

Global Economic & Market Outlook 2023

Tale of two halves



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FOREWORD

FOREWORD LETTER FROM THE CEO



Naser Al Nabulsi
Vice Chairman & CEO

We are delighted to update you with our latest progress, market views and business lines performance for the year 2022.

It was a tumultuous year to say the least! The world faced a variety of challenges, including geopolitical tensions, the ongoing COVID-19 pandemic, and high inflation leading to an increase in interest rates by central banks, which put pressure on consumer purchasing power. These factors had a significant impact on financial markets as the Federal Reserve and other global central banks implemented a series of aggressive interest rate hikes, leading to declines in both stocks and bonds. The S&P index saw a significant drop, while bond indices also suffered significant losses. Overall, 2022 was a difficult year for investors, with many balanced portfolios experiencing some of their worst losses ever.

We predict 2023 will be a year where the investment environment returns to a more stable state. While inflation may decrease, it is not expected to happen as quickly as the market anticipates. Economies may face difficulty in achieving growth, but it is hoped that they can avoid a severe downturn.

Some signs point to the possibility that several major economies may already be in or about to enter a recession. Additionally, central banks are expected to be cautious about starting a new easing cycle. It should be noted that the economic issues of 2022, such as high inflation, tightened financial conditions, energy disruptions, and slowing growth in China, will likely take a significant amount of time and effort to resolve.

However, there is some positive news as well: the reset in valuations, higher yields, and lower stock multiples have created an opportunity for a traditional portfolio of stocks and bonds that has not been seen in over a decade.

The MENA region had a strong beginning in 2022 due to the Russia/Ukraine conflict, which attracted investors to the region as an alternative source of energy and caused an increase in the weight of the region in emerging market benchmarks following Russia's removal. Despite a recent drop, oil prices remain stable, and we believe that the market is structurally undersupplied due to a lack of investment in recent years with OPEC+ focused on maintaining current levels.

The MENA region is likely to experience a range of outcomes in 2023, with particularly strong growth anticipated in the GCC states due to their wealth of energy resources. The region's travel and tourism industry, particularly in Dubai, is showing promising signs of recovery and is expected to see a return to pre-COVID levels of international visitor arrivals by the end of 2023. Furthermore, 2022 saw major oil and gas producers in the region benefiting significantly from strong global demand and high prices for their energy exports, and these net energy exporting countries are expected to continue seeing decent returns from international markets in 2023.

FOREWORD

Al Mal Capital Investment Management closed a year of extreme market volatility outperforming benchmark indices across both its flagship products. Al Mal UAE Equity fund registered a growth of 6.6% in 2022 as compared to the benchmark return of 2.6% in the same period. Al Mal MENA Equity fund ended 2022 down -0.7% as compared to the MENA index which was down -7.8% over the same period. The efficient portfolio management, disciplined investment approach and prudent investment strategy led to the team winning the award for the “Best Regional Asset Management Firm for High-Net-Worth Individuals” by the MEA Finance Wealth & Investment Awards 2022.

The Corporate Advisory Services (CAS) team successfully advised Dubai Investments in divesting 50% stake in Emirates District Cooling Company (EMICOOL) to ACTIS, a leading global investor in sustainable infrastructure at a corporate valuation of AED 3.7bn (US\$1bn) and equity valuation of AED 2.4 bn (US\$ 653mn).

The deal, counted as one of largest transactions in the district cooling industry in the MENA region, has brought together two strong names i.e., Dubai Investments and Actis and the joint-venture is aimed at supporting EMICOOL in its vision towards becoming one of the leading providers of sustainable and efficient district cooling services in the wider MENA region. The transaction was executed in April 2022 followed by completion in July 2022.

The CAS team played a significant role all through the transaction from negotiating, structuring, execution, and successful conclusion. The CAS team is currently advising and executing advisory mandates (in-house and third-party) which are expected to close in FY2023.

Al Mal Capital REIT (AMCREIT), the first REIT listed on DFM, managed by Al Mal Capital PSC announced the first dividend pay out to its unit holders. AMCREIT paid a half-yearly dividend of AED 2.5 fils per unit in September 2022, which translated to an annualized yield of c.5.0% to the unitholders. AMCREIT's first acquisition of two school campuses of Al Shola Private Schools in Ajman for AED 300 million, which are leased back to the operator on a triple net basis resulting in realized rental income and thereby facilitating the half-yearly dividend distribution.

On the international real estate investment, the Poinsettia Plaza asset paid out investors an annualized dividend of c. 7.2% in 2022. In addition to the above, the Direct Investments team is working on transactions, which are in advanced stages and are expected to achieve closure in early 2023.

In our capital markets division, in 2022 we have successfully participated in local IPOs including AD Ports, Bourouge, DEWA, TECOM, SALIK, Empower, Burjeel, Bayanat, Chimera ETF and Americana. On regional IPOs, we participated in IPOs including Ali AlGhanim Sons, Al-Dawaa, Nahdi, Sahel, ELM, Riyadh Cables, Arabian Drilling, Marafiq and Saudi Aramco Base Oil Company (Luberef) & Chimera ETF ADX. With expected strong IPO pipeline, we look forward to participating in more IPOs and provide investors with new investment opportunities.

We would like to thank you for your support and confidence in us and assure you that we will constantly strive to improve our products and services.

Wishing you again a happy and prosperous 2023!

We predict 2023 will be a year where the investment environment returns to a more stable state. While inflation may decrease, it is not expected to happen as quickly as the market anticipates. Economies may face difficulty in achieving growth, but it is hoped that they can avoid a severe downturn

GLOBAL ECONOMY

GLOBAL ECONOMY

The year 2022 has been a surprising and tumultuous one, with the global economy facing numerous challenges such as disruptions to supply and demand leading to labor market issues, a third wave of the COVID-19 pandemic, and Russia's invasion of Ukraine. Few could have predicted the volatility experienced by global markets in 2022, especially given the prior two years saw the deepest global downturn on record followed by the strongest rebound.

As we look to 2023, a monetary policy error induced recession remains at the forefront of investor sentiment. Based on its current guidance, the Federal Reserve (Fed) will have delivered a cumulative adjustment of close to 500 basis points (bp) on rates through the first quarter of 2023.

The subsequent impacts on the global economy, a soft landing or a hard landing, remains uncertain.

The increased borrowing costs are having a negative impact on the housing market and the strong appreciation of the US dollar may be reducing profit margins for US corporations.

There are also indications that credit conditions are becoming more restrictive. The problems facing emerging market low-income commodity importing countries, UK pension funds, and the US cryptocurrency industry are interconnected and suggest that rapidly tightening financial conditions can create stress that could potentially harm macroeconomic stability.

The recent surge in inflation, coupled with the winding down of COVID-19 fiscal support, has put pressure on household budgets and led to swift monetary policy tightening

Goodbye inflation fears, hello recession fears

The recent surge in inflation, coupled with the winding down of COVID-19 fiscal support, has put pressure on household budgets and led to swift monetary policy tightening. Many low-income nations are also struggling with severe fiscal challenges.

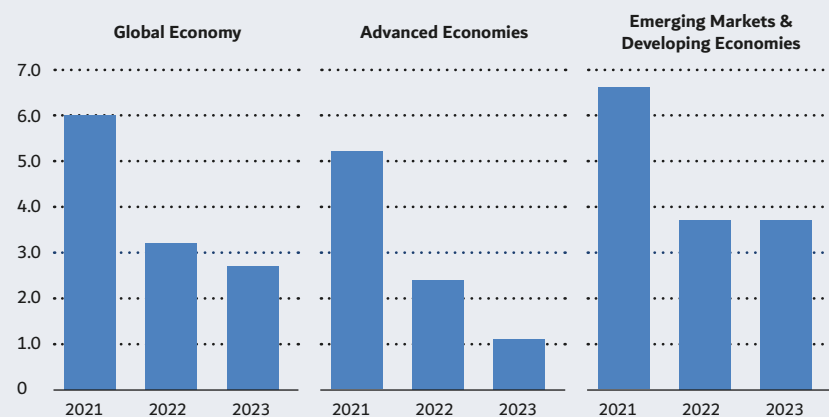
In addition, the ongoing conflict in Ukraine and other global tensions raise the risk of significant geopolitical disruption. While the effects of the pandemic have eased in many areas, they continue to disrupt economic activity, particularly in China. Additionally, extreme heat waves and droughts in Europe and central and south Asia are a preview of the potential challenges posed by climate change.

Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024.

Monetary policy should stay the course to restore price stability, and fiscal policy should aim to alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy.

Structural reforms can further support the fight against inflation by improving productivity and easing supply constraints, while multilateral cooperation is necessary for fast-tracking the green energy transition and preventing fragmentation.

Growth Projections



Source: International Monetary Fund

GLOBAL ECONOMY

However, while inflation is relatively tamer, it is still far from central banks 2% target with the risk now of a aggressive monetary tightening led recession, especially in US and Europe. The IMF, for the US, expects growth to decline from 5.7% in 2021 and 1.6% in 2022 to 1% in 2023.

Whilst the IMF still expects growth, we expect risks slightly more skewed to the downside given – declining real disposable income continues to eat into consumer demand and higher interest rates are taking a toll on spending especially on residential investment.

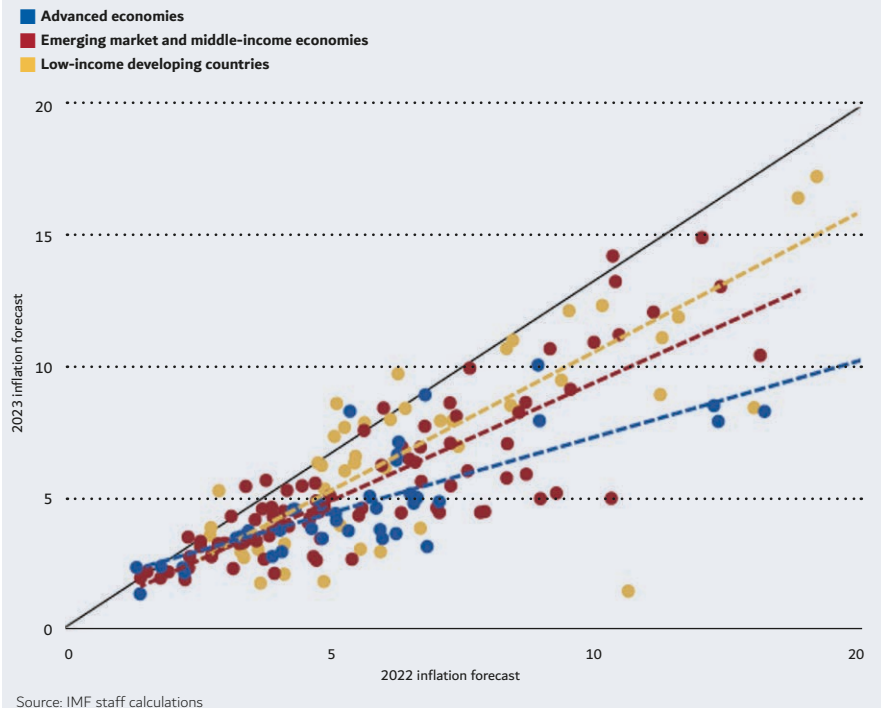
Things look a little more bleak in the Euro Area where growth is projected to slow from 3.1% in 2022 to just 0.5% in 2023. Whilst a strong recovery in tourism aided Italy and Spain to post first half 2022 GDP growth of 3.2% and 4.3% respectively.

However, the IMF expects Italy along with manufacturing economies Germany and France to experience negative annual growth in 2023. Negative growth comes as a result of these economies exposed most to Russian gas supply cuts whilst the ECB's rate hikes have also not helped spur economic growth.

The increase in interest rates, including mortgage rates, is reducing domestic demand, as evidenced by a slowing housing market in countries like the United States. This tightening of monetary policy is often accompanied by a reduction in fiscal support, which had previously boosted disposable incomes.

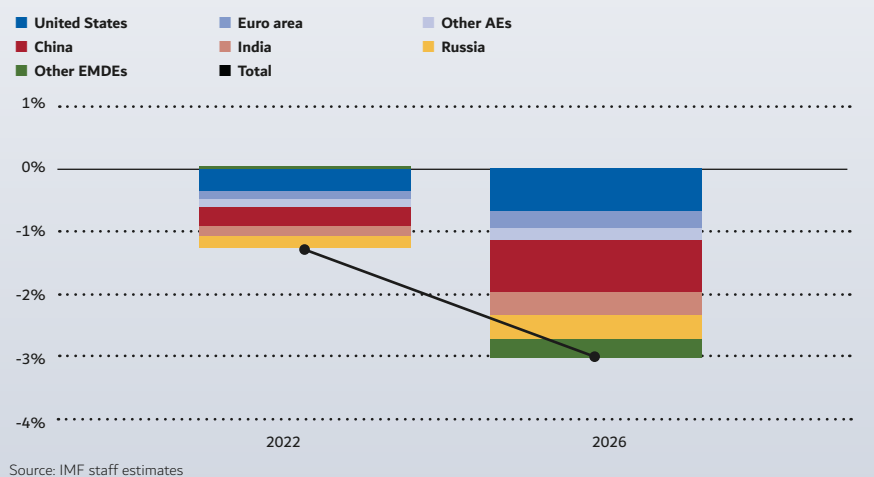
Overall, policy rates are now higher than they were before the pandemic in both developed and developing economies. However, due to high inflation, real interest rates have still not yet returned to pre-pandemic levels.

Inflation likely to decline next year



The shocks of 2022: persistent output losses

(Percentage point deviation from preshock growth forecast)



GLOBAL ECONOMY

Russian invasion of Ukraine

The invasion of Ukraine by Russia continues to have a significant impact on the global economy. Not only has it resulted in loss of lives and destruction of livelihoods, but it has also caused a severe energy crisis in Europe, resulting in an increase in the cost of living and hindering economic activity. Gas prices in Europe have increased by over four times since 2021, with Russia reducing its deliveries to less than 20% of their 2021 levels, raising the possibility of energy shortages in the coming winter and beyond.



