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Habib Investment Limited

Views from the desk

Monthly Global Market Overview and Outlook

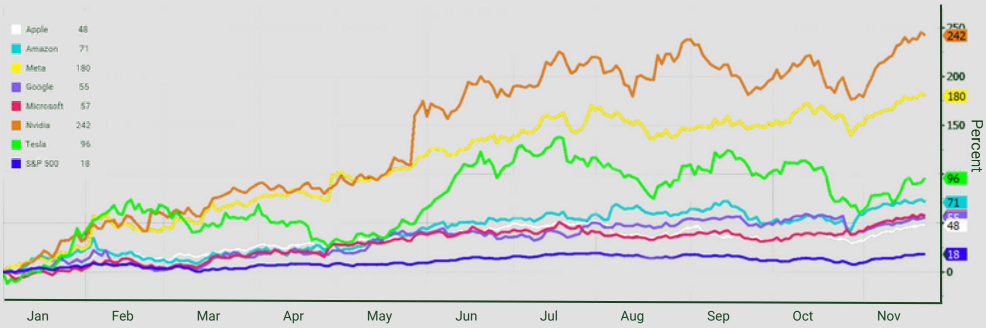
Habib Investment Limited
Regulated by the DFSA

Thanks but No Thanks! Recession postponed, not cancelled, until we land.

Black Friday generated $9.8 billion in U.S. online sales. Looks like purchases are being frontloaded.

Magnificent 7 and the S&P 500

"Worst-performer" Apple outperforms benchmark by 2.5x



YTD S&P 500 is up 18% but it is dwarfed by the 242% returns of NVIDIA. while Apple, the worst of the lot has out-performed S&P 500 by 2.5x.

Macro Overview

While we believe that growth stocks may have peaked for now, we are cautiously optimistic about the outlook for 2024. We expect stronger global growth on the back of cooling inflation, the potential end of monetary tightening, and a rebound in manufacturing.

> *Skills are tested in bull markets and patience is tested in Bear markets."*
>
> **- Sandeep Jadwani | ACSI, CIB**
> **Head of Investment Advisory**

High cash yields have been a hallmark of 2023, but we believe that 2024 will signal a resurgence of a balanced portfolio approach. We expect equities, fixed income, and alternative investments to all play a role in hedging inflation and growth risks.

While we are cautiously optimistic about the broader market outlook, we believe that idiosyncratic investing will be paramount in 2024. Investors should carefully consider the specific risks and opportunities of each individual company before making investment decisions.

In conclusion, we believe that the outlook for investors is positive for the year ahead. We expect stronger global growth, cooling inflation, and a balanced portfolio that hedges inflation and growth risks.

As the year draws to a close, we are pleased to share our insights on the recent resurgence of growth stocks and the implications for your investment portfolios.

Global growth stocks have outperformed value stocks this month, driven by easing inflation expectations and investor optimism that the Federal Reserve's interest rate hiking cycle may be nearing an end.

This shift in sentiment has fueled a rally in growth-oriented companies, particularly those in the technology sector.

Despite the recent rally, growth stocks continue to trade at historically high valuations. The MSCI World Growth index trades at a 12-month forward P/E of over 24, well above its long-term average of 21.7. This premium over global value is also significantly above historical levels.

Despite the elevated valuations, there are positive signs emerging from the earnings front. Analysts are forecasting stronger earnings growth for growth companies compared to value companies. This trend is particularly evident in Europe, where growth stocks have consistently outperformed value stocks.

