

**STAY DEFENSIVE...
BETTER
OPPORTUNITIES
AHEAD**

Market Update & Outlook

November 2022



OUR KEY CALLS

Tactical Asset Allocation

- Overweight Cash
- Overweight Defensives over Cyclical
- Prefer USD

Sector Preferences

- Healthcare
- Energy

Key Long-term theme

- Inflation will remain higher for longer, driven by:
 - Climate Change Policies
 - 'Build Back Better at Home' Policies

OUTLOOK

We continue to believe that we are in the midst of an economic slowdown and that it is prudent to manage risk exposure and to have an overweighting to cash and defensive areas of the market.

- We take the view that the rebound in Equities in October was a bear market rally and that the market action in November, following Chairman Powell's comments, confirms this. With this in mind, we expect Equities will likely make lower lows as we move through this rising rate environment.
- We continue to favor a multi asset class strategy in this environment, with exposure to high quality sukuk, precious metals and equities.
 - Sukuk yields have risen dramatically in the past few quarters and, while they may move marginally higher yet, sukuks will likely provide strong performance as the market prices in the slowdown we expect in 2023.
 - Within equities, healthcare and energy continue to perform well and offer protection in the slowdown.
 - Gold, we expect, will do very well as the delta of the Fed rate increases slows, relative to other central banks and the USD eventually weakens as we expect.

MARKET REVIEW:

October was a good month for risk assets. A reasonable start to the earnings season, and hope of central bank dovishness, drove a rebound in investor confidence. The S&P 500 ended the month up 8.1%, Nasdaq up 3.9% and MSCI world index up 7.2%. The Nasdaq underperformed in relative terms due to a weaker earnings season for the large capitalization technology names in the space. The Chinese markets, in sharp contrast, sold off significantly in the wake of President Xi Jinping's move to consolidate power at the recent all-party congress and a continuation of covid Zero policies. The Hang Seng ended the month down 14.7%.

Bond and sukuk yields yet again inched higher in October. Unlike the equity markets, the fixed income market was less hopeful on inflation and central bank dovishness. The

US Sovereign 10-year bond reached a yield of 4% at the end of the month. Dramatically higher than the 1.5% at the start of the year.

In terms of the dollar, it was only marginally down for the month against a basket of world currencies. Crude oil prices notched their first monthly gain since June, with Brent settling at around \$95.45 per barrel, up 7.8%.

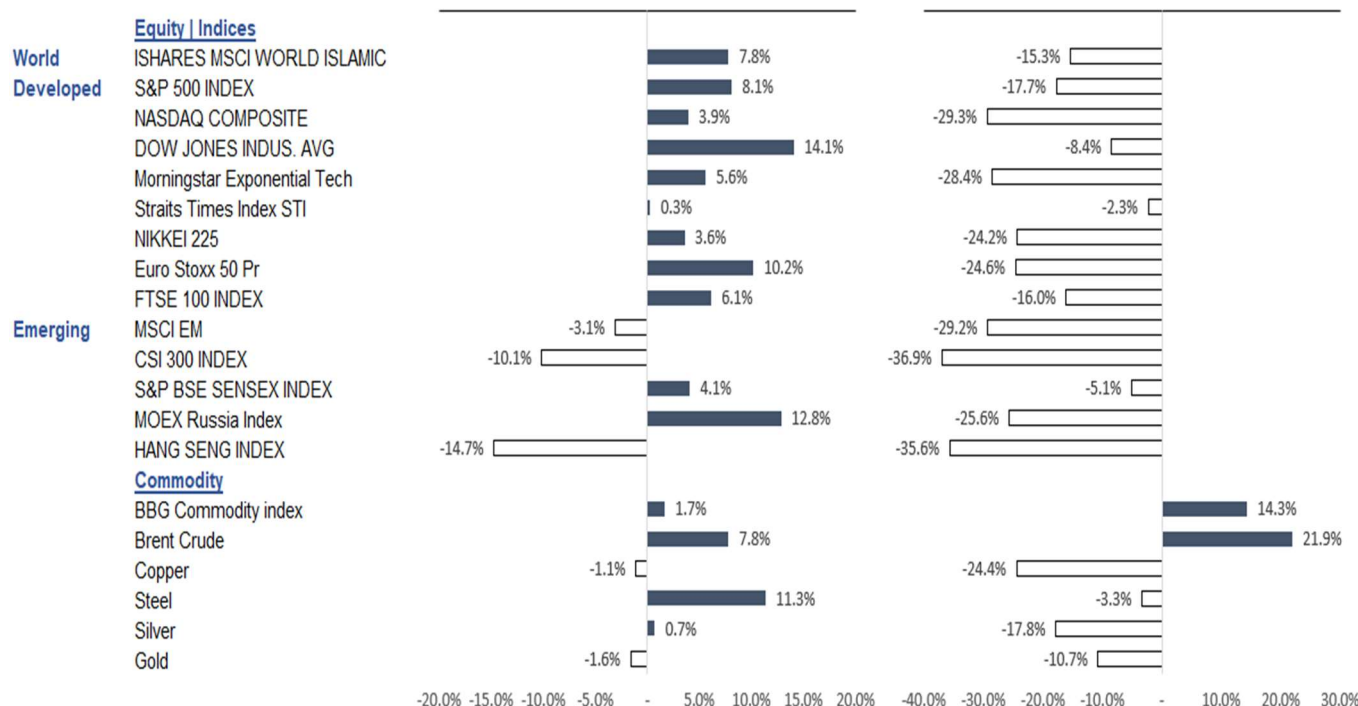
In terms of our performance, while all our Strategies and Funds were up in absolute terms, they underperformed their respective benchmarks. This comes as no surprise given our defensive sector positioning and overweight cash allocation. The Disruptive Technologies Strategy rose 3.1% (gross) vs its benchmark's (Morningstar Exponential Technologies index) rise of 5.1%. The Global Equities Strategy returned 4.3% (gross) vs the MSCI World Islamic index's return of 7.8%.

The Multi-Asset Fund delivered a 1.3% net return vs the iShares Core Growth Allocation ETF's return of 3.2%. The equity tranche of the fund returned 5.3% for the month, while the Sukuk tranche fell 1.8%. Our Sukuks though, handily outperformed long duration Treasuries (TLT US), which fell 6.2%. Within equities, performance was largely hurt by exposure to China. This has since rebounded nicely in the month to date, with our China exposure being up c.20% at the time of writing in November. We expect a re-opening of China to be a positive driver of this market, but are still very concerned over the consolidation of power under President Xi Jinping and would look for more market friendly policies before we become more optimistic on this market. The Fund's gold exposure also marginally detracted in October, but has really come into its own at the time of writing, on the back of some Dollar weakness. This builds our conviction that precious metals should generate strong returns once we start to see the strength in the dollar wain.

Year to date, all our Strategies and Funds continue to outperform their respective benchmarks - see rear of this report.

Oct 2022

2022 YTD



OCTOBER, A BEAR MARKET RALLY?

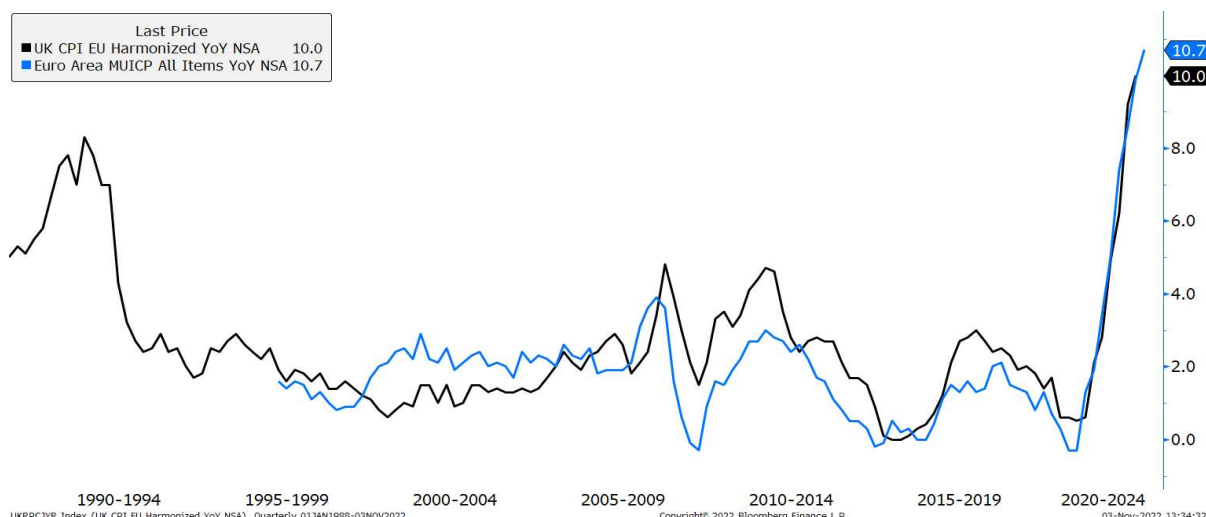
October saw equities perform strongly. In our view though, this was a bear market rally and that the equity markets are likely to fall lower as we move into 2023. With rates still rising, inflation at just below or above double-digit levels and most large economies entering a much slower period of growth, it is difficult to see it otherwise. We would rather hold this view until proven otherwise.

