Uncertainty and risks ahead but easy money will return

January 2024

RASAMEEL

Our 2023 macro forecasts were spot on

MACRO OUTLOOK

Economic data: To weaken further.

- Data indicates that the USA economy is weakening and may enter a mild recession in 2023. Other economies similar or worse.

Inflation: Path is for lower inflation in 2023

- Driven by slower economy.
- Our concern is that central banks won't do enough, and inflation remains 'higher for longer. A potential repeat of '70-'80.

Company Earnings

- Expected to come in below current consensus.

Equity Market in 2023 performed better than expected

MARKET OUTLOOK

Equities: Remain Defensive

1H: expect equites to price in weaker macro and earnings.

- Defensive positioning; Overweight Cash and Healthcare.
- Underweight highly indebted companies and those sensitive to economic slowdown.
- Overweight China on re-opening trade.

2H: likely opportune time to add.

- Look to rotate into oversold areas of the market.

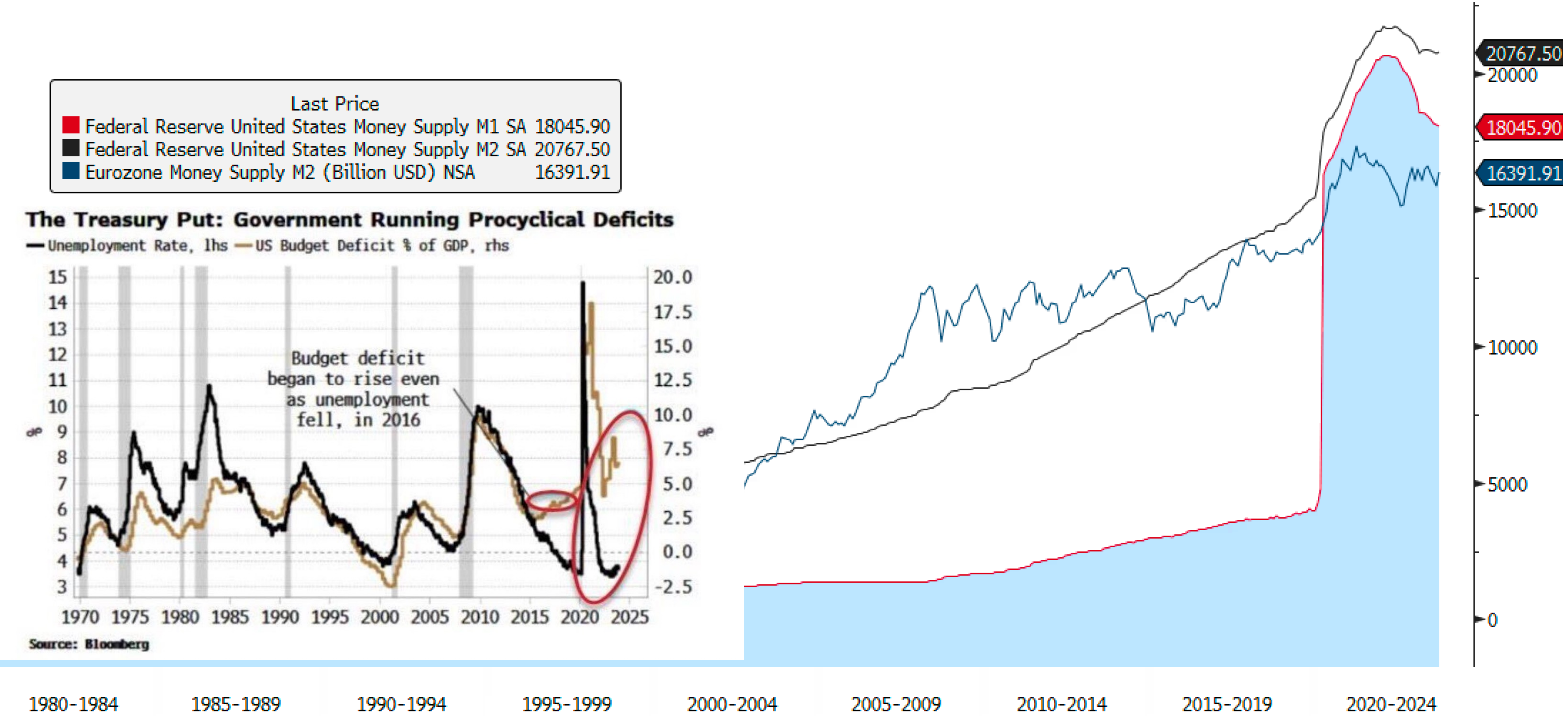
Sukuk: Overweight in 1H23

- Yields to decline into 2023 as slowdown priced in.
- Yields at 10yr high.
- A 6-12 month trade as inflation may rear its ugly head further out.

FX & Precious Metals: USD may make another leg up.

- USD 'flight to safety' currency.
- Cautious on PM for moment, but expect outperformance on eventual USD weakness, likely 2H23 or '24.

We underestimated the sheer scale of 'new money' in system



2024: muddling economy, increased geopolitical risks and opportunity

Market Outlook Summary for 2024

Economic data: More muddling through.
Published forecasts are for USA economy to weaken further and for global economy to remain very weak. We expect weaker 1H'24 and there is still the potential for a severe slowdown. Geopolitical risks are elevated.

Inflation Outlook: Path continues to be for lower inflation
Caution warranted in 2H as excessive liquidity might lead to inflationary pressures. Balanced approach needed from policymakers. Rates and yields expected to fall off. However, volatility in rates likely due to a shift from globalization and other macroeconomic factors.

Company Earnings: Expected to come in below current consensus (12% in US).

Equity Market Outlook

- **US Market**: Valuations remain high. Low rates and high liquidity to provide support. Muted gains expected given the strong performance in 2023. AI integration in companies may boost margins. High dividend yield stocks may rebound as bond yields fall.
- **Global Perspective**: Better valuations in EU/UK/Asia. Liquidity expected to be high, beneficial for equities.
- **Elevated risk of severe volatility**

Commodities Forecast

- **Gold:** Expected to perform well due to falling real rates in the US.
- **Crypto/BTC:** In a bull cycle, reflecting a shift towards assets benefiting from rising liquidity and falling real rates.

Fixed income:

- **Bullish -** within a falling inflation and rates environment. Escalation in geopolitical risks could increase inflation further out.

Areas to Watch in 2024:

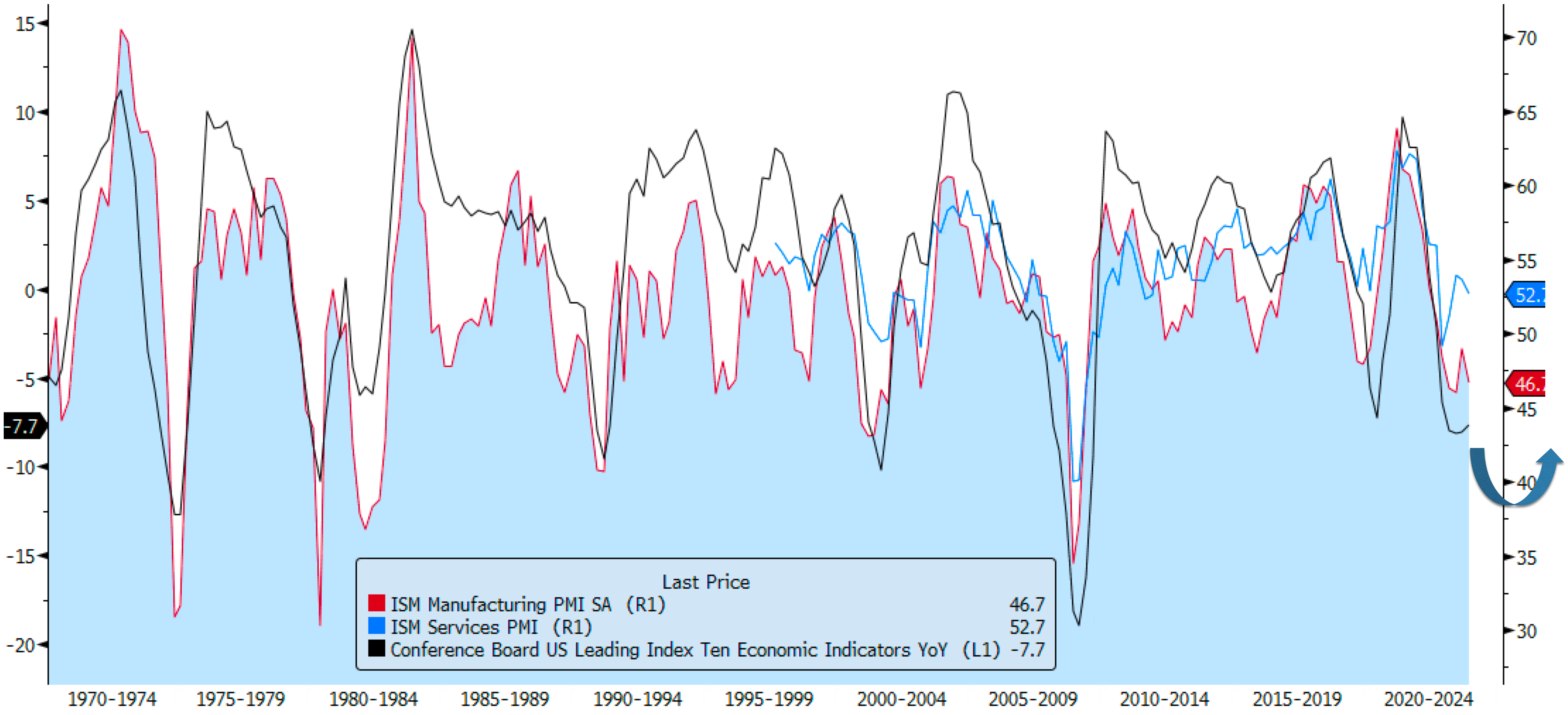
- **AI and Technology**: Sectors integrating and/or developing AI.
- **High Dividend Stocks**: Attractive valuations make them a segment to watch as the bond yields fall.
- **Healthcare and Aging Population**: Aging population and technology developments to drive growth.
- **Build back better at home policies** will drive the semi space as well as parts of manufacturing.
- **Green technologies and carbon reduction**: Governments expected to continue supporting these quests.

GDP growth expected to remain weak in 2024

	2022	2023	2024
World Output	3.5	3.0	2.9
Advanced Economies	2.6	1.5	1.4
United States	2.1	2.1	1.5
Euro Area	3.3	0.7	1.2
Germany	1.8	−0.5	0.9
France	2.5	1.0	1.3
Italy	3.7	0.7	0.7
Spain	5.8	2.5	1.7
Japan	1.0	2.0	1.0
United Kingdom	4.1	0.5	0.6
Canada	3.4	1.3	1.6
Other Advanced Economies	2.6	1.8	2.2
Emerging Market and Developing Economies	4.1	4.0	4.0

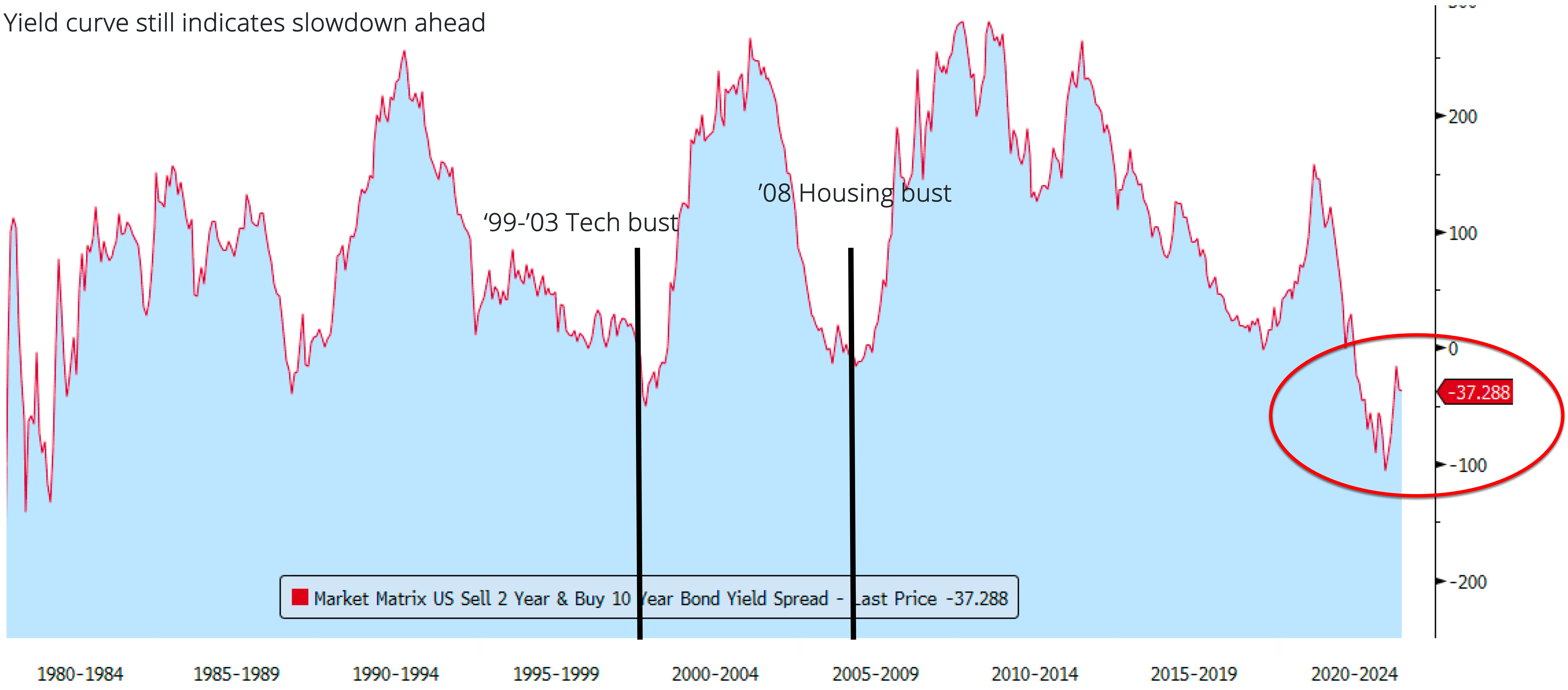
Indicators are still very weak in USA

ISM and Leading Index all weak



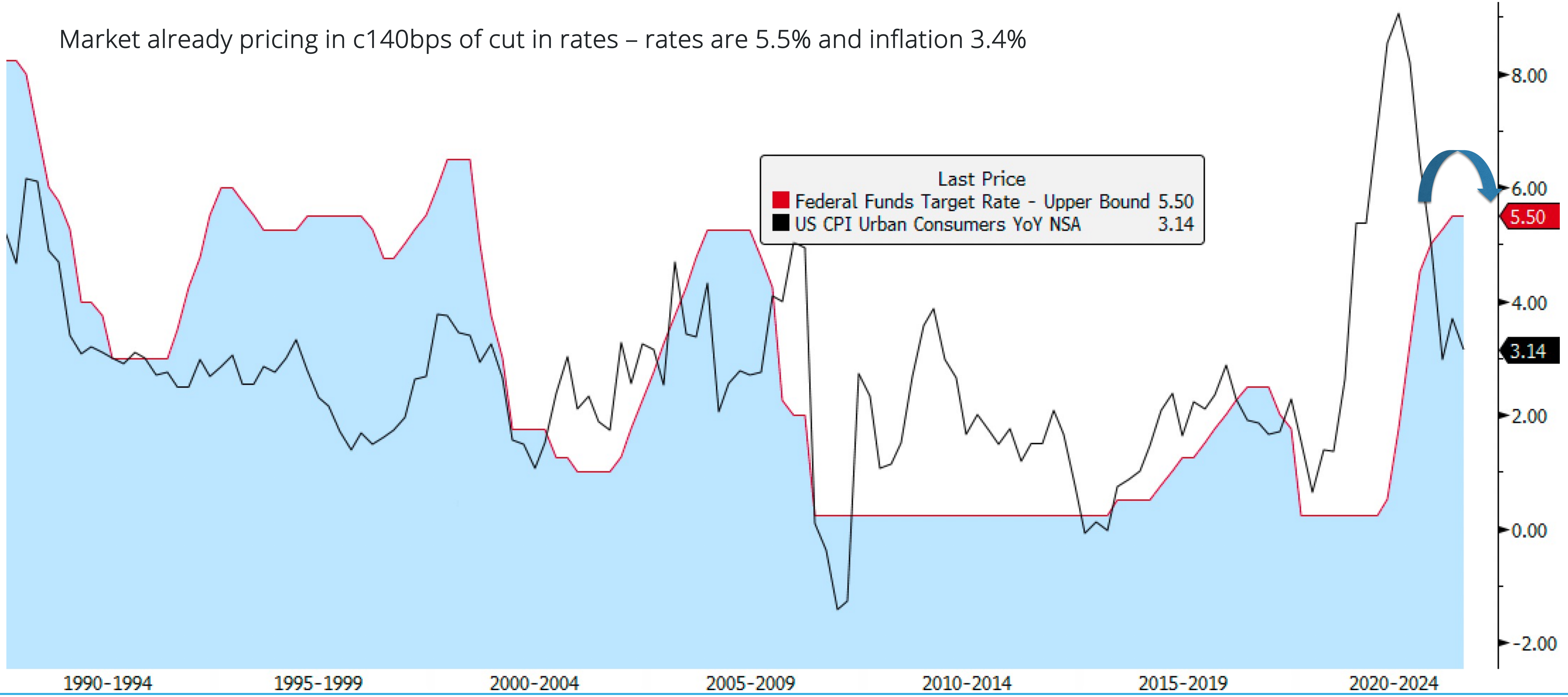
US yield curve inversion continue to indicate future weakness

