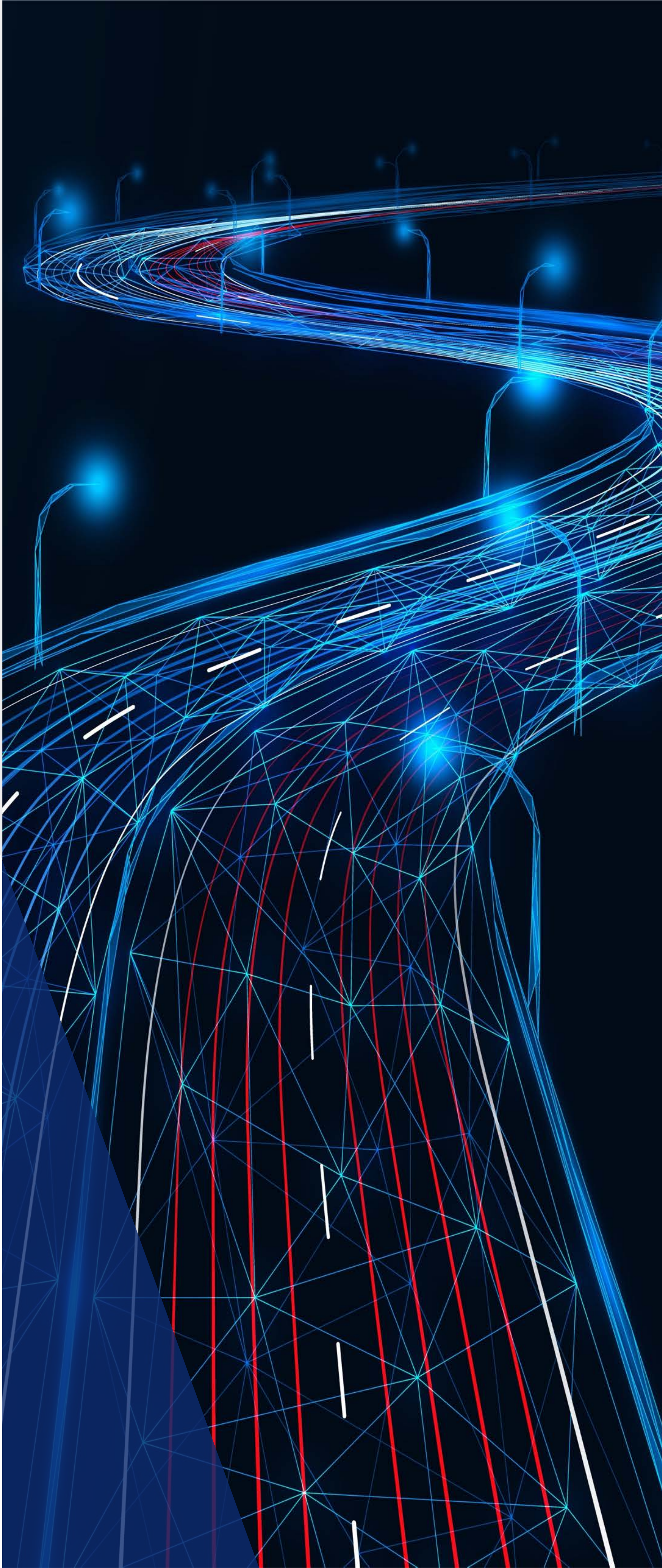
OUTLOOK 2022



RASAMEEL

2022 - ANTICIPATING A YEAR OF NORMALIZATION

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2021 – THE YEAR IN REVIEW

What a year 2021 has been. To be honest, it's been a year of surprises for us. Coming into 2021, we did not expect equity markets to be as strong as they have been, particularly considering the Covid overhang. Of course, we expected decent earnings growth, but not the continued level of multiple expansion seen over the last few years (Figure 1 & 2), with US stocks now trading at what can only be described as expensive levels, particularly if you normalize earnings. Indeed, the larger technology names, known as the FAANGs, are trading at nosebleed levels, as shown in the chart in appendix C. However, we do note in the appendix that while the FAANGs are richly valued, many areas within IT have actually sold off significantly in '21 and are starting to offer value.

A significant percentage of the market's performance over the past few years has been driven by multiple expansion, rather than underlying earnings; a factor and result of the sheer scale of money printing by developed market central banks.

Figure 1: **21% of S&P 500 returns since 2011 are driven by P/E expansion**

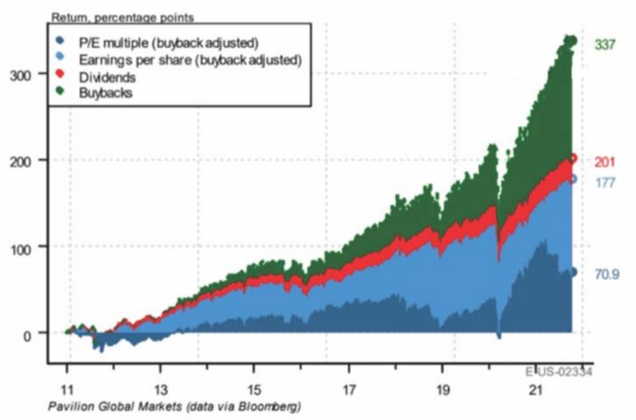
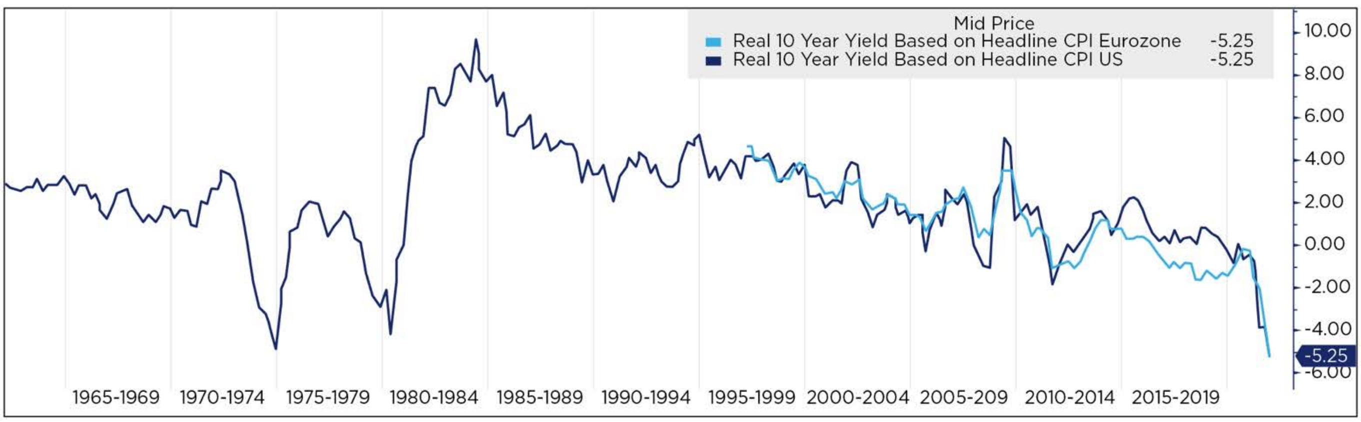


Figure 2: **Average of the four valuation indicators (S&P500)**

Not only has the money printing/quantitative easing fueled stock markets, but it has also fueled bond markets. To describe sovereign bonds, if not the entire credit market, as expensive would be an understatement. Take the USA sovereign 10-year bonds, for example, with a nominal yield of 1.5%. This is in the face of inflation running currently at 6.8%, giving a negative real yield of around 5% (figure 3). As somebody with 30 years of experience in the market, this is what I would describe loosely as 'insane'. But it has become the new normal.

Bonds are no longer there to earn a yield, but rather to provide a safe-haven for cash. You buy the bond and, at least for the bulk of sovereign debt, you receive a negative real return. Your capital is 'safe', but you are guaranteed a negative return if you hold to maturity. In the case of most European or Japanese sovereign debt, the nominal yield is negative.

Figure 3: **Real 10-year yields – US and the Eurozone**



Since Covid struck, US$4.6 trillion has been printed by the FED. Indeed, government Debt-to-GDP has risen substantially to end the year at around 128%. The Fed's balance sheet has risen to US$8.7 trillion, approximately 38% of GDP. And it's not just the USA; it is a global phenomenon. In Europe, the ECB's balance sheet is now 81% of eurozone GDP, up from 62% at the start of the year. Japan is seeing a similar trend at 134% of GDP (Figure 4 & 5).