As a result, the war's economic repercussions are most seen in Europe where higher energy prices have not only weakened consumer confidence but has slowed manufacturing momentum as a result of these rising input costs. That's not to say Russia hasn't come out unscathed. It is estimated that Russia's economy experienced a decline of 21.8% (on a quarterly annualized basis) during the second quarter, with crude oil and nonenergy exports remaining relatively stable.

Domestic demand in Russia has remained relatively steady due to the limited impact of sanctions on the domestic financial sector and strong labor market conditions. Policy support has also contributed to the stability of domestic demand.

The conflict in Ukraine has had a global impact on food prices. Despite a recent agreement on Black Sea grain exports, food prices remain high, but are expected to decrease slightly.

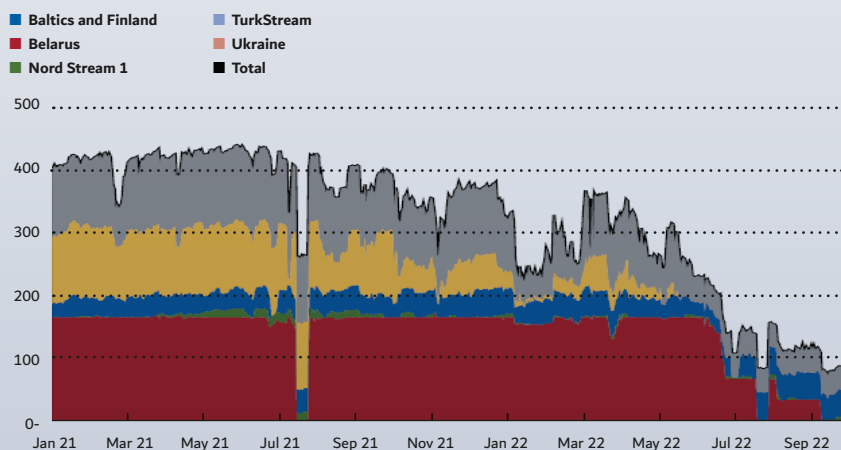
Overall, international inflation has risen due to higher consumer energy and food prices, as the war has led to an increase in inflationary pressures.

Countries with diets heavily reliant on wheat and corn, those with high levels of food imports, and those with diets containing a significant amount of foods with large global-to-local price increases have been most affected.

Low-income countries, especially in sub-Saharan Africa, where food makes up about 40% of the average consumption basket and global-to-domestic food price pass-through is relatively high at 30%, have been particularly hard hit, with serious consequences for malnutrition and excess mortality that were already present before the war. Nonetheless, given the high base effect of 2022, inflation is expected to decline next year albeit not close to major central banks target of 2%.

Russian pipeline gas supplies to EU by route

(Million cubic metres a day)



Source: IMF

GLOBAL ECONOMY

Global Inflation Rates				
Country	2020	2021	2022	Chg 2022 vs 2021
Brazil	4.3%	10.7%	5.9%	-4.8%
China	-0.5%	2.3%	1.6%	-0.7%
Spain	-0.8%	6.7%	6.8%	0.1%
US	1.2%	6.8%	7.1%	0.3%
Mexico	3.3%	7.4%	7.8%	0.4%
India	6.9%	4.9%	5.9%	1.0%
South Korea	0.6%	3.7%	5.0%	1.3%
Switzerland	-0.7%	1.5%	3.0%	1.5%
Saudi Arabia	5.8%	1.1%	2.9%	1.8%
South Africa	3.2%	5.5%	7.4%	1.9%
Canada	1.0%	4.7%	6.8%	2.1%
New Zealand	1.4%	4.9%	7.2%	2.3%
Singapore	-0.1%	3.8%	6.7%	2.9%
Japan	-0.9%	0.6%	3.8%	3.2%
France	0.2%	2.8%	6.2%	3.4%
Russia	4.4%	8.4%	12.0%	3.6%
Ireland	-1.1%	5.3%	8.9%	3.6%
Indonesia	1.6%	1.8%	5.4%	3.7%
Philippines	3.3%	4.2%	8.0%	3.8%
Australia	0.7%	3.0%	6.9%	3.9%
Germany	-0.3%	5.2%	10.0%	4.8%
Finland	0.2%	3.7%	9.1%	5.4%
UK	0.3%	5.1%	10.7%	5.6%
Portugal	-0.2%	2.6%	9.9%	7.3%
Italy	-0.2%	3.7%	11.8%	8.1%
Sweden	0.2%	3.3%	11.5%	8.2%
Poland	3.0%	7.8%	17.5%	9.7%
Argentina	36.1%	51.2%	92.4%	41.2%
Turkey	14.0%	21.3%	84.4%	63.1%
Median	0.7%	4.7%	7.2%	3.4%

Source: Charlie Biello

GLOBAL ECONOMY

Regional Outlook

USA

Inflation in the US has risen to high levels in recent times due to disruptions in the supply chain caused by the pandemic and increased demand due to fiscal stimulus. This trend is expected to continue due to a global energy crisis and domestic wage-price increases. The Federal Reserve has taken action to address inflation by raising interest rates at four consecutive meetings, with a half-point increase in December. However, there are early signs that inflation may be slowing, as indicated by a slight decrease in the CPI and PCE in the autumn. While hiring remains strong, job openings have decreased and the housing sector, which is sensitive to interest rates, may already be in a downturn. It will be challenging for the Fed to achieve a soft landing, and as a result we think a recession is likely mid—2023.

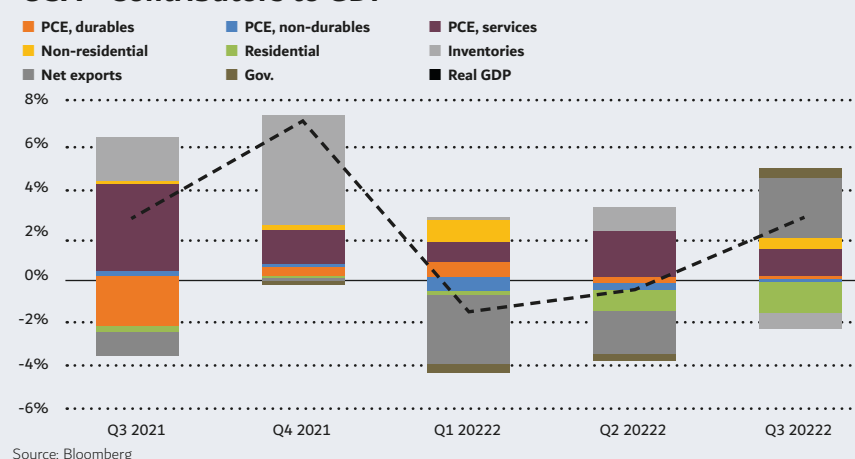
Real GDP increased by 2.6% in the 3rd quarter, indicating a return to economic growth. However, there are still indications of a slowdown in certain areas that provide a clearer indication of momentum.

US – Inflation forecasts

	2022	2023	2024	2025	Long Run
Change in real GDP 4Q to 4Q	0.5	0.5	1.6	1.8	1.8
Unemployment rate 4Q	3.7	4.6	4.6	4.5	4.0
Headline PCE 4Q to 4Q	5.6	3.1	2.5	2.1	2.0
Core PCE 4Q to 4Q	4.8	3.5	2.5	2.1	

Source Bloomberg

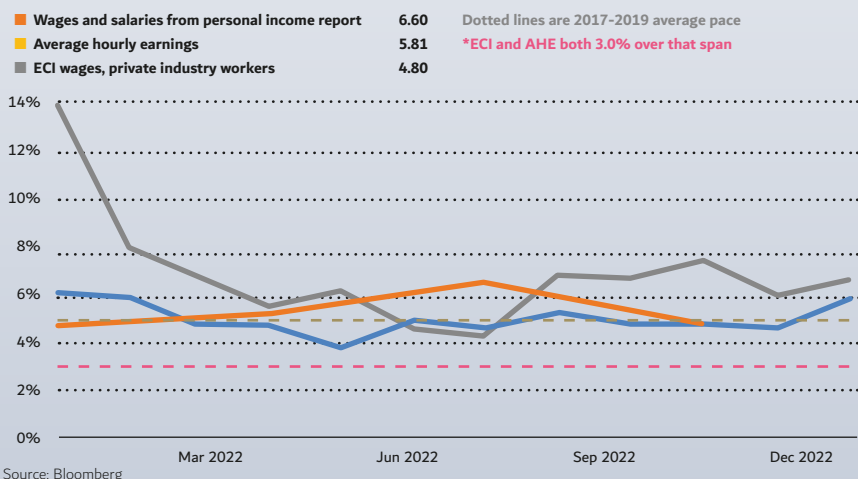
USA - Contributors to GDP



While some sectors showed slight improvement, residential investment, which is sensitive to interest rates, declined significantly as anticipated.

Consumer spending also slowed to an annualized rate of 1.4%, the second lowest level seen during the pandemic recovery. The Federal Reserve is likely to view the weaker components as the result of their tighter monetary policy and may not yet decide to pause the tightening cycle.

USA - Wage and salary growth, 2022



The latest data from the nonfarm payrolls showed that there were 263,000 new jobs created in November, which exceeded expectations and was higher than the 100,000 jobs that Federal Reserve Chair Jerome Powell had mentioned as being in line with population growth. In addition, average hourly earnings increased by 0.6% on a monthly basis, reversing the trend of slowing growth seen in recent months. Overall, the data suggests that the labor market is still far from reaching a level of stability in regards to non-accelerating inflation and is only slowly adjusting.

GLOBAL ECONOMY

Europe

The situation in Ukraine has highlighted the fragility of peace in Europe. The upcoming winter will also present challenges, as higher energy costs put pressure on consumers.

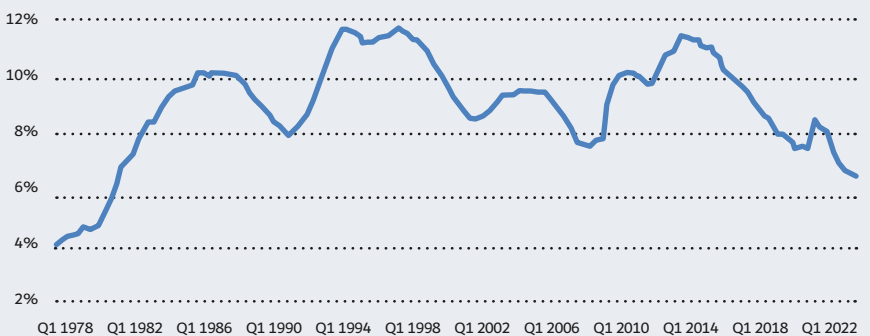
Despite this, the eurozone saw surprising economic growth in the third quarter of 2022, as governments provided support to consumers and disruptions caused by the pandemic subsided. Our prediction is that the eurozone will experience a decline in the winter months, due to both the energy costs and tighter monetary policy. A slow recovery is expected to begin in the spring.

The European Central Bank has prioritized tackling high inflation over supporting growth. After two consecutive 75 basis point hikes, we expect the ECB to increase rates at a smaller increment in December. We anticipate that the hiking cycle will come to an end in the first quarter of 2023 as core inflation begins to decrease.

The euro-area economy showed unexpected resilience in 2022, with growth of 0.6% in the first quarter, 0.8% in the second quarter, and 0.2% in the third quarter. This was despite inflation putting a squeeze on spending power. This can partly be attributed to the reopening of European economies after the worst of the pandemic passed, as well as fiscal support.

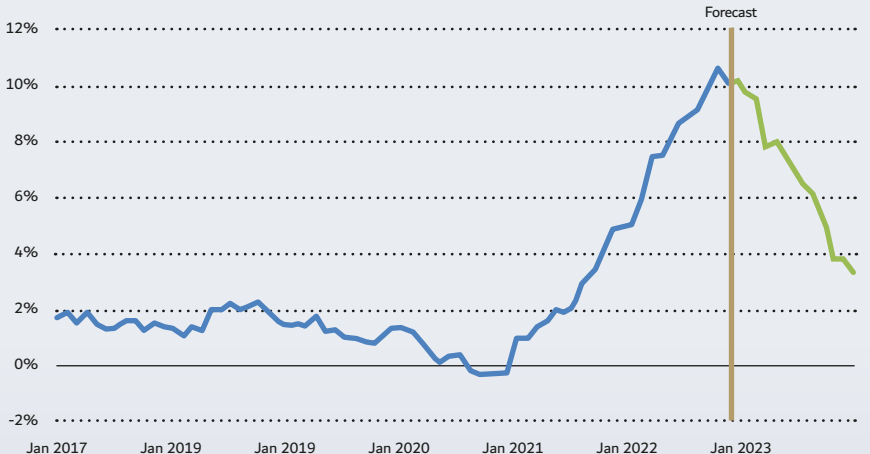
Unemployment hits 40-year low

GDP-weighted unemployment for big four economies



Source: Bloomberg Economics, Destatis, Ine, Insee, Istat

Inflation



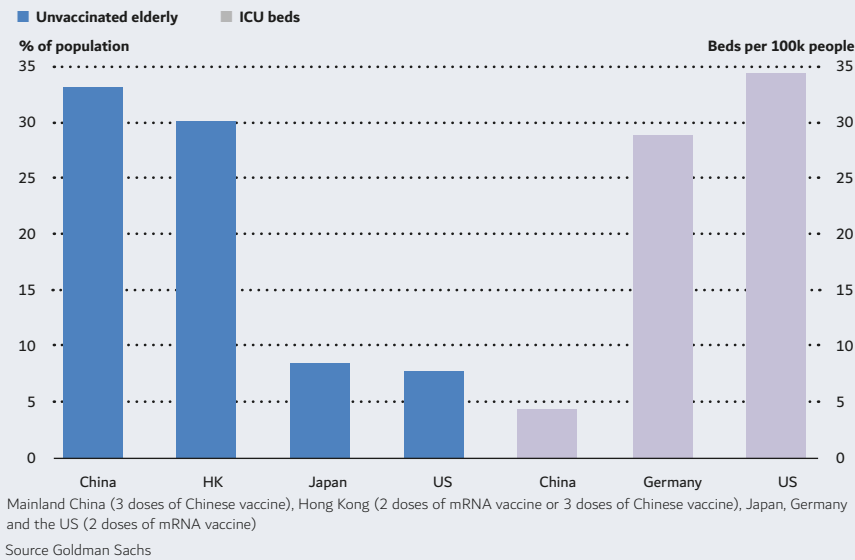
Source: Bloomberg

As we move into the fourth quarter, the energy crisis has intensified, sentiment among businesses has decreased, and tighter monetary policy is starting to reduce demand. We predict that economic activity will contract by 0.5% in the fourth quarter and 0.4% in the first quarter of 2023. This decrease is relatively mild, but could be worse if energy costs increase again.