Yield curve still indicates slowdown ahead



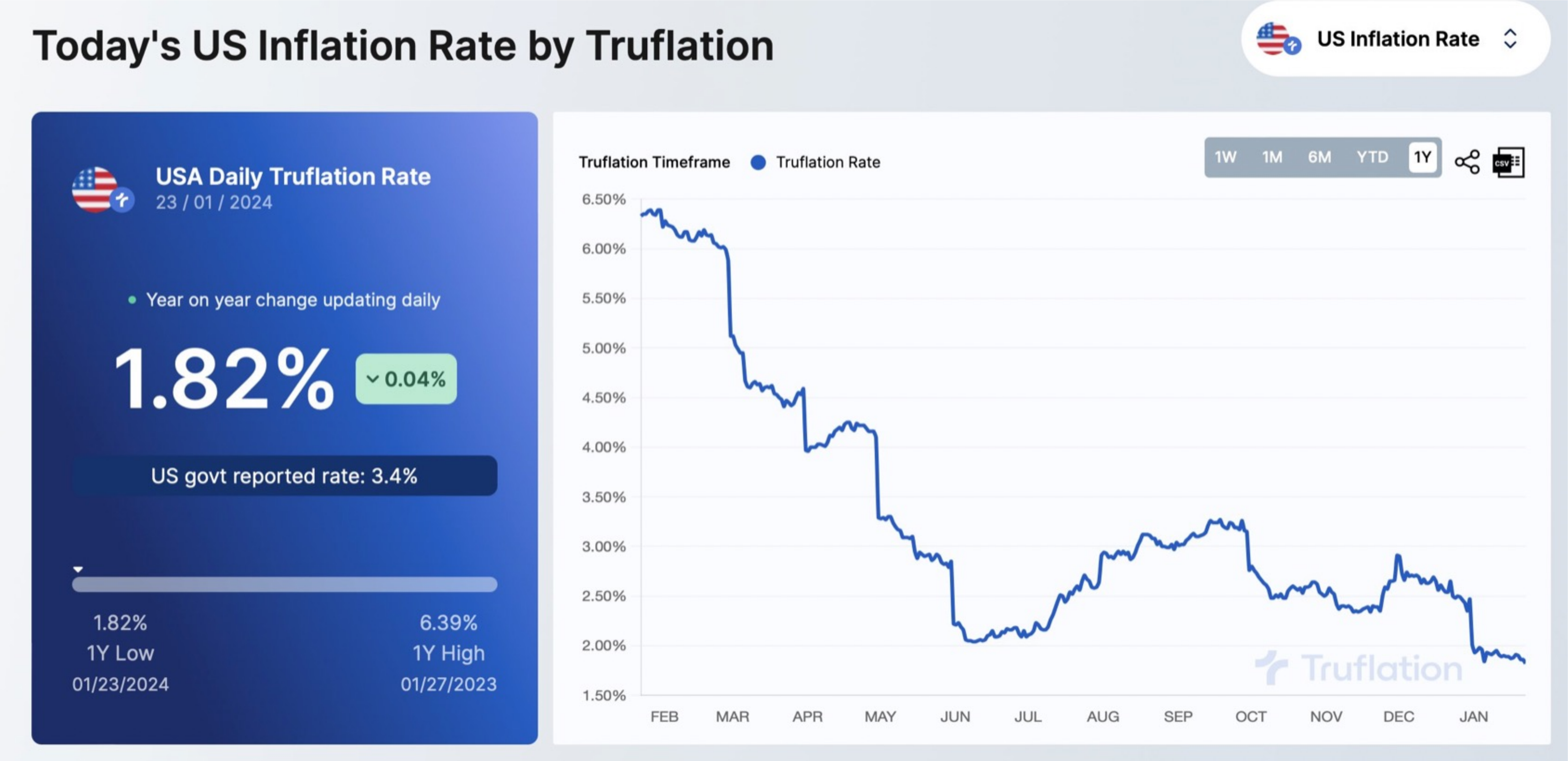
But there is some good news - US rates have room to fall off …reducing borrowing costs

Market already pricing in c140bps of cut in rates – rates are 5.5% and inflation 3.4%



US rates have room to fall off …reducing borrowing costs

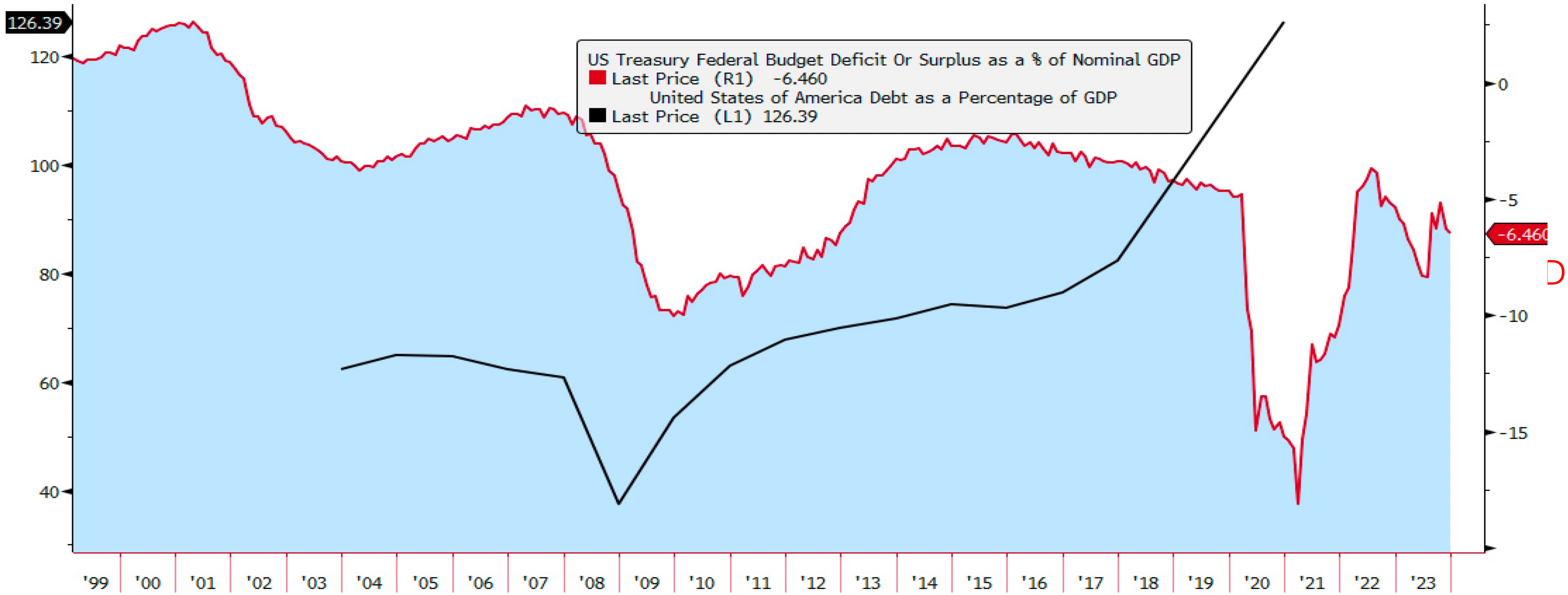
Some 3rd party inflation data indicates much lower levels of inflation that published data



US government deficit spending to continue at crazy pace

US Gov Debt /GDP will continue to move higher – deficit spending has only been increasing in last 20yrs

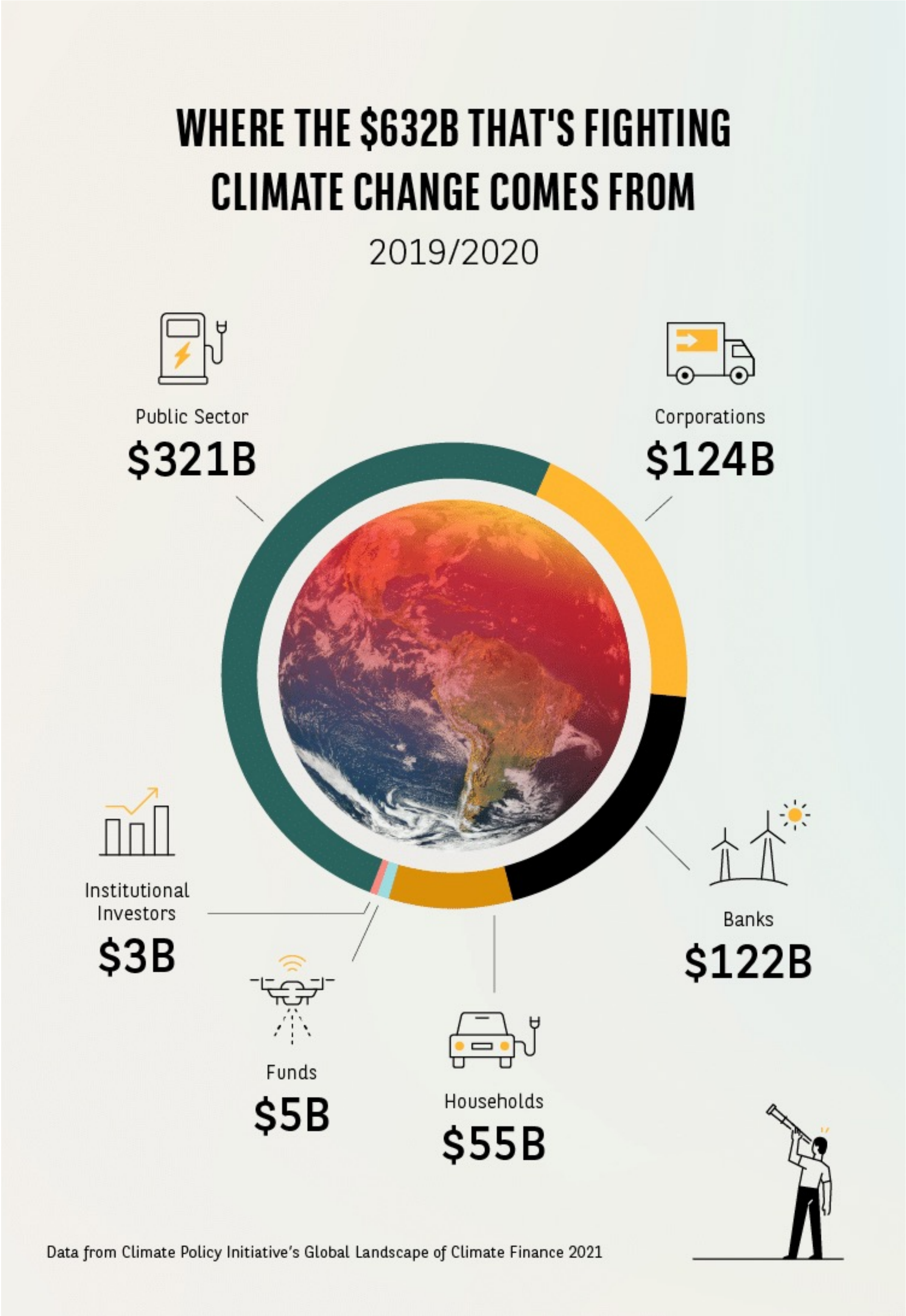
USA Gov Debt/GDP = 126%



DEFICIT

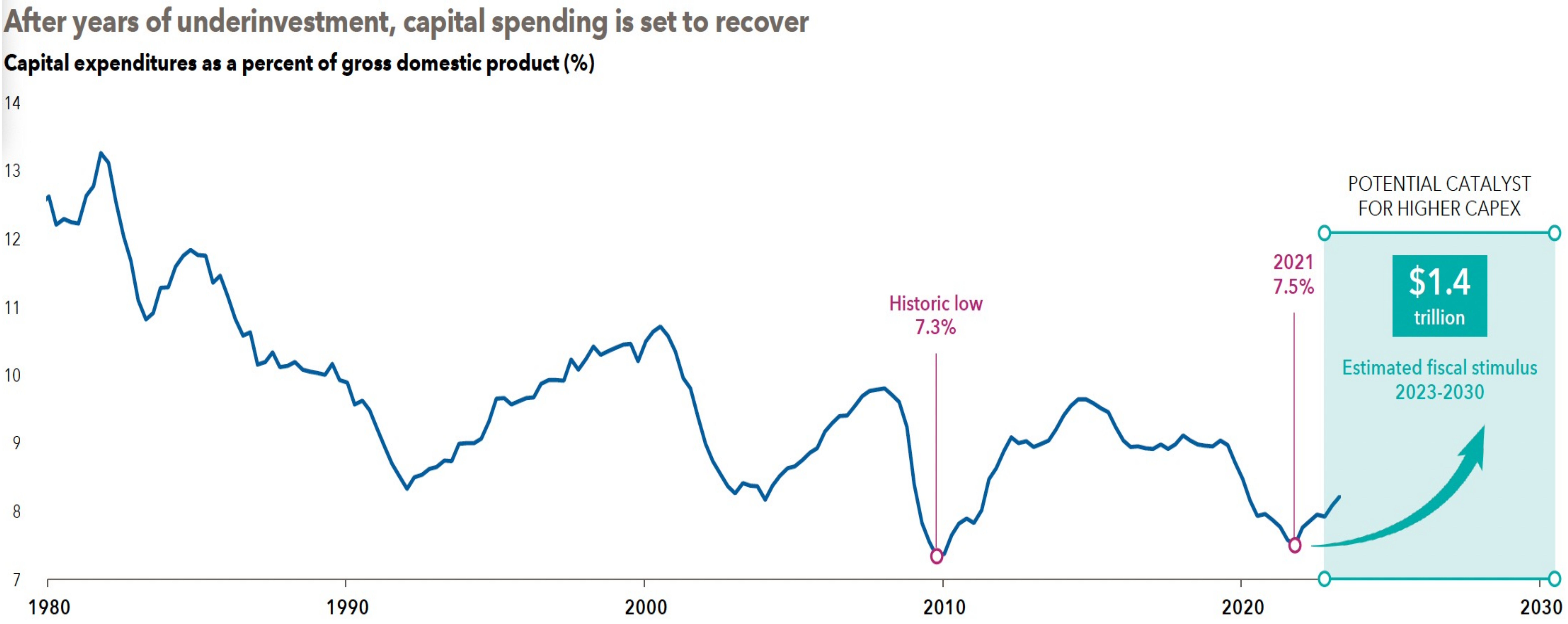
Deficit spend likely to continue with election year – supportive of markets