Figure 4: **Central Bank Balance Sheet size**

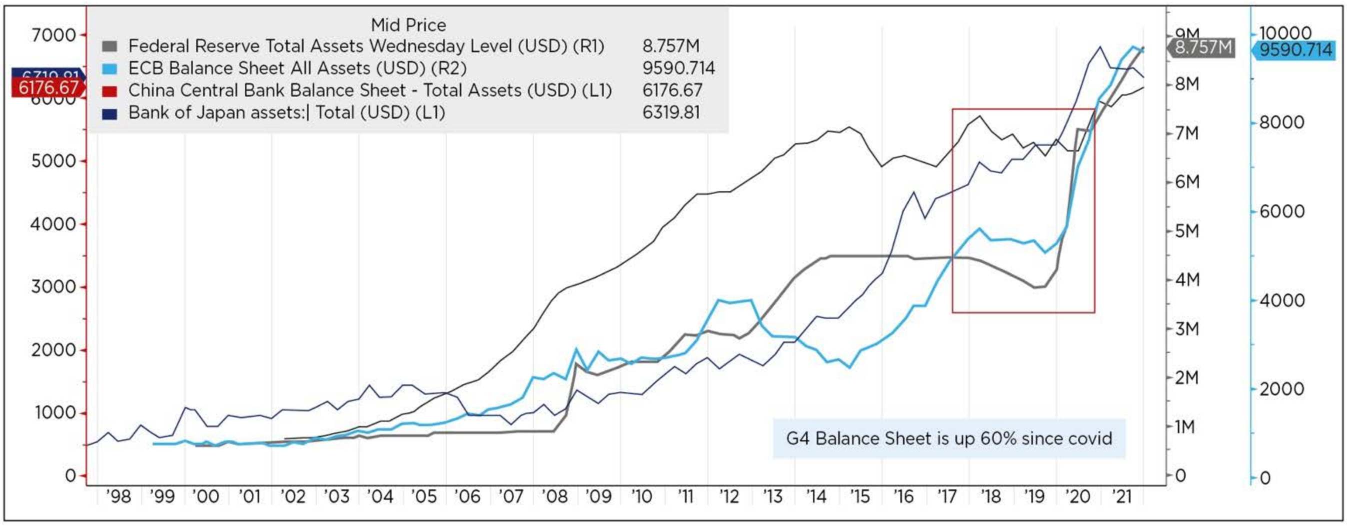
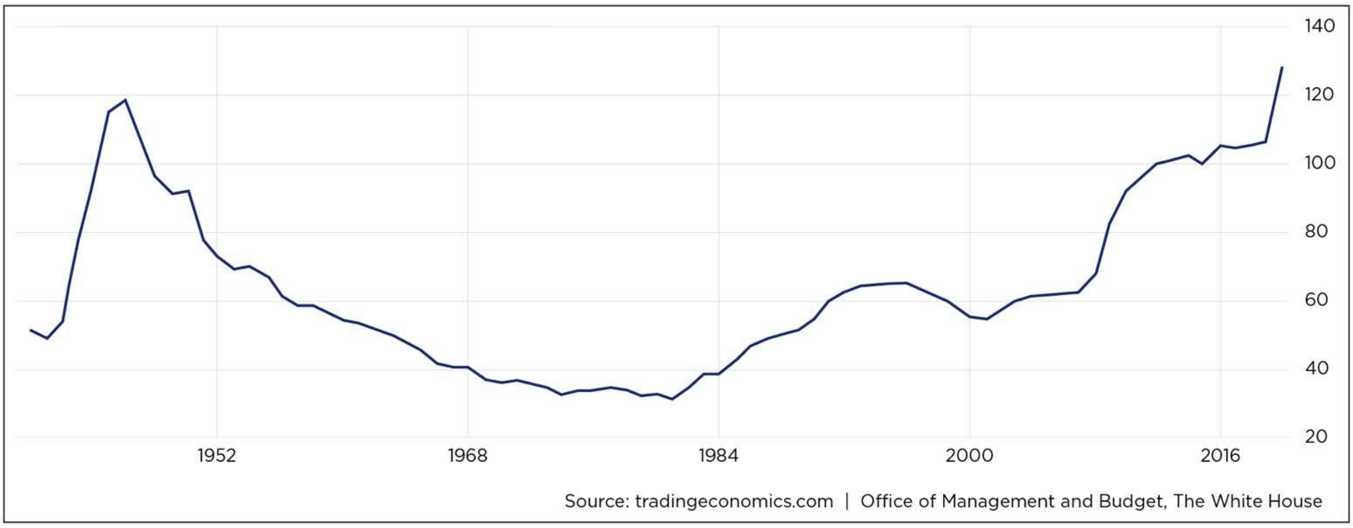


Figure 5: **US government debt as a % of GDP**



So, in short what we have seen is massive money printing, driving equities and bonds higher, but fundamentally weakening the basis of the underlying currency. Remember the USD, and all other fiat, is backed by nothing. ZERO. Sure, the argument can be made by folks like Buffett that it is backed by all future taxes. But when one net present values all social security payments, the level of government debt to GDP in the US rises closer to 350%. That is a lot of taxes to be raised to cover these costs and would imply an increased tax rate, which would act as a headwind to the wider economy.

AS WE MOVE INTO 2022, WE NEED TO BE AWARE THAT THE PLAYING FIELD OF ’21 HAS CHANGED SOMEWHAT.

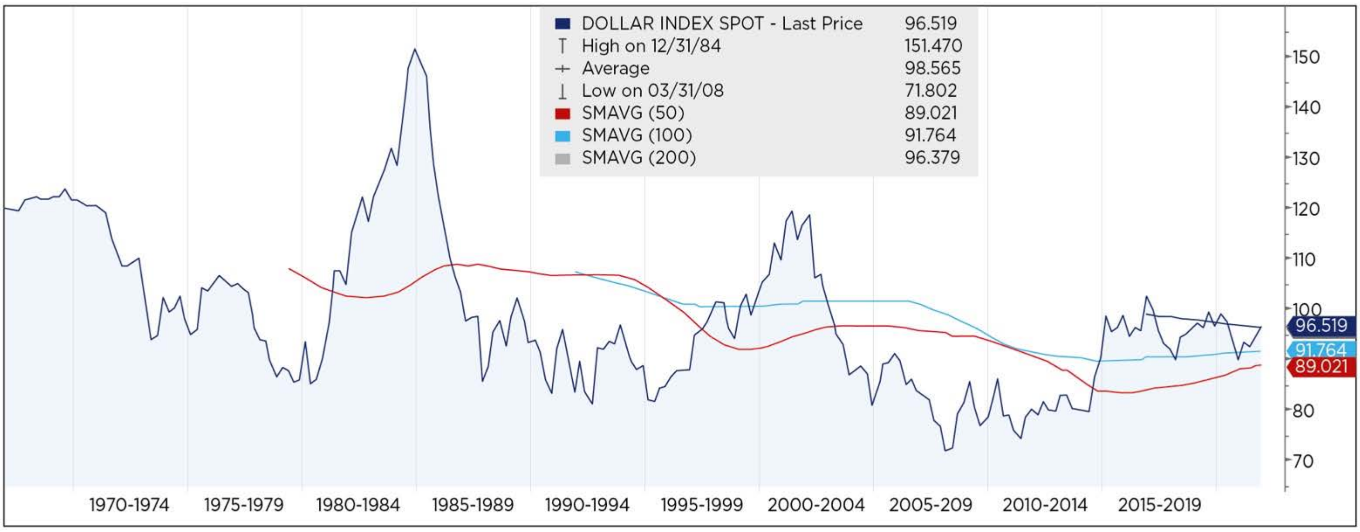
The Fed is going to taper and raise rates: Powell has made it clear that QE will be slowed and eventually fully tapered by March. He has also indicated that rates will rise to a band of 75 to 100bps by year-end 2022. The market has agonized over this. **A whole 1%!** With inflation running at over 6% and likely to still be above 5yr bond break-evens of 2.5%, the market is demonstrating how paralyzed it has become to higher rates. The real question that needs to be asked is, what happens when the Fed and other central banks start to reduce the size of their balance sheets?

I’ll give the answer – it will never happen, as the repercussions on the market would simply be too large. The larger central banks are following the example of Japan; more and more printing with each and every economic slowdown. They are trapped, which in turn will, in time, lead to the end of the current fiat system. But we digress.