Headline inflation in the euro-area fell significantly to 10% in November, down from 10.6% in October. This was the first time in over a year and a half that it fell below consensus expectations. While this is good news for the ECB, the high level of underlying pressures, as indicated by unchanged core inflation at a record high of 5%, remains a concern.

GLOBAL ECONOMY

Indicators of Covid health risk

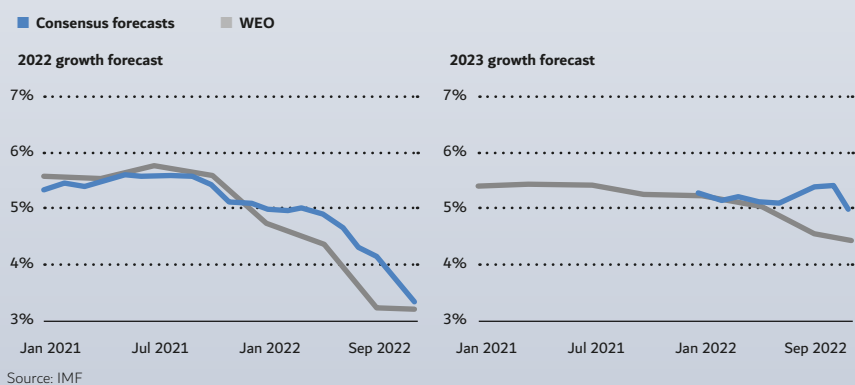


Daily Covid-19 vaccinations administered in China

(7-day moving average)



Growth forecasts for China



China

The Chinese government has struggled to contain the spread of Covid-19 due to widespread lockdowns and low vaccination rates, particularly among the elderly. Additionally, China's hospital system is not as comprehensive as those in developed countries.

As a result, the authorities have been hesitant to adopt a "living with Covid" policy. However, a prolonged lockdown is not a viable option, and we expect to see an increase in economic activity as pent-up demand is released. Investors are paying close attention to any signs of a change in approach, as demonstrated by the market's sensitivity to policy shifts.

However, risks of delays in the government's efforts to reopen remain, with less than 70% of the 60+ age group in Mainland China triple vaccinated. As a result China will need to significantly ramp up its vaccination pace from the current 100k/day before reopening can safely begin.

If the domestic economy improves, fiscal policy is likely to become more restrictive. In addition, it is expected that China's current export increase due to the pandemic, fueled by global demand for technology, housing, and Covid-related products, will decline as demand decreases

GLOBAL ECONOMY

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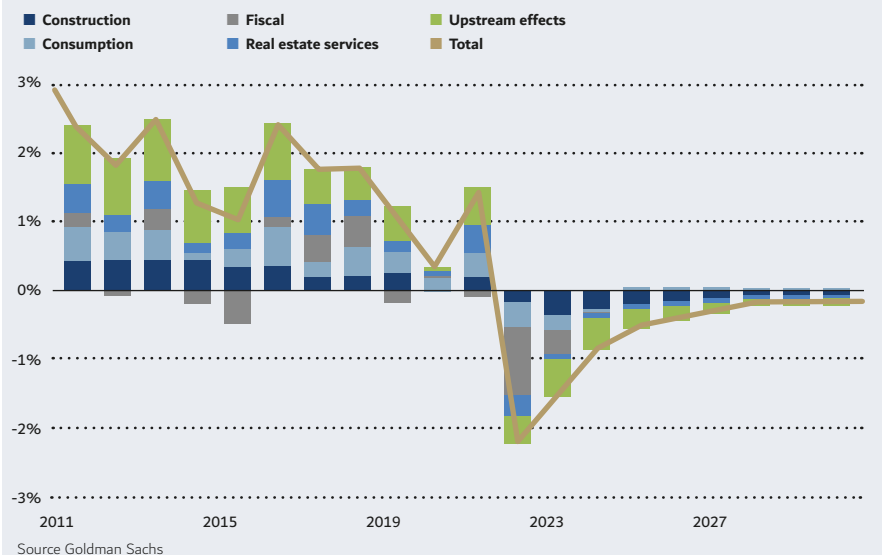
China's recent investment boom, fueled by debt, is built on unstable foundations. The country's corporate debt-to-GDP ratio is 218% in 2021 and the real estate market is oversaturated.

The Chinese government recognizes the need for change and is working to reduce inequality and increase access to the middle class through its "common prosperity" agenda.

However, these efforts will have to be balanced with the immediate task of safely reopening the country amid the ongoing COVID-19 pandemic. On a long-term basis, the decline of the property sector and US restrictions on chip exports will continue to hinder growth for the foreseeable future.

Goldman Sachs estimates that the ongoing decline of the property sector will result in a reduction of approximately 1.5% in growth next year, as it works to reduce debt and confronts demographic challenges.

China: Housing contribution to annual GDP growth



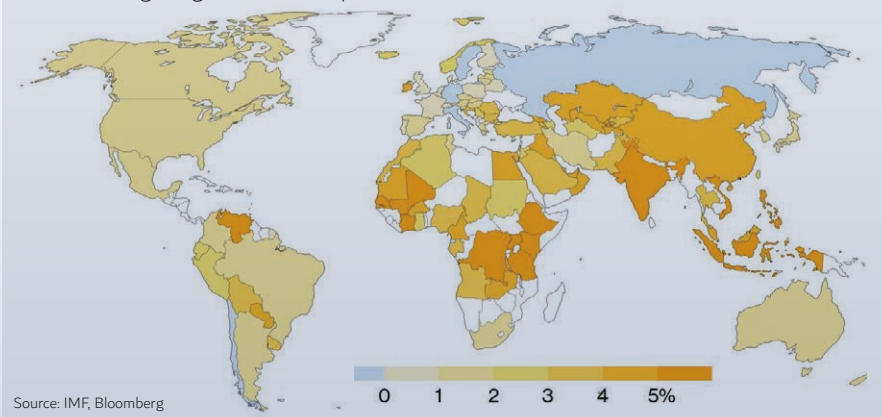
Selected Economies Real GDP Growth

	2019	2020	2021	2022e	2023e
USA	2.3	-3.4	5.7	1.6	1.0
Germany	1.1	-3.7	2.6	1.5	-0.3
China	6.0	2.2	8.1	3.2	4.4
India	3.7	-6.6	8.7	6.8	6.1
United Kingdom	1.7	-9.3	7.4	3.6	0.3
Japan	-0.4	4.6	1.7	1.7	1.6
GCC	1.0	-3.1	4.1	5.0	3.6

Source: IMF

Global economy in 2023

Annual change in gross domestic product



GCC ECONOMY

GCC ECONOMY

The GCC and MENA region has made significant progress in recovering from the economic impact of COVID-19. Despite the ongoing conflict and tightening of global financial conditions, economic activity has remained resilient according to high-frequency indicators for Q2 2022. For instance, the purchasing managers' index indicated continued non-oil growth in certain countries and industrial production continued to expand in others, although at a slower pace. Hotel occupancy rates and international flight arrivals also recovered in July.

Employment has been recovering from the pandemic-induced losses, with the median employment for oil-exporting and EM&MI countries surpassing end-2019 levels in H2 2021.

However, as of Q1 2022, the region's employment remained below the levels implied by pre-pandemic trends, indicating that unemployment, particularly for women and youth in the MENA region, remained elevated, although it has been decreasing from its 2020 peak.

According to the IMF's most recent forecast, the GDP growth for the Middle East and North Africa (MENA) region will remain unchanged at 5% in 2022, up from 4.1% in 2021. The combination of high oil prices and strong non-oil economic growth in oil-exporting countries in the region is helping to offset the negative impact of rising food prices and interest rates.

Additionally, these countries are expected to benefit from increased trade with Europe, as European countries seek non-Russian energy sources to fill the gap left by reduced Russian energy exports.

The IMF predicts that the GDP of the Gulf Cooperation Council (GCC) will grow by 6.5% in 2022 and 3.6% in 2023, while real oil GDP growth is expected to increase by 10.5% in 2022 and 3.6% in 2023. Global oil prices are projected to average \$98.2 per barrel in 2022, a 41.2% increase from the average price in 2021.

The GCC (Gulf Cooperation Council) governments have experienced an improvement in their financial situation due to the increase in oil revenues compared to the previous year. This, combined with ongoing spending, has caused the fiscal breakeven oil prices in all GCC countries except the UAE to decrease in 2022.

However, the market for projects in the GCC has been stagnant in recent quarters, with a significant drop in contract awards in Q3 2022 due to economic struggles and fears of a potential recession.

The total value of contracts awarded in the GCC during the first nine months of 2022 decreased by 26.2%, falling from USD 71.7 billion in the same period of 2021 to USD 53.0 billion. Except for Kuwait and Bahrain, the IMF's latest report shows a downward revision in the breakeven oil prices for the rest of the GCC countries compared to their projections in April 2022.



GCC ECONOMY

Additionally, with current oil prices around USD 95/b, only Bahrain has a 2022 breakeven oil price above the current price at USD 127.6/b. Qatar has the lowest breakeven oil price in the region at USD 48.1/b, followed by Kuwait and the UAE at USD 56.7/b and USD 63.9/b, respectively. In comparison, the average price of Brent spot crude was USD 104.1/b during the first nine months of 2022.

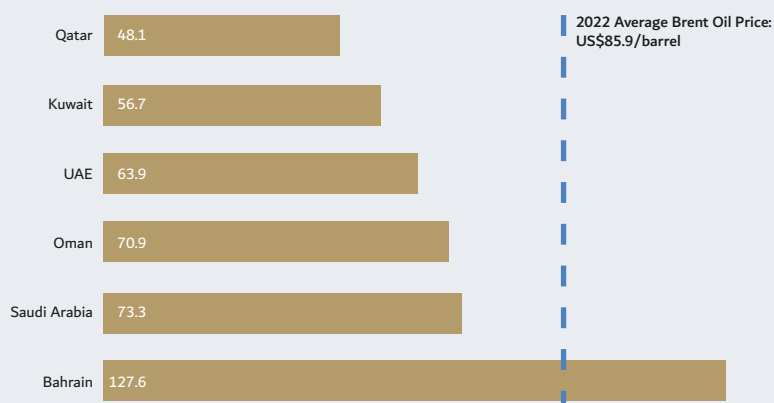
We believe that GCC will benefit from international energy market developments in 2023, high energy revenue spill over and help to drive business activity in non-energy sectors—especially through state-backed investment in economic diversification projects.

The UAE economy is set to expand by 5.1% in 2022 and 4.2% in 2023 driven by new socio-economic programs and new expanding economy sectors, as per IMF. Recently, Dubai saw the launch of Dubai Economic Agenda 'D33' with the ambitious goals of doubling the size of Dubai's economy over the next decade and consolidating its position among the top three global cities.

