Boubyan Multi Asset Holding Fund

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Boubyan Capital

SUB-MANAGER'S COMMENTARY

Market Overview

Global equities fell sharply during March, but there was a divergence among markets, as international developed and emerging market (EM) stocks fared better than their US counterparts. Uncertainty around the impact of US fiscal and trade policy affected US stocks, while international equities were bolstered by attractive valuations as investor capital flowed out of the United States.

The US Federal Reserve (Fed) left interest rates unchanged in March, as elevated inflation and ongoing economic growth was offset by a more uncertain economic outlook. The Federal Open Market Committee downgraded its 2025 growth forecasts for the US economy to 1.7% and upgraded annual core inflation forecasts to 2.8%, fuelling stagflation fears. But the committee also projected that the federal funds rate will be cut two or three times during the year if inflation remains subdued, offering some support to growth.

Rising inflation was influenced by US policy, notably tariffs, which also led consumers to speculate further about upward pressure on prices for goods and services. The average effective tariff rate on US imports was higher than 8% in March and could rise into double figures after additional reciprocal tariffs are levied on US trading partners. As a result, inflation expectations have increased sharply among consumers, denting sentiment and spending.

US manufacturing activity contracted in March, according to Purchasing Managers' Index (PMI) data from ISM, amid weaker demand and rising costs. Against this background, US equities lost ground, led by growth stocks, while corporate bonds lost ground amid widening spreads. US 10-year Treasury yields were flat, falling towards the end of the month on growth concerns, but yields lower down the curve fell.

The European Central Bank (ECB) cut rates in March, referencing ongoing disinflation and weak growth as arguments for stimulus. ECB projections suggested annual inflation will average 2.3% in 2025, with core inflation slightly lower, while growth projections were revised down to 0.9% this year. This is despite plans for extensive fiscal stimulus and defence spending, which bolstered manufacturing activity in the euro area. March PMI data signaled a rise in factory output for the first time in two years, as business conditions improved in France and Germany. Service providers also posted a rise in activity, albeit at a weaker pace of expansion. Against this background, European equities fell in local currency terms, impacted by a strong euro. Longer-term German Bund yields rose sharply, as a rising term premium steepened the yield curve amid fiscal deficit concerns.

The Bank of Japan kept interest rates unchanged in March, despite inflation concerns linked to rising import prices, labour shortages and trade uncertainties. Consumer Price Index inflation stood at 3.7% in February, bolstering the case for further policy tightening, as Japanese 10-year bond yields rose to 1.49% at the end of March.

EM equities were broadly flat, in local currency terms, as Europe and Latin America outperformed Asian markets. Chinese stocks rose following a technology-led rally, while Indian markets recovered from losses earlier in the quarter. Elsewhere, markets in Taiwan lost ground amid geopolitical uncertainty, while European markets were bolstered by fiscal stimulus and defence spending (notably Poland).

The MSCI ACWI Islamic Index returned -2.59% (in US dollar terms) during March, while the Dow Jones Sukuk Index returned 0.64%.

Performance and Positioning

The portfolio posted a net return of -0.50% (in US dollars) during March, in line with its custo benchmark, which returned -0.49% (also in US dollars).

The fund held a broadly neutral allocation to equities, including the equity element of a new position in Franklin Shariah Global Multi-Asset Income Fund. Fixed income allocation was slightly underweight to the benchmark, balanced by an off-benchmark position in cash.

Our equity holdings contributed to relative results, notably exposure to EM stocks, which outperformed the broad global benchmark.

Our defensive holdings contributed to relative performance in aggregate, notably exposure to gold shares, which rose amid heightened trade tensions and economic uncertainty. Our Sukuk holdings were impacted by duration positioning relative to the benchmark, as yields on longer-duration bonds rose slightly.

Outlook

Leading indicators (LEIs) of global growth appear to be resilient, although we have seen a slight convergence: US indicators are deteriorating, and non-US LEIs remain buoyant. The geographic breadth of positivity in this analysis is supportive of risk assets, particularly when taken together with broader macro considerations, such as progress in the Ukraine war, European fiscal stimulus, and more constructive momentum for China.

If global growth remains resilient, albeit weaker, our analysis of inflation is more balanced. Several leading indicators of US inflation ticked up in March, driven higher by supply-side factors such as longer supplier delivery times and higher prices. Manufacturing PMI data from ISM suggests that prices were 7.5% higher in February than January, influenced by tariff effects. We have also seen a significant rise in consumer inflation expectations, although this is less clear from a business perspective.

Historical analysis of tariffs suggests they have less impact on markets than it may currently appear, but average effective US tariff rates could well rise into double figures following policy announcements in April, a level at which their effect becomes harder to quantify. Our base case view is that the inflationary impact of tariffs is likely to be transitory, but tariffs could still have a meaningfully adverse influence on risk assets if rising inflation influences the Fed to defy market expectations and delay or curtail monetary policy easing.

There is enough uncertainty in markets at present for us to make a good case for a neutral approach to risk until the policy outlook become clearer. Having said that, the severity of the US market drawdown may prove to be overdone, in our view, given a macro backdrop that has weakened but, so far, remains resilient. Sentiment and positioning indicators have also become much more bullish on equities following the recent revaluation, supporting our thinking that a lot of the bad news and uncertainty is likely priced in.

Within our Sukuk portfolio, the uncertain economic and geopolitical environment we are trying to navigate continues to support an increase in defensive allocations to higher-quality issues.

Our rationale for a defensive strategy is based on several interrelated themes that we believe are likely to play out during the next year, notably tariffs being imposed on traditional allies of the United States.

Past performance is not an indicator or a guarantee of future performance.