The point to be made here, is that we should not expect the same level of monetary and fiscal stimulus come 2022.

As the Fed will taper and tighten into 2022, it is ahead of the rest of other developed market central banks. Thus, it should be reflected in a stronger USD (figure 6), relative to other major currencies, at least in the 1H22. We have already seen the USD strengthen significantly in the last few months. There is a limit to this though. **Some 55-60% of all global debt is denominated in USD**. Too much strength in the latter, will cause a strain, and in some cases a collapse, in the former. Turkey is a great example of this. They have some US$450bn denominated debt and a stronger dollar will seriously jeopardize their ability to fund this. Indeed, we have already seen the Lira weakening significantly, as the country deals with rampant inflation. Others such as UK, Brazil and Canada have been proactive in raising rates to counter inflation and USD strength.

Figure 6: **US Dollar Index**



Hence, while we expect it is likely that the USD may be stronger in 1H22, it would not surprise us if it were weaker into the second half. Why? Emerging market pressures and other central banks playing catch up. This was not a unanimous call, with 2 of the 5 members of the Rasameel Asset Management team taking the view that the USD would be strong in both H1 and 2H22. At the moment, the 10 Year US Treasury Bill still offers a more attractive nominal yield to other safe haven sovereigns, such as Japan's 7-Year Government Bonds and Germany’s 10-Year Bunds, both of which have negative nominal yields.

Covid and the new variants. Who would have thought that, by the start of 2022, we would still be dealing with Covid and locking down economies? Well, for a while, I have been saying that year-end ’21 will be the 'Winter of discontent' in the Northern hemisphere. And here we are. Omicron, which is reported by the South African scientists to be relatively mild and more like a cold or mild flu, has caused a number of governments in Europe and the UK to start re-enforcing stringent polices, such as lockdowns etc (figure 7)

Figure 7


The New York Times

Omicron Response Divides Europe as Cases Surge

By contrast, France has ruled out lockdowns, curfews or closures on a ... the first country in Europe to return to a full lockdown amid...

CNN

Netherlands reimposes strict lockdown and UK won't rule out new measures over Omicron

London (CNN) The Netherlands entered a strict new lockdown Sunday due to ... as Europe braces for a surge in Covid-19 infections over the...

Reuters

UK says COVID surge 'extremely difficult' as Omicron grips ...

... Omicron variant if needed, after the Netherlands began a fourth lockdown and as other European nations consider Christmas restrictions.

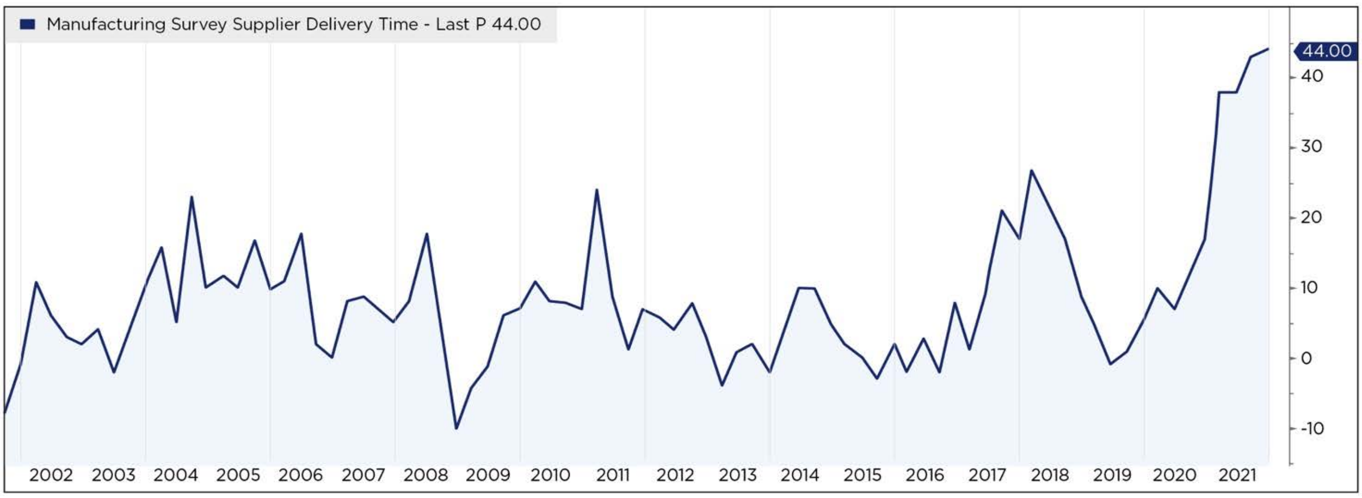
It's nothing new though. In many countries, whether they are predominantly vaccinated or not, we are seeing a return to mobility restrictions that are in most cases unnecessary and counterproductive. These restrictions will have a detrimental effect on GDP growth and expectations due to depressed economic activity.

This matters as the government response to the virus will impact economic activity, growth, supply chains and inflation. This, in turn, will impact central bank policy.

So, we need to be aware that government's responses will potentially cause economic growth to be below current expectations, but similarly, that inflation may be higher, at least on the short term and potentially also further out, due to continued supply chain disruptions (figure 8). That in turn, will likely cause inflation to be higher than currently expected.

Higher prices are prevalent due to strong demand (driven by savings from stimulus cheques) and supply disruptions (driven by the lockdowns and shortage of workers). A good example here is the continued blockages in California ports, largely caused by a shortage of truck drivers, which is driving up prices for goods. Around US$65 billion worth of goods are locked up due to supply chain issues just ahead of Christmas holidays.

Figure 8: **Supplier delivery times are stretched**



The global supply chain has many moving parts, from the supply of labor to capacity and trade treaties. Although the media has signaled the easing of supply chain disruptions, we tend to think the issue is more complex than is currently perceived. While some supply chains may get fixed, others are more structurally challenged. For example, we hear that potentially up to 15% or more of truck drivers between Canada and the USA, may simply 'park on the side of the road' as vaccine mandates get imposed.

Another example of supply chain disruptions can be seen in the auto segment. Due to disruptions in the semiconductor market, we have seen production in the auto space being impacted significantly (Figure 9 & 10). This in turn impacts the suppliers and feeds all the way through to those companies that supply materials for the auto segment.

Figure 9

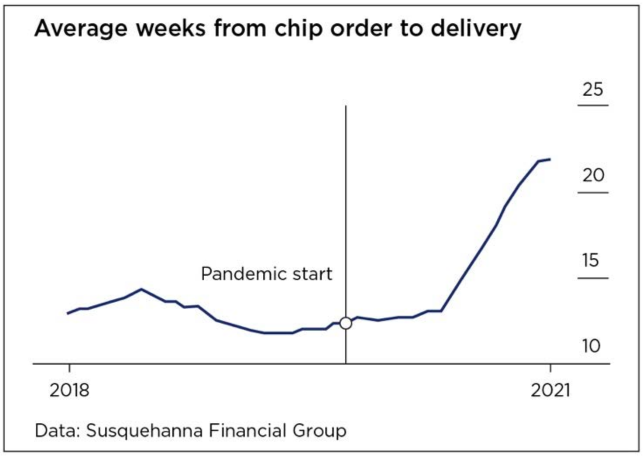
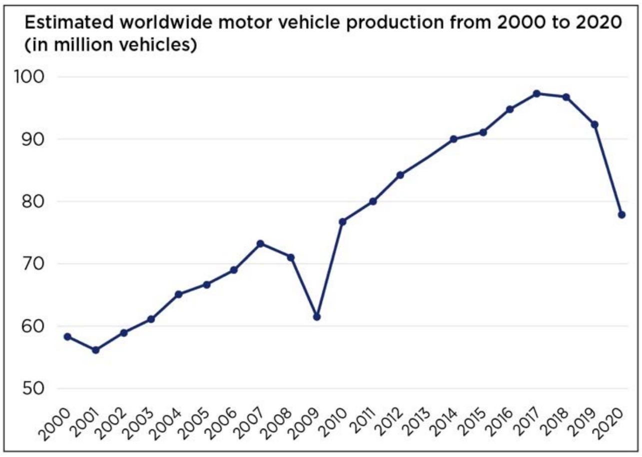


Figure 10



The flip side is that secondhand car prices have risen dramatically (figure 11 & 12).