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Fiscal breakeven oil prices - 2022



Source: IMF, EIA, Kamco Invest Research

GCC - Real GDP Growth

	2019	2020	2021	2022e	2023e
Bahrain	2.2	-4.9	2.2	3.4	3.0
Kuwait	-0.6	-8.9	1.3	8.7	2.6
Oman	-1.1	-3.2	3.0	4.4	4.1
Qatar	0.7	-3.6	1.6	3.4	2.4
Saudi Arabia	0.3	-4.1	3.2	7.6	3.7
U.A.E	3.4	-4.8	3.8	5.1	4.2
GCC	1.0	-4.5	3.1	6.5	3.6

GCC ECONOMY

Let's not repeat the past

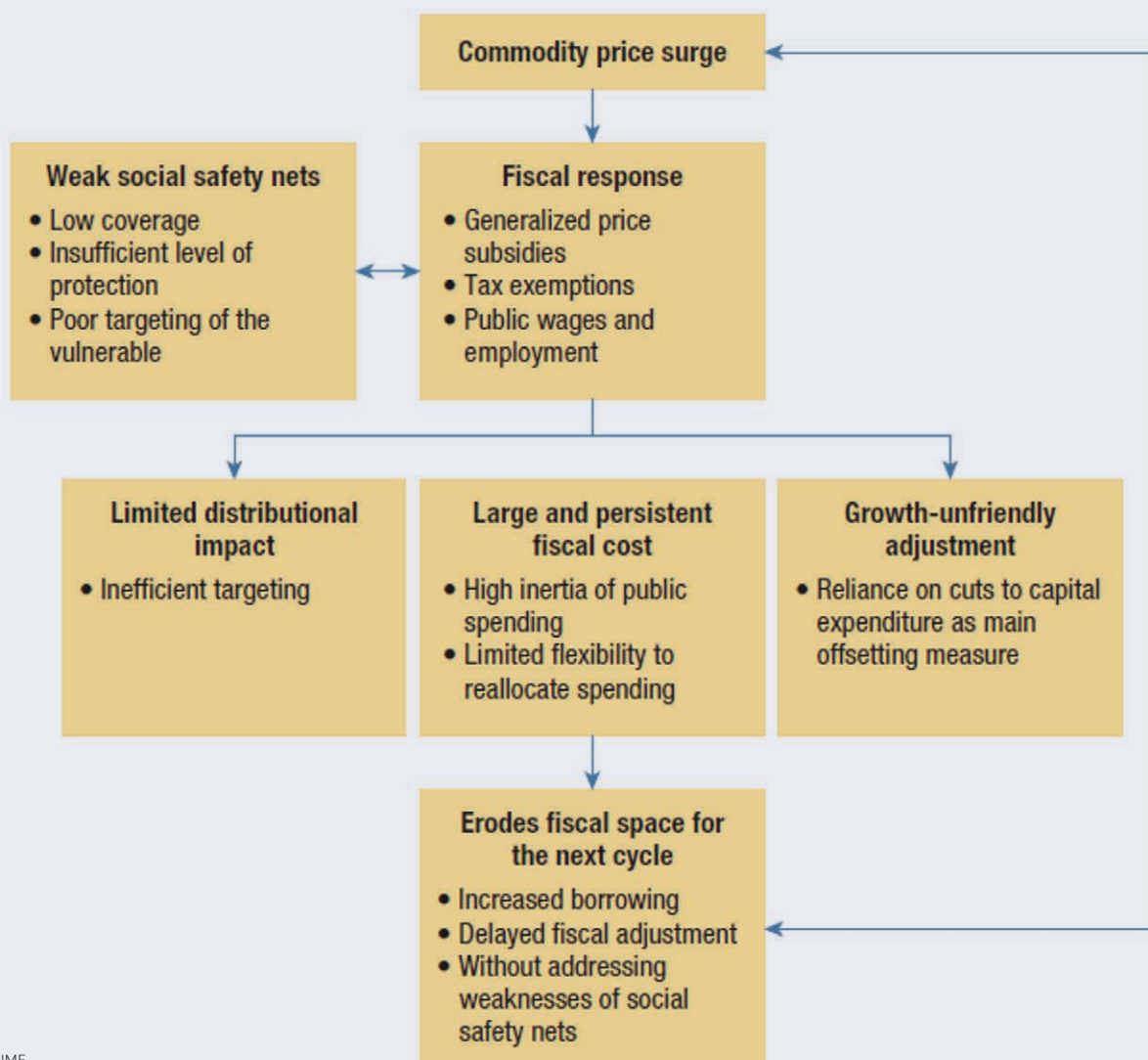
Due to the current increase in commodity prices and resulting financial pressures, it is important for policies to be carefully designed in order to effectively protect vulnerable individuals while also maintaining debt sustainability and avoiding new budget constraints.

These policies should aim to end the cycle of inefficient and overly broad social protection and subsidies by implementing cost-effective measures to assist those in need and improve resilience to future shocks, such as completing energy subsidy reform.

In low-income countries, where there is limited fiscal space and policymakers are often relying on price subsidies, international support may be required.

If commodity prices remain high for an extended period, the significance of these decisions will be even greater. In situations with limited fiscal space, any short-term fiscal expansion using untargeted measures will require either abrupt and difficult offsetting measures or an increase in borrowing, leading to macroeconomic imbalances and exacerbating fiscal vulnerabilities. Therefore, in order to fund any immediate crisis-support measures, countries will need to prioritize spending.

Fiscal response cycle post commodity price surge



Source: IMF

GLOBAL EQUITY MARKETS

GLOBAL EQUITY MARKETS

As of September 2022, the S&P 500 had fallen 25% from its peak. In the past, this level of decline has typically been followed by an increase in the stock market a year later.

Whenever the S&P 500 had fallen 25% from its peak, this level of decline has typically been followed by an increase in the stock market a year later. There have been two exceptions to this trend since 1950: the 2008 financial crisis and the dot-com bubble of 2000. While we do not see the same macroeconomic conditions present today as in 2008, it is worth considering whether valuations are similar to those seen in 2000.

A potential risk to most consensus outlook for stocks would be if valuations still have a significant way to fall from current levels.

In 2022, S&P 500 valuations were not far from those seen during the dot-com bubble, although much of this can be attributed to high valuations in growth stocks as seen below. Despite underperforming in 2022, these stocks are still not cheap compared to historical standards.

A potential risk to most consensus outlook for stocks would be if valuations still have a significant way to fall from current levels

S&P 500: Total returns (1928-2022) %

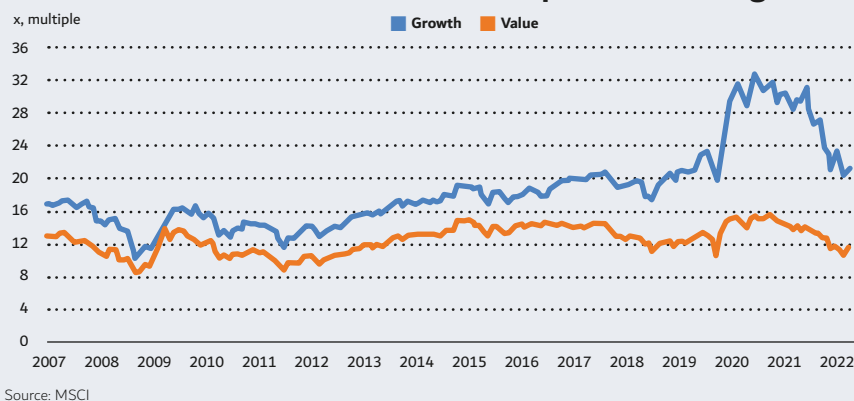
Year	Ret	Year	Ret	Year	Ret	Year	Ret	Year	Ret
1928	43.8	1947	5.2	1966	-10.0	1985	31.2	2004	10.9
1929	-8.3	1948	5.7	1967	23.8	1986	18.5	2005	4.9
1930	-25.1	1949	18.3	1968	10.8	1987	5.8	2006	15.8
1931	-43.8	1950	30.8	1969	-8.2	1988	16.6	2007	5.5
1932	-8.6	1951	23.7	1970	3.6	1989	31.7	2008	-37.0
1933	50.0	1952	18.2	1971	14.2	1990	-3.1	2009	26.5
1934	-1.2	1953	-1.2	1972	18.8	1991	30.5	2010	15.1
1935	46.7	1954	52.6	1973	-14.3	1992	7.6	2011	2.1
1936	31.9	1955	32.6	1974	-25.9	1993	10.1	2012	16.0
1937	-35.3	1956	7.4	1975	37.0	1994	1.3	2013	32.4
1938	29.3	1957	-10.5	1976	23.8	1995	37.6	2014	13.7
1939	-1.1	1958	43.7	1977	-7.0	1996	23.0	2015	1.4
1940	-10.7	1959	12.1	1978	6.5	1997	33.4	2016	12.0
1941	-12.8	1960	0.3	1979	18.5	1998	28.6	2017	21.8
1942	19.2	1961	26.6	1980	31.7	1999	21.0	2018	-4.4
1943	25.1	1962	-8.8	1981	-4.7	2000	-9.1	2019	31.5
1944	19.0	1963	22.6	1982	20.4	2001	-11.9	2020	18.4
1945	35.8	1964	16.4	1983	22.3	2002	-22.1	2021	28.7
1946	-8.4	1965	12.4	1984	6.1	2003	28.7	2022	-18.1

Time period	Min Ret	Max Ret	% Positive	Decade	% Annualised
1-Year	-44%	53%	73%	1930-39	-1%
3-Year	-62%	126%	84%	1940-49	9%
5-Year	-49%	251%	88%	1950-59	19%
7-Year	-25%	352%	93%	1960-69	8%
10-Year	-15%	525%	94%	1970-79	6%
15-Year	-3%	1246%	99%	1980-89	17%
20-Year	60%	2543%	100%	1990-99	18%
25-Year	257%	5165%	100%	2000-09	-1%
30-Year	898%	4596%	100%	2010-19	14%
35-Year	1489%	6480%	100%	1930-39	8%

Source: Charlie Biello

GLOBAL EQUITY MARKETS

MSCI World Growth and Value forward price-to-earnings ratio



Currently, value stocks are priced more reasonably compared to their historical values. Our conviction is stronger that value stocks will increase in value by the end of 2023 compared to growth stocks, which still appear expensive. However, if government bond yields reach their peak, it could potentially support the valuation of growth stocks in 2023.

Another potential risk to equities is that the consensus 12-month forward earnings expectations seem too high, having only decreased by approximately 5% from their recent peak. If a recession occurs, it is likely to lead to further reductions in earnings expectations.

Should a recession risk materialize thereby affecting company's earnings, a 5% earnings drop is definitely understated. While some may argue that these earnings downgrades will cause the stock market to decline, it remains to be seen if the market has already accounted for potential further downgrades to consensus forecasts.

Emerging market equities faced a difficult year, failing to meet investors' expectations for this asset class that is typically seen as offering high growth potential. By October, the MSCI Emerging Markets Index had declined by 29% in 2022, lagging behind developed market equities by 10%. The performance of emerging markets was hindered by various challenges, including a slowing global economy, increasing political risks, China's zero-Covid policy, and the fastest tightening cycle of the Federal Reserve in over 30 years.

Country ETFs: 2022 total returns

Country	Ticker	Returns	Country	Ticker	Returns	Country	Ticker	Returns
Turkey	TUR	105.8%	Saudi Arabia	KSA	-6.1%	Ireland	EIRL	-18.8%
Chile	ECH	25.2%	Hong Kong	EWH	-6.8%	Switzerland	EWL	-18.9%
Brazil	EWZ	12.4%	Qatar	QAT	-7.2%	Colombia	GXG	-21.3%
Argentina	ARGT	11.8%	India	INDA	-8.9%	Austria	EWO	-21.9%
Greece	GREK	3.6%	Singapore	EWS	-9.8%	Germany	EWG	-22.2%
Peru	EPU	2.1%	Denmark	EDEN	-11.4%	China	MCHI	-22.8%
Mexico	EWV	1.3%	France	EWQ	-12.0%	Netherlands	EWN	-24.4%
Thailand	THD	1.2%	Norway	NORW	-12.5%	Poland	EPOL	-24.6%
Indonesia	EIDO	-0.2%	Canada	EWC	-12.9%	Egypt	EGPT	-24.6%
UK	EWU	-4.4%	Nigeria	NGE	-13.7%	South Korea	EWY	-26.6%
Portugal	PGAL	-4.8%	Belgium	EWK	-13.9%	Israel	EIS	-27.0%
South Africa	EZA	-5.1%	Italy	EWI	-14.1%	Sweden	EWD	-27.8%
Spain	EWP	-5.2%	Philippines	EPHE	-15.9%	Pakistan	PAK	-28.8%
UAE	UAE	-5.3%	New Zealand	ENZL	-16.2%	Taiwan	EWT	-28.8%
Australia	EWA	-5.9%	Japan	EWJ	-17.7%	Vietnam	VNM	-43.7%
Malaysia	EWM	-6.0%	US	SPY	-18.2%	Russia	ERUS	-99.8%

Source: Charlie Biello

GLOBAL EQUITY MARKETS



Catalysts for Equity Markets

Monetary Policy

To address rising inflation, the Federal Reserve and other major central banks in Europe are working to slow economic growth. Factors such as rising interest rates, higher energy and input costs, and a shift in consumer spending from goods to services are already diminishing demand for goods and affecting global manufacturing.

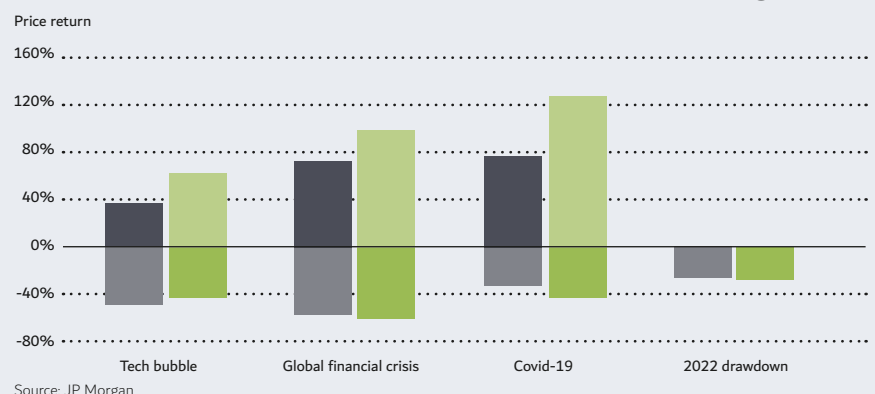
The northeast Asian markets, which rely heavily on exports, have been particularly affected in recent months due to declining manufacturing purchasing managers' indices and downward revisions in earnings expectations.

In Taiwan and South Korea, the influential semiconductor industry has been hit particularly hard by a combination of weakened demand, excess capacity, and U.S. restrictions on Chinese exports, adding to the overall economic challenges.

Given a scenario where a recession forces the fed into either pivoting or halting rate hikes, cyclical stocks within both the technology space and discretionary should recover from their 2022 lows but it remains to be seen whether inflation tames enough for the fed to pivot, and if so when and by how much.