Expect more deficit spending to flow in ‘climate change’ policies



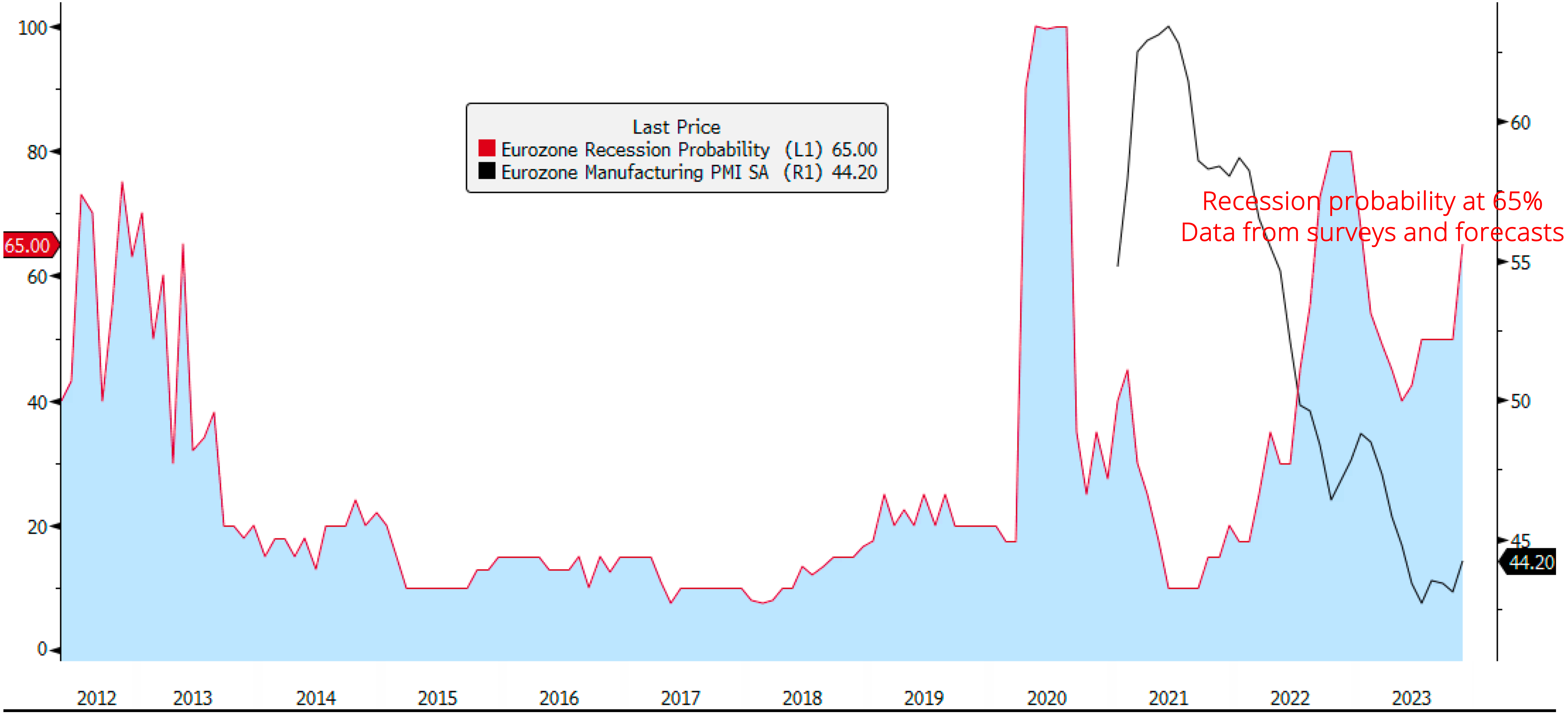
The ‘science is not settled on climate change BUT the drive to spend is…….

US corporates expected to also start spending – 'BBBaH'



All of which will support part of the US economy particularly beneficiaries of lower rates and stimulus

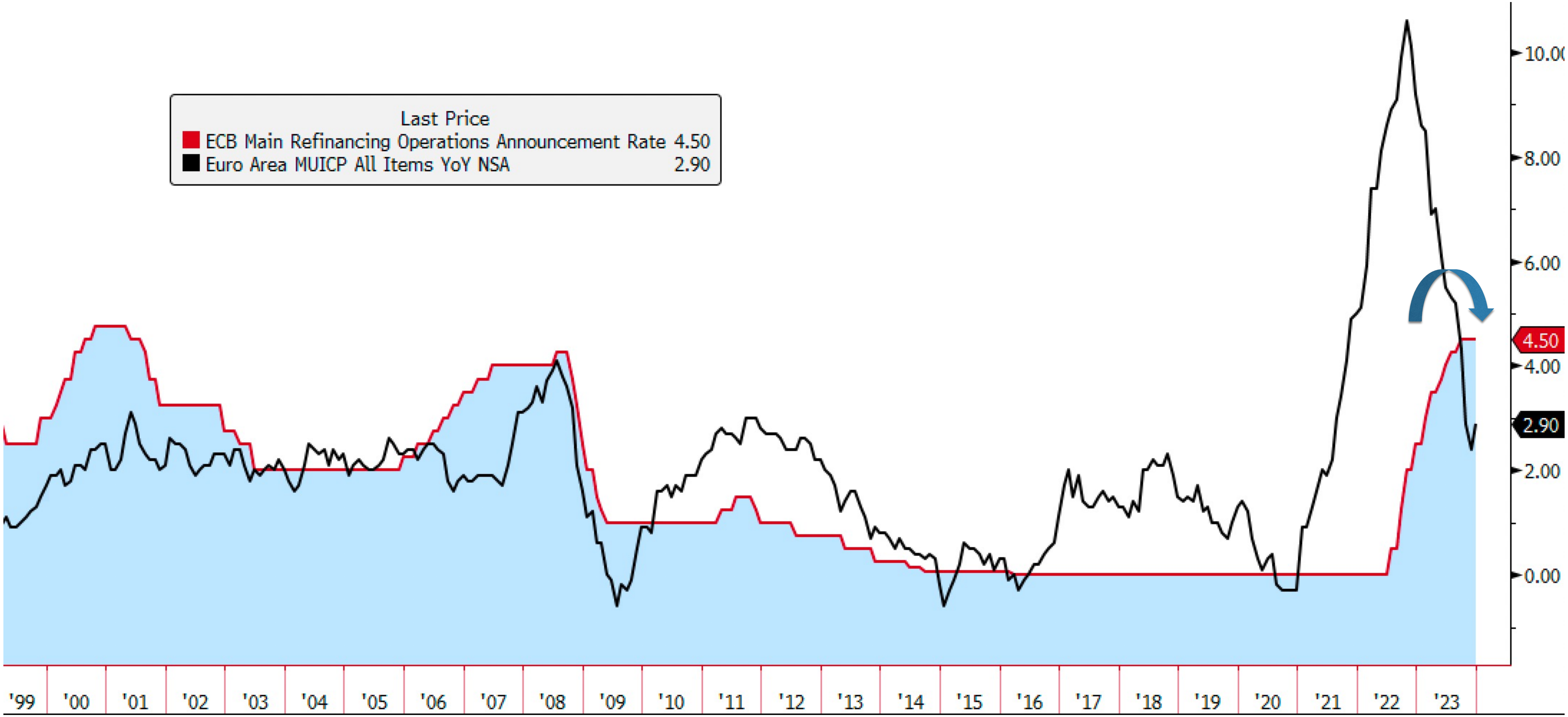
Eurozone indicators also weak



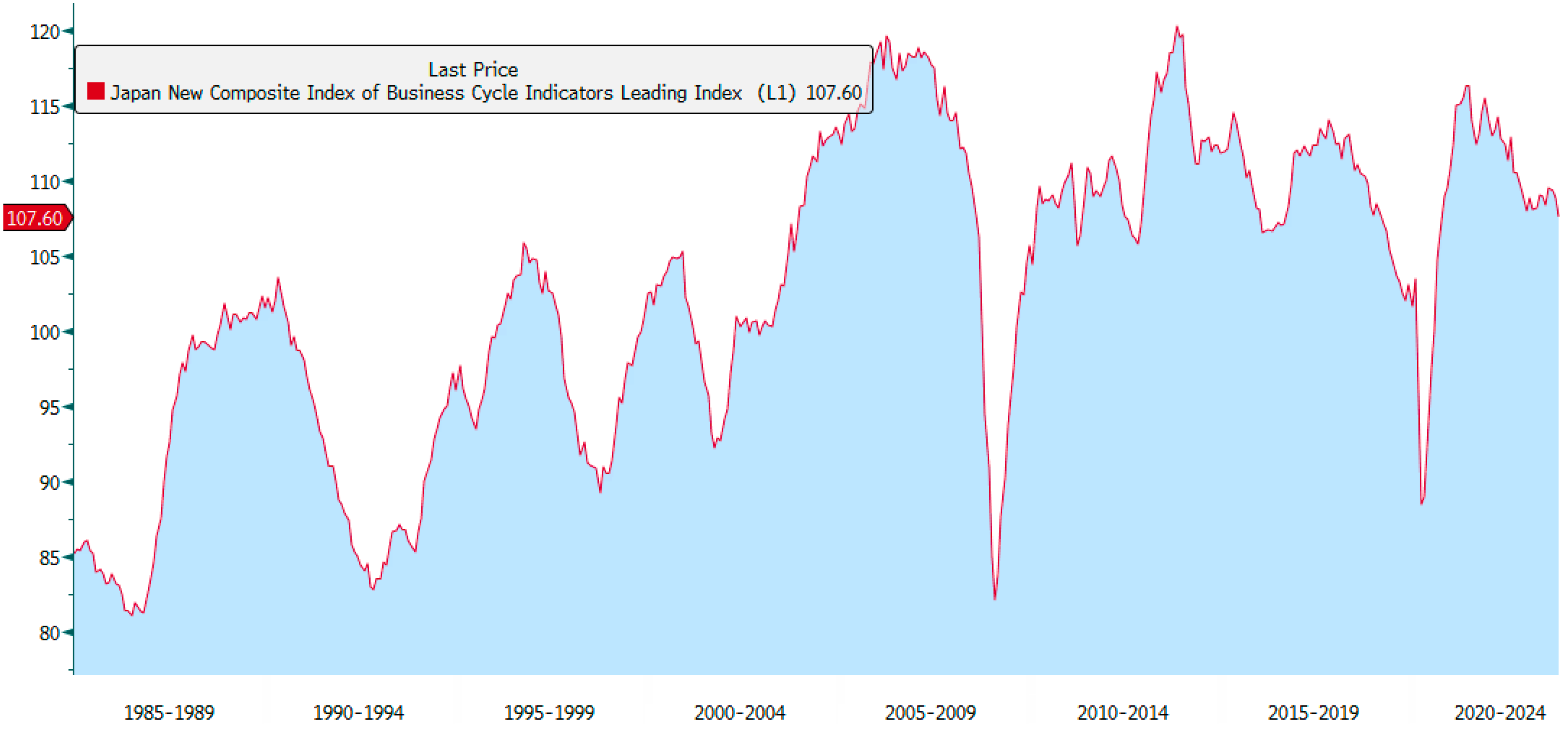
Eurozone unemployment likely to pick up

Lower PMI will lead lead lower employment – same in US and elsewhere

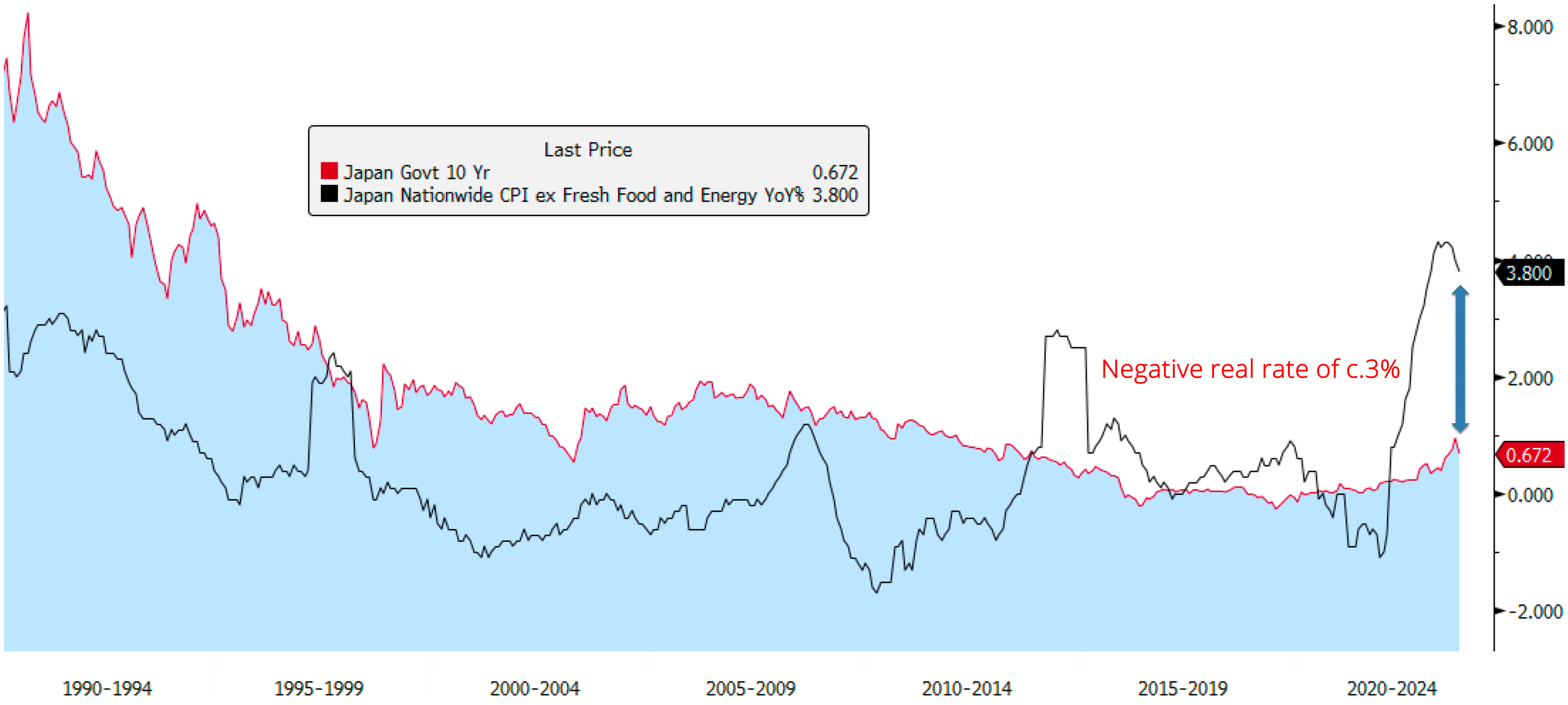
Eurozone – like US – has room to cut and provide more liquidity