Figure 11

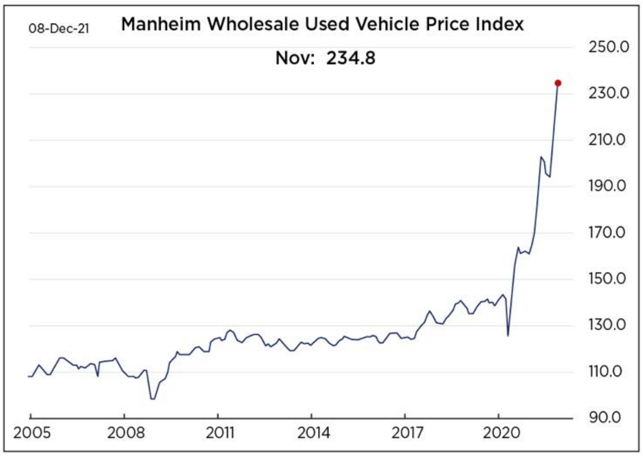
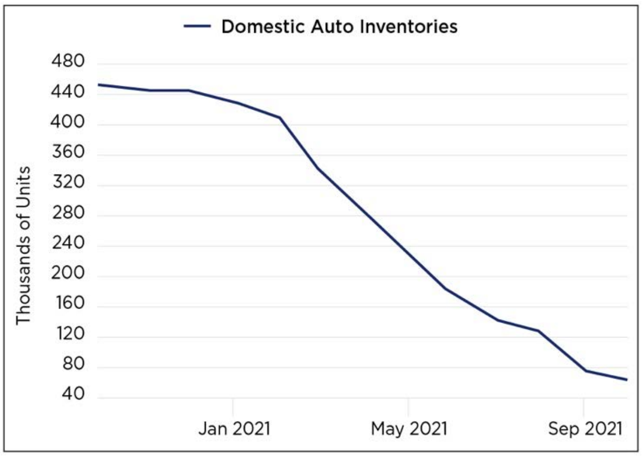


Figure 12

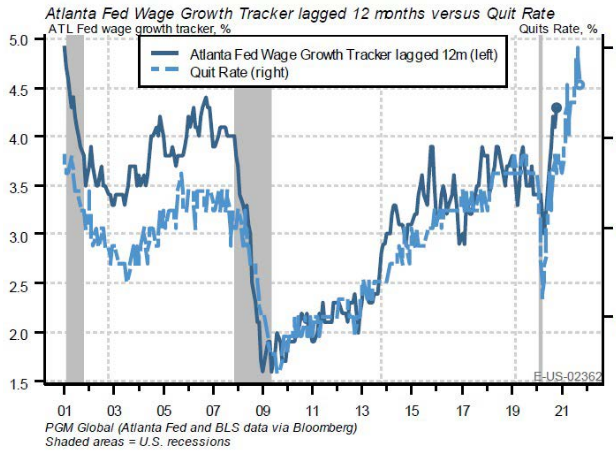


Whilst on the topic of inflation, we need to also give some attention to wage inflation and what we would call sticky inflation. To date, wages have lagged, otherwise inflation would be a lot higher and less transitory. This is for a number of reasons. First, we see the 55+ age demographic starting to exit the labor market for early retirement. Given the performance of bonds and equities, they feel an increased security to retire earlier than expected. Second, women aged 34+ have not returned to the labor market, mostly due to the high cost of day care, and have taken up the responsibility for childcare. Covid is also impacting employees simply not wanting to go back to crowded offices.

Ultimately, the US has about 10 million open positions, and only 6 million looking for a job. The shortage of labor, and low wage workers' demands are being met by wage increases and higher benefits (figure 13).

Figure 13: **It's getting sticky!**

Figure 14: **The Great Resignation**



There are a few key considerations here though. We know that many employees are reticent to return to the office. Indeed, we have already seen some firms paying staff extra to get them to return. The new variant will not help here.

We also know that many companies are mandating staff to take the Covid shot or lose their job. While many companies may pull back on this rhetoric, it is also likely that many won't, and we will see a significant number of staff lose their job, or simply quit. This would be on top of those that have voluntarily resigned to seek greener pastures (Figure 14).

Our interpretation of this is that again, **supply chains will be hampered, while wages will likely rise**. It's a short-term effect though, as in time AI and autonomy will replace an enormous number of staff. Many conspiracy theorists would likely indeed argue that many governments are simply preparing employees for the inevitable, through lockdowns and stay-at-home policies. But let's not digress.

While on the topic of inflation, it's also worthwhile to consider the various geopolitical concerns we have and their impact.

GEOPOLITICAL CONCERNS

Let's start with Russia and Ukraine. Anybody watching the media will be aware that tensions are running high, and Putin and Biden have already had discussions over the troop buildup on the border. Stepping back from the rhetoric, we know that parts of Ukraine are very Russian and relate to Russian culture. This is not unusual given that it wasn't too long back it was part of the greater USSR. Furthermore, Russia justifiably does not want nuclear weapons placed in Ukraine, aimed at their cities. Something akin to the Cuban crisis, which was a pretty intense period in the relationship between the two superpowers.

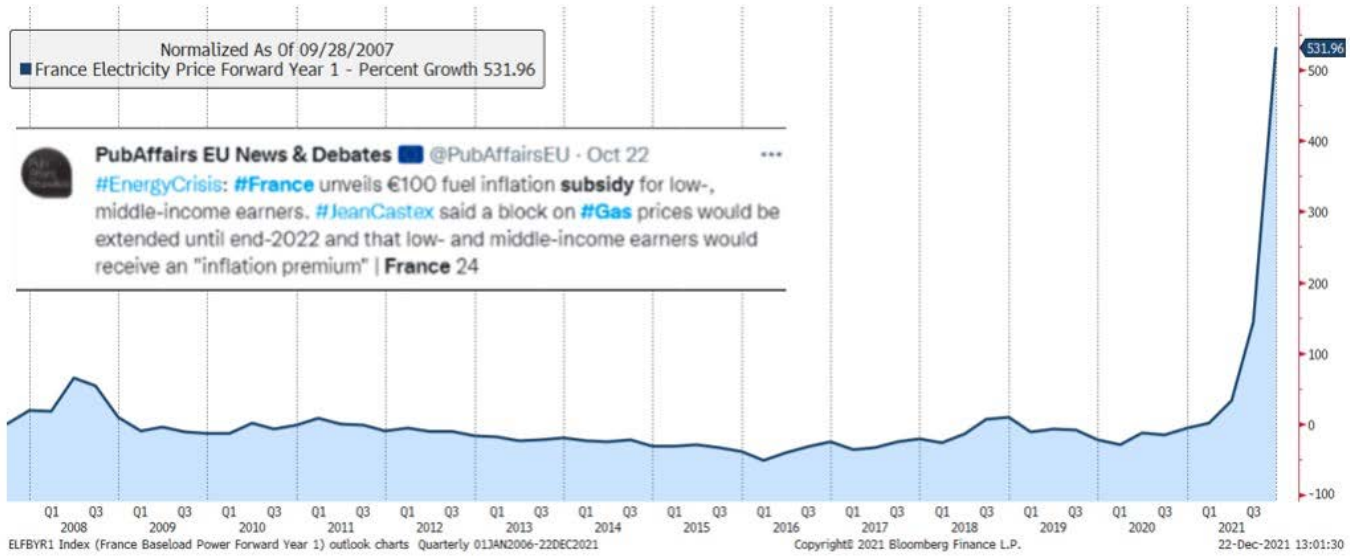
So, we don't expect Russia to invade, but we do expect them to protect their 'people' in Ukraine and prevent nukes from being deployed, should it be necessary.

So why does this matter? It matters for two reasons. Firstly, an escalation of tensions in the region can very quickly have wider ramifications at the global level, particularly if the US or EU intervene.

Secondly, Russia is a very large supplier of gas to the European market. In their 'wisdom', the Europeans (really the Germans) have switched off nuclear over the past decade, focusing their investments on technologies perceived to be cleaner, like wind and solar. Forgetting the fact that these perceived 'cleaner' technologies consume enormous amounts of energy to build out and degrade over time, it has left Europe extremely dependent on Russian gas.

Gas prices in Europe have already increased 400% YTD, while electricity prices in France are up 530% YoY (Figure 15).

Figure 15: **France electricity prices have shot up significantly**



The increase is so large that some European countries are giving consumers cash to cover some of the extra cost.

Already though, we have heard of factories being closed, due to the high cost of gas. So, should the Europeans find it necessary to punish Russia for any activities in the Ukraine, they will very quickly find that Russia has the ability to punish them right back, likely making for a very cold winter for many Europeans. **Economic growth would also be hammered, and there will be massive disruptions to supply chains.**

Other geopolitical threats we worry about are China/Taiwan.