Given a scenario where a recession forces the fed into either pivoting or halting rate hikes, cyclical stocks within both the technology space and discretionary should recover from their 2022 lows

MSCI World Growth and Value forward price-to-earnings ratio



GLOBAL EQUITY MARKETS

Asset Class Returns

Asset Class	2022	3 year	5 year
US REITs	-26.2	-0.4	3.7
Foreign Real Estate/REITs	-22.9	-8.9	-3.6
Foreign Corporate Bonds	-22.6	-6.7	-3.6
Foreign Developed Mkt Govt Bonds	-19.7	-7.1	-3.5
US Stocks	-19.5	7.0	8.6
S&P 500	-18.2	7.6	9.2
Emerging Market Stocks	-18.0	-1.5	-0.2
Foreign Inflation Linked Govt Bonds	-15.6	-4.3	-2.1
Foreign Developed Mkt Stocks	-15.4	1.2	1.6
Foreign Junk Bonds	-14.3	-3.3	-0.5
US Bonds	-13.1	-2.8	0.0
TIPS	-12.2	0.9	1.9
US Junk Bonds	-12.2	-1.4	1.3
Emg Mkt Govt Bonds	-10.6	-5.9	-3.3
Gold	-0.8	5.9	6.7
Cash	0.9	0.5	1.1
US Dollar Index	9.5	2.6	3.7
Commodities	24.1	9.4	5.5
Crude Oil	29.0	-11.9	-6.0

Source: Bloomberg

Zero Covid China Policy

Throughout much of 2022, Beijing has maintained strict lockdown policies, which have had negative impacts on economic growth.

Consumer spending remains low, particularly affecting the services industry. The struggling real estate sector also lacks the ability to bounce back as people's confidence in their future incomes is low.

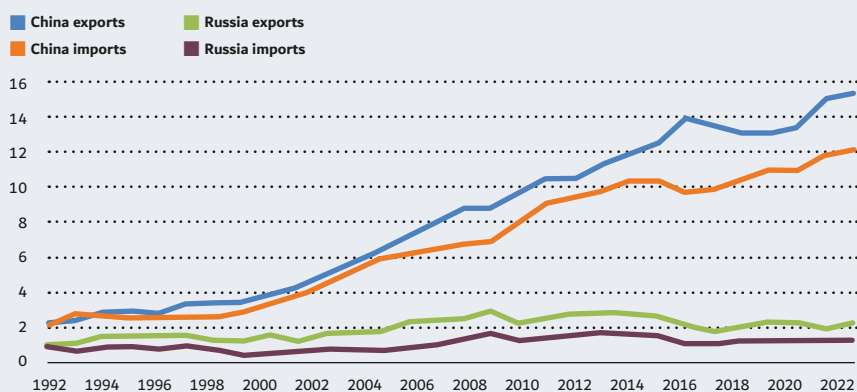
However, in November, officials eased Covid-related control measures, which has renewed hope that China is taking steps towards ending its zero-Covid policy. While an official end to these measures is not imminent, even a plan for gradual easing could lead to a strong recovery in Chinese demand, which would benefit not only China, but also its major trading partners in the region.

Geopolitical Risks

In 2022, political risks had a significant impact on emerging markets. The Russia-Ukraine conflict and resulting sanctions made Russian equities, which made up 3.6% of the MSCI Emerging Markets Index at the beginning of the year, difficult to invest in.

Additionally, increased regulations in China and increased tension between China and the US contributed to a decline in Chinese equities. While it is challenging to predict future political developments, it is possible that political risks will abate in 2023. The Chinese economy relies heavily on global demand and global consumers rely on Chinese production, so it is in the interests of both to improve relations.

China and Russia's share of world trade



Source: IMF, Refinitiv Datastream, J.P. Morgan Asset Management

GLOBAL EQUITY MARKETS

Historical Asset Class Returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Annualised
US Equities 32.6%	REITs 22.8%	Japan Equities 9.9%	High Yield 14.3%	China Equities 54.3%	Cash 1.9%	US Equities 31.6%	China Equities 29.7%	Commodities 38.5%	Commodities 22%	US Equities 12.5%
Japan Equities 27.3%	US Equities 13.4%	US Equities 1.3%	Infrastructure 12.4%	EM Equities 37.8%	DM Gov Debt -0.4%	Infrastructure 27%	US Equities 21.4%	REITs 32.5%	Cash 1.3%	Infrastructure 6.5%
Europe Equities 26%	Infrastructure 13%	Emerging Debt 1.2%	US Equities 11.6%	Europe Equities 26.2%	IG Credit -3.5%	Europe Equities 24.6%	EM Equities 18.7%	US Equities 27%	Infrastructure -0.2%	Japan Equities 5.9%
Infrastructure 15%	China Equities 8.3%	REITs 0.6%	EM Equities 11.6%	Japan Equities 24.4%	High Yield -4.1%	REITs 24.5%	Japan Equities 14.9%	Europe Equities 17%	High Yield -12.7%	Europe Equities 5.2%
High Yield 7.3%	Emerging Debt 5.5%	Cash 0.1%	Emerging Debt 10.2%	US Equities 21.9%	US Equities -4.5%	China Equities 23.7%	IG Credit 10.1%	Infrastructure 11.9%	Europe Equities -14.5%	REITs 5%
China Equities 4%	IG Credit 2.5%	Europe Equities -2.3%	Commodities 9.7%	Infrastructure 20.1%	Emerging Debt -4.6%	Japan Equities 20.1%	DM Gov Debt 9.5%	Japan Equities 2%	IG Credit -16.1%	High Yield 3%
REITs 2.8%	Cash 0.1%	High Yield -2.7%	REITs 6.9%	High Yield 10.4%	REITs -4.8%	EM Equities 18.9%	High Yield 7%	High Yield 1	Japan Equities -16.3%	China Equities 2.6%
IG Credit 1.8%	High Yield 0%	DM Gov Debt -3.3%	IG Credit 6%	Emerging Debt 9.3%	Infrastructure -9.5%	Emerging Debt 14.4%	Europe Equities 5.9%	Cash 0%	Emerging Debt -16.5%	EM Equities 1.8%
Cash 0.1%	DM Gov Debt -0.8%	IG Credit -3.8%	Japan Equities 2.7%	IG Credit 9.3%	Commodities -10.7%	High Yield 12.6%	Emerging Debt 5.9%	Emerging Debt -1.5%	DM Gov Debt -17.5%	Emerging Debt 1.3%
EM Equities -2.3%	EM Equities -1.8%	China Equities -7.6%	DM Gov Debt 1.7%	REITs 8.6%	Japan Equities -12.6%	IG Credit 11.8%	Cash 0.7%	IG Credit -2.1%	US Equities -19.5%	IG Credit 1.3%
DM Gov Debt -4.3%	Japan Equities -3.7%	Infrastructure -11.5%	China Equities 1.1%	DM Gov Debt 7.3%	EM Equities -14.2%	Commodities 11.8%	Infrastructure -5.8%	EM Equities -2.2%	EM Equities -19.7%	Cash 0.8%
Commodities -5%	Europe Equities -5.7%	EM Equities -14.6%	Cash 0.4%	Commodities 1.7%	Europe Equities -14.3%	DM Gov Debt 5.6%	REITs -8.1%	DM Gov Debt -6.6%	China Equities -21.8%	Commodities 0.2%
Emerging Debt -6.6%	Commodities -17.9%	Commodities -23.4%	Europe Equities 0.2%	Cash 0.8%	China Equities -18.7%	Cash 2.3%	Commodities -9.3%	China Equities -21.6%	REITs -23.6%	DM Gov Debt -1.2%
Key: Equities Bonds Private Markets, Commodities										

Source: BlackRock

Major Stock Indices Returns

% Change	2022	2022	2021	2021	15 years	15 years
Regions	Local	USD	Local	USD	Annualized	Beta
US S&P 500	-	-18.1	-	28.7	8.8	0.90
AC World ex US	-9.2	-15.6	13.5	8.3	2.0	1.07
EAFE	-6.5	-14.0	19.2	11.8	2.3	1.04
Europe ex-UK	-12.2	-17.3	24.4	16.5	2.4	1.18
Emerging Markets	-15.2	-19.7	0.1	-2.2	1.0	1.18
Countries						
United Kingdom	7.2	-4.8	19.6	18.5	1.4	1.02
France	-6.9	-12.7	29.7	20.6	2.8	1.22
Germany	-16.5	-21.6	13.9	5.9	0.9	1.31
Japan	-4.1	-16.3	13.8	2.0	2.5	0.72
China	-20.6	-21.8	-21.6	-21.6	0.6	1.10
India	3.0	-7.5	28.9	26.7	2.4	1.26
Brazil	8.6	14.6	-11.2	-17.2	-2.1	1.50
Korea	-24.4	-28.9	0.8	-7.9	1.6	1.49

Source: Bloomberg

GLOBAL EQUITY MARKETS

Correlations and volatility

	US Large Cap	EAFE	EME	Bonds	Corp HY	Munis.	Currency	EMD	Cmdty	REITs	Hedge Funds	PE	Gold	Ann vol.
US Large Cap	1.00	0.87	0.76	0.25	0.85	0.35	-0.42	0.69	0.43	0.77	0.84	0.82	0.10	0.15
EAFE		1.00	0.89	0.26	0.85	0.42	-0.60	0.76	0.45	0.62	0.82	0.82	0.20	0.15
EME			1.00	0.30	0.82	0.44	-0.69	0.81	0.48	0.53	0.75	0.74	0.38	0.18
Bonds				1.00	0.37	0.85	-0.35	0.67	-0.20	0.42	-0.02	0.02	0.56	0.04
Corp HY					1.00	0.45	-0.48	0.86	0.49	0.69	0.80	0.75	0.26	0.08
Munis.						1.00	-0.38	0.76	-0.13	0.54	0.13	0.21	0.49	0.04
Currencies							1.00	-0.59	-0.42	-0.21	-0.29	-0.42	-0.56	0.06
EMD								1.00	0.26	0.62	0.55	0.55	0.49	0.08
Commodities									1.00	0.33	0.61	0.58	0.32	0.17
REITs										1.00	0.61	0.63	0.18	0.16
Hedge Funds											1.00	0.86	0.01	0.05
Private Equity												1.00	0.01	0.08
Gold													1.00	0.15

Source: Bloomberg

In 2022, political risks had a significant impact on emerging markets. Given The Russia-Ukraine conflict and resulting sanctions made Russian equities, which made up 3.6% of the MSCI Emerging Markets Index at the beginning of the year, difficult to invest in



GLOBAL FIXED INCOME

GLOBAL FIXED INCOME

In 2022, the fixed income market saw widespread selloffs due to a combination of factors, including rising inflation and increasing interest rates from the Federal Reserve, as well as concerns about a slowing economy leading to credit spread widening.

On only four other occasions since 1928 has both the S&P and the US 10-year been in the red with 2022 the worst year ever for US 10-year returns. The record-breaking drop in the Bloomberg Barclays Global Bond Aggregate this year has caused further difficulties for fixed income investors.

The combination of rising inflation, central banks attempting to catch up, and governments no longer concerned about debt, has led to a sharp adjustment in the market. Investors have had to completely reevaluate their expectations for monetary policy rates and the risk premium that should be present in a world where central banks cannot support the market.

S&P 500, US 10-year Treasury, 60/40 portfolio (total returns 1928-2020)

Year	S&P	10-Year	60/40	Year	S&P	10-Year	60/40	Year	S&P	10-Year	60/40	Year	S&P	10-Year	60/40
1928	43.8	0.8	26.6	1952	18.2	2.3	11.8	1976	23.8	16.0	20.7	2000	-9.1	16.7	1.2
1929	-8.3	4.2	-3.3	1953	-1.2	4.1	0.9	1977	-7.0	1.3	-3.7	2001	-11.9	5.6	-4.9
1930	-25.1	4.5	-13.3	1954	52.6	3.3	32.9	1978	6.5	-0.8	3.6	2002	-22.1	15.1	-7.2
1931	-43.8	-2.6	-27.3	1955	32.6	-1.3	19.0	1979	18.5	0.7	11.4	2003	28.7	0.4	17.4
1932	-8.6	8.8	-1.7	1956	7.4	-2.3	3.6	1980	31.7	-3.0	17.8	2004	10.9	4.5	8.3
1933	50.0	1.9	30.7	1957	-10.5	6.8	-3.6	1981	-4.7	8.2	0.5	2005	4.9	2.9	4.1
1934	-1.2	8.0	2.5	1958	43.7	-2.1	25.4	1982	20.4	32.8	25.4	2006	15.8	2.0	10.3
1935	46.7	4.5	29.8	1959	12.1	-2.6	6.2	1983	22.3	3.2	14.7	2007	5.5	10.2	7.4
1936	31.9	5.0	21.2	1960	0.3	11.6	4.9	1984	6.1	13.7	9.2	2008	-37.0	20.1	-14.2
1937	-35.3	1.4	-20.7	1961	26.6	2.1	16.8	1985	31.2	25.7	29.0	2009	26.5	-11.1	11.4
1938	29.3	4.2	19.3	1962	-8.8	5.7	-3.0	1986	18.5	24.3	20.8	2010	15.1	8.5	12.4
1939	-1.1	4.4	1.1	1963	22.6	1.7	14.2	1987	5.8	-5.0	1.5	2011	2.1	16.0	7.7
1940	-10.7	5.4	-4.2	1964	16.4	3.7	11.3	1988	16.6	8.2	13.3	2012	16.0	3.0	10.8
1941	-12.8	-2.0	-8.5	1965	12.4	0.7	7.7	1989	31.7	17.7	26.1	2013	32.4	-9.1	15.8
1942	19.2	2.3	12.4	1966	-10.0	2.9	-4.8	1990	-3.1	6.2	0.6	2014	13.7	10.7	12.5
1943	25.1	2.5	16.0	1967	23.8	-1.6	13.6	1991	30.5	15.0	24.3	2015	1.4	1.3	1.3
1944	19.0	2.6	12.4	1968	10.8	3.3	7.8	1992	7.6	9.4	8.3	2016	12.0	70.0	7.5
1945	35.8	3.8	23.0	1969	-8.2	-5.0	-7.0	1993	10.1	14.2	11.7	2017	21.8	2.8	14.2
1946	-8.4	3.1	-3.8	1970	3.6	16.8	8.8	1994	1.3	-8.0	-2.4	2018	-4.4	0.0	-2.6
1947	5.2	0.9	3.5	1971	14.2	9.8	12.4	1995	37.6	23.5	31.9	2019	31.5	9.6	22.7
1948	5.7	2.0	4.2	1972	18.8	2.8	12.4	1996	23.0	1.4	14.3	2020	18.4	11.3	15.6
1949	18.3	4.7	12.8	1973	-14.3	3.7	-7.1	1997	33.4	9.9	24.0	2021	28.7	-4.4	15.5
1950	30.8	0.4	18.7	1974	-25.9	2.0	-14.7	1998	28.6	14.9	23.1	2022	-18.1	-16.5	-17.5
1951	23.7	-0.3	14.1	1975	37.0	3.6	23.6	1999	21.0	-8.3	9.3				