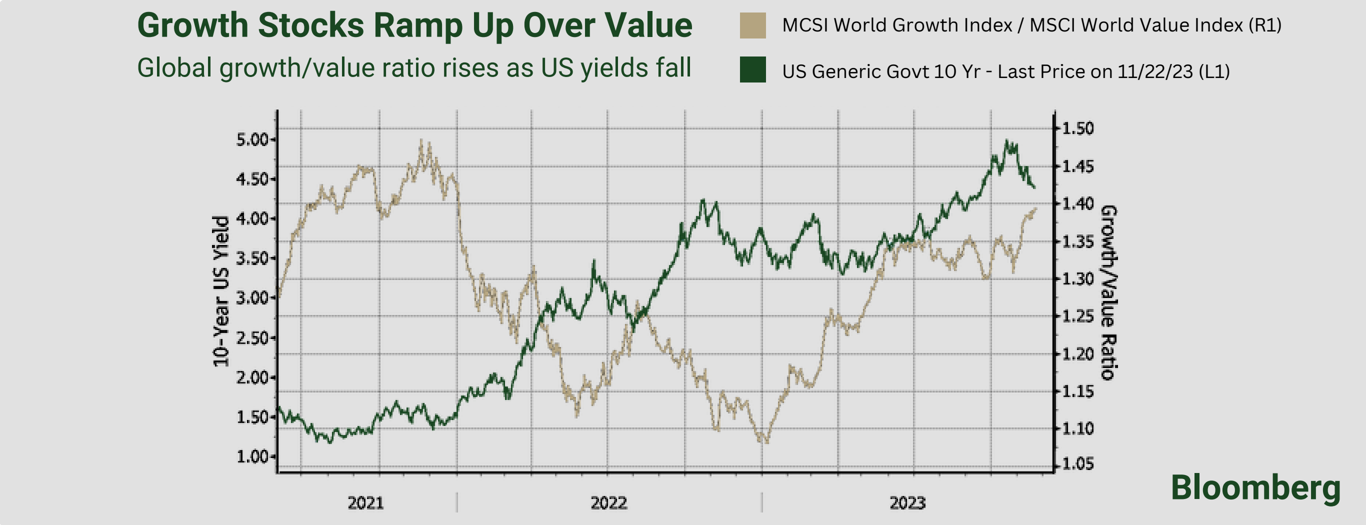
The resurgence of growth stocks is evident in the tech sector, which has been the best performer this month on both the S&P 500 and Stoxx 600 indices. Profit growth for tech companies is also improving, with the Nasdaq 100's earnings forecasts reaching record highs in November.

Key Takeaways

1. Global growth stocks have outperformed value stocks in recent months.
2. Inflation has likely peaked.
3. We expect to see a resumption of the more typical inverse relationship between bonds and equities
4. We expect to see a rebound in manufacturing and stronger global growth in 2024.

Investment Overview

Growth Stocks Surge as Inflation Eases



Global Outlook

The US economy experienced a surge of activity in the third quarter of this year, driven by government spending. This resulted in a strong GDP growth rate for the quarter. However, there are now signs of weakness in the economy. After multiple weeks of earnings, big economic reports, and inflation data, the market cools down a bit in the last week of November. However, investors will keep an eye on the November jobs report due in the first week of December.

One of the most important indicators of weakness is the rise in continuous claims for unemployment insurance. These claims have been increasing since September 2022 and have now surpassed their April 2023 high.

This suggests that the US economy is likely to enter a recession before the end of this year. However, the official start of the recession will not be determined until the second half of next year.

The US dollar has been underperforming against its major peers in recent weeks. This is due to expectations that the Federal Reserve will cut interest rates several times next year.

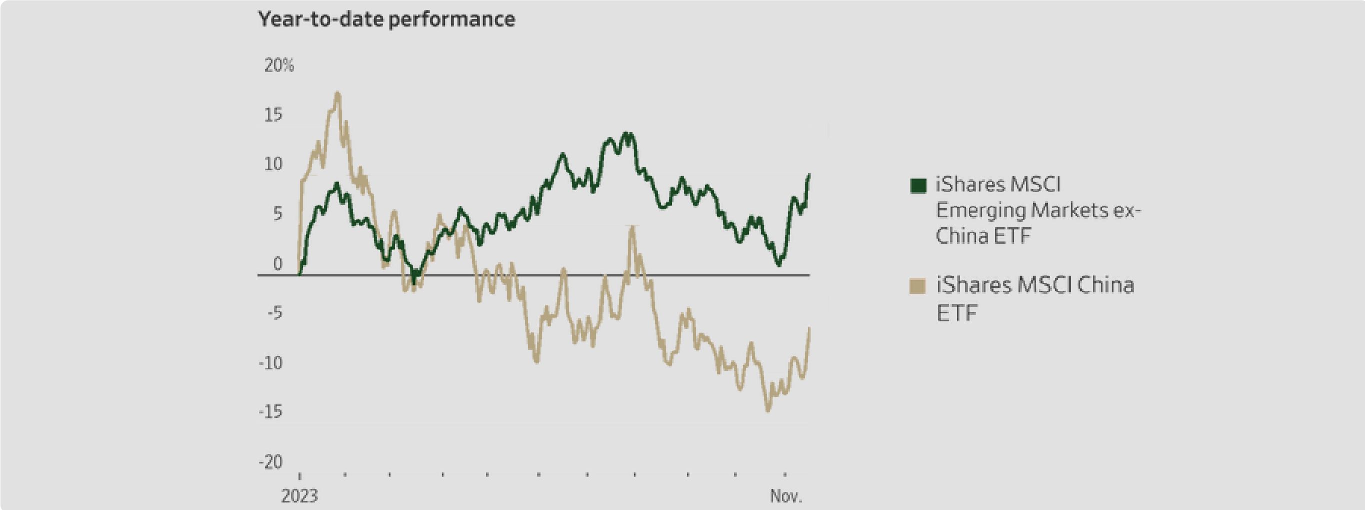
The Atlanta Fed's GDPNow model estimates that the US economy will slow to 2.1% in the fourth quarter. However, this is still a relatively strong growth rate, and it does not justify the market's expectation of almost 100bps worth of rate cuts in 2024.