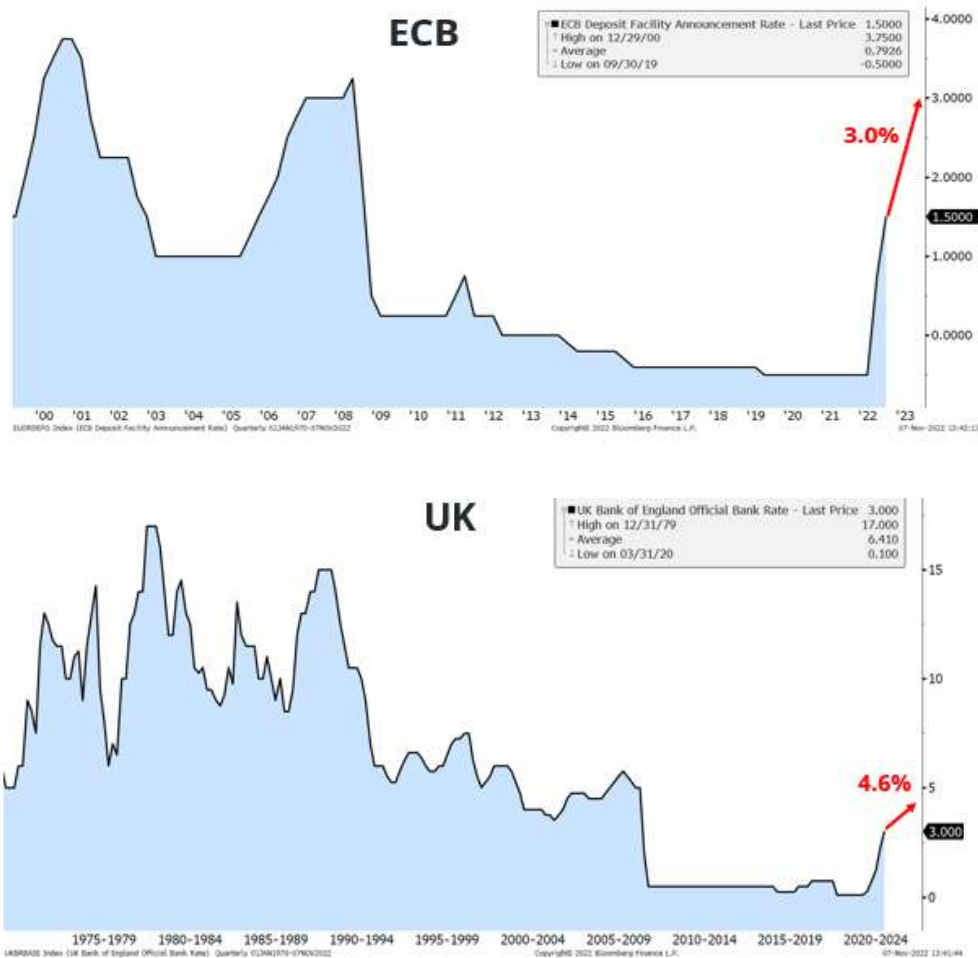
The Fed is still very much in tightening mode, with Powell making it clear in the rate announcement of 2/11/22, that he would rather over-tighten than under-tighten at this point. In the last Fed announcement, the terminal rate for this cycle rose to 5.1%.



Looking back over history, markets tend to find a bottom when there is significant capitulation. We don't think we are there yet. Yes, the Fed may reduce the delta of its rate rises, but other central banks such as the ECB and BOE have only just started the process of raising. The BOE for example is currently at 2.25% and is expected by the market to raise to just below 5%. Inflation in the UK is over 10%. The is also true in Europe, but the ECB is even further behind the curve with the deposit facility rate at 1.5%.

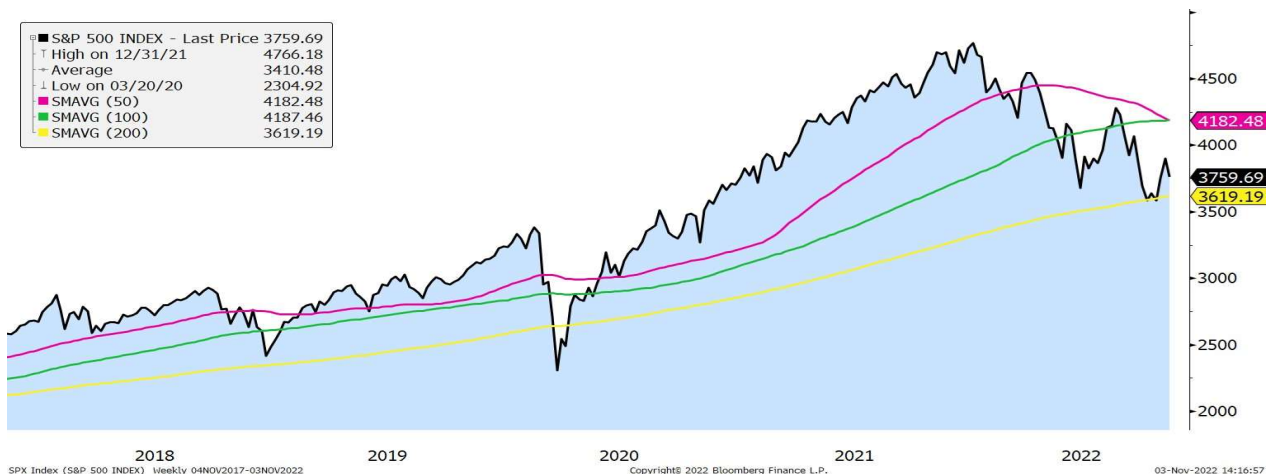
EU & UK CPI and Terminal rate





Bear market rallies can be extremely difficult to manage if one is defensively positioned as we are, but at this stage we would rather be moderately conservative and hold an overweight to cash. Should the market head lower, we will have the dry powder to allocate aggressively at lower lows. Should we be wrong, we would expect this to be confirmed in the data and can add as we move through 2023. Right now though, we see the market run as more of a technical bounce with the S&P bouncing off its 200wma, in exactly the same way we saw the Nasdaq do just two months before. In our prior report, we noted that it was likely that there would be a bounce off this traditionally strong support.