Source: Charlie Bilello

GLOBAL FIXED INCOME

Fixed Income Yields and Returns

(% Change)	Yield 2022	Yield 2021	Return 2022	Return 2022	Duration	Correlation to 10yr
Regions			Local	USD		
US	4.68	1.75	-13.01	-13.01	6.2	0.91
Global ex US	3.13	1.07		-18.08	7.0	0.56
Japan	0.75	0.18	-5.06	-17.14	9.20	0.59
Germany	3.22	0.05	-15.54	-20.74	6.10	0.45
UK	4.29	1.18	-20.47	-29.37	8.30	0.47
Italy	4.10	0.76	-16.59	-21.72	6.00	0.30
China	2.94	2.75	0.46	-5.72	5.80	0.54
Sector						
Euro Corp	4.32	0.52	-13.65	-18.96	4.5	0.41
Euro HY	8.32	3.55	-11.13	-16.59	3.1	0.03
EMD \$	8.55	5.27		-17.78	6.0	-0.01
EMD LCL	6.86	5.72	-5.91	-11.69	4.9	-0.08
EM Corp	7.28	4.11		-12.26	4.9	-0.01

Source: Bloomberg

Fixed Income Returns based on maturities, sectors

(% Change)	Yield 2022	Yield 2021	Return 2022	Avg Maturity	Correlation to 10yr	Correlation to S&P 500
US Treasuries						
2 year	4.41	0.73	-4.11	2	0.71	-0.23
5 year	3.99	1.26	-9.74	5	0.93	-0.19
TIPS	1.58	-1.04	-11.85	10	0.60	0.33
10 year	3.88	1.52	-16.33	10	1.00	-0.17
30 year	3.97	1.90	-33.29	30	0.93	-0.19
Sector						
US Aggregate	4.68	1.75	-13.01	8.4	0.85	0.19
IG Corps	5.42	2.33	-15.76	10.9	0.51	0.46
Convertibles	7.05	3.66	-18.92		-0.17	0.87
US HY	8.96	4.21	-11.19	5.5	-0.12	0.74
Municipals	3.55	1.11	-8.53	13.0	0.48	0.20
MBS	4.71	1.98	-11.81	7.8	0.78	0.11
ABS	5.89	1.96	-3.23	3.6	0.01	0.06
Leveraged Loans	11.41	4.60	0.06	2.4	-0.37	0.60

Source: Bloomberg

The drop in the bond aggregate in the first 10 months of 2022 was around -20%, which is four times worse than the previous worst year on record since 1992.

While the correction in global bond markets has been severe, we believe it is coming to an end. It is likely that central banks will continue to increase rates in 2023 in an effort to combat inflation. However, with the market now expecting terminal rates of around 5% in the US, 4.5% in the UK, and near 3% in the eurozone, there is limited potential for further unexpected increases, assuming that inflation begins to decrease.

This year's problem has not only been the aggressive rate hikes by central banks, but also that they have been raising rates by much more than the market anticipated. Looking ahead, it is clear that the income offered by bonds is now more appealing.

This year's problem has not only been the aggressive rate hikes by central banks, but also that they have been raising rates by much more than the market anticipated

GLOBAL FIXED INCOME

Global government bond yields have increased by approximately 200 basis points since the beginning of the year, while high yield bonds have yields approaching double digits. Inflation-adjusted valuations also look more attractive - while the approximately 1% real yield on global government bonds may not seem particularly exciting, it is at the highest level since the financial crisis and around long-term averages.

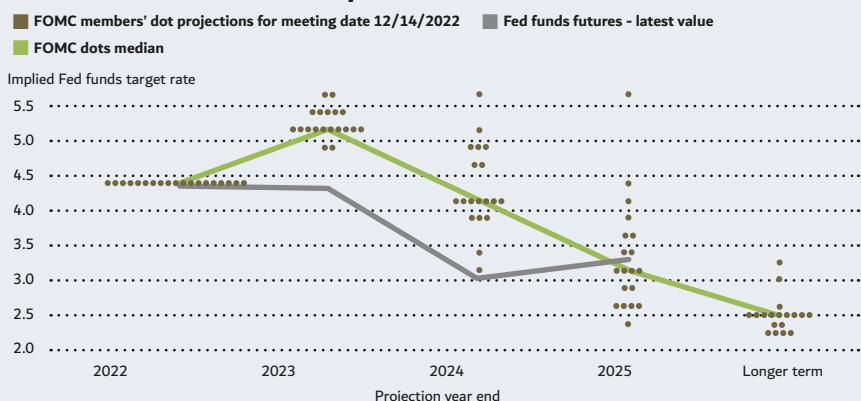
By the end of November, the yield curve remained inverted, with higher yields at the longer end of the curve. However, as December began, there were signs of a shift with some spreads beginning to narrow as the credit market anticipated a change in the Federal Reserve's rate hike policy. While this pivot has not yet occurred, investors are anticipating a slower pace of rate increases in the latter half of 2023.

The turmoil of 2022 has brought asset return forecasts close to long-term equilibrium; the 60/40 can once again form the bedrock for portfolios, with alternatives offering alpha, inflation protection and diversification.

Once today's market turbulence clears, investors will have more scope to achieve long-term portfolio return objectives. Treasury returns are poised to remain a primary catalyst for those of corporate bonds in the year ahead, with excess returns for both investment grade and high yield seen neutral to negative.

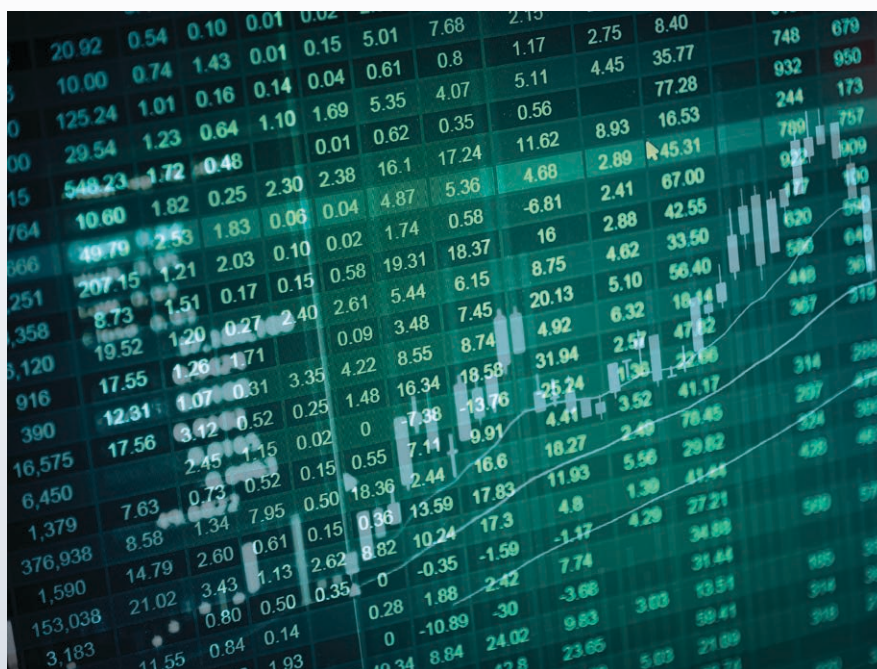
The longer-duration profile and lower expected spread variability for high grade may make for mid-single-digit gains or better. By contrast, high yield spread has more widening to do, which may lead to negative excess and total returns despite yield at year-end.

The Fed's December dot plot



Market expectations for Fed funds rate

(Fed Funds Futures, Jan 2023-Jan 2025)



GCC EQUITY



GCC EQUITY

GCC should outperform global peers during an economic slowdown

2022 has been a tumultuous year for GCC equities, with the S&P Pan Arab peaking at 1168.9 in May, returning 17.7%, and thereafter de-rating 23.1% to a trough of 899.4, and closing the year in the red at 912.7 down 8.1%. This has by and large been led by Saudi's TASI, which fell -24.2% from its peak as SAIBOR spiked to 5.9% on drying liquidity in the banking sector, and oil prices slid -35.1% from their USD 123.7 peak to USD 80.3 per barrel. The MSCI GCC Index declined by 6.4% during the year after posting one of the biggest gains globally during 2021.

Nevertheless, we expect GCC economies to remain comparably insulated from slower global growth, thanks to a tight oil market combined with China's easing COVID policies which should strengthen fiscal balances. We remain positive on the region due to stable oil prices leading to fiscal surplus, government diversification efforts, market reforms, relatively attractive valuation and increase allocation in the market indices.

MENA's index weighting still has room to grow

MENA's weight in the index has been consistently rising, from 4.98% in 2019, to 7.71% in 2022. New IPOs in 2023 and additional FOL hikes should keep MENA's weighting on an upward trajectory, with the latter potentially resulting in significant passive inflows, given Saudi's TASI still implements a 49% FOL. Stake sales can also yield higher inflows.

GCC EQUITY

Corporate earnings show mixed trends

According to KAMCO Research, quarterly profits for GCC-listed companies witnessed a q-o-q decline of 8.0% or USD 6.1 Bn during Q3-2022 mainly led by a fall in earnings for Energy and Materials companies. The declines were also reflected in the respective sectoral indices with the Bloomberg Global Basic Materials Index declining by 10.5% during Q3-2022 while crude oil prices dropped by 23.4% during the quarter. In terms of regions, only UAE-listed companies showed higher profits during the quarter. Abu Dhabi-listed companies showed the biggest y-o-y profitability improvement during Q3 -2022.

Sector themes we like

Financials

GCC banks continue to benefit from the US's tighter policy, with a 5% rate penciled in, with corporate banks poised to report solid metrics over the next few quarters. Although the US Fed raised terminal rate expectations and argued against a cut during 2023, the bond market thinks otherwise.

This would suggest a less bullish H2 2023 outlook on GCC banks, particularly those heavily reliant on NIM adjustment for growth as opposed to organic new loan origination. Therefore, we prefer banks that combine best of both worlds, with sensitivity to the direction of rates, but also well-positioned to capture loan growth driven by robust economic activity.

Materials and Petrochemicals

Petrochemical prices also had a rollercoaster during 2022, peaking in Q2 and tumbling in H2 2022 as China doubled down on its zero-COVID policy with continued lockdowns. Sequentially, petrochemical prices fell and impacted profitability, with blue-chip names like SABIC falling 35% since their peak. As China eases its COVID policies, profitability and spreads for petrochemical producers should improve on higher prices and lower feedstock costs amid tamer oil prices. GCC petrochemical producers are even better positioned than global producers given a more favorable cost curve.

Multi-cycle sectors: Education and Healthcare

Long-term interest rates are unlikely to fall in the near-term, and this economic environment should favor companies that are multi-cycle in nature, operating in structurally growing sectors. Education in Saudi is significantly under-penetrated, with private enrolment <30%, and should benefit from the complete removal of COVID discounts. Healthcare in Saudi continues to expand via 70% capacity additions over the next 5 years, capitalizing on the implementation of copayment, a new table of benefits, and insurance drug formula.

Tourism and hospitality

The consumer discretionary space will likely remain challenging in 2023, however the full removal of COVID restrictions and re-opening should help improve entertainment activities as spending behavior shifts more towards F&B, travel, and leisure. Given the cyclical nature of this sector however, we would prefer companies with strong balance sheets that can withstand disruptions more robustly.

GCC Stock Indices Returns

		2018	2019	2020	2021	2022
Kuwait	All share index	5.2	23.7	-11.7	27.0	3.5
Saudi Arabia	TASI	8.3	7.2	3.6	29.8	-7.1
Dubai	DFM	-24.9	9.3	-9.9	28.2	4.4
Abu Dhabi	ADX	11.7	3.3	-0.6	68.2	20.3
Qatar	QE 20	20.8	1.2	0.1	11.4	-8.1
Bahrain	Bahrain all share index	0.4	20.4	-7.5	20.6	5.5
Oman	MSM 30	-15.2	-7.9	-8.1	12.9	17.6

Source: Bloomberg

GCC FIXED INCOME

GCC FIXED INCOME

GCC bond issuances remained on a downward trend in 2022, as government fiscal positions remain strong in light of persistently high oil prices and corporate activity remains boosted.

Issuances touched USD 40bn, less than half 2021's USD 88bn, with the government remaining the main participant, but nevertheless weakening y/y. UAE was the GCC's largest issuer with USD 19bn, still less than half of 2021's USD 39bn.

On the corporate side, Saudi Arabia registered USD 4bn in new issuances, vs. just USD 0.1bn in 2021, while the UAE also had the highest number of issuances at USD 13bn.

