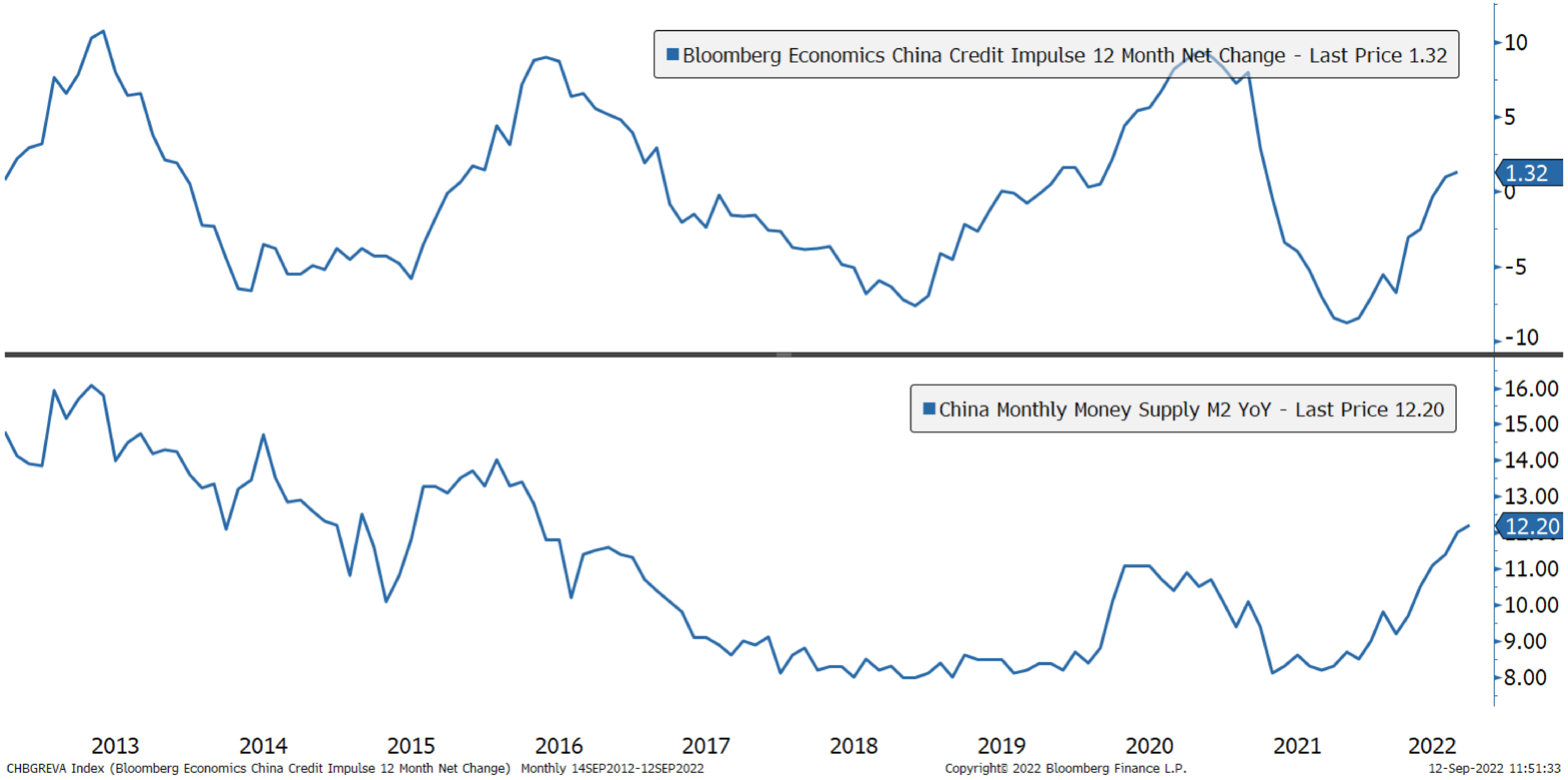
Bloomberg Subscribe

By October, the US Strategic Petroleum Reserve will shrink to a 40-year low as the White House taps it to put a lid on global oil prices