Charts – S&P 500 weekly averages



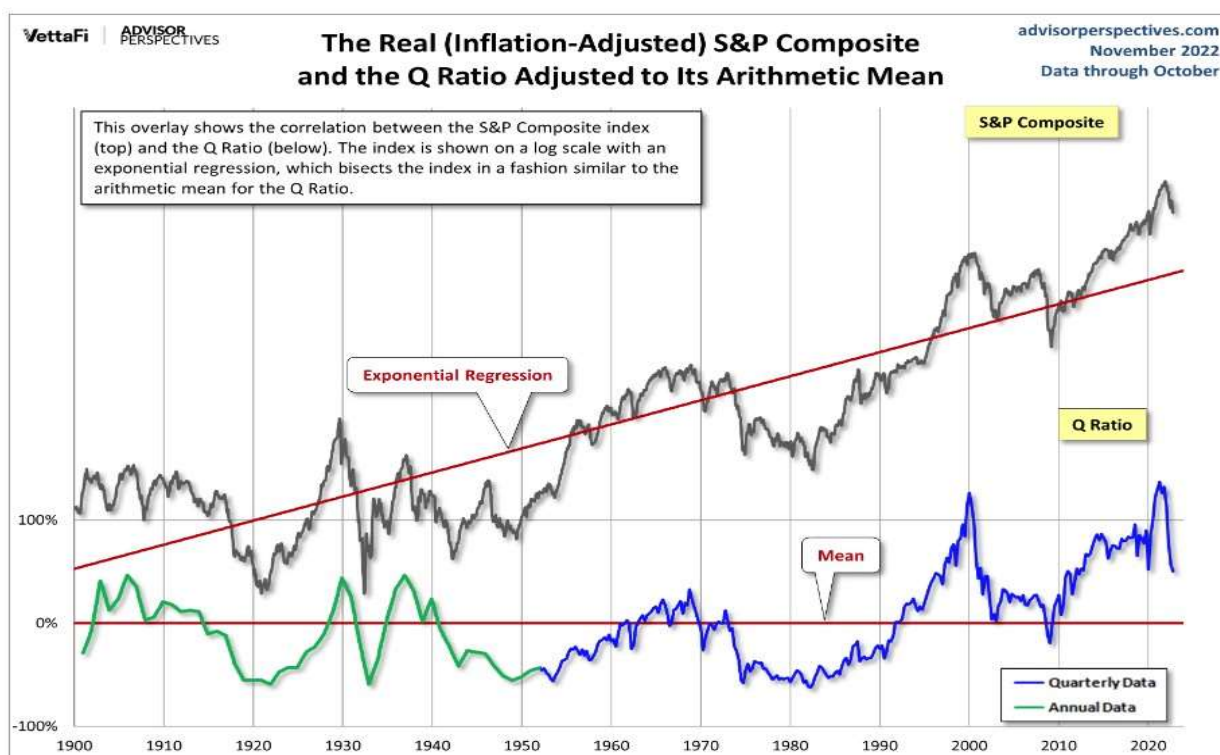
At the time of writing, the market has turned lower on the back of Chairman Powell's announcement that rates have further to go. This may prove to be the turning point of the October rally. If not, we anticipate that the 200dma will prove to be a level of resistance. The S&P doesn't necessarily need to tap this average, so we wouldn't advocate that traders wait until that point. Should the S&P break above its 200dma, we would certainly have to re-consider our positioning.

The 200dma has shown to be a level of resistance in prior bear market rallies

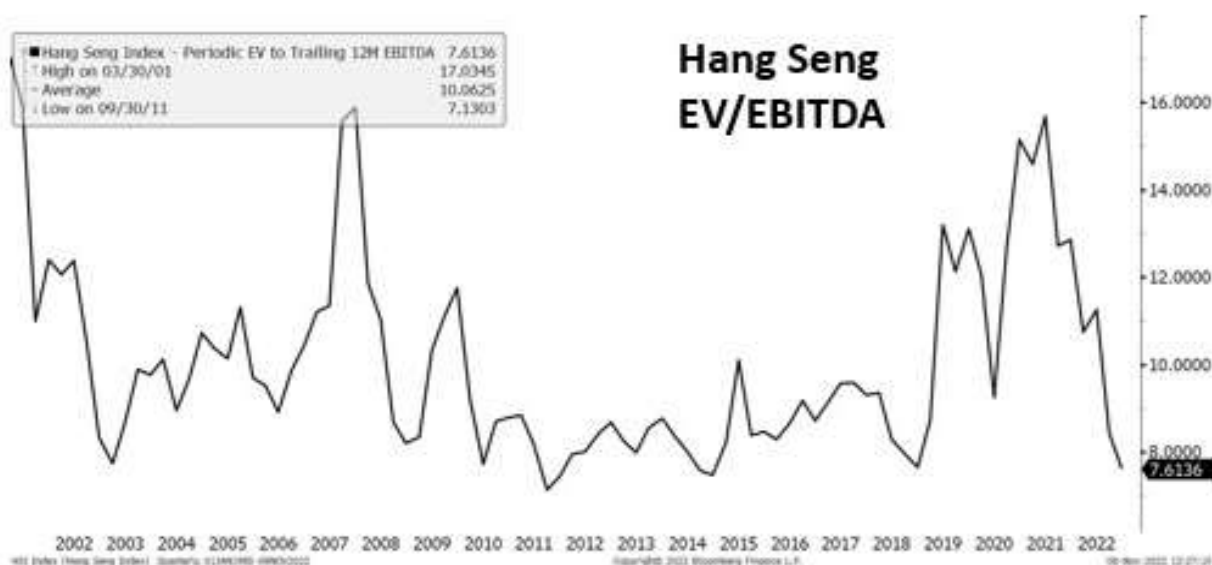


So, we watch and wait, expecting lower lows to come. In addition to our view that risk assets are unlikely to rally into an economic slowdown, we would also note that equities are not yet cheap.

Chart – Valuations

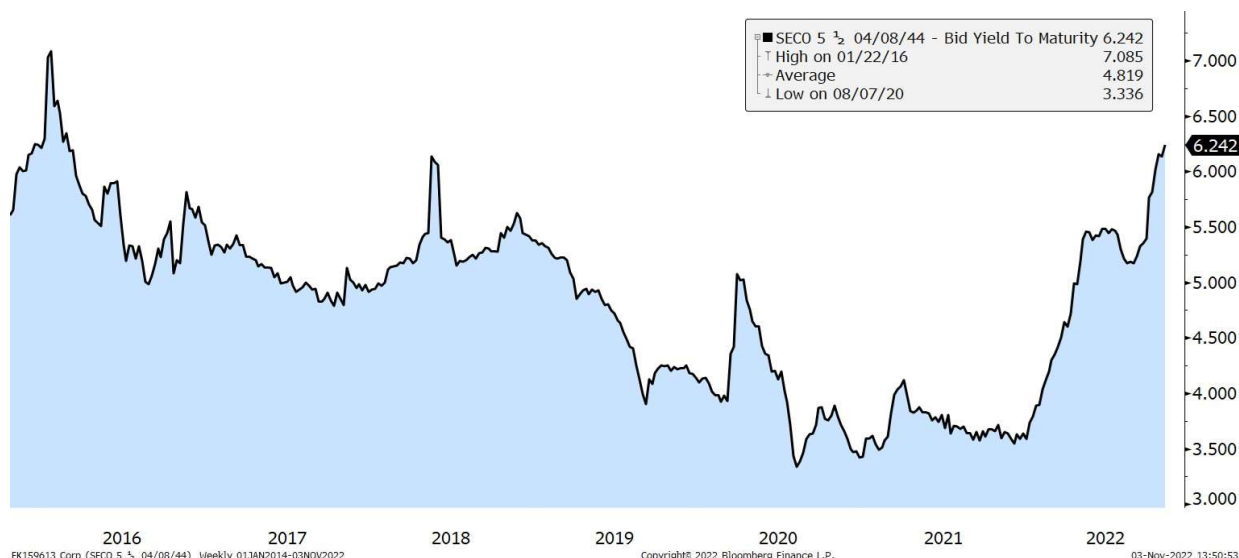


From a valuation point of view at the index level, US equities are not yet at cheap levels. There is value in Europe and China, but both of these markets are cheap for a reason, given the headwinds they are currently facing.



In terms of the Strategy and Fund exposures, we remain overweight cash and healthcare and underweight those areas of the market that we consider economically sensitive such as industrials, technology and materials.

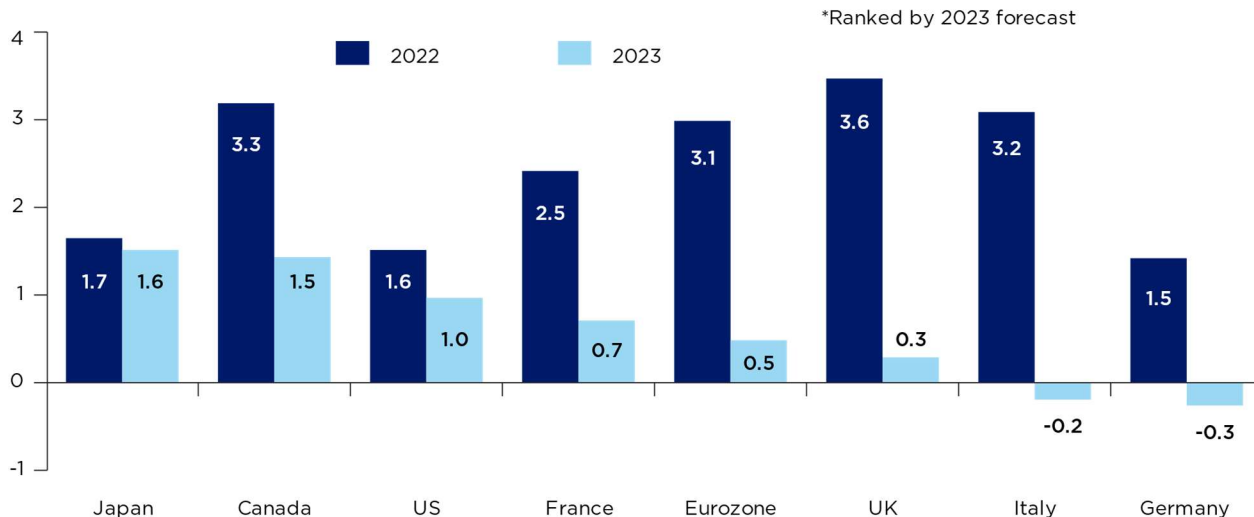
Outside of Equities, Sukuk are starting to offer high yields, with the Saudi Electricity A rated Sukuk (Seco'44), for example, now offering a yield of over 6%.