GCC Fixed Income Returns

Market Performance	2022 Returns	2021 Returns
MENA Bonds	-14.04%	0.10%
MENA Sukuk	-7.18%	1.35%
MENA Bonds & Sukuk	-12.58%	0.39%
EM USD Agg TRI	-15.26%	-1.65%
EM GCC USD Sukuk TRI	-5.76%	2.32%
GCC Credit + HY USD TRI	-10.93%	0.94%

Source: KAMCO

Although GCC Central Banks typically mimic the US Fed's rate hike cycle, inflation in the region remains tamer, implying that policy makers do not necessarily have to act with the same urgency to contain price pressures, as was the case with Kuwait, also supported by its currency which is not pegged to the dollar but rather a basket of currencies.

The trajectory of inflation will likely continue to dictate the performance of bonds in 2023, but consensus and bond prices have already started to price in a U-turn in Fed policy, with a peak rate in the 5% handle, and a stagnant 10-year US yield of 3.9% for Q1, winding down thereafter to 3.3-3.5% by Q4 2023.



GCC FIXED INCOME

H1 2023 will likely remain volatile as the impact of tighter monetary policy has yet to be fully materialized in full yet, and this will likely defer the majority of new issuances to the latter half of the year once a clearer economic picture is identified

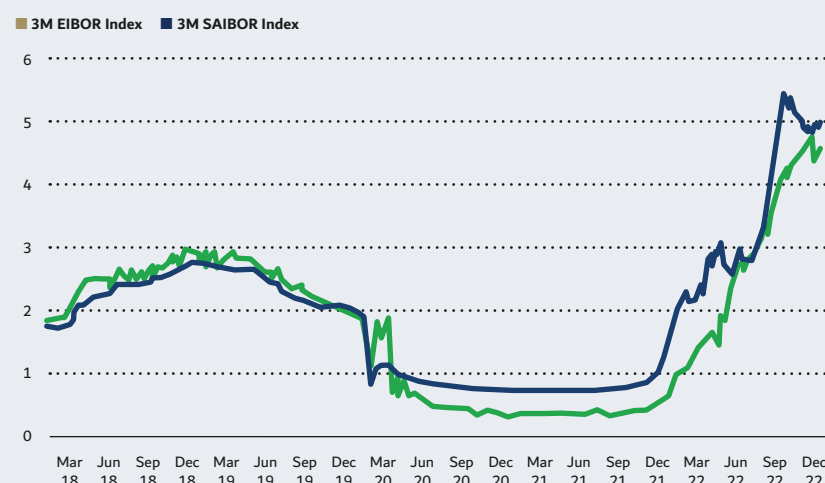
Consensus expects the GCC to largely outperform global counter-parts thanks to resilient fiscal balances and growth in the corporate segment via structurally growing sectors.

The favourable oil market dynamics and GCC macro-outlook is supportive of GCC bonds in the medium term. Issuer fundamentals should continue to strengthen on the back of improved economic, fiscal and external prospects. Middle East fixed income should also benefit from positive technical as global investors will look to be overweight the region.

Ample regional liquidity should be another source of support for GCC bonds/Sukuk as local investors will look to deploy surplus cash in local financial products.

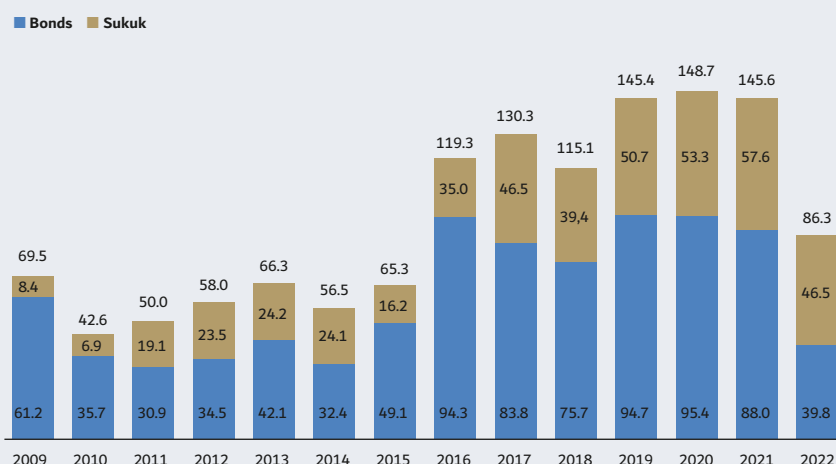
Sequentially, the GCC environment will likely be in favour of new issuances, with c.USD 68bn in maturities slated for 2023 likely driving re-issuance of borrowings.

UAE/Saudi Interest Rates



Source: Bloomberg

Fixed income issuances in GCC (USD bn)



Source: KAMCO

H1 2023 will likely remain volatile as the impact of tighter monetary policy has yet to be fully materialized in full yet, and this will likely defer the majority of new issuances to the latter half of the year once a clearer economic picture is identified.

Furthermore, strong fiscal positions are likely to sustain in 2023, supported by oil prices which remain elevated on a tight supply market, and thereby potentially limiting the need for new sovereign issuances, or minimizing their scale.

COMMODITIES



COMMODITIES

Commodities performed strongly In 2022, commodities faced significant turbulence. At the beginning of the year, physical markets were already experiencing tight supplies, but the conflict in Ukraine and its effect on supply chains further exacerbated the situation and led to price spikes. While some demand has been reduced in response to the high prices, supplies remain low, and the risk of disruptions is still elevated.

However, macroeconomic challenges are emerging as well, as the high prices and aggressive monetary policy tightening by central banks are starting to dampen consumption and may result in slower growth in 2023. As a result, it is likely that pressures on inventories will ease, unless there are additional unforeseen geopolitical events.

As inventories return to normal levels, the extreme backwardation in commodity forward curves, which is a sign of physical shortages, may also decrease. From an investment standpoint, this situation favors active or systematic strategies over passive benchmarks, as managing the curve is crucial in achieving excess returns during this phase.

COMMODITIES

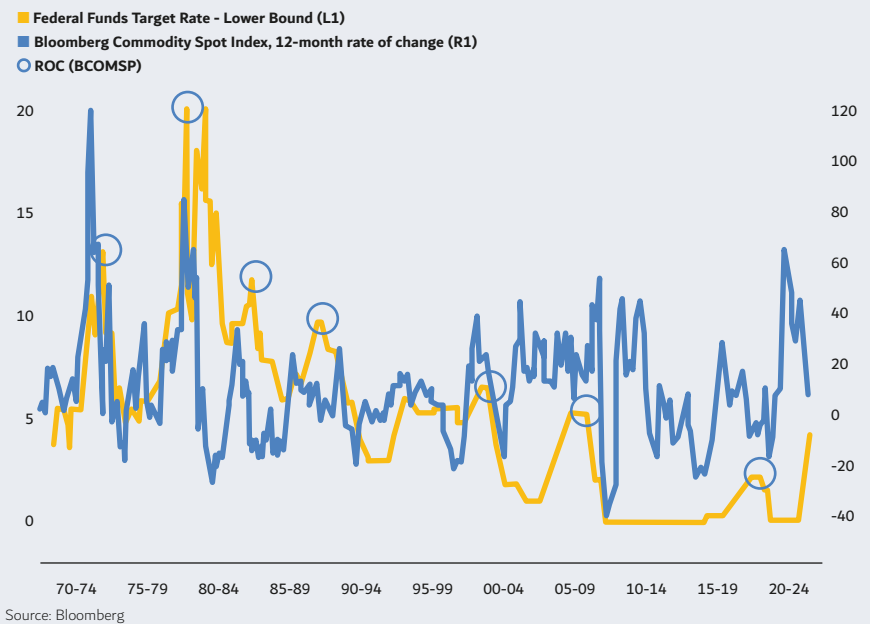
Commodities often fluctuate in value depending on the sub-sector and the current state of the economy. Base metals and energy tend to be more affected by economic cycles, while precious metals, such as gold, are generally considered to be more stable investments. Agricultural goods also typically have less fluctuation in demand compared to other types of commodities.

As we move into 2023, the economic environment may still be challenging for cyclical markets. However, it is expected that central banks will continue to tighten monetary policy and this may lead to an improving market for precious metals, particularly gold. There is a potential for an increase in the value of gold as central banks may cause a slowdown in economic growth.

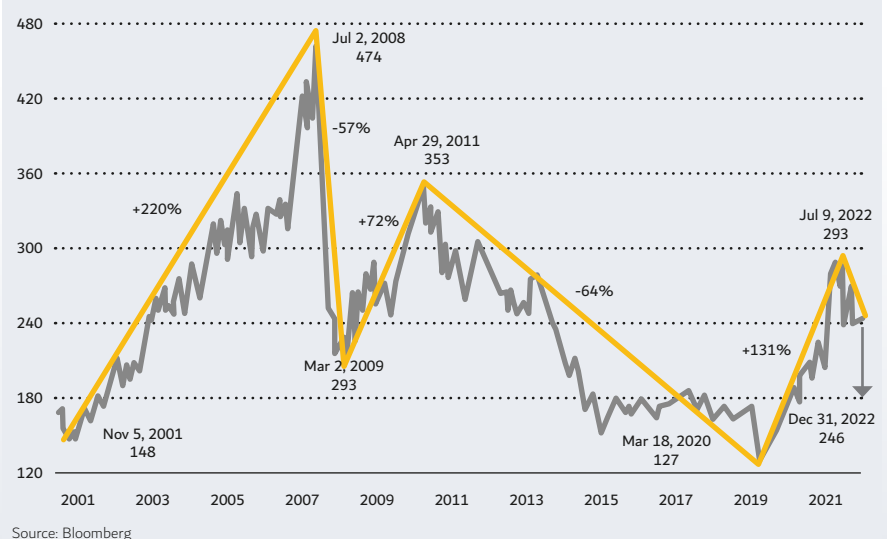
Energy markets have been facing many challenges lately. These include a lack of investment, various supply disruptions such as cuts in Russian gas exports and unexpected nuclear outages, and high energy costs for households. These issues have caused a power crisis and a recession in the Eurozone. However, high prices have helped to reduce demand. The next major challenge will be filling up gas storage for the winter of 2023/2024 in case Russian flows do not return to normal, which is not expected.

The growth in global oil supply is expected to slow in 2024, reviving the need for almost 1 mbd of OPEC's crude. However, we don't expect the alliance to tap into its spare capacity much beyond the levels reached in mid-2022. We project total global oil demand to expand at a 1.3 mbd yoy pace in 2023 following a weaker than expected demand growth in 2022 of 2.0 mbd.

Commodities may bottom in 2024 if Fed cuts in 2023



Global Commodities - Bloomberg Commodity Index

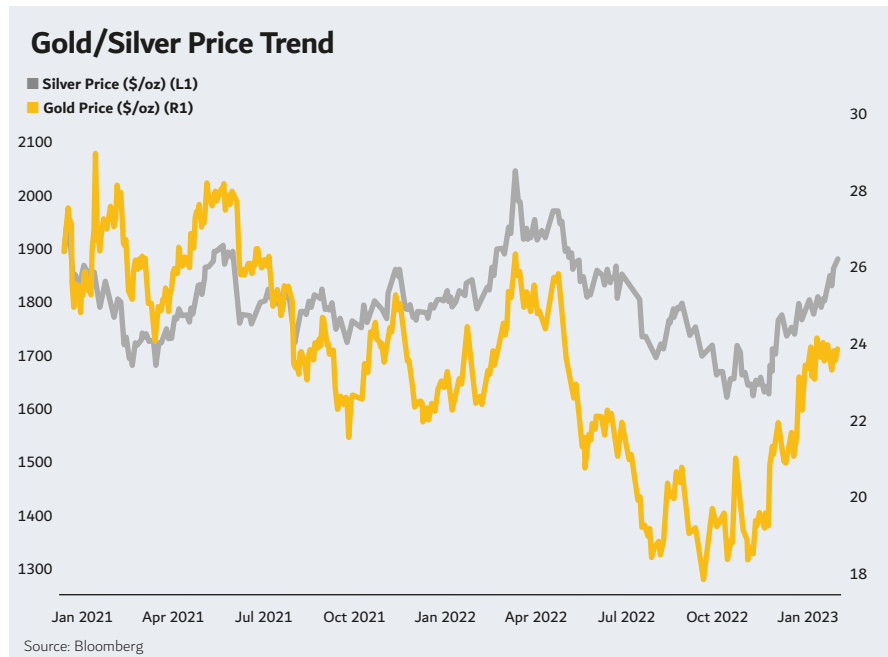


COMMODITIES

To fully replace the pre-war volumes of gas from Russia, more availability of liquefied natural gas and other efficiency-enhancing measures are needed. Despite these challenges, the current pressure may help to accelerate Europe's transition to cleaner energy sources, as it may lead to faster deployment of capital and reduced bureaucracy. For the transition to be successful, Europe must work together and set incentives to encourage private sector participation.

In the past, after experiencing high prices similar to those in the first half of the year, it is common for commodity prices to decrease to a lower value. This has been the case for the Bloomberg Commodity Spot Index (BCOM) during US recessions since 1960, with a drop of about 20% on a 12-month basis. If the Federal Reserve begins to ease monetary policy in the coming year, the BCOM may reach its lowest point in 2024. Historically, when the central bank starts reducing interest rates following a period of tightening, such as in 2022, the BCOM has reached its lowest point about a year and a half later. If commodity prices do not decrease, central banks may be more likely to continue increasing interest rates.

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REAL ESTATE

REAL ESTATE

In 2023, REITs operating in various property segments may experience a decline in both their top-line and bottom-line growth due to a weak economy, tough comparisons and high financing costs. Amongst all the segments, REITs involved in Industrial, Apartment and Senior-Housing may exhibit better growth prospects in terms of revenue, even if their rate of increase slows down.

Along with the internal growth slowing down, the environment for expanding their portfolio is also challenging as there is a decrease in transaction volume and increase in capital costs.