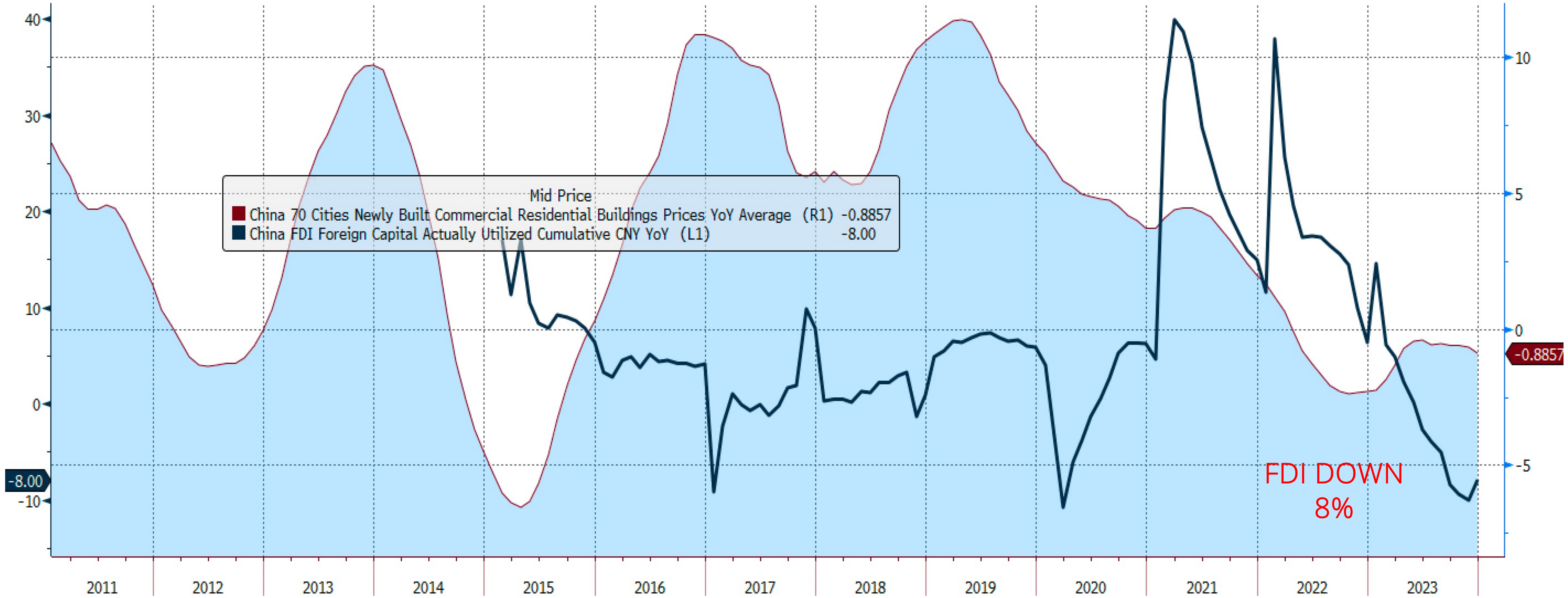
Japanese leading indicator still relative strong for now



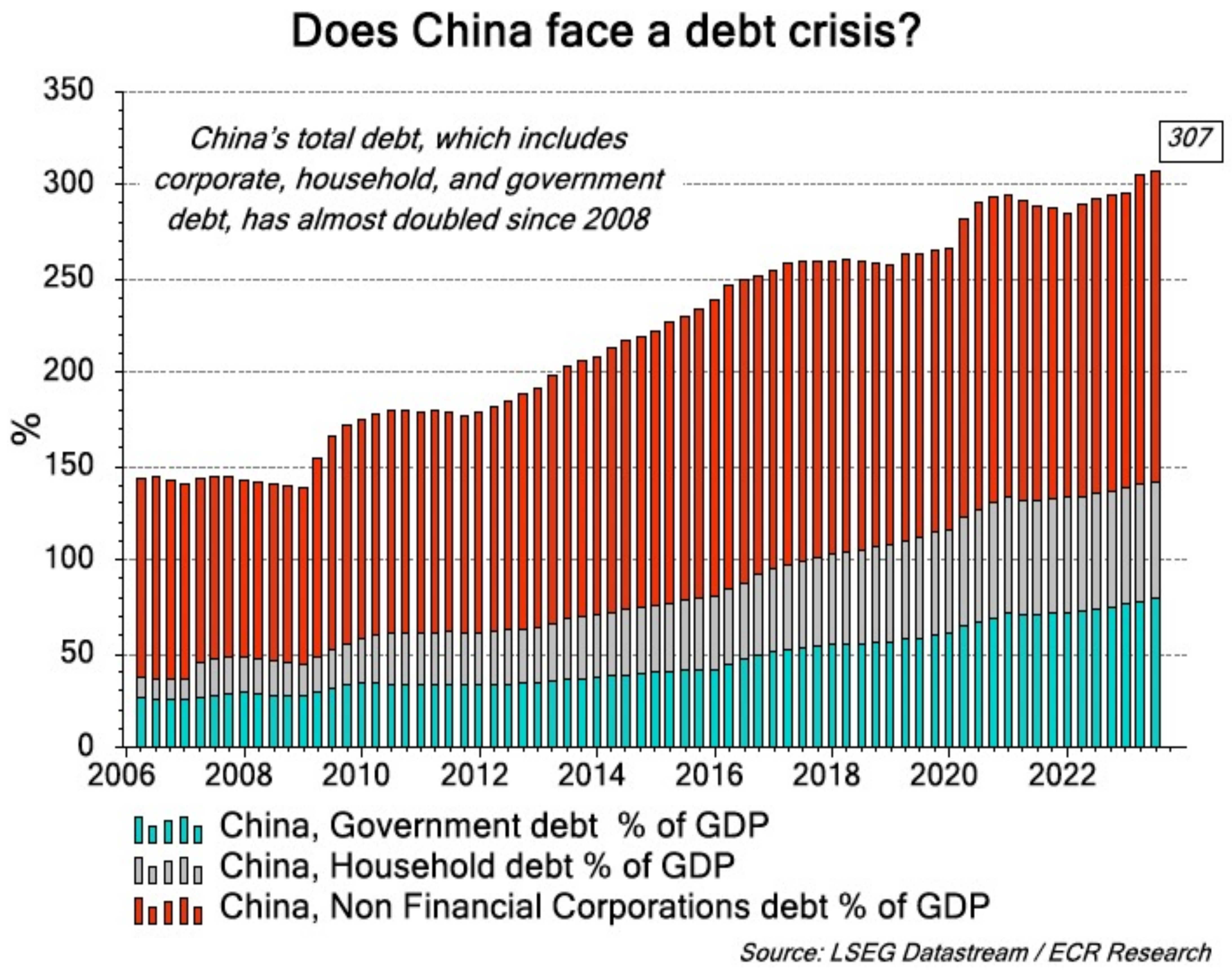
Japan economy running sweet on negative interest rates



China home prices down as well as FDI



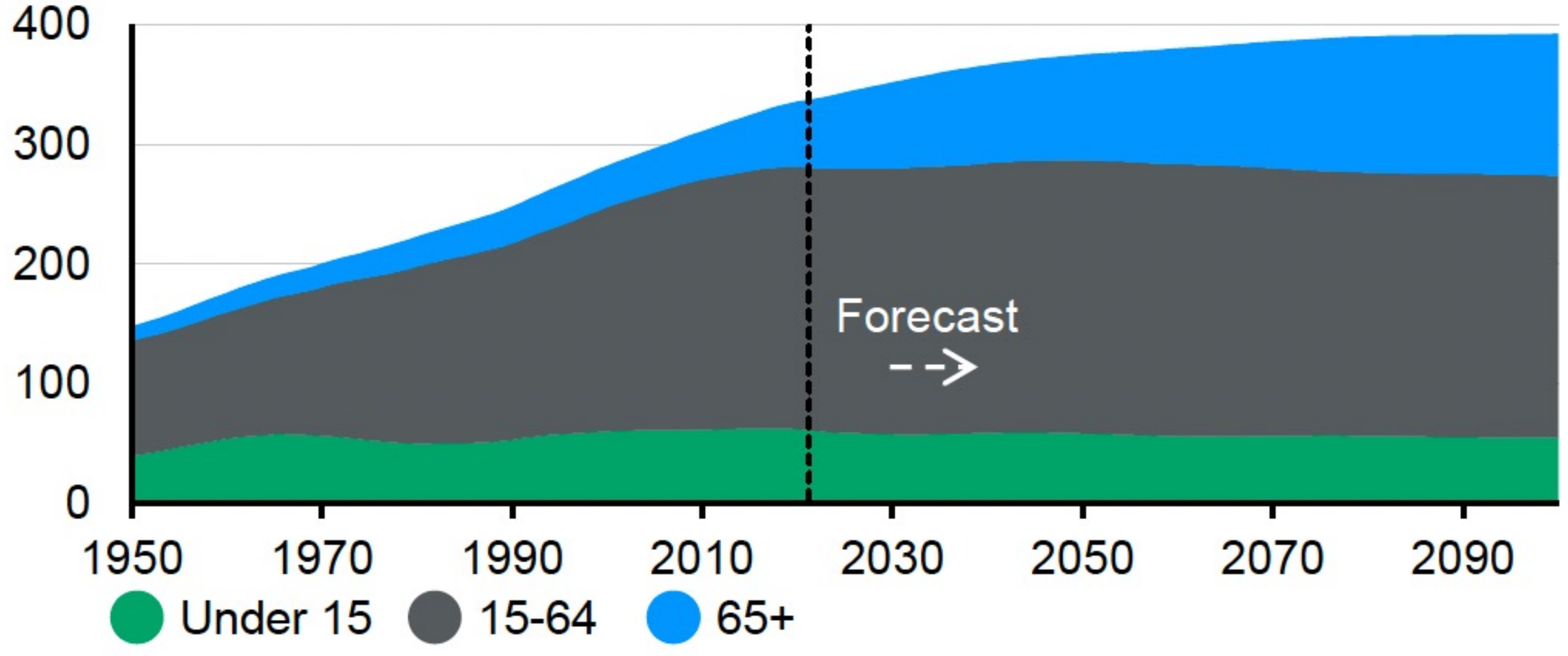
China facing a housing and debt crisis – expect significant stimulus