China sees Taiwan as part of China. Taiwan sees itself as independent. We saw what happened in Hong Kong. We should expect something similar in Taiwan, as China increasingly flexes its global reach. Do we expect a hot conflict? No. Certainly not in the near term. We do though, expect a slow and inevitable 'merger' (Figure 16).

Figure 16

> PBS NEWS HOUR
>
> **PBS NewsHour** @NewsHour · Dec 16
>
> **Taiwan**'s Ministry of National Defense is warning that current Chinese military exercises could be cover for a future invasion. We examined if and how the U.S. should respond if Beijing heightens aggressions against **Taiwan**.

This matters to us, as approximately 65% of semiconductor supply comes from Taiwan. Throw China into the mix and some 70-75% of all semi supply comes from that region. Not only that, but certain leading-edge semiconductors used in smartphones and AI applications only come from Taiwan.

This has massive potential ramifications, as it could cause severe supply disruptions, should supply be curtailed in any way**. It explains why we, in part, favor exposure to semiconductor suppliers and the equipment manufacturers.**

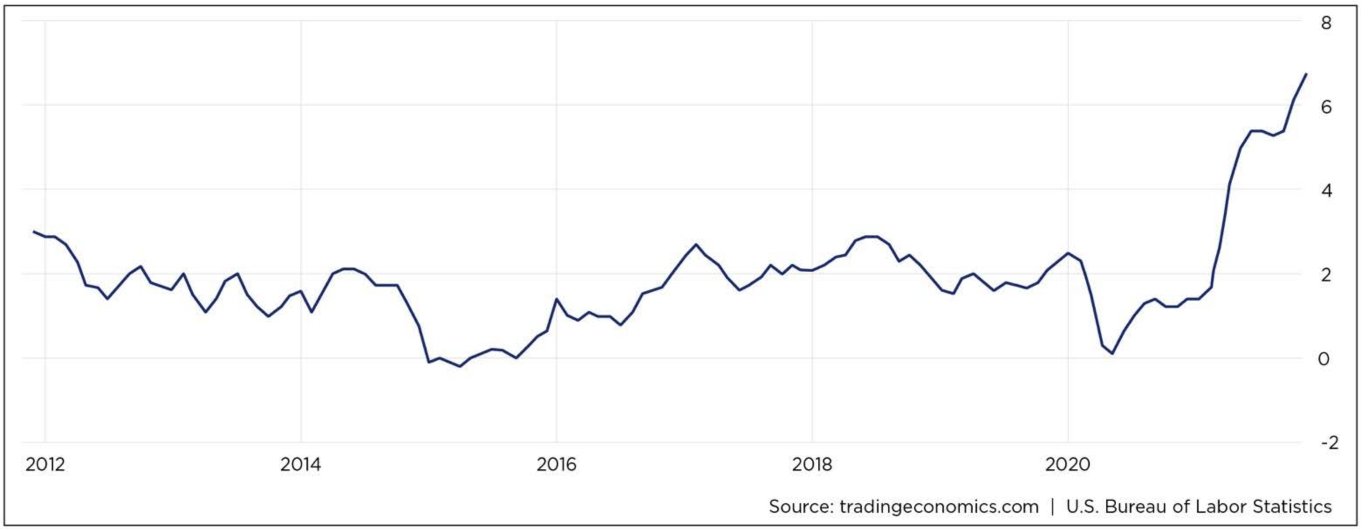
These are some of the topics/concerns we consider on an ongoing basis. It is just a few of many. **We contemplate them, and others such as increasing tensions over Iran and the potential Lira crisis in Turkey, to establish some framework around which we can draw up our economic outlook and expectations for various asset classes.**

MACRO- ECONOMIC OUTLOOK

Inflation

As one can gauge from the above, there are innumerable inputs and variables into determining inflation. Taking as much into consideration as we can and simply considering the current inflation rate, the base effect, and prior examples, we expect that US inflation is likely to show another month or two of increase, before heading lower. This would be primarily driven by the base effect. (Figure 17)

Figure 17: **US Headline CPI YoY**



So, we would expect CPI to fall off to around 4-5% mid-year '22 and to around 3% by the year-end. This is still higher than the current 2.8% consensus forecast.

Internationally, we expect a similar trend. Inflation may rise a little further due to continued supply disruptions and easy monetary policies but should fall off rapidly later in the year.

So, inflation is expected to fall but remain high, especially relative to current yields.

Growth

At the moment, consensus is for global growth to be 4.3% in 2022; 3.9% in the USA and 5% in China (Table 1). While some in the team are more bullish than others, our median expectation is for US growth to be around 3.5%, with our most bearish forecast expected to be closer to 2.5-3%.

This is lower than current consensus, which is already falling, and expectations are that the taper is likely to hurt growth more than currently anticipated. Also, we have already seen significant growth in '21, which more than compensated for the weakness in 2020. So yes, there will be normalization, but the end of '22 will see much weaker growth than the start in our view.

Table 1				
Consensus Expectations				
	Real GDP Growth % (YoY)		EPS Growth % (YoY)	
Region	**2022E**	**2023E**	**2022E**	**2023E**
Global	4.3	3.6		
G10	4.0	2.2		
US	3.9	2.4	8.0	9.0
Eurozone	4.3	2.1	8.0	9.0
Japan	2.6	1.3	9.0	8.0
UK	5.0	2.0	4.0	3.0
China	5.0	5.4	16.0	16.0
EM	4.6	4.7	6.0	9.0

China is still expected to enjoy stronger economic growth than other large economies. A critical question for China is how it will deal with the potential contagion in its real estate market, with various large property developers in or close to default. With real estate forming around 60% of household NAV, stability in this space is paramount to the underlying Chinese economy. Defaulting developers tend to dump properties on the market, causing average prices to get hammered. This is not healthy for NAV, or future consumer spending and confidence.

The relevance of this is our expectation that the Chinese government will need to start increasing liquidity and credit to the market (Figure 18 &19). It will be directed to the real estate market and the developers, but we should not doubt that some will trickle down into the wider economy.

Figure 18

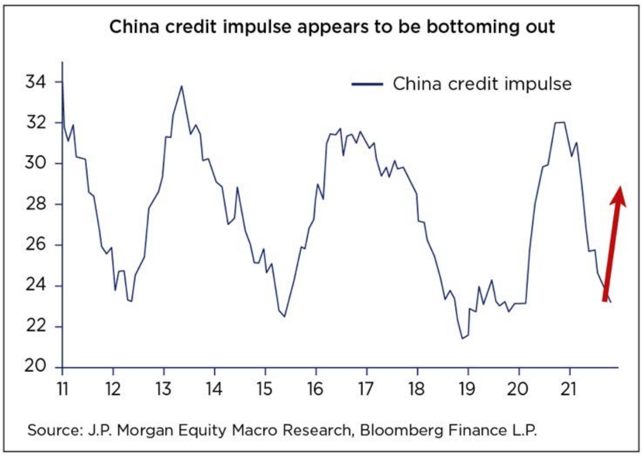
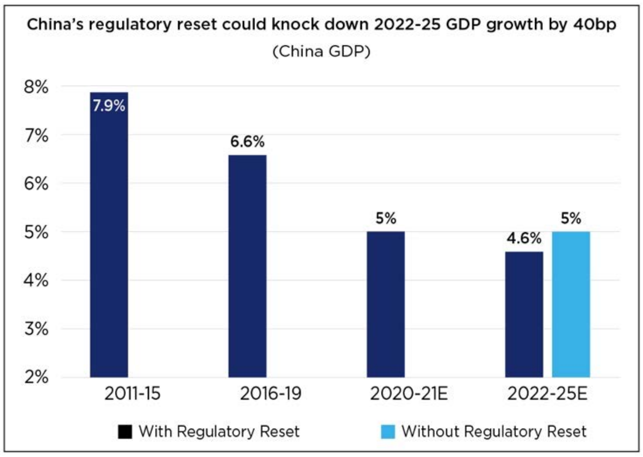


Figure 19



This should be supportive of Chinese equities. On the flip side though it should also result in a weaker RMB. A weaker RMB will feed into lower import prices into the US and globally, so acting as a headwind to inflation. So many moving parts.

Currencies

Always difficult to forecast, but let’s do our best. As mentioned above, we expect the USD will be stronger against other fiat currencies in 1H22 but going the other way towards the end of the year, as growth starts to slow and other countries play catch up on the tightening cycle.

