Boubyan Multi Asset Holding Fund

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31 January 2021

Sub-Manager's Commentary

Market Overview

Global equity prices, measured in euros, advanced modestly in January. Having touched record highs during the month, they then retreated in a sell-off driven by concerns about retail trading's impact on markets and uncertainty surrounding the distribution of COVID-19 vaccines. Emerging markets (EMs) drove gains, led by China, as the country's economic recovery from the pandemic continued. Developed markets declined slightly, with the weakest returns in Europe amidst tighter lockdowns and vaccine issues.

Uncertainty about growth weighed on European equities in January, with stocks in Spain and Italy posting the largest declines amongst developed markets. Governments extended virus-related restrictions during the month, while the European Union's (EU's) vaccination efforts remained relatively sluggish compared to other developed markets. Political uncertainty, including lack of clarity surrounding the next leader of Germany and the sudden resignation of the Italian prime minister, weighed on sentiment. In the wake of the post-Brexit transition period at the end of 2020, disruptions and port issues slowed trade between the EU and the United Kingdom. Eurozone economic confidence dipped in January, as retail business was worse than expected and consumers grew more pessimistic. Industrial sector confidence improved, and while the IHS Markit Eurozone Manufacturing Purchasing Managers' Index (PMI) declined slightly, it remained at an expansionary level. Benchmark German Bund yields rose slightly but remained in negative territory in January, while yields on UK Gilts rose by 12 basis points.

Equity prices in the United States (US) were relatively flat for the month, despite recording multiple highs, as volatility rose and markets sold off in the final week. Amidst rising concerns surrounding the lingering economic impact of the coronavirus, high levels of retail trading helped drive the Cboe Volatility Index, a measure of market stress, sharply higher in January. For most of the month, US stocks advanced, buoyed by largely positive vaccine news and a proposed US$1.9 trillion COVID-19 relief package. The US Federal Reserve kept interest rates unchanged in January and reiterated its commitment to continue ongoing bond purchases and efforts to boost inflation. Benchmark US Treasury yields rose in January, surpassing 1% for the first time since March 2020. Corporate bonds advanced as spreads narrowed and overseas demand increased.

Gains for EM equities were driven by Chinese markets, in euro terms. Fourth-quarter Chinese economic growth was stronger than expected, with a 2.3% rise in GDP (gross domestic product) making China one of few major countries to grow in 2020. China's trade surplus hit record levels in December 2020, fuelled by growth in exports, particularly medical products and lockdown-related goods. Stocks in Taiwan also advanced sharply, backed by strong exports, particularly semiconductors. In commodities, oil prices rose in January on hopes that extended production curbs would offset the pandemic's continued pressure on demand. Gold prices declined during the month as bond yields rose and the US dollar strengthened.

Performance and Positioning

The portfolio had a net return of 0.25% (in US dollars), in line with its custom benchmark, which returned 0.24%.

Cross-asset allocation detracted from relative results, as an overweight to equities detracted from performance against a backdrop of a small decline in developed markets.

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T: 22325800 | P.O box 28950, Safat, 13150

Sukuk fund selection was the main contributor to relative results, as both Emirates Global Sukuk Fund and Franklin Global Sukuk Fund outperformed the benchmark Dow Jones Sukuk Index. Conversely, equity fund selection in developed markets, particularly in Europe, weighed on performance, although this was partially offset by the positive impact of our EM holdings. Elsewhere, exposure to gold was also a hindrance.

Outlook

We have adopted a more positive outlook towards risk assets, backed by expectations for economic expansion and continuing fiscal stimulus, although our optimism is tempered by short-term uncertainties surrounding COVID-19 and its impact on the near-term pace of global economic recovery.

Within developed market equities we retain a preference for the US, whilst monitoring the current sector rotation from COVID-driven secular growth drivers to areas of the market that stand to benefit from economic reopening. We also prefer attractively valued cyclical economies such as the United Kingdom and Japan, which should gain from global expansion over time. We are less optimistic on Europe, given the constraints on further stimulus from the European Central Bank. Turning to EM, we have adopted a slightly less optimistic view of China and become modestly more constructive on other EM regions. Valuations in China remain elevated, and we are closely watching for signs of a potential plateau in the pace of the country's economic growth. Other EM valuations remain relatively attractive, and prospects for currency appreciation help drive our optimism.

We view the recent steepening of the US Treasury yield curve as a correction, rather than a trend, and judge equities as a better value than bonds, which carry stretched valuations. Within developed market government issues we retain a preference for European bonds, given support from the European Central Bank. We believe they are likely to perform better than other regions if global yields move lower in a short-term downturn. We also see Japanese government bonds as a good defensive portfolio diversifier, since yields should remain relatively low in any rising yield environment that accompanies a global recovery.

Volatile markets are a reminder that recoveries do not happen in a straight line, and we believe that volatility could still hamper progress in certain markets over the coming months. We believe that our current positioning in Sukuk markets is well suited for this backdrop, having reduced risk somewhat towards the end of the year in favour of elevated cash levels. We also have hedges in place against some key tail risks. In addition, it is also worth noting that Sukuk markets tend to be resilient in downturns, with relatively low betas and correlations to many risk assets.

Elsewhere, we see alternatives such as gold as important diversifiers and a hedge against the potential for rising inflation.