We haven't added further to our Sukuk exposure though, as we would rather wait for the Fed hiking cycle to be further advanced and to start seeing the expected weaker economic data being priced in. The IMF has already downgraded their forecasts substantially, but the fixed income and sukuk market are yet to price this in.

Chart – IMF growth forecasts

IMF real GDP growth (%) 2022 and 2023 forecasts for G7



Timing the market

There are many that claim investors can time the market. History though is littered with those that have tried and failed. Witness the market action on the Fed rate announcement, with the market initially rallying a few percent on the announcement and then selling off on Powell's comments, ending the day down c.3%. Market action can be driven by many factors and, as we have noted before, markets can remain irrational for longer than one can remain solvent.

History though, provides us with an excellent basis to better understand how equities and fixed income should perform during a tightening rate cycle and, in the following

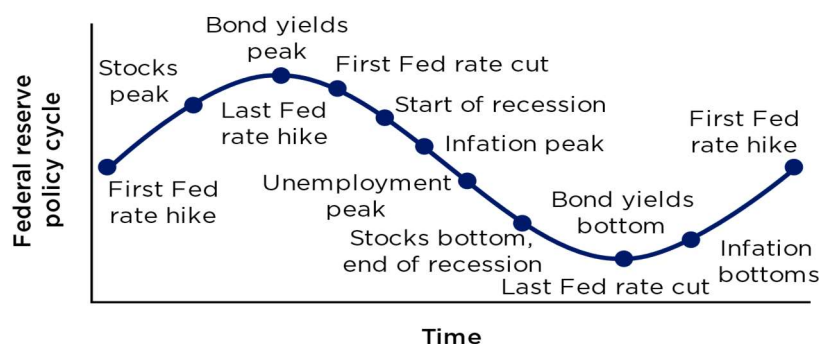
section, we build on some of the work we have done in past Outlooks to provide an indication of our expectations as to when sukuk and equities will start performing in absolute terms.

FIXED INCOME/SUKUK

Historically, 10yr government bond yields have typically peaked towards the end of the rate hike cycle. This implicitly makes sense as rates rise towards the end of a business cycle, to slow an economy and reduce inflation. 10yr yields are usually very correlated to rates, with both rising in parallel.

Bond yields tend to peak right before the final rate hike, while inflation may continue to trudge higher

Stylistic view of how bond yields, inflation and equity performance tend to evolve historically



Source: Bloomberg, Standard Chartered

Towards the end of the rate hike cycle, however, history highlights that the central banks often over tighten, so as rates may move higher, the longer duration bond yields start to decline, pricing in lower inflation further out. The typical boom bust cycle.

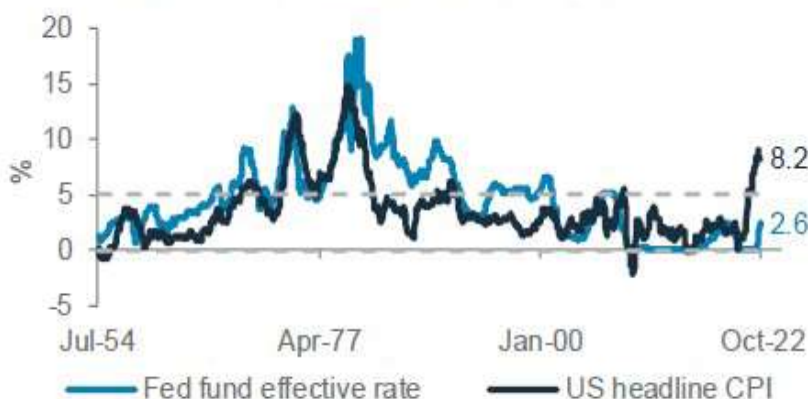
Fed Chair Powell has already made it clear that they have further to raise. As he has indicated the Fed is strongly committed to bringing inflation back down to the 2% level and are very comfortable to see labor markets softening somewhat to reach that target. We are not there yet.

Furthermore, as Stanley Druckenmiller (one of the most highly acclaimed money managers in recent history) also noted, whenever inflation rises above 5%, we have seen Fed rates rise above the level of inflation.

We anticipate that inflation in the US will fall from current levels so, by the time the Fed reaches the market's expected target rate of 5%, inflation shouldn't be too far off and in a downward trajectory.

Whenever inflation rises above 5%, we have tended to see the Fed policy rate rising above inflation

Fed fund rate vs consumer price index (CPI)



Source: Bloomberg, Standard Chartered

So, in the case of fixed income/sukuk, we consider it too early to go overweight in our Multi-Asset Fund. In the next few months though, we are likely to go overweight to benefit from the market pricing in weaker growth. With high quality sukuk such as the Seco'44, for example, offering over 6% yield, we are looking forward to some strong returns.

EQUITIES

As we highlighted in a prior Outlook – [found here](#) – as reflected in the two recent bear markets of 2000 and 2008, equities may rally towards the end of the **rate cutting cycle**, rather than at the pivot.



This stands to reason, as central banks have often been shown historically to over-tighten due to the lag between rate rises and the slowing effect they have on the economy. The usual boom bust cycle.

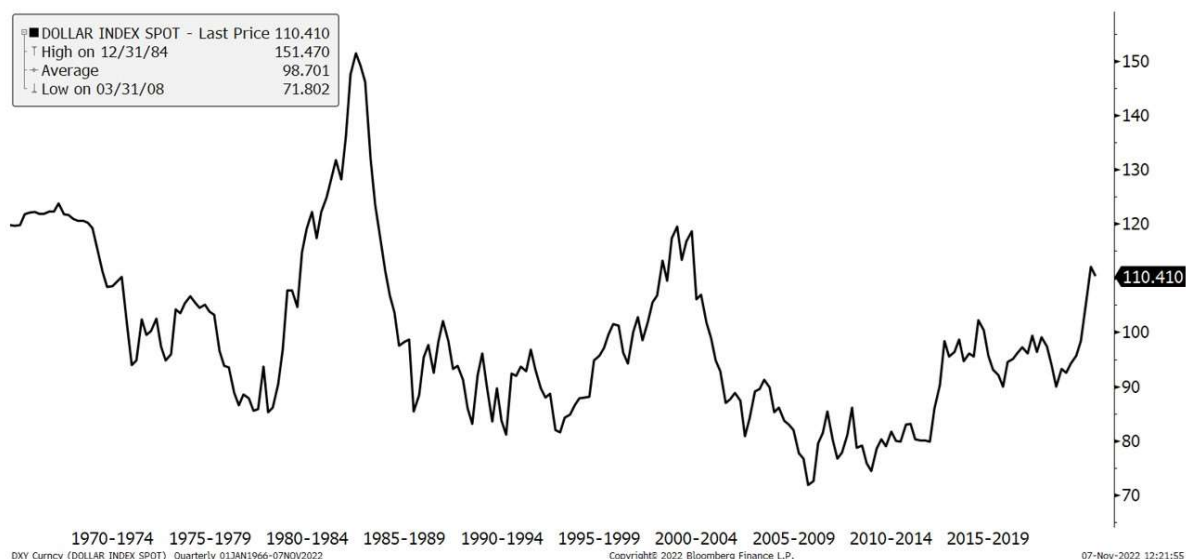
So, if history is any guide, we shouldn't anticipate a sustained market rally until at least inflation is significantly lower and the equity market has priced in a lower EPS print for 2023 and 2024. As we highlighted in our last outlook – found here – if earnings growth for the S&P is flat for 2023, rather than the 10% growth currently being priced in, and the P/E falls to 13, the S&P would be at 2900. This is not a forecast, but just a reflection of how sensitive the equity market is to earnings.