We say ‘against other fiat currencies’ as we expect all fiat will be lower in time against real assets. Although we are not sure if this will be in ‘22, it is more certain on the medium to longer term.

OUTLOOK BY ASSET CLASS

It should be noted that our investment process is based on bottom-up research, focused on fundamentals and valuations, with a top-down overlay. Hence, the table below shows our allocations based on our stock picks, rather than the view at the overall sector level.

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Equities: Neutral to Overweight

We tend to be selective and hold more mid capitalization equities, which have a higher beta than large capitalization names. We also prefer cyclicals over defensive. We are, as stock pickers, very selective in our approach.

Earnings growth is expected to be more normalized across most markets. Current consensus is for 8% in the US, but we expect it could fall back marginally. Companies are expected to invest heavily and do share buybacks, and financial conditions are expected to remain relatively easy.

So, our guesstimate would be single digit returns for the US, but with at least a 5-15% correction during the year. Timing an equity market sell-off is not easy. Certainly multiples, particularly in the US, should come off. But according to various data we read, the next recession should only be due sometime around 2024, if prior rate cycles are at all indicative.

We expect Europe to lag due to Covid-related enforced restrictions and the start of a tightening cycle. We expect Japan to be similar with low single digit returns, driven in part by stimulus cheques being provided by the government.

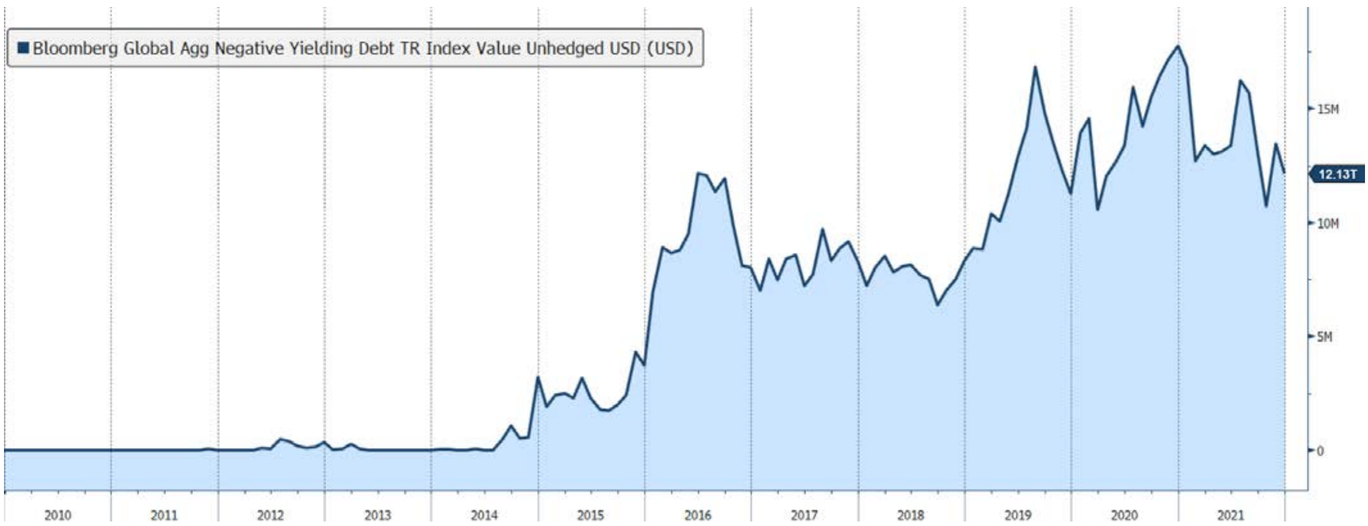
Emerging markets are a tricky one. Our hope and expectation is that China rebounds and the market improves with the release of liquidity from the PBOC and an uptick in the credit cycle. To be fair though, we have been very taken aback by the aggressive stance the government has taken towards capitalism in China. **Either 2022 will be a comeback year to more of a normalized market in China, or it will be confirmation to exit altogether and never return.**

Fixed Income: Underweight

Within fixed income, our preferred allocation would have been to US Sovereign debt, as a safe haven play rather than to generate yield. Given our Sharia mandate, however, this area of the market is restricted for us. Furthermore, we are also UW corporate credit as spreads are so tight. Within our Sharia mandate, we remain very underweight sukuk.

Fixed income is, in our view, in a monumental bubble. About $12 trillion of global debt is yielding a negative yield (Figure 20). That does not, however, mean that yields can't decline further, should there be a flight to safety or further financial repression.

Figure 20: **Negative yielding debt is around US $12 trillion**



We do not advocate much exposure to fixed income. We prefer short duration sukuk as a place to 'park' cash. Should there be an equity market sell off, though, long duration sukuk will do well.

While we acknowledge the plentiful number of deflationary forces, such as an aging population, impact of technology and high levels of debt, a deflationary environment would implode the financial system. We saw what happened in the 1930s and it was not pretty.

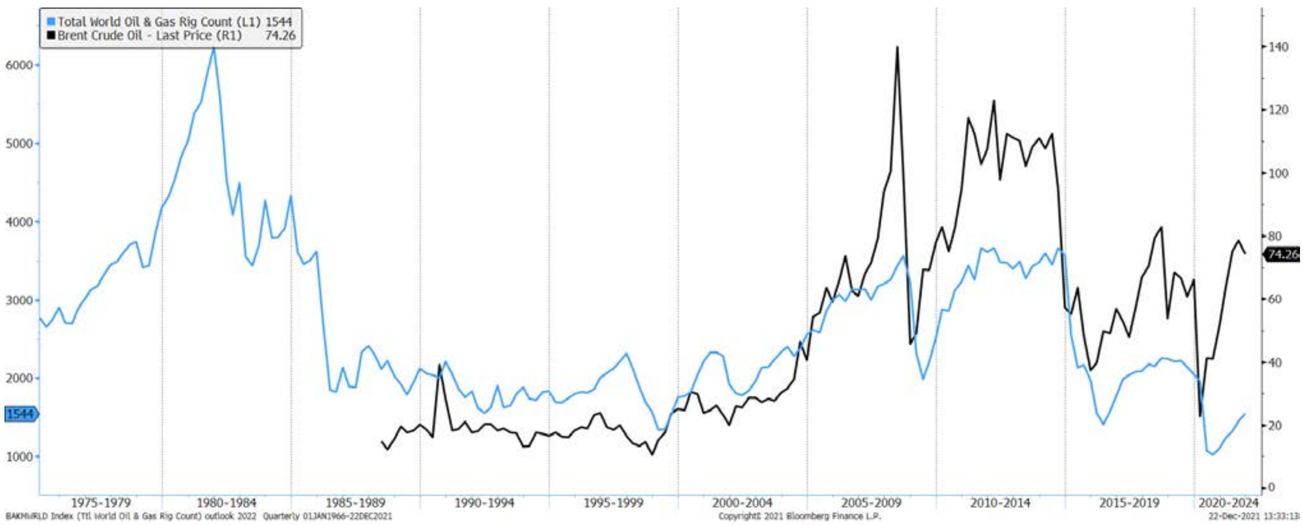
Central banks will therefore do, and have done, all in their power to avoid a deflationary meltdown.

So, we expect the deflation vs inflation battle to continue, but to eventually give way to a higher inflationary environment driven in part by bad and corrosive government policies and disrupted supply chains. That, and continued money printing at the first hint of a slowdown and massive increases in fiscal spend, on green technologies and the like, will exacerbate higher inflation for longer.

Commodities: Neutral to Overweight

Let's start with oil. Under a Biden administration, we see much higher oil prices over the medium term, for the simple reason that the administration prefers to support supposed green technologies, rather than the development of new fields and improved self-reliance. (Figure 21) Indeed, many of the larger oil companies are seeing internal shareholder pressure to divest away from the core business, that of oil, and shift into green technologies. This simply means less capital expenditure on the development of new fields, which in turn will result in much higher prices in the medium term, as demand starts to normalize.

Figure 21: **Capex trends and rig counts lag the recovery in oil prices significantly**



Industrial commodities: It would be perfectly reasonable for this space to take a break for a bit. Copper is at record highs as are several other metals like aluminum. When we forecast out the expected demand for nickel, copper and other metals required for the government-sponsored (taxpayer!) green revolution, we see significant shortages with the result that we also anticipate much higher prices over the medium term. We do like clean mines, those that can be acquired by end customers or other miners that want to reduce the "E" in their ESG scores.