Given the Fed's hawkish stance, it is possible that the market is underestimating the potential for interest rates to remain high for longer than expected. This could lead to a reversal in the US dollar's recent weakness.

European stock markets gained in sentiments as preliminary PMIs for November came in better than expected. The PMIs suggest that a recession in Europe may be shallower than expected. The improved data could lead to a sustained rally in European stocks. However, the outlook for the European economy remains uncertain. Although the Euro-area PMIs remained below 50, they suggested that a recession may be shallower than expected, while in the UK, the composite index returned above 50 for the first time since July.

Combined with UK finance minister Jeremy Hunt's announcement of measures to support the wounded economy, including larger-than-expected tax cuts for workers, as well as the hawkish rhetoric by BoE's Governor Bailey, improving UK data may keep the pound supported for a while longer as investors scale back their BoE rate cut bets

Despite the release of Japan's National CPI data. The data showed that both headline and core inflation rates rose in October, but by less than expected and hence The Japanese yen was unchanged against the US dollar while still at all time lows. Despite the weaker-than-expected inflation data, the yen is likely to remain supported in the near term. This is because there is a growing expectation that the Bank of Japan will eventually exit its ultra-loose monetary policy. If the BoJ does indeed tighten policy, it could lead to a significant appreciation of the yen.



Turkey's central bank hiked its policy rates by 500bp to 40%, above expectations of a 250bp hike. The move was seen as an effort to tackle high inflation and a depreciating lira. Inflation in Turkey was seen at 61% in October and the currency has fallen by 35% against the dollar. "Really impressive move by the CBRT - probing their orthodoxy and getting well ahead of expectations. The monetary policy committee (MPC) signaled that it would slow down the pace of monetary tightening and that the "tightening cycle will be completed in a short period of time". The policy rate has gone up 30% since President Erdogan's re-election in May this year.

Rate cut bets in China are being ruled out for the rest of the year. Survey shows 1-year MLF to be held at 4.5% until Q1; 1-year LPR at 3.45% until Q2; and 5Y LPR at 4.2% until next year. This shouldn't come as a surprise as the PBoC has been doing everything in their power to defend the Yuan. Cutting rates could weaken the currency. Furthermore, cutting rates also mean net interest margins for banks will come under pressure, at a time when they are already contending with potential property defaults.

Gold prices have remained around the $2,000 level. This is due to the weakness of the US dollar and expectations that the Fed will cut interest rates in 2024.

Oil prices fell as OPEC+ postponed its meeting to discuss production quotas. The postponement is due to disagreements among members over how much to cut production. Oil prices have fallen more than 10% since Oct,2023. The outcome of the OPEC+ meeting could have a significant impact on the near-term direction of oil prices.

The U.S. stock market was relatively flat, while the European Union and Japan saw modest declines. China and India continued to outperform, with strong economic growth and rising corporate profits. The Gulf Cooperation Council (GCC) region also saw positive performance, driven by high oil prices.

The rally was driven by a number of factors, including:

1. Better-than-expected economic data.
2. Easing inflation concerns.
3. Dovish monetary policies and rate cuts on the horizon in Q2, 2025

Note: Shows expected path of federal-funds rate as of Nov. 22, based on interest-rate swaps.
Source: Tradeweb

Option Definitions 101

ROC (Return on Capital)

ROC offers insights into a company's efficiency in leveraging both its equity and debt to produce profits.

ROC = EBIT ÷ Capital Employed

ROA (Return on Assets)

ROA offers insights to understand how a company employs its assets, from cash and inventory to property, to create profits.

ROA = Net Income ÷ Total Assets

ROE (Return on Equity)

ROE zeros in on how a company uses shareholders' equity for profit generation.

ROI = Net Income ÷ Shareholder Equity

Asset Class Views

Asset Class	Sub-Class	View (Oct '23)	View (Nov '23)
Main Asset Class	Equities	=	=
	Fixed Income	=▲	=▲
	Commodities	=▲	=▲
	Currencies	=▲	=▲
Equities	USA	=	=▲
	EU (Ex UK)	=	=
	Japan	▲	▲
	UK	=	=
	EM (Ex MENA)	▲	▲
	MENA	=	=