It's not just a weaker economy that is likely to slow earnings growth in the US. The strong USD has an impact. With many of the large S&P names having some 40% or more of revenues coming from outside of the US, the strong dollar has a direct effect on EPS. We have already seen Microsoft highlight that the strong dollar impacted top line revenues by around 5%.

Hence, we take the view that equities will likely make lower lows but will in time offer excellent upside. We will watch the data closely though, and adjust our positioning if this expectation proves to be wrong. As we noted in our prior report, with parts of the equity market down close to 50%, equities are far cheaper than they were just a few quarters ago, so we should not be overly bearish at this stage.

PRECIOUS METALS

In terms of previous metals, the catalyst to add exposure to them will be a weaker dollar. We are likely not far off from reaching that point.



As we highlighted previously, until the rate of change of US rates slows in relative terms, we expect the USD to continue to strengthen against other fiat currencies. From past experience, in a really bad bear market, we usually see the USD rally as a safe haven asset, as investors cover margin debt and the like. To date, we have not witnessed anything break in the market, but, if we did on the back of extremely high rates and yields compared to only a few quarters ago, the USD would likely rally. That

would signal the turning point, as the Fed would then likely quickly pivot and new fiscal spending plans would be announced to avoid, or at least minimize, potential contagion.

With the Fed funds rate already at 4% and the terminal rate at 5% and the DXY up 16% over the year, we expected we won't have too long to wait to see the USD reversing course, no different from prior cycle as reflected in the above chart.

In summary, in terms of asset allocation, we prefer to still overweight cash for the moment. We expect the next quarter or two to provide an excellent opportunity to overweight sukuk, which should offer strong returns as we head into 2023. We would then envisage shifting out of sukuk relatively early next year, in favor of overweighting equities and real assets, as we expect inflation will not be fully vanquished and may well come back in spades in later years, driven by fiscal policies and a continuation of easy monetary conditions.

A core component of this view is that inflation will remain elevated for longer than the market currently anticipates. Potentially something similar to the '75 to '80 period.

While cash is king currently, we expect it to be a terrible investment further out. Similarly, for sukuk, while there will be a rally as inflation falls off initially, unless the Fed really tightens aggressively to see the end of inflation, yields will settle at levels higher than before 2020.

Our reasoning – as we touched on in our [prior Outlook](#) – is that:

- Inflation will remain elevated due to the central banks being unwilling to collapse the economy fully to rid it of inflation permanently.
- Fiscal spend is likely, in our opinion, to increase with a focus on two key policies:
 - Climate Change Policies and
 - Build Back Better at Home.
- Financial repression will likely be the policy of choice by policy makers. Like Japan, we would expect the major central banks to use quantitative easing programs to keep yields lower than they otherwise would be in a free-market environment.

As we have highlighted previously, our current expectations are that the Fed and other central banks don't have the stamina to raise rates sufficiently to slow the economy and get rid of sticky inflation. Rather they will follow the '74-'76 example, of coming off the brake too early, allowing inflation to remain elevated in future years. Indeed, we expect this will be a policy choice.

As Ray Dalio, a prominent investor, noted in his last "principles" post, governments and central banks have two choices:

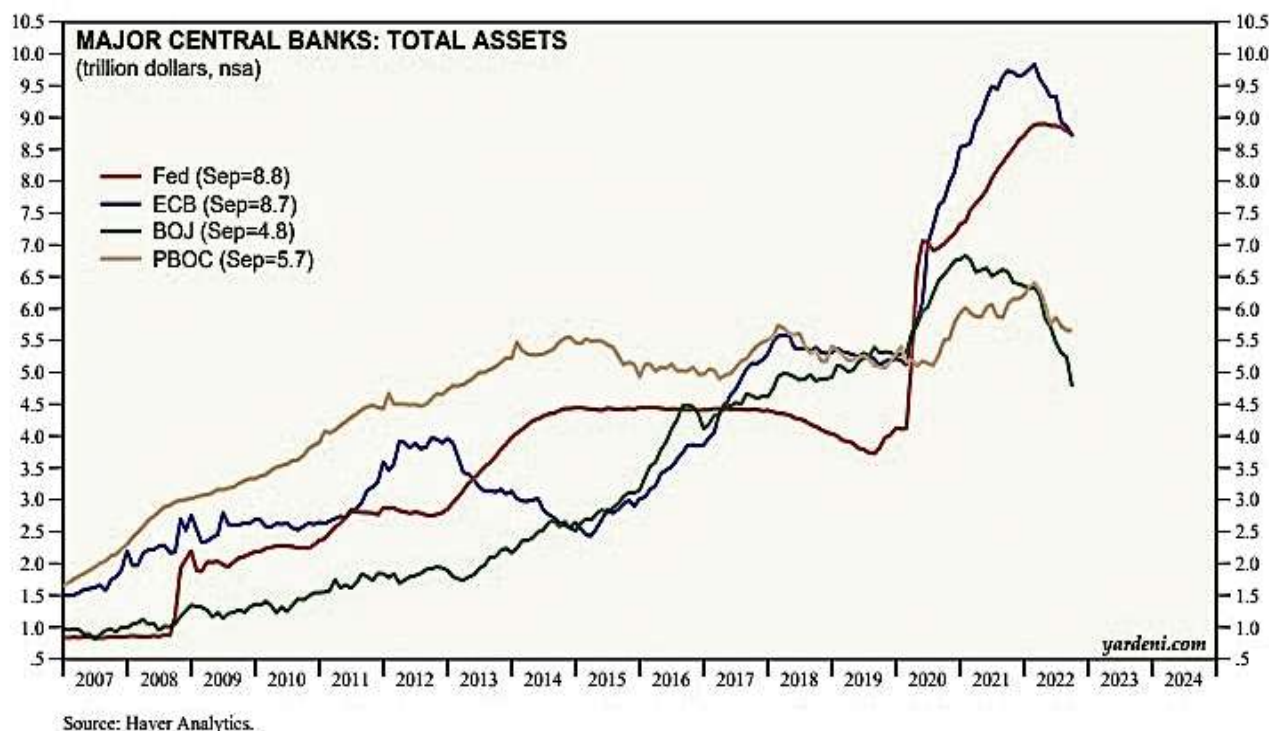
- Fiscal and monetary discipline, which will slow the economy significantly and drive unemployment higher. Negative for risk assets. It would also drive yields higher as there would be no buyer of last resort and the Central Banks would be sellers.
- Accelerating prior policies of fiscal support with central banks increasing their quantitative easing and bond buying programs. Risk assets perform, but the currency declines relative to real assets.

We anticipate the latter option will be preferred.

In all of the major economic slowdowns in recent history, Central banks have expanded their balance sheets. We don't believe anything has changed, for them not to do so in the next one.

Chart – Central Bank balance sheets

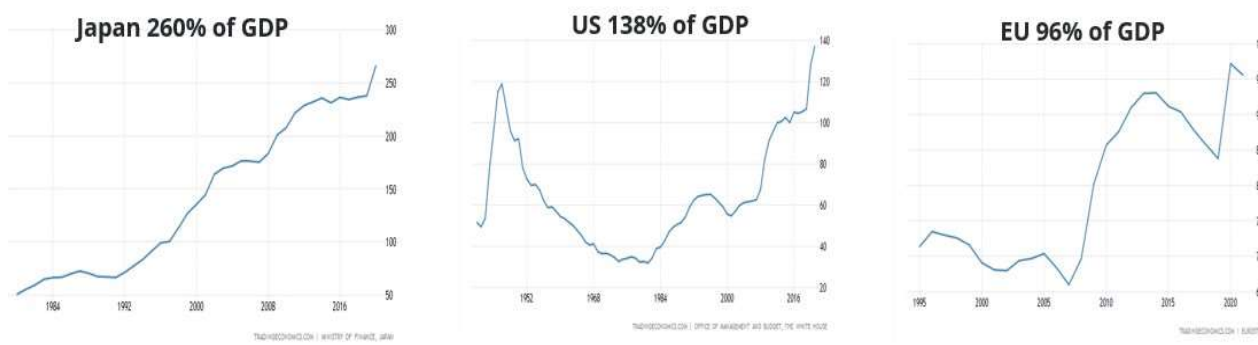
Total Assets of Major Central Banks



The same is true for fiscal imprudence. In each of the slowdowns we have witnessed over the course of recent history, governments have used increased fiscal spending as a way to bolster a weakening economy.

