# Boubyan Multi Asset Holding Fund

*Fund Licensed by the Kuwaiti CMA (LCIS/2016/0003)*

**31 October 2020**

## Sub-Manager's Commentary

### Market Overview

Global equity prices fell in October, as concerns around the COVID-19 pandemic intensified, dampening market sentiment. Europe led losses in developed markets, while US stocks also fell, hurt by uncertainty related to the US presidential election. In contrast, emerging market (EM) equities rose, in aggregate, led by China, as the country's economic recovery continued.

US equities were led lower by large-cap technology stocks, which retreated for a second month, falling back from recent highs as the US presidential election affected sentiment. However, losses were limited by third-quarter earnings, which were generally better than predicted. Benchmark US Treasury yields rose in October, in contrast to German Bunds, as bond markets factored in the possibility that a Democrat government would increase fiscal stimulus, boosting the economy and pushing up inflation expectations. Latest projections from the US Federal Reserve suggest the US economy will grow by around 4% in 2021, after a sharp contraction this year, with inflation remaining subdued. Corporate bond spreads widened late in the month on deteriorating sentiment but tightened slightly overall during the period.

Equity markets in Germany and France fell steeply during the second half of October, as national lockdowns were implemented to control the spread of COVID-19. Falling energy prices have contributed to a deflationary environment in the eurozone, despite unprecedented levels of fiscal and monetary stimulus, and the economy is expected to shrink by 7.8% in 2020, according to the European Central Bank's latest forecasts. October's IHS Markit Eurozone Purchasing Managers' Index (PMI) showed a significant dichotomy within the economy, as activity in the services sector fell to a five-month low, while manufacturing saw strong growth, driven by Germany. As a result of this increased uncertainty, benchmark 10-year German Bund yields fell further into negative territory, as did yields on French government bonds.

EM equities rose in October, in aggregate, driven by the strong performance of Asian markets. The Chinese economy continued to strengthen, boosted by an aggressive approach to managing COVID-19 infections and increased domestic demand. The Caixin China General Manufacturing PMI for October reported a sharp rise in output and demand, despite a softening of export sales. Elsewhere, Brazilian, Russian and Turkish equities fell steeply, in US dollar terms, hurt by currency weakness, while Mexican stocks benefited from a strong Mexican peso. Oil prices fell in the last few days of the month due to concerns around weaker demand linked to a resurgence of COVID-19.



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

## Outlook

We remain neutral on global equities but are growing more positive as the political landscape in the United States becomes clearer. A new package of fiscal stimulus is likely to be approved by the US Congress following the presidential election, providing a boost to risk assets, although it may not be as large as forecast in October.

Regionally, we are trimming our US exposure slightly and adding back to equities in the rest of the world as we anticipate a period of US dollar weakness. This may be the start of a cyclical recovery in the global economy and, consequently, we expect a flow of investment out of the US into foreign assets. Elsewhere, we are becoming more optimistic on China and the surrounding Asian EM economies, as the Chinese economy continues to strengthen, while we are more cautious on Latin America and EM Europe, given their dependence on major developed markets.

In Europe, we remain optimistic on UK equities, despite tensions around the country's exit from the European Union. The market appears undervalued, in our view, and should realise gains eventually. This position is strengthened by the comprehensive stimulus package recently announced by the Bank of England.

Political developments in the US mean we are now less concerned about inflation, despite the possibility of more fiscal stimulus. Demand is the major driver of inflation, in our view, and that is likely to remain subdued due to the uncertain outlook for growth. We retain a preference for eurozone and Japanese government bonds over US Treasuries, due to lower volatility and the risk of the Treasury yield curve steepening.

As the final quarter of an eventful year progresses, we are once again prepared for potential volatility and the return of heavy new-issuance





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