Boubyan Multi Asset Holding Fund

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بـوبـيـان كابيتال
Boubyan Capital

Sub-Manager's Commentary

Market Overview

Global equity prices rose in August, helped by improving economic data across major economies alongside continued monetary and fiscal stimulus. Developed markets led gains, boosted by the performance of US technology stocks, while emerging markets (EMs) also rose due to the strength of the Chinese economy.

US equities led global gains in August, as the US dollar weakened against other major currencies. The Fed's new approach to interest-rate policy, designed to bolster inflation, boosted equities late in the month and caused the US Treasury yield curve to steepen as longer-dated bonds sold off. The weaker US dollar, linked to political uncertainty and ongoing COVID-19 issues, provided a boost to large-cap technology stocks, which have significant international revenues.

Equity markets in Europe advanced as the euro area continued its recovery from the severe constraints on economic activity imposed by COVID-19. A leading business survey showed that eurozone manufacturing output grew for a second successive month during August, accelerating to reach its highest level for over two years. Despite these positive numbers, economic sentiment remained subdued in the eurozone's major economies, fuelling fears around the sustainability of the recovery. The ZEW Indicator of Economic Sentiment pointed to a significant deterioration in the outlook for the German economy, influenced by concerns around exports and industrial production. Benchmark 10-year German Bund yields rose in August, reflecting inflationary concerns linked to the US Federal Reserve's (Fed's) new monetary policy framework, although they remained in negative territory.

EM equities also rose in August, in aggregate, as weakness in Latin America was offset by the strength of Asian markets. China's manufacturing sector continued to expand robustly in August, adding to signs of a further recovery in economic conditions. The Caixin China General Manufacturing Purchasing Managers' Index showed that production and new orders both expanded at sharper rates than in July, while export sales increased for the first time this year. Currency weakness in Brazil magnified Latin American losses, in US dollar terms, as interest rates remained relatively low and the country continued its struggle with COVID-19. Equities in EM Europe also lost ground, in US dollar terms, hurt by a weak Turkish lira.

Brent crude oil prices edged up across the month, despite an easing of supply cuts, helped by improved manufacturing activity. Gold prices were largely flat following steep rises in July.

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Outlook

We have moderated our outlook on global equities, given increasingly stretched valuations and the intensity of political uncertainty in the United States (US). In line with that view, we have reduced our conviction on equities, moving back towards a neutral position compared with bonds.

Within equities, we remain marginally more constructive on the US than Europe, given the strength of technology stocks, but we are wary of the potential for increased volatility. We are also currently constructive on the United Kingdom and Japan due to the defensive characteristics of these markets, while China is likely to benefit from a strengthening economy and more government stimulus measures.

Inflation expectations remain subdued, despite the more dovish stance on monetary policy adopted by the US Federal Reserve in August. Global central banks are more concerned about disinflation, in our view, and the recent yield-curve steepening in developed market government bonds has made long-duration issues more attractive. Commodities continue to offer a slight tail-risk hedge should inflation increase, but we do not believe this is a likely scenario.

The COVID-19 pandemic still has significant implications for global fixed income, in our view, including Sukuk markets. We are somewhat more cautious going into the fourth quarter as a result, particularly regarding corporate risk. We believe that global risks are currently elevated with the upcoming US election and fears about the evolution of the virus, meaning it is a good time to take profits from positions that have done well. Any more weakness in the coming months could represent a buying opportunity, as new supply could be strong in the fourth quarter following quieter summer months.

Non-yielding assets such as cash and gold are proving to be useful diversifiers in a market where yield is difficult to find.

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