In our view, the US and EU are likely following the example of Japan. Japan has debt to GDP of over 250%. Other nations are lower, but the trend is clear. Governments can and are likely to continue borrowing more, to stabilize the economy in the event of a major slowdown. We expect the government response to be no different should there be a major economic slowdown in '23 or '24.

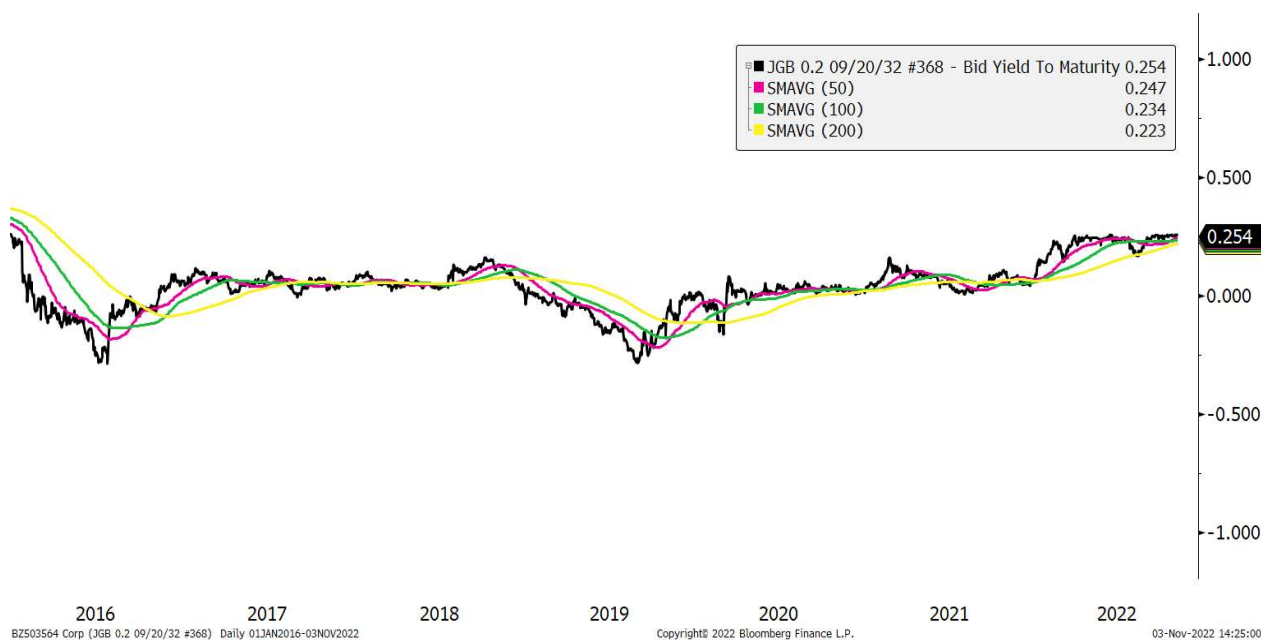
Chart – Government Debt to GDP% - Japan, US and EU



In terms of financial repression, we have seen this in numerous markets over the past few years. The most prevalent today is in the case of Japan.

Japan currently has inflation of 3%. To prevent yields from rising, rather than hiking rates which would slow the economy, the BoJ has effectively become the only buyer of JGBs, keeping yields at a target rate of 0-25bps.

Chart - 10yr JGB yield



This is the good example of what we term ‘financial repression’. It is the easiest route for governments and central banks to take. There is a price to be paid for fiscal imprudence though, and over time, should governments take this route, we should expect fiat currencies to decline in real value. **Real assets, such as equities, gold, real estate are likely to do extremely well in nominal terms, once we have gone through this initial re-adjustment period.**

Climate change policies are likely to be inflationary

In October of 2018, the United Nations Intergovernmental Panel on Climate Change (IPCC) highlighted the importance of slowing the pace of global warming to 1.5 degrees Celsius from the current 2 degrees Celsius.

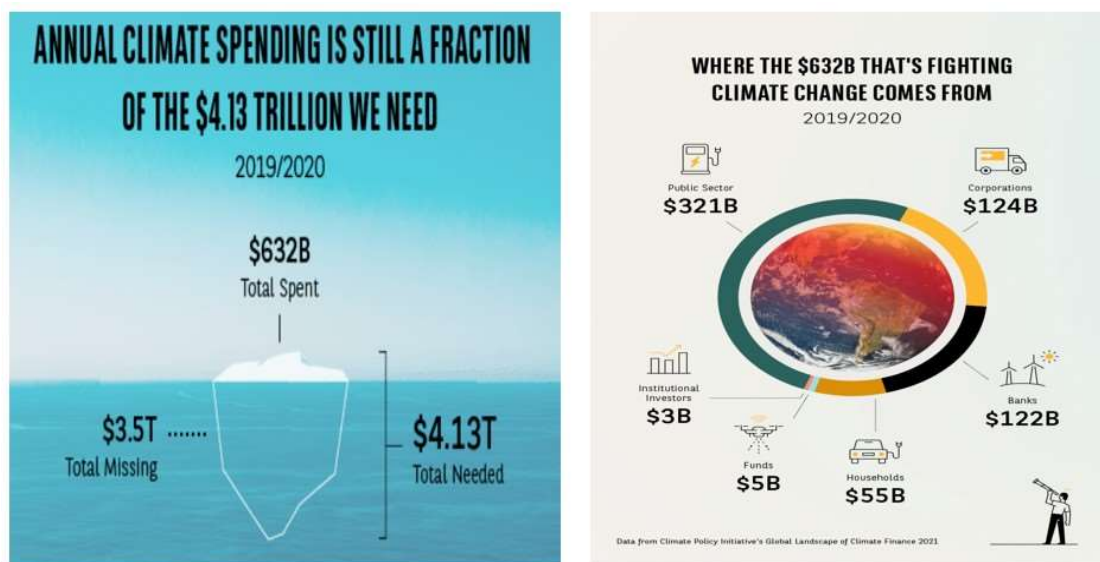
The full report title is: Global Warming of 1.5°C, an IPCC special report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty.

In its report, the IPCC suggests rapid, far-reaching, and unprecedented changes in all aspects of society.

Governments who committed to the Paris Climate Agreement have taken this report to heart, and many Advanced economies have ramped up their investments into cleaner and renewable technologies to help achieve their targets. Since the report,

investments centered around the energy transition have grown around 14% per year, and really picked up in earnest in 2021, reaching an annual investment of \$755 Billion, representing 27% year on year growth.

The UN today calls for a massive increase in investment to the tune of \$4 Trillion annually until 2030 to reach stated climate goals.



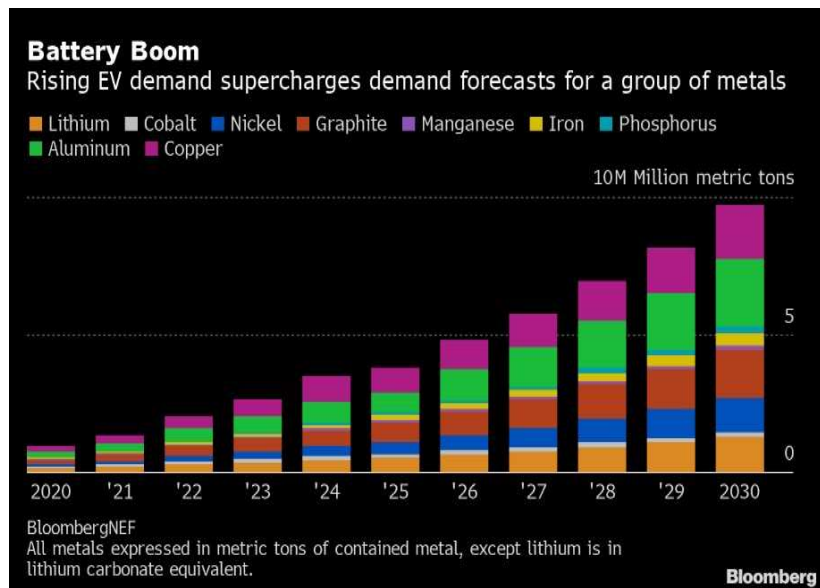
On the face of it, investment into technology and diversifying into different energy sources is undoubtedly beneficial for society and the economy, especially as an economic recovery mechanism after a steep recession. Yet, many advanced economies appear to be racing towards an energy cliff that may have even more severe consequences than highlighted by the IPCC.

As major Western economies had blocked the expansion of fossil fuels over the past 5 years, today they face great challenges to their energy security, while the poorest of nations are already experiencing social unrest and political upheaval due to shortages in energy, and as a result, food.