Other commodities: One of the key base commodities we like is uranium. Uranium has gone through a decade-long slump, unloved and under-owned. The overall uranium market is tiny, but change is afoot. The Sprott Uranium ETF has grown from US $633 million in AUM to over US $1.5 billion in just a few years. This is significant growth and reflects that some 20% of annual uranium sales is now held in ETFs, effectively taken out of the inventories available to end users. Not only this, but the price of uranium is 70% below peak levels reached in 2007. (Figure 22 & 23)

Figure 22: **Uranium price is well below 2007 peak**

Figure 23: **The reversal of Demand and Supply**

We expect that nuclear will be a core focus for clean electricity, so vitally important in all the electric vehicles that will be flooding the market in the foreseeable future. All of course, with the support of government (taxpayer) subsidies.

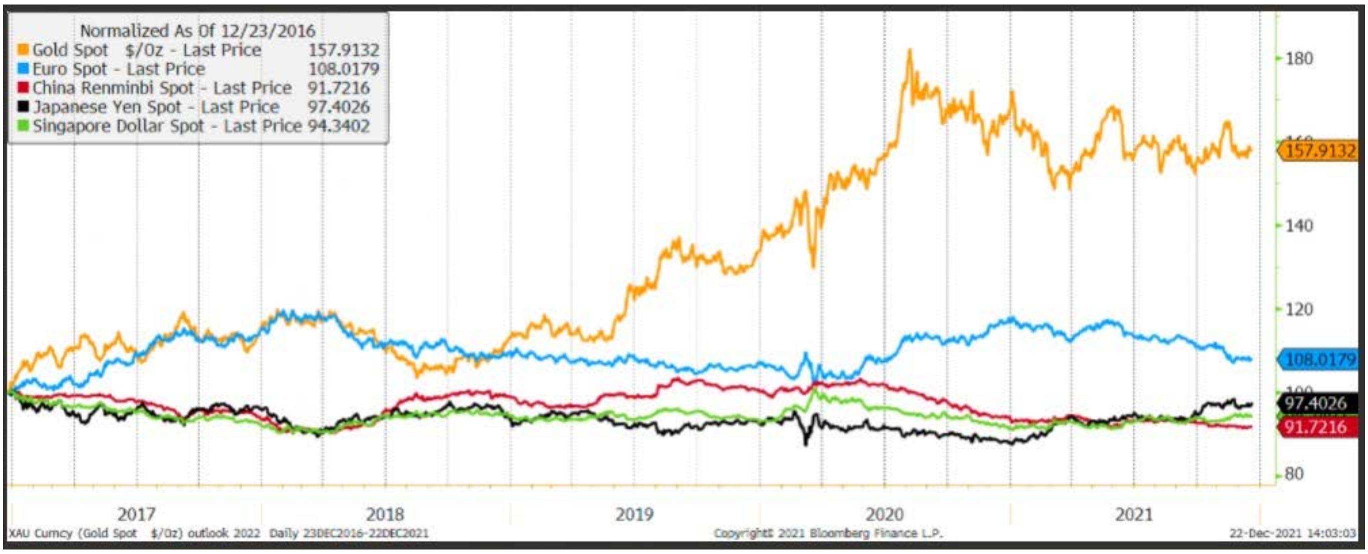
As the reader may have noticed, we are somewhat cynical of 'government knows best' and prefer to let the free market decide how and when EVs make financial and environmental sense. Right now, they do not, and subsidizing their roll out will create enormous issues on the supply of the various metals for their production, notwithstanding the fact that we haven't yet worked out the desired circularity of the EV production base, such as recycling batteries.

Precious metals: Overweight

This has been the pain trade for us this year. All indicators reflect that gold **should** be higher. Driven by inflation, money printing and negative real rates. What we saw in 2021 was a consolidation in the space, as investors shifted capital into equities which offered momentum, exposure to earnings and multiple expansion. The pain trade was also not helped by taper talk.

We don't know how PMs will work out in 2022. Given rate rises and the potential for a stronger dollar, gold may be range-bound or weaker, but as we turn our attention towards geopolitical issues, we see it as an excellent hedge. What we do know though, is that precious metals should be higher longer term, driven by extremely easy and 'absurd' central bank policy. **They are the hedge against the eventual terminal point of fiat.** (Figure 24)

Figure 24: **Gold has outperformed most of the fiat currencies**



We would also note that China just happens to be the largest holder of gold. While not our base case, we are considerate of the fact that should tensions mount over Taiwan and the West interferes, China could very easily launch its Central Bank Digital currency (CBDC), potentially backed by gold.

We would envisage that this would massively undermine the USD as a reserve currency and would increase the cost of any military conflict. It's an arrow in China's significant quiver of tools and policies to become a global superpower. Those that say China wouldn't do it, due to their own USD reserves, should be aware that China is playing a long game here; something the West is not good at.

So, we continue to have exposure to gold, simply to hedge ourselves against policy errors and the expectation that money printing cycles will simply get larger and longer as we move forward.

In summary, we expect equities should have a modestly positive year, though are likely to have at least one fairly significant (5-15%) down move over the year. Various commodities should continue to perform well, particularly as the 'green revolution' gets priced in. Precious metals continue to provide a nice hedge and silver is very cheap against gold. Fixed income is expensive generally and we prefer to be underweight here.

Crypto? We like the asset class long term. It is very volatile though, but we do see enormous demand coming through in 2022 driven by institutional buyers and an increasing retail user base. We don't know what 2022 will bring for crypto, but we do expect the market to be far larger, and higher, on the medium term.

In closing, we would like to wish all our clients and friends of Rasameel all the very best for 2022. We hope it will be a year of normalization; of getting back some of the freedoms we took for granted back in 2019 and getting back to a market and economy driven by strong underlying fundamentals, as opposed to excess central bank support.

We hope it will be a year of strong returns and continued success for Rasameel and its clients.

Robert Aspin and team

MEET THE TEAM

Robert Aspin, CFA

Head of Asset Management

Abdulmohsen Al Gharaballi

VP - Asset Management, PM – GCC

Analyst – Healthcare

Abdulaziz Al Muraikhi

AVP - Asset management

Analyst – IT

Abdullah Al Shaalan

AVP - Asset Management

Analyst – Energy, Utilities, Industrials and Materials

Surin Gandhi, CFA

Senior Officer - Asset Management

Analyst – Communication services, Consumer Staples and Consumer Discretionary

APPENDIX

APPENDIX A – Sector/Industry View

In the table below we provide a summary of some of our various analyst calls. It's a summary as we break sectors up into their industries and generally have a view on those as well. It should be noted that these are our current views and can change quickly, should there be any change to the underlying environment or fundamentals.

SECTOR	REGION				
	US	Europe	Japan	China	GCC
ENERGY	OW – Dividend increases, improving balance sheets and shareholder returns	OW – Dividend increases	UW	UW	
MATERIALS	OW – high quality value opportunities	OW	EW	UW	
INDUSTRIALS	UW – High valuations	UW	UW	UW	
CONSUMER DISCRETIONARY	UW/EW	UW	UW	OW, Internet/Ecommerce	OW, Secular growth plays
Automobiles & Components	OW, industry reaccelerates as chip supply issues ease	UW/EW valuation attractive	UW	UW, valuation premium high	
Consumer Durables & Apparel	EW, reopening themes	UW	UW	UW	
Consumer Services	EW	EW	UW	OW, restructuring plays	
Retailing	UW. High base effects, inc competition, stretched valuations	UW/EW	UW, Expensive valuation	OW, valuation attractive, regulatory hurdles expected to ease as CCP focus shifts on China macro.	OW, ecommerce penetration trends continue to improve
CONSUMER STAPLES	UW, stretched valuations, margin pressure	UW/EW, margin pressure	UW	UW	EW, benchmarking
Food And Staples Retailing	UW	UW	UW- select attractive names	UW	
Food, Beverage & Tobacco	UW	UW, look at beverages	UW	UW	
Household & Personal Products	UW	EW, hygiene	UW	UW	UW
HEALTHCARE					
Equipment & Services	EW	EW	EW	EW	EW
Bio. & LS & Pharma	OW	OW	EW	EW	EW
FINANCIALS					