Source: US Department of Energy
Source: Jun-Oct 2022 is forecast based on releases already pre-announced

China continues on its path of easing – beneficial for equities

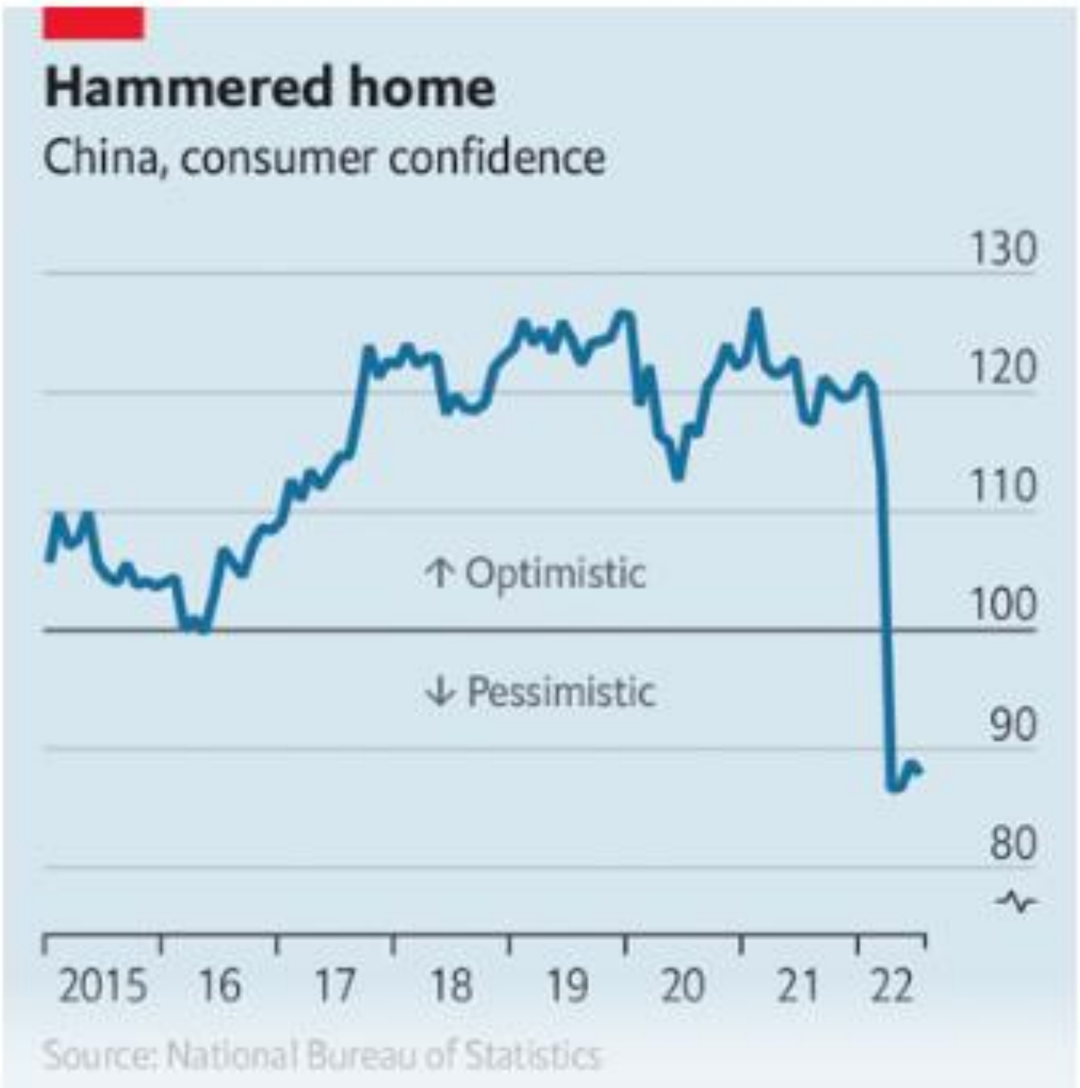


Credit Impulse YoY

M2 Money Supply YoY

As it suffers from a severe macro backdrop

Source: Wind, KPMG analysis



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