One would think the added capacity from renewables would offset the lower supply from fossil fuels. Yet, the reality is that current renewable energy technology faces key issues of scale, intermittency, and storability. The sun only shines during the day, wind farms only generate energy when it's windy, and the capacity to store and distribute this energy is extremely limited and expensive. Yet, what we've seen unfolding in 2022 in terms of inflation and shortages might merely be a precursor for what is to come in terms of the path of prices for most goods and services for the decade ahead.

These investments would funnel through to private and public partnerships to upgrade energy systems, decarbonize transportation, revamp infrastructure bases, and provide support for displaced people due to extreme weather. Yet the increased capacity of renewables points to a trend of substituting reliable baseload energy to less efficient sources, overall increasing the cost of power. Furthermore, the advance of solar, wind, and batteries entails a large growth in demand for metals and minerals that are scarcer in quantity than oil and gas.

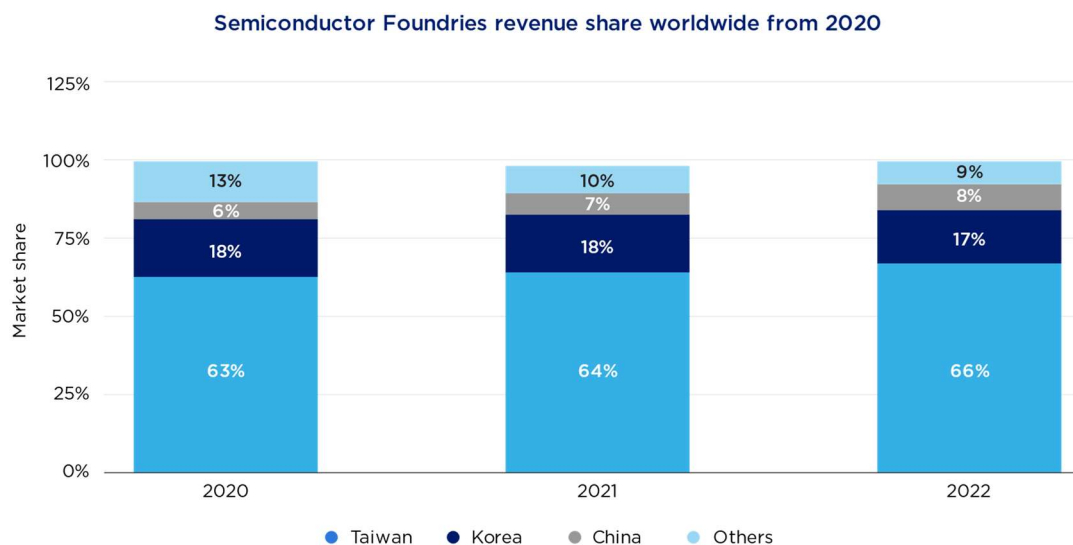
The massive demand boom for metals such as copper, cobalt, and lithium driven by the surge in demand for EV's and green power should ultimately lift the prices of these metals, and their end products along the way. CEO of Freeport-McMoran, Richard Adkerson commented on the structural demand growth of copper as renewables investment ramps up, "substantial new mine supply development will be required to meet goals of the global energy transition, and current prices of copper are insufficient to support new mine supply development, which is expected to add to future supply deficits".



Thus, energy becomes a much scarcer resource in a greener world, increasing prices for everything where energy is an input. A transition to a less efficient energy grid, using minerals that are much more difficult to obtain, is inherently inflationary.

'Build Back better at Home' or reshoring will also be inflationary












3 decades on from the post-Cold War American foreign policy, which sought to foster globalization to the benefit of the world economy, we are now awakened to the threats posed by the loss of global leadership in many vital industries. The chip shortages endured during the pandemic has given us a glimpse of the ugly side of the overdependence on China and Taiwan for chip manufacturing capacity. As the chart below highlights some 70% of semiconductors are sourced from China and Taiwan.



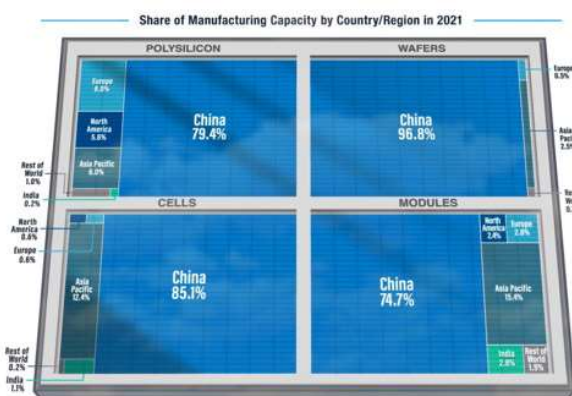
It's not just semiconductors. China is also the world's largest supplier of rare earths, critical for many technology applications as well as 'clean energy' such as solar panel manufacture.

China's hegemony in rare earths production worldwide

Production as share of global output by country, 2021

Country	Production share (%)
 China	60.6%
 US	15.5%
 Myanmar	9.4%
 Australia	7.9%
 Thailand	2.9%
 Madagascar	1.2%
 India	1.1%
 Russia	1%
 Brazil	0.2%
 Vietnam	0.1%
 Burundi	0%
Rest of world	0.1%

Source: Statista



During the last 30 years, the US has lost 2/3 of its manufacturing capacity to the Asia Pacific region, mainly China and Taiwan. The past few years have highlighted the state of globalization in the world, and the United States may be at an inflection point in which it might finally do what it takes to support the onshoring of critical industries. The CHIPS Act aims to support chipmakers with over \$50 billion in subsidies to build foundries, with an additional \$200 billion authorized to fund scientific research to boost technological innovation over the next 10 years.

We can look at Intel as a prime example of the United States' lost leadership in manufacturing advanced semiconductors over the years. While government policy in countries like Taiwan, South Korea, and China was generous and allowed for capital expenditures to surge, Intel opted to focus on maximizing shareholder value in the form of buybacks and dividends.

As a result, it is not surprising to see that companies like TSMC and Samsung are at the forefront of cutting-edge production, manufacturing chips with transistors just 5 nanometers wide, and soon rolling out 3nm process technology, while Intel's latest 13th generation is still on 10nm process. We can see the difference in strategic vision just by comparing distributions to shareholders since the turn of the century in table 1 below.

Table 1. Distributions to Shareholders (Intel, Samsung, TSMC)

	Intel				Samsung Electronics				TSMC			
	NI, \$b	DV/NI%	BB/NI%	(DV+BB)/NI%	NI, \$b	DV/NI%	BB/NI%	(DV+BB)/NI%	NI, \$b	DV/NI%	BB/NI%	(DV+BB)/NI%
2001-2020	199.0	34	65	99	315.8	16	10	27	124.6	50	2	53
2001-2010	59.4	32	81	114	75.6	12	17	29	26.8	50	11	62
2011-2020	139.6	35	58	92	240.2	18	8	26	97.7	50	0	50

The CHIPS act represents a concerted effort by the US to stay a couple of generations ahead of China in advanced microelectronics and to maintain multiple sources of leading-edge fabrication in the US. We have never seen this level of government incentive to onshore chip manufacturing and design, and never has there been this level of legal restriction on technological investment in China.