IT	OW	EW	EW/UW	UW	n/a
Semiconductors	OW – capacity increases will benefit up/downstream equipment suppliers, focus on memory and auto chip suppliers	EW (specific focus on EUV lithography and auto ICs)	UW/EW – but wafer suppliers are attractive	UW – export ban weighing on semis, trailing edge foundry/ fabless may outperform due to domestic demand	n/a
Software	EW – non-big tech software selloff presents opportunity for stocks with sustainable moat and strong ARR	UW – IT consulting services is the best play here, but fully priced in, revisit on weakness	UW	UW	n/a
Technology Hardware	UW/EW – supply chain affecting growth. However, Comm/networking equipment the best place within the space. Memory and storage also attractive.	UW	UW	UW	n/a
COMMUNICATION SERVICES	OW	UW	EW/OW	UW	OW
Telecommunication	OW	UW	UW	UW	OW
Media & Entertainment	OW, gaming	UW	OW, gaming	UW – regulatory hurdles	UW
UTILITIES	EW – good bond proxies, high valuations	OW – good bond proxies, beneficiaries of energy transition	UW	UW	
REAL ESTATE			EW, benefit from rising domestic inflation		

APPENDIX B - A few examples of our key themes for 2022 and how we play them

Themes

1	Long	US infrastructure spending beneficiaries – Semiconductors, robotics & automation, 3D printing
2	Long	Europe De-Carbonization – retooling/greening of European industries, lower carbon footprint
3	Long	Reshoring of supply chains – Semiconductors, Warehousing/logistics, design software, rare earth metals
4	Long	Beneficiaries of easing supply chain pressures – Automotive, Retail
5	Long	Biotech, Genomics, Digital health and medical equipment
6	Long	Clean energy plays – Uranium, Metals
7	Long	Reopening beneficiaries – Services sectors with pent up demand - travel, leisure and experiences
8	Long	E-Commerce - China internet – Expect regulatory hurdles to ease, multiple rerating
9	Long	Inflation hedges – Precious metals
10	Long	Metaverse plays – Gaming, data centers, cryptocurrencies, advertising, and social media
11	Long	Cybersecurity & Data Protection – Rising geopolitical issues, IP protection issues

Cryptocurrencies

One of the themes we have exposure to in our Disruptive Technologies strategy is the crypto space. Below we show two charts, which highlight the number of unique addresses, or users, of BTC and ETH. The growth we see in the crypto space is very similar to what we saw in the initial developments of the internet. Web 3.0 will be filled with very speculative money, and one does need to be selective. While there will be lots of volatility, longer term though, we see this space as offering enormous growth and potential.

Figure 25

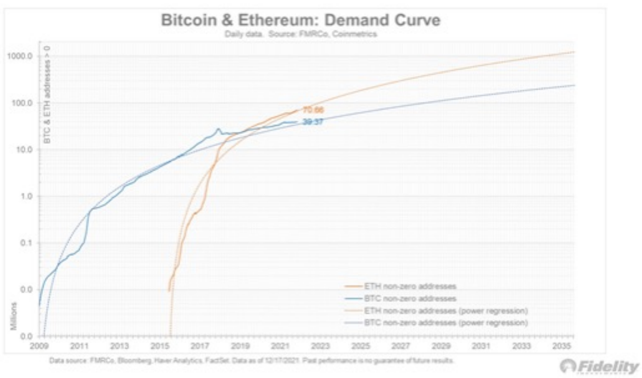
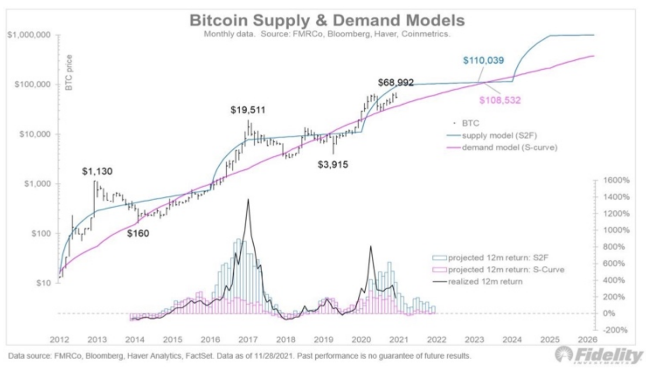


Figure 26



Easing supply chains

The easing of supply chain pressures is also a theme we are watching in 2022. This bodes well for areas of the consumer discretionary sector, such as automotive and retail.

In the case of the automotive theme, we are encouraged by the recovery in supply chains, which has largely been affected by semiconductor shortages. This has caused several global automakers to lower their production forecasts for the year. However, with continued investment by foundries to increase capacity, we believe 2022 is likely to see a rebound in end-markets such as automotive. Besides playing the theme through automotive OEMs, it is possible to allocate to it through metals such as copper, nickel and platinum. By way of example, we like Impala Platinum which provides us exposure to Platinum and Rhodium, metals that we expect will rebound in 2022 as automotive production comes back online and demand increases for catalytic converters. We see valuations compelling across automotive OEMs at current levels and expect to add exposure here.

Valuation Bands – Close to 1 standard deviation below mean

Source: IBES, Datastream, Barclays Research

APPENDIX C - A few other noteworthy charts that we are watching

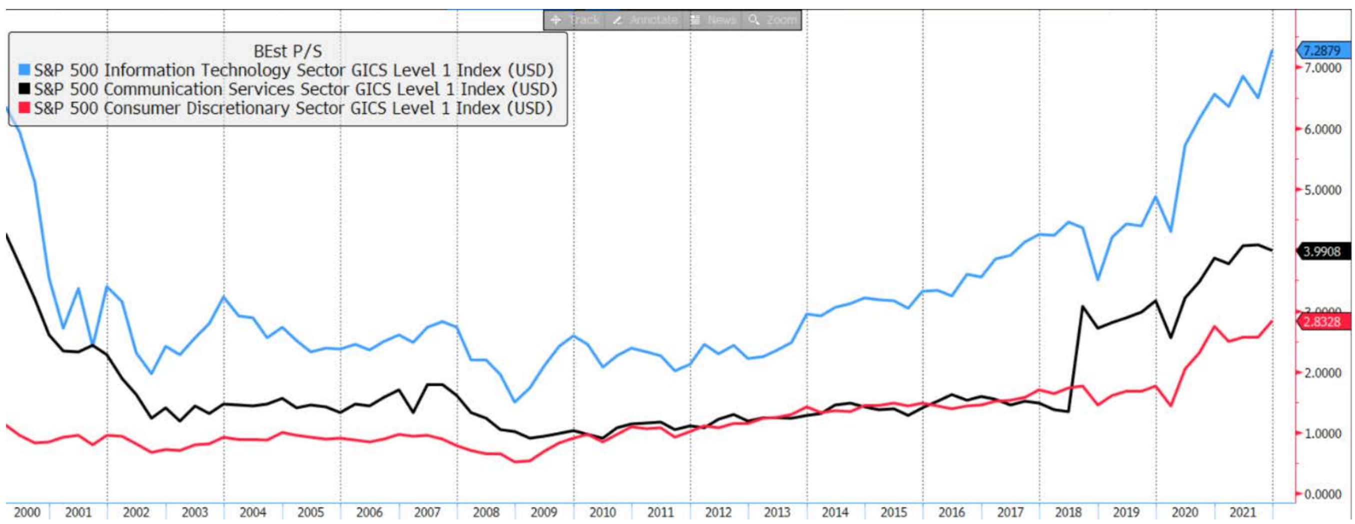
While major indices would suggest equities have delivered strong returns this year, looking under the hood would show that performance has largely been driven by mega-capitalization big tech names for the most part. In fact, at the time of writing this, **approximately 68% of the Nasdaq Composite index is trading below their 200-day moving average.** This highlights the divergence in performance this year between big tech and the rest of the market.

Market Breadth

While market breadth has deteriorated, valuations in select parts of the markets have gotten extremely stretched, particularly across technology, communication services and consumer discretionary sectors. Whilst we are N/UW the technology sector, our current preference is to hold semiconductor exposure over software, and continue to find good opportunities to allocate to. **We have seen many of the prior high-flying technology names sell off significantly in 2021, improving valuations, and we believe stock picking and being selective can really add value in this space.**

In consumer discretionary, we see value in holding Chinese e-commerce companies given their attractive valuations. In communication services, we are UW the big tech names given their stretched valuations.

Multiple Expansion



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Rasameel Investment Company
Kuwait City, Souq Al Safat, 3rd Floor, Office 6 & 5
P.O. Box 4915 Safat 13050

T. +965 2247 8800
F. +965 2247 6600
E. info@rasameel.com

www.rasameel.com

Rasameel