China population in decline

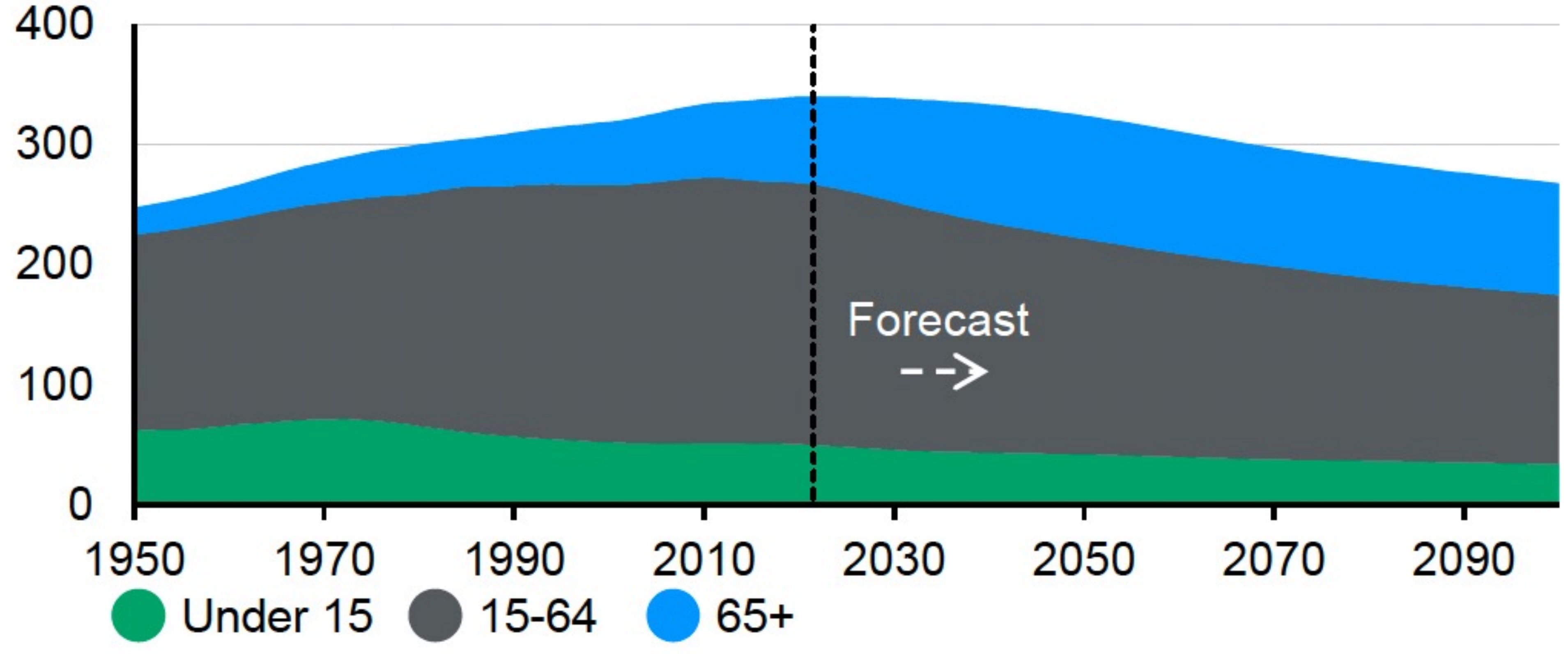
Population split by age: US

Millions of people



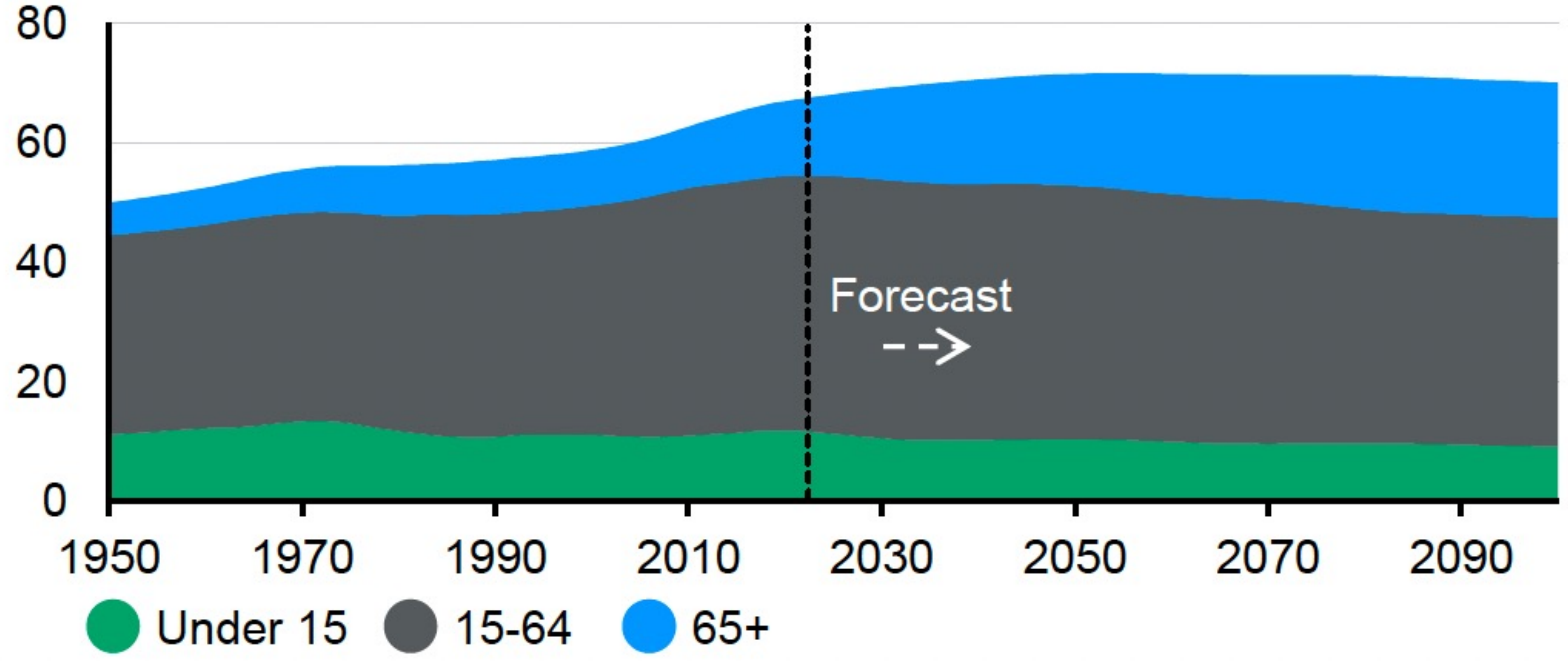
Population split by age: eurozone

Millions of people



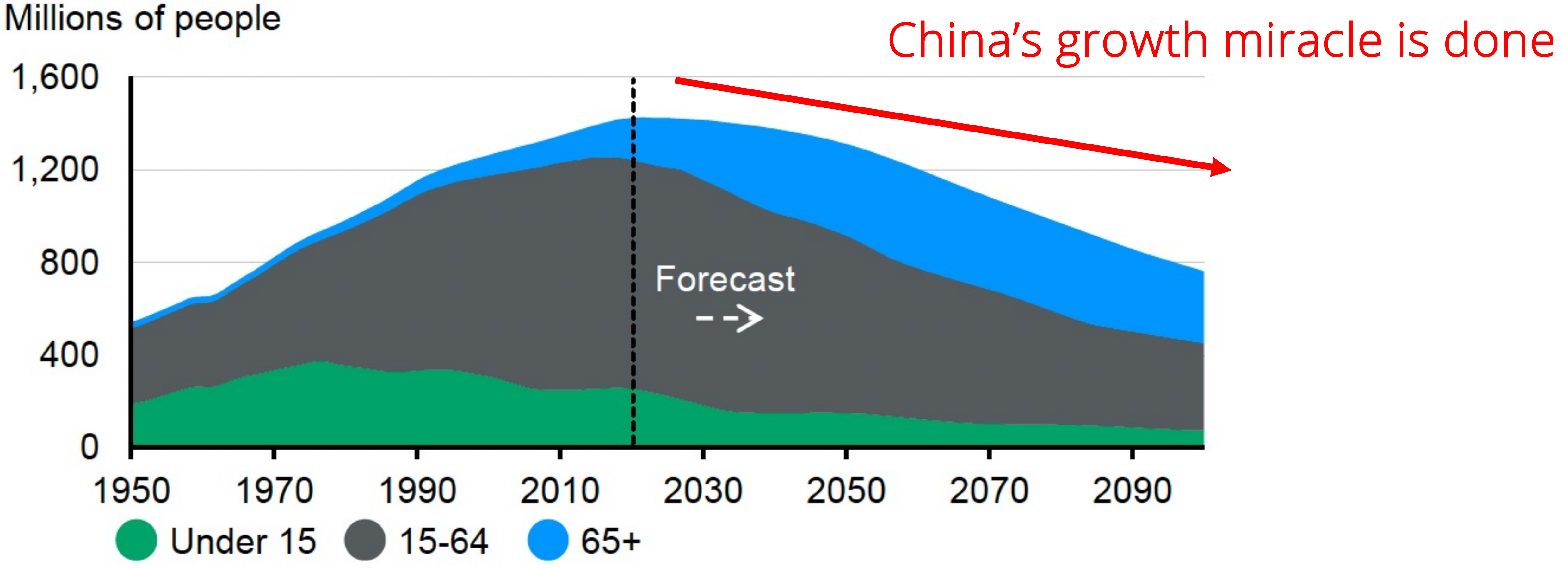
Population split by age: UK

Millions of people



Population split by age: China

Millions of people



Market Outlook

Earnings expectations are too high and market has overshot

S&P 500 Change in Forward 12-Month EPS vs. Change in Price: 10 Yrs.
(Source: FactSet)

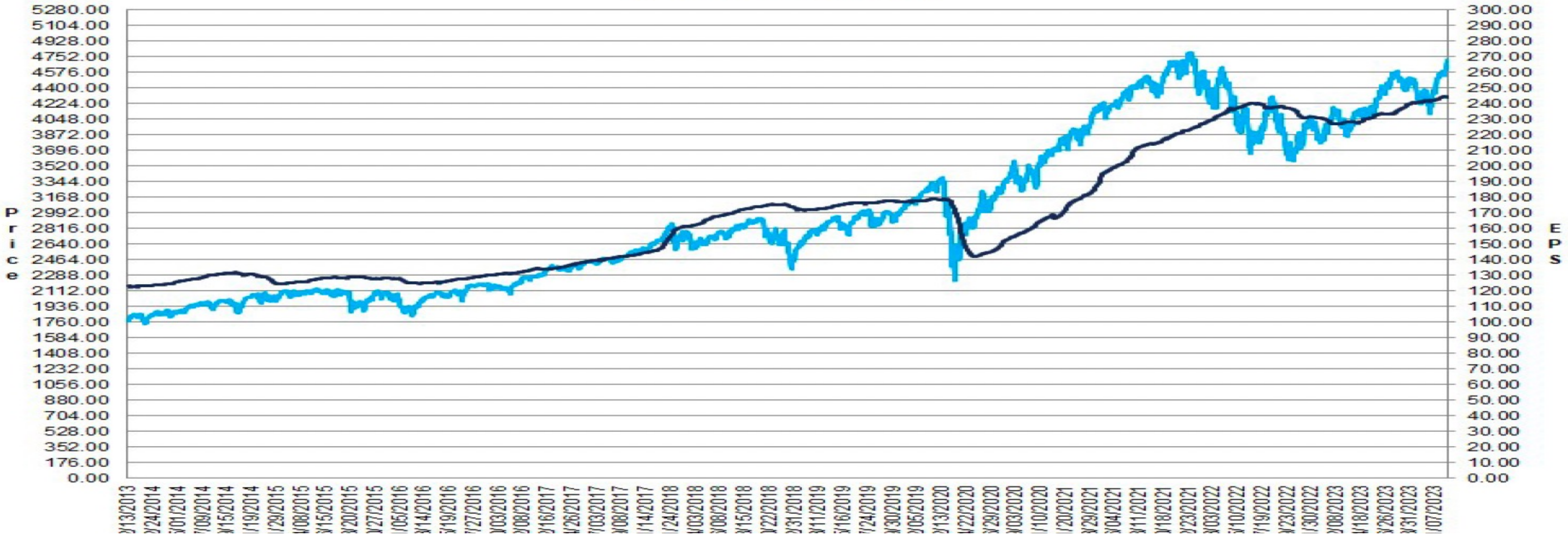
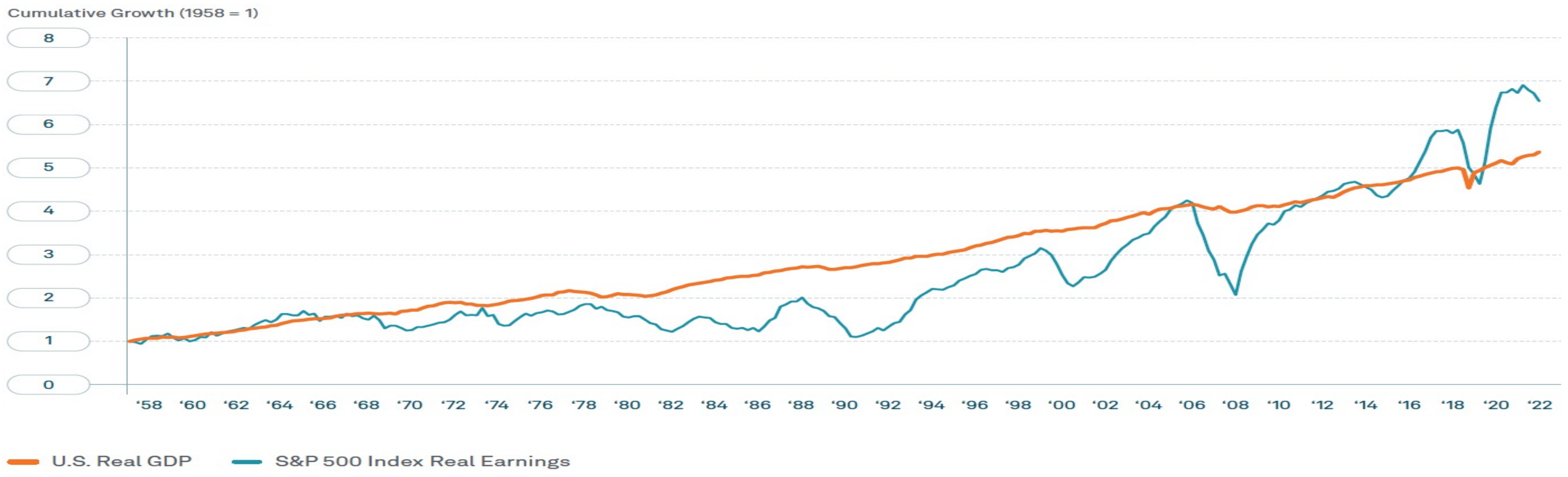
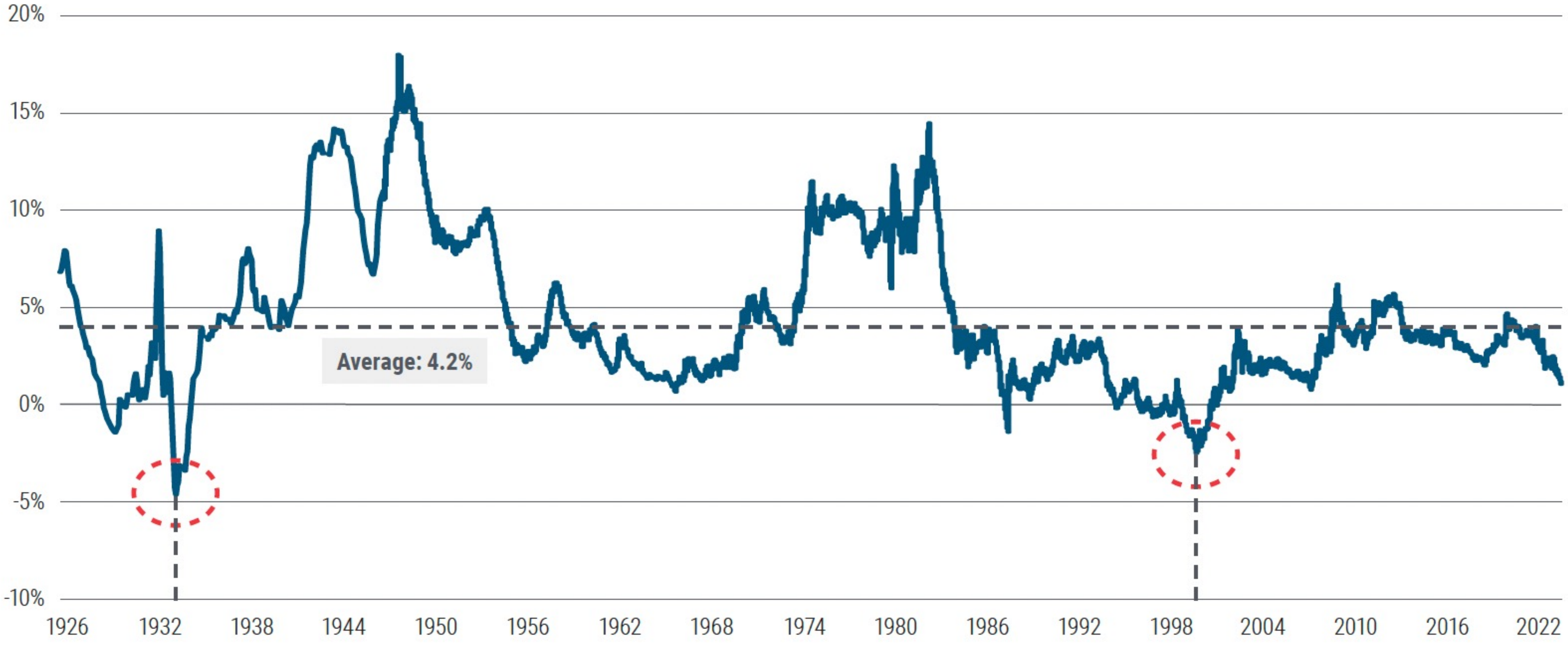