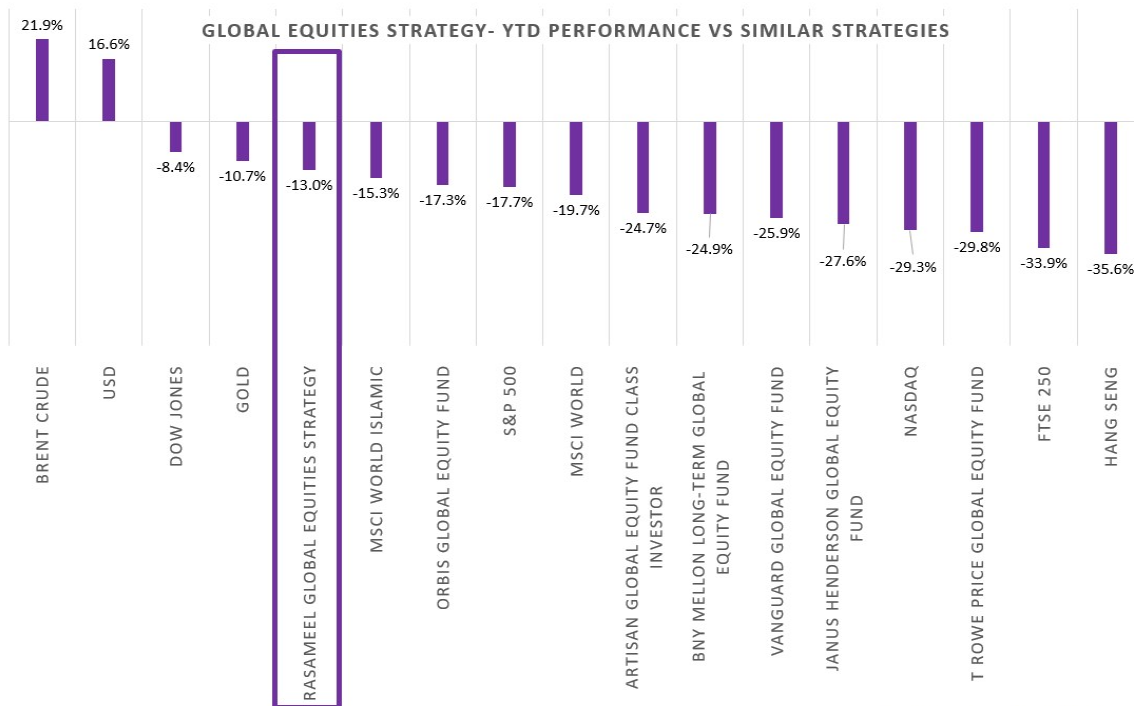
The US has quietly gone from running a trade surplus of over \$50 billion in advanced technology with the rest of the world, to currently running a deficit close to \$200

billion. Onshoring of this critical industry is critical to national security and will go a long way in creating manufacturing jobs and private investment opportunities.

We expect these two policies initiatives will form the core of new fiscal spend into the latter half of this decade and are likely to be highly inflationary.

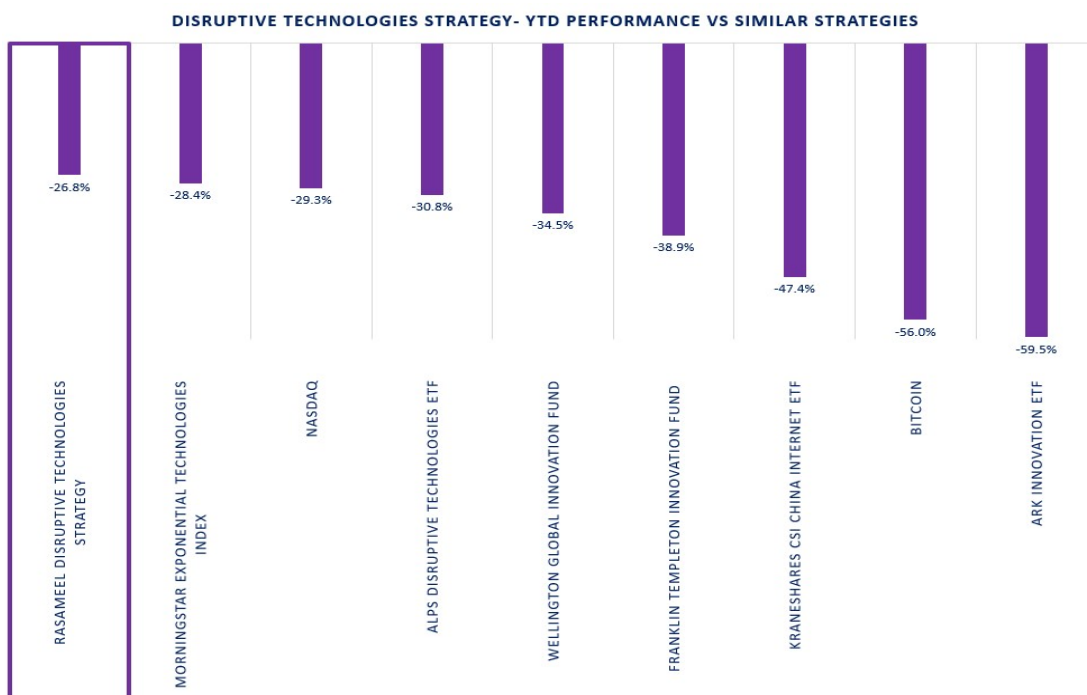
Rasameel's Performance

1. Global Equities Strategy (Gross Performance)



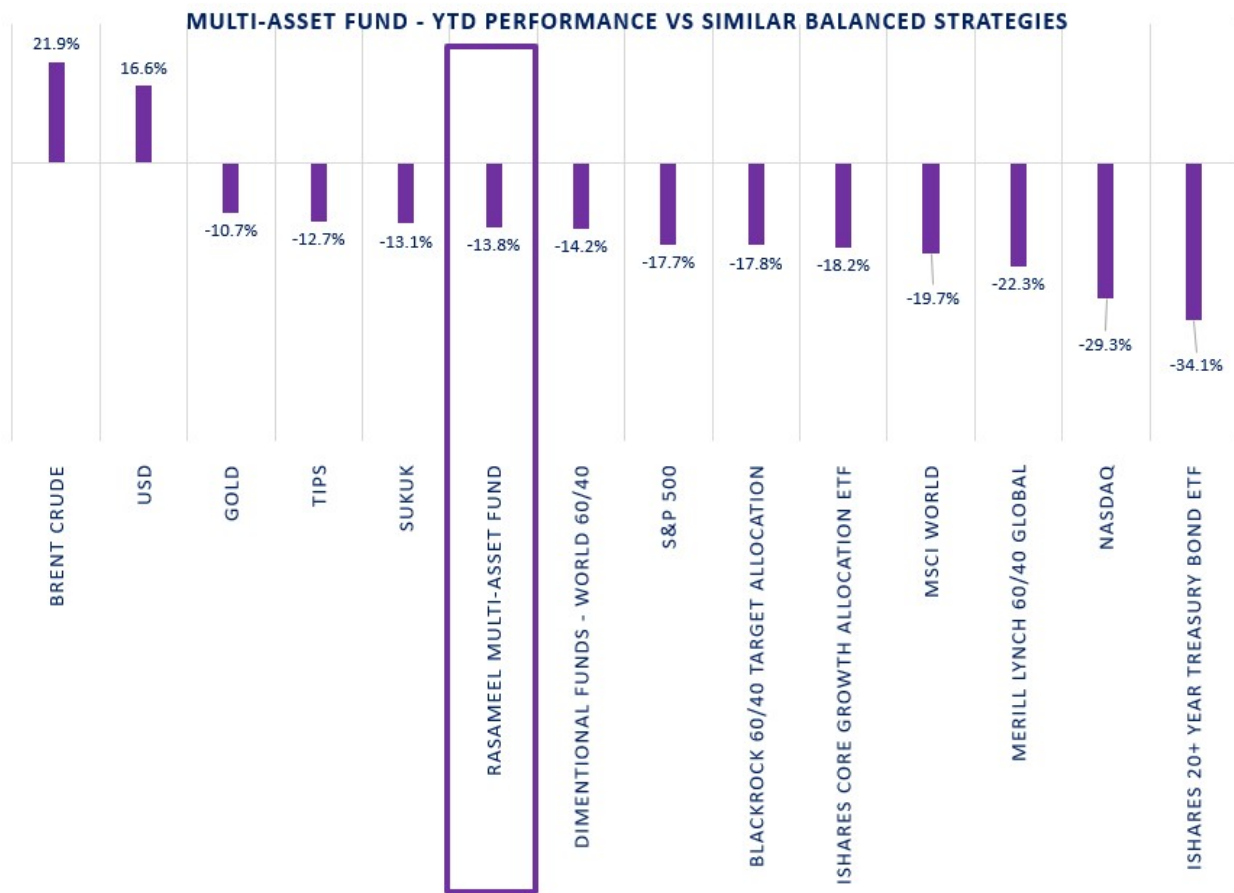
Reported numbers as of 31st October 2022

2. Disruptive Technologies Strategy (Gross Performance)



Reported numbers as of 31st October 2022

3. Multi-Asset Fund (Net Performance)



Reported numbers as of 31st October 2022

Asset Management Department

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Warning

The past performance of any investment or a product is not a reliable indicator of future results, and it cannot be relied upon for investment decision making. The performance stated above for the Global and Disruptive Technology Strategy is for a composite of client accounts and is gross of all fees and commissions. Actual client performance may vary from the composite. The performance of the Multi-Asset Fund is based on a model portfolio.



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