Asset Class Views

Asset Class	Sub-Class	View (Oct '23)	View (Nov '23)
Fixed Income	US Treasuries	=	=▲
	Euro (Bunds)	▼	▼
	UK Gilts	▼	▼
	US IG	=▲	=▲
	US HY	=	=▲
	Europe IG	▼	▼
	EM	=	=▲
Commodities	Oil	=	=
	Precious Metals	=▲	=▲
Currencies	USD	=▲	=▲
	EUR	=	=
	GBP	=	=
	EM	=	=

▲ overweight = neutral weight ▼ underweight negative tilt positive tilt

Critical Future Events

Dec 14: ECB Meeting

Dec 14: BoE Meeting

Dec 14: FOMC Meeting

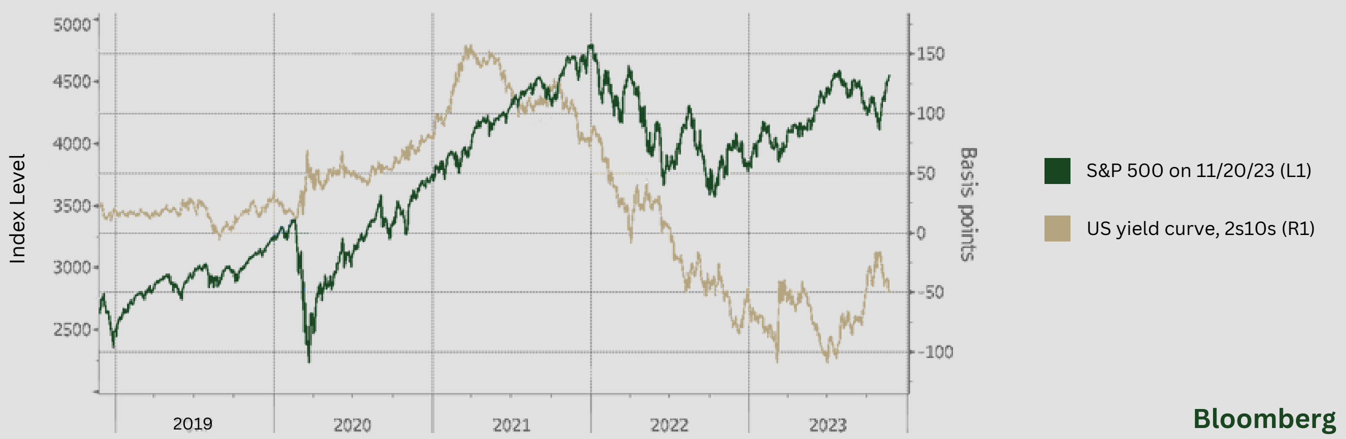
Dec 19: BoJ Meeting

Soft Landing, Pivots and Recessions

60/40 portfolios could be back in business

Bond Market's Long-Running Recession Warning Ignored

Equities welcome reflattening as soft-landing hopes blossom



The soft-landing narrative is gathering pace, with equities rallying as Treasuries hold onto this month's strong gains. As the yield curve further inverts, the stock market continues to not merely defy the fixed-income market's classic recession warning but even welcome it. November's surge across assets has come as the discount 10-year yields offer over those on 2-year notes widened rapidly to 50 basis points, after reaching 11 basis points in late October.

Admittedly, a flip from a discount to a premium is normally a dangerous sign for stocks because it has traditionally meant a recession has probably already started (with the Federal Reserve cutting rates and driving down 2-year yields). On that basis, the gains in stocks make some short-term sense. But the dynamic also underlines the medium-term dangers for equities amid concerns a US slowdown is coming. Bond investors accepting lower yields on longer-dated debt underscores their expectations that a severe recession remains in play, even as stocks power toward fresh highs.

As far as markets are concerned, the great global tightening cycle isn't merely over, it's about to be unwound. Swaps markets show a number of major economies are seen as extremely likely to cut their cash rates within six months, with the average shift dropping to minus 9 basis points. Canada and Europe are neck and neck in the race to ease first, with better than 80% chances priced for a reduction over the timeframe.

For much of the past year, traders have been focused on six months as the likely timing for a pivot, with the average for one-year cash rate forwards falling below that for the six-month forwards. That spread has also moved down to the lows for this cycle to signal extremely strong expectations for multiple cuts across a number of major economies, with only Japan seen hiking as it starts to catch up with tightening cycles elsewhere.

Markets look very confident indeed that recessions are coming, whether of the soft- or hard-landing variety. JPMorgan's Global PMI looks to be on the verge of agreeing with them as it slides toward contraction. Then again, markets were looking pretty sure that rate cuts were coming within a year in late 2022, only for economies to rebound as the Federal Reserve and others slowed down the pace of their hikes.

Source and Sighting: BJSS, Bank of America, Bloomberg, Refinitiv, JB, Goldman Sachs Asset Management, Federal Reserve, Bureau of Economic Analysis, Investopedia, S&P, BCA Research