FIGURE 13 U.S. GDP vs. Cumulative Corporate Earnings Growth

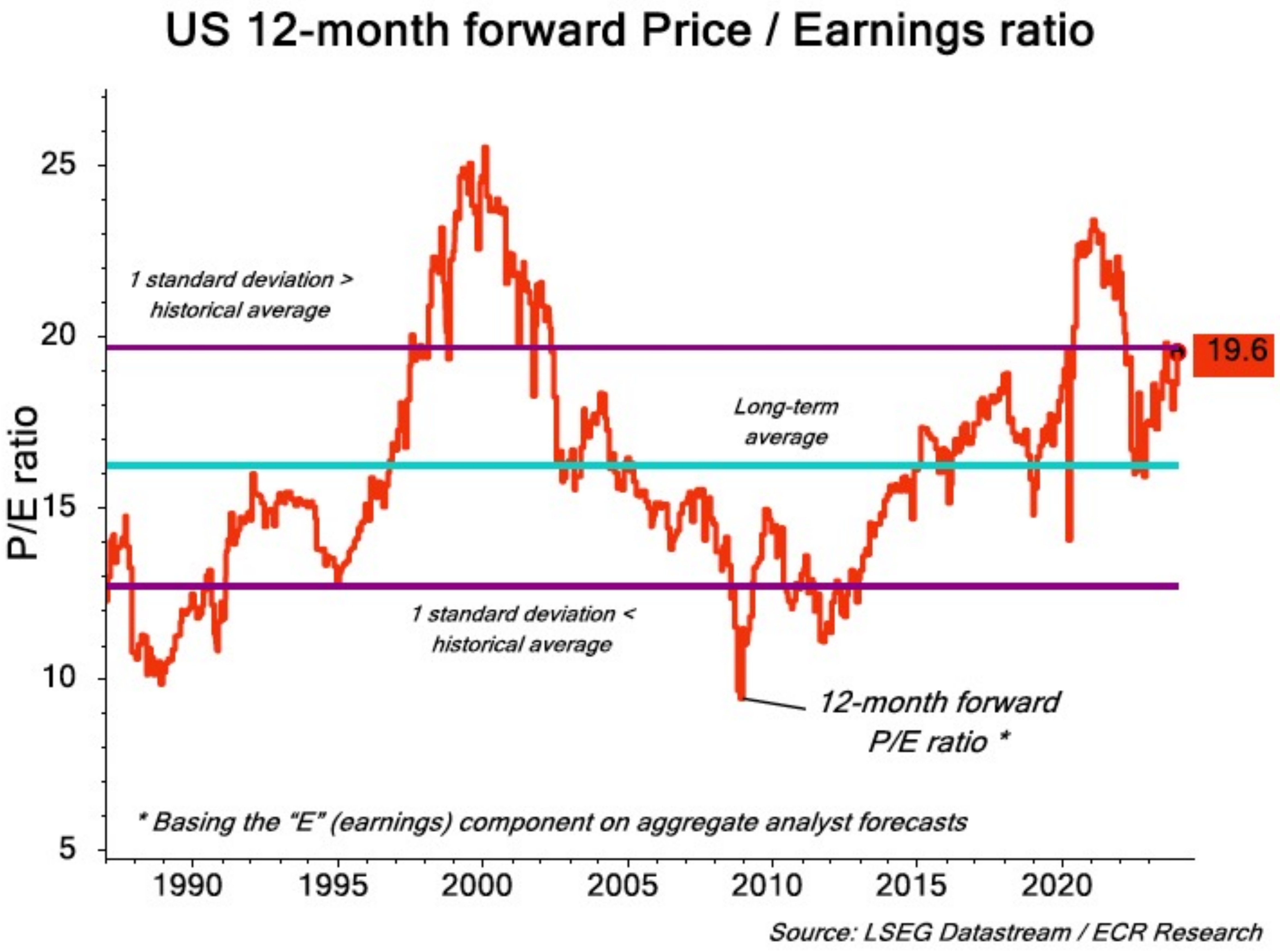


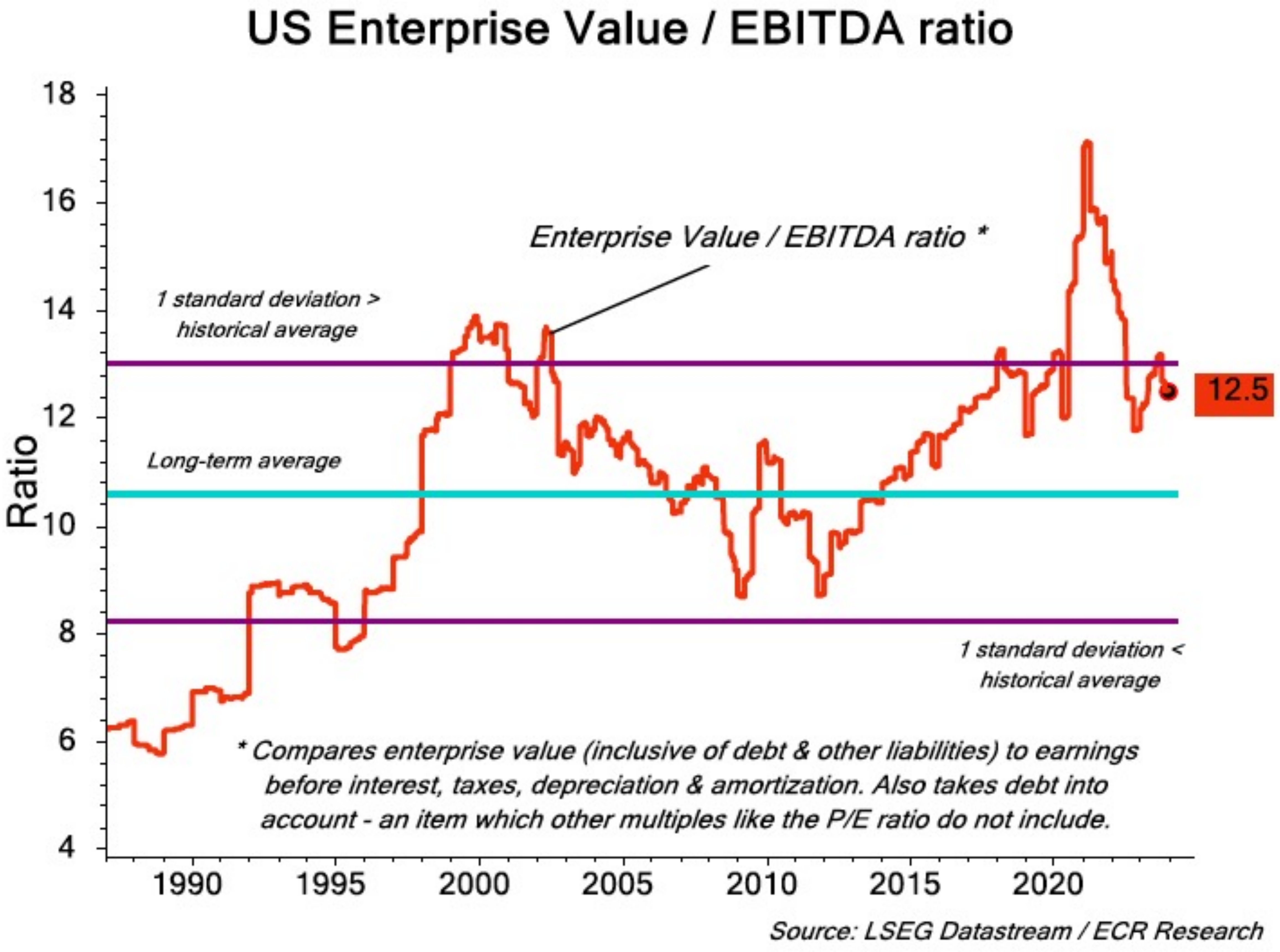
US equities expensive compared to bonds



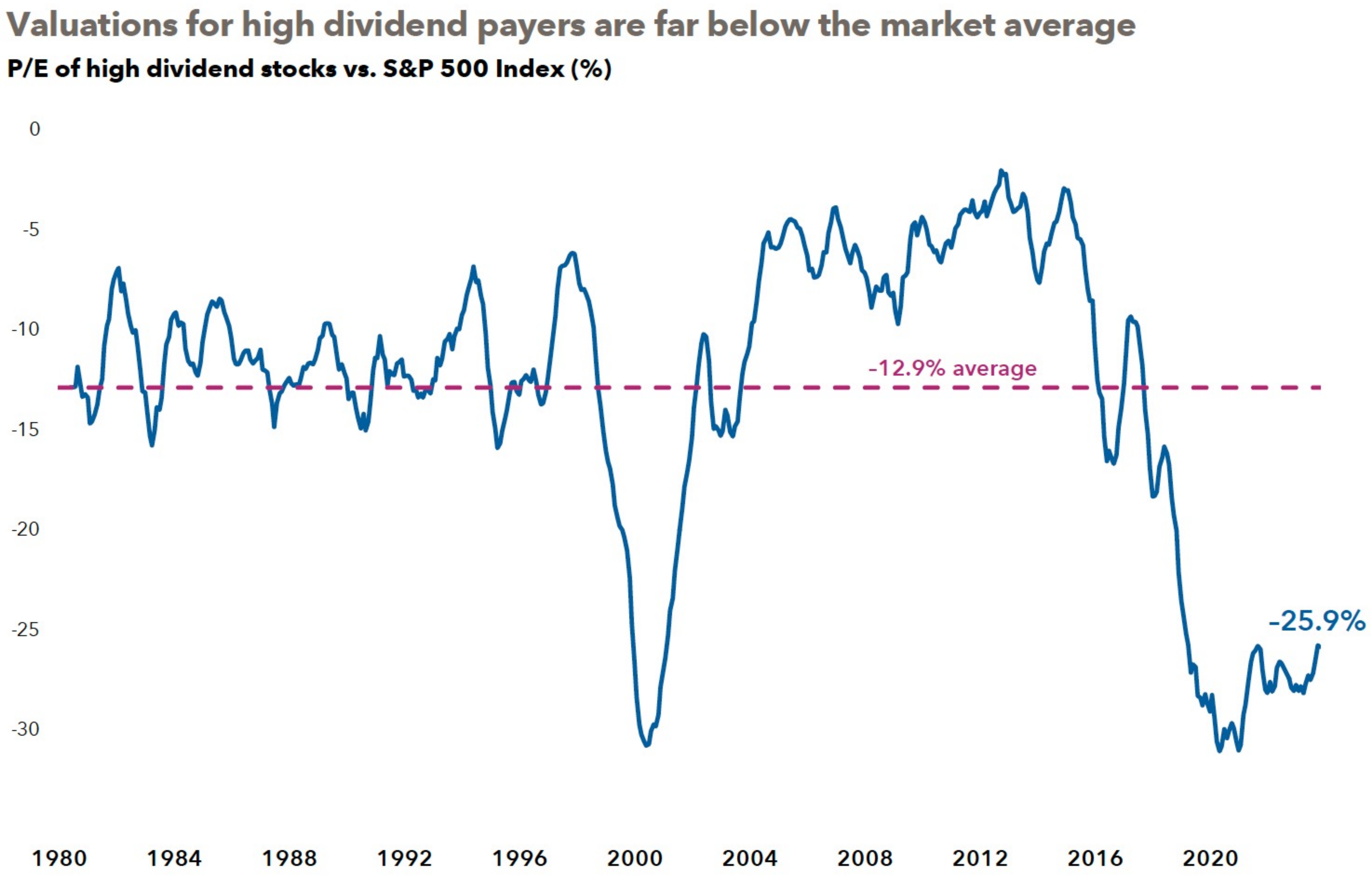
Source: Bloomberg, PIMCO calculations as of 13 October 2023. Equity risk premium (ERP) is calculated as the 10-year cyclically adjusted earnings yield of the S&P 500 (or S&P 90 prior to 1957) minus the 10-year U.S. Treasury real yield.

US market is still expensive





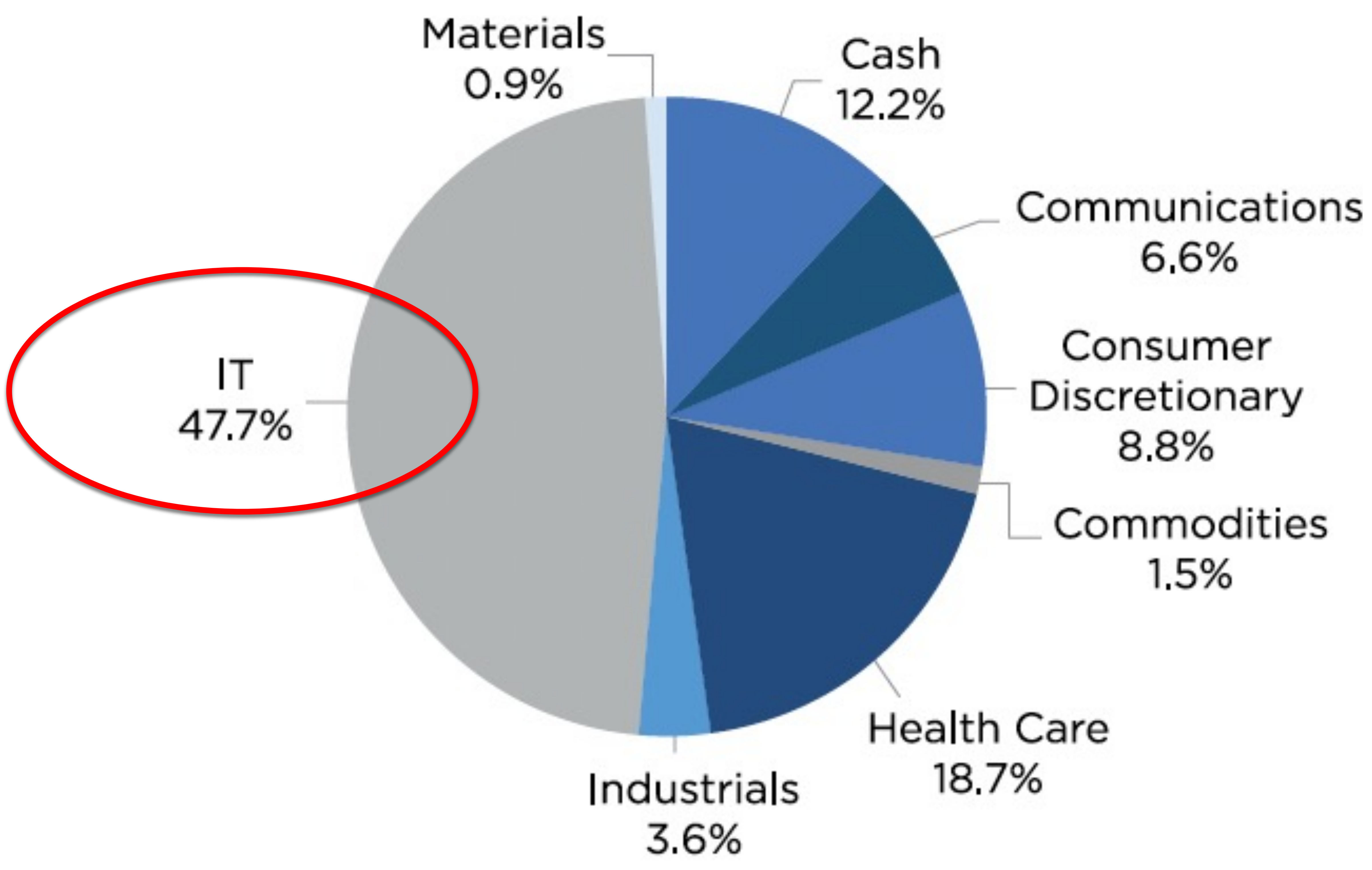
High Dividend stocks have been sold off and offer upside



Technology/Long Duration stocks are interesting

Rasameel's DT Strategy

Sector Breakdown



Top Holdings

Company	Weight
CRWD US	3.8%
ZS US	3.7%
META US	3.7%
MSFT US	3.2%
GOOG US	2.8%

Technology/Long Duration stocks are interesting

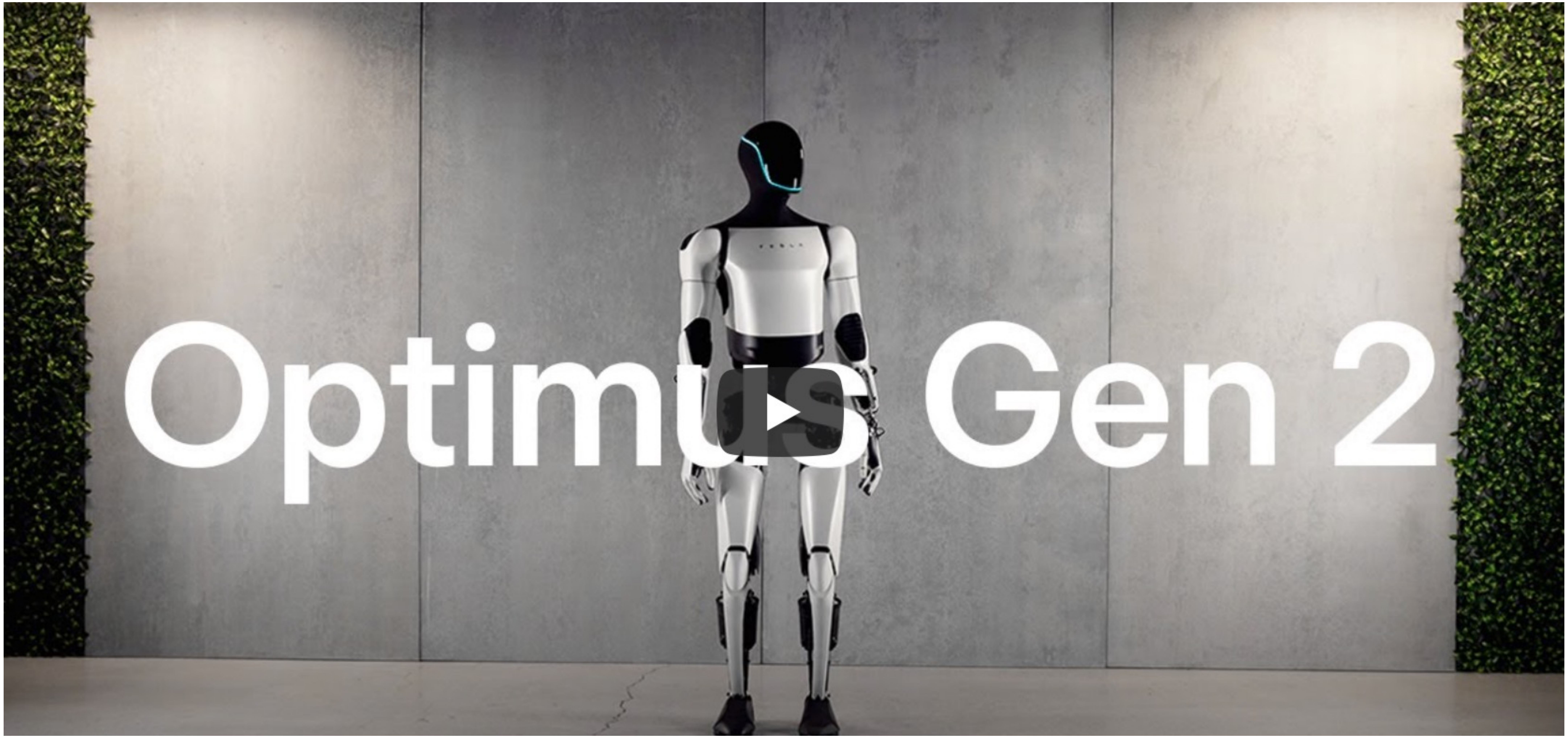
Microsoft

https://youtu.be/Excht_Blwiw?si=pW9y_FpTZ07CMpa9

Technology/Long Duration stocks are interesting

The CrowdStrike Security Cloud processes over a trillion events from endpoint sensors per day*. To put this into perspective, a ream of 500 pages of office printer paper is about 50 millimeters thick (about 2 inches). A trillion pages would stack about 100,000 kilometers high, or roughly 60,000 miles. Those are enough miles to earn you gold status* every day *on most airlines, but it would take you about four days to fly this distance at a regular airliner cruising speed. And after those four days, the stack will have reached the moon.*