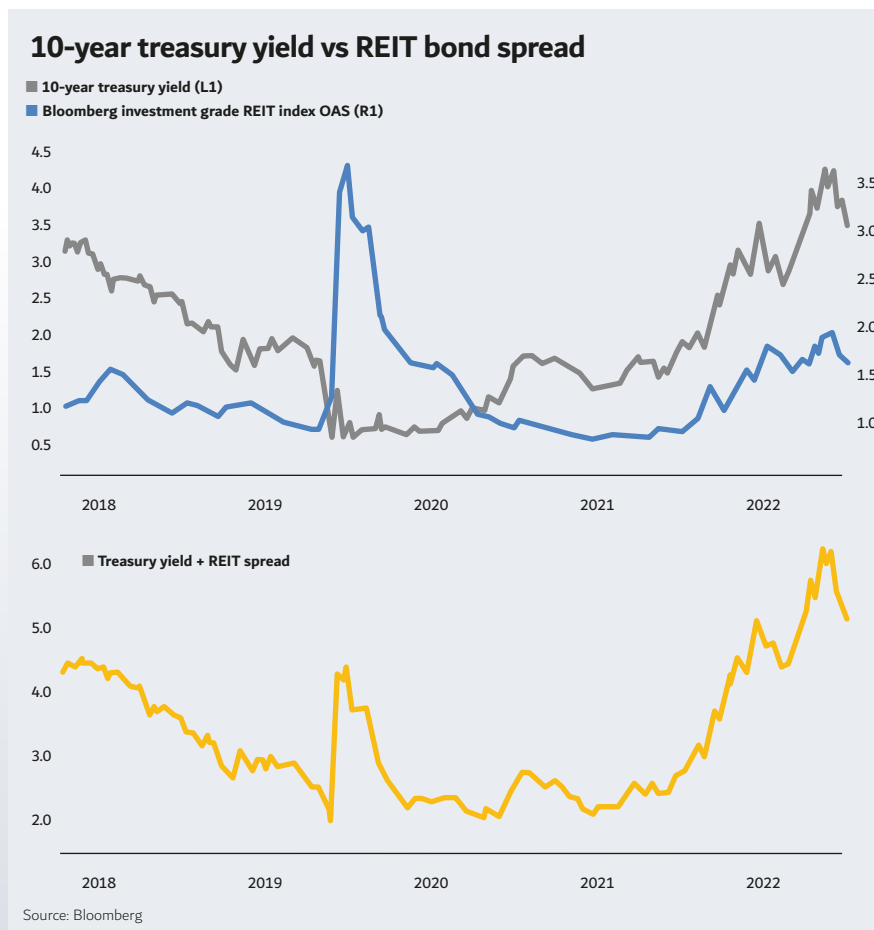
Due to low debt costs, REITs had issued bonds at an unprecedented level in 2020-21 and the trend continued till early 2022, however, with the rise in 10-year Treasury yield and wider spreads, the bond issuance volume witnessed a downfall and is expected to continue in 2023.

The capital raised was primarily aimed at taking advantage of low rates rather than investing in specific opportunities. The REITs were able to refinance their near-term maturities, avoiding any immediate impact of the rising rates on their refinancing needs.

Since the start of 2022, the 10-year Treasury yield has gone up by about 100 bps and the REIT spreads have widened by about 70 bps, as per the Bloomberg Investment Grade REIT Index.

This has resulted in an average coupon of around 5%, which is about 300 bps higher than the level from mid-2020 to early 2022. This increase in debt costs has led to a decrease in bond issuance but the market is still open for borrowers who are willing to pay.

The current inactivity in the debt market is not because of the necessity, rather it is a conscious choice made by REITs, who are now locking in a higher cost of capital than in recent years, but at levels similar to the past. However, to justify the current capital costs, the yields on investment opportunities must rise. Moreover, the refinancing of upcoming bond maturities is likely to increase the interest expense for REITs.



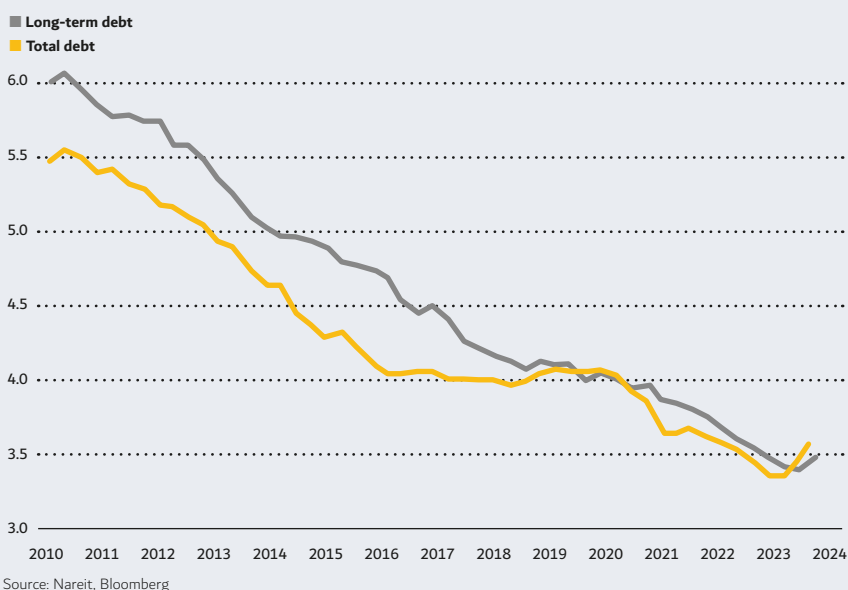
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REAL ESTATE

It may be challenging for the European real estate industry to overcome its seven-year underperformance compared to the Stoxx 600 Index in 2023, but there is a possibility of a significant rebound if interest rates change direction. The timing of this may be important, as real estate values are only disclosed twice a year. If the June report shows a significant improvement, particularly on the first anniversary of the invasion of Ukraine, and inflation has decreased, the real estate sector may experience a resurgence. However, if interest rates appear to be continuing to rise, a rebound is less likely.

For Real Estate Investment Trusts (REITs), a soft landing in the economy may lead to higher interest rates, but also higher rental values if it is accompanied by growth in the Gross Domestic Product (GDP). On the other hand, a hard landing would result in lower rates but a prolonged recession, such as the one forecasted for the UK, could negatively impact rental growth and increase vacancies.

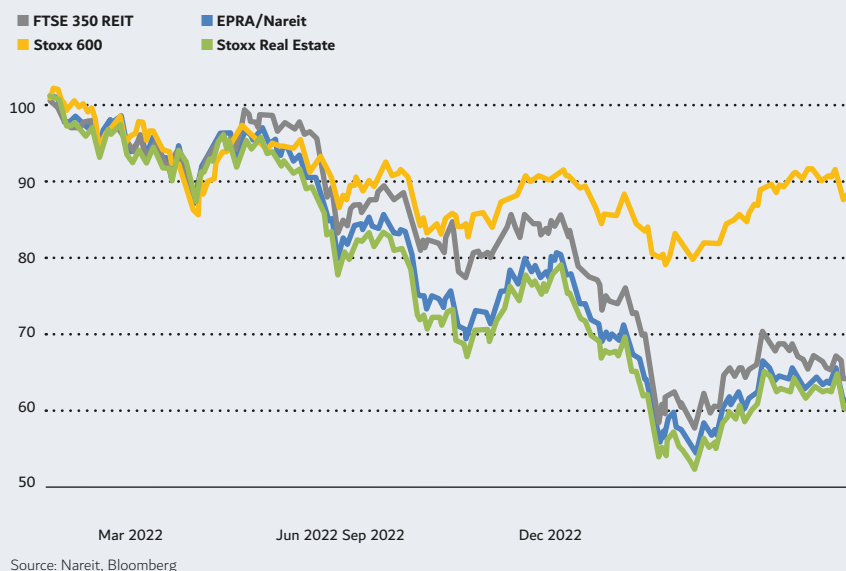
REITs' weighted average interest cost (%)



Analysts seem optimistic that European REITs will have a resurgence in 2023, which suggests confidence in a soft landing or interest rates decreasing quickly once inflation is under control. These outcomes could potentially limit the decrease in real estate values.

As REITs are currently trading at an average 47% discount to their reported net tangible assets (NTA), a modest decrease in real estate values may lead to a strong rebound. However, risks remain significant for a prolonged recession, with inflation becoming entrenched and requiring higher and sustained interest rates, or that property yields will have to increase to cover increased borrowing costs.

EPRA, 350 Real Estate vs Stoxx Europe 600 Indexes



Greater clarity on the peak and long-term interest rates and trends in GDP may reduce some of the discounts, but the decline in real estate values may be the main factor in reducing NTA discounts by the end of 2023.

CRYPTOCURRENCIES

CRYPTOCURRENCIES

The recent sharp decline in the value of cryptocurrencies, particularly Solana, is a sign of a market correction and the elimination of speculative excesses.

The dominance of Ethereum in the tokenization process for various assets, including the dollar, is also a contributing factor. However, despite this setback, cryptocurrencies are poised to rebound and potentially thrive in the face of a potential global economic slowdown.

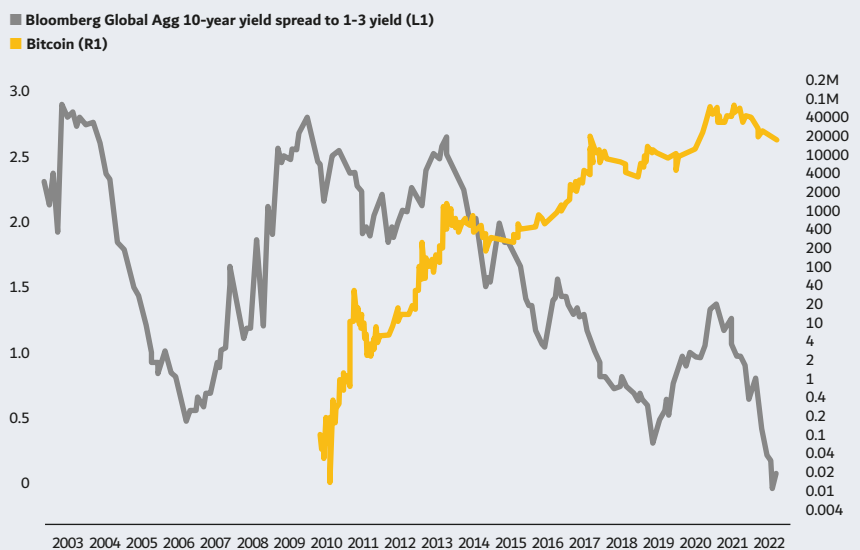
In particular, Bitcoin is expected to remain a strong performer in this uncertain market.

The trend of tokenization and market cap tracking the dollar is an ongoing trend with significant implications for the growth of the cryptocurrency asset class and technology.

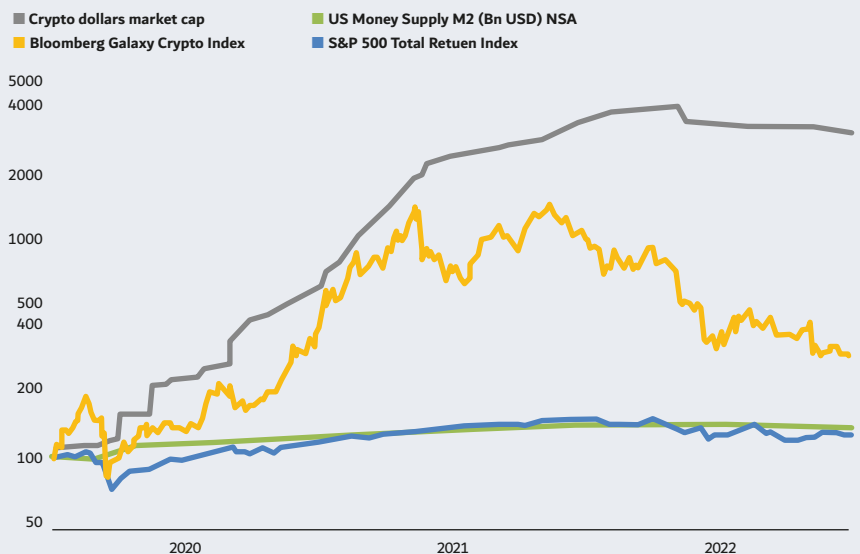
Despite a 30x increase in the market cap of crypto dollars listed on Coinmarketcap since the end of 2019, the market performance of the Bloomberg Galaxy Crypto Index (BGCI) has been comparatively moderate.

The trend of tokenization and market cap tracking the dollar is an ongoing trend with significant implications for the growth of the cryptocurrency asset class and technology

Bitcoin, cryptos face first severe recession



Proliferation of crypto dollars



CRYPTOCURRENCIES

The ability to transact dollars with minimal cost and instant settlement is a prime example of the revolutionary nature of this technology, which has the potential to fundamentally change global finance in the same way futures and ETFs have.

It's not clear if an economic recovery or a severe recession is coming, But the trend for a severe global economic slowdown has become more prominent, it may well be a key factor in cryptocurrency performance in 2023.

While all assets are likely to be impacted by this trend, Bitcoin is expected to fare particularly well and potentially revisit key support levels around \$10,000-\$12,000 before continuing its upward price trajectory.

The Federal Reserve and other central banks may also be compelled to ease monetary policy in response to deflationary forces resulting from declining asset prices, which could further boost the adoption and value of Bitcoin as a digital version of gold and a safe haven asset.

The ability to transact dollars with minimal cost and instant settlement is a prime example of the revolutionary nature of this technology, which has the potential to fundamentally change global finance

Bitcoin Price

■ Bitcoin (USD)



Source: Bloomberg

Declining relative risk - Bitcoin vs the Nasdaq

■ Bitcoin/Nasdaq 100 Stock Index (R1)

■ Bitcoin 260-day volatility/Nasdaq 100 Stock Index 260-day volatility (L1)



Source: Bloomberg