Technology/Long Duration stocks are interesting

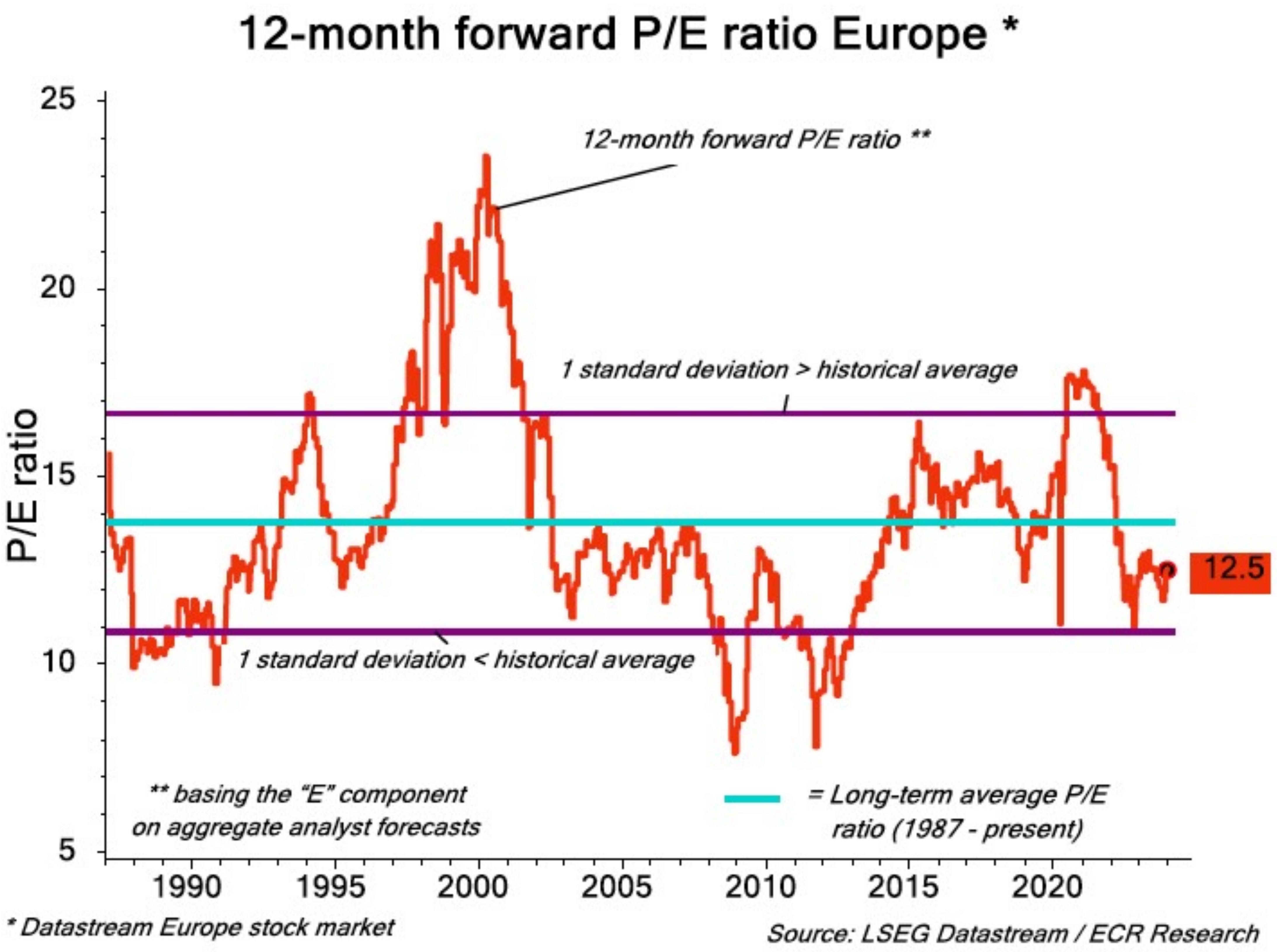


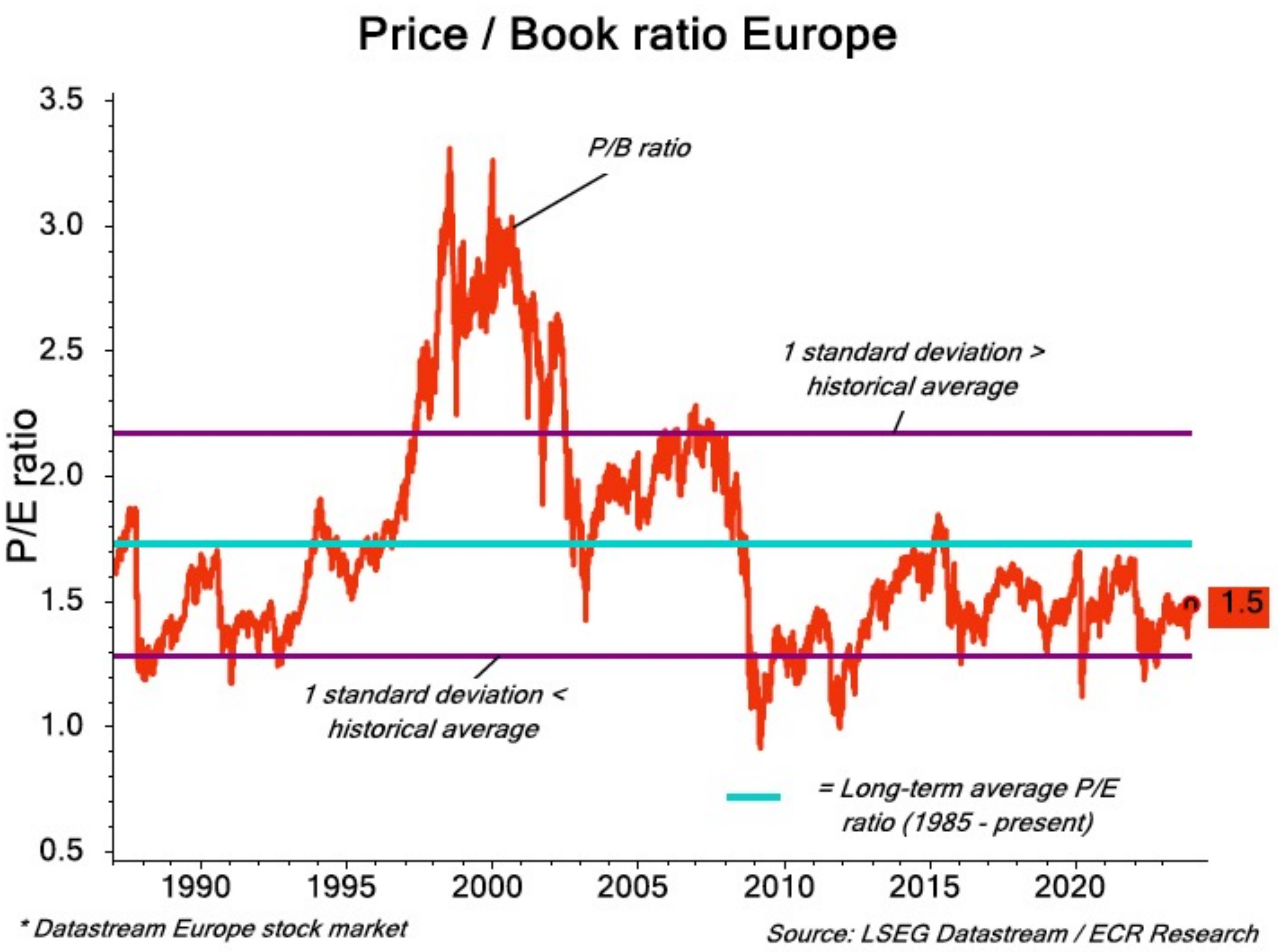
https://youtu.be/cpraXaw7dyc?si=W8rMueDsG0uYos6r

Technology/Long Duration stocks are interesting

https://x.com/rowancheung/status/1729009872153280684?s=20

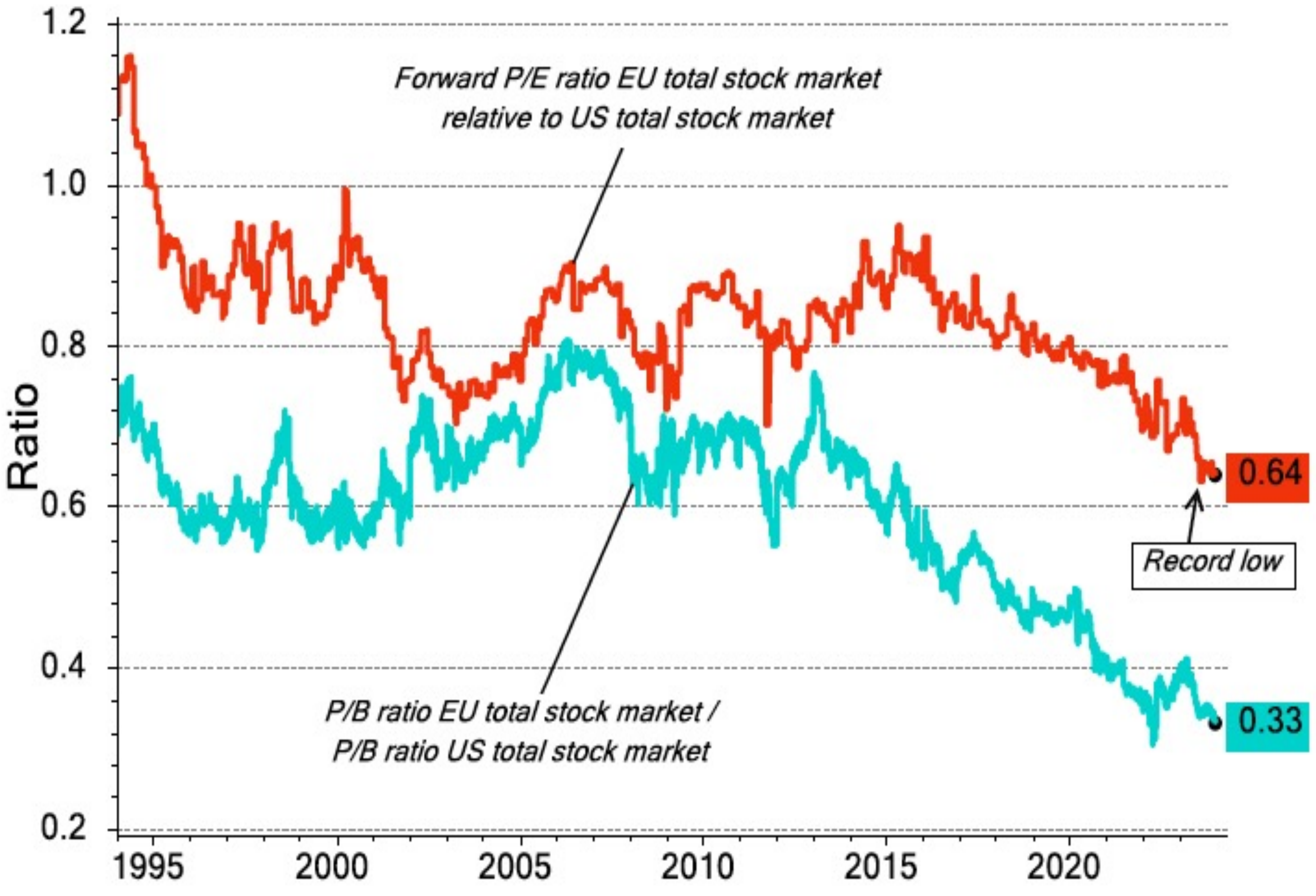
Europe attractively valued but economy slow and less liquidity to flow





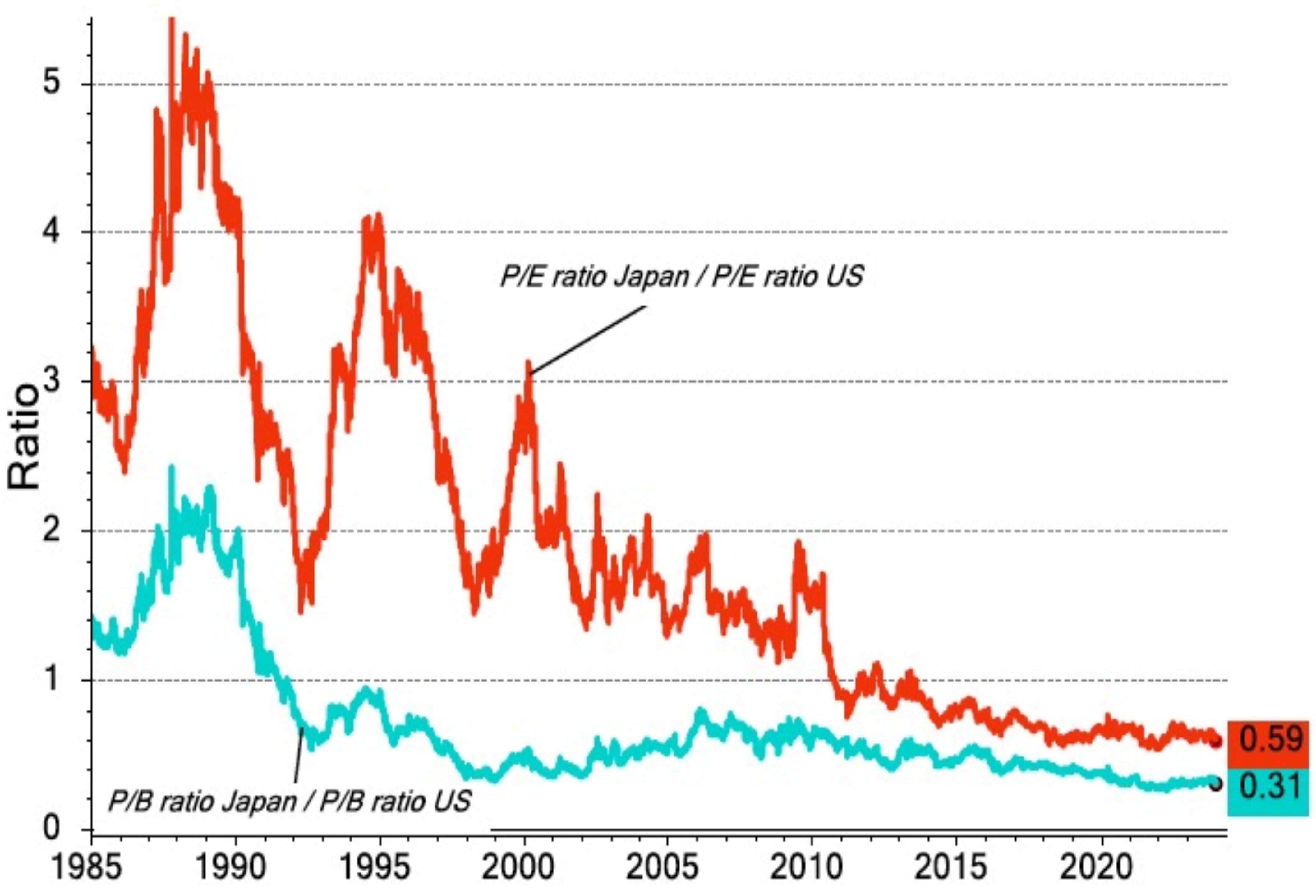
Japan also looking well priced

Forward P/E & P/B ratio signal a long-lasting significant undervaluation of EU markets relative to the US



Source: LSEG Datastream / ECR Research

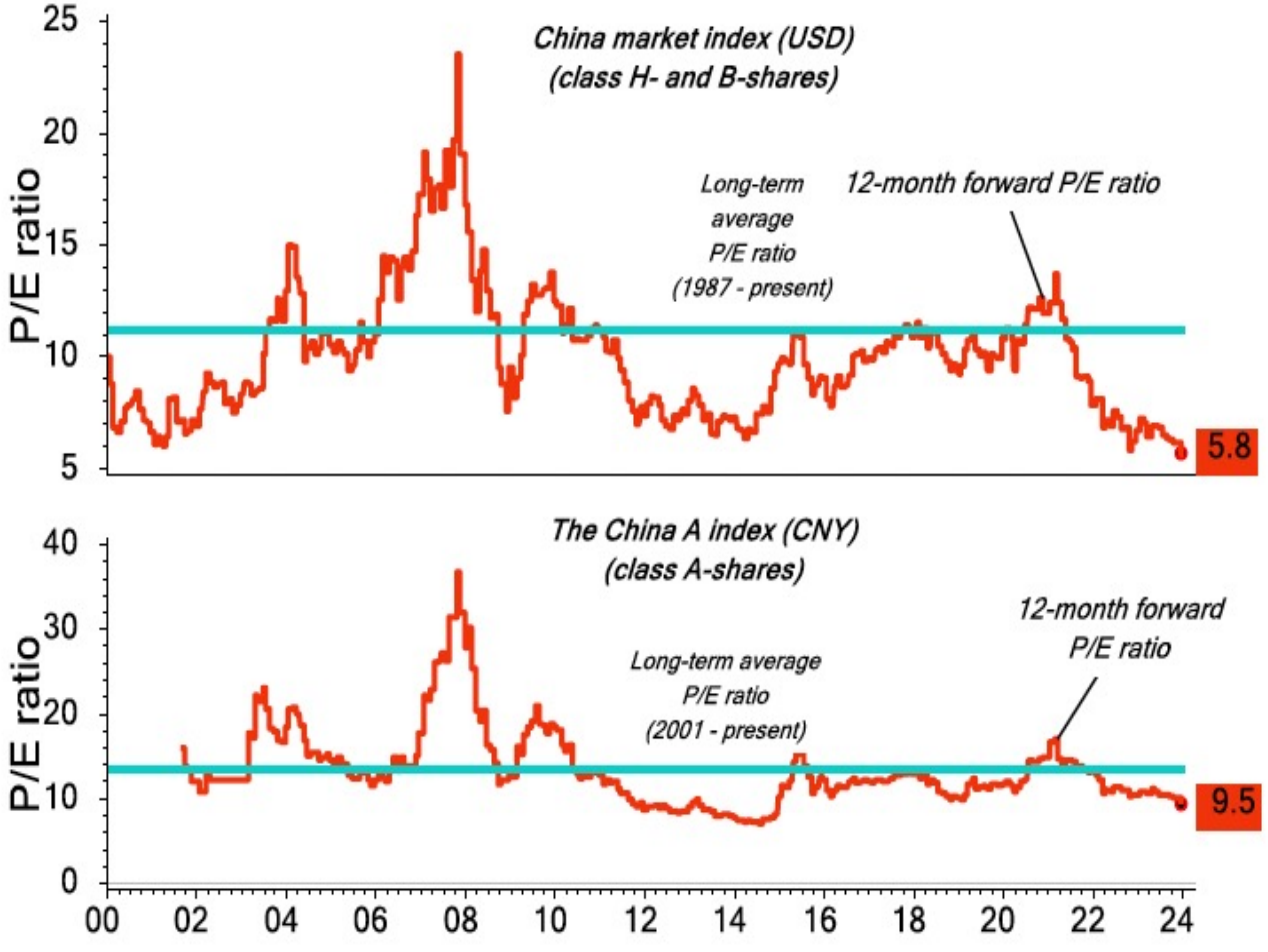
The Japanese stock market has been firmly undervalued relative to the US for a very long time



Source: LSEG Datastream / ECR Research

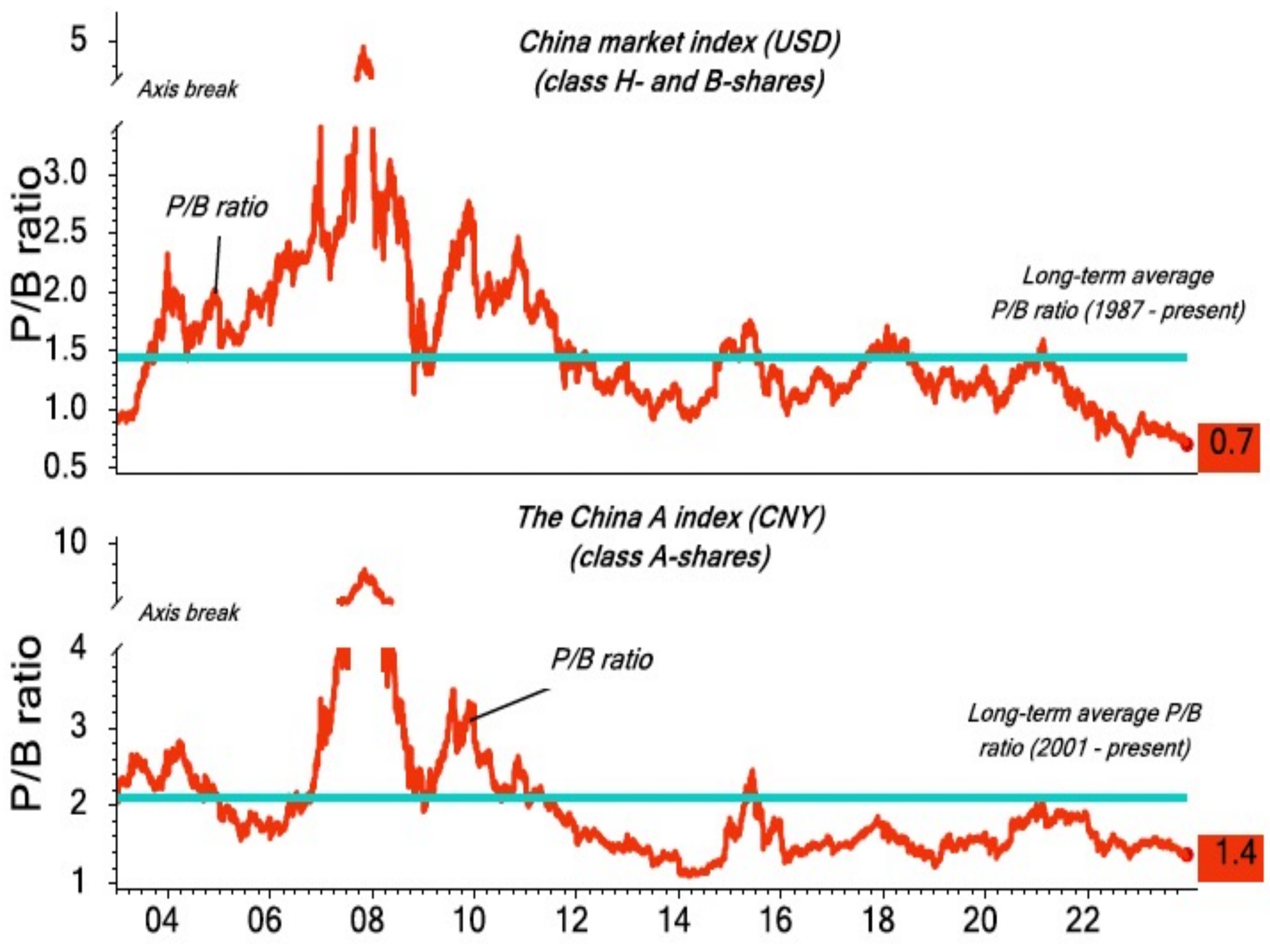
China equities offer value

12-month forward P/E ratio China



Source: LSEG Datastream / ECR Research

P/B ratio China



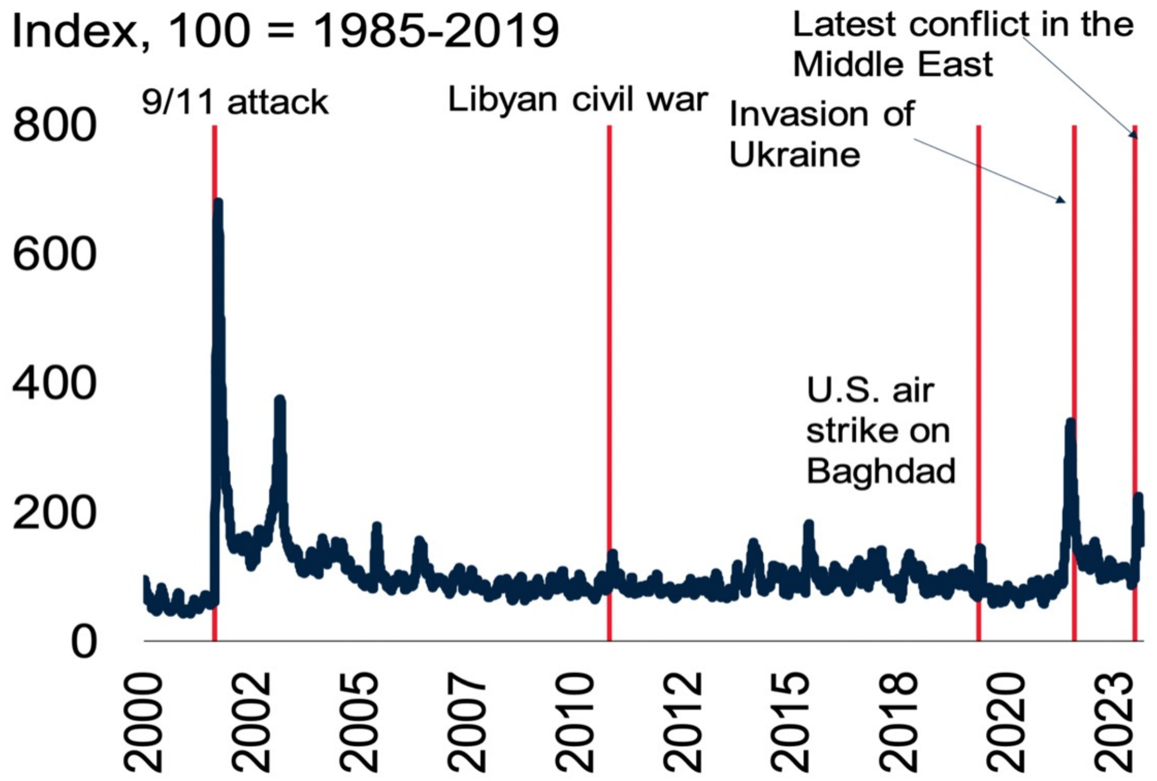
Source: LSEG Datastream / ECR Research

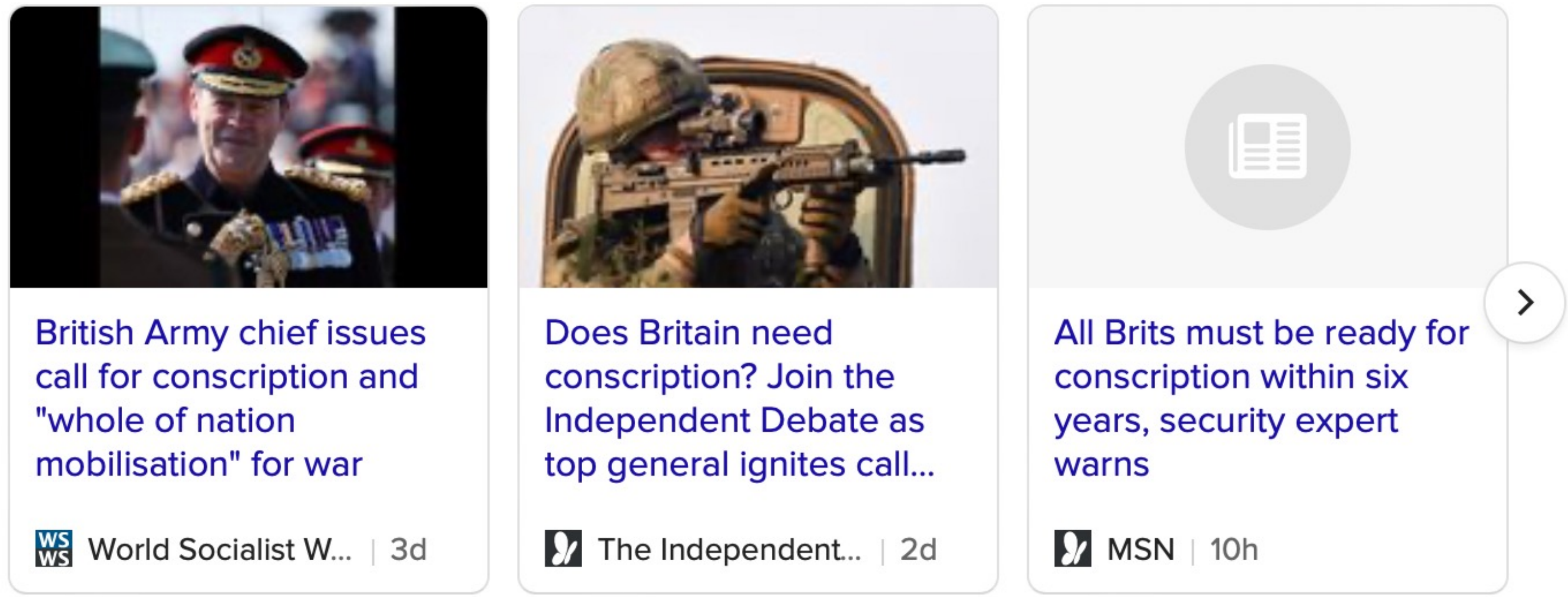
China stocks continue to be in downdraft – lost confidence

For 2024 there are plenty risks to monitor

Key Considerations

- **Liquidity**: Expected to remain high due to it being an election year, generally positive for risk assets.
- **Market Sentiment**: Driven by central bank policies, elections, and geopolitical developments.
- **Geopolitical Risks**: Elevated due to conflicts in Gaza/Israel and Russia/Ukraine. Potential escalations could impact markets.
- **Elections Impact**: Particularly in the US, may lead to significant market movements. The outcome could influence policy direction and market sentiment.





'Civil War movie 2024 release

Illegal immigration in USA may be weaponized in next election

Conclusion

Economy: weak and muddling through

Sukuk: Yields attractive……still a good opportunity to add as trade

Equities: Be selective ….the future goes to those that can lead in AI and Robotics

Crypto: New bull market….driven by new stimulus and ‘easy money’

Gold: watch for USD weakness ….not far off if DXY starts to peak

……..**cautious optimism**
due to expectation of the Fed and Treasury put and easy monetary policies

Disclaimer

This document is not directed at or intended for use by any person resident or located in any jurisdiction where the distribution of such information is contrary to the laws of such jurisdiction, or such distribution is prohibited without obtaining the necessary licenses or authorizations. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the content. The information contained in this document is for informational purposes only and should not be regarded by recipients as a substitute for the exercise of their own judgment. This document does not constitute a solicitation, an offer, or a recommendation to buy or sell any investment instruments, to effect any transactions, or to conclude any legal act of any kind whatsoever. When making a decision about your investments, you should seek the advice of a professional financial advisor. No representation or warranty of any kind, either express or implied, with respect to the content is made. This document is provided on a confidential basis to invited parties and may not be copied or distributed without prior written consent. Subject to contract. This document is prepared for promotional purposes and it may not be presented or distributed in State of Kuwait except to the “Professional Clients” only according to the definitions contained in the first book of the Executive Bylaws of Kuwait Capital Markets Authority. Rasameel Investment Company hereby undertakes that it does not disguise, diminish or obscure important items from the investment subject of promotion.

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.

RASAMEEL

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

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

www.rasameel.com
Rasameel